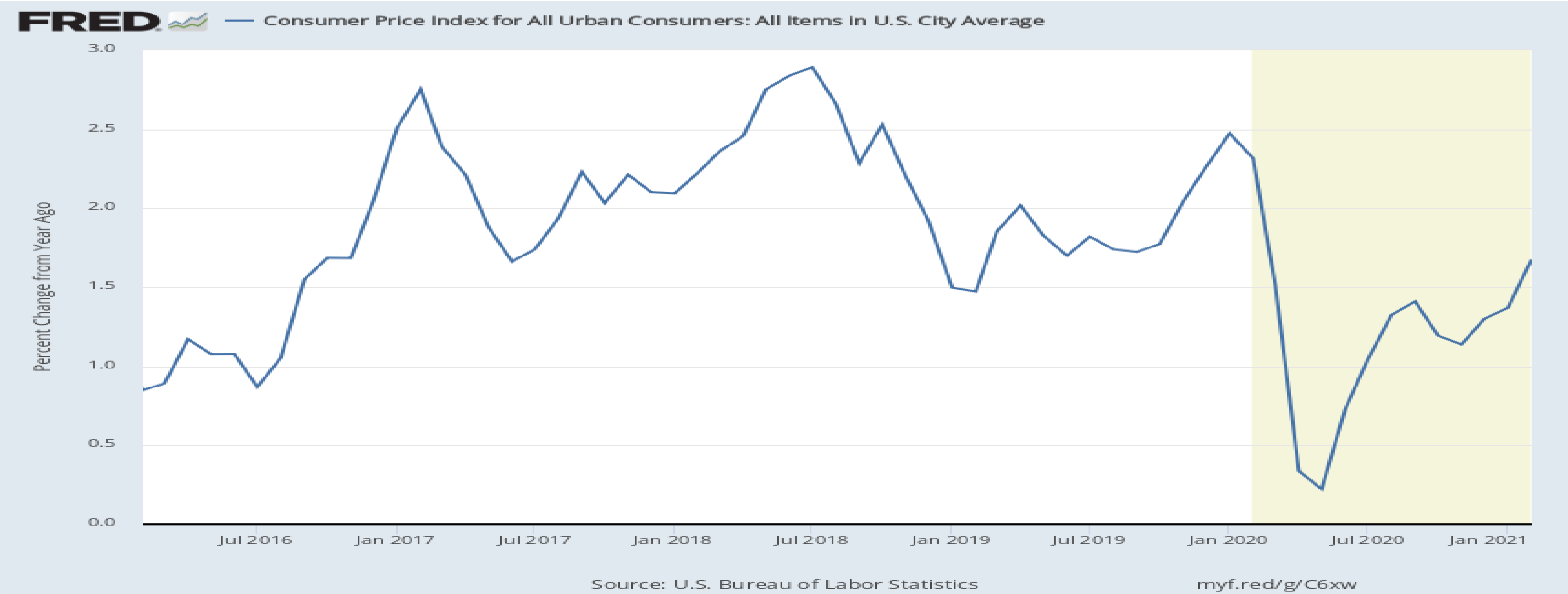
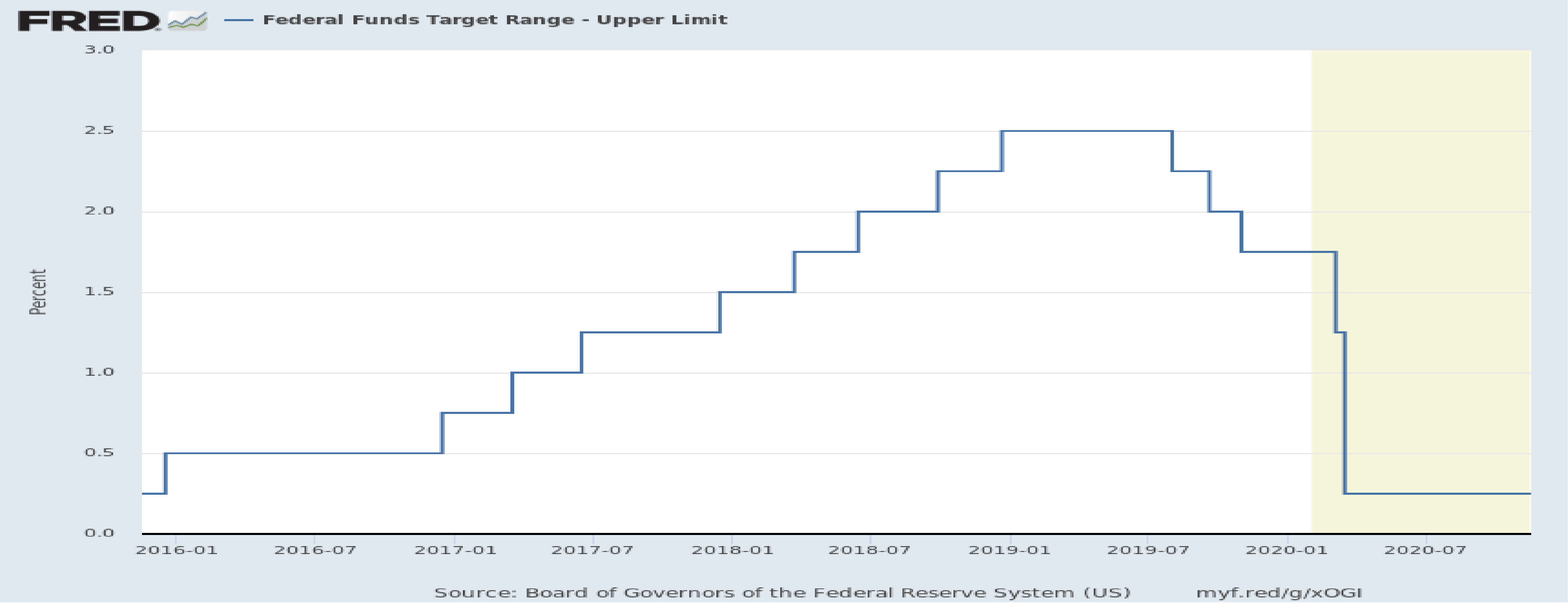
PURA
The Real State of the Economy or The State of the Real Economy
April 5, 2021

Charlene Sullivan

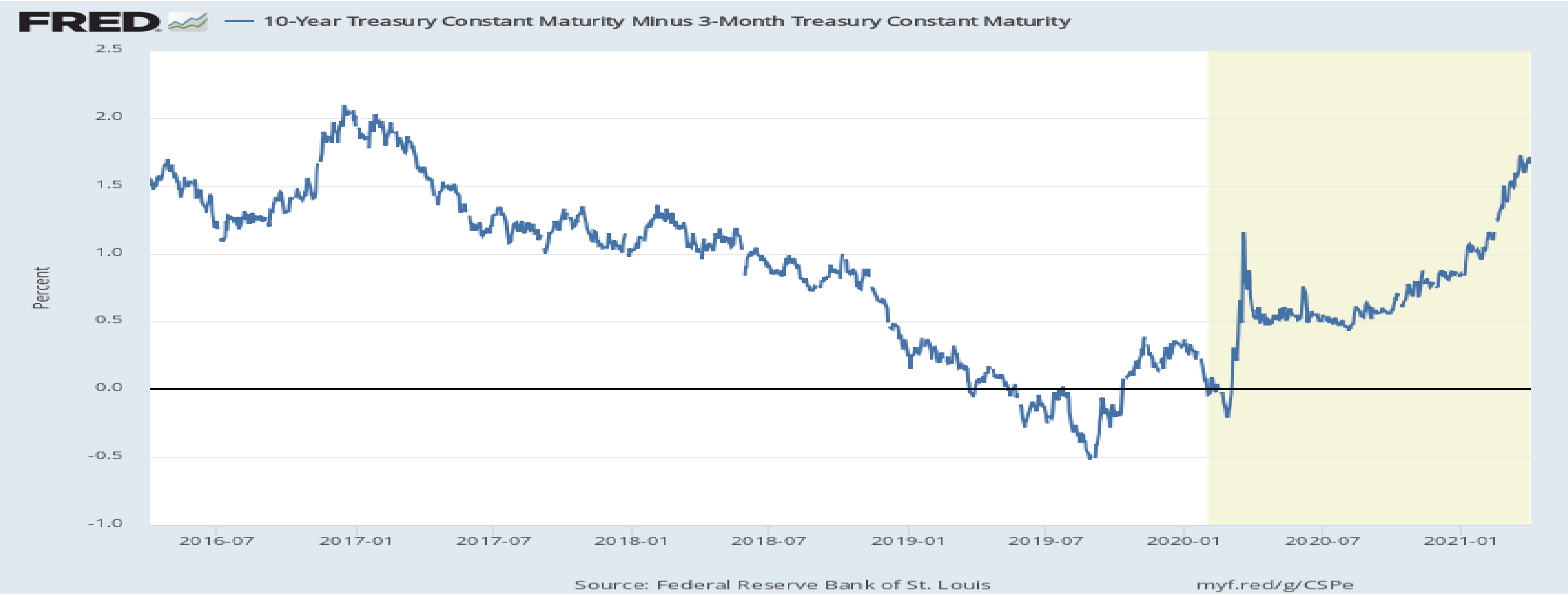
Inflation: Slow economic growth is keeping consumer price inflation low which supports the Fed's plan to keep interest rates low. Inflation target is 2%. Recent rate at 1.6%.



Monetary Policy: The Fed Funds Upper Limit Target is 0.25 for the foreseeable future. Fed is on the sidelines.

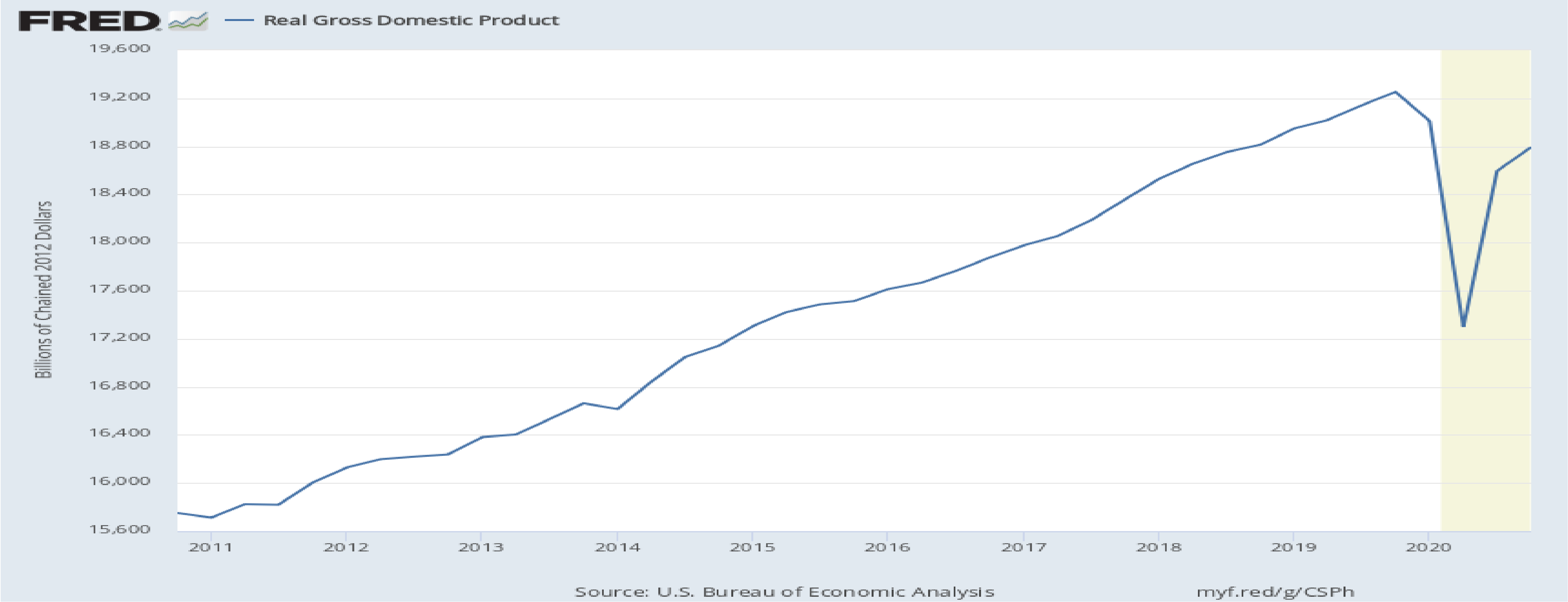


The yield spread between 10 year Treasury and 3 month Treasure is viewed as a signal of future economic activity. An increasing spread is a signal of future strengthening in the economy. Recent moves in 10-year suggests market is anticipating post-Covid recovery.

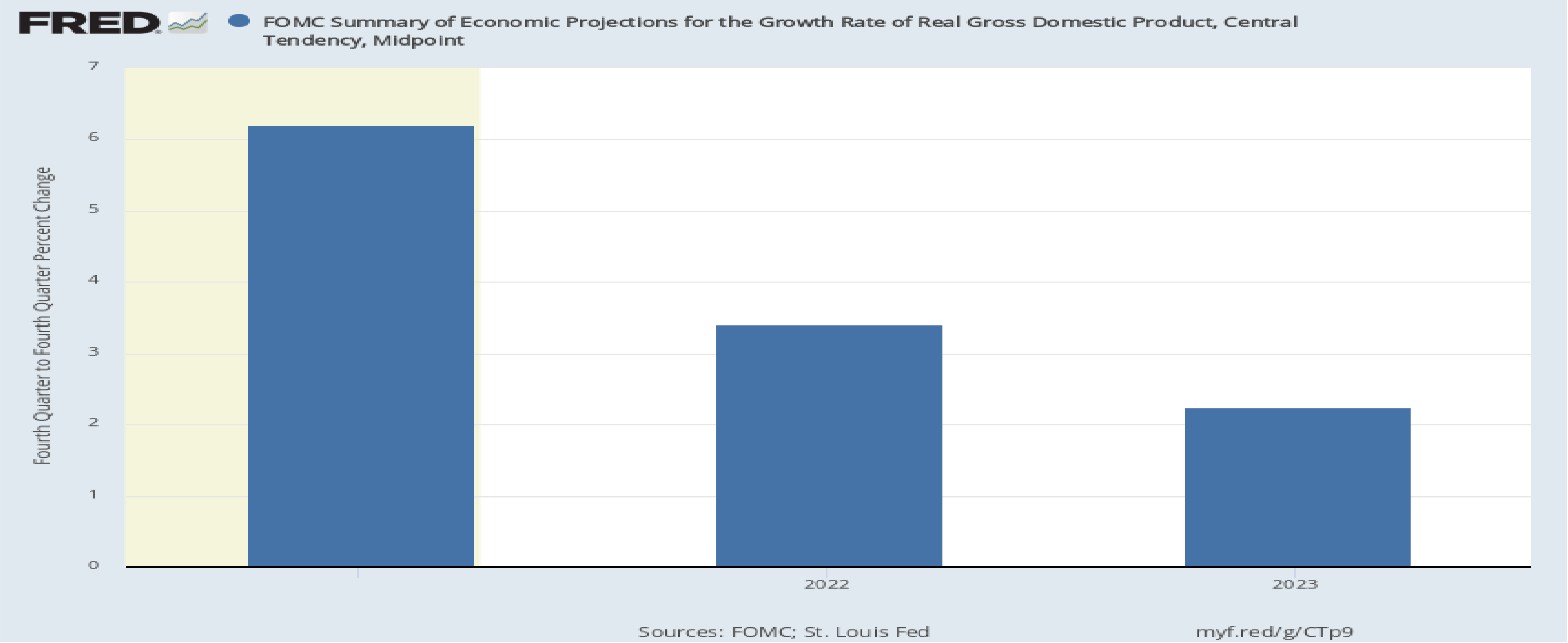


A broad index of equity values is up about 60% from the same time last year. S&P 500 is on the same path. Market fell 20% at start of COVID

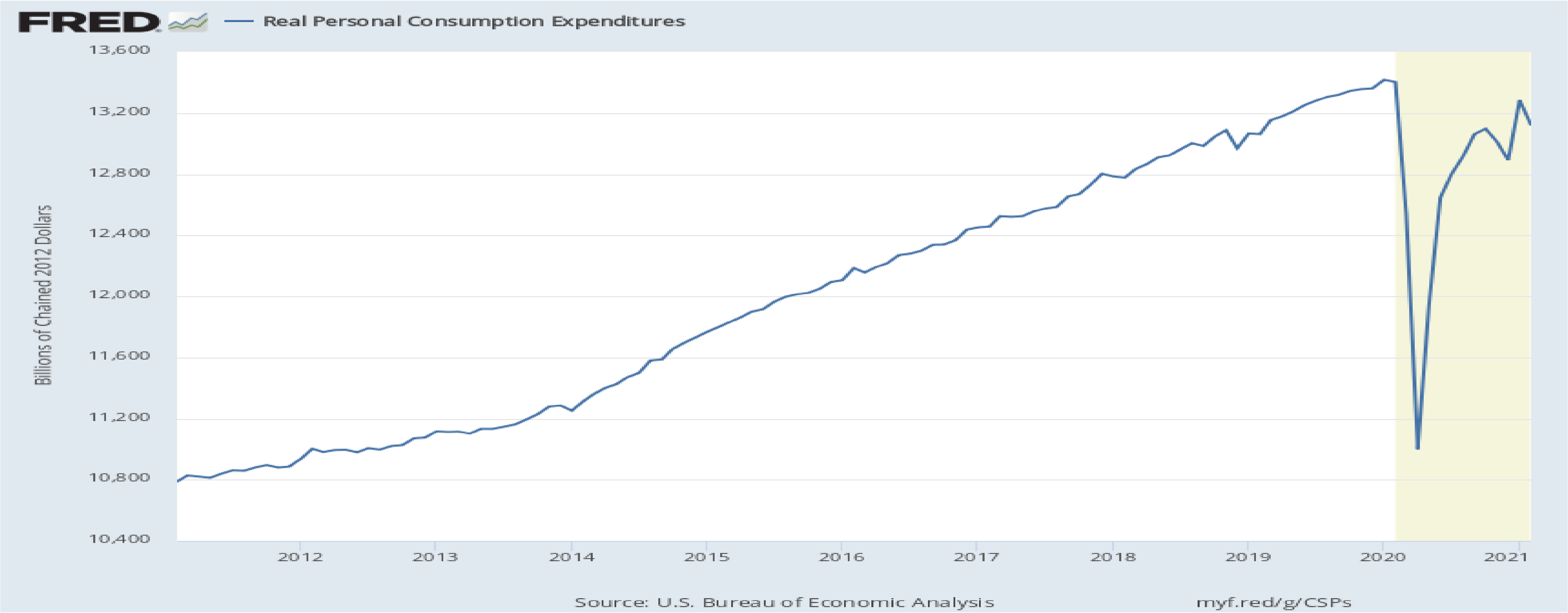
Real GDP contracted by about net $1 Trillion dollars with the COVID .Real GDP grew at 2.2% rate in 2019 and contracted -3.5% in 2020. Expected to grow at 6% rate in 2021. Fastest annual growth since 1980



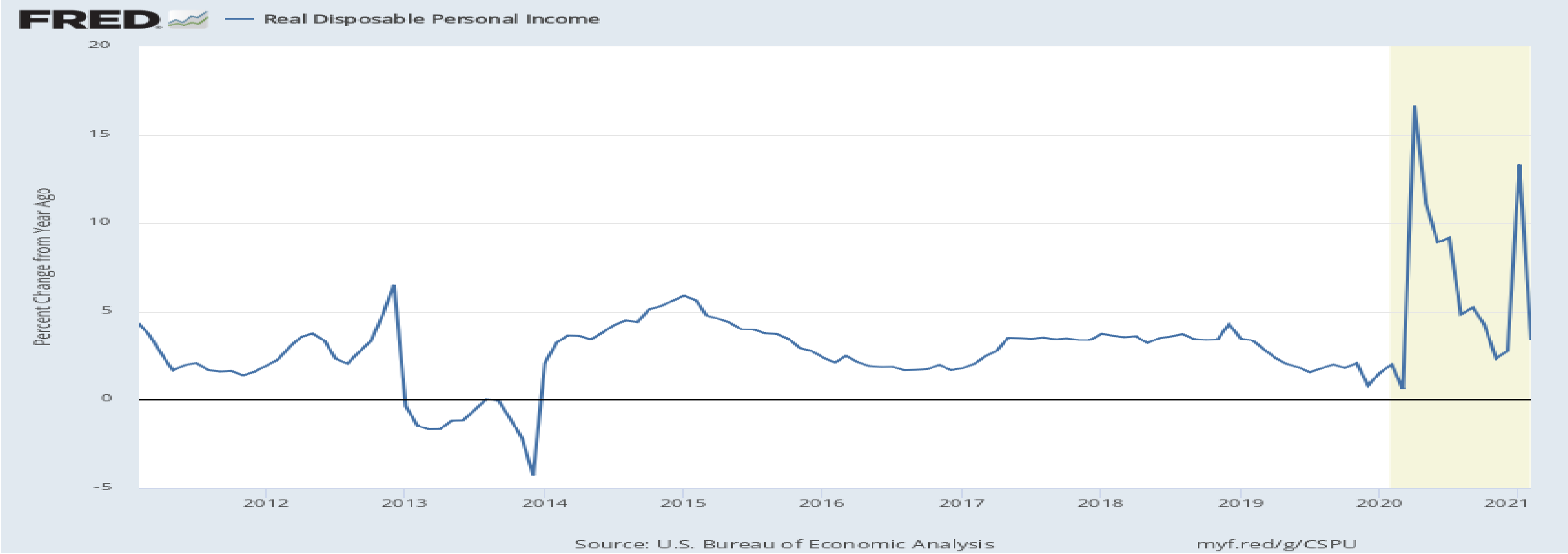
FOMC sees a return to normal real growth by 2023. Same with CPI inflation rate.



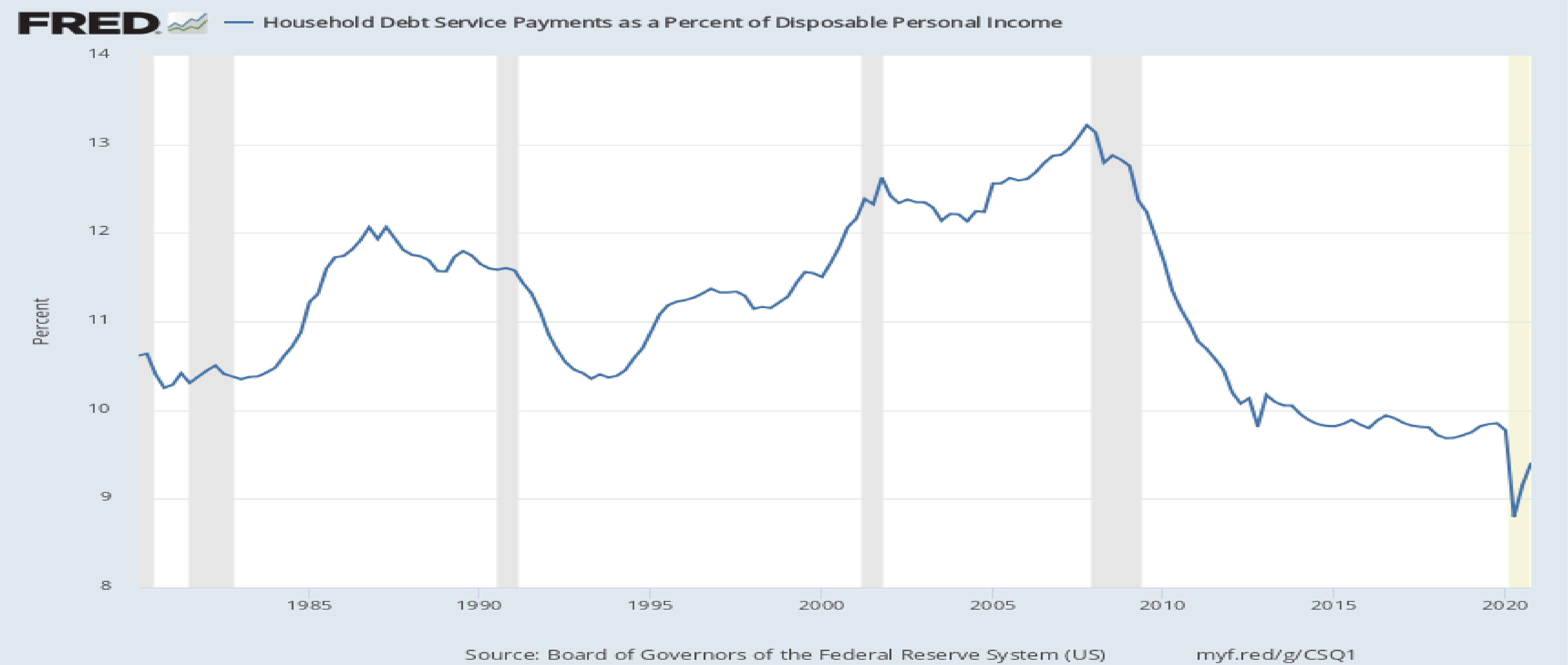
Personal consumption expenditures make up 70% of GDP. In real terms, steady monthly growth rate (Y-Y) of 2.5% for last several years until COVID. Growth rate at -2.0% in recent months.



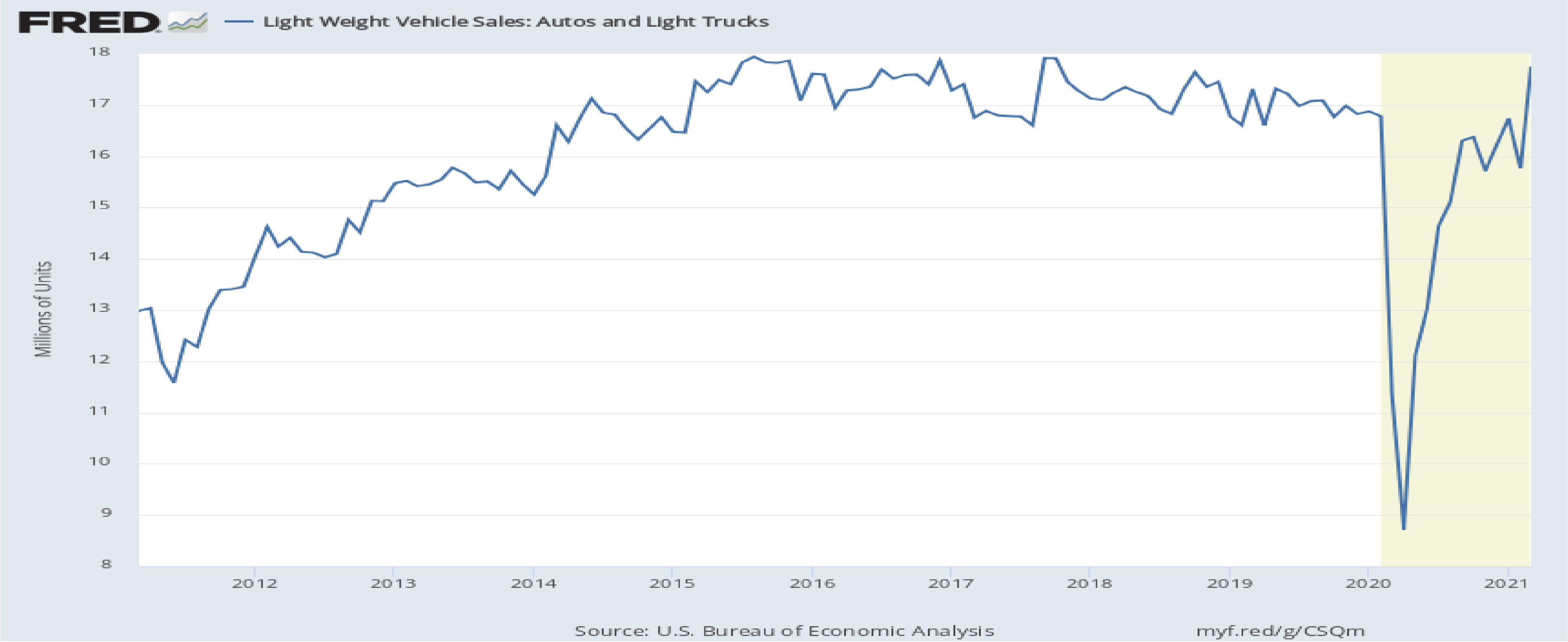
Real disposable personal income growth was slowing before COVID. Gyrations due to COVID leave Real DPI above pre-covid level. Personal savings rate jumped to 35% in April 2020. Households are drowning in cash



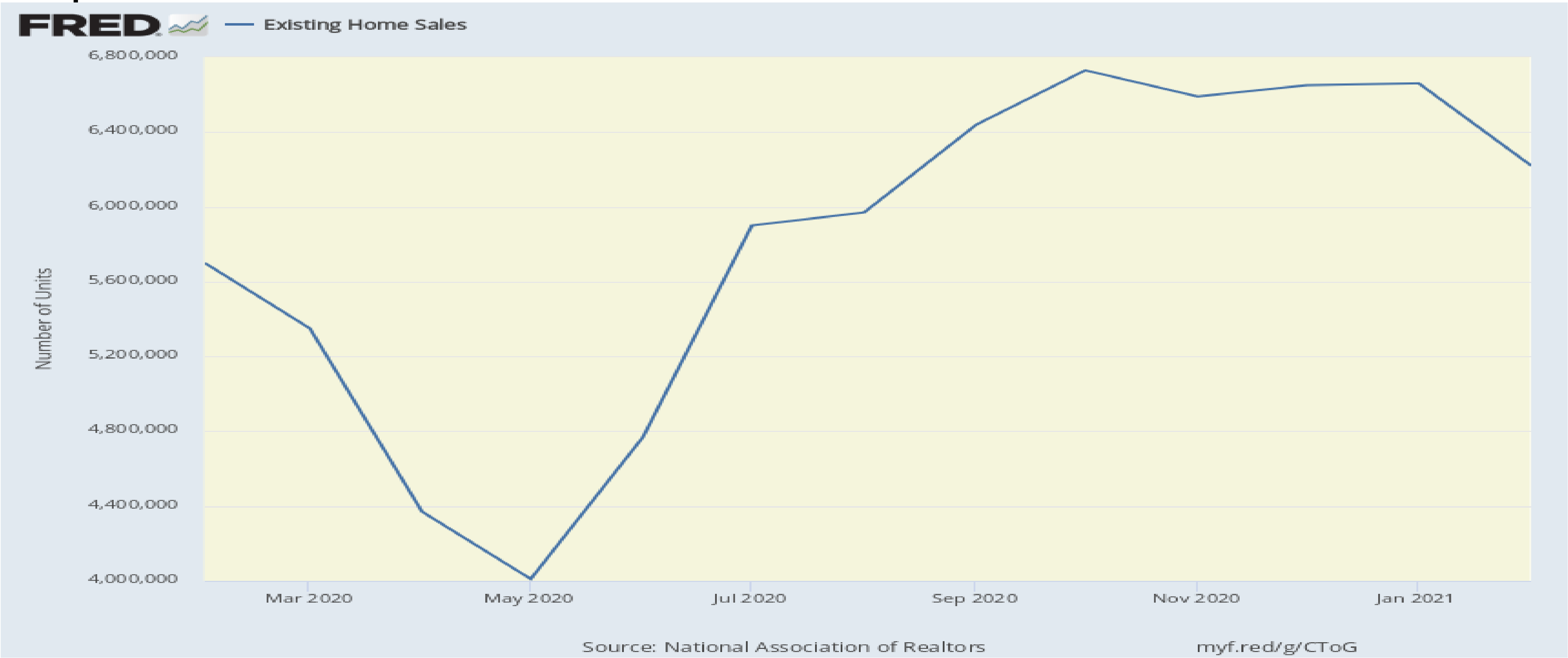
In aggregate, the household sector is in good shape relative to ability to repay debt. Growth rate in credit is down even with low interest rates. Personal BKR down.



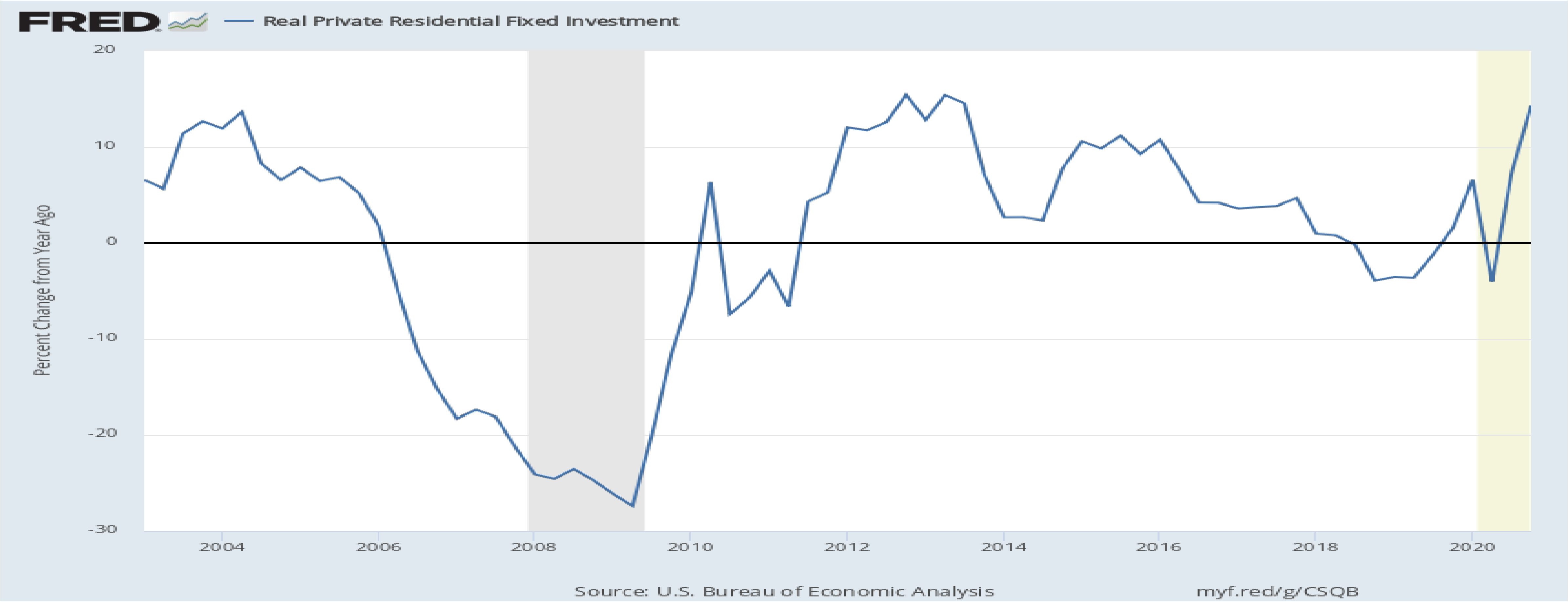
Sales of autos and light trucks were high coming into COVID and are supported by low interest. Supply chain problems keeping a lid on sales rates.



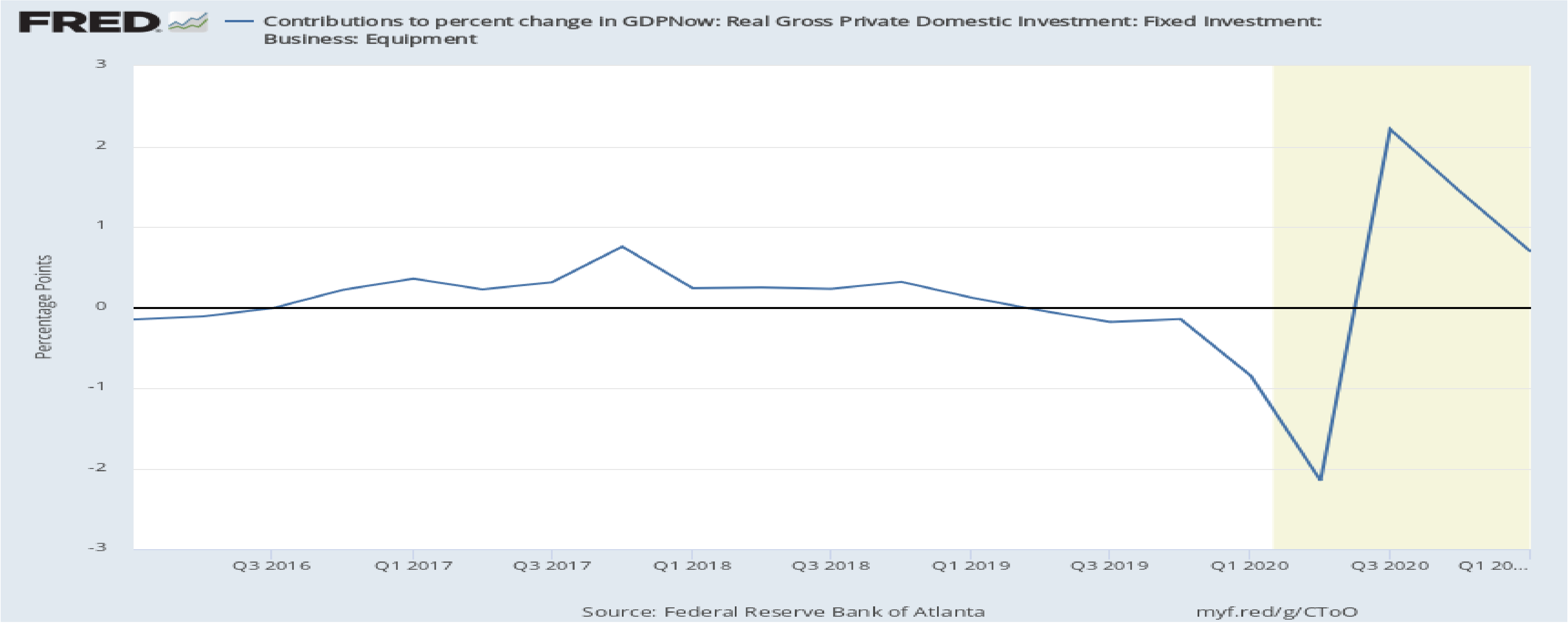
Sales pace for existing homes has slowed because of inventory issues but substantially higher than pre-Covid



Investment in Housing (new) is also being supported by low interest rates. But annual rate of housing starts remain well below 2005 level.

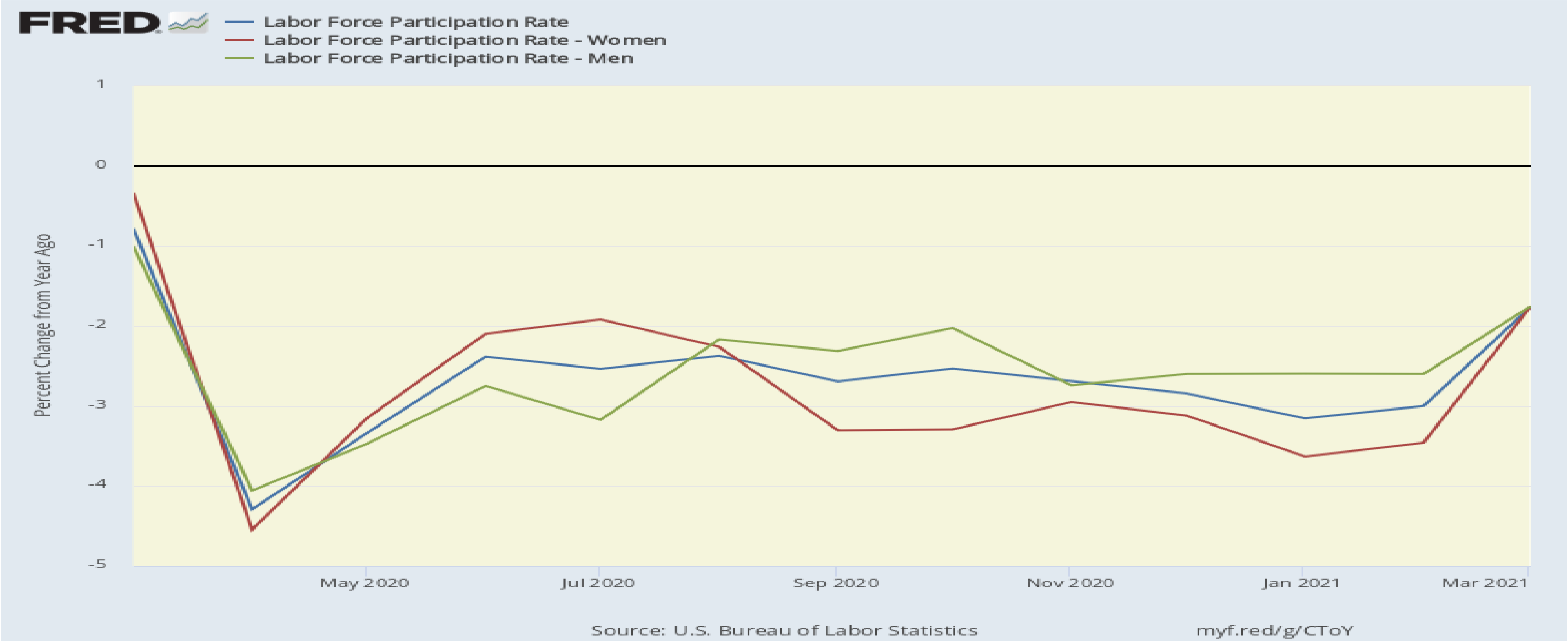


Growth in Investments in business equipment have been a strong contributor to GDP growth. What were they buying? Technology! May boost productivity rates.

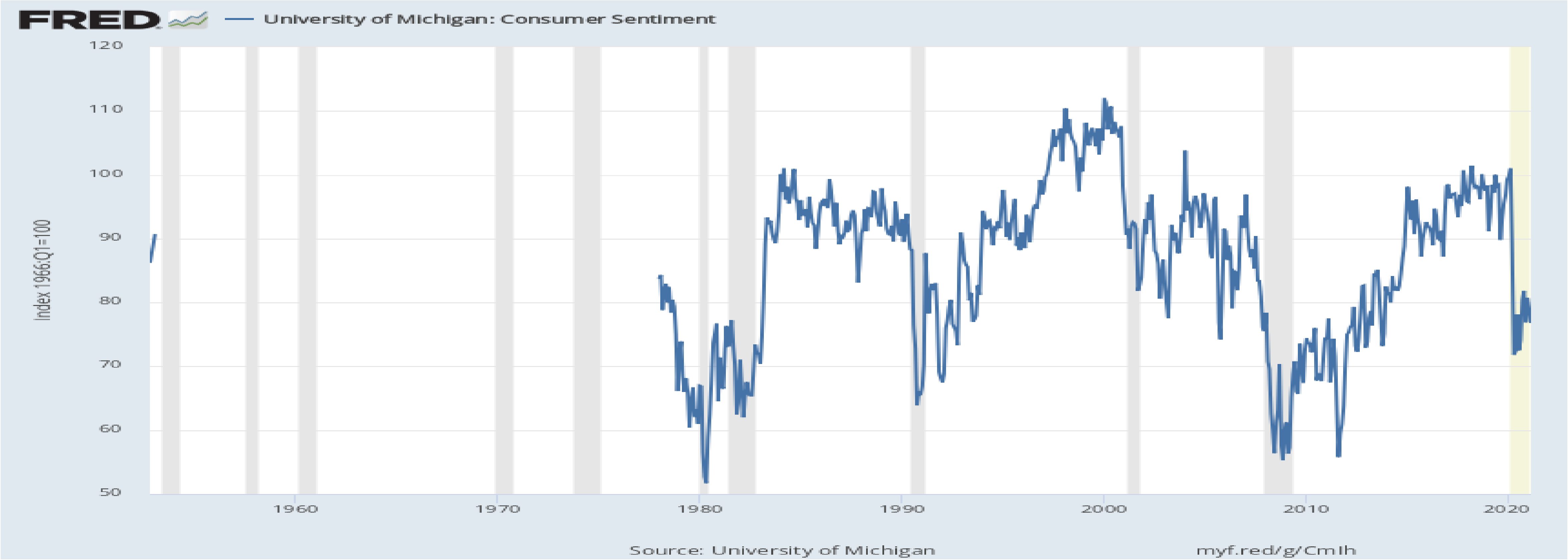


Job creation was strong coming into COVID. Unemployment rates were at historically low rates before COVID (4%). Current elevated rate (6.2%) is below rate coming out of last downturn (9.8%). Strong report for March!

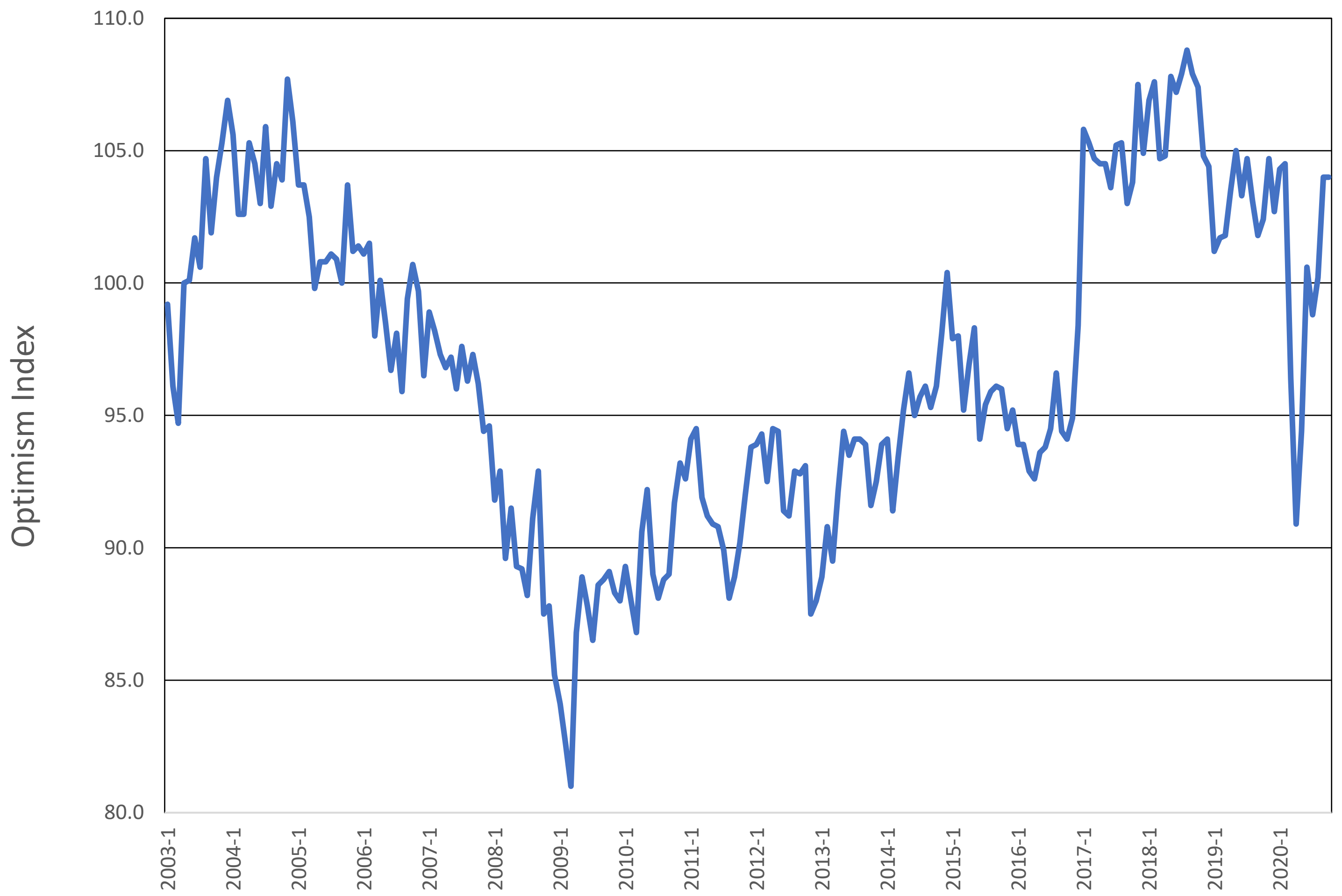
The labor force participation rate, at 61%, was 63% before COVID. The rate for women fell more with COVID but, recently, recovering more rapidly



Consumers exhibited a high level of confidence before COVID. They are more optimistic now than during the last recession.



Members of the NFIB (small business) optimism index at 95.8 has held up reasonably well through COVID



Lets sum it up:

- We came into COVID with a healthy slowly growing economy
- Have low CPI inflation
- Post COVID,Fed says low interest rates for the foreseeable future
- Recently, with vaccines, Financial market has produced a rise in 10-year Treasury rates and asset prices
- Fairly optimistic households and small business in recent surveys
- Explosive growth in household income, strong labor market and expected spending to support near term GDP growth
- Conditions for low income households with little economic cushion and uncertain job prospects should improve at a reasonable pace.
- Outlook: With the vaccine, GDP growth expectations are strong for US and parts of the world that export to US. After 2022 though, back to new normal 2-3 % real annual growth rate