

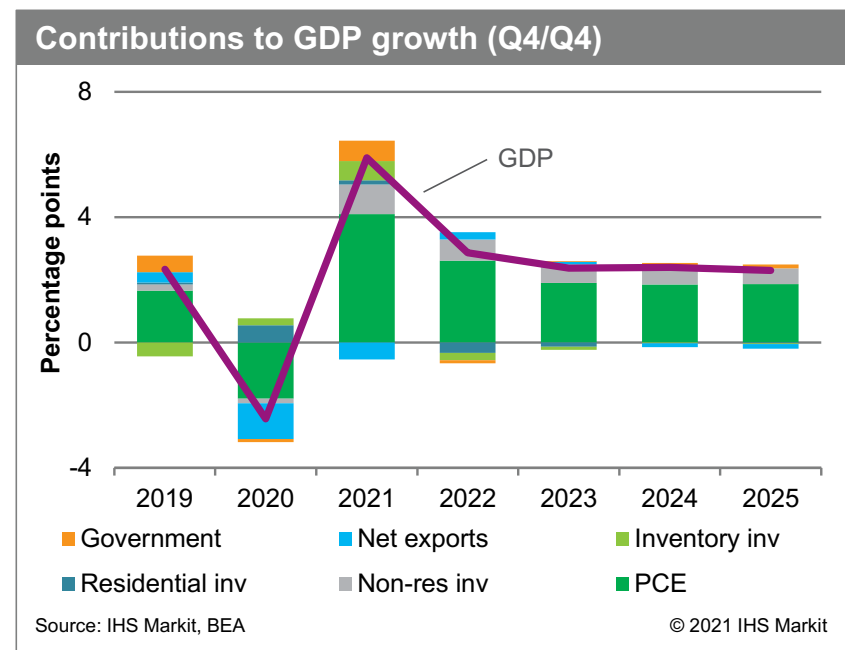
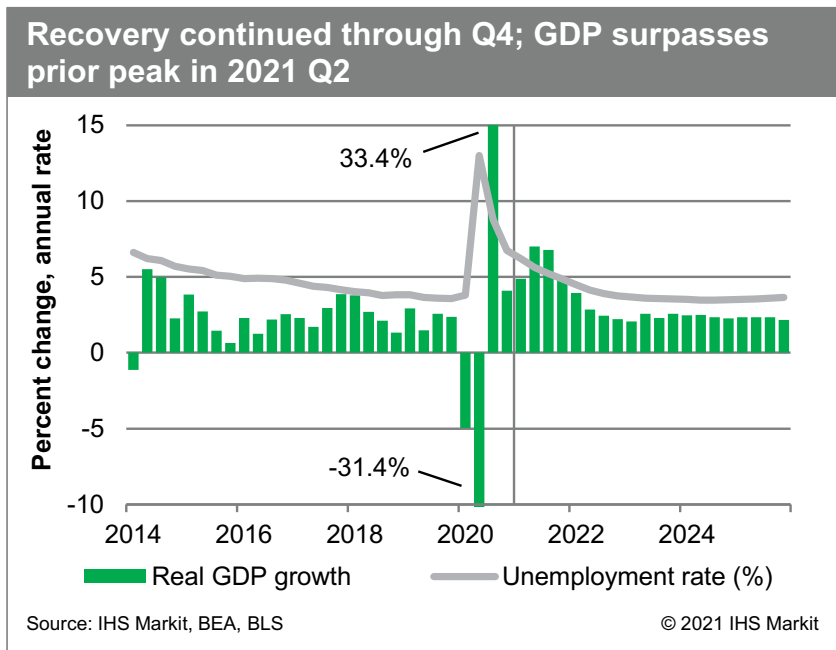
The US Economic Outlook: Recovering from COVID

Major factors in the improving US economic outlook

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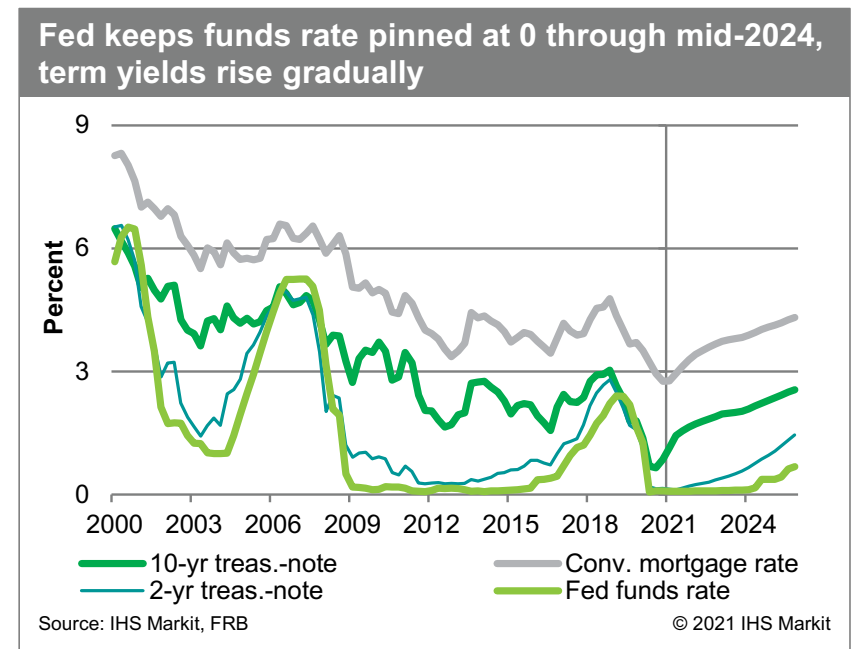
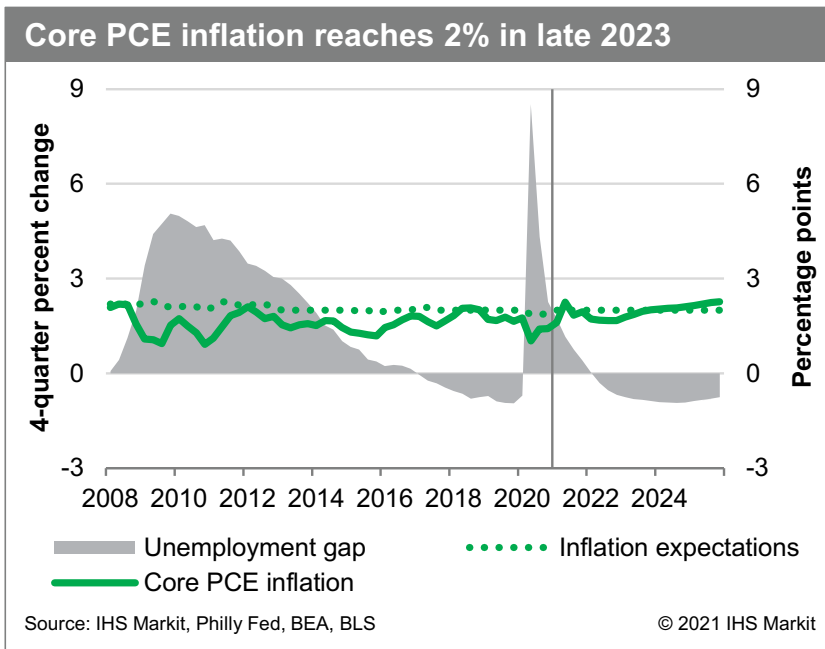
Macro Summary

Y/Y GDP growth at 5.7% this year, 4.1% next; previous peak reached in Q2; full employment reached in 2023; PCE leads the rebound



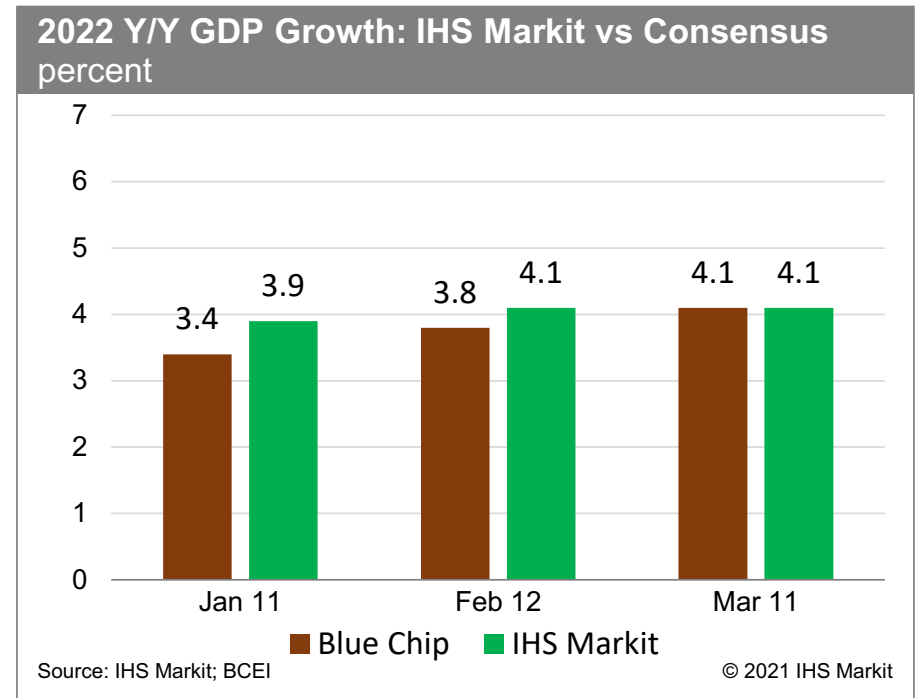
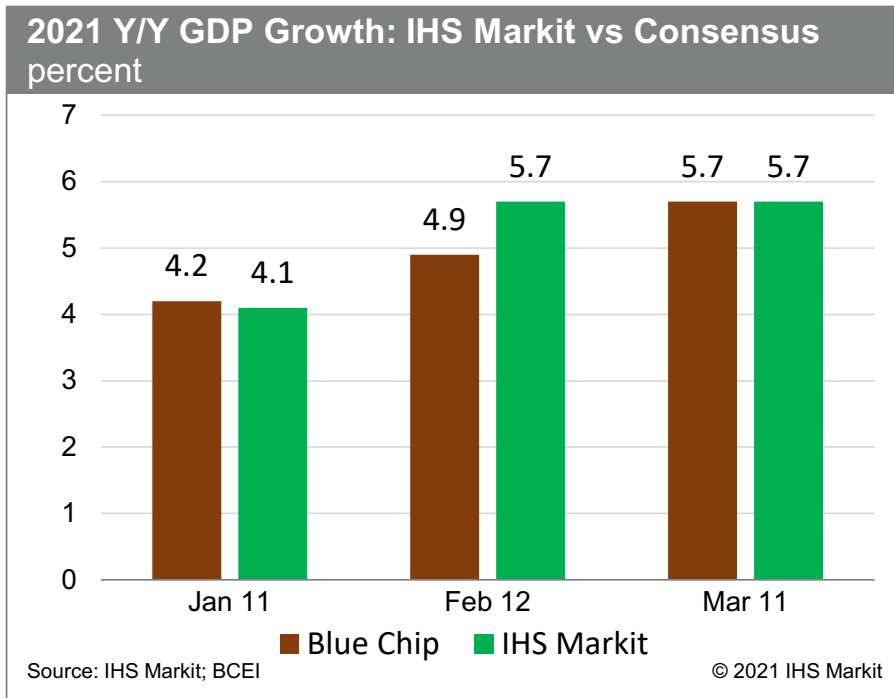
Macro Summary

“Fed “lift-off” in 2024 when “maximum employment” and inflation > 2% achieved; term yields and mortgage rates rising in advance



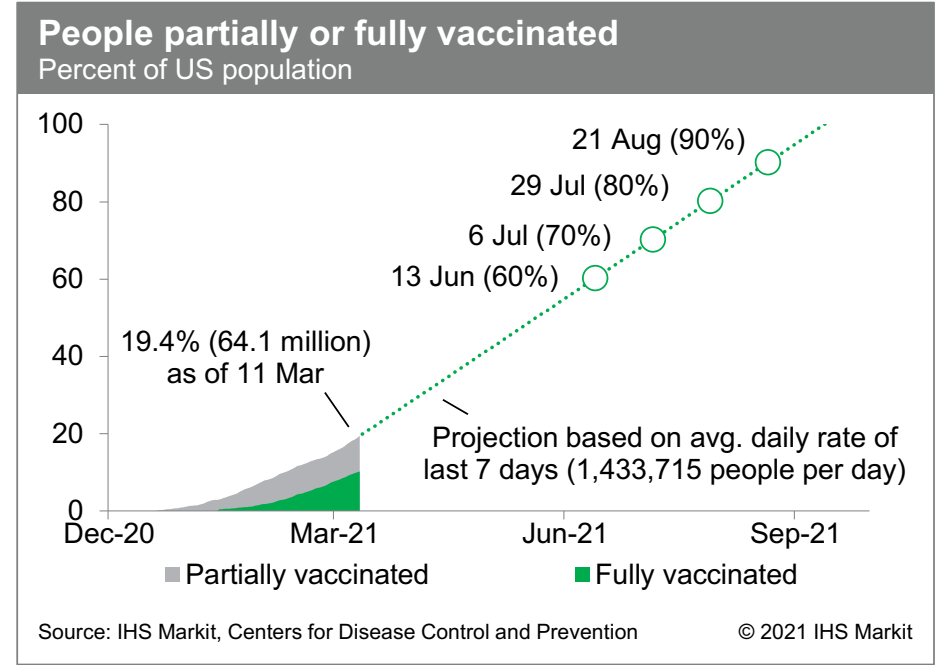
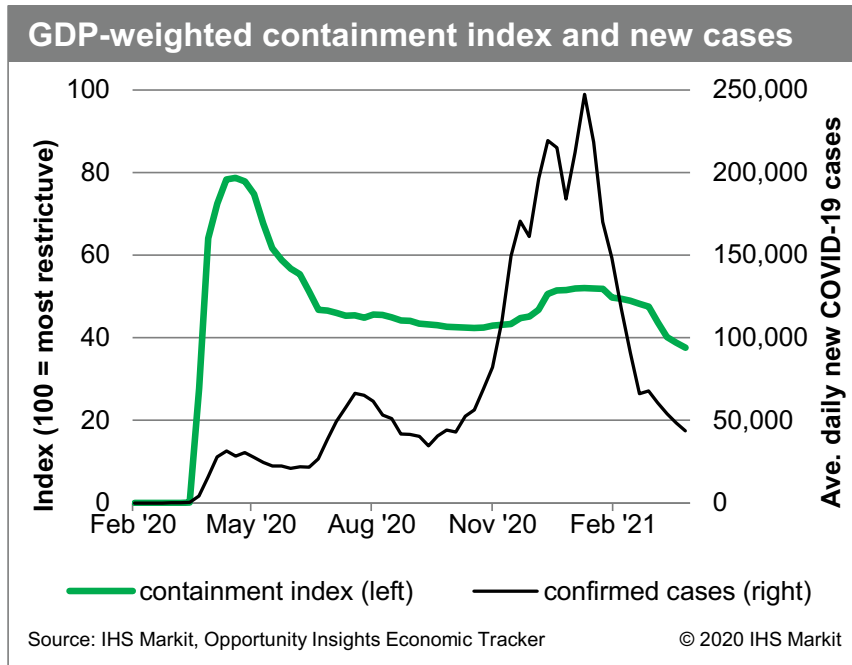
GDP growth in 2021-22: IHS Markit vs the Consensus

We've led the Blue Chip consensus up for both years; faster growth expected in 2021 than 2022.



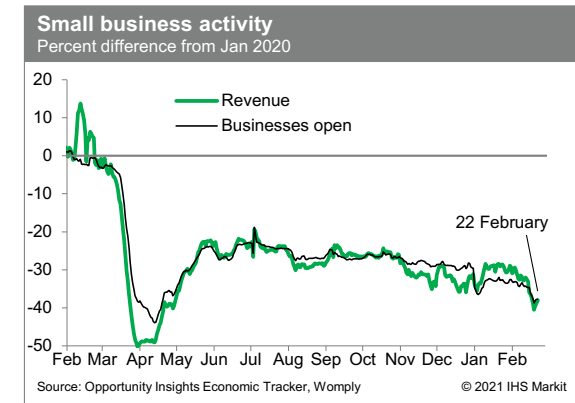
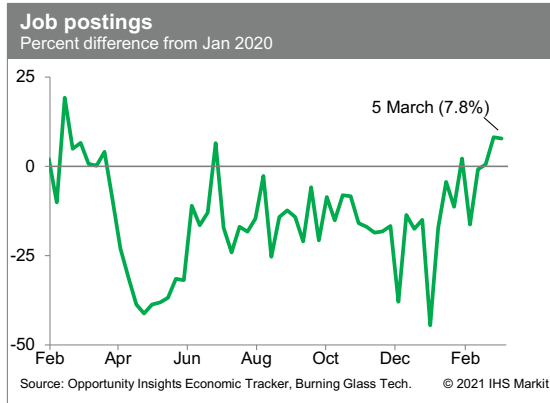
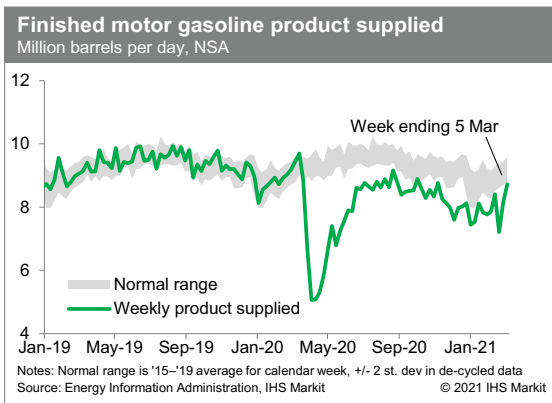
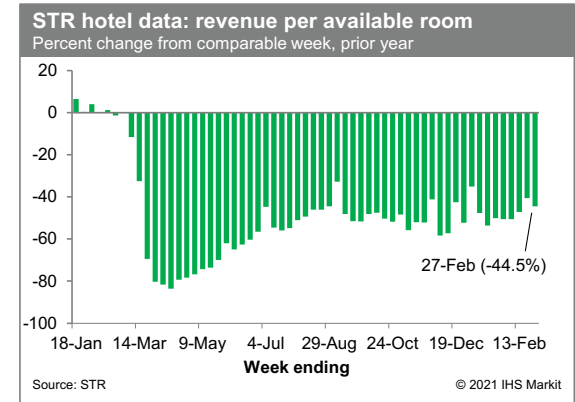
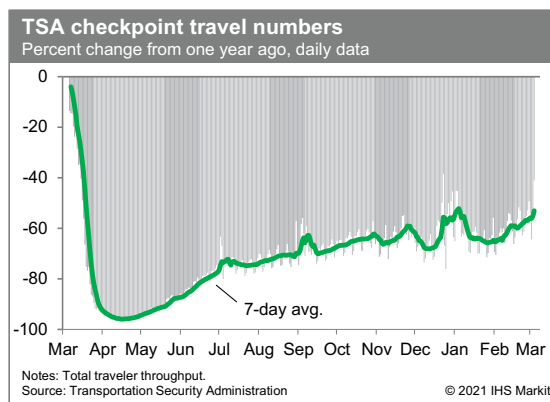
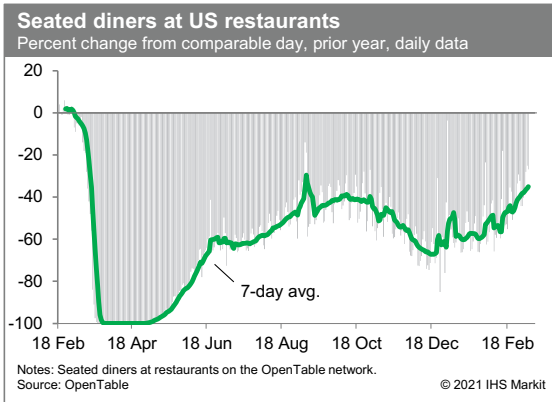
Progress on the pandemic!

Infection rate falling, containment measures easing, herd immunity possible later this year. Vaccinations race against spread of new strains.



Uneven improvement already underway, although still a way to go

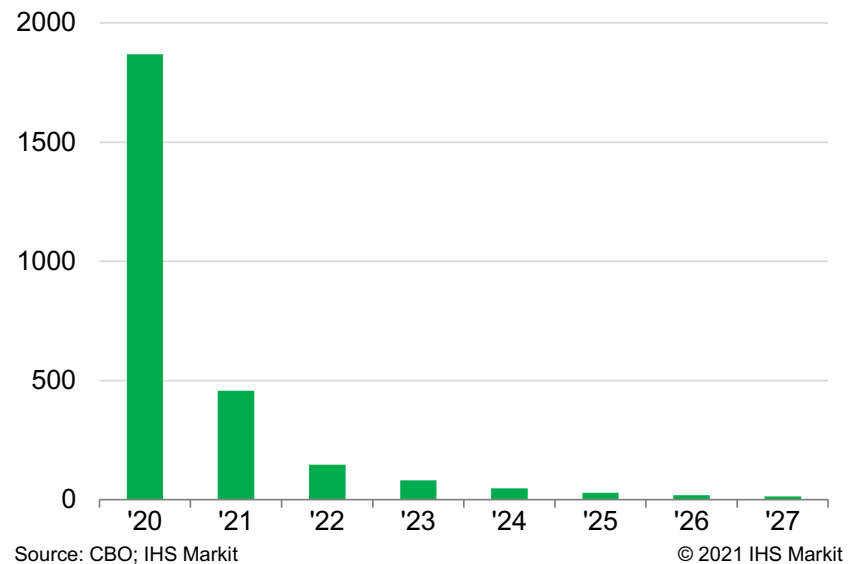
However, these data don't yet reflect the coming boost from additional fiscal stimulus and accelerating progress controlling the virus



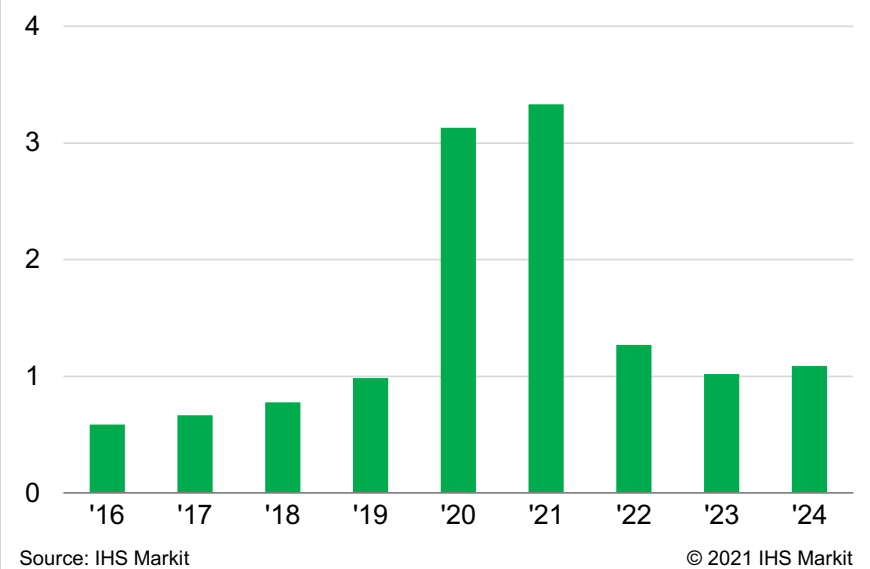
Unprecedented, if temporary, federal fiscal expansion

Together, the Consolidated Appropriations Act and the American Rescue Plan Act commit nearly \$3 trillion for pandemic relief.

Federal expenditures, CCA 2021 & ARP 2021-22
bil \$, fiscal year



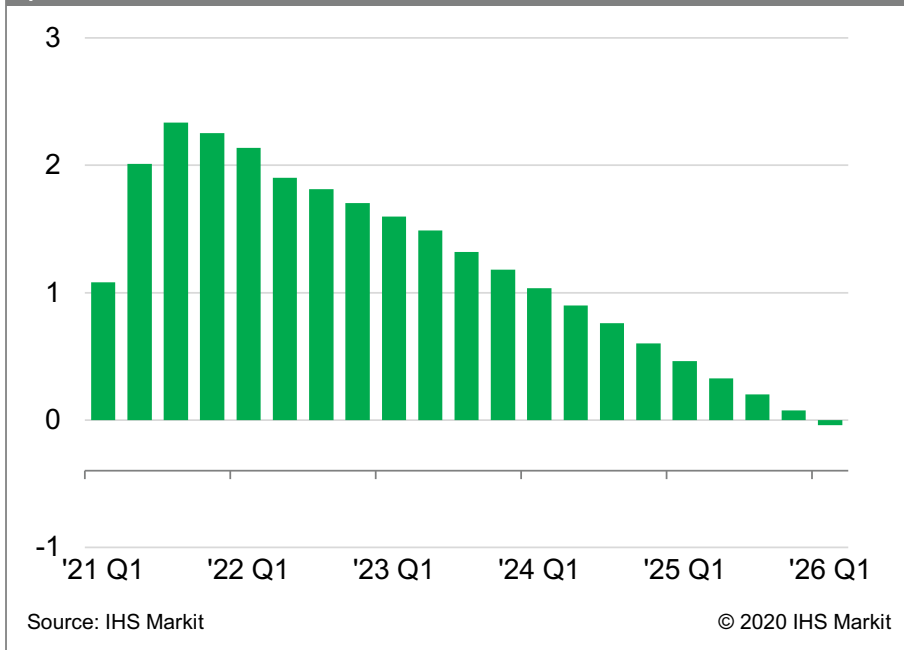
Federal deficits, unified budget basis
tril \$, fiscal year



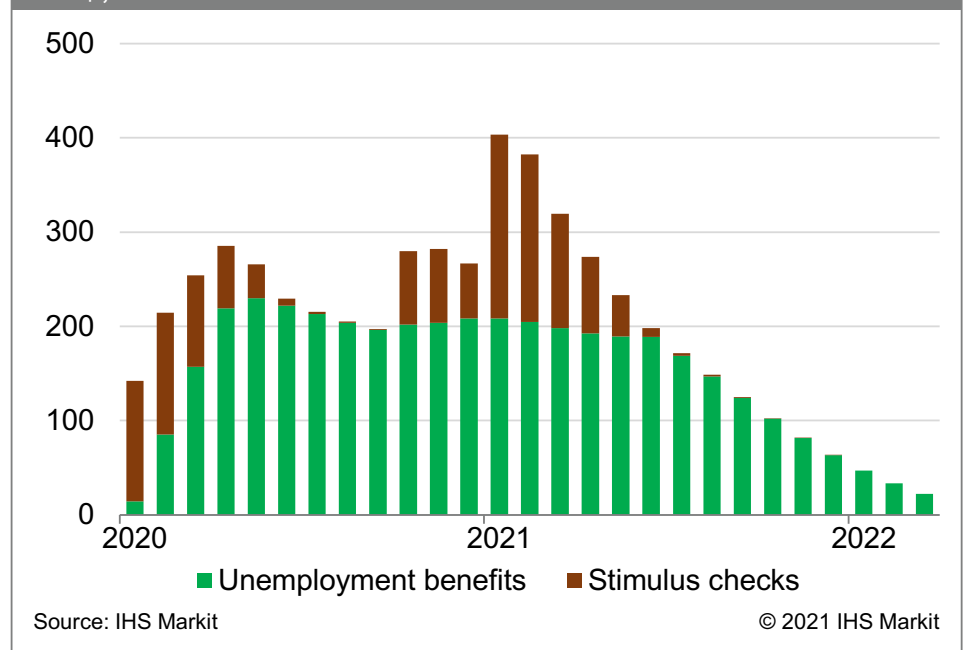
Recent stimulus to boost GDP by > 2% by mid-year, followed by payback

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Impact of two stimulus bills on level of real GDP percent



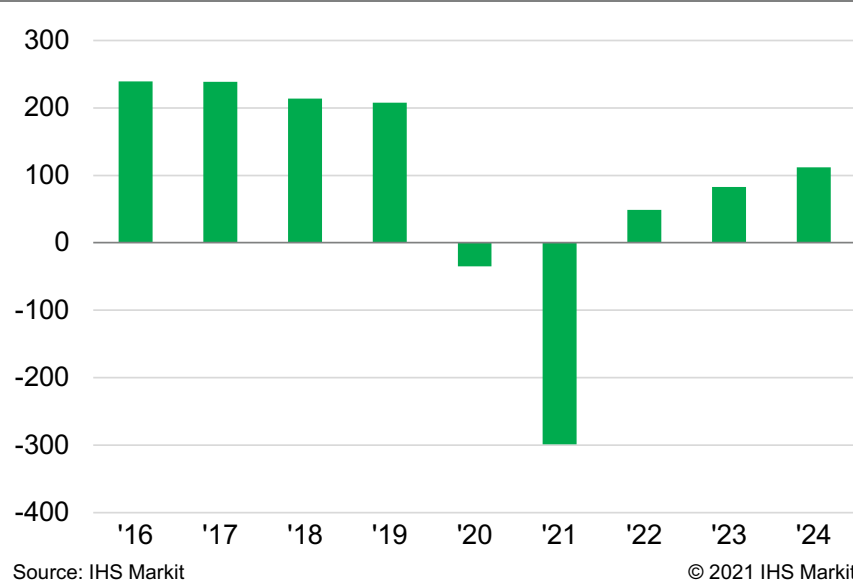
Impact of checks, emergency benefits on PCE bil \$, SAAR



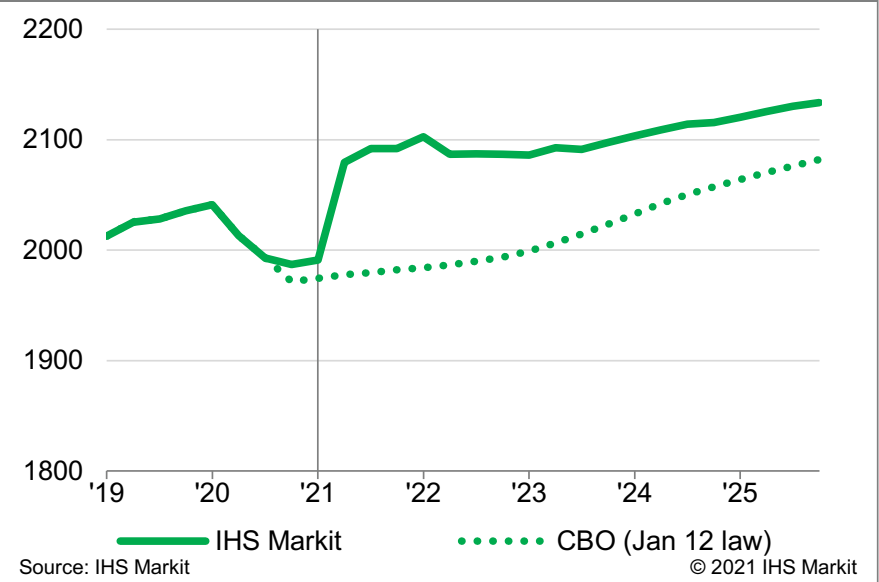
The “all in” aid to states is four times larger than in the CARES Act

States will receive a huge injection of funds this year with use not subject to expiration. Can, (how) will they spend it?

State & local deficits, NIPA basis
bil \$, calendar year



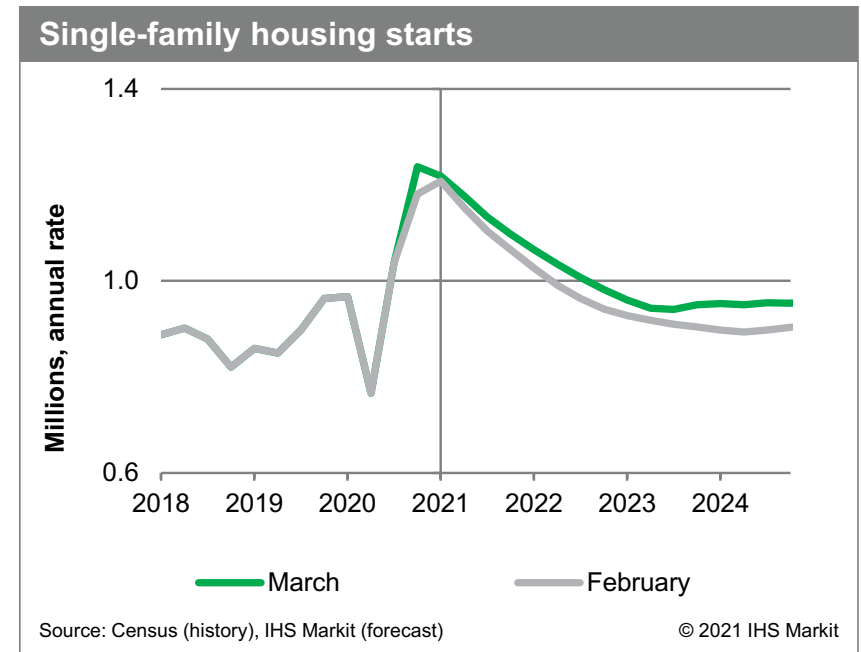
State & local consumption & gross investment
bil 2012 \$, SAAR



Housing near peak

A unique set of forces has boosted housing activity during the pandemic, but both demand and supply factors will limit / reverse recent strength

- Housing starts have been boosted by:
 - Low mortgage rates, high stock prices
 - Second homes
 - Geographic shifts, partly COVID-related
 - February dip only partly weather-related
- But headwinds are gathering
 - Starts > household formations
 - Downwardly revised projected household formations
 - Affordability: mortgage rates & prices both rising
 - Supply (chain) issues: lots, labor, lumber, chips

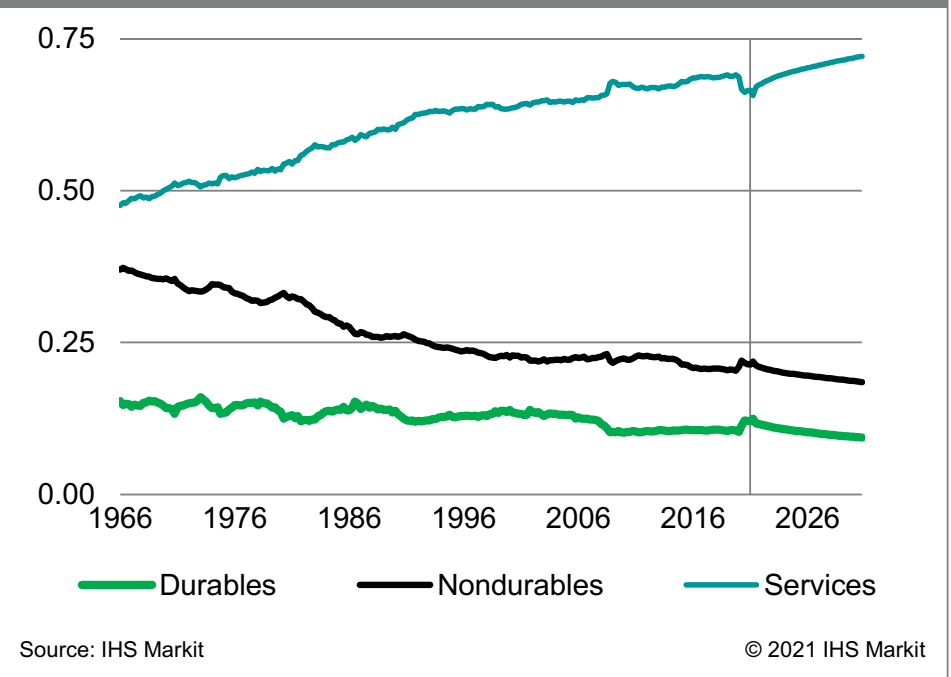


Transitions in consumer spending

The composition of personal consumption expenditures will shift back toward the pre-pandemic allocation.

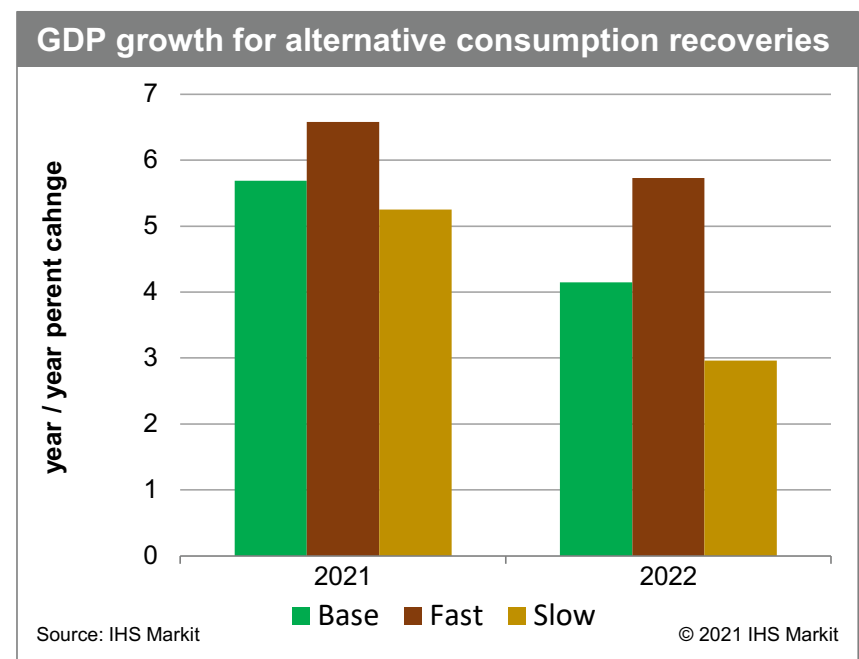
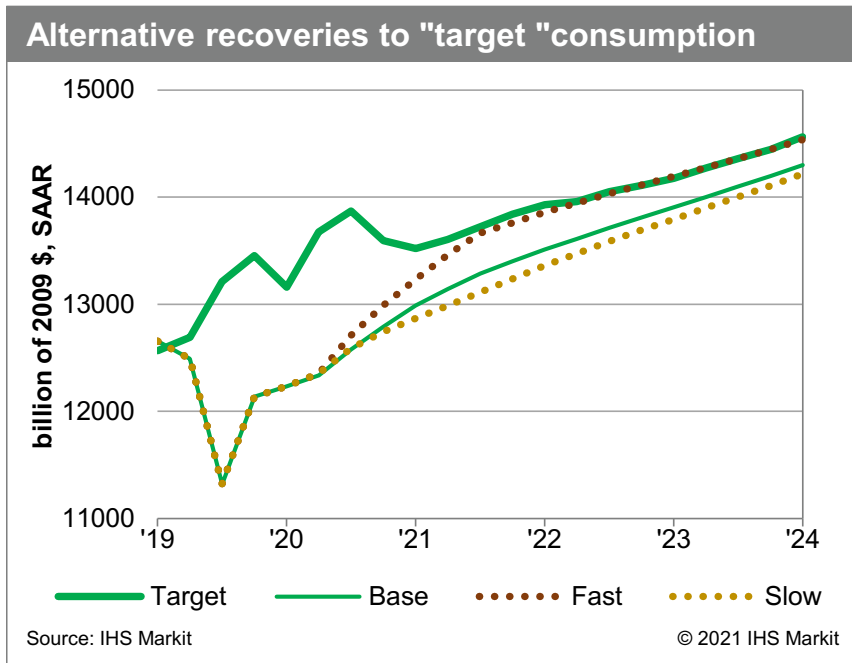
- During pandemic, composition of PCE shifted
 - Shares devoted to services affected by social distancing dropped sharply; shares devoted to goods, both durables and nondurables rose
 - Durable goods can “produce” leisure and entertainment service substitutes; nondurables include food at home
- This shift will unwind as services recover
 - Aided by overshooting in spending on durables, impact of higher rates on big ticket items
 - Switch back from eating at home to eating out
 - With associated implications for employment, etc

Composition of nominal PCE: reversion to norms



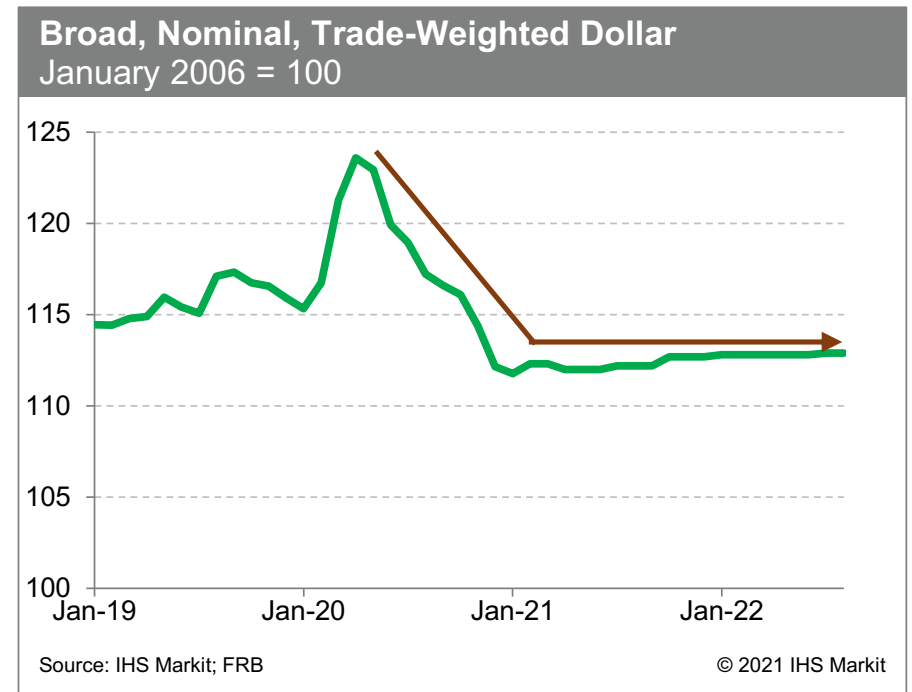
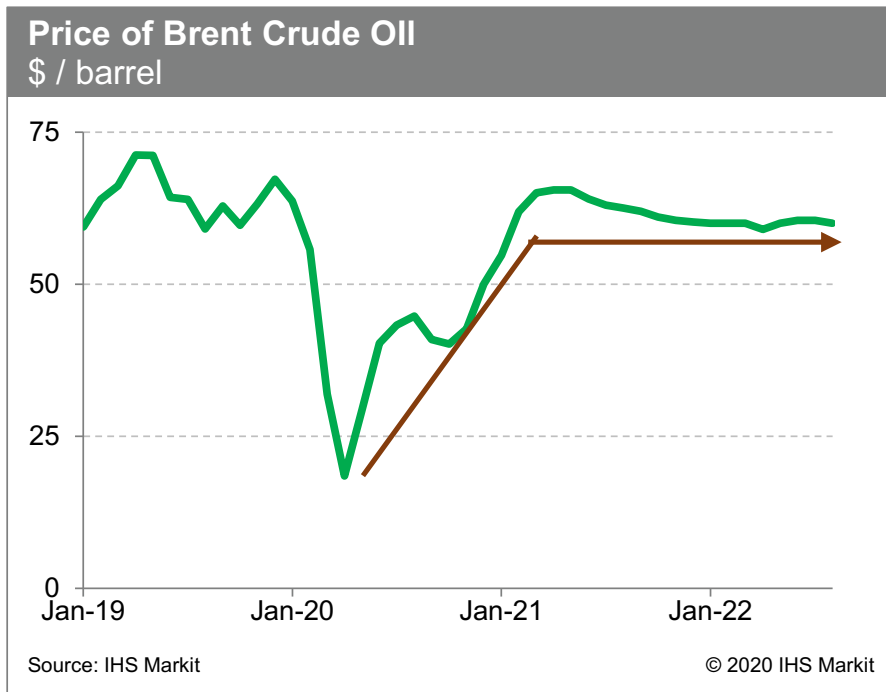
How much upside is there here?

Full return to historical relationships between consumption & fundamentals at the pace of vaccinations would boost GDP growth significantly



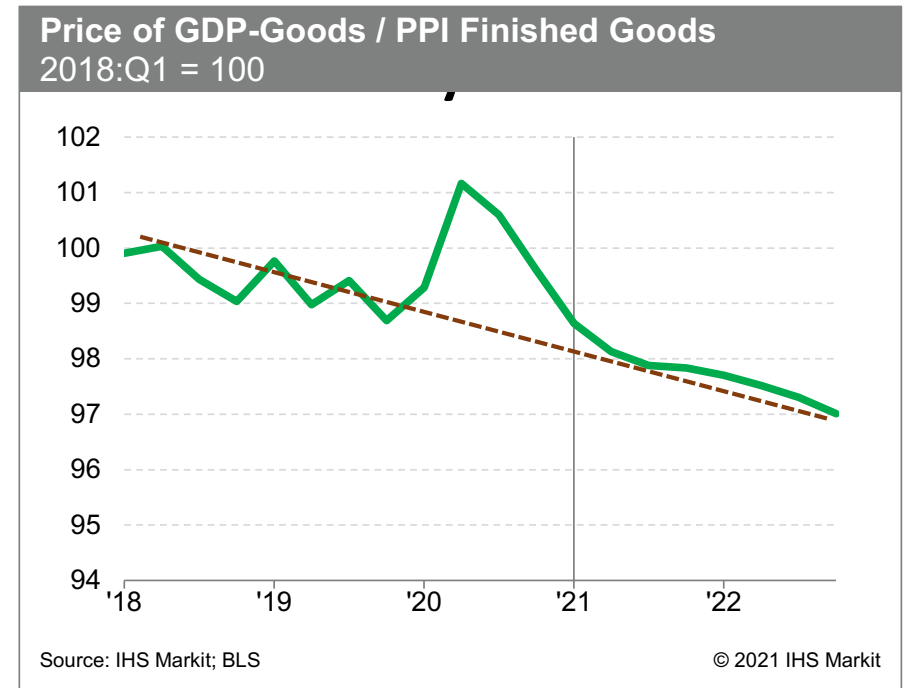
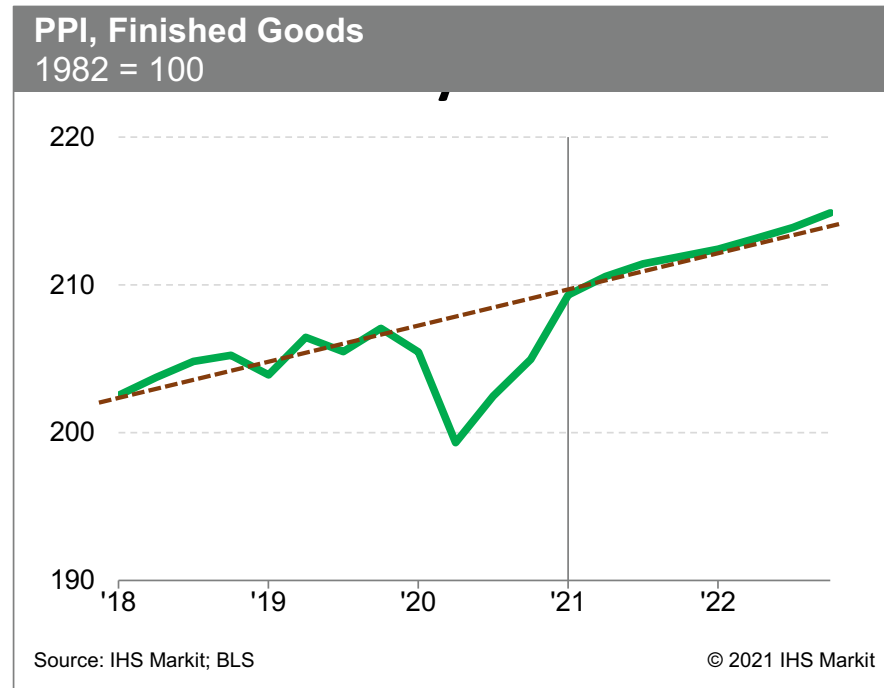
Oil prices and the USD: from inflationary to neutral

And, in any event, these variations are modest in historical perspective.



Rebound in producer prices is mostly a margin story

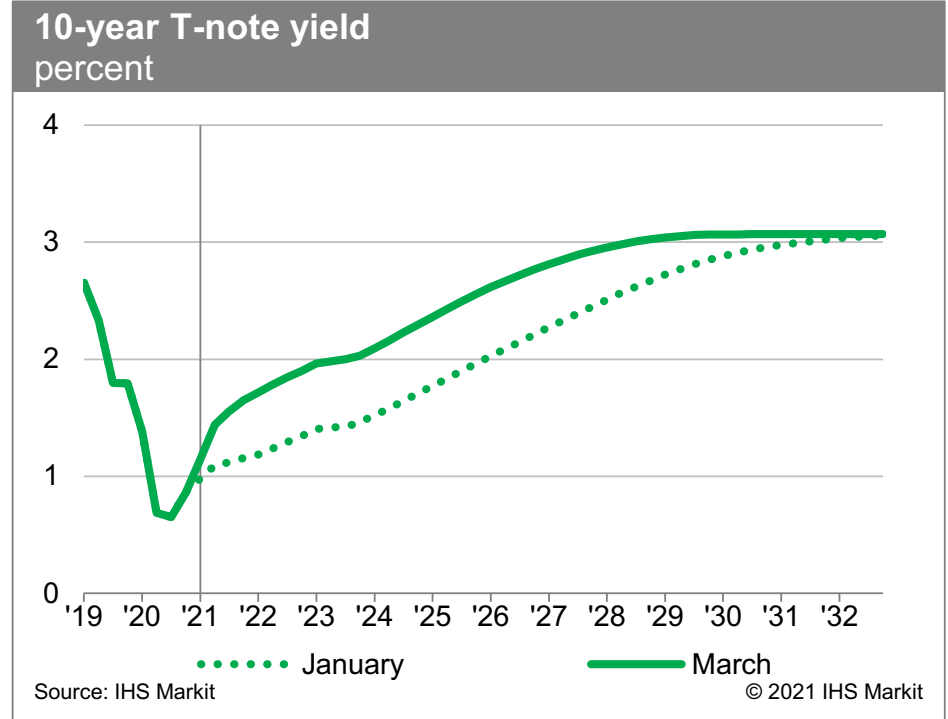
The PPI fell sharply relative to the price of final goods in GDP in the early stages of the pandemic, and that now has (merely) reversed.



Financial transitions: improving outlook roils markets

Markets expect Fed to “lift off” in 2023; term yields have backed up significantly since the start of the year

- Significant increases in consumption coming
 - Private
 - Unwinding of COVID shock
 - Supported by stimulus funds
 - Public
 - Some federal...
 - ...but mostly state & local
- Markets are reacting to reallocate demand from interest sensitives to consumption
 - Higher term yields (housing, durables, investment)
 - End to dollar depreciation (net exports)



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