



A Robust but Bumpy Recovery as the Economy Transitions from the Pandemic

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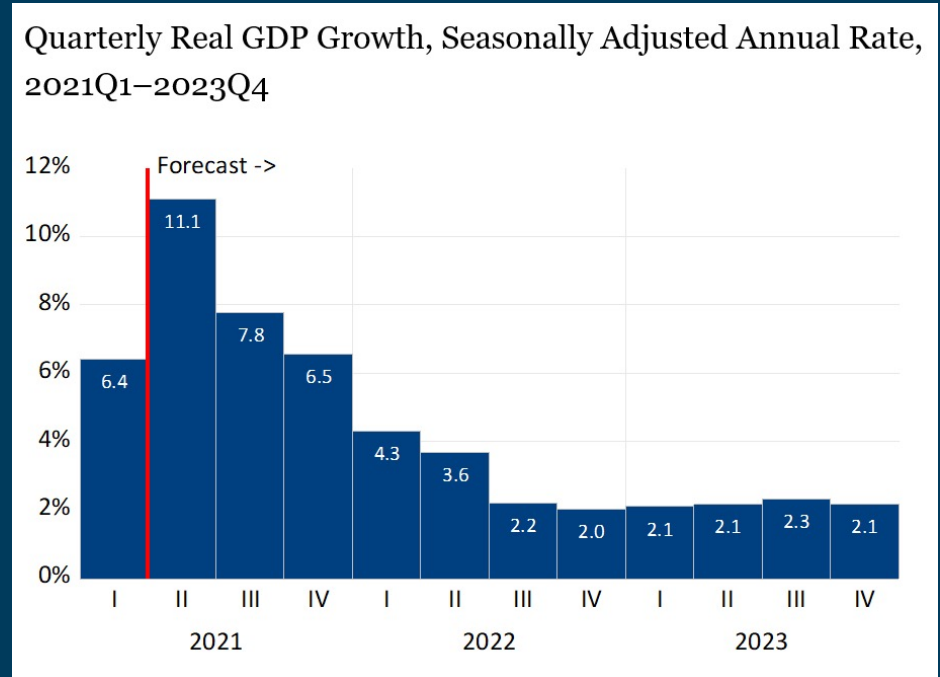
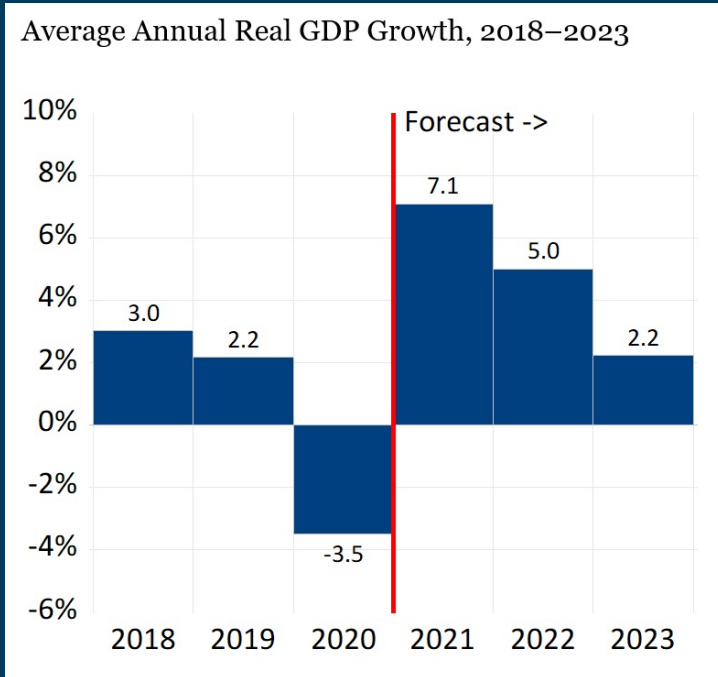
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Forecast

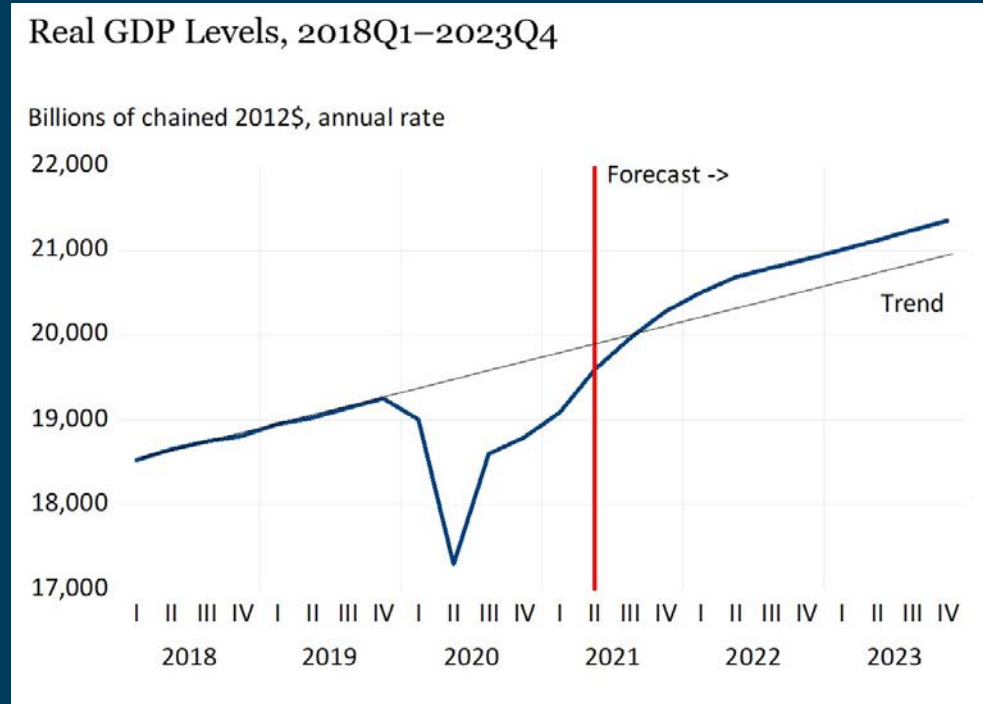
US Forecast Agenda

1. GDP
2. Inflation
3. Employment
4. Productivity
5. Housing Markets
6. Interest Rates

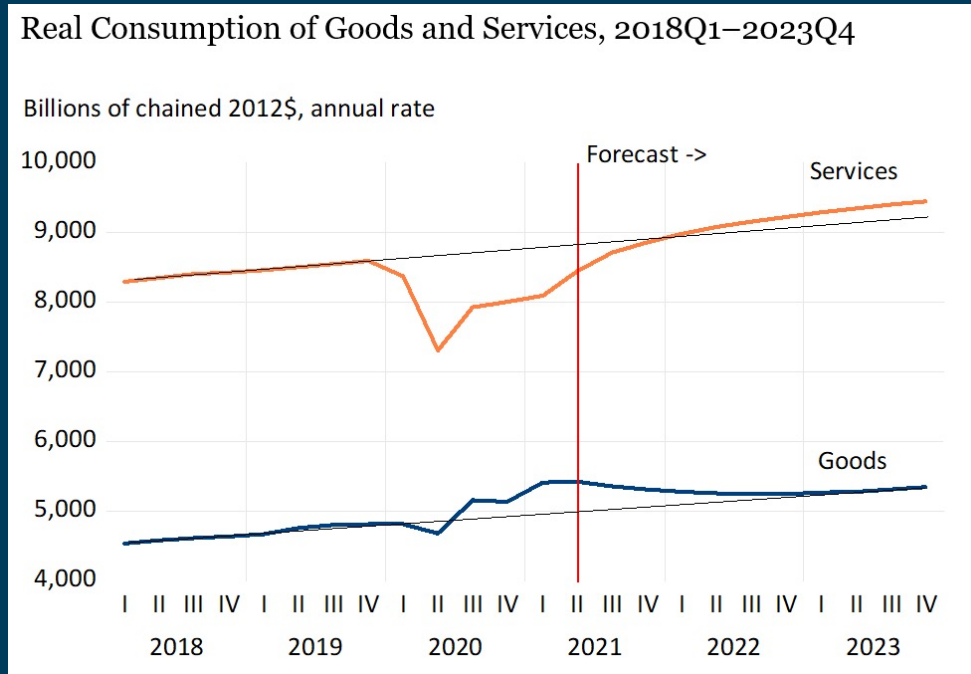
Real GDP growth of 7.1% in '21; Strongest growth in '21Q2 with economic reopening



We'll surpass the pre-pandemic peak of real GDP in '21Q2; we'll surpass the trend by '21Q4



Faster growth in services consumption with release of pent-up demand; return to trends in goods consumption

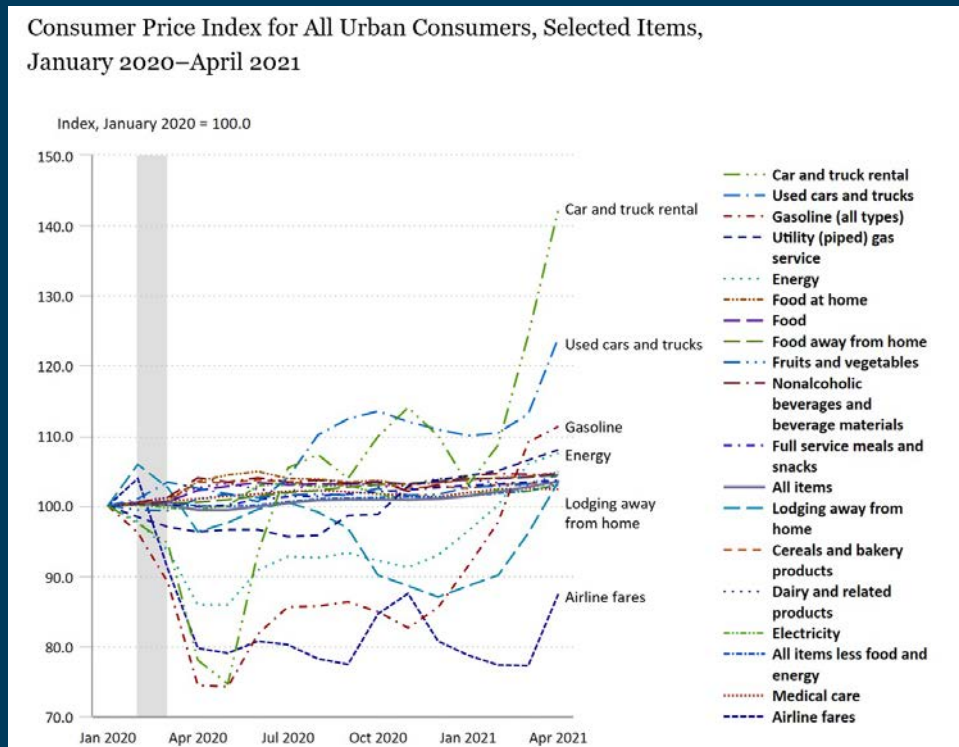


- Faster growth in services:
 - Release of pent-up demand for leisure and hospitality, recreation, deferred health care
 - Return to prior trends in education and social services
- Slower growth in goods:
 - Satiation after a year of above average purchases
 - Shift in household spending towards experiences
 - But continued strength in motor vehicle purchases, with the easing of supply constraints in Q3 and Q4 of '21, and in purchases of furniture and appliances, related to strong housing market

US Forecast Agenda

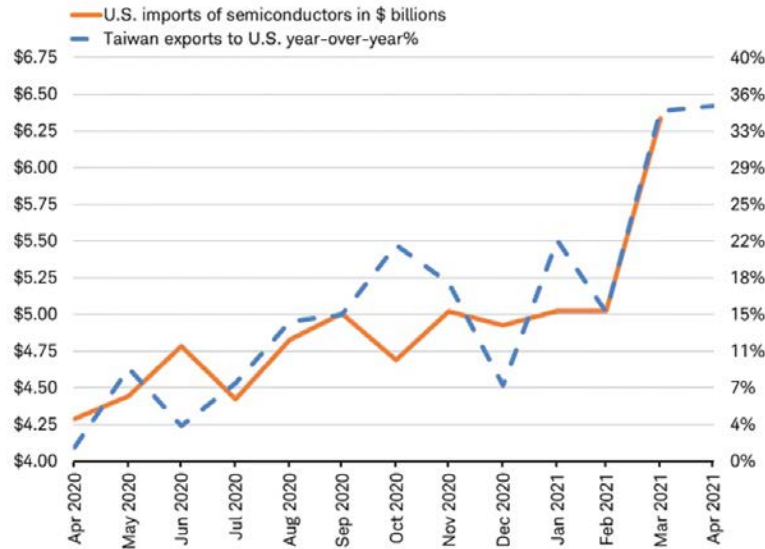
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In April, the CPI rose 0.8% MOM, 9.6% at an annual rate, and 4.2% YOY

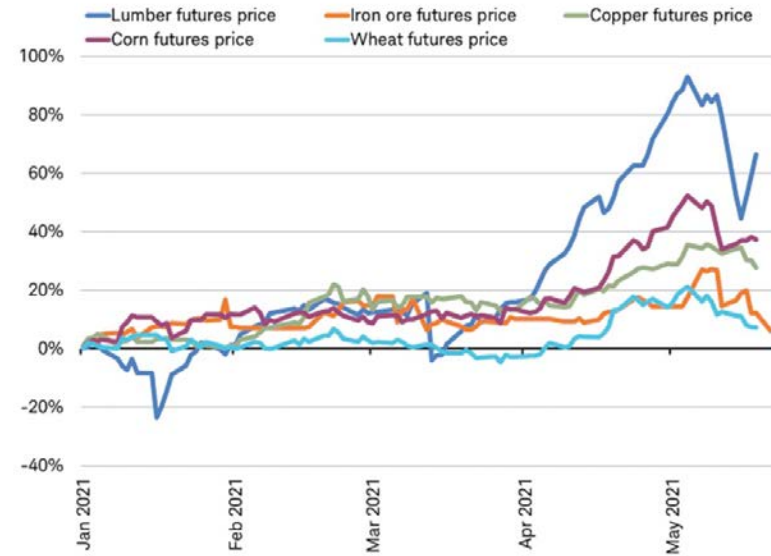


Supply constraints are beginning to ease; commodity futures seem to have peaked

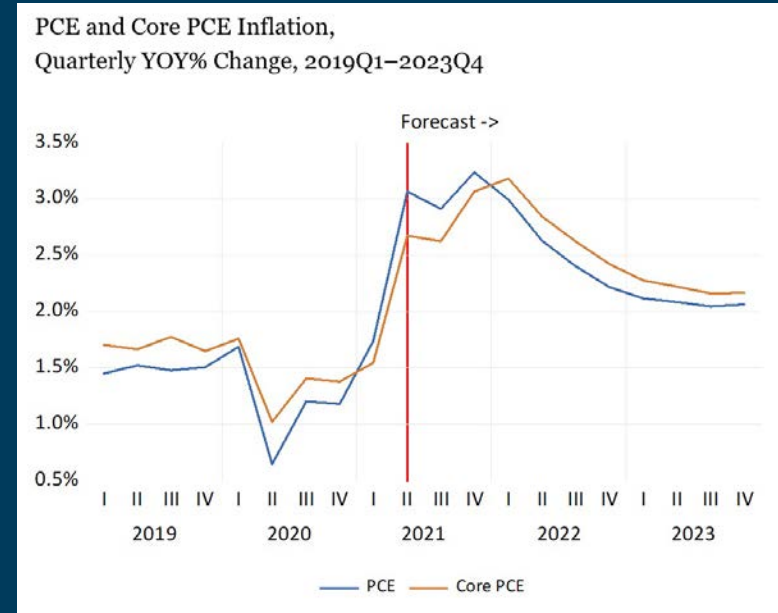
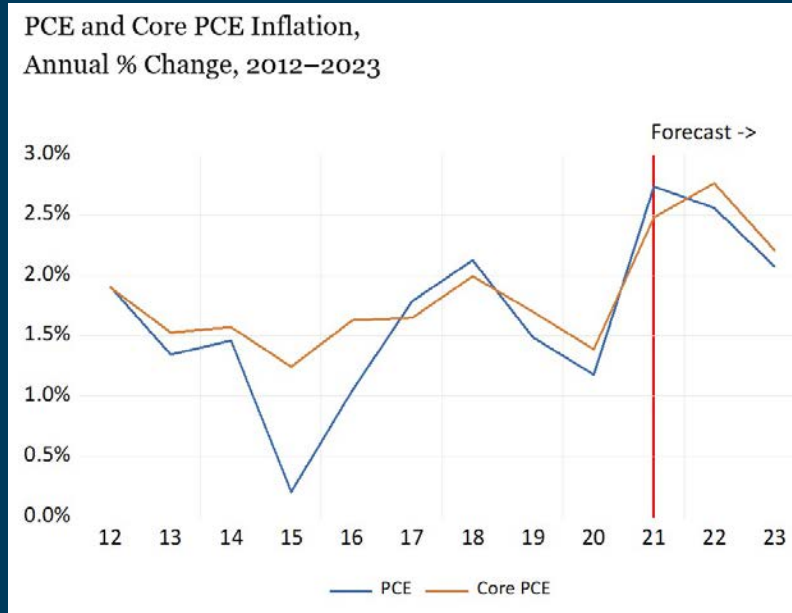
Imports of Semiconductors, April 2020–April 2021



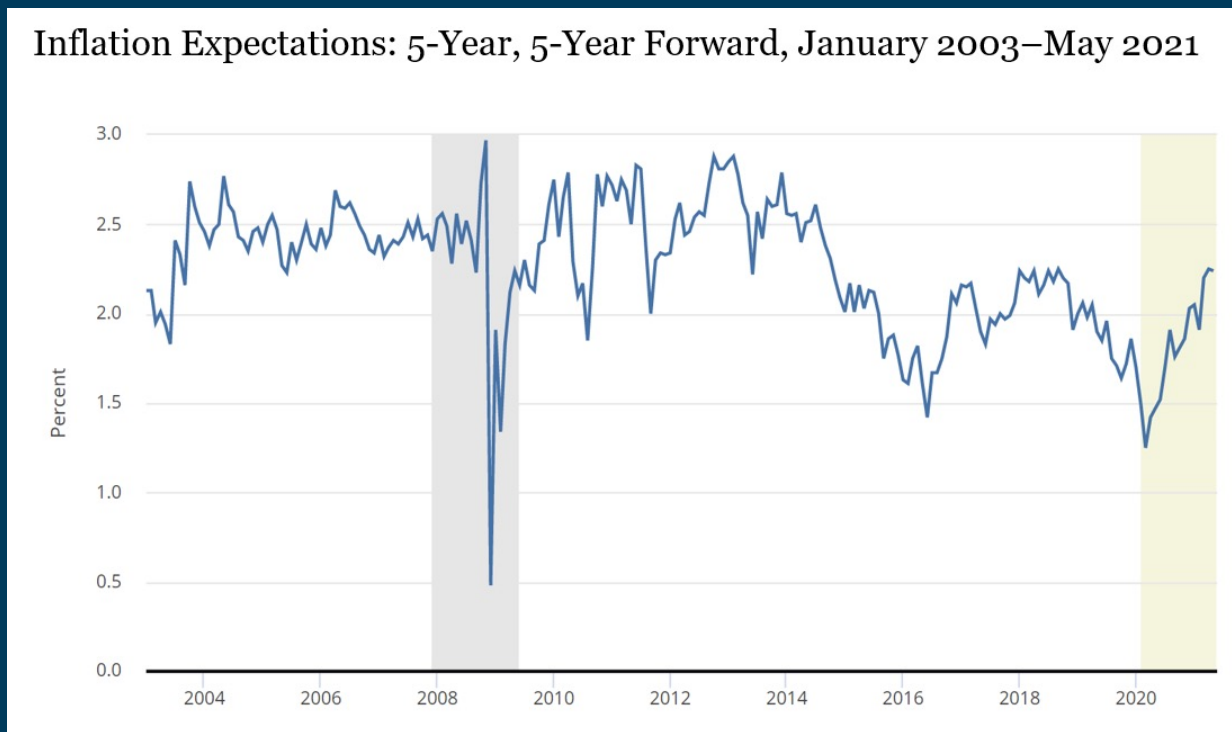
Commodity Prices, January 2021–May 2021



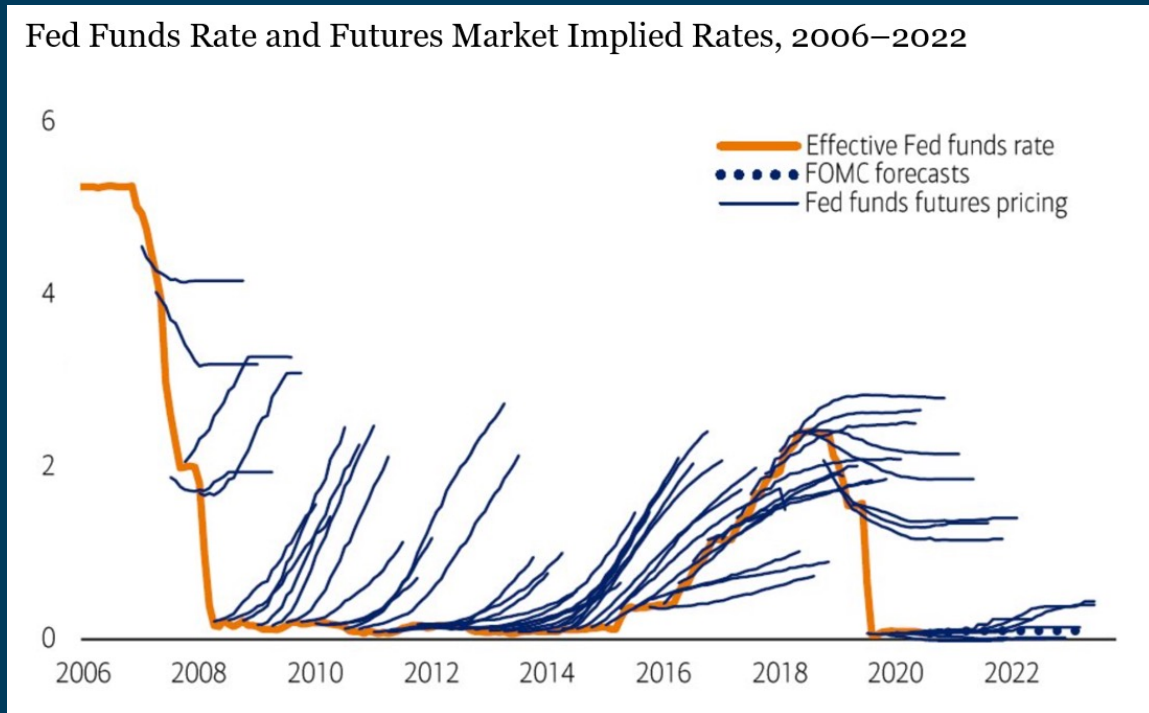
Annual PCE inflation peaking at 2.7%, before declining to 2.1-2.2% in '23



Inflation expectations remain anchored at 2.2%



Futures markets consistently overestimate the potential for inflation by pricing-in earlier increases in the Fed Funds rate



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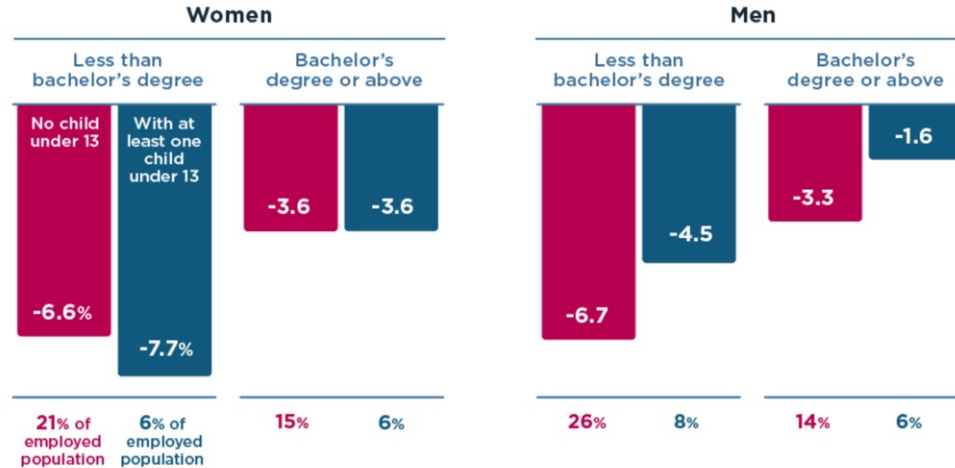
Where are all the workers?

- Despite an unemployment rate of 6.1%, a jobs deficit of 8.2 million workers since the start of the pandemic, and a record 8.1 million job openings, the economy added only 266,000 jobs in April
- Current hypotheses for the disappointing jobs numbers:
 - Schools not fully reopened; childcare constraints
 - Disincentive because of unemployment insurance
 - Wages from front-line jobs not worth the COVID risk
 - Spatial and sectoral mismatch between people and jobs

Childcare Constraints?

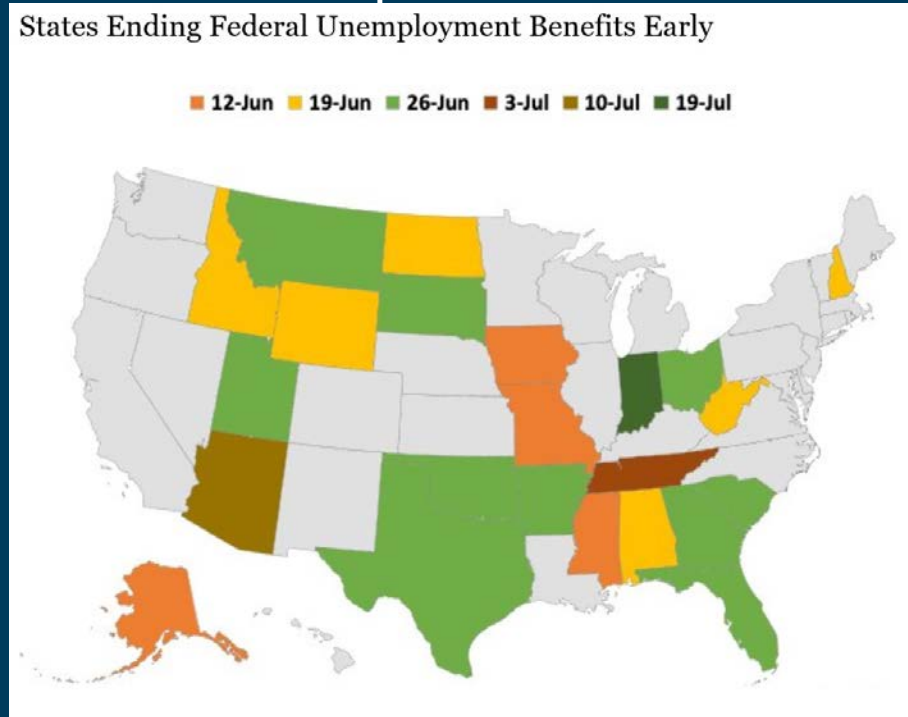
Employment of parents with young children, 2020Q1–2021Q1

Percent change in employment-to-population ratio



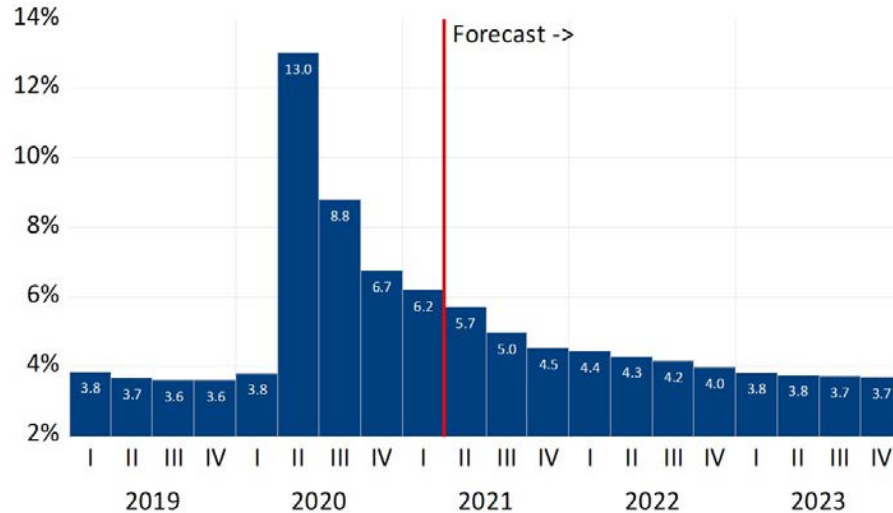
Source: Jason Furman, Melissa Kearney, and Wilson Powell III, "How much have childcare challenges slowed the US jobs market recovery?" Peterson Institute for International Economics, May 17, 2021, available at: <https://www.piie.com/blogs/realtime-economic-issues-watch/how-much-have-childcare-challenges-slowed-us-jobs-market>. Notes: Child refers to own child in the household, including adopted children and stepchildren. Percent of employed population as of 2020Q1.

Unemployment Insurance: 23 states have moved up expiration from September

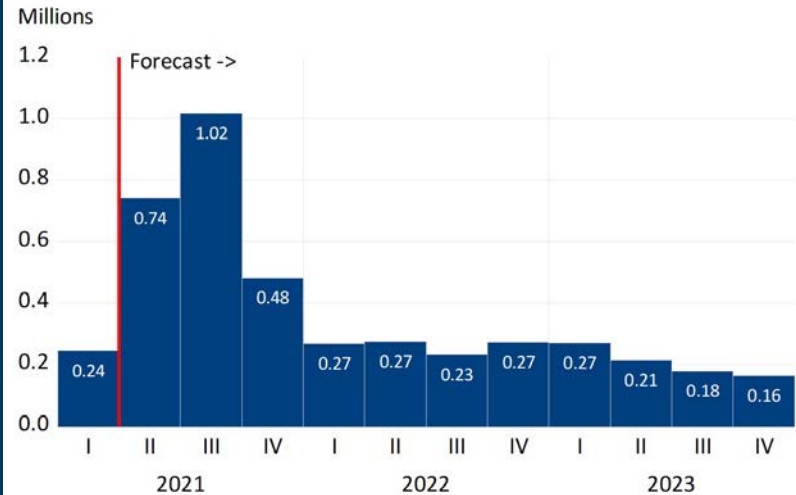


Forecast is for a continued decline in the unemployment rate and +740K–1.0M jobs per month in '21 Q2 & Q3

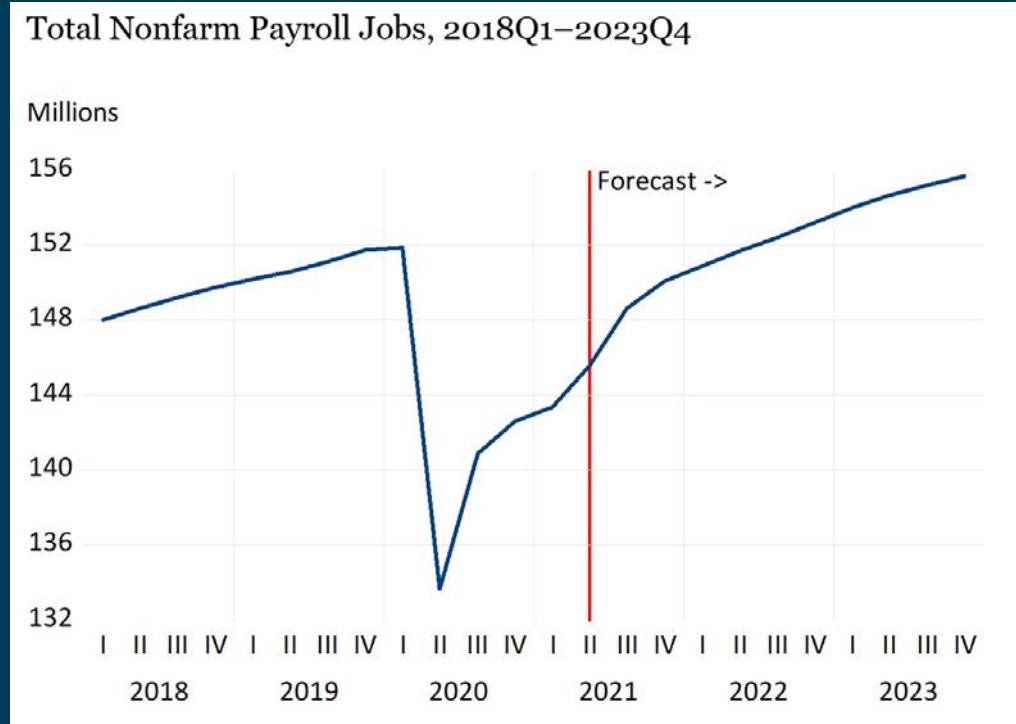
Unemployment Rate (U-3), 2019Q1–2023Q4



Average Monthly Increase in Total Nonfarm Payroll Jobs, By Quarter, 2021Q1–2023Q4



We expect to reach the level of payroll jobs we had prior to the pandemic by '22 Q3



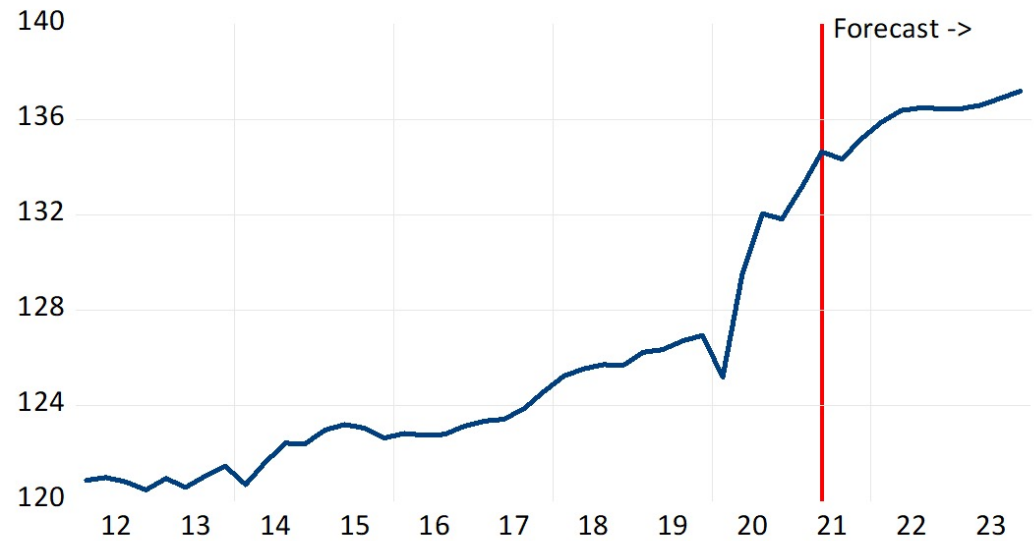
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A sustained surge in productivity

Real GDP per Worker, 2012–2023

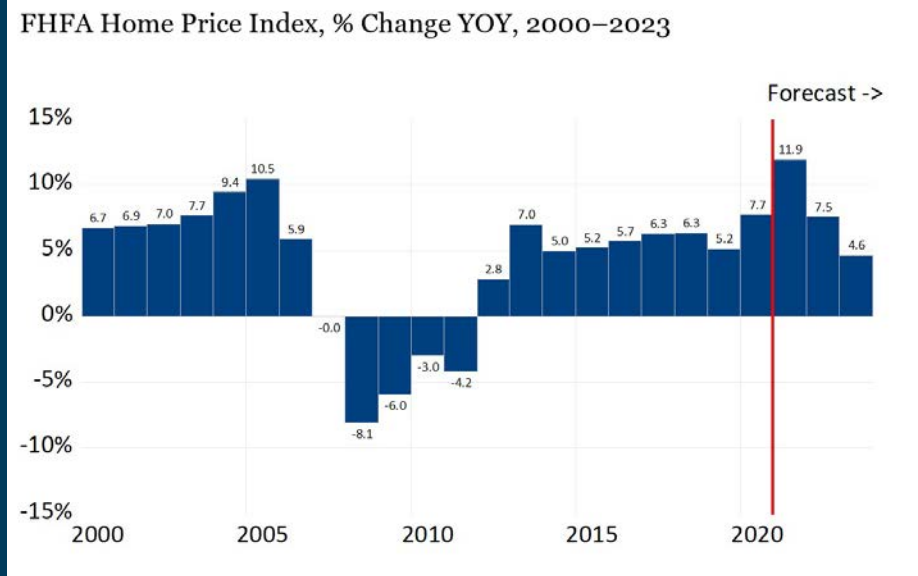
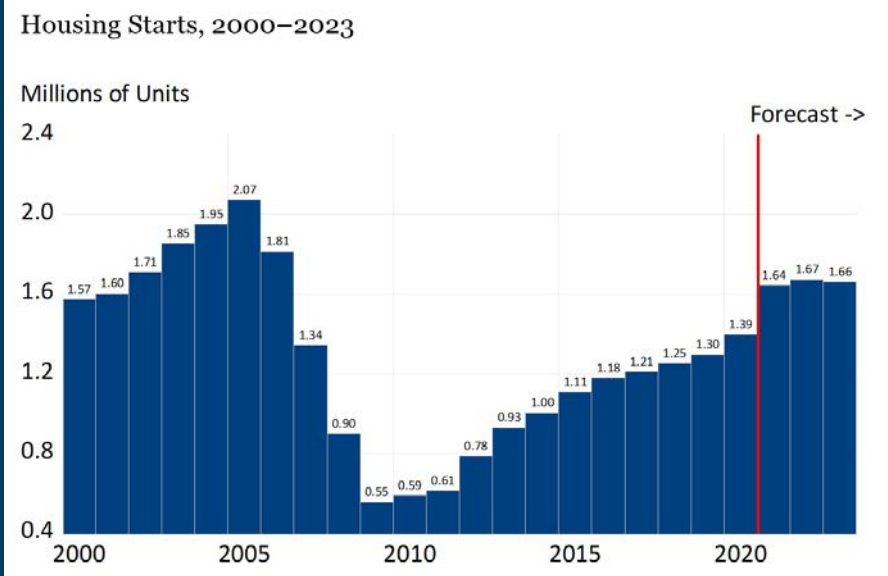
Real GDP per Worker (2012\$ Thousands)



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Residential real estate is booming; +1.64M housing units in '21, 11.9% price appreciation



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Moderately higher inflation but much faster recovery;
expect Fed to taper end of '21, raise rates end of '22

