Office of the Comptroller of the Currency

ECONOMIC SNAPSHOT

NATIONAL | CENTRAL | NORTHEASTERN | SOUTHERN | WESTERN

November 2021

COVID-related slowdown in 3Q expected to be temporary

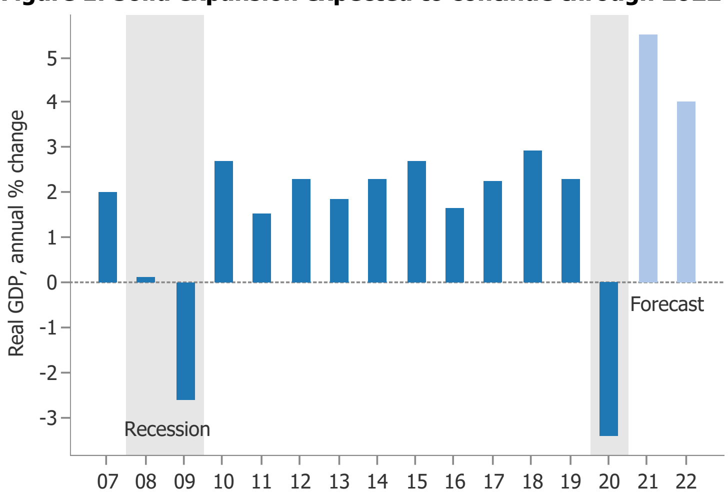
• **Real GDP growth slowed sharply in 3Q:2021. This reflected in large part the impact of the Delta variant infection surge on consumer and business spending in areas such as travel, leisure, and hospitality.** Widespread supply constraints including labor shortages also played a role in the slowdown. However, the headwinds directly related to the Delta variant appear to be dissipating and the Blue Chip Consensus currently expects real activity to pick up through the end of the year and into next year, with full-year GDP growth of 4.0 percent in 2022. See Figure 1. At the same time, supply-chain disruptions, if they persist, could remain a potential drag on the pace of recovery.

• **Supply constraints are also creating inflationary pressures.** Job openings exceed the number of unemployed workers. Despite a rebound in hiring in October, this suggests that firms are not able to find enough workers to satisfy the surge in demand. Order backlogs have swelled and transportation costs are high, indicating that stretched supply chains cannot handle elevated sales. Imports have been disrupted by gridlock at major U.S. ports. See Figure 2.

• **The consumer price index (CPI) jumped nearly 12 percent at an annual rate in October, driven by sharp increases in the costs of food, energy, autos, and rent.** See Figure 3. Indeed, the rising CPI rent index has the potential to sustain inflation next year. Owners' equivalent rent, which is the largest single component of the CPI, surged by 5.4 percent at an annual rate in October. The risk of sustained inflation also stems from strong wage growth. Still, the Consensus view is that inflation will slow in 2022 as supply issues resolve. Of course, if shortages linger or wage growth accelerates, the forecast could change.

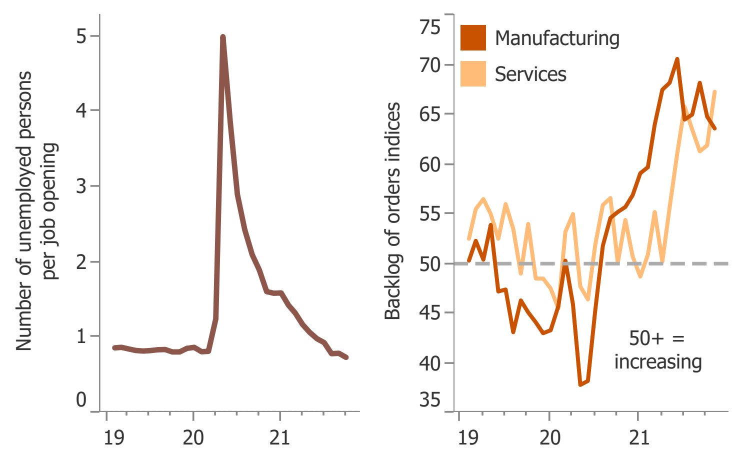
• **The Fed started to reduce the pace of its bond purchases in November, although the Consensus doesn't anticipate a rate hike until late 2022.** A sustained pickup in inflation could prompt the central bank to raise rates sooner than expected. The 10-year Treasury yield is forecast to edge up from its present level of 1.6 percent to 2.0 percent by the end of 2022 on strong economic growth. Fed tapering could also place upward pressure on long-term rates. See Figure 4.

Figure 1: Solid expansion expected to continue through 2022



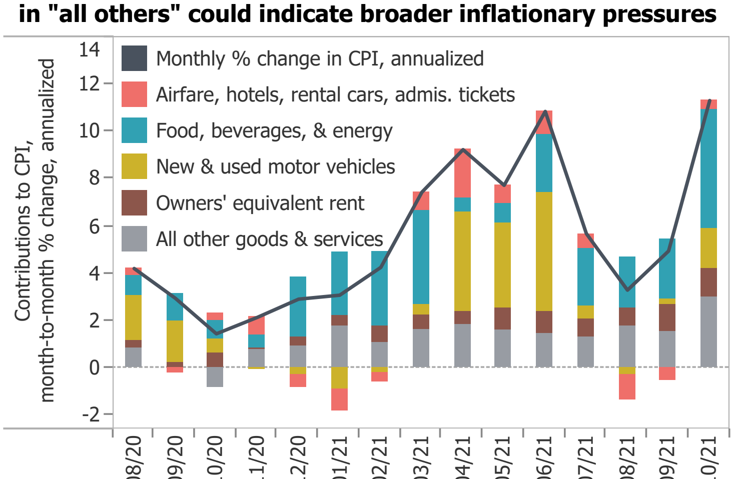
Sources: BEA, Blue Chip Economic Indicators (November 2021)

Figure 2: Inflation pressure coming from tight labor markets and stretched supply chains



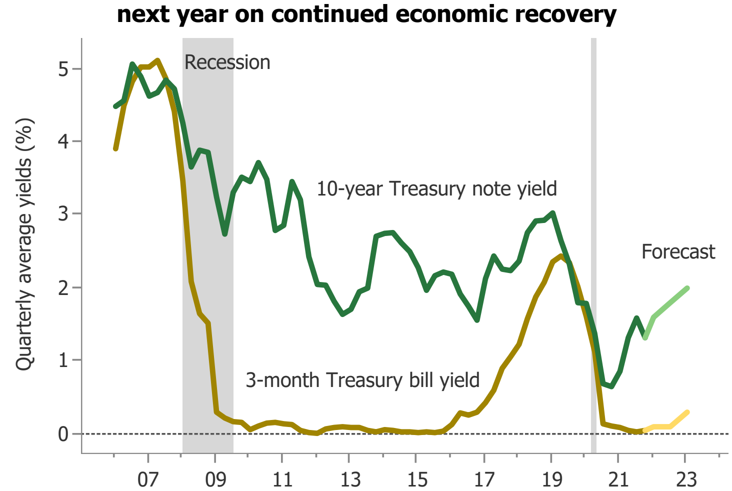
Sources: BLS (September 2021); ISM (October 2021)

Figure 3: Food & energy drove October's inflation rate; gain in "all others" could indicate broader inflationary pressures



Sources: BLS (October 2021)

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



Sources: Federal Reserve (3Q:2021); Blue Chip Economic Indicators (Nov. 2021)