

Economic Update

May 17, 2023

The thoughts I will share today are my own and do not necessarily reflect the views of my colleagues at the Atlanta Fed, Federal Reserve System, or Dr. George.



Federal Reserve
Bank of Atlanta

Community Outreach

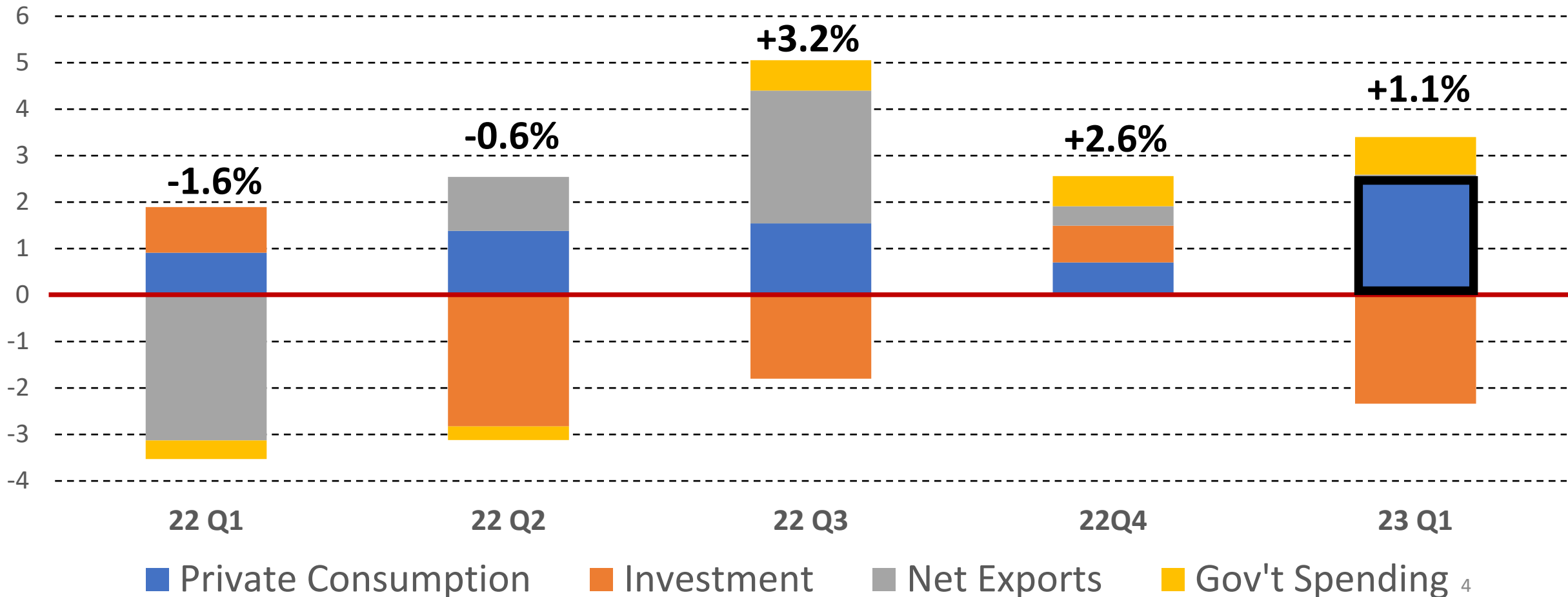


Agenda

- Overall Economic Activity
- Inflation
- Employment
- Federal Reserve Policy
- Outlook

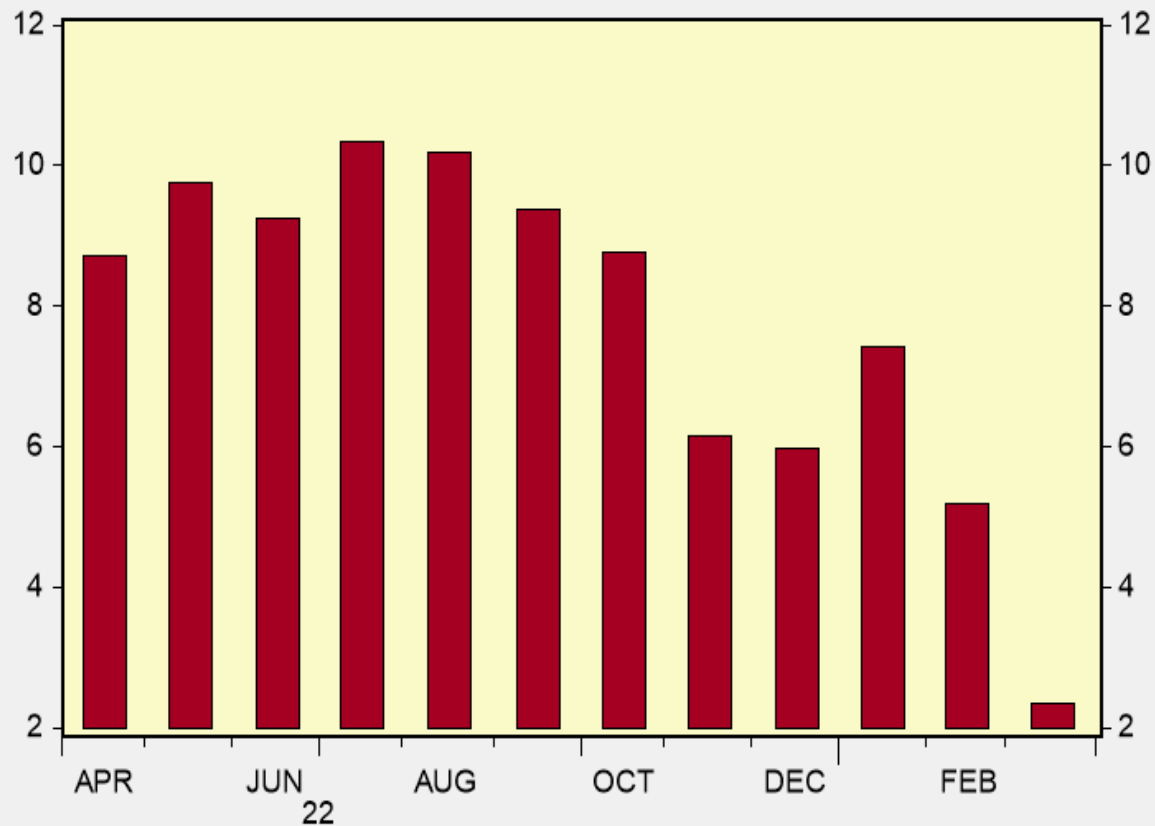
The first half of 2022 was weak overall. Private spending held up through Q1 2023, but investment has been a drag.

Contribution to Economic Growth (GDP)



Consumers may be running out of steam.

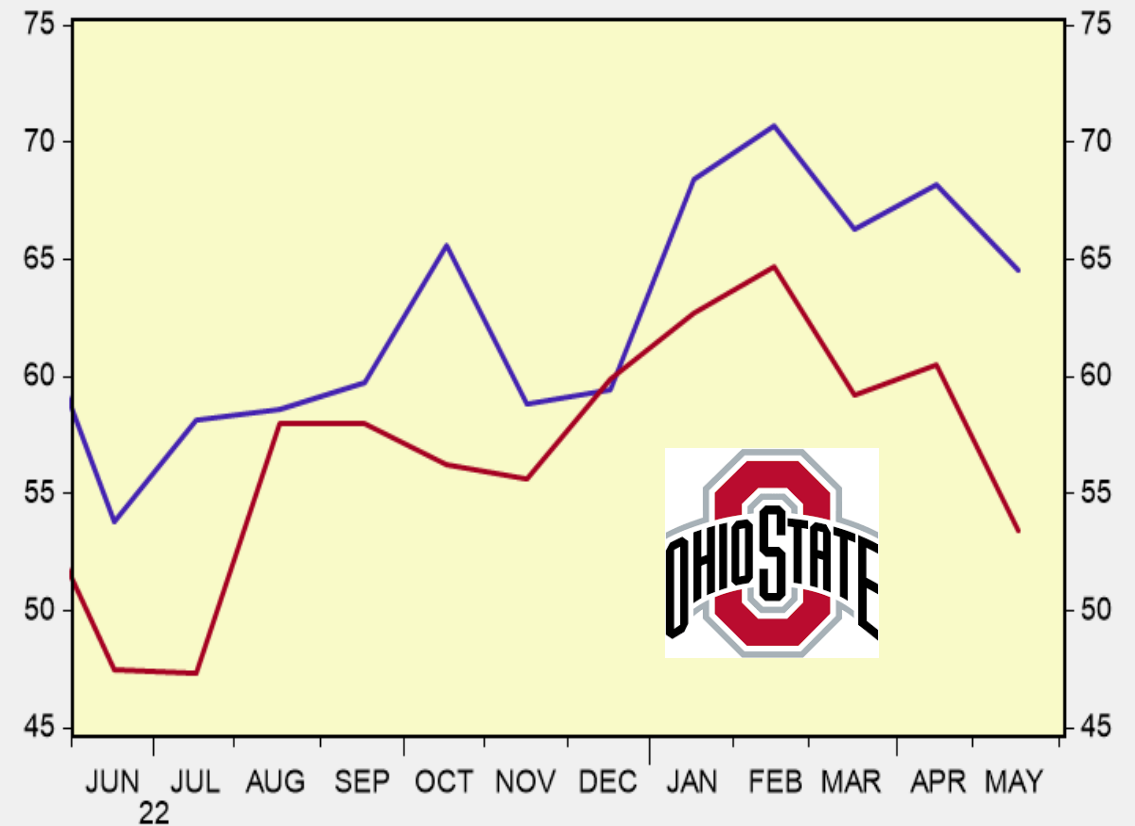
Retail Sales & Food Services
% Change - Year to Year SA, \$



Source: Census Bureau/Haver Analytics

University of Michigan: Consumer Expectations
NSA, Q1-66=100

University of Michigan: Current Economic Conditions
NSA, Q1-66=100



Source: University of Michigan/Haver Analytics

Atlanta Fed's Survey points to slowing sales as well.

Current Sales Levels

(compared to normal times, diffusion index: 0+ = greater than normal times)



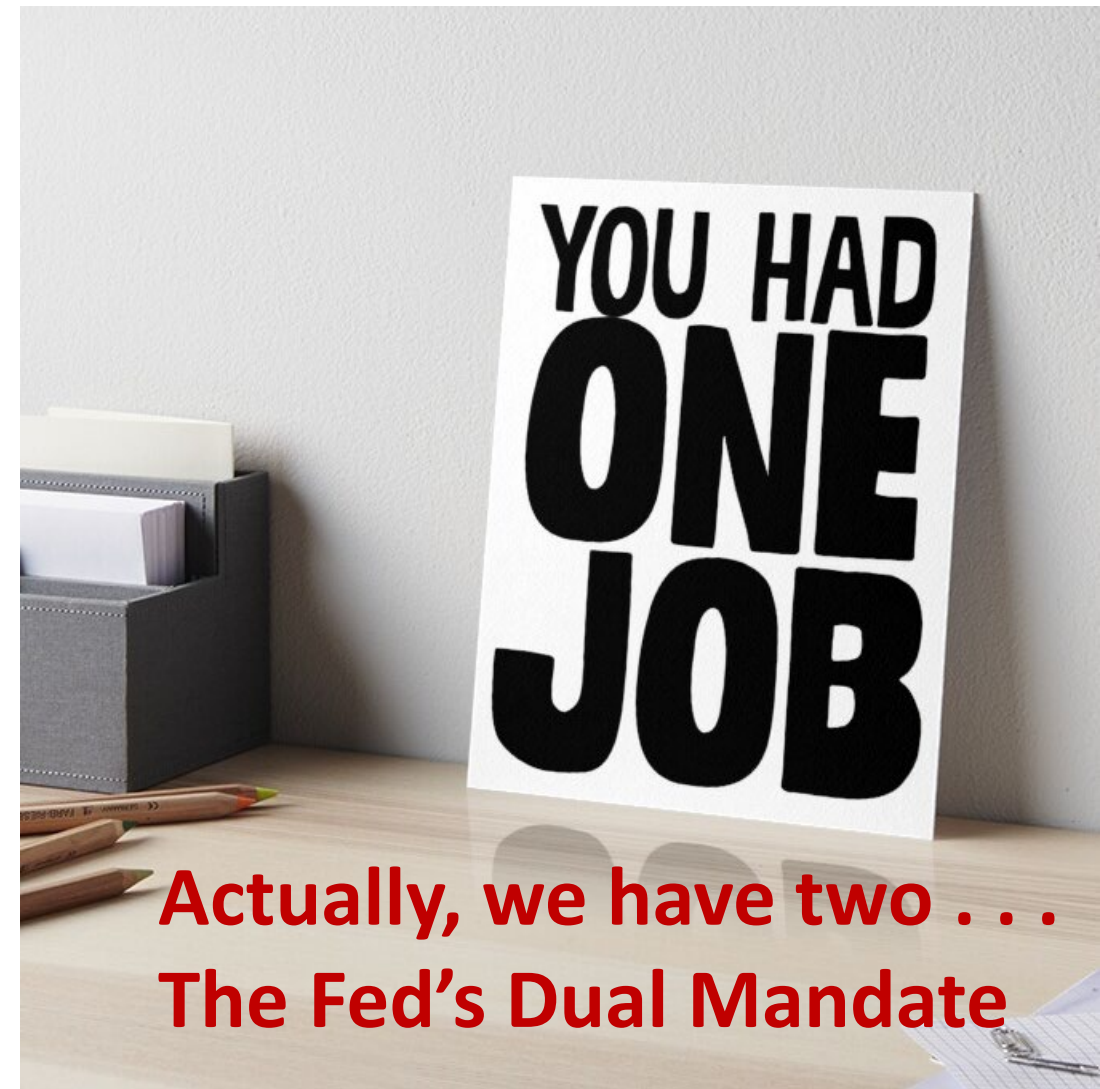
Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

Inflation

Inflation is high largely because demand is greater than supply, in part due to severe supply chain disruptions.

What is monetary policy? It is the Federal Reserve's mission to achieve the "dual mandate" goals specified by Congress: maximum employment and stable prices.

The Fed could crush inflation tomorrow, but it would come with an unacceptably high cost.



Inflation has moderated in recent months but remains elevated.

Core PCE

Well known and most often used by Fed officials and in FOMC communications

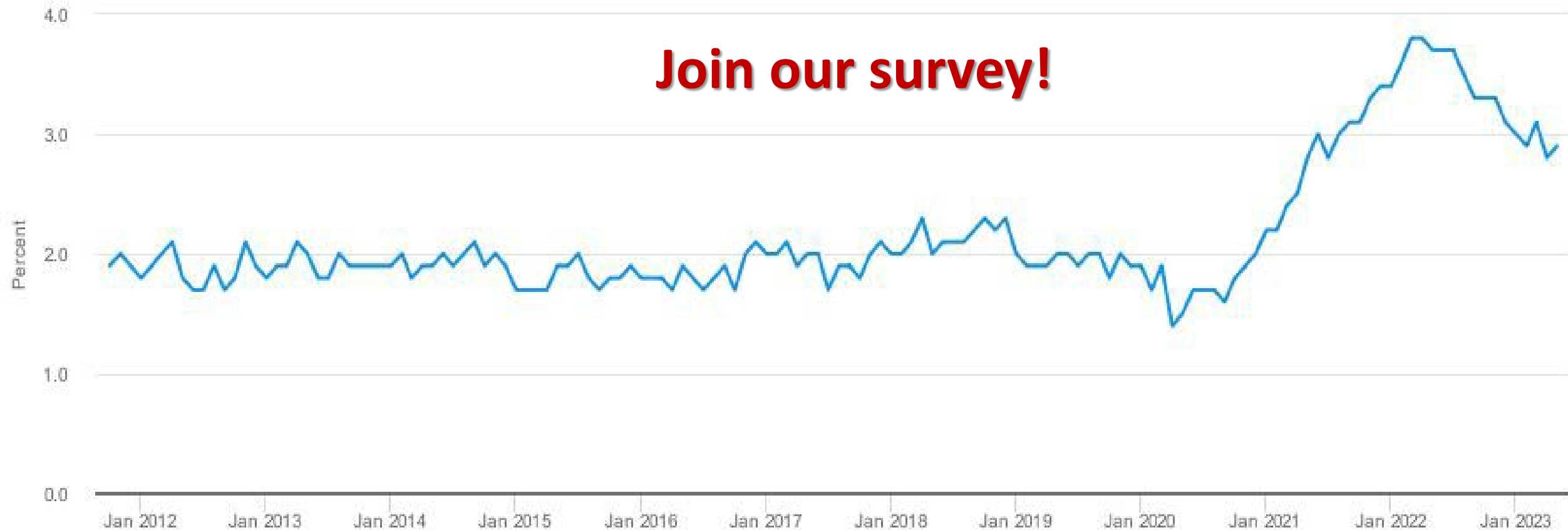


Note: Shaded blue range indicates 25th to 75th percentile of the 1-month growth rates computed over the past 10 full calendar years. Gray bars indicate recession periods.

Source: Bureau of Economic Analysis

Business Inflation Expectations (BIE Survey) shows moderation as well.

Year-Ahead Inflation Expectations



Join our survey!

Wage growth has moderated but remains high.

Wage Growth Tracker

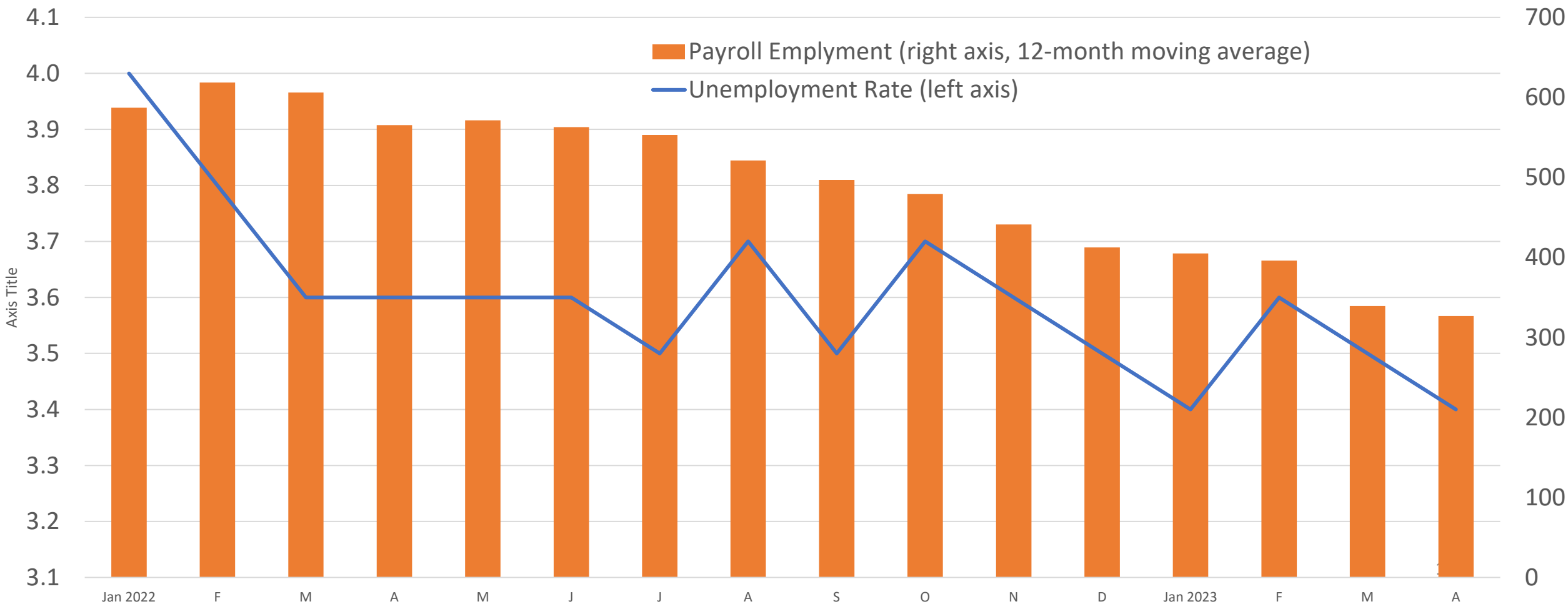
three-month moving average of median wage growth, hourly data



Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations

Employment data has remained resilient, although job growth shows signs of moderating.

Payroll Employment and Unemployment Rate

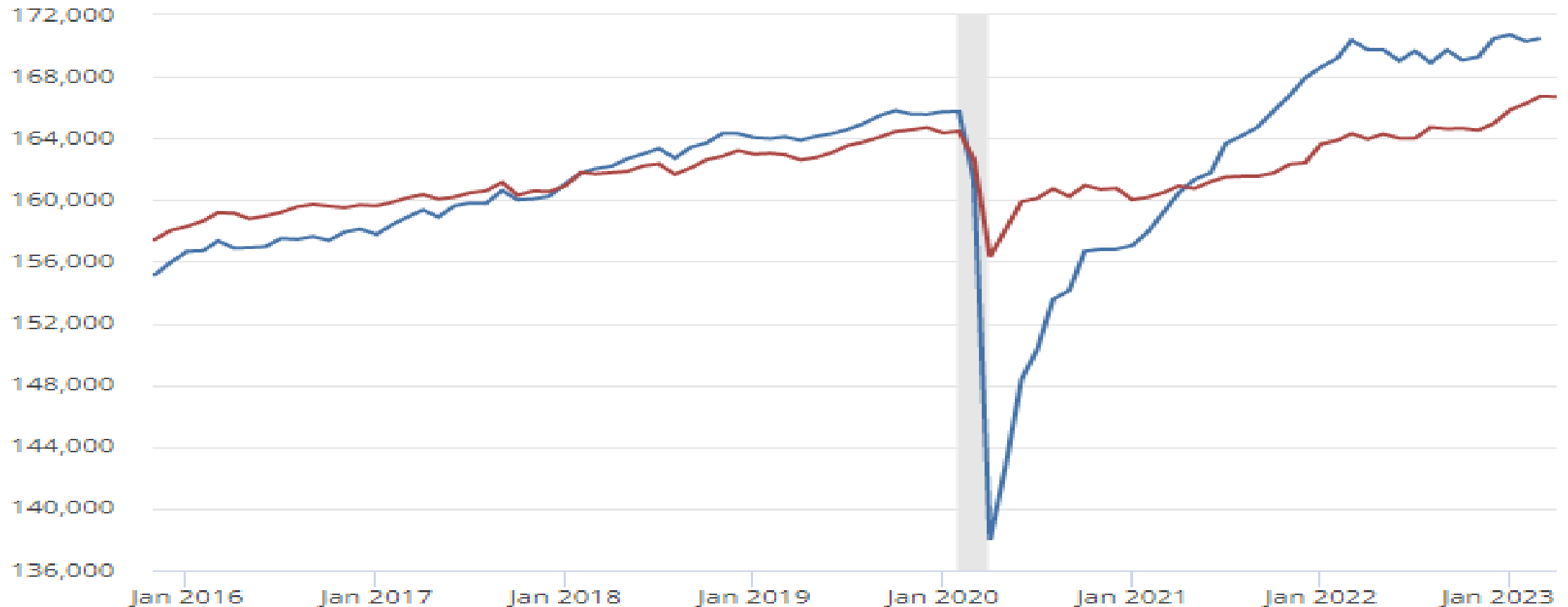


Job vacancies are still high, and labor demand continues to exceed the supply of available workers.



— Employment Level+Job Openings: Total Nonfarm
— Civilian Labor Force Level

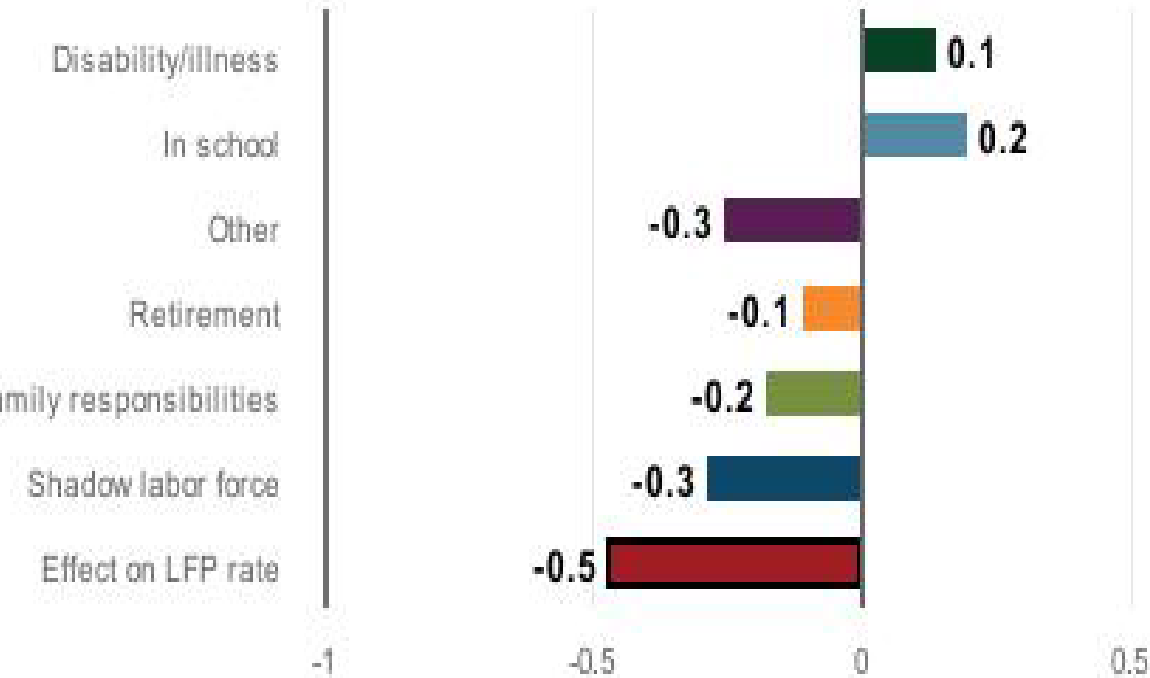
... But the gap is narrowing.



Where have the workers gone?

Contributions to Total Change in Labor Force Participation by Nonparticipation Category

all genders of ages 25-54 of all races and ethnicities with all education types from Q4 2019 to Q4 2022



Labor Force Participation Rate: 25-54 Years

SA, %



Source: Bureau of Labor Statistics/Haver Analytics

The current situation: Monetary Policy



“I believe inflation remains too high. I want to reiterate that the Federal Open Market Committee (FOMC) is determined to put it on a sustainable path toward our objective of 2 percent.”

At the May FOMC meeting, the Committee raised the target range for the federal funds rate by 1/4 percentage point, bringing the target range to 5 to 5 ¼ percent.



Outlook



Part of being transparent is sharing what you think you know about future economic developments.

<i>March Projection</i>	2023	2024	2025	Longer Run
GDP Growth	0.4	1.2	1.9	1.8
Unemployment Rate	4.5	4.6	4.6	4.0
Inflation Rate	3.3	2.5	2.1	2.0

Unemployment would have to rise significantly from current levels.

Inflation would have to decline much faster than its current pace.

Risks to the Outlook:

Inflation rates do not moderate or shows a longer path to get to 2% than is currently expected.

Banking Sector:

The U.S. banking system is sound and resilient. The Federal Reserve, working with other agencies, has taken decisive actions to protect the U.S. economy.

It is reasonable to expect that recent events will lead banks to tighten credit standards further.

Debt Ceiling:

These are fiscal policy matters and it's up to Congress and the administration to deal with it.

It is essential that the debt ceiling be raised so the U.S. government can pay its bills. A failure to do that would be unprecedented. We would be in an uncharted territory and consequences to the U.S. economy would be highly uncertain and could be quite averse.

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