DRAGAS CENTER FOR
ECONOMIC ANALYSIS
AND POLICY

Contact Dr. Robert M. McNab
Telephone 757 683 3153
Email rmcnab@odu.edu
Website www.ceapodu.com

FOR IMMEDIATE RELEASE
June 17, 2021

2021 NATIONAL AND COMMONWEALTH FORECAST

National and Commonwealth Recovery Projected to Accelerate in 2021

Norfolk, VA, June 17, 2021 – The Dragas Center for Economic Analysis and Policy forecasts that real (inflation-adjusted) economic activity in the United States will rebound sharply in 2021 as vaccinations continue to reduce the scope of the COVID-19 pandemic. Rising business and consumer confidence, expansive monetary and fiscal policy, and the transfer for consumer demand from 2020 will generate increasing rates of economic growth. Inflation is expected to increase sharply from 2020 levels but should moderate as the nation transitions into 2022.

Growth in Virginia is also expected to rebound sharply in 2021 as social distancing measures fade into memory and federal spending in the Commonwealth complements increases in private sector activity. Labor markets are already tightening in many of the metropolitan areas of Virginia. The state government continues to reap an unexpected windfall in revenues, in part due to federal stimulus funds.

With more than 40% of the American population fully vaccinated, the challenge in the coming months will be to combat vaccine hesitancy and resistance. Public opinion polling continues to show declines in vaccine hesitancy, but there are significant lags in the vaccination of African Americans relative to whites and Hispanics. Partisanship also appears to influence vaccination rates. Comparing the vote share for President Trump with vaccination rates, there appears to be a strong negative correlation between President Trump's vote share in the 2020 election and the percentage of adults vaccinated at the county level across the United States. While current vaccines remain effective with respect to COVID-19 variants, if a significant proportion of the population remains unvaccinated, COVID-19 may continue to threaten the ongoing economic recovery.

We forecast that U.S. real GDP will increase at an annual rate of 5.5% in 2021. Virginia will also grow robustly, though at a slower rate than the nation. We project Virginia's real GDP will increase at an annual rate of 4.5% in 2021.

We continue to observe evidence of a bifurcated or “K-shaped” recovery in labor markets. Nationally, the civilian labor force and individual employment in May 2021 were approximately 3.5 million and 7.1 million individuals lower than in February 2020. Many of those unemployed were hourly, not salaried, workers. Annual average employment of salaried Americans fell by about 500,000 individuals from 2019 to 2020. Over the same period, annual average employment of Americans receiving hourly wages fell by 9.0 million individuals.

Employers in some sectors report difficulties in finding workers to fill available positions. Online job postings have surged past pre-pandemic levels. Recent research from the National Bureau of Economic Research suggests that expanded unemployment benefits may play a role in constraining job applications, with a 10% increase in benefits causing a 3.6% decline in applications. However, with an increasing number of states announcing that they will opt out of expanded unemployment benefits during the summer, increasing vaccinations, and the return to full-time, in-person K-12 schooling by Labor Day, these labor market constraints should ease considerably in the latter part of 2021.

With surging economic activity, we project the unemployment rate in the United States and Virginia will decline through 2021. Nationally, the unemployment rate will average 5.0% in 2021 while Virginia’s unemployment rate will average 4.5%. We forecast that civilian job growth will exceed 5% nationally and 4% in the Commonwealth in 2021. Some metropolitan areas of Virginia will observe unemployment rates below 4% by the end of 2021.

The impact of the shock is disproportionately borne by Black or African American individuals. Nationally, and in Virginia, Black residents were more likely to be infected, hospitalized, and perish from COVID-19 relative to their share of the population in 2019. While the number of Black individuals in the labor force declined slightly less (-2.4%) compared to white individuals (-2.5%) from February 2020 to May 2021, Black employment dropped more significantly (-5.7%) than white employment (-4.5%) over the same period.

With regards to gender, the number of white men in the labor force declined by 2.1% from February 2020 to May 2021. Over the same period, the number of Black men in the labor force declined by 0.7%. However, employment dropped by 4.4% and 4.1% for white and Black men, respectively. For women, the declines have been more pronounced. The number of Black and white women in the labor force has declined by 3.9% and 2.9%, respectively, over the same period. With regards to employment, while employment of white women declined by 4.7% from February 2020 to May 2021, Black women’s employment has dropped by 7.0%.

Even though economic activity will surge over the coming months, the gains will likely not be evenly distributed by income or race. The early end of expanded unemployment benefits in some states and the ‘relief cliff’ in September (when many COVID-19 federal programs end) will impact Black or African American workers more significantly than white, Asian, or Hispanic workers.

While President Biden’s Fiscal Year (FY) 2022 budget proposes significant increases in discretionary expenditures for a number of Departments and Agencies, Department of Defense (DoD) expenditures will remain relatively flat in FY 2022. The base DoD budget is currently expected to be approximately $715 billion, rising at less than the rate of projected inflation over the course of the five-year Future Years

Defense Plan (FYDP). The rising cost of weapon systems and the need for modernization are driving the DoD to sacrifice current capabilities for future capabilities. The recent conflict between Armenia and Azerbaijan serves as an example of the expanding capabilities of Unmanned Aerial Vehicles (UAVs). Legacy platforms, including aircraft carriers, are increasingly threatened by UAVs. The DoD will need to aggressively shift away from large, costly platforms if it is to meet the rising challenges posed by regional and rising competitors. Coupled with projected declines in the U.S. Navy fleet, such a seismic shift (akin to the shift from battleships to carriers) would likely dramatically reduce the number of ships and personnel stationed in the Commonwealth.

At the same time, the federal fiscal house is on fire. The Tax Cuts and Jobs Act of 2017 unequivocally increased the federal deficit by lowering revenue growth. The fiscal response to the COVID-19 pandemic was significant, raising the FY 2020 deficit to $3.1 trillion. The federal deficit in May 2021 exceeded $2.0 trillion and is projected to reach $4.0 trillion under the assumption that a large infrastructure bill is passed and signed into law.

The surge in fiscal and monetary stimulus likely staved off an even more significant decline in economic activity than what occurred in 2020. However, as the national and global economy rebounds from the impact of the COVID-19 pandemic, consumer and producer prices are increasing rapidly. In May 2021, the year-over-year increase in the Consumer Price Index (CPI) was 4.9%. Core CPI, which excludes food and fuel, increased year-over-year by 3.8%. However, we note that prices were subdued in May 2020 due to the COVID-19 shock, and it may be more appropriate to compare prices in 2019 and 2021. The annualized change in consumer prices from May 2019 to May 2021 was 2.5%.

The question at hand is whether the observed increases in prices are temporary. Global supply chains continue to recover from the pandemic and shortages continue to challenge producers in a number of sectors. At the same time, consumer and business demand is rapidly increasing. Constrained supply and increasing demand have led to broad increases in prices. However, we must also note that the injection of trillions of dollars of fiscal and monetary stimulus into the national economy may also contribute to the ongoing surge in consumer and producer prices. Our concern is that the transitory increases may shift inflationary expectations towards higher rates of inflation. If so, inflationary pressures would not moderate in the second half of 2021, and the Federal Reserve would need to take aggressive action to moderate further increases in prices.

We project that the Consumer Price Index will increase at an annual rate of 3.4% in 2021 while the Core Consumer Price Index will increase by an average of 2.4%. As a result, we expect the yields on U.S. Treasuries will rise over the second half of 2021 and the Federal Reserve will shift its accommodative monetary policy stance by the end of 2021. Conventional 30-year mortgage rates will rise over the year, dampening some of the recent surges of median housing values in major metropolitan areas in the United States and Virginia.

National and Virginia Actuals and 2021 Forecasts

	2019 Actual	2020 Mid-Year Forecast	2020 Actual	2021 Forecast
U.S. Real Gross Domestic Product	2.2%	-5.5%	-3.5%	5.5%
Civilian Job Growth	1.4%	-4.0%	-5.7%	5.2%
Unemployment Rate	3.5%	9.1%	6.7%	5.0%
Consumer Price Index	2.3%	0.8%	1.2%	3.4%
Core Consumer Price Index	2.3%	1.4%	1.7%	2.4%
3-month Treasury Bill	1.6%	0.4%	0.1%	0.2%
10-year Treasury Bill	1.9%	0.8%	0.9%	1.7%
30-year Treasury Bill	2.3%	1.0%	1.6%	2.5%
30-year Conventional Mortgage	3.8%	3.0%	3.1%	3.0%
Federal Deficit	-$984 Billion	-$4.0 Trillion	-3.13 Trillion	-4.0 Trillion
Virginia Real GDP*	2.2%	-4.0%	-2.5%	4.5%
Virginia Employment Growth	1.1%	-3.0%	-4.3%	4.5%

# # #

The Hampton Roads region (formally the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area) includes Camden County NC, Currituck County NC, Gates County NC, Gloucester County, Isle of Wight County, James City County, Mathews County, Southampton County, York County, Chesapeake, Franklin, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg.

# # #

The Dragas Center for Economic Analysis and Policy in the Strome College of Business at Old Dominion University undertakes a wide range of economic, demographic, transportation and defense-oriented studies. For 21 years, the Center and its predecessors have produced the highly regarded State of the Region Report for Hampton Roads and economic forecasts for the region. If you would like more information about this topic, please contact Dr. Robert M. McNab at 757 683 3153 or email at rmcnab@odu.edu.