

# U.S. ECONOMIC OUTLOOK

## FIRST QUARTER 2021



### FEDERAL RESERVE – CURRENT ECONOMIC CONDITIONS COMMENTARY

Eight times a year, the Federal Reserve publishes a report (known as the *Beige Book*) that summarizes current economic conditions throughout the 12 U.S. Federal Reserve Districts. The *Beige Book* released on March 3, 2021, noted that economic activity expanded modestly from January to mid-February 2021.

The majority of businesses remain optimistic about the next 6-12 months, as COVID-19 vaccines are more widely distributed. Most districts reported that employment levels rose over the reporting period, but labor demand varied by industry and skill level. Overall, modest improvements in employment levels are expected in the near term, and wage increases are expected to persist or pick up somewhat over the next several months, with some upward pressure in order to attract and retain employees.



### FEDERAL OPEN MARKET COMMITTEE – MONETARY POLICY COMMENTARY

The Federal Open Market Committee (FOMC) acts as the monetary policymaking body of the Federal Reserve System. The FOMC published some observations that will likely impact future monetary policy:

- The COVID-19 pandemic continues to cause tremendous human and economic hardship worldwide
- The path of the U.S. economy will depend significantly on the course of the virus and vaccination progress
- The ongoing public health crisis continues to weigh on economic activity, employment and inflation, and poses considerable risks to the economic outlook



#### CORONAVIRUS IMPACT

The economic impact of COVID-19 has been rapid and has created significant uncertainty relating to the future health of the domestic economy. As such, in early March 2021, President Biden signed a \$1.9 trillion COVID-relief bill, which gave \$1,400 direct payments to most Americans. The American Rescue Plan Act also put almost \$20 billion into COVID-19 vaccinations, \$25 billion into rental and utility assistance, and \$350 billion into state, local, and tribal relief.



#### CURRENT EMPLOYMENT CONDITIONS

The Bureau of Labor Statistics (BLS) reported improvements in the labor market, which reflect the continued resumption of economic activity that had been curtailed due to the coronavirus pandemic.

In March 2021, both the unemployment rate and the number of unemployed persons decreased to 6.0% and 9.7 million, respectively. Specific industry data included in the report showed job increases in most sectors over the past month, however, employment still lags from the same month in the prior year.

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## ECONOMIC FORECAST – MAJOR INDICATORS

### GROSS DOMESTIC PRODUCT (GDP) AND INFLATION

On March 17, 2021, the Federal Reserve released its economic projections for real GDP growth, the unemployment rate, personal consumption expenditures inflation, and the federal funds rate.

- Real GDP growth is expected to slow starting in 2021; PCE inflation is expected to decline from 2021 to 2023, while the unemployment rate is expected to decline year over year to 2023; and the federal funds rate is expected to remain constant until 2023.
- These forecasts suggest that in the long term, the economy will experience a slowing of growth and a decrease in inflation.
- Long-term real GDP growth for the next 10 years is expected to average 1.8%, representing moderate expected real growth.

The Bureau of Economic Analysis (BEA) notes that the real GDP increased at an annual rate of 6.4% in the first quarter of 2021, compared to an increase of 4.3% in the fourth quarter of 2020. The upward revision primarily reflected the continued economic recovery, reopening of establishments, and continued government response related to the COVID-19 pandemic.



### INDUSTRIAL PRODUCTION AND MANUFACTURING

The Institute for Supply Management's Purchasing Managers Index (PMI) can be used as an indication as to whether or not the manufacturing sector of the economy is expanding or contracting. The PMI rose by 3.9 points from February 2021, to 64.7 in March 2021. This increase indicates an expansion in the overall economy for the tenth month in a row after a contraction in April 2020.



### HOUSING AND CONSTRUCTION

The Dodge Momentum Index issued by Dodge Data & Analytics is a monthly measure of the first (or initial) report for nonresidential building projects in planning, an indicator that has been shown to lead construction spending for nonresidential buildings by a full year. Overall, the Momentum Index for March 2021 was up 11% in total versus March 2020. The numbers included a more broad-based selection of project types.

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### CONSUMER CONFIDENCE

Consumers influence the economic outlook immensely through their spending and saving decisions. According to the University of Michigan's *Surveys of Consumers*, consumer sentiment continued to rise in late March 2021, reaching its highest level in a year. This increase was attributed to the third disbursement of relief checks and better than anticipated vaccination progress. The majority of consumers reported hearing of economic gains, mainly in jobs. The data clearly point toward robust increases in consumer spending.

The March 2021 report also concluded:

- Year-ahead inflation expectations remained elevated at 3.1% – below the prior month's 3.3%, but well ahead of last March's 2.2%.
- Consumers reported much more favorable assessments of the national economy in March 2021. For the first time in the past year, more consumers expected good rather than bad times in the national economy during the year ahead.



### INTEREST RATES & STOCKS

- In September 2020, the Federal Reserve pledged to keep interest rates near zero until 2023.
- As of December 31, 2020, the prime interest rate is 3.25%.

In public markets, asset prices fluctuate with changes in future expectations. Experts can analyze stock indices to discern whether economic conditions have evolved in a way that would impact equity values.

- In Q1 2021, the S&P 500 closed up 5.8%, and the Dow Jones Industrial Average closed up 7.8%, marking the fourth straight quarter of positive growth for both indices.
- The Nasdaq index followed suit, gaining 2.8% over Q1 2021.

The rollout of coronavirus vaccines across the country has injected hope and optimism into the U.S. economy. As vaccinations increase, and we inch closer to normalcy, more businesses will continue to reopen, causing unemployment to decline and the economy to expand. Vaccines have also provided a “shot in the arm” to the markets, with the DJIA, S&P 500 and Nasdaq all experiencing growth in the first quarter. Therefore, at the end of Q1 2021, the current economic outlook is slightly positive due to the vaccine rollout. For a more detailed look at these statistics and additional economic commentary, view our complete [2021 Q1 Economic Outlook](#).



### Meet the Author: Logan Nawrocki, CVA

Logan has two years of professional experience and has earned the CVA credential from NACVA. As part of the GYF Business Valuation team, he performs risk identification, financial statement analysis, industry and economic research, and financial modeling. Logan assists with the valuation of privately-held companies for variety of purposes.