As a member of the RSM US Alliance, we would like to share the following with you:

The Real Economy 83

811 MADISON AVENUE | TOLEDO, OHIO 43604
hylant.com

THE **REAL** ECONOMY

VOLUME 83

WORKFORCE TRANSFORMATION: THE AMERICAN LABOR MARKET, BUSINESS AND THE POST-PANDEMIC ECONOMY

HOW $15 AN HOUR BECAME THE DE FACTO MINIMUM WAGE

HISPANIC ASCENDANT: CHALLENGES, OPPORTUNITIES AND THE REAL ECONOMY

INDUSTRY SPOTLIGHT: WHAT REAL ESTATE INVESTORS CAN LEARN FROM THE TROUBLED AMERICAN DREAM MEGAMALL

MIDDLE MARKET TREND WATCH: HOW BUSINESSES ARE PRIORITIZING ESG AS IT REACHES AN INFLECTION POINT

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

ABOUT THE **AUTHORS**

Our thought leaders are professionals who strive to help you and your business succeed. Contributors to this issue include:

JOSEPH BRUSUELAS
CHIEF ECONOMIST, RSM US LLP

NICK GRANDY
MANAGER
REAL ESTATE SENIOR ANALYST

NELLY MONTOYA
SENIOR MANAGER
FINANCIAL SERVICES SENIOR ANALYST

TUAN NGUYEN, PH.D.
U.S. ECONOMIST, RSM US LLP

CRYSTAL SUNBURY
ASSURANCE SENIOR MANAGER
REAL ESTATE SENIOR ANALYST

THE CHANGING **WORKFORCE**

WORKFORCE TRANSFORMATION: THE AMERICAN LABOR MARKET, BUSINESS AND THE POST-PANDEMIC ECONOMY

BY TUAN NGUYEN AND JOSEPH BRUSUELAS

WIDESPREAD LABOR SHORTAGES are hampering companies' ability to capitalize on an economy that is expanding as the country recovers from a devastating pandemic. Companies will not experience a return to the way things were in the labor markets before the pandemic.

The retirement of baby boomers, lingering challenges associated with the pandemic and a "you only live once" philosophy among many younger workers are driving a structural shift in the labor market away from the conditions that prevailed since the 1980s.

Now employers are wooing workers with improved pay, flexible work arrangements, state-of-the-art technology and better employee treatment. And these changes are just the beginning of what is a significant shift in the American workforce.

Middle market businesses across industries are finding themselves on the challenging end of the labor issue, as they try to ascertain how to navigate the shocks unleashed by the pandemic.

To understand these new dynamics, we have to examine the frictions in the labor market. That starts with the undeniable fact that not only are there not enough workers, but companies are also struggling with high turnover rates and constant employee poaching from competing businesses within market niches and those outside traditional competitive ecosystems.

EMPLOYERS ARE WOOING WORKERS WITH IMPROVED PAY, FLEXIBLE WORK ARRANGEMENTS, STATE-OF-THE-ART TECHNOLOGY AND BETTER EMPLOYEE TREATMENT.

MIDDLE MARKET INSIGHT
Middle market businesses are finding themselves on the challenging end of the labor issue, as they try to ascertain how to navigate the shocks unleashed by the pandemic.

That dynamic is almost certainly organized around the growing role of technology inside the production of goods and provision of services that is transferring power away from management and to labor.

Although consumer demand and growth remain strong, middle market businesses should always prioritize operating based on the opportunity costs of not taking advantage of such demand and growth. Yet that key requirement also implies something of a radical transformation of those same middle market organizations.

It is important not to become trapped in the idea that the labor market is simply about supply and demand. The labor market is far more complicated than a commodity market where prices can ultimately drive the final outcomes. Moreover, the premium placed on technological skill sets is transferring a form of bargaining power toward workers.

In many ways, this is the biggest change to the domestic economy since the automotive industry was forced to adapt to more dynamic foreign competition.

We argue that, on top of a pandemic-related deficit of the labor force, there has been a fundamental change in the structure of the labor market that compensation alone cannot explain. While improved wages are part of the equation to address labor shortages, they are not the sole solution.

This is the first in a series of works that will sketch out what we think will be a transformation of the American workforce that will alter the shape, composition, size and operational framework of the companies that constitute the beating heart and soul of the real economy.

This will be one of the significant managerial challenges of the post-pandemic economy that we expect will redefine the middle market and play a role in the reshaping of the contract between workers and organizations.

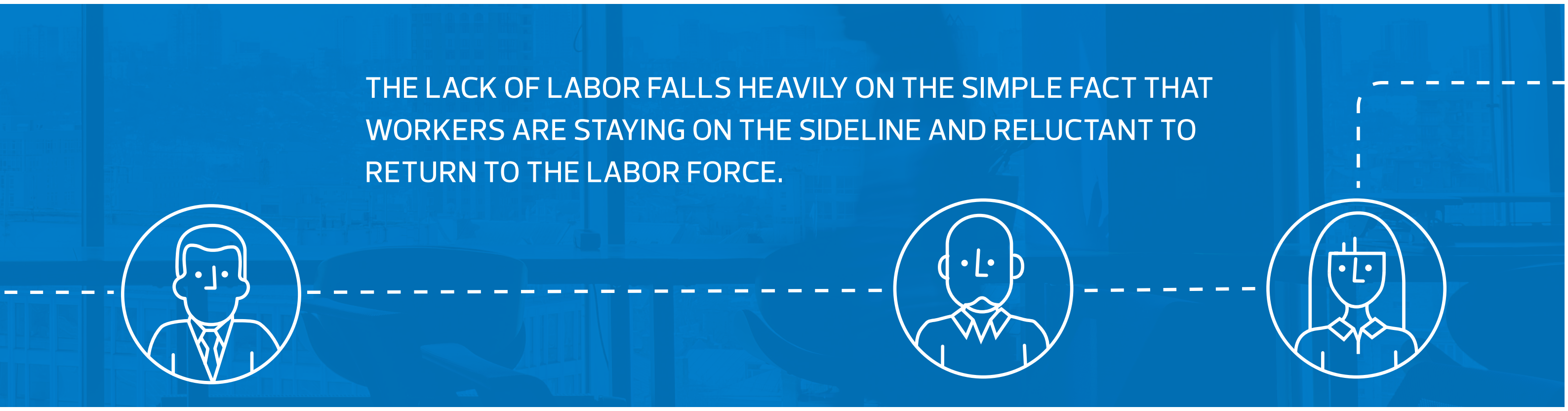
It is not about extended unemployment benefits

The pandemic-related unemployment benefits were a substantial addition to existing benefits. In places like Massachusetts and New Jersey, those benefits exceeded $1,000 a week, or about $25 per hour.

As of early September, those benefits had been rolled back in all 50 states as the special $300 per week expired.

So what does the early evidence indicate? The special unemployment benefit did not play a major role in employment decisions by workers. Economists have not shied away from showing robust evidence that extended unemployment benefits can contribute to increasing unemployment durations and reduce job application rates. But it is not a yes-or-no question regarding the impact of extended benefits on unemployment; rather, it is whether the impact is significant or not.

Most studies have shown that the negative effect of unemployment benefits is often small, especially when taking into account the strong positive effect on spending. Recipients of benefits tend to spend most of their unemployment payments, which drives up aggregate demand and in turn, leads to more hiring.



MIDDLE MARKET INSIGHT
It is important not to become trapped in the idea that the labor market is simply about supply and demand.

A recent study from economists at the University of Chicago focused on pandemic-related unemployment benefits from April 2020 to April 2021. It found that the "disincentive effect of expanded benefits is quantitatively small" and that "unemployment supplements are not the key driver of the job-finding rate through April 2021."

A recent analysis by *The Wall Street Journal* found that between April and July, payrolls expanded by 1.33% in benefit-cutting states and by 1.37% in benefit-maintaining ones. In a potential labor force in excess of 161 million, there is no significant statistical difference in employment outcomes based on the extension of unemployment benefits.

More important, especially for middle market organizations, this fact is also reflected when we look closely at the job vacancy-unemployed gap—which shows the difference between the number of job openings and the number of unemployed workers—by industry group.

The gaps are large not only in leisure and hospitality, and wholesale and retail groups, in which hourly wage rates are the lowest at $18.75 and $27.84, respectively, but also in professional and business services, education and health, and financial services, where the hourly wage rates are significantly higher.

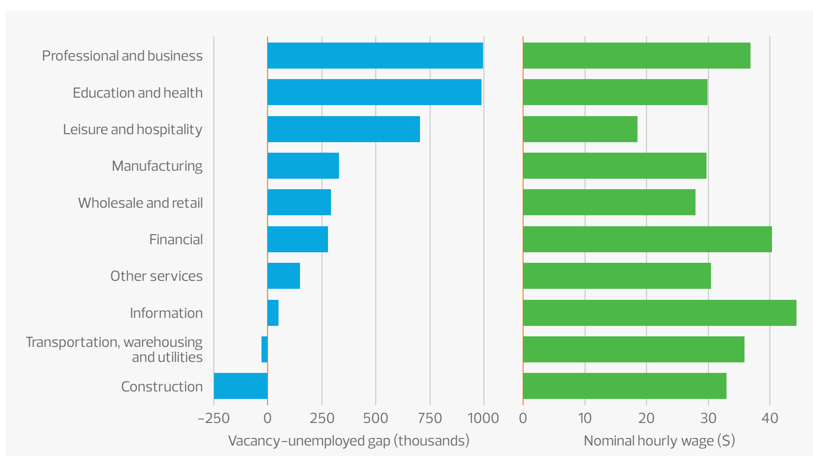
Even if we use the highest unemployment benefit amount from Massachusetts or New Jersey to compare, which is $25 per hour, it is way below the $36.80 hourly wage rate in professional and business services, where the vacancy-unemployed gap ballooned to almost 1 million in July 2021. Any meaningful change in worker behavior around extended unemployment benefits is difficult to find.

Companies should expect that the current labor market frictions will endure past the end of the pandemic and be a persistent feature of the real economy.

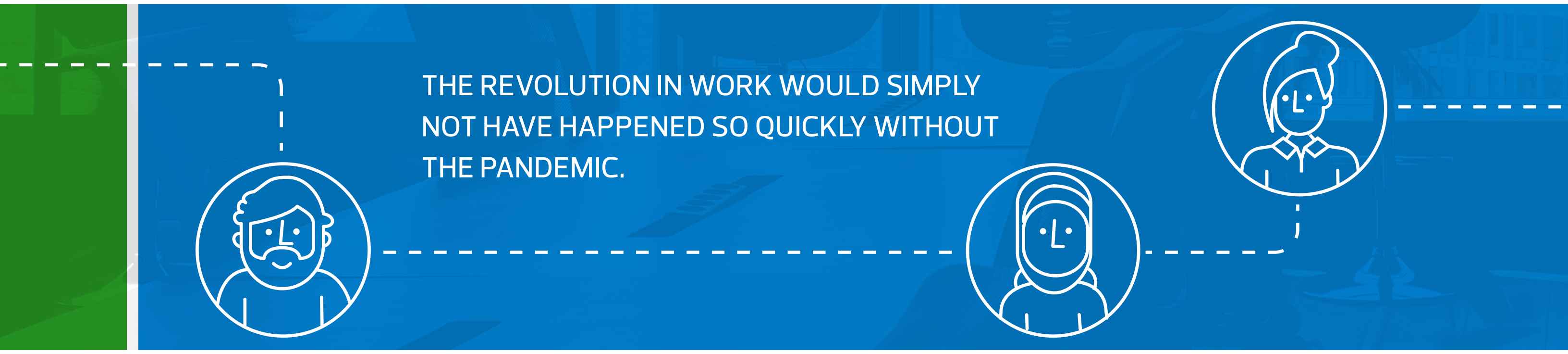
Labor force deficit

The lack of labor falls heavily on the simple fact that workers are staying on the sideline and reluctant to return to the labor force. Of course, if one is not in the labor force, he or she is not eligible for unemployment benefits. We need to look at the size of the labor force deficit under current conditions.

Job gaps and wages by industry group in July 2021



Source: BLS; RSM US LLP



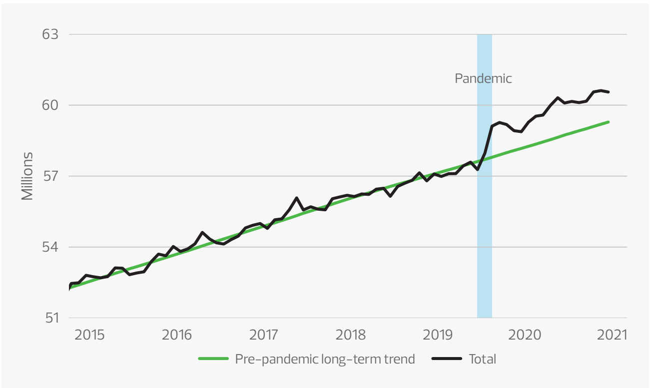
Compared to the pre-pandemic level, as of August 2021, the labor force is down by about 3 million workers assuming that the labor force growth rate is virtually zero—a heroic assumption. Assuming a one-half percent growth in the labor force, that number is probably closer to 7 million. Our own "pandemic-adjusted unemployment rate" implies a real rate of closer to 8.4% compared with the official 5.2%, so we think that there is plenty of labor out in the market.

But are the workers going to come back soon? The short answer is yes, but only for some.

Older workers

The first group of workers that will likely stay out of the labor force permanently—and exit in larger numbers—are those born between 1944 and 1964. We suspect that many of them were forced to retire early not only for economic reasons but also because of health-related reasons from the pandemic. They also may have had difficulty adjusting to the technology-heavy "Zoom economy" that has characterized the pandemic economy.

Not in labor force population: 55 and over



Source: BLS; RSM US LLP

The mini recession in 2020 had a big jump in those 55 or older leaving the labor force. Since then, this particular population trajectory has shifted north of the pre-pandemic long-term trend, without any sign of going back.

MIDDLE MARKET INSIGHT

Firms should expect that the current labor market frictions will endure past the end of the pandemic and be a persistent feature of the real economy.

The shift explains about 1 million to 1.5 million of the total number of workers who might never come back. And many of them were well-trained and highly experienced people who will not be replaced easily.

Parents with children at home

The second group that has been on the fence includes people who have been affected by the lack of child care and the partial closing of schools. The labor force participation rates of mothers and fathers with children under 18 were both down 1 percentage point in 2020 compared to 2019, according to the Bureau of Labor Statistics.

We expect that this group will most likely return to the labor force in full as schools reopen and, more important, with payments from the newly enhanced child tax credit.

The delta variant and the challenges around getting people vaccinated are almost certainly going to result in a staggered and uneven return of those workers to the economy, which will delay the return of the full capacity of the economy to produce.

Moody's estimates that the U.S. economy is operating at around 89% of capacity, which is down from the pandemic peak of 93% last summer.

The child tax credit has proven to be a lifeline for many parents to get some relief from the income pressure of the pandemic, and a game-changer for overall spending as it has helped increase spending on categories such as food, clothing and school supplies.

COMPARED TO THE PRE-PANDEMIC LEVEL, AS OF AUGUST 2021, THE LABOR FORCE IS DOWN BY ABOUT 3 MILLION WORKERS. BUT ARE THEY GOING TO COME BACK SOON? YES, BUT ONLY FOR SOME.

Immigrants and temporary workers

The last important group that has been largely ignored is new immigrants and nonimmigrant temporary workers. The pandemic has put constraints on the inflow of immigrants as government agencies have had their visa processes slowed, making it harder for applicants to enter the country.

Also, travel restrictions, the fear of contracting the virus, vaccination requirements and overwhelming uncertainties have held back the inflow of international workers who have contributed greatly to the U.S. labor market.

For temporary nonimmigrant workers alone, the total number of visa admissions in the third quarter of 2020 was down by roughly 750,000 compared to the last quarter of 2019, before the pandemic broke out.

Because of the spread of the delta variant, this group will continue to dwindle in number until vaccines become more widely accessible to every part of the world.

The recent commitment from the U.S. government to double its purchases of the Pfizer COVID-19 vaccine to 1 billion doses to donate to the world is a much-needed development that can surely help ease some of the labor challenges.

The ground has been shifting more quickly

Like it or not, the structural shift of the labor market has been accelerated by the pandemic, and the spike in early retirements is one example.

The other part, which is much more welcoming from a social planner's standpoint, is the increase in labor-matching efficiency in some sectors of the economy.

The reason for this is that the pandemic has offered a rare opportunity to partly reorganize the labor market, where mass layoffs during lockdowns have helped workers find better employer matches.

This cost for workers to switch can be substantial, especially for low-paid workers who live paycheck to paycheck while relying on their employers for health insurance or child care benefits.

As a result, the voluntary job quit rate was historically high in April at 2.8%, prompting some to dub it "The Great Resignation."

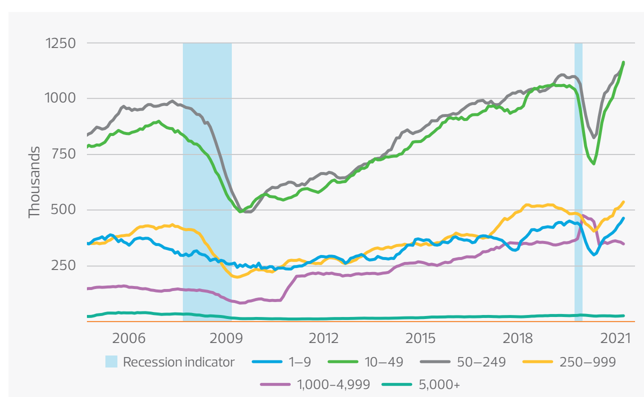
But where do those workers go after quitting? The data suggests that those workers have stepped up a couple of levels higher on the career ladders to be with better employer matches.

One example is the firm-size ladder. In late 2020 and so far this year, there has been a significant shift in the job quit movements across different firm-size groups.

On a six-month moving average, while job quits among all groups with fewer than 999 employees have been surging since late 2020, companies that have 1,000 or more employees have seen job quit numbers stabilizing around the pre-pandemic levels.

This suggests that workers have been moving up the firm-size ladder given the strong labor demand as the economy bounces back from the pandemic.

Job quits by firm size*



Source: BLS; NBER; RSM US LLP

*6-month moving average

THIS REVOLUTION IN WORK WOULD SIMPLY NOT HAVE HAPPENED SO QUICKLY WITHOUT THE PANDEMIC WITHIN THE FRAMEWORK OF RAPID TECHNOLOGICAL CHANGE THAT WAS ALREADY IN PROCESS.

The middle market

To economists, this is not a surprise since it is well in line with economic theories on the labor market. But it has caught small and medium-size companies off guard as they scramble to retain workers while trying to hire more to meet demand.

This fact was reflected in our most recent RSM US Middle Market Business Index report when all surveyed middle market organizations indicated that they would increase hiring in the next six months, while 58% increased compensation to attract labor and 70% expected to do so going forward.

It is important to emphasize the impact of the pandemic because it has provided a well-suited labor environment for such rematching to happen, which was extremely hard to detect in the past when looking at the movements of job quits across firm sizes before the pandemic. They tended to move together most of the time.

Furthermore, expansionary monetary policies have been found to speed up the rematching process away from contracting sectors to expanding sectors by helping the expanding sectors widen the wage differences to attract better-suited workers, according to a highlighted academic paper featured in the recent Federal Reserve's symposium.

That being said, many of the frictions in the labor market that remain because of social norms and outdated working models have been altered in some cases, and destroyed in others, by the pandemic. This revolution in work would simply not have happened so quickly without the intervening event of the pandemic within a framework of rapid technological change that was already in process.

MIDDLE MARKET INSIGHT

The solution to the labor shortage is to increase investment in automation, productivity-enhancing technology and adhering to ESG standards while demand is strong.

And it is this particular set of conditions that has resulted in a period change that is not going to revert to the way things were before. Attempting to do so would be the managerial equivalent of attempting to put the toothpaste back in the tube.

It is not a coincidence when many companies have made the headlines by offering same-day signing bonuses to potential employees who decide to accept the job on the spot, or when a giant corporation like Amazon offers to pay college tuition for employees just to gain a competitive edge.

It is easy to understand that in a tight labor market, employee bargaining power is much higher than it is otherwise. But there has been a fundamental change in work preferences coming from the supply side of the labor market.

Workers are increasingly demanding better work environments, whether that is about the ability to work from home, flexible work schedules, or preferring that an employer prioritizes environmental, social and governance initiatives, which is altogether far more complex than higher wages when making work choices.

THE PANDEMIC HAS OFFERED A RARE OPPORTUNITY TO PARTLY REORGANIZE THE LABOR MARKET, WHERE MASS LAYOFFS DURING LOCKDOWNS HAVE HELPED WORKERS FIND BETTER EMPLOYER MATCHES.

The Beveridge curve

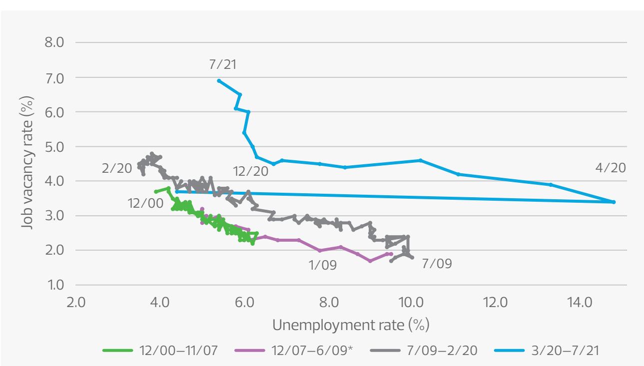
Perhaps there is no better way to tie up our analysis on the structural change of the labor market than by showing the recent movement of the Beveridge curve—which plots job vacancy rates on the vertical axis and unemployment rates on the horizontal axis. The negative relationship between the job vacancy rate and the unemployment rate is one of the most robustly proven results in labor economics.

A clear shift of the curve to the right often indicates changes in the labor market as labor structural mismatches occur when the unemployment rate and vacancy rate are both elevated.

The curve made a small shift to the right in the aftermath of the financial crisis, but eventually went back to its starting point in December 2000.

The shift of the Beveridge curve since the pandemic has been nothing short of extraordinary. Some have attributed this significant shift to the unique nature of the pandemic recession. And recent data suggests that the curve might take a much longer time to stabilize as evidenced by a labor market that has been fundamentally altered.

Beveridge curve



Source: NBER; BLS, RSM US LLP

*represents the financial crisis

Navigating the market

We cannot overemphasize the fact that the current labor market requires much more time and consideration than the focus on compensation from companies, especially middle market organizations that have been on the challenging end of the spectrum.

We believe that the solution to the labor shortage issue is to turn such a challenge into an opportunity to increase investment in automation, productivity-enhancing technology and adhering to ESG standards while consumer demand and growth are still strong.

We understand that this is no small matter and will require focus, effort and, above all, capital to deliver. But it is important to keep in mind that the market has always been kinder to early movers and harder on late adopters.

Still, it is also much more taxing on middle market businesses to compete in compensation with larger organizations, while there is nothing that can stop workers from moving up the career ladders. Yet workers are looking for more than just pay, and the alignment of workplace values with workers will result in better financial outcomes.

Instead of paying the soon-to-be-foregone expenses of attracting traditional employees, companies should be more strategic in their hiring plans so that they prioritize the matches between midsize businesses and employees and how those matches will complement the advances toward automation and technological adoptions within the organizations.

HOW $15 AN HOUR BECAME THE DE FACTO MINIMUM WAGE

BY JOSEPH BRUSUELAS AND TUAN NGUYEN

IT IS BECOMING abundantly clear that the minimum wage has gone the way of the buggy whip and that a new de-facto entry-level wage of $15 per hour is becoming the national standard in the private sector.

The shock to the economy unleashed by the pandemic and the response by workers have radically transformed the wage-earning landscape. And this is taking place in the private sector, not in federal, state or local governments.

Middle market firms that comprise the real economy are adapting to this transformation by paying higher wages, improving working conditions, offering more flexibility to workers—or all of the above.

At the same time, many firms are looking to substitute technology for labor to offset the rising costs. But this dynamic will remain fluid as the natural tension between labor and capital evolves.

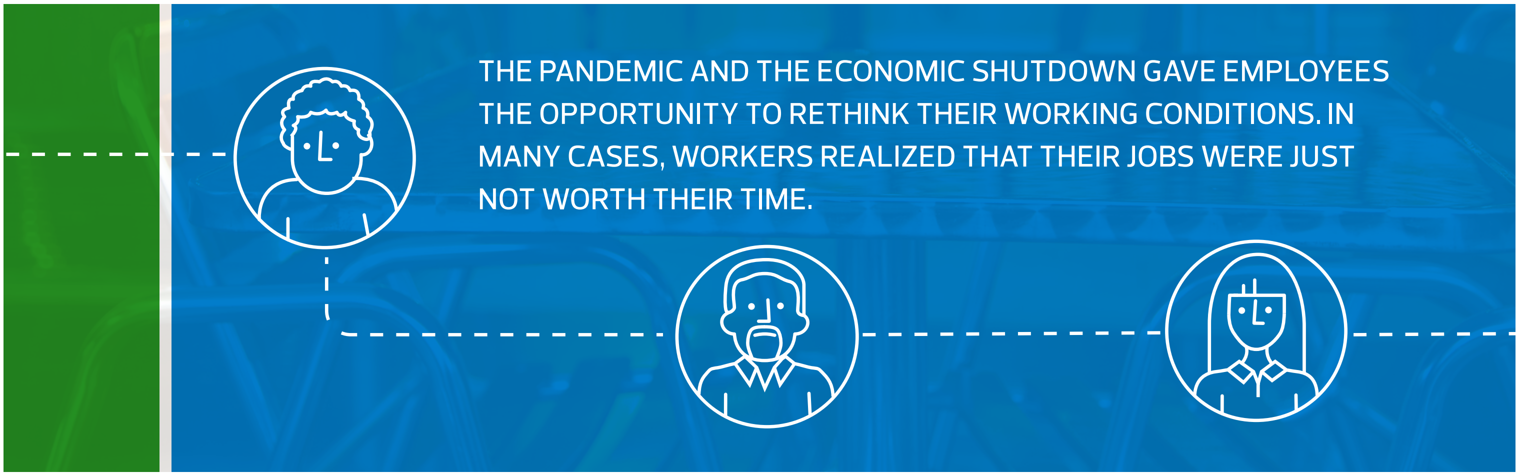
In the end, the era of surplus labor and the setting of entry-level wages well below the cost of living appear to be in the rearview mirror.

A short history of monopsony

The pandemic and the economic shutdown allowed employees the opportunity to rethink their working conditions. In many cases, workers realized that their jobs were just not worth their time.

And because of the rise of online shopping and, most important, Amazon's $15 starting wage—the private sector has found itself competing for a dwindling supply of low-wage employees after four decades of what economists call monopsony power.

At first, employers were shocked that they could not attract quality workers at wage scales they were used to paying. But then they realized that the landscape had shifted, and that the de facto minimum wage had become $15 an hour. Walmart Inc., McDonald's and Chipotle Mexican Grill have already announced their intention to match Amazon's starting salaries, and small businesses will be hard-pressed not to follow.



THE PANDEMIC AND THE ECONOMIC SHUTDOWN GAVE EMPLOYEES THE OPPORTUNITY TO RETHINK THEIR WORKING CONDITIONS. IN MANY CASES, WORKERS REALIZED THAT THEIR JOBS WERE JUST NOT WORTH THEIR TIME.

MIDDLE MARKET INSIGHT
Middle market firms that comprise the real economy are adapting to the transformation in the labor market by paying higher wages, improving working conditions, offering more flexibility to workers—or all of the above.

Evolution of the minimum wage

Monopsony is the consolidation and non-competitiveness of employment choices. The earliest examples were the coal mining towns of West Virginia. But in the modern era, Walmart Inc. in the South, Rite Aid in New England, and McDonald's everywhere have become examples.

As each of those establishments moved into areas that once had scores of small businesses in downtown commercial districts employment choices declined from many to just a few as those small businesses closed. And because the minimum wage didn't keep up with the rising cost of living, the working poor increasingly had fewer choices for work. In many cases, the choice was to join the multinational company at wages that ever so steadily lost buying power, or perhaps go on public assistance.

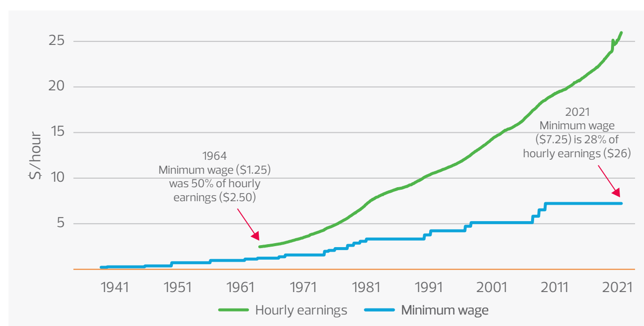
That was not the original intent of the minimum wage. Introduced in 1933, the minimum wage was set at 50% of the average rate of 50 cents per hour. It was an efficient way to bring working families out of the poverty of the Great Depression.

By 1964, at the height of U.S. industrial power, the minimum wage remained at 50% of the average hourly rate of $2.50.

Over the next five decades, however, increases in the minimum wage did not keep up with average hourly earnings. By 2019, before the pandemic, the minimum wage had fallen to 30% of average hourly earnings, while the purchasing power of the dollar had declined by nearly 90% since 1964.

In effect, a stagnant minimum wage acted as an artificial ceiling on wages. As manufacturing jobs began disappearing from the American economy in the 1980s, employers faced less competition for workers. And because low-income families don't have the means to move to higher-paying areas, there were plenty of willing workers as long as their new jobs were paying anything above minimum wage.

Federal minimum wage and average hourly earnings*



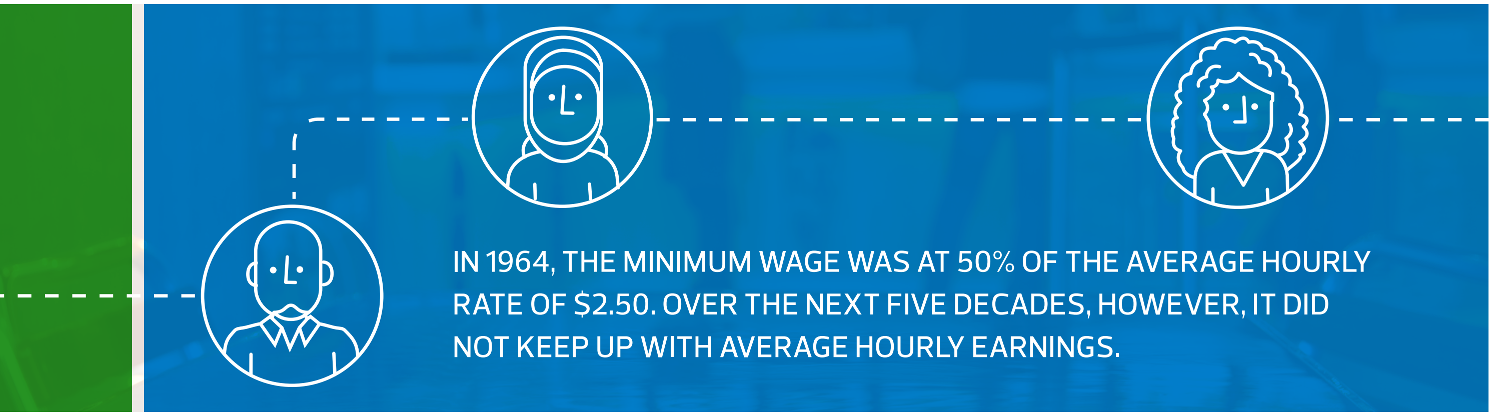
Source: U.S. Labor Department; BLS; FRED; RSM US LLP

*Average hourly earnings of production and nonsupervisory employees

Consider that by 2019, only 3.5% of the labor force was unemployed. Yet more than 10% of the population (including the working poor) was still living below the poverty line.

When inflation was controlled, the current minimum wage was, in fact, lower than the real minimum wage levels during most years since 1950, except for two brief periods in 1990 and 2007, which were both recession years.

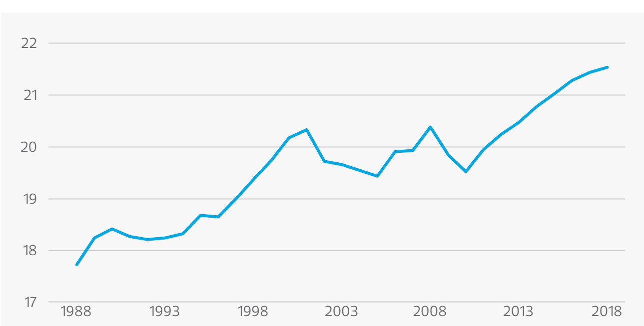
This is a stark contrast to other indicators for the United States overall income levels like real gross domestic product per capita, which has more than quadrupled since 1950.



So why didn't wages for all income levels keep up with modern-era price increases despite increasing demand for labor?

- **The changing value of labor:** First, the current minimum wage at $7.25 per hour can be viewed as an enshrined distortion of the value of labor. It took the shock of the pandemic and a dramatic shift in how we live, work and shop for that realization to occur.
- **The effects of consolidation:** Second, there has been a consolidation of businesses over past decades, distorting the role that competition plays in a market-based economy in terms of both economic growth and employment advancement. From 1988 to 2018, the average company size in the United States increased 21.5% from 17.7 to 21.5 employees per company. Also, the share of the biggest organizations in the United States with more than 500 employees increased from 0.26% to 0.34%; while at the same time, the share of the total number of working employees in those companies jumped from 45.5% to 53.2%.

Average firm size by number of employees



Source: U.S. Census Bureau; RSM US LLP

What can businesses and consumers expect?

It's no mystery that a one-time jump in low-paying wages to $15 per hour will increase operating costs that will be passed on to consumers. And if labor were to retain its newfound bargaining power, increases in earnings for low-wage occupations are likely to keep up with the inflation rate.

MIDDLE MARKET INSIGHT
Payments to low-wage families—either by increased wages or public assistance—are spent in their entirety on food, shelter and other necessities.

The Bureau of Labor Statistics reported that fewer than 2% of all hourly workers in 2019 earned the federal minimum wage or below. Those workers tended to be young, with two-fifths of minimum-wage workers under 25. They were more likely to work in the service sector, in food preparation and serving, often with pay supplemented by tips.

States with the highest percentages of hourly paid workers earning the minimum wage or below were in the South: South Carolina (about 5%), Louisiana (about 5%) and Mississippi (about 4%).

It's hard to argue that bringing working families above the poverty level would damage the economy. One reason is that payments to low-wage families—either by increased wages or public assistance—are spent in their entirety on food, shelter and other necessities, with that consumption added to the sum of economic output.

Think of it this way: While the cost of a Big Mac might rise and your tab at your local restaurant might increase to account for the higher cost of paying the janitor, the cost to society of maintaining adequate living standards for low-wage earners through public assistance payments should diminish.

Just as pandemic subsidies brought families out of poverty, increases in salaries for the people who process food or clean toilets will be more in line with their value to society.

HISPANIC ASCENDANT: CHALLENGES, OPPORTUNITIES AND THE REAL ECONOMY

BY JOSEPH BRUSUELAS, NELLY MONTOYA, TUAN NGUYEN AND CRYSTAL SUNBURY

GIVEN THE GROWTH and economic power of the Hispanic community in the United States, we believe it will strengthen the backbone of the real economy, helping the country solve a range of issues in the post-pandemic world, such as labor shortages, dampened population growth and structural economic changes.

The recent National Hispanic Heritage Month offered a fitting time to examine the Hispanic community's contributions—economic and cultural—in the United States, especially because the current economic climate and labor market disruptions will require companies to be more innovative and thoughtful in how they attract talent and customers.

For the middle market—the primary driver of the real economy—growth in the Hispanic population presents great opportunities for companies to expand by providing more products and services for the Hispanic community and increasing the labor force by hiring more Hispanic Americans.

Economic impact

Understanding the impact of the Hispanic community, especially on the real economy, is crucial as this cohort has grown faster than non-Hispanic groups over the past decade and now accounts for 19% of the U.S. population, according to the latest census data. This growth translates to 1 in 5 individuals identifying as Hispanic, and 1 in 4 individuals below 19 years of age identifying as Hispanic.

Hispanic Americans' spending power was estimated to be close to $1 trillion in 2019—a number that will grow as more members of this community enter their prime spending years. Moreover, the total economic output of Hispanics in America was roughly $2.6 trillion before the pandemic. If Hispanics living in the United States were an independent economy, the Hispanic gross domestic product would be the eighth largest in the global economy—larger than that of Brazil, Italy or South Korea.

In addition to spending power, the U.S. Small Business Administration estimates there are 4.6 million Hispanic-owned businesses in the United States. Before the pandemic, these businesses generated $500 billion in annual revenue and employed 3.4 million people, according to the Stanford Latino Entrepreneurship Initiative.

The growing Hispanic community represents tremendous potential. However, to fully realize it, businesses and policymakers need to work to address challenges the community has faced in recent decades, which can hamper development.

WHILE THERE IS SIGNIFICANT WORK TO DO TO CLOSE THE EDUCATION GAP, THE RATE AT WHICH HISPANICS ARE OBTAINING A COLLEGE EDUCATION HAS INCREASED DRAMATICALLY OVER THE PAST 40 YEARS.

Persistent inequality gap

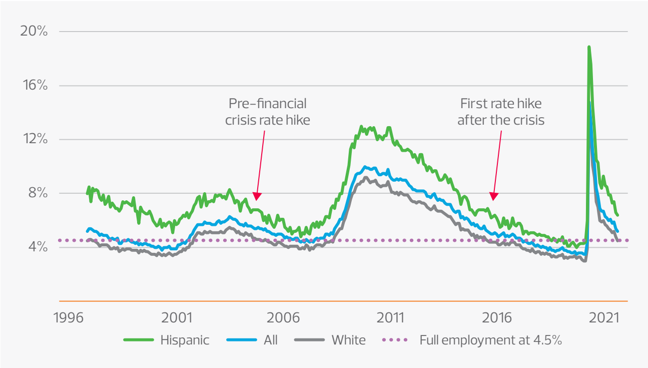
The longtime gap in unemployment rates between the U.S. Hispanic population and the rest of the country often widens in the aftermath of a recession and narrows as the economy moves toward the end of an expansion, reflecting that Hispanic Americans have been more susceptible to economic downturns than their white counterparts.

At the onset of the pandemic, the unemployment rate for the Hispanic population spiked to 18.9%, 4.1 percentage points higher than the overall U.S. unemployment rate. Since then, the gap shrunk to 1.2% in August, although the group's unemployment rate at 6.4% was still higher than the long-term full employment level, which is around 4.5%.

When it comes to full employment, the Federal Reserve's role in helping the economy achieve full employment using monetary policies while balancing inflation becomes the main focus, as inflation has been running hot since early this year. In recent economic cycles, the Federal Reserve did not consider unemployment rates based on demographic groups when setting policy. As such, rate hikes occurred while the unemployment rates of the Hispanic community were higher compared to non-Hispanic.

However, in recent months, the Federal Reserve has continued to show its acknowledgment of the importance of economic inequality. Chairman Jerome Powell stated during Jackson Hole's economic symposium in August that "joblessness continues to fall disproportionately on lower-wage workers in the service sector and on African Americans and Hispanics."

Unemployment rate across different groups



Source: BLS; RSM US LLP

In terms of income, although the real wage rate—which is adjusted for inflation—for Hispanic workers posted an encouraging increase in the second quarter of 2021, the wage rate per week for Hispanic workers was still 27% lower than the overall weekly wage rate.

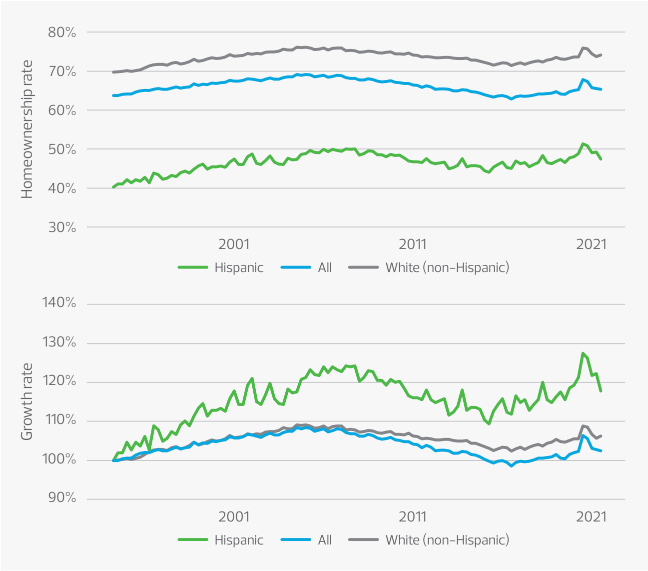
Real median annual household income by race and ethnicity shows that Hispanics take home $55,000 compared to $75,000 for whites. Despite the gap, for the past decade, the real median income for Hispanics has been growing at an average rate of 2.2% per year, compared to the 1.5% rate for non-Hispanics.

Homeownership

Hispanic homeownership rates follow a similar pattern. During the second quarter, homeownership among Hispanics in the United States was 47.5%, 17.9 percentage points lower than the general U.S. population and 26.7 percentage points lower than whites.

While the gap has narrowed slightly over the past 25 years, with Hispanics purchasing homes at a much faster pace than the rest of the U.S. population, significant work remains to close that gap.

Faster growth in Hispanic homeownership rate despite persistent gap across groups



Source: Bloomberg; RSM US LLP calculations

Much of this homeownership gap can be traced to differences in age, income, education and other factors associated with homeownership.

HISPANIC AMERICANS' SPENDING POWER WAS ESTIMATED TO BE CLOSE TO $1 TRILLION IN 2019—A NUMBER THAT WILL GROW AS MORE MEMBERS OF THIS COMMUNITY ENTER THEIR PRIME SPENDING YEARS.

MIDDLE MARKET INSIGHT

For the middle market—the primary driver of the real economy—growth in the Hispanic population presents great opportunities for companies to expand.

The median age of Hispanics in the United States is 29.8 years, compared to 43.7 years for whites, according to the U.S. Census Bureau; however, even when analyzing homeownership by age group, we find that homeownership is lower for Hispanic households than white households across every age group.

Education

The disparity in homeownership across age ranges is largely due to education and income levels. More education tends to lead to higher incomes and homeownership. In 2020, over 70% of Hispanic Americans in the United States did not have a college degree, according to data from the U.S. Census Bureau.

While there is significant work to do to close the education gap, the rate at which Hispanics are obtaining a college education has increased dramatically over the past 40 years, with the rate of Hispanic graduates age 25 and older nearly doubling over the past two decades.

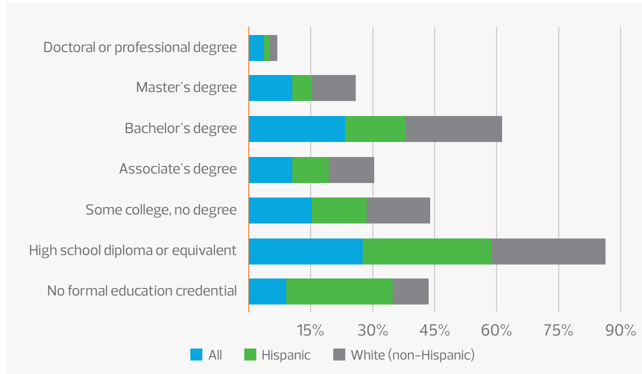
However, the pandemic has posed obstacles—enrollment data from the National Student Clearinghouse found a 5.3% drop in the number of Hispanic undergraduates in spring 2021 compared to this same time last year. The drop can be traced to the disproportionate effects of the COVID-19 pandemic experienced by Hispanic families, forcing many students to cancel or delay their education plans due to financial constraints.

As levels of education continue to rise, it is reasonable to conclude we will see increased participation in the labor force, more Hispanics sitting in C suites, higher homeownership percentages and lower household income disparities.

Opportunity for the real economy

Firms cannot afford to miss the opportunity to factor these dynamic societal changes into their operations, from labor and investment to development of products and services to marketing.

Education levels, 25 years and over



Source: U.S. Census Bureau; RSM US LLP

Hiring, retaining and promoting Hispanic employees could help ease the labor shortages that have characterized the workforce as of late. The growing spending power of the Hispanic consumer could open new product or service opportunities for middle market businesses. To be an attractive brand and employer for the Hispanic community, companies may want to review their policies, cultural programs and marketing to ensure inclusivity.

To fully realize the potential of this ascendant community, companies will also have a role to play in eliminating persistent economic barriers that hinder the development of the Hispanic community. For example, middle market leaders could look to invest in education and professional development programs to prepare Hispanic workers to meet the increasing demand for high-skilled jobs in the coming decades.

As the Hispanic community continues to rise, the spillover effects from greater levels of education, employment, rising income levels and higher homeownership rates can spread through the economy, bringing up the overall income and spending levels in the U.S. economy for years to come.

A note on the terminology

Hispanic refers to individuals with ties to Spain or Spanish-speaking countries. Latino refers to individuals with ties to Latin America, including Central America, South America and the Caribbean. Latinx is a gender-neutral term referring to an individual of Latin American descent that has been recently gaining popularity. For simplicity, we use Hispanic to represent all individuals identifying as Hispanic, Latino or Latinx groups for this article.

WHAT REAL ESTATE INVESTORS CAN LEARN FROM THE TROUBLED AMERICAN DREAM MEGAMALL

BY NICK GRANDY

WHAT HAPPENS when a real estate investor does not look at changing consumer preferences when undertaking a new project? More often than not, it ends in disappointment, and lost money.

One project that is heading down this path is New Jersey's American Dream megamall. The unfinished property, which has cost investors about $2 billion so far, is falling well short of the $1.9 billion in gross sales it expected to generate in its first year. Now investors are having a hard time meeting the project's mounting debt obligations.

So how did this project end up in such a big hole? Though there are many reasons, a big reason is a failure to appreciate changing consumer preferences, some of which were already underway when it was conceived, and a little bad luck.

The history

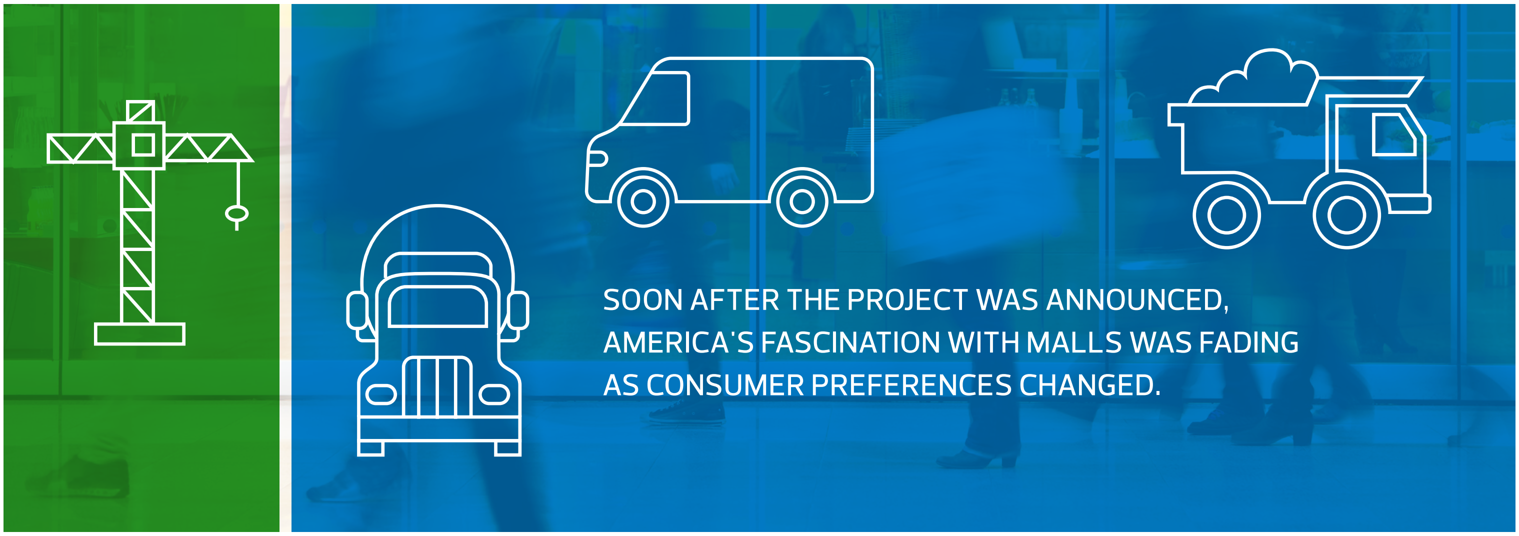
The tortured history of the American Dream is an object lesson in how ambitious plans with the best of intentions can go awry. The megamall was dreamed up in 1994 by the Mills Corporation, a real estate investment trust—right around the peak of America's love affair with malls. In 1990, a record 19 new malls opened in the United States.

MIDDLE MARKET INSIGHT

The American Dream megamall is an object lesson in how ambitious plans with the best of intentions can go awry.

The plan was as expansive as it was expensive: To build a commercial development in the swamps of the New Jersey Meadowlands that would have 2.1 million square feet of retail space, 1 million square feet of office space and a hotel. If you build it, the thinking went, they will come.

And so it was with great fanfare that Meadowlands Mills was announced in 1996, but it quickly encountered resistance from environmental groups that objected to its location in the wetlands.



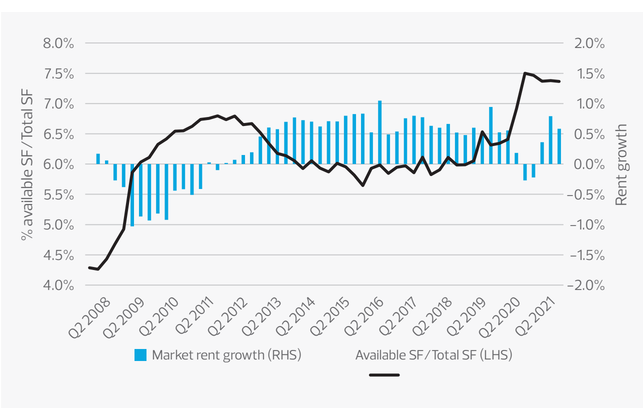
MIDDLE MARKET INSIGHT
As malls began to struggle, retailers started to develop their e-commerce offerings, and, in the physical world, favored stand-alone big-box stores.

The state would eventually bless the project, and after delays, the project gained new life in 2002 when the New Jersey Sports and Exposition Authority, which wanted to move the New Jersey Nets out of their arena at the time, asked for proposals from developers. The NJSEA ultimately selected a proposal from the Mills Corporation in connection with Mack-Cali Realty Corporation.

The project seemed to be on track and even got a new name, Xanadu. The developers broke ground in September 2004.

But around that time, America's fascination with malls was fading. Consumer preferences were changing as

Mall retail space in the United States



Source: CoStar

shoppers began to go online and shy away from malls, many of which had not been renovated in decades. Besides, there was a growing perception that malls were becoming dangerous, even though there was little or no empirical data to support that claim. Retailers, in response, began to develop their e-commerce offerings, and, in the physical world, favored stand-alone big-box stores—think of Best Buy.

There would be more roadblocks. The Great Recession led to multiple ownership changes for the project and stoppages in construction as one of the lenders, a subsidiary of Lehman Brothers, missed debt payments. Other lenders withdrew from the project.

But in 2011, the project again gained new life and was rechristened yet again, this time as American Dream.

A deal to take it over was struck with Triple Five Group, the owner of two of the largest malls in North America, West Edmonton Mall and Mall of America. Triple Five Group, with such deep experience in large retail projects, had grand plans to shift away from focusing on shopping to luring people with experiences. Under the new approach, approximately 70% of the mall would be devoted to entertainment facilities, and 30% would go to retail locations.

Xanadu would have something for everyone: An indoor amusement park, water parks and an ice skating rink, in addition to the indoor ski slope that had initially been planned for the mall.

But would that be enough?

The owners would have to wait. More delays would follow: financing and permitting remained a problem, and work became mired in a stream of lawsuits, leading to a piecemeal approach to construction. Finally, in 2017, the company obtained financing through a syndicated agreement to complete construction. The mall would open in four stages, starting in October 2019 and finishing in March 2020.

And indeed, the first phase of the mall opened that October. But then, almost on cue, came the biggest shock of all when the pandemic hit. The mall closed on March 8, 2020, as COVID-19 led to severe restrictions on economic activity.

The fallout would be significant as a string of bankruptcies among major retailers resulted in marquee clients pulling out of the mall. Still, the mall continued to defy its doubters, and it managed to reopen in October 2020. Since then, the owners have been forging ahead with plans for experiential retail like the Legoland Discovery Center, Sea Life Aquarium and a Coca-Cola-themed restaurant.

The aftermath

American Dream is hardly the only mall to encounter the headwinds of changing consumer tastes, not to mention the pandemic. Average vacancy rates surged nationally, increasing from 2.1% in the first quarter of 2002 to 7.3% as of August 2021, according to CoStar.

The result is that many malls are now on life support. Coresight Research last year estimated that 25% of America's 1,000 remaining malls will close over the next three to five years.

MIDDLE MARKET INSIGHT

In January 2002, online retail sales made up 9.8% of retail sales, excluding some categories. In August of this year, that number stood at 25.53%, according to the U.S. Census Bureau.

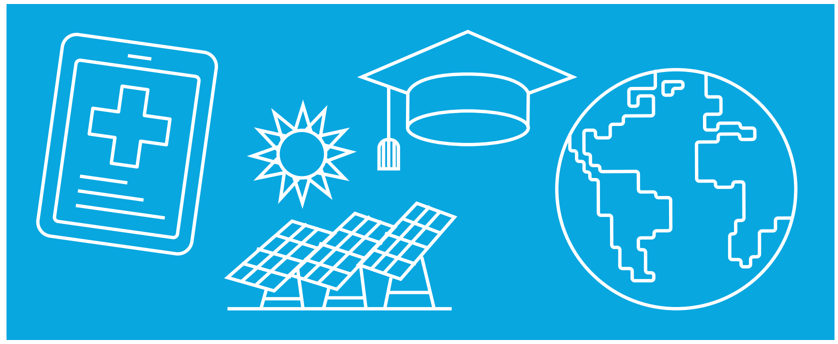
It's no mystery that this change is being driven by the profound change in the way consumers buy goods. In January 2002, online retail sales made up 9.8% of retail sales (excluding food services, gas, building materials and motor vehicle deliveries). In August of this year, that number stood at 25.53%, according to the U.S. Census Bureau.

It all makes for a difficult financial equation for the owners of American Dream, who are financing the project with large borrowings from municipal bonds ($1.1 billion) and senior construction ($1.2 billion) and mezzanine construction loans ($475 million).

The takeaway

If there is any lesson in the American Dream case, it's that real estate investors need to anticipate where consumers are going. The pandemic dealt a severe blow to projects like American Dream. But consumer preferences were already changing, and the pandemic only accelerated those changes.

In a tech-enabled world, the highest and best uses of certain real estate will not be the same as the ones that have produced historic results. Sometimes, perhaps, a swamp should be a swamp.



HOW BUSINESSES ARE PRIORITIZING ESG AS IT COMES TO THE FORE

THE GROWING importance of environmental, social and governance issues has reached an inflection point in the middle market, even in the face of dramatic economic fluctuations of the past year and a half, proprietary research from RSM US LLP shows. Stakeholders' continued focus on ESG will continue to present immense business opportunities for organizations that position themselves to adapt to these shifting priorities.

But what are their priorities? RSM gathered the views of 413 executives for its proprietary RSM US Middle Market Business Index survey, which was conducted from July 8 to July 26, 2021. The survey polled executives on questions related to ESG and climate change. One question asked executives at companies with formal ESG plans what was included in those plans. The top four categories cited included:

32% environmental issues

25% fair trade and/or sourcing

24% community health and wellness

23% education support

Other areas in respondents' ESG plans included gender equity, support for the LGBTQ community and racial justice.

For more on the middle market and ESG, download the full report.

For more information on RSM, please visit **rsmus.com**.

For media inquiries, please contact Kim Bartok, national public relations director, +1 212 372 1239 or kim.bartok@rsmus.com.

For more information on RSM thought leadership, please contact Deborah Cohen, thought leadership director, +1 312 634 3975 or deborah.cohen@rsmus.com.

TRE-NT-ALL-ALL-1121