

# RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

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# DISCLAIMER

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# OVERVIEW

- **Background: Goals of Monetary Policy**
- Economic Developments
- Economic Outlook



# THE FEDERAL RESERVE'S CONGRESSIONAL MANDATE

The Federal Reserve Act mandates that the Federal Reserve conduct monetary policy “*so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.*”

**Dual Mandate:** maximum employment and price stability





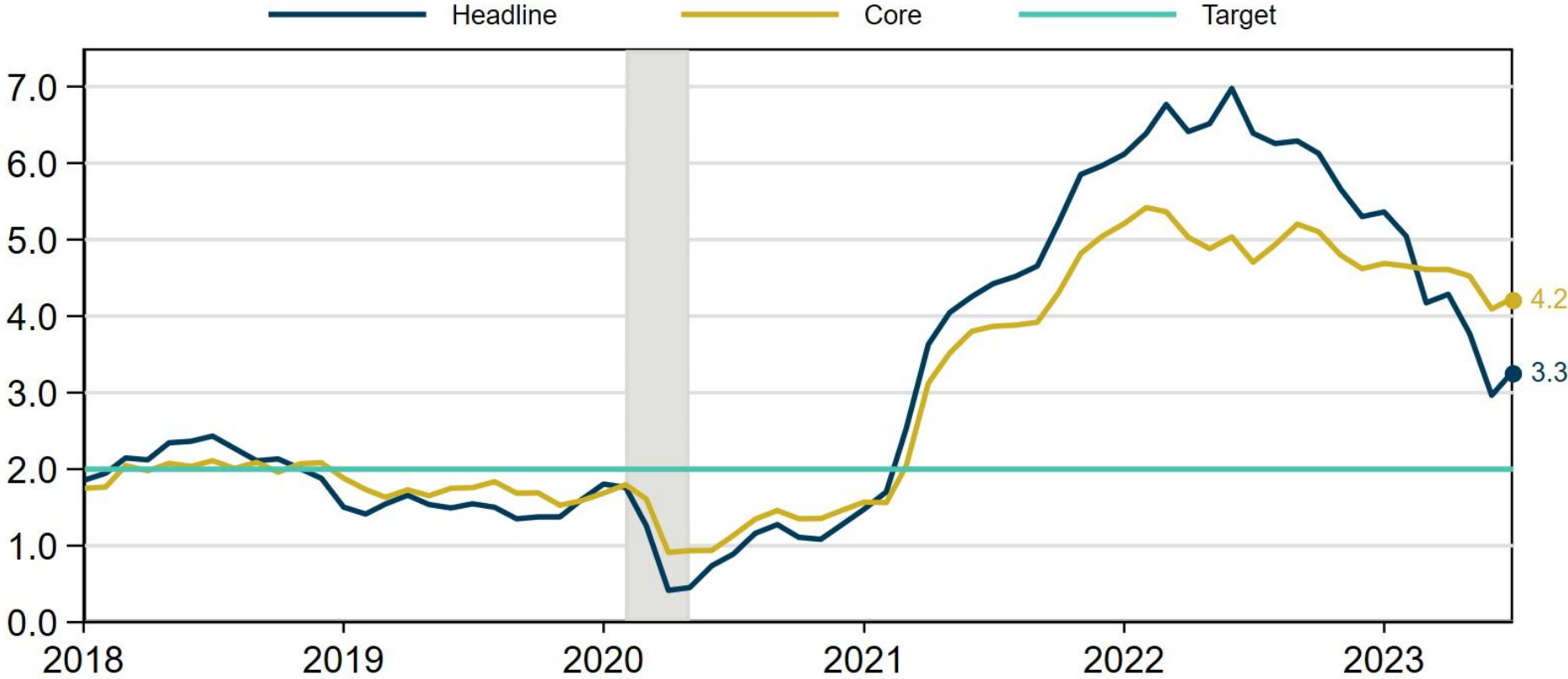
# OVERVIEW

- Background: Goals of Monetary Policy
- **Economic Developments**
  - **Inflation** is gradually falling but still too high.
  - The **labor market** is moving into better balance.
  - **Economic activity** has been resilient.
- Economic Outlook



# INFLATION IS GRADUALLY FALLING BUT STILL TOO HIGH

## PCE INFLATION 12-MONTH PERCENT CHANGE



Source: Bureau of Economic Analysis.

# HOW DID WE GET HERE? THE RUN-UP ...

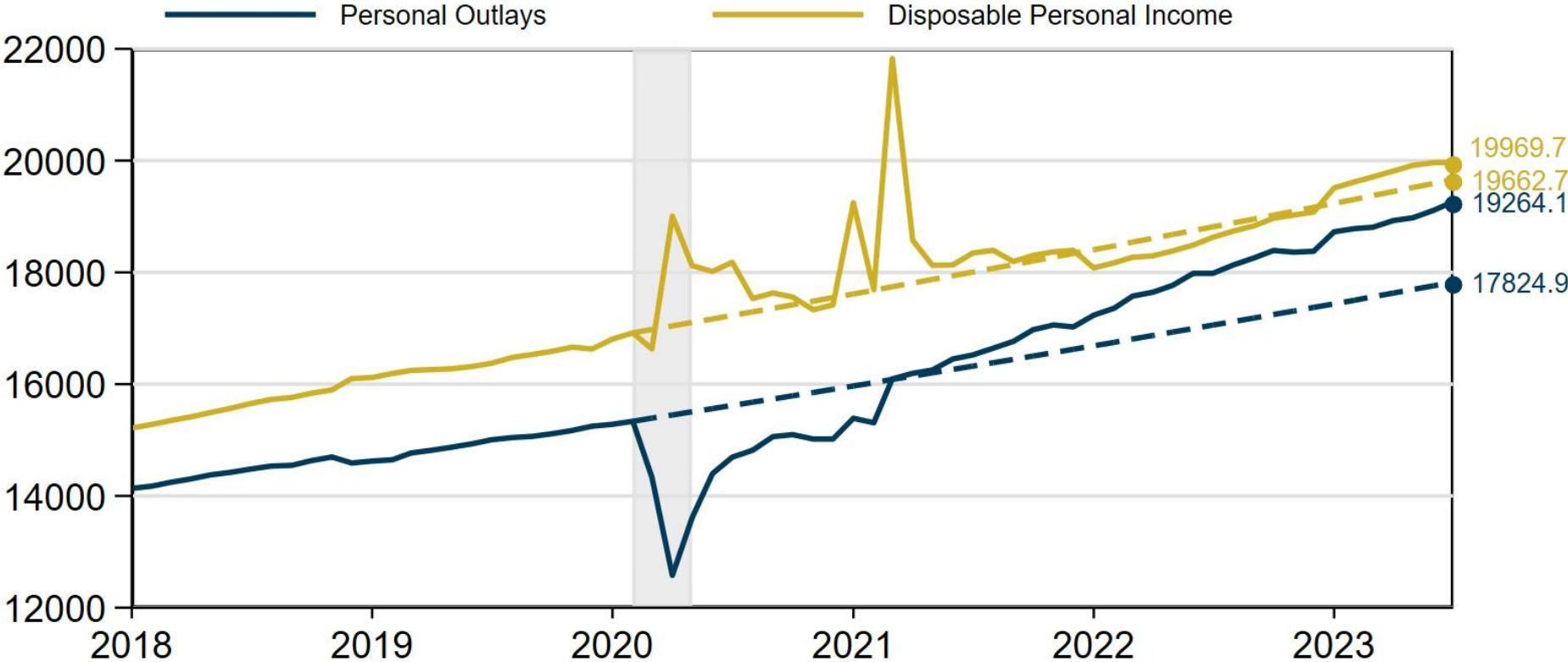
- Imbalances from the COVID economic earthquake
  - Stimulative policy responses; both fiscal & monetary
  - Outsized demand for goods
  - Disruptions to global value chains (GVC)
  - Reduction in the pool of workers
- Adverse effects of the Russia-Ukraine war
  - High commodity prices
  - Additional hit to GVC



# PANDEMIC ASSISTANCE SUPPORTED INCOMES AND SPENDING

## INCOME AND SPENDING

BILLIONS \$

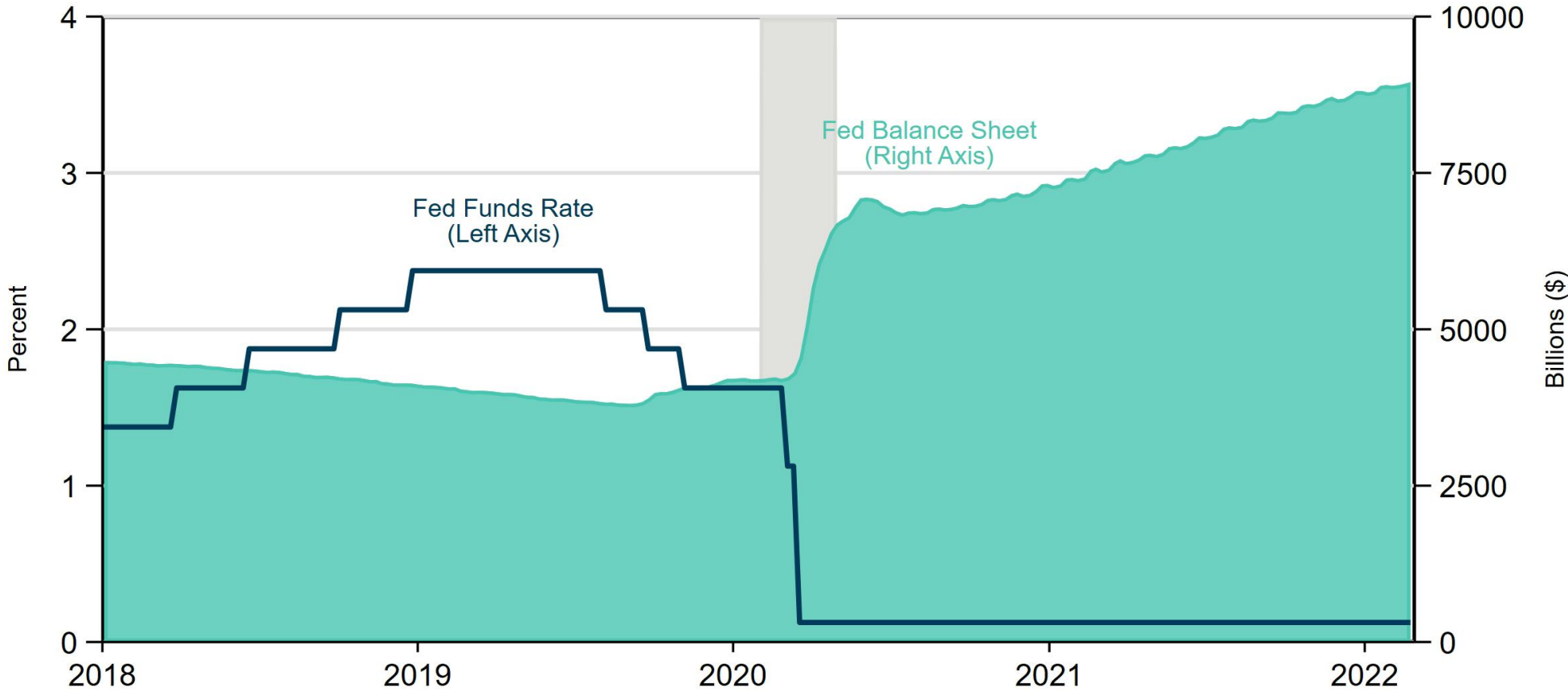


Note: Dashed lines reflect pre-COVID trends.  
Source: Bureau of Economic Analysis.



# THE FOMC ACTED FORCEFULLY WHEN COVID HIT

## FEDERAL FUNDS RATE & FED BALANCE SHEET



Source: Federal Reserve Board of Governors, H.4.1 Statistical Release.

# PRE-PANDEMIC TRENDS: FEWER GOODS, MORE SERVICES

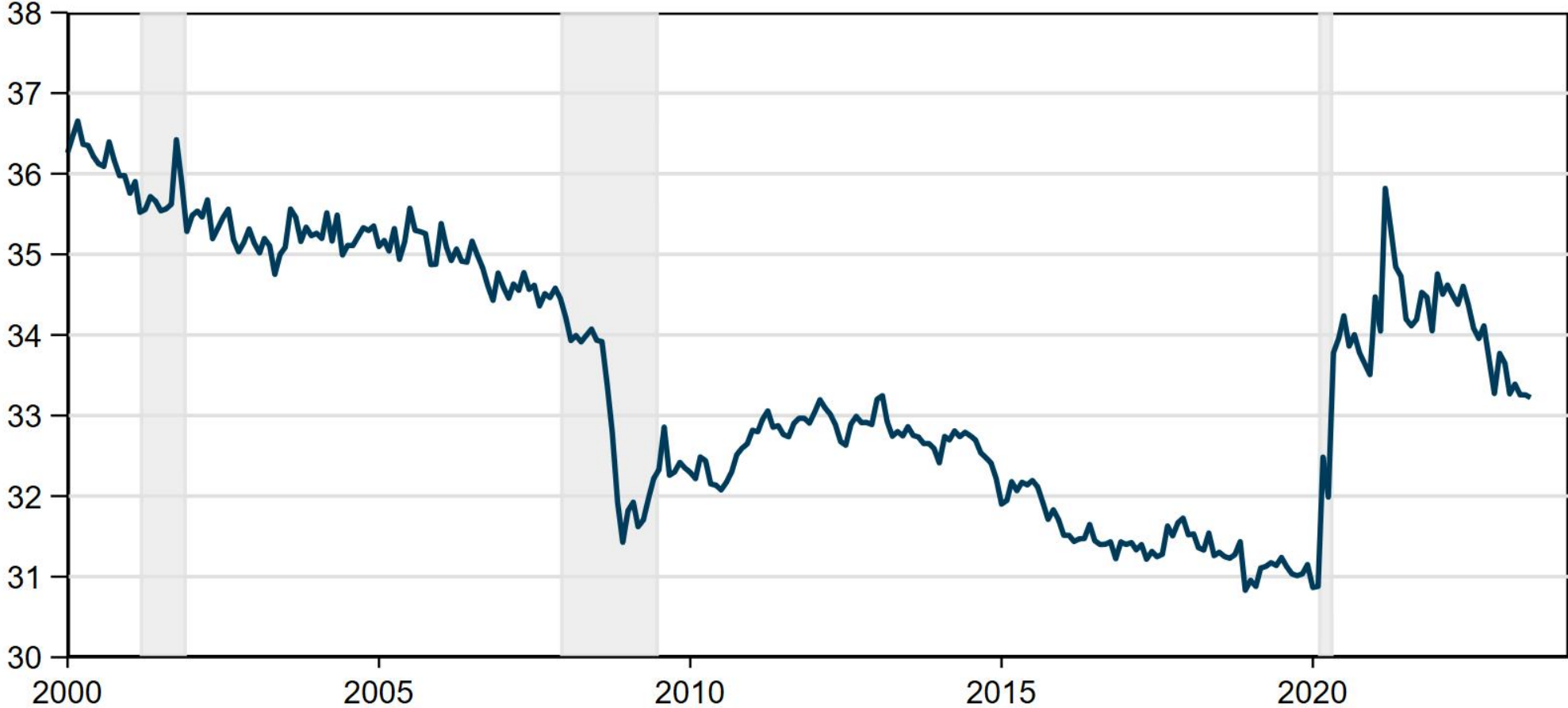
## GOODS: SHARE OF NOMINAL CONSUMPTION PERCENT



Source: Bureau of Economic Analysis/Haver Analytics.

# COVID: OUTSIZED DEMAND FOR GOODS (GLOBALLY)

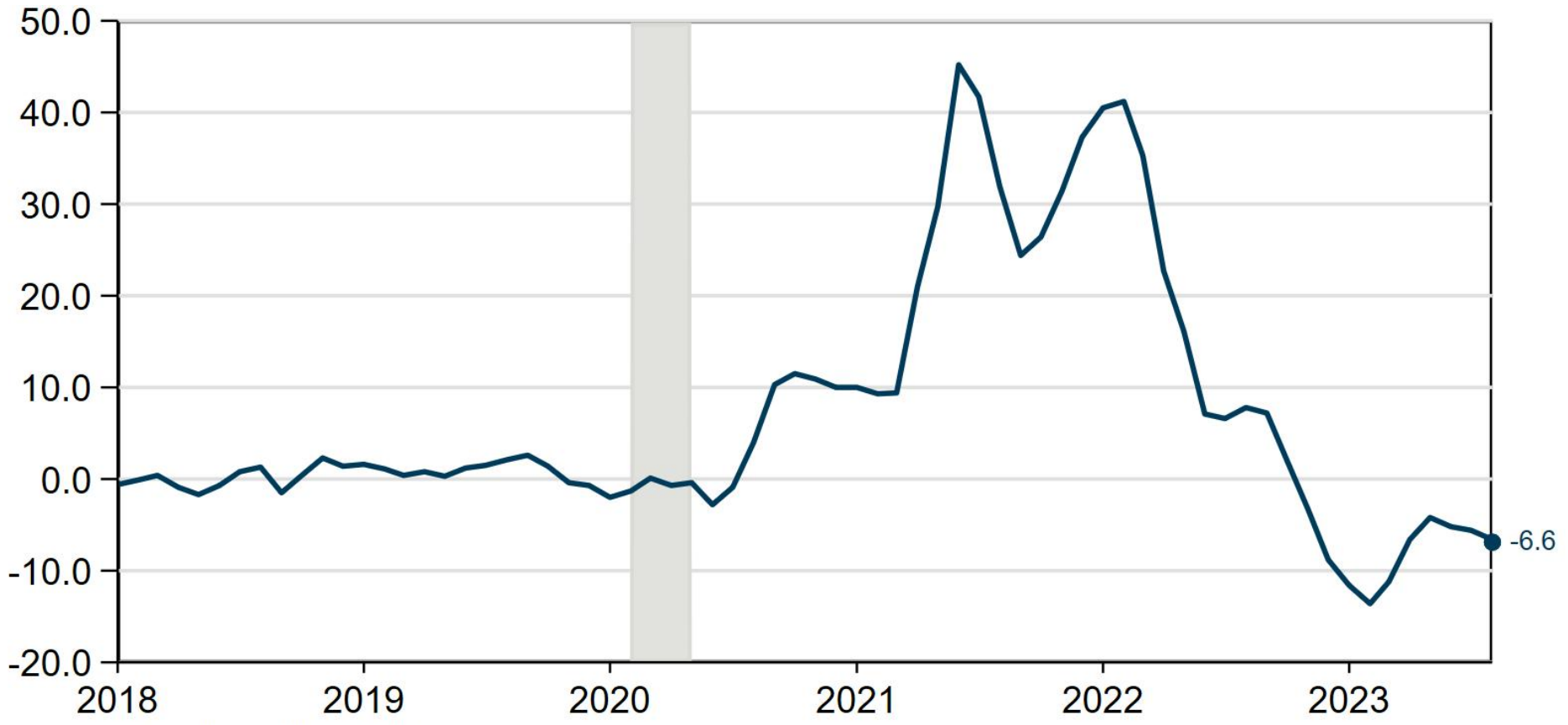
## GOODS: SHARE OF NOMINAL CONSUMPTION PERCENT



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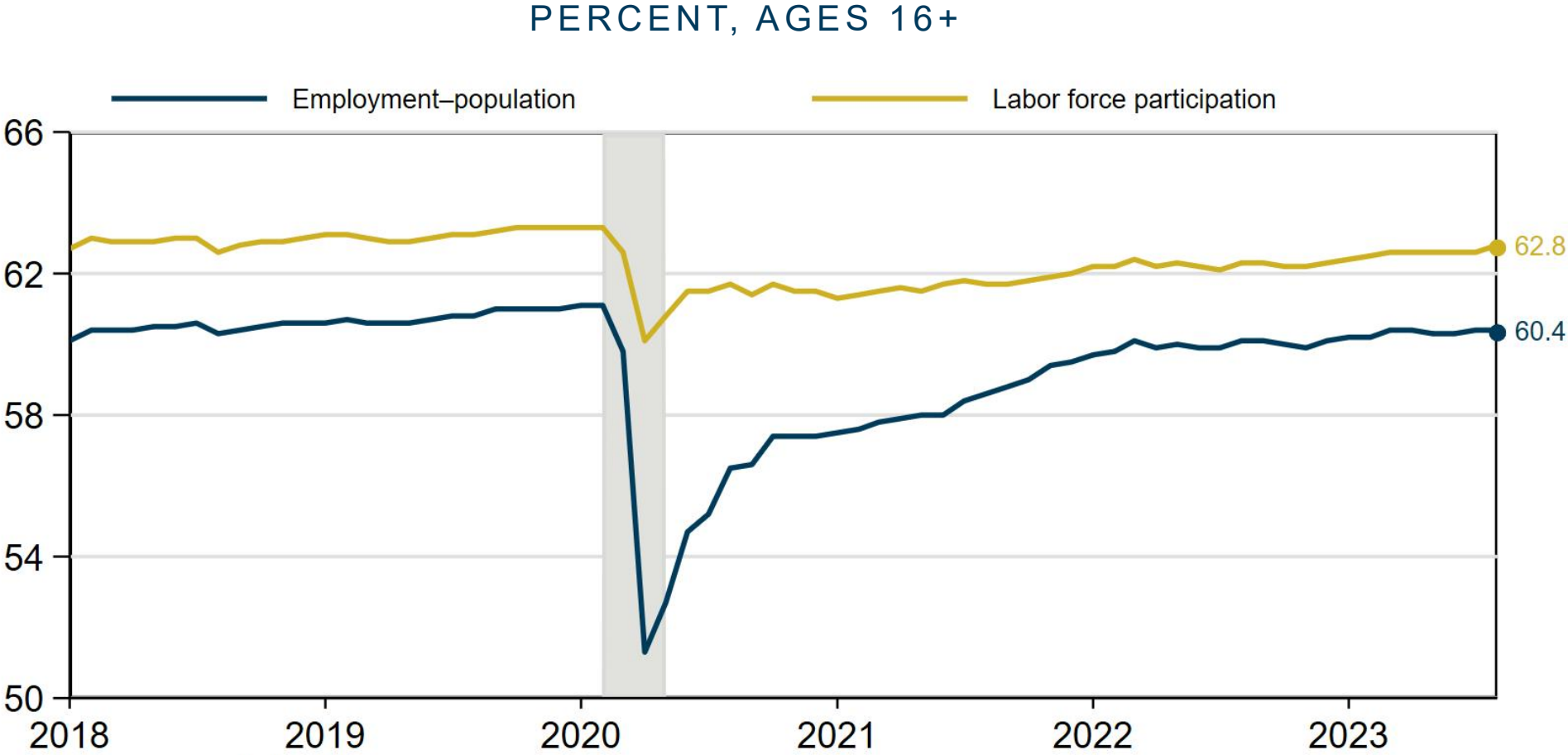
# DISRUPTIONS TO GLOBAL VALUE CHAINS

## USED CAR PRICES 12-MONTH PERCENT CHANGE



Source: Bureau of Labor Statistics.

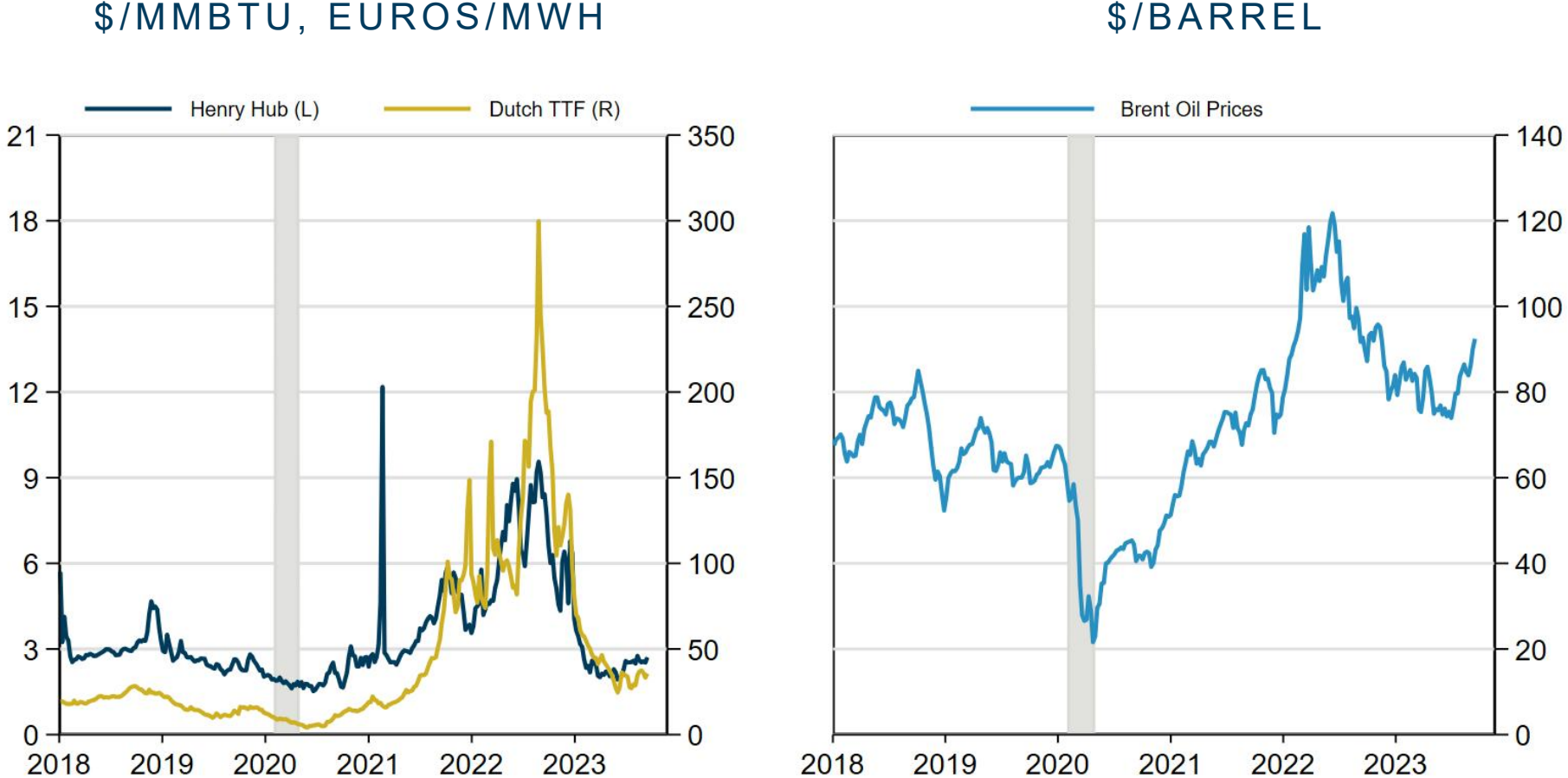
# COVID RECESSION REDUCED THE POOL OF WORKERS



Source: Bureau of Labor Statistics.



# RUSSIA-UKRAINE WAR: HIGH COMMODITY PRICES



Source: Source: Energy Information Administration, Intercontinental Exchange, Haver Analytics.

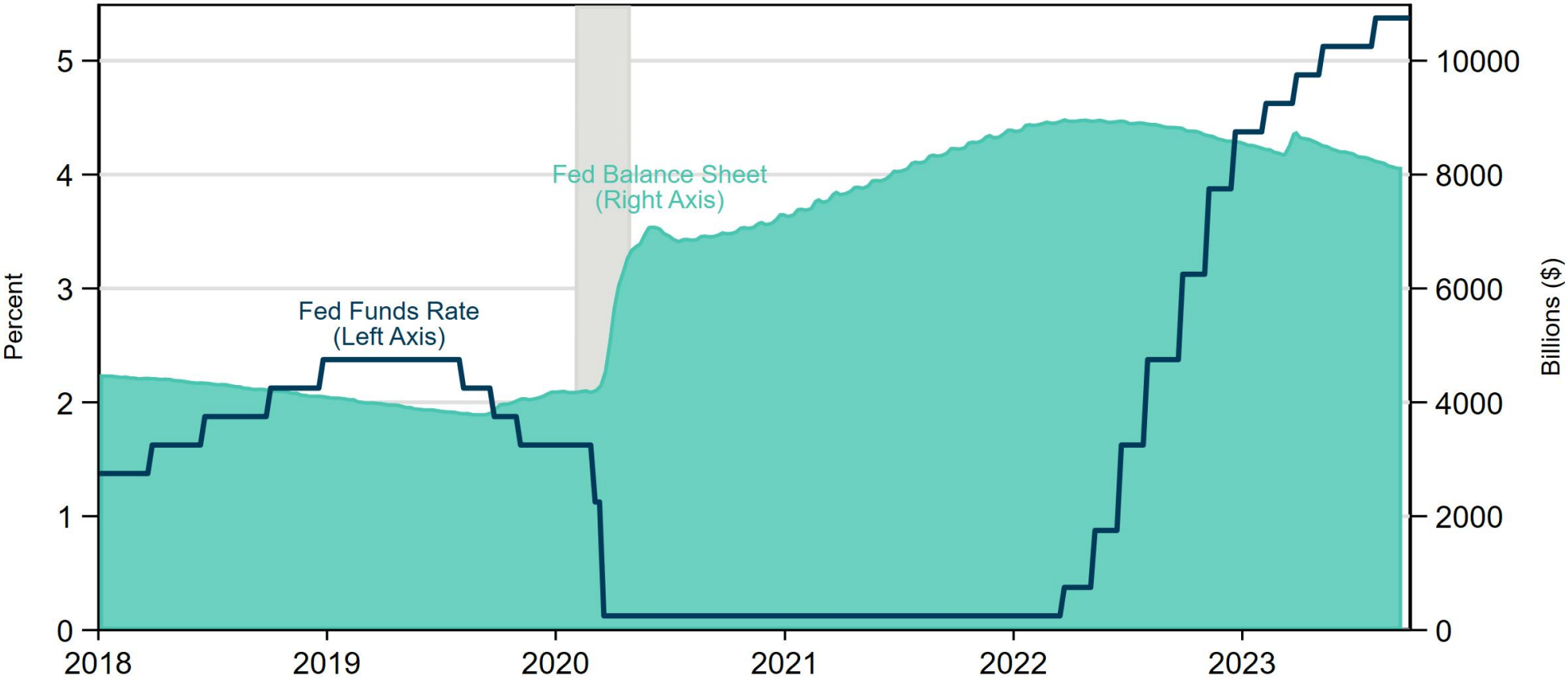
# HOW DID WE GET HERE? THE RECENT MODERATION ...

- Commodity prices have fallen from mid-2022 peaks.
- Core goods price inflation has come down.
- Shelter inflation has peaked.



# FOMC HAS SIGNIFICANTLY TIGHTENED MONETARY POLICY

## FEDERAL FUNDS RATE & FED BALANCE SHEET

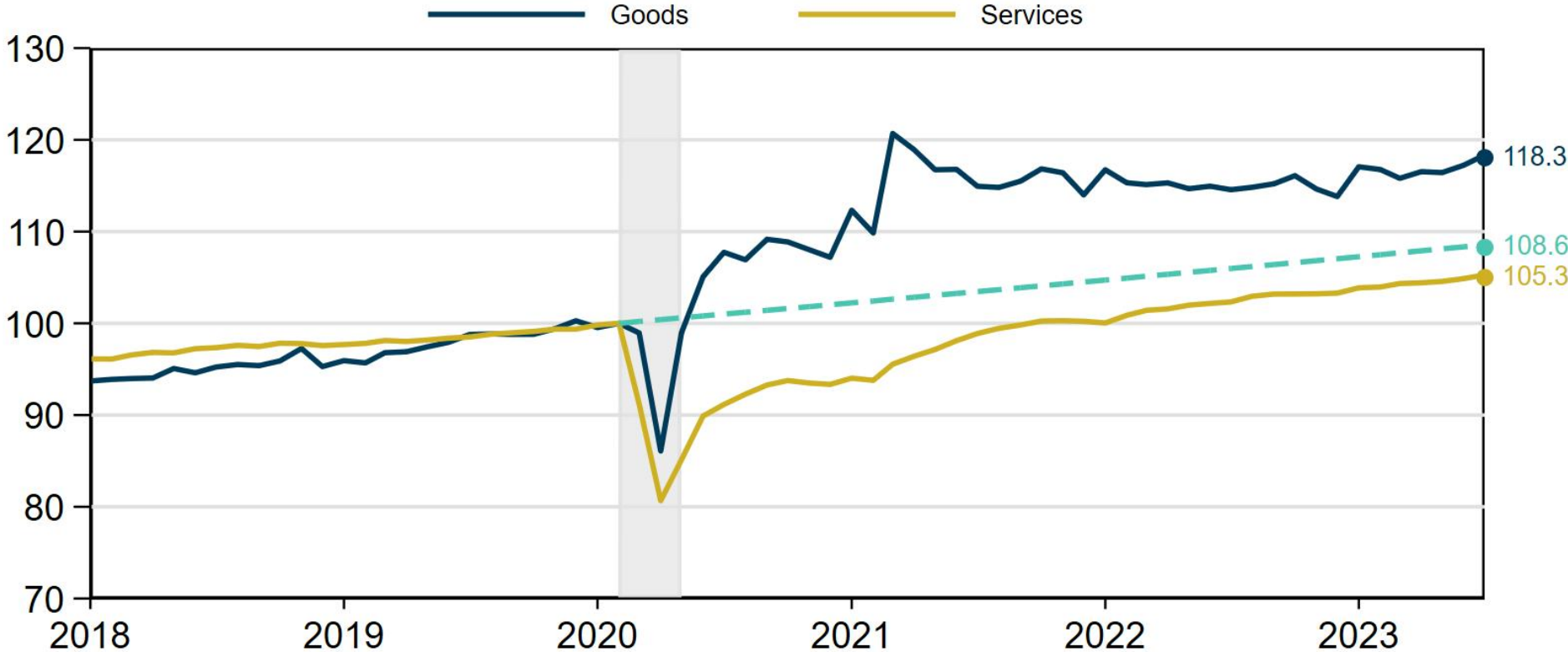


Source: Federal Reserve Board of Governors, H.4.1 Statistical Release.

# GOODS CONSUMPTION FLAT OVER PAST TWO YEARS

## GOODS AND SERVICES CONSUMPTION

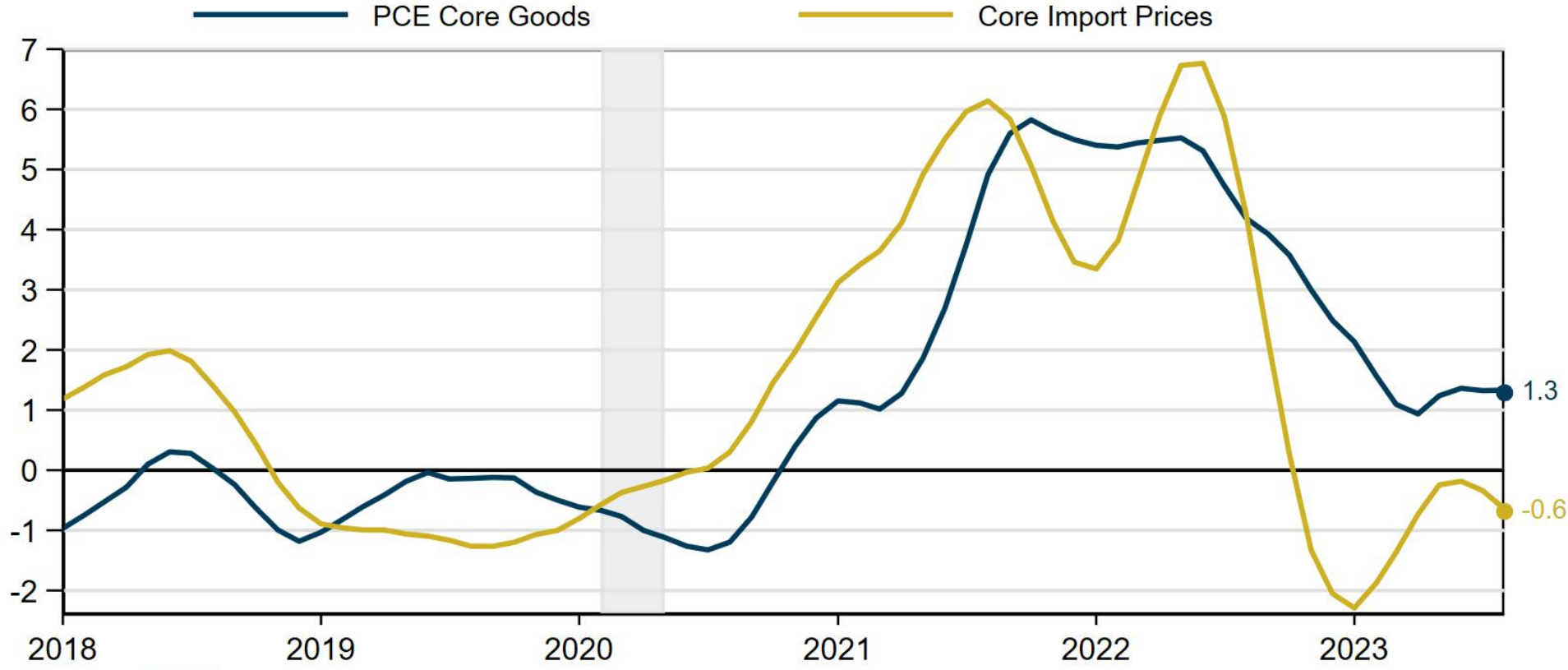
2012\$, FEB-2020=100



Note: Dashed line reflects pre-COVID trends.  
Source: Bureau of Economic Analysis.

# GOODS PRICE INFLATION HAS COME DOWN

12-MONTH PERCENT CHANGE

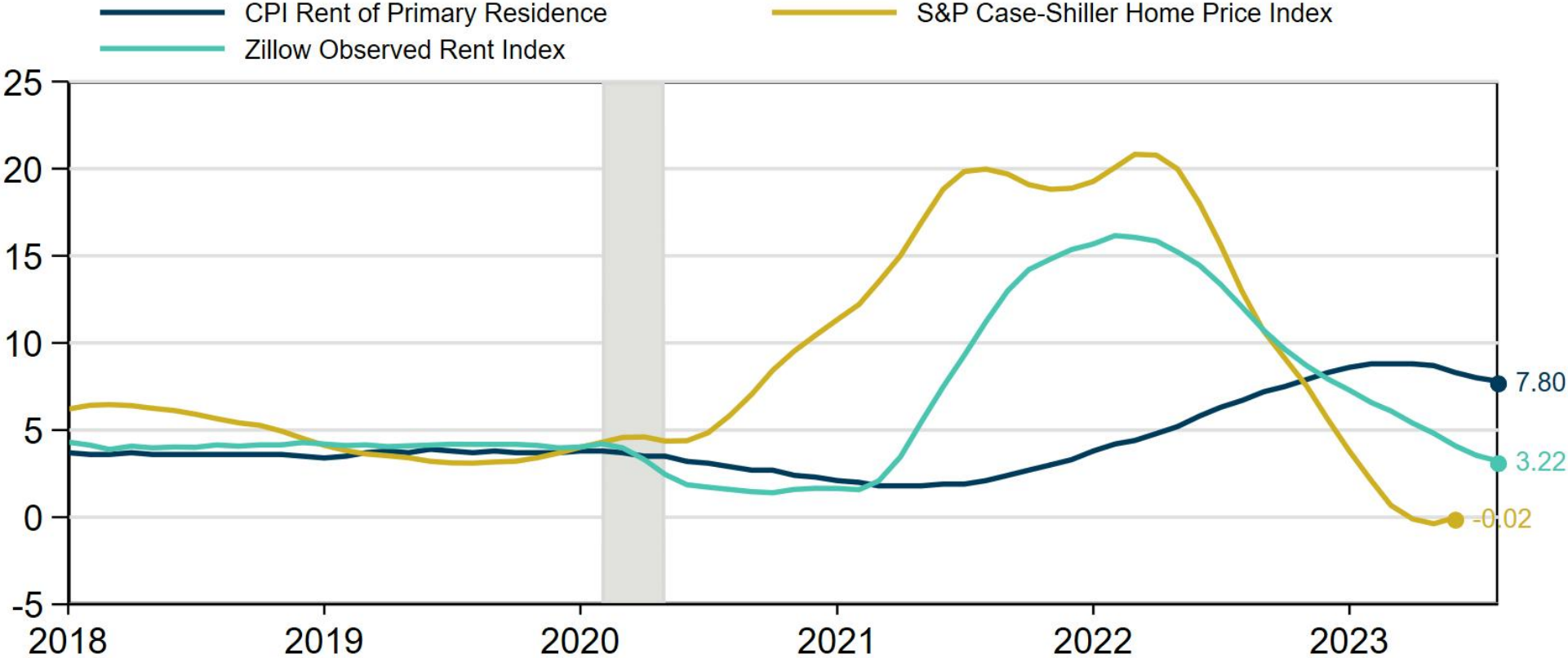


Source: BEA, BLS.



# SHELTER INFLATION HAS PEAKED

## 12-MONTH PERCENT CHANGE



Source: Standard & Poor's, Bureau of Labor Statistics, Zillow.

# WHERE DO WE GO FROM HERE? THE KEY QUESTION ...

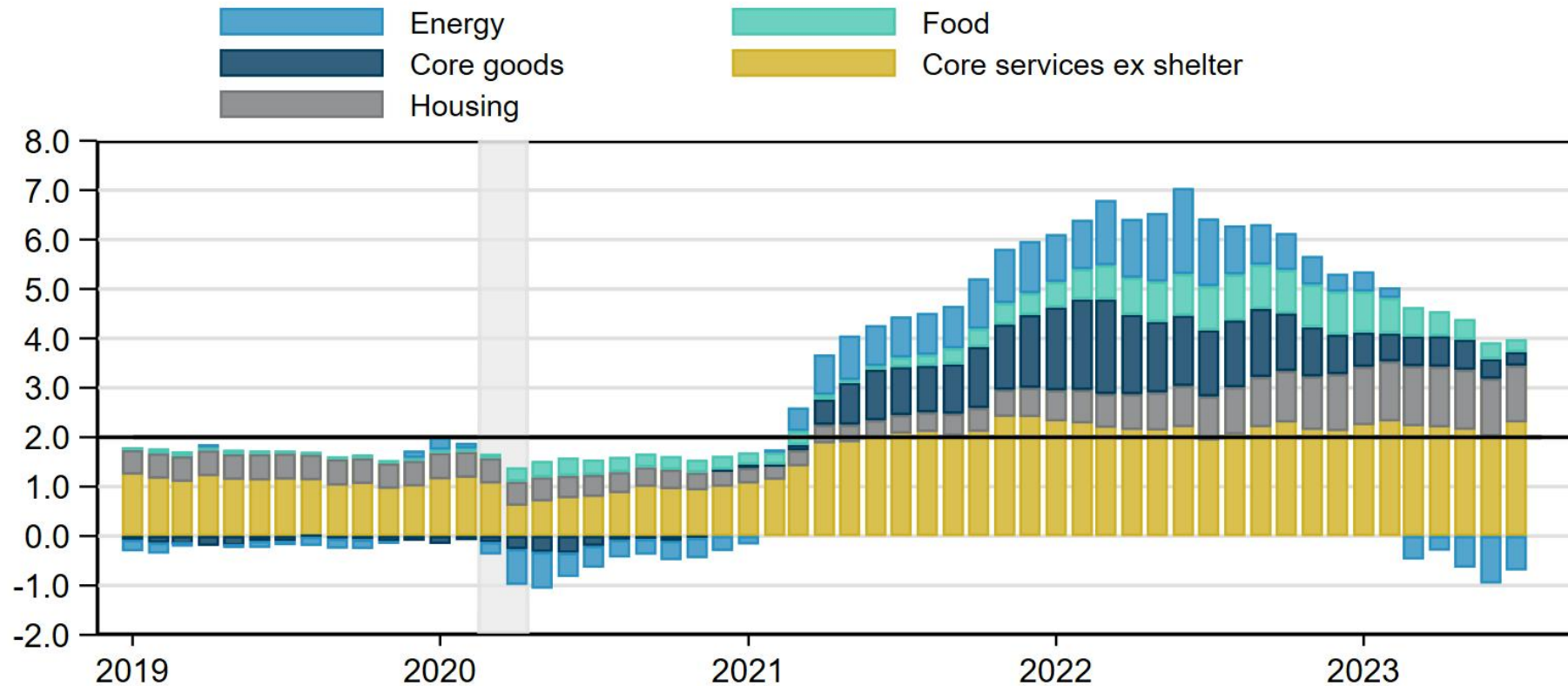
- Pres. Kashkari published an essay yesterday:
  - Policy Has Tightened a Lot. Is It Enough?
- Much depends on inflation of core services excluding housing.



# INFLATION IS FALLING BUT IS STILL ABOVE TARGET

## CONTRIBUTIONS TO PCE INFLATION

PERCENTAGE POINTS, YOY

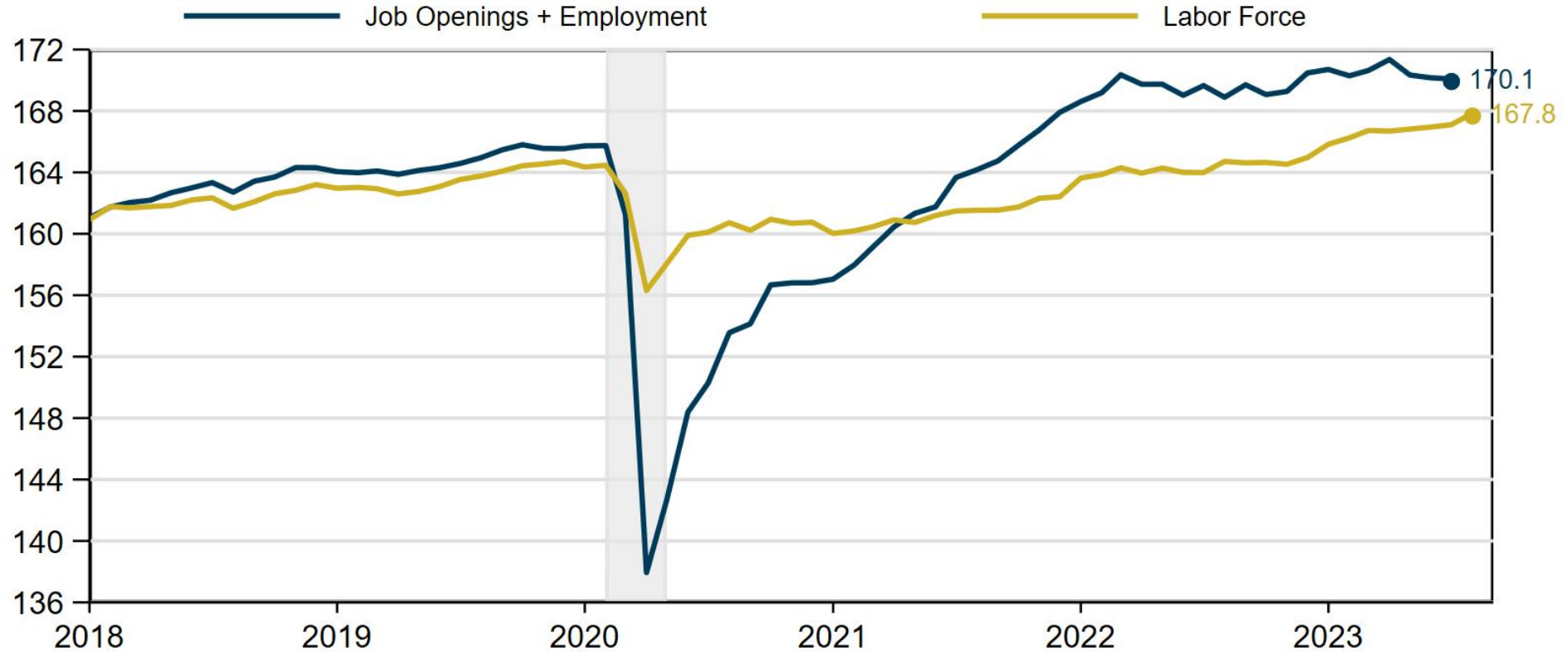


Note: Black line at 2% represents the target inflation rate.  
Source: Bureau of Economic Analysis.

# LABOR MARKET IS SLOWLY COMING INTO BETTER BALANCE

## JOBS AND WORKERS

SA, MILLIONS

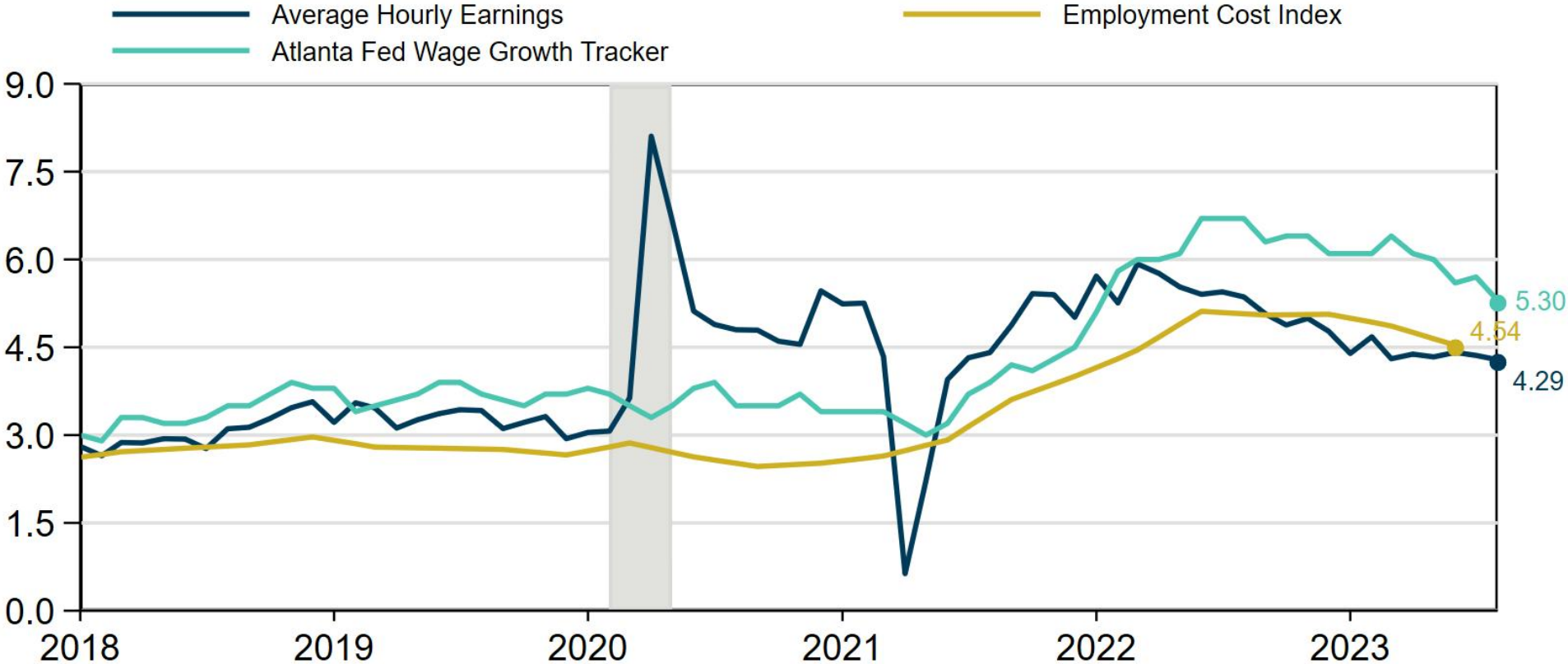


All reported labor data are on individuals 16 years of age & older.  
Source: Bureau of Labor Statistics.



# WAGE GROWTH IS MODERATING

## LABOR COSTS 12-MONTH PERCENT CHANGE



Source: Bureau of Labor Statistics, Federal Reserve Bank of Atlanta



# OVERVIEW

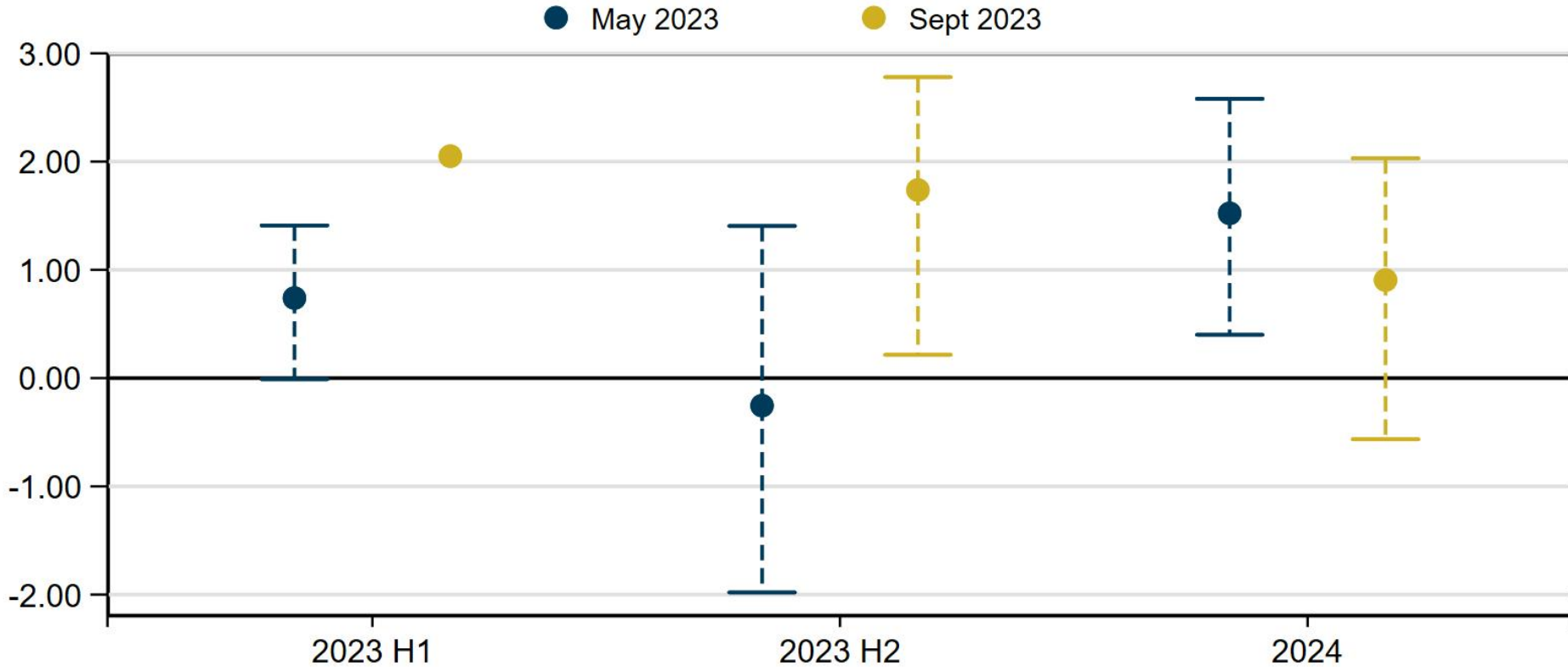
- Background: Goals of Monetary Policy
- Economic Developments
- **Economic Outlook**
  - “Soft landing” looking more likely, but risks remain.
  - FOMC is committed to reducing inflation.



# ECONOMY EXPECTED TO SLOW BUT WAS RESILIENT IN H1

## BLUE CHIP EXPECTED REAL GDP GROWTH

PERCENT



Note: Growth is change from previous quarter (annual rate).  
Source: Blue Chip Economic Indicators.

# THE FOMC REMAINS COMMITTED TO REDUCING INFLATION

“We remain committed to bringing inflation back down to our 2 percent goal and to keeping longer-term inflation expectations well anchored. Reducing inflation is likely to require a period of below-trend growth and some softening of labor market conditions. Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the longer run.”

- Chair Powell, September 2023 FOMC press conference



# FOMC ECONOMIC PROJECTIONS (SEPTEMBER 2023)

## MEDIAN

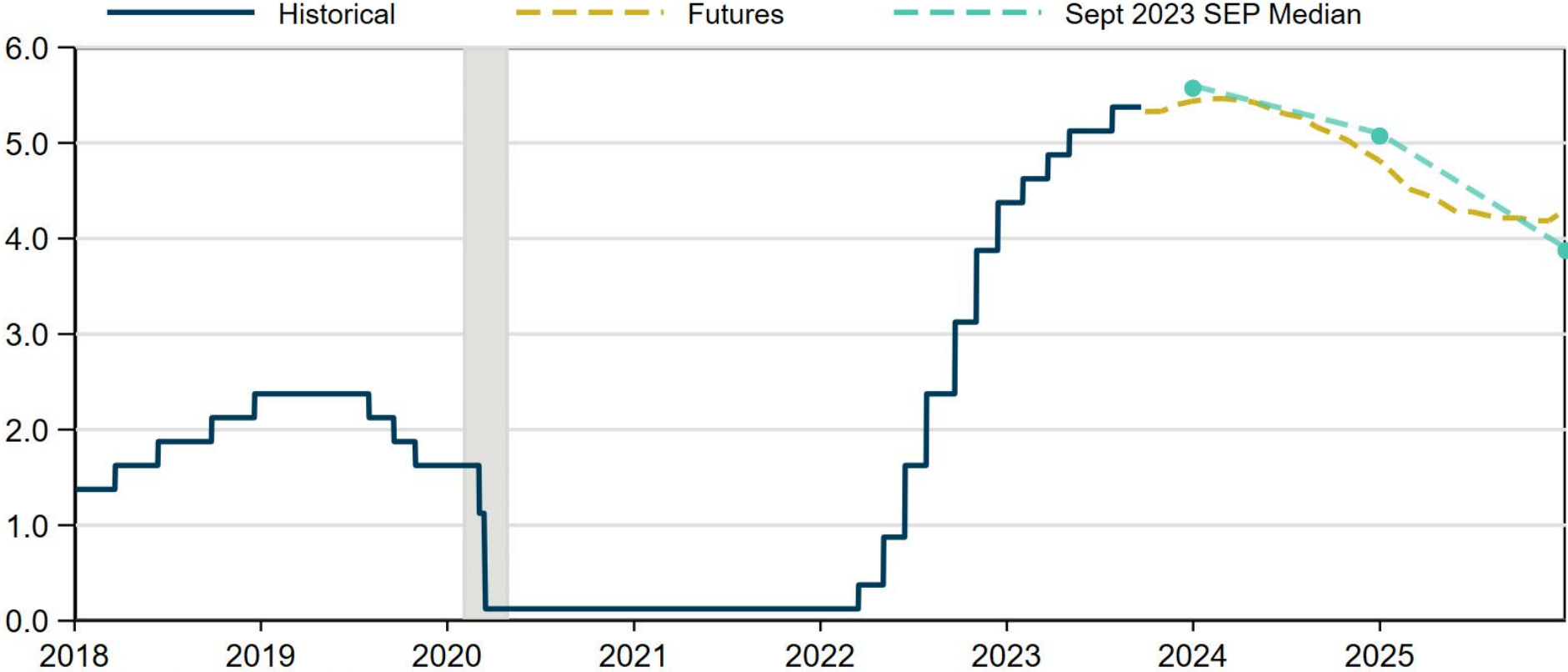
	2023	2024	2025		Longer Run
Real GDP Growth	2.1	1.5	1.8		1.8
Unemployment Rate	3.8	4.1	4.1		4.0
PCE Inflation	3.3	2.5	2.2		2.0
Core Inflation	3.7	2.6	2.3		

Note: GDP and inflation growth rates are Q4/Q4 percent change.

# FED'S TIGHTENING CYCLE LIKELY NEARING COMPLETION

## FEDERAL FUNDS RATE & FUTURES

PERCENT



Source: Bloomberg, Federal Reserve Board of Governors.



# IN SUM: OUTLOOK FOR 2024

- FOMC (and central banks around the world) focused on reducing inflation.
- High uncertainty, but soft landing possible
  - Inflation pressures starting to ease, labor markets resilient
- Risks to the baseline outlook
  - Further disruptions to energy markets (e.g., OPEC+) may keep inflation elevated.
  - Resilience in spending may persist, putting upward pressure on prices.
  - Risks to near-term activity include labor strikes, resumption of student loan payments, potential gov't shutdown, ...
  - Severe economic slowdown in China may result in slower global growth.
  - Potential financial stresses



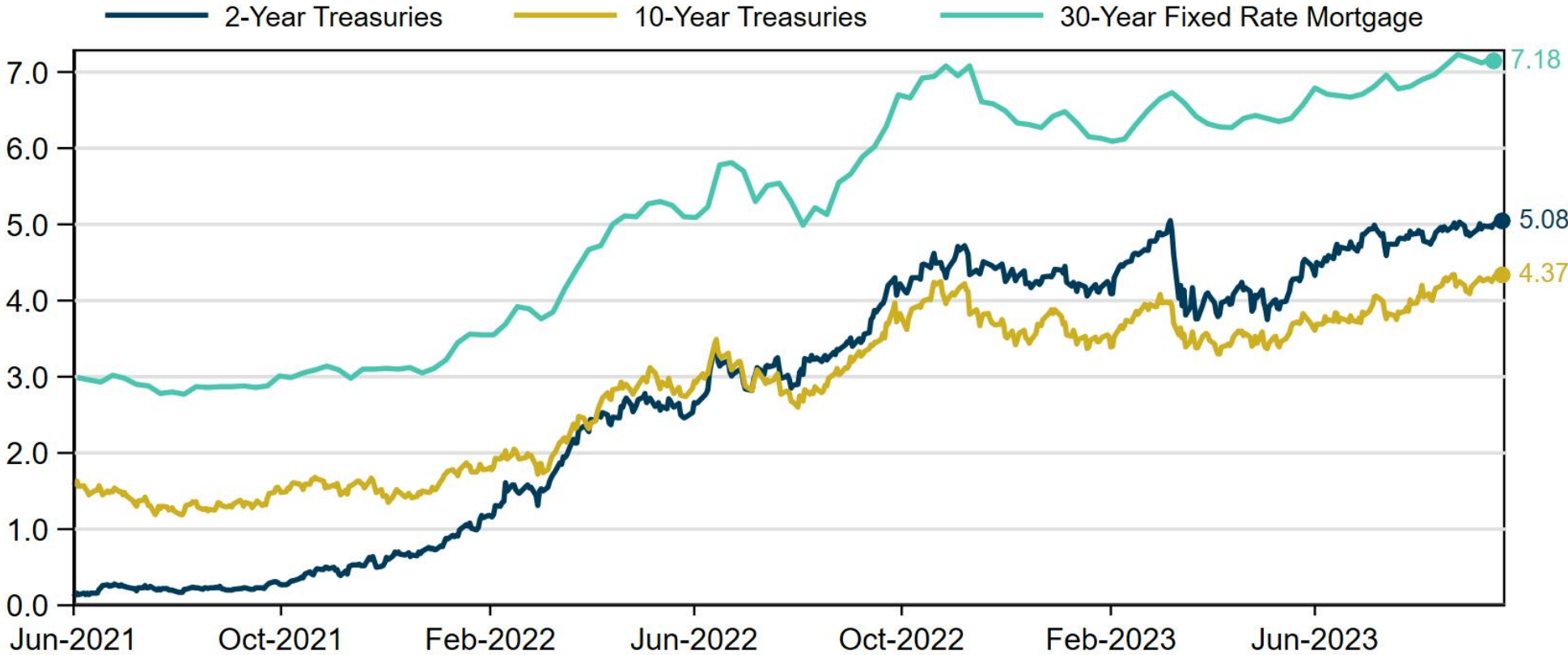
**QUESTIONS?**



**FEDERAL RESERVE BANK  
OF MINNEAPOLIS**

# RISING INTEREST RATES REFLECT THE FED'S TIGHTENING

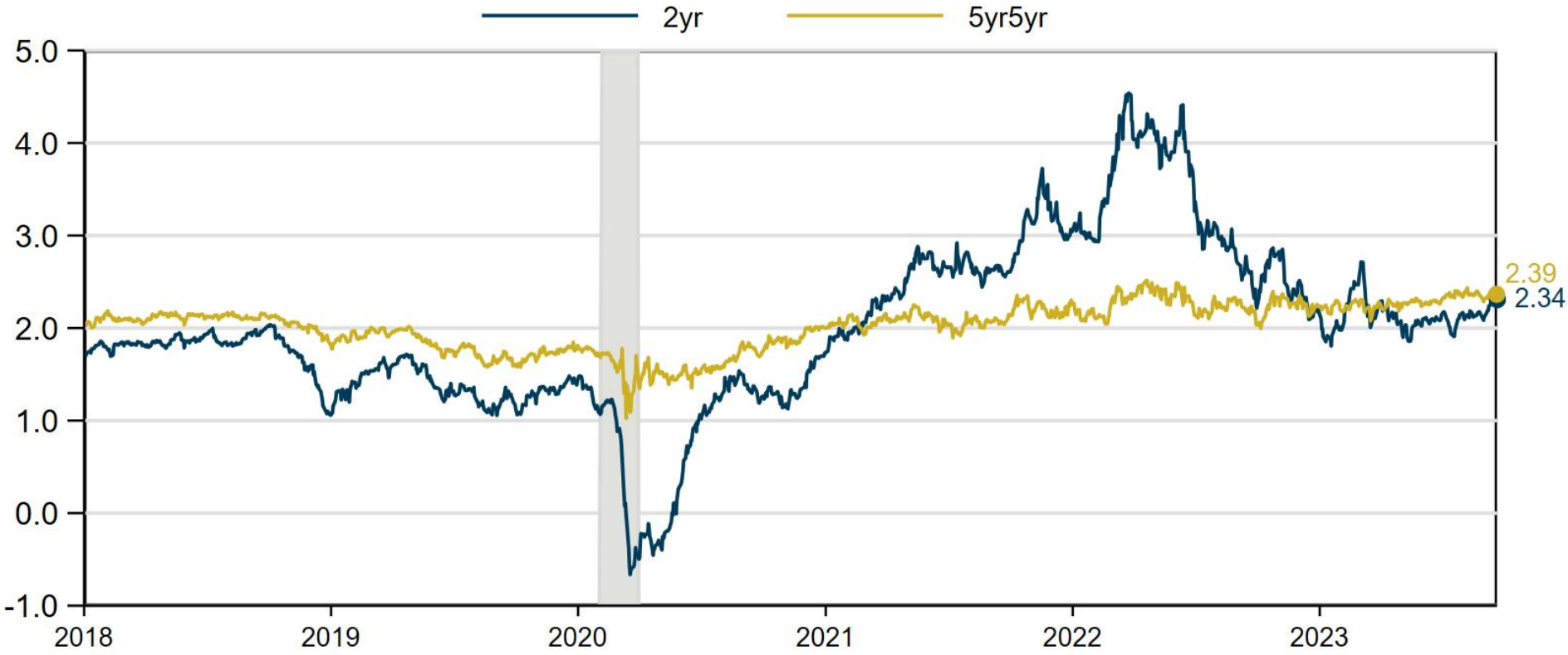
## U.S. TREASURY AND MORTGAGE RATES PERCENT



Source: Federal Home Loan Mortgage Corporation, Federal Reserve Board of Governors.

# MARKET-BASED INFLATION EXPECTATIONS NEAR 2 PERCENT

## MARKET-BASED INFLATION COMPENSATION PERCENT

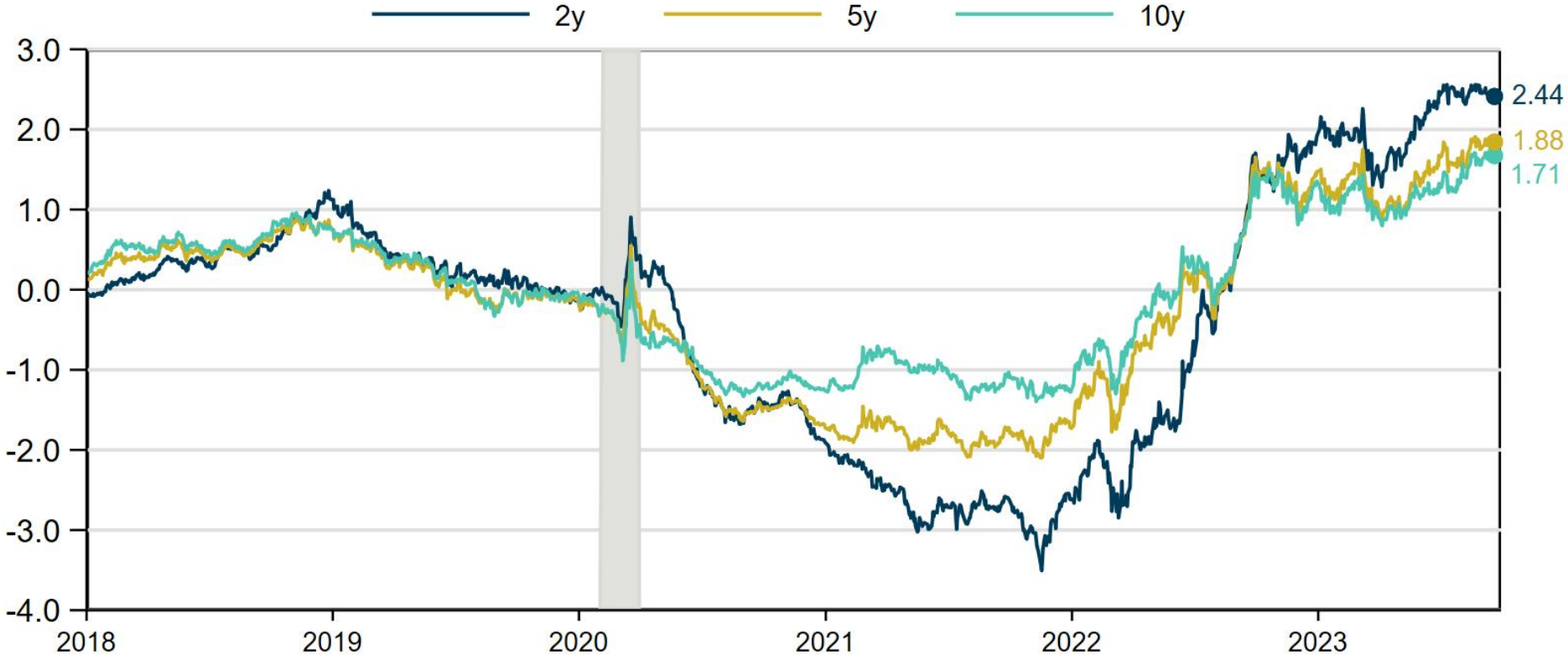


Note: All series have -30bps adjustments.  
Source: Bloomberg.

# REAL YIELDS HAVE INCREASED

## REAL YIELDS

PERCENT



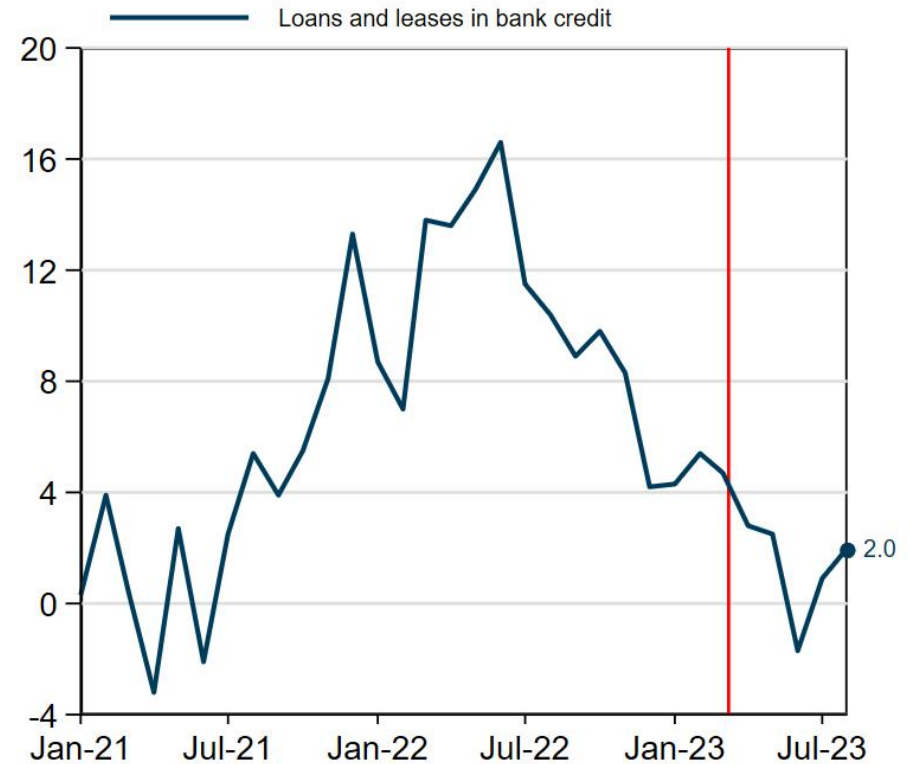
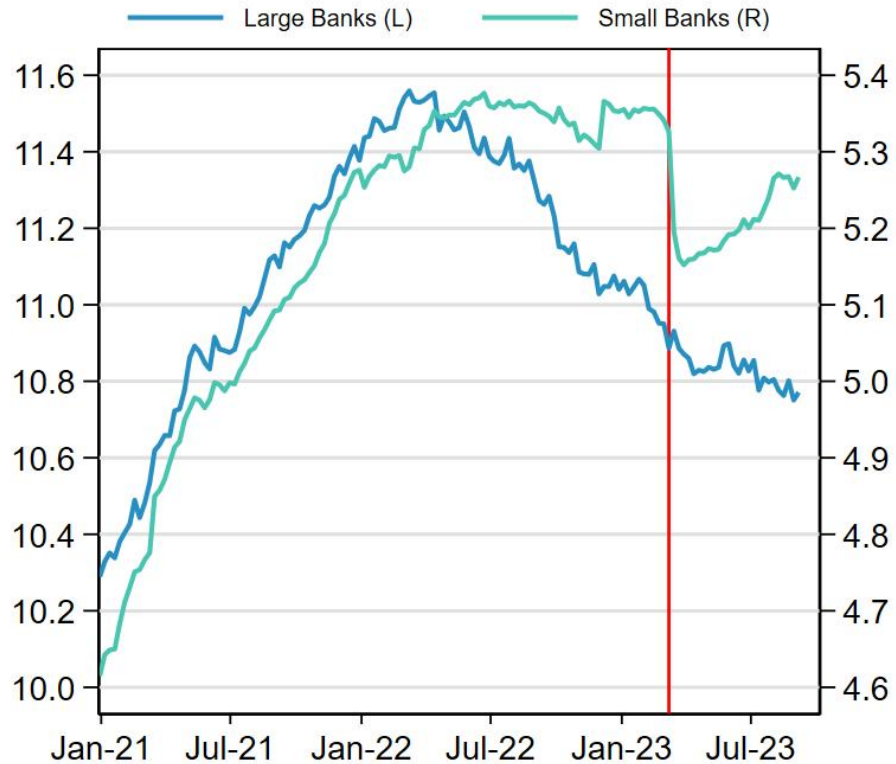
Note: Real yields are nominal yields less inflation swaps.  
Source: Bloomberg, Federal Reserve Board of Governors.



# DEPOSITS HAVE STABILIZED, BUT LENDING IS SLOWING

## TOTAL DEPOSIT BALANCES & CHANGE IN BANK LENDING

EOP, TRIL. \$; PERCENT CHANGE, SAAR, BREAK-ADJUSTED



Source: Federal Reserve Board (H.8 release, adjusted for breaks and seasonality), Federal Reserve Board, Haver.  
Note: the red line in the right chart denotes the SVB bank run during the week of March 8th, 2023.

