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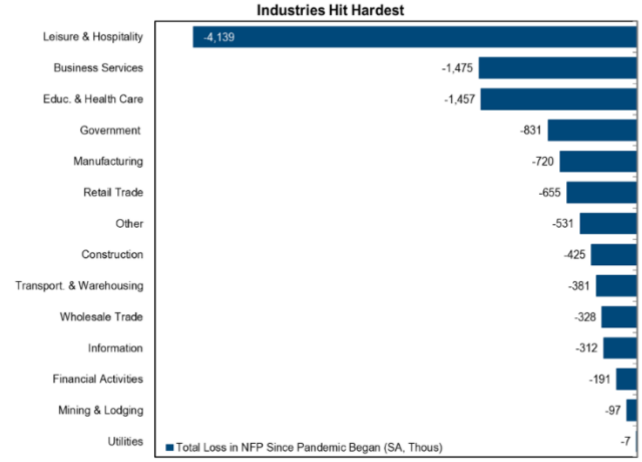
Long Road to Recovery

U.S. Economy Rebounding Faster than Expected, but Challenges Persist

The U.S. appears to be rebounding at a faster pace than previously expected, but it still may be years before the economy has fully recovered, at least according to the Chairman of the Federal Reserve, Jerome Powell. Speaking to National Public Radio (NPR) ahead of the long holiday weekend, Powell applauded the pace of recent job growth, noting the August employment report was *"a good one." "Through May and June,"* he said, *"we got quite a few people back to work."* At the same time, he was quick to acknowledge the ongoing struggle still facing the labor market despite steps in the right direction and the uneven nature of the recovery across sectors.

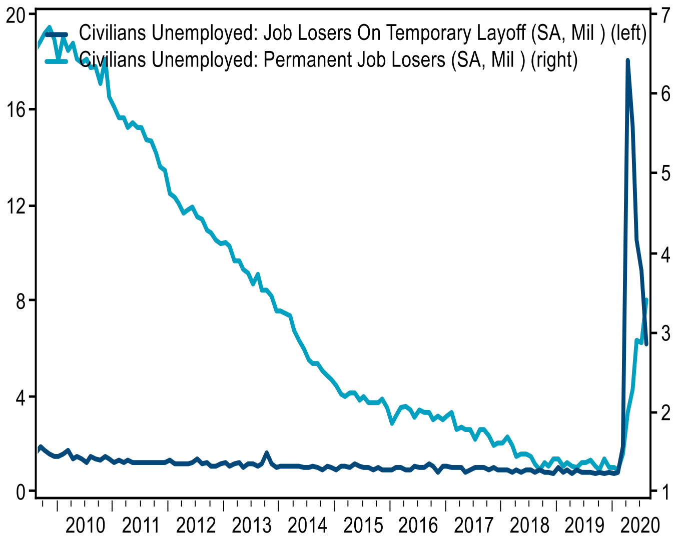
On Friday, the August employment release reported a gain of 1.4M payrolls, marking the fourth consecutive month of positive job gains totaling more than 10M. The unemployment rate, meanwhile, continued to drift lower to 8.4% from 10.2% the month prior. While still elevated from the 3.5% jobless rate at the start of 2020, last month's decline stands in stark contrast to a 15% peak in April when state and local governments encouraged people to stay home and forced businesses to close, resulting in the loss of tens of millions of jobs within a matter of weeks.

Of course, while many jobs have come back, the recent gain is less than half of the total jobs lost since the onset of the COVID-19 pandemic. With more than 12M Americans still out of work, job destruction has been widespread across a variety of sectors from hotels and entertainment to restaurants and travel. The hospitality industry, Powell noted, has been particularly hard hit. Roughly 11% of the U.S. labor force or 17M Americans are employed in the hospitality industry, and of those more than 4M have been furloughed, temporarily laid off, or permanently let go.



Source: Bureau of Labor Statistics

As the economy and, more specifically the labor market, continues to recover, some jobs will be increasingly slow to return, if at all. Some sectors will continue to face challenges to reinvigorate demand or reconnect with employees or supply chains within a new environment of safety protocols and social distancing. To date, much of the employment gains over the past few months have been the easiest jobs to replace, essentially acting as the low hanging fruit. Going forward, there may be ongoing barriers to some aspects of employment. Speaking about the lingering unemployed and longer-term unemployed, Powell said, *"... in a sense, those may be some of the harder* *jobs to find because there are some parts of the economy that will take longer to recover*." According to the Bureau of Labor Statistics, the number of permanent job losses increased by 534k to 3.4M in August, the highest level in more than seven years.



Source: Bureau of Labor Statistics /Haver Analytics

While eliminating contagion with a vaccine remains a potential prospect, for now, the best case scenario for continuing to fuel employment and more broadly economic activity is adherence to safety protocols. According to Powell, following social distancing guidelines and wearing masks is *"essential"* to controlling the spread of the virus, and by extension, getting back to full employment. The timeline for such, however, Powell noted, could take years despite unprecedented policy support. According to the most recent June 10 Summary of Economic Projections (SEP), monetary policy makers do not expect the unemployment rate to fall below 6% until sometime in 2022 or beyond. Separately, according the National Association of Business Economists forecast, a survey of private-sector economists, the unemployment rate is likely to remain elevated near 10% in the near-term before slowly declining towards 6% over the next 12-24 months.

While several years for a full recovery may be perceived as an extended timeframe, many credit the Federal Reserve's efforts with stemming a more severe downturn. The Fed was, after all, quick to offer unfettered support to the market, lowering interest rates to zero, jumpstarting asset purchases, and launching a series of lending and liquidity programs, initiatives which pumped trillions of dollars into the economy. Although, others argue that the Fed's intervention has only served to widen the gap between asset holders and non-asset holders, fueling the financial markets as opposed to Main Street.

Right or wrong, the Fed has been crystal clear that it remains committed to continuing to provide support to the economy, essentially standing ready to deploy any further amount of money or credit necessary to keep markets functioning smoothly along with perpetually low rates. In fact, at the June 10 FOMC Press Conference, Powell dismissed any notion of reversing course in the foreseeable future. "*We're not thinking about raising rates, we're not even thinking about thinking about raising rates."* Three months later, speaking to NPR, the Chairman again reiterated the Committee's commitment to a near-zero federal funds rate: *"We think that the economy's going to need low interest rates, which support economic activity, for an extended period of time ... it will be measured in years. However long it takes, we're going to be there."*

Aside from rhetoric alone, the Fed Chairman also announced a change in the Fed's decades-long approach to maximum employment and stable prices, extending the potential runway for low rates even in the event inflation begins to creep higher. Speaking at the Fed's annual Economic Policy Symposium in Jackson Hole on August 27, Powell indicated the Committee will now use a flexible approach to inflation which will seek to achieve an *average* of 2% inflation over time. While a seemingly benign adjustment, the Fed's new policy initiative will allow inflation to run *"hot,"* or above the Fed's 2% target, at least temporarily. The new approach also ends preemptive policy initiatives whereby the Fed would react with a change in rates in *anticipation* of a further rise in prices as opposed to a realized increase. Overall, a flexible average inflation target, or FAIT, will give the Fed increased flexibility, a welcomed tool particularly in today's unprecedented environment by potentially giving the economy more room to grow even with early indications of a return of inflation.

-Lindsey Piegza, Ph.D., Chief Economist

Glossary

FAIT – Flexible Average Inflation Target
FOMC – Federal Open Market Committee
NPR – National Public Radio
SA – Seasonally Adjusted
SEP – Summary of Economic Projections