Economic Outlook:

Will Supply Ever Catch Up With Demand?

State of Freight Conference
Memphis World Trade Club
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The September baseline forecast anticipates real GDP growth of 5.8% in 2021, 4.5% in 2022, and 2.5% in 2023:

- Consumer spending, business fixed investment, and residential fixed investment will be the main drivers of growth, with potential for further support from government spending in 2022 and 2023;
- It is anticipated that inventory restocking will be a support for top-line real GDP growth over coming quarters, but ongoing supply chain and logistics bottlenecks cast considerable uncertainty over the timing and intensity of any such support;
- Labor supply constraints remain a drag on job growth, with over ten million open jobs across the U.S. economy. While labor supply constraints are expected to ease in the months ahead, the September baseline forecast anticipates the jobless rate falling below 5.0 percent in Q4 2021;
- Single family residential investment is still expected to be a support for top-line real GDP growth, but to a lesser extent in the near-term than in previous forecasts. The rate of house price appreciation is expected to peak in Q3 2021 then moderate through the forecast horizon;
- Business investment in equipment/machinery and intellectual property products is expected to grow at a steady pace over the forecast horizon; overall business spending on structures is expected to remain somewhat uneven, but increased investment in the energy sector is expected to be a support;
- Inflation is likely to remain elevated into early-2022, with lingering supply chain/logistics bottlenecks sustaining upward pressure on goods prices and shipping costs while labor costs continue to rise at a rapid rate. An acceleration in rent growth and normalization in health care costs would be sources of more persistent inflation pressures.

The COVID-19 virus and supply chain/logistics bottlenecks pose downside risks to growth, while ample liquidity and accommodative policy pose upside risks. On the whole, the risks to the September baseline forecast are considered balanced.
Real GDP
Annual Percentage Change

Source: Bureau of Economic Analysis; Regions Economics Division
Total Payroll Employment

Source: Bureau of Labor Statistics; Regions Economics Division
Change In Nonfarm Payrolls
August 2021 Relative To February 2020, millions of jobs

- Transportation/Utilities: -1.8
- Construction: -1.6
- Finance: -1.4
- Mining/Nat. Resources: -1.2
- Information Services: -1.0
- Wholesale Trade: -0.8
- Other Services: -0.6
- Retail Trade: -0.4
- Manufacturing: -0.2
- Business Services: 0.0
- Government: 0.2
- Edu./Health Services: 0.4
- Leisure/Hospitality Services: 0.6

Source: Bureau of Labor Statistics; Regions Economics Division
FOMC Also Watching Participation Rate

U3 unemployment rate, %

- as reported
- constant participation rate*

*assumes labor force participation rate as of January 2020 holds throughout

Source: Bureau of Labor Statistics; Regions Economics Division
Less Support From Transfer Payments Going Forward

Personal income: transfer payments, annualized rates, $ trillion

EIP: round one
April 2020

EIP: round two
January 2021

EIP: round three
March 2021

Source: Bureau of Economic Analysis; Regions Economics Division
Composition Of Spending Will Continue To Shift

Index of consumer spending by component, January 2020 = 100:

- **consumer durable goods**
- **nondurable consumer goods**
- **services**

Source: Bureau of Economic Analysis; Regions Economics Division
Supply Side Stresses Ease Slightly, But Far From Gone

ISM Manufacturing Index, net percentage:

- Order Backlogs
- Supplier Delivery Times

Source: Institute for Supply Management®; Regions Economics Division
Inventories Will Be Built Back Up, But When?

Source: Bureau of Labor Statistics; Regions Economics Division
Lean Inventories Helping Fuel Price Appreciation

New and existing homes for sale:
- Units available, mil (L)
- % of owner occupied housing stock (R)

Source: U.S. Census Bureau; National Association of Realtors; Regions Economics Division
Price Appreciation Will Ease, But Affordability Will Remain An Issue
Price Pressures Continue To Build

ISM Prices Paid Index, %

Source: Institute for Supply Management®; Regions Economics Division
Wage Pressures Not Likely To Ease Any Time Soon

Employment Cost Index, private sector wages, % change:
- quarter/quarter (L)
- year/year (R)

Source: Bureau of Labor Statistics; Regions Economics Division
Freight Rates Showing Few Signs Of Letting Up

Cass Freight Index, January 2019 = 100:

- Orange line: volume
- Red line: expenditures

Source: Cass Information Systems; Regions Economics Division
How Long Does “Transitory” Last?

PCE deflator, % change year ago:

Source: Bureau of Economic Analysis; Regions Economics Division
Selected Interest Rates, %
weekly data

Source: Federal Reserve Board; Regions Economics Division
A Long Road Back To Normal, Whatever That May Be

Federal Reserve balance sheet, $ trillion

Source: Federal Reserve Board; Regions Economics Division
## Regions’ Baseline Forecast: September 2021

<table>
<thead>
<tr>
<th>2019 (a)</th>
<th>2020 (a)</th>
<th>2021 (f)</th>
<th>2022 (f)</th>
<th>2023 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP&lt;sup&gt;4&lt;/sup&gt;</td>
<td>2.3</td>
<td>-3.4</td>
<td>5.8</td>
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<td>Real Personal Consumption&lt;sup&gt;1&lt;/sup&gt;</td>
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<td>Real Business Fixed Investment&lt;sup&gt;1&lt;/sup&gt;</td>
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<td>Equipment&lt;sup&gt;1&lt;/sup&gt;</td>
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<td>Intellectual Property and Software&lt;sup&gt;1&lt;/sup&gt;</td>
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<td>Structures&lt;sup&gt;1&lt;/sup&gt;</td>
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<tr>
<td>Real Residential Fixed Investment&lt;sup&gt;1&lt;/sup&gt;</td>
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<td>Government Expenditures&lt;sup&gt;1&lt;/sup&gt;</td>
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<td>Real Net Exports&lt;sup&gt;2&lt;/sup&gt;</td>
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<td>4.6</td>
<td>5.1</td>
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<td>Fed Funds Target Rate Range Mid-Point, %&lt;sup&gt;4&lt;/sup&gt;</td>
<td>2.16</td>
<td>0.42</td>
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<td>10-Year Treasury Note Yield, %&lt;sup&gt;4&lt;/sup&gt;</td>
<td>2.14</td>
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<td>30-Year Fixed Mortgage, %&lt;sup&gt;4&lt;/sup&gt;</td>
<td>3.94</td>
<td>3.12</td>
<td>2.96</td>
<td>3.45</td>
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<td>Current Account, % of GDP</td>
<td>-2.2</td>
<td>-2.9</td>
<td>-3.3</td>
<td>-3.4</td>
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</tbody>
</table>

Notes: 1 - annualized percentage change  2 - chained 2021 $ billions  3 - annualized rate  4 - quarterly average  5 - year-over-year percentage change