
An Economic Outlook

May 19, 2022

**Federal Reserve Bank
of Chicago**

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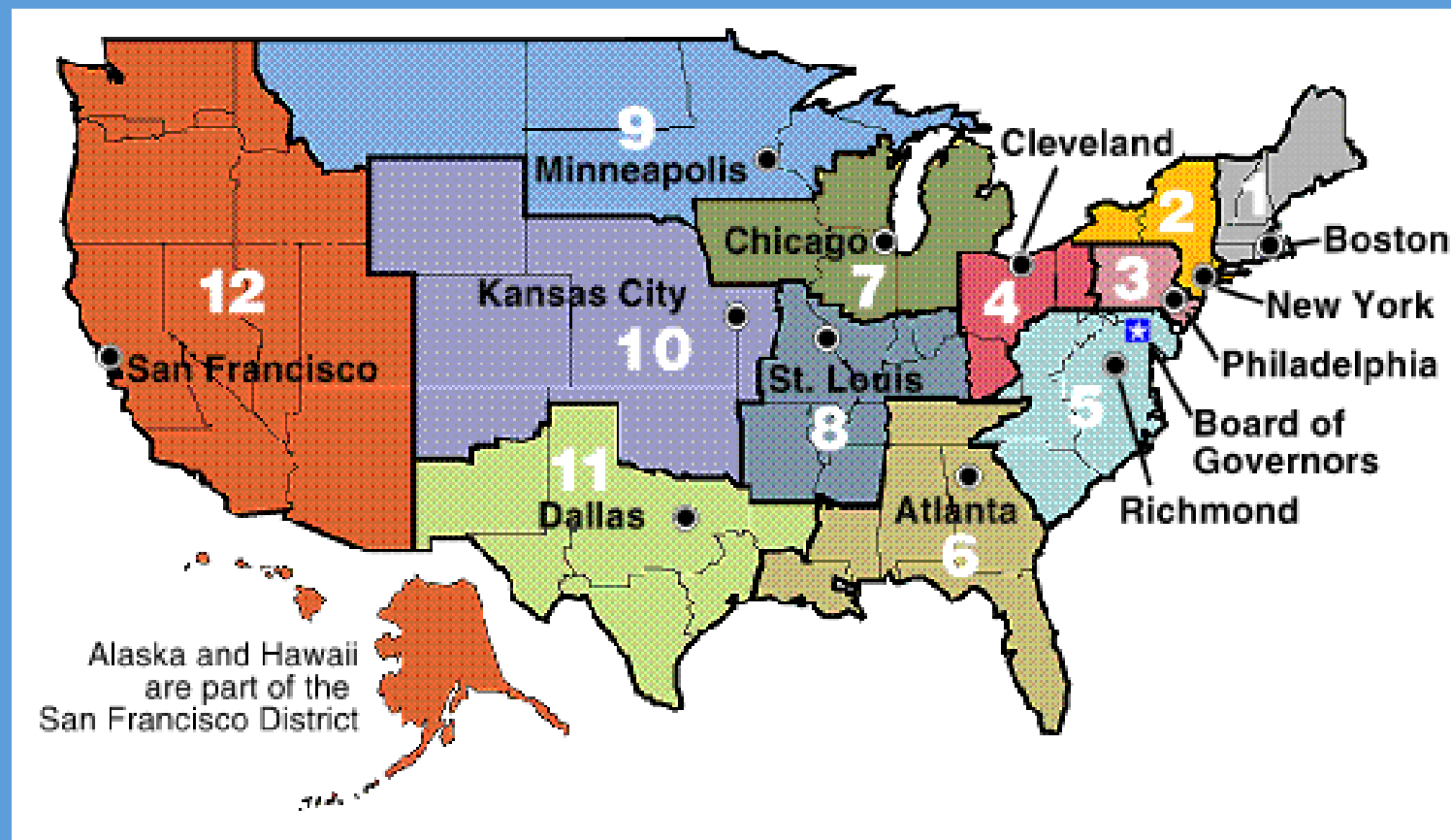
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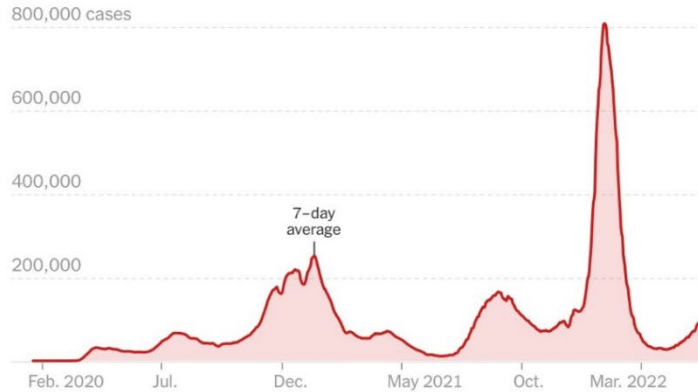


Economy Buffeted by Gales

- US and world survived economic hurricane in 2020
- Economy sailed ahead after April 2020 trough, as the recession lasted just two months
- 2021's crisp pace already led in Q2 to a larger US economy than prior to the pandemic
- Cash registers ringing, yet 2021's breezy recovery came with logistical hurdles
- How long will the economic blowback from inflationary headwinds persist?

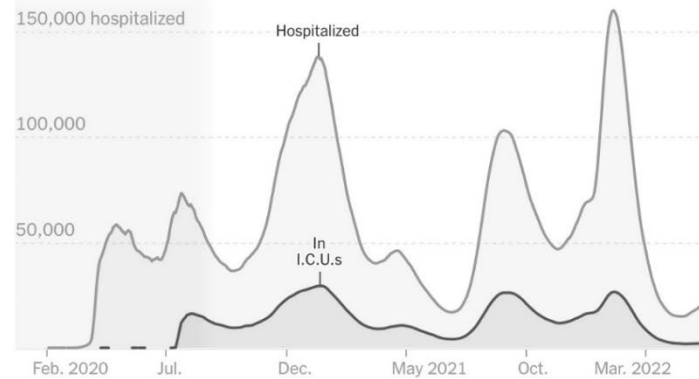
Covid-19 rising, yet fewer ICU patients and deaths for the U.S.

New reported cases by day

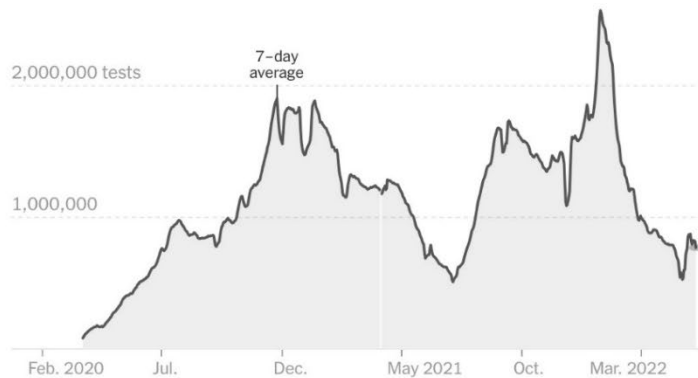


Covid patients in hospitals and I.C.U.s

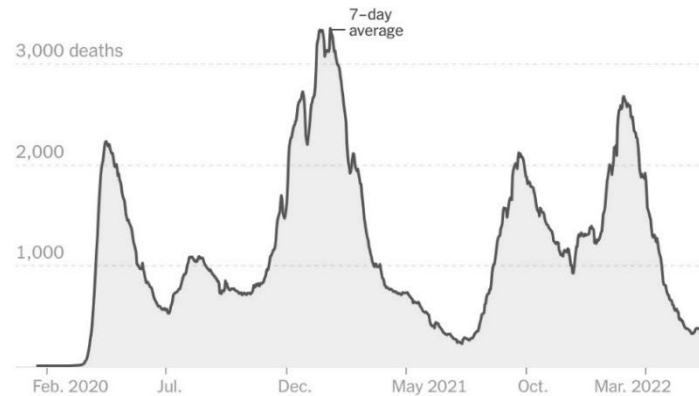
Early data may be incomplete.



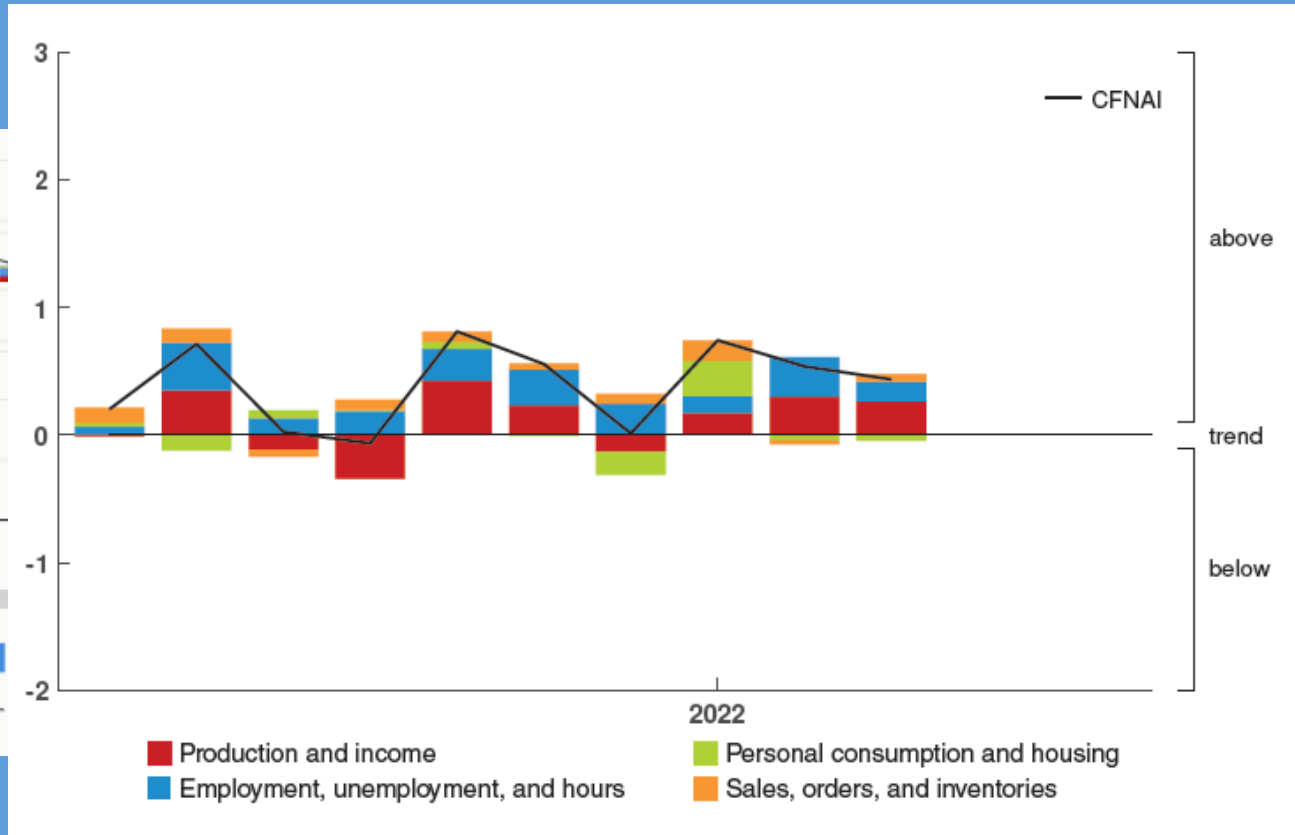
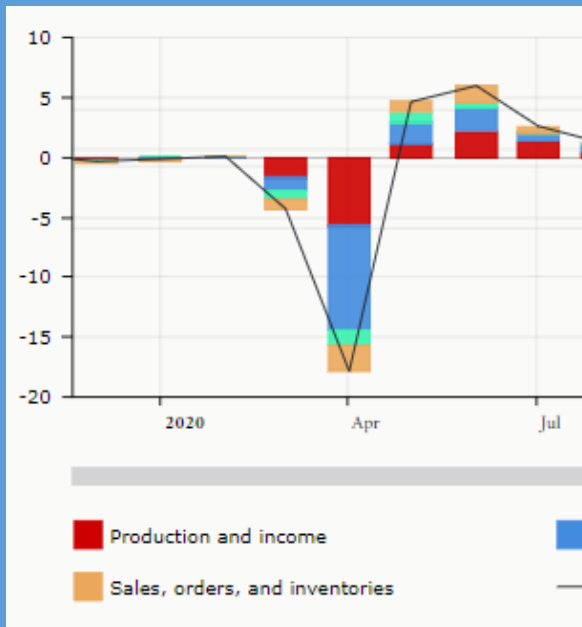
Tests by day



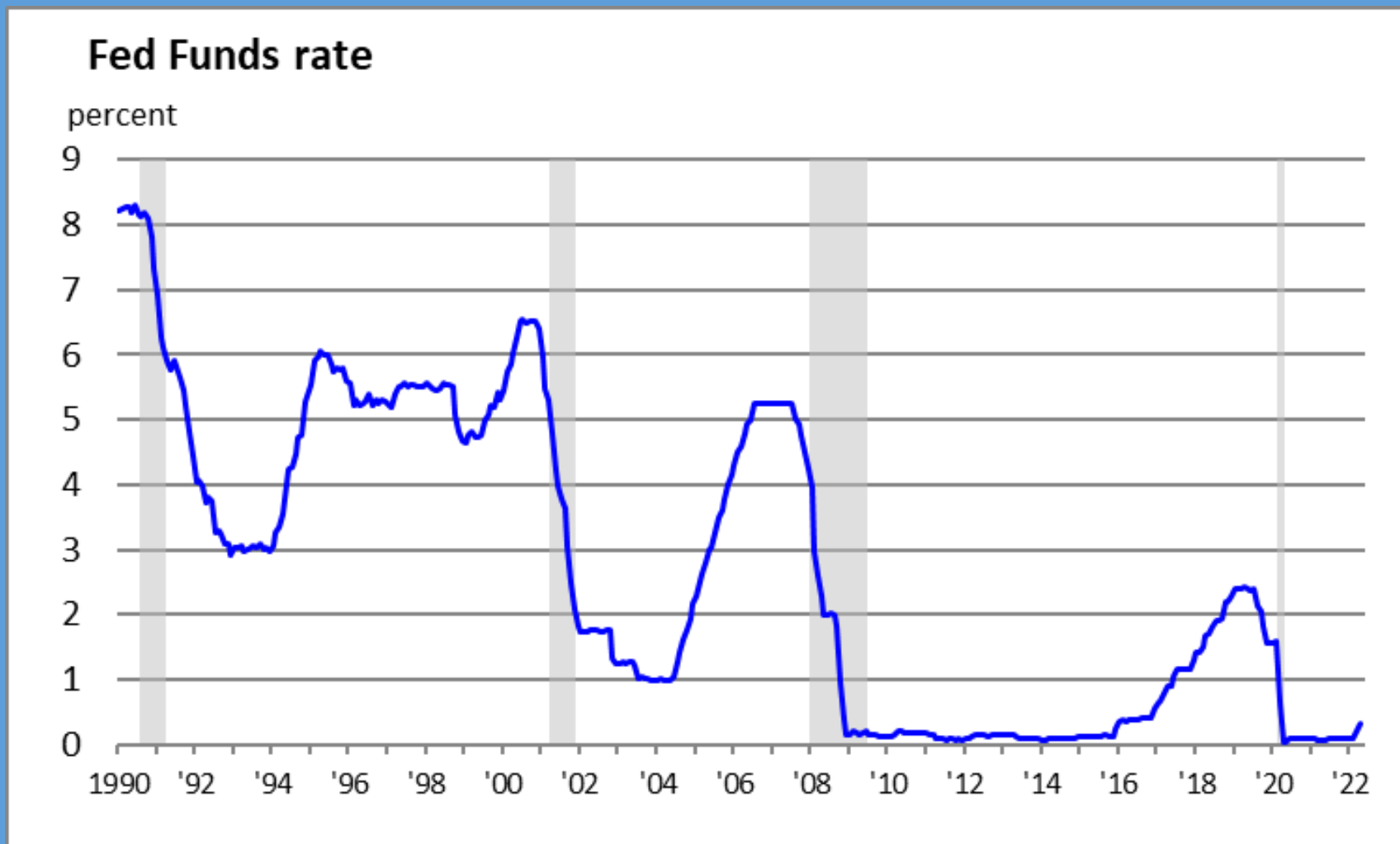
New reported deaths by day



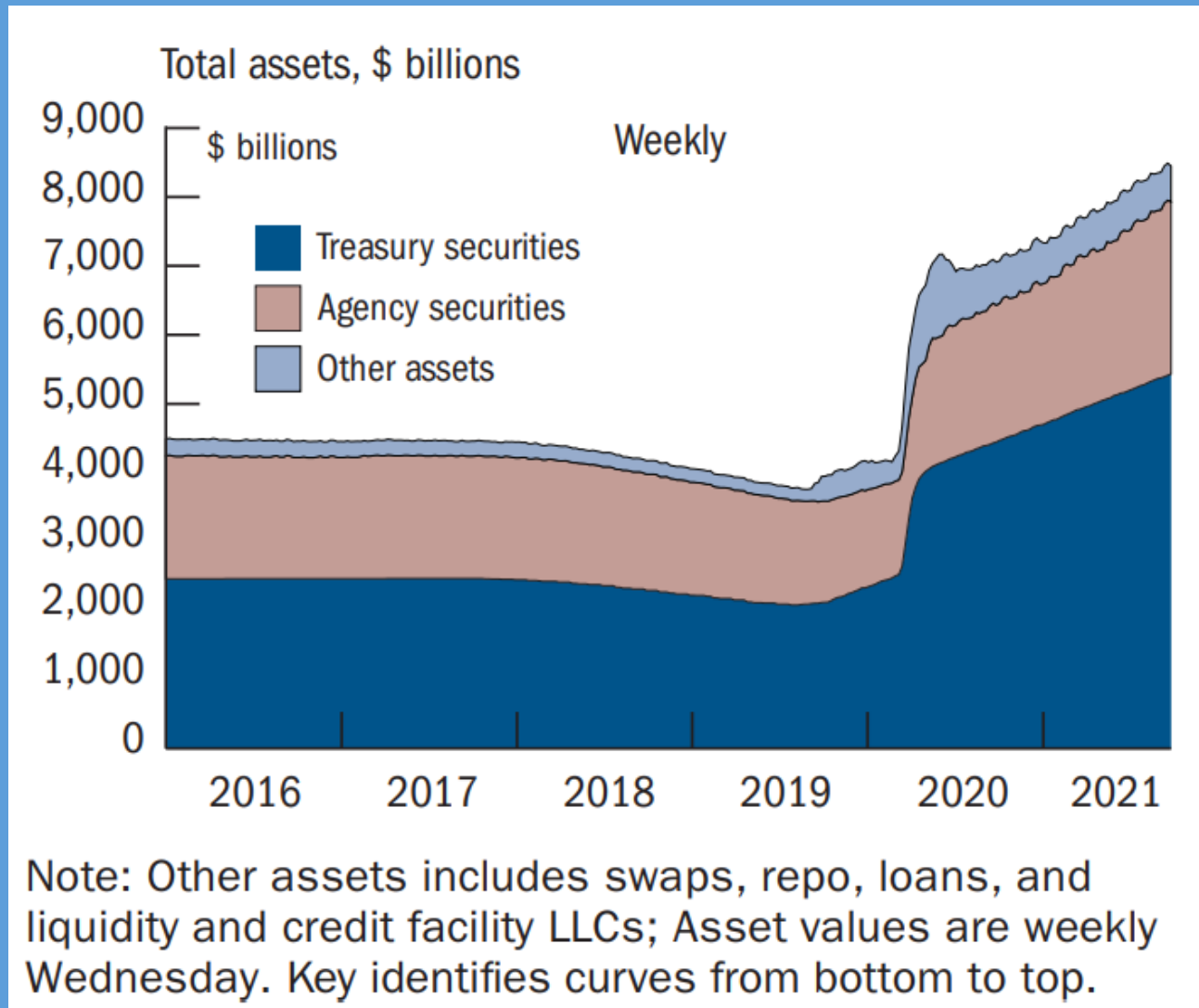
Chicago Fed National Activity Index (CFNAI) says growth above trend



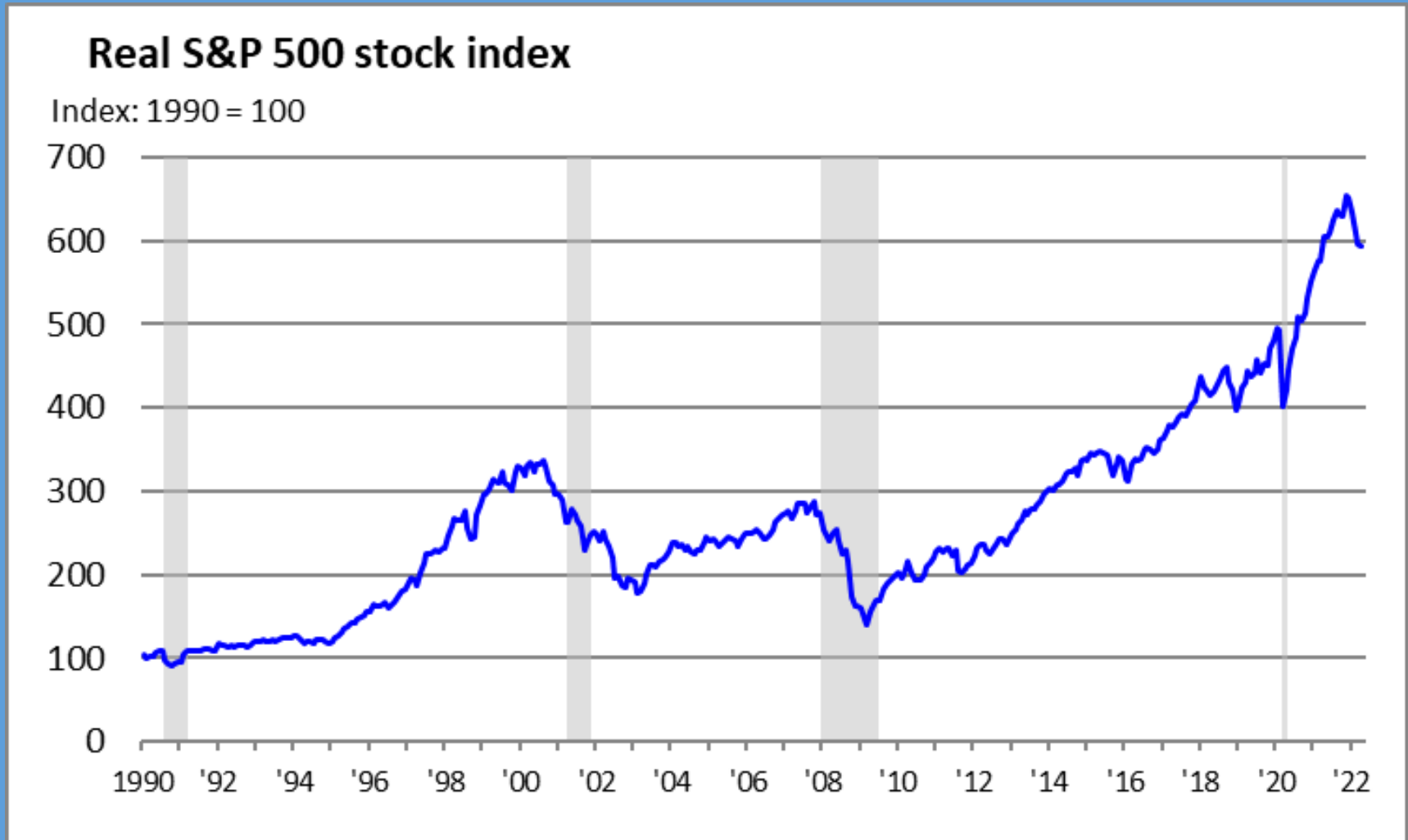
FOMC kept the Fed Funds rate target range low to put wind in the sails before tightening



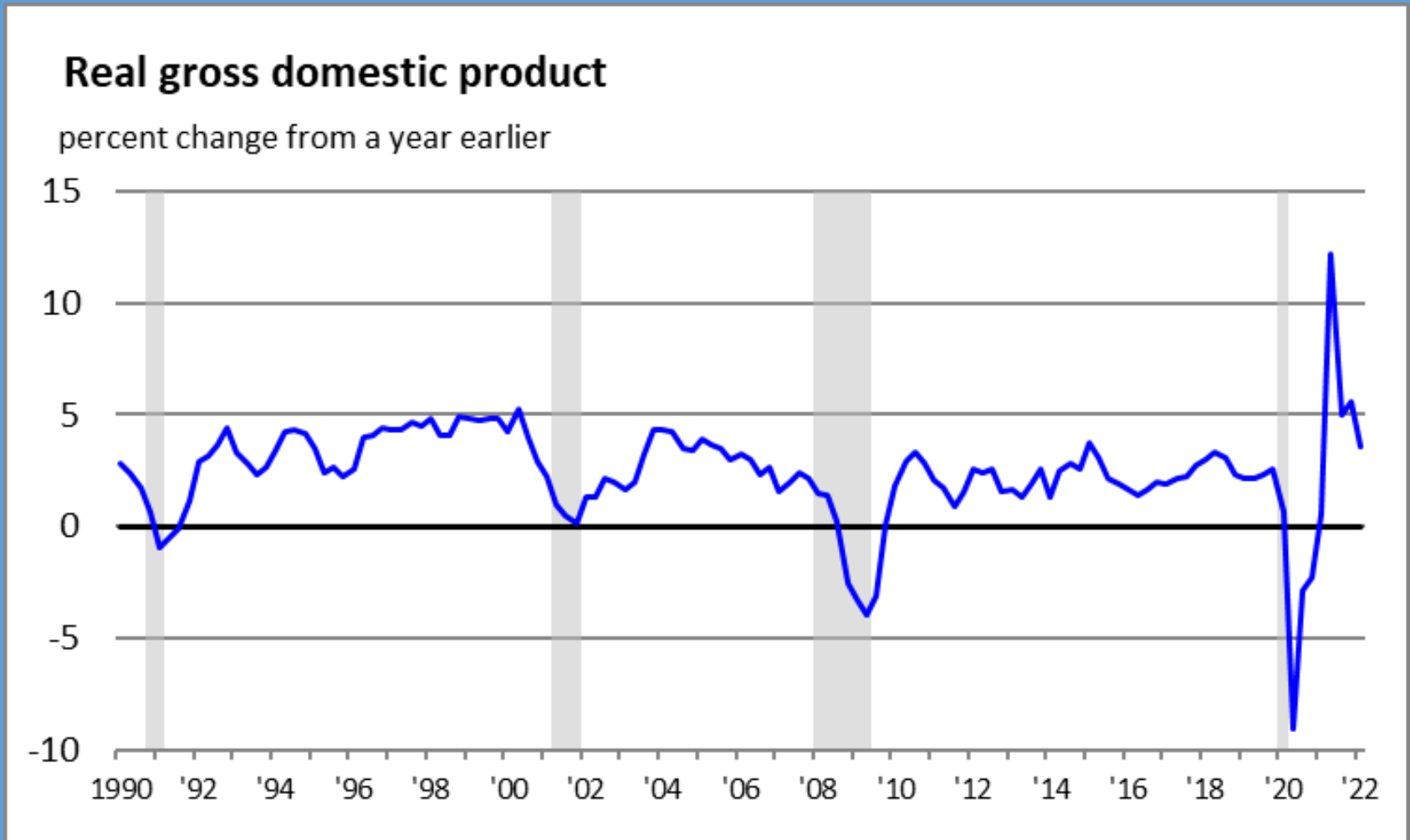
Fed's balance sheet continued growing in 2021, providing monetary stimulus



Stock markets breezed higher but flailing

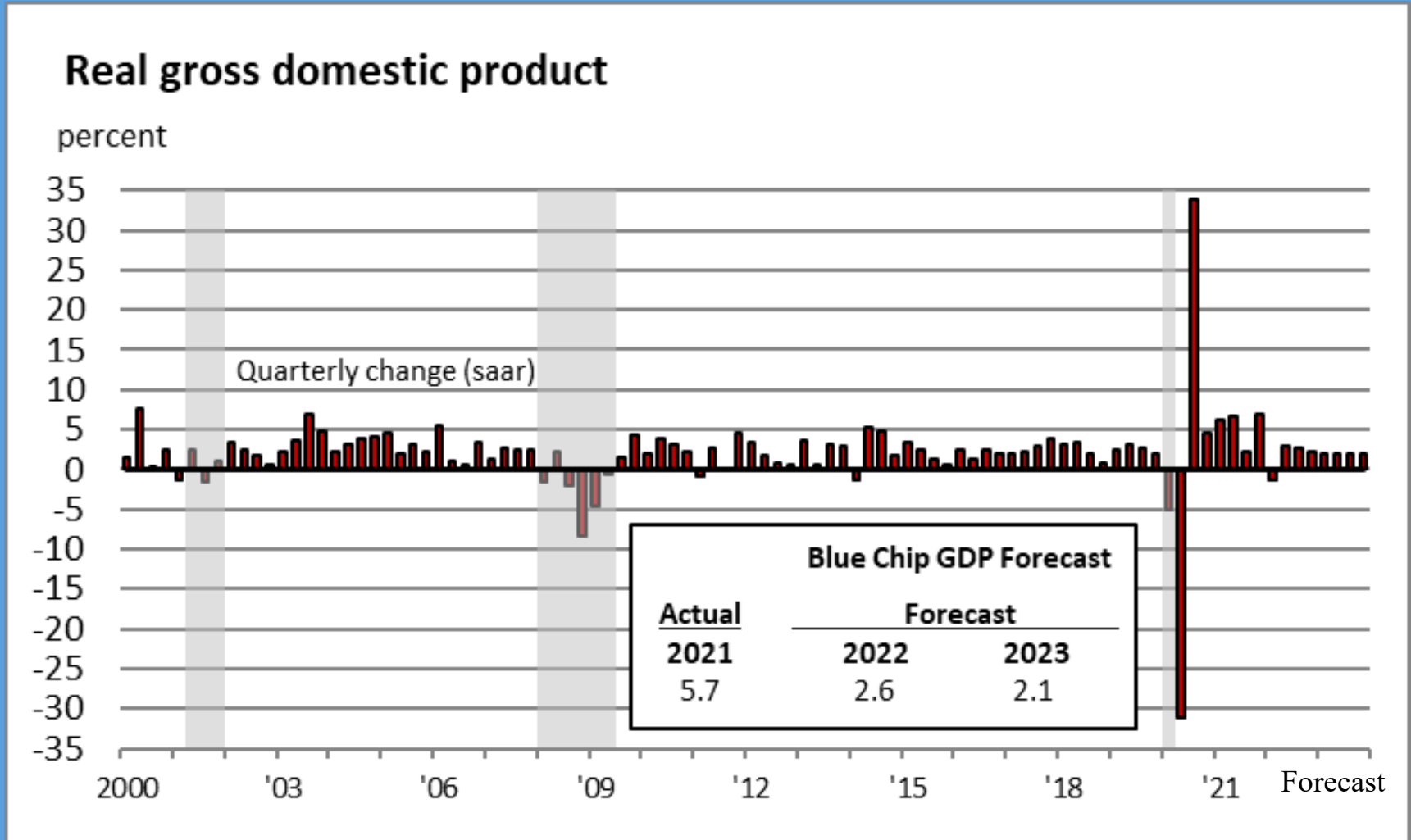


GDP in 2021 cruised ahead with a gain of 5.7%, edging 1.4% lower in Q1 of 2022



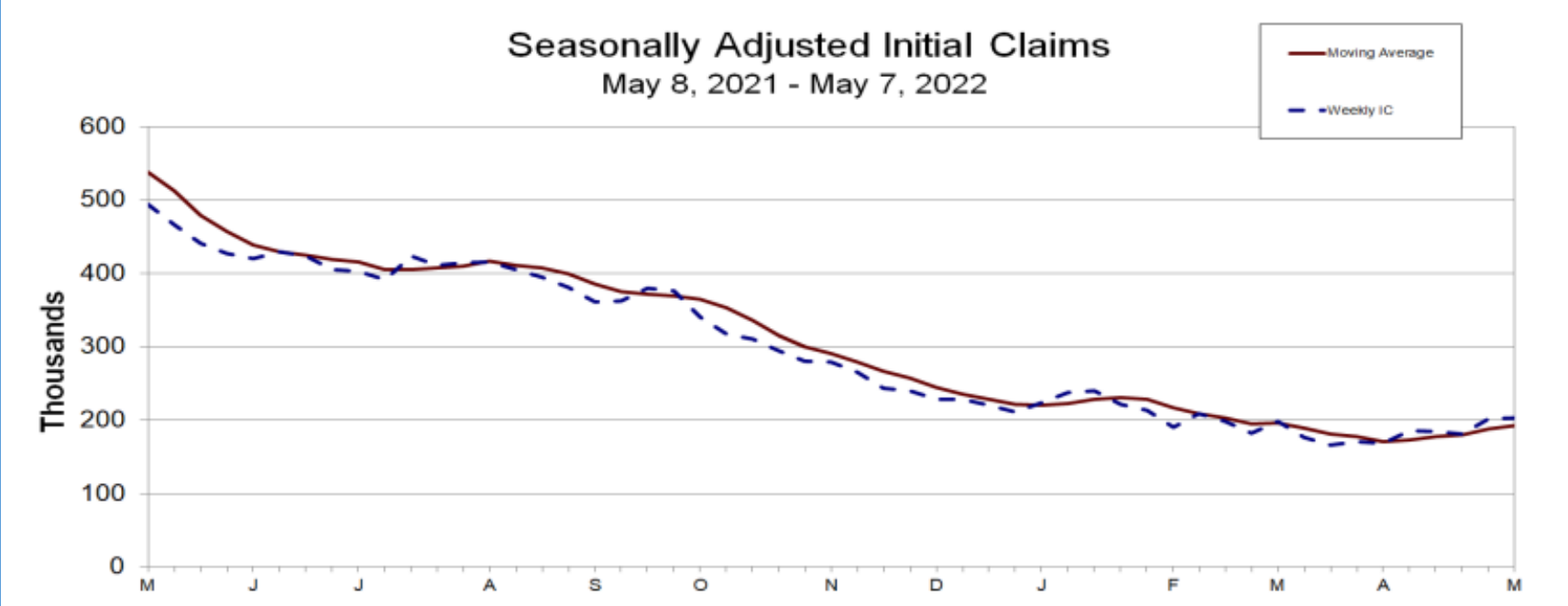
Source: Bureau of Economic Analysis

GDP growth of 2.8% for Q2 of 2022 forecasted by the Blue Chip, then tailing off

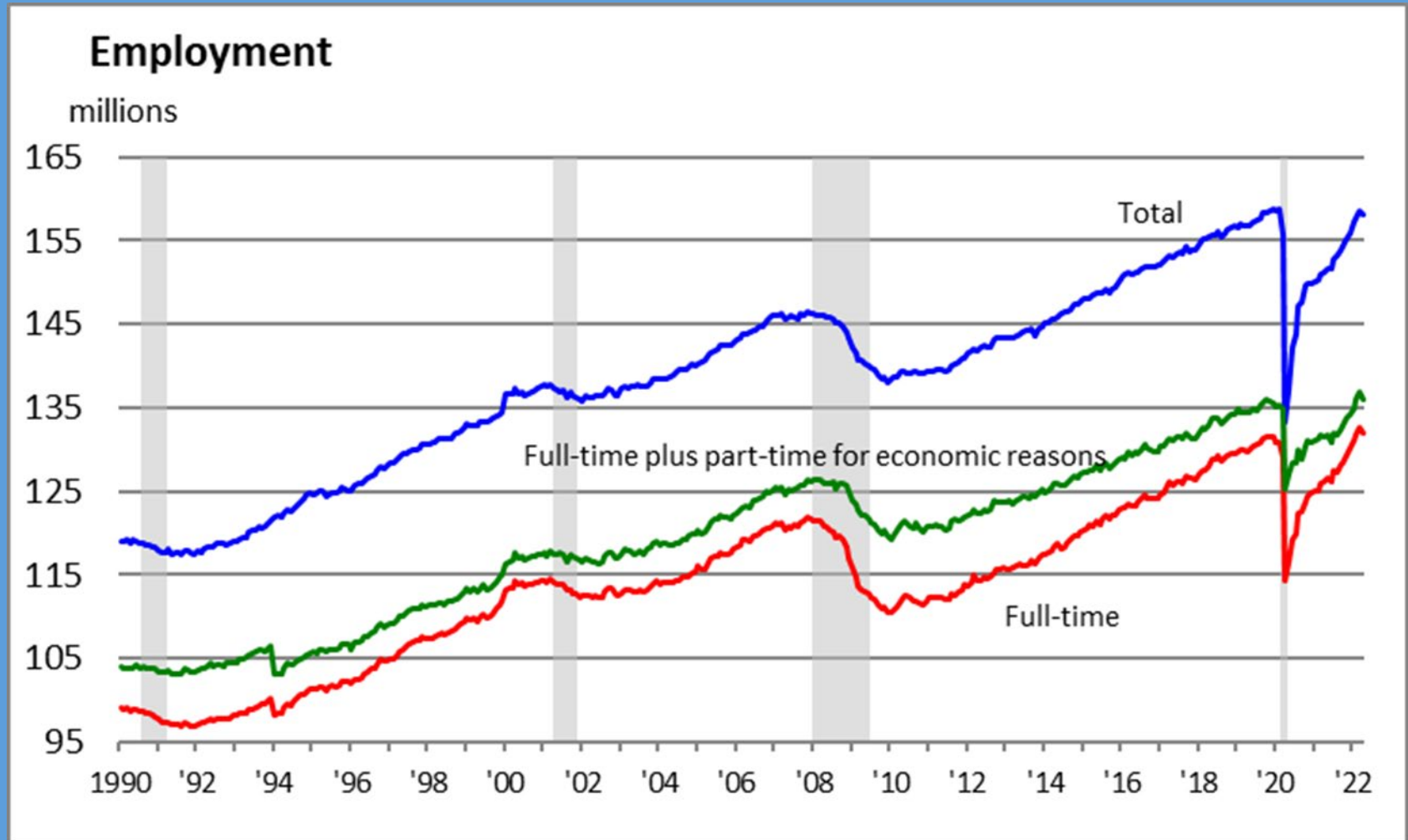


Sources: Bureau of Economic Analysis and Blue Chip Economic Indicators

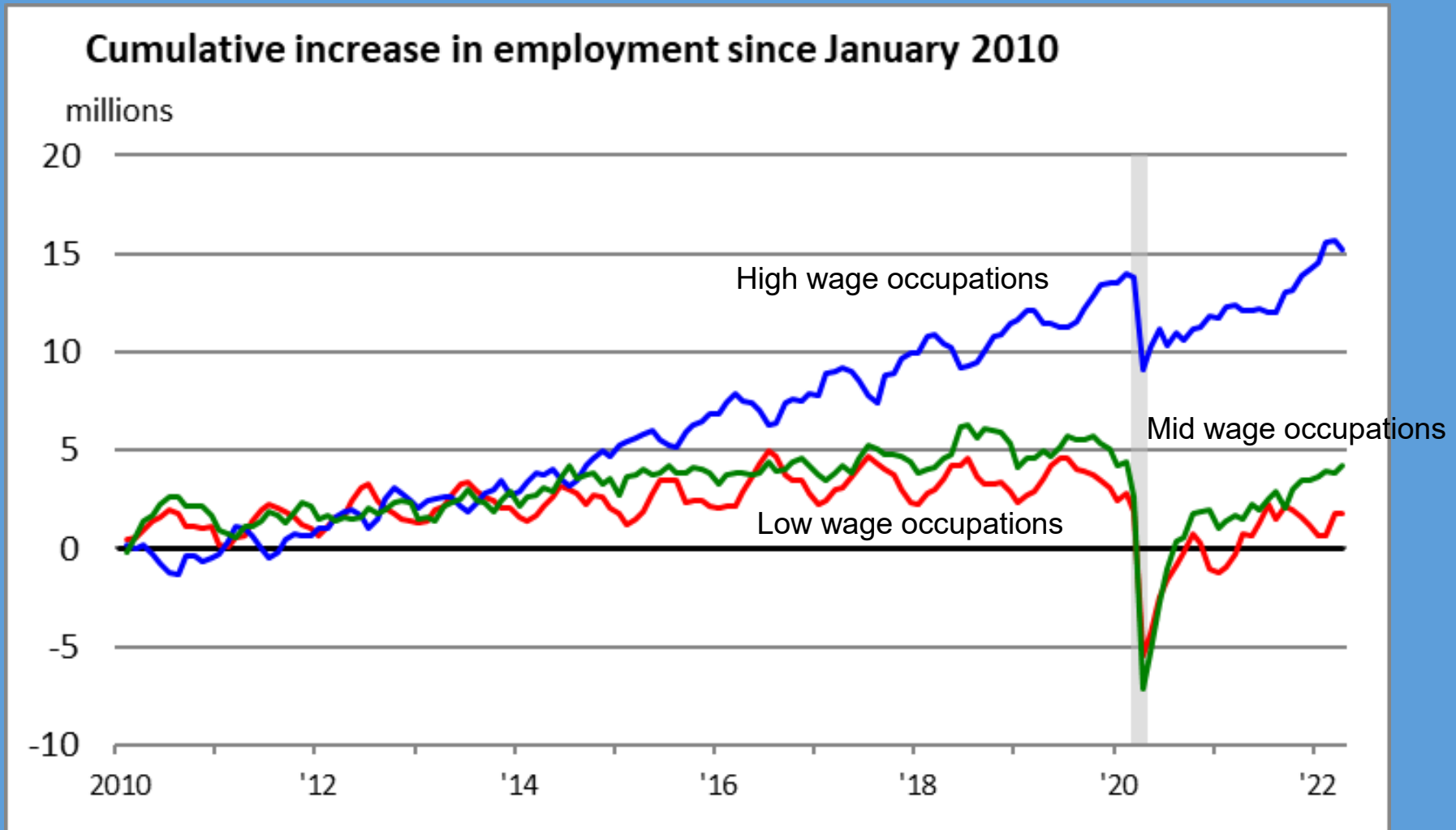
Labor supply is still tight, though initial claims no longer declining



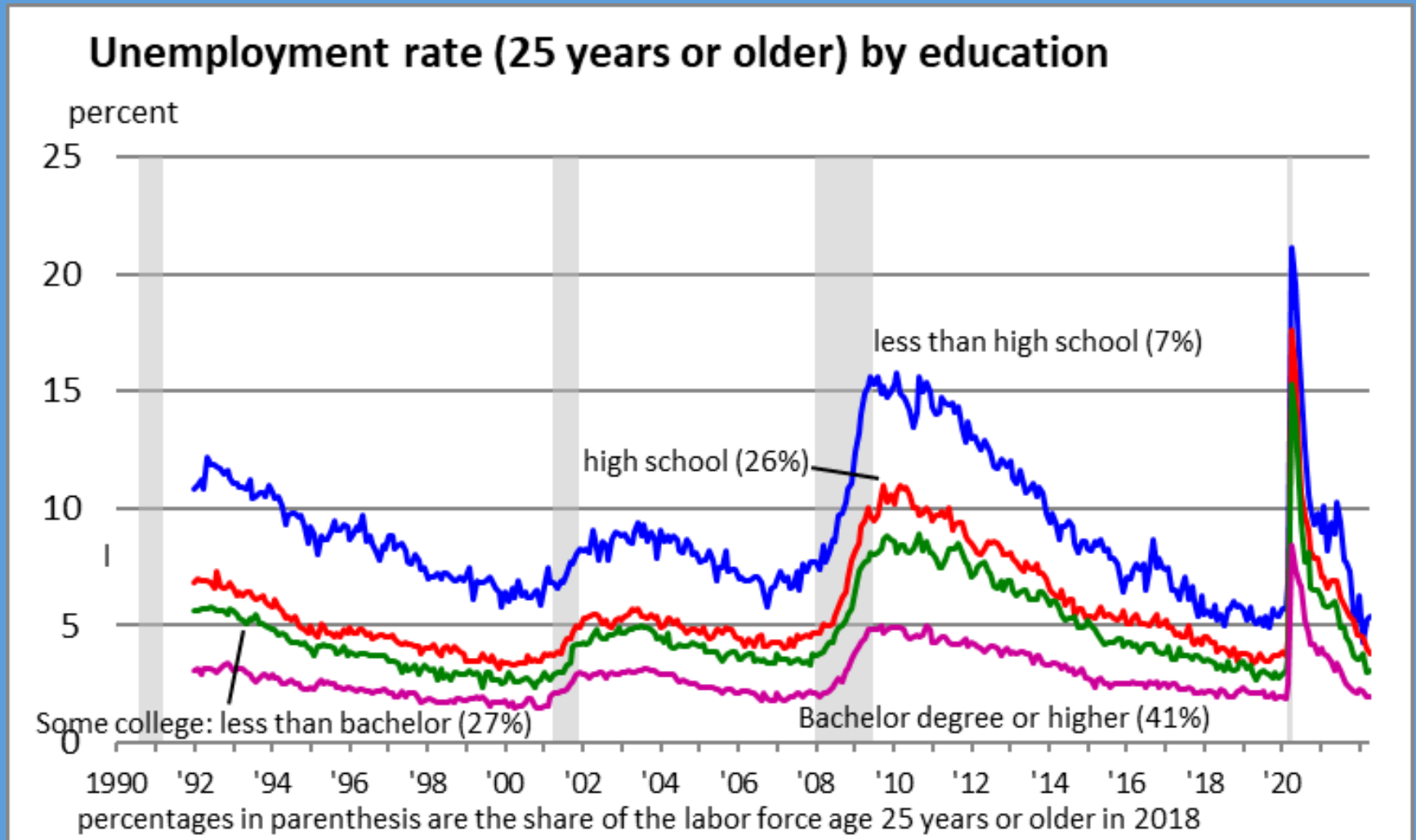
Employment nearly all the way back, but full-time workers already higher



However, some groups seem to be drifting, while others see stronger employment gains



Unemployment rates lowest for those with more education, but now all ships coming in



Still concerns about the duration of unemployment spells



Many people left the workforce and not all have returned on deck

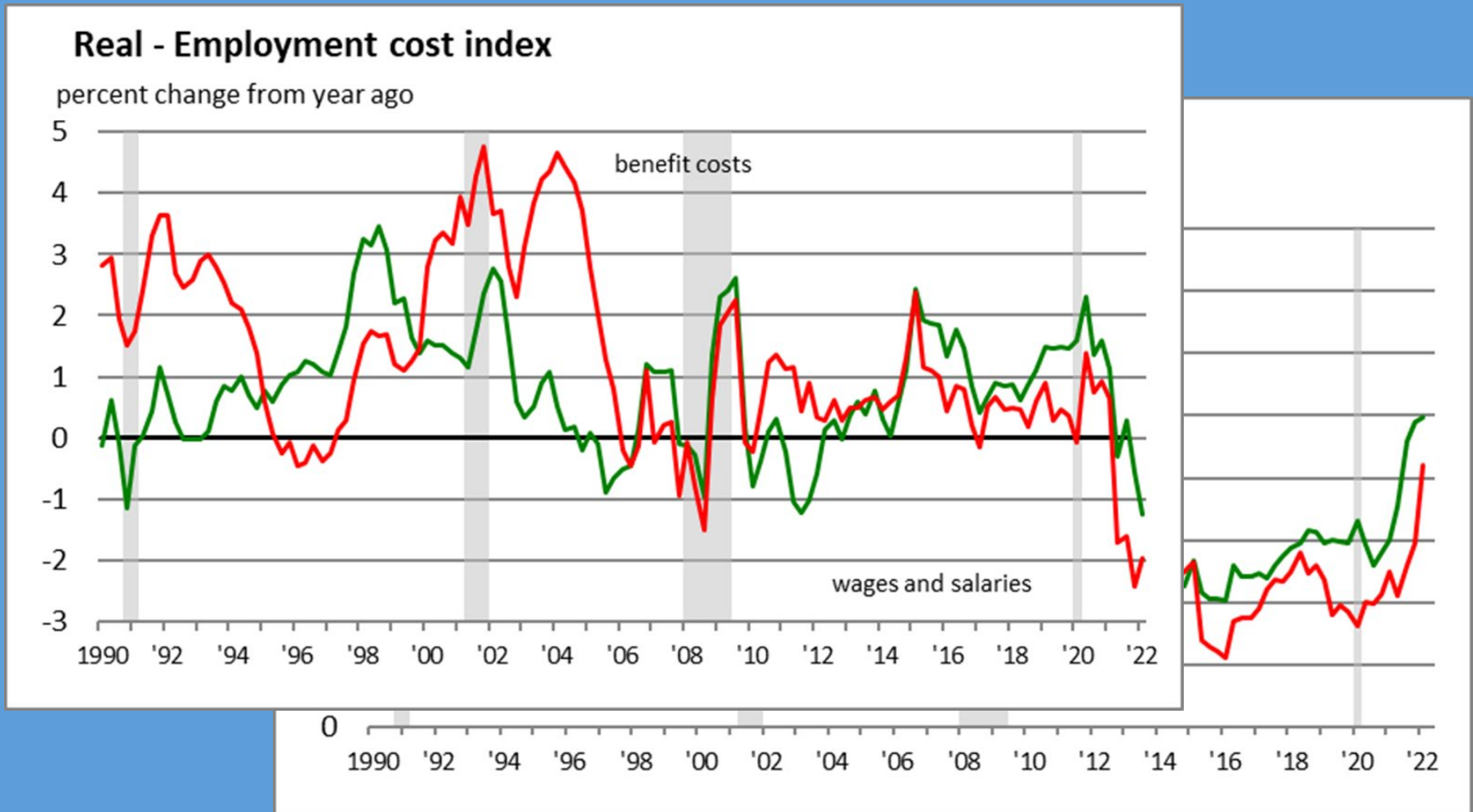


With strong demand for workers, there are again fewer than available jobs

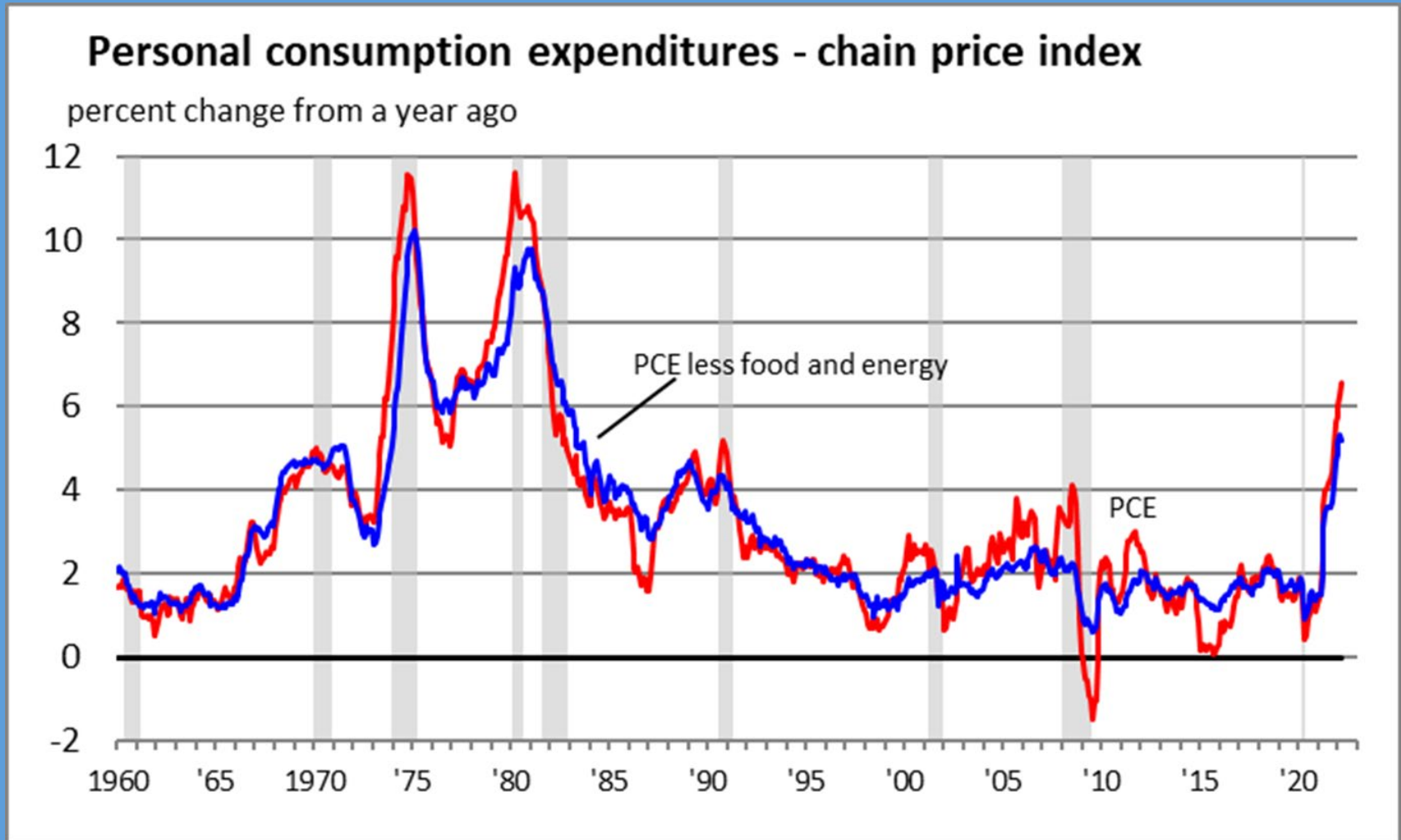
The number of unemployed workers for every job opening



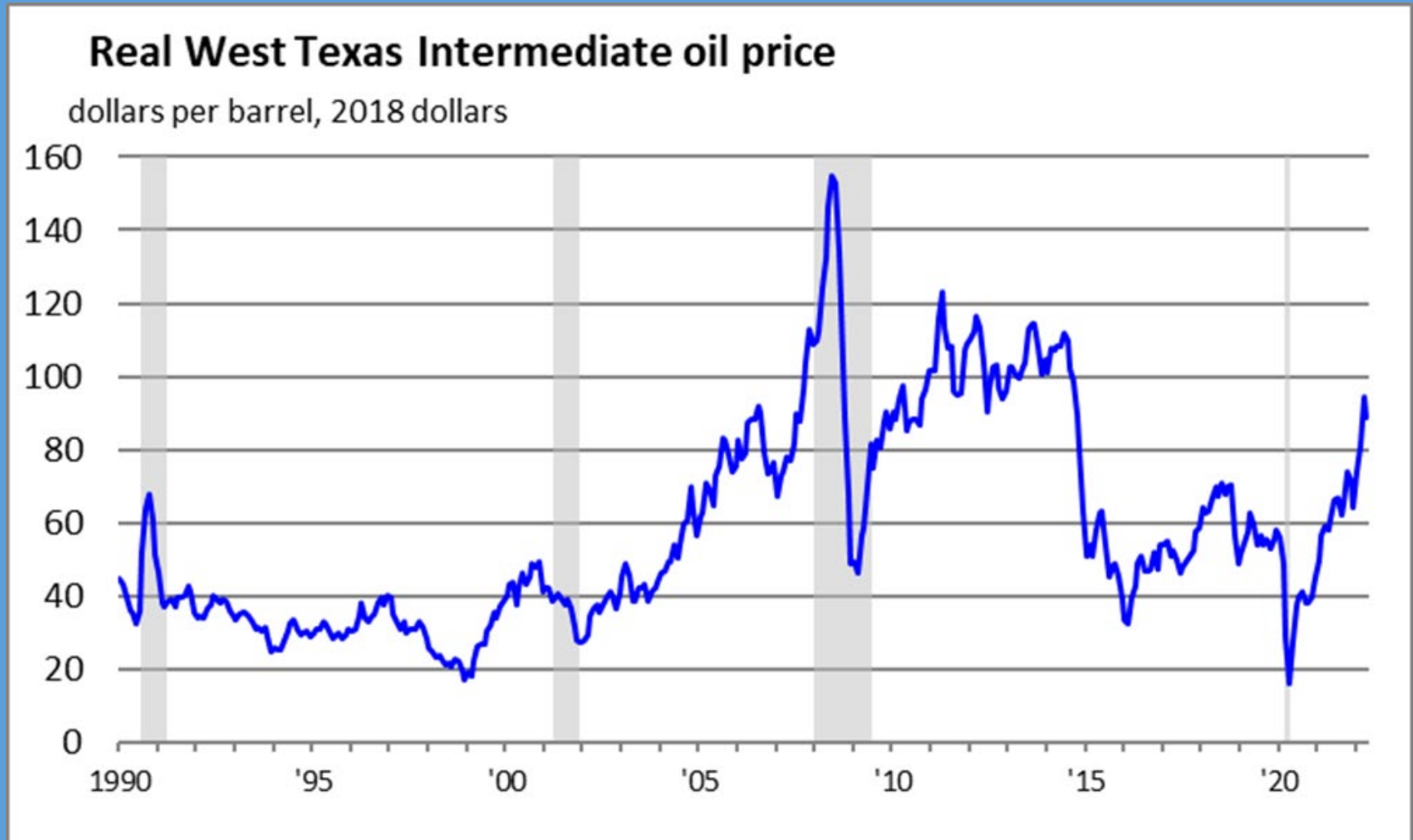
Wages and salaries, as well as benefits, rising for U.S. workers, but....



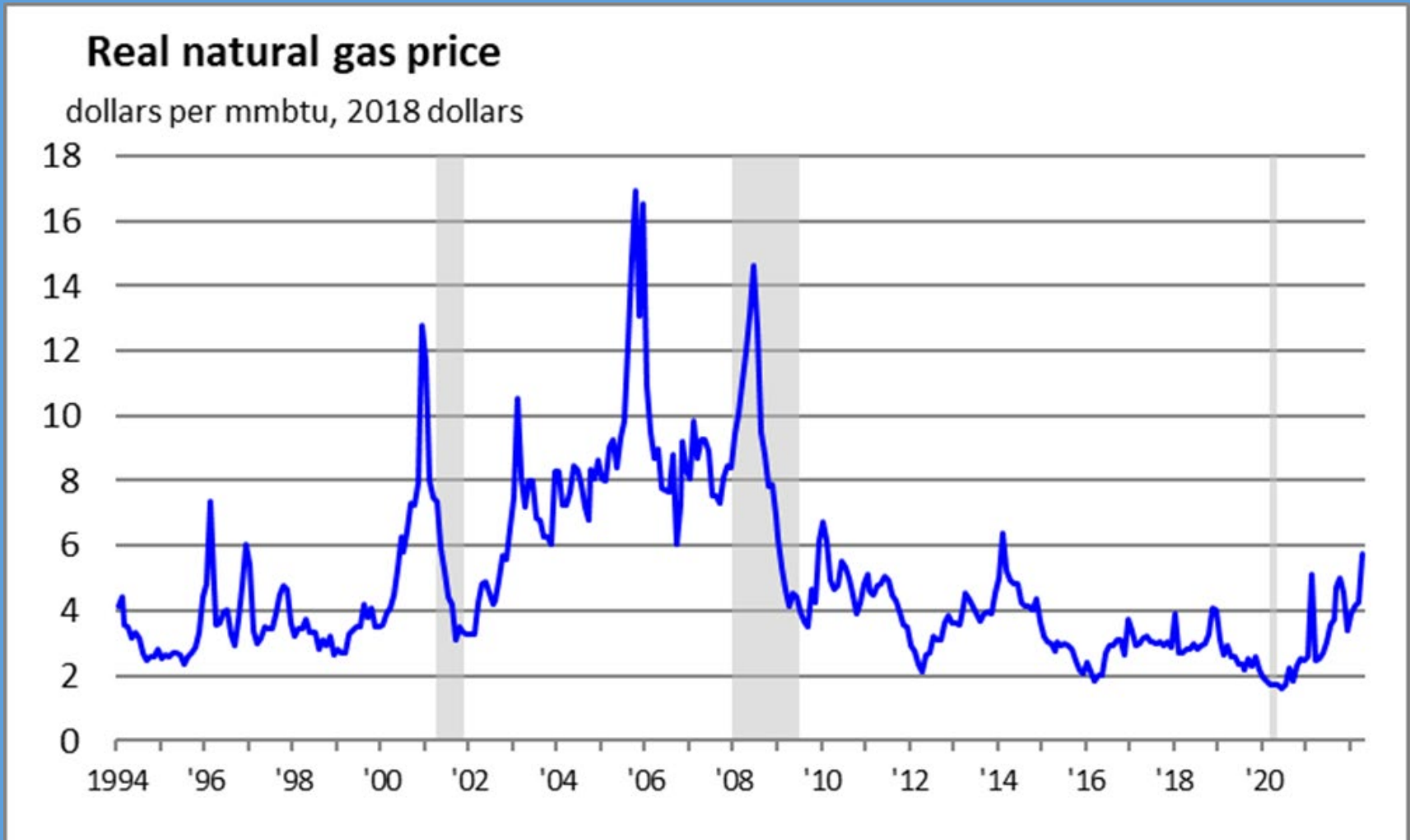
Inflation has blown in on hot markets, rising well above the Fed target of 2%



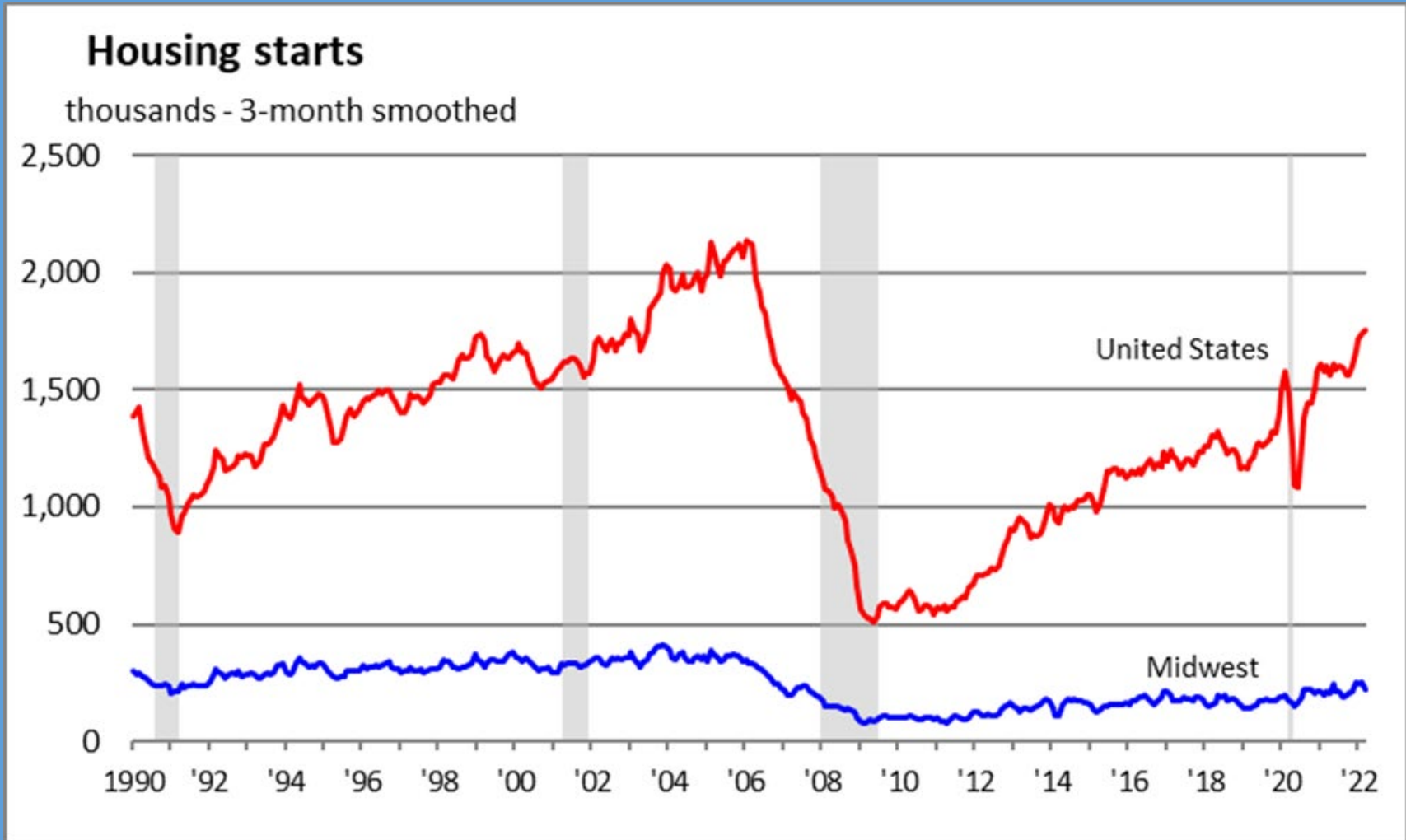
Oil prices jumped higher as economy heated up in 2021



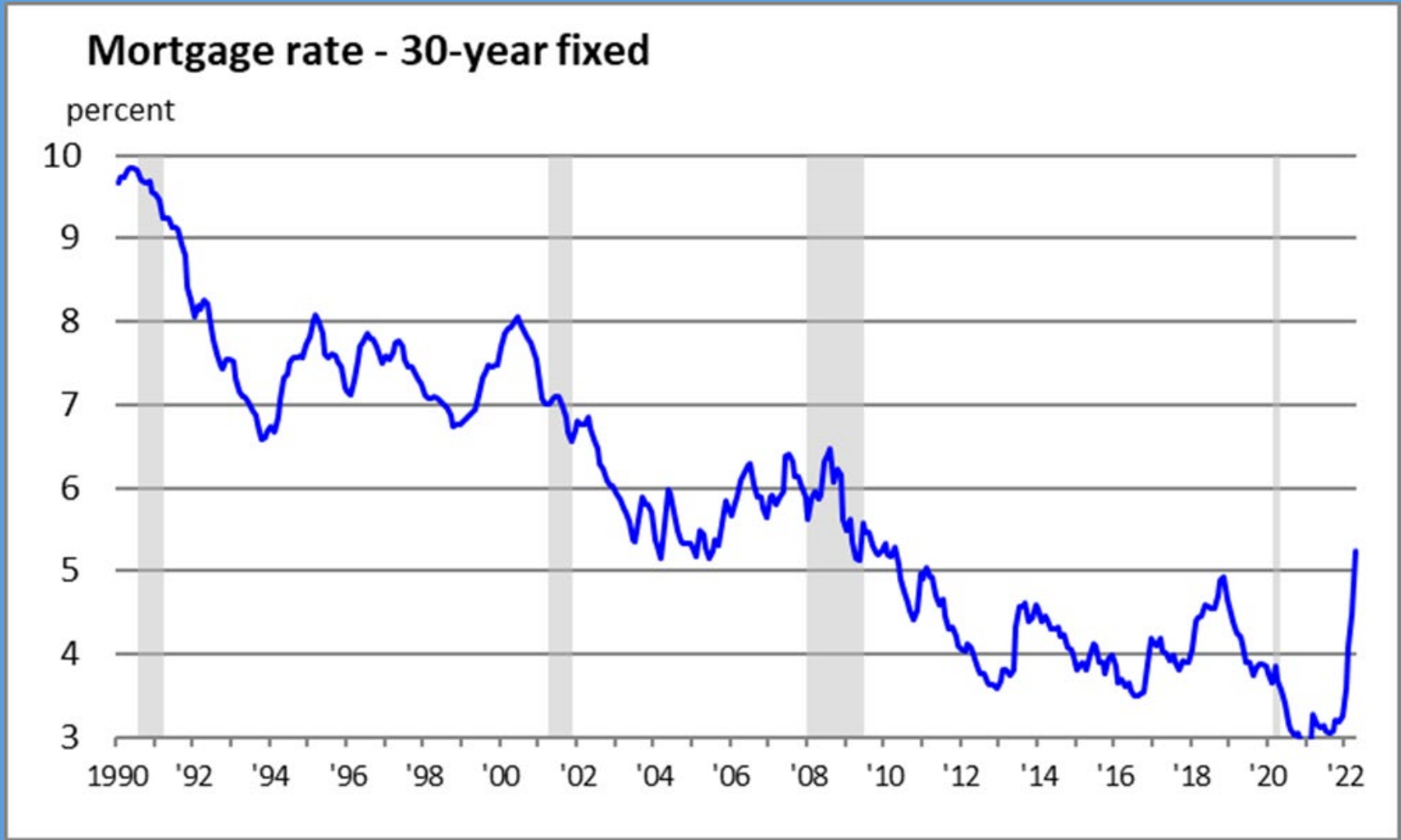
Natural gas prices climbed as demand rebounded and exports surged



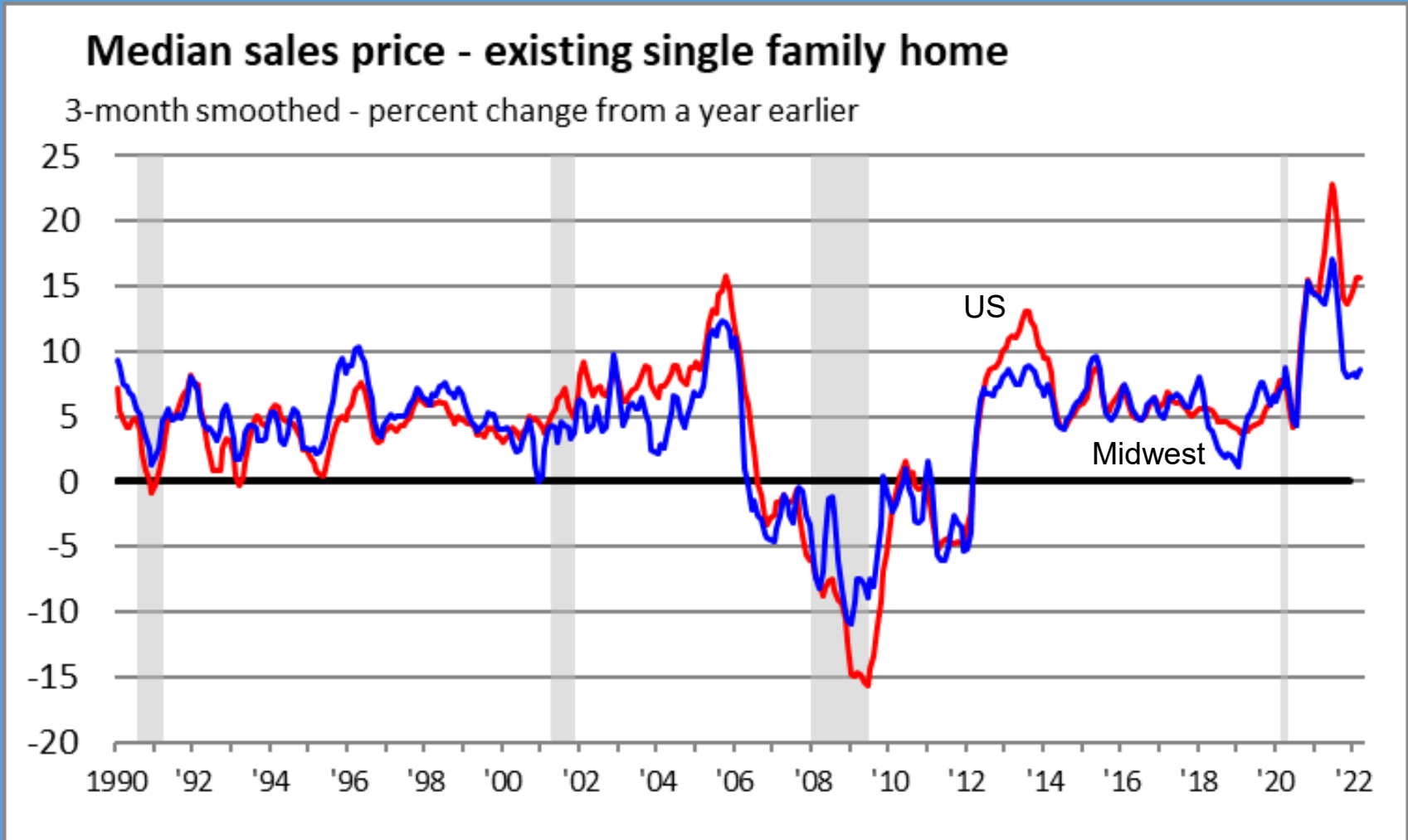
Housing and construction have risen



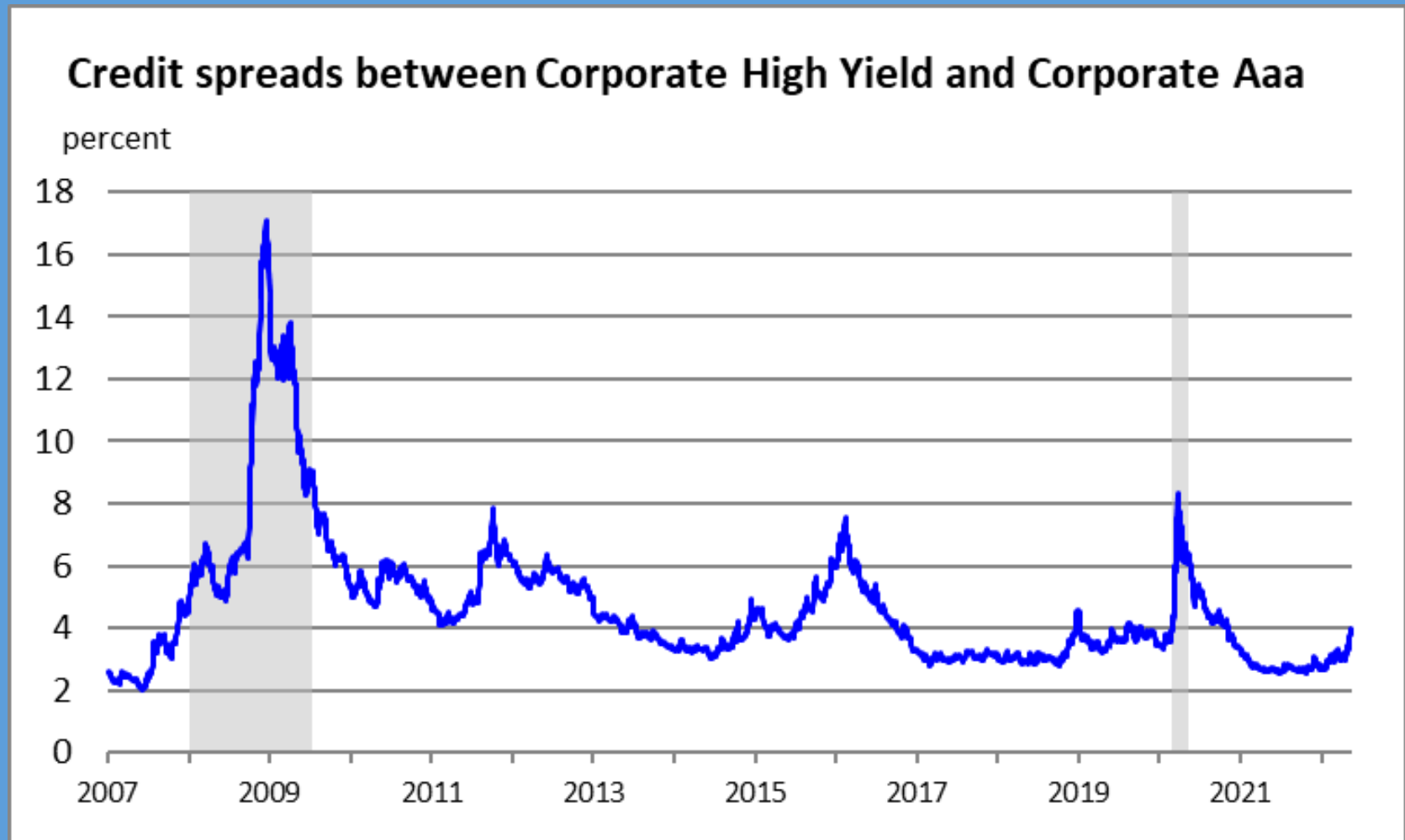
Even as mortgages have gotten pricier



Home prices were even hotter than during the housing boom of 2005-06



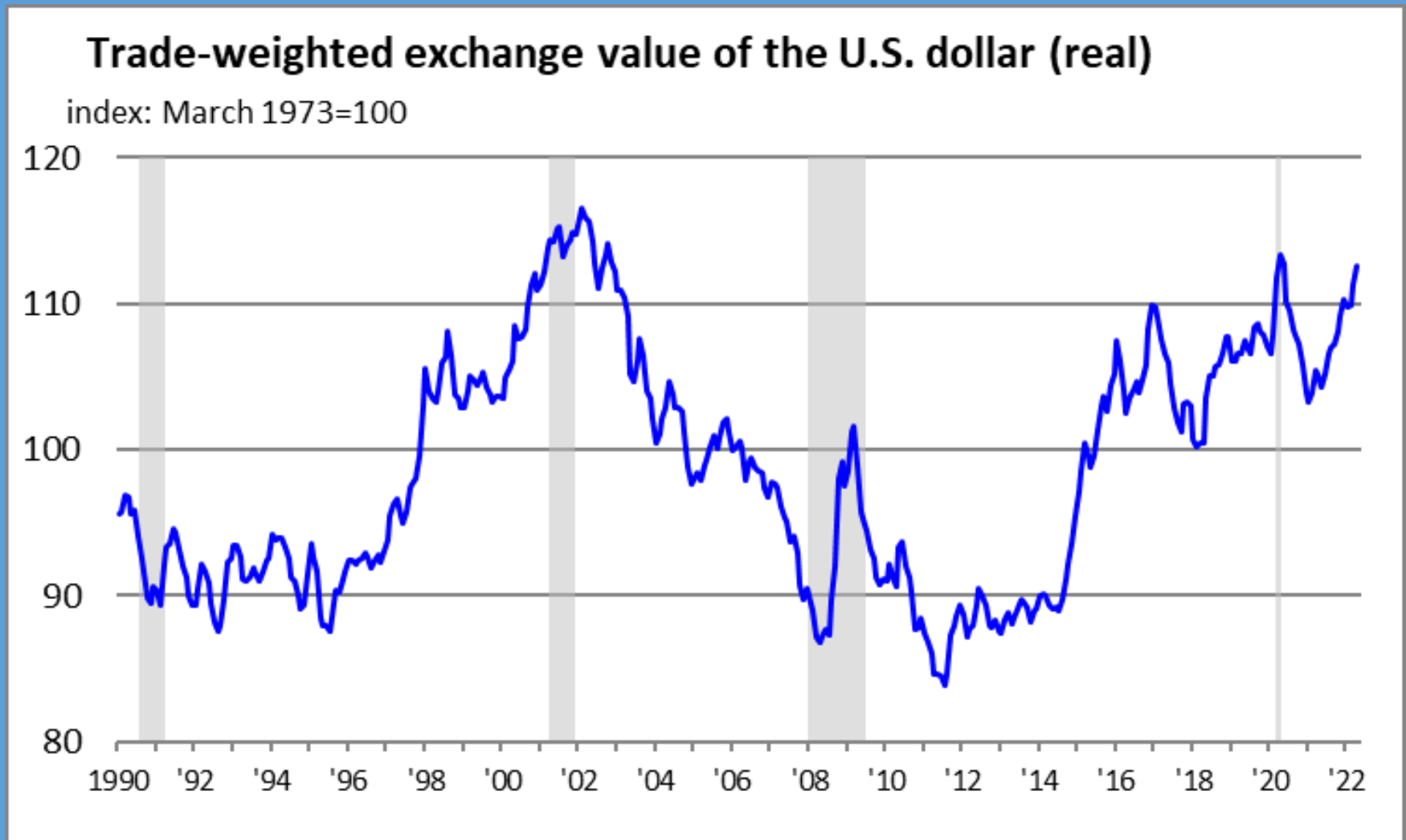
Credit spreads between Corporate High Yield securities and Corporate Aaa securities moved higher



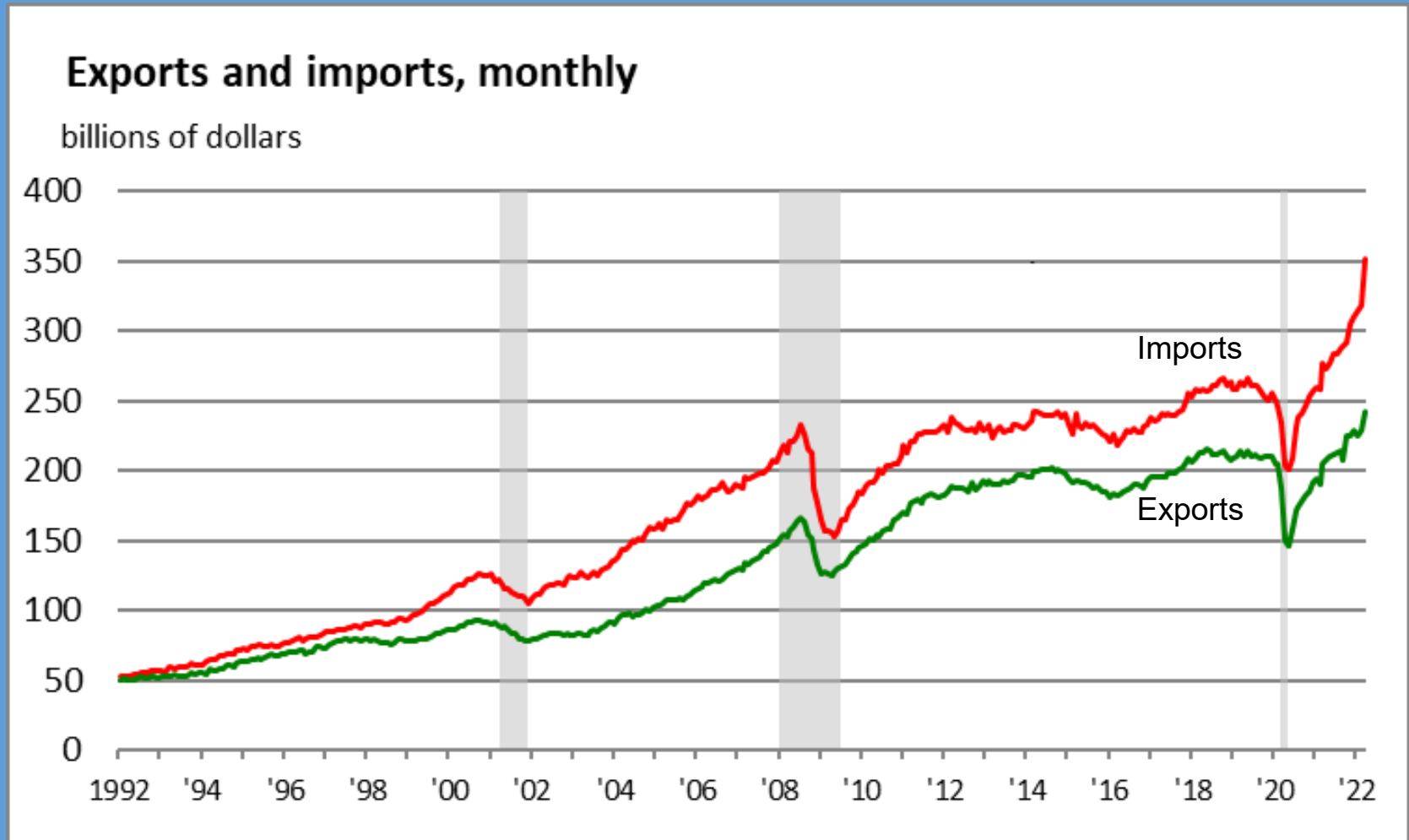
The 10-year vs. 3-month Treasury yield curve has been increasing again in 2022



Dollar's exchange value strengthening



Imports bounced back faster than exports and both kept going up



Argonne Local Government Vulnerability Index

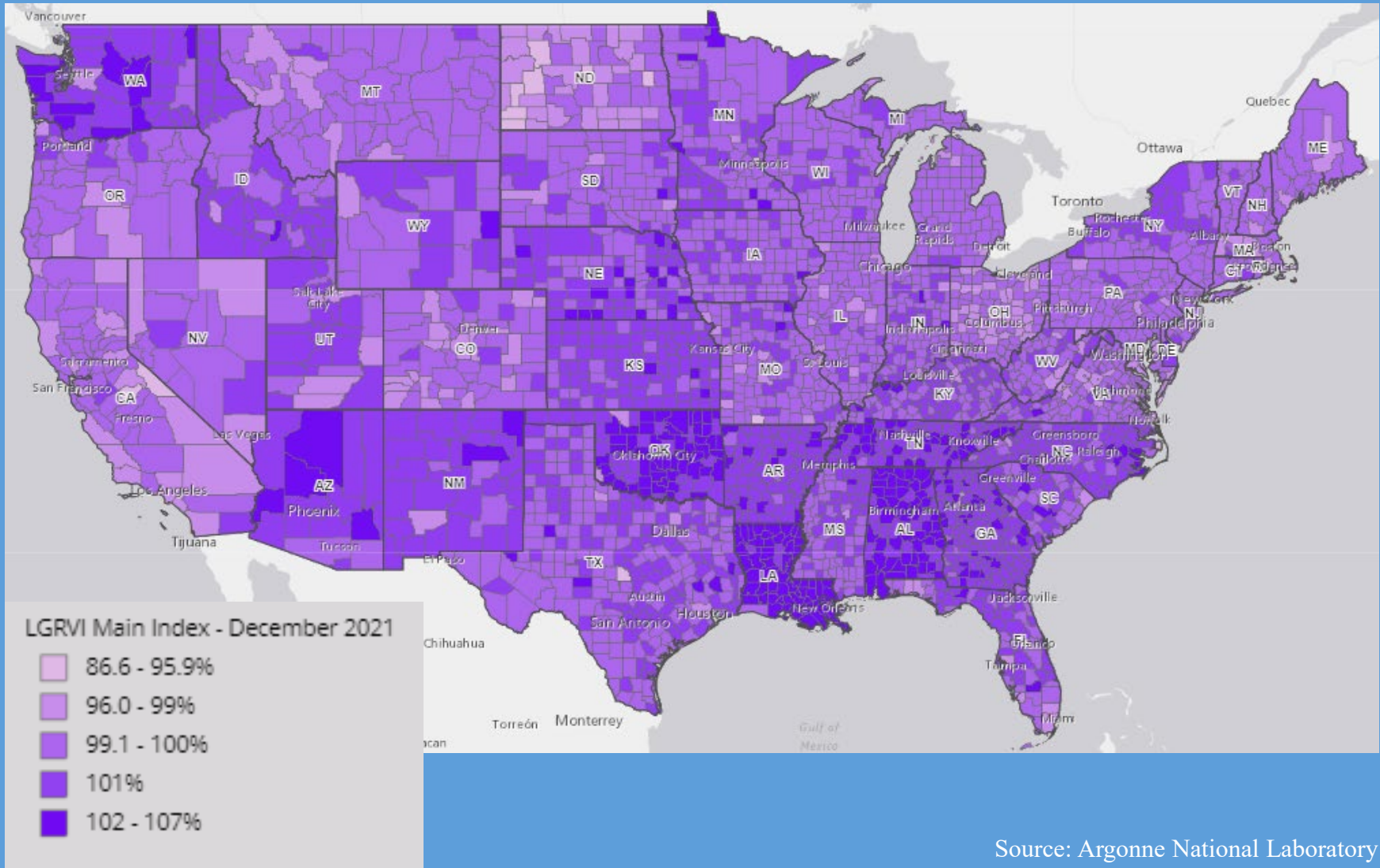
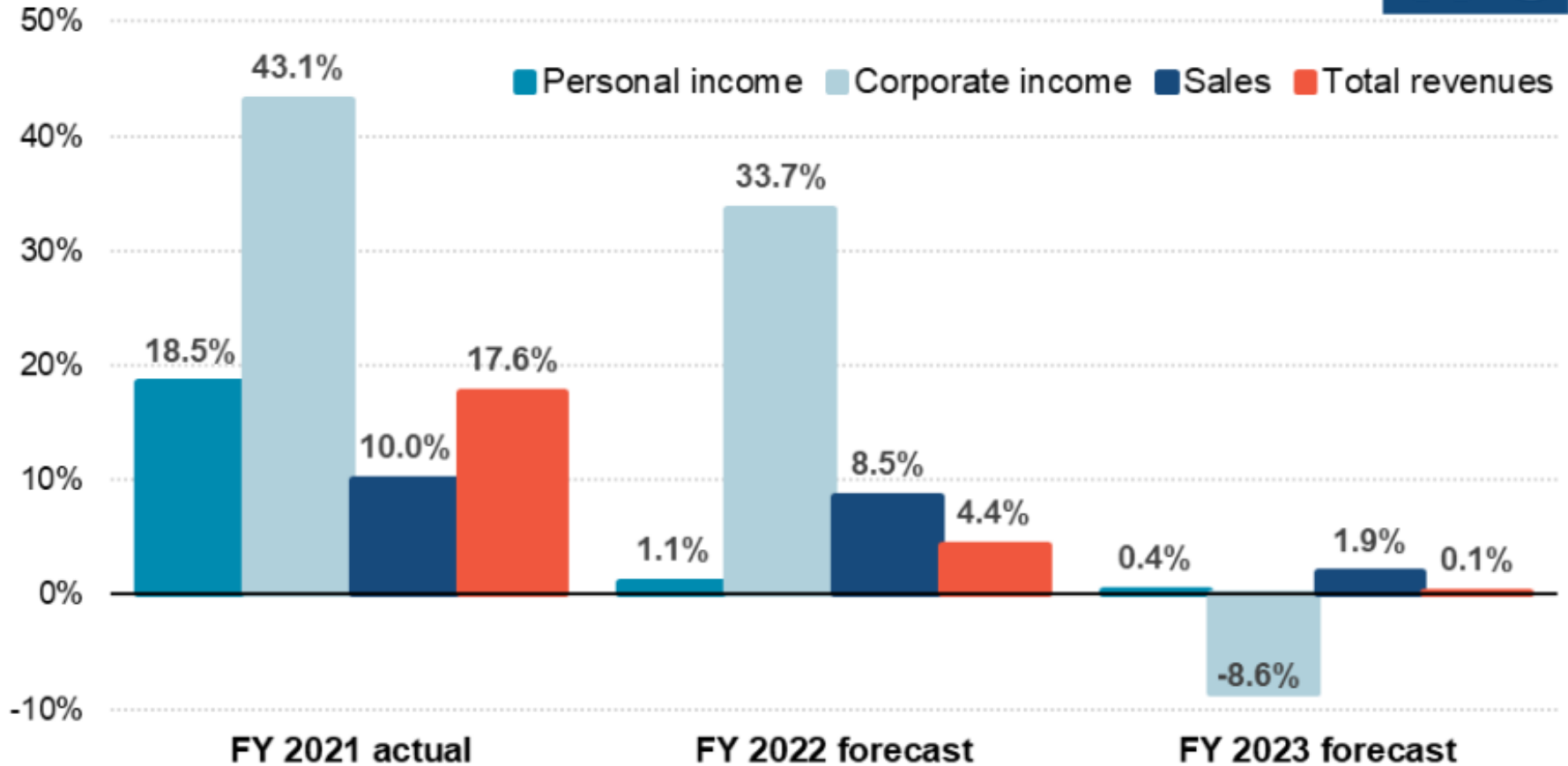


FIGURE 1

State revenue growth in FY 2021 and forecasts for FYs 2022 and 2023



Source: Tax Policy Center (43 states reported forecasts)

State and Local Revenues Demonstrate Strong Growth

TABLE 1

State and Local Government Tax Revenue Trends

Tax source	Millions of Dollars (Inflation Adjusted)		Y-O-Y Real Percent Change			Average quarterly Y-O-Y real growth rate, prior four quarters
	2021 Q3	2021 Q2-Q3 combined	2021 Q3 vs 2019 Q3	2021 Q3 vs 2020 Q3	2021 Q2-Q3 vs 2020 Q2-Q3	
Total state and local major taxes	\$388,991	\$882,059	7.5	(7.3)	13.6	18.9
State major taxes	\$234,947	\$563,521	13.5	(8.7)	21.3	24.6
Personal income tax	110,465	282,518	12.7	(19.9)	17.1	32.6
Corporate income tax	21,137	60,819	50.3	(7.0)	57.8	65.6
Sales tax	98,509	210,434	9.3	7.6	20.1	9.4
Property tax	4,837	9,750	0.2	(4.2)	3.2	6.2
Local major taxes	\$154,044	\$318,538	(0.5)	(5.2)	2.0	10.0
Personal income tax	9,321	23,478	(0.5)	(14.1)	10.9	14.7
Corporate income tax	2,380	6,316	23.5	(10.2)	20.7	20.7
Sales tax	26,489	53,292	6.0	8.7	8.5	3.4
Property tax	115,854	235,452	(2.2)	(7.1)	(0.6)	10.0

Source: US Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP).

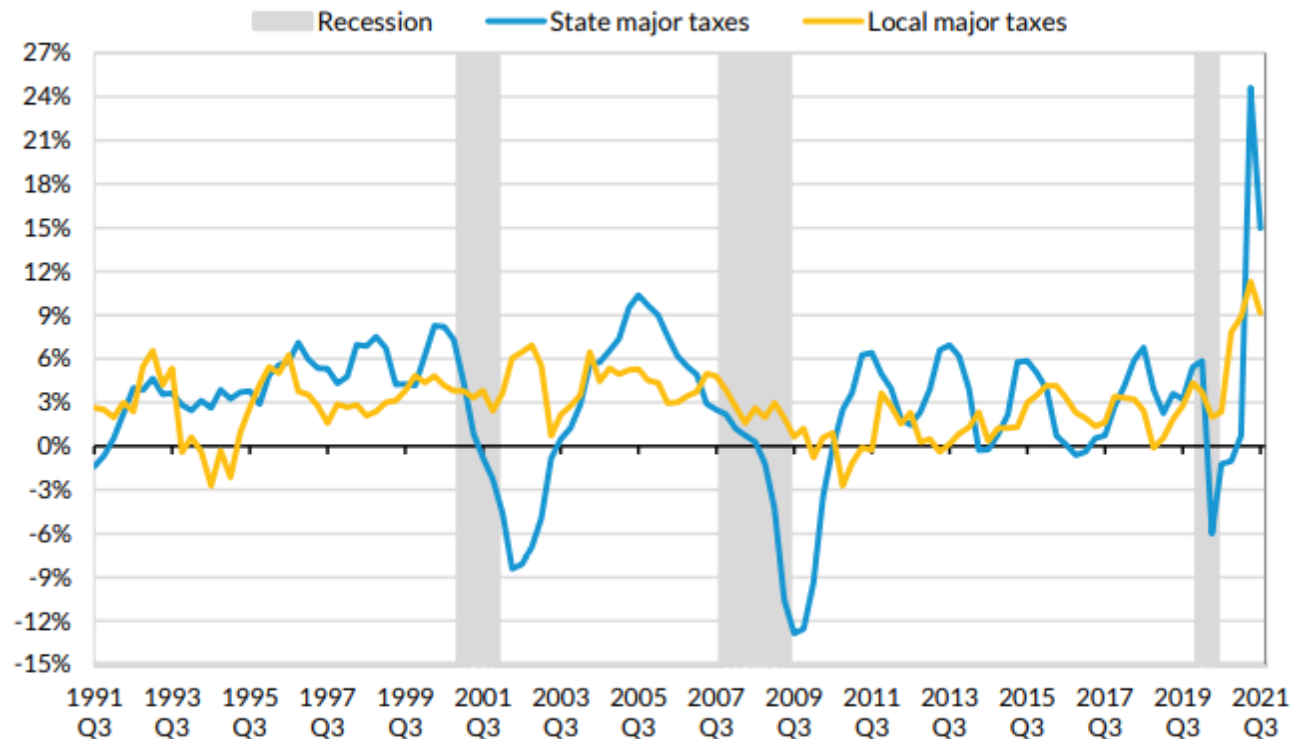
Notes: Q = quarter; Y-O-Y = year-over-year. Data are adjusted for inflation.

Rapid recovery for state and local governments post pandemic

FIGURE 1

State Major Tax Revenues Fluctuated Wildly during the Pandemic

Year-over-year inflation-adjusted change in state and local taxes from major sources



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Source: US Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP), analysis by the author.

Notes: Year-over-year change is the percentage change of four-quarter moving averages. Data are adjusted for inflation. Data are for four major tax categories only: personal income, corporate income, general sales, and property.

State Tax Revenue exceeds GDP growth in many states

FIGURE 6

Growth Disparity: State Tax Revenues versus State GDP

Year-over-year change in real state taxes and real GDP, 2021 quarter 3 versus 2020 quarter 3



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Source: US Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP), analysis by the author.

Notes: Year-over-year change is the percentage change of four-quarter moving averages. Data are adjusted for inflation.

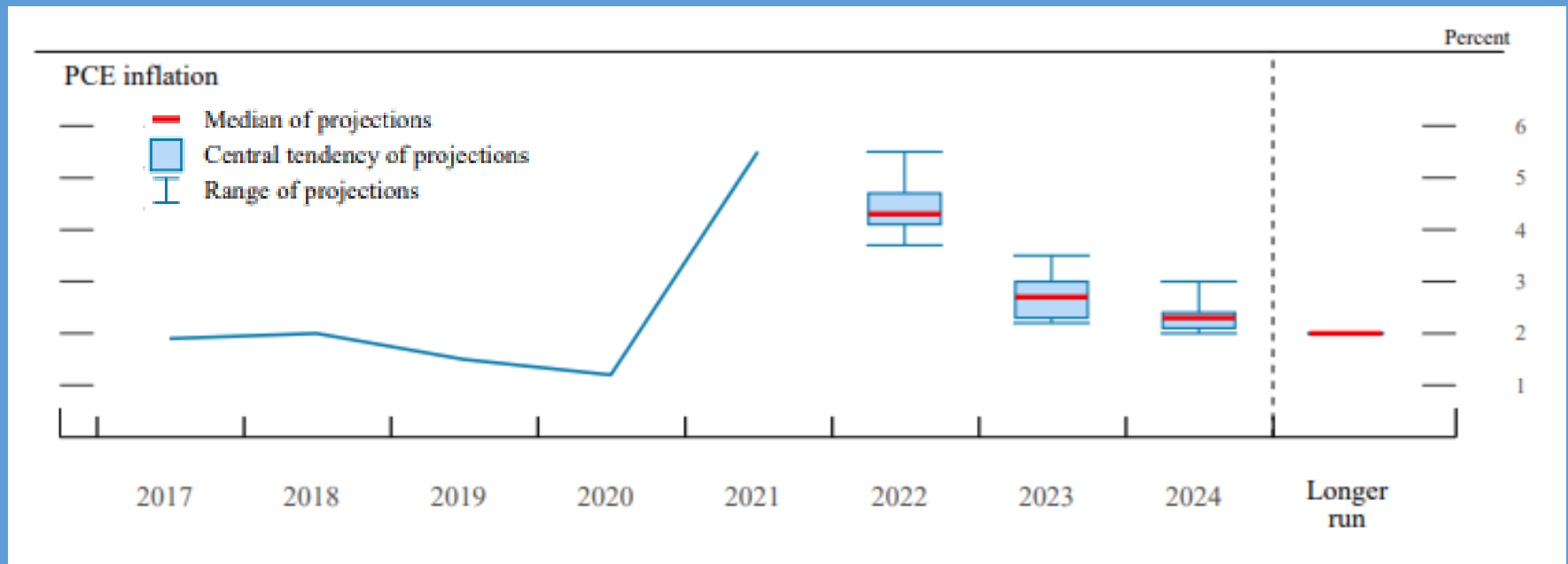
Red lines show US averages. Alaska and Wyoming are outliers and excluded from the figure.

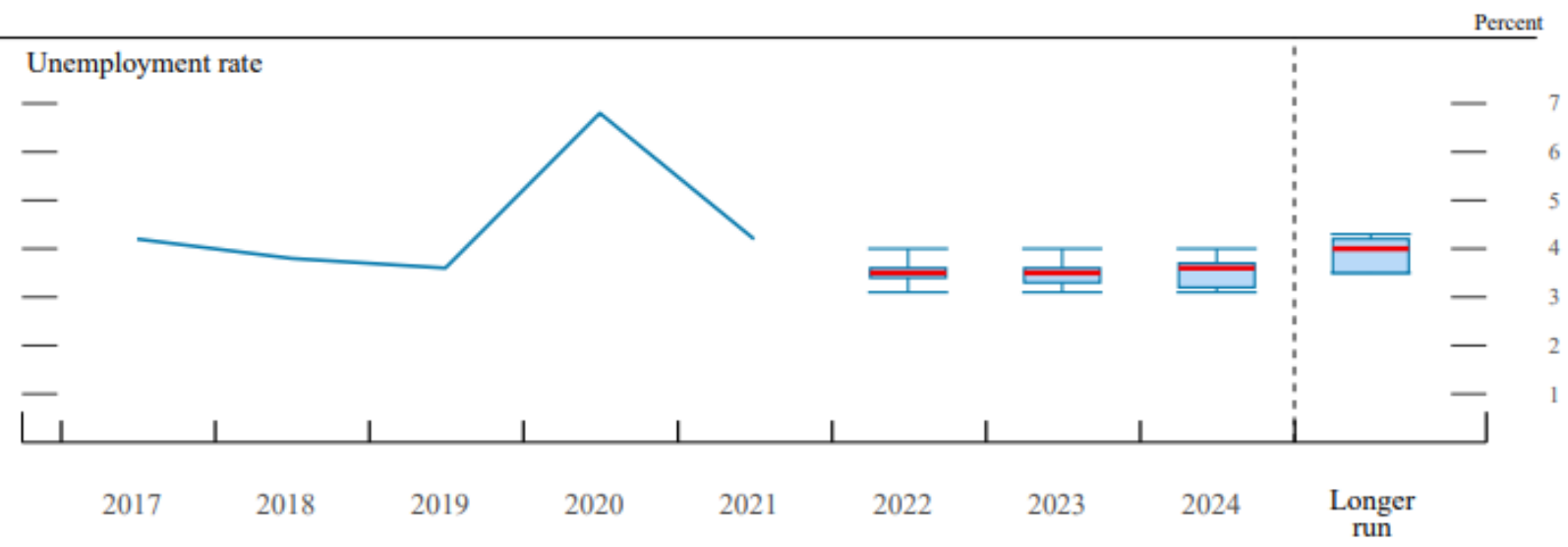
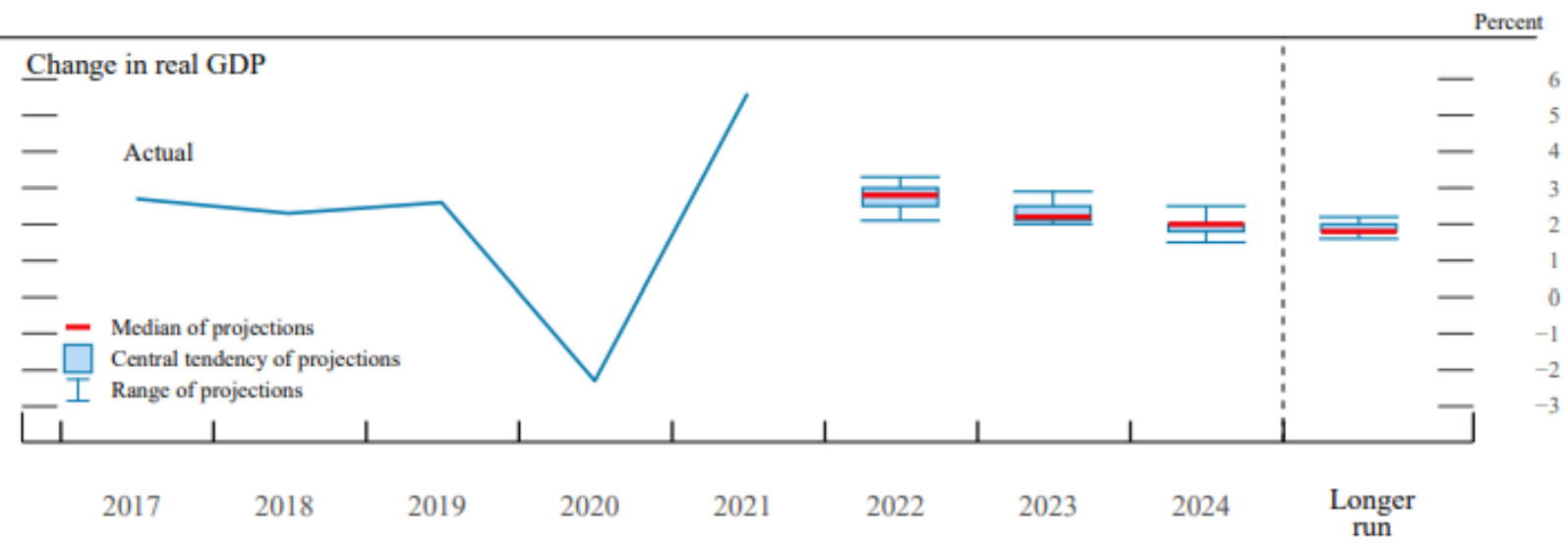
ARPA bringing \$1.9 trillion to the table

- \$350 billion for state and local governments from Coronavirus State and Local Fiscal Recovery Funds (CSLFRF for supporting public health, replacing lost revenue, addressing economic harm to workers and small businesses, providing premium pay for essential workers and investing in water, sewer and broadband infrastructure.)
- In addition, the CSLFRF do not include other direct grant programs established in ARPA such as \$126 billion for K-12 education, \$40 billion for higher education as well as a host of other categories including transit, housing and rental relief, nutrition assistance, childcare and vaccine distribution. Also \$500 million in infrastructure funds.
- Bottom line—huge influx of Federal dollars into the sector

FOMC projections for the economy

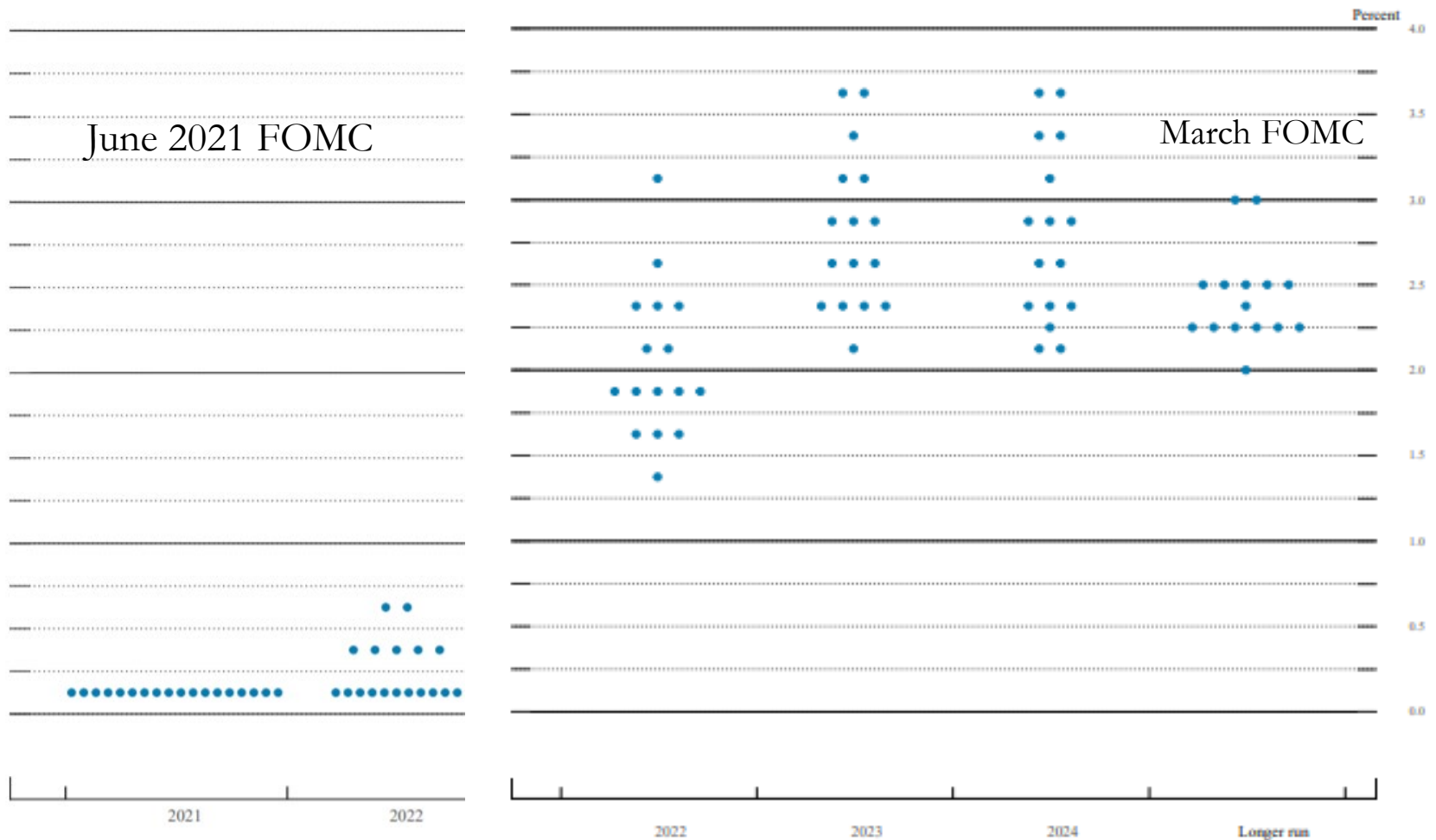
- Inflation dropping close to 2% target by 2024
- Real GDP growth edging down toward trend
- Unemployment rate flattening at low level in 2022





Source: Federal Open Market Committee of the Federal Reserve System

Updated path for the Federal Funds Rate from 2021 FOMC meeting and this year



Summary

- The outlook is for the US economy to continue expanding at a pace somewhat above trend in 2022, with a smaller gain in 2023
- Employment is expected to continue rising, while the unemployment rate will decline and flatten out at a low level
- Inflation is forecast well above the Fed's inflation target but should fall toward the 2% target and be close by 2024
- Housing predicted to show slower improvement with rising rates
- Logistical hurdles should clear up as the year progresses
- Big influx of support for states and local governments

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