National and Regional Economic Conditions

April 13, 2021 – Colorado Concern

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The views herein are those of the presenter and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Outlook themes

• Consumers’ pent-up demand is poised to drive faster-than-trend consumption growth and faster-than-typical employment growth in the leisure and hospitality sector in the near term.

• Over the medium term, the pace of recovery will likely moderate, with consumption growth and business investment providing ongoing support for recovery.

• Supply chain restrictions and uncertainty about the pace of consumer spending remain risks to the outlook in the near term.

• Readings of inflation are likely to pick up in the near term due to a variety of temporary factors.
Fiscal support provided aid to household balance sheets in addition to supporting consumer spending throughout the District.
Fiscal transfers have also enabled households to amass savings

2020 Cumulative Excess Savings: $1.7 Trillion

Household Assets: Cash and Deposits

Sources: BEA, FRB, Haver Analytics
Though employment remains depressed, nominal GDP has largely reversed its pandemic decline.

- Payroll Employment: 8.4 Million Employment Loss (-5.5%)
- Nominal GDP: $268 Billion Output Loss (-1.2%)

Sources: BLS, BEA, Haver Analytics
Unemployment remains elevated, particularly for minority workers

Sources: BLS, CBO, NBER, Haver Analytics
Note: Grey bar indicates recession shading
The unevenness of the pandemic partly accounts for the contrasting recoveries of employment and output.
Recovery in leisure and hospitality employment is likely to exceed typical rates in coming months, but low business travel remains a headwind.
Leisure and hospitality employment declined more, and has recovered less, in metro areas throughout the region.

Sources: QCEW, USDA

Change in Leisure and Hospitality Employment (Feb - Sept)

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Equipment investment decreased during previous downturns, but added substantially to growth over the last year

Sources: BEA, NBER, Haver Analytics

Note: Grey bars indicate recession shading
Demand for capital goods and other investment equipment now exceeds pre-pandemic levels

Sources: U.S. Census Bureau
Note: Grey bar indicates recession shading
Low inventory to sales ratios will likely drive investment and hiring activity, though easing of supply constraints may restore inventories somewhat.
Worker shortages are more severe in manufacturing than prior to the pandemic, while demand is yet to fully recover in service sectors.
Supply is currently having trouble keeping pace with demand in many industries.
Inflation is poised to move higher in the near term.

Sources: BEA, Haver Analytics.
Although inflation is currently below the 2 percent target, price growth for several goods and services accelerated over the last year.
House prices continue to rise while overall housing price indices are growing at subdued rates.

Sources: Zillow, BEA, Haver Analytics
The latest projections from the FOMC are continued policy accommodation.
Looking forward

• Consumers are going to be drivers of the near-term outlook, with questions remaining as to how quickly demand for services will return

• Supply chain disruptions and materials costs pressures have emerged as near-term headwinds for businesses throughout the region

• Labor supply constraints risk more persistent challenges for businesses going forward