Outlook themes

• The outlook for both the regional and U.S. economies remains highly uncertain and tied to the course of the pandemic

• Declines in consumption and job losses are most notable in service sectors of the economy, highlighting the unique nature of this public health-related downturn

• The unemployment rate remains well above its longer-run natural level, though the labor market showed some signs of stabilization through the summer months

• Price pressures remain subdued on net and inflation will likely remain somewhat below the FOMC’s 2% target over the medium term
Uncertainty around the U.S. economic outlook remains elevated

Range between Top 10 average and Bottom 10 average forecast

Sources: BEA, Wolters Kluwer, Haver Analytics
Consumption activity ebbed and flowed with waves of COVID-19

Sources: Opportunity Insights Economic Tracker, CDC COVID Data Tracker

Note: Percentage change in retail spending is relative to January 2020 levels

Retail Spending: U.S. (Left)
COVID-19 New Cases: U.S. (Right)
Declines in spending in New Mexico are most pronounced in service sectors

Sources: Opportunity Insights Economic Tracker

Note: Percentage change in retail spending is relative to January 2020 levels
Unemployment moved from a 50-year low to a record high within months, and remains above its natural level after several months of job gains.
Business activity stabilized over the summer months but remains below pre-pandemic levels.
This summer an increasing number of businesses did not expect to return to previous norms, but expectations have stabilized somewhat.

Fraction of businesses that do not expect to return to previous-year norms

Sources: U.S. Census Bureau Small Business Pulse Survey
Financial stress and volatility spiked in March then stabilized following Federal Reserve and fiscal policy actions.
The Federal Reserve deployed a suite of policy actions to help stabilize financial markets and the overall U.S. economy

Monetary Policy:
• Cut policy rate to near zero.
• Forward guidance

Actions to Improve Market Functioning:
• Open Market Purchases
• Eased access to discount window.
• Primary Dealer Credit Facility (PDCF)
• Money Market Mutual Fund Liquidity Facility (MMLF)
• Commercial Paper Funding Facility (CPFF)
• Expanded Foreign Central Bank Swap Lines

Actions to Encourage Bank Lending:
• Dropped reserve requirements to zero.
• Temporary adjustment to regulations.

Actions to Support the Flow of Credit:
• PPP Liquidity Facility (PPPLF)
• Term Asset-Backed Securities Loan Facility (TALF)
• Corporate Credit Facilities (CCF)
• Municipal Liquidity Facility (MLF)
• Main Street Lending Facility
A range of policy actions has supported household financial conditions.

Early Delinquency Rates by Loan Type

- U.S. Auto
- U.S. Credit Card
- U.S. Mortgage

Sources: Federal Reserve Bank of New York Consumer Credit Panel/Equifax, NBER
Note: Grey bars represent recession shading.
A substantial share of households used economic stimulus payments to meet their housing expenses in the initial months of the pandemic.
Banks are increasing their provisions for potential loan losses

Sources: Federal Reserve Board, NBER
Note: Grey bars represent recession shading
Risks to the outlook

• Persistent high unemployment can lead to lasting damage to the economy if workers lose key workplace skills

• Persistent declines in labor demand or ongoing difficulties returning to work safely may reduce workers’ ability or willingness to participate in the labor force

• Declines in state and local tax revenues pose challenges for local governments to provide fiscal support
A large number of jobs were lost this year in occupations that require substantial amounts of on-the-job training.

Sources: Sly and Greene (2020), Bureau of Labor Statistics, Haver Analytics

Note: Height of bars indicate number of jobs lost during each respective recession in occupations that require a month or more of on-the-job training.
New Mexico also experienced a large amount of job loss in training-intensive occupations within only a few months.

Note: Height of bars indicate number of jobs lost during each respective recession in occupations that require a month or more of on-the-job training.
Like the rest of the U.S., the service sector in New Mexico is experiencing an unprecedented level — and an outsized proportion — of job loss.

Sources: Bureau of Labor Statistics, Haver Analytics
Note: Figures for 2020 reflect job losses between February and April.
Labor force participation declined nationwide during the first half of the year, and declined more in states with greater service sector employment.

Sources: Sly and Greene (2020), Bureau of Labor Statistics, Haver Analytics

Note: Individual data points correspond to U.S. states. Change in state LFPR is measured between January and April.
Labor force participation declined in New Mexico

Sources: Bureau of Labor Statistics, Haver Analytics
Reduced state and local spending may have a larger effect on growth where it is a bigger share of overall economic activity.
Inflation is likely to remain subdued over the medium term

Sources: BEA, NBER, Haver Analytics

Note: Grey bars represent recession shading
Although inflation pressures remain muted on net, several goods are exhibiting faster price growth, notably in some food categories.
Longer-Run Goals and Monetary Policy Strategy

• The Committee’s primary means of adjusting the stance of monetary policy is through changes in the target range for the federal funds rate, and is prepared to use its full range of tools to reach its maximum employment and price stability goals.

• The FOMC affirms that an inflation target of 2 percent is consistent with its statutory mandate to maintain price stability.

• In order to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time.
  • Following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.

• The Committee’s policy decisions will be informed by assessments of the shortfalls of employment from its maximum level.
Employment gains extended broadly in the later years of the expansion

Sources: Bureau of Labor Statistics, Haver Analytics, CBO, NBER
Note: Grey bars represent recession shading
Looking forward

• Economic activity stabilized in recent months with support from a variety of policy actions, but employment and overall economic activity remain below pre-pandemic levels

• The Federal Reserve remains committed to using its full range of tools to support the recovery and limit lasting damage to the economy

• In the near term, the path of COVID-19 remains the key driver of the outlook

• Over the medium term, the ability of workers to remain engaged in the labor force will be an important factor driving the shape of the recovery