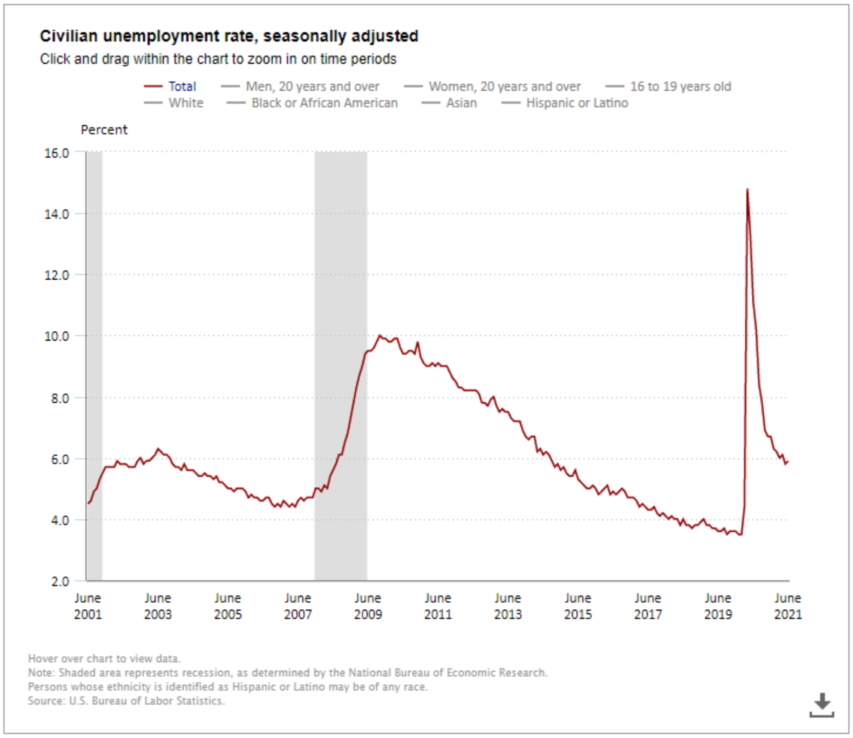
AgCountry Economic Review
Second Quarter 2Q21
AgCountry Risk Department
Brian Boll

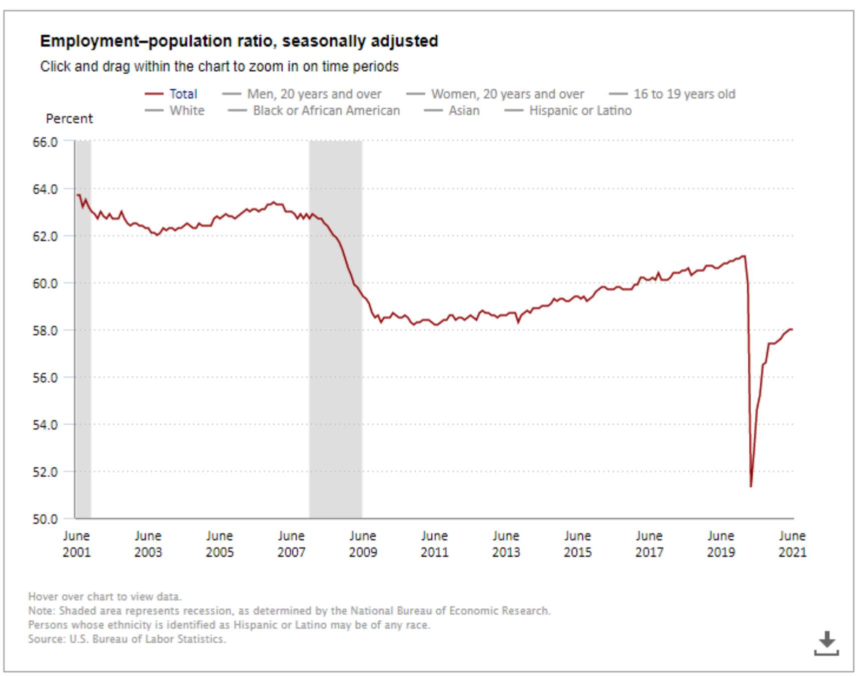
The nation's economic condition continued to improve during the second quarter of 2021, likely attributable to recent fiscal stimulus as well as increased vaccinations allowing for an economic reopening. The COVID-19 pandemic and subsequent impacts on the workforce, trade, and fiscal and monetary policy continue to drive the direction of the economy. As of July 8th, 2021, the Centers for Disease Control (CDC) reports 33 million COVID-19 cases and 604,000 deaths in the United States. The number of administered vaccines has increased throughout 2021 with 55.2% of the population having at least one dose and 47.7% full vaccinated, per the CDC. The virus continues to be an issue globally due to lower vaccination rates in the developing world. Moody's Analytics expects that the world will effectively achieve herd immunity from the virus by summer of 2022.

EMPLOYMENT:

Total nonfarm payroll employment rose by 850,000 in June, and the unemployment rate edged down to 5.9 percent. Notable job gains occurred in leisure and hospitality, public and private education, professional and business services, and retail trade. Members of the Federal Open Market Committee have suggested the U.S. labor market would return to a 3.5% jobless rate by the end of 2023. Moody's Analytics forecasts the unemployment rate to average 4.5% by the fourth quarter of 2021 and 4.2% in 2022. A 3.5% unemployment rate and an 80% employment-to-population ratio are consistent with an economy at full employment.

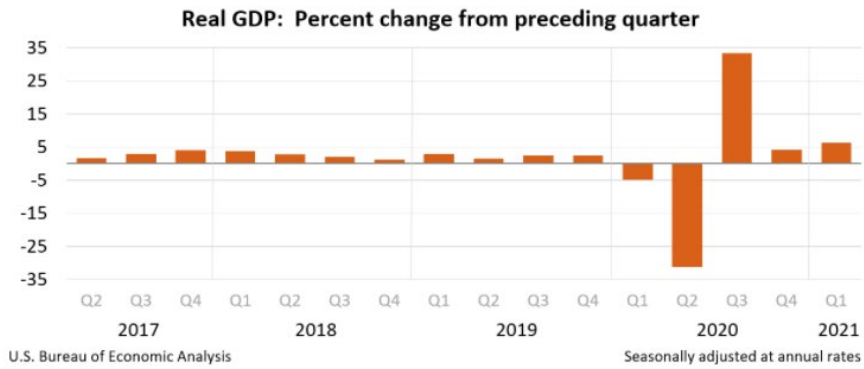


Employment is down 7.6 million jobs since before the pandemic, and this shortfall does not factor in the jobs that would have been created had there been no pandemic. Had the pre-pandemic trend in job growth continued, employment would be 10 million higher. The chart below demonstrates the impact of the pandemic on the total number of employed as a ratio to the population. It highlights that the total number of employed has increased as of late but has still not reached pre-pandemic levels.



GROSS DOMESTIC PRODUCT:

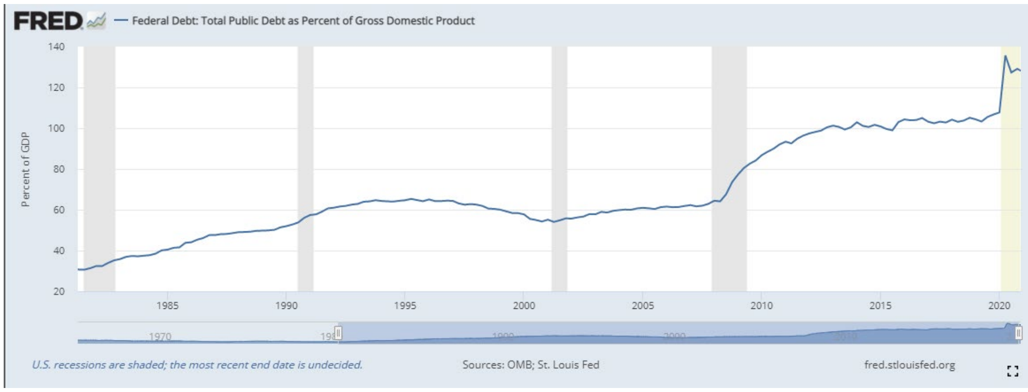
The US gross domestic product rebounded sharply in the third quarter and grew modestly in the fourth quarter of 2020. The Bloomberg consensus is for GDP to rise 6.6% in 2021. Moody's Analytics June forecast has GDP increasing 6.9% in 2021, an increase from the 6.8% forecast in May. Since the third quarter of 2020, Moody's has consistently raised their GDP estimate higher due to changes in their fiscal policy assumptions. Moody's has also raised their 2022 GDP forecast from 4.8% to 5%.



FISCAL POLICY:

Fiscal support since the beginning of the pandemic will ultimately total more than $5 trillion, equivalent to nearly 25% of 2019 GDP and approximately three times the support provided during the global financial crisis. This highly expansionary, deficit-financed discretionary fiscal policy will continue to provide a boost to the economy this year. The American Rescue Plan, which became law in March, combined with the COVID-19 relief fiscal package, will add nearly $1.9 trillion in fiscal support to the economy in 2021 and an additional $800 billion in 2022. The federal government will have a deficit of well over $3 trillion this fiscal year, and more than $2 trillion next. Another fiscal package is planned for later in 2021 following President Biden's "Build Back Better" economic agenda. This package, which is expected to include approximately $2.5 trillion in new spending on infrastructure, social programs and various tax law changes will add several hundred billion dollars to the deficit over the next decade. The publicly traded debt-to-GDP ratio has surged and has recently breached the all-time high set briefly after World War II.

Total Debt as Percentage of GDP:

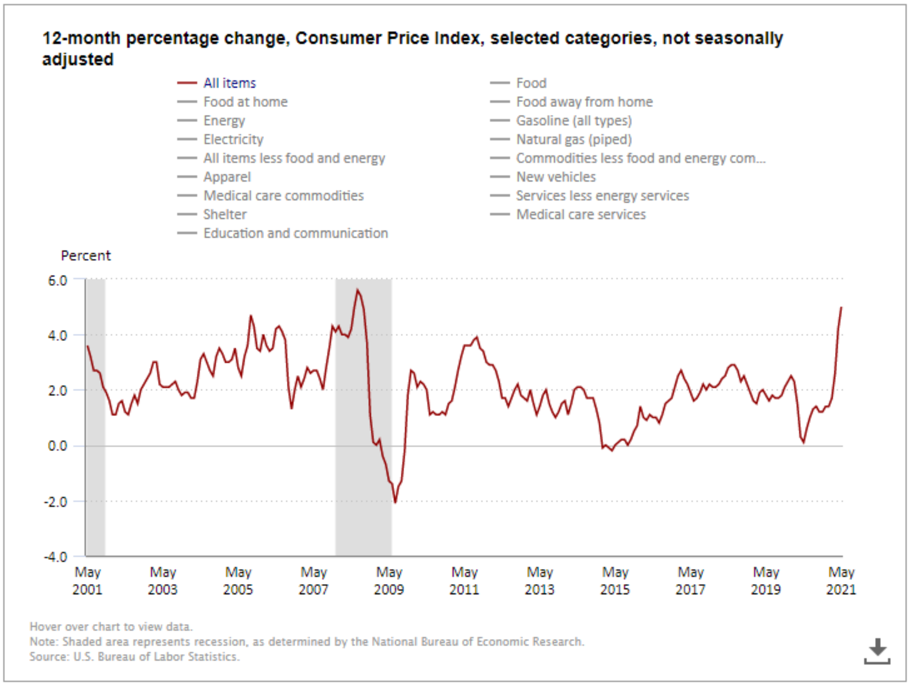


INFLATION:

Consumer prices are expected to increase this year due to fiscal stimulus resulting in higher personal spending. The All Items index rose to 5 percent for the 12 months ending in May; it has been trending up every month since January, when the 12-month change was 1.4 percent. The index for all items less food and energy rose 3.8 percent over the last 12-months, the largest 12-month increase since the period ending June 1992. The energy index rose 28.5 percent over the last 12-months, and the food index increased 2.2 percent. Moody's Analytics forecasts the core Personal Consumption Expenditures (PCE) deflator (which is closely watched by the Fed) to increase 2.8% in 2021, which is an upward revision from 2% in their previous month's estimate. Moody's anticipates that the Fed will announce tapering in September of 2021, with reduction in asset purchases, and a rate hike in the first quarter of 2023.

FOMC June 15-16th 2021 Statement:

"Inflation has risen, largely reflecting transitory factors." "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent."



MONETARY POLICY:

The Federal Reserve continues to maintain highly accommodative monetary policy. Short-term rates remain firmly at the zero-lower bound, and the Fed remains engaged in quantitative easing to keep long-term interest rates down.

FOMC June 15-16th 2021 Statement:

"The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time."

US 10 Year Treasury Yield:

- The closely watched 10 year treasury yield has declined slightly from the large increases made in the 4th quarter of 2020. The 10 year serves as a barometer for the economy and is watched by investors.

Conclusion:

As the economy continues to rebound from the disruptions caused by the COVID-19 pandemic, full recovery will continue to hinge upon controlling the impact of the virus and minimizing related economic impacts. The government's fiscal and monetary response has supported the rebound of the economy to date. As growth continues to return and the labor market improves the question is: when will fiscal support be withdrawn and how will the Federal Reserve Governors satisfy their dual mandate?

SOURCES:

1. Moody's Analytics March 2021 US Macroeconomic Outlook
2. https://covid.cdc.gov/covid-data-tracker/#cases_totalcases
3. https://covid.cdc.gov/covid-data-tracker/#vaccinations
4. https://www.bls.gov/news.release/empsit.nr0.htm
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