Updates Among Uncertainty: Where Do We Go From Here

Economic Update

2021 Banking Outlook Conference
February 25, 2021
The most important chart: Whither Covid?

Data through February 22.
The recovery in consumer demand stalled in the latter half of the year (albeit from very different levels across sectors).
The impact of the CARES Act on disposable personal income (DPI) had been waning in the second half this year …

Contributions to Change in Real Disposable Income from February 2020
Percentage points, Seasonally adjusted

- Other real disposable personal income (DPI)
- Other transfer receipts (including stimulus payments)
- Unemployment insurance benefits
- Employee compensation + proprietors’ Income
- Total change in real DPI

Unemployment benefits forecast using U.S. Treasury data

Sources: Bureau of Economic Analysis, U.S. Treasury, Haver Analytics and staff calculations.
... but business sentiment for sales has improved, likely aided by December’s $900 billion and the proposed 1.9 trillion fiscal packages.

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business. For more information, see “Surveying Business Uncertainty” by David Altig, Jose Maria Barrero, Nick Bloom, Steven J. Davis, Brent Meyer and Nick Parker, NBER Working Paper No. 25956, February 2020.
Uncertainty about the outlook remains elevated.

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business. For more information, see “Surveying Business Uncertainty” by David Altig, Jose Maria Barrero, Nick Bloom, Steven J. Davis, Brent Meyer and Nick Parker, NBER Working Paper No. 25956, February 2020.
The evolving distribution of firm-level beliefs reveals a growing prevalence of perceived upside risks.

Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business

Notes: Data through February 2021. This is a plot of the subjective distribution for the representative firm’s future sales growth. To calculate this distribution we gather up all the weighted individual mass points (estimates) in a given month. Every mass point is weighted by the corresponding firm’s employment weight (truncated at 500 employees) and the probability they attach to that mass point.
As of August 2020, the FOMC adopted a new definition of its maximum-employment goal.

The old:

The Committee sought to mitigate deviations from its assessment of maximum employment, *in either direction*.

The new:

“… policy decision[s] will be informed by our ‘assessments of the shortfalls of employment from its maximum level’ rather than by ‘deviations from its maximum level’…”*  

“The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment…”
Though the FOMC has no specific definition of maximum employment, the currently the labor market clearly falls short.

Unemployment and Labor Force Participation Rates
monthly, percent, seasonally adjusted

Headline (U-3)  Broad (U-6)

Source: Bureau of Labor Statistics, Haver Analytics through January 2021
Notably, 40 percent of unemployed workers have been without a job for 6 months of more.
Workers in “low skill” jobs have fared relatively worse than workers in other occupations.

Source: Current Population Survey, staff calculations. Low skill jobs are primarily service jobs; Middle skill includes sales and office, construction, production, and transportation jobs; high skill are management, professional and technical jobs.
This is a very different story than the one that accompanied the Great Recession of 2007–2009.

Source: Current Population Survey, staff calculations. Low skill jobs are primarily service jobs; Middle skill includes sales and office, construction, production, and transportation jobs; high skill are management, professional and technical jobs.
Our last two recessions may leave us with major workforce challenges.

Source: Bureau of Labor Statistics; Haver Analytics through January 2021
What we are doing at the Atlanta Fed.

**CENTER FOR WORKFORCE AND ECONOMIC OPPORTUNITY**

- Rework America Alliance

**Economic Mobility and Resilience: Everyone's Economy**

- Advancing Careers for Low-Income Families
Flexible *average* inflation targeting:

- The Committee seeks to achieve and maintain 2-percent annual inflation (measured by the PCE price index).
- “… we will seek to achieve inflation that averages 2 percent over time. Therefore, following periods when inflation has been running below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.”

“The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.”

Statement of the Federal Open Market Committee, January 27, 2021
Inflation continues to run well short of the FOMC’s liftoff condition.

(PCE) Price Index
year-over-year percent change, monthly

Sources: Bureau of Economic Analysis; Haver Analytics

data through December 2020
The inflation measures have broadly weakened over the past year, not surprisingly.

### The Atlanta Inflation Dashboard

<table>
<thead>
<tr>
<th>Inflation Measure (12-month) Growth Rate</th>
<th>January 2020</th>
<th>January 2021</th>
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<tbody>
<tr>
<td>Core PCE Index</td>
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<td>Market-based PCE Index</td>
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<td>FRB Dallas Trimmed Mean Index</td>
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<td>FRB San Francisco Cyclical Core PCE Index</td>
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<td>Stock and Watson Cyclically Sensitive Inflation</td>
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<td>Core CPI</td>
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<td>FRB Cleveland Median CPI</td>
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<td>FRB Cleveland 16-Percent Trimmed-Mean CPI</td>
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<td>FRB Atlanta Sticky-Price CPI</td>
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**Color code:**

- **On target:** -- Within 0.25 ppt of target
- **Below target:** -- Between 0.25 and 0.50 ppt below target
  --- More than 0.50 ppt below target
- **Above target:** -- Between 0.25 and 0.50 ppt above target
  --- More than 0.50 ppt above target

Source: See the Federal Reserve Bank of Atlanta *Underlying Inflation Dashboard*.
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