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# American exceptionalism

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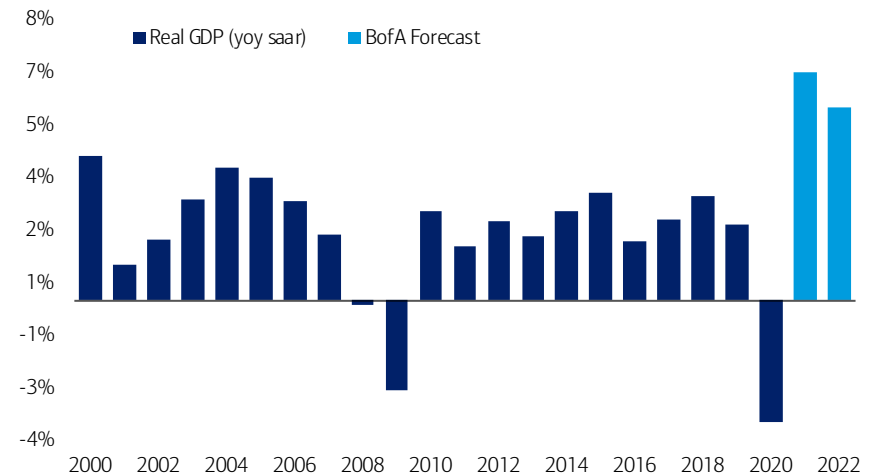


# Bullish on America

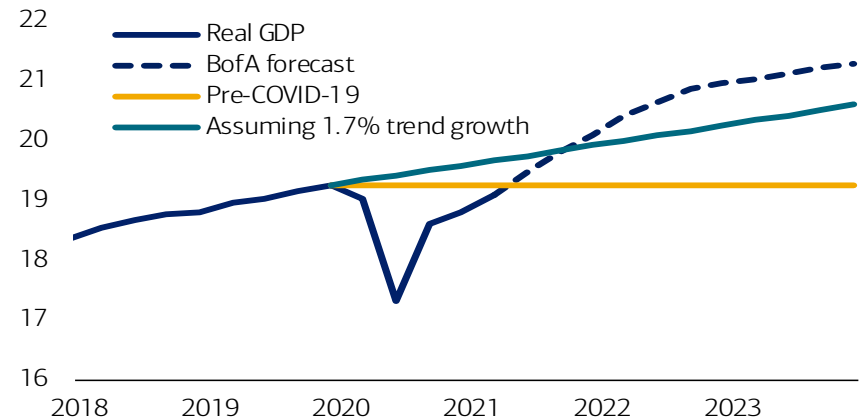


- **Real GDP: 6.5% 2021, 5.5% 2022**
  - Likely past peak growth, but still robust
  - Vaccine + stimulus
  - Pent up consumer demand for services
  - Capex boom
- **Labor market is lagging behind**
  - But not for lack of demand
  - Labor constraints, resilient wage growth
- **Inflation: transitory vs persistent**
  - Goods shortages, reopening in near term
  - Tight labor markets over medium term
  - Fed will normalize slowly

### Annual real GDP growth trajectory



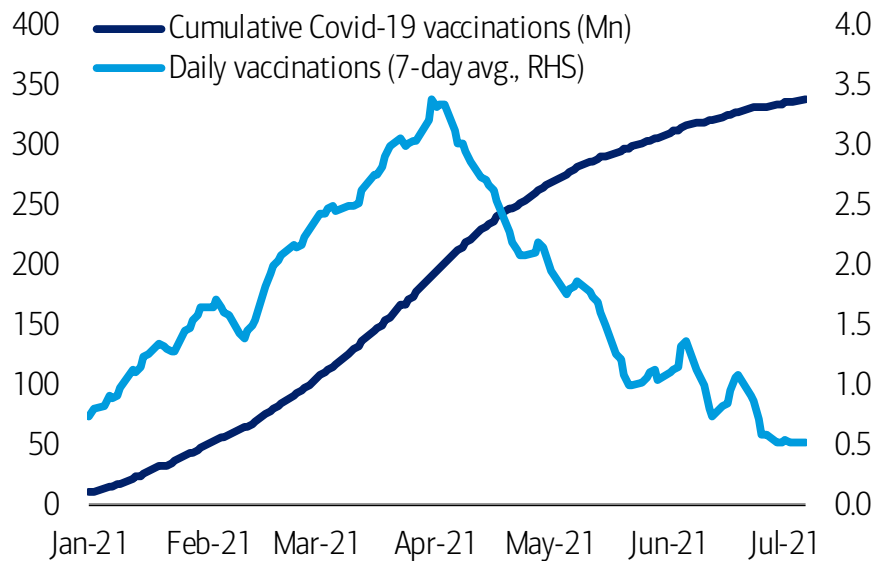
### Return to pre-COVID levels in 2Q21, close output gap at year end (\$tr)



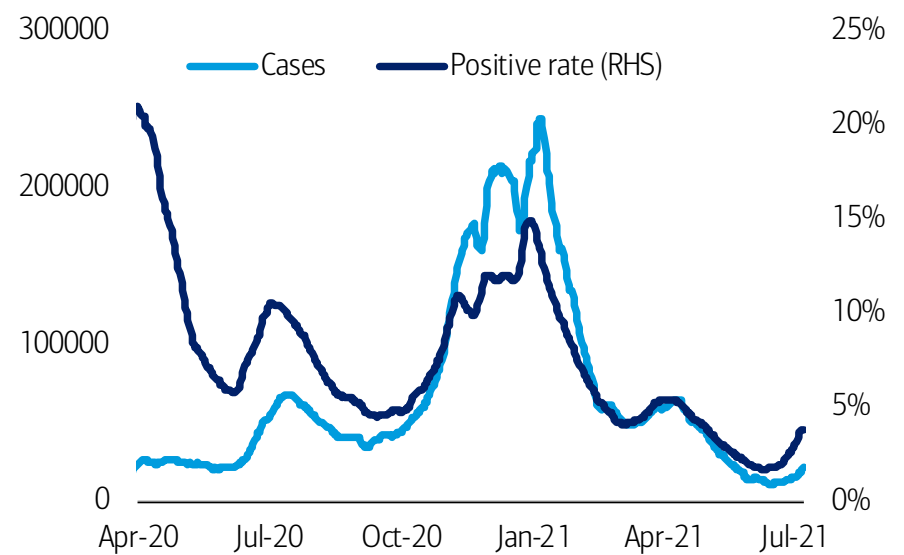
# Vaccine rollout well progressed but risks remain



**Almost 350mn doses administered, 67-68% of the adult population has received at least one dose**



**Daily new cases and positive rate (7-day moving average)**

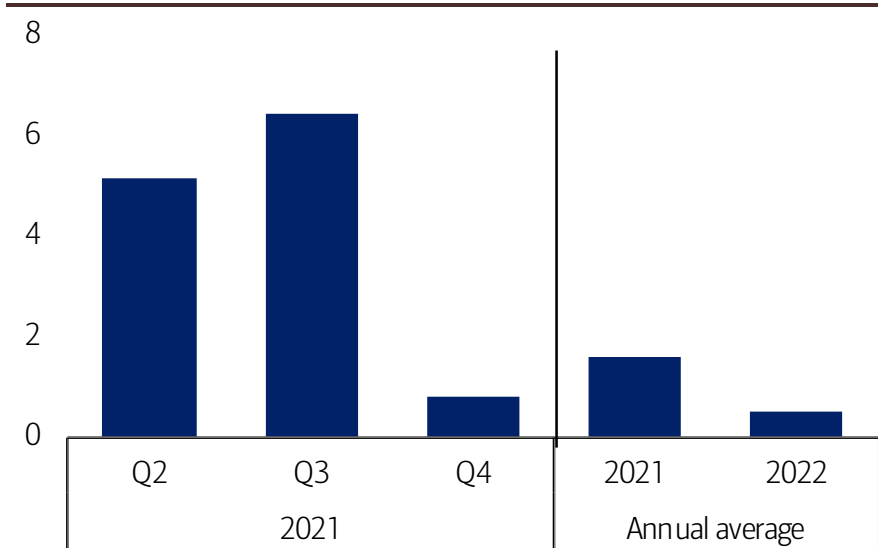


# Fiscal stimulus tailwinds

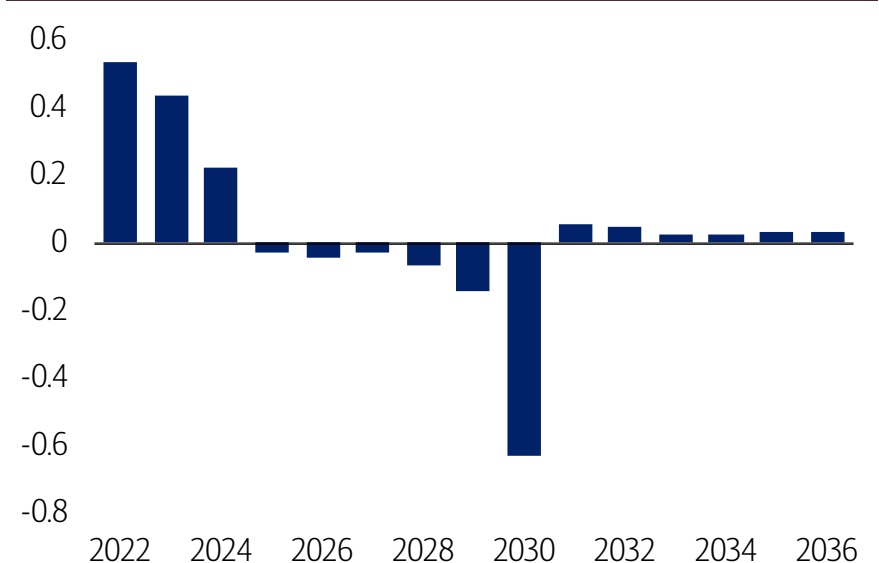


- **Stimulus last spring/summer: \$2.8tn**
  
- **Recent stimulus: \$2.8tn**
  - Dec-20 Consolidated Appropriations Act (CAA): \$900bn
  - Mar-21 American Rescue Plan (ARP): \$1.9tn
  
- **The future is infrastructure**
  - Idea 1: \$1tn bipartisan plan + multi-trillion Democrat-only reconciliation plan
  - Idea 2: \$2.2tn American Jobs Plan via reconciliation
  - Idea 3: \$1.8tn American Families Plan
  - Spending/revenue more spread out

Growth impact of the ARP in March (% qoq SAAR)



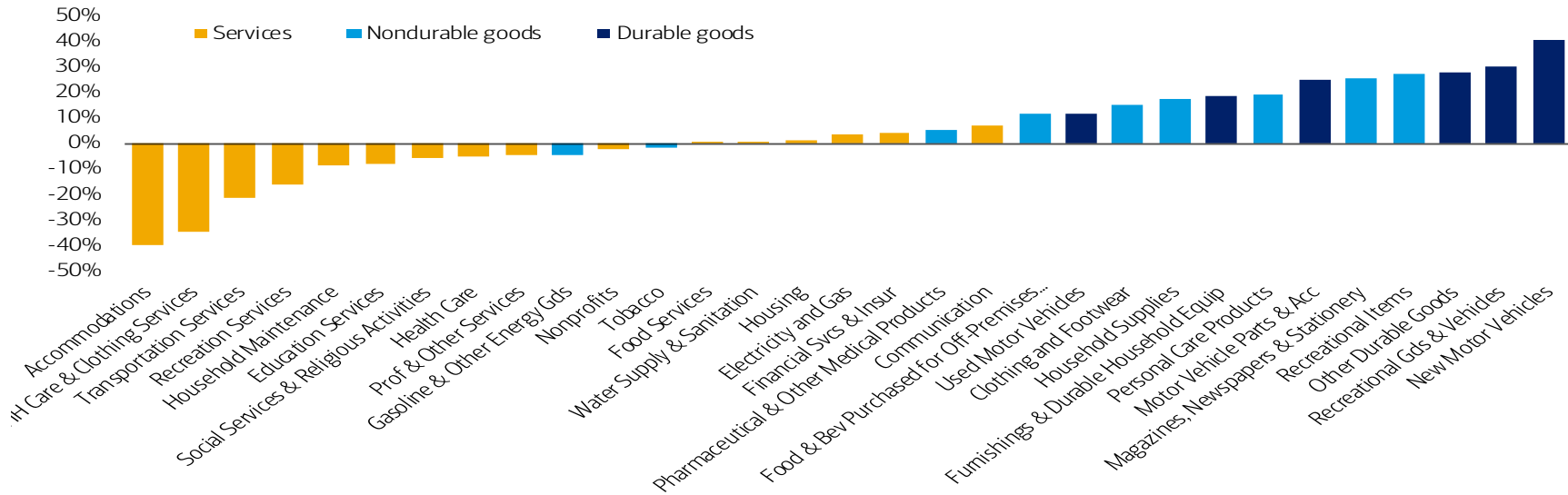
Growth impact of the AJP (% yoy)



# A consumer-led recovery

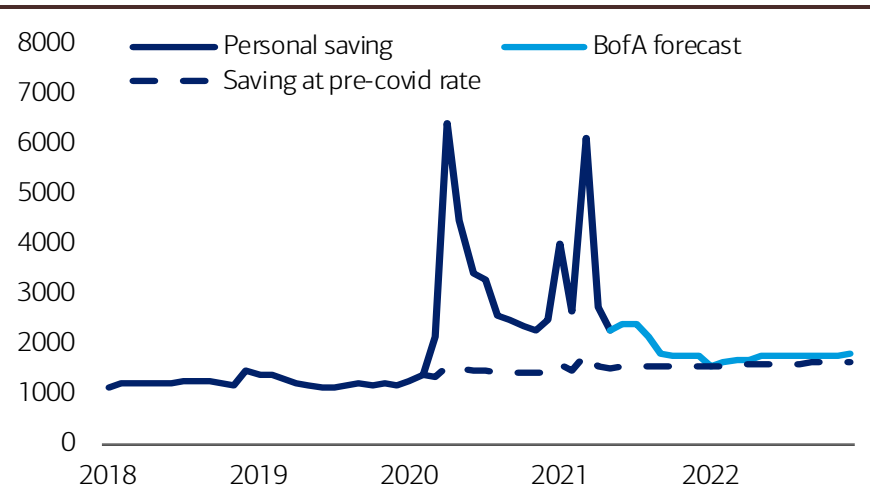


Goods and services spending (%change from Feb 2020, data as of May 2021)



- **Consumer is 70% of US GDP**
- **Forecast: 8% in 2021, 5% in 2022**
- **Pent-up services demand**
- **Dry powder to spend from excess savings**

Excess savings (\$bn, annualized rate)

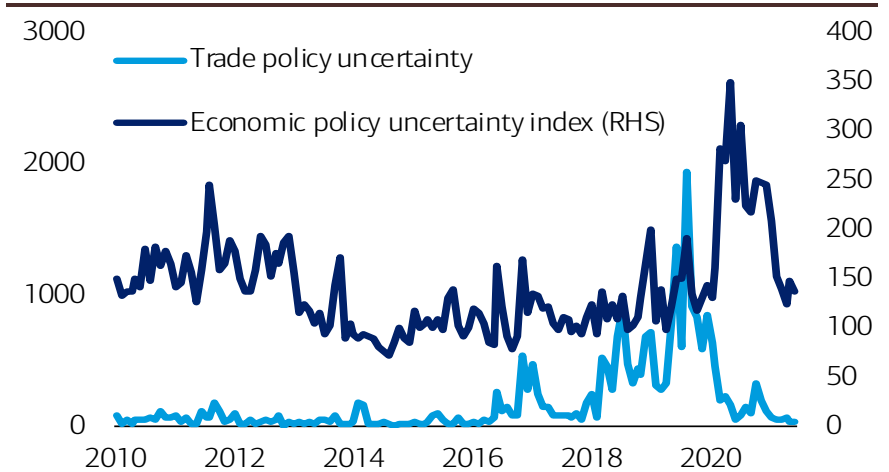


# 4 reasons for surging capex

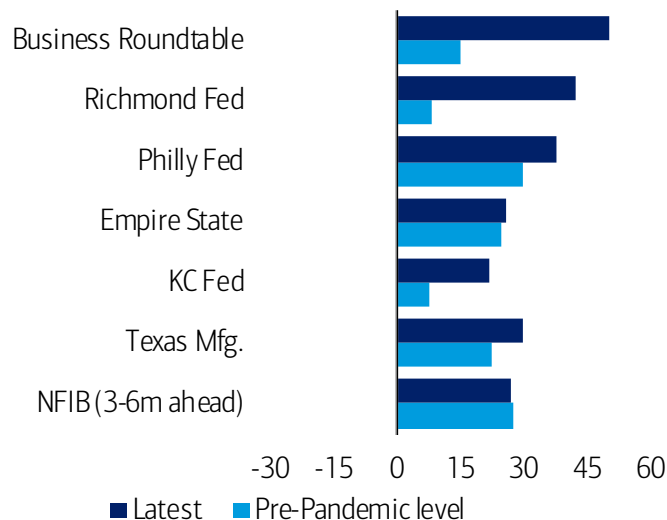


- **Forecast: 8.3% 2021, 5.4% 2022**
- 1. Strong outlook and expectations**
- 2. Less uncertainty**
- 3. Greater public investment**
- 4. On-shoring of supply chains**

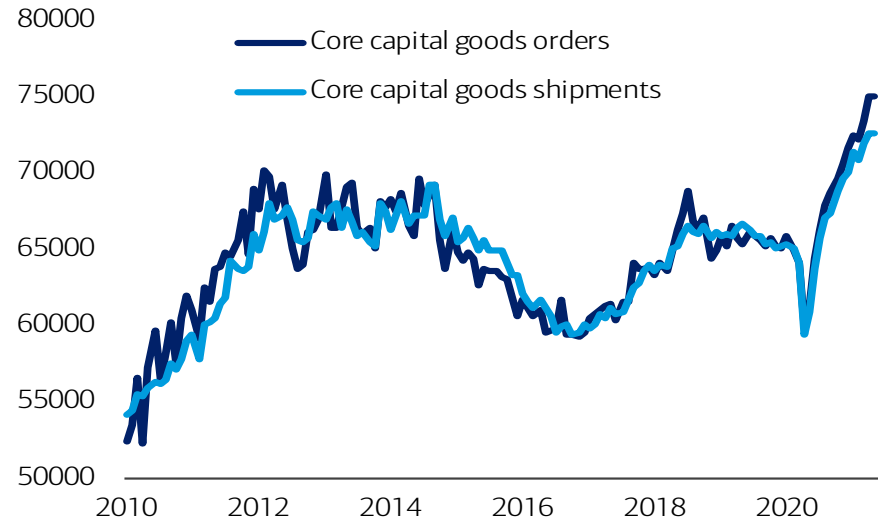
**Policy uncertainty has fallen significantly under the new administration**



**Survey measures of capex expectations mostly above pre-pandemic**



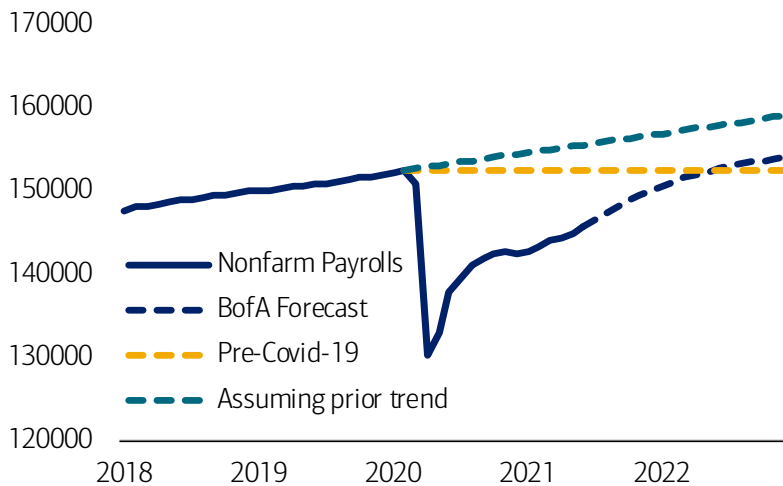
**Core capital goods orders and shipments (\$mn SA)**



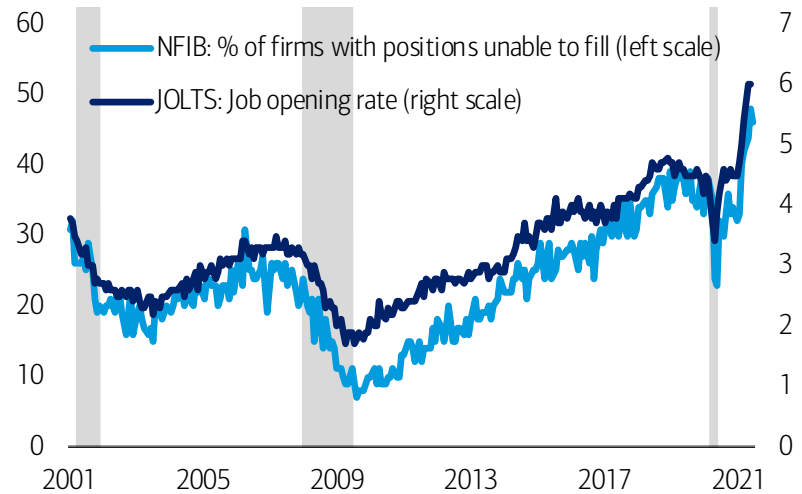
# Labor market recovery lagging behind



**Nonfarm payroll growth to accelerate alongside reopening (000s sa)**



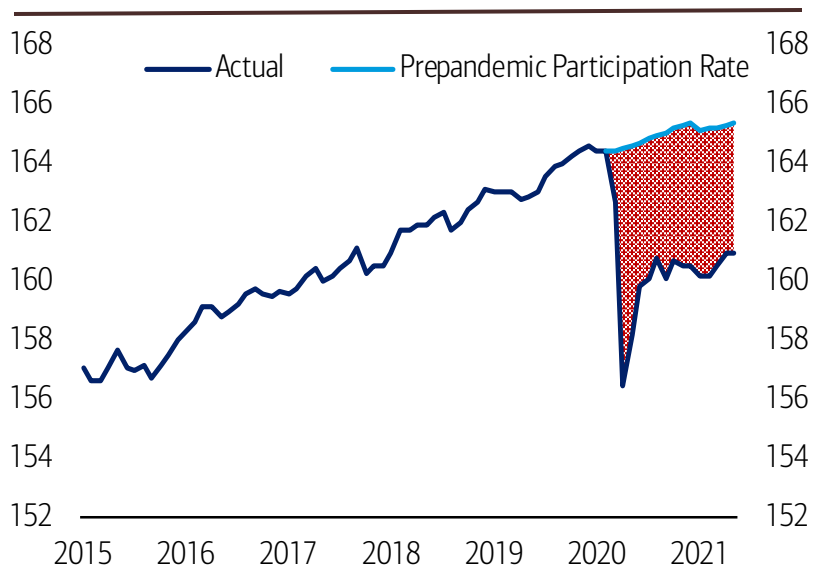
**Strong demand for workers: surging job openings, difficulty finding workers**



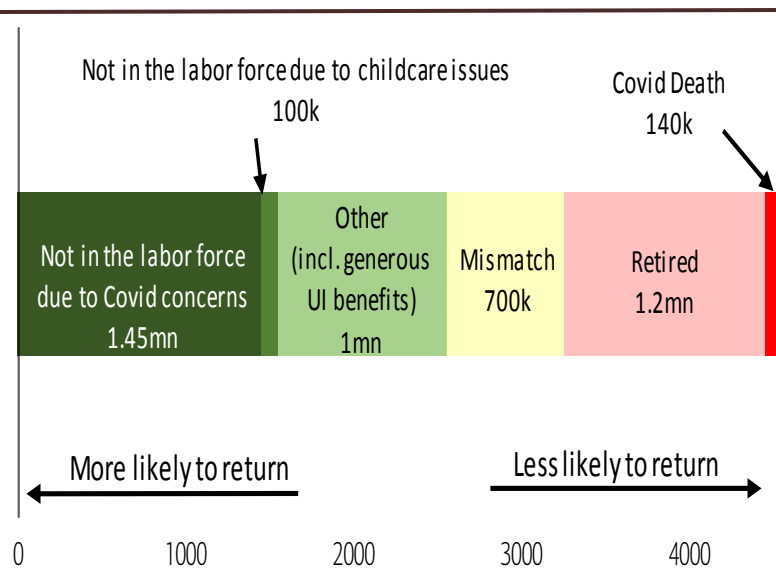
# Workers on the sidelines



**US Labor force: actual vs pre-Covid trend**  
(in millions)



**Labor force gap due to the pandemic**  
(in thousands)

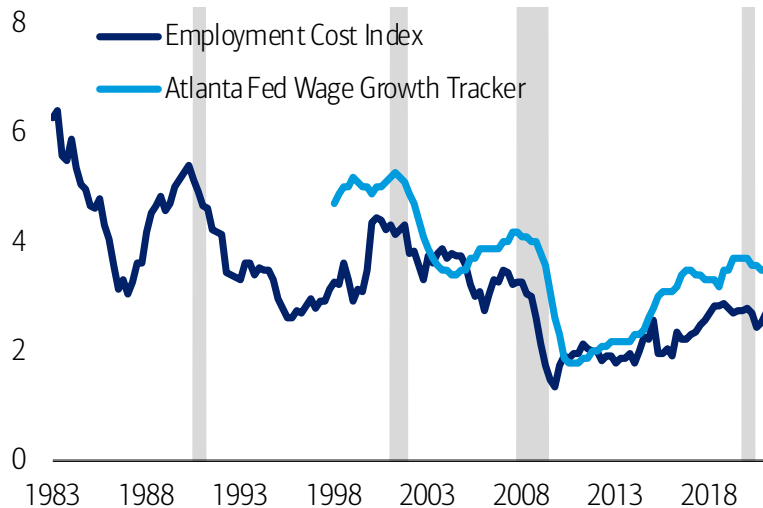




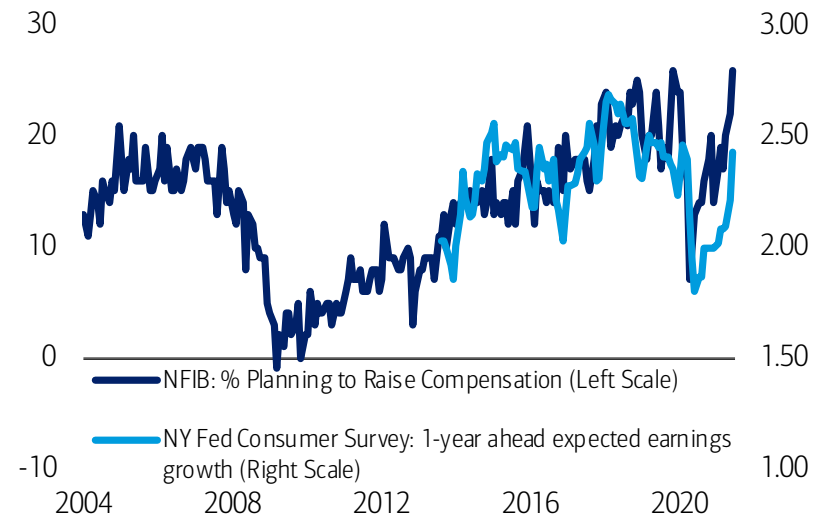
# Wage growth has been resilient



### Wage growth (% yoy)



### Wage growth expectations rebounding



# Inflation: transitory vs persistent



## ■ Core inflation 4Q/4Q forecasts:

- Core PCE: 3.2% 2021, 2.1% 2022
- Core CPI: 4.0% 2021, 2.5% 2022

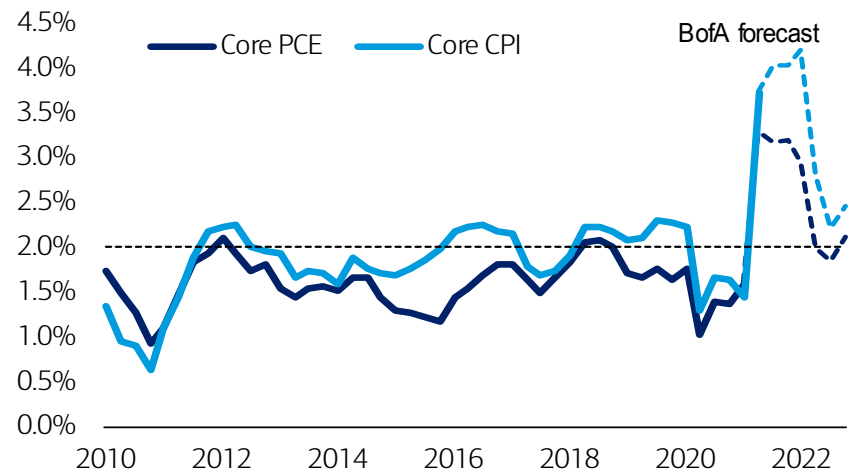
## ■ Near-term drivers

- Goods shortages/bottlenecks
- Reopening rebound
- Likely transitory

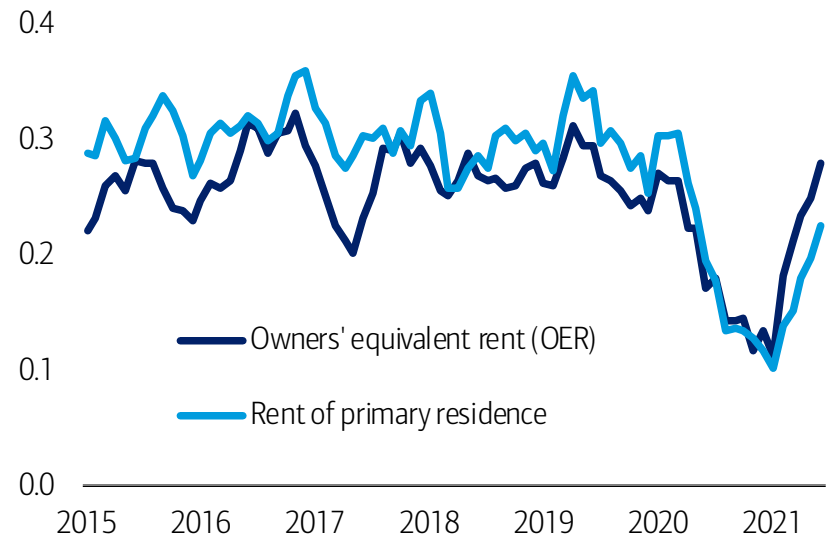
## ■ Medium-term drivers

- Rents
- Tight labor markets
- Stronger wage growth
- Rising inflation expectations

Core inflation trajectory (% yoy)



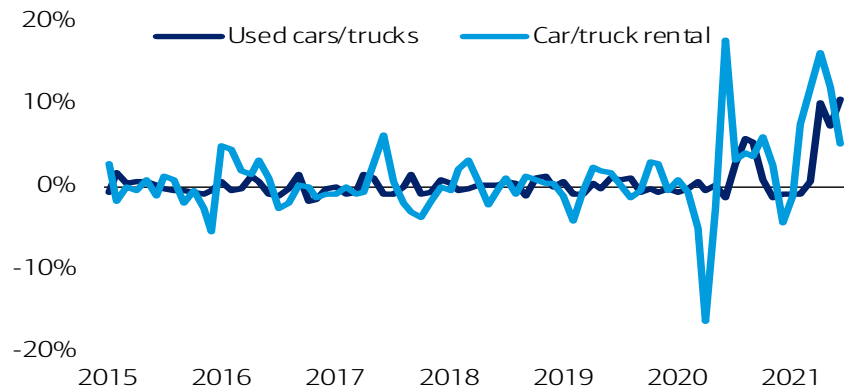
Rental inflation is firming (3-mo average % mom)



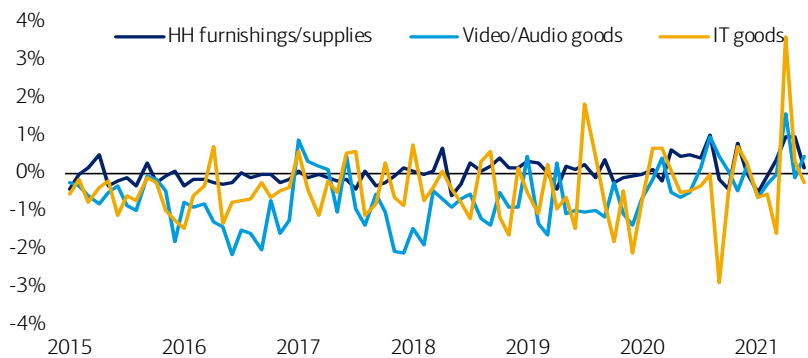
# Inflation: a few key categories



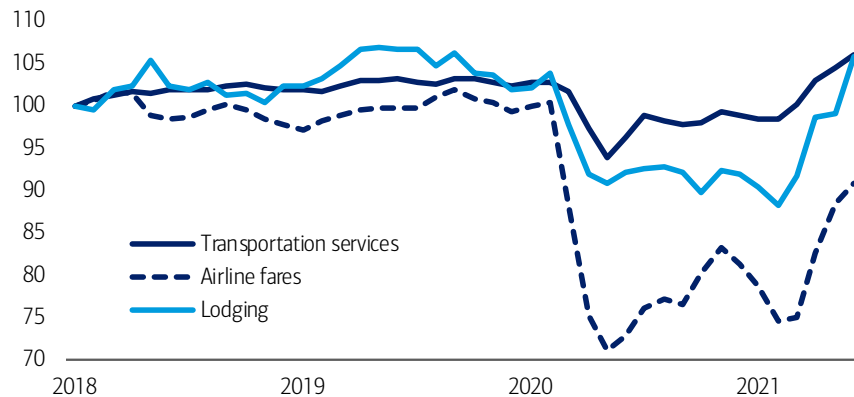
**Shortages: used auto prices, car rentals (% mom SA)**



**Shortages: hh furnishings & supplies, tvs, and computers (% mom SA)**



**Reopening: beaten-down travel sectors will rebound (level SA, 100=Jan 2018)**

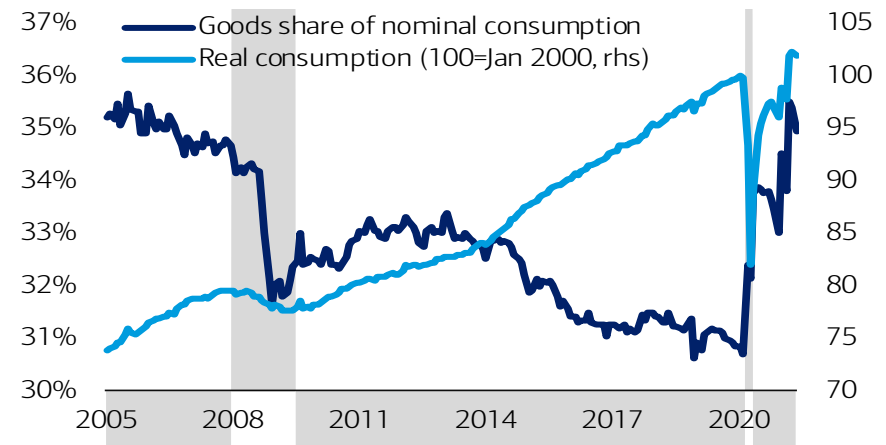


# The goods shortages

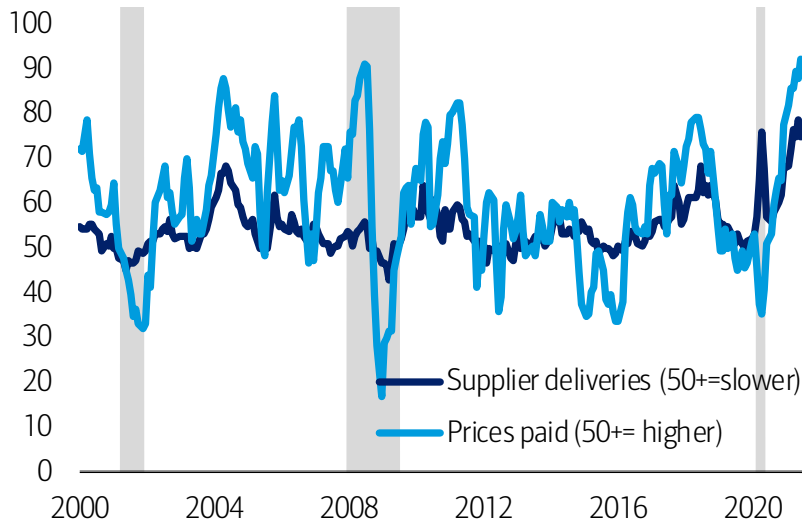
- **Extreme demand rotation to goods, supply side takes time to respond**
- **Rising commodities, chip shortage, shipping container shortage, congestion at the ports**
- **Consumer: acute tightness in autos**



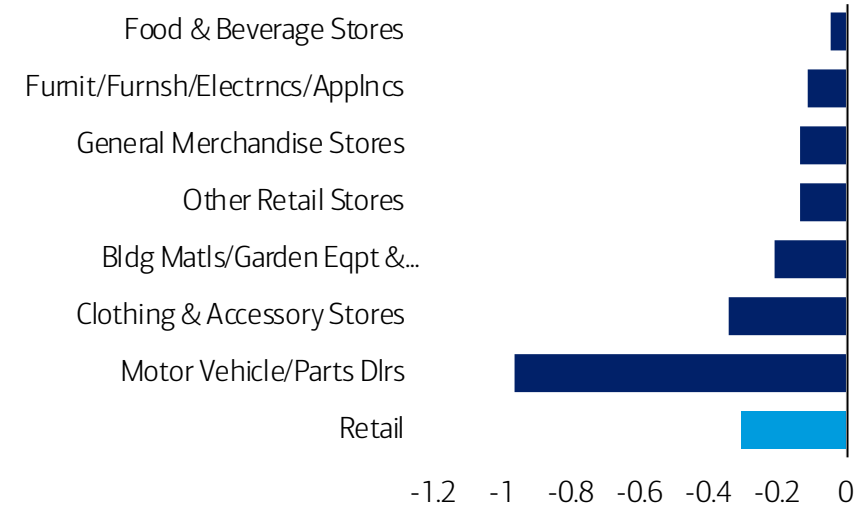
Consumers are now spending more than pre-pandemic, but the share of goods consumption is 4-5pp higher



ISM manufacturing supplier deliveries and prices paid at historically elevated levels, indicating higher costs and supply chain bottlenecks



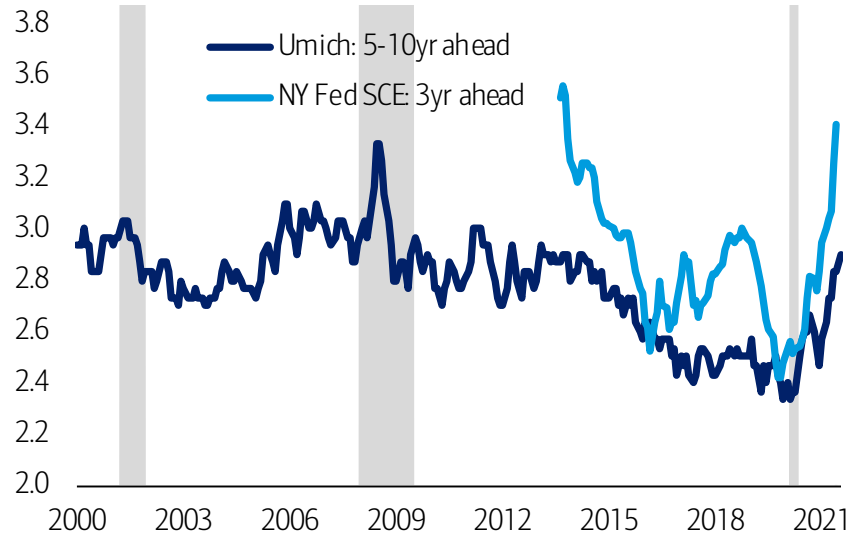
Most extreme retail shortage in autos (change in real I/S ratio since Feb 2020)



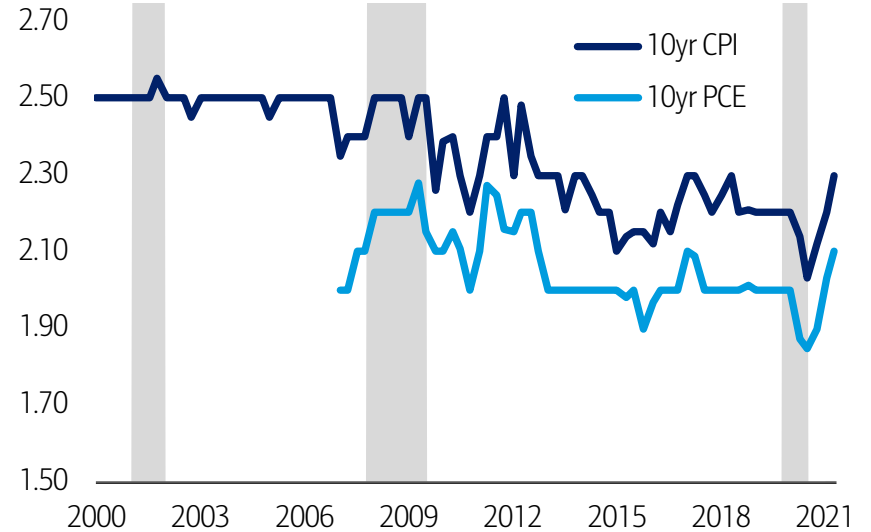
# Inflation expectations on the rise



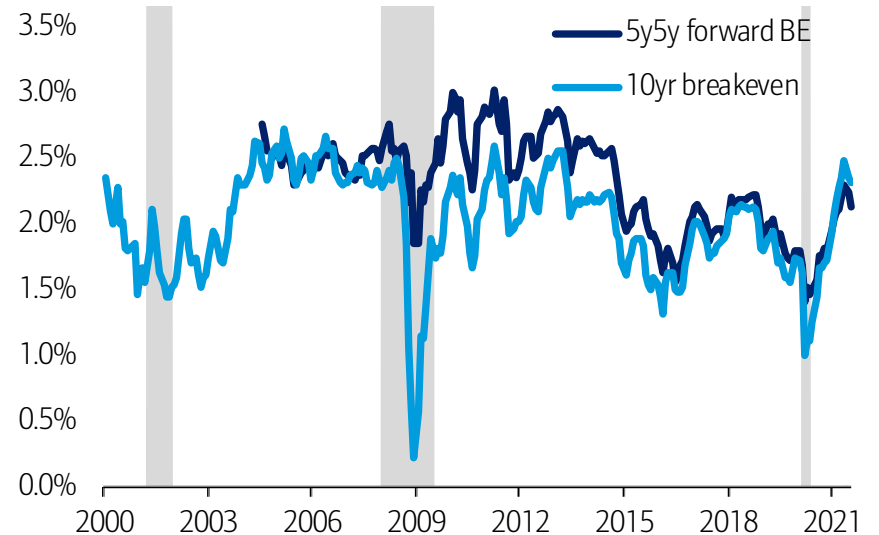
**Consumer survey-based inflation expectations (3-mo avg)**



**Economist (SPF) survey-based inflation expectations**



**Market expectations (monthly avg, benchmarked to CPI)**

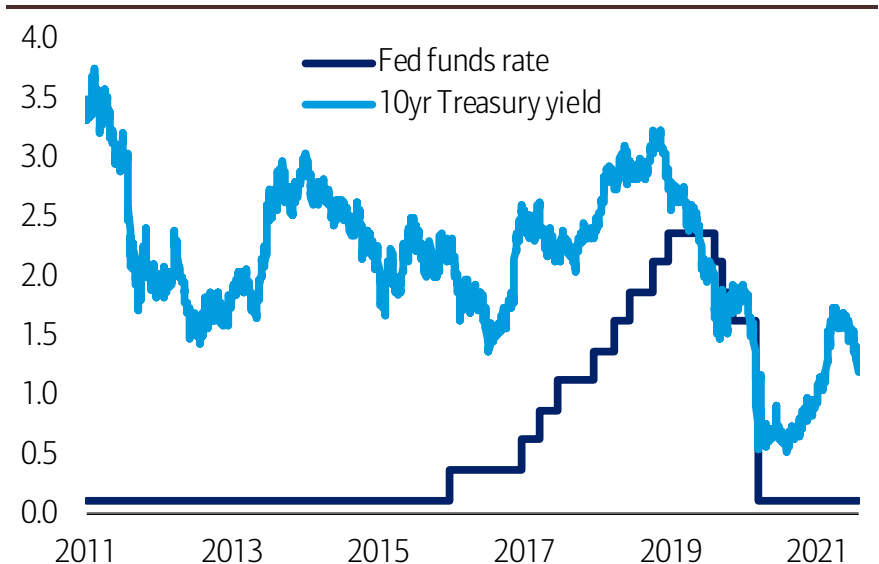


# A patient Fed



- **Maximum employment, price stability (ie 2% inflation)**
  - **New framework: flexible average inflation targeting (FAIT)**
  - **Moderately above 2% for some time**
  - **Respond to shortfalls from employment mandate, want inclusive recovery**
- **Tapering asset purchases**
  - **“Substantial further progress”**
  - **Explicit signal in Sep, execute Jan 2022**
- **First rate hike in 2H 2023**
  - **Need to see stronger persistent inflation**

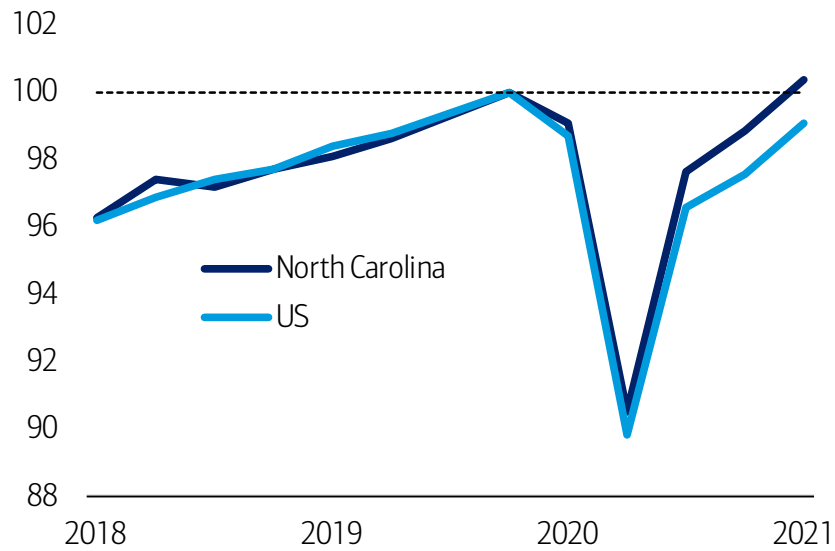
Fed policy keeping interest rates low (%)



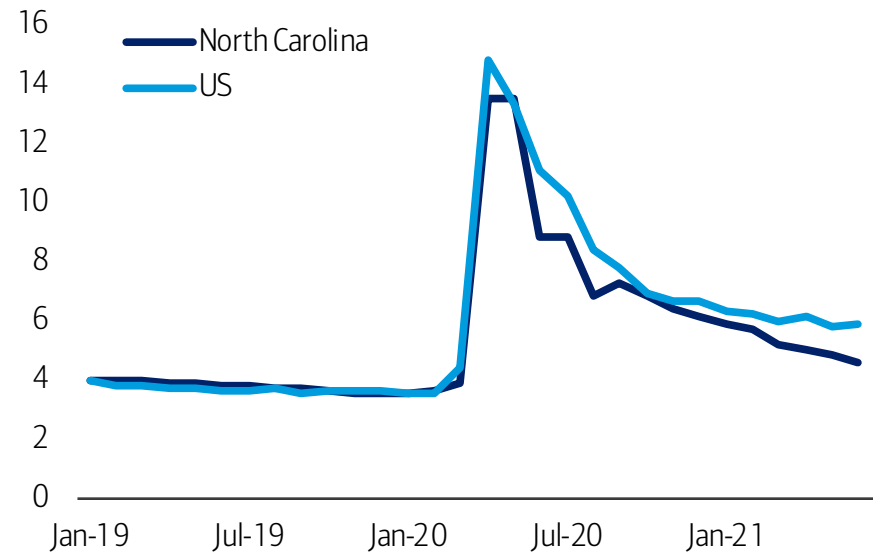
# North Carolina: outperforming the US



### Real GDP: North Carolina vs US (100 = 4Q 2019)



### Unemployment rate: North Carolina vs US



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