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Special Commentary — February 2, 2023

Gaining Economic & Financial Ground in the Black Community Since COVID

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Summary

- The unemployment rate in the Black and African American community has historically exceeded the non-Black jobless rate. This gap widened when the economy more or less shut down in spring 2020, but the gap remained below the wides that were reached in the aftermath of the 2008 financial crisis. The gap in the jobless rates has subsequently narrowed again as the economy has rebounded. The Black unemployment rate currently stands at 5.7%, just a bit higher than its all-time low in 2019.
- Inflation has shot significantly higher over the past two years, but inflation-adjusted median weekly earnings for Black workers have risen modestly on balance compared to pre-pandemic levels. In contrast, inflation-adjusted median earnings for the total population have declined slightly over the same period.
- The labor force participation rate (LFPR) among Black and African American workers has historically been below the overall national rate. The Black LFPR nosedived in spring 2020, but it has subsequently rebounded sharply. Although the Black LFPR has not fully recovered to its pre-pandemic level, it is more or less equivalent to the nationwide rate of 62.3% at present.
- If, as we expect, the economy slips into recession this year, then the Black unemployment rate likely will rise. But solid demand for labor in the service sector, where Black and African American workers tend to be concentrated, should provide some offset to job losses in more cyclically sensitive sectors.
- Net worth in the Black and African American community is lower than in most other racial and ethnic groups. While lower on an absolute basis, average net worth among Black households has risen more than average net worth among non-Black households since the end of 2019.
- The assets of Black and African American households are much less diversified than non-Black households. Federal Reserve data show that real estate and pension entitlements accounted for roughly 70% of Black household assets at the end of 2019. In contrast, the assets of non-Black households were spread more evenly among the six major asset classes.
- The higher share of real estate holdings has helped to push up average net worth in the Black and African American community over the past few years. Not only have rising home prices boosted net worth, but the rate of homeownership in the Black and African American community has also risen considerably over the past few years.
- On the liability side of household balance sheets, the relatively high exposure of Black households to consumer credit could pose a risk to their financial health should a recession occur. Consumer credit represents 42% of the liabilities of Black households, nearly 20 percentage points more than the share for non-Black households.
- These positive developments should be viewed in the context that long-standing disparities between the Black community and the overall population remain. The directional improvement is notable, however, and it points to strengthening economic and financial fundamentals across Black and African American households.

How Has the Black Community Fared Economically & Financially Since COVID?

The pandemic sent shock waves through the economy and financial markets.

The first U.S. case of COVID-19 was reported in Snohomish County, WA on Jan. 20, 2020. Over the ensuing three years, the shock of the COVID pandemic would reverberate across financial markets and economies. The yield on the 10-year U.S. Treasury security nosedived as COVID case counts in the United States started to climb, while the S&P 500 index plunged more than 30% between mid-February and mid-March 2020. The national unemployment rate spiked to 14.7% in April 2020, and real GDP contracted roughly 30% (annualized rate) in Q2-2020. However, the deft response of policymakers in the early days of the pandemic and the rapid reopening of much of the economy led to a sharp rebound in financial markets, as well as in real economic activity. Real GDP surpassed its pre-COVID peak by Q2-2021, and the unemployment rate eventually returned to its pre-pandemic low of 3.5%. Fears of deflation were subsequently replaced by sky-high inflation rates that had not been experienced in 40 years.

But national trends obscure the experiences of different population subgroups over the past three years. For example, the unemployment rate among women shot up by 2.8 percentage points more than the male jobless rate in the spring of 2020, and as we discussed in more detail in a report we wrote in September 2022, the Hispanic unemployment rate rose more than the national average during those difficult months. The pandemic and its aftermath also imparted various effects on the assets and wealth of different individuals.

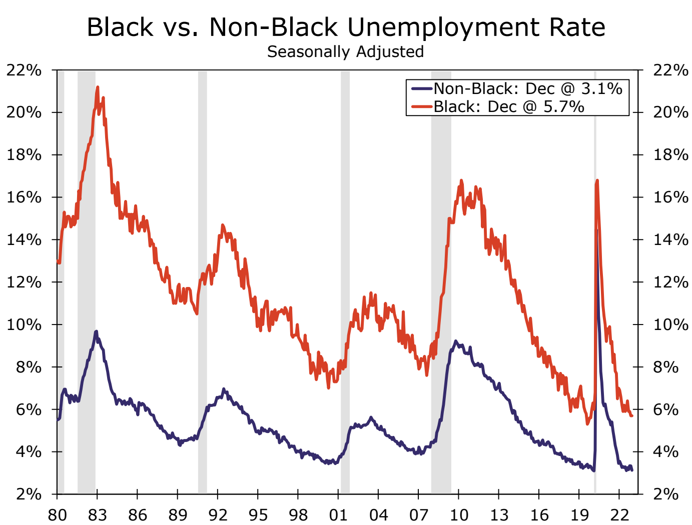
In this report, which we have written in recognition of Black History Month 2023, we focus on the economic and financial experience of Black and African American households over the past three years. Specifically, we analyze labor market developments among Black and African American people over those years. We also look at the aggregate net worth of the Black community at present relative to its pre-COVID days. Has the Black and African American community gained or lost economic and financial ground, both absolutely and relatively, over the past three years?

Black and African American Workers Have Participated in the Healing in the Labor Market

Black workers have enjoyed a strong labor market recovery from the pandemic.

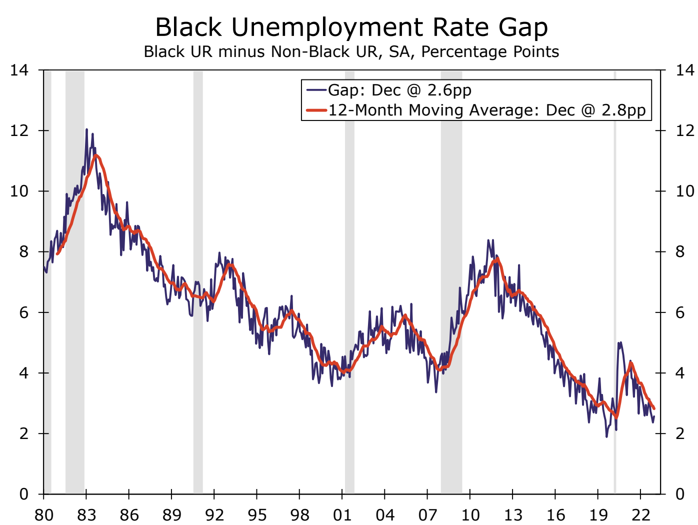
Let's start by looking at the labor market experience of Black and African American individuals over the past few years. The long and steady economic expansion of the 2010s pushed the overall unemployment rate in the United States down to a 50-year low of 3.5% just prior to the pandemic. The extended economic upswing during those years also brought benefits to the Black and African American community. Not only did the Black jobless rate fall to an all-time low of 5.3% in August 2019 (Figure 1), but the gap between it and the non-Black unemployment rate narrowed to the smallest difference ever at roughly two percentage points (Figure 2).[1]

Figure 1



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 2



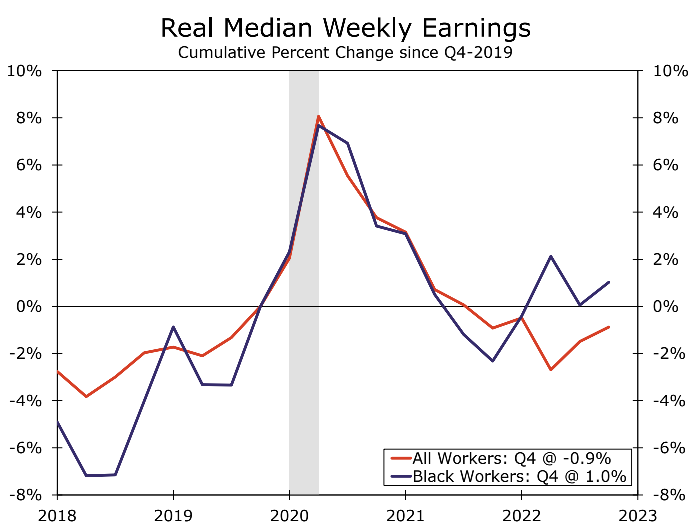
Source: U.S. Department of Labor and Wells Fargo Economics

Figure 2 makes clear that the gap between the Black and non-Black unemployment rates tends to widen when the economy enters a downturn, and that is exactly what happened when the COVID pandemic struck and the U.S. economy went into free fall. Over the first few months of the pandemic, the gap between the unemployment rate for Black Americans and the rate for non-Black Americans widened to a multiyear-high. That said, it remained below the peaks in many previous recessions, most notably the severe 2008-2009 recession. This smaller peak foreshadowed what would be a relatively strong labor market recovery for Black and African American workers. As of December 2022, the Black unemployment rate was 5.7%, just a few tenths of a percentage point higher than its all-time low reached in 2019.

Black workers have enjoyed a modest increase in real weekly earnings over the past few years.

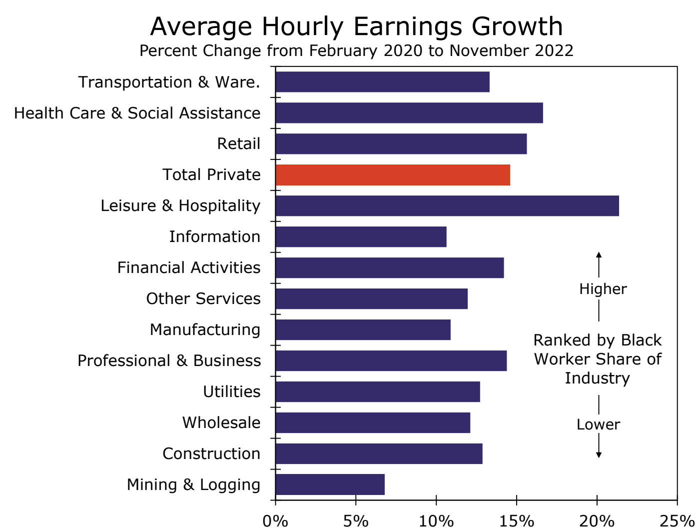
The strength in the labor market extends beyond the low rate of unemployment. Despite high inflation over the past couple of years, inflation-adjusted median weekly earnings for Black workers have risen modestly on balance compared to pre-pandemic levels (Figure 3).[2] In contrast, inflation-adjusted median earnings for the total population have declined slightly over the same period. As a result, the gap between real median weekly earnings for the Black cohort relative to the population as a whole has narrowed a bit in recent years. Some of the industries that have seen above-average wage growth since the pandemic began, such as transportation & warehousing and health care & social assistance, are industries in which Black and African American workers are overrepresented in the workforce (Figure 4). For example, Black and African American workers comprise about 12% of total employment, but they account for 21% of workers in the transportation & warehousing sector and 17% of employment in the health care & social assistance sector.

Figure 3



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 4



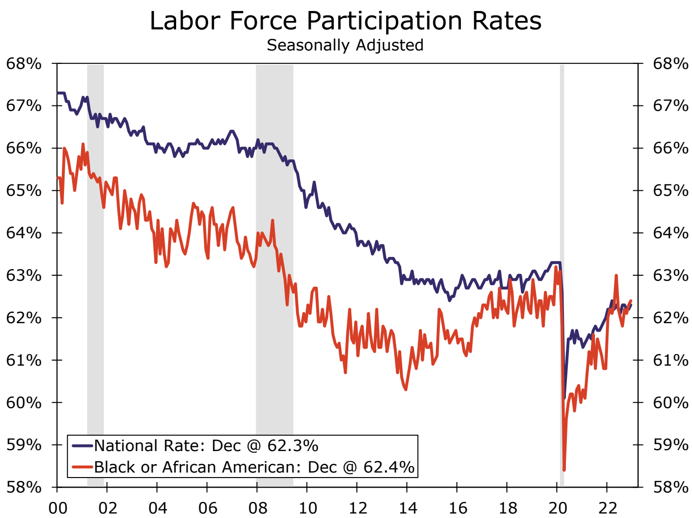
Source: U.S. Department of Labor and Wells Fargo Economics

Of course, a low unemployment rate and modestly faster real earnings growth is not to say the labor market for Black and African American individuals is problem-free. The gaps in unemployment and earnings between Black and non-Black workers have narrowed directionally over the past few years, but they remain sizable on an absolute basis. Specifically, median household income in the Black community stood at $48.8K in 2021 compared to a national median of $70.8K. Sectors, such as transportation & warehousing and social assistance, have seen above-average wage *growth* in recent years, but despite this faster growth, many of these sectors are still generally below-average in terms of hourly pay. As we noted in last year's report, the overrepresentation of Black and African American workers in lower-paying industries reflects, at least in part, the historical structural exclusion of the community from full engagement with the country's economic, political and education institutions.

The labor force participation rate among Black workers is now equal to the overall rate.

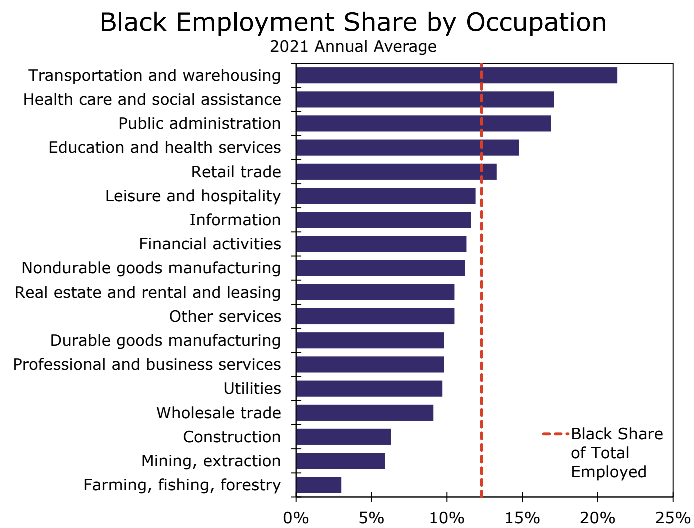
Labor supply is an area that is still feeling the effects of the pandemic. The nationwide labor force participation rate (LFPR) plunged from 63.3% in February 2020 to 60.1% in April of that year, a drop of 3.2 percentage points. The LFPR among Black and African American workers nosedived an even steeper 4.7 percentage points during those months (Figure 5). Despite this precipitous decline, the Black LFPR rate has rebounded a bit more strongly and is more or less equivalent to the nationwide rate of 62.3% at present. That noted, the Black LFPR remains about three-quarters of a percentage point below its pre-pandemic rate. If 63.1% of Black Americans were participating in the labor market today as they were in February 2020, then roughly 225K more Black and African American individuals would either be employed or actively looking for a job than there are at present.

Figure 5



Source: U.S. Department of Labor and Wells Fargo Economics

Figure 6



Source: U.S. Department of Labor and Wells Fargo Economics

Furthermore, worries about a recession in coming quarters are elevated. Our own forecast looks for a mild downturn to begin in mid-2023, and the current Bloomberg consensus forecast pegs the probability of a recession this year at 65%. As noted earlier, the jobless rate for Black and African Americans tends to rise more than the rate for non-Black individuals during an economic downturn. A few months ago, we examined how the Hispanic labor force might fare if the economy entered a recession. The report noted that Hispanic workers are overrepresented in some of the economy's most highly cyclical sectors, such as construction, nondurable goods manufacturing and transportation & warehousing. Although Black workers are a sizable segment of the transportation & warehousing sector, they represent much smaller shares of the workforce for nondurable goods manufacturing and construction. As an example, Hispanics accounted for one-third of construction employment in 2021 compared to just 6.3% for Black and African American workers (Figure 6).

The Black jobless rate will rise this year if the economy slides into recession.

Our expectation is that we will see a steeper drop in goods spending in 2023 as households have greater pent-up demand for services. Many service-sector industries, such as leisure & hospitality, health care, social assistance & public administration, are still adding jobs at a robust pace amid the recovery from the pandemic. Inflation-adjusted spending in the service sector rose a solid 3.3% on a year-over-year basis in December, while real consumer spending on goods was up a modest 0.2% over the same period. If these spending patterns continue to hold, then resilient labor demand in the service sector could provide some offset to potential Black and African American job losses in industries that would be more exposed to the anticipated downturn, such as transportation & warehousing.

Net Worth: Closing the Wealth Gap

It is clear from the above section that Black and African American workers have participated in the healing of the labor market over the past few years. The Black unemployment rate has essentially returned to its all-time low, and real median weekly earnings for Black workers are up on balance relative to Q4-2019. Have Black and African American individuals fared as well in terms of their balance sheets?

Before we address changes over the past few years, let's first put the net worth of the Black community into context. Generally speaking, net worth in the Black and African American community is lower than in most other racial and ethnic groups. The Federal Reserve's triennial Survey of Consumer Finances (SCF) showed that the median Black household possessed $24,100 of wealth in 2019 (latest available data), compared to $36,200 for Hispanic families and $188,200 for non-Hispanic White families.[3] Like the labor market difference, the wealth gap of the Black community relative to the overall population is in part rooted in the various structural obstacles that have impeded

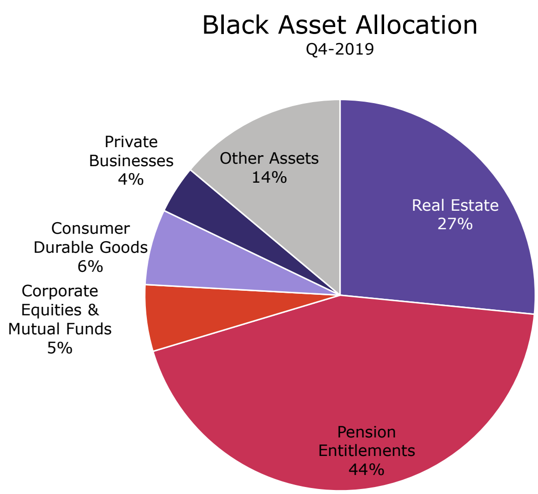
Net worth in the Black community is generally lower than in most other racial and ethnic groups.

full participation of the Black and African American community in the U.S. economy. Although a full discussion of these obstacles is beyond the scope of this report, they are manifested in a few observations regarding household assets.

First, disparities in homeownership explain part of the wealth gap. Housing often makes up the largest component of wealth for a typical family, and Black Americans are the least likely of any racial or ethnic group to be homeowners. In that regard, the homeownership rate in the Black community is roughly 45% compared to 75% among non-Hispanic White households. Second, the likelihood of receiving family inheritances is three times higher for non-Hispanic White Americans (29.9%) than it is for Black and African Americans (10.1%).[4] This disparity is consequential, as some estimates suggest that intergenerational gifts account for one-quarter to one-half of aggregate wealth.[5] Finally, Black and African American workers are less likely than other groups to invest in employer-sponsored retirement savings accounts, even conditional on having access to them. Roughly 80% of Black families with access to a retirement plan participate (45% in total), compared to 90% of non-Hispanic White families (60% in total). Because employer-sponsored retirement plans often come with matching benefits, lower plan participation can depress wealth accumulation.

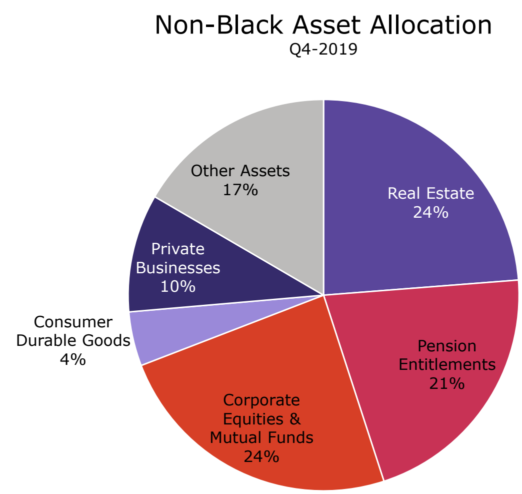
Furthermore, the assets of Black and African American households are much less diversified than non-Black households. Federal Reserve data show that real estate and pension entitlements accounted for roughly 70% of Black household assets at the end of 2019 (Figure 7).[6] In contrast, the assets of non-Black households were spread more evenly among the six major assets classes (Figure 8).

Figure 7



Source: Federal Reserve Board and Wells Fargo Economics

Figure 8

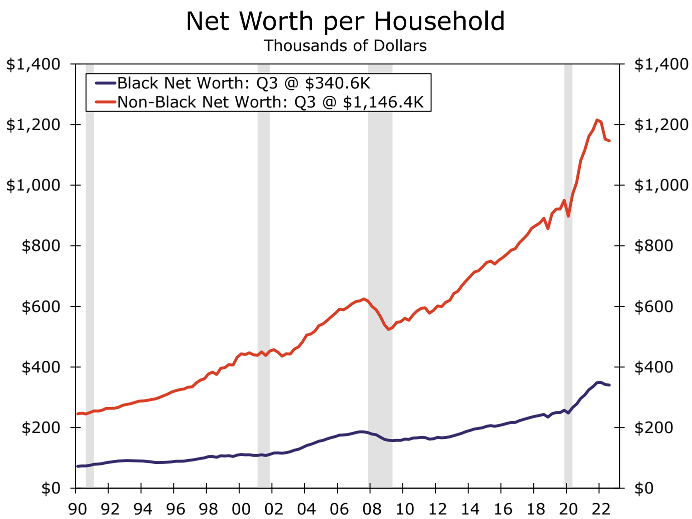


Source: Federal Reserve Board and Wells Fargo Economics

The discussion above was focused on pre-pandemic data. How has the financial position of the Black and African American community fared, both absolutely and relative to the nation as a whole, over the past three years? The next SCF will not be released until later in 2023, so we are not able to determine how the wealth of the *median* household has changed since the pandemic began. But the Federal Reserve publishes more up-to-date data on aggregate wealth in its Distributional and Financial Accounts (DFA) with demographic details available. From these accounts, we can calculate *average* (rather than median) household wealth, which is admittedly skewed significantly higher by wealthy Americans at the upper end of the distribution.

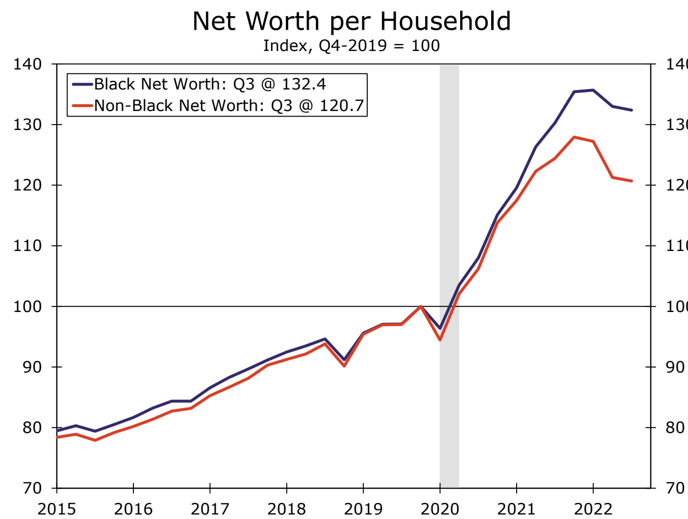
The data show that *average* net worth among Black households rose from about $257K in Q4-2019 to more than $340K in Q3-2022, an increase of 32% over just 11 quarters (Figure 9). Average net worth among non-Black households started at a much higher level, roughly $950K just before the onset of the pandemic. But the average net worth of non-Black households has risen less in percentage terms (21%) than it has for Black households (Figure 10). This growth disparity has helped to narrow the wealth gap between Black and non-Black households.

Figure 9



Source: Federal Reserve Board and Wells Fargo Economics

Figure 10



Source: Federal Reserve Board and Wells Fargo Economics

Homeownership in the Black Community Has Risen Relative to Pre-COVID Days

Household wealth in the Black community has grown at a relatively rapid rate in recent years.

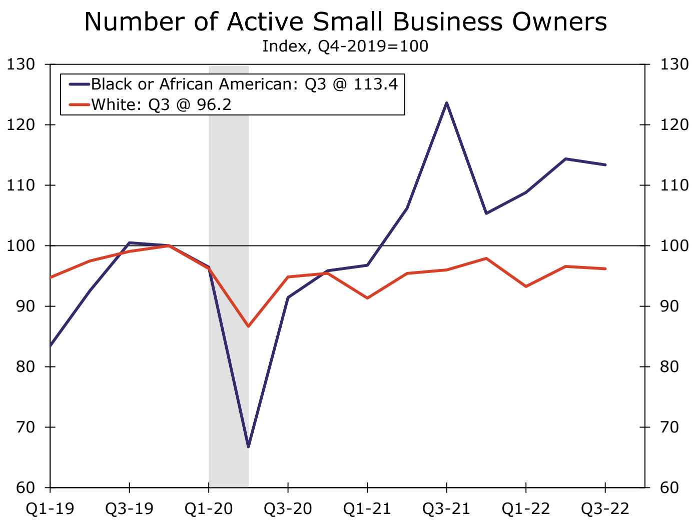
Why has the average level of wealth risen relatively more among Black and African American households than among non-Black households over the past three years? Recall that real estate accounts for a higher proportion of the assets of the former (Figure 7 & Figure 8). The value of real estate holdings of Black and African American individuals has risen by 72% since the onset of the pandemic, which is nearly twice as much as the gain experienced by non-Black individuals (38%). Home price appreciation has clearly contributed to this rise, with average home prices in the United States increasing 40% during that time as measured by the S&P CoreLogic Case-Shiller National Home Price Index. Federal Housing Finance Agency (FHFA) data also suggest that home values between 2019 and 2021 likely grew faster in areas with larger minority populations than in census tracts with smaller minority representations.[7]

Not only have rising home prices pushed up the net worth of Black and African American households, but homeownership in the Black community has also increased. Likely taking advantage of low mortgage rates, the percentage of Black American homeowners rose from 42.7% in Q3-2019 to 44.0% in Q3-2021—the largest percentage point increase in homeownership rates of any racial or ethnic group. The Black homeownership rate continued to rise throughout 2022 even in the face of rising mortgage rates, hitting 45.2% in the third quarter. Furthermore, Black households have also enjoyed slightly stronger growth on balance in the value of their pension entitlements than non-Black households. The value of assets held in defined contribution retirement funds increased 6% on balance for Black and African American households between the end of 2019 and Q3-2022, compared to 3% for non-Black households over the same period.[8]

The relatively low proportion of household assets that are held in corporate equities and mutual funds by Black and African American individuals also helps to explain the outperformance of Black household wealth, at least over the past year or so. Since peaking in Q4-2021, the value of corporate equities and mutual funds held by Black Americans has dropped by approximately 24%, which is similar to declines seen among other racial and ethnic groups. But because Black and African American households have less exposure to equity markets—corporate equities and mutual funds account for just 5% of household assets versus 24% for non-Black households—their overall wealth levels have suffered less from the recent downdraft in stock prices.

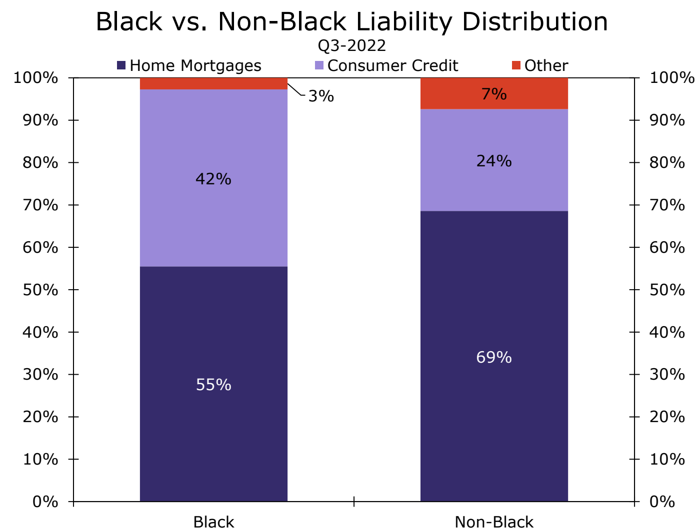
Equity in private businesses is also underrepresented in the assets of Black and African American households. As shown in Figure 7, private business ownership represented just 4% of the asset holdings of Black individuals at the end of 2019, compared to a 10% share for non-Black Americans (Figure 8). The disparity suggests private business ownership is a growth opportunity for the Black and African American community. As we wrote in our report last year, Black-owned businesses have shown incredible resilience in the face of the pandemic. Data from the University of California-Santa Cruz show the number of active Black small business owners plummeted 33% during the initial pandemic lockdown in early 2020 (Figure 11). The number of active Black small business owners has bounced back subsequently, and it currently is 13% higher than it was prior to the pandemic. In contrast, the number of active White small business owners has yet to regain its pre-pandemic peak.

Figure 11



Source: University of California-Santa Cruz and Wells Fargo Economics

Figure 12



Source: Federal Reserve Board and Wells Fargo Economics

Black and African American households have seen strong growth on the asset side of the balance sheet over the past few years, but what about liabilities? After all, net worth is defined as the difference between assets and liabilities. Since the final quarter of 2019, the average amount of household liabilities in the Black community has risen 16%, which is roughly equivalent to the 15% increase among non-Black households. Stronger asset growth among Black households in conjunction with an equivalent increase in liabilities explains the recent narrowing in the wealth gap between Black and non-Black households.

Black households have relatively more exposure to consumer credit than their non-Black counterparts.

Although liabilities have expanded at nearly identical rates for Black and non-Black households, there are notable differences in the underlying compositions. As shown in Figure 12, mortgages and consumer credit (i.e., balances on credit cards, student loans, vehicle loans and other lines of credit not secured by real estate) account for the vast majority of the liabilities of both Black and non-Black households. But as noted previously, homeownership among Black households is lower than among non-Black households. Therefore, it is not surprising that mortgages account for a lower percentage of the liabilities of Black households (55% in Q3-2022) than for non-Black ones (69%). Meanwhile, consumer credit represents 42% of the liabilities of Black households—nearly 20 percentage points more than the share for non-Black households.

Black households' relatively high exposure to consumer credit could pose a risk to their financial health should a recession occur. Consumer credit is often issued with a floating interest rate, which is typically associated with a benchmark such as the federal funds rate. The FOMC raised its target range for the federal funds rate by 425 bps over the course of 2022, and we look for 75 bps of further rate hikes this year.[9] Furthermore, we suspect the Committee will refrain from cutting rates until early 2024 even as the economy falls into a mild recession in the second half of this year. Elevated financing costs amid a weakened labor market could pressure consumer credit balances higher as individuals tap into credit cards or fall behind on their payments. Should our forecast prove correct, the narrowing in the Black and non-Black wealth gap has the potential to reverse, at least in part, in the coming year.

Conclusion

When the U.S. economy ground to a halt in the spring of 2020 and the Black jobless rate spiked to nearly 17%, an observer could have reasonably concluded that the economic wellbeing of the Black and African American community had just been dealt a long-lasting blow. After all, it took about seven years for the Black unemployment rate to recede from its high of 16.8% in early 2010 to its pre-financial crisis rate of roughly 8%. But the labor market recovery that most Black and African American individuals have experienced over the past few years has been much quicker than in that previous cycle. The jobless rate among Black workers has essentially returned to its pre-pandemic low, and inflation-adjusted weekly earnings are higher today than they were at the end of 2019. Beyond the labor market experience, Black households have also enjoyed stronger gains in net worth compared to non-Black households over the past few years. These positive developments need to be viewed in the context that long-standing disparities continue to exist between the Black and African American community and the overall population. But the directional improvement is notable, and it points to strengthening economic and financial fundamentals across Black and African American households.

A recession in the coming year, should one occur, has the potential to unwind some of these gains. Historically, the gap between the Black and non-Black unemployment rate tends to rise as the economy enters recession. That said, we anticipate labor demand will remain generally supported in the service sector this year, which could offset Black and African American job losses in cyclically-sensitive sectors as Black workers tend to be overrepresented in many service-producing industries. Furthermore, Black households' relatively greater share of real estate assets could help to offset losses elsewhere in their asset holdings. We suspect home prices will slip only modestly this year and quickly rebound in 2024 amid a structural shortfall of inventory and strong underlying demand. In short, a recession is likely to come as a setback, but the stronger economic foundation should help to keep a lid on the gaps between the Black community and the overall population in the coming years.

Endnotes

1 Data on the overall unemployment rate start in 1948, but the Bureau of Labor Statistics did not begin reporting the jobless rate among Black and African American individuals until 1972. (Return)

2 We deflate median usual weekly earnings with our colleagues' approximation of the Consumer Price Index (CPI) by race, which is based on the U.S. Department of Labor's annual Consumer Expenditure Survey. Please see Inflation: Same Storm, Different Boats for more detail. (Return)

3 The median net worth data are significantly different from the average net worth data. For example, the Survey of Consumer Finances shows *median* net worth for Black non-Hispanic families was $24,100 in 2019, while the *average* net worth was $142,500. The variance suggests net worth among Black non-Hispanic families is right-skewed. A similar pattern holds for other racial groups. (Return)

4 Bhutta, Neil, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu. "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances", FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 2020. (Return)

5 Laura Feiveson and John Sabelhaus. "How Does Intergenerational Wealth Transmission Affect Wealth Concentration?" FEDS Notes. Washington: Board of Governors of the Federal Reserve System, June 2018. (Return)

6 Pension entitlements include defined benefit plans, 401(k) assets and individual retirement accounts (IRAs). (Return)

7 Between 2019 and 2021, the median appraised home value increased 22.4% in census tracts with fewer than 50% minority population; 24.1% in tracts with 50.1% to 80% minority population; and 26.0% in tracts with 80.1% to 100% minority population. Please see the Federal Housing Finance Agency's Uniform Appraisal Dataset (UAD) Aggregate Statistics for more detail. (Return)

8 The downdraft in asset prices over the course of 2022 weighed on the value of pension entitlements and narrowed this gap somewhat. Among Black households, the value of defined contribution pension entitlements rose 14% between Q4-2019 and Q2-2022, while non-Black households realized a 7% gain over that period. (Return)

9 The FOMC raised its target range for the federal funds rate by 25 bps on February 1, 2023. (Return)

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