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# Economic Outlook for Equipment Finance Connect

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**MARTIN LAVELLE**  
**SENIOR BUSINESS ECONOMIST**  
**FEDERAL RESERVE BANK OF CHICAGO**

*The views expressed here do not necessarily reflect the views of the  
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## Presentation Highlights

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- 1<sup>st</sup> quarter economic growth was slower but not worrisome.
- Consumer sentiment has improved
- The COVID hangover is impacting the dual mandate
  - PCE inflation getting all the way down to 2% faces some challenges
    - Service sub-sector dynamics: Tight housing market, stubborn cost pressures in the restaurant industry, and a labor shortage in nursing care
    - Goods: higher gas prices versus last year and tight wholesale used vehicle inventory levels
  - The labor market remains strong though with some interesting characteristics
    - Much of the job growth is happening in Health Care, Leisure & Hospitality, State & Local Education, and State & Local Government Services
    - Construction remains an area of labor market strength because of all of the ongoing projects
    - Meanwhile, a much more tepid labor market exists in the Manufacturing sector
- Otherwise, it's a lot of the same with the other variables that normally lead the direction of the economic activity

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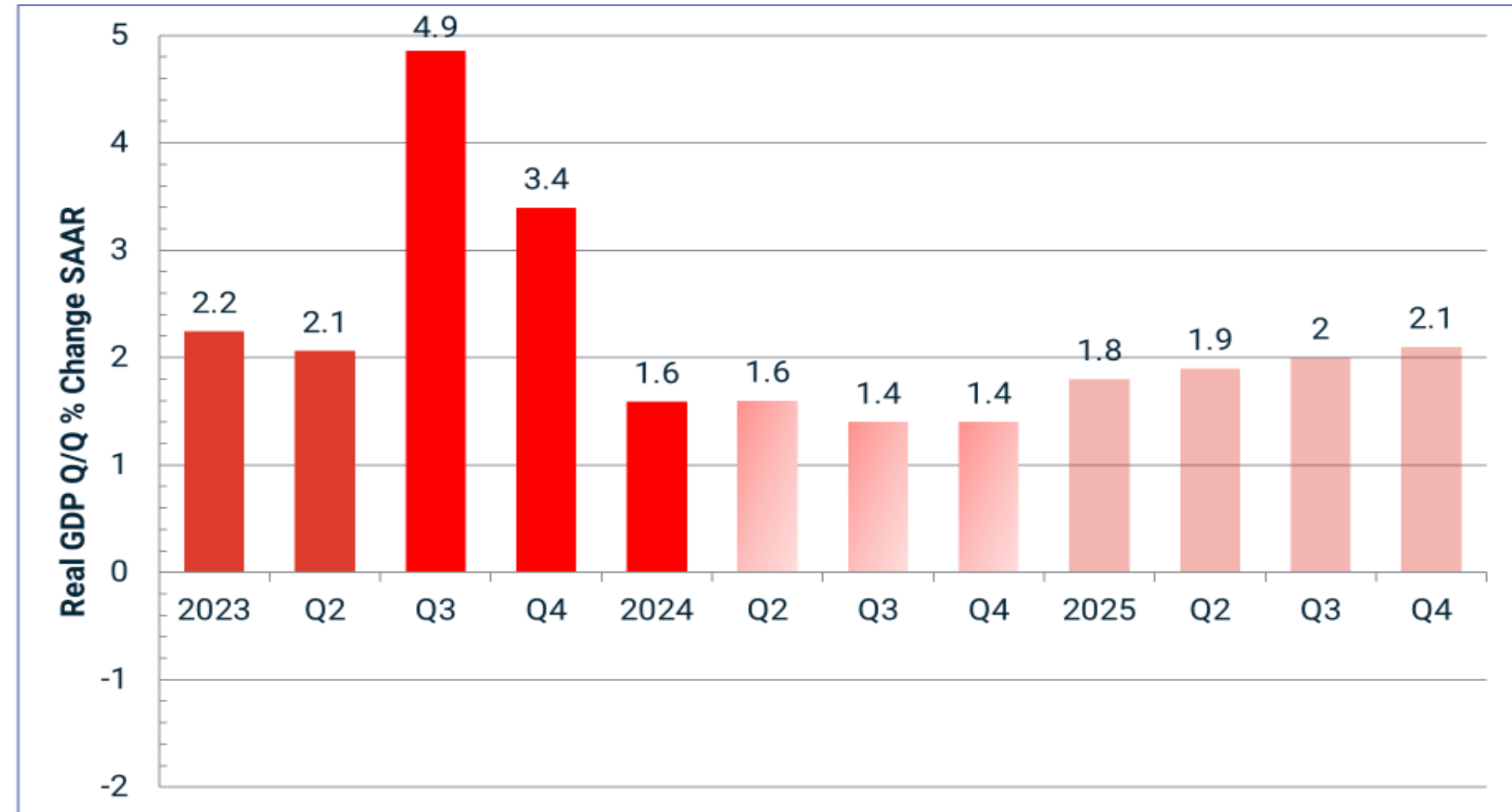
# Economic Activity & Consumer Spending

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## U.S. Real GDP

- Real GDP increased 3.2% in 2023. Growth was well above its long-term trend.
- The initial reading of 1<sup>st</sup> quarter Real GDP growth fell modestly short of expectations
- The most recent Blue Chip consensus forecast expects growth to be much slower this year (1.6%).

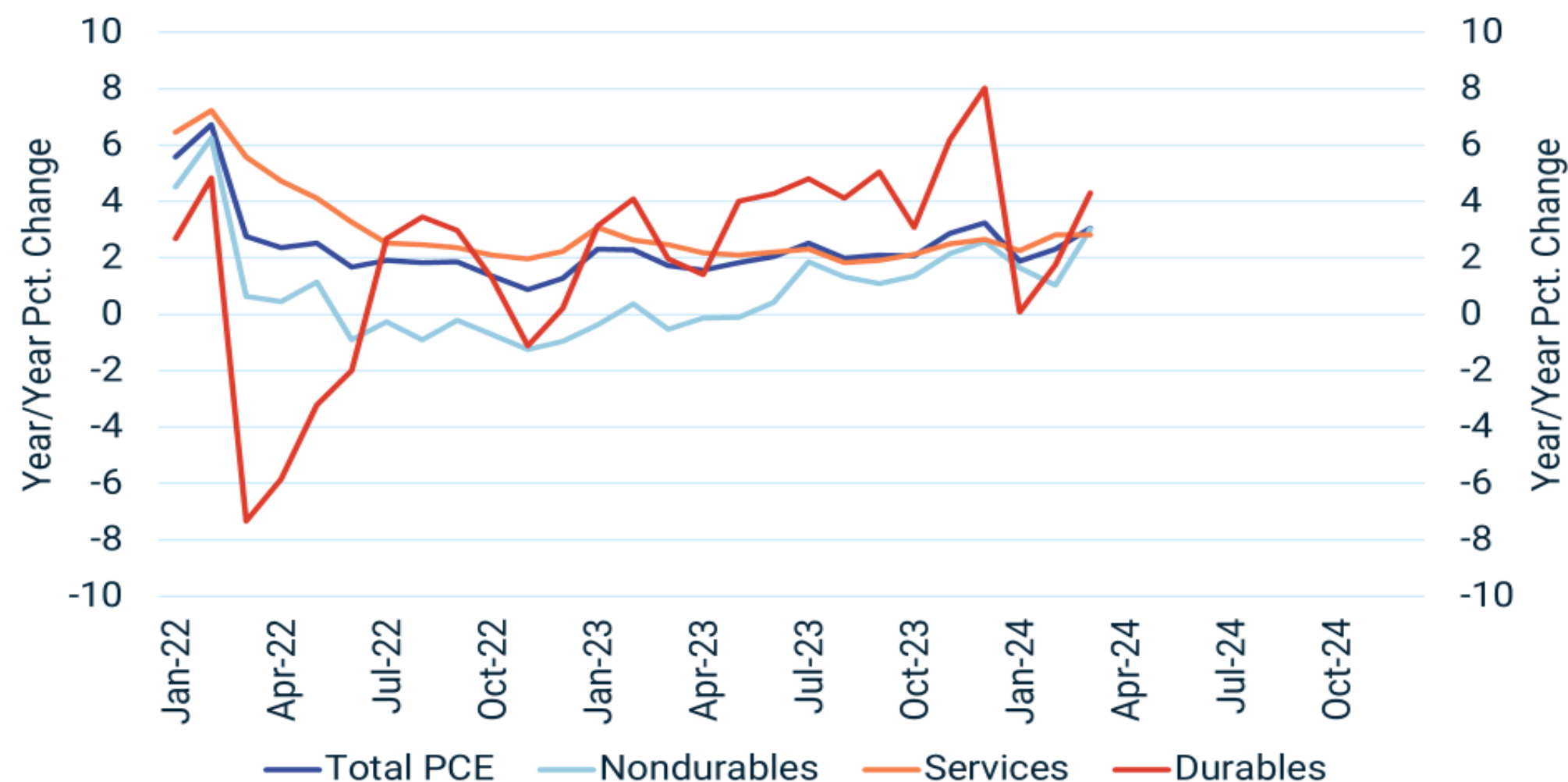


Source: Author's calculations using data from U.S. Bureau of Economic Analysis and Blue Chip Economic Forecast.

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## U.S. Real Consumer Spending

- Consumer spending bested expectations in March, though some of that is because of Easter
- When you look at the quarter/quarter change, spending growth isn't quite as strong, notably on the goods side

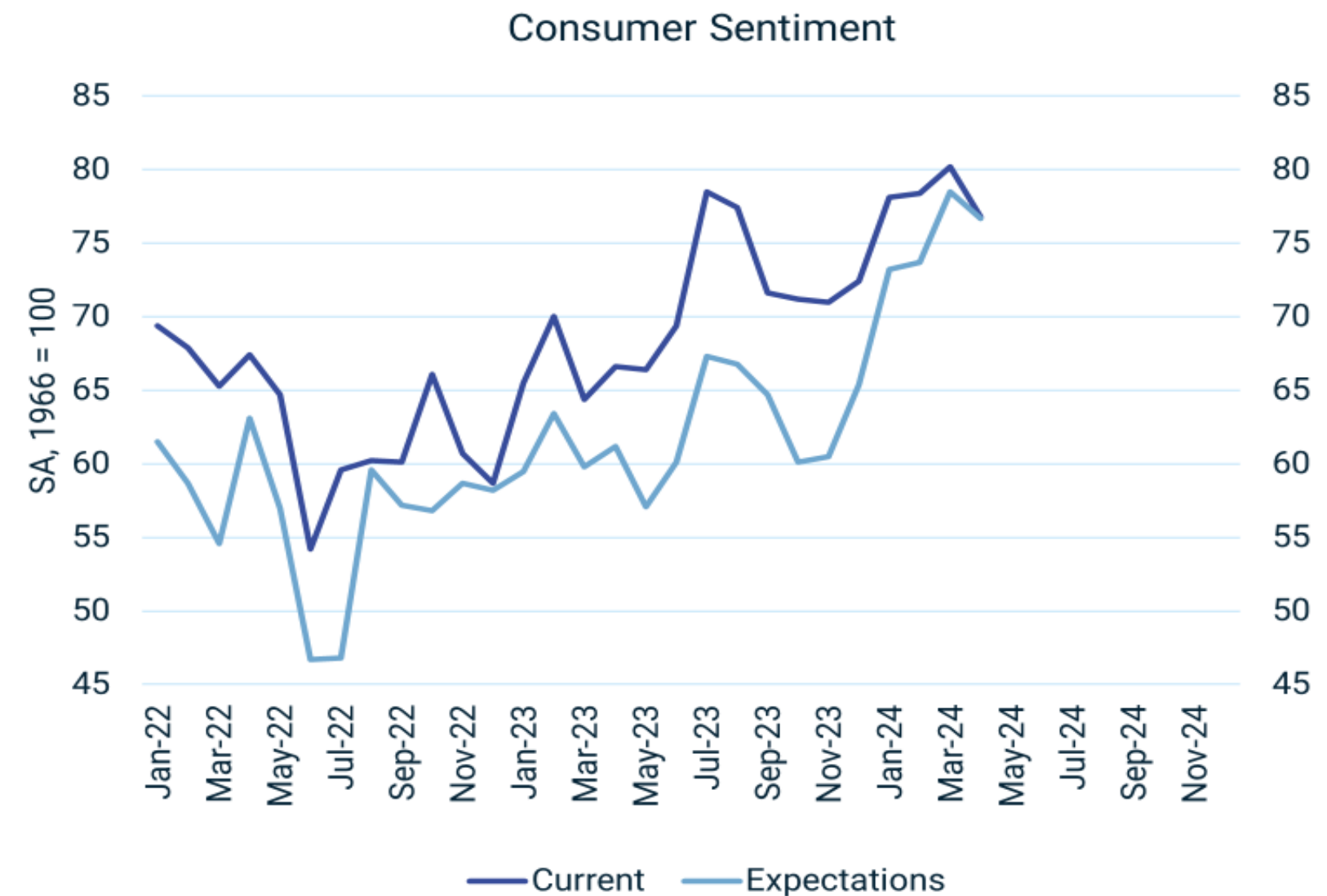


Source: Author's calculations using data from U.S. Bureau of Economic Analysis

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## Consumer Sentiment Has Improved

- Consumers are feeling better about the now and the medium-term than they have in a little while



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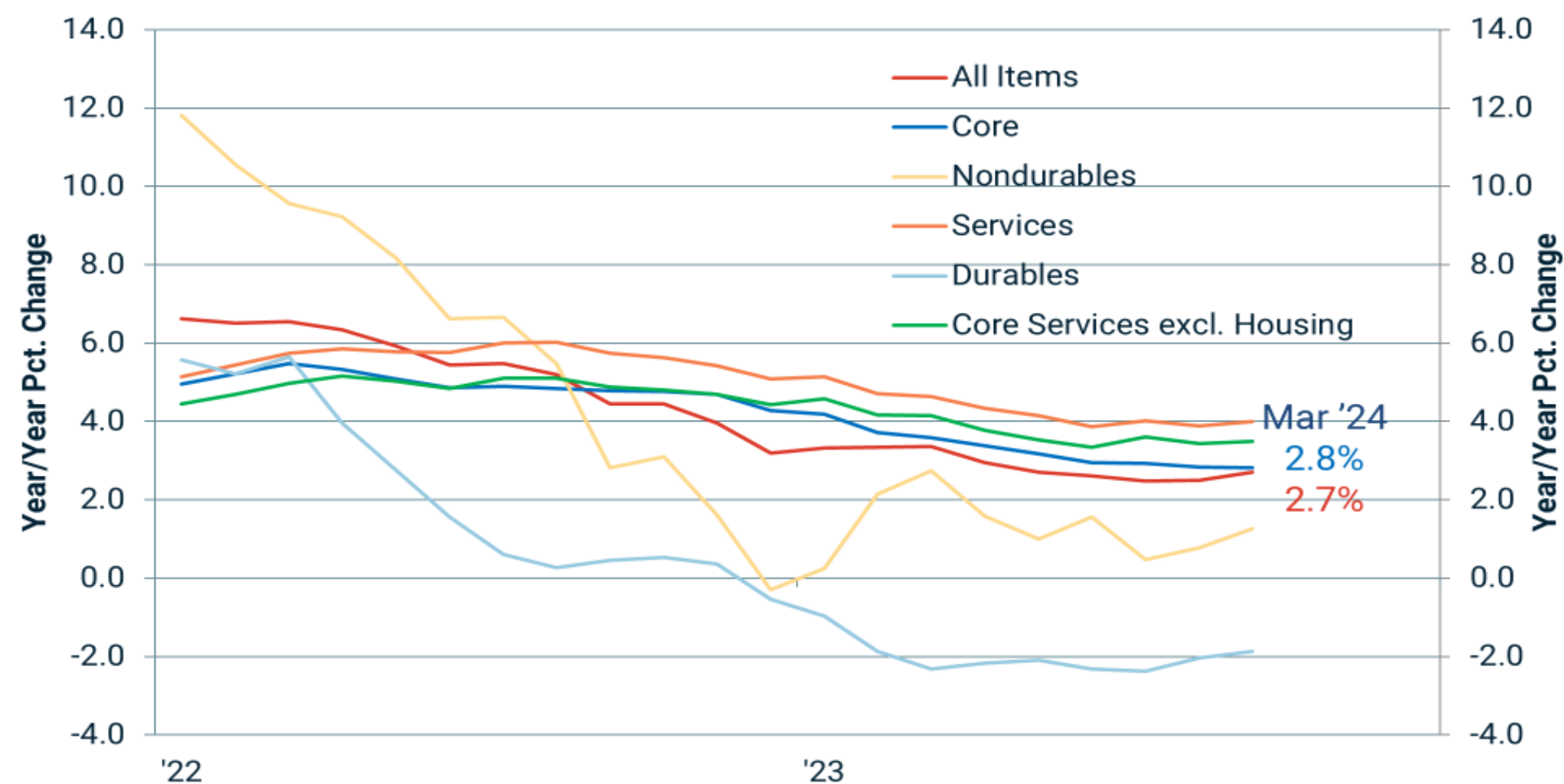
# Inflation

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## PCE Inflation

- Headline PCE inflation increased, largely because of higher gas prices than at this time last year
- Core PCE inflation held steady as pricing in some services remain stubborn
- Slower price increases continue to show up in food, clothing, and housing



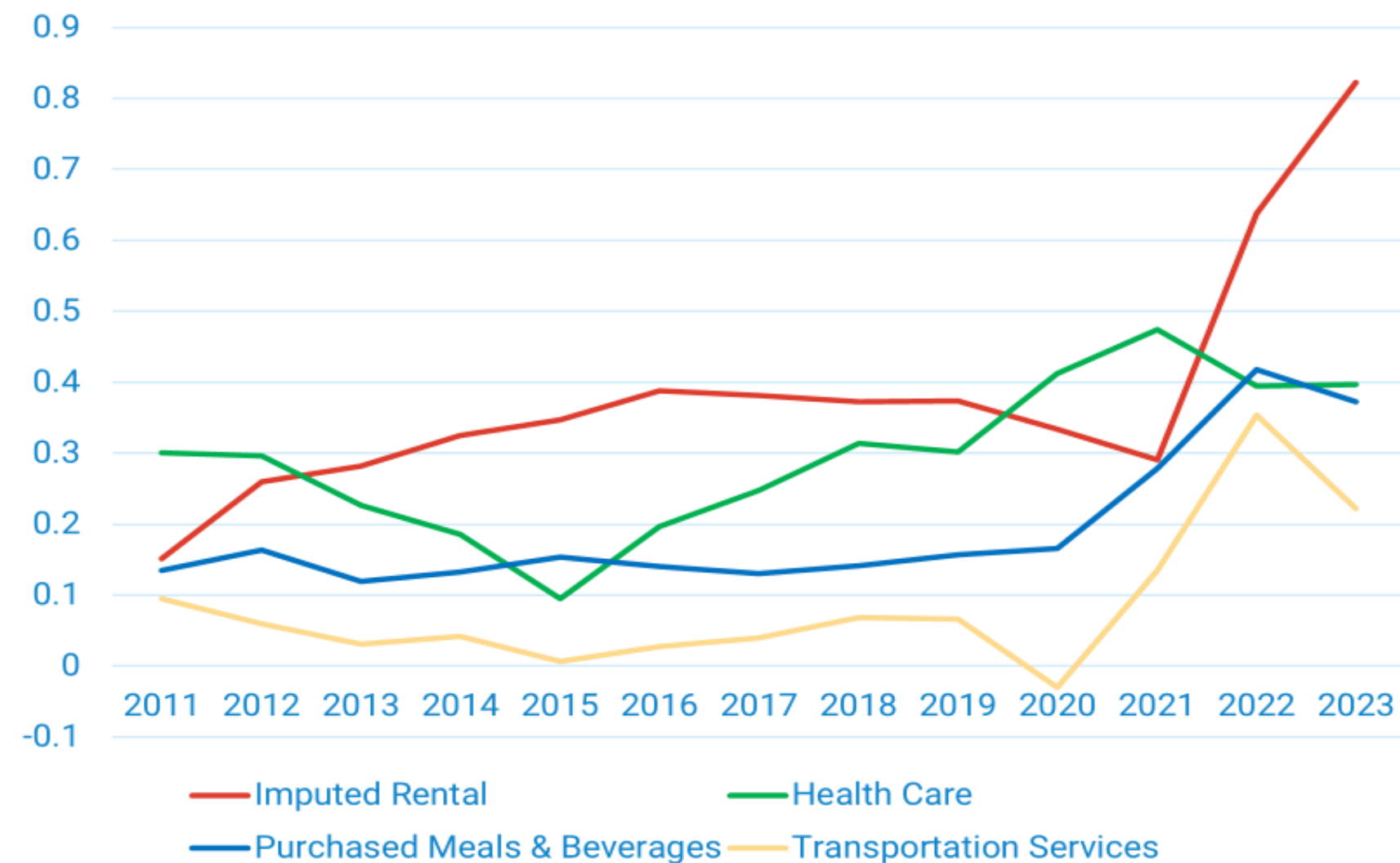
Source: Author's calculations using data from the Bureau of Economic Analysis

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# What's the Holdup on Consumer Inflation?

- These 4 categories make up 36% of the entire consumer basket and about ½ of the services portion
- Their contributions are elevated though their respective shares of consumer spending have decreased over this time
- So, it may be harder for these categories to contribute less to the inflation number?

Contributions to the Inflation Number

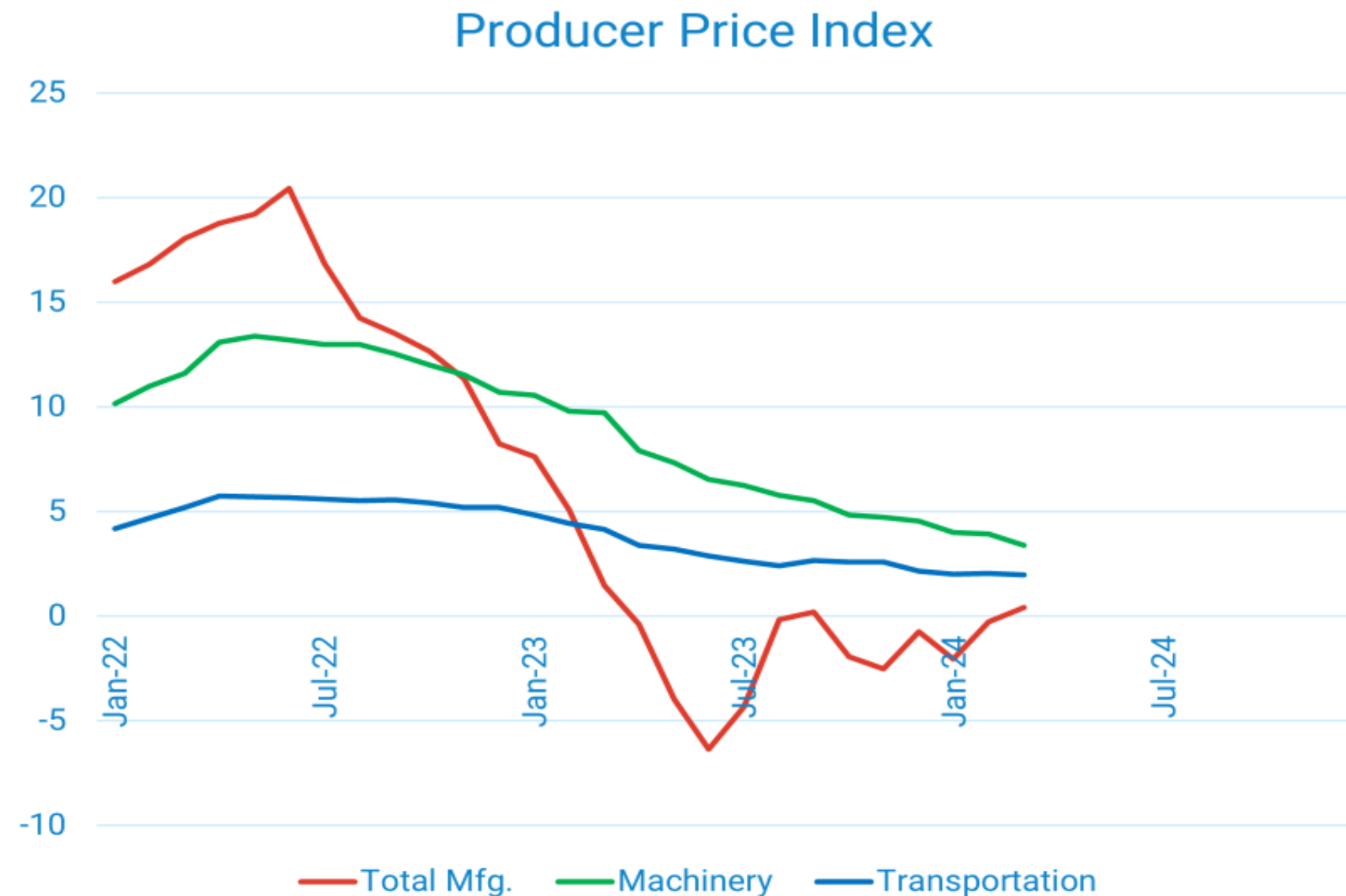


Source: Author's calculations using data from the Bureau of Economic Analysis

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# Machinery Manufacturing Inflation

- Inflationary pressures have eased on the production side
- Ag and industrial machinery have come way down from their COVID peaks



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

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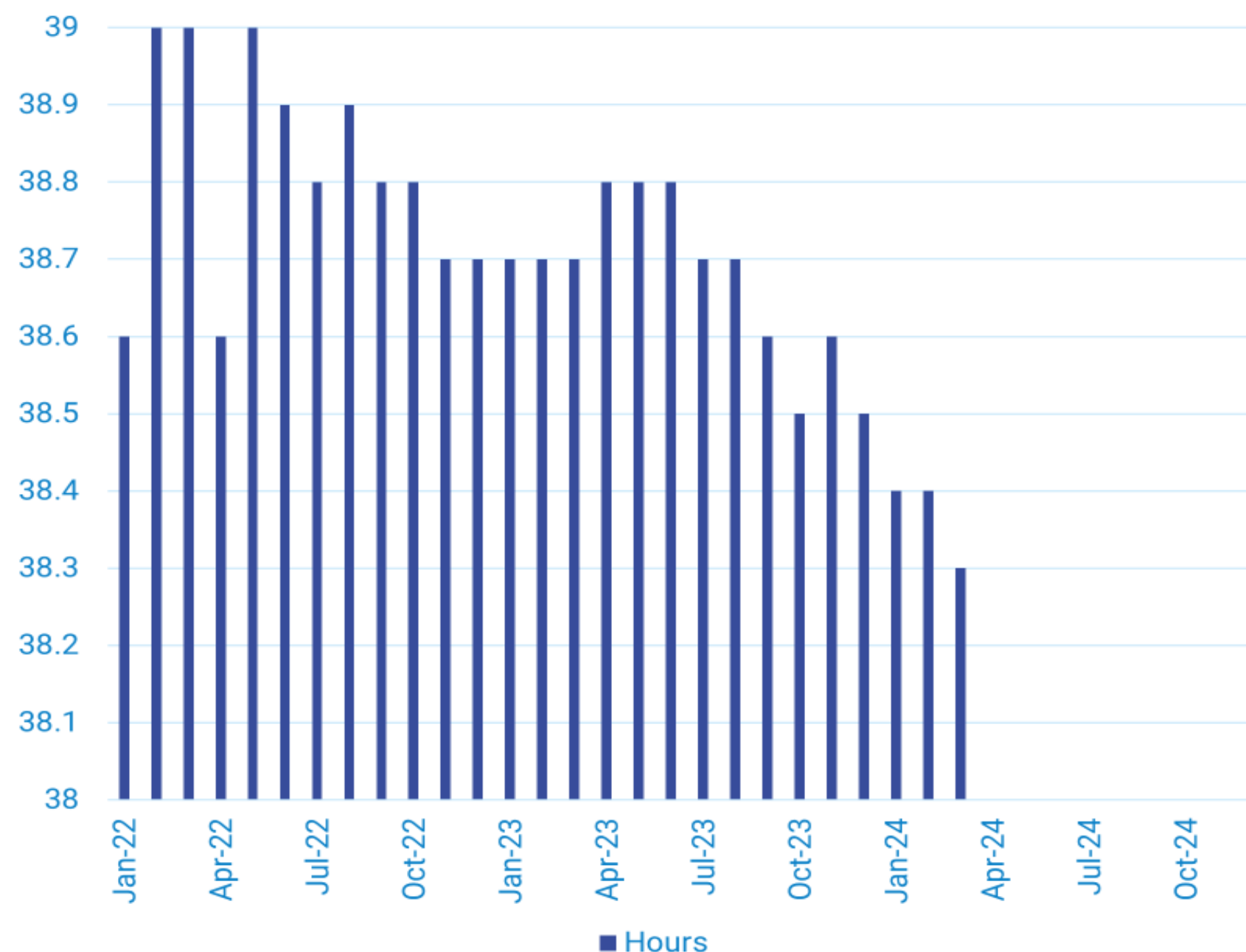
# Current State of the Labor Market

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## Wage & Salary Workers' Hours

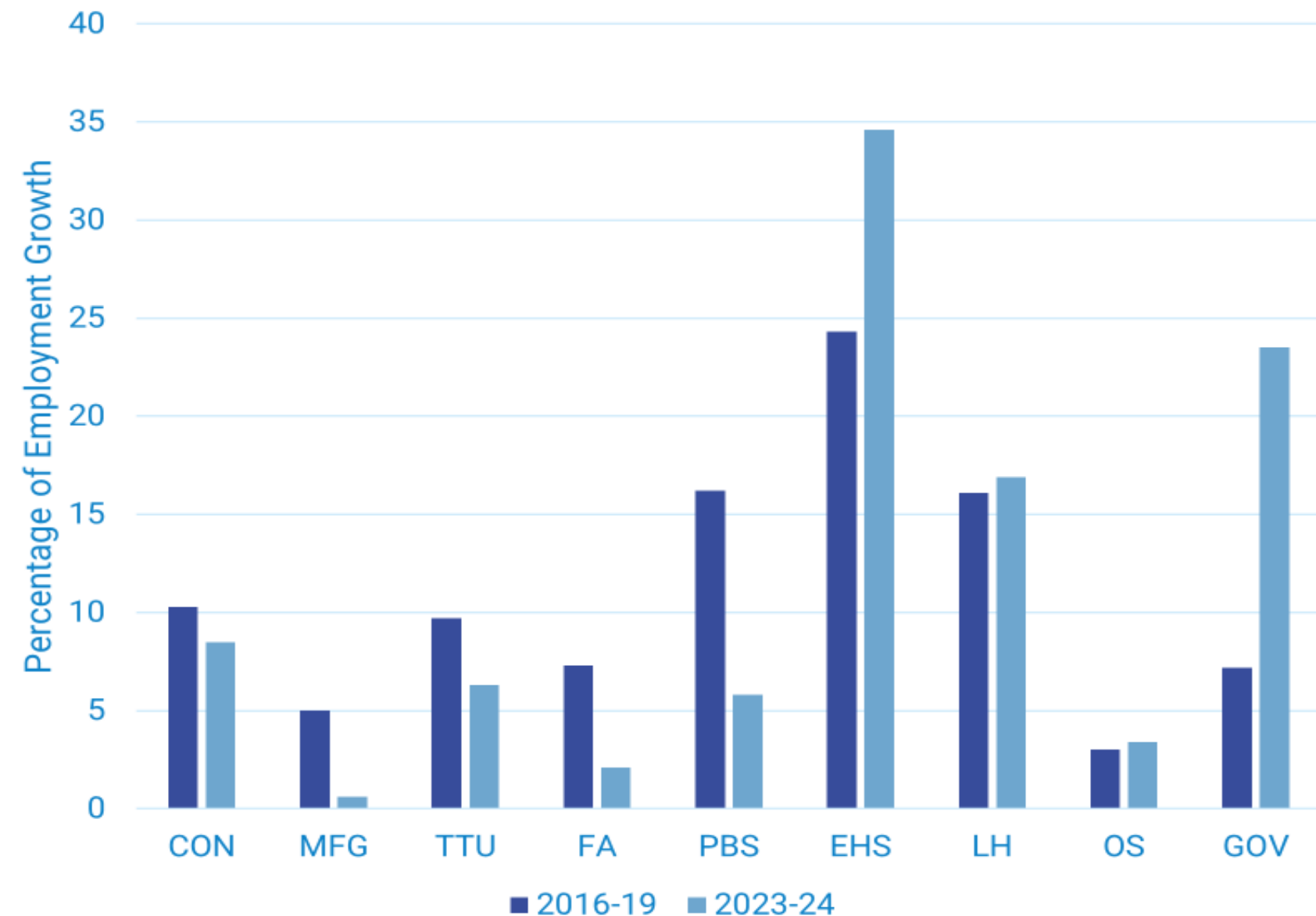
- Hours are down across most of the major employment sectors
- However, the number of multiple jobholders is now above its pre-COVID level, suggesting the lost hours are being made up by some workers



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# US Nonfarm Payroll Employment Growth

- Growth has been concentrated in categories still recovering from the pandemic: health care and government services
- Construction v. manufacturing sticks out
- Leisure & Hospitality is off to a strong start in 2024

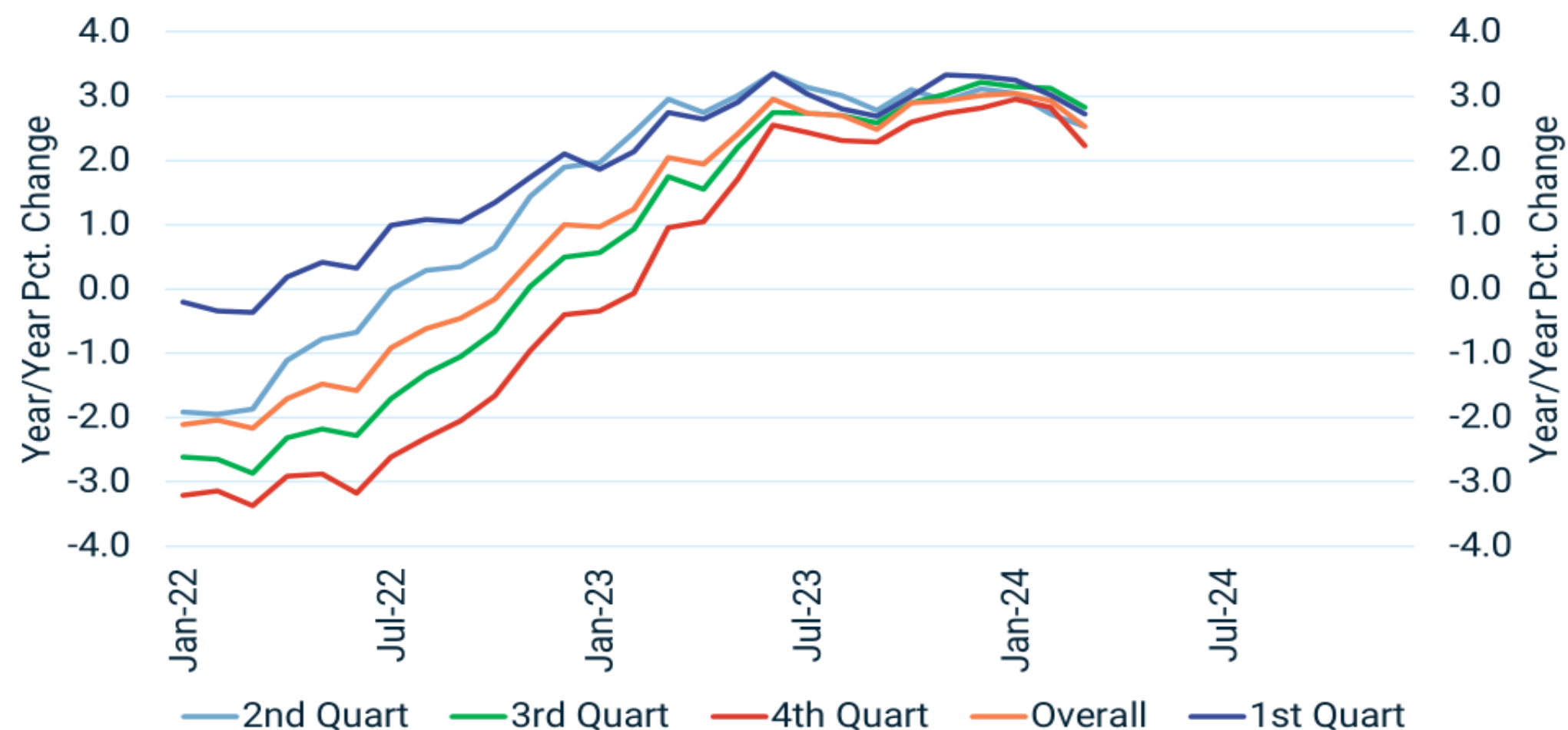


Source: Author's calculations using data from the Bureau of Labor Statistics

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

- Real wage gains have flattened out, but at elevated levels
- Wage pressures seem to be easing, but with inflationary pressures easing as well, real wage gains remain solid
- Wage gains for high skill workers have surpassed those of low and medium-skilled workers



Source: Author's calculations using data from the Atlanta Fed's Wage Growth Tracker

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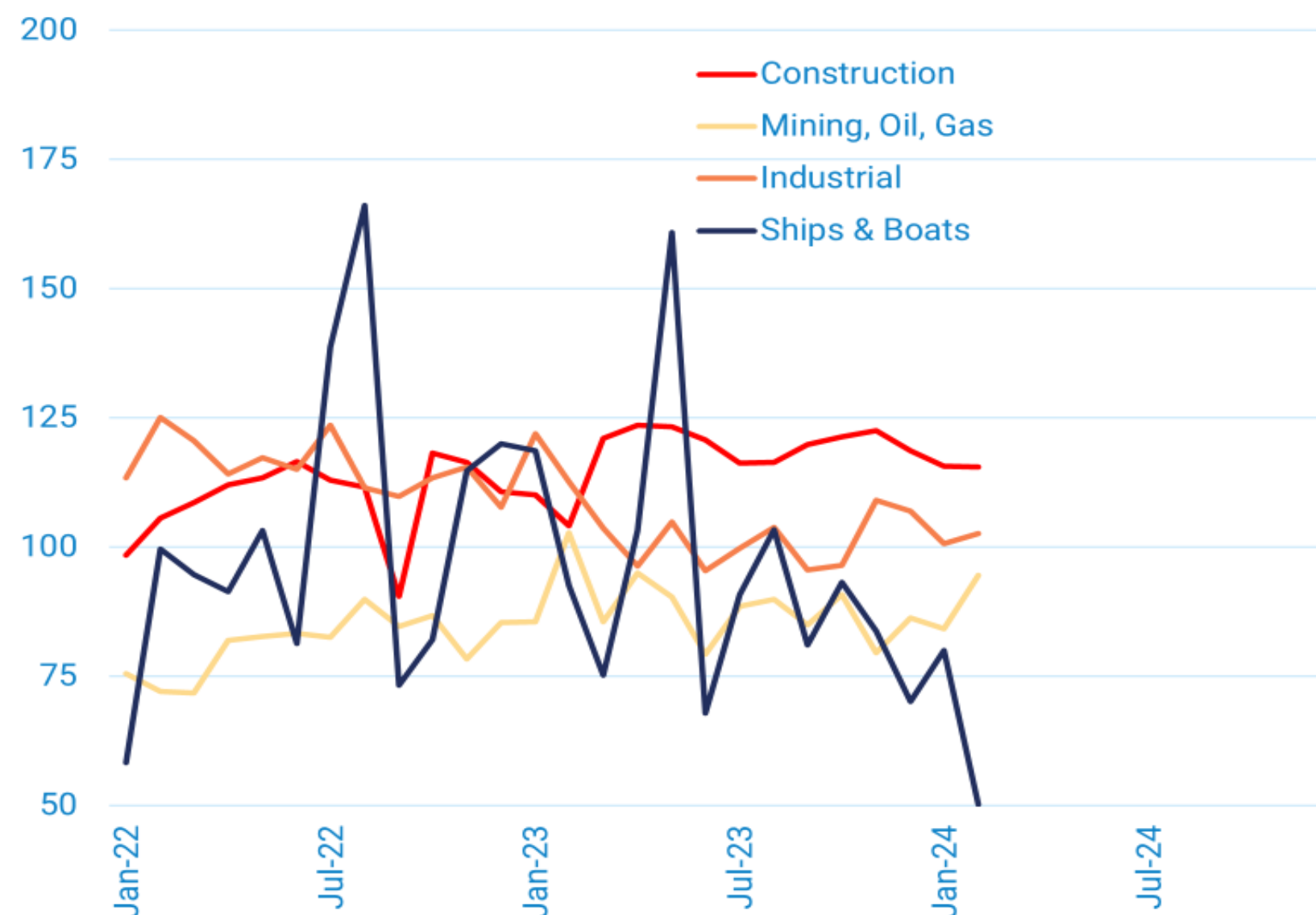
# Economic Pressure Points?

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## Equipment Order Volumes

- Adjusted for inflation, dollar volumes are flat or down in these categories
- Indexed against the 2018-19 average, except for ships and boats, dollar volumes are hanging in there

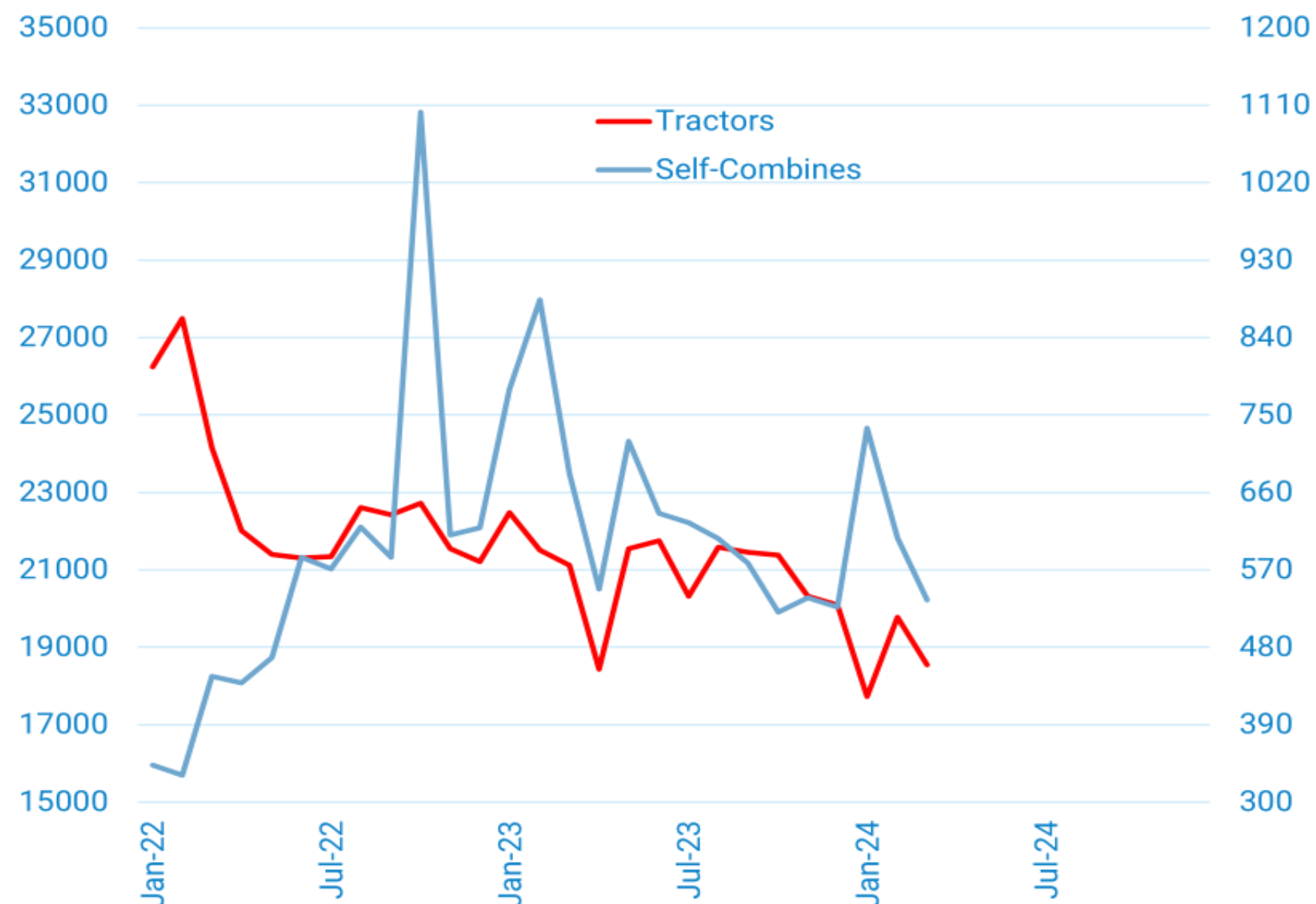


Source: Author's calculations using data from the Census Bureau and Haver Analytics

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## Equipment Order Volumes

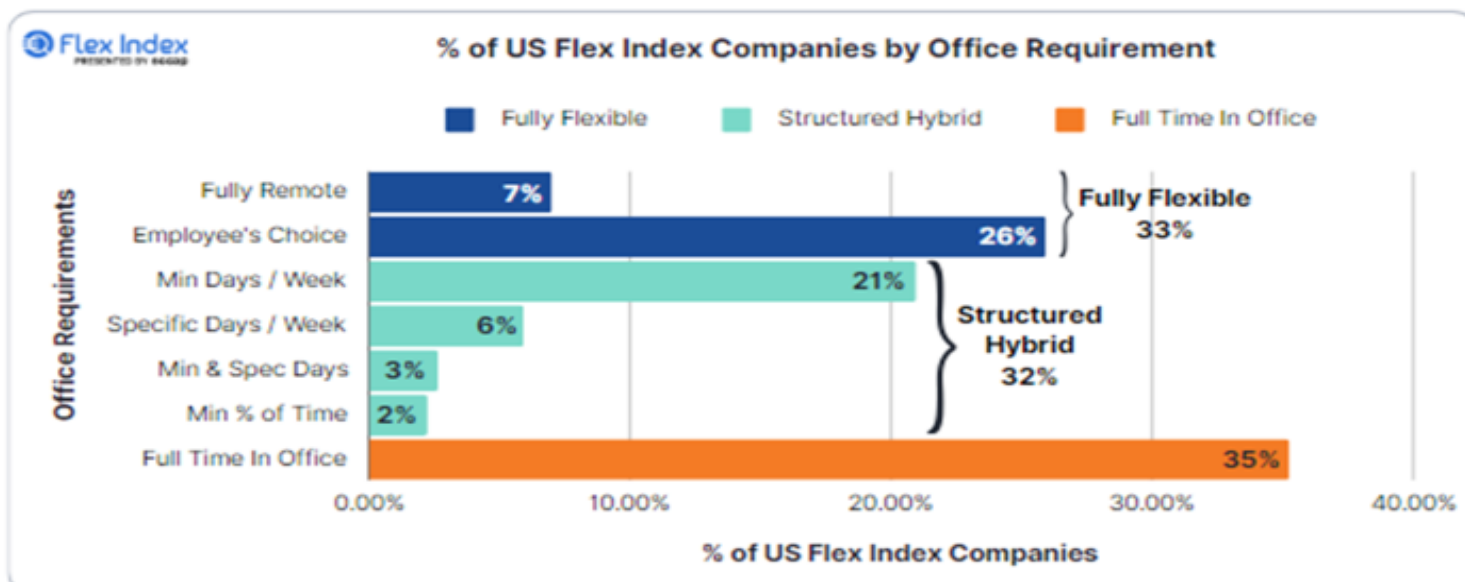
- The softness that was expected in new order volumes was realized, more so in tractors
- Self-combine orders have softened modestly



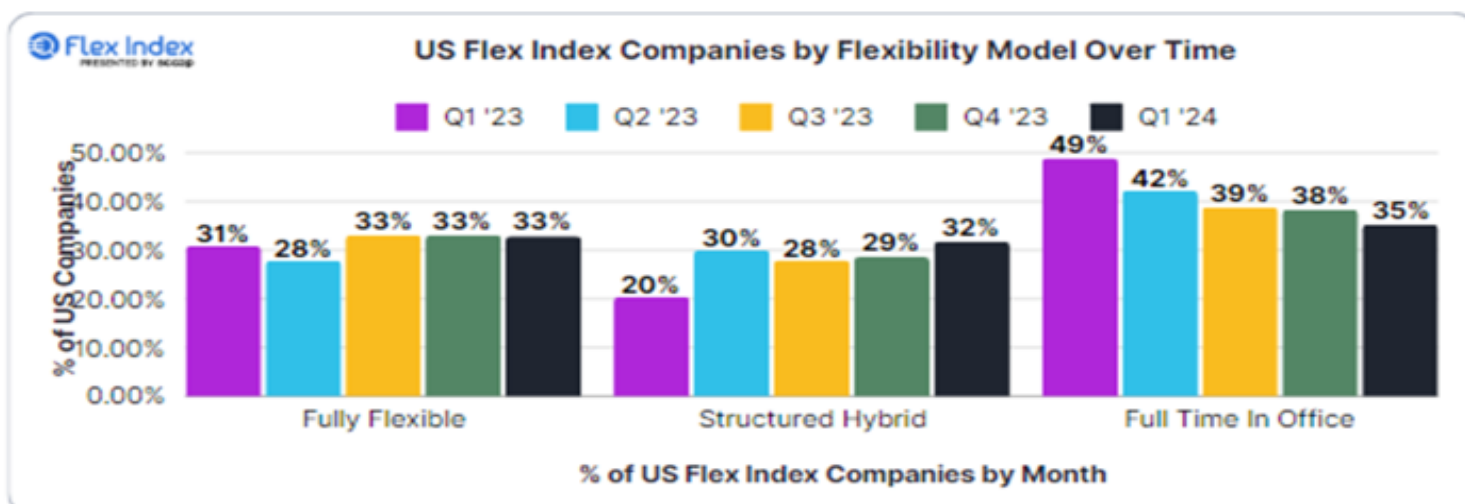
Source: Author's calculations using data from Haver Analytics

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# Pandemic Effects on Working



Source: [Flex Index](https://flex.scoopforwork.com) ([flex.scoopforwork.com](https://flex.scoopforwork.com)) employee surveys and publicly available data on company office requirements for companies with headquarters in the US, N = 5,859 companies. Flex Index data has been re-weighted using the Current Population Survey industry data to better approximate the US working population. The Flex Index is presented by [Scoop](https://scoopforwork.com) ([scoopforwork.com](https://scoopforwork.com)).



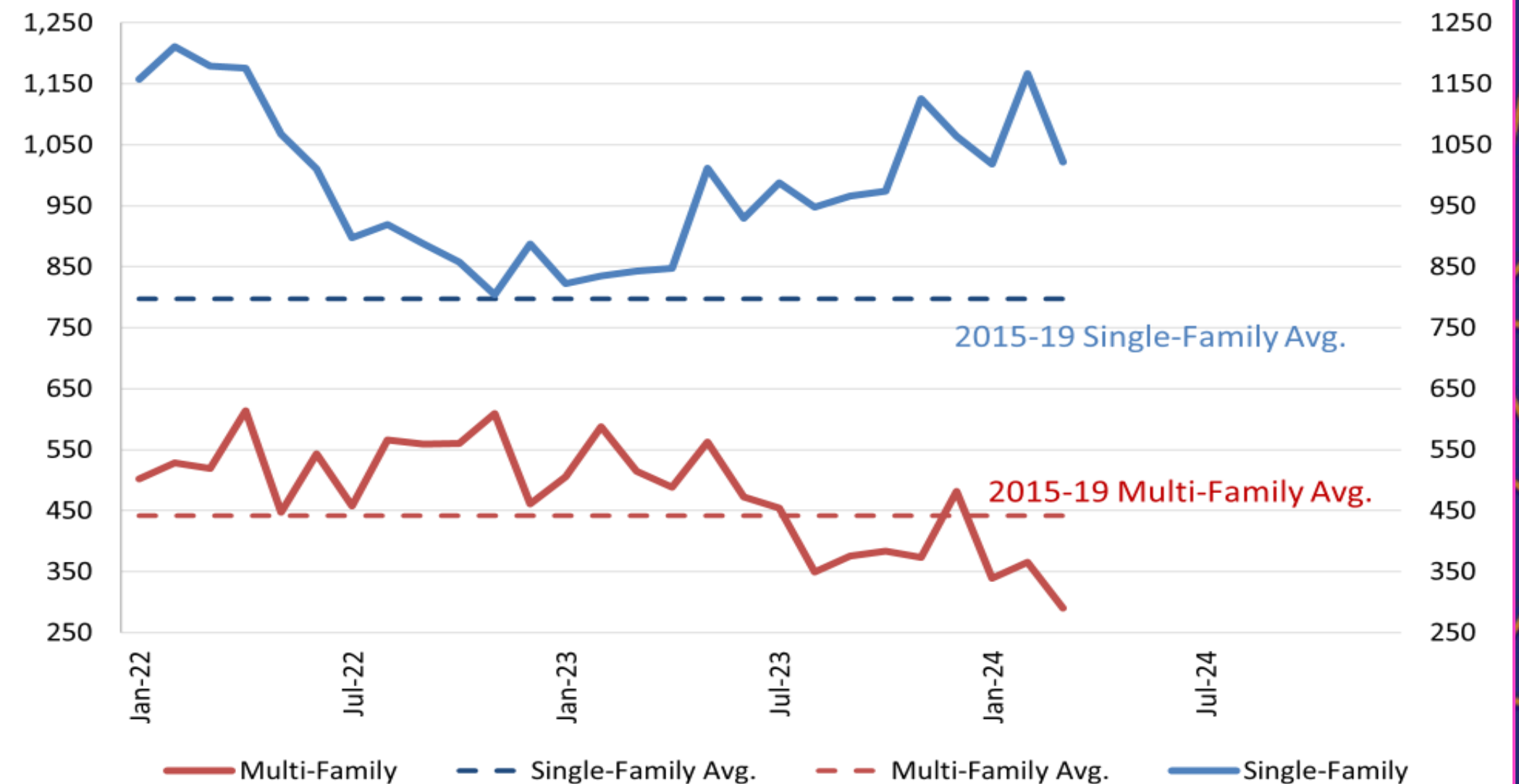
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- There continues to be some talk of a more aggressive return to office policy by some employers in 2024
- However, employer surveys continue to show that the ideal number of days employers would like employees to be in the office was 2-3 and fewer employers are asking for a full-time return to the office.

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## U.S. Housing Starts: Single-Family vs. Multi-Family

- Single-family starts have remained robust despite higher mortgage rates and higher costs
- Multi-family starts were already at historical highs leading into the pandemic



Source: Author's Calculations Using Data From the U.S. Census Bureau

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# What 2024 Will Hinge On

Consumer Firepower  
Consistent Wage Pressures  
Low Unemployment  
Locked-In Low Mortgage Rates

Decreasing Inflation Rate  
Steady Commodity Prices  
Anchored Inflation Expectations

Will consumers keep it up?  
Will the labor market retain its strength?  
What if interest rates stay higher for longer?

Interest Rate Pressures  
Rising Delinquencies  
Office and Multifamily CRE Concerns  
Restraints on Single-Family Housing

Geopolitical Risks  
Downward Trend in Orders and Backlogs  
Shipping and Logistics Disruptions  
Election Anxiety



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