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The Economic Club of New York

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SIFMA Year-End Forecast

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Webinar

Moderator: Ken Bentsen
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Introduction

President, Barbara Van Allen

Good afternoon, and welcome to the 637th meeting of the Economic Club of New York, in our 114th year. I'm Barbara Van Allen, President and CEO of the Club. As many of you know the Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues. We feel our mission is as important today as ever, as we continue to bring people together as a catalyst for civil conversation and innovation.

A special welcome to members of the ECNY 2021 Class of Fellows. This is a select group of diverse, rising, next-gen business thought leaders and the application for 2022 is now available online.

We also want to welcome students from the CUNY Graduate Center and Rutgers University, joining us today.

It's a pleasure for me to welcome our special guests, Dr. Lindsey Piegza and Ken Bentsen. Lindsey is the Chief Economist for Stifel Financial. She specializes in research and analysis of economic trends and activities, world economies, financial markets and monetary and fiscal policies.

Prior to her role with Stifel, she was the Chief Economist for an investment bank in New York City for eight years, consulting with clients in the United States, Europe, Asia, and the Middle East. A highly sought-after speaker, across national and international forums, Lindsey is often quoted in the business press. She's a regular guest on CNBC, Bloomberg, CNN and Fox Business, as well as national radio and other business news outlets. She's also a monthly Op-Ed contributor for *The Hill*.

Ken, a member of the Club, is also President and CEO of SIFMA, and the CEO of the Global Financial Markets Association, SIFMA's global affiliate. He's Chair of the International Council of Securities Associations, Co-Chair of the British American Finance Alliance, a coalition of 19 British and American trade associations and industry bodies representing both financial and professional services. And Chairman of Engaged China, a coalition of 12 U.S. financial services trade associations united in support of high-level engagement with China.

Previously, he served as President and earlier as EVP of Public Policy and Advocacy for SIFMA, responsible for SIFMA's legal, regulatory, legislative, and advocacy initiatives.

Welcome to both of you.

Today's program is going to be a conversation and we'll also be using the Chat Box. So you can enter questions directly into the Chat Box for consideration, time permitting. We're going to end promptly at 1:45. As a reminder, we do have media on the line so this is an on-the-record conversation. So, without further ado, Ken, I'm going to pass the mike to you.

Conversation with Ken Bentsen and Dr. Lindsey Piegza

KEN BENTSEN: Thank you Barbara and thank you for that kind introduction of Lindsey and me and thank you to the Club for hosting us today. This is an opportunity for us to have a discussion on SIFMA's semi-annual survey of chief economists of our member firms. As Barbara mentioned, the semi-annual survey compiles the media and economic forecasts of our economist roundtable members. We analyze the economists' expectations for GDP, unemployment, inflation, interest rates, and the like. And so with that, let's get started.

This marks the fourth economic survey we have completed since the pandemic began. Which is remarkable to think about. With the continued emergence of new variants, the latest being Omicron, we are not totally out of the woods yet. But between vaccines and therapeutics we are seeing the light at the end of the tunnel. So this is a good time to discuss what the future may hold next year.

This year, the end of year 2021 survey was populated between November 15th and December 3rd. To highlight a few findings from the survey we found that 2021 GDP growth is expected at 5.2% as a median forecast for 4th Quarter. Unemployment rate is forecasted to be in 2021 at 4.5% and core CPI is expected to end the year at 4.9%.

So, Lindsey, thank you for joining us today to talk about our outlook for the U.S. economy and between your chairing our Economic Advisory Roundtable and your role as Chief Economist and Managing Director at Stifel, we really value your insights at this pivotal time.

DR. LINDSEY PIEGZA: Well, thank you very much for having me, Ken. It's a pleasure to be here.

KEN BENTSEN: So to get started, there remains a considerable amount of uncertainty around where the economy is headed. Certainly we are hearing quite a bit about inflation. What do you see as the biggest factors out there?

DR. LINDSEY PIEGZA: Well, to me, really the ones that stand out, well first off, we have to continue to navigate through the Covid-19 crisis. The virus and the policies implemented to stem the spread of the virus from the latest variants remains a considerable source of uncertainty. And that includes the policies, not just in the U.S.,

but those overseas as well, which will impact us here at home as access to global parts and materials remains very limited, leading to extremely extended wait times on what many of us would consider ordinary products. Particularly now as we head into the holiday shopping season. And, of course, not to mention that higher prices and costs associated with those additional purchases as well.

First and foremost I would say the virus remains the key source of uncertainty. But certainly by extension then, as you mentioned, inflation and, of course, supply chain disruptions, these are all variables of concern.

KEN BENTSEN: But given that, I mean, if you think about the near term, how do you see the economy faring through the winter?

DR. LINDSEY PIEGZA: Well, there's no doubt that the recovery at this point is much more rapid, much more robust than I think most, maybe anyone, anticipated. Certainly at the start of the year the U.S. economy was nothing short of fantastic, absolutely stellar growth at 6.5% with 12% growth in consumption.

Now, as we turn into the 3rd Quarter and fiscal stimulus began to wane, top line activity did slow. But this was very much as expected. The question now, however, remains, will consumer activity moderate from here or will it continue to lose momentum. Now, there

were early signs of the consumer losing momentum, but smoothing out that month-to-month volatility, the consumer at this point remains very clearly on positive footing. With a stellar performance in October. I recall retail sales up near 2%.

But I think it's important to recognize that while savings and higher wages have in part helped to offset a decline in fiscal support, we have to address inflation. Inflation is very much complicating the picture. So, yes, shoppers are spending more helping to support top line growth, but they're taking home less. And with inflation expectations on the rise, many consumers are adopting a buy now mentality. Meaning, we better buy what we can today, because tomorrow it will cost more, if the product is available at all.

So, that's not to say that we expect the consumer to fall off the cliff by year end, but we do have to recognize that there are several factors pulling forward traditional end-of-the-year, winter or holiday spending. That being said, to answer your question more directly, we do expect the consumer to remain in positive territory, but nearer 2% as opposed to again, 12% at the start of the year. Translating into a still positive, but much more muted winter order going forward.

KEN BENTSEN: Interesting. So, important factors in economic factors or when businesses and consumers are thinking in the post-Covid environment, as we move closer to returning to a normal life, however you might want to describe that, when do

you expect the labor force participation rate to return to the, I think, average 63% in the pre-Covid period?

DR. LINDSEY PIEGZA: Well, I think it certain will take time to entice millions of workers back into the labor force. There really is no quick fix. There’s no flip the switch scenario. Although, no doubt, the plethora of businesses reporting over 10 million job vacancies would like to see a quick fix. But, when it comes to economics, things tend to move on a very slow scale.

I think, first off, we have to remember, that this was a health crisis, not a market crisis. So, it really does make sense that individuals, in some cases are hesitant to move back to, as you mentioned, more normal activities. There are lingering health concerns and lingering health impacts resulting from the virus. Think of the so-called long haulers out there in the market. According to the BLS, as of October, about 1.5 million Americans are still reporting that they’re prevented from looking for work due to some aspect of the pandemic. But more specifically 2 million report that they remain sidelined specifically due to worries about getting or spreading the virus.

We also know that there’s ongoing childcare and elder care issues impacting families and in particular women. Now with most schools fully reopened this has and will continue to alleviate a good amount of pressure on working families. Or at least those

with school-age children. But for those caring for elderly family members or small children not yet of school age, well in many cases, daycare and nursing home facilities are acting at reduced capacity as they were facing staffing issues themselves.

Again, as of October the Census Bureau reports nearly 5 million Americans are out of work because they're caring for children not in school or daycare. And we also know there have been numerous reports which have indicated that fiscal policy measures were and in some cases still are acting as a barrier to growing that pool of potential labor by essentially creating an incentive to remain outside of the labor force.

If we think about enhanced unemployment benefits, for example, offering unemployed workers an additional $300 a week, well in some instances, this equaled or exceeded earnings potential in the jobs market. Not only creating an immediate incentive to remain outside of the labor force but creating a lingering impact as savings were able to be accumulated. There was this wealth cushion that was accumulated.

Now going forward as schools reopened, as enhanced unemployment benefits have now expired, and vaccination rates continue to rise, and they continue to increase, we would expect the labor force participation rate to improve. But again, very slowly.

According to the survey respondents that we saw, there was a split on the timeline for a

return to pre-virus participation, 46% of respondents thought it would be after 2022, 46% were less optimistic, responding they never expect us to get back to that pre-crisis participation rate. I would tend to side with the former. The 46% that are looking for after 2022. I do again, think it will take quite some time to entice those millions of workers back into the labor force because of whatever restriction they are facing at the moment. But I also think we could eventually achieve those pre-pandemic rates.

KEN BENTSEN: I want to get to return to office, and remote working, but just to follow-up a little bit on that. With millions potentially still staying out of the workforce, do you see any, or does the Roundtable see any chance that there could be another round of enhanced unemployment benefits, if millions are staying out?

DR. LINDSEY PIEGZA: I think there is somewhat of an expectation for that. Again, when we talk about the accumulated savings, this will hold over workers for some time. Not indefinitely, but likely for several months now after those employment benefits were ended back in September, likely beyond the first of the year, at which point, many are hopeful that there will be another round of enhanced unemployment benefits or other government initiatives aimed at supporting or aiding those still in a position of unemployment.

KEN BENTSEN: So, related and I know the group looked at return to office and whether

things were going to, when and if people were going to return to an office environment similar to pre-Covid or are we going to see some change in that environment?

DR. LINDSEY PIEGZA: Well I think this sort of directly ties into more broadly the lack of workers participating in the labor force. When we talk about when will we get back to these work from office norms. We see respondents highlighting the very same variables that are limiting a broad return to the labor market, are the same variables that are limiting a return to the work from office norms that we saw prior to the crisis. Lingering health concerns, a lack of childcare, and these are the factors that have topped both of those lists. Limiting again, that return to work, as well as a return to the office.

But when it comes specifically to working in the office, returning to that old structure of office, I am more optimistic about returning to pre-Crisis labor participation levels than I am getting workers back into the office specifically. Another words, I am less convinced that we will ever go back to the way it used to be with every worker in the office every day, 9 to 5 as opposed to some sort of ongoing flexibility. It doesn't have to be a permanent work from home but I am somewhat skeptical that we will ever go back to "the way it used to be".

First off I think businesses have very much realized that in some cases workers are more productive with work from home flexibility. Many of us save a tremendous amount

of commuting time, commuting an hour or more in some cases each way in traffic. In other cases I think many firms and businesses have found it less costly to have work from home flexibility. Think of the smaller office footprints needed and thus translating into reduced rental costs.

Now, I do think we have to be careful because we can't paint with a broad brush, and there are plenty of industries that cannot and do not function better with a work from home structure. But even those that can't entirely, in some instances are adopting a hybrid approach.

And not just from the firm standpoint, but from the worker standpoint, workers themselves have reported an increased willingness, and desire to work from home permanently. The increased flexibility is I think fantastic on many levels. But again, assuming productively and functionality can be maintained. Again, I can't highlight this enough, I do think it's important to recognize that there were some during the pandemic that forgot the key word in work from home was still work.

KEN BENTSEN: I just note, in our industry, which you know, Stifel is one of SIFMAs outstanding members, is an issue that I talk to executives that are grappling with, I mean, it's a major HR question, and how do you compete for workers, how do you train workers. I would say, the one thing that we did learn though was we could take the

industry remote; we could still operate the markets and still be very efficient throughout that process. But it is a big question that everyone is trying to figure out.

Let's shift to the Roundtable's forecast with respect to GDP. The Roundtable is forecasting to end the year at 5.2%. Then, expect GDP growth to recover to 3.5% in 2022. What do you see as the key factors driving this GDP forecast as well as the upside and downside risk? And then, how do you see Omicron changing this potentially?

DR. LINDSEY PIEGZA: Well at this stage the U.S. appears as I mentioned to be rebounding at a much faster pace than previously expected. With the vaccine initiative well underway, millions of jobs coming back online as businesses are now allowed to once again open and welcome back workers and customers. Of course, as the economy recalibrates and pandemic stimulus continues to taper off, even with other smaller fiscal initiatives, growth has already slowed from a 6.5% pace in the first half to about a third, as of late.

Now from a policy standpoint, our base case, all along, for better or for worse, so politics aside, has been that the Biden Administration is not able to get everything they hoped for. Meaning the original full 4 trillion. But even half of that which seems to better correspond with the latest proposal and negotiations, coupled with a solid consumer

and a presumed continued return towards normal, or at least this new normal.

So, we're certainly not factoring in any second-round shutdown, even as cases, or if cases rise. Omicron cases rise during the winter flu season. But, if in fact we are able to continue normal market activity, we're looking for a sustained positive growth profile through the end of 2021, but closer to a range of about 3% in the back half of the year with growth likely slowing further to an average 2% next year. So really returning to the pre-pandemic trend established at the end of 2019 or early 2020.

I do think it's important to note that while the worse of the crisis may be behind us, businesses are still very much suffering. Suffering from higher prices and are increasingly worried. Ongoing pressures from a lack of access to global parts and materials, coupled with the persistent labor supply shortage. Businesses are concerned that this will result in virtually unsustainable conditions.

Now you layer on the prospect of additional higher taxes currently being proposed in Washington, and many businesses contend that, again, even with the worse of the crisis behind us, the future looks increasingly difficult. I would also add that this base case outlook in terms of GDP is very much predicated on the assumption that the latest variant is similar to Delta. Or at least the policy response, excuse me, will be very similar to the policy response we saw to Delta. It will be very muted. And it will then

allow growth to remain on more positive footing, keeping us on this pathway to more organic, less artificially supported GDP going forward.

KEN BENTSEN: So, you talked about inflation, inflationary pressures, do you still believe the current inflation pressures are transitory, or maybe I'm not supposed to use transitory anymore, I might use cyclical, a 70s and 80s term, or not? And what do you think the most important factors are in your outlook for core inflation?

DR. LINDSEY PIEGZA: I do think that some of the inflationary pressures that we're seeing in the economy are transitory. Some, however, and namely wage pressures are likely not. Wage pressures, labor costs, these are very much edging higher with firms across a variety of sectors in the economy offering higher wages. But also bonuses, signing bonuses, other incentives like tuition reimbursement, or no additional cost childcare. Anything to try and entice employees back to work to fill that labor supply gap.

But wage pressures are often more sticky or longer lasting than price hikes due to short-lived disruptions in production materials or supply chains. So this means that after months of businesses offering incentives, going forward, incoming hires are very much likely to maintain expectations for elevated compensation, even now, that the government programs, those support programs, have ended.

So, while production costs move up quickly due to supply chain disruptions, they will likely ease in the near to median term as balance is restored to the marketplace. As producers are able to ramp up output and meet that still heightened level of demand in the marketplace.

This is the transitory component that the Fed is focused on. Wage pressures, on the other hand, have largely resulted from artificial policy measures, really disrupting the structural balance of the labor market. The effects of which have not only proven larger than expected but will likely prove more permanent in nature even as we start to see supply chains smoothed, easing some of that transitory pressure out of the equation.

KEN BENTSEN: When do you think supply chains will balance out? In ‘23, in ‘22 rather, the first or second half of ‘22?

DR. LINDSEY PIEGZA: Well unfortunately, this is less of an economic question and more of a health question. Supply chain disruptions will very much ease when countries around the world are able to control the virus or simply feel comfortable with returning to ordinary life despite the virus. Remember, we’re in a very much globally intertwined marketplace. So, even if we’re talking about a U.S. manufacturing facility, producing goods for American consumption, if along that production process, that U.S. manufacturer needs a specialized screw or a particular heat treated metal for production

of that good, if it comes from Sri Lanka, Vietnam, Indonesia, with much of the developing world, one, two or even three stages behind the U.S. in terms of recovery, that will not only impact but significantly negatively impact U.S. producers ability to ramp up production, even if it is, again, for its domestic base, resulting in price pressures along the way, particularly as energy costs surge and demand continues to outpace available product supply.

Now, given we're likely to see a number of additional variants going forward, meaning the latest Omicron variant is unlikely the last strain that we have to deal with, we are likely to continue to be dealing with the virus for the next couple of years, which by extension, then translates into indicating supply chain disruptions may last for just as long.

KEN BENTSEN: So, if we were having this discussion a year from now, the end of second half of '22, and we are still seeing inflation at or near the levels we're seeing it today, would we, I assume, transitory would long be gone, would be talking about structural inflation at that point in time?

DR. LINDSEY PIEGZA: I think we're already seeing structural inflation pressures. As I mentioned, with only a portion of the supply chain disruptions really resulting in transitory or temporary price momentum, I think in part, this is why the Federal Reserve

Chairman recently removed his transitory characterization of inflation. Now, part of it, yes, was probably a fatigue factor. I think Chairman Powell was very tired of explaining exactly what transitory meant or what transitory was meant to imply from a policy standpoint.

But I also believe this was, in part, a reflection of a changed assessment of inflation. Again, the Chairman accepting more of this permanent or structural nature of inflation. Now, the Fed still contends that as the economy recalibrates to a new equilibrium and producers are able to ramp up production, and satisfy that pent-up demand in the marketplace, and as international supply chain bottlenecks are smoothed, the Fed still contends that price pressures will expectedly slow back down to a more palatable growth rate of 2%. But in the interim after just about a year of elevated costs, Fed officials are finally agreeing that inflation is proving longer lasting or more persistent, more structural, in nature.

KEN BENTSEN: You talked a little bit about the Roundtable's consideration of the Biden Administration's spending proposals, human infrastructure, social spending programs, obviously the results of the previous hard infrastructure legislation which has now been enacted into law. And the assumption that the Administration would get some form of a social spending bill approved but pared down from the original $4 trillion figure.

For example, say there's a $1.75 trillion human infrastructure proposal, and perhaps, the ultimate outlay may be somewhat more than that, what do you think would be the impact of the additional spending, as it relates to monetary. You talked a little bit about it in terms of economic stimulus or aggregate demand, but also potentially on inflation.

DR. LINDSEY PIEGZA: Well, we have to balance out the near-term impact with the long-term cost. First off, of course, further government spending, a larger than expected package or additional stimulus, this certainly could offer an additional boost to GDP in the near term, even by the second half of 2021, depending on the timeline for passage.

And as we turn the corner into 2022, and if that were the case I certainly would happily revise higher our GDP outlook. But like everything in economics, there are two sides to every equation. And if we're talking about benefit now, we also have to address the cost, and more robust, near-term growth. This will come at a cost of higher taxes, increased debt, either of which will have longer run, inflationary consequences. Not to mention negative implications for investment and hiring.

So, while these types of massive government outlays are often, they're often initiated with the best of intentions, the consequences often far offset any near-term benefit, which I would very much contend is the case with the Build Back Better Proposal.

Again, potentially boosting growth near term, but saddling the economy with a significant amount of rising debt, additional inflationary pressures, and of course, then higher taxes.

KEN BENTSEN: I want to shift to monetary policy but before I do, I know Barbara had mentioned, that if people had questions they should go to the Chat Section and then Barbara will be able to pull those up.

But let me go to monetary policy. I'm sort of interested in looking at this at two ways. One is, if we see a reversal in the Covid recovery or the trajectory that we think we're seeing right now, and therefore negative impact on the economy, what tools would you expect the Fed to use to respond to that impact?

DR. LINDSEY PIEGZA: Well, health implications aside, the potential economic impact of the latest variant or the virus itself, additional variants going forward, depends more on the fiscal policy response, than the variant itself. A minimalist approach to address the Delta variant as we saw during the Spring and Summer months is very likely to keep the recovery on solid footing. And the Fed firmly on a pathway to conclude the taper, mid 2022, and begin raising rates by next year. So, if we see the policy response similar to the Delta response, that's very much what we would expect.

On the other hand, a return to the more onerous safety precautions of 2020, this could very easily lead to a significant downside scenario. This could lead us to a second-round recession. And under that scenario, I would say the likelihood is very high that we'd derail the Feds plans for a more rapid return to neutral policy.

Under this scenario, I think it would be much more likely that we would see the Fed revert back to sizable monthly asset purchases and maintain zero interest rate policy, potentially indefinitely. If we, in fact, did see a large negative impact from the virus, I think, first and foremost the Fed would halt purchase reductions and if needed go back to increasing outright monthly purchases and again, maintaining that zero-interest rate policy with further rhetoric adjusting a willingness to maintain this accommodation for as long as necessary, as long as the virus remains a negative impact on the recovery.

KEN BENTSEN: So, again, before we go back to Barbara for any questions, and if not, I'll follow on, but if we followed the former path and the tapering occurs as is being projected, would it be the Roundtable's view, I mean, you sort of talked about this, as sort of growth expectations going into and out of '22 and into '23. That the Fed is able to achieve a soft landing, if you will, in that respect.

DR. LINDSEY PIEGZA: I think the Fed could achieve a soft landing. It does appear that they're increasingly willing, at this point, to begin to remove accommodation. Now you

may argue the Fed is already behind the curve in terms of inflation. But the Fed has also said that it's willing to expedite a removal of the accommodation in order to keep inflation, to keep inflation expectations in check.

Now, that being said, again, it's still a very delicate balance. The Fed wants to quell inflation, wants to keep inflation expectations, as I mentioned, in check, but the committee members are also very aware that the economy is still somewhat fragile, and risks remain. We're far from out of the woods entirely.

The Fed also recognizes that the economy is increasingly dependent on the monetary policy punch bowl and they don't want to pull that rug out from under the recovery too quickly. So, it's going to be a very delicate balancing act that I suspect will result in sort of splitting the difference. Reverting to liftoff on a much faster timetable than previously expected but the rate of ascension is likely to still be somewhat moderate before reaching that cycle peak which is likely to be somewhere in the range of 2, 2.5%. So, on a historical basis, we're still talking about tremendously accommodative policy even after we've removed some of these emergency measures in place.

KEN BENTSEN: Let's go to some questions. And again, you can go to the Chat Section. I fortunately figured out how to do it, so that's good. My 18 months of Zoom training is slowly but surely coming through. I didn't get the full name, I think it's Mark,

but the question is, how would you balance a future return to unemployment of 3.9% versus people out of the workforce, retirees, women, and what other metrics should one be looking at?

DR. LINDSEY PIEGZA: It's a really important question. Thank you for asking that Mark. Because when we look at the unemployment rates, and we see this continued steep decline, not only within the boundaries of what the Fed tells us is the full employment range, but now dropping below the lower bound of what the Fed tells us is the full employment range, this suggests that the labor market is in absolute stellar condition.

But we forget that there are millions of workers that have dropped out of the labor force that have yet to return to the labor market. And you make a good point, a good amount of these are women. As we see the vast majority of the burden of house care work, childcare work falls on the female of the household.

So, how do we reconcile the fact that the unemployment rate has come down so precipitously but we know that millions remain sidelined. Millions of women, specifically, remain outside of the labor force. Well, we also know that if you're not actively seeking a job, you're not counted in the labor force numbers. You're not counted in the unemployment figures.

So, I always say, it's very easy to get the unemployment rate down to zero if nobody is looking for work. But it doesn't necessarily reflect the true conditions in the labor market.

So to the second part of your question, what other metrics should we look at to get a true sense of what's happening in the labor market. We need to look at the labor force participation rate. Are those individuals that once participated in the labor force back in, or are they still being forced to the sideline for some reason, concerns of the virus, childcare, elder care issues, or other variables. But I think it's very important to look at the participation rate in conjunction with the unemployment rate to get a good sense of what's truly happening in the jobs market.

KEN BENTSEN: Just following up on that, I mean, obviously, you're seeing maybe an uptick in retirement, particularly depending on people's situation in life, but retirement accounts may be flush, given market movements and the like, and so some, who might have retired in a few years out, may decide I don't want to do that commute again, or whatever it is, I may retire sooner.

But does the employment data also pick up people who are shifting to, are leaving direct employment and setting up their own business or consulting, whatever it may be, as opposed to going back to their previous position. Again, that captures just a segment. That doesn't capture lower income, lower skilled labor, necessarily.

DR. LINDSEY PIEGZA: Oh absolutely. The rise in self-employment, the rise in business startups has been historically high. And certainly we do see a shift in that. We see a shift in preferences from the old way of going into the office and working in corporate America to some of these new age phenomenon's of working for yourself. Working from home. And self-employment is certainly a large component that we're seeing in that.

KEN BENTSEN: Juliet asked, and you sort of touch on this, but maybe it's phrased a different way, how do you think the great resignation has played in with wage increases and unemployment rates?

DR. LINDSEY PIEGZA: Well, when we see individuals leaving the labor markets, whether it's from resignations or childcare issues, as we just talked about, fewer or should we say, less of a supply, and a heightened level of demand, an arguably rising level of demand now with businesses reopening and expanding, this is very basic Economics 101, we see the cost of labor rising. And we see this with the latest report, average hourly earnings pushing to even higher levels month to month. We continue to see this rise, 4, 5, 6% depending on the individual sector. As businesses are just desperate. It's hard to find another word. Desperate for workers. 10 million vacancies sitting out there.

So, it's not a lack of job opportunities. It's not a lack of business openings or vacancies.

But with the labor supply gap at this point, very much is stemming from the demand side of the equation. Fewer workers continuing to bid up the cost of labor. Now, for some able to benefit from this rise in take home pay, this has been a net benefit. But many businesses have not been able to withstand this rise in cost and we see many institutions shifting to technology, as much as they can, to offset that rise in labor cost.

Other businesses have simply been unable to afford rising wages, rental costs, and have since been forced to close their doors. So, it remains to be seen the longer-term impact on the economy. Again, as we talked about, there's always winners and losers. There's two sides of every economic equation. Some are benefitting from that rise in take home pay. Some are losing their business, their losing their jobs altogether as a result of those rising costs.

KEN BENTSEN: So, is this different than, if you go back to sort of a 70's period inflation where you had sort of the vicious cycle I guess of rising wage costs offsetting rising prices that sort of played off one another. We are certainly seeing some price increases for sure, but also you're seeing business closure as well. Is it not necessarily the same ratio than we might have seen in sort of the 70-style inflation?

DR. LINDSEY PIEGZA: I think you can draw a parallel, certainly. Again, we're experiencing the same broader trends of rising prices, businesses struggling to have

access to materials, rising costs making it very difficult to maintain positive profit margins. And we are seeing more and more businesses being able to whether the worst of the Covid crisis and now facing increasingly difficult economic conditions on the flip-side. So, yes, we can absolutely draw parallels in terms of the challenges that businesses are facing but, of course, this is unprecedented conditions, when you layer in the fact that this was a global health crisis and we have, in fact, incited much of the inflation as a result of trillions upon trillions upon trillions of unprecedented government initiatives.

KEN BENTSEN: One statistic I haven't noticed recently, but I'm curious about, sort of what has been the trend line of productivity through the pandemic and now entering into sort of this period where you have wage inflation, perhaps? I think one could argue that productivity was pretty steady or positive through the onset of the pandemic. Obviously not withstanding people who were sidelined and the pain they went through. But as we go through this period, does that trend line continue or what do we think is going to happen there?

DR. LINDSEY PIEGZA: Well it's interesting because productivity was languishing at the better part of about a half percent for the past decade, prior to the crisis. Now, as you mentioned, since the onset of the crisis and the subsequent recovery, productivity has picked up. We've seen gains of 3, 4, 5% in terms of productivity. So, really, creating an

underlying support to economic growth, organic support to growth going forward. If in fact, we are able to wean off of fiscal stimulus and we see that more than offset, with a corresponding rise in productivity, this could continue to sustain not only our forecast of 2% growth indefinitely but potentially lift up the potential growth rates longer term for the domestic economy. Maybe one of the silver linings, maybe one of the bright spots of global prices, we are seeing significant gains in productivity that had arguably held down the recovery prior to the crisis when we look at '18, going into '19, early 2020.

KEN BENTSEN: I think Barbara, we're getting close to the end here. And I know you are very strict about when this needs to be over. I want to thank Lindsey for being with us today and thank the Club for letting us share a few minutes of their time and for those who are interested in reading the report, please visit SIFMA.org. It was posted at the outset of this event today. And again, Lindsey thank you very much. And Barbara thank you for having us.

DR. LINDSEY PIEGZA: Thank you for having me.

PRESIDENT BARBARA VAN ALLEN: Well, Lindsey, that was just terrific. And Ken, that was a great interview. I think we have lots here for our members to think about and guests as they go forward. And I love the way you covered just about every possible aspect of the outlook.

I just wanted to share with our members and guests that we have a few more prominent speakers lined up this year. We're looking to returning in-person with our first hybrid event featuring the Secretary of Commerce, Gina Raimondo, Thursday, December 9th, and she will be talking about supply chain issues as she just returned from a trip to Asia and she'll be sharing insights on the efforts to strengthen business ties around the world as well as for growth and job development. That will be followed by Cathie Wood, the CEO and Chief Investment Officer of ARK Invest. She'll be in a conversation December 13th with Art Laffer, Founder and Chairman of Laffer Associates, and I believe a former mentor of hers. They will be discussing Cathie's approach to the markets and of course cutting-edge technologies. We will conclude, we think, our season, December 14th. We'll have Dr. Mary Schmidt Campbell, President of Spelman College together with David Thomas, President of Morehouse College, in a conversation with Charles Phillips on our Board and they'll be sharing their perspective on leadership and passion for advancing the next generation of Black entrepreneurs as leaders, which they are of top historically Black colleges.

If you joined as a guest and you're interested in membership, please email the Club at the email on the screen. And finally, I want to take a moment to recognize those of our 343 members of the Centennial Society joining us today as their contributions continue to be the financial backbone of support for the Club.

Thank you again. Thank you Lindsey, thank you Ken, and everyone please stay healthy and safe. And we hope to see you Thursday at our next event.