2021 Economic Indicators: What Lies Ahead in a Post-Pandemic U.S. Economy?

2021 State of Freight Conference
Via WebEx

September 28, 2021
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Senior Vice President and Regional Executive
Disclaimer

The views I will express are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.
Overview

• What are the current national economic trends?
  – National economic trends

• What lies ahead?
  – Beige Book
  – Memphis Zone MSA economic performance
• Board of Governors in Washington, D.C.
• 12 independent regional Reserve banks
• Federal Open Market Committee (FOMC)
Memphis Zone Territory

TN – 21 Counties

MS – 39 Counties

AR – 12 Counties
Industry Councils

The St. Louis Fed’s four industry councils help to build a consistent line of communication between our staff and industry representatives. Council members’ observations complement data and information developed through the Federal Reserve’s Beige Book, and their keen insights on the economic conditions affecting their businesses, organizations and industries help to inform discussion at Federal Open Market Committee meetings. The councils were created in 2006; they are Council Brochure (PDF).

Each council is based at one of our six Federal Reserve Districts:

3. Real Estate - St. Louis
4. Transportation - Memphis, Tenn.

- Rhonda Hamm-Niebruegge
  Director of Airports, St. Louis Lambert International Airport
  St. Louis
  St. Louis Zone

- Bertram C. “Bert” Hodge
  General Manager, Heritage Ford
  Corydon, Ind.
  Louisville Zone

- Stephanie Ivey
  Director, Intermodal Freight Transportation Institute, University of Memphis
  Memphis, Tenn.
  Memphis Zone

- Stacey Lyons
  Manager, Government and Public Affairs, Canadian National Railway
  Memphis, Tenn.
  Memphis Zone

- William J. “Bill” Mines
  Senior Vice President of Finance and Strategy, Supply Chain, Walmart U.S.
  Bentonville, Ark.
  Little Rock Zone
What are the current national economic trends?
Recession has Ended for High and Middle Wage Workers, but Job Losses Persist for Low-Wage Workers

Percent Change in Employment*

In the United States, as of August 10, 2021, employment rates among workers in the bottom wage quartile decreased by 25.6% compared to January 2020 (not seasonally adjusted).

*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and W-2 data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.

data source: Earnin, Intuit, Kronos, Paychex

[Graph showing percent change in employment]
Consumer spending has increased 18.1% since January 2020.
However, what consumers spent their money on changed with continued decrease in Transportation (-5.9%) and Entertainment (-0.2%).

Percent Change in All Consumer Spending*

In the United States, as of September 05 2021, transportation spending by all consumers decreased by 5.9% compared to January 2020.

*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

Data source: Affinity

Week ending
Sep 05, 2021
-0.2%
Entertainment & Rec.
-5.9%
Transportation

FEDERAL RESERVE BANK OF ST. LOUIS | CENTRAL TO AMERICA'S ECONOMY* stlouisfed.org/COVID-19
And increases for Retail (23.4%), Grocery (18.1%), Health Care (15.7.8%) and Restaurants & Hotels (9%)
Small businesses were hit hard and as of June 2021 38.9% are no longer open.

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**Percent Change in Number of Small Businesses Open**

In the United States, as of June 02, 2021, the number of small businesses open decreased by 38.9% compared to January 2020.

*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.*

Data source: Womply
Inflation above below Fed’s 2% target

2% is the Fed’s inflation target

Data through August 2021
A quick unemployment rebound: most layoffs were temporary

80% of unemployed on temp layoff in May

Source: U.S. Bureau of Labor Statistics

myf.red/g/ETmM
What lies ahead?
FOMC’s economic outlook sees short term growth
Inflation expected to rise then level off at 2%

<table>
<thead>
<tr>
<th>Year</th>
<th>PCE Inflation</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>Longer Run</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCE Inflation</td>
<td></td>
<td>4.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.0</td>
</tr>
<tr>
<td>June 2021</td>
<td></td>
<td>3.4</td>
<td>2.1</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>December 2020</td>
<td></td>
<td>1.8</td>
<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: Summary of Economic Projections - September 22, 2021 (federalreserve.gov)
**Overall Economic Activity**

Economic growth downshifted slightly to a moderate pace in early July through August. The stronger sectors of the economy of late included manufacturing, transportation, nonfinancial services, and residential real estate. The deceleration in economic activity was largely attributable to a pullback in dining out, travel, and tourism in most Districts, reflecting safety concerns due to the rise of the Delta variant, and, in a few cases, international travel restrictions. The other sectors of the economy where growth slowed or activity declined were those constrained by supply disruptions and labor shortages, as opposed to softening demand. In particular, weakness in auto sales was widely ascribed to low inventories amidst the ongoing microchip shortage, and restrained home sales activity was attributed to low supply. Growth in non-auto retail sales slowed a bit in some Districts, rising at a modest pace, on balance, across the nation. Residential construction was up slightly, on balance, and nonresidential construction picked up modestly. Trends in loan volumes varied widely across Districts, ranging from down modestly to up strongly. Reports on the agriculture and energy sectors were mixed across Districts but, on balance, positive. Looking ahead, businesses in most Districts remained optimistic about near-term prospects, though there continued to be widespread concern about ongoing supply disruptions and resource shortages.
Supply chain disruptions are restraining sales
Regional output fully recovered in first quarter

Real Gross Domestic Product
Percent difference from Fourth Quarter 2019

Source: Estimates based on data from BEA and IHS Markit
Memphis seeing stronger labor force growth than nation in short term

Labor Force
Percent difference from January 2020

-8.0 -6.0 -4.0 -2.0 0.0 2.0 4.0 6.0

US

Memphis, MSA
However, Memphis’ longer-term labor force growth lags

Model-based forecast: Change from 2019 to 2025

<table>
<thead>
<tr>
<th></th>
<th>Population Age 25-54 (% Chg.)</th>
<th>Population Age 25-54 (Chg.)</th>
<th>Labor Force (% Chg.)</th>
<th>Labor Force (Chg.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1.7</td>
<td>2.2 mil.</td>
<td>3.7</td>
<td>5.9 mil.</td>
</tr>
<tr>
<td>Tennessee</td>
<td>3.1</td>
<td>83,200</td>
<td>3.9</td>
<td>130,200</td>
</tr>
<tr>
<td>Memphis, MSA</td>
<td>1.7</td>
<td>9,100</td>
<td>1.6</td>
<td>10,200</td>
</tr>
</tbody>
</table>

Source: IHS/Markit, August 2021 forecast.
Some sectors of economy faring better than others

Source: Bureau of Labor Statistics, Last observation June 2021
Where is the economy headed this year?

• Lower unemployment and high savings amongst middle- and high-income earners accelerated debt repayment and drove up spending

• Supply chain difficulties persist, retail inventories remain low, these factors could restrain growth

• Pandemic will need to end before businesses shift gears to full recovery mode

• Expecting economy to grow above trend in 2021
Memphis will continue strong growth for the short term

2021 Projections

<table>
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<tr>
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<th>US</th>
<th>Tennessee</th>
<th>Memphis, MSA</th>
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<tbody>
<tr>
<td>Real GDP Growth</td>
<td>6.7%</td>
<td>7.0%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Employment Growth</td>
<td>2.6%</td>
<td>3.2%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>5.6%</td>
<td>4.9%</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

Source: IHS Markit, (real GDP and employment growth and annual averages, unemployment rate is end of year value)
However, Memphis’ longer-term growth will be slower than US and TN with unemployment slightly higher

Forecasted rates for 2025

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<th>Memphis, MSA</th>
</tr>
</thead>
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<tr>
<td>Real GDP Growth</td>
<td>2.1%</td>
<td>2.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Employment Growth</td>
<td>0.5%</td>
<td>0.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>3.8%</td>
<td>3.8%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Source: IHS Markit, (real GDP and employment growth and annual averages, unemployment rate is end of year value)
When will Memphis regain all jobs from the pandemic?

Source: IHS/Markit, August 2021 Forecast
Summary

• Employment rate recovery differs by income
• Small businesses hit hard
• Consumer buying patterns changed
• Inflation may run moderately above target for a time
• GDP and inflation expected to rise then fall
• Supply chain interruptions persist
• Memphis Zone economic conditions continue to improve
Gathering economic input

Please share your insights on the current economic conditions

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