The Post Covid-19 Economy and Economic Outlook

US APPLE – APPLE OUTLOOK 2022
CHICAGO, IL
AUGUST 18, 2022

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The views expressed here do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Federal Reserve System.
Economic Activity Had Been Solid, Now Slowing

Contributions to Growth

Source: Bureau of Economic Analysis/Haver Analytics; Created: 12 Aug 2022
Monthly Data Suggest Growth Just Below Trend

Chicago Fed National Activity Index (+ = Growth Above Trend)

Source: Federal Reserve Bank of Chicago/Haver Analytics; Created: 12 Aug 2022
Consumer Spending Weakened in May and June, Better in July

Retail Sales

Real Retail Sales

Monthly Real Retail Sales

Monthly Real Percent Change

Source: Census Bureau/Haver Analytics; Created: 17 Aug 2022
Note:CPI Deflated
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Consumer Confidence is Weak

Measures of Consumer Sentiment and Confidence

Confidence
- Conference Board
- Job Market/Job Security
- Situation good/expectations poor

Sentiment
- University of Michigan
- Pocketbook issues like gas prices
- Situation poor/expectations poor

Source: University of Michigan & The Conference Board/Haver Analytics; Created: 12 Aug 2022
On the Other Hand… Labor Markets Very Solid

Payroll Employment Level

Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022
Including the Recent Data

Payroll Employment Changes

<table>
<thead>
<tr>
<th></th>
<th>2021m1</th>
<th>2021m2</th>
<th>2021m3</th>
<th>2021m4</th>
<th>2021m5</th>
<th>2021m6</th>
<th>2021m7</th>
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<tbody>
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<td>Change in Jobs, Thousands</td>
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</tbody>
</table>

Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022
Some Industries are Lagging

Payroll Employment Relative to January 2020

- Total
- Leisure and Hospitality
- Prof & Business SVC
- Childcare
- Government

Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022
What About Farm Payrolls?

Payroll Employment Relative to 2020:Q1

Source: Bureau of Labor Statistics/Haver Analytics; Created: 15 Aug 2022
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Return of Pre-Pandemic Patterns

Measures of Labor Force Slack

Unemployment Rates Relative to January 2020

Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022
Tight Labor Market = Wage Increases

Source: Federal Reserve Bank of Atlanta/Haver Analytics; Created: 12 Aug 2022
Business Sentiment and Production Have Been Good but Slowing

Purchasing Manager's Index

Measures of Industrial Output

Source: Institute for Supply Management/Haver Analytics; Created: 12 Aug 2022

Source: Federal Reserve Board/Haver Analytics; Created: 12 Aug 2022
Inflation is too high

CPI Inflation Since 2012

Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022
Initially Narrow, Now Broad

Year over year percent change in price

Source: Calculations from Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022
Monetary policy is responding

Federal Funds Rate Target
(Percent, middle of target range)

Source: Federal Reserve Board via Haver Analytics
Interest Sensitive Sectors Responding to Higher Rates

Mortgage Rate 30 - Year Fixed

Source: Wall Street Journal/Haver Analytics; Created: 12 Aug 2022
Interest Sensitive Sectors Responding to Higher Rates

Starts and Permits

Source: Census Bureau/Haver Analytics; Created: 17 Aug 2022
Taking Stock

- Economic growth had been robust, but has been slowing

- Labor market is very strong, translating to higher wages

- Business sentiment is declining, but from high levels

- High inflation is leading to a strong monetary policy response that is being felt in interest sensitive sectors
Looking Forward

Baseline Scenario is for a “soft landing” – the monetary policy response is sufficient to bring down inflation while sustaining a strong labor market.

There are substantial downside risks.
Inflation forecast

Personal Consumption Expenditures (PCE) Price Index
(Percent change from 4 quarters ago)

Actual

Fed 2% average target for Total PCE inflation

Median June SEP

Source: BEA and Federal Reserve Board via Haver Analytics
Unemployment forecast

Unemployment Rate
(Percent, quarterly average)

Source: BLS and Federal Reserve Board via Haver Analytics
Four Questions About What Happens From Here

1. Will inflation dissipate or become entrenched?

2. Will low confidence and high inflation translate into weaker spending?

3. Will labor supply continue to recover?

4. Will supply chains get better?
1. Will inflation dissipate?

Expectations – declined in markets, same in surveys

Source: Federal Reserve Board/Haver Analytics; Created: 12 Aug 2022
1. Will inflation dissipate?
Will the forces pushing prices higher cool or reverse?

Commodity Price Index

Source: Commodity Research Bureau/Haver Analytics; Created: 12 Aug 2022

Consumer Price Index

Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022
2. Will low confidence translate into weaker spending?
3. Will labor supply recover?

![Graph showing labor force participation rate relative to January 2020]

Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022

Labor Force Participation Rate Relative to January 2020

Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022
4. Will supply chains continue to get better?

New York Fed’s Global Supply Chain Pressure Index

**Estimates for July 2022**

- Global supply chain pressures declined in July, continuing the easing observed over the past two months.
- The July decline was uniform across most of the subcomponents of our index.
- The moves in the GSCPI from the beginning of 2022 suggest that although global supply chain pressures have been decreasing, they remain at historically high levels.
Summary

- Growth is slow, labor market is strong, one month of good news on inflation
- Baseline scenario is inflation dissipates, supply chains improve and labor markets remain solid.
- Downside risks are substantial.
Please Engage With Us

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