Economic Outlook:
Moving Into a Post Pandemic World

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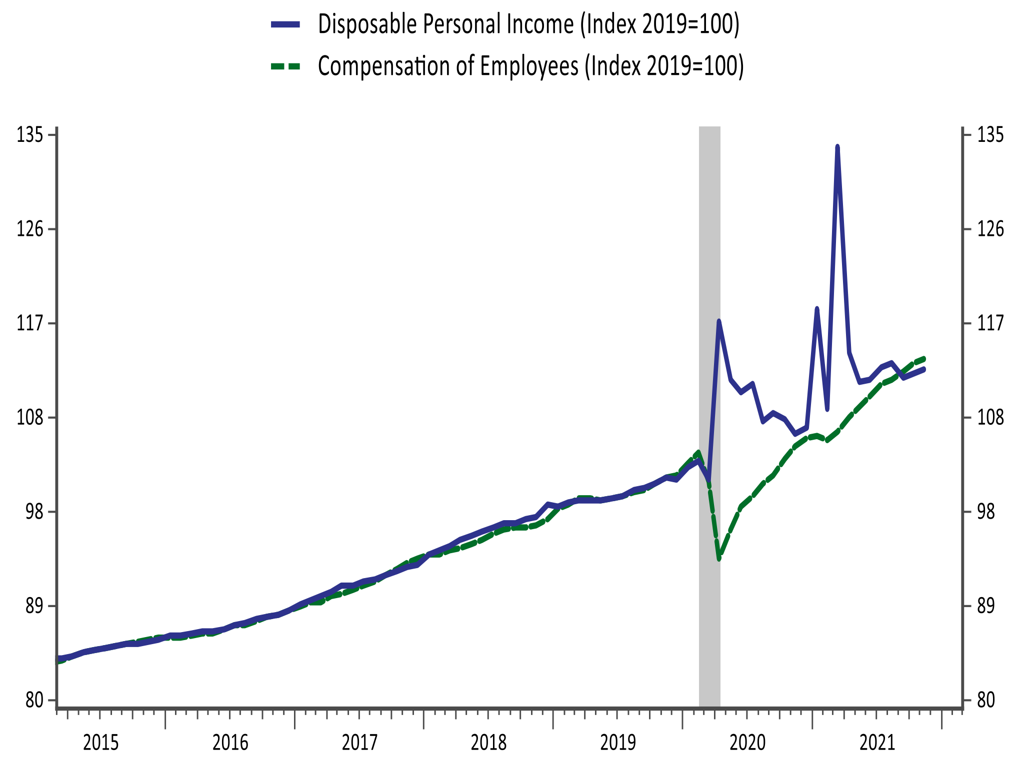
MACROPOLICY PERSPECTIVES

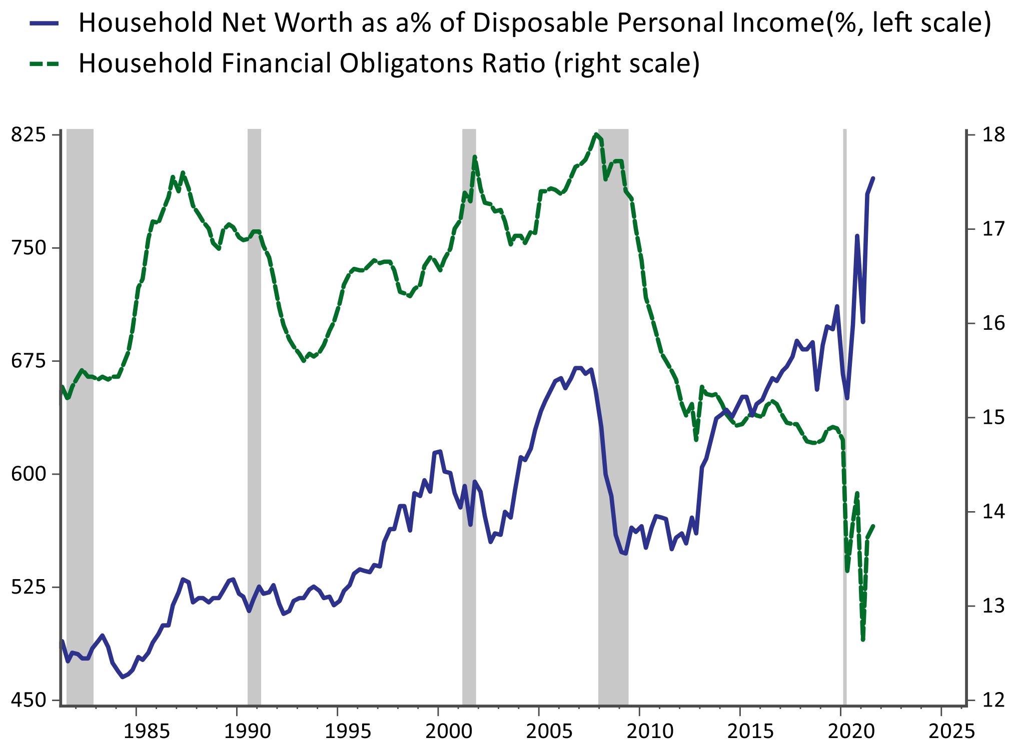
Key themes for 2022

- Continued above trend GDP growth but notably slower at 3.2% down from 5.3% in 2021.
- Consumers remain resilient on a strong labor market and balance sheets but growth cools with fading fiscal support, price sensitivity rebounds
- A sizeable fiscal drag is offset by the accumulated savings from prior infusions of support, but the public sector is no longer a tailwind
- Hiring cools to 200k in H1 and 175k in H2. Increased immigration and/or labor force participation are required to fuel above trend hiring, we look for a 0.4pp rebound in participation and an unemployment rate of 3.5% by Q4.
- Inflation runs hot in H1 2022 and moderates in H2 and into 2023. Moderating inflation is a function of supply chain improvement, a fading fiscal impulse and continued broadening in consumption possibilities. A steady, gradual removal of monetary policy accommodation plays a supporting role. The expected ongoing tightening in the labor market provides some offset but it has not been the primary driver of the inflation we have seen to date or its anticipated moderation. We expect core PCE inflation to halve to 2.3% q4/q4 in 2022 from 4.6% in 2021.
- We look for the Fed to raise rates four times and initiate quantitative tightening in 2022. Build Back Better looks set to fail

Consumers have done well in the pandemic with well above trend income and wealth



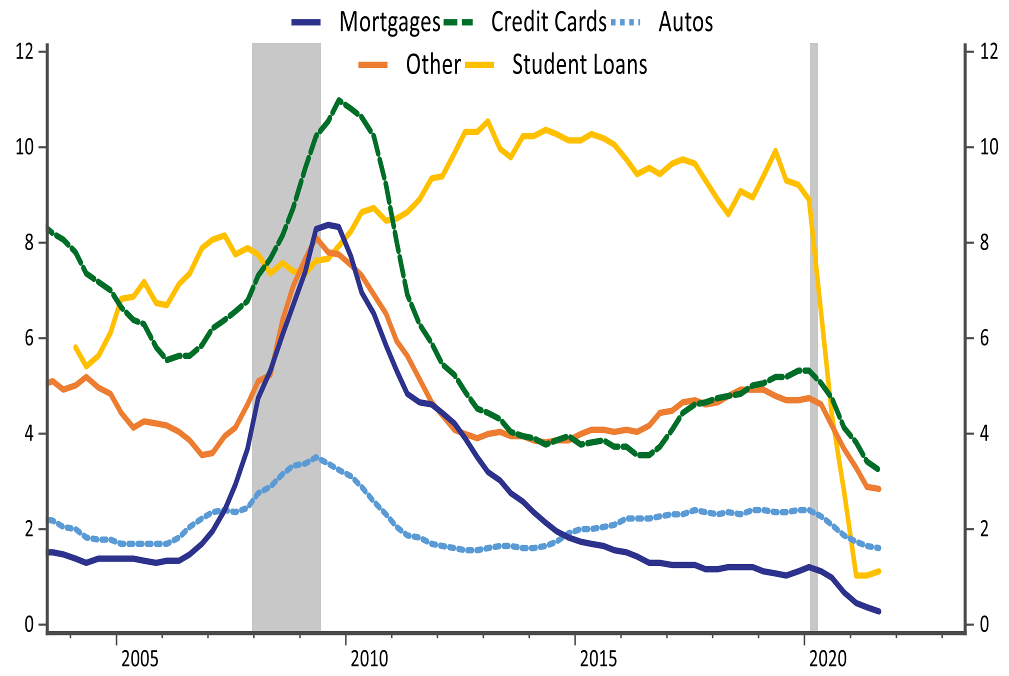
Source: MacroPolicy Perspectives/BEA/Haver



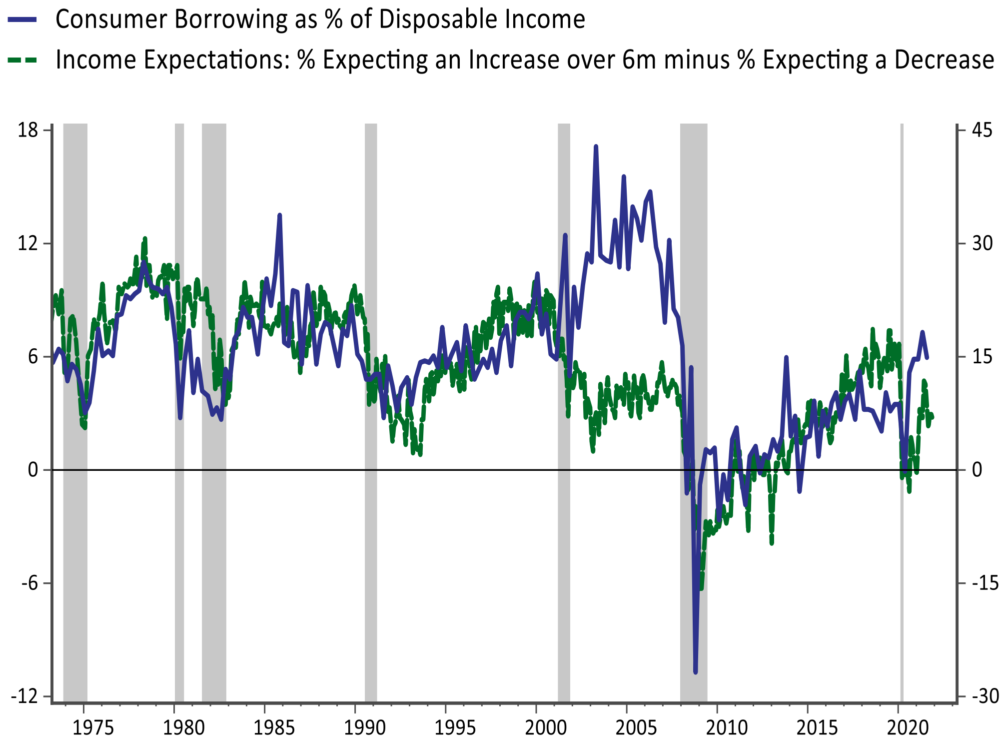
Source: MacroPolicy Perspectives/Federal Reserve Board/Haver Analytics

Strong policy intervention led to the first recession with improving credit quality, consumers are cautiously optimistic about income prospects and a bit more willing to borrow

NY Fed Credit Panel: New Seriously Delinquent Loans (% of Current Bal)

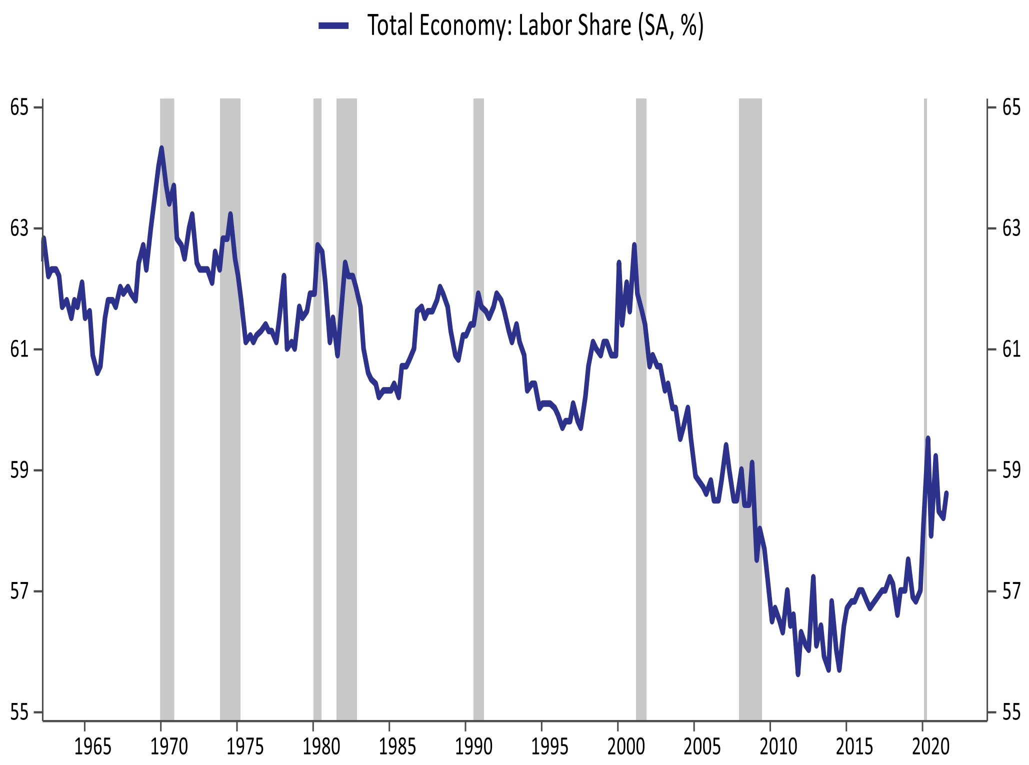


Source: FRBNY Consumer Credit Panel/Equifax/Haver Analytics

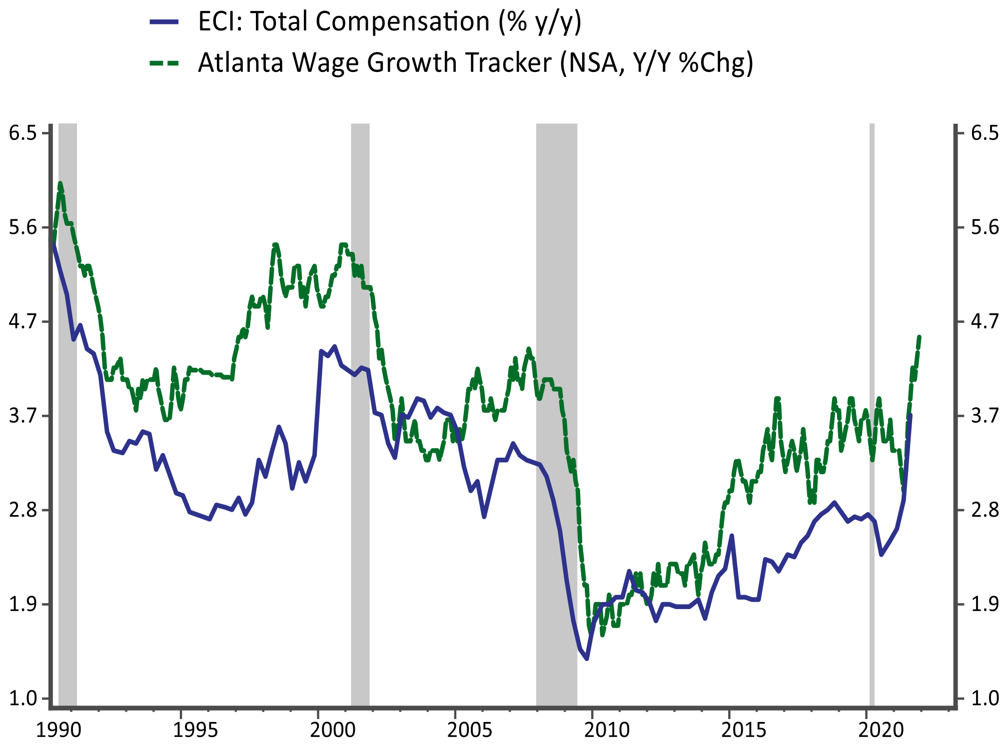


Source: MacroPolicy Perspectives/Haver Analytics

Strong wage gains have kept pace with strong growth and the labor share of GDP has been stable since the start of the pandemic above the lows of last cycle

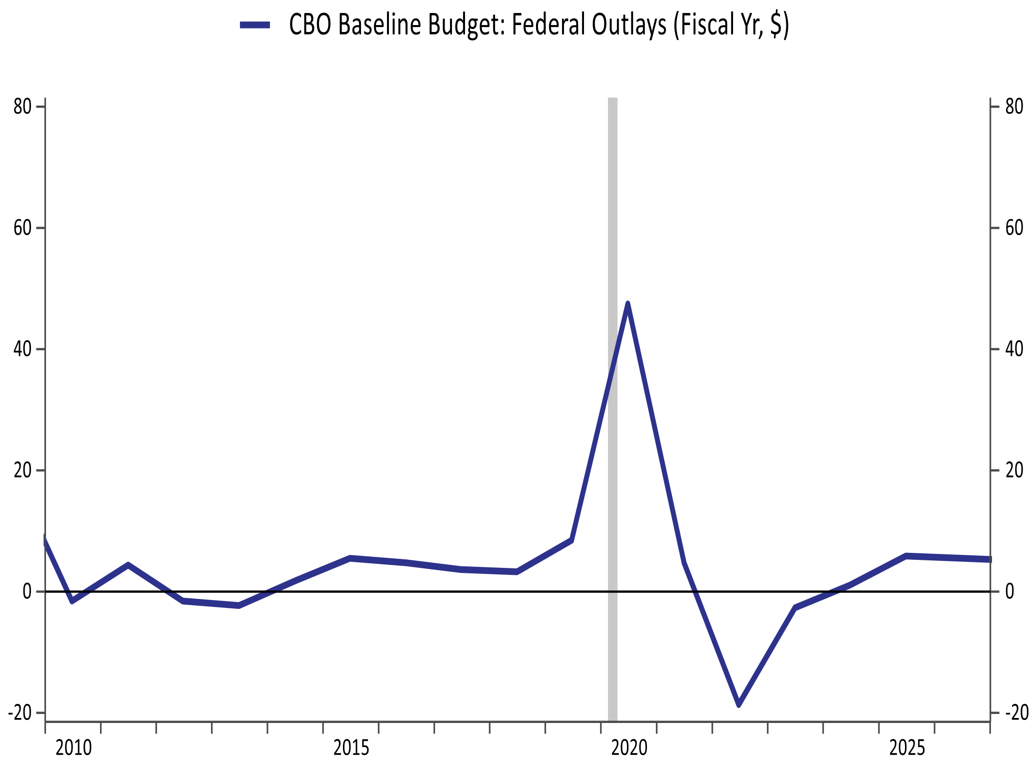


Source: BLS/Haver/MacroPolicy Perspectives LLC

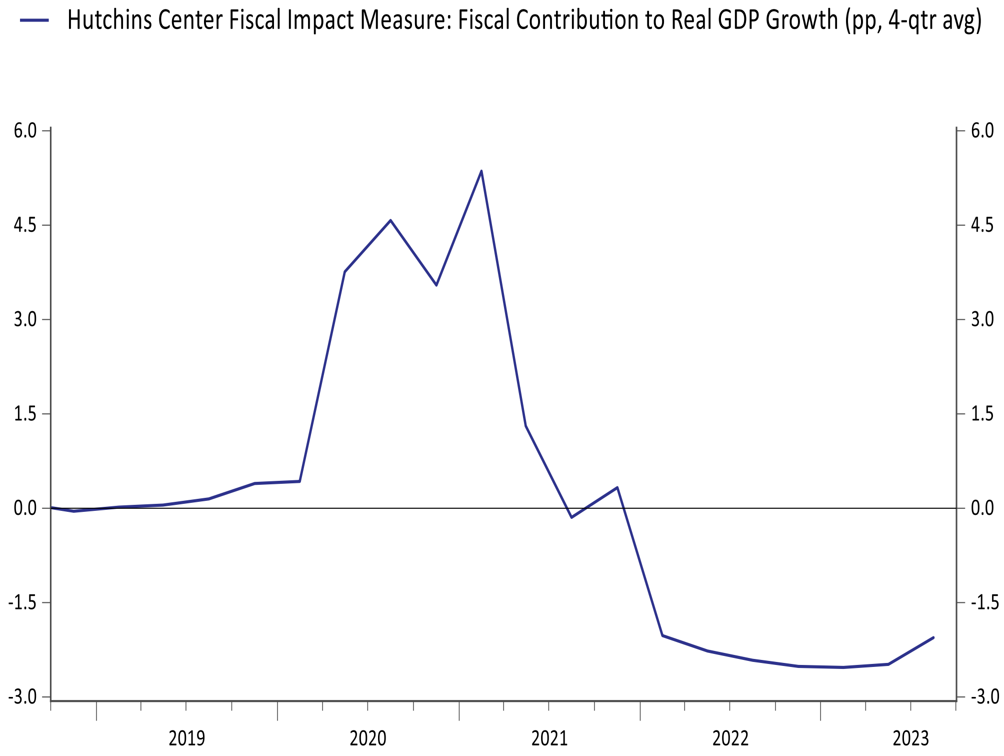


Sources: MacroPolicy Perspectives/BLS, FRBATL/Haver

Federal Spending is Slated to Decline Nearly 20% and Traditional Calibration of Fiscal Impulse Point to a Large Headwind to Growth

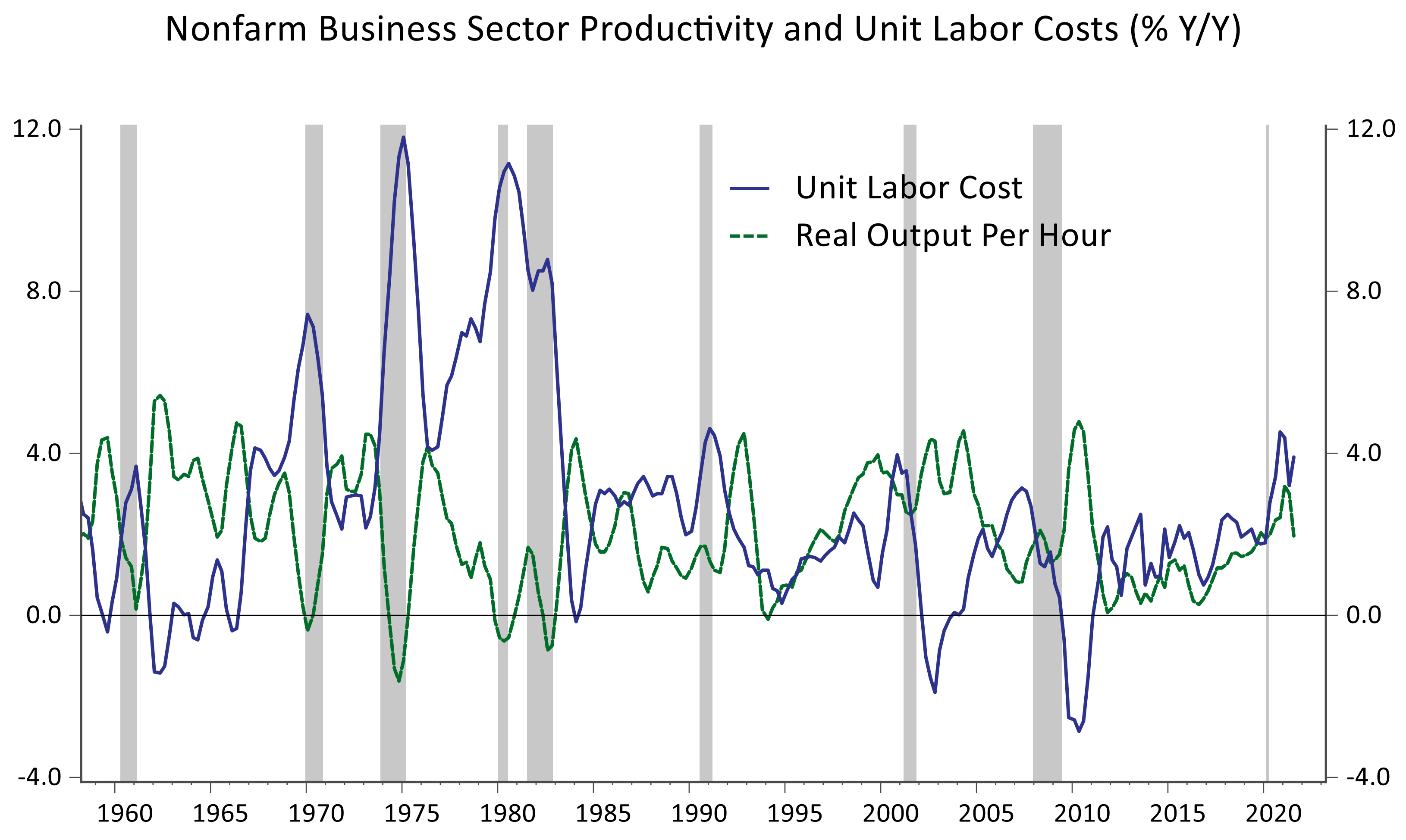


Source: CBO/Haver/MacroPolicy Perspectives LLC



Source: MacroPolicy Perspectives/HC/BEA/Haver

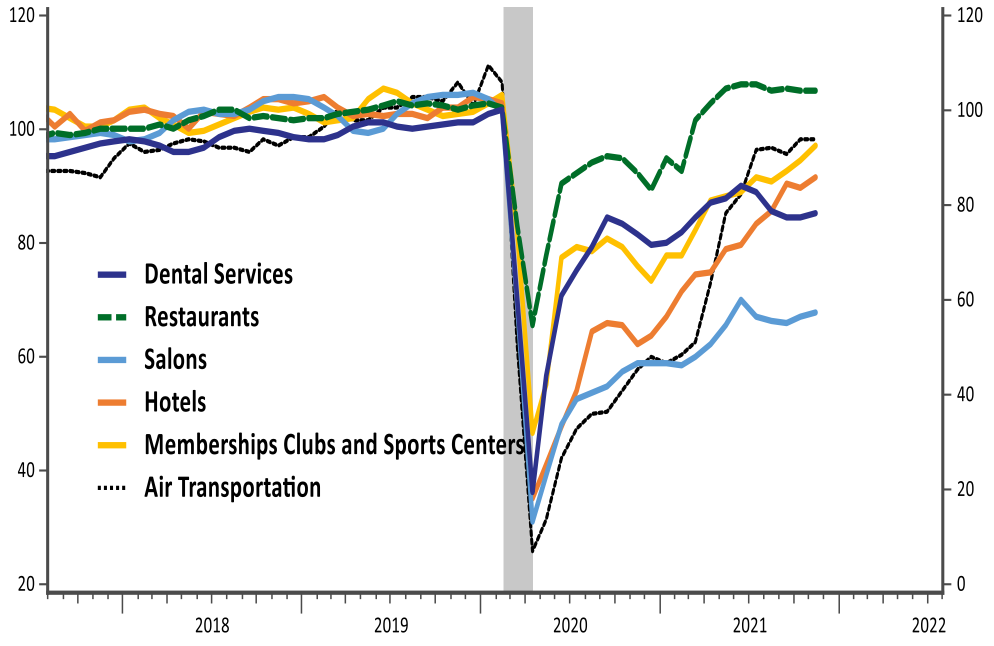
Higher growth in unit labor costs has come alongside strong productivity so far in contrast to the 1970s.



Source: Bureau of Labor Statistics/Haver Analytics

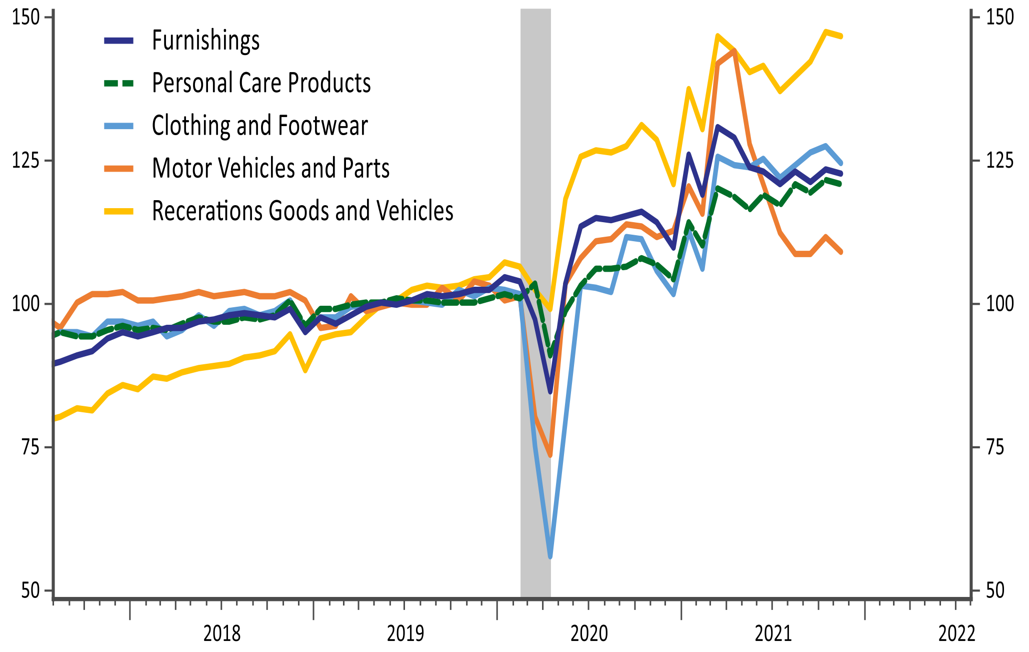
The Shift Toward Goods Spending Has Lingered with the Pandemic

Recovery in Real Services Spending (Index 2019=100)



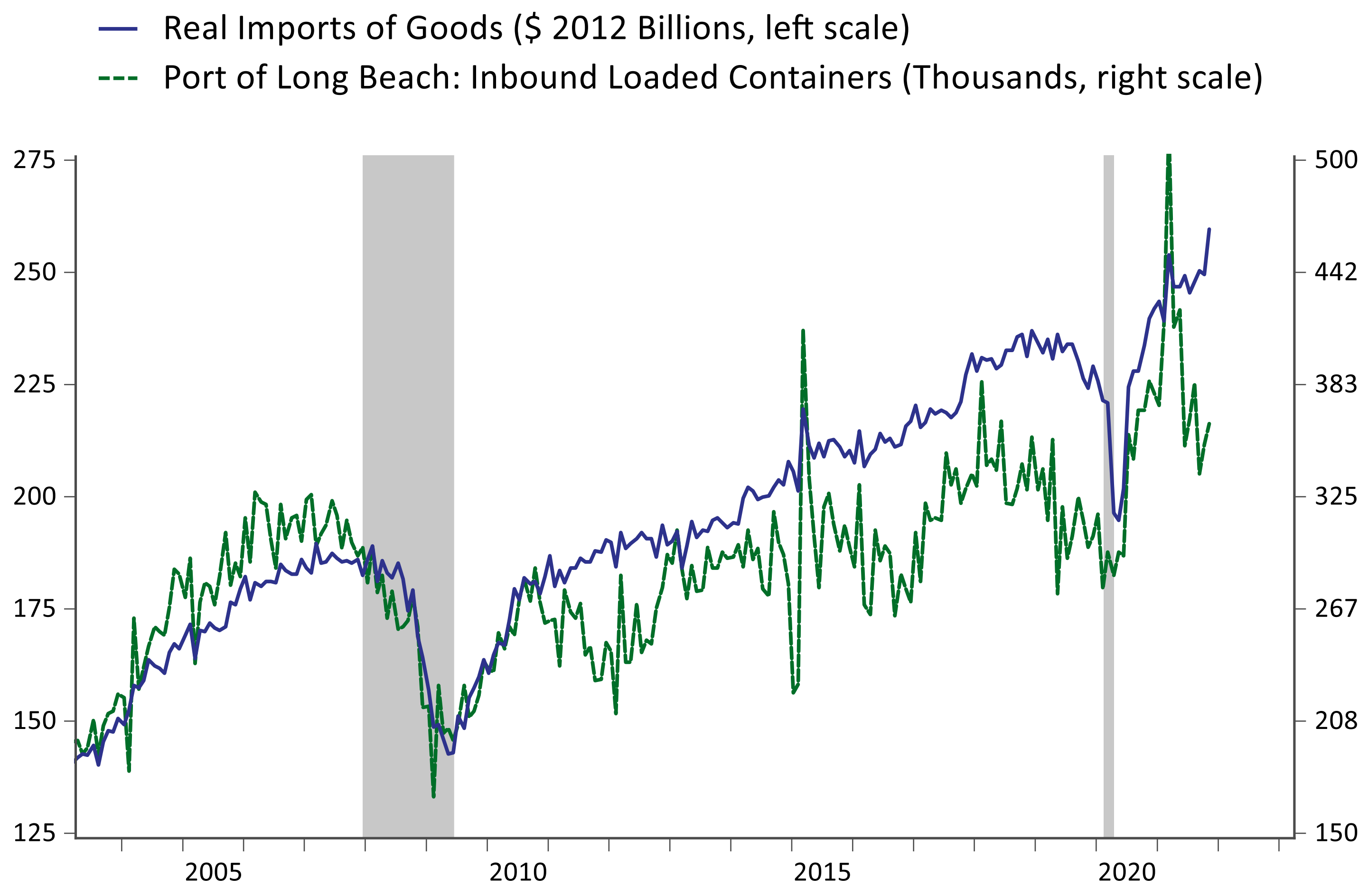
Source: Bureau of Economic Analysis/Haver Analytics

Recovery in Real Goods Spending (Index 2019=100)



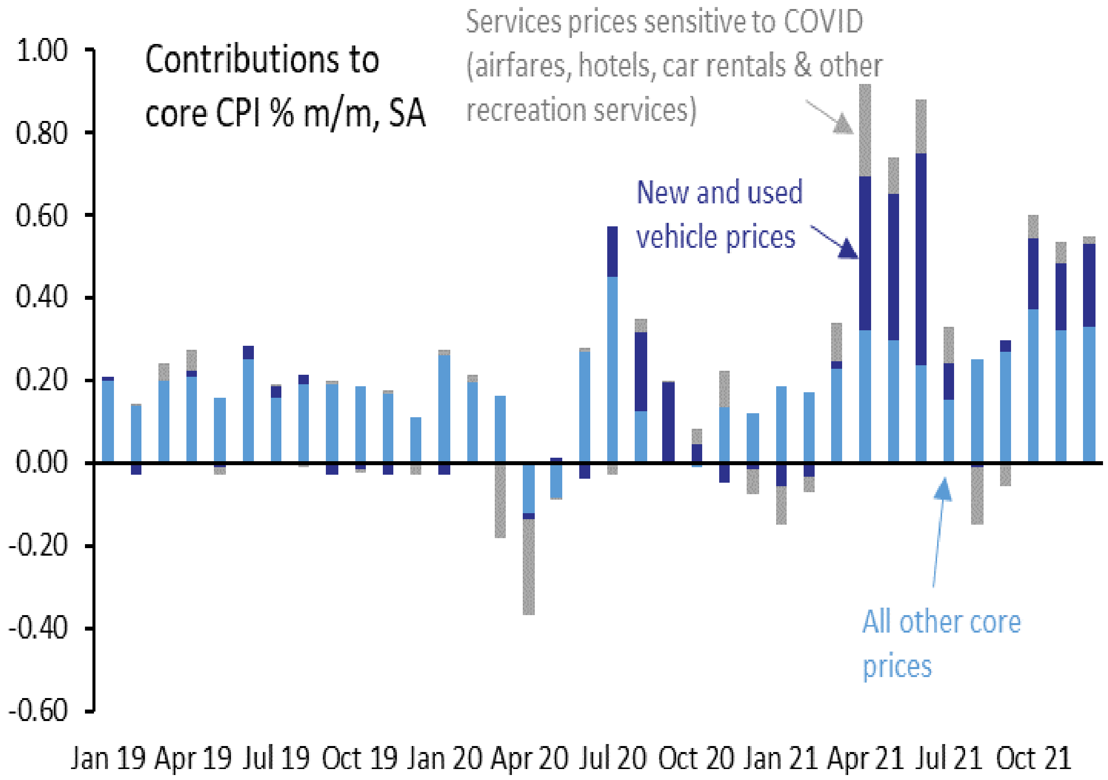
Source: Bureau of Economic Analysis/Haver Analytics

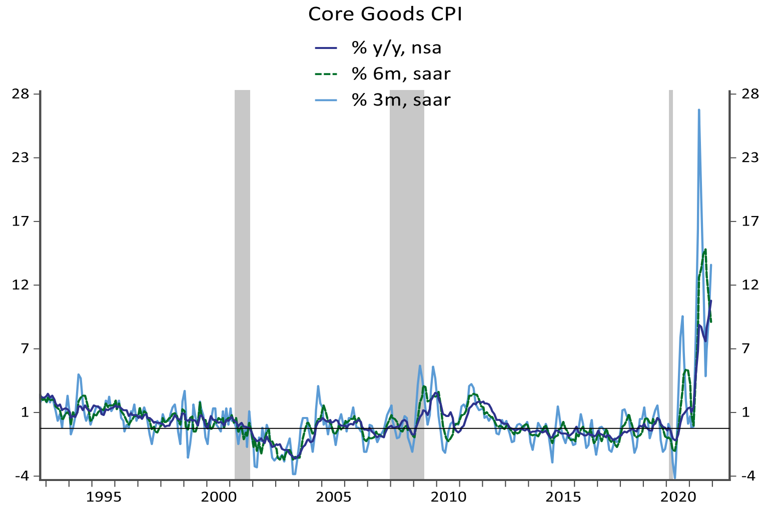
Demand for goods means record imports and congestion in global supply chains



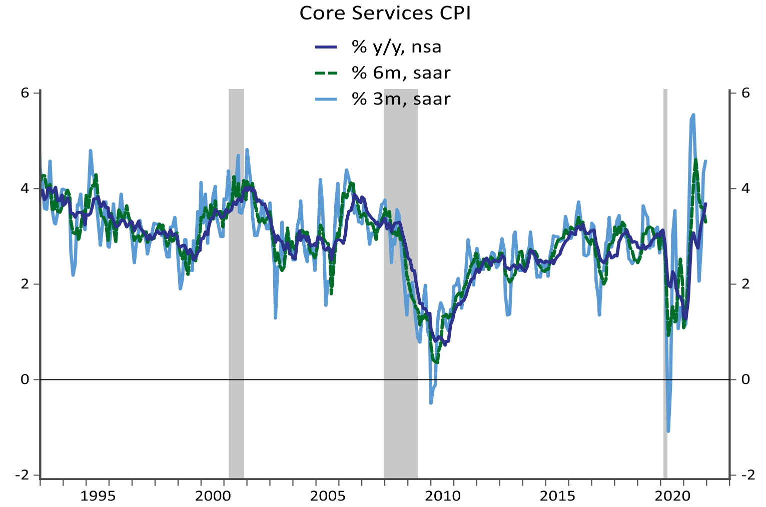
Sources: MacroPolicy Perspectives/CENSUS, PortLB/Haver

Goods Inflation has been Wildly Disrupted by COVID, Fiscal Support, Reduced Consumption Possibilities. Services Inflation Less So



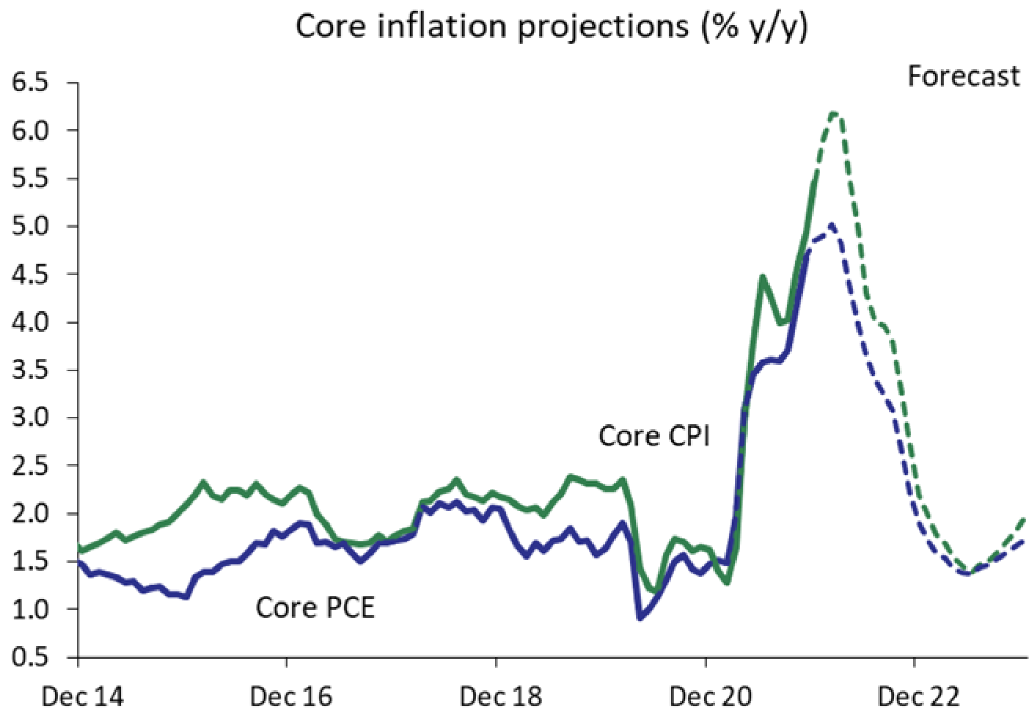


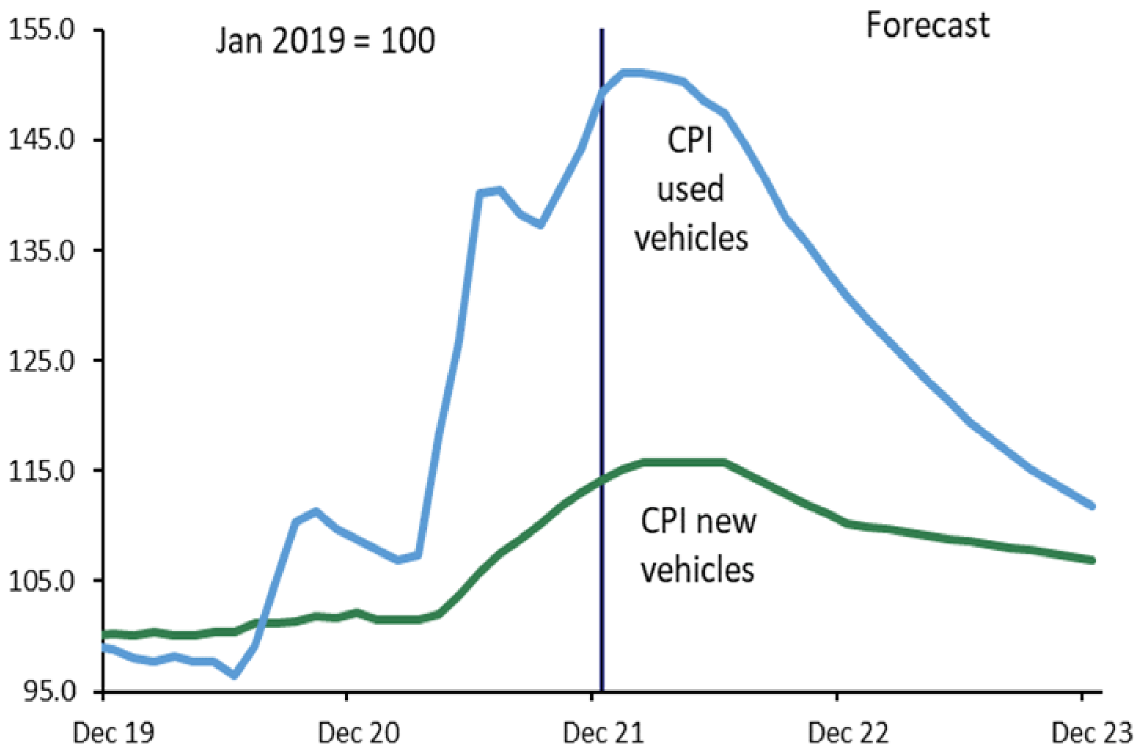
Source: Bureau of Labor Statistics/Haver Analytics



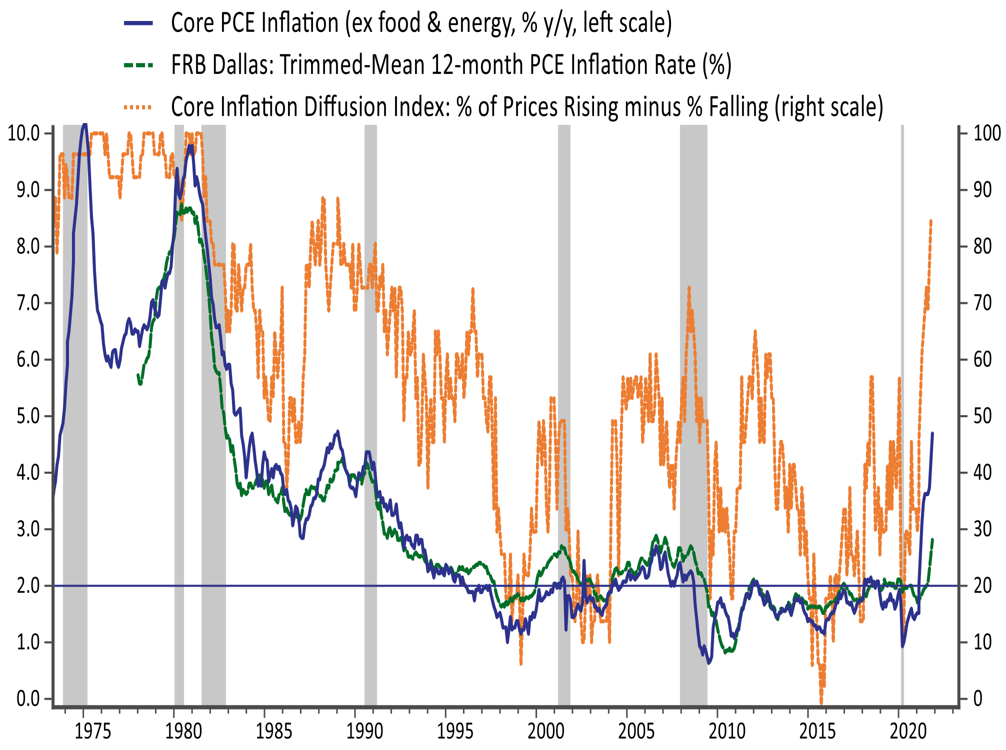
Source: Bureau of Labor Statistics/Haver Analytics

Vehicle Prices are the Epicenter and We Expect Moderation, Rent Inflation Will Likely Stay High in 2022, Moderate in 2023

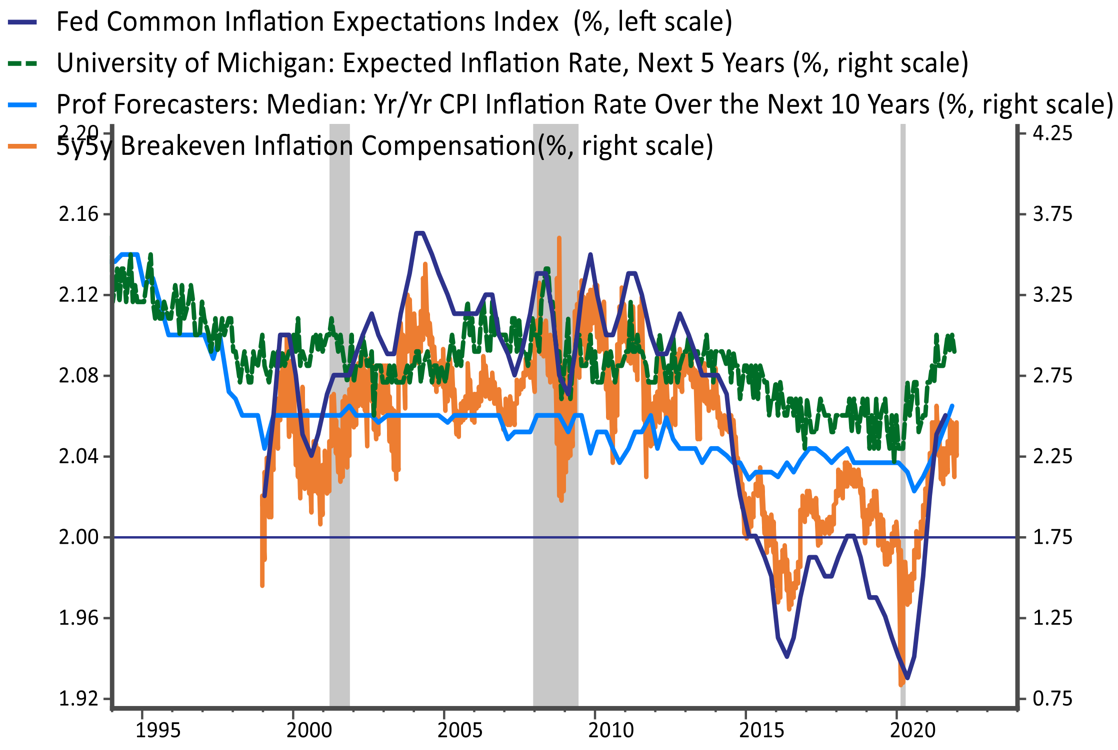




Inflation Dispersion and Expectations Will Help Determine The Degree of Entrenchment in Inflation Dynamics

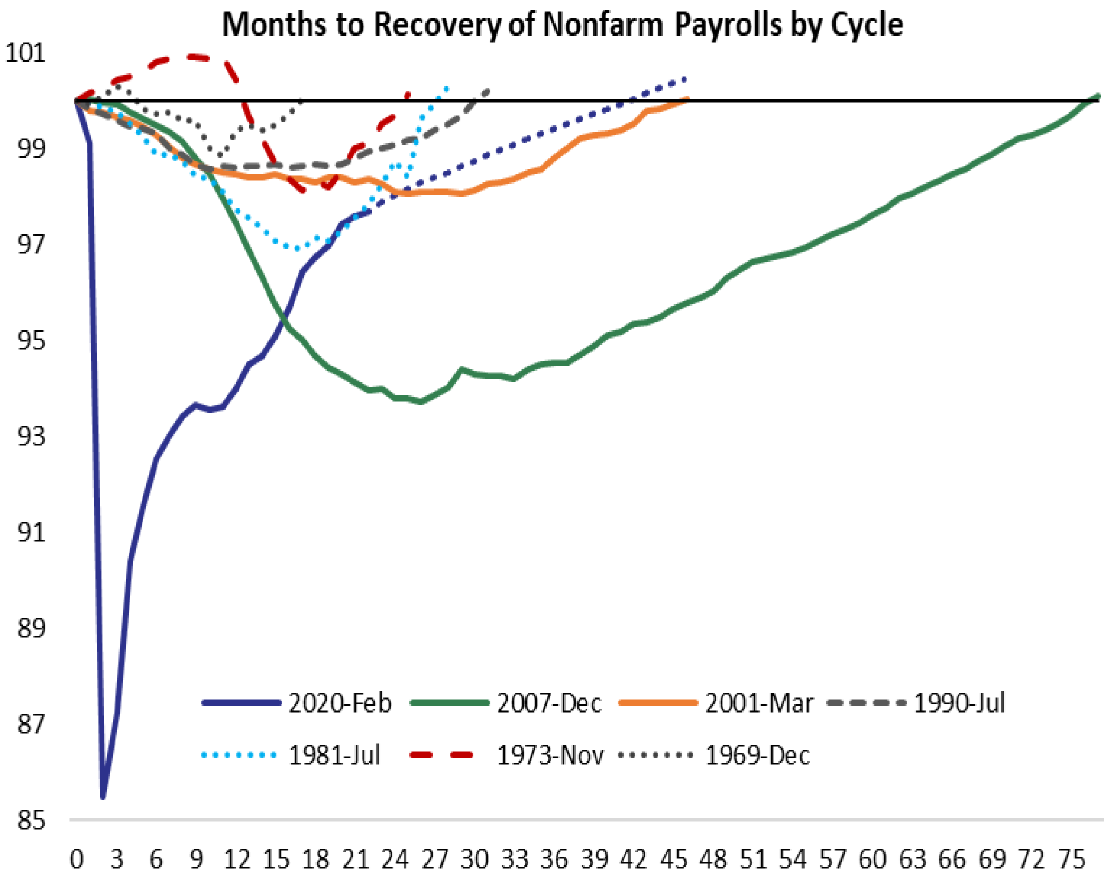


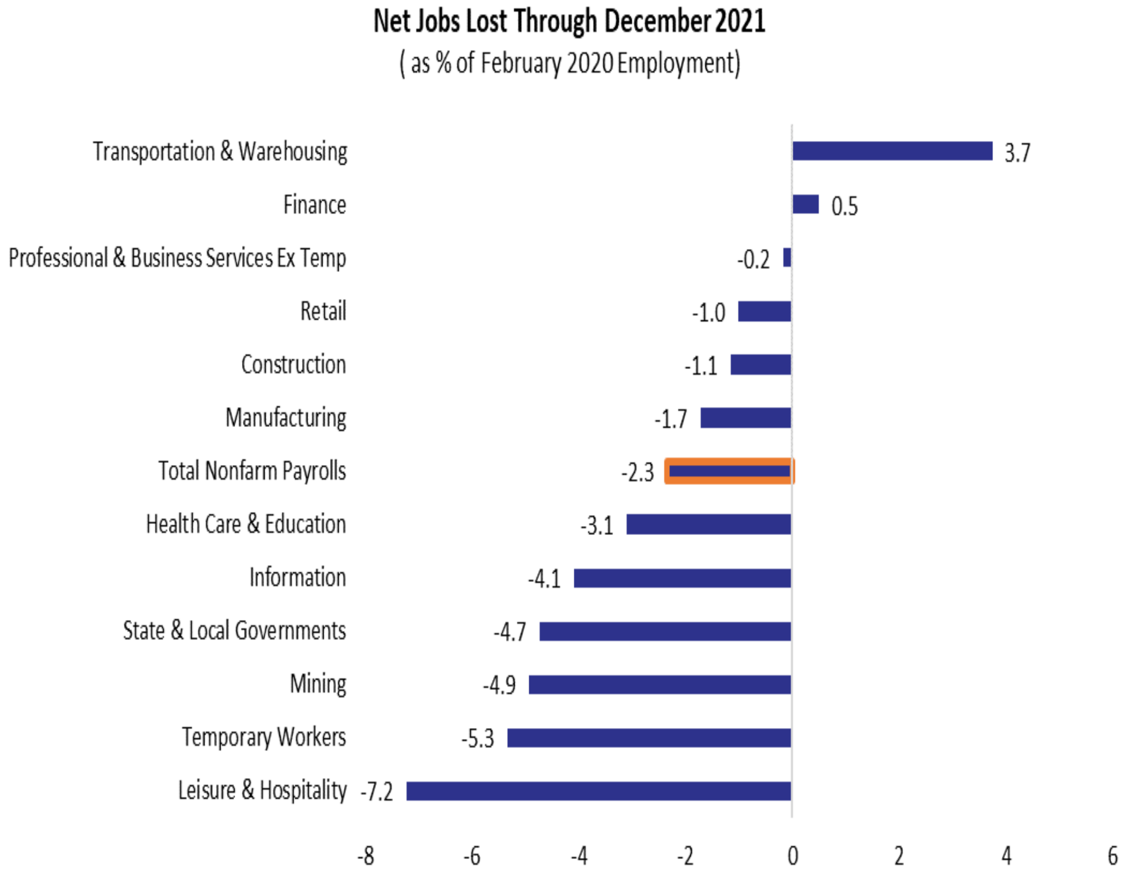
Sources: MacroPolicy Perspectives/BEA, FRBDAL, FRBSF/Haver



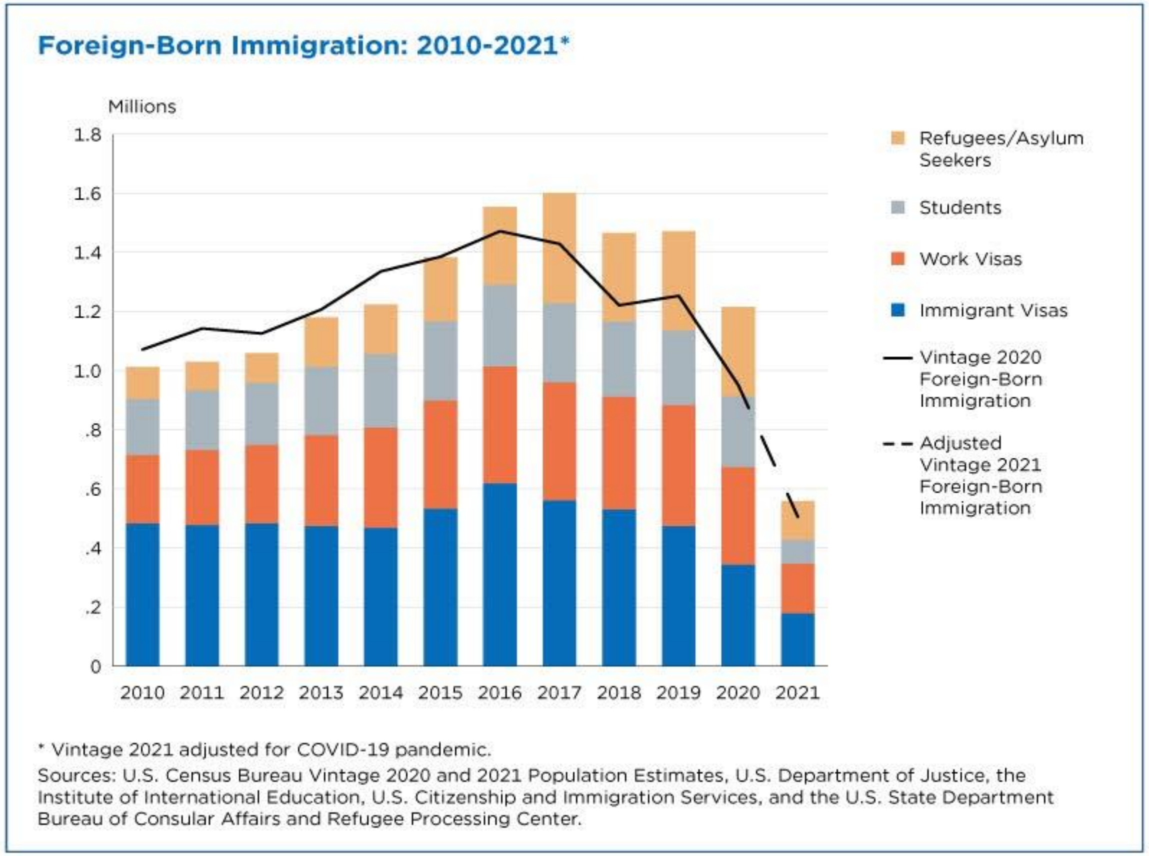
Sources: MacroPolicy Perspectives/FRB, UMICH, FRBPHI/Haver

Jobs have Recovered Quickly with Lingering Shortfalls in COVID Affected Sectors

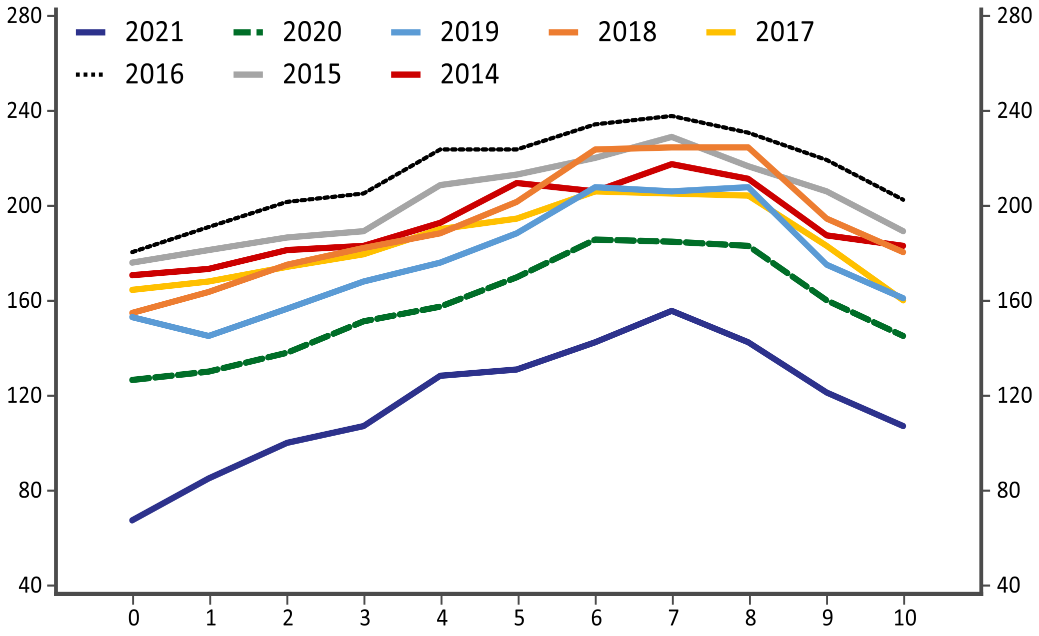




Population Growth and Labor Force Engagement Have Declined with Immigration, COVID



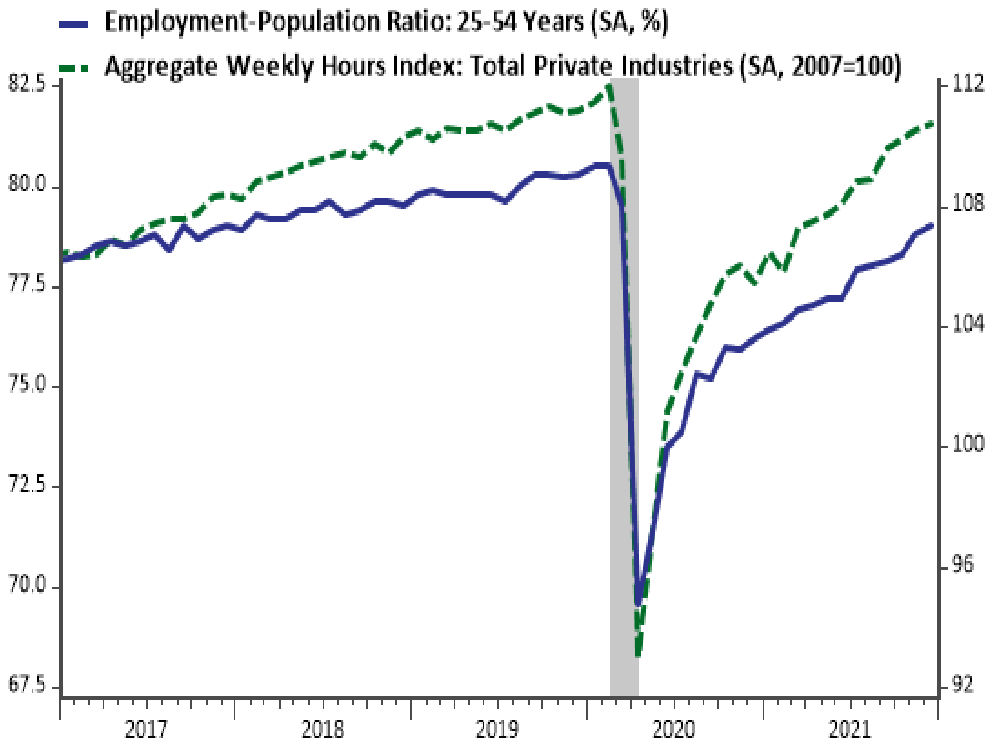
Population Growth February-December by Year
(post January population benchmark)



Source: BLS, Haver Analytics, MacroPolicy Perspectives LLC.

With More People on the Sidelines, Those Who Want Full Time Work are Getting it

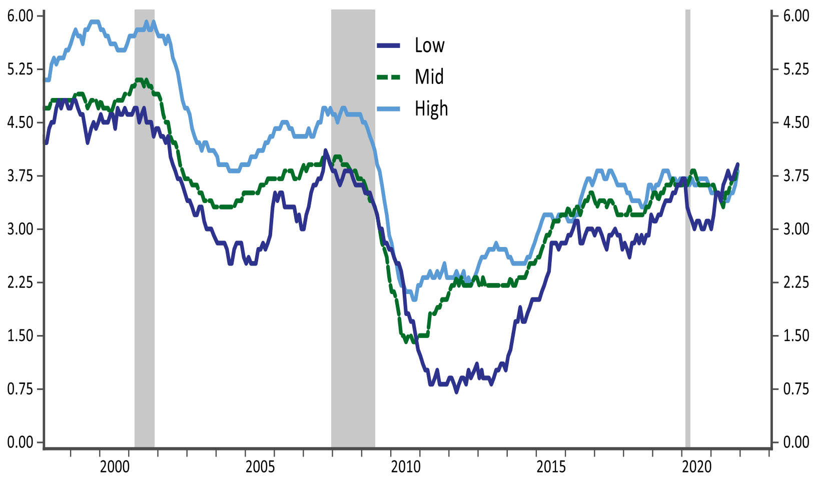
Source: BLS/Haver/MacroPolicy Perspectives LLC



Source: MacroPolicy Perspectives/BLS/Haver

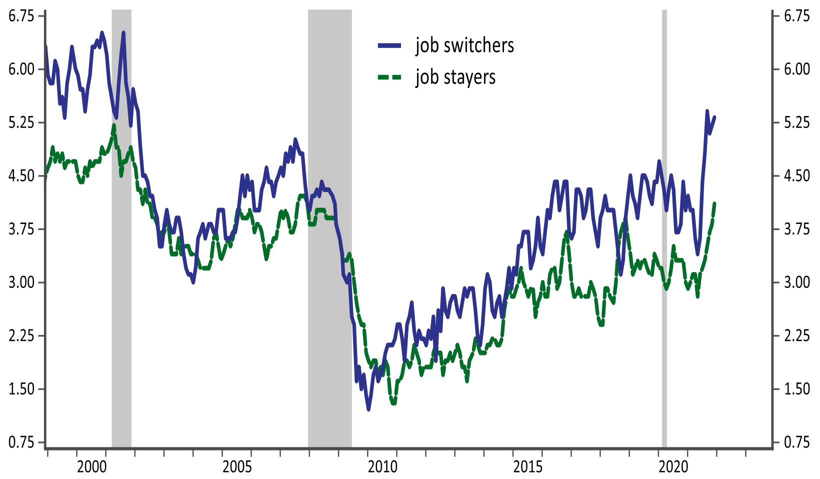
The Atlanta Wage Tracker Shows young, female, mobile, lower wage workers getting outsized wage increases but some recent broadening

Atlanta Wage Growth Tracker by Occupational Skill Level (3m avg % y/y)



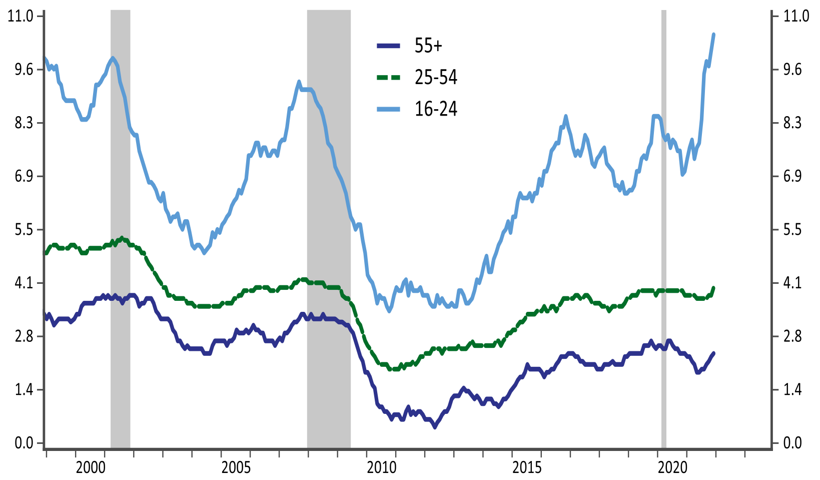
Source: Federal Reserve Bank of Atlanta/Haver Analytics

Atlanta Wage Growth Tracker (3m avg % y/y)



Source: Federal Reserve Bank of Atlanta/Haver Analytics

Atlanta Wage Growth Tracker by Age (3m avg % y/y)



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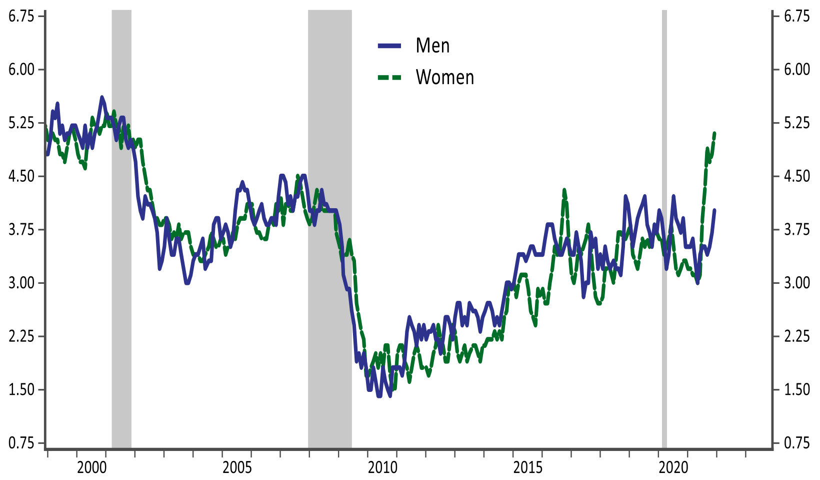

Source: Federal Reserve Bank of Atlanta/Haver Analytics

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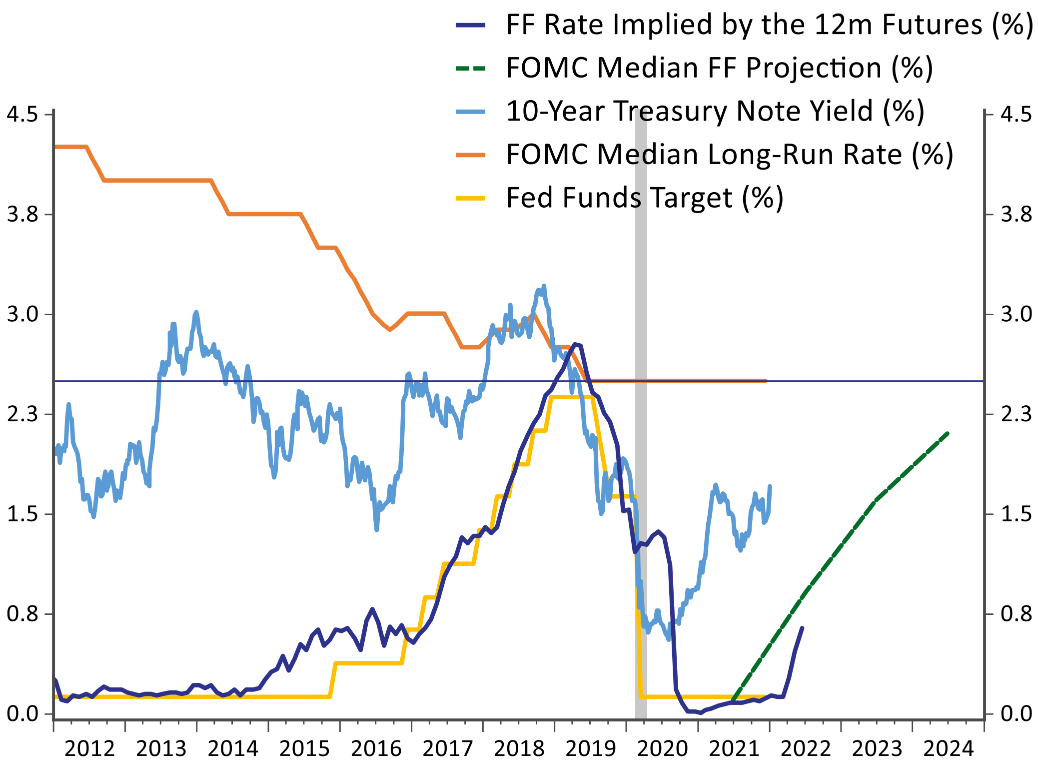
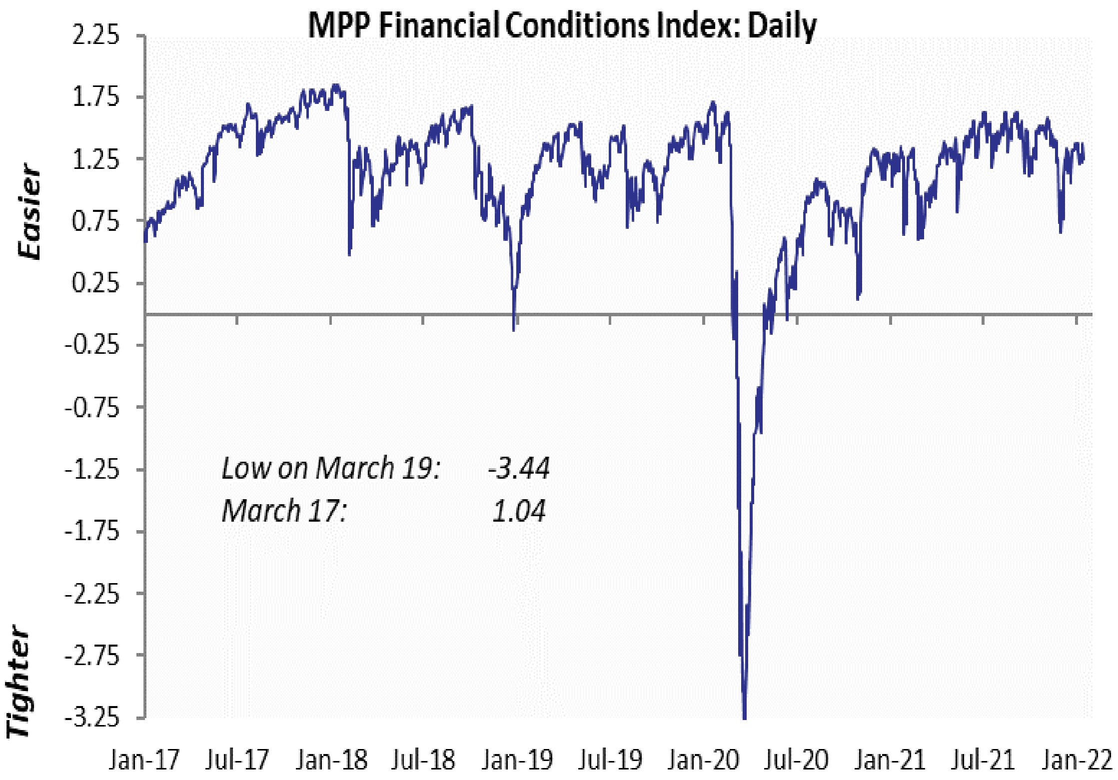
The Fed Will Calibrate Policy to Economic Data and Financial Conditions which have not Tightened Much to Date



Sources: MacroPolicy Perspectives/CME, FRB, FRB/H/Haver



Conclusions

Downside risks

- Households' willingness to spend and borrow without fiscal support falters
- Fiscal and monetary tightening are happening around the world simultaneously
- Demographic trends suggest even more subdued trend growth
- Inflation becomes entrenched at a high level forcing the Fed to move quickly to restrictive territory

Upside risks

- Consumers dip into savings and continue to spend
- Investment and productivity run strong fueling strong noninflationary growth
- Immigration and labor force participation recover
- Supply chain operations improve, and inflation cools more than expected