

Economic Outlook: From Here to Price Stability

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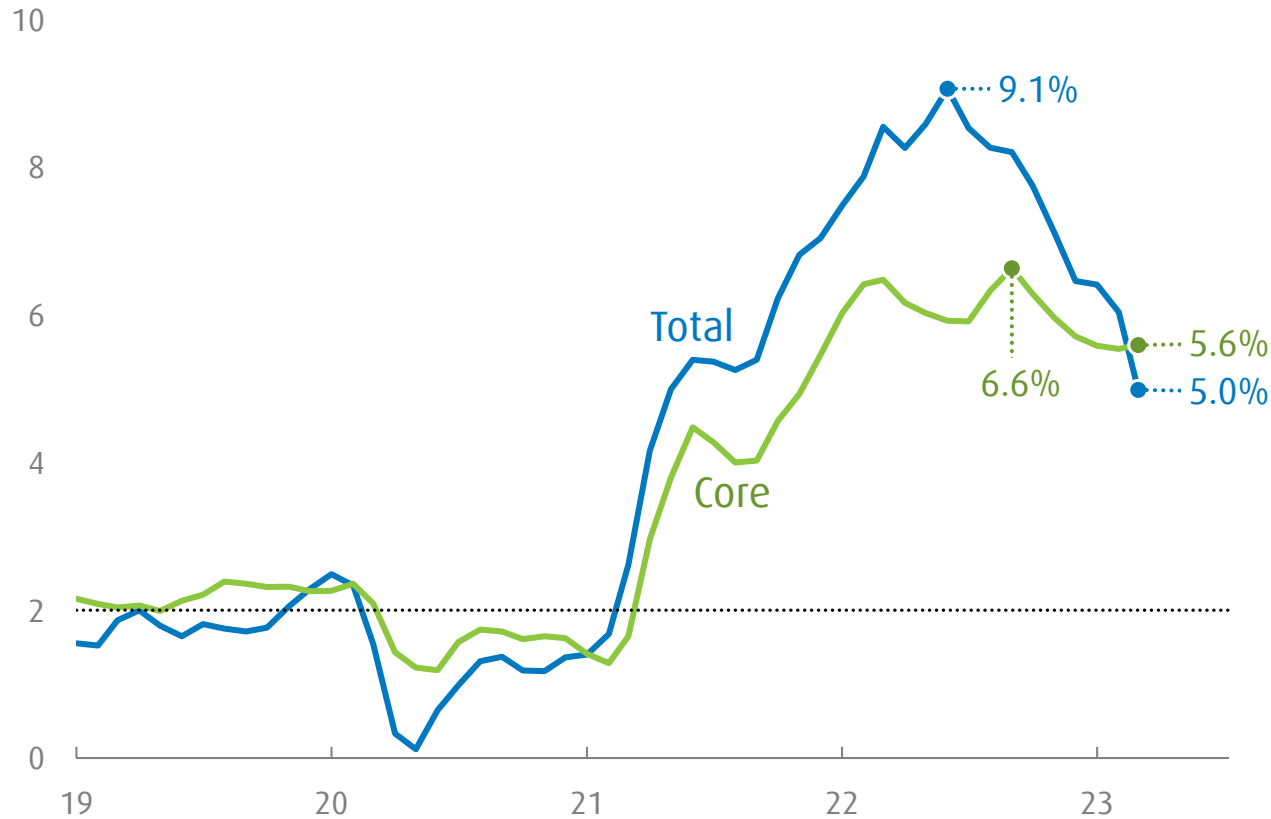
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Inflation falling after peaking at 40-year highs

United States (y/y % chng)

Consumer price index



Good news:

Resource prices retreating

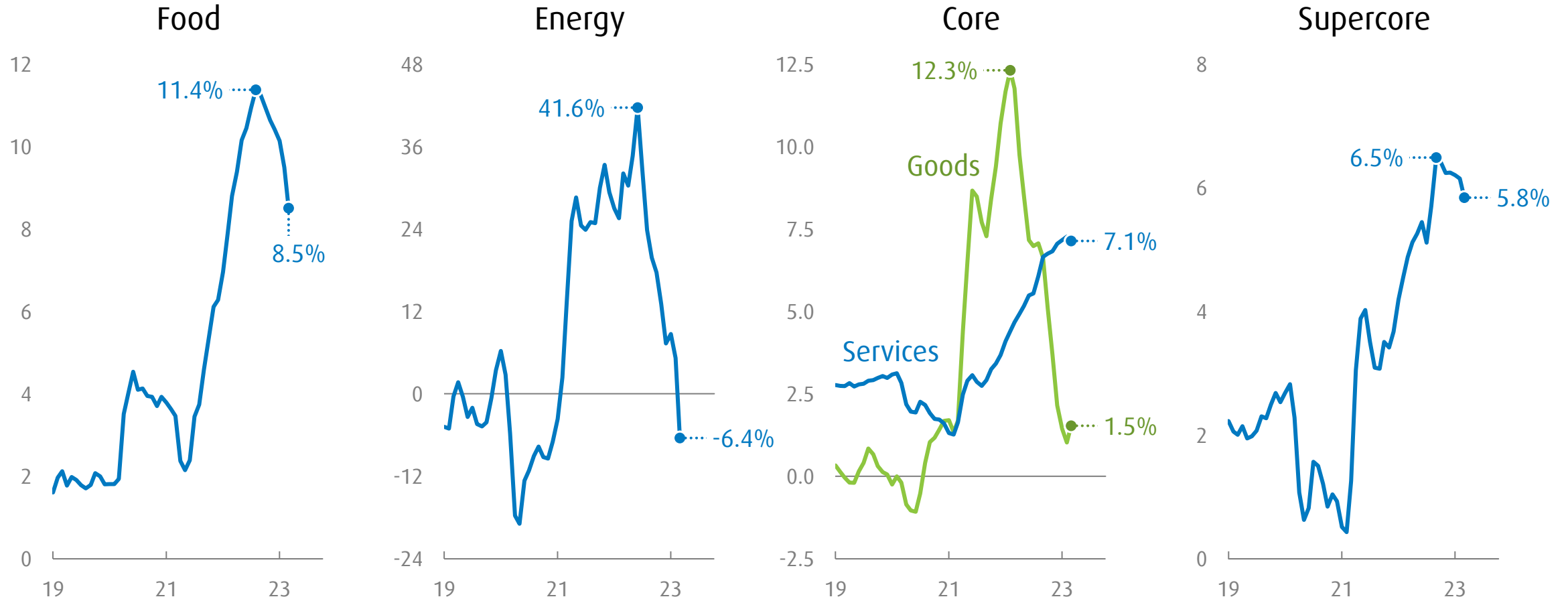
Retailers discounting

Supply chains improving

But services inflation sticky due to wages

Slow road to 2%?

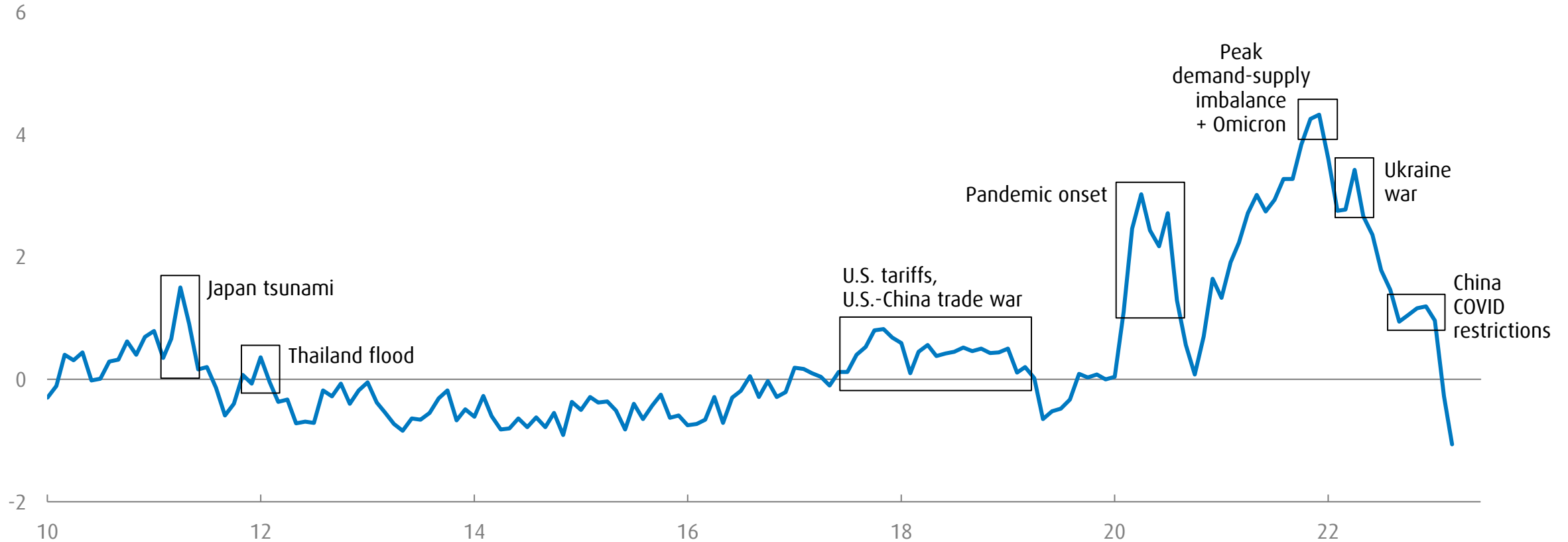
United States – Consumer price index (y/y % chng)



Supply chains unsnarled

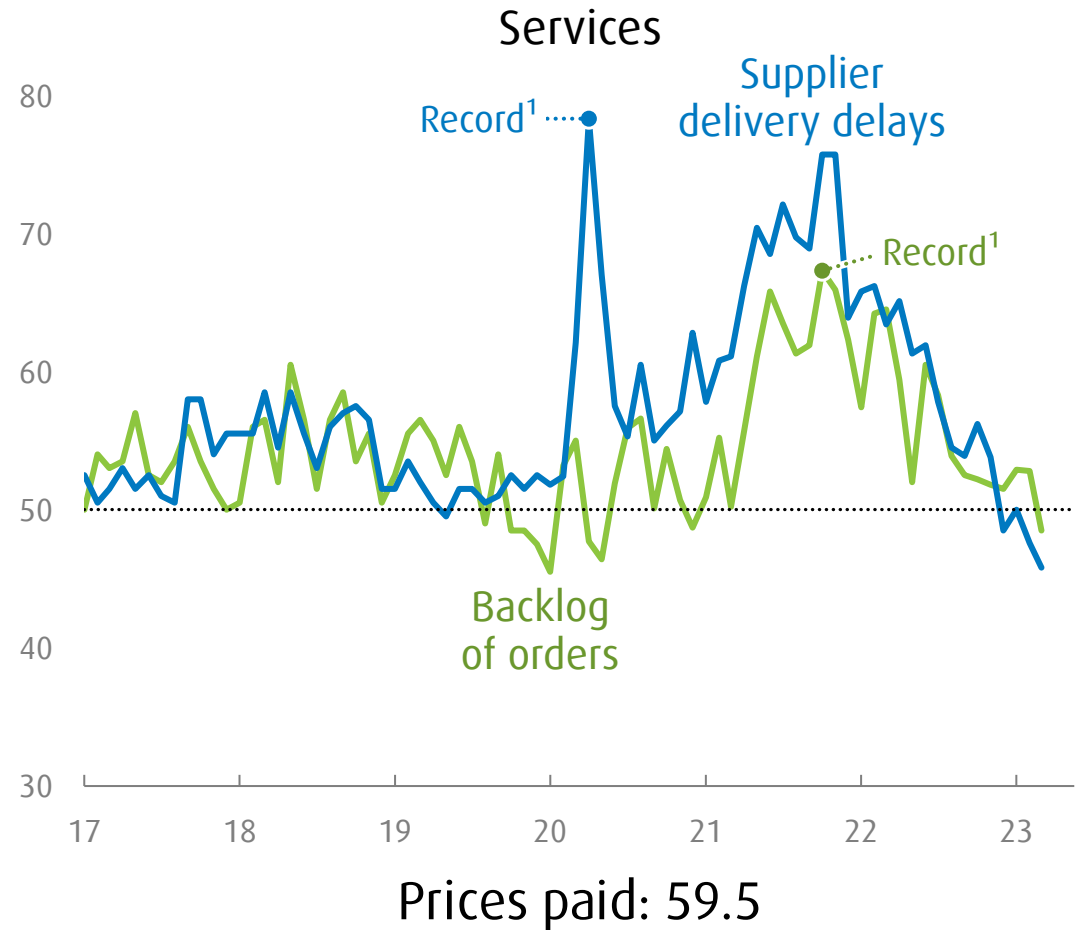
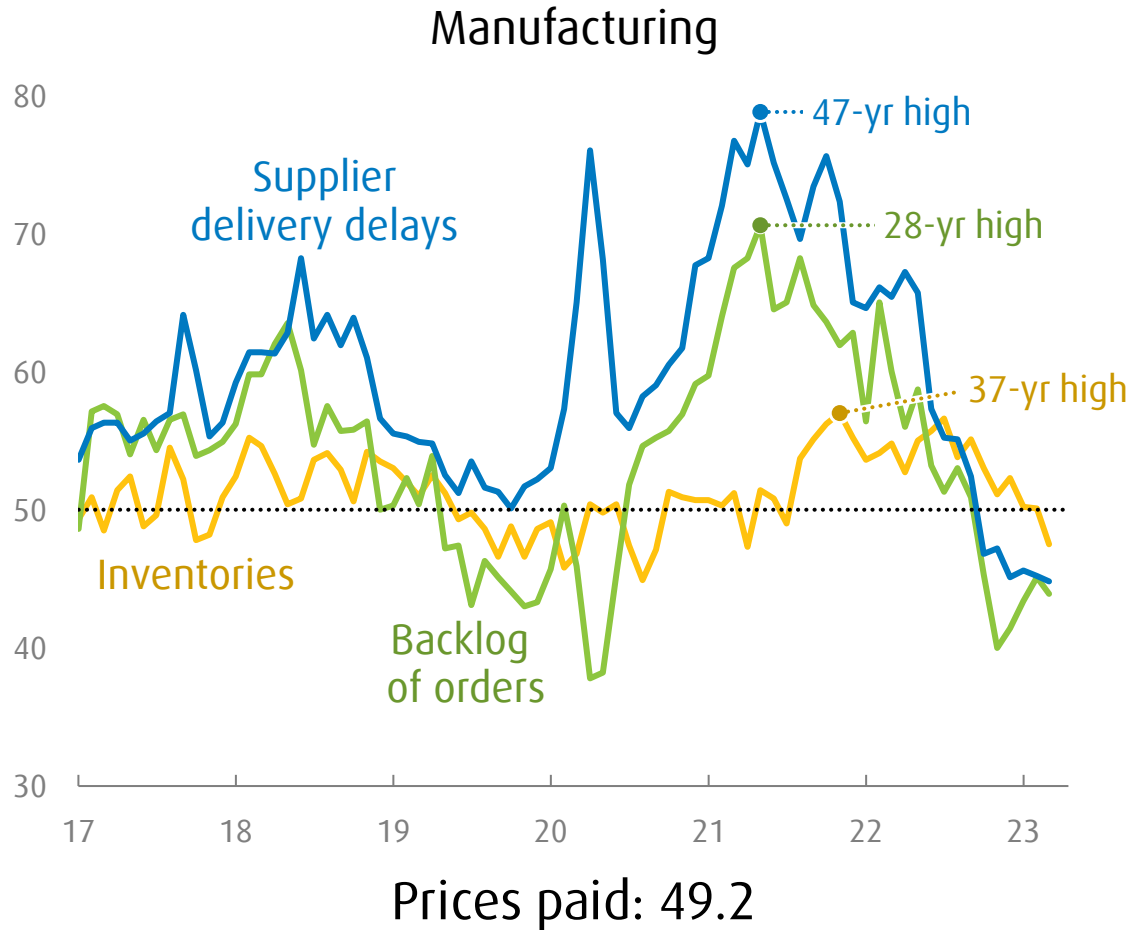
(standard deviations from average value)

Global Supply Chain Pressure Index



Bottlenecks ebbed

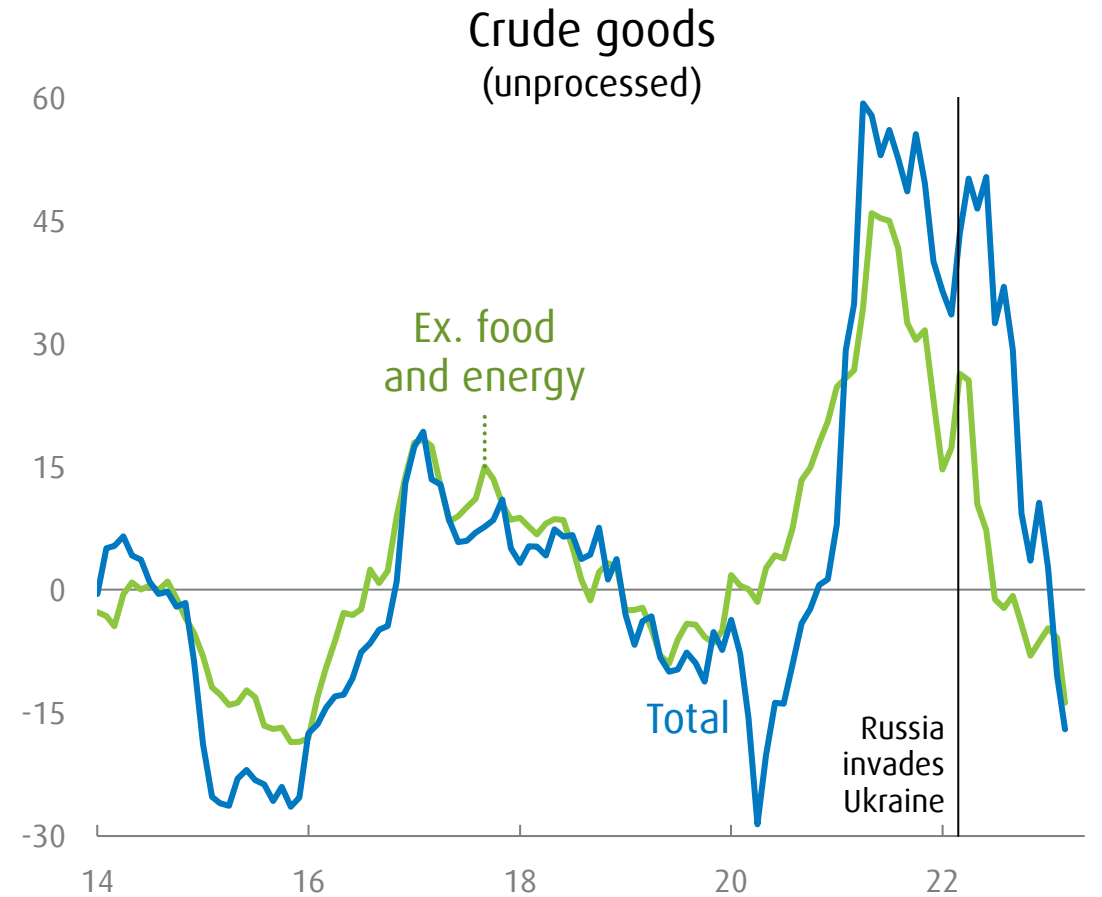
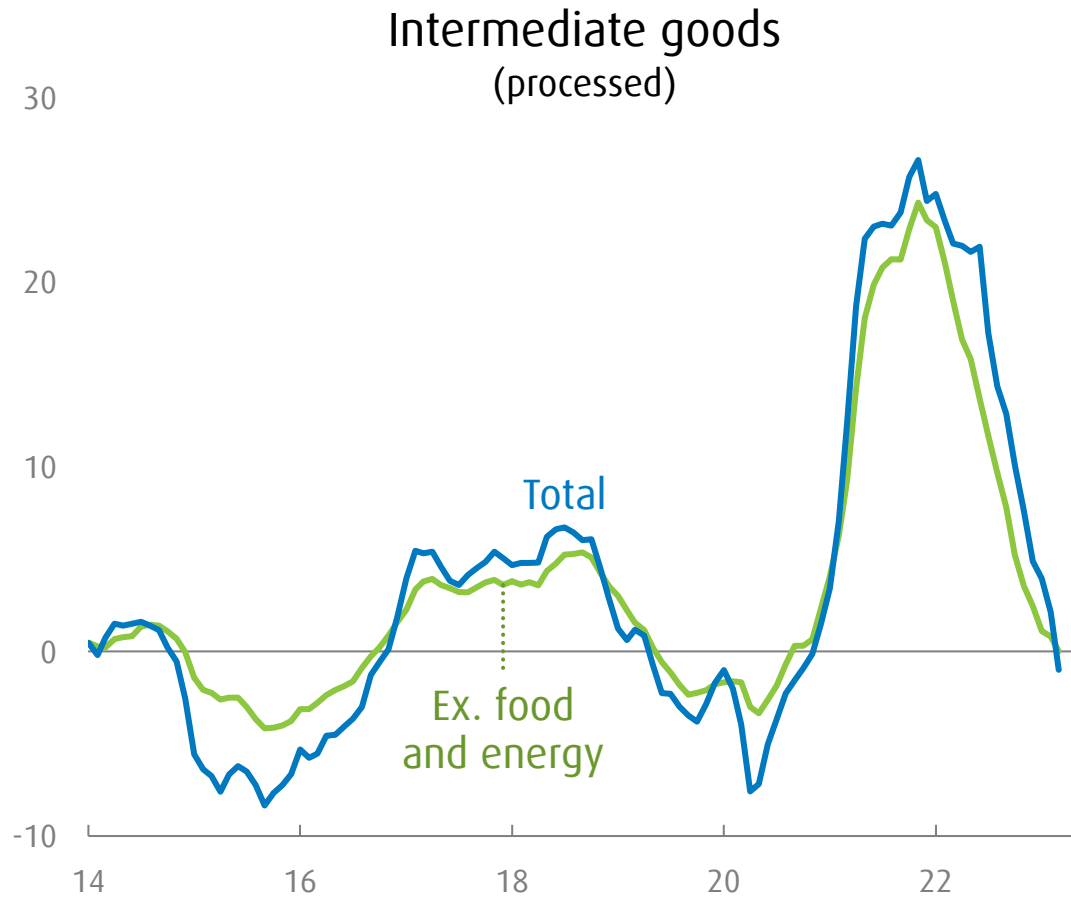
United States – ISM indices (50+ = increasing)



¹ Record levels back to 1997

Prices pressures dropping along the production pipeline

United States – Producer prices (y/y % chng)

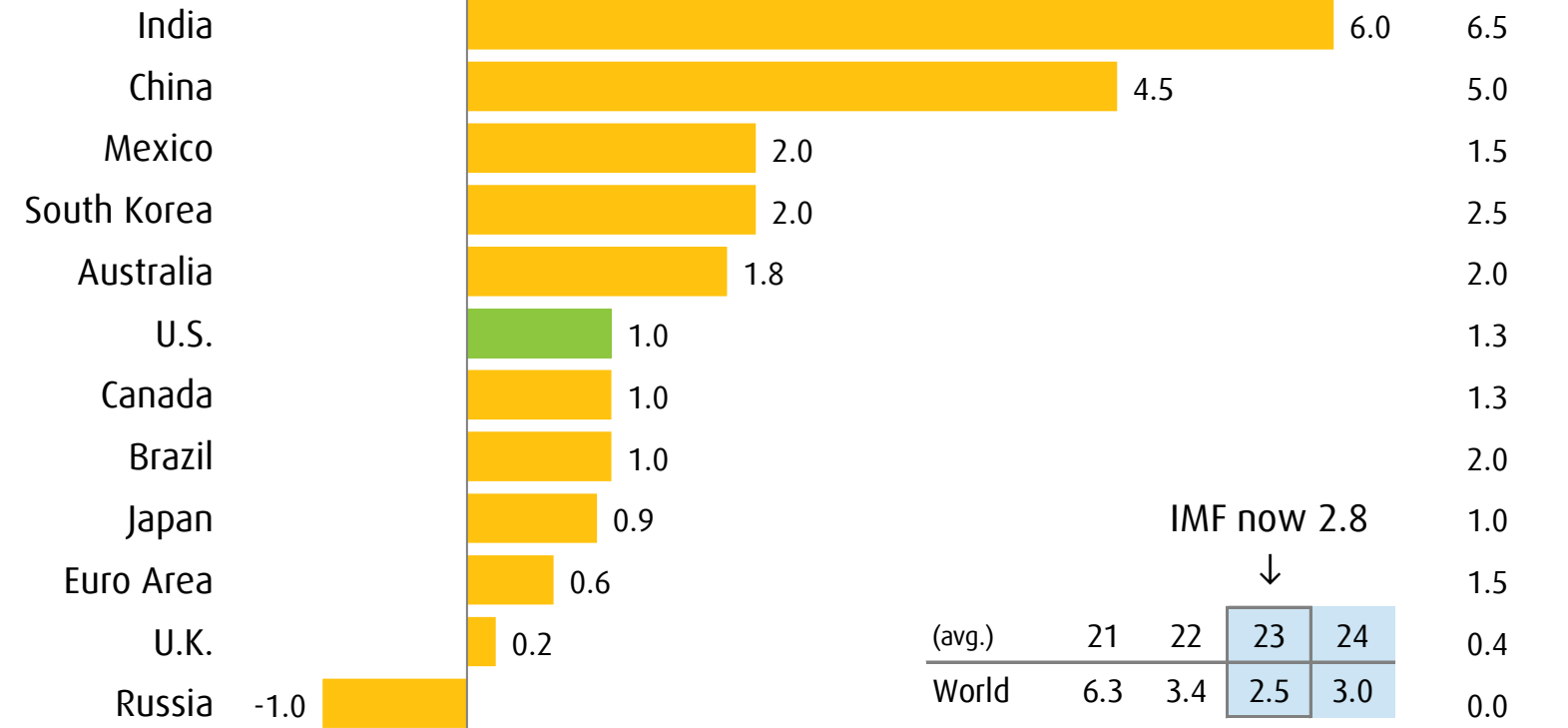


Global growth slows

2023 forecast (% chng)



Real GDP

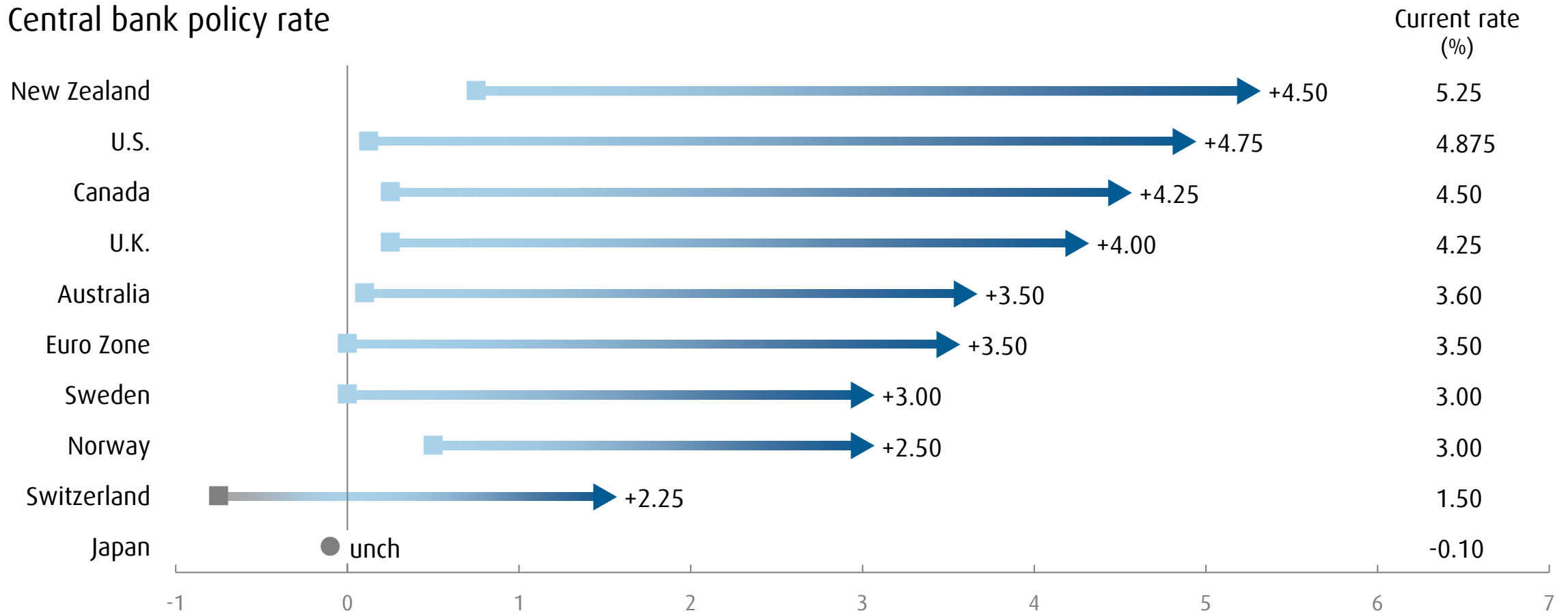


Weighing: War, inflation, rate hikes, banking stress

G10 policy rate moves: Massive hikes

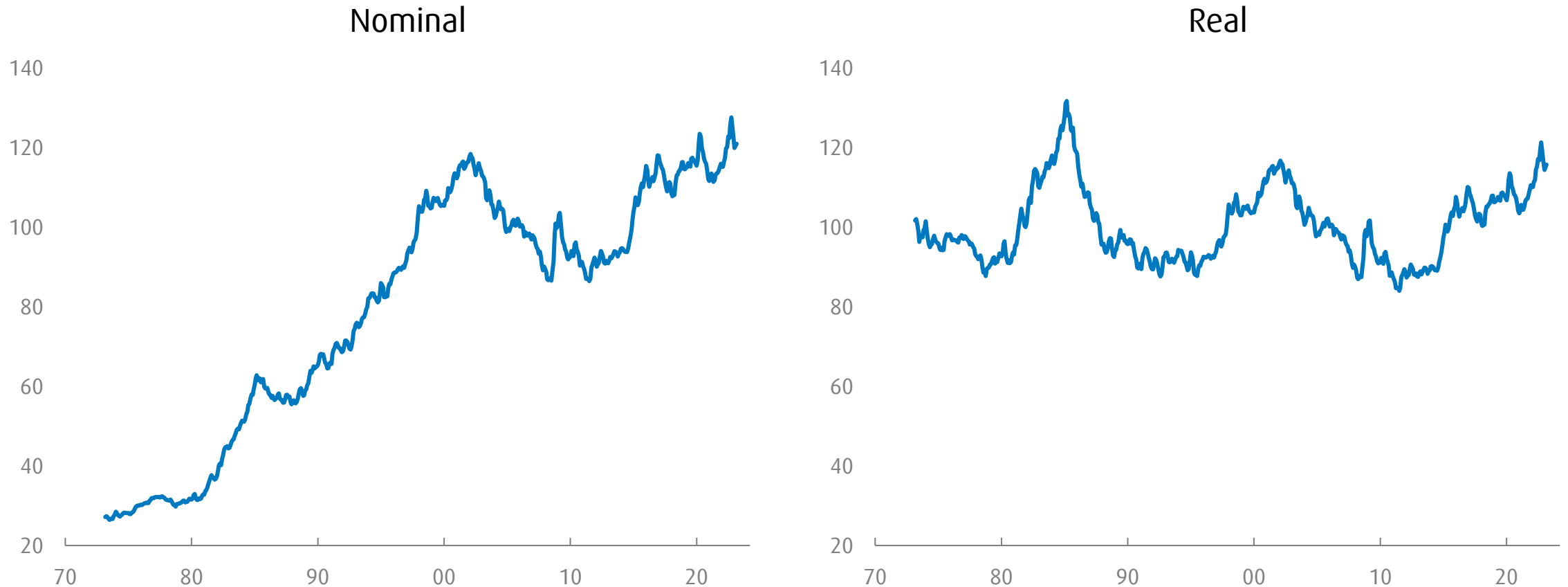
(chng since start of 2022 : ppts : as of April 17, 2023)

Central bank policy rate



“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)

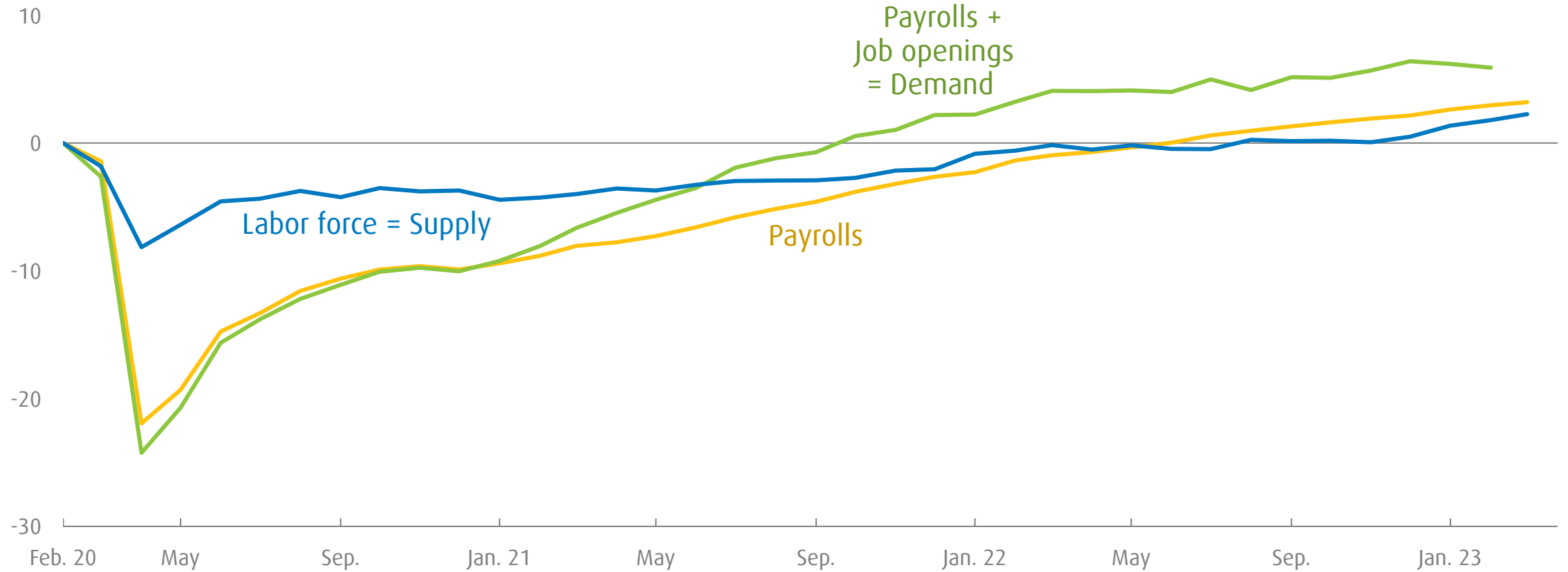


Greenback peaked in October, highest real index since September 1985

Labor market mirrors economy: Strong demand > Constrained supply

United States (net chng from February 2020 : mlns)

Labor market

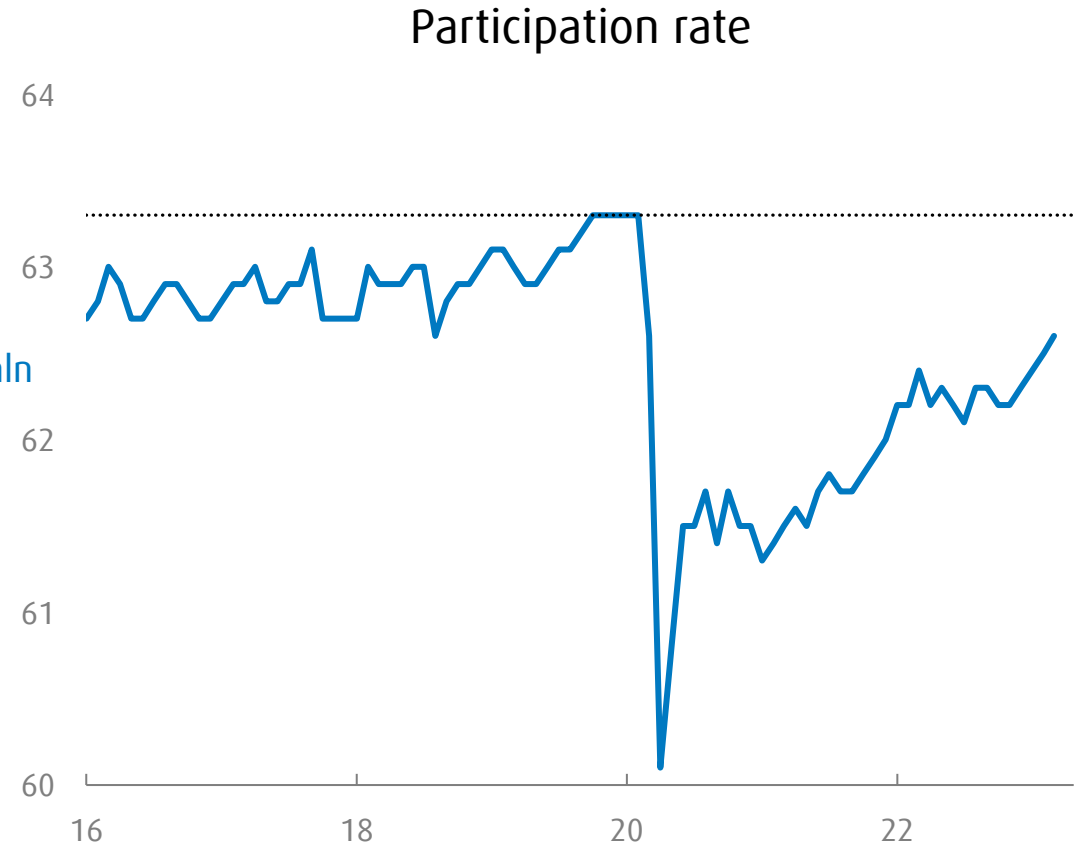


Where are the workers?

United States (percent)



Officially unemployed: 5.9 mln

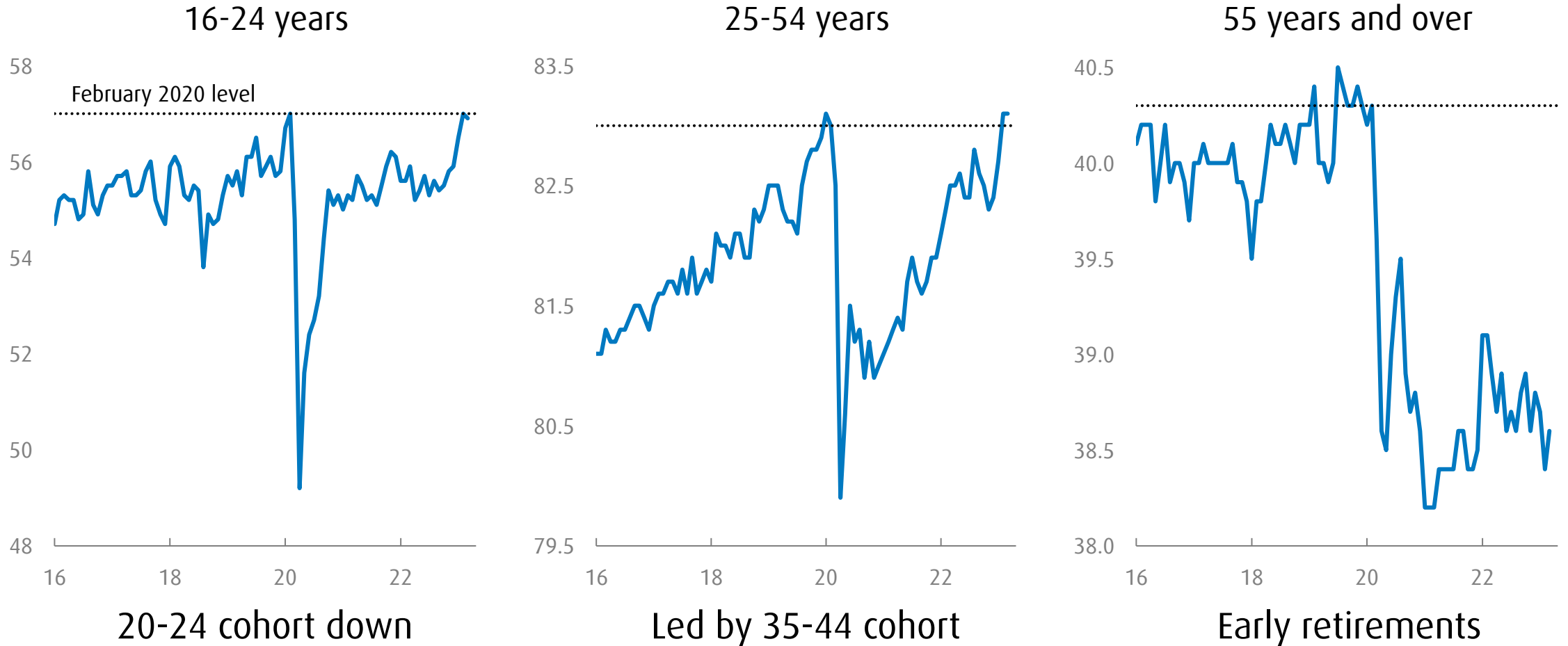


Differs across age cohorts

¹ (% of labor demand [payrolls + openings])

Labor market imbalance not owing solely to supply

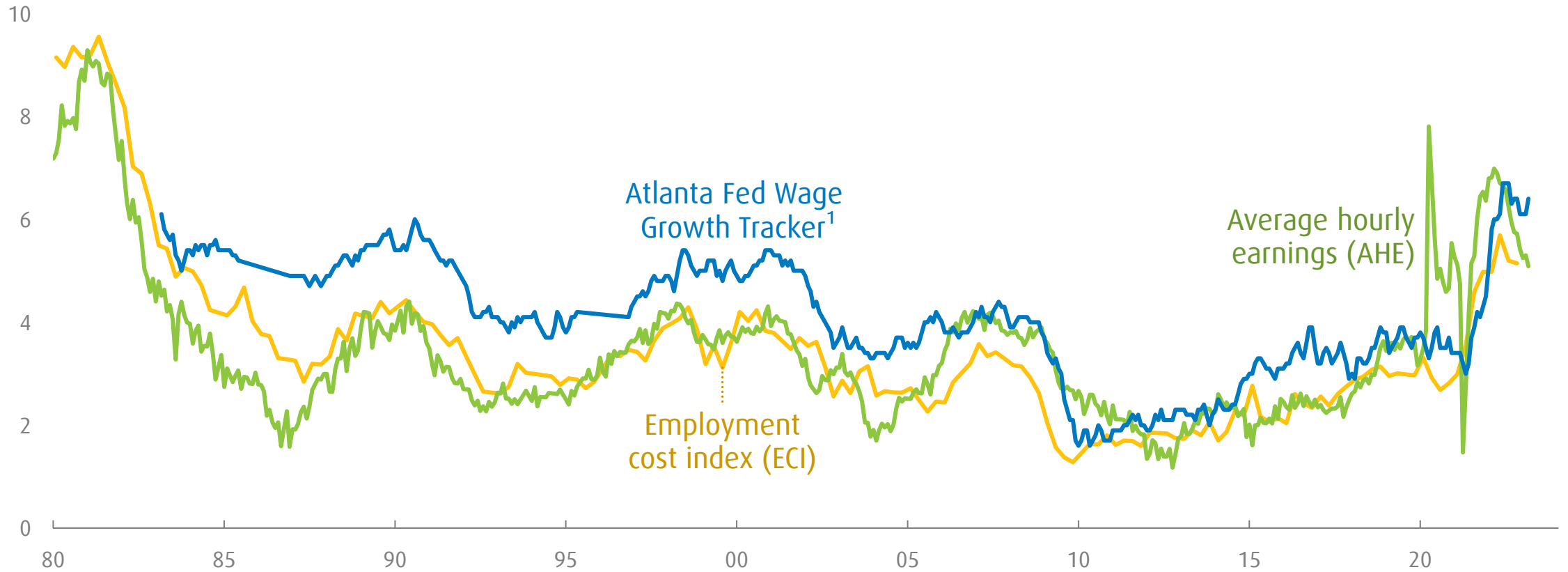
United States – Participation rate by age cohort (percent)



Still strong wage gains

United States (y/y % chng)

Wages

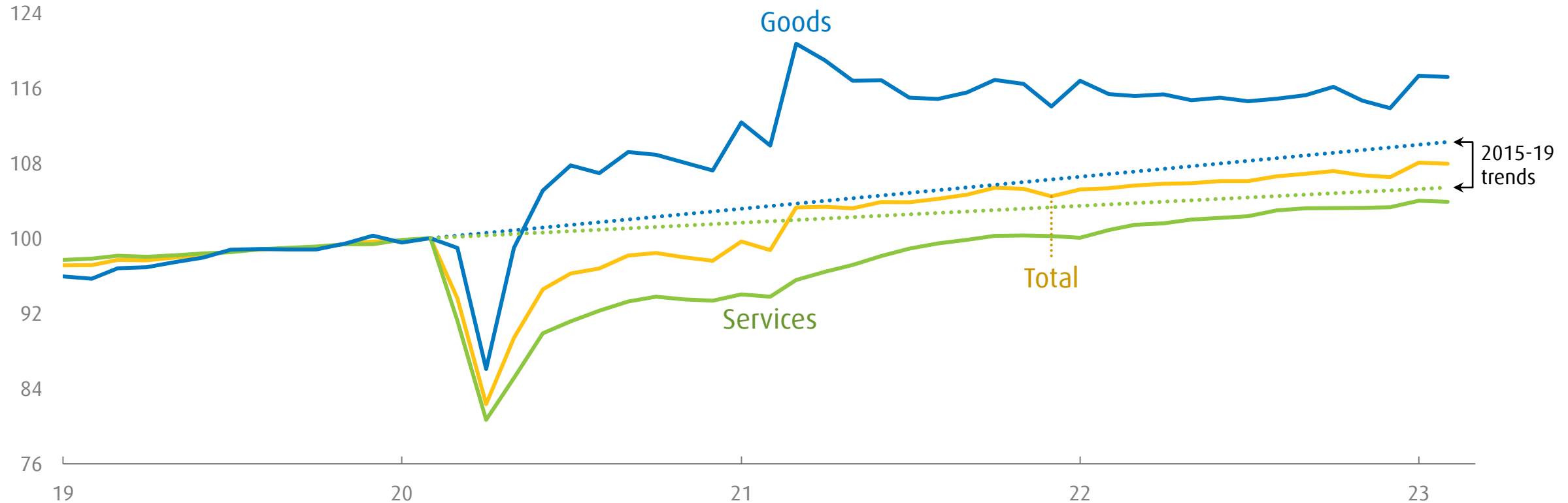


AHE = Production & nonsupervisory employees • ECI = Private-sector wages & salaries • ¹ (3-mth m.a.)

Pent-up demand for services

United States (February 2020 = 100)

Real consumer spending

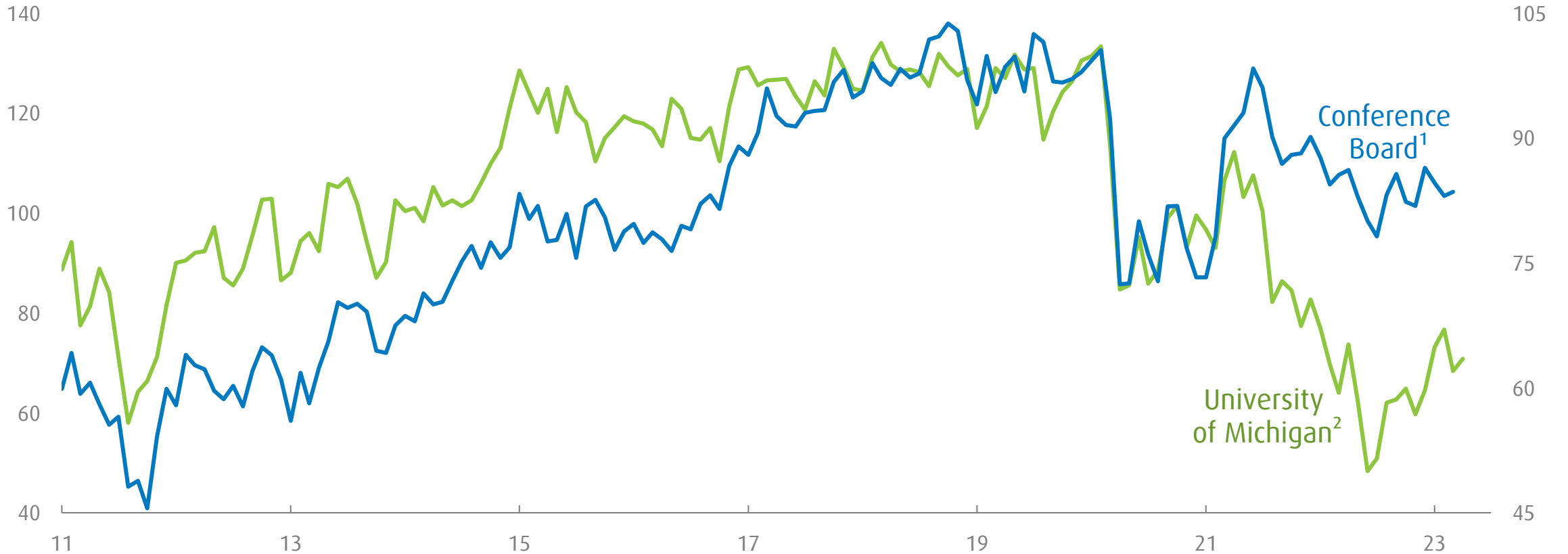


Goods spending restrained by shift to services,
but some pent-up demand lingers due to supply shortages

Confidence initially slipped on high inflation and Fed tightening... recession fears

United States

Consumer confidence

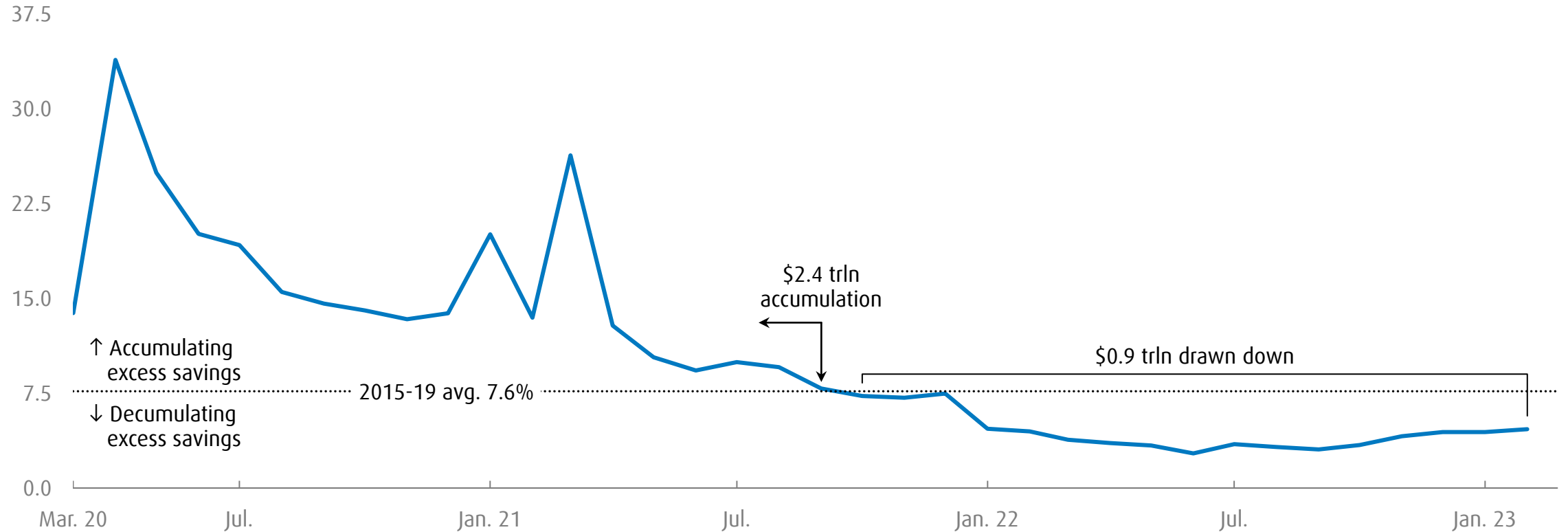


¹ (lhs : s.a. : 1985 = 100) • ² (rhs : n.s.a. : 1966Q1 = 100)

Economy's saving grace

United States (percent)

Saving rate

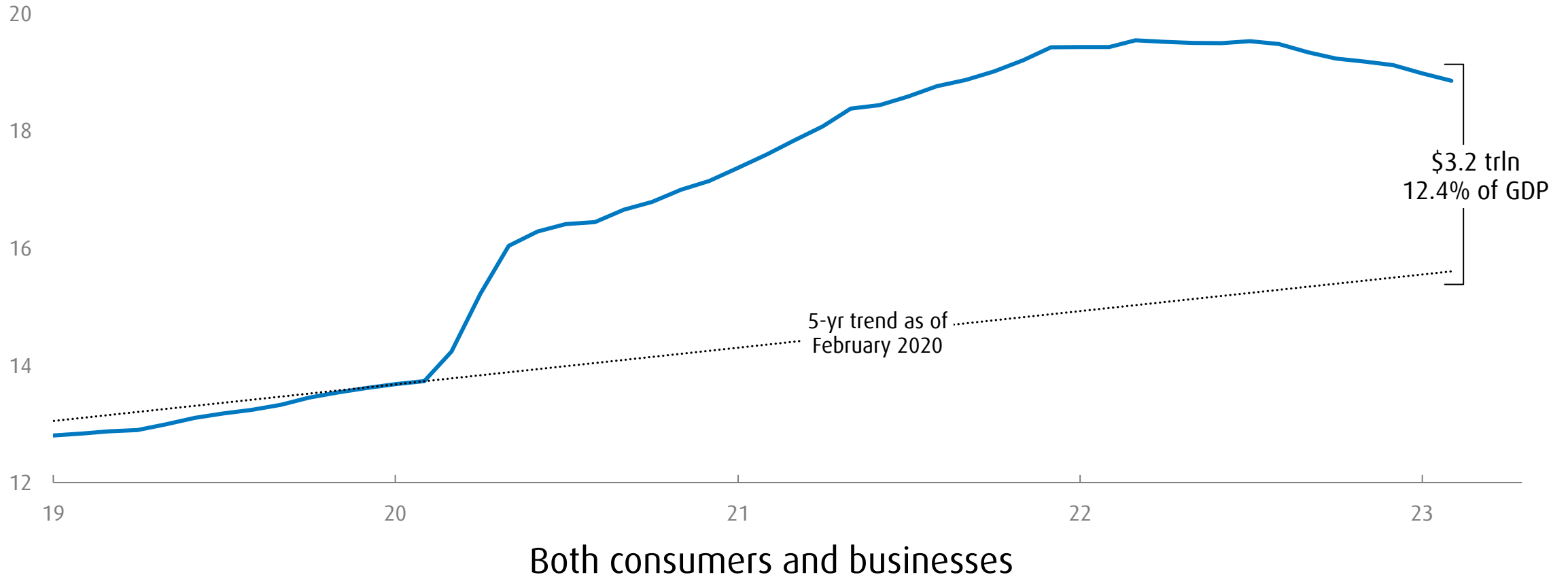


Skewed to higher income households

Whole lotta liquidity

United States (US\$ trlns)

Deposits and retail money funds in M2



Banking sector stress



Banks in the news:

Silicon Valley Bank

Signature Bank

Silvergate Capital

Credit Suisse

Potential credit conditions:

More cautious lending broadly

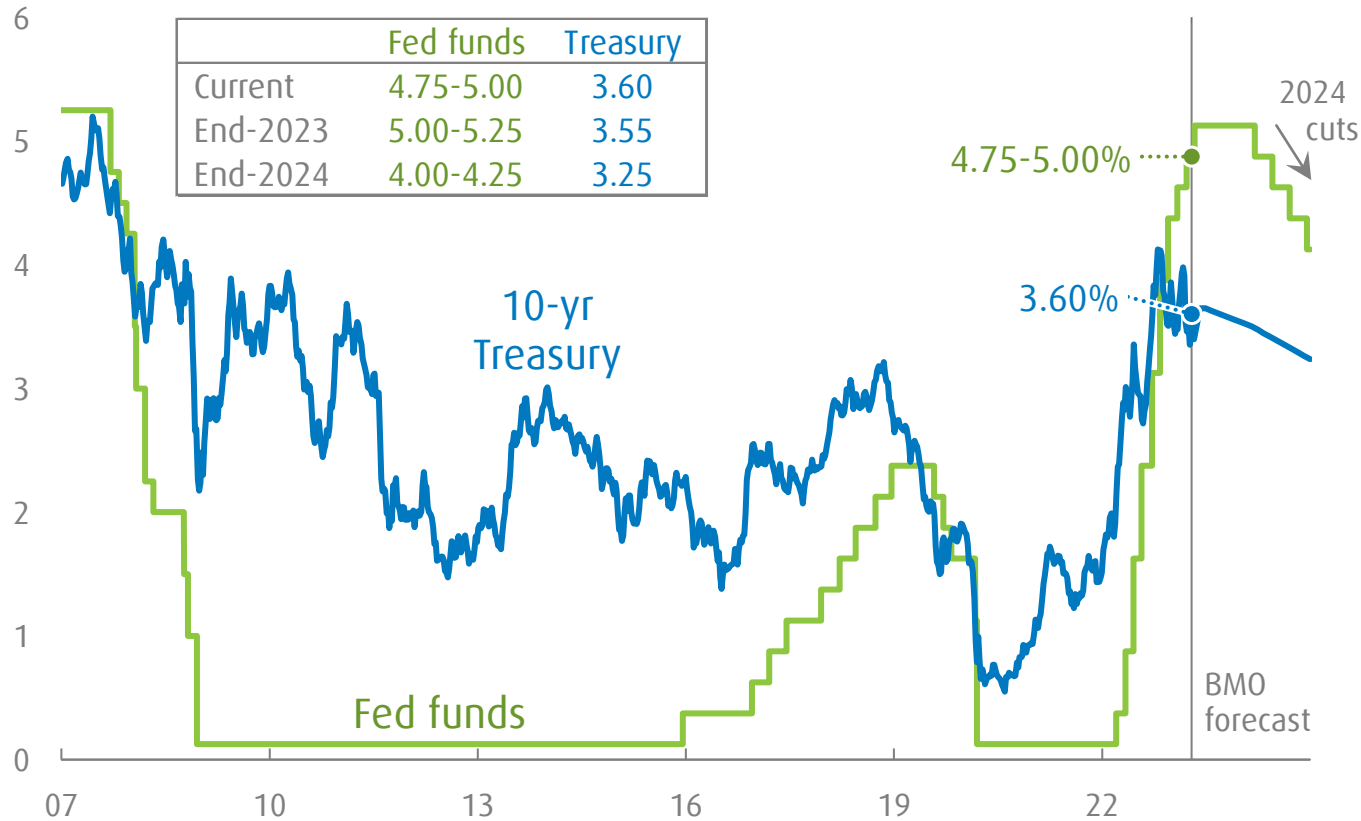
Less regional/small bank deposits and lending

Fed characterized as a rate hike surrogate

Policy rates still headed higher

United States (% : as of April 17, 2023)

Interest rates



Complemented by quantitative tightening (QT)

Inverting the yield curve

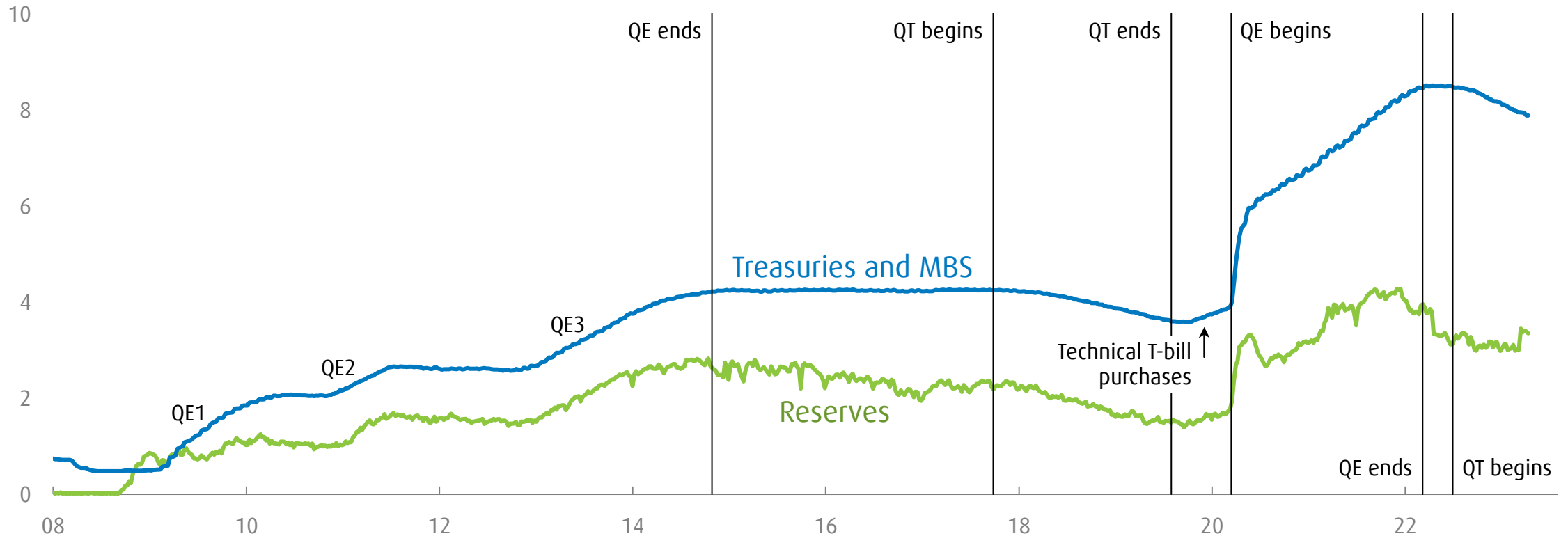
Weakening financial conditions

[history] weekly averages • [forecast] monthly averages

Quantitative tightening

United States (US\$ trlns : as of April 12, 2023)

Select Fed balance sheet items

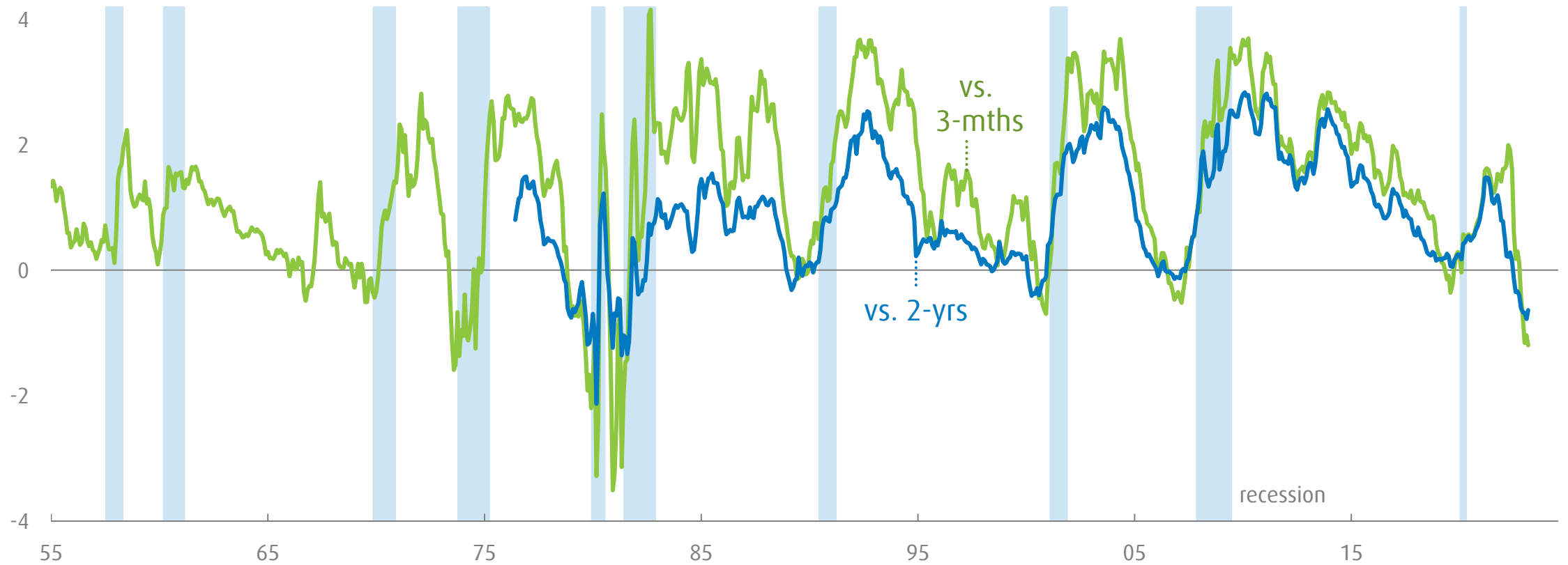


Monthly runoff caps \$60 bln Treasuries (always hit), \$35 bln MBS (never hit)

Various inversions

United States (ppts : monthly average)

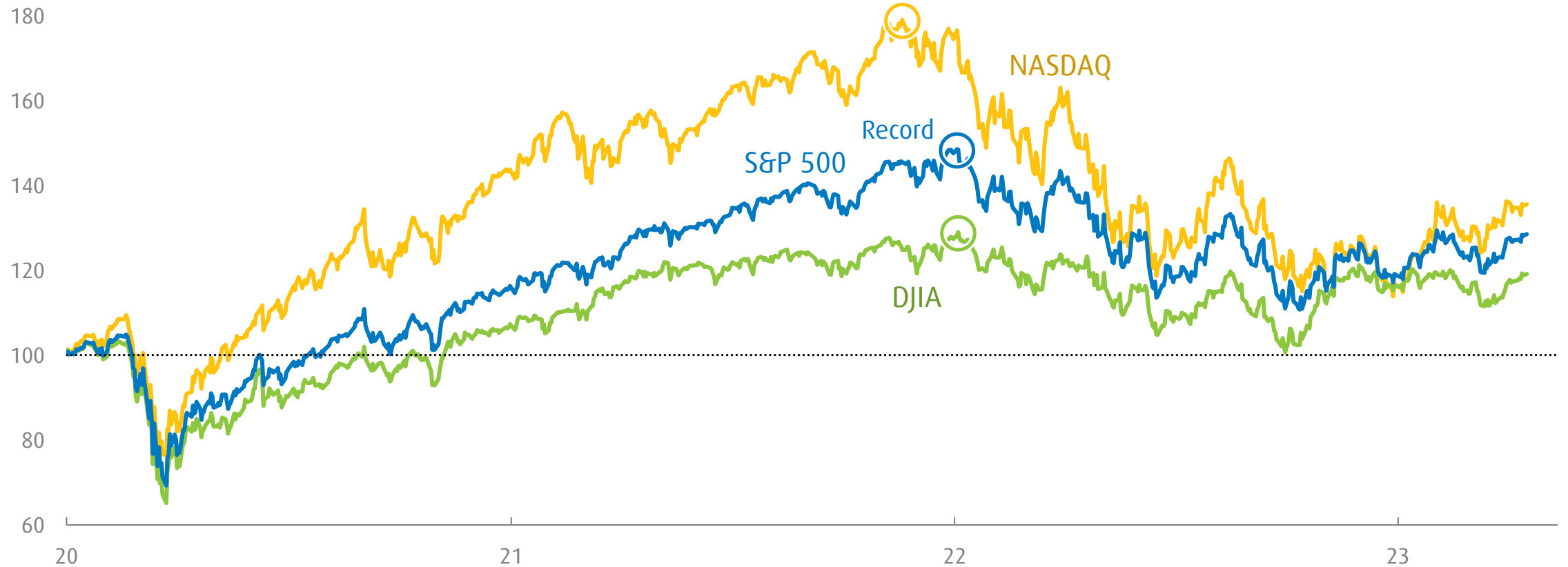
10-year Treasury yield spreads



Markets initially sagged as Fed tightened

United States (December 31, 2019 = 100 : as of April 17, 2023)

Equity indices



From record lows to highest in a score of years

United States (percent)

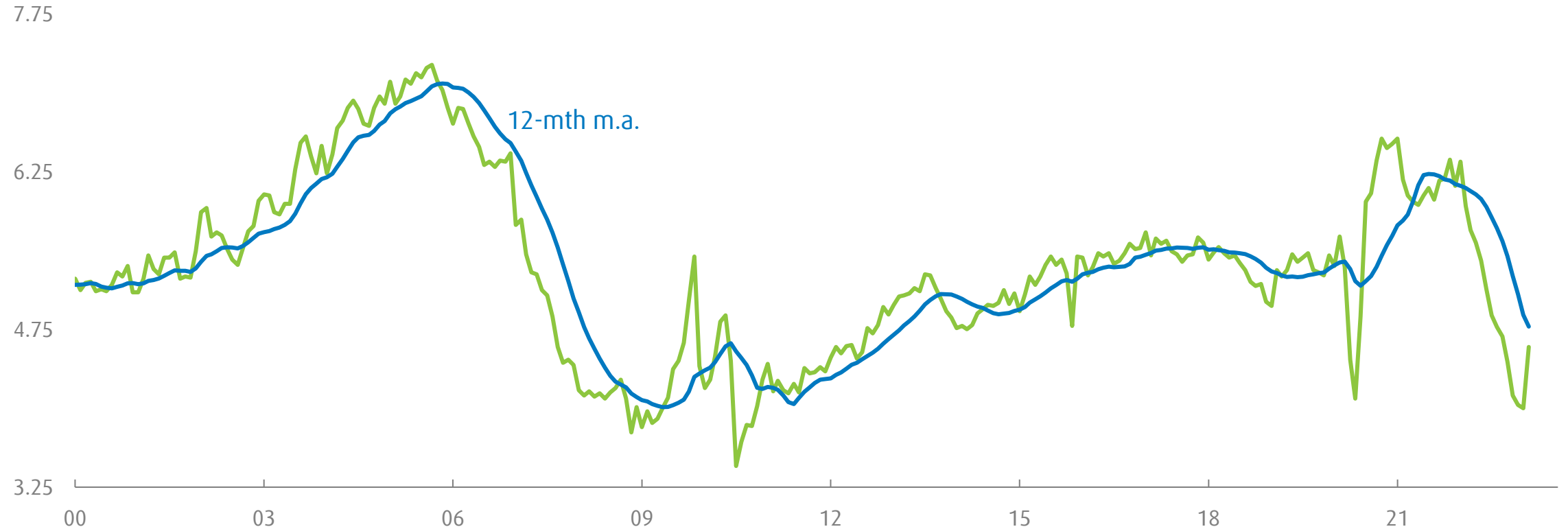
30-year fixed-rate mortgages



Housing market rolled over quickly

United States (mlns)

Existing home sales

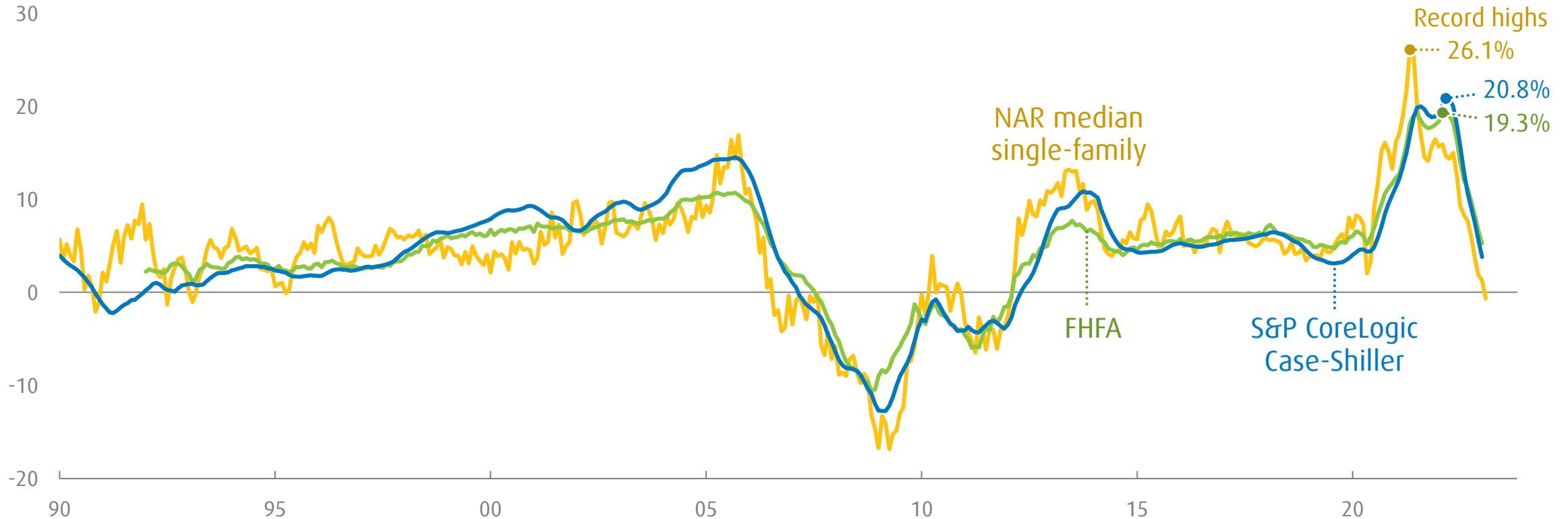


Hit worst affordability since 1980s

Prior hot home prices cooling... tenant rents too

United States (y/y % chng)

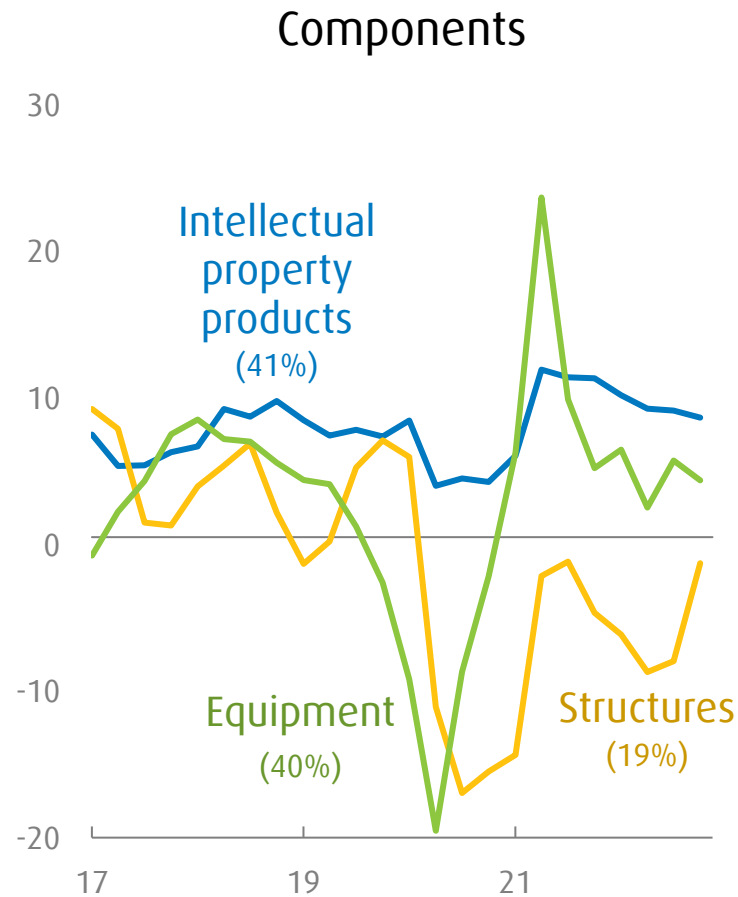
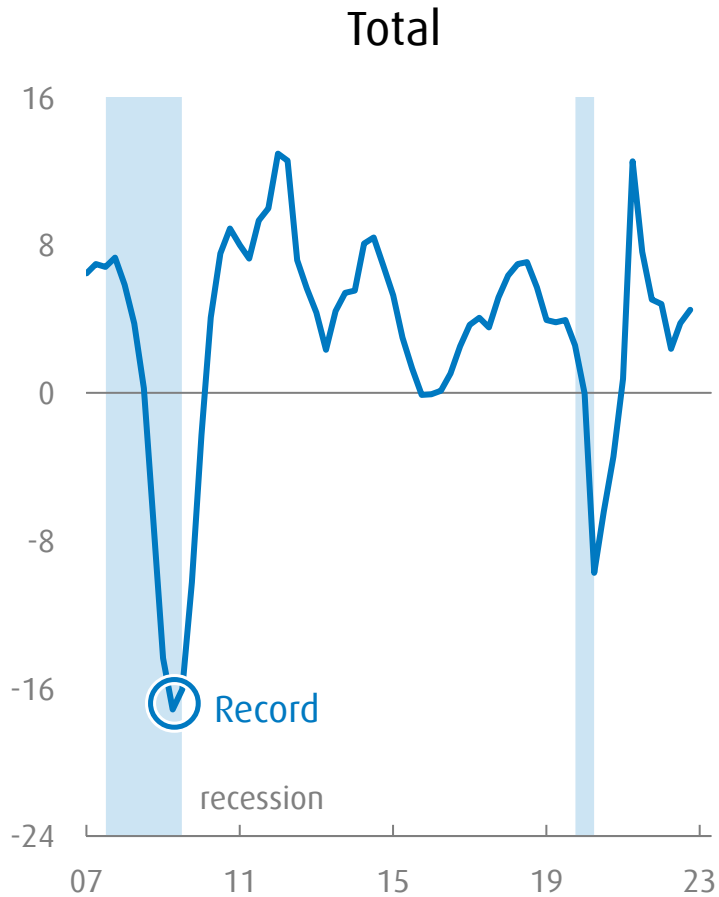
House price indices



CPI rents react with a lag, boosting measured inflation in the interim

Tech/automation set capex pace

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



Boosts from:

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

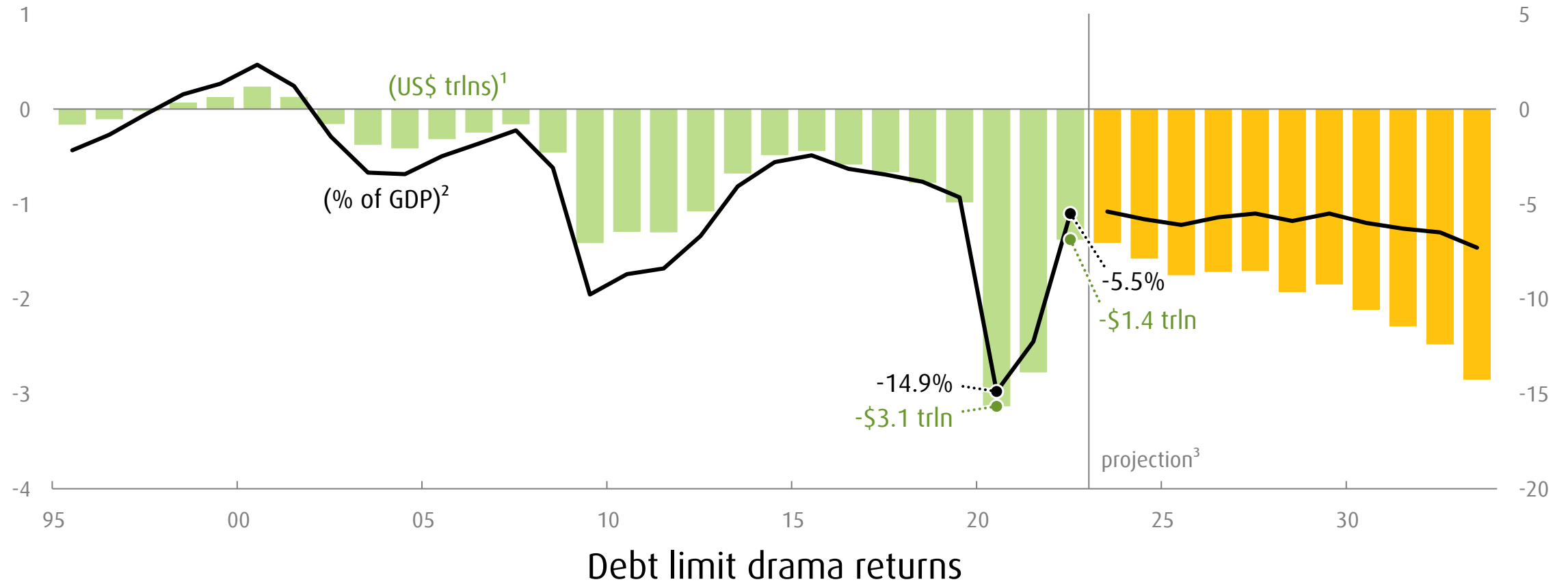
CHIPS and Science Act
(~\$280 bln new spending)

Inflation Reduction Act
(~\$370 bln climate measures)

Amid a divided Congress, little scope for fiscal policy

United States (fiscal years, figures reflect legislation signed before April 8, 2022)

Budget balance



¹ (lhs) • ² (rhs) • ³ CBO projection (February 2023)

Growth poised to stall

United States (% chng)

Real GDP



Resilient so far:

Global outlook improves

Consumer holding up

Pandemic savings, pent-up demand

Fiscal support for infrastructure, clean energy

Concerns:

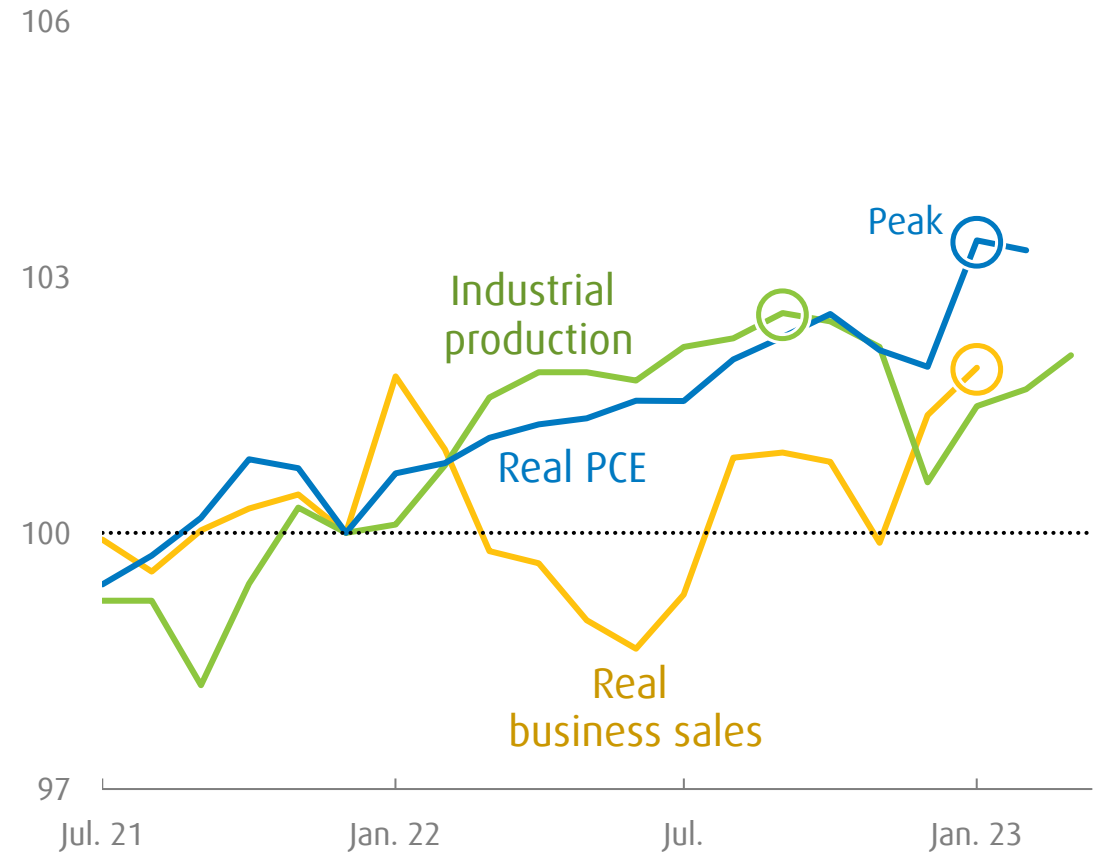
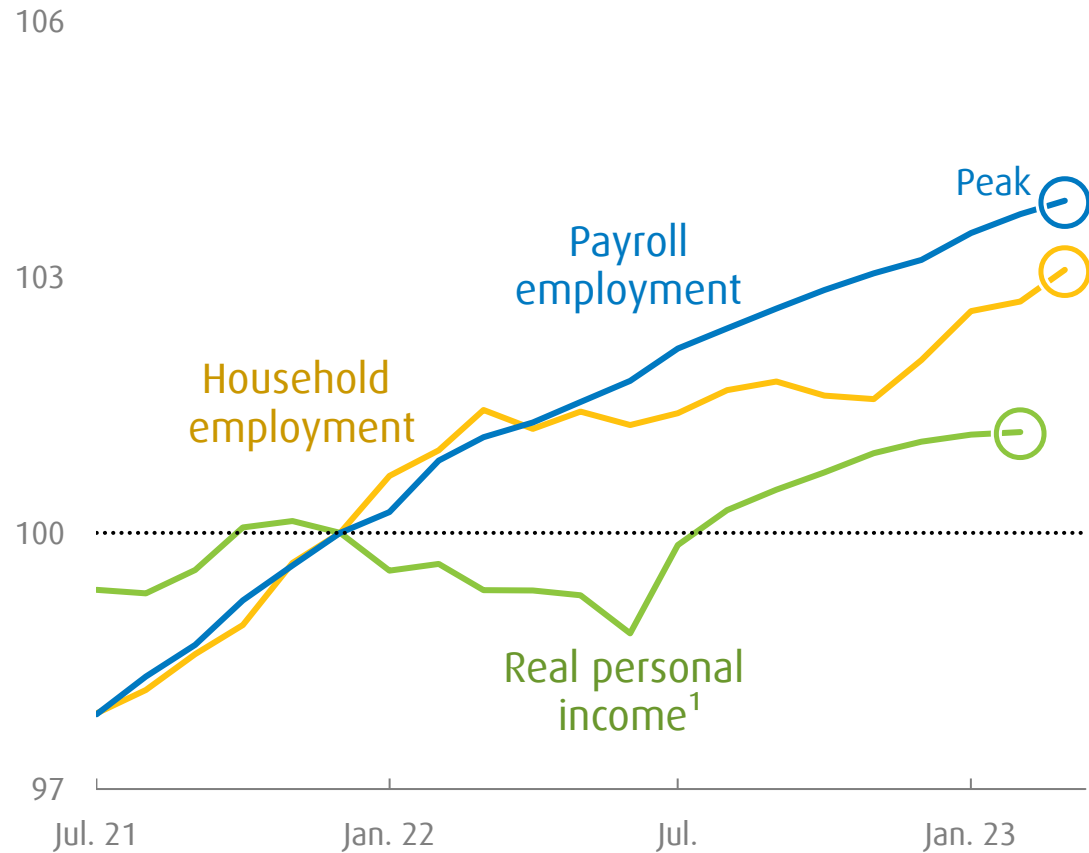
Lagged effects of rate hikes

Banking system stress

Base case scenario: mild contraction

The “official” recession barometer

United States (December 2021 = 100)



Most indicators not yet peaked

¹ Excluding transfer receipts

Labor market to slacken

United States (percent)

Unemployment rate

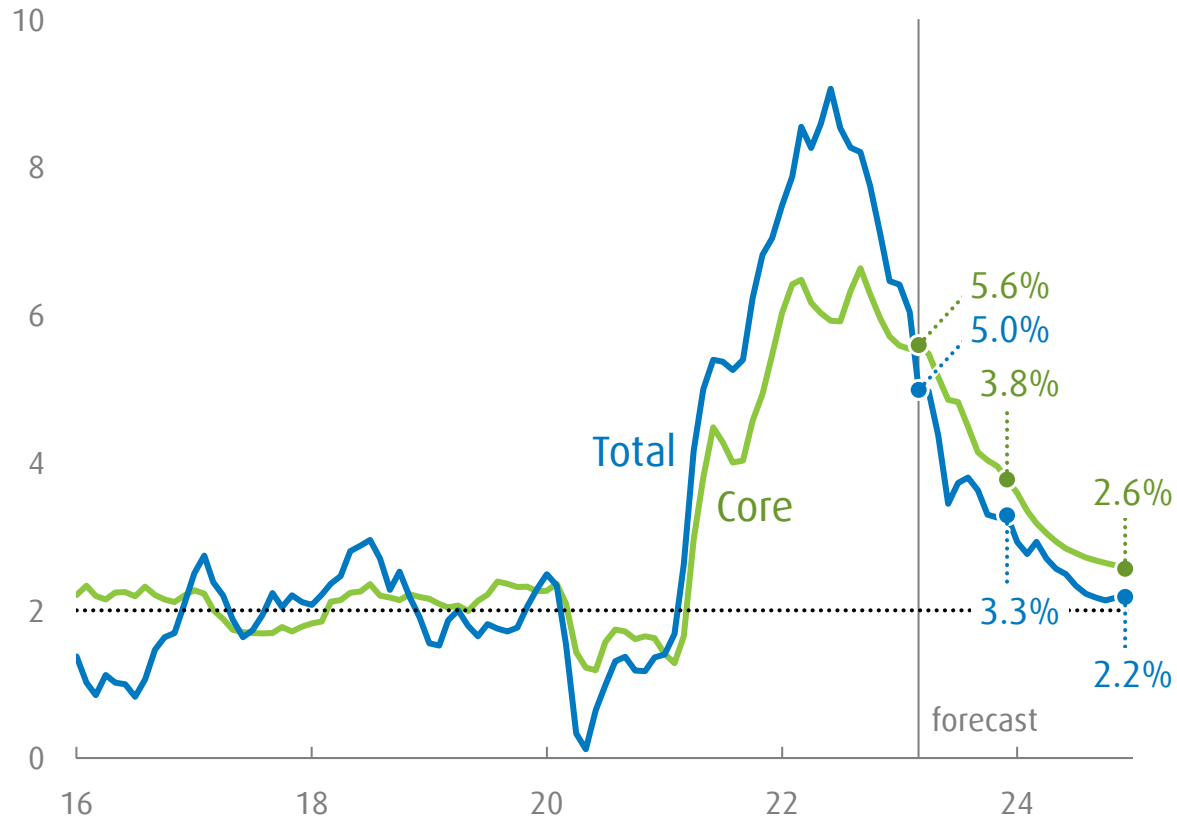


Many unfilled positions chopped but some job losses expected through the summer

Above-target inflation past year-end, but on path to 2% range

United States (y/y % chng)

Consumer price index



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

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

Chronic labor shortages

Questions?

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