

# U.S. Economic Update: Yeah, but....

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# Yeah, but.... (Which is it?)

- Consumers and businesses don't feel great about the overall picture, **but** when asked about our individual situations, it doesn't appear to be as bad
- Workers are hard to find, **but** the labor force participation rate is relatively high given demographics and COVID impacts
- Consumer spending growth has slowed, **but** discretionary spending and savings have risen recently
- And yeah, those consumers with pandemic-accrued savings are driving growth, **but** low-to-moderate income consumers are experiencing difficulties
- Business loan demand has decreased, and credit access has tightened, **but** balance sheets remain healthy
- Prices are elevated and additional price increases may occur this year, **but** not at the same pace as last year
- On the other hand, inflation may decelerate, **but** will it be enough to get back to 2% in a timely manner
- Higher interest rates have helped to slow demand for vehicles and housing, **but** we know there are healthy levels of pent-up demand lurking once lending rates retreat

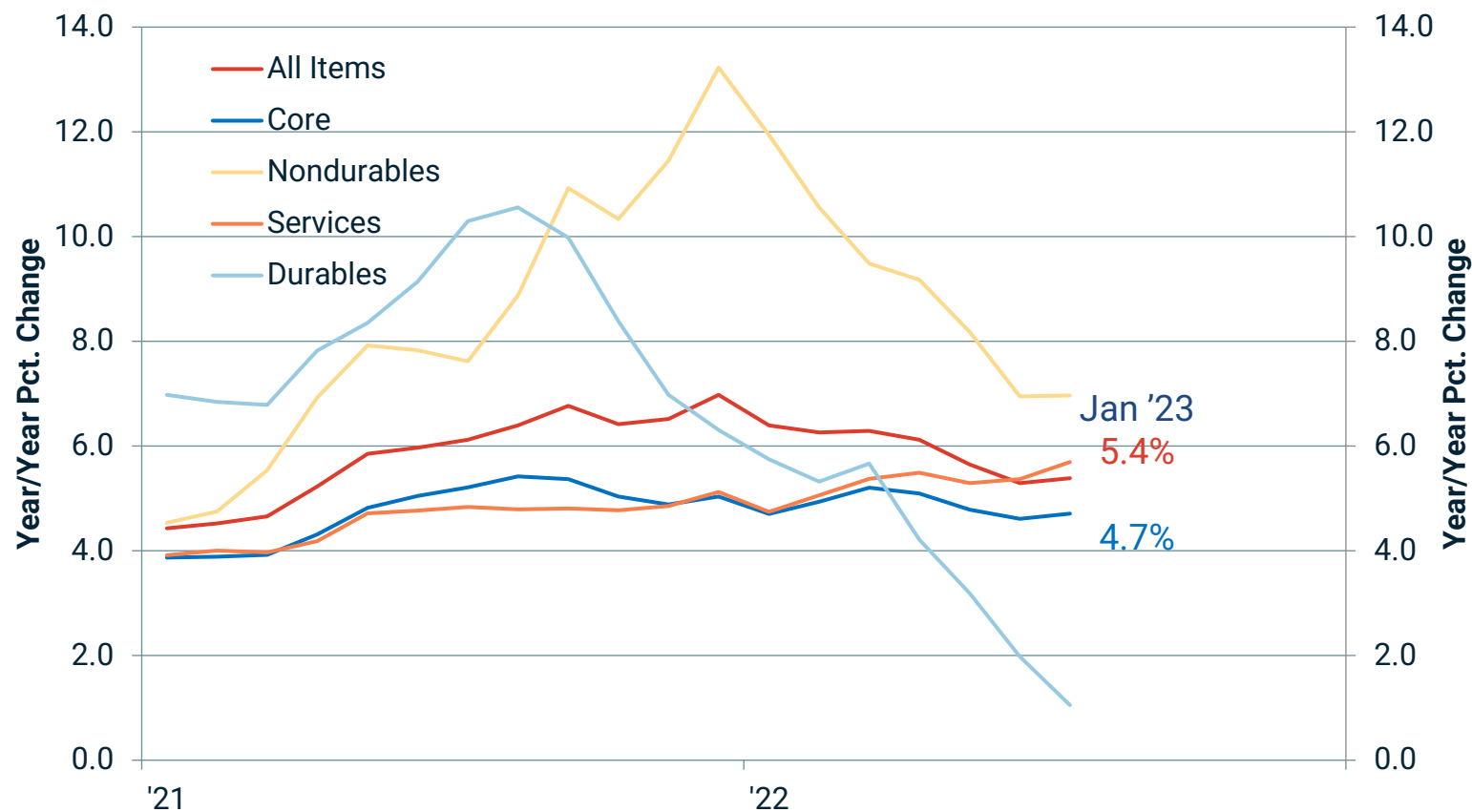
# Presentation Order

- Inflation: More promising outlook
- Economic Activity: Expecting slower growth in 2023
- Consumer Spending
  - Inflation-adjusted Holiday spending came in slightly ahead of last year and slightly ahead of expectations
  - Consumers being strategic about spending patterns
- Sentiment
  - Consumer sentiment is wavering
  - While business sentiment has become more pessimistic, plans for the next 6 months aren't indicative of a broader slowdown
- Leading Indicators: Pointing toward a slowdown (but how much of one?)
- Employment
  - Employers would still like to hire
  - But some employers are increasingly talking about pausing hiring activity
  - And labor costs remain elevated

# Inflation

# PCE Inflation

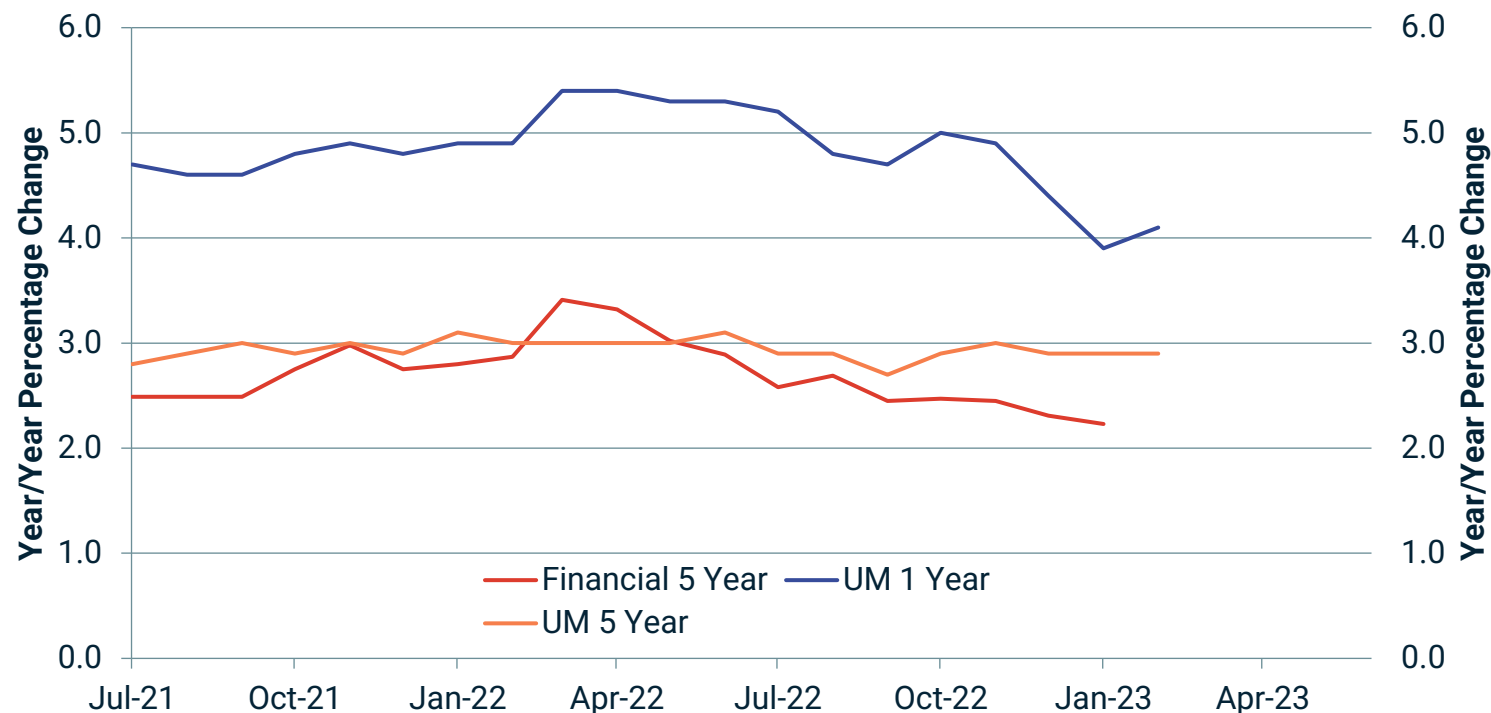
- Headline inflation remains elevated, but is on its way down, though it ticked up in January
- Core inflation did the same, but there may be some Omicron effects in the January numbers
- Food and energy may see elevated or higher prices, respectively, but their contributions to inflation likely won't increase through the 1<sup>st</sup> half of 2023
- Question marks: transportation services, vehicle prices (how low?), health care



Source: Author's calculations using data from the Bureau of Economic Analysis

# Inflation Expectations

- Short-term inflation expectations are off their highs
- Medium-term inflation expectations remain anchored



Source: Survey of Consumers – University of Michigan, Federal Reserve Board, and Haver Analytics

# New York Fed Global Supply Chain Pressure Index

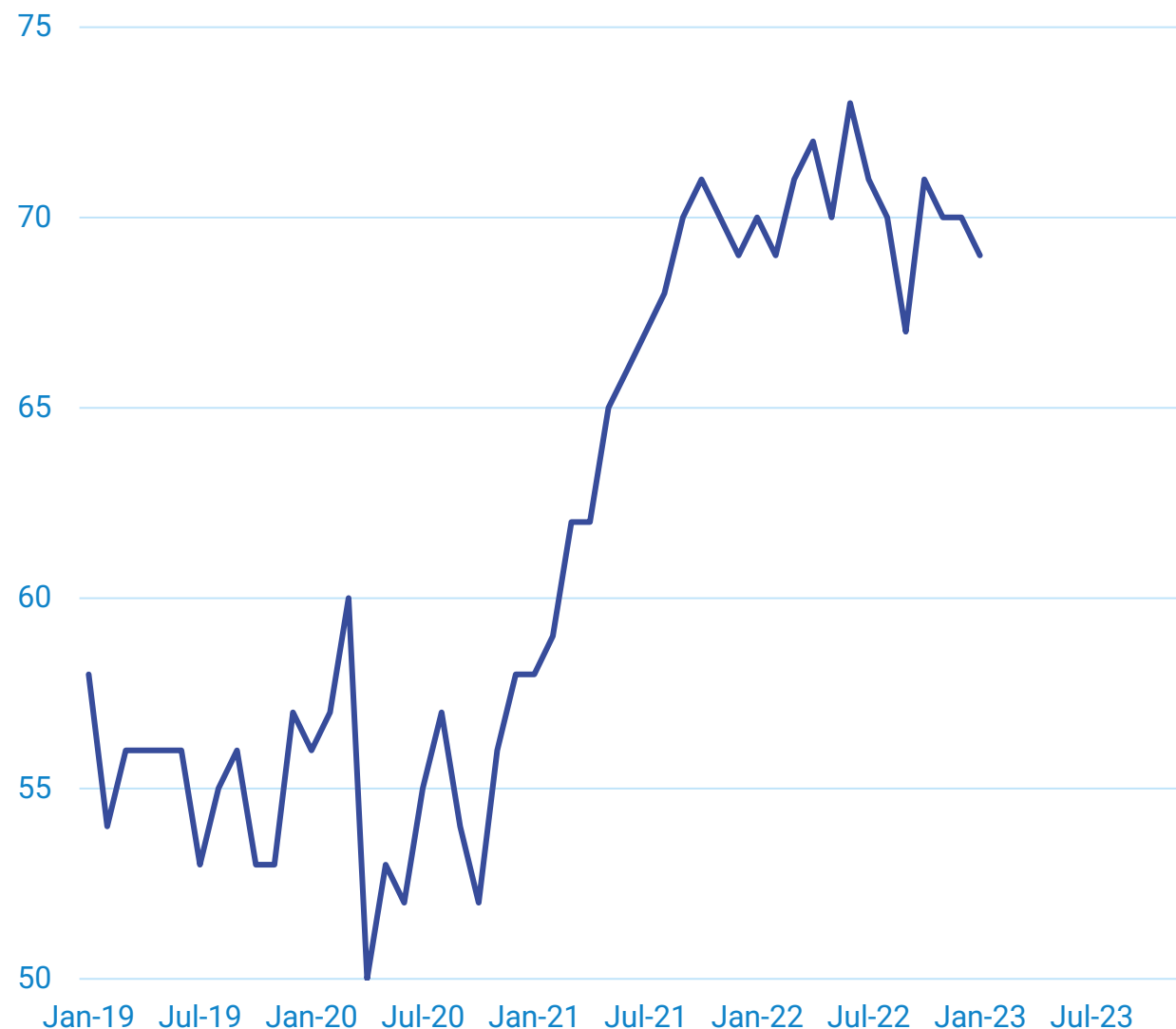
- The net change in supply chain flows has been positive, especially in recent months
- Container prices have fallen
- Lead times seem to have plateaued or shortened for several products and carriers
- Overall, total supply-chain normalization still isn't likely to occur until late 2023
- As long as supply-chain bottlenecks persist, pricing pressures will remain present



Sources: Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Bloomberg L.P.; authors' calculations from the Federal Reserve Bank of New York.  
 Note: Each index is scaled by its standard deviation

## Percentage of Purchasing Managers Experiencing 60+ Day Lead Times

- In the ISM survey, around 70% of all respondents are still experiencing 60+ day lead times
- The average percentage of respondents that reported 60+ day lead times during the 2010s ranged from 45-52%



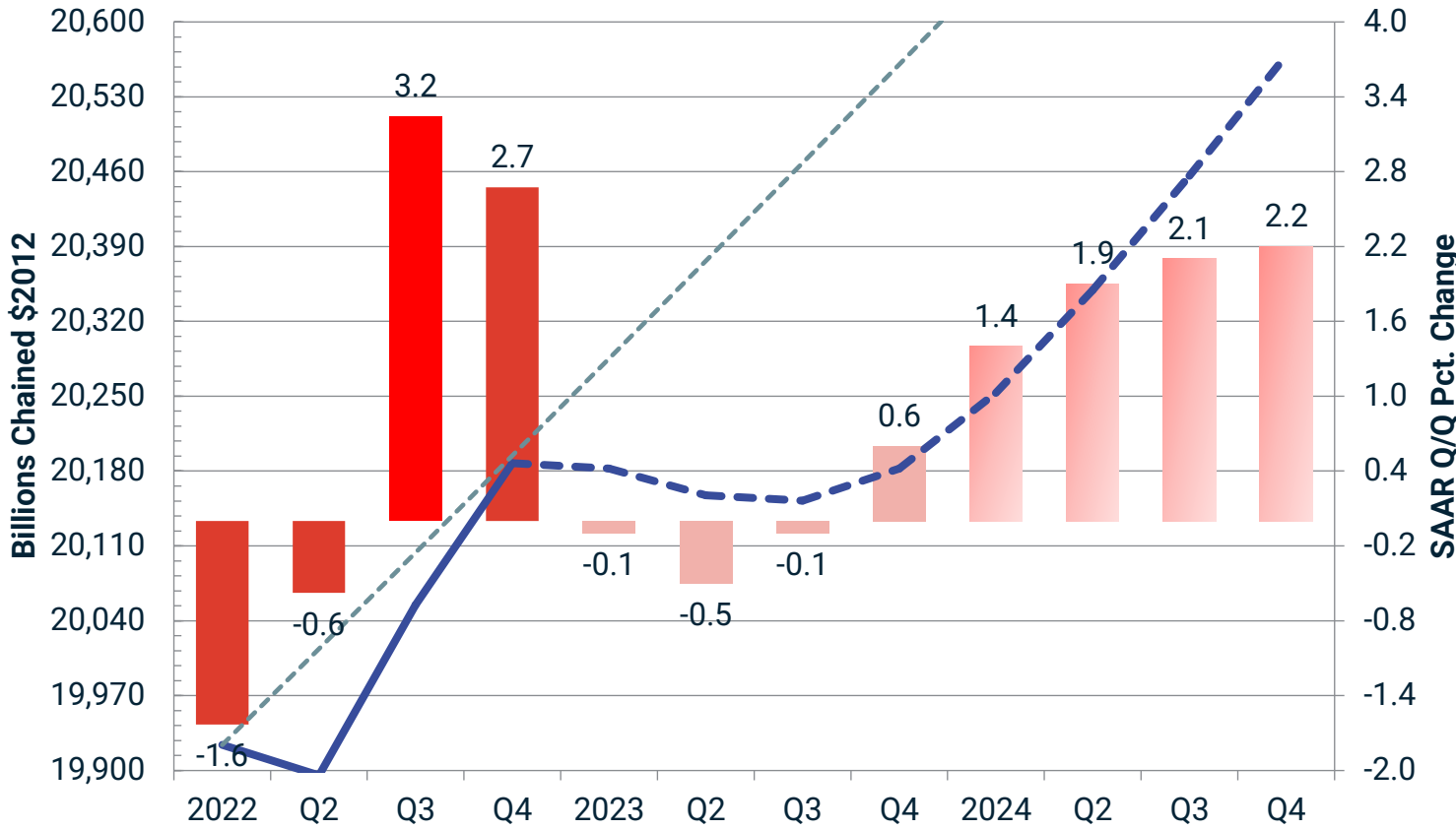
Source: Institute for Supply Management



# Economic Activity

# U.S. Real GDP

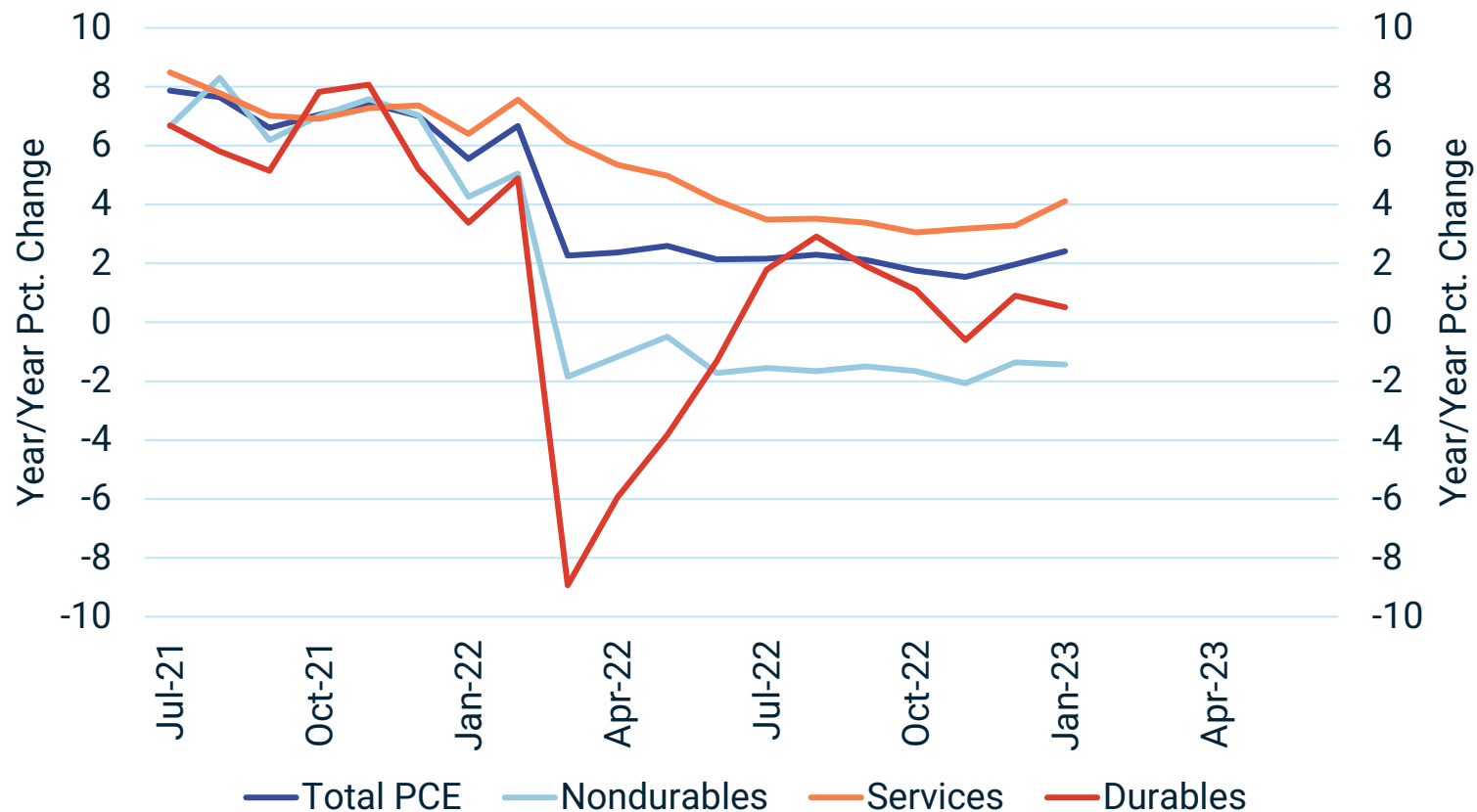
- Real GDP increased 3.1% in the 2<sup>nd</sup> half of 2022. 4<sup>th</sup> quarter growth was nicely above expectations
- For 2022, Real GDP increased around 0.9%
- The most recent Blue Chip consensus forecast expects a relatively flat 2023 before a steady rebound in 2024
- January's update was a slightly downward revision of expectations



Source: Author's calculations using data from U.S. Bureau of Economic Analysis and Blue Chip Economic Forecast.

# U.S. Real Consumer Spending

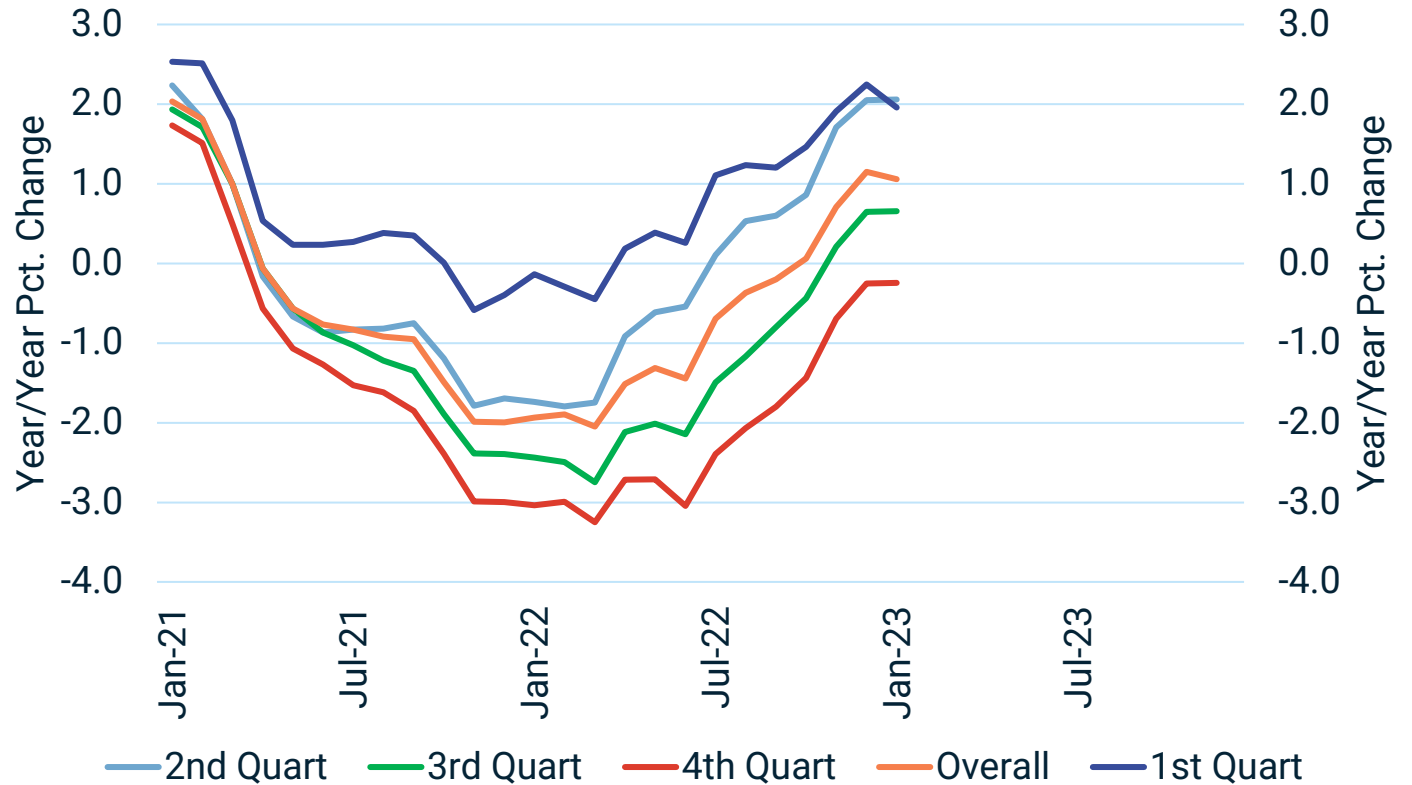
- Year vs. year, despite a softer November and December, Holiday spending was slightly ahead of last year and closer to the upper end of expectations
- January saw an additional pickup in spending, but last year was impacted by Omicron
- So the year/year change in services, while exhibiting underlying strength, got an extra boost
- Particularly eating out, accommodations, and transportation services



Source: Author's calculations using data from U.S. Bureau of Economic Analysis

# Real Wage Growth by Quartile using Atlanta Fed Wage Growth Tracker

- Real wage growth has rebounded back to Spring 2021 levels
- Competition for talent, especially for production workers or in thin areas, continues to put upward pressure on wages
- Consumers are regaining purchasing power which bodes well, especially later this year

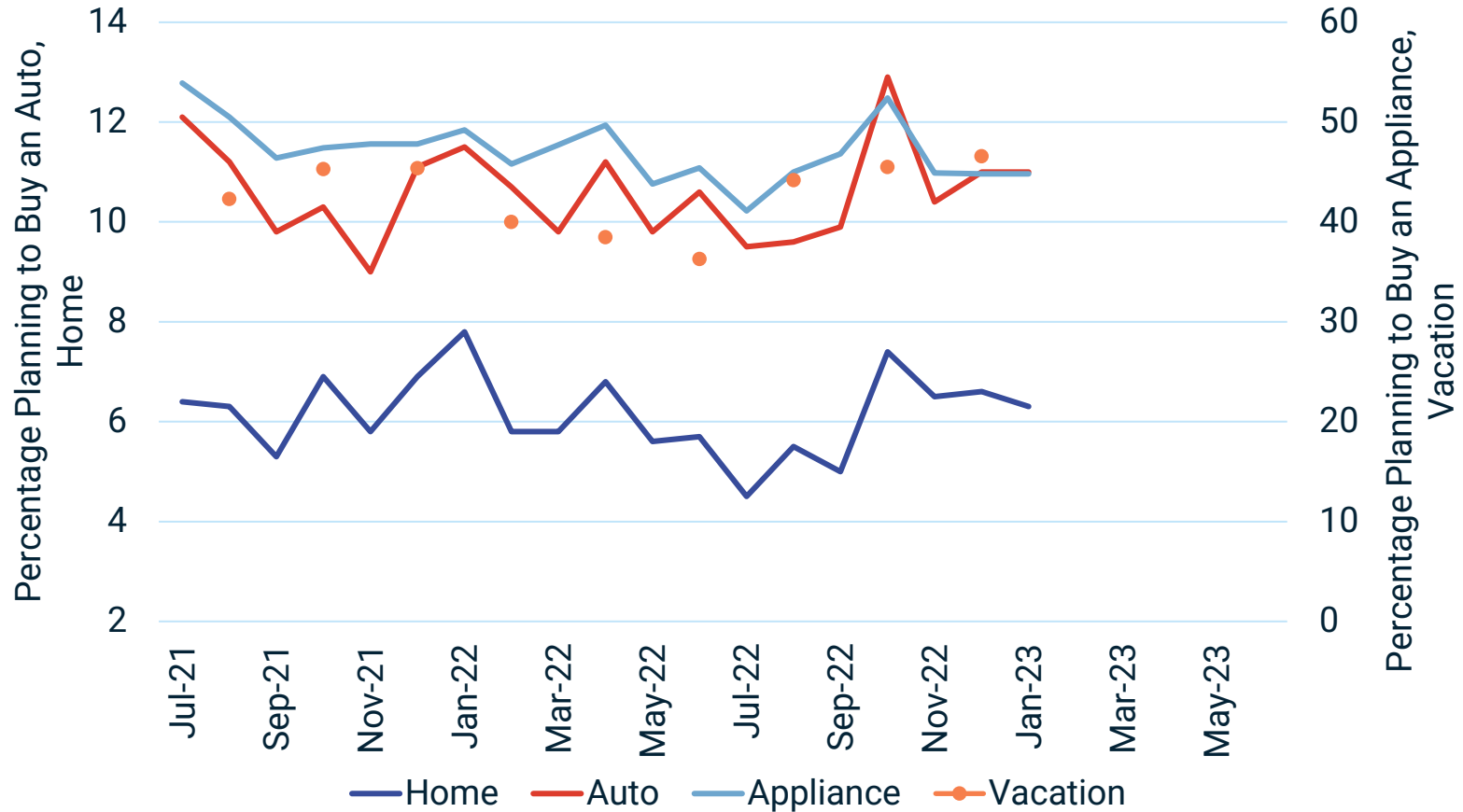


Source: Author's calculations using data from the Bureau of Labor Statistics

# Consumer & Business Sentiment

# 6 Month Buying Plans for Durable Goods & Vacation

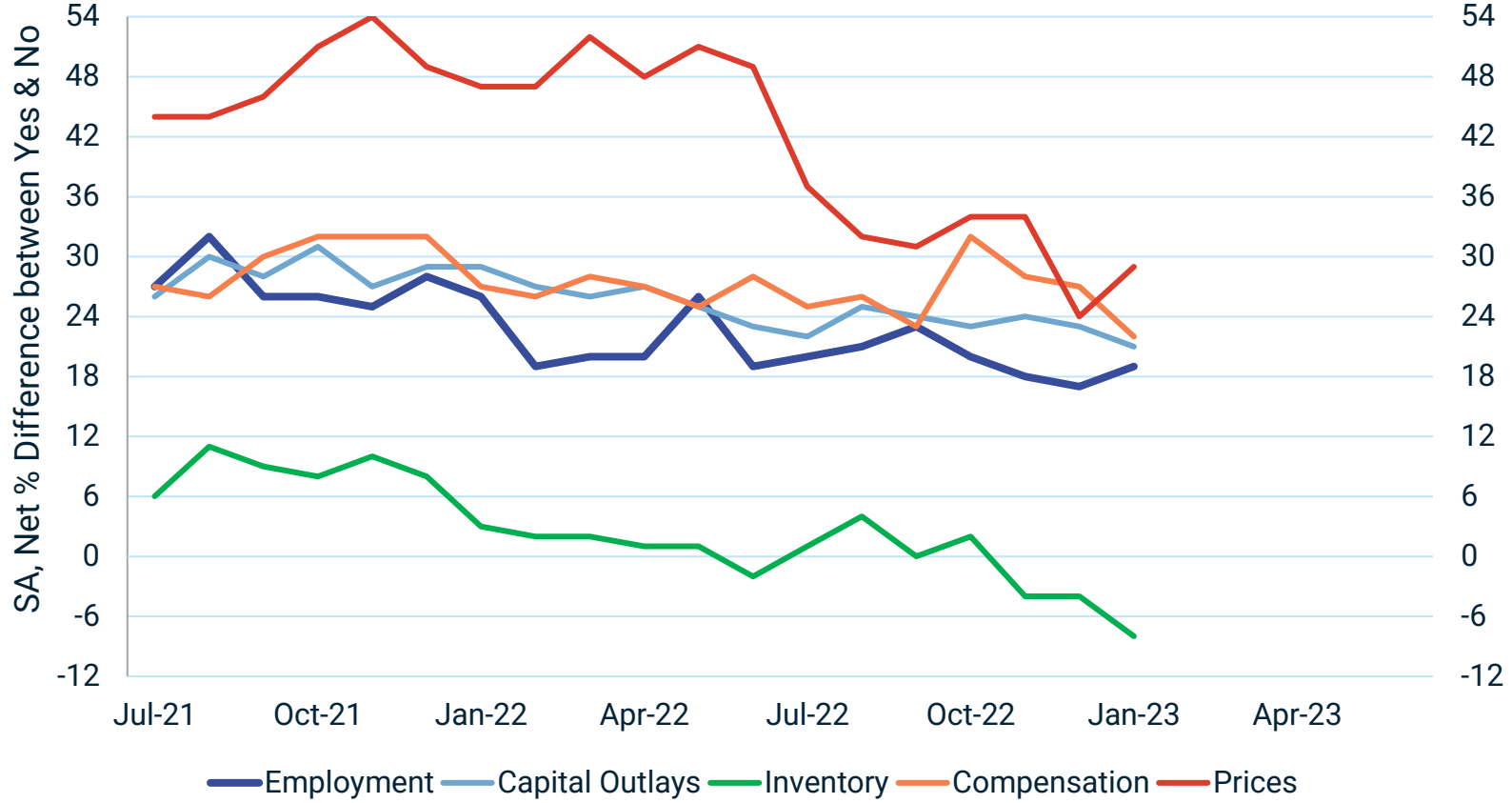
- Except for vacation plans, buying plans for the next 6 months haven't changed much during the winter
- If consumers are less willing to buy goods, especially vehicles and appliances, that's not a good sign for the Michigan economy
- Vacation plans continue to trend higher, a sign that consumer spending patterns continue to shift back toward services



Source: The Conference Board and Haver Analytics

# Small Business Optimism Index: Plans to Increase

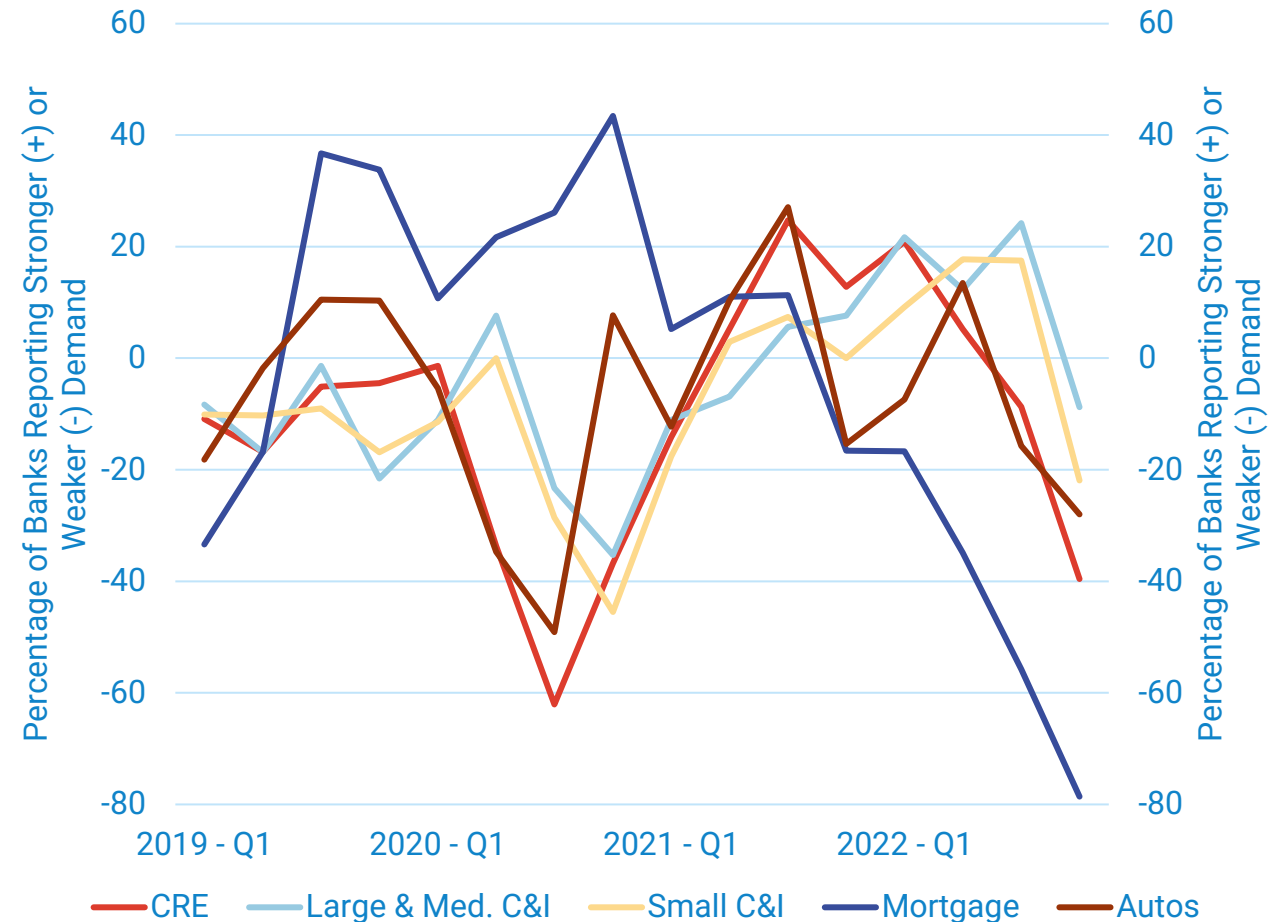
- Overall optimism has hovered around its post-COVID low since June
- Other metrics held relatively steady indicating a healthy operations climate
- However, while small, the number of businesses reporting harder credit conditions increased throughout 2022



Source: National Federation of Independent Business/Haver Analytics

# Senior Loan Officer Survey

- Loan demand weakened throughout 2022
- Demand fell off at a quicker pace for real estate loans vs. C&I
- While demand for auto loans fell, credit card loan demand stayed positive



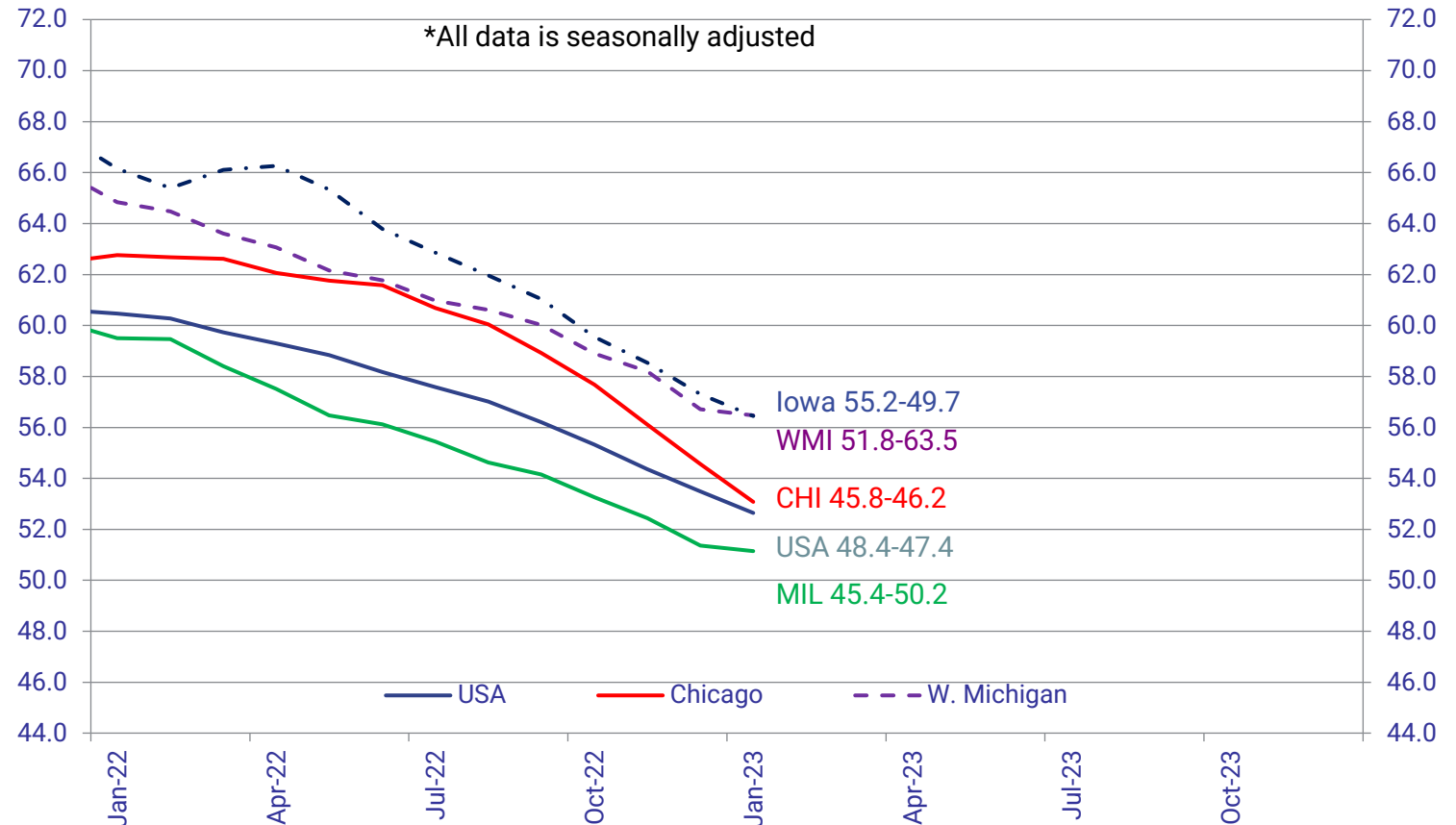
Source: Federal Reserve Board/Haver Analytics



# Other Leading Indicators

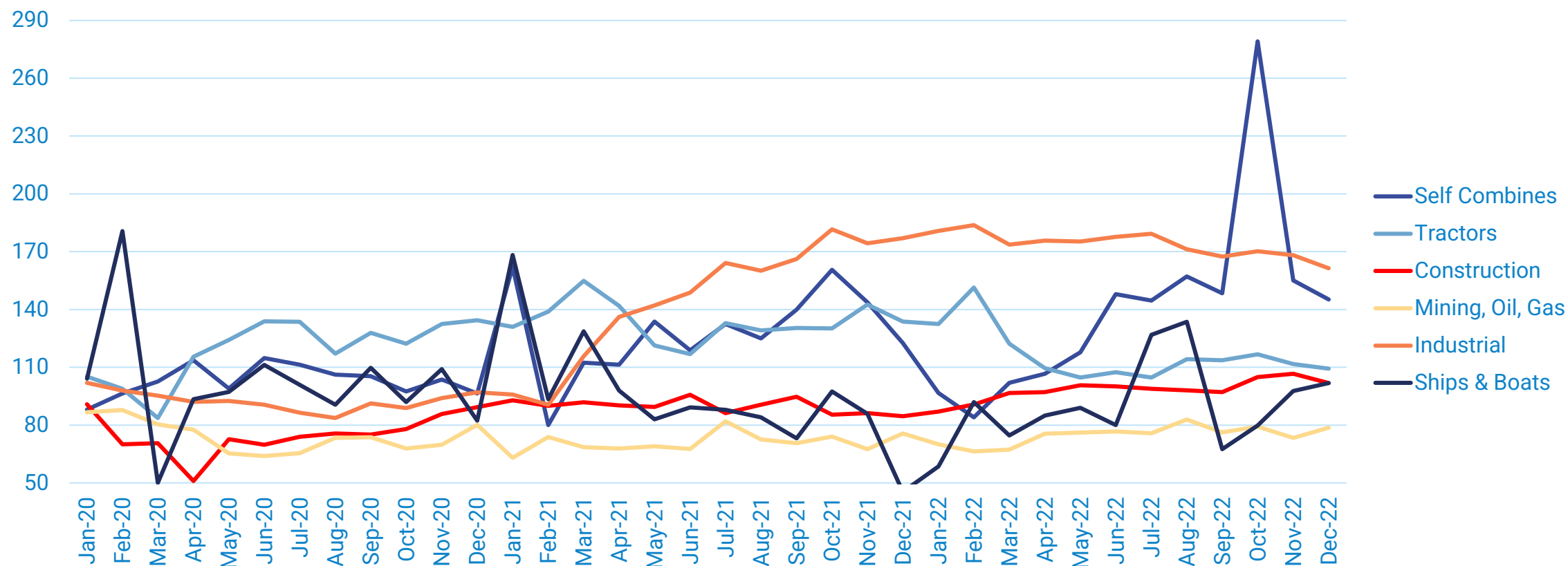
# Regional Purchasing Managers' Indexes

- Except for Western Michigan, activity in the goods-based economies continued to trend lower
- Nationally, new orders have fallen 6 of the last 7 months
- A majority of industries reported falling lead times for the 4th straight month
- A majority of industries also reported falling backlogs for a 4th consecutive month
- A majority of industries also reported a decrease in production



Sources: Author's calculations based on data from Haver Analytics, Creighton Business Outlook, and the Institute of Supply Management, Grand Rapids and Grand Valley St. University; Values above 50 indicate expansion; values below 50 indicate contraction. The chart shows each PMI's 12 month moving average. The lines represent the 12 month moving averages. The 2 numbers next to the location are the readings for the most recent 2 months.

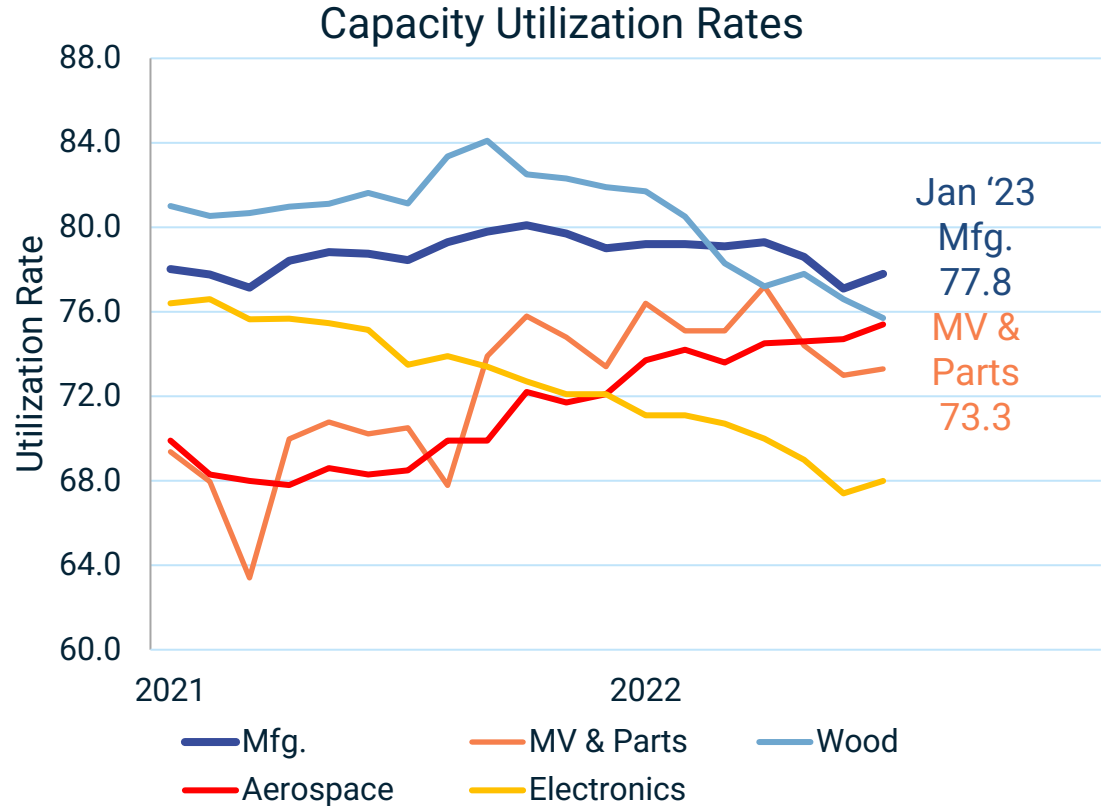
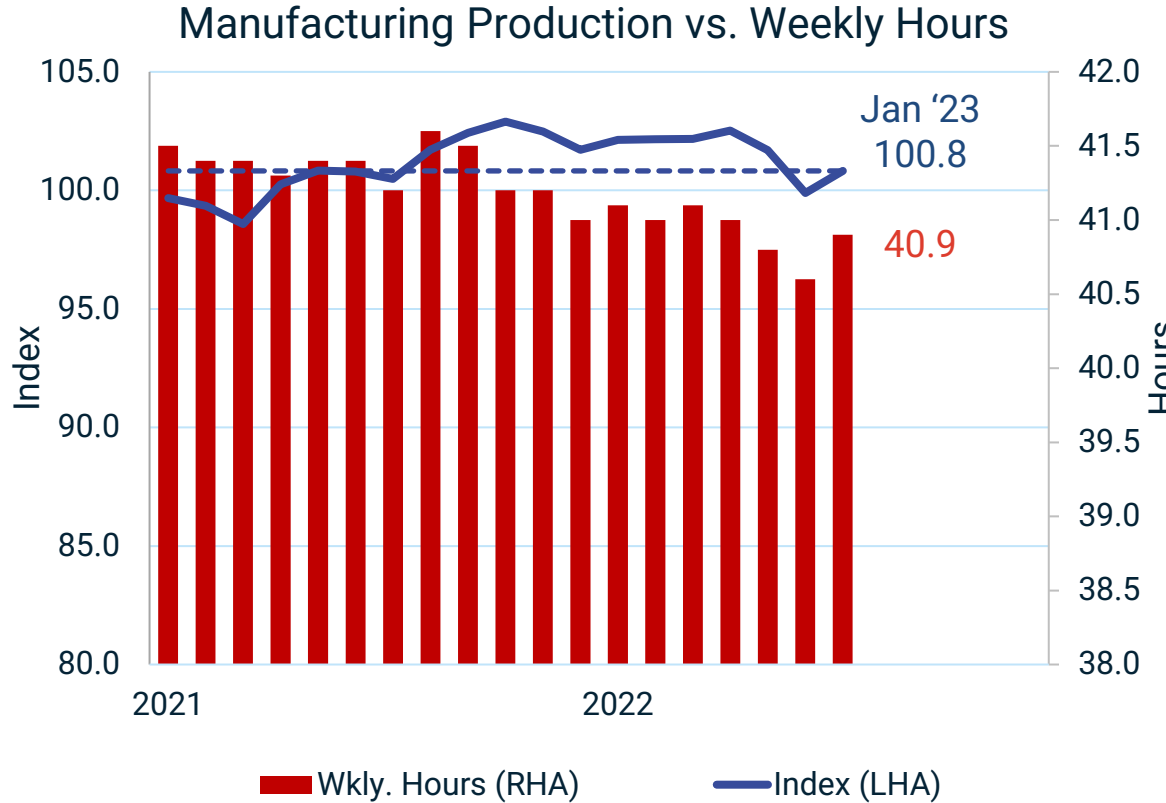
# Equipment Order Volumes



- Nondefense Aircraft has rebounded considerably with the return of air travel and Boeing's revamped 737 Max
- Computers and Electronics were flat and below pre-pandemic levels
- Orders for farming equipment picked up since 2020

Source: Author's Calculations using data from the ELFA

# Manufacturing Production & Capacity Utilization

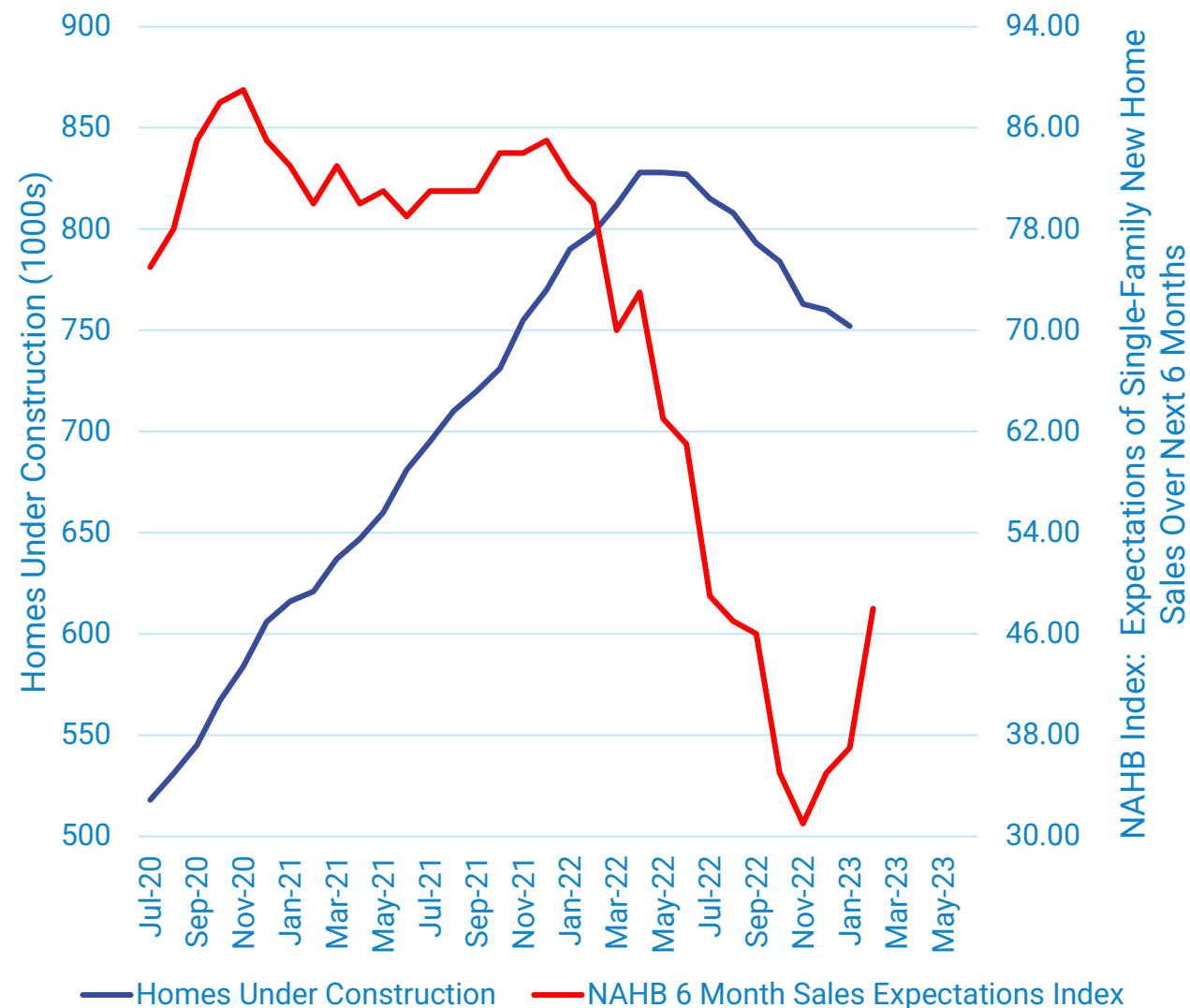


- Manufacturing production fell in the 4<sup>th</sup> quarter of 2022, but rebounded in January
- Manufacturing hours have mostly trended lower throughout 2022 before bouncing back in January
- Light vehicle production rebounded slightly in January as well

Sources: Bureau of Labor Statistics and Federal Reserve Board

# Homes Under Construction and New Home Sales Expectations

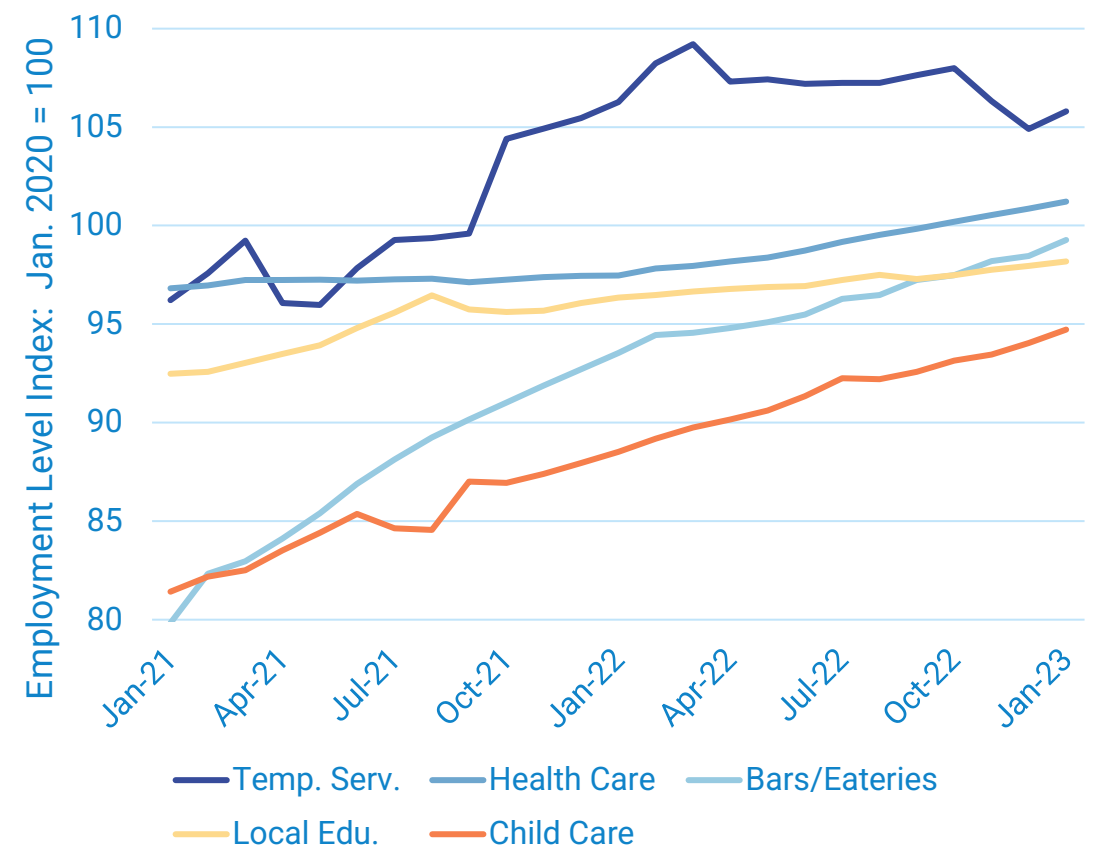
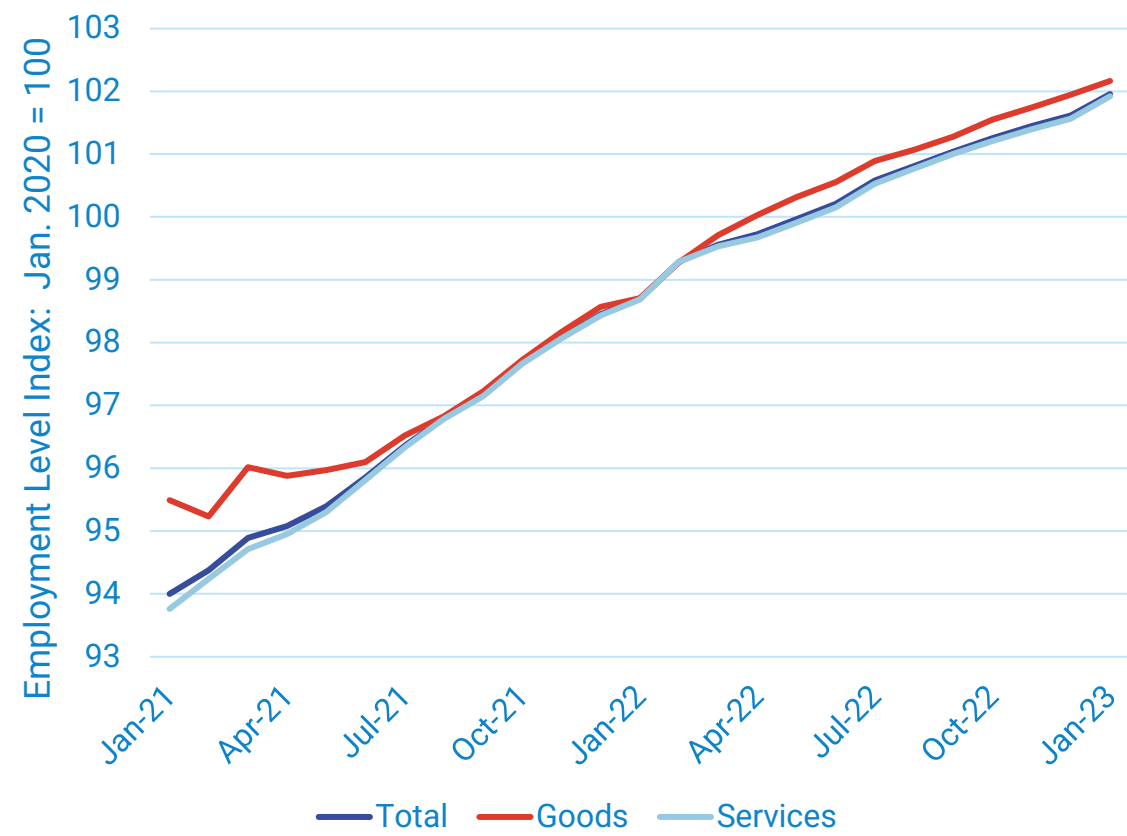
- The number of homes under construction have moderately fallen from its April peak (9%)
- Going back to the early 1970s, recessionary periods are consistent with a decreasing number of homes under construction for at least a year
- An improving outlook?



Sources: National Association of Home Builders, U.S. Census Bureau, and Haver Analytics

# Labor Market

# Payroll Employment: Select Industries

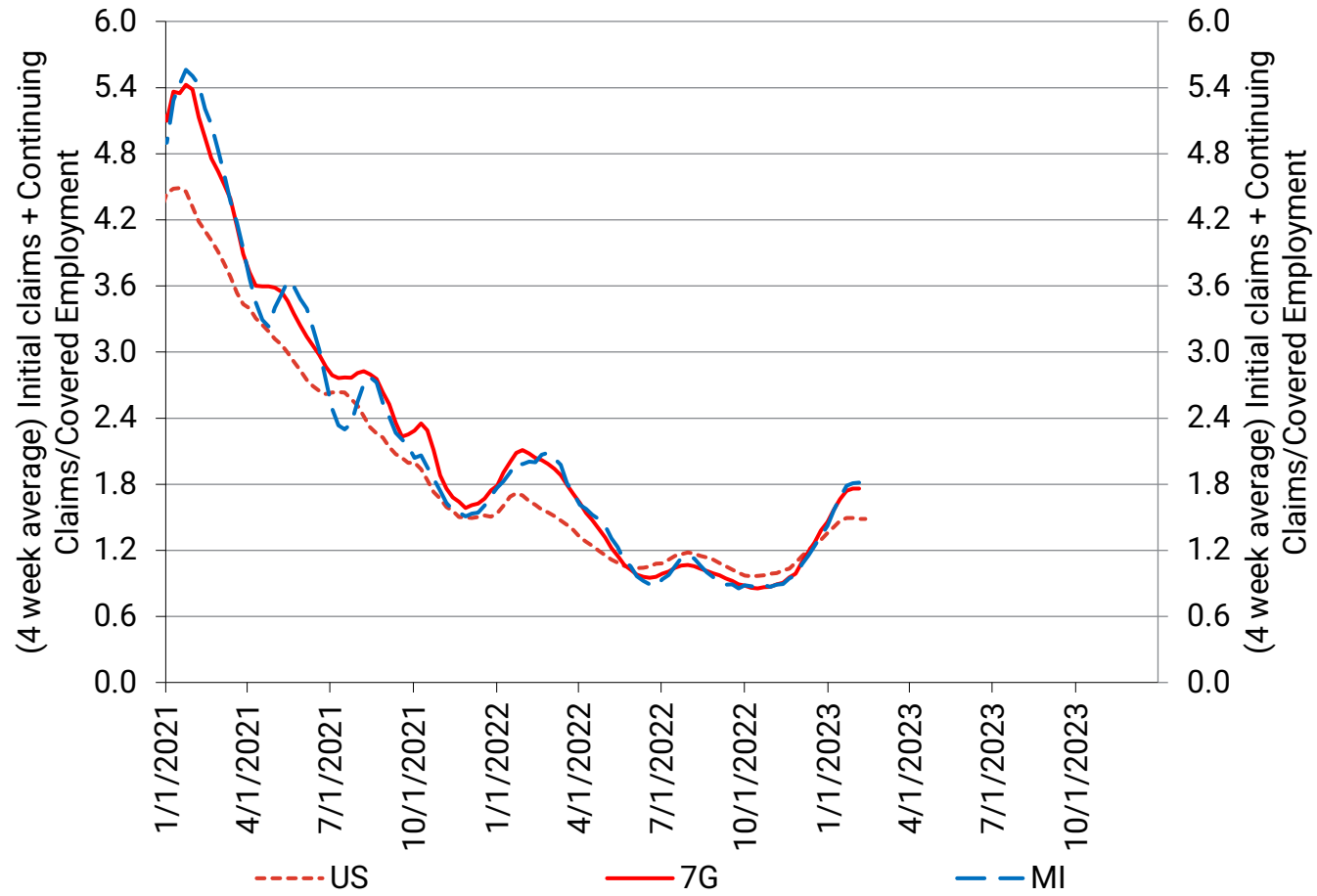


- Service-based employment growth has picked up as some of the industry employment gaps close
- However, construction and manufacturing have experienced strong employment gains in recent months
- Note: Temporary Help Services was 2-3% higher than its Jan. 2020 level pre-pandemic

Source: Author's calculations using data from the Bureau of Labor Statistics

# Unemployment Claims: U.S., Midwest, Michigan

- As a percentage of those eligible to file for unemployment insurance (UI), UI claims are at pre-pandemic levels
- There has been an increase in continuing claims in recent weeks, so people filing for UI are still on UI
- However, the increase is consistent with pre-pandemic seasonal patterns (at this point)

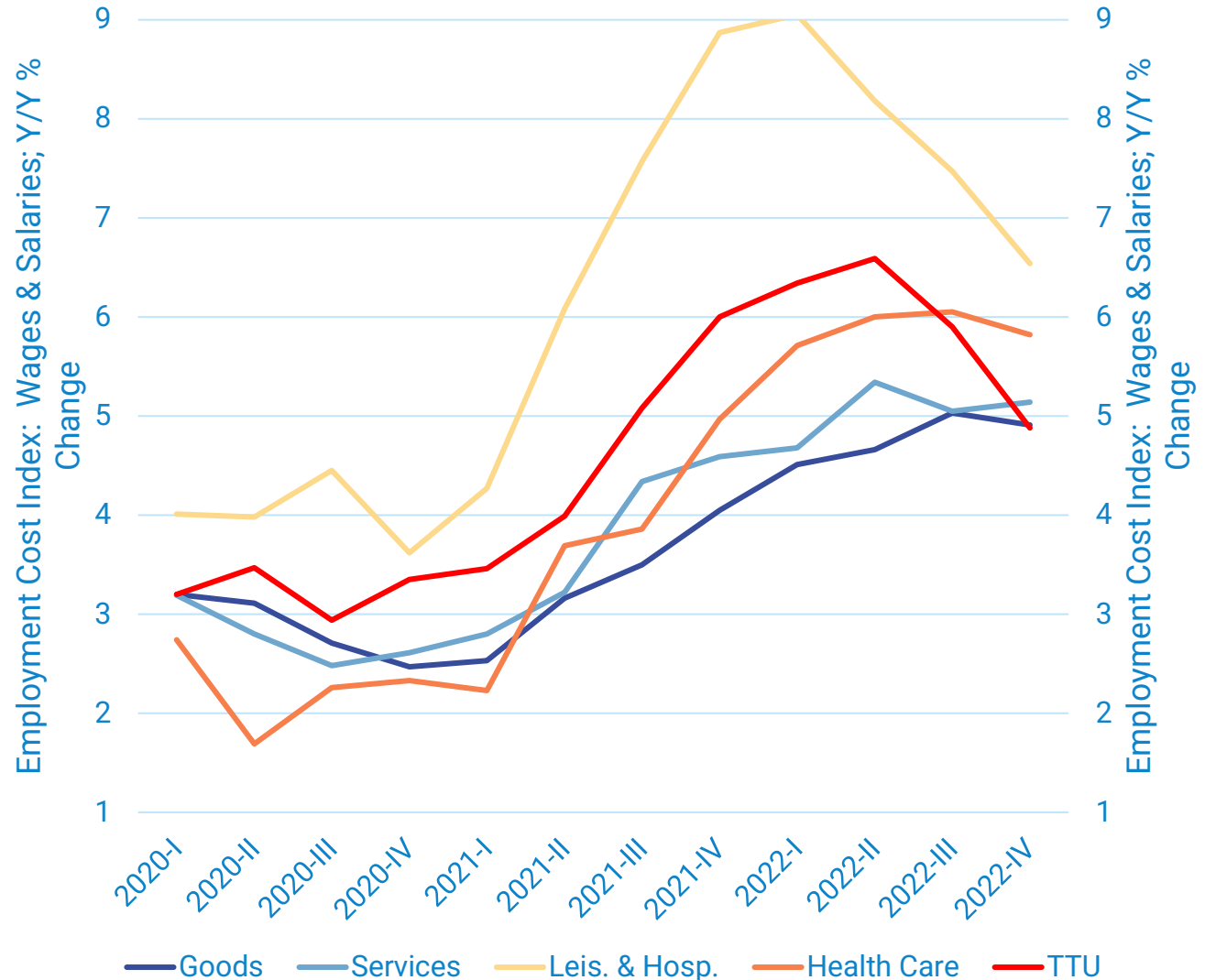


Source: Author's calculations using data from the Department of Labor



# Employment Cost Index for Wages & Salaries

- Wage & salary costs remain well above their respective 2015-19 average annual increase for goods (2.6%) and services (2.5%)
- But the pace of growth in wage and salary costs has slowed in some sectors
- Though not in construction and manufacturing



Sources: Author's calculations using data from the Bureau of Labor Statistics and Haver Analytics

# 2023 Economic Environment

- Is it just me or is this year hard to get a handle on? Feels like we're going to play tug-of-war over the following.
  - Downside risks are obvious
    - The longer inflation remains elevated, the more people it will impact
      - Chasing inventory implies firmer prices
      - However, elevated pricing for some inputs and components persists
      - Ground freight transportation providers (UPS, FedEx) are raising surcharges
      - Is there pricing power left in services?
    - First signs of weakness in the labor market
    - Weakening loan demand
    - Orders have softened, backlogs being worked through
    - What happens with UAW/Unifor contract negotiations?
    - Commercial real estate?
  - However, the number of upside risks may be more numerous than previously thought
    - Money on the sidelines
    - While wage/salary gains have slowed, they've persisted at high levels
    - And with price pressures easing, consumer purchasing power is rebounding
      - Are durable goods prices heading back to their pre-pandemic (deflationary) trend?
    - Also, as much as short-term interest rates have increased, auto lending and mortgage rates haven't responded to the same extent, leaving the door open for if things fall into place, there's sizeable pent-up demand for vehicles and housing waiting to be released
    - Fiscal policy
      - Infrastructure, though elevated construction costs and labor difficulties may complicate this
      - American Rescue Plan
    - A more competitive dollar?