

## Certain Uncertainty

It feels like the amount of uncertainty surrounding the U.S. economic outlook has increased in recent weeks. While we have not downgraded our outlook, we are reflecting increased uncertainty in our October forecast.

In our October forecast, we have dialed down our gross domestic product estimate for 2022 and dialed up our inflation estimate. In September, we posted 5.4 percent real GDP for 2022 over 2021. Now, we are stepping that down to a still-strong 4.5 percent. While we are still bullish for near term growth prospects, we also want to reflect recent developments. It appears likely that Congress will pass a spending bill that is smaller than the original \$3.5 trillion ask. Also, there is valid concern that global supply chain strain may last longer than expected, stretching well into 2022. China's economy and financial markets are showing signs of strain and this is being felt in the rest of Asia and will weigh on global demand.

In September, we posted a 3.6 percent increase in the Consumer Price Index for 2022. Recent surges in petroleum and natural gas prices are reflected in our October estimate of 4.5 percent growth in the CPI for 2022. While some components of inflation may indeed revert from recent hot levels, we believe that other components are sticky. The sticky components include rents, wages and many supplier contracts.

A key positive for the U.S. economy is the waning of the COVID-D surge in most states. The 7-day moving average of new COVID cases peaked in late August according to the CDC. Through early October, there has been a steady downward trajectory in total cases. We expect to see improved business and consumer confidence and stronger hiring in consumer-facing businesses as the caseload wanes.

We also look for support from inventory restocking in 2022. Inventories have been a drag on U.S. GDP for six out of the last eight quarters through 2021Q2. We expect de-stocking to decelerate through early 2022 and then flip to re-stocking. Along with inventory re-stocking, sales of supply-constrained goods and services will increase. This includes retail and fleet sales of autos, which will show up in improved business investment and consumer spending.

It looks like the Federal Reserve is backing away from its view that recent inflation is transitory. In his testimony to the House Committee on Financial Services on September 30, Fed Chair Jay Powell said that "inflation is elevated and will likely remain so in the coming months before moderating." He did not use the word "transitory" in his prepared remarks. Many other central banks throughout the world have already begun to tighten monetary policy because of the threat of inflation. The Bank of England's new chief economist said in his first public comments, "the balance of risk is currently shifting towards greater concern about the inflation outlook."

Along with what may prove to be a pivot with respect to inflation, Federal Reserve monetary policy feels more uncertain due to actual and potential leadership changes. We will soon have new regional presidents at the Dallas and Boston Federal Reserve banks. Randall Quarles' term as Federal Reserve Vice Chair for Supervision ends this month. Jay Powell's term as chair of the Federal Open Market Committee ends in February 2022. The potential for new leadership at the Fed implies less certainty about the consequences of the Fed's interest rate Dot Plot from September.

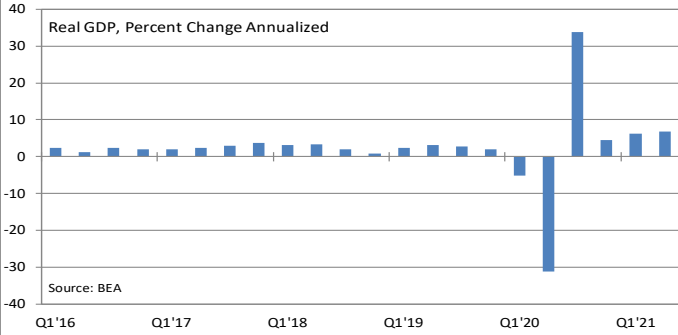
### U.S. Economic Outlook, Summary

<i>a = actual f = forecast</i>	1Q'21a	2Q'21a	3Q'21f	4Q'21f	1Q'22f	2Q'22f	3Q'22f	4Q'22f	2020a	2021f	2022f
Real GDP (Percent Change Annualized)	6.3	6.7	3.2	3.2	5.5	4.7	4.4	3.7	-3.4	5.6	4.5
CPI (Percent Change Year-over-Year)	1.9	4.8	5.2	6.2	6.3	4.9	3.9	3.0	1.2	4.5	4.5
Payroll Jobs (Average Monthly Diff., Ths.)	245.3	567.0	748.6	276.7	141.3	150.1	138.1	120.9	-759.6	459.4	137.6
Unemployment Rate (Percent)	6.2	5.9	5.1	4.7	4.5	4.2	4.1	4.0	8.1	5.5	4.2
Federal Funds Rate (Effective)	0.08	0.07	0.09	0.13	0.13	0.13	0.13	0.17	0.38	0.09	0.14
10-Yr. Treasury Rate	1.32	1.59	1.32	1.60	1.60	1.63	1.66	1.71	0.89	1.46	1.65

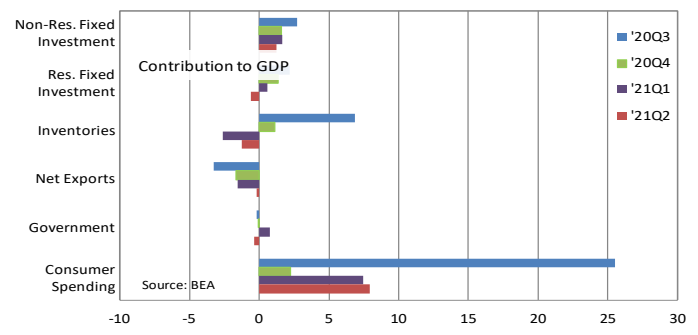
**a = actual f = forecast**

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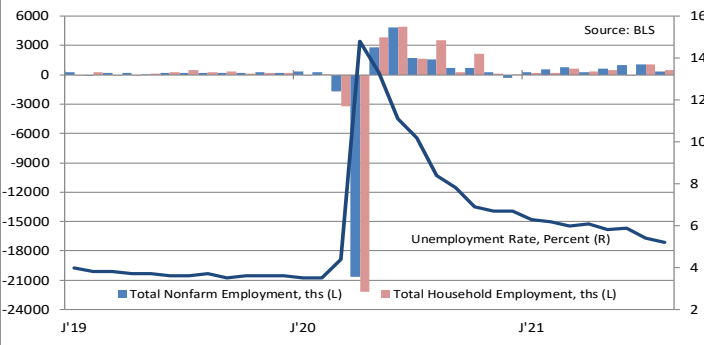
### Q2 Real GDP Increased at a 6.7% Rate



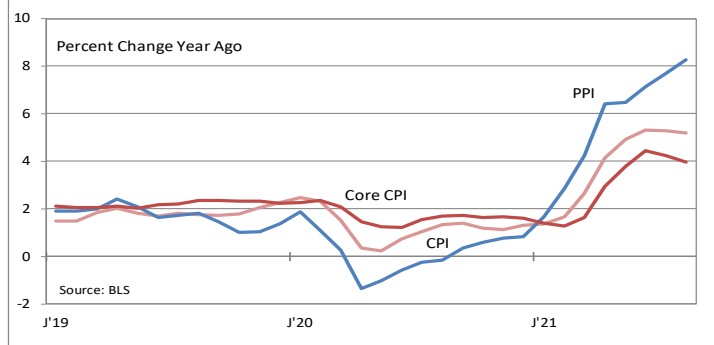
### Consumers Drove Q2 GDP Growth



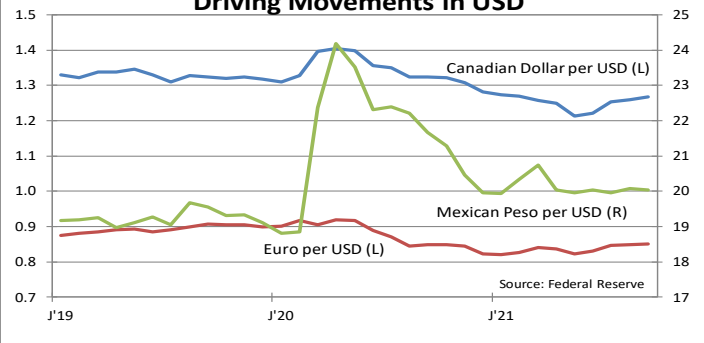
### Payrolls Gained 194,000 in September



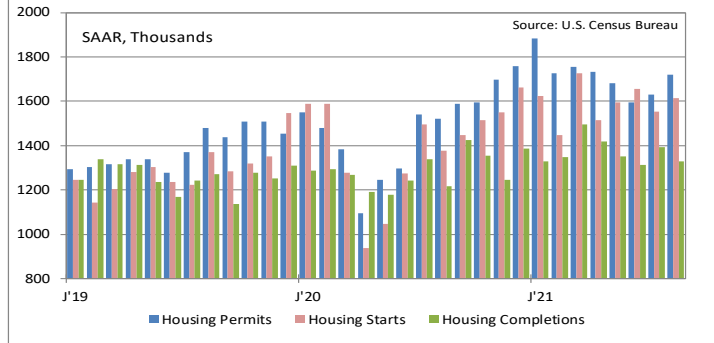
### Rising Input Costs Pushed on Producer Prices



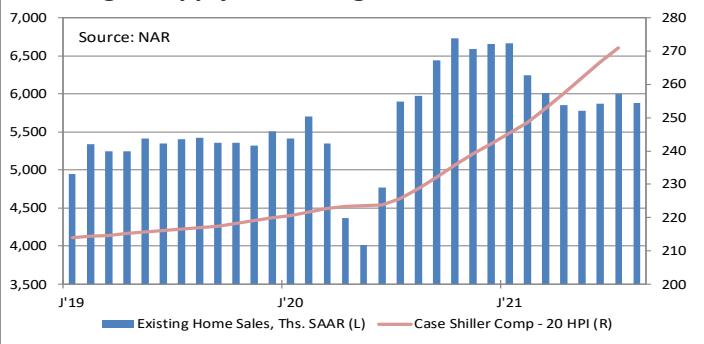
### Inflation and Expected Fed Bond Taper is Driving Movements in USD



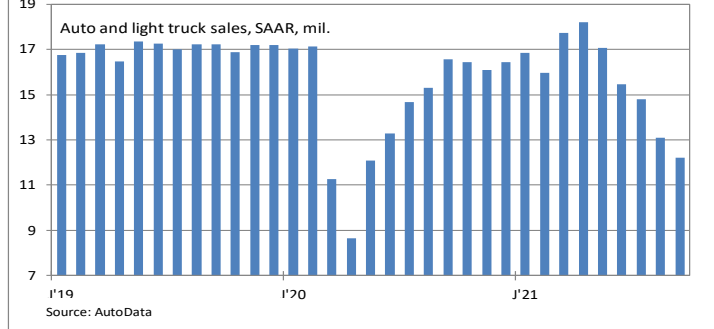
### New Home Construction Still Range-Bound



### Tight Supply of Existing Homes Pushes Prices



### Supply Chain Constraints to Weigh on Auto Sales into 2022



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	1Q'21a	2Q'21a	3Q'21f	4Q'21f	1Q'22f	2Q'22f	3Q'22f	4Q'22f	2020a	2021f	2022f
<b>Output</b>											
Nominal GDP (Billions \$)	22038	22741	23182	23594	24100	24541	24951	25321	20894	22889	24728
<b>Percent Change Annualized</b>	<b>10.9</b>	<b>13.4</b>	<b>8.0</b>	<b>7.3</b>	<b>8.9</b>	<b>7.5</b>	<b>6.9</b>	<b>6.1</b>	<b>-2.2</b>	<b>9.5</b>	<b>8.0</b>
Real GDP (Chained 2012 Billions \$)	19056	19368	19521	19676	19941	20172	20389	20574	18385	19405	20269
<b>Percent Change Annualized</b>	<b>6.3</b>	<b>6.7</b>	<b>3.2</b>	<b>3.2</b>	<b>5.5</b>	<b>4.7</b>	<b>4.4</b>	<b>3.7</b>	<b>-3.4</b>	<b>5.6</b>	<b>4.5</b>
Pers. Consumption Expenditures	13283	13666	13611	13676	13816	13935	14046	14141	12630	13559	13985
<b>Percent Change Annualized</b>	<b>11.4</b>	<b>12.0</b>	<b>-1.6</b>	<b>1.9</b>	<b>4.2</b>	<b>3.5</b>	<b>3.2</b>	<b>2.7</b>	<b>-3.8</b>	<b>7.4</b>	<b>3.1</b>
Nonresidential Fixed Investment	2810	2873	2953	3011	3084	3146	3209	3270	2671	2912	3177
<b>Percent Change Annualized</b>	<b>12.9</b>	<b>9.2</b>	<b>11.6</b>	<b>8.1</b>	<b>10.0</b>	<b>8.3</b>	<b>8.3</b>	<b>7.8</b>	<b>-5.3</b>	<b>9.0</b>	<b>9.1</b>
Residential Investment	731	708	717	723	732	738	744	749	648	720	740
<b>Percent Change Annualized</b>	<b>13.3</b>	<b>-11.7</b>	<b>5.1</b>	<b>3.3</b>	<b>4.9</b>	<b>3.6</b>	<b>3.1</b>	<b>2.7</b>	<b>6.8</b>	<b>11.1</b>	<b>2.9</b>
Change in Private Inventories	-88	-169	-71	-37	-3	31	60	71	-42	-91	40
Net Exports	-1226	-1245	-1234	-1254	-1263	-1274	-1286	-1295	-943	-1240	-1280
Government Expenditures	3391	3374	3380	3388	3401	3418	3436	3456	3360	3383	3428
<b>Percent Change Annualized</b>	<b>4.2</b>	<b>-2.0</b>	<b>0.8</b>	<b>0.9</b>	<b>1.6</b>	<b>2.0</b>	<b>2.1</b>	<b>2.4</b>	<b>2.5</b>	<b>0.7</b>	<b>1.3</b>
Industrial Prod. Index (2007=100)	98.3	99.8	101.3	102.6	103.4	104.1	104.7	105.2	95.0	100.5	104.3
<b>Percent Change Annualized</b>	<b>4.0</b>	<b>6.2</b>	<b>6.2</b>	<b>5.0</b>	<b>3.1</b>	<b>2.8</b>	<b>2.3</b>	<b>2.1</b>	<b>-7.2</b>	<b>5.8</b>	<b>3.8</b>
Capacity Utilization (Percent)	74.1	75.2	76.2	76.8	77.1	77.3	77.4	77.6	71.6	75.6	77.3
<b>Prices</b>											
CPI (1982-84=100)	263.4	268.8	273.0	277.1	279.9	281.9	283.7	285.4	258.8	270.6	282.7
<b>Percent Change Annualized</b>	<b>3.7</b>	<b>8.4</b>	<b>6.4</b>	<b>6.1</b>	<b>4.1</b>	<b>2.9</b>	<b>2.5</b>	<b>2.4</b>	<b>1.2</b>	<b>4.5</b>	<b>4.5</b>
PCE Price Index (2012=100)	113.0	114.8	116.1	117.4	118.4	119.2	119.9	120.6	111.2	115.3	119.5
<b>Percent Change Annualized</b>	<b>3.8</b>	<b>6.5</b>	<b>4.8</b>	<b>4.5</b>	<b>3.4</b>	<b>2.6</b>	<b>2.3</b>	<b>2.4</b>	<b>1.2</b>	<b>3.7</b>	<b>3.6</b>
GDP Price Index (2012=100)	115.8	117.5	118.9	120.1	121.1	122.0	122.7	123.4	113.7	118.1	122.3
<b>Percent Change Annualized</b>	<b>4.3</b>	<b>6.1</b>	<b>4.8</b>	<b>4.1</b>	<b>3.4</b>	<b>2.8</b>	<b>2.5</b>	<b>2.4</b>	<b>1.3</b>	<b>3.8</b>	<b>3.6</b>
PPI, Final Demand (Nov. 2009=100)	122.1	125.0	128.2	130.4	131.6	132.8	133.9	134.9	118.4	126.4	133.3
<b>Percent Change Annualized</b>	<b>8.8</b>	<b>10.0</b>	<b>10.5</b>	<b>7.1</b>	<b>3.8</b>	<b>3.6</b>	<b>3.3</b>	<b>3.1</b>	<b>1.2</b>	<b>3.8</b>	<b>4.7</b>
Crude Oil, WTI (\$/barrel)	57.2	65.6	70.4	75.0	78.0	75.0	72.0	70.0	39.4	67.0	73.8
<b>Labor Markets</b>											
Payroll Jobs (Average Monthly Diff., Ths.)	245.3	567.0	748.6	276.7	141.3	150.1	138.1	120.9	-759.6	459.4	137.6
Unemployment Rate (Percent)	6.2	5.9	5.1	4.7	4.5	4.2	4.1	4.0	8.1	5.5	4.2
Average Weekly Hours	34.8	34.8	34.7	34.8	34.8	34.8	34.8	34.8	34.6	34.8	34.8
Population (Millions)	331.2	331.8	332.4	333.0	333.6	334.1	334.7	335.3	329.8	332.1	334.4
<b>Percent Change Annualized</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.4</b>	<b>0.7</b>	<b>0.7</b>
<b>Personal Income</b>											
Average Hourly Earnings (\$)	29.96	30.31	30.69	31.08	31.43	31.71	31.96	32.24	29.35	30.51	31.83
<b>Percent Change Annualized</b>	<b>3.9</b>	<b>4.7</b>	<b>5.1</b>	<b>5.2</b>	<b>4.6</b>	<b>3.6</b>	<b>3.3</b>	<b>3.5</b>	<b>4.8</b>	<b>3.9</b>	<b>4.3</b>
Real Disp. Income (2012 Billions \$)	17219	15740	15500	15183	15089	15110	15193	15283	15677	15910	15169
<b>Percent Change Annualized</b>	<b>54.6</b>	<b>-30.2</b>	<b>-5.9</b>	<b>-7.9</b>	<b>-2.5</b>	<b>0.6</b>	<b>2.2</b>	<b>2.4</b>	<b>6.2</b>	<b>1.5</b>	<b>-4.7</b>
Personal Saving Rate (Percent)	20.0	10.5	9.4	9.0	8.5	8.5	8.5	8.5	16.3	12.2	8.5
<b>Housing</b>											
Housing Starts (Ths., Ann. Rate)	1599	1588	1598	1604	1612	1621	1619	1615	1397	1597	1617
Exst. SF Home Sales (Ths., Ann Rate)	5583	5113	5223	5225	5226	5226	5233	5235	5076	5286	5230
New SF Home Sales (Ths., Ann Rate)	896	738	737	738	739	738	739	739	828	777	739
Case/Shiller HPI (Jan. 2000=100)	242.0	254.7	268.8	277.8	283.5	288.0	292.1	296.1	222.2	260.8	289.9
<b>Year/Year Percent Change</b>	<b>12.3</b>	<b>16.9</b>	<b>20.6</b>	<b>19.4</b>	<b>17.2</b>	<b>13.1</b>	<b>8.6</b>	<b>6.6</b>	<b>6.1</b>	<b>17.4</b>	<b>11.2</b>
<b>Consumer</b>											
Household Economic Stress Index	-4.2	-6.1	-10.3	-8.5	-6.4	-4.0	-0.6	0.4	3.3	-7.3	-2.6
Auto Sales (Millions)	16.8	16.9	13.4	13.9	15.0	17.0	18.1	18.7	14.6	15.3	17.2
<b>Interest Rates (Percent)</b>											
Federal Funds Rate (Effective)	0.08	0.07	0.09	0.13	0.13	0.13	0.13	0.17	0.38	0.09	0.14
Prime Rate	3.25	3.25	3.25	3.23	3.23	3.23	3.23	3.27	3.54	3.25	3.24
1-Month LIBOR	0.12	0.10	0.09	0.09	0.12	0.13	0.14	0.19	0.52	0.10	0.15
3-Month LIBOR	0.20	0.16	0.13	0.15	0.26	0.35	0.37	0.43	0.65	0.16	0.35
1-Yr. Treasury Rate	0.08	0.06	0.08	0.09	0.14	0.21	0.24	0.29	0.38	0.08	0.22
5-Yr. Treasury Rate	0.60	0.84	0.80	1.07	1.09	1.12	1.15	1.20	0.54	0.83	1.14
10-Yr. Treasury Rate	1.32	1.59	1.32	1.60	1.60	1.63	1.66	1.71	0.89	1.46	1.65
30-Yr. Fixed Rate Mortgage	2.88	3.00	2.87	2.88	2.95	3.07	3.13	3.25	3.11	2.91	3.10

a = actual f = forecast

October 8, 2021

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