

Omicron Mars U.S. Recovery

A Publication of BMO Capital Markets Economic Research · Douglas Porter, CFA, Chief Economist, BMO Financial Group

It's been just over a month since Omicron struck fear in the hearts of many, portending another wave of consumer anxiety and weaker growth. The good news is that, despite some pullback in consumer spending, the **U.S. economy had a pretty good head of steam in the final quarter of last year, according to the regular monthly indicators**. The bad news is that more timely indicators hint at weakness to come.

The **labour market, notably, continues to make good progress**, at least in filling jobs rather than drawing new bodies into the labour force. Any disappointment from slower job growth in the establishment survey in the last two months of 2021 is more than offset by boffo gains in the household survey, and did not detract from the largest annual increase in nonfarm payrolls (6.4 million) and decrease in the jobless rate (2.8 pts) on record. While the services and manufacturing ISM measures pulled back in December, their respective levels of 62.0 and 58.7 remain elevated. The composite ISM index averaged above 65 in Q4, the most since at least 1997. Although the U.S. trade deficit has nearly returned to all-time highs, both exports and imports are at new peaks, with sturdy underlying demand at home and abroad overshadowing port logjams and supply disruptions. Of note, rising imports of capital goods and industrial supplies flag solid U.S. business investment.

Alas, despite few new restrictions, **Omicron is making an impact due to event cancellations, employee absenteeism, and self-restrictions** (see the *Feature* article). While the New York Fed's weekly GDP growth tracker indicates little slowing in activity to date, the OECD's measure shows some softness (and a little more in Canada). In fact, other timely indicators point to a slowdown, notably in travel and restaurants. Cancelled flights due to crew illness and quarantines have cut U.S. air travel to roughly 30% below 2019 levels after cruising around 20% in November. This is the flight path prevailing in the last major COVID wave in the summer, though it's well above Canada's flying rate of half of pre-pandemic levels. For indoor dining, the 7-day average of seated diners is now tracking 13% below the 2019 baseline, after nearly normalizing in November. The national figure masks huge regional variations, with New York running at one-half of 2019 levels, while Texas, Florida and Arizona are still feasting as before the pandemic. Seated diners are also tracking above average in the U.K. and Australia, despite surging caseloads, suggesting that COVID anxiety isn't running very high in those countries, either. By contrast, Canadian indoor dining is trending 29% below 2019 levels, and will be put on a stricter diet given bans in the two largest provinces. Mobility data on driving, transit usage, walking, and retail and recreation have pulled back in the U.S. and Canada, in some cases to below levels of the last wave, though partly due to the usual post-holiday retreat.

Omicron is not just damping demand in some industries but also constricting supply. While the ISM survey hinted at an easing in supply constraints for manufacturers, there was less evidence of such in the larger services sector which

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is struggling with staff shortages. The New York Fed's new **Global Supply Chain Pressure Index**, compiled from data on factory delivery times and order backlogs as well as freight and air cargo charges, shows only tentative signs of moderation from high levels. It's a start, but we won't see meaningful progress on the supply front until Omicron recedes.

The **upshot** is that, while a resilient U.S. economy looks to have ended 2021 on a solid footing with estimated growth of 5.5% annualized in Q4, it faces a shakier start to the new year, depending on the severity and length of the latest COVID wave. While businesses have largely learned to live with the pandemic and governments are reluctant to impose new restrictions, ongoing labour shortages, now made worse by Omicron, will remain an impediment for some time.

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