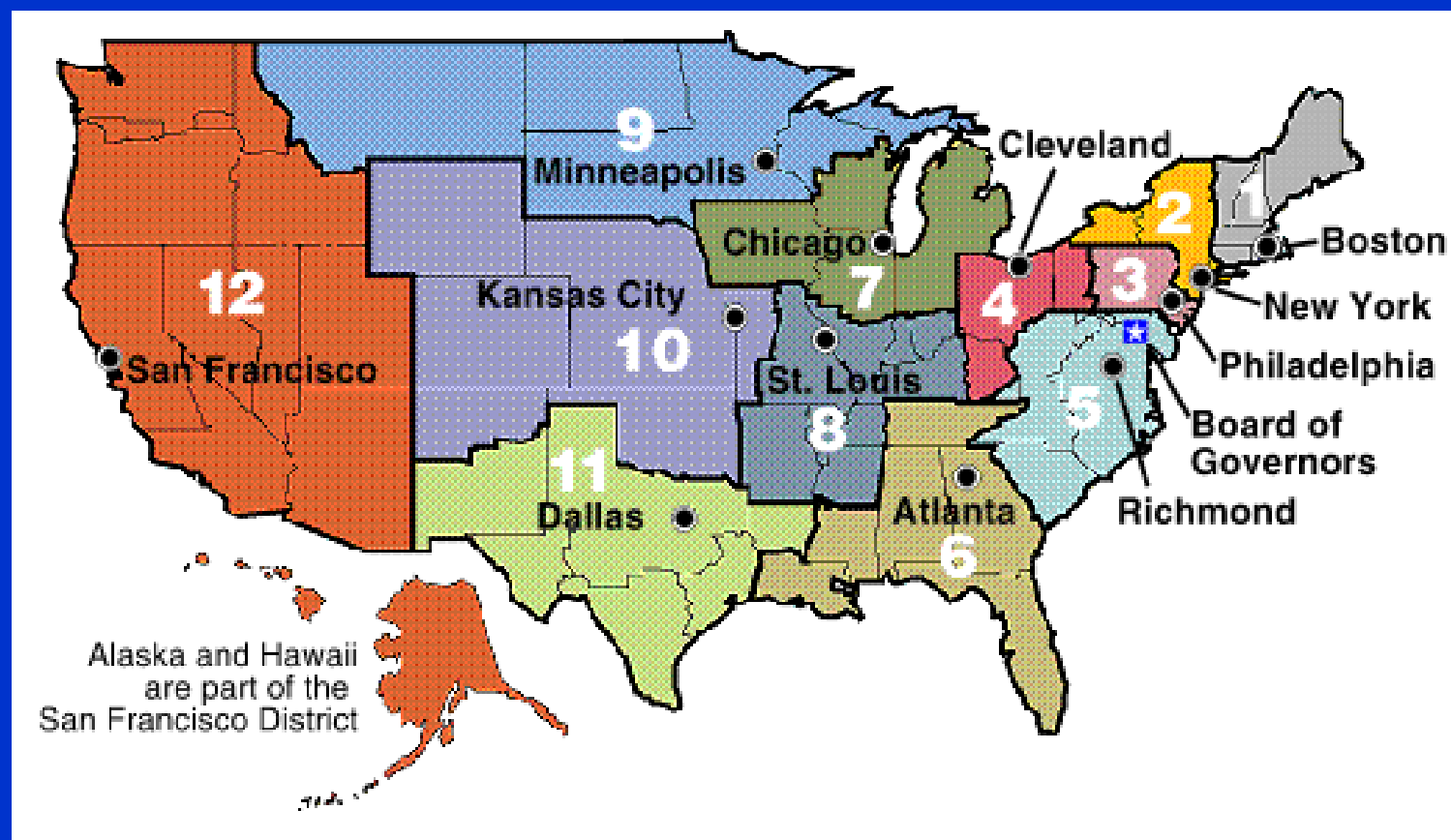

2021 Economic Outlook: ***Hard Times or Great Expectations?***

January 14, 2021
Global Midwest Alliance

David Oppedahl
Senior Business Economist
312-322-6122
david.oppedahl@chi.frb.org

The views expressed in this presentation are my own and do not necessarily reflect those of the Federal Reserve Bank of Chicago or of the Federal Reserve System.



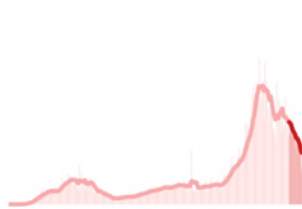
Twist of Economic Fortunes in 2020

- *Great Expectations* a year ago for the US economy to expand at a pace close to trend in 2020-22
- But 2020's pandemic led to a Dickensian recession
- 2021 & 2022 still look to have above trend growth
- When will the economy get back to the level of February's peak?

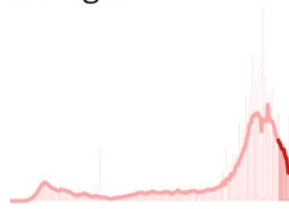
District's coronavirus cases fell late in 2020

U.S. cases peaking in Jan. after a *Christmas Carol*?

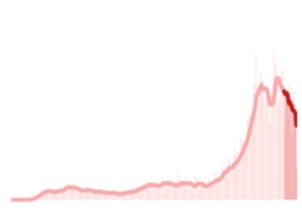
Illinois



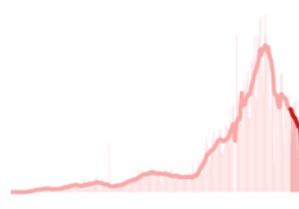
Michigan



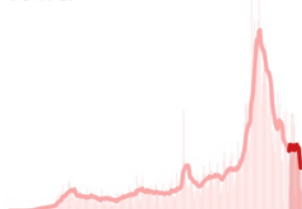
Indiana



Wisconsin

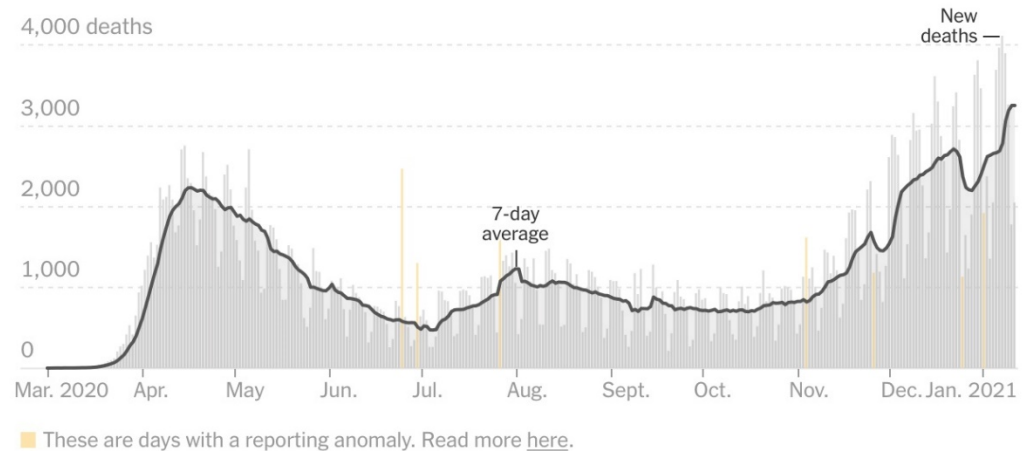


Iowa

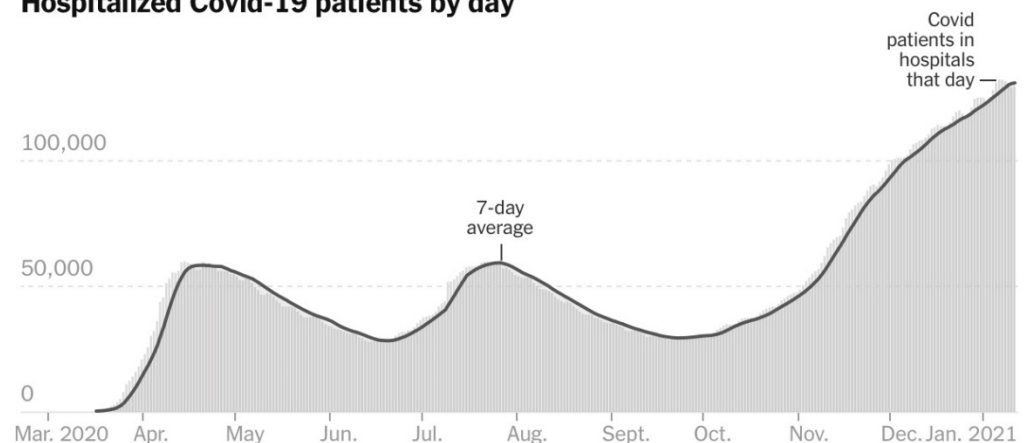


Cases from March 1 to December 27 by 7-day average (last 14-day period in dark red)

New reported deaths by day

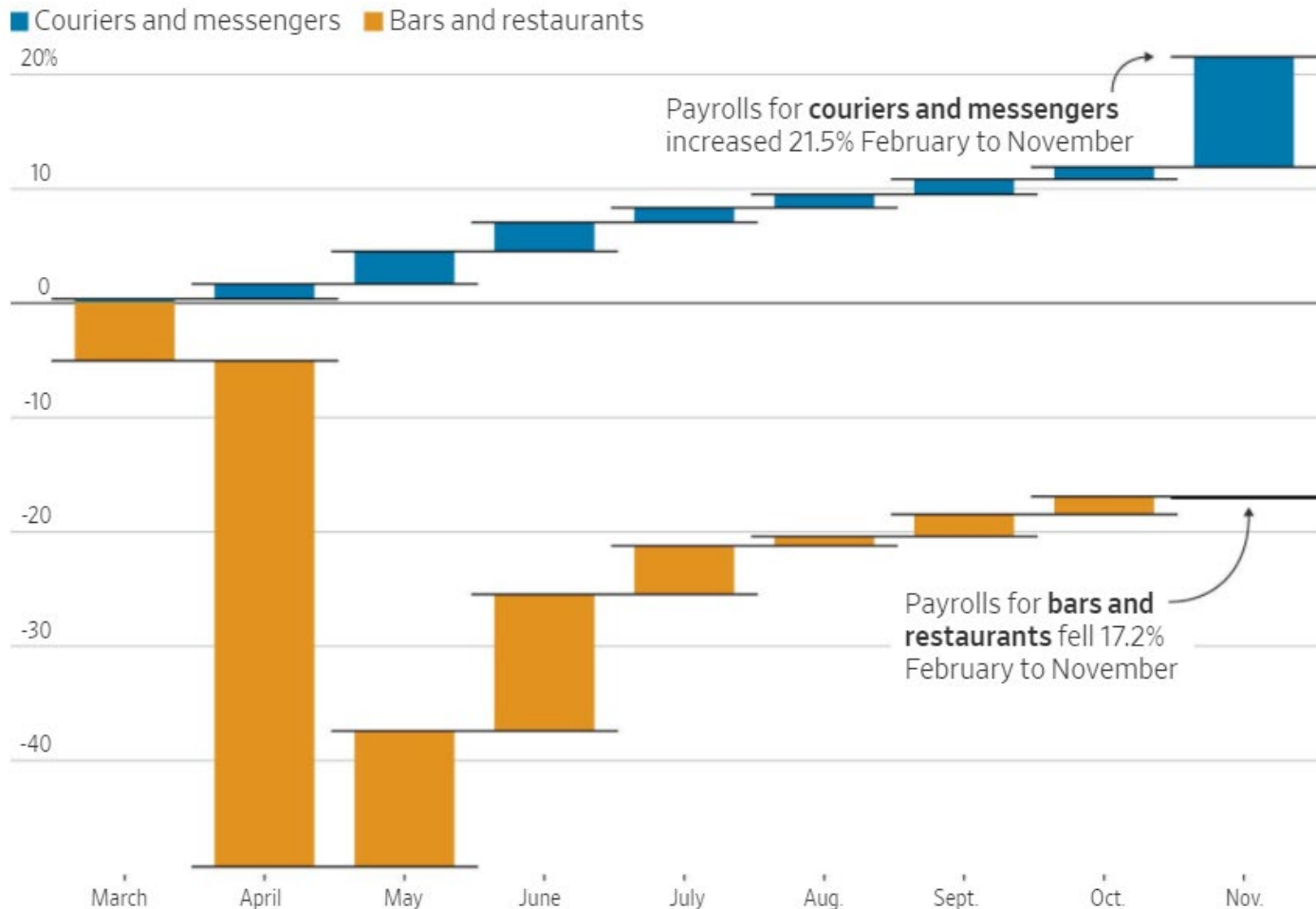


Hospitalized Covid-19 patients by day



Source: The New York Times

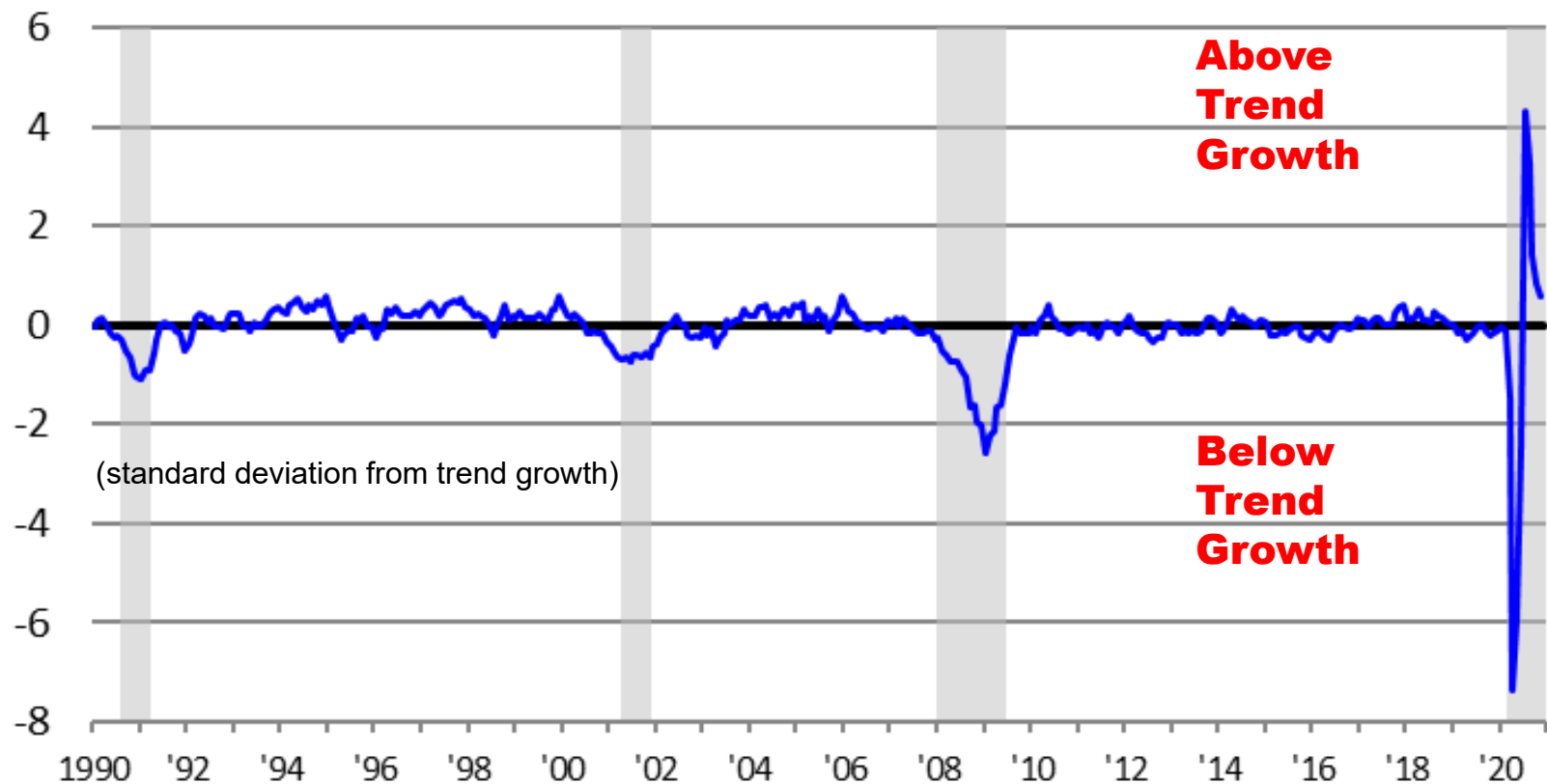
A tale of two occupations



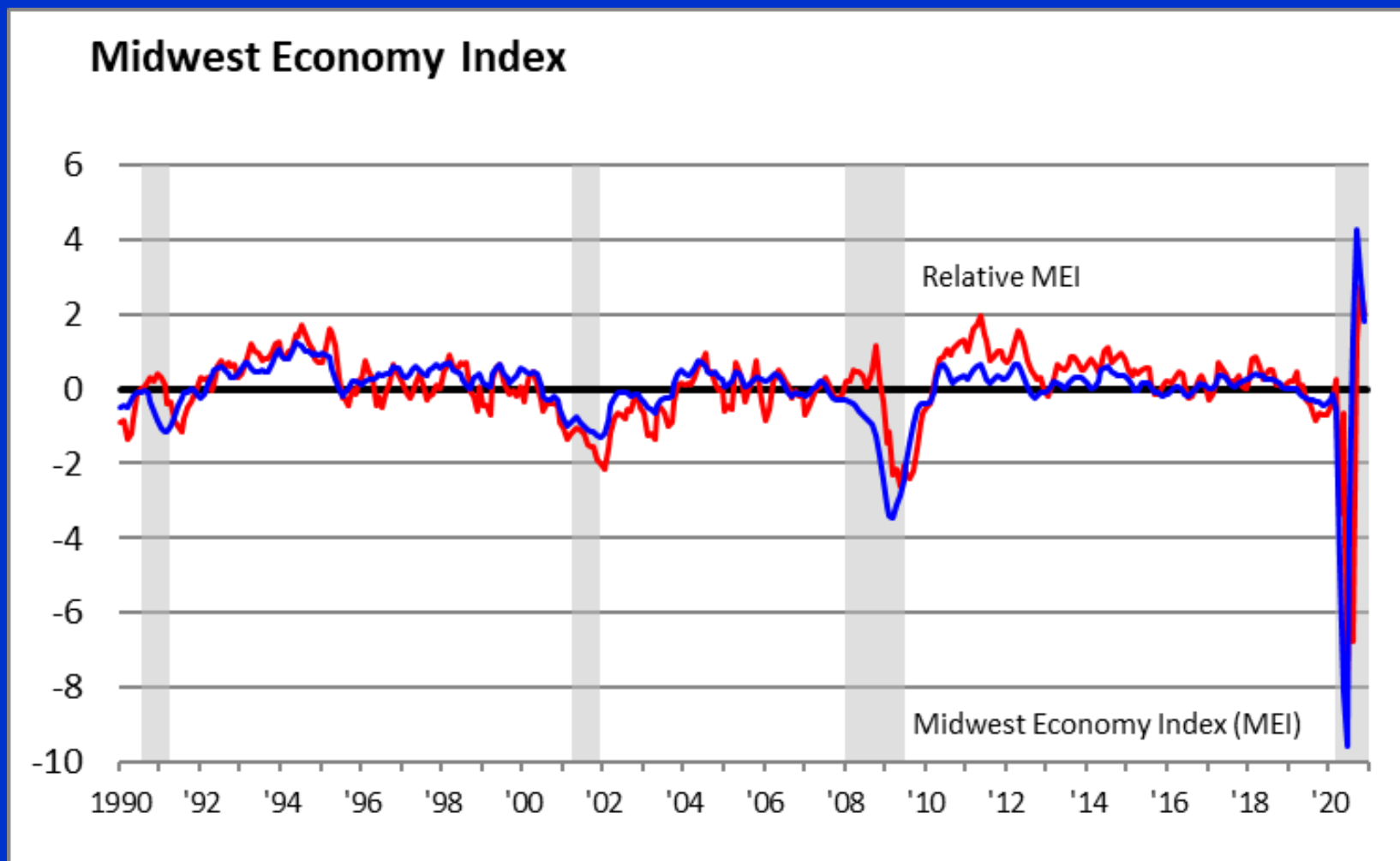
Note: Cumulative, seasonally adjusted change since February

Economic activity plunged after Covid-19 shutdowns, before moving up again

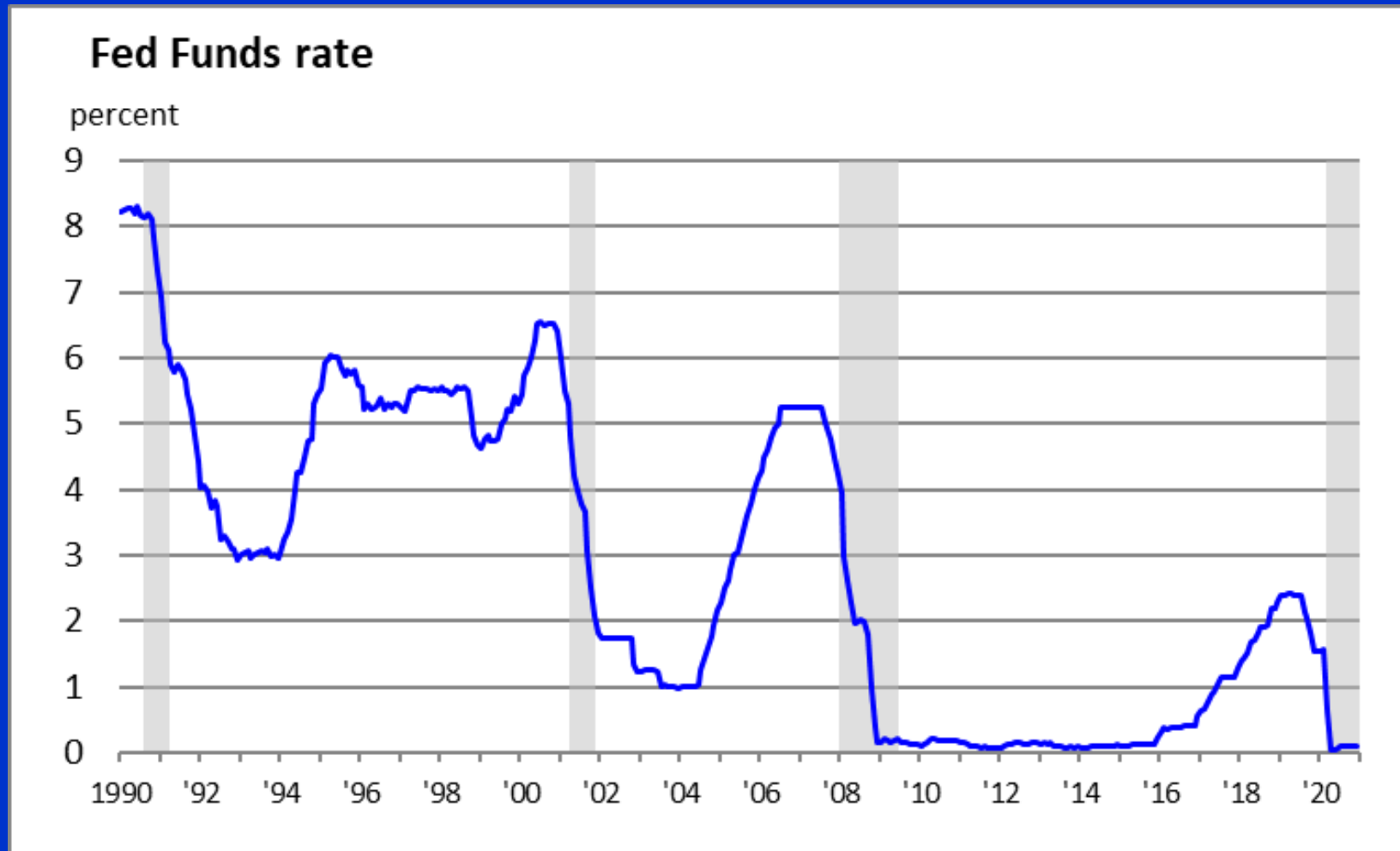
Chicago Fed National Activity Index (three month average)



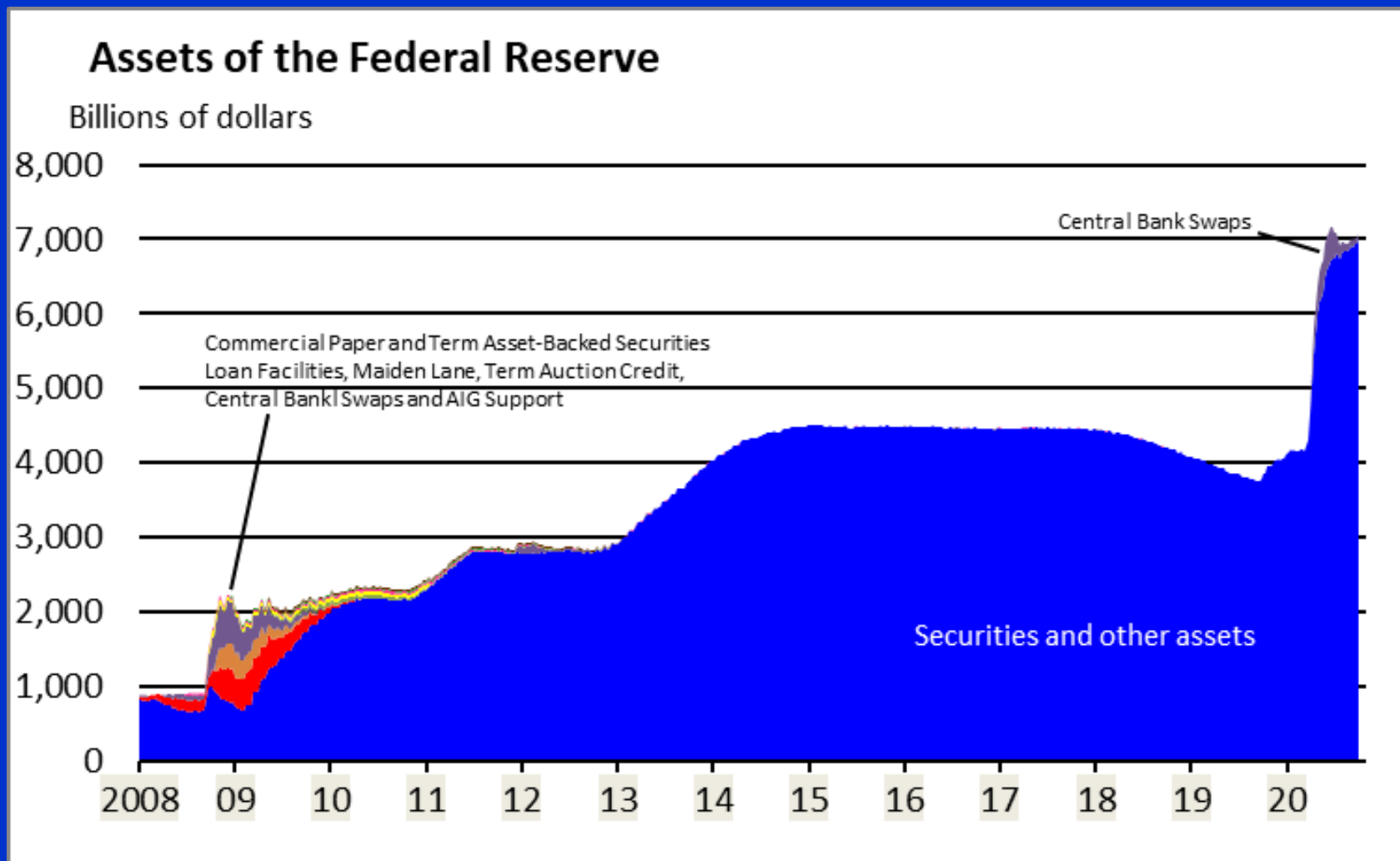
Midwest economic activity mirrored the nation's deep drop and subsequent gains



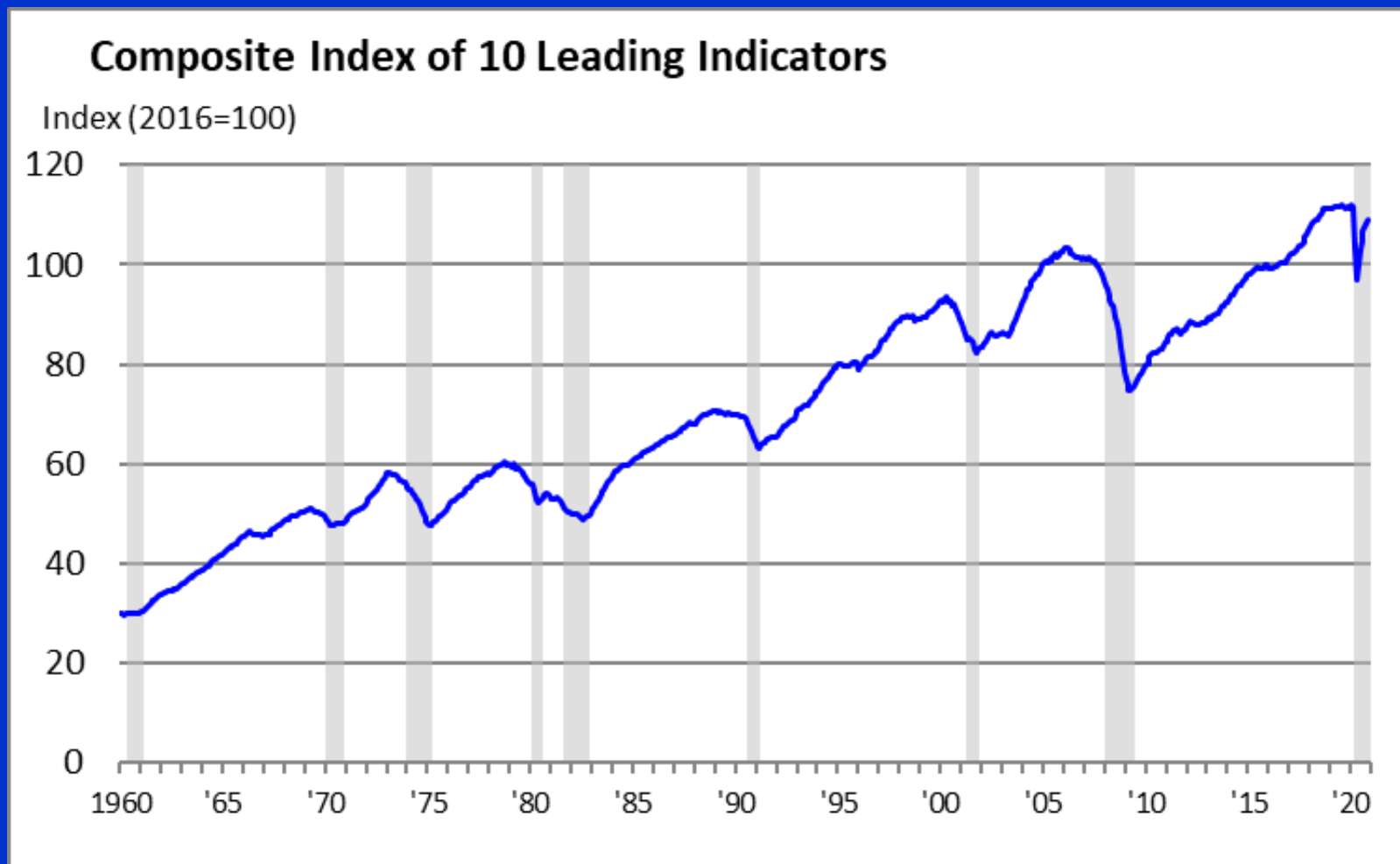
As pandemic hit, FOMC quickly lowered the Fed Funds rate target range (0% to 0.25%)



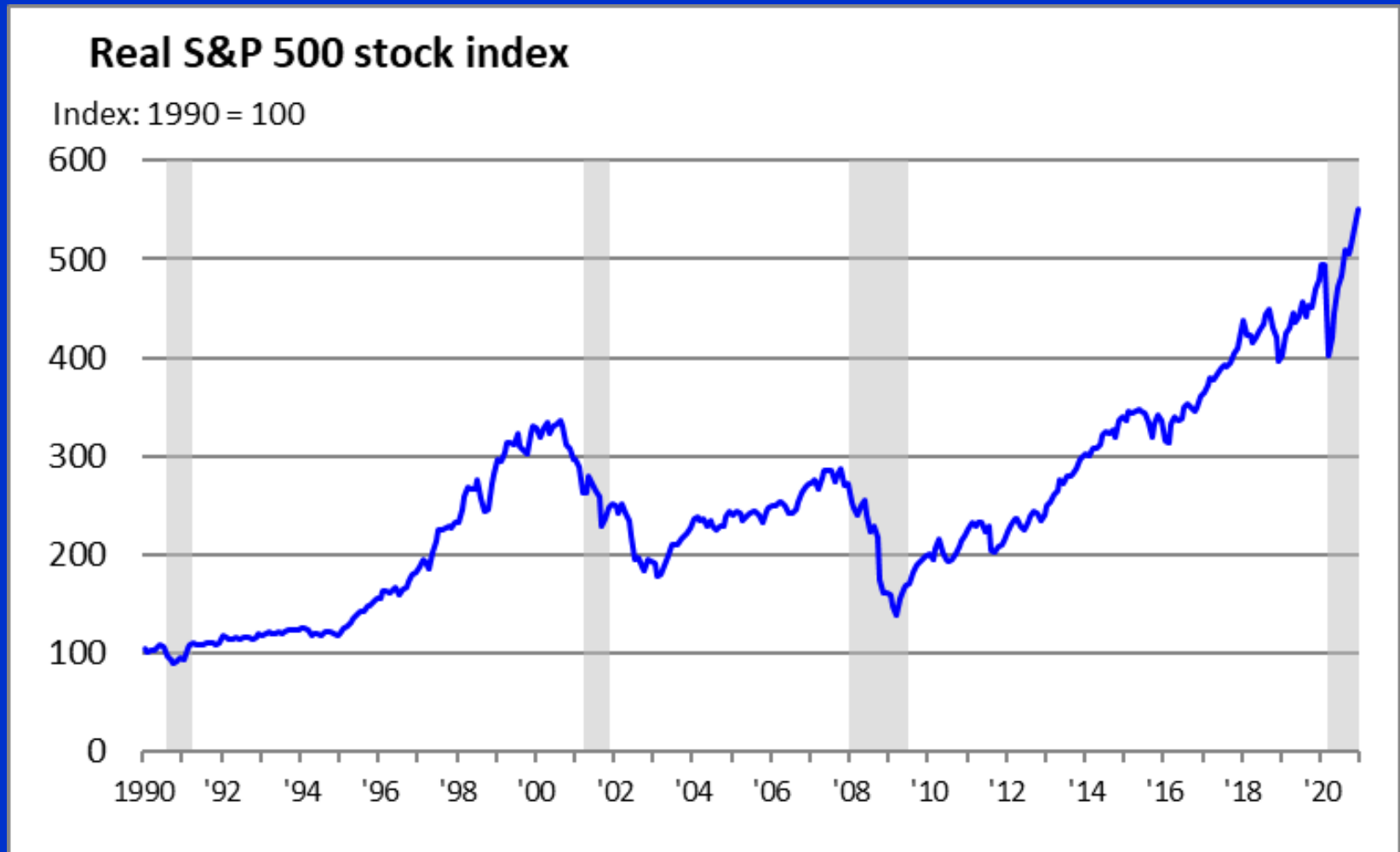
Fed's balance sheet expanded rapidly in 2020, as the recession developed



The Index of Leading Economic Indicators peaked last January and has yet to fully recover

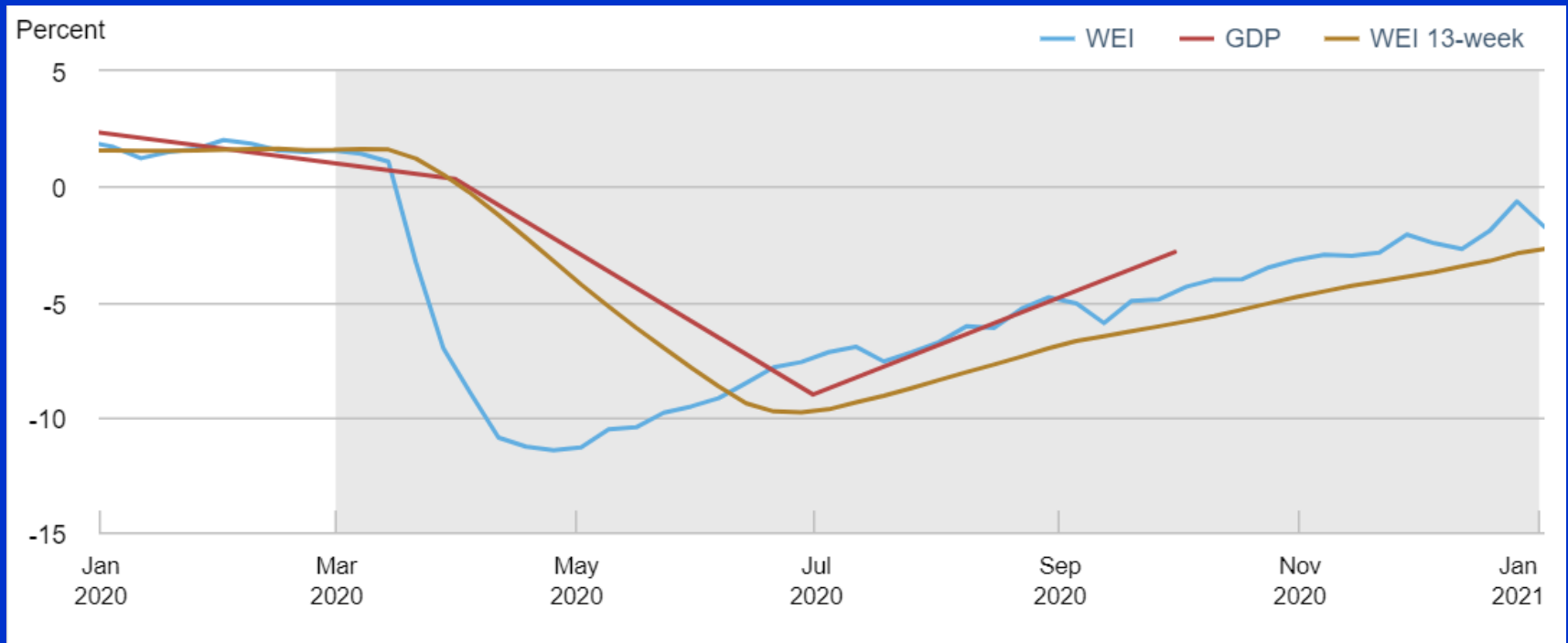


However, stock markets had reached new peaks following dramatic swings

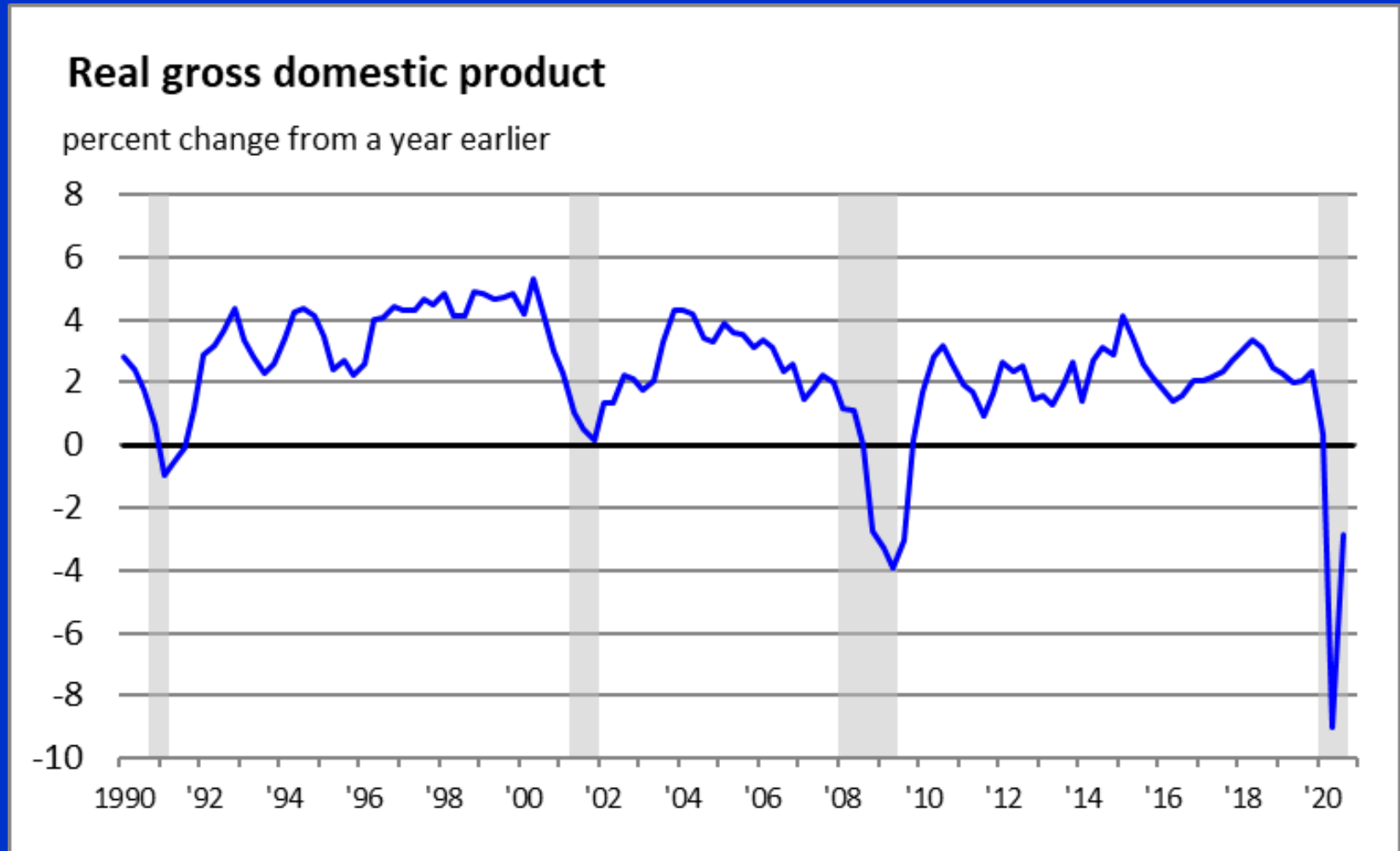


Working to get out of the poorhouse

The Weekly Economic Index (WEI) is an index of ten daily and weekly indicators of real economic activity, scaled to align with the four-quarter GDP growth rate.



Quarterly GDP plunged 5% and 31% in the first quarters of 2020, before a 33% increase in Q3

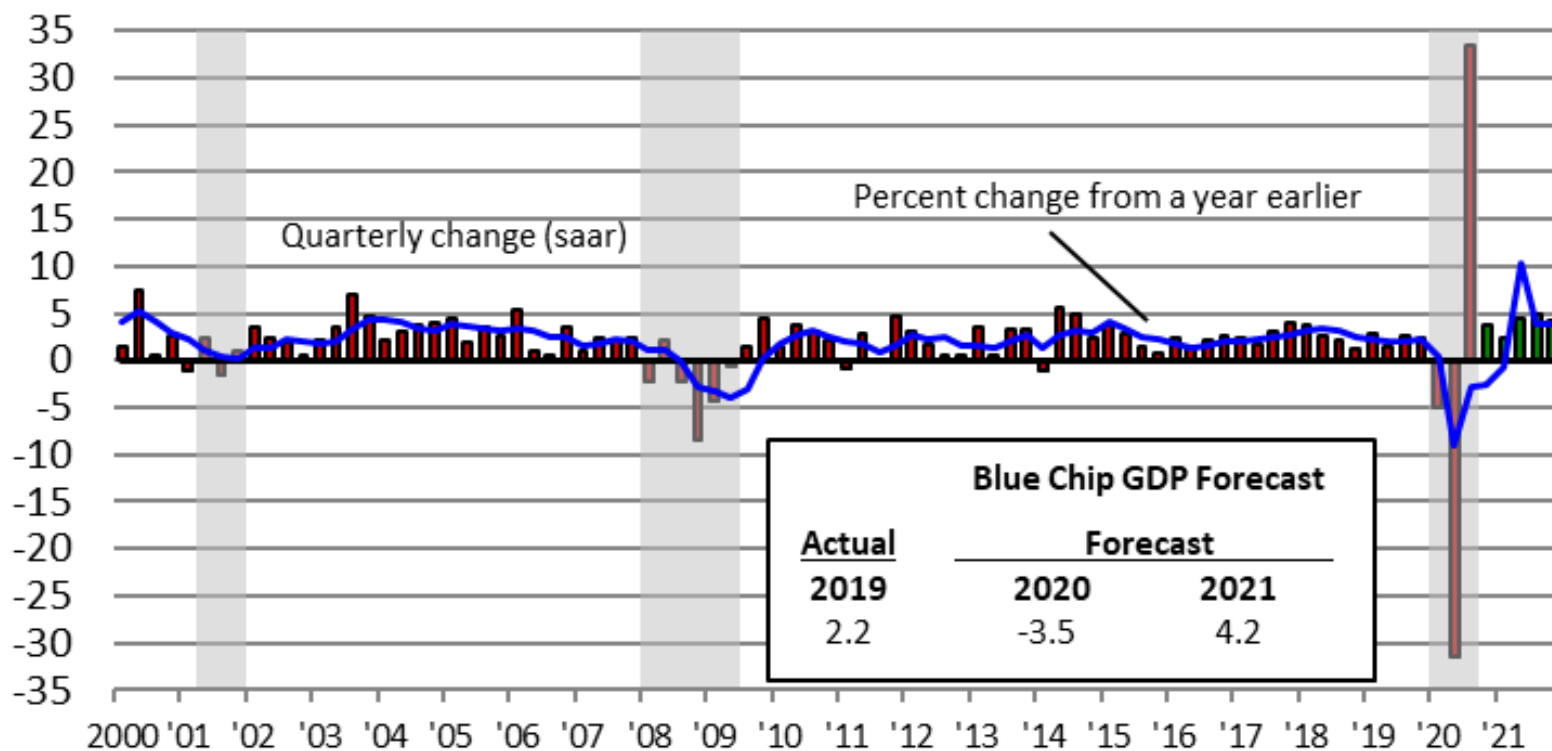


Source: Bureau of Economic Analysis

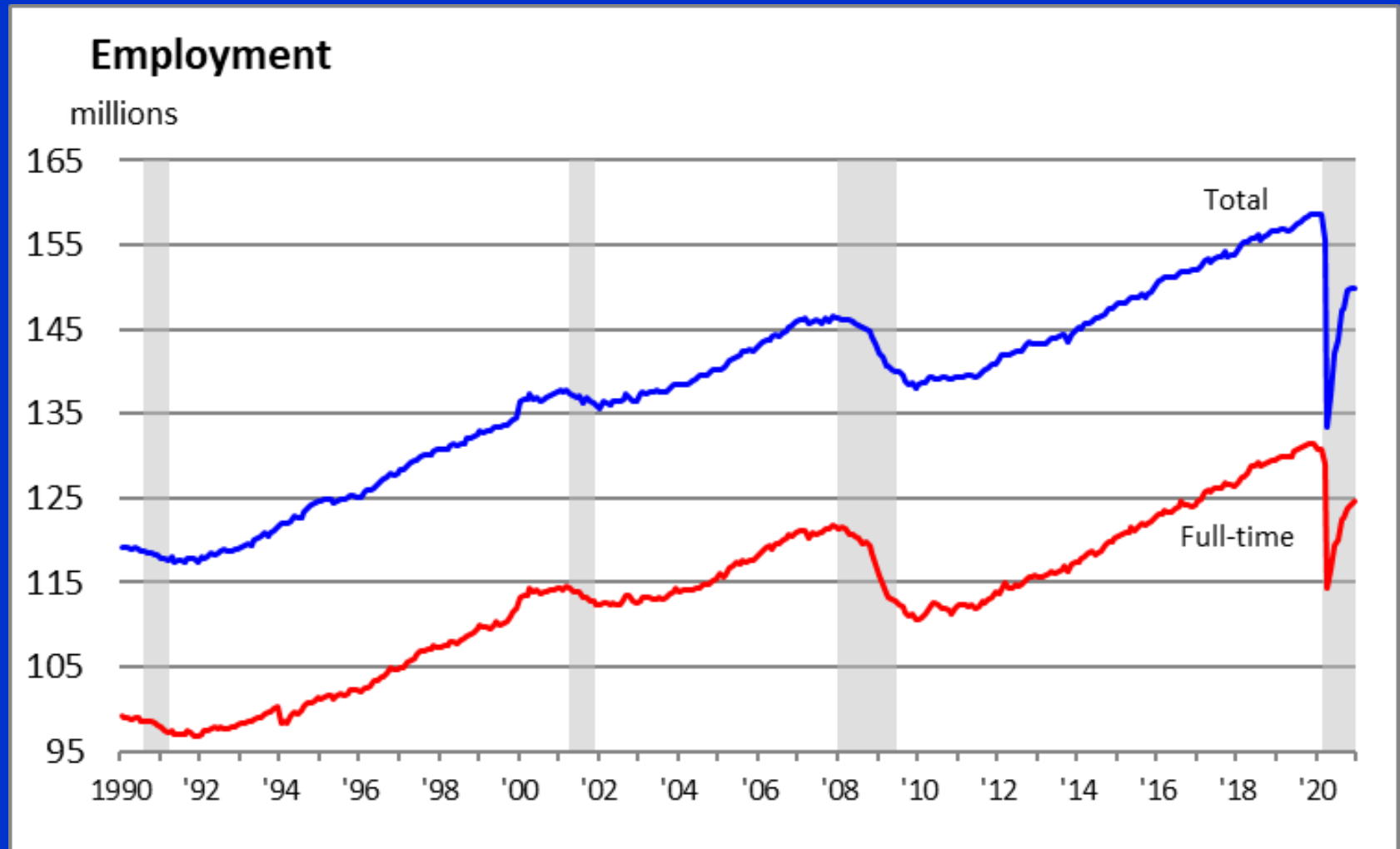
Above trend GDP growth in 2021 forecasted by the Blue Chip

Real gross domestic product

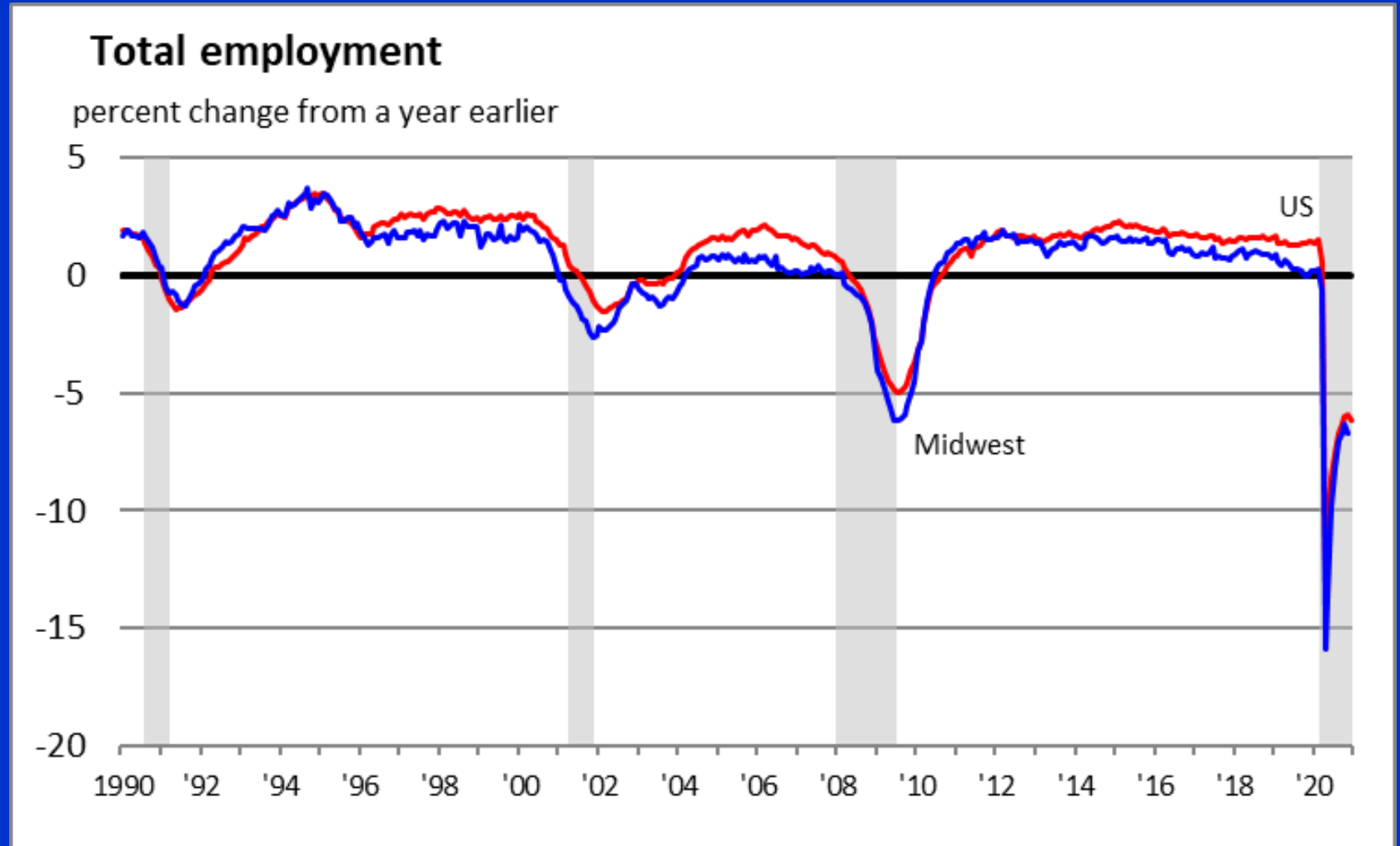
percent



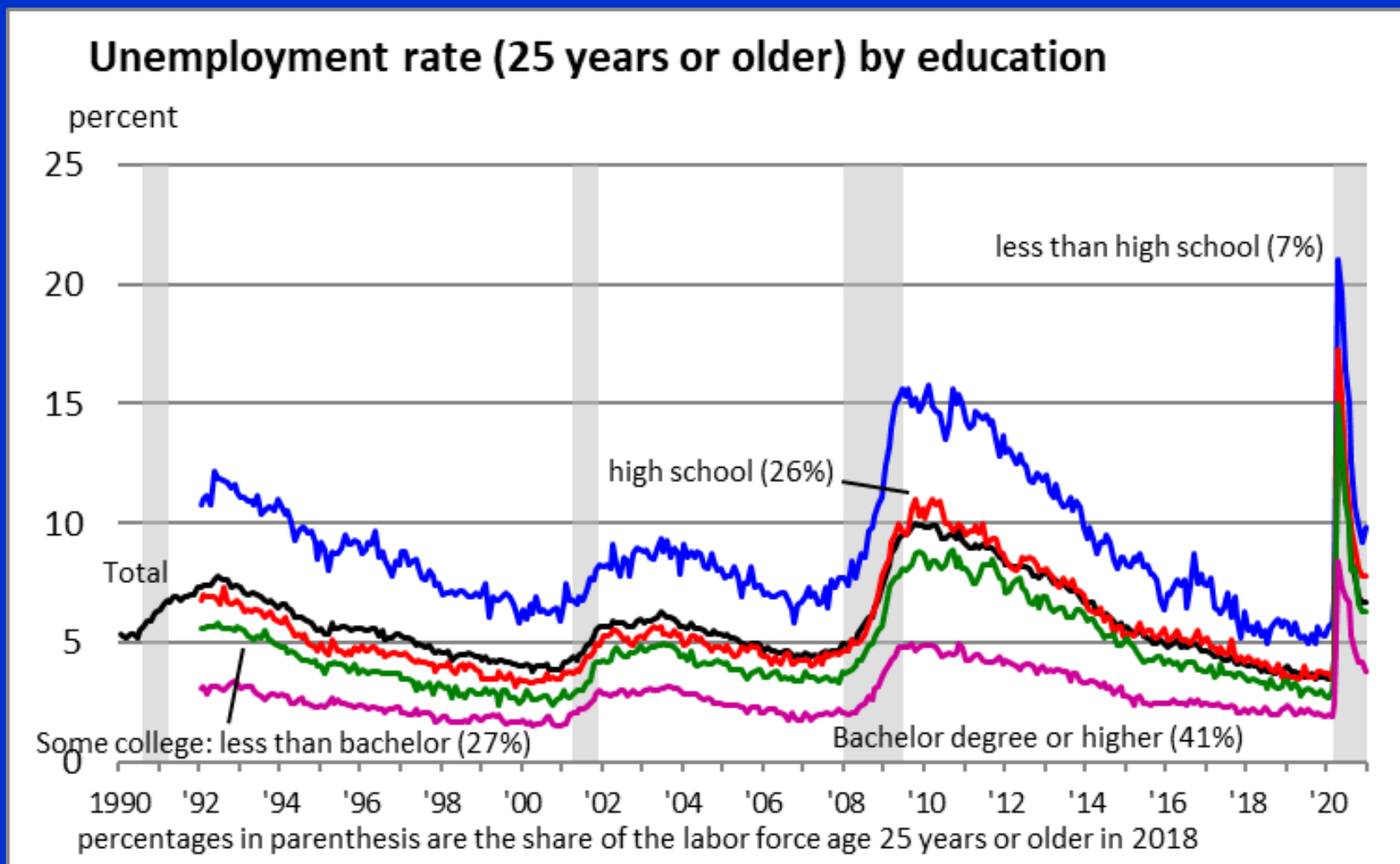
Employment fell off a cliff, before climbing part way up again



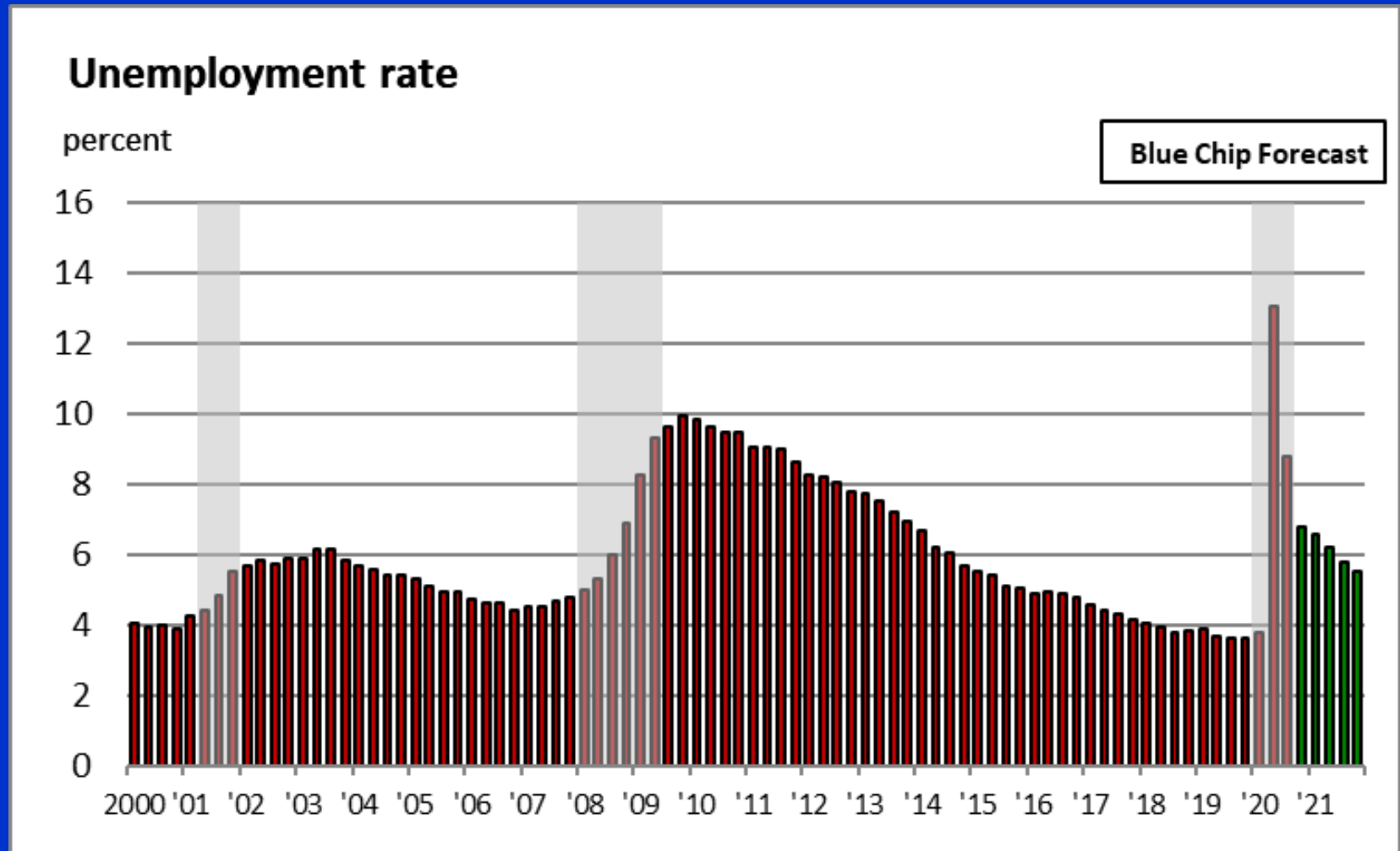
Employment plummeted with shutdowns



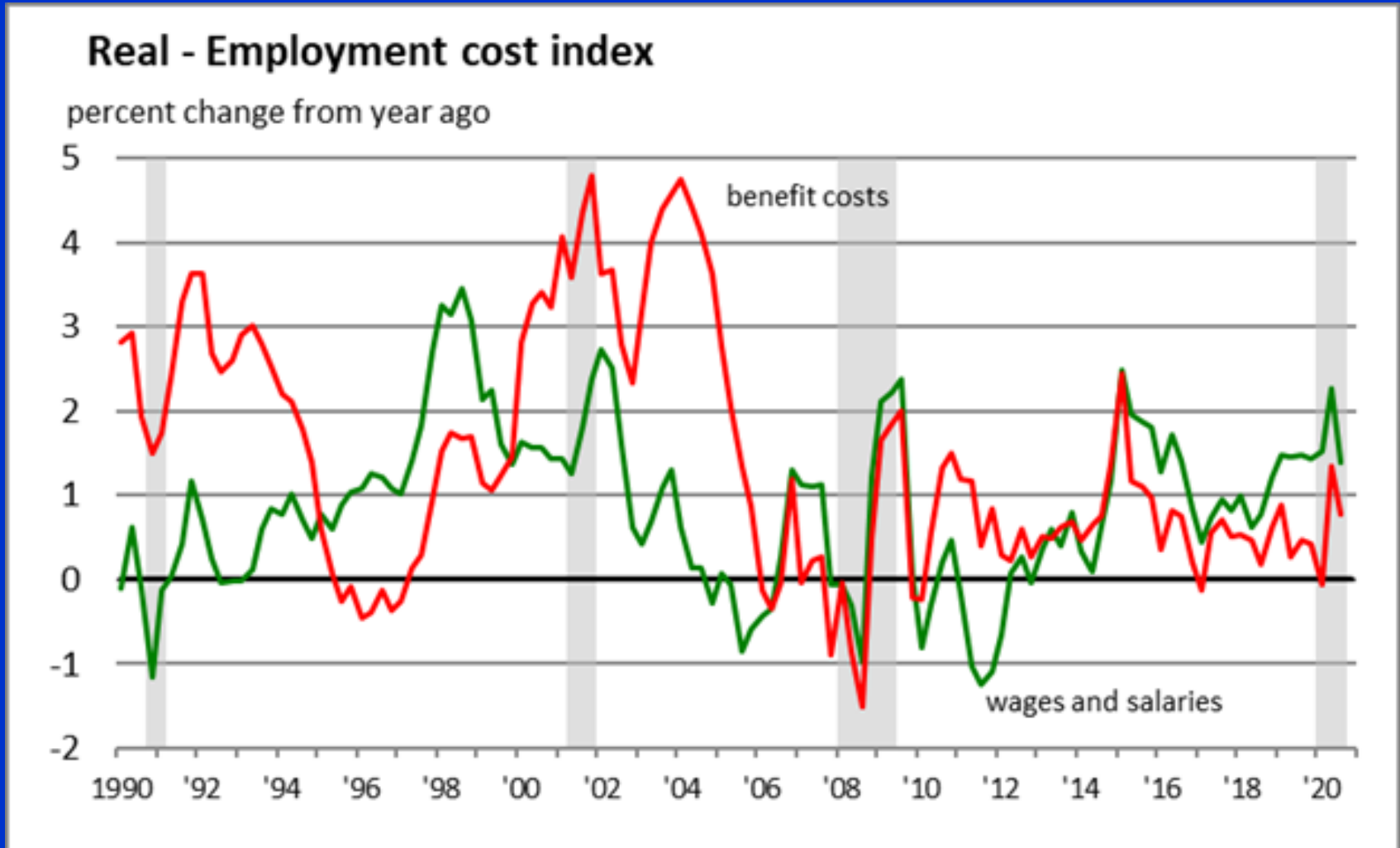
Unemployment rates highest for those with the least education, but 2020 hurt all categories



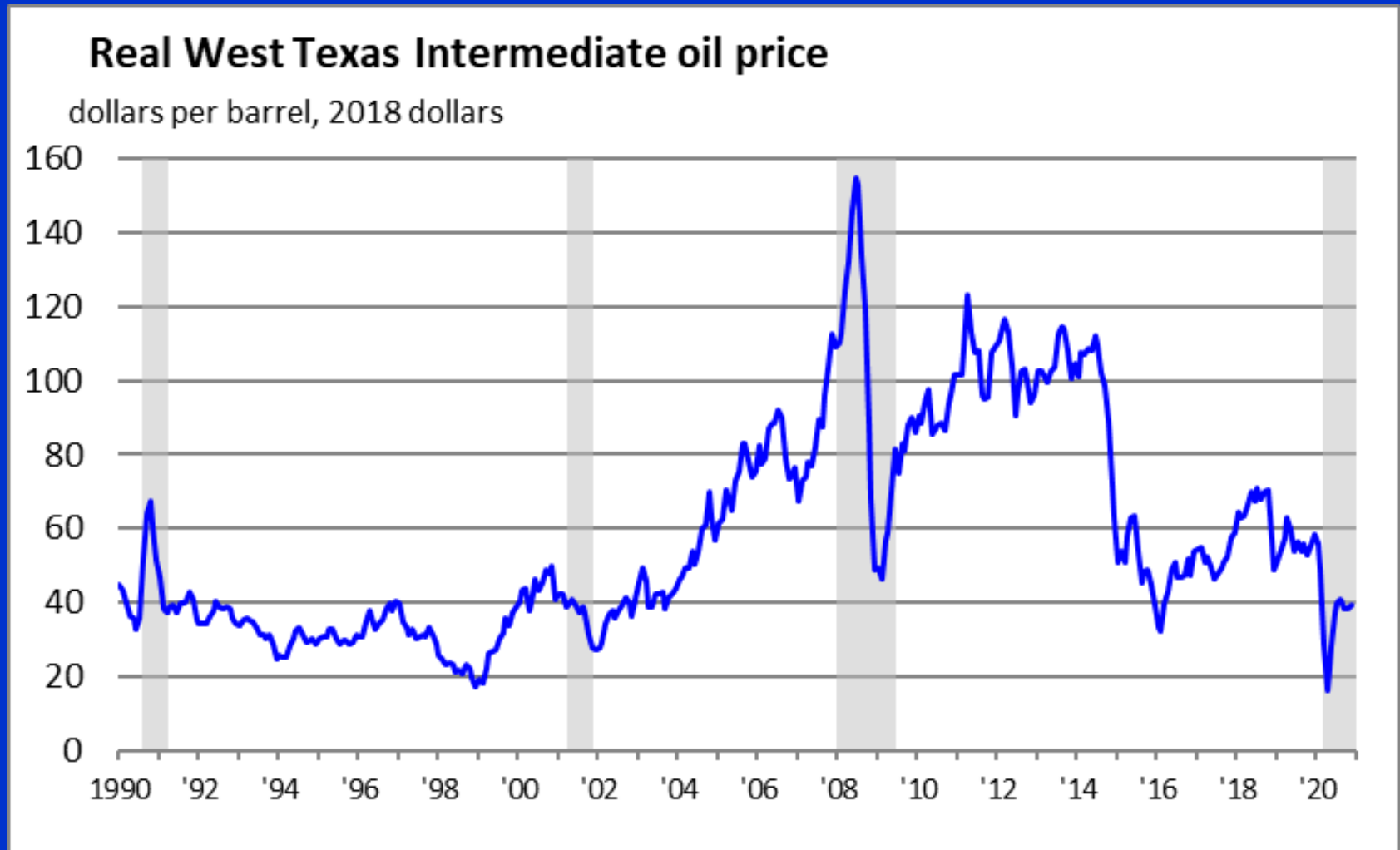
Blue Chip forecasts for unemployment to decline over the next two years



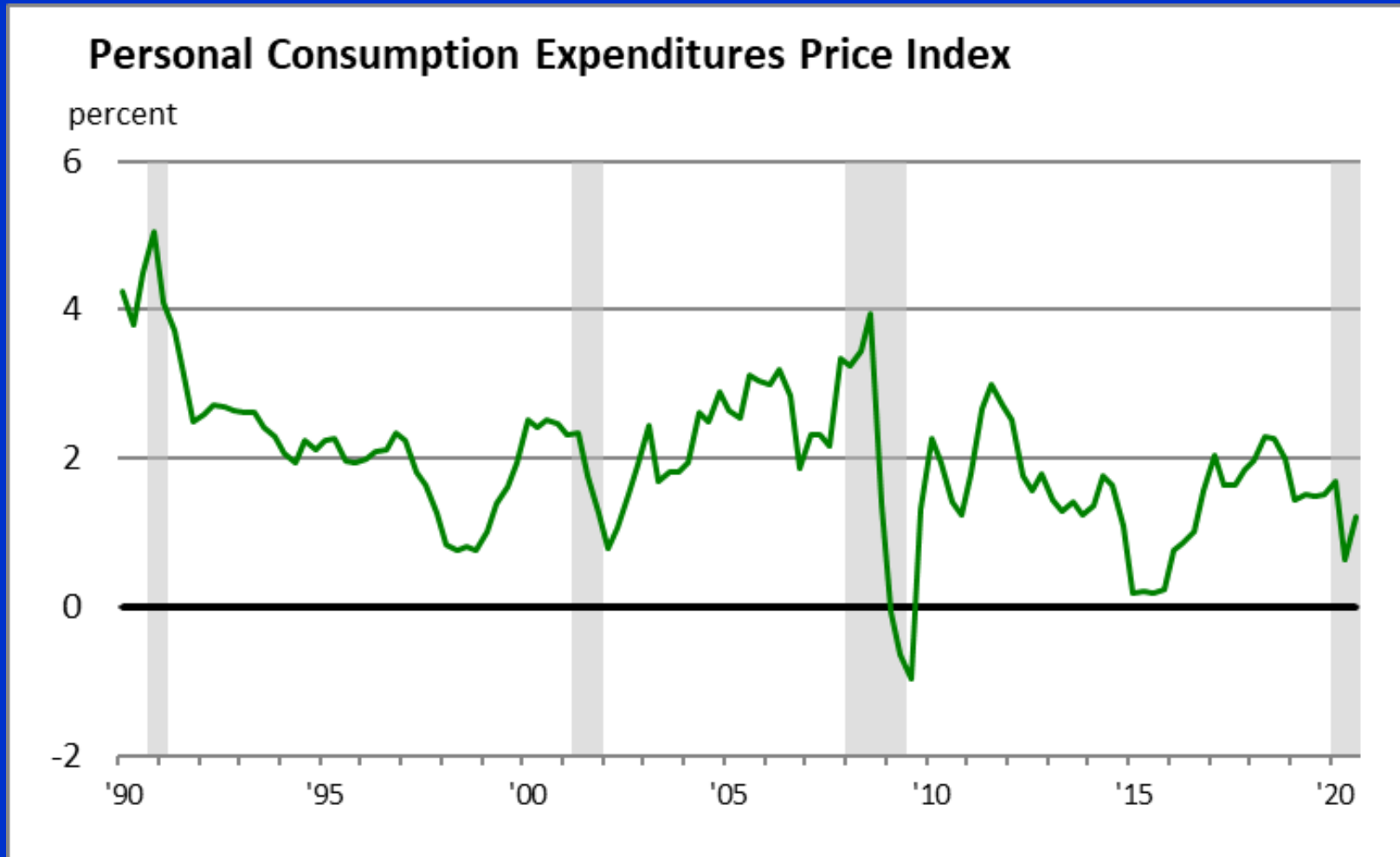
Compensation kept rising for those with work



Oil prices dropped sharply as drivers stayed home and gasoline usage declined

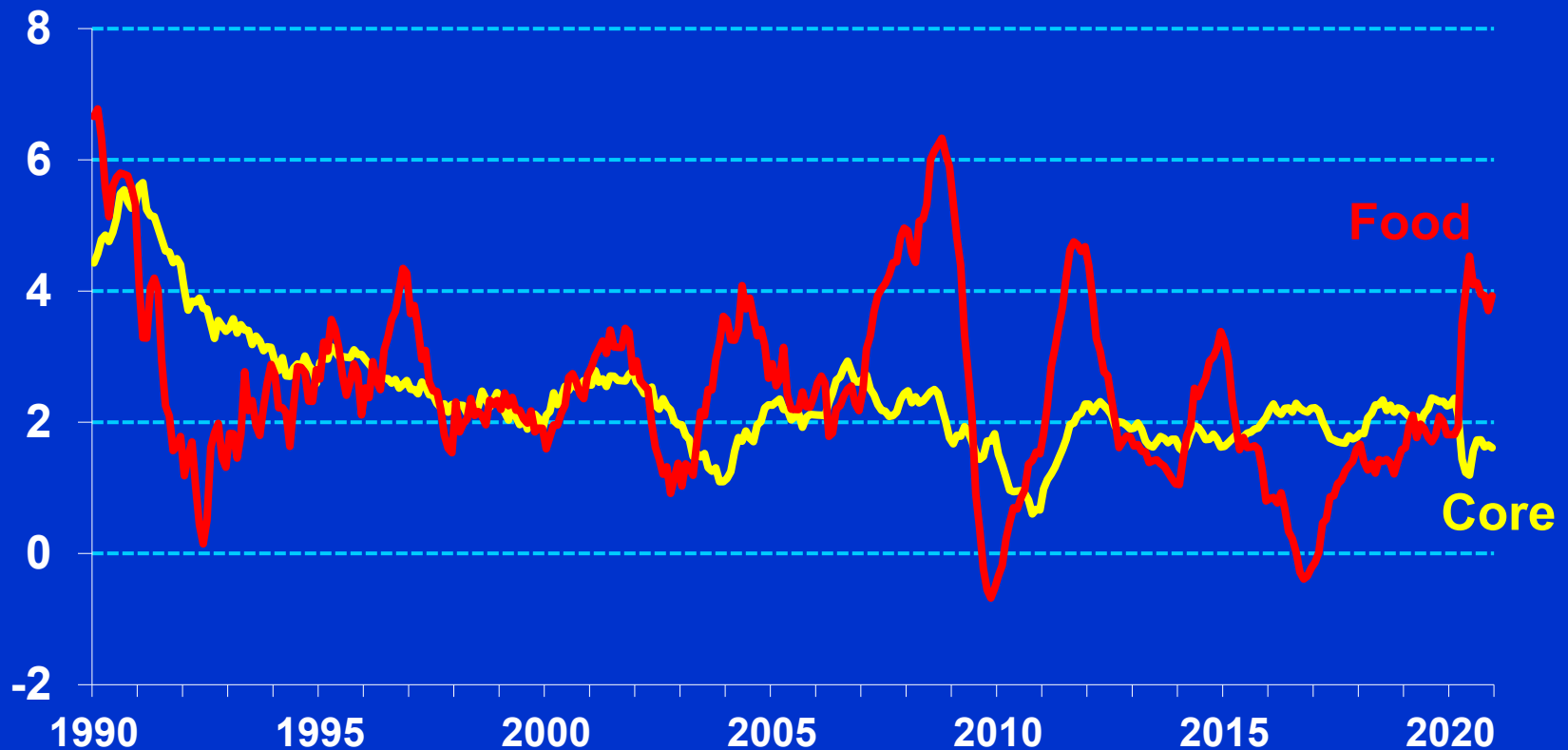


Inflation is even further below the Fed target of 2% as the recession slowed price increases

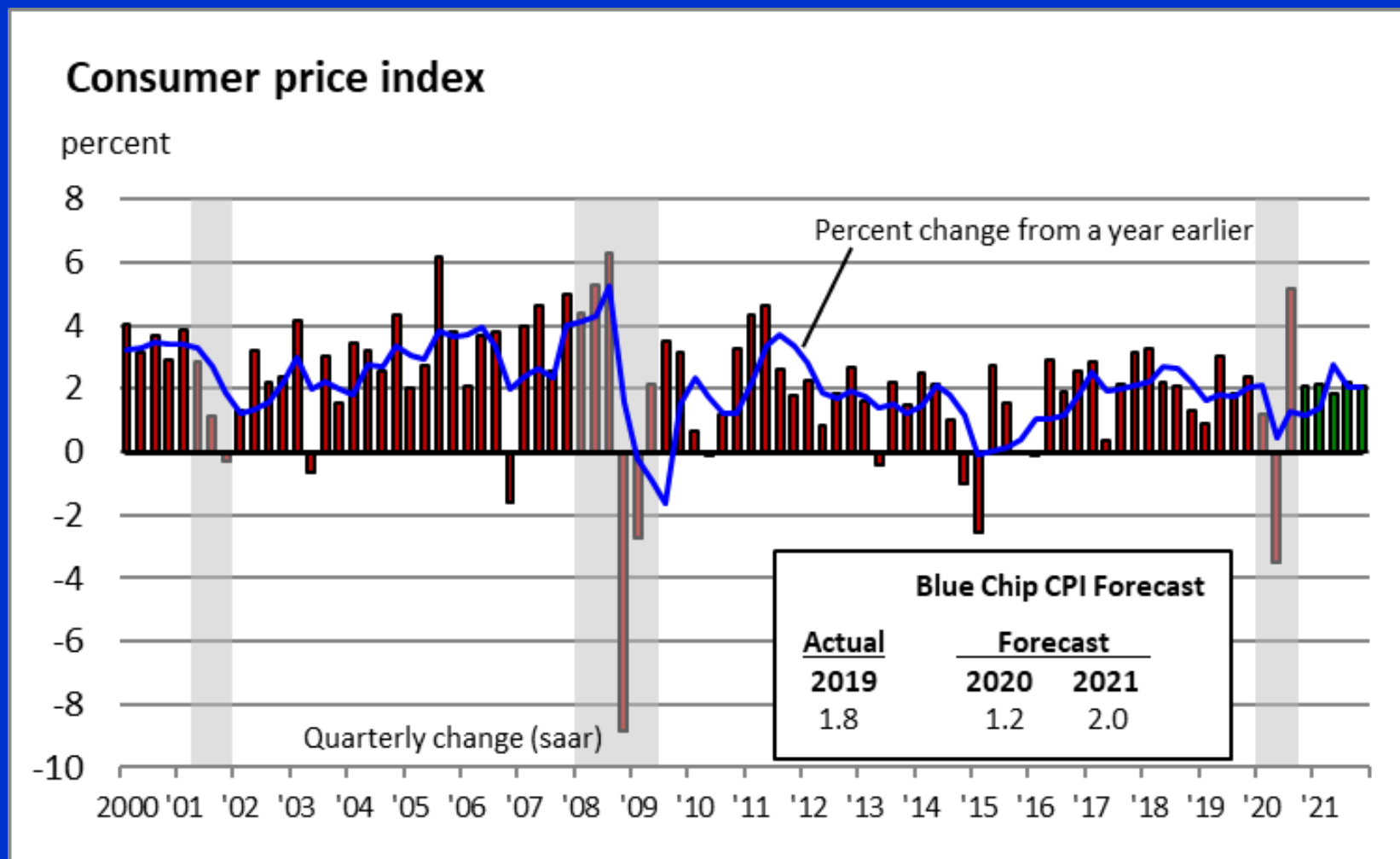


Source: Bureau of Economic Analysis

**Last year food price changes far outpaced
core inflation (less food and energy)**
(Consumer Price Indexes, % change from year ago)



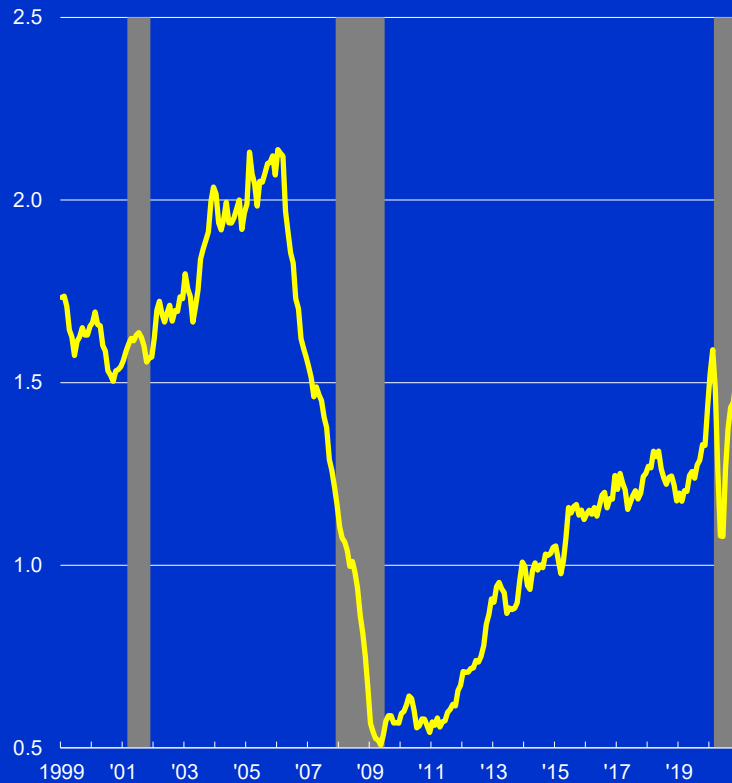
Blue Chip forecast shows inflation expected to remain around 2% in 2021



Housing market heating up again, as rates hit new lows

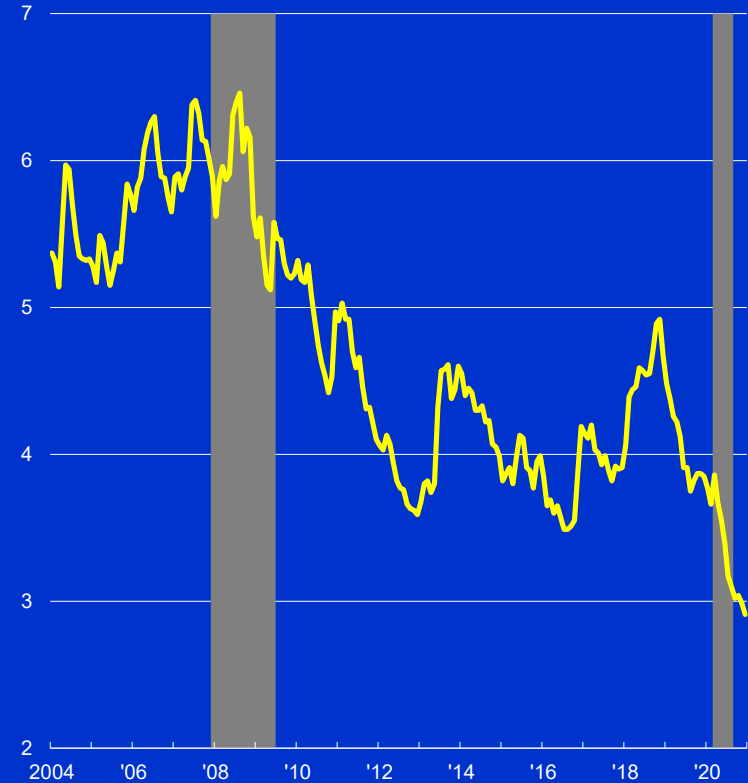
Housing starts

(millions of units, 3-month moving average, SAAR)

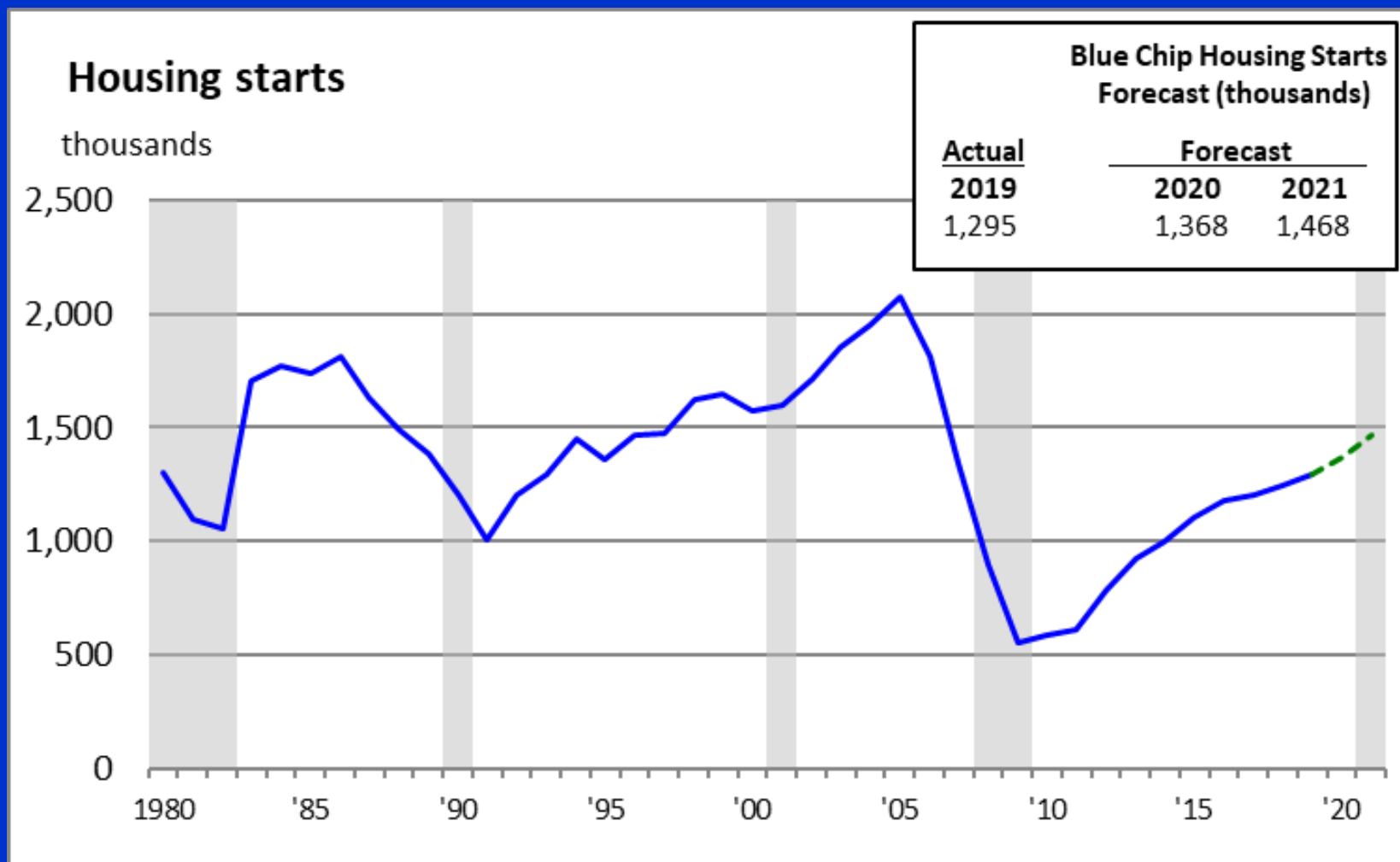


Home mortgage rate

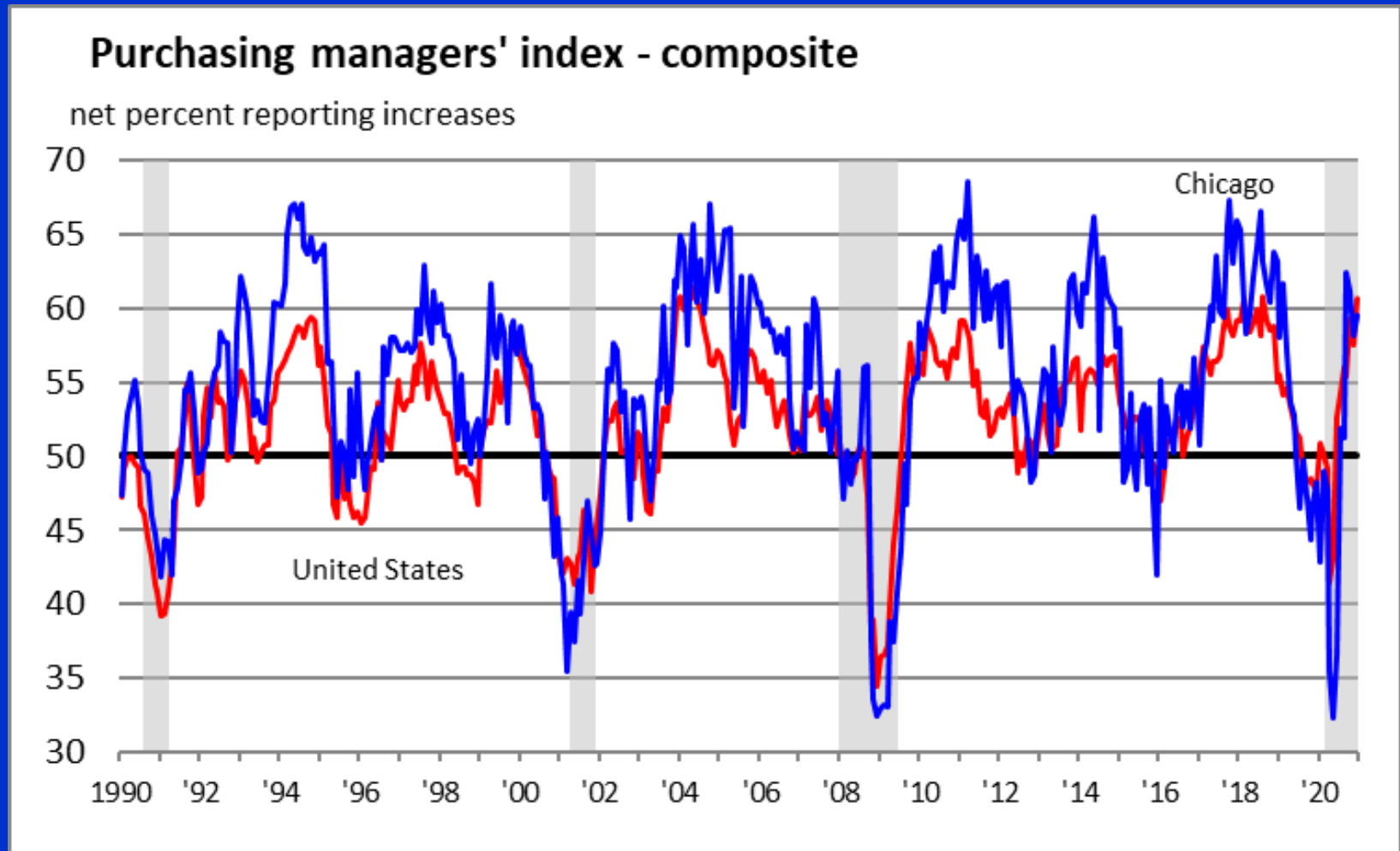
(percent, average 30-year fixed)



Blue Chip forecast of strong housing starts over the next two years



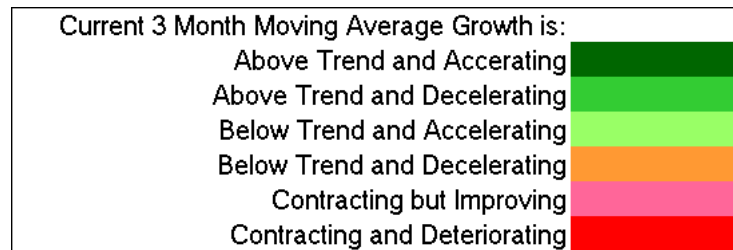
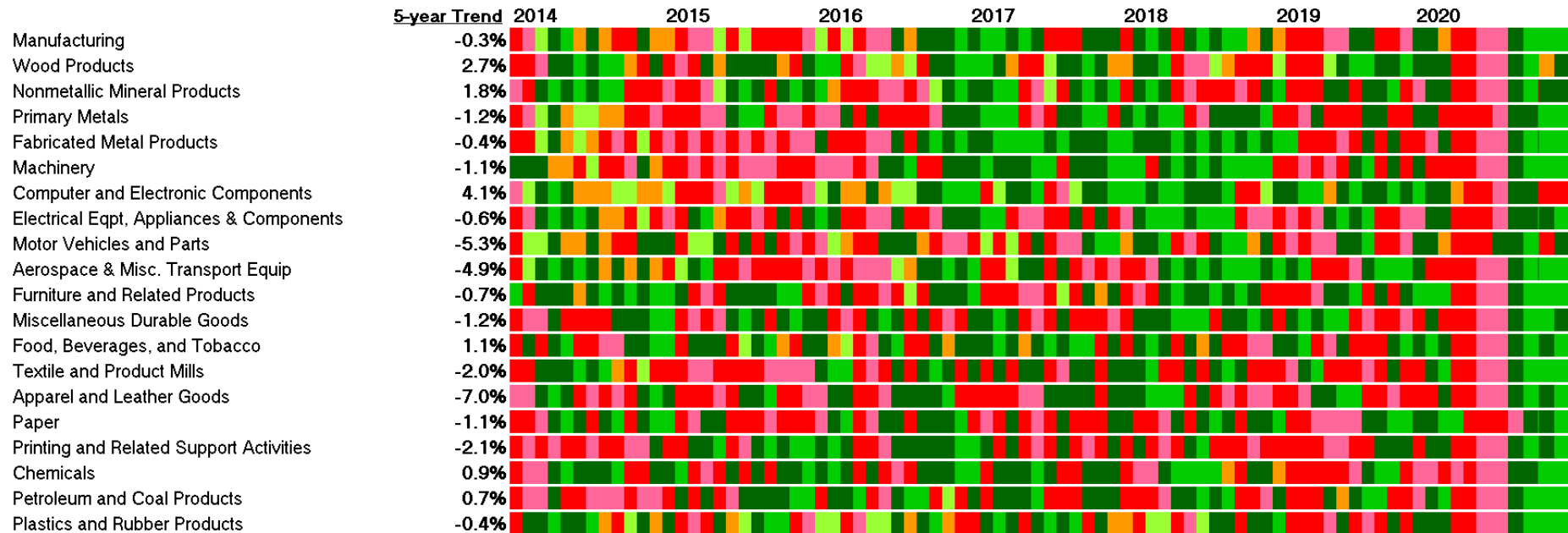
The Chicago supply managers' composite index and the nation's index well above 50



Manufacturing output is coming back, but still below pre-pandemic levels

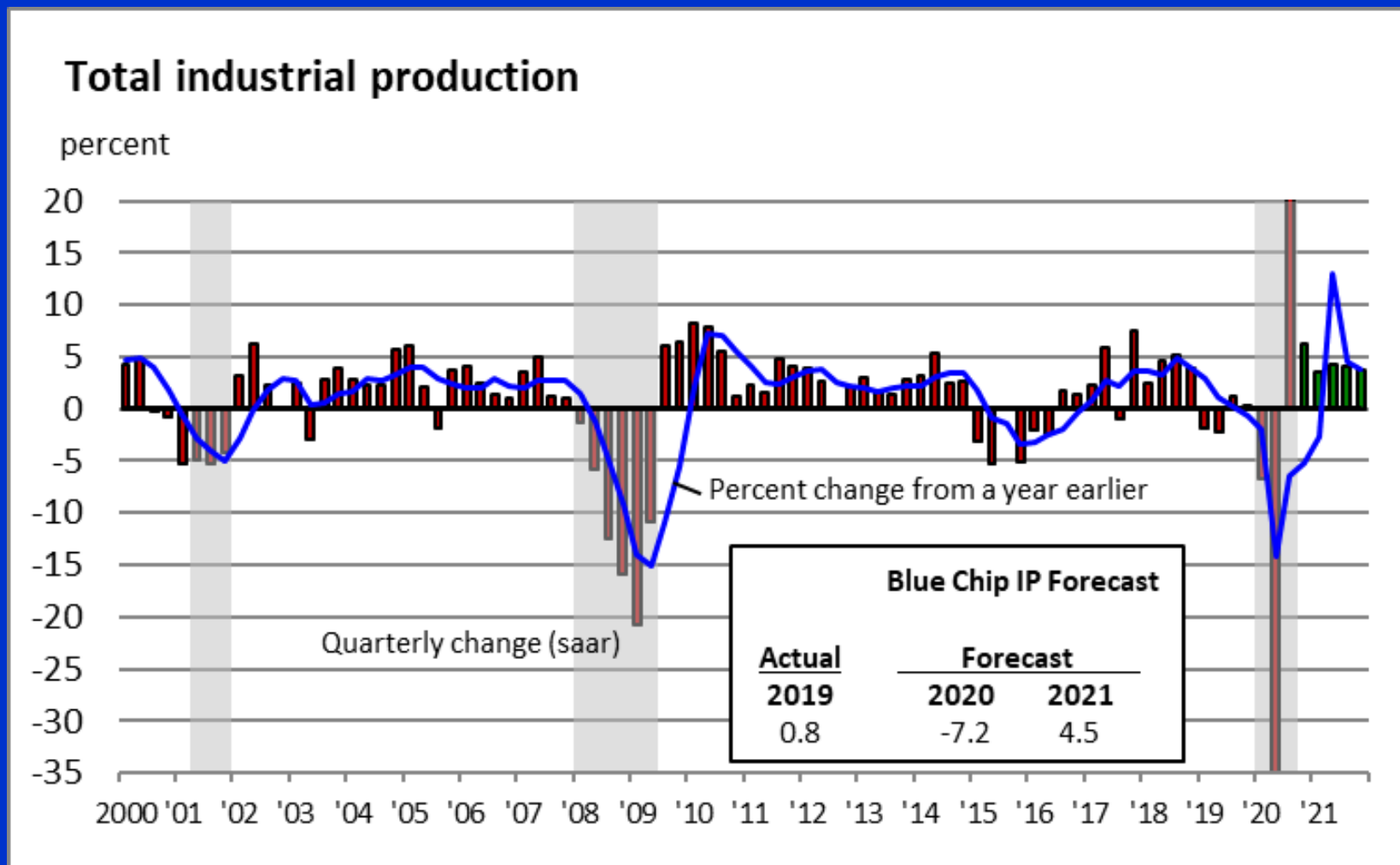


Industrial production has been above trend in most manufacturing sectors



Source: Calculations based on data from the Federal Reserve Board of Governors

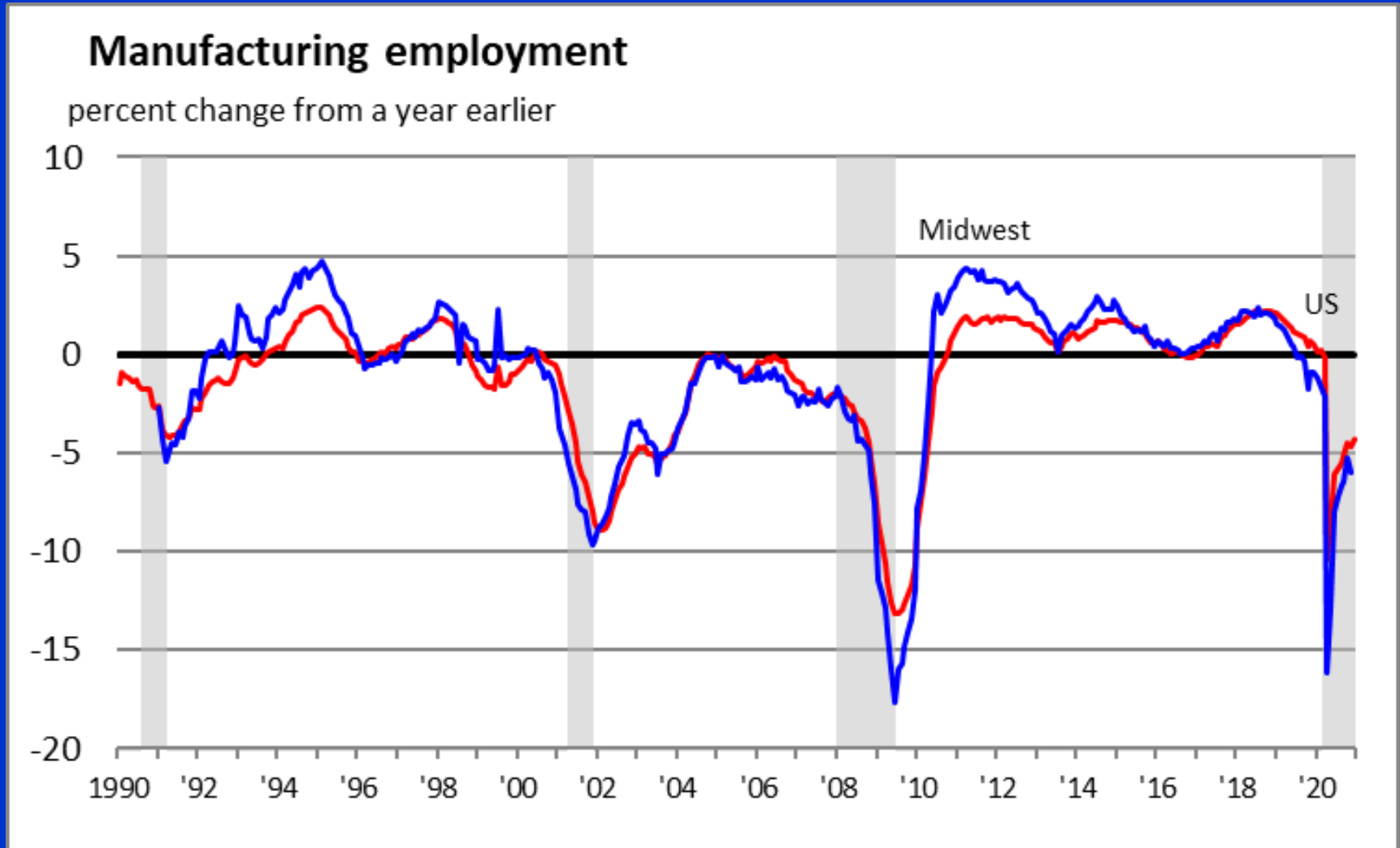
Industrial production is forecast to increase briskly in 2021



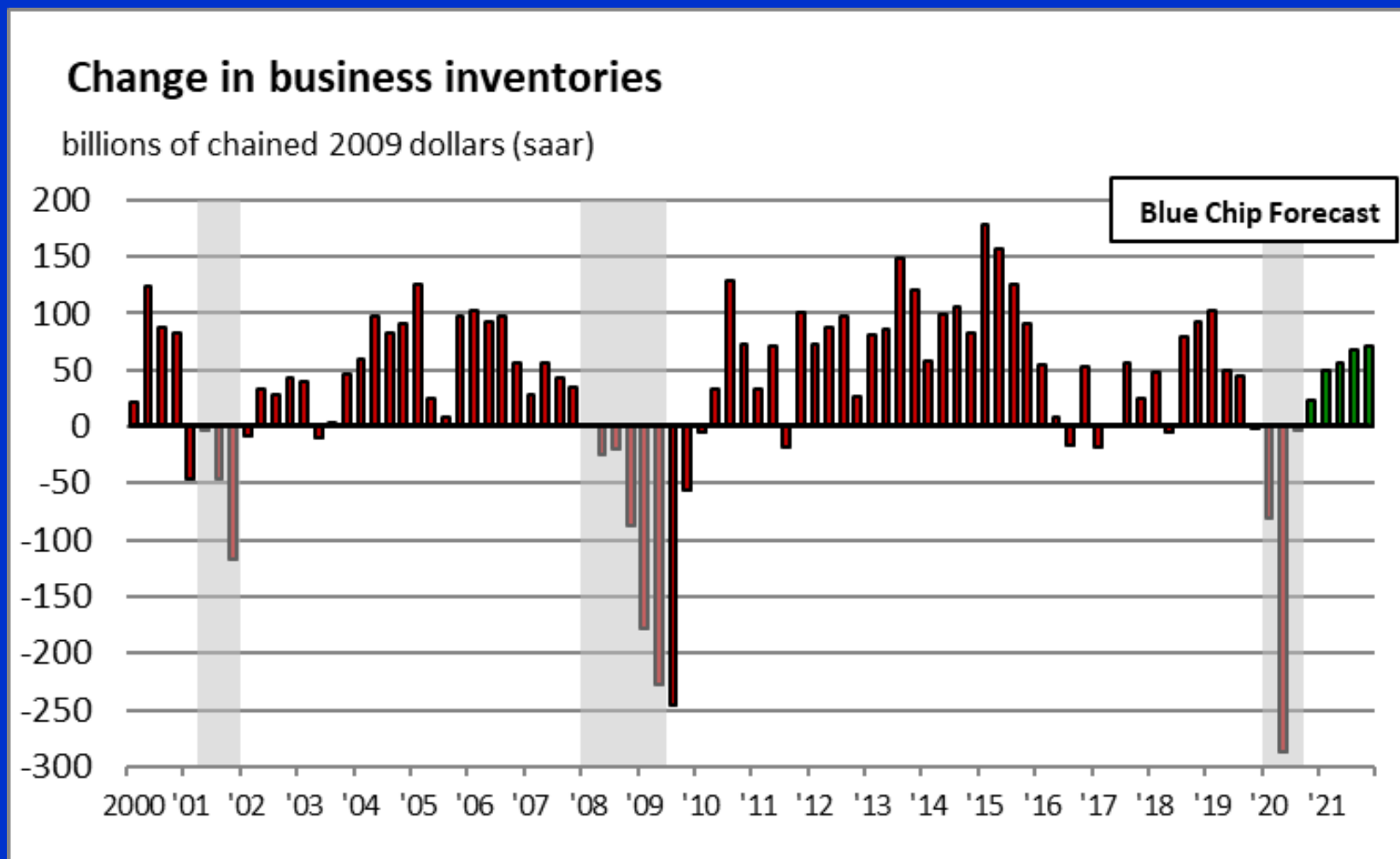
Capacity utilization bounced most of the way back from recessionary hit



Manufacturing employment plummeted; At year-end still down 5% from a year ago

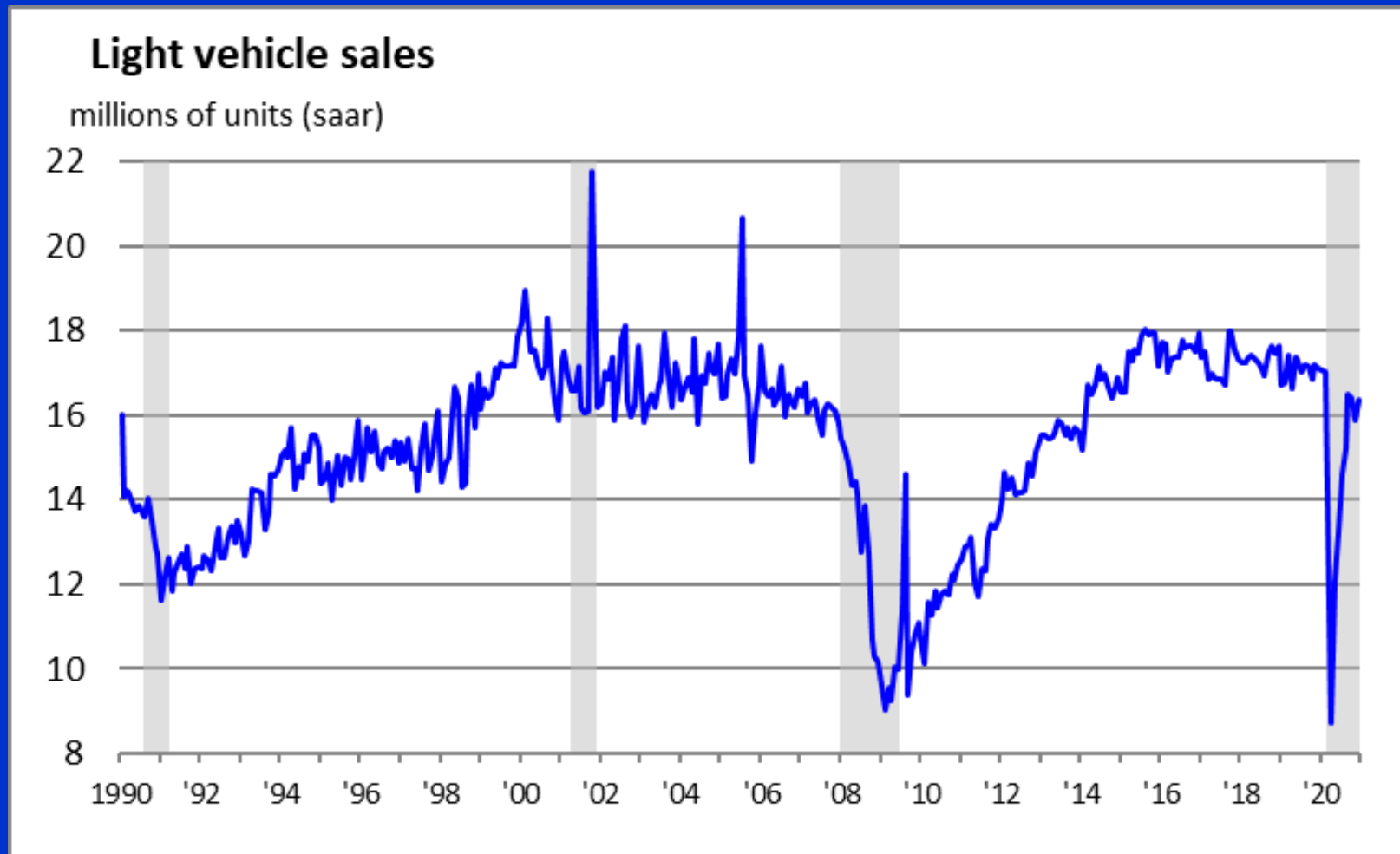


Business inventories expected to rise in 2021

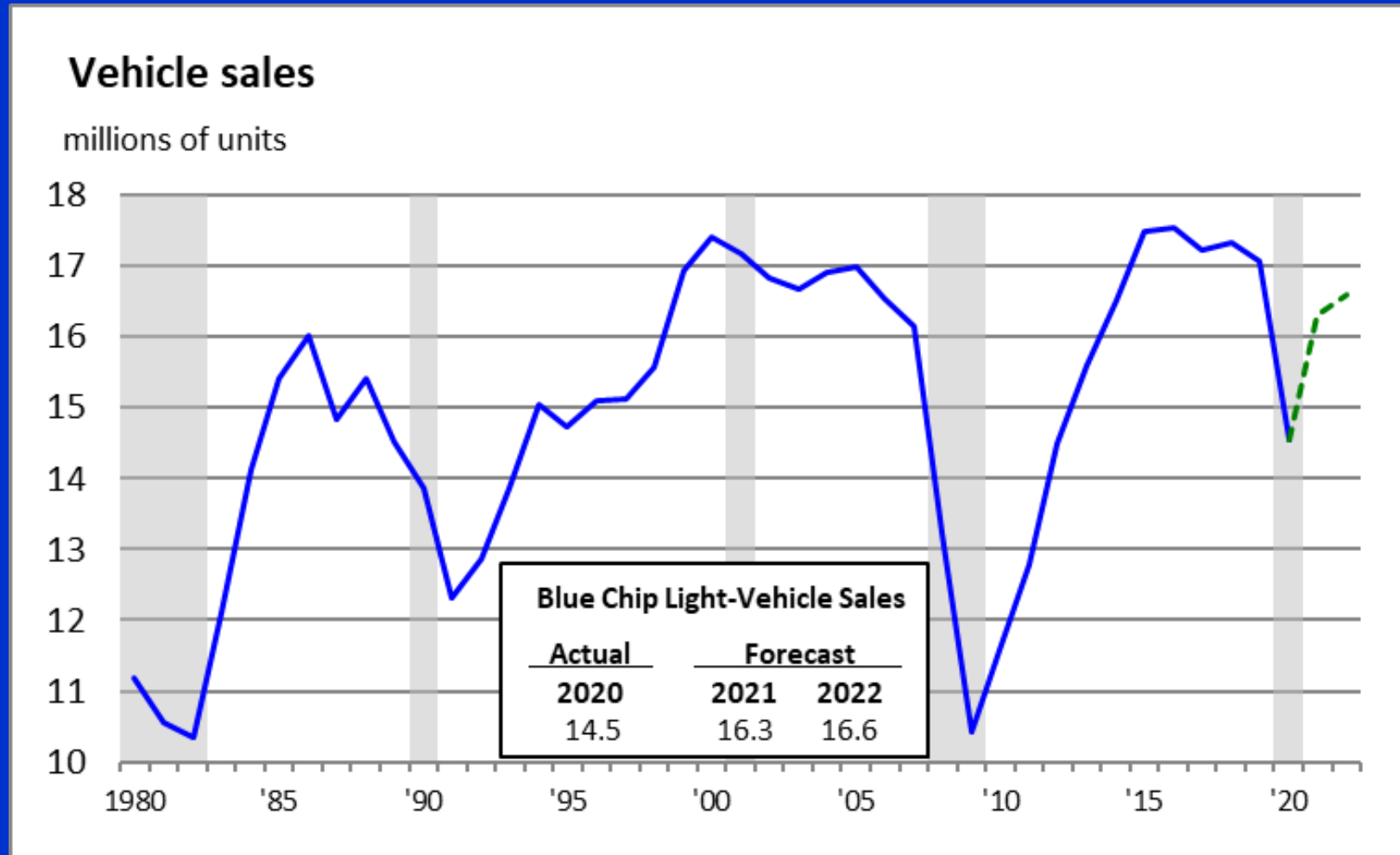


Sources: Bureau of Economic Analysis and Blue Chip Economic Indicators

Light vehicle sales dropped to 14.5 million units in 2020, 15% below those of a year earlier

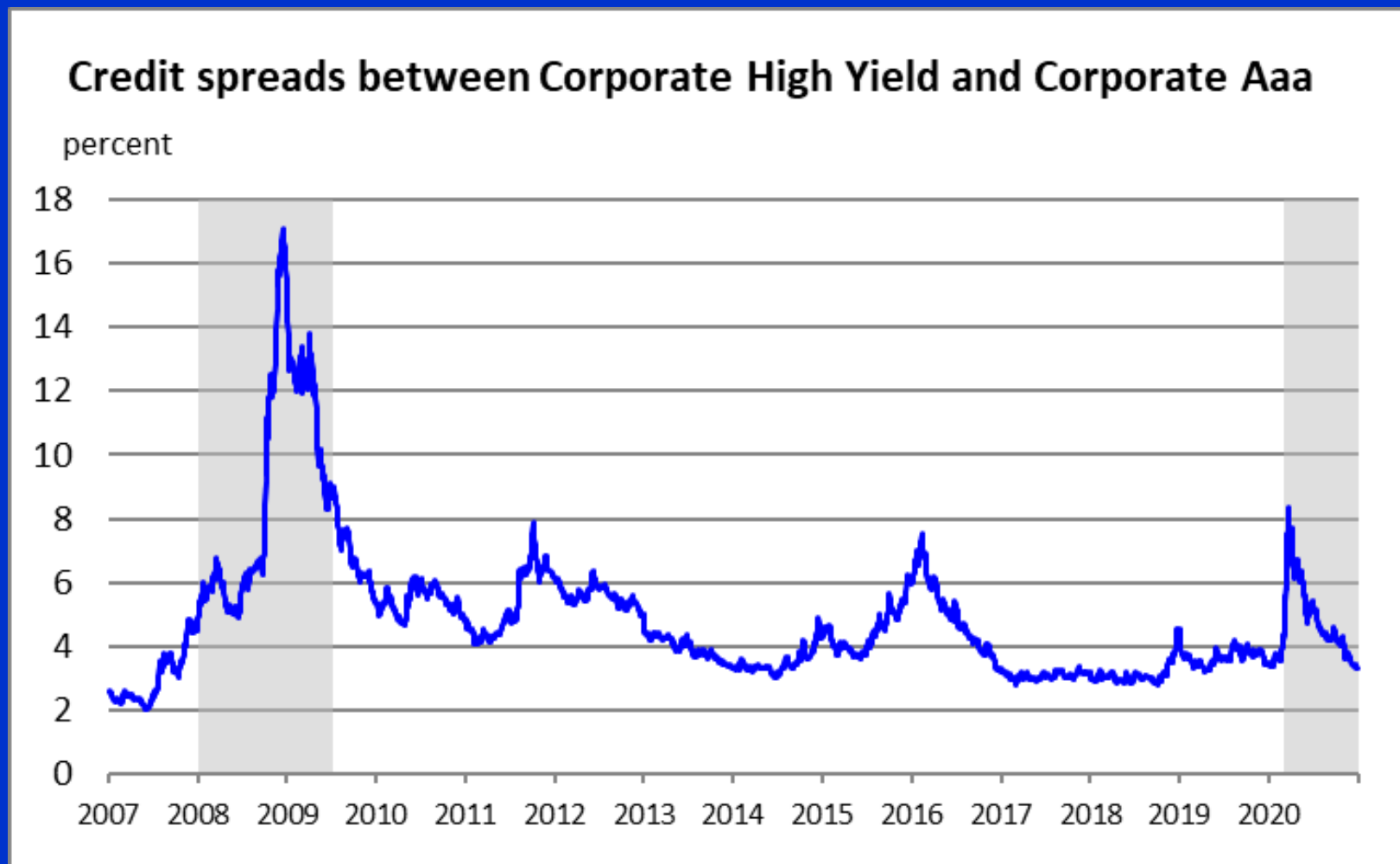


Blue Chip forecasts vehicle sales to rebound this year and move higher in 2022



Sources: Autodata from Haver and Blue Chip Economic Indicators

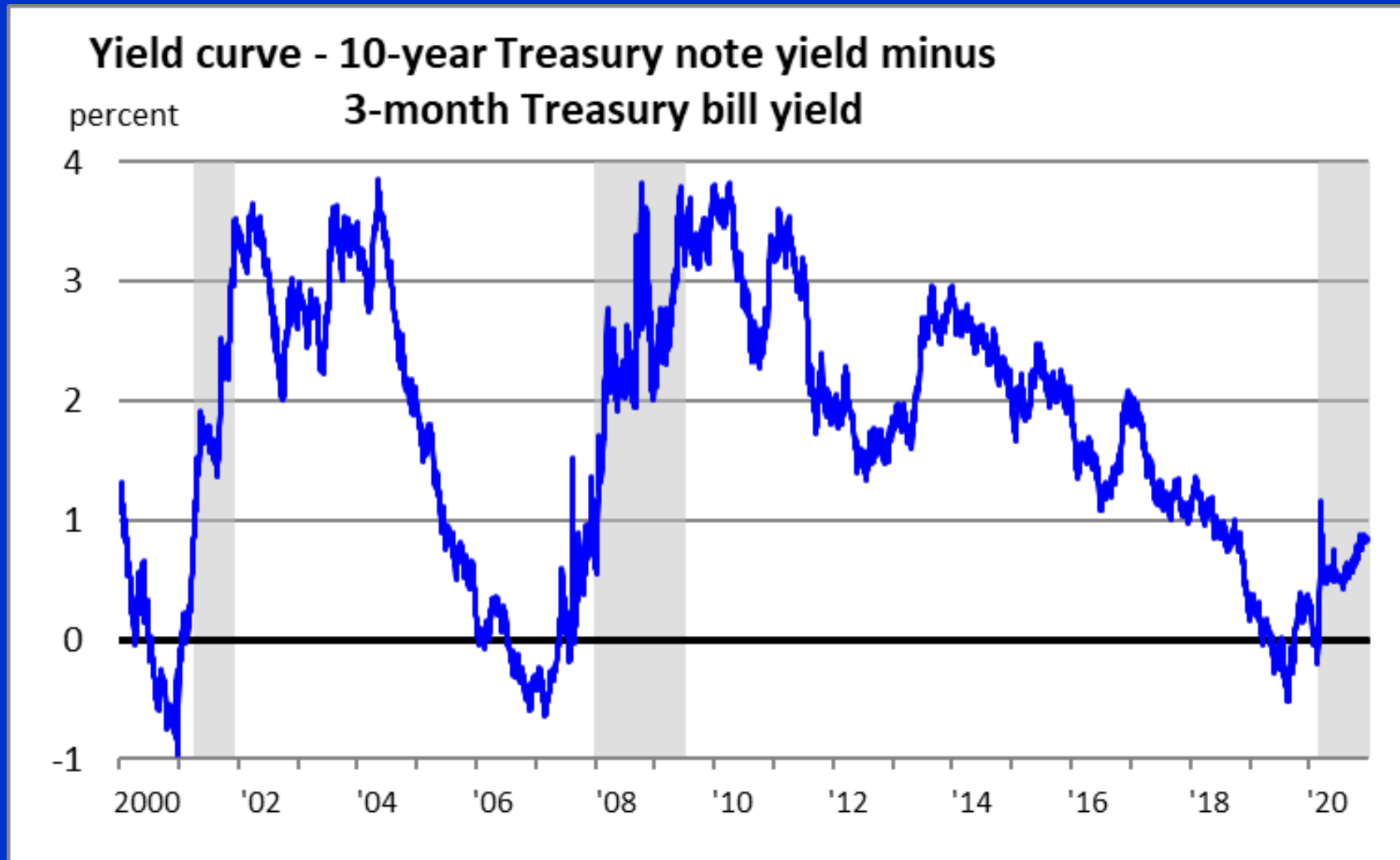
Credit spreads between Corporate High Yield securities and Corporate Aaa securities are lower again



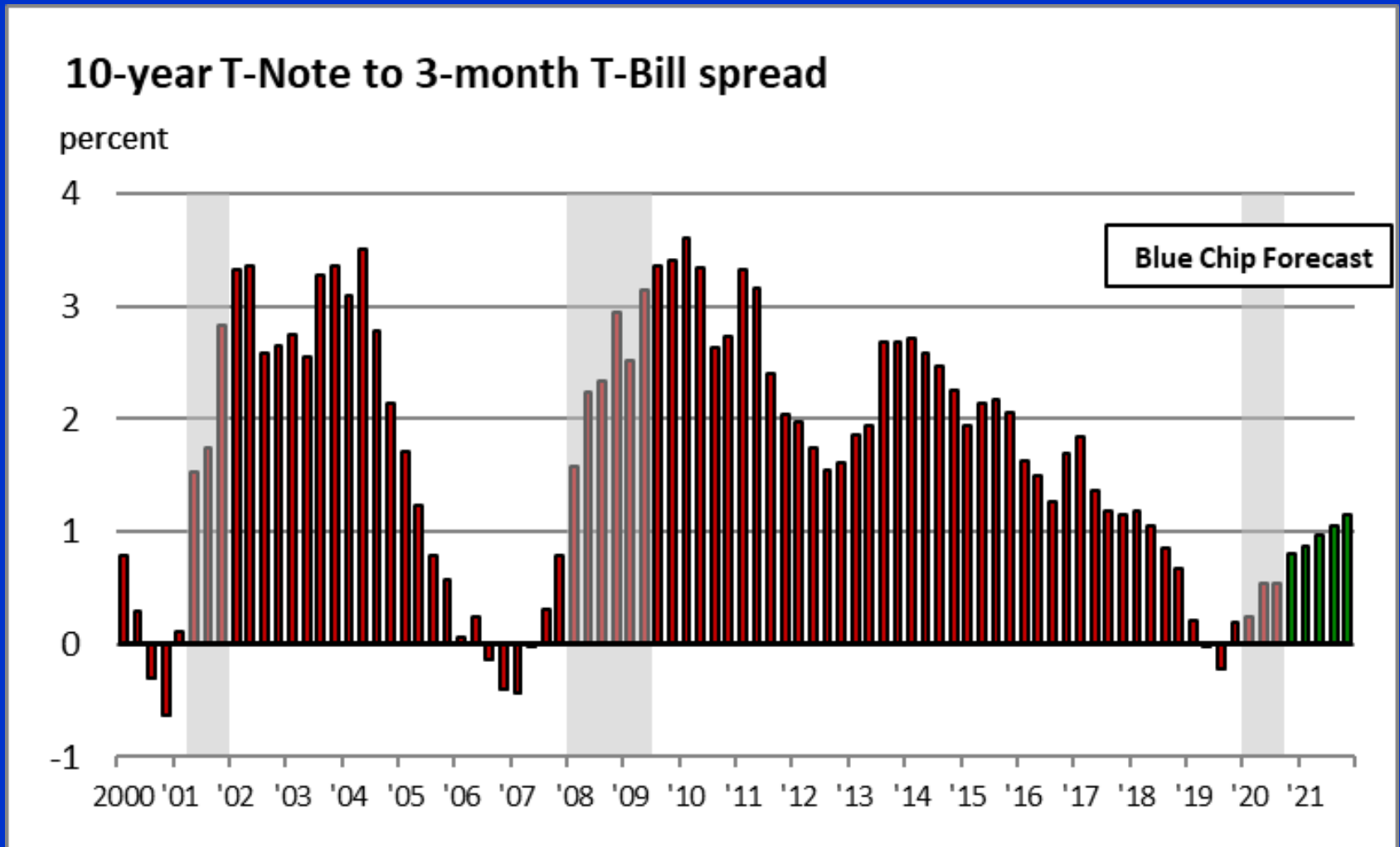
The 10-year vs. 2-year Treasury yield curve



The 10-year vs. 3-month Treasury yield curve was slightly inverted, but rising now



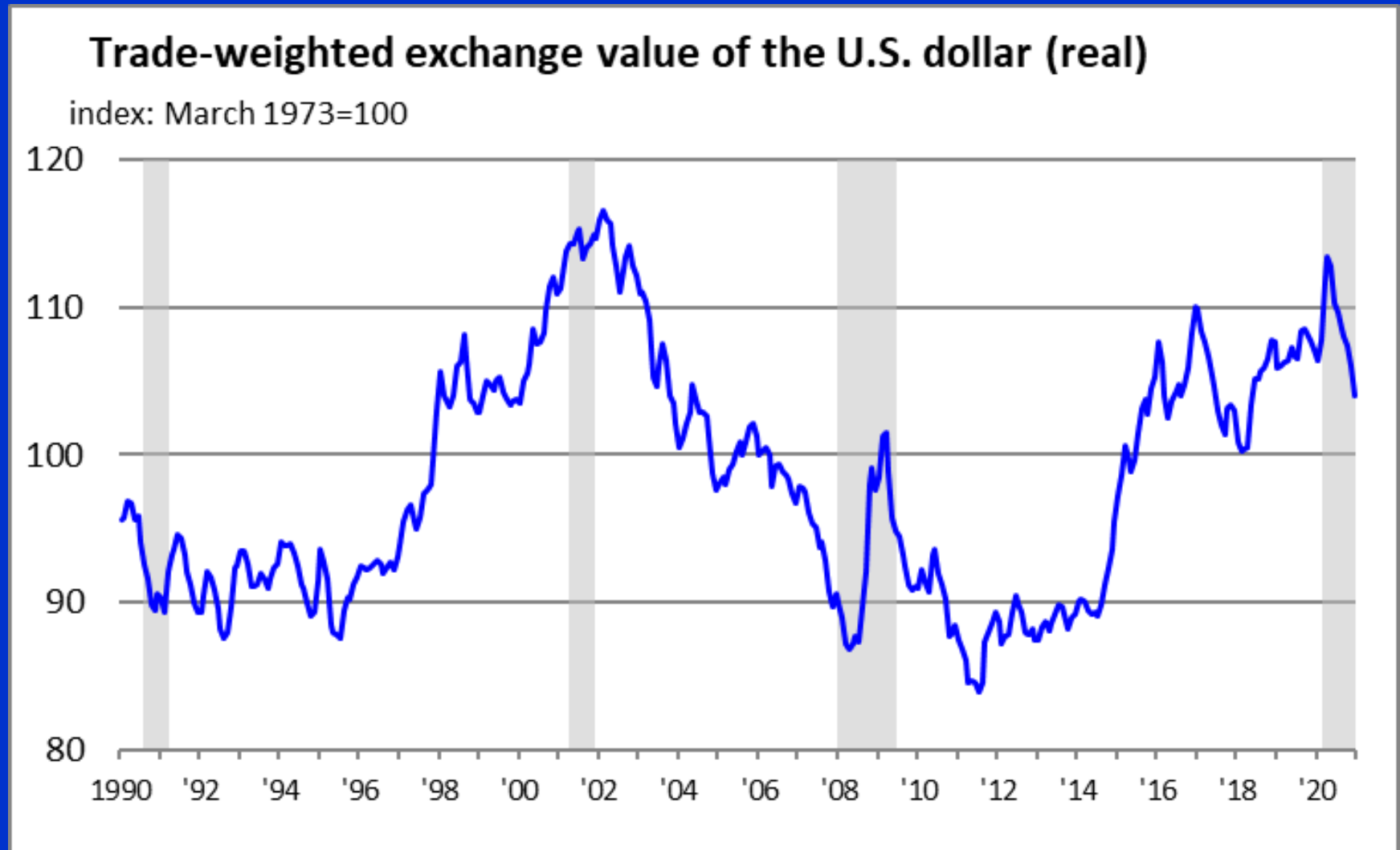
Blue Chip expects the yield curve to continue steepening through the end of this year



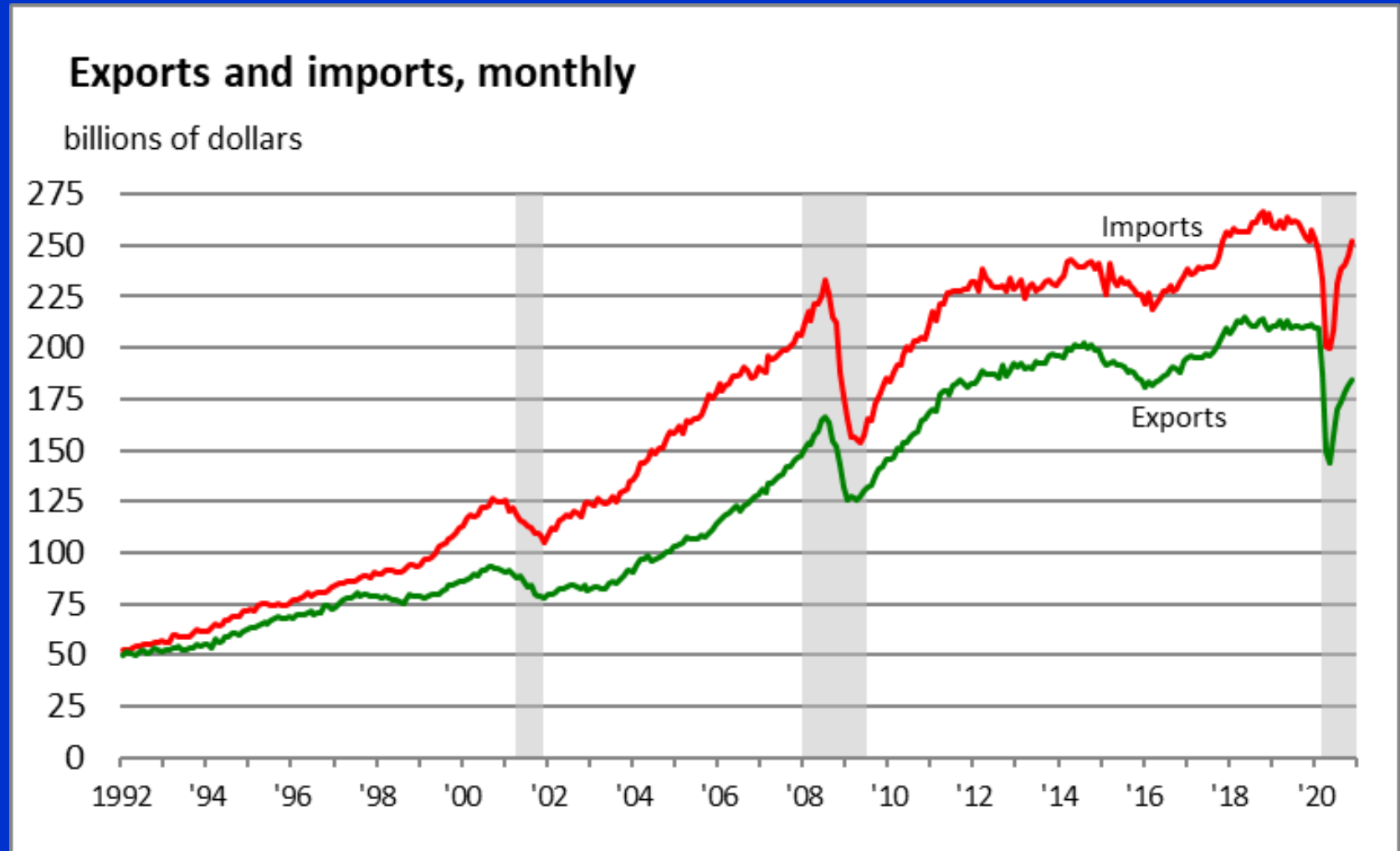
Blue Chip International Consensus Forecasts

	-----ANNUAL DATA-----						-----END OF YEAR-----			
	Real Economic		Inflation		Current Account		Exchange Rate		Interest	
	Growth % Change		% Change		In Billions		Against		Rates	
	GDP		Consumer Prices		Of U.S. Dollars		U.S. \$		3-Month	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Canada	4.5	3.5	1.8	1.9	-36.3	-38.8	1.28	1.26	0.33	0.40
Mexico	3.8	3.1	3.5	3.4	-0.7	-1.1	20.33	19.84	4.17	4.42
Japan	2.9	2.2	0.0	0.4	187.0	198.6	102.2	103.7	-0.09	-0.07
South Korea	3.5	3.1	1.0	1.4	78.8	78.5	1082	1064	0.81	0.92
United Kingdom	4.9	4.8	1.4	1.7	-81.4	-89.6	1.39	1.46	0.02	0.07
Germany	3.8	3.7	1.3	1.4	250.8	268.2	1.23	1.26	-0.53	-0.53
France	6.0	4.2	0.8	1.2	-47.1	-35.2	1.23	1.26	-0.53	-0.53
Euro Zone	4.7	3.8	0.9	1.1	349.9	395.0	1.23	1.26	-0.53	-0.53
Brazil	3.6	2.8	4.2	3.5	-22.6	-26.7	5.11	4.97	2.45	2.89
Russia	3.0	2.7	3.8	3.7	26.9	45.4	72.22	71.13	4.37	4.52
China	8.2	5.4	1.6	2.4	231.8	194.2	6.46	6.50	2.65	2.63
India	9.0	6.0	4.7	4.6	6.2	1.4	72.73	72.83	3.79	3.97

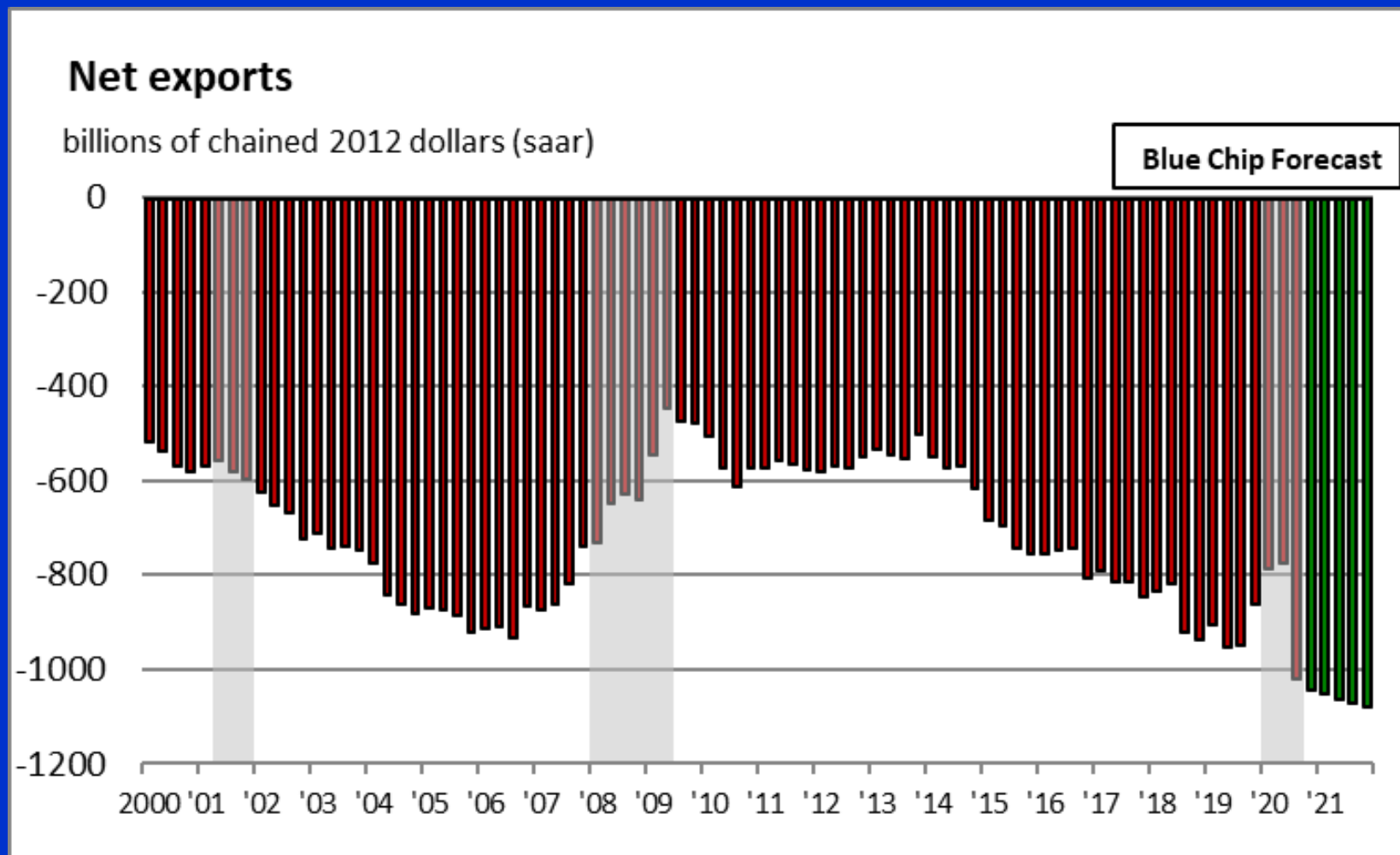
Dollar's exchange value weakened in 2020



Imports bounced back faster than exports

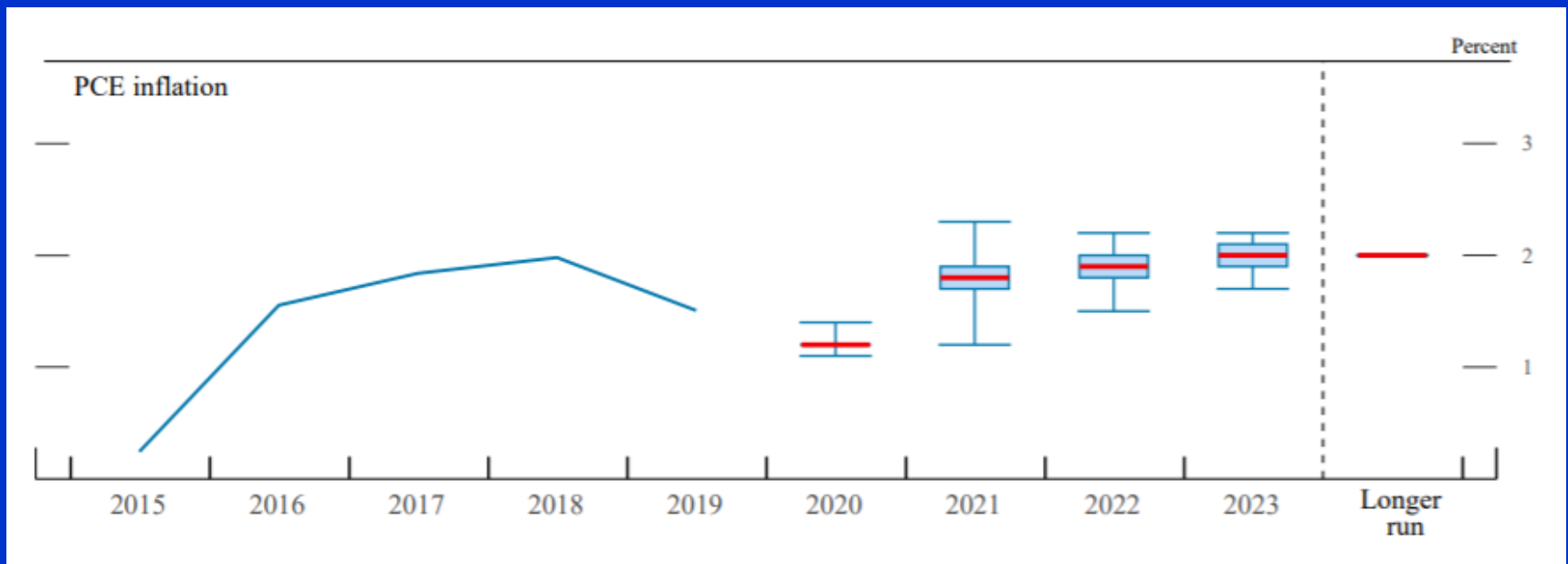


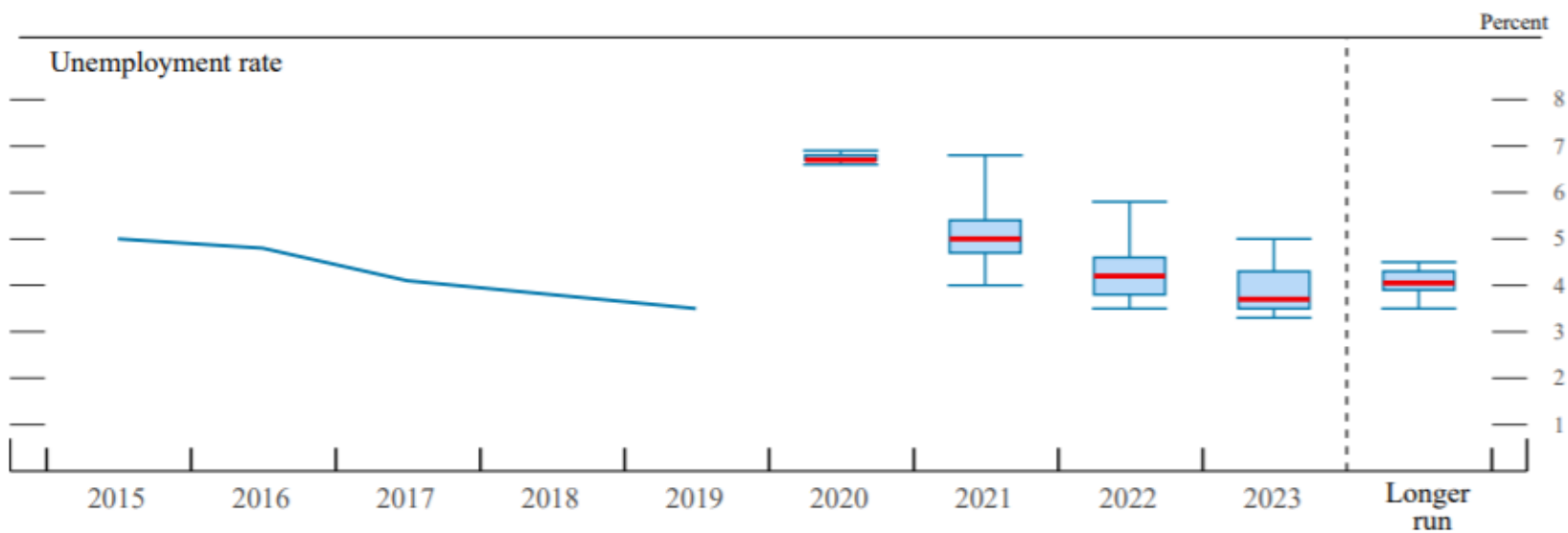
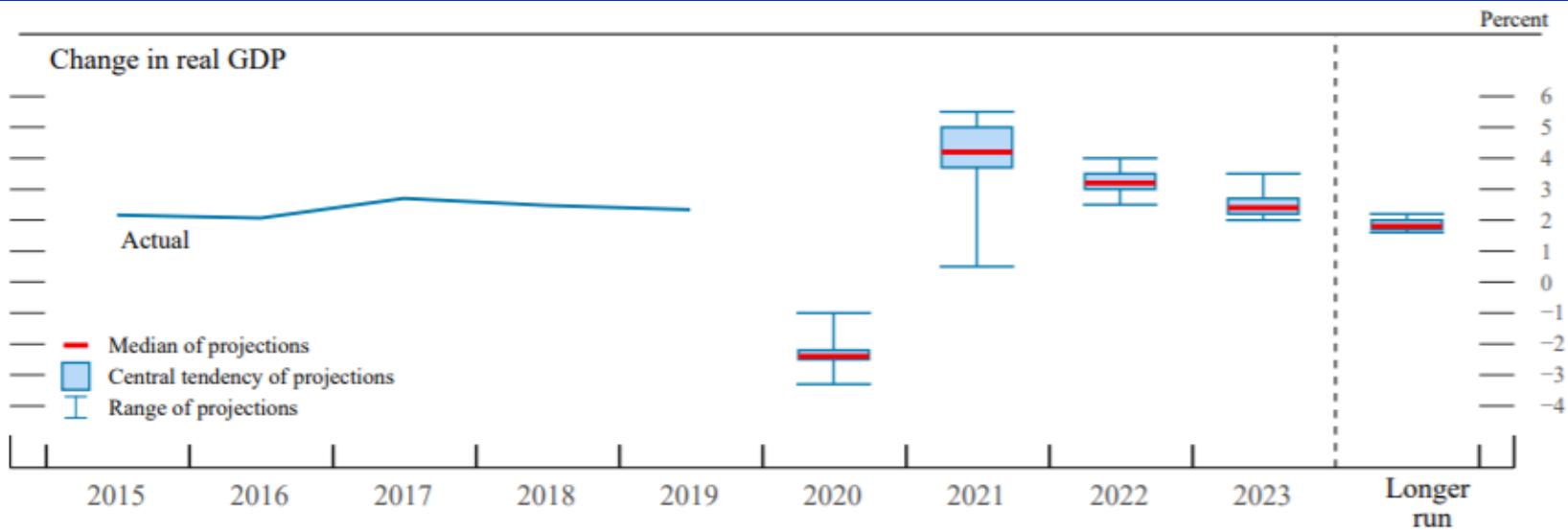
Blue Chip forecast indicates falling net exports through 2022



FOMC projections for the economy

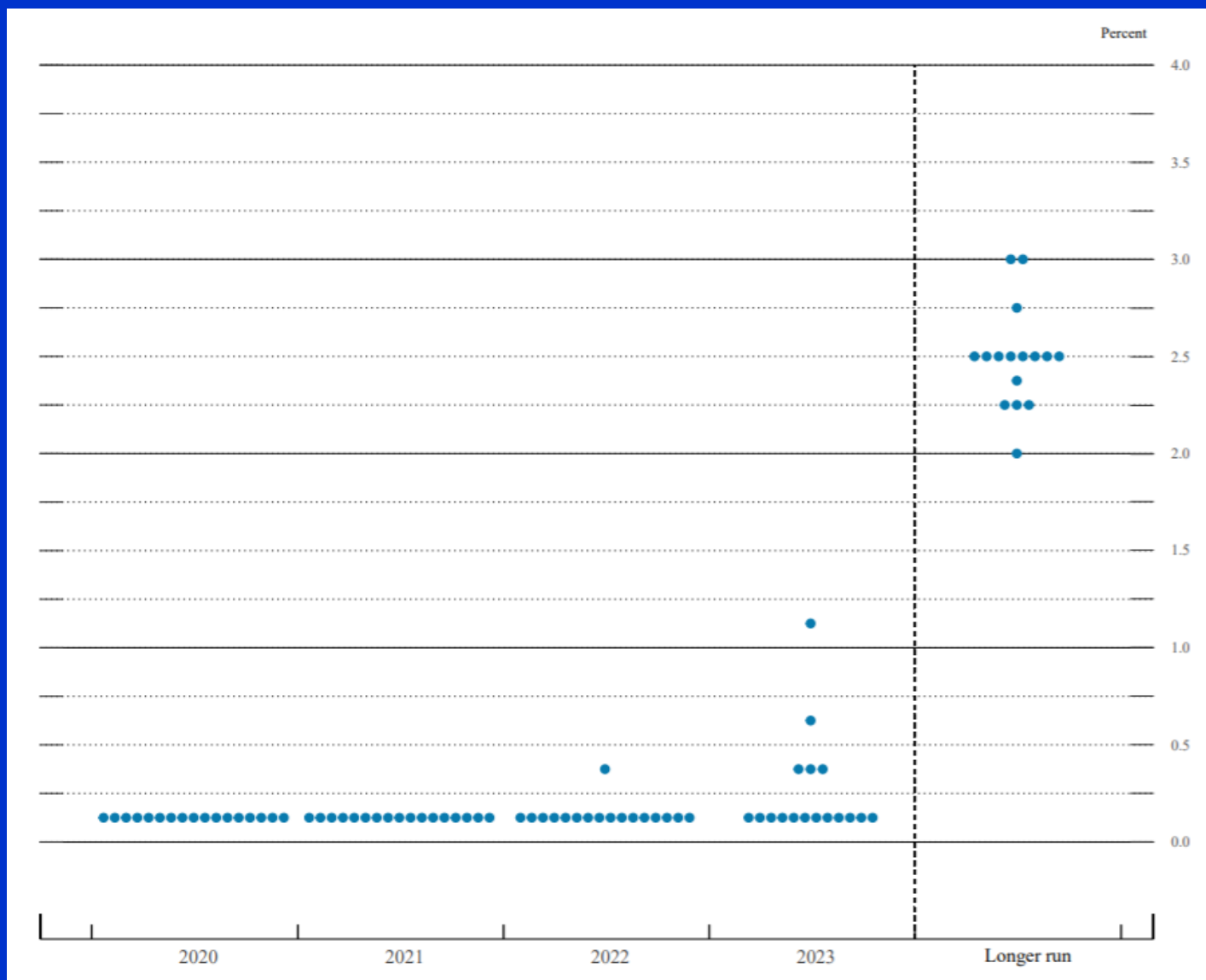
- Inflation rising toward 2% target by 2023
- Real GDP growth edging down toward trend
- Unemployment rate falling through 2023





Source: Federal Open Market Committee of the Federal Reserve System

The Federal Funds Rate is anticipated by the FOMC to remain near zero at least through the end of 2023



Summary

- The outlook is for the U.S. economy to expand at a pace above trend in 2021, 2022, and 2023, after 2020's dive
- Employment is expected to continue rising, while the unemployment rate will remain elevated but decline
- Inflation is forecast below the Fed's inflation target but increase toward the target through 2023
- Housing is predicted to keep improving with some hot spots
- Vehicle sales are anticipated to edge higher this year and next
- Manufacturing output is expected to bounce back in 2021 after picking up in the second half of last year

www.chicagofed.org

