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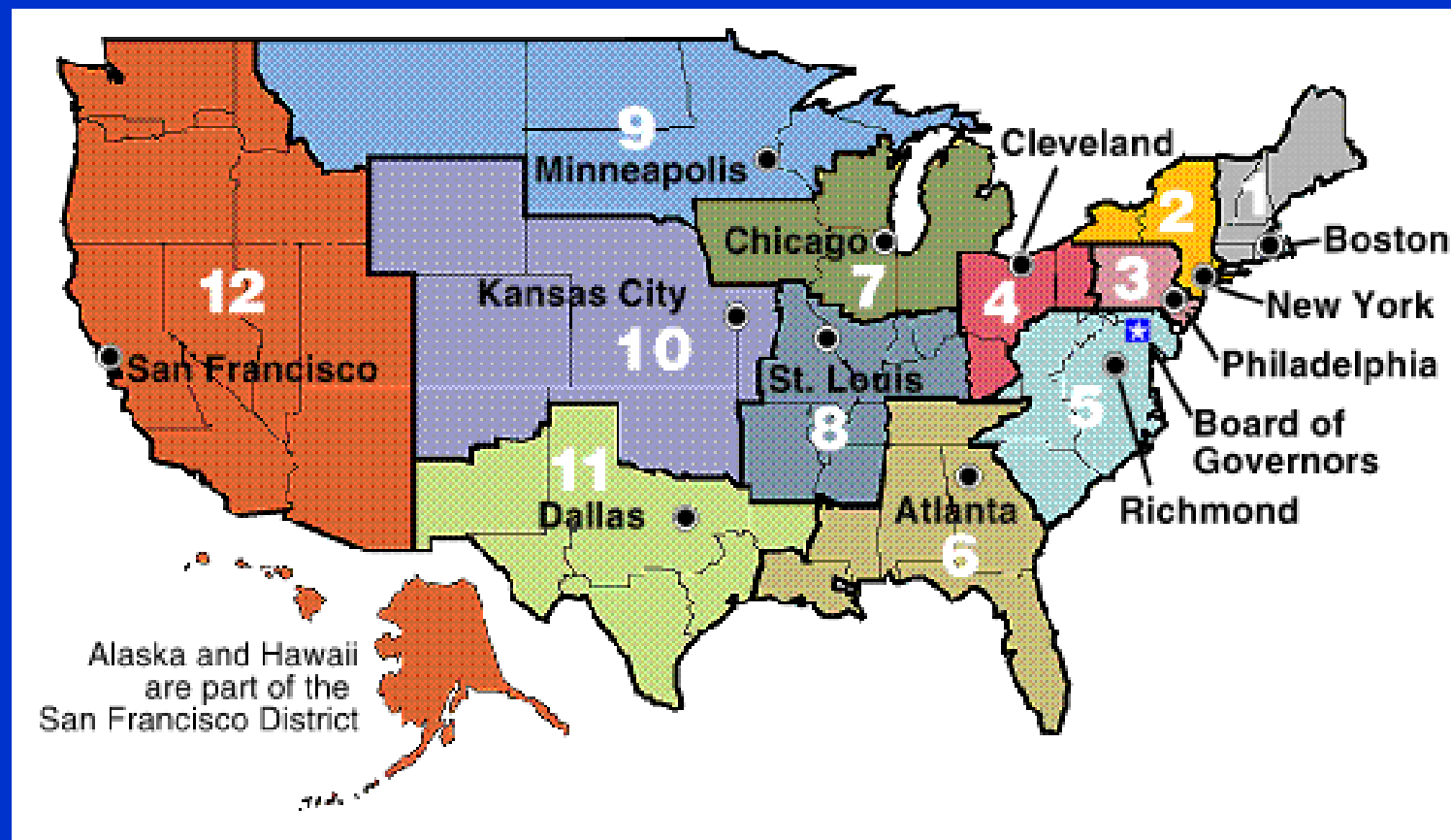
# **2021 Economic Outlook: *Hard Times or Great Expectations?***

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Global Midwest Alliance**

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**The views expressed in this presentation are my own and do not necessarily reflect those of the Federal Reserve Bank of Chicago or of the Federal Reserve System.**

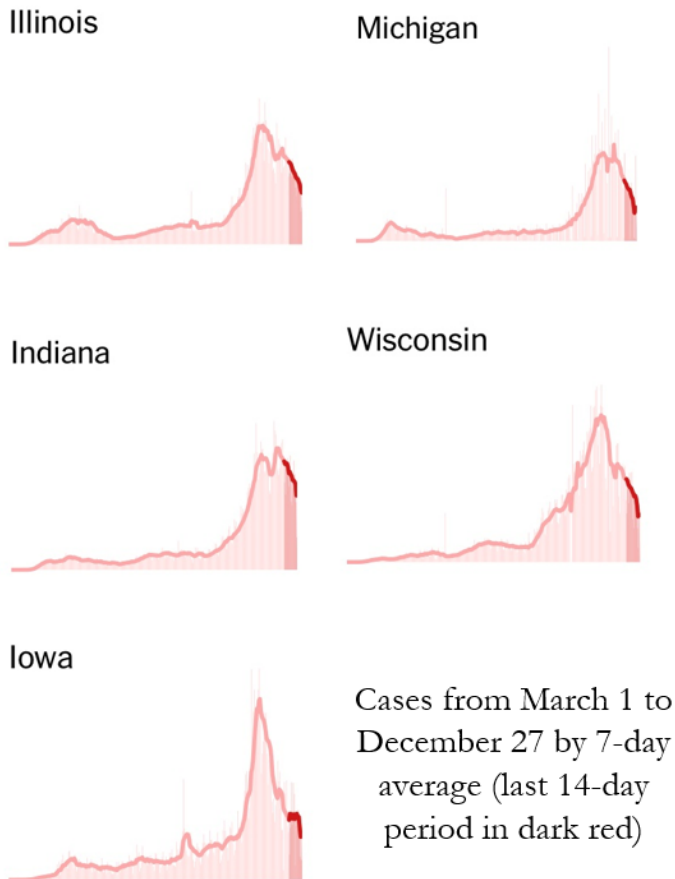


## **Twist of Economic Fortunes in 2020**

- ***Great Expectations* a year ago for the US economy to expand at a pace close to trend in 2020-22**
- **But 2020's pandemic led to a Dickensian recession**
- **2021 & 2022 still look to have above trend growth**
- **When will the economy get back to the level of February's peak?**

# District's coronavirus cases fell late in 2020

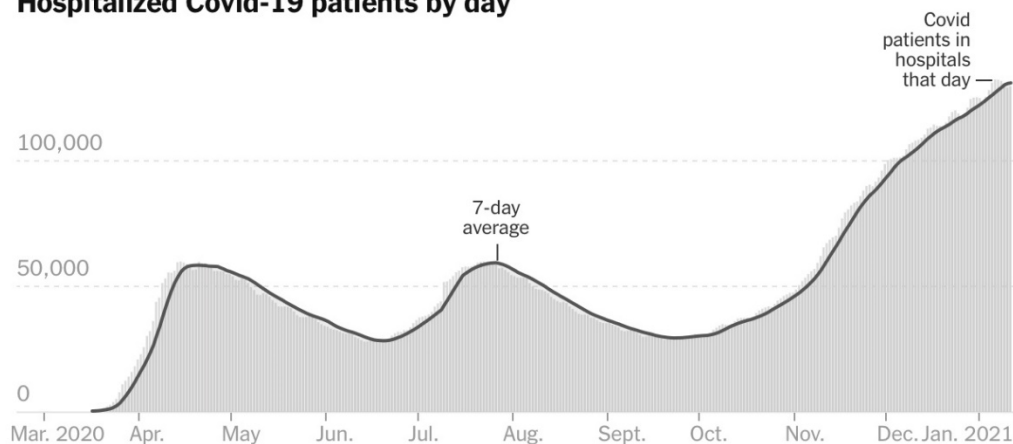
## U.S. cases peaking in Jan. after a *Christmas Carol*?



**New reported deaths by day**

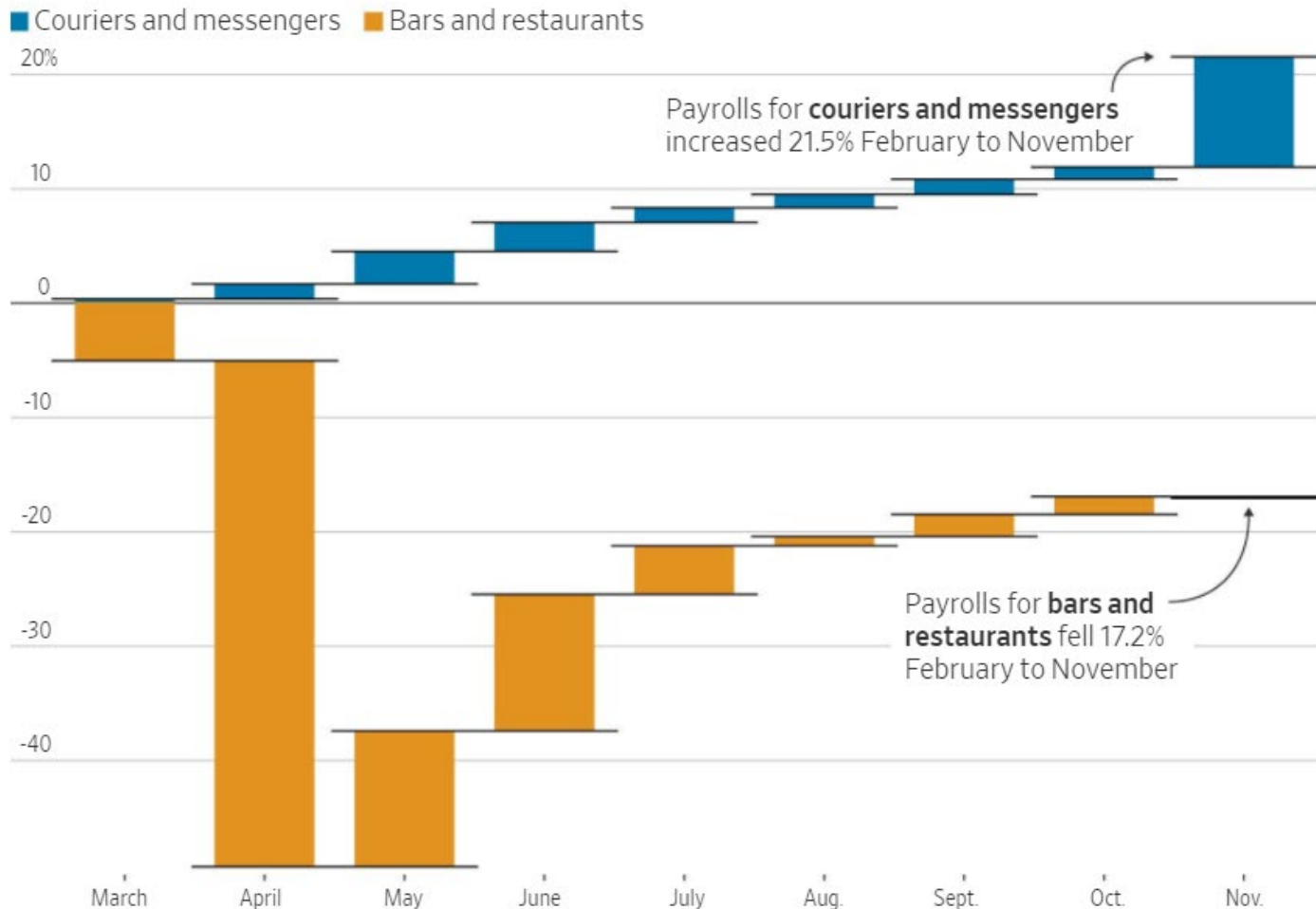


**Hospitalized Covid-19 patients by day**



Source: The New York Times

# A tale of two occupations



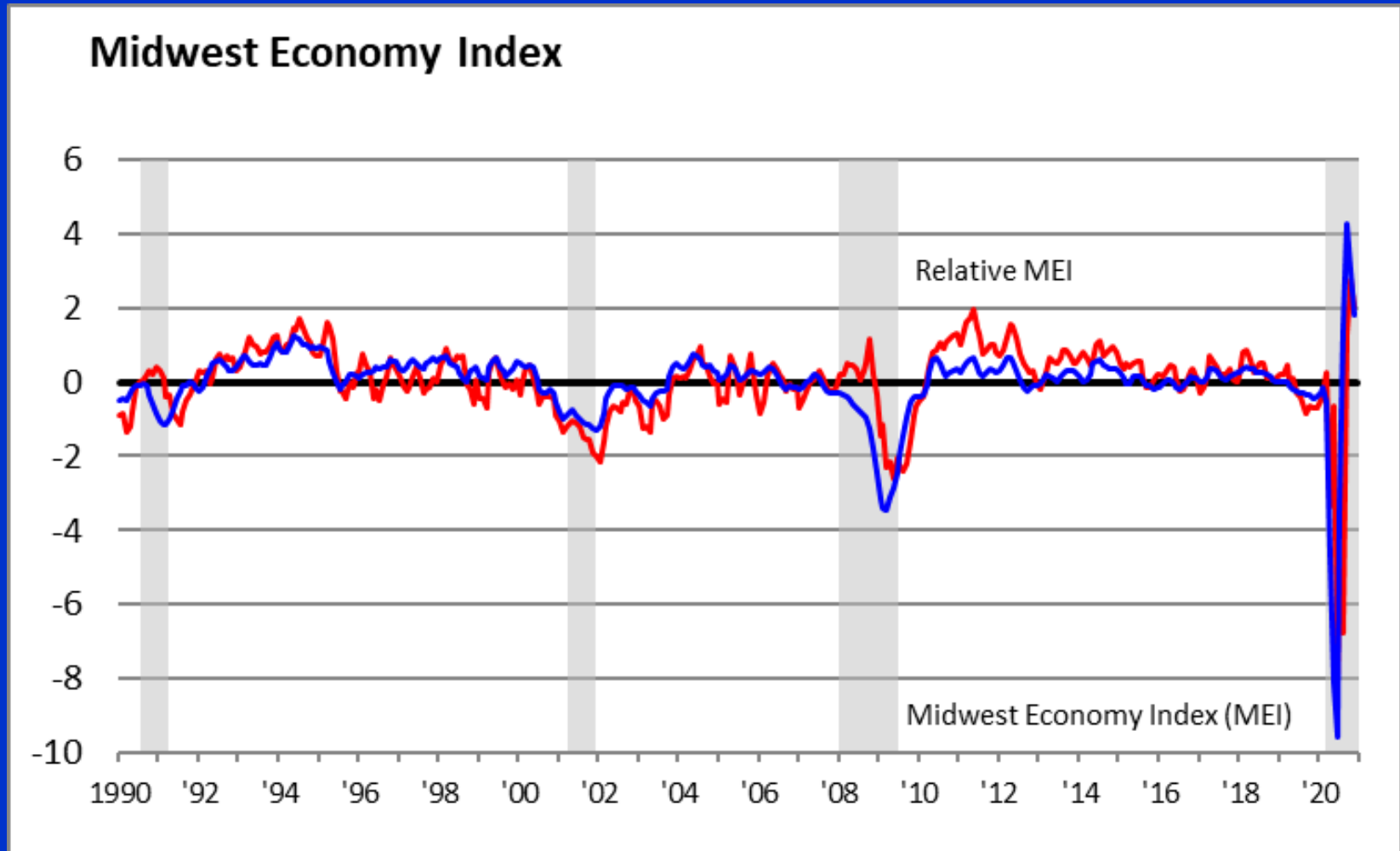
Note: Cumulative, seasonally adjusted change since February

# Economic activity plunged after Covid-19 shutdowns, before moving up again

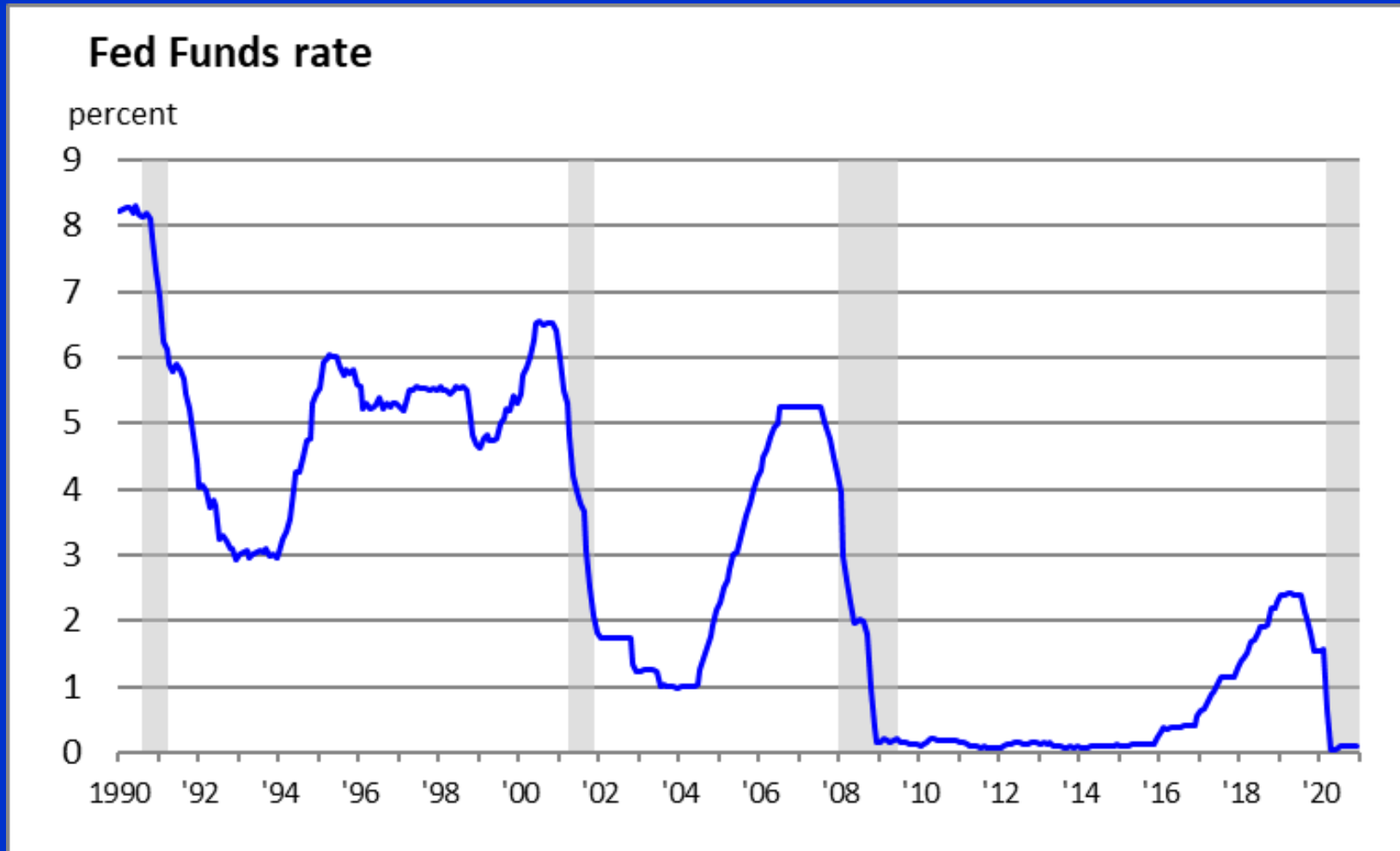
Chicago Fed National Activity Index (three month average)



# Midwest economic activity mirrored the nation's deep drop and subsequent gains

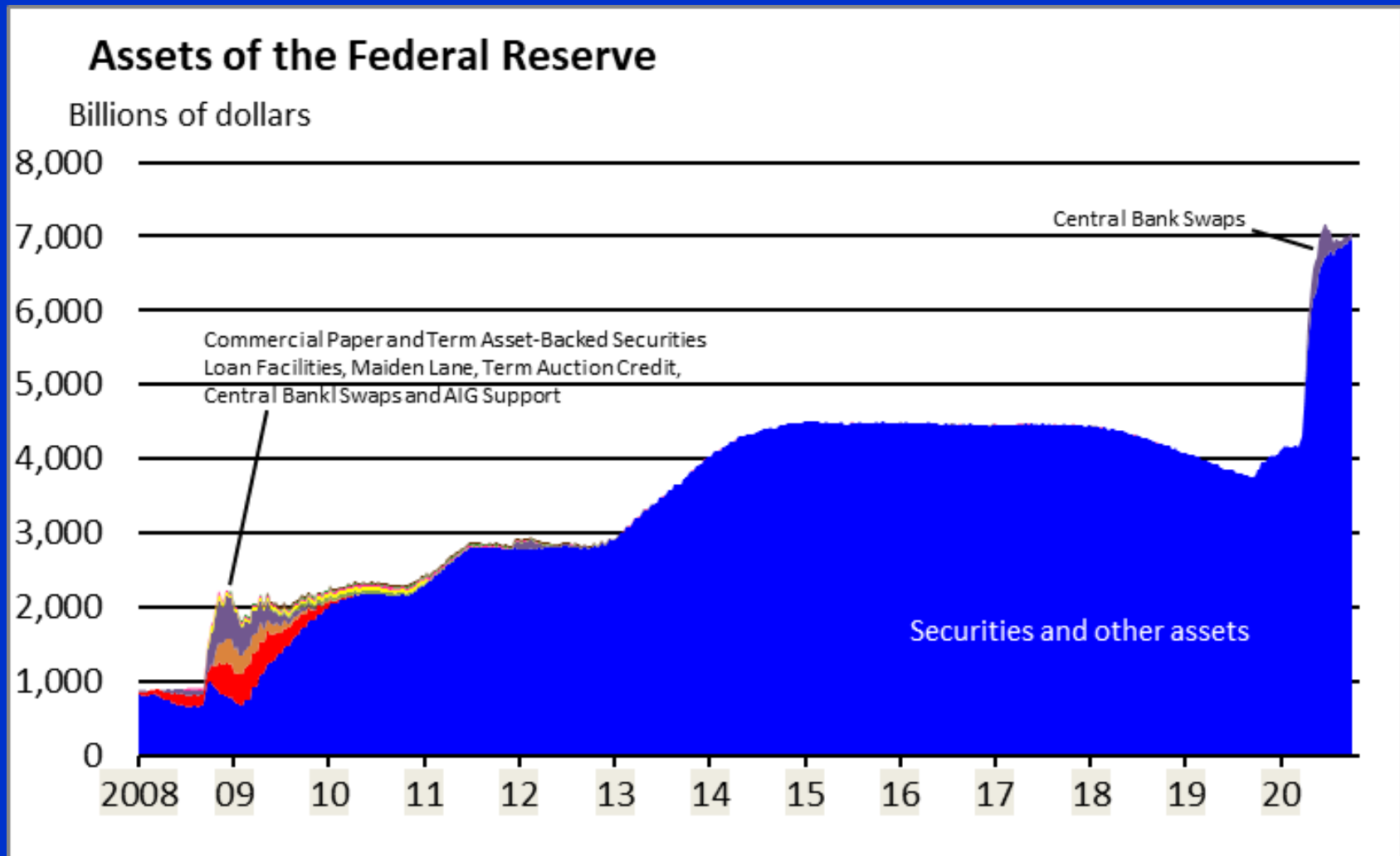


# As pandemic hit, FOMC quickly lowered the Fed Funds rate target range (0% to 0.25%)

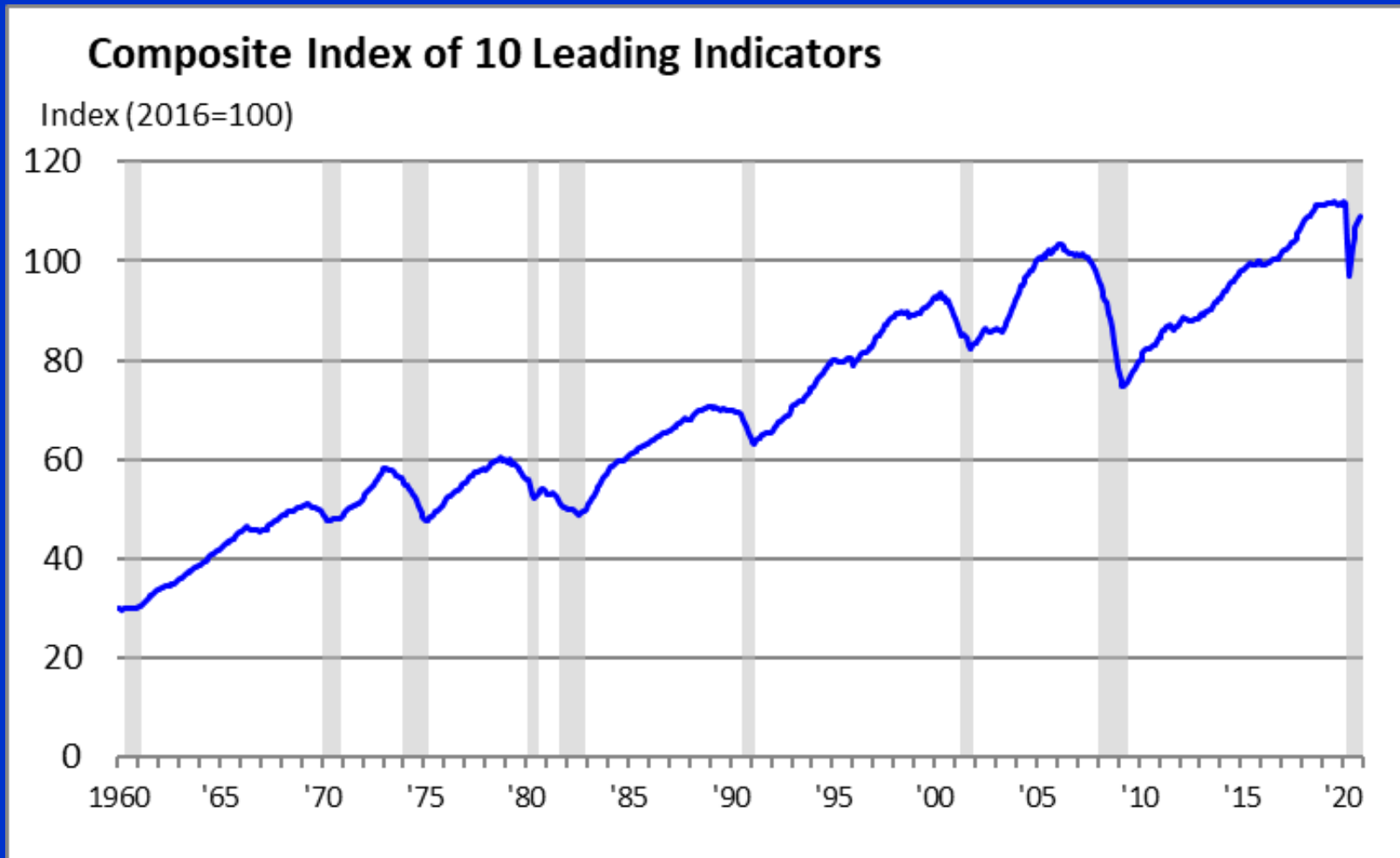




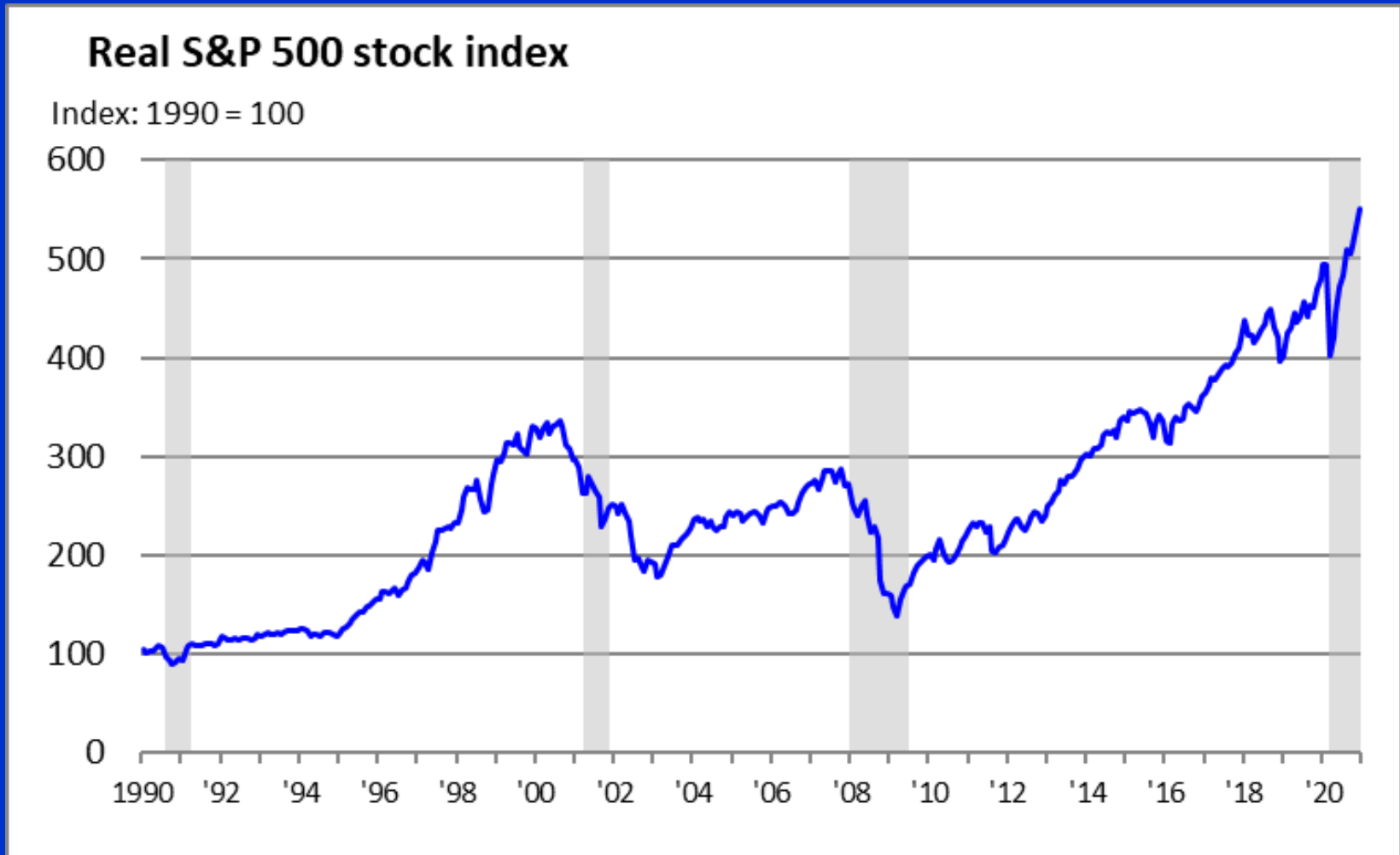
# Fed's balance sheet expanded rapidly in 2020, as the recession developed



# The Index of Leading Economic Indicators peaked last January and has yet to fully recover

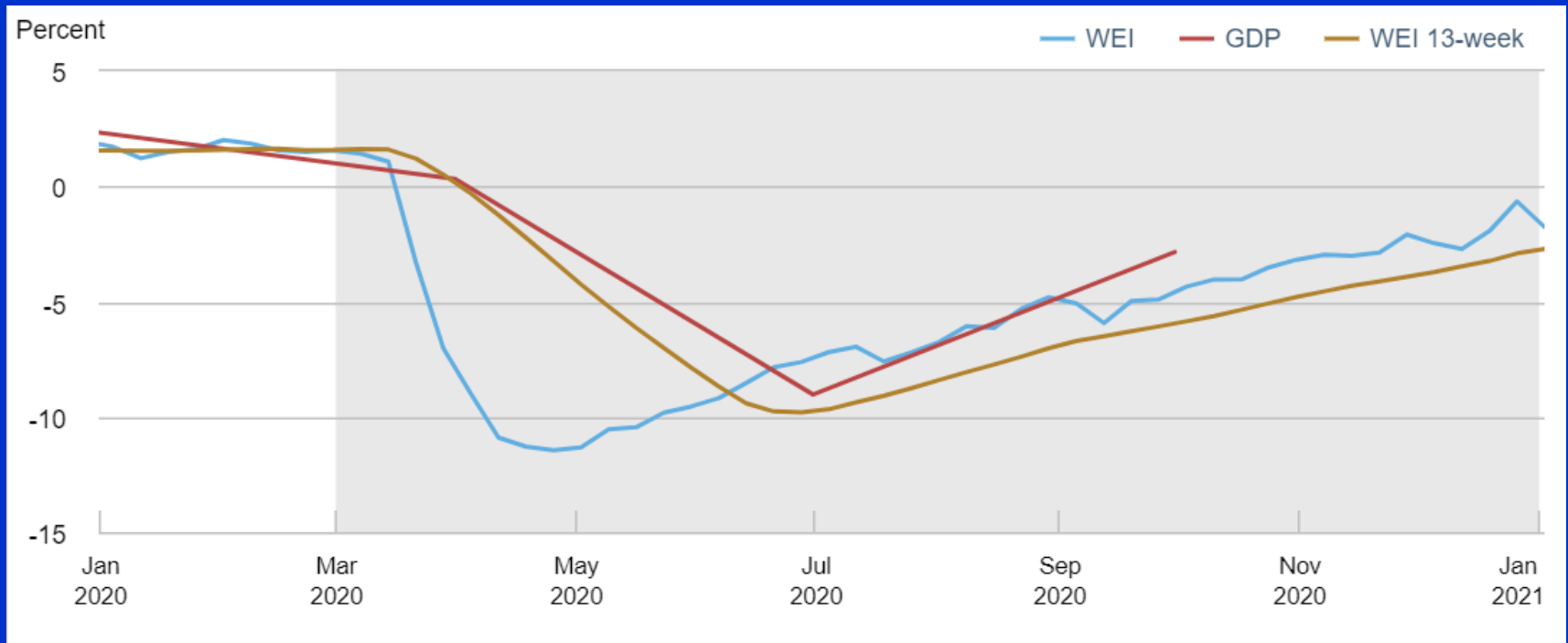


# However, stock markets had reached new peaks following dramatic swings

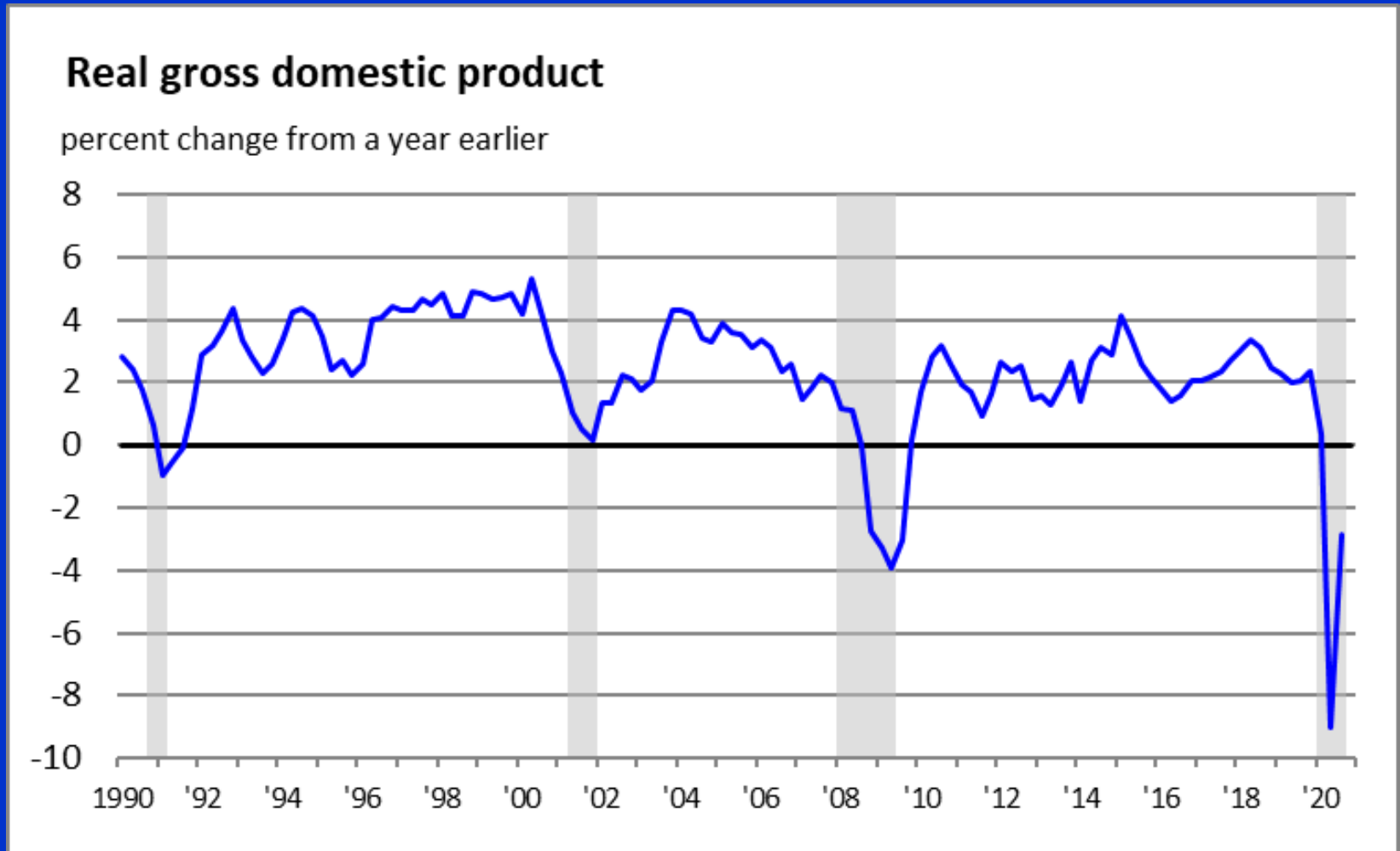


# Working to get out of the poorhouse

The Weekly Economic Index (WEI) is an index of ten daily and weekly indicators of real economic activity, scaled to align with the four-quarter GDP growth rate.



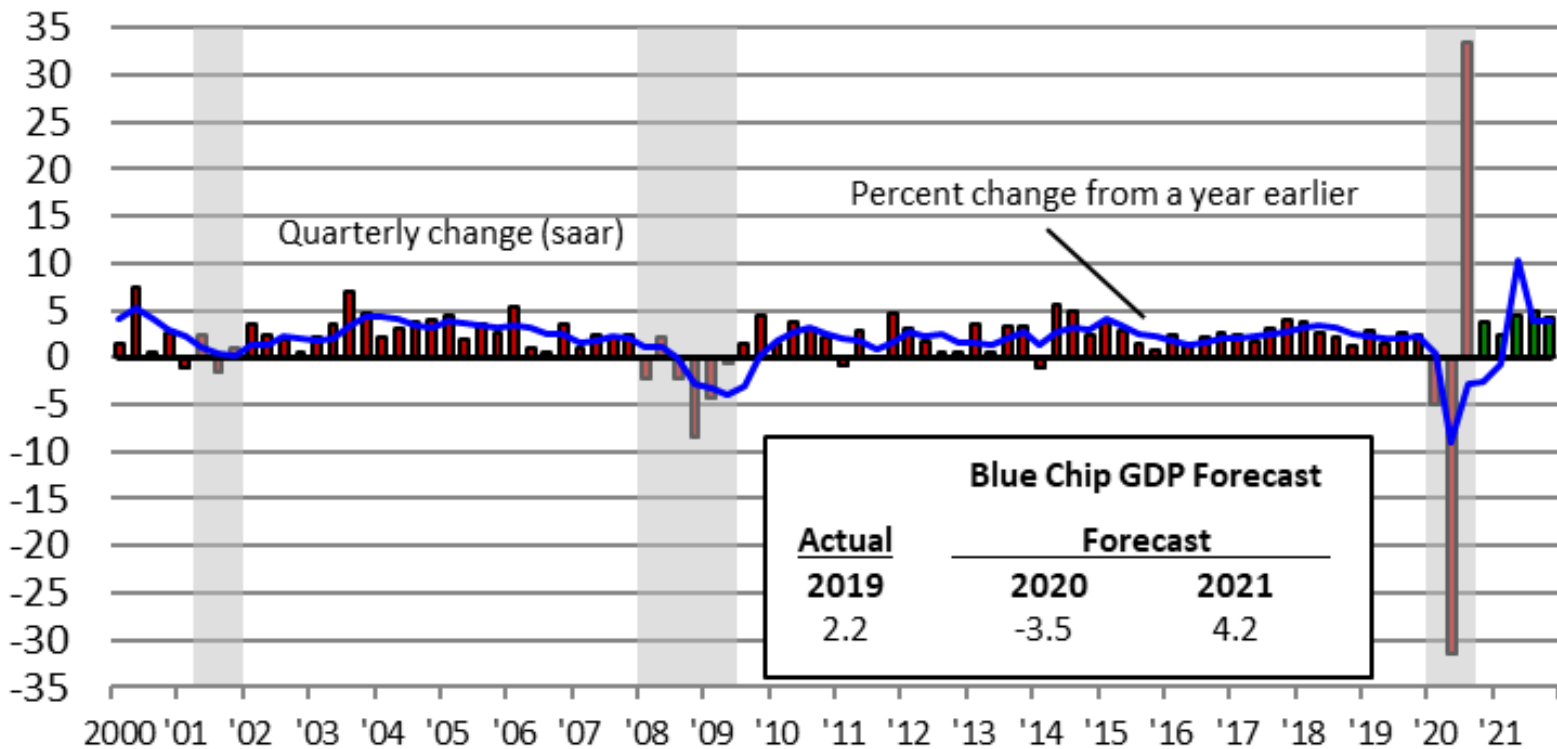
# Quarterly GDP plunged 5% and 31% in the first quarters of 2020, before a 33% increase in Q3



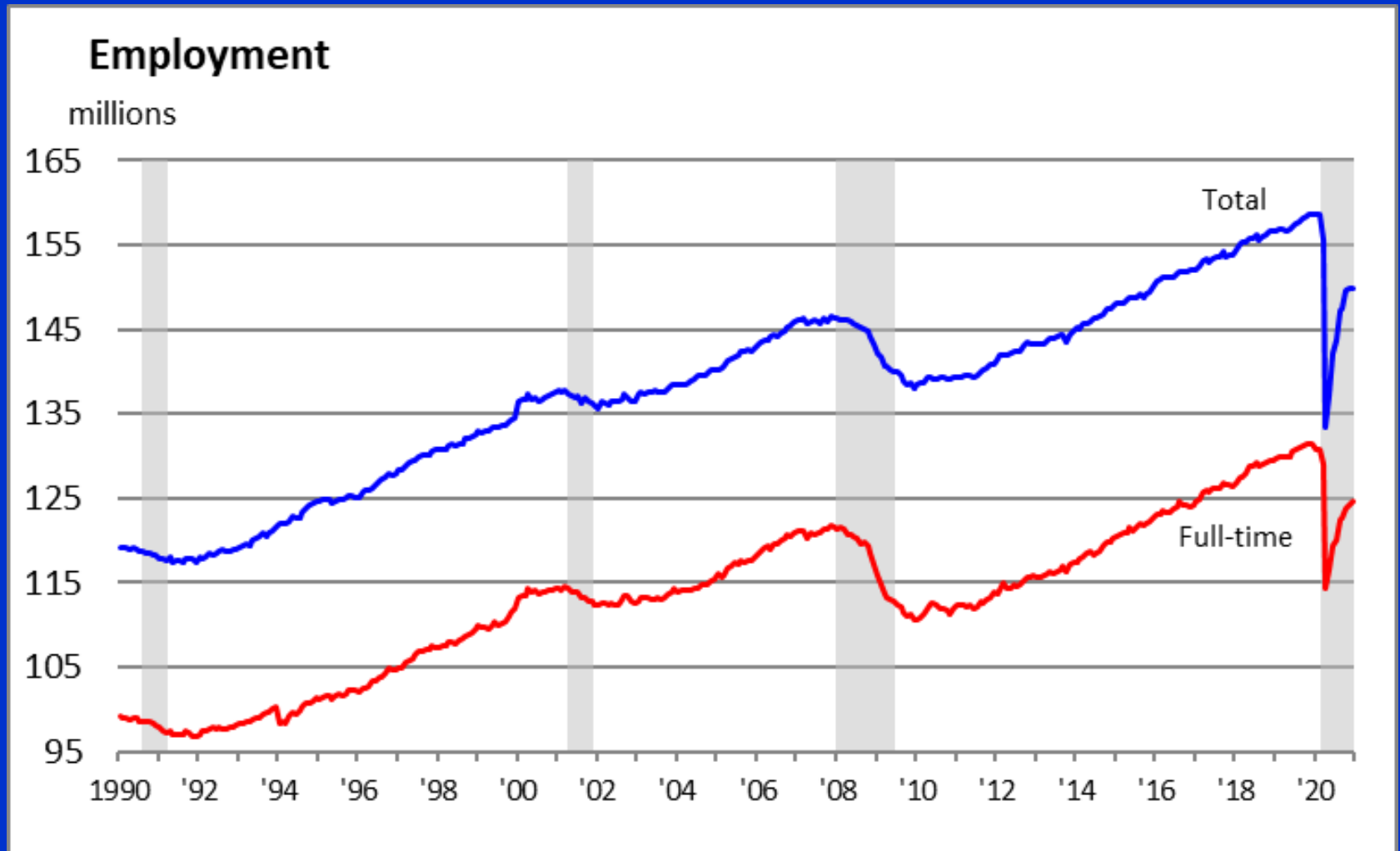
# Above trend GDP growth in 2021 forecasted by the Blue Chip

## Real gross domestic product

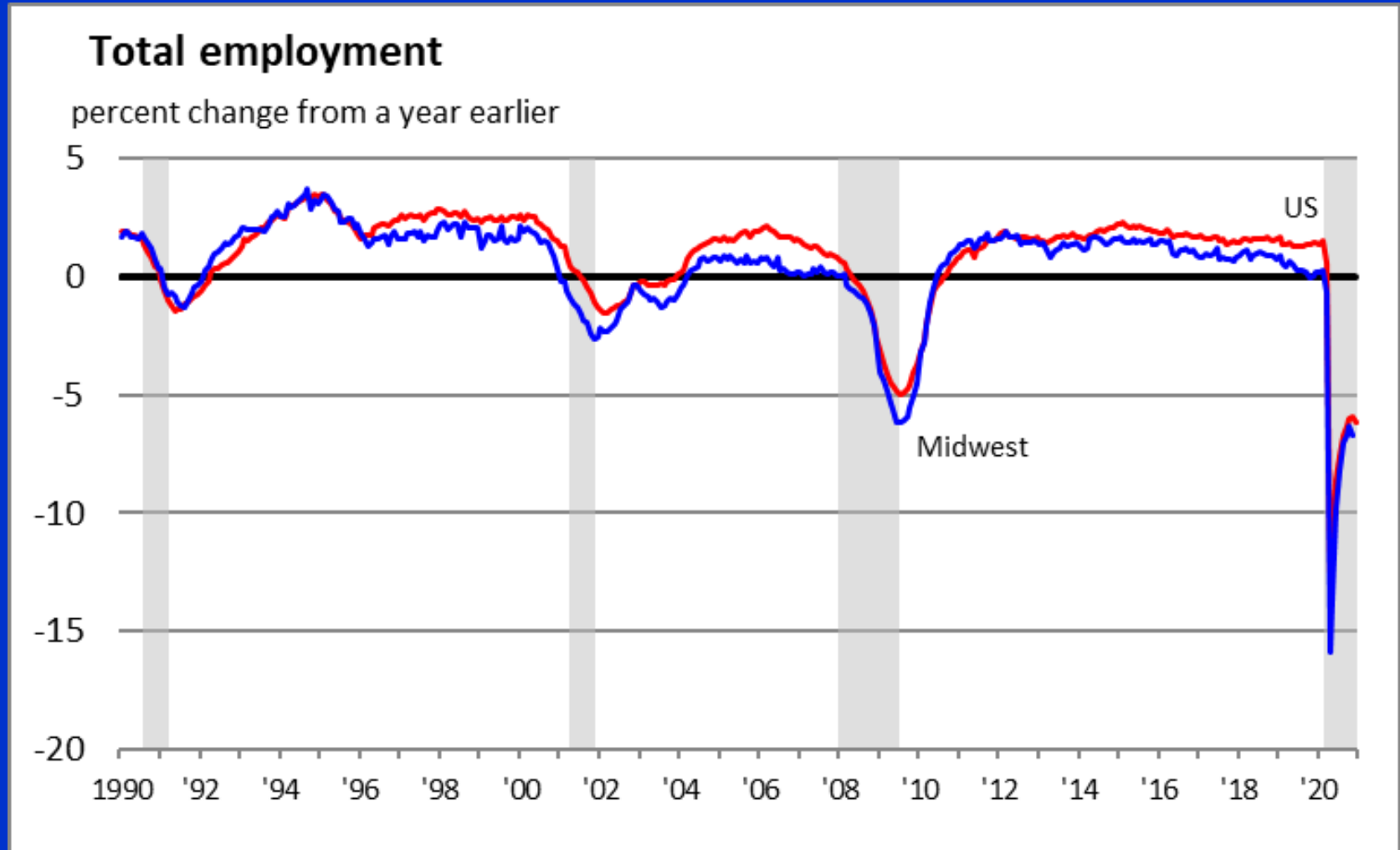
percent



# Employment fell off a cliff, before climbing part way up again

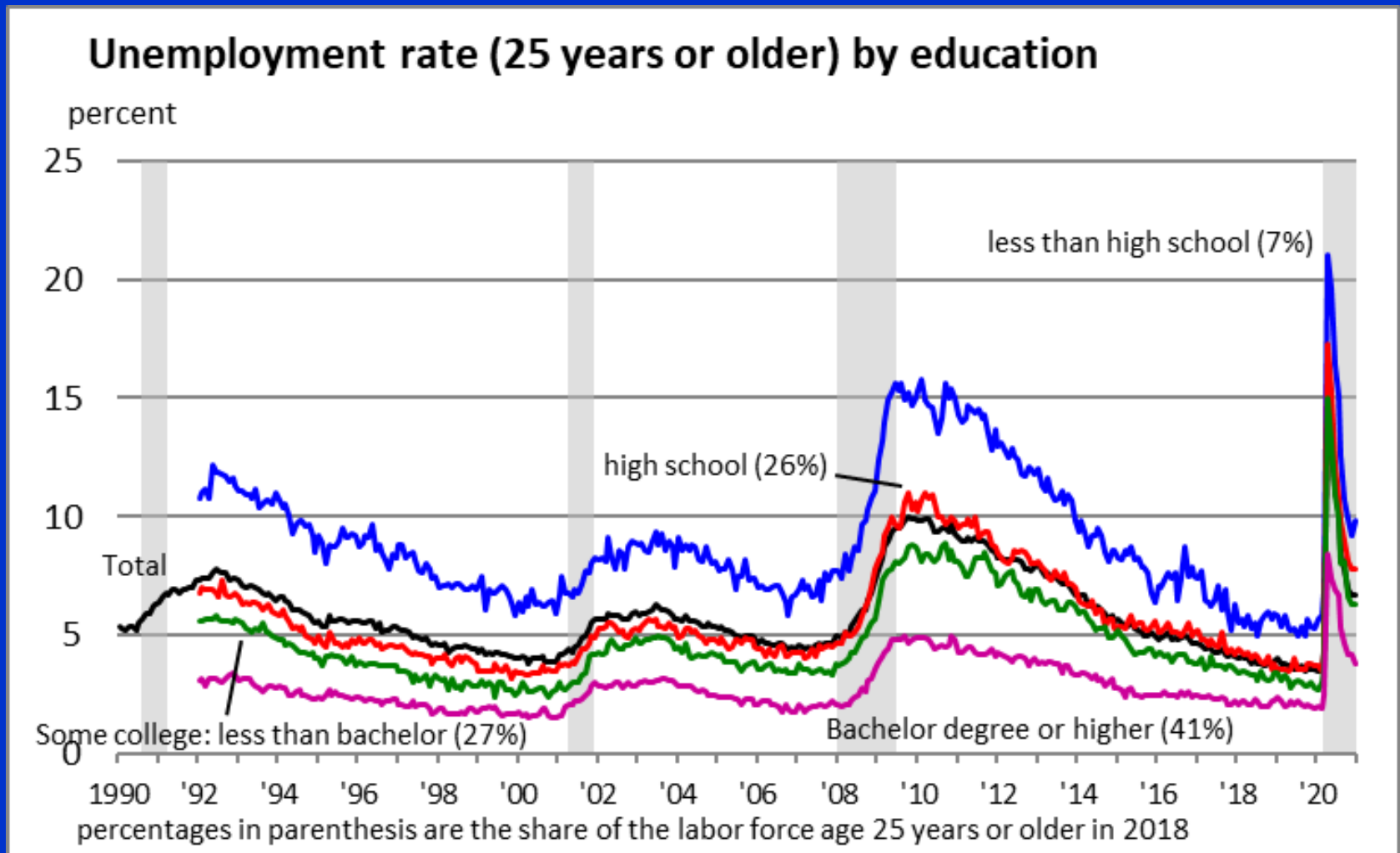


# Employment plummeted with shutdowns

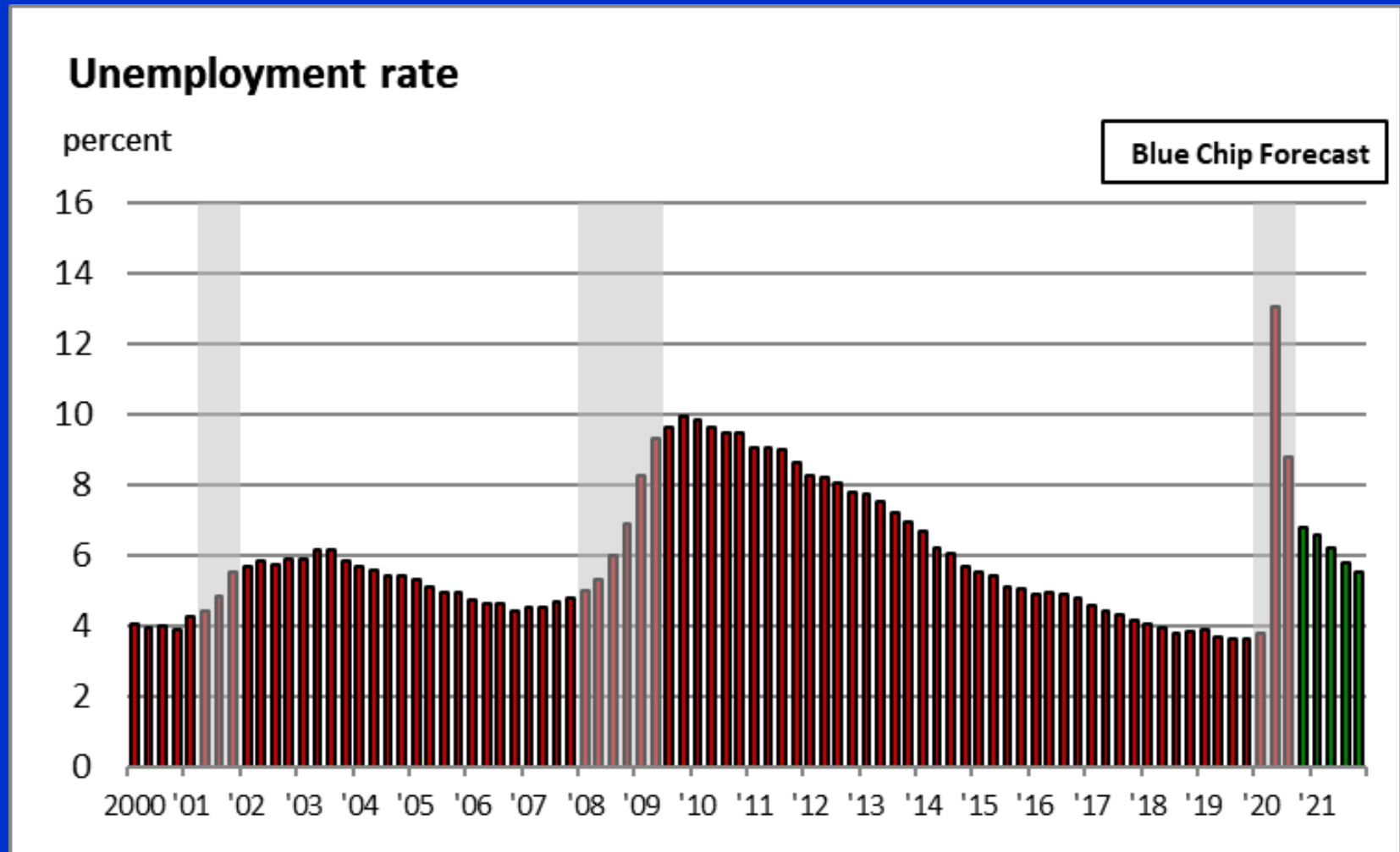




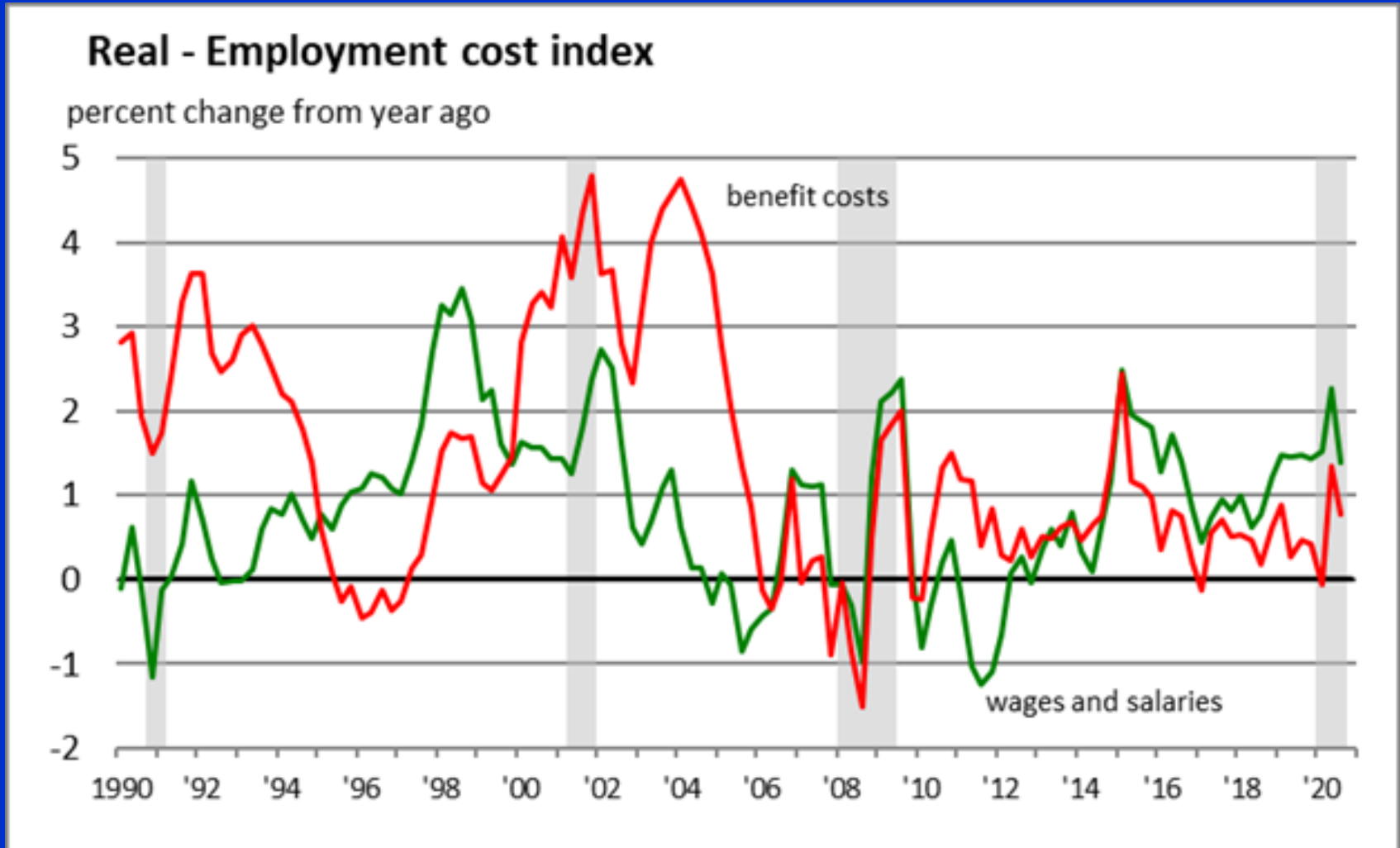
# Unemployment rates highest for those with the least education, but 2020 hurt all categories



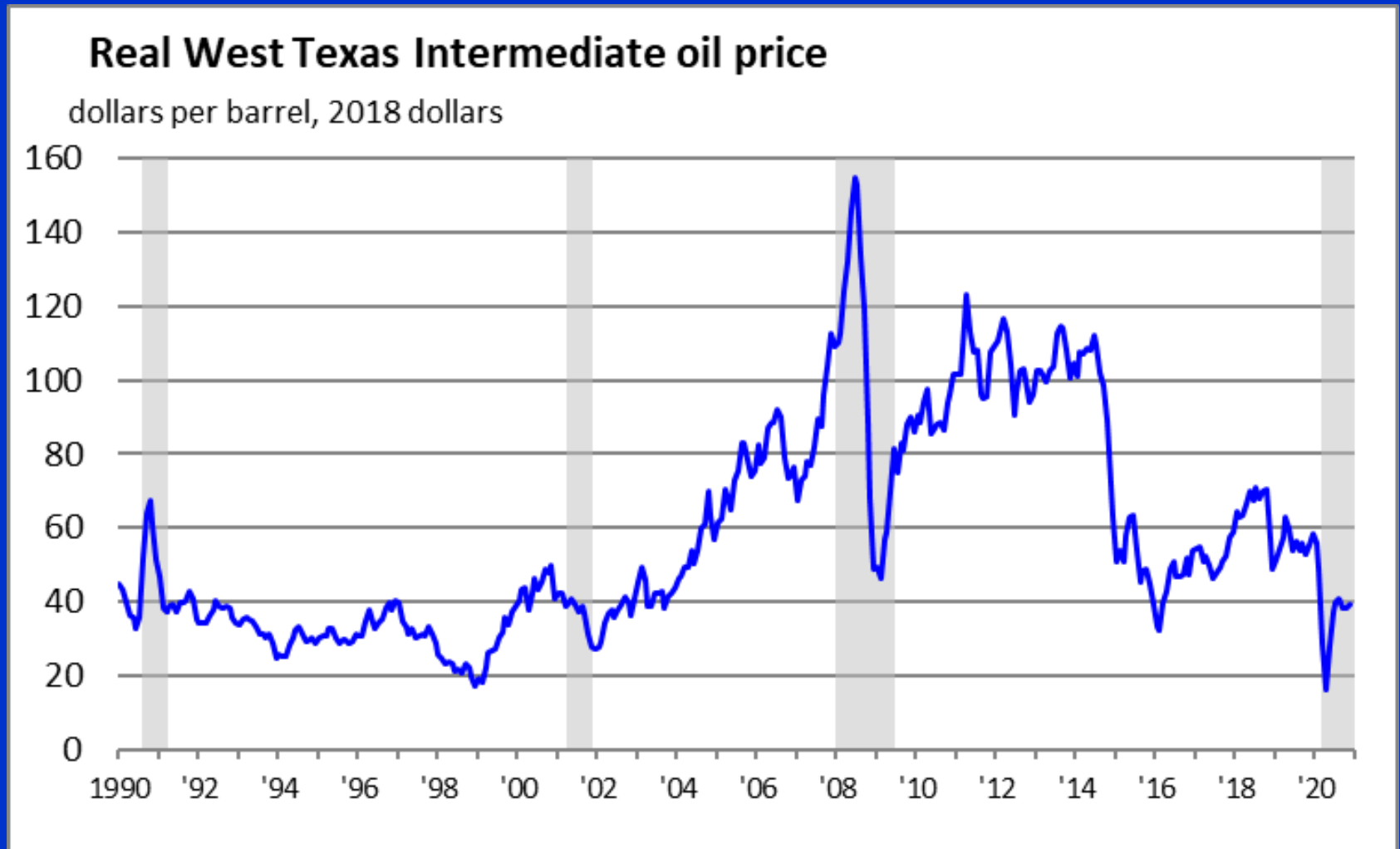
# Blue Chip forecasts for unemployment to decline over the next two years



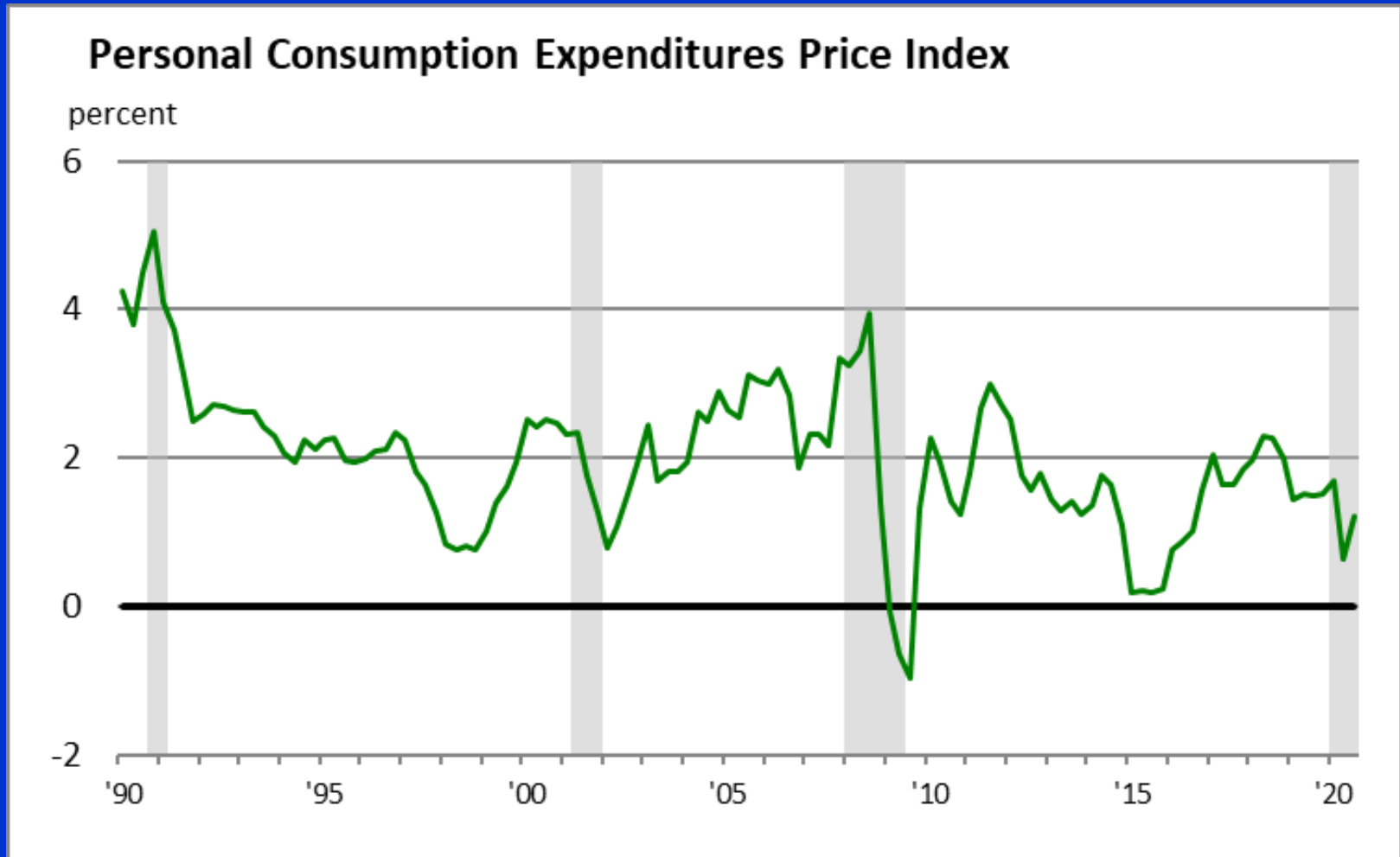
# Compensation kept rising for those with work



# Oil prices dropped sharply as drivers stayed home and gasoline usage declined

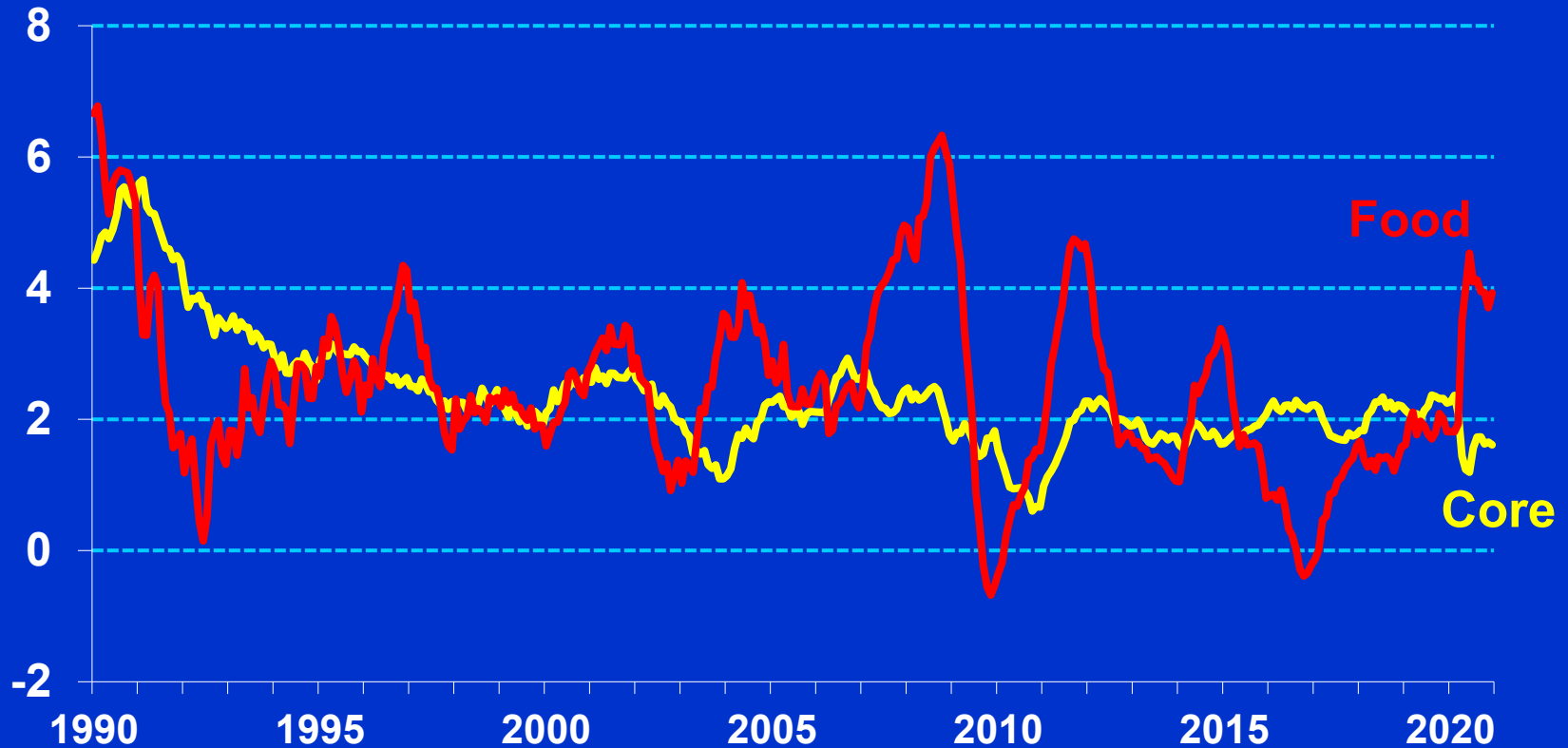


# Inflation is even further below the Fed target of 2% as the recession slowed price increases

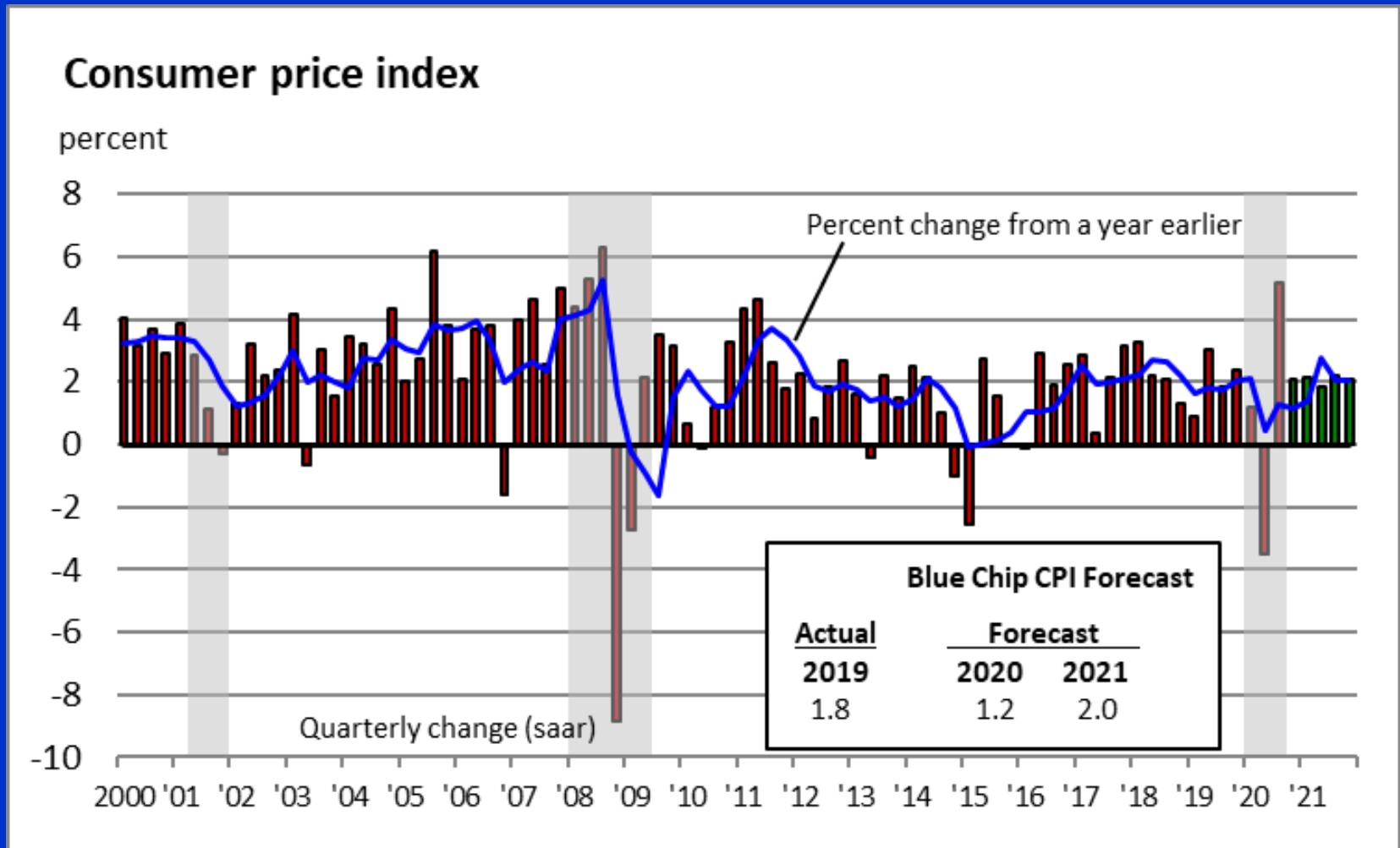


Source: Bureau of Economic Analysis

**Last year food price changes far outpaced  
core inflation (less food and energy)**  
*(Consumer Price Indexes, % change from year ago)*



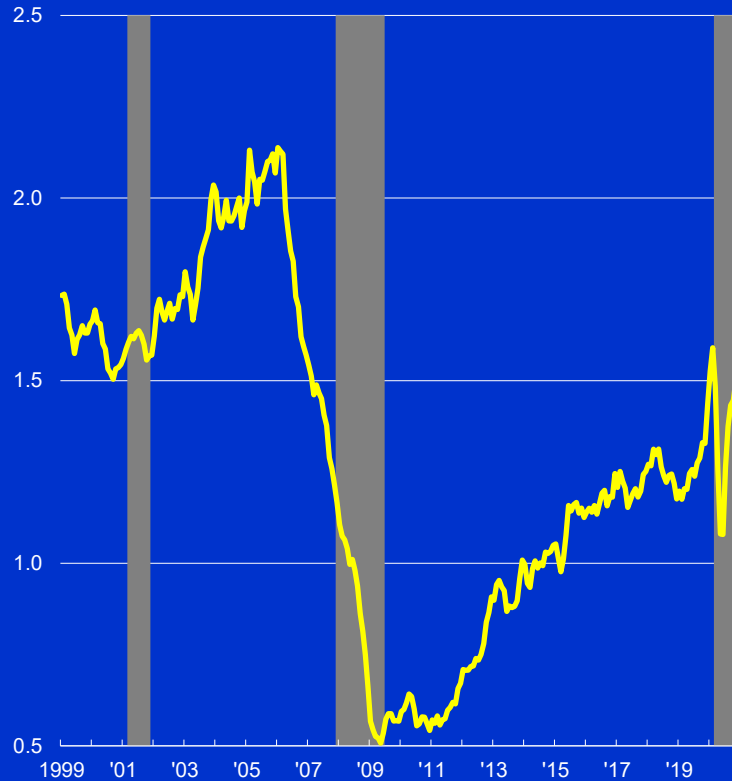
# Blue Chip forecast shows inflation expected to remain around 2% in 2021



# Housing market heating up again, as rates hit new lows

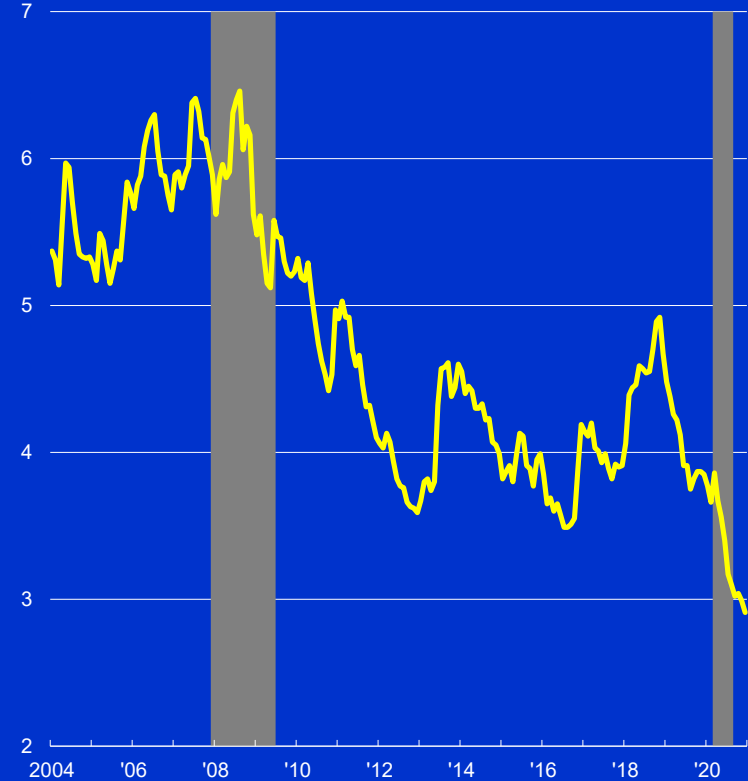
## Housing starts

(millions of units, 3-month moving average, SAAR)



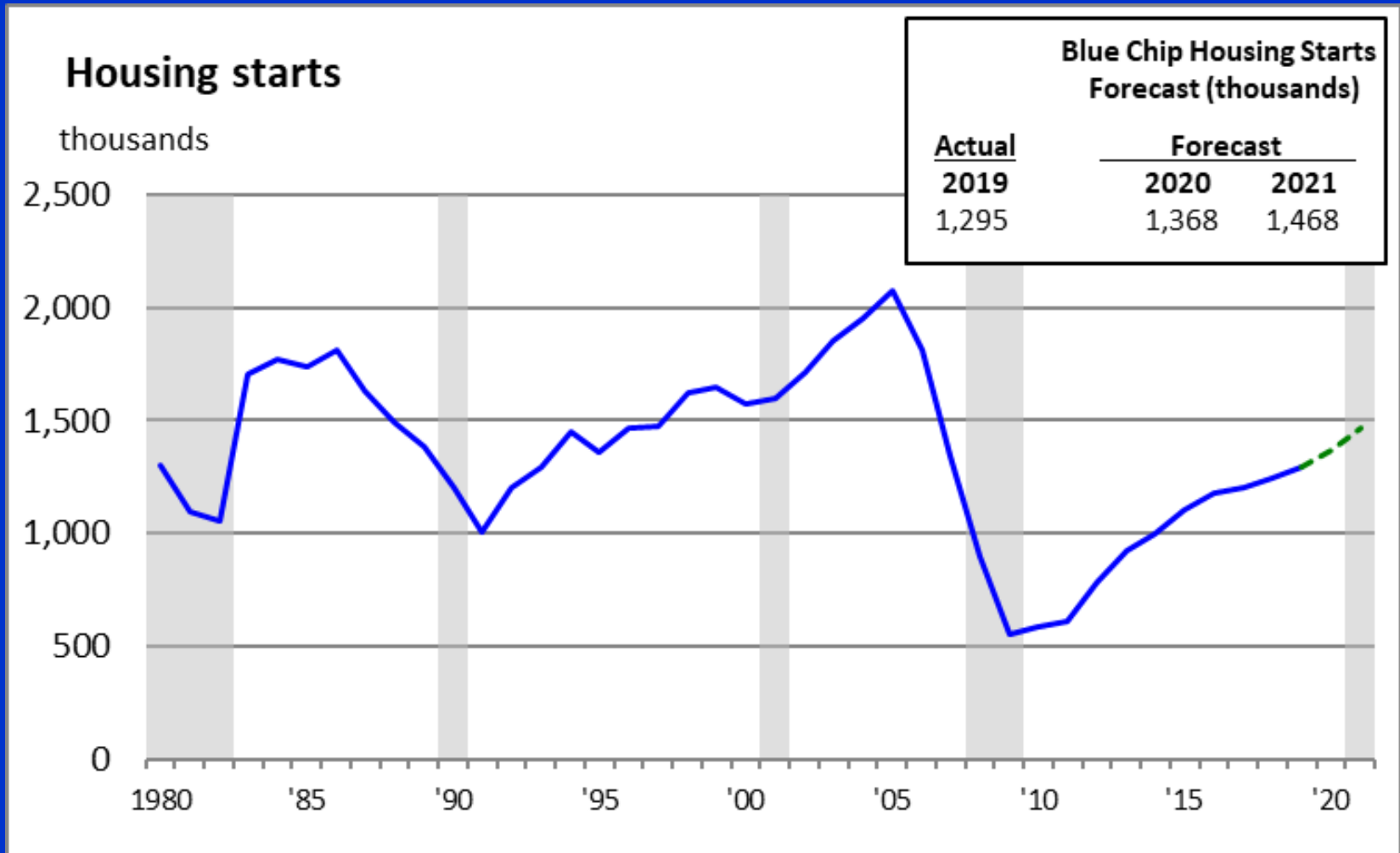
## Home mortgage rate

(percent, average 30-year fixed)

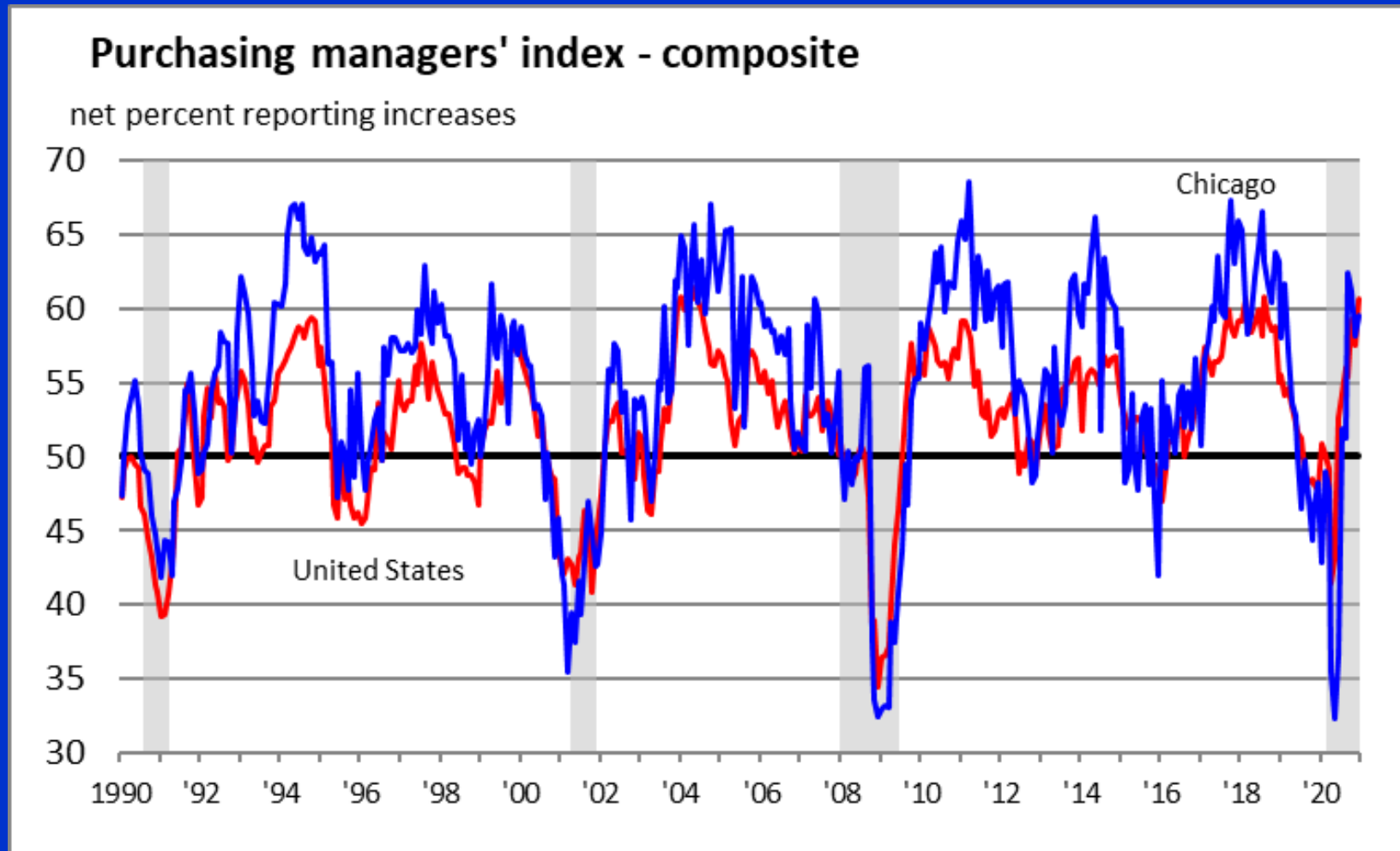




# Blue Chip forecast of strong housing starts over the next two years



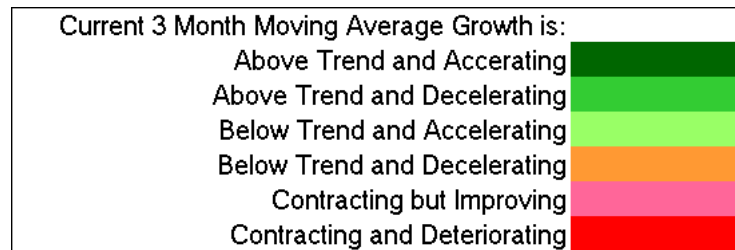
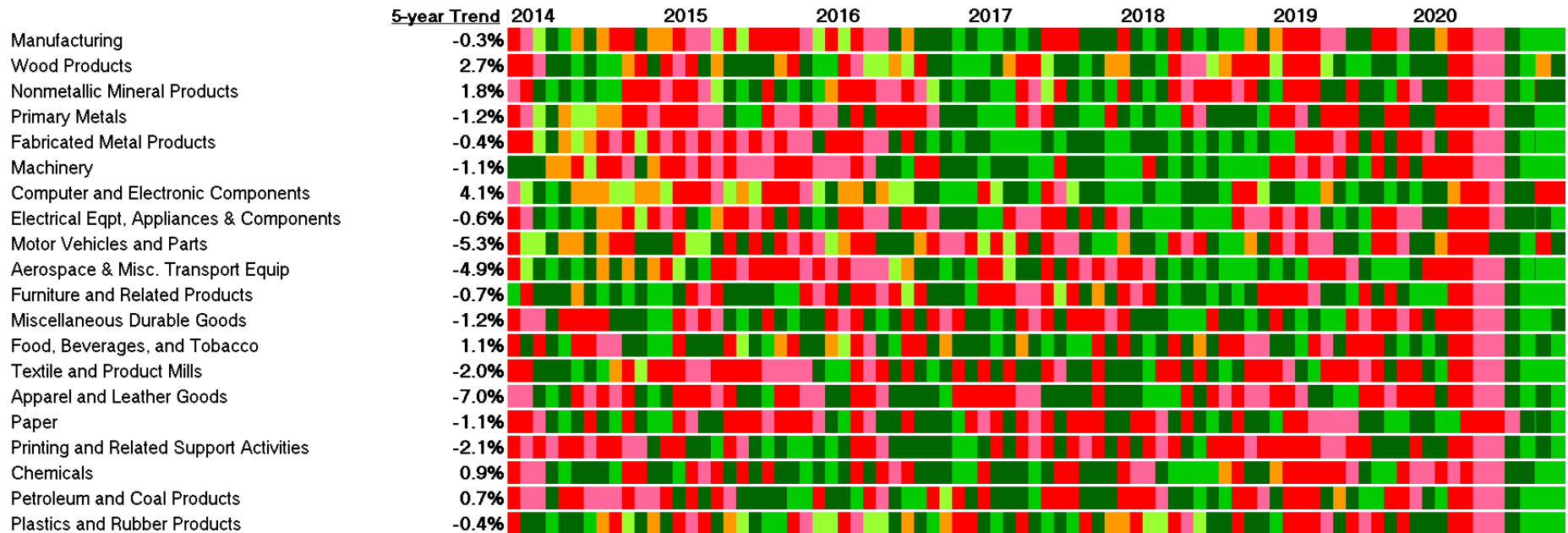
# The Chicago supply managers' composite index and the nation's index well above 50



# Manufacturing output is coming back, but still below pre-pandemic levels

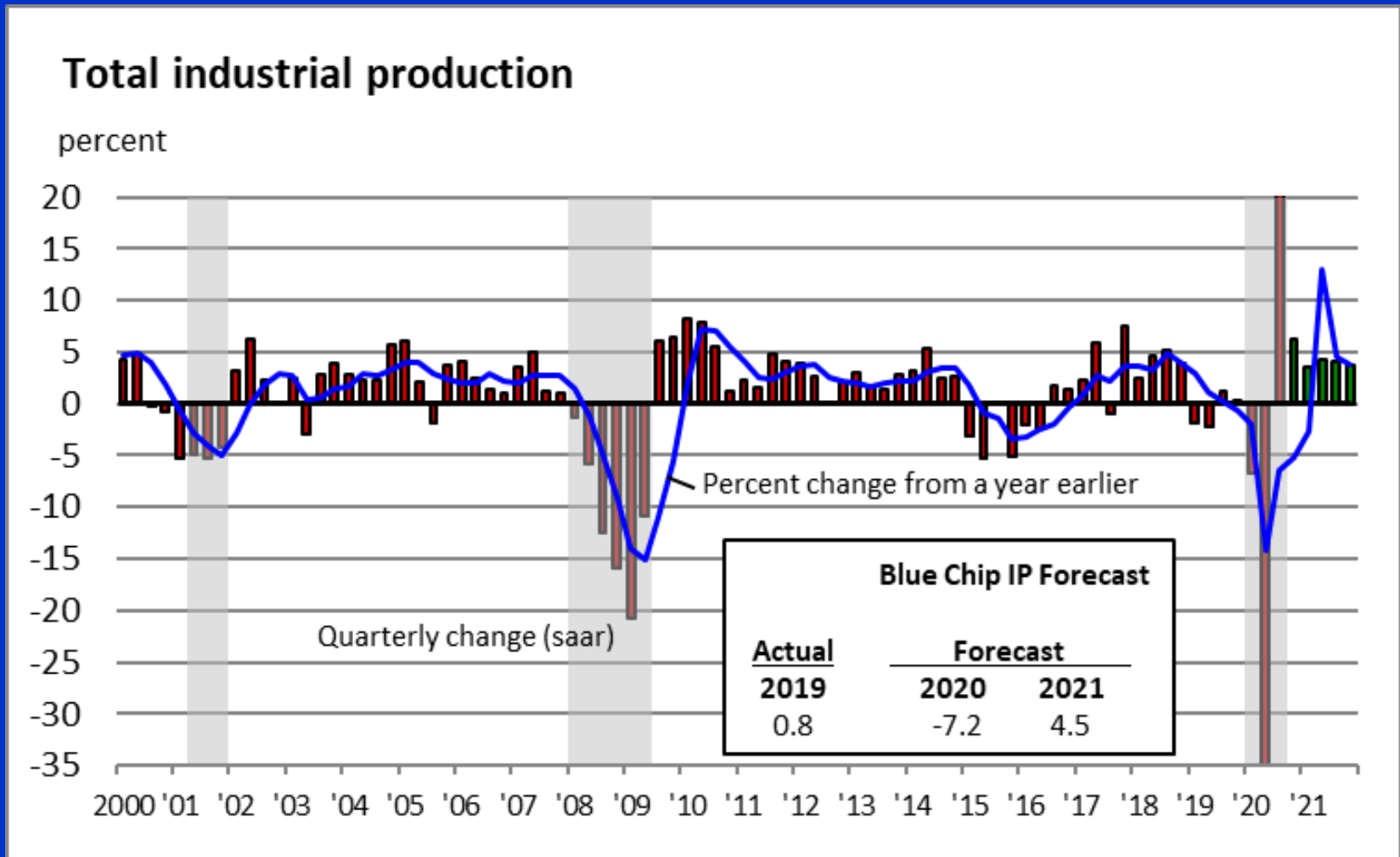


# Industrial production has been above trend in most manufacturing sectors



Source: Calculations based on data from the Federal Reserve Board of Governors

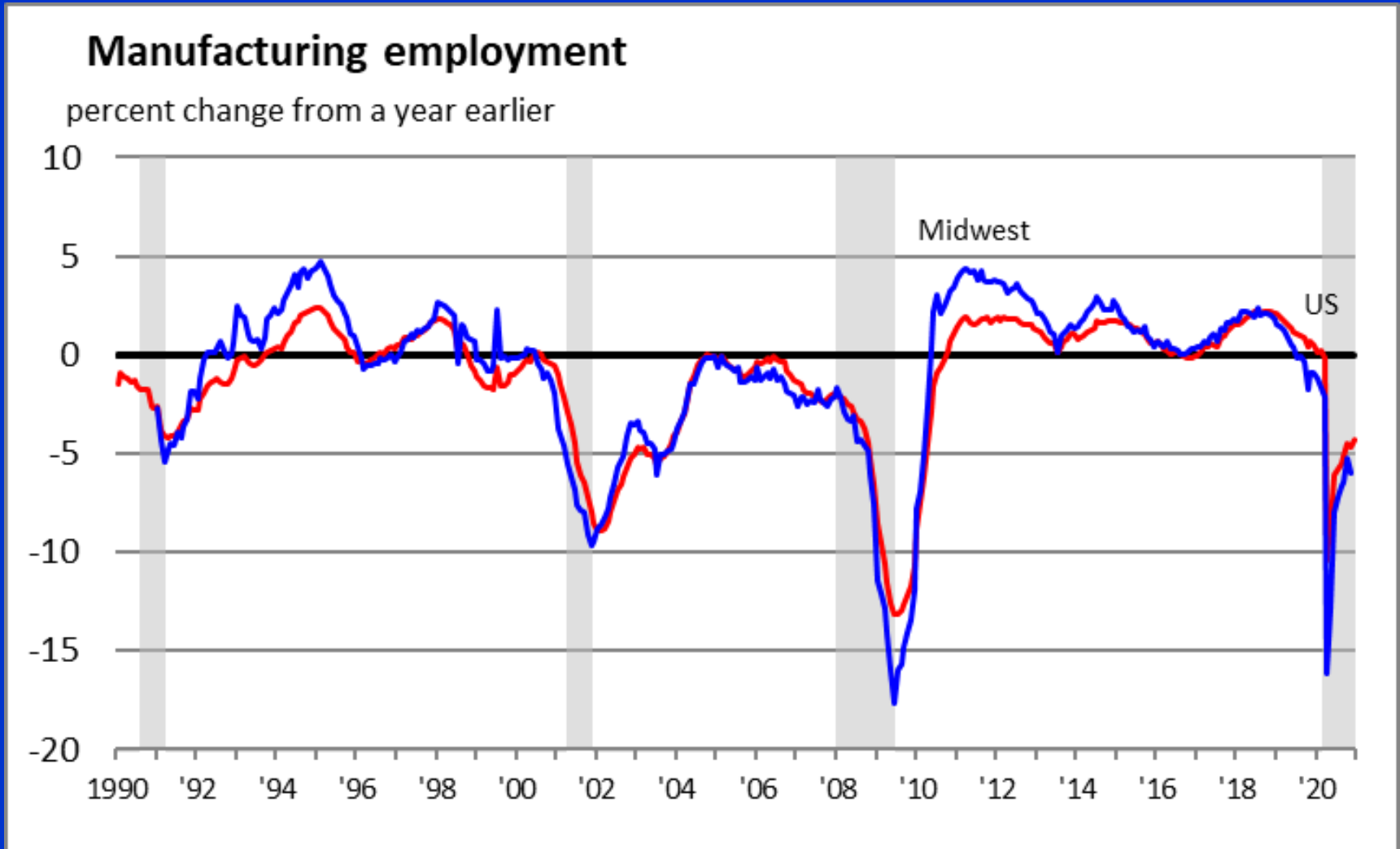
# Industrial production is forecast to increase briskly in 2021



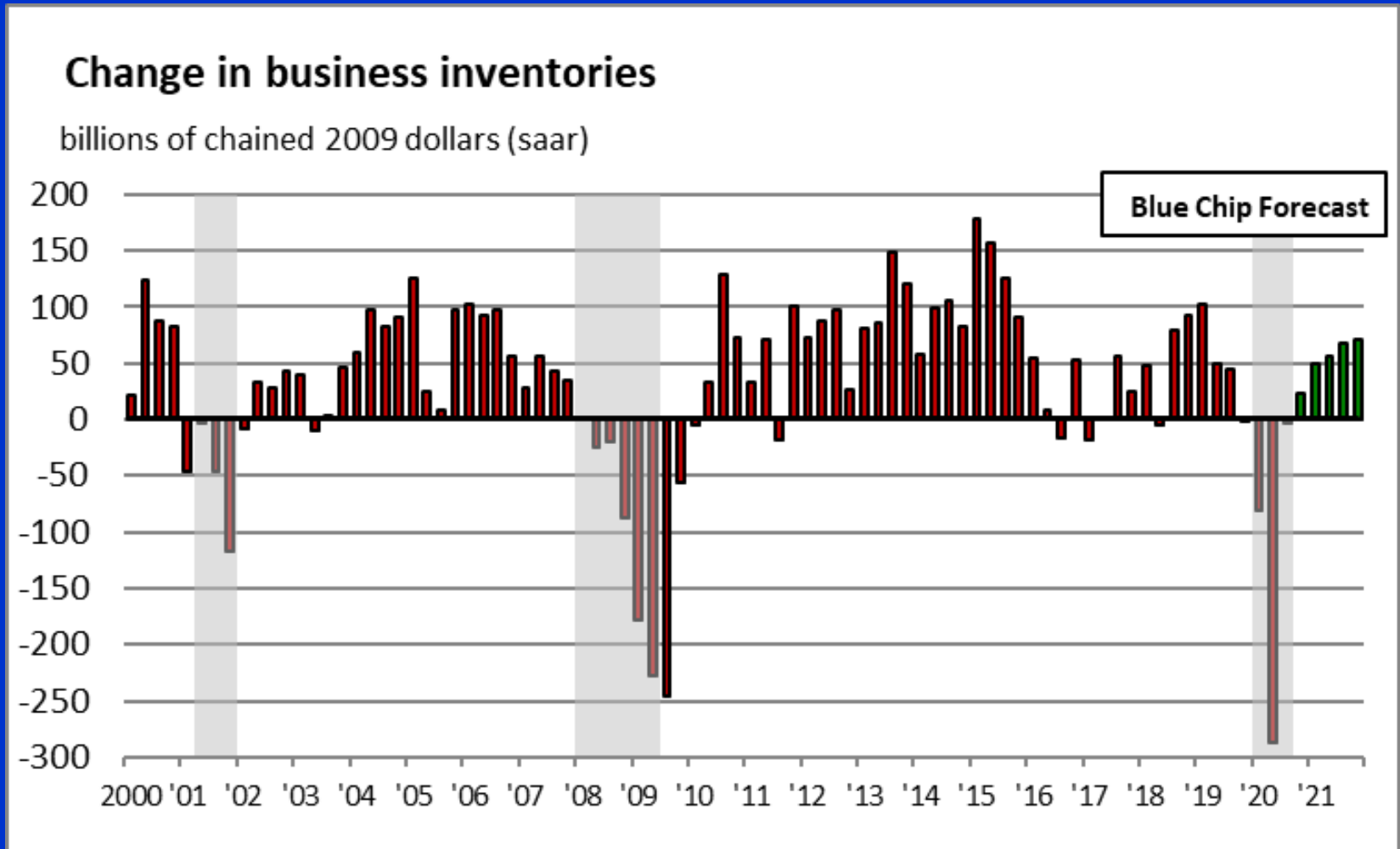
# Capacity utilization bounced most of the way back from recessionary hit



# Manufacturing employment plummeted; At year-end still down 5% from a year ago



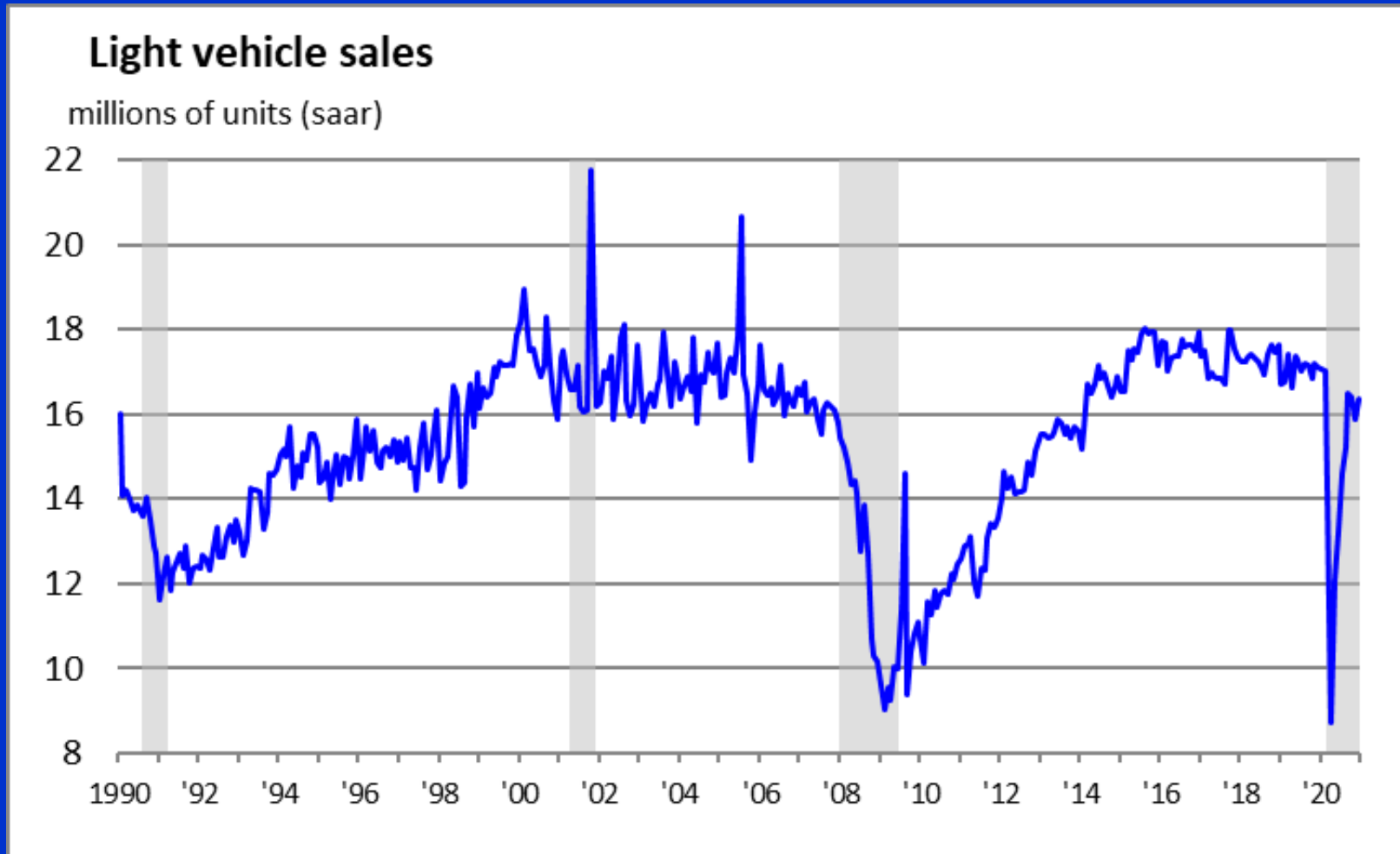
# Business inventories expected to rise in 2021



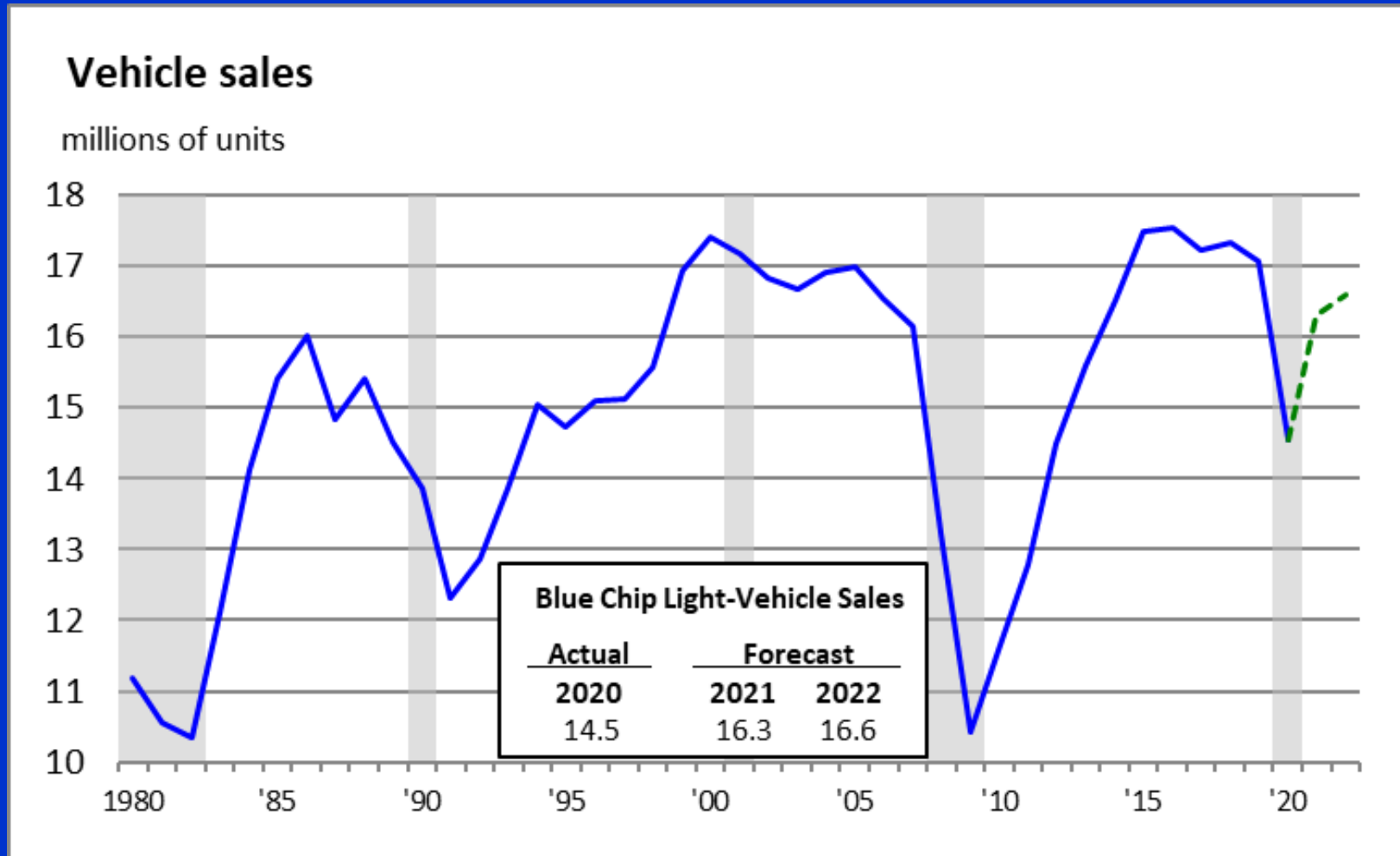
Sources: Bureau of Economic Analysis and Blue Chip Economic Indicators



# Light vehicle sales dropped to 14.5 million units in 2020, 15% below those of a year earlier

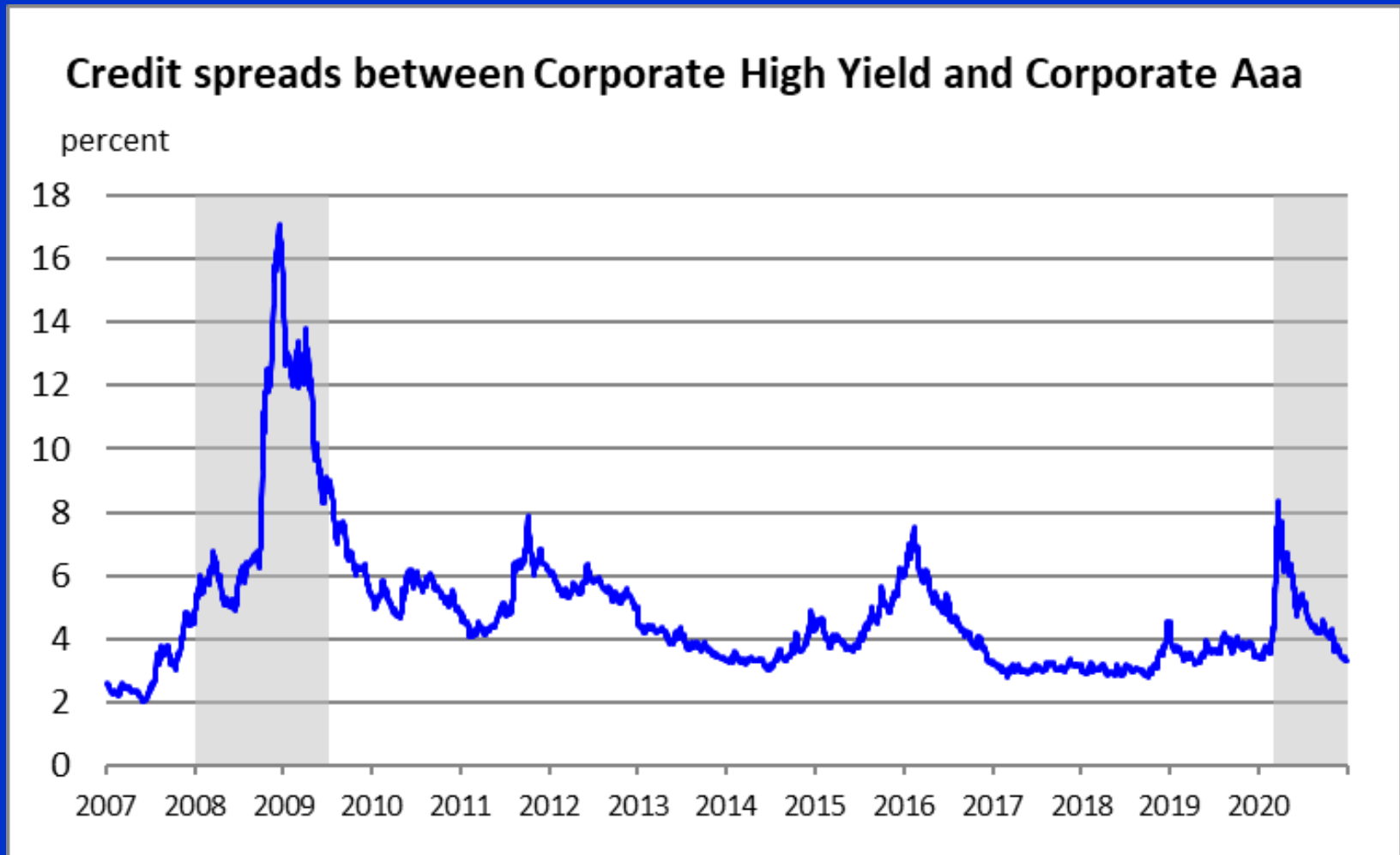


# Blue Chip forecasts vehicle sales to rebound this year and move higher in 2022



Sources: Autodata from Haver and Blue Chip Economic Indicators

# Credit spreads between Corporate High Yield securities and Corporate Aaa securities are lower again



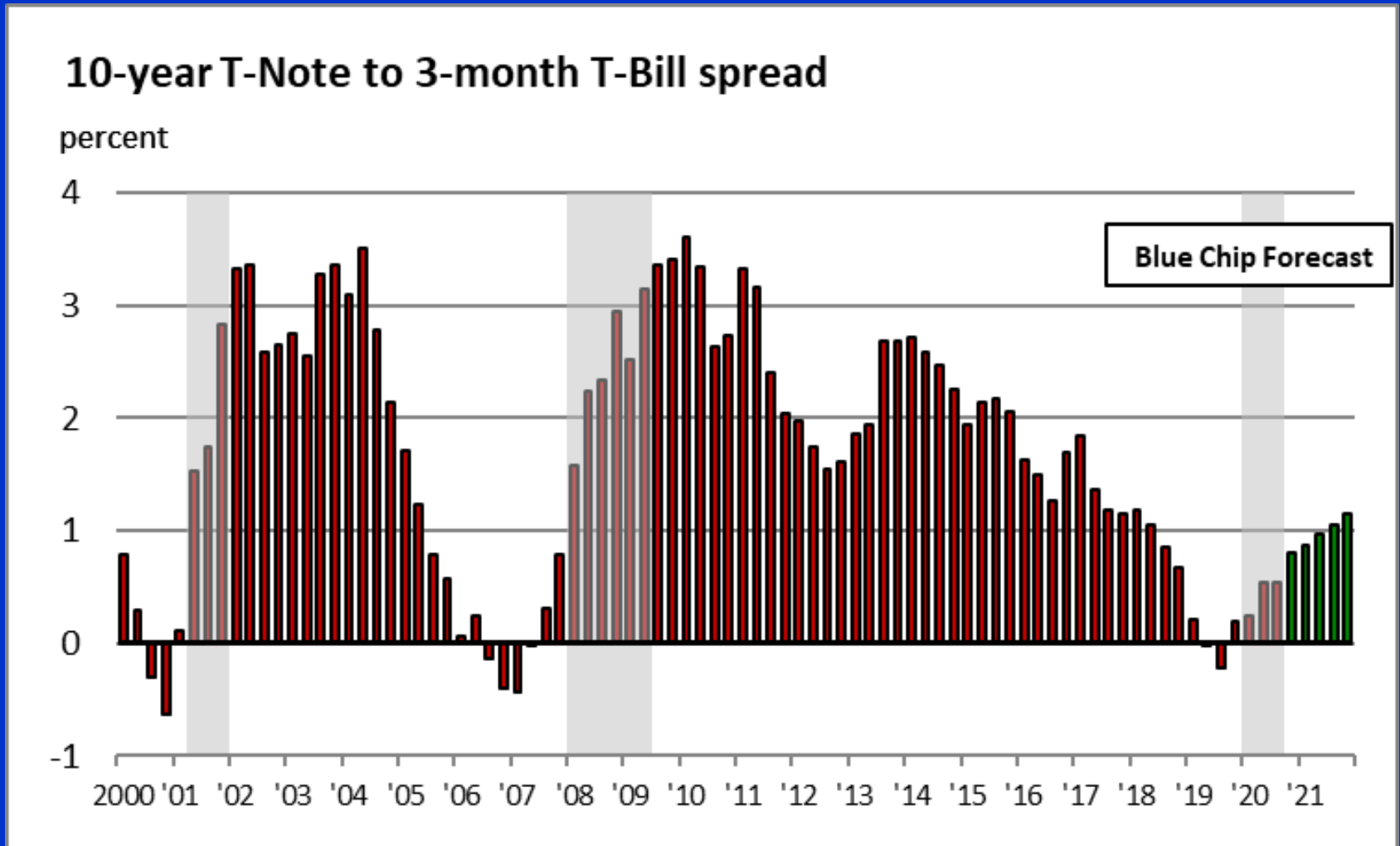
# The 10-year vs. 2-year Treasury yield curve



# The 10-year vs. 3-month Treasury yield curve was slightly inverted, but rising now



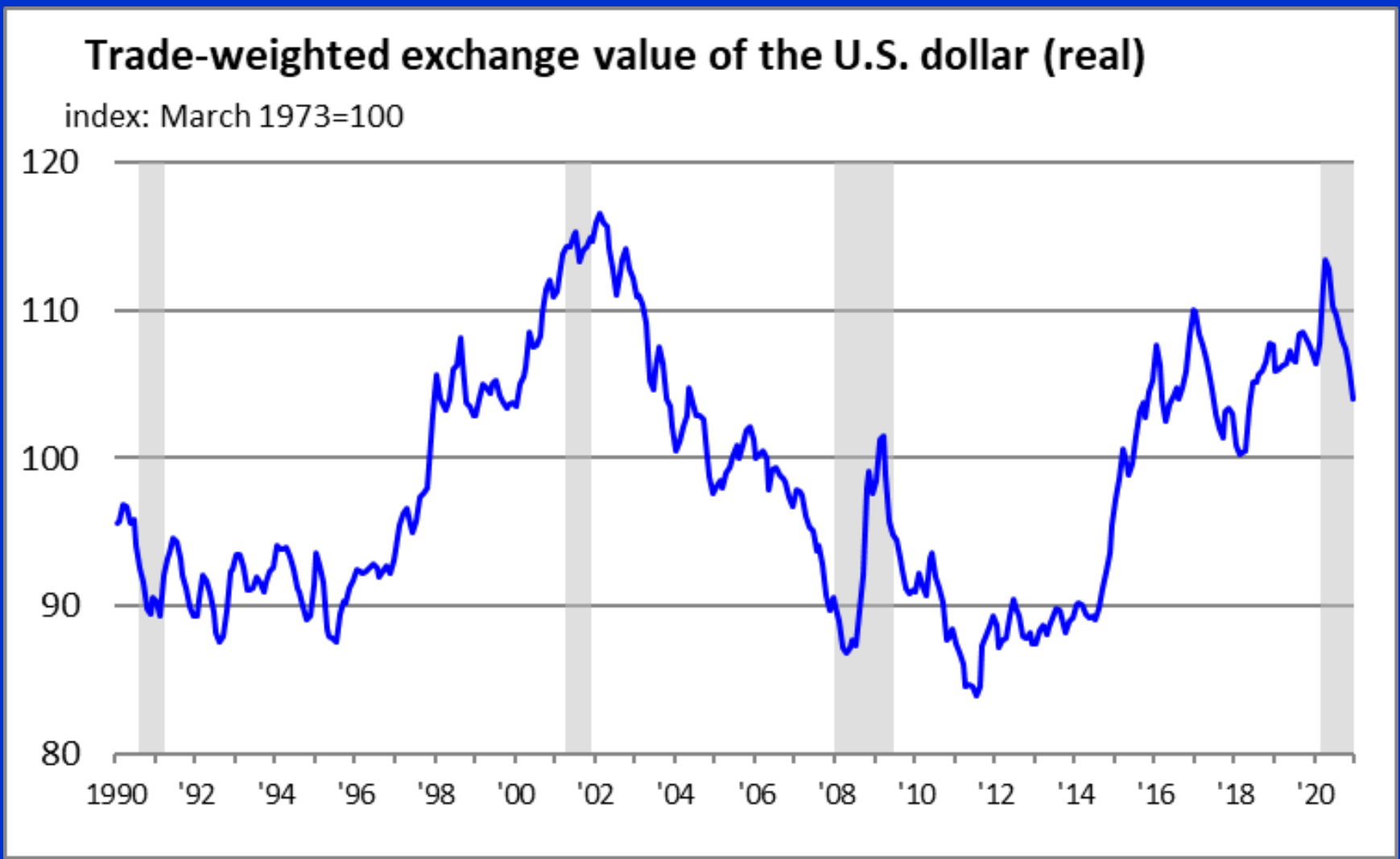
# Blue Chip expects the yield curve to continue steepening through the end of this year



# Blue Chip International Consensus Forecasts

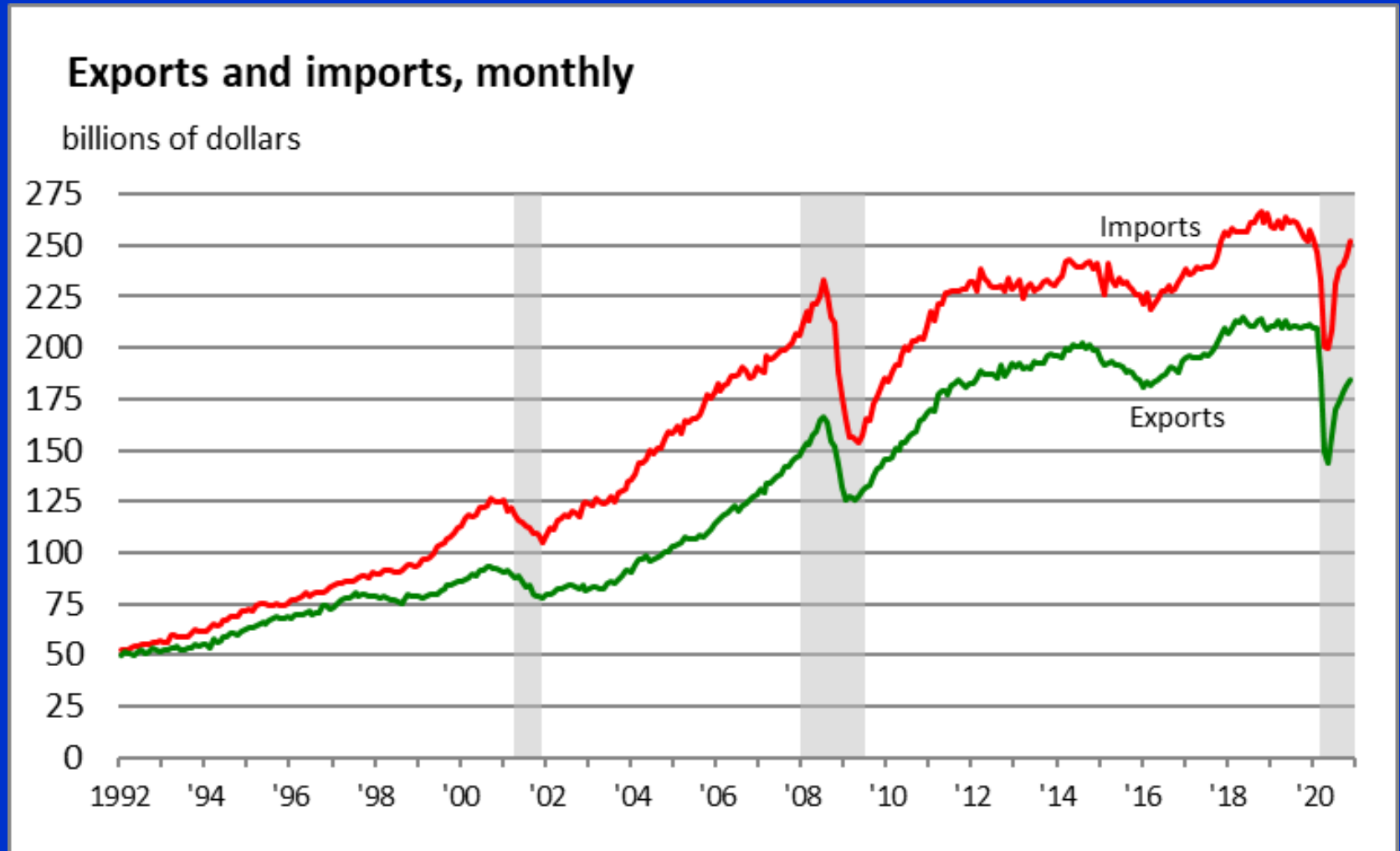
	-----ANNUAL DATA-----						-----END OF YEAR-----			
	Real Economic		Inflation		Current Account		Exchange Rate		Interest	
	Growth % Change		% Change		In Billions		Against		Rates	
	GDP		Consumer Prices		Of U.S. Dollars		U.S. \$		3-Month	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Canada	4.5	3.5	1.8	1.9	-36.3	-38.8	1.28	1.26	0.33	0.40
Mexico	3.8	3.1	3.5	3.4	-0.7	-1.1	20.33	19.84	4.17	4.42
Japan	2.9	2.2	0.0	0.4	187.0	198.6	102.2	103.7	-0.09	-0.07
South Korea	3.5	3.1	1.0	1.4	78.8	78.5	1082	1064	0.81	0.92
United Kingdom	4.9	4.8	1.4	1.7	-81.4	-89.6	1.39	1.46	0.02	0.07
Germany	3.8	3.7	1.3	1.4	250.8	268.2	1.23	1.26	-0.53	-0.53
France	6.0	4.2	0.8	1.2	-47.1	-35.2	1.23	1.26	-0.53	-0.53
Euro Zone	4.7	3.8	0.9	1.1	349.9	395.0	1.23	1.26	-0.53	-0.53
Brazil	3.6	2.8	4.2	3.5	-22.6	-26.7	5.11	4.97	2.45	2.89
Russia	3.0	2.7	3.8	3.7	26.9	45.4	72.22	71.13	4.37	4.52
China	8.2	5.4	1.6	2.4	231.8	194.2	6.46	6.50	2.65	2.63
India	9.0	6.0	4.7	4.6	6.2	1.4	72.73	72.83	3.79	3.97

# Dollar's exchange value weakened in 2020

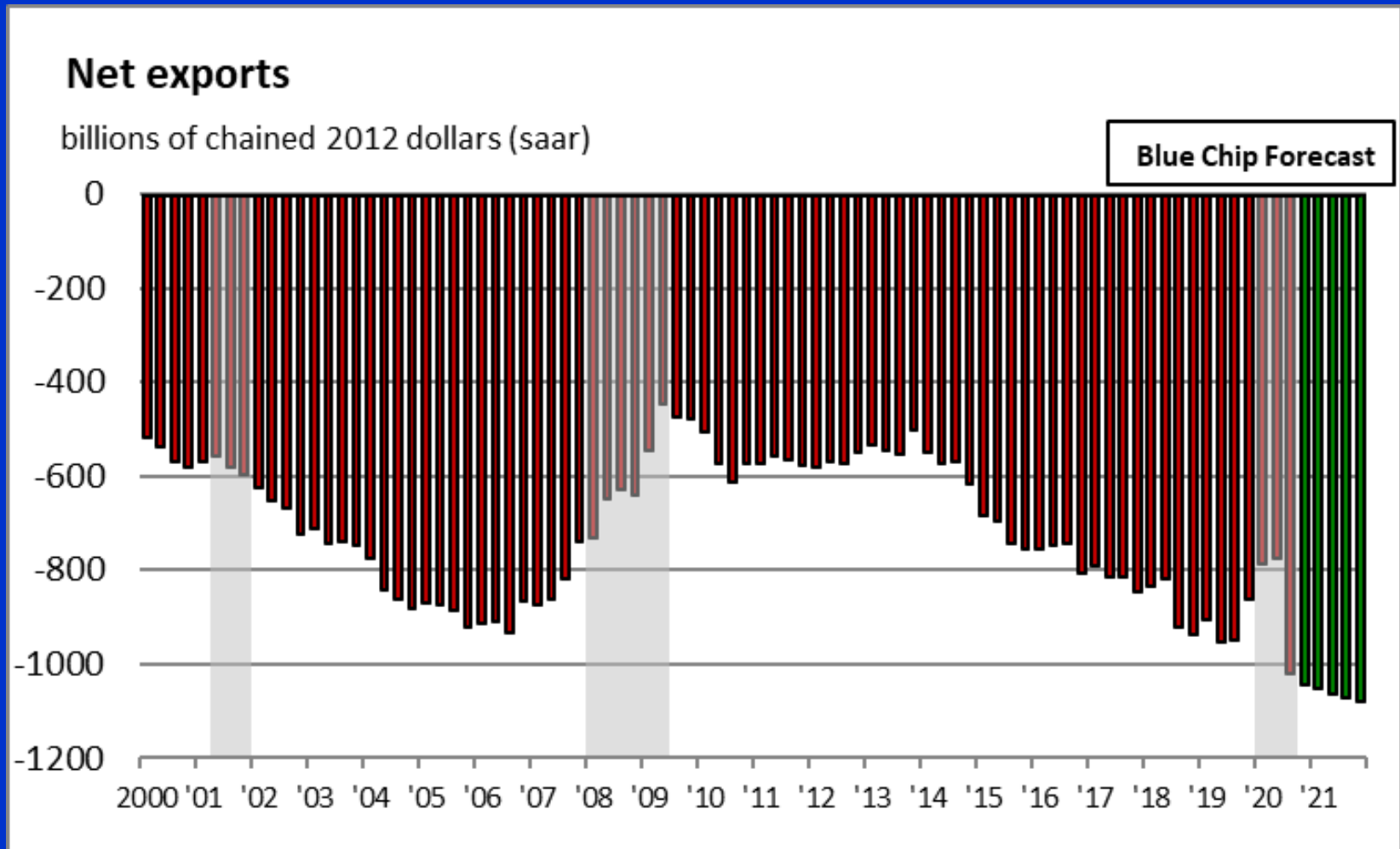




# Imports bounced back faster than exports

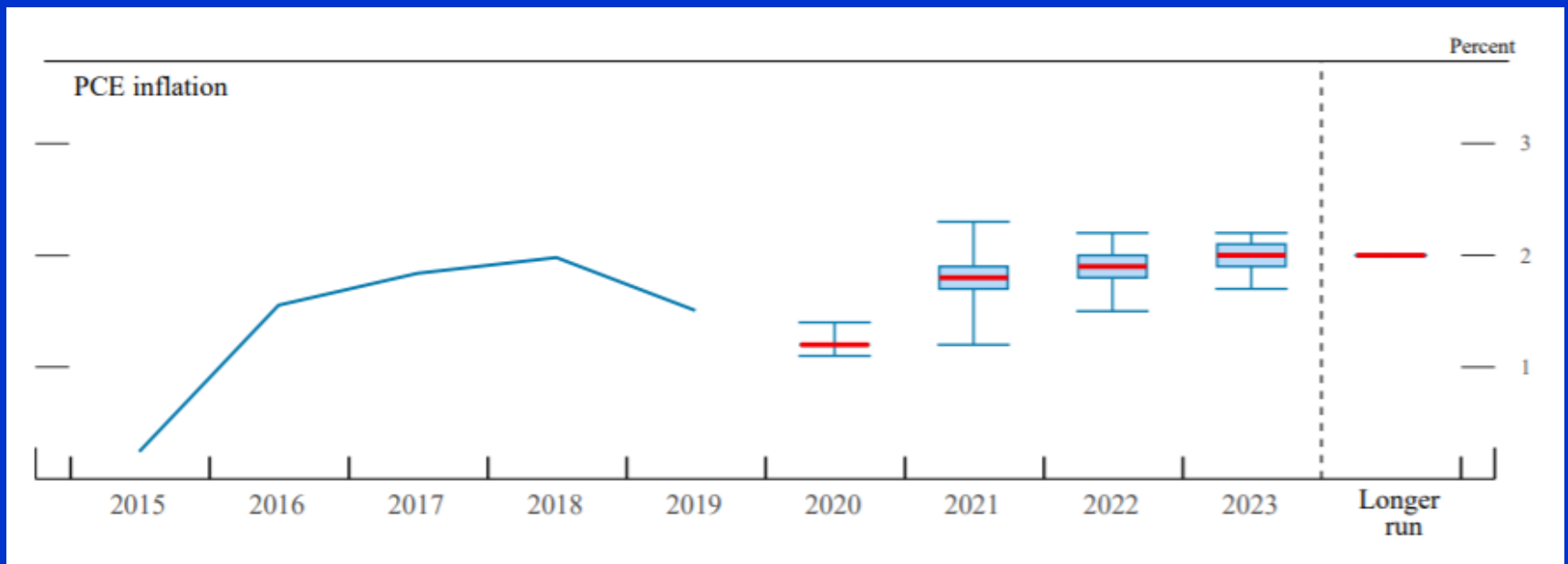


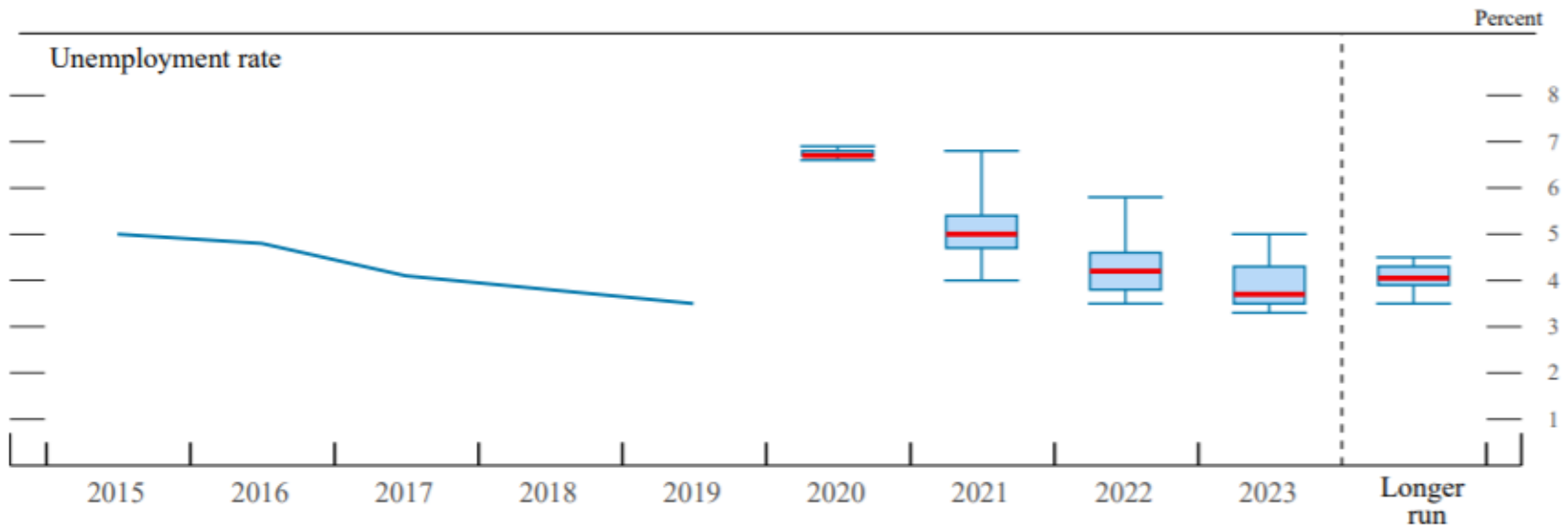
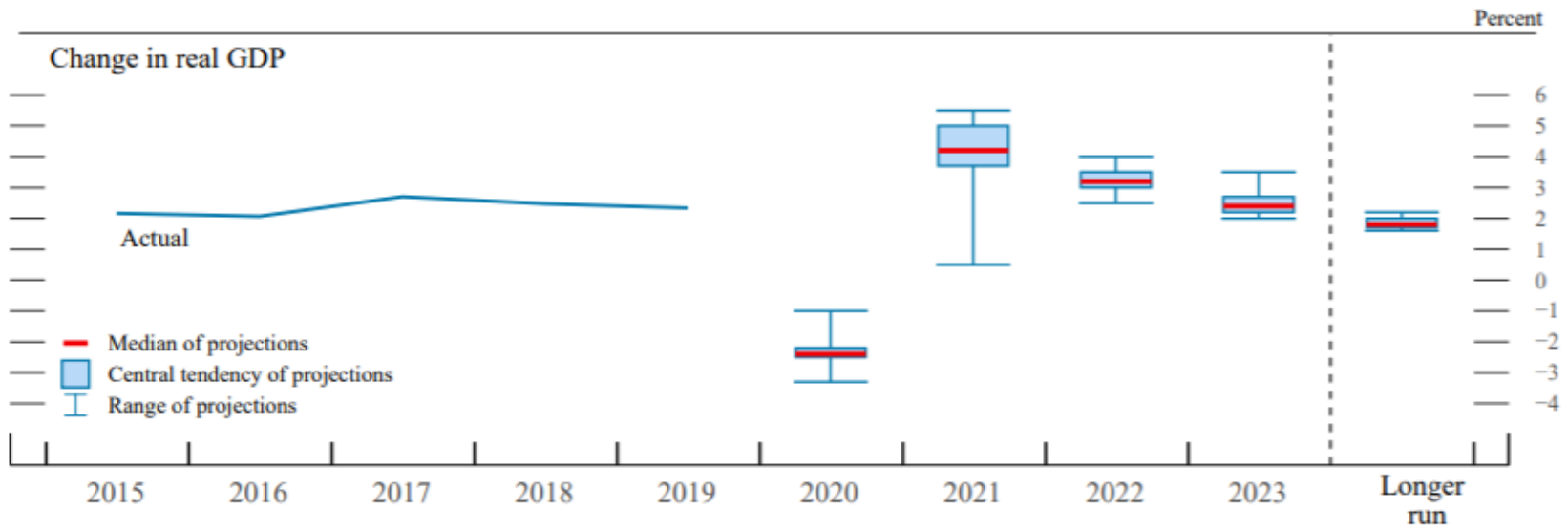
# Blue Chip forecast indicates falling net exports through 2022



# FOMC projections for the economy

- Inflation rising toward 2% target by 2023
- Real GDP growth edging down toward trend
- Unemployment rate falling through 2023







# Summary

- The outlook is for the U.S. economy to expand at a pace above trend in 2021, 2022, and 2023, after 2020's dive
- Employment is expected to continue rising, while the unemployment rate will remain elevated but decline
- Inflation is forecast below the Fed's inflation target but increase toward the target through 2023
- Housing is predicted to keep improving with some hot spots
- Vehicle sales are anticipated to edge higher this year and next
- Manufacturing output is expected to bounce back in 2021 after picking up in the second half of last year

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