

US Economic Outlook

October 2021

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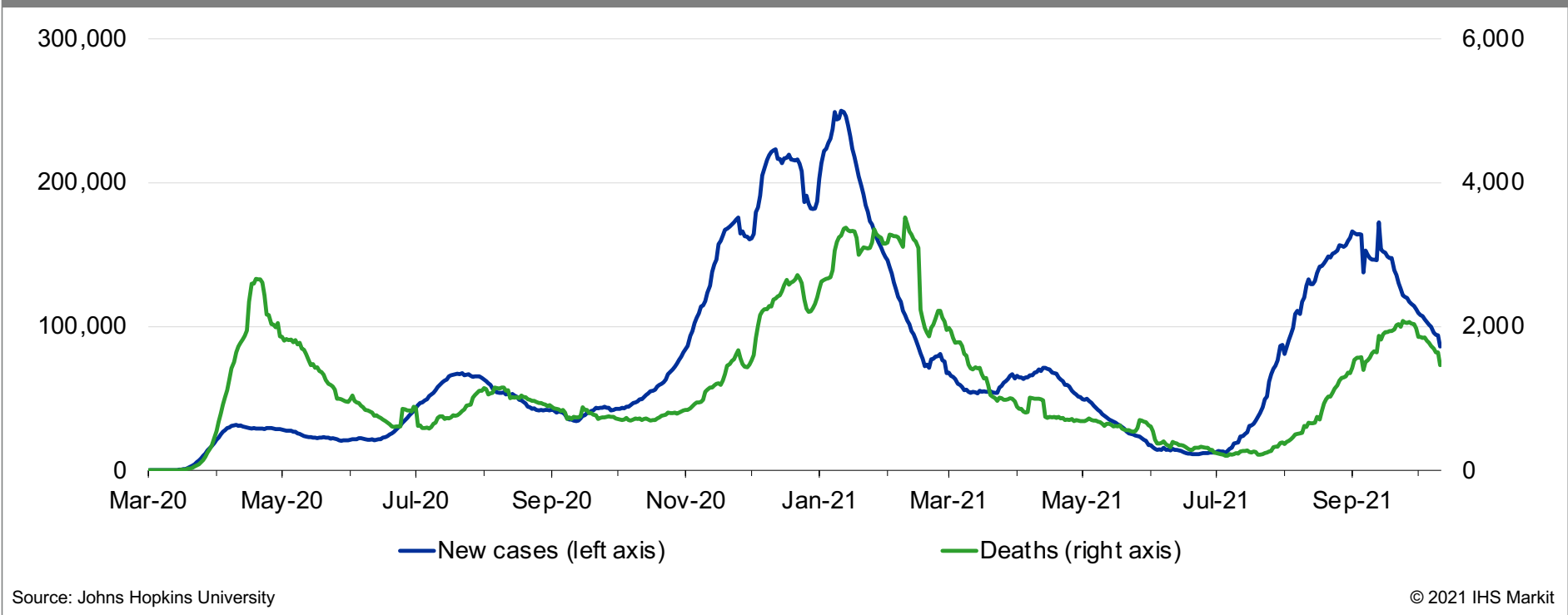
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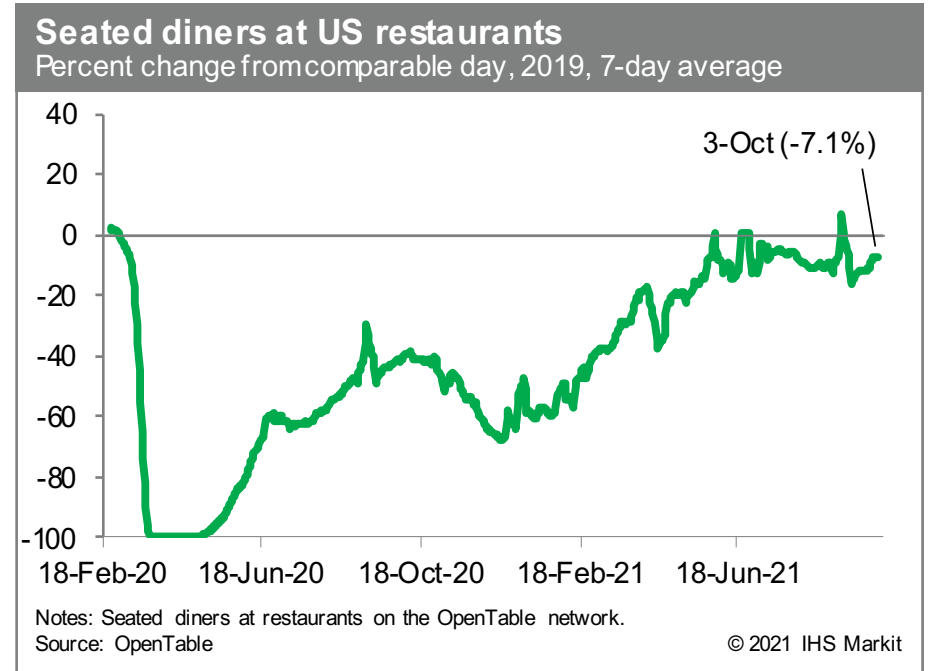
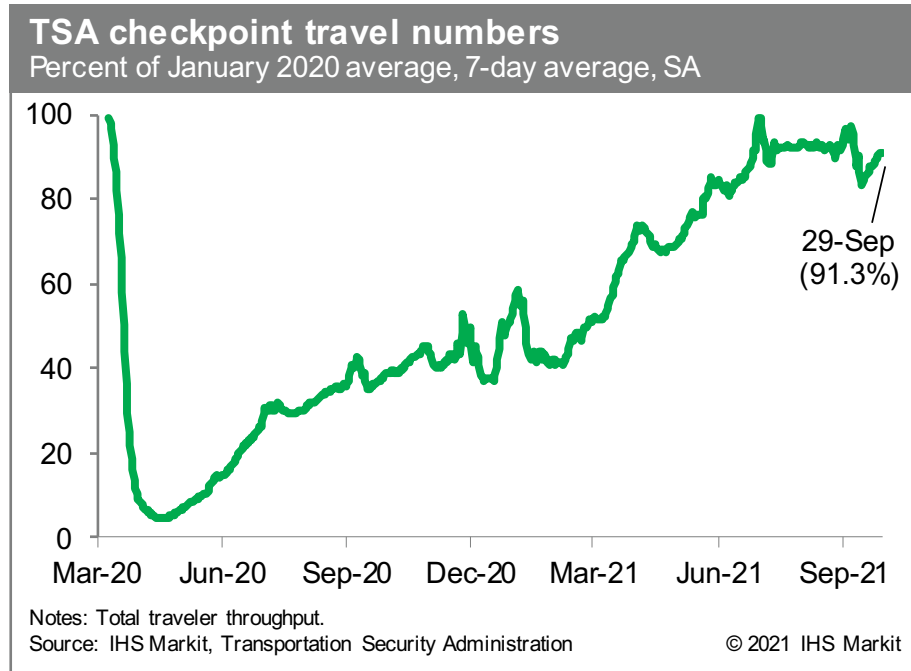
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The latest wave of COVID-19 has peaked

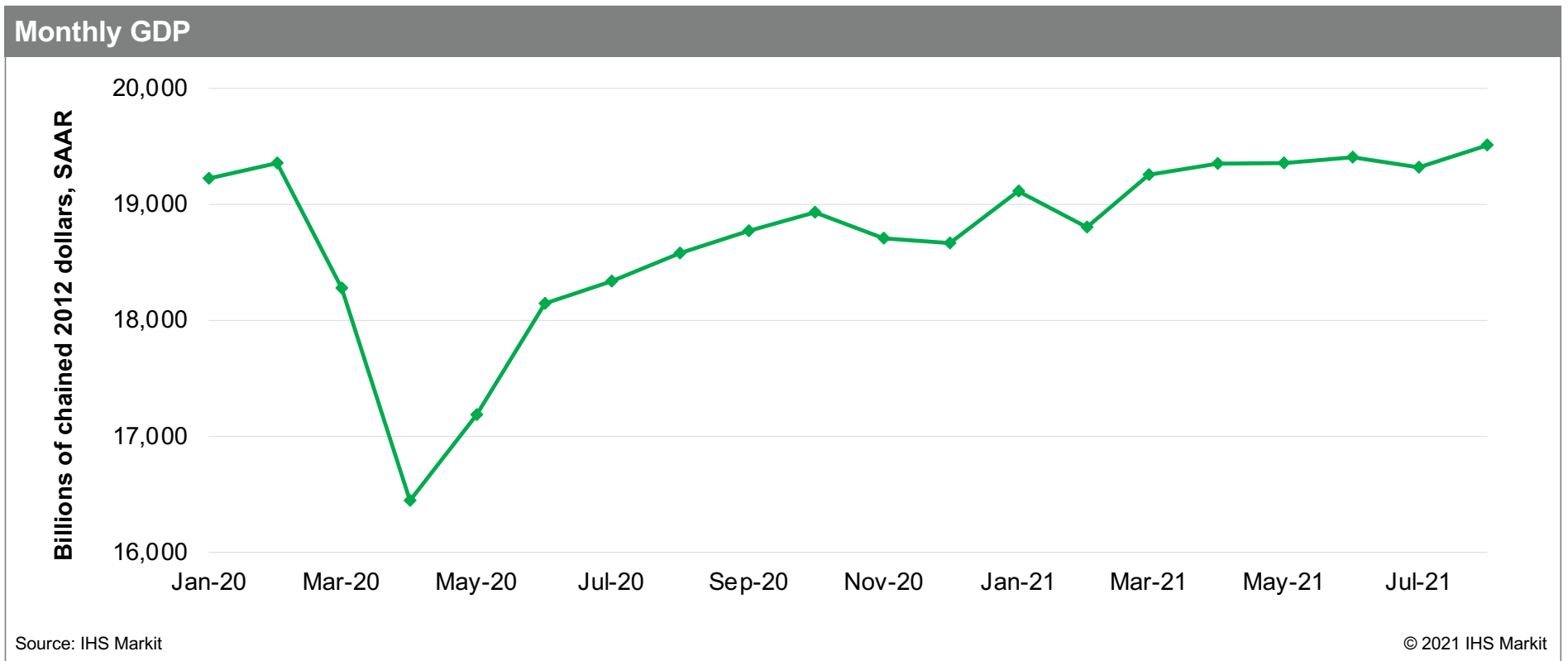
US COVID-19 cases, 7-day moving average



Key high-frequency indicators of consumer spending have flattened

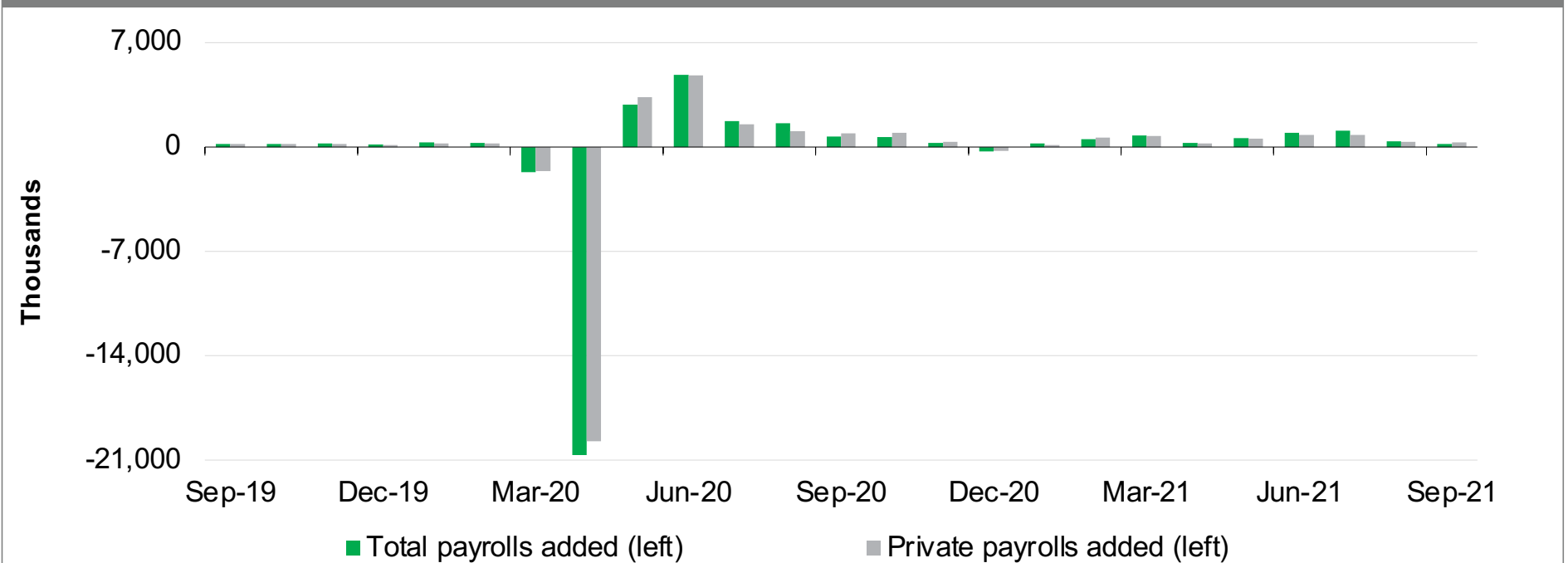


IHS Markit's Monthly GDP Index



Disappointing September jobs reports reflects slowing recovery and seasonal distortions in education

Change in nonfarm payrolls

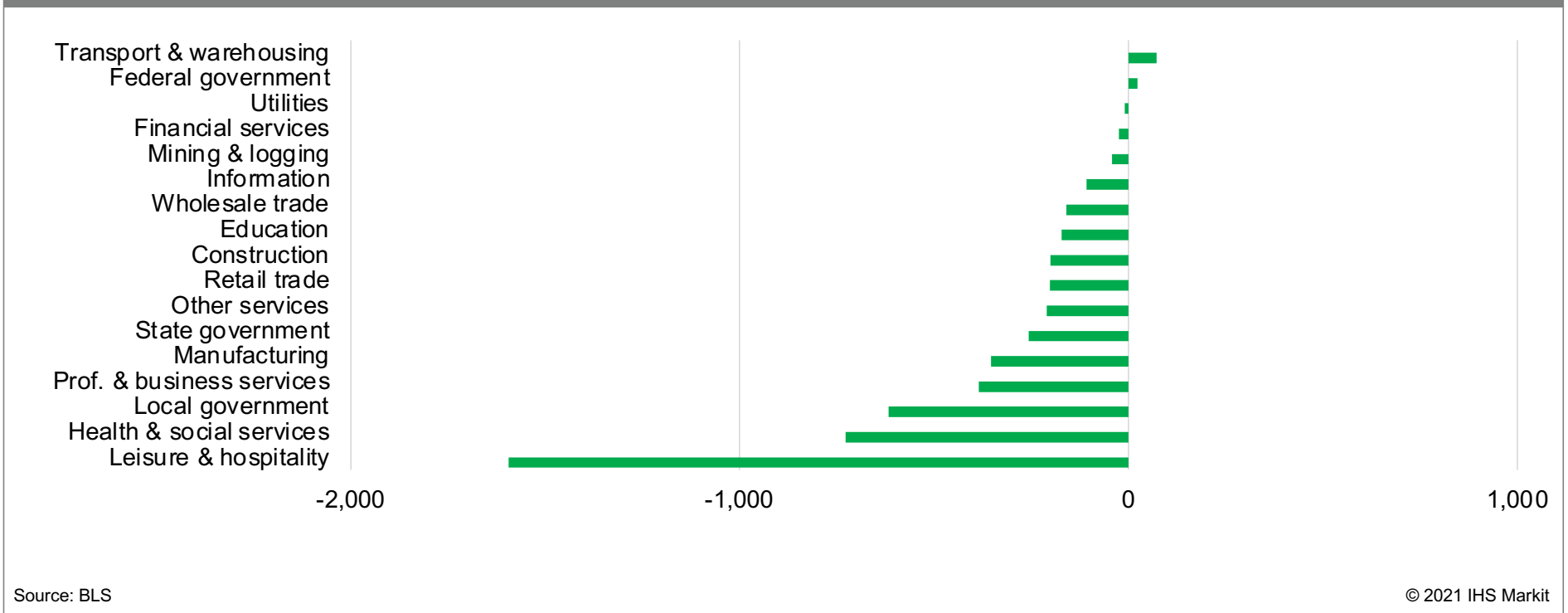


Source: BLS

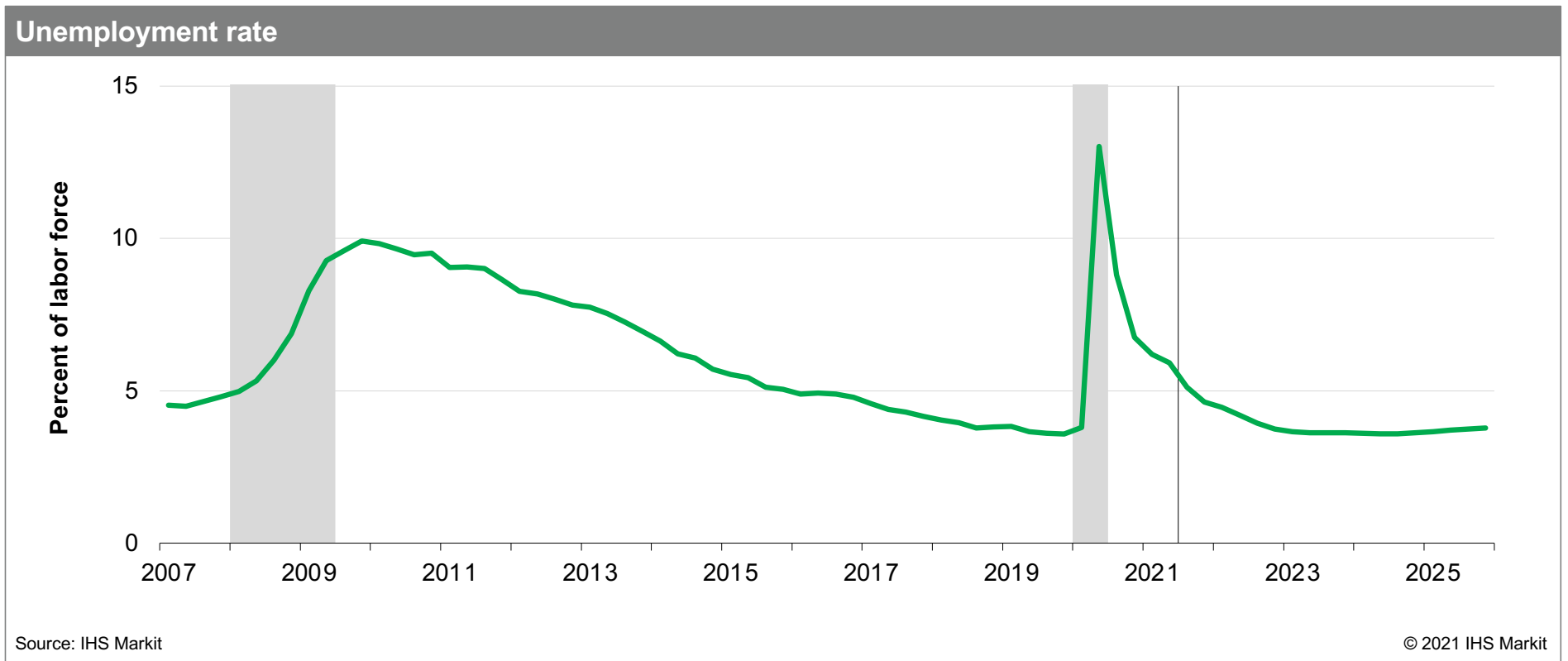
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Leisure & hospitality has the most ground to recover

Payroll employment compared to the pre-pandemic peak, thousands (September 2021)

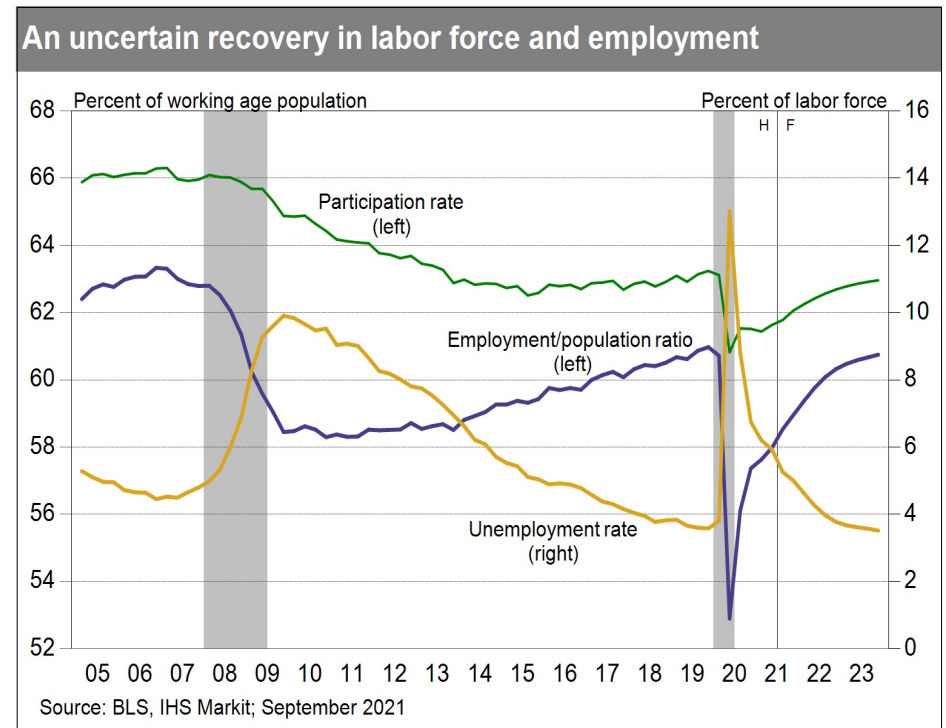


Unemployment rate



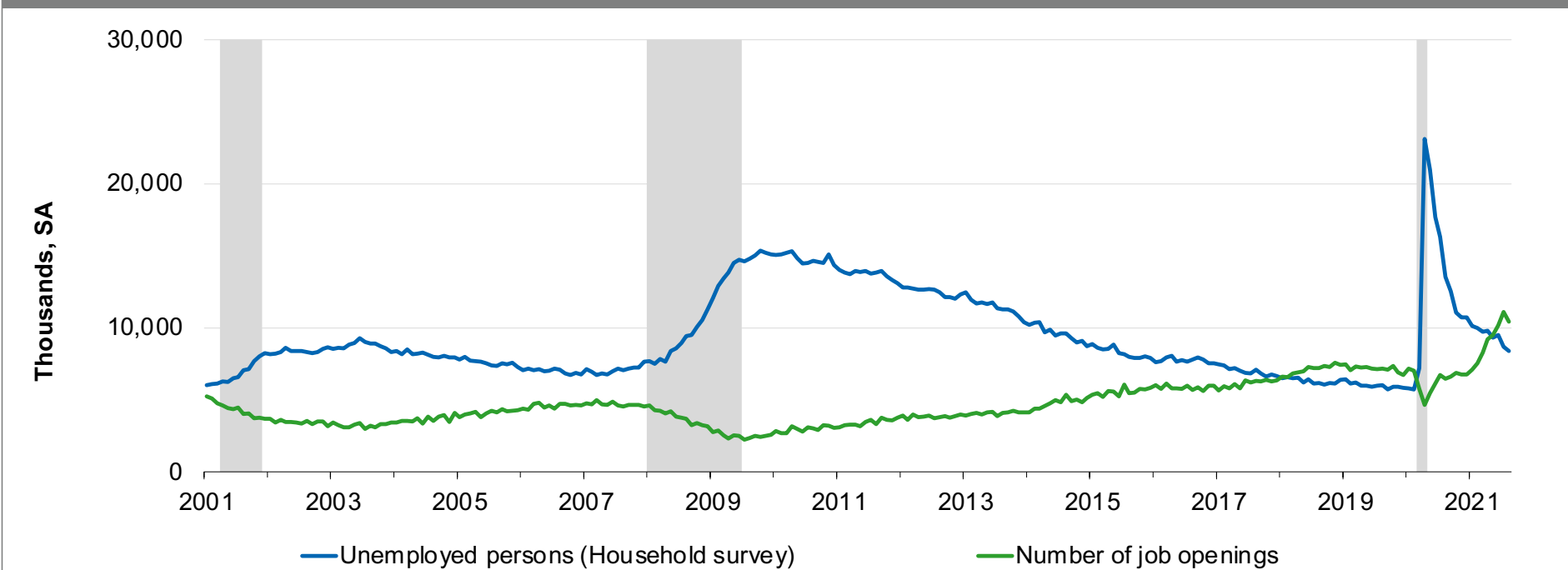
Labor market much improved, but “still a long way to go” for full recovery

- Re-opening in 2020 quickly brought back restaurant workers for carry-out, curbside & delivery – “low hanging fruit”
- Recovery in the labor force was also initially very sharp, but then slowed sharply
- We assume return to pre-pandemic labor force trend by mid 2023
- As vaccinations have allowed re-opening of schools and daycares, more parents will come back into the labor force. Maybe not the full story
- Role of extra \$300/week unemp. benefit???
- End of PUA and PEUC September 5 ???
- Acceleration in employment in H2 before slowing
- Labor market tightness/wages a new concern



Unprecedented mismatch in labor supply and demand result in job openings and unemployment rates that are both elevated

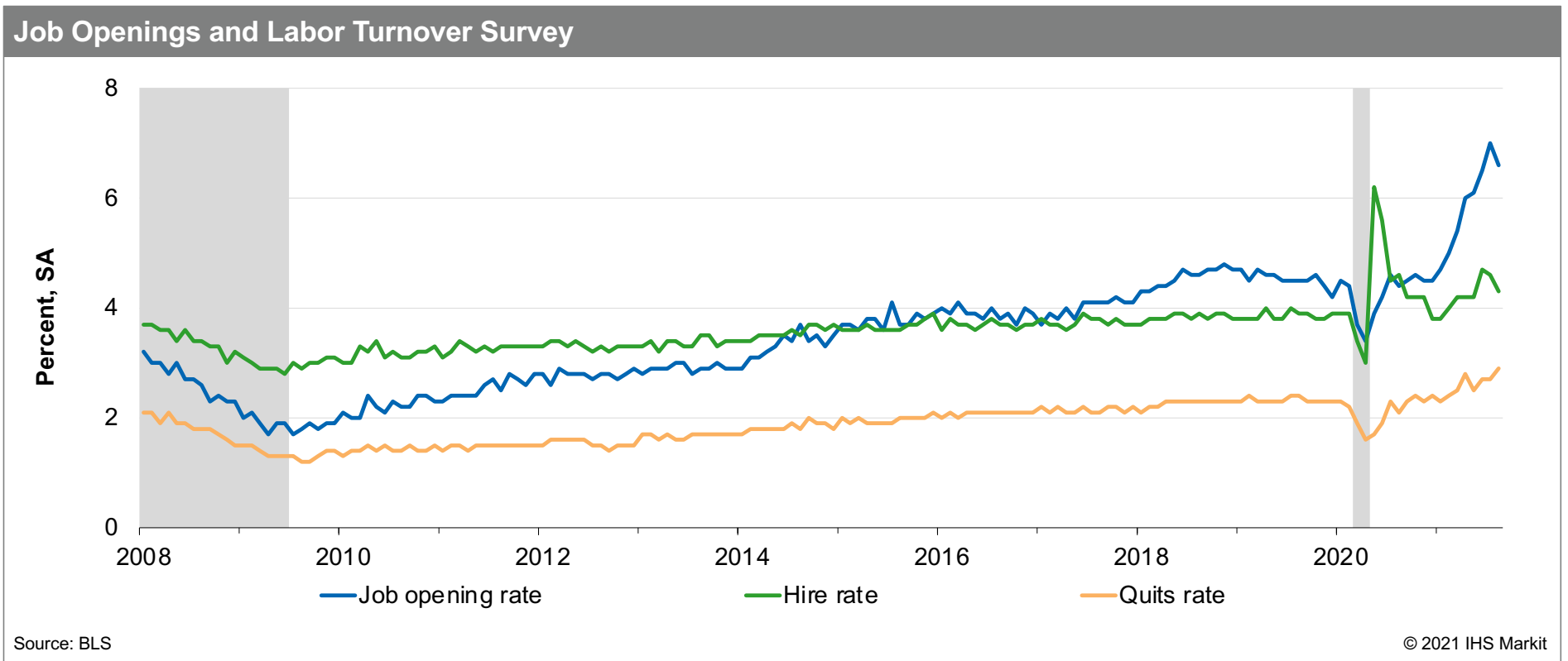
Job Openings and Labor Turnover Survey



Source: BLS

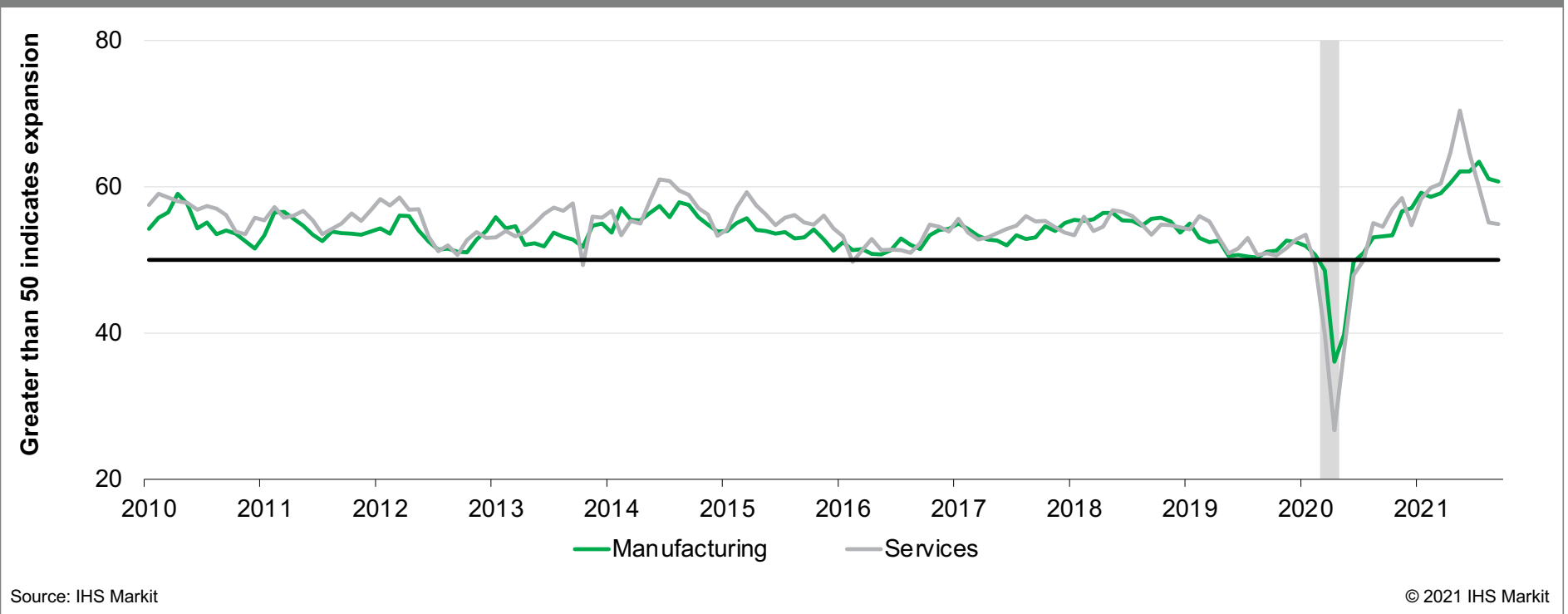
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A record number of workers quit their jobs in August



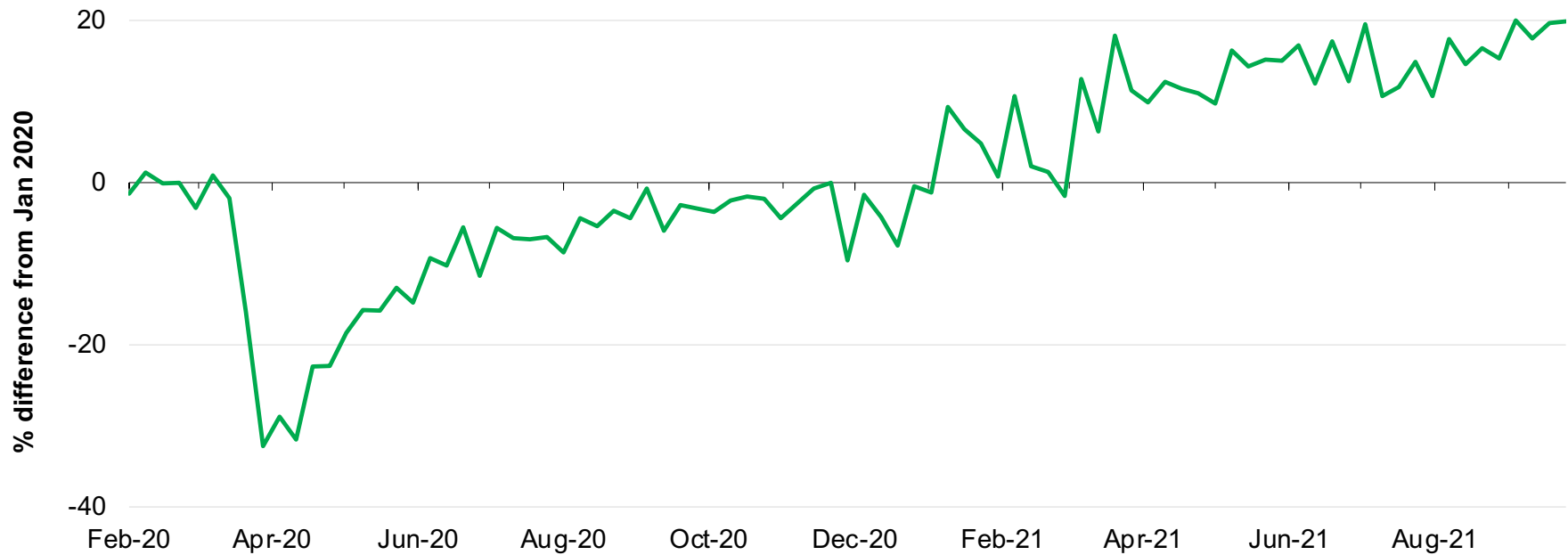
IHS Markit PMIs® indicate the recovery in services activity has slowed sharply

Purchasing Managers' Index® data



Consumer card-based spending has yet to hit the brakes

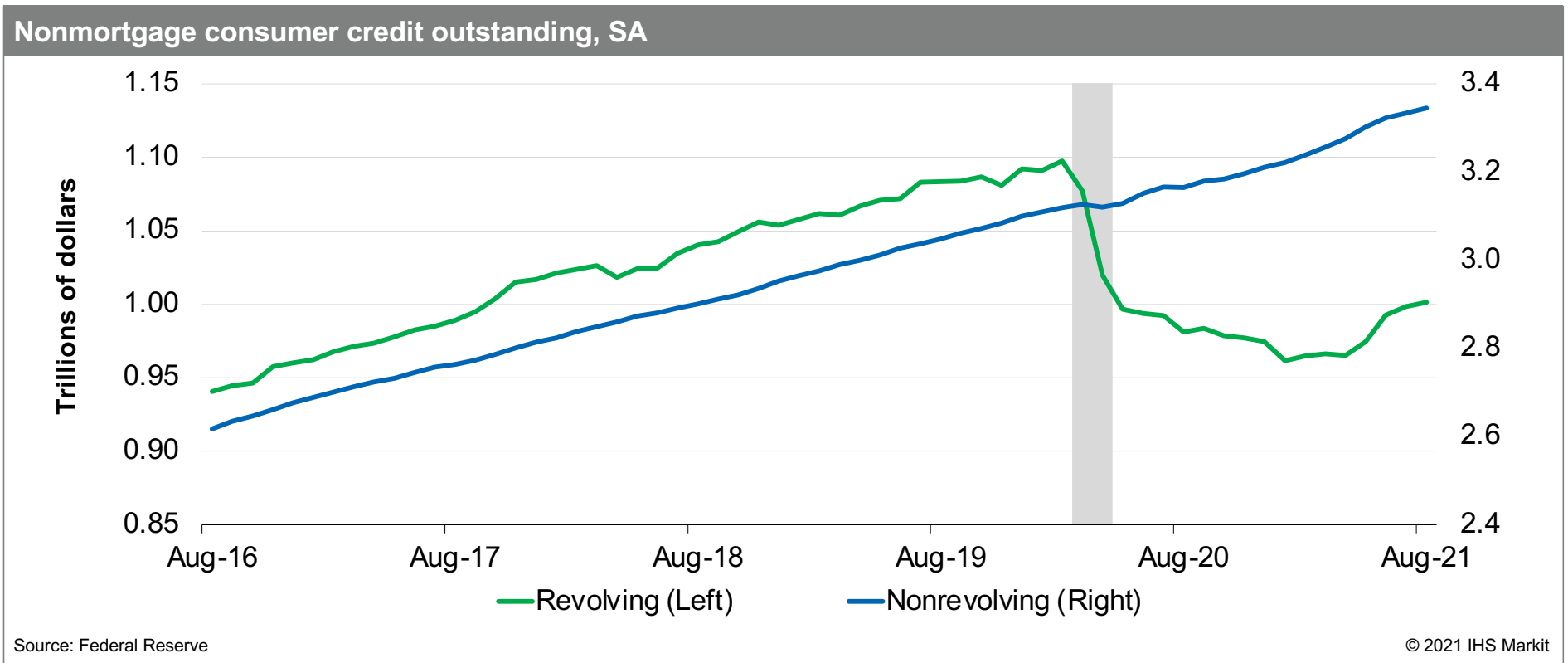
Average consumer credit and debit card spending



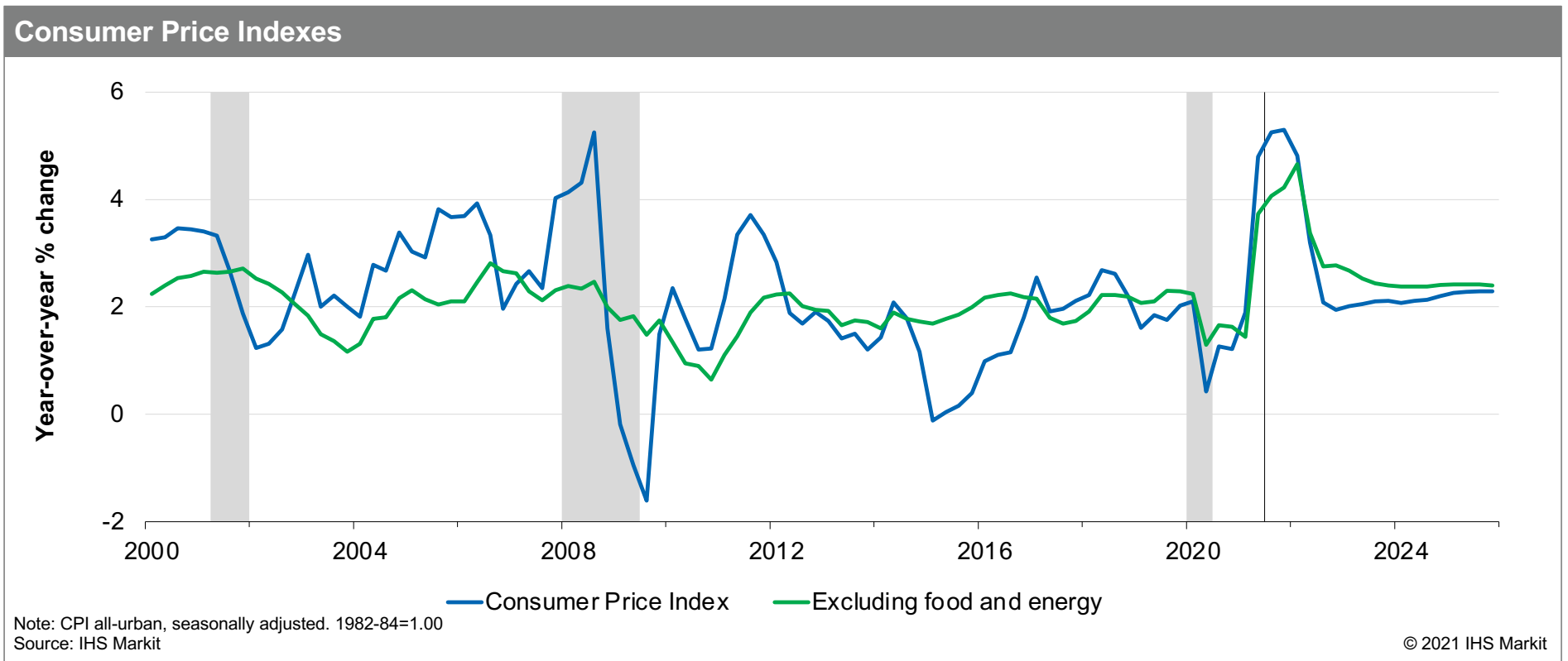
Source: Opportunity Insight Economic Tracker, Affinity Solutions

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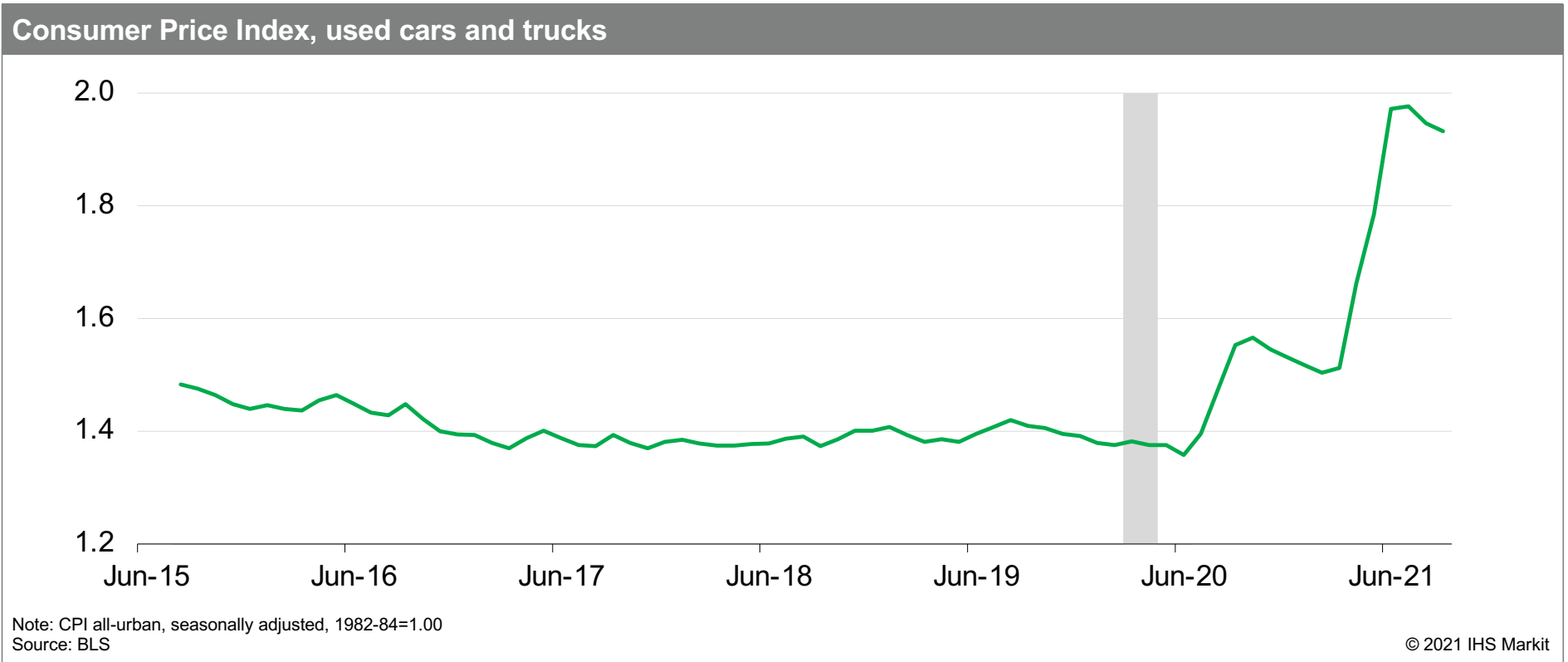
During the pandemic, the bottom fell out of credit card borrowing



Core inflation is nearly keeping pace with energy price increases

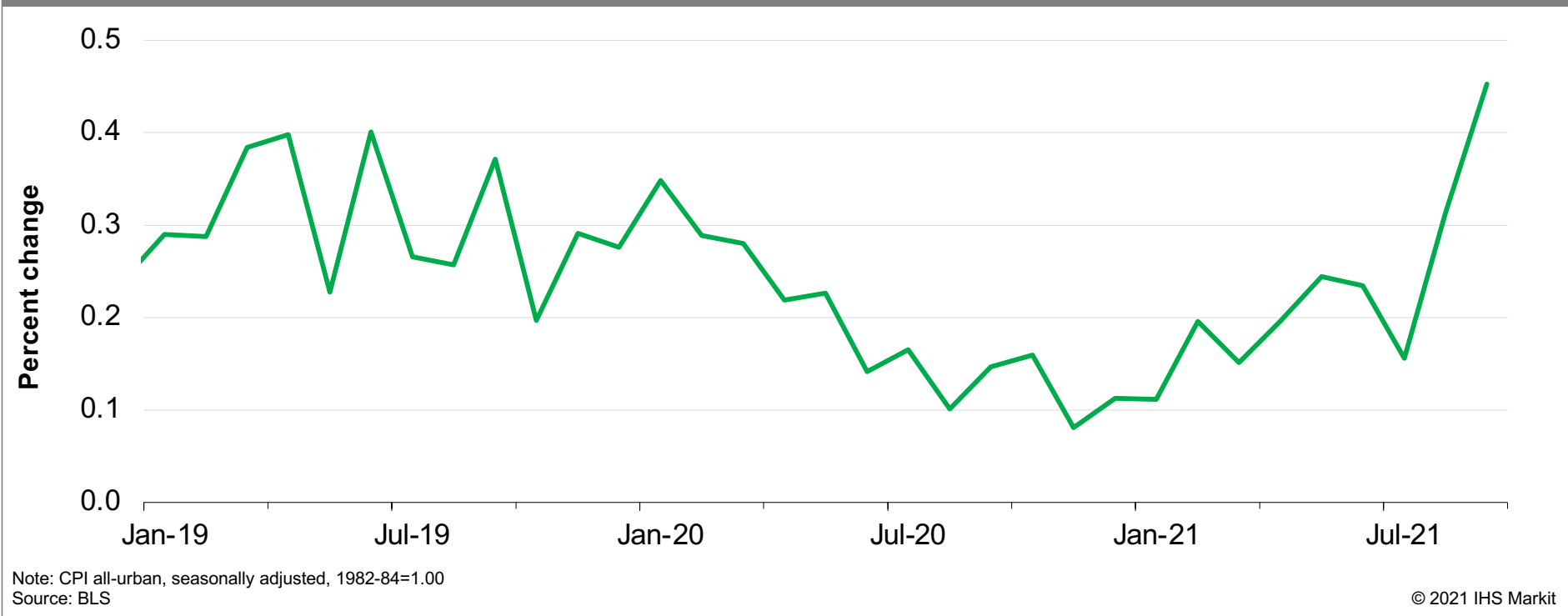


Red-hot pace of price increases for used cars and trucks cools



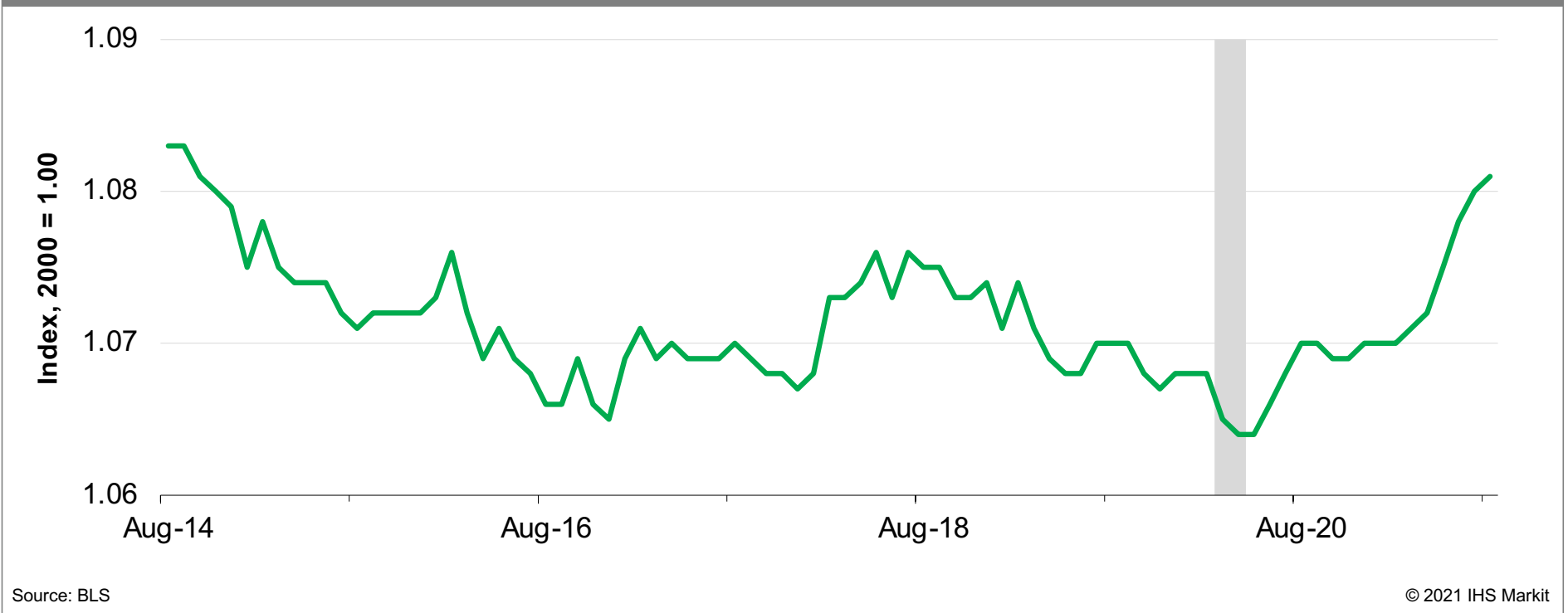
Rent price growth remains firm

Consumer Price Index, rent of primary residence



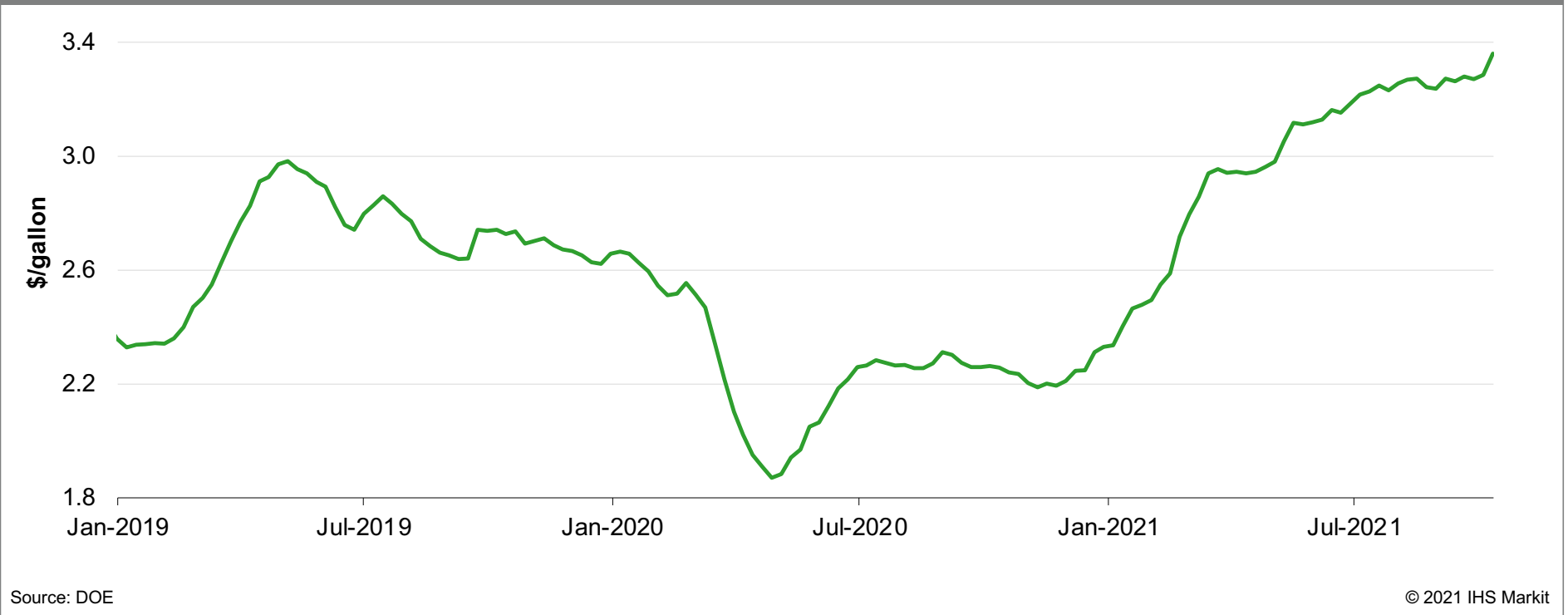
The US is currently importing inflation

Consumer good import prices excluding autos



Pump prices have surpassed pre-pandemic level

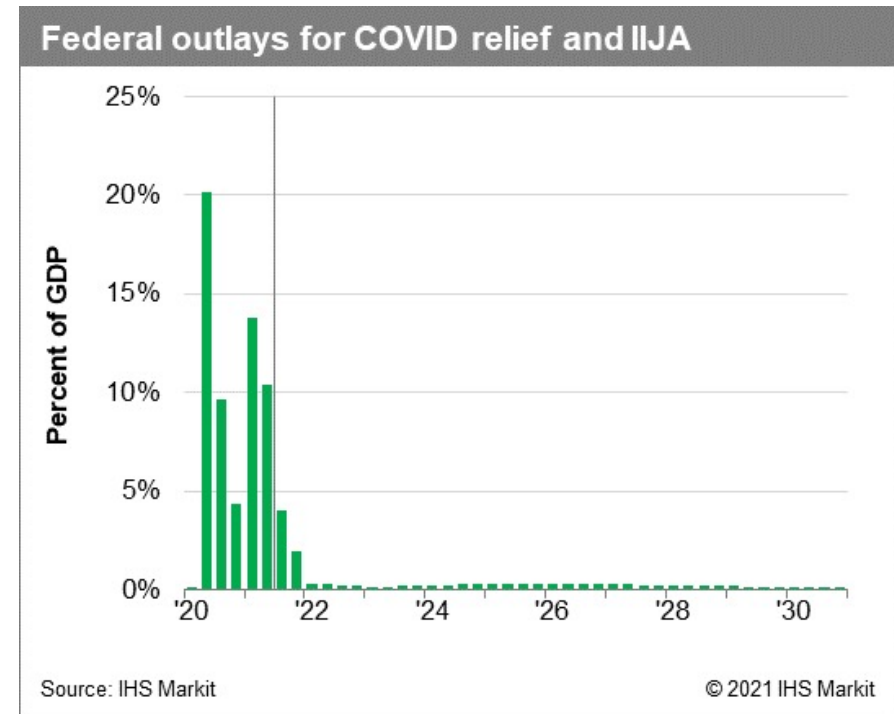
Retail gasoline price, self-service including taxes, DOE all-grades



The forecast includes 7 COVID relief measures, including the IIJA

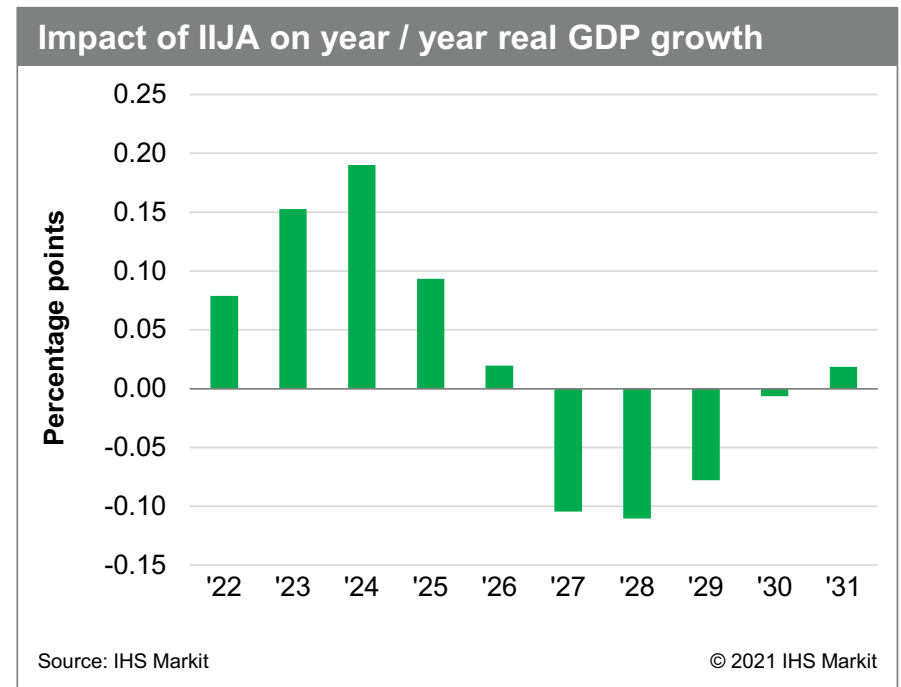
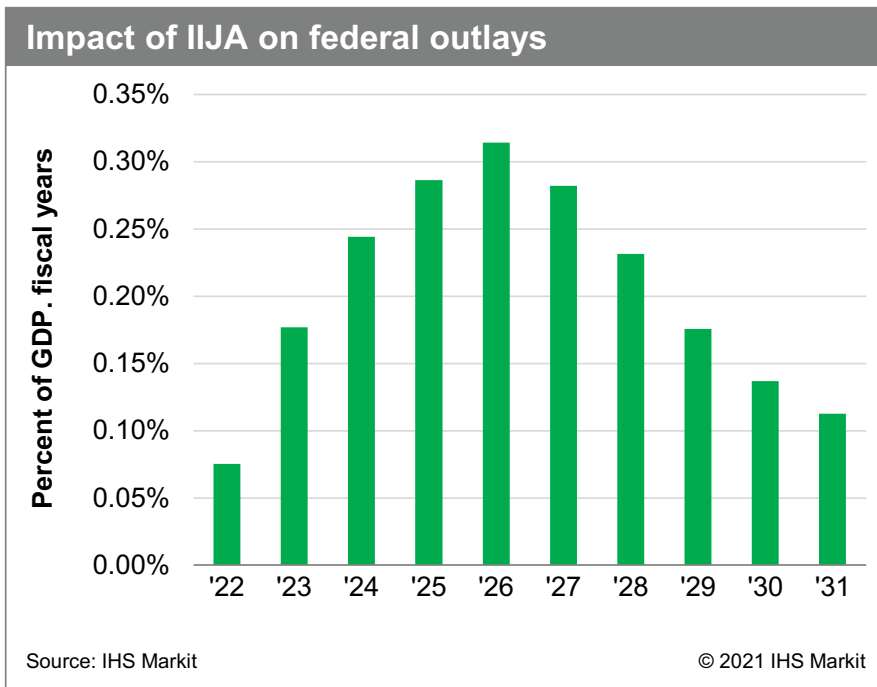
Premature to include evolving reconciliation bill the size, scope, timing - even fate - of which remain highly uncertain

- COVID relief measures
 - Coronavirus Preparedness & Response Supplemental Appropriations Act
 - Families First Coronavirus Response Act
 - Coronavirus Aid, Recovery & Economic Security (CARES) Act
 - Payroll Protection & Healthcare Enhancement Act
 - Coronavirus Response & Relief Supplemental Appropriations Act
 - American Rescue Plan Act (ARP)
- Infrastructure Investment & Jobs Act (IIJA)



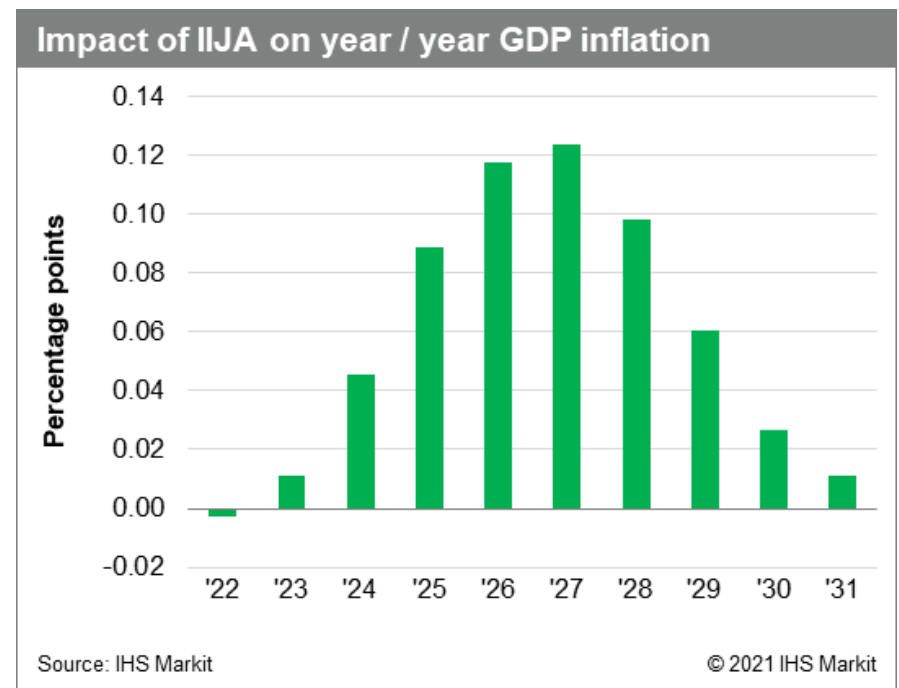
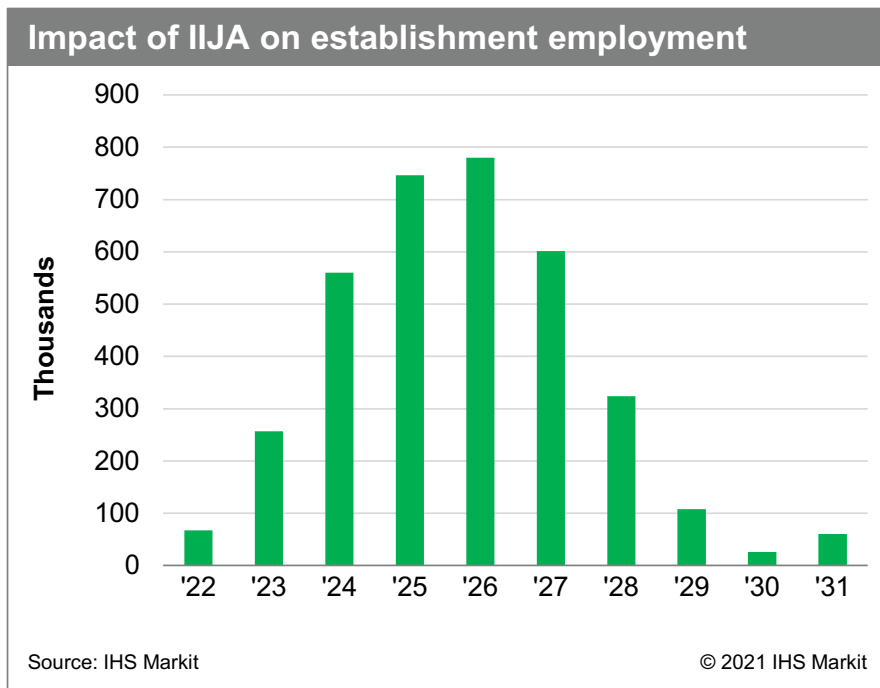
Peak IIJA outlays are just 0.3% of GDP in 2026, growth effects modest

Modest GDP growth effects change sign mid-decade as spending wanes; level of GDP is 0.2% higher in 2031



IIJA: peak employment effect ~ 7500K in 2025-26, little inflation threat

Employment gains are temporary without an increase in full-employment labor force



Policy assumptions

- Monetary policy
 - The Fed continues its Large Scale Asset Purchases through October at the recent pace before “tapering” them to zero over 12 months
 - “Lift off” of funds rate in advanced from September to March of 2023, faster ascent
 - Unchanged terminal funds rate (2.5-2.75%) reached in 2028
- Fiscal policy
 - All COVID relief measures through the American Rescue Plan – impacts diminishing rapidly
 - Infrastructure Investment & Jobs Act
 - Permanent 27% increase in Supplemental Nutrition Assistance Program (SNAP) benefits in October
 - Debt ceiling increased without incident; shutdown avoided in December
 - Large reconciliation bill (“Build Back Better”) still evolving, not included.

Key forecast assumptions:

- Widespread vaccinations slowed spread--Opens the way to “sustained” upturn in consumer spending, but there remains residual caution
- Oil prices (Brent) to average \$70/bbl over second half 2020, ease to \$65.53 in 2022
- Broad non-oil commodity prices have peaked
- Trade-weighted US dollar to remain fairly flat; risks tilted to the upside
- Inflation expectations remain anchored near 2%; help contain rise despite lower unemployment
-

Pace of growth – balancing headwinds and tailwinds

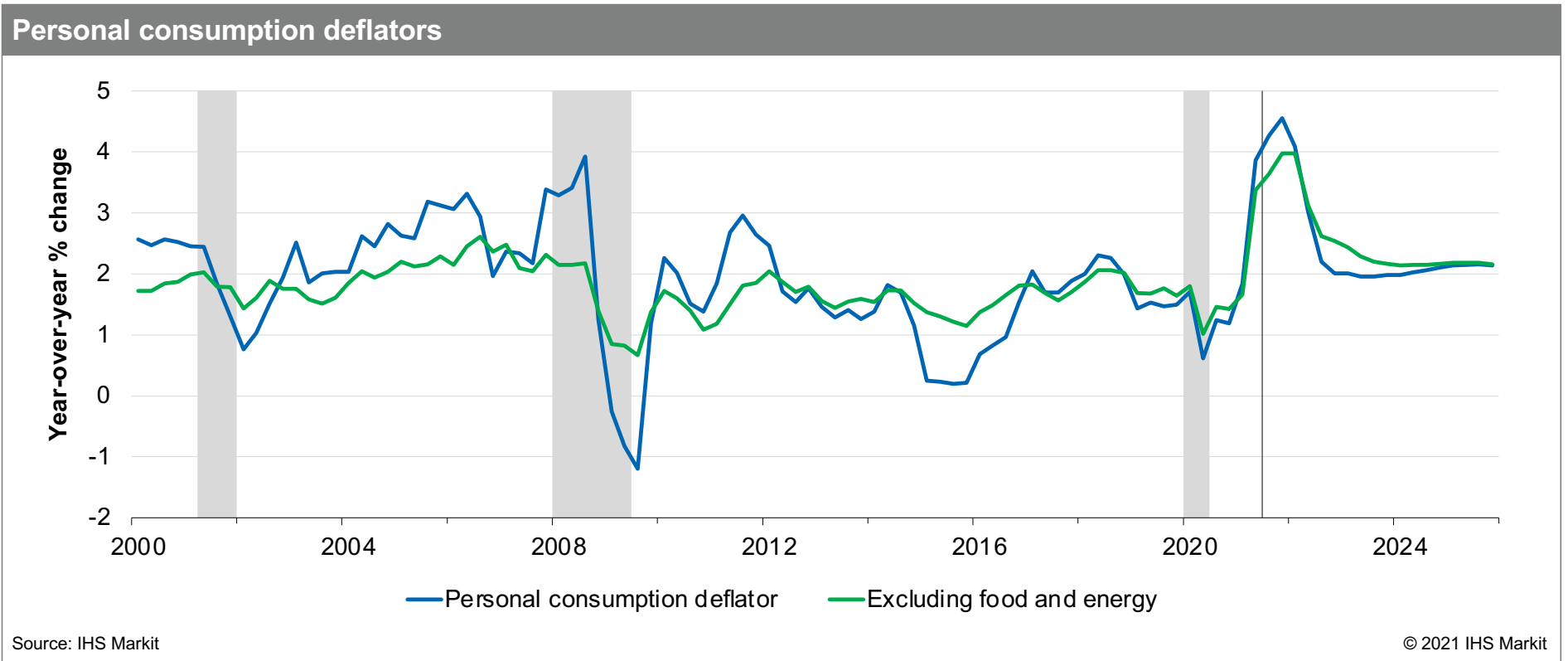
Headwinds

- Delta variant drives rising hospitalizations and deaths and ...
- ... additional caution from consumers
- Supply constraints, including shipping bottlenecks
- Waning fiscal support
- Housing has peaked
- Labor market scarring?
- Still huge uncertainty

Tailwinds

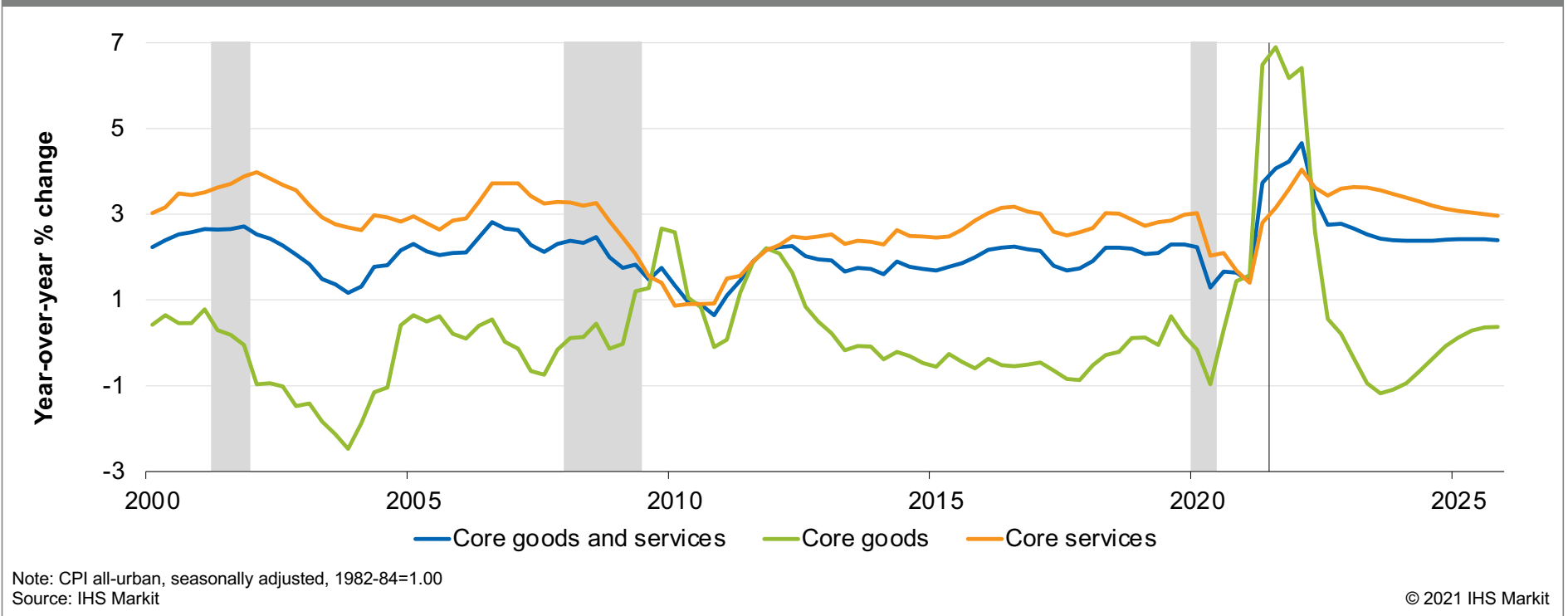
- Widespread and rising vaccination rates
- Release of pent-up consumer demand for socially dense spending; surge in wealth
- Very accommodative monetary policy: low rates and ample liquidity
- Very generous broad-based fiscal support
- Inventory shortfalls mean re-stocking will keep factories humming
- Commodity prices turning lower

After a bulge this year, core PCE inflation is expected to return to about 2% in mid-2022



Goods inflation shoots past services

US consumer price indexes excluding food and energy



US economic growth by sector

Percent change	2020	2021	2022	2023
Real GDP	-3.4	5.4	4.3	2.8
Final sales	-2.9	5.4	3.3	2.6
Consumption	-3.8	7.8	3.4	2.4
Light vehicle sales (Millions)	14.5	15.1	15.5	17.1
Residential fixed investment	6.8	8.2	-5.4	-2.6
Housing starts (Millions)	1.40	1.58	1.43	1.33
Business fixed investment	-5.3	7.5	6.1	4.8
Federal government	5.0	1.4	-0.1	-0.1
Exports	-13.6	4.3	7.3	7.5
Imports	-8.9	13.0	5.2	4.7

Source: IHS Markit

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US economic growth by sector

Real GDP and its components				
Percent change, annual rate	2021Q2	2021Q3	2021Q4	2022Q1
Real GDP	6.7	1.4	5.1	4.9
Consumption	12.0	0.4	4.8	3.0
Residential investment	-11.9	-9.8	-8.8	-2.4
Business fixed investment	9.2	0.6	6.4	7.4
Federal government	-5.3	-0.1	-1.5	2.6
State & local government	0.2	4.4	3.2	3.6
Exports	7.6	-0.3	7.2	9.2
Imports	7.1	5.2	1.9	6.1

Source: IHS Markit

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Other key US indicators

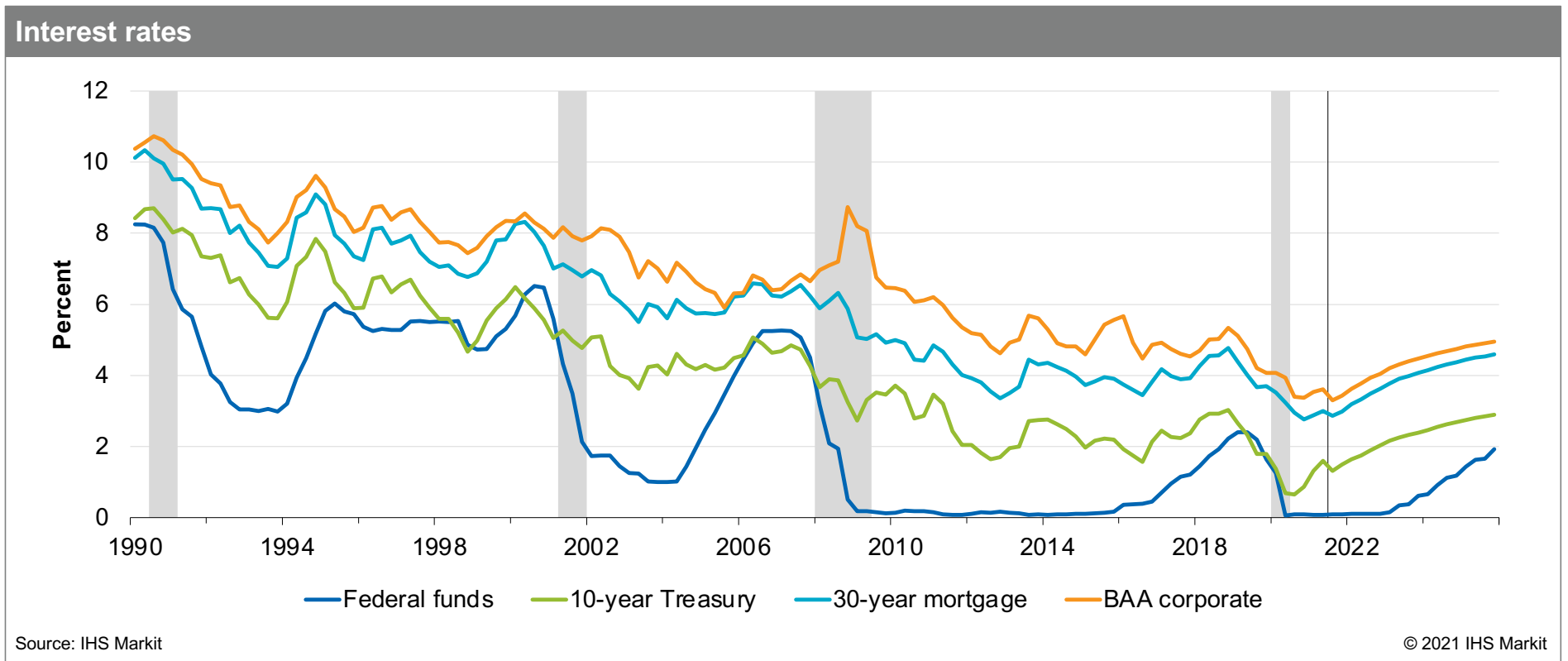
Key indicators

Percent change	2020	2021	2022	2023
Industrial production	-7.2	5.7	4.8	3.1
Payroll employment	-5.7	2.6	3.6	1.9
Consumer Price Index	1.2	4.3	3.0	2.1
Core CPI	1.7	3.4	3.4	2.5
Brent crude oil price (USD/barrel)	41.8	69.8	69.0	66.5
Federal funds rate (%)	0.38	0.08	0.10	0.37
10-year Treasury yield (%)	0.89	1.43	1.83	2.28

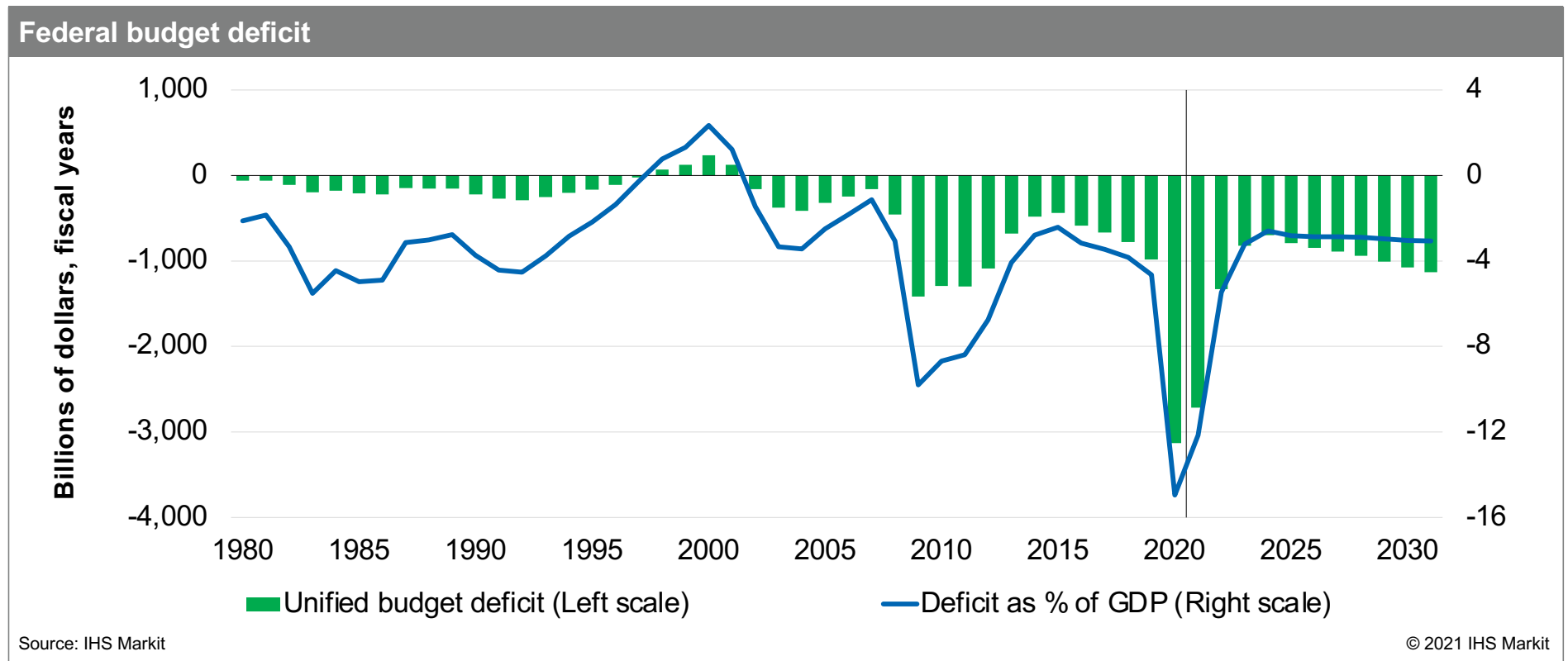
Source: IHS Markit

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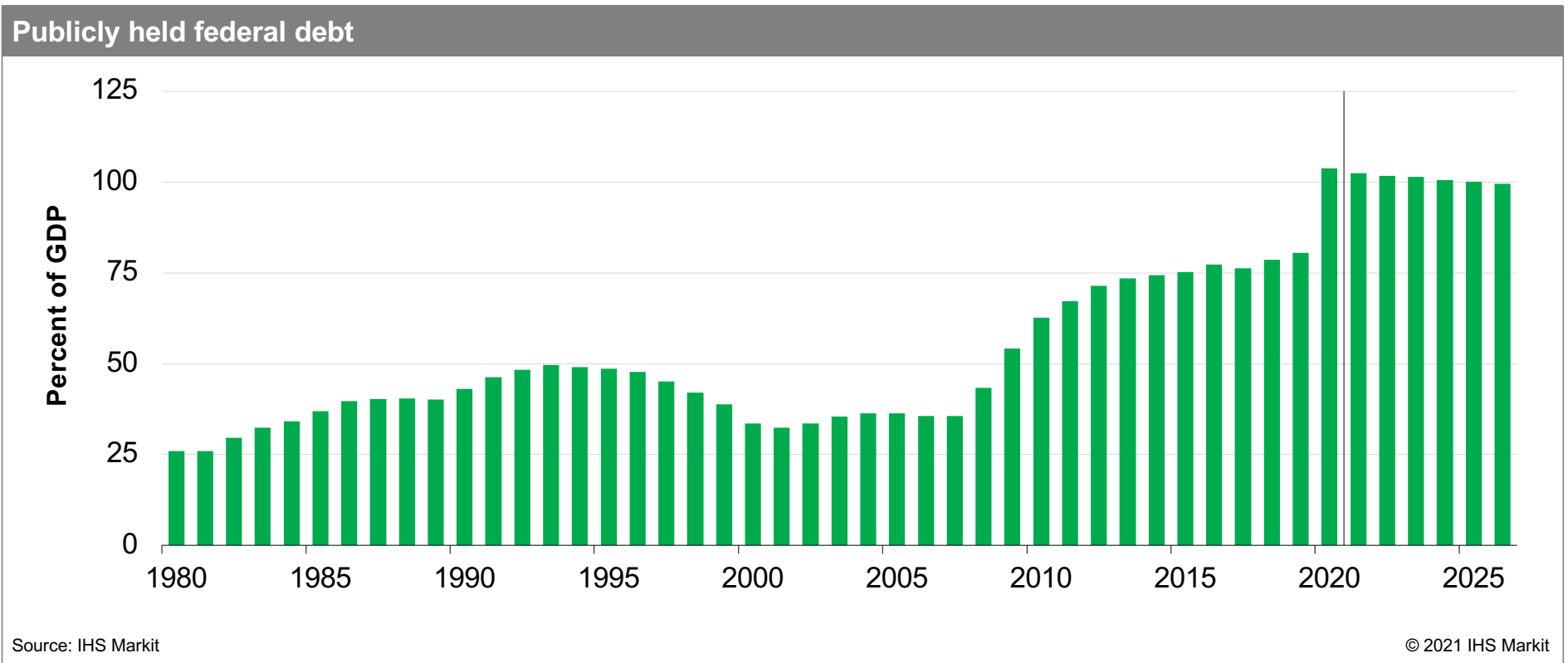
The Federal Reserve now expected to raise the federal funds rate in 2023; term yields have risen



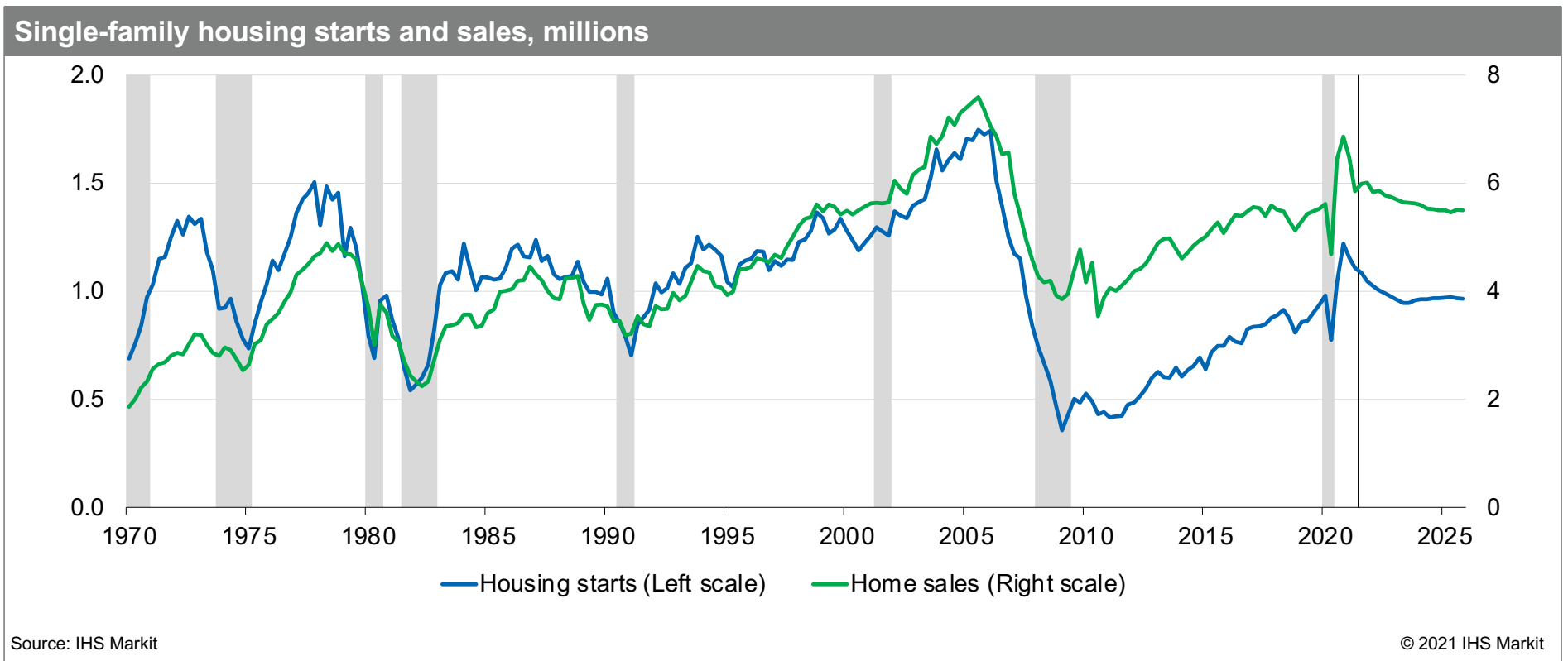
Fiscal response to the pandemic produced a record federal deficit



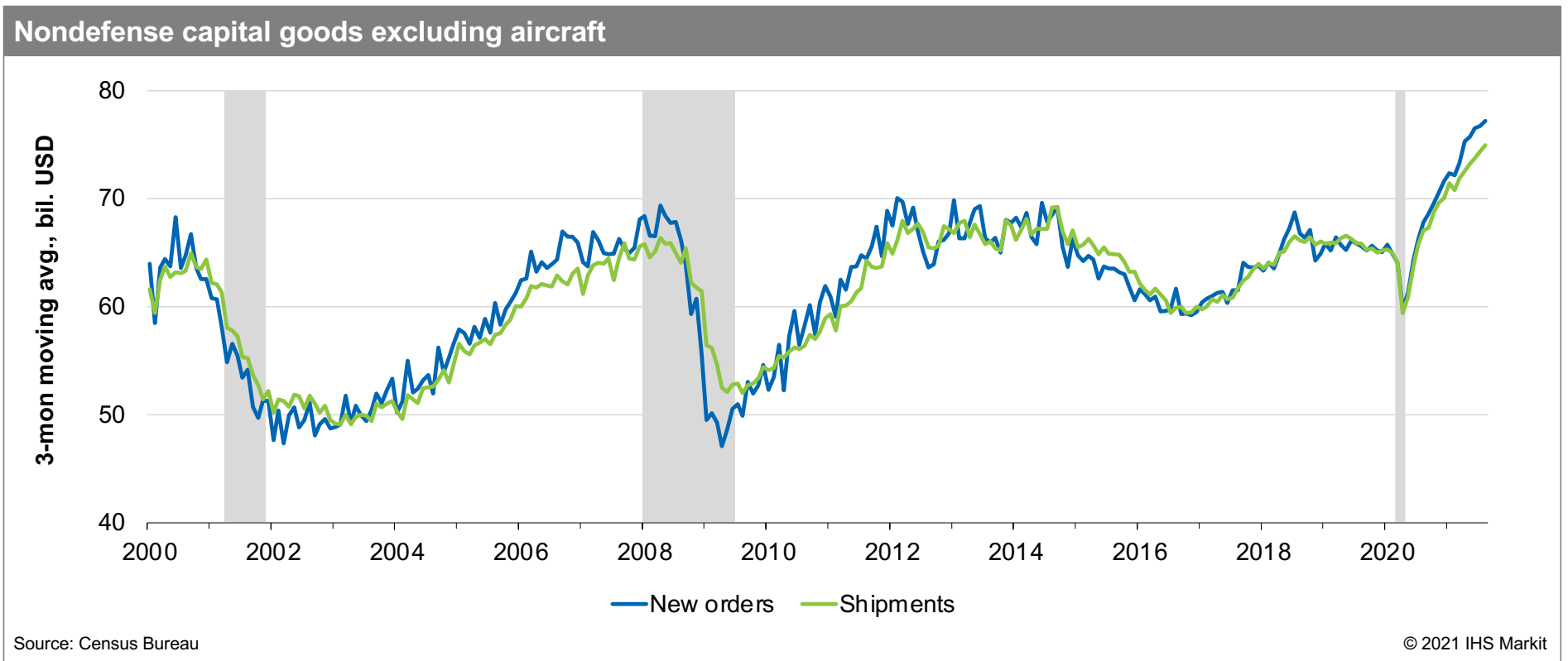
Federal government debt saw an unprecedented rise



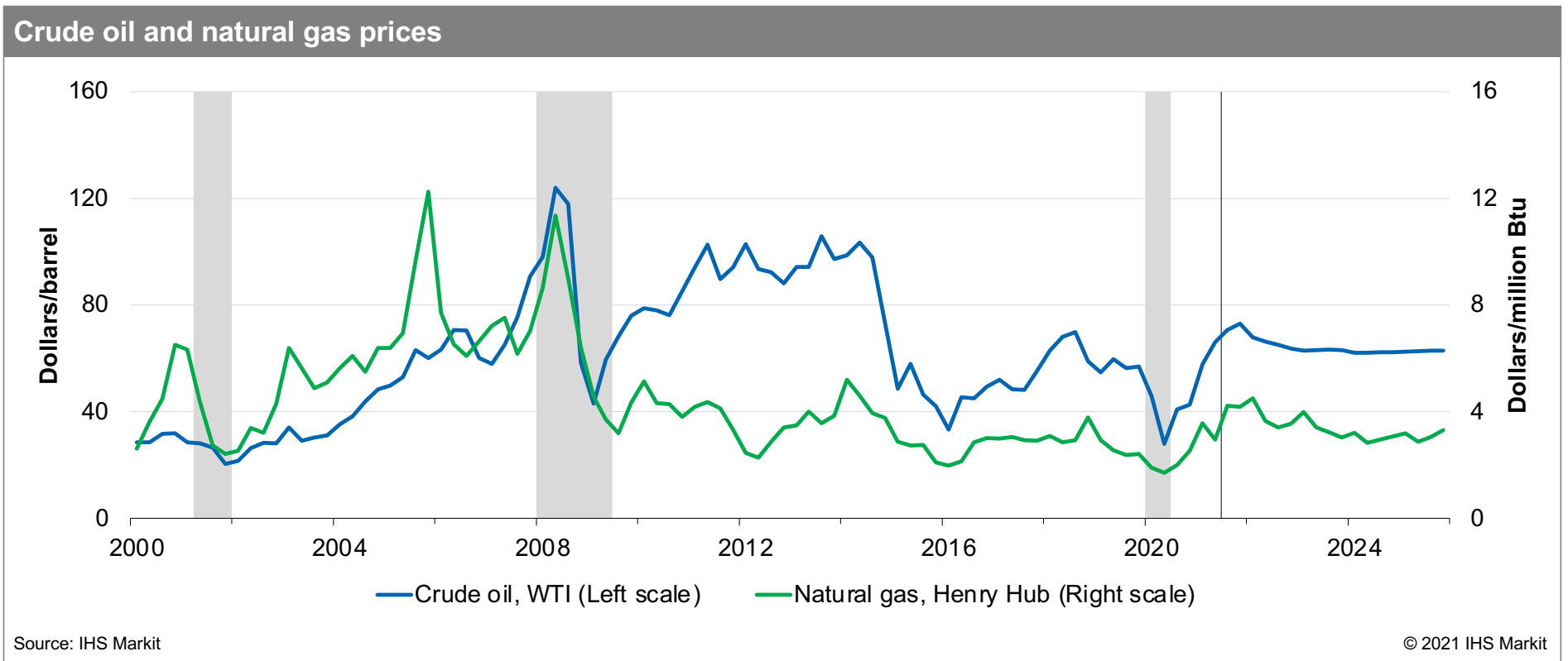
Single-family housing starts and home sales



Durable goods orders exceed the pre-pandemic trend

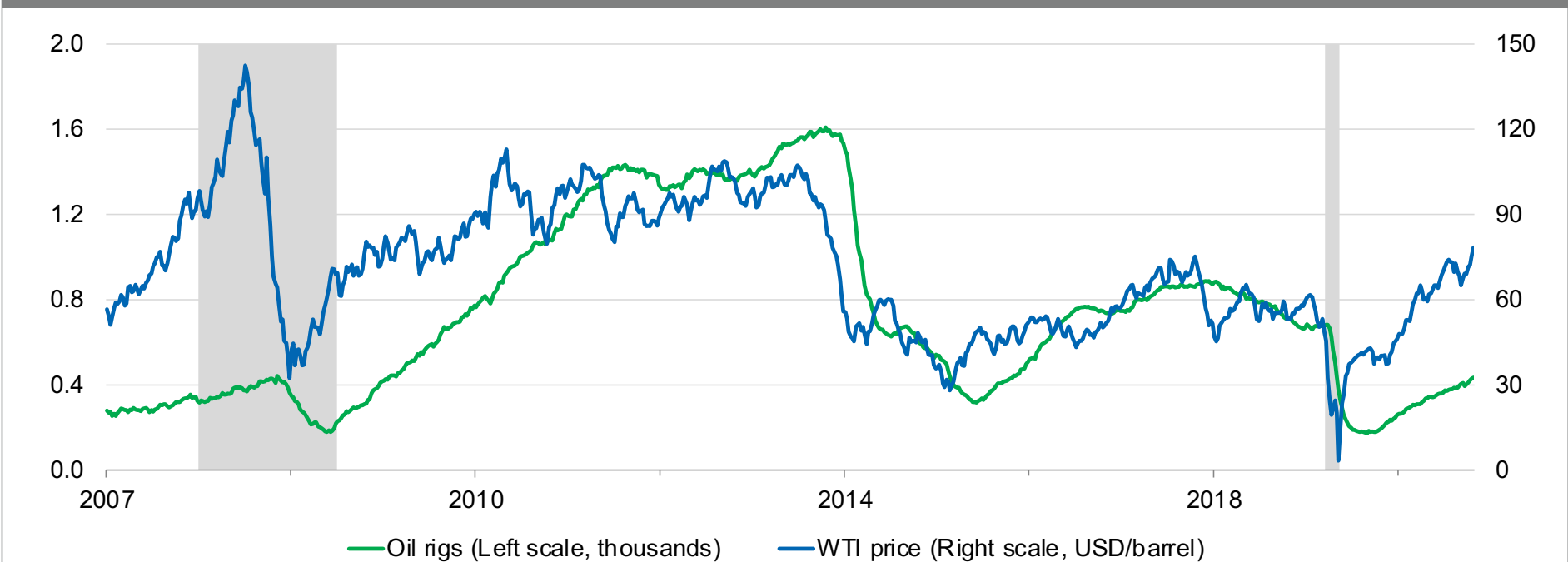


Crude oil prices to peak in the fourth quarter



US oil drilling lags recovery in crude oil prices

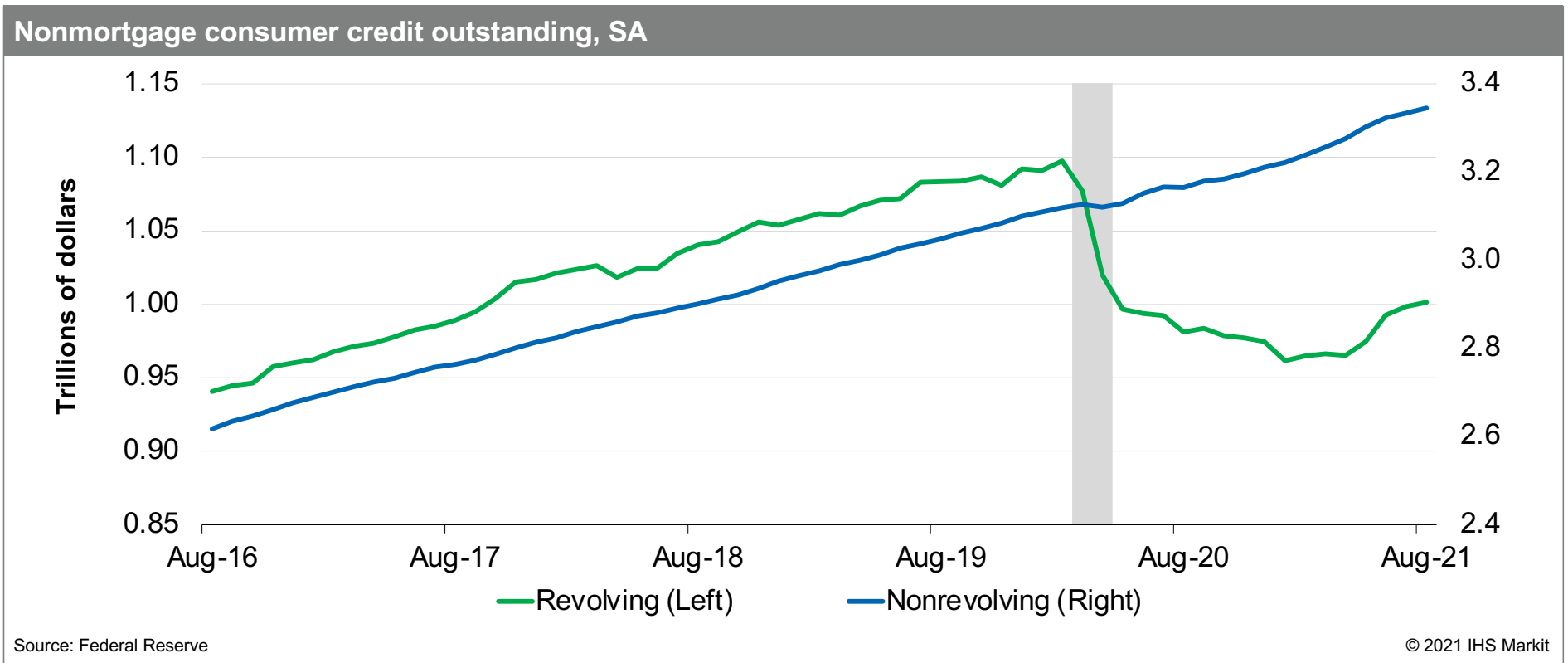
Weekly oil rig count and West Texas Intermediate crude oil price



Source: Baker Hughes, EIA

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During the pandemic, the bottom fell out of credit card borrowing



Hallmarks of the IHS Markit US forecast

- Expectation of falling COVID cases and hospitalizations
- Solid but slowing growth of output, as fiscal support wanes
- Continued gradual improvement in the labor market as employment and labor force rise
- Declining inflation as output growth slows, commodity prices turn and supply issues resolve
- Slowly rising term interest rates
- Eventual Fed tightening. Taper to begin soon; rates to increase in 2023
- Rougher sledding ahead for equities, but an uneven upward trend projected
- Still huge uncertainty all around