

Where the U.S. economy stands in Q3 2021



OVERALL CYCLE

Growth peaking

Economic growth moderated in Q3 amid a surge in the Delta variant, waning fiscal stimulus, and supply chain issues that impacted production and trade flows. Shortages across the inventory pipeline led to higher producer and consumer price inflation. Vehicle sales sank. Nevertheless, the labor market is tightening.



POSITIVES

- Payrolls continue to grow at a fast pace.
- Consumer demand is supported by compensation growth, accumulated savings, and wealth.
- Software and R&D spending supports capex growth and profits.

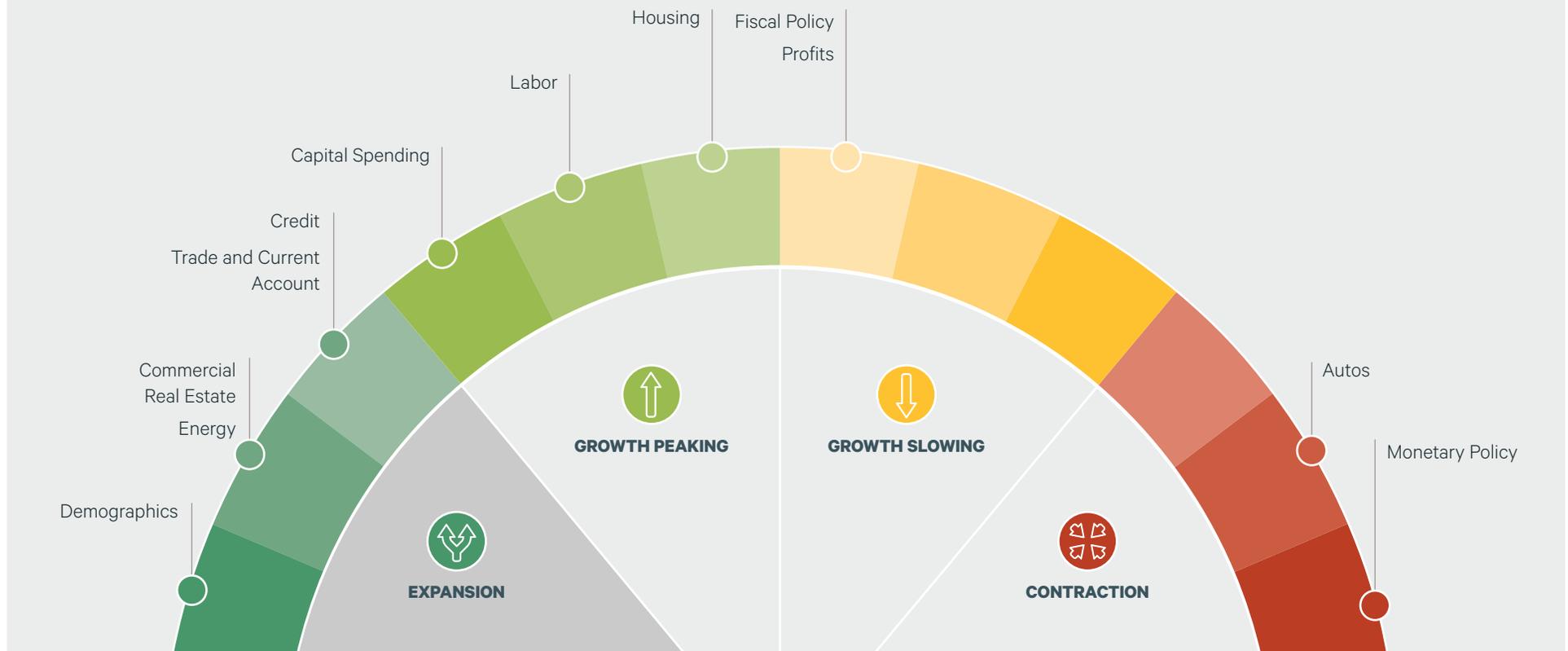


NEGATIVES

- Material and labor shortages drive up cost pressures and slow down production.
- COVID fear, early retirements, and job mismatches holding down labor force participation.
- Inflation fears weighing on consumer sentiment.

The four phases of the economic cycle

and the current status of 12 economic sub-cycles



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Status and description of sub-cycles

Status	Sub-cycle	Relation to Overall Cycle	Latest trend
	Demographics	Pro-cyclical/Lagging	Millennials are entering their prime working and spending years, driving up the MY ratio. The longer-term trend provides support for economic growth in the next 10-15 years.
	Commercial Real Estate	Pro-cyclical/Lagging	Nonresidential structures investment continued to decline in Q3 across most property types, except mining. But conditions may be turning, with CRE sentiment improving. CRE credit conditions are also positive.
	Energy	Pro-cyclical/Coincident	Oil production edged down in Q3, but natural gas production picked up, driven by higher prices. Rig counts rose, but are still well below pre-pandemic levels.
	Credit	Pro-cyclical/Leading	Credit conditions remain favorable. Credit spreads are near multi-year lows. On net, banks eased their lending standards on both business and consumer loans.
	Trade/Current account	Pro-cyclical/Coincident	Trade flows were impeded by supply chain issues. Nevertheless, import growth exceeded export growth. The trade deficit widened to a new record, implying stronger demand in the U.S. than globally.
	Labor	Pro-cyclical/Coincident	The spread of Delta weighed on payrolls growth in Q3. But job openings continue to exceed the number of unemployed, as the participation rate remains low. Although the unemployment rate is not yet back to its pre-recession level, tightening labor market conditions have pushed up compensation growth.
	Capital Spending	Pro-cyclical/Coincident-to-Lagging	Capex barely grew in Q3, as more software and R&D spending was partly offset by a decline in equipment spending, due to supply chain problems.
	Housing	Pro-cyclical/Leading	Housing demand remained strong in Q3, amid low mortgage rates. The housing shortage persisted, pushing up house price growth. Builder sentiment ticked up, but construction material and labor shortages held back housing starts growth.
	Fiscal policy	Counter-cyclical/Leading	Most pandemic-related stimulus ended in Q3. But other payments (e.g., advance child tax credit) continue to support the economy. S&L government spending is also positive.
	Profits	Pro-cyclical/Coincident	Earnings growth moderated. Margins, however, remained high.
	Autos	Pro-cyclical/Leading	Vehicle production shrank, due to semiconductor and other component shortages. This, along with surging prices, caused unit sales to drop to their lowest level since 2011.
	Monetary policy	Counter-cyclical/Leading	The Fed has kept the policy rate at the zero lower bound and continued a steady pace of large-scale asset purchases to improve the functioning of the financial system and keep financial conditions easy.