Overview

- Recent COVID-19 surge is weighing on economic activity, but above-trend growth expected as activity in COVID-19 sensitive sectors returns to normal and inventories are restocked.

- Inflation readings have moderated as impact of idiosyncratic factors fades; but supply bottlenecks remain.

- Labor market recovery is underway and labor demand is strong; however, as of August, there were still 5.3 million fewer jobs than pre-pandemic, with COVID-19 sensitive sectors displaying the largest gaps.
Economic activity to re-accelerate

- Downward revision of consensus over the summer
  1. Recent COVID-19 surge and supply bottlenecks weighing on economic activity in the near term
  2. But activity to re-accelerate as COVID-19 sensitive sectors normalize and inventories are restocked

Source: BEA, Blue Chip Economic Indicators, BLS
COVID-19 surge but more growth ahead

- Many consumer service sectors still to fully reopen
- Service expenditures continue to rise, but slowed down in some COVID-19 sensitive sectors
- Job gains in leisure and hospitality flatlined in August
- But labor demand and school reopening to boost payrolls and PCE this fall

Source: BEA, FRB.
Supply bottlenecks but inventory restocking ahead

- Supply bottlenecks in the auto industry contributed to a sharp decline in motor vehicle sales
- Slowdown in goods consumption likely in the future
- But inventory restocking to offset lower goods demand, e.g. in the automotive industry

Source: BEA, FRB.
COVID-19 sensitive and underlying inflation

- Idiosyncratic factors related to the reopening and bottlenecks continue to have a disproportionate impact on inflation.

- But some pandemic-related spikes have started to retrace.

- Underlying inflation remains stable.

**Monthly contribution to core CPI inflation**

- Used vehicles
- COVID-19 sensitive (accomod., rental cars and airfare)
- Other

**18-month change in Consumer Price Index (CPI)**

- Median
- Core
- Core ex used vehicles

Source: BLS.
Labor demand remains strong

But still 5.3 million fewer employees than pre-pandemic

Source: BLS. Note: Shading shows NBER recessions.
Most sectors have not yet closed the employment gap

COVID-19 sensitive sectors have driven the labor market recovery
But most sectors’ employment is still below pre-pandemic levels

Source: BLS.