



Federal Reserve
Bank of Dallas

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

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Pandemonics Roadmap

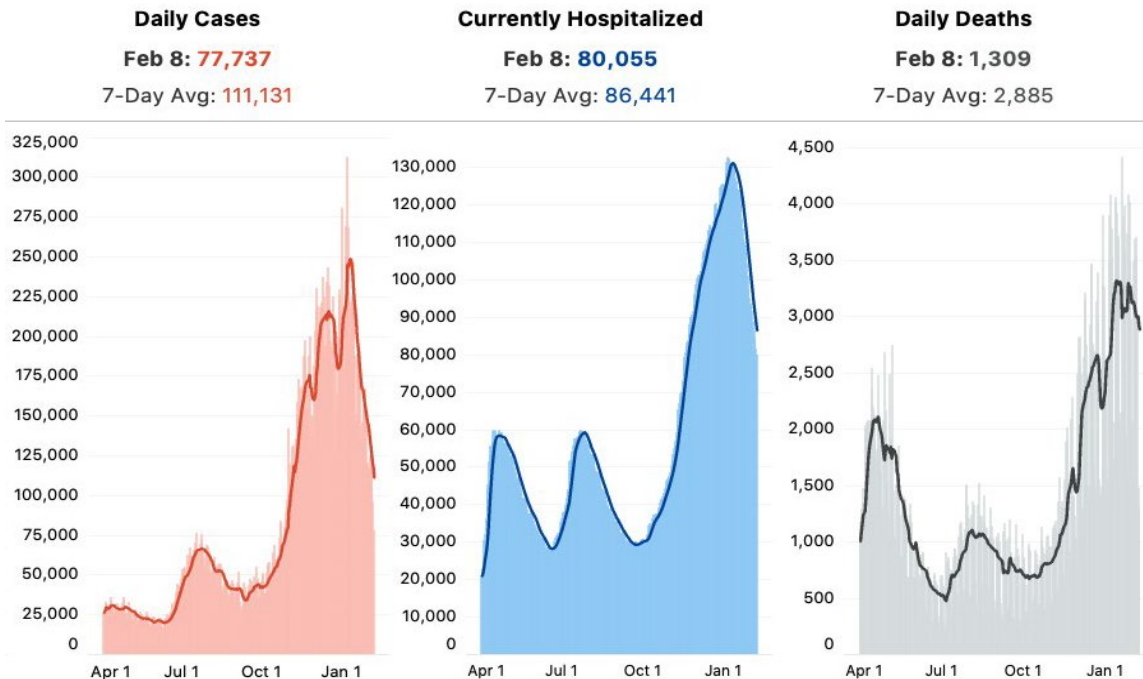
- Pandemic unlike a typical recession
- Economic decline and toll on families mitigated by aggressive monetary and fiscal policy response
- Recovery in 2020 repeatedly slowed by resurgence of the coronavirus
- Outlook improving; 2021 forecast solid

COVID retreat (for now) and improving Mobility and Engagement

Covid cases, hospitalizations, and deaths declining sharply

NATIONWIDE COVID-19 METRICS. 7-DAY AVERAGE LINES

Apr 1 - Feb 8

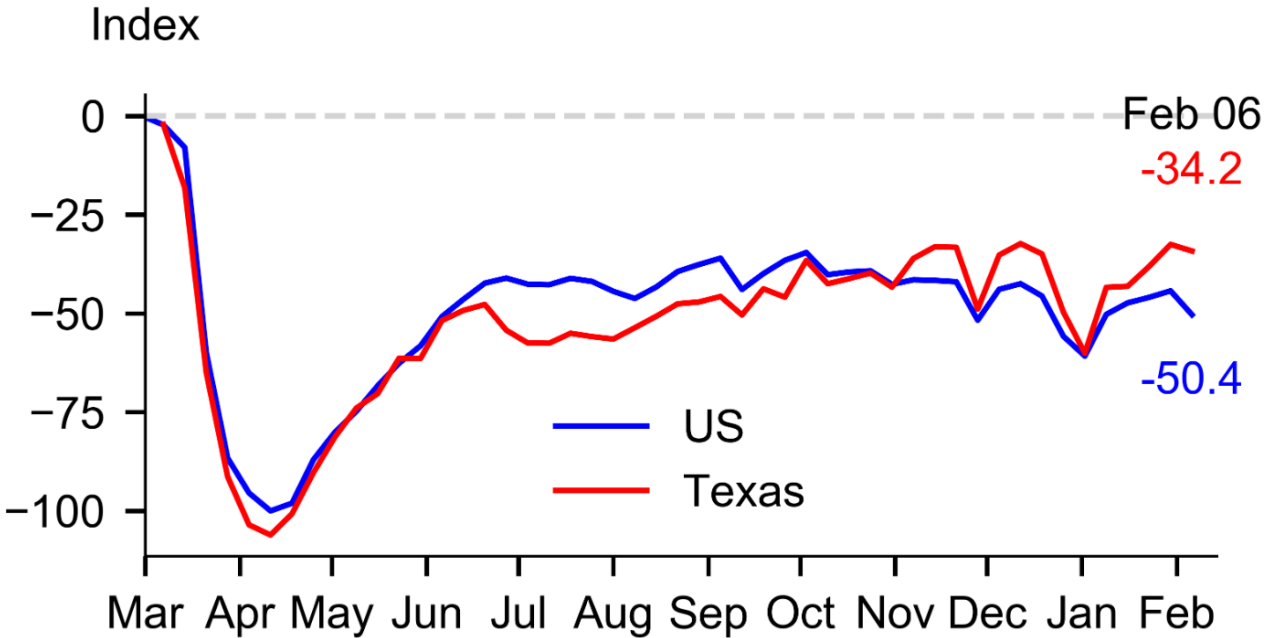


Source: The COVID Tracking Project

● Single-day Record

Mobility and Engagement Index (MEI)

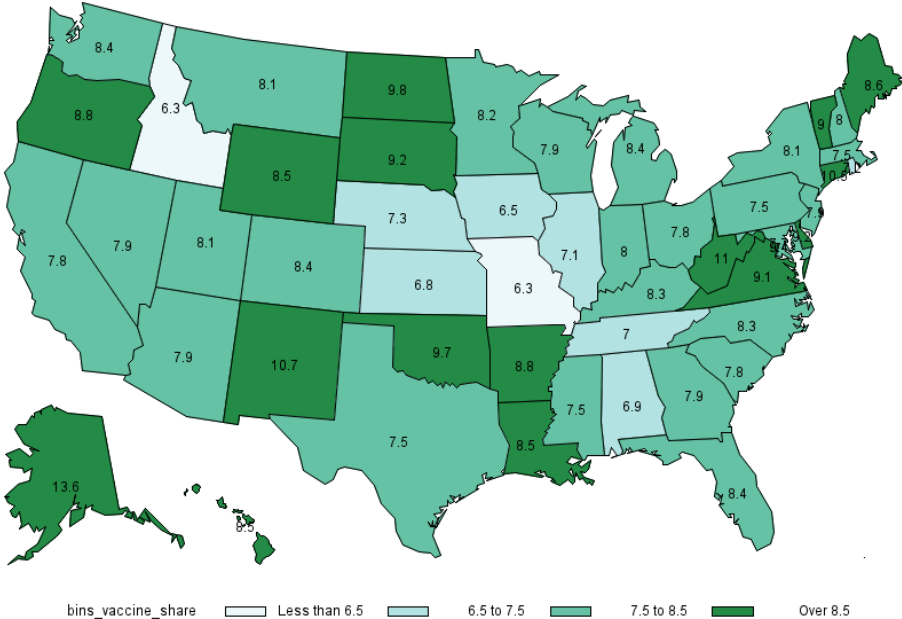
Fell sharply in March/April, improved through June; little progress since



- 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.

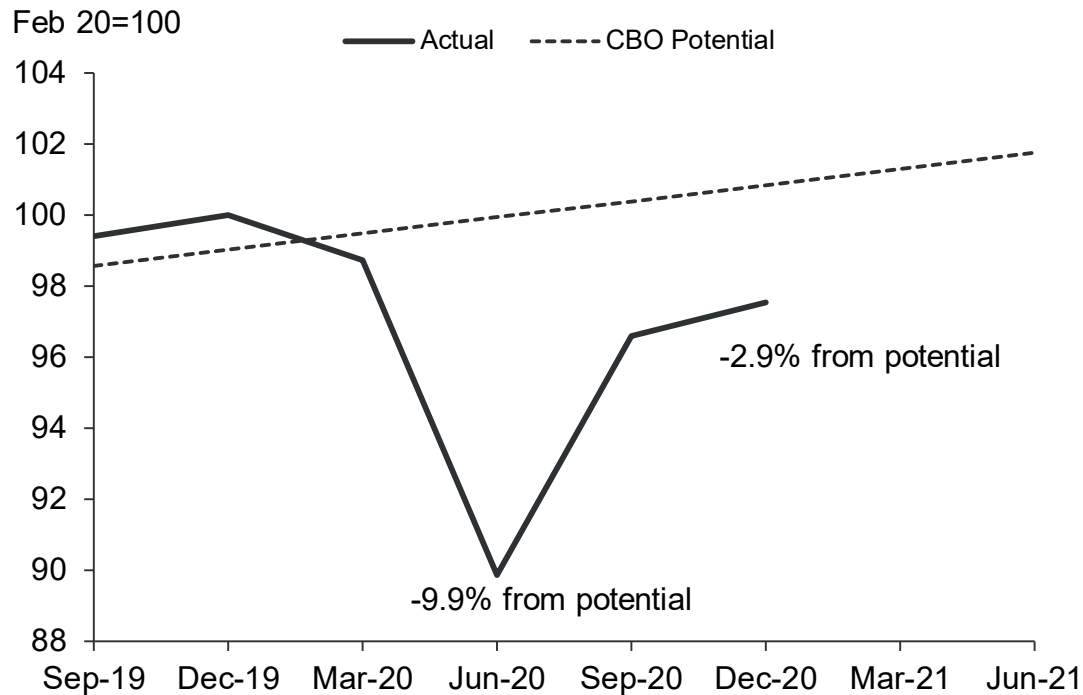
Source: Dallas Fed, SafeGraph. The national MEI is scaled to Jan-Feb 2020 = 0 and the week of 4/11/20 = -100.

Vaccination rates vary by state



Economic activity, consumer spending

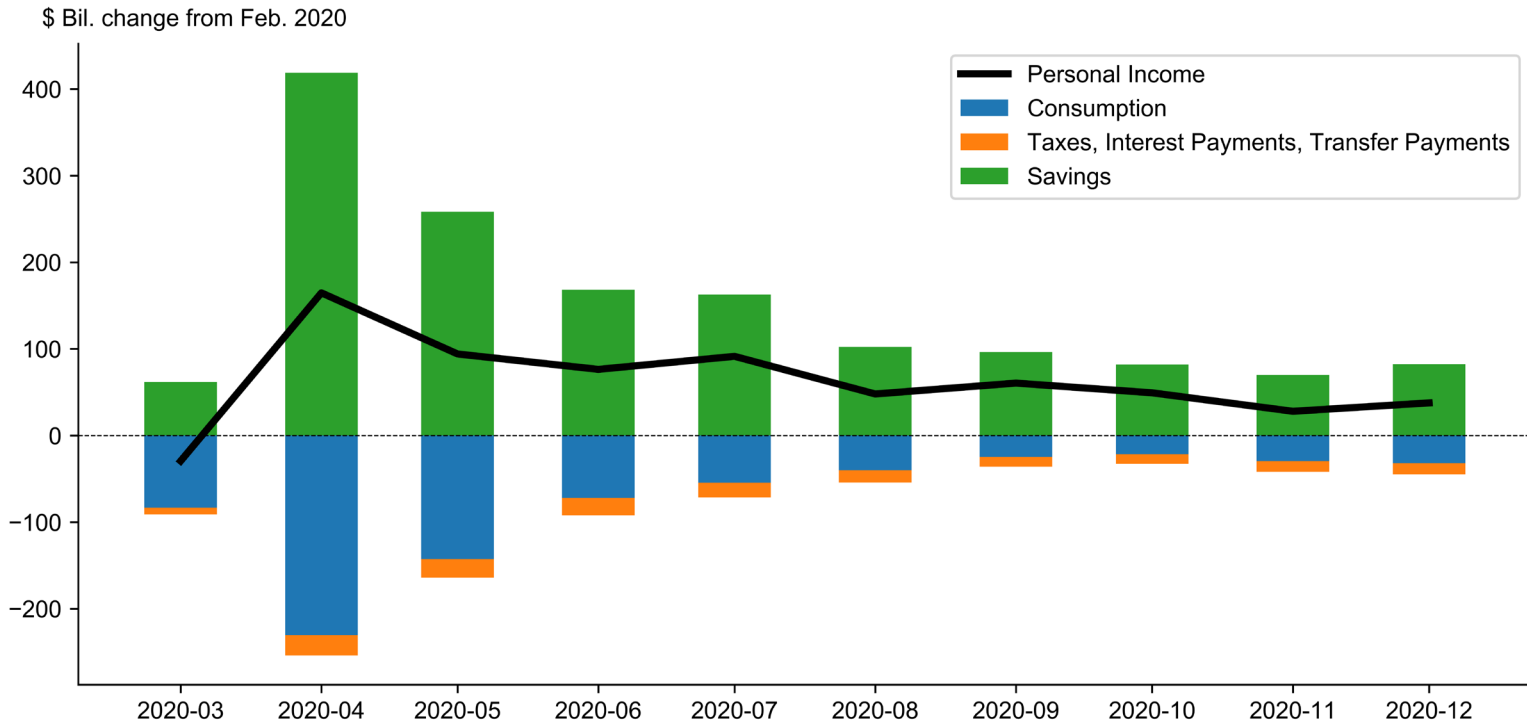
Real GDP contracted sharply in first half of 2020; Rebounded strongly in 2020Q3, but slowed down in 2020Q4



SOURCE: Bureau of Economic Analysis; Congressional Budget Office

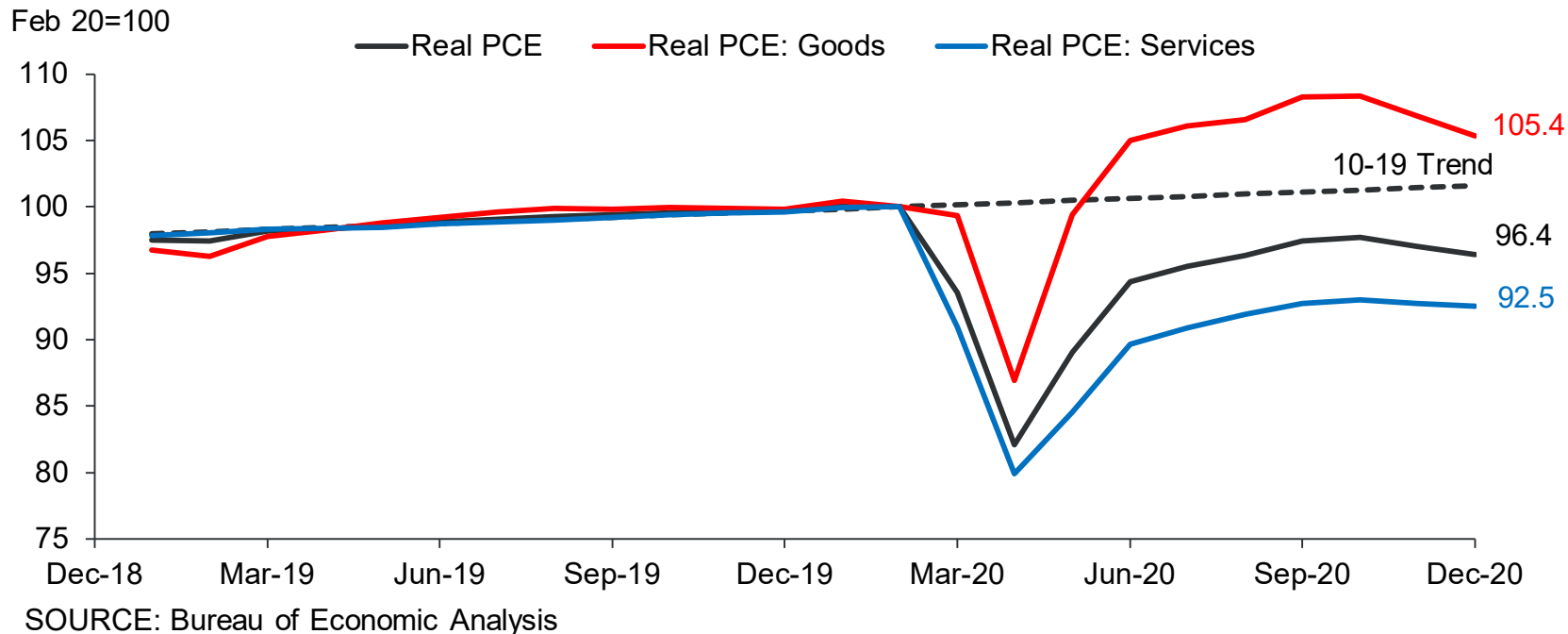
- Unprecedented drop in economic activity in March and April, followed by sharp rebound in activity beginning in May
- Assuming no second dip, would be shortest recession on record
- Recovery (initially) historically rapid, but still a long road to full recovery

Unprecedented fiscal relief has supported personal income and spending

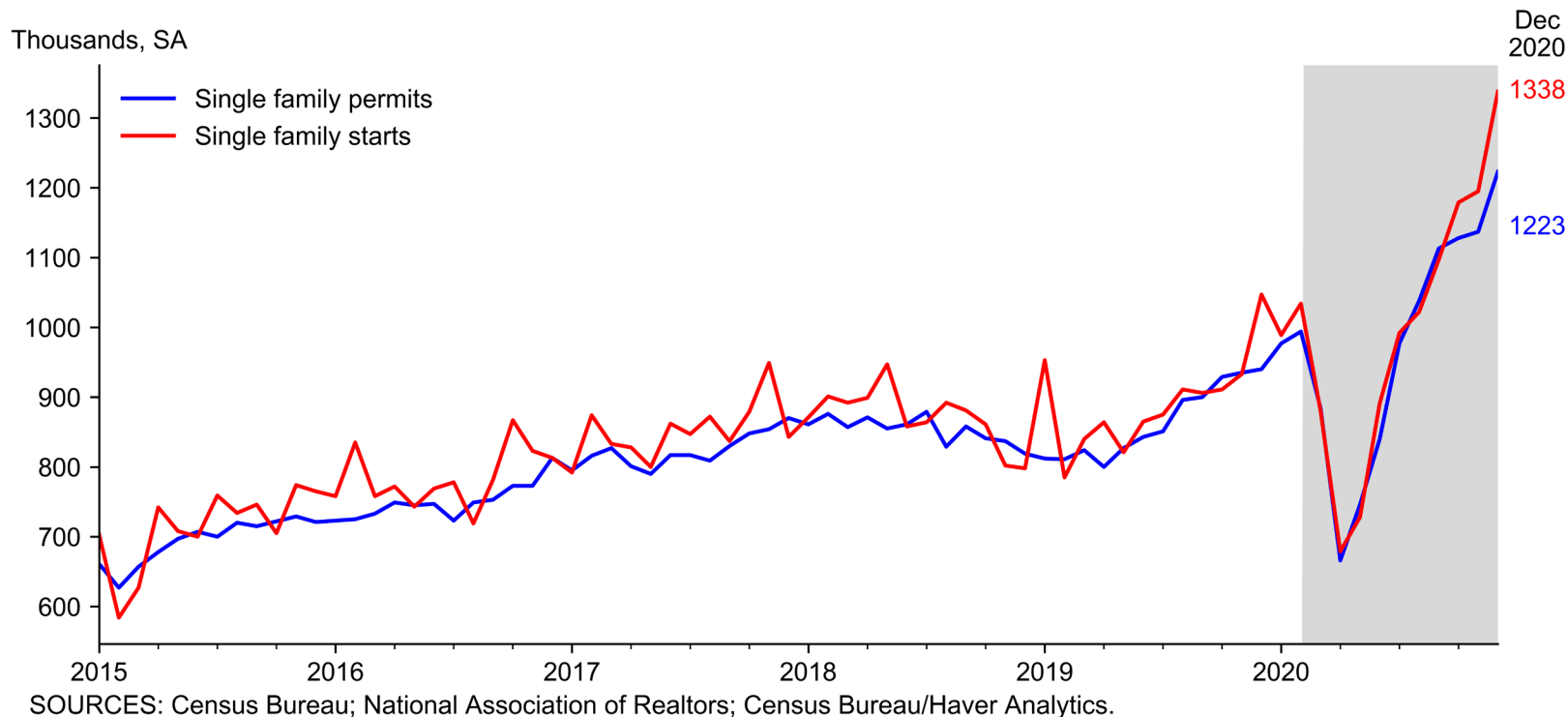


Sources: Bureau of Economic Analysis

Consumer spending on services remains depressed and tracks closely mobility and engagement ... but spending on goods has surged



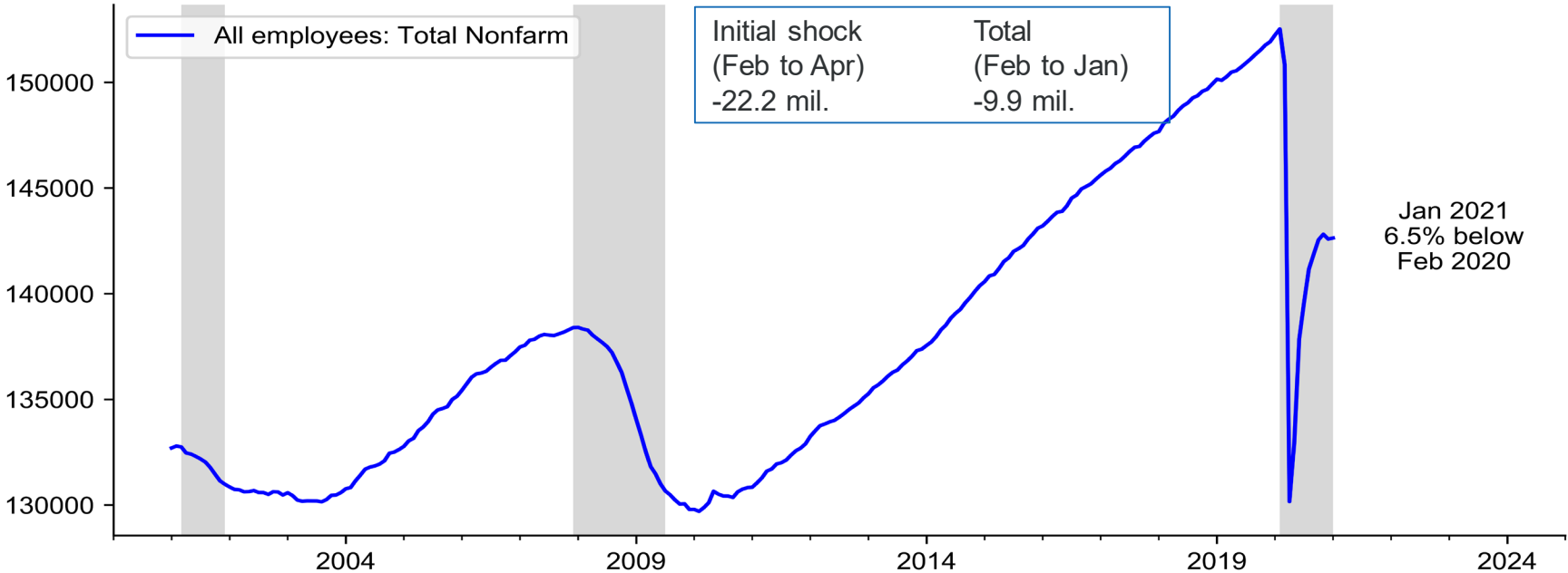
Consumers also spending on housing, which has more than recovered



Labor market developments

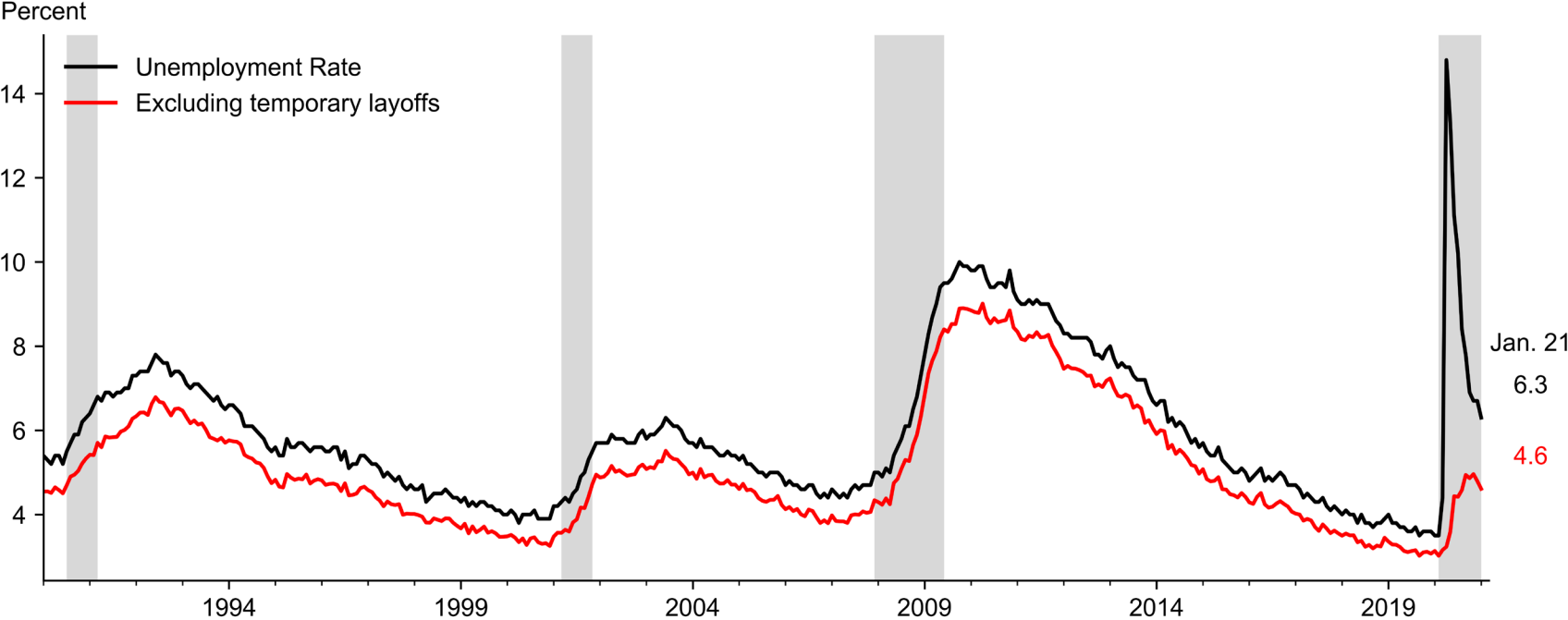
Payroll Employment: Recovered more than half the drop from March and April, but improvement slowing

Level (thousands)



SOURCES: Bureau of Labor Statistics.

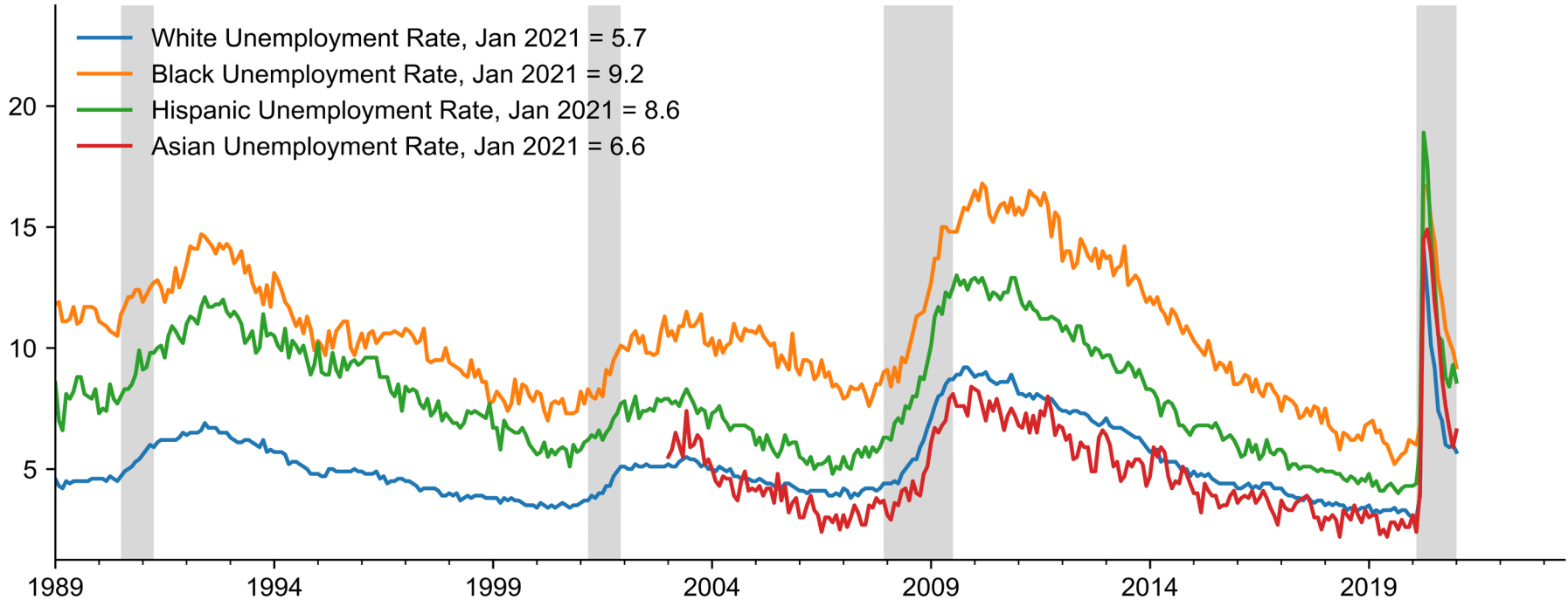
Unemployment rate sharply down from April high: while progress has slowed, unemployment excluding temporary layoffs is now falling too



SOURCES: Bureau of Labor Statistics; NBER

Unemployment remains elevated for minorities

Percent

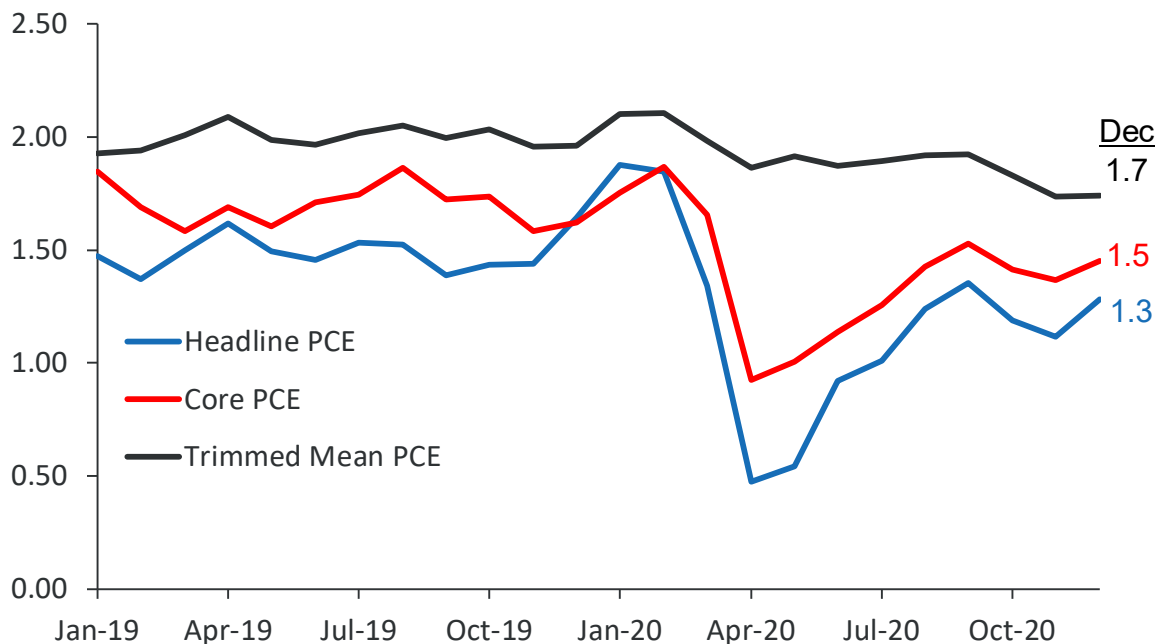


SOURCES: Bureau of Labor Statistics.

Inflation

Consumer price inflation slowed sharply in pandemic; now haltingly trending up

PCE Inflation Rates (12-month)



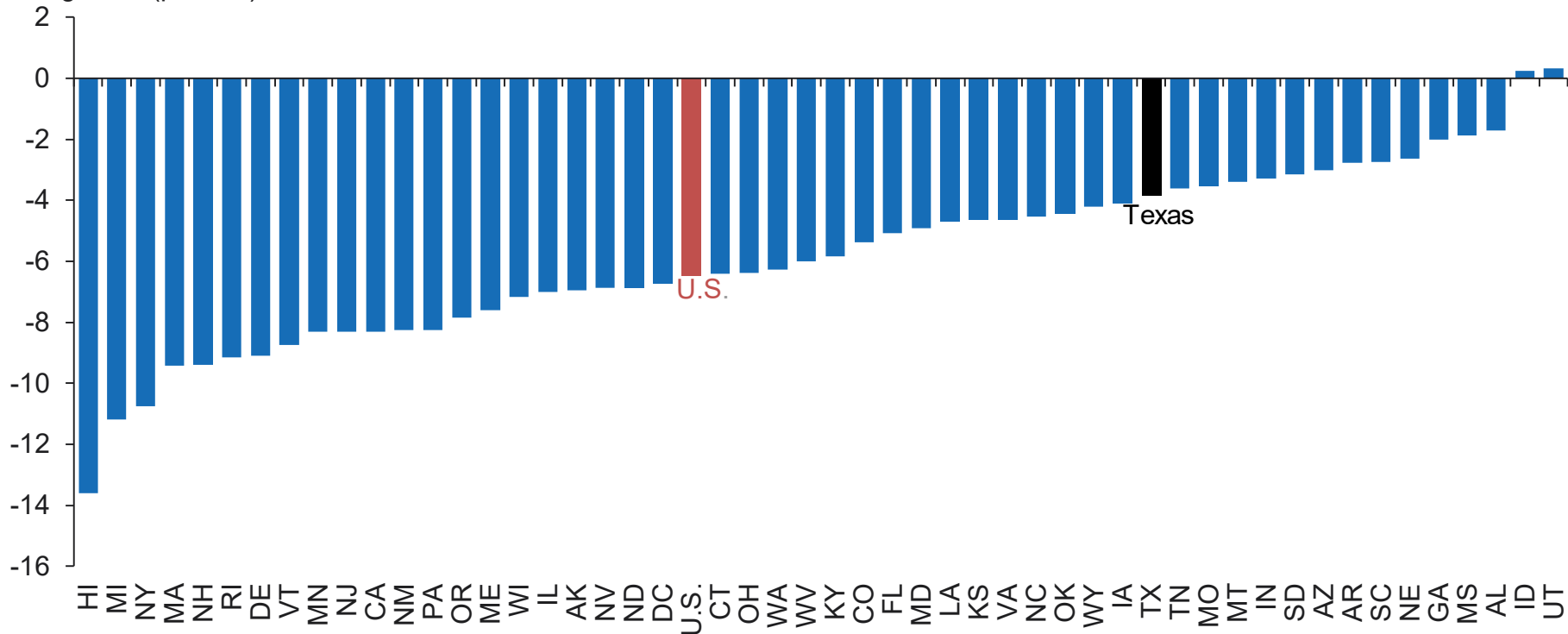
SOURCE: Bureau of Economic Analysis; Federal Reserve Bank of Dallas

- 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

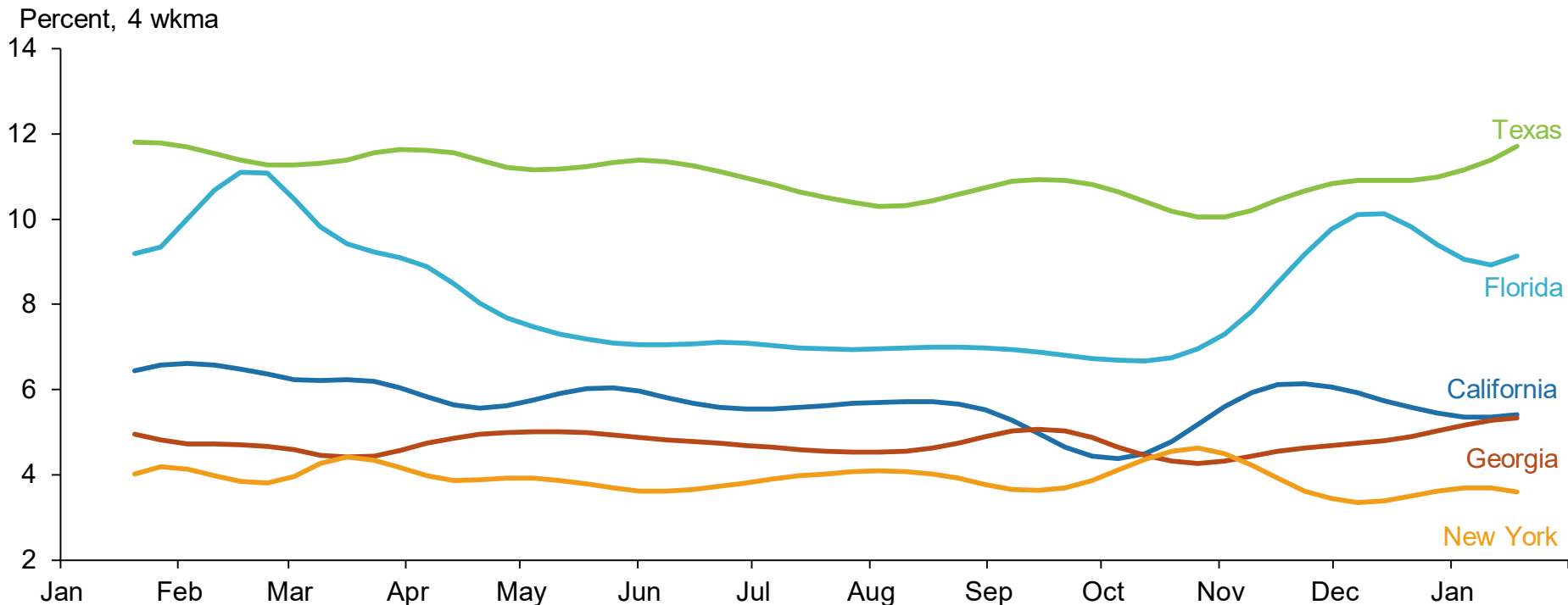
Texas' overall job loss in pandemic is less than nation and less than other large states

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



SOURCES: Bureau of Labor Statistics.

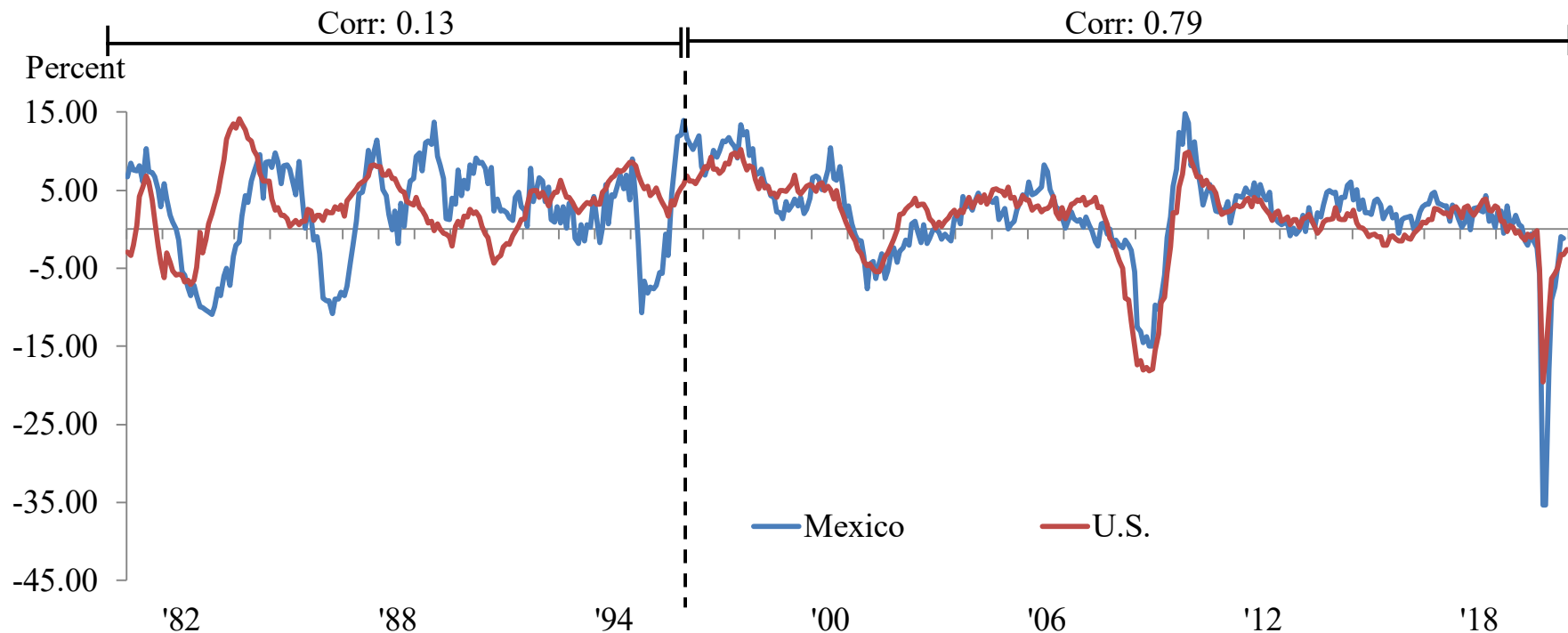
Inter-State movers still favor Texas: Share of home switchers by destination



NOTE: Data through the week of January 18, 2021.

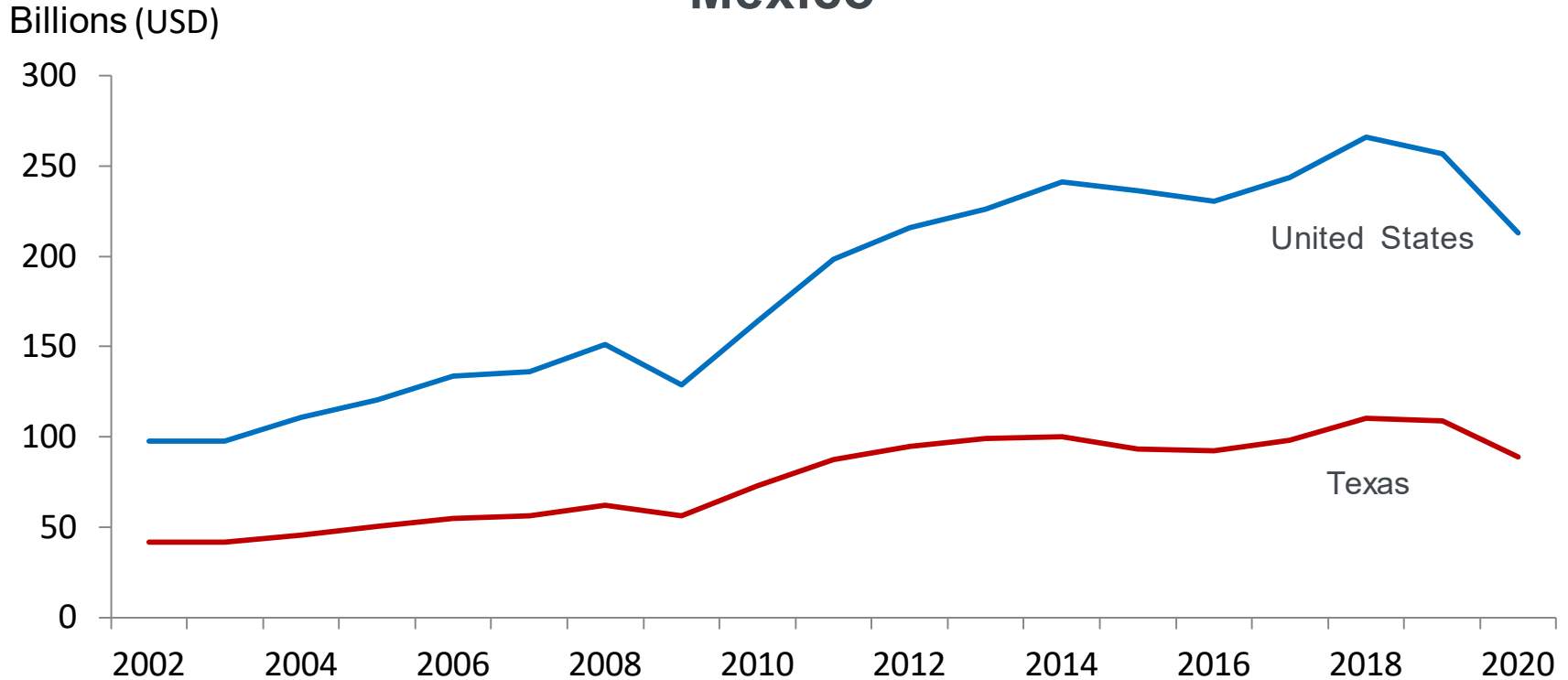
Implications for Mexico-US-Texas

U.S. and Mexico business cycle synchronicity tight since NAFTA (industrial production)



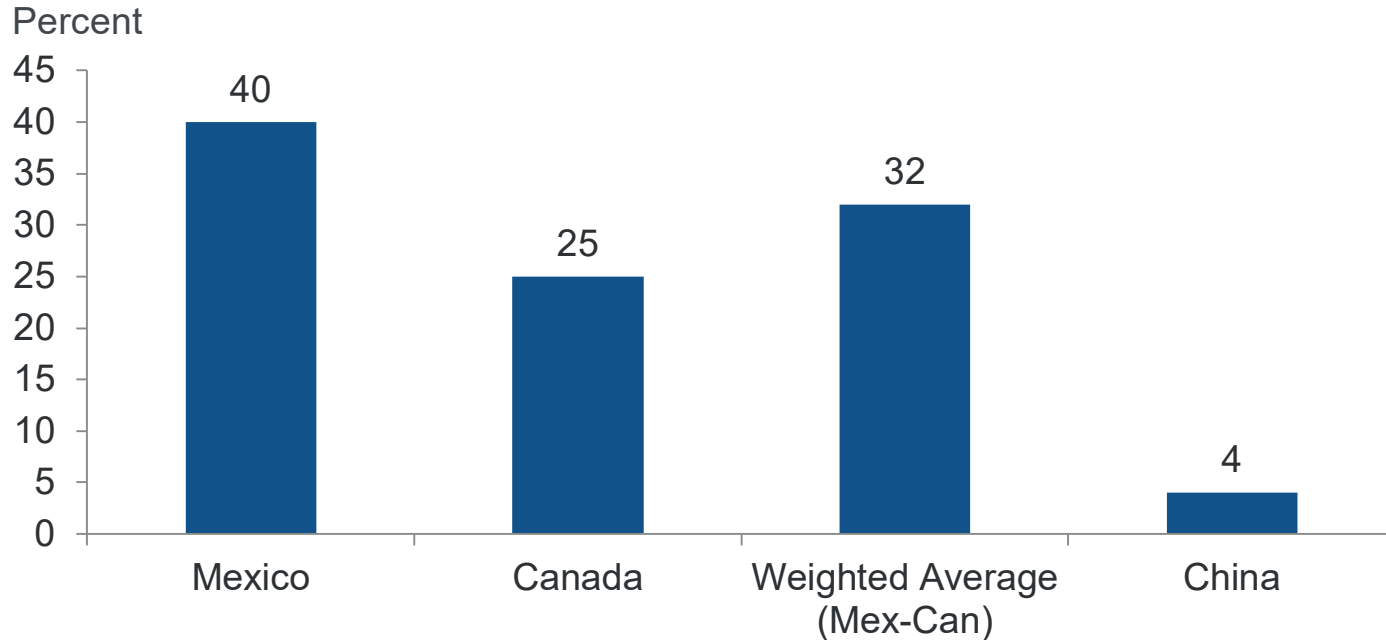
SOURCES: INEGI; Federal Reserve Board.

Texas makes up significant portion of U.S. exports to Mexico



SOURCES: U.S. Census Bureau

Intra-industry trade high within NAFTA: U.S. content highest in imports from Mexico, Canada



NOTE: Data is from 2004.

SOURCE: Robert Koopman, William Powers, Zhi Wang, and Shang-Jin Wei, "Give Credit Where Credit is Due," NBER Working Paper No. 16426, 2011.

Economic Outlook

US GDP Forecasts point to solid growth in 2021, continued declines in unemployment

	2020	2021				2021	Unemployment
Real GDP Growth (SAAR)	Q4/Q4	Q1	Q2	Q3	Q4	Q4/Q4	2021 Q4
Blue Chip Consensus	-2.5	2.3	4.4	4.8	4.2	3.9	5.5
CBO		4.9	2.5	3.8	3.6	3.7	5.3

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!
For more information, go to dallasfed.org