US Economic Outlook

Charles Gascon
Senior Economist
charles.s.gascon@stls.frb.org

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Opinions expressed are those of the authors and do not necessarily reflect those of the Federal Reserve Bank of St. Louis or the Federal Reserve System.
Economy surged after pandemic but struggles to hit next gear
Real incomes fall as fiscal support ends and inflation rises

Source: U.S. Bureau of Economic Analysis

myf.red/g/W2eY
Spending growth remains strong despite falling incomes

Goods: +15%
Services: +3%
Total: +7%

Source: U.S. Bureau of Economic Analysis
myf.red/g/W2fU
Households accumulated significant savings during 2020
Employment back to pre-pandemic levels

-8.6 million jobs

-22.0 million jobs

Source: U.S. Bureau of Labor Statistics
Job growth consistent with a healthy economy

2011-19: +219k
2021-22: +512k
Oct: +261k

Source: U.S. Bureau of Labor Statistics
Labor productivity declines sharply in 2022
Many have dropped out of labor force, only some returning at this time.
Job openings elevated, firms struggle to hire and retain workers

Source: U.S. Bureau of Labor Statistics
Supply chain disruptions show signs of easing

Index of Delivery Lead Times and Unfilled Orders: (>0 disruptions worsening)

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<tr>
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<th>May. '21</th>
<th>Oct. '22</th>
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<tbody>
<tr>
<td>Lead Times</td>
<td>+42</td>
<td>-13</td>
</tr>
<tr>
<td>Unfilled Orders</td>
<td>+40</td>
<td>-22</td>
</tr>
<tr>
<td>Index</td>
<td>+41</td>
<td>-18</td>
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Source: Federal Reserve Bank of Philadelphia

my.fred/g/V4vE
Strong demand + constrained supply = higher inflation

Producer Prices: +8.5%
Consumer Prices: +8.2%
Ex. Food and Energy: +6.7%

Source: U.S. Bureau of Labor Statistics

myf.red/g/UNrj
Housing price growth slowing, but housing inflation persists

House price growth and housing service inflation

- Case-Shiller HPI (+12 months)
- CPI: Shelter
- PCEPI: Housing
Mortgage and treasury rates rise ahead of FFR increases

- 30yr FRM: 7.0%
- 10yr T-bill: 4.1%
- Fed Funds: 3.1%*  
  *3.75% to 4.0%

Sources: Board of Governors; FHLMC

my.fred.stlouisfed.org
Hot single-family housing market cools off this summer

Single Family: -18% y/y
Multifamily: +16% y/y
Recession probabilities on the rise

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<tbody>
<tr>
<td>FRB St. Louis (Hard Data)</td>
<td>Current month</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>1.2%</td>
<td>--</td>
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<tr>
<td>FRB NY (Yield Curve)</td>
<td>In 12 months</td>
<td>4%</td>
<td>6%</td>
<td>18%</td>
<td>25%</td>
<td>--</td>
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<tr>
<td>FR Board (Credit Risk)</td>
<td>Next 12 months</td>
<td>19%</td>
<td>27%</td>
<td>23%</td>
<td>22%</td>
<td>24%</td>
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<tr>
<td>Blue Chip Consensus</td>
<td>In 2023</td>
<td>39%</td>
<td>39%</td>
<td>49%</td>
<td>53%</td>
<td>54%</td>
<td>76%</td>
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<tr>
<td>WSJ Survey</td>
<td>Next 12 months</td>
<td>28%*</td>
<td>44%</td>
<td>49%</td>
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<td>63%</td>
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*April Survey

Since 1854 29% of Qtrs. have been a recessionary. Post WWII (14%)
Monetary Policy Outlook
Policymakers anticipate higher interest rates for a longer period

Federal Funds Target Rate, Actual and Projected
Percent

Source: FOMC Summary of Economic Projections, respective dates
Financial markets expect higher rates than a few months ago
Unemployment rate expected to rise, but remain historically low

Source: Federal Open Market Committee (FOMC) Summary of Economic Projections at respective dates. See Macro Snapshot for Data
Below trend growth expected over next few years

Real Gross Domestic Product, Actual and Projected
Percent change from one year ago

Source: FOMC Summary of Economic Projections, respective dates. See Macro Snapshot for Data
Uncertainty about future economic growth remains elevated

FOMC participants’ assessments of uncertainty and risks around their economic projections

Source: FOMC Summary of Economic Projections, September 2022
Inflation continues to run hotter and more persistent than expected

PCE Price Index, Actual and Projected
Percent change from one year ago

Source: FOMC Summary of Economic Projections, at respective dates, See Macro Snapshot for Data
Inflation risks remain weighted to the upside

FOMC participants’ assessments of uncertainty and risks around their economic projections

Source: FOMC Summary of Economic Projections, September 2022
Inflation expectations remain elevated

Inflation Expectations: 1-year ahead

Percent

Jan-14 Jan-15 Jan-16 Jan-17 Jan-18 Jan-19 Jan-20 Jan-21 Jan-22

U Mich Consumers NY Fed Consumers ATL Fed Businesses

Inflation Expectations: 3 to 5-year ahead

Percent

Jan-14 Jan-15 Jan-16 Jan-17 Jan-18 Jan-19 Jan-20 Jan-21 Jan-22

U Mich Consumers TIPS NY Fed Consumers
Key Takeaways

• Economic data indicates the economy continued to expand during 2022, but outlook has deteriorated.
• Financial conditions remain historically accommodative but volatile due to global developments and rapid increase in interest rates.
• Labor markets continue to improve: Steady job growth, robust wage growth, and modest increases in labor supply.
• The magnitude and duration of the inflation surge creates a risk that inflation expectations remain elevated, and the central bank loses inflation-fighting credibility.
  o Low and stable inflation is necessary for long-term maximum employment.
• Stable and credible institutions (public and private) are a necessary for long-term economic growth.
Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy. Without price stability, the economy does not work for anyone...without price stability we will not achieve a sustained period of strong labor market conditions that benefit all.

-Federal Reserve Chair Powell, Sept 21, 2022