



FEDERAL
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Outlook for the U.S. Economy

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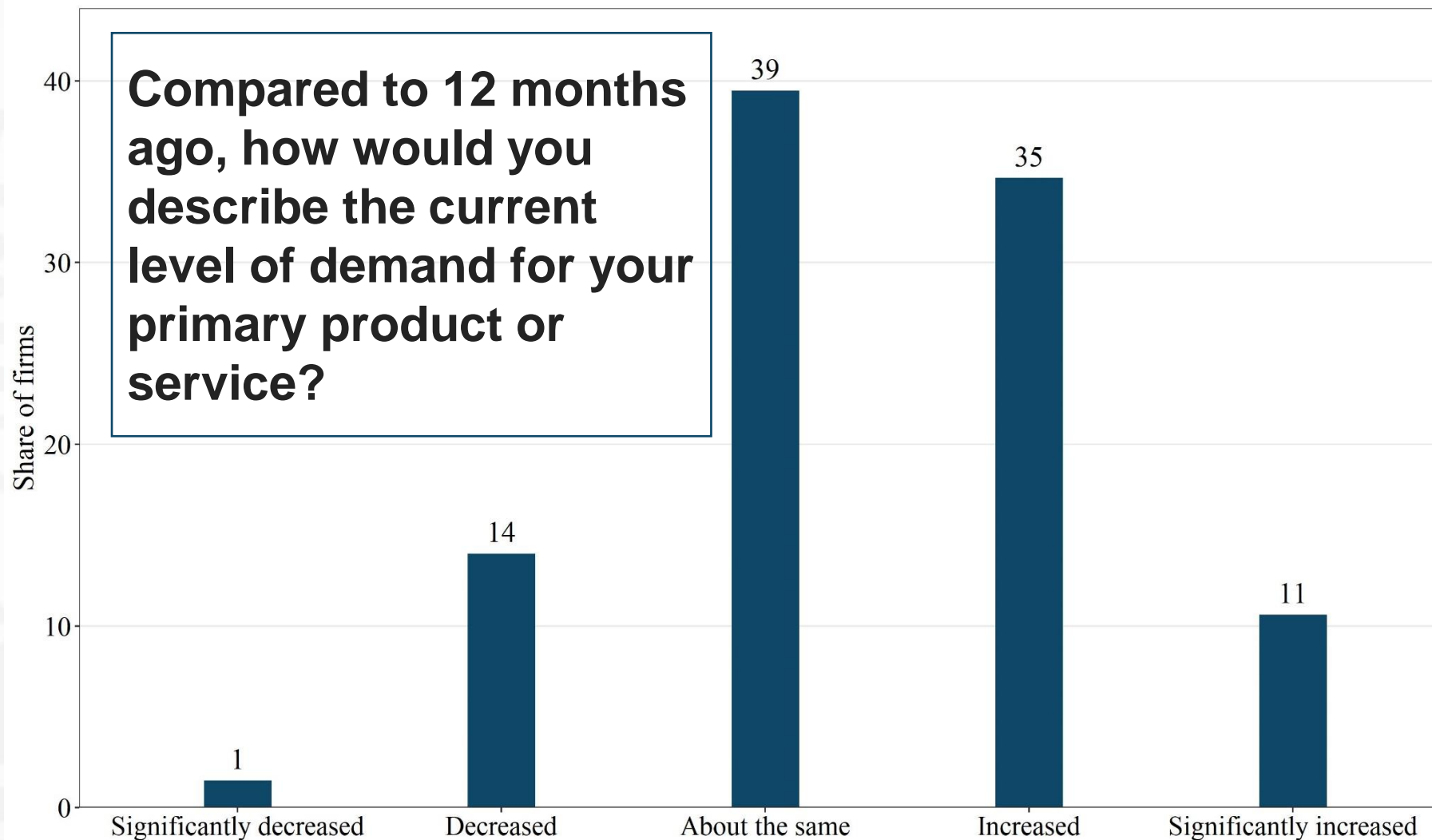
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May 11, 2022

Economic narrative

- Employment has increased at a very solid pace over the past 12 months, and the unemployment rate has declined to 3.6 percent.
- Inflation is very elevated.
- The Federal Reserve increased the federal funds rate in March and May and has indicated that rates will likely move higher in coming months.
- The war in the Ukraine along with Covid-related production impacts in China have introduced additional uncertainty for the economic outlook.

In the Atlanta Fed's Business Inflation Expectation survey in April, almost half of firms reported increased demand relative to a year-ago (which was already robust)

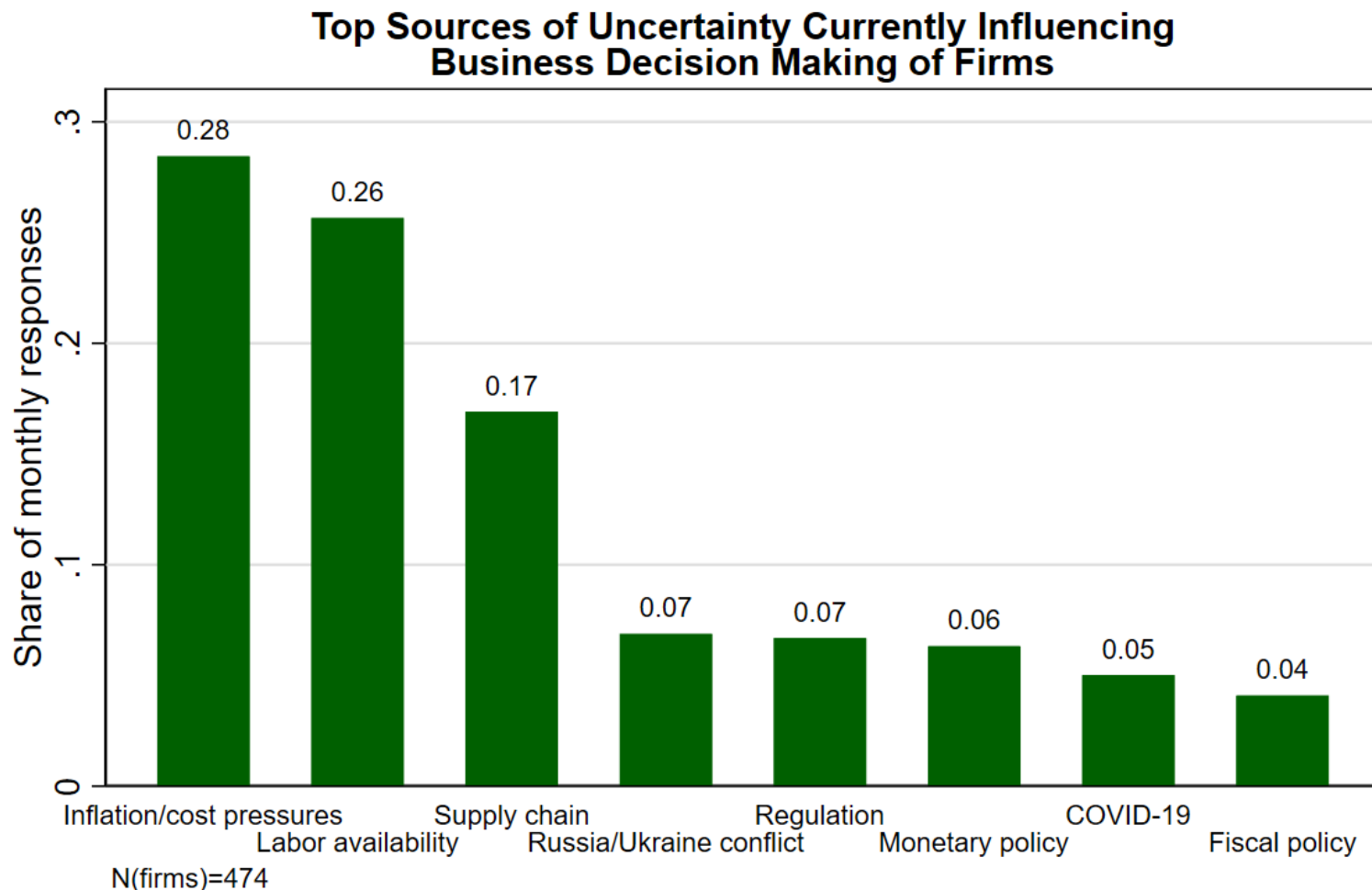


Source: Federal Reserve Bank of Atlanta's *Business Inflation Expectations* (BIE) Survey

Notes: The histograms are based on 208 responses.

In the Atlanta Fed's Survey of Business Uncertainty in March, firms listed inflation/cost pressures, labor availability, and supply chain constraints as their top sources of uncertainty. Uncertainty over COVID and the war on Ukraine ranked much lower than firm-specific issues.

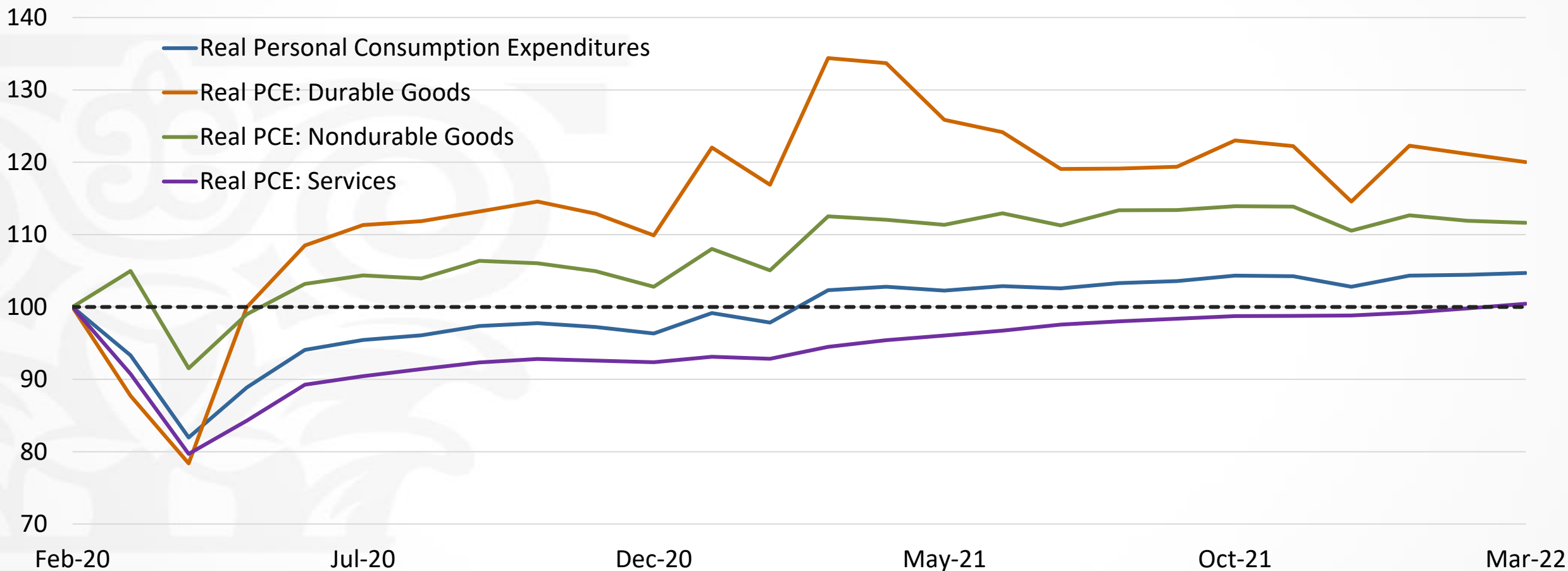
From the list below, please select up to three sources of uncertainty that have the potential to affect your firm's decision making. Rank the sources of uncertainty from 1 to 3, with "1" being the most important.



Real PCE consumption remains skewed toward goods while consumption of services continues to recover gradually

Real Personal Consumption Expenditures

Index: Feb 2020 = 100

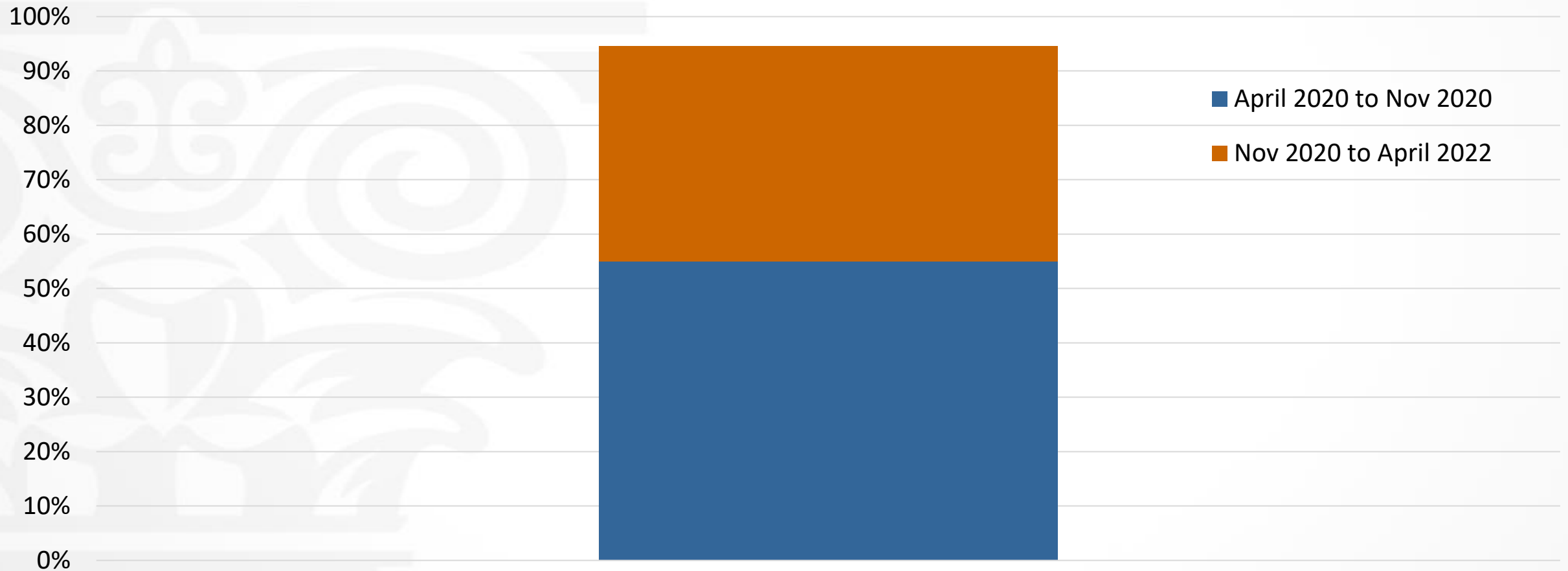


Source: Bureau of Economic Analysis

Over 90 percent of jobs lost in the pandemic recession have been recovered

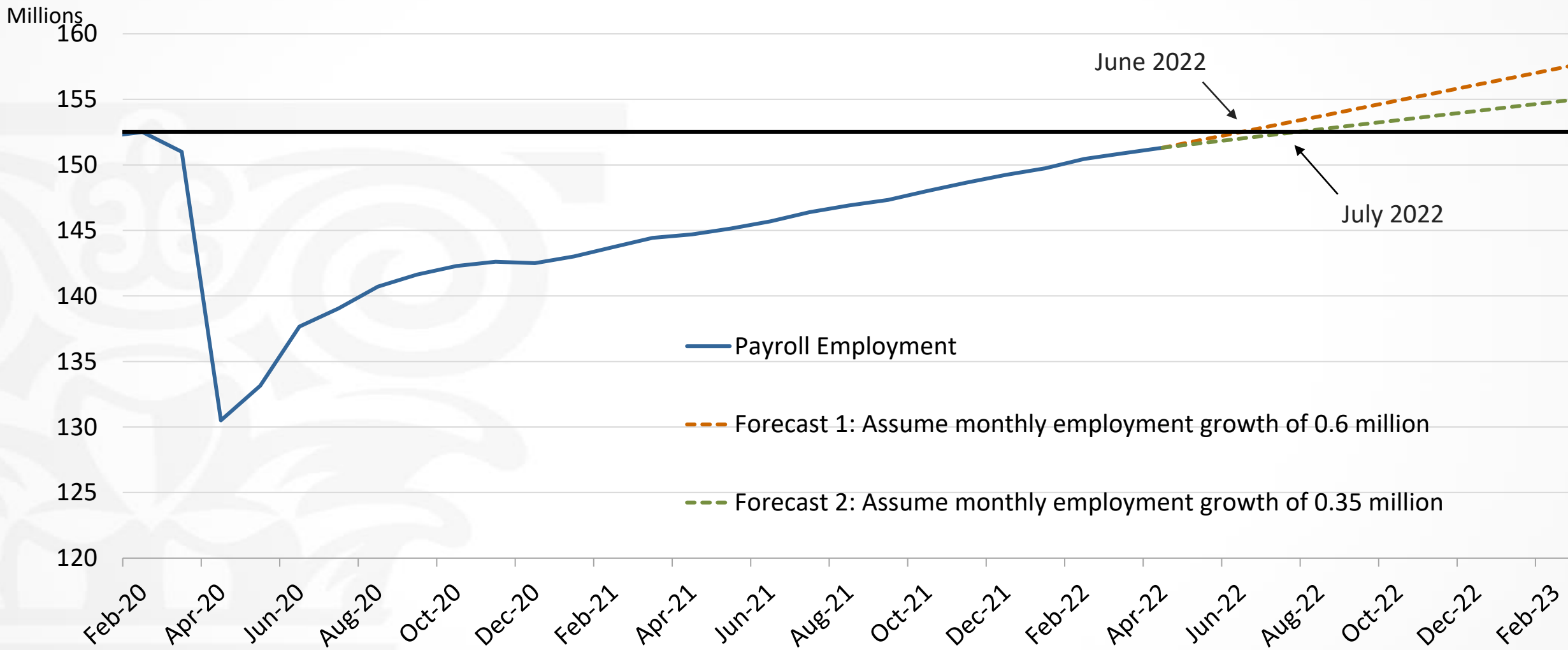
Payroll Employment Recovery

Share of job loss (Feb 2020 to Apr 2020) that has been recovered



Source: Bureau of Labor Statistics

Based on the recent pace of growth, total nonfarm payroll employment is on track to return to pre-Covid levels within the next three months

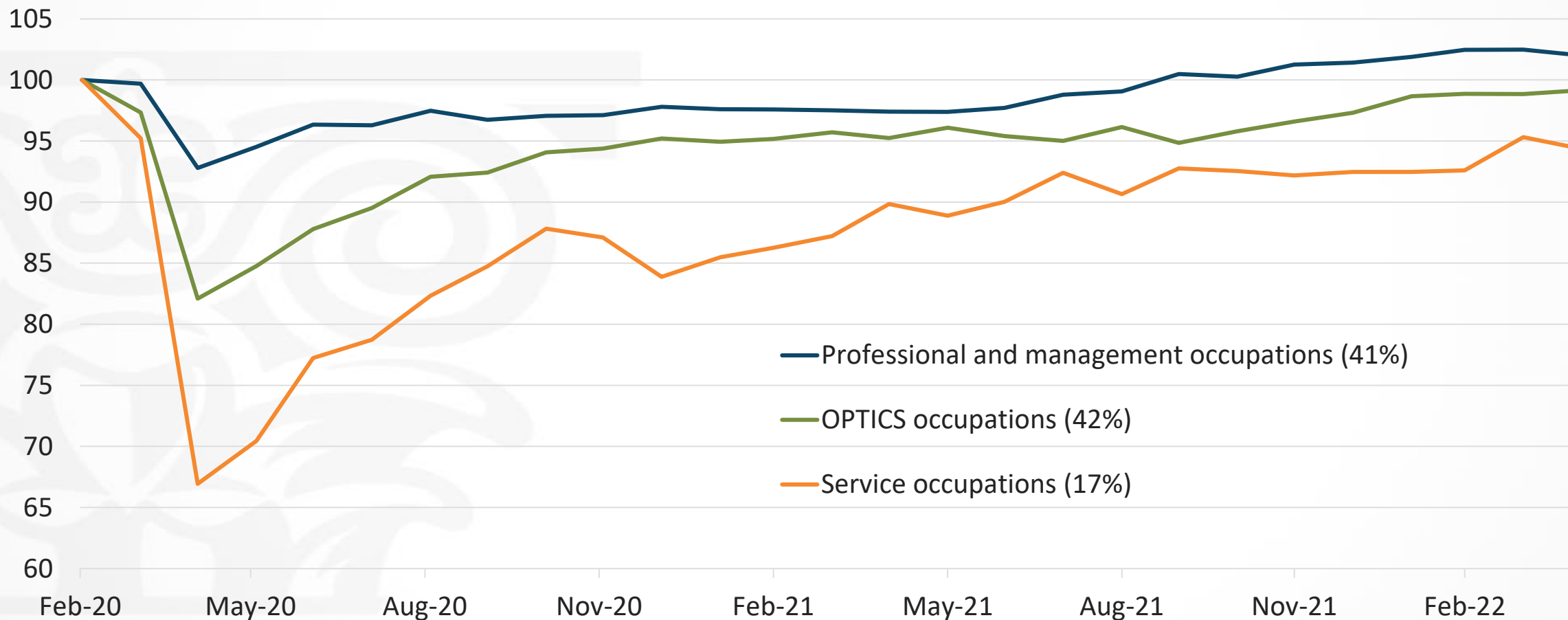


Sources: Bureau of Labor Statistics, Haver Analytics, Staff Calculations

Professional and management jobs have surpassed pre-Covid levels, and OPTICS and service occupation employment continue to recover toward pre-Covid levels

Index: January 2020 = 100

Employment by Occupation

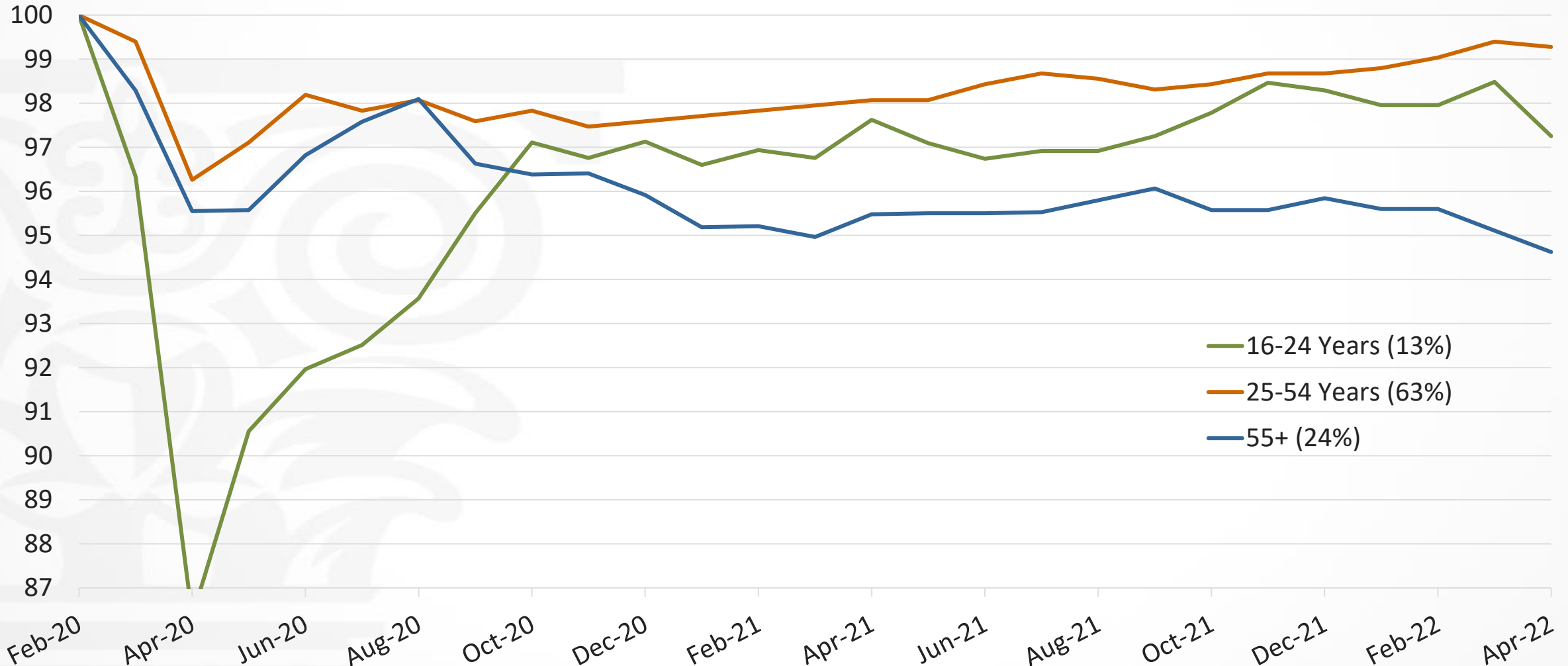


Source: Current Population Survey, staff calculations. All series are seasonally adjusted. OPTICS occupations include Office and admin support; Production; Transportation and material moving; Installation, maintenance and repair; Construction and extraction; and Sales and related. Share of total jobs in February 2020 shown in parentheses. Data through April 2022.

The labor force participation rate recovery continues to bifurcate between workers ages 55 and older versus those under age 55

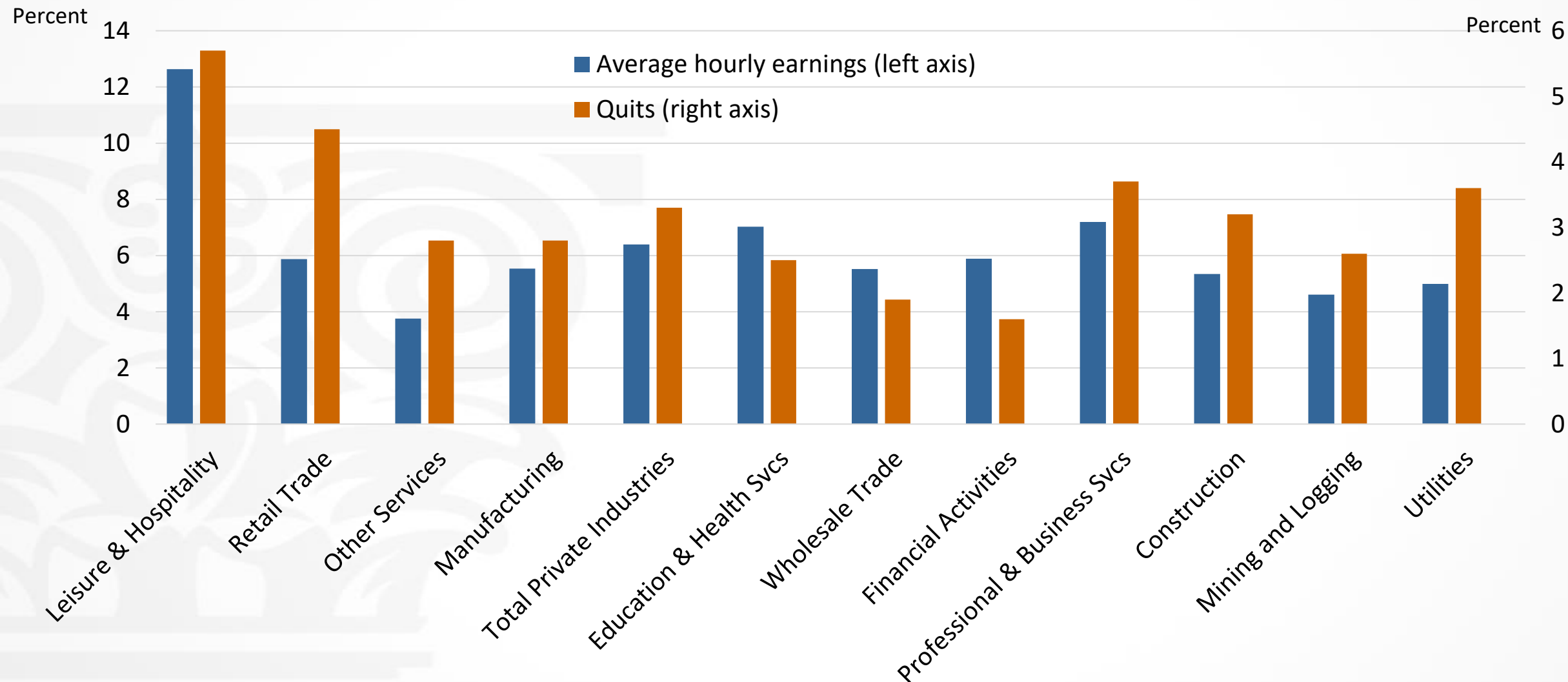
Index: Feb 2020 = 100

Labor force participation rate by age



Source: Bureau of Labor Statistics and staff calculations to historically adjust for population controls; Note: Share of total labor force in Feb 2020 shown in parentheses.

Industries with the highest rate of wage growth are also experiencing the highest rate of quits

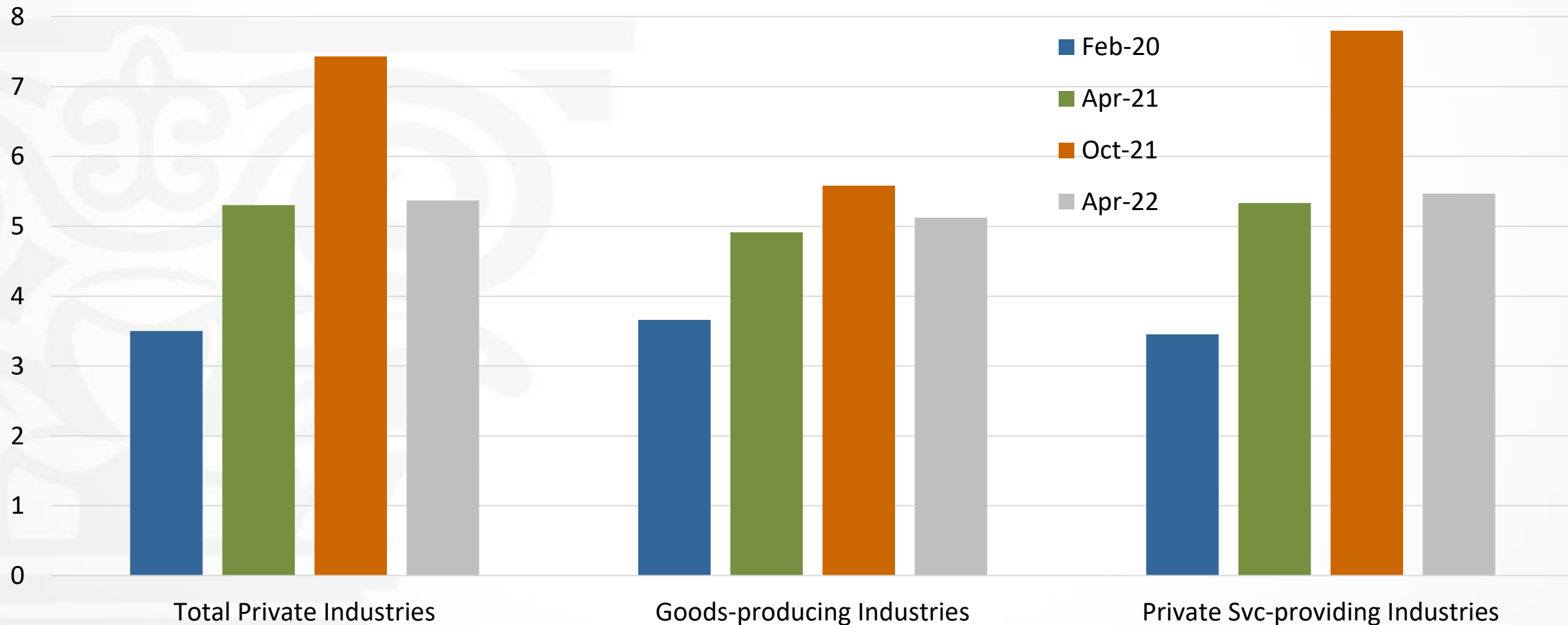


Source: Bureau of Labor Statistics. Quits is the quits rate for March 2022. Average hourly earnings is the annualized percent change for production and nonsupervisory workers between April 2022 and April 2021.

Wage growth has decelerated for service-providing industries over the past 6 months while wages for good-producing industries remains elevated

Average Hourly Earnings of Production and Nonsupervisory Employees: Service Industries

6-month percent change, annual rate

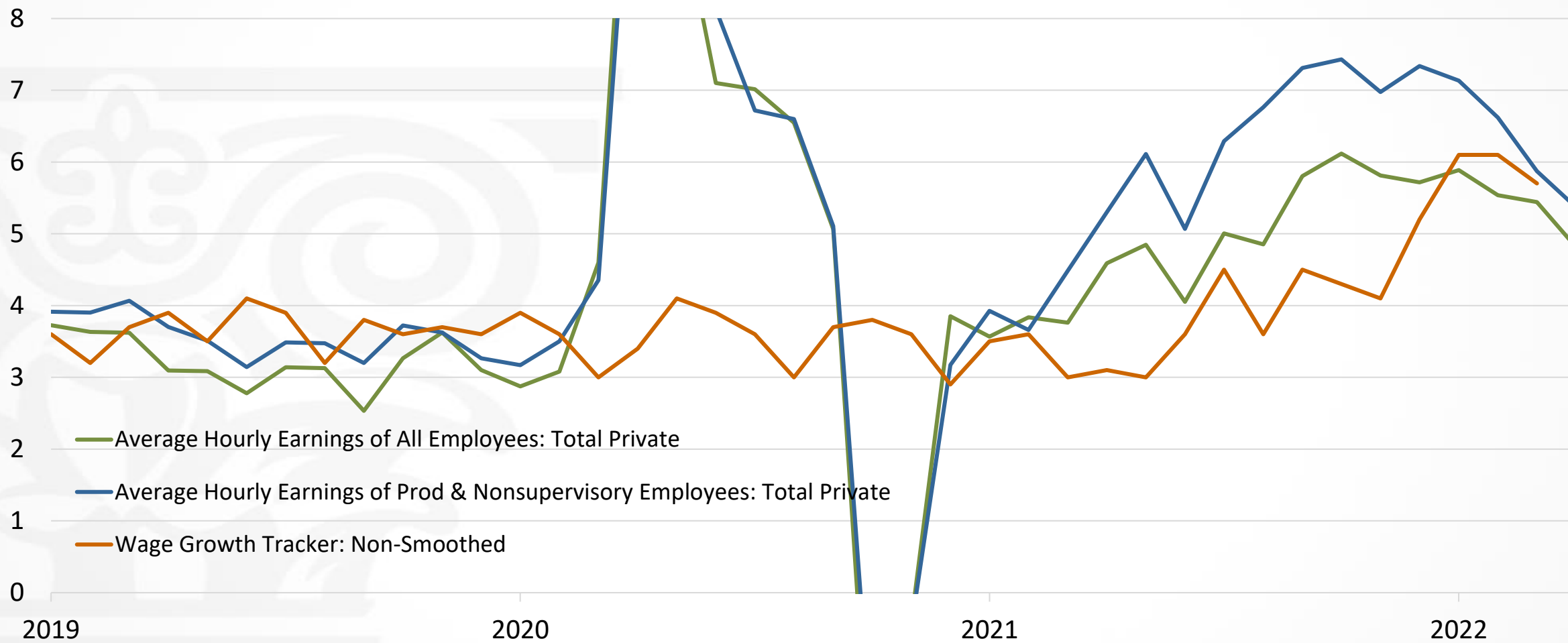


Source: Bureau of Labor Statistics, Haver Analytics

Wage growth measures have decelerated in early 2022 but remain elevated

6-month percent change, annual rate

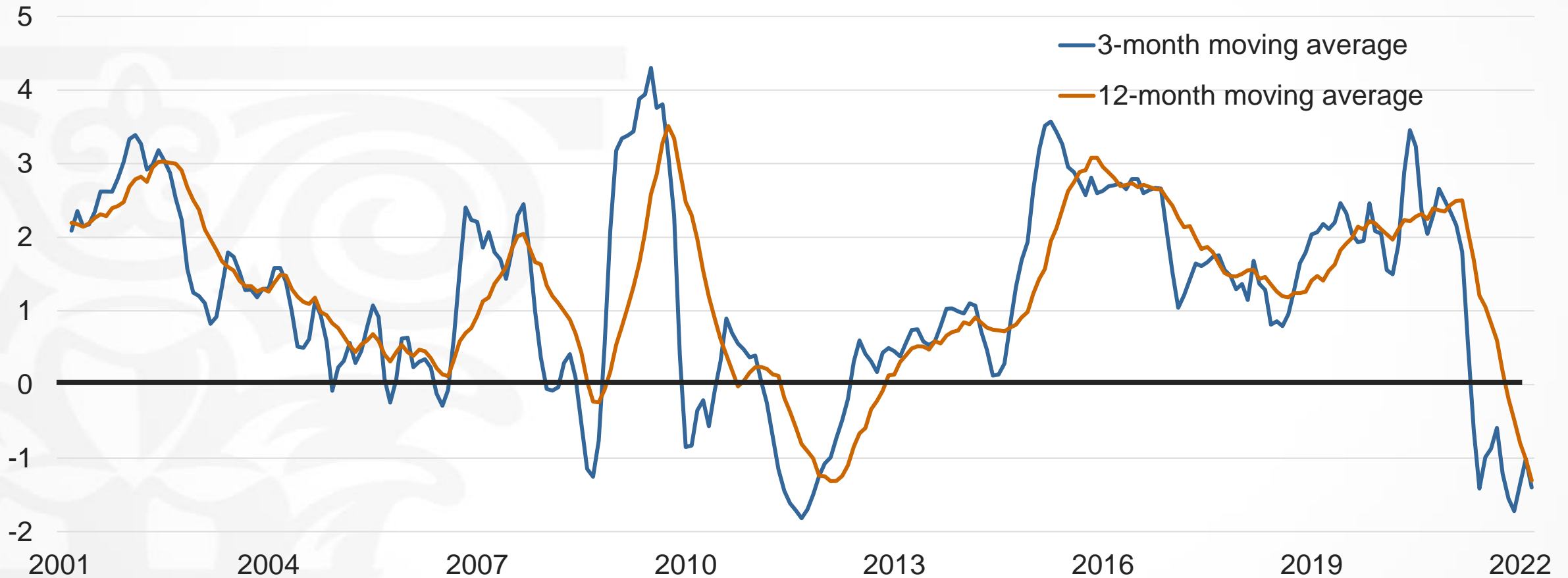
Wage Growth



Sources: Bureau of Labor Statistics & Federal Reserve Bank of Atlanta; Note: Average hourly earnings are reported as a six-month percent change, annualized. The Atlanta Fed Wage Growth Tracker shows non-smoothed median wage growth (Y/Y %Chg).

Real wage growth is negative as inflation has been accelerating at a faster pace than nominal wage growth

Real Wage Growth Tracker



Sources: Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta Calculations.

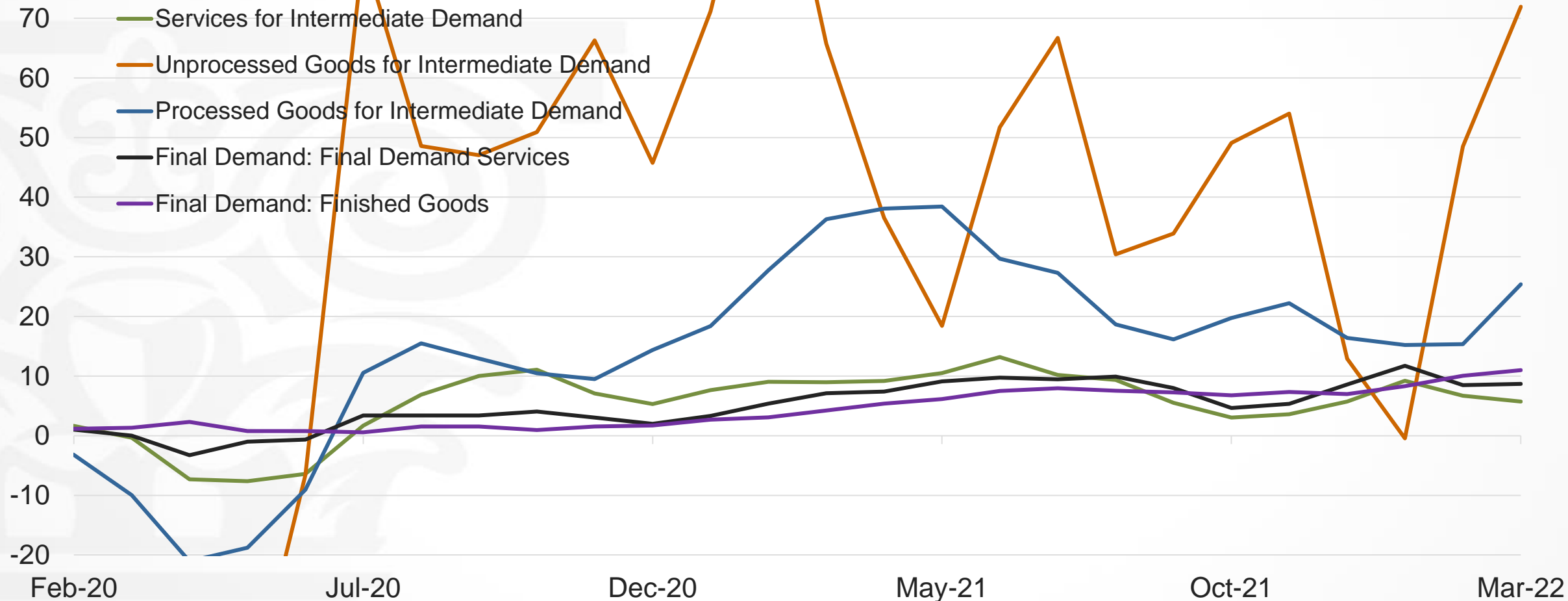
Data updates can be found at <https://www.frbatlanta/chcs/wage-growth-tracker>.

See the 'definitions' tab in this spreadsheet for explanations of series. Wage computed on an hourly basis unless otherwise noted.

The rate of price increase for unprocessed goods in the PPI report spiked again in February and March

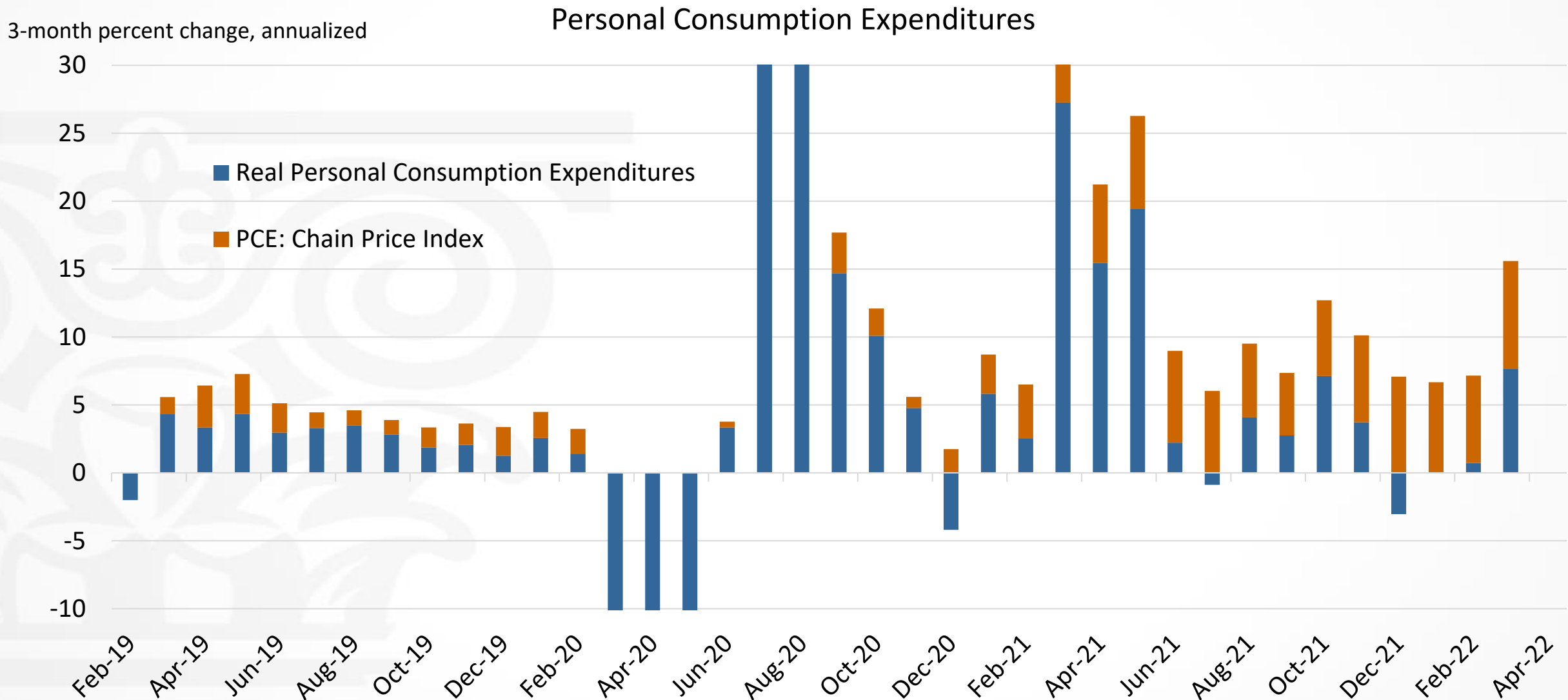
3-month percent change, annual rate

Producer Price Index



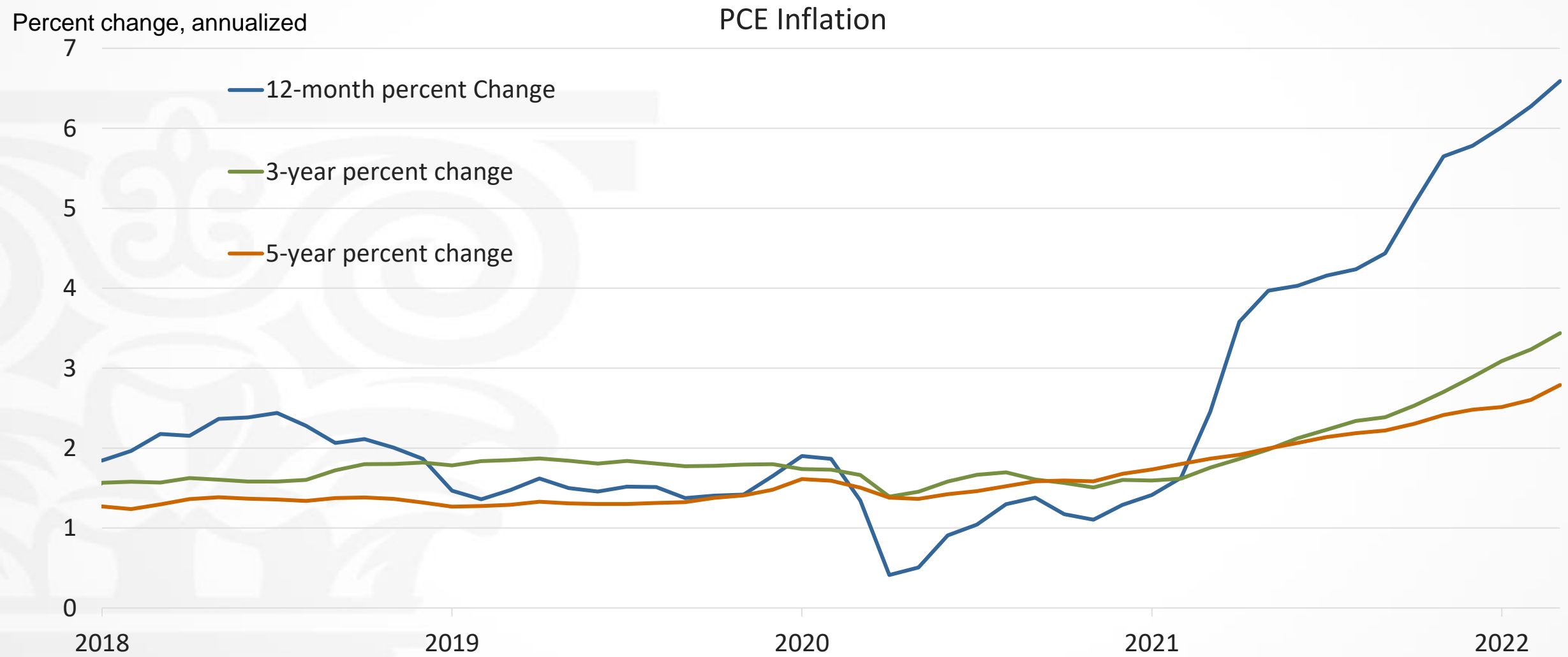
Source: Bureau of Labor Statistics

Nominal growth of consumer spending (PCE) has been strong over the past 7 months, but most of that growth has been absorbed by increasing prices (P) and not increasing quantities (Q)



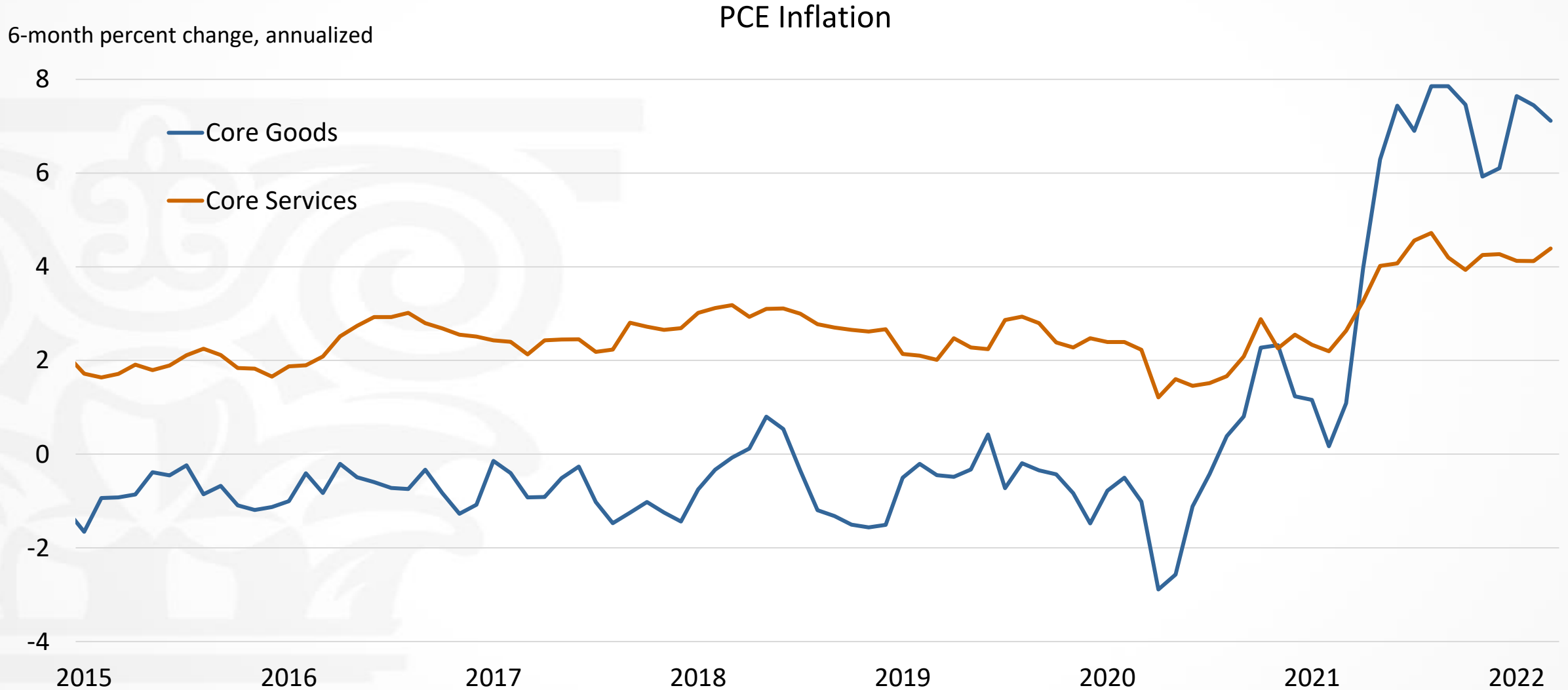
Source: Bureau of Economic Analysis

Average PCE inflation over the past 5 years has reached 2.8 percent



Source: Bureau of Economic Analysis

While price increases of core goods have contributed to the rapid acceleration in overall inflation, the elevated rate of price increases for core services carries greater risk for persistently high inflation



Source: Bureau of Economic Analysis

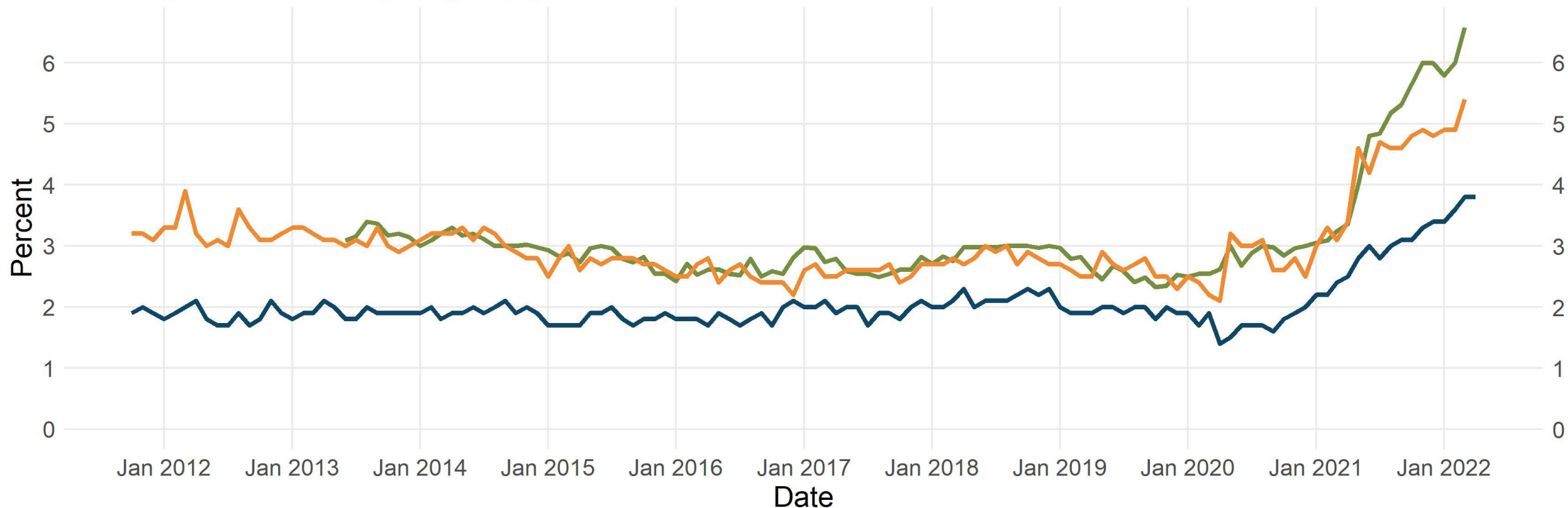
Survey measures of year-ahead inflation expectations continue to climb sharply

Year-ahead inflation expectations

Atlanta Fed BIE: Expected Change to Unit Costs over Next 12 Months, Mean

FRBNY Inflation Expectations: Median One-Year Ahead Expected Inflation Rate (%)

UMich Expected inflation rate, next year (%)



Source: Atlanta Fed, UMich, FRBNY / Haver Analytics

Longer-run inflation expectations have moved modestly higher, but remain fairly-well anchored

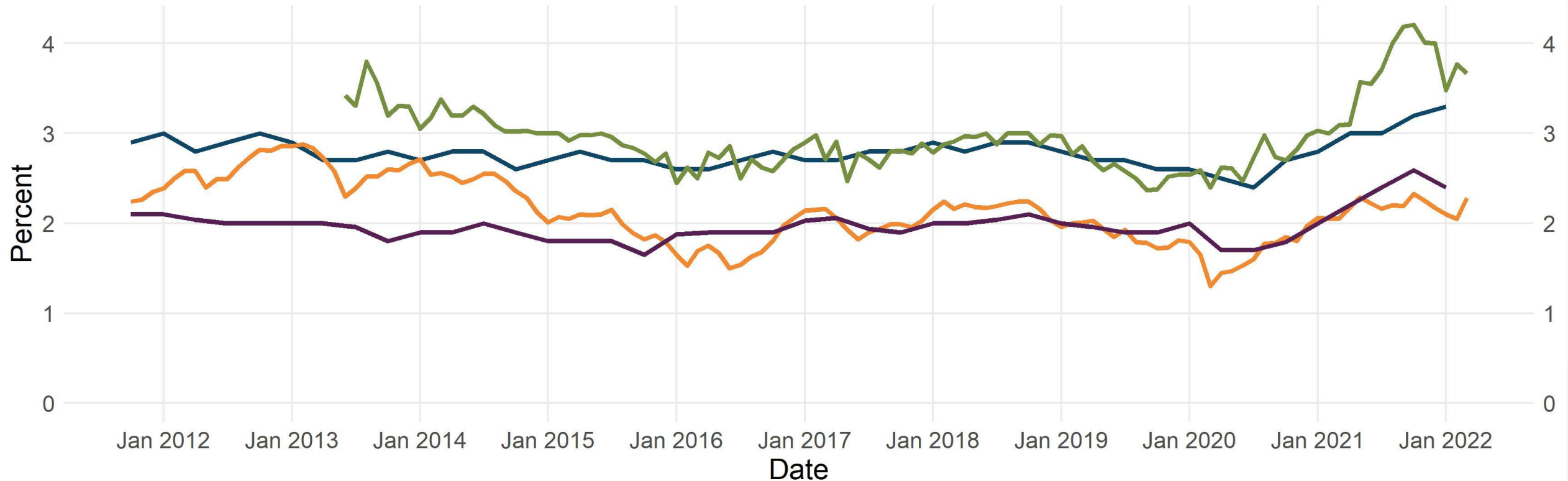
Long term inflation expectations

Atlanta Fed BIE: Expected Change to Unit Costs per year Over Next 5 to 10 Years: Mean (%)

FRBNY: Inflation Expectations: Median Three-Year Ahead Expected Inflation Rate (%)

Haver: Calculated 5-Year Forward Inflation Rate (%)

FRB Philly: Prof Forecasters: Median: Yr/Yr PCE Inflation Rate Over the Next 5 Years (%)



Source: FRBNY, FRB Philly, Haver Analytics

How is excess demand and constrained supply (for goods, services, workers, etc) going to be brought back into balance?

Increases in supply

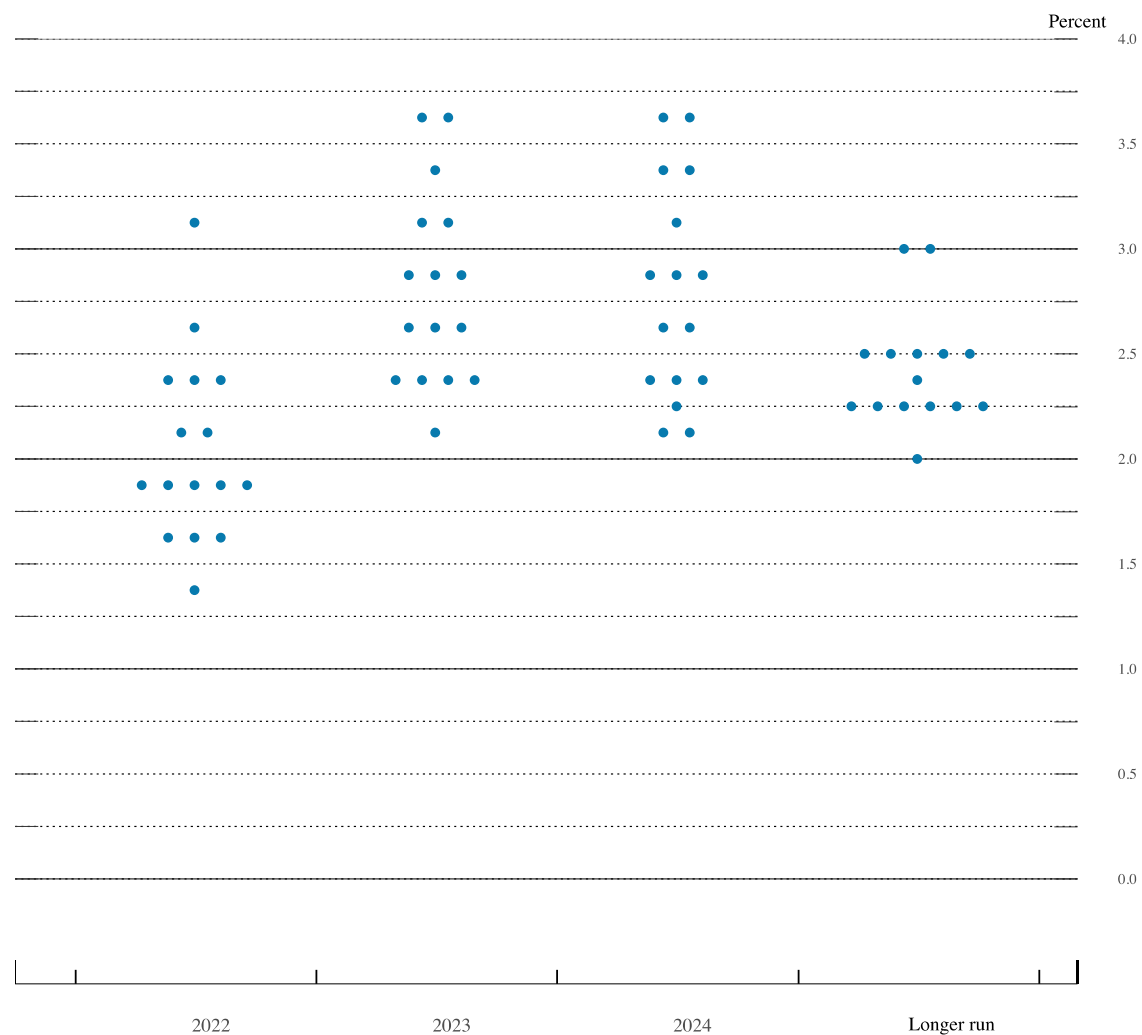
- Easing supply chain constraints
- Return of people (who left in during the pandemic) to the labor force
- Capital investment

Decreases in demand

- Waning support (and waning savings) from federal pandemic support programs
- Increase in prices (elevated inflation) at a faster pace than wage growth
- Rising interest rates

In the Summary of Economic Projections (SEP) in March, FOMC participants indicated that they expect the federal funds rate to move significantly higher by the end of 2022

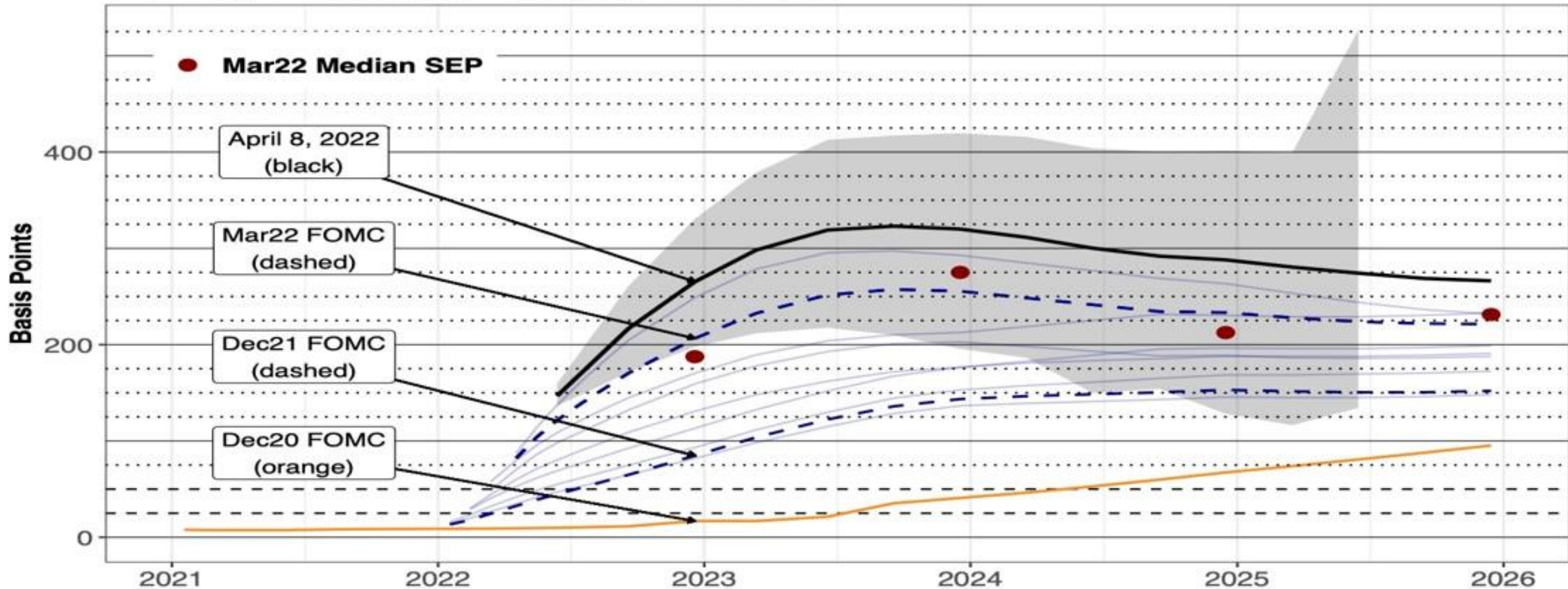
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Market expectations for the federal funds rate in December 2022 have moved up significantly since last December

Dec20 – Apr22 Eurodollar–Implied Rate Paths on Select FOMC Dates

Dec21–current bi–weekly (Wednesday) rate paths in light blue
Shaded region indicates 25%–75% percentiles on April 8



The strength of the U.S. economy in combination with expectations of higher interest rates in the U.S. have contributed to an appreciation of the dollar over the past year

FRED — Nominal Broad U.S. Dollar Index



Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US)

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