Outlook for the US Economy

ECONOMIC RESEARCH OFFICE
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MUFG Bank, Ltd.
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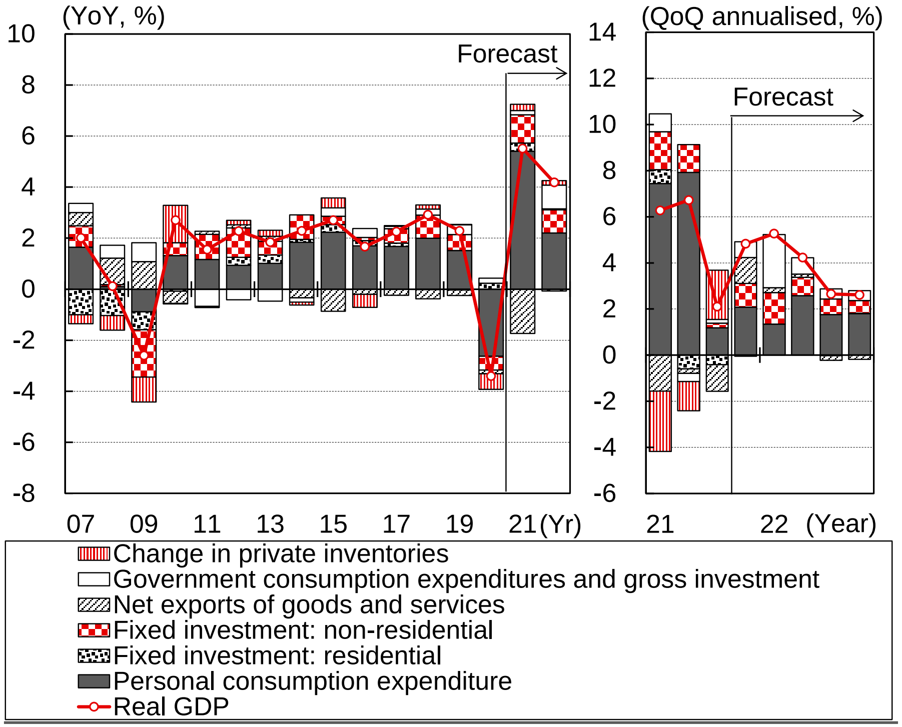
Overview

- The US real GDP growth rate for the July-September quarter (second estimate) was 2.1% QoQ annualised, decelerating from 6.7% QoQ annualised the previous quarter. The boost to consumption of goods from the cash benefits received in March and April had worn off, and there was a rise in COVID-19 cases resulting in a large deceleration in the growth of personal consumption to 1.7% QoQ annualised from 12.0% QoQ annualised the previous quarter. Non-residential investment also slowed to 1.5% QoQ annualised from 9.2% QoQ annualised the previous quarter, and growth of investment in transport equipment turned negative due to a shortage of supplies.
- Various supply constraints, such as a shortage of workers (an aftereffect of the pandemic), the resulting disruption to logistics, a shortage of semiconductors, the rise in fossil fuel prices or a combination of a number of these factors, have pushed inflation rates higher, which in turn has put downward pressure on non-residential investment and personal consumption. Nevertheless, the pace of economic recovery is expected to start accelerating due to an increased consumption of services as people start to adapt to life with COVID-19 and pent-up demand for business investment. The real GDP growth rate is forecast to hit 5.5% YoY in 2021.
- On 15th November, the government passed the Infrastructure Investment and Jobs Act, which includes USD 550 billions' worth of new investment over the next five years. This is predicted to boost growth from next year, leading to continued strong growth and a real GDP growth rate of 4.2% YoY in 2022.

Real GDP and Breakdown of Demand Components



Source: Department of Commerce, MUFG Bank Economic Research Office

GDP Outlook by Calendar Year

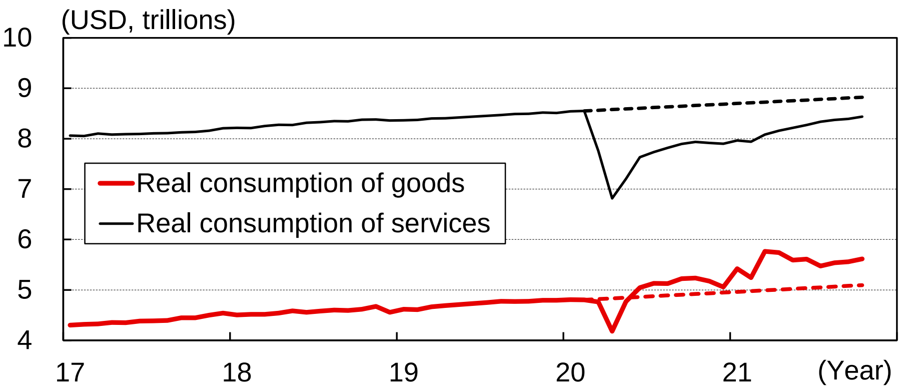
	2020 (actual)	2021 (outlook)	2022 (outlook)
Real GDP	-3.4	5.5	4.2
Personal consumption	-3.8	7.9	3.1
Residential investment	6.8	9.0	-1.9
Non-residential investment	-5.3	7.6	6.1
Change in inventories (contribution)	-0.6	0.2	0.2
Government consumption expenditure	2.5	0.9	5.4
Net exports (contribution)	-0.1	-1.7	0.0
Exports	-13.6	4.4	5.8
Imports	-8.9	13.2	3.5
Nominal GDP	-2.2	9.7	7.5

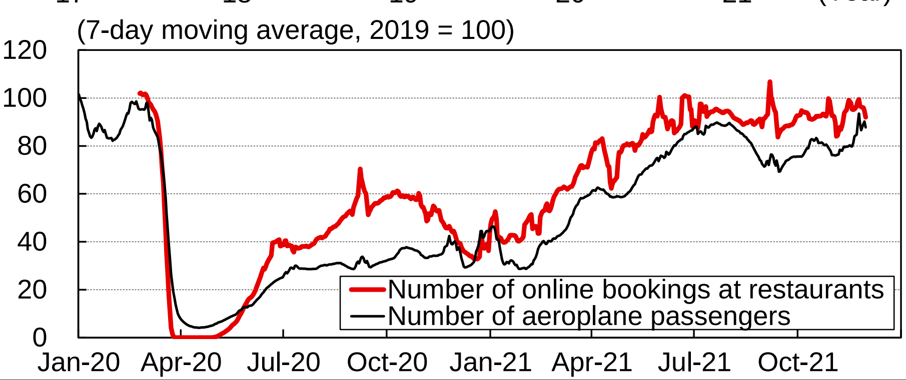
Source: Department of Commerce, MUFG Bank Economic Research Office

Personal Consumption Expenditure

- Real personal consumption expenditure increased by 0.7% month-on-month, marking its third consecutive month of positive growth. Spending on services has still not returned the level it was at before the pandemic, but high-frequency data shows consumption of restaurant and airline services is picking up as the number of new cases decreases.
- The high level of inflation at present has led to a deterioration of consumer sentiment as households' real income declines; however, the fall in spending growth expectations is limited when compared with the fall in income growth expectations. Appetite for spending on services is high; the ratio of households who plan to spend vacation overseas is higher than it was before the pandemic. Looking ahead, the shift to services from goods as the driving force behind consumption will continue, and personal consumption expenditure is forecast to continue to recover with some support from savings accumulated during the pandemic.

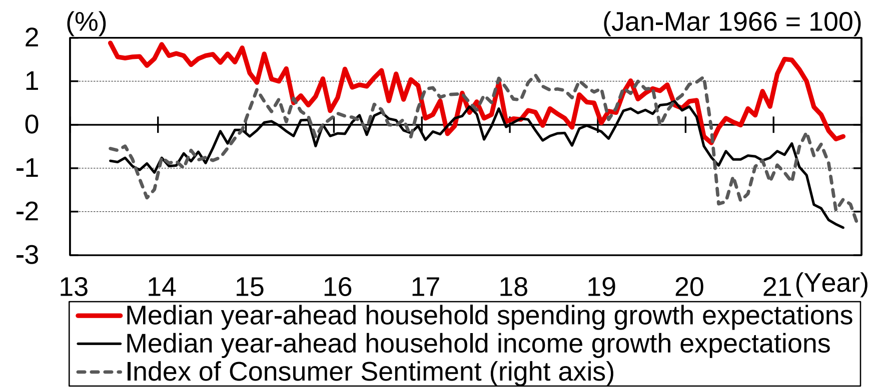
Indicators Related to Consumption

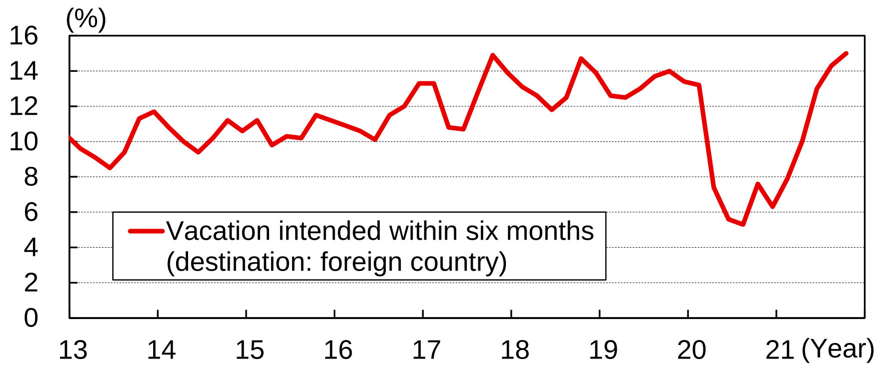




Note: Dotted line indicates extension of trend from 2017 to 2019
Source: Department of Commerce, Open Table, Department of Homeland Security, MUFG Bank Economic Research Office

Indicators Related to Consumer Sentiment





Source: Federal Reserve Bank of New York, Federal Reserve Bank of Michigan, Conference Board, MUFG Bank Economic Research Office

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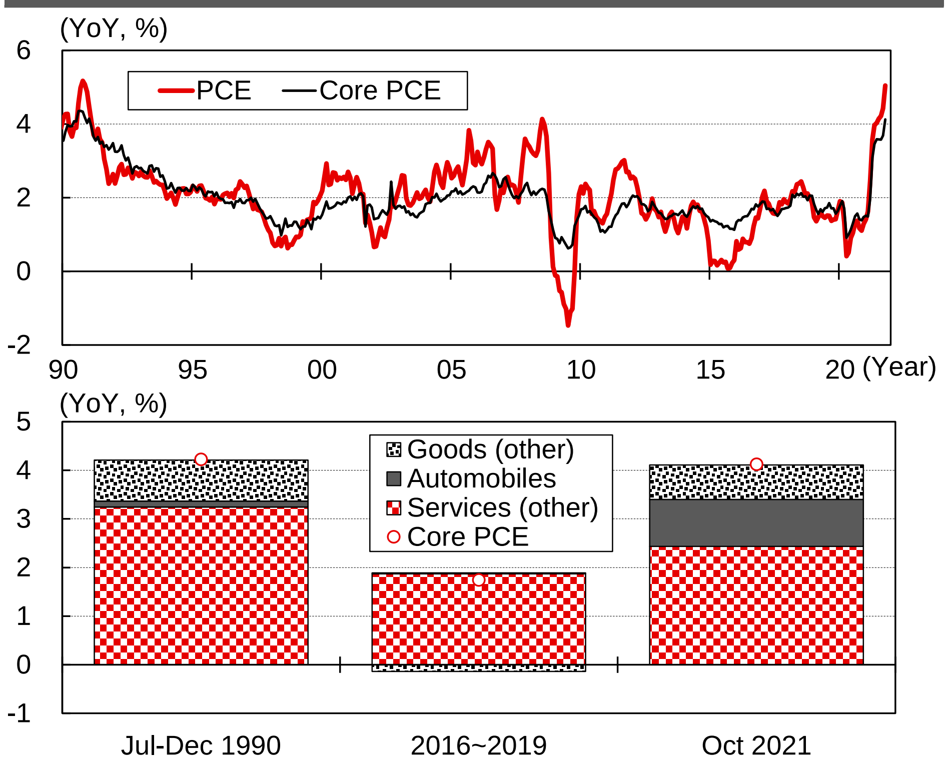
Inflation and Contributing Factors

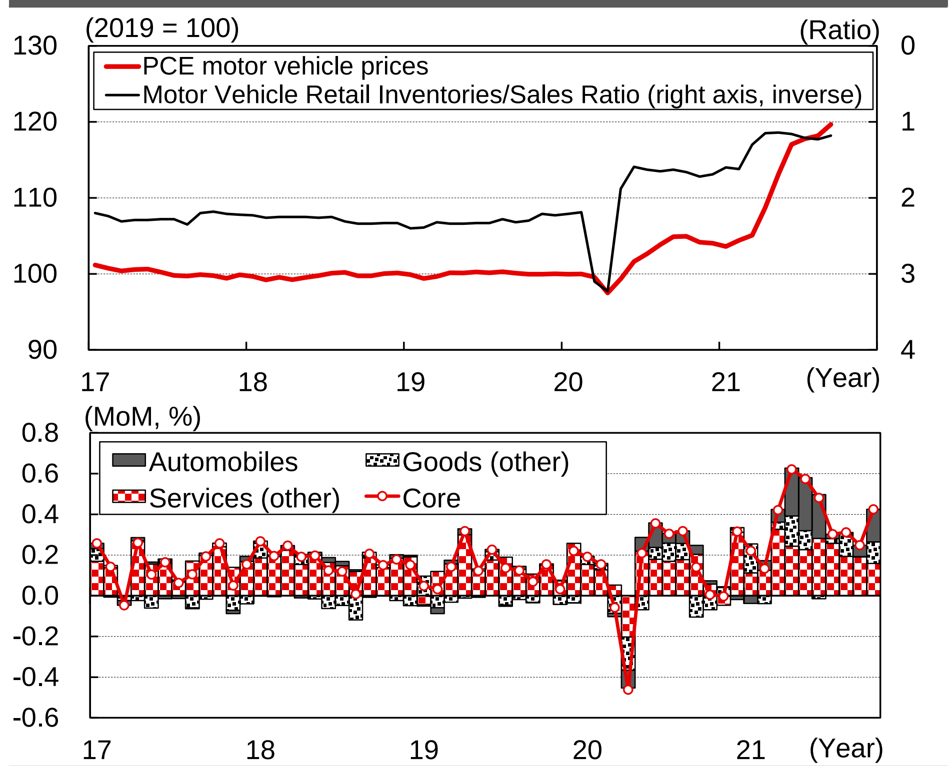
- The Personal Consumption Expenditure (PCE) Deflator rose 5.0% YoY in October, accelerating from 4.4% YoY the previous month. The core PCE deflator increased 4.1% YoY, which was the first time it hit 4% or over in 31 years.
- The acceleration in the growth of prices is due to a multitude of factors, such as soaring energy prices and various supply constraints. When it comes to energy prices, however, any further rise in oil prices will be limited. In 2022, the growth of oil prices will slow and it is highly likely they will start to fall.
- The contribution to core PCE by motor vehicles along with other goods was 1.7% YoY. Demand and supply of motor has been tightening due to a constrained supply of new vehicles caused by the shortage of semiconductors. As the semiconductor shortage starts to ease, major automobile manufacturers expect production to increase and the price of automobiles is expected to fall as the demand and supply balance eases. As a result, overall inflation is also expected to slow again on a month-on-month basis.

PCE Deflator and Breakdown by Contributing Factors



Note: “Automobiles” is a total of “automobiles and parts” and “automobile services”
Source: Department of Commerce, MUFG Bank Economic Research Office

Motor Vehicle Prices & Retail Inventories/Sales Ratio, Core PCE Deflator



Source: Department of Commerce, MUFG Bank Economic Research Office

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Monetary Policy

- At the Federal Open Market Committee meeting in November, the Committee decided to reduce the monthly pace of its net asset purchases (tapering). From November, it plans to reduce the pace by USD 10 billion for Treasury securities and USD 5 billion for agency mortgage-backed securities per month. However, Vice Chair Clarida and Governor Waller then mentioned speeding up the Fed's tapering when the Consumer Price Index published after the meeting rose more than expected. Continued high inflation is affecting the Biden administration's approval rating and is becoming an issue politically, and it appears concerns among FOMC participants are also increasing.
- In his testimony to the Senate on 30th November, Chair Powell said, "the recent rise in COVID-19 cases and the emergence of the Omicron variant pose downside risks to employment and economic activity and increased uncertainty for inflation". In addition, while he suggested increasing the pace of balance sheet reductions, he placed greater emphasis on price stability.
- In light of this, it is thought that the FOMC will decide to accelerate its tapering (reduce the monthly pace of its net asset purchases by USD 20 billion for Treasuries and USD 10 billion for agency mortgage-backed securities) at the meeting in December. Rate hikes are expected in June, September and December next year provided the maximum employment target has been achieved for the most part by June 2022.

Statements by FOMC Members with Voting Rights in 2021

Members	Date	Details
Waller	19 Nov	"…For my part the rapid improvement in the labor market and the deteriorating inflation data have pushed me towards favoring a faster pace of tapering and a more rapid removal of accommodation in 2022."
Clarida	19 Nov	"I'll be looking closely at the data that we get between now and the December meeting, and it may well be appropriate at that meeting to have a discussion about increasing the pace at which we're reducing our balance sheet"
Bostic	22 Nov	Says he is "comfortable" with moving the tapering (to finish at the end of Q1 2022) based on recent data.
Daly	24 Nov	"If things (prices and employment) continue to do what they've been doing, then I would completely support an accelerated pace of tapering."
Powell	30 Nov	"It is … appropriate in my view to consider wrapping up the taper of our asset purchases . . . perhaps a few months sooner." "To get back to the kind of great labor market we had before the pandemic, we're going to need…price stability"

Source: Various news reports, MUFG Bank Economic Research Office

Minutes of the Federal Open Market Committee November 2021

Item	Details
Labour Market	• "Some" participants cited a number of signs that the US labour market was very tight. • "Several" participants judged that labour force participation would be structurally lower than in the past. • "Several" participants suggested that labour supply was currently being depressed by pandemic-related factors such as disruptions related to caregiving arrangements and noted that the importance of such factors would likely diminish as economic and public health conditions improved further.
Prices	• "Some" participants highlighted the fact that price increases had become more widespread • "Many" participants pointed to considerations that might suggest that elevated inflation could prove more persistent. • "Some" participants remarked that although inflationary pressures were lasting longer than anticipated, those pressures continued to reflect the same pandemic-related imbalances and would likely abate when supply constraints eased.
Monetary Policy	• Participants highlighted the more stringent criteria for raising the target range, compared with the criteria that applied to beginning to reduce the pace of asset purchases. • Various participants noted that the Committee should be prepared to adjust the pace of asset purchases and raise the target range for the federal funds rate sooner than participants currently anticipated. • Participants noted that the Committee would not hesitate to take appropriate actions to address inflation pressures that posed risks to its longer-run price stability and employment objectives.

Source: Board of Governors of the Federal Reserve System,
MUFG Bank Economic Research Office

Appendix: Outlook for the US Economy and Financial Markets

Outlook for the US Economy

Forecast →

	2020				2021				2022				2020	2021	2022
	1～3	4～6	7～9	10～12	1～3	4～6	7～9	10～12	1～3	4～6	7～9	10～12	(Actual)	(Forecast)	(Forecast)
1. Main Economic Indicators															
Real GDP (QoQ annualized, %)	-5.1	-31.2	33.8	4.5	6.3	6.7	2.1	4.8	5.3	4.2	2.6	2.6	-3.4	5.5	4.2
Personal Consumption Expenditures	-6.9	-33.4	41.4	3.4	11.4	12.0	1.7	2.9	1.9	3.7	2.5	2.6	-3.8	7.9	3.1
Fixed Investment (Residential)	20.3	-30.8	60.0	34.4	13.3	-11.7	-8.3	0.0	0.0	0.0	-0.7	0.5	6.8	9.0	-1.9
Fixed Investment (Nonresidential)	-8.1	-30.3	18.7	12.5	12.9	9.2	1.5	7.0	9.2	5.2	4.5	3.7	-5.3	7.6	6.1
Changes in Business Inventories (Contribution)	-0.5	-4.0	6.8	1.1	-2.6	-1.3	2.1	0.0	0.0	0.0	0.0	0.0	-0.6	0.2	0.2
Government Expenditures	3.7	3.9	-2.1	-0.5	4.2	-2.0	0.9	4.0	14.0	4.1	2.5	2.4	2.5	0.9	5.4
Net Exports (Contribution)	-0.1	1.5	-3.3	-1.7	-1.6	-0.2	-1.2	1.1	0.2	0.1	-0.2	-0.2	-0.1	-1.7	0.0
Exports	-16.3	-59.9	54.5	22.5	-2.9	7.6	-3.0	14.2	6.2	4.9	3.9	3.1	-13.6	4.4	5.8
Imports	-13.1	-53.1	89.2	31.3	9.3	7.1	5.8	2.9	2.9	2.4	3.7	3.1	-8.9	13.2	3.5
Domestic Private End User Demand	-6.2	-32.8	38.0	6.0	11.8	10.4	1.3	3.5	3.0	3.8	2.7	2.7	-3.7	7.9	3.4
Nominal GDP (QoQ annualized, %)	-3.9	-32.4	38.7	6.6	10.9	13.2	8.3	9.5	8.0	5.8	4.2	4.3	-2.2	9.7	7.5
Industrial Production (QoQ annualized, %)	-6.7	-42.4	44.5	8.2	4.0	6.4	3.9	3.4	2.3	1.3	0.9	0.6	-7.2	5.5	2.5
Unemployment Rate (%)	3.8	13.0	8.8	6.7	6.2	5.9	5.1	4.3	4.0	3.8	3.8	3.8	8.1	5.4	3.8
Producer Price Index (YoY, %)	1.1	-1.1	-0.1	0.8	2.9	7.1	8.3	8.7	6.8	4.0	2.1	1.2	0.2	6.7	3.5
Consumer Price Index (YoY, %)	2.1	0.4	1.2	1.2	1.9	4.8	5.3	5.1	4.5	2.9	1.4	1.3	1.2	4.3	2.5
2. Balance of Payments															
Trade Balance (hundred million dollars)	-2,003	-2,233	-2,454	-2,531	-2,689	-2,697	-2,752	-2,929	-2,846	-2,817	-2,814	-2,809	-9,220	-11,067	-11,286
Current Account (hundred million dollars)	-1,148	-1,539	-1,724	-1,751	-1,894	-2,237	-2,347	-2,257	-2,105	-2,073	-2,067	-2,059	-6,161	-8,735	-8,303
3. Financial Indicators															
FF Rate Target (%)	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.25-0.50	0.50-0.75	0.75-1.00	0.00-0.25	0.00-0.25	0.75-1.00
Euro Dollar (3M) (%)	1.5	0.6	0.3	0.2	0.2	0.2	0.1	0.2	0.2	0.4	0.6	0.9	0.7	0.2	0.5
10-year Treasury Note's Yield (%)	1.4	0.7	0.6	0.9	1.6	1.6	1.3	1.5	1.6	1.7	1.9	2.0	0.9	1.5	1.8

Note: FF Rate Targets is end-of-period figures, Euro Dollar (3M) and 10-year Note's Yield are averages for periods
Source: Various reports, Bloomberg, MUFG Bank Economic Research Office

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