Economic outlook: An Update from the Fed

January 12, 2023

The views expressed here are mine and not necessarily those of the FOMC, the Federal Reserve Bank of Atlanta or the Federal Reserve System.

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Federal Reserve Bank of Atlanta

Roadmap for our conversation

- Fed mission and structure
- Economic outlook
  - Demand
  - Labor
  - Costs/Prices
- Fed policy

THE FED'S ROLE IN THE ECONOMY

MONETARY POLICY
The Fed influences interest rates to keep inflation low and help the economy grow.

SUPERVISION AND REGULATION
The Fed and other regulators review financial institutions to ensure safe and sound banking practices.

PAYMENT SERVICES
The Fed provides secure and efficient services to transfer funds through the financial system.

Source: Richmond Fed

The Federal Reserve's Public Mission

Conducting the Nation's Monetary Policy

The Federal Reserve's Dual Mandate

Price Stability

Maximum Employment

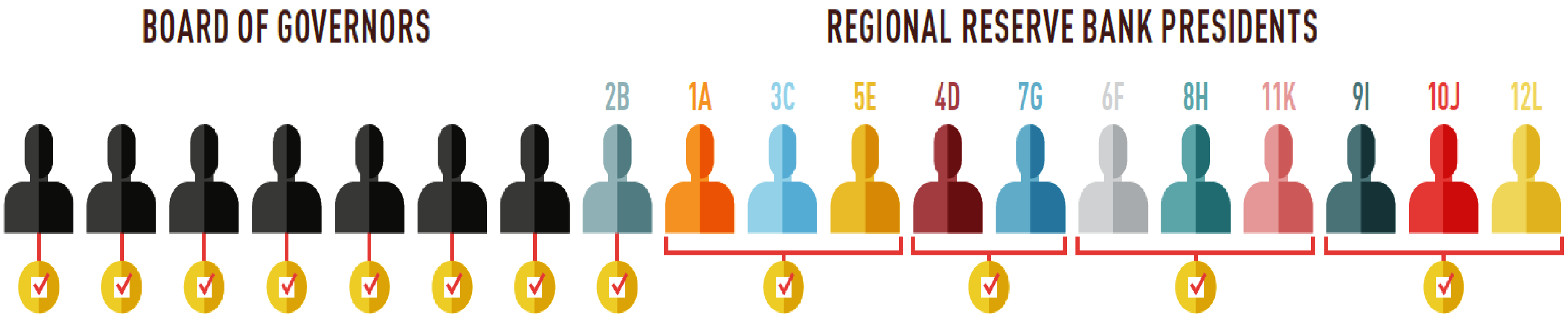
Decentralized Structure of the Fed

Board of Governors
Washington, DC

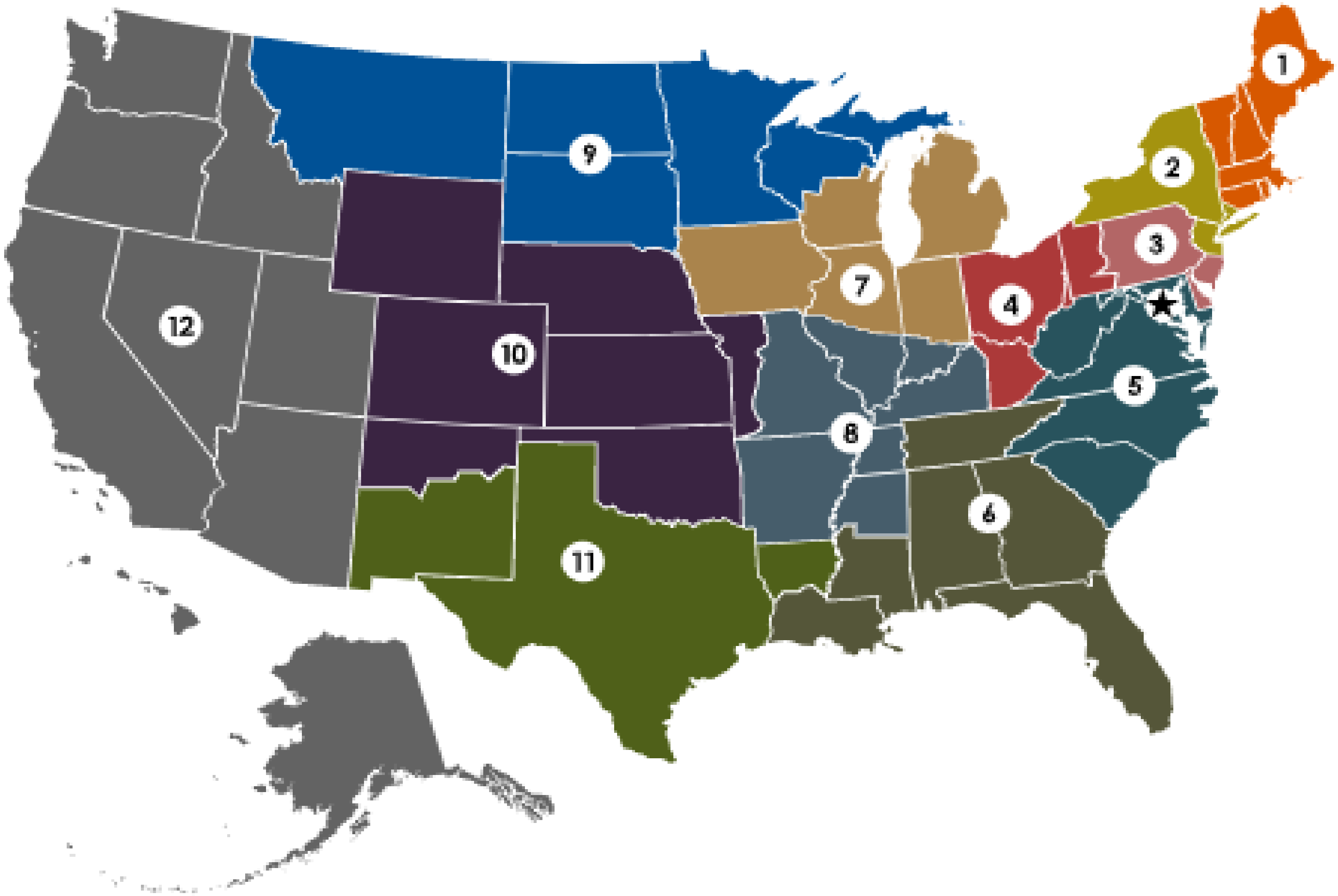
12 Federal Reserve Banks & their Branches and Directors

Federal Open Market Committee (FOMC)

Federal Open Market Committee



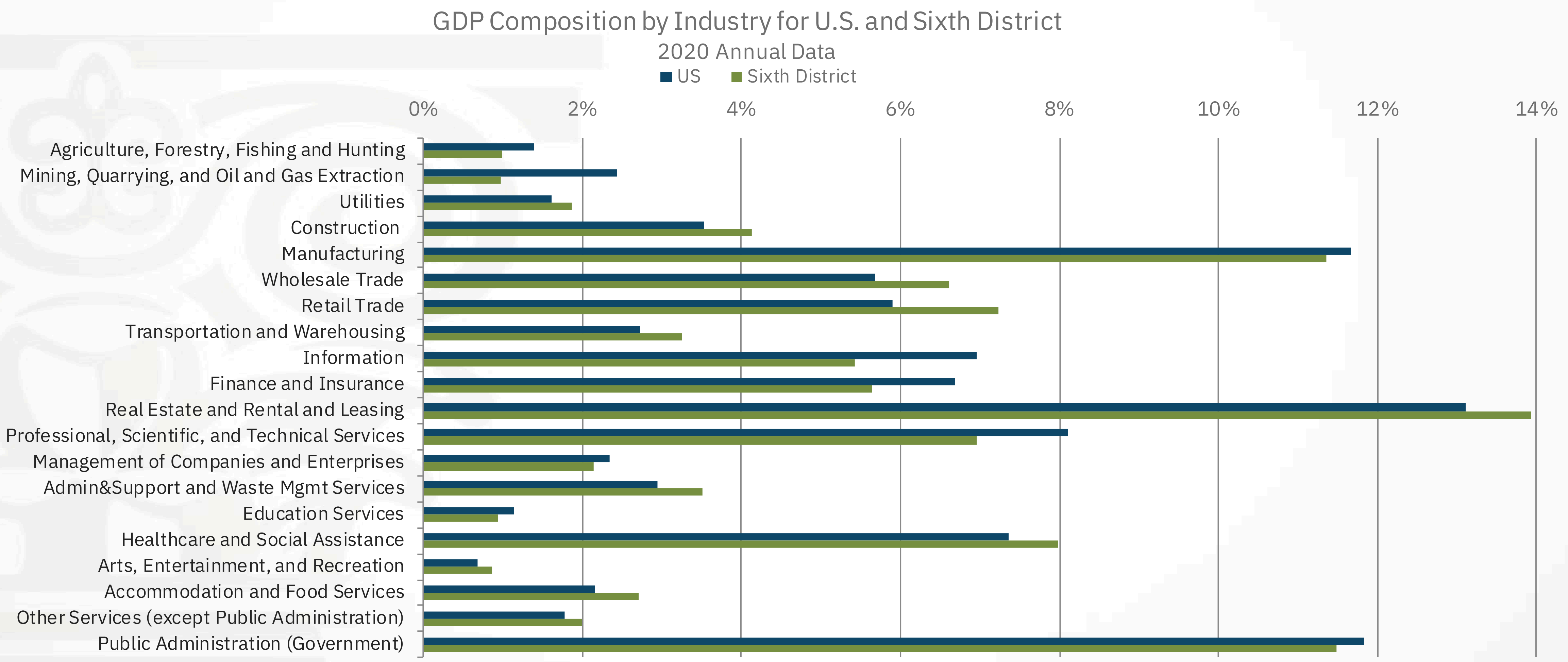
The Federal Reserve System



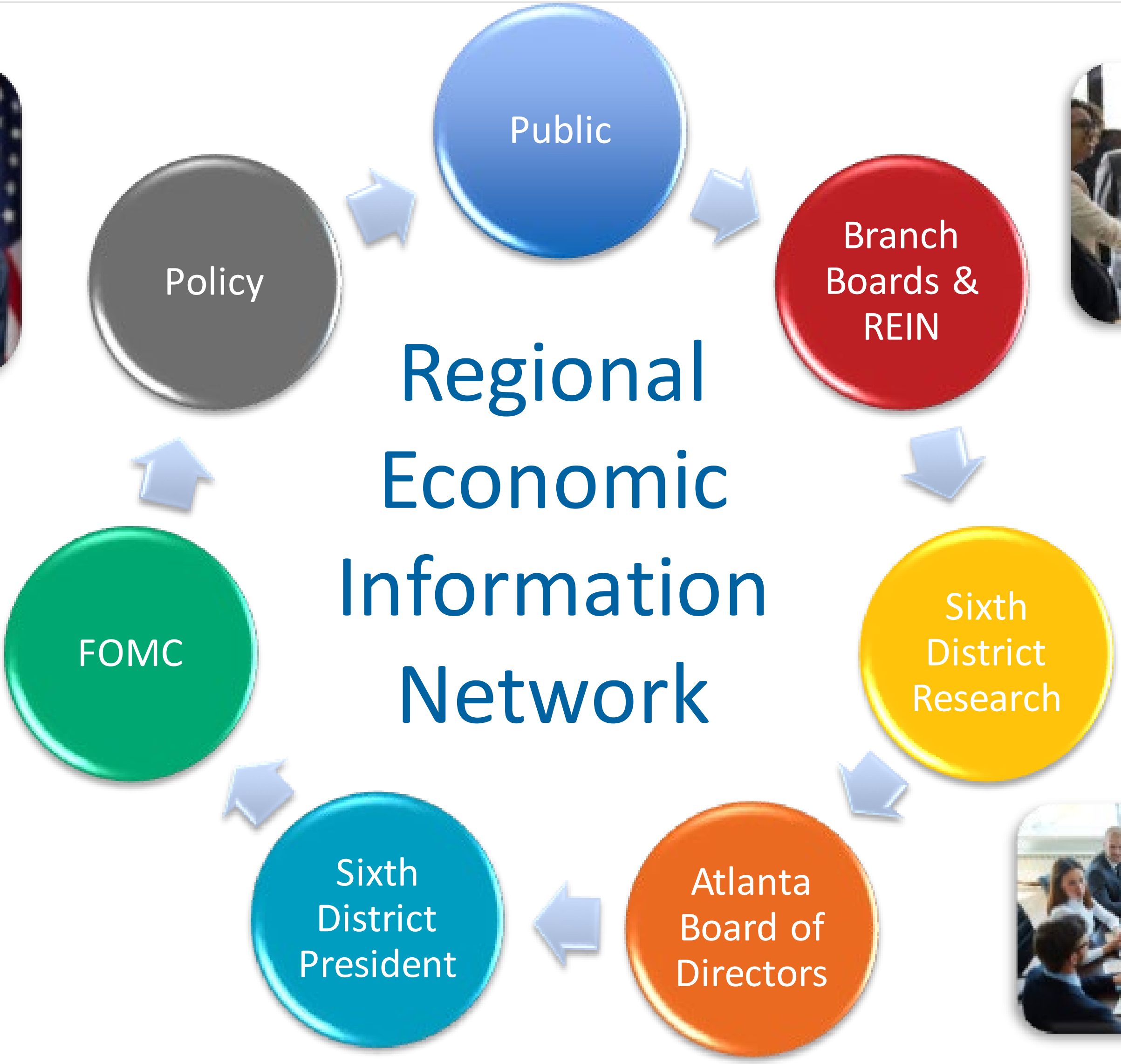
- 01-Boston
- 02-New York
- 03-Philadelphia
- 04-Cleveland
- 05-Richmond
- 06-Atlanta
- 07-Chicago
- 08-St. Louis
- 09-Minneapolis
- 10-Kansas City
- 11-Dallas
- 12-San Francisco
- ★ Board

Encompassing a large and diverse geography

Comparing the Sixth District to the U.S. by GDP Composition



Connecting Main Street to Policymaking

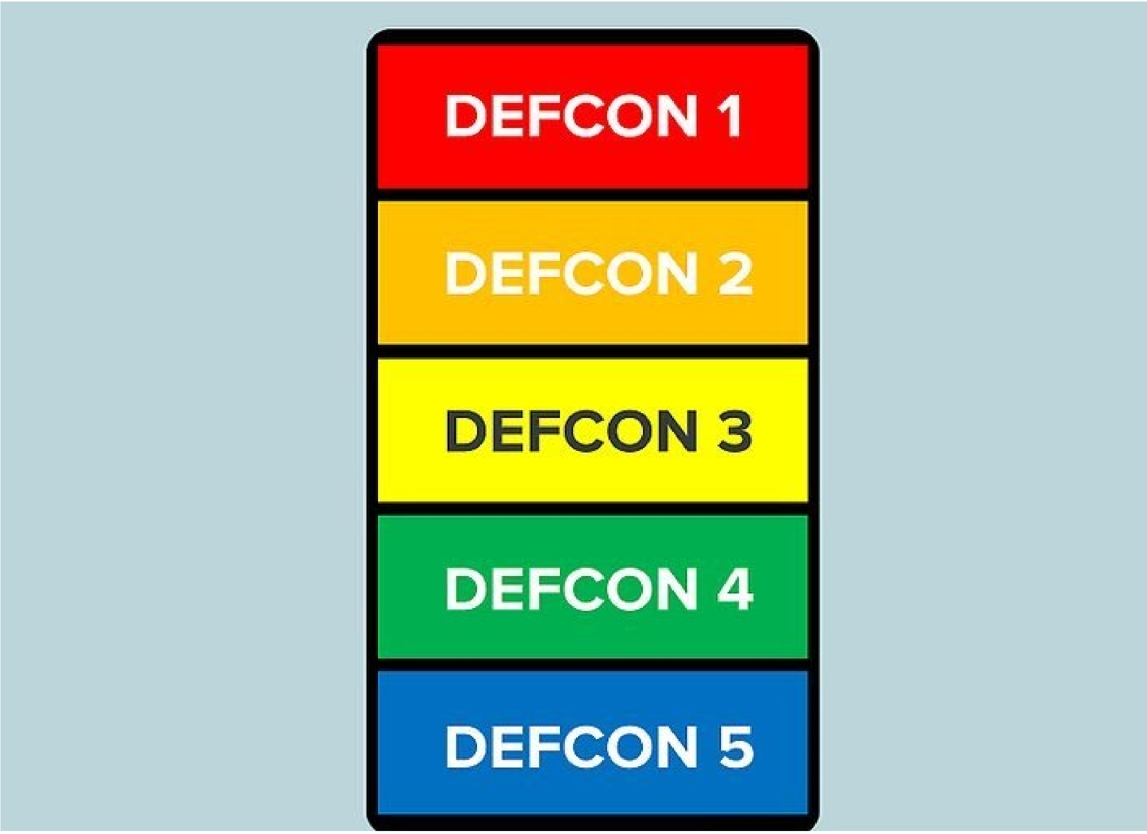


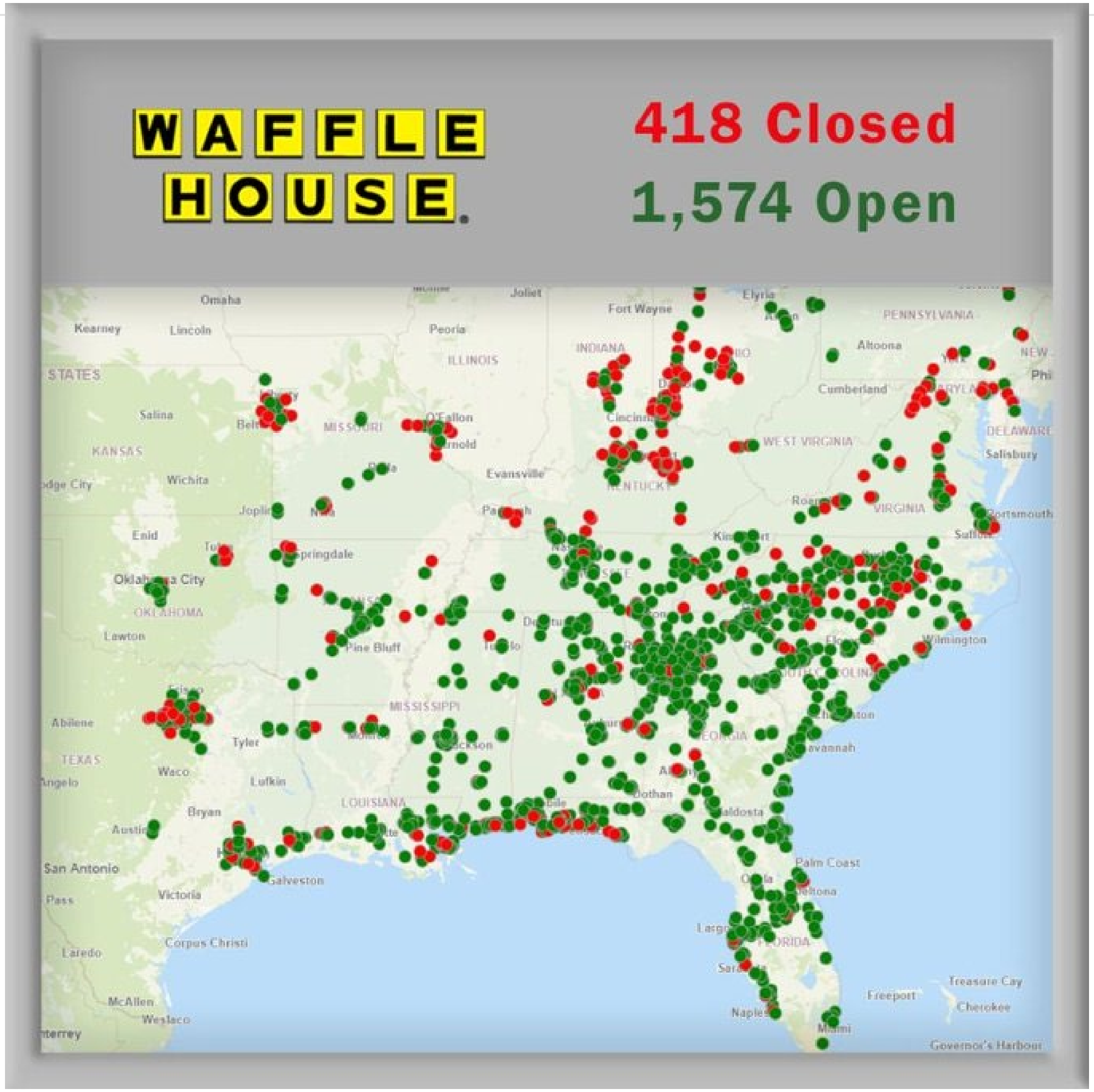
Raphael Bostic on REIN

Through the Regional Economic Information Network (REIN), we continually harvest insights from an extensive network of business decision makers, along with community and nonprofit organizations, and blend that information with macroeconomic models and data.

Federal Reserve Bank *of* Atlanta

Raphael Bostic
President and CEO


DEFCON 1
DEFCON 2
DEFCON 3
DEFCON 4
DEFCON 5


WAFFLE
HOUSE
418 Closed
1,574 Open

Where are YOU on the Business Activity Condition (B.A.CON) Index?

We're heading in the tank

- I'm fully engaged in triage. I'm cutting all nonessential activity (and staff)
- I've completely stopped reading emails and am glued to the financial news.

Time to tap the brakes

- Current conditions are a tad shaky and I expect it to get worse. Severe risks are threatening.
- Pausing most hiring, delaying capital investment projects (slowing ongoing plans a bit).
- Active contingency planning for downturn/recession.

Pull out the "caution" flag.

- I still think growth will be good, but some signs of flagging conditions and/or risks to my outlook.
- I'm a bit nervous and "cautiously optimistic" has become my favorite phrase.
- I've begun to engage in contingency planning.

Things are good, but...

- Still a lot of confidence in the outlook, but there are a couple of clouds on the horizon.
- Starting to think a bit more carefully about expansion plans.

All Clear

- Solid growth trajectory, high profits, expanding operations
- High confidence in outlook. Only concern is how fast I can grow.

Overview

DEMAND

- Demand remains strong for most, even in the face of sustained inflationary conditions. Some note rising recessionary risks.

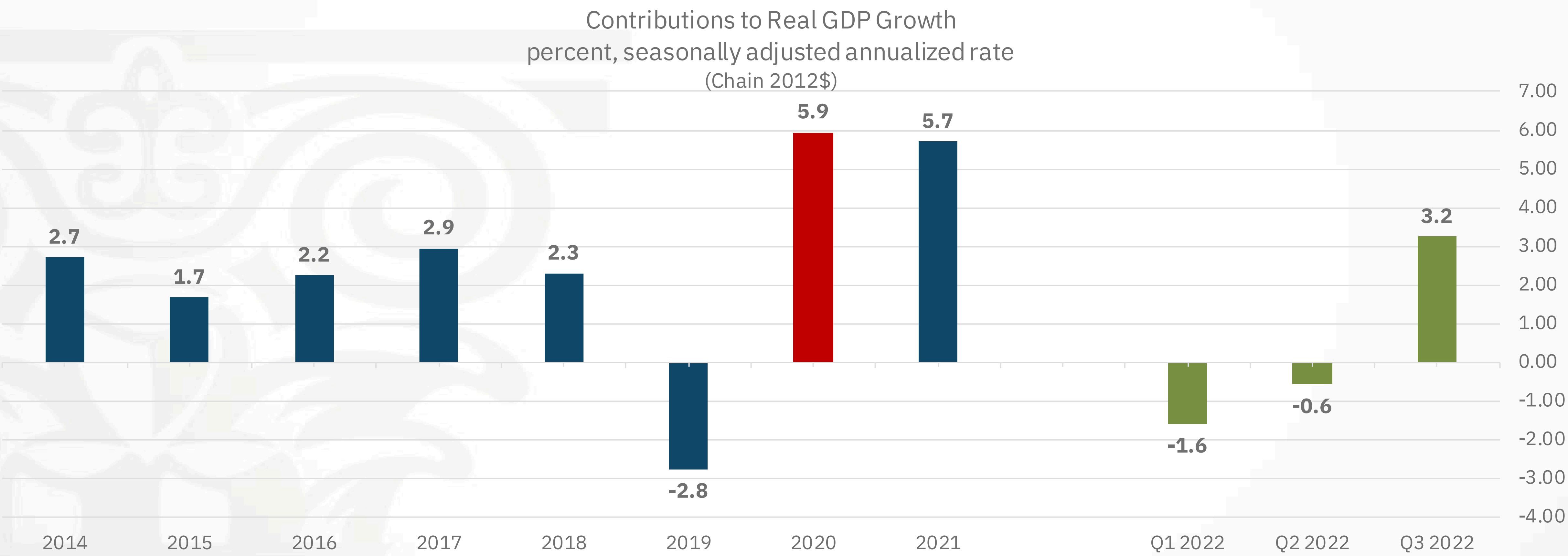
LABOR FORCE

- For most, a shortage of qualified labor continues to be a major concern and likely will be for the foreseeable future. At the same time, many are seeing some reduction in turnover and slowing wage growth.

INFLATION

- Firms are still experiencing an elevated and uncertain cost environment, especially on the labor cost front. Inflation is a key risk to demand.

Million dollar question



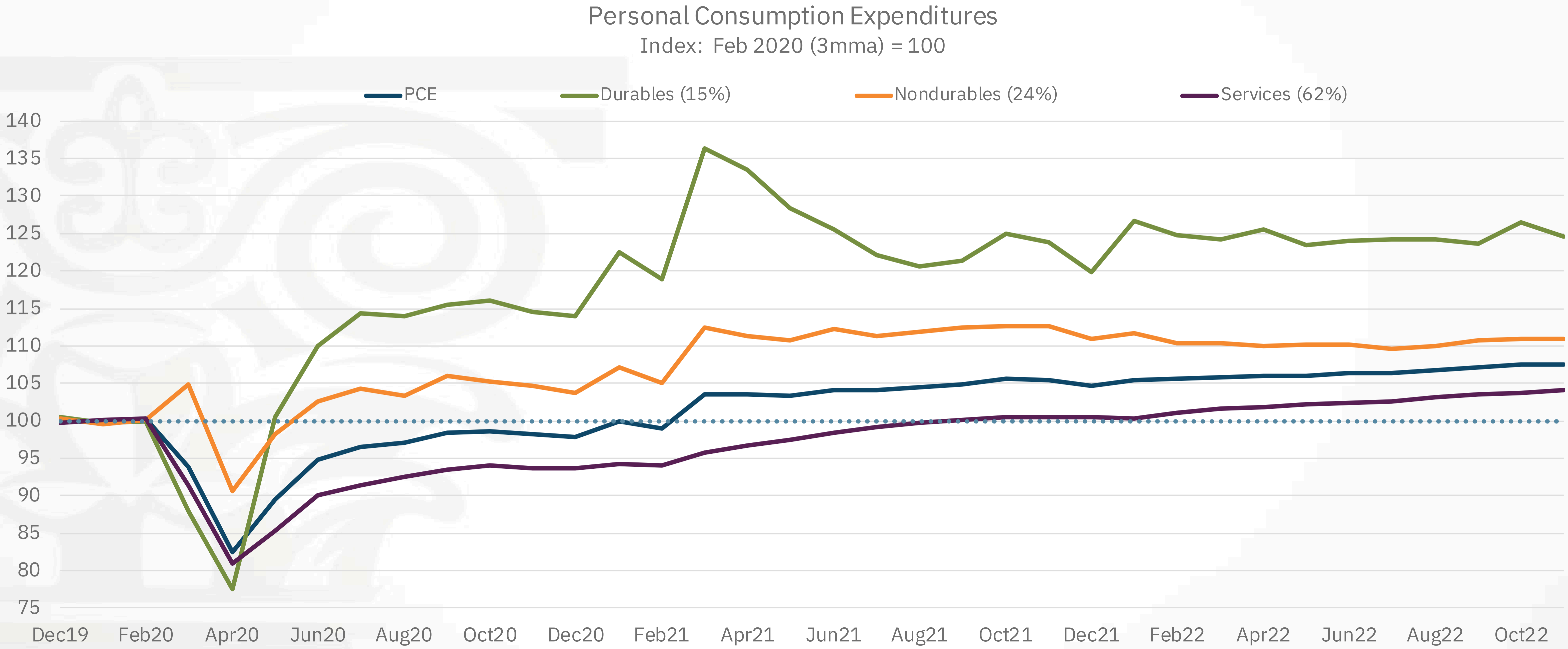
Sources: Bureau of Economic Analysis; Haver Analytics

through Q3 ‘22 (*Third Estimate, December 22, 2022)*

- **Demand** remains strong across most sectors, while reports of softening continue among some discretionary goods and interest rate sensitive sectors.
    - Leisure and hospitality contacts indicate ongoing consumer demand in various tourism-heavy locations.
- **Supply chain** issues persist, but there is some moderation and increased predictability on the supply side.

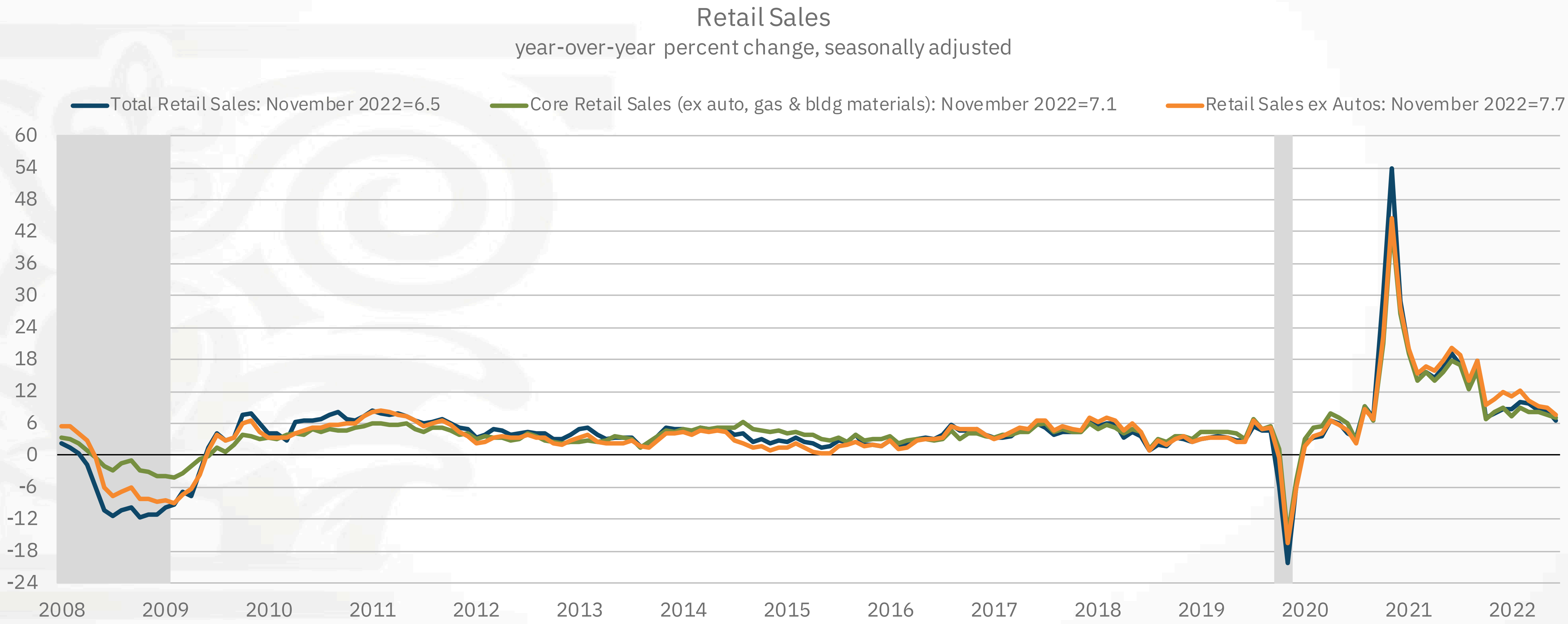
Demand

Breakdown of goods and service spend



Demand

The retail story illustrates pandemic spending patterns

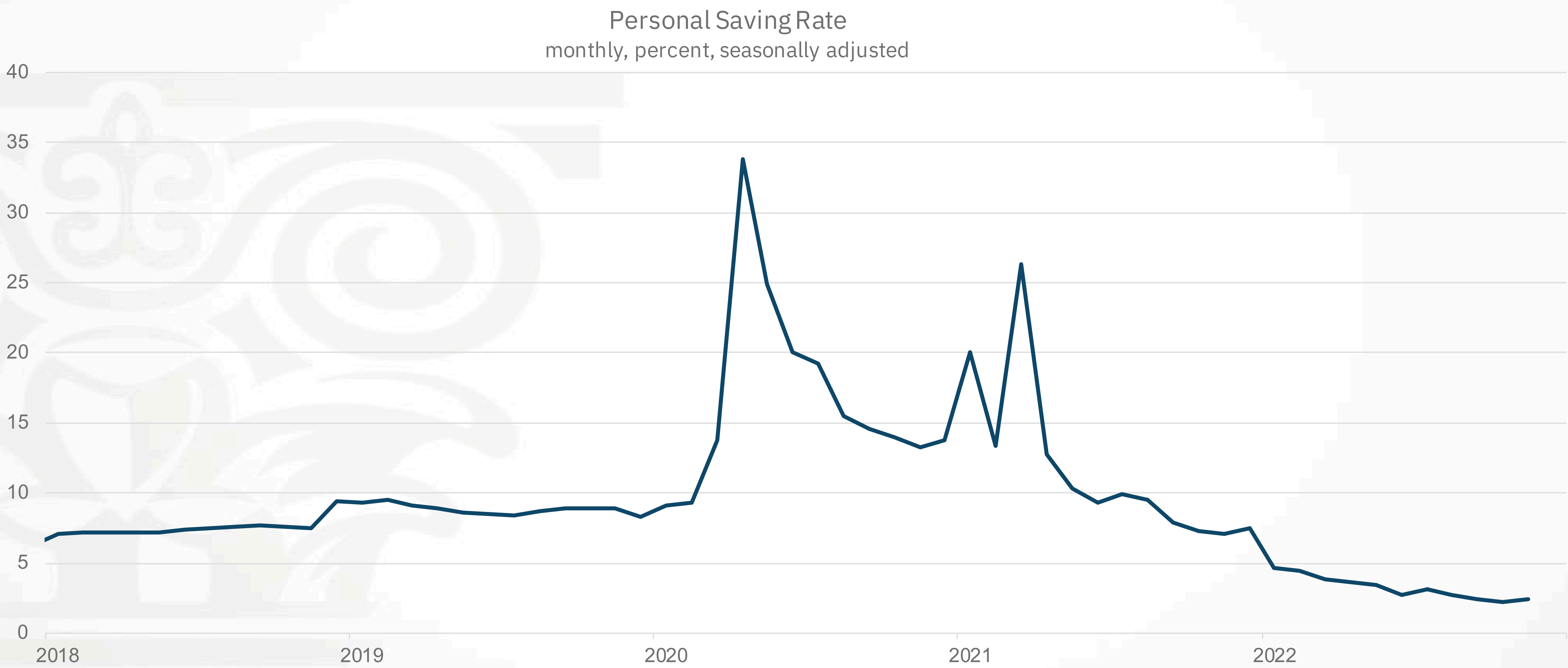


through November 2022 (advance estimate as of December 15)

Source: US Census Bureau; National Bureau of Economic Research; Haver Analytics

Demand

Accumulated savings during the pandemic



Sources: Bureau of Economic Analysis; U.S. Department of Treasury; Haver Analytics

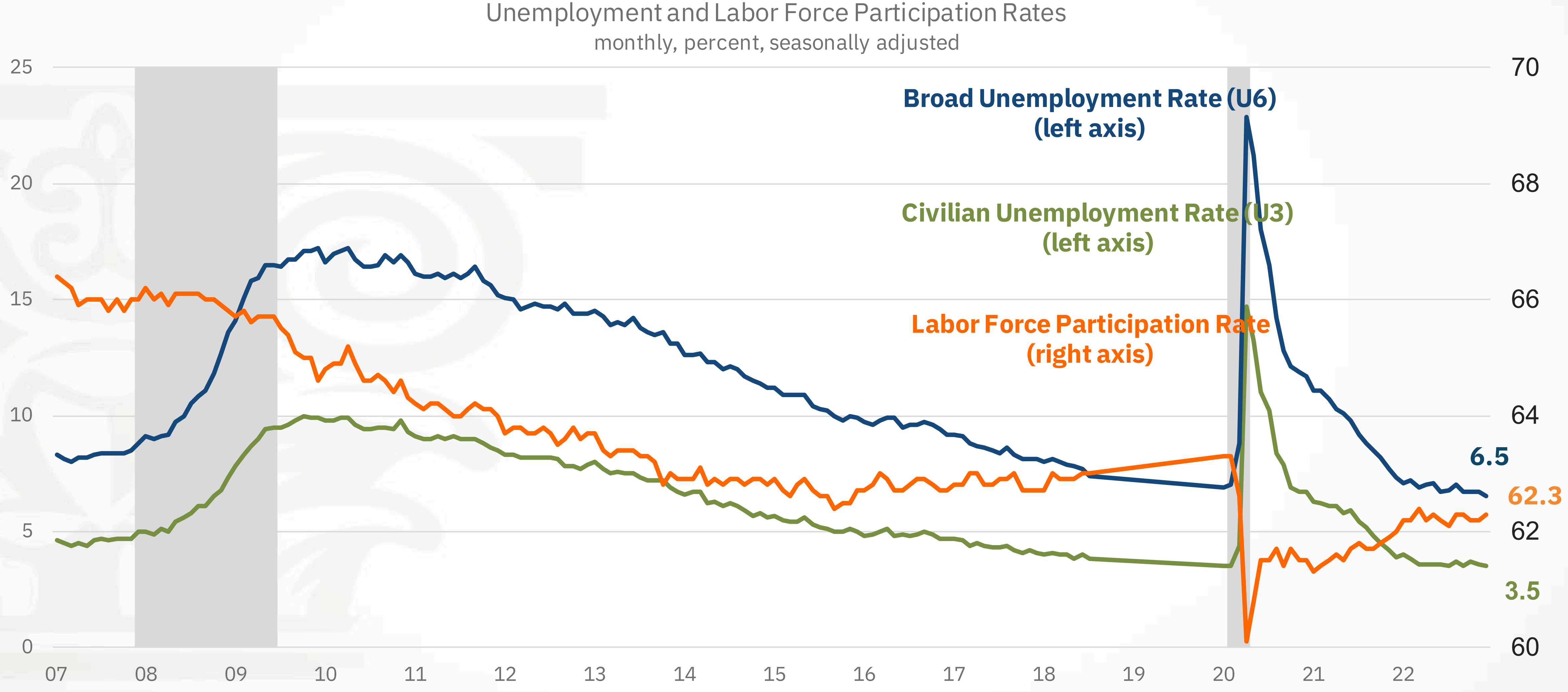
Through November 2022

Labor

- Employee hiring and retention are still challenging, but signs of slight easing.
- Wage pressure is high but moderating, and workers want flexibility.
- “Labor hoarding” is a thing.

Labor

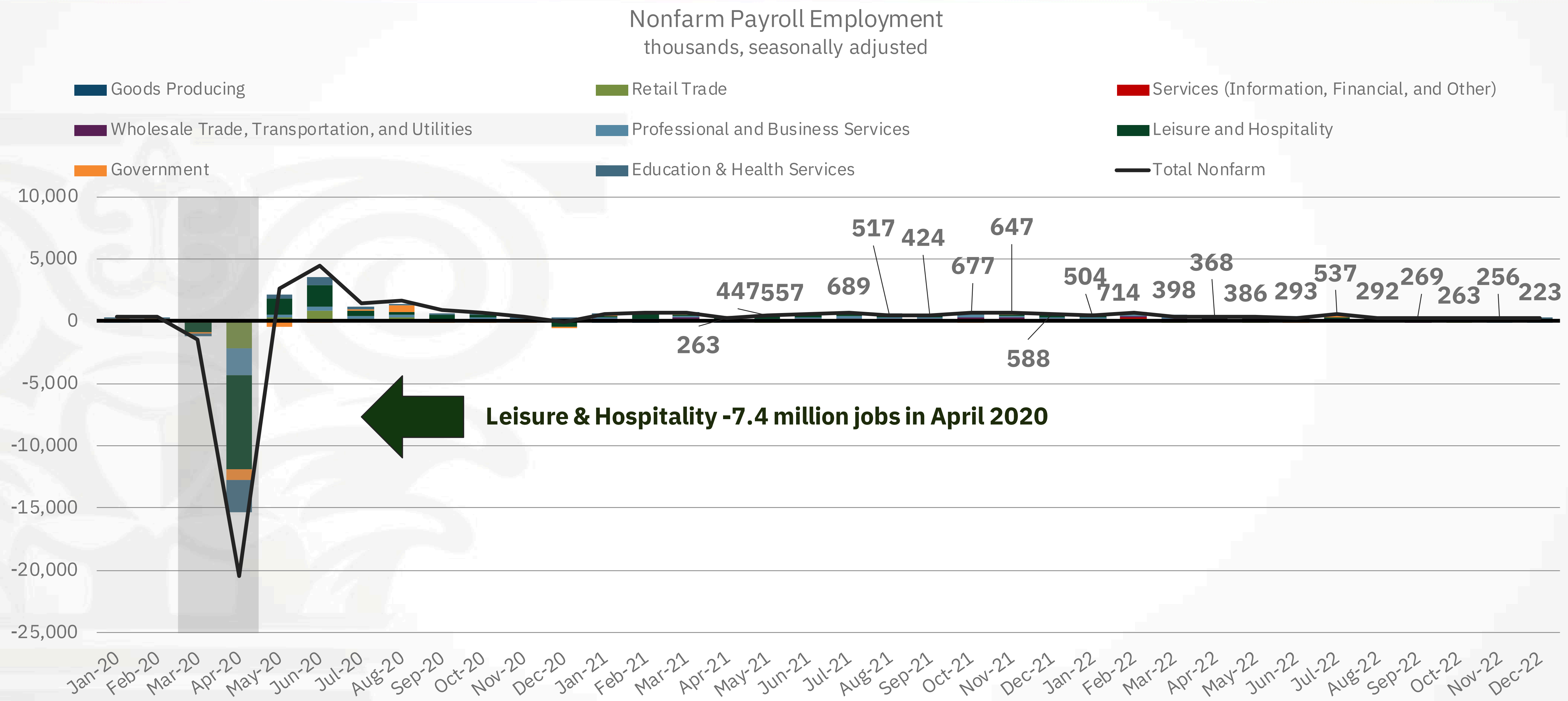
Unemployment and labor force participation rates



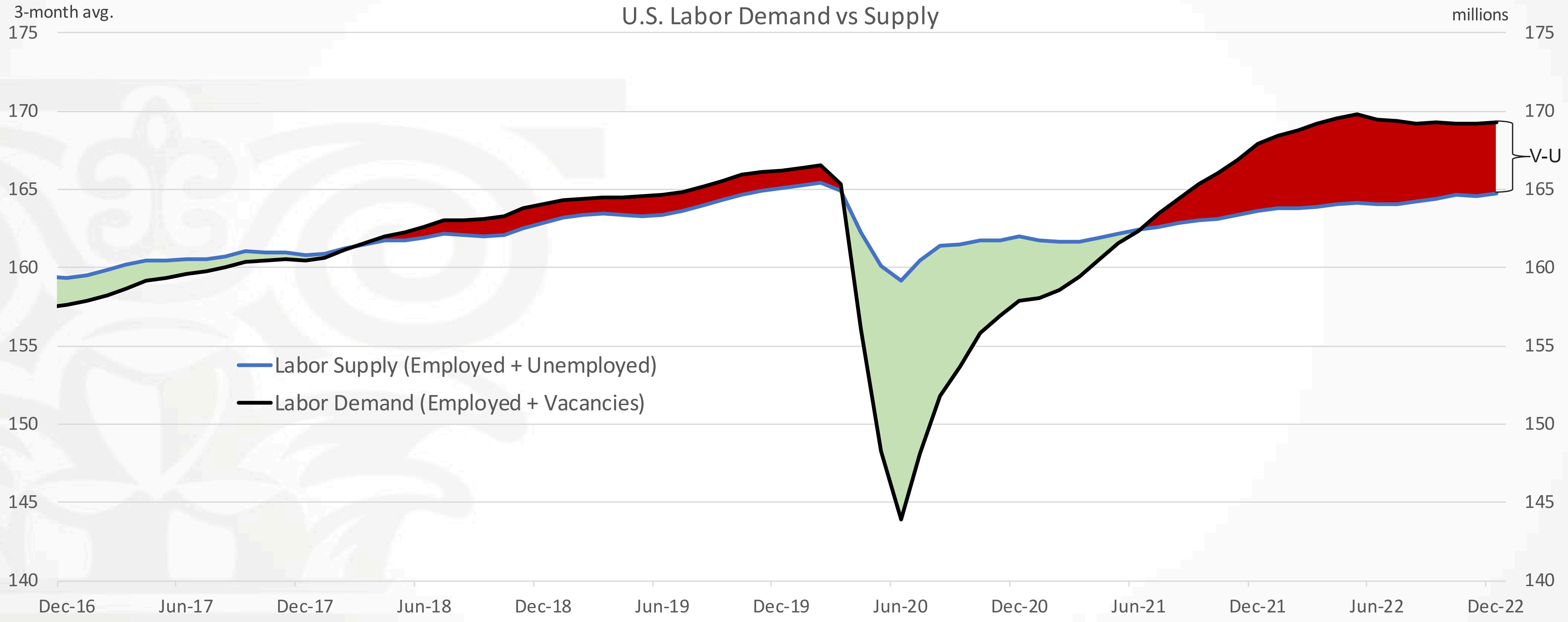
Source: Bureau of Labor Statistics, Haver Analytics

through December 2022

Continued strong jobs report indicate tight labor market



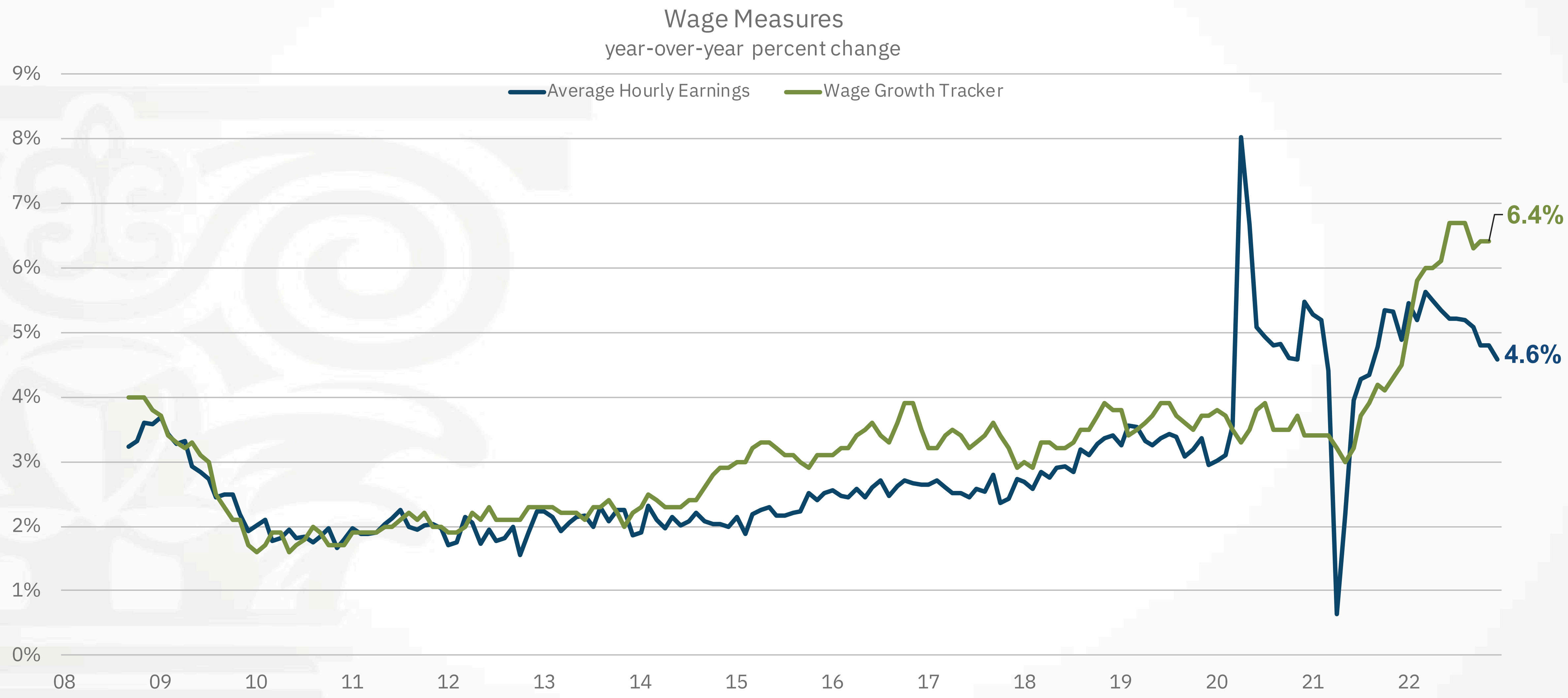
Labor demand appears to have peaked in mid-2022, but still far exceeds labor supply



Data through December 2022. Source: For labor force and employment, BLS, Current Population Survey (adjusted for effects of population controls). For vacancies, BLS, Job Openings and Labor Turnover Survey. December vacancies assumed to be same is in November

Labor

Wage pressures are decelerating slightly

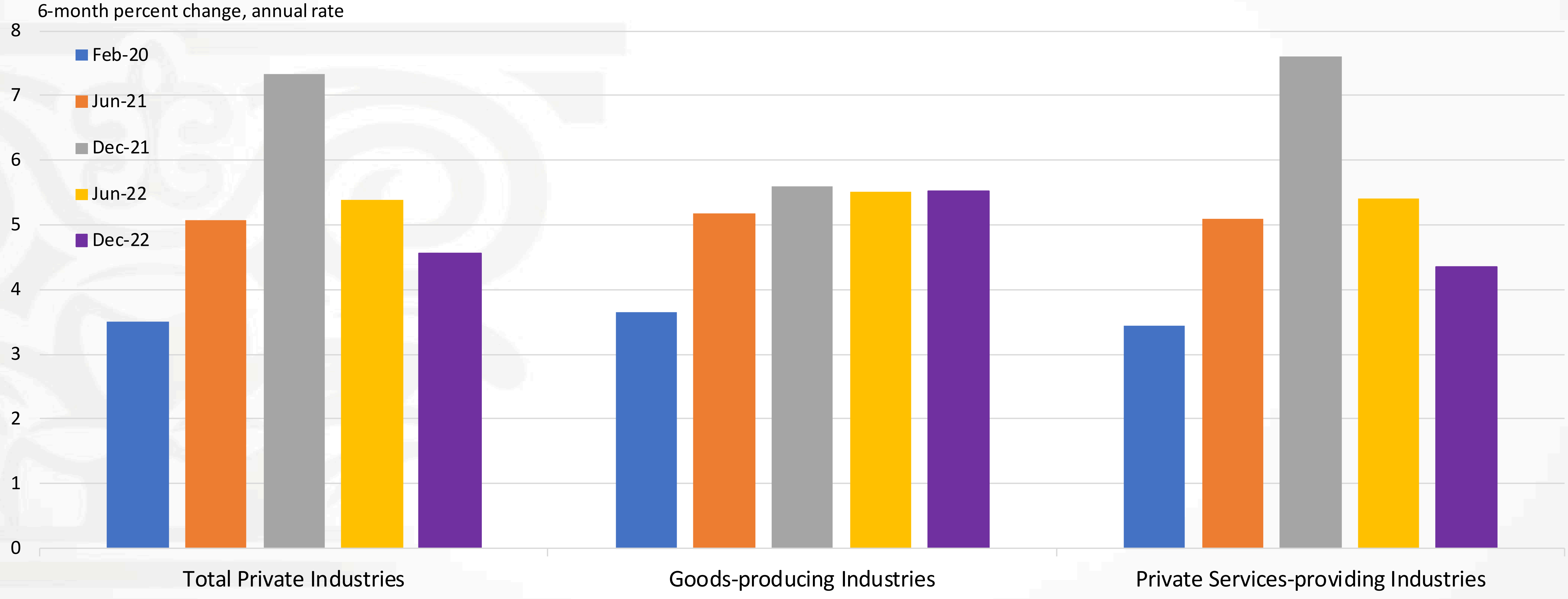


Sources: Bureau of Labor Statistics, Atlanta Fed, Haver Analytics

December 2022 (AHE); November 2022 (WGT)

Wage growth has decelerated over the past year, primarily due to a deceleration in wage growth in the service sector

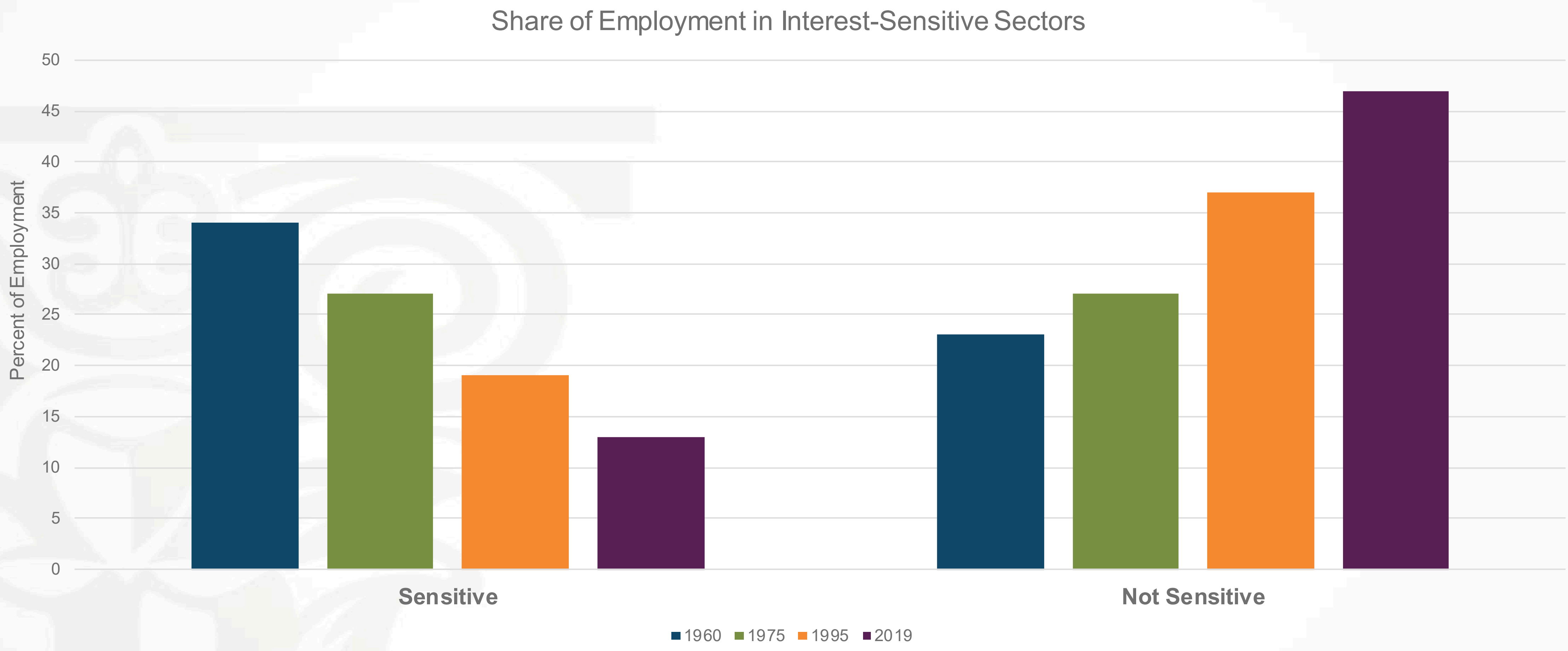
Average Hourly Earnings of Production and Nonsupervisory Employees



Source: Bureau of Labor Statistics

Labor

Interest rate sensitivity

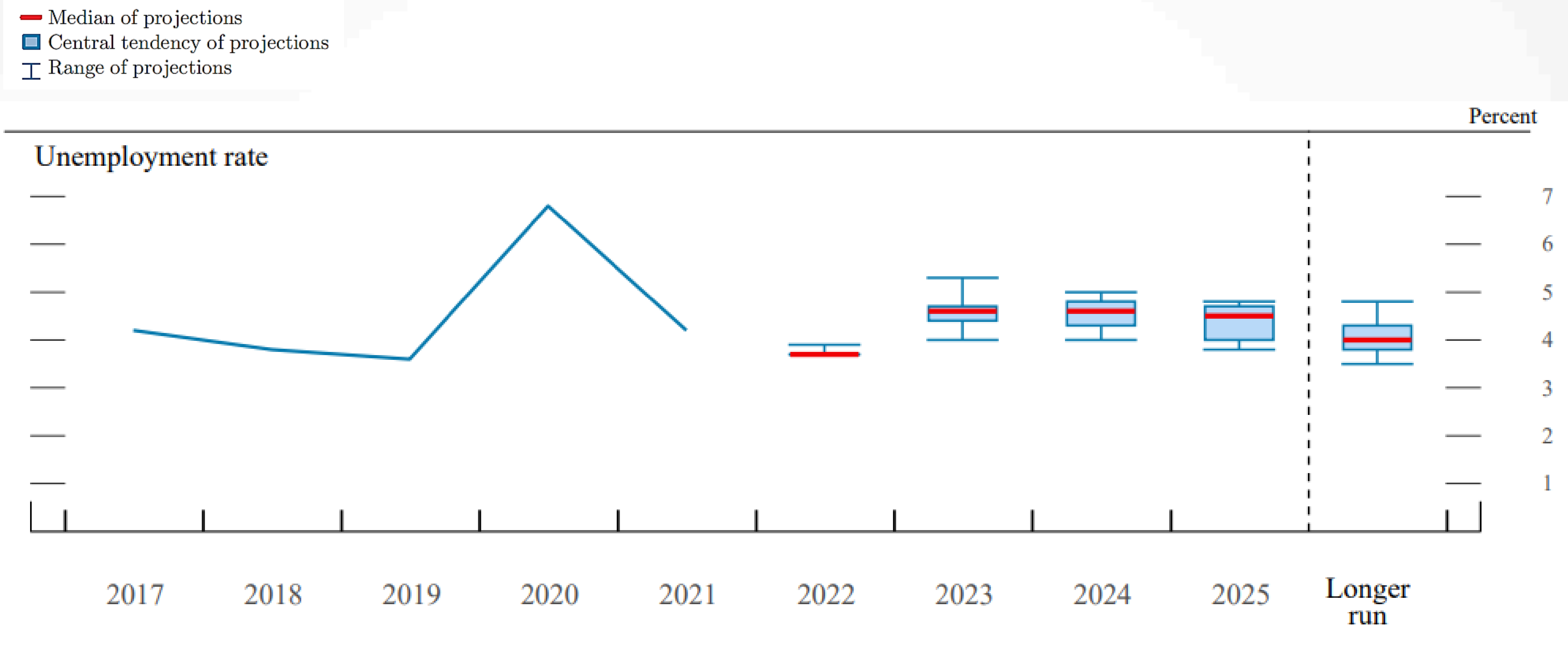


Construction
Durables

Prof/Bus Services
Education
Financial Services
Leisure & Hospitality

Labor

FOMC Summary of Economic Projections



Source: Board of Governors of the Federal Reserve System (December 14, 2022)

Inflation

- Inflation for goods and services are trending in different directions.
- While there is some moderation in the pace of input cost increases, firms are still experiencing an elevated and uncertain cost environment.
- Pricing power continues to be strong but is starting to moderate.

Inflation

Inflation remains elevated

Measure of underlying inflation	12-month growth rate		Average difference Measure - Core PCE	Target based on 2% Core PCE	Stats for 1-mo growth rates (2009–2019)			
	Nov-21	Nov-22	2009–2019		Mean	Median	P25	P75
Core CPI	5.0	6.0	0.3	2.3	1.9	2.0	1.3	2.4
FRB Cleveland Median CPI	3.5	7.0	0.6	2.6	2.2	2.3	1.9	2.6
FRB Cleveland 16% Trimmed-Mean CPI	4.6	6.7	0.2	2.2	1.9	1.9	1.4	2.3
Atlanta Fed Sticky CPI	3.4	6.6	0.5	2.5	2.1	2.2	1.6	2.6
Core PCE	4.8	4.7	0.0	2.0	1.6	1.5	1.1	2.1
Market-Based Core PCE	4.1	4.9	-0.2	1.8	1.4	1.3	0.8	1.9
FRB Dallas Trimmed-Mean PCE	3.0	4.6	0.1	2.1	1.7	1.8	1.3	2.0
FRB San Francisco Cyclical Core PCE Inflation	5.3	7.4	0.7	2.7	2.3	2.5	2.0	2.8
Cyclically Sensitive Inflation (Stock and Watson (2019))	4.2	6.7	-0.1	1.9	1.5	1.5	1.0	2.1

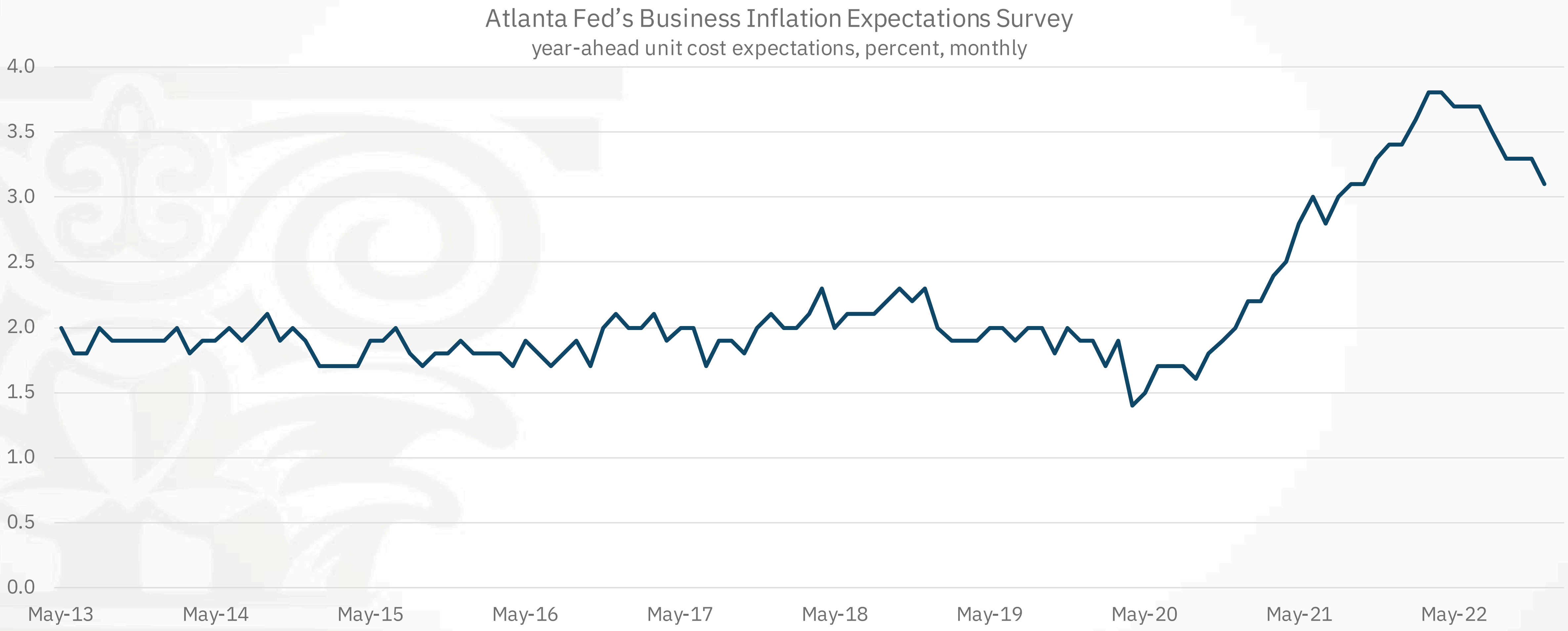
*All PCE-based and CPI-based measures report data through November 2022. Median, P25 and P75 statistics of FRB San Francisco Cyclical Core PCE Inflation are based on 12-month growth rates.

Sources: Bureau of Labor Statistics; Bureau of Economic Analysis; Federal Reserve Banks of Atlanta, Cleveland, Dallas, and San Francisco; Stock and Watson (2019); staff calculations

- Measure is within target range (-/+0.25 from target)
- Measure is between 0.25 and 0.50 ppt below target
- Measure is more than 0.50 ppt below target
- Measure is between 0.25 and 0.50 ppt above target
- Measure is more than 0.50 ppt above target

Inflation

Atlanta Fed's Business Inflation Expectation (BIE) Survey



through December 2022

FOMC December 2022 Policy Statement: Economic Conditions

- Recent indicators point to modest growth in spending and production.
- Job gains have been robust in recent months, and the unemployment rate has remained low.
- **Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.**
- Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.

Source: Federal Reserve Board - Federal Reserve issues FOMC statement

FOMC December 2022 Policy Statement: Policy Position

- The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run.

- In support of these goals, the Committee decided to raise the target range for the federal funds rate to 4-1/4 to 4-1/2 percent and anticipates that ongoing increases in the target range will be appropriate.

- In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May.

- The Committee is strongly committed to returning inflation to its 2 percent objective.

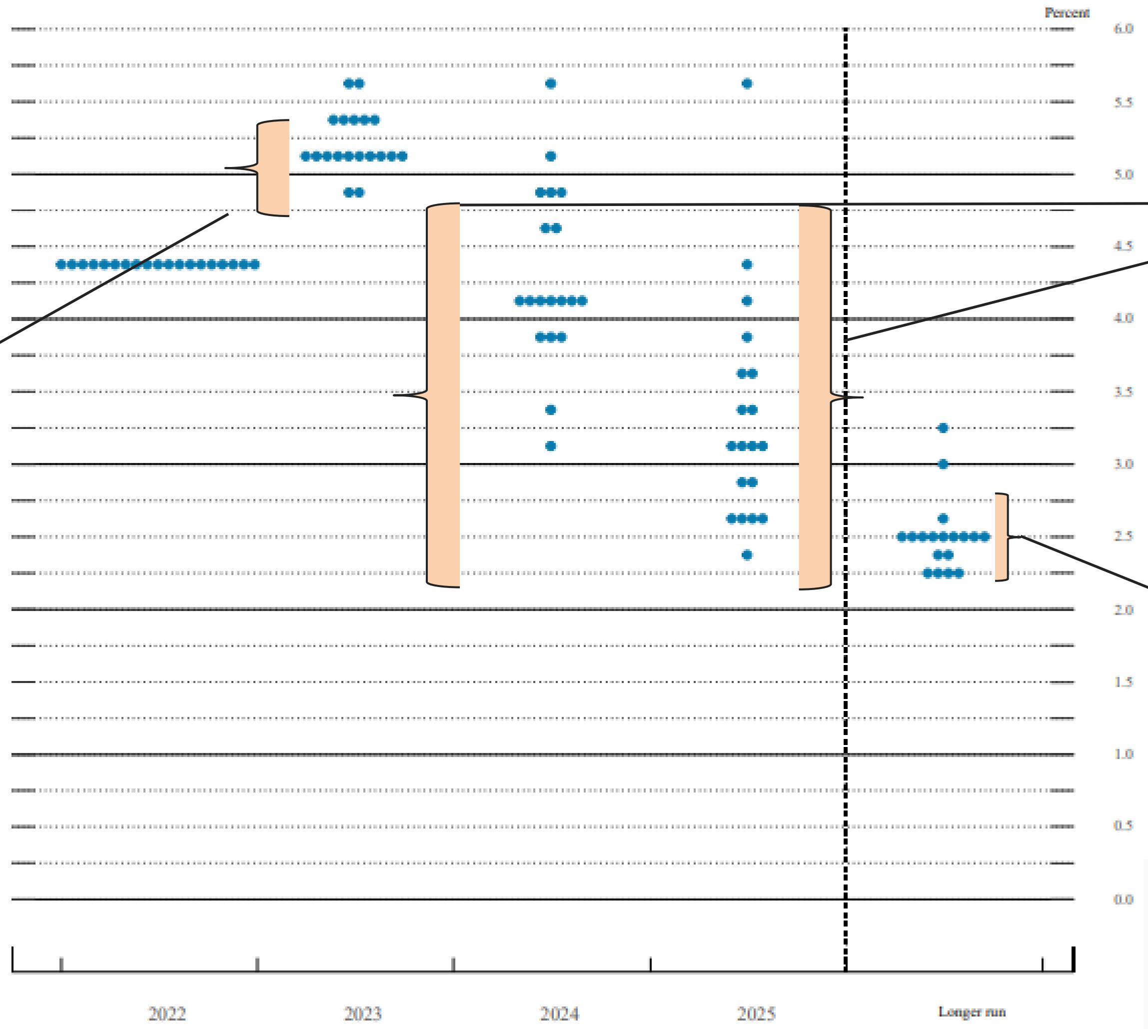
Source: Federal Reserve Board - Federal Reserve issues FOMC statement

Change in Fed Funds rate in 2022

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.5%
June 16, 2022	+75	1.5% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

Where interest rates may be going

FOMC “Dot Plot” for federal funds rate (in December 2022)



Nearly all FOMC members noted a target fed funds rate of 5 to 5.5 percent for 2023

While there was a lot of variance in the rate path in next two years…

…the FOMC still views the longer run fed funds rate to be between 2 – 3 percent

Source: Board of Governors of the Federal Reserve System (December 14, 2022)

Any lingering questions?

Federal Reserve Bank *of* Atlanta