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# Economic Outlook

March 3, 2021

Anna Paulson

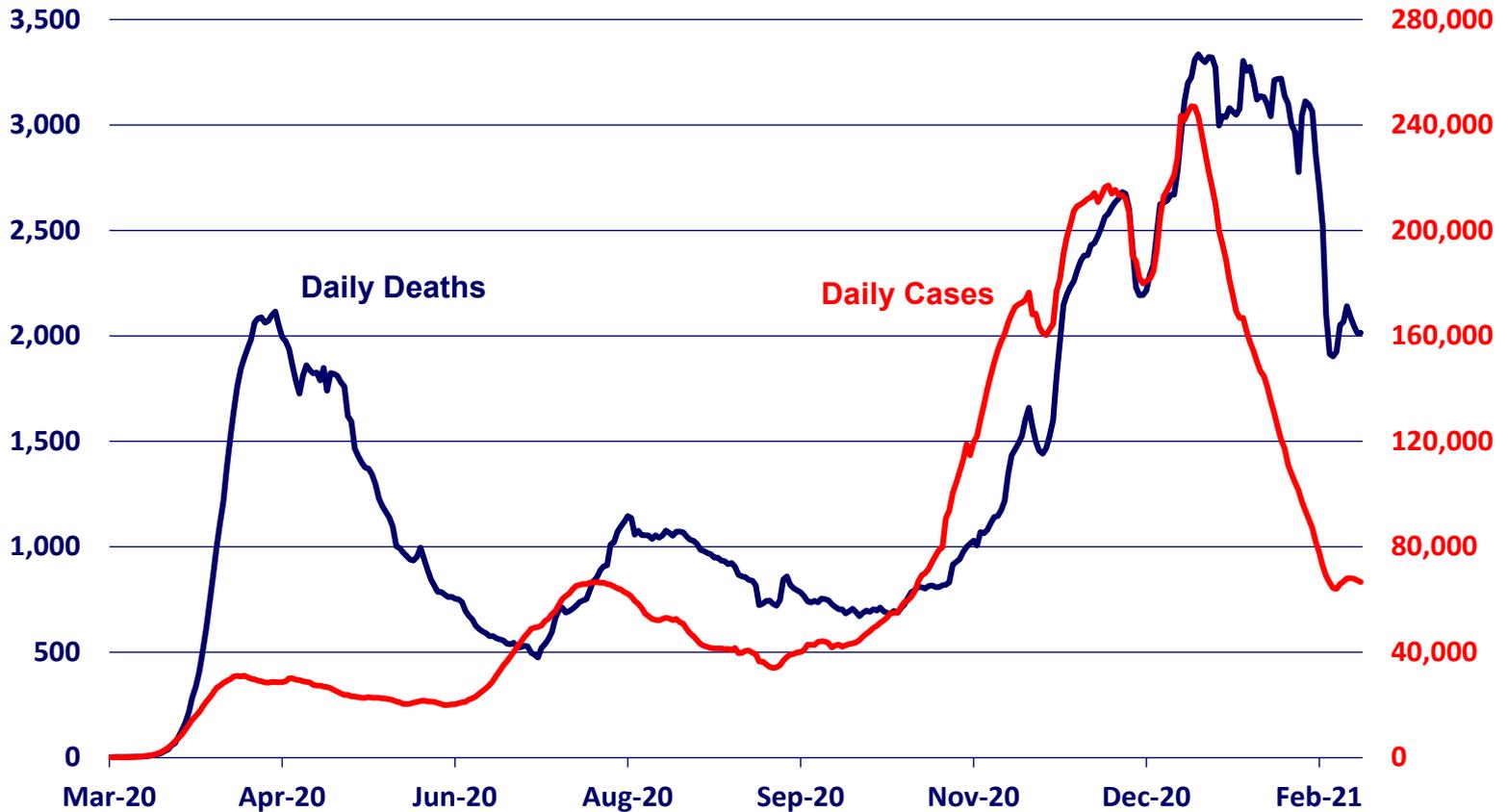
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Federal Reserve Bank of Chicago

*The views I express here are my own and do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Federal Reserve System.*

# Recent virus trends are encouraging

**Daily Deaths and Daily Cases through March 1, 2021**  
(7-Day Moving Averages)

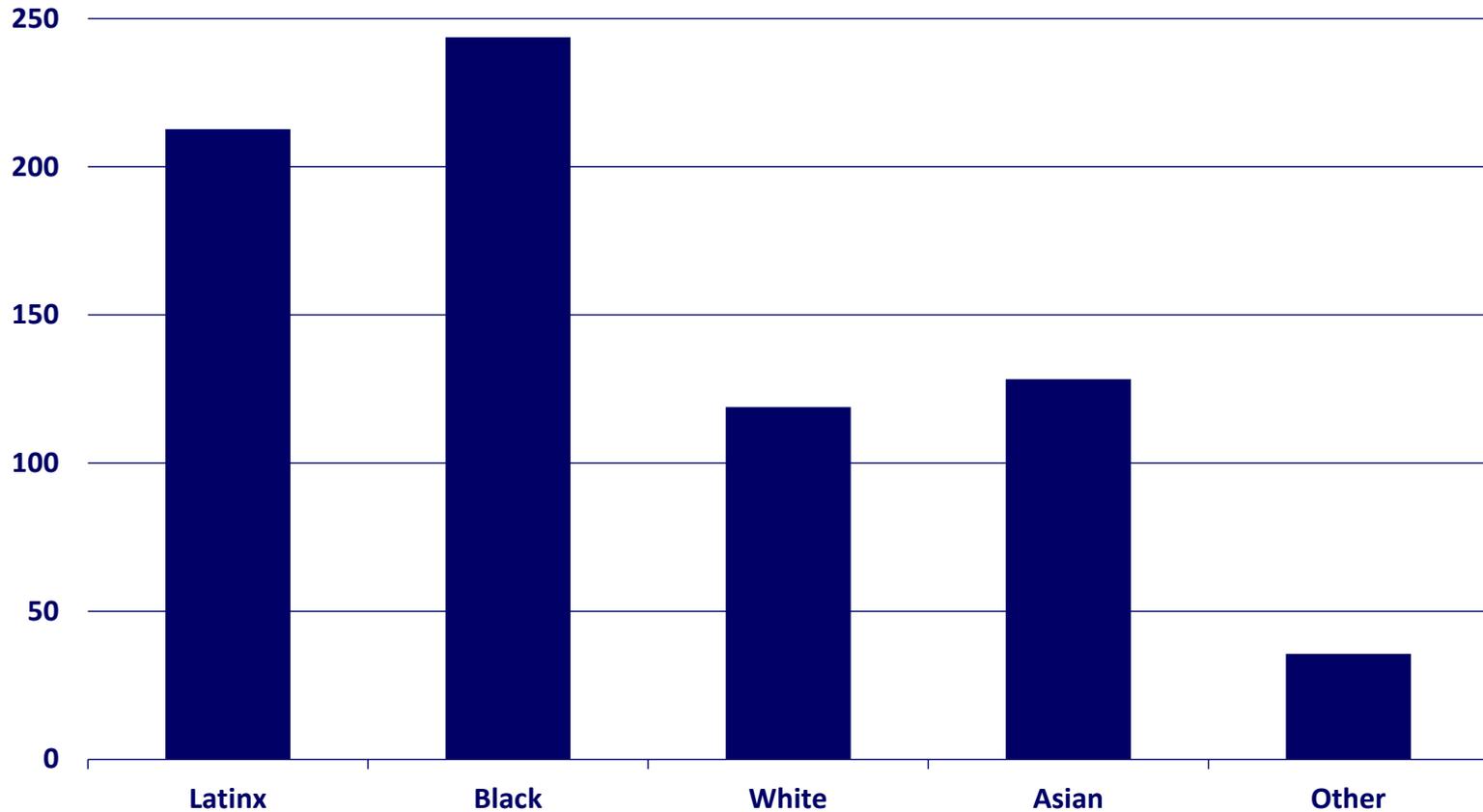


Source: *The COVID Tracking Project*

# Pandemic has had a disparate impact

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**Covid Death Rates by Race in Chicago**  
(per 100k)



*Source: City of Chicago Data Portal, as reported on March 2, 2021  
Data from March 1, 2020 through February 26, 2021*

# Virus continues to drive individual activity

## Weekly Visits to Non-Auto Retail & Food Locations

(Millions of visits, SA)



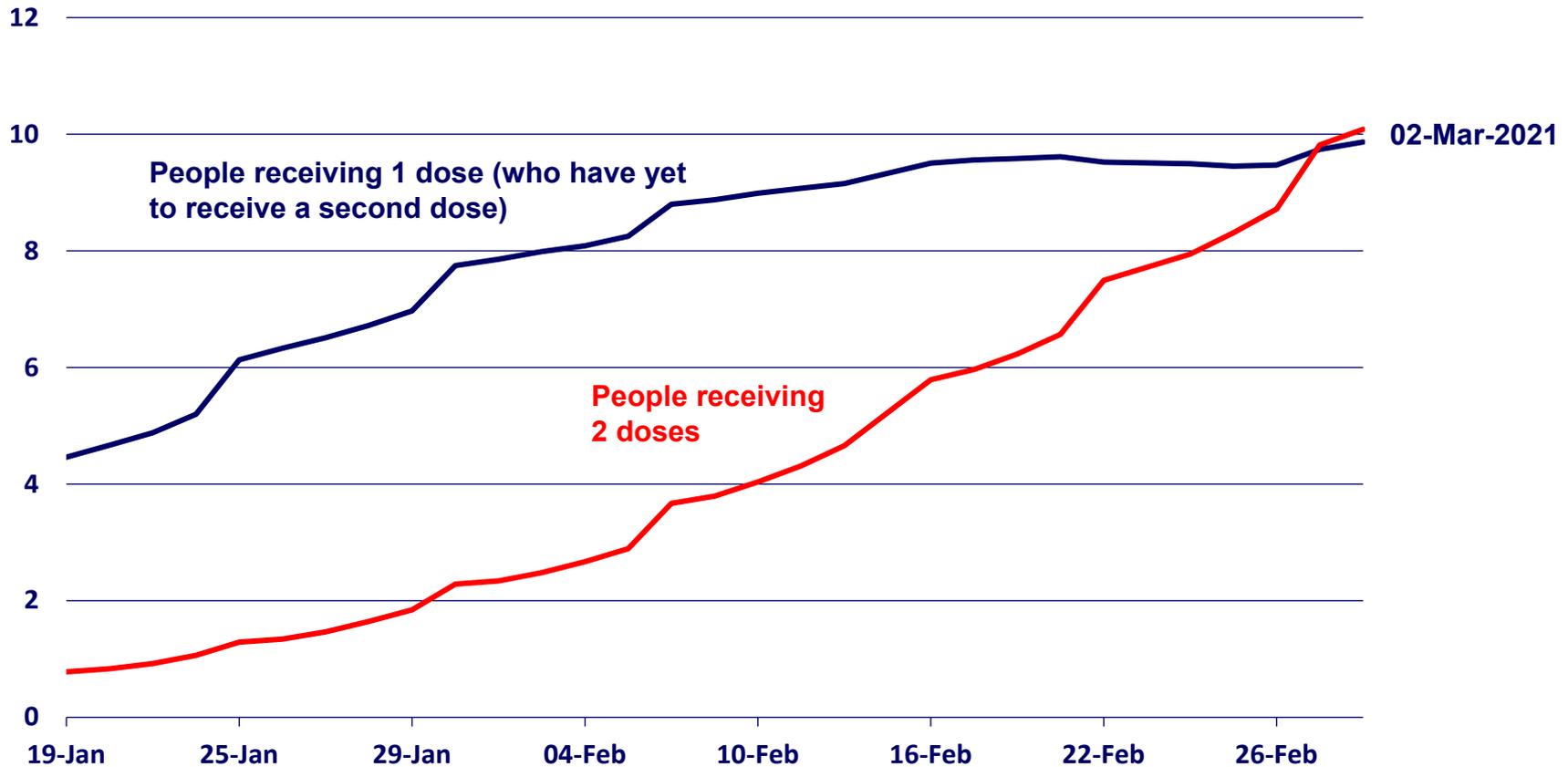
Source: SafeGraph

Visits are based on consumer foot traffic collected through phone usage.

# Vaccination trends are promising

## Doses Distributed

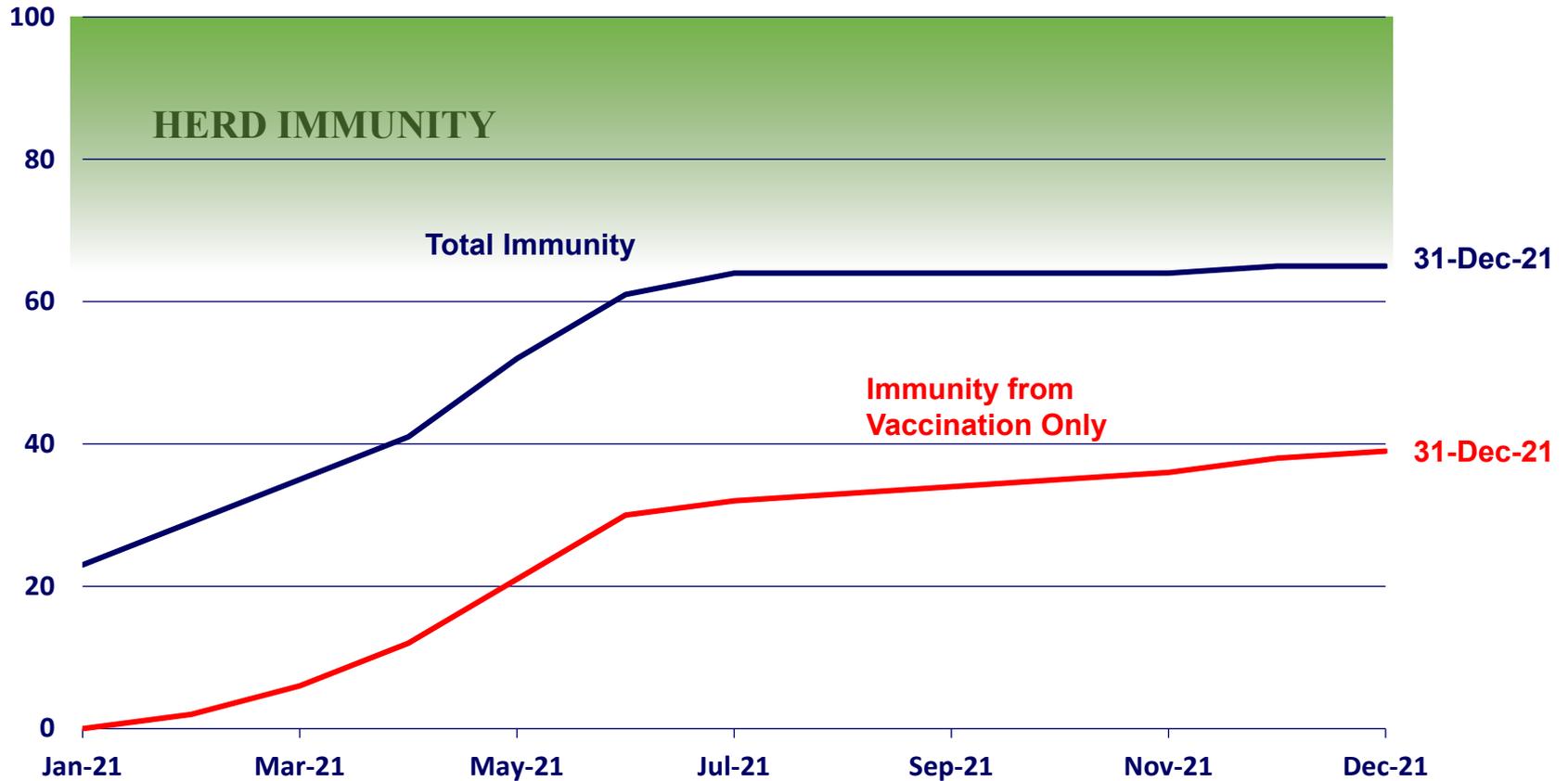
(percent of adult population)



Source: Centers for Disease Control and Prevention (CDC) from Haver Analytics

# Virus and the path to herd immunity

## Total Immunity Estimates, US (percent of population)

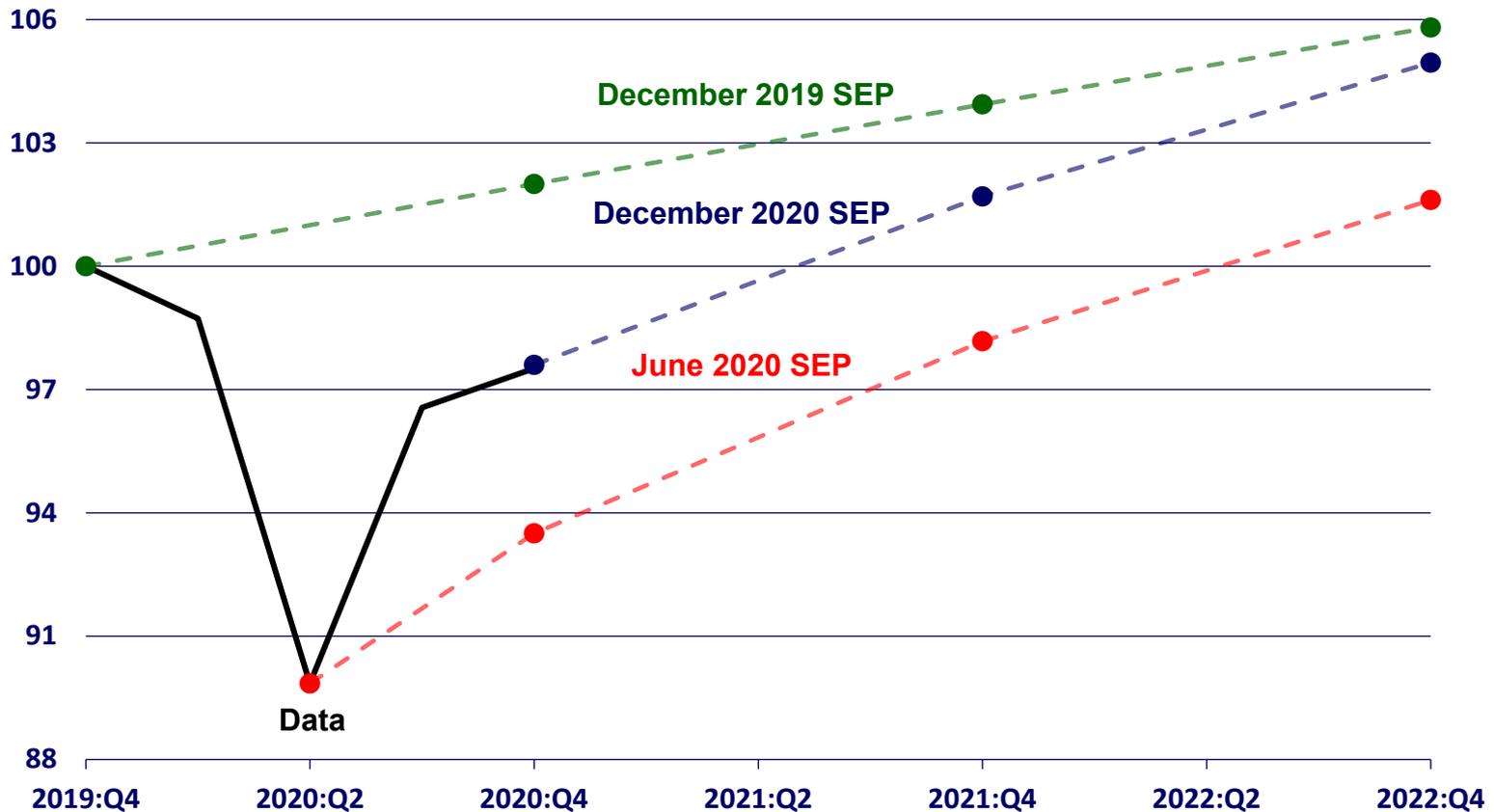


Source: Path to Herd Immunity - COVID-19 Vaccine Projections, 3/2/21, Youyang Gu

# GDP: Resilience and Recovery

## GDP Level and Summary of Economic Projections

(GDP Level, 2019:Q4=100)



Source: Bureau of Economic Analysis from Haver Analytics; Summary of Economic Projections from the Board of Governors of the Federal Reserve System

# Resilience: Recovery in wages and salaries

## Wages and Salaries

(Bil. \$, SAAR)

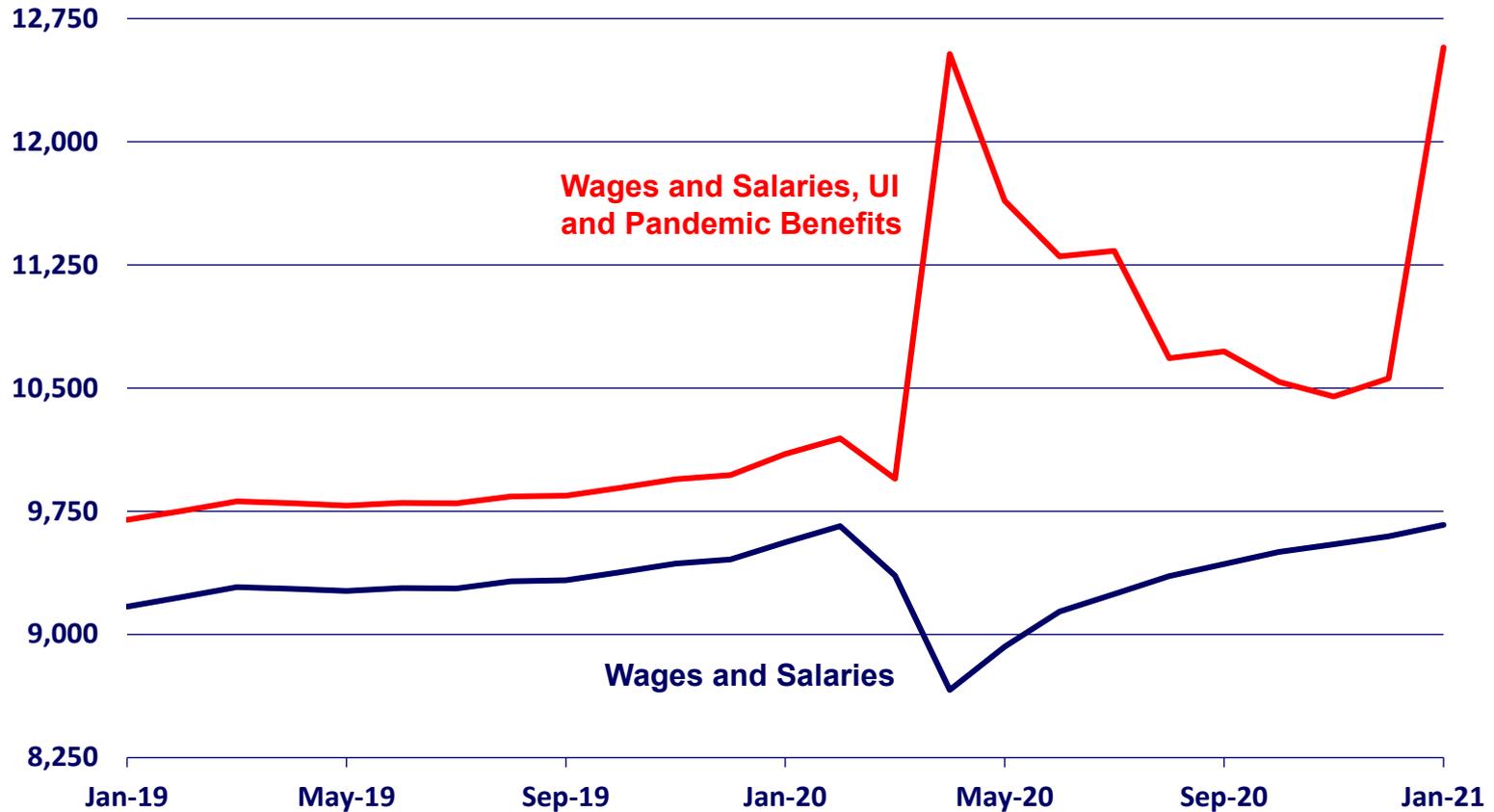


Source: Bureau of Economic Analysis from Haver Analytics.

# Resilience: Fiscal policy

## Wages and Salaries including Pandemic Relief

(Bil. \$, SAAR)



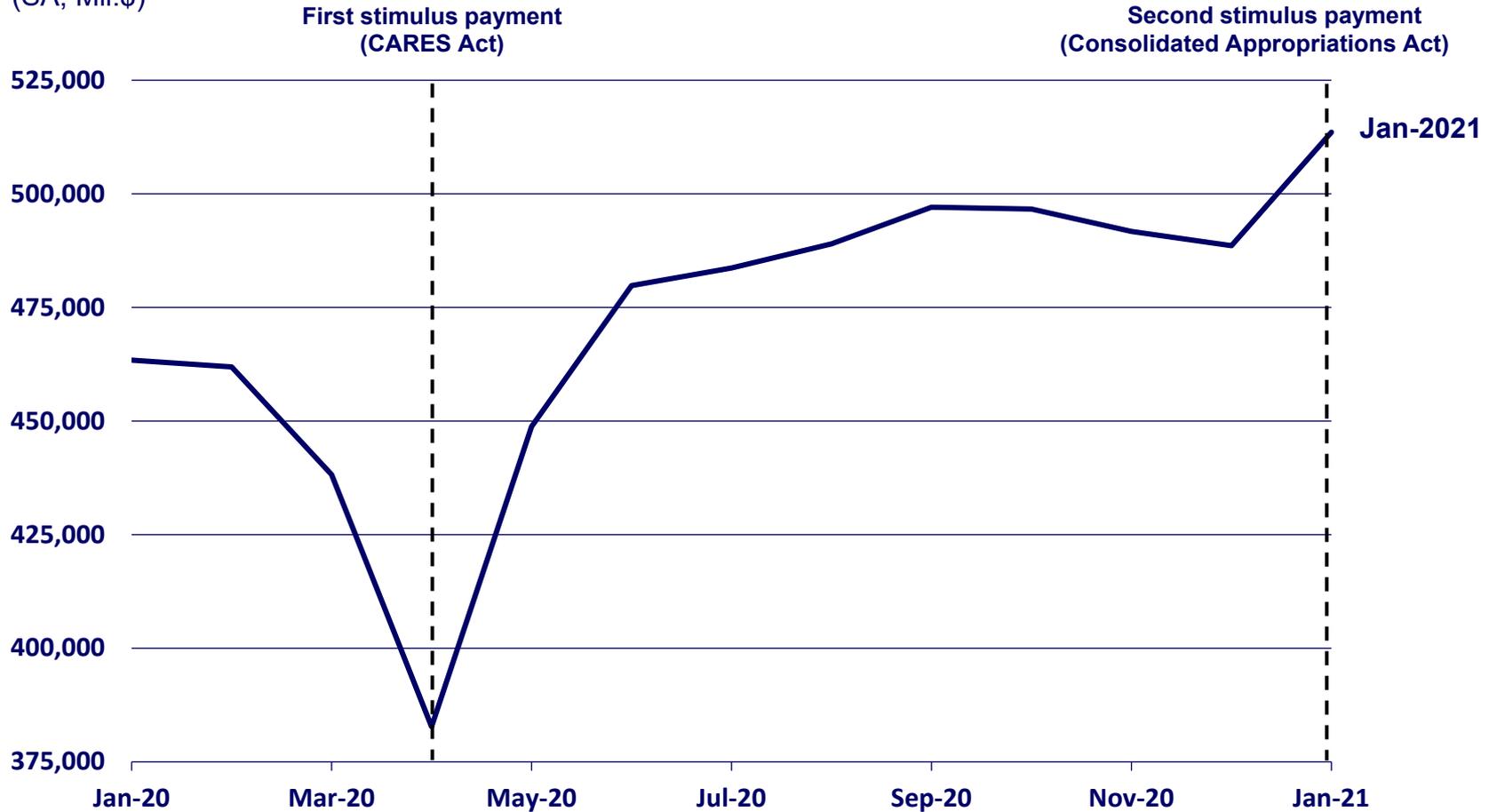
The red line shows wages and salaries, plus unemployment insurance and other pandemic relief benefits.

Source: Bureau of Economic Analysis from Haver Analytics

# Resilience: Fiscal policy

## Retail Sales

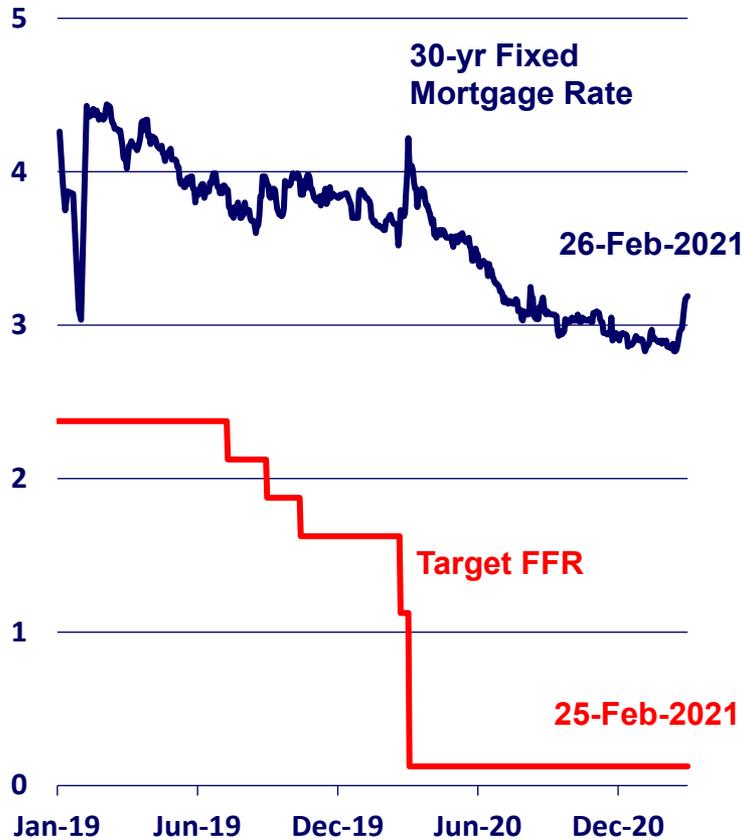
(SA, Mil.\$)



Source: Census Bureau from Haver Analytics

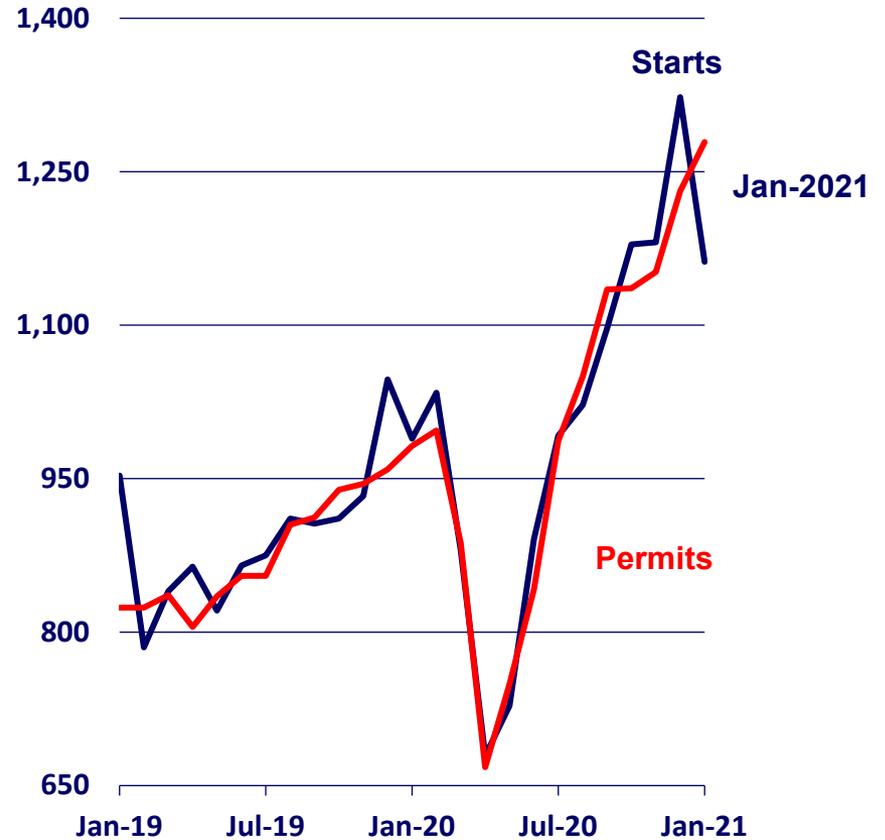
# Resilience: Monetary policy

### 30-yr Fixed Mortgage and Target FFR (Percent)



Source: Wall Street Journal and Federal Reserve Board from Haver Analytics

### Single Family Starts and Permits (SAAR, Thous. Units)

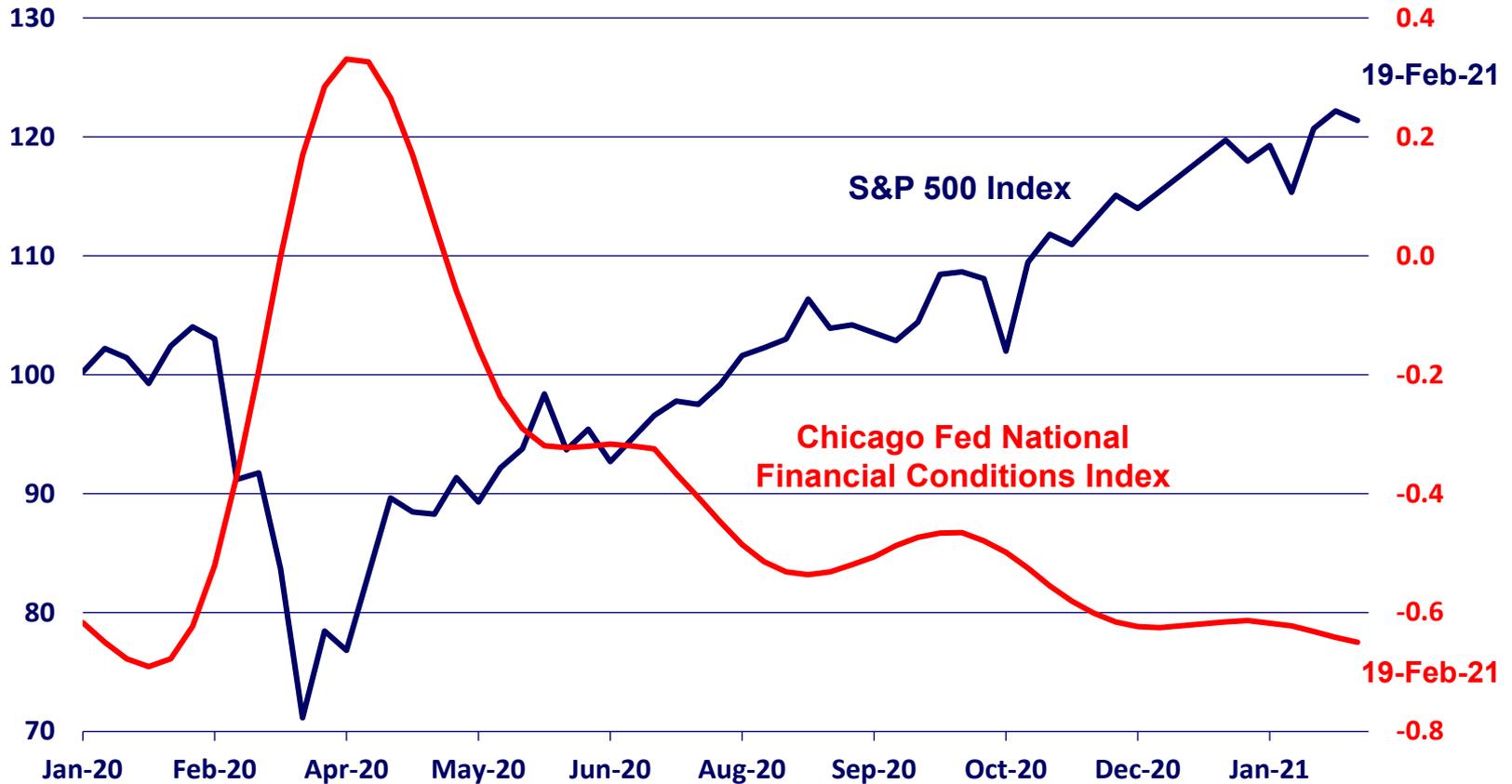


Source: Census Bureau from Haver Analytics

# Resilience: Supportive financial conditions

## S&P 500 Index and Chicago Fed National Financial Conditions Index

(Level, January 2020 = 100; +- Tighter than Avg = 0)

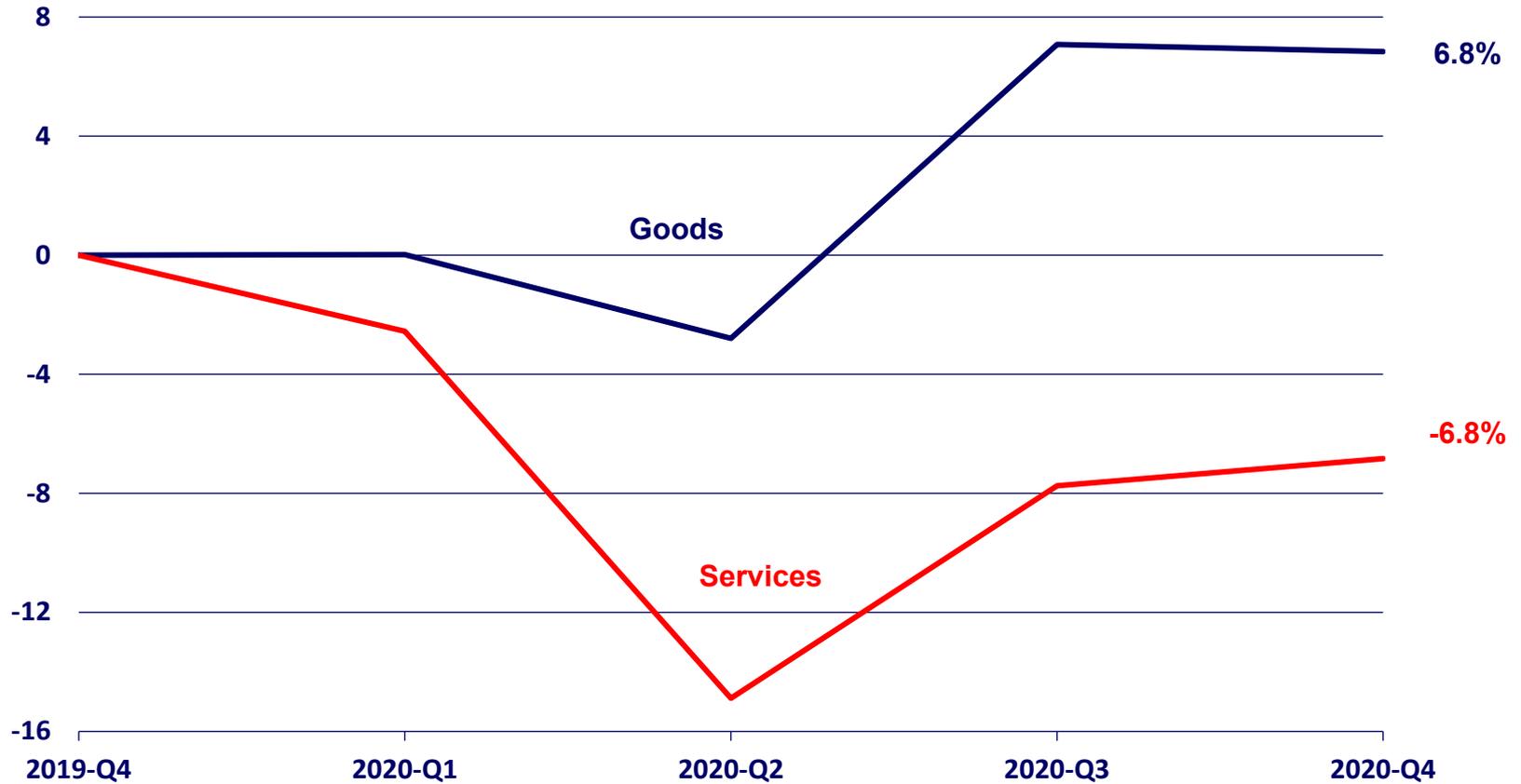


Source: Federal Reserve Bank of Chicago, Standard and Poor's from Haver Analytics

# Resilience: Flexible consumer spending

## Consumer Spending on Services versus Goods

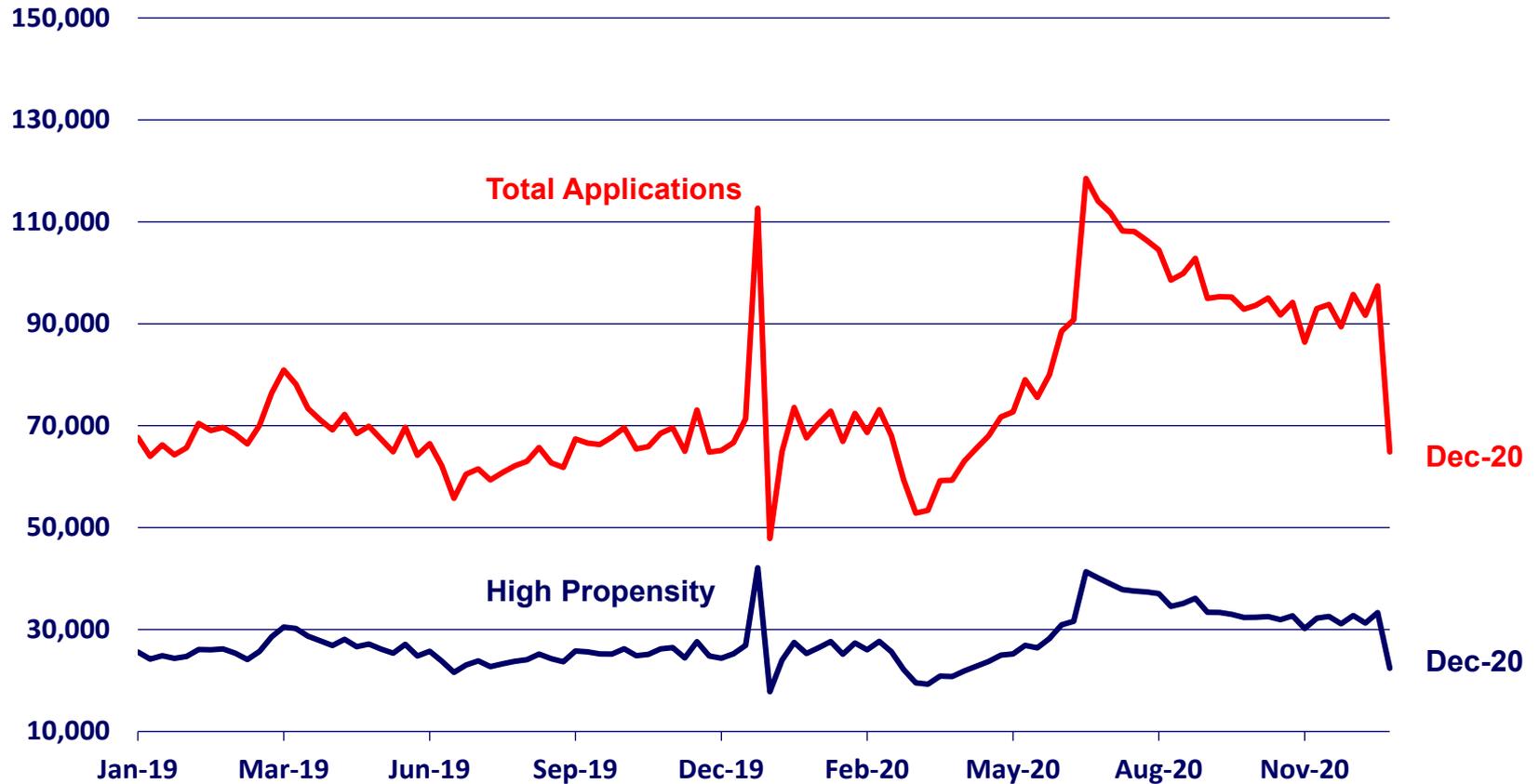
(percent change, SAAR, 2019:Q4=0 )



Source: Bureau of Labor Statistics from Haver Analytics

# Resilience: Surge in new business applications

## Applications for New Business (SA)

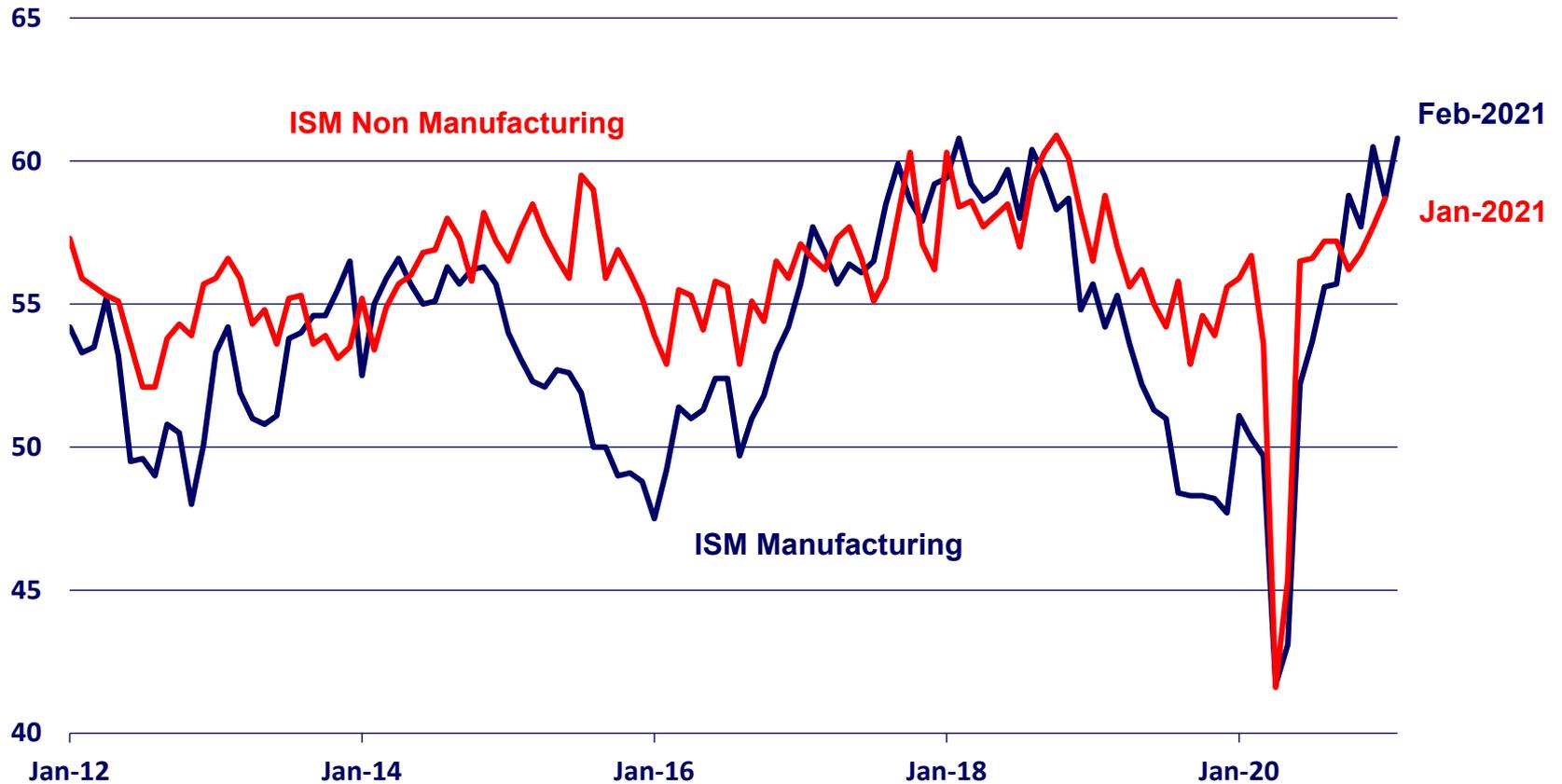


Source: Census Bureau from Haver Analytics

# Resilience: Solid overall business activity

## Purchasing Managers' Activity Indexes

(ISM Composite Indexes, SA)



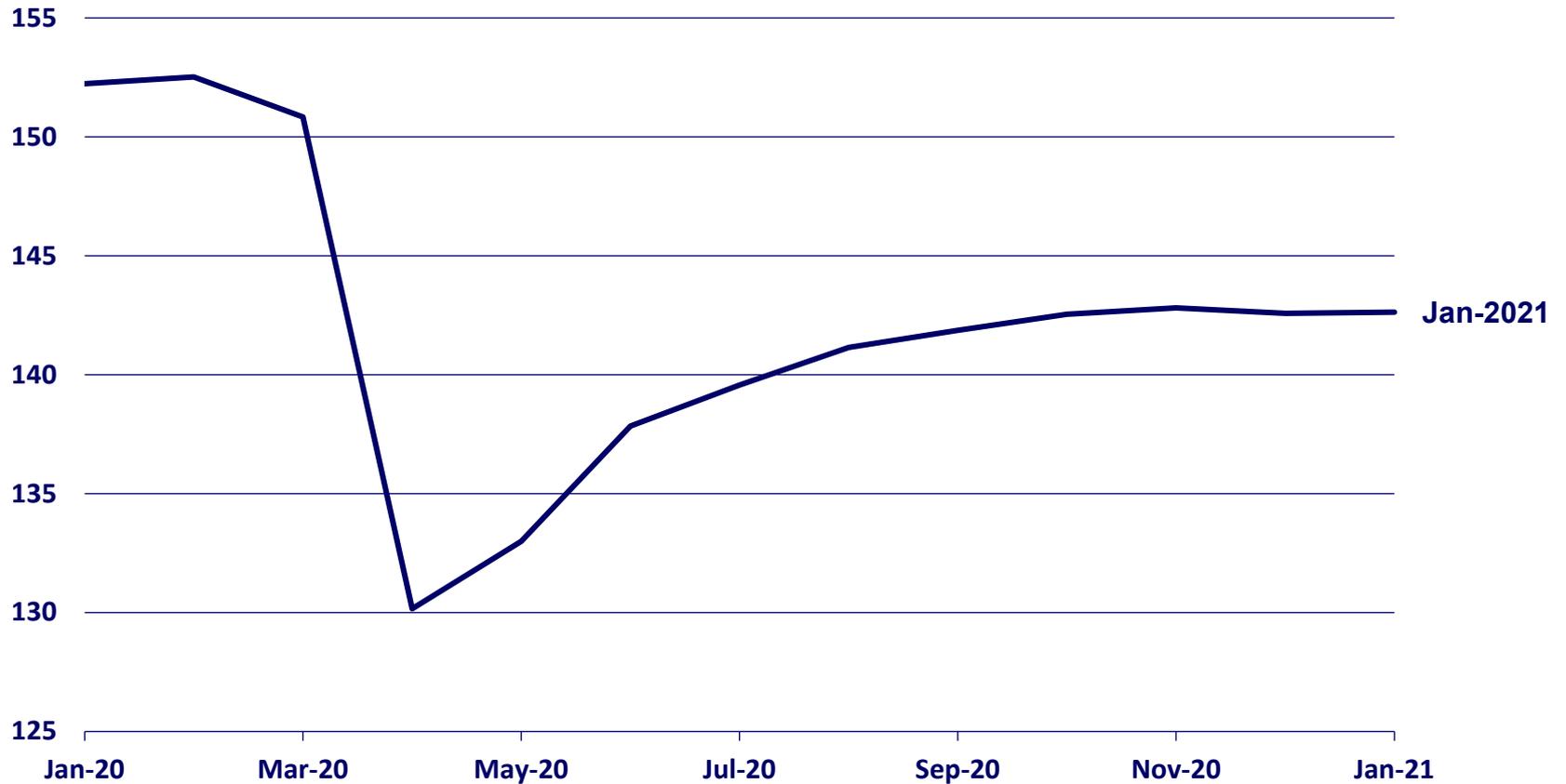
Source: Institute for Supply Management from Haver Analytics

# Risks: Employment levels have yet to recover

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## Nonfarm Payroll Employment

(Millions, SA)

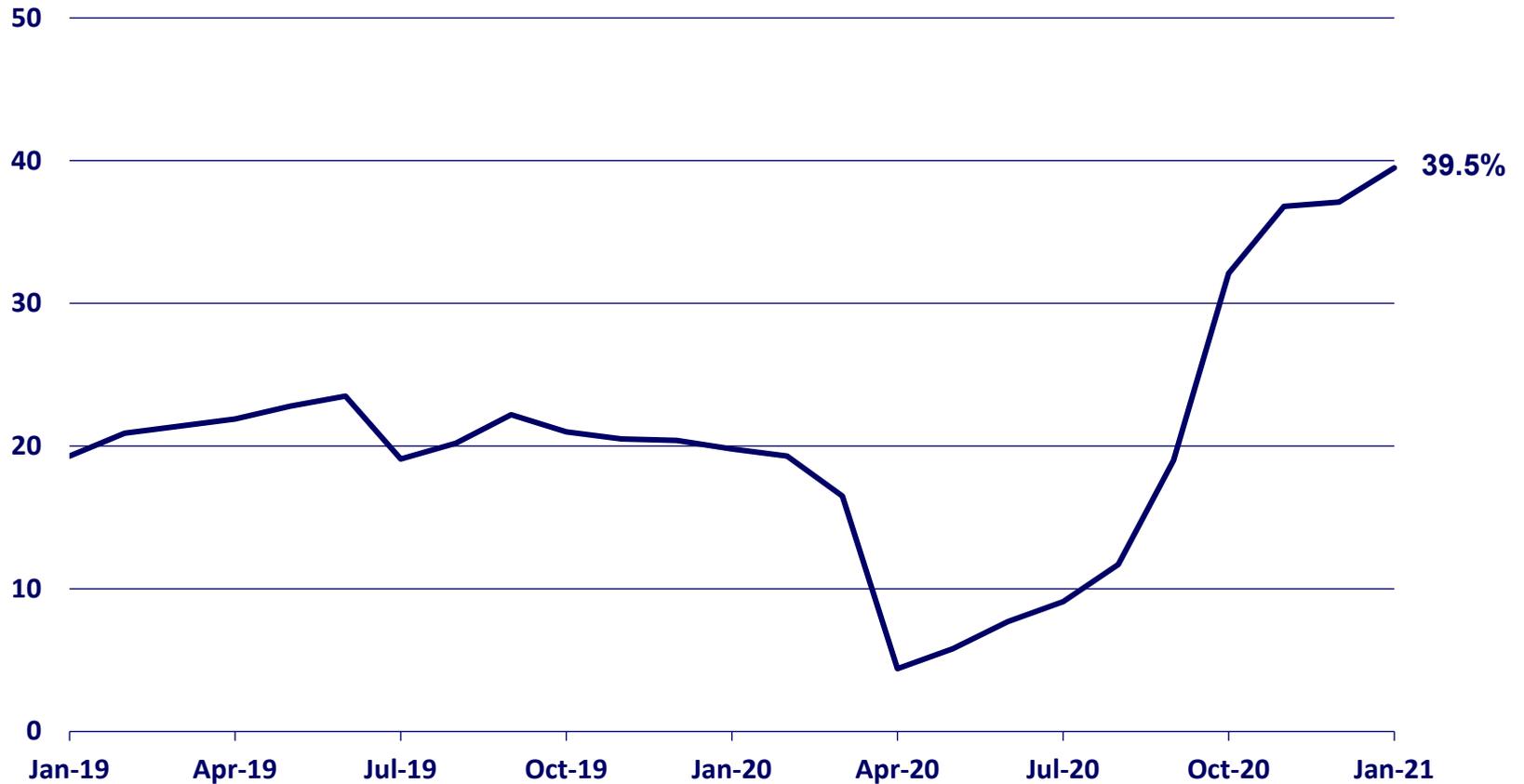


Source: Bureau of Labor Statistics from Haver Analytics

# Risks: Long-Term unemployment is high

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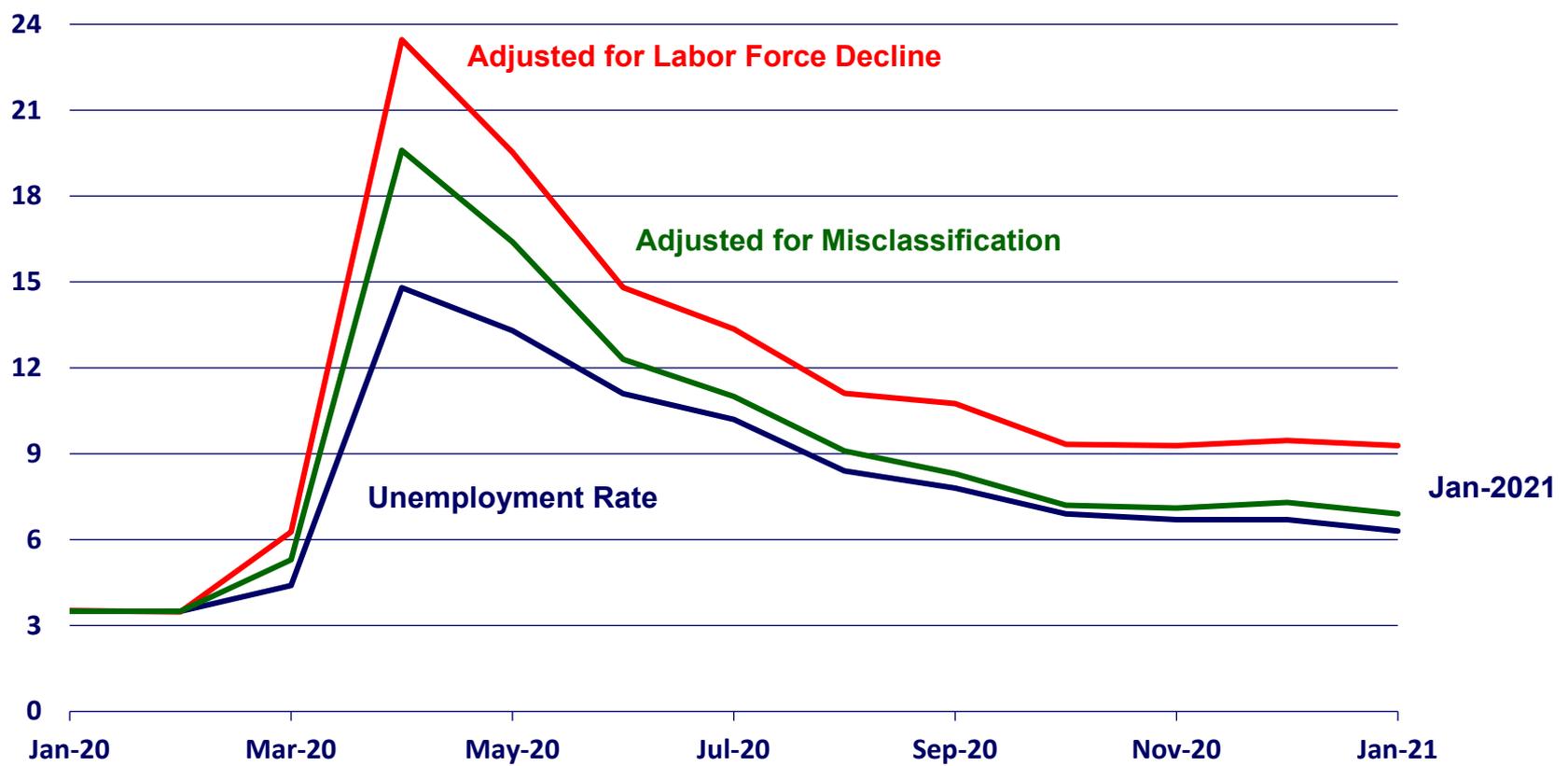
**Share of Unemployed for 27+ Weeks**  
(percent, SA)



Source: Bureau of Labor Statistics from Haver Analytics

# Risks: Official unemployment rate understates damage

## Official and Alternative Unemployment Rates (percent)

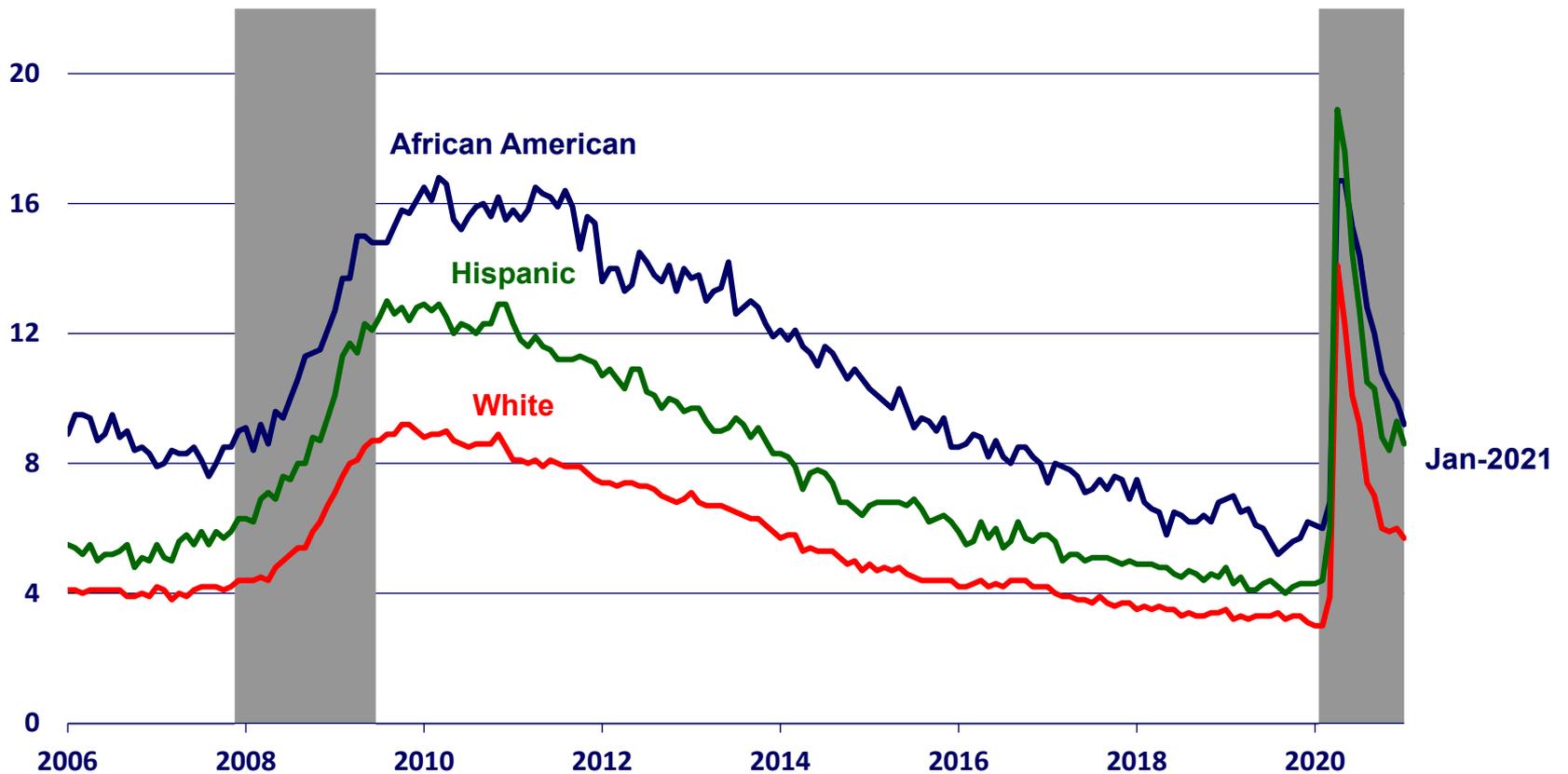


Source: Bureau of Labor Statistics from Haver Analytics

# Risks: Disparate labor market experiences

## Unemployment Rates by Race

(SA, percent)

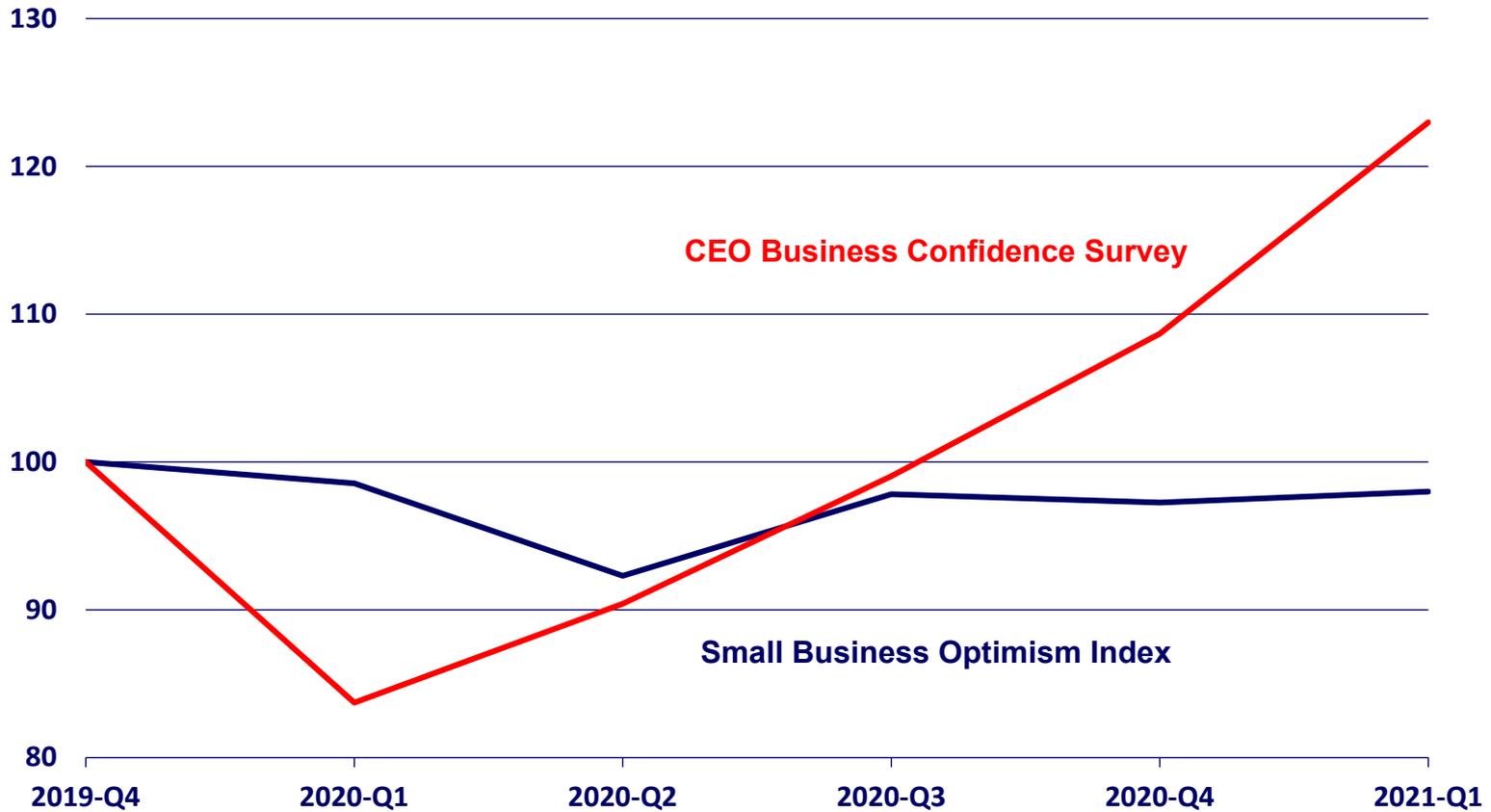


Bureau of Labor Statistics from Haver Analytics

# Risks: Divergent expectations for large and small firms

## Business Confidence

(SA; 2019:Q4=100)



Source: National Federation of Independent Business, The Conference Board from Haver Analytics

# Risks: Many businesses and households are vulnerable

## Small Businesses Open by Sector

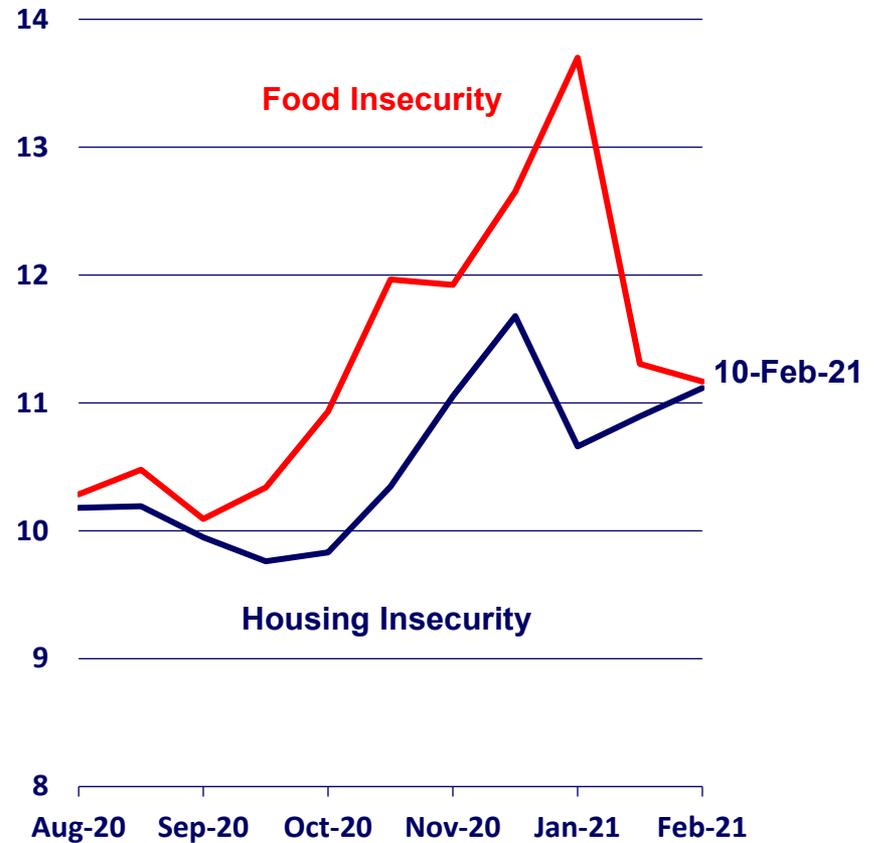
(% Diff from Baseline, 7-day MA)



Source: Womply via Opportunity Insights, Haver Analytics

## Share of Households Facing Housing and Food Insecurity

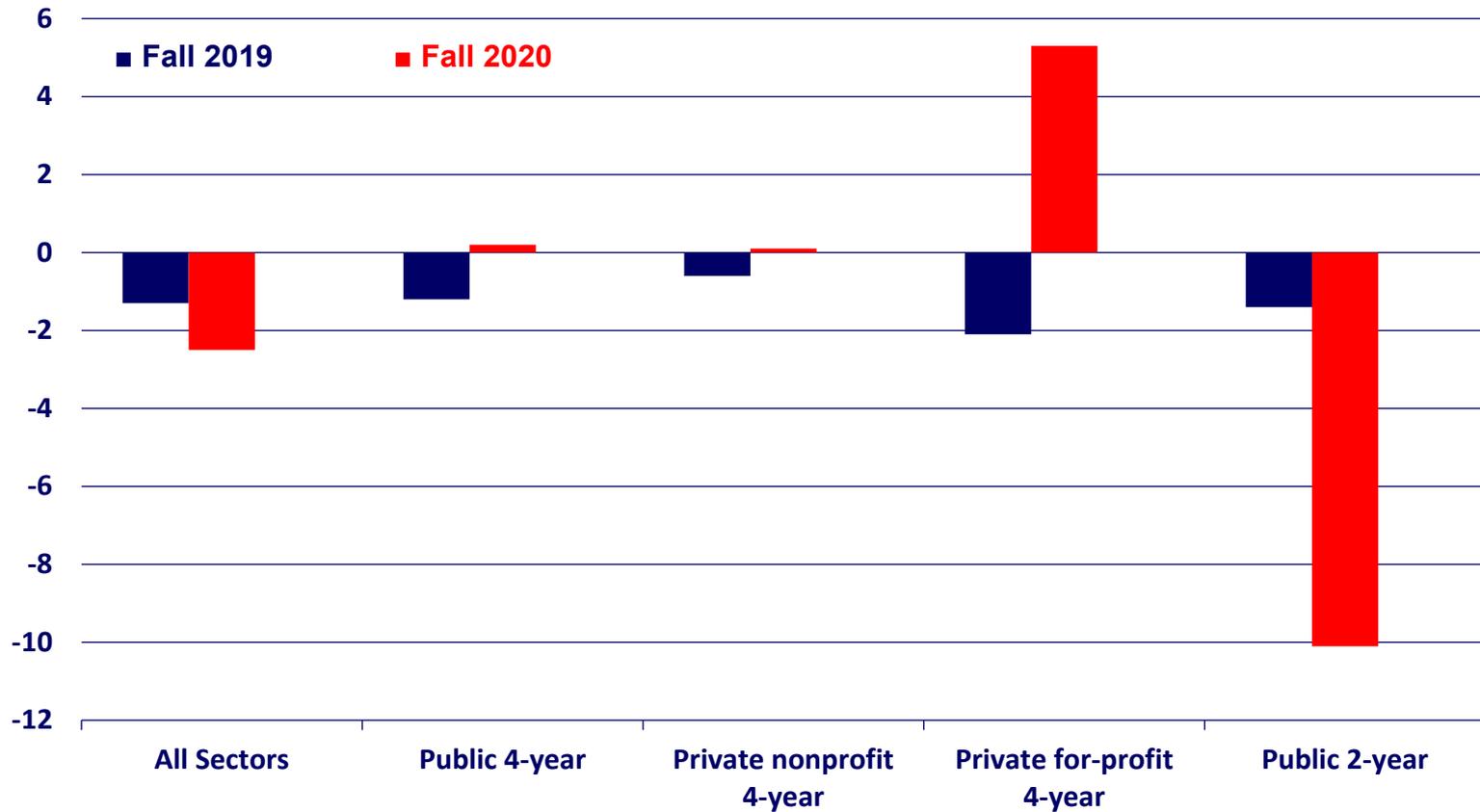
(percent)



Source: Household Pulse Survey, United States Census Bureau

# Risks: Disruptions to education

**Change in College Enrollment from Previous Year**  
(percent)

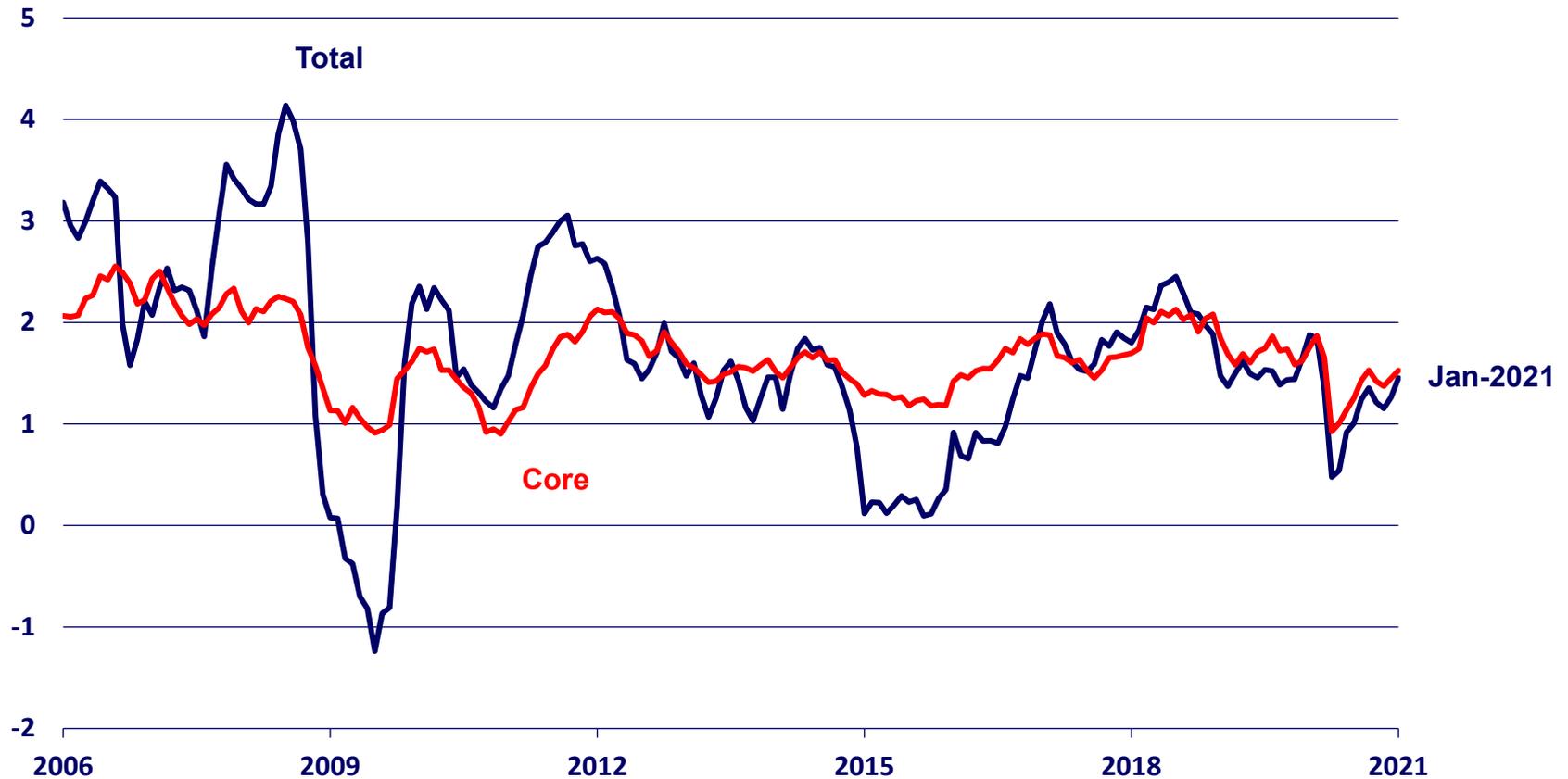


Source: National Student Clearinghouse Research Center

# Risks: Inflation has been below 2% for a long time

## PCE Price Index

(12-month percent change)

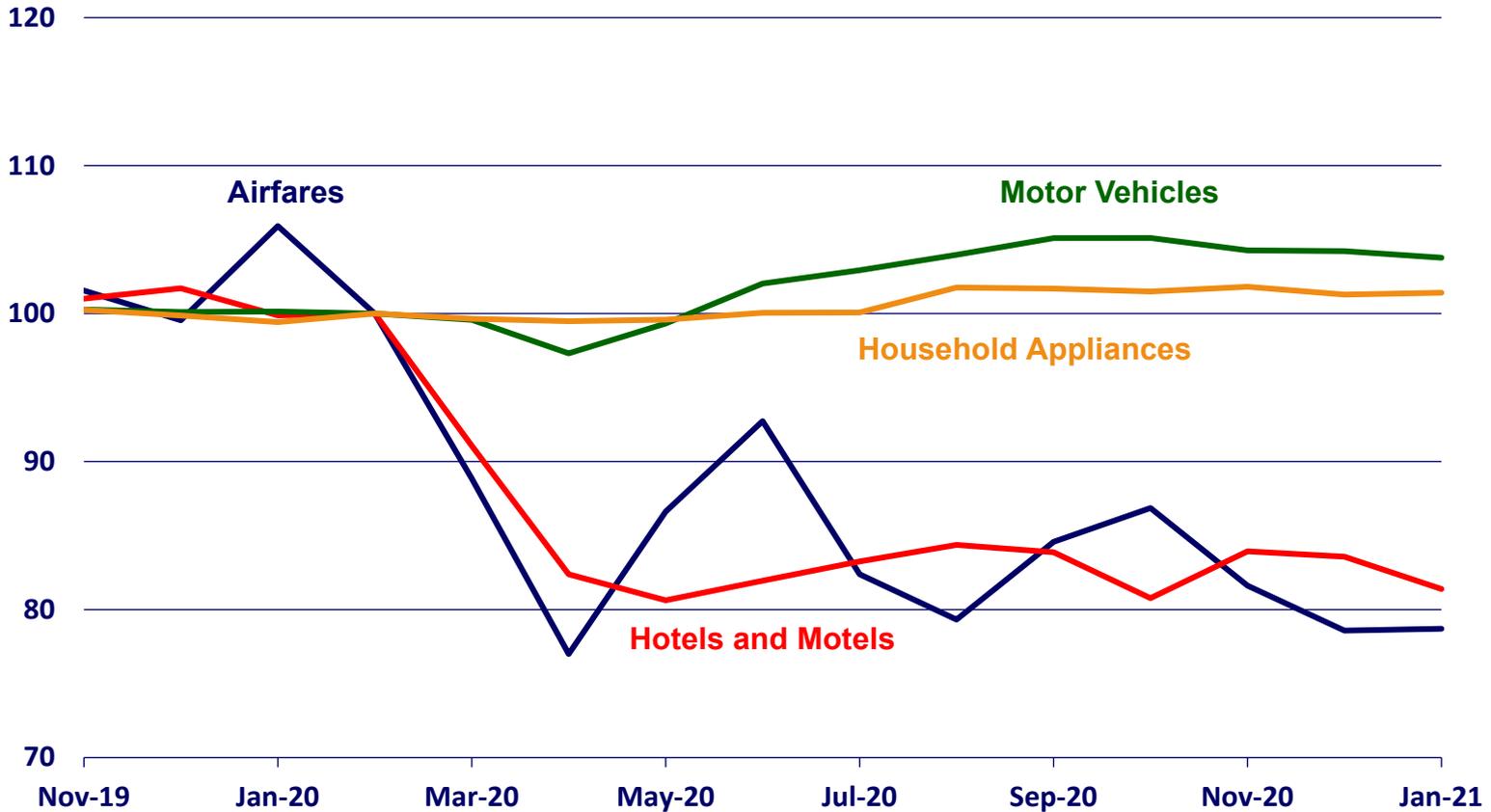


Source: Bureau of Economic Analysis from Haver Analytics

# Risks: Could see some unusual price dynamics in 2021

## Prices of Selected Consumption Items

(PCE price indexes, Feb 2020 = 100)



Source: Bureau of Economic Analysis from Haver Analytics

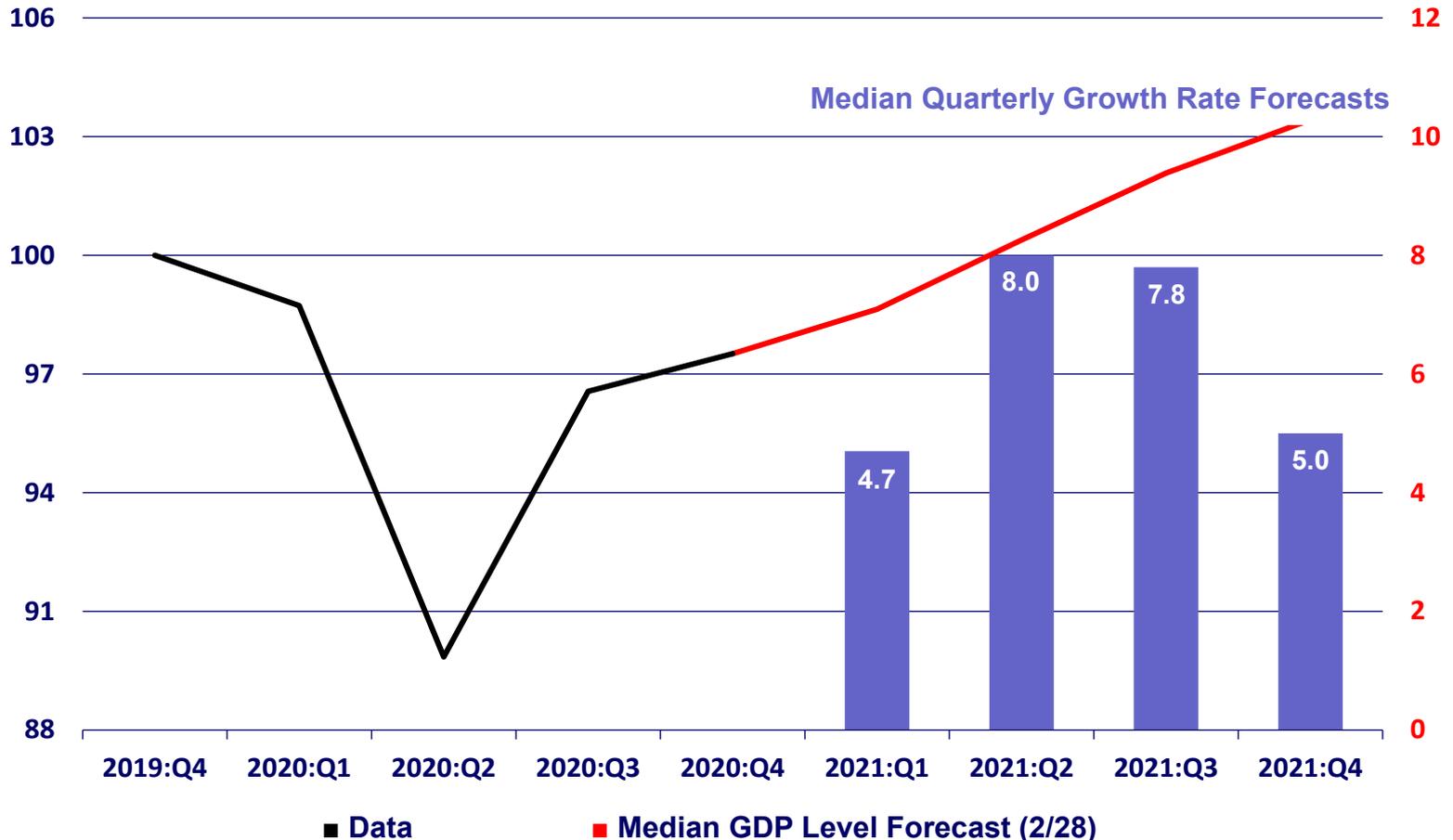
# Taking Stock

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- **A lot of progress and more than we had expected.**
- **Considerable risks and uncertainties remain.**
- **What does this mean going forward?**

# GDP outlook is for strong recovery in 2021

**GDP Level and Projected Quarterly Growth (annual rate), from Various Forecasters**  
(GDP Level, 2019:Q4=100, Quarterly Growth Rates, SAAR percent change)



Source: Bureau of Economic Analysis, Blue Chip from Haver Analytics; Macro Advisers from IHS Markit; others from respective sources

# Fiscal policy critical component of the outlook

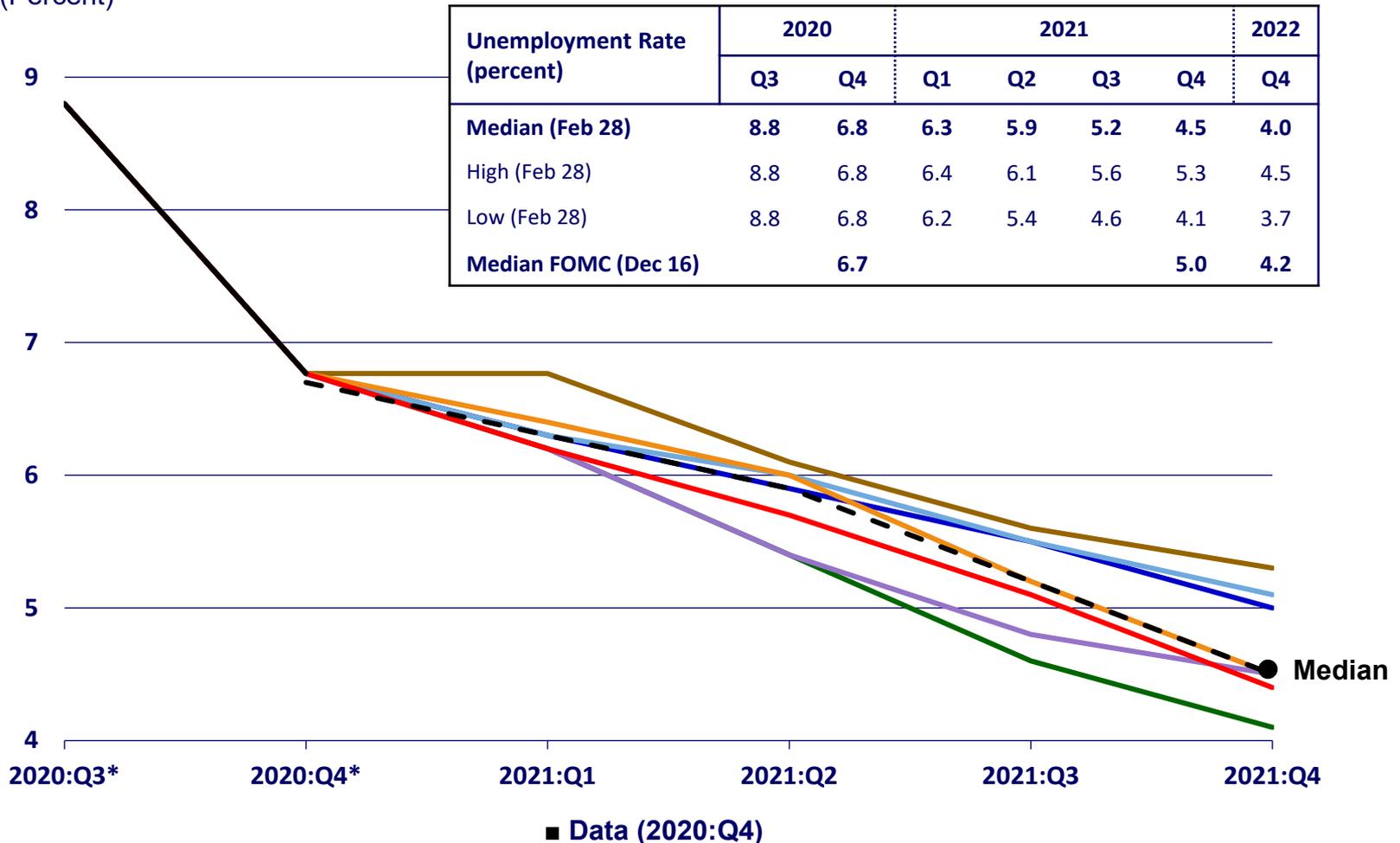
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| <b><u>GDP Growth Forecasts (Q4-to-Q4)</u></b>   |             |             |
|---|-------------|-------------|
|   | <b>2021</b> | <b>2022</b> |
| <b>Blue Chip (2/10)</b>   | <b>5.0</b>  | <b>3.0</b>  |
| <b>Brookings (2/3)</b>  | <b>7.3</b>  | <b>0.9</b>  |
| <b>Effect on growth of additional fiscal</b>  |             |             |
| <b>Blue Chip</b>  | <b>1.6</b>  | <b>0.4</b>  |
| <b>Brookings</b>  | <b>3.6</b>  | <b>-1.5</b> |
| <b>The average additional fiscal stimulus in 2021 assumed by Blue Chip forecasters is ~\$1.5T; Brookings considers the proposed \$1.9T package and starts at CBO's baseline GDP projection.</b> |             |             |

# Expect the labor market to recover slowly

## Actual and Projected Unemployment Rate, from Various Forecasters

(Percent)



\* 2020:Q3, Q4 are the actual unemployment rates as reported for the third and fourth quarters, 8.8 and 6.8, respectively.

Source: Blue Chip from Haver Analytics, Macro Advisers from IHS Markit, others from respective sources

# Move up in treasury yields also suggests optimism

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## 10-Year Treasury Note Yield (percent)



Source: Federal Reserve Board from Haver Analytics

# Inflation expectations indicators suggest optimism

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## TIPS 5-year Forward Inflation Compensation (percent)

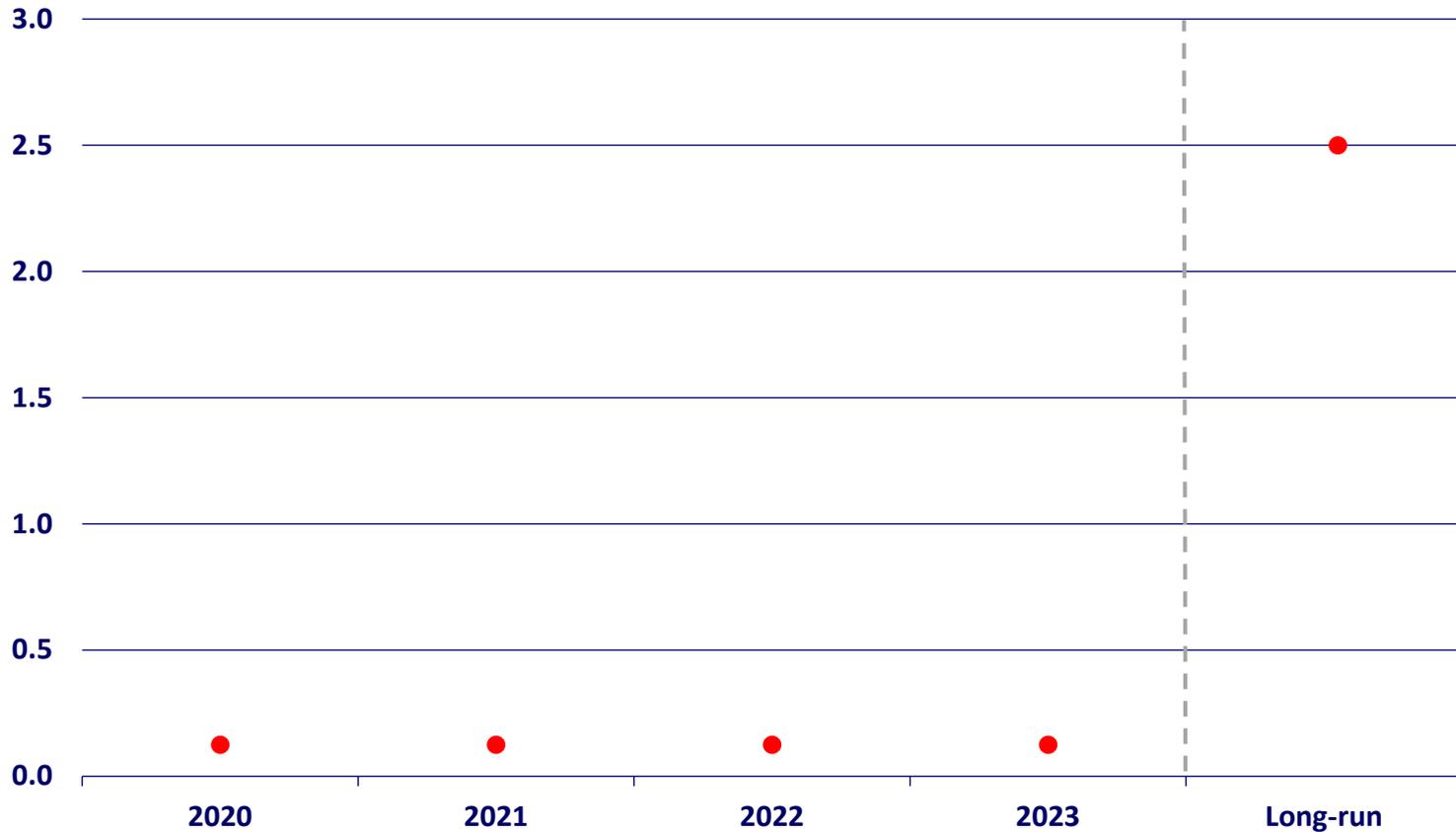


Source: Federal Reserve Board from Haver Analytics

# What to expect from monetary policy?

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## Median FOMC participant target Federal Funds Rate at Year-End (percent)



Source: December 2020 FOMC Summary of Economic Projections. Red points indicate the median projection.

# Summary: The outlook for 2021 looks good

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- **Key ingredients**
  - Vaccines
  - Fiscal policy
  - Appropriate monetary policy Continued economic resilience
- **Risks remain elevated**
  - Virus
  - Labor market
  - Disparities