

Monthly Economic Update

December 2021



Inflation Likely to Persist Due to Strong Demand and Accumulated Savings

In late November, Federal Reserve Chairman Powell testified that inflation would persist longer than anticipated. This monthly update presents data for factors that drive that outcome, and the impact on national and state economic metrics. For context, the most recent growth rate for the Philadelphia metro CPI-U is 5.6% (October year-over-year (YOY)) and 7.1% for the CPI-U excluding Shelter. (See rows 1 and 2 in table below.) The CPI-U excluding Shelter is a better real-time measure of consumer inflation because it excludes foregone rent imputed to current homeowners. Rent imputed to homeowners is 26% of the Philadelphia CPI-U.

Row 3 displays Federal Reserve holdings of U.S. Treasuries and mortgage backed securities. Debt holdings increased by \$2.9 trillion (80%) from October 2019 to October 2020 and then \$1.5 trillion (23%) to October 2021. Federal Reserve debt holdings more than doubled to supply funds for multiple federal stimulus packages. Row 4 displays the commensurate increase in Demand Deposits (checking account balances of consumers and businesses) and Currency in Circulation, which also more than doubled. Balances remain at a very high level and can support further spending over the coming year.

Row 5 shows the YOY growth in U.S. purchases of durable goods (e.g., appliances, cars). Continuous and strong demand for those products created bottlenecks and shortages that resulted in price pressures. Corporate domestic profits (row 6, YOY growth for 2021 Q3) grew at a similar rate as firms have been able to pass forward most cost increases to final consumers. Rows 7 and 8 show the YOY growth in the price of gasoline (Mid-Atlantic) and natural gas at the Henry Hub, which has been notably robust the past year. Rows 9 and 10 display growth for the S&P 500 and the median price of existing home sales for the Philadelphia metro region.

Due to the build up of savings and significant expansion of the money supply, analysts anticipate continued strong consumer demand through the spring. Chairman Powell testified that the Federal Reserve is reconsidering its schedule for the taper of debt purchases and future interest rates.

Item	Period	Levels			YOY Growth Rate	
		2019	2020	2021	19-20	20-21
1 Philly CPI-U - All Items	Oct	258.0	260.0	274.7	0.8%	5.6%
2 Philly CPI-U - Exclude Shelter	Oct	232.1	233.4	250.0	0.6%	7.1%
3 Fed Reserve Debt (\$ billions)	Oct	\$3,624	\$6,530	\$8,043	80.2%	23.2%
4 DD + Currency (\$ billions)	Oct	\$3,256	\$4,363	\$6,747	34.0%	54.6%
5 US Durable Goods (\$ billions)	Oct	\$1,530	\$1,794	\$2,077	17.3%	15.7%
6 US Corp Dom Profits (\$ billions)	Q3	\$1,356	\$1,514	\$1,889	11.7%	24.7%
7 Gasoline (Mid-Atlantic)	Oct	\$2.60	\$2.28	\$3.36	-12.3%	47.4%
8 Natural Gas (Henry Hub)	Oct	\$2.24	\$2.29	\$5.47	2.2%	138.9%
9 S&P 500 Index	Oct	3,015	3,328	4,461	10.4%	34.0%
10 Home Price - Philly (\$000s)	Q3	\$256.2	\$286.8	\$324.8	11.9%	13.2%

Notes: Home price is median sales price of existing single family home. S&P 500 is average for month. Corporate profits for non-financial firms only. Excludes foreign profits. DD is demand deposits. Natural gas price is \$/MMBtu.

Sources: U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, EIA, NAR, Federal Reserve Board.

Pennsylvania Economic Indicators

<u>Monthly Data</u>	<u>Jul-21</u>	<u>Aug-21</u>	<u>Sept-21</u>	<u>Oct-21</u>	<u>Nov-21</u>
Unemployment Rate ¹	6.5%	6.4%	6.2%	6.0%	n.a.
Net Job Gains (000s) ²	228.3	189.7	139.0	134.7	n.a.
Avg. Gasoline Price ³	\$3.15	\$3.18	\$3.23	\$3.36	\$3.49
CPI-U All Items ⁴	4.7%	4.6%	5.1%	5.6%	n.a.
Natural Gas Price ⁵	\$2.87	\$3.57	\$4.17	\$4.47	\$4.49
Number of Home Sales ⁶	0.0%	-1.4%	5.5%	-2.6%	n.a.
PA Turnpike Traffic (cars) ⁷	25.4%	18.1%	16.2%	n.a.	n.a.
PA Turnpike Traffic (commercial) ⁷	5.1%	8.1%	7.0%	n.a.	n.a.
<u>Quarterly Data</u>	<u>2020.3</u>	<u>2020.4</u>	<u>2021.1</u>	<u>2021.2</u>	<u>2021.3</u>
Gross Domestic Product ⁸	34.8%	5.2%	3.0%	5.9%	n.a.
Personal Income ⁹	8.8%	4.5%	16.4%	-2.8%	n.a.
Wages and Salaries ¹⁰	-0.7%	1.8%	2.2%	10.9%	n.a.
FHFA House Price Index ¹¹	8.3%	11.1%	12.2%	16.4%	14.5%

United States Economic Indicators

<u>Monthly Data</u>	<u>Jul-21</u>	<u>Aug-21</u>	<u>Sept-21</u>	<u>Oct-21</u>	<u>Nov-21</u>
Unemployment Rate ¹	5.4%	5.2%	4.8%	4.6%	4.2%
Number of Home Sales ⁶	2.2%	-2.0%	7.0%	0.8%	n.a.
S&P 500 ¹²	34.4%	29.2%	28.1%	40.8%	26.1%
10-Year Note ¹³	1.24	1.30	1.53	1.56	1.44
<u>Quarterly Data</u>	<u>2020.3</u>	<u>2020.4</u>	<u>2021.1</u>	<u>2021.2</u>	<u>2021.3</u>
Gross Domestic Product ⁸	33.8%	4.5%	6.3%	6.7%	2.1%
Personal Income ⁹	7.1%	4.8%	16.1%	1.6%	5.2%
Wages and Salaries ¹⁰	0.9%	3.4%	2.9%	13.4%	11.2%
Corporate Profits ¹⁴	6.5%	2.6%	23.3%	53.8%	23.2%

Sources and Notes:

1. Source: U.S. Bureau of Labor Statistics- Survey of Households.
2. Year-over-year increase in payroll employment. Source: U.S. Bureau of Labor Statistics- Survey of Establishments.
3. Average price for one gallon of regular gasoline. Source: U.S. Energy Information Administration.
4. Annual change in average price level for U.S. and PA-NJ-DE-MD. Source: U.S. Bureau of Labor Statistics.
5. Price is weighted average from major Pennsylvania gas hubs. Unit is dollars per MMBtu. Source: Bentek Energy.
6. Seasonally Adjusted Annual Rate. Pennsylvania figures represent northeast region. Source: National Association of Realtors.
7. Year-over-year growth rate of monthly traffic counts based on entry data. Source: Pennsylvania Turnpike.
8. The quarterly, annualized real growth rate of the economy. Excludes inflation. Source: U.S. Bureau of Economic Analysis.
9. Year-over-year growth rate of personal income. Source: U.S. Bureau of Economic Analysis.
10. Year-over-year growth rate of wages and salaries paid to all payroll employees. Source: U.S. Bureau of Economic Analysis.
11. Source: Federal Housing Finance Agency.
12. Year-over-year growth rate of S&P 500 closing price. Data as of the first of the month. Source: Yahoo! Finance.
13. Source: Yahoo! Finance.
14. Year-over-year growth rate, domestic profits only. Source: U.S. Bureau of Economic Analysis.