2021 Third Quarter
U.S. Economic Outlook
A Focus on Rural America

Prepared September 2021

In this issue, we take a closer look at pricing pressures in various sectors and examine labor market conditions, including worker shortages. We also look at the recent decline in retail sales and dip in consumer confidence, due in part to the spread of the Delta variant, which is keeping COVID-19 case counts stubbornly high in many areas of the country.

Economists with the Business and Technology Strategies Department of the National Rural Electric Cooperative Association (NRECA) examine issues expected to be particularly impactful for rural electric co-ops and likely to play a big role in shaping the economic health of the communities they serve. These insights are paired with a broad view of the health of the U.S. economy overall and portfolio management perspectives from RE Advisers, NRECA's money management subsidiary and the investment advisor for Homestead Funds. In comparing these different vantage points, you'll notice that an economic backdrop of uncertainty or increased volatility may present an opportunity for active money managers with a long-term view.

Created by NRECA, Homestead Funds offers a range of professionally managed strategies cooperatives and individuals can use to meet their short-, intermediate- and long-term investment needs.

Contents

We would like to alert readers to a change in frequency. *We will be producing this report quarterly — up from twice a year — and offering an NRECA-hosted webinar to dig deeper into the issues of greatest importance to cooperatives. Go to cooperative.com for webinar information and registration.*

The State of the U.S. Economy

RE Advisers

The economy continued to strengthen as the third quarter got underway but at a slower pace than in the second quarter. Stock and bond market indexes have trended generally higher this year. Rising prices for gas, lumber, and a number of other goods and services are contributing to fears of higher long-term inflation, but the Federal Reserve continues to view these as temporary pricing pressures that will abate as the recovery continues. With the central bank considering inflation to be under control and wanting to make more progress toward its dual objective of maximum employment, it seems that interest rate hikes are still some time away. The pandemic remains a threat (to both prosperity and health) with the number of new COVID-19 cases rising through the summer months, especially in areas of the country with low vaccination coverage.

Additional stimulus could be flowing to the economy as a result of the Biden administration's infrastructure plan, a broad package that would fund improvements to the nation's transportation infrastructure; broadband expansion; and investment in research, development and manufacturing. The bill passed the Senate in August with the House set to vote later in September.

NRECA's Business and Technology Strategies Department offers insights on trends affecting operations, technology, consumer expectations and policy. The team engages directly with internal and external stakeholders and represents cooperative needs in key forums to help ensure the longevity and success of America's electric cooperatives.

With this report's focus on economic issues particularly important to rural areas, we want to mention Homestead's newest fund, the Rural America Growth & Income Fund. The fund opened in May of this year and neared $3 million in assets as of June 30, 2021. We are pleased to see that the fund is of interest to so many investors and invite you to visit homesteadfunds.com for more information.

Inflation Looms Over U.S. Economy but May Be Slowing

NRECA

As inflation concerns continue, the latest data from the U.S. Bureau of Labor Statistics show that consumer prices are broadly still 5.3% higher than they were a year ago.[1] Prices for food and energy are up 3.7% and 25%, respectively, and collectively account for more than a third of year-over-year inflation, as measured through changes in the overall consumer price index (CPI).[2] Although prices in these two sectors are typically volatile, consumers in both rural and metro areas alike are still experiencing these increases, especially for gas prices, which remain 43% higher on an annual basis.[3]

Excluding food and energy, consumer prices are up 4% annually.[4] Among these items, the largest contributors to inflation have been vehicles, shelter, airfare and apparel.[5] Used cars and trucks, in particular, have seen substantial increases in prices, stemming from increased demand and limited supply of new vehicles due to a global semiconductor shortage,[6] and prices are still 31.9% higher than they were a year ago.[7] As the economy has reopened and started to recover from the COVID-19 pandemic, prices related to recreational travel have increased as well, with airfare, rental cars and lodging up 6.7%, 52.6% and 19.6%, respectively.[8]

Such increases, some driven by lingering supply chain issues and others by demand recovering from extreme lows during the pandemic, may yet prove transitory. Looking at

[1] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (CPI-U), 12-Month Percent Change.

[2] NRECA analysis of data from the U.S. Bureau of Labor Statistics, Table 7: Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category, 12-month analysis table (hereafter "BLS Table 7").

[3] BLS Table 7.

[4] *Id.*

[5] NRECA analysis of BLS Table 7.

[6] "Thinking About Buying a New Car? It May Be Smarter to Wait a Year – Or Longer," Time, August 24, 2021.

[7] BLS Table 7.

[8] *Id.*

month-to-month changes, we see that prices for used cars and trucks only increased 0.2% in July, and then fell by 1.5% in August, after going up by more than 10% in both April and June, and 7.3% in May.[9] Though vehicle prices remain elevated and may stay high until supply chain issues are fully resolved, even a minor decrease is an encouraging sign. Similarly, prices for car and truck rentals decreased by 4.6% in July and by 8.5% in August, following a 5.2% increase in June and double-digit increases in April and May.[10] With demand for air travel recovering, we saw fares increase 10.2% in April, 7% in May and 2.7% in June, but those prices have also started to normalize and fell by 0.1% in July and by 9.1% in August.[11] These recent monthly changes suggest that inflation may have peaked for many sectors of the economy.

Indeed, the "core" personal consumption expenditures (PCE) price index,[12] often considered the Federal Reserve's preferred measure of inflation,[13] has also been decelerating in recent months. After growing by 0.63% in April and 0.58% in May, the monthly increase in the core PCE index fell to 0.47% in June and then to 0.34% in July.[14] Although this is still considerably higher than the average monthly increase of 0.15% from 2017 through 2019,[15] the trend points toward a slowing pace for inflation.

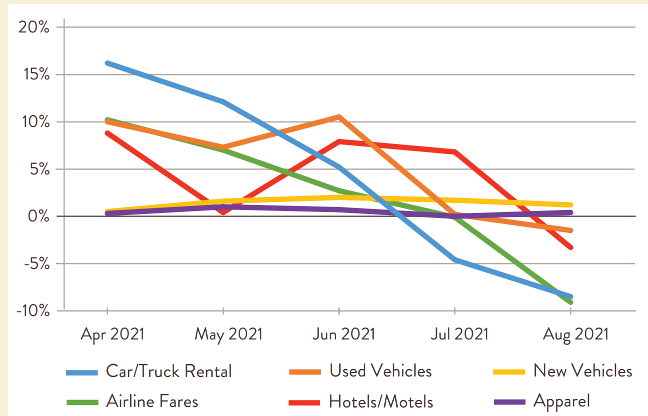
However, housing prices, a key component of the CPI, are a growing concern. The S&P Case-Shiller Index, which measures home prices across 20 major U.S. cities, increased by a record high 19.1% over the past year and continues to rise.[16] As a result, some experts argue that the Federal Reserve should begin tapering back its purchases of mortgage-backed securities.[17] Thus far, the Fed has continued to take a cautious approach in considering changes to monetary policy in response to inflation, but Fed Chairman Jerome Powell has indicated that reducing purchases of both U.S. Treasuries and mortgage-backed securities could begin as soon as this year.[18]

12-Month Price Increases for Select Expenditures August 2020 vs. August 2021

Expenditure Category	Annual Price Increase	CPI Contribution
Food	3.7%	9.9%
Gasoline	42.7%	22.7%
Electricity and Gas Service	8.6%	5.1%
Apparel	4.2%	2.2%
New Vehicles	7.6%	5.4%
Used Cars and Trucks	31.9%	16.5%
Housing/Rent	2.8%	17.8%
Household Furnishings and Supplies	3.3%	2.3%
Hotels and Motels	19.6%	3.0%
Airline Fares	6.7%	0.8%
Car and Truck Rental	52.6%	1.3%
Recreation Services	3.5%	2.5%

Source: NRECA analysis of data from the U.S. Bureau of Labor Statistics

Monthly Changes in Price for Selected Expenditures



Source: U.S. Bureau of Labor Statistics

[9] U.S. Bureau of Labor Statistics, Table 6: Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category, 1-month analysis table.

[10] *Id.*

[11] *Id.*

[12] "Core" meaning that it excludes volatile food and energy prices.

[13] The Brookings Institution, "How Does the Government Measure Inflation?," June 28, 2021.

[14] NRECA analysis of data from the U.S. Bureau of Economic Analysis, Monthly Personal Consumption Expenditures Excluding Food and Energy, retrieved from FRED, Federal Reserve Bank of St. Louis.

[15] *Id.*

[16] "Two more factors have popped up that add to the Fed's inflation worries," CNBC, August 31, 2021.

[17] "Weighing inflation and the labor market, Fed debates when to scale back support for the markets," The Washington Post, August 18, 2021.

[18] "Fed's Powell holds fast to 'this year' timeline for bond-buying taper," Reuters, August 27, 2021.

Prices for several commodities remain elevated, with corn, soybeans, cotton, wheat, oats, aluminum, copper and tin all trading at levels at least 25% higher than this time last year.[19] Although inflated prices for agriculture commodities can lead to higher revenues for farmers and other rural businesses,[20] these increases can be negatively offset by higher prices for inputs, including feed costs. Inflated prices for building materials, such as aluminum, copper or cement, also make it more expensive to build new barns, parlors or grain bins, putting additional financial pressure on farm operations.[21]

What Goes Up… The Transitory Nature of Inflation.

According to the most recent Consumer Price Index Summary,[22] the index rose 5.3% year-over-year for the period ending August 31, 2021. A number of items drove the advance, including higher prices for gasoline and fuel oil, but most notable was used cars and trucks, prices of which jumped 31.9% for the 12 months ending August.

By history's standards, this is an extraordinarily large move that is likely due to supply chain disruptions. The more interesting question for us was whether rising prices for used cars and trucks were likely to continue to keep upward pressure on inflation overall. We analyzed two different scenarios with different projections for the next three months. Scenario 1: Prices for used cars and trucks stay as they are. Scenario 2: Prices drop 1%. If prices were unchanged, year-over-year inflation would drop from 31.90% to 25.97%, a 19% change. If prices fell, year-over-year inflation would drop from 31.90% to 22.23%, a 30% change.

So, while the second scenario (prices decline) results in a larger drop than the first (prices stay the same), it's not drastically different, and based on our analysis either outcome would trickle up to the headline number and cause inflation measures to come down. Given that prices have already jumped so high, one would think that one of these two outcomes is likely.

RE Advisers

Retail Spending and Consumer Confidence Show Minor Improvement Amid Delta Variant Rise

NRECA

U.S. retail spending unexpectedly rose 0.7% in August,[23] a contrast to the 0.85% decrease expected by economists.[24] Monthly retail spending rates increased in early spring, due primarily to government stimulus checks and increased vaccinations, followed by a slight average decline in subsequent months. The August uptick was mainly driven by increases in spending of 5.3% for non-store retailers, 3.7% for furniture and home furniture stores, and 3.5% for general merchandise stores.[25] With schools opening up in September after a year of remote learning, back-to-school shopping likely contributed to the increase in August retail sales.[26] Conversely, retail spending on motor vehicles and spending at electronics and appliance stores have both gone down since July, with decreases of 3.6% and 3.1%, respectively.[27] Motor vehicle dealers have recently faced limited inventory as a result of the global semiconductor shortage, which potentially depressed purchases.[28]

On a year-over-year basis, retail spending has increased 15.1% since August 2020. Most notably, spending on clothing and clothing accessories increased by 38.8% and spending on food services and drinking places increased by 31.9% in the past year.[29] Amid lockdowns in 2020, retail sales were highest for e-commerce, sporting goods, and home improvement. As COVID-19 restrictions lessened, consumers shifted their spending towards dining out and clothing for travel and vacations.[30]

[19] NRECA analysis of data from Markets Insider, retrieved September 2021.
[20] "Surging Grain Prices Fuel Surprise Farm Recovery," The Wall Street Journal, January 22, 202.
[21] "White House Doubles Inflation Forecast as Inflation, Labor Already Pressures U.S. Dairy Herd Numbers," AgWeb, August 31, 2021.
[22] Bureau of Labor Statistics, Economic News Release, Consumer Price Index Summary, September 14, 2021.
[23] U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services August 2021, September 16, 2021.
[24] "Surprise Uptick in Spending by Americans as Delta Spread," *Associated Press,* September 17, 2021.
[25] U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services August 2021, September 16, 2021.
[26] "U.S Retail Sales Unexpectedly Jump in Sign of Resilient Demand," *Bloomberg,* September 16, 2021.
[27] U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services August 2021, September 16, 2021.
[28] "Retail sales rose in August, highlighting an inconsistency of consumer spending," The New York Times, September 16, 2021.
[29] U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services August 2021, September 16, 2021.
[30] "August retail market: US sales worse than expected as spending moves to services," *S&P Global Market Intelligence,* August 18, 2021.

Change in Monthly Spending on Retail and Food Services

Business Type	Monthly Change vs. July 2021	Annual Change vs. August 2020
Total Retail and Food Services	0.7%	15.1%
Motor Vehicle and Parts Dealers	-3.6%	10.7%
Furniture and Home Furn. Stores	3.7%	15.6%
Electronics and Appliances Stores	-3.1%	18.1%
Building Material and Garden Eq. and Supplies Dealers	0.9%	6.3%
Food and Beverage Stores	1.8%	5.7%
Health and Personal Care Stores	0.2%	9.4%
Gasoline Stations	0.2%	35.7%
Clothing and Clothing Accessories Stores	0.1%	38.8%
Sporting Goods, Hobbies, Musical Instruments and Bookstores	-2.7%	19.8%
General Merchandise Stores	3.5%	15.5%
Miscellaneous Store Retailers	1.4%	19.2%
Non-store Retailers	5.3%	7.5%
Food Services and Drinking Places	0.0%	31.9%

Source: Data from the U.S. Census Bureau

Consumer confidence, closely related to retail spending, has also increased in the last month. The University of Michigan's consumer sentiment index showed a small 1% gain in September, following a steep drop of 13.5% in August. The index had previously only seen larger losses during periods of major economic disruption, such as the Great Recession and the pandemic-related lockdowns in April 2020.[31] According to the Forbes Advisor-Ipsos U.S. Consumer Confidence Weekly Tracker, declines in consumer confidence in recent months were seen most among rural Americans, women, and the unemployed.[32] Creighton University calculated a rural consumer confidence index of 65.4 in September, up slightly from August's 59.7, following decreases in rural confidence for three straight months after peaking at 78.8 in May.[33]

With the COVID-19 Delta variant still surging,[34] economic uncertainty may still be prevalent for many Americans. The large drops in consumer confidence in August likely reflected reemerging concerns about COVID-19 and a less favorable view of the economy. Although a slight increase in confidence in September might suggest a shift, this trend may not extend to all areas, particularly rural regions that have been hit hardest by the Delta variant.[35]

Going forward, it is unclear how much the pandemic will impact retail spending and consumer confidence, especially with these data showing so much volatility over the past few months. However, if the spread of the Delta variant, and COVID-19 in general, begins to slow, due to increases in vaccinations or through other preventative measures, the recent improvements in retail spending and consumer confidence may continue in the months ahead.

The University of Michigan's consumer sentiment index showed a small 1% gain in September, following a steep drop of 13.5% in August.

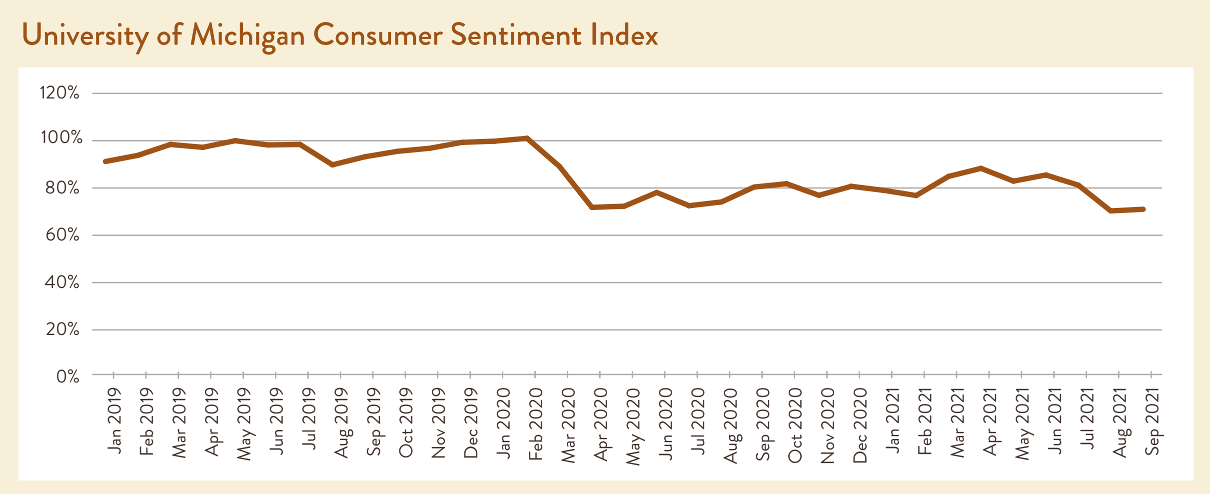
[31] University of Michigan, Survey of Consumers, September 17, 2021.

[32] "Consumer Confidence Falls As Delta Variant Continues to Spread," *Forbes*, August 20, 2021.

[33] Creighton University, Rural Mainstreet Index, September 19, 2021.

[34] Centers for Disease Control and Prevention, COVID Data Tracker, September 7, 2021.

[35] "Rural Covid-Death Rate Twice as High as Urban One," *The Daily Yonder*, September 15, 2021.



Source: Data from the University of Michigan Survey of Consumers

Monthly Retail Sales Can Be Volatile, but Remain Above Pre-Pandemic Levels.

U.S. retail sales posted a surprise gain in August after a drop in July, showing resiliency in the U.S. consumer despite ongoing concerns about COVID-19 variants. However, the overall retail sales figure does not tell the entire story. If we dissect the latest August number by category, we actually see a wide variance in sales trends across different retailers. For example, the largest drop during August was in autos and auto parts, which has continued to be severely affected by widespread supply chain issues. Excluding autos, sales would have increased at a much faster pace at 1.8%. Electronics and appliances also dipped lower coming off elevated demand levels in the past year for home improvement. Sales at restaurants and bars, which were a bright spot year-to-date, were only flat in August with traffic ebbing due to COVID-19 infections surging again. On the other hand, consumers seem to be shifting back to online shopping with non-store sales jumping 5.3%, as well as certain goods such as furniture and home furnishing which saw a strong 3.7% increase. While pandemic concerns will likely linger in the near-term, the outlook for consumer spending remains positive overall. Notwithstanding the sporadic month-over-month volatility, total retail sales have actually grown year-over-year every month since June 2020 and remain well above monthly pre-pandemic levels. As investors, we look past these headline fluctuations and instead focus on identifying companies that are in structurally better shape coming out of the pandemic and positioned to gain market share over the long run.

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Drought Conditions Hinder Recovery for Agriculture Sector

NRECA

The historic drought that has gripped much of the U.S. this year has put considerable pressure on farmers and the industry at large. The U.S. Drought Monitor recently reported that nearly half of the nation's land mass, or over 47% of the contiguous United States, is experiencing drought conditions.[36] For the agriculture industry, that translates to 224.2 million acres of crops and 18.3 million, or 59%,[37] of beef cattle.[38] According to the National Oceanic and Atmospheric Administration (NOAA), for 12 counties in North Dakota, the period from January 2020 to June 2021 was the driest 18 months since NOAA started tracking these data more than 125 years ago.[39] Other High Plains states have also been experiencing extreme to exceptional drought (classified as D3 and D4, respectively), including 27% of Wyoming and Colorado and more than 15% of South Dakota.[40] Much of the West has similarly faced persistent drought, with California, Utah, Oregon, Nevada, Montana and Idaho all facing extreme to exceptional drought (D3 to D4) across at least 65% of their areas. Although drought concerns in several Midwest states have recently subsided, most of Minnesota remains in various levels of drought, with 38% in extreme or exceptional drought (D3 or D4).[41]

[36] North American Drought Monitor Report, August 2021.

[37] Based on NRECA calculations of data from The U.S. Department of Agriculture, All Cattle and Calves Inventory – United States: January 1.

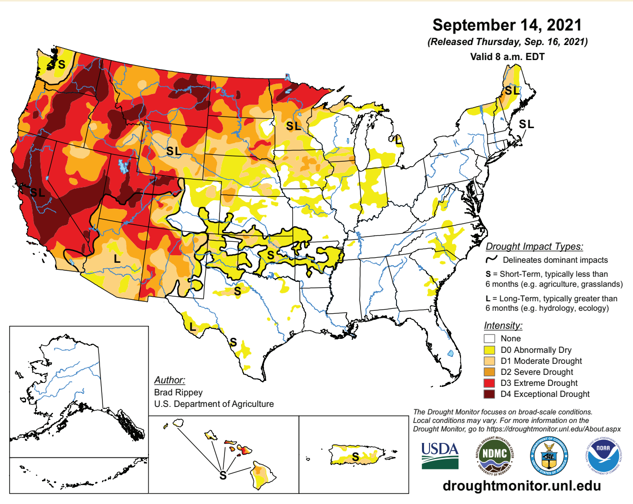
[38] U.S. Department of Agriculture, National Agricultural Statistics Service, U.S. Crops and Livestock in Drought, retrieved August 31, 2021.

[39] Fountain, Henry, "'The Worst Thing I Can Ever Remember': How Drought Is Crushing Ranchers," The New York Times, August 25, 2021.

[40] North American Drought Monitor Report, August 2021.

[41] *Id.*

U.S. Drought Locations and Intensity



Source: U.S. Drought Monitor

The drought has put significant stress on rangeland, pastures and crops,[42] and some farmers are choosing not to harvest their crop due to low growth and yields.[43] This crop shortage also means less feed is available for livestock, causing many ranchers to sell off their cattle herd.[44] In California, which produces one-third of the country's vegetables and two-thirds of its fruit,[45] drought conditions are lowering crop yields, with the U.S. Department of Agriculture (USDA) estimating in July that the almond crop in 2021 will be 10% less than 2020 yields.[46] Conditions in California have deteriorated to the point that the governor has called for voluntary water restrictions and told farmers in the state they have to limit the water they can pull for agricultural purposes, putting other fruits and vegetables in jeopardy.[47]

These drought concerns come at a time when the agriculture industry had otherwise been recovering from the effects of the COVID-19 pandemic and accompanying recession. Commodity prices for corn[48] and soybeans[49] remain elevated and are at an eight-year high. The USDA noted that due to the high commodity prices for some crops, specifically soybeans, the fiscal year 2022 forecast for agriculture exports will be approximately $3.3 billion higher than in 2021.[50] These commodity prices will help with compliance to the U.S. Phase One Trade Deal with China, which has already met 64% of the agreed-upon 2021 levels for purchase of U.S. exports.[51] According to the USDA, forecasts for exports and production in fiscal year 2022 should be higher than 2021, which could provide a boost for rural America.[52]

Crop Yields Down, Prices Trend Higher – Weather Is a Factor.

Adverse weather is an ever-present risk that could disrupt farmer operations and finances especially during planting and harvesting seasons. In recent months, extreme heat waves and droughts spanning across the western U.S. have severely damaged crops, leading the U.S. Department of Agriculture (USDA) to scale back its expectations for crop production in 2021. In the USDA's latest monthly supply and demand report, the agency forecasts inventories for corn, wheat and soybeans to be at their lowest levels since 2013. Even South America, specifically Brazil, which is one of the largest producers of agriculture products globally, is facing the worst drought in over 90 years, further reducing the global supply outlook. As a result of tight supply, crop prices have been trending upward. However, rising commodity prices could be a blessing in disguise for farmers in terms of helping offset the decline in sales volume, thereby providing a ballast to farmers' income. With stable income, farmers should be more willing to continue to invest capital expenditure in new equipment, thereby supporting companies in the agriculture sector.

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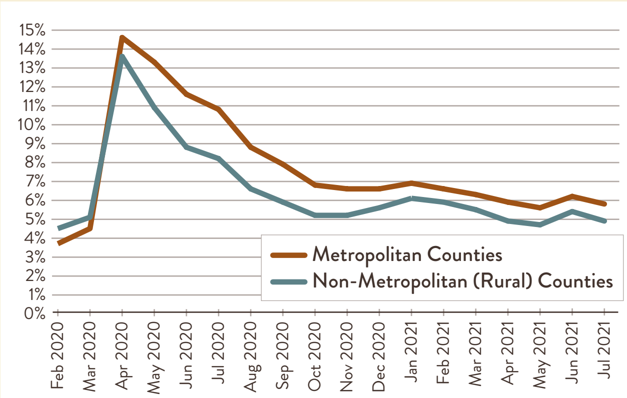
[42] *Id.*
[43] Hirtzer, Michael, Marcy Nicholson, and Brian K. Sullivan, "Drought Forces North American Farmers to Turn Food Crops to Hay," *Bloomberg*, July 22, 2021.
[44] Ibid, Fountain.
[45] Hassan, Adeel, "The Plains and Upper Midwest are growing drier as drought deepens in the West," *The New York Times*, August 25, 2021.
[46] Kushman, Rick, "USDA projects smaller crop for California almonds," Blue Book Services, July 12, 2021.
[47] "As California restricts water use for farmers, low supply levels add to drought's harsh reality," PBS, September 3, 2021.
[48] *U.S. Department of Agriculture National Agricultural Statistics Service,* Prices Received: Corn Prices Received by Month, US, August 31, 2021.
[49] *U.S. Department of Agriculture National Agricultural Statistics Service,* Prices Received: Soybean Prices Received by Month, US, August 31, 2021.
[50] U.S. Department of Agriculture Economic Research Service, Outlook for U.S. Agriculture Trade, August 26, 2021.
[51] Peterson Institute For International Economics, US-China phase one tracker: China's purchases of US goods, July 2021.
[52] U.S. Foreign Agricultural Service, "USDA Forecasts Farm Exports for FY 2021 & 2022," August 27, 2021.

Unemployment Rates Remain Elevated Through Labor Force Recovery

NRECA

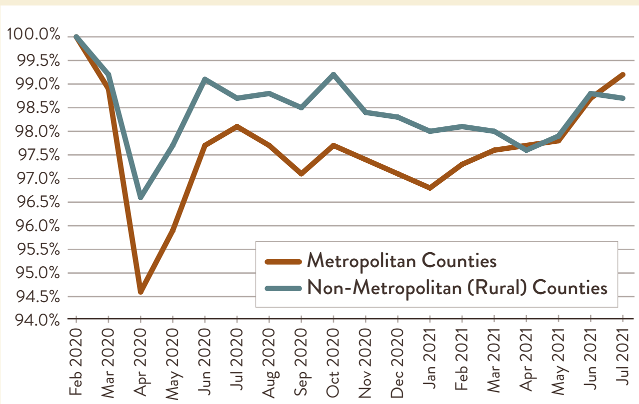
In May 2021, the average unemployment rates in metropolitan and non-metropolitan (rural) counties were 5.6% and 4.7%, respectively, their lowest levels since before the COVID-19 pandemic. Unemployment rates ticked up in June, before declining again in July to respective rates of 5.8% and 4.9%, slightly higher than the post-pandemic lows in May and essentially the same as in April. Notably, while average unemployment rates prior to the pandemic were somewhat higher in rural counties, rates have been higher in metropolitan counties throughout the crisis. As of July 2021, the rural unemployment rate was only 0.5% higher than in February 2020, whereas the metropolitan unemployment rate remained 2% higher.[53] While county level data for August is not available yet, seasonally adjusted nationwide unemployment fell to 5.2% in August, falling below the 5.5% reached in May and suggesting a positive trend for both metropolitan and rural counties.

U.S. Unemployment Rate by County Type



Source: NRECA analysis of data from the U.S. Bureau of Labor Statistics and U.S. Census

Labor Force Size by County Type (Feb. 2020=100%)



Source: NRECA analysis of data from the U.S. Bureau of Labor Statistics and U.S. Census

While rural and metropolitan unemployment rates remain slightly higher than in May, this can be partially explained by workers rejoining the labor force. In April 2020, when unemployment rates were at their pandemic peak, the total labor force (i.e., those working or looking for work) was also at its lowest point. Initially, labor force reductions were larger in metropolitan counties, which saw a decline of 5.4% from February 2020 levels, compared with rural counties where the labor force shrank by 3.4%. However, by April 2021, a year later, the labor force reductions in both rural and metropolitan counties were largely the same, before both saw a significant increase in labor force participation from May to June, as vaccination rates rose rapidly.

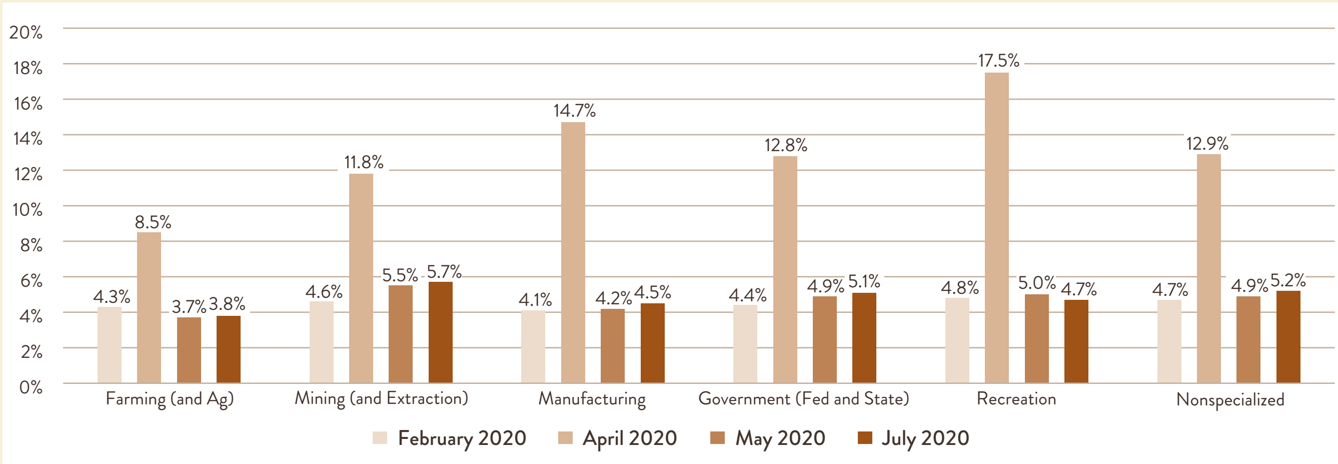
As more people reenter the labor force, the total pool used to calculate unemployment rates increases, which can instantly raise rates if these individuals do not immediately find work. While the labor force recovery appears to have continued in July in metropolitan counties, which saw increases to levels just 0.8% below the pre-COVID baseline, rural counties experienced a slight drop, with the total labor force about 1.3% lower than in February 2020. It is too soon to tell if this divergence is significant, or if it may indicate a growing trend, and it is possible that the July numbers (which are preliminary) will be revised. In rural counties, the increase in labor force participation was accompanied by an increase in the total number of people employed, rising from 19.4 million in May to nearly 19.8 million in July, even though the unemployment rate was 0.2% higher in July.[54]

Unemployment rates have fallen significantly from their April 2020 highs across all industries in rural counties. The U.S. Department of Agriculture (USDA) classifies counties by their dependence on particular economic sectors. While

[53] Aggregate unemployment rates for rural and metropolitan counties are calculated by NRECA using county-level unemployment data from the BLS Local Area Unemployment Statistics (LAUS) Program. All rates in this report are not seasonally adjusted (i.e., not adjusted for predictable seasonal patterns) because these adjustments are not applied below the state level. Preliminary county-level data for July 2021 was the latest available as of printing.

[54] NRECA analysis of labor force data, also from BLS LAUS.

Year-Over-Year Unemployment Rate in Non-Metropolitan (Rural) Counties by Dominant Industry



Sources: U.S. Bureau of Economic Statistics, USDA Economic Research Service

the overall unemployment rate in rural counties is slightly higher in July 2021 compared with May, the unemployment rate in counties whose economies are driven by recreation declined, from 5% to 4.7%, likely due to increased travel during the summer. Rural counties primarily dependent on farming (and agriculture), which were generally least affected by the recession, still have the lowest unemployment rate of any county typology, at 3.8%, with manufacturing counties also below the 4.9% rural county average.[55] This difference across economic sectors has been driven by the varying impacts of the virus and measures meant to contain it, which have affected consumer demand and supply chains, and proven particularly challenging to industries that rely on delivering in-person services and those associated with transportation and travel.

Employment growth has remained somewhat unpredictable, with large increases in some months exceeding expectations, only to be followed by lower-than-expected growth. The 235,000 non-farm payroll employees added in August was the lowest total since January 2021 and significantly under economists' expectations that employee additions would exceed 700,000.[56] This slow growth was especially surprising after June's and July's total employment growth numbers were revised up to 938,000 and 1.05 million, respectively.[57] The decline in hiring in August has generally been blamed on the rapid spread of the Delta variant, which has again created challenges to in-person services in many parts of the country, despite rising vaccination rates.

Employers Pay Up, Stoking Fears of Inflation.

Many companies that have reopened following the COVID-19 shutdown have been struggling with labor shortages, and for some this has been a drag on profitability. Since the 2008-2009 financial crisis, job growth has been compounding at 1.8% in urban areas compared with a paltry 0.5% in rural areas, but the unemployment gap has been closing since the middle of 2020. The difference in unemployment rates has narrowed to as little as 1% as of Q2 2021. More broadly, companies are offering new incentives to employees to help ensure that their businesses can stay open. We've seen accelerated hiring by many retailers that offer signing and discretionary bonuses to help motivate new employees to come to work. In addition, hotels, restaurants and other entertainment-based industries have also seen wage increases to a point where the average sits above $15 an hour for the first time ever. Also contributing to rising prices, the trucking industry continues to struggle with availability of new trucks and people to drive them despite a willingness to increase wages and pass those costs on to customers. These increases in wages, together with extensive government stimulus, have started the engine of inflation, but as investors we wonder both how much and for how long these inflationary issues will last.

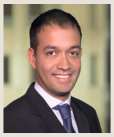
RE Advisers

[55] Unemployment rates by county typology are calculated by NRECA using county-level unemployment rates from BLS LAUS and county economic typologies from the U.S. Department of Agriculture's Economic Research Service. USDA's county typologies are based on 2015 data.

[56] "U.S. Hiring Slows Sharply Amid Delta, Complicating Fed Taper," Bloomberg, September 3, 2021.

[57] "U.S. job growth takes giant step back as Delta variant hits restaurants," Reuters, September 3, 2021.

Contributors



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Mauricio Agudelo is a senior fixed-income portfolio manager for RE Advisers' short- and intermediate-term strategies.

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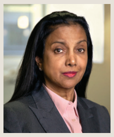
Peter Blackstone co-manages the Rural America Growth & Income Fund and supports the equity strategies. He is a graduate of Trinity College, where he received a BA in economics and an MBA with a specialization in finance from Boston University.



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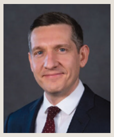
Prabha Carpenter is a senior equity portfolio manager for RE Advisers' large- and small-cap value strategies.



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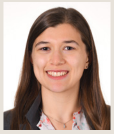
Joe Goodenbery is the lead economist at NRECA where he provides economic modeling and analysis of issues that impact electric cooperatives.



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Maria Kanevsky is a senior energy analyst at NRECA where she works on multiple efforts such as beneficial electrification, economic analyses of cooperative issues and consumer member engagement.

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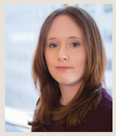

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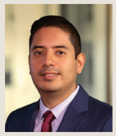

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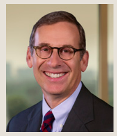

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Mark Santero
Director, President and CEO of Homestead Funds

Mark Santero directs the business activities of Homestead Funds and its related money management entity, RE Advisers. He oversees portfolio management, operations, client services, marketing and sales.

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