

2023 Economic Update **Patient, Resolute, and Cautious:** **Some Remarks on the U.S. Economy and a Look Forward**

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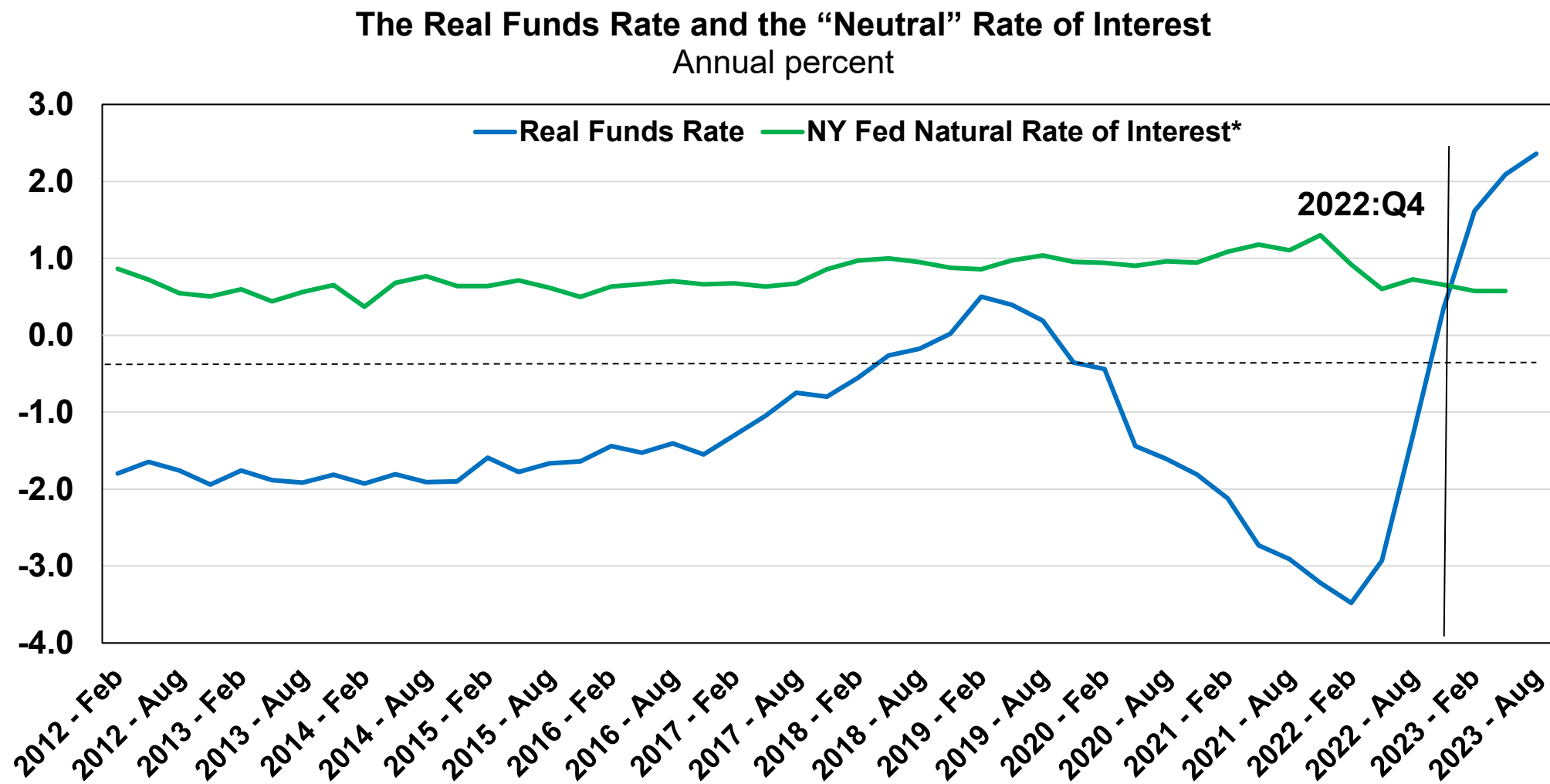
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“Time to be patient, resolute, and cautious”

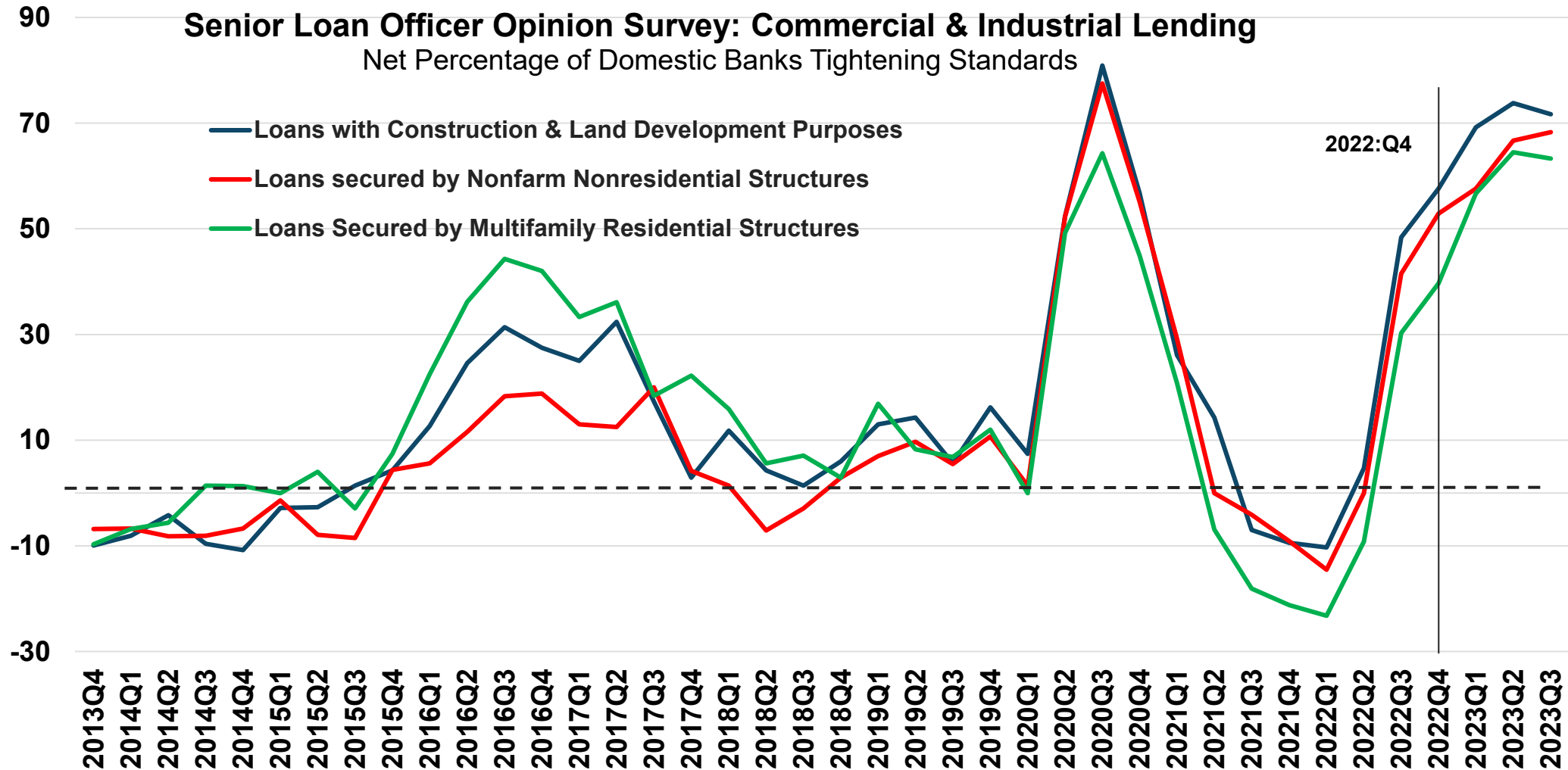
Federal Reserve Bank of Atlanta President and CEO Raphael Bostic, “[The Major Challenges in U.S. Monetary Policy](#),” speech delivered at the South African Reserve Bank Biennial Conference, August 31, 2023.

Patience: By several measures, the funds rate entered tightening range near the end of last year.



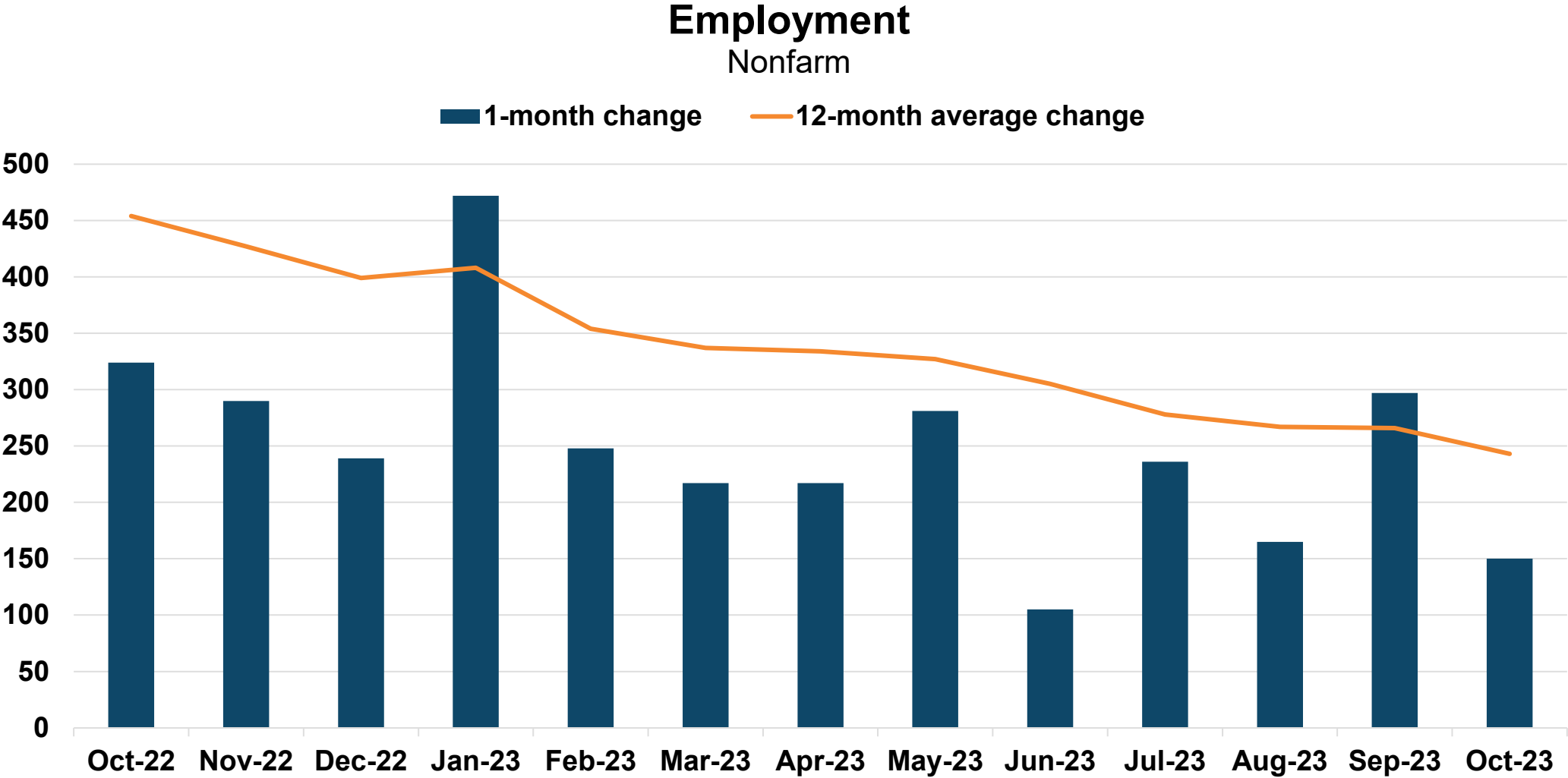
Sources: Board of Governors; Federal Reserve Bank of New York; Federal Reserve Bank of Atlanta (FRBA); Haver Analytics. Data through August 2023.

Similarly, peak (thus far) credit tightening is relatively recent.



Source: Board of Governors. Data collected the last two weeks of September 2023.

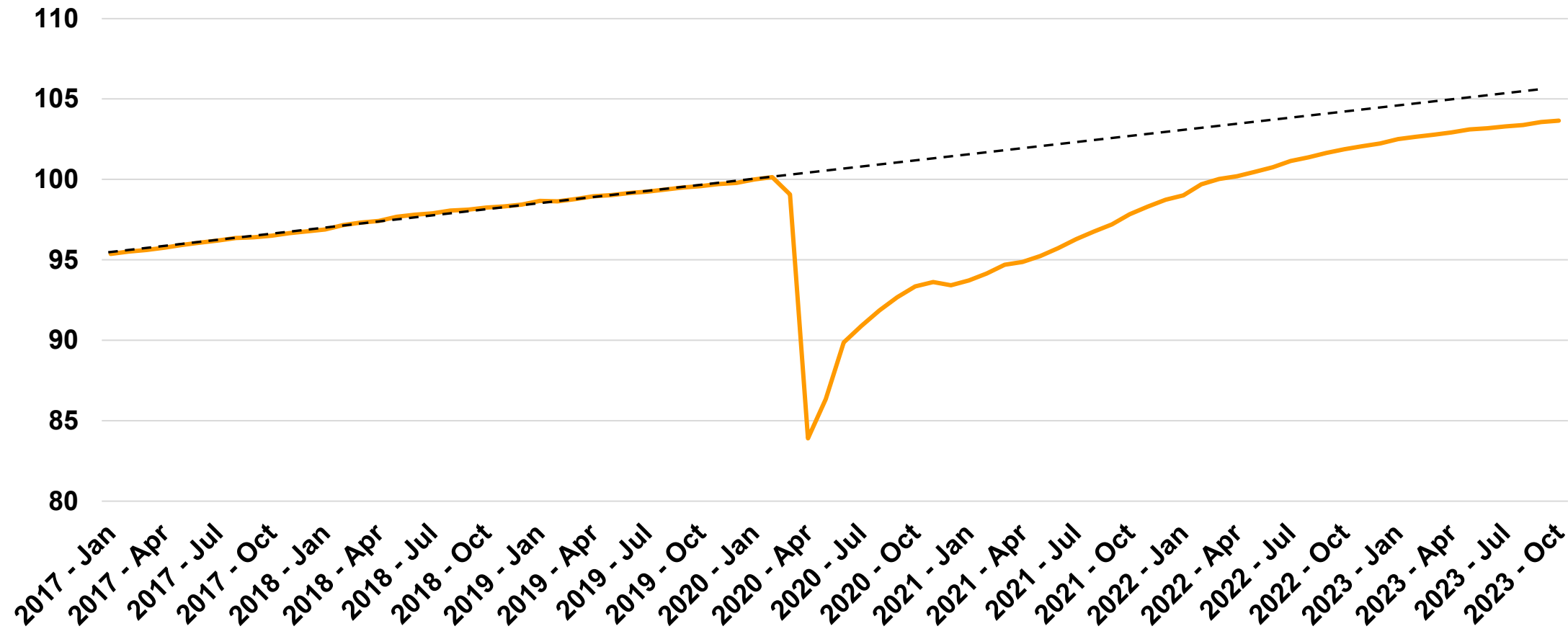
It's a slow and bumpy journey, but the labor market is moving in the direction of more balance.



Sources: U.S. Bureau of Labor Statistics Summary Table B, Establishment data; Haver Analytics.

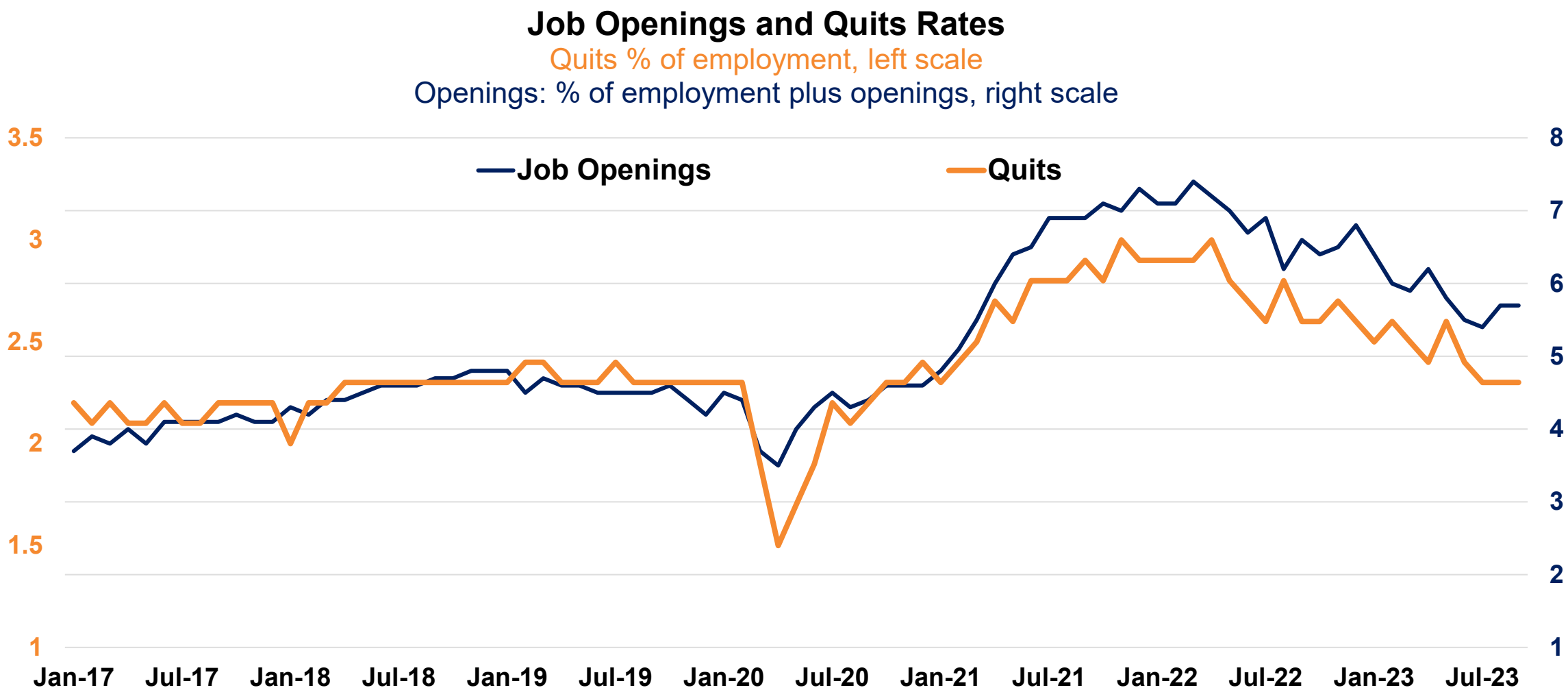
The level of employment is still below the level implied by pre-pandemic growth.

Private Nonfarm Employment
Index, January 2020= 100



Sources: Bureau of Labor Statistics; FRBA; Haver Analytics.

Quits and job vacancies are moving in the direction of a “soft landing.”

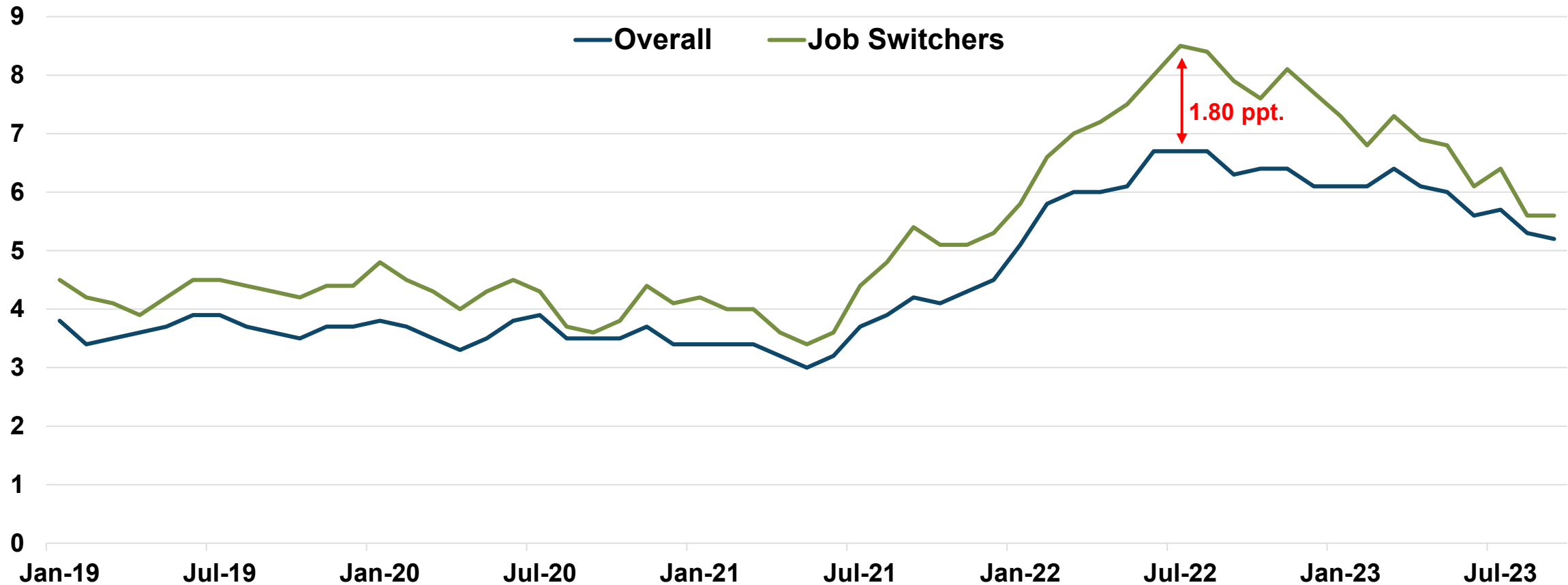


Sources: Bureau of Labor Statistics; Haver Analytics. Data through September 2023.

Consistent with falling quits, the “job-switcher premium” has fallen to near pre-pandemic levels.

Wage Growth
Three-month average, annualized

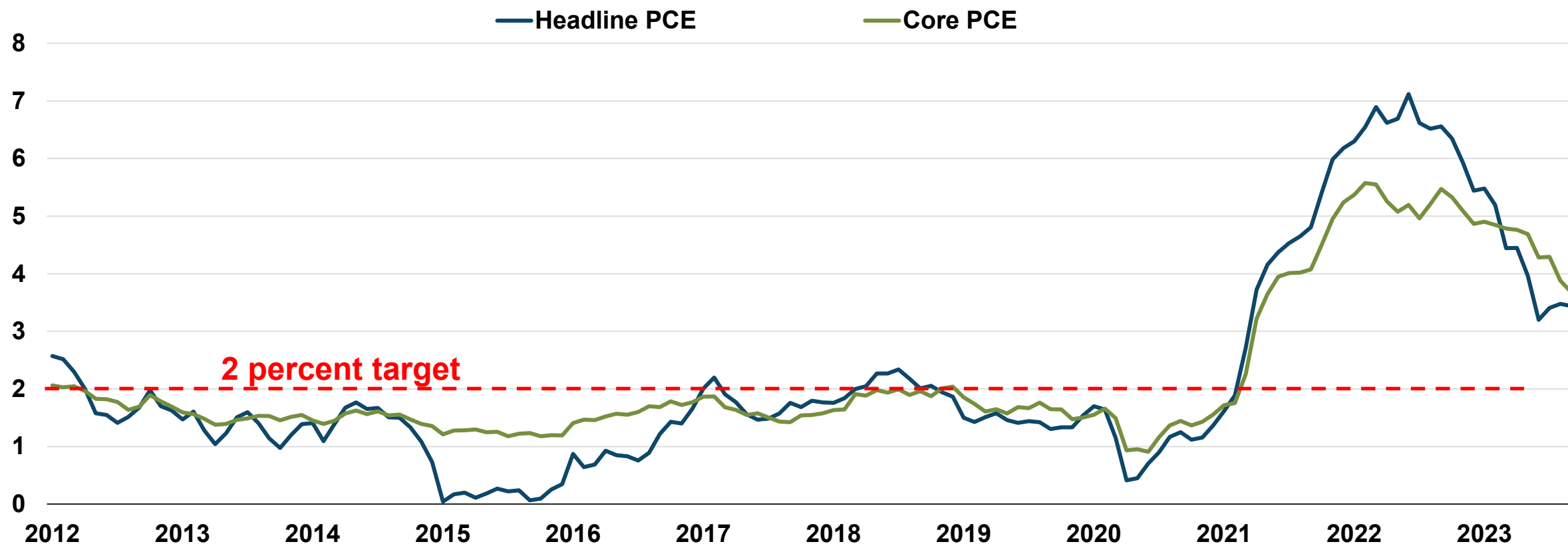
— Overall — Job Switchers



Source: Current Population Survey, FRBA. The series is the median 12-month growth in the hourly wage from a longitudinally linked sample of wage and salary earners. Data is through September 2023.

Resolute: Consistently meeting the FOMC's inflation target is an unfinished project.

Personal Consumption Expenditures (PCE) Price Index
12-month percent change

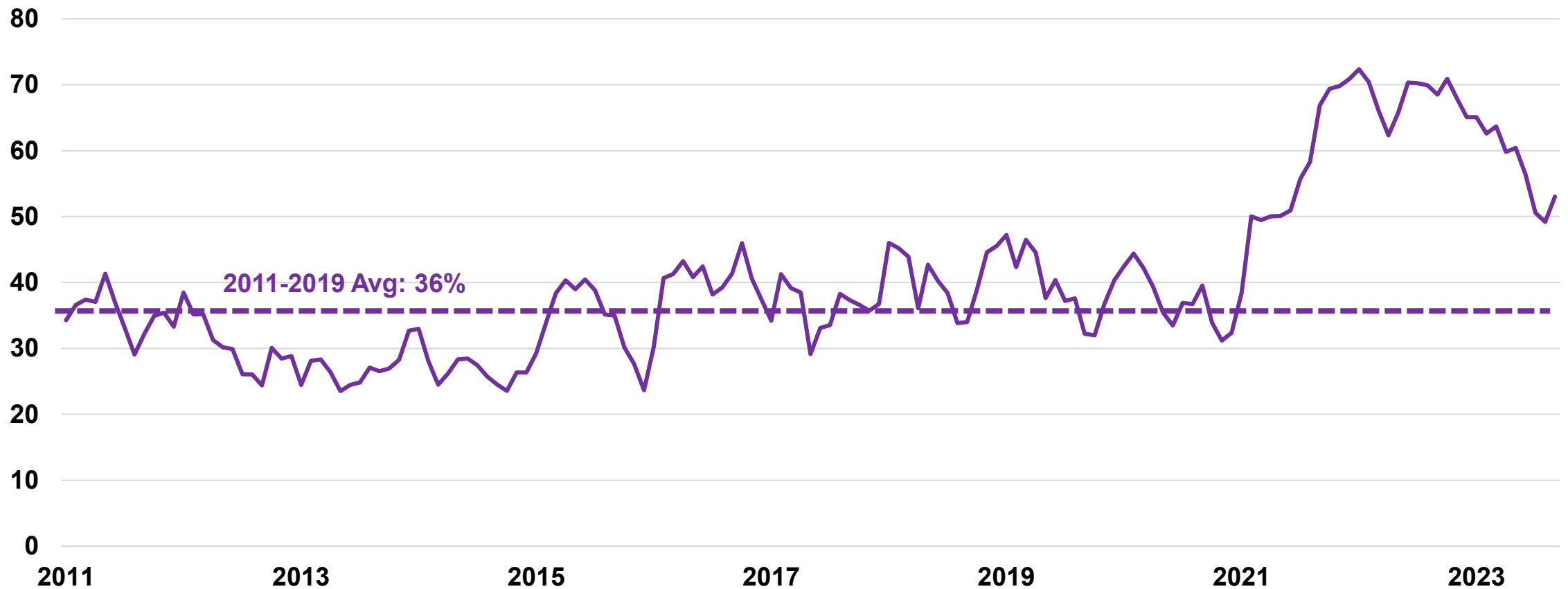


Sources: Bureau of Economic Analysis; Haver Analytics. Data through September 2023.

Progress, but inflationary pressures are still quite broad-based.

Weighted shares of PCE inflation above 3%

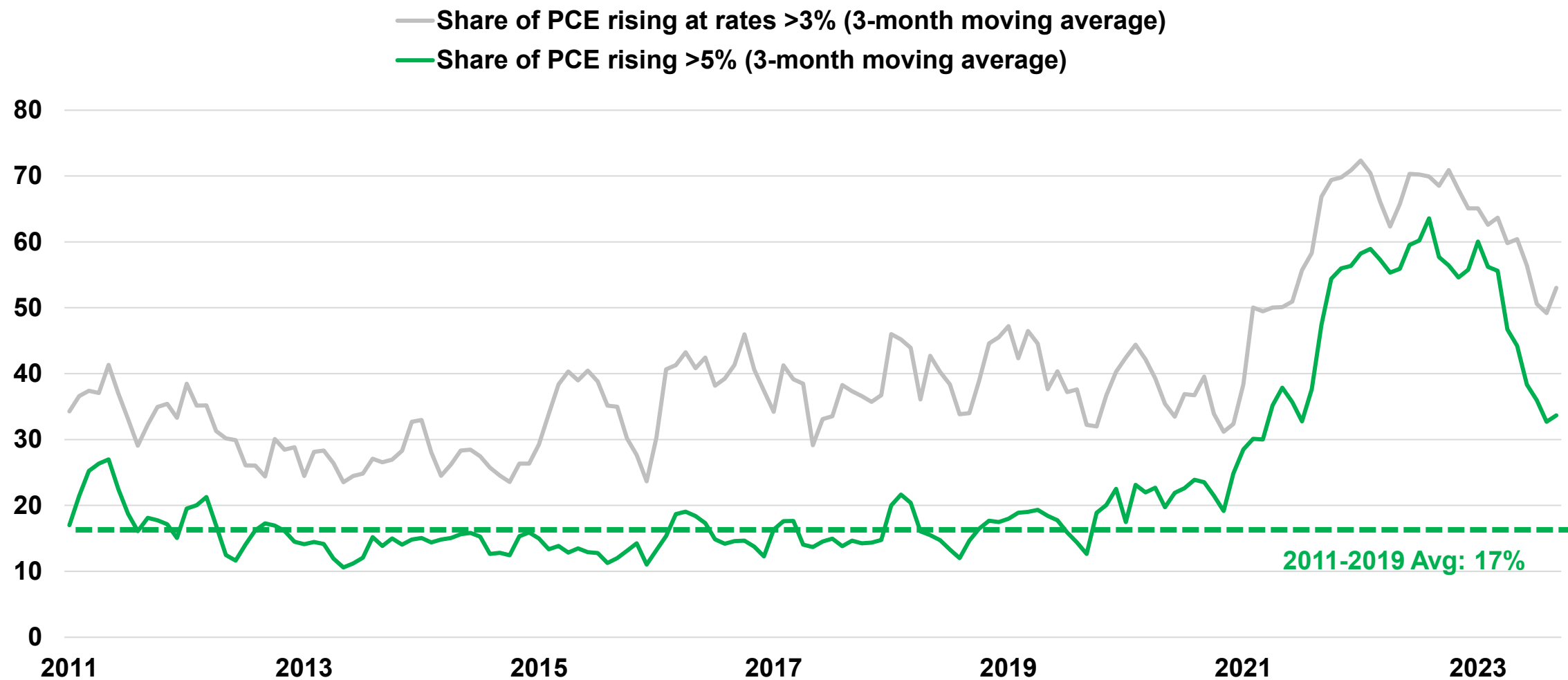
— Share of PCE rising at rates >3% (3-month moving average)



Sources: Bureau of Labor Statistics; FRBA. Data through September 2023.

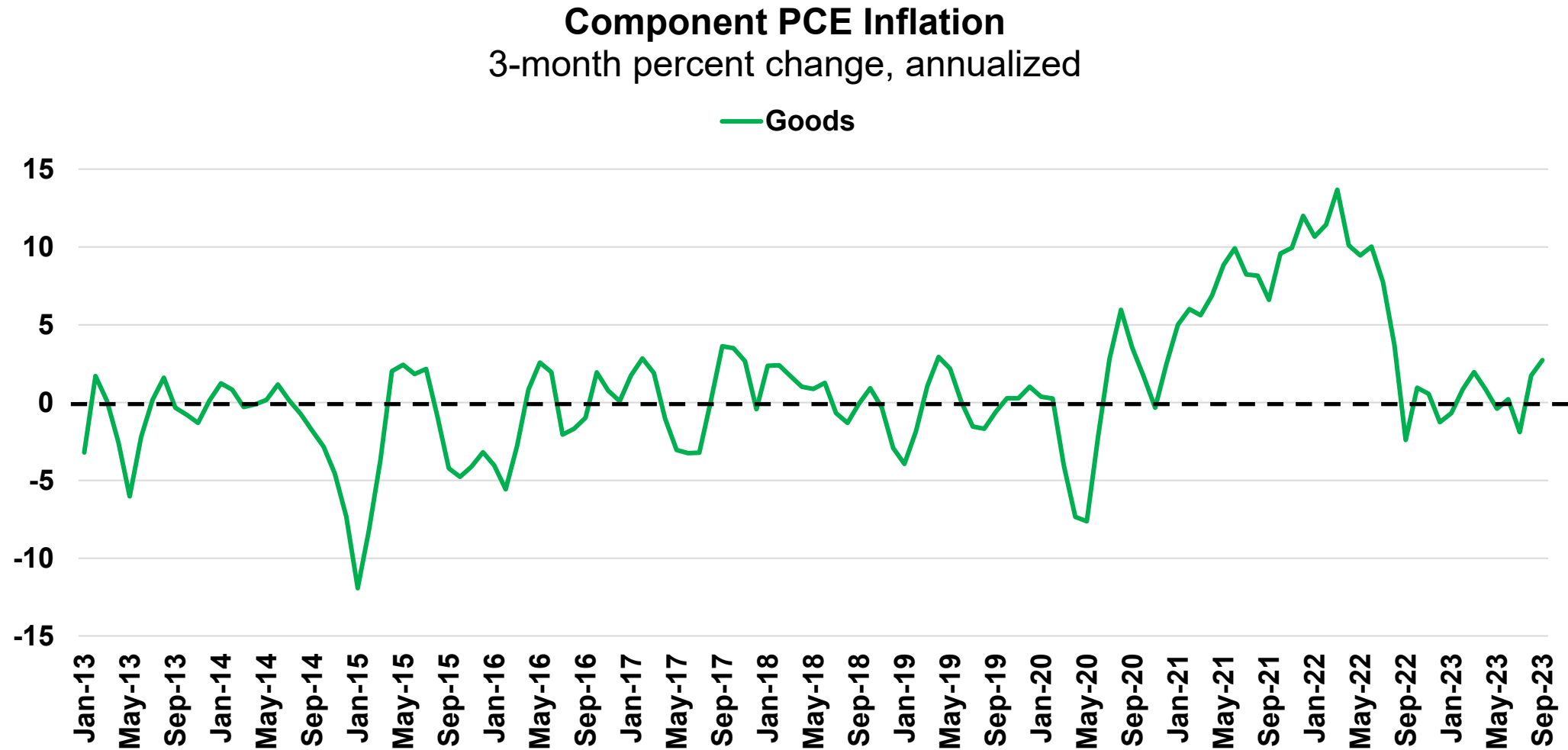
In fact, there remains a large proportion of prices rising at quite elevated rates.

Weighted shares of PCE inflation above 3% and 5%



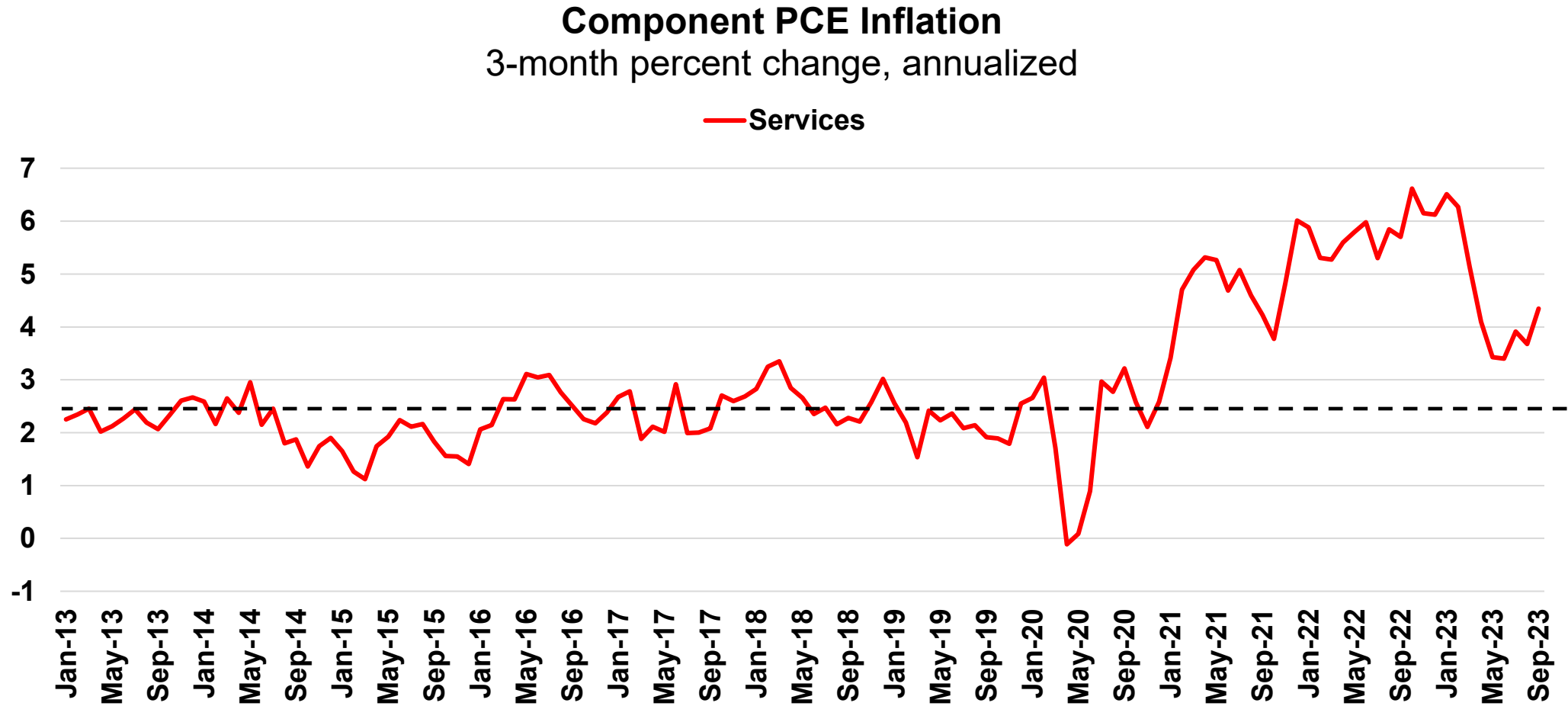
Sources: Bureau of Labor Statistics; FRBA. Data through September 2023.

Goods inflation has essentially returned to “normal.”



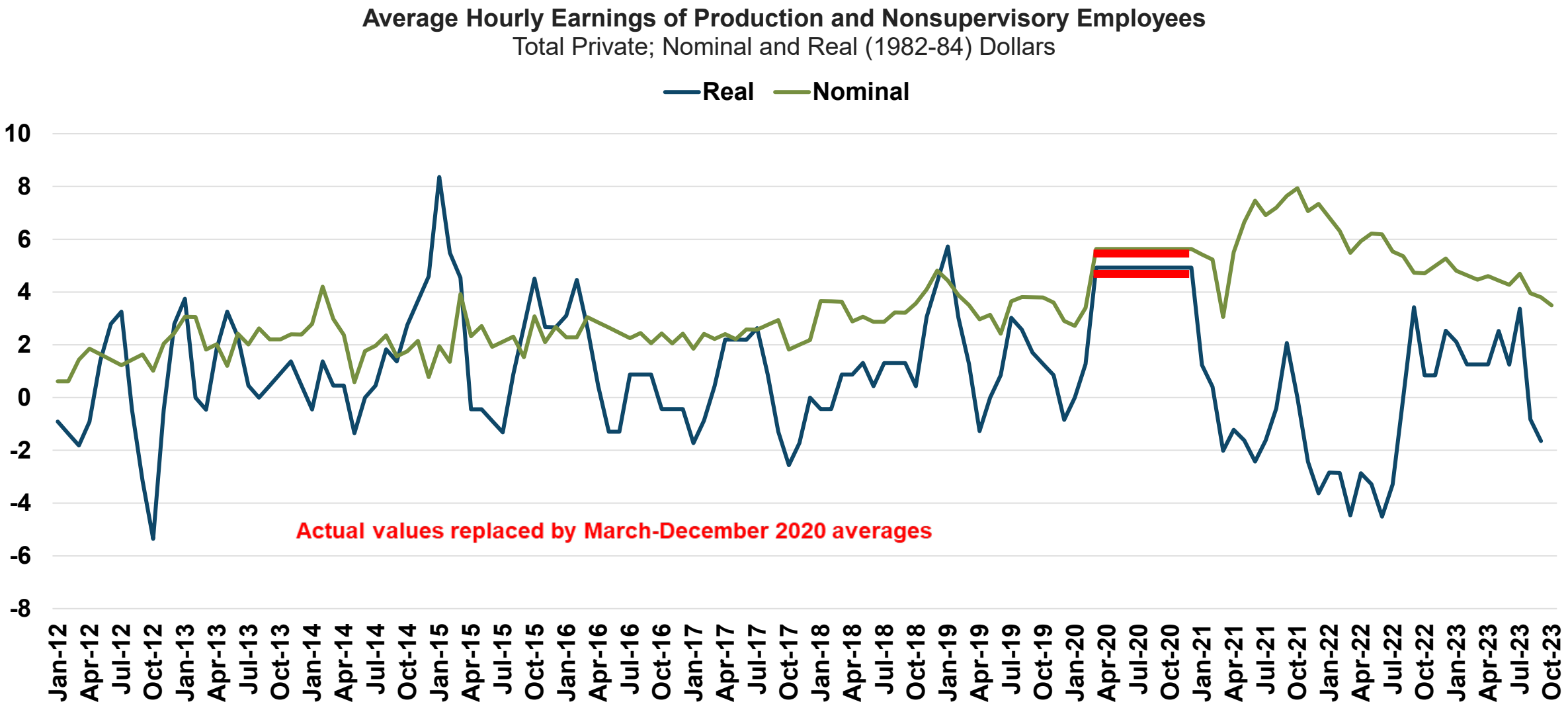
Sources: Bureau of Labor Statistics; Haver Analytics. Data through September 2023.

Services inflation is not there yet.



Sources: Bureau of Labor Statistics; Haver Analytics. Data through September 2023.

Does the last mile on inflation depend on the road ahead for wages?

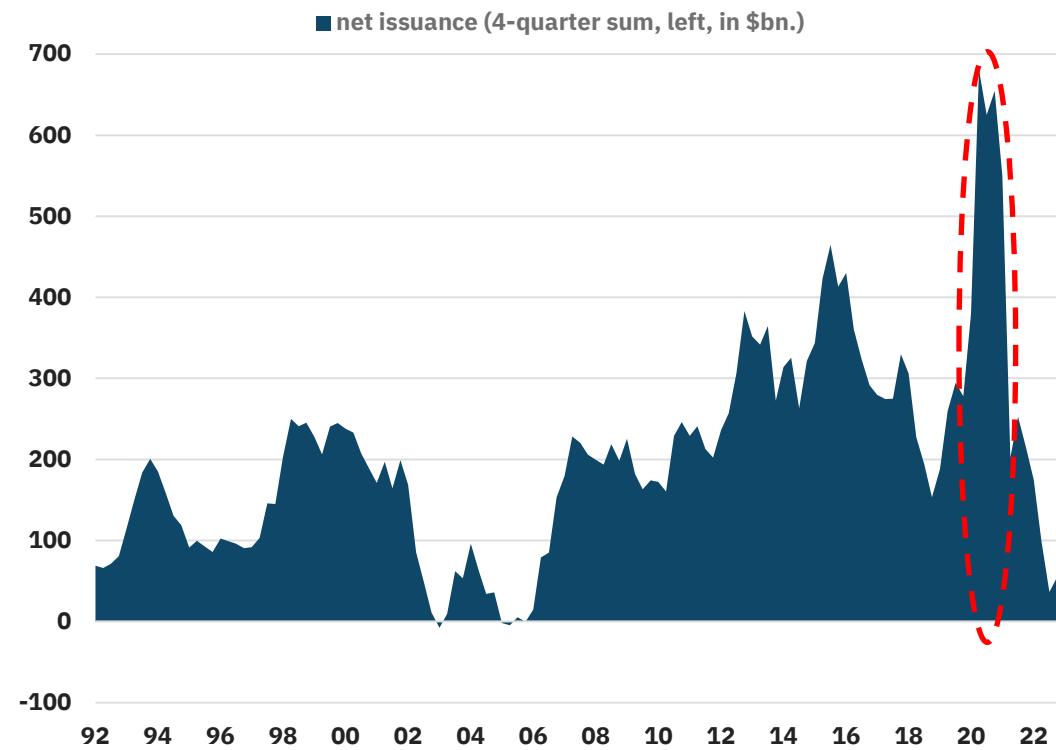


Sources: Bureau of Labor Statistics; FRBA; Haver Analytics. Data through October 2023.

Cautious: The full credit-tightening effects are probably yet to come.

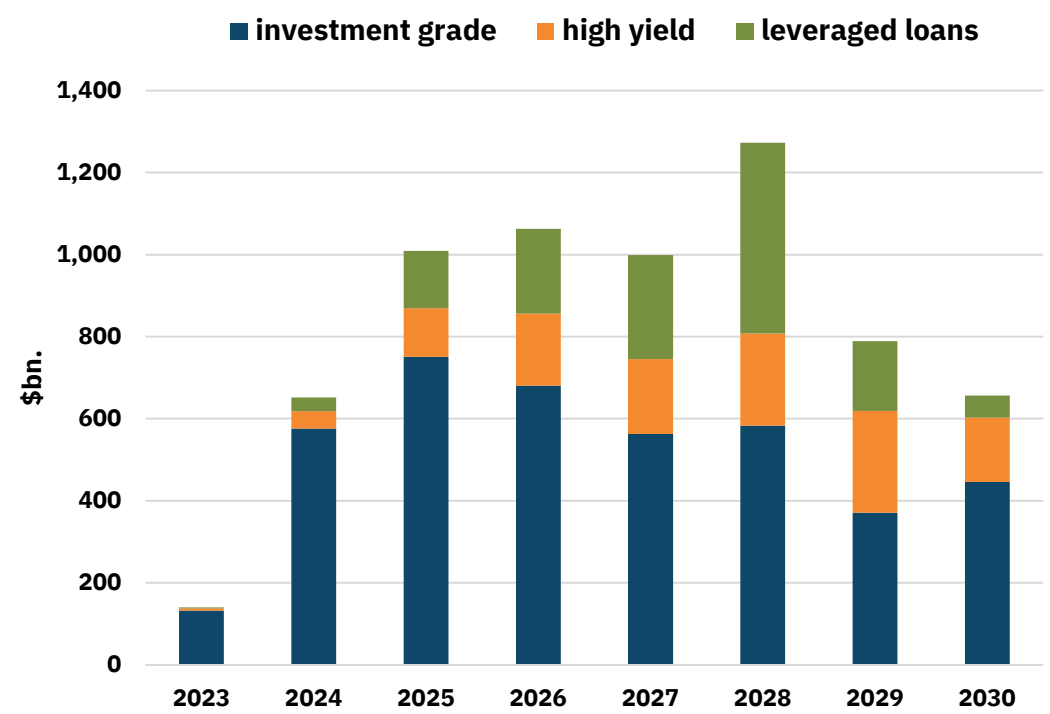
~\$3 trillion of corporate bond (plus \$1.8 trillion in commercial real estate (CRE))
refinancing by 2026 (~\$7 trillion by 2030).

Net Issuance by Nonfinancial Corporations: 2020-21 Refinancing Wave



Sources: FRED database, Federal Reserve Bank of St. Louis; FRBA.

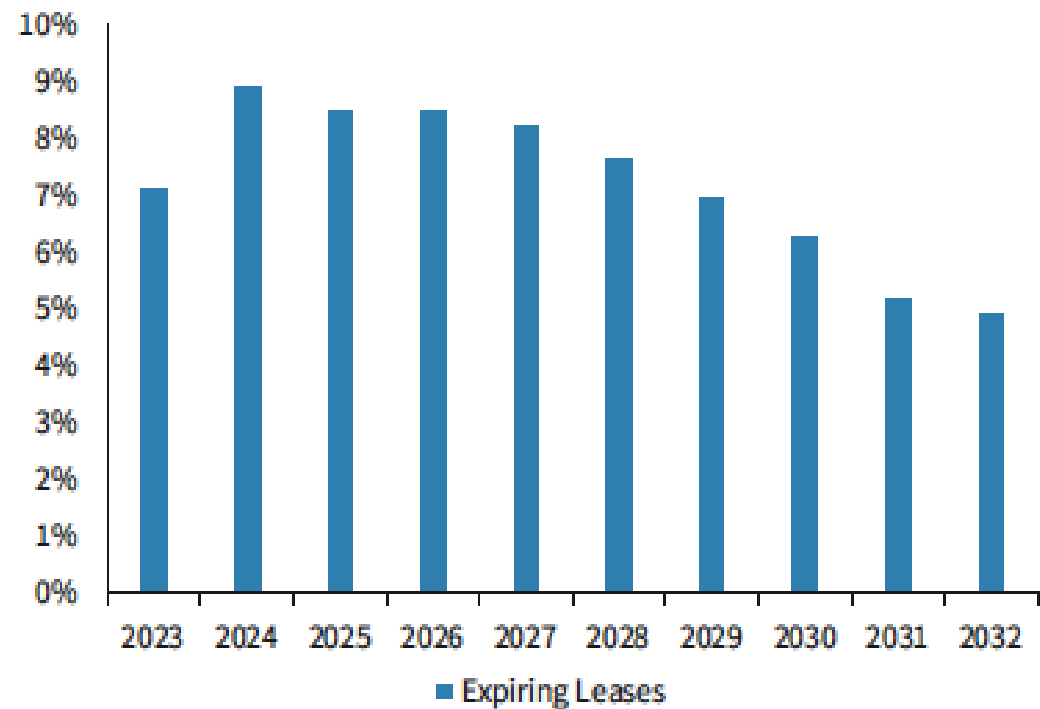
Maturity schedule (“wall”) for U.S. corporate debt



Sources: Bloomberg; FRBA.

“For both REITs and CMBS, lease rollover is staggered over many years...”

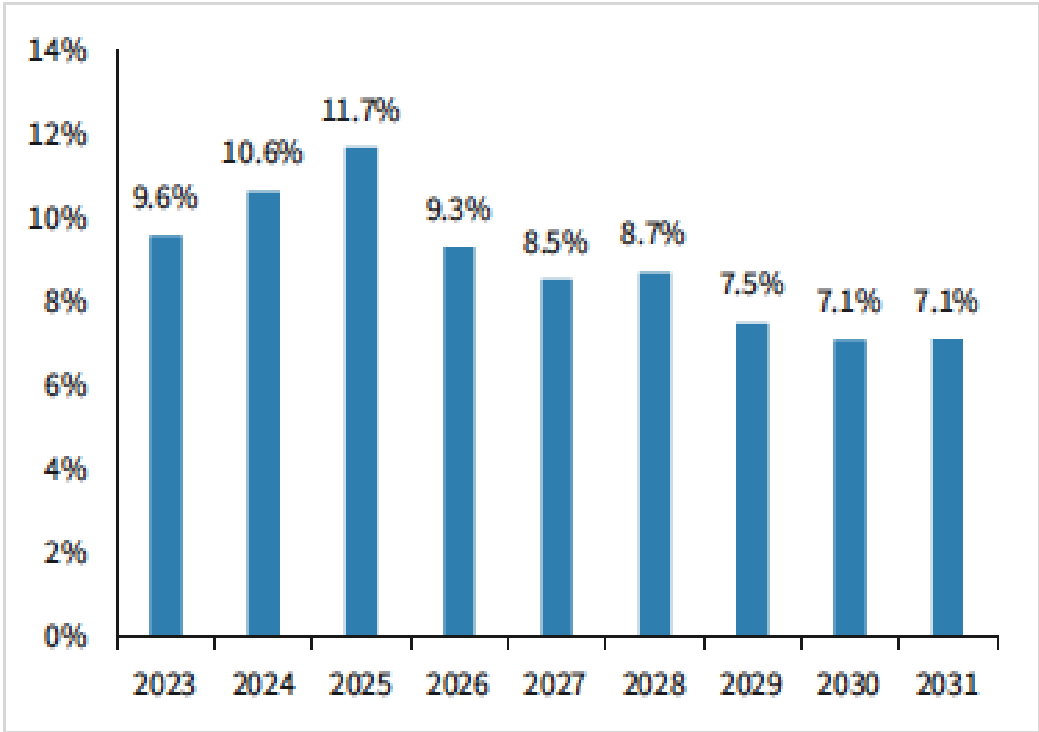
FIGURE 4. Office Lease Roll in Conduit CMBS



Note: Shown as the percentage of top five leases

Source: Trepp, Bardays Research

FIGURE 5. Lease Roll across Various Office REITs



Note: Shown as a simple weighted average of lease expiration (% rents) across the office REIT subsector.

Source: Company filings, Barclays Research

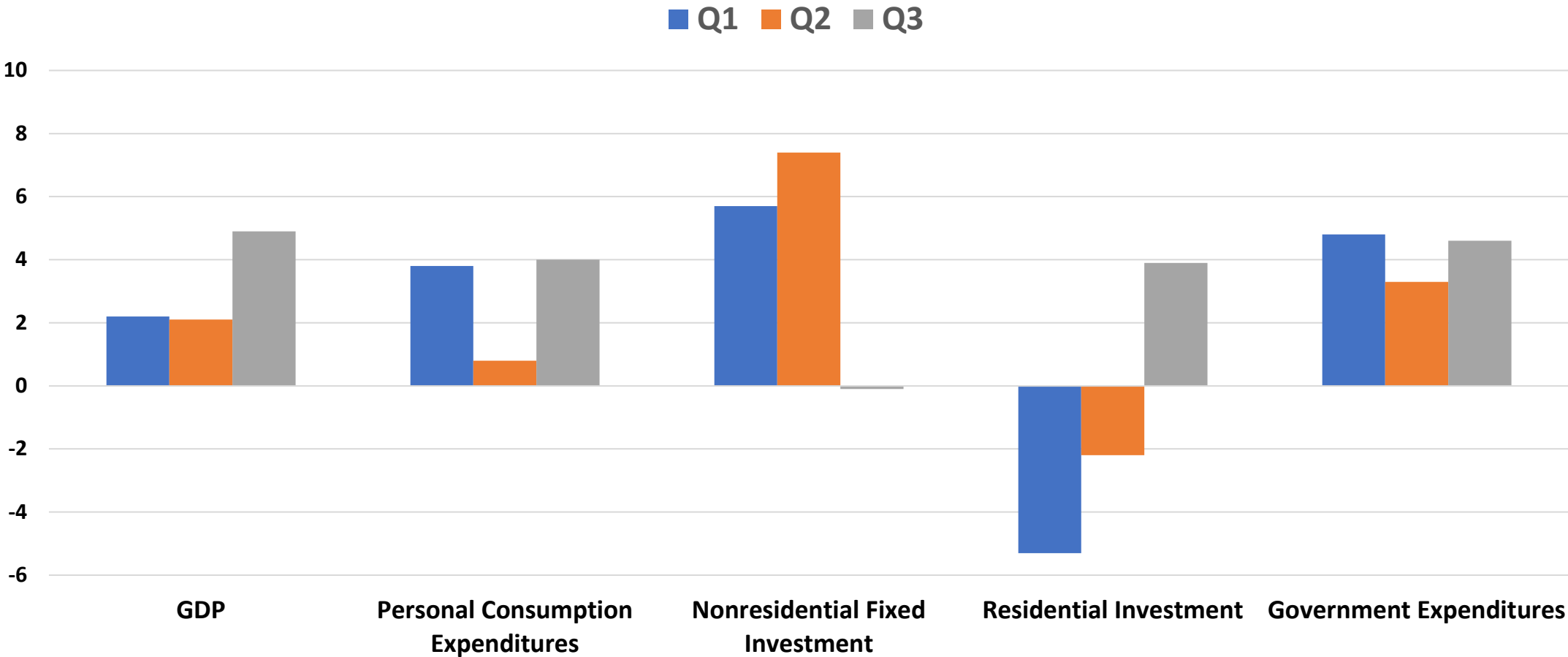
Acronyms:
Commercial Mortgage Backed Securities (CMBS)
Real Estate Investment Trust (REIT)

*“Office CRE is a problem, just not a macro one, *Thinking Macro*, Barkleys Research, 27 April, 2023.

On the other hand, the growth picture isn't quite following the expected pattern.

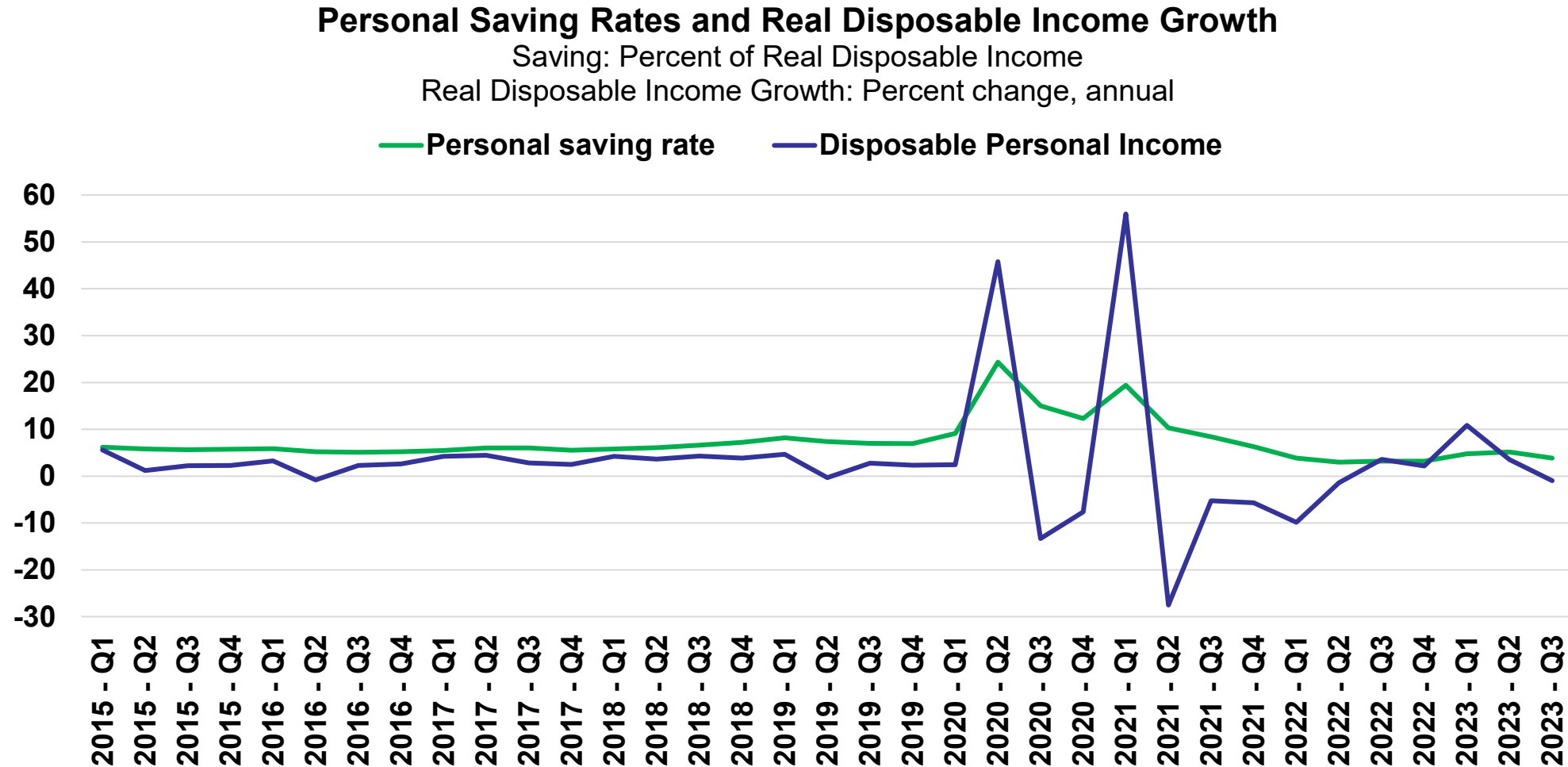
2023 GDP and Final Domestic Sales

Percent, annualized, 2012 dollars



Source: Bureau of Economic Analysis.

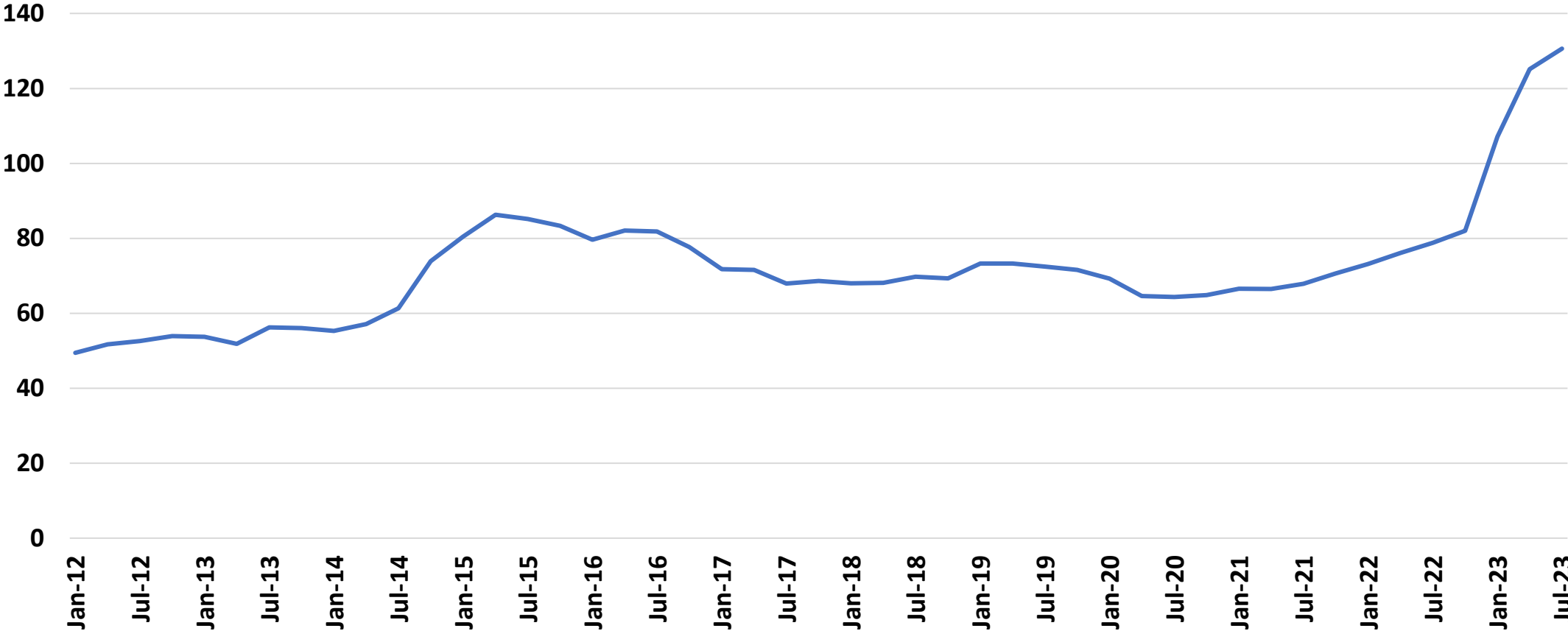
Fiscal policy: An (initially) underappreciated dynamic?



Sources: Bureau of Economic Analysis; Haver Analytics.

Is fiscal policy significantly moving the needle again?

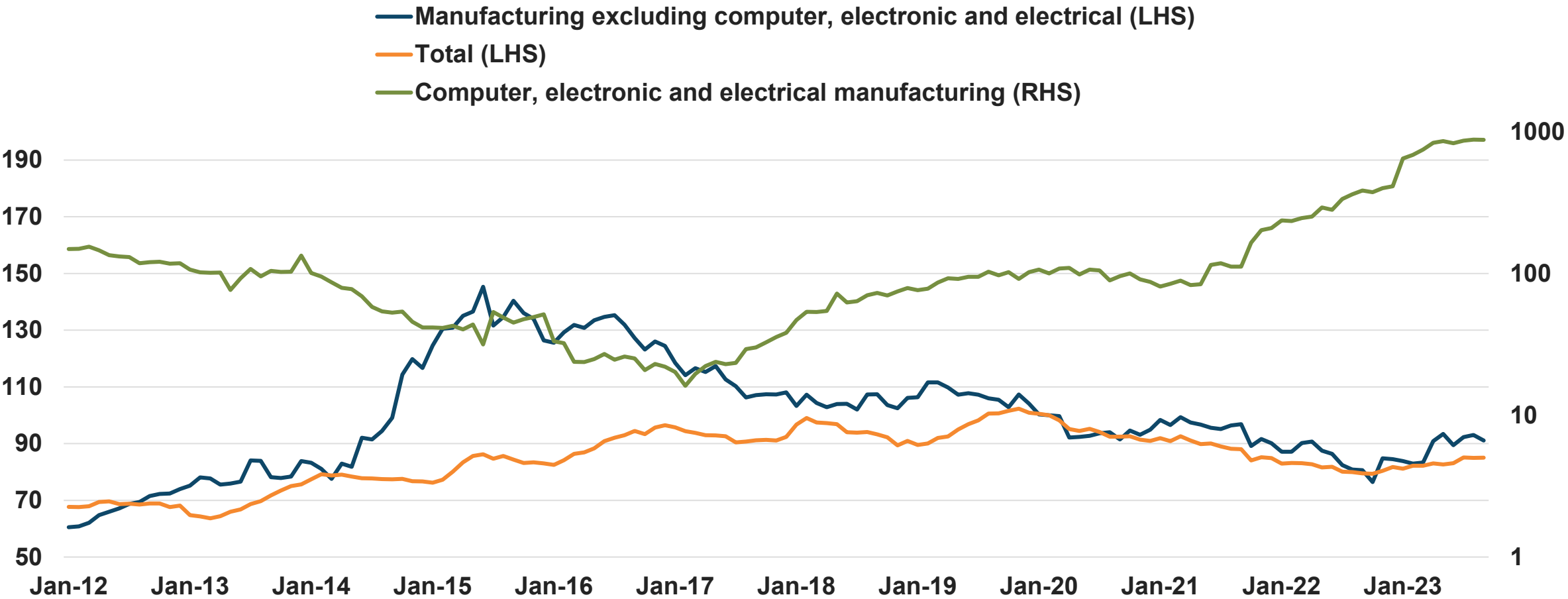
Structures Investment: Manufacturing
Billions of 2017 Dollars



Sources: Bureau of Economic Analysis; Haver Analytics. Data through 2023:Q3.

The CHIPS Act and the Inflation Reduction Act appear to be leaving a mark.

Real private nonresidential construction spending
index, February 2020 = 100



Sources: U.S. Census Bureau; Bureau of Labor Statistics; Haver Analytics; FRBA. Data through September 2023.

Known unknowns.

- Interest rate uncertainty (i.e., sources of interest rate volatility)
 - Monetary policy effects
 - Fiscal policy effects
 - Risk preferences
- Geopolitical developments
- Energy prices

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