Outlook themes

• The U.S. economy continues to expand at a solid pace, and the outlook for 2022 remains strong.

• However, the recent wave of Omicron cases appears to have slowed activity modestly, particularly in pandemic-sensitive sectors.

• Labor markets remain tight, driven by strong labor demand and depressed labor force participation rates.

• Balance sheet expansion is set to end by March, and the FOMC has signaled that hikes to the federal funds rate will likely begin soon.
The U.S. economy is expected to continue to expand at an above-trend pace in 2022.
However, the recent surge in COVID cases and hospitalizations is creating some downside pressure in the near term.

Sources: Oxford, Our World in Data
Both manufacturing and services firms continue to expand, but the pace of growth has slowed from record-high levels.

Index, 50+= increasing, sa

Sources: ISM, NBER, Haver Analytics
Most Tenth District survey contacts have indicated that the recent wave of COVID cases negatively affected their firm’s business.

Percent of responses

- **Strong Negative**
- **Slight Negative**
- **No Effect**
- **Slight Positive**
- **Strong Positive**

Sources: FRBKC Surveys
Supply chains remain strained and could worsen if COVID cases further disrupt global supply chains.
Consumer activity in pandemic-sensitive sectors slowed in January.

100 = 2019 levels
And, consumer sentiment has fallen as COVID cases surge and inflation rises.
However, consumer spending is projected to rebound later this year, supported by strong household balance sheets.
Labor markets remain tight, with unemployment rates moving below 4% even as employment gains moderate.

Sources: BLS, Haver Analytics
Labor force participation rates are well below trend, driven by fewer older workers and women without college degrees.

Sources: BLS, CPS, Staff Calculations, Haver Analytics
Employment in sectors that require close contact have struggled to bounce back, including several caregiving sectors.

Change in Employment from Feb-20, Thousands, sa

Sources: BLS, Haver Analytics
Retired workers have also been slower to return to the labor force compared to pre-pandemic trends.

Index, Feb–Dec 2019 = 100

Sources: CPS, Staff Calculations
And, many fewer international workers are moving to the U.S. to work compared to pre-pandemic levels.

Millions, March 2020 to July 2021 compared to March 2018 to July 2019

Sources: CATO
Inflation has picked up significantly, and the increase is broad based across categories.

m/m % chg, ar.

*Note: Numbers in parentheses are the shares of personal consumer expenditures (PCE).
And, Tenth District contacts continue to report that input costs and finished goods prices are moving up at a fast pace.
With inflation accelerating, the FOMC announced an increase in the pace of tapering in December, with purchases ending by March.
In addition, the Committee moved forward its expectations for rate increases.