Office of the Comptroller of the Currency

ECONOMIC SNAPSHOT

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January 2022

Real GDP forecast is for solid but slower growth in 2022

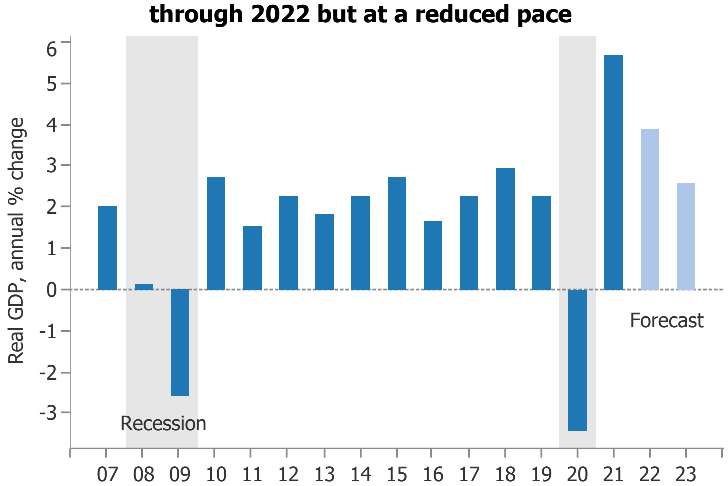
• Real GDP grew at a rapid 6.9 percent annual rate in 4Q:21. Most of the increase was due to businesses restocking inventories from depressed levels rather than to spending on goods and services. Despite the surge, inventory levels remain low suggesting that continued inventory rebuilding will further boost GDP growth in coming quarters. See Figure 1. Meanwhile, the U.S. added a far higher than expected 467,000 jobs in January and employment for the previous two months was revised upward by 709,000. The Omicron surge raised concerns of slower consumer spending and weak 1Q GDP growth, but the resilience in labor markets suggests that 1Q activity could be stronger than previously thought.

• Though still accommodative, fiscal policy will become less supportive of the economy this year due largely to waning unemployment insurance benefits. See Figure 2. Passage of a smaller version of the Build Back Better Act would add some additional fiscal support. But, any impact on the deficit in 2022-23 would be modest as the package would likely be spread out over many years and financed with substantial new tax revenues.

• Inflation is originating mostly from food, energy, autos, rent, and tourism. But inflation has pushed into the broader economy with prices in the "all other" category rising faster as well. See Figure 3. Strong sales of goods and supply chain problems drove the inventory-to-sales ratio to a record low in 2021. As a result, consumers bid up prices of scarce goods. And the risk of sustained inflationary pressures remains high from strong wage growth and rising rent costs. The personal consumption expenditure (PCE) price index increased at a 6.5 percent annual rate in 4Q:21, far above the Fed's 2 percent target. However, the Blue Chip consensus expects inflationary pressures to moderate. By 4Q:22 the panel projects that PCE inflation will ease to just 2.3 percent.

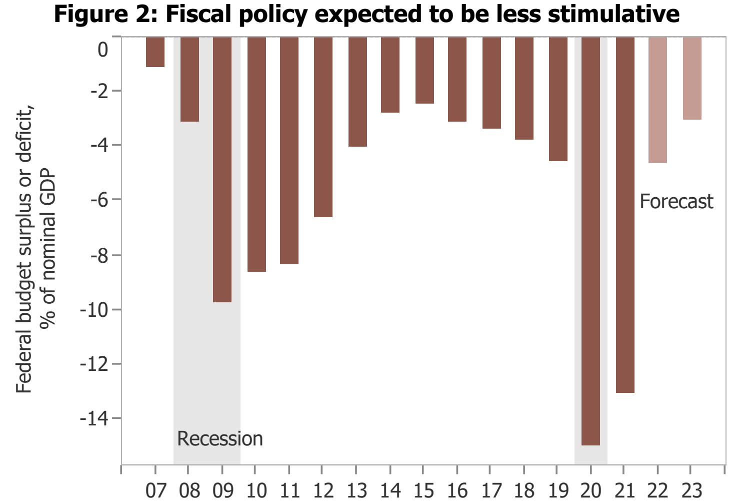
• The Fed is widely expected to hike the Federal Funds rate by at least 25-bps at its mid-March FOMC meeting. The Blue Chip panel then anticipates at least three additional 25-bps increases later this year. The 10-year Treasury yield is forecast to edge up from its present level of 1.8 percent to over 2.0 percent by the end of 2022 on moderating but still solid economic growth. See figure 4.

Figure 1: Expansion expected to continue through 2022 but at a reduced pace



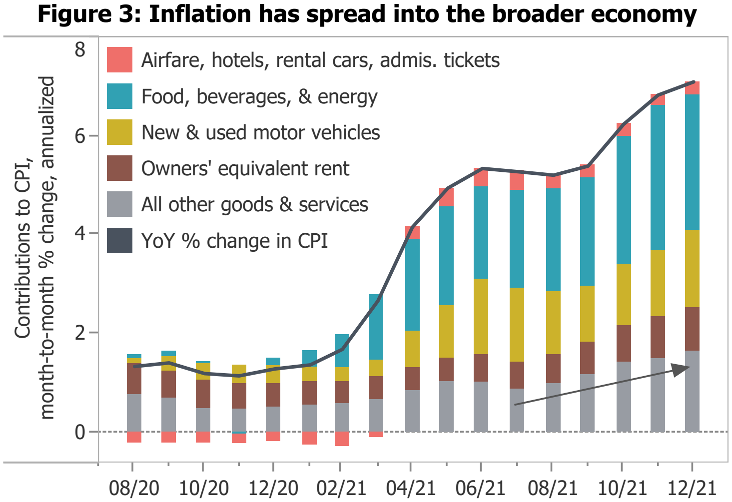
Sources: BEA, Blue Chip Economic Indicators (January 2022)

Figure 2: Fiscal policy expected to be less stimulative



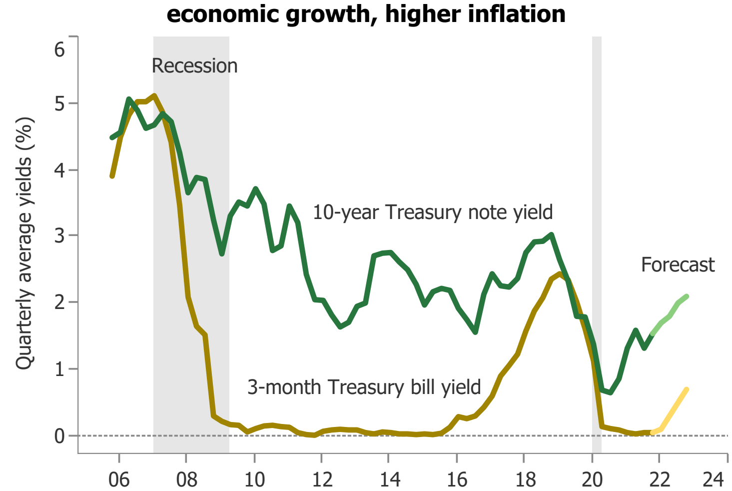
Sources: CBO, Blue Chip Economic Indicators (January 2022)

Figure 3: Inflation has spread into the broader economy



Source: BLS (January 2022)

Figure 4: Long rates to edge up on continued economic growth, higher inflation



Sources: Federal Reserve (4Q:2021); Blue Chip Economic Indicators (Jan. 2022)