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Upper Bucks Chamber of Commerce

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*The views expressed today are my own and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

Presentation Outline – Key Questions

- What has improved since the summer?
- What are current challenges?
- What are new risks that have emerged?

Snapshot of U.S. Economic Development

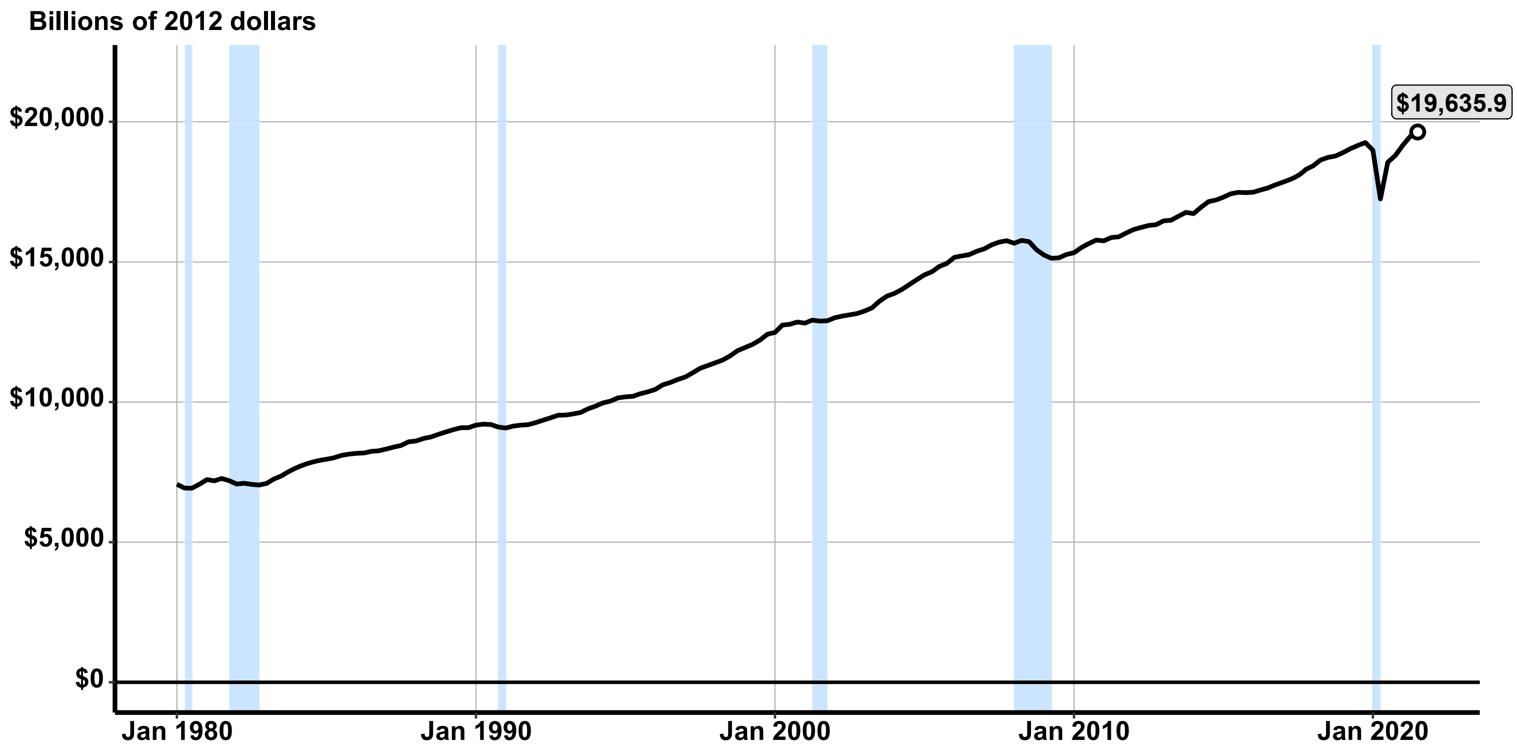
- In general, the U.S. economy continued its recovery.
- The pace of recovery seems to have weakened in the most recent months, as the resurgence of COVID-19 cases cast doubts among employers and consumers.

	July	August	September	October
Retail Sales and Food Services	$615b	$621b	$625b	
TSA Checkpoint Number vs 2019	-20%	-23%	-24%	-21%
Payroll Employment	+1,091k	+483k	+312k	+531k
Unemployment Rate	5.4%	5.2%	4.8%	4.6%
Average Weekly Earnings	$1,060	$1,061	$1,074	$1,074
Consumer Confidence	125.1	115.2	109.8	113.8
Consumer Sentiment	81.2	70.3	72.8	71.7
COVID-19 New Case Average	44k	139k	138k	80k

What Has Improved Since the Summer?

Real Gross Domestic Product (GDP)

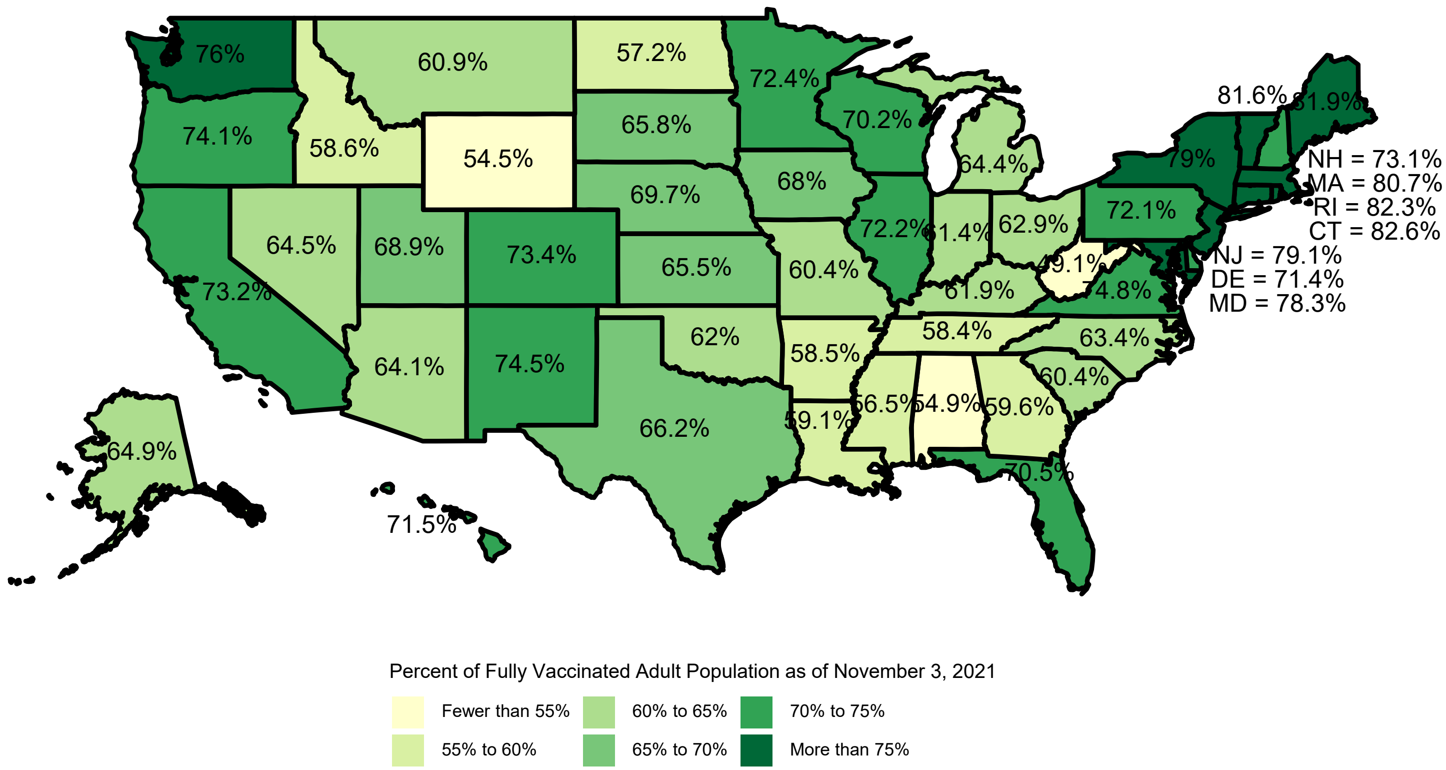
- Solid recovery in 2020 Q3, followed by modest growth during the following 3 quarters.
- Full recovery of economic output as of 2021 Q2.
- Increase in personal consumption, particularly in services, has contributed to the recent recovery.
- However, the current output level is still lower than it would have been in the absence of the pandemic.



Source: CBO and BEA via Haver Analytics
Quarters plotted: 1980:Q1 to 2021:Q3 (advance estimate)

COVID-19 Vaccination Situation

- More than 70% of adult residents in Pennsylvania are now fully vaccinated.
- Increased vaccinated population can lead to increase in consumer activities.

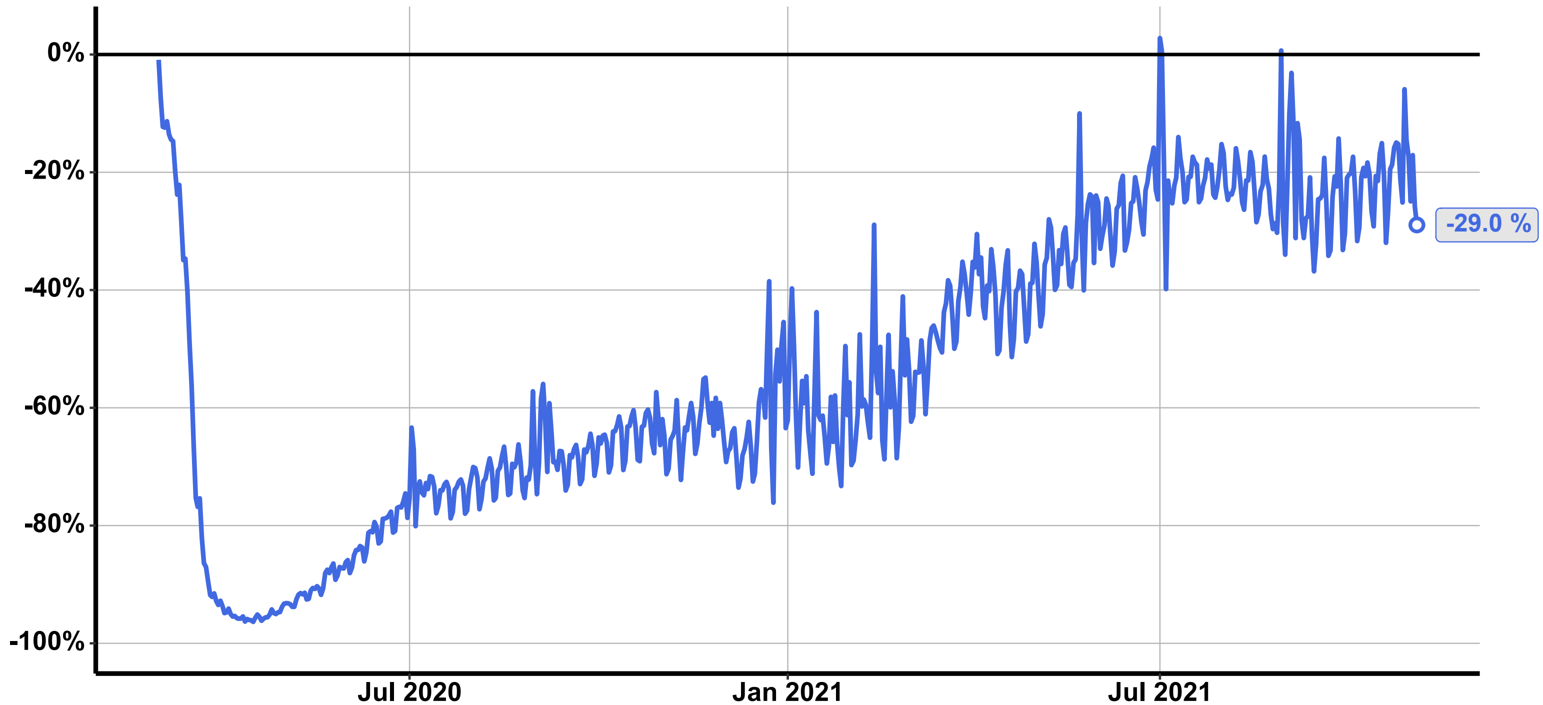


Source: CDC COVID-19 Data Tracker

TSA Checkpoint Travel Numbers

- Percent change from the same weekday in 2019.
- Even some of the hardest-hit sectors, such as air travel, have seen substantial improvement in early summer.
- Air travel did not decrease significantly over the summer.

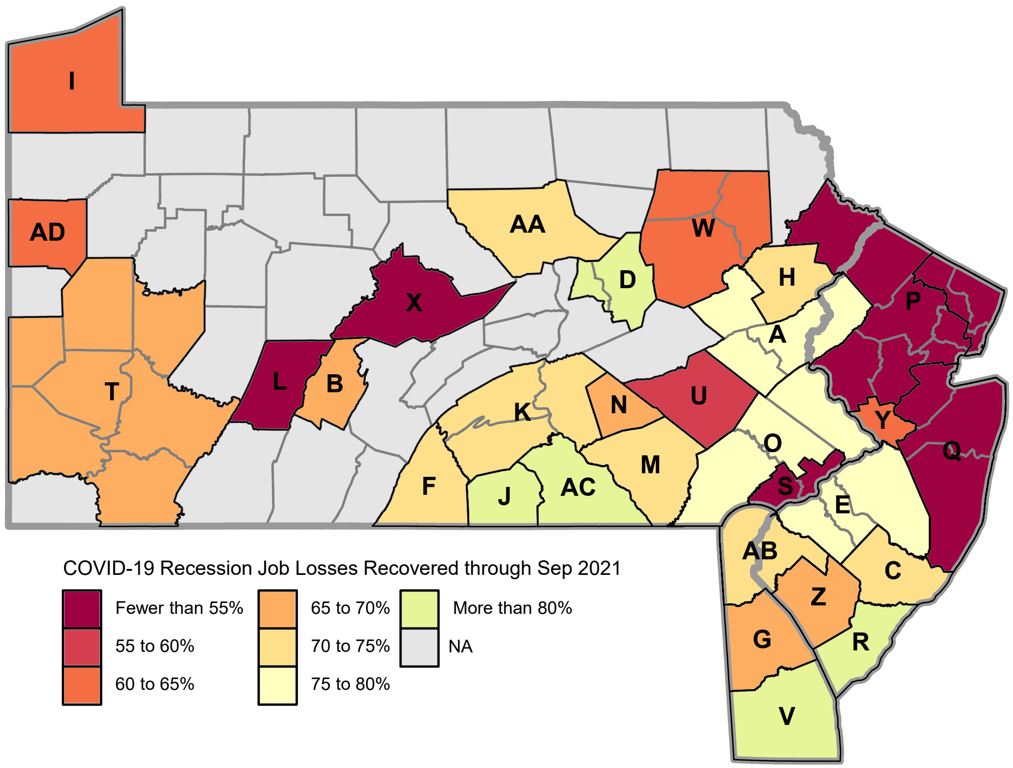
Percent Change in Travelers, Not Seasonally Adjusted



Source: Transportation Security Administration
Days plotted: Mar. 1, 2020 to Nov. 3, 2021

Tri-State Metro Area COVID-19 Recession Job Recovery

- Relative to trough employment level (April or May, 2020 in most cases).
- Most areas in the Third District have recovered at least half of lost jobs so far.



Source: Calculations from BLS data via Haver Analytics
Each area's trough determined individually.

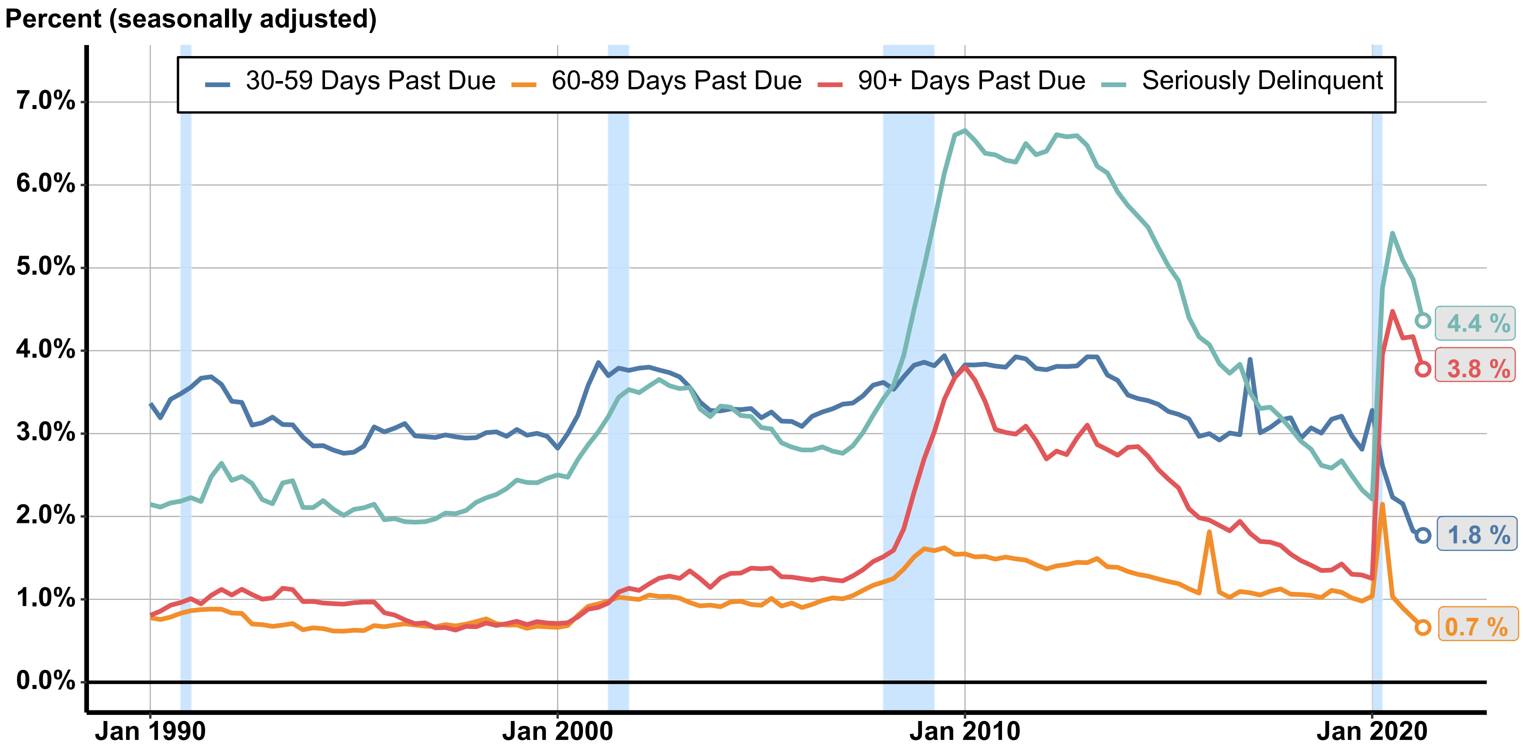
A = Allentown-Bethlehem-Easton MSA
B = Altoona MSA
C = Atlantic City-Hammonton MSA
D = Bloomsburg-Berwick MSA
E = Camden Metro Division
F = Chambersburg-Waynesboro MSA
G = Dover MSA
H = East Stroudsburg MSA
I = Erie MSA
J = Gettysburg MSA

K = Harrisburg-Carlisle MSA
L = Johnstown MSA
M = Lancaster MSA
N = Lebanon MSA
O = Montgomery-Bucks-Chester County MD
P = Newark Metro Division
Q* = New York-New Jersey-White Plains MD
R = Ocean City MSA
S = Philadelphia-Delaware County MD
T = Pittsburgh MSA

U = Reading MSA
V* = Salisbury MSA
W = Scranton-Wilkes-Barre MSA
X = State College MSA
Y = Trenton-Princeton MSA
Z = Vineland-Bridgeton MSA
AA = Williamsport MSA
AB* = Wilmington Metro Division
AC = York-Hanover MSA
AD* = Youngstown-Warren MSA
* Also includes counties not shown on map.

Mortgage Performance, Pennsylvania

- Mortgage loan performance for Pennsylvania.
- After a period of sharp increase, mortgage performance has significantly improved in Q2.
- Shares of less serious delinquencies (shorter than 90 days) have been lower than pre-pandemic average.

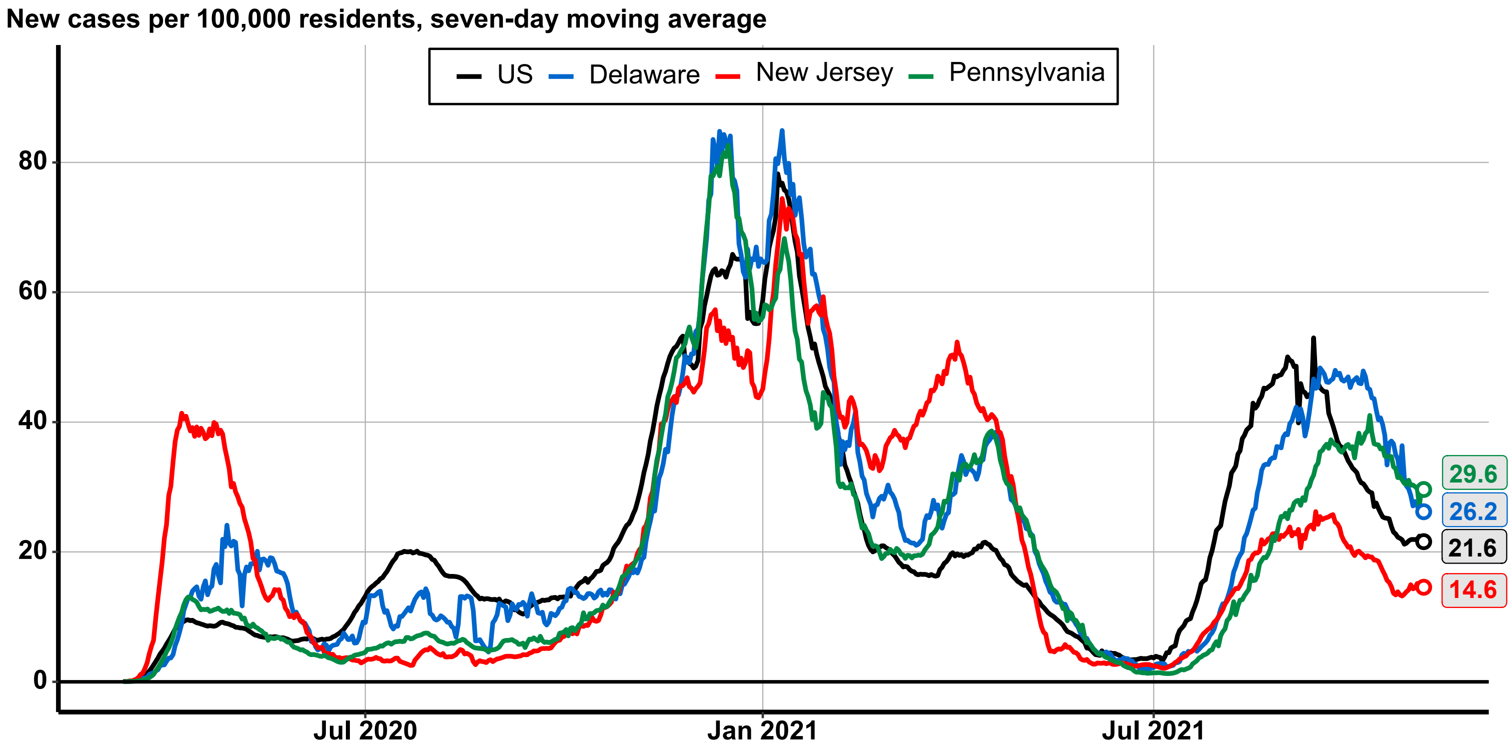


Source: Mortgage Banker's Association via Haver Analytics
Quarters plotted: 1990:Q1 to 2021:Q2.

What Are Current Challenges?

New Daily COVID-19 Case Rate, Third District States

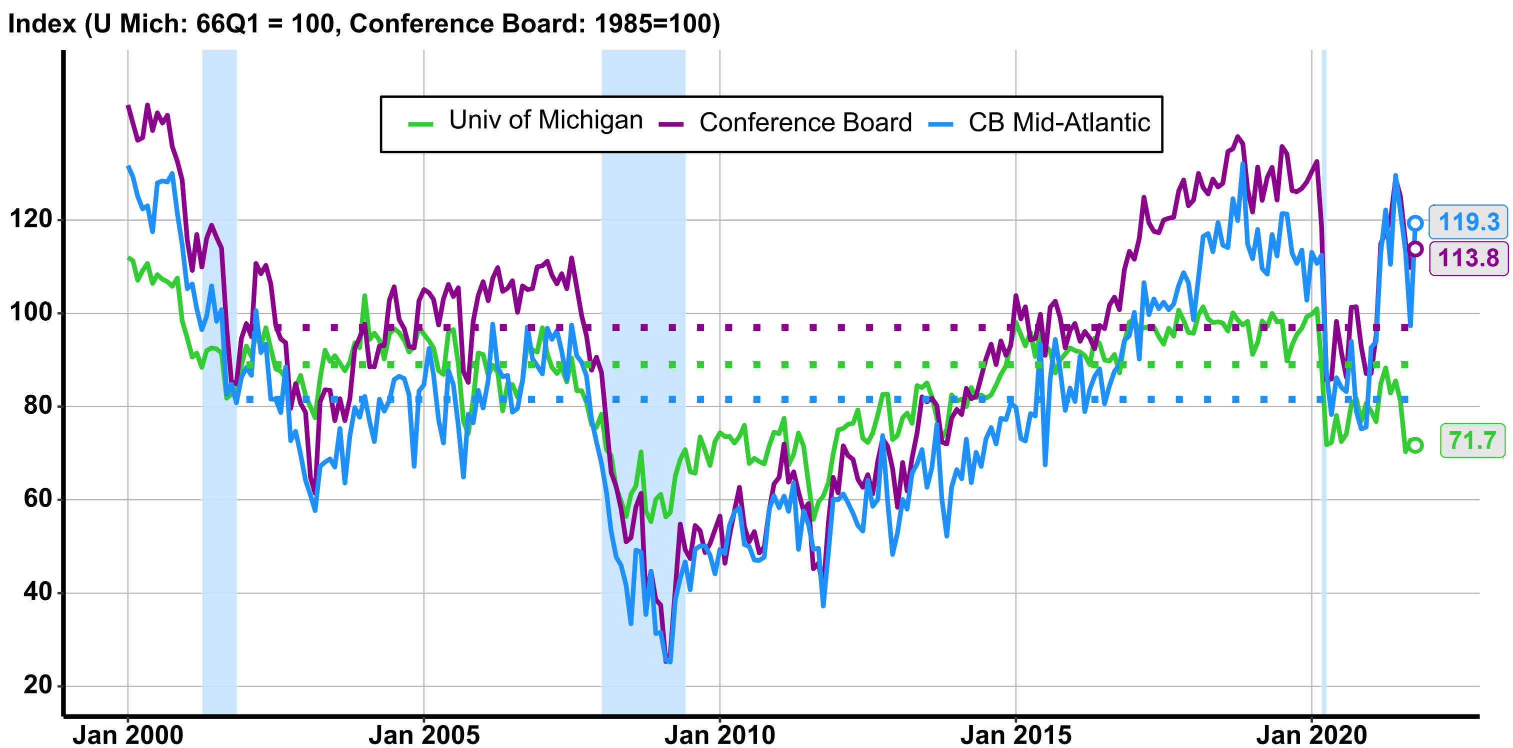
- Seven-day rolling average per 100,000 residents.
- The number of new cases surged over the summer across the country.
- While the numbers are trending down in the most recent months, they are still significantly higher than back in July.



Source: New York Times COVID-19 Repository
Days plotted: Mar. 11, 2020 - Nov. 3, 2021

Consumer Confidence Indexes

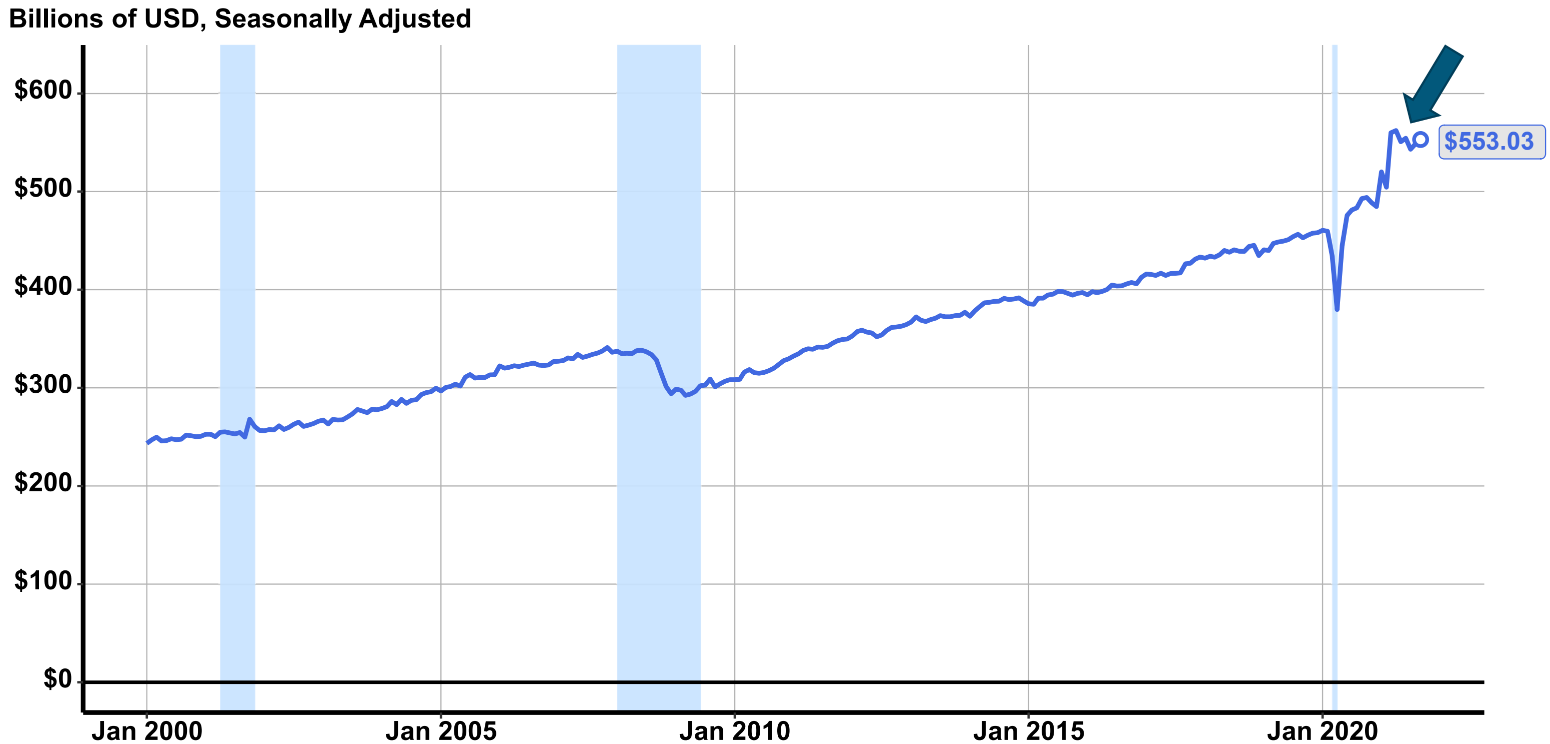
- University of Michigan and Conference Board.
- Consumer confidence has improved sharply in the spring, but has been declining in the past few months.



Source: University of Michigan and Conference Board via Haver Analytics
Months plotted: Jan 2000 to Oct 2021

Total Monthly Retail Sales

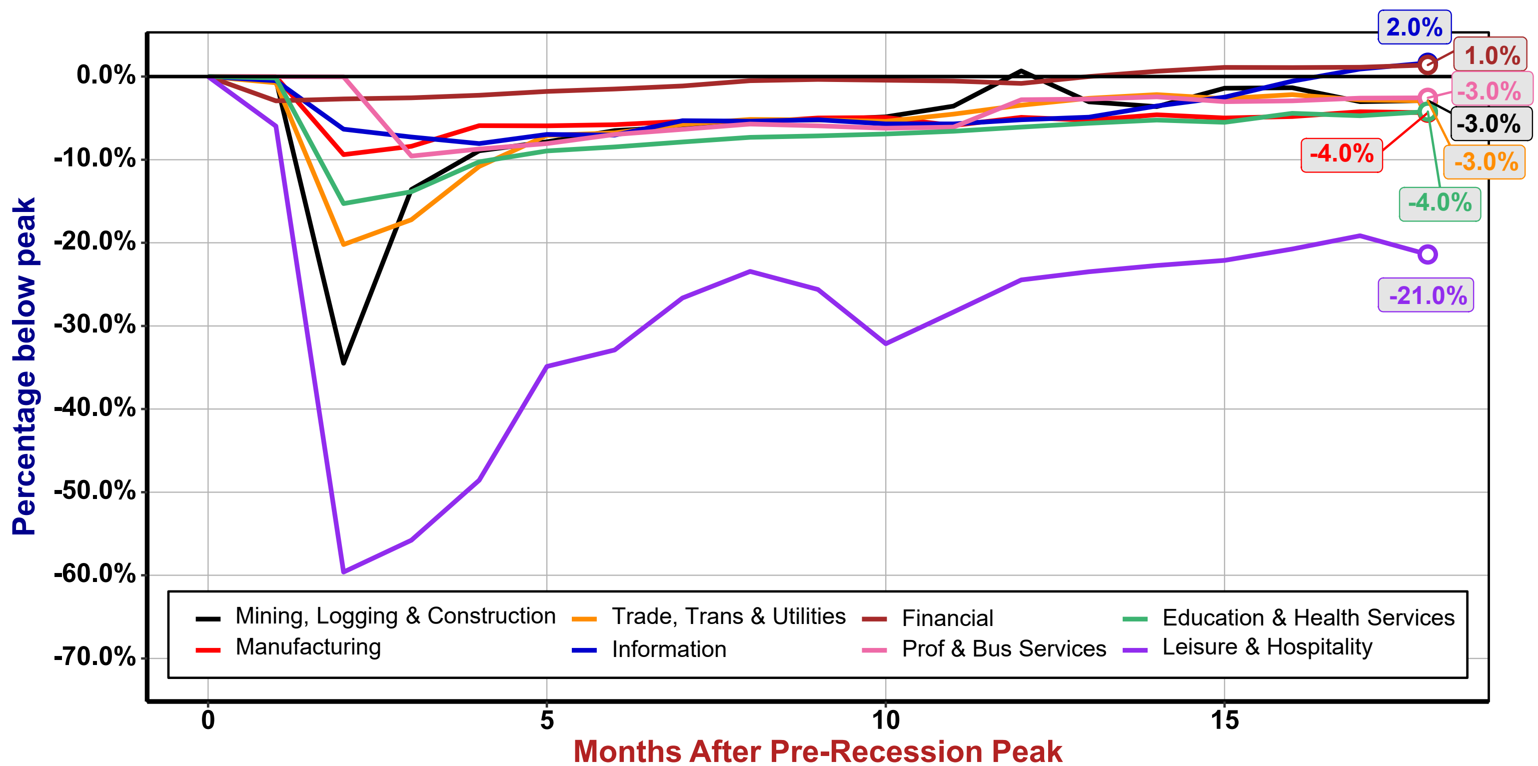
- After consecutive months of increased activities, consumers have been pulling back on spending.



Source: US Census Bureau
Months plotted: Jan 2000 to Sep 2021

COVID Recession Employment Recovery by Sector

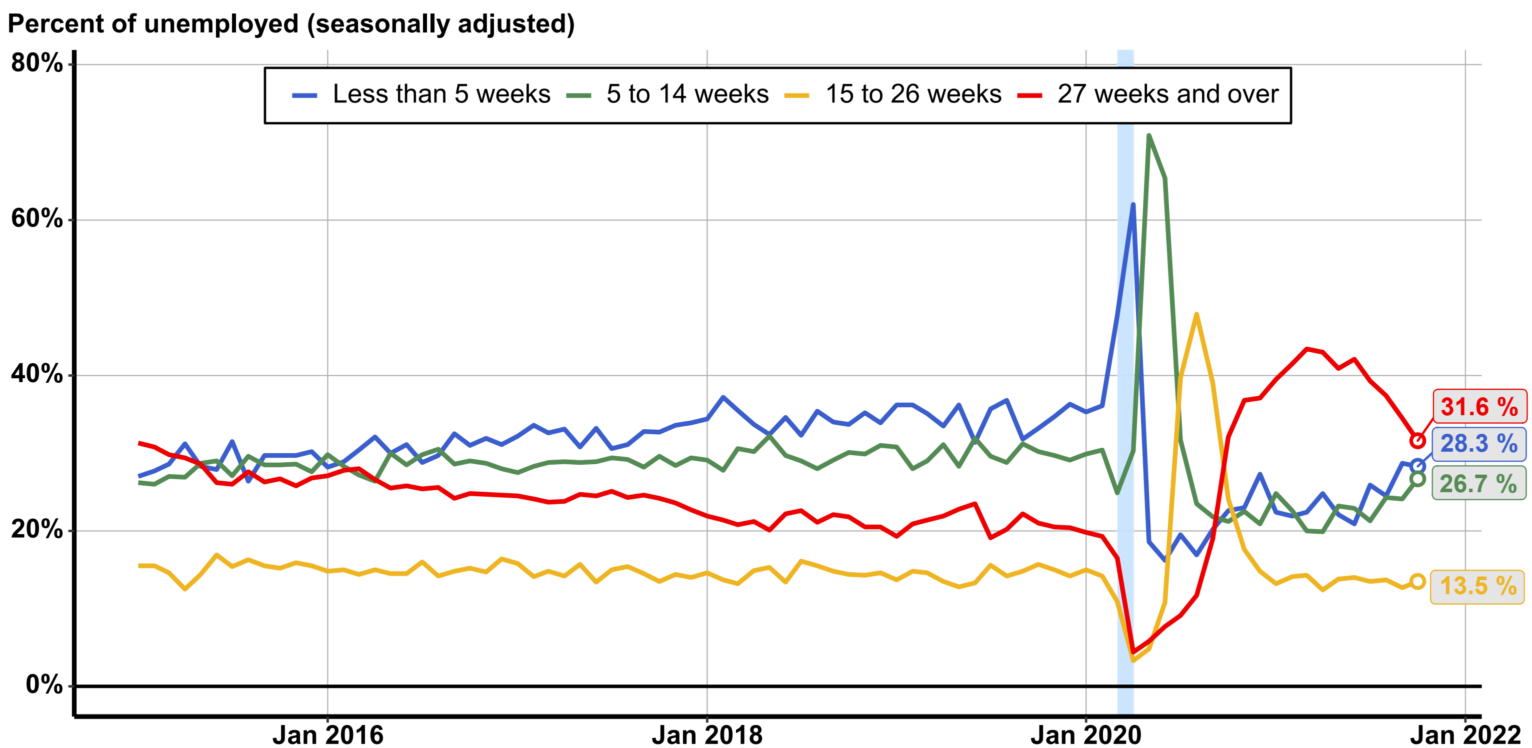
- Current employment relative to pre-pandemic peak, Montgomery-Bucks-Chester County Metro Division.
- While most sectors are still recovering, employment recovery in the leisure and hospitality sector in the region significantly lags behind.



Source: Calculations from BLS via Haver Analytics
Last Month plotted: Sep 2021
Each sector's peak determined individually.

Duration of Unemployment

- Percent distribution of unemployment by duration.
- Share of long-term unemployment is still significantly higher than pre-pandemic average.



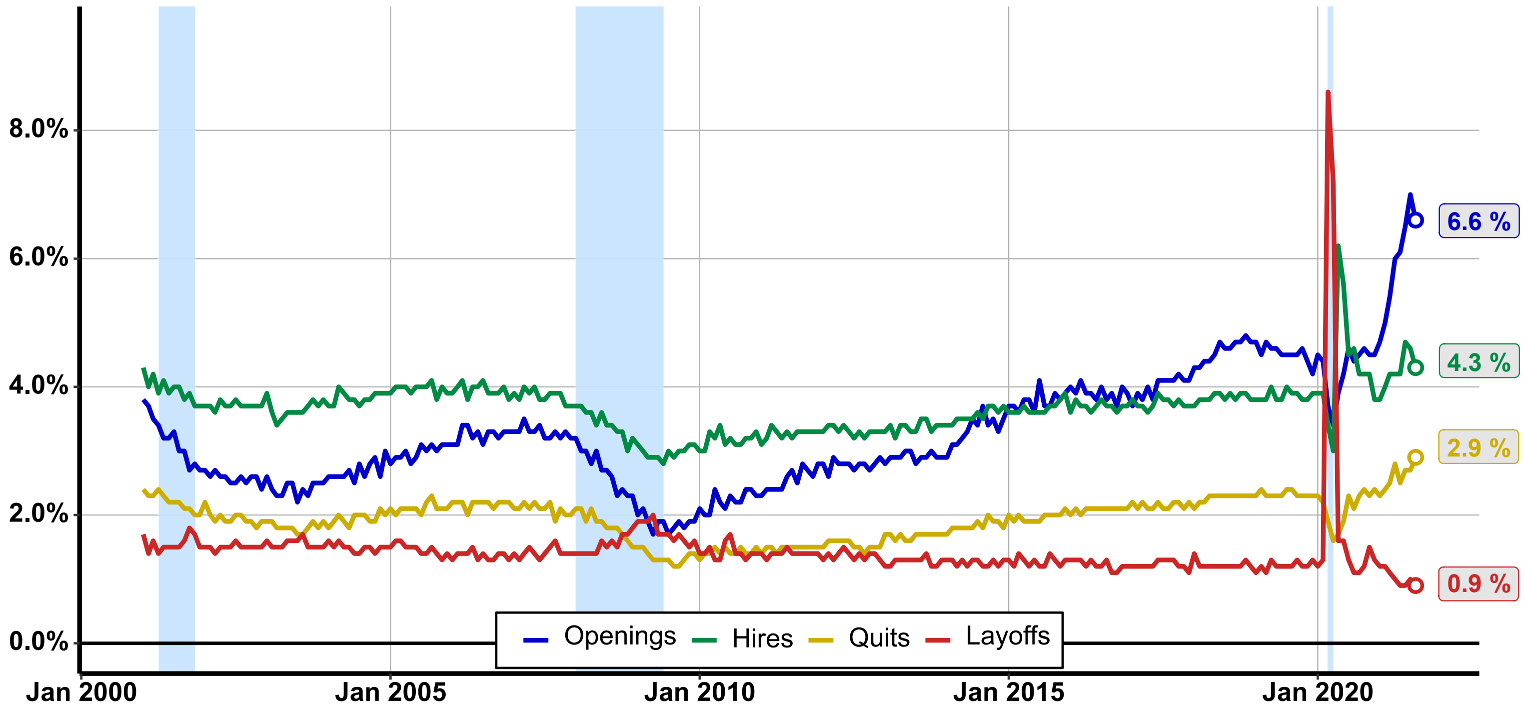
Source: Bureau of Labor Statistics via Haver Analytics
Months plotted: Jan 2015 to Oct 2021

What Are New Risks that Have Emerged?

Job Openings and Labor Turnover Survey

- United States, Seasonally Adjusted.
- Sharp increase in the number of job openings (10.9 million), while the rate of hires stayed relatively stable at 4.5% (6.7 million).
- As labor market tightens, firms are reluctant to layoff existing workers.

Job Openings, Hires, and Separations (Seasonally Adjusted)



Source: BLS via Haver Analytics
Months plotted: Jan 2001 - Aug 2021

FRB Philadelphia Business Outlook Survey

- July 2021 Special Questions.
- Most respondents have responded to labor supply challenges by increasing wages and compensation.
- Median expected wage increase was 4-5% for manufacturing firms (3-4% for nonmanufacturing firms).
- Roughly 10% of respondents expect an increase of 10% or more.

- How have wages and compensation changed at your firm over the past three months?

	Manufacturing	Nonmanufacturing
Increased	**73.6%**	**50.6%**
No Change	**26.4%**	**44.4%**
Decreased	**0.0%**	**1.2%**

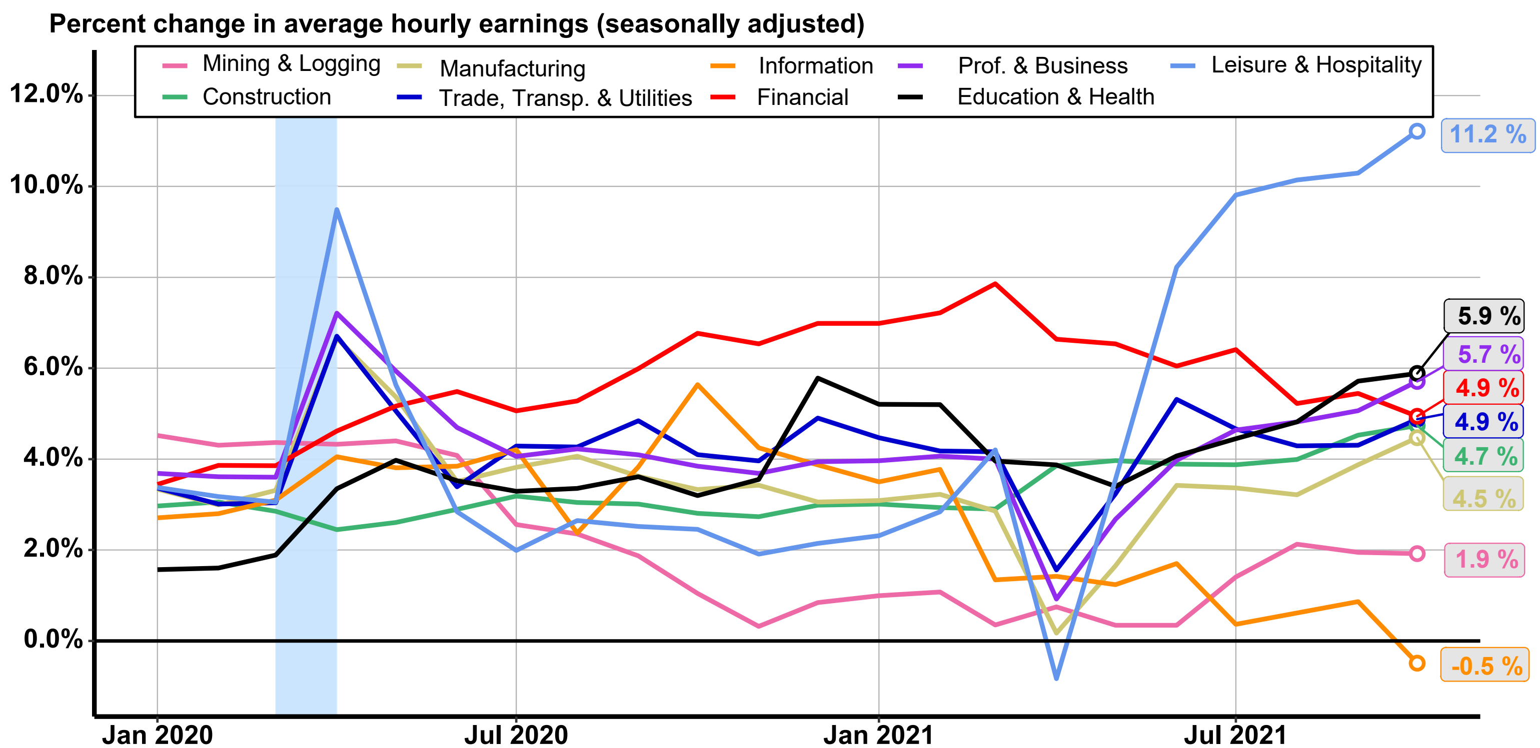
- Since the beginning of the year, have you adjusted your budget for wages and compensation for 2021?

	Manufacturing	Nonmanufacturing
Yes, and planning to increase by *more* than originally planned	**56.6%**	**44.4%**
Yes, and planning to increase *sooner* than originally planned	**35.8%**	**24.7%**
No	**20.8%**	**40.7%**

Source: FRB Philadelphia, Manufacturing/Nonmanufacturing Business Outlook Survey (July, 2021)

Growth in Average Hourly Earnings by Sector

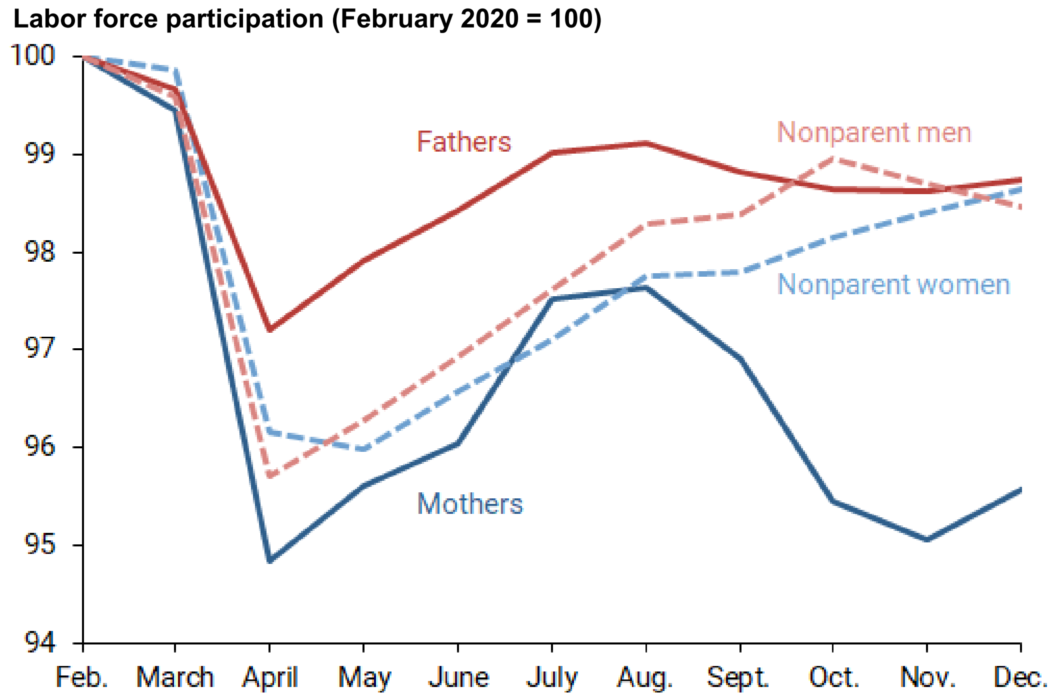
- Year-over-year percentage change, seasonally adjusted.
- Evidence of accelerated growth in wages, particularly in sectors such as leisure and hospitality, financial, and professional and business services.



Source: Calculations from BLS
Months plotted: Mar 2007 to Oct 2021

Parental Participation in the Labor Market

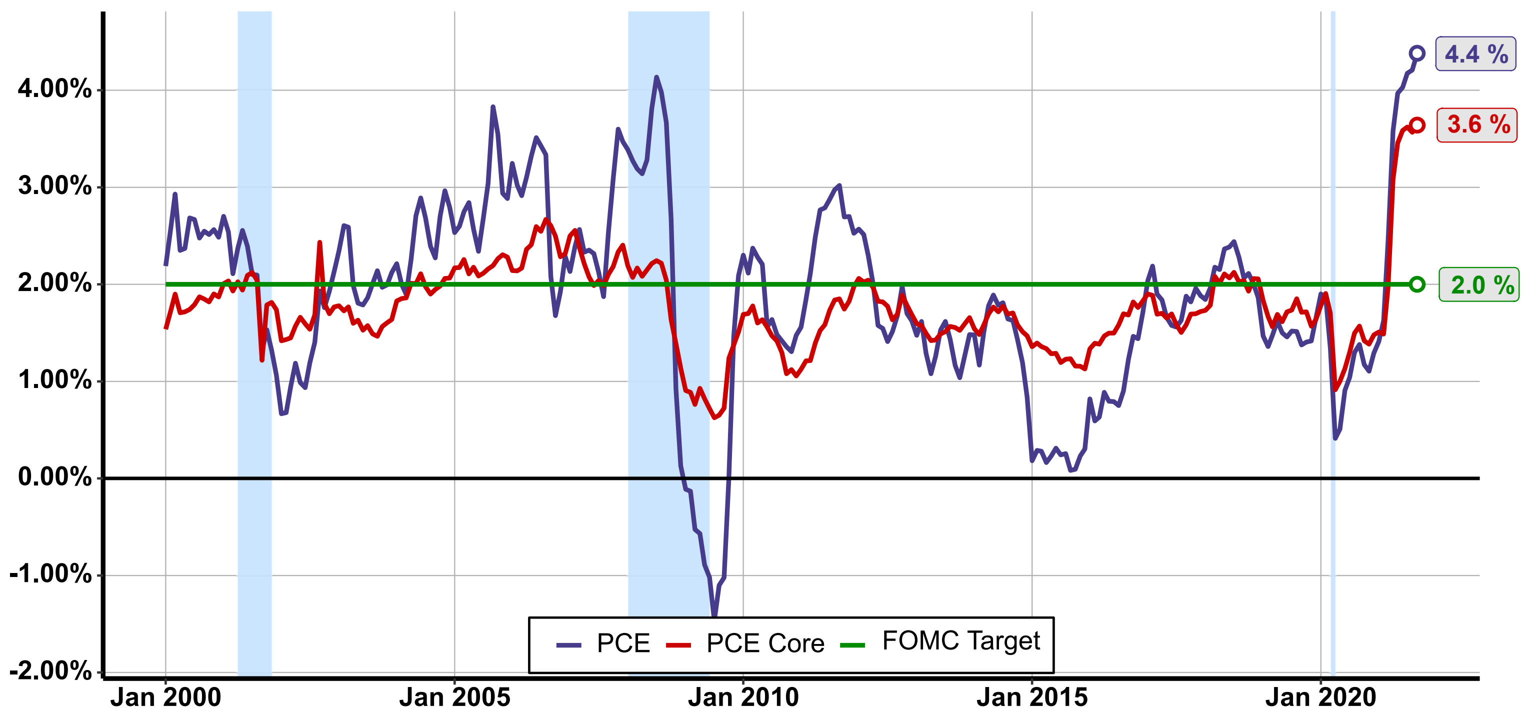
- Labor force participation fell much less for fathers compared with women and nonparent men.
- Recovery of participation has been more pronounced for men and women without children.
- If mothers had experienced a recovery similar to that of other women, approximately 700,000 additional prime-age mothers would have been in the workforce at the end of 2020.



Source: FRB San Francisco, Lofton, Petrosky-Nadeau, and Steitelman (April, 2021).

U.S. PCE Inflation

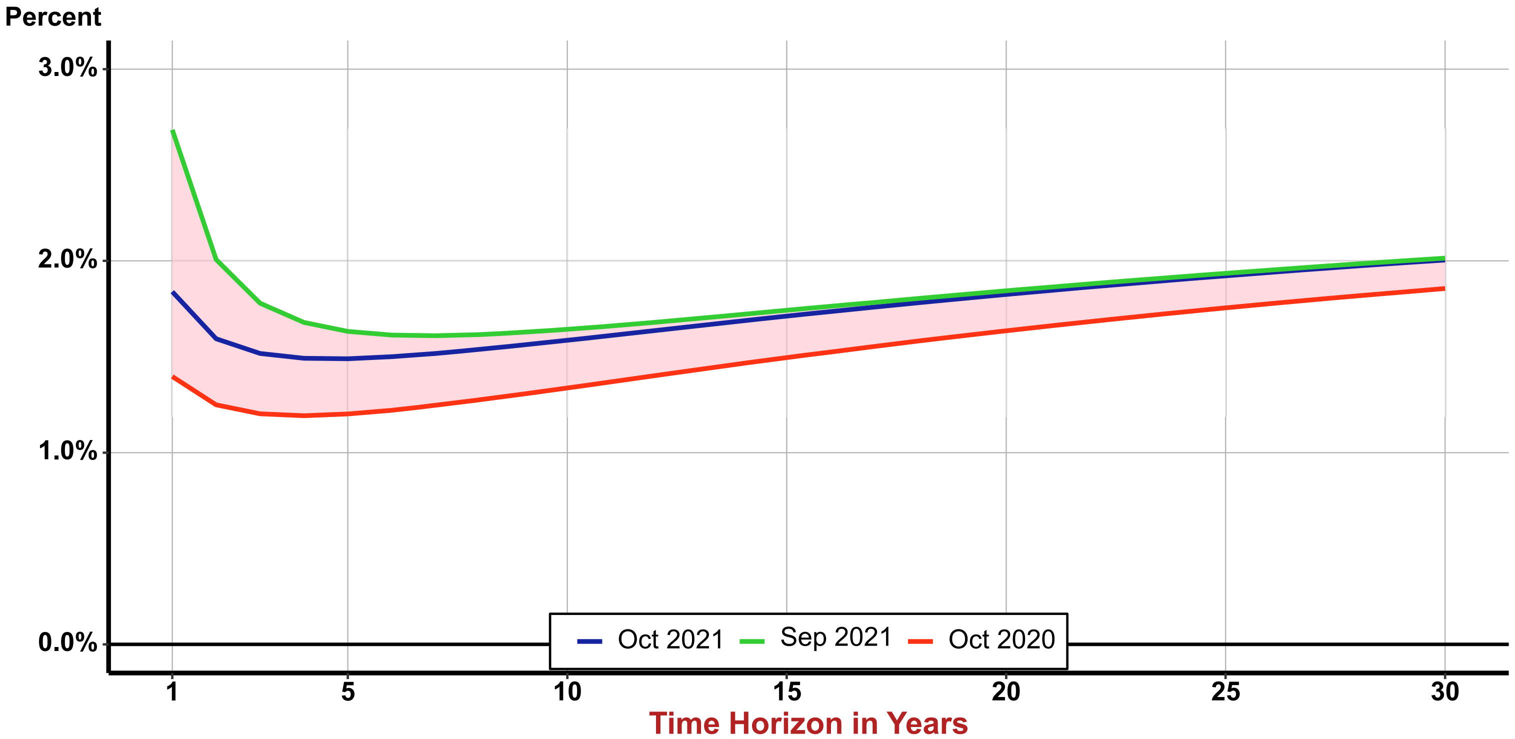
- Year-over-year (seasonally adjusted).
- Pent-up demand and recent supply chain issues have contributed to recent spike in inflation.
- Price levels likely to remain elevated until such factors are eased.



Source: BEA via Haver Analytics
Months plotted: Jan 2000 - Sep 2021

Inflation Expectations Yield Curve

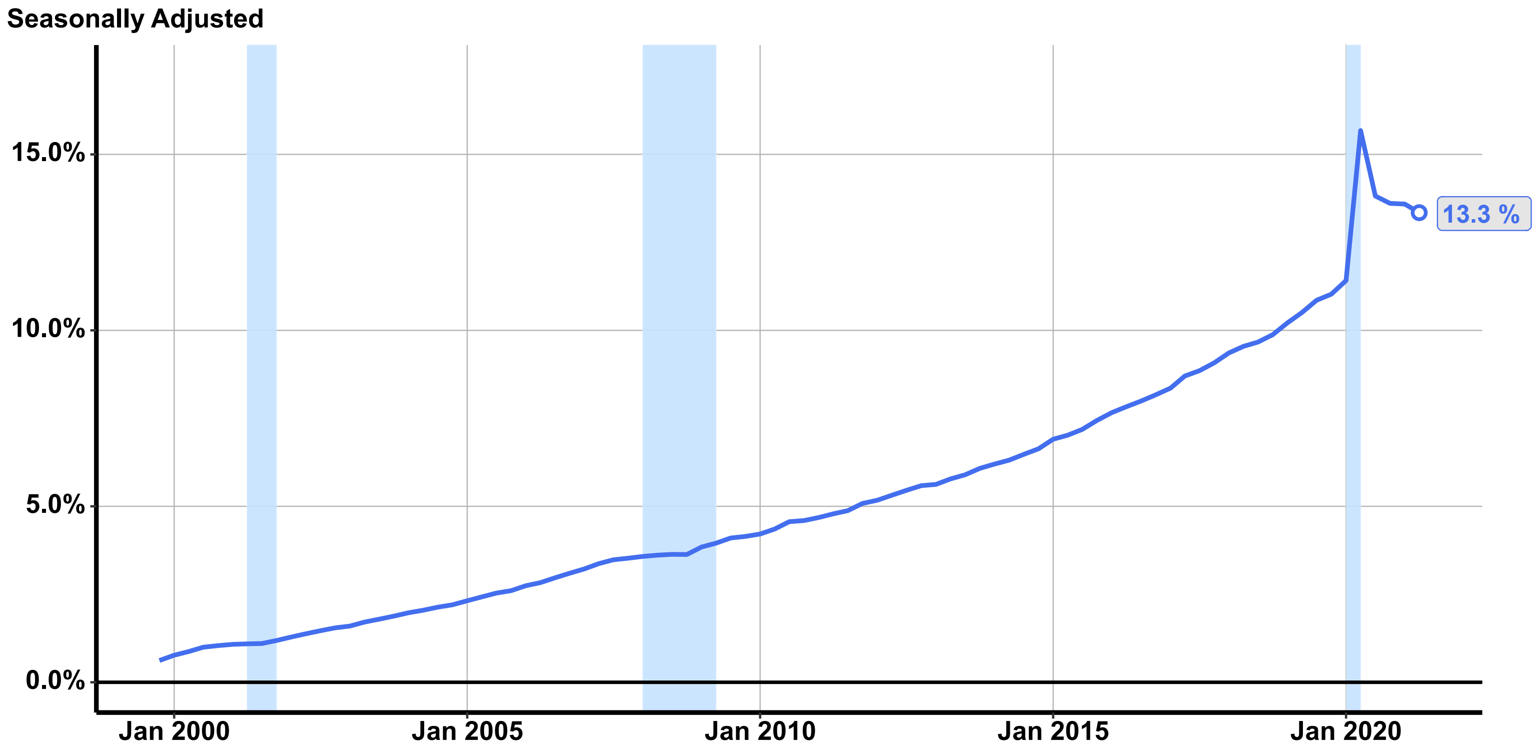
- Range and selected months over the past year (from FRB Cleveland).
- Reports of increased prices for selected goods and services.
- Recent inflation expectation is higher compared to last year, but still within a reasonable range.



Source: FRB Cleveland
Expectation range over the past 12 months shown in pink.

Share of e-Commerce in Retail Sales

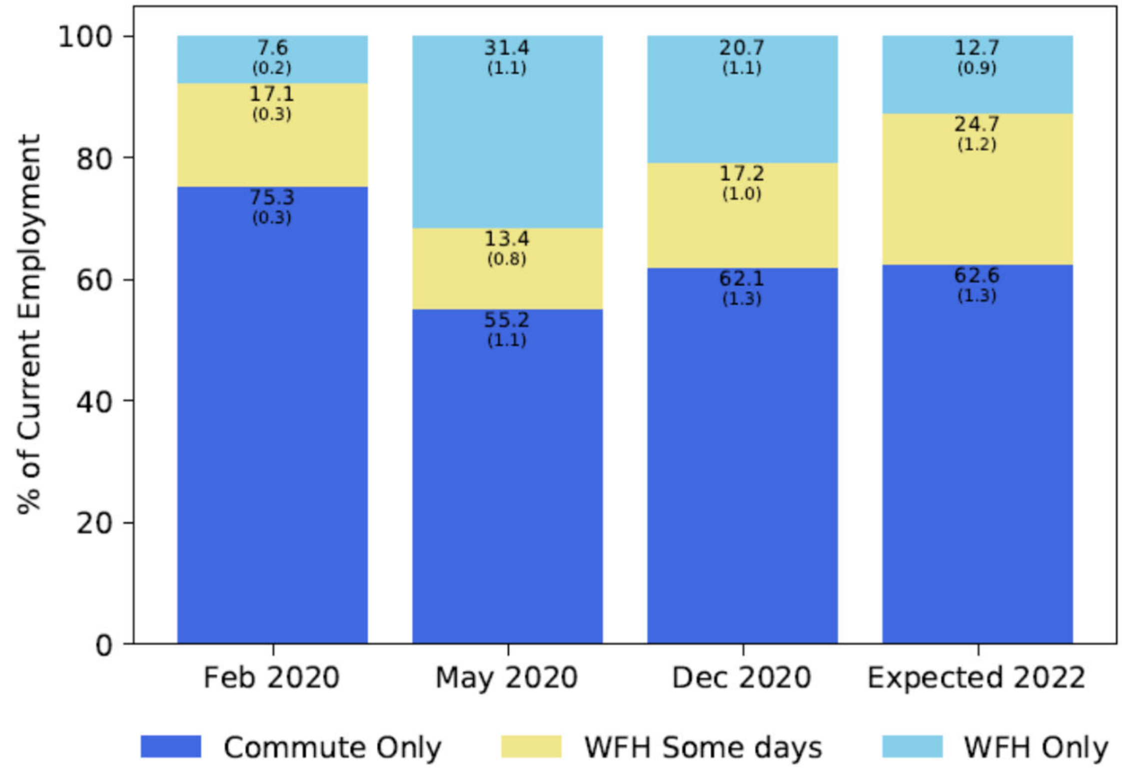
- As a percent of total retail sales.
- Pandemic has accelerated the relative importance of e-commerce in retail.
- Anecdotal evidence of warehouses being built closer to residential areas.



Source: US Census Bureau
Quarters plotted: 1999:Q4 to 2021:Q2

Expectations for Work From Home in the Future

- As of December, 2020, 37% of respondents said they expect to work from home at least some days in 2022.
- Share of those who work from home has increased during the pandemic, and is likely to stay.
- Reports of reduced future demand for office space.



Source: Bick, Blandin, and Mertens (Feb., 2021)

Summary

- What has improved since the summer?
  - Increased vaccinated population has resulted in increased consumer activities, at least until mid-summer. Labor market conditions continue improving.
- What are current challenges?
  - Surge of new COVID cases have introduced more uncertainty in the economy. Early evidence of consumer pulling back spending.
- What are new risks that have emerged?
  - Firms reporting difficulty in hiring. As wages and prices increase, risk of persistent inflation has emerged.

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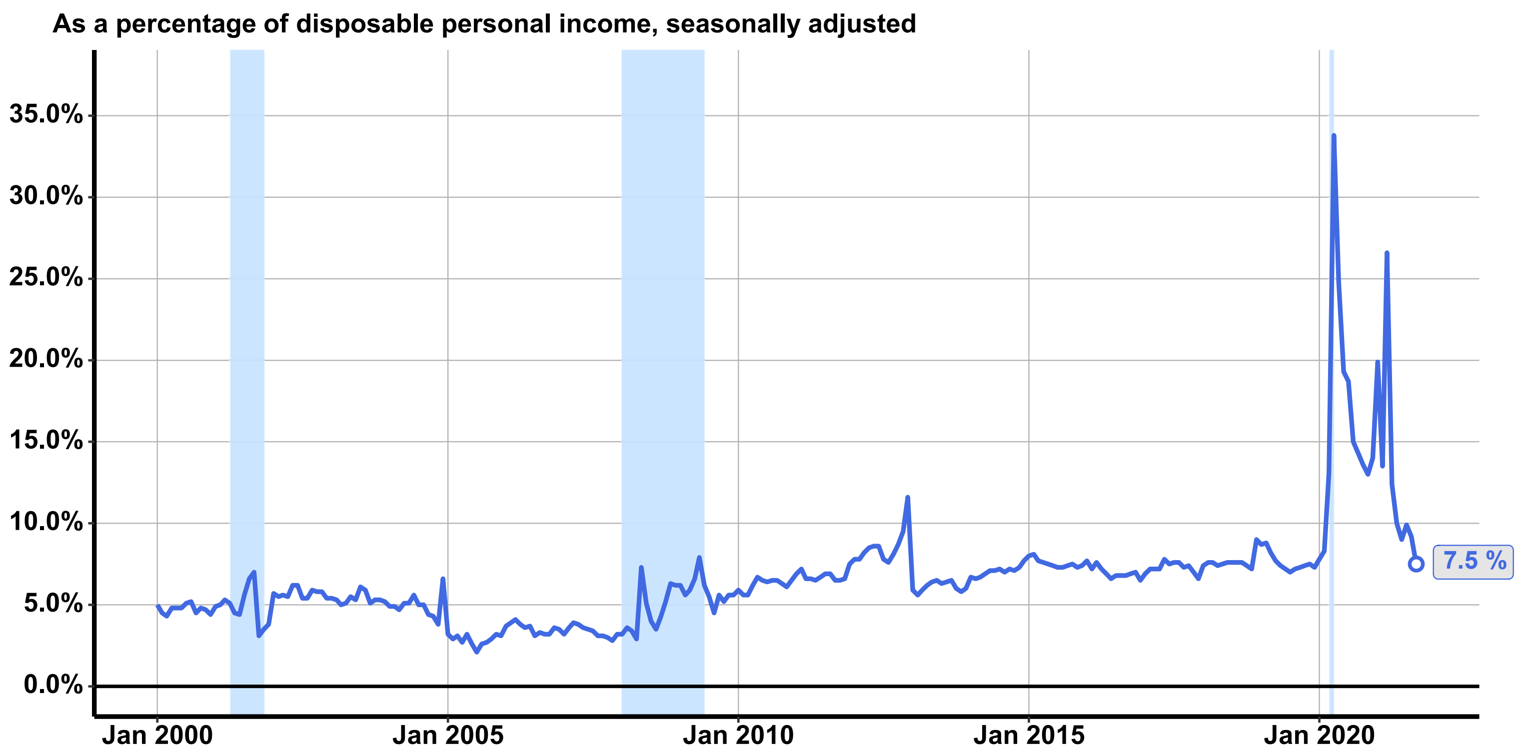
Additional Statistics

Personal Saving Rate, United States

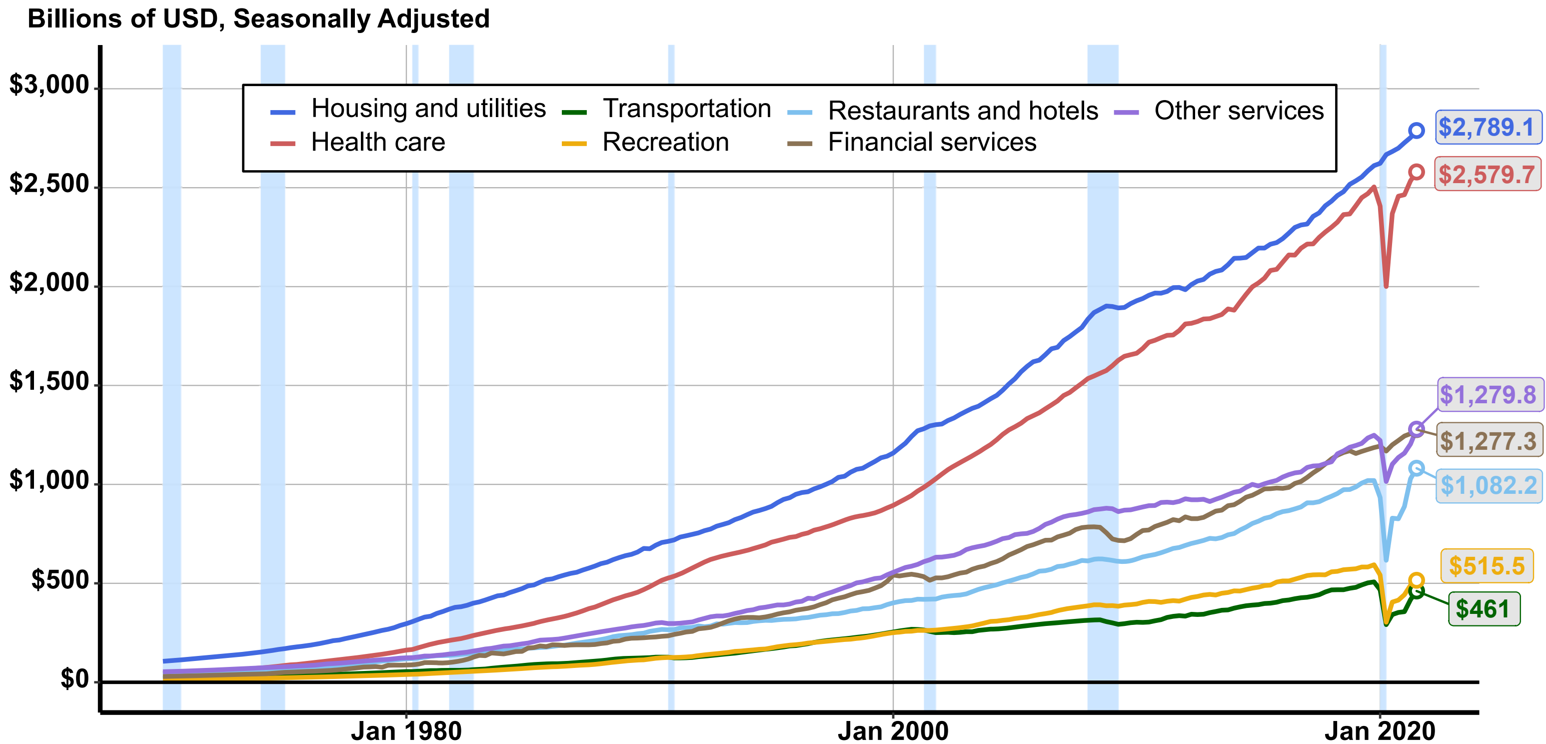
- Last observation is labeled.



Source: Bureau of Economic Analysis
Months plotted: Jan 2000 to Sep 2021

Service Consumption by Components

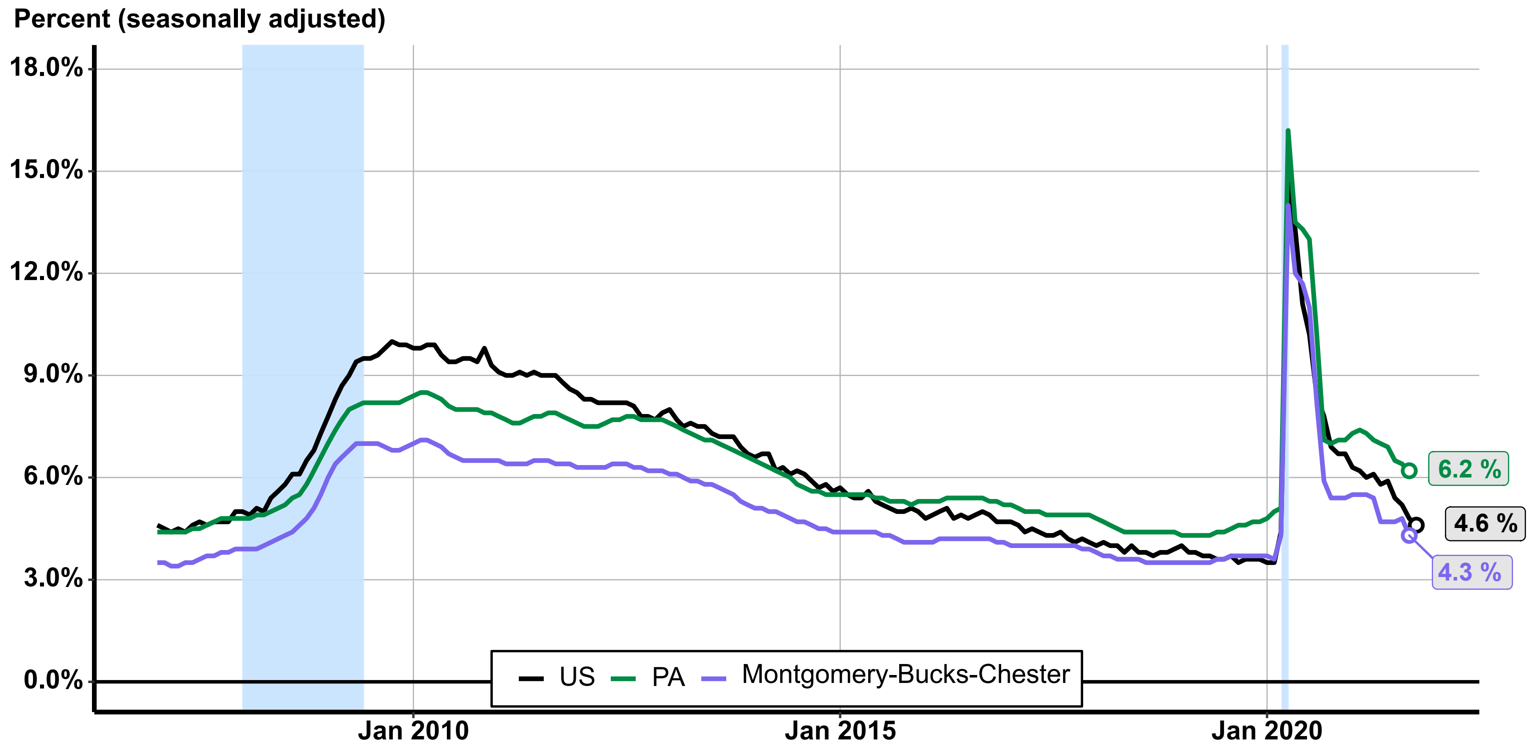
- The pandemic has affected consumer behavior, specifically spending on services.
- While spending on some services have recovered rapidly, others have experienced sluggish recovery.
- Are these changes temporary or permanent?



Source: Bureau of Economic Analysis
Quarters plotted: 1970:Q1 to 2021:Q3

Local Unemployment Rates

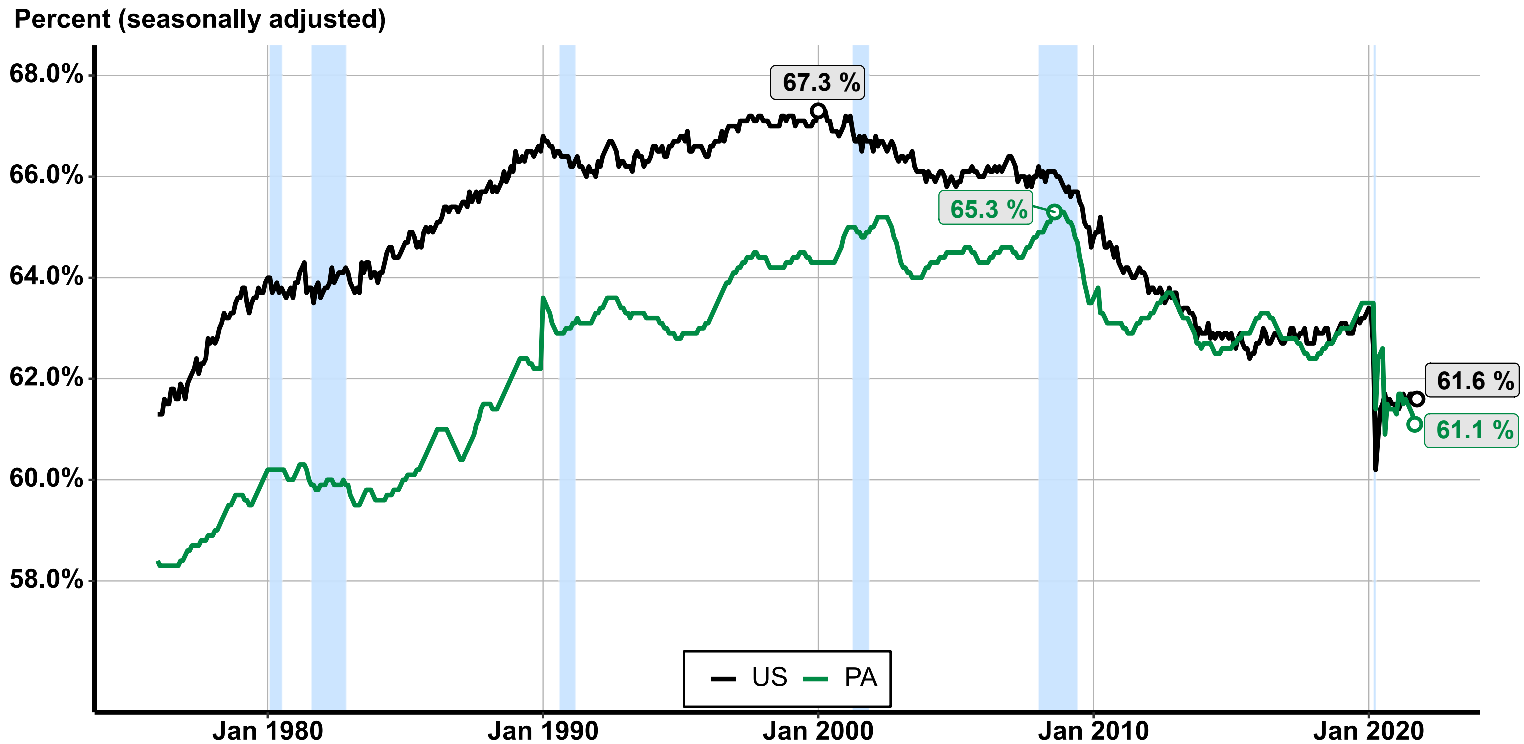
- Monthly, seasonally adjusted (most recent value labeled)



Source: BLS via Haver Analytics
Last month plotted: US (Oct 2021): Pennsylvania and Metro Division (Sep 2021)

Labor Force Participation Rates

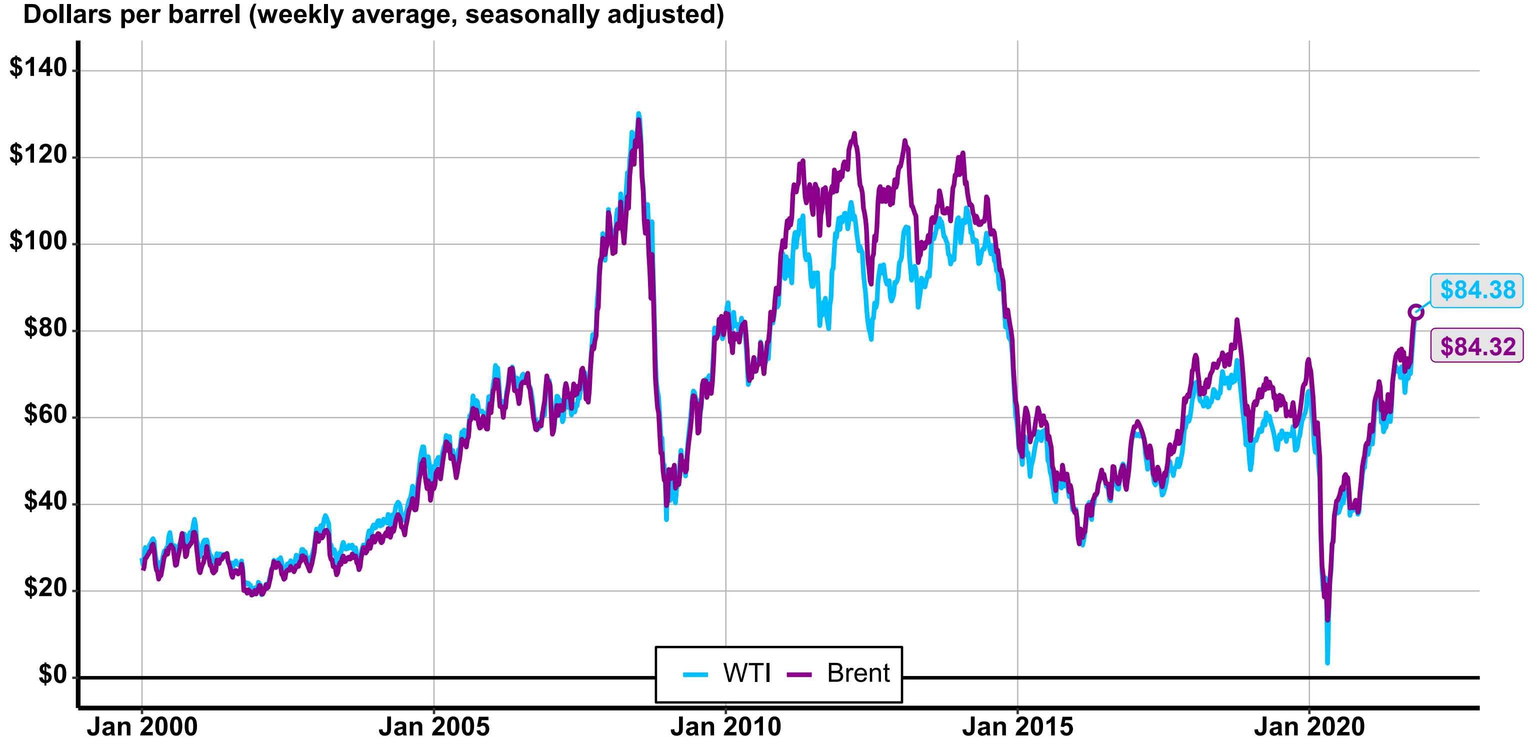
- Monthly, seasonally adjusted (most recent and max values labeled)



Source: BLS via Haver Analytics
Last month plotted: US (Oct 2021): Pennsylvania (Sep 2021)

Average Weekly Oil Prices (Per Barrel)

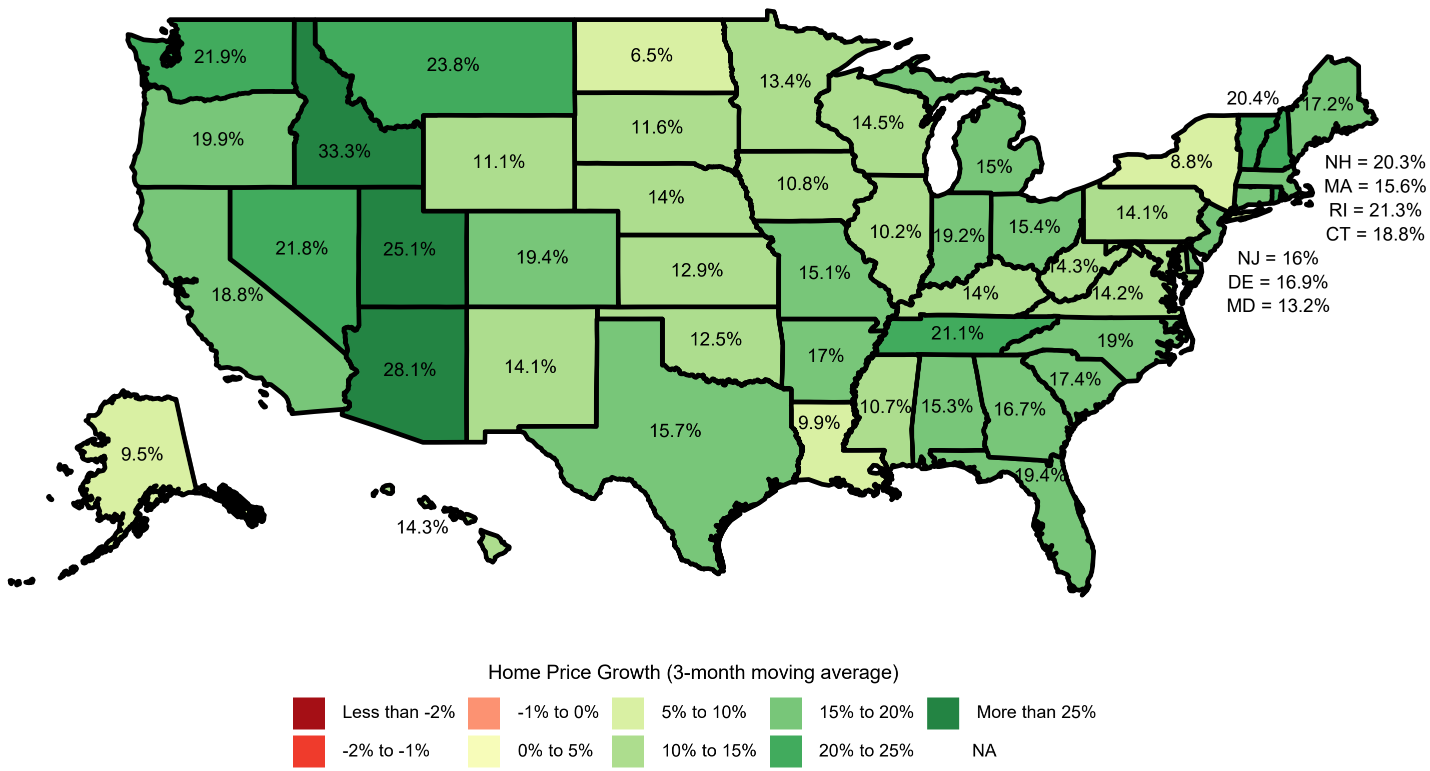
- West Texas Intermediate (WTI) and Brent spot prices (seasonally adjusted)



Source: Energy Information Administration via Haver Analytics
Weeks plotted: Dec. 31, 1999 - Oct. 29, 2021

Year-Over-Year State Home Price Growth

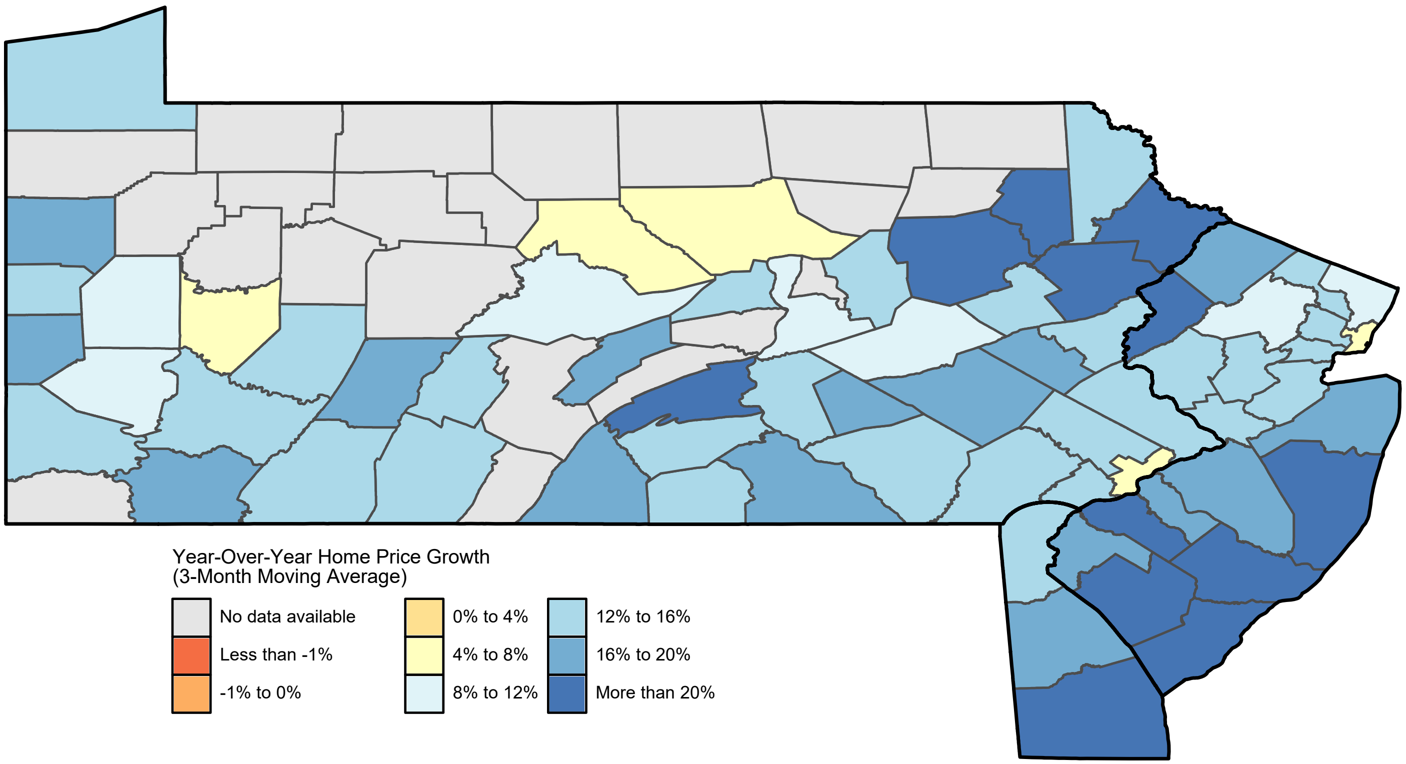
- Core Logic Index, 3-month moving average (nominal).



Source: Calculations from Core Logic
Last month included: Aug 2021

Tri-State Area Home Price Growth

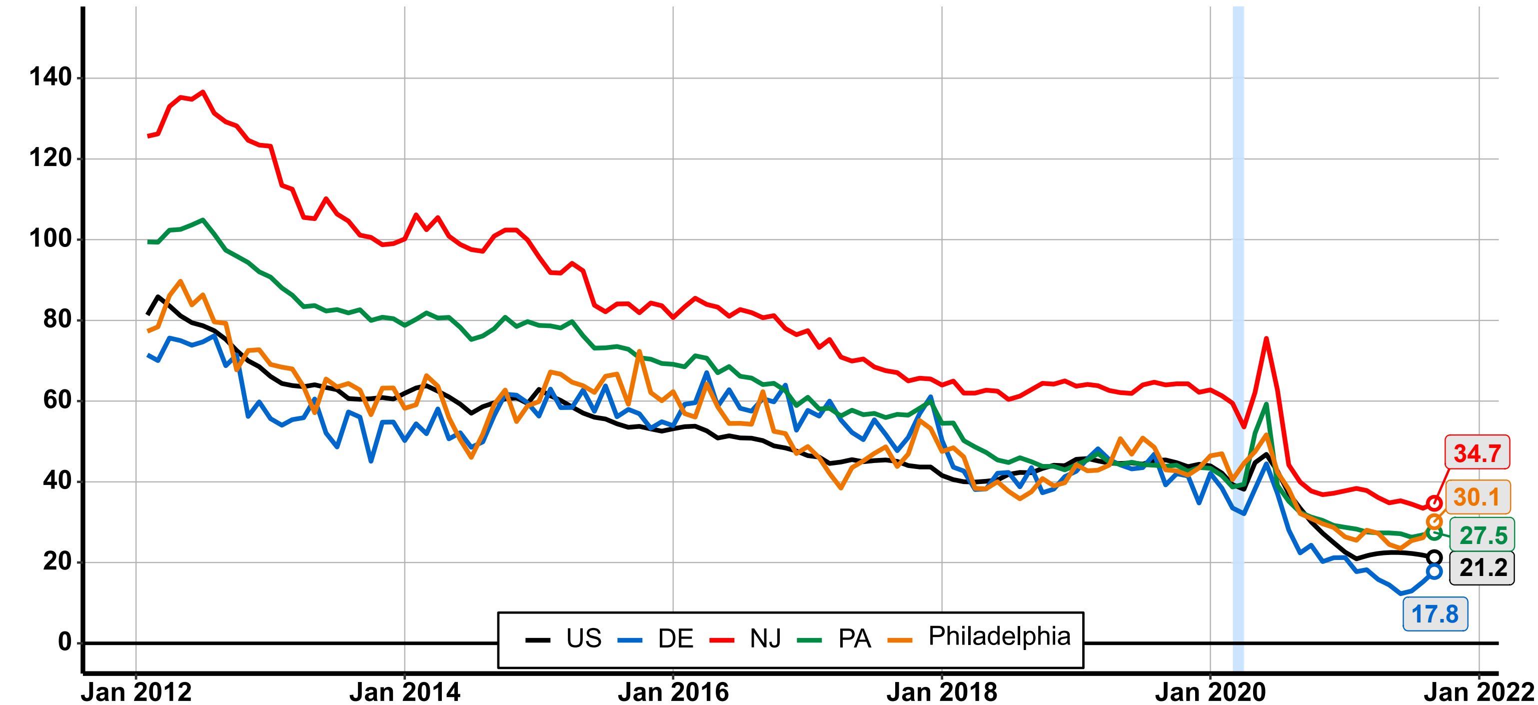
- Year-over-year, Core Logic index (3-month moving average)



Source: Calculations from Core Logic data.
Last month included: Aug 2021

Median Days on the Market

- Excludes homes listed for more than a year



Source: Redfin via Haver Analytics
Months plotted: Feb 2012 to Sep 2021