



FEDERAL RESERVE BANK *of* ST. LOUIS
CENTRAL TO AMERICA'S ECONOMY®

The U.S. Economic Outlook

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Outline of Today's Talk

- The Big Picture overview of U.S. economic conditions.
- An update on U.S. labor market conditions.
- Where's inflation headed?
- The consensus forecast.

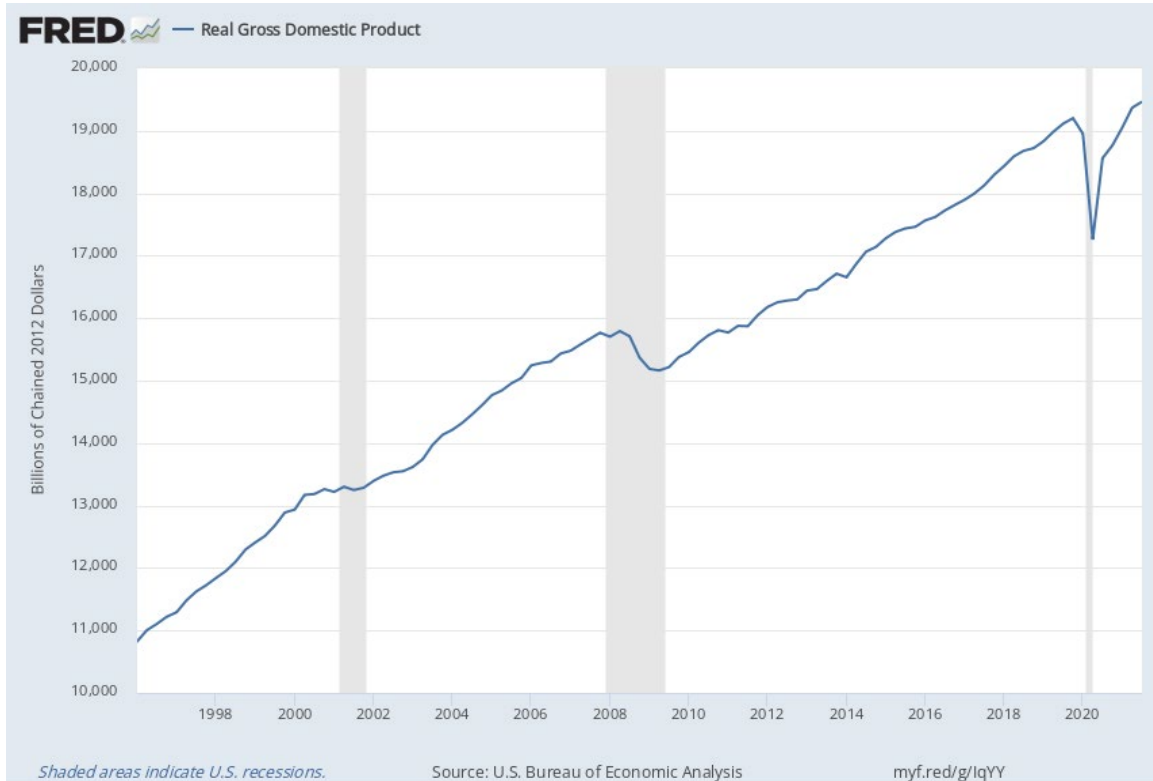
Disclaimer

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.

The Big Picture

- Supply-side constraints and the Delta variant appear to have been a drag on Q3 output and employment growth.
- The pace of activity should be stronger in Q4 and into 2022 as some of these constraints ebb. But risks endure.
- Inflation is high, and it is likely to remain high well into 2022—but there is a lot of uncertainty about that view.
- And now there is an energy price spike to deal with.

Real GDP: The Pause that Refreshes?



Growth of Real GDP, 2020-21:

	<u>Annual Rate</u>	<u>Quarterly Rate</u>
2020:Q2	-31.2%	-8.9%
2020:Q3	33.8%	7.5%
2020:Q4	4.5%	1.1%
2021:Q1	6.3%	1.5%
2021:Q2	6.6%	1.6%
2021:Q3	2.0%	0.5%

2021:Q4 (F) 5% - 7%

From 1994 to 2019, real GDP growth averaged 2.4%/year.

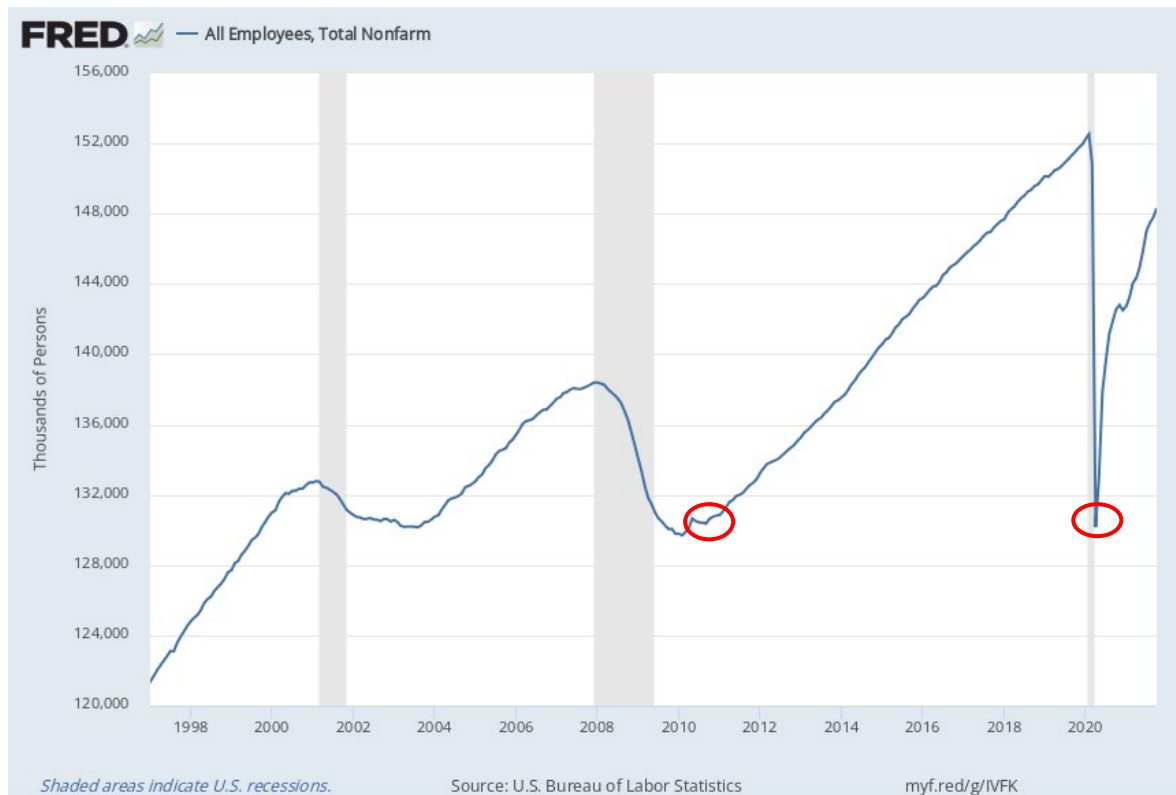
Retail Sales Surge in October



WASHINGTON – **Holiday spending has the potential to shatter previous records**, as the National Retail Federation today forecast that holiday sales during November and December will grow between 8.5 percent and 10.5 percent over 2020 to between \$843.4 billion and \$859 billion. The numbers, which exclude automobile dealers, gasoline stations and restaurants, compare with a previous high of 8.2 percent in 2020 to \$777.3 billion and an average increase of 4.4 percent over the past five years.

<https://nrf.com/media-center/press-releases/nrf-predicts-highest-holiday-retail-sales-record>

Employment is Increasing



Monthly Changes in U.S. Nonfarm Payroll Employment, Actual and the Financial Market Forecast:

	<u>Predicted</u>	<u>Actual</u>
June 2021	675K	962K
July 2021	900K	1,091K
Aug. 2021	728K	366K
Sept. 2021	450K	194K
Oct. 2021	385K	531K

Employment is still 4.2 million (3.6%) below the Feb. 2020 peak.

The Unemployment Rate is Falling



Unemployed as a Percent of the U.S. Labor Force:

June 2021 5.9%

July 2021 5.4%

Aug. 2021 5.2%

Sep. 2021 4.8%

Oct. 2021 4.6%

U.S. Long-Run Avg.: 5.7%

Job Openings Skyrocket



Total Job Openings in
September:

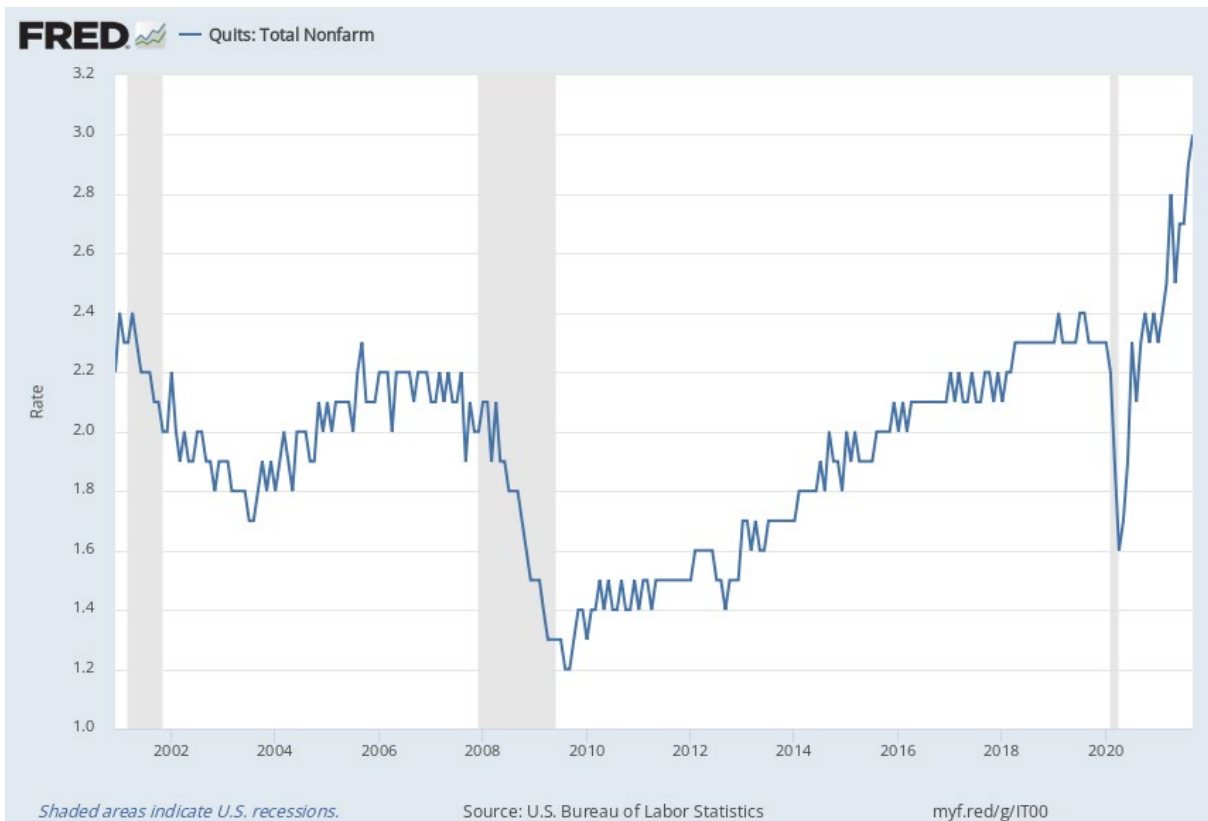
10.438 Million

Total number of unemployed
in September:

7.674 Million

Ratio: 1.36 job openings for
each person who is
unemployed and actively
seeking a job.

Take This Job And . . .



Number of people who have quit their job as a percent of total nonfarm employment.

A “tight” labor market is a double-edged sword: Good for workers (higher wages); a challenge for employers.



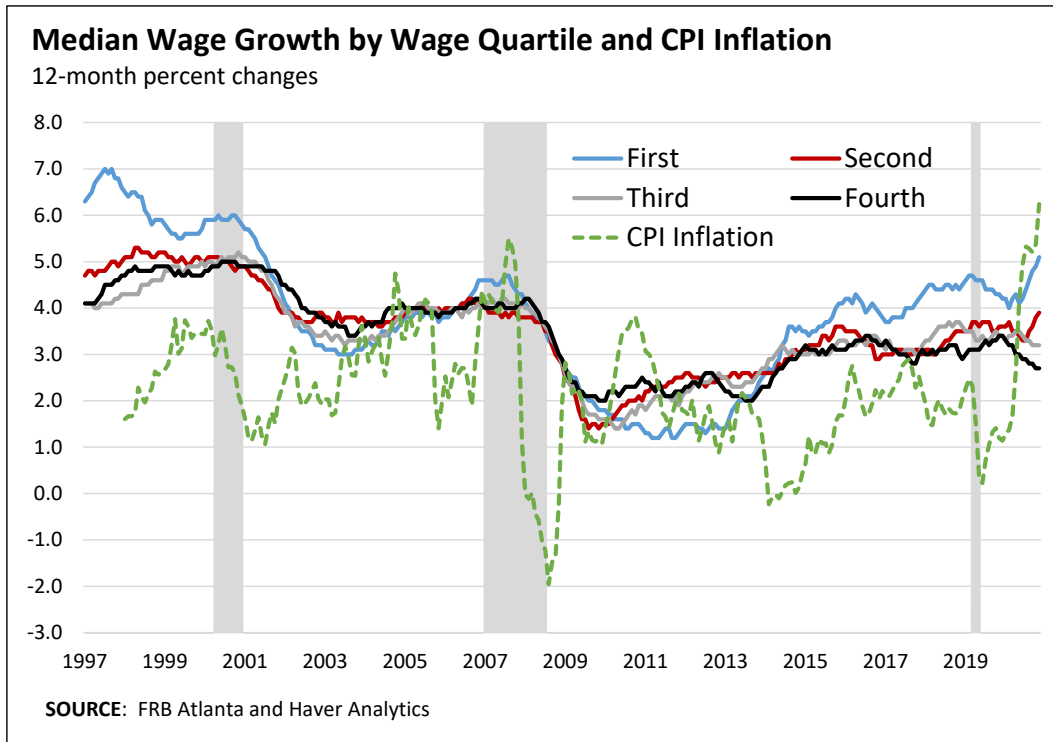
Companies Order Record Number of Robots Amid Labor Shortage

North American firms ordered nearly 29,000 robotics units in first nine months of 2021

The Wall Street Journal, Nov. 11, 2021

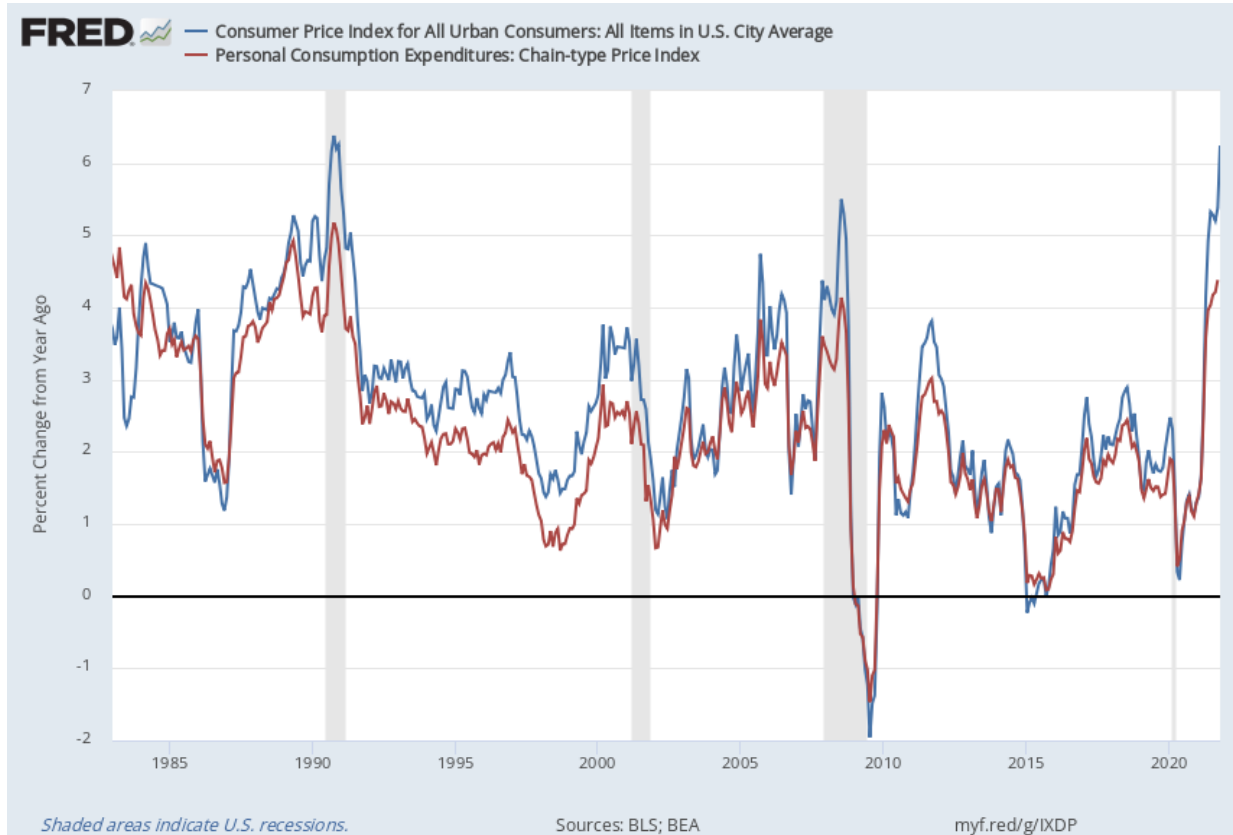


Wages are Increasing But Inflation is Increasing More



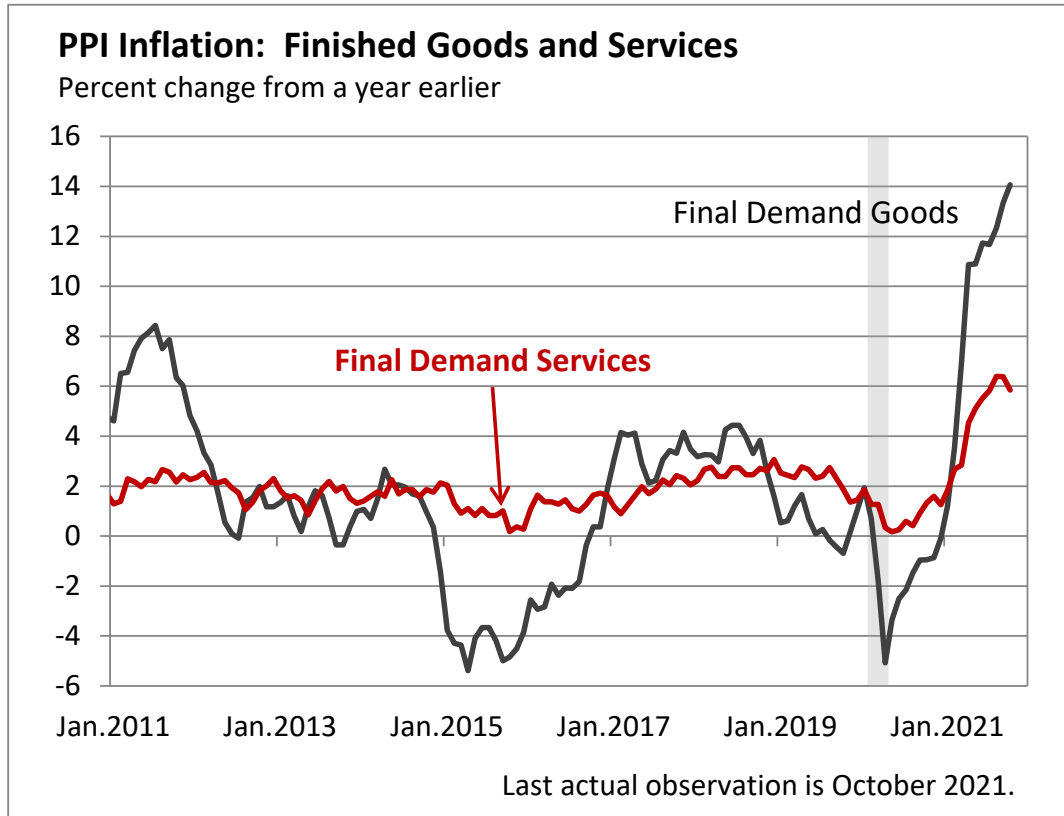
The first and second quartile workers are generally those in industries like restaurants and leisure and hospitality.

Inflation . . . It's Too High



2% is the Fed's inflation target.

Producer Price Pressures are Strong



Hurricane Ida added to the input price pressures over the short term given Louisiana's importance in the energy and petrochemical production and distribution network.

We saw this with Winter Storm Uri earlier this year.

Notable Beige Book Comments

Most Districts reported significantly elevated prices, fueled by rising demand for goods and raw materials. Reports of input cost increases were widespread across industry sectors, driven by product scarcity resulting from supply chain bottlenecks. Price pressures also arose from increased transportation and labor constraints as well as commodity shortages.

Many firms raised selling prices indicating a greater ability to pass along cost increases to customers amid strong demand.

Expectations for future price growth varied with some expecting price to remain high or increase further while others expected prices to moderate over the next 12 months. (October 2021 Beige Book)

A Theory of Inflation

- Conceptually, one can think of inflation dynamics in this way:
 - Inflation = $E(\text{Inflation})$ + Inflation Forces
 - Inflation forces can be things like:
 - Growth of the money supply, “slack,” “excessive” wage growth, too-low interest rates (“lower for longer”), fiscal actions (debt/deficits), societal preferences, global prices/developments.

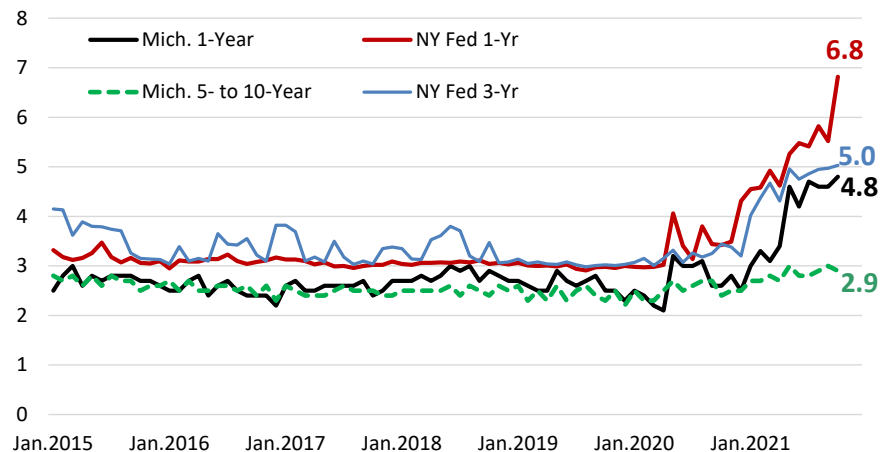
The “Conventional View”

- Inflation will drift back down to 2%—and maybe even lower—because:
 - Broad-based inflation pressures are relatively sparse
 - Pandemic-spawned price spikes are temporary
 - Wage gains will moderate once the pandemic ends
 - Global disinflationary forces are still intact
 - Long-term inflation expectations are anchored at 2%

Inflation Expectations: The New Abnormal?

Consumer Inflation Expectations (Survey-Based)

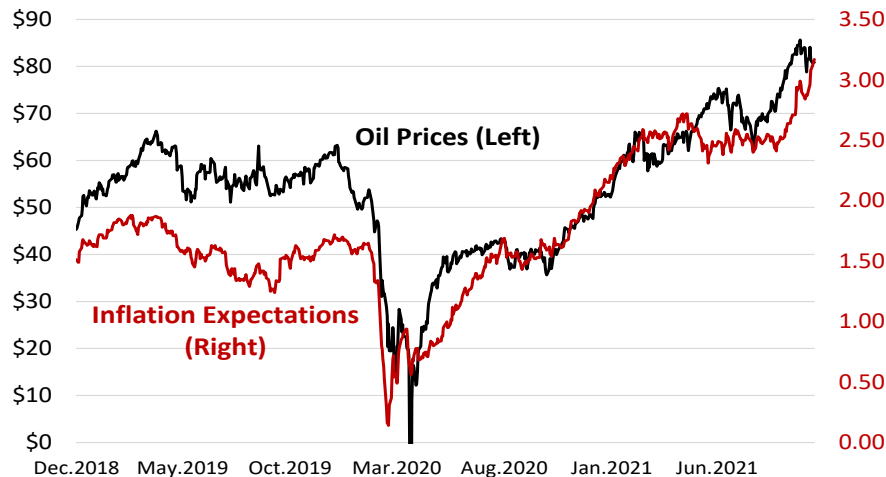
Percent



SOURCES: FRBNY, Haver Analytics, and University of Michigan

Data through Oct. 2021.

Inflation Expectations (5-Years Ahead) and Oil Prices

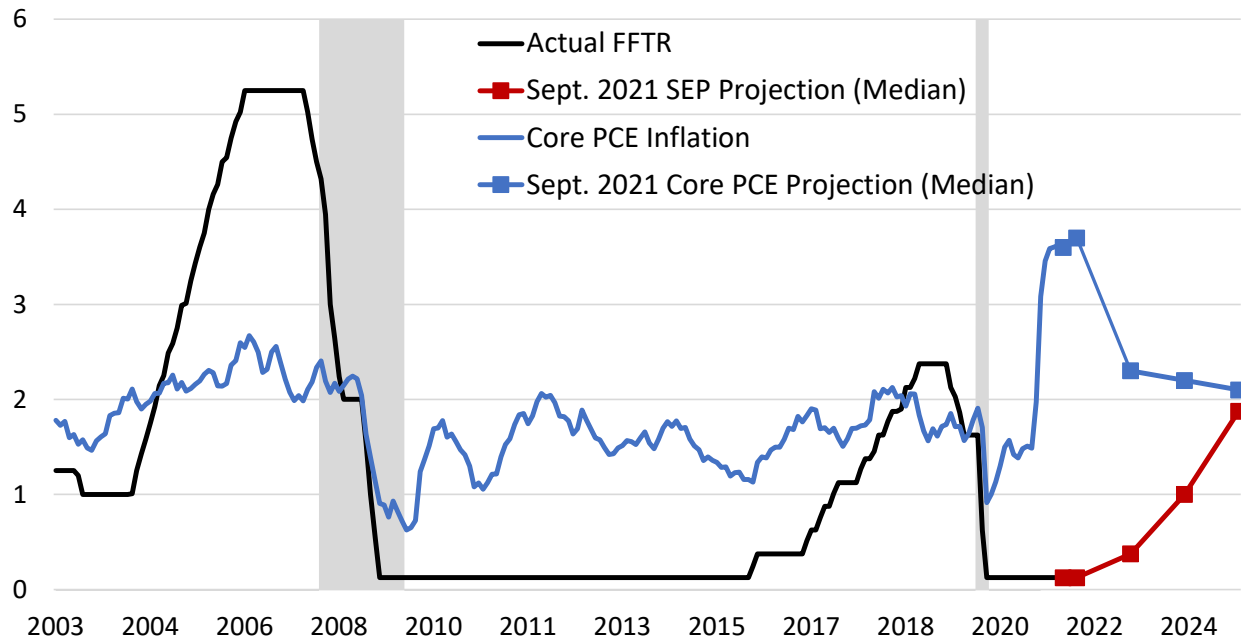


NOTE: Spot WTI was negative on 4/20.20. Last actual observation is Nov. 15, 2021.

Fed Policy: This Time is Different

Core Inflation and the FOMC's Federal Funds Target: Actual and Projected

Percent



SOURCE: Federal Reserve and Haver Analytics

Historically, the Fed started to tighten well before core inflation rose above 2%.

Upside Risks to Inflation: Key Factors

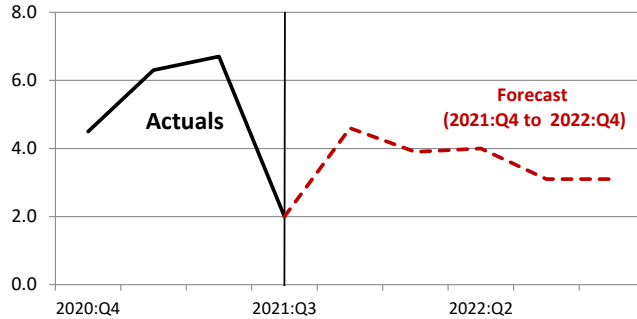
- Firms seem brazen in their willingness (and ability) to pass higher costs to consumers. See *WSJ* story on Oct. 25.
- Result: An apparent shift in inflation psychology (recall the Greenspan definition of price stability).
- Other factors (fiscal policy, rising rents, supply chains, wages).
- But a cautionary note: Extrapolating from the present can lead to large forecast errors!

The Consensus Forecast

Real
GDP

What Are Forecasters Predicting for Real GDP Growth?

Percent change at annual rates

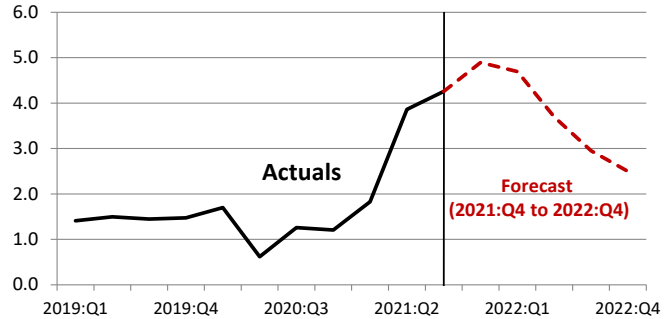


SOURCE: Survey of Professional Forecasters, November 2021.

Inflation

What Are Forecasters Predicting for PCE Price Inflation?

Percent change from Four Quarters Earlier

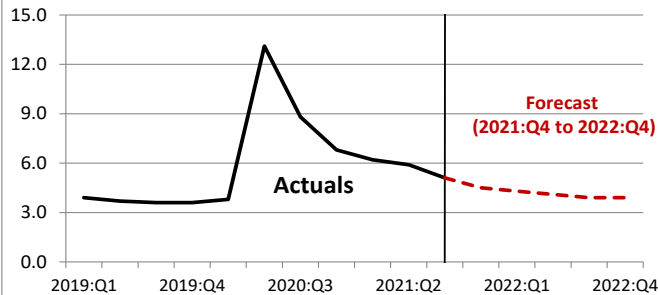


SOURCE: Survey of Professional Forecasters, November 2021.

Unemp.
Rate

What Are Forecasters Predicting for the Unemployment Rate?

Percent

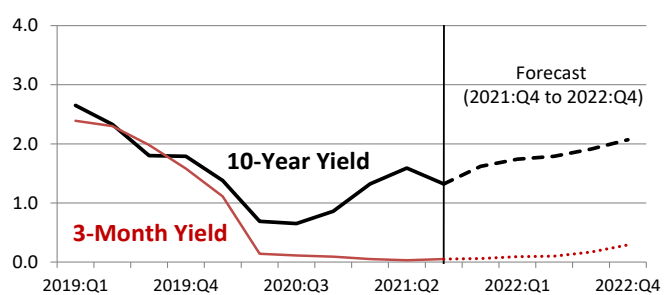


SOURCE: Survey of Professional Forecasters, November 2021.

Interest
Rates

What Are Forecasters Predicting for Short- and Long-Term Interest Rates?

Percent, at annual rates



SOURCE: Survey of Professional Forecasters, November 2021.

QUESTIONS?