




# National Economic Update

Kartik Athreya  
November 8, 2021



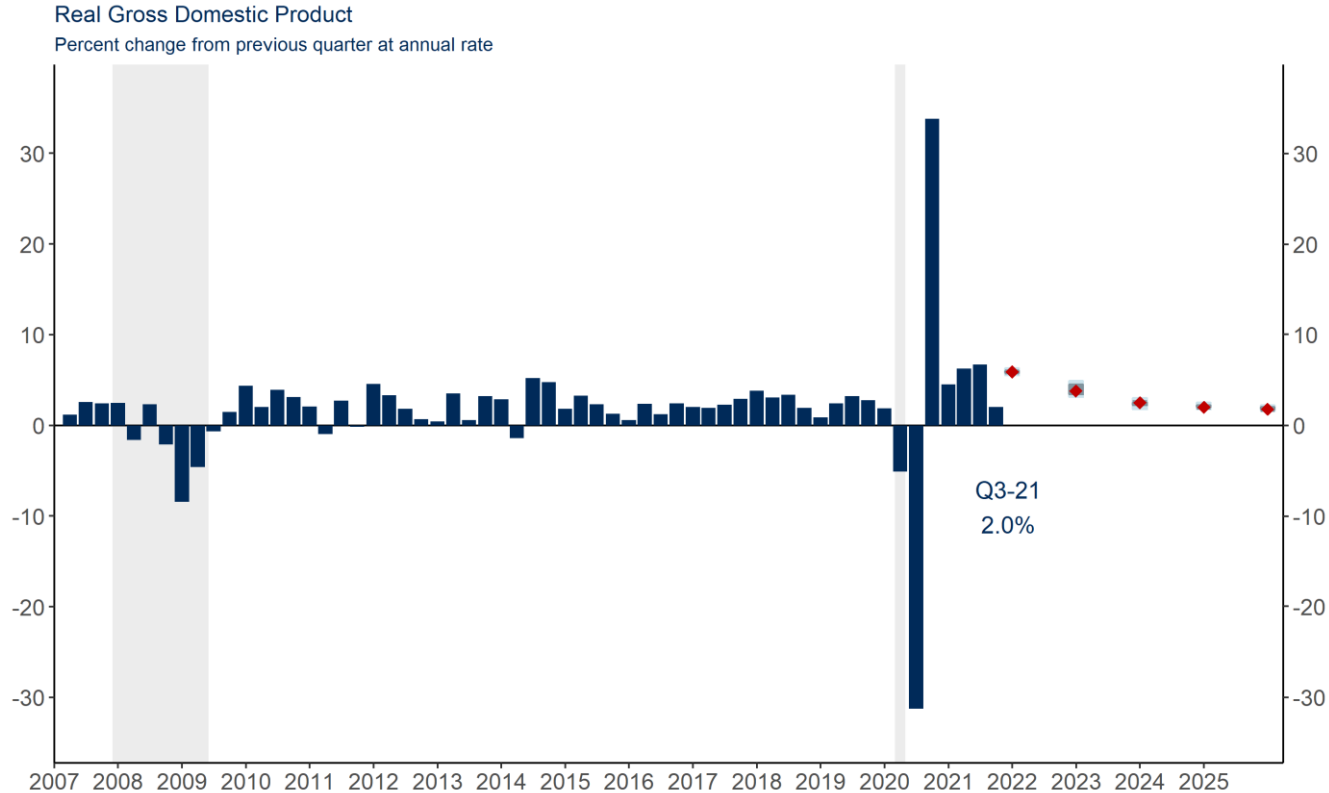
*The views expressed here are those of the presenter and do not necessarily represent the Federal Reserve Bank of Richmond or the Federal Reserve System.*



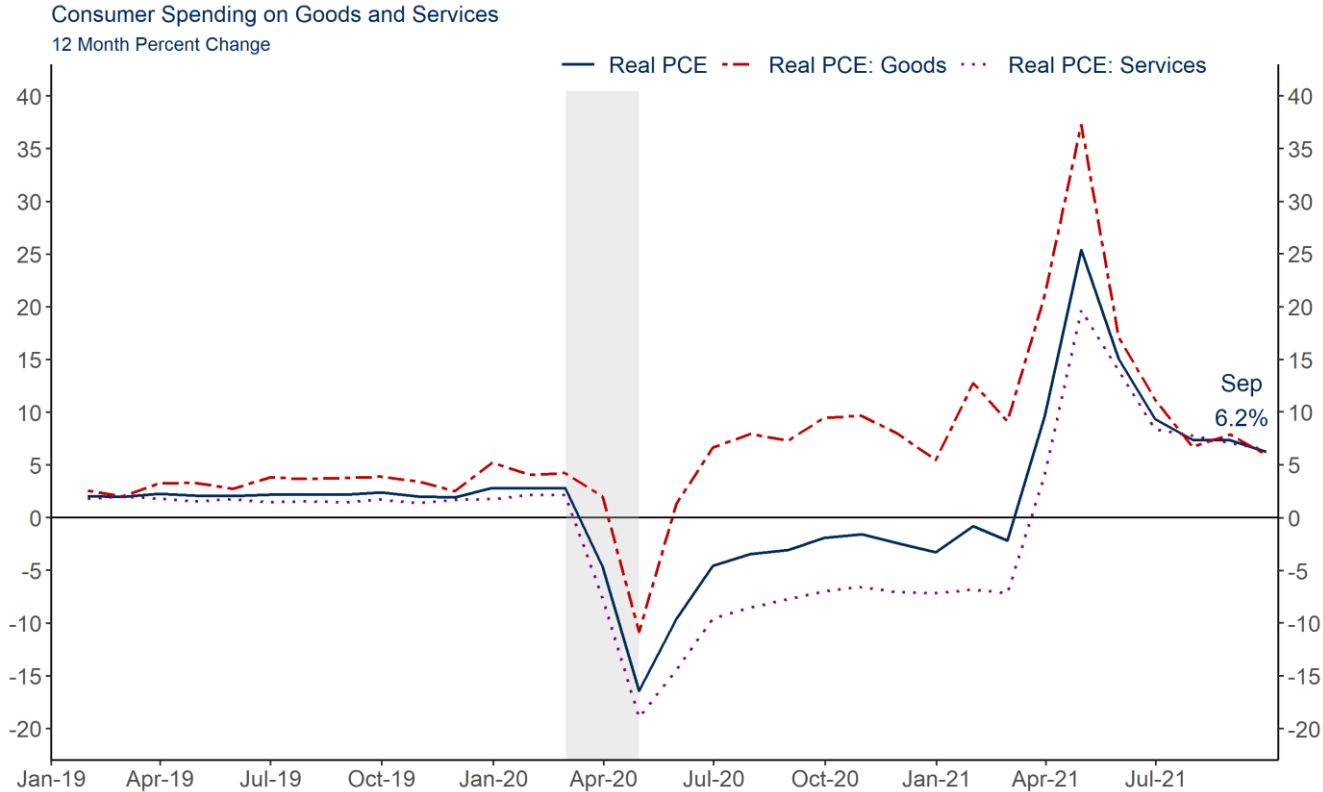
# Overview: A Good-ish Real Recovery

- Q3 GDP Growth at 2.0%, (Q2 GDP growth at 6.7%)
  - Softer outlook for rest of year, 2021 growth around 5%
  - Delta variant surge and supply chain headwinds
- Q3 Consumption Growth at 1.6%, (Q2 at 12.0%)
  - Transitioning from goods to services?
- Q3 Nonresidential Fixed Investment Growth at 1.8%, (Q2 at 9.2%)

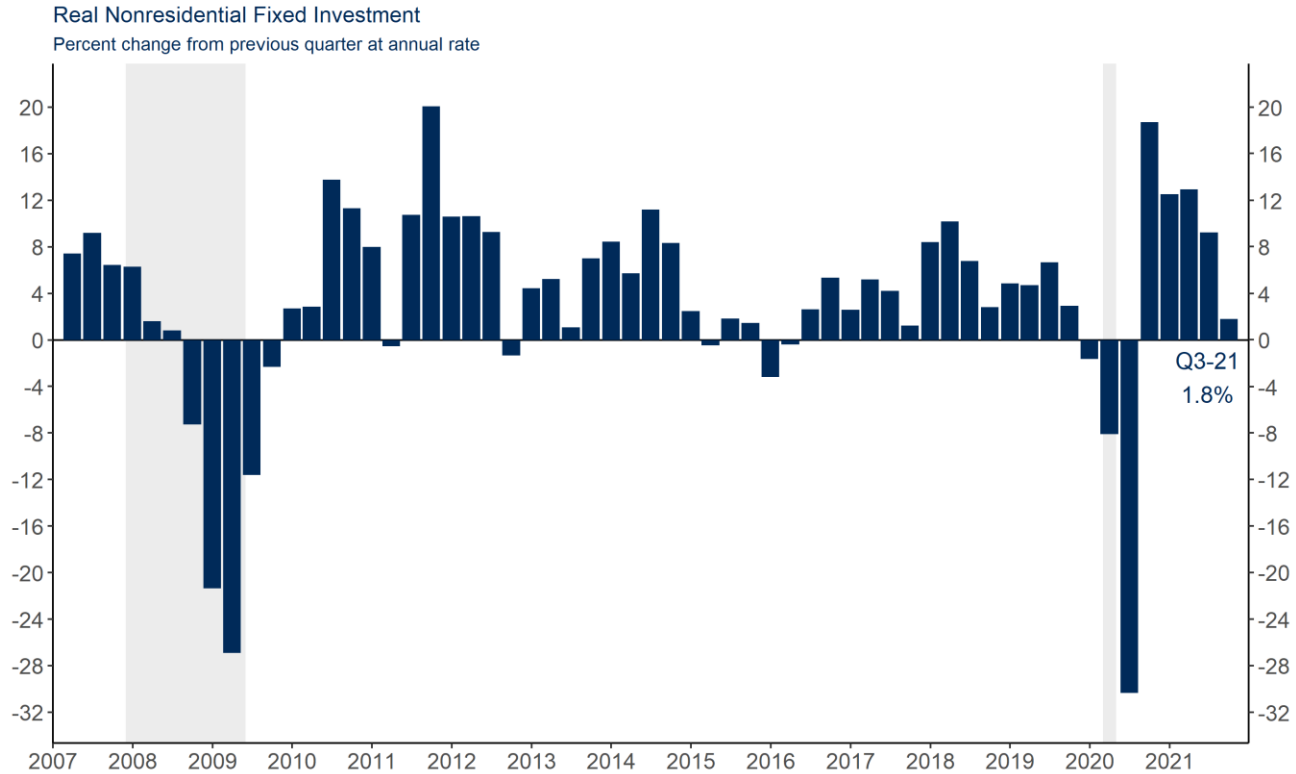
# Real Output



# Real Consumption



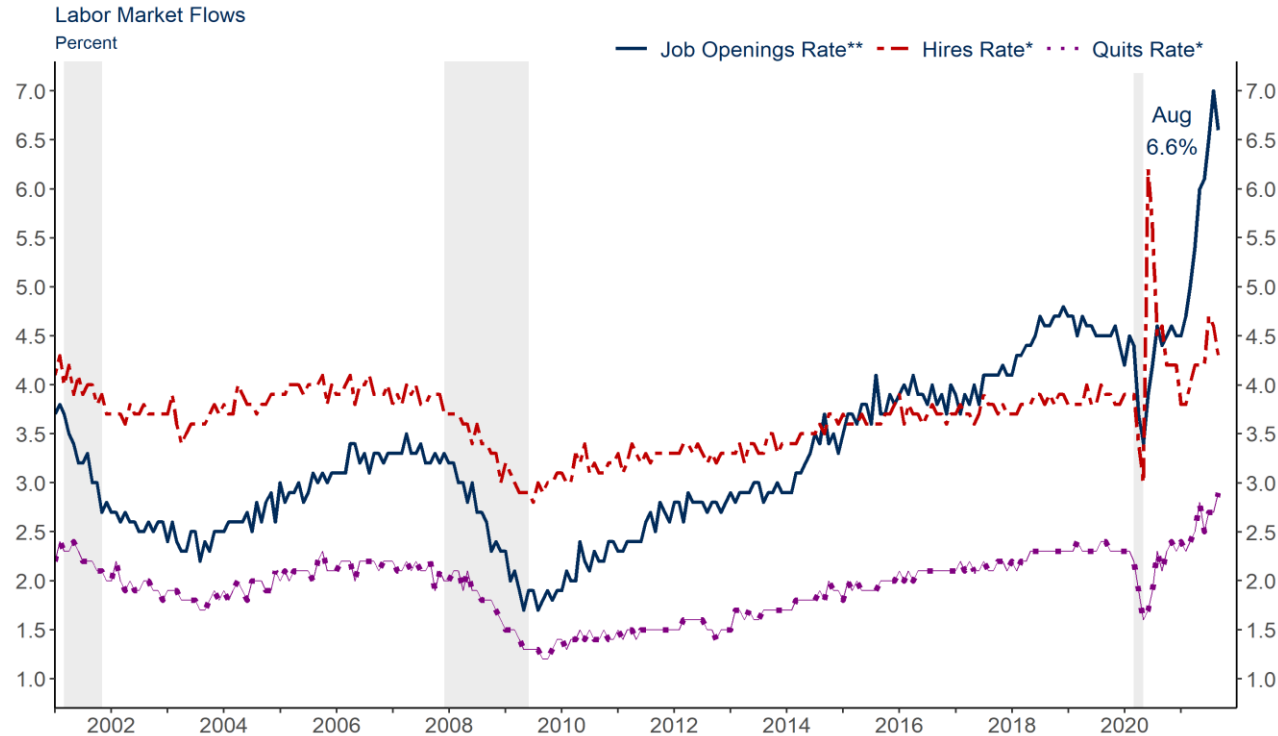
# Real Investment



# Overview: A Good-ish Labor Recovery

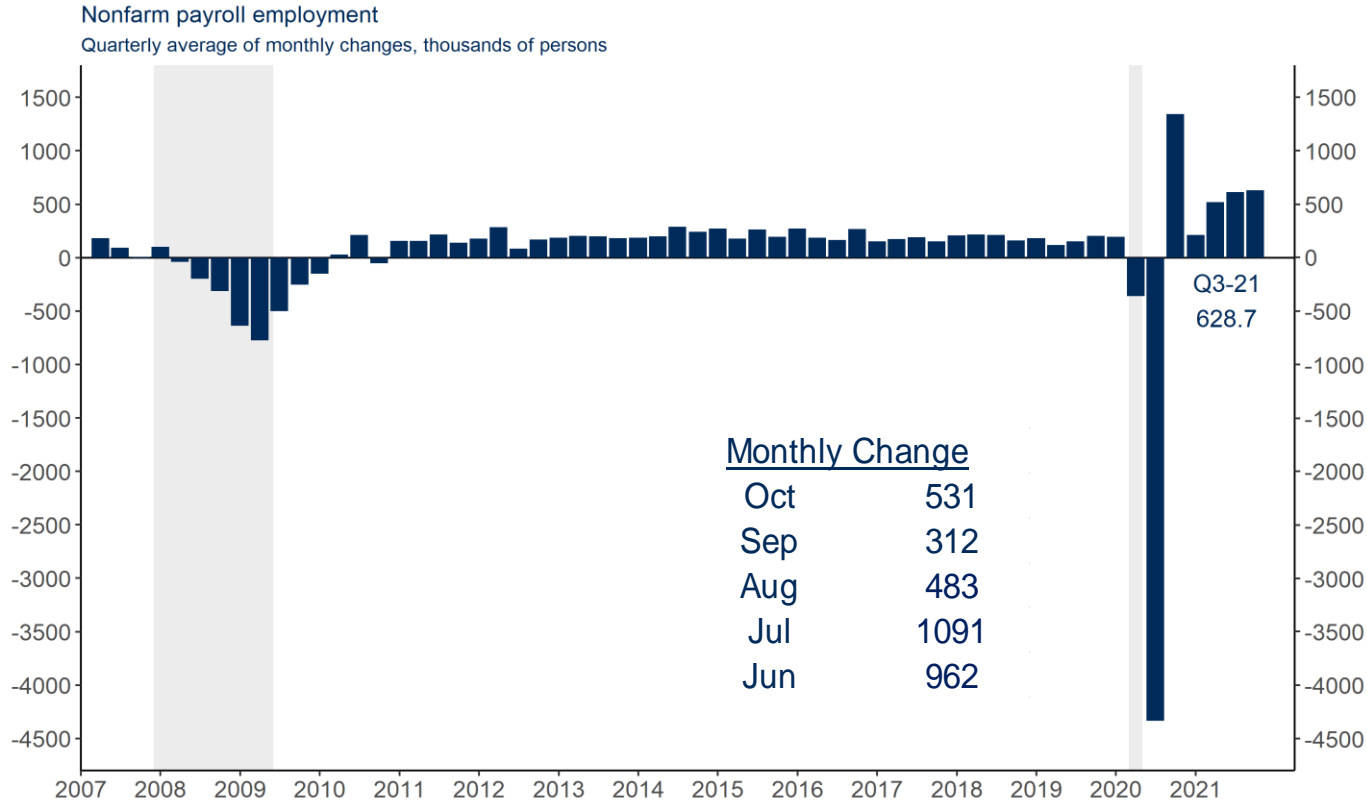
- Labor Market: continued steady recovery
  - Red-hot labor demand: record quits in JOLTS
  - Employment growth: “disappointing” September reading of 194k
    - BUT, Solid number from Friday (October employment report):  
+531K
  - Unemployment: drops to 4.6% in October, claims falling
  - Labor force participation stagnates: 61.6%, 2pp below pre-Covid

# Record Highs for Openings and Quits



Note: \*Percent of total employment. \*\*Percent of total employment plus job openings.

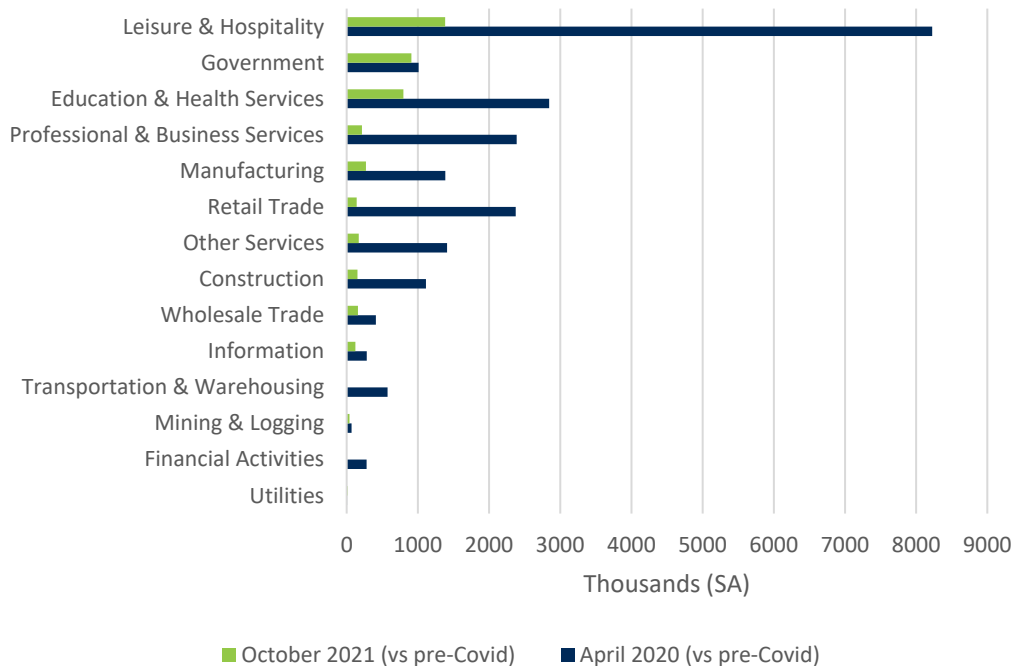
# Employment Growth Looking Decent



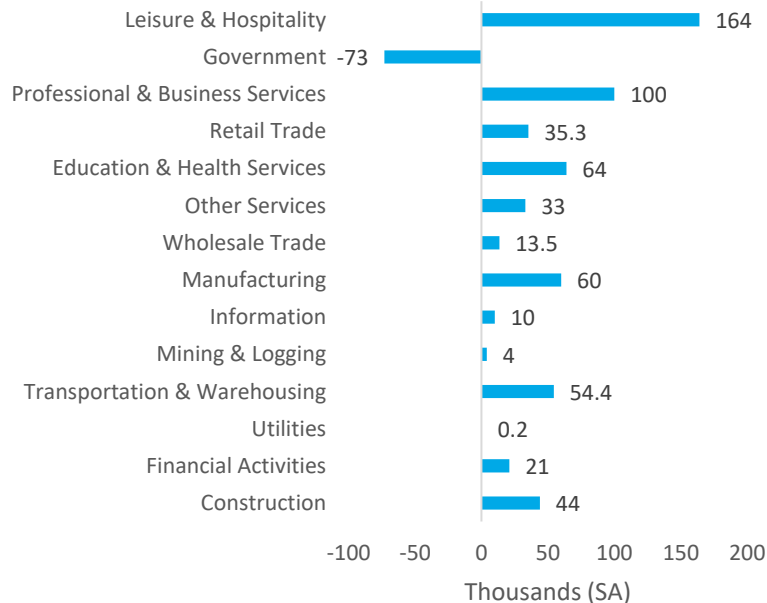


# More evidence that we are healing...

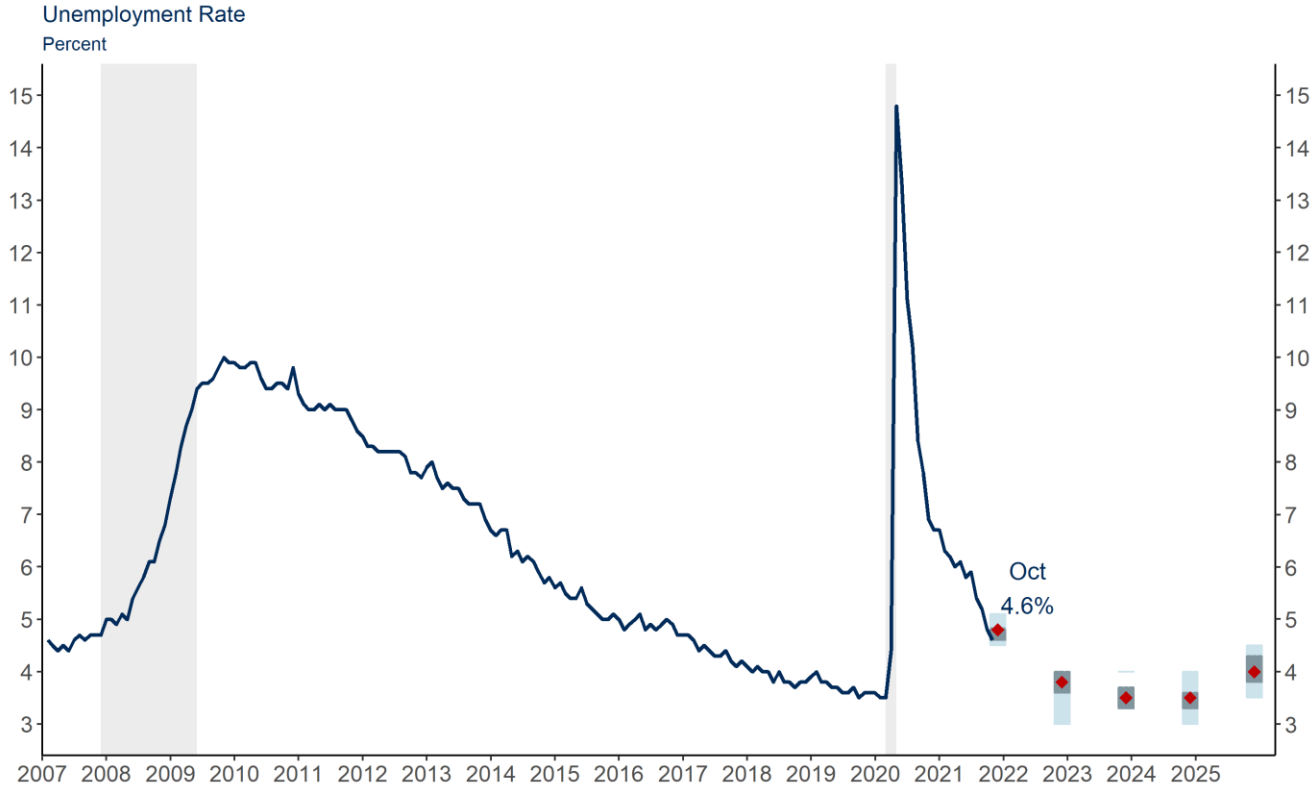
## Jobs Lost Versus February 2020 Pre-Pandemic Level



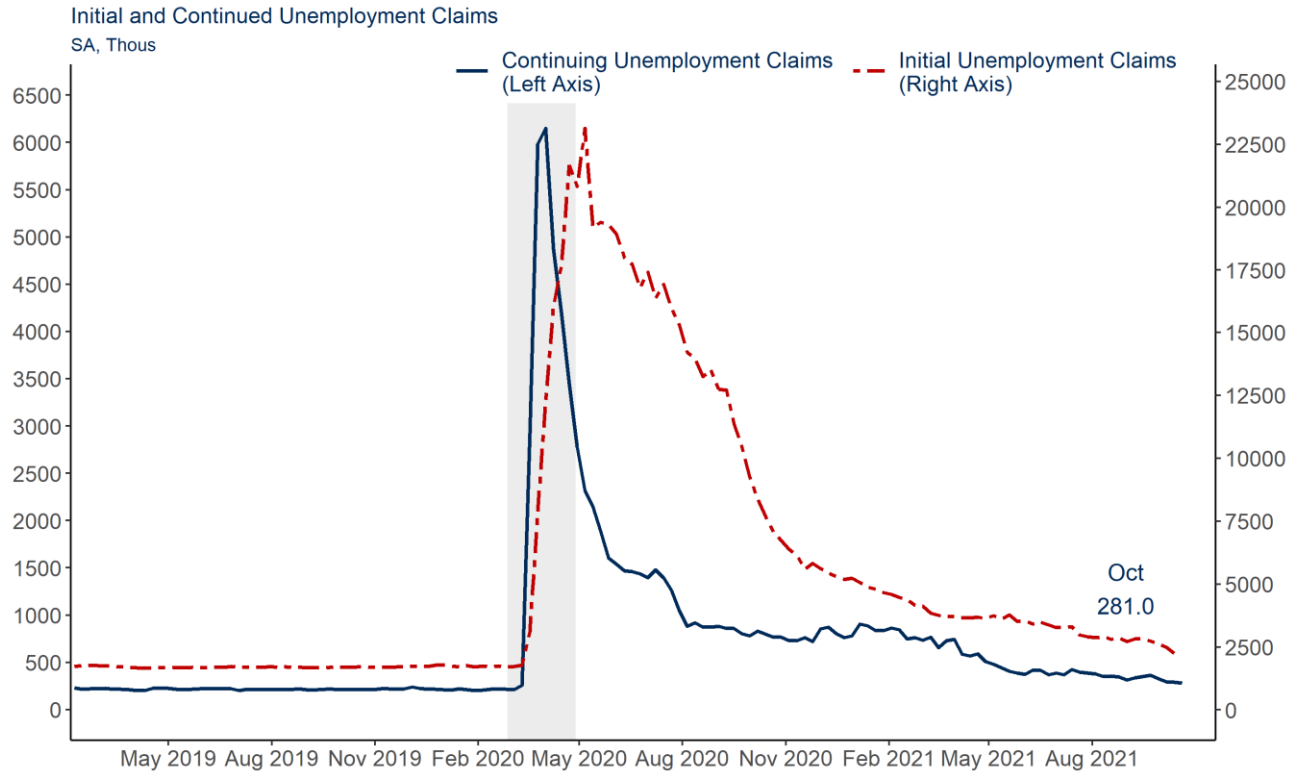
## Employment Changes By Industry, October 2021



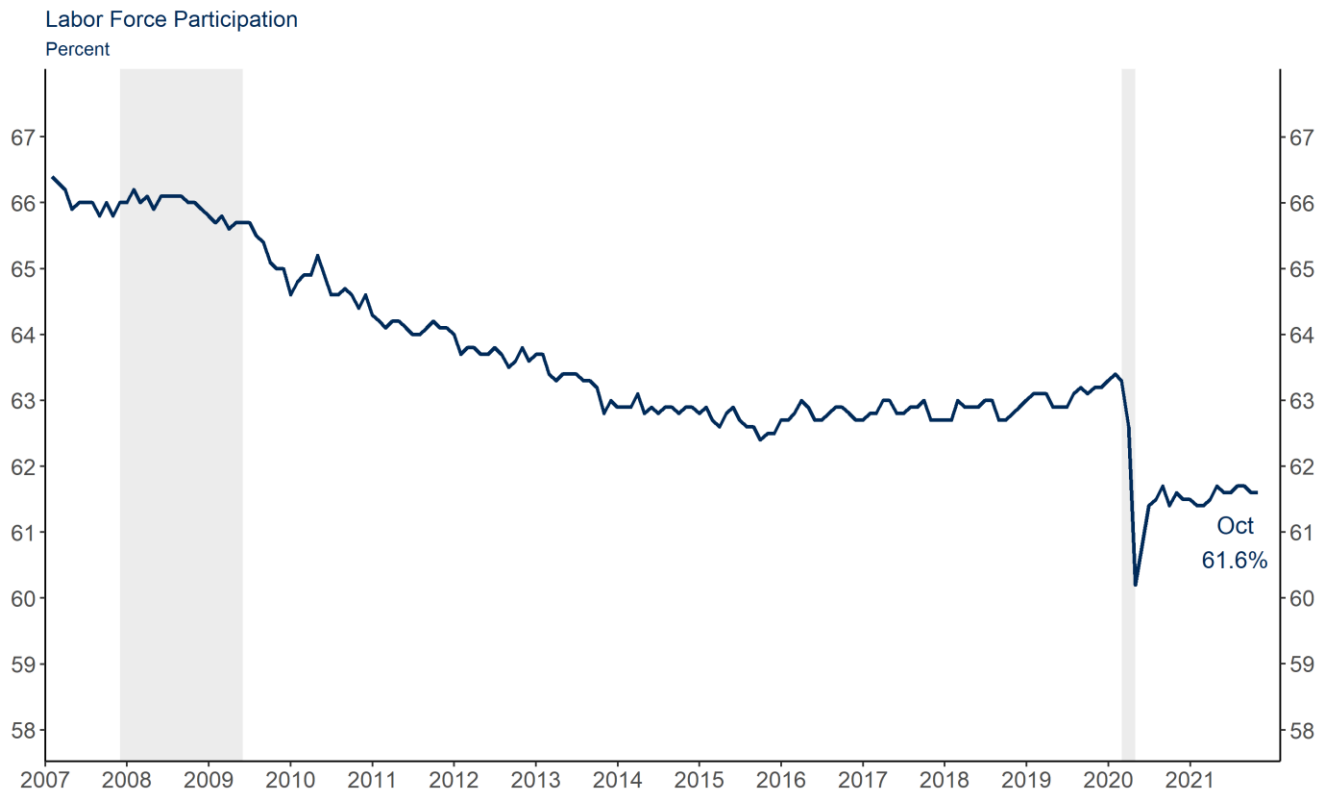
# Unemployment Close to Long-Run Level



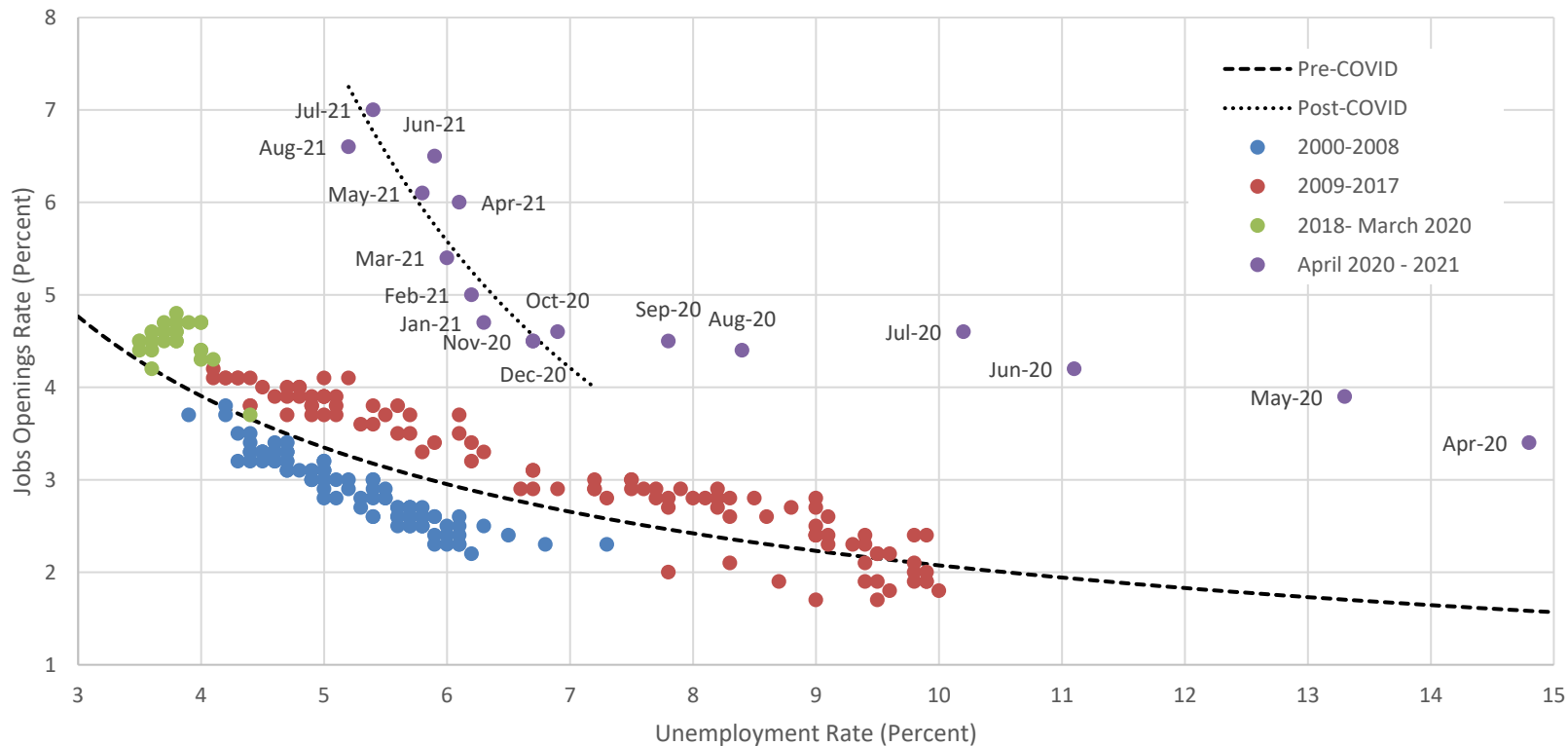
# ... With Claims (Almost) at Pre-Covid Levels



# ... While Labor Force Participation Treading Water



# And one novel feature...



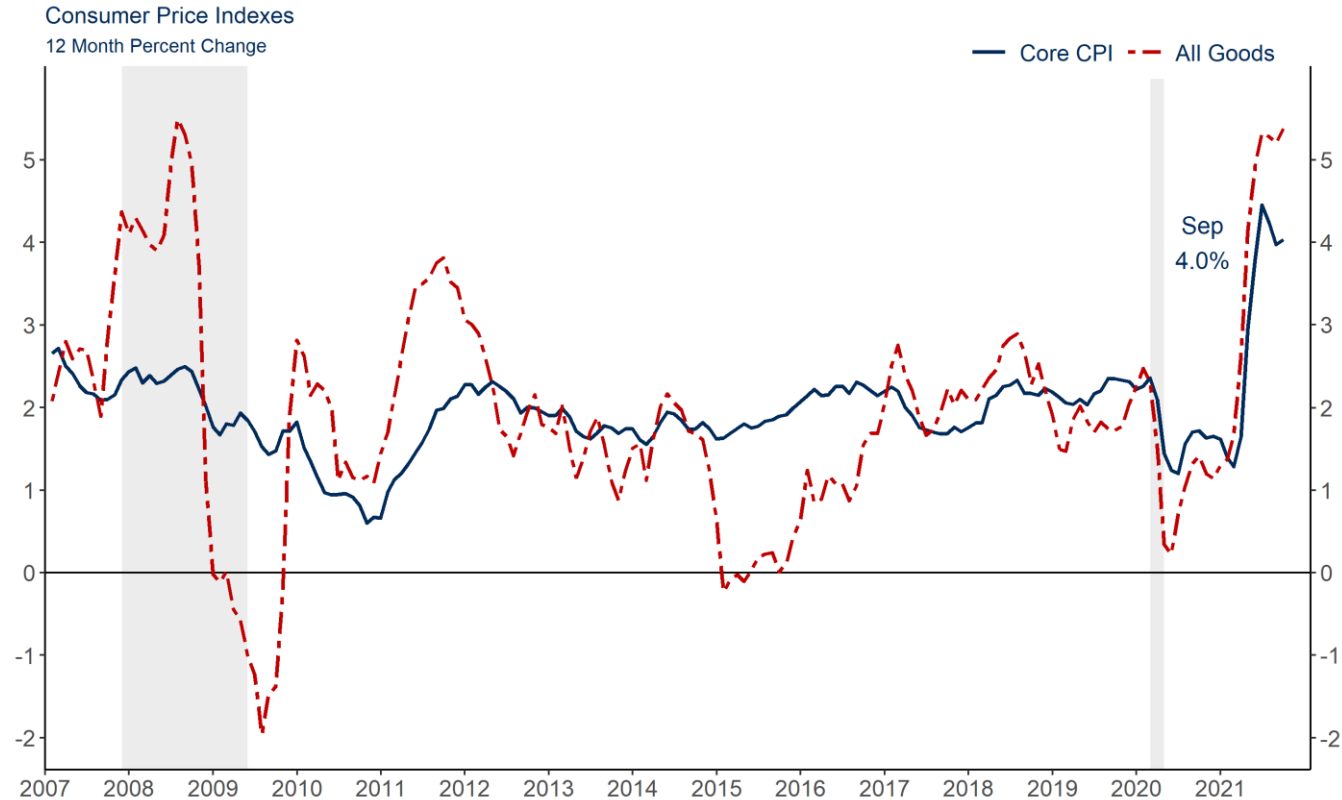
# Taking stock so far...

- A Good-*ish* recovery on the real side of the economy.
  - Recovering GDP, a healthy consumer, plentiful jobs, COVID in retreat.
- But what about *inflation*, man?!

# Prices are up.

- Inflation: continues to be elevated
  - September CPI at 5.4%, core CPI at 4.0%
  - September PPI 8.6%, core PPI at 5.9%
  - September PCE at 4.4%, core PCE at 3.6%
  - Some measures of inflation expectations have started rising

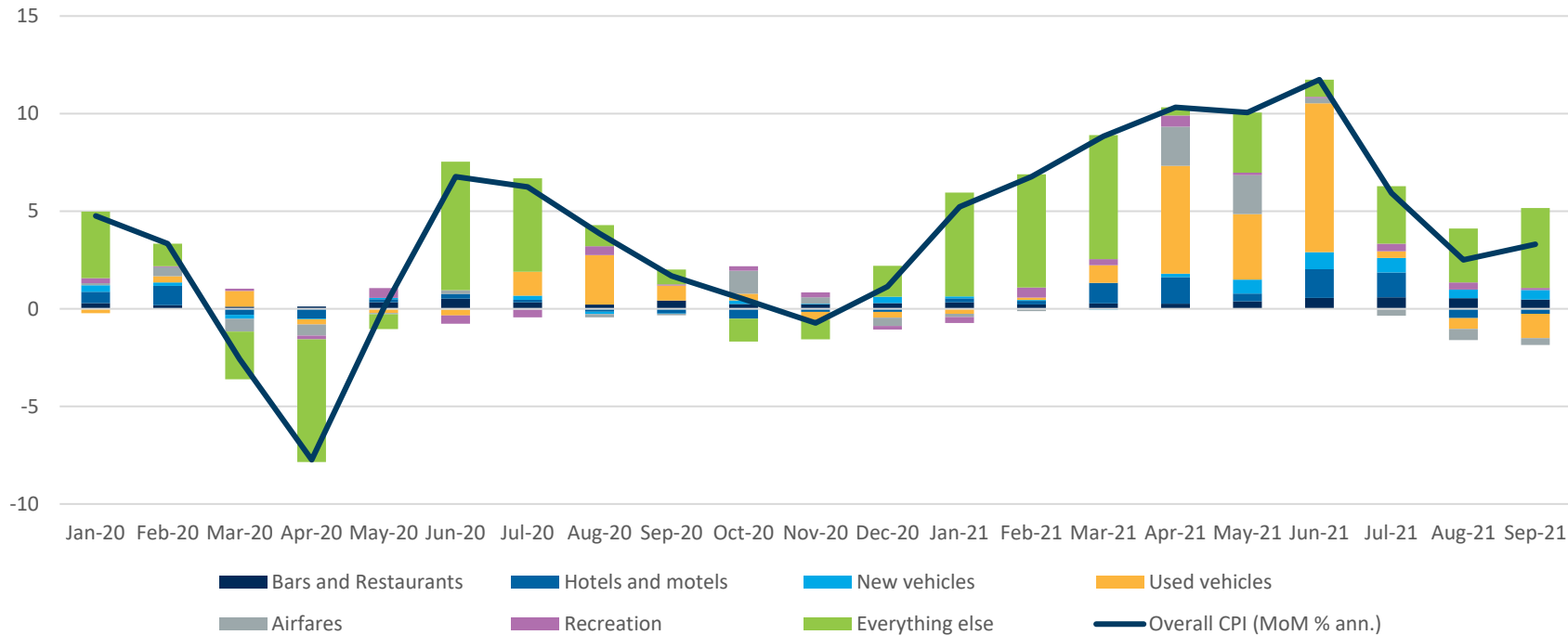
# Consumer Price Inflation Remains Elevated



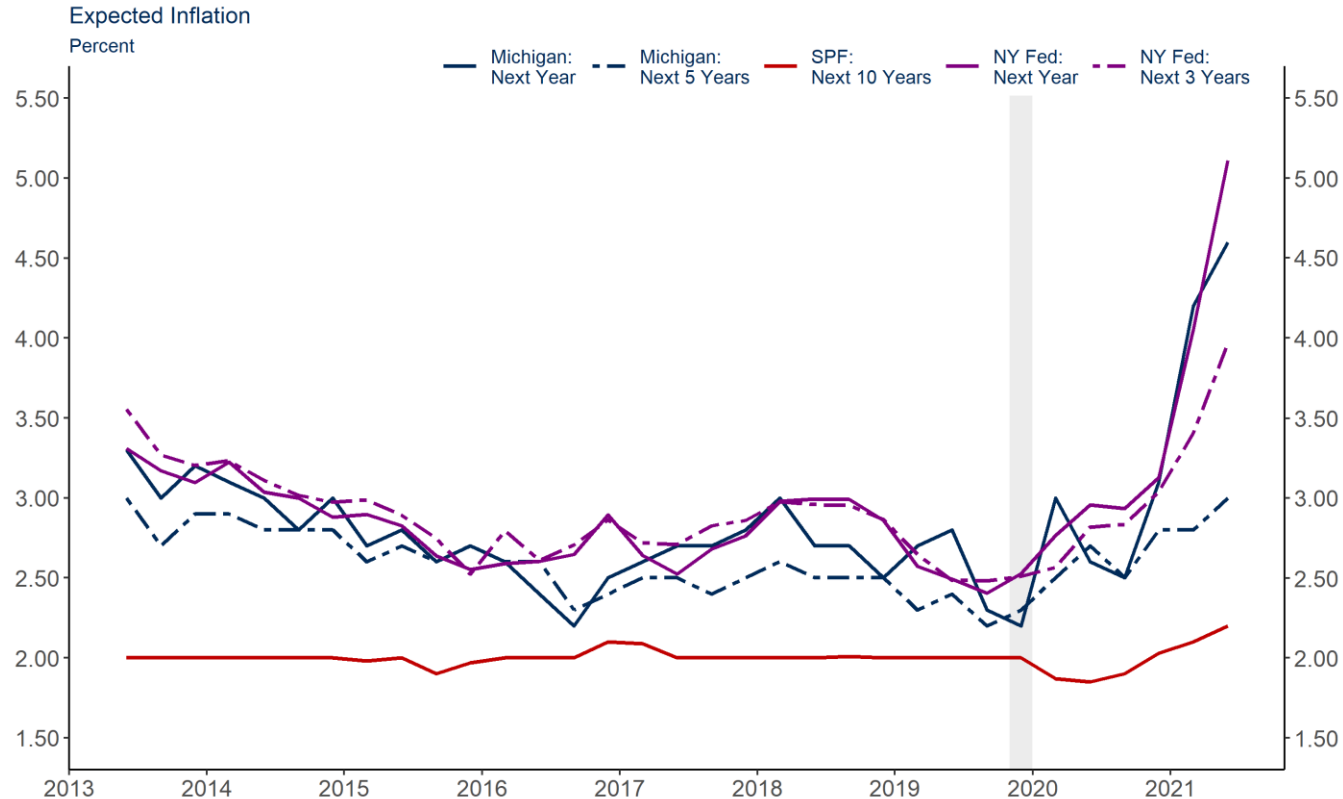


# CPI Inflation – The Breakdown

Annualized Month-Over-Month CPI Growth



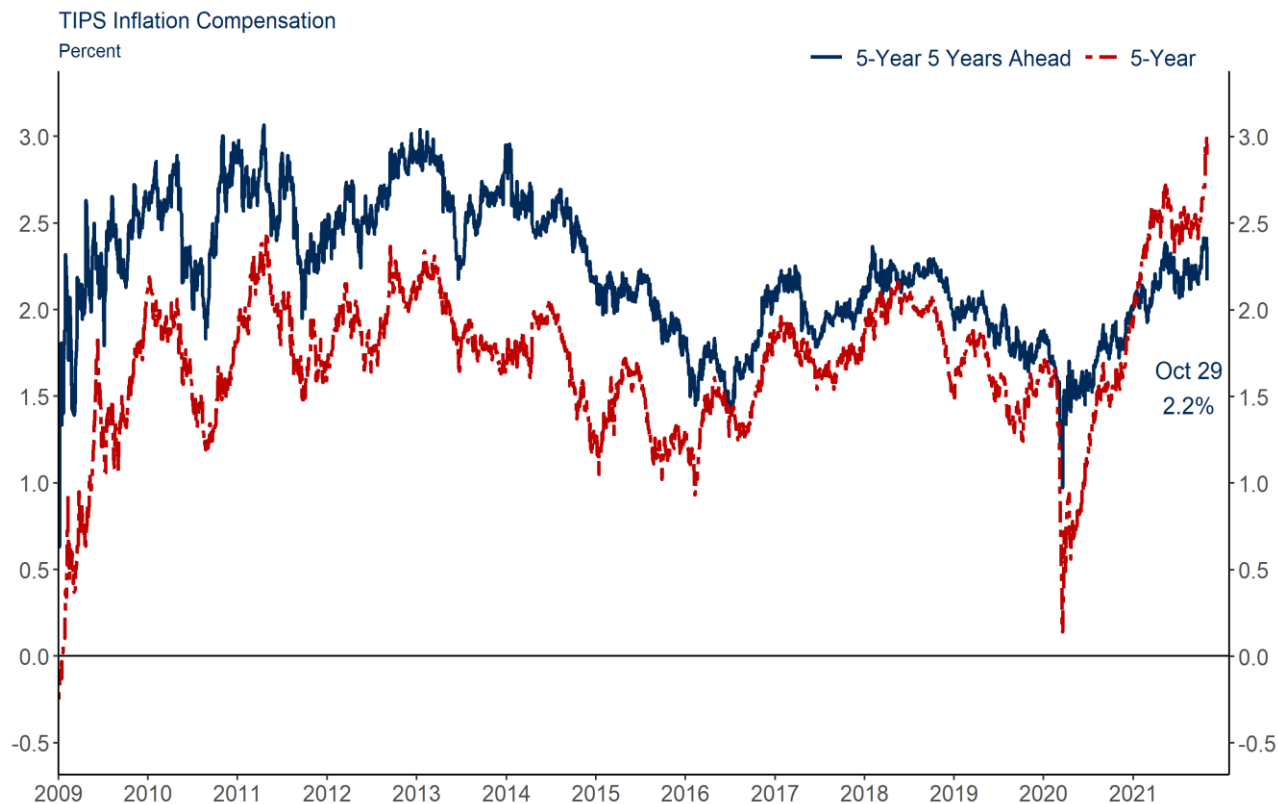
# Survey Inflation Expectations Rising ...



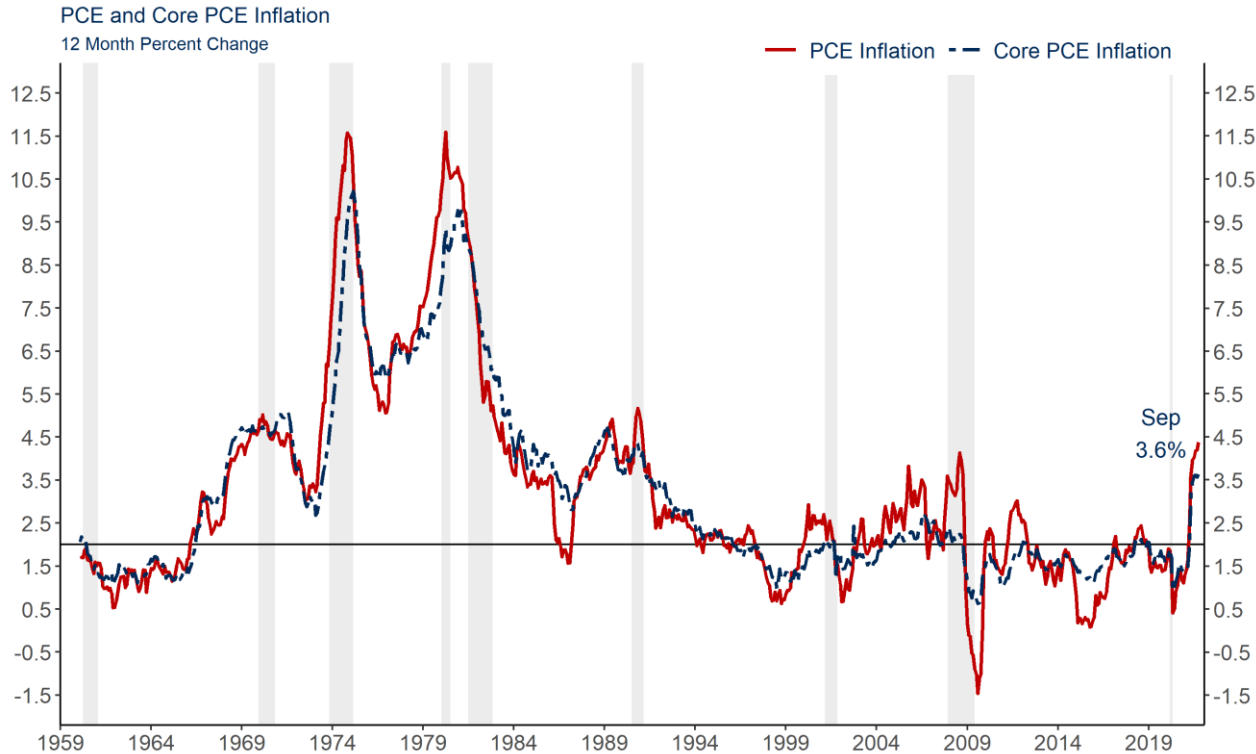
Source: University of Michigan & Federal Reserve Bank of Philadelphia & Federal Reserve Bank of New York via Haver Analytics

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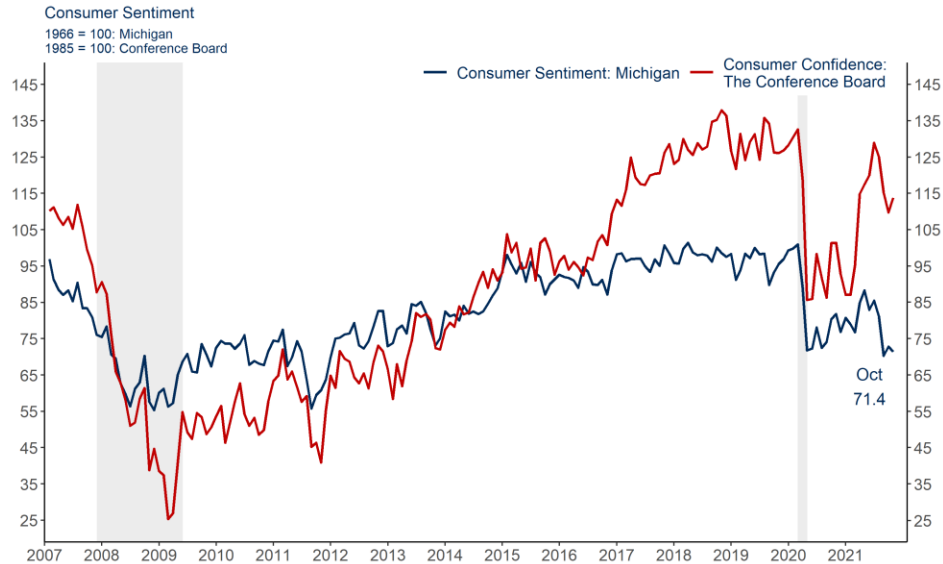
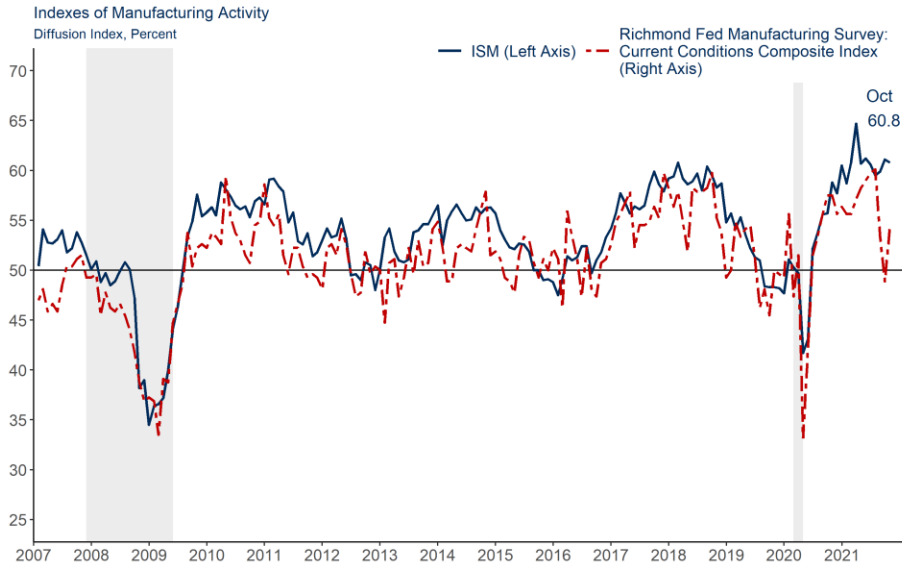
# (though longer-Term *Market* Expectations Anchored)



# A Longer-Run Inflation Perspective



# A Dip in Confidence



# What's the right story?

Is it...

## 1. Demand pressures from...

- Healthy balance sheets and ongoing fiscal support bolster (esp. goods) consumption and investment
- Resetting of wage expectations
- Excess liquidity

## With Supply disruptions from...

- Ongoing supply-chain issues drive up input costs
- Shift in labor force participation and weakening immigration leads to slower employment growth
- Supply shocks: energy supplies, new hybrid normal drag on productivity

Or is it...

## 2. Policy errors

- FOMC slow to raise rates because FAIT and policy framework
- Misperceptions:  $r^*$  and trend productivity growth

# My Take: Story #1, Hands Down.

- Taper underway:
  - “...the Committee decided to begin reducing the monthly pace of its net asset purchases by \$10 billion for Treasury securities and \$5 billion for agency mortgage-backed securities.”
- Policy not likely too accommodative as of now
- Supply constraints will ease, both as real adjustments there occur, and as consumer re-rotates towards services.

So, inflation (too) shall pass. You invite me back next year, and I'll hope I'm right.



# Thank You!

