AgCountry Economic Review
First Quarter 2021
AgCountry Risk Department
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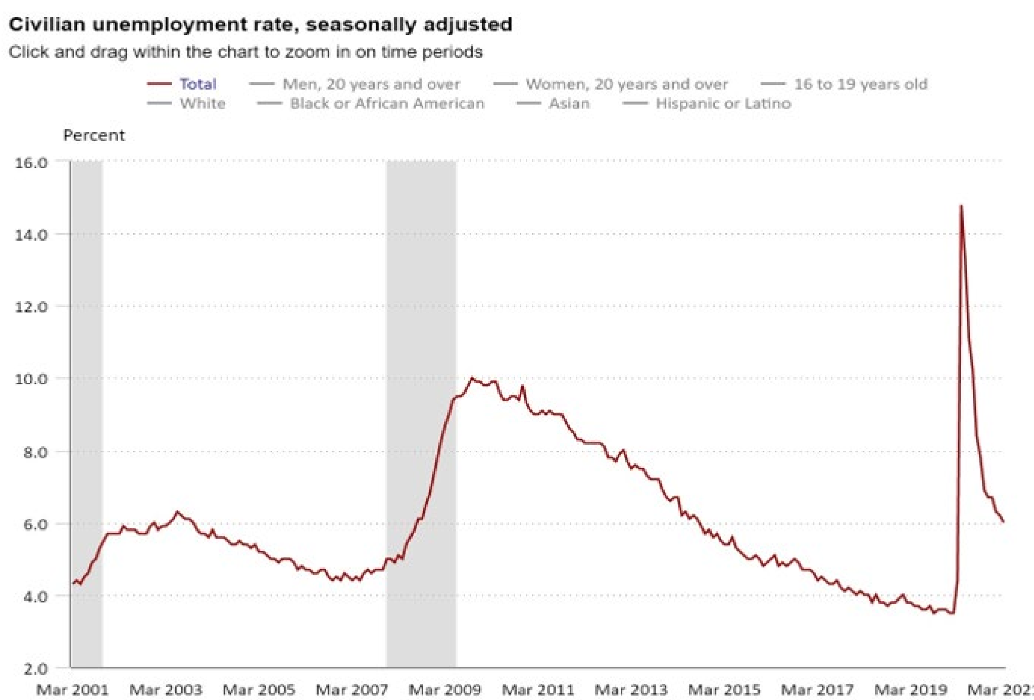
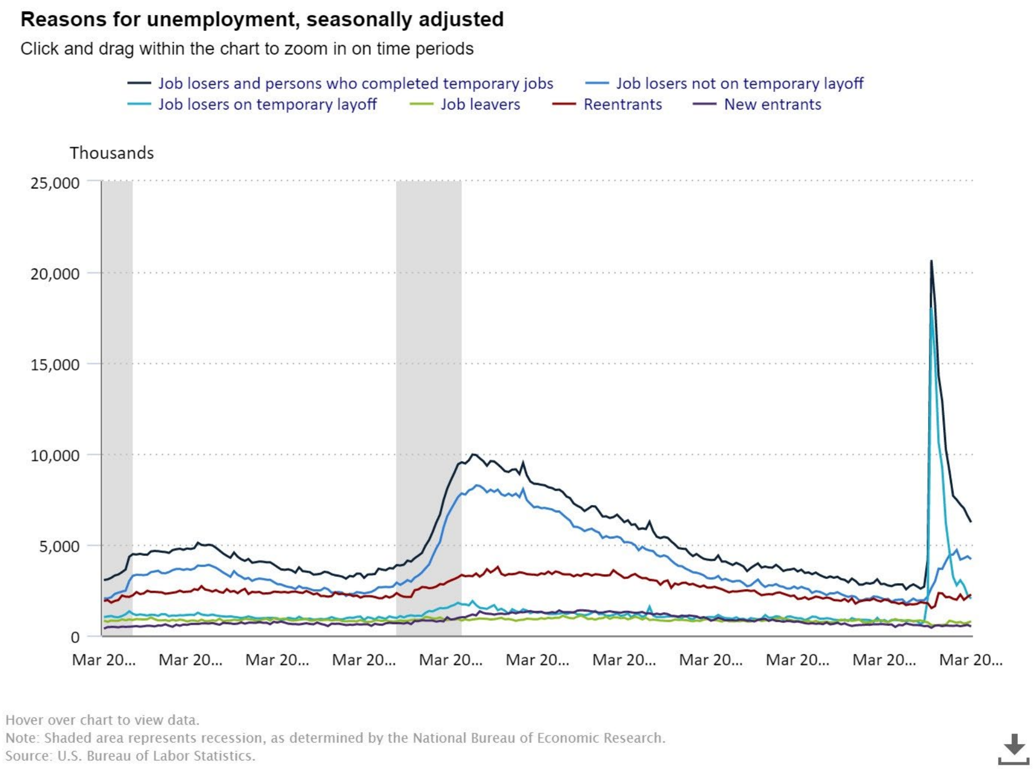
The nation's economic outlook has improved during the first quarter of 2021, mainly attributable to the increased level of vaccinations and fiscal stimulus. The COVID-19 pandemic and subsequent impacts on the workforce, trade and fiscal and monetary policy continue to drive the direction of the economy. As of March 31, 2021, the Center for Disease Control (CDC) reports 30 million COVID-19 cases and 550,000 deaths in the United States. The pace of administered vaccines has increased throughout the first quarter of 2021 with 30.7% of the population having at least one dose and 17.5% full vaccinated (CDC). Moody's Analytics expects that the U.S. population will effectively achieve herd immunity from the virus by July Fourth, based on an estimated 125 million inoculations and a like amount of people with some form of immunity after previously contracting the virus.

EMPLOYMENT:

Total nonfarm payroll employment rose by 916,000 in March, and the unemployment rate edged down to 6%. Job growth was widespread in March with change in non-farm payrolls: +916,000 actual vs. +660,000 expected and a revised +468,000 in February. In their latest projections, members of the Federal Open Market Committee 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 5% through 2021 and 4.2% in 2022, declining below 4% by the second half of 2023.

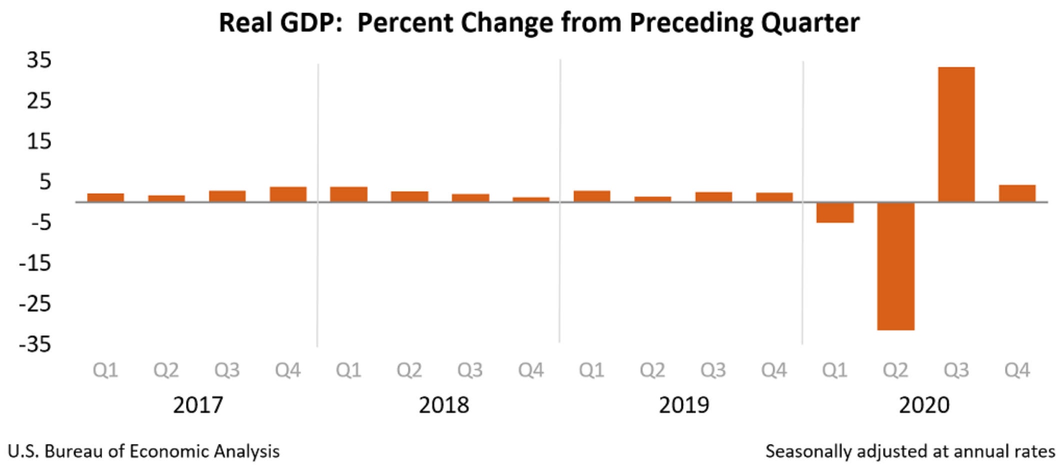




A closer look into the reason workers are unemployed yields insights into the job market, specifically temporary versus permanent layoffs and the under-employed. The number of people at work part time for economic reasons (involuntary part-time workers) totaled 6.1 million in February 2021, which is down from 10.9 million in April 2020 but is 1.7 million higher than in February 2020. These workers would have preferred full-time employment but were part time due to reduced hours or were unable to find full-time jobs, suggesting that the economy and specifically the job market is not fully back to pre-COVID-19 levels.

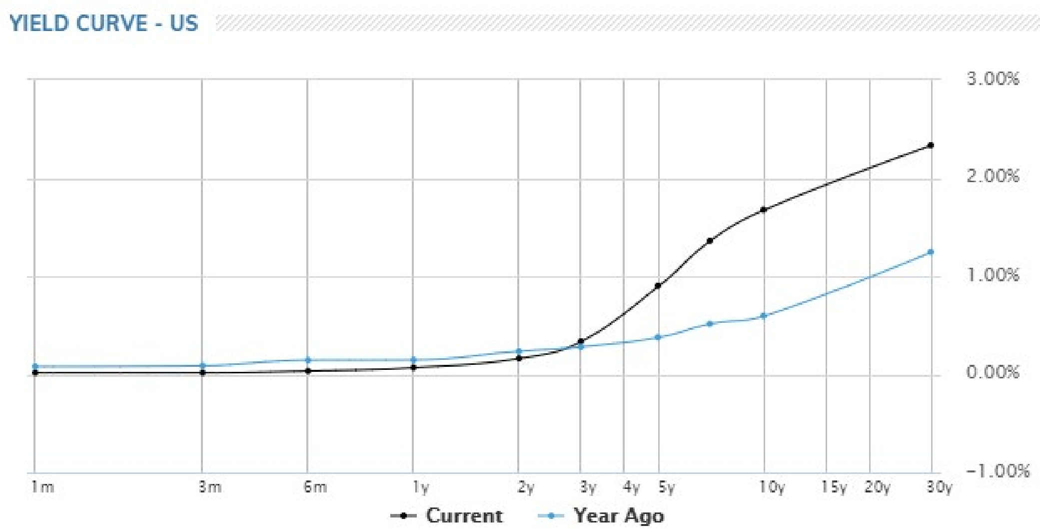
GROSS DOMESTIC PRODUCT:

The U.S. 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 5.5% in 2021 and 3.8% in 2022. Moody's Analytics is forecasting an increase of 5.7% in 2021, an increase from their 4.9% forecast the month prior. The Moody's Analytics forecast for 2022 is also higher than the consensus with 5.7% GDP growth in 2022.



MONETARY POLICY:

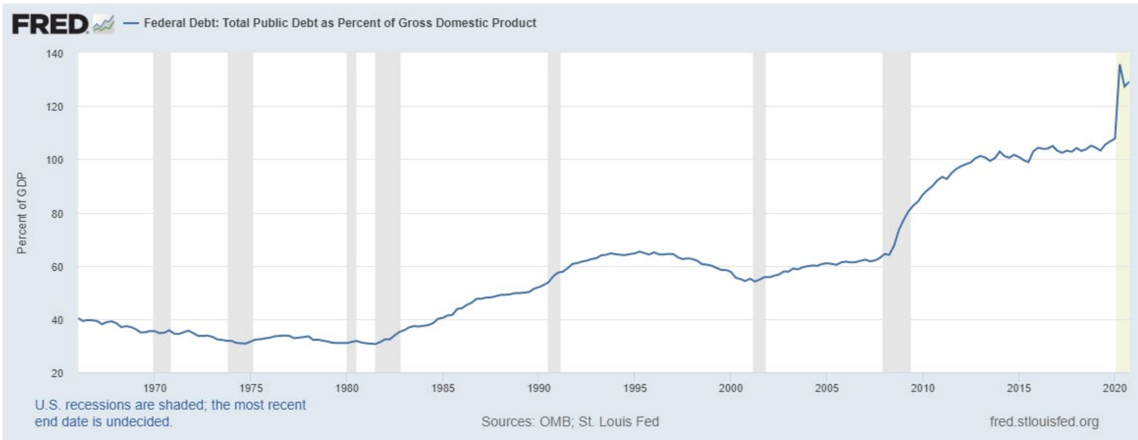
The Federal Reserve continues to maintain highly accommodative monetary policy. Short-term rates remain firmly at the zero-lower bound, and the Fed remains engaged in quantitative easing to keep long-term interest rates down. Treasury yields, specifically the closely watched 10-year, have risen as bond investors anticipate much stronger growth. Rates may continue to rise, particularly after the pandemic winds down later this year and investors begin to anticipate Fed tapering.



- The 10-year treasury yield at the end of March is 1.72%, which is a large increase from 0.93% at the start of the year.

FISCAL POLICY:

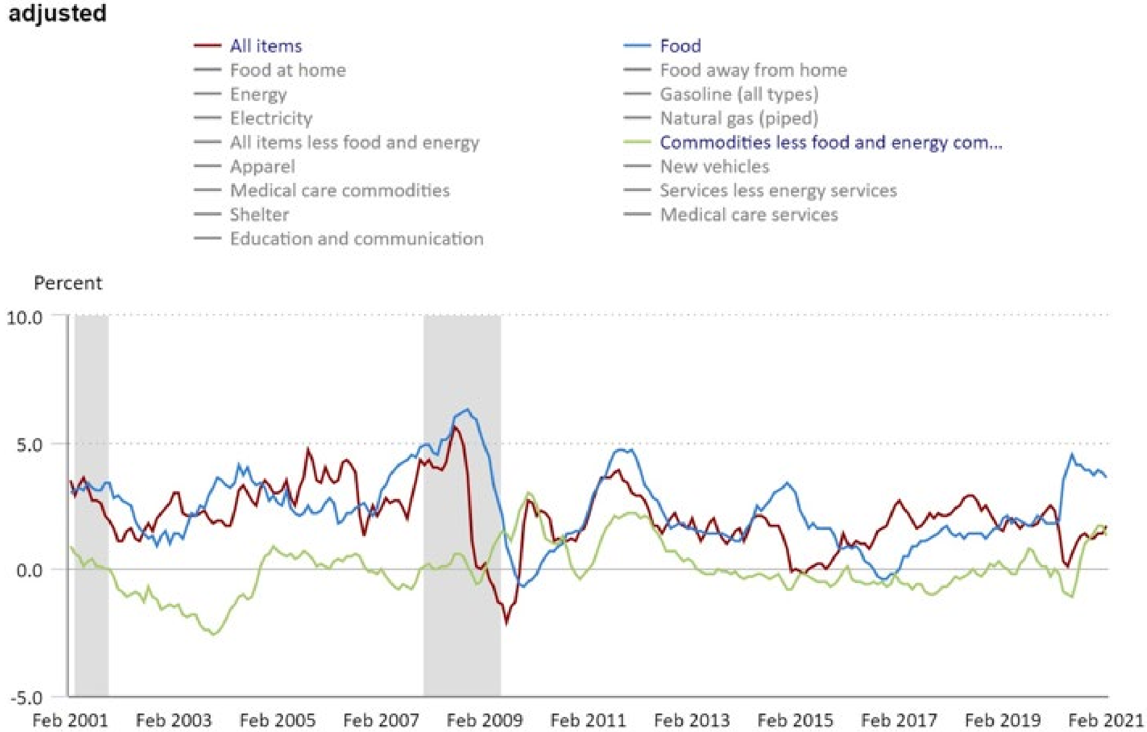
Fiscal support since the beginning of the pandemic will ultimately total more than $5 trillion, equivalent to nearly 25% of 2019 GDP and approximately three times the support provided during the global financial crisis. This highly expansionary, deficit-financed discretionary fiscal policy will continue to provide a boost to the economy this year. The American Rescue Plan, which became law in mid-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. The publicly traded debt-to-GDP ratio has surged and will soon breach the all-time high reached briefly after World War II.



INFLATION:

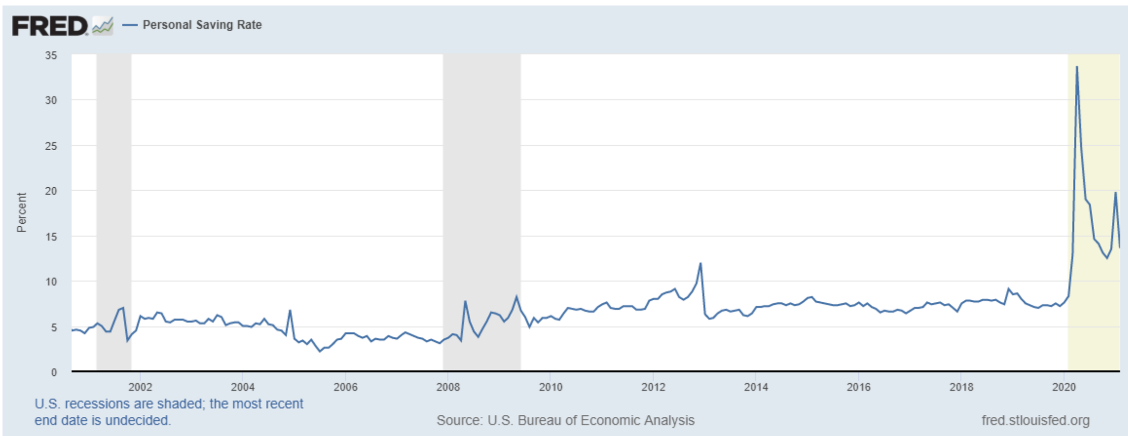
Core consumer prices are expected to increase this year due to the larger fiscal stimulus resulting in higher personal spending. Moody's Analytics forecasts the core Personal Consumption Expenditures (PCE) deflator to peak midyear at 2.2% above the Fed's 2% target and anticipates a rate hike in the first quarter of 2023.

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



CONSUMER SPENDING & SAVING:

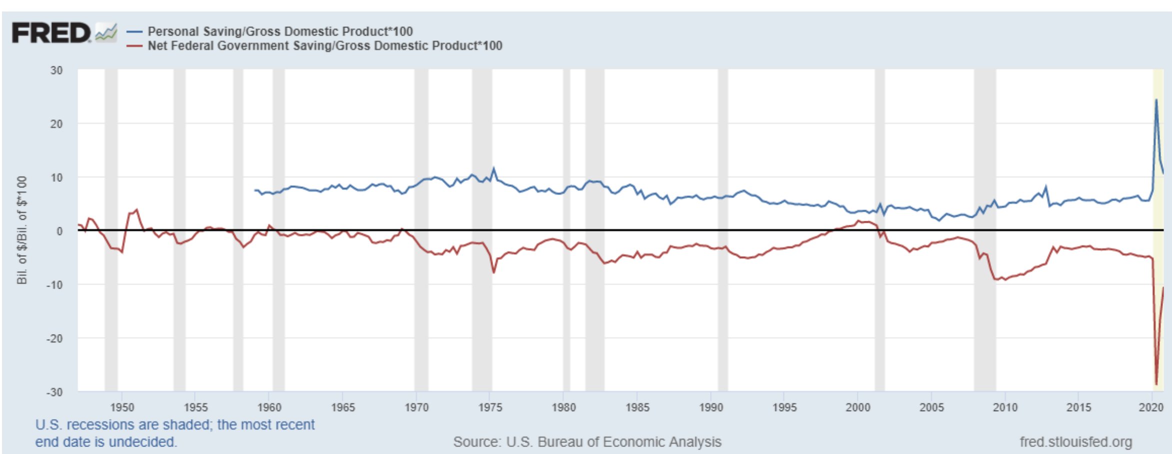
The personal savings rate increased sharply at the start of the COVID-19-induced recession. Large changes in savings can have big effects on financial markets and the personal savings rate may reflect collective expectations about the duration of a recession. People are likely to save more, as a precautionary action, when they expect an economic downturn to last for a long time. If the downturn is not expected to last, people are likely to use their savings to maintain their consumption. Moody's Analytics has forecast real consumer spending to increase 6.2% in 2021. Moody's Analytics also expects a personal savings rate of 21% in the first quarter of 2021 and the savings rate to return to pre-COVID levels (under 10%) in approximately 2024.



Changes in Personal Disposable Income and Personal Outlays, 2019-20

		2019:Q1-2020:Q1 % Change	2019:Q2-2020:Q2 % Change	2019:Q3-2020:Q3 % Change
1	**Personal disposable income**	**3.1**	**12.9**	**8.1**
2	Employee compensation	2.1	−2.7	0.6
3	Proprietor's income	0.5	−0.7	0.8
4	Rental income	0.1	0.0	0.1
5	Income on assets	0.2	−0.4	−0.7
6	Net government transfers	0.2	16.7	7.3
7	Social Security	0.3	0.3	0.3
8	Medicare, Medicaid	0.4	0.6	0.7
9	Unemployment insurance	0.1	6.5	4.6
10	Veterans benefits	0.1	0.1	0.0
11	Other transfers	0.1	8.3	1.9
12	Taxes	−0.8	0.9	−0.2
13	**Personal Outlays**	**1.8**	**−9.8**	**−2.2**
14	Personal consumption expenditures	1.8	−9.3	−1.6
15	Durable goods	0.0	−0.3	1.3
16	Nondurable goods	0.9	−0.7	0.8
17	Services	0.9	−8.3	−3.7
18	Interest payments	0.0	−0.5	−0.5
19	Transfer payments	0.0	0.0	−0.1

The savings rate increased for two distinct reasons: higher personal disposable income, and lower personal spending. Higher disposable income was fueled mostly by government net transfers (see chart from the St. Louis Federal Reserve above) and the savings rate was sharply increased by reducing the consumption of services.



The chart above implies that the increase in income benefited U.S. households and came mostly from an increase in transfers, which the federal government finances by borrowing. Thus, the increase in personal saving mirrors the increase in government borrowing.

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 restrictions. The government's fiscal and monetary response has supported the rebound of the economy to date. As growth returns and the labor market continues to improve, the question is: when will fiscal and monetary support be withdrawn, and how will the economy respond?