

Greater Kansas City Chamber

KC Economic Forecast for Recovery from the COVID-19 Recession

October 20th, 2020

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MARC



U.S. Economic Situation and Forecast

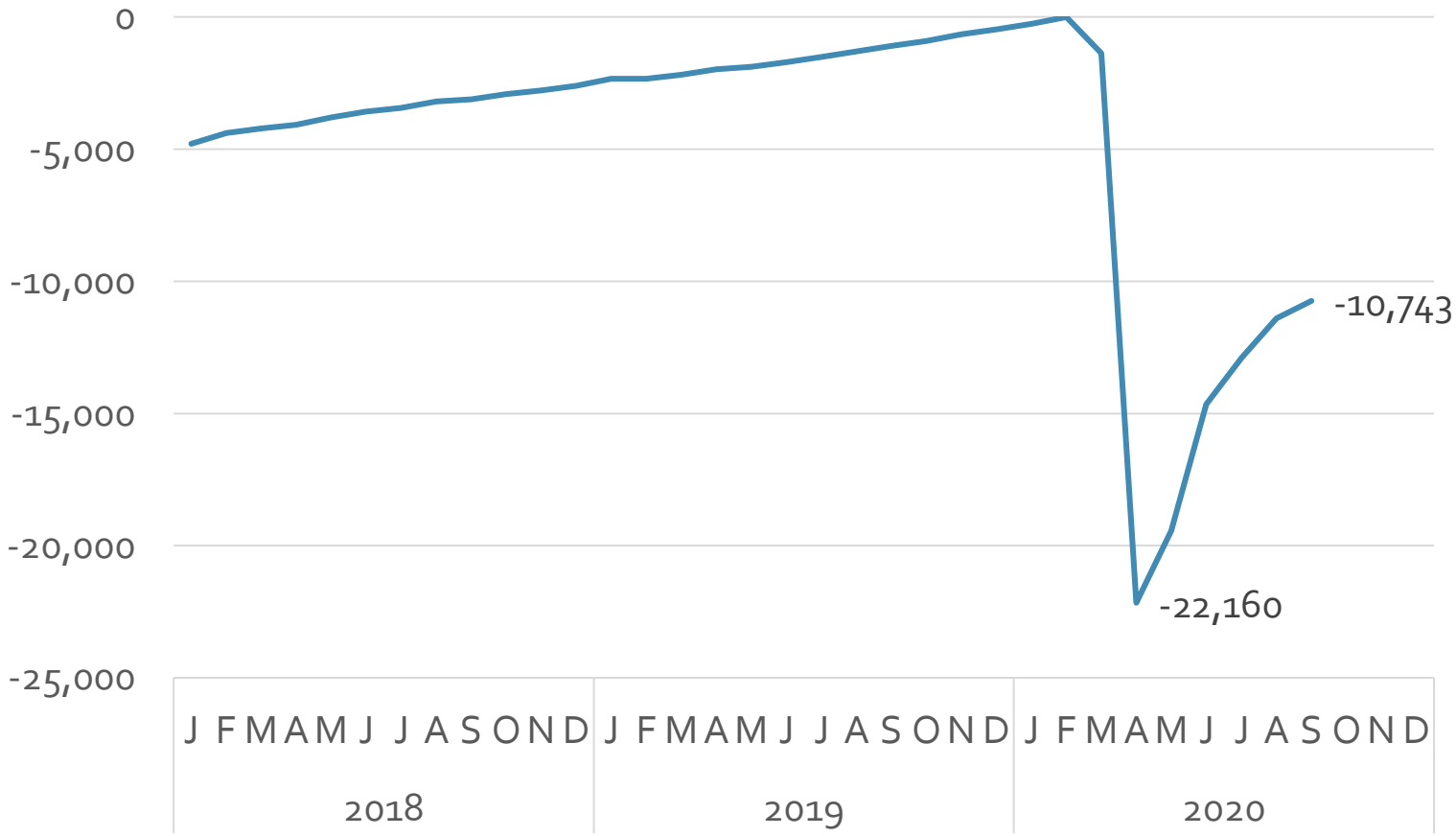


Photo by [NASA](#) on [Unsplash](#)

Nationally, non-farm payroll employment has recovered slightly more than half the jobs lost at the peak of the economic shutdowns that took place to combat the COVID-19 pandemic. Recent months show the recovery slowing, however.

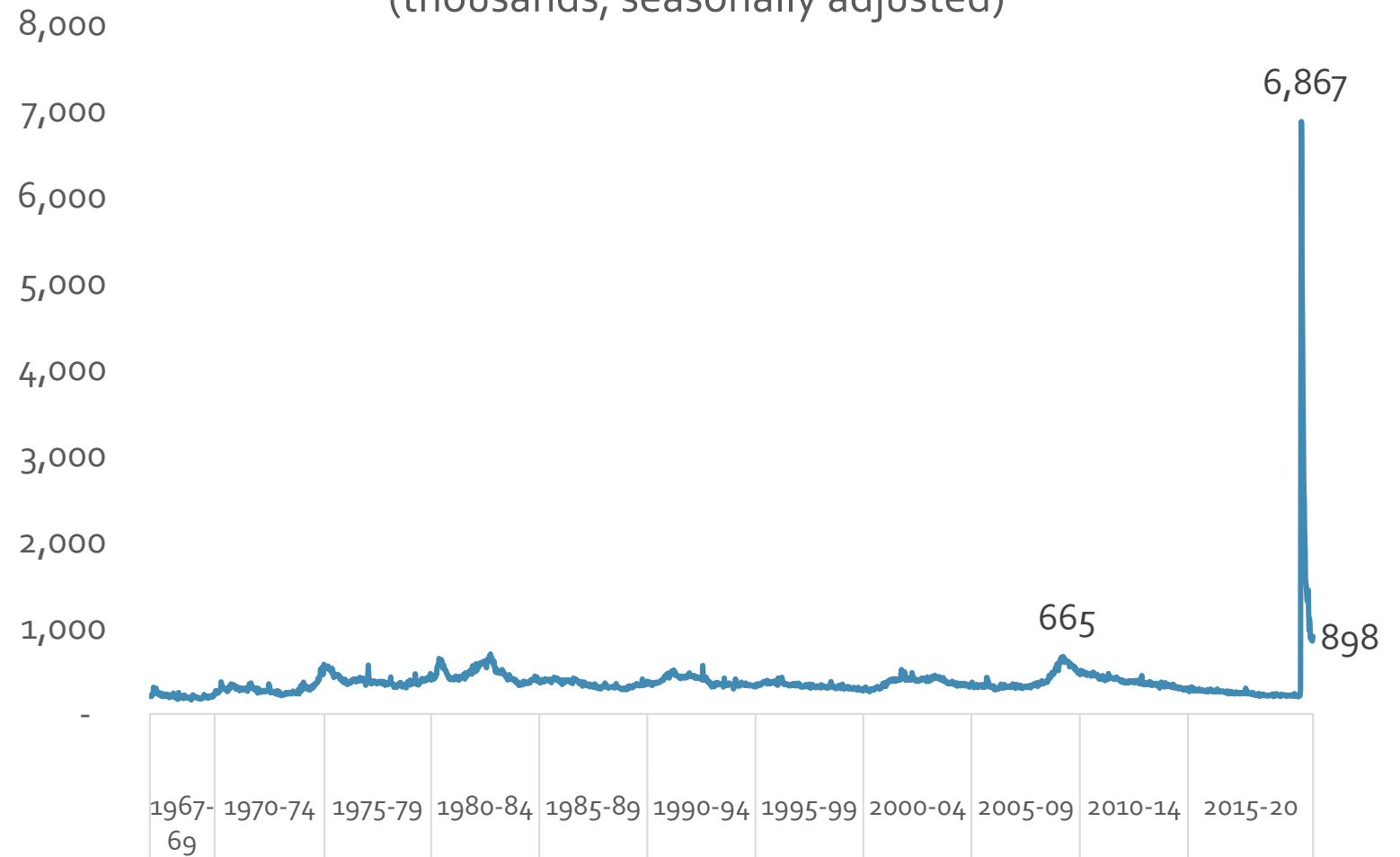
Source: BLS

U.S. Total Non-Farm Payroll Employment Change from February 2020, in thousands



The unprecedented nature of this recession can be seen in the initial unemployment claims data. The number of claims filed reached a peak ten times greater than during the Great Recession, which was the prior high.

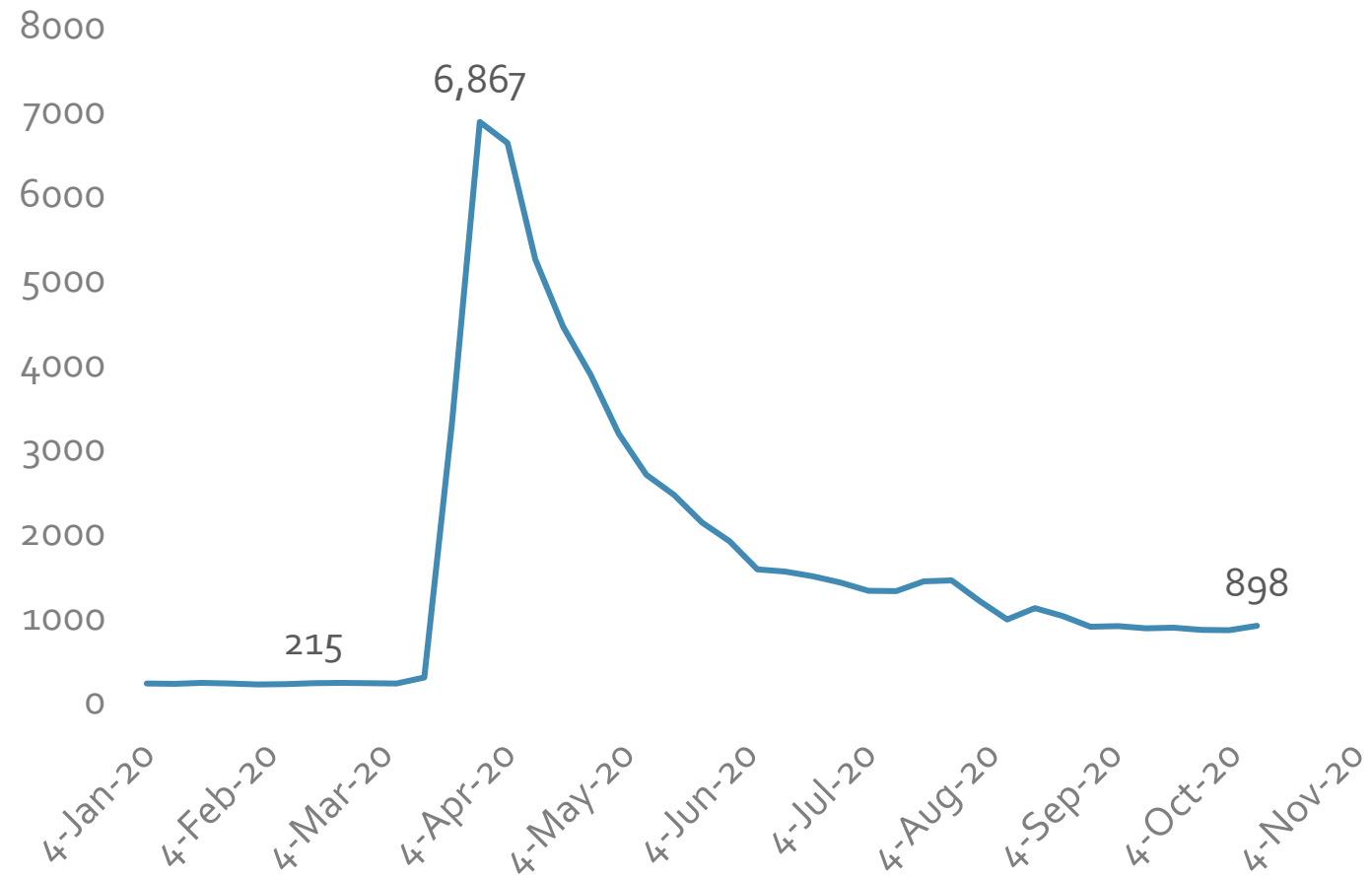
U.S. Initial Unemployment Insurance Claims
(thousands, seasonally adjusted)



Source: U.S. Department of Labor

Though down 87 percent from its March 28 peak of 6.9M, at nearly 900 thousand, initial claims are still 4 times their level before the pandemic began. Nearly 65 million claims have been filed since March 13 when the declaration of a national emergency and the closure of many businesses began.

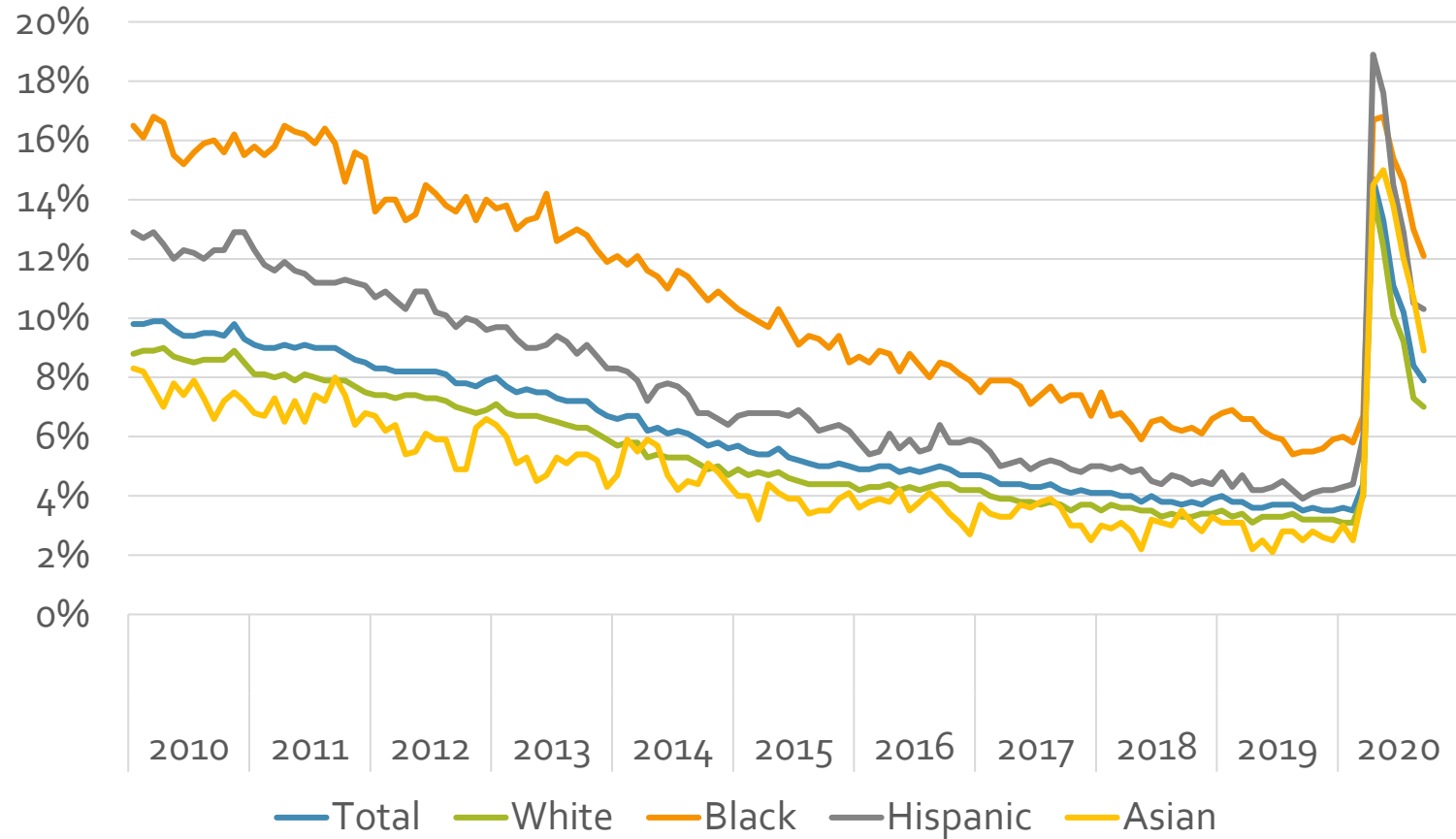
U.S. Initial UI Claims, Seasonally Adjusted
(through 10/10/2020, in thousands)



Source: U.S. Department of Labor

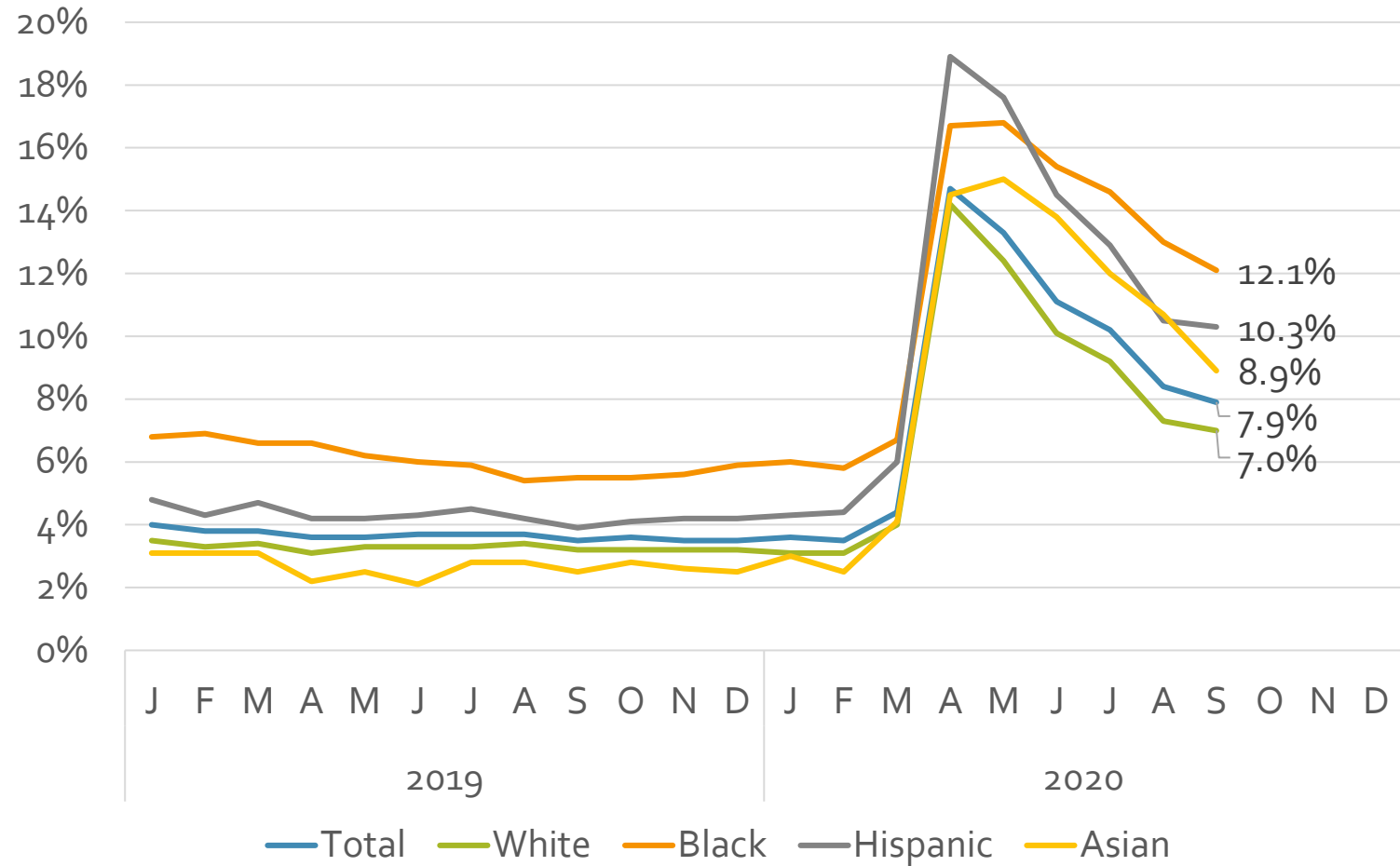
It was not until the very end of the prior expansion that racial and ethnic disparities in unemployment began to narrow. Then the gains in employment over the prior decade vanished in a few months.

U.S. Unemployment Rates by Race/Ethnicity (through September 2020)



Though Latinos were hardest hit by the economic shutdown initially, their unemployment rate has dropped the fastest, while that for Blacks has lagged other groups and, at 12.1%, is 70% higher than Whites.

U.S. Unemployment Rates by Race, Ethnicity



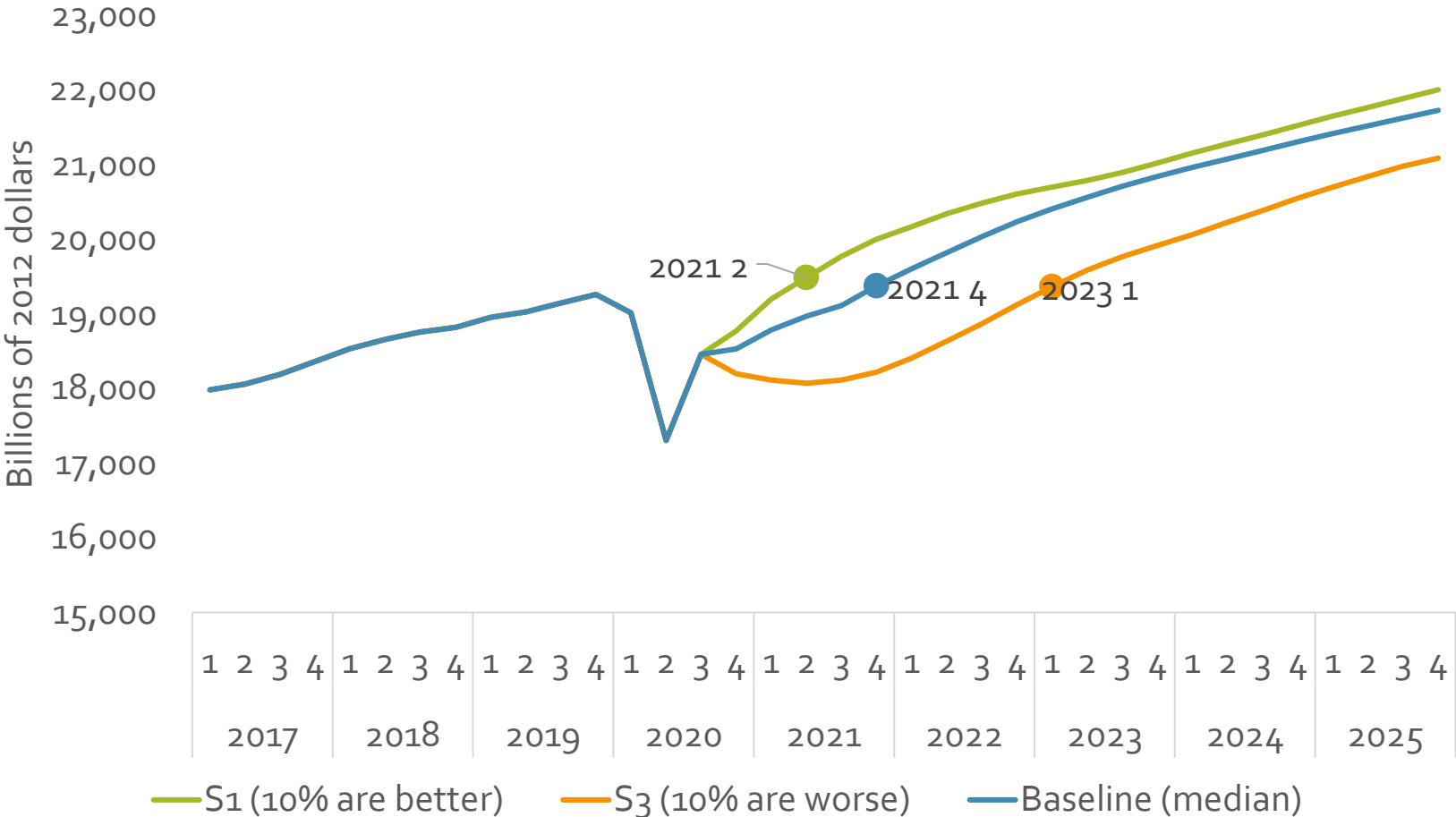
Moody's Analytics: Key Assumptions for Baseline Forecast

The future is uncertain, however, so we also look at alternative scenarios to put bounds on the uncertainty and allow a more clear-eyed assessment of risks.

- COVID-19 cases peaked in July and whatever occurs in the current “third wave”, there are no further widespread shutdowns of the economy.
- The Fed keeps its Fed Funds target near zero into 2023
- Oil remains between \$35 and \$40 a barrel
- \$1.5 trillion in additional stimulus is forthcoming, relatively evenly split between aid for state and local governments and unemployment insurance benefits, but not until after the next president is inaugurated.
- Small-business bankruptcies remain at manageable level.
- Domestic and international political tensions remain manageable

In the best case, the recovery in economic output continues to grow without missing beat. The baseline shows a significant slowing until a vaccine is widely available. In the worst case, a resurging virus causes widespread shutdowns again. The highlighted points show the year and quarter the pre-recession peak is achieved in each scenario.

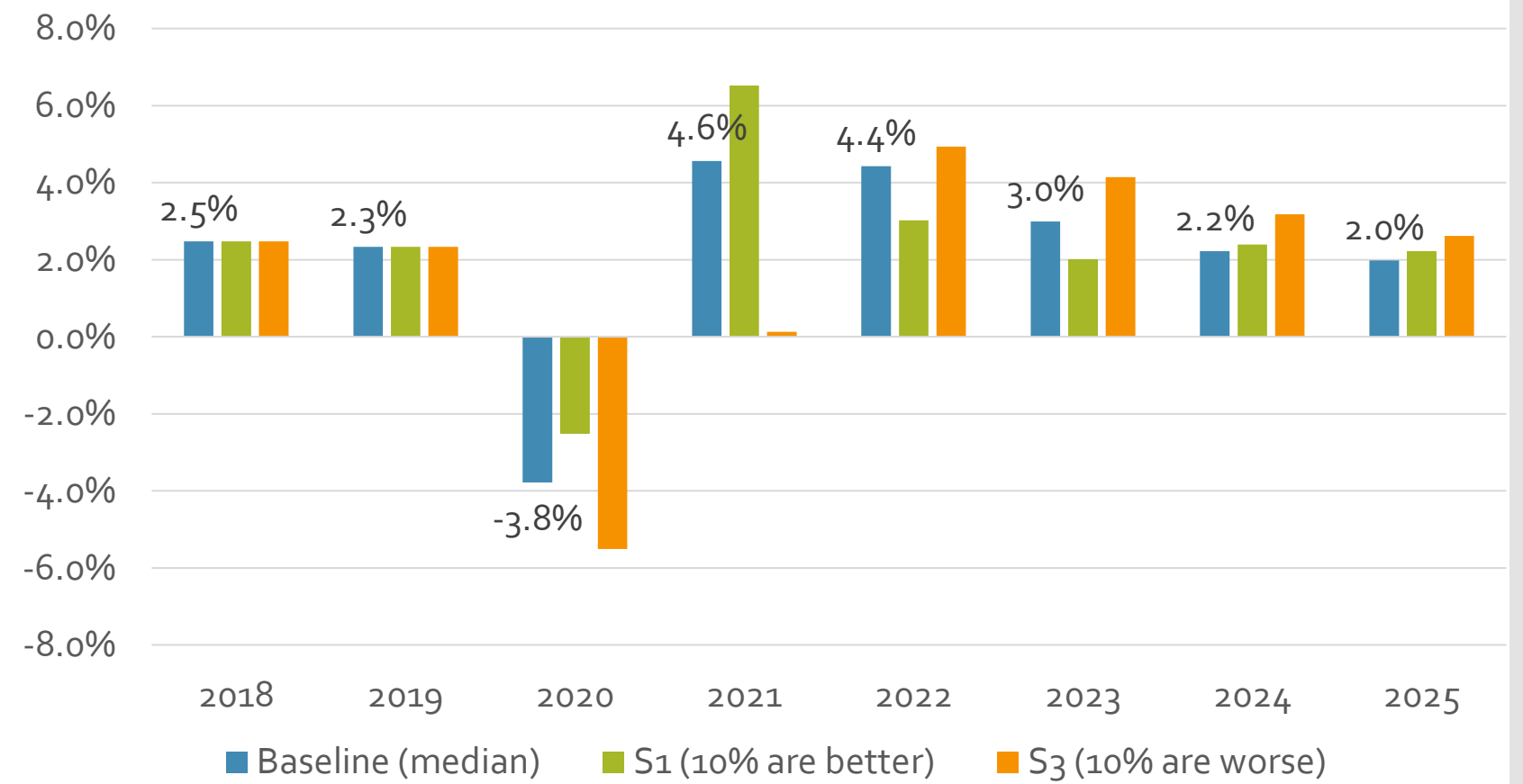
U.S. GDP Forecast: October Scenarios



Source: Moody's Analytics

But Moody's model assumes there is a long-run trend growth rate to which the economy will tend. Scenarios that show greater growth in the short-term show less growth in the medium-term, and vice versa.

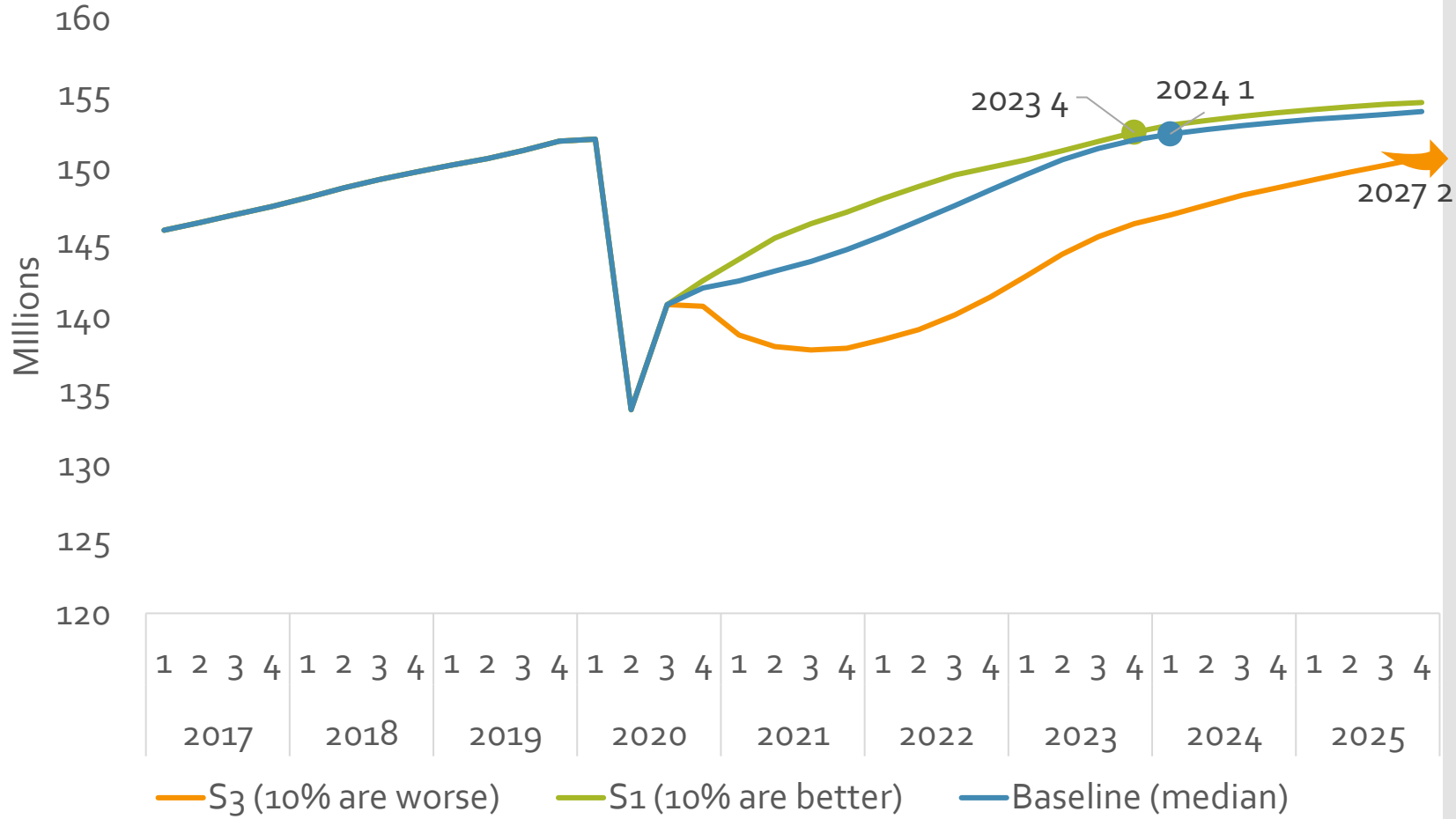
Percent Change in Forecast U.S. GDP, 4Q/4Q October Scenarios



Source: Moody's Analytics

The labor market shows the same pattern of growth as GDP, though at a much slower pace. As a result, employment doesn't return to its prior peak until 2024Q1 in the baseline case, more than 3 years later than GDP does.

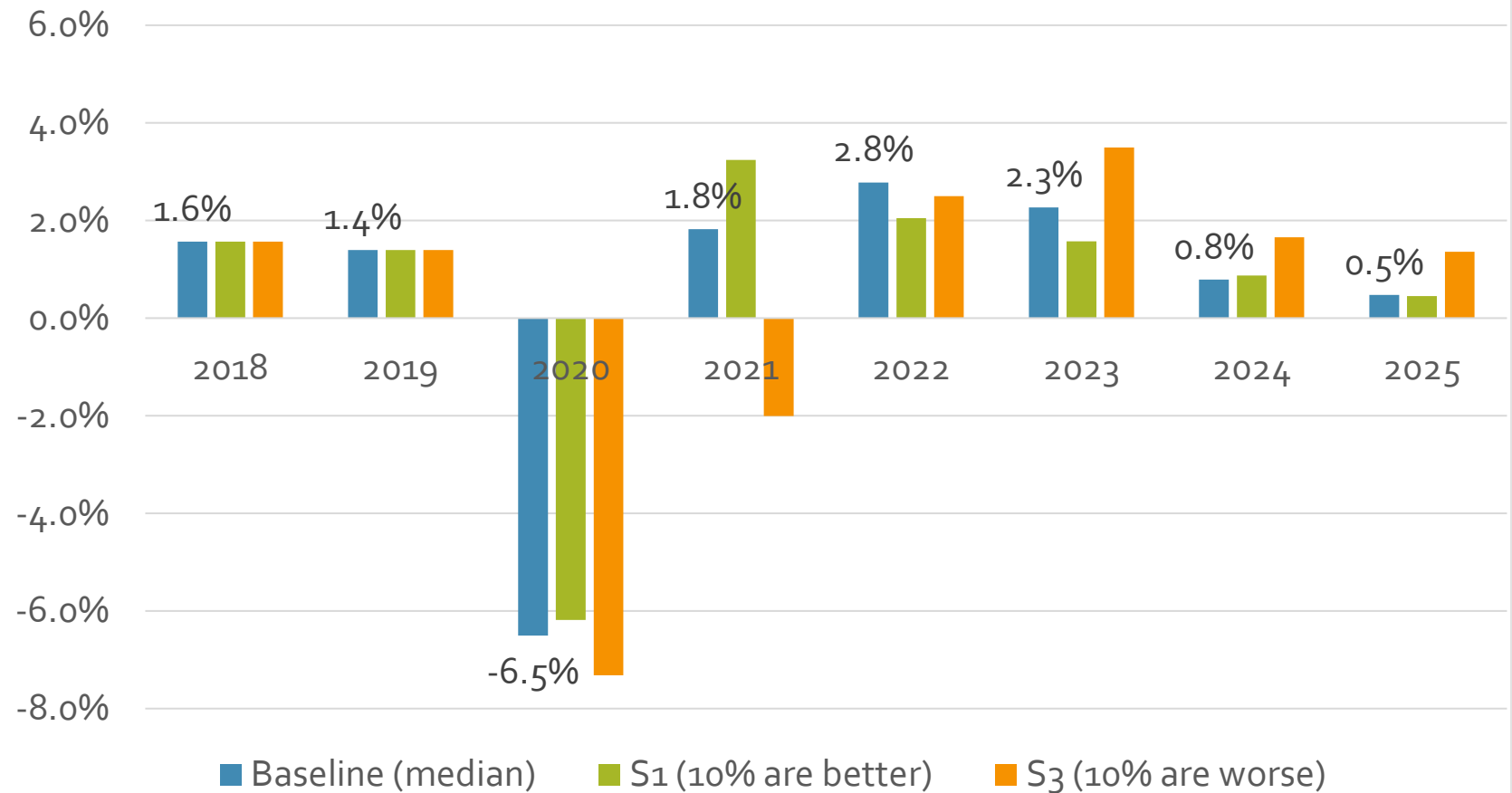
U.S. Employment Forecast: October Scenarios



Source: Moody's Analytics

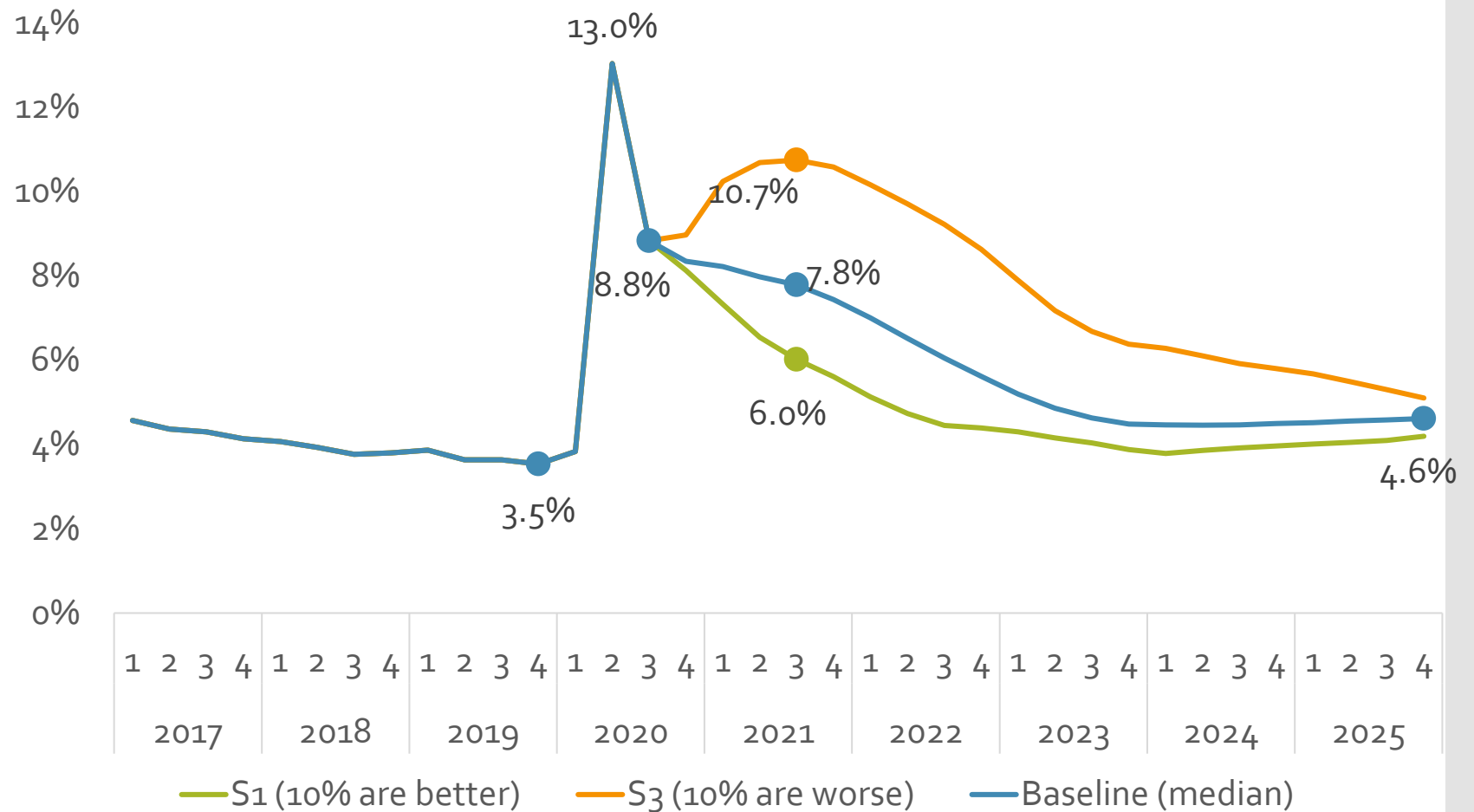
Overall, employment growth is expected to slow by mid-decade to the rate of growth of the labor force, or about 1/2 of 1 percent per year.

Percent Change in Forecast U.S. Employment, 4Q/4Q October Scenarios



The state of the labor market under each scenario can most easily be seen by comparing the unemployment rates. The baseline shows only a 1 percentage point reduction over the next year compared to a nearly 3 percentage point reduction in the best case and a nearly 2 percentage point increase in the worst.

U.S. Unemployment Rate Forecast: October Scenarios

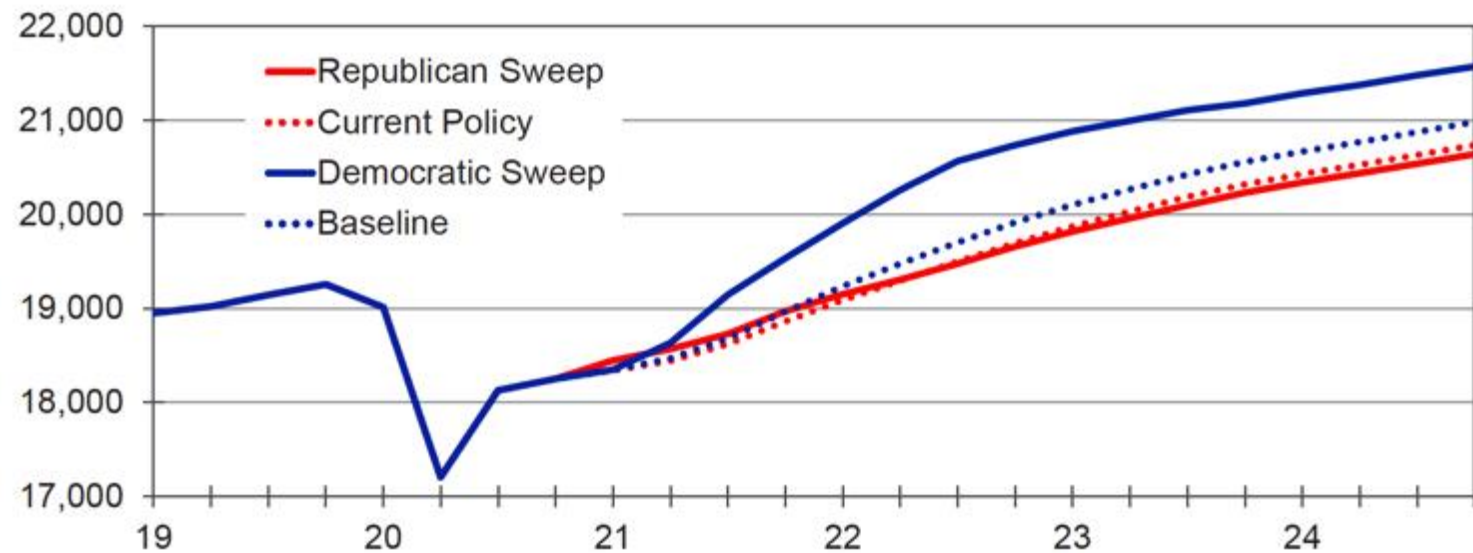


Source: Moody's Analytics

Not included in the scenarios used for this forecast is how the 2020 election might change outcomes. Moody's has analyzed the potential economic impact of different election outcomes, however.

Chart 2: Real GDP Under Different Election Scenarios

Real GDP, 2012\$ bil



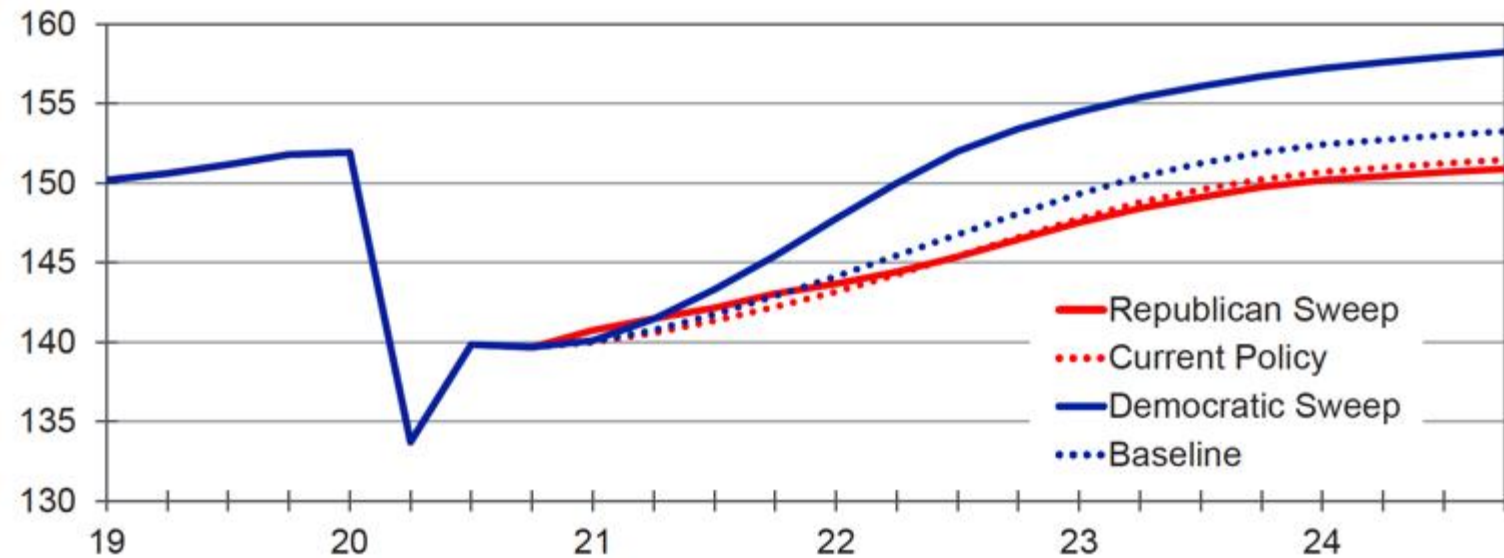
Sources: BEA, Moody's Analytics

Source: "The Macroeconomic Consequences: Trump vs. Biden", Moody's Analytics, September 23, 2020

Should a Democratic sweep occur, this would make the best-case scenario more likely. Any other outcome is likely to favor the baseline case.

Chart 3: Jobs Under Different Election Scenarios

Nonfarm employment, mil



Sources: BEA, Moody's Analytics

Source: "The Macroeconomic Consequences: Trump vs. Biden", Moody's Analytics, September 23, 2020

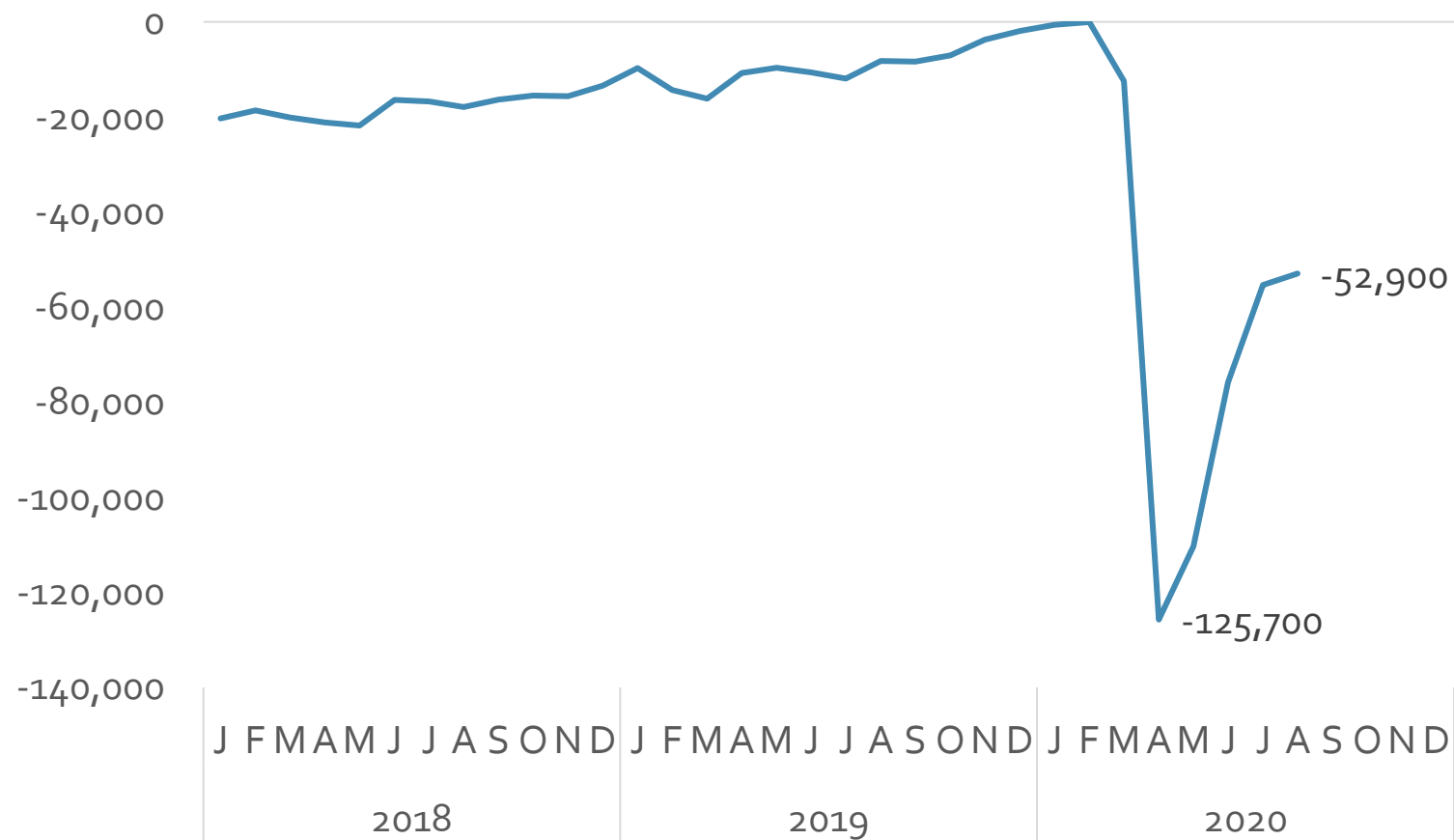
KC Economic Situation and Forecast



Photo by [Jake Fagan](#) on [Unsplash](#)

Like the nation, the economic recovery proceeded swiftly here at first, but is showing signs of slowing significantly. KC has outperformed the nation, though, recovering nearly 60% of the jobs initially lost.

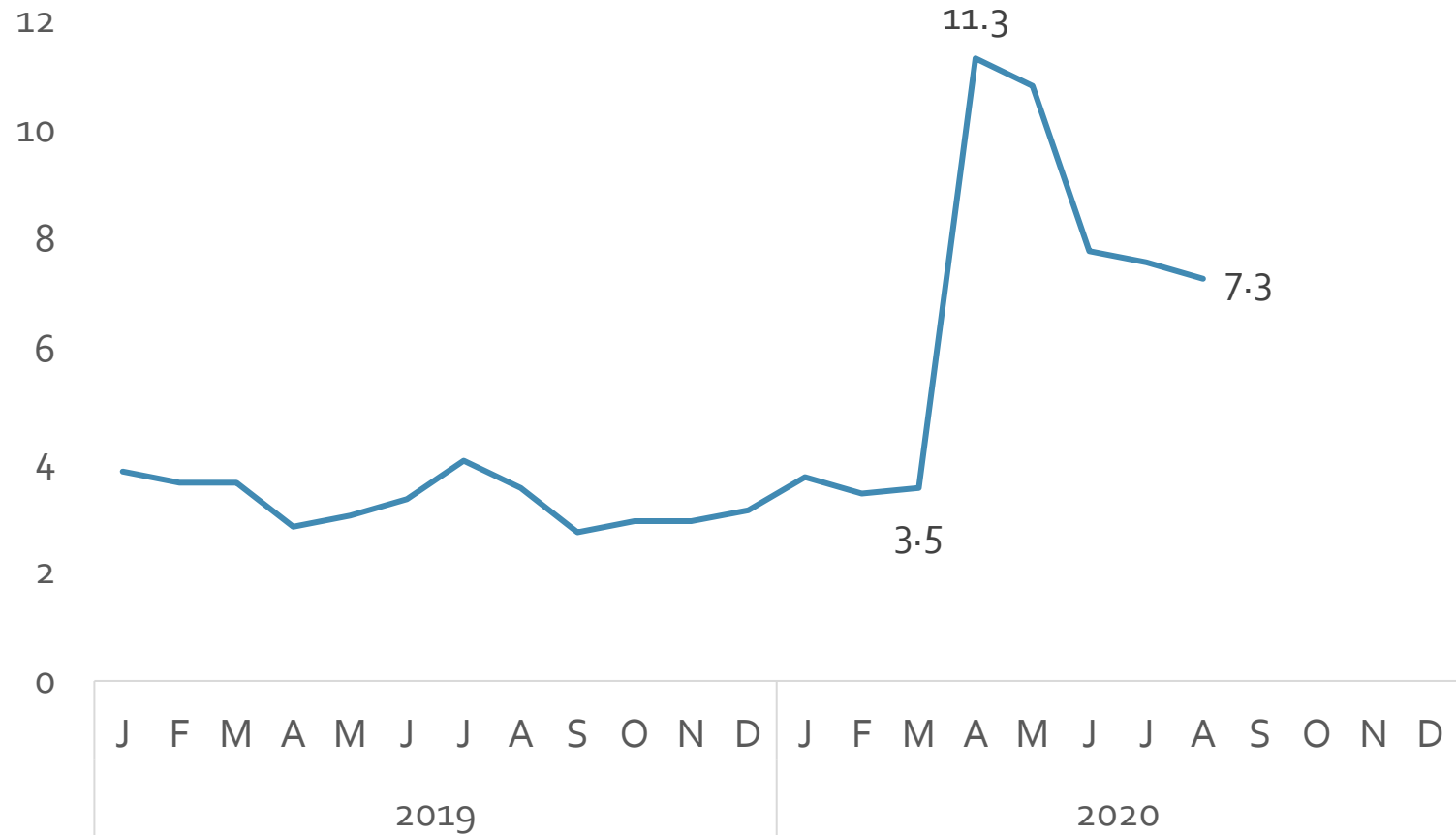
KC Total Non-Farm Payroll Employment Change from February 2020



Correspondingly, as of August 2020, KC's unemployment rate is about a full percentage point below the nation's. Again, though, progress has slowed considerably in recent months and remains more than double pre-recession levels.

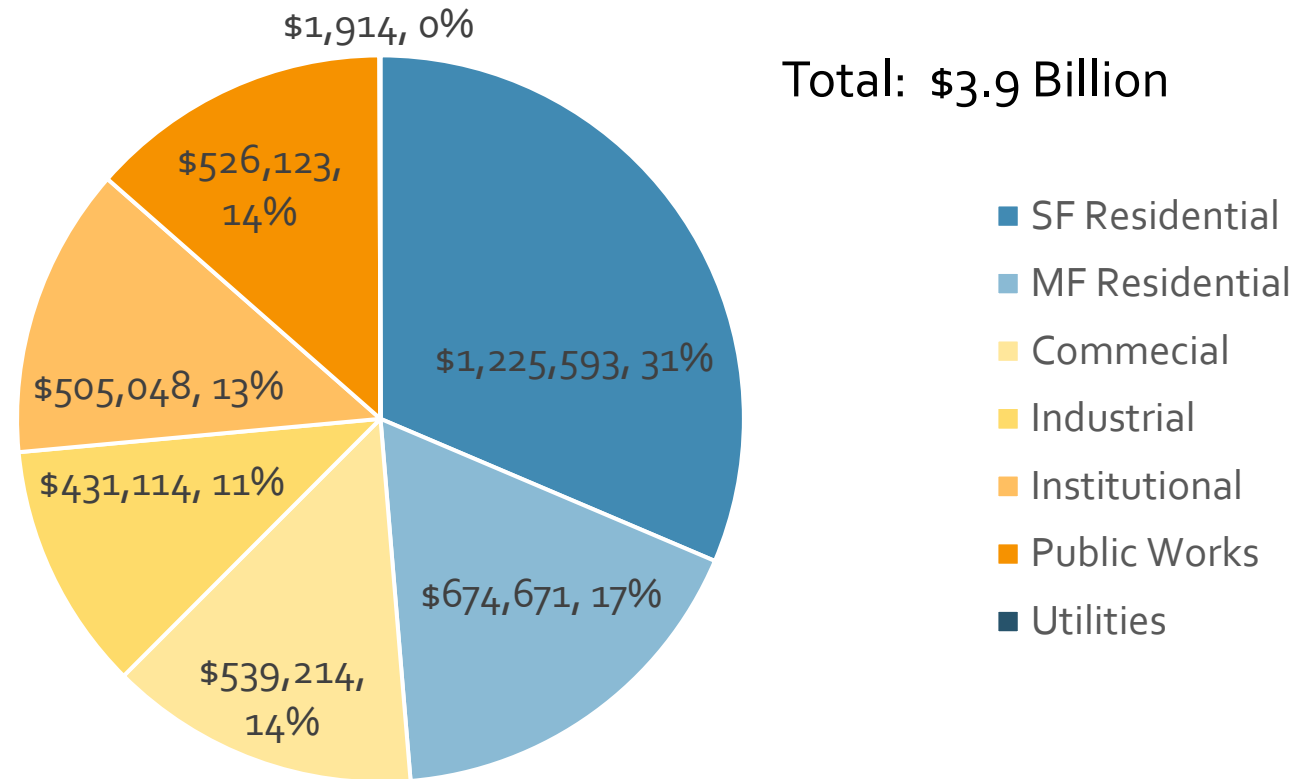
KC Unemployment Rate

Monthly, Through August 2020, Not Seasonally Adjusted



Construction is one portion of the economy that has appears to have slowed down during the pandemic. Nearly \$4 billion in construction starts have occurred through August of this year, split roughly half and half between residential and non-residential . But, this is down 20 percent from the same period 1 year ago.

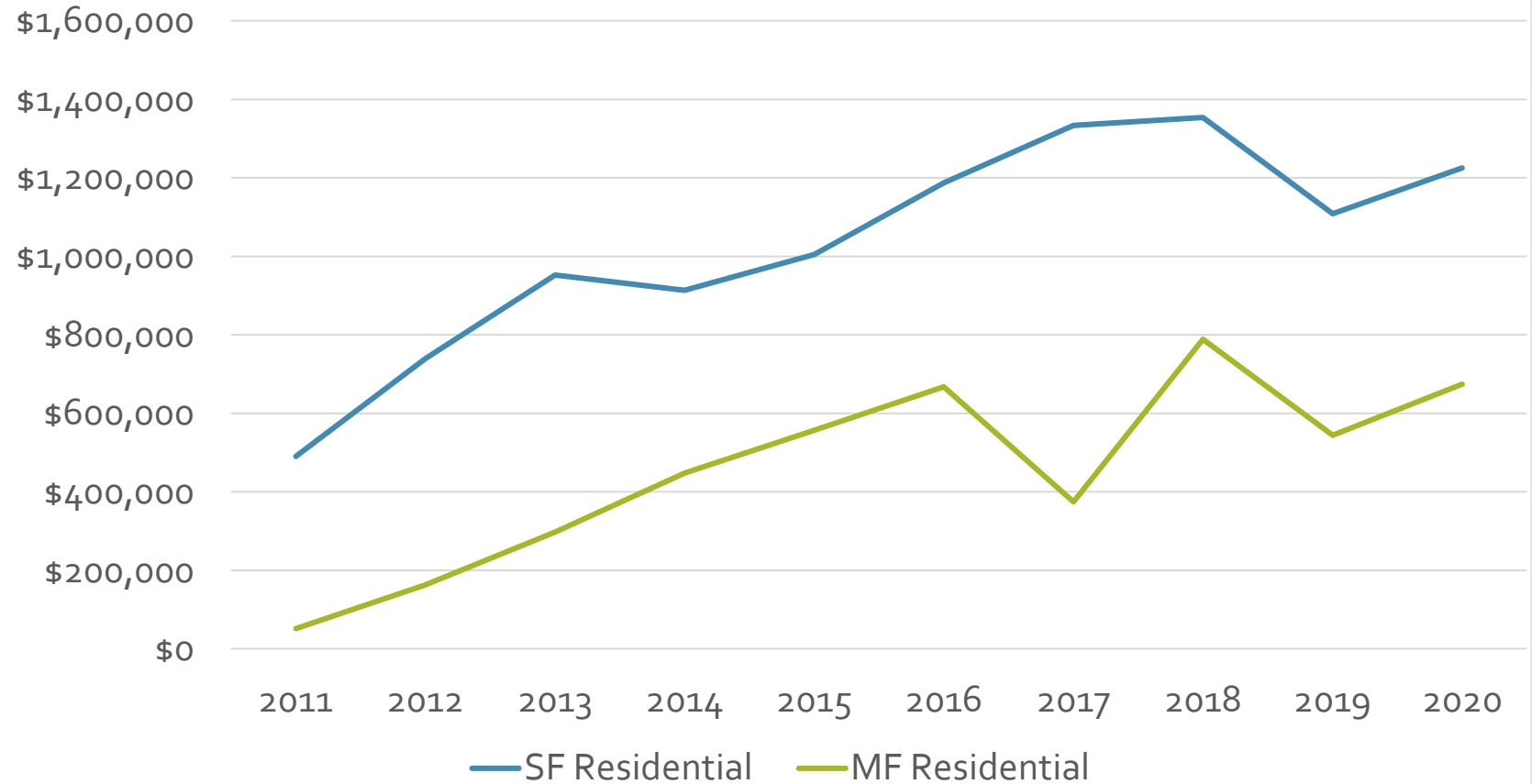
2020 Construction Values by Type (thousands of current dollars)



Both single-family and multi-family residential construction are showing modest increases over the same period last year, despite the pandemic. The value of single-family home construction grew 11 percent, while multifamily grew 24 percent.

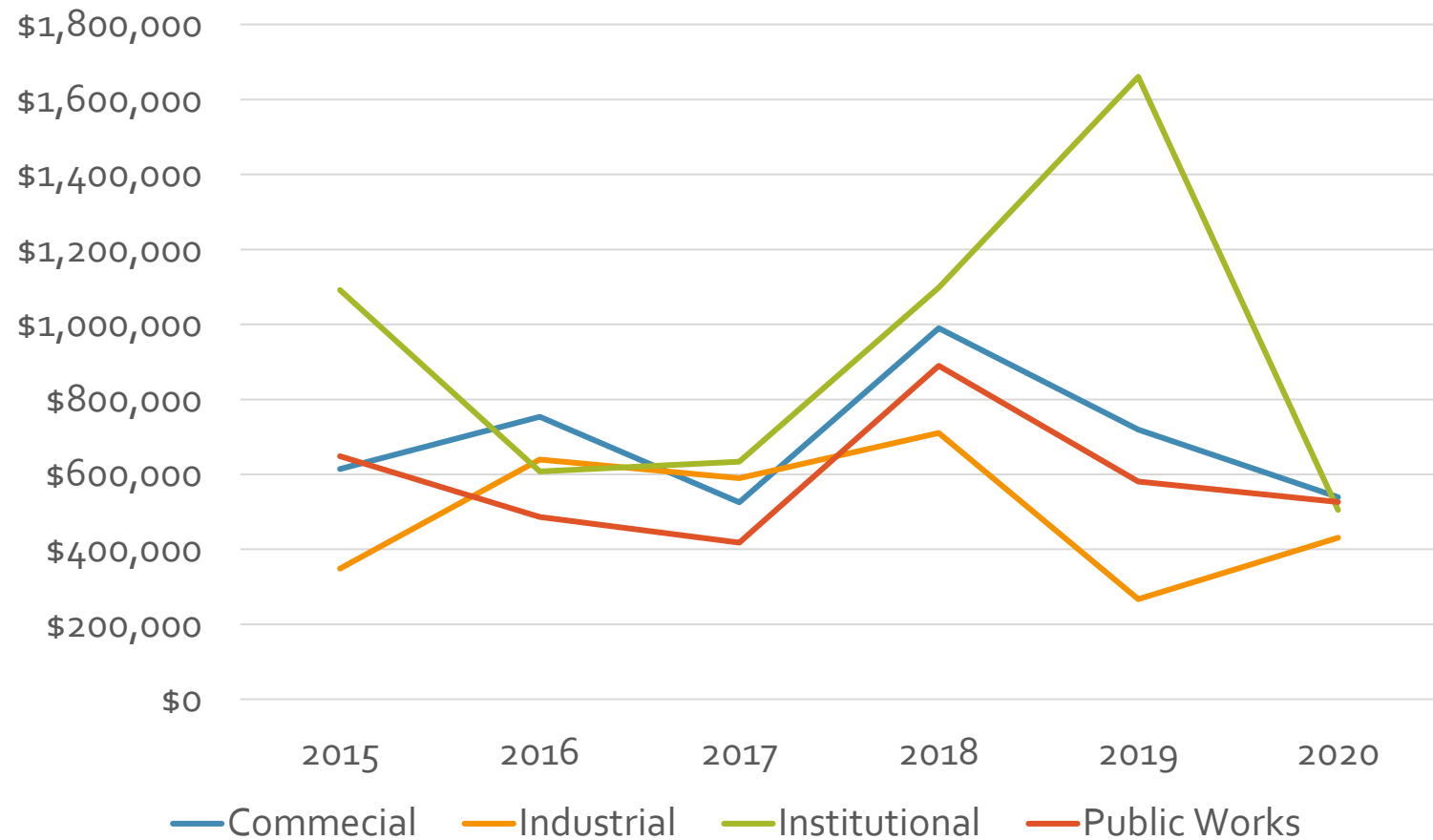
Residential Construction Trends

(thousands of current dollars, year-to-date through August)



However, only industrial construction has grown relative to a year ago among the non-residential categories, by a whopping 62 percent. The spike in institutional construction in 2019 was the result of starting KCI's renovation. This construction is on-going, however, so the drop in value may not reflect a drop in actual activity.

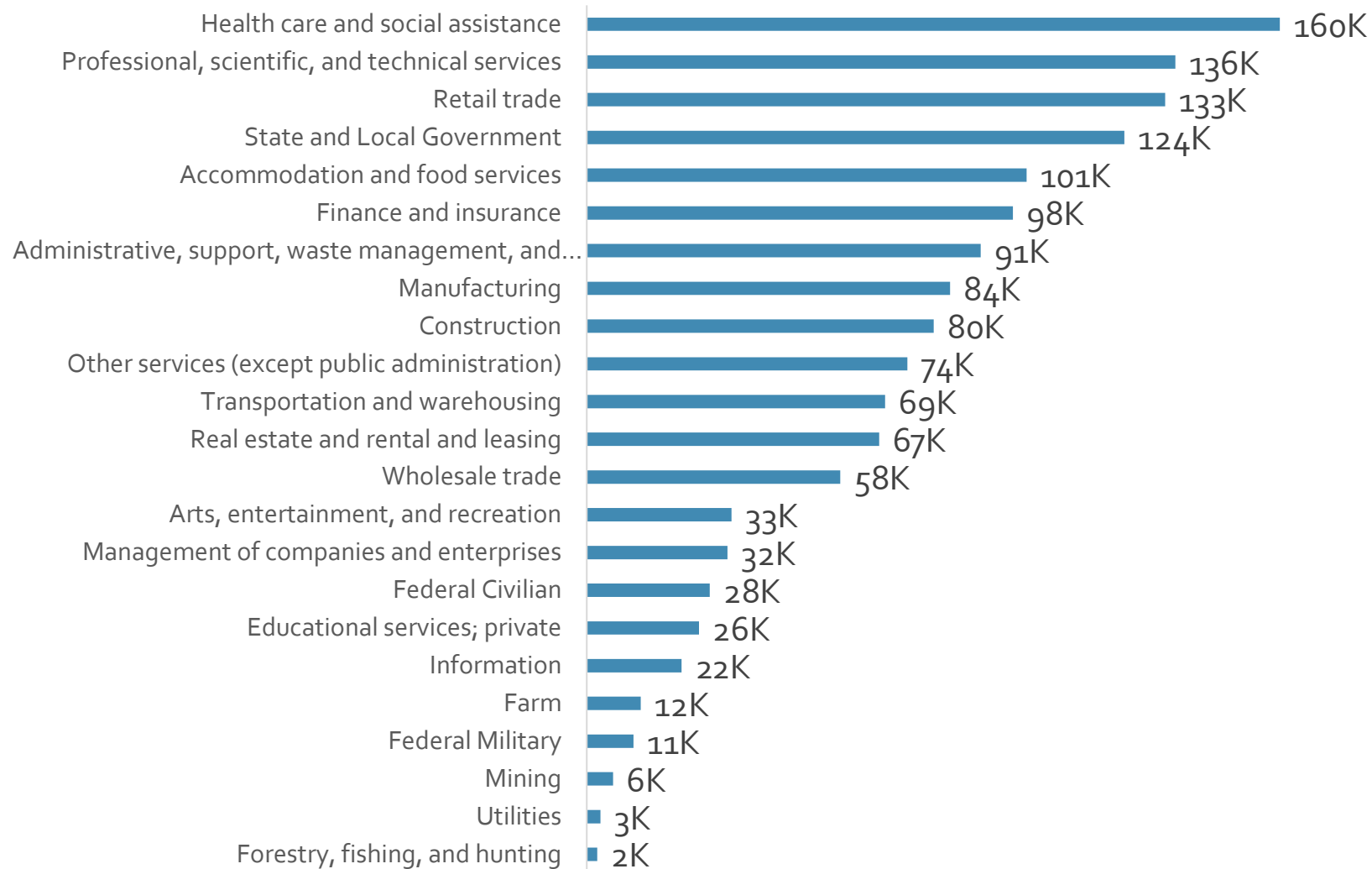
Non-Residential Construction Trends
(thousands of current dollars)



KC has a diverse economy whose industry structure tends to mirror that of the nation. Health care and Professional Services lead the way. This data, which is what is used in our model, includes the self employed and puts schools into Local Government, making it the 4th largest employer.

KC Employment by Industry, 2020 Q1

(Includes the Self-Employed, Public Education is Included in Government)

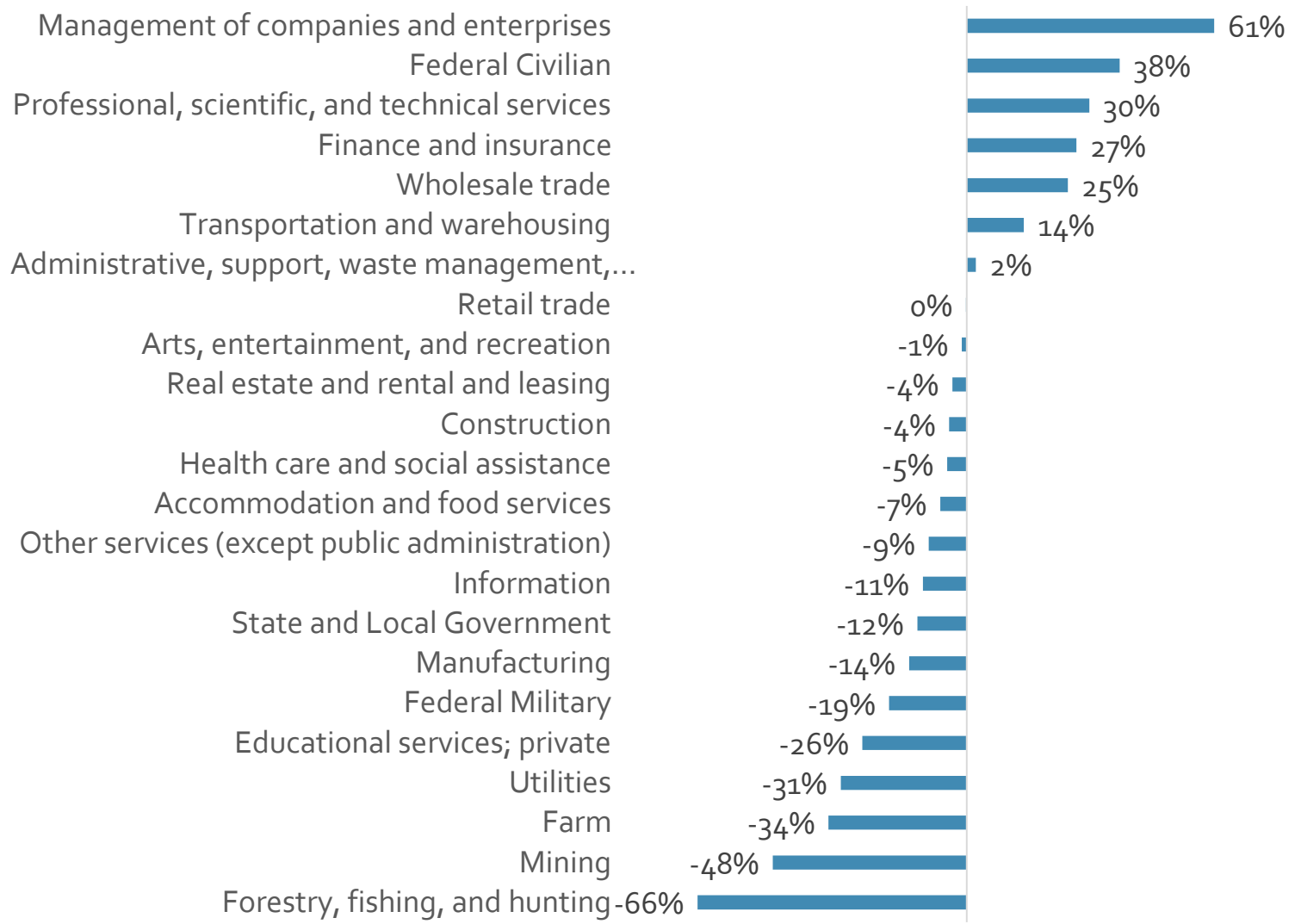


Source: REMI, based on BEA definition of employment

“Tends to mirror” doesn’t mean “exactly mirror,” though. Regions grow by serving the larger U.S. and international economies. The industries in which we specialize are those where we have a comparative advantage and have been able to do a better job selling to the rest of the world.

KC Industry Employment Specializations

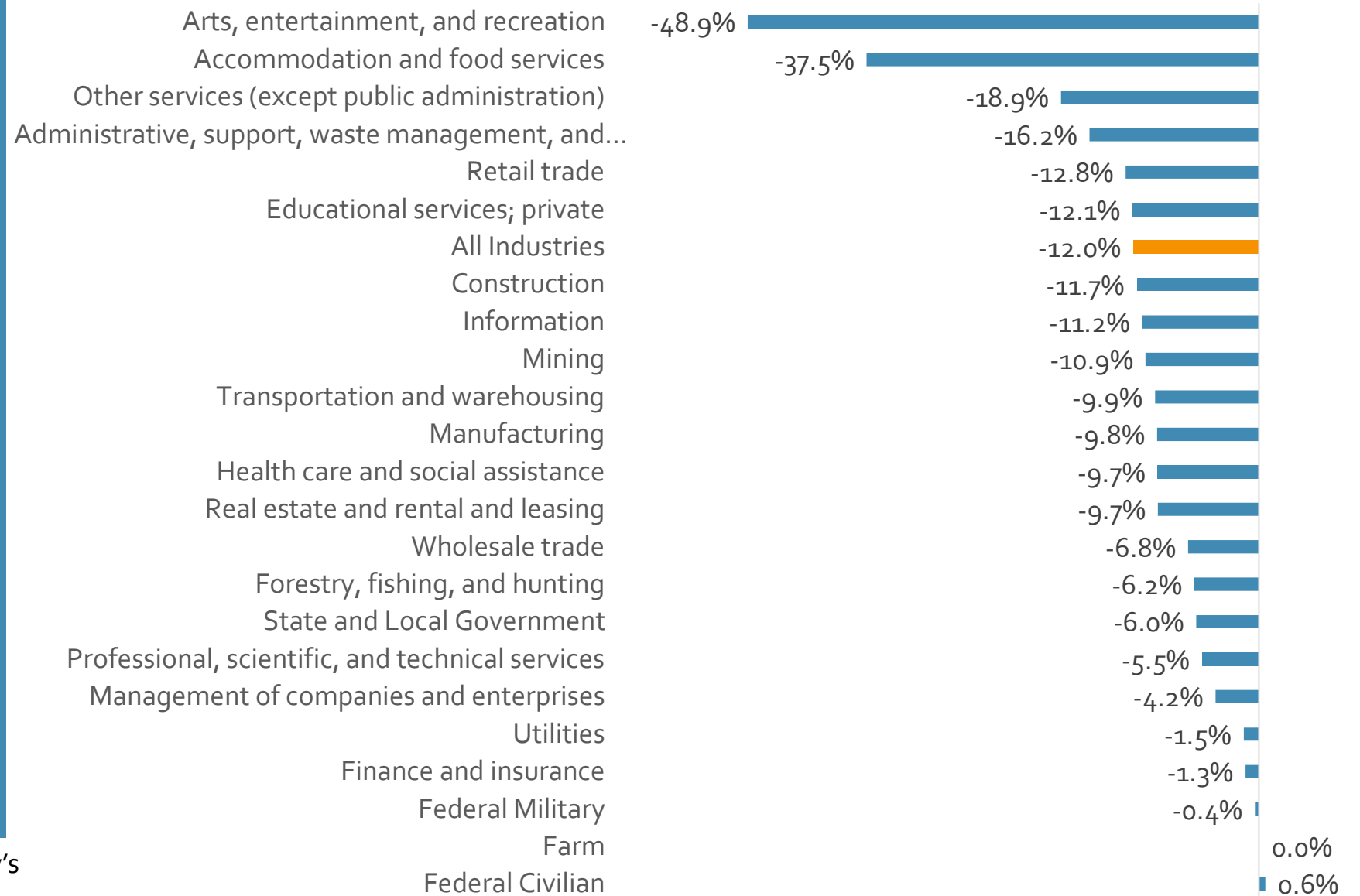
Share of KC Employment Relative to Share of U.S.



Source: REMI, based on BEA definition of employment

Depth of Downturn by Industry, October Baseline

Percent change in employment from 2020 Q1 to 2020 Q2



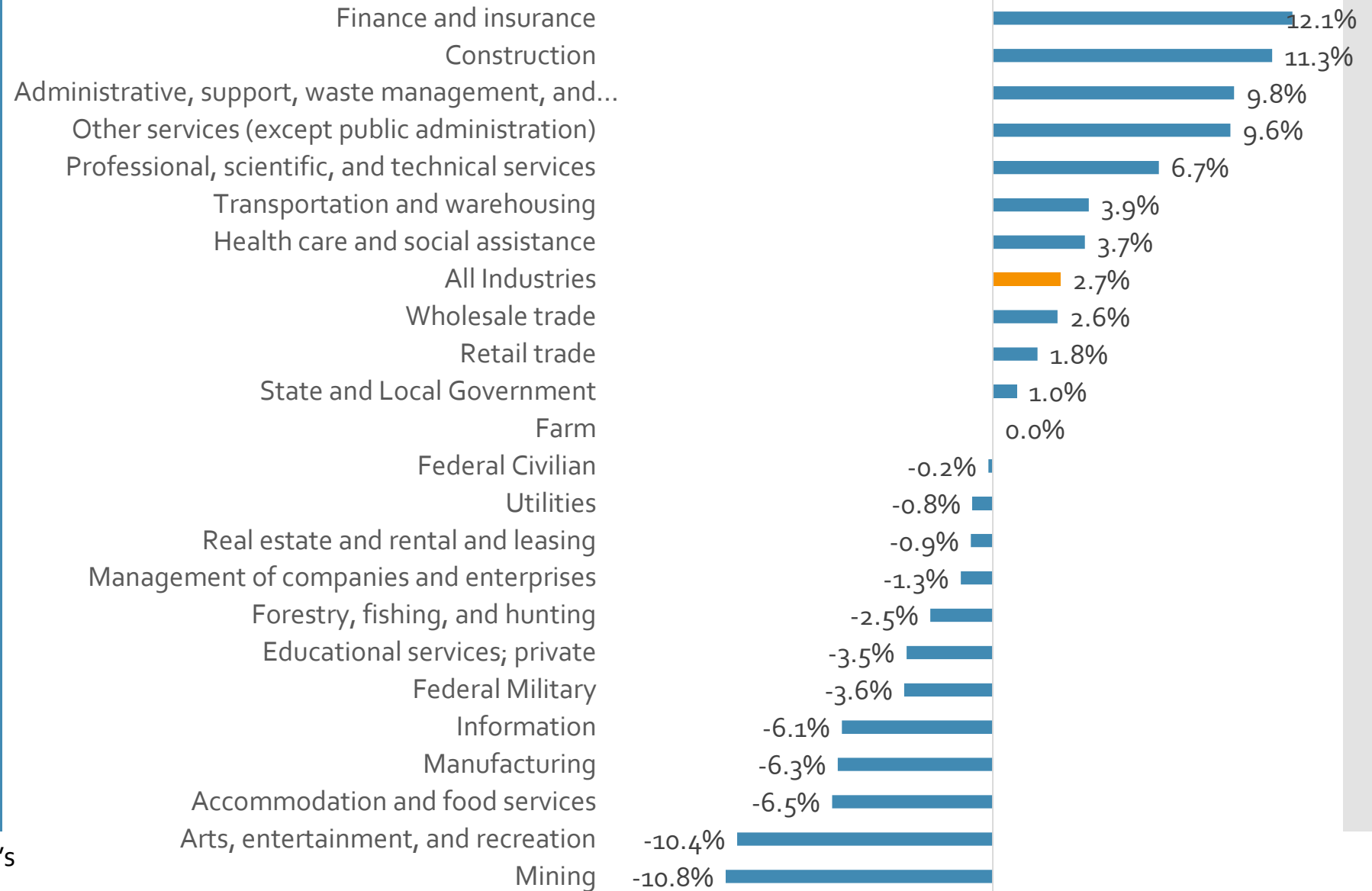
Overall, the KC economy lost 12 percent of its jobs in the downturn, with Arts and Entertainment and Accommodation and Food hit hardest. On the other hand, some of our specializations – Finance and Insurance, Management of Companies, Professional Services – proved relatively resilient.

Source: MARC, using REMI model and Moody's national forecast

Strength of Recovery by Industry, October Baseline

Percent change from 2020 Q1 to 2025 Q4

Some of our specializations also do better than average on the upswing – Finance and Insurance, Professional Services, Transportation and Warehousing. Construction, Administrative, and Other Services also rebound strongly. But Arts and Entertainment and Accommodation and Food don't return to pre-recession levels by the end of 2025.

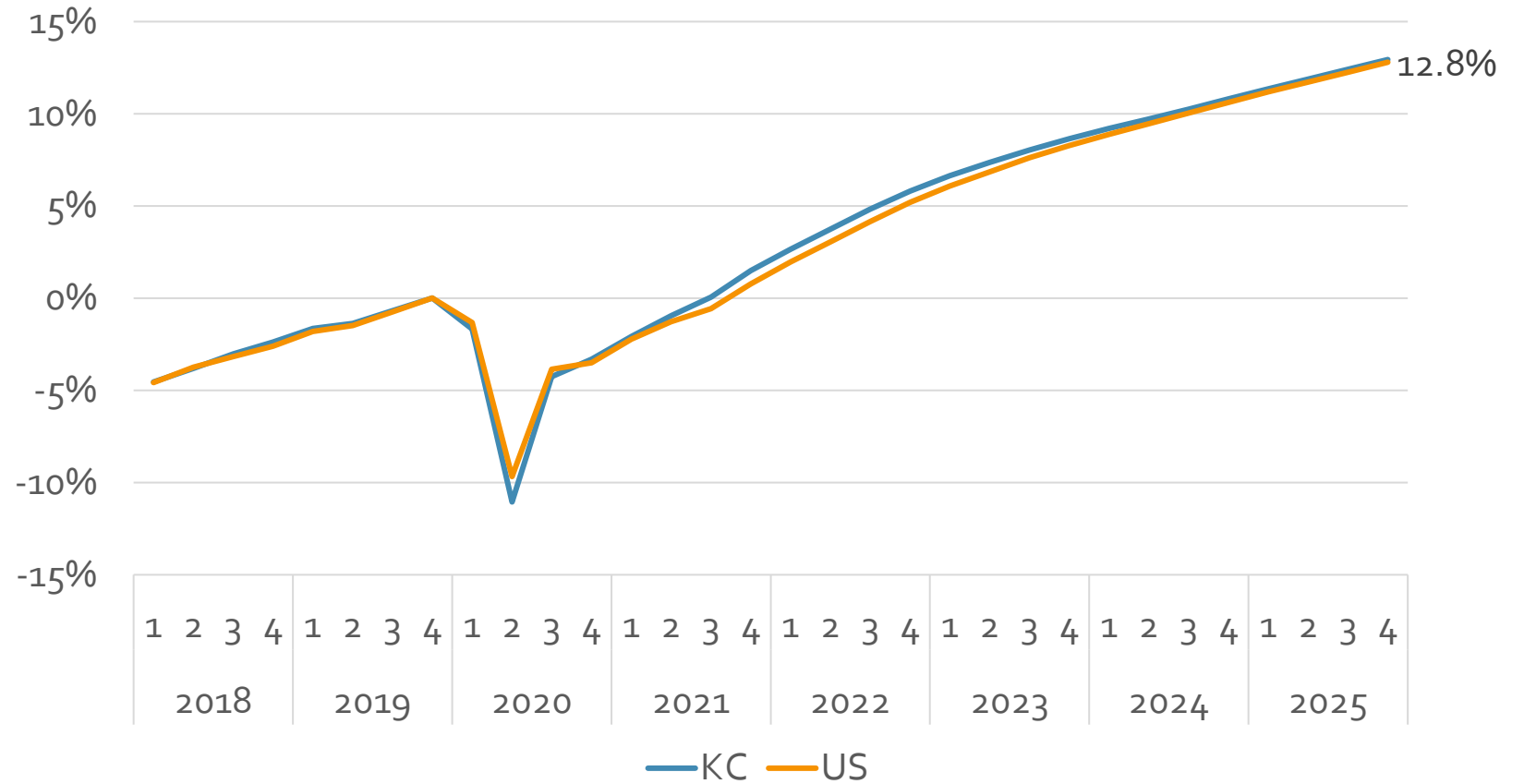


Source: MARC, using REMI model and Moody's national forecast

The path of recovery for KC looks very much like the path for the nation, but because of its specializations, KC does slightly better in the short run.

KC vs. U.S. GDP Forecast

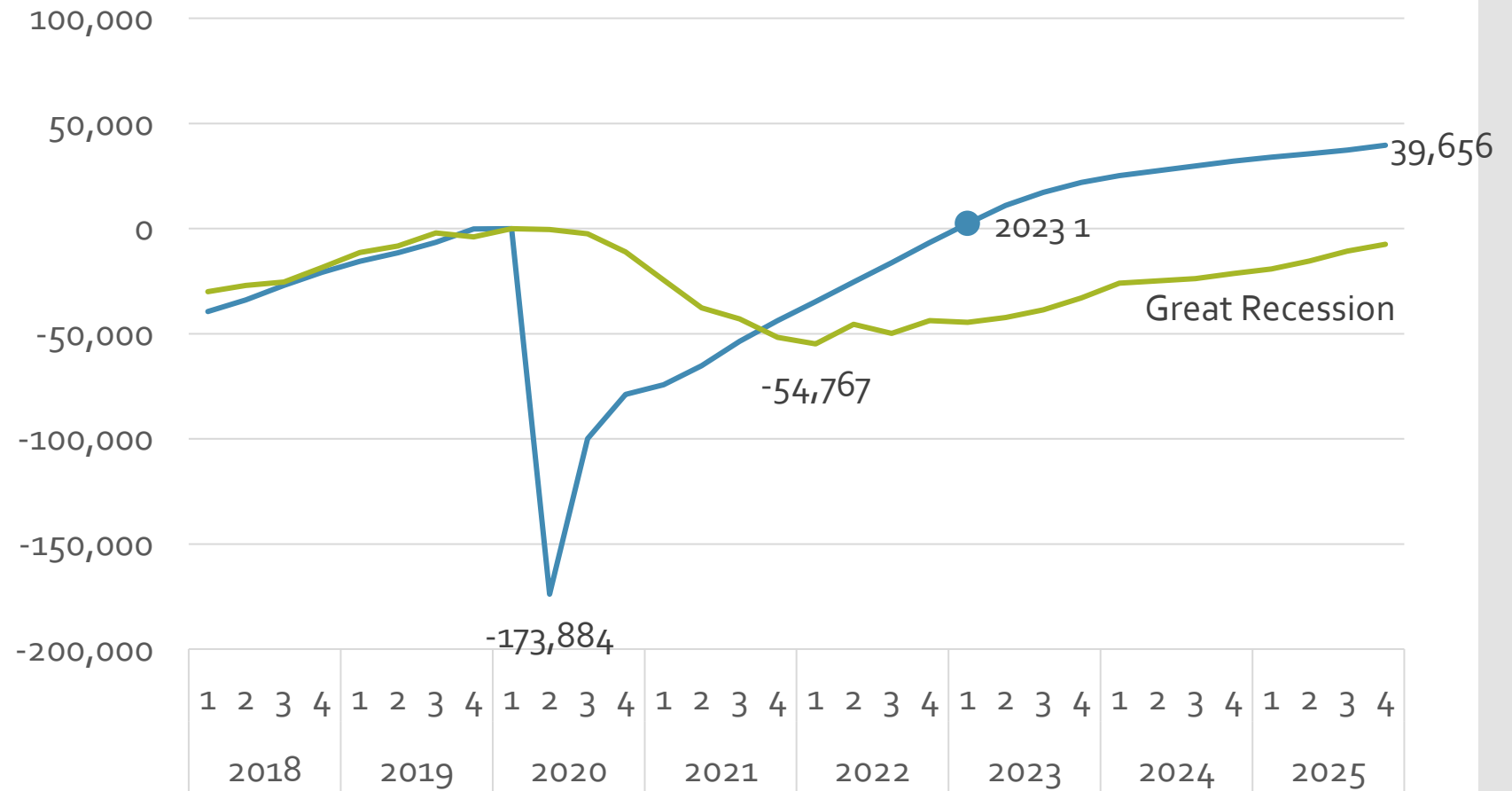
Percent change since 2019 Q4



Source: MARC, using REMI model and Moody's national forecast

“Slightly better” pushes the recovery of our employment to pre-recession levels ahead of the nation by about a year. While much deeper job losses occurred than during the Great Recession, the recovery time this pandemic-induced recession is expected to be twice as fast, thanks largely to the initial aggressive federal policy response.

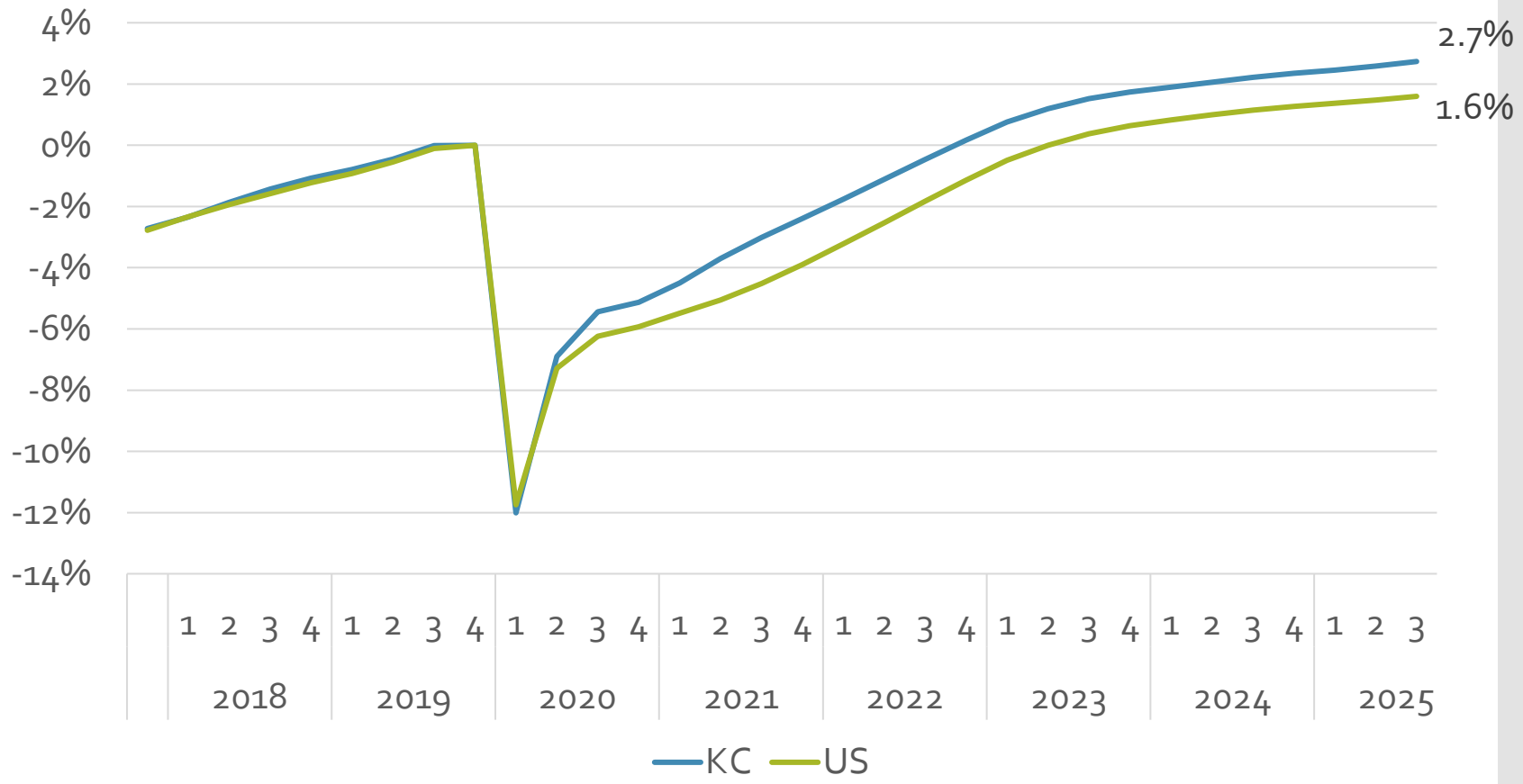
KC Total Employment, July Baseline Change Since 2020 Q1 (Quarterly)



Source: MARC, using REMI model and Moody's national forecast

In addition to our specializations being more resilient, the region's ability to outpace the nation's employment growth appears also due to our low cost of labor, so that a slight advantage in output growth enables area firms to more rapidly add workers.

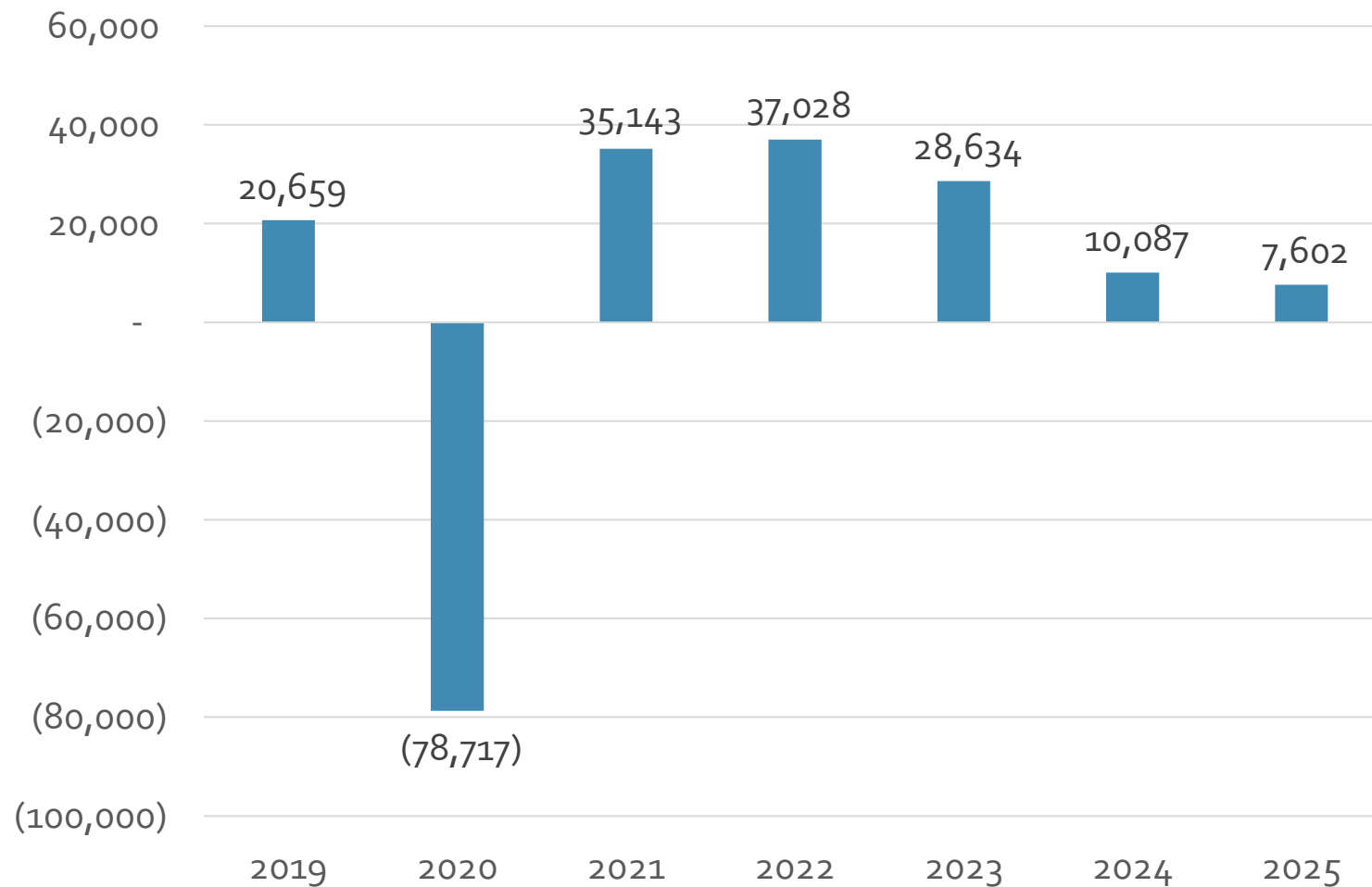
KC vs. U.S. Total Employment, October Baseline
Percent change since 2020 Q1 (Quarterly)



Source: MARC, using REMI model and Moody's national forecast

Viewed on a fourth-quarter to fourth-quarter basis, the region is expected to be down 79,000 jobs relative to a year ago, after having grown by 21,000 the year before. It takes three years of above average growth to make up for this loss, after which employment growth slows down dramatically once the excess labor force capacity is absorbed.

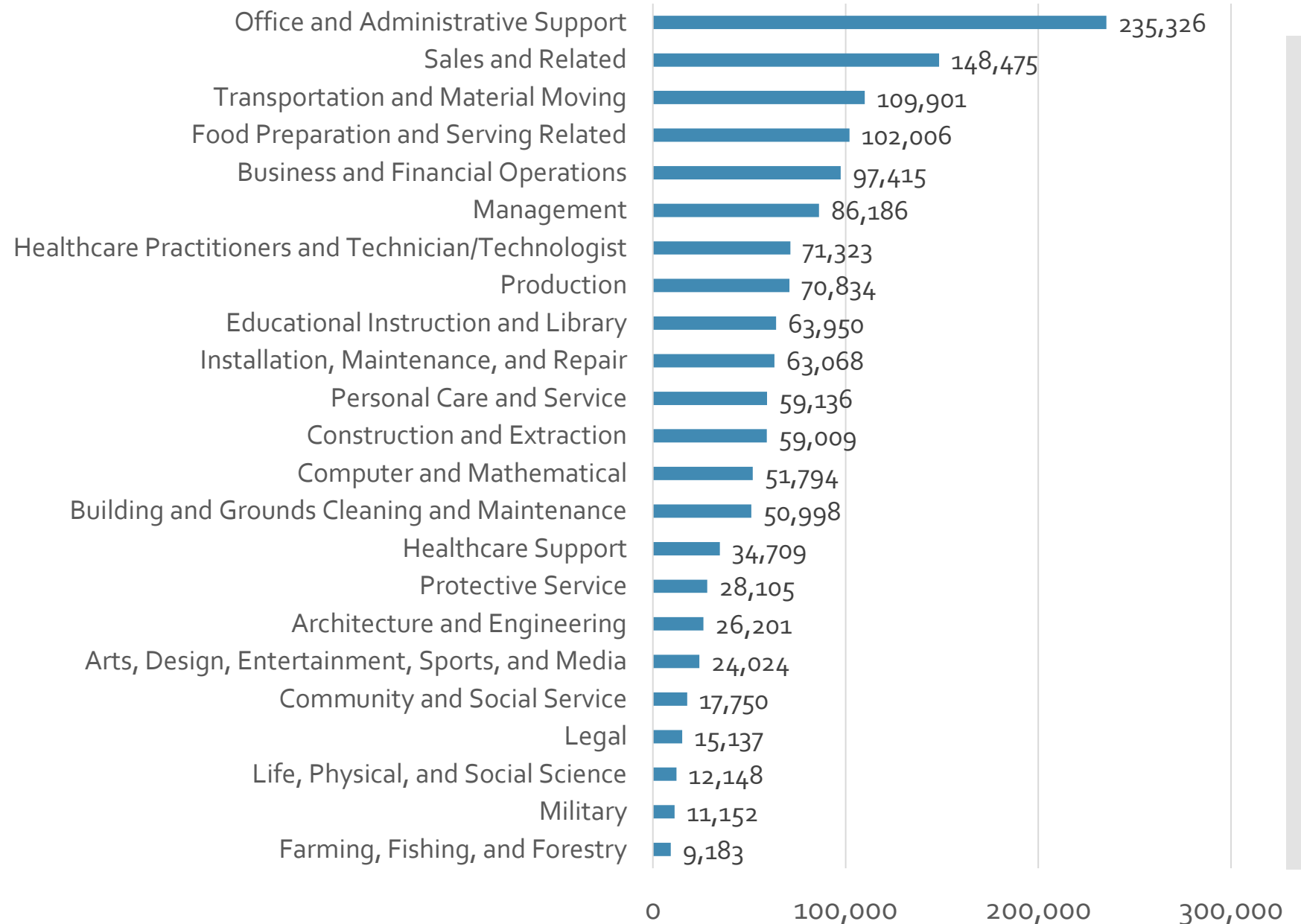
KC Total Employment Forecast, 4Q to 4Q Change



Source: MARC, using REMI model and Moody's national forecast

To gain a better understanding of not just which industries are hurting, but who is hurting, we convert the industry forecasts to occupations. Looking at the occupation distribution heading into the recession, we note that many of the largest occupations are relatively poorly paid.

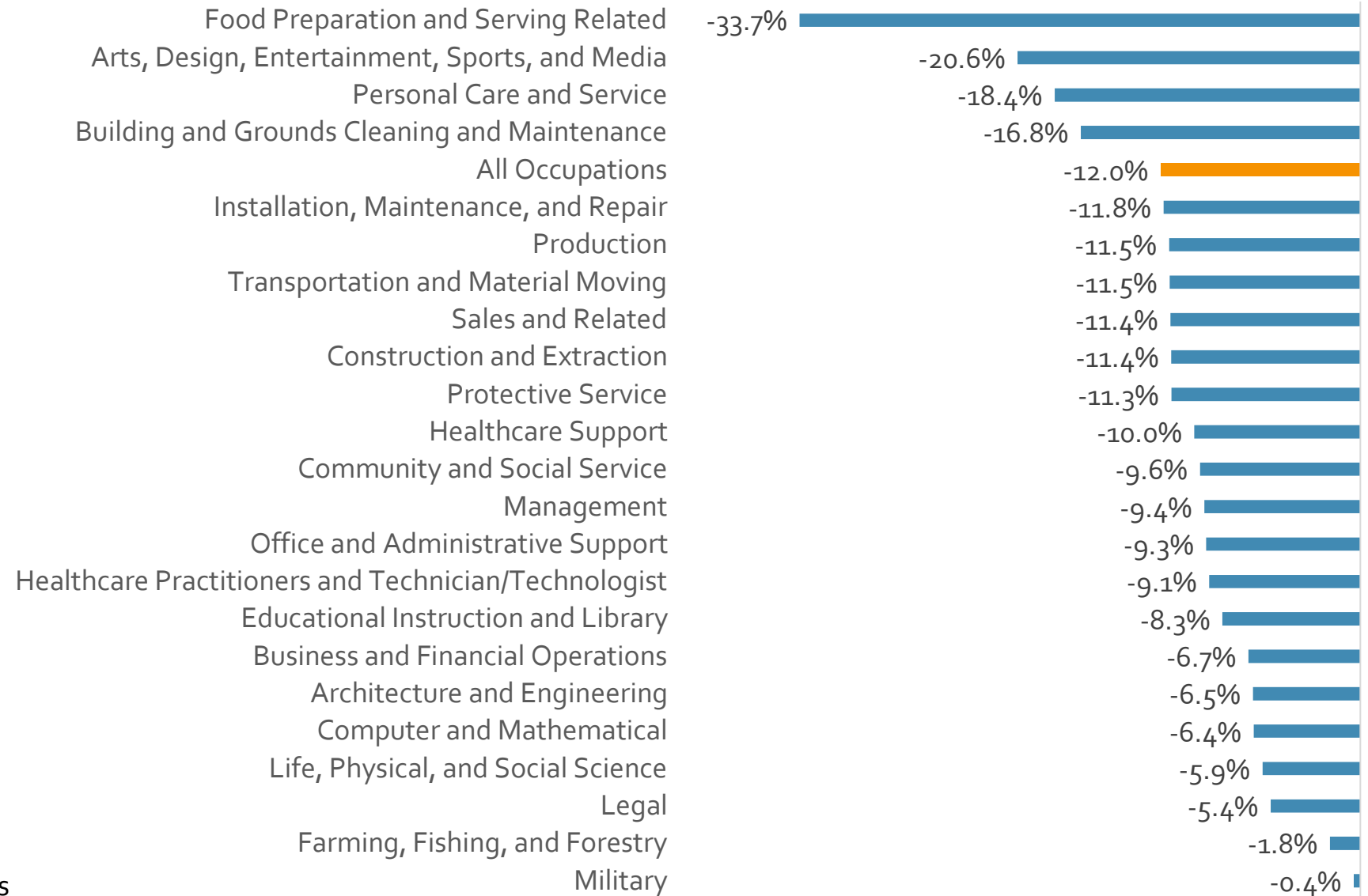
Total Employment by Major Occupation 2020 Q1



Source: MARC, using REMI model

Depth of Decline by Occupation, October Baseline

Percent Change 2020 Q1 to 2020 Q2



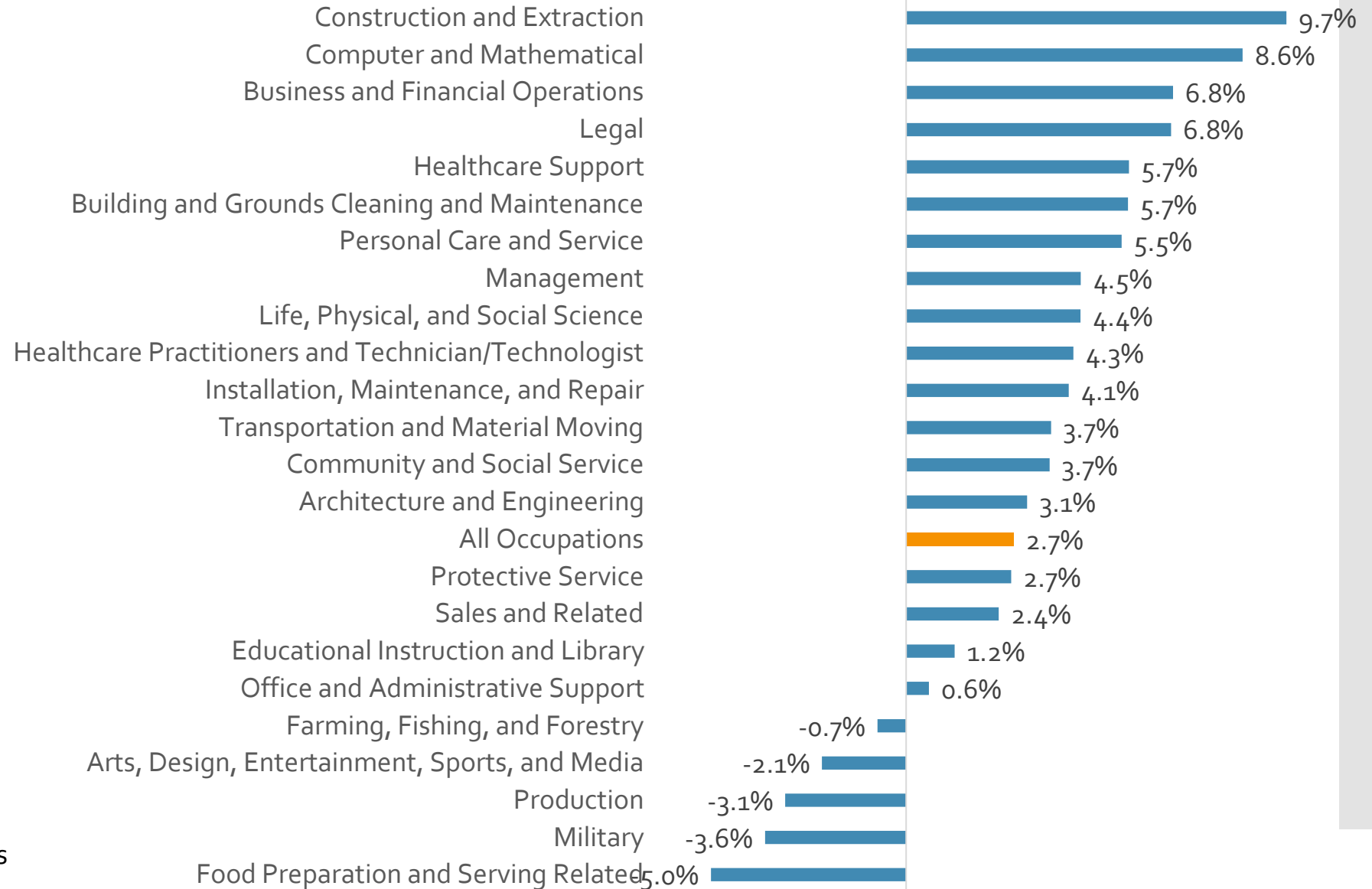
Indeed, it is the lowest paid occupations that were especially hard hit, starting with Food Preparation, Arts and Design, Personal Care and Building Maintenance. Many higher paid occupations – Legal, STEM, Business – while they declined, did so at half the average rate for the region.

Source: MARC, using REMI model and Moody's national forecast

Strength of Recovery by Occupation, October Baseline

Percent Change 2020 Q2 to 2025 Q4

Construction occupations bounce back the strongest as the economy recovers, followed by Computer, Business and Legal, reflecting some of our specializations. But many lower-paid jobs also grow faster than average – Healthcare Support, Building Maintenance, Personal Care, Installation. Food Prep and Arts remain depressed through the projection period, however.

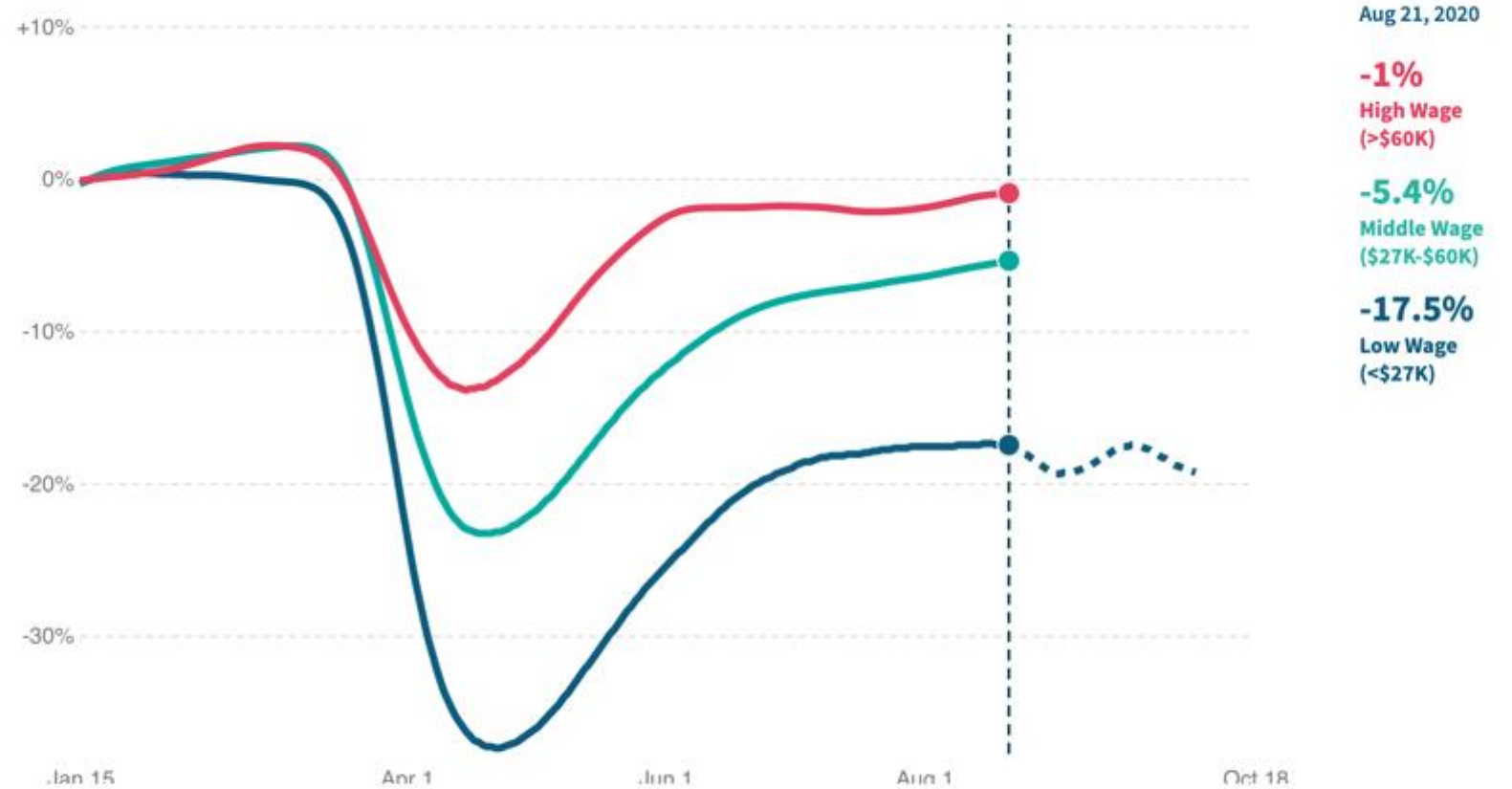


Source: MARC, using REMI model and Moody's national forecast

These forecasts are broadly consistent with what has been termed a “K”-shaped recovery, where high-wage workers have already largely returned to pre-recession levels, but low-wage workers are still lagging considerably.

Percent Change in Employment*

In the United States, as of August 21, 2020, employment rates among workers in the bottom wage quartile **decreased** by 17.5% compared to January 2020 (not seasonally adjusted).

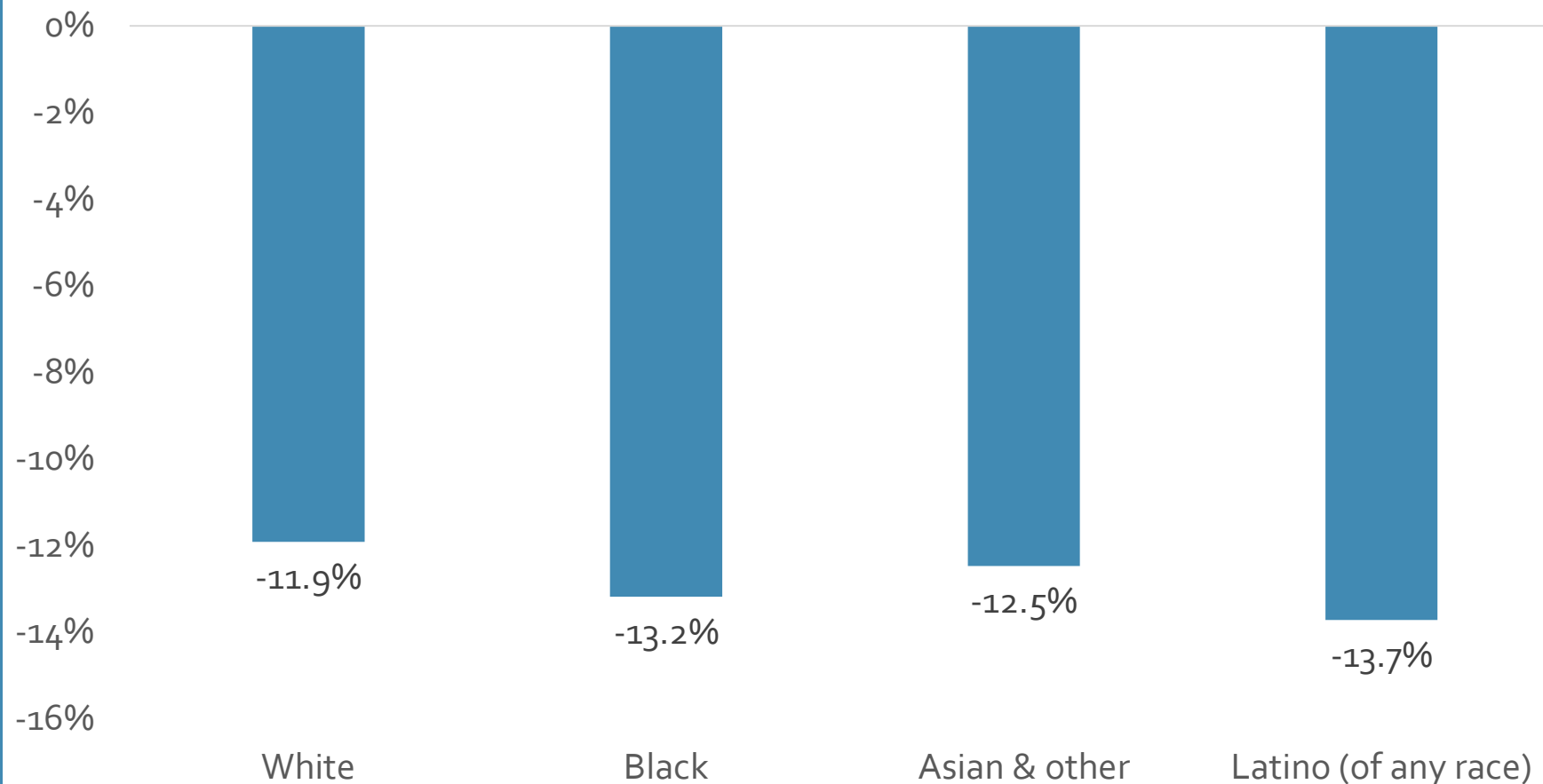


*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line in the low-wage series is a prediction of employment rates based on Kronos data.

last updated: **October 10, 2020** next update expected: **October 18, 2020**

Every occupation has a demographic profile. Whites tend to be employed at higher rates in occupations that are more resilient, while Blacks and Latinos tend to be employed in those that saw the largest declines. Applying the demographic profile to the occupation forecast allows us to estimate job losses and gains by racial and ethnic group.

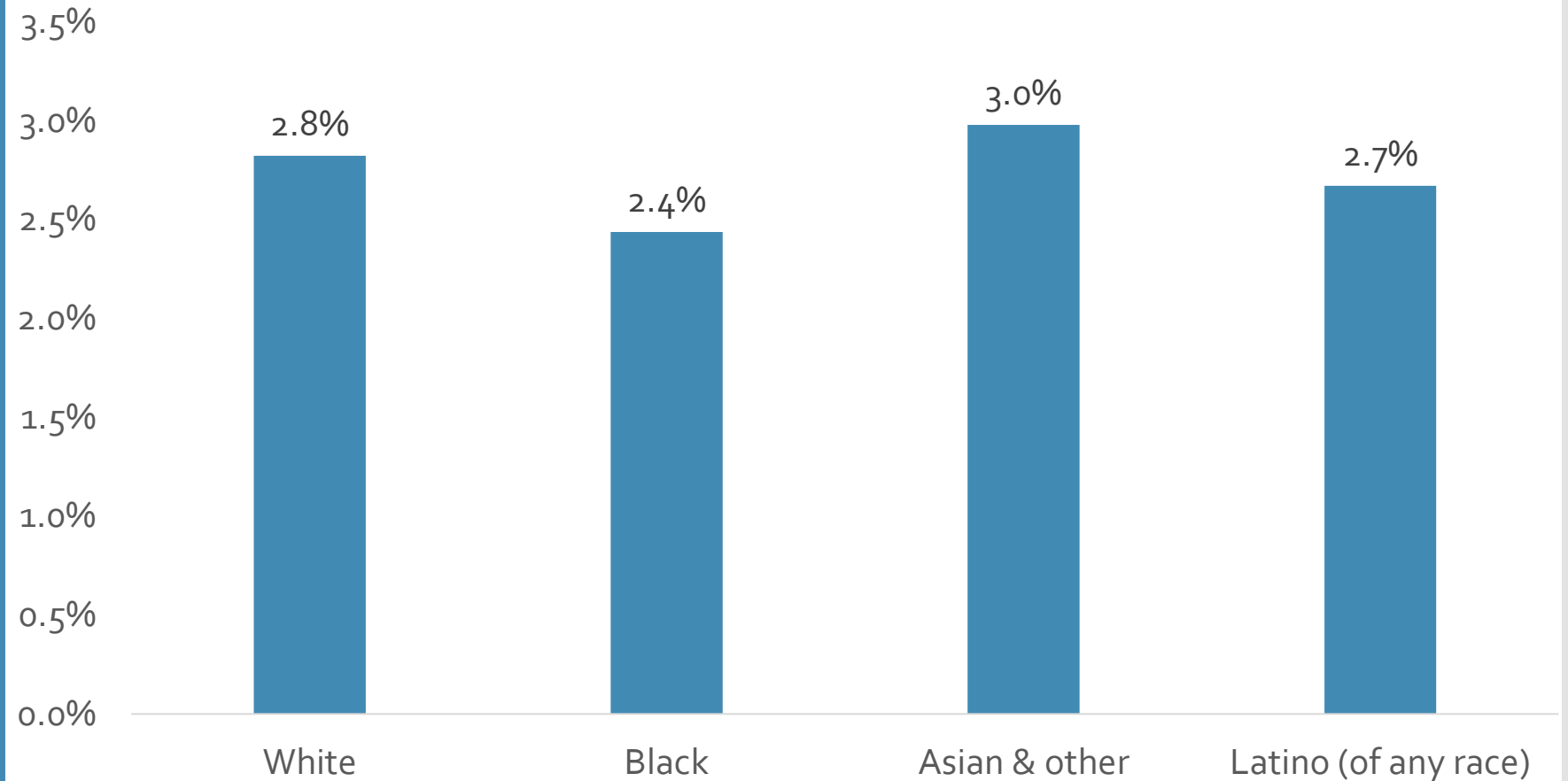
Depth of Downturn by Race/Ethnicity, October Baseline
Percent Change in Employment, 2020 Q1 to 2020 Q2



Source: MARC, using REMI model and Moody's national forecast

While downturns tend to be equalizing, it is on the upswing that disparities usually increase, unless there is intentional policy and investment to counteract. Here we see Whites and Asians are expected to see stronger job gains during the recovery period than Blacks and Hispanics, despite the latter having much higher unemployment rates

Strength of Recovery by Race/Ethnicity, October Baseline
Percent Change in Employment, 2020 Q1 to 2025 Q4



Source: MARC, using REMI model and Moody's national forecast

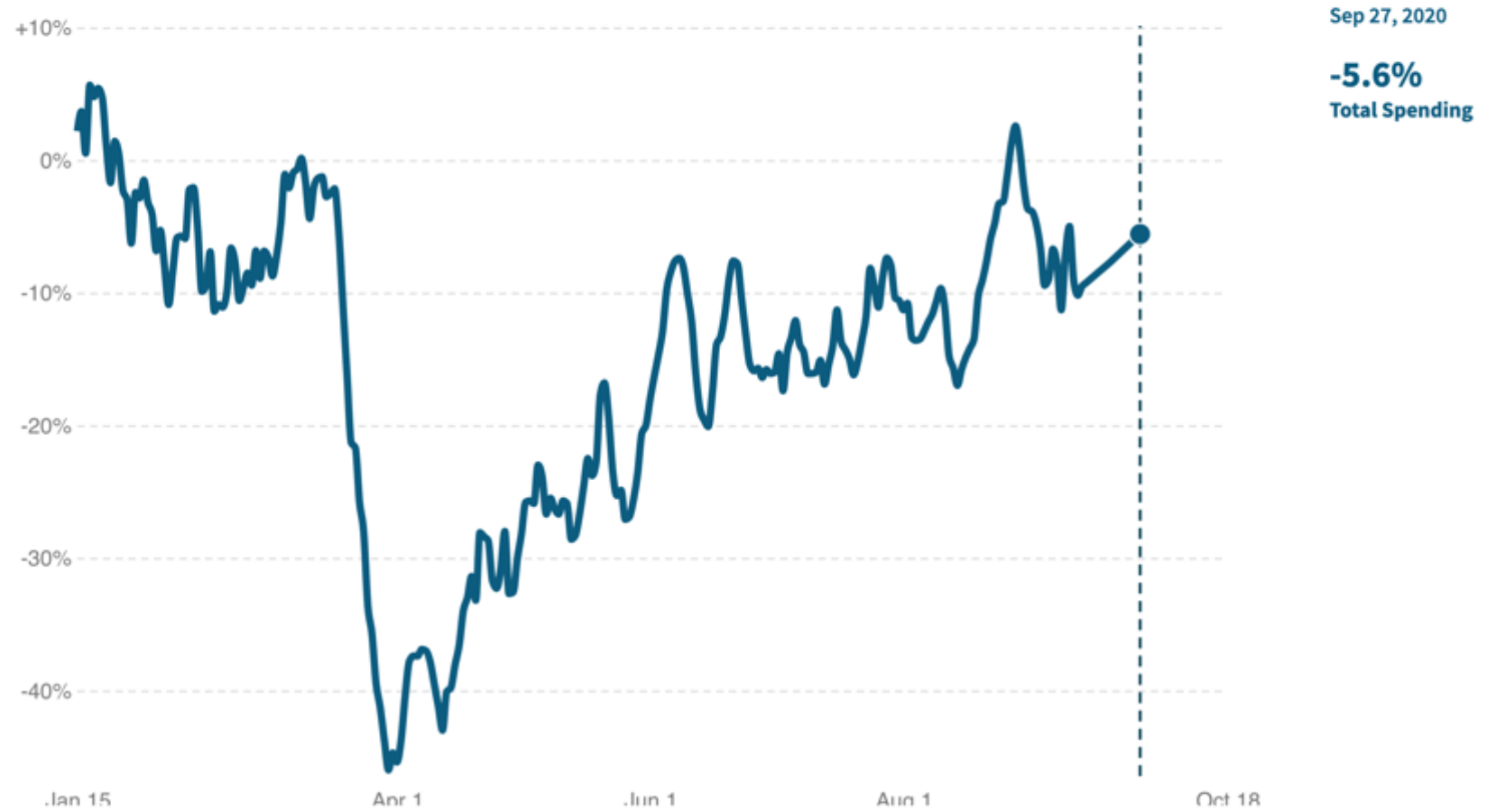
So far, policy has kept the recession from spiraling downward. But there could still be worrisome spillover effects from the pandemic. The potential for high levels evictions is one of them.

- KC still has nearly 53,000 fewer jobs than pre-recession levels
- Based on an analysis of renters by occupation, 35% of the lost jobs were held by renters
- That makes some 18,500 prior job holders vulnerable to eviction
- This doesn't count the workers who have regained employment but still have rent balances from when they were out of work.

Another downside risk to the forecast is whether consumer spending continues its strong rebound. Another round of stimulus, as well as avoidance of another economic shutdown during the current “third wave” of the pandemic, may be essential. Yet Congress remains deadlocked.

Percent Change in All Consumer Spending*

In **Kansas City**, as of **September 27 2020**, total spending by all consumers **decreased** by **5.6%** compared to January 2020.



*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. This series reflects daily data through September 12th, 2020 and weekly data after September 12th, 2020. This series is based on data from Affinity Solutions.

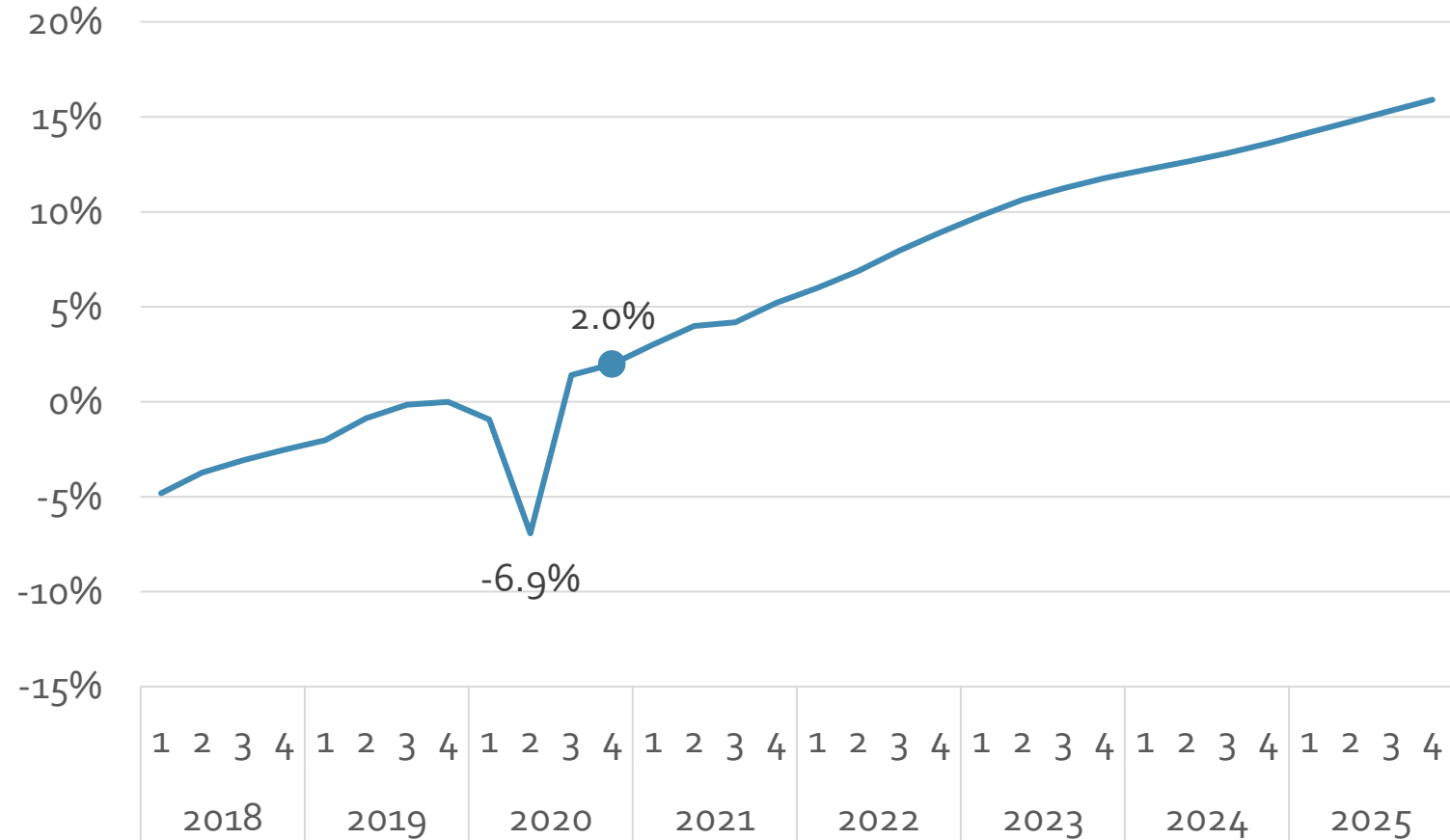
last updated: **October 08, 2020** next update expected: **October 18, 2020**

Source: www.tracktherecovery.org

Our forecast assumes that consumers remain confident enough to keep spending, and so optimistically predicts retail sales at the end of 2020 will exceed their level at the end of 2019 by 2%, after declining nearly 7 percent peak-to-trough in 2nd quarter.

Real Retail Sales, October Baseline

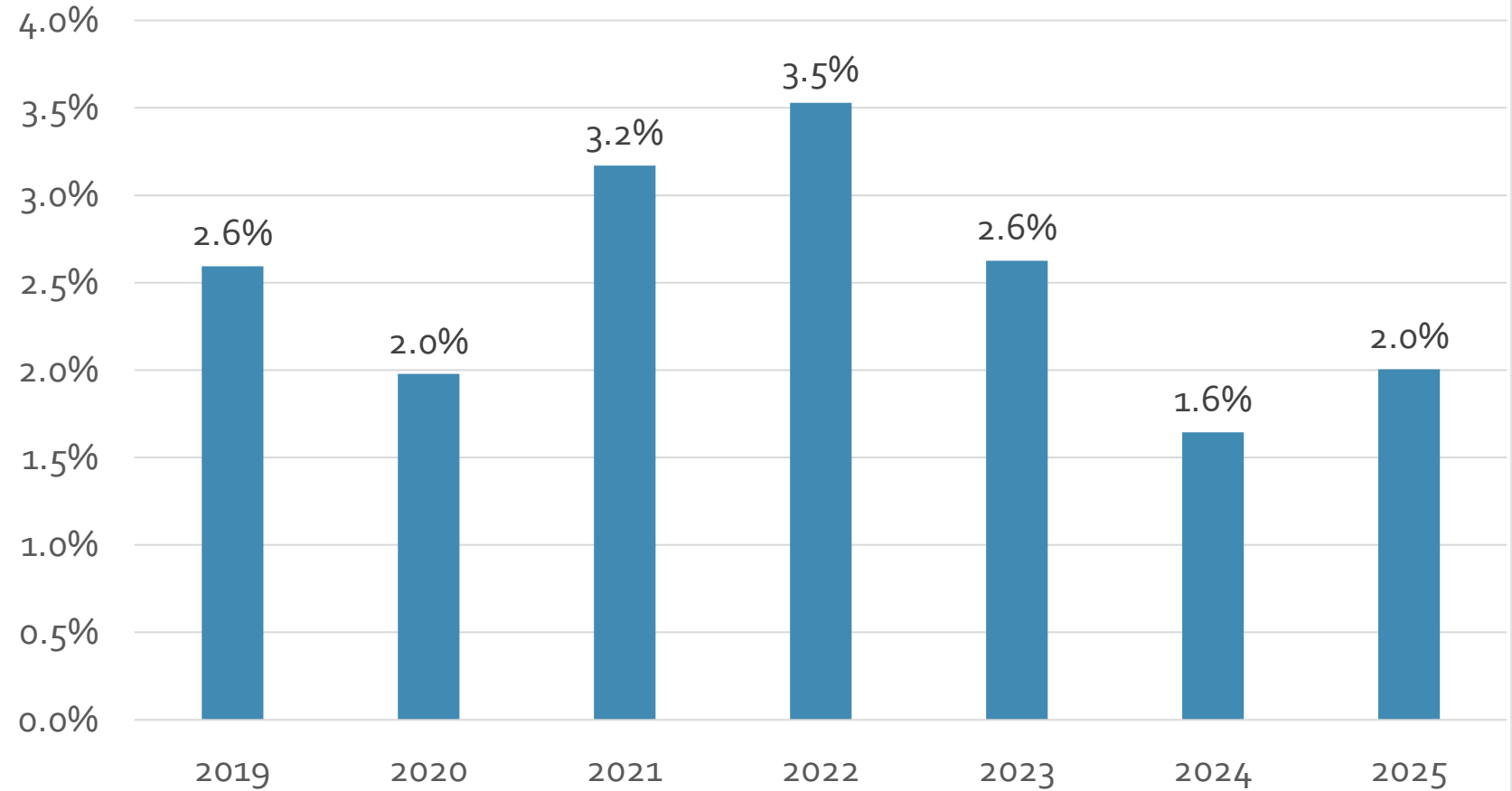
Percent Change Since 2019 Q4, 2012 dollars



Source: MARC, using REMI model and Moody's national forecast

As the economic recovery accelerates once a vaccine is available, so do retail sales, producing several years of above average growth before settling down to more average rates of increase.

Percent Change in KC Real Taxable Retail Sales (4Q/4Q, 2012 dollars)



Source: MARC, using REMI model and Moody's national forecast

Another downside risk to the forecast is if small business bankruptcies begin to rise significantly. Unfortunately, after the initial surge in reopenings, the number of small businesses open has begun trending downward again.

Percent Change in Number of Small Businesses Open*

In **Kansas City**, as of **September 29 2020**, the number of small businesses open **decreased** by **15.8%** compared to January 2020.



*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.

last updated: **October 09, 2020** next update expected: **October 18, 2020**

Source: www.tracktherecovery.org

Summary

- Forecast has gotten progressively better over time as the economy rebounded more sharply than expected
- KC has regained nearly 60 percent of the jobs lost at the trough of the recession.
- But the going gets tougher from here, with improvements to employment and output progressing at a much slower pace.
- Current forecast suggests the KC economy will fully recover the jobs lost by 2023 Q1, about a year faster than the U.S.
- This is largely due to the mix of industries we specialize in being more resilient in the face of reduced consumer spending on food and entertainment.
- Recessions are equalizing. Recoveries tend to exacerbate inequality.
- Economic Growth and Economic Equity are two sides of the same coin, not two competing currencies. KC can't grow to its full potential unless the economy works for all.

KC Rising is the region's civic collaborative aimed at making sure the economy grows for everyone.

Success is being measured using four key metrics, called Horizon Goals:

Grow the Economy

Attract people: Net migration rate

Increase worker productivity: GDP per job

For Everyone

Pay workers enough to cover necessities: Percent of workers living in self-sufficient households

Build wealth: Black/White housing wealth gap



What does
“prosperity”
mean for KC?

Public engagement
of thousands of
people revealed
seven recurring
themes:



ENTERPRISE

A robust entrepreneurial ecosystem sparks innovation and scalable business toward breakthroughs that can transform our economy.

INDUSTRY

Building our strengths enables our region to attract, grow, and retain globally competitive businesses.

INCLUSION

Economies thrive through increased participation when everyone has equitable opportunities to advance.

CONNECTIVITY

Effective, accessible transportation and internet options open doors to economic mobility.

CULTURE

Cultural assets are an integral component of our economy, as well as a force to unify and inspire our region.

NEIGHBORHOODS

Healthy, safe, and attainable housing options allow families to build better futures.

EDUCATION

Learners of all ages need equitable access to continuous, innovative, quality education to meet evolving workforce needs.



Grow the Economy For Everyone.

This is the challenge
ahead to produce, not
just a recovery, but true
prosperity.

No one group or
organization can do
it all.

It's going to take all of us.



KC RISING PURPOSE

To achieve a shared vision of regional prosperity
for all by aligning and accelerating community
effort for the greatest impact.

