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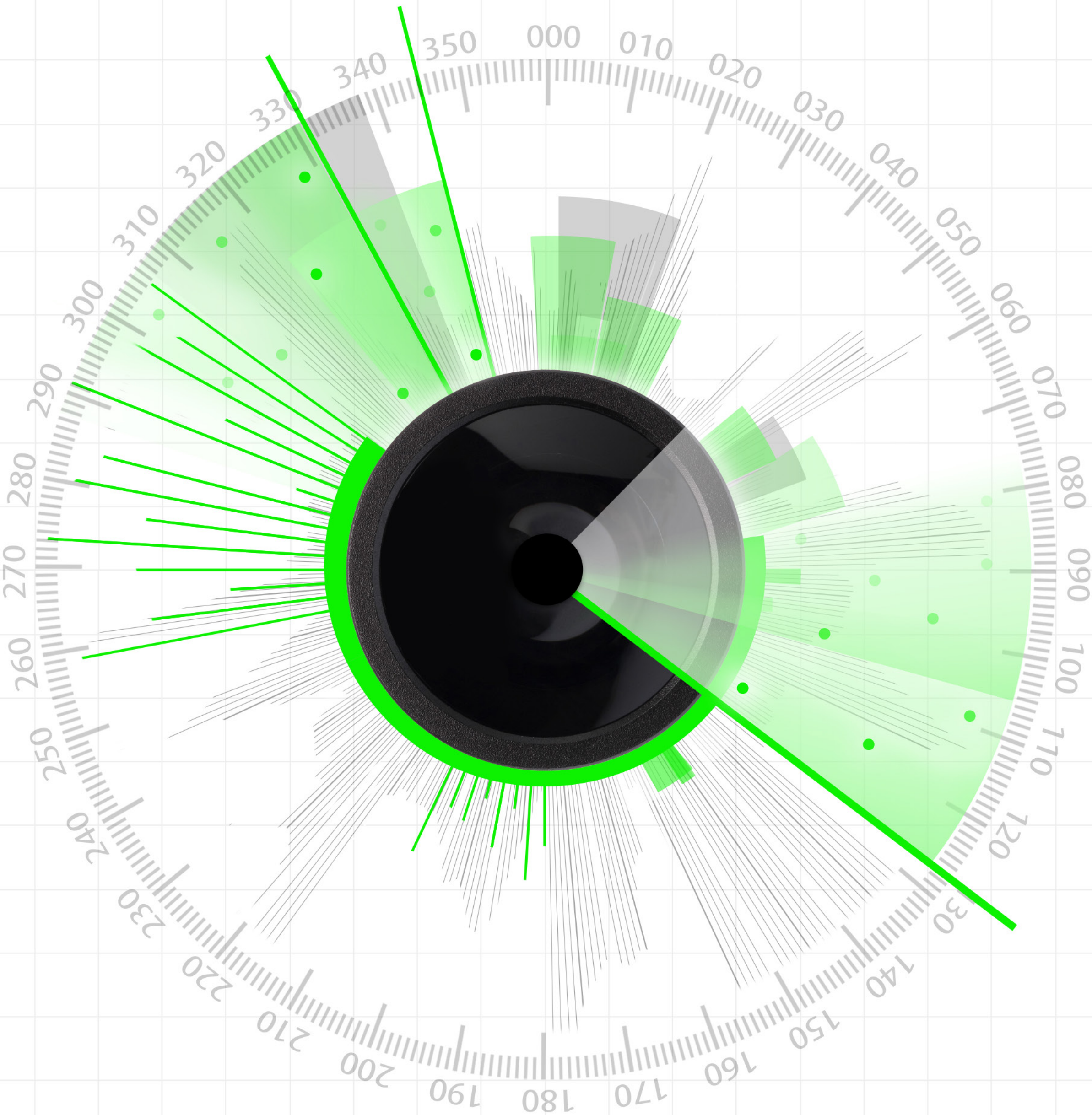


United States Economic Forecast

3rd Quarter 2021

Deloitte Global Economist Network

The Deloitte Global Economist Network is a diverse group of economists that produce relevant, interesting, and thought-provoking content for external and internal audiences. The network's industry and economics expertise allow it to bring sophisticated analysis to complex, industry-based questions. Publications range from in-depth reports and thought leadership examining critical issues to executive briefs aimed at keeping Deloitte's top management and partners abreast of topical issues.

Contents

How Delta changed the summer—and the forecast

THE SARS-COV-2 VIRUS surprised us once again. The economic impact, however, is likely to be much less dramatic than the initial phase of the pandemic.

Vaccines work against the Delta variant, but with an asterisk. Breakthrough infections (affecting vaccinated people) are possible. And the half of the US population that was unvaccinated in the middle of the summer has proven to be extremely vulnerable to the more highly transmissible Delta variant. Masks are back, and with them is, once again, some reluctance to participate in activities that might be thought "risky."

By early August, indicators in pandemic-sensitive sectors such as restaurant reservations and air travel were trending down. Spending on consumer services is decelerating, and spending on goods is unlikely to replace it. But the economy isn't shutting down like it did in March 2020. Sporting events are still taking place, religious services are happening, and while the number of air travelers may be falling, people haven't stopped flying. In short, the Delta variant is not going to derail the economic recovery. But Delta definitely clouds the near-term outlook and serves as a reminder that our low-growth scenarios are a real possibility.

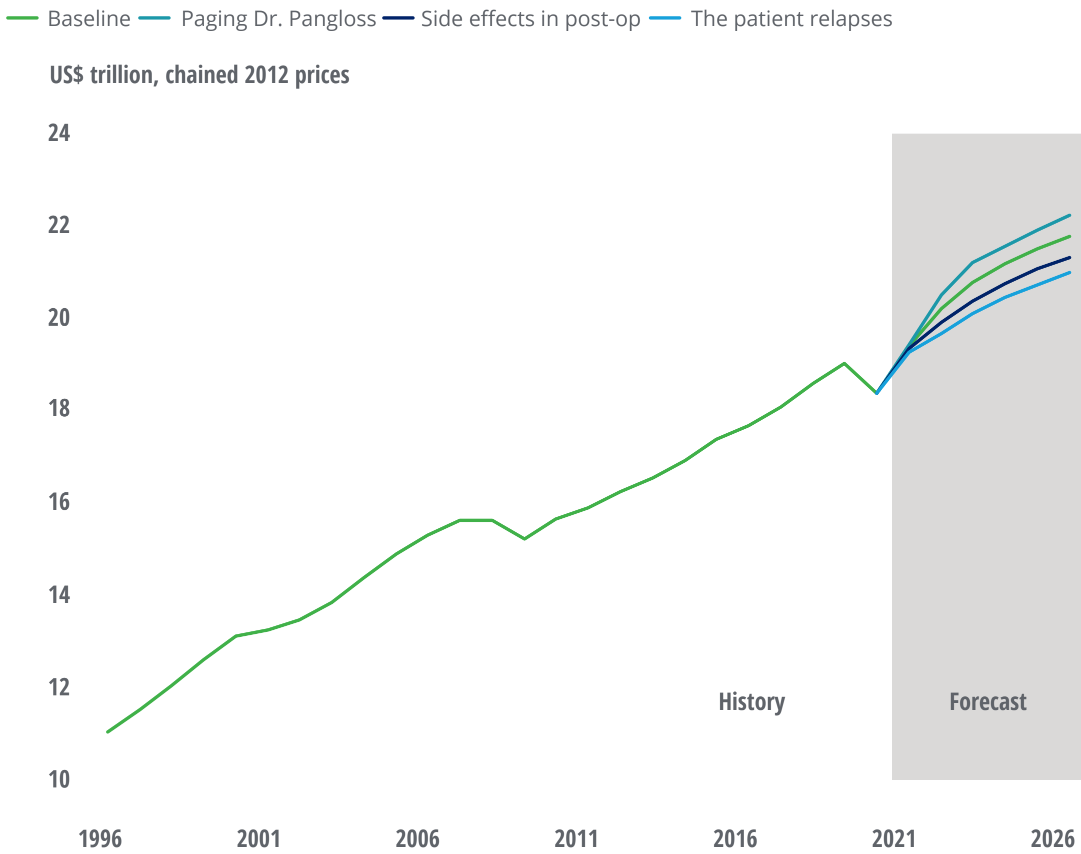
Meanwhile, economic fundamentals remain strong. Household and business balance sheets are still in good shape, and consumers are sitting on piles of savings. GDP is now above the prepandemic level, even though employment is 4.4% below the fourth-quarter average. That's not good for the people still not working—but the strong growth in productivity (output per worker) is a positive sign. And continued government action in the form of the bipartisan infrastructure agreement should support the economy in the short term and foster even greater productivity growth in the long run.

Deloitte's five-year baseline remains, therefore, quite positive (although slightly less so in the very near term). We expect GDP to remain above the prepandemic baseline level for the entire forecast horizon. That's a surprising prospect and doesn't alter the damage that the pandemic has done. The US economy's ability to bounce back from such a sudden, damaging shock is amazing. But don't forget that alternative scenarios are a key part of our forecast. We continue to place a relatively high probability on our "Side effects in post-op" scenario, and the Delta variant could—if things get worse—easily lead there.

One further consideration: Delta demonstrates the importance of vaccinations for the economic recovery. As of August 2021, the Centers for Disease Control and Prevention (CDC) reported that only about 50% of the total US population (60% of those age 12 and over) was fully vaccinated. The economy may well remain fragile until the vaccination rate hits much higher levels, so that people are comfortable returning to the prepandemic "normal." Continued low vaccination rates risk creating shortages of ICU hospital beds, closed schools, and people once again avoiding shopping and entertainment venues. As we've said all along, the disease is determining the state of the economy, and vaccination rates are a good indicator of whether the disease can be kept under control—and whether the economy will be able to fully recover.

FIGURE 1

Real GDP, US$ trillion



Source: Deloitte analysis.

Scenarios

Baseline (55%): Growth remains high in 2021 as vaccinations allow activity to resume in previously shutdown sectors. Households spend the past year's savings on pent-up demand for services such as entertainment and travel. However, spending on durable goods stalls as consumers switch back to prepandemic patterns. Business investment continues to grow rapidly, particularly in information processing equipment and software. Investment in nonresidential structures remains weak, however, as the oversupply of office buildings and retail space weighs on the market. Housing construction remains strong but gradually falls, as the current level of construction is greater than population growth can support. We assume Congress passes the infrastructure spending plan and a substantial increase in spending in the reconciliation bill. As a result, government spending rises and remains high for most of the forecast. All of this helps elevate demand above the pre–COVID-19 trend for several years. Inflation, however, remains under control (except for a short period in the second half of 2021). This reflects a faster productivity growth through the forecast horizon, as the pandemic jump-starts the widespread adoption of new technology. The unemployment rate gradually falls back to around 4%. The Fed holds rates at close to zero until late 2023, and long-term rates also remain relatively low.

Paging Dr. Pangloss (5%): Dr. Pangloss, a character in Voltaire's *Candide*, would repeat that "all is for the best in this best of all possible worlds."[1] Our baseline forecast is optimistic but not Panglossian, with some lagging sectors likely to hold back growth. What could turn out better? Well, the labor force might grow faster than we expect in the baseline, in which we've assumed that older people who left the labor force don't return once the pandemic is over. Consumer spending, particularly for durable goods, remains strong. And global growth recovers more quickly, helping to support the US economy (and to keep prices in check). The result: A faster recovery in 2021 and 2022 and continued slightly faster growth over the forecast's remaining years. Of course, it's not quite all for the best, as inflation picks up a bit and interest rates move back toward their (higher) long-term averages.

Side effects in post-op (30%): After a burst of spending, the economy hits limits. The impact of the Delta variant is large and persists for longer than expected. People continue to be reluctant to reenter the workforce because they have retired or still perceive risks to be high. Operating costs are up due to new procedures instituted to keep the disease in check. Supply chains are temporarily overloaded by sudden changes in demand, limiting production and growth. And some previously valuable machines and buildings are no longer profitable given the new shape of the economy, reducing the amount of capital available to businesses.[2] Incipient inflation causes the Fed to raise rates, cutting demand for interest-sensitive goods. By 2022, economic growth slows below potential for several years, and GDP is below the level it would have reached prepandemic by 2026.

The patient relapses (10%): American businesses and households remain complacent about the course of the disease in other parts of the world even as new variants are spotted every week.[3] The current vaccines are not as effective against new variants, and the possibility of a variant that requires tweaked vaccines or that spreads more quickly among unvaccinated people remains significant. People return to some social distancing and cut back on purchasing goods and services that are perceived as "risky." This creates another one-quarter drop in GDP at the end of 2021. A muted government response results in financially stretched businesses failing and weak balance sheets create the conditions for a more traditional, slower recovery from the recession. This is particularly the case because—after two outbreaks in two years—consumers permanently reduce spending on travel, entertainment, food, and accommodations, requiring a painful readjustment of the economy.

Sectors

Consumer spending

The near-term outlook for consumer spending turns on two big questions:

1. Will consumers spend down all those pandemic-era savings?

In 2020, households saved about US$1.6 trillion more than we forecasted before the pandemic. Some of that went into investments, but many households have a lot more cash on hand now than they normally would want. How much of that will they spend as the pandemic impact wanes? One possibility is that many consumers will remain cautious and hold on to those savings even as they are able to get out and spend. Another possibility: A spending frenzy and, potentially, even a negative savings rate as people finally get the chance to travel, go to restaurants and theaters, and generally cut loose this summer. The baseline Deloitte forecast assumes a modest decline in the savings rate below its long-term level, and that's enough to support very strong growth in consumer spending this year. But spending could be even stronger if households decide to cash in more of those savings.

2. When consumer services recover, what happens to durable goods?

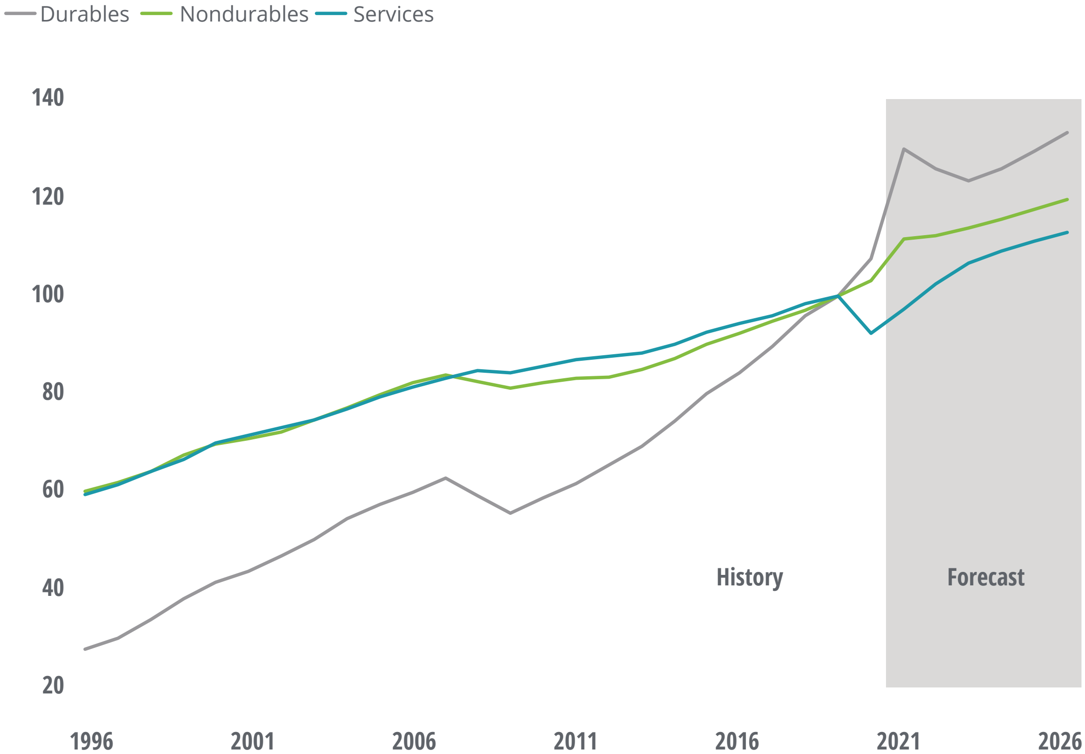
The pandemic sparked a remarkable change in consumer spending patterns. Spending on durable consumer goods jumped US$103 billion in 2020, while spending on services fell US$556 billion during the same period. Households substituted bicycles, gym equipment, and electronics for restaurants, entertainment, and travel. Once households can again purchase services, will they begin buying fewer goods? Services spending in early 2021 is up, but durable goods spending has also continued to grow. Our forecast assumes that, over the next few years, durables spending slows substantially as consumers acquire the durable goods they need, and the share of consumer spending on services grows quickly. The Delta variant may slow this process, but unless we see a complete return of the pandemic, consumer spending on durable goods is likely to weaken for some time into the future.

The pandemic sparked a remarkable change in consumer spending patterns.

In the longer term, we expect the pandemic to exacerbate some existing problems. The pandemic has thrown the problem of inequality into sharp relief, straining the budgets and living situations of millions of lower-income households. These are the very people who are less likely to have health insurance—especially after layoffs—and more likely to have health conditions that complicate recovery from infection. And retirement remains a significant issue: Even before the crisis, fewer than four in 10 nonretired adults described their retirement as on track, with one-quarter of nonretired adults saying they had no retirement savings.[4] Low interest rates will worsen Americans' preparation for retirement, while the stock market boom will have little impact on most people's balance sheets.[5]

FIGURE 2

Consumer spending, index, 2019=100



Source: Deloitte analysis.

FIGURE 3

Consumer spending growth

	History						Forecast					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real consumer spending	3.3	2.5	2.4	2.9	2.2	-3.8	7.8	3.5	2.5	2.1	1.8	1.7
Real consumer spending, durable goods	7.6	5.4	6.3	7.0	4.3	7.7	20.8	-3.2	-1.9	2.0	2.8	3.0
Real consumer spending, nondurable goods	3.4	2.5	2.7	2.5	2.9	3.1	8.3	0.5	1.4	1.6	1.7	1.7
Real consumer spending, services	2.6	2.0	1.8	2.4	1.7	-7.5	5.3	5.3	4.2	2.2	1.8	1.6
Net household wealth (US$ trillion)	91	96	105	105	118	132	153	156	162	163	165	168
Unemployment rate (percent)	5.3	4.9	4.4	3.9	3.7	8.1	5.7	4.9	4.4	4.2	3.9	3.8
Consumer price index	0.1	1.3	2.1	2.4	1.8	1.2	4.1	2.9	2.3	2.1	2.0	2.0

Source: Deloitte analysis.

Housing

The housing sector outperformed the broader economy in the wake of the pandemic as buyers and sellers found ways to navigate the pandemic's restrictions. A host of factors combined to boost housing demand over the past year:

- Continued strong economic position of high-wage remote workers
- Growing expectations that remote work will persist after the pandemic
- Historically low mortgage rates
- Millennials moving into prime home-buying age[6]

Residential investment weakened in Q2 but remains elevated and could receive a further boost in the short term. Homebuilder confidence remains above pre–COVID-19 levels, even if it has moderated from its peak at the end of 2020. The spread of the Delta variant could keep mortgage rates lower for longer and potentially strengthen the case for remote work, therefore boosting housing demand. Additionally, data indicates that more vacant developed lots of land could be available for homebuilding over the next couple of quarters, driving an uptick in short-term housing supply.

Deloitte expects demand to cool due to reduced affordability in the medium term. Nominal home price increases are likely to more than offset the impact of low mortgage rates on demand. And interest rates are set to rise in the forecast as the recovery eventually gathers speed. Despite the slowdown, demand is likely to exceed supply in the medium term as builders continue to grapple with rising lumber prices and land-use restrictions. The Deloitte baseline forecast expects house prices to rise faster than inflation through the forecast horizon.

Long-run fundamentals suggest that housing is not likely to become a key driver of economic growth in the foreseeable future. The baseline forecast assumes that housing starts will gradually fall over the five-year horizon to 1.3 million starts in 2026. Faster medium-term growth would require faster population growth, most likely from immigration. Otherwise, the current heightened demand for housing is likely to be a short-term phenomenon.

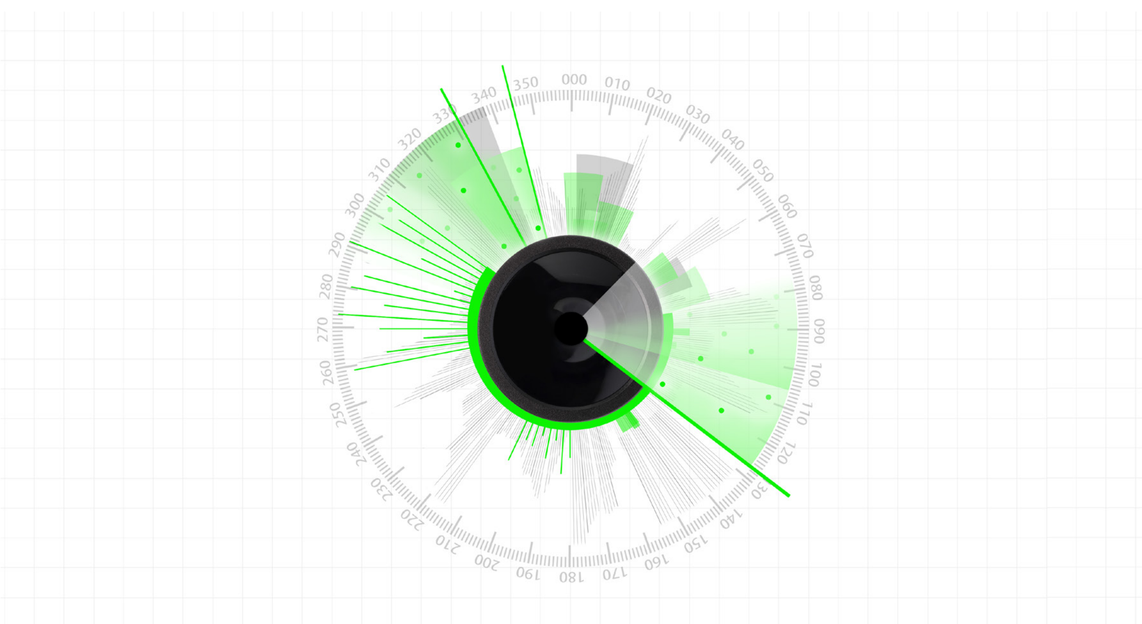
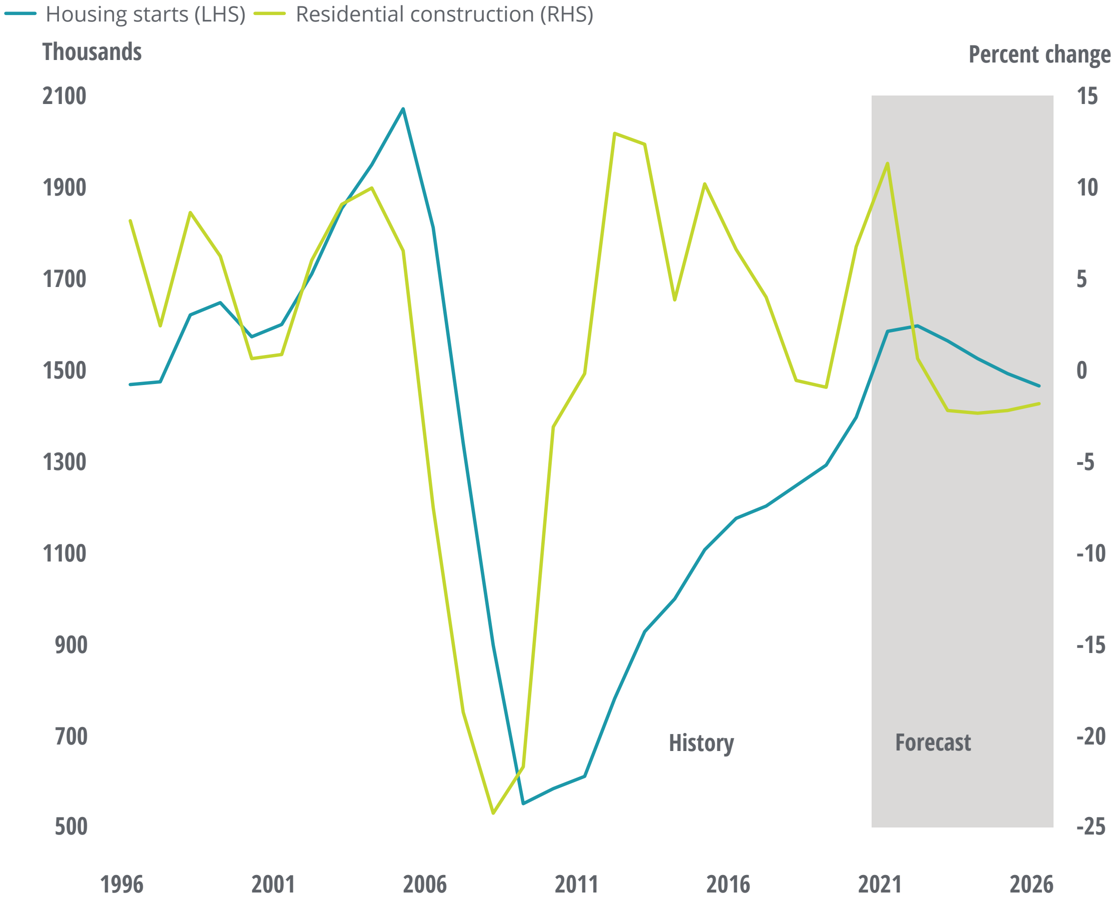


FIGURE 4

Housing



Source: Deloitte analysis.

FIGURE 5

Housing

	History						Forecast					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real investment in private housing	10.2	6.6	4.0	-0.6	-0.9	6.8	11.3	0.6	-2.2	-2.3	-2.2	-1.8
Housing starts (million)	1.11	1.18	1.21	1.25	1.29	1.40	1.59	1.60	1.56	1.53	1.49	1.47
Stock of houses (million)	135.2	136.2	137.2	138.3	139.5	140.7	142.0	143.4	144.9	146.3	147.7	149.1
30-year fixed mortgage rate (percent)	3.9	3.6	4.0	4.5	3.9	3.1	3.0	3.0	3.2	3.9	4.7	4.8

Source: Deloitte analysis.

Business investment

By the second quarter of 2021, business investment was slightly (1.1%) above the prepandemic level. The overall number, however, concealed some dramatic changes in specific types of capital investment. Nonresidential structures investment was down 20%, and not because of any direct impact of the pandemic, as construction workers were able to continue their activities right through most of the pandemic. More likely, the business case for office buildings and retail space collapsed with online shopping and the shift toward working at home. Mining structures also took a big hit because of the decline in oil prices. While mining structures (mainly oil drilling rigs) may recover, the overall recovery of the sector is likely to be limited by the continued reduced demand for office and retail space.

In contrast, investment in equipment was up 5.1% from the prepandemic level in the second quarter. Just about all categories of equipment investment were up. Transportation equipment was the exception, reflecting airlines canceling orders for new planes, and car rental companies "defleeting" (an inelegant term in vogue on Wall Street) and stopping their usual purchases of new cars. This is beginning to reverse—which is likely to keep this sector growing quickly in the next few years. Meanwhile, demand for information processing equipment to support telework is likely to remain strong.

Information processing investment accelerated during the pandemic (after dropping in the first quarter of 2020). That's mostly because of investment in software, and likely reflects the investments needed for telework. We expect this category to remain strong over the next few years as businesses continue to require software to accompany their investments in information processing equipment.

Financing investment will remain easy. Nonfinancial businesses are sitting on a pile of cash, and interest rates are low. In our baseline forecast, the 10-year Treasury yield rises to a relatively low (by historical standards) 3.5% and stays there through the forecast horizon. Even adding in the potential for a corporate tax hike, the cost of capital is likely to remain very low. That will give businesses plenty of ability to pay for all those new computers and servers, not to mention the software to run them. But even with such easy financing terms, office and retail space will be unable to generate sufficient returns to entice businesses to increase capacity.

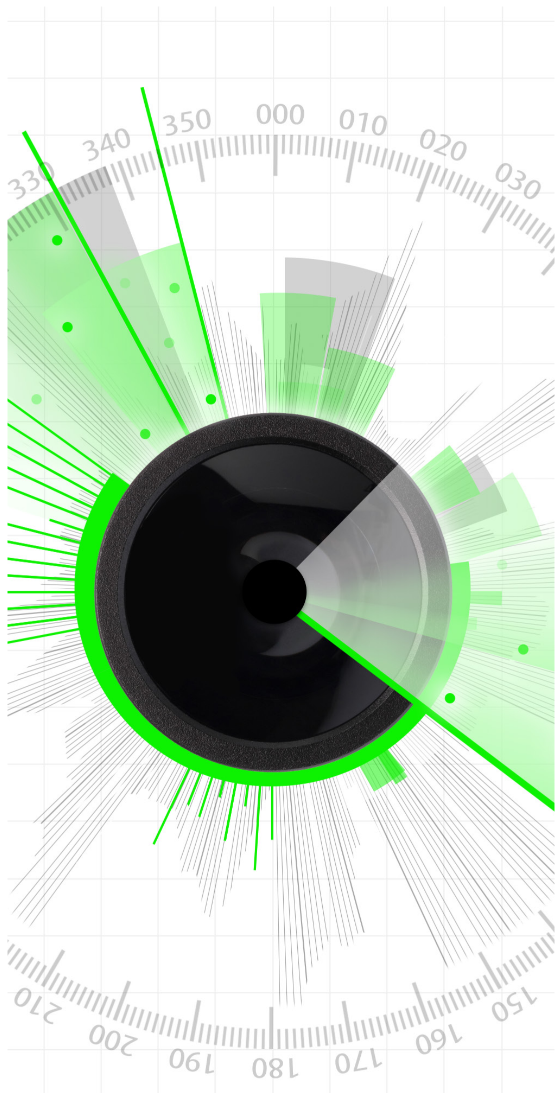
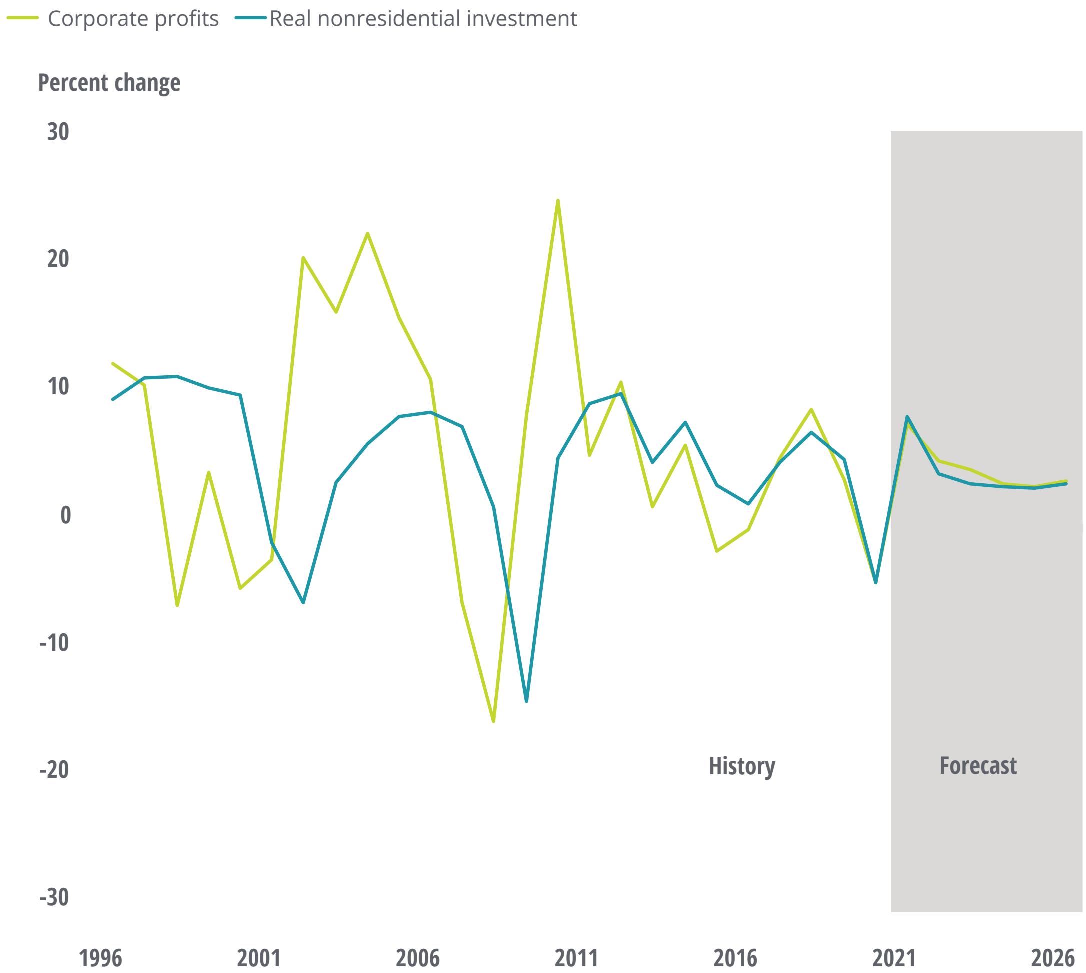


FIGURE 6

Business sector



Source: Deloitte analysis.

FIGURE 7

Business sector

	History						Forecast					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real fixed business invesment	2.3	0.9	4.1	6.4	4.3	-5.3	7.7	3.2	2.5	2.2	2.1	2.4
Real inventory investment (US$ billion)	137.6	35.7	33.6	65.7	75.2	-42.3	-62.3	110.5	101.3	85.3	54.6	39.2
Employment cost index	2.1	2.2	2.4	2.8	2.7	2.6	3.1	3.2	3.0	2.9	2.9	2.9
Corporate profits before tax	-2.8	-1.1	4.5	8.3	2.7	-5.2	7.1	4.2	3.6	2.4	2.2	2.6
Yield on 10-year Treasury note	2.1	1.8	2.3	2.9	2.1	0.9	1.4	1.7	2.2	2.7	3.1	3.2

Source: Deloitte analysis.

Foreign trade

Over the past few years, many analysts have begun to face the possibility of deglobalization. Global exports grew from 13% of global GDP in 1970 to 34% in 2012, but the share of exports in global GDP started to fall, globalization then began to stall, and opponents of freer trade took power in some key countries—most notably, the United States and the United Kingdom. All this suggested that the policies that fostered globalization may likely change in the future.

COVID-19 may have accelerated this trend. Although the pandemic is a global phenomenon, leaders have made major decisions about how to fight it—in both health and economic policy—on a country-by-country basis. The most striking examples of this are the US withdrawal from cooperation in the World Health Organization—although President Biden rescinded the move on his first day in office—and the unilateral decisions of both China and Russia to deploy their own vaccines before completion of phase 3 trials. Countries with vaccine manufacturing facilities are rushing to vaccinate their own citizens rather than cooperating on a global vaccination plan.

On top of this, the United States-China trade conflict continues. The White House has shown some interest in returning to a multilateral approach to trade—for example, by supporting Ngozi Okonjo-Iweala for World Trade Organization director general. However, US Trade Representative Katherine Tai has made a point of stating that trade policy should be aimed at helping US workers.[7] And as of August—almost eight months after President Biden took office—the Trump-era tariffs remain in place.

One important question is whether businesses will rebuild their supply chains to create more resilience in the face of unexpected events such as the pandemic and changes in US trade policy. It's impossible, of course, to simply and quickly refashion supply chains to reduce foreign dependence. American companies are expected to continue to source from China in the coming years. But companies will likely accelerate attempts to reduce their dependence on China (a process they had begun before the pandemic). Building more robust supply chains may mean moving production back to the United States, or it may mean a portfolio of suppliers rather than a single source—even if the single source is the cheapest.

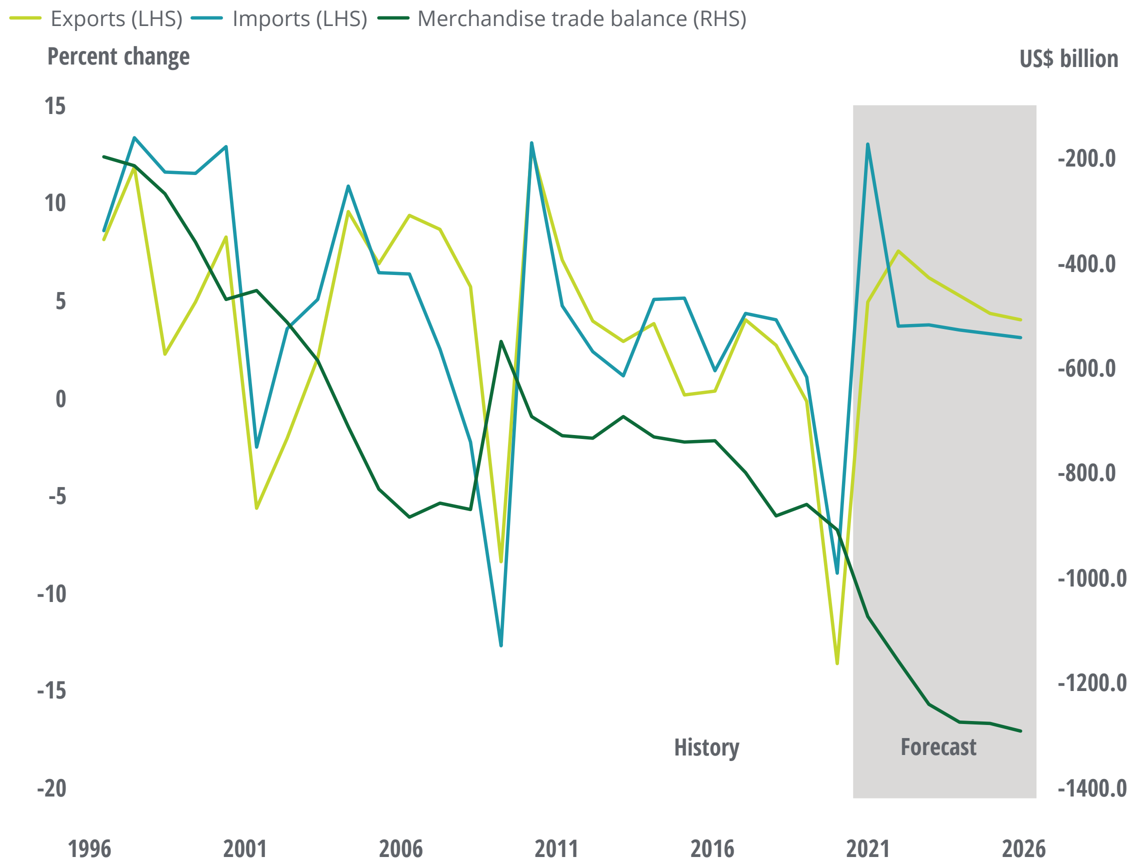
Reengineering supply chains will inevitably mean a rise in overall costs. Just as the "China price" held inflation in check for years, an attempt to avoid dependency on China might create inflationary pressures in the later years of our forecast horizon. And if markets won't accept inflation, companies will have to accept lower profits in order to diversify supply chains. Globalization has offered a comparatively painless way to improve most people's standard of living; deglobalization will involve painful costs and may limit real income growth during the recovery.

Meanwhile, short-term trade flows are hostage to the virus. Port shutdowns, container shortages, and other supply chain woes will continue to increase month-to-month volatility in trade—and perhaps provide business executives more reason to find more robust (and more expensive) alternatives.

Deloitte's baseline forecast assumes relatively strong growth of US exports, and—over the five-year horizon—slightly slower growth of imports (relative to GDP) than in the past. This reflects optimism about the global economy after the pandemic, and some marginal reshoring of production to the United States. The US current account deficit falls from 3.7% of GDP in 2021 to about a relatively high 3.0% of GDP in the last few years of the forecast, reflecting our expectations for continued global demand for dollar assets.[8]

FIGURE 8

Foreign trade



Source: Deloitte analysis.

FIGURE 9

Foreign trade

	History						Forecast					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real exports of goods and services	0.3	0.4	4.1	2.8	-0.1	-13.6	5.0	7.6	6.2	5.3	4.4	4.1
Real imports of goods and services	5.2	1.5	4.4	4.1	1.1	-8.9	13.1	3.7	3.8	3.6	3.4	3.2
Current account balance (share of GDP)	-2.2	-2.1	-1.9	-2.1	-2.2	-3.0	-3.7	-3.6	-3.6	-3.4	-3.3	-3.3
Merchandise trade balance (US$ billion)	-737	-735	-797	-878	-857	-905	-1070	-1156	-1237	-1272	-1274	-1288
Relative unit labor costs (index, 2008=100)	100.6	102.3	103.2	101.6	105.9	110.5	109.1	107.7	107.6	106.9	105.2	103.5

Source: Deloitte analysis.

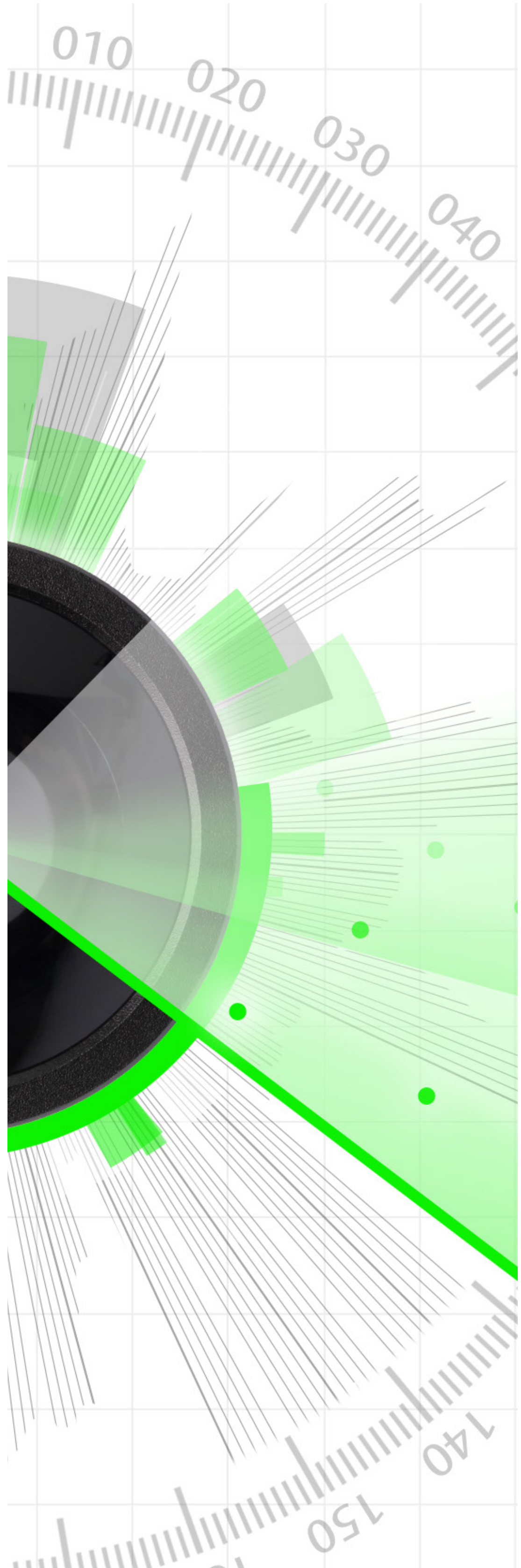
Government policy

Over the next few months, federal budget policy will revolve around four questions. They are:

1. Will the bipartisan infrastructure plan pass? The plan, painfully negotiated over the course of the spring and early summer by moderate Democratic and Republican senators, contains about US$550 billion in new money for traditional infrastructure over the next 10 years. (Headlines describing a trillion-dollar plan were perhaps not as accurate as they might have been, because about half the money was already allocated.) At about US$50 billion per year, that's not enough to move the needle short-term on GDP of US$23 trillion and growing. But it could improve the long-run performance of the US economy considerably.[9] As of late August, the bill was waiting for approval in the House of Representatives. Speaker Nancy Pelosi intends on presenting the infrastructure bill together with the budget reconciliation bill for FY2022 in the early fall.

2. Can the Democrats pass a budget reconciliation bill? The current proposal includes a significant (US$3.5 trillion) increase in long-term spending, covering much of the president's agenda that was not included in the bipartisan infrastructure plan. Some moderate democrats are concerned about the amount of spending involved. Moderates and progressives will have to agree on some amount, which will be somewhat less than US$3.5 trillion—but how much less?

3. If (as seems likely) the budget reconciliation bill is not passed by September 30, can both parties agree on a continuing resolution to keep the US government funded? The possibility of another government shutdown seems unlikely, but it could happen.



4. And finally, will Republicans be willing to vote for a continuing resolution that includes a hike in the debt ceiling? The Democratic leadership decided to avoid the safe approach of including a hike in the debt ceiling in the reconciliation bill (which is designed to pass without Republican votes). Instead, they intend on including the debt ceiling rise in a continuing resolution, or perhaps as a stand-alone bill. That could create a "game of chicken" between the two parties over the debt ceiling, adding to instability in the financial sector.

Two debates are likely to happen simultaneously. One debate will involve Democrats negotiating over the precise terms of the reconciliation bill. Republicans have been excluded from this debate since by design the reconciliation bill (and, at this point, the infrastructure bill) doesn't need any Republican support in the House. The second debate will revolve around the continuing resolution and debt ceiling, and may, in fact, have a material impact on short-term financial market outcomes around the end of September. It's certainly not what any investor wants to think about, but the risk will grow as we approach the end of the fiscal year.

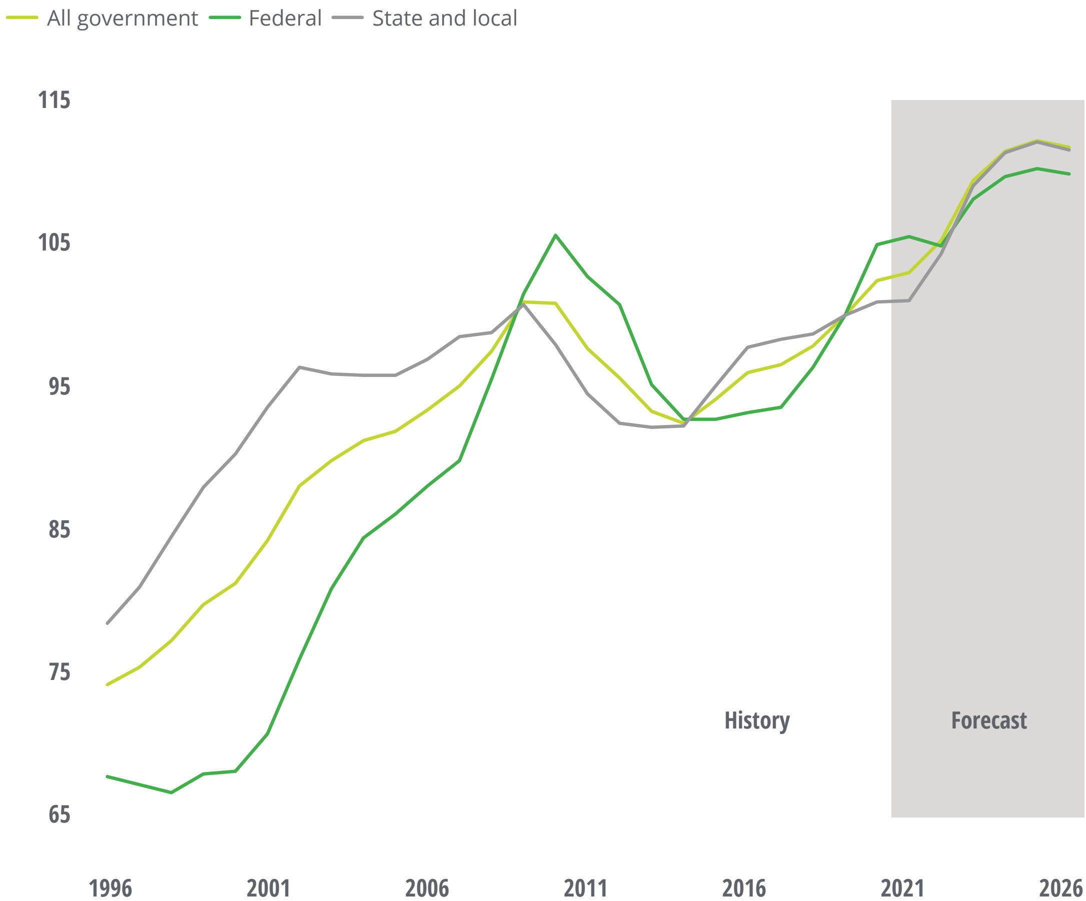
Our forecast assumes that the infrastructure plan passes, but that the budget reconciliation bill is more modest than the current proposal. Our five-year horizon is not long enough to capture the impact on longer-term productivity. But we don't expect the spending to raise inflation, both because of Fed policy and because recent experience suggests that the US economy can operate with low inflation at relatively low unemployment rates. And, of course, the Fed will likely intervene if it sees a wage price inflation spiral developing.

Our forecast assumes deficits will fall by 2022 to about US$1.5 trillion per year, and then rise slowly. That's a hefty amount, one that inevitably raises the question of whether the US government can continue to borrow at such a pace. The answer is that it can—until investors lose confidence. At this point, most investors show no sign of concern about US debt. In fact, very low interest rates on US government debt indicate the world wants more, not less, American debt. We anticipate no problem over the forecast horizon.

But the government will face a crisis if it does not eventually find ways to reduce the deficit and consequent borrowing. The crisis may be many years away, and current conditions argue for waiting. It would, however, be a bad idea to wait too long once those conditions lift.

FIGURE 10

Government sector, index, 2019=100



Source: Deloitte analysis.

FIGURE 11

Government

	History						Forecast					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real government consumption and investment	1.8	2.0	0.5	1.4	2.2	2.5	0.6	2.2	4.0	1.9	0.6	-0.4
Real federal government consumption and investment	0.0	0.5	0.3	3.0	3.8	5.0	0.5	-0.6	3.1	1.5	0.5	-0.3
Real state and local government consumption and investment	3.0	2.8	0.6	0.4	1.3	0.9	0.1	3.3	4.5	2.1	0.7	-0.5
Federal budget balance, unified basis (share of GDP)	-2.6	-2.9	-3.5	-3.9	-4.5	-12.5	-13.8	-7.0	-5.9	-5.8	-5.9	-5.9

Source: Deloitte analysis.

Labor markets

The conversation about labor markets has switched—and fast. Not long ago, employment was about 10 million below the prepandemic level and the main question was how difficult it would be to get all those workers back on the job. Now business commentary is full of talk about labor shortages and stories about employers struggling to find workers. That seems a bit odd since employment is still down over 5 million after the July jobs report. And that doesn't include the growth of the population over the past year.

Pundits have seized on several reasons why businesses are experiencing so much trouble hiring workers:

- The US$300 weekly supplement to unemployment insurance is incentivizing workers to stay on the sidelines. This explanation makes some sense, but there are reasons to doubt that it is the whole story or, perhaps, even the major part of the story. Growing research literature indicates the larger US$600 weekly supplement in the spring did not affect businesses' ability to rehire workers during the earlier part of the recovery.[10] And unemployment insurance claims continue to fall, while continuing claims are not growing. However, anecdotal evidence is strong enough to suggest that the unemployment insurance supplement is contributing to the problem. But this will not be a problem in the future, as almost half of all states ended unemployment insurance early, and the entire program will end in September.

- Child care has prevented a significant number of people from reentering the labor force. The Bureau of Labor Statistics (BLS) estimates that the labor force participation among parents of children under 18 years fell about 1% in 2020. The good news is that this problem is on its way to being solved, with summer camps and day care centers reopening this summer, and schools likely to fully reopen, in person, in the fall. Delta, however, poses an additional risk; if child care disappears again, labor force growth will stall or even reverse.

- Health remains a concern for people who are at risk of COVID-19, particularly those who cannot be vaccinated due to a high risk of complications.

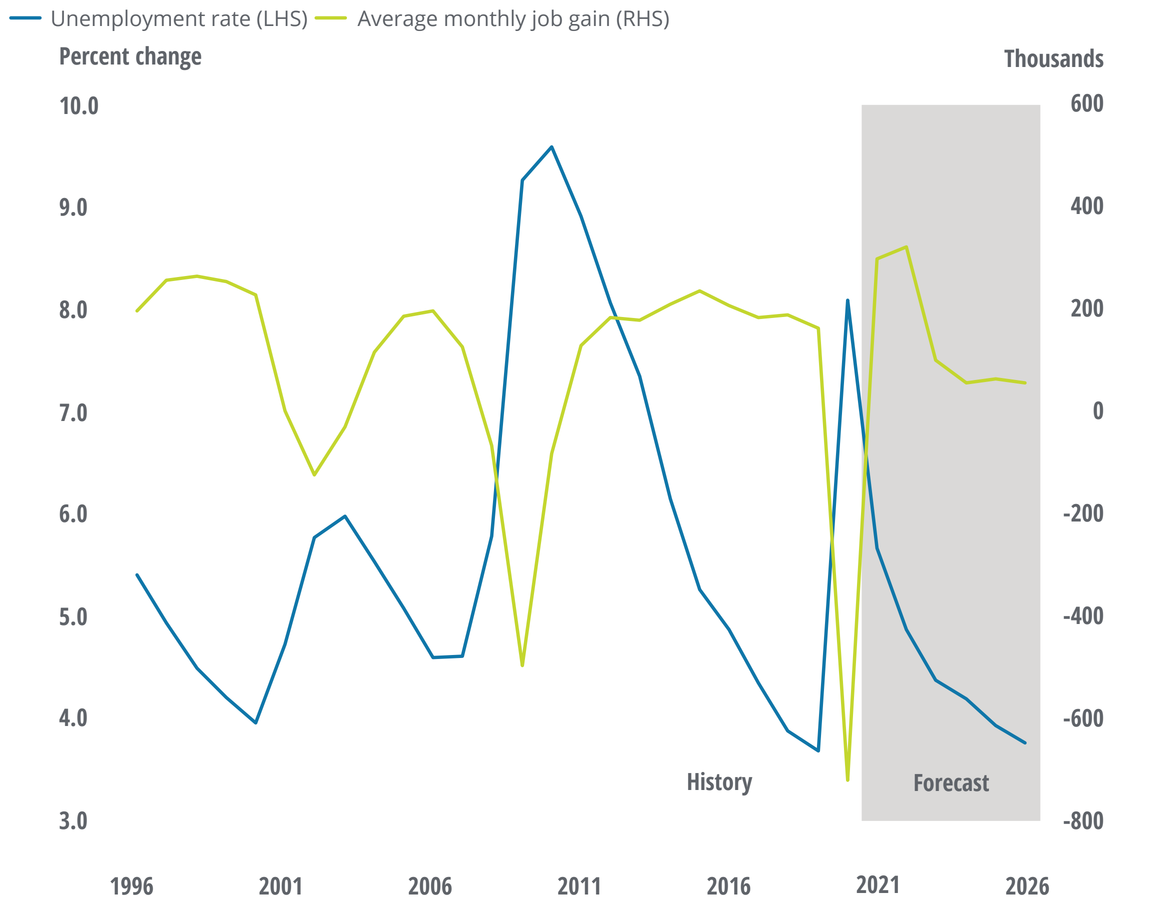
- About half of the decline in the labor force is among people 55 years and older. Many of these people have probably retired, in the sense of expecting to remain permanently out of the labor force, but some can likely be enticed back with the right compensation packages and flexible working hours and conditions.

As is the case in many areas, the pandemic accelerated trends that were evident before it started. Slow labor force growth and continued high demand had already created conditions that required companies to offer higher wages to lower-skilled workers and to be more imaginative about hiring.[11] In the post–COVID-19 world, companies that make extra effort to find the workers they need and provide conditions to attract those workers will have an important competitive advantage.

Deloitte's baseline forecast assumes that job growth is very strong over the next few years as employers do, in fact, find and rehire those missing workers. The unemployment rate falls, reflecting not only the job growth, but the fact that a significant number of older people have left the labor force permanently. Over the longer horizon, labor force growth slows to just 0.2% per year, presenting continuing challenges for employers.

FIGURE 12

Labour markets



Source: Deloitte analysis.

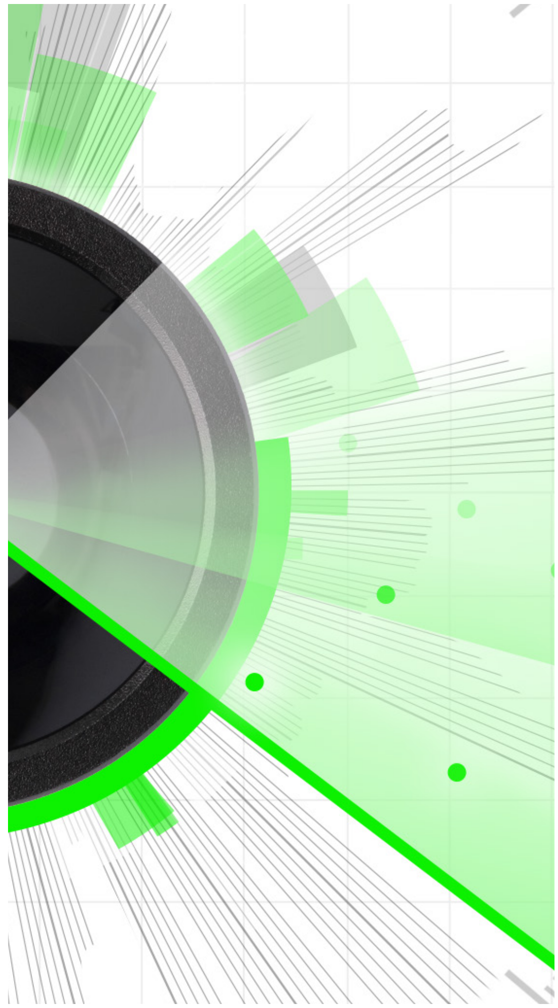
FIGURE 13

Labor markets

	History						Forecast					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Average monthly change in employment (thousand)	240	211	188	192	167	-721	302	327	103	58	66	60
Unemployment rate (percent)	5.3	4.9	4.4	3.9	3.7	8.1	5.7	4.9	4.4	4.2	3.9	3.8
Employment-to-population ratio (percent)	59.3	59.7	60.1	60.4	60.8	56.8	58.3	59.4	59.5	59.4	59.3	59.2
Employment cost index	2.1	2.2	2.4	2.8	2.7	2.6	3.1	3.2	3.0	2.9	2.9	2.9

Source: Deloitte analysis.

Financial markets



The Fed's actions have been one of the bright spots of the US response to the pandemic. When the virus first began spreading, there was a significant possibility that a financial market meltdown would exacerbate the country's economic problems. The Fed's prompt and strong actions kept financial markets liquid and operating, preventing that additional level of pain.

There was a cost, of course: the Fed's intervention in many different markets. The traditional concerns about the Fed buying private assets have gone out the window, and the Fed has created methods for direct lending to US states, counties, and cities (Municipal Liquidity Facility); small and medium-sized businesses (Main Street Lending Program), and purchases of corporate bonds (Primary and Secondary Corporate Credit Facilities).[12] This is unprecedented: The Fed has traditionally avoided lending directly to nonfinancial firms. Other programs are aimed at stabilizing specific financial markets. Although the volume of lending for many of these facilities is still at a small fraction of the announced level, the Fed's willingness to lend has calmed credit markets.

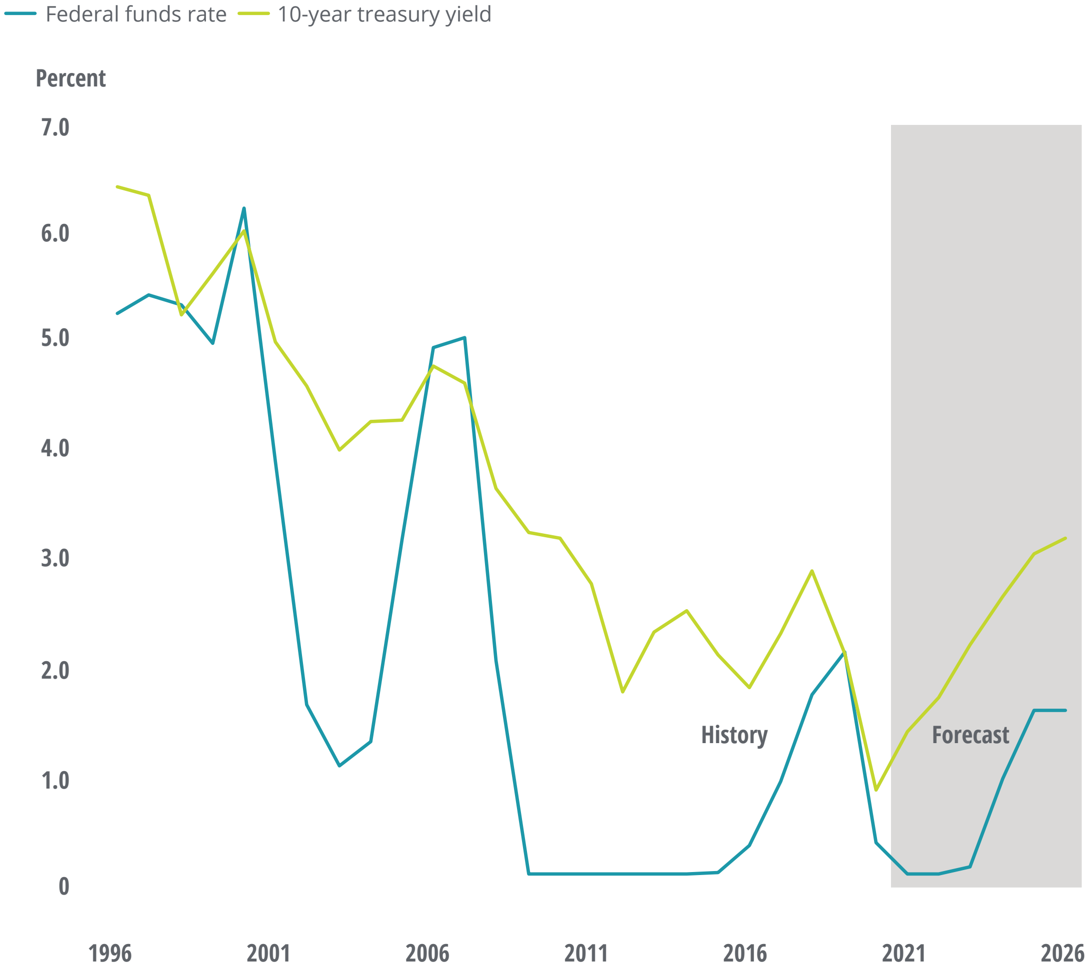
In the longer term, the Fed will want to wean markets off its aid. Fed officials have begun to discuss "tapering" their purchases of securities. "Tapering" and reducing the Fed's inventories of these assets will precede hiking the Fed funds rate. We have assumed that the funds rate begins rising in the third or fourth quarter of 2023. This is later than some commentators (not to mention futures markets) expect but consistent with Fed officials' statement of their intent.[13]

We expect long-term interest rates to start rising earlier—in fact, they rise over the next few years. However, continued low inflation puts a lid on long-term rates: In the baseline, we forecast the 10-year Treasury yield to settle in around 3.2% after 2025.

Of course, interest rates are always the least certain part of any forecast: Any significant news could, and will, alter interest rates significantly.

FIGURE 14

Financial markets



Source: Deloitte analysis.

FIGURE 15

Financial markets

	History						Forecast					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Federal funds rate	0.14	0.39	0.97	1.78	2.16	0.42	0.13	0.13	0.19	1.00	1.63	1.63
Yield on 10-year Treasury note	2.14	1.84	2.33	2.91	2.14	0.89	1.43	1.75	2.23	2.67	3.06	3.21
Interest rate on 30-year fixed-rate mortgage	3.85	3.65	3.99	4.54	3.94	3.11	2.96	2.99	3.19	3.91	4.70	4.83
Net household wealth (US$ trillion)	91	96	105	105	118	132	153	156	162	163	165	168

Source: Deloitte analysis.

Prices

Talk of inflation picked up when Larry Summers published his analysis of the February COVID-19 relief bill before its passage.[14] Summers focused his concerns on the fact that the gap between the economy's capacity and actual production was about US$670 billion at the end of 2020, while the proposed bill totaled US$1.9 trillion. That suggests that GDP could be pushed up quite a bit above capacity in 2021 (assuming the entire amount is spent in one year), leading to shortages and, ultimately, higher inflation.

Arguments over the amount of excess capacity in the economy have given way, however, to concerns about commodity prices and the apparent labor shortage. Neither of this provides a convincing argument that inflation will set in at an unacceptably high rate.

Commodity prices are not, in fact, a good indicator of future consumer prices. Commodity prices have shot up before with little significant impact on long-term inflation, and there's not a lot of evidence that the current runup is very different from those in the past.

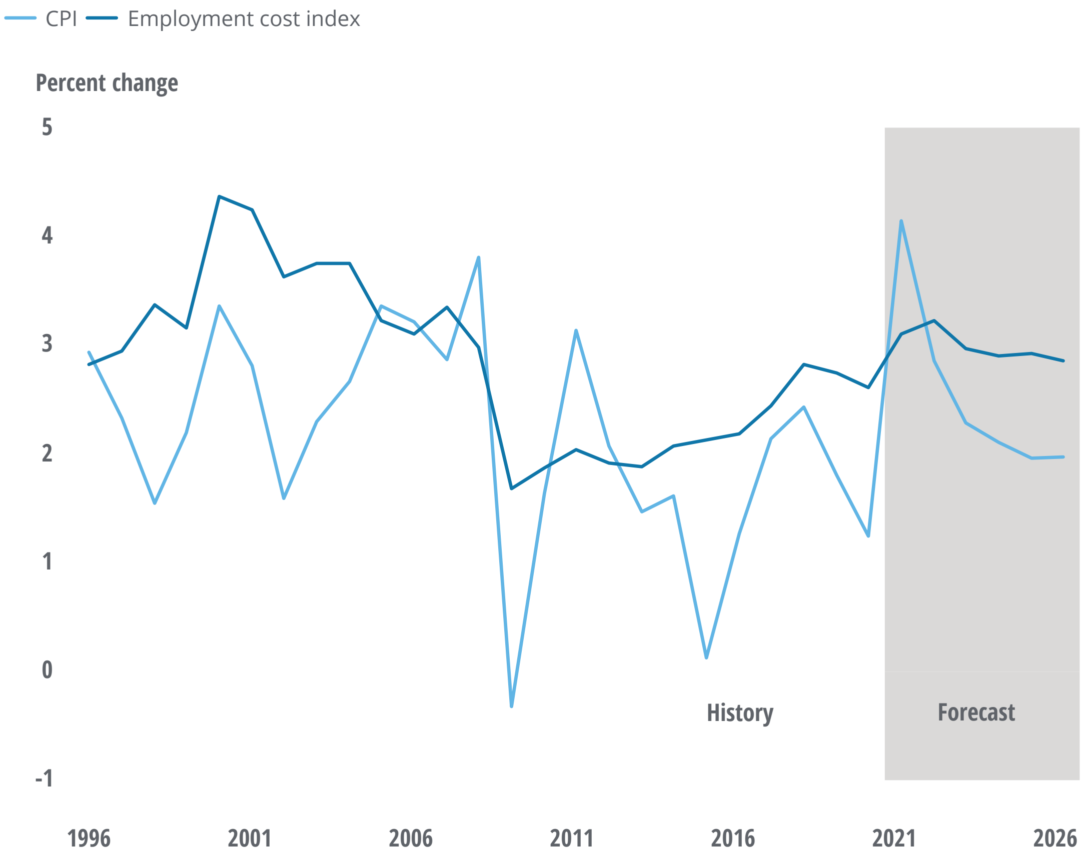
The idea that there is a labor shortage is inconsistent with the large number of unemployed. Whatever the reasons for this, there is plenty of room for hiring once businesses figure out how to reach out to workers. But even when labor markets are truly tight—as they were before the pandemic—risks of inflation are lower than many commentators think. It's clear that—contrary to the experience of the 1960s and '70s—the US economy today can operate for extended periods of time above what many economists believe is capacity without generating inflation. In the late 1990s, and then again in the late 2010s, the unemployment rate fell quite a bit below the level that economists thought was consistent with stable inflation. At other times, the unemployment rate was very high. Yet through it all, inflation remained within a narrow 1.5% to 2.5% band. That experience argues strongly that sustained inflation is unlikely.

So far, the US economy has experienced inflation in a very narrow group of goods and services, mainly those in sectors directly affected by the pandemic. A few more months of high inflation for this reason won't constitute any reason to worry. Inflation requires that such price spikes stimulate higher prices in other sectors, and that the need to raise prices be built into the economy. There are no signs that this is likely in today's economy.

Deloitte's baseline forecast expects core consumer price inflation to remain very close to the 2% level over the entire forecast horizon, with total consumer prices rising a slightly faster in 2021 and 2022 because of those pandemic-related prices spikes and the recovery of oil prices from their pandemic lows.

FIGURE 16

Prices



Source: Deloitte analysis.

FIGURE 17

Prices

	History						Forecast					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Chained GDP price index	1.0	1.0	1.9	2.4	1.8	1.3	3.6	2.3	2.0	2.0	2.0	2.0
Consumer price index	0.1	1.3	2.1	2.4	1.8	1.2	4.1	2.9	2.3	2.1	2.0	2.0
Chained price index for personal consumption expenditures	0.2	1.0	1.8	2.1	1.5	1.2	3.4	2.5	2.3	2.0	1.9	1.9
Employment cost index	2.1	2.2	2.4	2.8	2.7	2.6	3.1	3.2	3.0	2.9	2.9	2.9

Source: Deloitte analysis.

THE INVENTORY QUESTION

The pandemic has wreaked havoc with business plans, and no area of business operations has been more chaotic than inventories. Could you find toilet paper last April? That was only the tip of the iceberg. It wasn't just retailers who couldn't keep up with demand, it was manufacturers scrambling to find computer chips (after canceling orders just a few months earlier), pharmaceutical manufacturers sweeping up stocks of glass vials, and thousands of similar problems ranging from raw materials to retail storage rooms. Some businesses found themselves with warehouses filled with unsalable goods, while others wondered how to ever keep a stock of key parts vital to their operation.

The change in private inventories contributed to huge swings in GDP. In the first two quarters of 2021, inventory drawdown subtracted about 1.9 percentage points on average from GDP growth. And the impact is far from over: Inventories are likely to continue to play an outsized role in short-term economic outcomes over the next few years.

Inventories, when used successfully by businesses, create a buffer between shocks to production and demand—and they have been playing that role successfully. For example, the shortage of new cars for sale would have been worse if inventories of finished cars and light trucks hadn't fallen by about 2.6 million units since the pandemic started.

But that matters for future production, as well. Auto manufacturers (and retailers) will need to rebuild their stocks of cars, and that will keep production going in the future even if sales weaken. In fact, many economists consider the ratio of inventory stocks to final sales to be a signal about future business behavior. If inventories are low, demand is likely to grow as businesses seek to replenish their inventories; if inventories are high, demand is likely to fall because businesses will use existing stocks rather than ordering new goods.

In aggregate, the ratio of inventories to final sales in the second quarter, at 2.38%, is very much in line with the average over the years before the pandemic (about 2.36% during 2016–2019). But that hides some significant inventory imbalances. While auto inventories are low, inventories at clothing stores and general merchandise stores jumped in the second quarter. As different industries get back to "normal," changes in inventories may create yet more economic volatility, both for individual industries and for the economy as a whole.

Appendix

FIGURE 18

Baseline

	History						Forecast					
% year over year unless mentioned otherwise	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
GDP and components												
Real GDP	2.7	1.7	2.3	2.9	2.3	-3.4	5.5	4.2	2.8	2.0	1.5	1.4
Real consumer spending	3.3	2.5	2.4	2.9	2.2	-3.8	7.8	3.5	2.5	2.1	1.8	1.7
Real consumer spending, durable goods	7.6	5.4	6.3	7.0	4.3	7.7	20.8	-3.2	-1.9	2.0	2.8	3.0
Real consumer spending, nondurable goods	3.4	2.5	2.7	2.5	2.9	3.1	8.3	0.5	1.4	1.6	1.7	1.7
Real consumer spending, services	2.6	2.0	1.8	2.4	1.7	-7.5	5.3	5.3	4.2	2.2	1.8	1.6
Real investment in private housing	10.2	6.6	4.0	-0.6	-0.9	6.8	11.3	0.6	-2.2	-2.3	-2.2	-1.8
Real fixed business investment	2.3	0.9	4.1	6.4	4.3	-5.3	7.7	3.2	2.5	2.2	2.1	2.4
Real inventory accumulation	138	36	34	66	75	-42	-62	110	101	85	55	39
Real exports of goods and services	0.3	0.4	4.1	2.8	-0.1	-13.6	5.0	7.6	6.2	5.3	4.4	4.1
Real imports of goods and services	5.2	1.5	4.4	4.1	1.1	-8.9	13.1	3.7	3.8	3.6	3.4	3.2
Real government consumption and investment	1.8	2.0	0.5	1.4	2.2	2.5	0.6	2.2	4.0	1.9	0.6	-0.4
Real federal government consumption and investment	-0.0	0.5	0.3	3.0	3.8	5.0	0.5	-0.6	3.1	1.5	0.5	-0.3
Real state and local government consumption and investment	3.0	2.8	0.6	0.4	1.3	0.9	0.1	3.3	4.5	2.1	0.7	-0.5
Prices												
Consumer price index	0.1	1.3	2.1	2.4	1.8	1.2	4.1	2.9	2.3	2.1	2.0	2.0
Chained price index for personal consumption expenditures	0.2	1.0	1.8	2.1	1.5	1.2	3.4	2.5	2.3	2.0	1.9	1.9
Chained GDP price index	1.0	1.0	1.9	2.4	1.8	1.3	3.6	2.3	2.0	2.0	2.0	2.0
Employment cost index	2.1	2.2	2.4	2.8	2.7	2.6	3.1	3.2	3.0	2.9	2.9	2.9
Labor markets												
Average monthly change in employment (thousands)	240	211	188	192	167	-721	302	327	103	58	66	60
Unemployment rate (percent)	5.3	4.9	4.3	3.9	3.7	8.1	5.7	4.9	4.4	4.2	3.9	3.8
Employment to population (percent)	59.3	59.7	60.1	60.4	60.8	56.8	58.3	59.4	59.5	59.4	59.3	59.2
Income and wealth												
Real disposable personal income	4.0	1.8	2.8	3.4	2.3	6.2	2.2	-2.2	2.2	1.5	1.4	1.3
Net household wealth (US$ trillions)	91	96	105	105	118	132	153	156	162	163	165	168
Personal saving rate (percent of disposable income)	7.5	7.0	7.3	7.6	7.6	16.4	12.2	7.4	7.2	6.7	6.2	5.7
Corporate profits before tax (with inventory valuation and capital consumption adjustments)	-2.8	-1.1	4.5	8.3	2.7	-5.2	7.1	4.2	3.6	2.4	2.2	2.6
Housing												
Housing starts (thousand)	1,107	1,177	1,205	1,247	1,292	1,397	1,586	1,599	1,564	1,527	1,494	1,467
Total housing stock (million)	135	136	137	138	140	141	142	143	145	146	148	149
Interest rate on 30-year fixed rate mortgages (percent)	3.85	3.65	3.99	4.54	3.94	3.11	2.96	2.99	3.19	3.91	4.70	4.83
Foreign trade												
Current account balance, share of GDP (percent)	-2.2	-2.1	-1.9	-2.1	-2.2	-3.0	-3.7	-3.6	-3.6	-3.4	-3.3	-3.3
Merchandise trade balance (US$ billion)	-737	-735	-797	-878	-857	-905	-1,070	-1,156	-1,237	-1,272	-1,274	-1,288
Relative unit labor costs (index, 2008=100)	100.6	102.3	103.2	101.6	105.9	110.5	109.1	107.7	107.6	106.9	105.2	103.5
Financial												
Federal funds rate (percent)	0.14	0.39	0.97	1.78	2.16	0.42	0.13	0.13	0.19	1.00	1.63	1.63
Yield on 10-year Treasury note (percent)	2.14	1.84	2.33	2.91	2.14	0.89	1.43	1.75	2.23	2.67	3.06	3.21
Government												
Federal budget balance, unified basis (share of GDP, percent)	-2.6	-2.9	-3.5	-3.9	-4.5	-12.5	-13.8	-7.0	-5.9	-5.8	-5.9	-5.9

Source: Deloitte analysis.

FIGURE 19

Paging Dr. Pangloss

	History						Forecast					
% year over year unless mentioned otherwise	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
GDP and components												
Real GDP	2.7	1.7	2.3	2.9	2.3	-3.4	5.8	5.5	3.4	1.7	1.6	1.5
Real consumer spending	3.3	2.5	2.4	2.9	2.2	-3.8	8.0	5.3	3.4	2.0	2.1	2.0
Real consumer spending, durable goods	7.6	5.4	6.3	7.0	4.3	7.7	20.8	-3.2	-0.8	4.1	4.7	4.4
Real consumer spending, nondurable goods	3.4	2.5	2.7	2.5	2.9	3.1	8.5	0.8	1.3	1.8	1.9	1.9
Real consumer spending, services	2.6	2.0	1.8	2.4	1.7	-7.5	5.5	6.4	5.5	1.9	1.7	1.8
Real investment in private housing	10.2	6.6	4.0	-0.6	-0.9	6.8	11.4	4.0	0.8	-1.7	-1.2	-1.1
Real fixed business investment	2.3	0.9	4.1	6.4	4.3	-5.3	7.8	4.0	2.7	2.1	2.1	2.2
Real inventory accumulation	138	36	34	66	75	-42	-29	126	105	72	46	46
Real exports of goods and services	0.3	0.4	4.1	2.8	-0.1	-13.6	5.1	8.2	6.5	5.7	5.2	4.6
Real imports of goods and services	5.2	1.5	4.4	4.1	1.1	-8.9	13.5	4.6	4.9	4.6	4.4	4.2
Real government consumption and investment	1.8	2.0	0.5	1.4	2.2	2.5	0.6	2.2	4.0	1.9	0.6	-0.4
Real federal government consumption and investment	-0.0	0.5	0.3	3.0	3.8	5.0	0.5	-0.6	3.1	1.5	0.5	-0.3
Real state and local government consumption and investment	3.0	2.8	0.6	0.4	1.3	0.9	0.1	3.3	4.5	2.1	0.7	-0.5
Prices												
Consumer price index	0.1	1.3	2.1	2.4	1.8	1.2	4.2	3.3	2.6	2.3	2.4	2.5
Chained price index for personal consumption expenditures	0.2	1.0	1.8	2.1	1.5	1.2	3.4	2.7	2.4	2.1	2.0	2.2
Chained GDP price index	1.0	1.0	1.9	2.4	1.8	1.3	3.6	2.5	2.2	2.2	2.2	2.3
Employment cost index	2.1	2.2	2.4	2.8	2.7	2.6	3.3	3.8	2.9	3.5	3.5	3.4
Labor markets												
Average monthly change in employment (thousands)	240	211	188	192	167	-721	322	442	147	47	38	40
Unemployment rate (percent)	5.3	4.9	4.3	3.9	3.7	8.1	5.8	4.6	3.8	3.7	3.7	3.6
Employment to population (percent)	59.3	59.7	60.1	60.4	60.8	56.8	58.4	60.1	60.3	60.1	59.9	59.7
Income and wealth												
Real disposable personal income	4.0	1.8	2.8	3.4	2.3	6.2	2.4	-1.3	2.7	1.4	1.5	1.5
Net household wealth (US$ trillions)	91	96	105	105	118	132	154	164	168	166	166	169
Personal saving rate (percent of disposable income)	7.5	7.0	7.3	7.6	7.6	16.4	12.2	6.7	6.1	5.4	4.8	4.1
Corporate profits before tax (with inventory valuation and capital consumption adjustments)	-2.8	-1.1	4.5	8.3	2.7	-5.2	8.3	6.4	4.1	2.9	4.3	4.0
Housing												
Housing starts (thousands)	1,107	1,177	1,205	1,247	1,292	1,397	1,587	1,654	1,668	1,640	1,620	1,602
Total housing stock (millions)	135	136	137	138	140	141	142	143	145	147	148	150
Interest rate on 30-year fixed-rate mortgages (percent)	3.85	3.65	3.99	4.54	3.94	3.11	2.96	3.07	3.53	4.49	5.36	5.57
Foreign trade												
Current account balance, share of GDP (percent)	-2.2	-2.1	-1.9	-2.1	-2.2	-3.0	-3.7	-3.6	-3.6	-3.6	-3.5	-3.6
Merchandise trade balance (US$ billions)	-737	-735	-797	-878	-857	-905	-1,080	-1,185	-1,289	-1,362	-1,414	-1,482
Relative unit labor costs (index, 2008=100)	100.6	102.3	103.2	101.6	105.9	110.5	109.1	108.2	109.0	107.9	105.4	103.6
Financial												
Federal funds rate (percent)	0.14	0.39	0.97	1.78	2.16	0.42	0.13	0.13	0.75	1.75	2.13	2.13
Yield on 10-year Treasury note (percent)	2.14	1.84	2.33	2.91	2.14	0.89	1.44	1.92	2.54	3.15	3.73	3.99
Government												
Federal budget balance, unified basis (share of GDP, percent)	-2.6	-2.9	-3.5	-3.9	-4.5	-12.5	-13.8	-6.8	-5.4	-5.5	-5.6	-5.7

Source: Deloitte analysis.

FIGURE 20

Side effects in post-op

	History						Forecast					
% year over year unless mentioned otherwise	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
GDP and components												
Real GDP	2.7	1.7	2.3	2.9	2.3	-3.4	5.2	2.9	2.3	1.8	1.6	1.1
Real consumer spending	3.3	2.5	2.4	2.9	2.2	-3.8	7.5	2.1	1.7	1.7	1.6	1.4
Real consumer spending, durable goods	7.6	5.4	6.3	7.0	4.3	7.7	19.2	-9.8	-0.2	4.0	5.0	4.8
Real consumer spending, nondurable goods	3.4	2.5	2.7	2.5	2.9	3.1	7.8	-0.8	2.0	2.1	2.0	2.0
Real consumer spending, services	2.6	2.0	1.8	2.4	1.7	-7.5	5.1	4.1	2.3	1.9	1.4	0.8
Real investment in private housing	10.2	6.6	4.0	-0.6	-0.9	6.8	10.2	-2.2	-2.7	-3.0	-2.8	-2.6
Real fixed business investment	2.3	0.9	4.1	6.4	4.3	-5.3	7.2	2.7	1.8	1.7	1.8	2.1
Real inventory accumulation	138	36	34	66	75	-42	-67	69	69	69	62	36
Real exports of goods and services	0.3	0.4	4.1	2.8	-0.1	-13.6	4.9	7.4	6.1	5.2	4.5	4.0
Real imports of goods and services	5.2	1.5	4.4	4.1	1.1	-8.9	13.0	3.2	3.1	2.7	2.4	2.3
Real government consumption and investment	1.8	2.0	0.5	1.4	2.2	2.5	0.6	2.2	4.0	1.9	0.6	-0.4
Real federal government consumption and investment	-0.0	0.5	0.3	3.0	3.8	5.0	0.5	-0.6	3.1	1.5	0.5	-0.3
Real state and local government consumption and investment	3.0	2.8	0.6	0.4	1.3	0.9	0.1	3.3	4.5	2.1	0.7	-0.5
Prices												
Consumer price index	0.1	1.3	2.1	2.4	1.8	1.2	4.1	2.7	2.2	2.1	1.9	1.9
Chained price index for personal consumption expenditures	0.2	1.0	1.8	2.1	1.5	1.2	3.4	2.3	2.1	2.0	1.8	1.8
Chained GDP price index	1.0	1.0	1.9	2.4	1.8	1.3	3.6	2.2	1.9	1.9	1.9	1.8
Employment cost index	2.1	2.2	2.4	2.8	2.7	2.6	3.0	2.8	3.1	2.9	2.7	2.7
Labor markets												
Average monthly change in employment (thousands)	240	211	188	192	167	-721	239	186	135	116	93	94
Unemployment rate (percent)	5.3	4.9	4.3	3.9	3.7	8.1	6.0	6.0	5.4	4.9	4.5	4.1
Employment to population (percent)	59.3	59.7	60.1	60.4	60.8	56.8	58.0	58.5	58.7	58.8	58.9	58.9
Income and wealth												
Real disposable personal income	4.0	1.8	2.8	3.4	2.3	6.2	2.1	-2.9	1.8	1.4	1.4	1.3
Net household wealth (US$ trillions)	91	96	105	105	118	132	149	147	154	158	162	166
Personal saving rate (percent of disposable income)	7.5	7.0	7.3	7.6	7.6	16.4	12.3	8.1	8.2	8.0	7.7	7.5
Corporate profits before tax (with inventory valuation and capital consumption adjustments)	-2.8	-1.1	4.5	8.3	2.7	-5.2	6.5	1.3	3.2	0.7	2.7	-0.0
Housing												
Housing starts (thousands)	1,107	1,177	1,205	1,247	1,292	1,397	1,569	1,537	1,496	1,452	1,411	1,373
Total housing stock (millions)	135	136	137	138	140	141	142	143	145	146	147	149
Interest rate on 30-year fixed-rate mortgages (percent)	3.85	3.65	3.99	4.54	3.94	3.11	2.96	2.98	3.09	3.76	4.45	4.56
Foreign trade												
Current account balance, share of GDP (percent)	-2.2	-2.1	-1.9	-2.1	-2.2	-3.0	-3.7	-3.5	-3.5	-3.2	-3.0	-2.8
Merchandise trade balance (US$ billions)	-737	-735	-797	-878	-857	-905	-1,068	-1,138	-1,194	-1,202	-1,171	-1,154
Relative unit labor costs (index, 2008=100)	100.6	102.3	103.2	101.6	105.9	110.5	108.9	106.9	106.6	106.3	104.3	102.9
Financial												
Federal funds rate (percent)	0.14	0.39	0.97	1.78	2.16	0.42	0.13	0.13	0.19	1.00	1.50	1.50
Yield on 10-year Treasury note (percent)	2.14	1.84	2.33	2.91	2.14	0.89	1.42	1.65	2.06	2.46	2.80	2.89
Government												
Federal budget balance, unified basis (share of GDP, percent)	-2.6	-2.9	-3.5	-3.9	-4.5	-12.5	-13.8	-7.4	-6.5	-6.5	-6.5	-6.5

Source: Deloitte analysis.

FIGURE 21

The patient relapses

	History						Forecast					
% year over year unless mentioned otherwise	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
GDP and components												
Real GDP	2.7	1.7	2.3	2.9	2.3	-3.4	4.8	2.2	2.2	1.7	1.4	1.3
Real consumer spending	3.3	2.5	2.4	2.9	2.2	-3.8	7.0	1.3	1.5	1.3	1.4	1.5
Real consumer spending, durable goods	7.6	5.4	6.3	7.0	4.3	7.7	18.8	-10.1	-0.2	4.0	4.7	4.3
Real consumer spending, nondurable goods	3.4	2.5	2.7	2.5	2.9	3.1	7.1	-1.0	0.2	0.3	0.7	0.7
Real consumer spending, services	2.6	2.0	1.8	2.4	1.7	-7.5	4.3	2.3	2.1	1.0	1.1	1.2
Real investment in private housing	10.2	6.6	4.0	-0.6	-0.9	6.8	9.7	-3.5	-2.6	-2.6	-2.7	-2.8
Real fixed business investment	2.3	0.9	4.1	6.4	4.3	-5.3	7.1	1.7	1.2	1.5	1.6	2.0
Real inventory accumulation	138	36	34	66	75	-42	-68	66	59	56	36	26
Real exports of goods and services	0.3	0.4	4.1	2.8	-0.1	-13.6	4.8	6.1	5.4	4.8	4.3	4.0
Real imports of goods and services	5.2	1.5	4.4	4.1	1.1	-8.9	13.0	2.6	2.0	1.8	2.0	2.2
Real government consumption and investment	1.8	2.0	0.5	1.4	2.2	2.5	0.6	2.2	4.0	1.9	0.6	-0.4
Real federal government consumption and investment	-0.0	0.5	0.3	3.0	3.8	5.0	0.5	-0.6	3.1	1.5	0.5	-0.3
Real state and local government consumption and investment	3.0	2.8	0.6	0.4	1.3	0.9	0.1	3.3	4.5	2.1	0.7	-0.5
Prices												
Consumer price index	0.1	1.3	2.1	2.4	1.8	1.2	4.1	2.3	1.8	1.9	1.7	1.8
Chained price index for personal consumption expenditures	0.2	1.0	1.8	2.1	1.5	1.2	3.4	2.0	1.8	1.8	1.6	1.7
Chained GDP price index	1.0	1.0	1.9	2.4	1.8	1.3	3.6	1.9	1.6	1.8	1.7	1.8
Employment cost index	2.1	2.2	2.4	2.8	2.7	2.6	2.9	2.5	2.4	2.6	2.7	2.7
Labor markets												
Average monthly change in employment (thousands)	240	211	188	192	167	-721	219	140	108	104	106	108
Unemployment rate (percent)	5.3	4.9	4.3	3.9	3.7	8.1	6.1	6.6	6.3	5.9	5.3	4.8
Employment to population (percent)	59.3	59.7	60.1	60.4	60.8	56.8	57.9	58.1	58.2	58.3	58.4	58.6
Income and wealth												
Real disposable personal income	4.0	1.8	2.8	3.4	2.3	6.2	1.9	-3.5	1.7	1.1	1.4	1.3
Net household wealth (US$ trillions)	91	96	105	105	118	132	146	143	150	154	159	164
Personal saving rate (percent of disposable income)	7.5	7.0	7.3	7.6	7.6	16.4	12.6	8.4	8.6	8.4	8.4	8.2
Corporate profits before tax (with inventory valuation and capital consumption adjustments)	-2.8	-1.1	4.5	8.3	2.7	-5.2	5.4	3.1	4.3	2.8	0.5	0.4
Housing												
Housing starts (thousands)	1,107	1,177	1,205	1,247	1,292	1,397	1,564	1,511	1,472	1,434	1,395	1,356
Total housing stock (millions)	135	136	137	138	140	141	142	143	145	146	147	149
Interest rate on 30-year fixed-rate mortgages (percent)	3.85	3.65	3.99	4.54	3.94	3.11	2.97	2.95	2.92	3.38	3.85	3.89
Foreign trade												
Current account balance, share of GDP (percent)	-2.2	-2.1	-1.9	-2.1	-2.2	-3.0	-3.7	-3.5	-3.3	-3.1	-2.8	-2.6
Merchandise trade balance (US$ billions)	-737	-735	-797	-878	-857	-905	-1,071	-1,134	-1,161	-1,150	-1,115	-1,096
Relative unit labor costs (index, 2008=100)	100.6	102.3	103.2	101.6	105.9	110.5	108.8	105.8	104.9	103.1	101.2	100.4
Financial												
Federal funds rate (percent)	0.14	0.39	0.97	1.78	2.16	0.42	0.13	0.13	0.13	0.56	0.63	0.63
Yield on 10-year Treasury note (percent)	2.14	1.84	2.33	2.91	2.14	0.89	1.42	1.57	1.85	2.13	2.30	2.30
Government												
Federal budget balance, unified basis (share of GDP, percent)	-2.6	-2.9	-3.5	-3.9	-4.5	-12.5	-13.9	-7.7	-6.9	-7.0	-7.0	-6.9

Source: Deloitte analysis.

Endnotes

1. To be clear: Voltaire was being sarcastic. Deloitte's scenario takes the idea seriously, however.
2. Unless otherwise noted, all data supplied by Haver Analytics, which compiles statistics from the US Bureau of Labor Statistics, the Bureau of Economic Analysis, and other databases.
3. Robert Bollinger and Stuart Ray, "New variants of coronavirus: What you should know," Johns Hopkins Health, February 22, 2021; World Health Organization, "Tracking SARS-CoV-2 variants," accessed September 9, 2021.
4. Board of Governors of the Federal Reserve System, *Economic well-being of US households in 2020*, May 2021, p.71.
5. Steve Rosenthal and Theo Burke, *Who's left to tax? US taxation of corporations and their shareholders*, New York University School of Law, October 27, 2020.
6. Lester Gunnion, *Why is the housing sector booming during COVID-19?*, Deloitte Insights, November 20, 2020.
7. Office of the US Trade Representative, "Testimony of Ambassador Katherine Tai before the House Ways and Means Committee Hearing on the president's trade agenda," May 13, 2021.
8. The demand for dollar assets requires that the dollar be priced to allow assets to be supplied to the rest of the world via the current account deficit. For a full explanation, please see Daniel Bachman, *Balancing payments: Why it's harder than you might think to cut the trade deficit*, Deloitte Insights, February 28, 2017.
9. Lester Gunnion, *Infrastructure investment: An economist's view from the ground up*, Deloitte Insights, July 28, 2021.
10. See, for example, Nicolas Petrosky-Nadeau and Robert G. Valletta, "Did the $600 unemployment supplement discourage work?," Federal Reserve Bank of San Francisco Economic Letter 2020–28, September 21, 2020; Ioana Marinescu, Daphne Skandalis, and Daniel Zhao, "The impact of federal pandemic unemployment compensation on job search and vacancy creation," National Bureau of Economic Research Working Paper 28567, March 2021.
11. Daniel Bachman, *Where's the labor shortage?*, Deloitte Insights, December, 2017.
12. The Federal Reserve has helpfully provided a full annotated list of borrowing facilities on its website. See "Funding, credit, liquidity, and loan facilities," November 20, 2020.
13. Board of Governors of the Federal Reserve System, "Minutes of the Federal Open Market Committee July 27–28, 2021," accessed September 6, 2021.
14. Lawrence H. Summers, "The Biden stimulus is admirably ambitious. But it brings some big risks, too," *Washington Post*, February 4, 2021.

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