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Is The Recession Already Over? The Outlook for the U.S. Economy

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Disclaimer

The views I will express today are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

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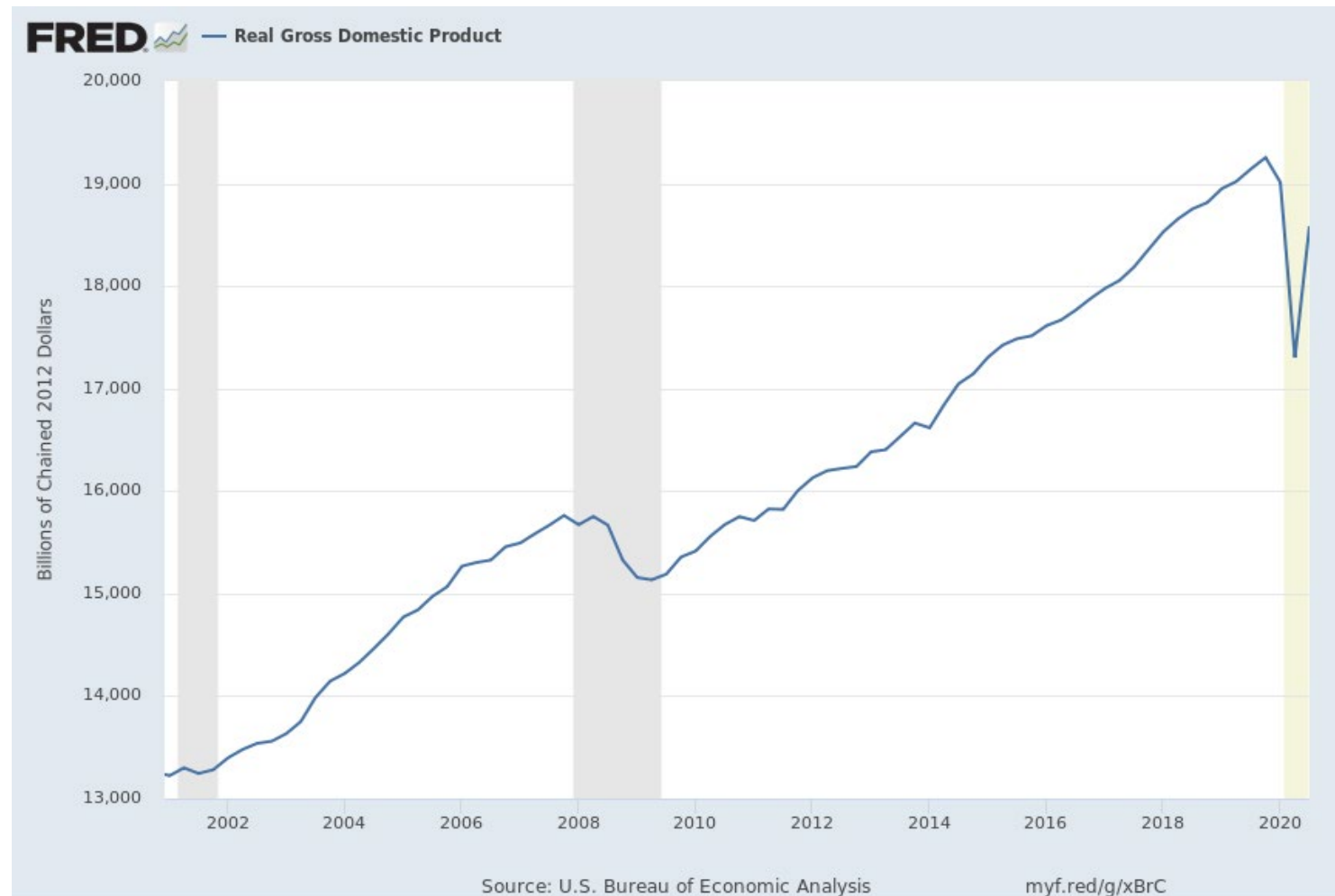
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<https://www.stlouisfed.org/publications/regional-economist/data/economy-at-a-glance>

The Big Picture

- You can learn a lot by asking a simple question: “What’s going on here?”
- Well, the economy has been on the mother of all rollercoaster rides in 2020!
- We’re now transitioning from recession to recovery—and (hopefully) less volatility.
- The pandemic produced temporarily low inflation rates and lower interest rates. But for how long?
- Above-trend growth in 2021 is my baseline forecast. The vaccine news is promising—a rising tide that would lift all boats.

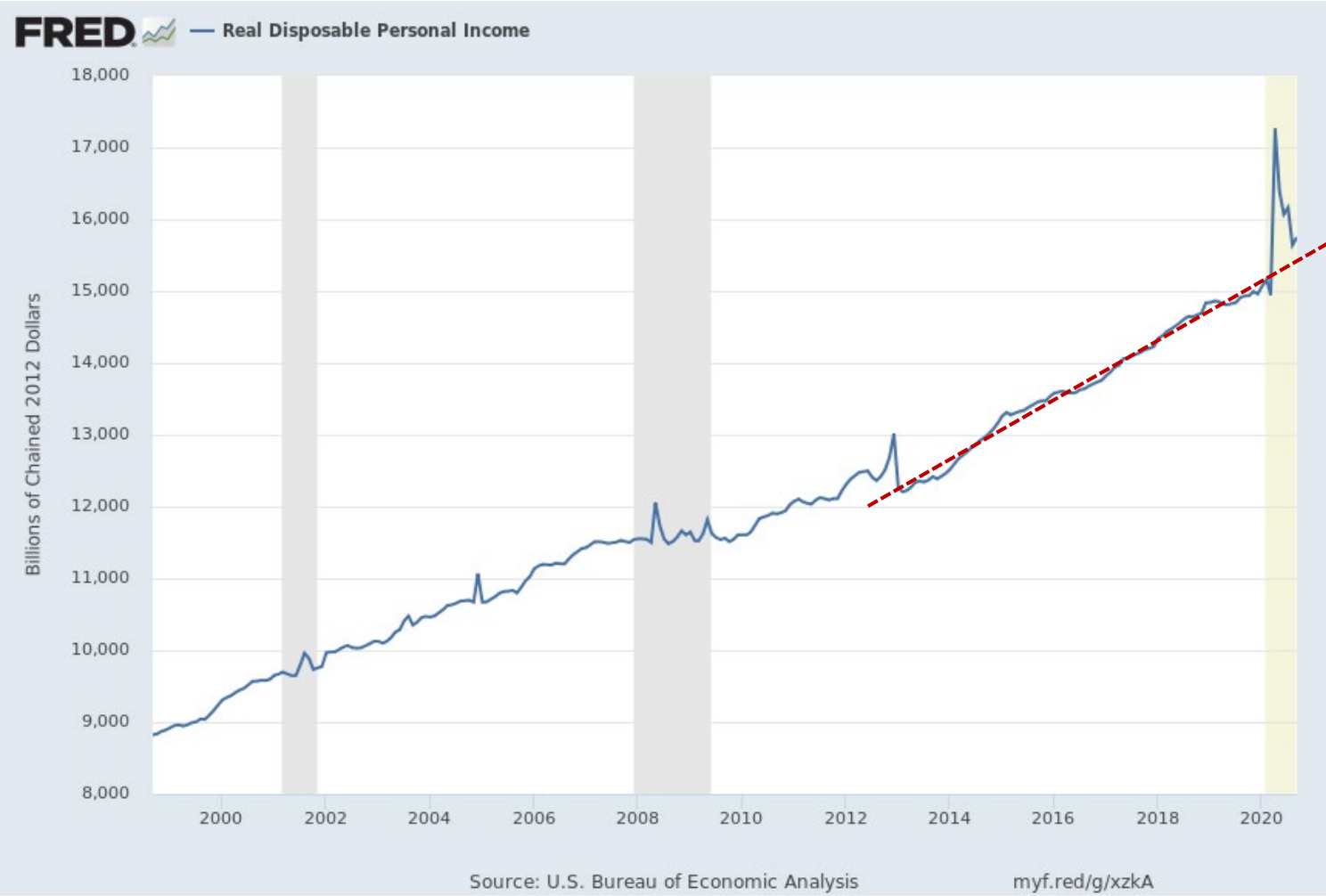
A Fundamentally Different Type of Recession (and Recovery?)



How to Think About the Recovery

- The economy tends to grow at a rate consistent with its fundamentals.
- Broadly, the economy's fundamentals are: (1) how many people are working; (2) business capital spending; (3) the discovery of new ideas.
- Currently, the economy is operating well below potential chiefly because the pandemic is a massive shock that affects (1) and (2).
- Thus, fiscal and monetary support is designed to boost growth in the demand for goods and services, thereby increasing employment (1) and investment by firms (2).

Pandemic-Related Legislation Boosted Real After-Tax Income



The Economic Narrative—Part 1

- The U.S. and global economies are now climbing out of a deep hole (rising output & employment).
- Business recovery dynamics are occurring: near-term cyclical strength boosted by aggressive policy actions and a natural tendency to return to growth determined by fundamentals.
- But there are key unknowns: Will the spike in COVID infection rates trigger renewed caution by policymakers and individuals?
- Another round of widespread “lockdowns” would be extraordinarily damaging.

A Partial Recovery in Nonfarm Payroll Employment



Monthly Changes
(millions):

Mar-Apr: -22.2

May: + 2.7

June: + 4.8

July: + 1.8

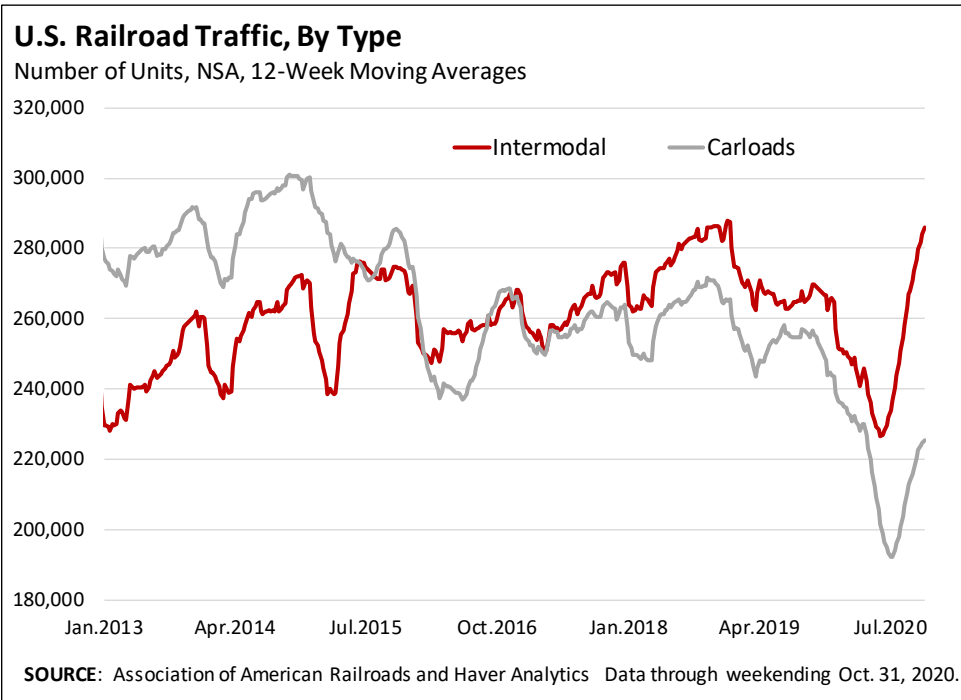
August: + 1.5

Sept.: + 0.67

Oct.: + 0.64

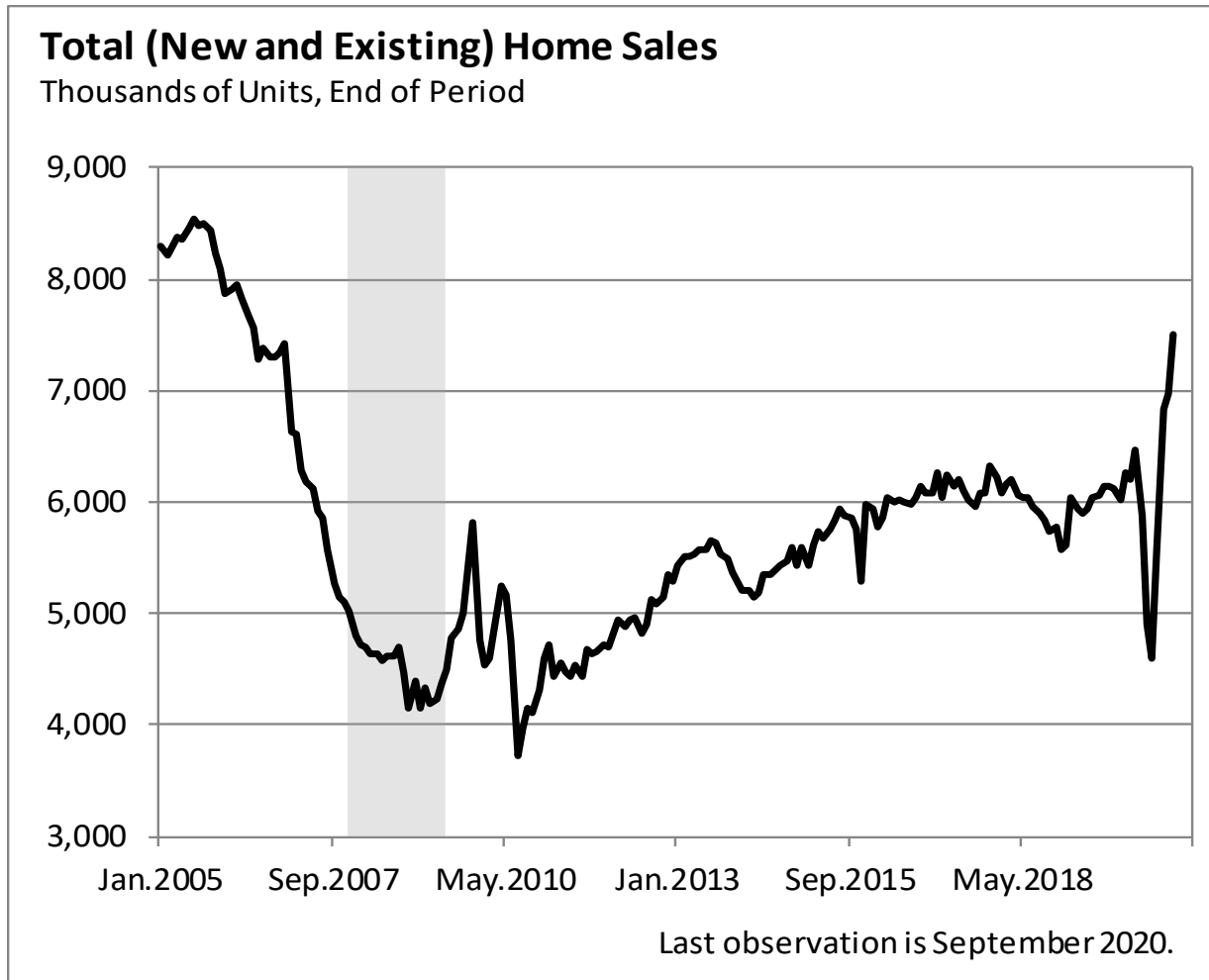
Jun-Sep: +12.1

The Goods-Producing Economy is Gathering Steam



SOURCE: VISA, October 2020

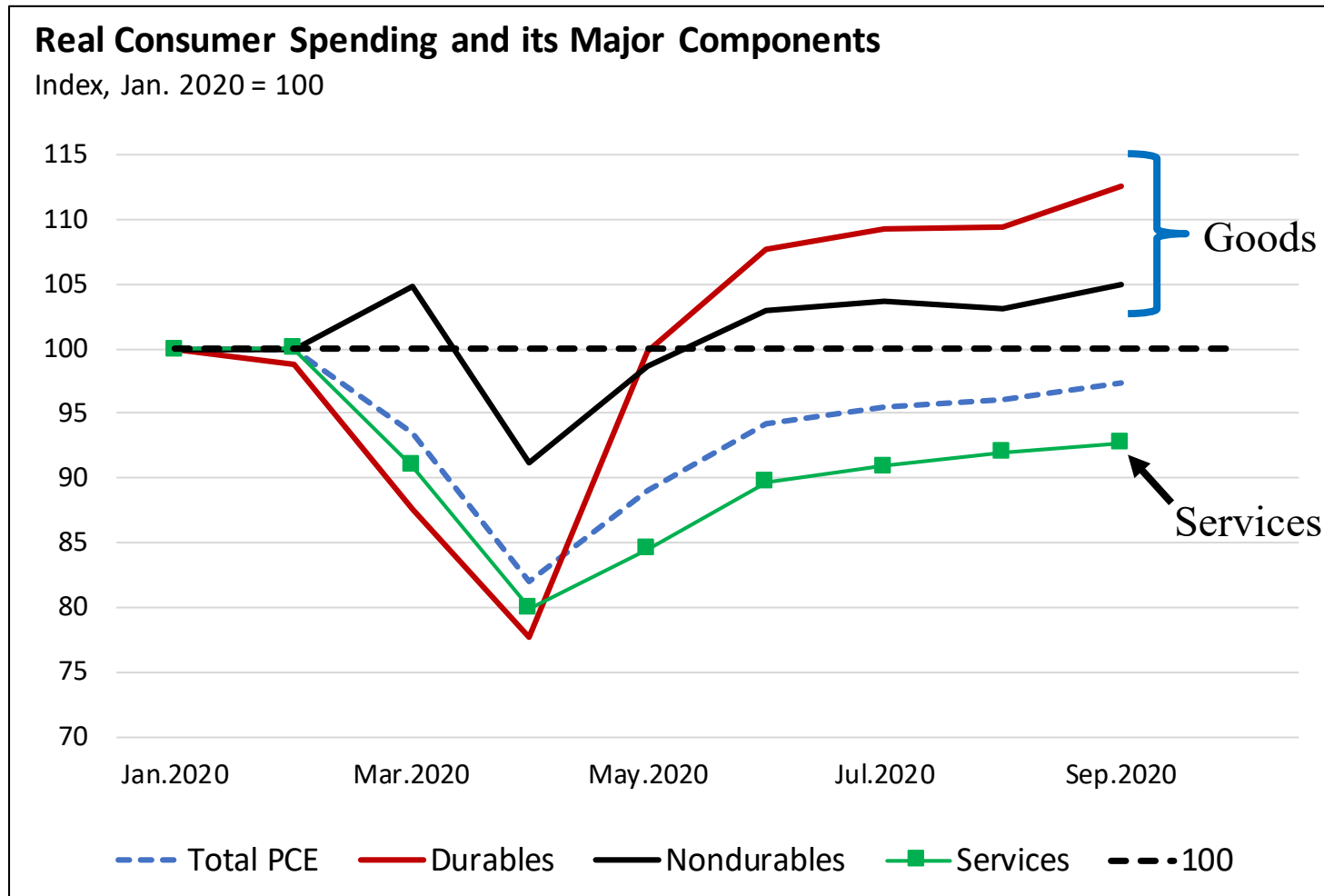
The Residential Housing Market: Strong Demand, Lean Inventories



The Economic Narrative—Part 2

- Services-based industries that depend on human interaction have seen especially large output and employment losses. A spike in bankruptcies.
- The amount of unused capital stock owing to work-from-home arrangements is massive. How much of the shift in preferences is permanent?
- Technologies developed during the pandemic will likely lead to long-run compositional changes in output and employment.
- But the magnitude of these longer-run effects are not yet known.

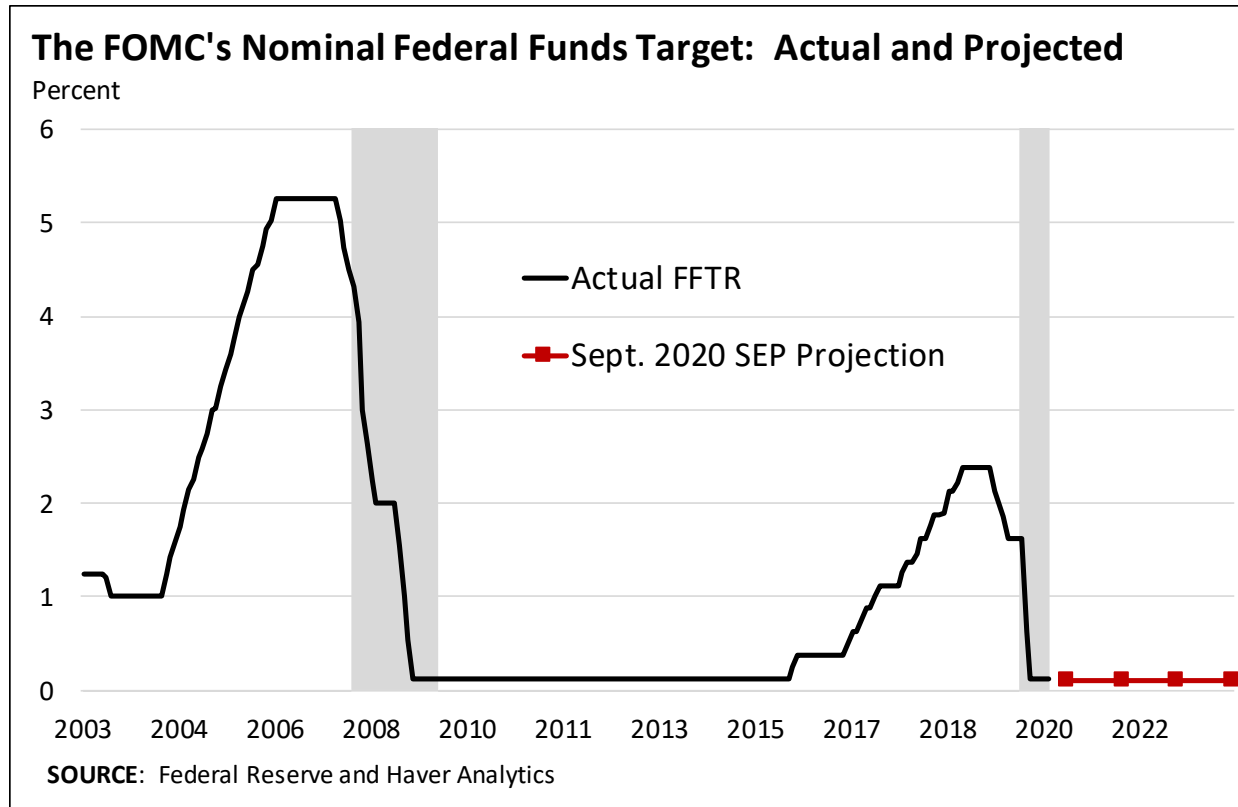
Spending on Goods Has Recovered, But Not on Services



The Economic Narrative—Part 3

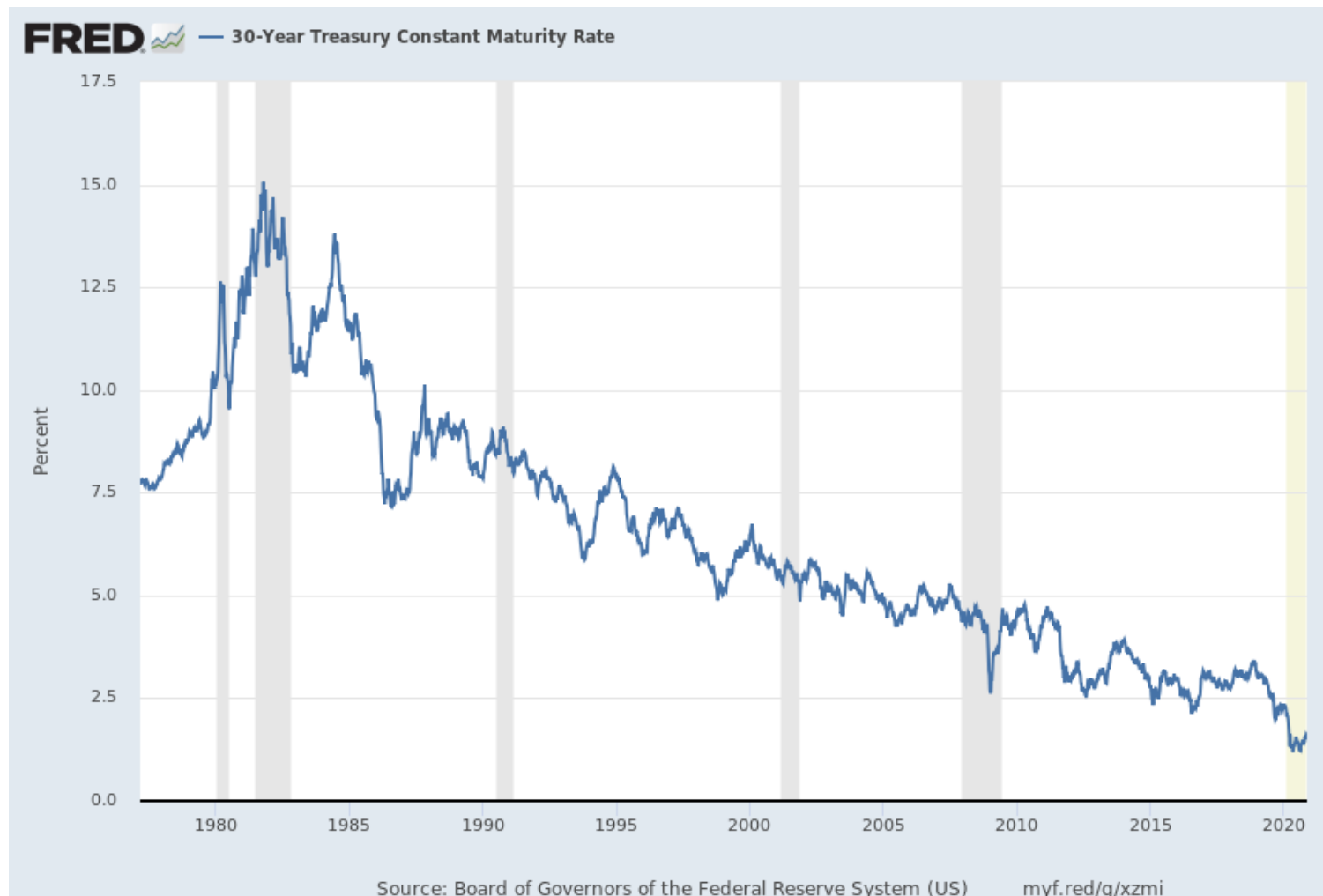
- The Fed's new monetary policy strategy is another economic dynamic at play.
- The new strategy elevates employment conditions in the Fed's decision-making process.
- Importantly, it also seeks to *temporarily* drive inflation above 2% to make up for past misses.
- The new strategy hasn't been stress-tested yet.
- Fiscal and monetary policy changes suggest that the long-run inflation outlook may be less sanguine than many expect.

The Fed is Likely to Keep Rates Lower for Longer

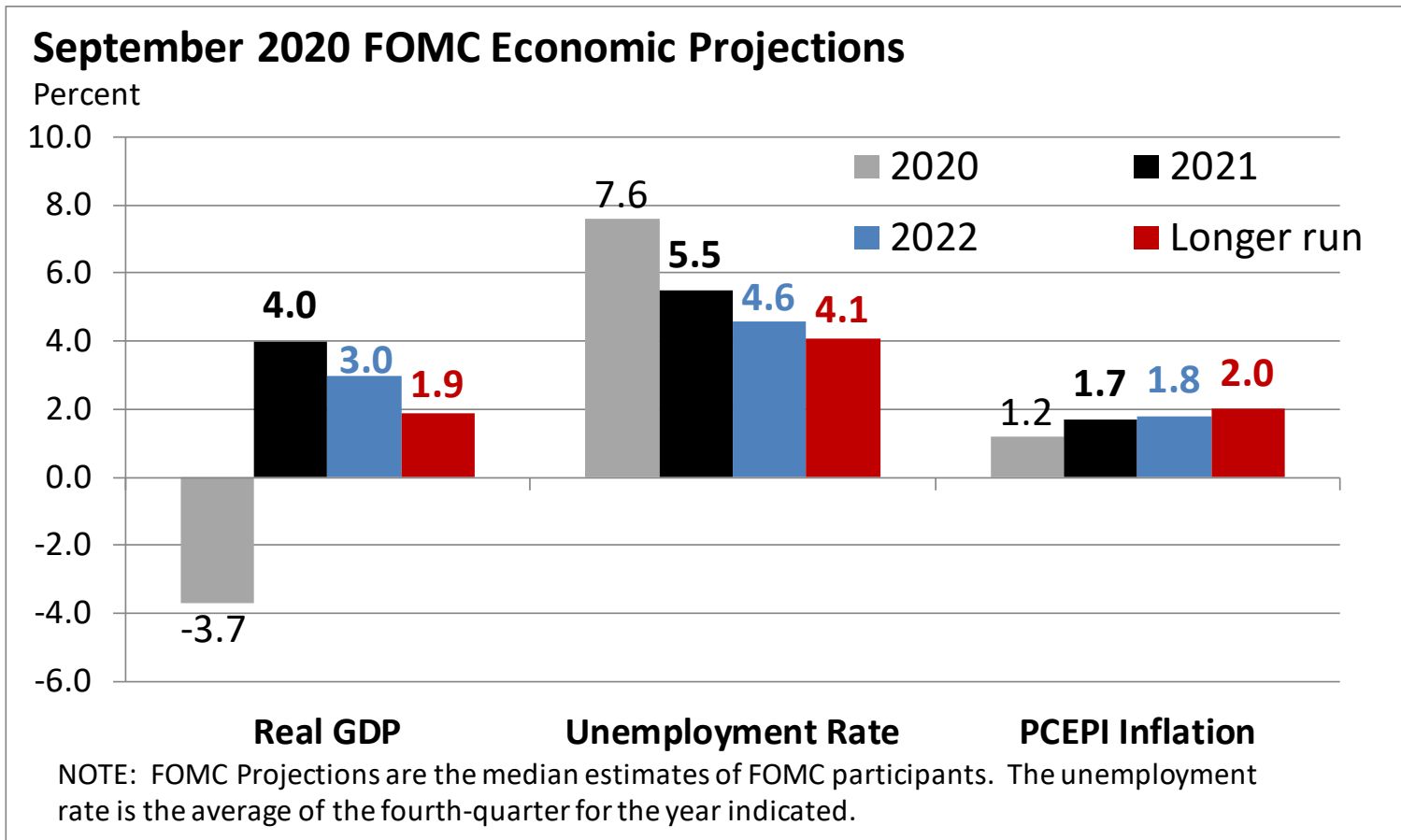


“So you know, we’re not thinking about raising rates. We’re not even thinking about thinking about raising rates. So what we’re thinking about is providing support for this economy.”
FOMC Chair Jerome Powell, June 10, 2020.

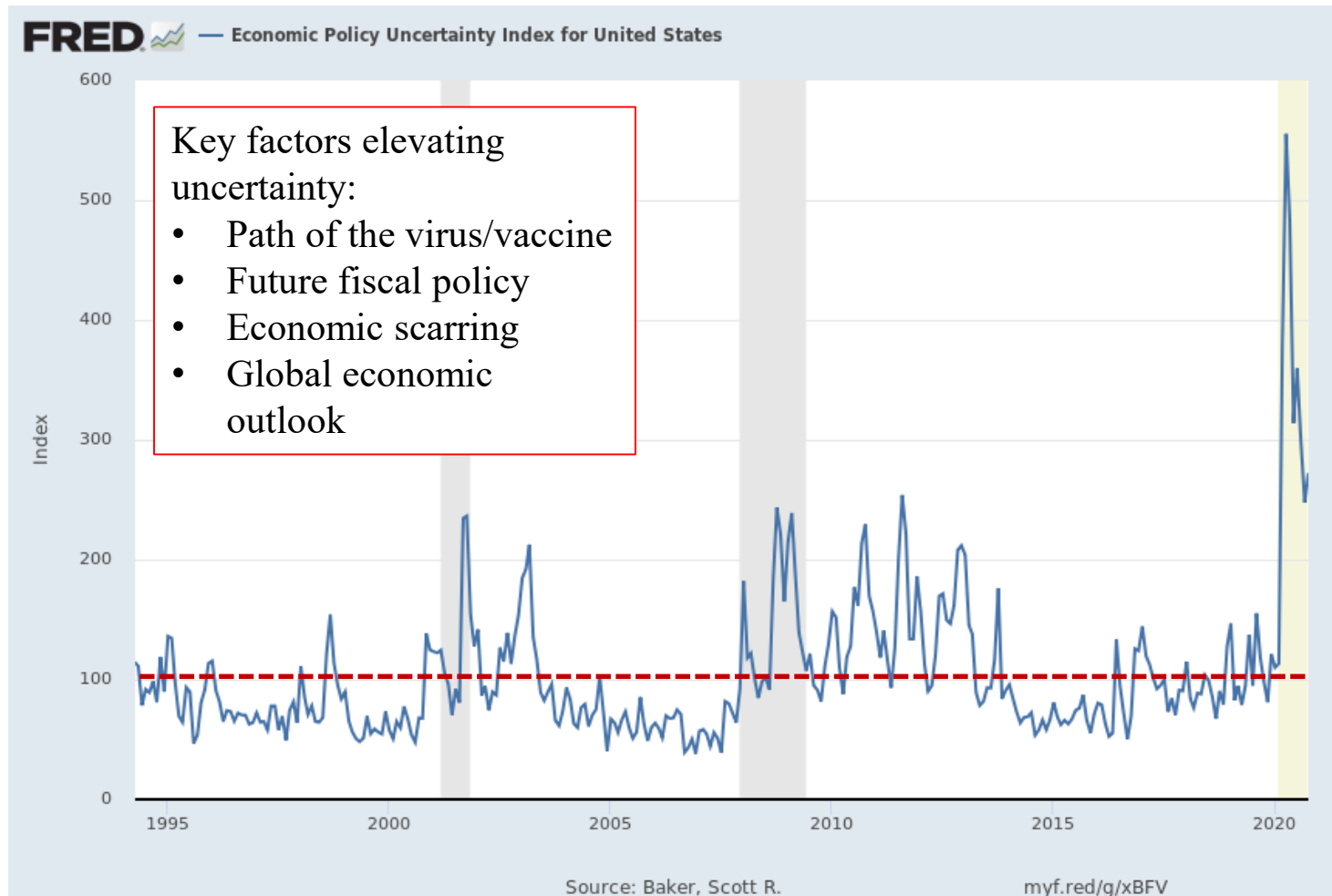
The Bond Market's Inflation Barometer is Quiet



The Economic Outlook According to FOMC Participants



Economic Uncertainty Remains High—That's Not Good



St. Louis Fed Resources

<https://research.stlouisfed.org/resources/covid-19/>



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COVID-19 Research Resources

The most-current resources related to the COVID-19 pandemic from the economists and staff of the Research Division: preliminary and published analyses, daily data updates and projections, data tools, and a timeline of related events and policy responses. For more related analysis and resources from the Federal Reserve Bank of St. Louis, see the Bank's official COVID-19 page.

- [Research by Date](#)
- [Data and Additional Research Resources](#)

Research by Date

UPDATED: Daily Data and Projections on COVID-19 Death Rates by B. Ravikumar and Guillaume Vandenbroucke
posted online March 30, 2020
updated March 31, 2020

Economic Realities and Consequences of the COVID-19 Pandemic Part I: Financial Markets and Monetary Policy by Fernando M. Martin
Economic Synopses, March 30, 2020

Economic Realities and Consequences of the COVID-19 Pandemic—Part II: The Economy and Fiscal Policy by Fernando M. Martin
Economic Synopses, March 30, 2020

COVID-19: What Do FREDcast Users Think about Economic Growth? by Michael T. Owyang, Hannah G. Shell, and Julie K. Bennett
On the Economy blog, March 30, 2020

COVID-19 and Financial Distress: Employment Vulnerability by Kartik Athreya, Ryan Mather, Jose Mustre-del-Río, and Juan M. Sánchez
On the Economy blog, March 27, 2020
first posted online March 27, 2020

COVID-19 and the Importance of Testing? by B. Ravikumar and Guillaume Vandenbroucke
On the Economy blog, March 27, 2020
first posted online March 27, 2020

How Fast Has COVID-19 Been Spreading? by Guillaume Vandenbroucke
On the Economy blog, March 27, 2020
first posted online as The Speed of COVID-19 March 27, 2020

QUESTIONS?