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# TFA Monthly Newsletter

September 2021

## Notes from the Jackson Hole Economic Symposium

*By Braxton Sato*

For a couple of days every fall, the eyes and ears of the global capital markets turn away from the financial centers of the world, toward scenic Jackson Hole, Wyoming – where the Federal Reserve hosts one of the longest standing central banking conferences in the world. Economists, bankers, politicians and media come together to discuss the state of the global economy and monetary policy issues, while the capital markets mine these discussions for clues about the future path of monetary policy decisions. Federal Reserve Chairman Jerome “Jay” Powell kicked off the (virtual) conference with a keynote address on the morning of Friday, August 27. Below we have summarized some of the highlights from his speech along with additional macroeconomic data and our analysis of its implications for Indian Gaming and capital markets. **TL;DR – Headline inflation is mostly transitory, the labor market is still weak, and thus the Fed will not begin to “taper” asset purchases, instead keeping monetary policy loose as we continue recovery from COVID and Delta.**

**COVID-19 Shifted Consumption Patterns**

The economic recovery has been strong with 2Q21 GDP already surpassing pre-COVID levels. But interestingly, the makeup of the post-COVID economy looks a little different than before. As we all remember, there was a sharp and sudden drop in spending on “in-person” services across the country as casinos, restaurants, hotels and others shut their doors to the public to stem the spread of the coronavirus (some willingly, some not). The chart below [Figure 1] shows how spending on both services and durable goods dropped precipitously in 2Q20. However, as we emerge from our homes and re-enter the “in-person” economy, data as of 2Q21 still shows spending on durable goods trending above and spending on services trending below their respective pre-COVID trendlines. This data caught our eye because the casino industry seems to be an exception to this trend. According to the AGA – total Gross Gaming Revenue for commercial casinos in 2Q21 was $13.6 billion, beating the previous highest quarter (3Q19) by 22.5%. This publicly available data is in line with confidential figures we are seeing from our clients – many of whom are setting new monthly and quarterly highs in revenue and EBITDA. People are gambling at

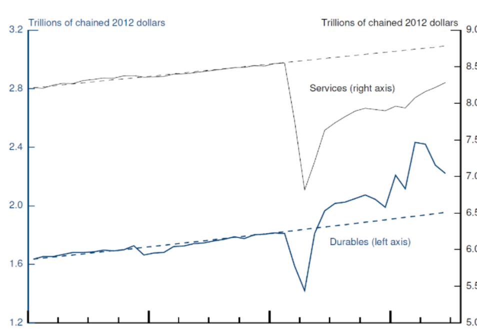


*Figure 1*

*(continued on Page 2)*

### IN THE NEWS

**Wyoming, South Dakota Approve Sports Gambling Rules**
**8/2/21 – sportshandle.com**

**Fund Helps Tribes Without Sports Betting Licenses**
**8/2/21 – azcapitoltimes.com**

**Florida Sports Betting Decision Looms with Nationwide Consequences**
**8/5/21 – actionnetwork.com**

**Tribal Gaming Revenue up After Sharp COVID-19 Decline**
**8/8/21 – tulsaworld.com**

**What’s in the $1 Trillion Infrastructure Project**
**8/10/21 – nytimes.com**

**Legalizing Sports Betting in Calif. Gets Competitive with Second 2022 Initiative**
**8/13/21— sjvsun.com**

**Indigenous Olympians Bring Home the Medals**
**8/19/21— indiancountrytoday.com**

**California Governor Signs 6 New Tribal-State Gaming Compacts**
**8/30/21— yogo.net**

*(continued from Page 1)*

record levels even with capacity and hours restrictions in place.

**Shifts in Consumption Patterns are Causing Transitory Inflation**

Fears about runaway inflation have been lingering in the minds of market participants since we wrote about it in our May newsletter. The July Personal Consumption Expenditures (PCE) inflation measurement released 8/27/21 showed a 4.2% year over year increase – well above the Fed's 2% medium-term target. However – evidence suggests this is a temporary increase in prices, not a persistent structural inflation or an economy-wide wage-price spiral. Headline inflation measures were being driven by demand for durable goods, material costs and temporary supply chain bottlenecks. The inflation seen in durable goods breaks a decade long trend of negative inflation (e.g. durable goods had been getting cheaper over time). The Fed does not believe this increase in prices will persist – and are already seeing prices come back down in certain areas including used cars.

The other main factor contributing to post-COVID headline inflation is hotels and airlines. With the "in-person" economy mostly re-opened, people are eager to get out of their homes and travel. COVID concerns and restriction abroad has resulted in a shift towards more domestic travel. However, capacity restrictions and staffing issues make for a particularly difficult challenge of meeting this sudden increase in demand and have resulted in price increases. Headline inflation was also skewed by measurement effects – year over year changes skewed higher because of comparison to the depths of the pandemic where prices of hotel rooms and flights were severely depressed.

**Slack in the labor market**

Despite the strength of the domestic consumption and GDP – the labor market has still not returned to pre-pandemic levels. Initial Claims for Unemployment Insurance, a proxy for layoffs, were 353,000 for the week of August 21. This continues a downward trend from the peak of COVID but is still above pre-pandemic average of 218,000. The unemployment rate is trending down but still higher than pre-pandemic averages. Long term unemployment (27 weeks or more) levels remain elevated as well (see Figure [x]). Of specific interest to tribal gaming, Powell notes in his speech that "total employment is now 6 million below its February 2020 level, and 5 million of that shortfall is in the still-depressed service sector." This is another data point in line with our July newsletter, in which we discussed how labor market dynamics were negatively impacting the casino and hotel business. Anecdotally, we continue to hear stories of labor shortages at casinos across the country. In some cases, management is pitching in on the front lines, covering short-staffed shifts. We expect this problem to continue as more of the service sector reopens and capacity restrictions lift. We also anticipate greater scrutiny of labor costs by lenders when reviewing budgets and projections.

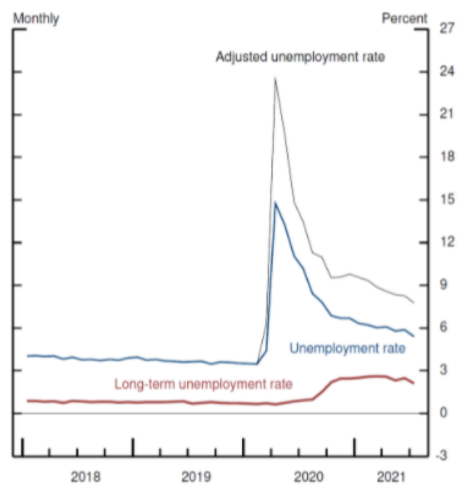


*Figure 3*

**Capital Market Impact**

The Federal Reserve's "dual mandate" is to foster economic conditions that achieve both stable prices and maximum sustainable employment. Some market participants expected the Fed to soon begin tightening the money supply (and thus increasing interest rates) to combat rising inflation. However, equity markets immediately rose to record highs following the speech – driven by confirmation that the Fed will continue to support a low interest rate environment as the labor market continues to recover. **For Tribal borrowers – the cost of debt capital will remain near record lows, and it remains an advantageous time to approach the commercial and municipal markets market with economic development or governmental projects.** As always – we at TFA are ready to discuss creative solutions for your tribe's capital needs.

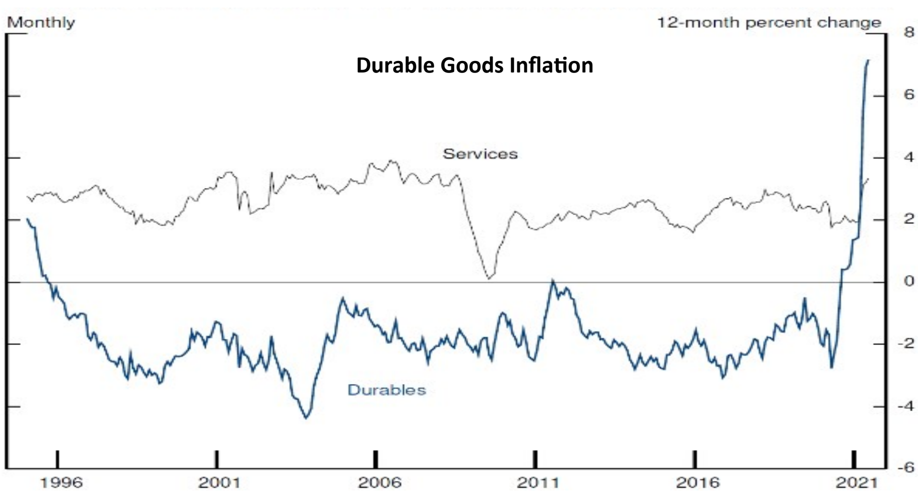


*Figure 2*

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