

Tracking the Economy

– Eric Makela, Economist

Overview

An increasing national output, positive jobs numbers, and rising wages signal the national economy continued to grow in recent months despite demand and supply chains being impacted by COVID-19. The pace of economic recovery appears to have slowed last month. The national economy added 235,000 nonagricultural payroll jobs in August, fewer than the 636,000 employees added to nonfarm payrolls in the average month earlier this year. The nationwide average unemployment rate decreased to 5.2% in August, lowest since March of last year. Inflation adjusted gross domestic product (real GDP) increased at a seasonally adjusted 6.6% rate in the second quarter of 2021. Industrial production, as indicated by the Federal Reserve Board's Industrial Production Index (IPI) for all production sectors, remains on a growth trajectory, having risen 6.6% between July 2020 and July 2021. In the latest 12 months, the consumer price index (CPI) for all items is up 5.4%, with above-trend inflation in consumer markets for both goods and services. The U.S. Federal Reserve, the nation's central bank, held monetary policy unchanged at the most recent meeting of its policy-setting committee in July.

Nonfarm payroll employment in Ohio increased by 19,200 in July, though the unemployment rate increased by 0.2 percentage point, to 5.4%. Total nonfarm payroll employment in Ohio was up by nearly 150,000 between July 2020 and July 2021. The population of Ohio increased to 11.8 million in the 2020 Census, up officially by 262,944 (2.3%) from the 2010 Census. Among counties in the state, resident population increased in 33 of Ohio's 88 counties during that time. Ohio's resident population on April 1, 2020, was 3.6% of the U.S. total. Strong demand for existing homes and limited supply pushed up the average price of previously inhabited houses sold in 2021 through July by 14.9% compared with the year-earlier level. Economic activity increased in the region according to an August business survey by the Federal Reserve Bank of Cleveland, though a number of firms reported mounting challenges sourcing inputs.

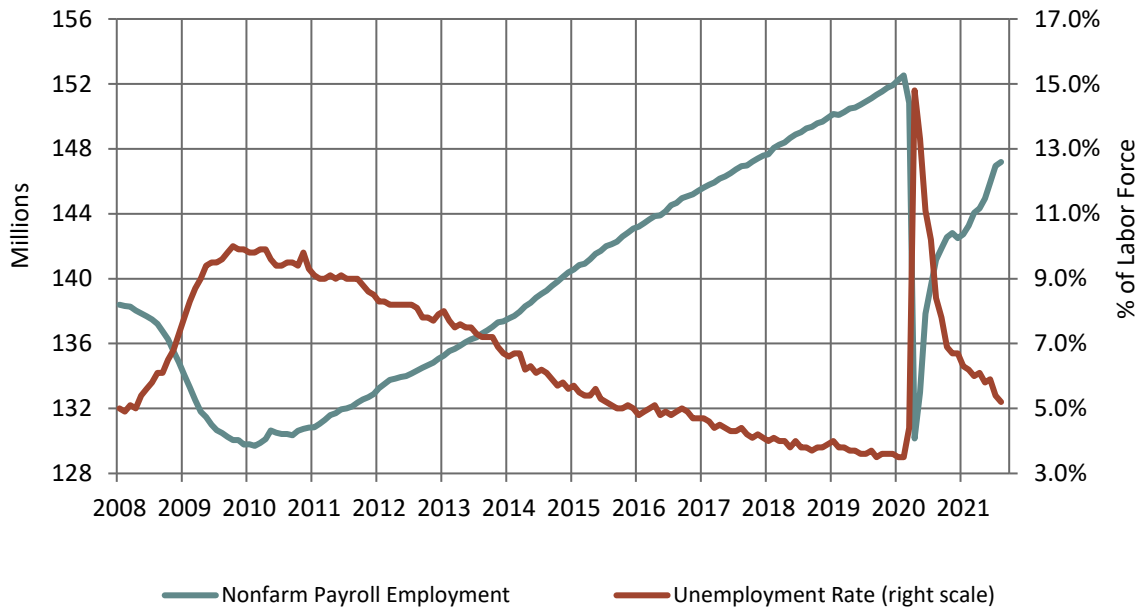
The National Economy

Nonfarm payroll employment increased by 235,000 in August, as most industries added jobs. Goods-producing industries added a seasonally adjusted 40,000 payroll positions, led in August by job gains in motor vehicles and parts manufacturing (+24,100). The private service sector added 203,000 jobs last month as the professional and business services (+74,000) and transportation and warehousing (+53,200) industries added to payrolls. The leisure and hospitality industry had a net change of zero jobs during August, after averaging seasonally adjusted job gains of 406,000 per month in June and July. Employment at retailers fell by 28,500 from July to August.

Between August 2020 and August 2021, employers nationally added just over 6.0 million total nonfarm positions. Employment in goods-producing industries rose by 601,000 (3.0%) year over year, as the construction (+193,000, 2.7%), durable goods manufacturing (+235,000, 3.1%), and nondurable goods manufacturing (+118,000, 2.6%) industry segments posted gains. Increases in employment were widespread among private service-providing firms. Wholesale

trade (+178,000; 3.2%) and retail trade (+329,000, 2.2%) companies added workers. Among other industries, measured year-over-year job gains in leisure and hospitality (+2,253,000, 17.4%) and transportation and warehousing (+373,000, 6.8%) were robust but also affected by the timing of establishment reopenings. Government employment decreased 28,000 (0.1%) during the year. Chart 5 displays the unemployment rate and nonfarm payroll employment in the United States.

Chart 5: U.S. Employment and Unemployment



Nationally, the seasonally adjusted unemployment rate continued its downward trend, and decreased by 0.2 percentage point, from 5.4% to 5.2%, in August. The national unemployment rate was 8.4% in August 2020 and thus declined by over 3.2 percentage points over the last year. The employment to population ratio, equal to the number of persons employed divided by the current population, was 56.5% in August 2020. The employment to population ratio, 58.5% in August 2021, was up 2.0 percentage points year over year but still below the level in most months since 1978.

Real GDP increased at a seasonally adjusted 6.6% rate in the second quarter of 2021, following growth at a rate of 6.3% during the previous quarter.¹⁰ During the latest quarter, personal consumption expenditures grew at a brisk annualized pace for both goods (12.8%) and services (11.3%). Gross private nonresidential fixed investment grew at a 9.3% annual rate in the second quarter, the fourth consecutive quarter of growth. Residential fixed investment contracted at an 11.5% annual rate during the quarter, after strong growth in the previous three quarters.

Personal income (PI) decreased at an annualized 21.8% rate in the second quarter. Wages and salaries increased at an 8.0% rate during that time, doubling its rate of growth in the preceding quarter. The primary factor for the decline in PI was the expiry of federal stimulus,

¹⁰ Growth percentages in this paragraph and the next paragraph are all seasonally adjusted at annualized rates.

mostly disbursed early in 2021 in the form of transfer payments to individual taxpayers. PI excluding transfer receipts increased at a 9.1% annual rate in the second quarter of 2021, following a growth rate of 1.8% in the first quarter; PI excluding transfer receipts has now increased in four consecutive quarters.

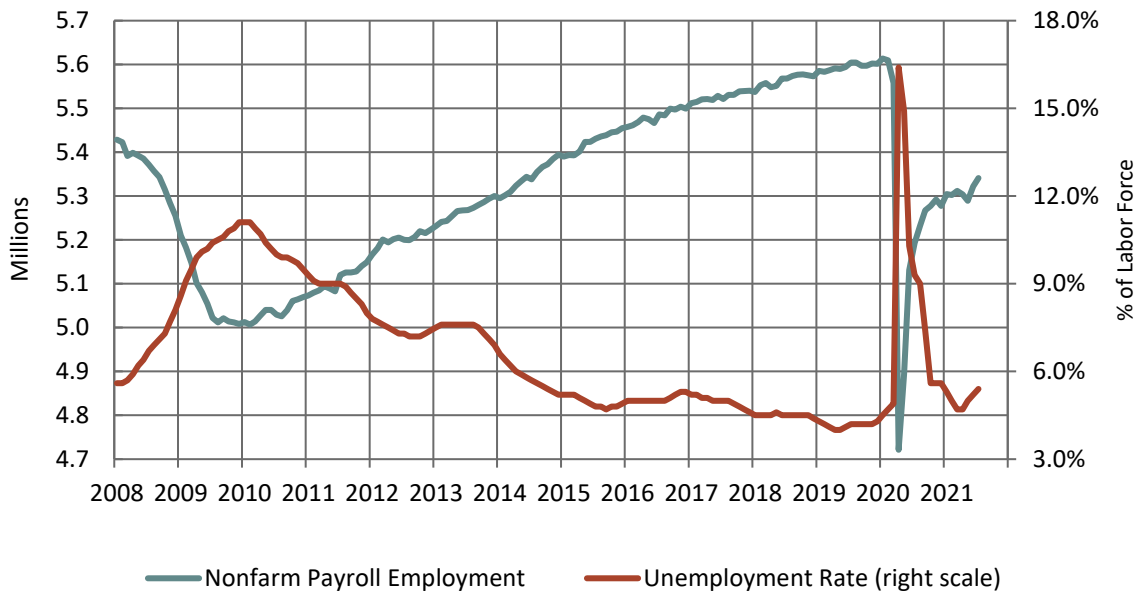
Industrial production, including manufacturing, mining, and the electric and gas utility industries, increased by 0.9% in July. Between July 2020 and July 2021, growth in the IPI for business equipment was a brisk 9.7%, while production of consumer goods grew only 2.2%. The IPI for materials, generally inputs for final goods, was up 7.4%. During this time period, the IPI increased for most market groups, reflecting a general expansion of production activity from pandemic-affected 2020.

Inflation, as measured by the CPI for all items, rose by a seasonally adjusted 0.5% in July; in the 12 months leading up to July 2021, the CPI increased by 5.4%. Between July 2020 and July 2021, increases in the price indexes for goods (+9.2%) and services (+3.1%) were above-trend. The more volatile food and energy price indexes rose 3.4% and 23.8% during the same time period, respectively. The sub-index for food away from home increased 0.8% in July, its largest monthly increase since February 1981, and was up 4.6% year over year.

The Federal Reserve Board's Open Market Committee (FOMC) last met during the final week of July. A press release noted continuing economic expansion, as evidenced by rising employment, as well as the rise of inflationary pressure, viewed as largely transitory. The press release noted that the economy's future remains dependent on the course of the pandemic. The FOMC held unchanged its federal funds interest rate target at a range between 0% and 0.25% and also held unchanged its securities purchase program at \$120 billion per month, reflecting its intention to allow transitory inflation and seeking to achieve its long-term dual objectives of achieving maximum employment and long-run inflation of 2%. The FOMC next meets September 21-22.

The Ohio Economy

Total nonfarm payroll employment increased by a seasonally adjusted 19,200 (0.4%) in July 2021, as the private sector (+21,300) added workers and government employment decreased (-2,100). Among employment gains in the private sector, both service providing (+18,500) and goods producing (+2,800) industries added jobs in July; the largest job number gains were in leisure and hospitality (+7,900), professional and business services (+3,900), and trade, transportation, and utilities (+3,800). Chart 6 displays the unemployment rate and nonfarm payroll employment in Ohio.

Chart 6: Ohio Employment and Unemployment

On an annual basis, the total number of jobs in Ohio was 147,700 (+2.8%) greater in July 2021 than during the same month a year prior. Year-over-year job gains within service providing industries were topped by leisure and hospitality (+47,600, 10.5%), trade, transportation, and utilities (+26,300, 2.6%), professional and business services (+21,300, 3.1%), and educational and health services (+16,300, 1.8%). Among goods producing industries, both manufacturing (+13,300, 2.1%) and construction (+9,000, 4.2%) added workers between July 2020 and July 2021. Government employment increased by 3,900 in the 12 months leading to July 2021, as job losses at the federal (-1,600, 2.0%) and state (-10,000, 5.9%) levels were outnumbered by gains at local (+15,500, 3.1%) levels.

The unemployment rate among Ohio residents increased a seasonally adjusted 0.2 percentage point in July, to 5.4%. According to the Bureau of Labor Statistics (BLS), the seasonally adjusted number of unemployed persons in Ohio increased to 300,600 during July 2021, though the change represents a decrease of 235,600 (-43.9%) unemployed persons compared to a year prior. Ohio's unemployment rate matched that of the U.S. in July, after being lower for the preceding ten months. The same BLS data indicate that the seasonally adjusted number of participants in the civilian labor force decreased by 2.3% between July 2020 and July 2021, when it stood at just over 5.6 million.

As part of the U.S. Census Bureau's ongoing population data releases, state and county populations are now available from the 2020 decennial census. The state gained a net 262,944 residents since the 2010 decennial census, population growth of approximately 2.3%. Of the counties that gained residents between the 2010 and 2020 censuses, the percent increase in population was largest in Delaware (+22.9%), Union (+20.0%), and Warren (+13.9%) counties. Of the counties that lost residents between censuses, the percent decrease in population was largest in Harrison (-8.7%), Monroe (-8.6%), and Morgan (-8.3%) counties. In total, resident populations increased in 33 out of Ohio's 88 counties between 2010 and 2020.

Real estate transactions dipped in July according to Ohio Realtors, as the number of existing home sales during the month was 3.8% below the level of July 2020. However, year-to-date sales totals show the number of units sold during 2021 through July was 7.9% greater than last year. During the same period, the average sales price of existing homes in the state was up 14.9%, resulting in an aggregate transaction value increase of 23.9% year over year.

Economic growth in the Cleveland Federal Reserve District slowed in the most recent survey period, though activity remained solid.¹¹ Staff levels among District employers increased at a modest pace, as firms struggled with turnover and a slow flow of qualified applicants. Supply constraints limited some contacts' abilities to fill orders, and contacts overwhelmingly reported rises in nonlabor input costs; a number of manufacturers noted being unable to meet demand due to worker shortages and delivery bottlenecks. Housing demand remained robust, while nonresidential construction and real estate activity increased moderately. Business services companies also reported a high level of activity, as resumption of investment programs and workforce expansion spurred demand for software. Banking activity rose on consumer demand for auto loans and mortgages; business lending was slower, as many business customers maintained large cash balances and paid off loans. Demand for freight hauling, already elevated, grew modestly, constrained by driver and equipment shortages.

¹¹ 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 businesses and industry contacts outside of the Federal Reserve System, collected on or before August 30, 2021.