



FEDERAL RESERVE BANK *of* ST. LOUIS
CENTRAL TO AMERICA'S ECONOMY®

The Economic Outlook for the U.S. and Kentucky

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Outline of Today's Talk

- An overview of U.S. economic conditions.
- A high-level view of economic conditions in Kentucky.
- Longer-run trends to monitor that will affect Kentucky and the nation.

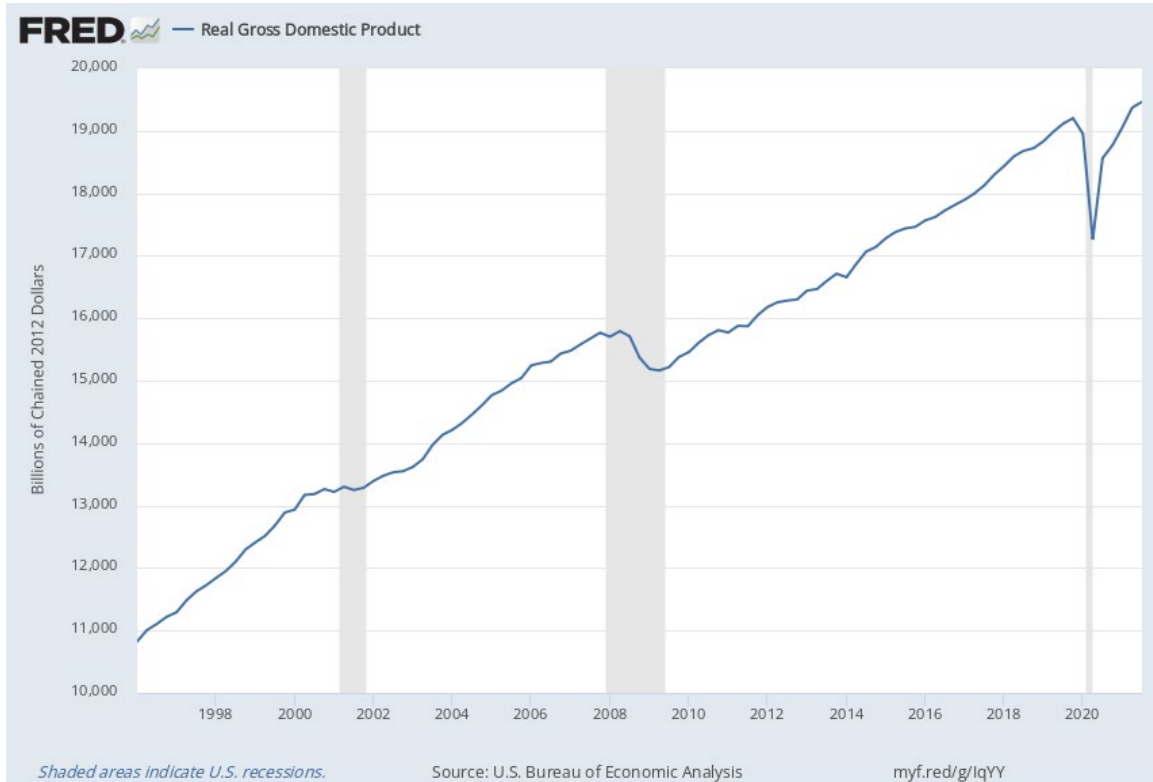
Disclaimer

The views I will express today are my own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

The Big Picture

- Supply-side constraints and the Delta variant appear to have been a drag on Q3 output and employment growth.
- The pace of activity should be stronger in Q4 and into 2022 as some of these constraints ebb. But risks endure.
- Inflation is high, and it is likely to remain high well into 2022—but there is a lot of uncertainty about that view.
- And now there is an energy price spike to deal with.

Real GDP: The Pause that Refreshes?



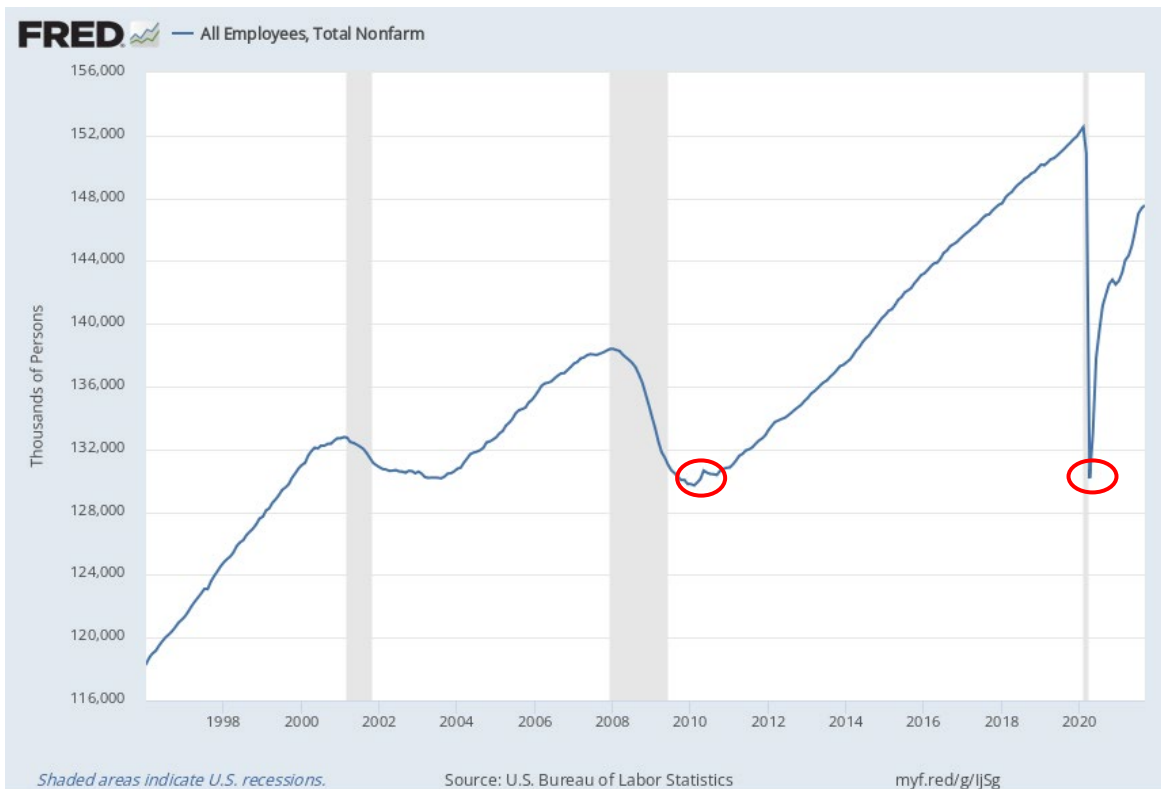
Growth of Real GDP, 2020-21:

	<u>Annual Rate</u>	<u>Quarterly Rate</u>
2020:Q2	-31.2%	-8.9%
2020:Q3	33.8%	7.5%
2020:Q4	4.5%	1.1%
2021:Q1	6.3%	1.5%
2021:Q2	6.6%	1.6%
2021:Q3	2.0%	0.5%

2021:Q4 (F) 4% - 6%

From 1994 to 2019, real GDP growth averaged 2.4%/year.

Employment is Still Increasing



Monthly Changes in U.S. Nonfarm Payroll Employment, Actual and the Financial Market Forecast:

	<u>Predicted</u>	<u>Actual</u>
June 2021	675K	962K
July 2021	900K	1,091K
Aug. 2021	728K	366K
Sept. 2021	460K	194K
Oct. 2021 (F)	385K	

Employment is still 4.97 million below the Feb. 2020 peak.

A Falling U.S. Unemployment Rate



Unemployed as a Percent of the U.S. Labor Force:

June 2021 5.9%

July 2021 5.4%

Aug. 2021 5.2%

Sep. 2021 4.8%

Oct. 2021 (F) 4.7%

U.S. Long-Run Avg.: 5.7%

A “tight” labor market is a double-edged sword: Good for workers (higher wages); a challenge for employers.

Median YOY Wage Growth by Quartile,
Sept. 2021 vs. Sept. 2020:

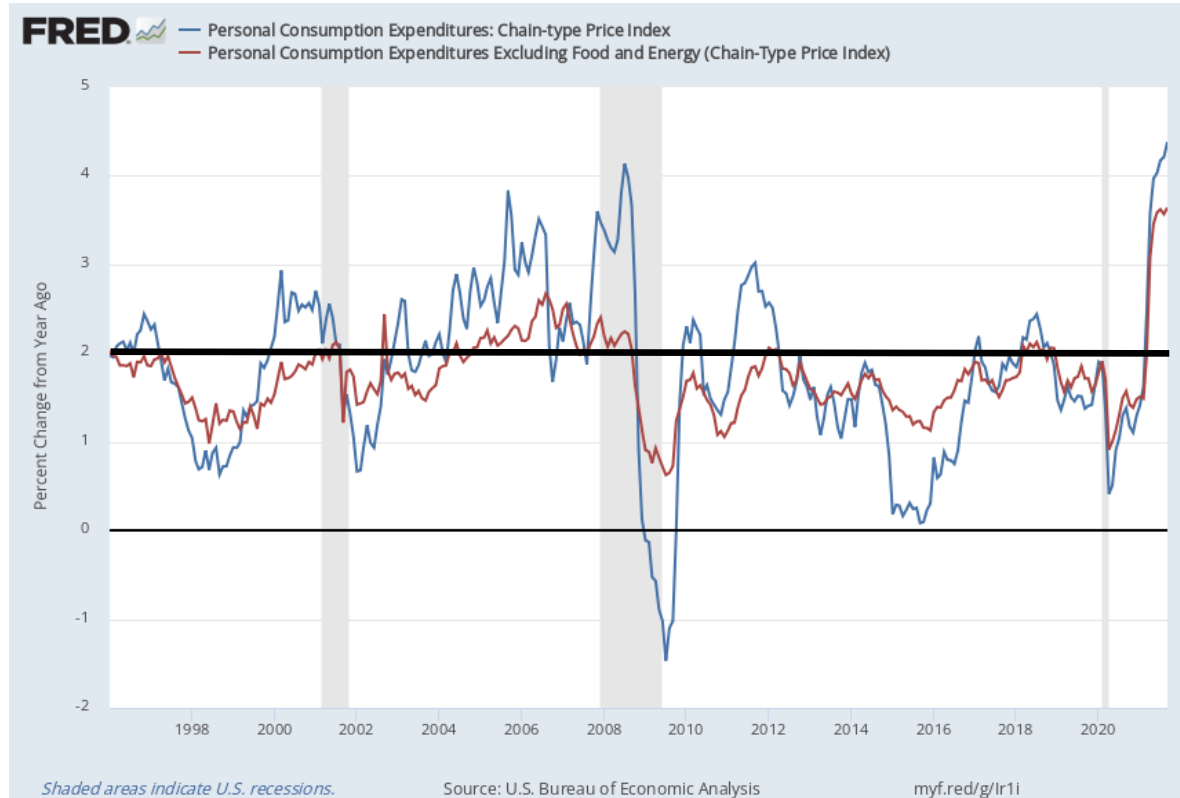
	<u>2021</u>	<u>2020</u>
• First:	4.9%	4.3%
• Second:	3.8%	3.5%
• Third:	3.2%	3.5%
• Fourth:	2.7%	3.3%

SOURCE: FRB Atlanta



Inflation . . . It's Too High

2% is the Fed's inflation target.

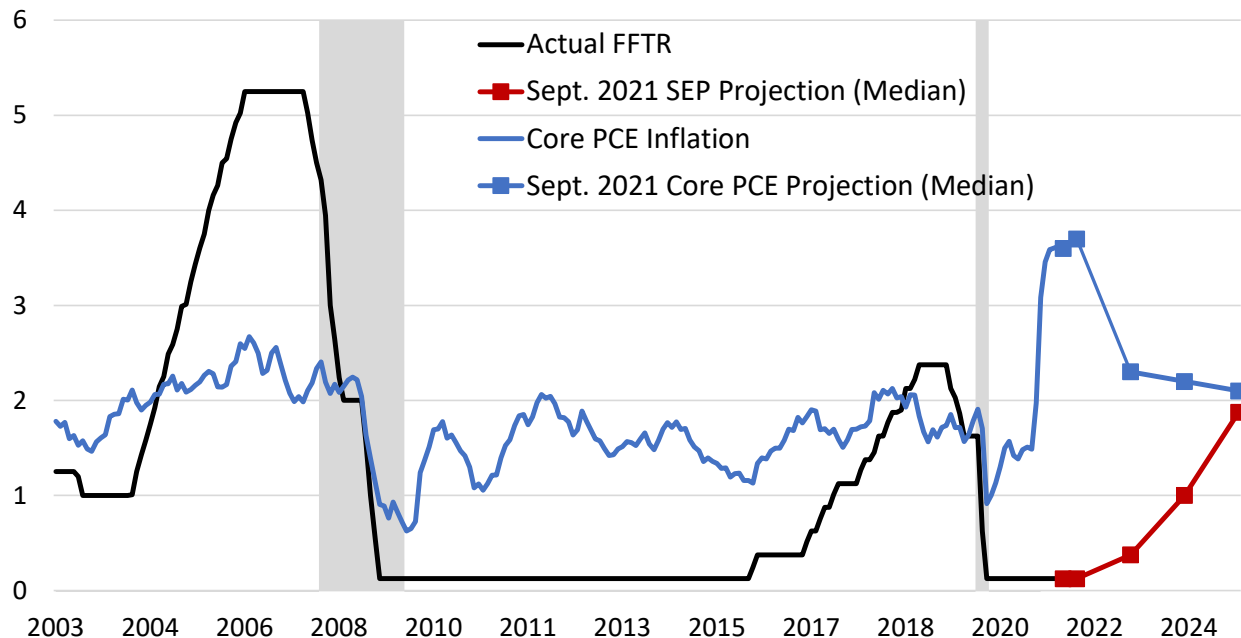


Data through September 2021.

Fed Policy: This Time is Different

Core Inflation and the FOMC's Federal Funds Target: Actual and Projected

Percent



SOURCE: Federal Reserve and Haver Analytics

Historically, the Fed started to tighten well before core inflation rose above 2%.

Risks to the Outlook

- Uncertainty remains higher than normal; that's not good.
- Inflation pressures have persisted longer than expected; higher inflation is already reducing real household incomes.
- Rising interest rates and high house prices could throttle single-family housing construction.
- The budget outlook has worsened, raising concerns about future inflation and taxes; a shift in regulatory policy.
- Other COVID-19 variants, geopolitical developments, etc.

An Update of the Kentucky Economy

Themes in the Kentucky Economy

- Economic conditions in the Louisville zone have continued to improve at a moderate pace.
- Contacts noted that the economic impact of the rise in COVID cases was less severe than expected. Hotel operators noted strong weekend bookings, with very few weekday business travelers.
- Contacts in counties with low vaccination rates expressed concern vaccine mandates could exacerbate labor supply issues in the next few months.

SOURCE: Current St. Louis Beige Book

Themes in the Kentucky Economy

- An auto parts manufacturer noted that vehicle production delays have mitigated their failure to hire more staff, which would be needed if production levels were higher.
- The residential real estate market appears to have softened but contacts are unclear if trends are due to normal seasonal patterns or a broader softening in the market.
- Agriculture conditions have improved since our previous report. Coal prices and production have both increased sharply.

SOURCE: Current St. Louis Beige Book (October 2021)

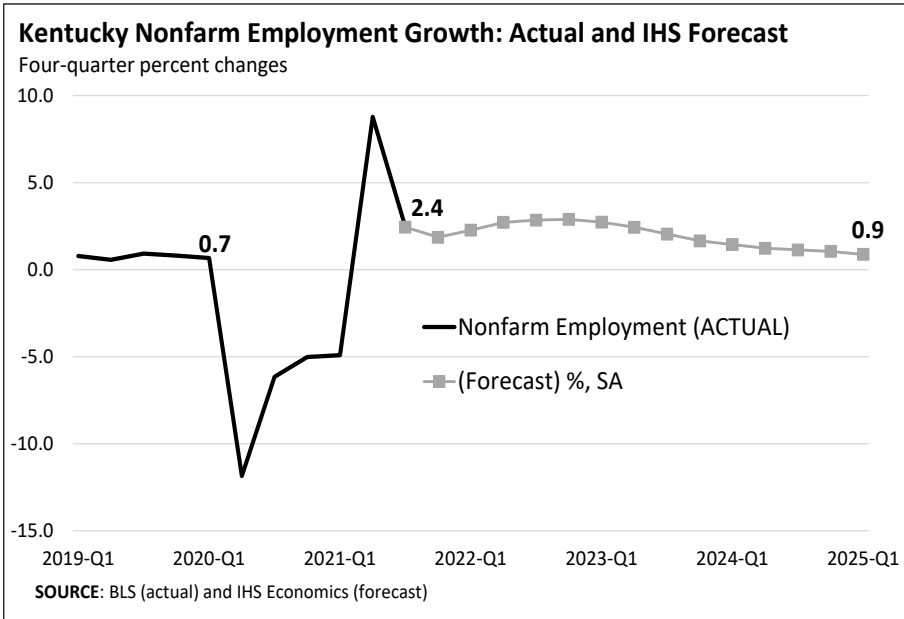
Kentucky Economic Conditions: Better in Some Ways, Worse in Others

Economic Statistics: U.S., Kentucky, and Indiana	U.S.	Kentucky	Indiana
Nonfarm payrolls (12 month percent change)	4.01	2.15	1.97
Pre-pandemic job growth (2018–2019 average)	1.46	0.65	0.84
Unemployment rate, percent (Sept. 2020 in parentheses)	4.8 (7.8)	4.3 (5.5)	4.0 (6.3)
Job openings, thousands	10,439	167	211
Job Openings to Unemployment	1.25	1.47*	1.29*
Labor force participation rate (percent of population)	61.6	56.5	63.0
Real GDP (4 quarter percent change, 2021 Q2)	12.2	13.5	15.0

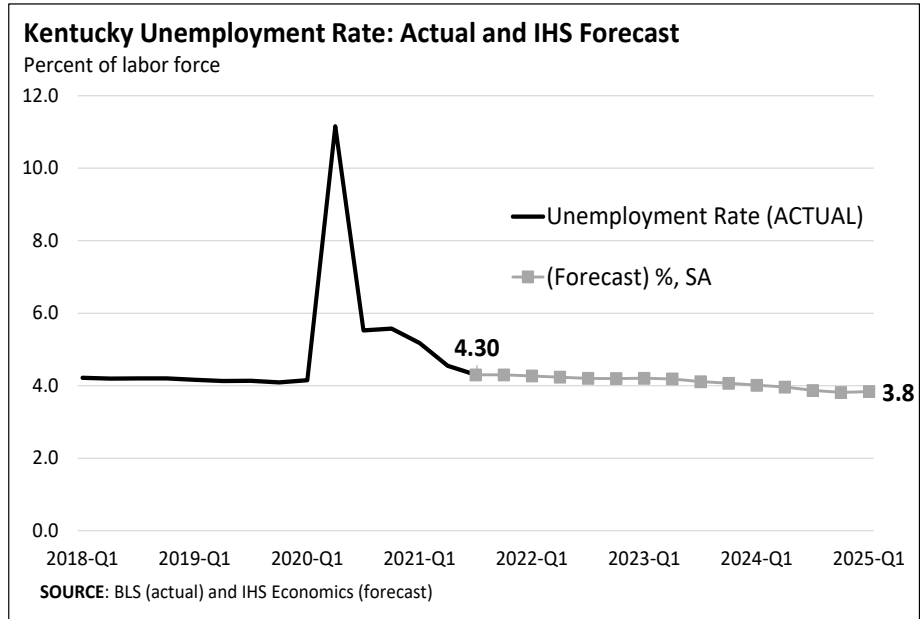
*IN & KY unemployment-job openings ratios are for Q2 2021 and Q2 2020.

NOTE: The Louisville MSA unemployment rate in September 2021 was 3.9%; 12-month job growth was 2.8%.

Longer-Run Forecasts for Kentucky Employment Growth and the Unemployment Rate

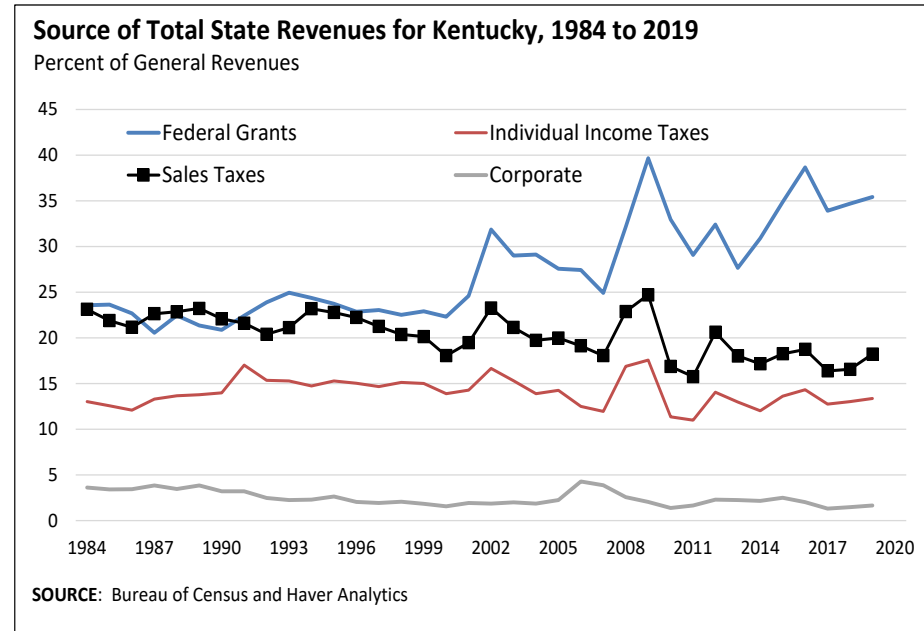
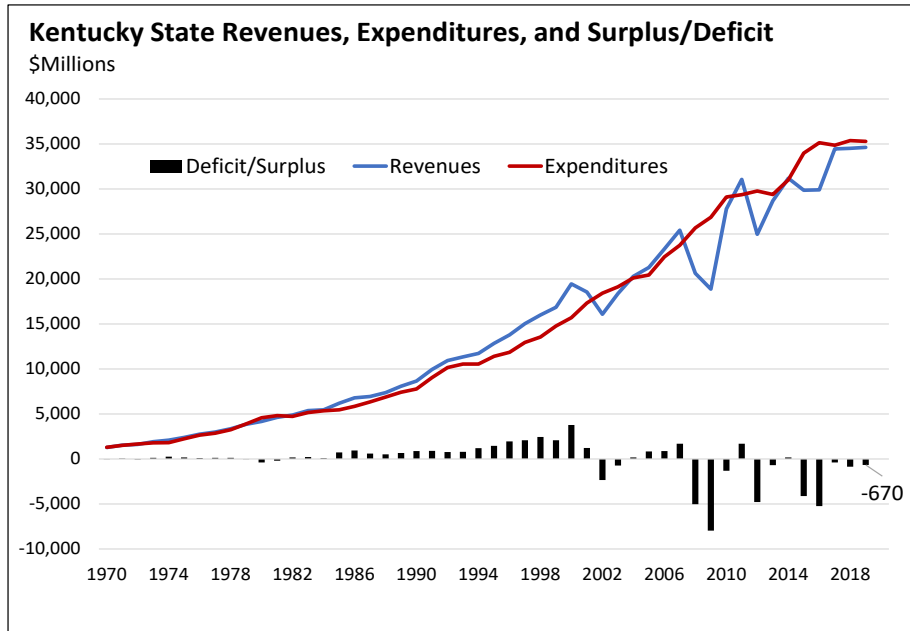


Employment



Unemployment Rate

Kentucky State Finances: “Stable”



Standard & Poor’s Bond Rating for KY: **A**

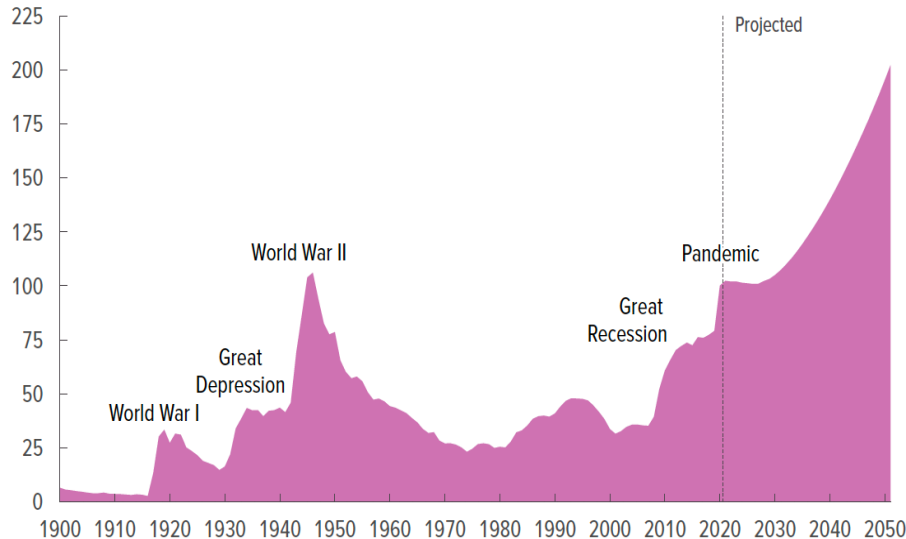
Outlook: **Stable**

Federal Debt: You Should Worry

Figure 1.

Federal Debt Held by the Public, 1900 to 2051

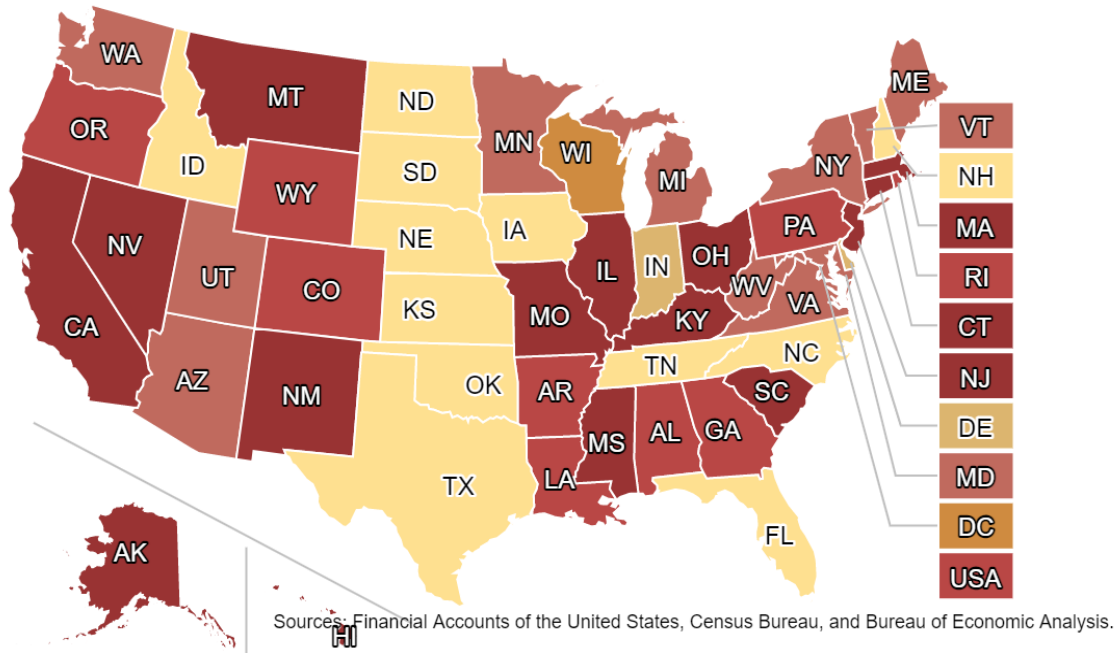
Percentage of Gross Domestic Product



Growing deficits are projected to drive federal debt held by the public to unprecedented levels over the next 30 years. By 2051, debt is projected to reach more than 200 percent of gross domestic product.

Data source: Congressional Budget Office. See www.cbo.gov/publication/56977#data.

State and Local Government Pension Funding Status, 2018



Bottom Five States in Funding Ratio:

Illinois	-58.6%
Alaska	-40.7%
Mississippi	-37.6%
New Mexico	-36.0%
Kentucky	-31.5%
U.S. Avg.:	-20.6%

NOTE: The funding status is the pension plan's assets less liabilities (measured in dollars). The map shows the funding status expressed as a percentage of state GDP

Longer-Run Trends to Monitor

- The post-pandemic economy looks very different. For example:
- The work-place/technology has changed for many firms. Numerous implications (e.g., office construction, business travel, state/local tax revenues, etc.).
- The labor force has declined by about 3.1 million people.
- The long-run fiscal outlook is worse. A combination of three things could happen: higher taxes, reduced benefits/transfers (including to state & local govt.'s), or higher inflation.

QUESTIONS?