



Economic Conditions

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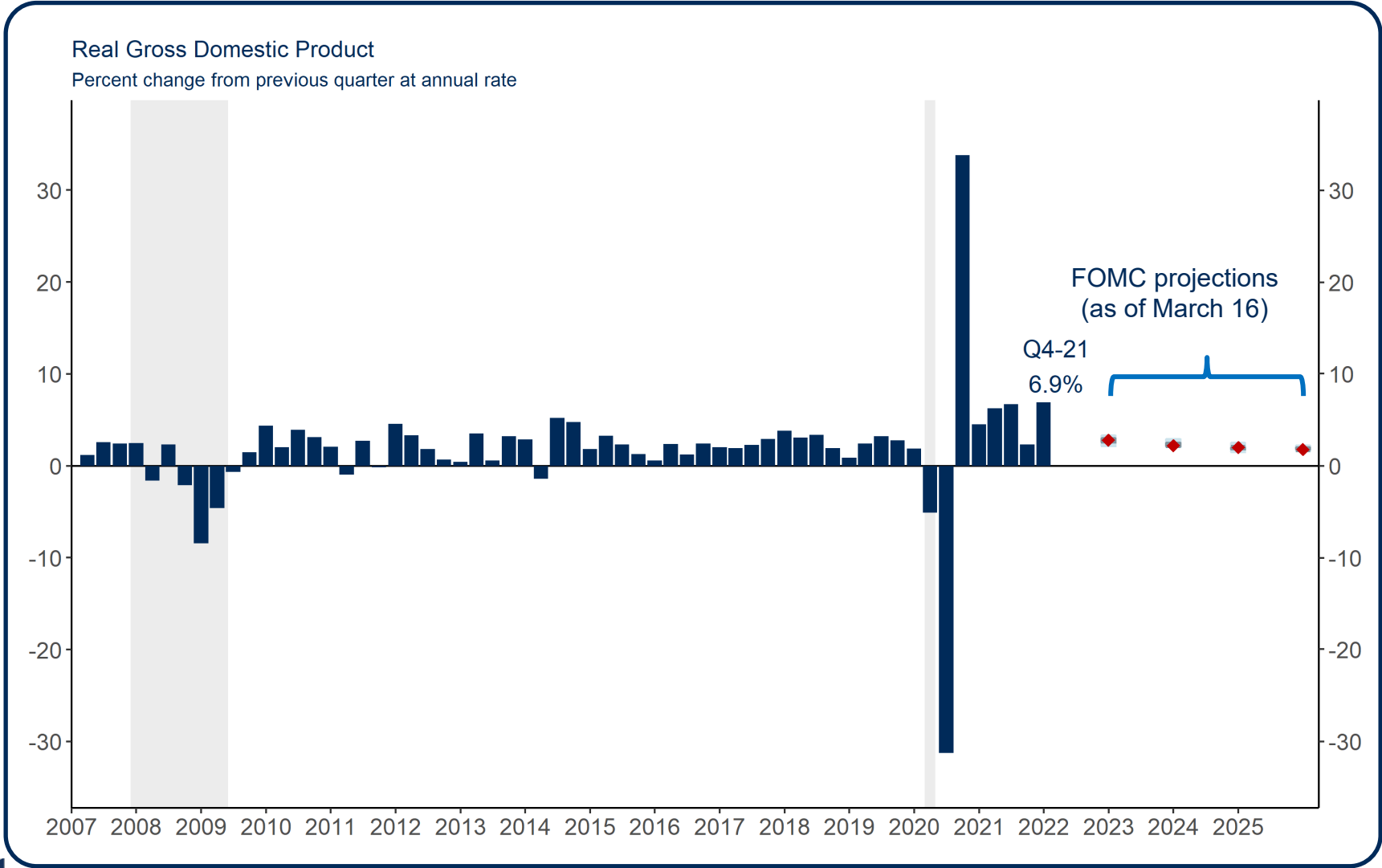
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The Upshot: Demand > Supply

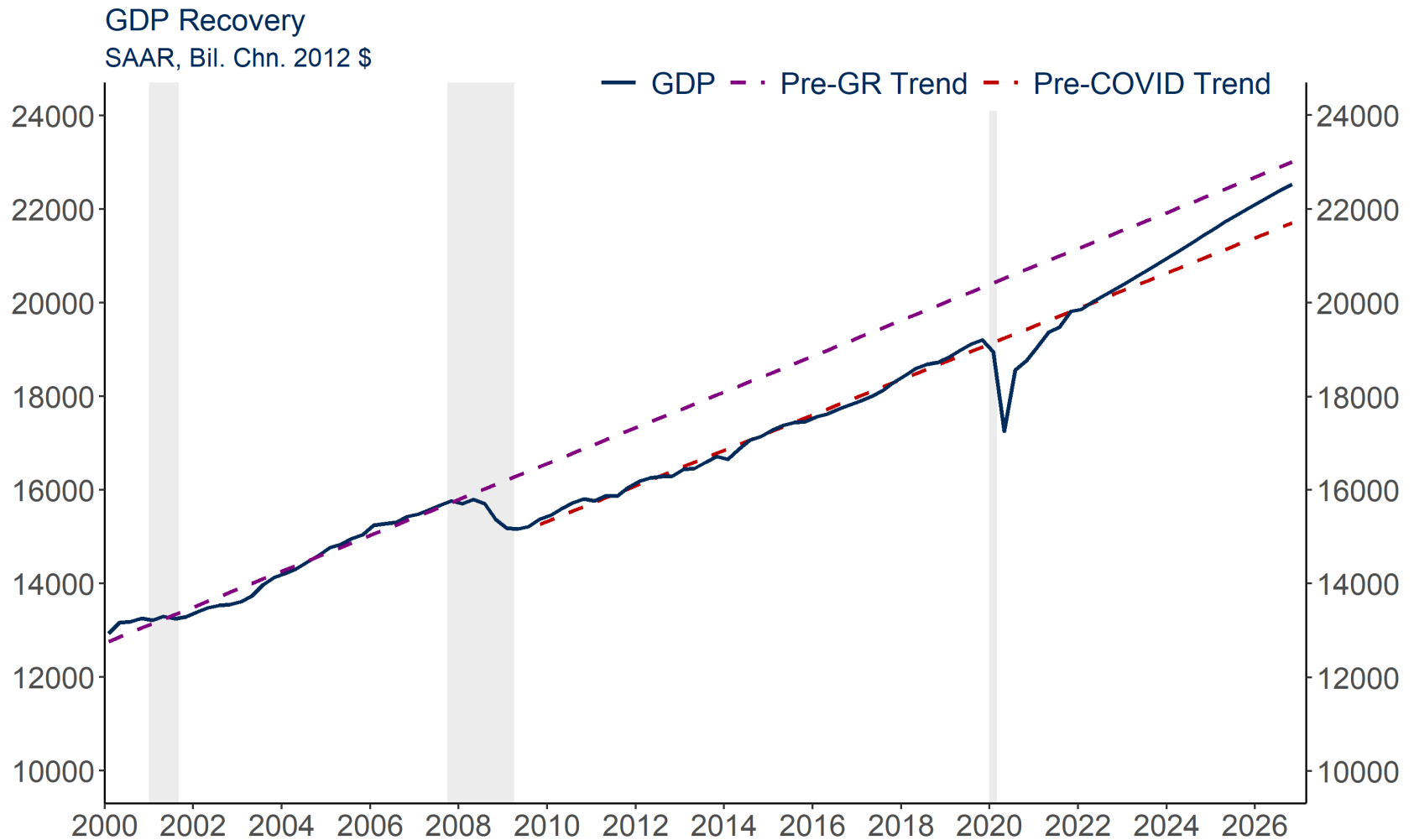
- **Demand is strong, but supply is struggling to meet it**
 - Households still sitting on excess savings (i.e. fuel to spend)
 - Labor shortages still challenging production
 - Global disruptions exacerbate things
 - That's why we're seeing inflation

- **This should normalize**
 - Supply chains will catch up
 - Meanwhile, demand likely to normalize (the forecast has already cooled for 2022)
 - “When” is the big question – so how fast do we raise rates in the meantime?

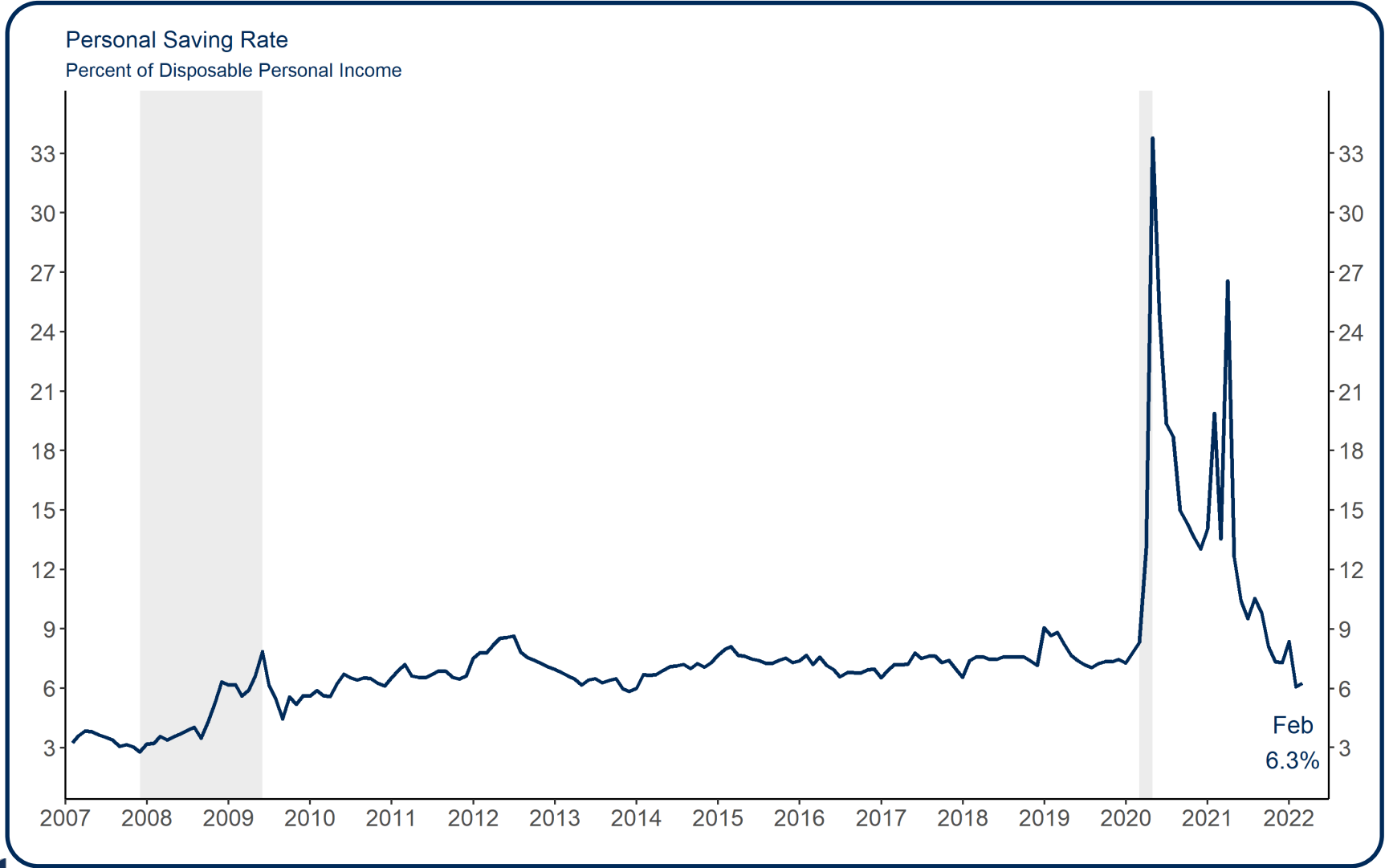
The outlook has cooled, but solid



We're now back to pre-Great Recession trend levels

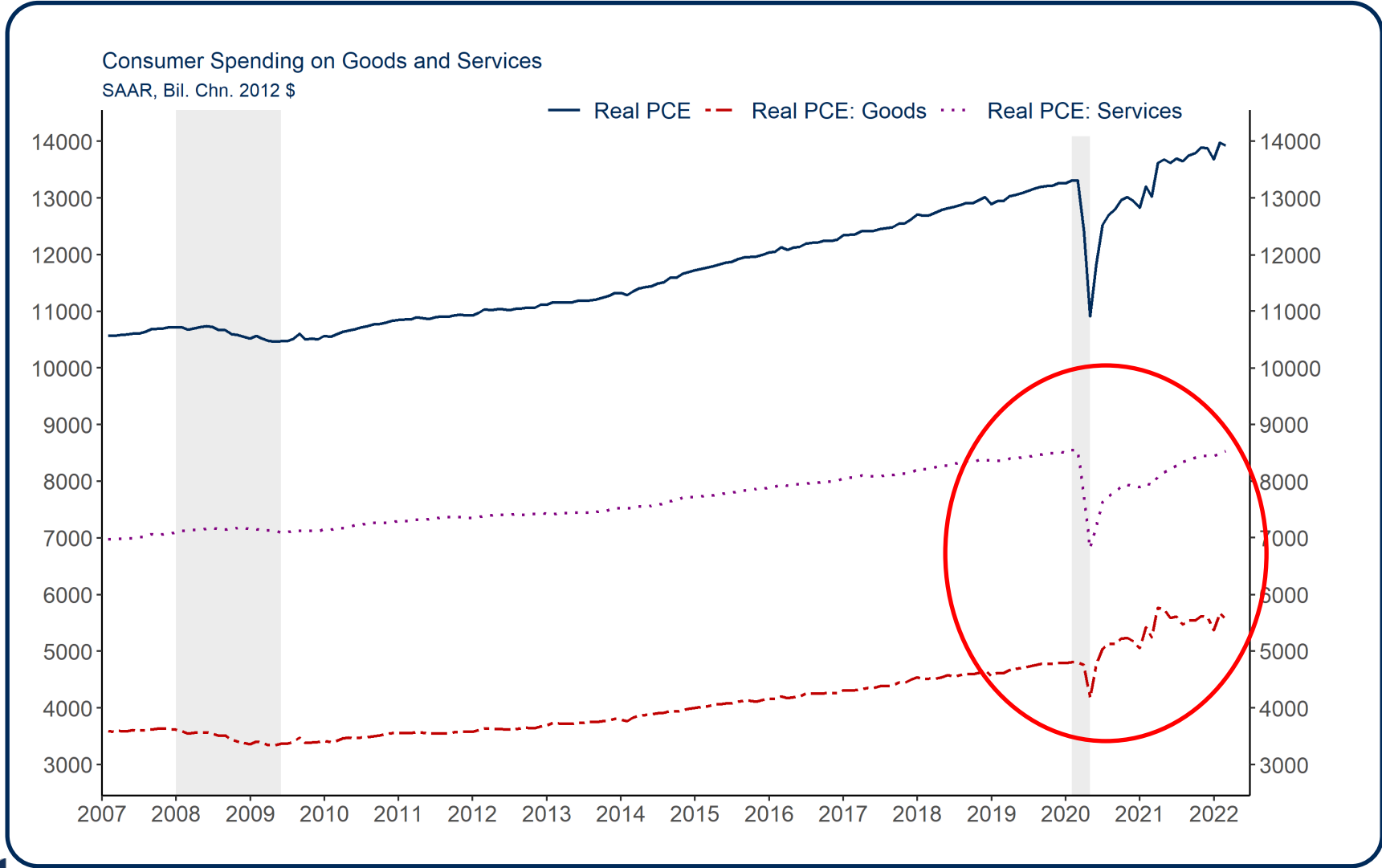


Households sitting on a lot of savings (but for how long?)



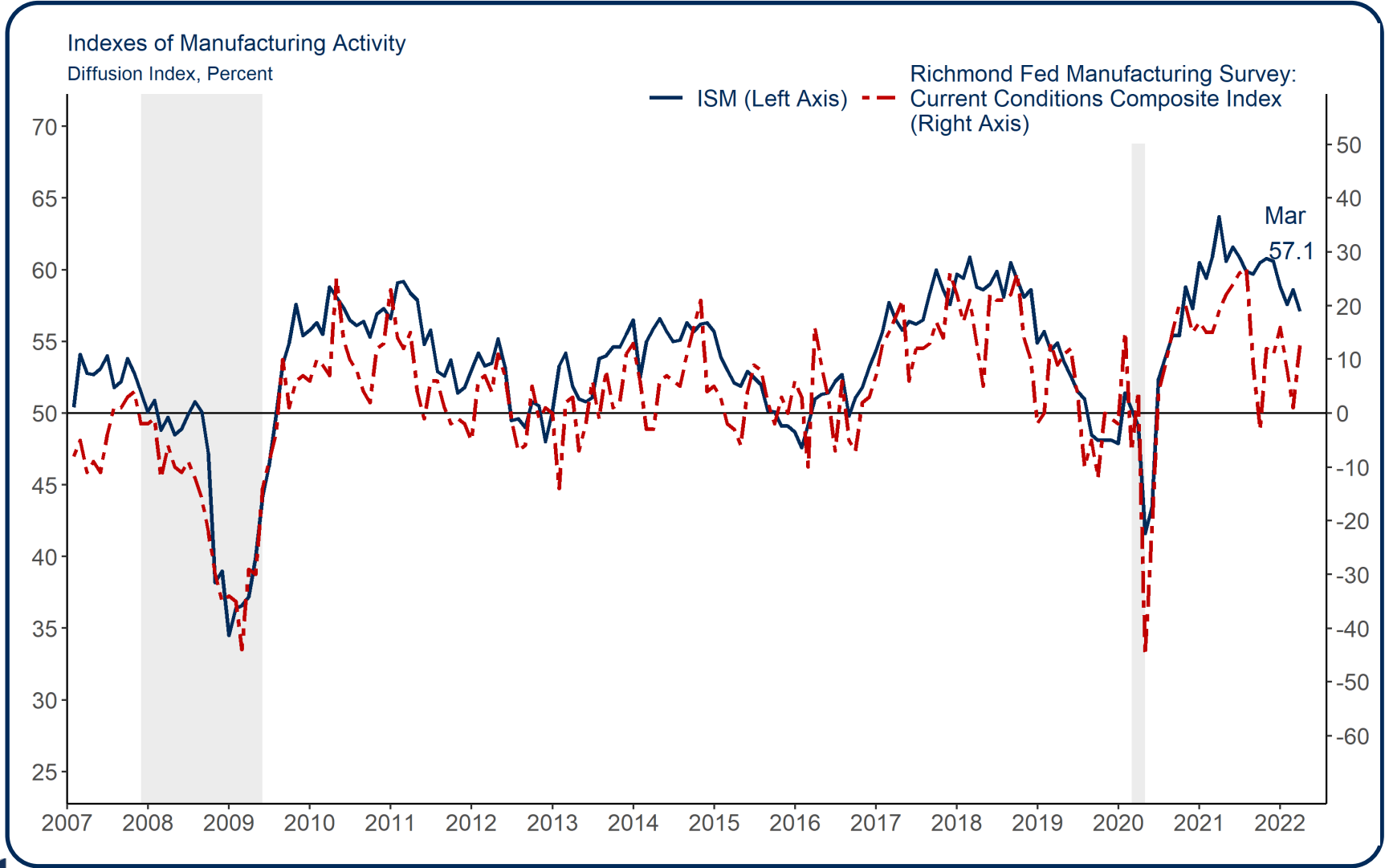
Source: Bureau of Labor Statistics via Haver Analytics

Supply couldn't keep up with the demand surge



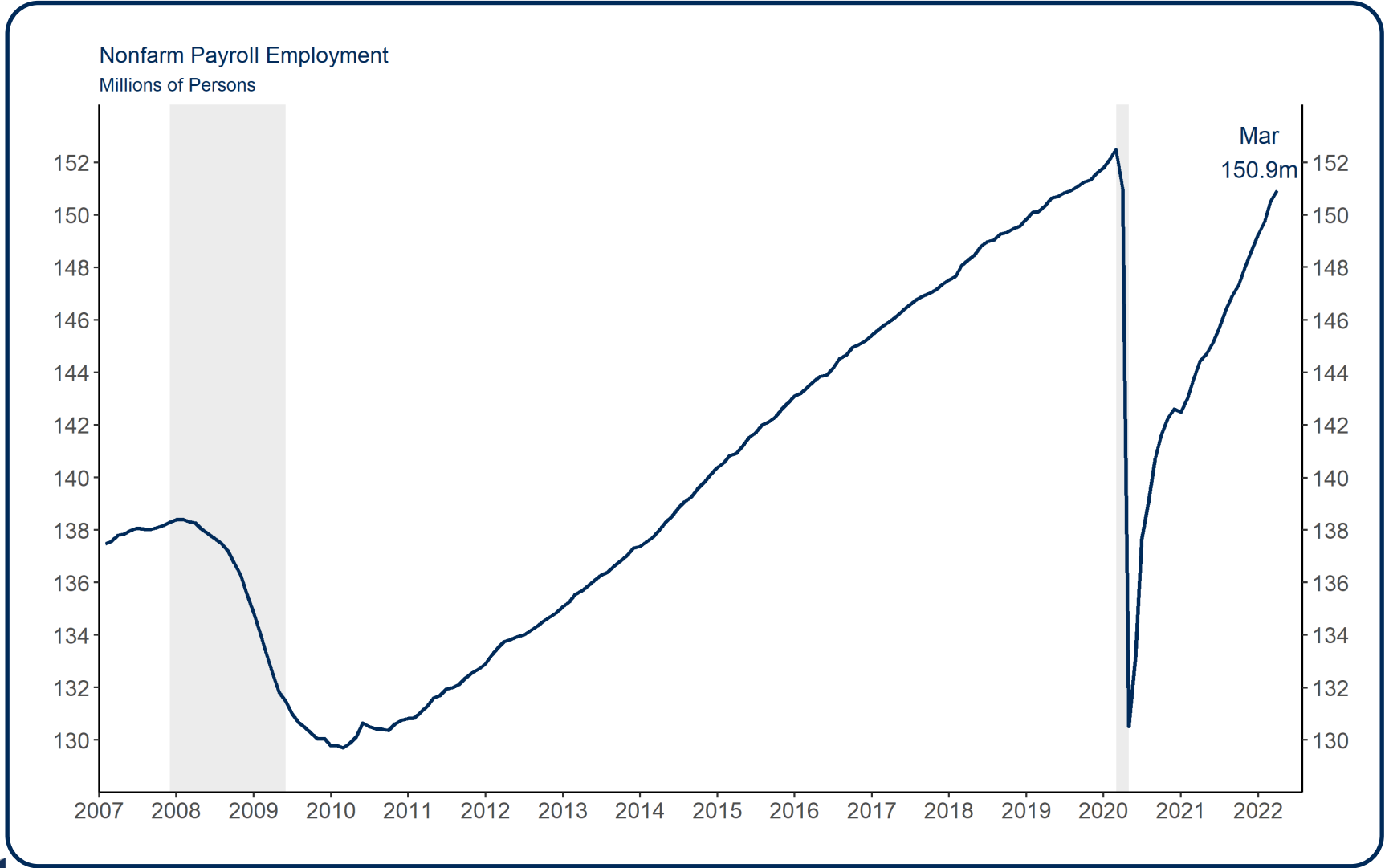
Source: Bureau of Economic Analysis

Manufacturing constrained more by supply, not demand



Source: Federal Reserve Bank of Richmond/Institute of Supply Management/Haver Analytics

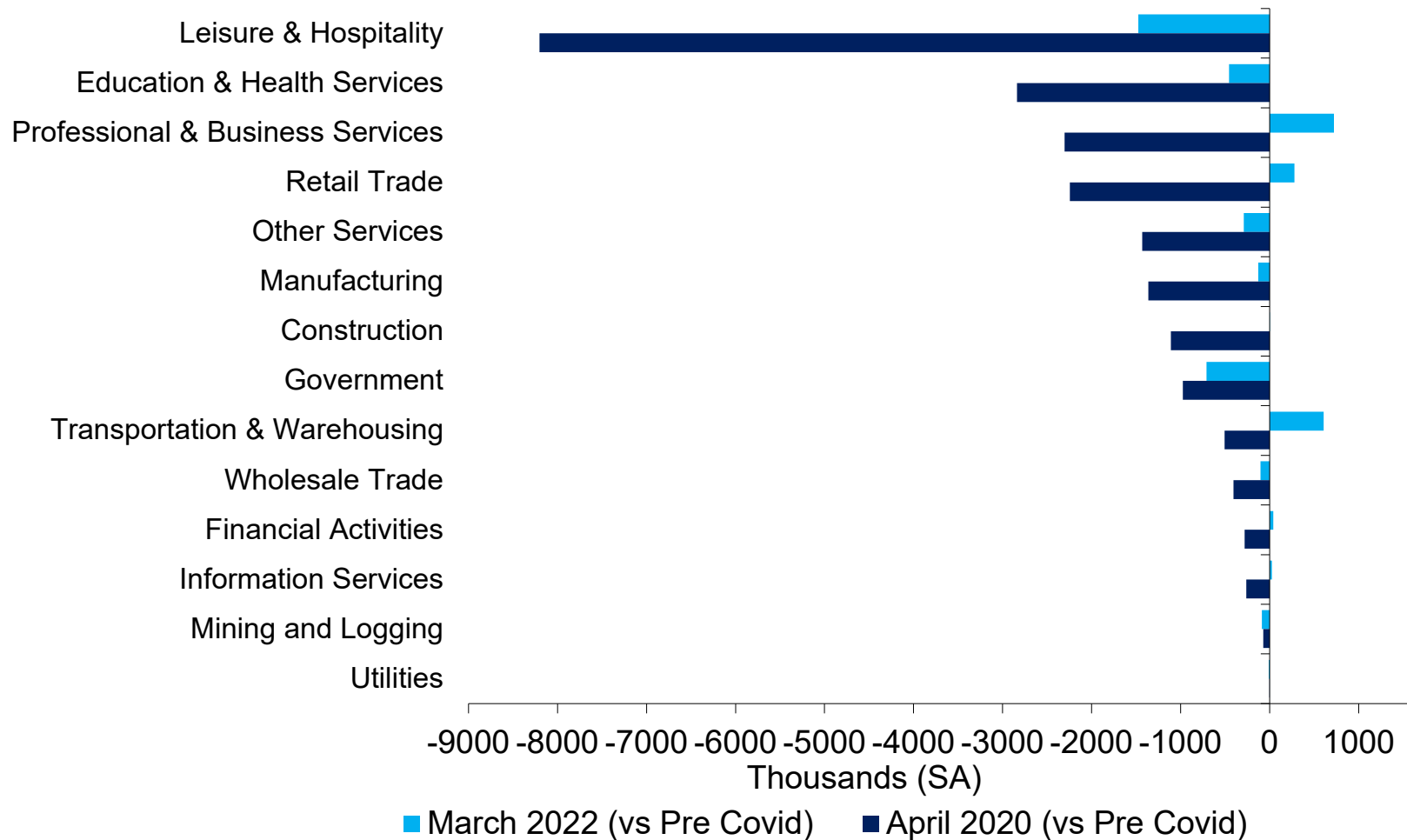
We're far above pre-Covid production... but with 1.6m fewer jobs



Source: Bureau of Labor Statistics/Haver Analytics

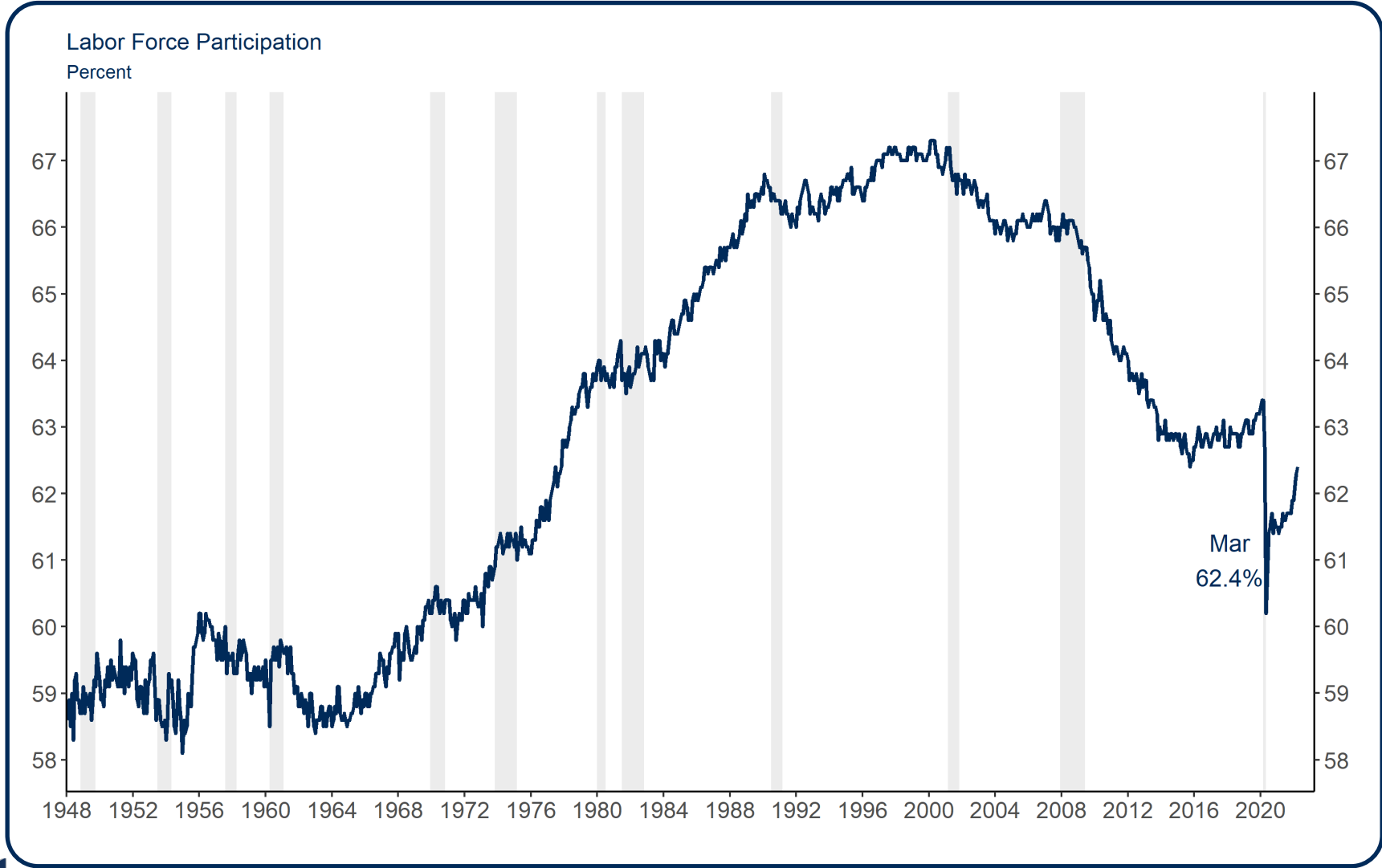
And some sectors hit much harder than others

Jobs Gained Versus February 2020 Pre-Pandemic Level



Source: Bureau of Labor Statistics/Haver Analytics

Tight labor reason 1: People left the labor force in droves



Source: Bureau of Labor Statistics/Haver Analytics

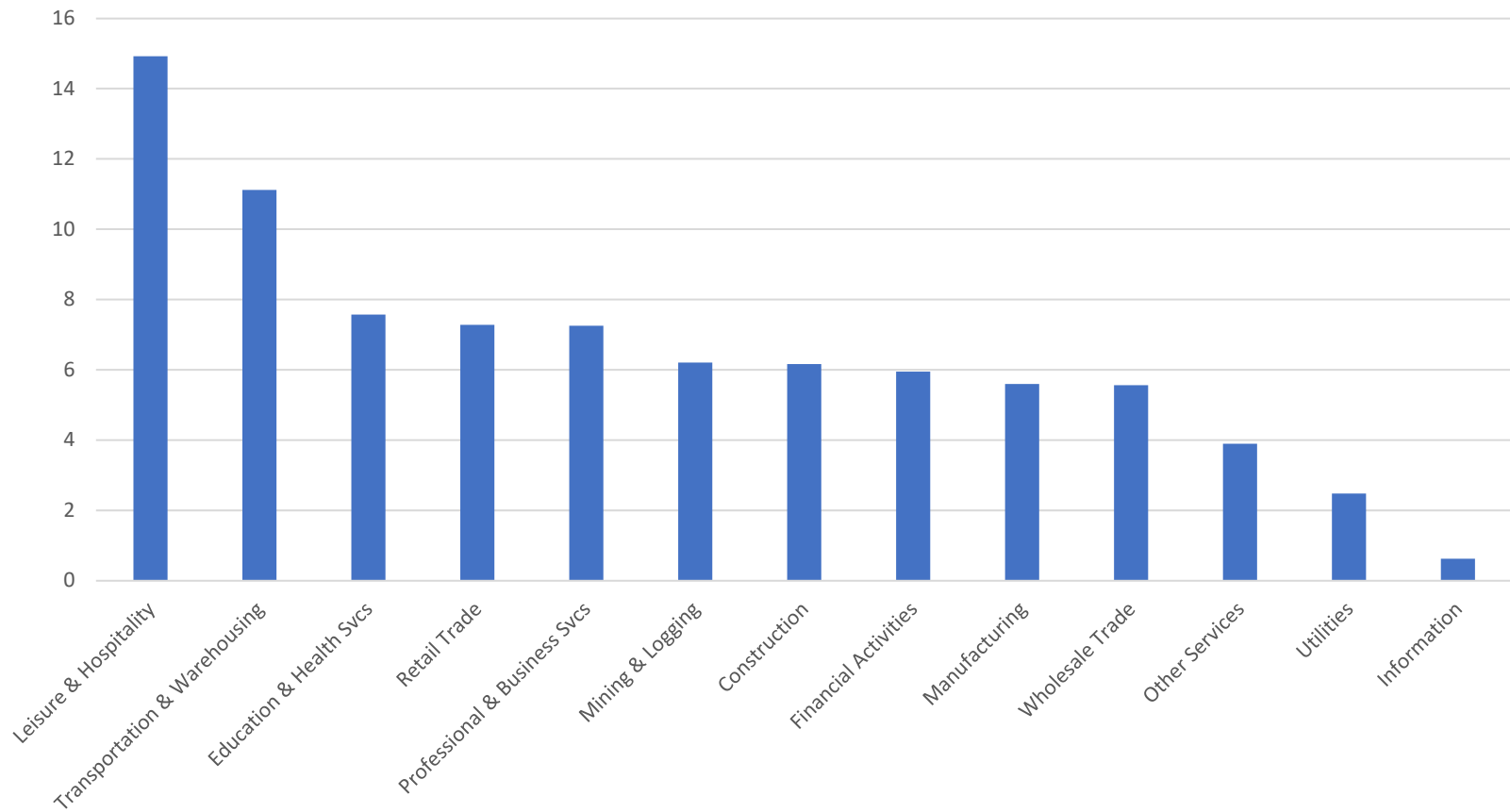
Tight Labor Reason 2: Massive labor re-sorting going on



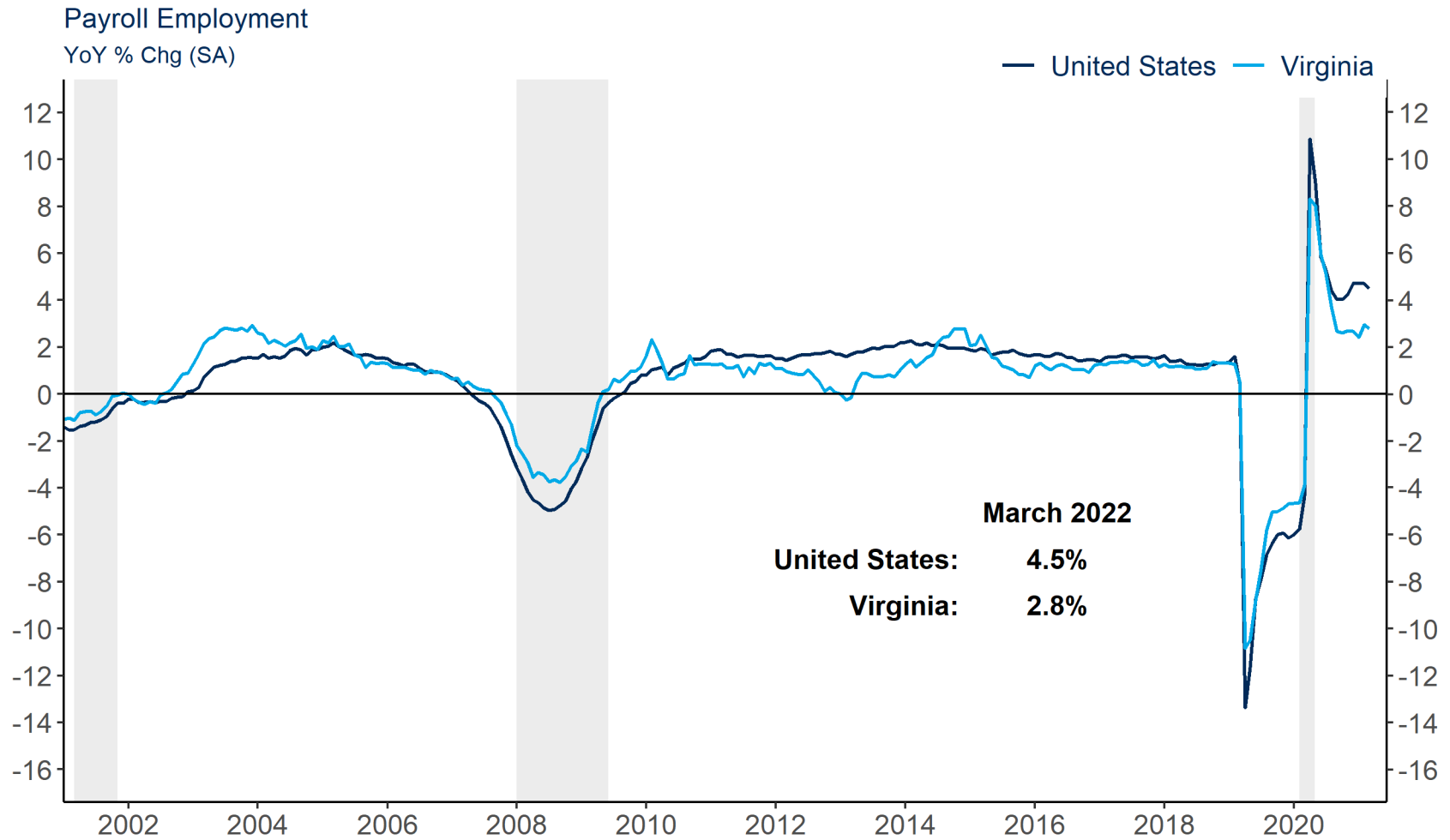
Source: JOLTS/Haver Analytics

More wage pressure where labor tightest

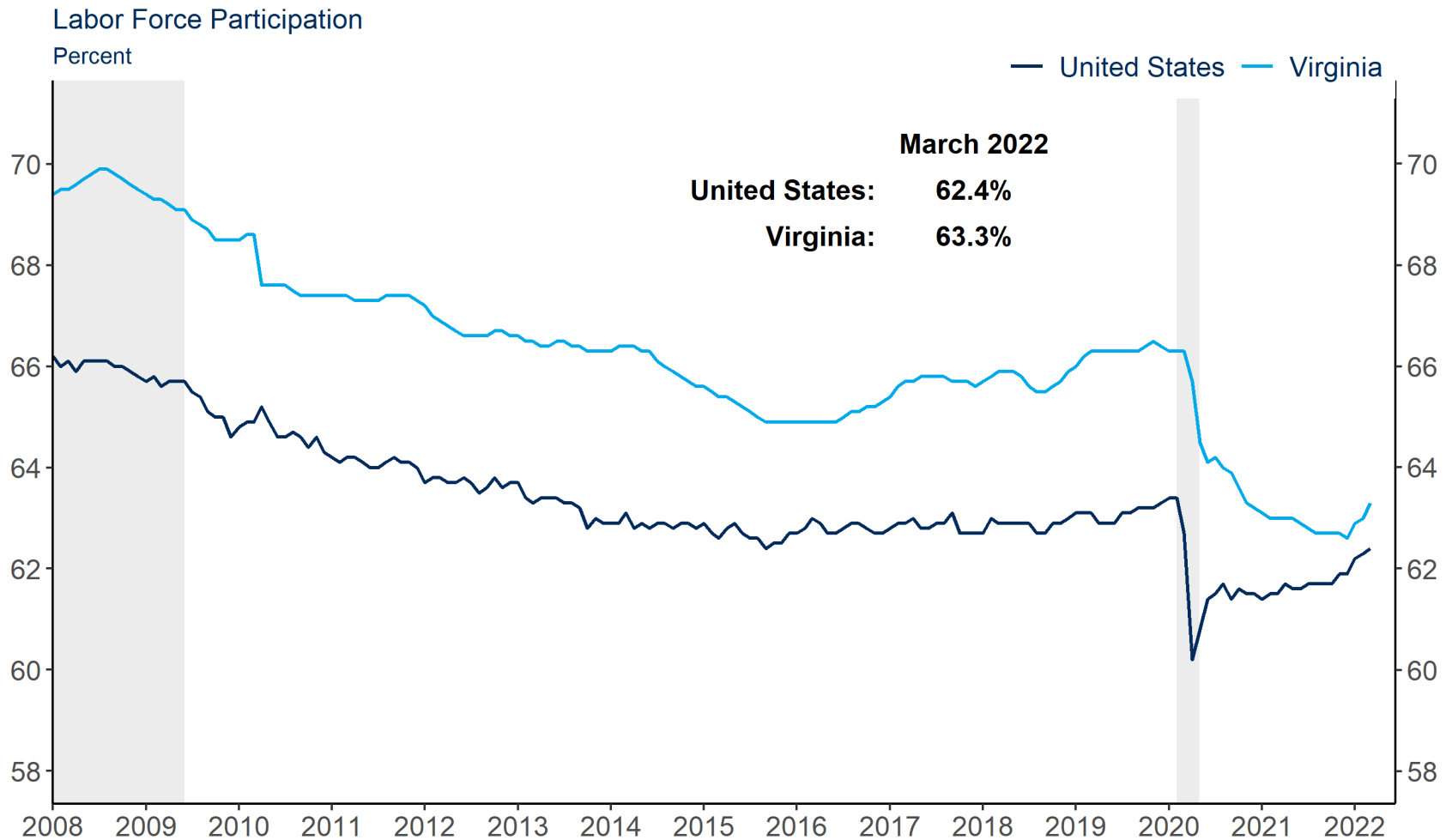
**Growth In Average Hourly Earnings for Production & Non-Supervisory Roles
(Percent Change March 2021 - March 2022)**



VA has long underperformed the nation

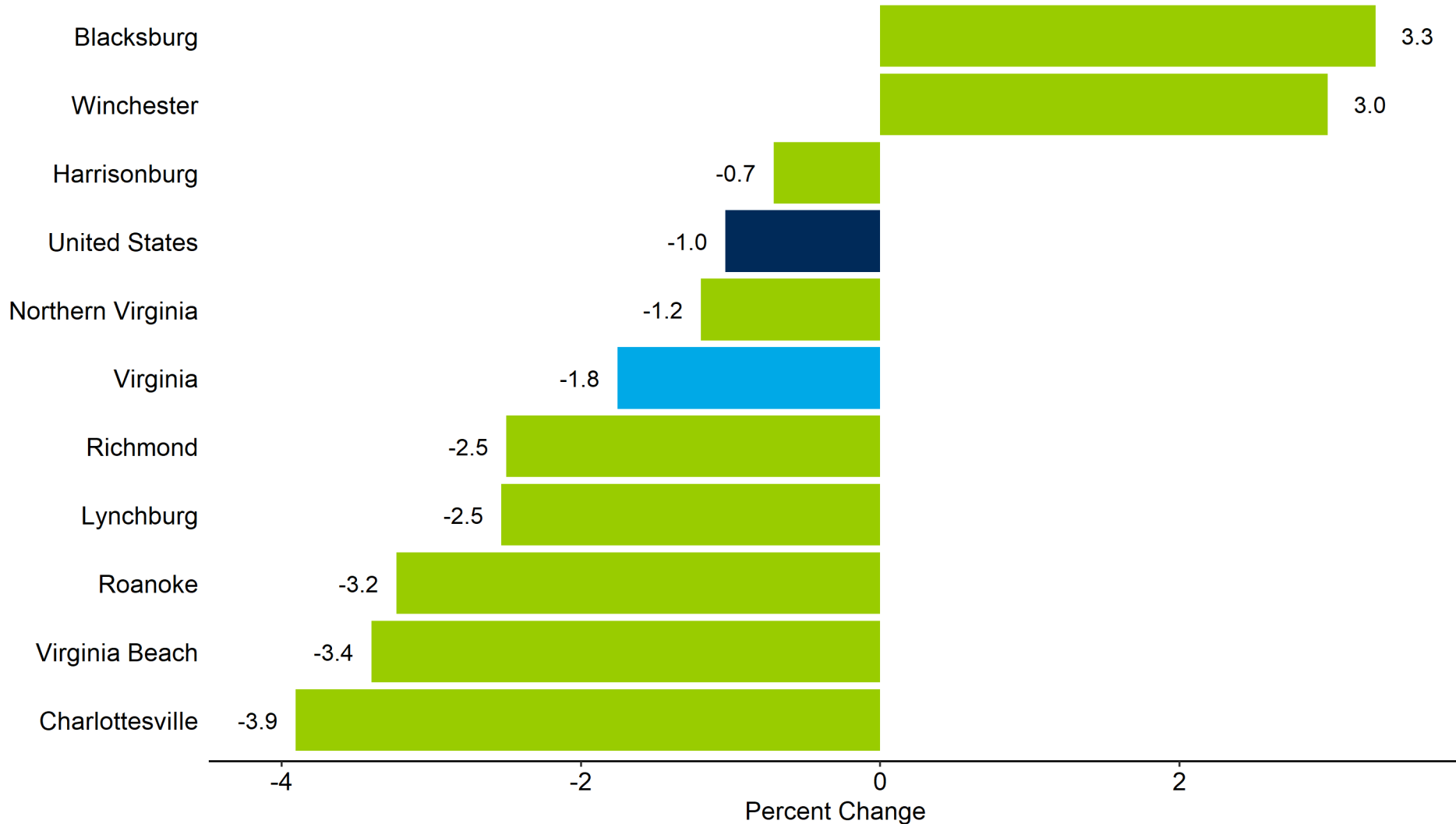


Labor force recovery is even slower in Virginia



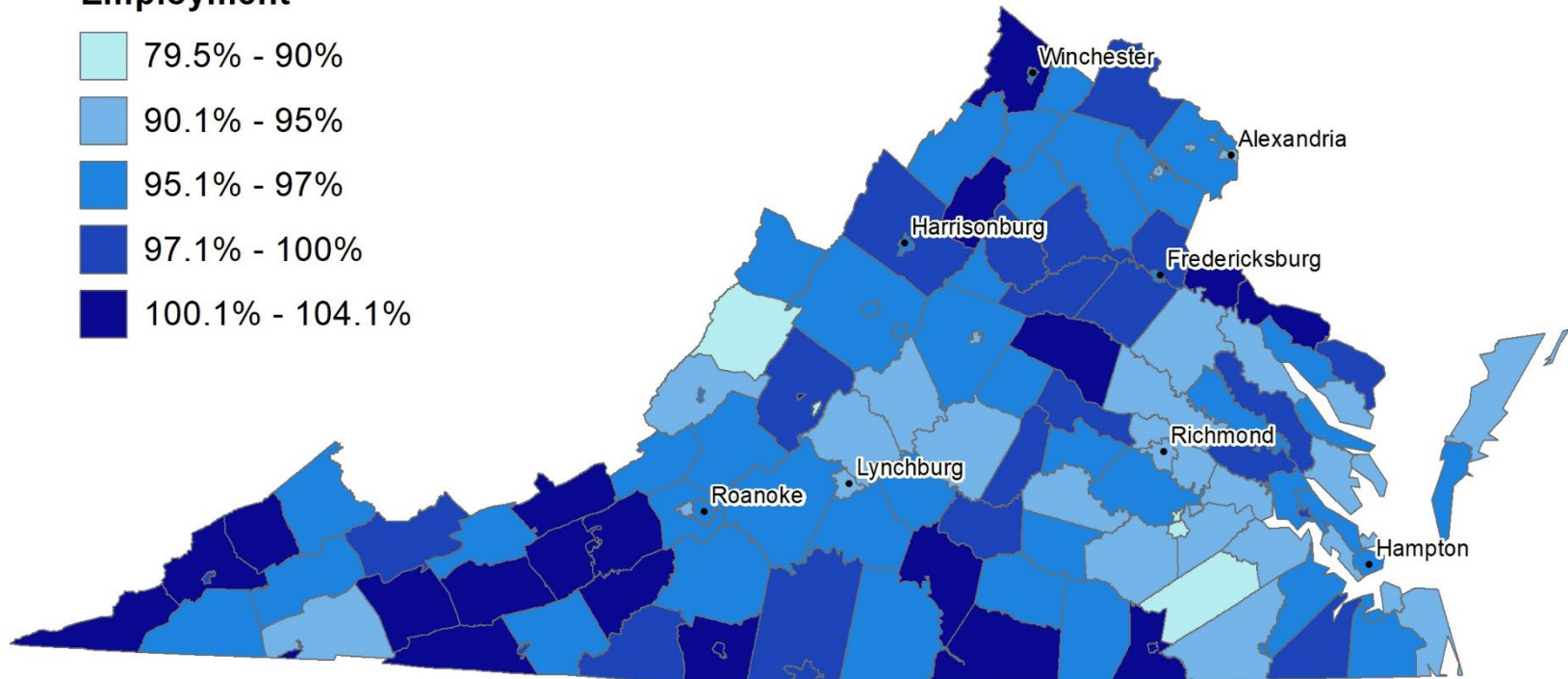
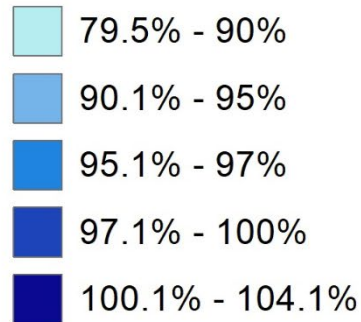
Most of Virginia is under-performing the nation

Change in Employment Since Feb 2020



Covid may have narrowed rural-urban gaps some

February 2022 Employment as a Percentage of Pre- COVID-19 Employment

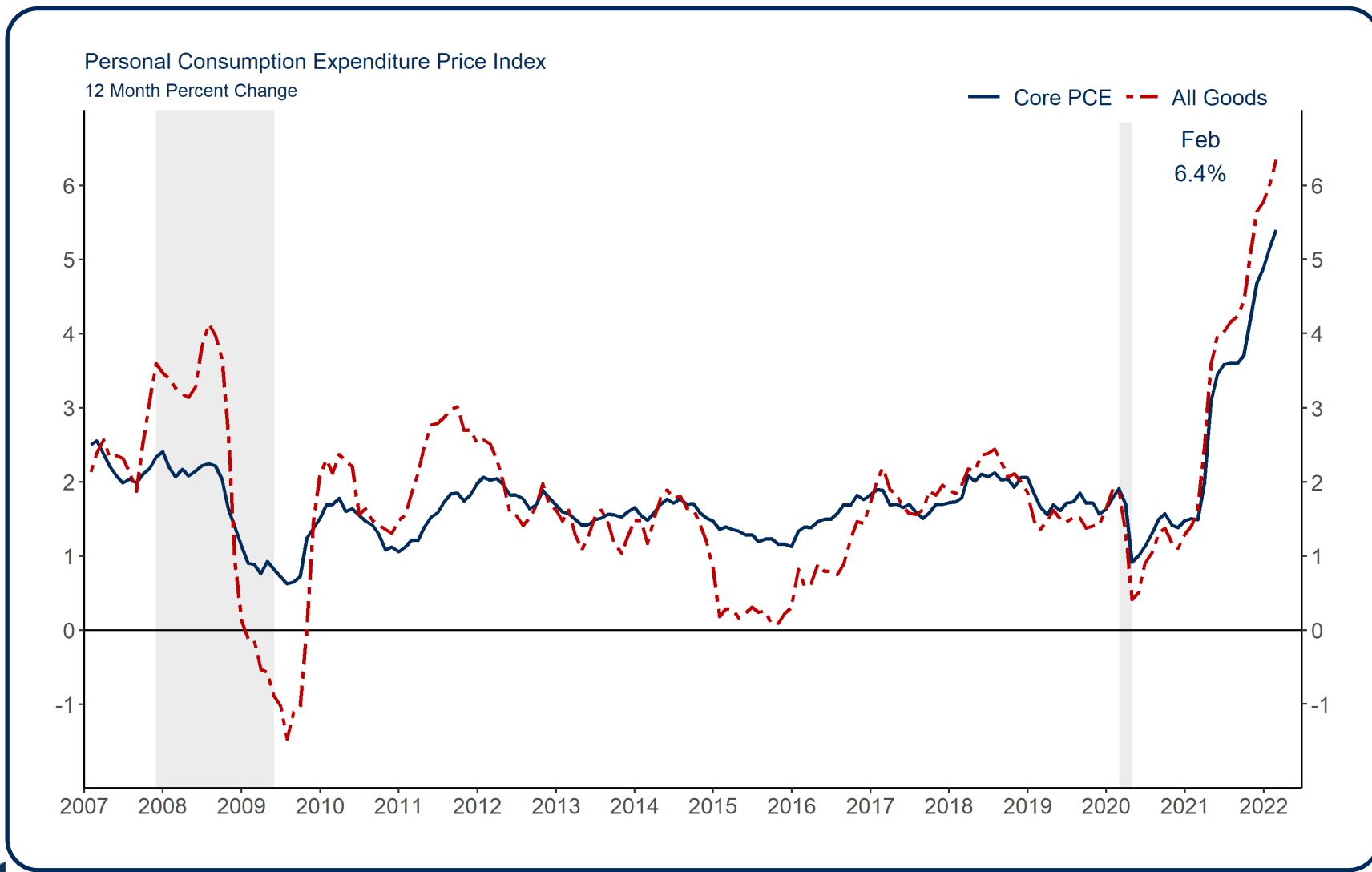


Source: Bureau of Labor Statistics Local Area Unemployment Statistics, Civilian Employment

The outlook for inflation

- Surging demand + limited supply = inflation
- For much of 2021, the Fed called inflation “transitory”
 - Transitory doesn’t mean “fast” – it means “not permanent”
 - For the Fed, inflation is a sustained increase in overall prices
 - The “overall” part is here
- Only two ways of resolving that: demand comes down or supply goes up. Expect both.
- On the demand side: Households will burn through savings; Fed raising rates

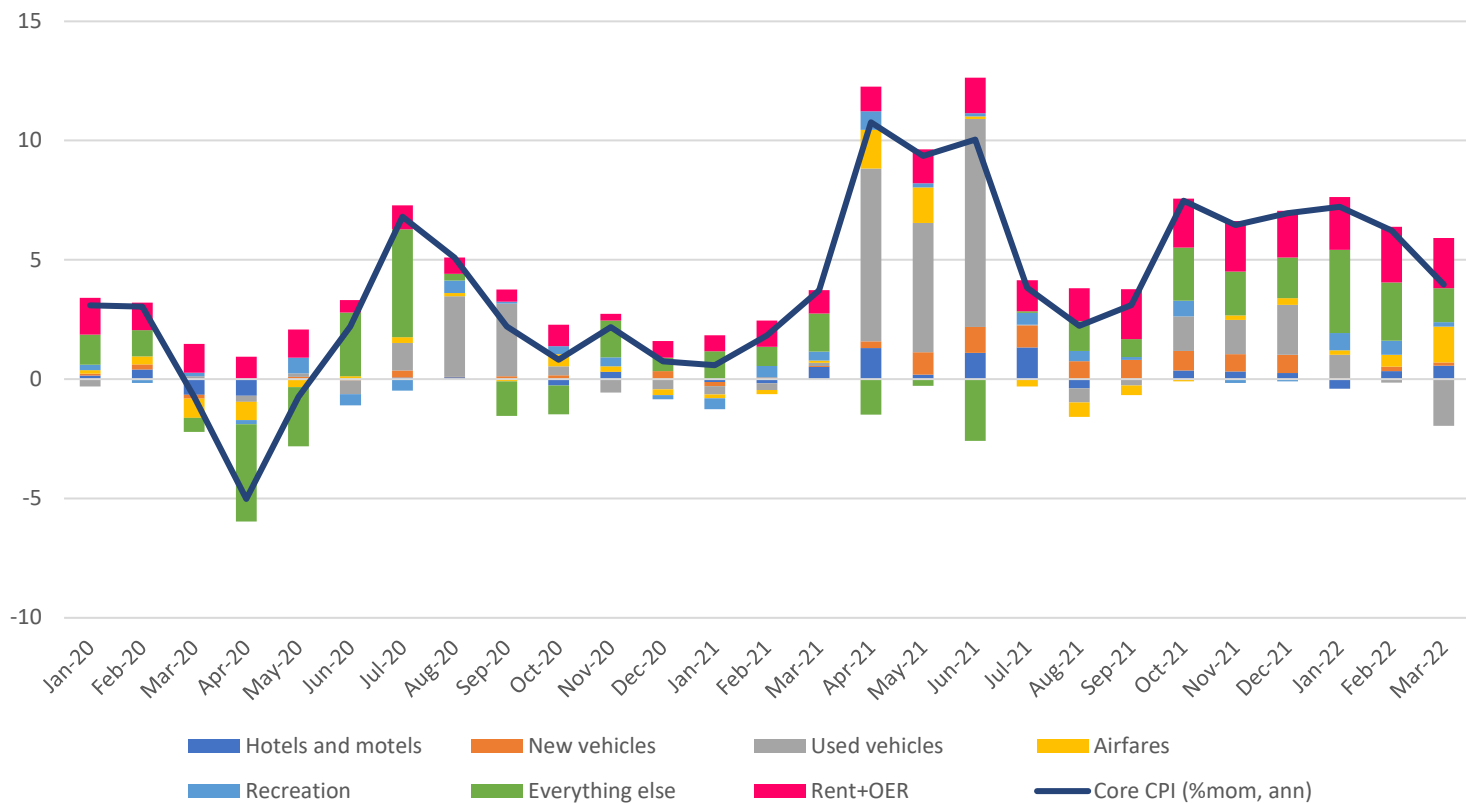
Surging demand → surging inflation



Source: Bureau of Labor Statistics/Haver Analytics

Inflation is now more broad-based

Annualized Month-Over-Month Core CPI Growth



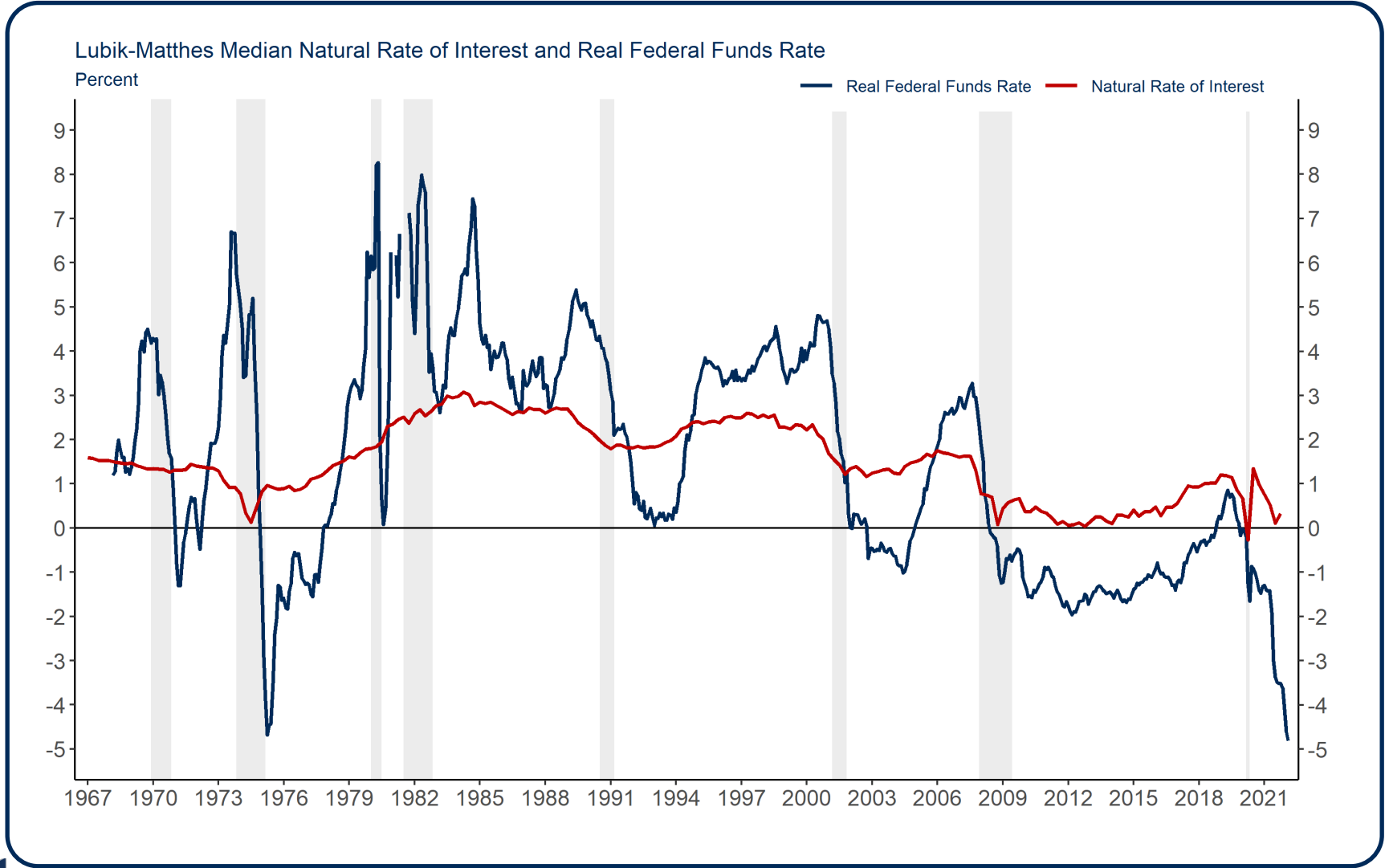
Source: Bureau of Labor Statistics via Haver Analytics

Inflation has been largely on the goods side



Source: Bureau of Labor Statistics via Haver Analytics

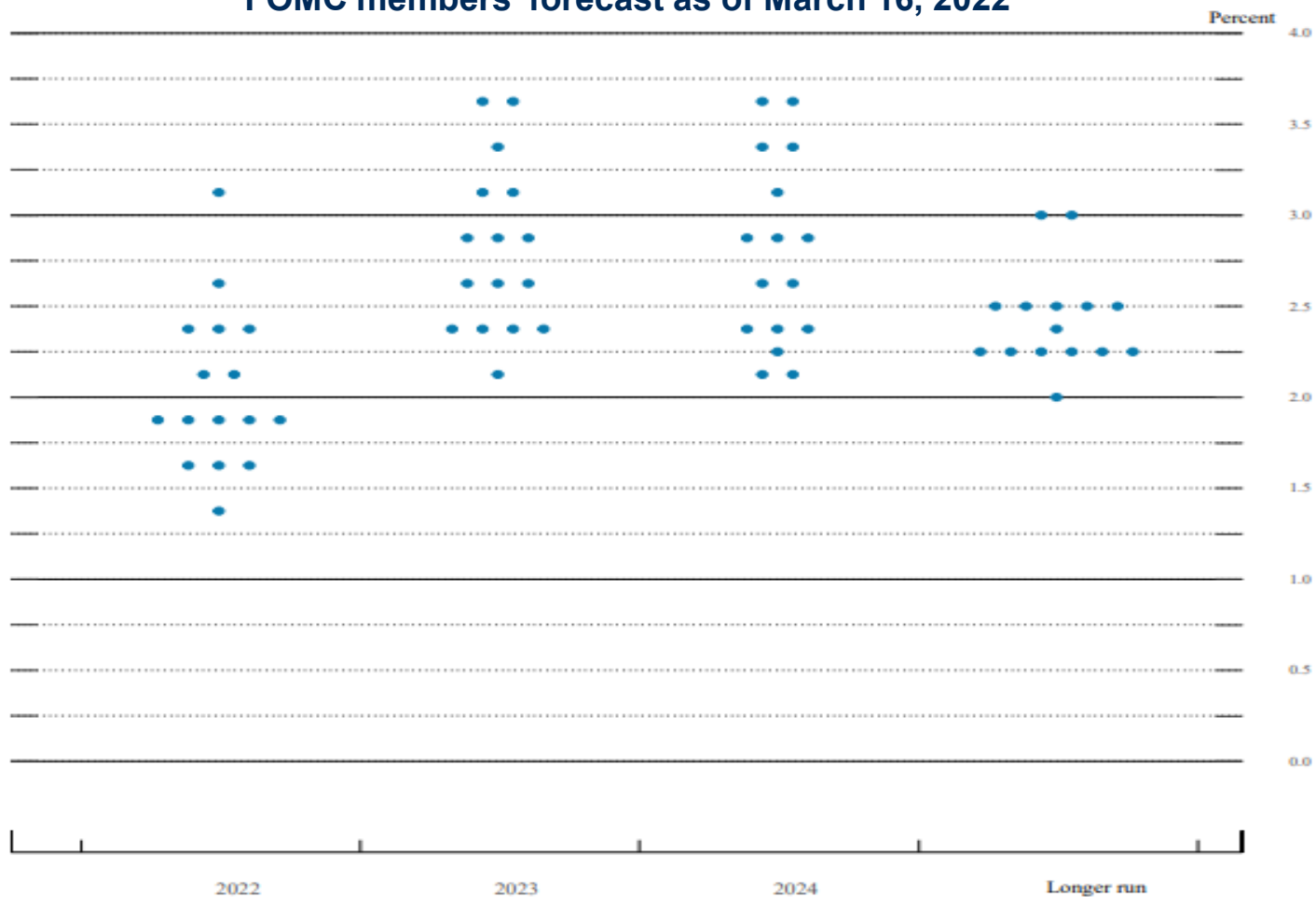
No reason to think rate hikes will cause recession



Sources: Federal Reserve Board of Governors, Bureau of Labor Statistics, and Congressional Budget Office via Haver Analytics

But how quickly will rates rise? That's a live question

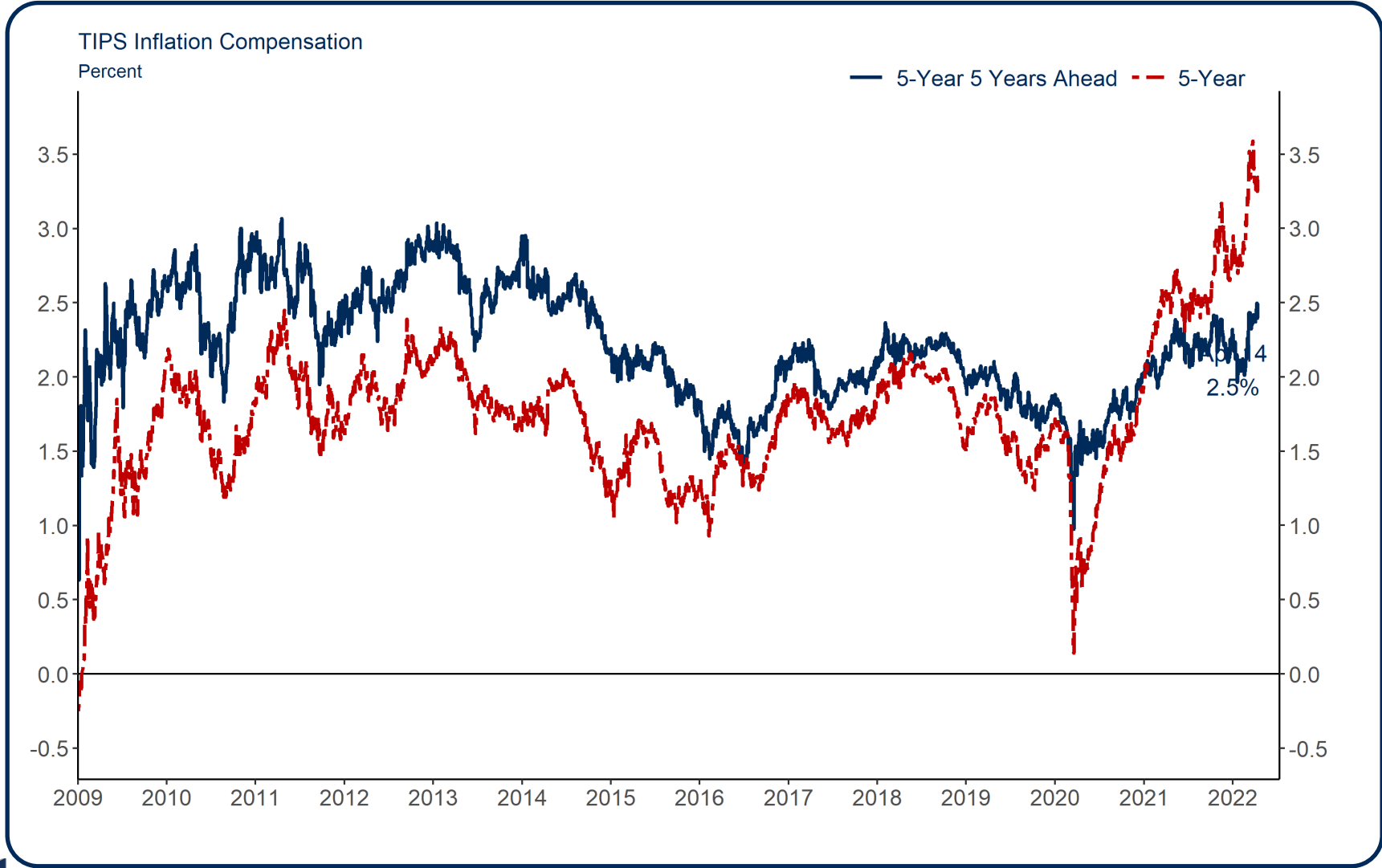
FOMC members' forecast as of March 16, 2022



Note: Each dot in the chart represents the value of an FOMC participant's judgment of the midpoint of the appropriate target range (or the appropriate target level) for the federal funds rate at the end of the calendar year.

Source: Federal Reserve Board of Governors Forecast

Inflation expectations are elevated, though not runaway



Source: Federal Reserve Board via Haver Analytics

Looking forward: How will supply and demand meet?

- For me, normalization is the word for 2022
 - How rapidly does demand come down? (expected to stay pretty strong)
 - How quickly do supply chains catch up? (they're improving)
 - Will workers return to ease production? (some, but likely not all)
 - Signs that inflation is getting baked in and thus harder for the Fed to control (not obvious yet, but Fed will act as needed)
- In all, Fed still expecting inflation to come back down and rates to leave emergency posture.
- But lots of uncertainty left in the forecast!

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