Pandenomics and the U.S. and Texas Economic Outlook: Implications for Mexico

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Pandenomics Roadmap

- Pandemic unlike a typical recession
- Economic decline and toll on families mitigated by aggressive monetary and fiscal policy response
- Recovery in 2020 repeatedly slowed by resurgence of the coronavirus
- Outlook improving; 2021 forecast solid
COVID retreat (for now) and improving Mobility and Engagement
Covid cases, hospitalizations, and deaths declining sharply

**NATIONWIDE COVID-19 METRICS. 7-DAY AVERAGE LINES**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Feb 8</th>
<th>7-Day Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily Cases</td>
<td>77,737</td>
<td>111,131</td>
</tr>
<tr>
<td>Currently Hospitalized</td>
<td>80,055</td>
<td>86,441</td>
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<tr>
<td>Daily Deaths</td>
<td>1,309</td>
<td>2,885</td>
</tr>
</tbody>
</table>

Source: The COVID Tracking Project

Federal Reserve Bank of Dallas
Mobility and Engagement Index (MEI)

Fell sharply in March/April, improved through June; little progress since

- Uses anonymized cellphone location data to measure “stay-at-home” behavior (15 to 20 million mobile devices daily)
- Reflects both mandatory restrictions & voluntary choices.
- Available down to the county level.
- Correlates well economic activity, especially services consumption.

Source: Dallas Fed, SafeGraph. The national MEI is scaled to Jan-Feb 2020 = 0 and the week of 4/11/20 = -100.
Economic activity, consumer spending
Real GDP contracted sharply in first half of 2020; rebounded strongly in 2020Q3, but slowed down in 2020Q4

- Unprecedented drop in economic activity in March and April, followed by sharp rebound in activity beginning in May
- Assuming no second dip, would be shortest recession on record
- Recovery (initially) historically rapid, but still a long road to full recovery

SOURCE: Bureau of Economic Analysis; Congressional Budget Office
Unprecedented fiscal relief has supported personal income and spending

Sources: Bureau of Economic Analysis
Consumer spending on services remains depressed and tracks closely mobility and engagement … but spending on goods has surged.
Consumers also spending on housing, which has more than recovered
Labor market developments
Payroll Employment: Recovered more than half the drop from March and April, but improvement slowing

Initial shock Total
(Feb to Apr) (Feb to Jan)
-22.2 mil. -9.9 mil.

Jan 2021
6.5% below
Feb 2020

Sources: Bureau of Labor Statistics.
Unemployment rate sharply down from April high: while progress has slowed, unemployment excluding temporary layoffs is now falling too.
Unemployment remains elevated for minorities

Percent

- White Unemployment Rate, Jan 2021 = 5.7
- Black Unemployment Rate, Jan 2021 = 9.2
- Hispanic Unemployment Rate, Jan 2021 = 8.6
- Asian Unemployment Rate, Jan 2021 = 6.6


Sources: Bureau of Labor Statistics.

Federal Reserve Bank of Dallas
Inflation
The Covid shock led to historically large shifts in spending patterns, producing price collapses in some sectors, surges in others.

On net, the balance of effects has been disinflationary.

Headline and core Personal Consumption Expenditures (PCE) inflation rates are up from springtime lows, but well off pre-Covid levels.

Dallas Fed’s trimmed mean PCE inflation rate shows a more modest and monotonic deceleration.
Texas Economic Conditions
Texas’ overall job loss in pandemic is less than nation and less than other large states

Job growth (percent), December 2020/Feb 2020, SA

Sources: Bureau of Labor Statistics.
Inter-State movers still favor Texas:
Share of home switchers by destination

NOTE: Data through the week of January 18, 2021.
Implications for Mexico-US-Texas
U.S. and Mexico business cycle synchronicity tight since NAFTA (industrial production)

Corr: 0.13

Corr: 0.79

Percent

SOURCES: INEGI; Federal Reserve Board.
Texas makes up significant portion of U.S. exports to Mexico

Billions (USD)

SOURCES: U.S. Census Bureau

Federal Reserve Bank of Dallas
Intra-industry trade high within NAFTA: U.S. content highest in imports from Mexico, Canada

Percent

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent</th>
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<tbody>
<tr>
<td>Mexico</td>
<td>40</td>
</tr>
<tr>
<td>Canada</td>
<td>25</td>
</tr>
<tr>
<td>Weighted Average (Mex-Can)</td>
<td>32</td>
</tr>
<tr>
<td>China</td>
<td>4</td>
</tr>
</tbody>
</table>

NOTE: Data is from 2004.
Economic Outlook
US GDP Forecasts point to solid growth in 2021, continued declines in unemployment

<table>
<thead>
<tr>
<th>Real GDP Growth (SAAR)</th>
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<tbody>
<tr>
<td></td>
<td>2020</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>2021</td>
</tr>
<tr>
<td></td>
<td>Q4/Q4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Q4/Q4</td>
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<tr>
<td>Blue Chip Consensus</td>
<td>-2.5</td>
<td>2.3</td>
<td>4.4</td>
<td>4.8</td>
<td>4.2</td>
<td>3.9</td>
</tr>
<tr>
<td>CBO</td>
<td>4.9</td>
<td>2.5</td>
<td>3.8</td>
<td>3.6</td>
<td>3.7</td>
<td>5.3</td>
</tr>
</tbody>
</table>

SOURCE: CBO, Haver Analytics
Conclusions

• Pandemic resulted in massive output and job loss
  • Over half of jobs have been recovered
  • Goods recovery has likely helped Mexico
• Forecast for 2021 is robust but we have a long way to go
• Risks to the outlook are mixed
  • COVID (old and new strains), slow vaccine rollout are headwinds
  • December stimulus package should boost consumption, help small business
  • Higher oil prices tailwind for Texas, Mexico
• Vaccines boosting business optimism
  • Majority of business contacts expect revenue/sales to be back to pre-pandemic level by year-end
Thank You!
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