



# The U.S. Economy: On the Mend in 2021?

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**\*The views expressed are those of the author, with input from the FRBSF forecasting staff. They are not intended to represent the views of others within FRBSF or the Federal Reserve System.**

*Slides cover data available through January 8, 2021 (unless noted otherwise).*

*Thanks to Sarah Albert for slide design and preparation.*

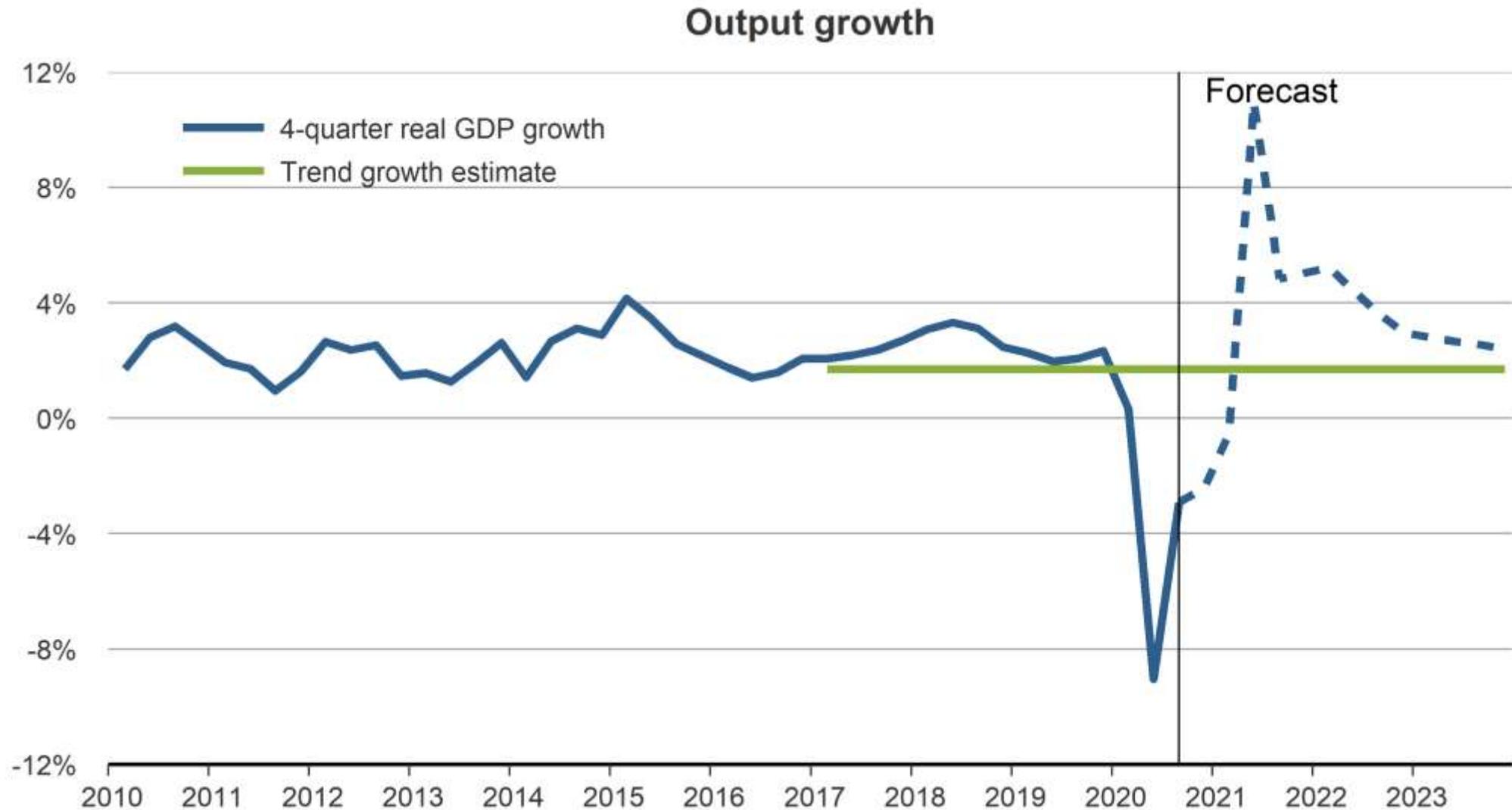


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# Summary of the Outlook

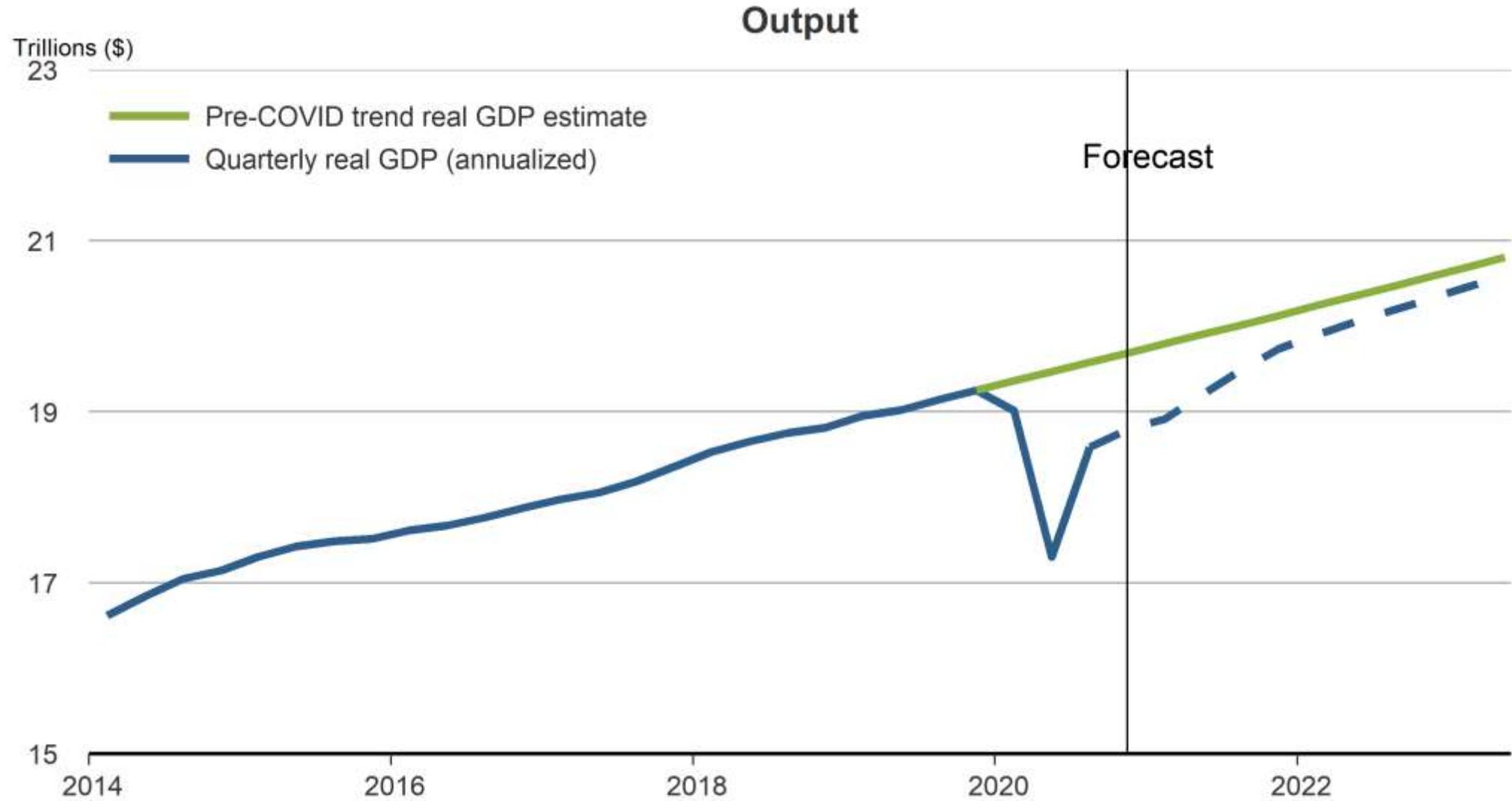
- **Severe contraction following COVID-19 disruptions**
- **Recovery underway, labor market and economy far from healed**
- **Inflation mired below 2% target**
- **2021 looks better, but risks of slow recovery remain**
  - **Virus resurgence, labor market damage**
- **Fed policy expected to remain highly accommodative**

# Severe contraction in 2020Q2, sharp rebound



Source: Bureau of Economic Analysis and FRBSF staff

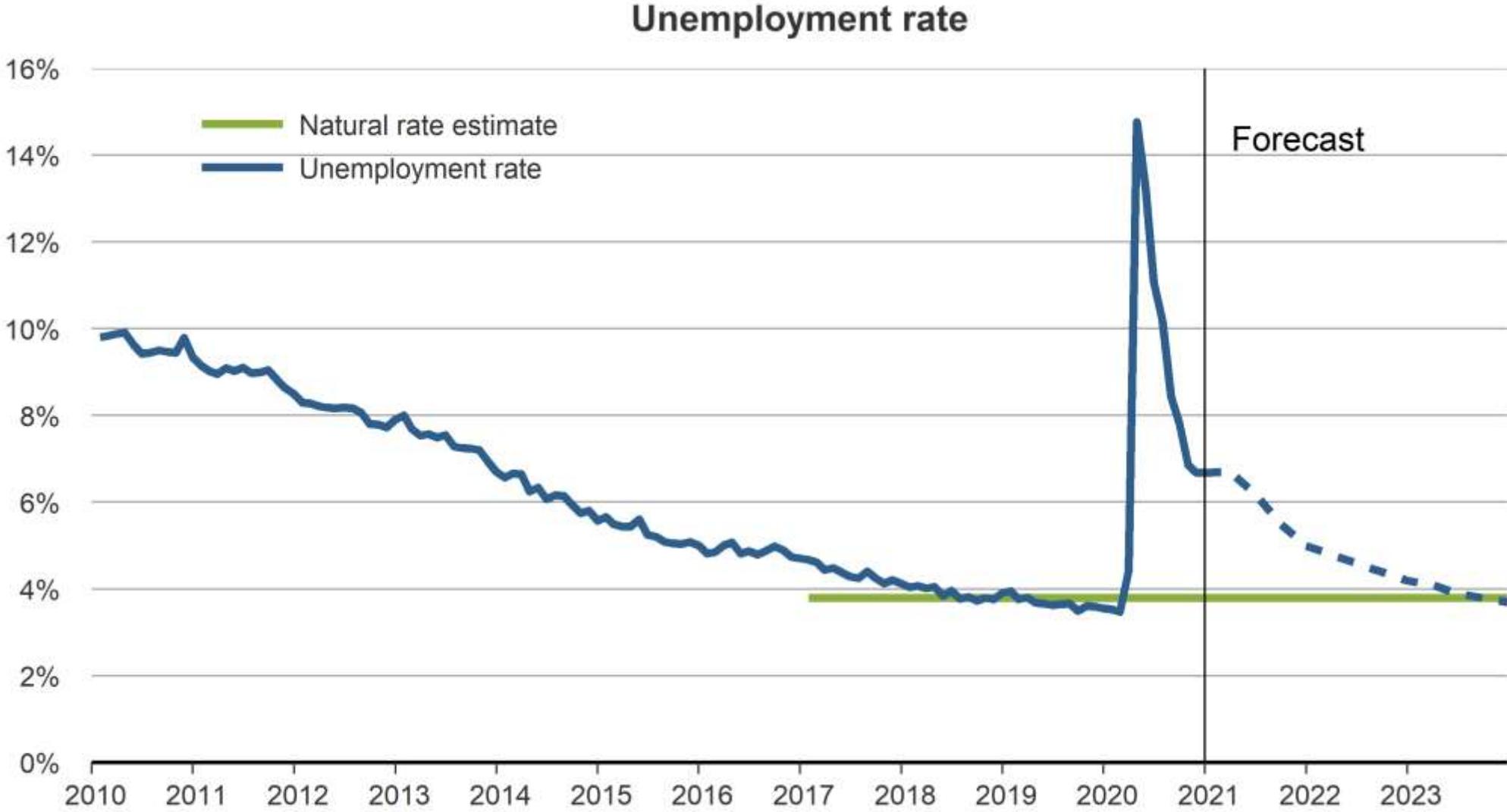
# Despite strong rebound, GDP remains below potential



Source: Bureau of Economic Analysis and FRBSF staff

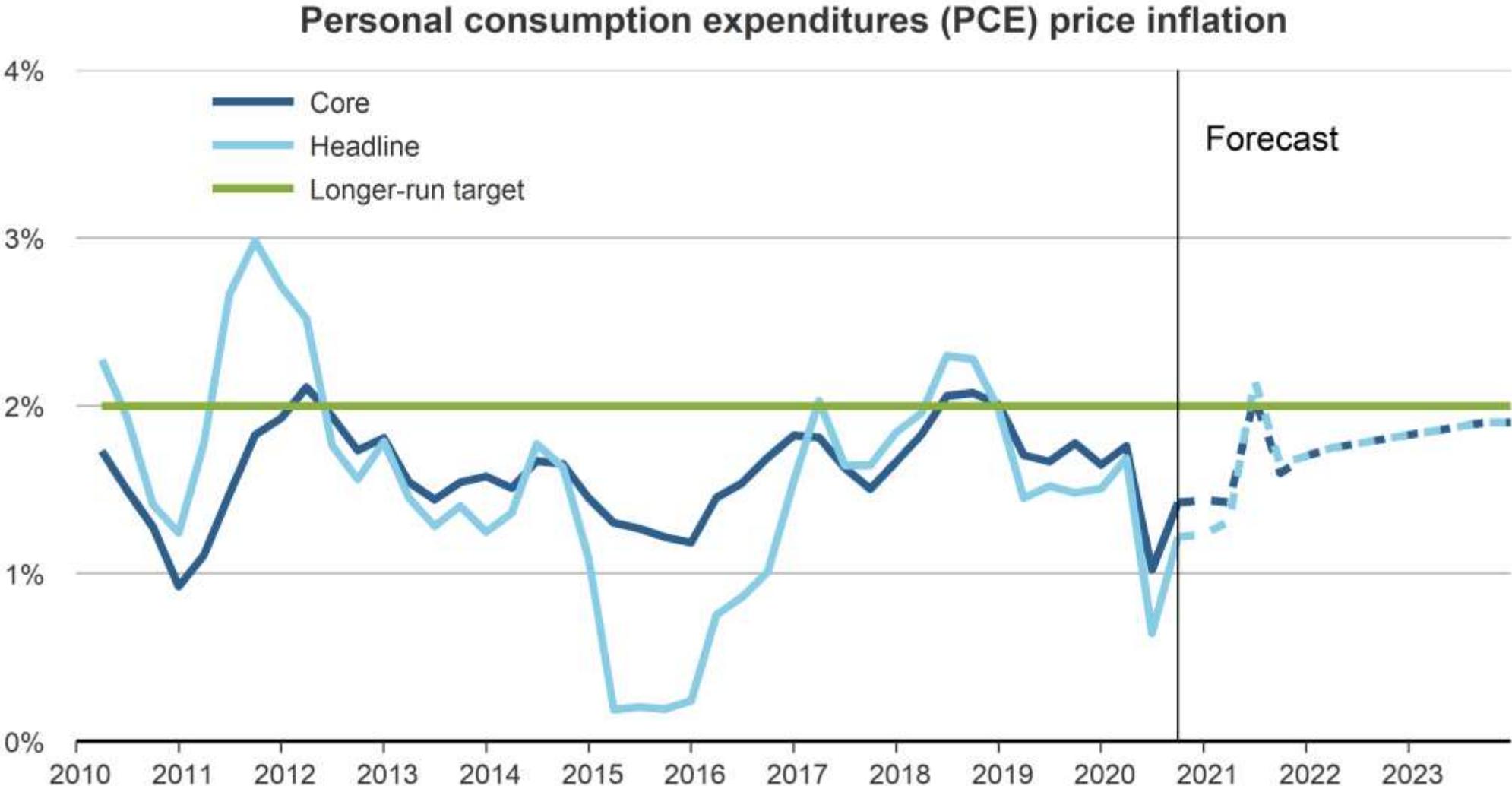


# Unemployment to remain elevated



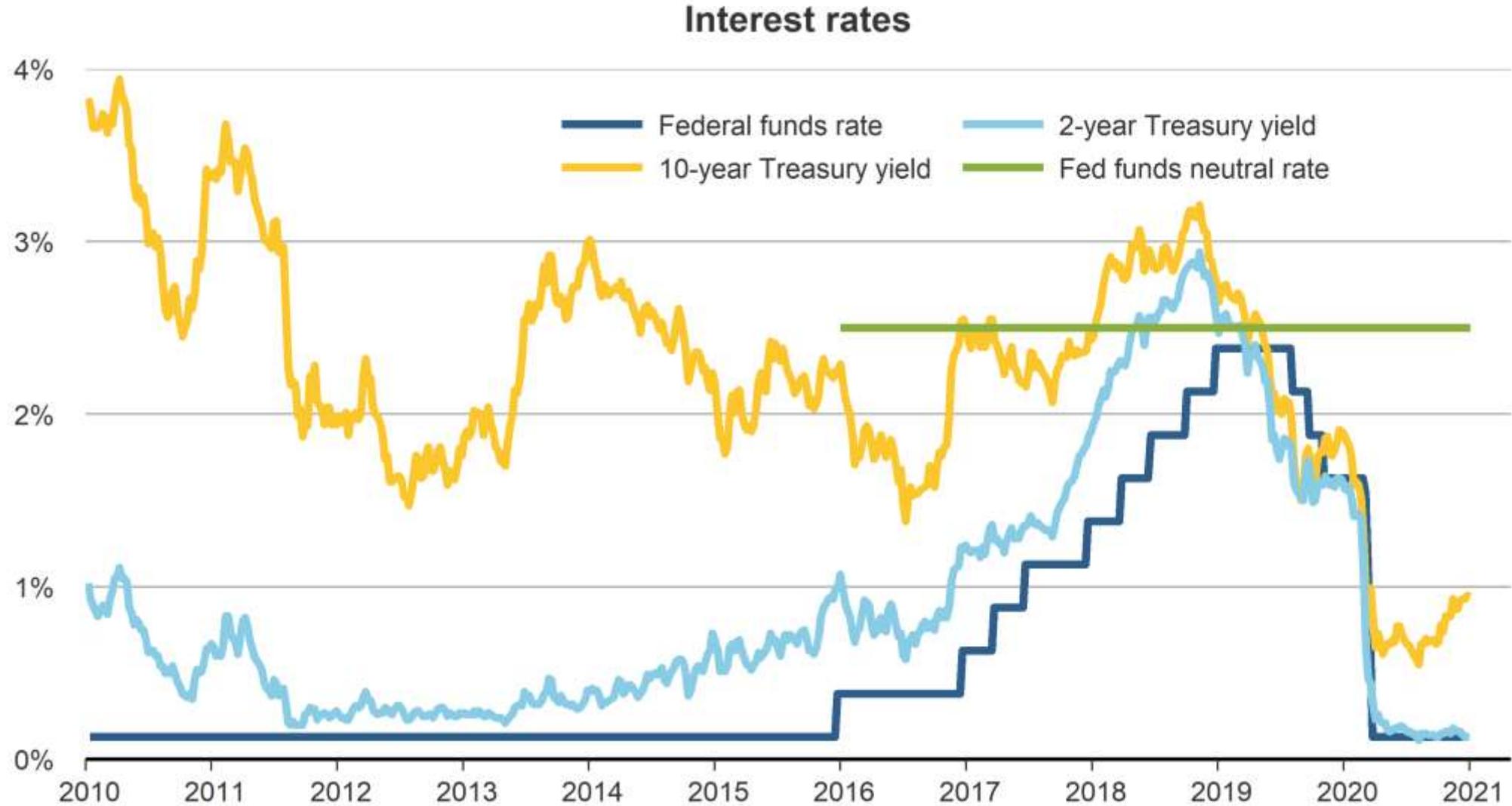
Source: Bureau of Labor Statistics and FRBSF staff

# Weak economy likely to keep inflation subdued



Note: 4-quarter change in personal consumption expenditures price index.  
Source: Bureau of Economic Analysis and FRBSF staff

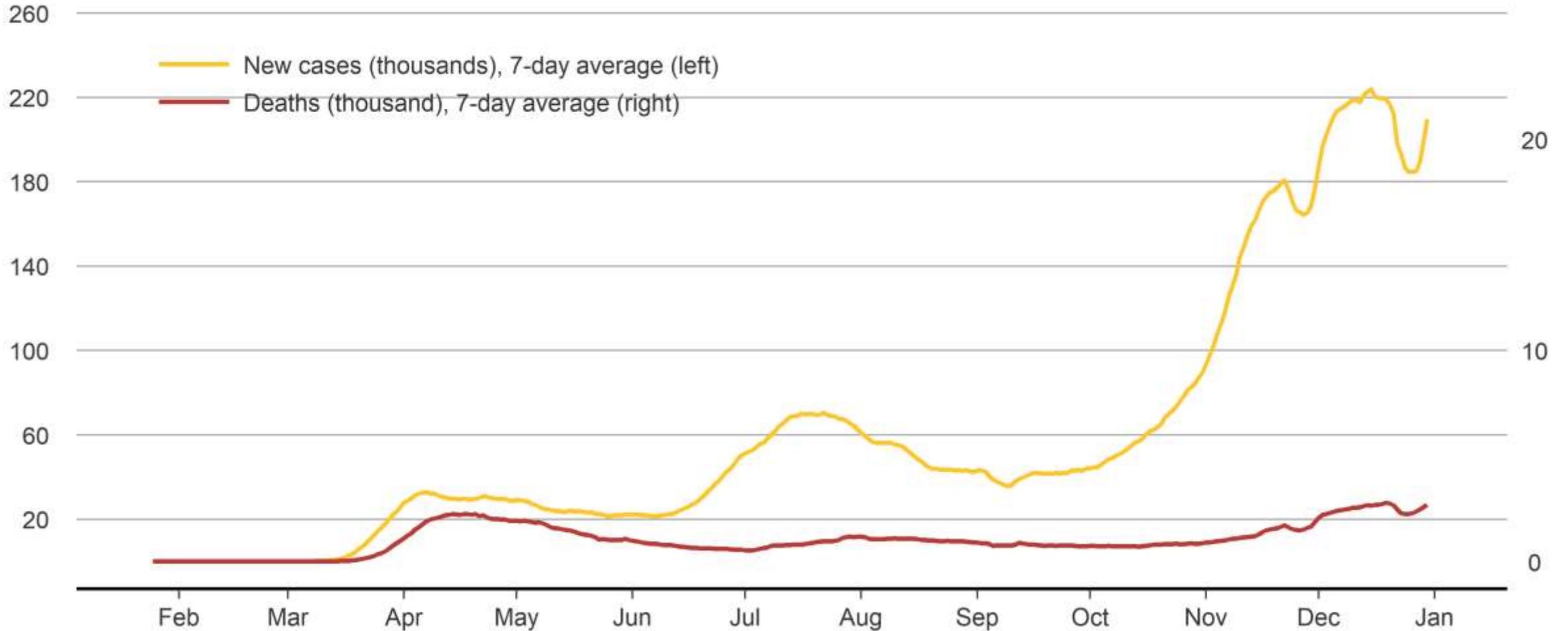
# Policy actions mitigating the economic fallout



**Some risks:  
virus resurgence, structural damage**

# Recent virus surge

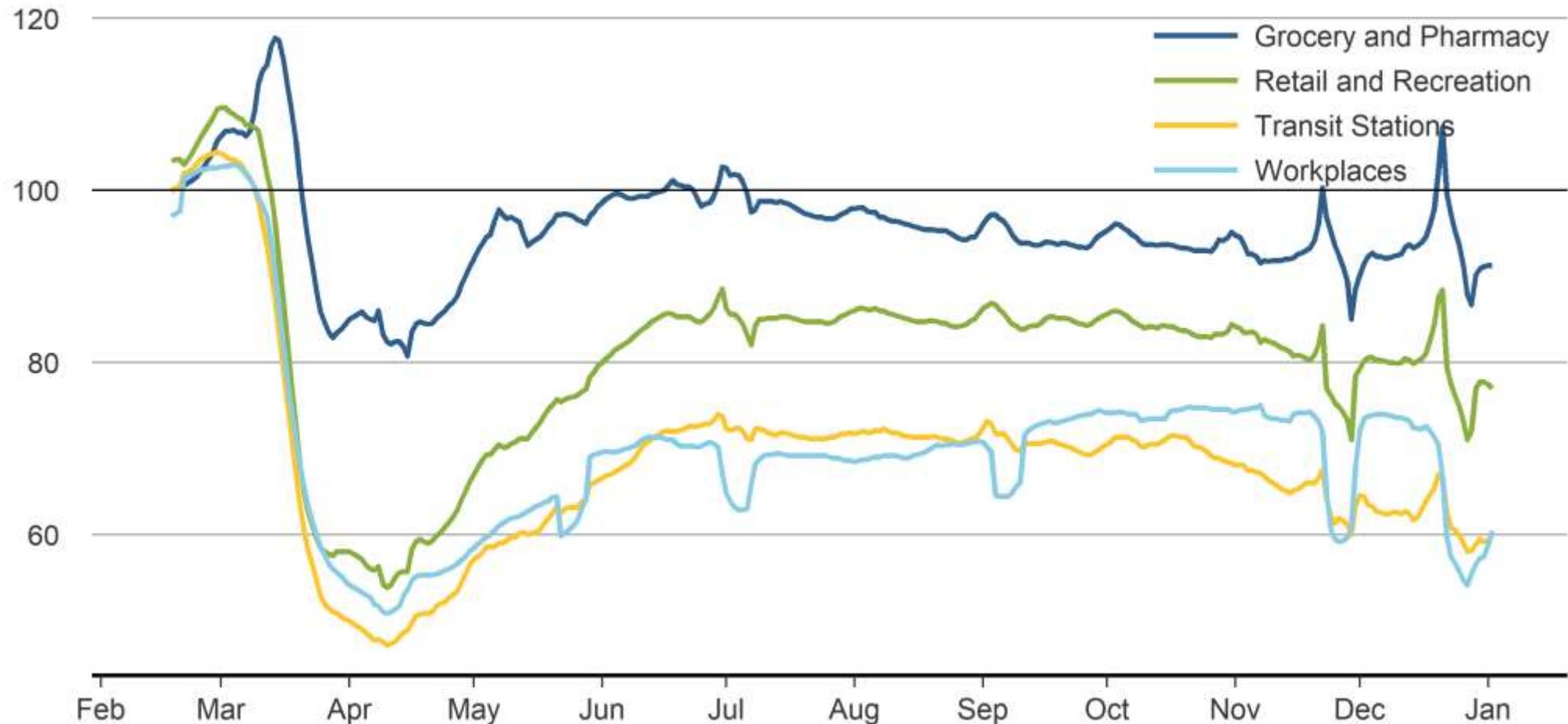
## New daily cases and deaths, U.S. COVID-19



Source: Worldometer, data available as of January 8, 2021.

# Mobility well below normal

## Mobility in the US by location type

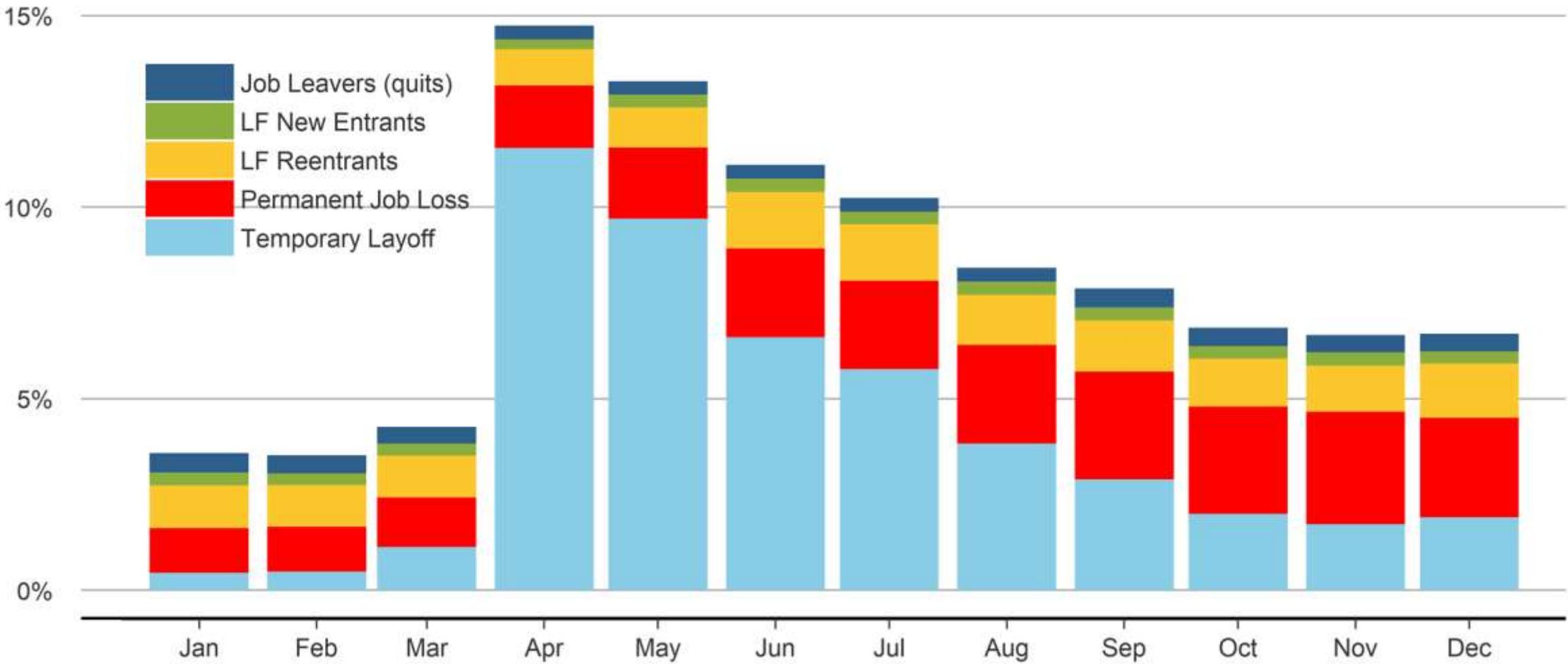


Note: Figures are 7-day moving averages. Indexed to 100 = median value for for 5-week period  
Jan 3rd - Feb 6th.

Source: Google Community Mobility Reports, Updated January 8, 2021

# Unemployment becoming more persistent

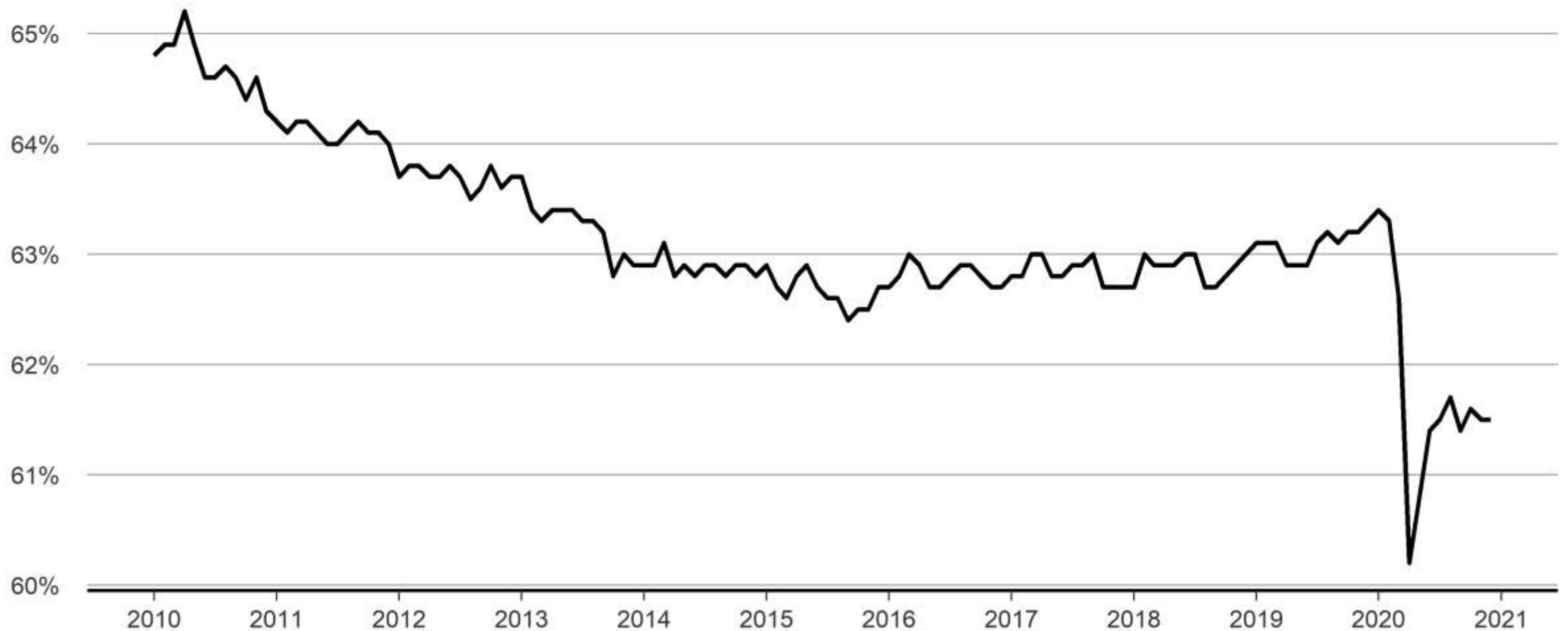
Unemployment Rate by Reason



Source: Bureau of Labor Statistics and Haver Analytics

# Labor force participation remains quite low

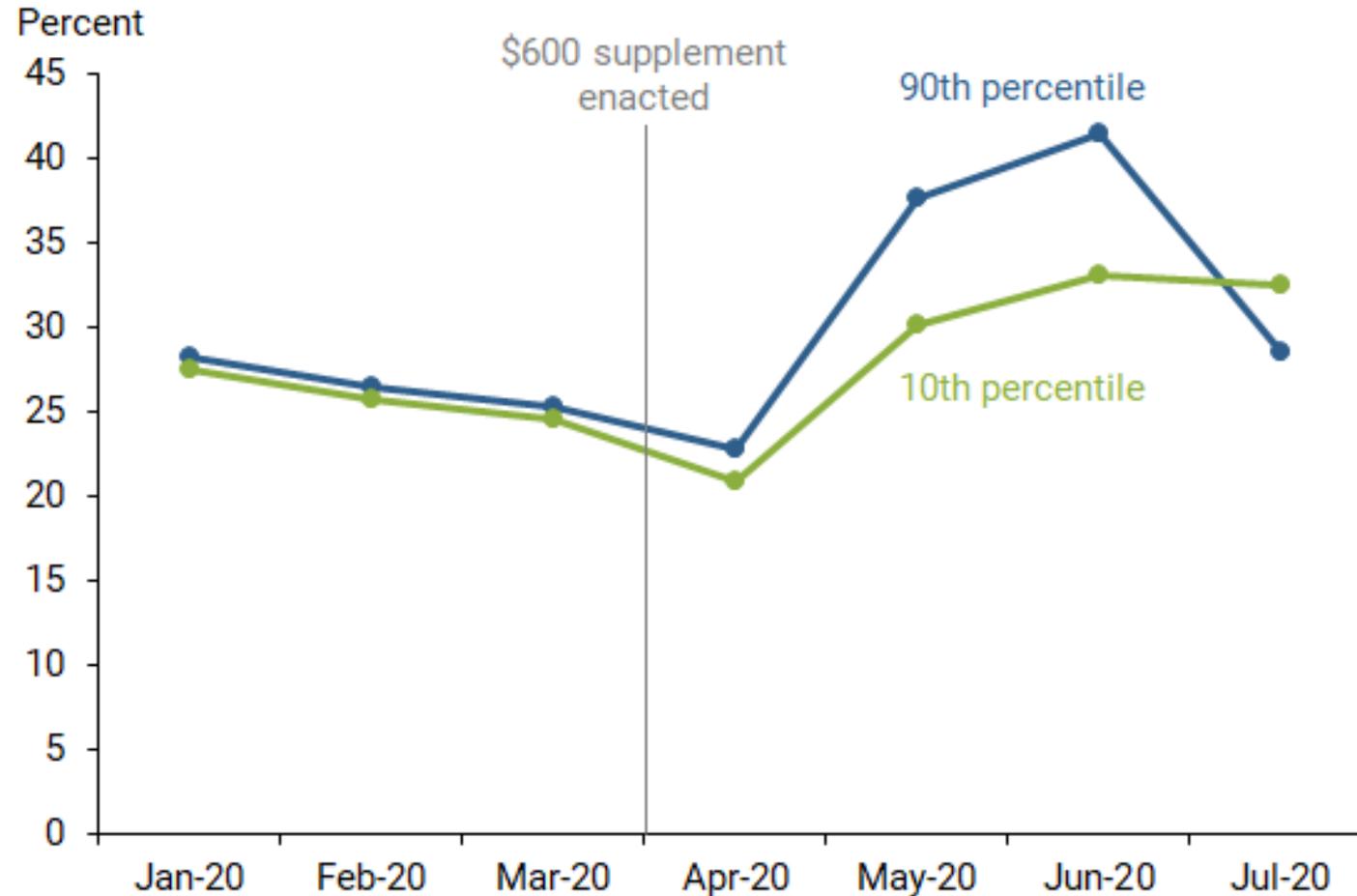
Labor Force Participation Rate



Source: Bureau Labor of Statistics and Haver Analytics

# UI renewal unlikely to slow labor market recovery

Job finding from unemployment by state UI replacement rates



**Note:** The lines show outcomes for typical individuals in states at the 90<sup>th</sup> and 10<sup>th</sup> percentiles of the distribution of UI replacement rates under the CARES Act.

**Source:** Petrosky-Nadeau and Valletta, FRBSF Economic Letter 2020-28, Sept. 21.

# **New Fed policy framework: greater flexibility**

- **Achieving dual mandate: maximum employment, stable prices**
- **Major changes announced late August 2020**
- **“Maximum employment” redefined**
  - **Changes over time; focus on shortfalls**
  - **“Inclusive goal” (more attention to disadvantaged groups)**
- **Inflation should *average 2% over time***
  - **Modest overshoots are OK (and likely)**

# Conclusion

- **Long road back to normal economic conditions following COVID-19 disruption**
- **Unemployment elevated, becoming persistent; LFP low**
- **Inflation pulled further below 2% target**
- **Recovery faces downside risks, dependent on the path of the disease and vaccinations**
- **Fed prepared to use full range of tools**

# References & Links

Fed Board of Governors. “Statement on Longer-Run Goals and Monetary Policy Strategy.” August 27, 2020.

[https://www.federalreserve.gov/monetarypolicy/files/fomc\\_longerrungoals.pdf](https://www.federalreserve.gov/monetarypolicy/files/fomc_longerrungoals.pdf)

FRBSF *FedViews* (includes forecast discussion). Monthly (most); next one forthcoming around Jan. 15. <https://www.frbsf.org/economic-research/publications/fedviews/>

Petrosky-Nadeau, Nicolas, and Robert G. Valletta. “Did the \$600 Unemployment Supplement Discourage Work?” FRBSF Economic Letter 2020-28. September 21, 2020.

<https://www.frbsf.org/economic-research/publications/economic-letter/2020/september/did-600-dollar-unemployment-supplement-discourage-work/>