Office of the Comptroller of the Currency

ECONOMIC SNAPSHOT

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August 2021

GDP growth strongest since 1984 but expected to moderate

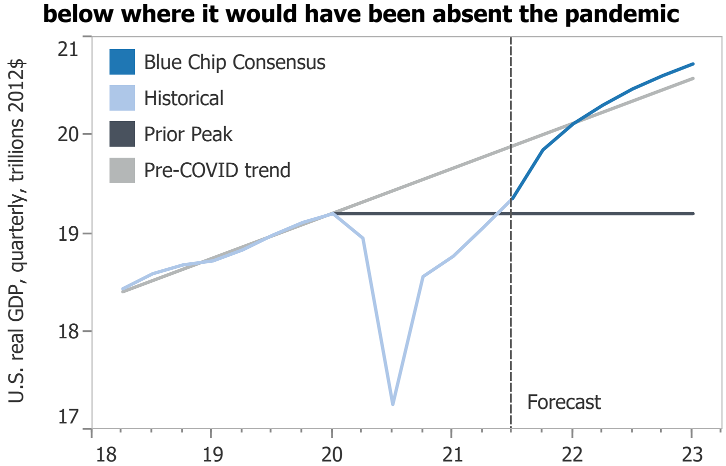
• **Real GDP grew at a fast 6.5 percent annualized rate in 2Q:2021.** Real activity was about 1 percent above its pre-pandemic peak but remained below the level it would have been absent the pandemic. See Figure 1. The rapid pace of expansion is unsustainable given more modest underlying trends in productivity and labor force growth. The Blue Chip Consensus expects that GDP growth will slow in the second half of 2021 and in 2022. For all of this year and next, growth is projected at 6.6 and 4.5 percent, respectively. Of course, a renewed surge in COVID-19 cases could restrain the expansion further, especially in low-vaccination states.

• **The labor market is lagging the broader recovery.** At 5.9 percent, the unemployment rate is still well above its low of 3.5 percent in February of 2020. Despite this slack, the record level of job openings suggests businesses are having difficulty hiring. See Figure 2. Pandemic concerns, issues with childcare, as well as disincentives from generous federal unemployment benefits may be restraining labor supply. The Consensus expects the unemployment rate to remain above 4 percent throughout 2022.

• **Inflation surged in recent months from supply bottlenecks and a rebound in the costs of energy and transportation-related services from COVID-depressed levels.** CPI growth reached 11 percent annualized in June but fell by 5 percentage points in July as auto prices stabilized, while prices of all other goods and services continued to grow at a moderate pace. See Figure 3. Current price pressures are likely to be transitory as supply issues are resolved and base-year effects fade. The Consensus expects inflation for 2020 to measure 3.2 percent before easing back to 2.5 percent in 2022, not far above the Federal Reserve's target range.

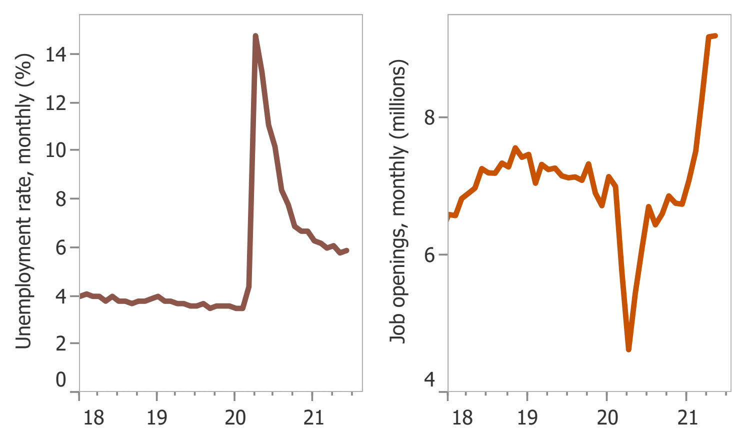
• **The Consensus expects the Federal Reserve to taper beginning in the first half of 2022, but doesn't anticipate a rate hike until 2023.** After peaking in April, long rates have edged down. While the rise was perhaps an overreaction to stronger growth and inflation, the decline reflected a reassessment and rebalancing of portfolios. The Consensus now foresees the 10-year Treasury yield rising modestly from its present level of 1.2 percent to 2.1 percent by the end of 2022. See Figure 4.

Figure 1: GDP now higher than prior peak but remains below where it would have been absent the pandemic



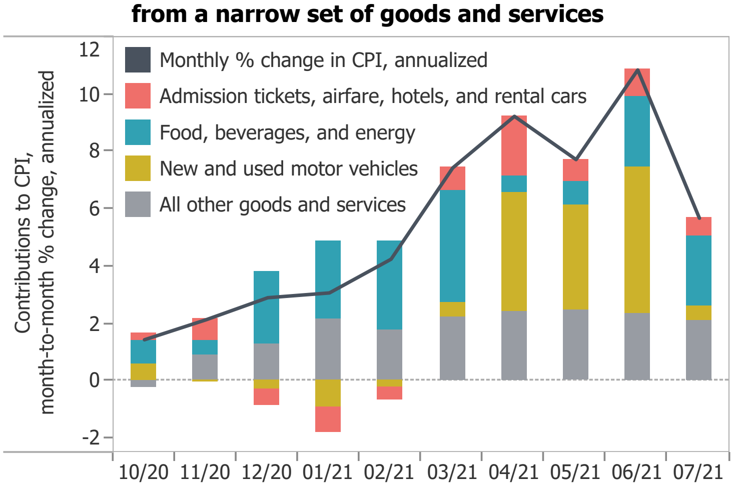
Sources: BEA (historical data through 2Q:2021), Blue Chip Economic Indicators (July 2021), Moody's Analytics (July baseline forecast)

Figure 2: Labor market lagging the broader recovery



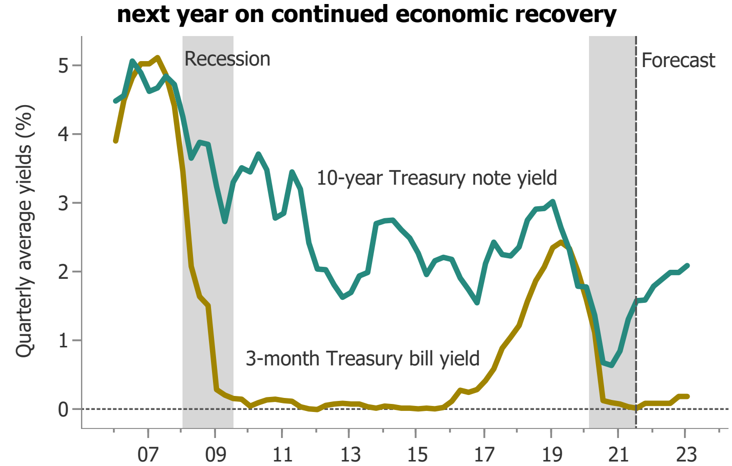
Source: BLS (data through June 2021 for unemployment and May 2021 for job openings)

Figure 3: Majority of increase in inflation coming from a narrow set of goods and services



Sources: BLS, Moody's Analytics

Figure 4: Yield curve to steepen somewhat through next year on continued economic recovery



Sources: Federal Reserve (data through 2Q:2021); Blue Chip Economic Indicators (July 2021)