TFA
Monthly
Newsletter

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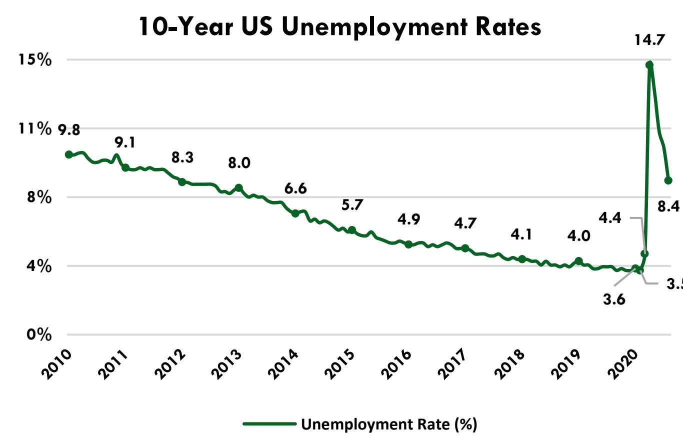
What's Your Perspective? We Believe the Glass is Half Full.

By Kristi Jackson

The state of the overall US economy is constantly on our minds. Where are we right now on this recent economic rollercoaster ride? Metaphorically, the ride started with a 10-year steady climb and then this past March, plunged at a near vertical slope that took our breath away. We've taken some intermediate bumps (after our stomachs settled down), but as we look to where we are on the track and to what lies ahead, we see a slow steady improvement. All-in-all, we're doing pretty well considering where we've just come from.

Led by government-imposed shutdowns of economies across the globe, we went from a screamingly fast ride with huge positive trends in nearly all sectors… to about a dead stop. Admittedly, some companies and industries have thrived in this environment (e.g. Amazon, 3M and Zoom), but overall GDP and unemployment have experienced changes not seen since the Great Depression.

The unemployment rate, which went from historically low levels in February to a Depression-era level of over 14% in April (well north of 20% in some sectors) – a change of nearly 5 times in a span of two months. Even worse, the unemployment rate in the hospitality sector was greater than 37% in April.



Source: [U.S. Bureau of Labor Statistics]

What puts us into this mess also takes "us" out? – In record time, and less than a month after the government-imposed shutdown put us at the bottom, Congress passed the CARES Act on March 27, injecting over $2.2 trillion of support into the economy. Individual cash payments combined with massive support of small and medium sized businesses led the way toward stabilizing our system. To what end? Today, we are halfway back. The unemployment rate in August was back down to 8.4%.

Leisure and hospitality, however, were still about 21%

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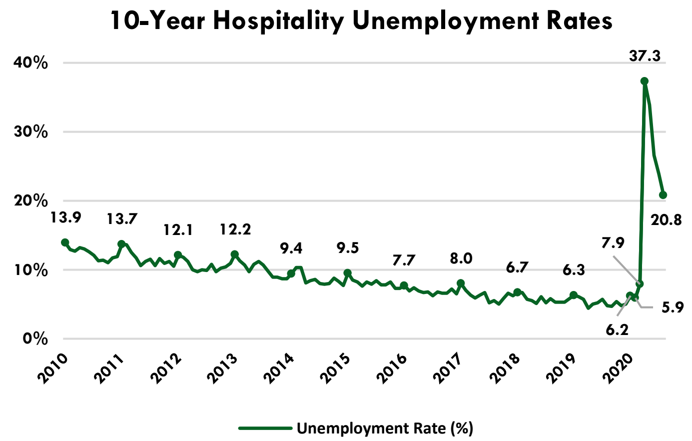

Source: [U.S. Bureau of Labor Statistics]

in August according to the US Bureau of Labor Statistics. While it's hard to be a half-full person when you're directly affected within this industry sector, the rate, even in this most-impacted cohort, is down roughly half from the high watermark in April.

One way of looking at this is relative to the starting point of 3.5% – over 2 times as many people are out of work today vs just six months ago. However, is the starting point a fair comparison?

Economic theory posits that there is an inherent structural level of unemployment in every economy. There are always people who are in the process of changing jobs, or, leaving the workforce for lifestyle reasons (e.g. having a child or caring for a loved one). The NAIRU, the non-accelerating inflation rate of unemployment, is the lowest level of unemployment that can occur in the economy before inflation starts to inch higher. Economists, building upon the work of Milton Friedman and William Phillips, researched this phenomenon and consensus suggests that NAIRU is somewhere between 5% to 6%. In other words, the lowest sustainable level of unemployment in the economy is somewhere close to 6%, not the

near-historic low of mid-3% that we experienced back in pre-COVID February.

There is a growing argument that the level of structural unemployment in our economy is increasing, largely due to technological advances. Applications such as artificial intelligence combined with general automation will displace sectors of the workforce and it does not appear likely that service sectors will completely make up the difference.

We are much closer to "back to normal" than headlines often suggest. Pulling away from a hospitality-centric viewpoint gives us more clarity to this perspective.

What does this mean for business owners and Tribes? We are clearly not out of the woods, and the November election will surely create volatility in certain areas. However, employment enables consumer spending, which historically has been the bedrock of the U.S. economy. Many sectors, fueled by higher levels of employment and consumer spending, will likely push our overall business revenues higher and create an upward sloping trendline into 2021 and 2022. While not steep, the upward trend even if slow and steady is a markedly improved and positive story versus the headlines we see too often.

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