

# The U.S. Economy:

## Navigating Uncharted Waters

John O'Trakoun  
April 20, 2023

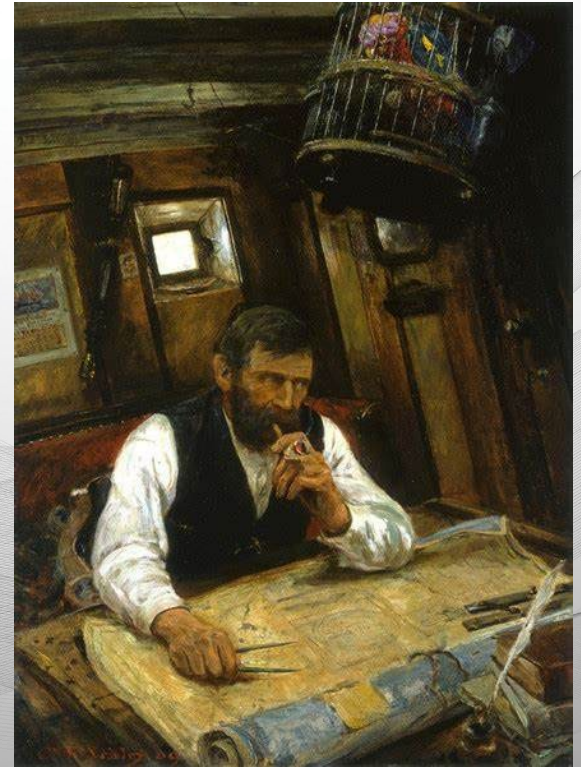


Richmond • Baltimore • Charlotte

*The views and opinions expressed are those of the presenter. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.*

# Is The Economy In Uncharted Waters?

- Key features of the current economic situation:
  - Stubbornly high inflation
  - Historically tight labor markets
  - Rapid monetary policy response
- Before delving into uncharted territory, let's chart the waters first

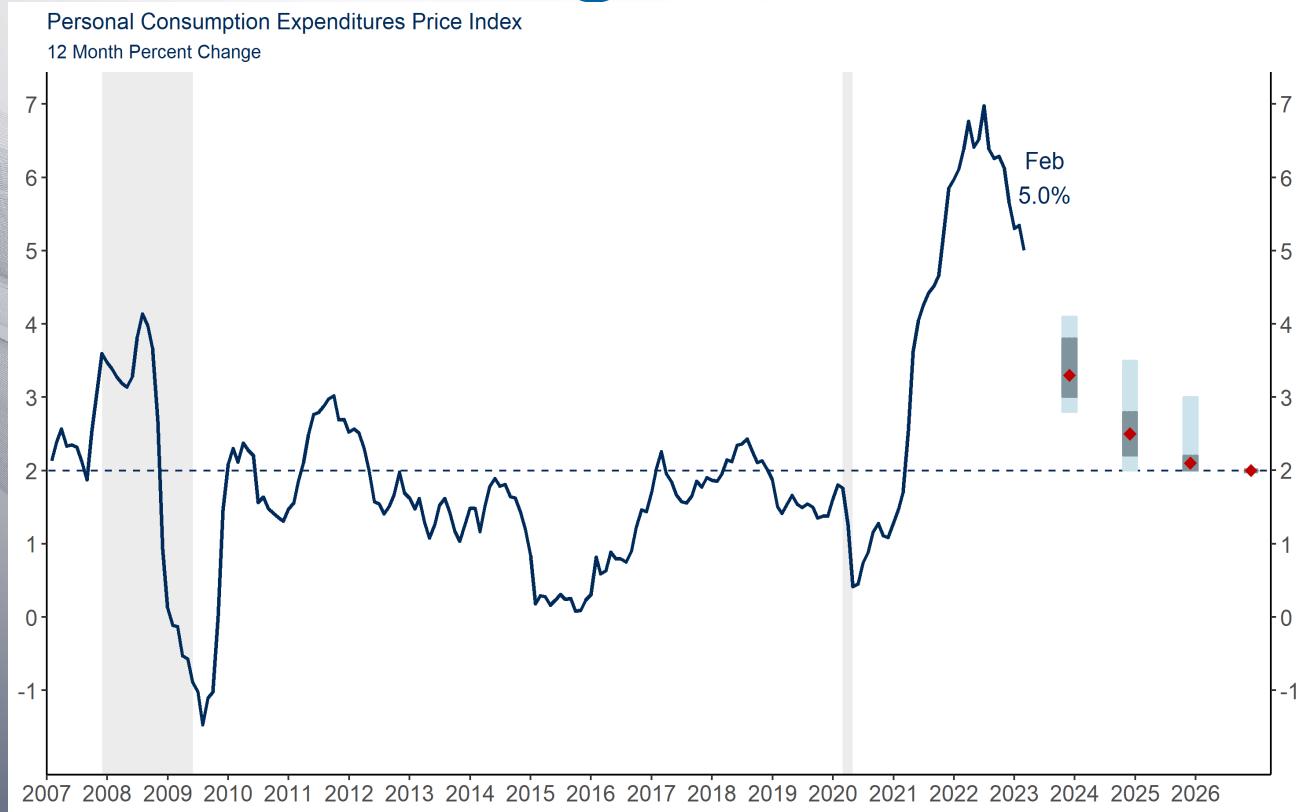


*The Navigator*, Clifford Warren Ashley, 1909

# Inflation Slowing But Remains High

<b>Expenditure Price Indexes</b>	[Percent Change from Previous Month at Annual Rate]:		
	<b>Jan.</b>	<b>Feb.</b>	<b>YoY %</b>
Personal Consumption Expenditures	7.1	3.2	5.0
Core (excludes Food and Energy)	6.4	3.7	4.6
<b>Consumer Price Indexes</b>	[Percent Change from Previous Month at Annual Rate]:		
	<b>Feb.</b>	<b>Mar.</b>	<b>YoY %</b>
All Items	4.5	0.6	5.0
Core (excludes Food and Energy)	5.6	4.7	5.6
<b>Producer Price Indexes</b>	[Percent Change from Previous Month at Annual Rate]:		
	<b>Feb.</b>	<b>Mar.</b>	<b>YoY %</b>
Final Demand Goods	0.0	-5.8	2.8
Core (excludes Food and Energy)	2.0	-1.6	3.4
Core Intermediate Goods	0.7	1.2	0.1
Crude Goods	-44.3	-45.8	-17.0
<b>Spot Commodity Price Index</b>	[Percent Change from Previous Month]:		
	<b>Feb.</b>	<b>Mar.</b>	<b>YoY %</b>
CRB Spot Commodity Price Index	-1.5	0.4	-13.2

# Inflation Slowing But Remains High

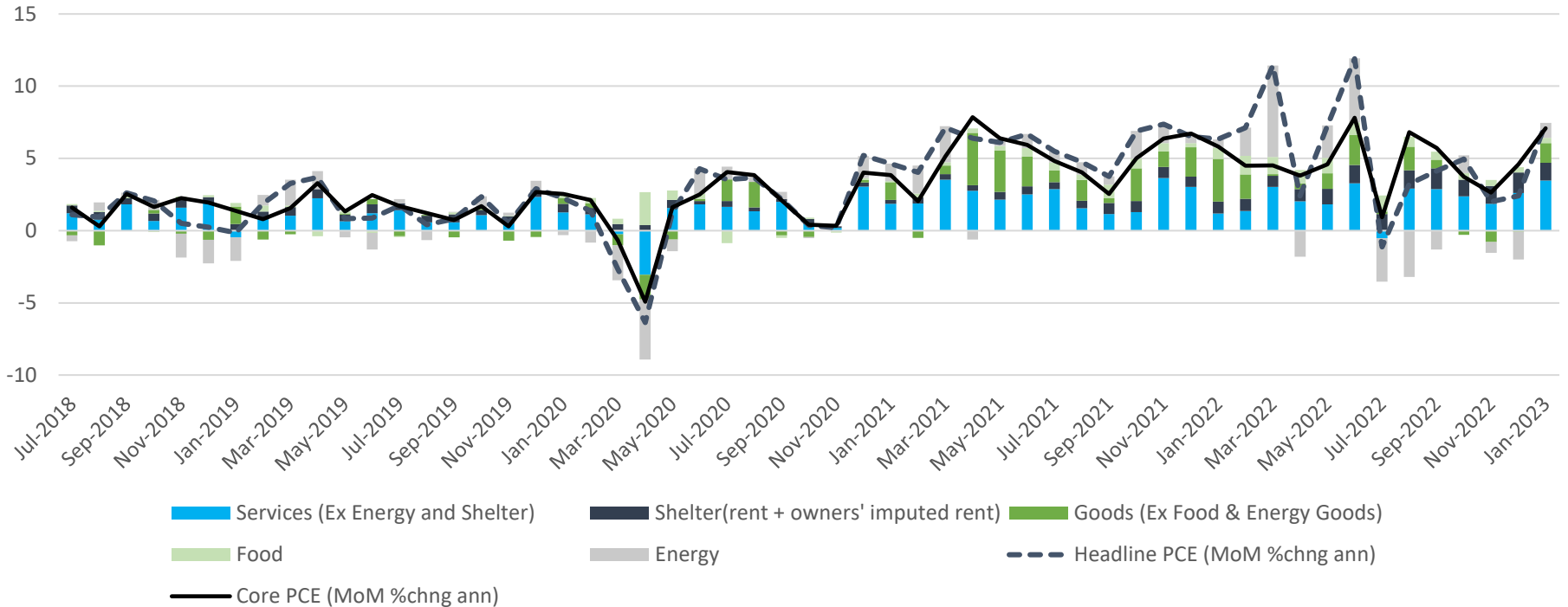


Source: Bureau of Economic Analysis & Board of Governors via Haver Analytics



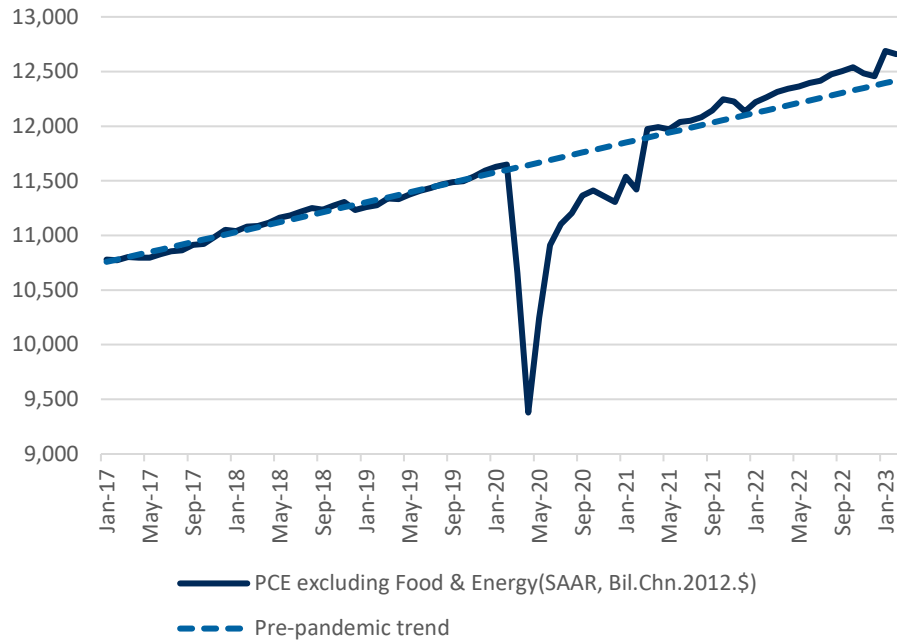
# Shelter and Non-Housing Core Services Contributing To High Inflation

Contribution to Headline PCE Inflation (MoM Annualized)

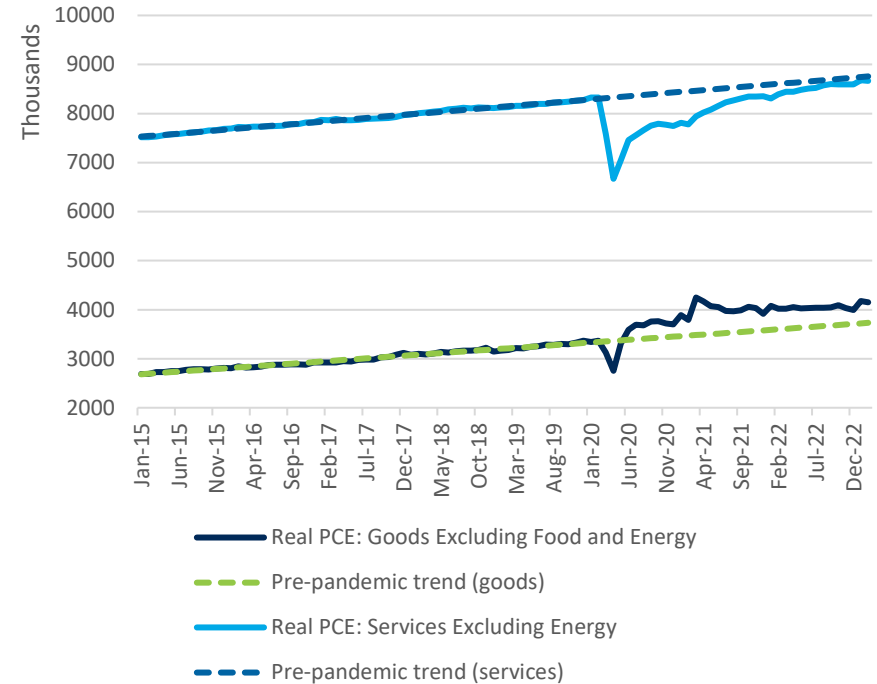


# Consumer Spending Is Above Trend

## Real Core Personal Consumption Expenditures (SAAR, Bil.Chn.2012\$)



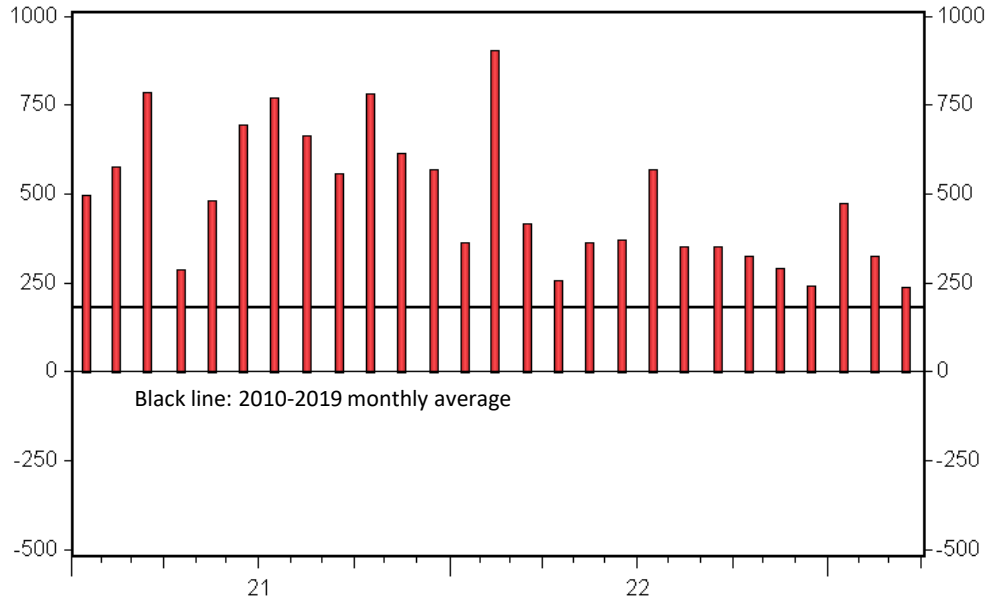
## Real Core Goods and Services Consumption



# Robust Jobs Growth, Especially In Services

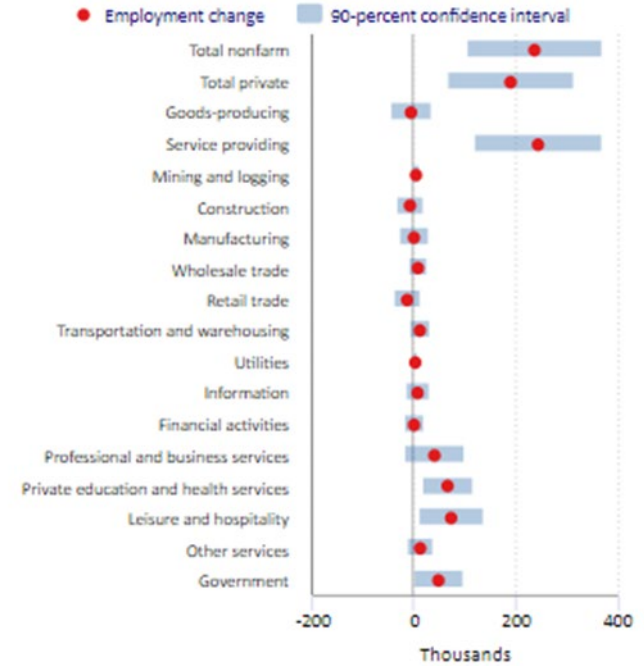
Change in Total Nonfarm Employment

SA, Thous



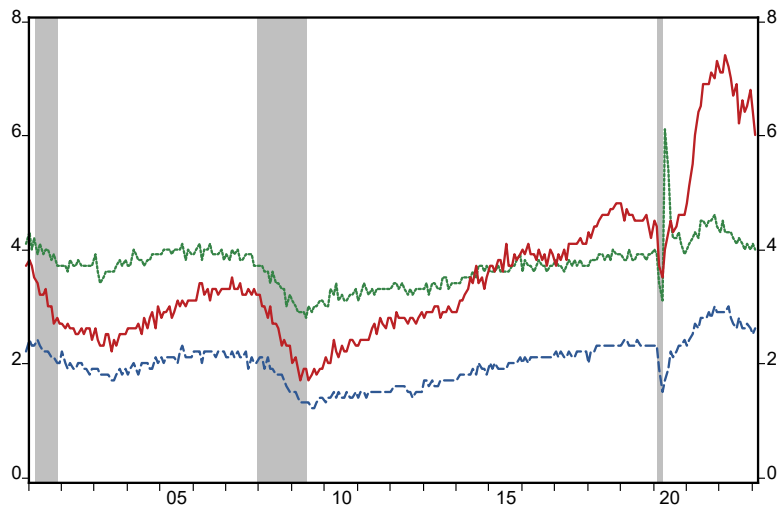
Source: Bureau of Labor Statistics/Haver Analytics

Employment change by industry with confidence intervals, March 2023, seasonally adjusted, in thousands, 1-month net change



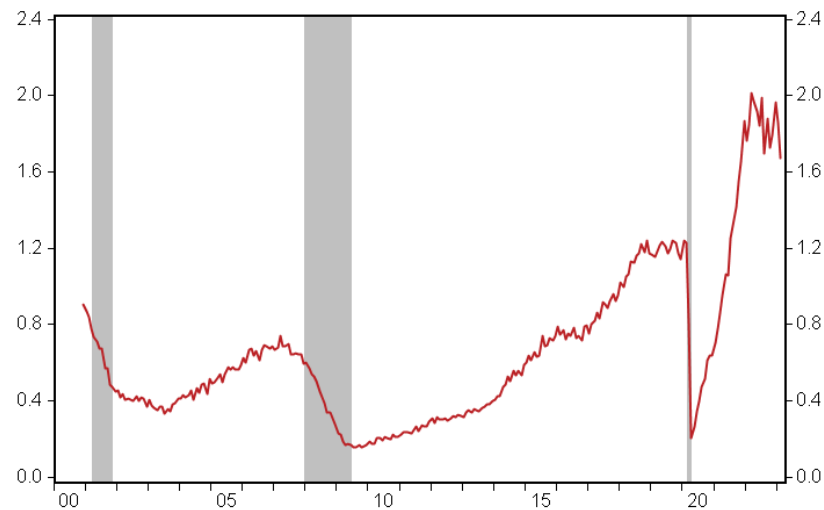
# 9.9 Million Job Openings in February

JOLTS: Job Openings Rate: Total (EOP, SA, %)  
JOLTS: Quits Rate: Total (SA, %)  
JOLTS: Hires Rate: Total (SA, %)



Source: Bureau of Labor Statistics/Haver Analytics

Job Openings Per Unemployed



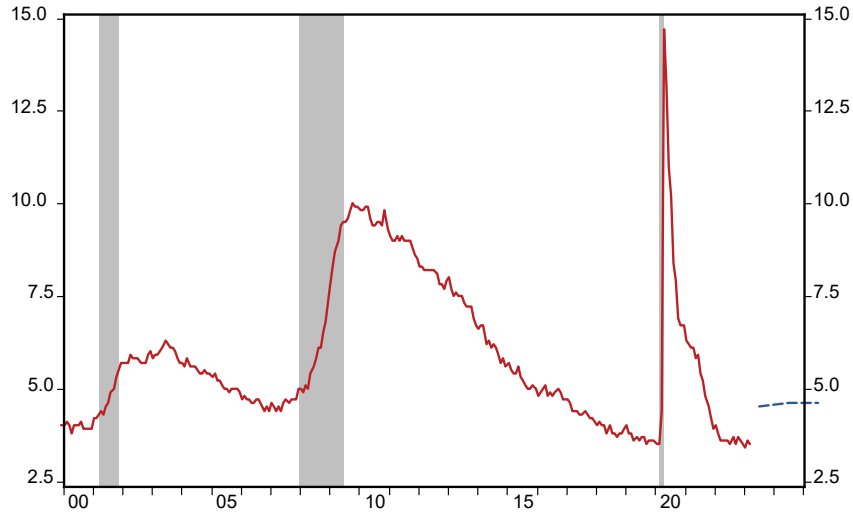
Source: Haver Analytics



# Unemployment Remains Low Despite Rising Participation

Civilian Unemployment Rate: 16 yr +  
SA, %

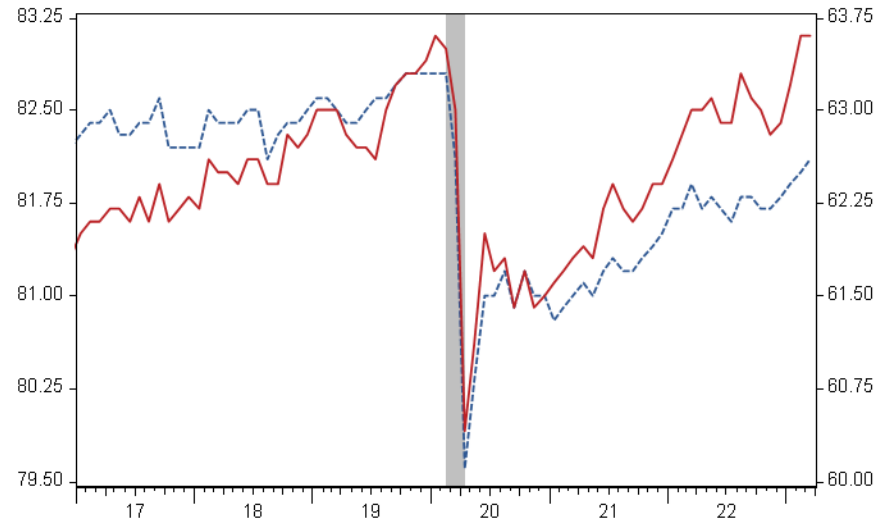
FOMC Projections: Civilian Unemployment Rate: Median  
%



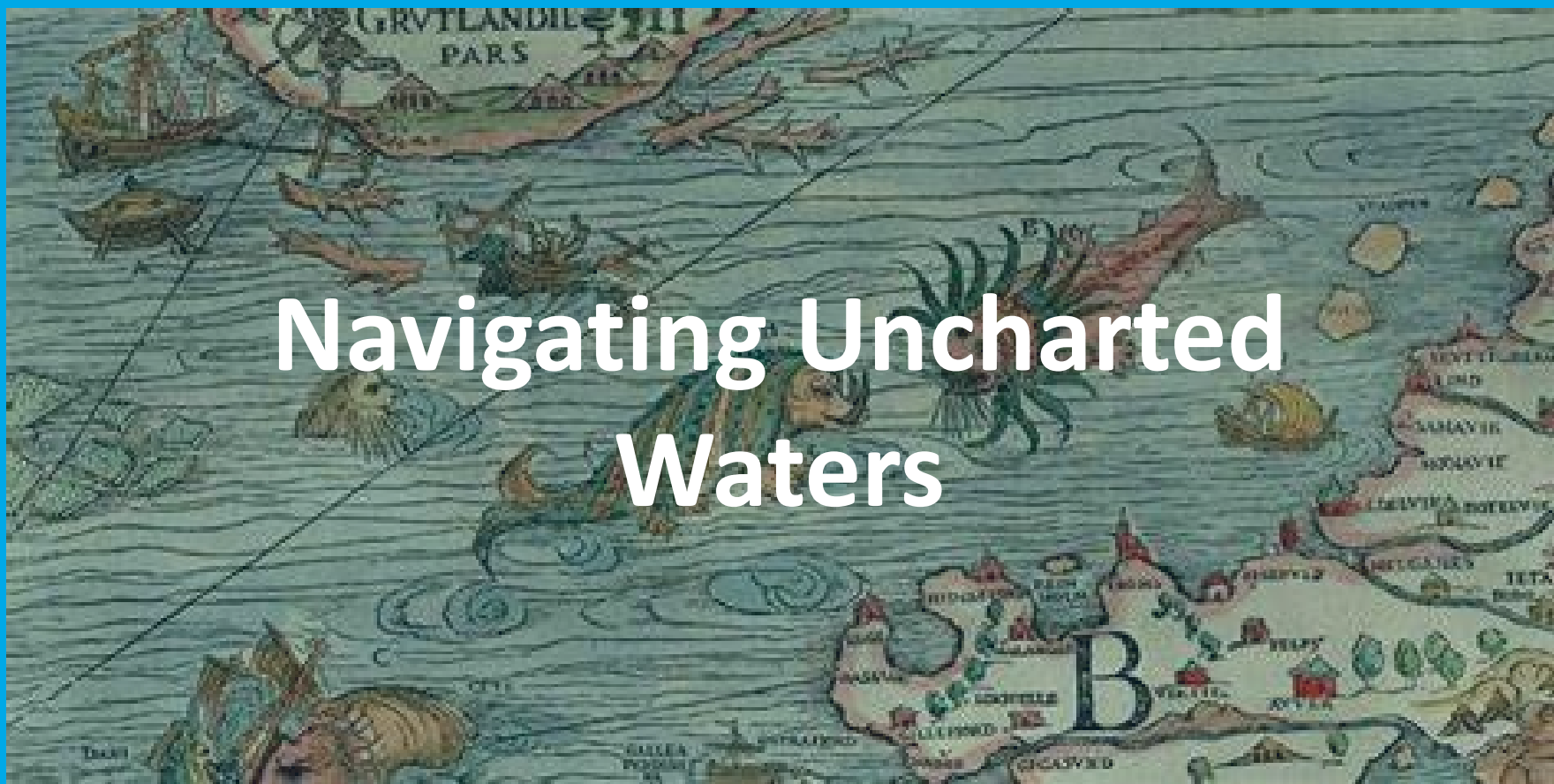
Sources: BLS, FRB/Haver

← Labor Force Participation Rate: 25-54 Years  
SA, %

Civilian Participation Rate: 16 yr + ---->  
SA, %



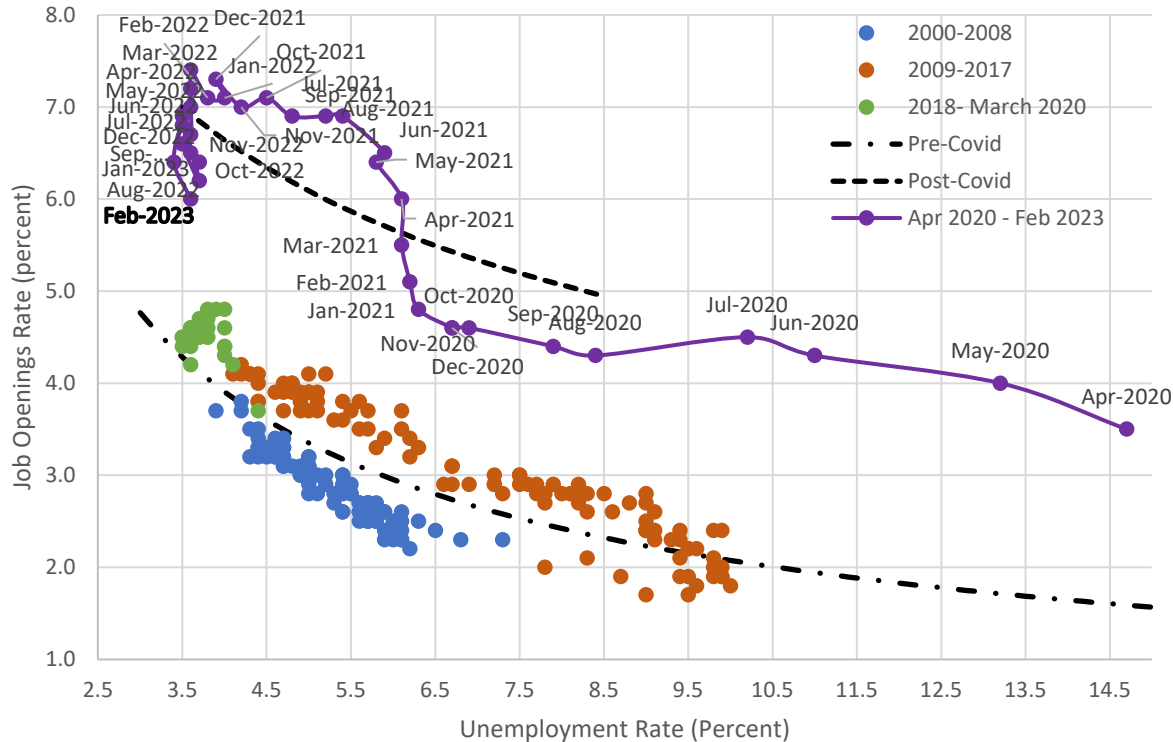
Source: Bureau of Labor Statistics/Haver Analytics



# Navigating Uncharted Waters

# Bend It Like Beveridge

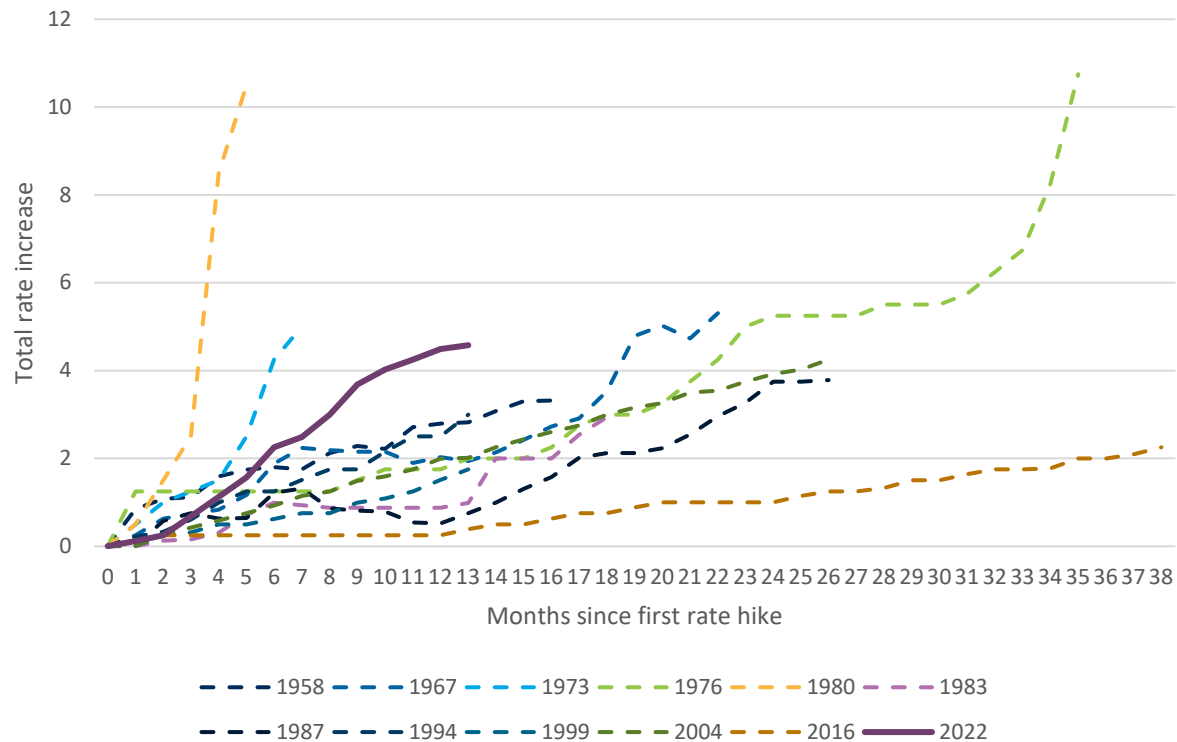
Beveridge Curve



- Beveridge Curve (BC): the negative relationship between the job openings and unemployment rates
- The BC shifted outwards during the pandemic
  - Difficulty hiring, elevated quits -> matching workers to jobs became challenging
- Can the hot labor market be cooled, bringing down job openings without a rise in unemployment?

# A Steep Climb

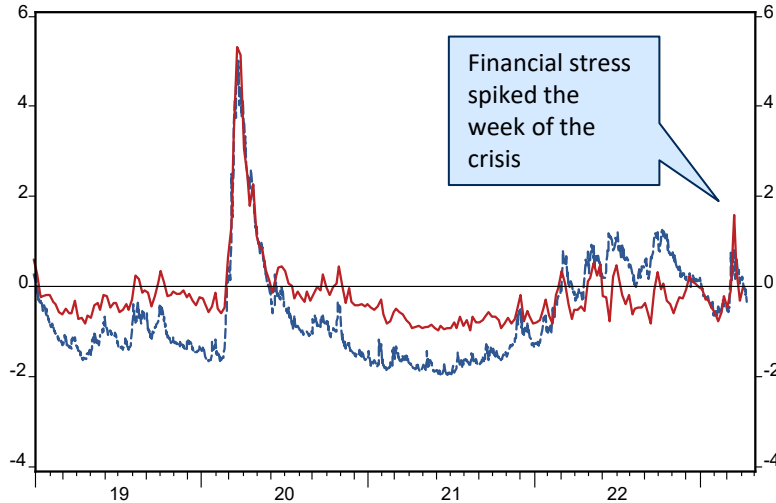
## Cumulative Fed Rate Increases Since Start of Hiking Cycle



- The FOMC has moved at an historically rapid pace to deal with high inflation
- Since March 2022, the FOMC has raised rates nearly 500 basis points – the steepest rate hike cycle since 1980
- But getting inflation back to target isn't about steepness: it's more about the level of the FFR you need to hit, which must be inferred from the incoming data
- As we approach that level, a more cautious adjustment may be warranted

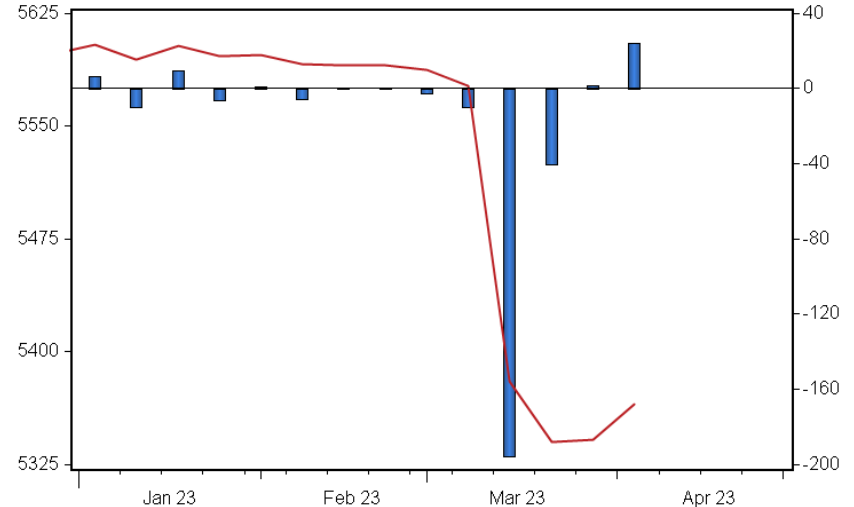
# Unexpected Turbulence

St Louis Financial Stress Index  
Above 0 = Above Average Financial Stress  
OFR Financial Stress Index: United States  
0=Average Stress Level



Sources: FRBSTL, OFR/Haver

← Deposits: Adjusted Small Domestic Commercial Banks  
EOP, SA, Bil.\$  
Deposits: Adjusted Small Domestic Commercial Banks  
Change - Period to Period EOP, SA, Bil.\$ →



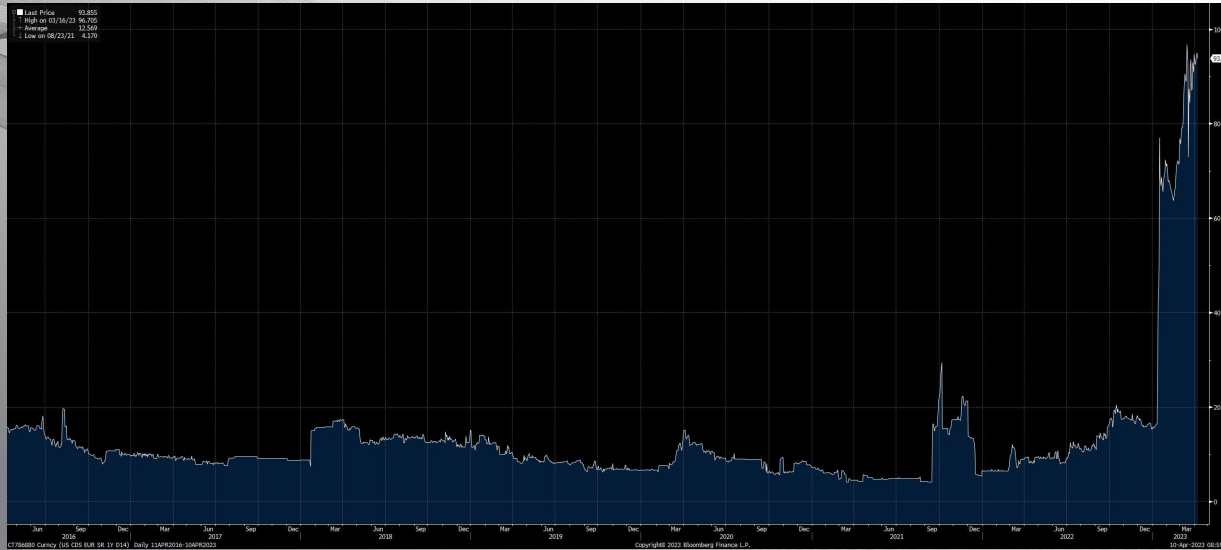
Source: Federal Reserve Board/Haver Analytics

- “Whenever the Fed hits the brakes, someone goes through the windshield.”
- Financial stress indexes, small bank deposit outflows appear to have stabilized after the response to SVB and Signature Bank episodes; we continue to monitor credit conditions closely.



# Icebergs Within View....

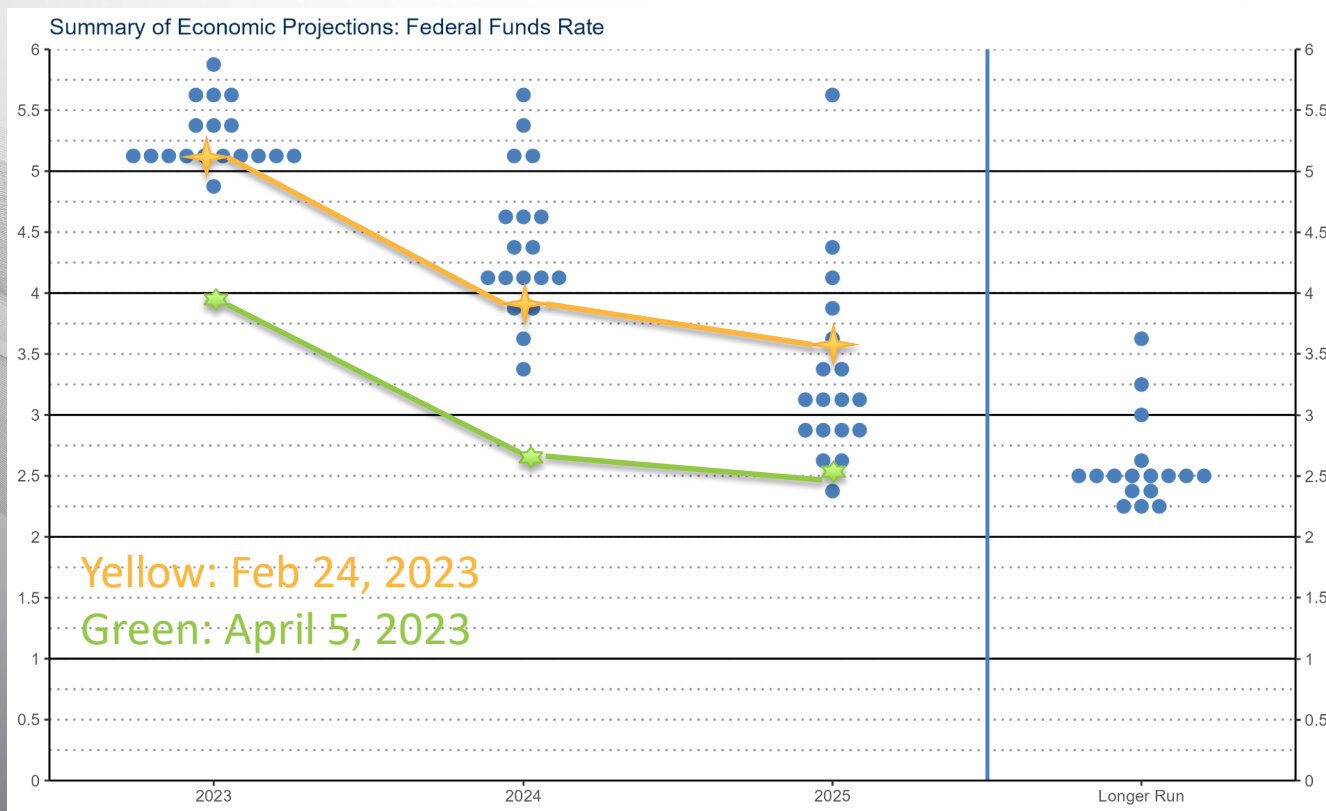
## 1 Year Sovereign Credit Default Swap Spread



Source: Bloomberg

- The CBO [estimates](#) the Treasury will exhaust its ability to pay its bills sometime between July and September
- “Congress really needs to raise the debt ceiling....If we fail to do so, I think that the consequences are hard to estimate, but they could be extraordinarily adverse and could do long-standing harm.”  
– Jerome Powell, Senate Banking Committee testimony, March 7, 2023

# Greater Uncertainty About The Path Ahead



# Summary

# Key Takeaways

- Current economic landscape characterized by stubbornly high inflation, continued tightness in labor markets, strong household spending
- Rapid policy tightening is contributing to signs of slowing in demand, delivering a more sustainable pace of growth and return to price stability
- As the policy stance becomes more restrictive, the Fed remains vigilant to emerging risks and fragility

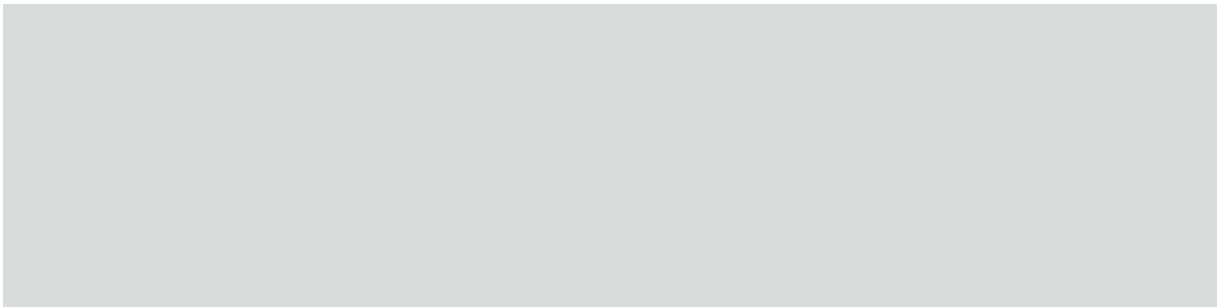


# Words of Wisdom

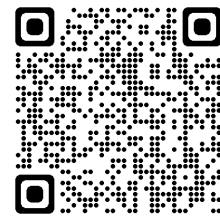


“Uncertainty is not just a pervasive feature of the monetary policy landscape; it is the defining characteristic of that landscape.” - Alan Greenspan (1996)





# Thank you!



Questions and comments welcome at:

[John.OTrakoun@rich.frb.org](mailto:John.OTrakoun@rich.frb.org)



**FEDERAL RESERVE BANK  
OF RICHMOND™**

Richmond • Baltimore • Charlotte