A Rocky Path to Economic Recovery

Nate Kauffman, Federal Reserve Bank of Kansas City
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The views expressed here are those of the speaker and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Outlook Themes

• Economic activity has gained momentum in recent months as vaccinations become more widespread.

• Job growth has also picked up, but notable disparities have persisted, and some industries have not yet returned to pre-pandemic strength.

• Inflationary pressures have increased since the beginning of the year, with wide variations across categories.
The path of the global economy has been tied to the course of the pandemic.

Confirmed COVID-19 Cases

Sources: Johns Hopkins University, Haver Analytics.
A steady increase in vaccinations has led to a gradual increase in optimism about future economic activity.

**COVID-19 Vaccinations**

Share of population with at least one dose

- United States
- Brazil
- France
- Germany
- India
- United Kingdom

Sources: Oxford University, Haver Analytics.
Economic growth appears set to rebound in 2021 after a sharp contraction last year.

**Real GDP**

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<td>US</td>
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<td>China</td>
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<td>EU</td>
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<td>Japan</td>
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<td>UK</td>
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Manufacturing activity has surged in recent months and travel has been recovering.

**Manufacturing Indices**

- **Index; 50 = Neutral**
  - United States
  - China
  - Euro Area

**Air Travel and Restaurant Traffic**

- **Percent Change from Reference Period**
  - TSA Traveler Throughput
  - Seated Diners

*Note:* TSA traveler reference period is January 2020 daily average. Open Table seated diners reference period is the same day in 2019.

*Sources:* ISM, Caixin, IHS Markit, Haver Analytics, TSA, Open Table.
Unemployment remains elevated in some areas but has improved significantly from a year ago.

Sources: BLS, Haver Analytics.
The pandemic has affected some industries much more significantly than others.

Employment Growth by Industry

Percent change from previous year (Q1 Average)

Source: BLS and Haver Analytics.
Economic disparities have also persisted between low-income and high-income households.

Sources: Paychex, Intuit, Earnin, Kronos (Track the Recovery).
Despite variation across countries, global trade has picked up after a sharp decline a year ago.

Exports of several major product categories are higher than a year ago.

**U.S. Exports – 2021 YTD**  
(through March)

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Percent Change</th>
<th>Share of Total Exports ($)</th>
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</thead>
<tbody>
<tr>
<td>Industrial Machinery</td>
<td>12.8%</td>
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<tr>
<td>Electric Machinery</td>
<td>11.4%</td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>7.3%</td>
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<tr>
<td>Optic, Photo, Med. Instruments</td>
<td>5.8%</td>
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<tr>
<td>Mineral Fuel, incl. Oil</td>
<td>10.8%</td>
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</table>

**NE Exports – 2021 YTD**  
(through March)

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Percent Change</th>
<th>Share of Total Exports ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>6.5%</td>
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<tr>
<td>Industrial Machinery</td>
<td>12.2%</td>
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<tr>
<td>Oil Seeds</td>
<td>8.4%</td>
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<tr>
<td>Meat</td>
<td>24.8%</td>
<td></td>
</tr>
<tr>
<td>Animal Feed</td>
<td>6.9%</td>
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</table>

**Note:** Numbers in percentages represent share of total exports.  
**Sources:** Wiser Trade.
The value of the U.S. dollar strengthened notably in the early weeks of the pandemic but has since retreated.
Globally, central banks have sought to provide stimulus in a variety of ways.

**Primary Interest Rates**

- **United States:** Effective Federal Funds Rate
- **Euro Area:** Main Refinancing Operation on Effective Date
- **Japan:** Policy-Rate Balance Rate
- **Canada:** Target Rate
- **China:** 1-year loan prime rate

**Note:** Rates shown – US: Effective Federal Funds Rate; Euro Area: Main Refinancing Operation on Effective Date; Japan: Policy-Rate Balance Rate; Canada: Target Rate; China: 1-year loan prime rate.

In the U.S., the Federal Reserve has resumed asset purchases to provide additional accommodation.

Federal Reserve Balance Sheet

Source: Board of Governors and Federal Reserve Bank of St. Louis.
Governments across the world have provided far-reaching support to households over the past year.

United States:
- CARES Act: 2.3 trillion dollars
- CRRSA: 868 billion dollars
- American Rescue Plan: 1.8 trillion dollars

United Kingdom:
- Initial Stimulus: 330 billion pounds
- Additional Job Protection, Eat Out to Help Out, etc.: 30 billion pounds
- Winter Economic Plan: 15 billion pounds
- Additional Stimulus: 59 billion pounds

European Commission:
- State Aid Temporary Framework: 1.9 trillion euro
- SURE Program: 75.5 billion euro (disbursed to date)

Japan:
- Emergency Economic Package Against COVID-19: 117.1 trillion yen
- May 27 Stimulus: 117 trillion yen
- Comprehensive Economic Measures to Secure People’s Lives and Livelihoods Toward Relief and Hope: 73.6 trillion yen

China:
- 4.2 trillion yuan disbursed throughout 2020

Sources: IMF, European Commission, KPMG, Yahoo Finance.
Inflation has picked up recently, and the prices of some materials have increased sharply.

**Inflation - CPI**

**Dispersion of Inflation Rate**

*Source: BEA, Haver Analytics, and staff calculations.*
The prices of several major commodities have also surged in recent months.

Commodity Prices

Index; Jan. 2019 = 100

- Lumber
- Corn
- Copper
- Crude Oil

Expectations of future inflation have increased modestly.

Source: Federal Reserve Bank of St. Louis.
Concluding Thoughts

- Economic activity is positioned to increase further as economies worldwide continue to reopen.

- Some uncertainty remains, however, about the persistence of recent strength and sustainability if stimulus is scaled back.

- Recent inflationary pressures will be monitored closely.