The Year of Living Contagiously
Starring Jerome Powell, Janet Yellen and Joe Biden

Kitsap Economic Development Alliance

February 18, 2021

Hart Hodges & James McCafferty
Western Washington University
Questions

• When will GDP return to its pre-pandemic level?
• When will unemployment get back to 4% or lower?
• What can we expect in Puget Sound and Kitsap County?
• Are we seeing the beginning of the end for cities?
GDP back to pre pandemic levels in mid-2021
It’s Still a Story About COVID

Source: healthdata.org
UW Institute for Health Metrics & Evaluation
US statistics shown
Which is a Story About How We Act

Source: healthdata.org
UW Institute for Health Metrics & Evaluation
WA statistics shown
When Will We Reach Herd Immunity from COVID-19?

Optimistic: Aug-21
Most Likely: Nov-21
Pessimistic: Apr-22
<table>
<thead>
<tr>
<th>Quarter</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q4</td>
<td>2.1</td>
</tr>
<tr>
<td>2020 Q1</td>
<td>-5.0</td>
</tr>
<tr>
<td>2020 Q2</td>
<td>-31.4</td>
</tr>
<tr>
<td>2020 Q3</td>
<td>33.1</td>
</tr>
<tr>
<td>2020 Q4</td>
<td>~ 5 ?</td>
</tr>
<tr>
<td>2021 Q1</td>
<td>?</td>
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</tbody>
</table>

Timing of stimulus? COVID?
Behind the Broad Metrics

GDP:
• Income inequality

It is hard to talk about ‘average income’ when different people are experiencing the same economy in such strikingly different ways.

Unemployment:
• People working part time who would prefer to work full-time
• People dropping out of the labor force

$$\frac{7}{100} = 7\% \quad \frac{10}{103} = 9.7\%$$
<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>-3.5</td>
<td>4.6</td>
<td>2.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Core CPI</td>
<td>1.2</td>
<td>1.6</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Unemployment (Q4 level %)</td>
<td>6.8</td>
<td>5.3</td>
<td>4.9</td>
<td>4.6</td>
</tr>
<tr>
<td>Unemployment (Annual Avg %)</td>
<td>8.1</td>
<td>5.7</td>
<td>5.0</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: CBO
## Forecasting with Rapidly Changing Data

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2020-2024</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP</strong> (% change Q4 to Q4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 2020</td>
<td>-5.9</td>
<td>4.8</td>
<td>2.2</td>
<td>1.0</td>
</tr>
<tr>
<td>February 2021</td>
<td>-2.5</td>
<td>3.7</td>
<td>2.4</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Unemployment</strong> (annual average)</td>
<td></td>
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</tr>
<tr>
<td>July 2020</td>
<td>10.6</td>
<td>8.4</td>
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<td>8.1</td>
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</tbody>
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Source: CBO
Complications and Risks

Stimulus versus:
• Chip shortage
  • Slowing sales of electronics, cars, etc. through first half of 2021
  • Supply chain disruptions (also slowing sales)

Risks:
• Fourth wave of virus
• Interest rates (with yield curve management)
• Inflation
This recession is different: services fell more
y/y % change in private-sector jobs, goods vs services, to Oct 2020

Source: BLS
Still Elevated
Filings for U.S. initial jobless benefits fell less than expected last week

Source: U.S. Labor Department

Bloomberg
Labor will be slower to recover
In the United States, as of November 15, 2020, employment rates among workers in the bottom wage quartile decreased by 21% compared to January 2020 (not seasonally adjusted).
Personal Income **Increased** in Spring 2020 (and savings increased)!

Source: U.S. BEA, IHS-Markit, ERFC November 2020 preliminary forecast
Inflation in Asset Prices – not consumer goods (yet)
Money Finding a Home

Source: Société Générale

Washington employment is expected to be below pre-pandemic levels through 2025.

Source: ERFC November 2020 forecast; historical data through Q3 2020
## Regional Outlook

Massaging the model  
(Not what we want to do)

### Summary Forecast

#### Annual Percent Change

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Puget Sound Region</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>2.3</td>
<td>2.3</td>
<td>-6.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Personal income (cur. $)</td>
<td>6.1</td>
<td>4.5</td>
<td>6.0</td>
<td>-2.8</td>
</tr>
<tr>
<td>Consumer price index</td>
<td>3.2</td>
<td>2.6</td>
<td>1.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Housing permits</td>
<td>-5.7</td>
<td>4.3</td>
<td>-12.1</td>
<td>-3.1</td>
</tr>
<tr>
<td>Population</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP ($12)</td>
<td>3.0</td>
<td>2.2</td>
<td>-5.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Employment</td>
<td>1.6</td>
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<td>1.0</td>
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</tr>
<tr>
<td>Housing starts</td>
<td>3.4</td>
<td>4.0</td>
<td>-6.2</td>
<td>5.8</td>
</tr>
</tbody>
</table>

*Source: Blue Chip Economic Indicators
On Oct. 28, the Boeing Co. announced that it will employ 19% fewer workers by the end of 2021 compared to Jan. 2020.
And Wages Help Explain Commuting Patterns

Data from WA Dept. of Employment Security; calculations by WWU CEBR
Strong recovery in some sectors, though not all
In Kitsap, as of January 31 2021, total spending by all consumers increased by 2.9% compared to January 2020.
In Kitsap, as of February 02 2021, the number of small businesses open decreased by **21.4%** compared to January 2020.
Place Matters... The Narrative Until Last Year

The average annual salary in ‘Publishing Industries, Except Internet’ was $258,000 in 2019 in Seattle; compared to $133,500 nationally.

Why America’s Richest Cities Keep Getting Richer

They are not just the places where the most ambitious and talented people want to be—they are where such people feel they need to be.

RICHARD FLORIDA  APRIL 12, 2017
How Does This Story Play Out?

Slowly...

The ability to work remotely or in a hybrid manner will vary by industry.

We do not know what working from home really does to productivity or training/mentoring.

Maybe we can work from home for our current job. What about the next one?
Cities will continue to be attractive/vibrant places.

Cities may become younger...

Millennials may search for space and affordability – but that was to be expected anyway and was already underway (e.g., outflow of people from San Francisco to Boise).
Questions

• When will GDP return to its pre-pandemic level? Q3 still seems likely

• When will unemployment get back to 4% or lower? 2022 Q1 at the earliest

• Are we seeing the beginning of the end for cities? We do not think so... but the changes afoot suggest good things for Kitsap
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