A Challenging Economy

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

**Light-Weight Vehicle Sales and Production**

Millions of units, annual rate

- Light-vehicle US sales: 15.4 million
- Light-vehicle US production: 10.8 million

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

Single-family housing starts (left): 963
Total existing home sales (right): 3960

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

Nonfarm payrolls: 156.9 million

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)

Leisure and Hospitality: 128
Construction: 104
Manufacturing and Wholesale: 95
Retail Trade: 101
Temporary and Help Services: 112

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

Percent, seasonally adjusted

Openings rate: 6.0%
Quits rate: 2.6%
Layoffs and discharges rate: 1.1%

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

Unemployment rate (left): 3.9%

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

Unemployment rate (left): 3.9%
Employment-population ratio (right): 60.2%

Source: Bureau of Labor Statistics, retrieved from Haver Analytics
Last observation: October 2023
FOMC Unemployment Rate Projections

Actual Unemployment Rate

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

12-month percent change, seasonally adjusted

Headline PCE: 3.4%
Core PCE: 3.7%
Trimmed-mean PCE: 3.9%

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

Actual PCE Inflation

Range of projections represented by error bars
Central Tendency of projections
Median of projections

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.