Economics

US Macro Outlook

Optimism for a year-end acceleration, but challenges remain

State of Rhode Island

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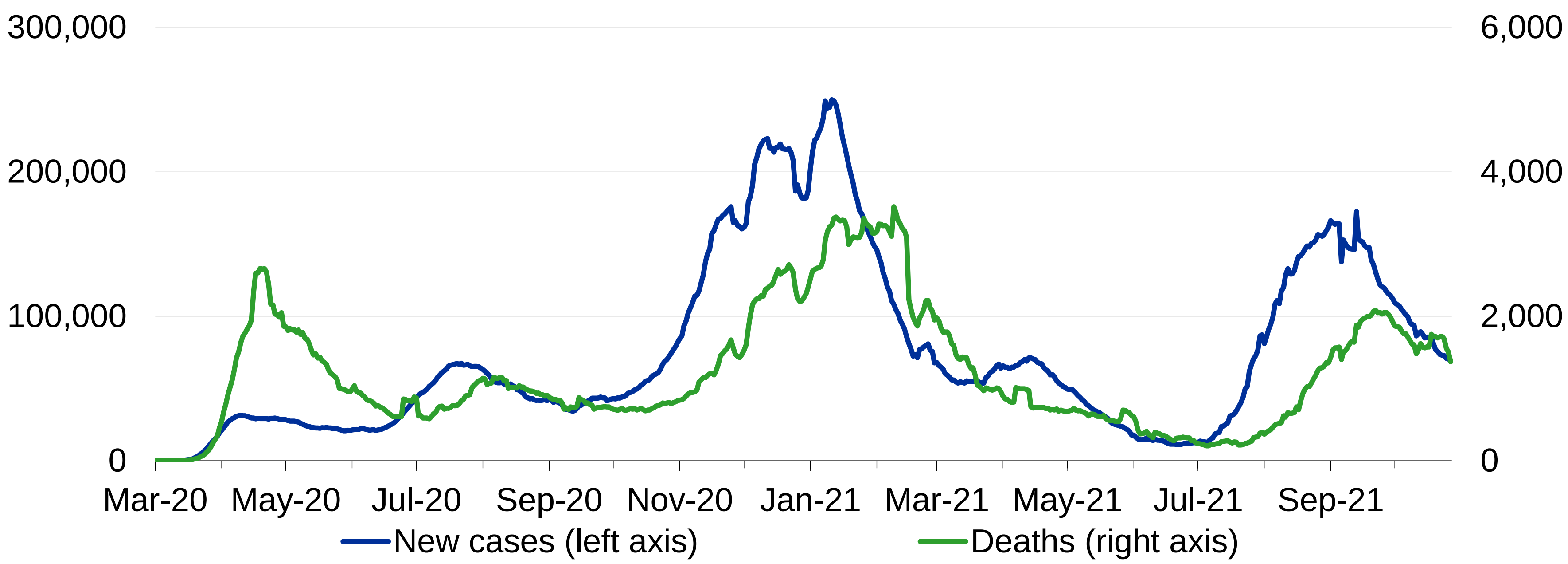
IHS Markit™

Worst of the Delta wave is behind us

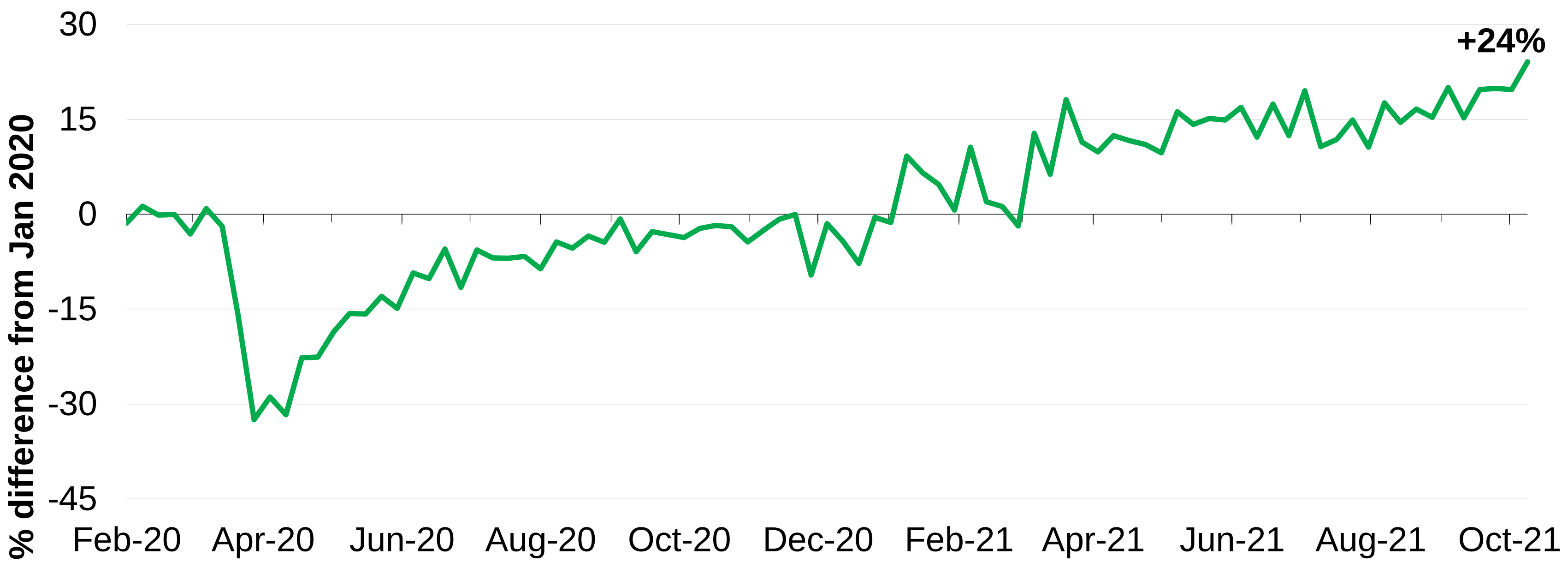
US COVID-19 cases, 7-day moving average



Source: Johns Hopkins University

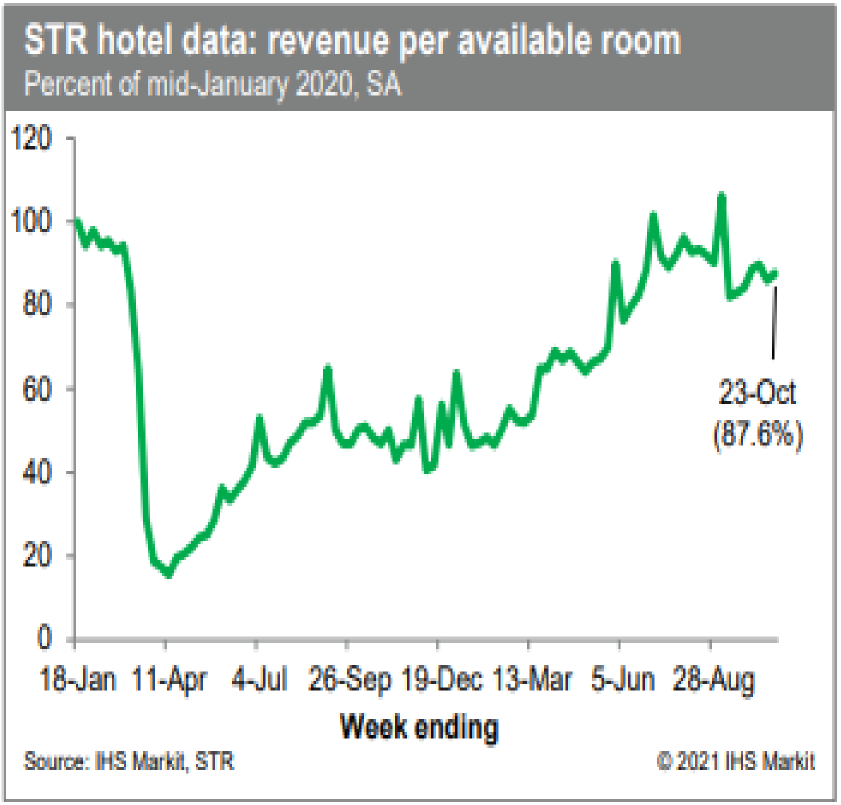
Spending likely ramped back up in October

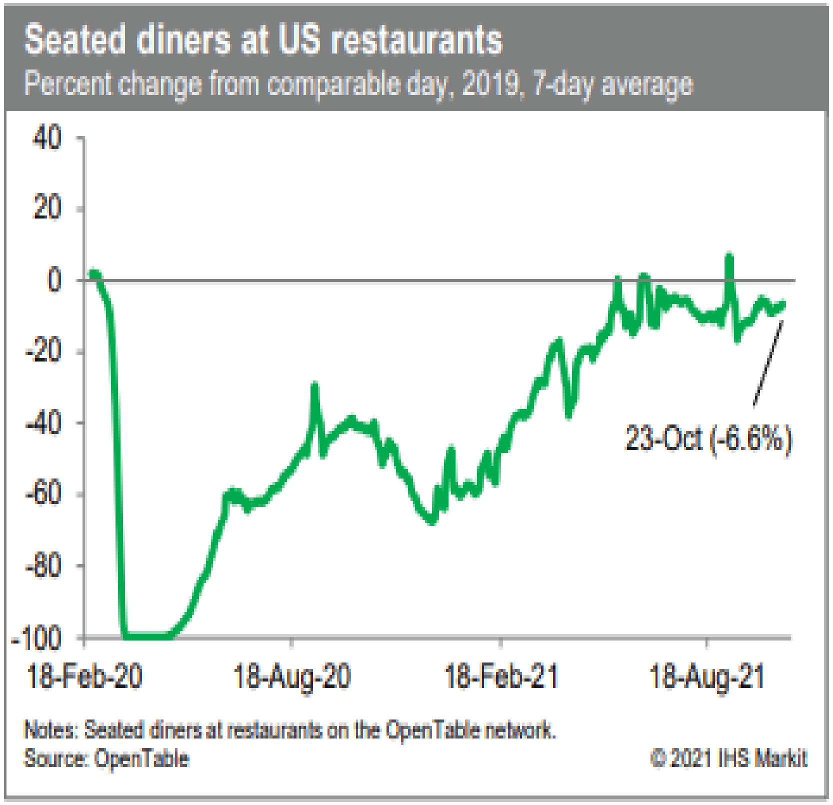
Average consumer credit and debit card spending



Source: Opportunity Insight Economic Tracker, Affinity Solutions

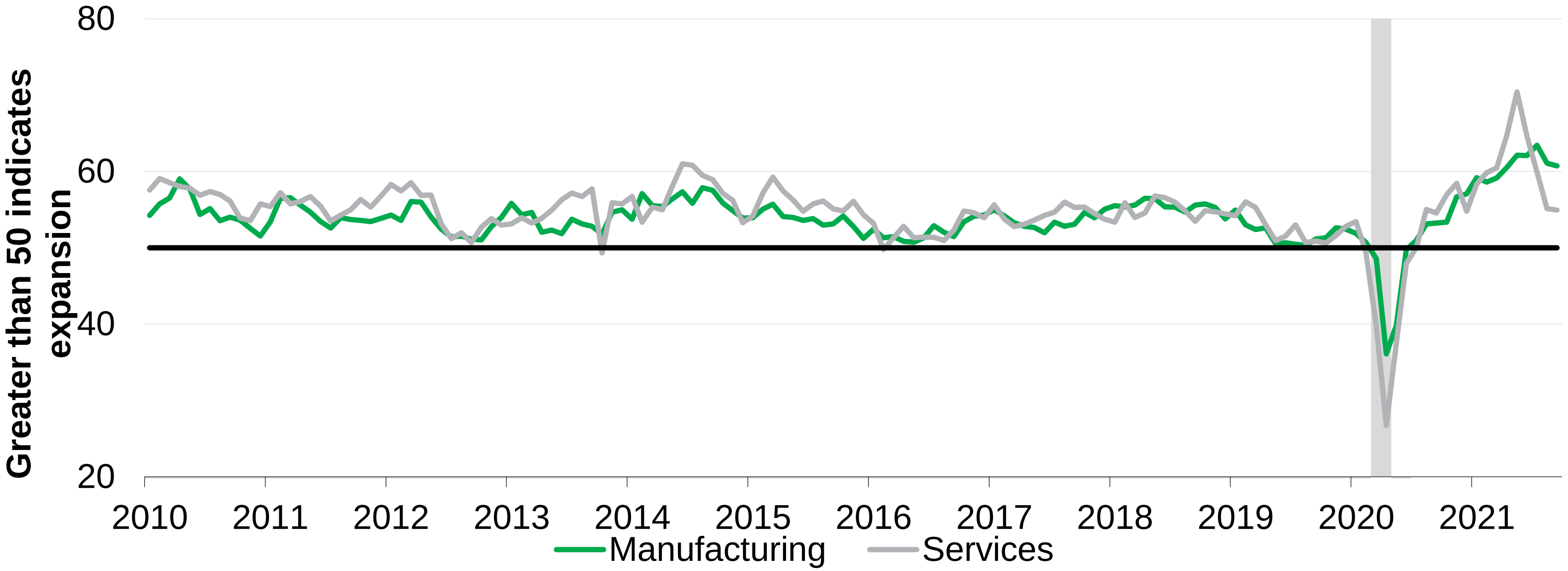
Lingering caution around travel and entertainment





Businesses indicate a strong, but slowing expansion

Purchasing Managers' Index® data



Source: IHS Markit

Recent developments in the October forecast

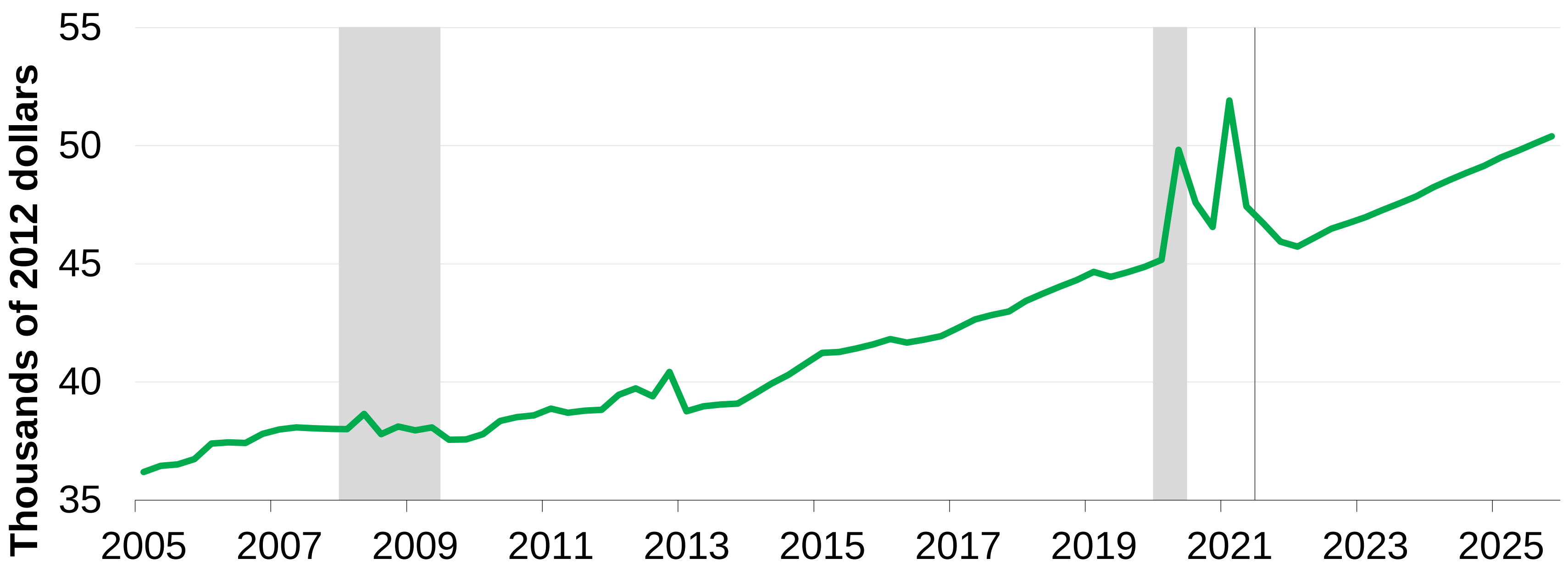
- We estimated GDP growth of 1.4% at an annual rate in the third quarter, revised down from 3.4%.
- Actual Q3 GDP growth, released 28 October, came in at 2.0%, compared to 1.4% in the October baseline.
- Although better than expected, this was a material slowdown from 6.7% in Q2 and reflected weakness in trade and inventories (supply chain), consumer spending (COVID-19) and gov’t spending (less stimulus).
- Our forecast of real GDP growth for 2021 is revised down for the fourth consecutive month, from 5.7% to 5.4%. Growth in 2022 is projected to be 4.3%.
- Our forecast of inflation through 2022 is revised up with the core PCE price index rising 2.5% over the four quarters of 2022, up from 2.1% last month.
- Given this upwardly revision in our inflation forecast, we’ve advanced the “lift-off” of the federal funds rate from September to March of 2023.

Policy assumptions in the October forecast

- The forecast reflects all pandemic relief measures of 2020 and the $1.9 trillion American Recovery Plan (ARP) enacted in March. The support to incomes, which averaged $2.7 trillion (annual rate) over the first half of 2021, will drop sharply to less than $0.5 trillion by the fourth quarter of the year, and even less in 2022.
- The forecast also includes the Infrastructure Investment and Jobs Act (IIJA), which we expect to be enacted this fall; it does not yet include the “Build Back Better” reconciliation bill, the size, scope, and timing of which remain uncertain.
- The Fed continues its Large Scale Asset Purchases through October at the recent pace before “tapering” them to zero by the third quarter of next year, begins raising its policy rate in March of 2023, and tolerates inflation modestly above 2% after 2023 to affirm its long-run 2% objective is an average, not a ceiling.

Stimulus becomes a drag on personal income

Real disposable income per capita

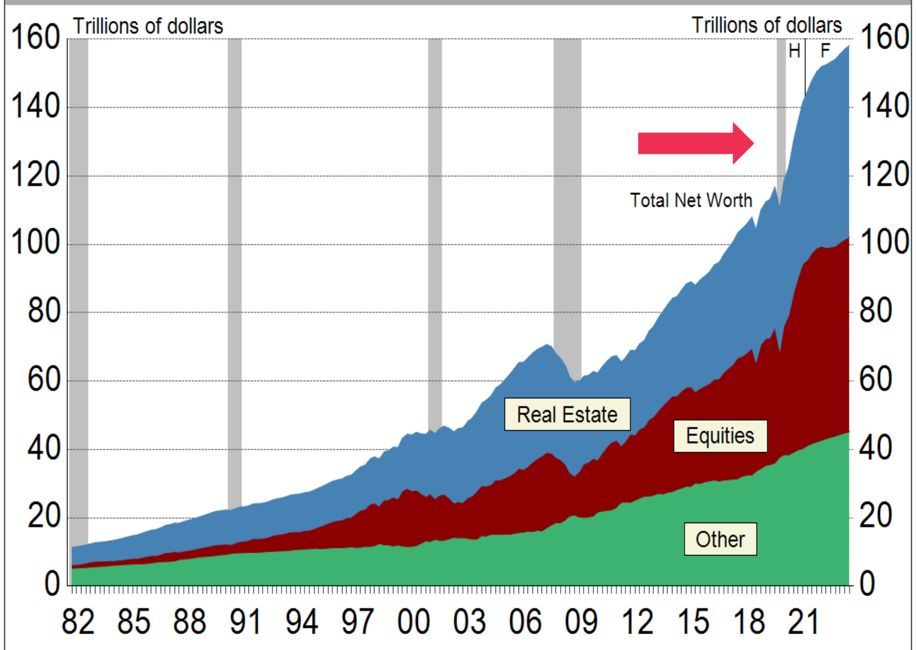


Source: IHS Markit

Wealth and savings are a major support for households

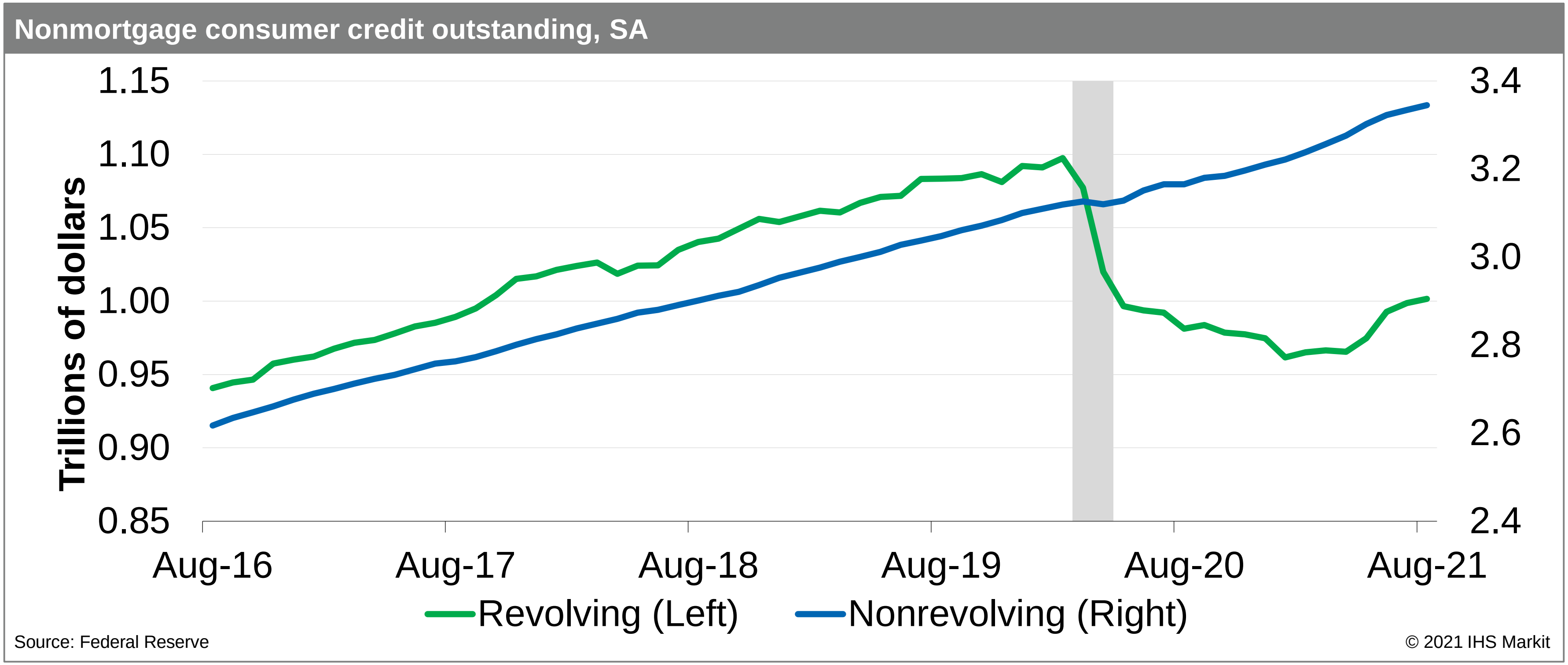
- Big gains in equities and home prices; 24% jump in household net worth *during* the pandemic
- Stimulus checks that were mostly saved
- $2.3 trillion (roughly) of excess saving
- Could have encouraged early retirement, or temporary withdrawal from the labor force, especially in two-earner households

Household sector net worth



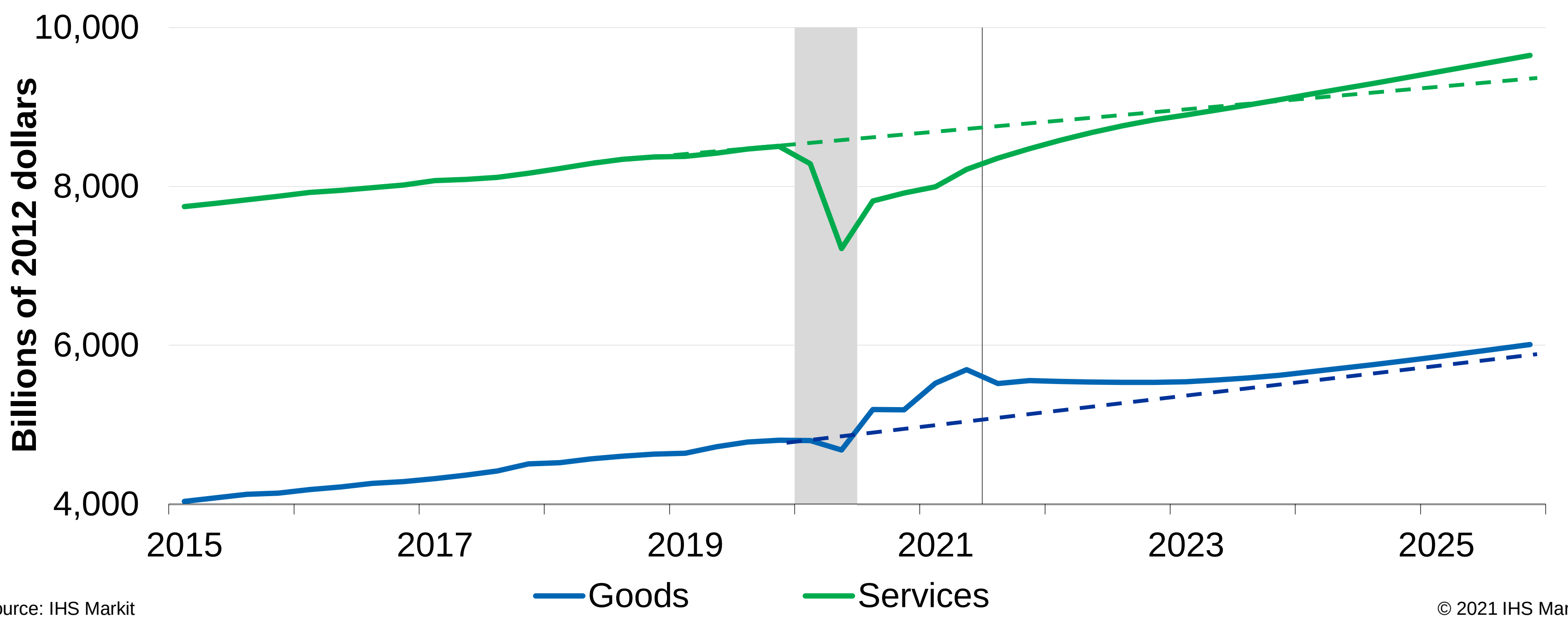
Source: Federal Reserve, IHS Markit; October 2021

Consumer borrowing has plenty of room to grow



Consumer spending will take time to rebalance

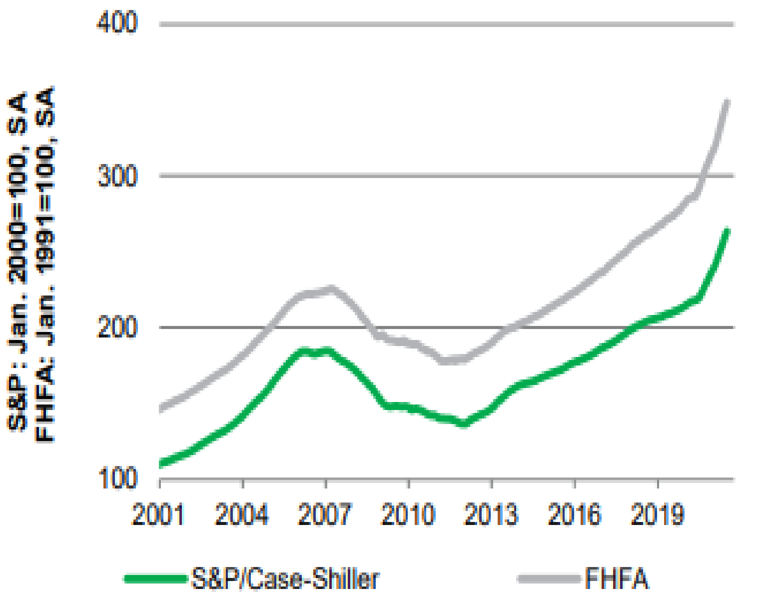
Real consumer spending



Source: IHS Markit

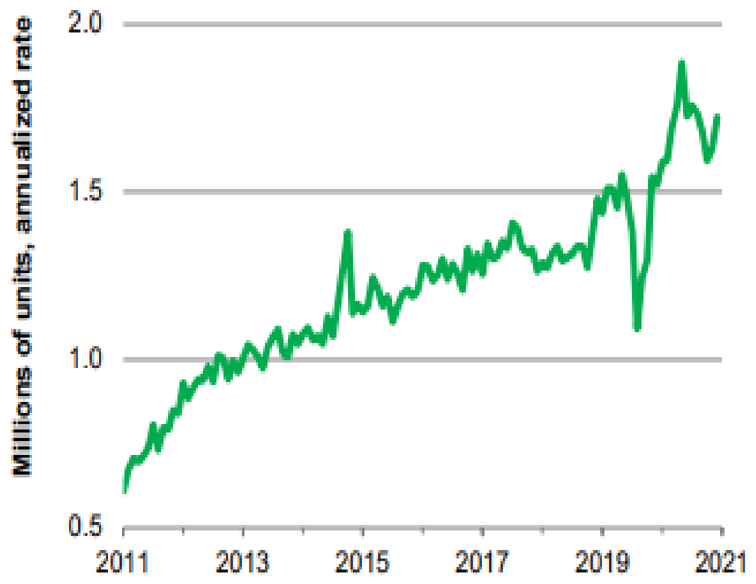
Housing market coming off the boil

US home prices according to the leading indices



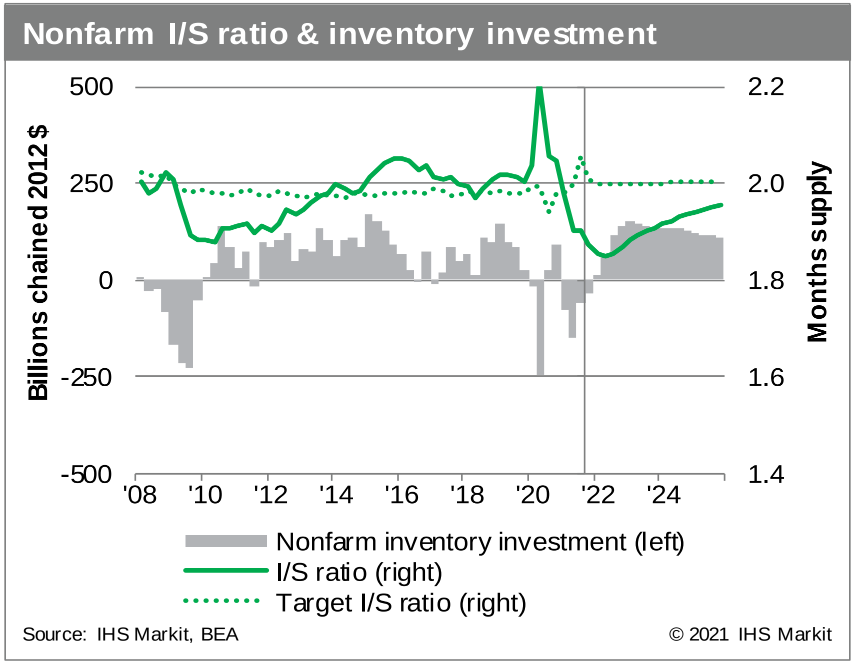
Source: S&P/Case-Shiller, Federal Housing Finance Agency © 2021 IHS Markit

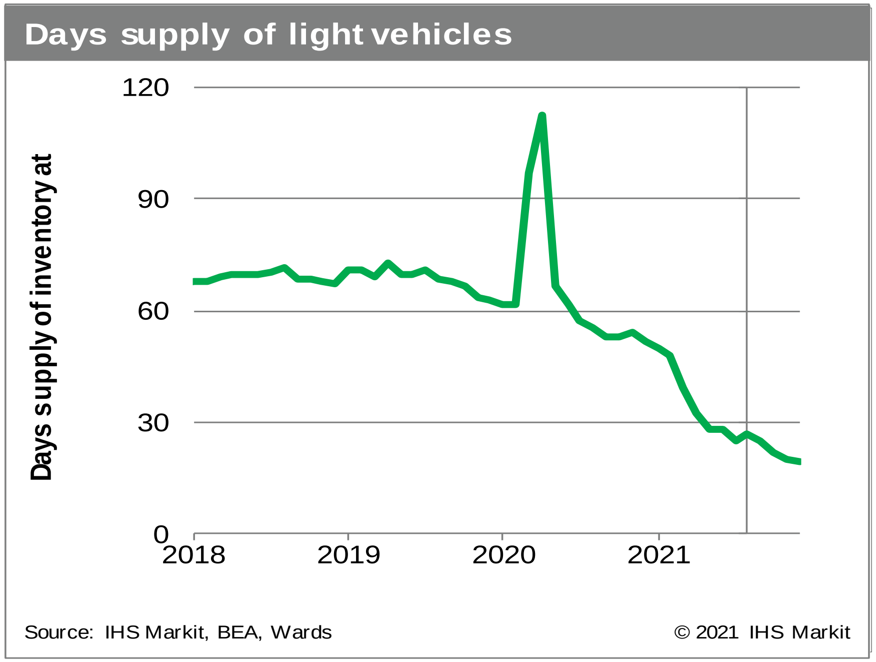
Housing permits



Source: Census Bureau © 2021 IHS Markit

“Desired” inventory accumulation should be on the rise; is it constrained?

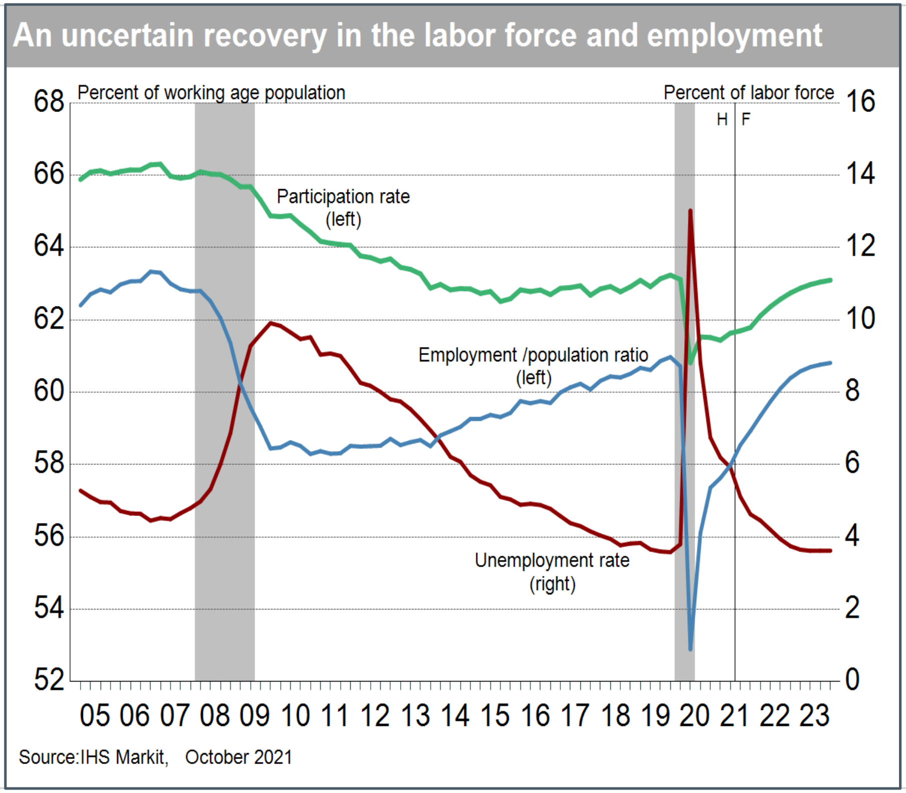




- Inventory sales ratio is at a record low; supply chain constraints playing a role (semi conductors!)
- Demand rebounds in capex, housing construction and consumer goods demand drained inventories
- As supply bottlenecks resolve, inventory re-stocking will be a solid contributor to growth, but when???

Where is the US labor market now?

- Employment jumped as lock downs ended, but has made only a partial recovery
- Payroll employment is still almost 5 million jobs below the pre-pandemic peak
- Employment ratio is nearly 3 points below the pre-pandemic peak
- Labor force has barely reversed, remains 3 million below pre-pandemic peak
- Participation rate is only about 61.7% of working age population vs 63.2% in 2019Q4
- Unemployment rate is at 4.8%, but if labor force was at pre-pandemic level it would be about 6.5%
- Yet by some measures, labor markets are tight!!!

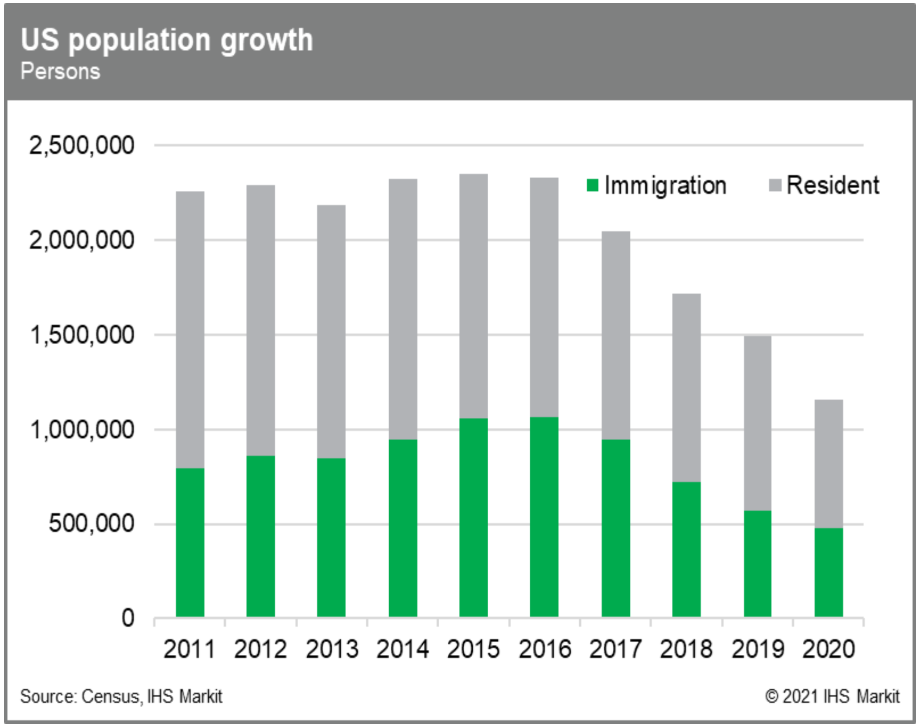


Sharply reduced matching efficiency

- Lots of jobs available and lots of unemployed people – not syncing up
- Decline in multiple job holders
- Supply-chain induced shutdowns create geographic mismatch
- Pandemic induced layoffs create skill/industry mismatches
- Financial windfall – implies less urgency to take "any job" – increases average duration of unemployment…higher unemployment rate, more unfilled jobs
- Notoriety of minimum wage increases – discussion of federal minimum, increases in state minimums, and national employers instituting their own minimum – raises worker's reservation wage at the low end of the income distribution
- COVID fear – not going back to those jobs – employer mitigation efforts?

Reduced labor force relative to pre-pandemic level – slower pop growth

- Immigration started to slow sharply under Trump
- Fell to about half in 2020 compared to 2015-2016
- COVID restrictions will keep it low for a bit
- Refugee resettlement caps also were slashed
- Typically take lower paying jobs
- Weaker flow into the labor market – especially for low-end jobs is compounding shortages there



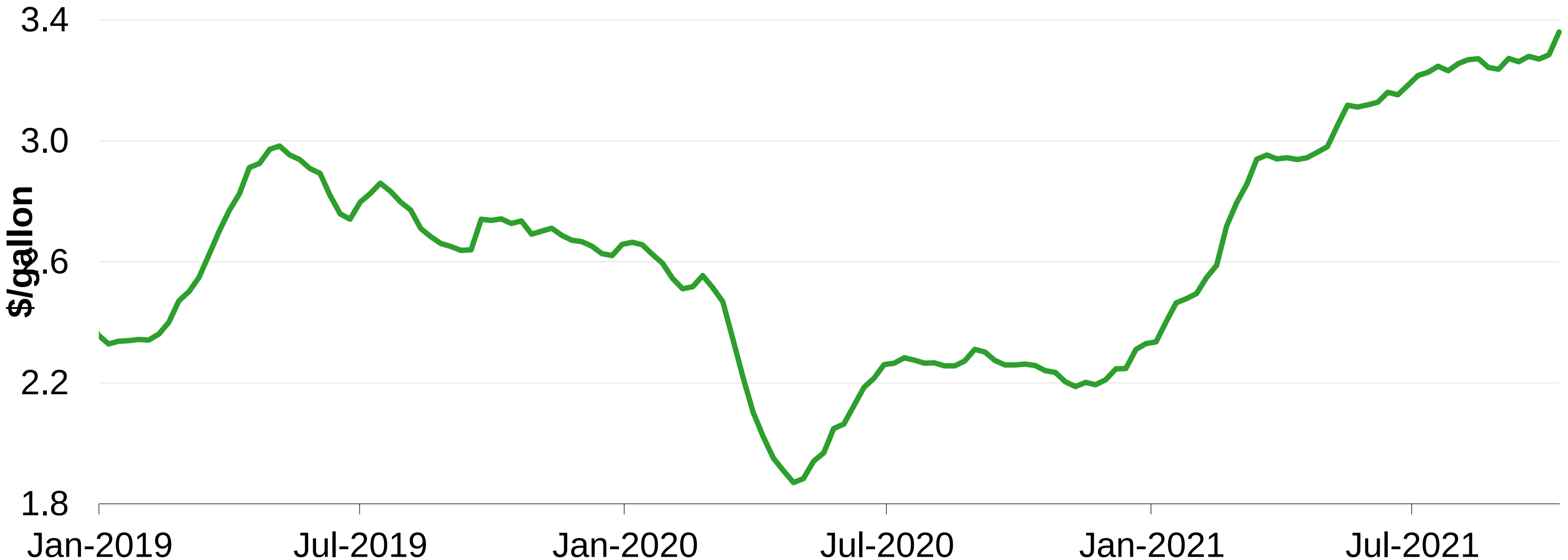
Soaring energy prices are driving up the IHS Markit Materials Price Index

IHS Markit Materials Price index

Source: IHS Markit

Pump prices have surpassed pre-pandemic level

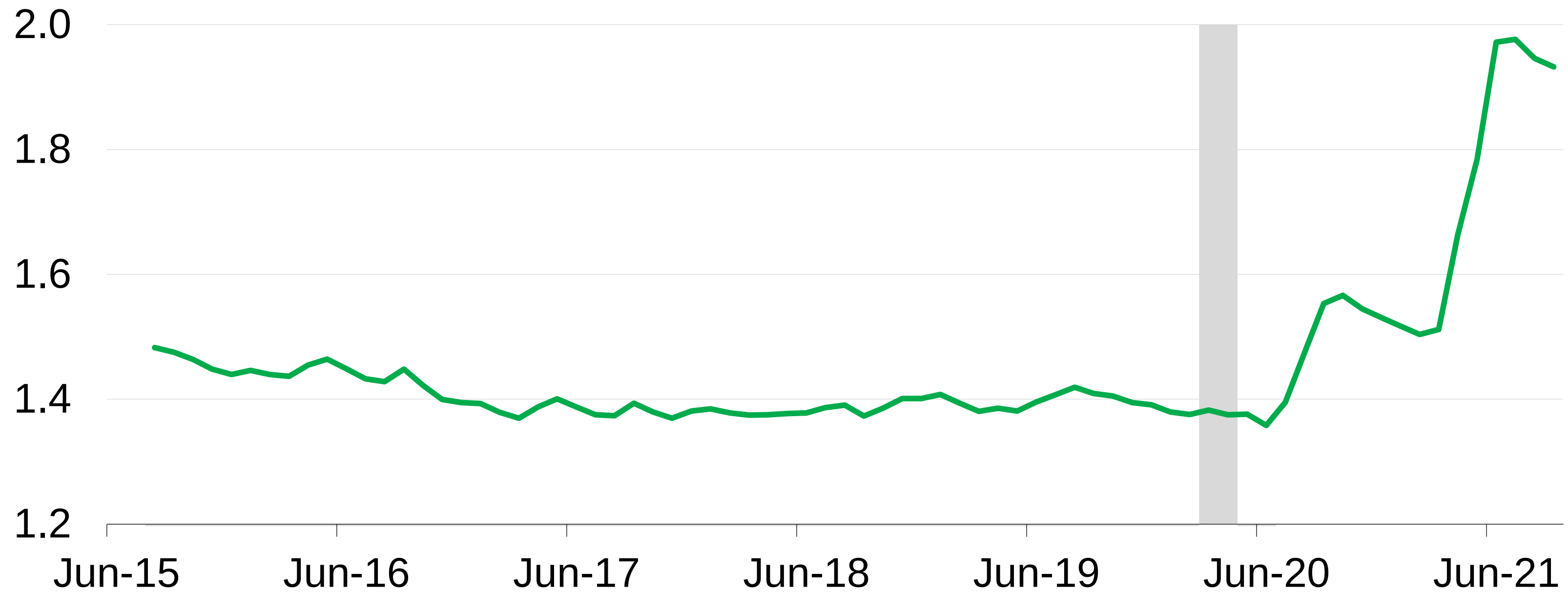
Retail gasoline price, self-service including taxes, DOE all-grades



Source: DOE

Red-hot pace of price increases for used cars and trucks cools

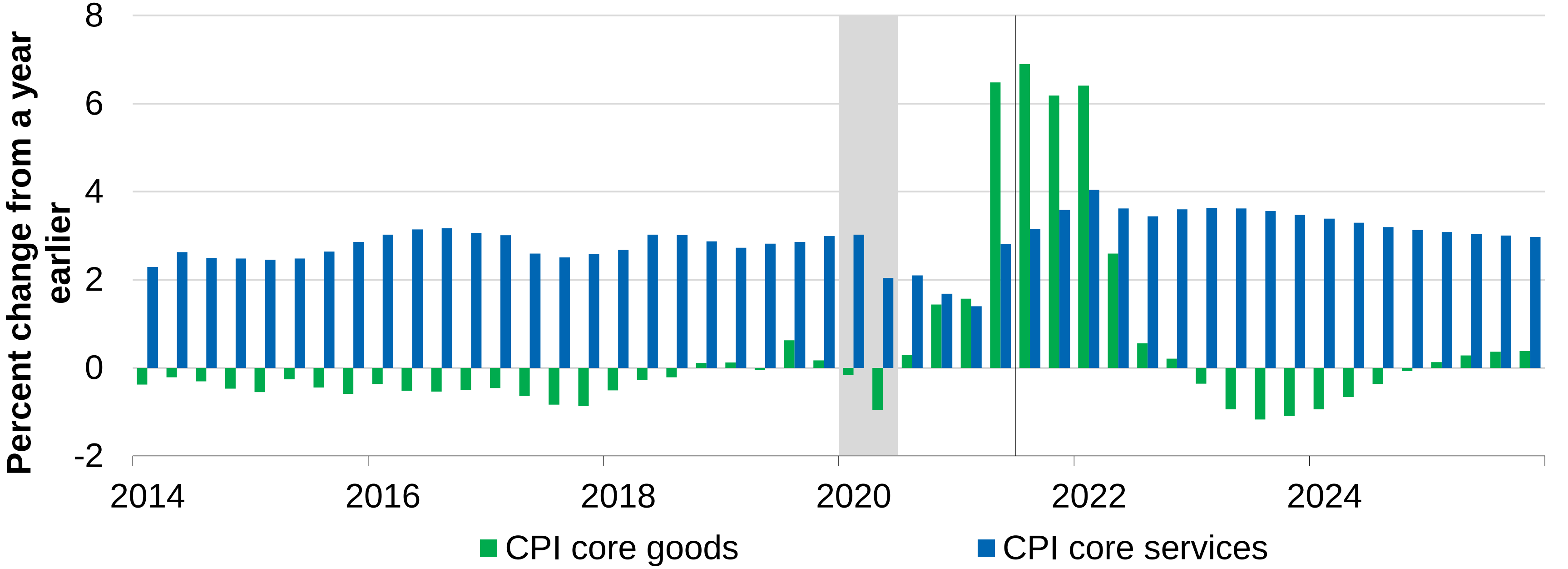
Consumer Price Index, used cars and trucks



Note: CPI all-urban, seasonally adjusted, 1982-84=1.00
Source: BLS

Goods inflation will ease but services prices are just coming back

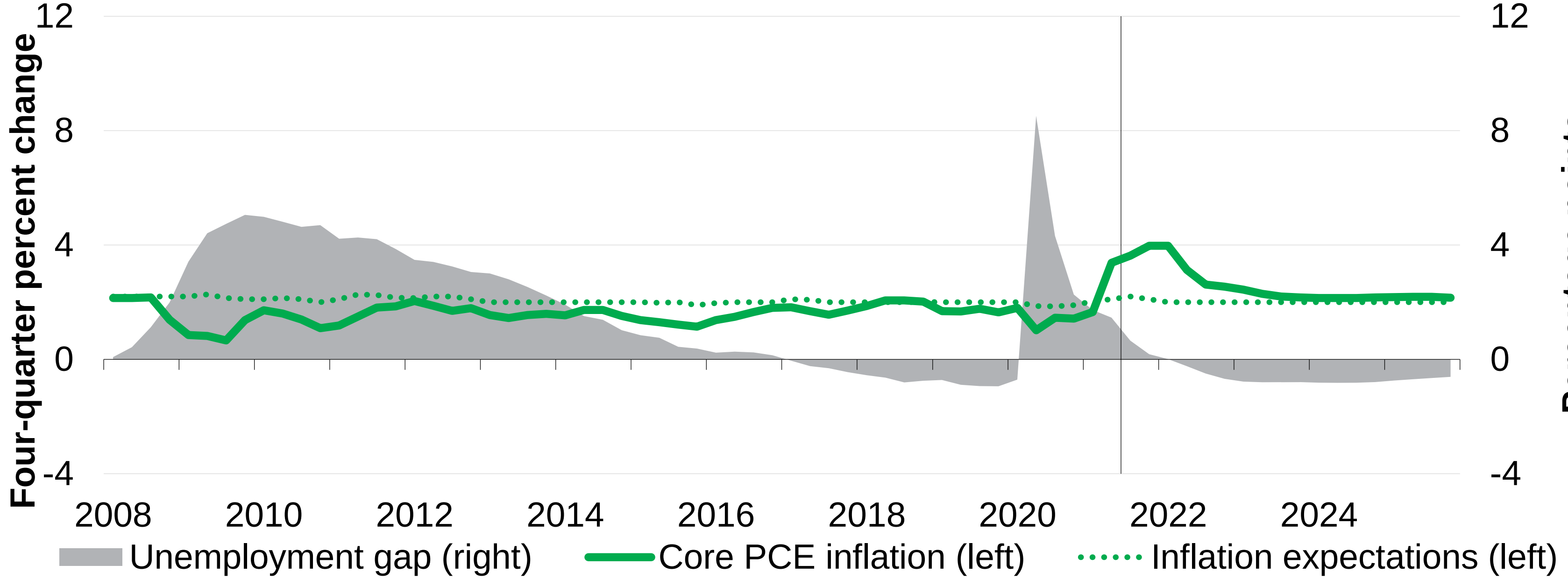
Core consumer prices excluding food and energy



Note: CPI all-urban, seasonally adjusted, 1982-84=1.00
Source: IHS Markit

Core inflation expected to return to about 2% around mid-2023

Core PCE inflation and the unemployment gap



Source: IHS Markit

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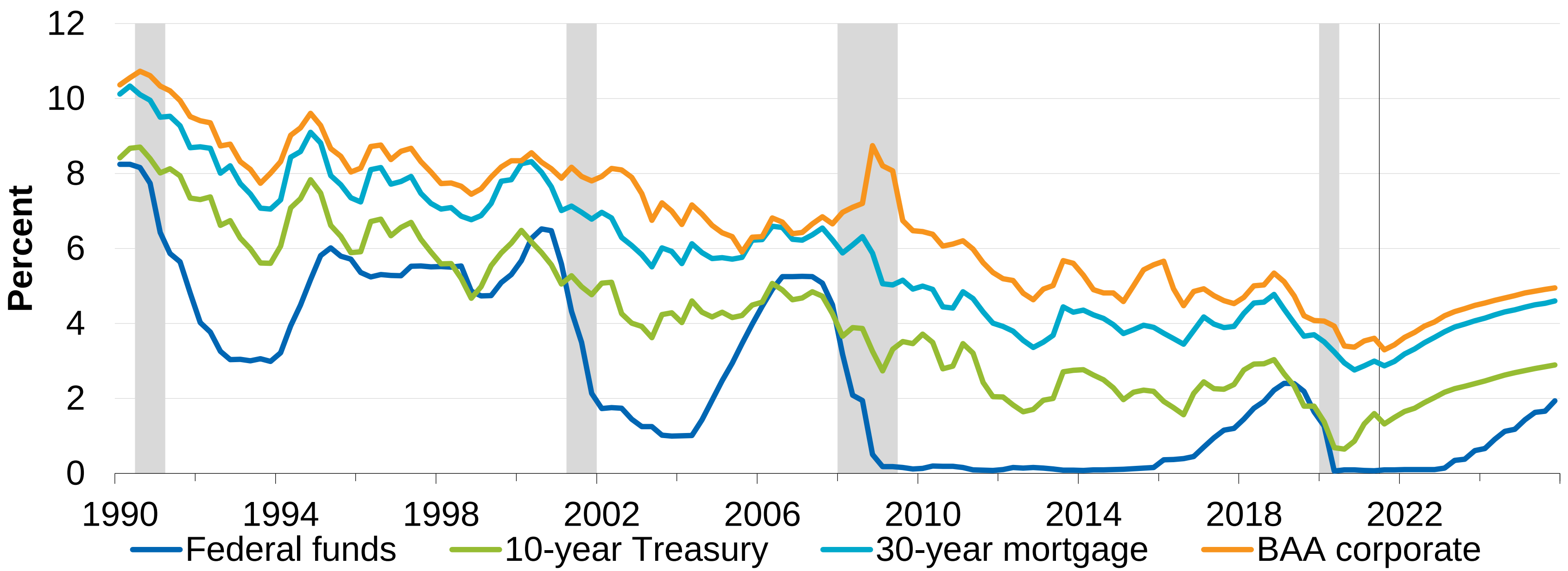
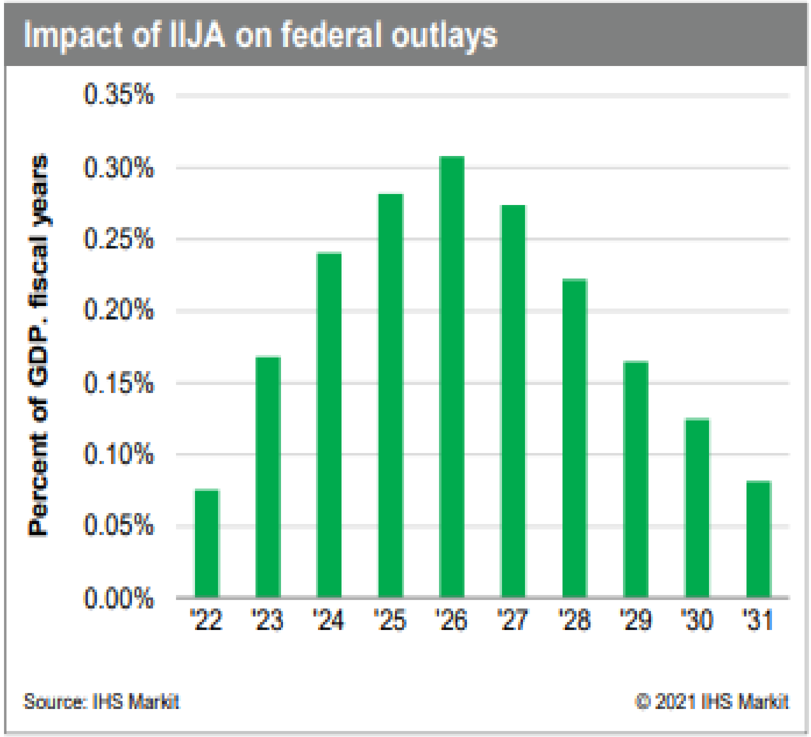
The Federal Reserve now expected to raise the federal funds rate in 2023; term yields have risen

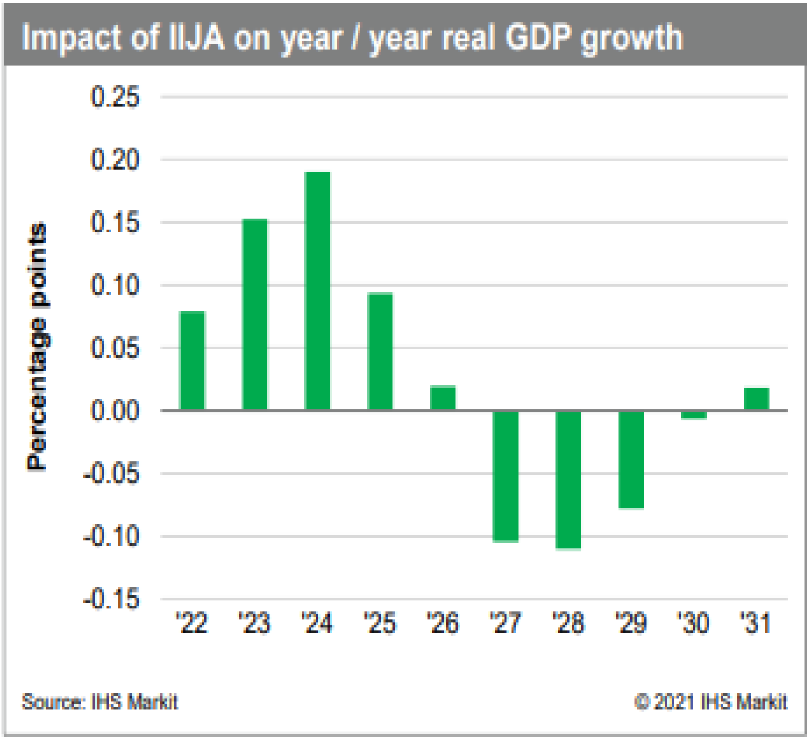
Interest rates



Source: IHS Markit

IIJA is not a gamechanger in a macro sense





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