

A Challenging Economy

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November 13, 2023

Disclaimer

The views expressed today are my own and not necessarily the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

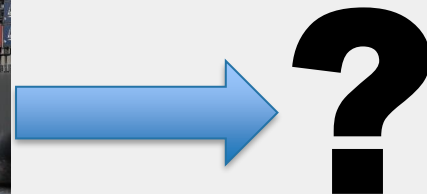
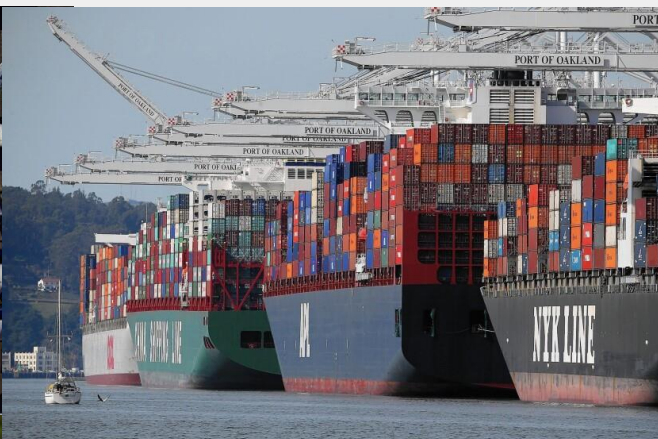


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Three questions to focus on

- How does an extraordinary recession alter the economy's path forward?
- Which news story wins: Layoffs or persistently tight labor markets?
- Inflation: Is it really heading lower?

The course of this expansion was always going to be different



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Recovery continues, but remains volatile

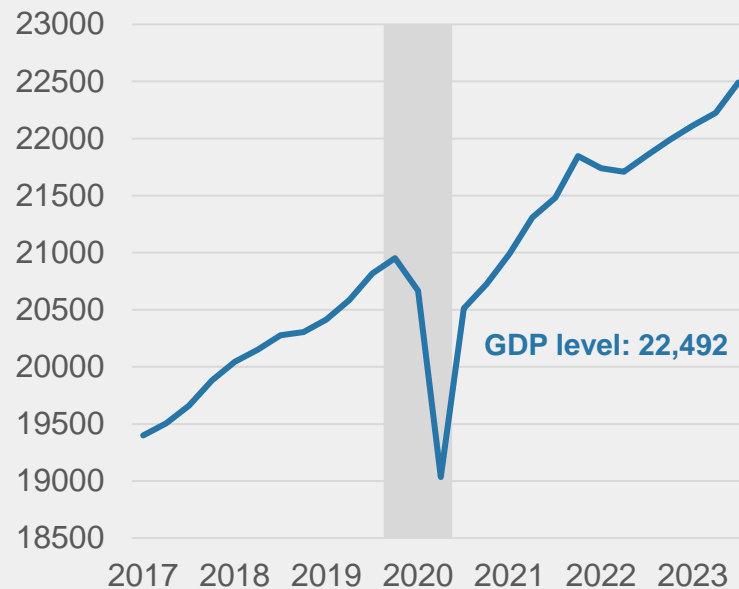
Real Domestic Product Growth Rate

Percent change, annual rate



Real Gross Domestic Product Level

Billions of dollars, annual rate



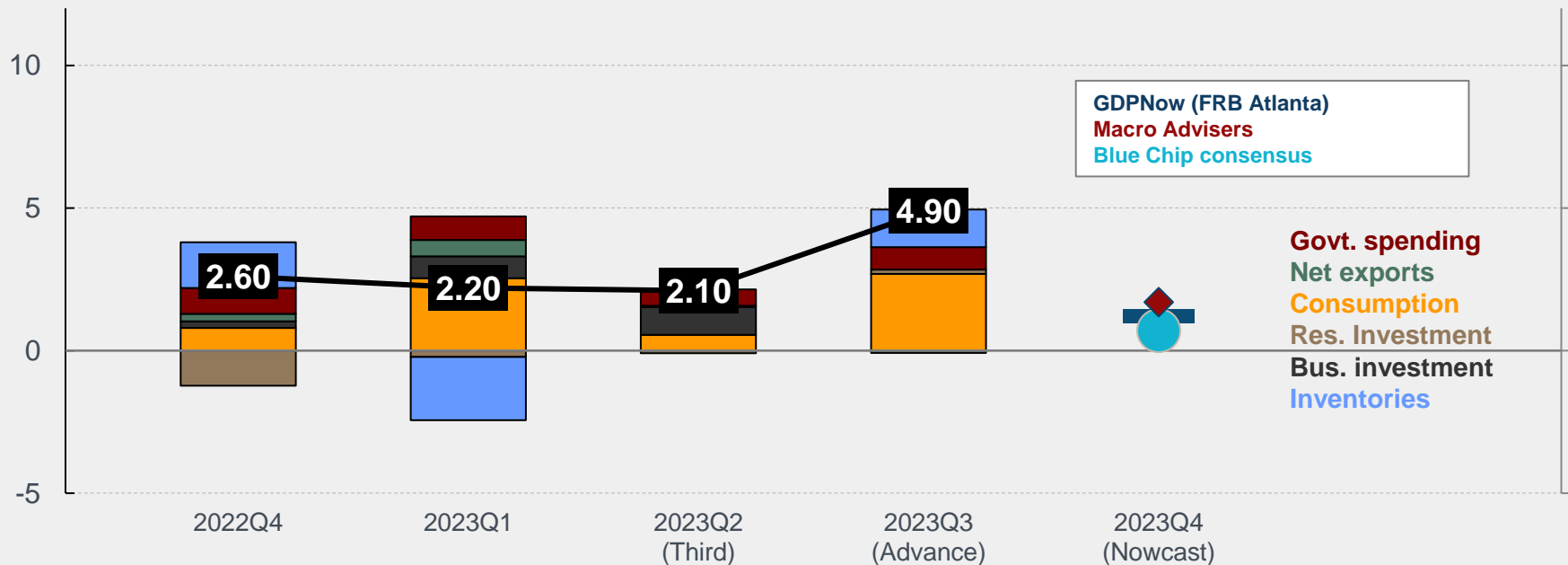
Source: Bureau of Economic Analysis, retrieved from Haver Analytics

Last observation: 2023:Q3

Volatile GDP growth is the outcome of unusual components

Contributions to GDP Growth

Annualized percent change



Source: Bureau of Economic Analysis, retrieved from Haver Analytics; FRB Atlanta (November 1, 2023); Macro Advisers (November 3, 2023); Blue Chip (October 2023)

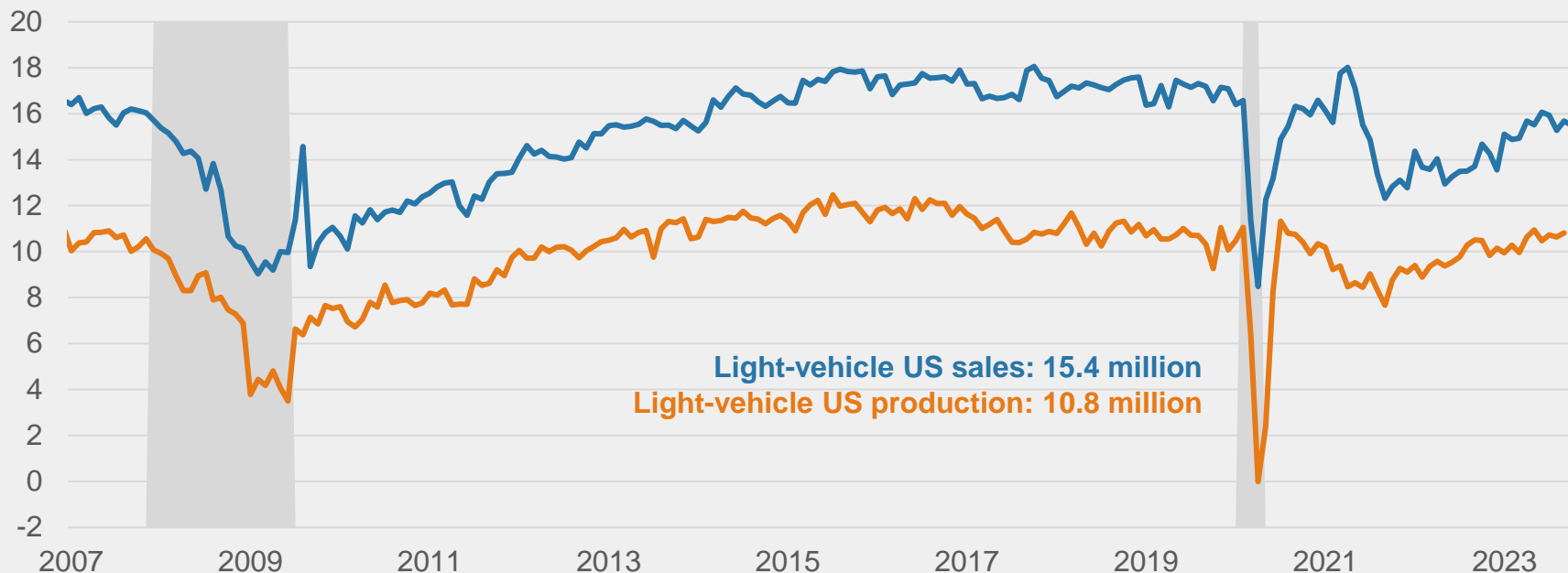
Last observation: 2023:Q1 (advance estimate)

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Auto supply issues are gradually abating, but demand is slowing too

Light-Weight Vehicle Sales and Production

Millions of units, annual rate



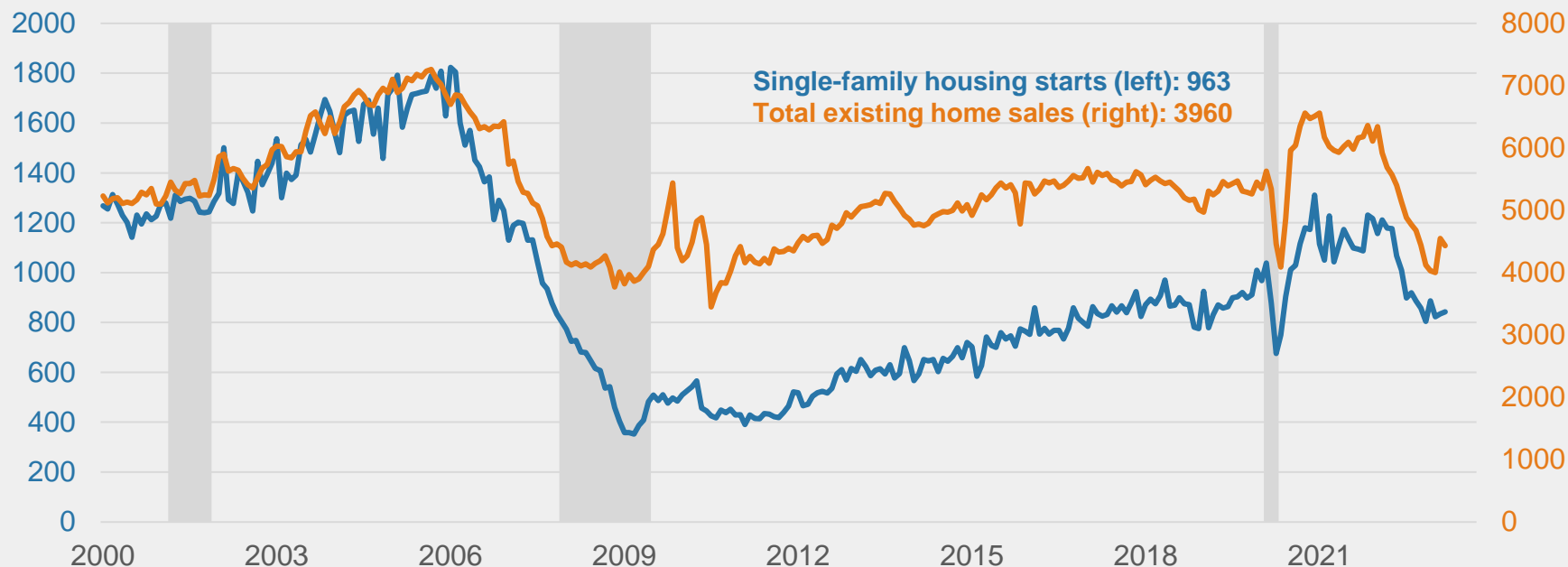
Source: Bureau of Economic Analysis, retrieved from Haver Analytics; WardsAuto InfoBank

Last observation: October 2023 (sales), September 2023 (production)

Higher interest rates have slowed a hot housing market

Single-family starts and total Sales

Thousands, seasonally adjusted annual rate

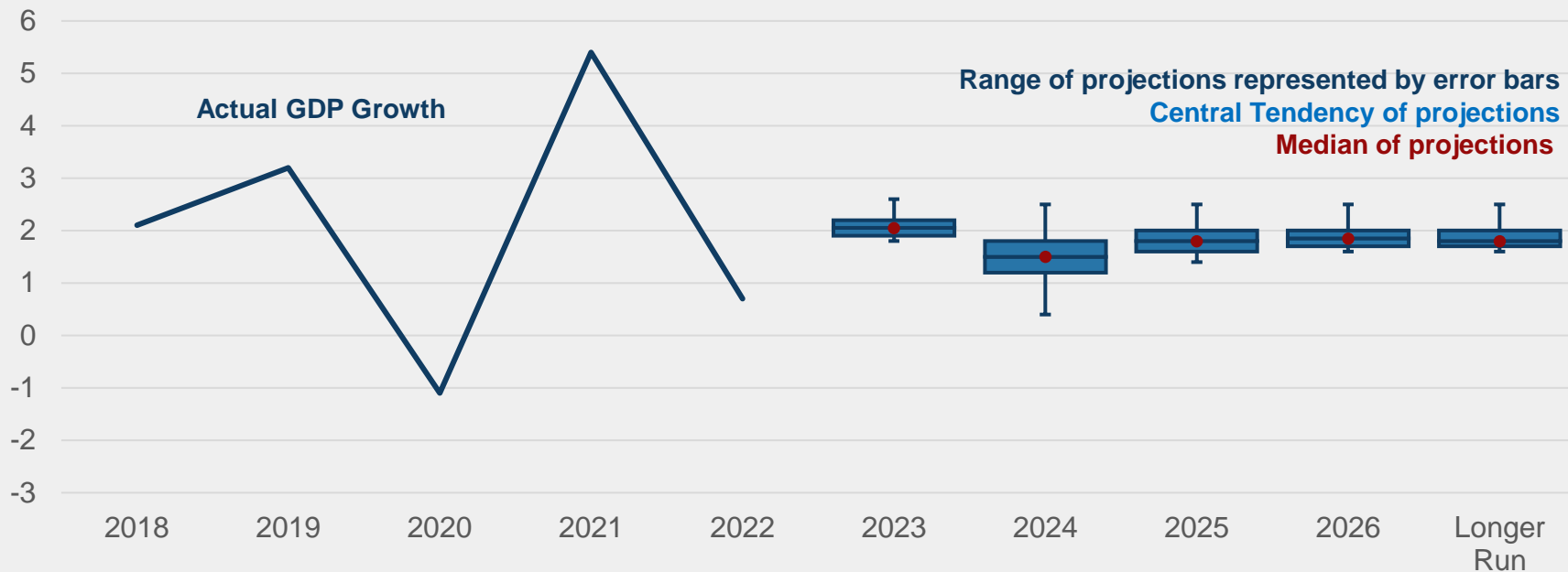


Source: National Association of Realtors, Census Bureau, retrieved from Haver Analytics

Last observation: September 2023

FOMC GDP Projections

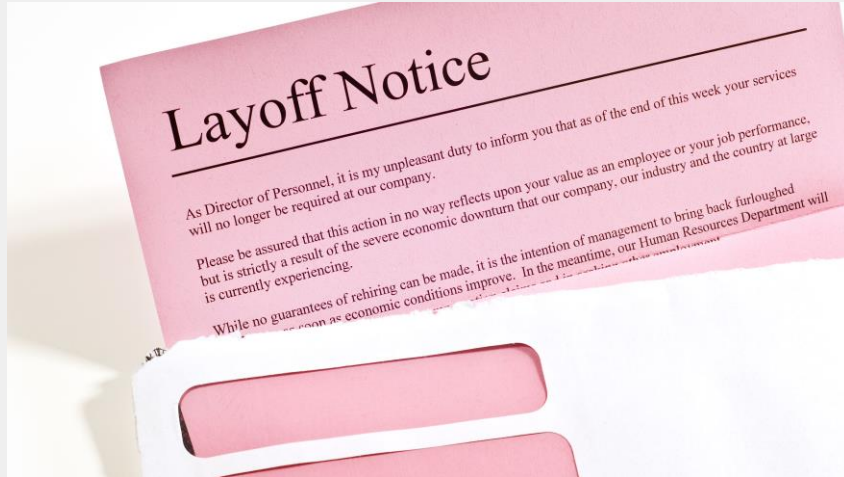
Year-over-year percent change



Source: Bureau of Economic Analysis and Federal Reserve Board, retrieved from Haver Analytics

Projections from: September 2023

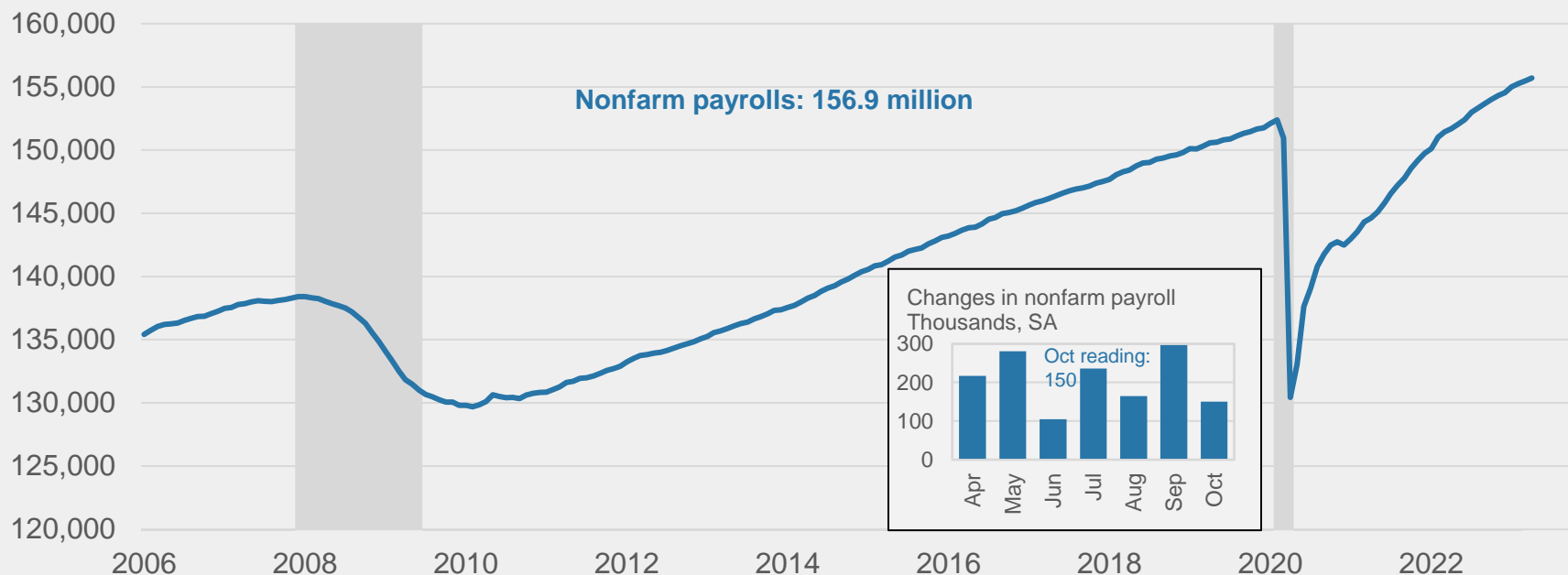
Layoffs and a Strong Labor Market



The recovery in employment continues to be strong

Employment

Thousands, seasonally adjusted



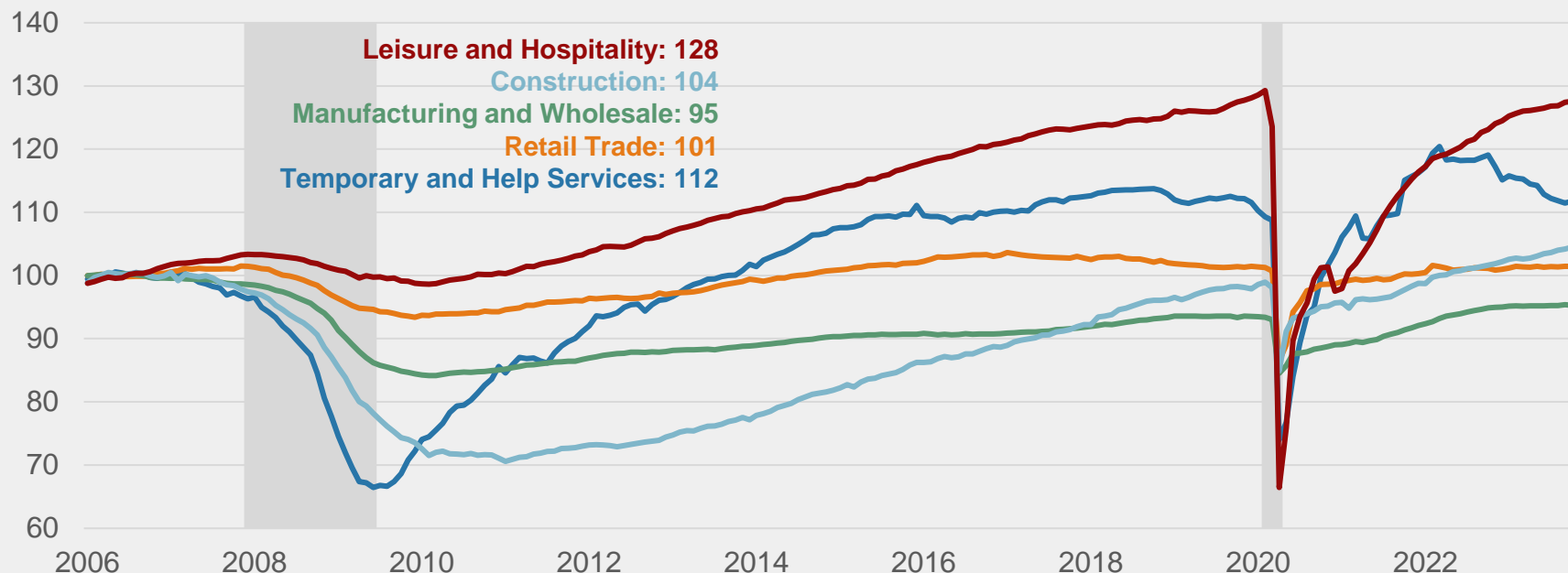
Source: Bureau of Labor Statistics, retrieved from Haver Analytics

Last observation: October 2023

Large employment sectors are still generally recovering

Employment by Industry

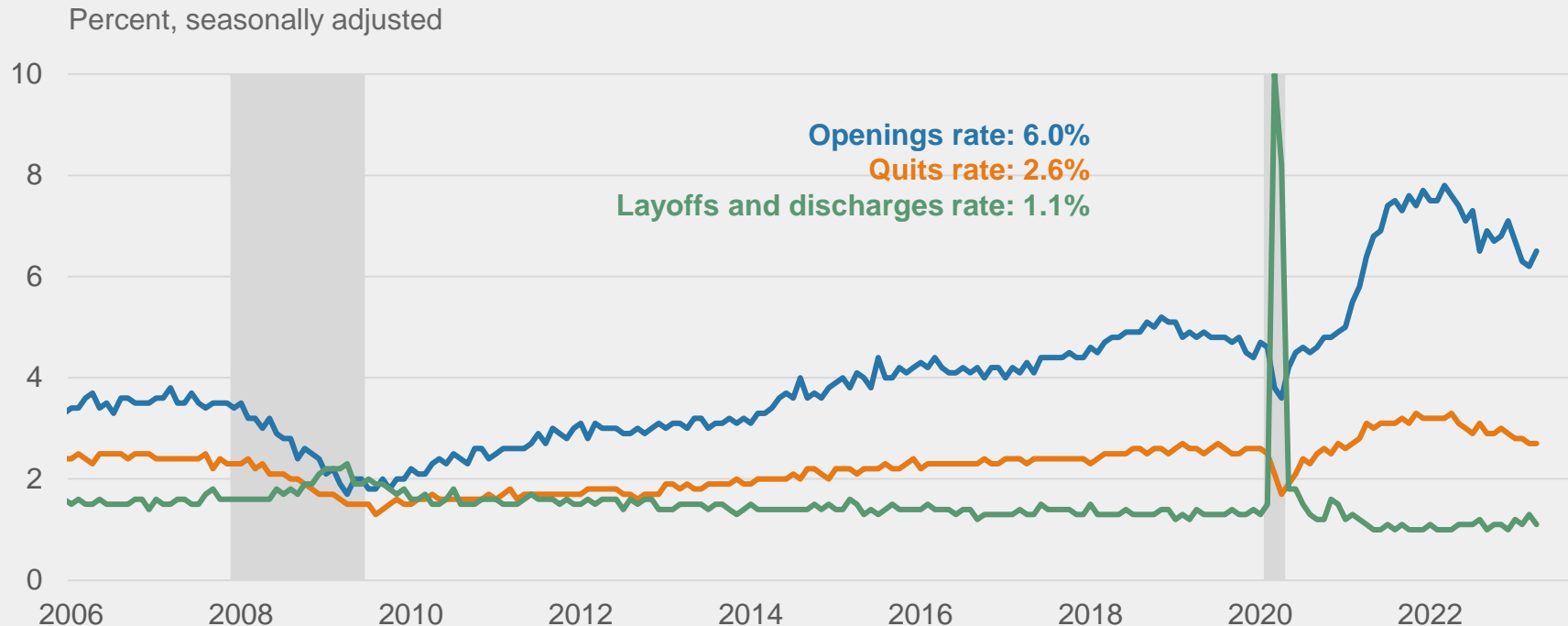
Index, seasonally adjusted (2006 = 100)



Source: Bureau of Labor Statistics, retrieved from Haver Analytics
Last observation: October 2023

There has been a rise in layoffs, but openings still dominate

JOLTS Total Private Openings and Separation Rates

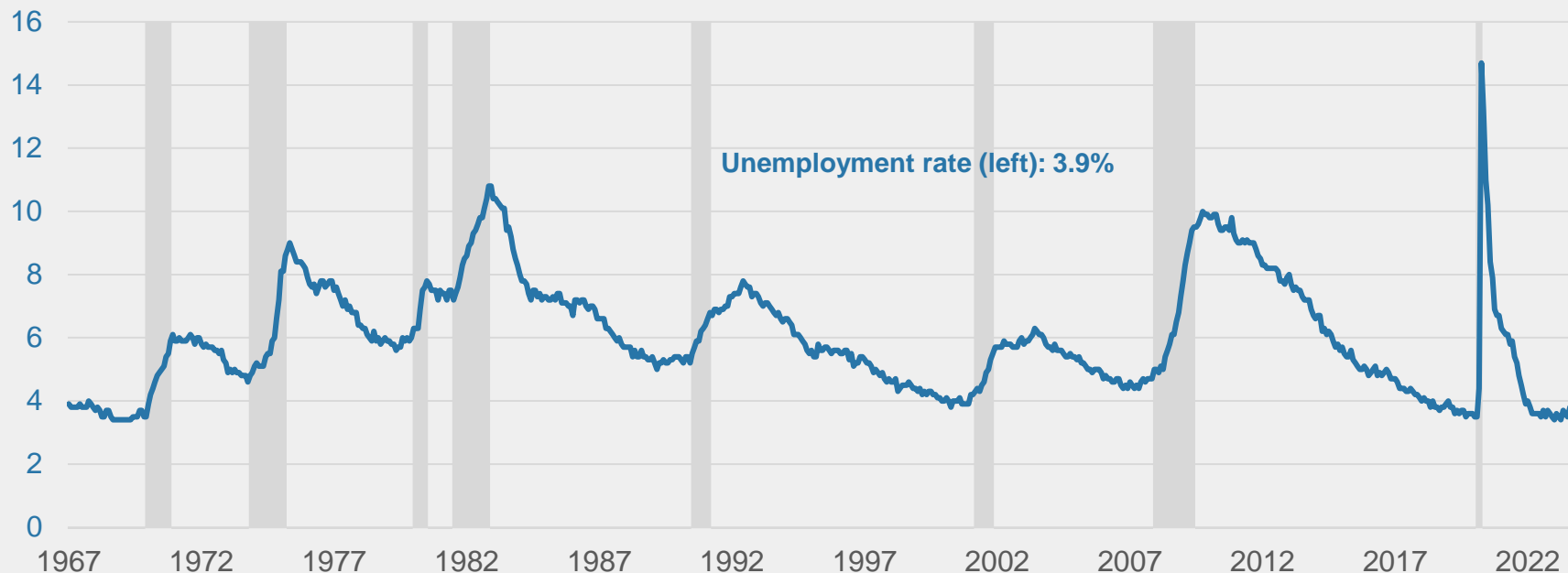


Source: Bureau of Labor Statistics, retrieved from Haver Analytics
Last observation: September 2023

The unemployment rate is historically low and falling

Unemployment Rate

Percent of civilian labor force, seasonally adjusted

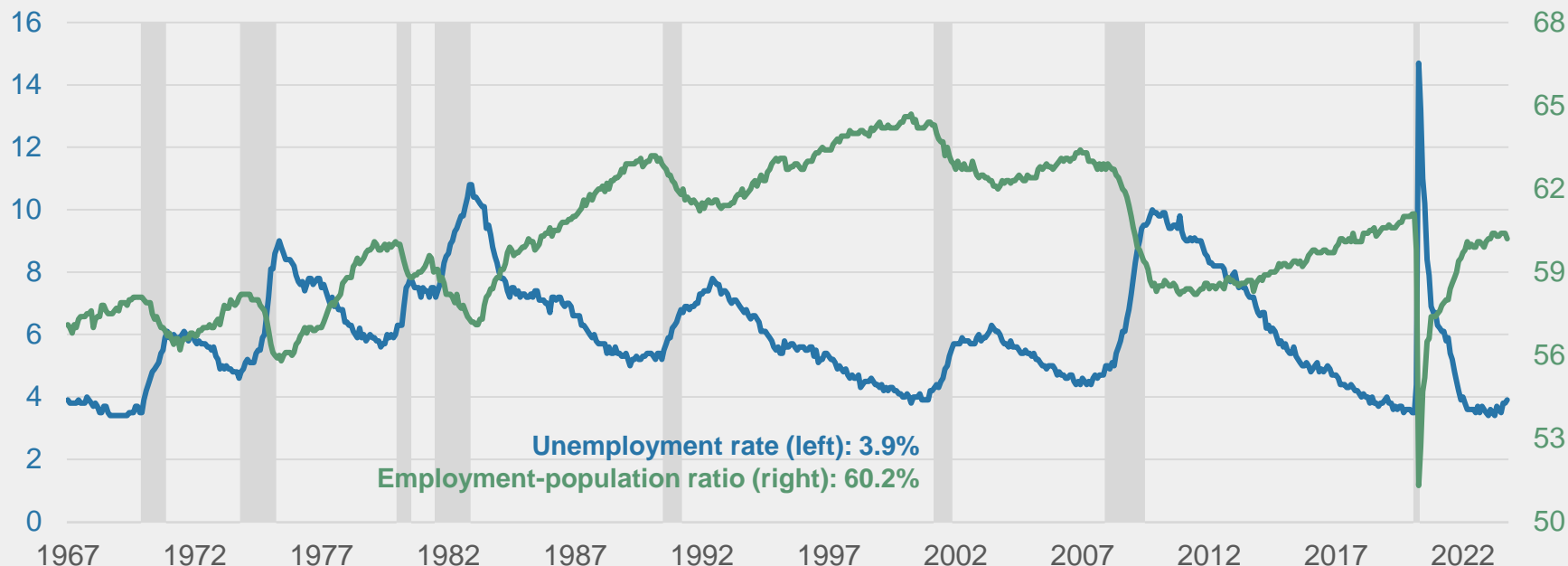


Source: Bureau of Labor Statistics, retrieved from Haver Analytics
Last observation: October 2023

Household patterns show less robustness in employment

Unemployment and Employment to Population Rates

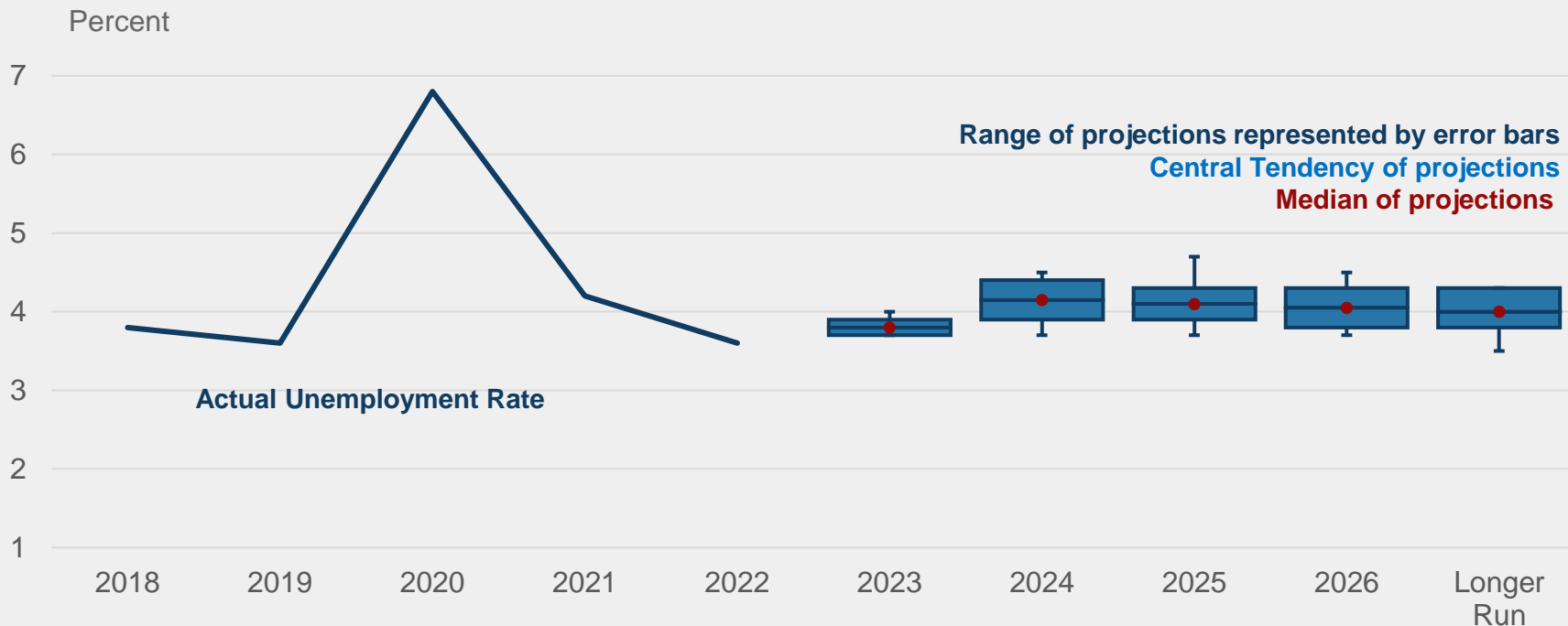
Percent of civilian labor force, seasonally adjusted



Source: Bureau of Labor Statistics, retrieved from Haver Analytics

Last observation: October 2023

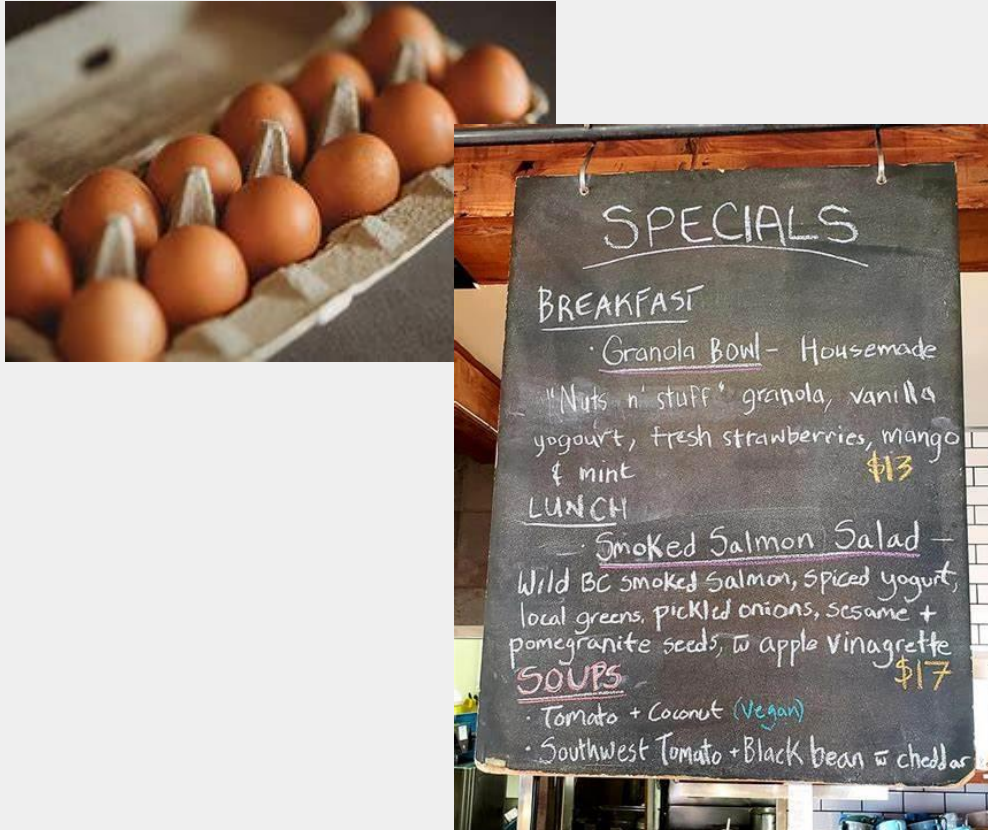
FOMC Unemployment Rate Projections



Source: Bureau of Economic Analysis and Federal Reserve Board, retrieved from Haver Analytics

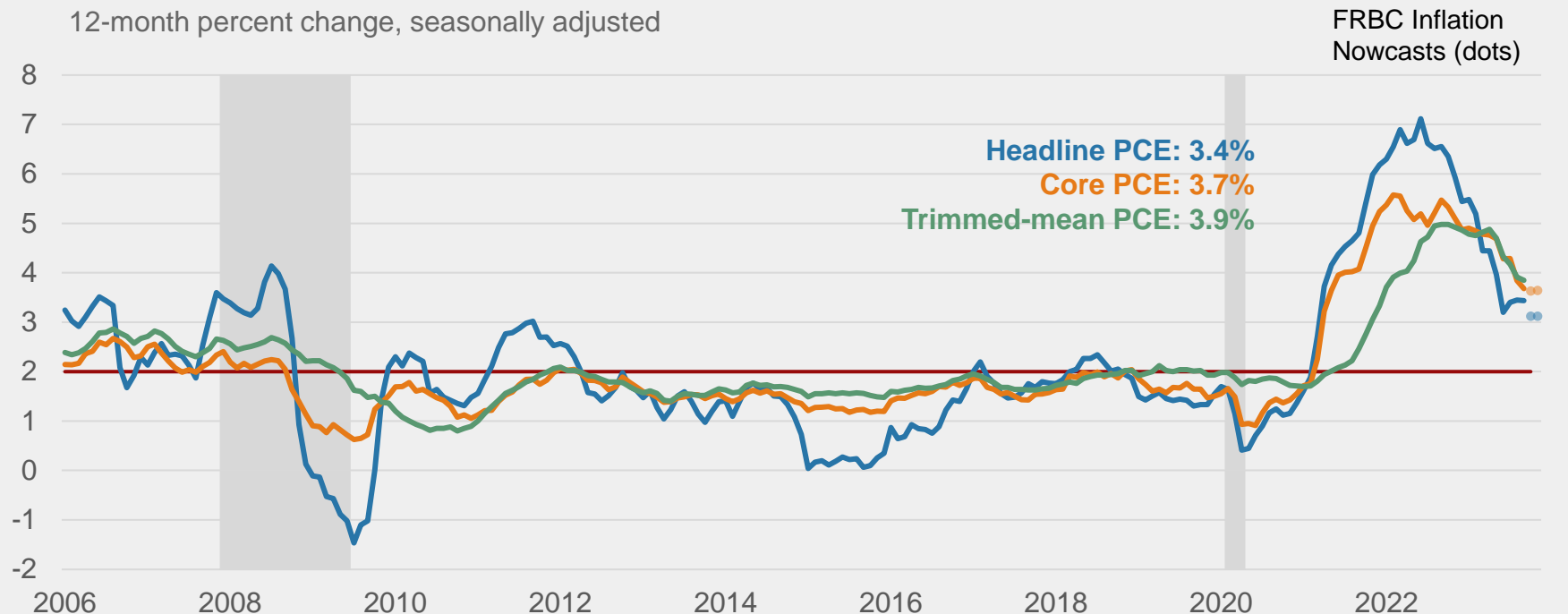
Projections from: September 2023

Inflation: Is it really heading lower?



Inflation is high and broad-based, but has turned lower

PCE Inflation Measures



Source: Bureau of Economic Analysis, retrieved from Haver Analytics; FRB Dallas; FRB Cleveland (November 6, 2023)

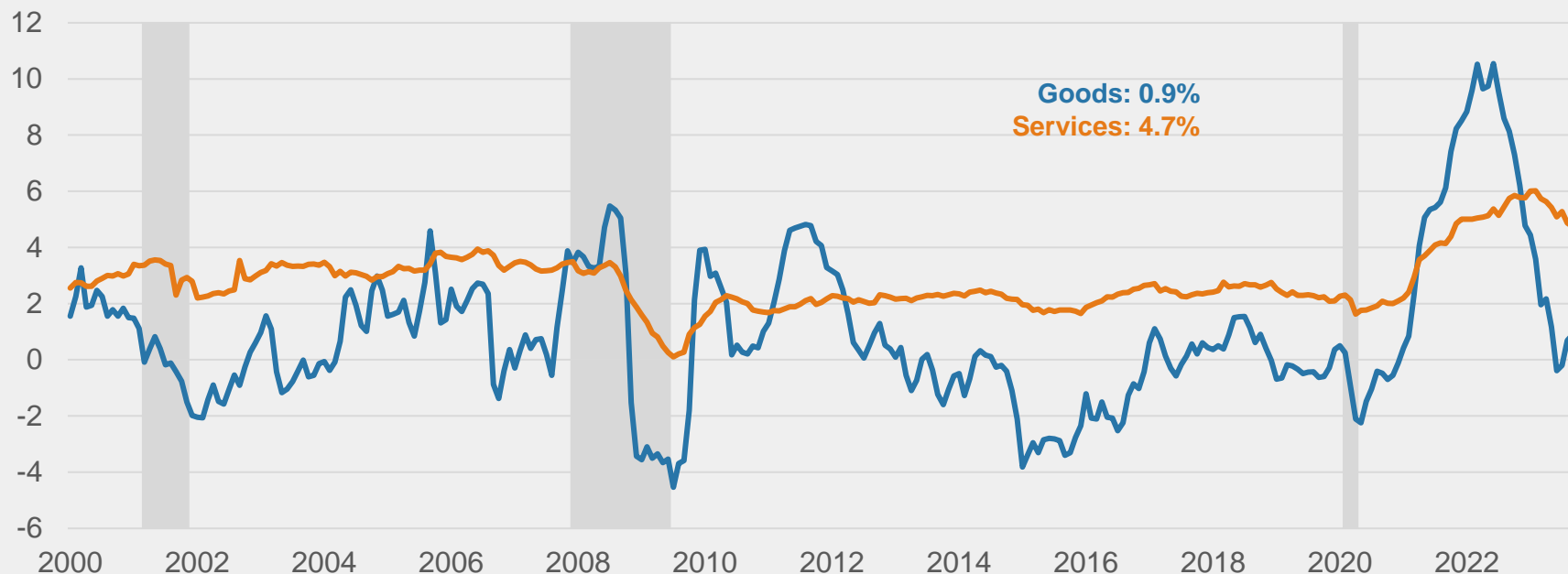
Last observation: September 2023 (Data), November 2023 (Nowcasts)

Note: Red line is **FOMC target**; the observations for October and November are the nowcasts from the FRB Cleveland website.

Goods prices lead the inflation increase, but service up now

Real PCE: Goods and Services

12-month percent change, seasonally adjusted



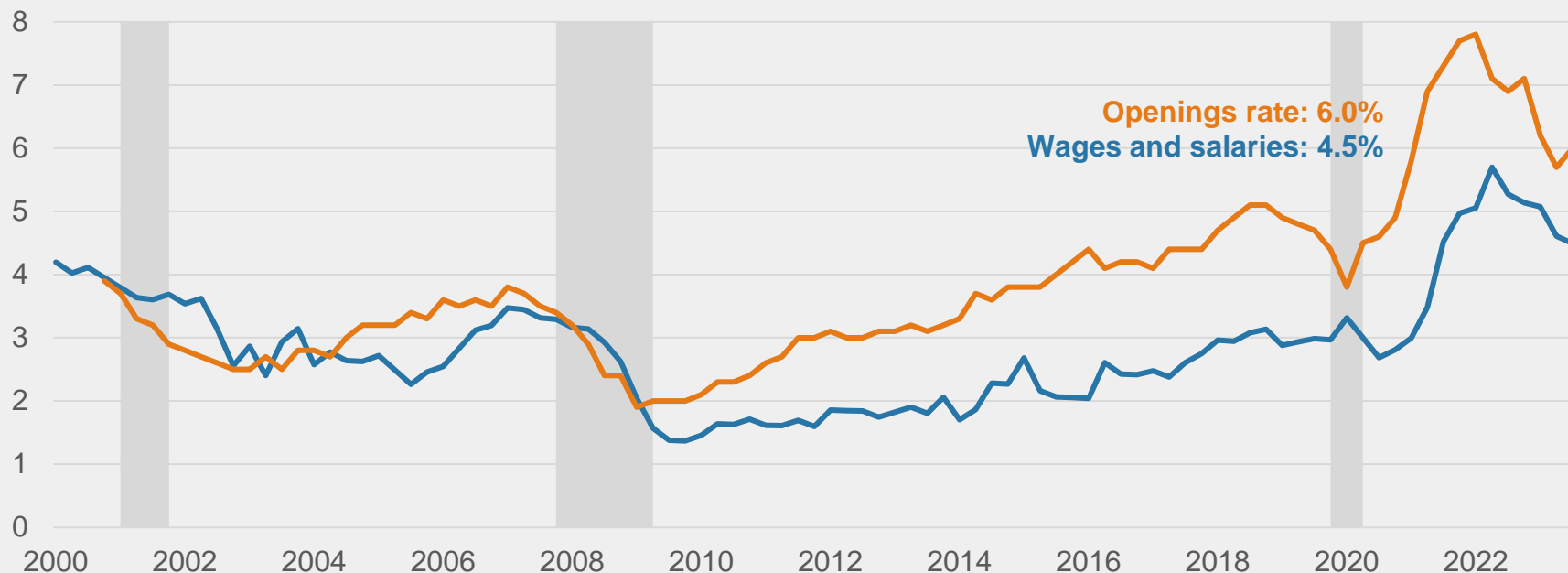
Source: Bureau of Economic Analysis, retrieved from Haver Analytics

Last observation: September 2023

Higher openings have supported an acceleration in wage growth

Wages and Salaries and Job Openings (Private Industries)

4Q percent change (ECI), percent (JOLTS), seasonally adjusted

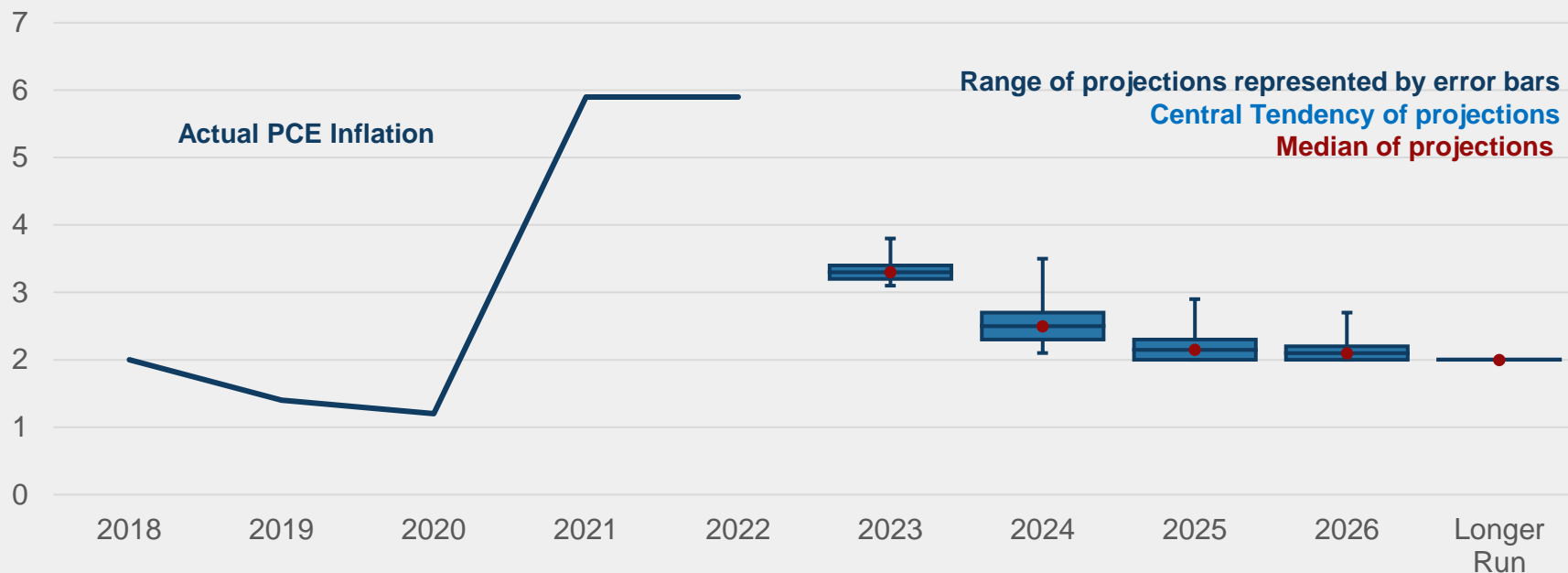


Source: Bureau of Labor Statistics, retrieved from Haver Analytics

Last observation: 2023:Q3

FOMC PCE Inflation Projections

Year-over-year percent change



Source: Bureau of Economic Analysis and Federal Reserve Board, retrieved from Haver Analytics

Projections from: September 2023

Summary of conditions

- Growth has continued to erratic after the pandemic but is slowing
- Employment continues to expand, even with announced layoffs and a tight labor market
- Inflation remains high, but there are more signs of slowing price and wage growth
- Monetary policy has moved quickly to address elevated inflation.