

# Economic Outlook: Hard or Soft Landing?

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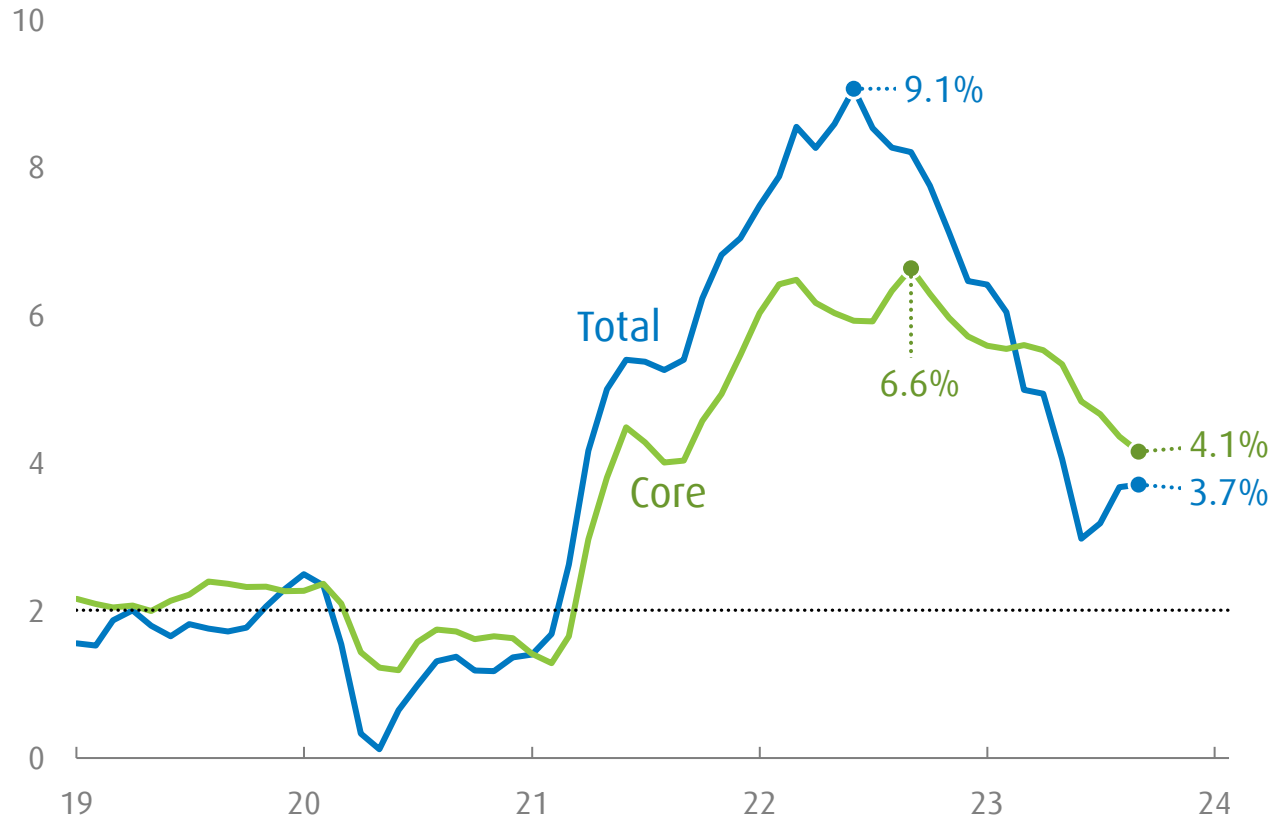
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# Inflation's 'last mile' to 2% could be a bumpy ride

United States (y/y % chng)

Consumer price index



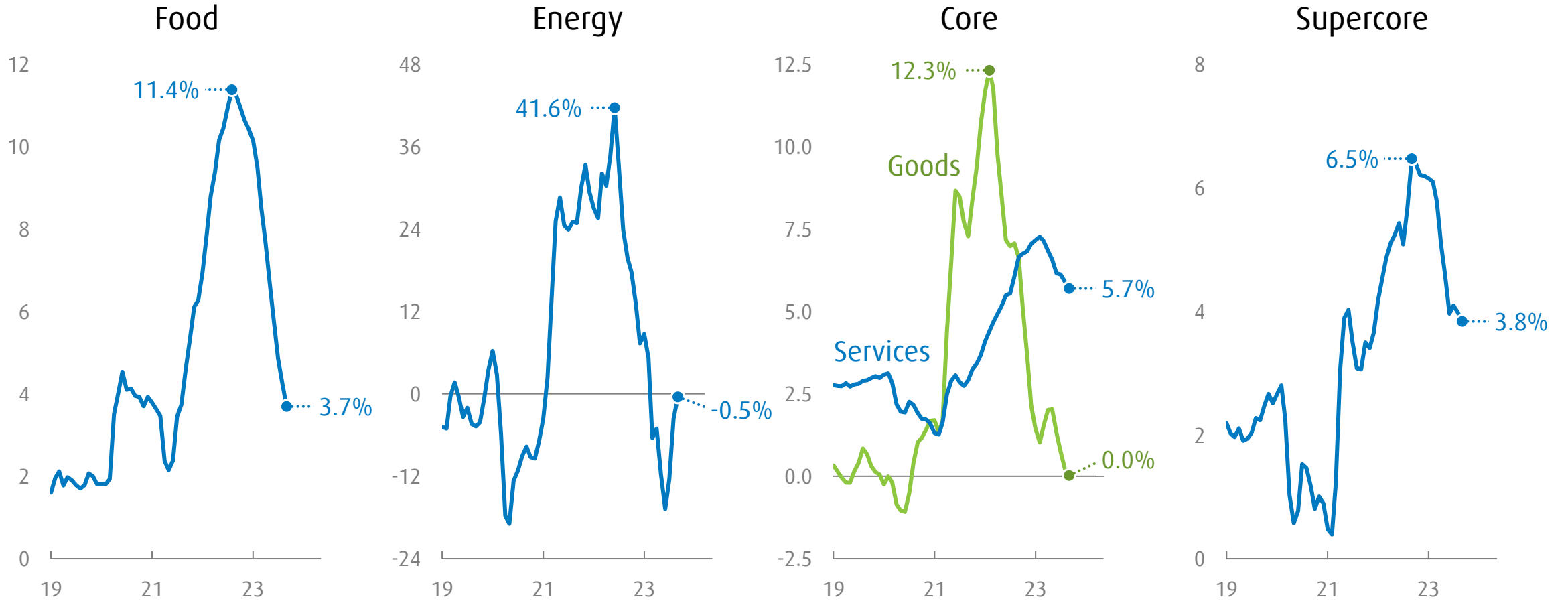
Demand slowing *resiliently*

Supply chains normalizing

But oil rebounded and services inflation sticky due to wages

# CPI: Looking under the hood

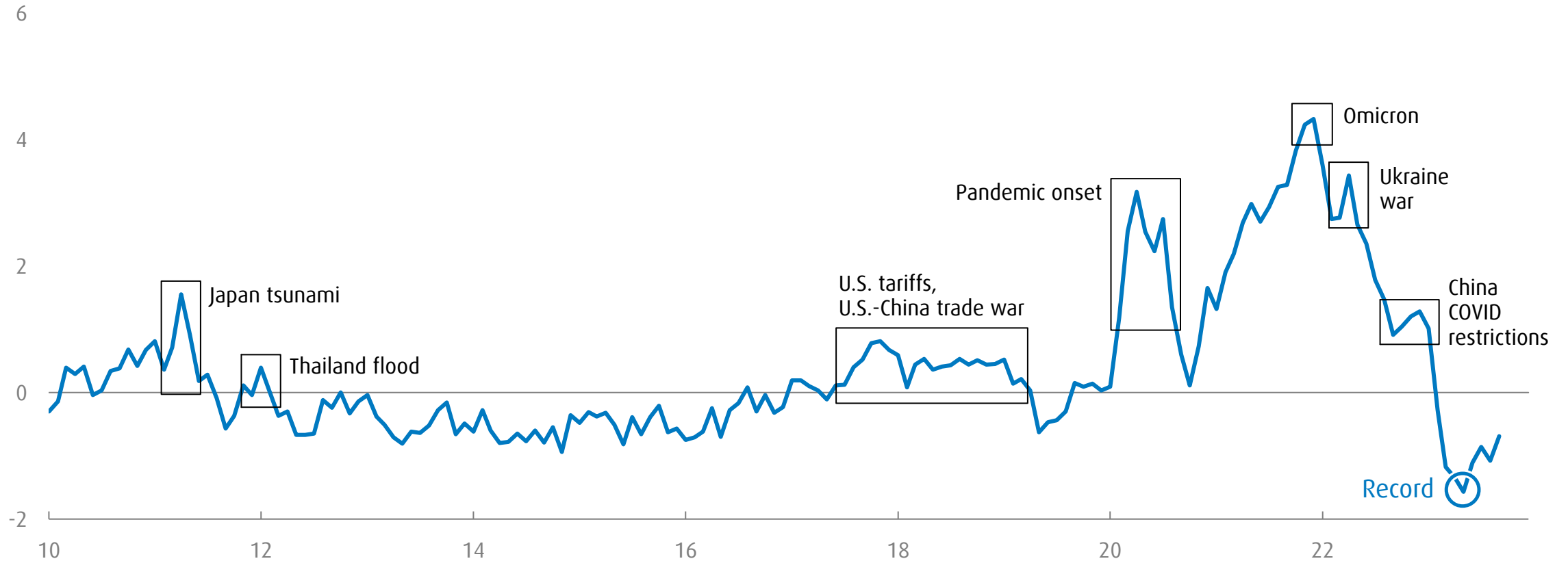
United States (y/y % chng)



# Supply chains unsnarled

(standard deviations from average value)

## Global Supply Chain Pressure Index

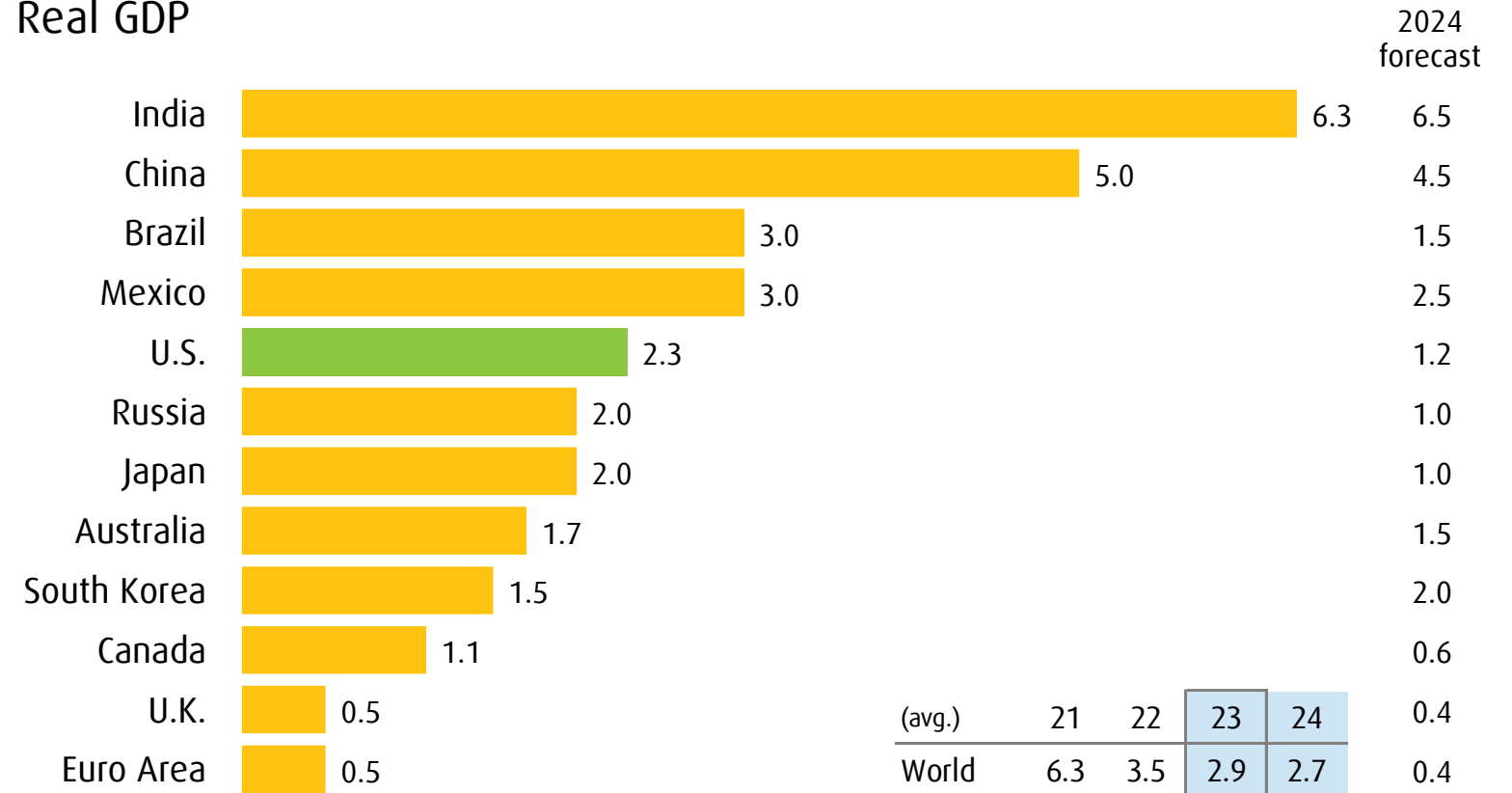


# Global growth slows

2023 forecast (% chng)



## Real GDP

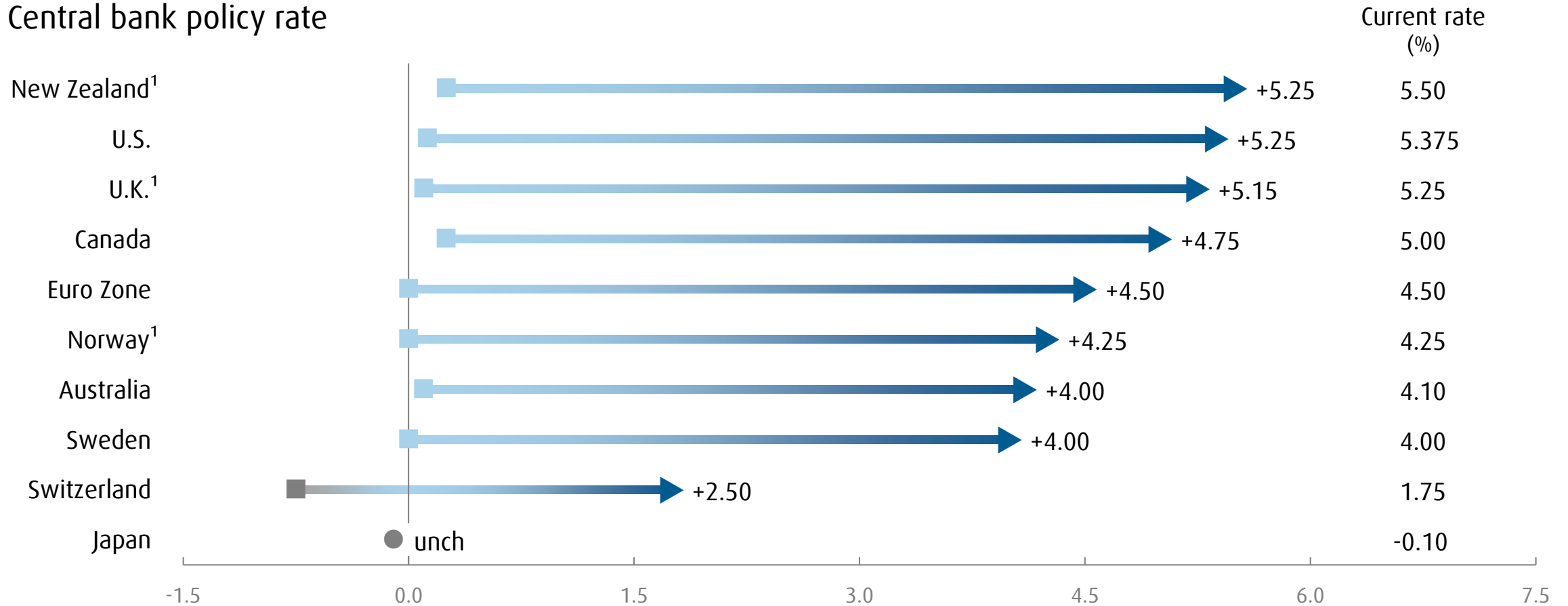


Weighing: Inflation, rate hikes

# G10 policy rate moves: Huge hikes

(chng since September 2021 : pts : as of October 17, 2023)

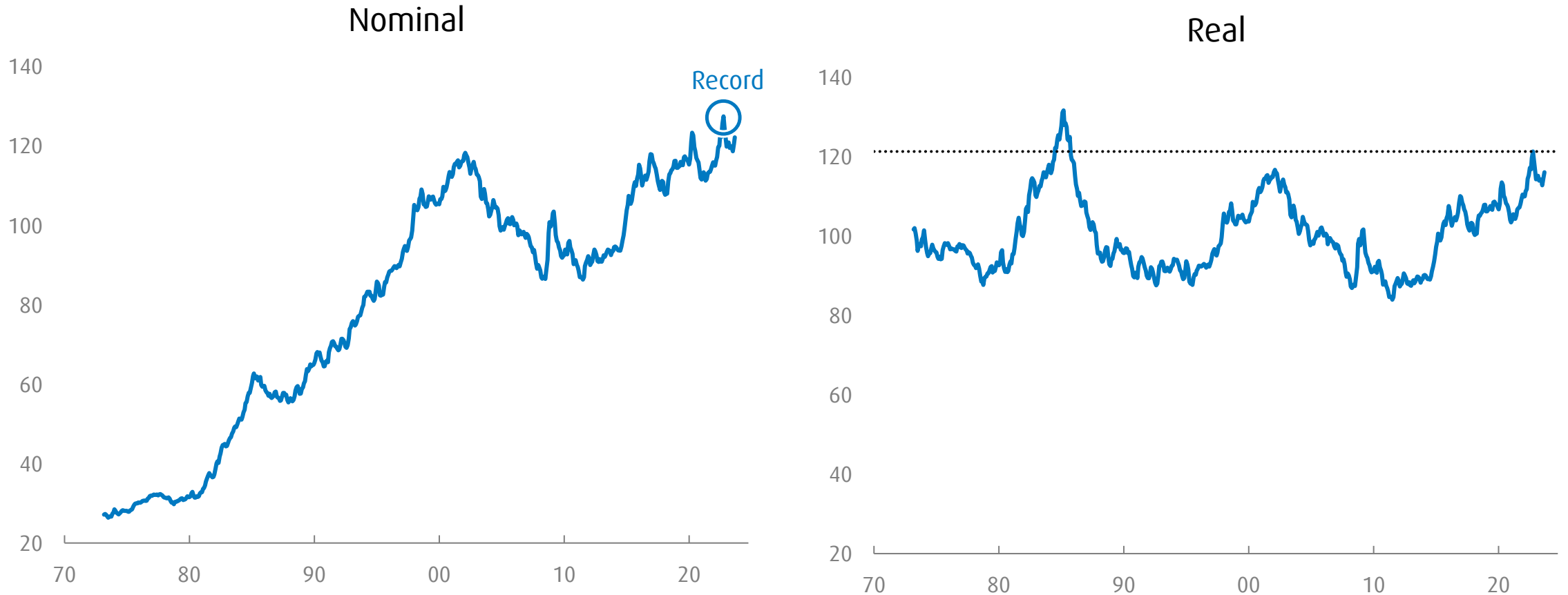
## Central bank policy rate



<sup>1</sup> Tightening began in 2021

*“The dollar is our currency, but it’s your problem”* (Former Treasury Secretary John Connally, 1971)

United States – Trade-weighted dollar index (January 2006 = 100)

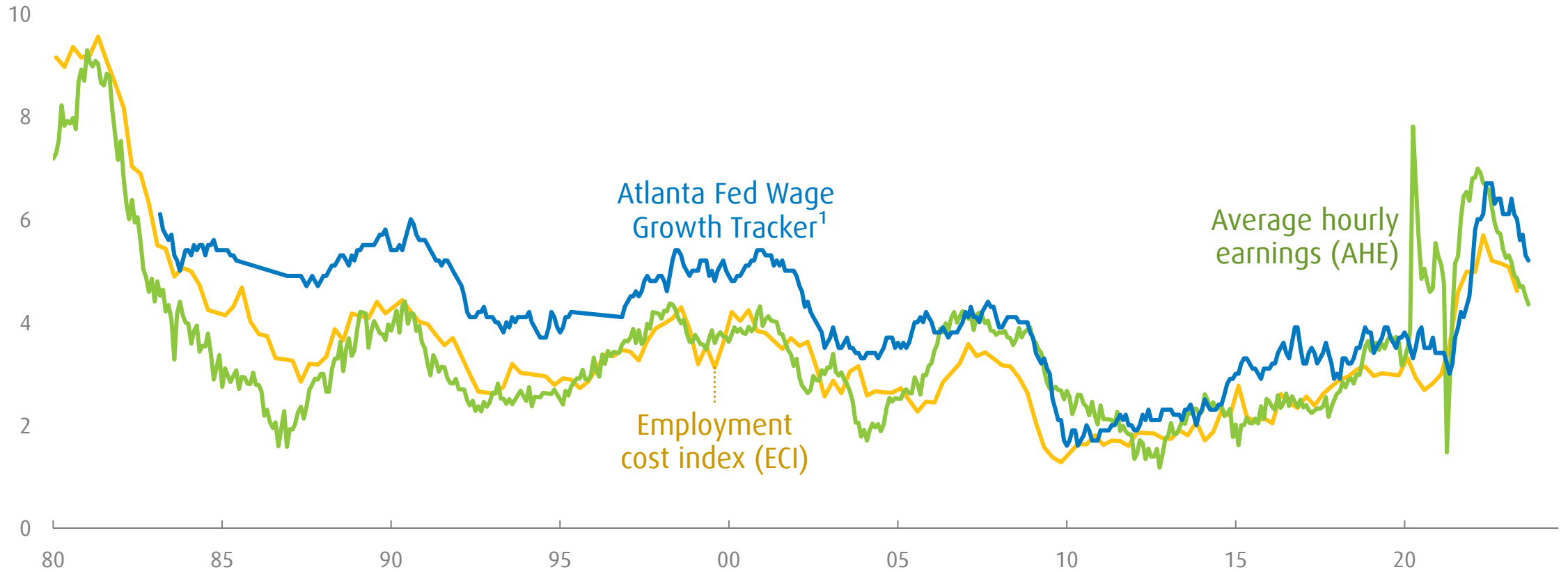


Greenback peaked October 2022, highest real index since September 1985 (Plaza Accord)

# Still strong wage gains

United States (y/y % chng)

## Wages



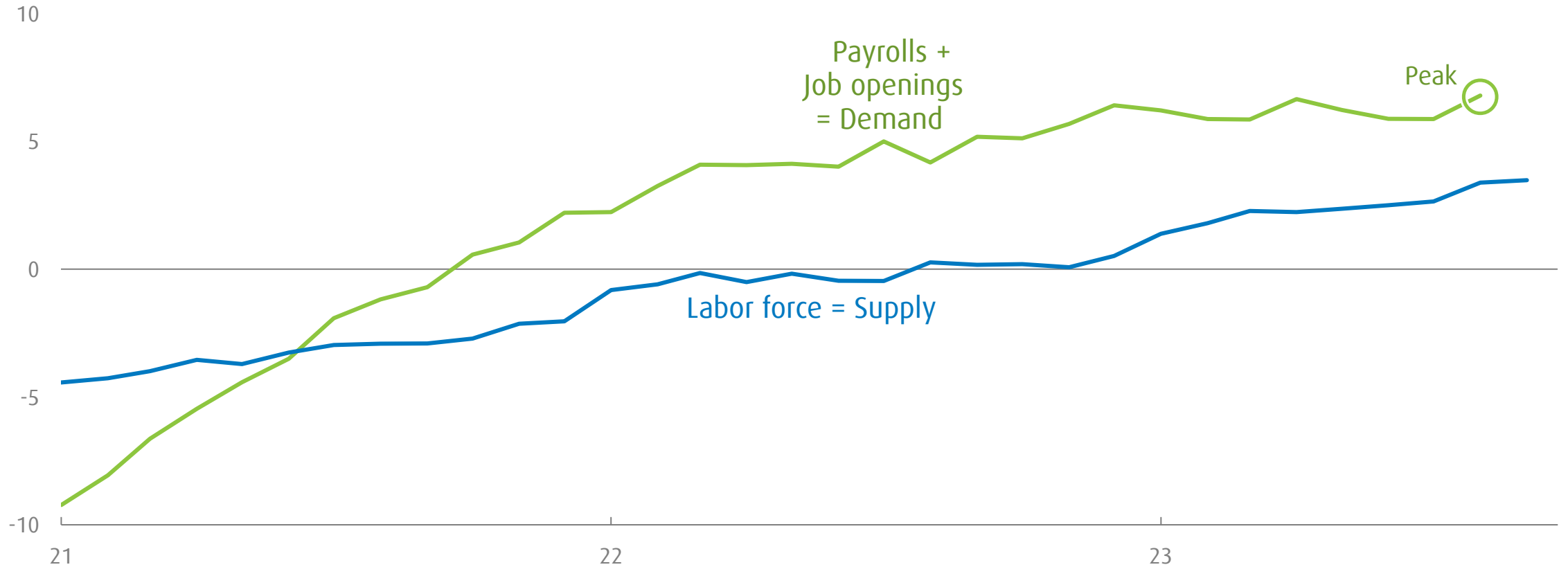
AHE = Production & nonsupervisory employees • ECI = Private-sector wages & salaries • <sup>1</sup> (3-mth m.a.)



# Labor market mirrors economy: Strong demand > Constrained supply

United States (net chng from February 2020 : mlns)

## Labor market

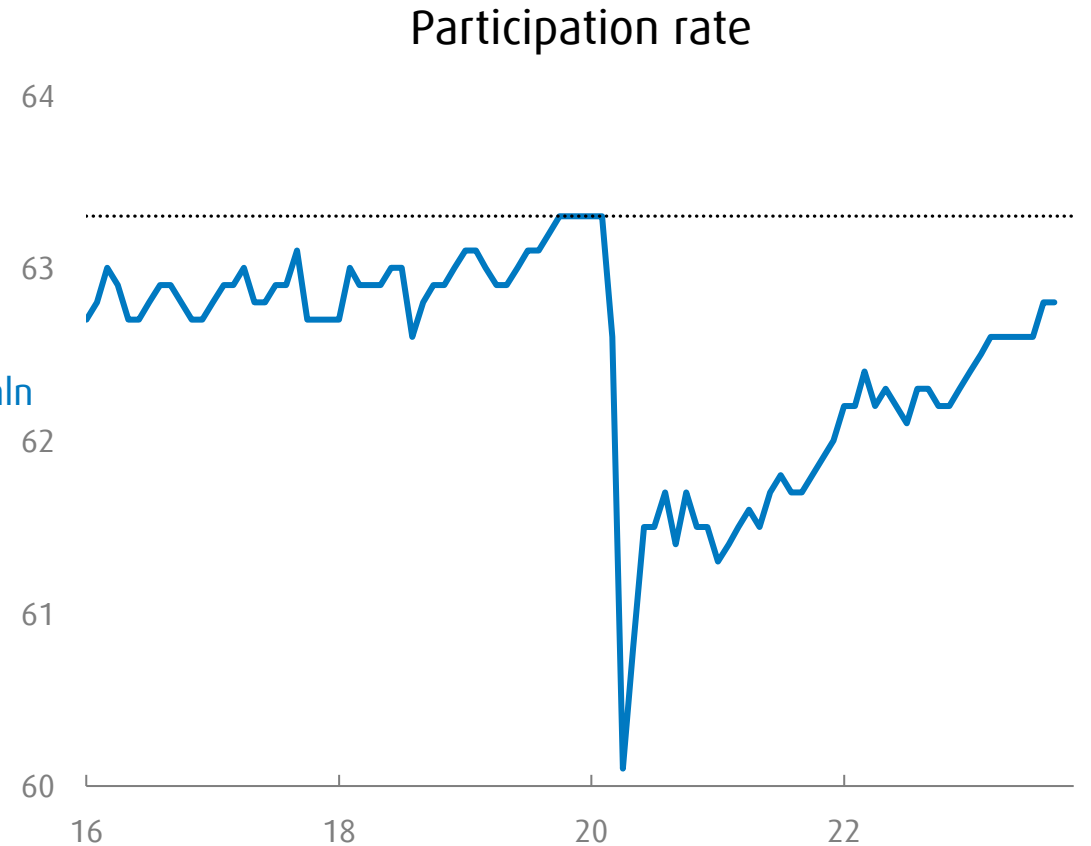


# Where are the workers?

United States (percent)



Officially unemployed: 6.4 mln

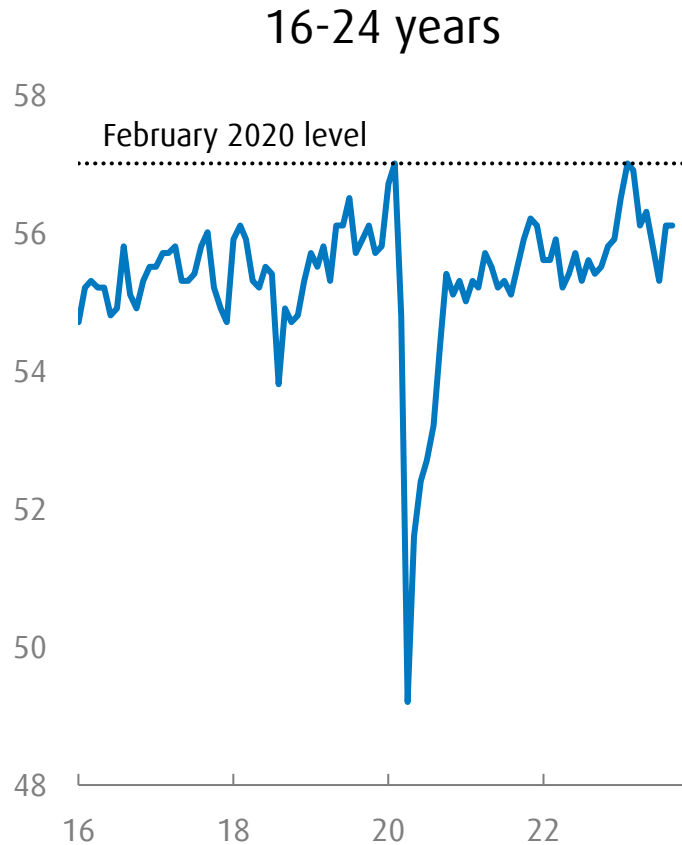


Differs across age cohorts

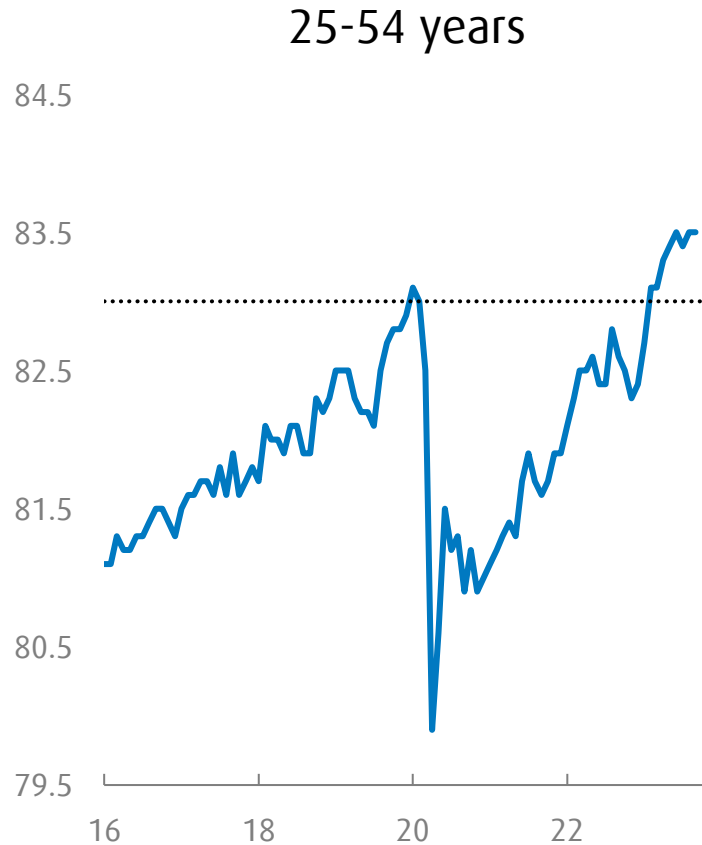
<sup>1</sup> (% of labor demand [payrolls + openings])

# Labor market imbalance not owing solely to supply

## United States – Participation rate by age cohort (percent)



20-24 down a lot



Two-decade high

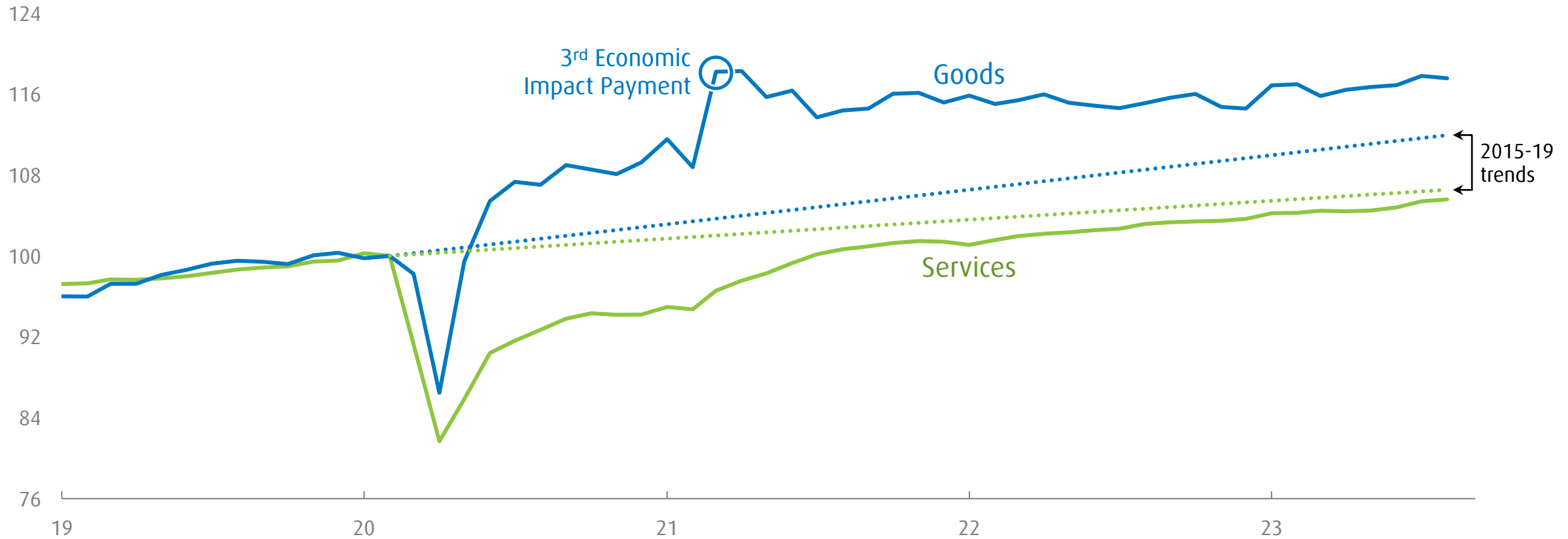


Retirement patterns shifting

# Pent-up demand for services

United States (February 2020 = 100)

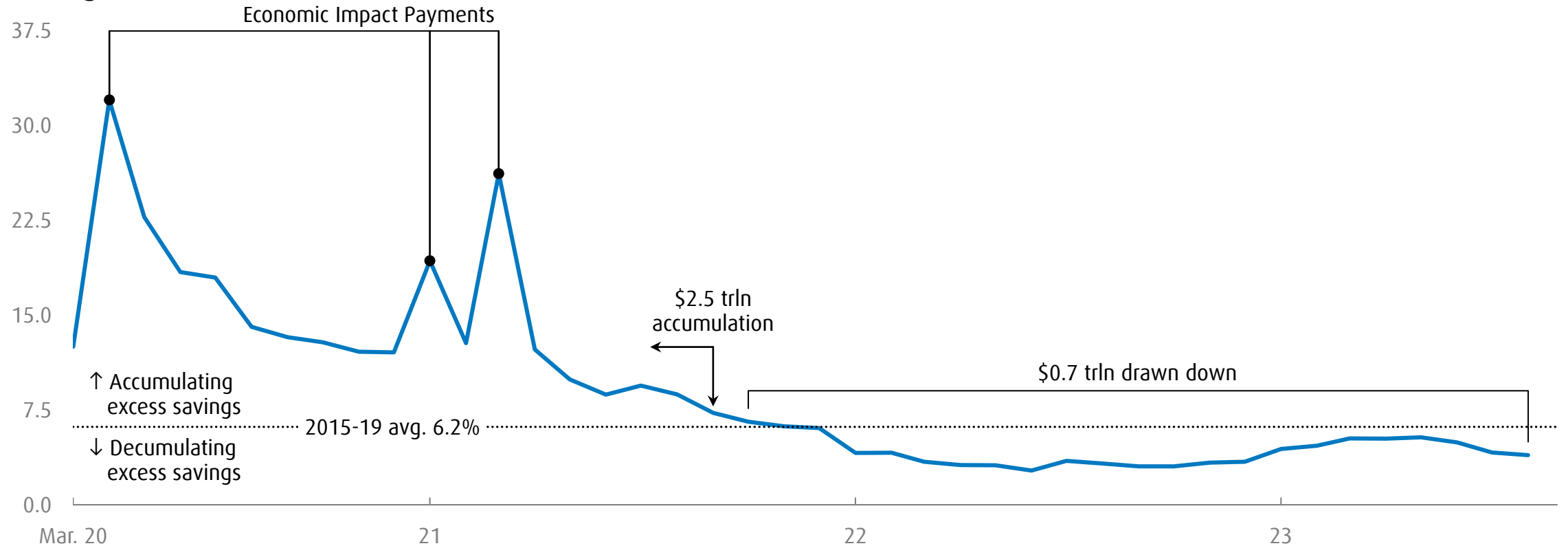
## Real consumer spending



# Economy's saving grace

United States (percent)

## Saving rate

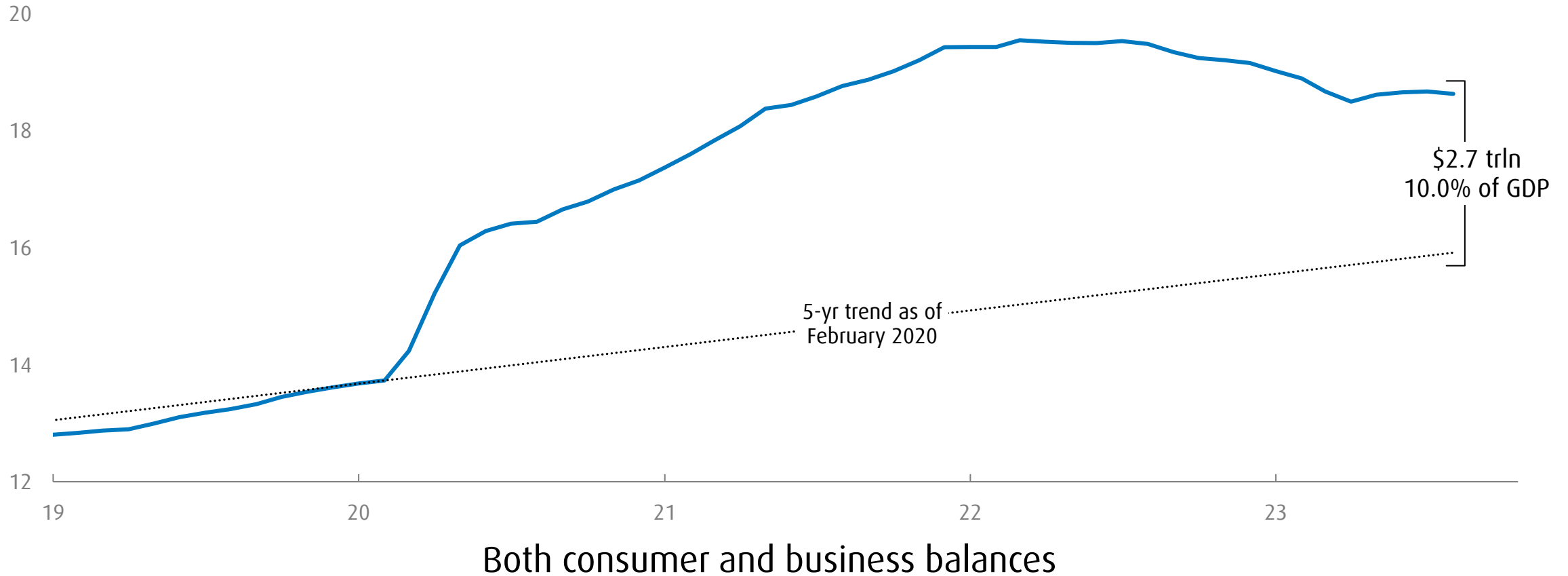


\$1.8 trln excess  $\Rightarrow$  \$0.3 trln @ 8.5% saving rate (historic median)

# Whole lotta liquidity

United States (US\$ trlns)

Deposits and retail money funds in M2



# Banking system stress

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Re-emphasized credit tightening trend already underway



Slower regional/smaller bank deposit and loan growth



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# Next Fed announcements: November 1, December 13

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## United States



Federal Reserve Chair Jerome Powell

The decision to raise policy rates again will be *“based on the totality of the incoming data and their implications for the outlook for economic activity and inflation, as well as the balance of risks”*

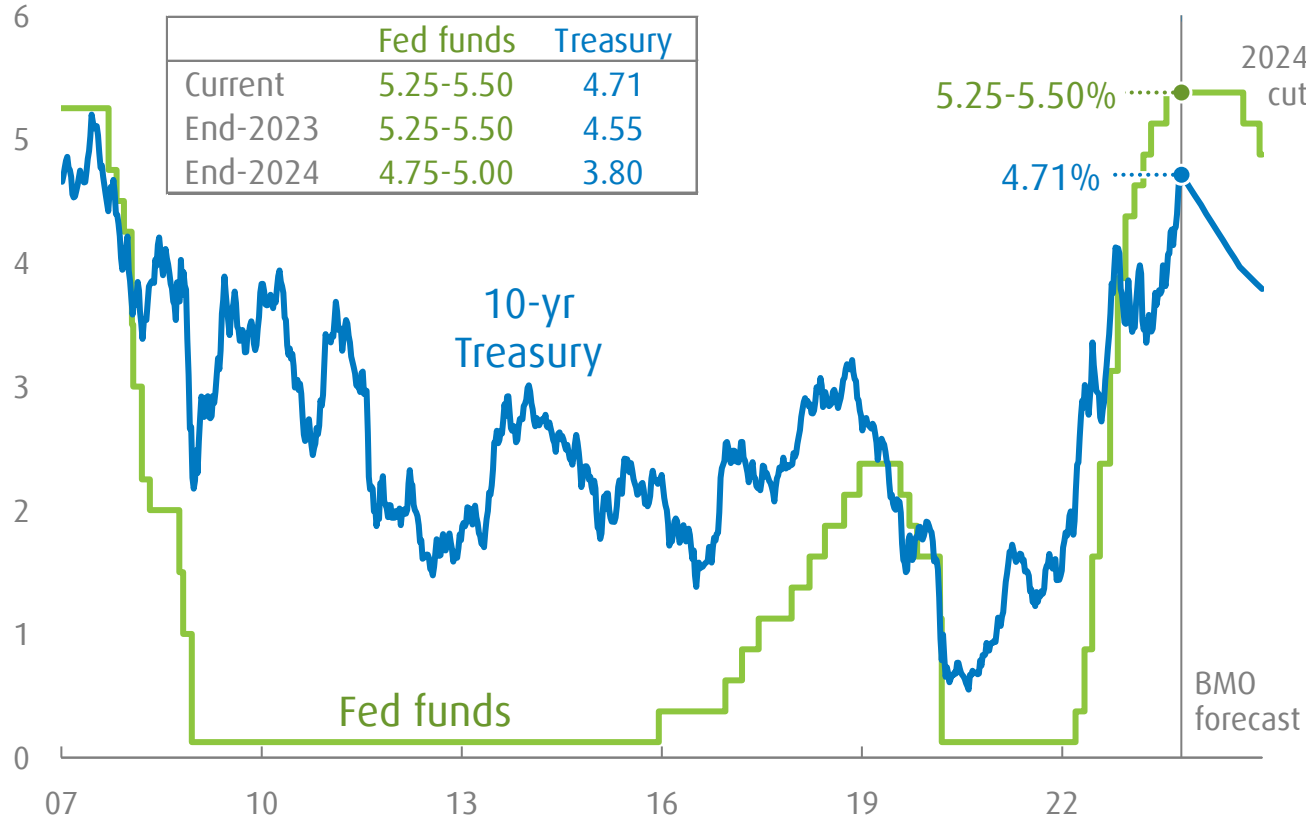
Latest ‘dot plot’ still has one more rate hike this year, but it reduced next year’s cuts by half (50 bps vs. 100 bps)



# Higher for longer

United States (% : as of October 16, 2023)

## Interest rates



Quantitative tightening (QT) continuing

Financial conditions tightening

[history] weekly averages • [forecast] monthly averages

# Returning back to 'normal'?

United States (% : as of October 16, 2023)

## 10-year Treasury bond yield

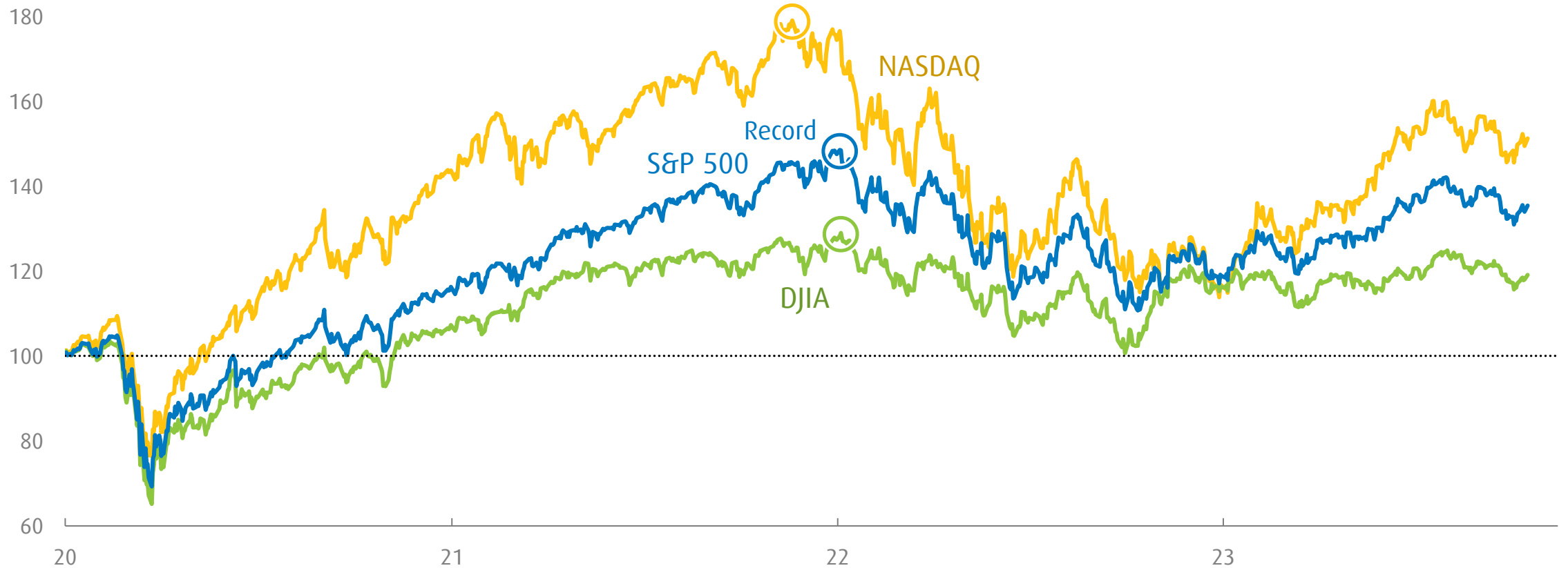


Yields along the curve hitting 16-year (plus) highs

# Markets initially sagged as Fed tightened

United States (December 31, 2019 = 100 : as of October 16, 2023)

## Equity indices



# From record lows to highest in a score of years

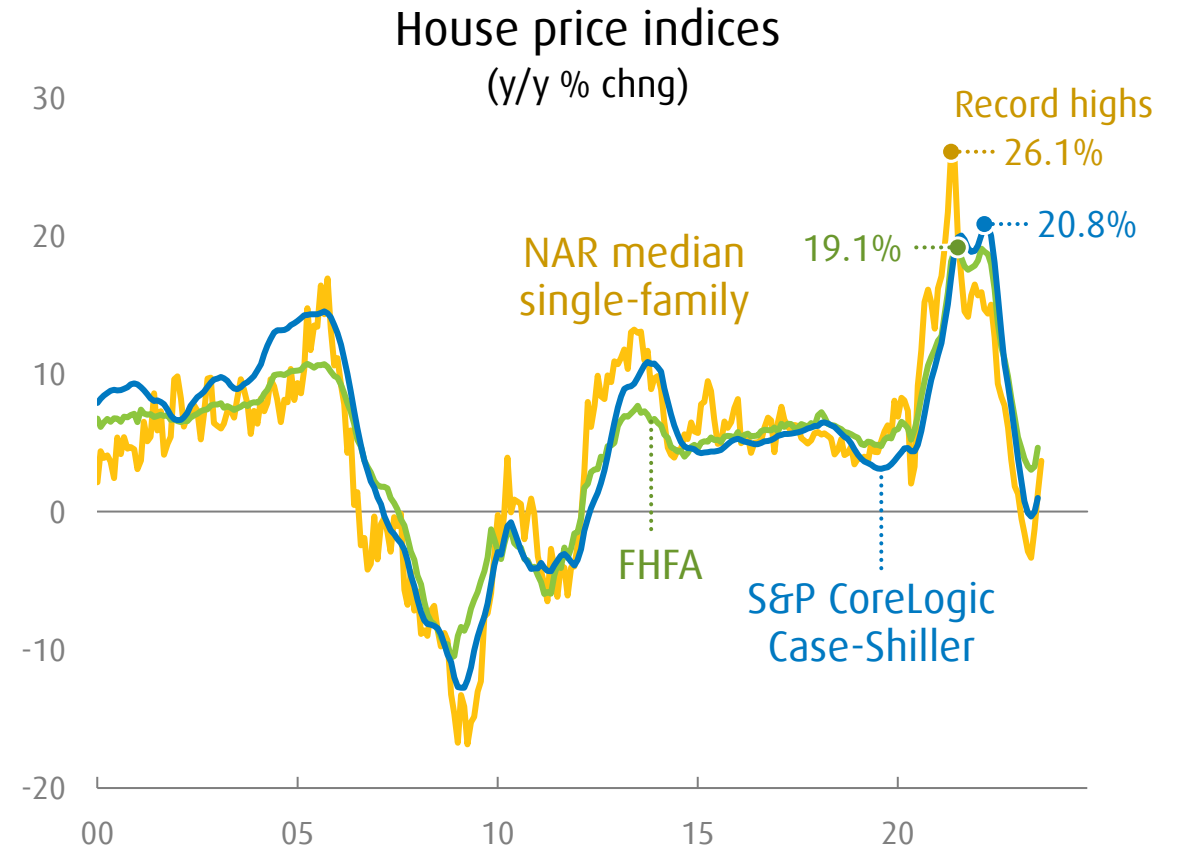
United States (percent)

30-year fixed-rate mortgages



# Housing market rolled over quickly

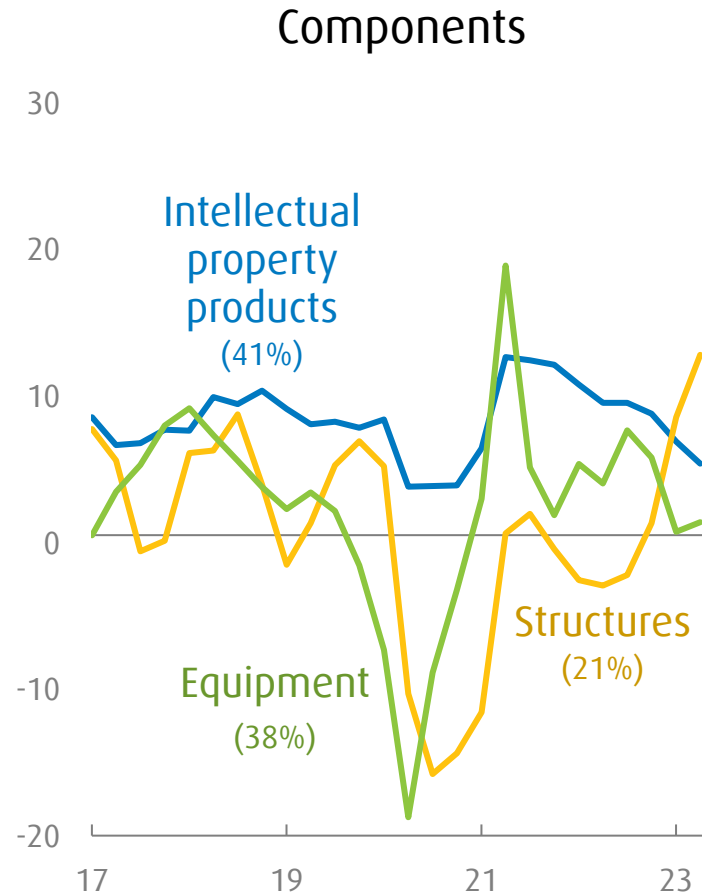
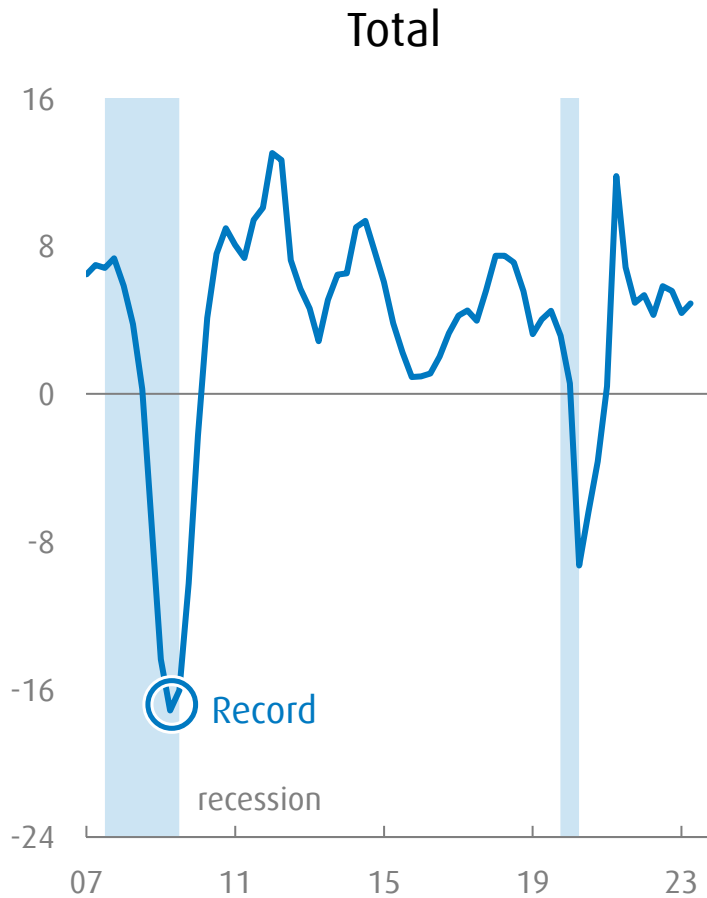
## United States



Hit by worst affordability since 1980s

# Tech/construction set capex pace

United States – Real business fixed investment (y/y % chng)



## Fiscal support:

**Infrastructure Investment and Jobs Act**  
(\$1.2 trln, ~\$550 bln new initiatives)

**CHIPS and Science Act**  
(\$280 bln new spending)

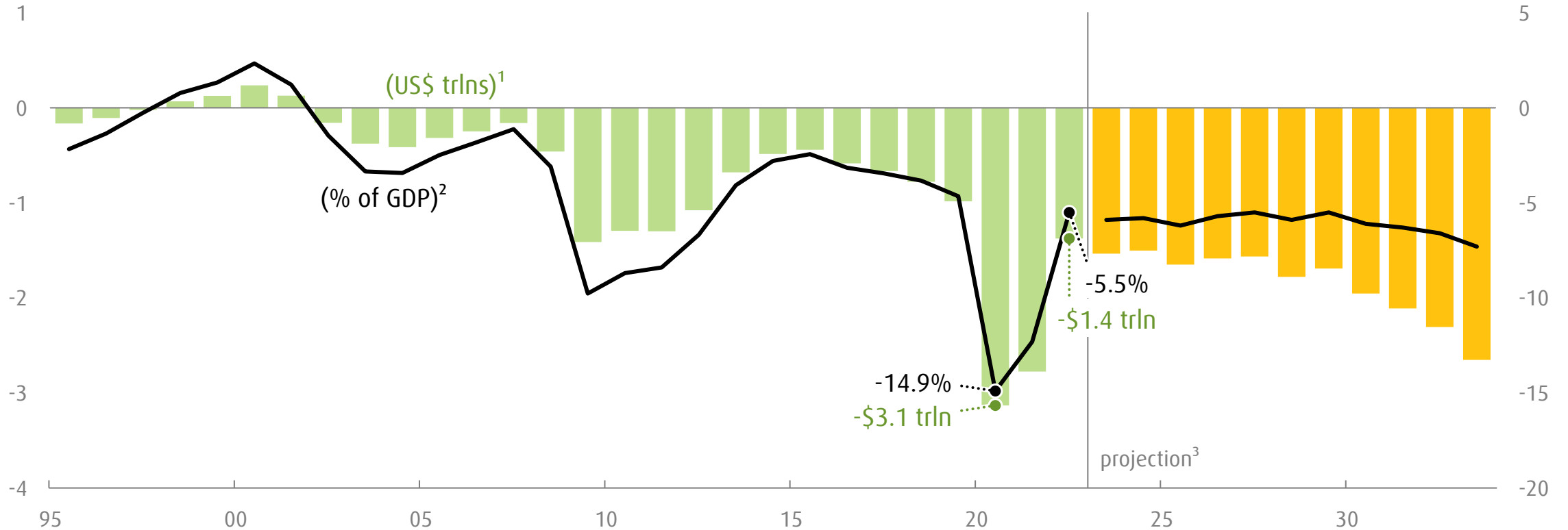
**Inflation Reduction Act**  
(>\$780 bln for energy security and climate change)

**Administration's tally of announced investments so far: ~\$820 bln**

# Little scope for fiscal policy amid a divided Congress

United States (fiscal years, reflecting legislation signed before March 30, 2023, adjusted for Fiscal Responsibility Act)

## Budget balance



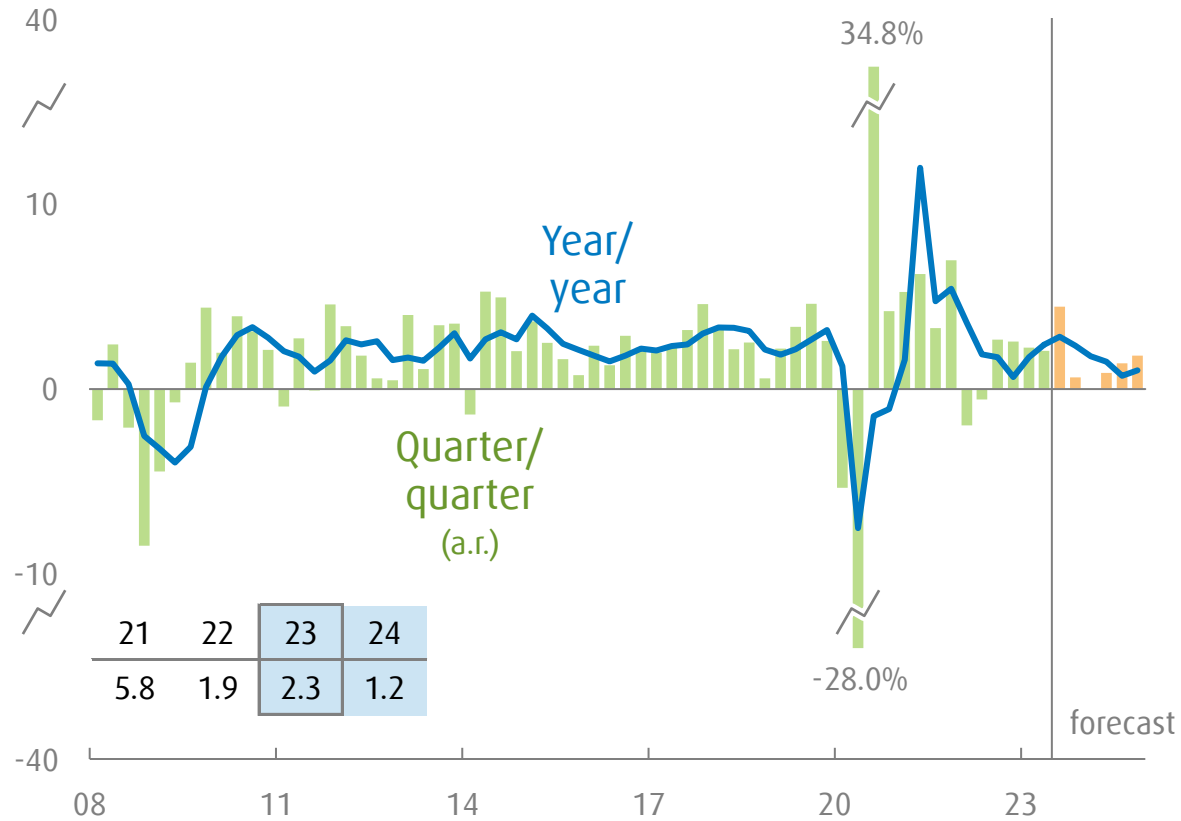
Government shutdown shenanigans... On to November 17

<sup>1</sup> (lhs) • <sup>2</sup> (rhs) • <sup>3</sup> CBO projection (May 30, 2023)

# Growth poised to stall, but not for long

United States (% chng)

Real GDP



## Headwinds:

- Lagged impact of higher interest rates
- Legacy of recent banking system stress
- Commercial real estate woes
- Student loan payments resuming
- UAW strike

## Tailwinds:

- Excess savings and lingering pent-up demand
- Real wage gains and labor hoarding
- Fiscal support for infrastructure, microchip and clean energy investments



# Economic stall will loosen labor market a little...

United States (percent)

Unemployment rate

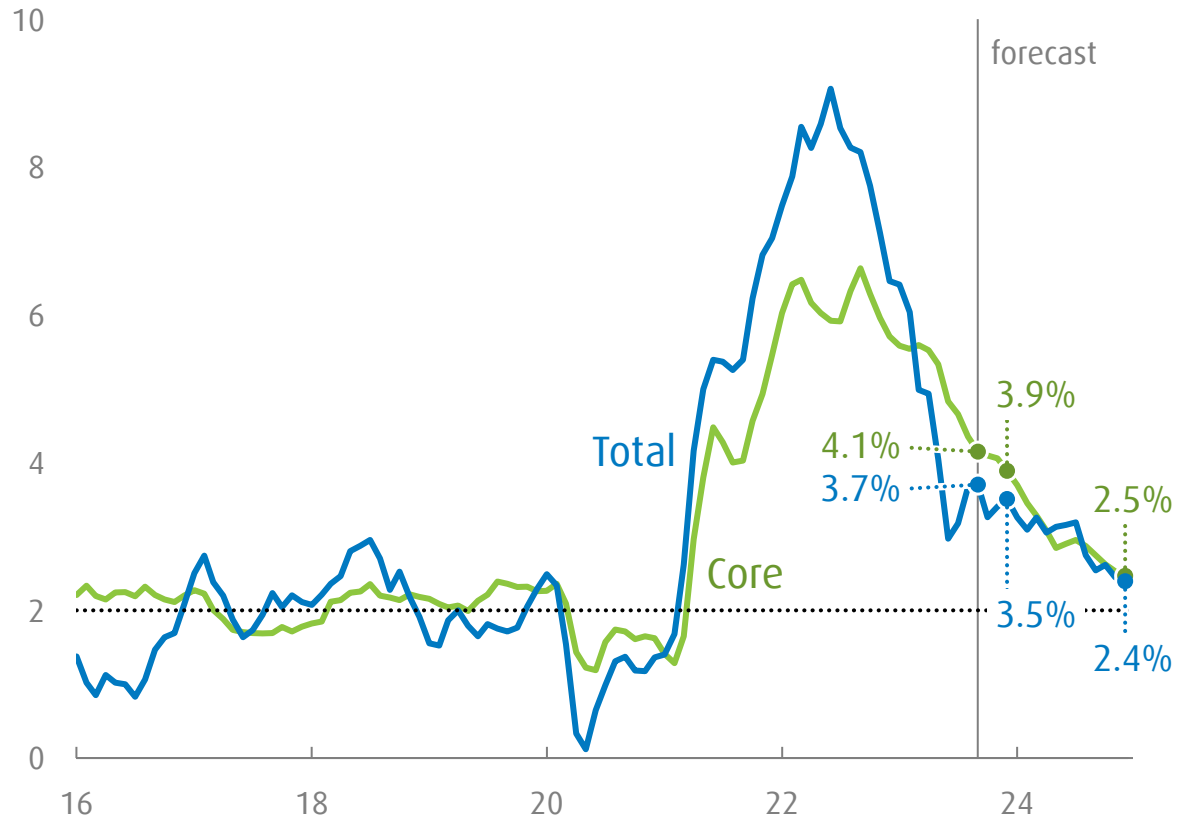


Job openings bear the brunt of reduced labor demand, only modest job losses

# ...And allow inflation to fall further

United States (y/y % chng)

Consumer price index



But longer-term issues:

Some secular forces of disinflation are fading (e.g., globalization)

New secular forces of inflation are forming (e.g., climate change, net zero)

Chronic labor shortages

# Questions?

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