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Inflation, Employment and the Economic Outlook: Through a Glass, Darkly

Dallas-Fort Worth Association for
Business Economics

March 18, 2022

The views expressed in this presentation do not represent those of the Federal Reserve Bank of Atlanta, the Federal Reserve System, or anyone other than the presenter. If you think you heard otherwise, you are mistaken.

Out with the old, in with the new (unfortunately).

“The path of the economy continues to depend on the course of the virus.”

Statement of the FOMC, January 26, 2022

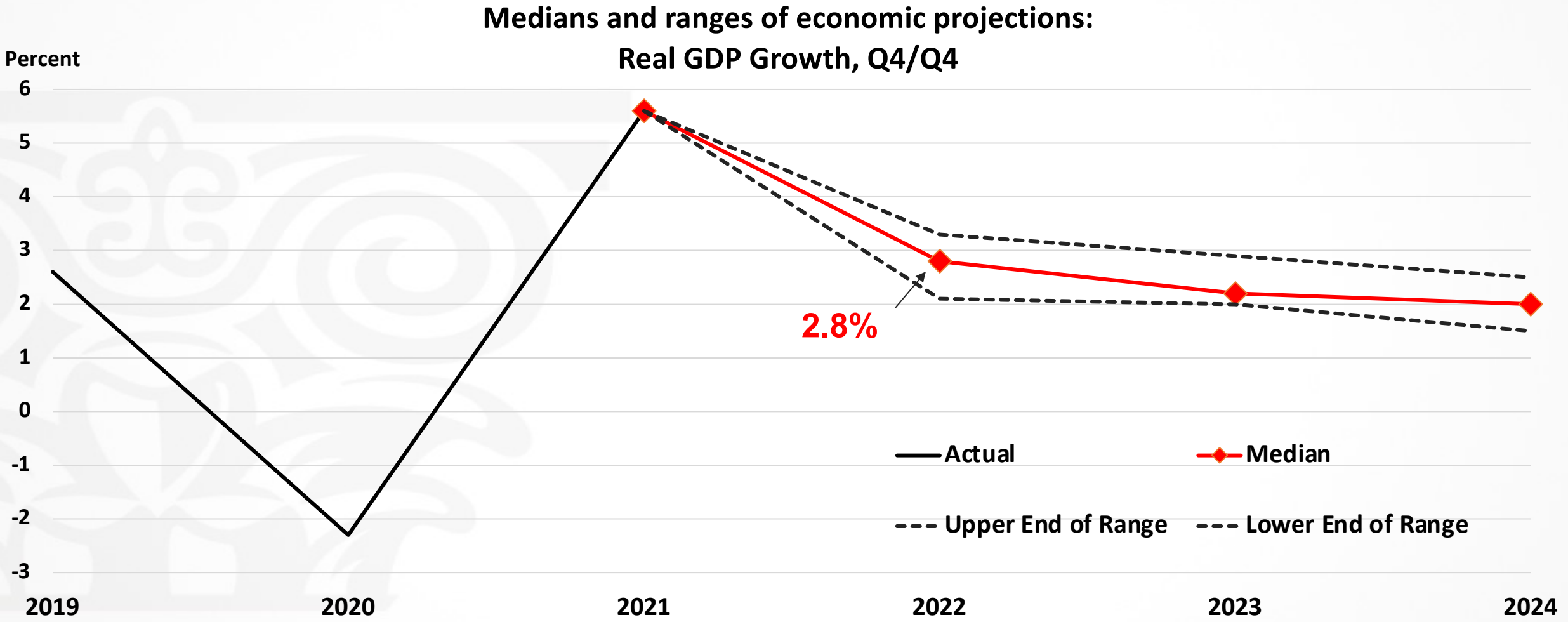
<https://www.federalreserve.gov/newsevents/pressreleases/monetary20220126a.htm>

“The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain, but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity.”

Statement of the FOMC, March 16, 2022

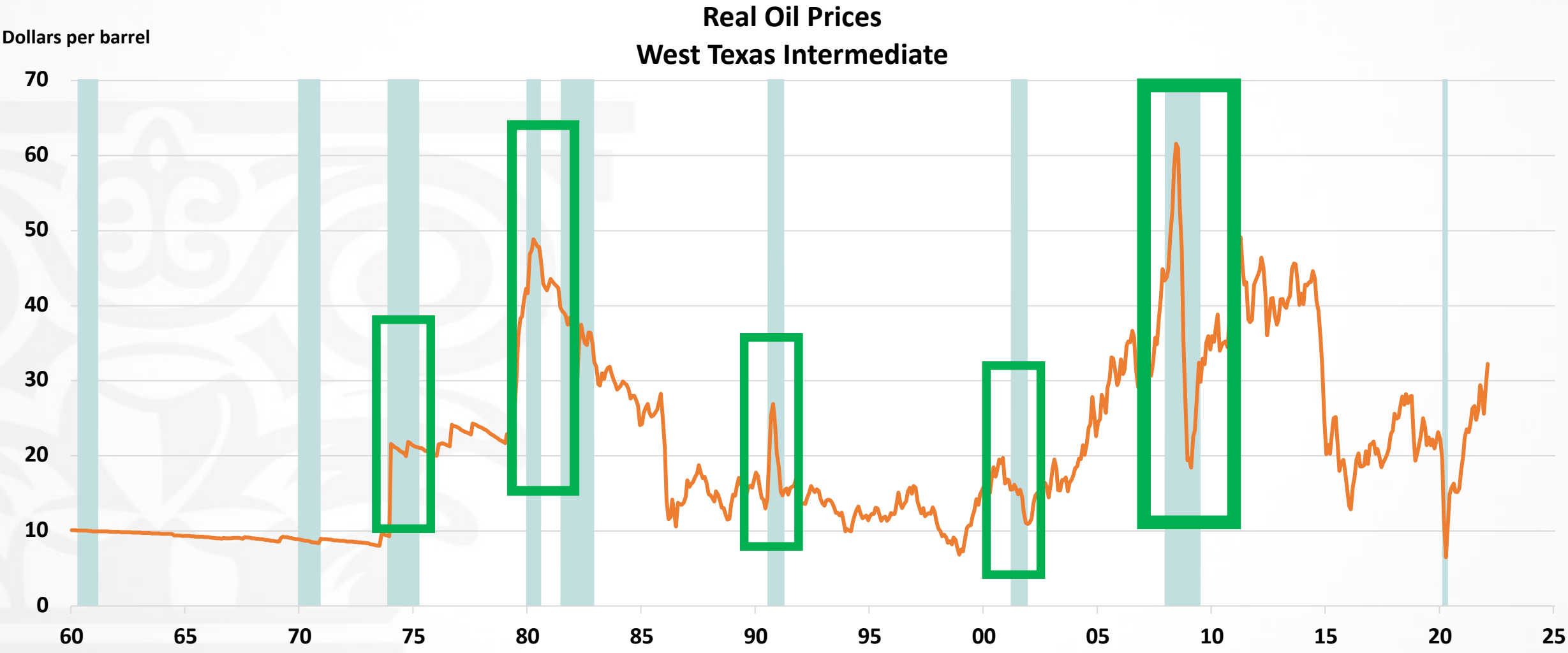
<https://www.federalreserve.gov/newsevents/pressreleases/monetary20220126a.htm>

From the FOMC SEP: GDP growth steps down this year, but remains above most estimates of long-run potential.



Source: Federal Open Market Committee Summary of Economic Projections from March 16, 2022. Figure 1;
<https://www.federalreserve.gov/monetarypolicy/fomcprojtable20220316.htm>

Worth noting: Energy price spikes do not generally coincide with good news..

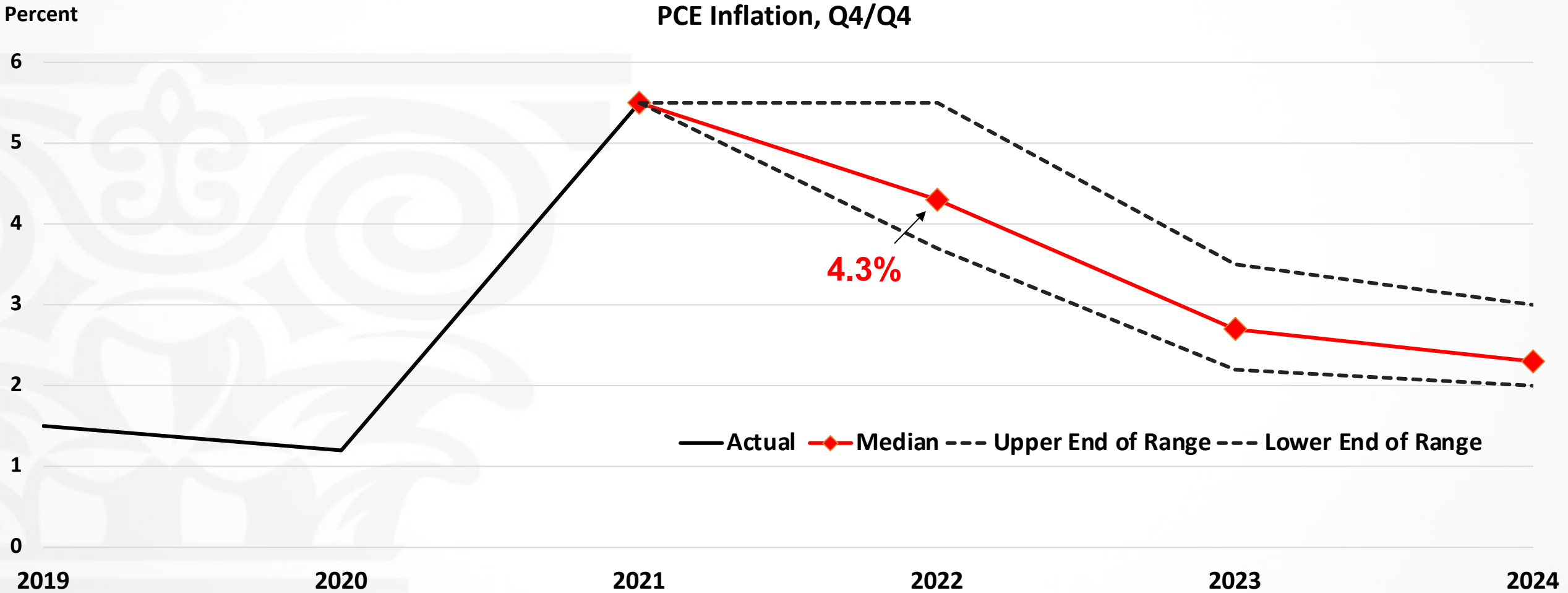


Note: Real oil prices calculated in 1982-1984 dollars using the consumer price index
Source: Bureau of Labor Statistics; Energy Information Administration; Haver Analytics

through February 2022

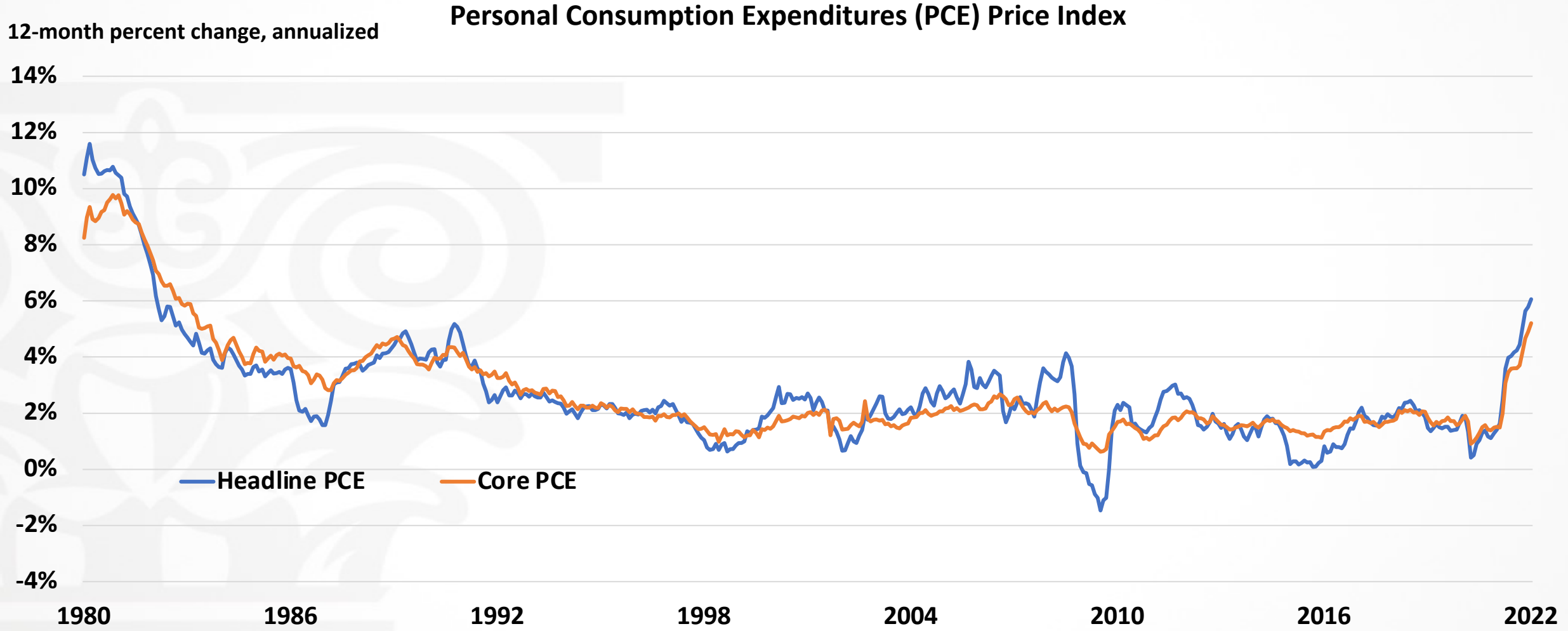
From the FOMC SEP: Inflation remains elevated this year.

Medians and ranges of economic projections:
PCE Inflation, Q4/Q4



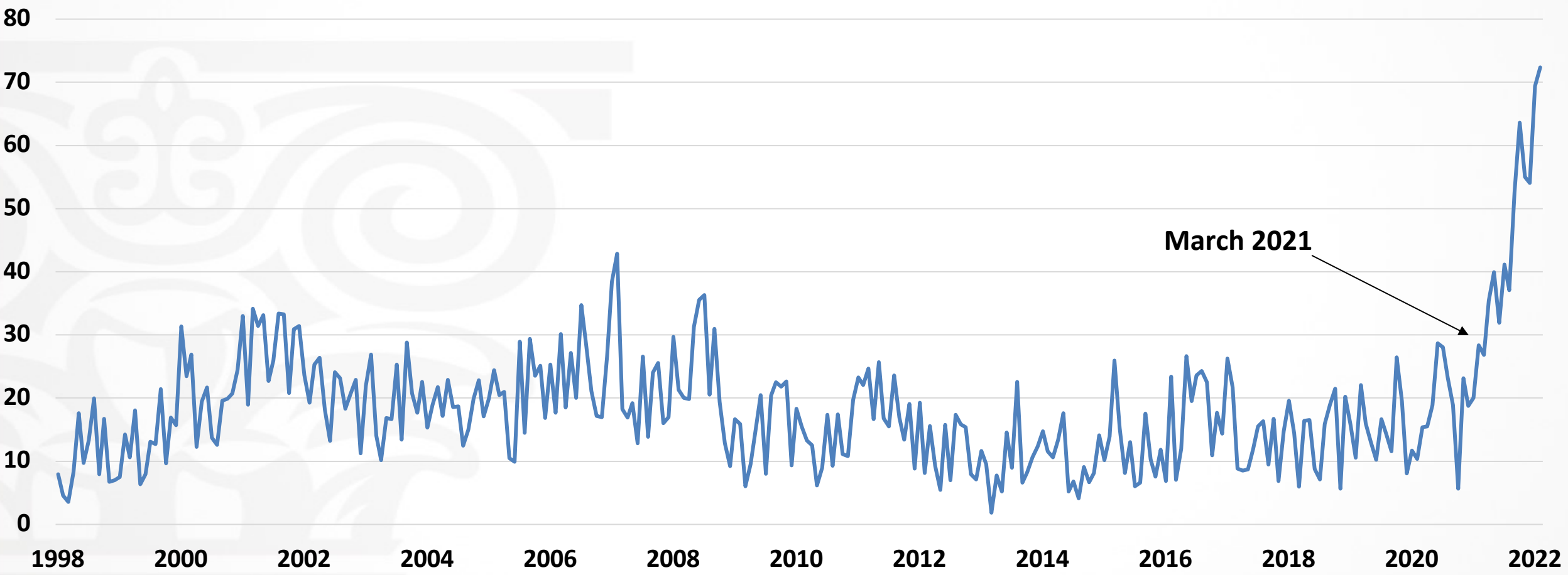
Source: Federal Open Market Committee Summary of Economic Projections from March 16, 2022. Figure 1;
<https://www.federalreserve.gov/monetarypolicy/fomcprojtable20220316.htm>

We have to go back to the 1980s to find (year-over-year) core inflation at current levels.



We have to go back to the 1970s to find as high a share of prices rising at a rate 5% annually (or above).

Share of CPI rising at rates \geq 5%



Sources: Bureau of Labor Statistics and Atlanta Fed staff calculations

through February 2022

Inflation measures have been hot across the board.

The Atlanta Inflation Dashboard

Inflation Measure (12-month) Growth Rate	1-year window
Core PCE Index	
Market-Based PCE Index	
FRB Dallas Trimmed-Mean Index	
FRB San Francisco Cyclical Core PCE Index	
Stock and Watson Cyclically Sensitive Inflation	
Core CPI	
FRB Cleveland Median CPI	
FRB Cleveland 16% Trimmed-Mean CPI	
FRB Atlanta Sticky-Price CPI	

Color code:

On target:

- **Within 0.25 percentage points (ppts) of target**

Below target:

- **Between 0.25 and 0.50 ppt below target**
- **More than 0.50 ppt below target**

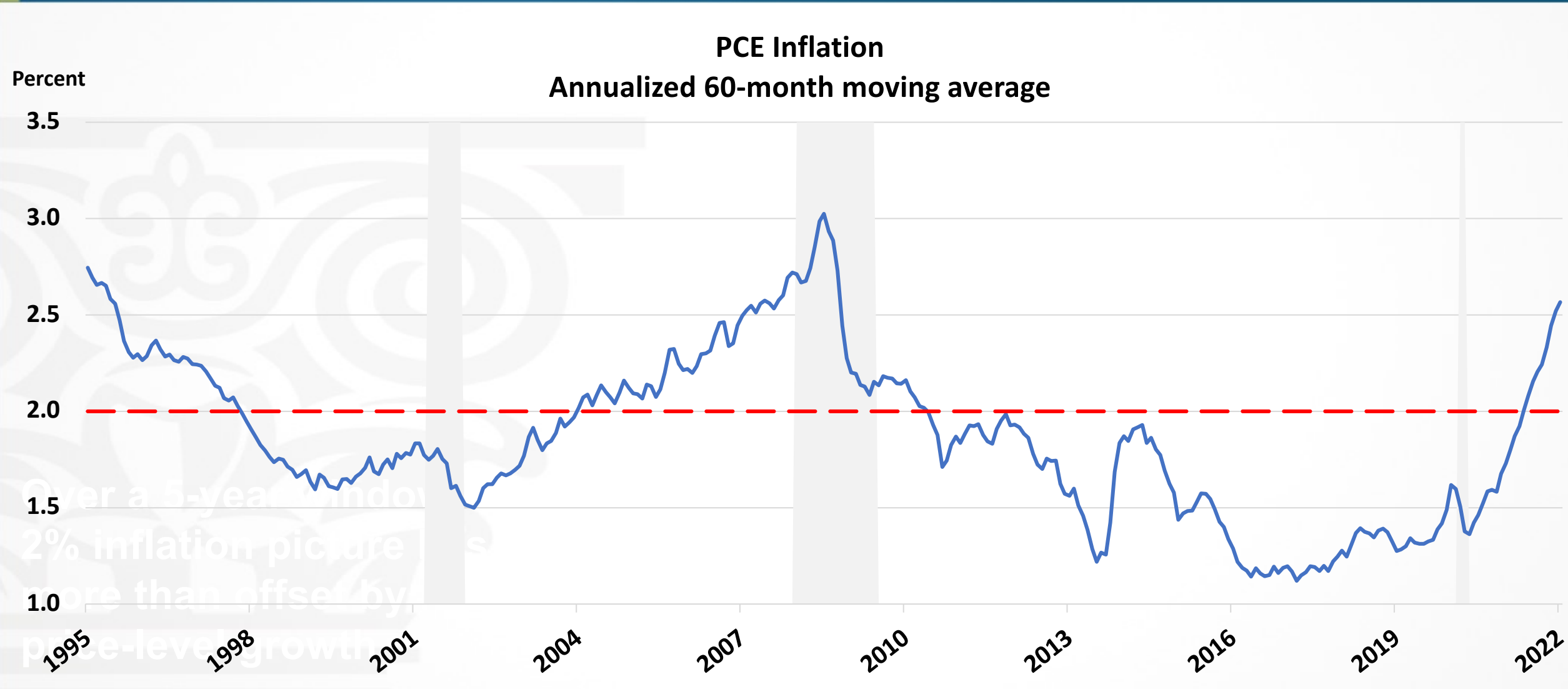
Above target:

- **Between 0.25 and 0.50 ppt above target**
- **More than 0.50 ppt above target**

“...the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.”

Statement on Longer-Run Goals and Monetary Policy Strategy,
Adopted effective January 24, 2012; as reaffirmed effective January 26, 2021
https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf

Over a 5-year window, annualized inflation has shot past 2% and has yet to slow its trend.



Sources: Bureau of Economic Analysis; Haver Analytics

through January 2022

Inflation indicators are *generally* hot over a 5-year window.

The Atlanta Inflation Dashboard

Inflation Measure (12-month) Growth Rate	1-year window	5-year window
Core PCE Index	Red	Yellow
Market-based PCE Index	Red	Yellow
FRB Dallas Trimmed Mean Index	Red	Green
FRB San Francisco Cyclical Core PCE Index	Red	Red
Stock and Watson Cyclically Sensitive Inflation	Red	Red
Core CPI	Red	Red
FRB Cleveland Median CPI	Red	Yellow
FRB Cleveland 16-Percent Trimmed-Mean CPI	Red	Red
FRB Atlanta Sticky-Price CPI	Red	Yellow

Color code:

On target:

- **Within 0.25 ppt of target**

Below target:

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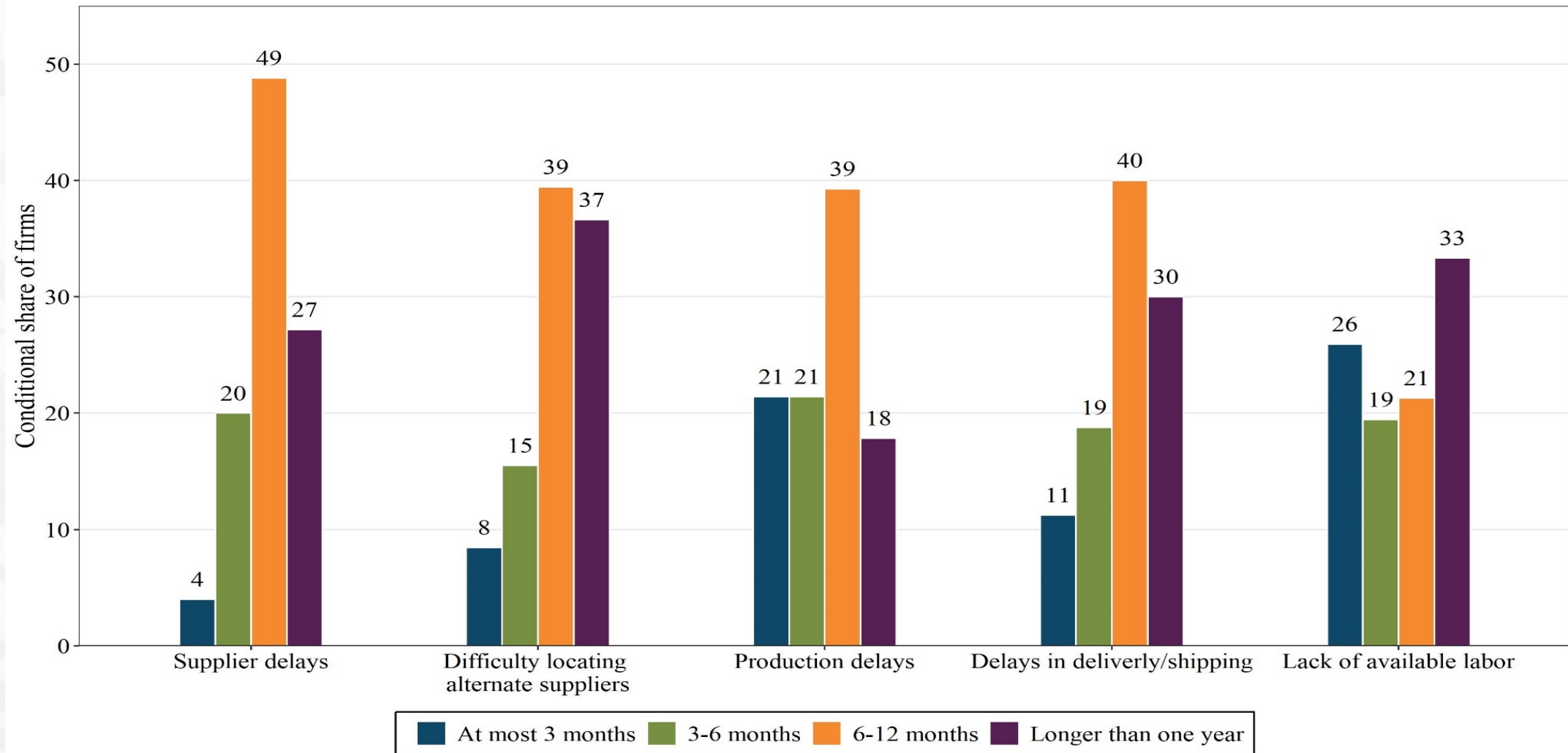
Inflation risk: Supply chain pressures persist.

Percent of survey respondents experiencing issue in the last week.

	March 2021	February 2022
Supplier delays	55.1	71.0
Difficulty of locating alternative suppliers	23.7	40.0
Production delays	24.7	32.0
Delays in delivery/shipping	37.4	45.0
Availability of employees to work	32.8	62.0

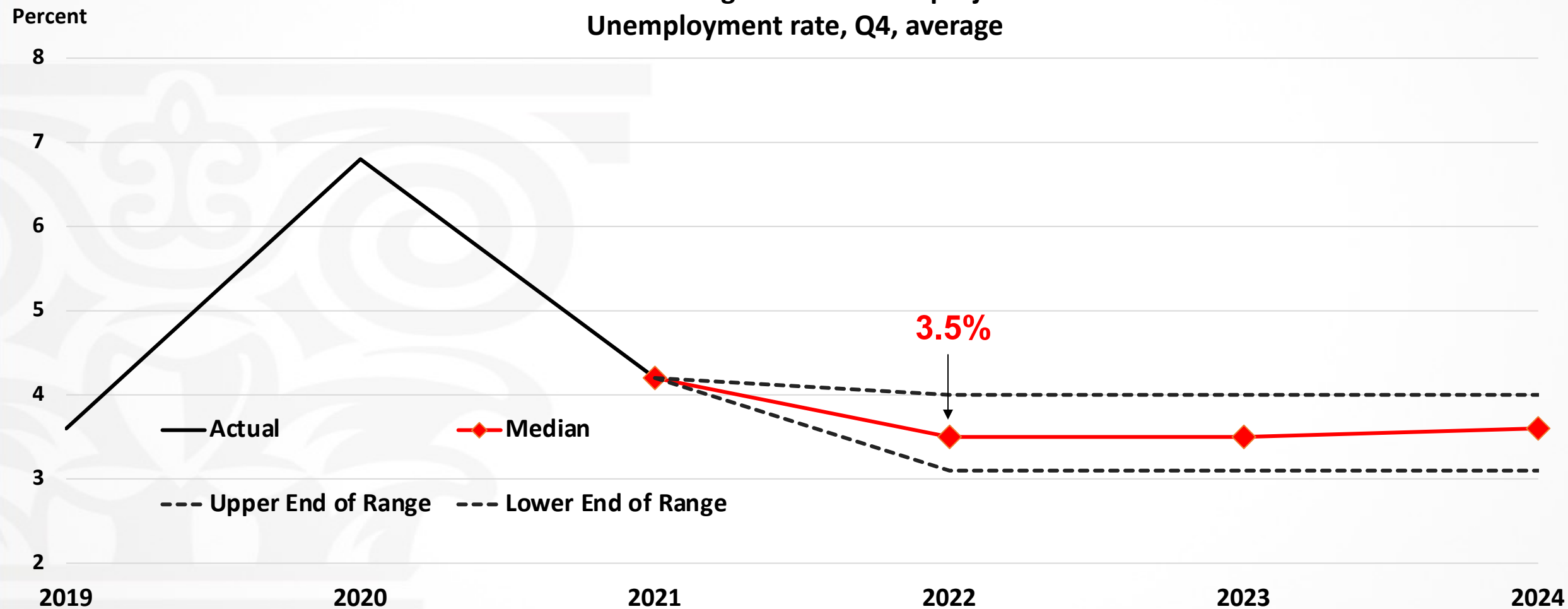
The majority of affected firms expect disruptions to persist for 6-12 months or longer.

How long do you anticipate these disruptions will continue to impact your business?



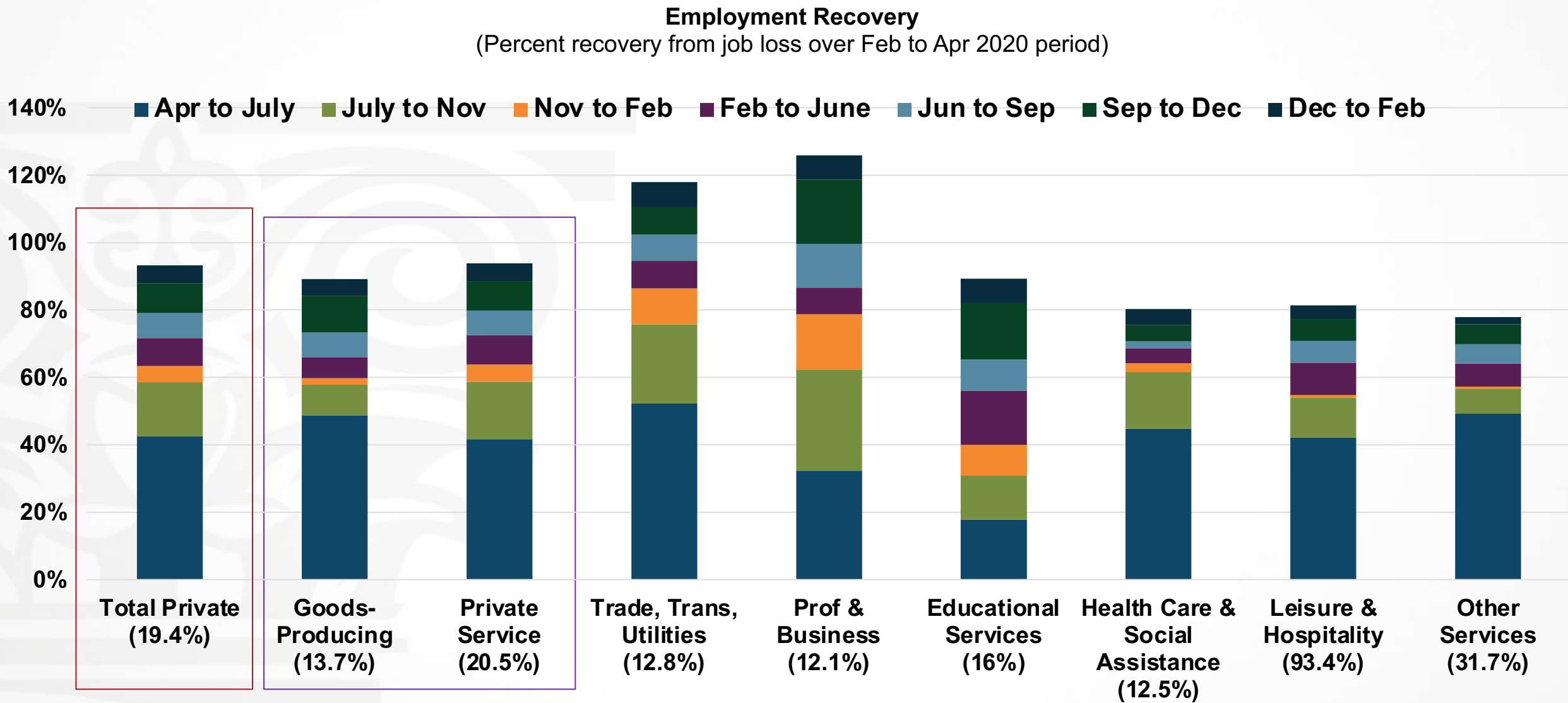
The other supply-side issue: Will labor markets remain “tight”?

Medians and ranges of economic projections:
Unemployment rate, Q4, average



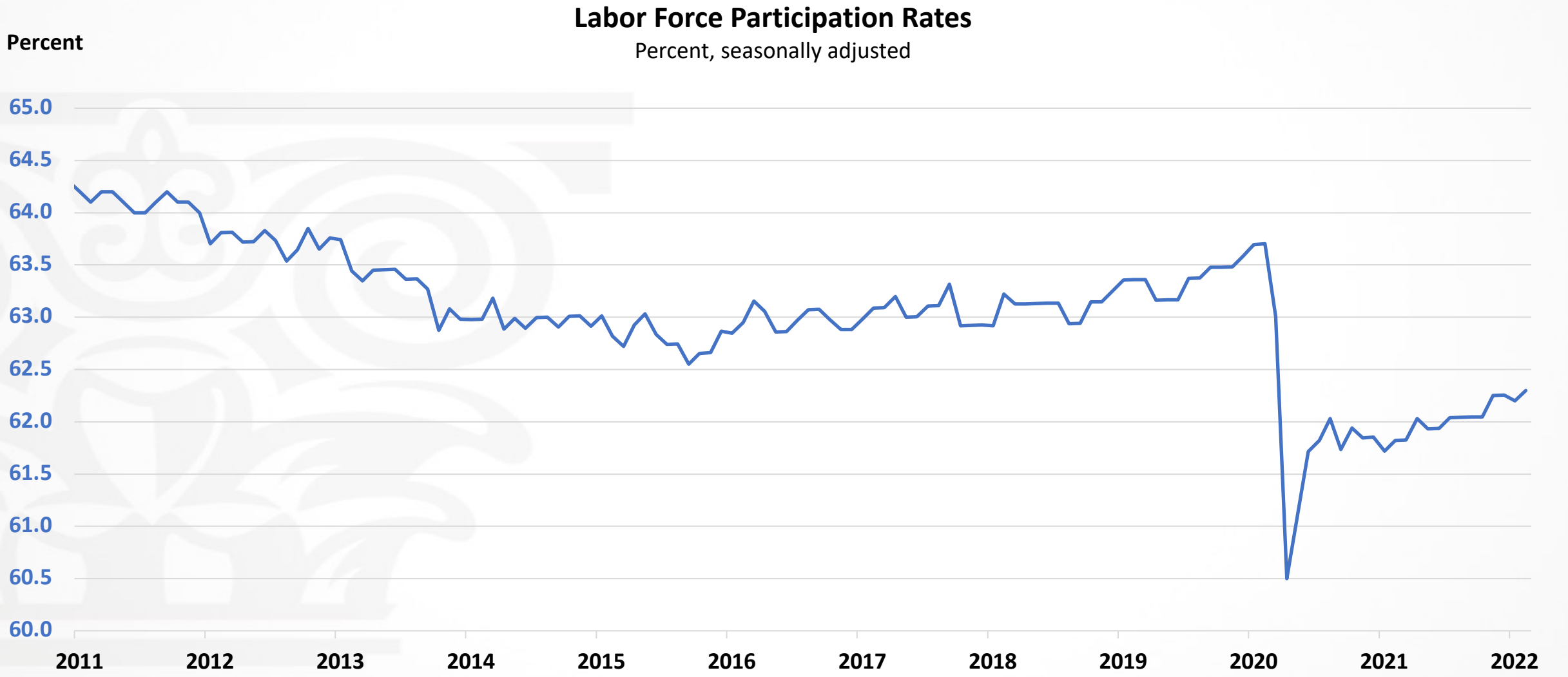
Source: Federal Open Market Committee Summary of Economic Projections from March 16, 2022. Figure 1;
<https://www.federalreserve.gov/monetarypolicy/fomcprojtable20220316.htm>

On the one hand, most sectors seem to still have room to recover...



Source: Bureau of Labor Statistics - Establishment Data. Employment loss between Feb and Apr 2020 is shown in parentheses.

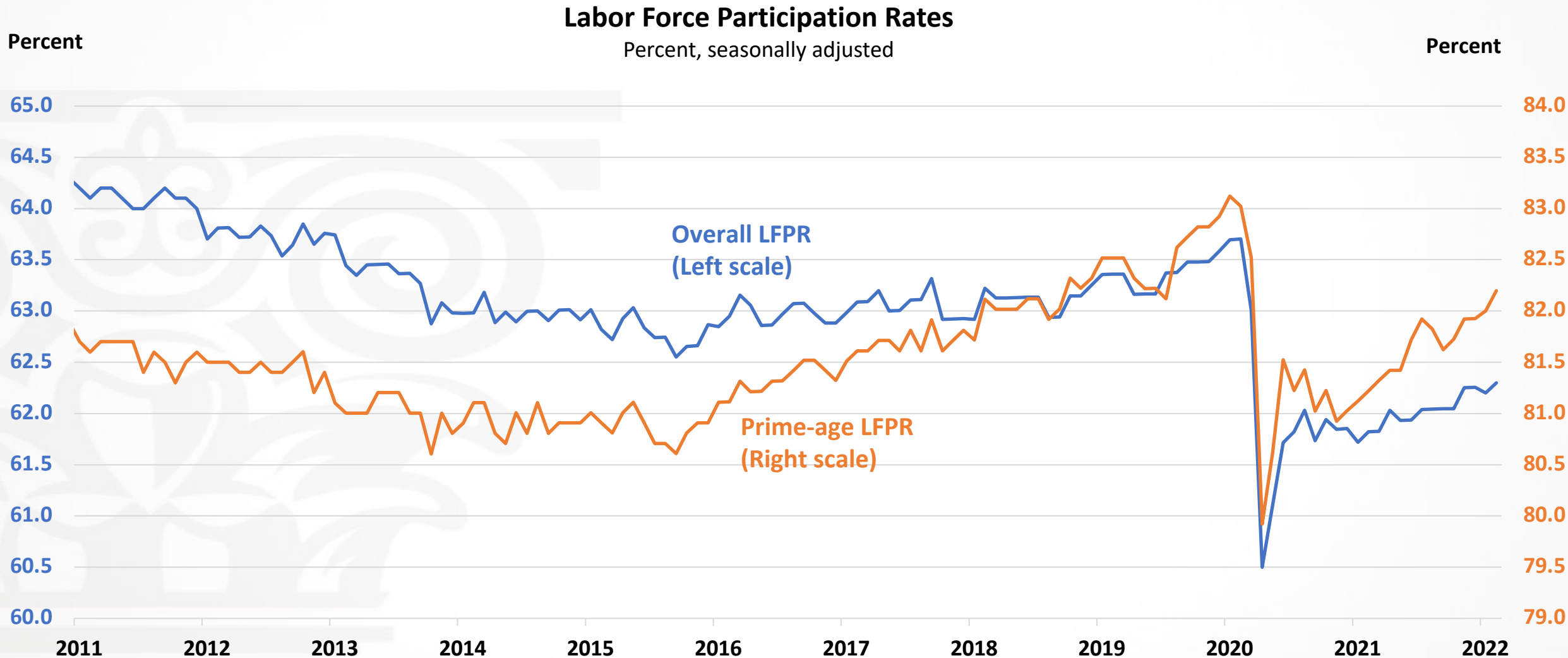
... and overall labor force participation remains well below pre-pandemic levels.



Sources: Bureau of Labor Statistics; Haver Analytics

through February 2022

The "but": Prime-age participation rates show significantly more recovery from the pandemic-related decline.



Sources: Bureau of Labor Statistics; Haver Analytics

through February 2022

How much does aging matter?

- Overall labor force participation rates fell by 1.5 percentage points from February 2020 through January 2022.
- If each age-cohort retired at the same rate as right before the pandemic, retirement would reduce labor force participation by 0.9 percentage points.

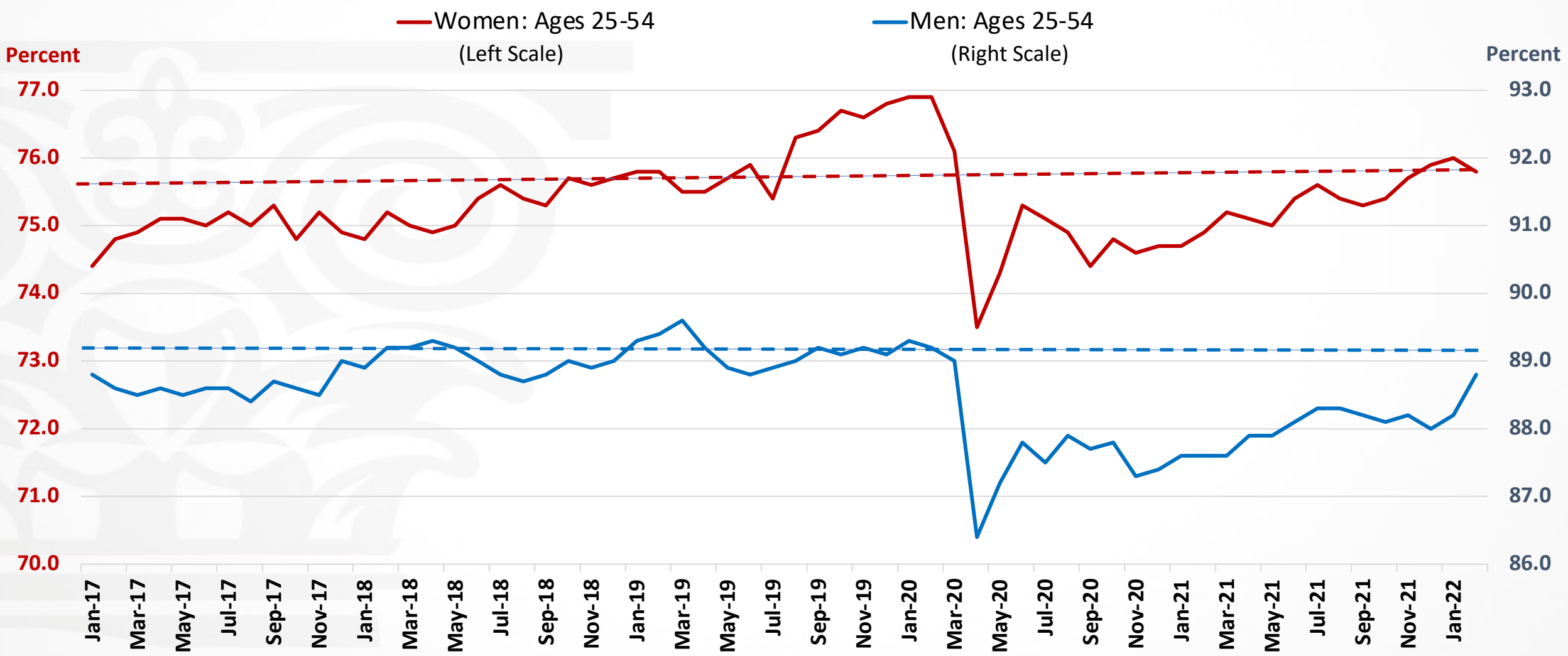


The natural ageing of the population could account for 60% of the decline in LFPR.

Broadly, prime-age participation rates have returned to mid-2019 levels.

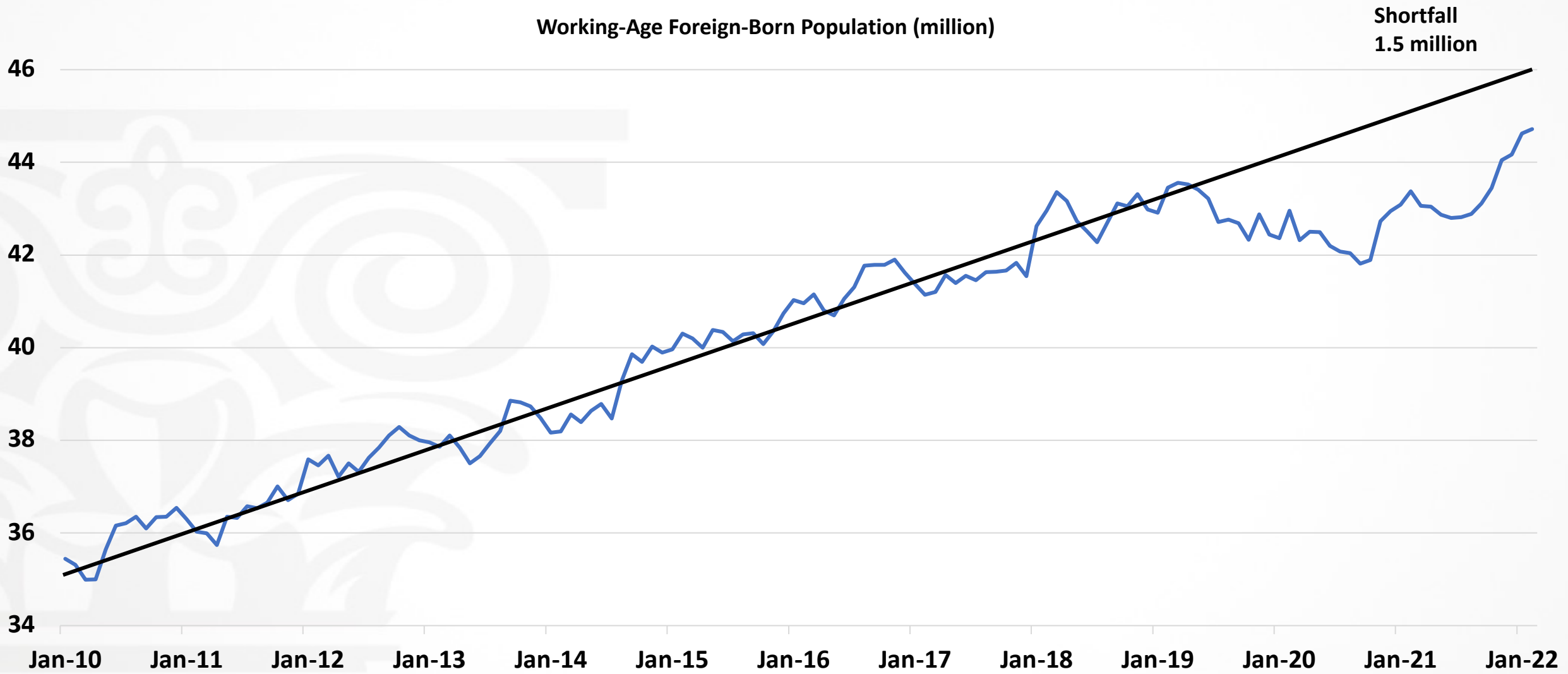
Labor Force Participation Rates

Percent, seasonally adjusted



Sources: Bureau of Labor Statistics; Haver Analytics; Dashed lines represent July 2019 levels for each of the series

One more issue: A decline in immigration has been adding to labor supply problems.



Source: Bureau of Labor Statistics, staff calculations. Population aged 16+

Firms are trying to hire a lot of workers. But the shortfall of hires over vacancies is extremely large.

Job Openings (millions)



Source: Job Openings and Labor Turnover Survey (through Jan. 2022)

Hiring Balance (million)

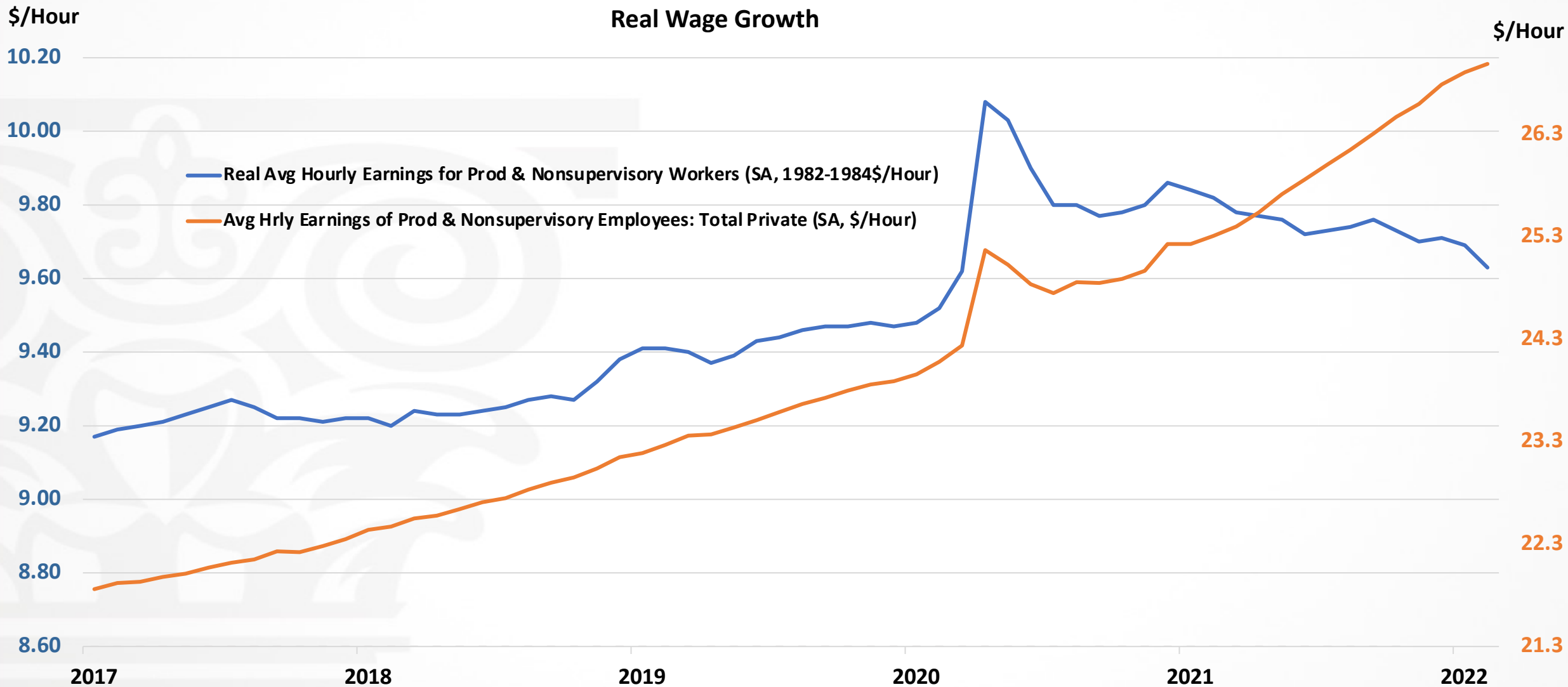


1.3 million more hires than vacancies in Jan 2010

5 million more vacancies than hires in Jan 2022

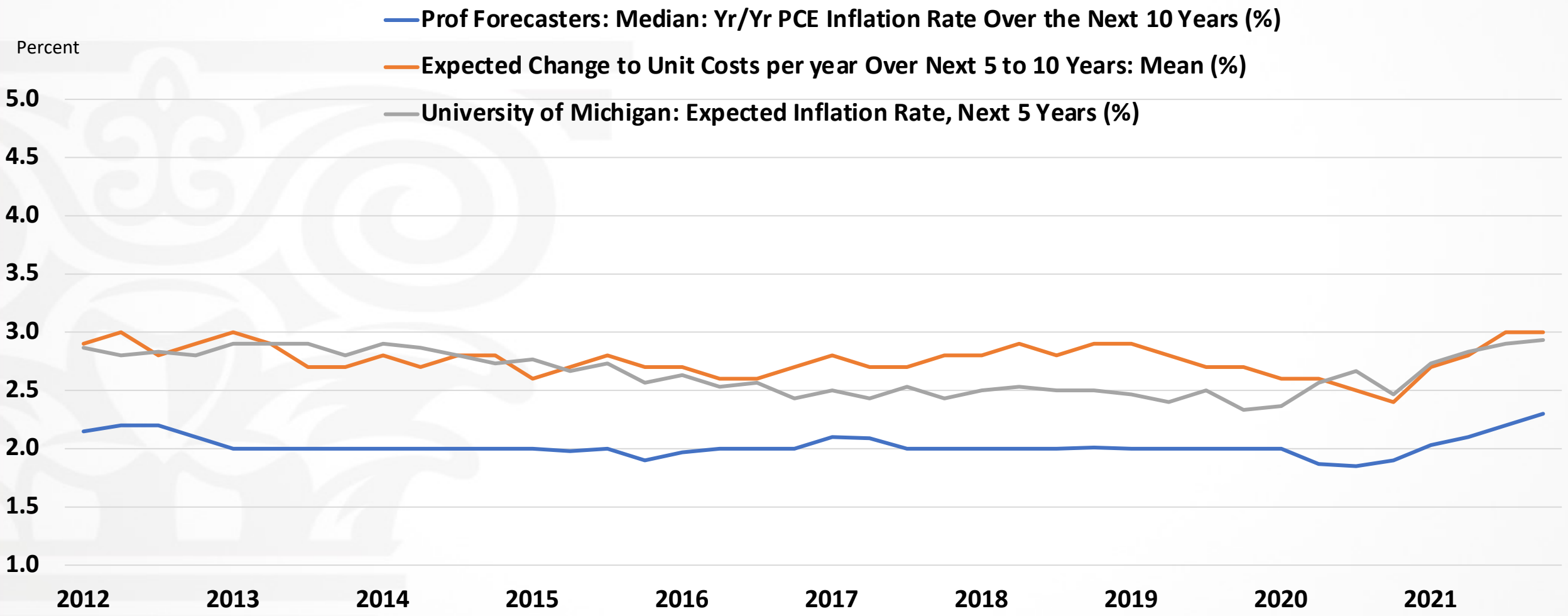
Source: Job Openings and Labor Turnover Survey. Data through Jan. 2022. Hiring Balance is the number of hires in a month less the stock of posted job openings at the end of the prior month.

Wages are rising, but not when adjusting for inflation: Is a catch-up in the cards?



Source: Bureau of Labor Statistics/Haver Analytics

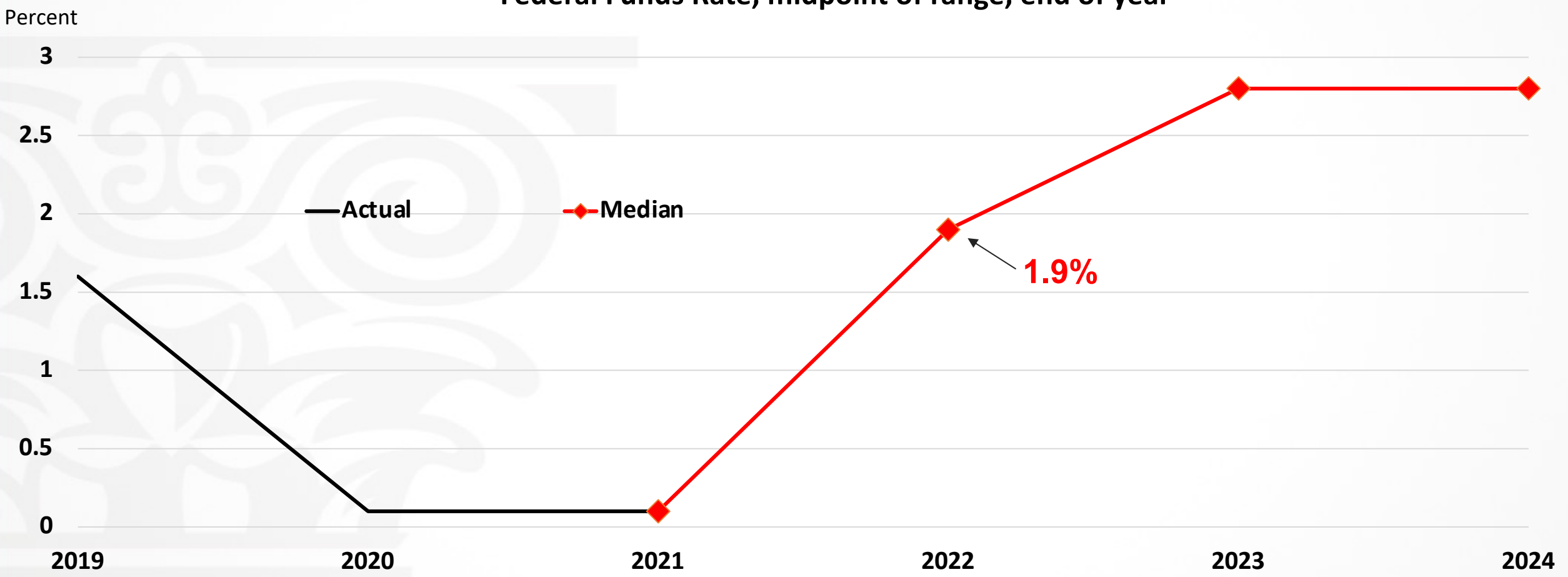
The good news: Longer-run inflation expectations still appear to be well-anchored.



Sources: Federal Reserve Bank of Atlanta, Federal Reserve Bank of Philadelphia, University of Michigan, Haver Analytics

... and the FOMC is not taking that for granted.

**Median projection:
Federal Funds Rate, midpoint of range, end of year**

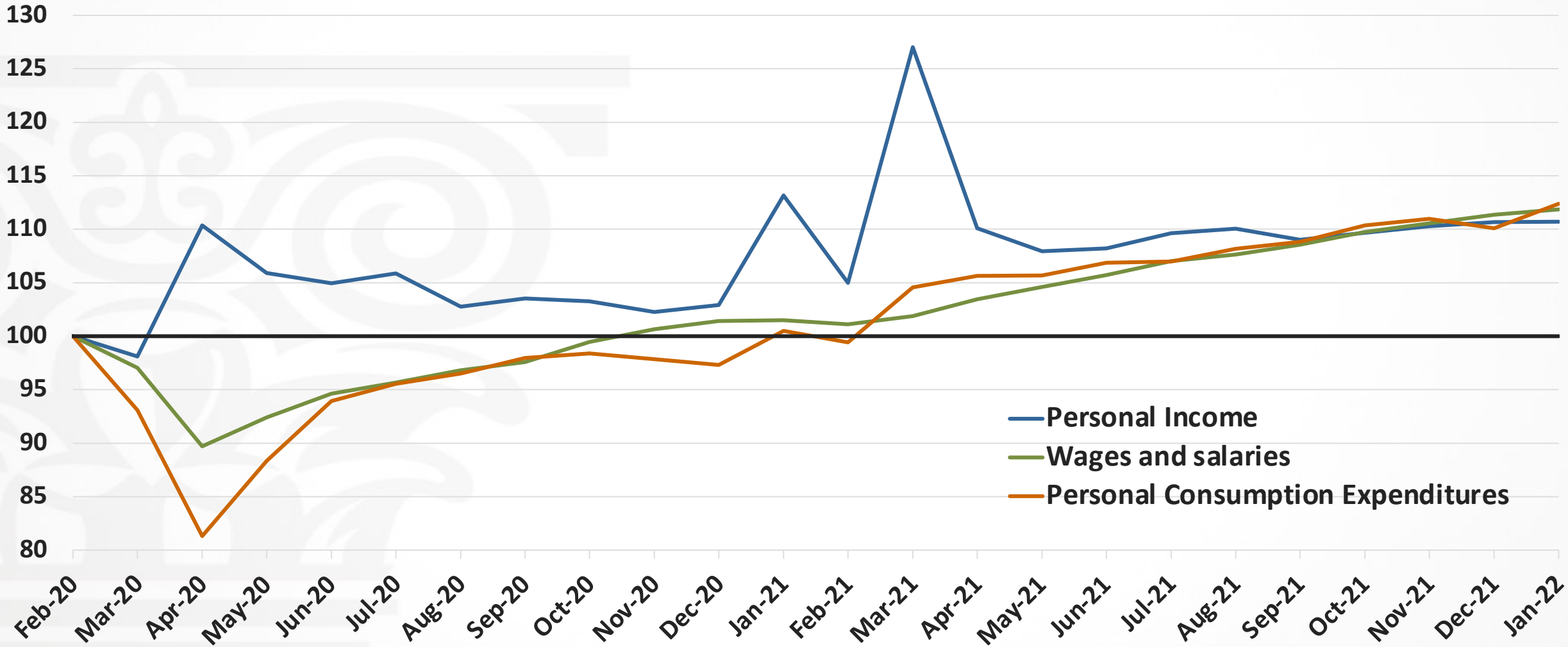


Source: Federal Open Market Committee Summary of Economic Projections from March 16, 2022. Figure 5;
<https://www.federalreserve.gov/monetarypolicy/fomcprojtable20220316.htm>

One last thing... in the aggregate, consumers appear to have “banked” the fiscal stimulus – possibly a good omen for resilience.

Index: Feb 2020 = 100

Nominal Personal Income & Outlays



Source: Bureau of Economic Analysis



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