

The Post Covid- 19 Economy and Economic Outlook



US APPLE – APPLE OUTLOOK 2022

CHICAGO, IL

AUGUST 18, 2022

LESLIE MCGRANAHAN

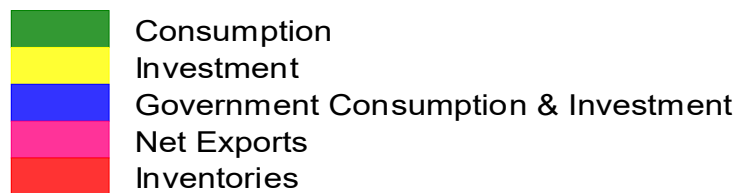
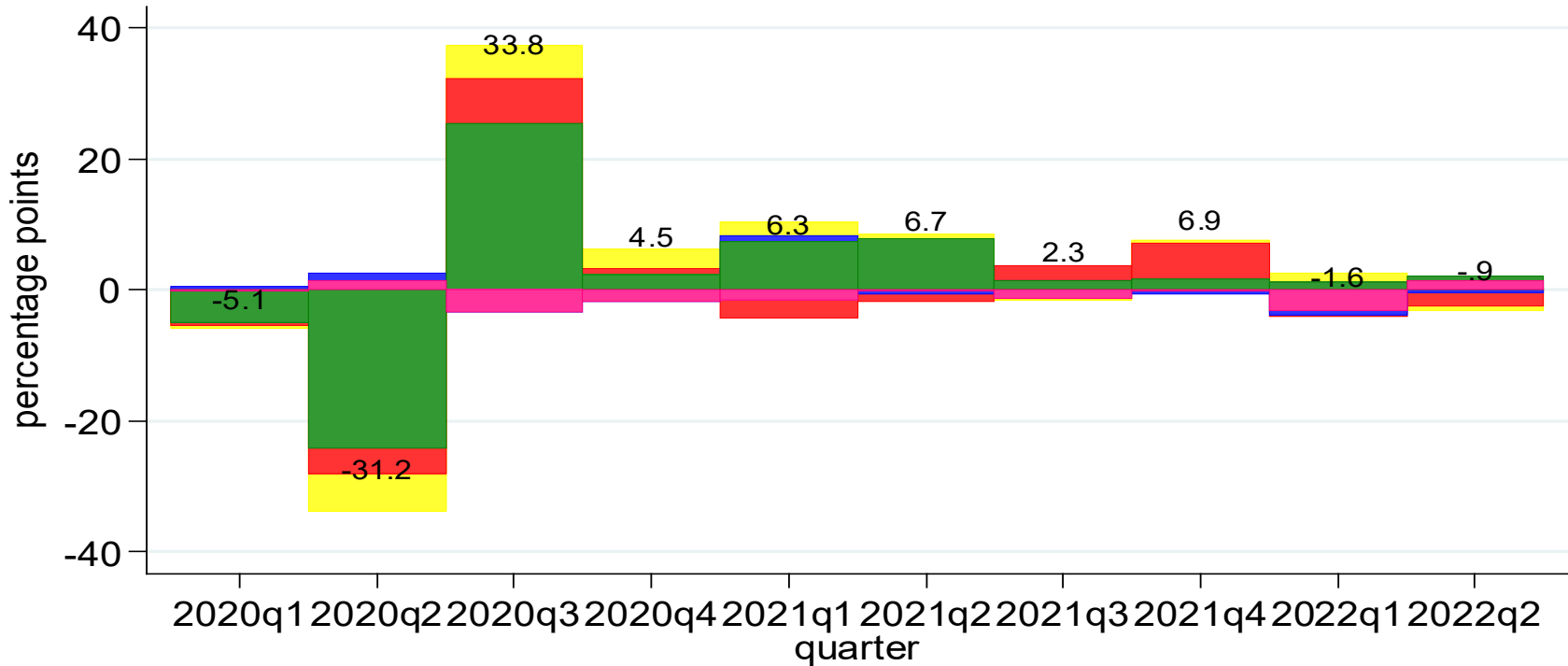
VICE PRESIDENT AND DIRECTOR OF REGIONAL RESEARCH

FEDERAL RESERVE BANK OF CHICAGO

The views expressed here do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Federal Reserve System.

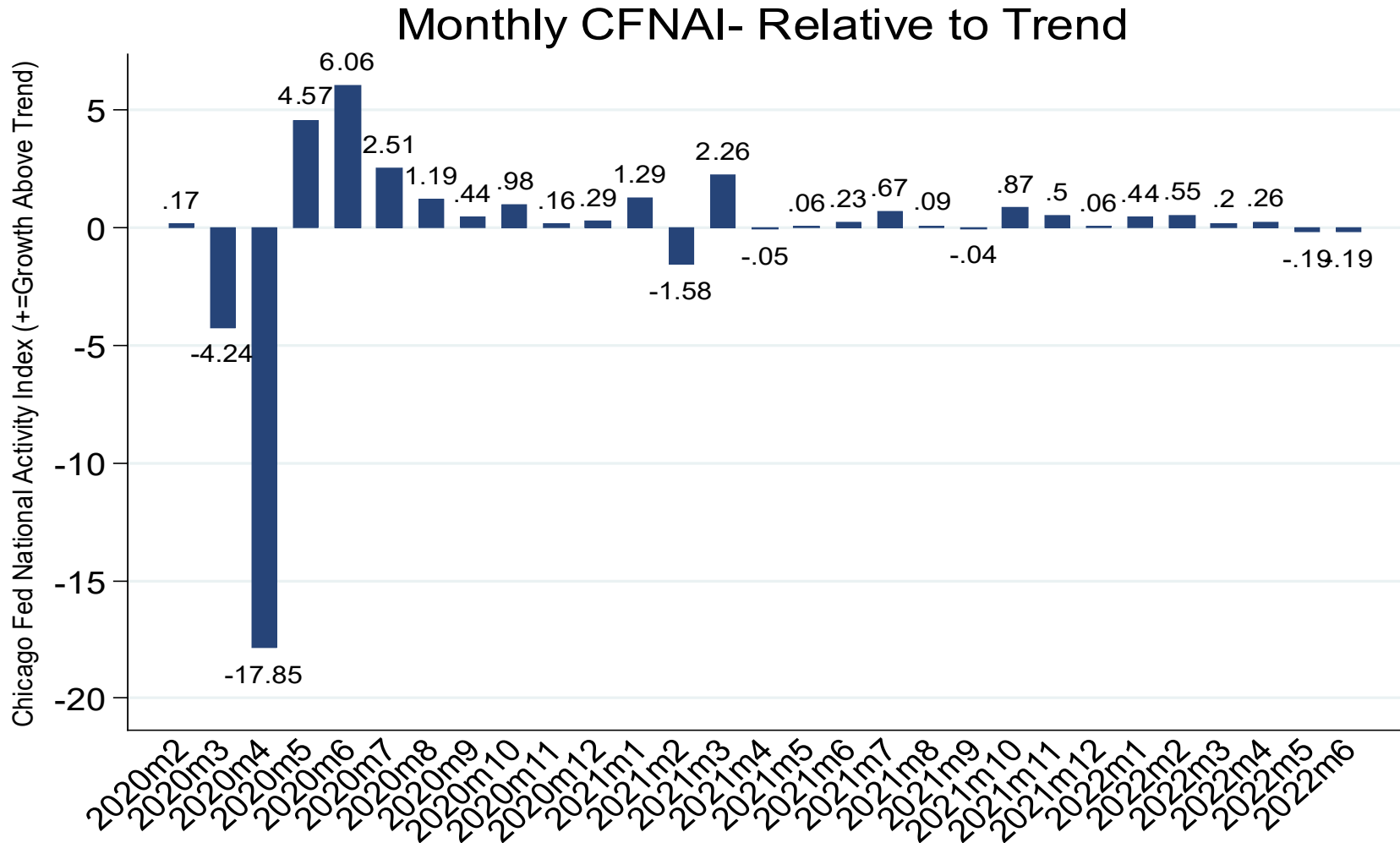
Economic Activity Had Been Solid, Now Slowing

Contributions to Growth



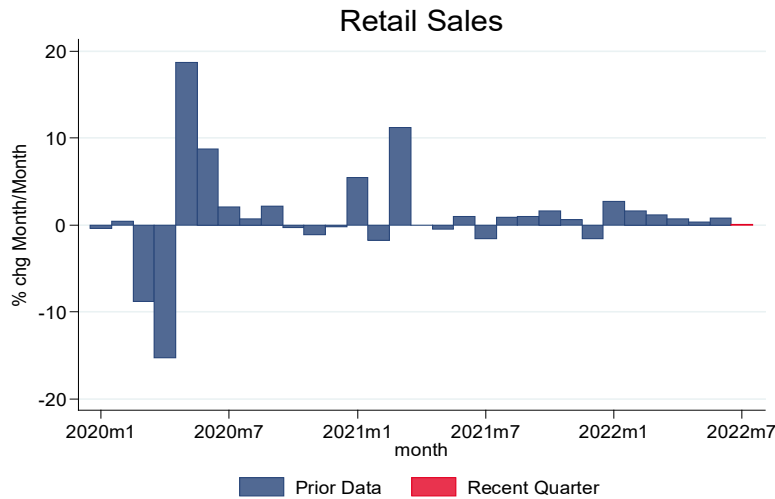
Source: Bureau of Economic Analysis/Haver Analytics; Created: 12 Aug 2022

Monthly Data Suggest Growth Just Below Trend

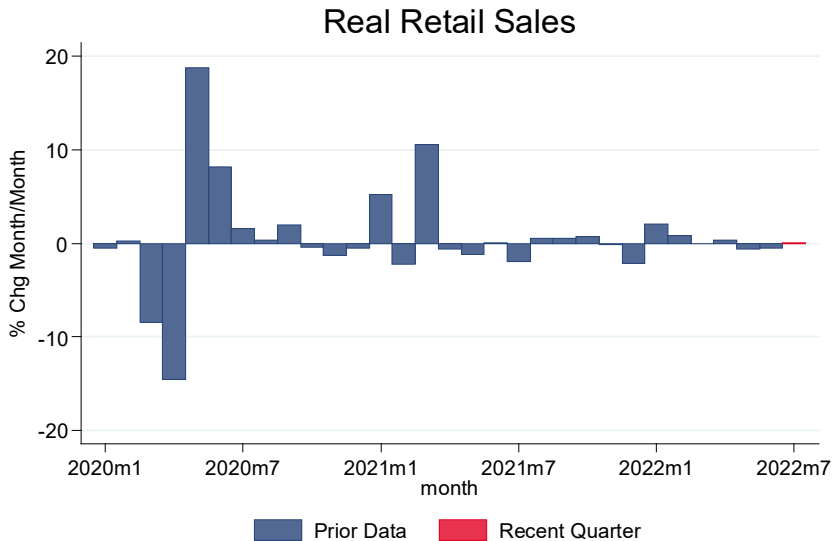


Source: Federal Reserve Bank of Chicago/Haver Analytics; Created: 12 Aug 2022

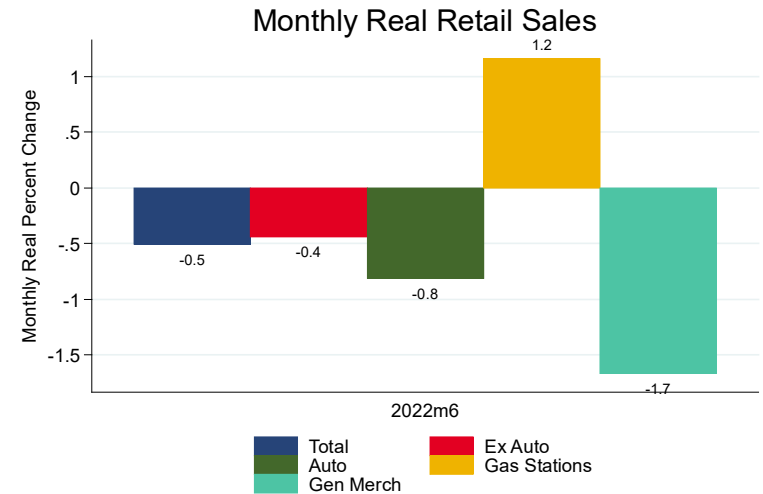
Consumer Spending Weakened in May and June, Better in July



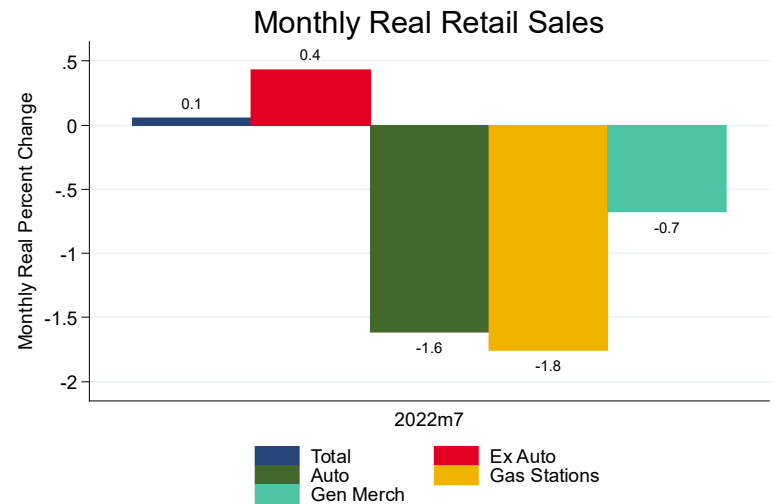
Source: Census Bureau/Haver Analytics; Created: 17 Aug 2022



Source: Census Bureau/Haver Analytics; Created: 17 Aug 2022
Note: CPI Deflated



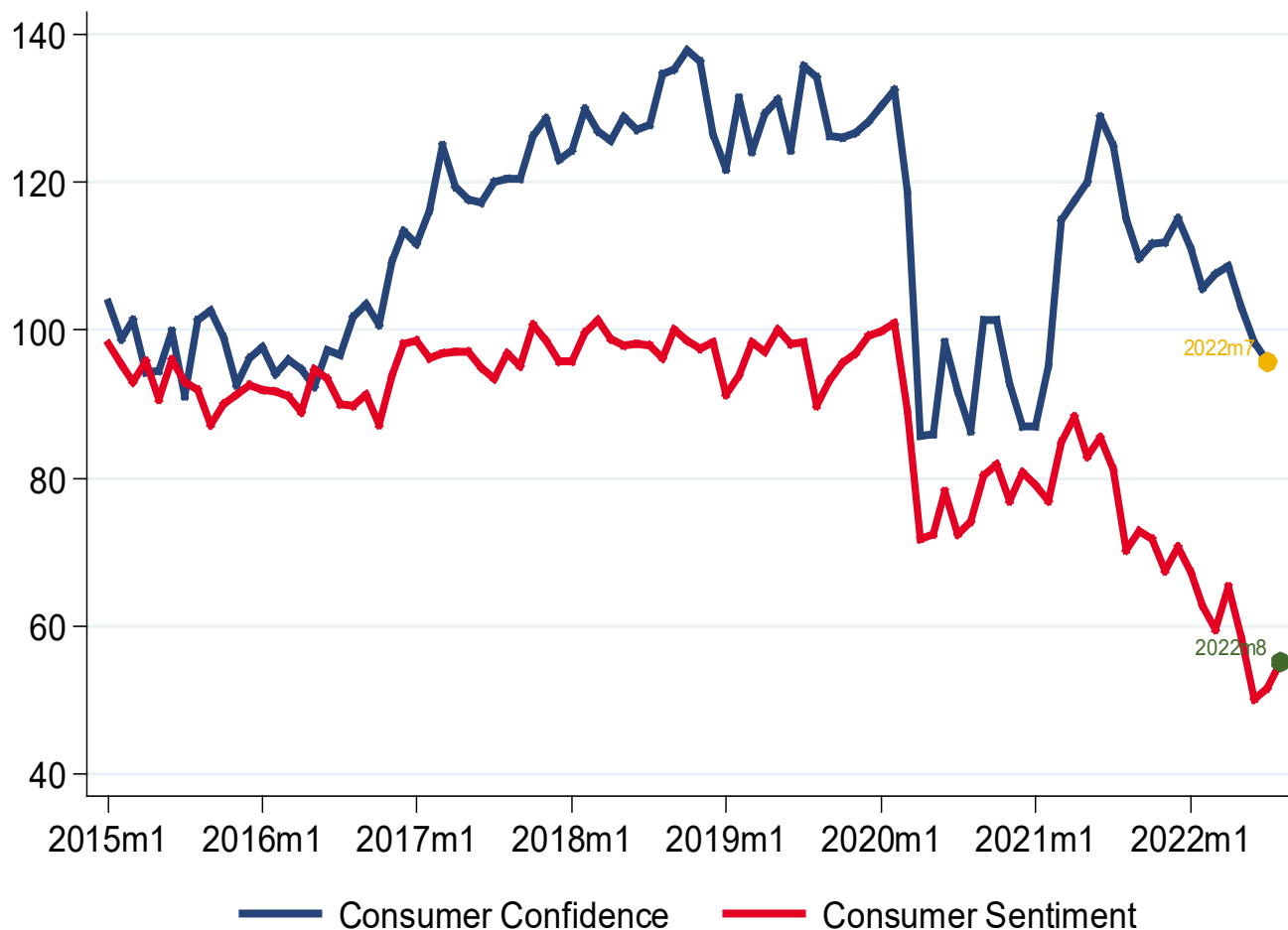
Source: Census Bureau/Haver Analytics; Created: 17 Aug 2022
Note: CPI Deflated



Source: Census Bureau/Haver Analytics; Created: 17 Aug 2022
Note: CPI Deflated

Consumer Confidence is Weak

Measures of Consumer Sentiment and Confidence



Confidence

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

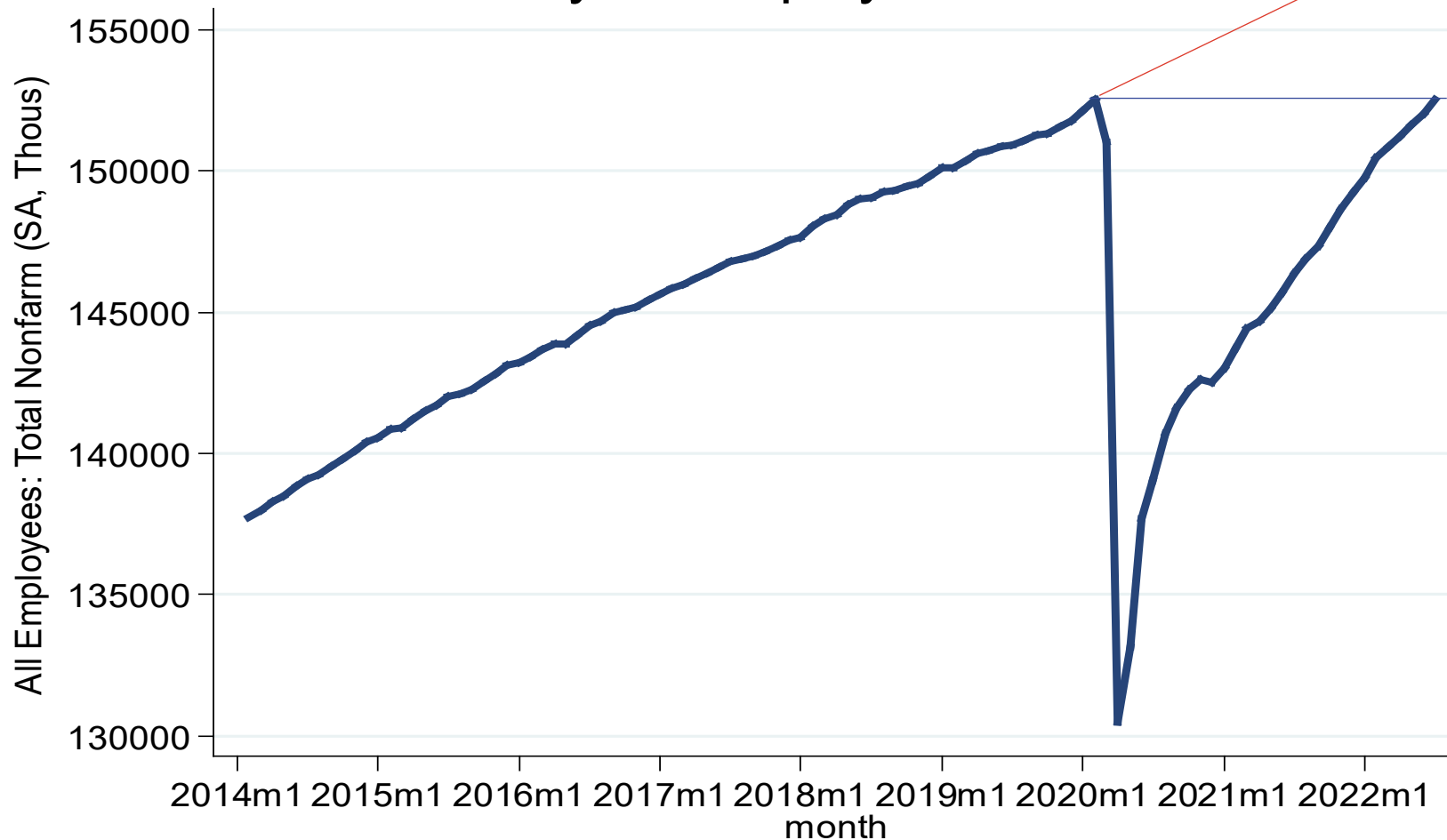
Sentiment

- 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

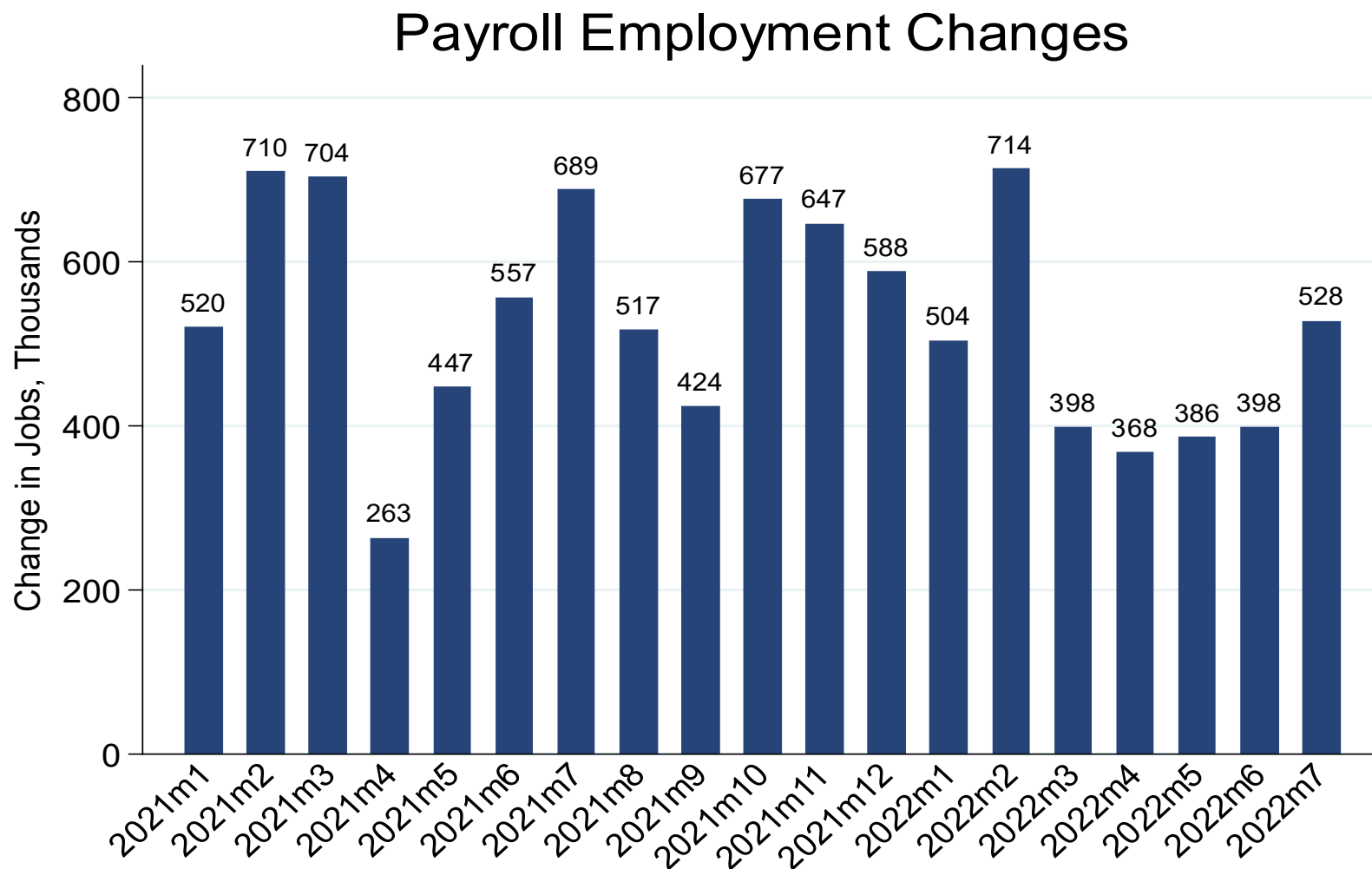
On the Other Hand... Labor Markets Very Solid

Payroll Employment Level



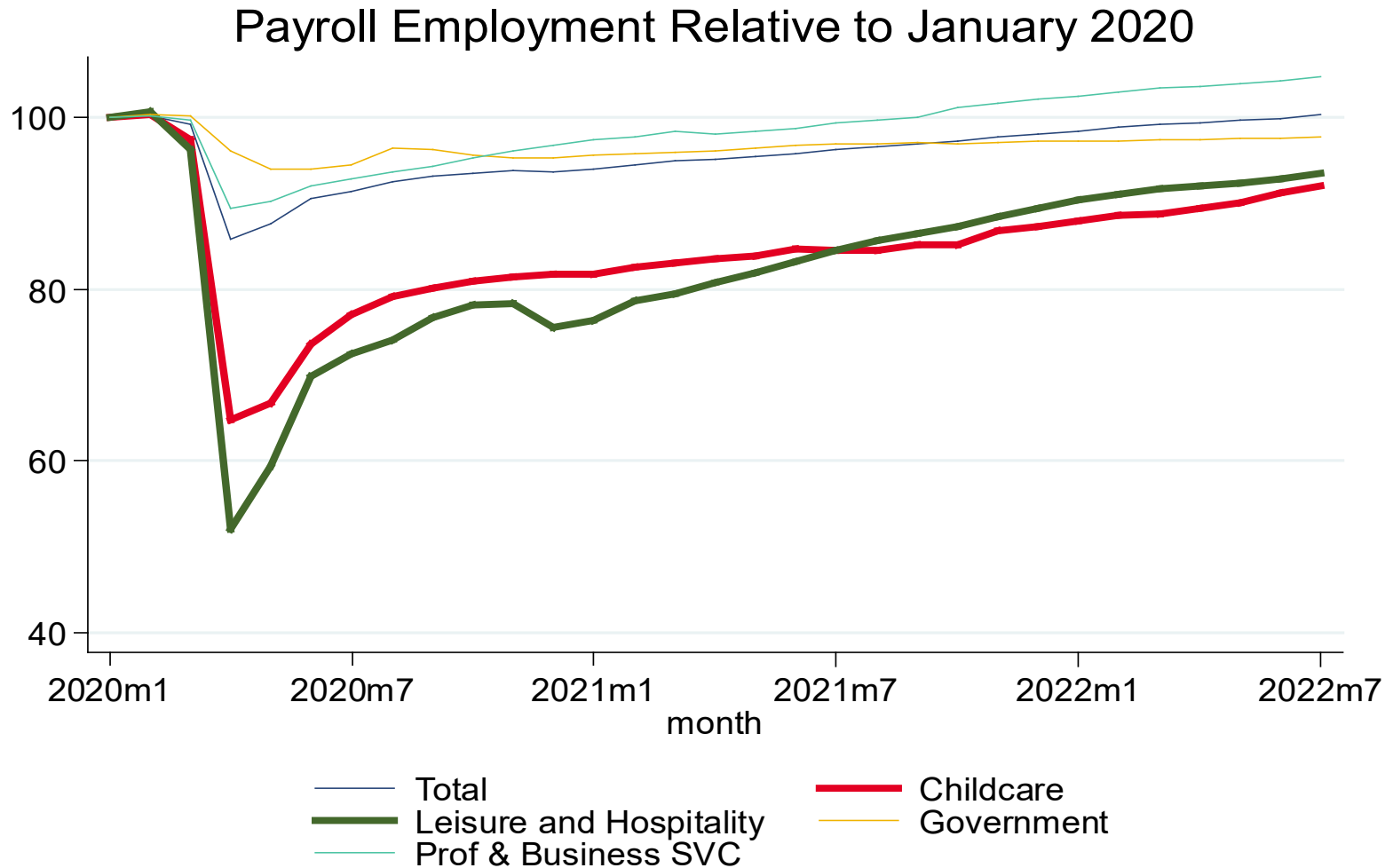
Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022

Including the Recent Data



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

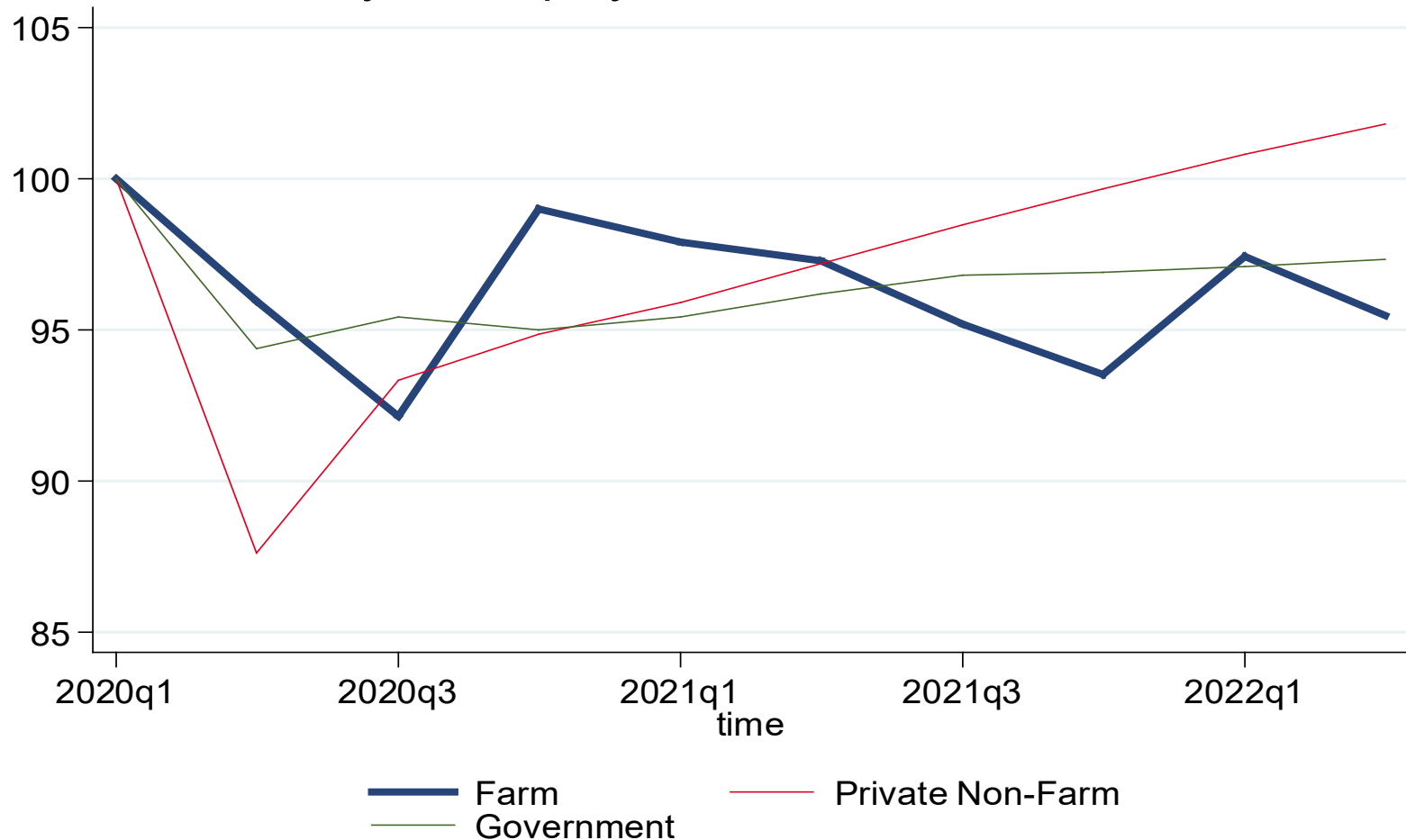
Some Industries are Lagging



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

What About Farm Payrolls?

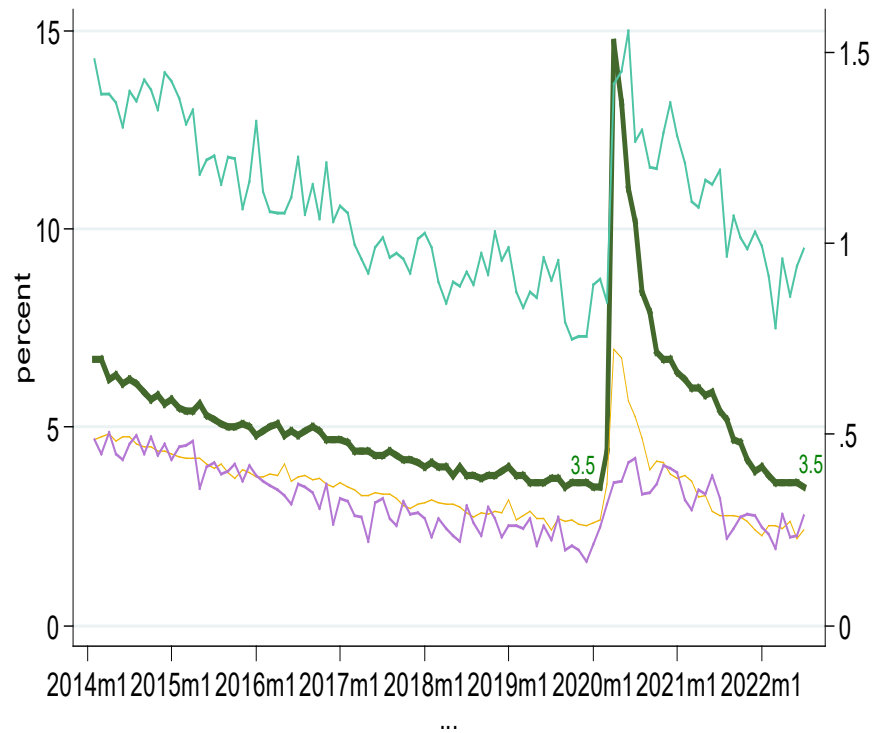
Payroll Employment Relative to 2020:Q1



Source: Bureau of Labor Statistics/Haver Analytics; Created: 15 Aug 2022

Return of Pre Pandemic Patterns

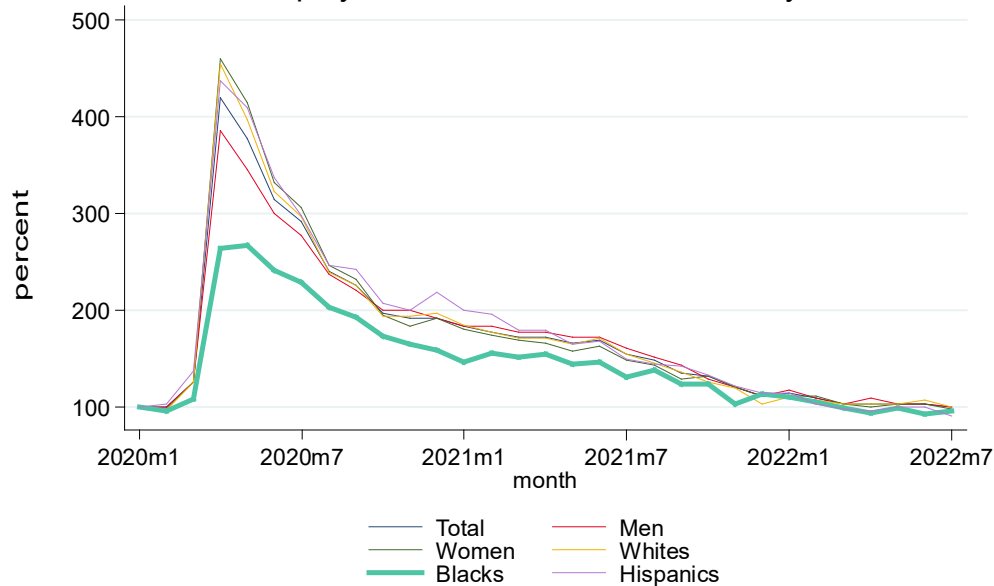
Measures of Labor Force Slack



— Unemployment Rate — Part Time for Economic Reasons
— Marginally Attached (Right Axis) — Discouraged (Right Axis)

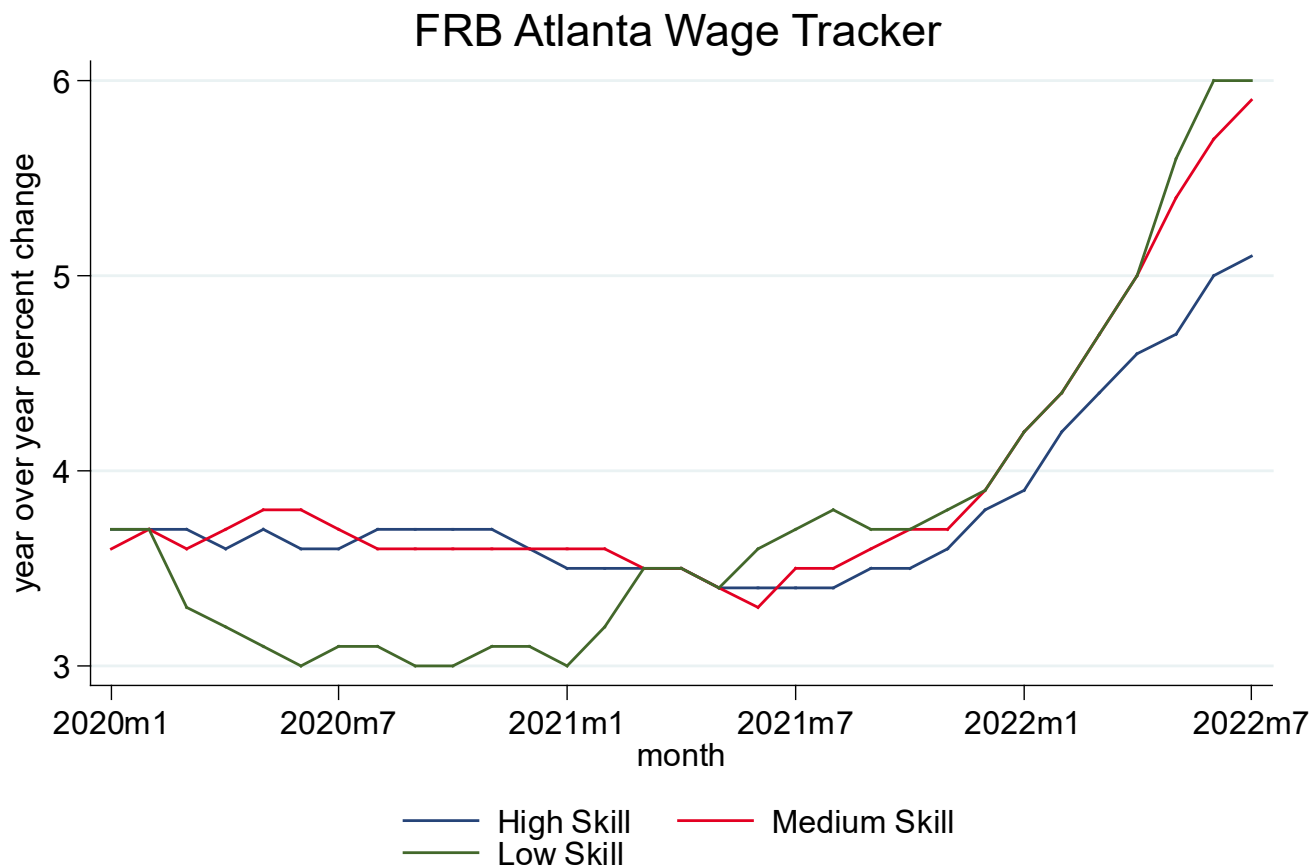
Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022

Unemployment Rates Relative to January 2020



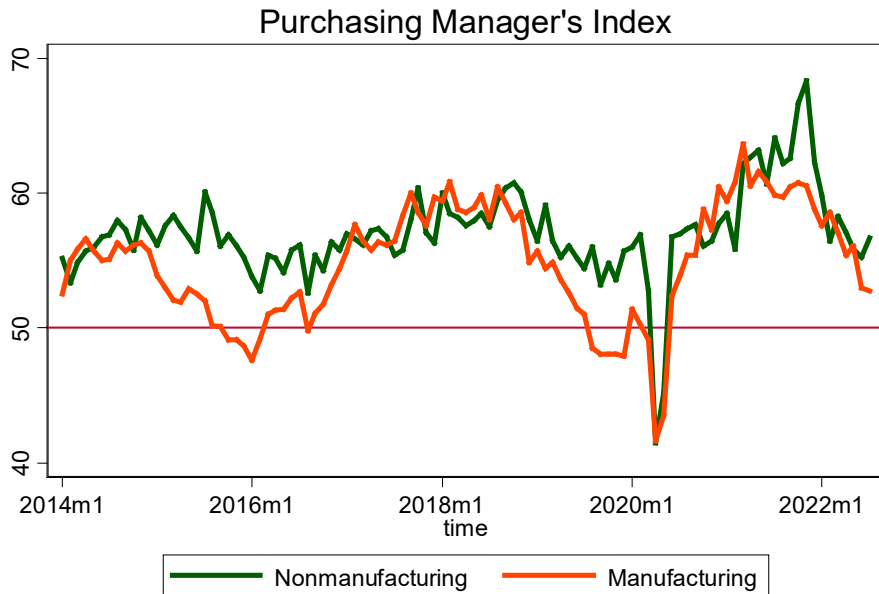
Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022

Tight Labor Market = Wage Increases

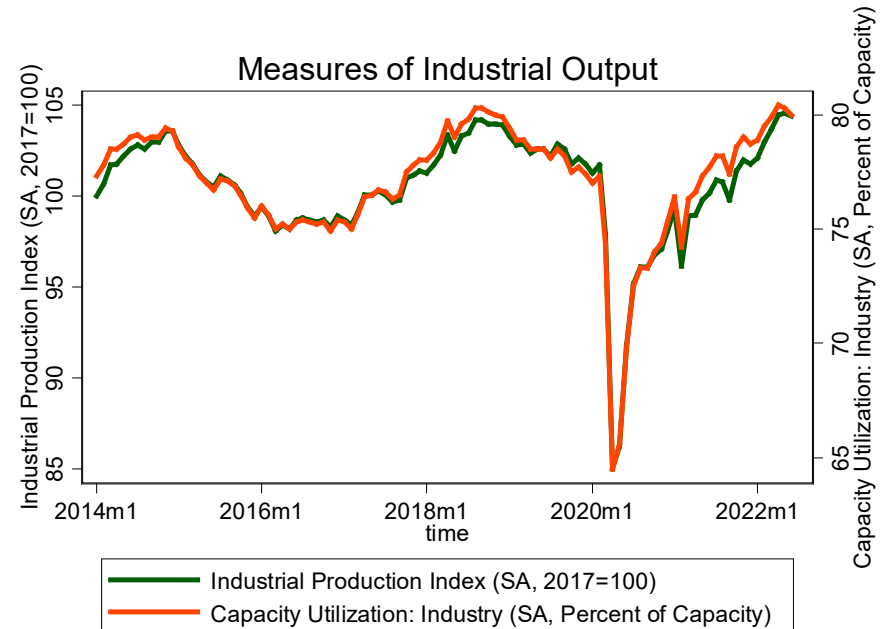


Source: Federal Reserve Bank of Atlanta/Haver Analytics; Created: 12 Aug 2022

Business Sentiment and Production Have Been Good but Slowing



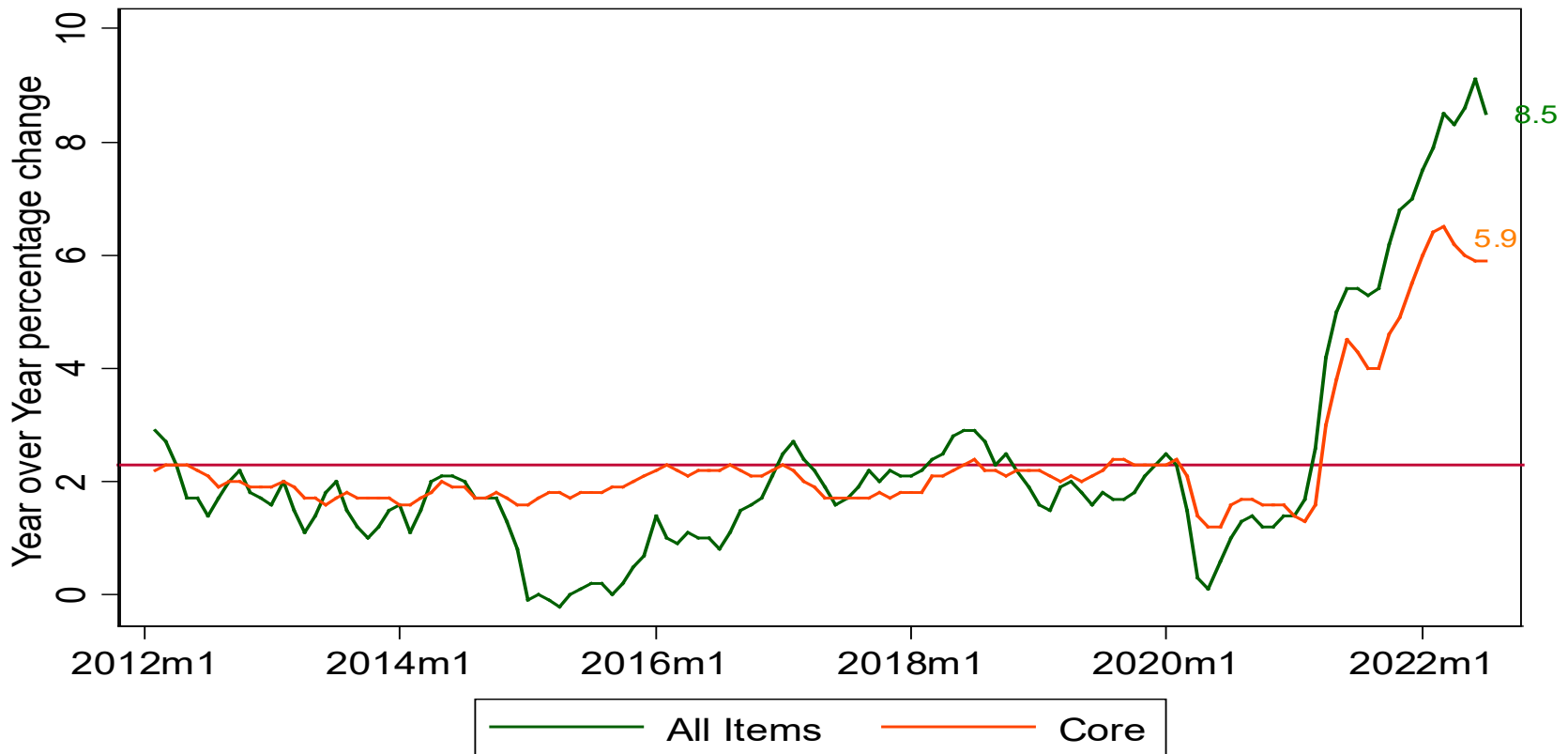
Source: Institute for Supply Management/Haver Analytics; Created: 12 Aug 2022



Source: Federal Reserve Board/Haver Analytics; Created: 12 Aug 2022

Inflation is too high

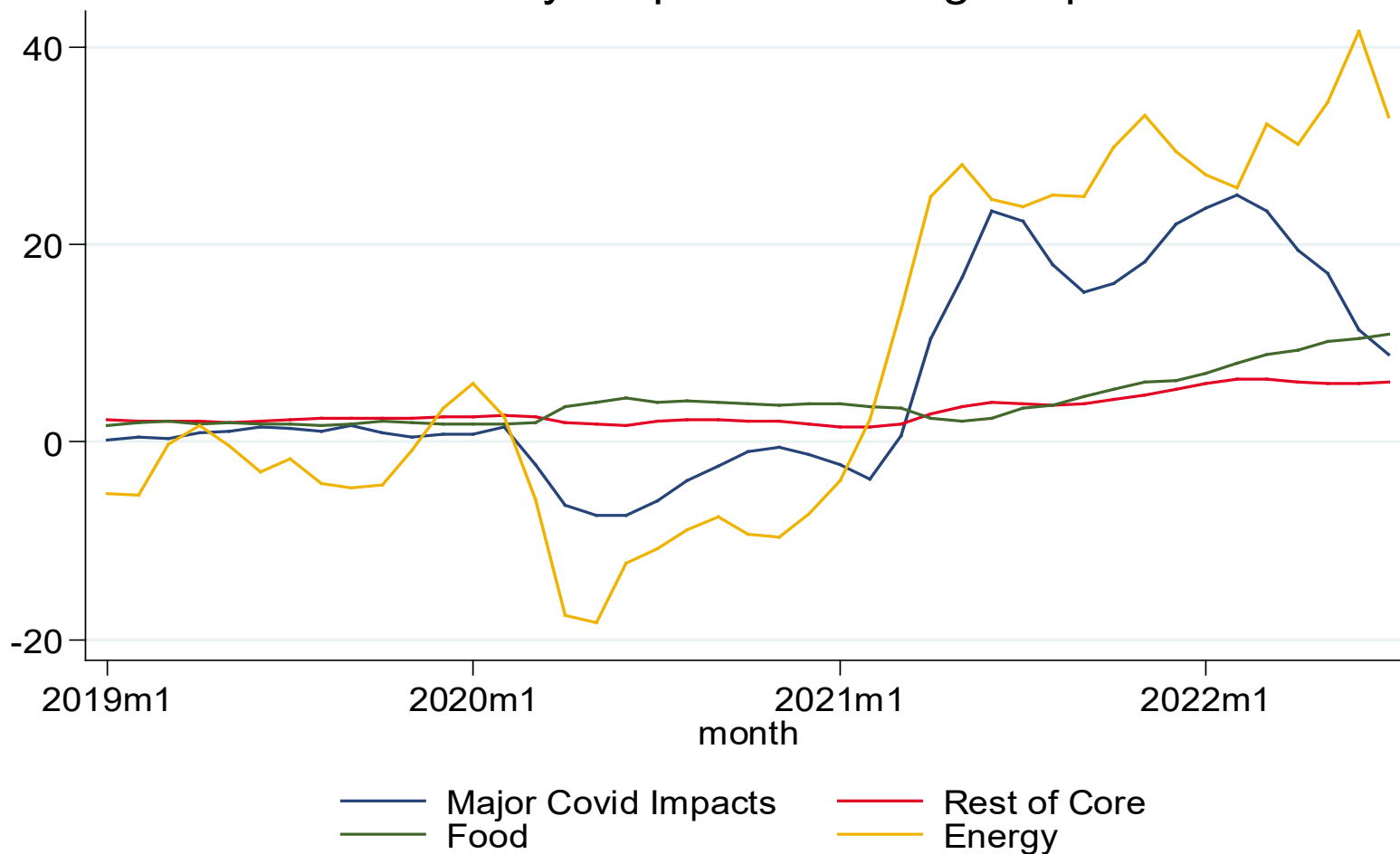
CPI Inflation Since 2012



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

Initially Narrow, Now Broad

Year over year percent change in price

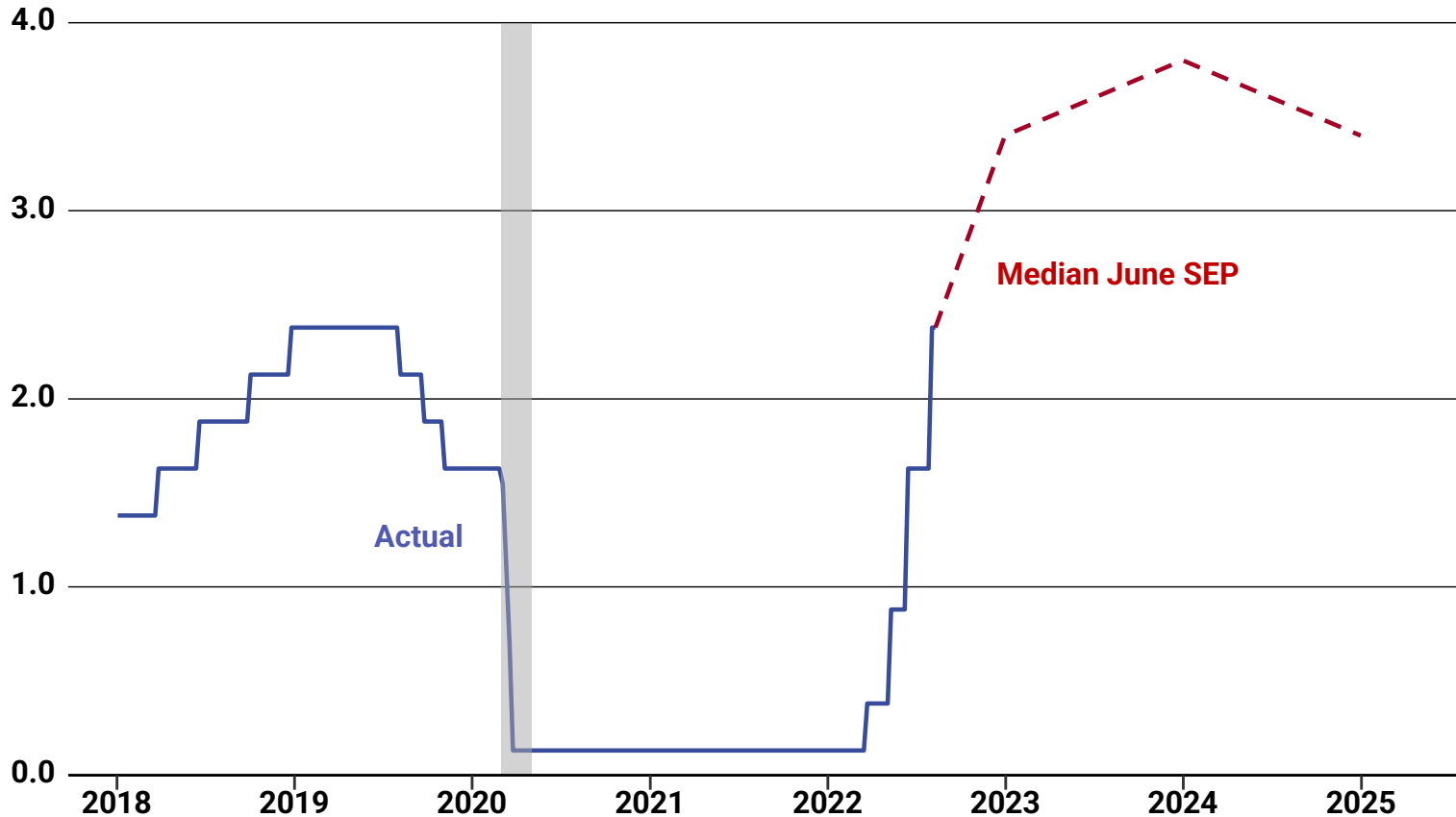


Source: Calculations from Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022

Monetary policy is responding

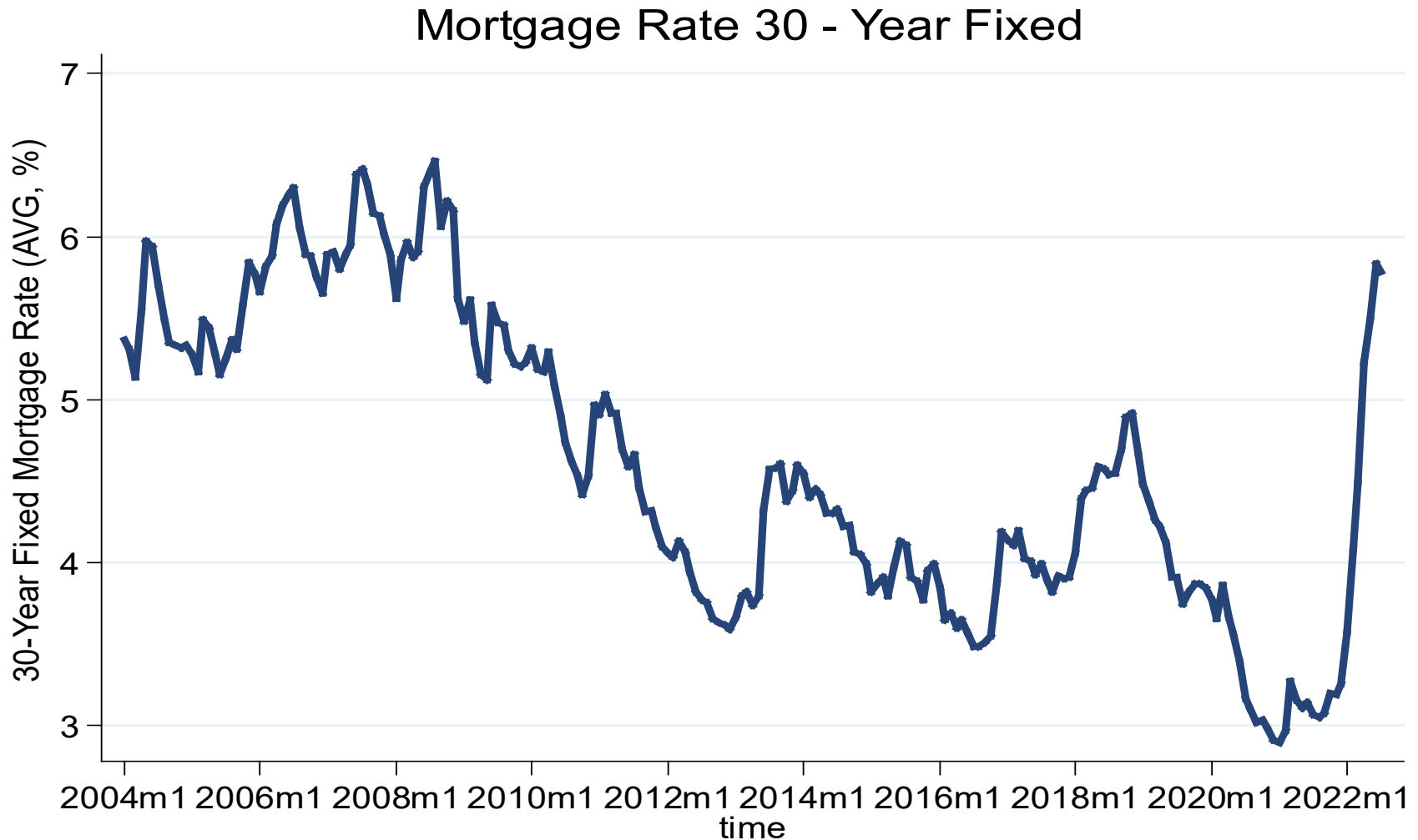
Federal Funds Rate Target

(Percent, middle of target range)



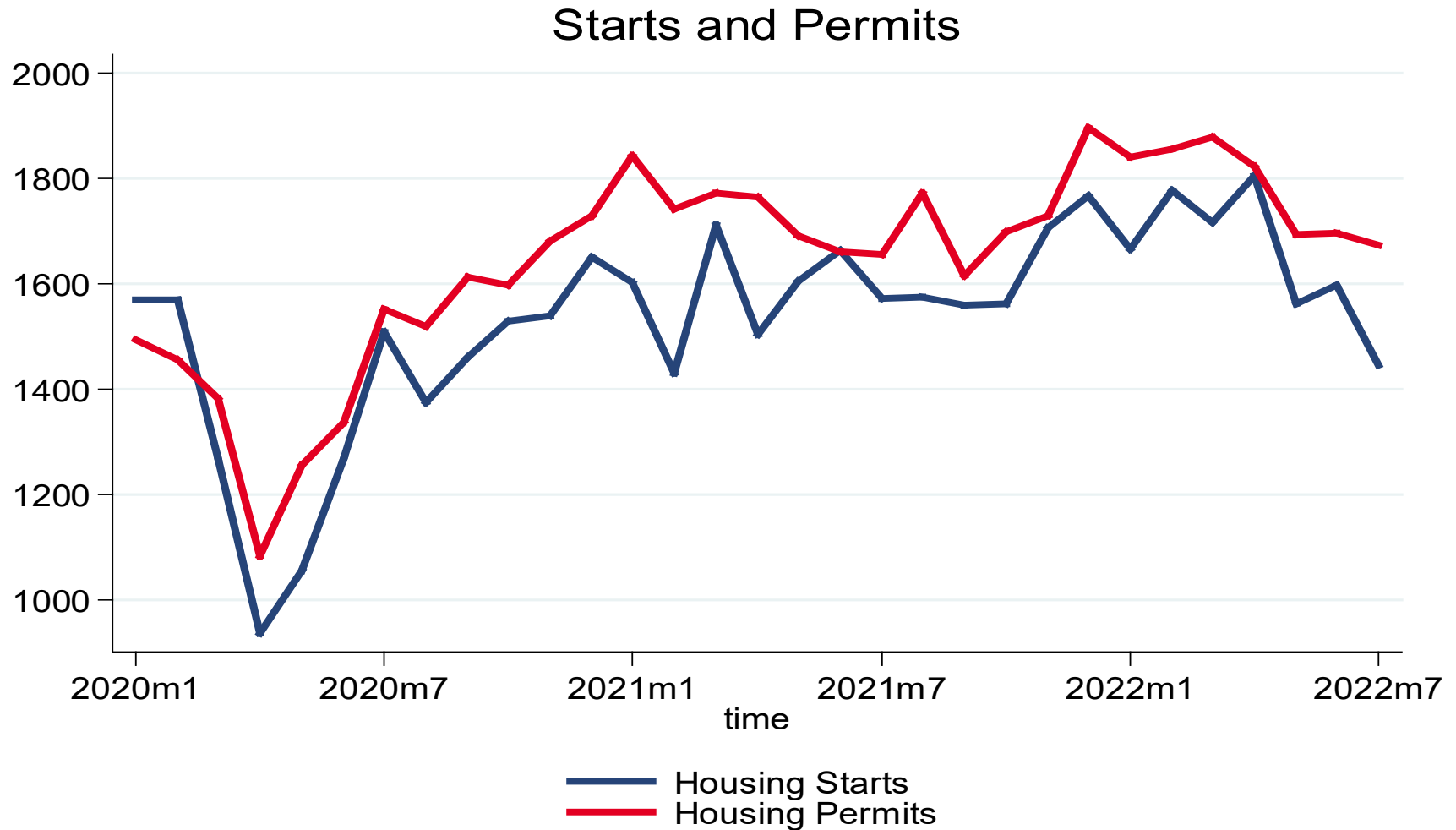
Source: Federal Reserve Board via Haver Analytics

Interest Sensitive Sectors Responding to Higher Rates



Source: Wall Street Journal/Haver Analytics; Created: 12 Aug 2022

Interest Sensitive Sectors Responding to Higher Rates



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

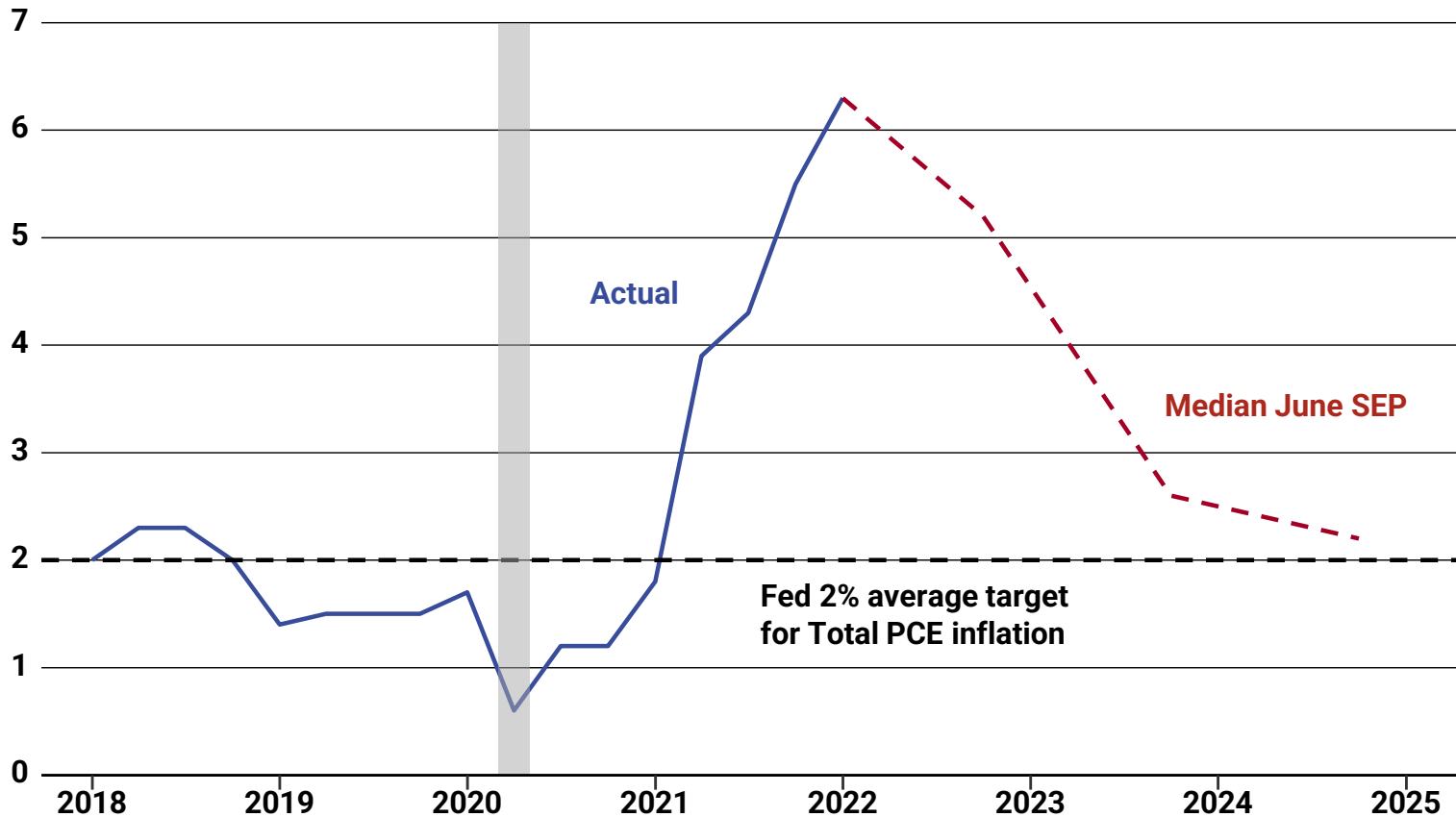
Baseline Scenario is for a “soft landing” – the monetary policy response is sufficient to bring down inflation while sustaining a strong labor market.

There are substantial downside risks.

Inflation forecast

Personal Consumption Expenditures (PCE) Price Index

(Percent change from 4 quarters ago)

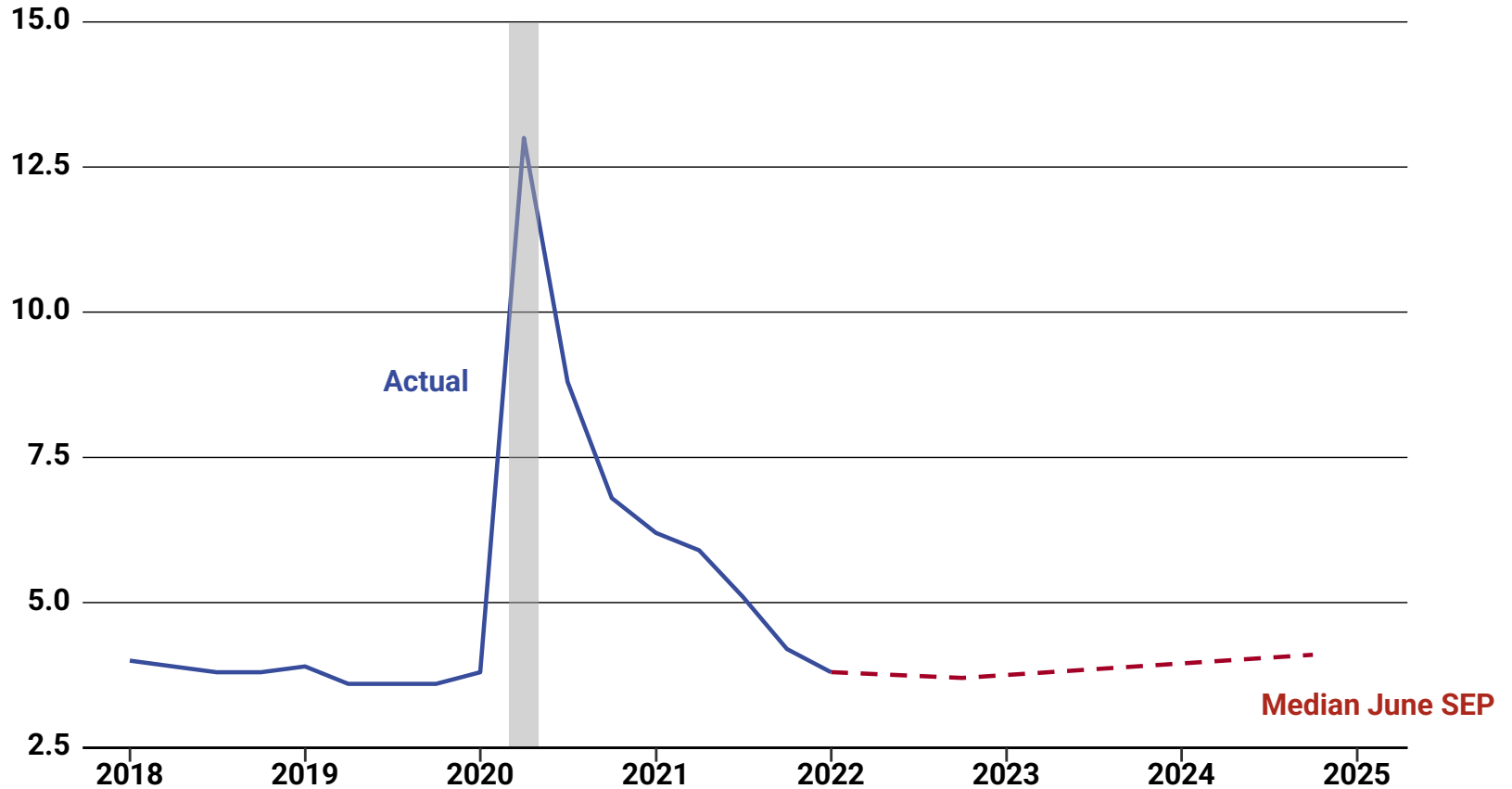


Source: BEA and Federal Reserve Board via Haver Analytics

Unemployment forecast

Unemployment Rate

(Percent, quarterly average)



Source: BLS and Federal Reserve Board via Haver Analytics

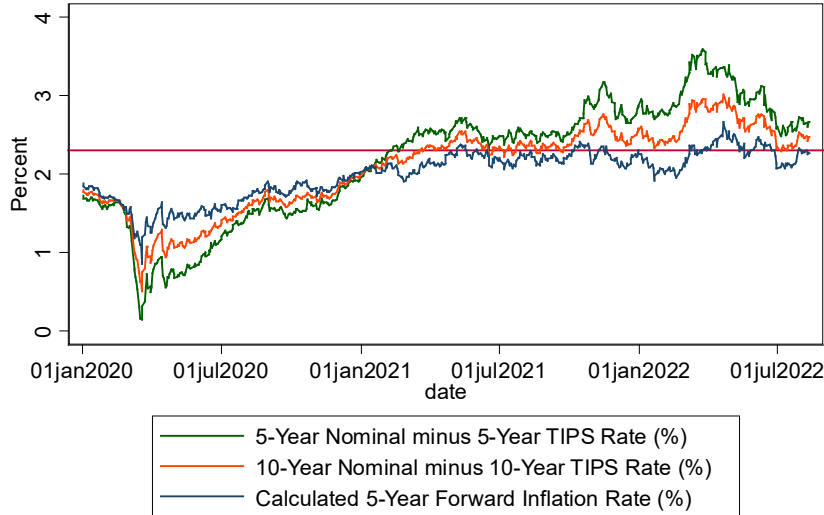
Four Questions About What Happens From Here

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?

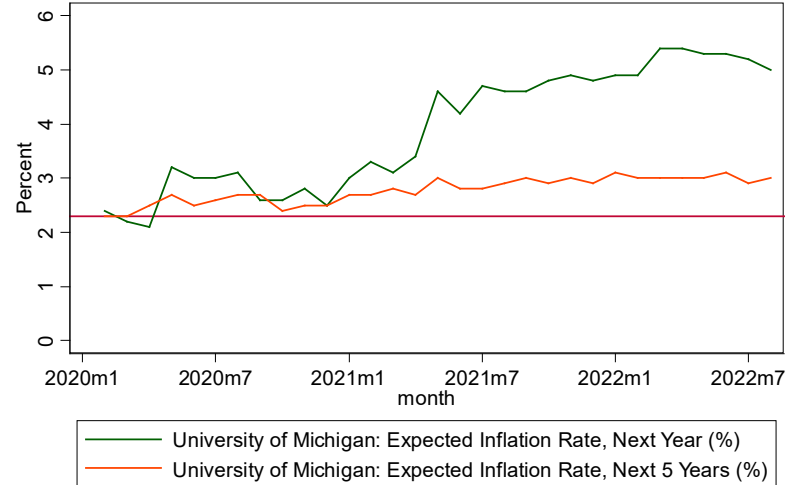
Expectations –declined in markets, same in surveys

TIPS Implied Inflation



Source: Federal Reserve Board/Haver Analytics; Created: 12 Aug 2022

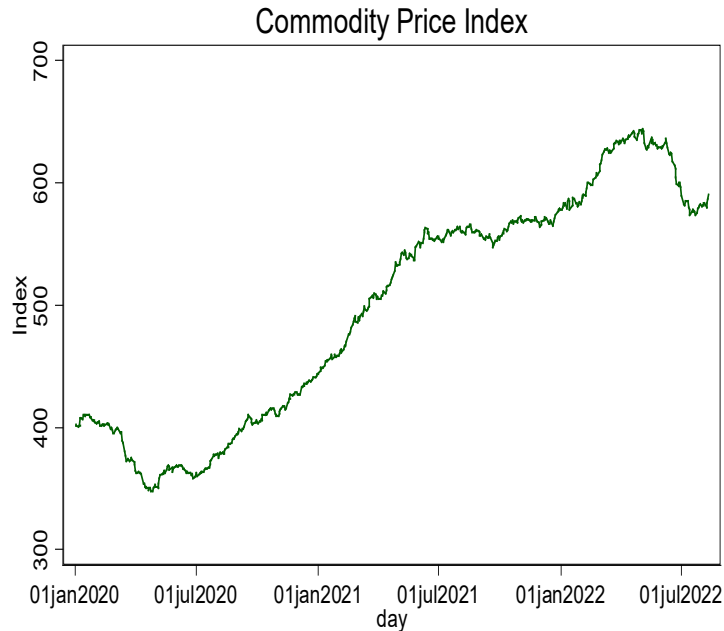
Inflation Expectations



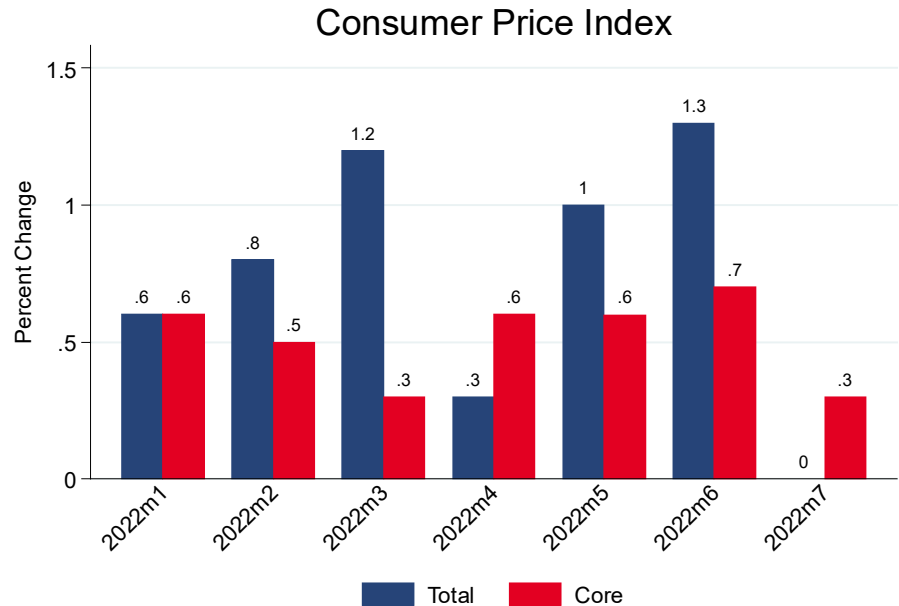
Source: University of Michigan/Haver Analytics; Created: 12 Aug 2022

1. Will inflation dissipate?

Will the forces pushing prices higher cool or reverse?

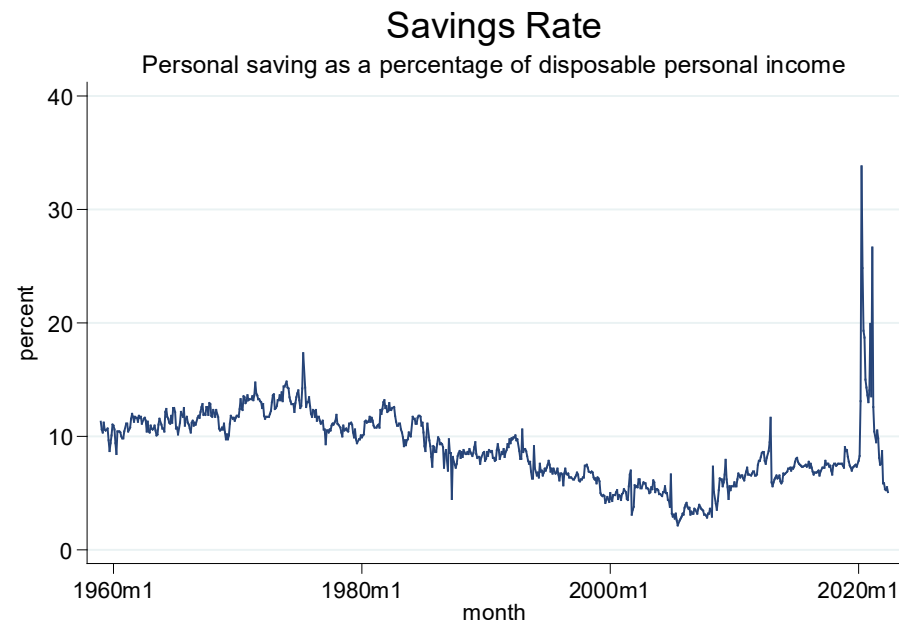
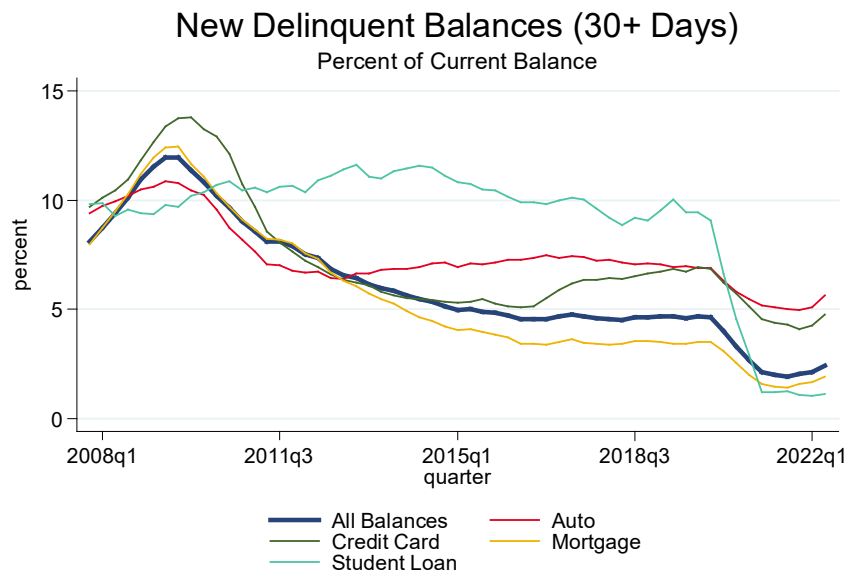


Source: Commodity Research Bureau/Haver Analytics; Created: 12 Aug 2022



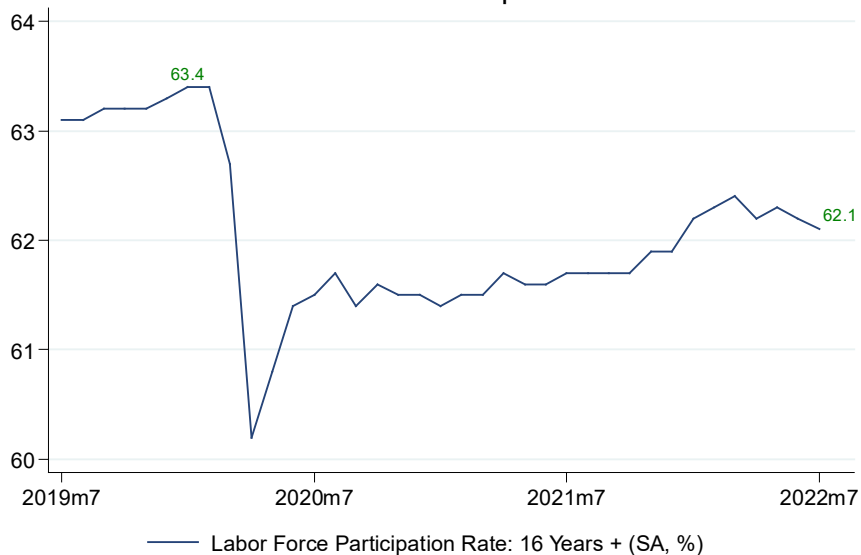
Source: Bureau of Labor Statistics/Haver Analytics; Created: 12 Aug 2022

2. Will low confidence translate into weaker spending?



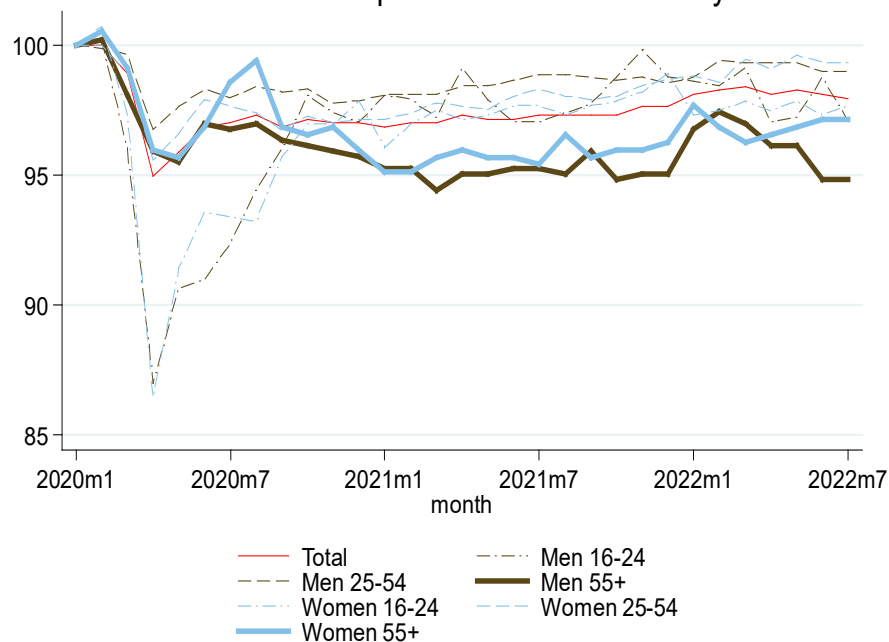
3. Will labor supply recover?

Labor Force Participation Rate



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

Labor Force Participation 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.

Latest Update July 2022

Enter a date range to see monthly estimates or use the slider below to view a specific date range.

Standard deviations from average value

From To

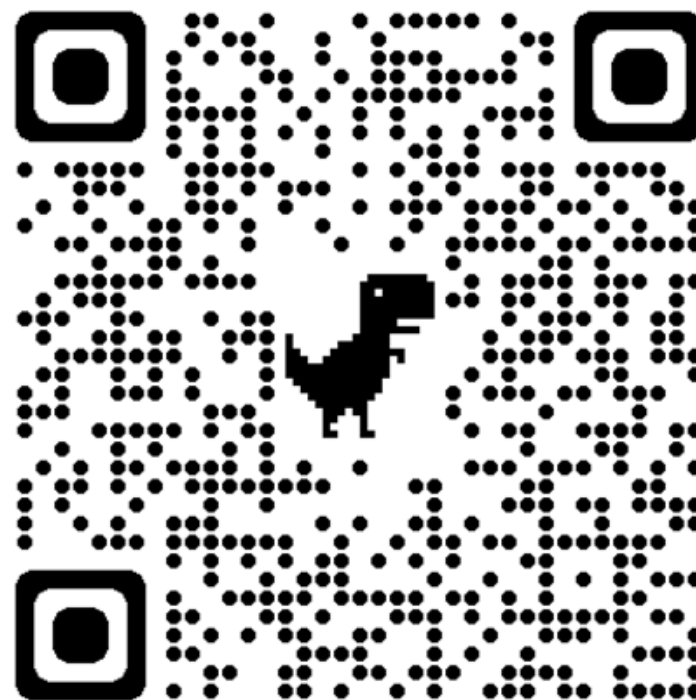


Summary

- 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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