



Pandemic Ebbs and Flows: Economic Data, Inflation Concerns, and Policymaking

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Optimistic Economic Outlook

- ▶ COVID-19 vaccinations are increasing, particularly in New England
 - ▶ All six NE states are in the top ten states for vaccinations
 - ▶ All six NE states have more than half of population with at least one shot
- ▶ NE residents and businesses can expect a more normalized summer
 - ▶ High frequency data on economic activity – air travel and visits to restaurants are increasing
 - ▶ Industries hard hit by social distancing now beginning to recover
- ▶ New England economy, like the national economy, experiencing rapid growth in real output and notable improvements in payroll employment
- ▶ However, significant slack in the economy remains
 - ▶ Unemployment is still high, labor force participation rate is low
 - ▶ Rapid economic growth necessary to offset shock from pandemic

Policy Support Important

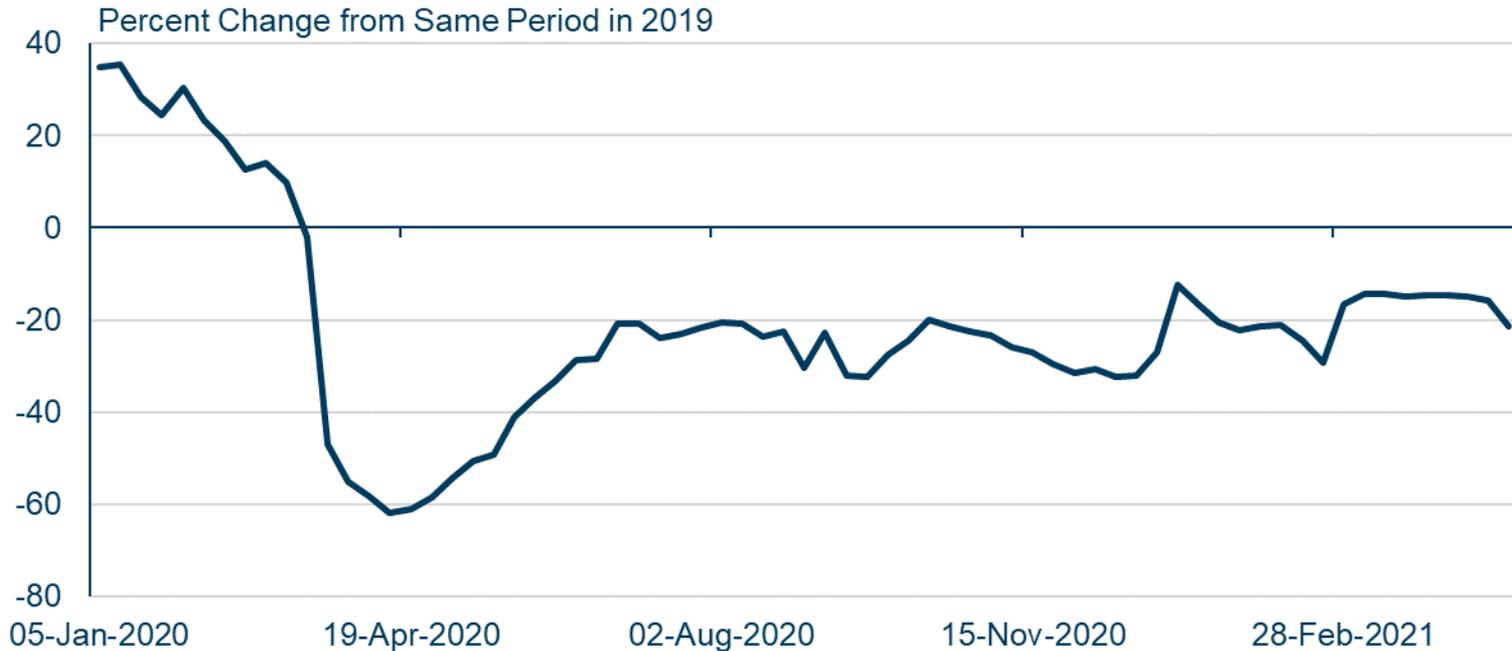
- ▶ Fiscal policy unusually stimulative
- ▶ Monetary policy remains highly accommodative
- ▶ Expect interest rates will remain low for some time
 - ▶ Until economy reaches full employment
 - ▶ Consistently deliver 2 percent inflation
- ▶ Assessing underlying economy will be difficult, given pandemic-related events
 - ▶ Many series distorted
 - ▶ Payroll employment and retail sales have ebbed and flowed
 - ▶ Inflation numbers have also been distorted

Ebbs and Flows – Versus Trends – in Inflation

- ▶ Expecting temporary factors to push measured inflation higher this spring (compared to underlying trend):
 - ▶ Annual averages of inflation impacted by onset of pandemic – prices dropped significantly when pandemic was most problematic
 - ▶ Oil prices distorted by pandemic
 - ▶ Supply disruptions – including import prices, shipping costs, and delays unloading ships
 - ▶ Demand has surged while supply ramping up more gradually
 - ▶ Implies temporary increases in reported inflation
- ▶ My view: Fed should focus on underlying inflation – which looks to likely trend close to 2 percent

Figure 1: Mobility: Visits to Points of Interest

Weekly, January 5, 2020 - April 25, 2021

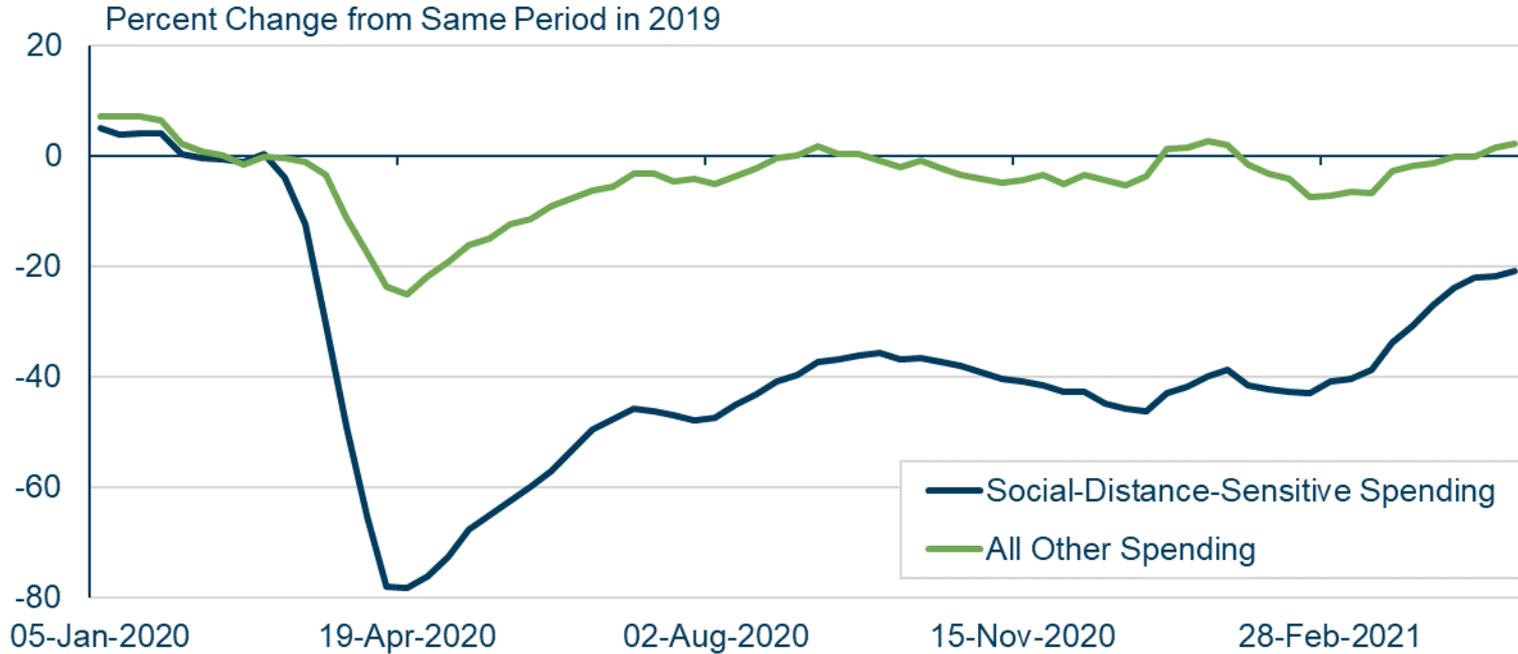


Note: Mobility is measured by cell-phone-based foot traffic data to over 5 million points of interest. Percent change in total visits to points of interest is relative to the same period in 2019 for both 2020 and 2021.

Source: SafeGraph

Figure 2: High Frequency Spending Data

Weekly, January 5, 2020 - May 2, 2021



Note: Percent change in 4-week moving average relative to the same period in 2019 for both 2020 and 2021. Based on credit and debit card transactions.

Source: Fiserv, Inc. SpendTrend Transaction Data, https://www.firstdata.com/en_us/insights/spendtrend.html

Figure 3: Retail Sales

January 2020 - March 2021

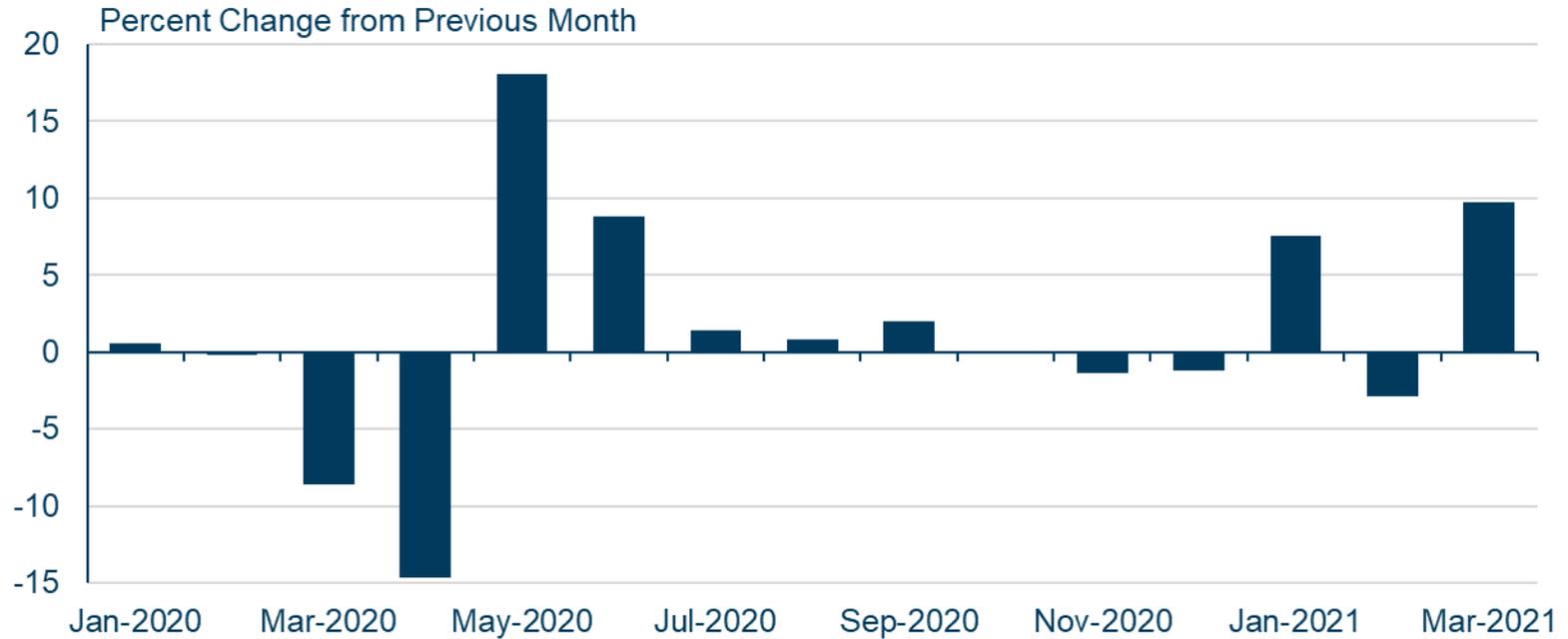
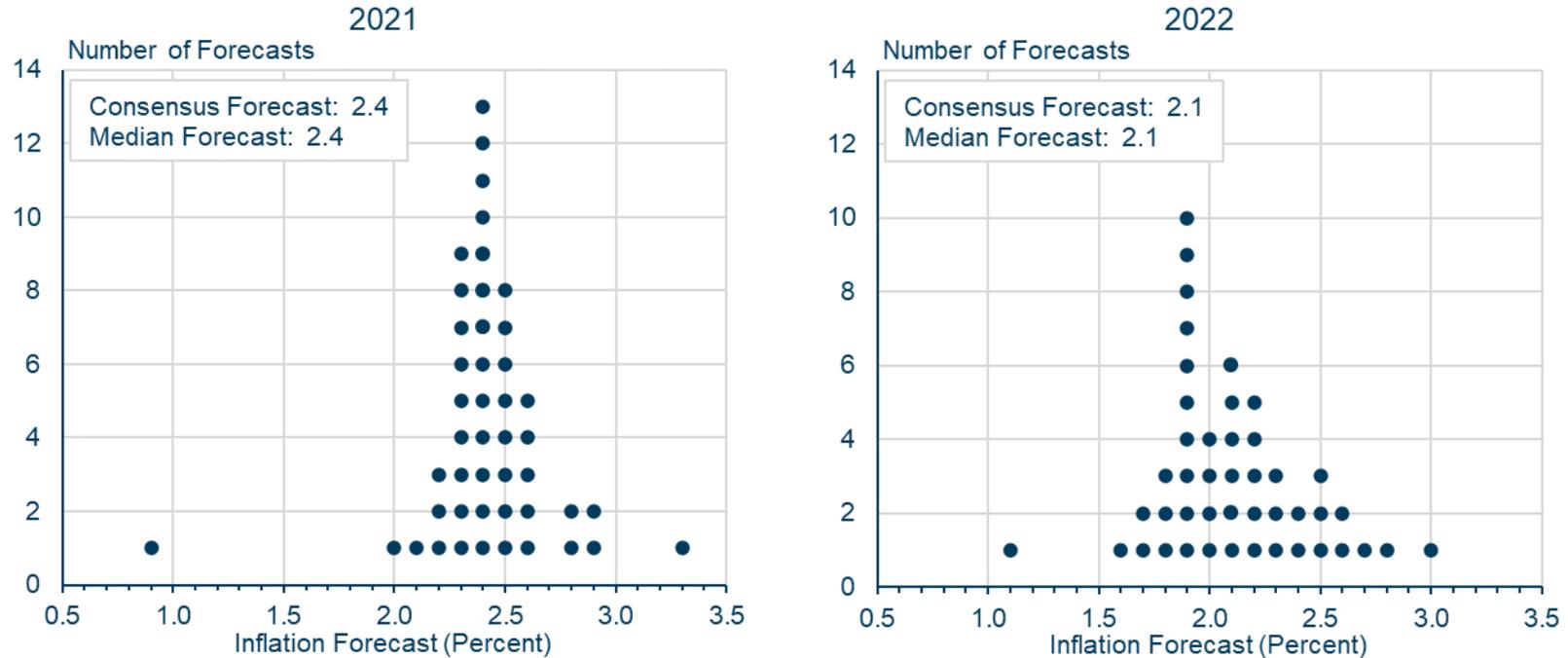


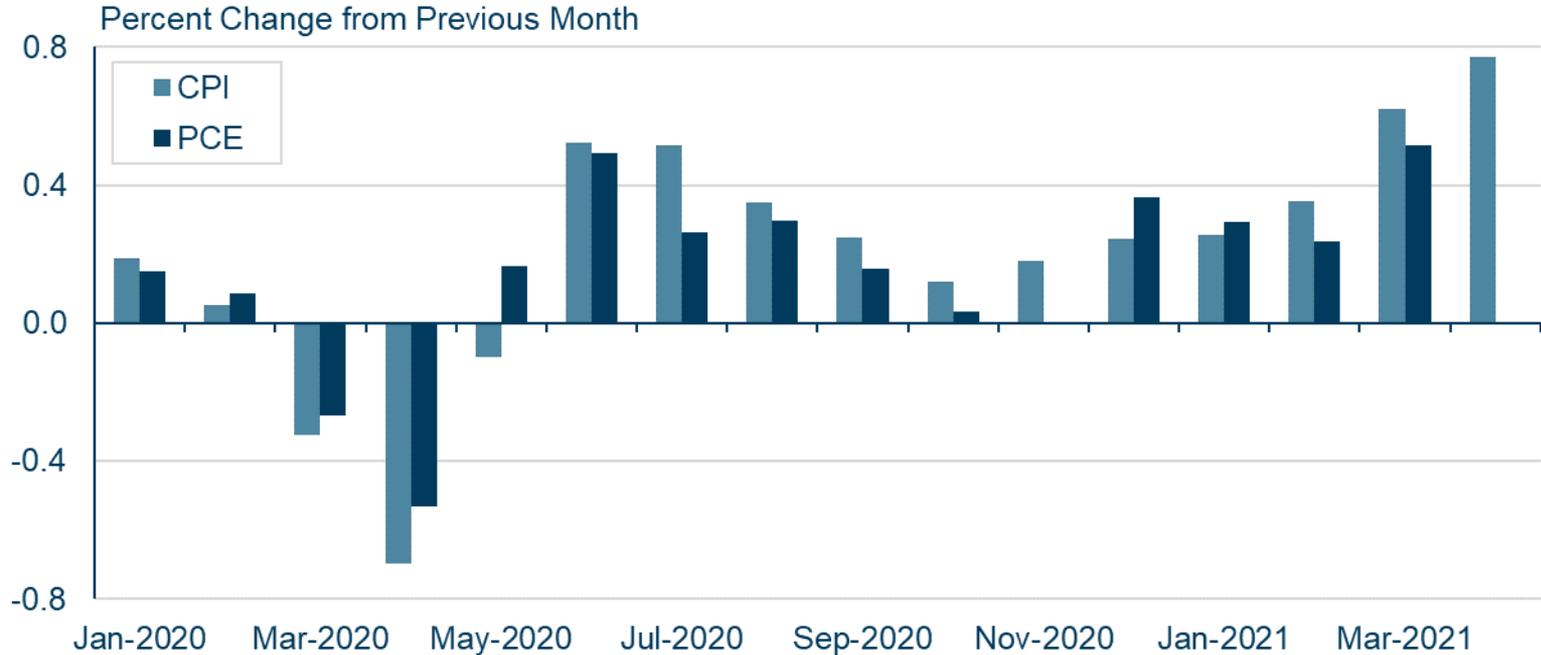
Figure 4: Distribution of Blue Chip Inflation Forecasts, May 2021 and 2022



Note: Inflation is measured by the full year-over-prior-year percent change in the PCE Price Index. Based on 46 individual forecasts for 2021 and 45 for 2022.
Source: Blue Chip Economic Indicators, May 10, 2021

Figure 5: Measures of Inflation: The Consumer Price Index (CPI) and the Personal Consumption Expenditures Price Index (PCE)

January 2020 - April 2021

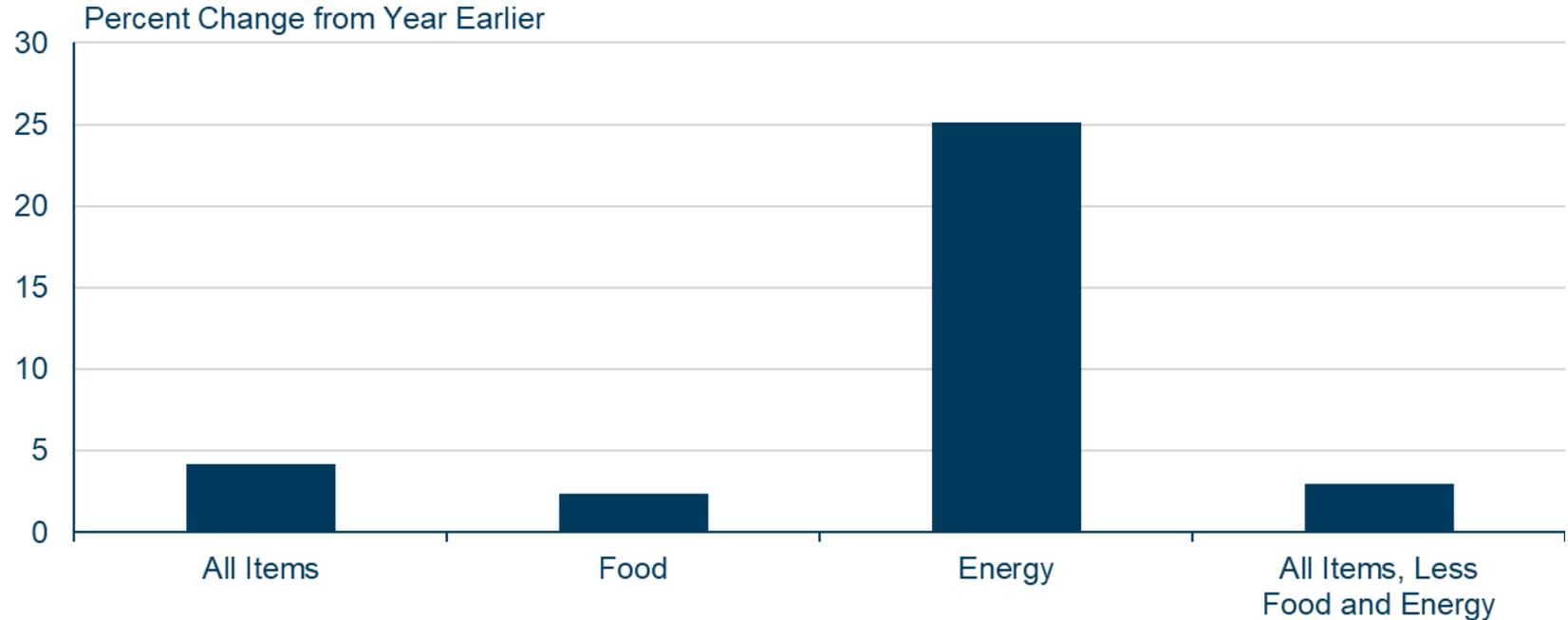


Note: We typically measure inflation as inflation over the year – the percent change in either the CPI or PCE for a given month from the same month in the previous year (as we do in Figures 6 and 7). However, in the chart above, to emphasize the monthly pattern, we display the percent change from the previous month, and we do not annualize these monthly percent changes. April figures for the PCE indices are not yet available.

Source: BEA, BLS, Haver Analytics

Figure 6: Measures of Inflation: The Consumer Price Index for Selected Categories

April 2020 - April 2021



Source: BLS, Haver Analytics

Figure 7: Inflation and Oil Prices

January 2018 - April 2021



Note: April figures for the PCE indices are not yet available.

Source: BEA, FT, Haver Analytics

Figure 8: Shipping Costs: Baltic Dry Index

January 2, 2020 - May 12, 2021



Figure 9: U.S. Import Price Index January 2020 - March 2021

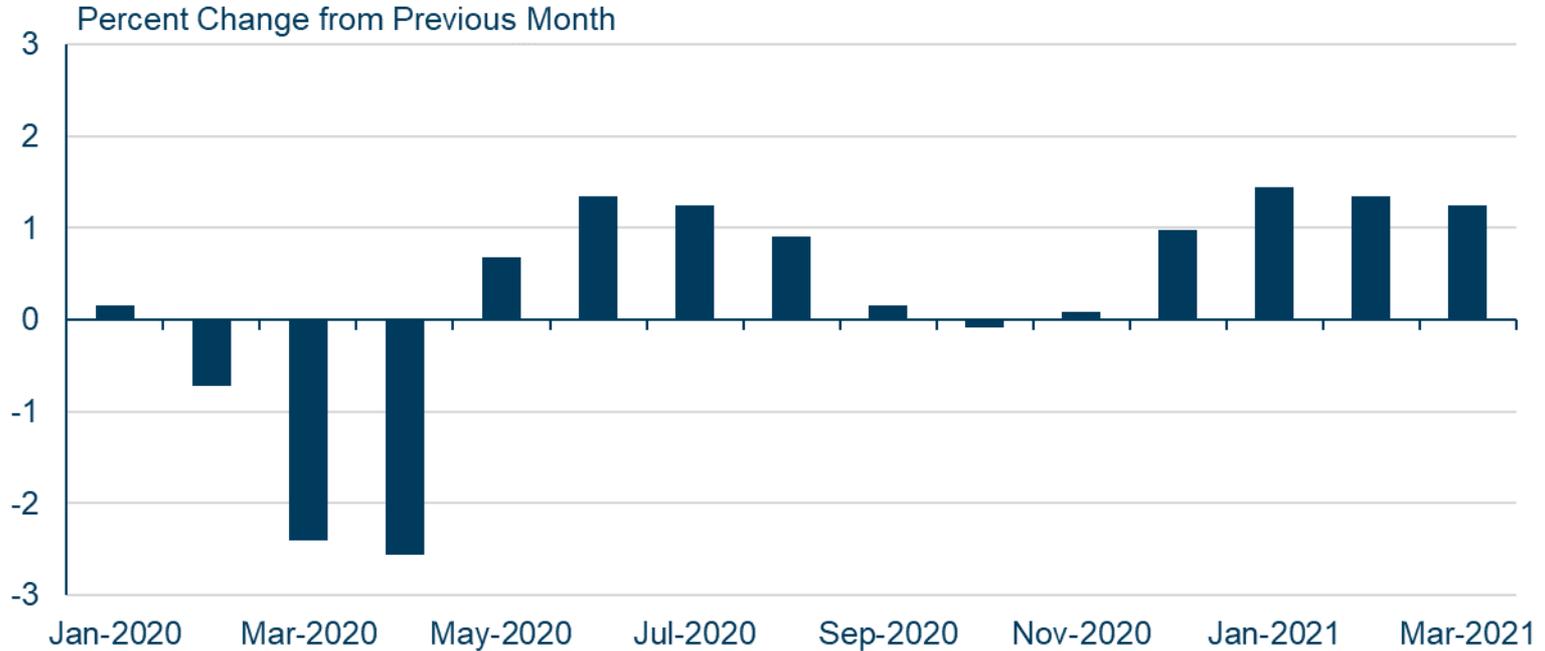
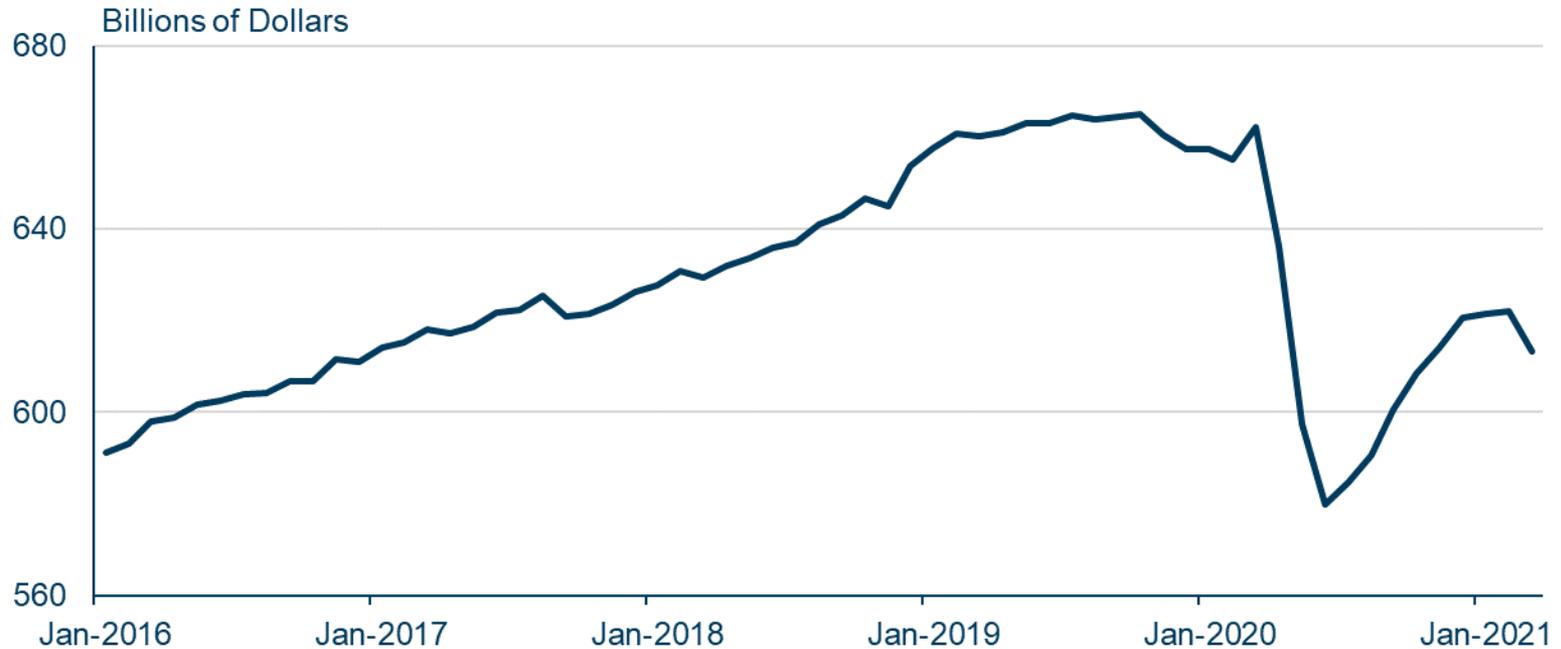


Figure 10: Retail Inventories

January 2016 - March 2021



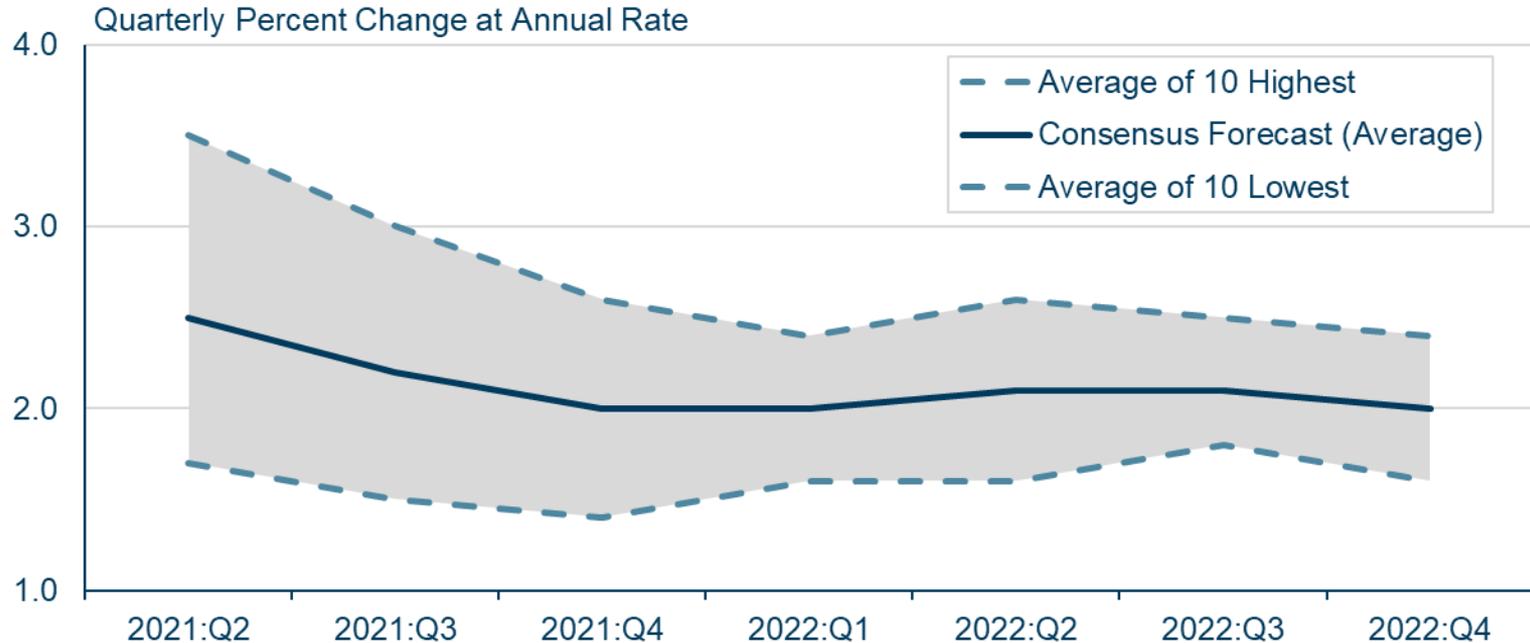
Source: Census Bureau, Haver Analytics

Figure 11: Wage Growth for Private-Industry Workers

2016:Q1 - 2021:Q1



Figure 12: Blue Chip Forecast for Core PCE Inflation, May 2021 2021:Q2 - 2022:Q4



Note: Core PCE excludes food and energy.

Source: Blue Chip Economic Indicators, May 10, 2021

Concluding Observations

- ▶ In sum, measured inflation likely to accelerate this spring – but the acceleration is likely to prove temporary
- ▶ Most likely outcome for the longer term is inflation trending close to 2 percent
- ▶ However, pandemic shock may impact economic relationships
 - ▶ With a shock as large as the pandemic, policymakers need to be alert to potential structural changes to the economy
- ▶ New policy framework brings focus on actual outcomes, not just forecasts of inflation
- ▶ Need to carefully filter underlying inflation trends, not just temporary price movements