U.S. Economic Conditions

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Overview

- The economic recovery is progressing more quickly than anticipated
- Business re-openings in the service sector, fiscal transfers to household and business, and accommodative financial conditions will support economic activity in 2021
- As of January, jobs are about 10 million below their peak level and the labor market recovery is very uneven
- On a 12-month basis, inflation also remains below the FOMC longer-run target of 2%
A more rapid economic recovery

- Upward revision of consensus real GDP forecast:
  1. Anticipated business re-openings in services sector
  2. Fiscal transfers from the federal government
  3. Accommodative financial conditions

Source: BEA, Blue Chip Economic Indicators.
Uneven economic recovery and re-openings

- Activity in the consumer services remains depressed
- Business reopening to support rebound in hard-hit service sectors
- Buoyant residential construction and strong equipment investment
- Investment in private structures lags, and depressed drilling activity

Source: BEA, Census, Federal Reserve Board.
Fiscal support to households and businesses

- Fiscal transfers to households pushed disposable income above trend

- Subsidies to corporate and non-corporate businesses supported profits

- Higher income and profits will support consumption and investment

Source: BEA. Note: annual rate
Accommodative financial conditions

- Stock market valuations are at multi-year highs and long-term rates around historical lows
- Corporate credit spreads narrowed and no further tightening in bank lending standards
- Accommodative financial conditions support growth


Note: S&P P/E is the Shiller cyclically adjusted S&P price-to-earnings ratio.
Labor market far from full employment

- Unemployment rate fell to 6.3% in January
- The unemployment rate understates labor market distress: labor force participation at 61.4%
- Minorities and less educated workers hit most

Source: BLS
Inflation remains below long-run 2% target

- Inflation at 1.5% on a 12-month basis
- Large variation last year and across subcomponents

**Core PCE inflation**

- 3-month
- 12-month

**12-month inflation by subcomponent of Core PCE**

- Goods: 0.36%
- Services: 1.93%
- Overall: 1.53%

Source: BEA