Economic Recovery Amid Disruption and Uncertainty

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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

- U.S. and global economic activity has rebounded from the depths of a year ago.
- The recovery, though uneven, has occurred amid significant disruption and uncertainty.
- The pandemic, along with labor shortages, supply chain disruptions and inflationary pressures continue to shape the outlook.
Prior to the pandemic, the U.S. was in the midst of its longest economic expansion on record.

Sources: BEA, BLS and Haver Analytics.
After dropping sharply in the early months of the pandemic, economic activity has recovered substantially.

Labor markets have also recovered steadily, though employment remains below its pre-pandemic level.

Sources: BLS, Haver Analytics.
Consumer confidence improved in the first half of the year and household demand remained strong.

Sources: University of Michigan, BEA, Haver Analytics.
Trade to and from the U.S. has also strengthened notably despite changes in the value of the dollar.

Sources: Wiser Trade, Haver Analytics, Federal Reserve Board of Governors.
Business investment has continued to expand despite concerns about supply chain disruptions and freight costs.

**ISM Manufacturing Indices**

<table>
<thead>
<tr>
<th>ISM Manufacturing Indices</th>
<th>World Container Index</th>
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<tr>
<td><strong>Diffusion Index</strong></td>
<td><strong>World Container Index</strong></td>
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<td>Headline</td>
<td>$/40 ft. container</td>
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<tr>
<td>New Orders</td>
<td>2019</td>
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<td>Backlog of Orders</td>
<td>2020</td>
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<tr>
<td>Customer Inventories</td>
<td>2021</td>
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**Sources:** ISM, Haver Analytics, Drewry (Bloomberg).
Business contacts have also pointed to challenges associated with labor shortages.

**Note:** Worker availability is calculated by dividing the number of unemployed by the number of job openings.

**Sources:** BLS, Haver Analytics, staff calculations.
Pandemic related disruptions, and re-openings, have affected inflationary pressures but those pressures may be easing.

**Consumer Price Index**

![Graph showing percentage change from previous year from 2010 to 2020.]

**Contributions to Inflation**

![Bar chart showing percent change from previous month, annualized, for May-21, Jun-21, and Jul-21 for various categories such as Used Cars, New Vehicles, Airfare, Apparel, Car Insurance, and Energy Commodities.]

**Note:** Numbers in parentheses represent the share of the headline inflation index comprised by each category.  
**Sources:** BLS, Haver Analytics.
The Federal Reserve has provided extraordinary monetary policy accommodation to stimulate economic activity.

**Federal Funds Rate**

**Federal Reserve Balance Sheet - Assets**

*Source: Federal Reserve Bank of New York, Board of Governors, Federal Reserve Bank of St. Louis, and Haver Analytics.*
Still, the economic outlook continues to depend on the path of the virus, associated variants, and vaccinations.

Sources: Johns Hopkins University, Oxford University, Haver Analytics.
The pandemic has had broad and severe economic effects, but agriculture has been a surprising bright spot.

U.S. GDP and Farm Income

Concluding Thoughts

• Business and policy decisions largely depend on the timing of stabilization.
• Many questions will remain about the persistence of structural changes.
• Commodity markets will depend crucially on the outlook for global economic growth, but regional production disruptions will also have an impact.