

---

---

# Tracking the Economy

– Eric Makela, Economist

## Overview

The nation was hit with the most severe economic downturn in modern history during the second quarter of 2020. Since the low point in April, data point generally to recovery. The national unemployment rate declined by 1.8 percentage points in August, to 8.4%, as nonfarm employers added approximately 1.4 million payroll employees. Real gross domestic product (inflation-adjusted GDP) fell at a 31.7% annual rate during the second quarter of 2020, as both consumption and investment expenditures dropped in response to the COVID-19 health crisis. Nationally, industrial production increased in July for the third month in a row, although output remained 8.2% below its level in July 2019. The Federal Reserve Bank (FRB), the nation's central bank, kept its short-term interest rate target near zero and continued to inject funds into the country's monetary base by purchasing securities from commercial and government issuers. The FRB signaled an increased willingness to keep short-term interest rates low for an extended time, saying inflation below its 2% target could be followed by inflation above the target for an unspecified period.

Ohio's labor force and economy appear to be improving, as the unemployment rate dropped to 11.0% in June then 8.9% in July, the first time Ohio's unemployment rate has dipped below that of the nation since late 2015. Employment gains in July were distributed among industries, though job gains were most numerous in the leisure and hospitality service industry. Residential real estate markets, for both existing homes and new residential construction, were strong in July and August, according to Ohio Realtors and the FRB's Beige Book.

## The National Economy

Nonfarm payroll employment rose by 1.4 million in August, rising approximately 1% as the total number of persons employed in nonfarm occupations increased to 140.9 million. In August, nonfarm employment was below its February level by around 11.5 million. Among industries, employment totals increased significantly in retail trade (+248,900), professional and business services (+197,000), leisure and hospitality (+174,000), education and health services (+147,000), and transportation and warehousing (+78,100). In total, employment in goods-producing industries increased by 43,000 while private service-providing industries added 984,000 jobs. Chart 7 shows the trend in national payroll employment.

Of particular note, government employment increased by 344,000 in August. While partly the result of ongoing government operations and reopening of schools, this increase is largely attributable to the significant rise in the number of temporary workers helping to conduct the decennial Census. As of the week of the August Bureau of Labor Statistics establishment survey, just over 288,000 paid temporary workers were on Census payrolls across the six census regions.

During August, the national unemployment rate dropped by 1.8 percentage points, to 8.4%; the number of unemployed persons declined by 2.8 million. Unemployment rates were down among all racial groups included in the data. The country's employment-population ratio increased 1.4 percentage points to 56.5% during the month but remained 4.6 percentage points

below its February level, suggesting large numbers of persons remain potential labor force reentrants.<sup>11</sup> Chart 8 shows the national unemployment rate.

Real GDP plummeted in the second quarter of 2020, falling at an annualized rate of 31.7%, the largest quarterly decline in economic activity on record; real GDP for the quarter was 9.1% below its rate in the same quarter in 2019. Nonresidential fixed investment fell between the first and second quarters at a seasonally adjusted annual rate of 26.0%, while residential fixed investment declined at a 37.9% rate. However, the number of new housing units started in July was a seasonally adjusted 22.6% greater than a month prior, signaling a recovery in the residential construction industry.<sup>12</sup> New home sales rose in July to the highest rate since 2006. Real consumer spending dropped at a 34.1% annual rate during the second quarter, when spending on both goods (-10.6%) and services (-43.1%) declined.

According to the most recent estimates by the Bureau of Economic Analysis, a nationwide decrease in employee compensation (-\$197.6 billion) during 2020's second quarter was more than offset by the increase in unemployment compensation payments and other personal transfer receipts (+\$613.1 billion), resulting in a seasonally adjusted annualized 34.3% rate of increase in personal income for the quarter. Paired with the sharp drop in personal consumption spending during the year's second quarter, personal saving increased by approximately \$790.1 billion. In July, personal income increased a seasonally adjusted 0.4%, as wages and salary disbursements rose for the third straight month, by 1.4%, after collapsing in March and April. Retail sales during the month were up by a seasonally adjusted 0.8% from the previous month and were 5.8% greater than in July 2019. Sales in the food service industry were up a seasonally adjusted 5.0% in July but still 18.9% below their level a year prior.

Industrial production rose a seasonally adjusted 3.0% in July, according to the most recent data from the Federal Reserve, though production remained 8.2% below its level in July 2019. Industrial output increased in July across all three major industry groups: manufacturing (+3.4%), utilities (+3.3%), and mining (+0.8%). Production of motor vehicles and parts, having fallen at the outset of the COVID-19 pandemic at the most rapid rate in series history that starts in 1972, returned in July nearly to its February level.

Production in the national service sector increased in August for the third month in a row, according to the Institute for Supply Management's (ISM's) Services PMI. The production and new orders indexes signaled continued expansion, although a smaller percentage of surveyed firms reported expansion in August than in July. Employment decreased for a majority of companies surveyed by the ISM. A large majority of companies and industries reported increases in prices paid for labor and supplies.

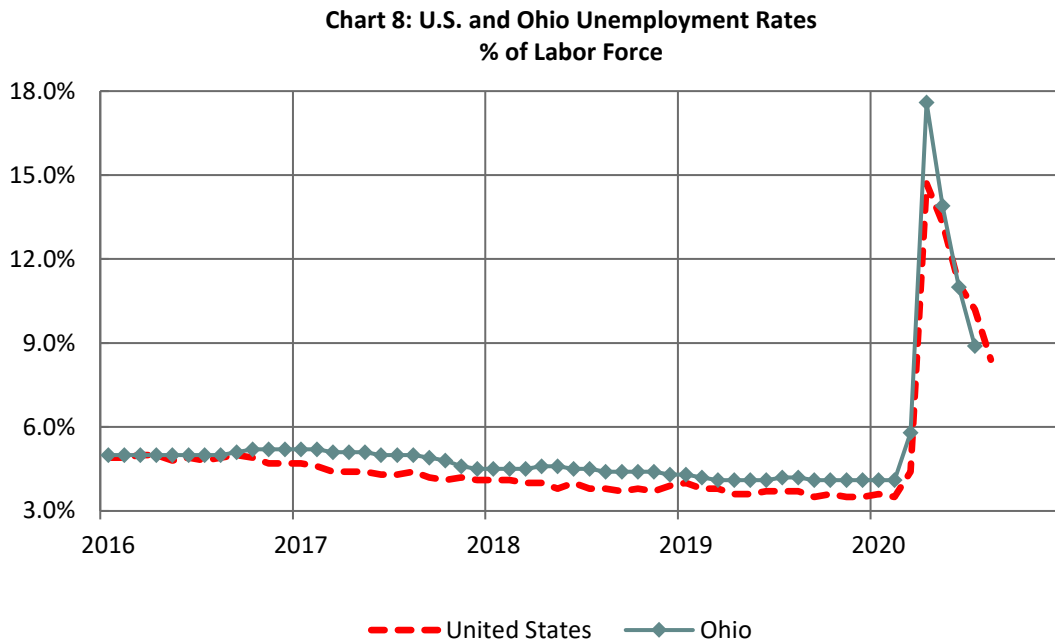
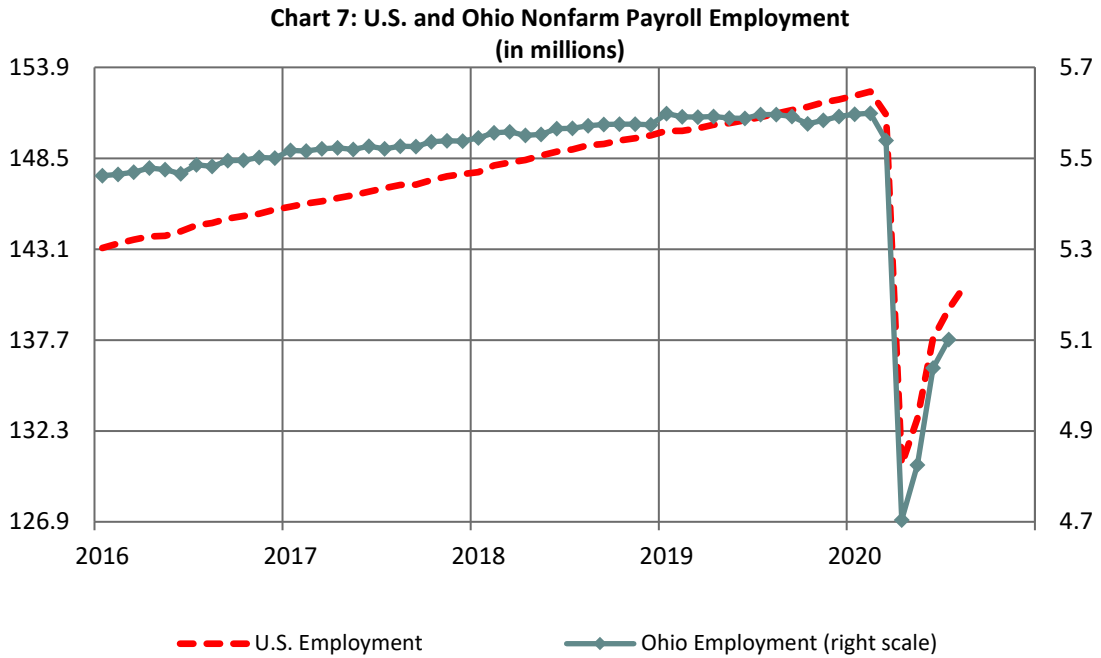
The consumer price index (CPI) increased by 0.6% in both June and July. Rising prices paid for fuel and energy headline a series of volatile price adjustments in recent months, as markets scramble to adjust to rapidly changing conditions. Year over year, the CPI for all items increased

---

<sup>11</sup> The labor force is measured as persons who are employed plus unemployed persons who sought work during the four-week period prior to the survey.

<sup>12</sup> According to initial data from the U.S. Census Bureau's Survey of Construction.

by 1.0%; a 2.3% rise in the cost of services<sup>13</sup> and a 4.1% year-over-year increase in the cost of food offset a 20.2% drop in the CPI for energy commodities.



<sup>13</sup> Services not including energy services.

## The Ohio Economy

Ohio's unemployment rate declined to 8.9% in July 2020 from the revised rate of 11.0% in June. Ohio's unemployment rate was 4.2% in July 2019. Chart 8 shows Ohio's unemployment rate. During July, Ohio's unemployment rate was lower than the national rate of 10.2%. Rates of unemployment among states ranged from 4.5% (Utah) to 16.1% (Massachusetts).

Nonfarm payroll employment in Ohio was approximately 5.1 million in July 2020, gaining 62,700 workers during the month, seasonally adjusted. In July, employment in good-producing industries declined by 2,000 while employment in service-producing occupations increased by 64,700. Job gains were particularly large in leisure and hospitality (+25,100), education and health services (+15,700), professional and business services (+14,700), government (+4,900), and construction (+2,000), while employment growth in the financial services (+400) industry was limited. The number of persons on payrolls declined in manufacturing (-3,700) and trade, transportation, and utilities (-1,800) during the month. Chart 7 shows Ohio nonfarm payroll employment.<sup>14</sup>

The rate of business formation was significantly higher in recent weeks in Ohio than during the same period a year ago, according to the U.S. Census Bureau's Business Formation Statistics series, derived from the Internal Revenue Service processing of applications for business-related tax identification numbers. Since early May, the number of business applications from Ohio through the week of August 23 was 68% higher than during the same period a year ago; the number of applications submitted by business persons indicating that they planned for paid employment was 46% higher.

Beginning in March, the U.S. Census Bureau has provided data on the effects of COVID-19 on small business operations via the Small Business Pulse Survey. During the week beginning August 23, among the sample of Ohio employers with under 500 workers, 71% reported that they were negatively affected by the pandemic, 8% believed the pandemic had positively affected their business, and 21% said the pandemic had little or no effect on the business. Such factors as physical distancing, availability of personal protective equipment or other supplies, availability of employees to work, and ability to hire or rehire employees adversely affected activity at 39% of small businesses in the sample. Of the small businesses surveyed during the week, 2% reported missing required loan payments since March 13, 2020.

According to Ohio Realtors, both unit and dollar volume of existing home sales increased from July 2019 to July 2020, up 8.6% and 18.0%, respectively. The average price paid for an existing home was around \$223,000 in July 2020. Total unit volume YTD in 2020 declined 3.2% from last year, however, the dollar volume of sales rose 2.6% on higher average prices.

---

<sup>14</sup> During the COVID-19 pandemic, the Ohio Department of Job and Family Services produced a county-level count of job-posting trends by occupation and employer, which include occupational categories at a more granular level than available from national surveys. The County Job Trends Report is available on the Department's website at: [ohiolmi.com/Home/COVID-19](http://ohiolmi.com/Home/COVID-19).

Economic conditions in the Cleveland Federal Reserve District improved modestly during the most recent survey reporting period.<sup>15</sup> About one-fourth of contacts reported adding workers during the survey window; a majority of firms believed staffing levels would still be below prepandemic levels come Spring 2021. Most firms held selling prices constant from the previous period, however, a sizable number of construction and manufacturing firms noted price increases for raw materials due to shortages. Activity rose slightly for manufacturers, though with variation among industries. In the real estate market, residential builders reflected positively on recent activity and expect the market to remain strong. In the financial services industry, a decrease in business loan activity was somewhat offset by strength in demand for new mortgages and refinancings, as well as vehicle purchase loans. Firms reported that low delinquency rates among commercial and consumer loans were largely due to a mixture of forbearance agreements and government support programs.

---

<sup>15</sup> The Federal Reserve Bank of Cleveland's district consists of all of Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia. Comments here are derived from the latest edition of the Beige Book, a Federal Reserve publication that summarizes reports from business and industry contacts outside of the Federal Reserve System collected on or before August 24, 2020.