



Federal Reserve  
Bank of Dallas

---

# U.S. National Economic Update

Texas Conference of Urban Counties Education and Policy Conference

March 4, 2021

**Marc Giannoni**

Senior Vice President & Director of Research

---

*The views expressed are my own and do not  
necessarily reflect official positions  
of the Federal Reserve System.*

---

# State of the U.S. economy

- Employment and output contracted at record levels in March and April 2020
- Strong monetary and fiscal policy responses
- Since April, the economy has bounced back rapidly, but it remains far away from a full recovery
- Growth in employment and economic activity thus far has been very uneven across sectors of the economy and segments of the population

# Roadmap

- Covid-19, and impact on mobility
- Economic activity, labor market developments, consumer spending
- Prices: Inflation
- Outlook

# **Third Covid surge, impact on mobility & engagement**

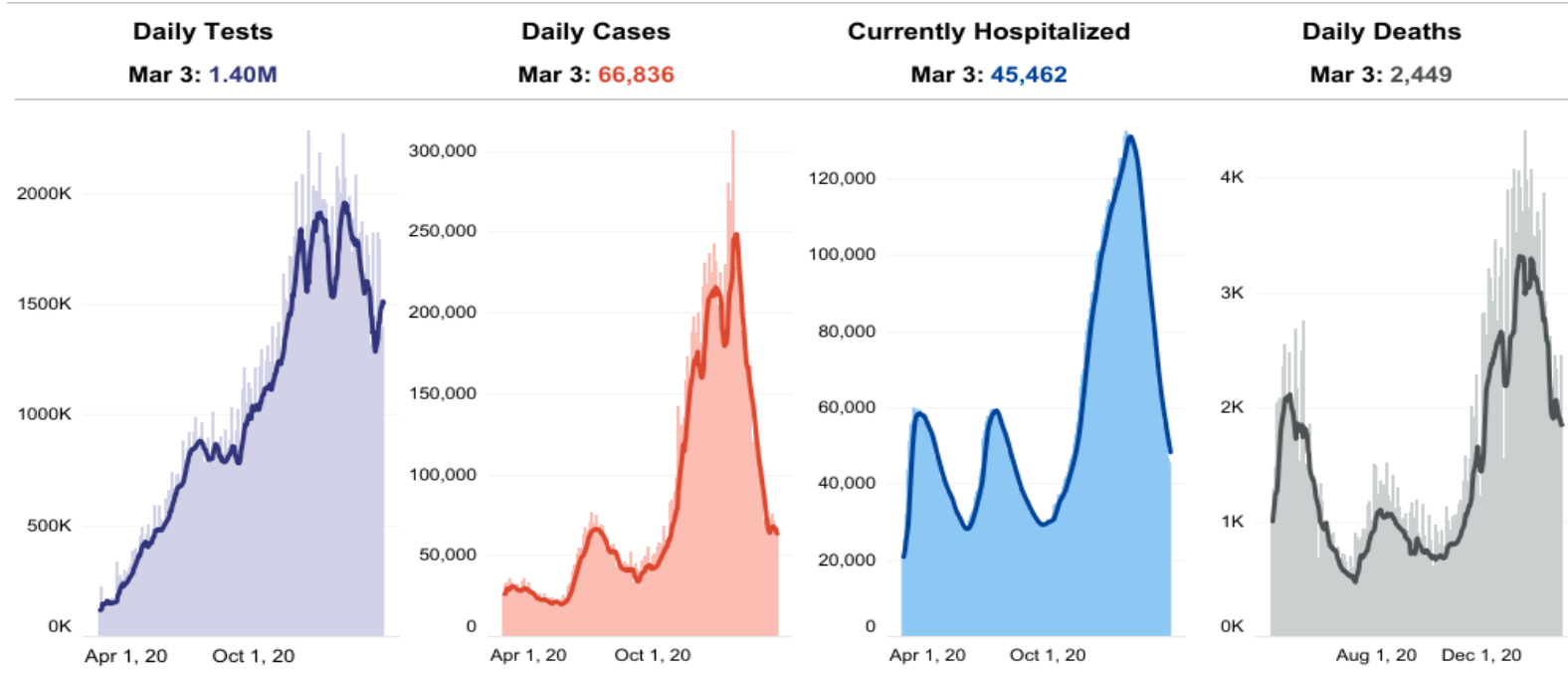
# Covid-19: The third wave

- New Covid cases, hospitalizations and deaths surged from October to early January; have come down rapidly until recently.
- Many US states (re)imposed tighter restrictions at end of 2020, causing mobility & engagement to decline, and dampening economic activity.
- **Uncertainty** over next few months:
  - Positive vaccine developments (several vaccines with high efficacy, rollout accelerating) should mean greatly reduced spread of Covid by summer  
→ **more confidence of medium-term improvement.**
  - But it is possible that mutations lead to increased spread of virus or make vaccines less efficacious

# Covid cases, hospitalizations, and deaths surged from October to early January; Cases improved until February 22

NATIONWIDE COVID-19 METRICS SINCE APRIL 1. 7-DAY AVERAGE LINES

Choose Census Region  
All

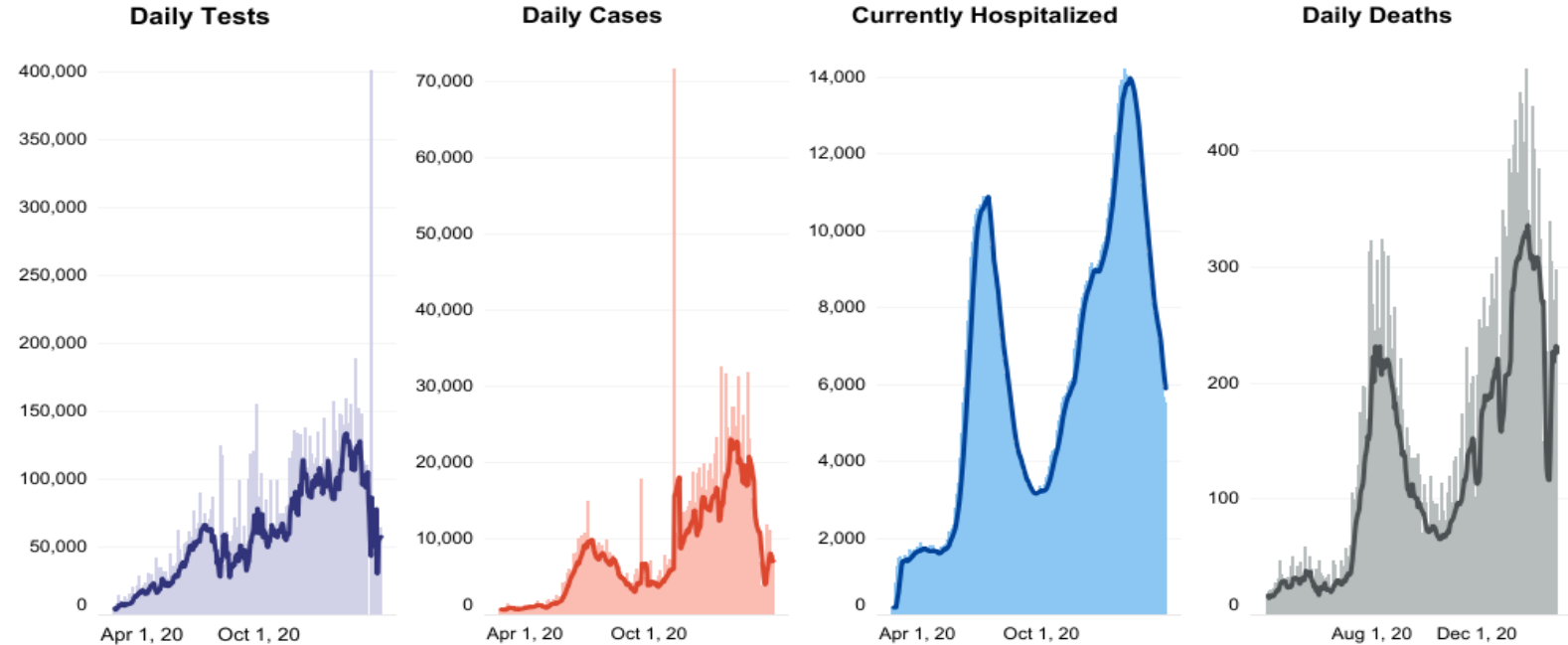


The COVID  
Tracking Project

# Texas: Broadly similar picture; Recent pick-up in cases, deaths

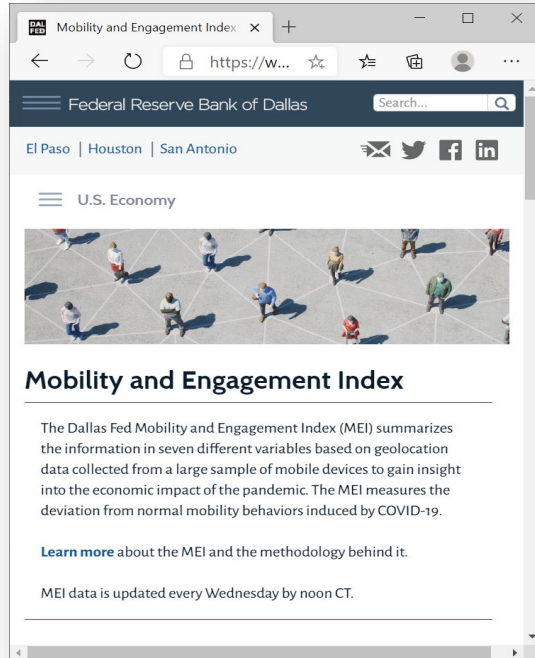
## Texas COVID-19 METRICS SINCE APRIL 1. 7-DAY AVERAGE LINES

Choose State  
Texas





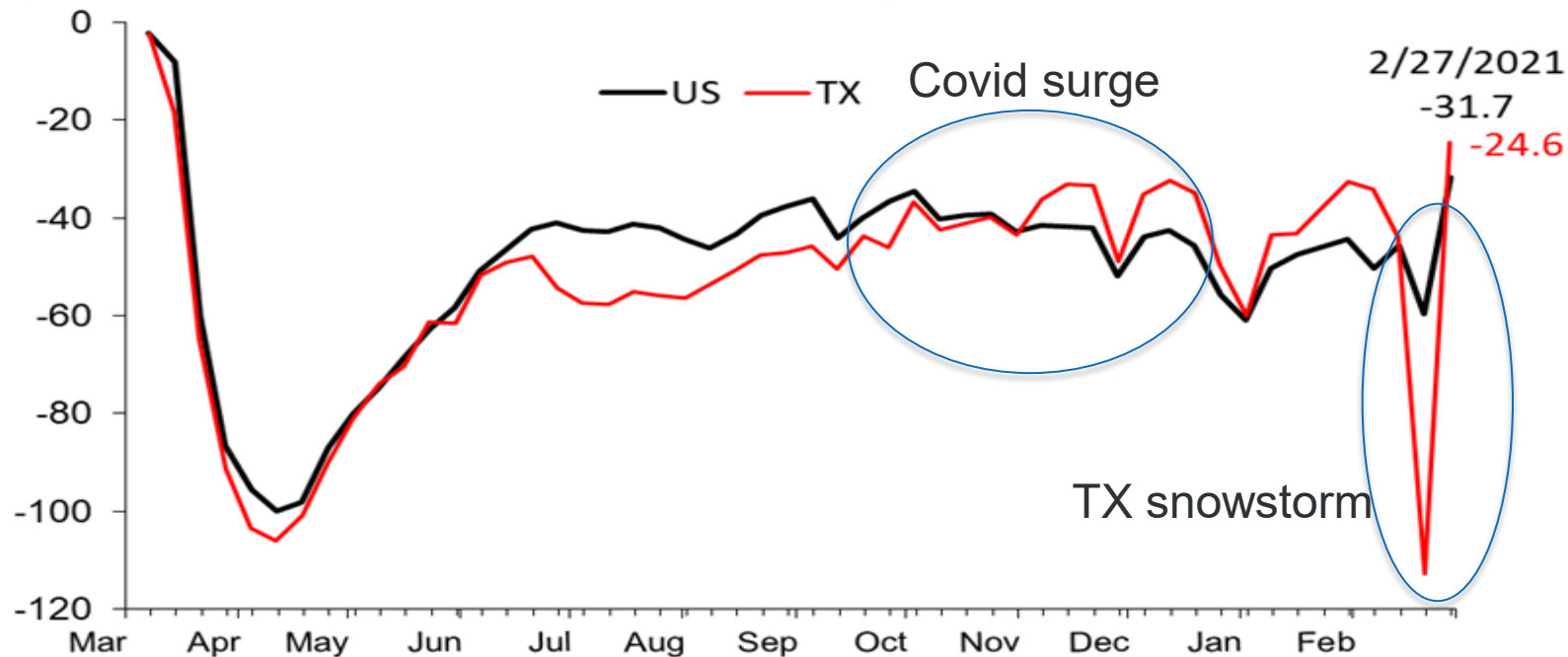
# Meet MEI: The Dallas Fed's Mobility & Engagement Index



- Uses anonymized cellphone location data to measure “stay-at-home” behavior (15 to 20 million mobile devices daily)
- Reflects both mandatory restrictions & voluntary choices.
- Available down to the county level.
- Correlates well with the spring downturn and recovery.

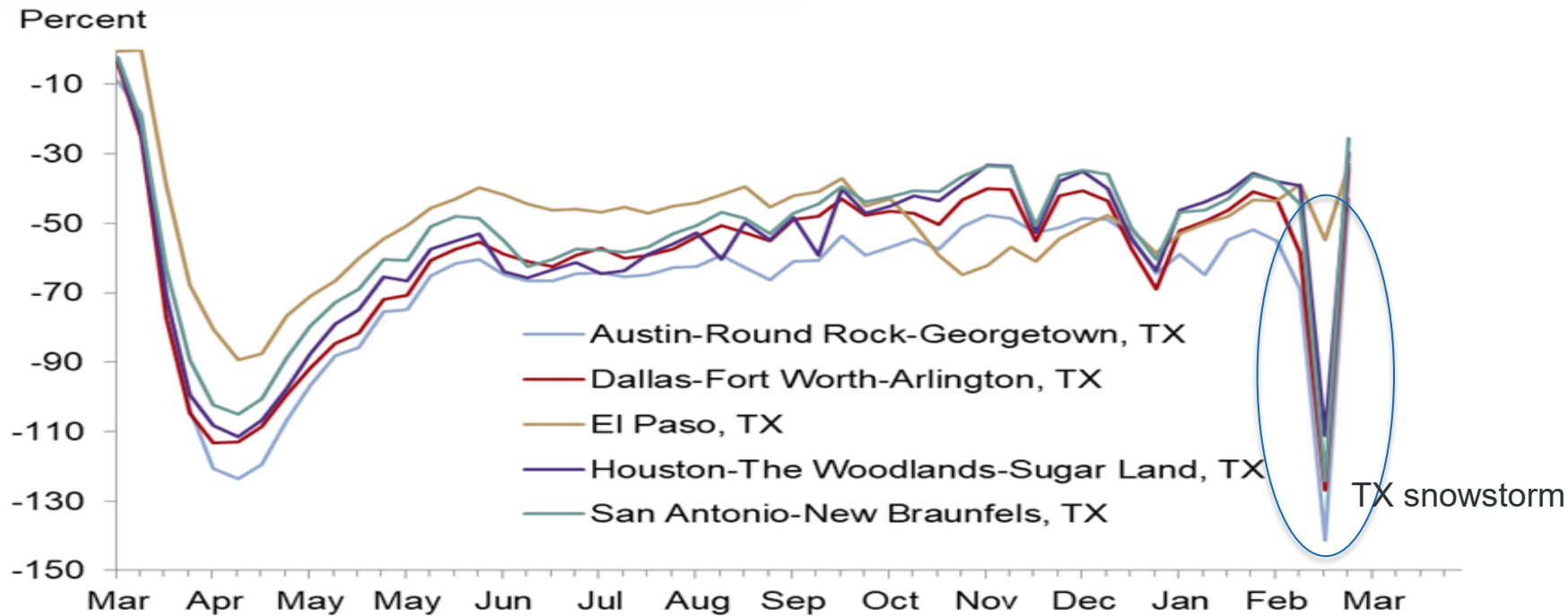
# Mobility and Engagement Index (MEI)

*Fell sharply in March/April, improved through June; falling again from October to January, in US*



Source: Dallas Fed, SafeGraph. The national MEI is scaled to Jan-Feb 2020 = 0 and the week of 4/11/20 = -100.

# Mobility and Engagement Index (MEI) in Texas

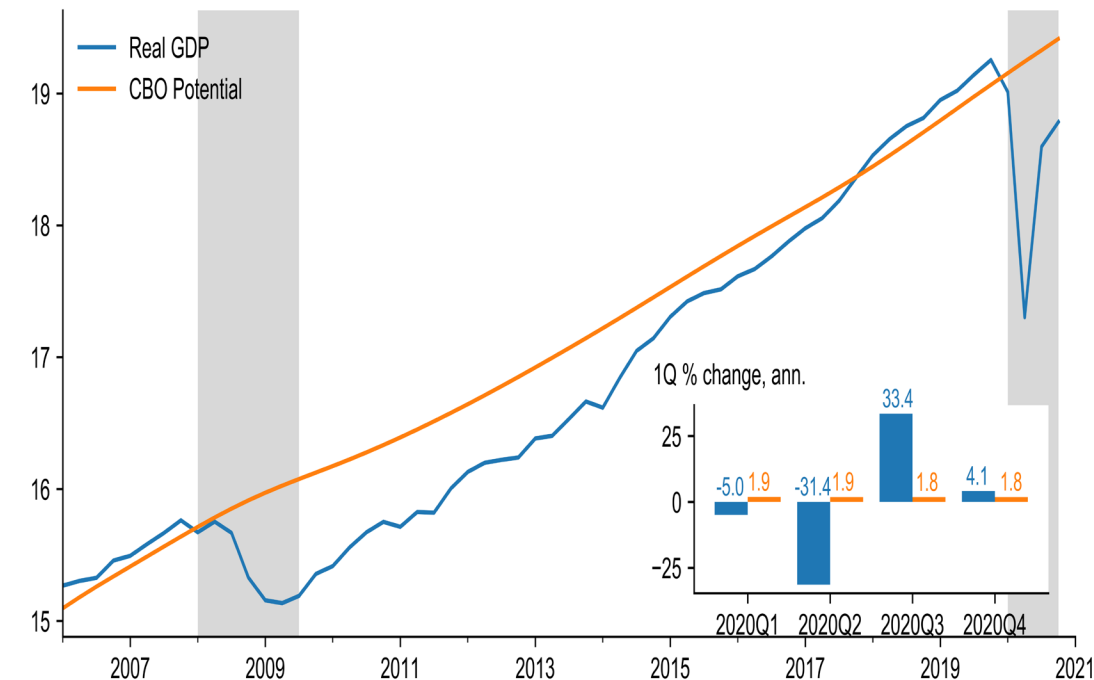


Source: Dallas Fed, SafeGraph. The national MEI is scaled to Jan-Feb 2020 = 0 and the week of 4/11/20 = -100.

# **Economic activity, consumer spending**

# Real GDP contracted sharply in first half of 2020; Rebounded strongly in 2020Q3, but slowed down in 2020Q4

Tril. chained 2012 dollars



SOURCES: National Bureau of Economic Research; Congressional Budget Office; Bureau of Economic Analysis.

- Unprecedented drop in economic activity in March and April 2020, followed by sharp rebound in activity beginning in May
- Assuming no second dip, would be shortest recession on record
- Recovery (initially) historically rapid, but still a long road to full recovery

# Unprecedented policy responses

## Monetary policy:

### Federal Reserve

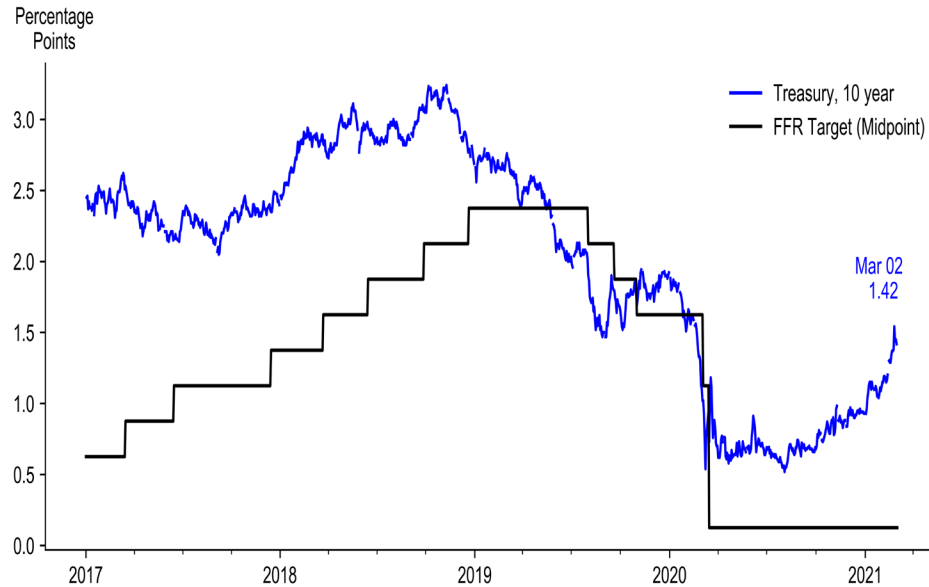
- Cut overnight interest rate to near zero in mid-March.
- Large purchases of Treasury bonds and mortgage-backed securities to improve market functioning, ease financial conditions.
- Emergency lending programs supporting credit flow to businesses, etc. (“13.3 programs”).

## Fiscal policy:

- Over \$3 trillion in fiscal support for businesses, households, state & local governments.
- CARES Act & CRRRA: Stimulus checks to households, extra unemployment benefits, Paycheck Protection Program loans to businesses and more.
- Forbearance on some mortgages, student loans, etc.

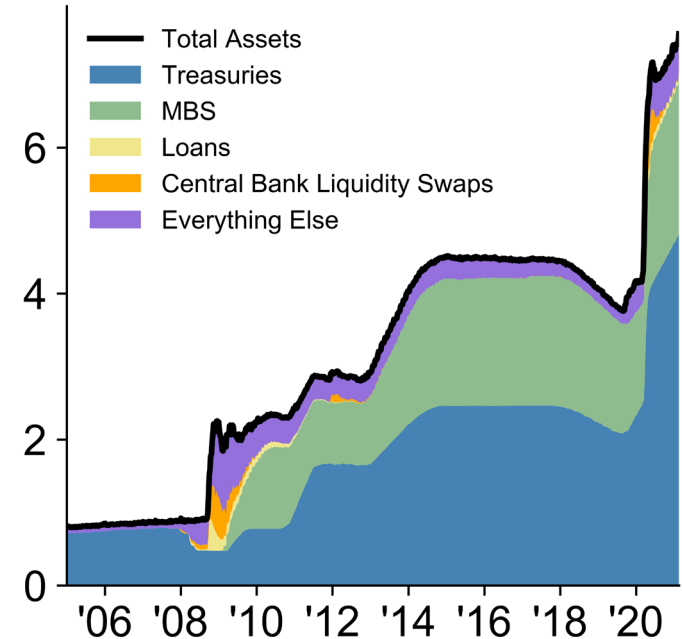
# Federal Reserve:

Lowered policy rate to zero; Sharply increased purchases of Treasury securities, mortgage-backed securities to lower longer-run rates



SOURCE: Federal Reserve Board.

Tril. \$



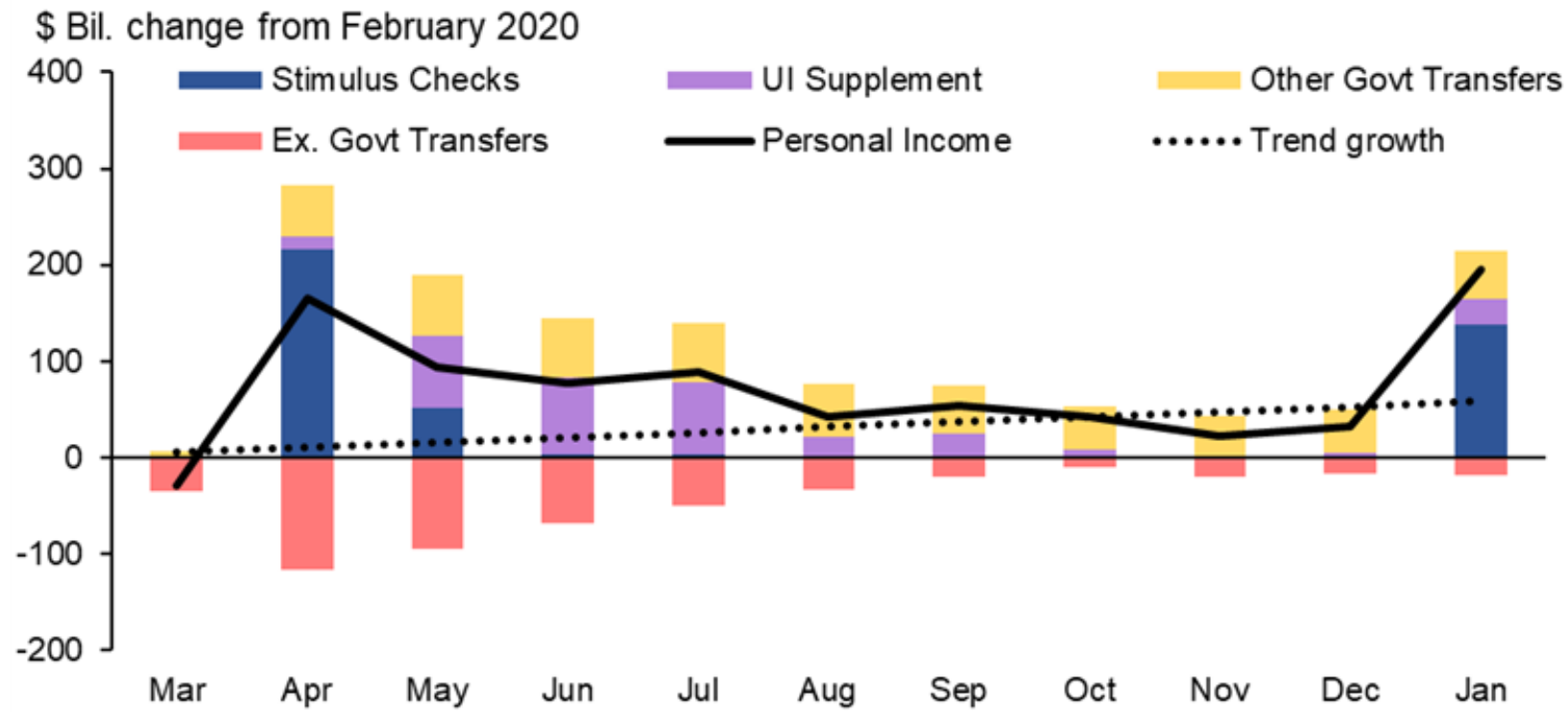
# Fiscal relief has supported personal income and spending



Sources: Bureau of Economic Analysis, author's calculations.

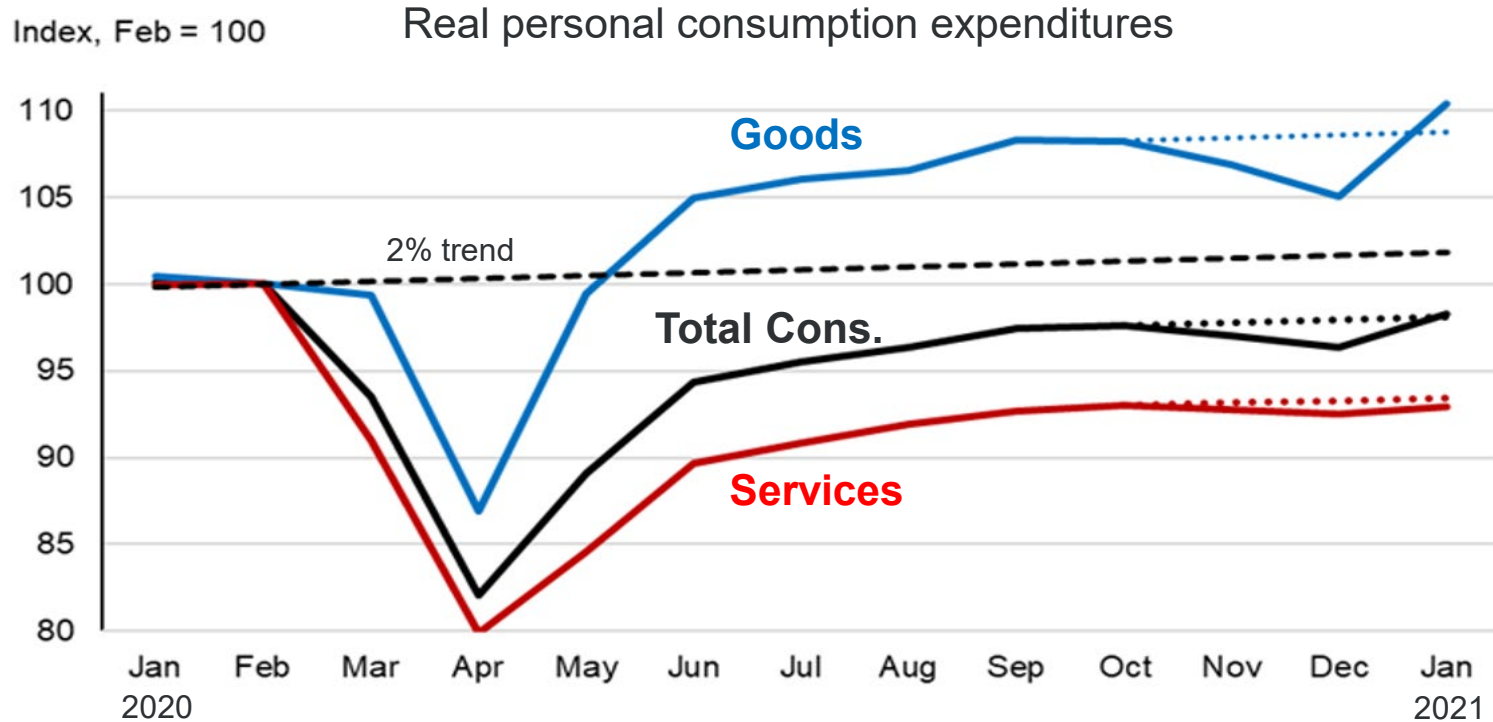


# Fiscal relief has supported personal income and spending



Sources: Bureau of Economic Analysis, author's calculations.

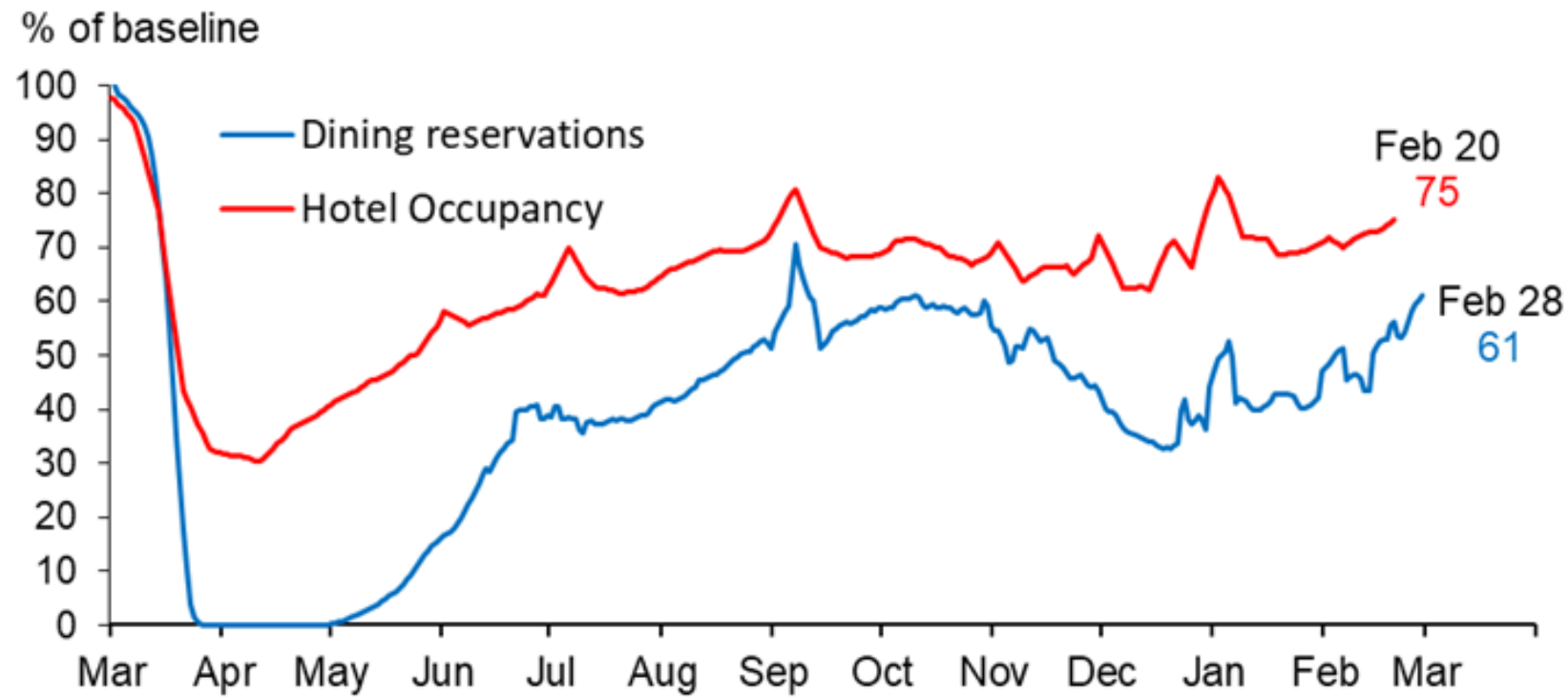
# Consumer spending on goods recovered but services remains depressed



Sources: Bureau of Economic Analysis, author's calculations.

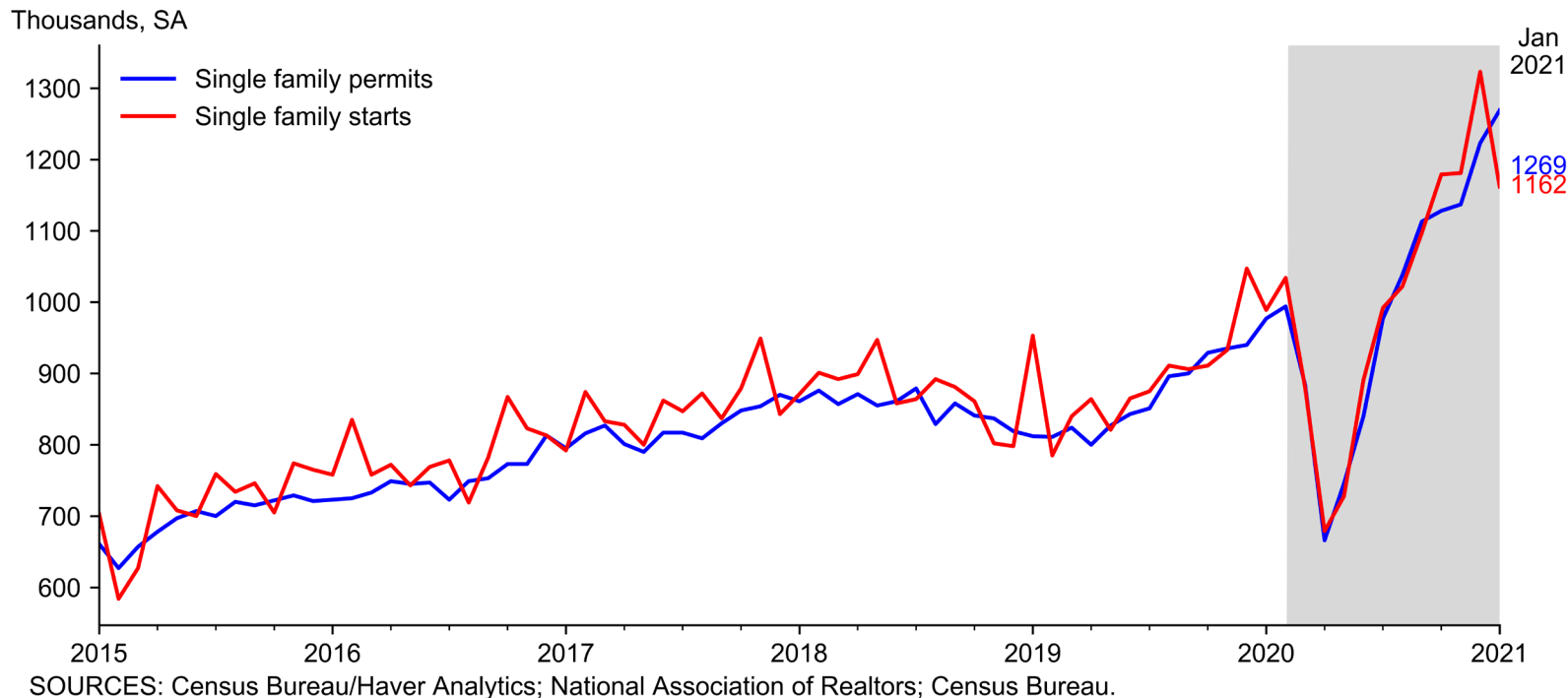


# Pandemic-sensitive sectors improving but remain depressed



# Households also spending on housing, which has more than recovered

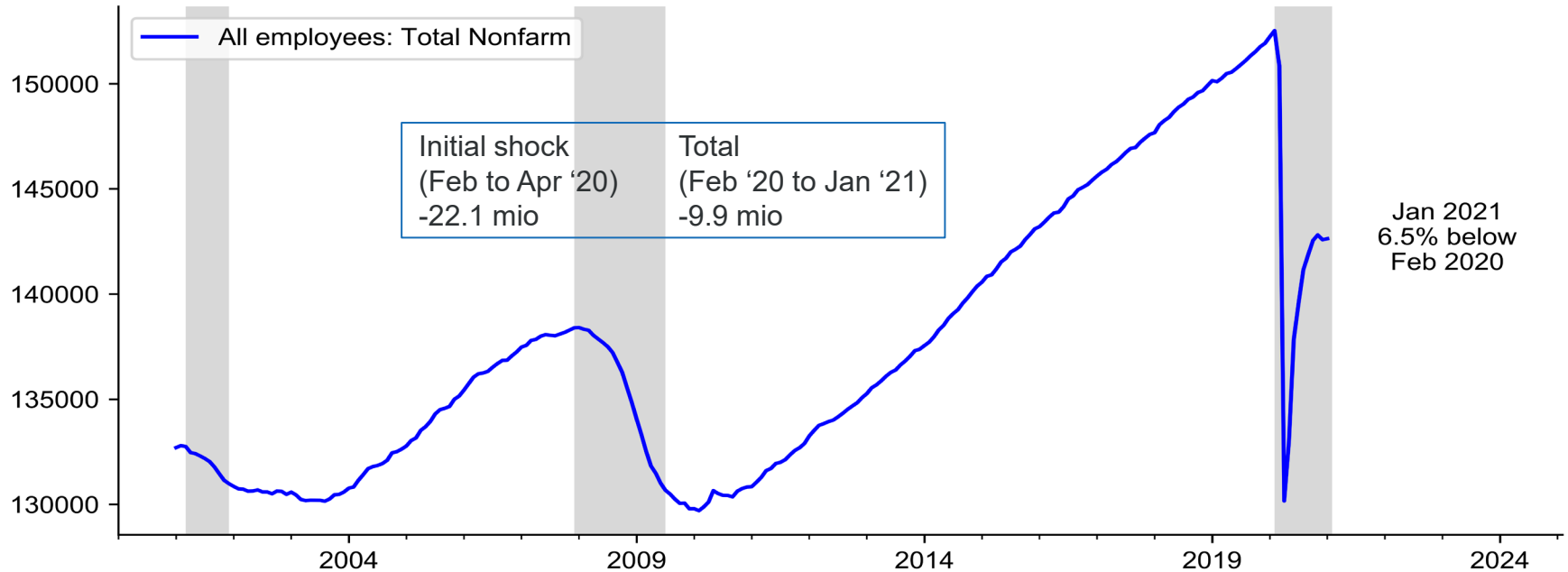
*In part stimulated by low interest rates*



# Labor market developments

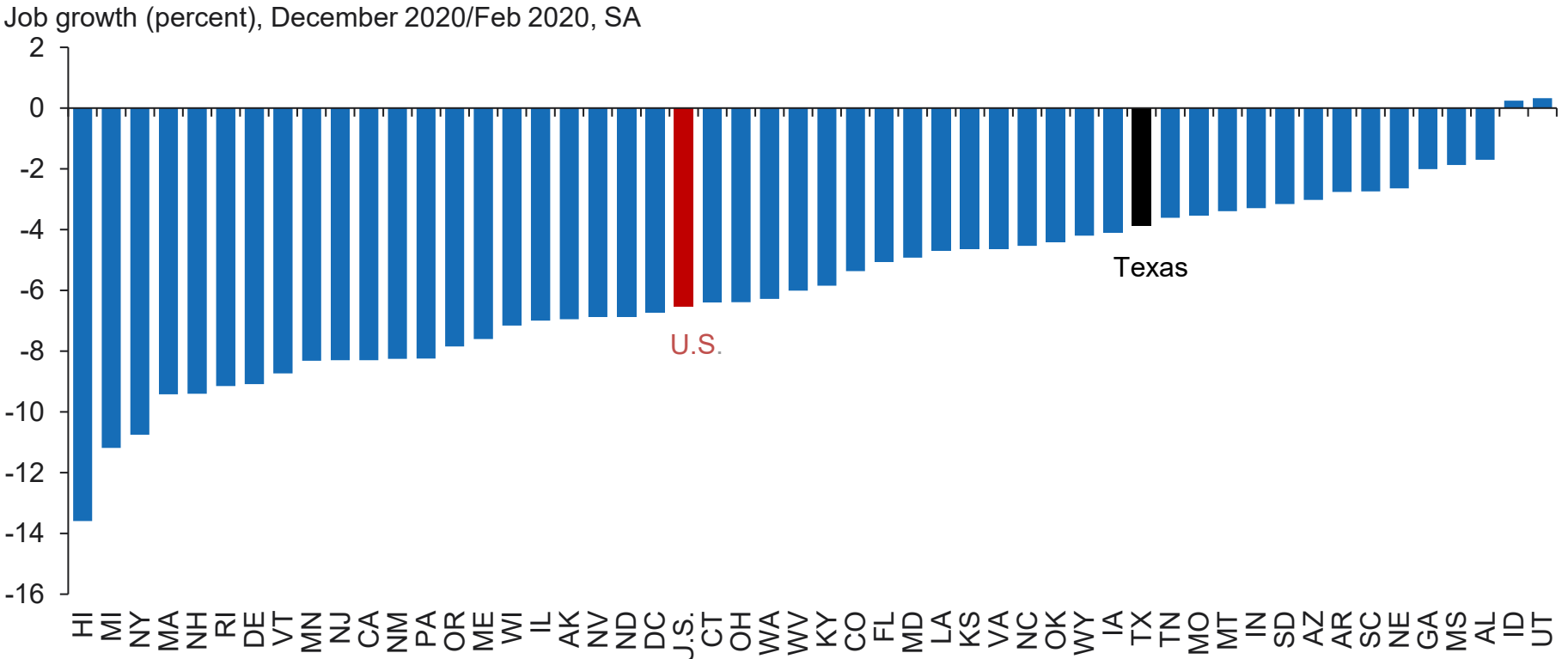
# Payroll Employment: Recovered more than half the drop of March and April, but improvement slowing

Level (thousands)



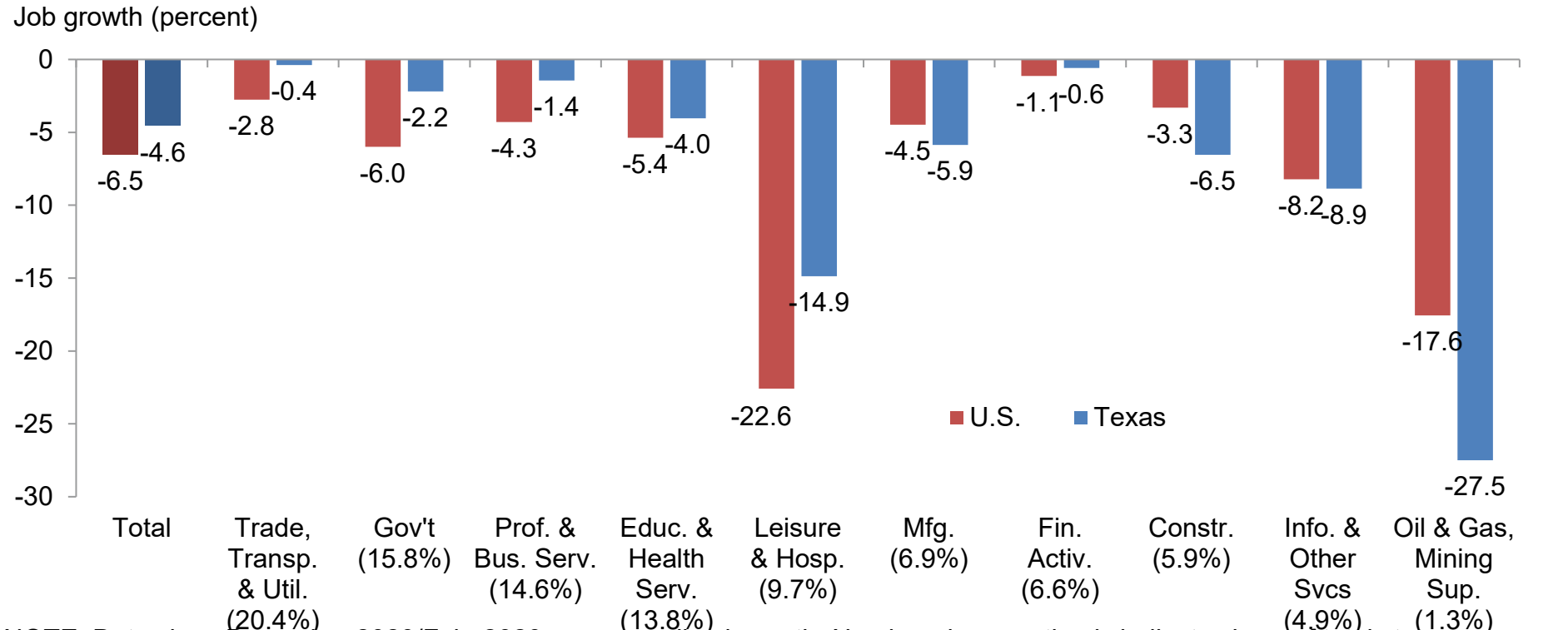
SOURCES: Bureau of Labor Statistics.

# Texas' overall job loss in pandemic is less than nation and less than other large states



SOURCES: Bureau of Labor Statistics.

# Since pre-pandemic, job losses widespread across industries with oil & gas, leisure & hospitality hardest hit



NOTE: Data show December 2020/Feb. 2020 non-annualized growth. Numbers in parenthesis indicate share of total state employment for December. Texas employment early benchmarked through second quarter 2020.



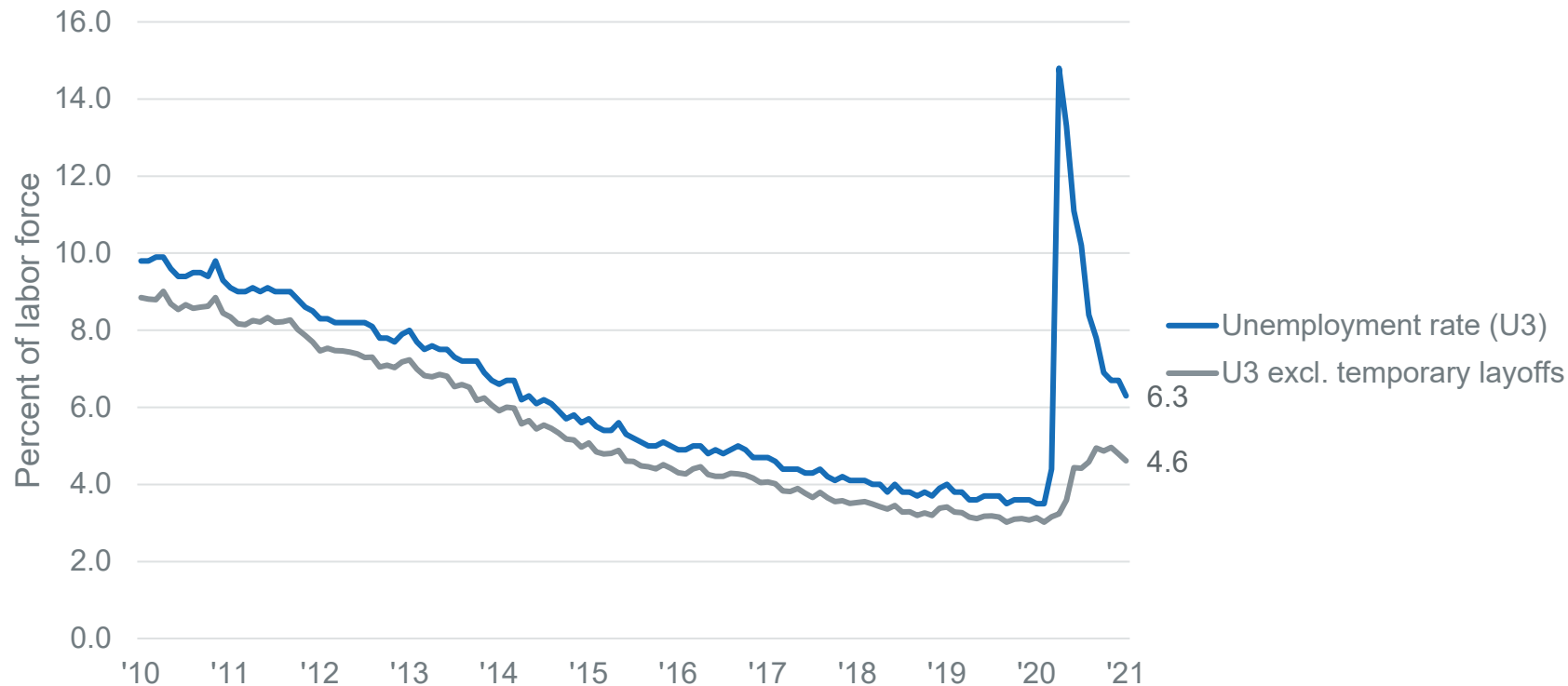
# Unemployment rate down 8.5 percentage points from April high

*But remains well above any estimate of the natural rate of unemployment*



Source: Bureau of Labor Statistics.

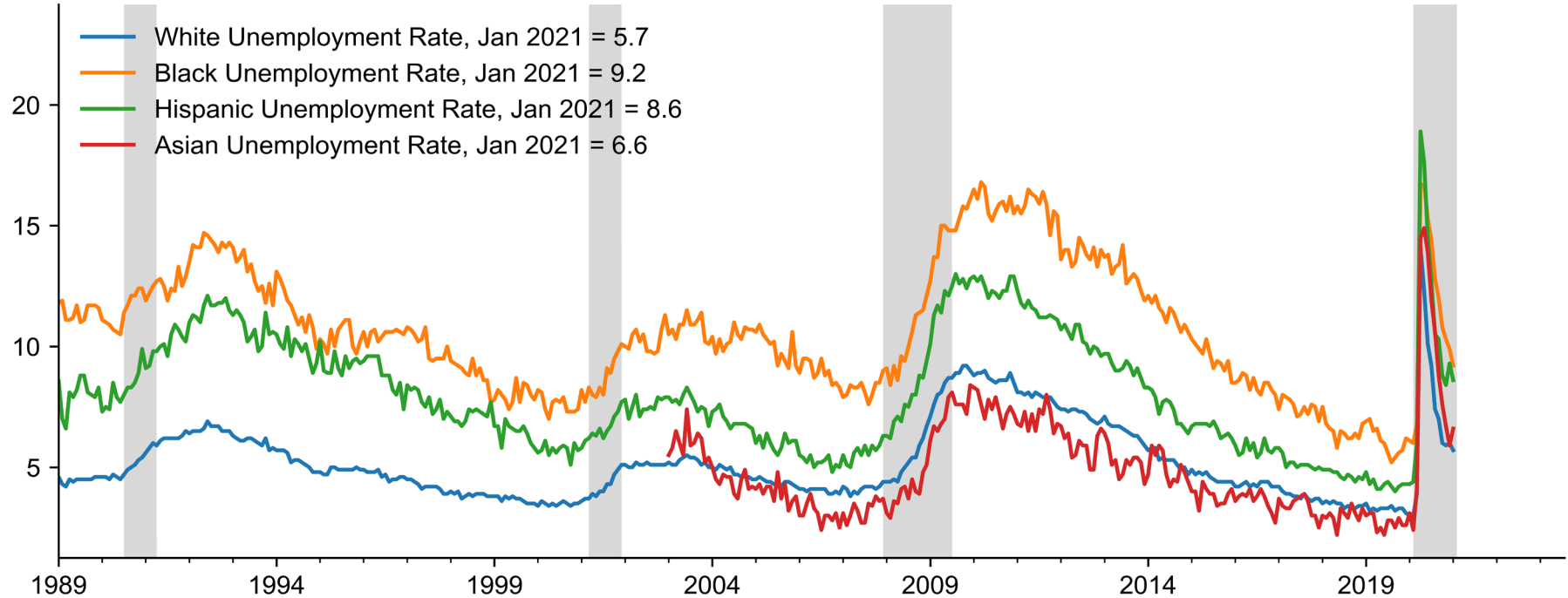
# Progress has slowed, and unemployment excluding temporary layoffs has risen



Sources: Bureau of Labor Statistics, author's calculations.

# Unemployment elevated especially for African American, Hispanic

Percent



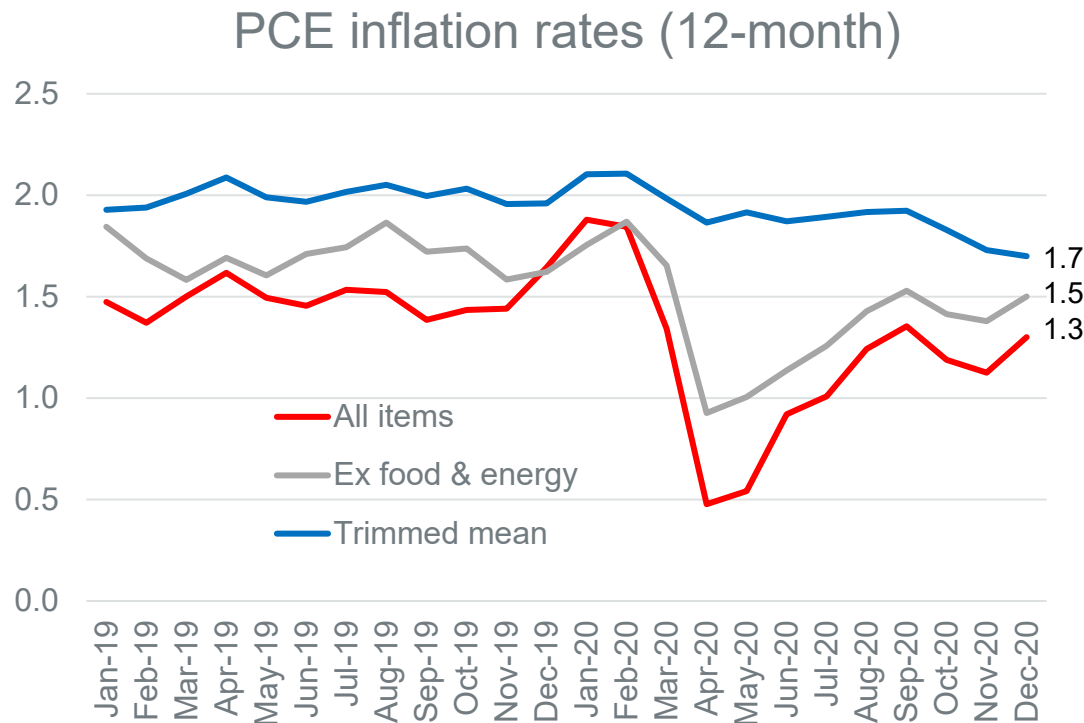
SOURCES: Bureau of Labor Statistics.

## A most unusual recession

- Unemployment rate rose 10 percentage points in one month (to 14.8 in April 2020), has fallen back to 6.3 percent (January). **Those are unprecedented changes.**
- Almost 30 percent of the unemployed are on **temporary layoff** (was almost 80 percent in April). **Previous peaks are less than 25 percent.**
- Consumption of durable and nondurable goods now way above pre-recession level, consumption of services way below. **Usually, it's the opposite pattern.**

# Inflation

# Consumer price inflation below Fed target



Sources: Bureau of Economic Analysis, Dallas Fed.

- The Covid shock led to historically large shifts in spending patterns, producing price collapses in some sectors, surges in others.
- On net, the balance of effects has been disinflationary.
- Headline and core Personal Consumption Expenditures (PCE) inflation rates are up from springtime lows, but well off pre-Covid levels.
- Dallas Fed's trimmed mean PCE inflation rate shows a more modest and monotonic deceleration.

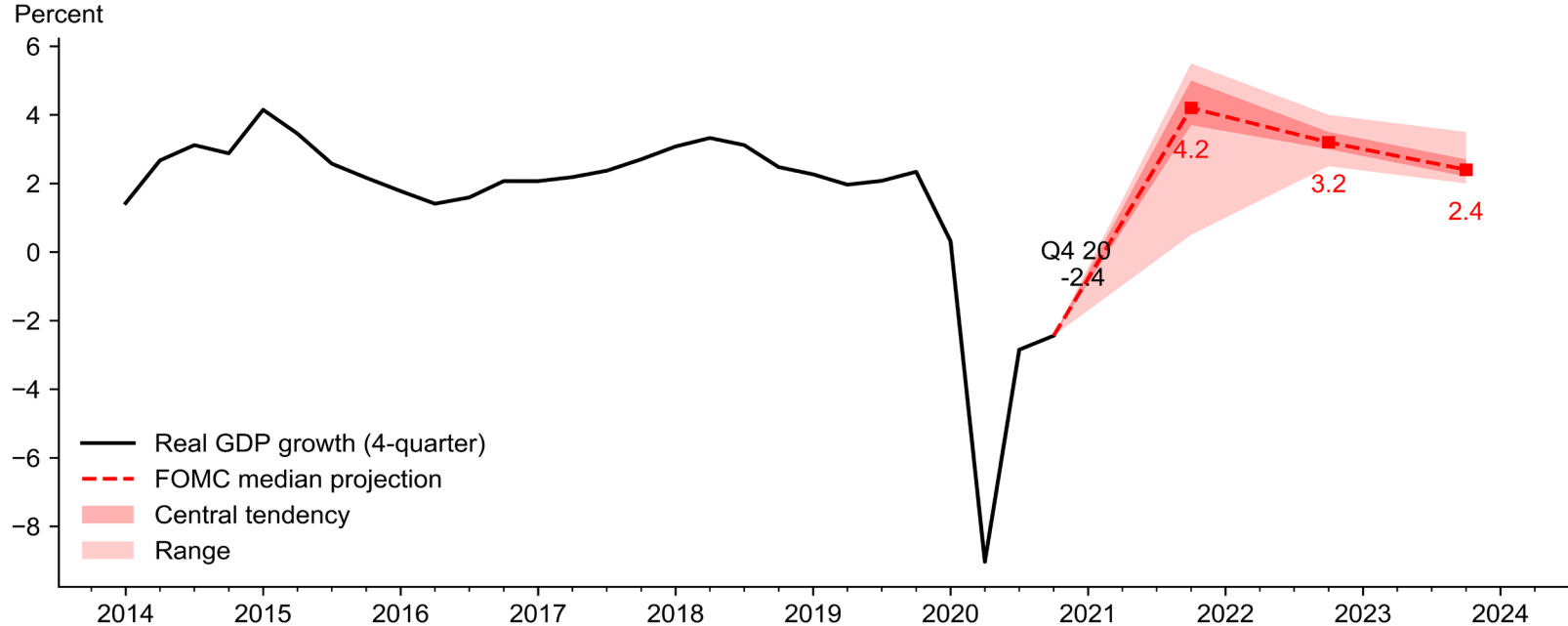
# **The view from the Federal Open Market Committee (FOMC): 2020 – 2023**

# The view from the FOMC: 2021 and beyond

- The Fed's Federal Open Market Committee (FOMC) meets eight times per year to set monetary policy.
- At four of the eight meetings – March, June, September, and December – members give projections for GDP, unemployment and inflation over the coming two or three years.
- The last “Summary of Economic Projections” (“SEP”) was in December.

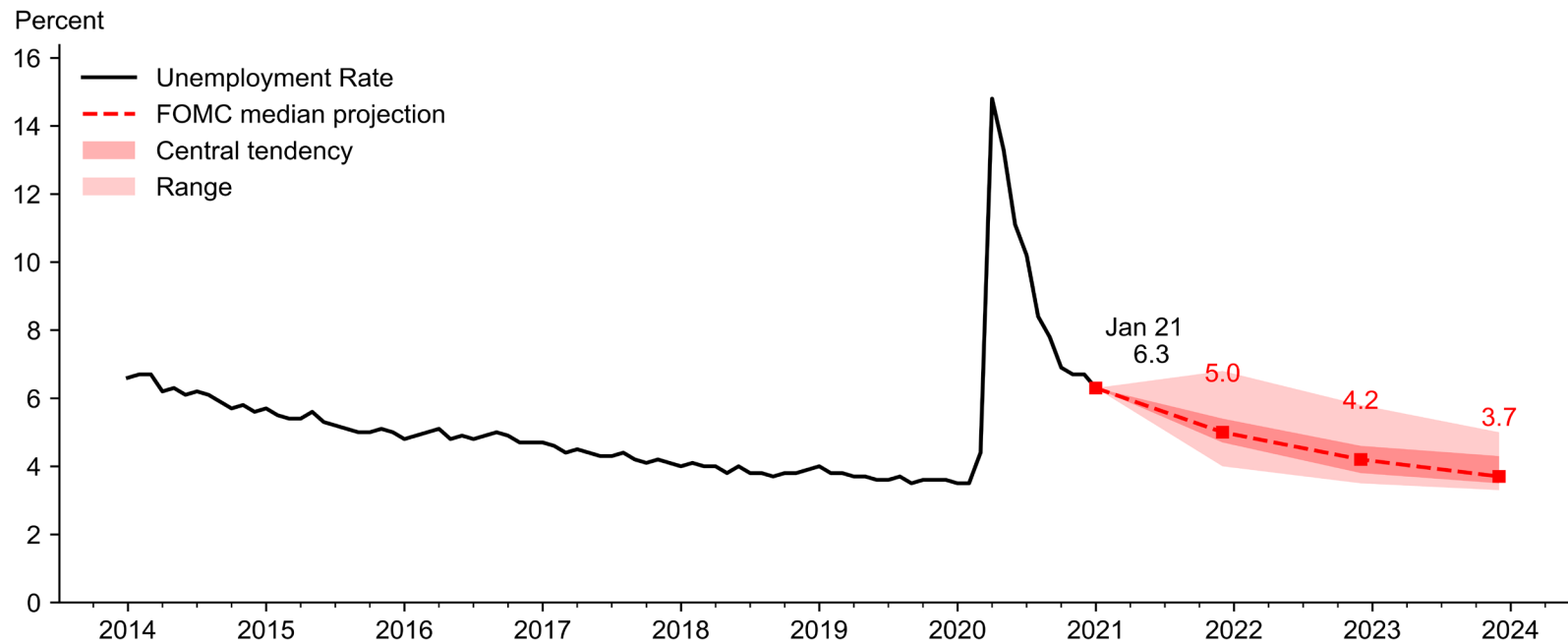


# GDP growth expected to be strong in 2021



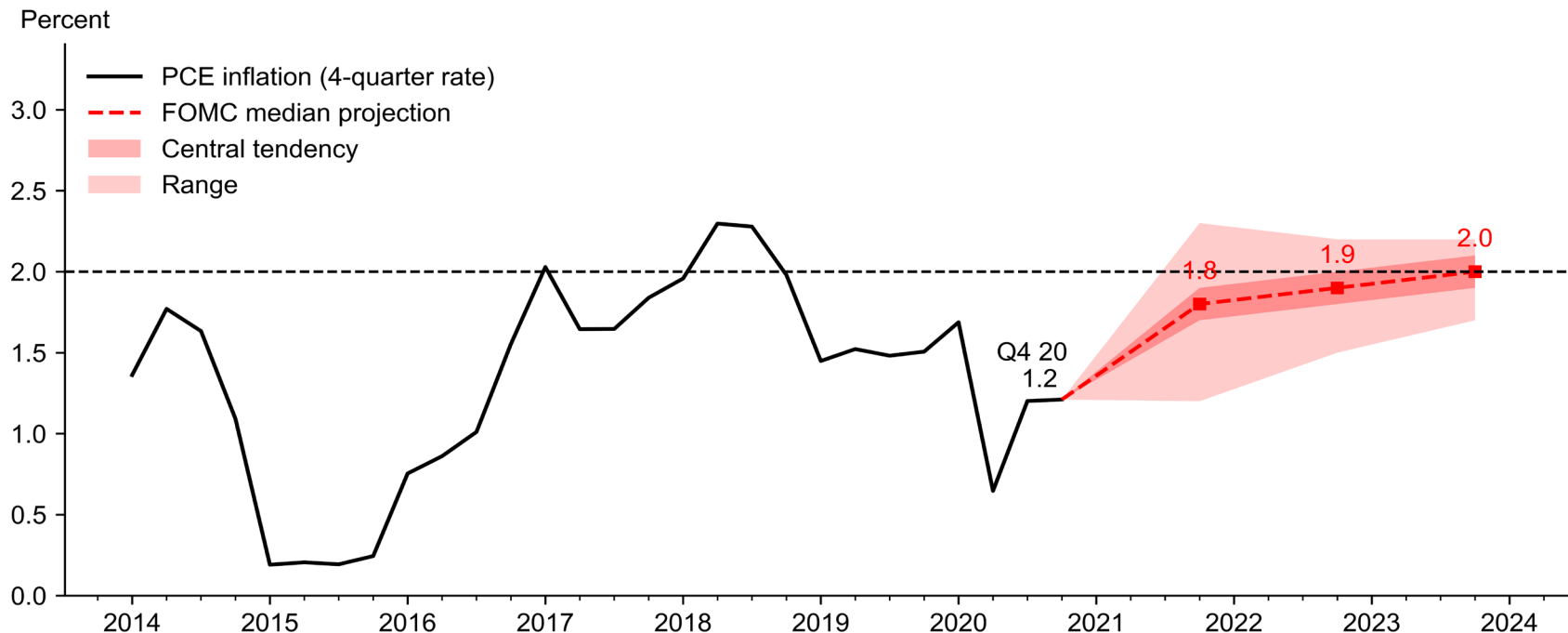
SOURCES: Federal Reserve Board; Bureau of Economic Analysis.

# Unemployment rate expected to continue to decline but at slower pace



SOURCES: Bureau of Labor Statistics; Federal Reserve Board.

# Inflation expected to revert to 2-percent target



SOURCES: Bureau of Economic Analysis; Federal Reserve Board.

## Some caveats

- December was a long time ago! Since then, more fiscal relief, and we've learned more about vaccines, virus spread, etc.
- Private sector forecasts for 2021 growth have been revised up since December.
  - Median of many such forecasts:
    - GDP growth: above 6 percent in 2021
    - Unemployment rate: near 4.5 percent by end of 2021.
- Inflation (on year-over-year basis) is likely to temporarily overshoot 2 percent over next few months

# Conclusion

- Strong recovery since April 2020:
  - Large rebound in goods consumption, housing ...
  - Helped by rapid and aggressive monetary and fiscal policy responses
- But:
  - Economy remains far away from a full recovery
  - Growth moderated in late 2020 / early 2021 due to resurgence in Covid cases
- Continued progress with vaccinations and improvement in mobility and engagement should result in strong growth in 2021
- Uncertainty:
  - Path of the economy depends on path of the pandemic and impact of fiscal package

**Questions?**