

EVENT | SURVEY OF BUSINESS UNCERTAINTY

Business Uncertainty Panel Member Economic Briefing and Policy Discussion

March 1, 2022
2 p.m. – 3 p.m. (ET)



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Economic Outlook: Are we spiraling?

Brent H. Meyer
March 1, 2022



*The views contained herein are my views and do not necessarily reflect the views of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

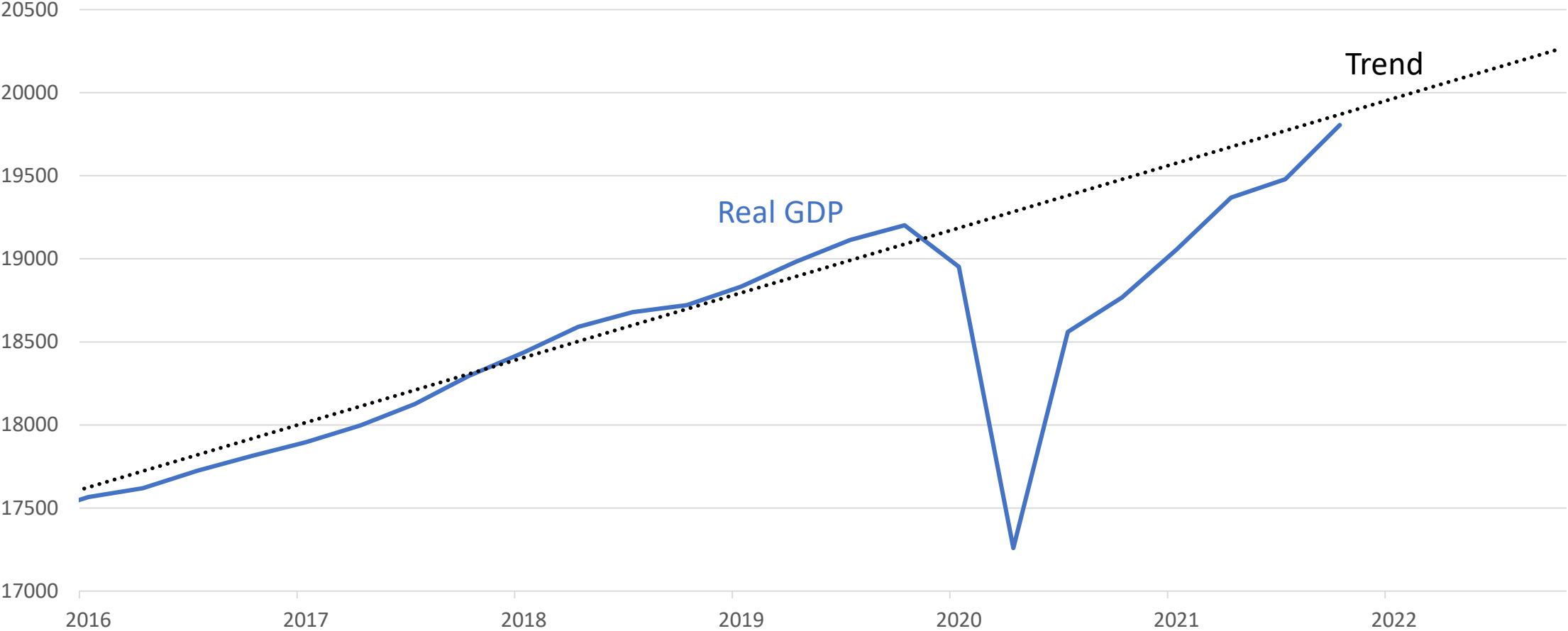
Summary of current economic conditions

- Omicron likely tamped down on Q1 growth.
- Consumer spending has been strong, but recovery in services lags.
- Businesses see strong demand continuing over the year ahead.
- Labor demand is high as supply remains depressed, helping push up labor costs.
- Nonlabor input costs continue to rise as supply chain problems persist.
- Inflation is elevated.
- There is increased expectation of rate increases in 2022.

The COVID-19 pandemic had a profound impact on the economy, but the United States has recovered quickly.

Real Gross Domestic Product and Trend

Billions \$, SAAR

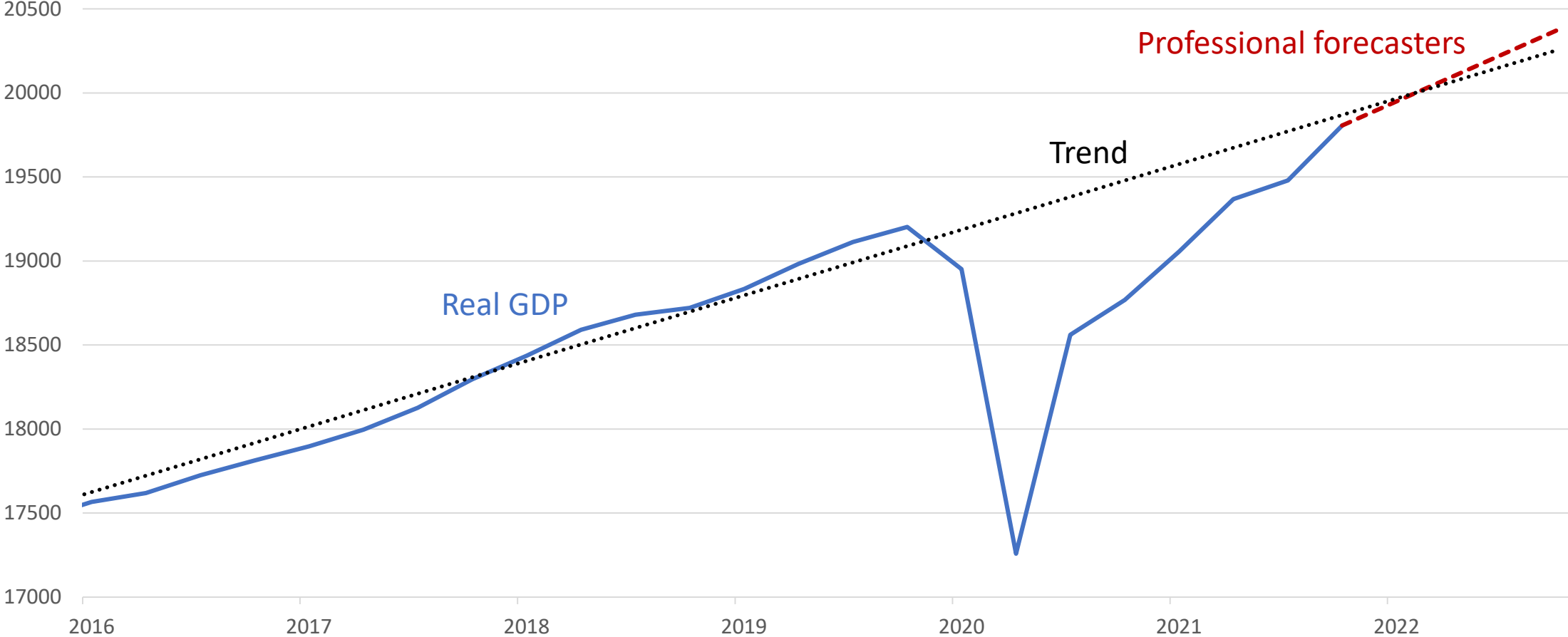


Source: US Bureau of Economic Analysis; staff calculations

Professional forecasters see that recovery overtaking the previous trend in output growth.

Real Gross Domestic Product, Trend, and Forecasts

Billions \$, SAAR

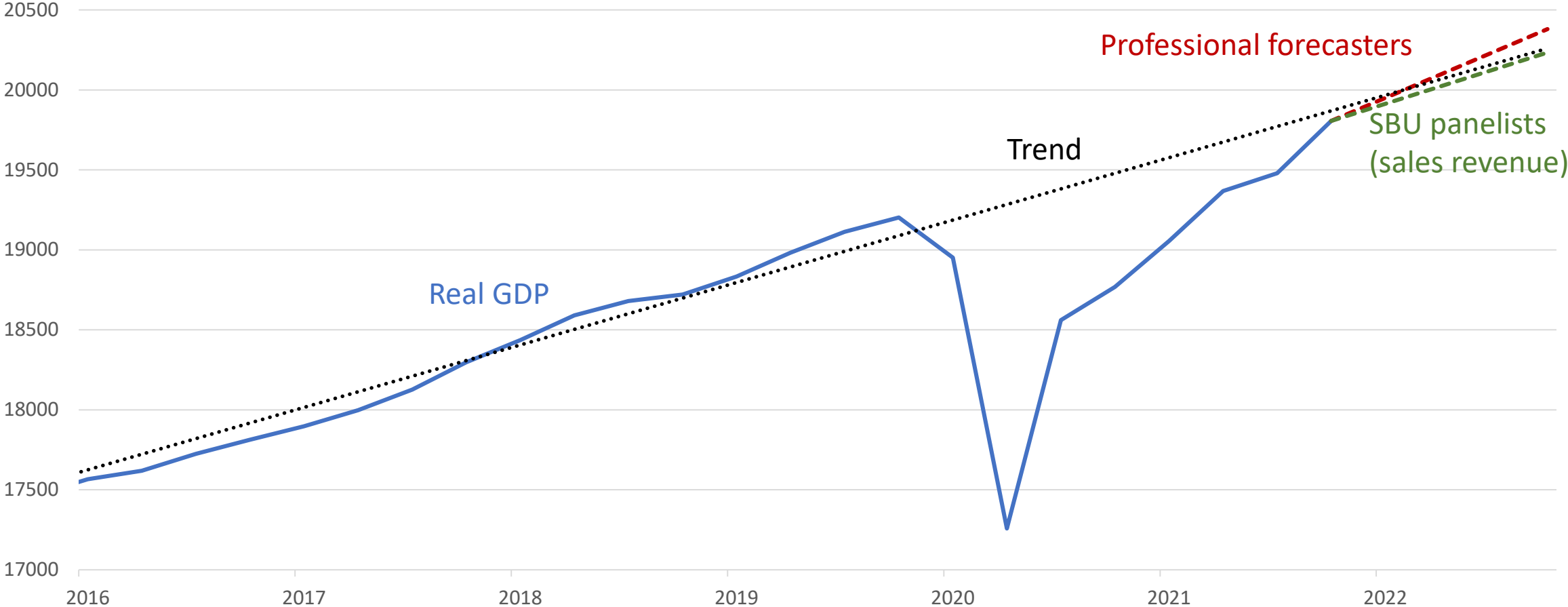


Sources: Blue Chip Economic Indicators; US Bureau of Economic Analysis; staff calculations

SBU panelists' responses suggest a return to the previous trend.

Real Gross Domestic Product, Trend, and Forecasts

Billions \$, SAAR



Sources: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business; Blue Chip Economic Indicators; US Bureau of Economic Analysis; staff calculations

And, y'all were on top of it from the beginning.

Survey of Business Uncertainty (March 9-20, 2020)

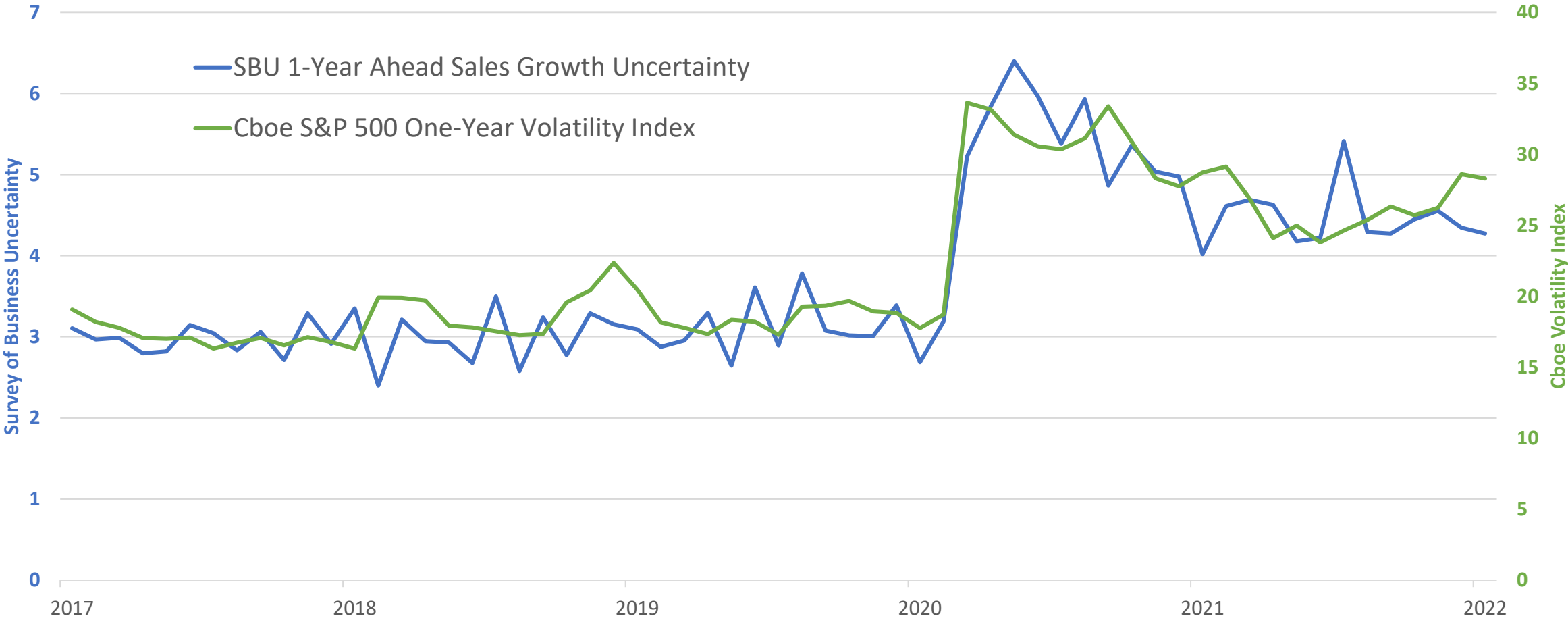
What is your best guess for the impact of coronavirus developments on your firm's sales revenue in 2020?
(Response options are a respondent-supplied percentage amount, up or down, and no effect.)

Anticipated Coronavirus Impact on Own Sales Revenues in 2020	
Full Sample	-6.10%
1st Week, Mar 9-13	-4.90%
2nd Week, Mar 14-20	-13.70%

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

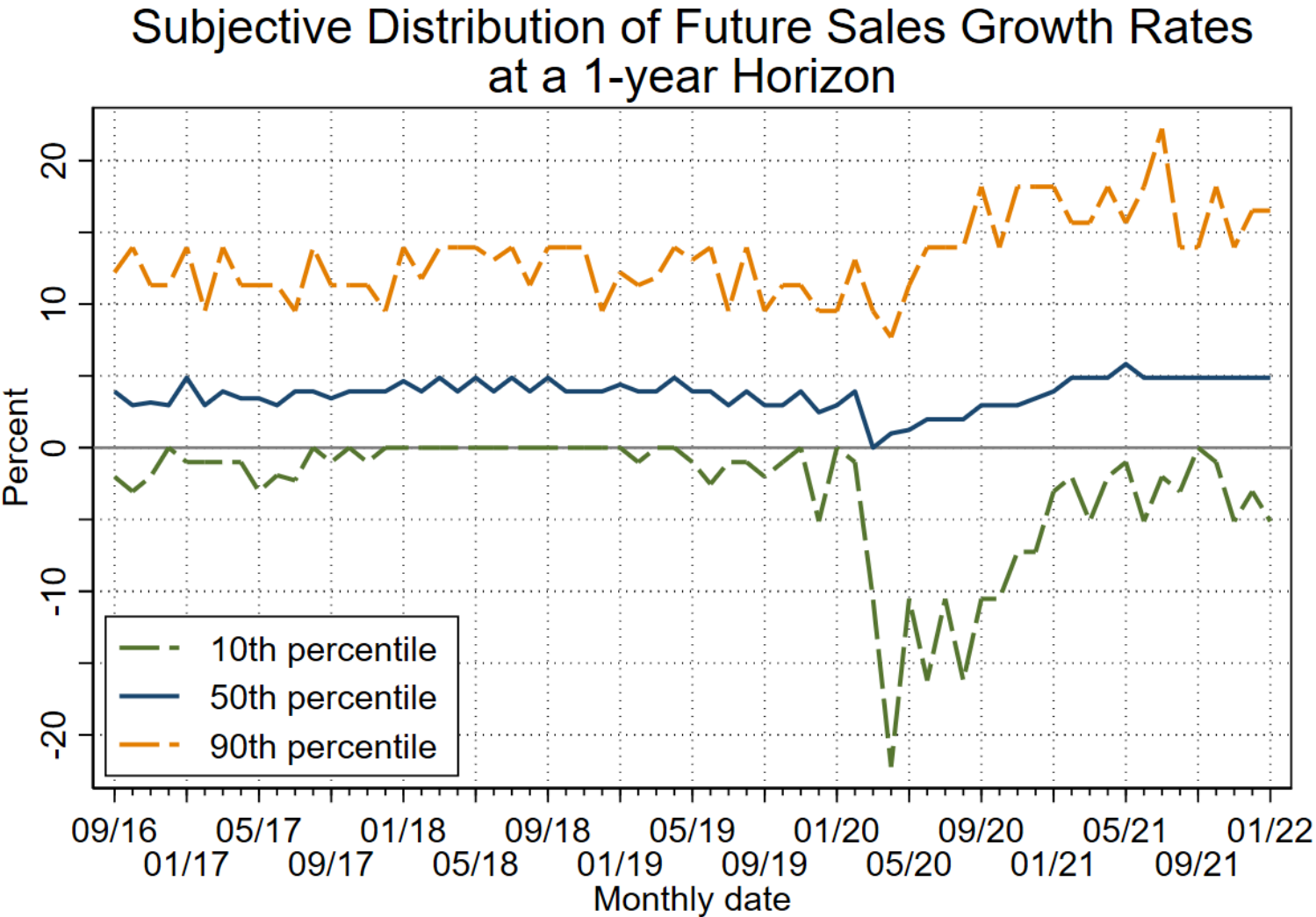
Importantly, like market participants, panelists see heightened uncertainty continuing through the next year.

Different Perspectives on Uncertainty



Sources: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business; Chicago Board Options Exchange (through January 2022)

Panelists' views have become much more optimistic.

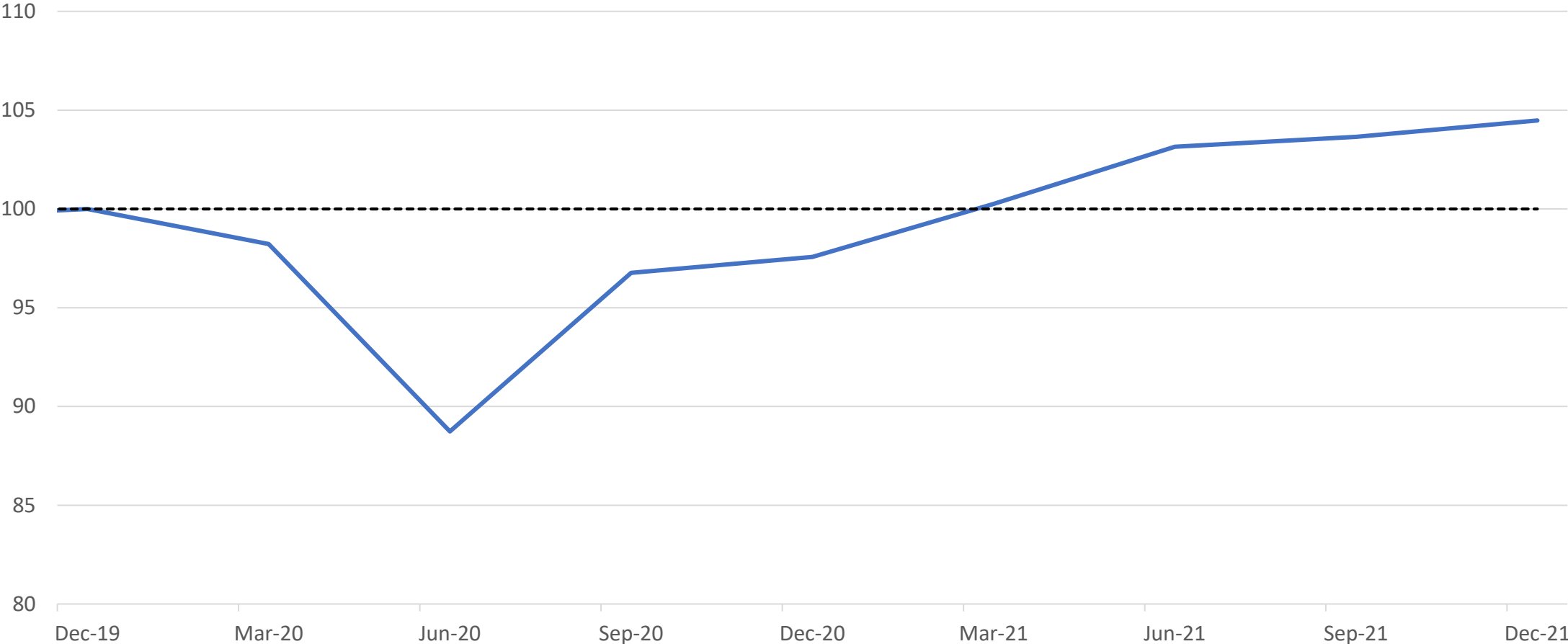


Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business

Consumer demand appears relatively robust.

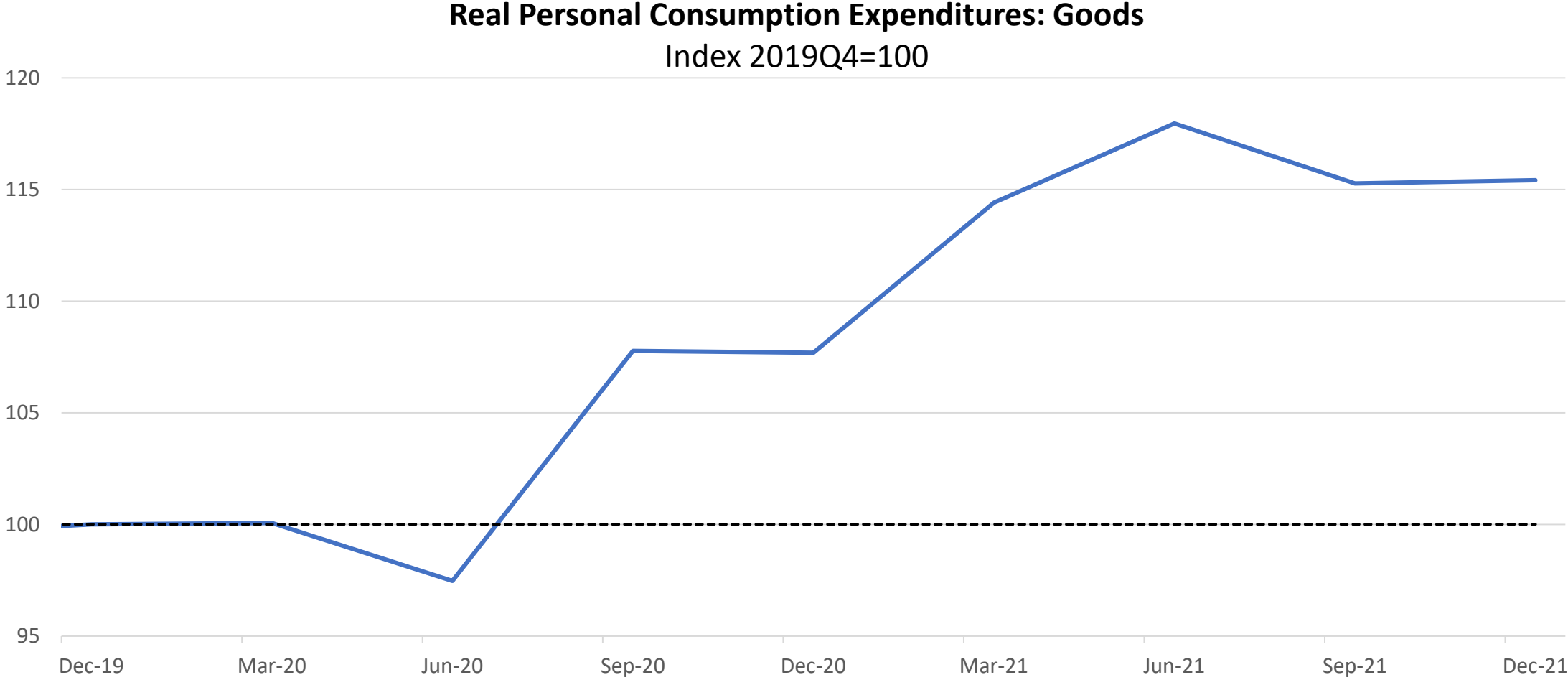
Real Personal Consumption Expenditures

Index 2019Q4=100



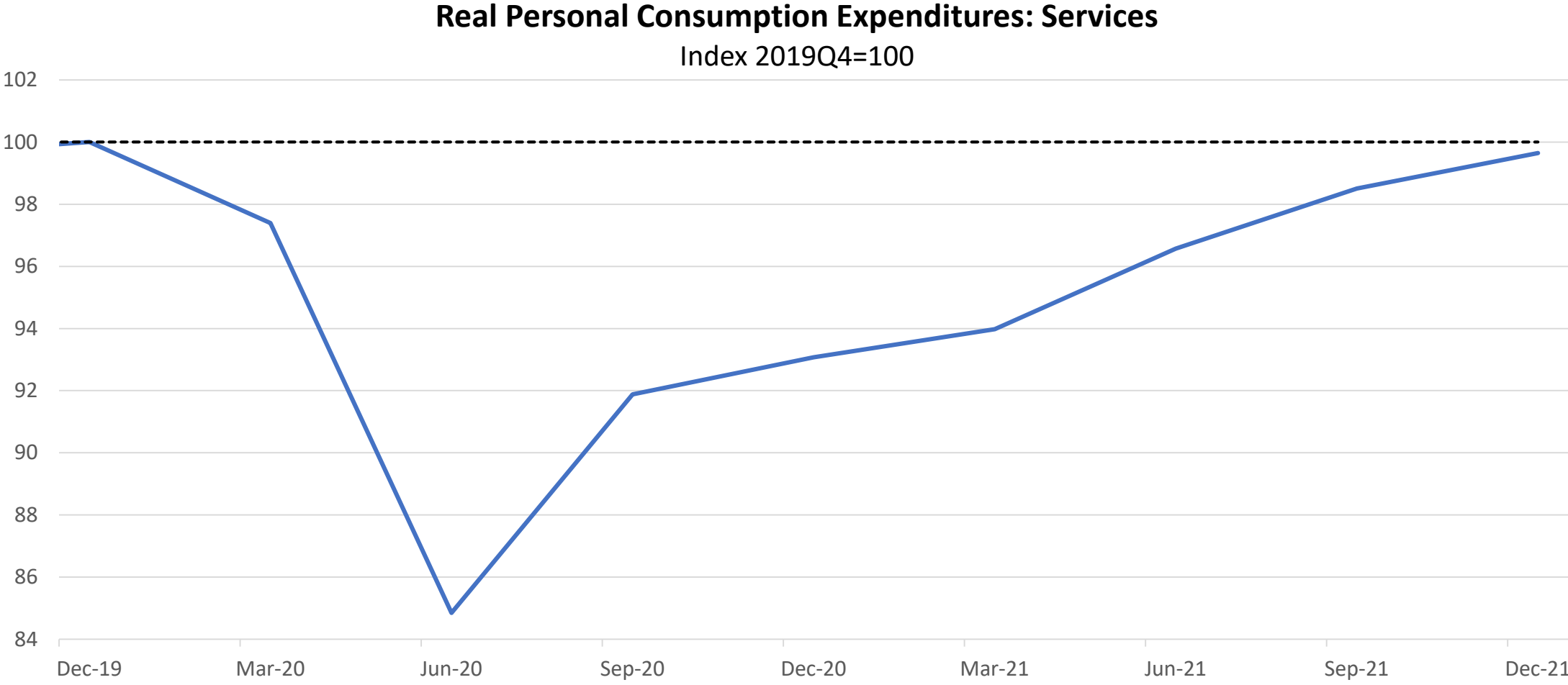
Source: US Bureau of Economic Analysis (through 2021:Q4)

Households' demand for durable and nondurable goods rose sharply during the pandemic.



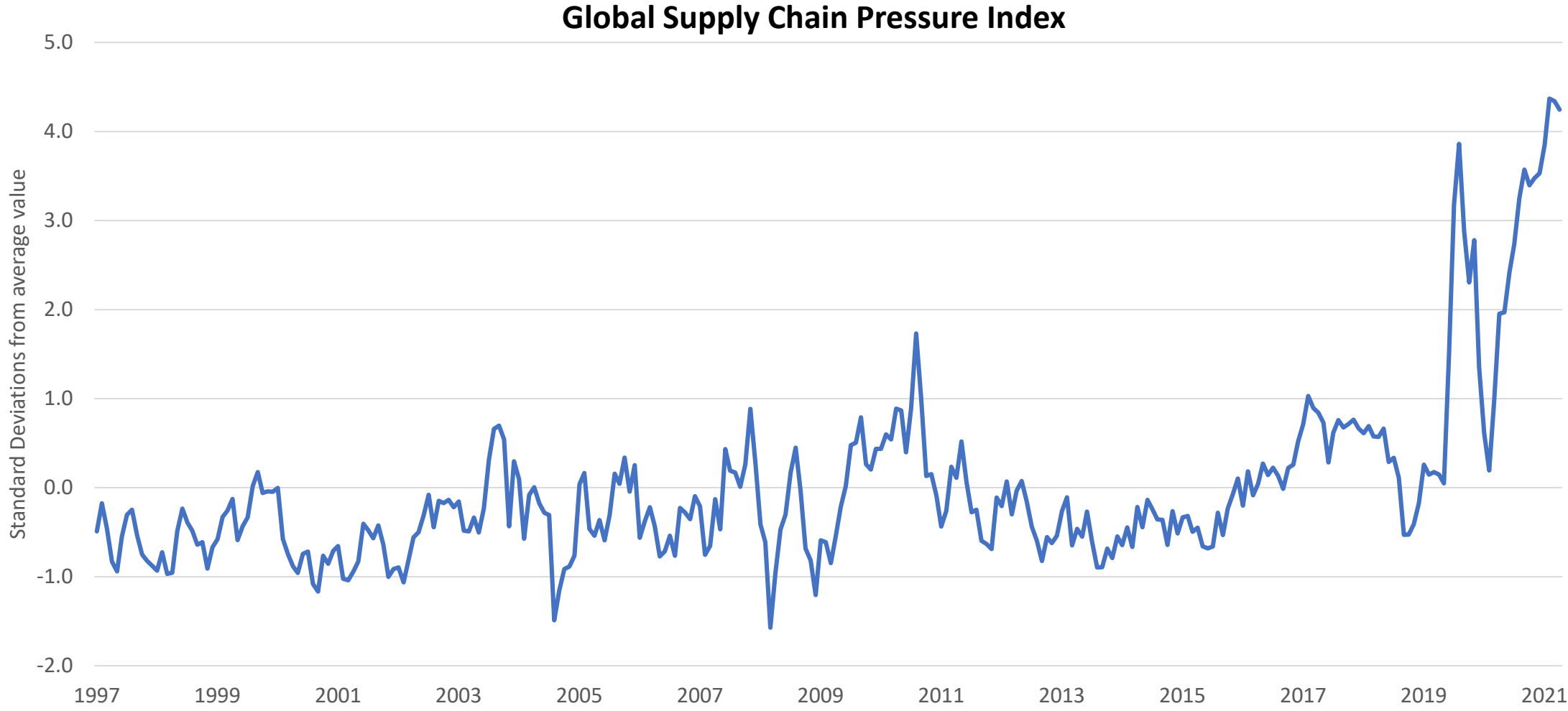
Source: US Bureau of Economic Analysis (through 2021:Q4)

Services consumption has been slower to recover.



Source: US Bureau of Economic Analysis (through 2021:Q4)

As the pandemic wore on, supply chains faltered, failing to keep pace with strong demand.

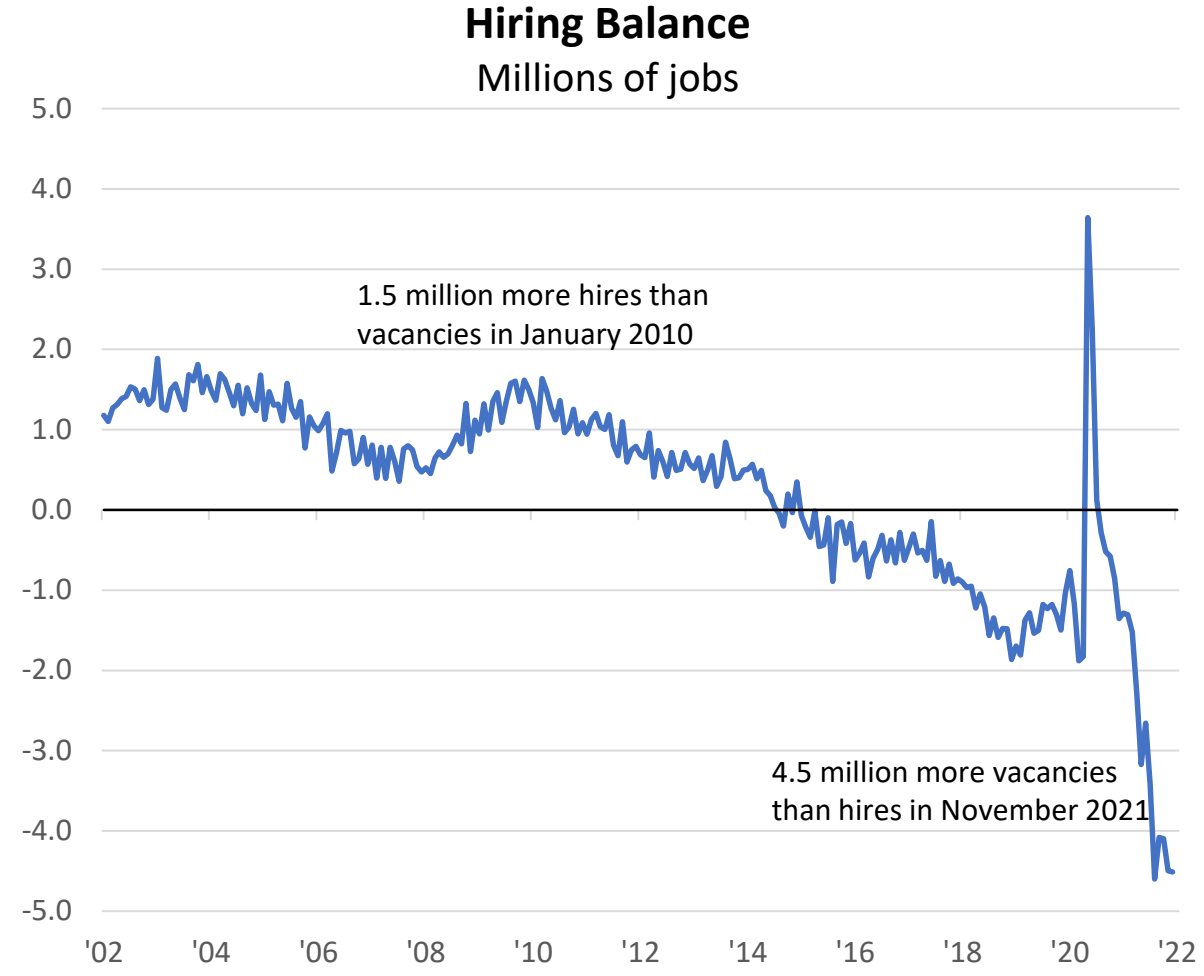


Source: New York Fed. The index is constructed from 27 measures of supply chain pressure, including delivery times, backlogs, purchased

Labor markets have tightened. Firms are trying to hire a lot of workers, but the shortfall of hires over vacancies is extremely large.

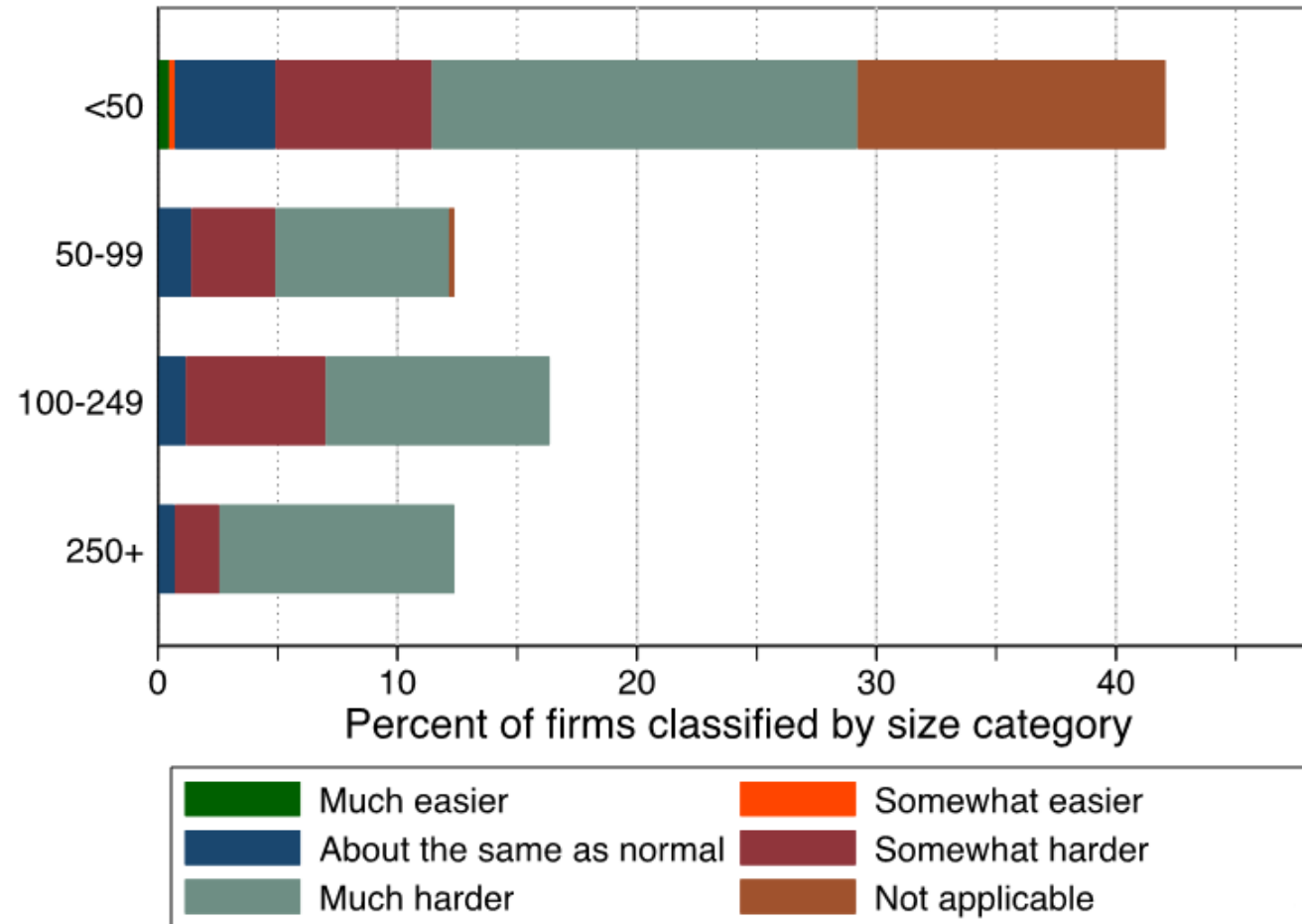


Source: Job Openings and Labor Turnover Survey (through December 2021)



Source: Job Openings and Labor Turnover Survey. Data through December 2021. Hiring Balance is the number of hires in a month less the stock of posted job openings at the end of the prior month.

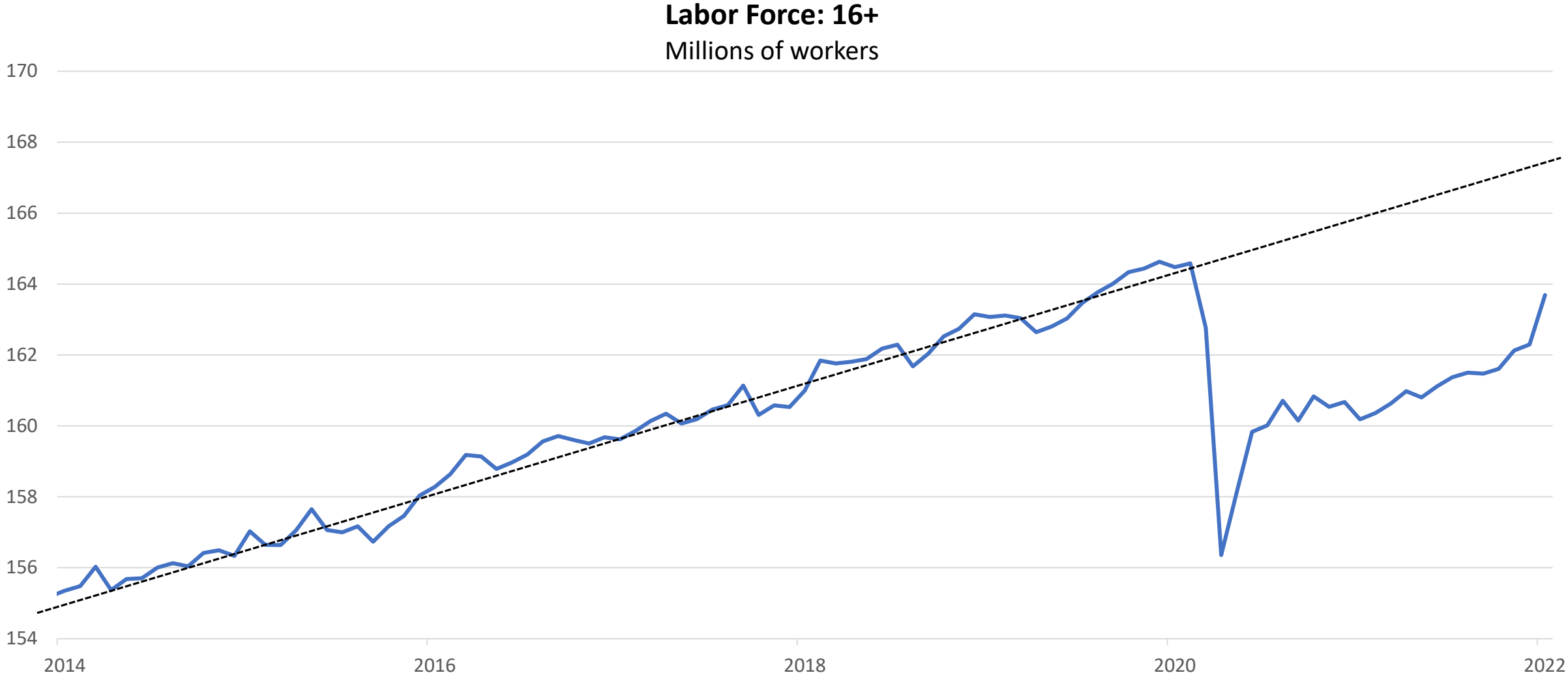
And, according to your responses, hiring appears to be most challenging for smaller firms.



Are you finding it easier or harder than normal to recruit new employees at the moment?

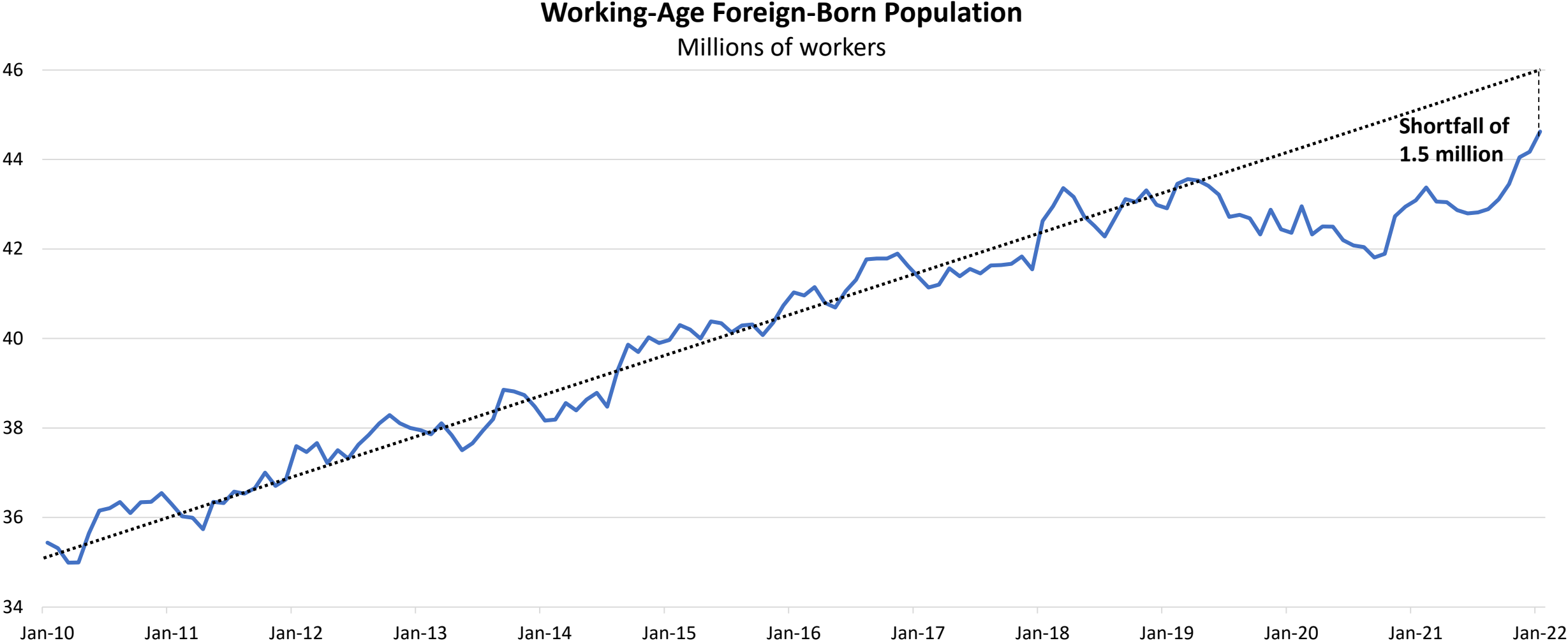
- Much easier
- Somewhat easier
- About the same as normal
- Somewhat harder
- Much harder
- Not applicable

One reason is that the labor market remains much smaller than it was before COVID, making it hard to generate the large employment gains needed to satisfy demand.



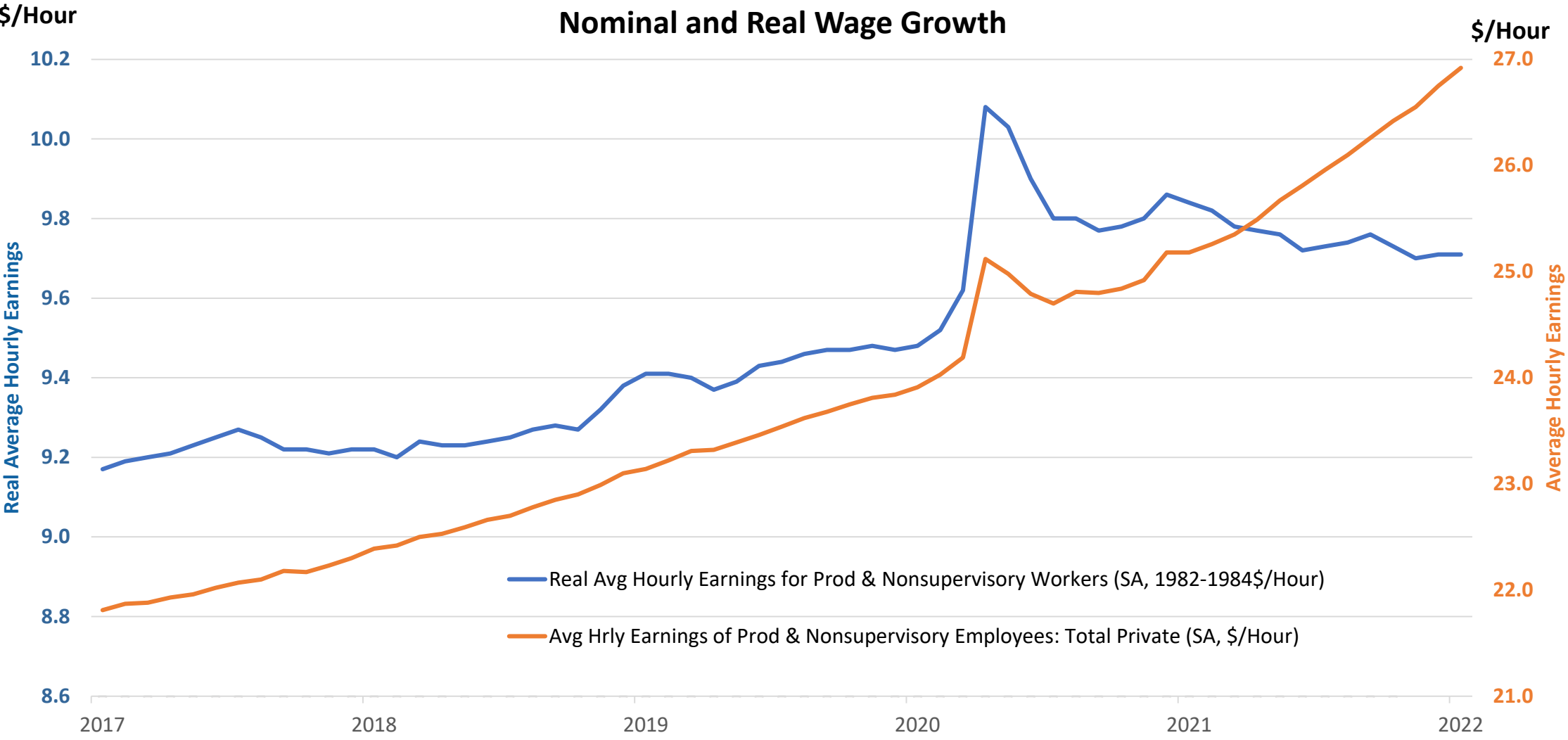
Source: US Bureau of Labor Statistics. Data through January 2022

A decline in immigration has added to labor supply problems.



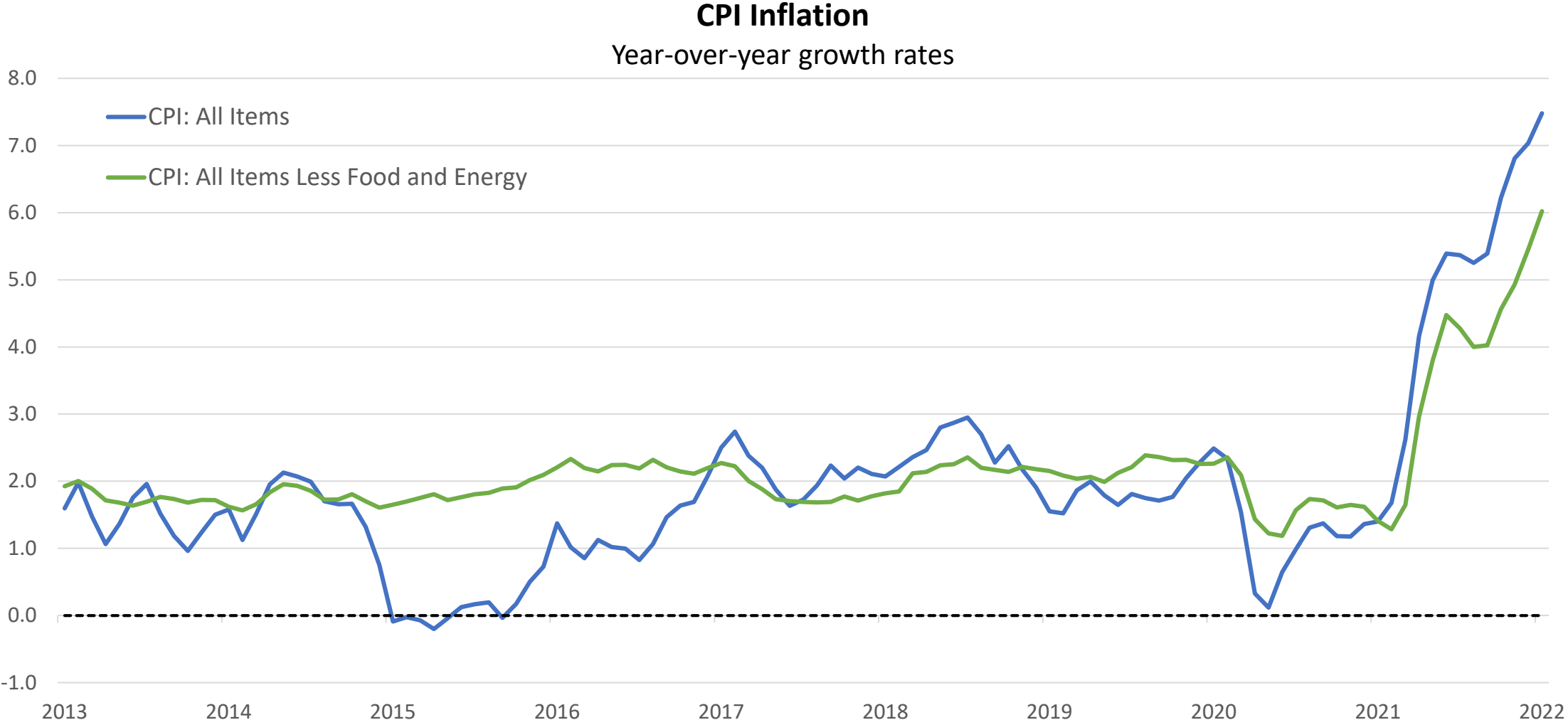
Source: US Bureau of Labor Statistics, staff calculations. Population aged 16+

Wages are rising, but not when adjusting for inflation.



Source: US Bureau of Labor Statistics/Haver Analytics

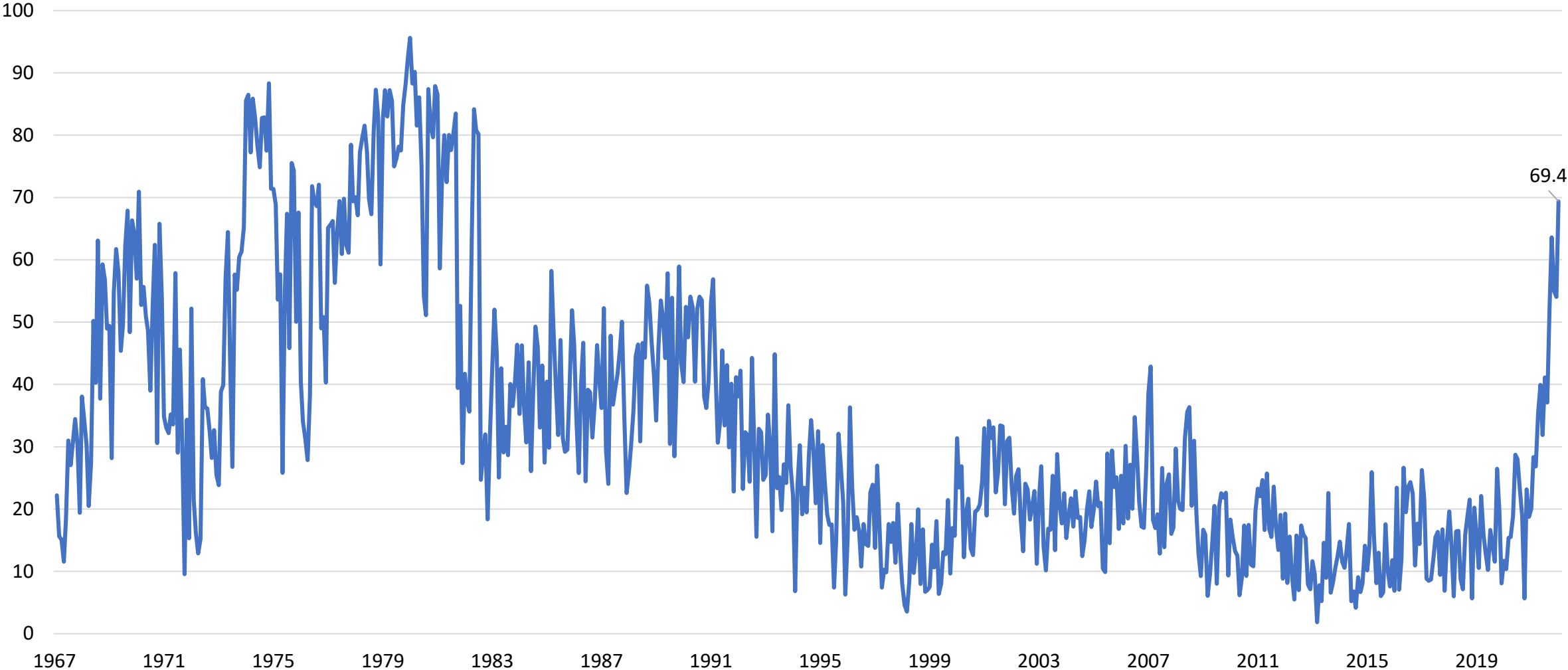
And, inflation has risen quite sharply.



Source: US Bureau Labor Statistics (through January 2022)

At least half of the consumers' market basket rose at rates greater than or equal to 5 percent over the last 5 months.

Share of the CPI rising at rates greater than 5 percent



Source: US Bureau of Labor Statistics; staff calculations. Expenditure-weighted shares are reported.

Which historical period are we “doomed” to repeat?

Post-WWII “Reflation”

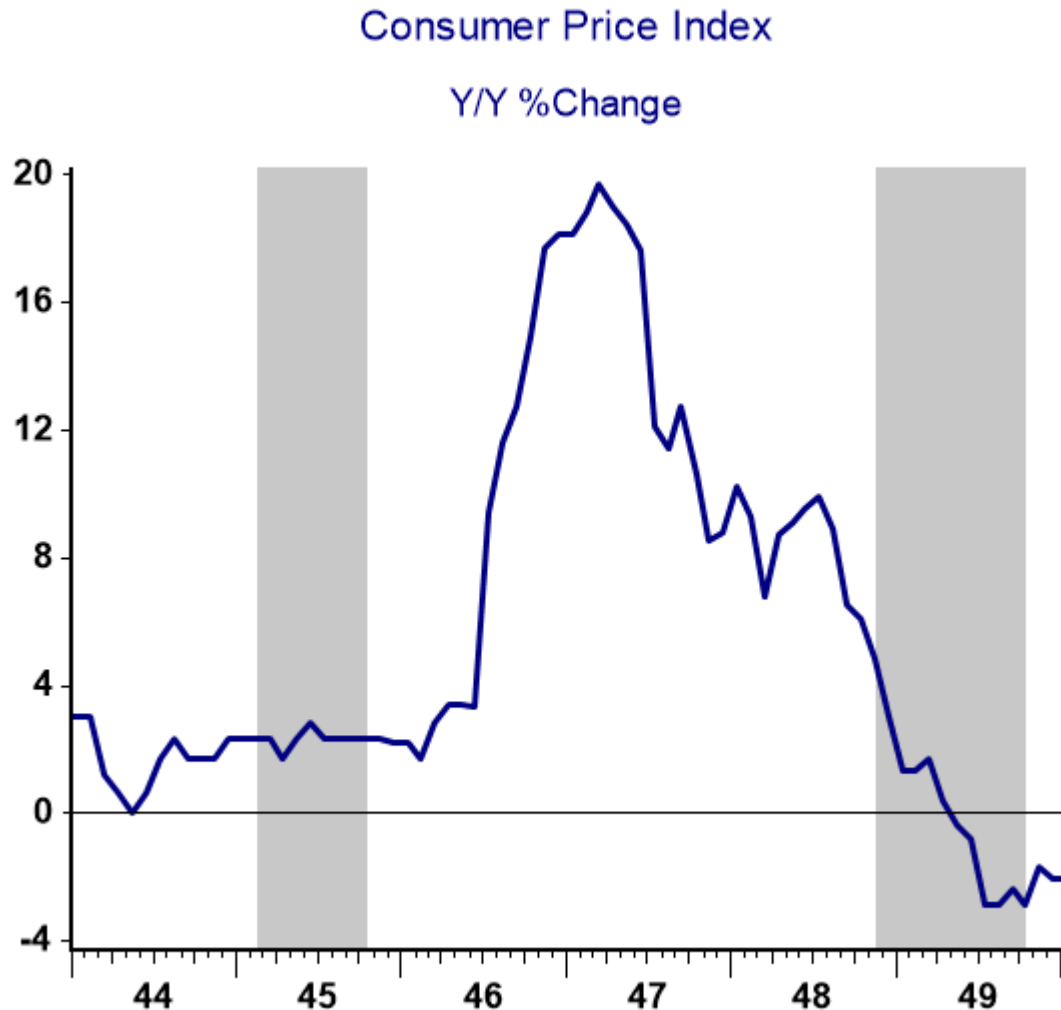


or

The Great Inflation



The “Reflation” of 1946-1947



Source: Bureau of Labor Statistics/Haver Analytics

Very Short and Mild recession in 1945 as the economy transformed from a *war-based* to a *consumer-based* economy.

War-time price controls were lifted in 1946.

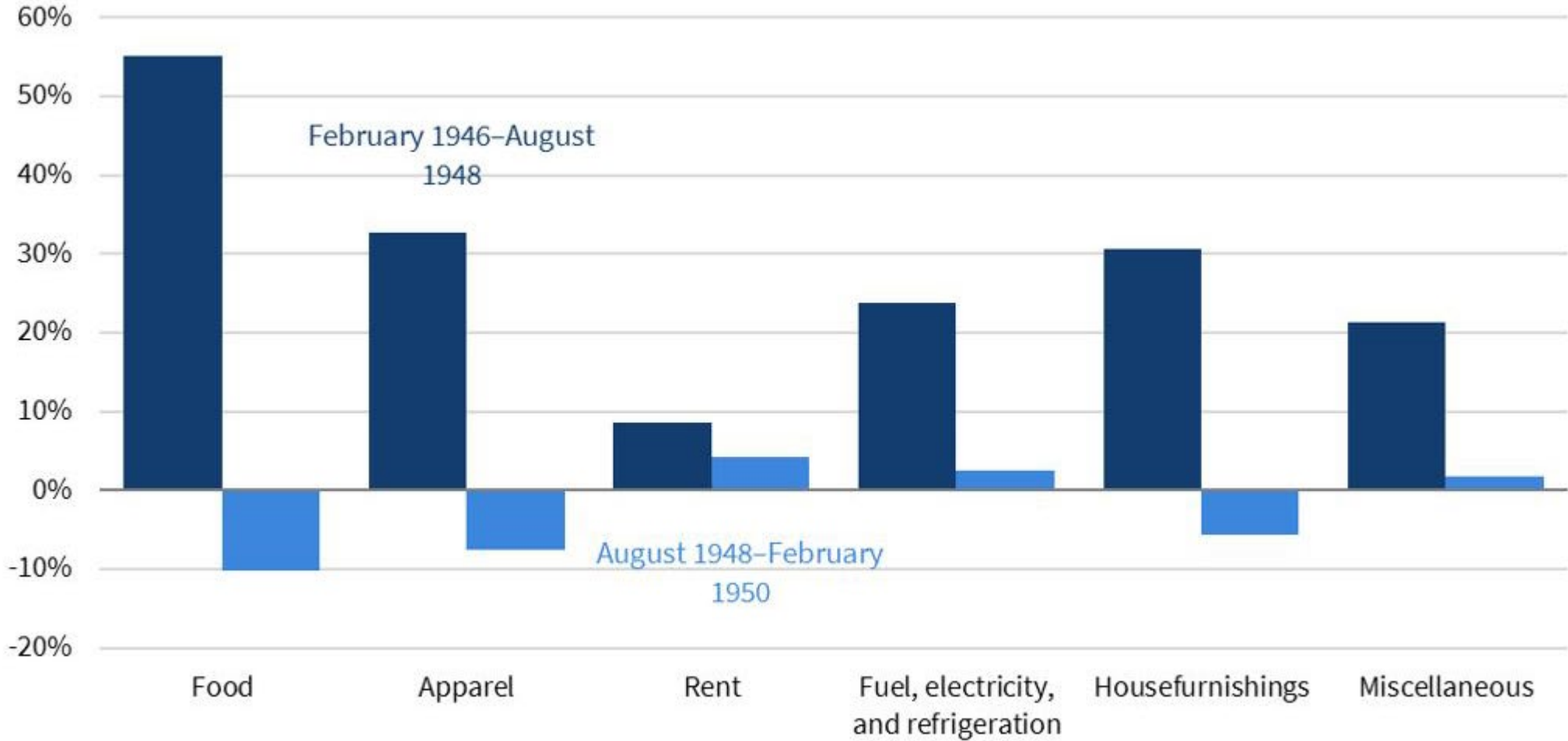
Pent-up demand: Consumers eagerly spent excess savings...but supply constraints emerged.

The inflation surge was short lived.

Inflation quickly stabilized around 2% in 1949.

Inflation surged after WWII, but then retreated.

Percent inflation, year-over-year



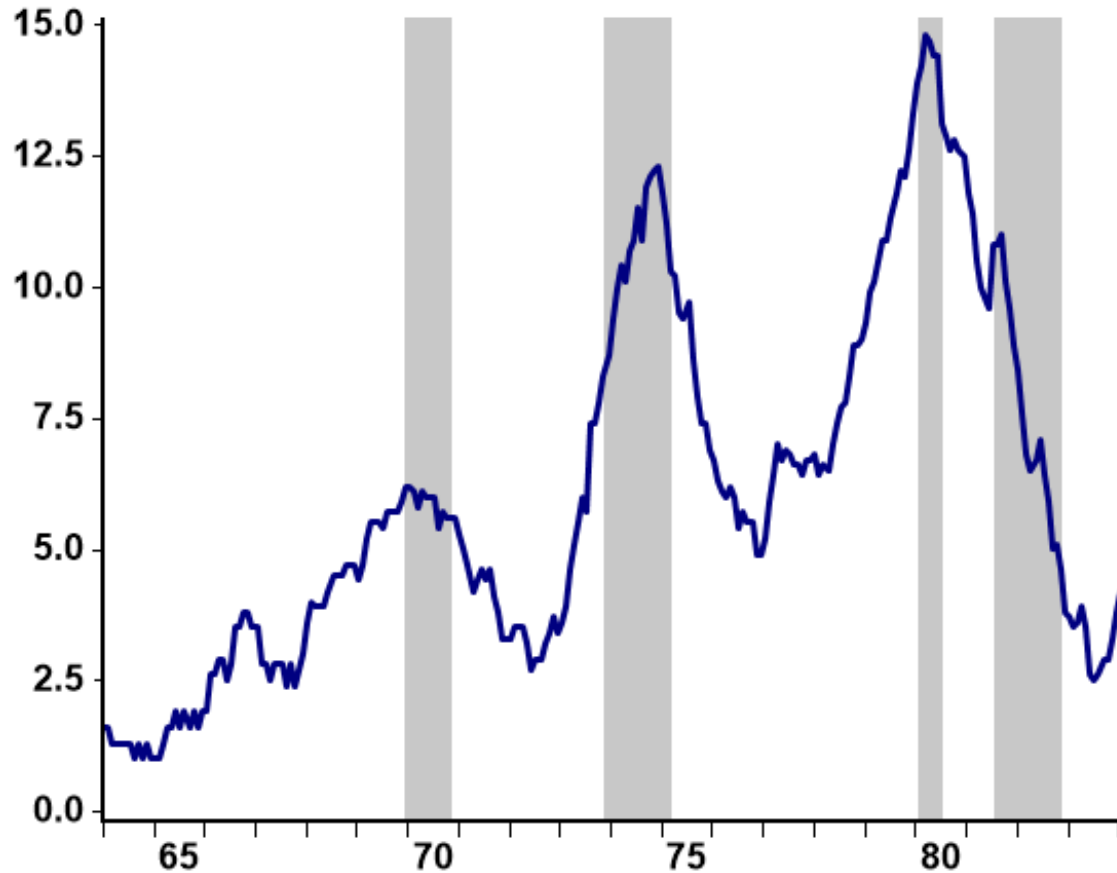
Source: BLS.

Excerpted from CEA blog from July 6, 2021: <https://www.whitehouse.gov/cea/blog/2021/07/06/historical-parallels-to-todays-inflationary-episode/>

The “Great Inflation” of 1965-1982

Consumer Price Index

Y/Y %Change

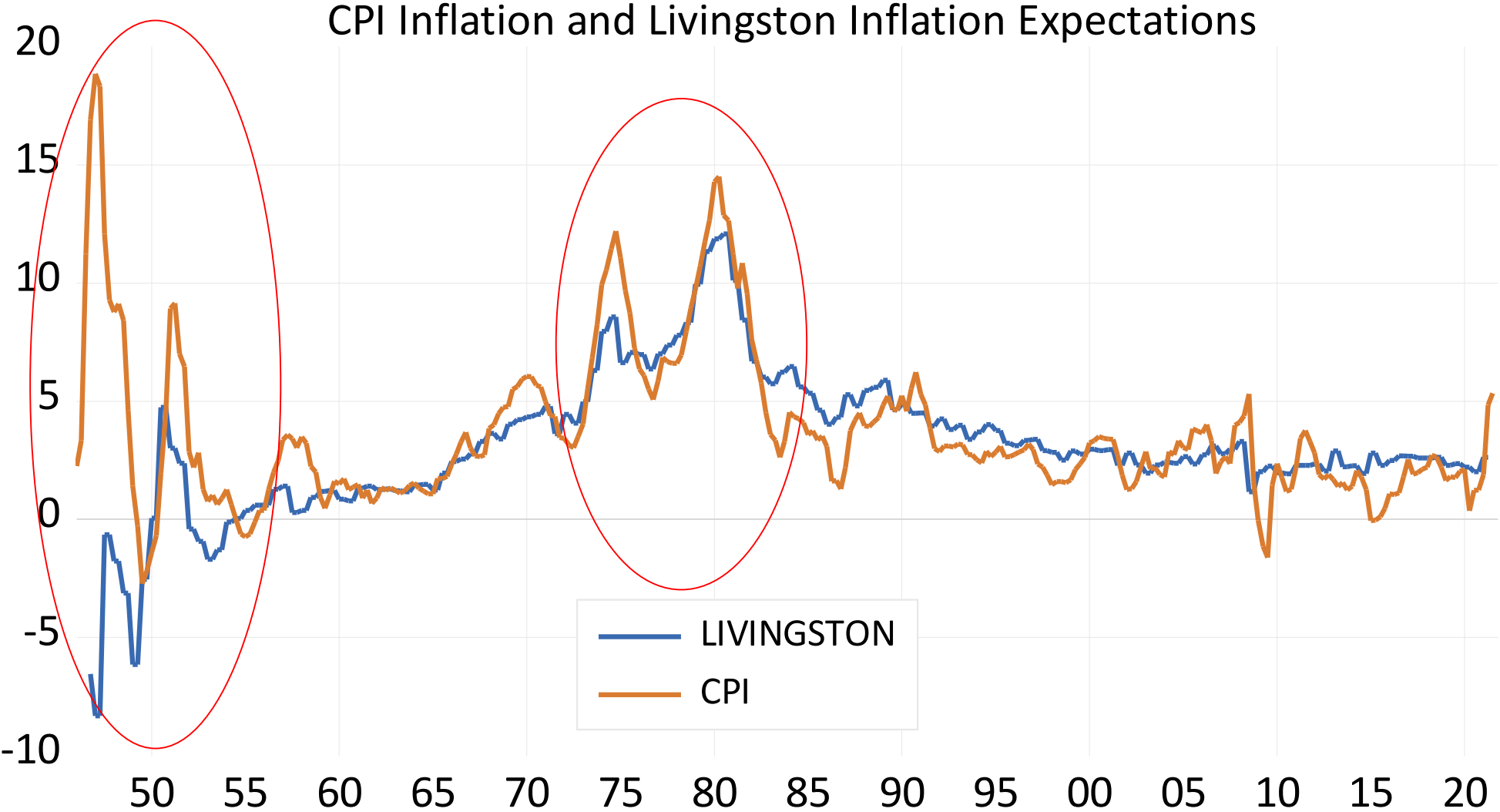


Spanned over two decades and included:

- Four economic recessions
- The abandonment of the global monetary system established during WWII (Bretton Woods)
- Two severe energy shortages
- Implementation of peacetime wage and price controls (3 phases from 1971-74)

Origins of the Great Inflation: Prevailing monetary policies allowed for an excessive growth in the money supply.

The behavior of inflation expectations clearly was different across these two episodes.



Sources: US Bureau Labor Statistics; Philadelphia Federal Reserve

The crucial component of a wage-price spiral.

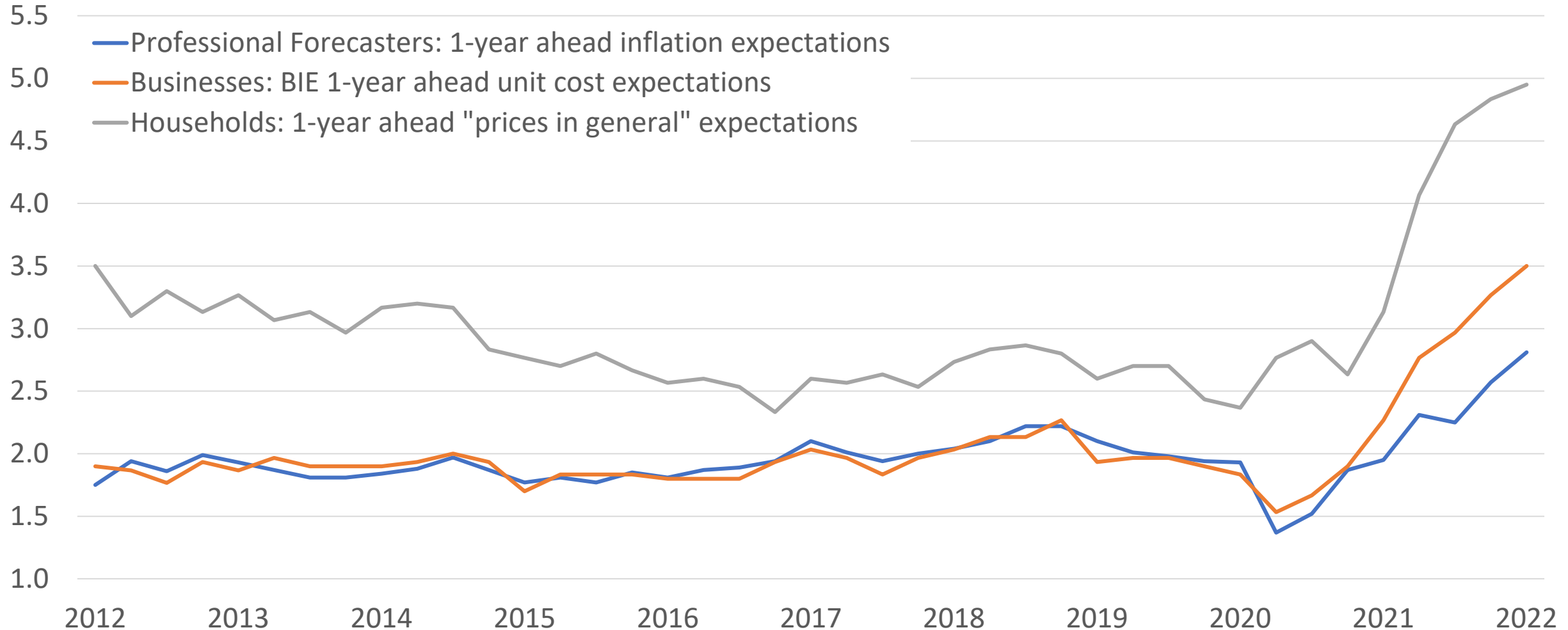
“...if these high levels of inflation get entrenched in our economy and people’s thinking, then inevitably that will lead to much higher monetary policy from this,” [Chair Powell] said. “That could lead to a recession and that will be bad for workers.”



Short-run measures of inflation expectations have risen sharply.

Survey Measures of Shorter-Run Inflation Expectations

Percent

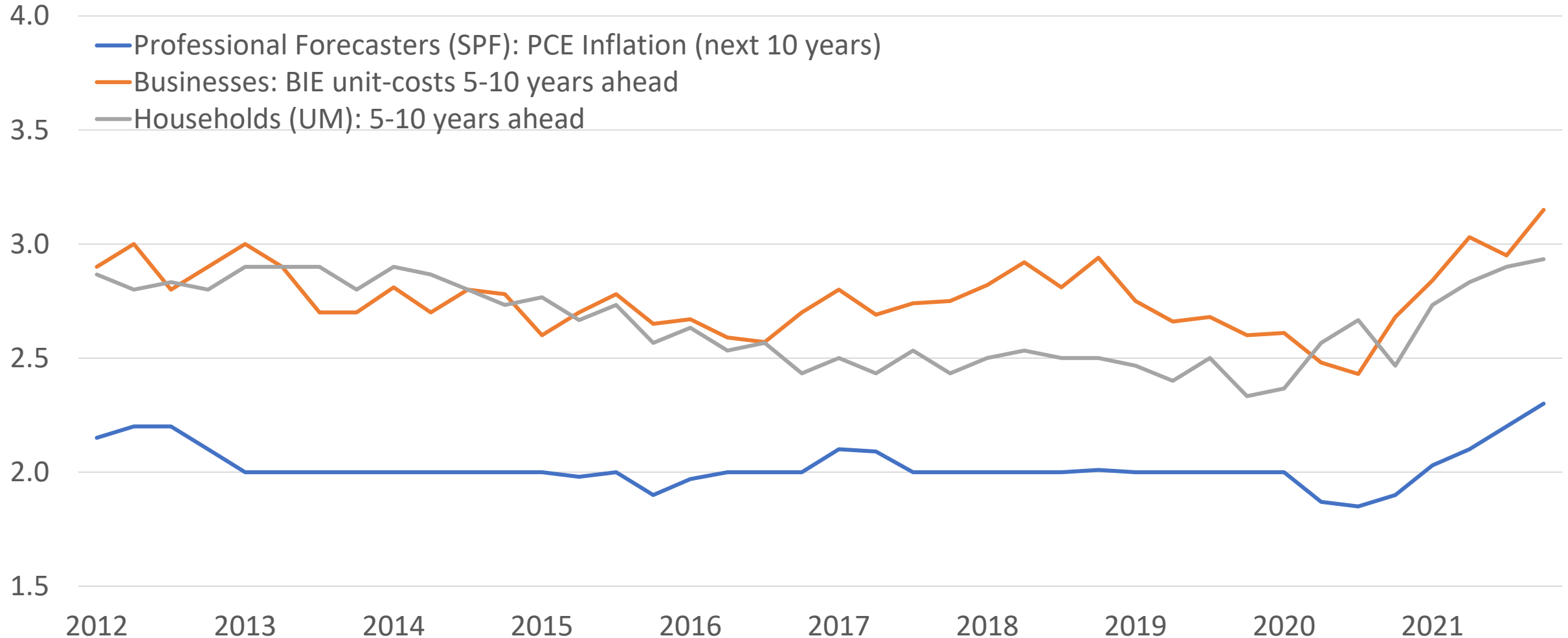


Sources: Federal Reserve Bank of Atlanta, Federal Reserve Bank of Philadelphia, University of Michigan, Haver Analytics

Longer-run inflation expectations have ticked up, but much less so than near-term measures.

Survey Measures of Longer-Run Inflation Expectations

Percent



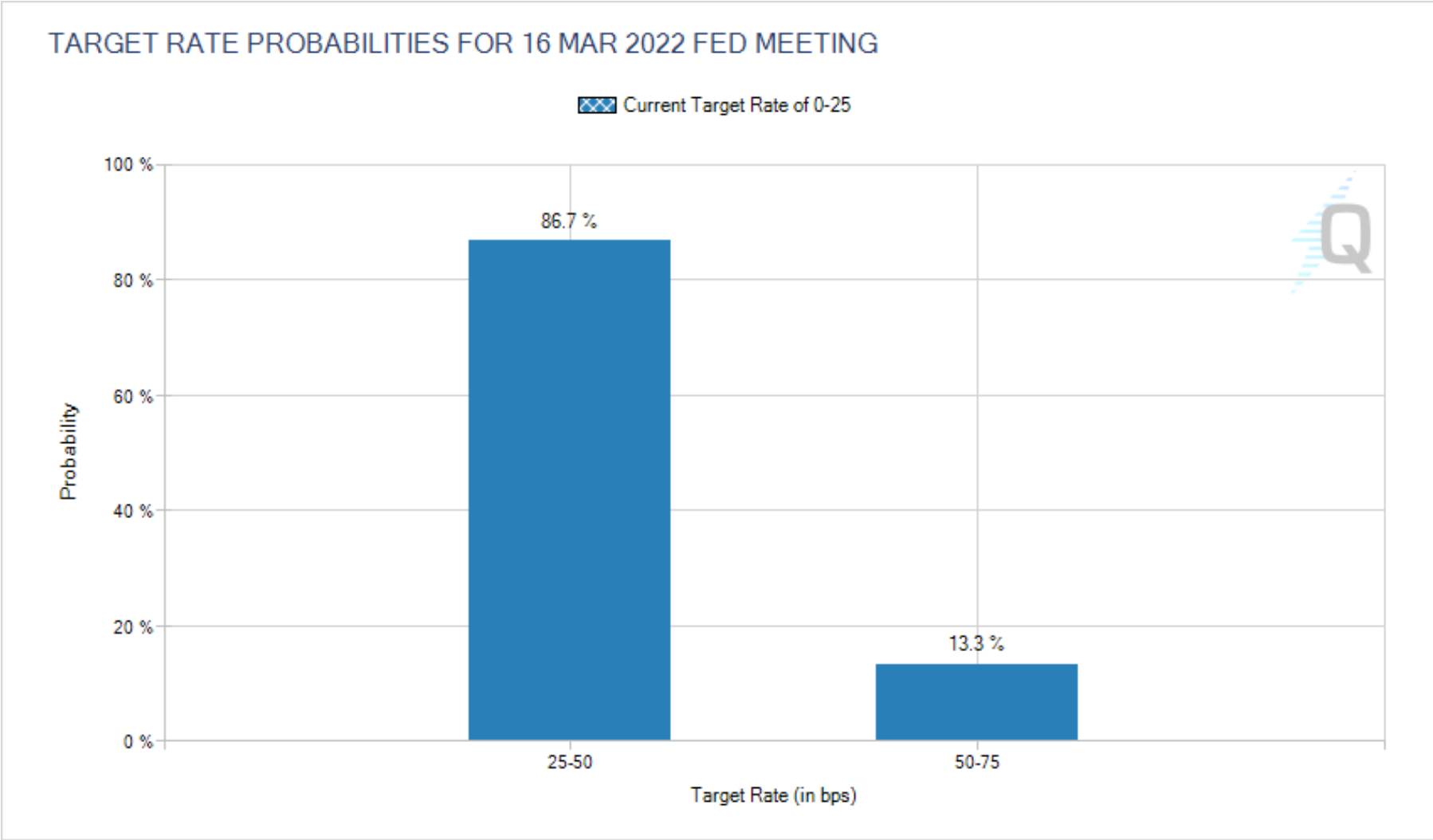
Sources: Federal Reserve Bank of Atlanta, Federal Reserve Bank of Philadelphia, University of Michigan, Haver Analytics

Sixth Fed District firms, surveyed in January, continue to anticipate strong wage growth.

Expected wage growth over the next 12 months	Mean
Low-skill (routine, manual tasks/no specialized training or degree)	7.2
High-skill (non-routine, creative tasks/highly-trained or educated)	5.8
Combined	6.5

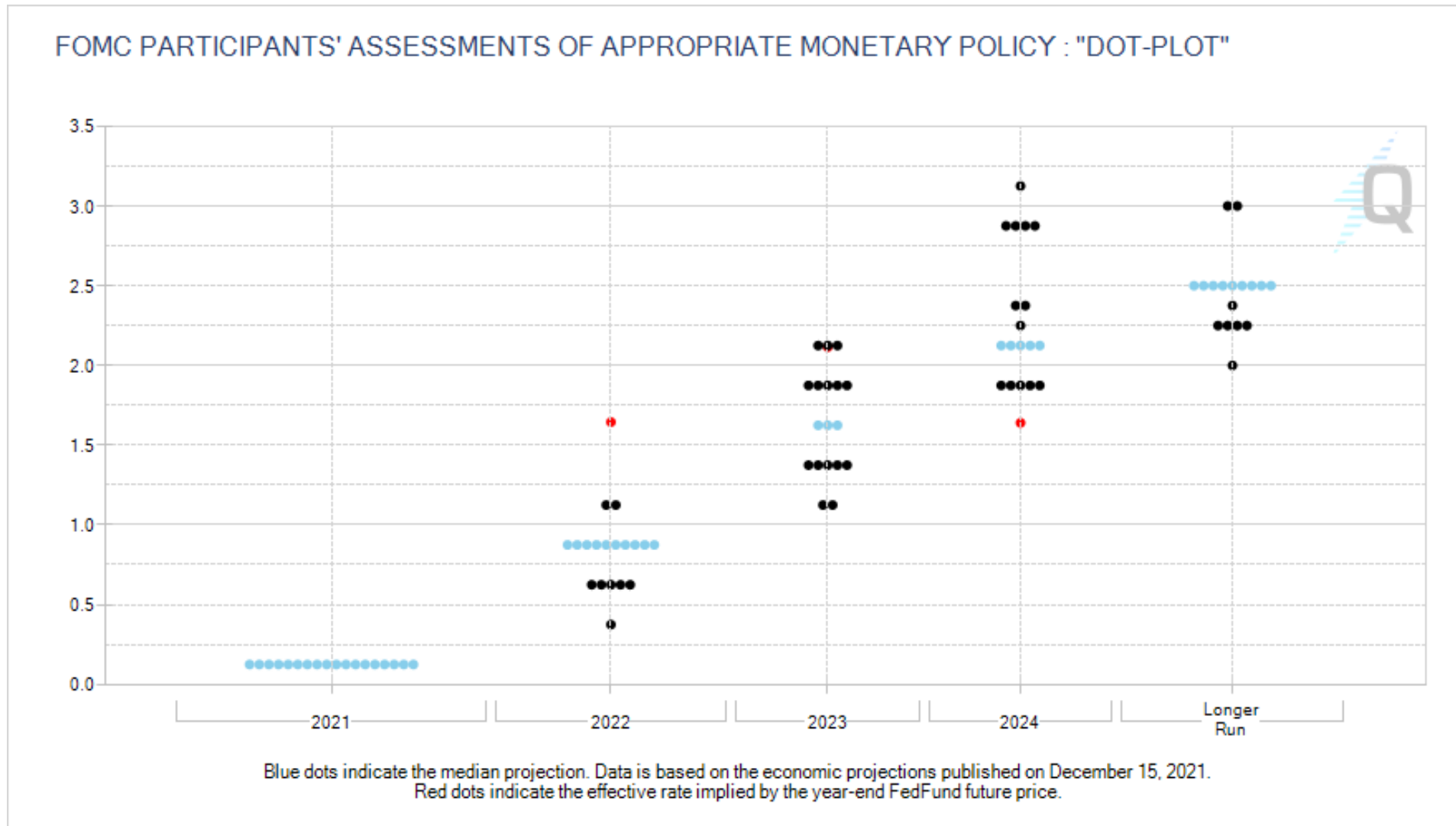
Source: Federal Reserve Bank of Atlanta's *Business Inflation Expectations* Survey, January 2022

Perhaps one reassuring difference between this bout of high inflation and the 1970s?



Source: <https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

Perhaps one reassuring difference between this bout of high inflation and the 1970s?



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Thank you for attending and many, many thanks for your continued participation in the Survey of Business Uncertainty!



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