

# 2021 Year Ahead Outlook

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### What are your expectations for the labor market?

The labor market has been healing at a pretty impressive pace. We think we're on pace for the unemployment rate to come in at 5.1% at the end of 2021. That means that we will have a significant share of those folks that lost their job[s] as a function of COVID back in the labor force, but not all. There will still be some lingering challenges for the labor market, and there will still be millions of workers who have struggled to re-enter the labor force and find full employment and be able to earn the same income as they did prior to the COVID pandemic. As a result, we think that there'll still be some real disinflationary pressure out there.

### What are the implications for inflation?

Our forecast is for core PCE inflation to edge higher through 2021 and beyond, but not yet reach the Fed's 2% target. So we think for core PCE, we're likely to end 2021 in the order of about 1.6% on a year-over-year basis. Probably get to just south of 2% by the end of 2022. So still a low inflation environment, but one where we are making some slow progress and it will largely be a function of the trajectory of wages. So it's keenly important to focus on the path of the labor market when trying to understand the trajectory of inflation.

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