National and Regional Economic Update

NCGFOA

March 3, 2023

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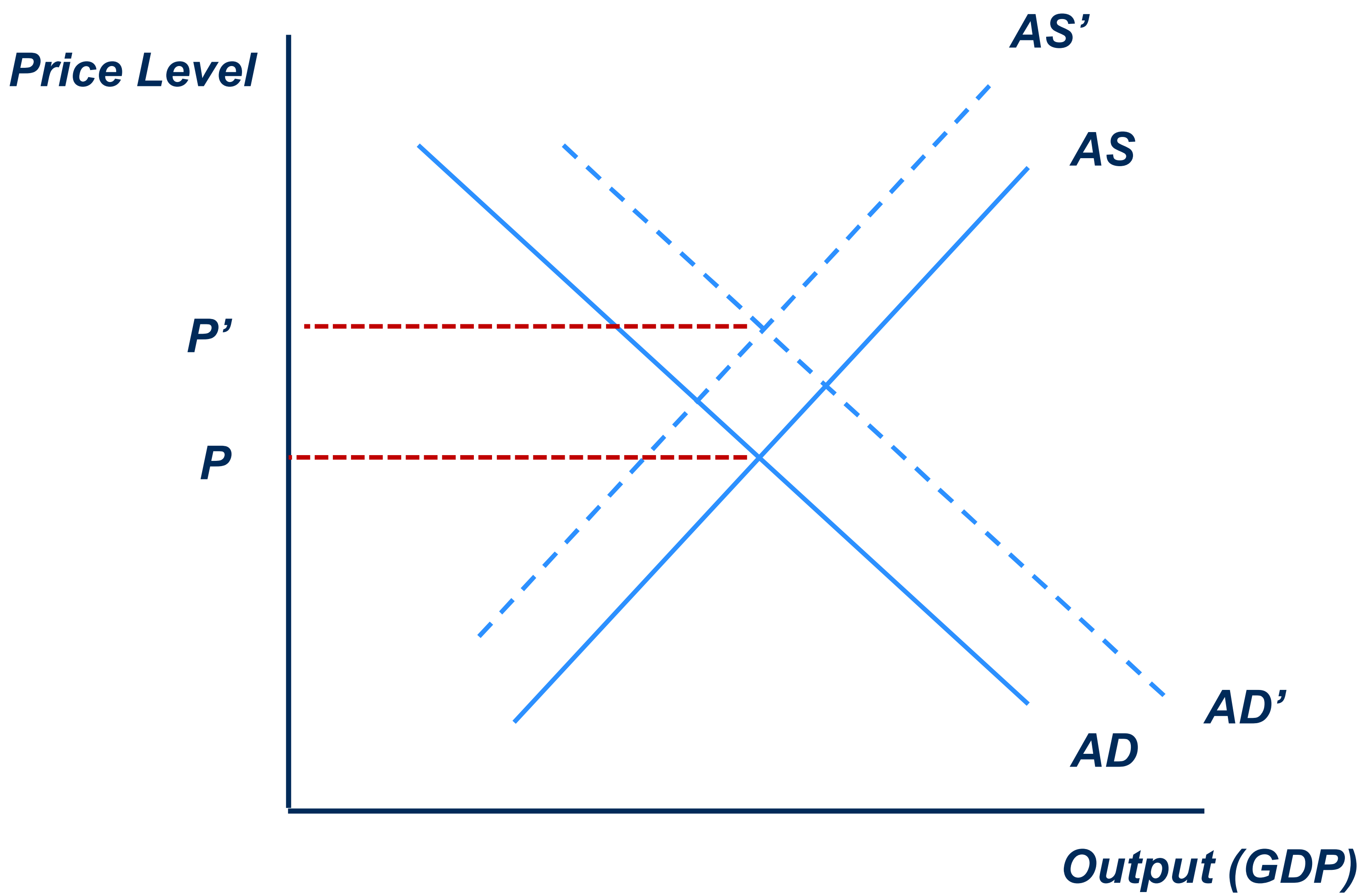
Where have we been?

- Covid resulted in the shutdown of a significant portion of the US and world economies
- Unemployment soared creating hardship for many, even while many firms, especially smaller firms, were threatened with bankruptcy
- Major fiscal support flowed to smaller businesses and households
- Monetary policy was also supportive
- Result was strong demand with constrained supply – a recipe for inflation.

Aggregate demand shock

Aggregate supply shock

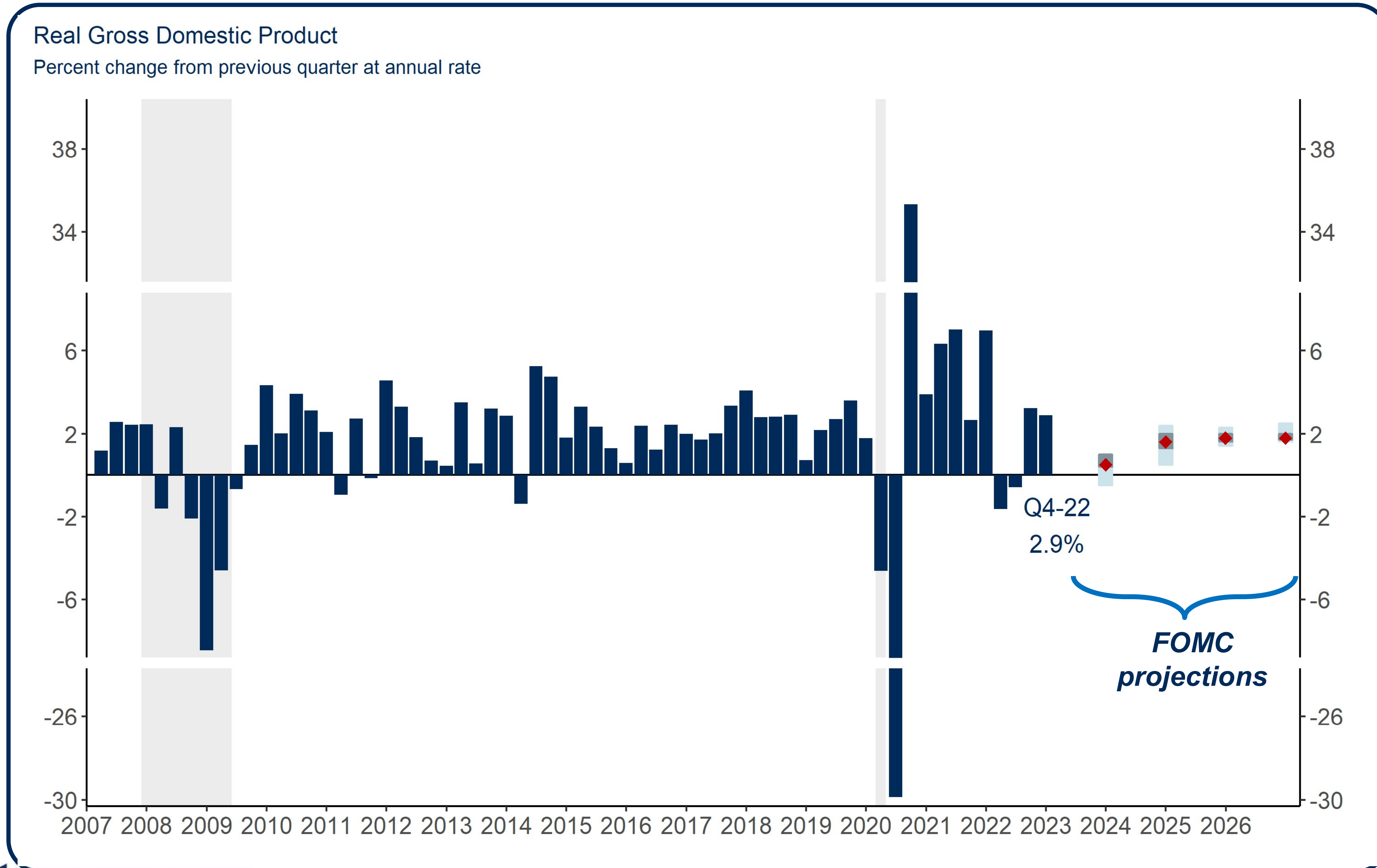
Basic economics



Where are we now?

- Growth is slowing, but consumer spending remains more buoyant than expected
- The labor market remains strong, with (perhaps) some signs that wage growth has peaked and is moderating
  - The January jobs report exceeded expectations, with 517k net new jobs created
- Headline inflation has fallen, but core consumer prices remain stubbornly high
  - Service prices are a focus as they are more closely tied to wage growth
- FOMC raised the policy rate 25 bp to range of 4.50-4.75% at the most recent meeting and the statement noted that "ongoing increases in the target range will be appropriate"

2022 ended well, but 2023 growth expected to be weaker



Source: Bureau of Economic Analysis/Haver Analytics, Federal Reserve Board

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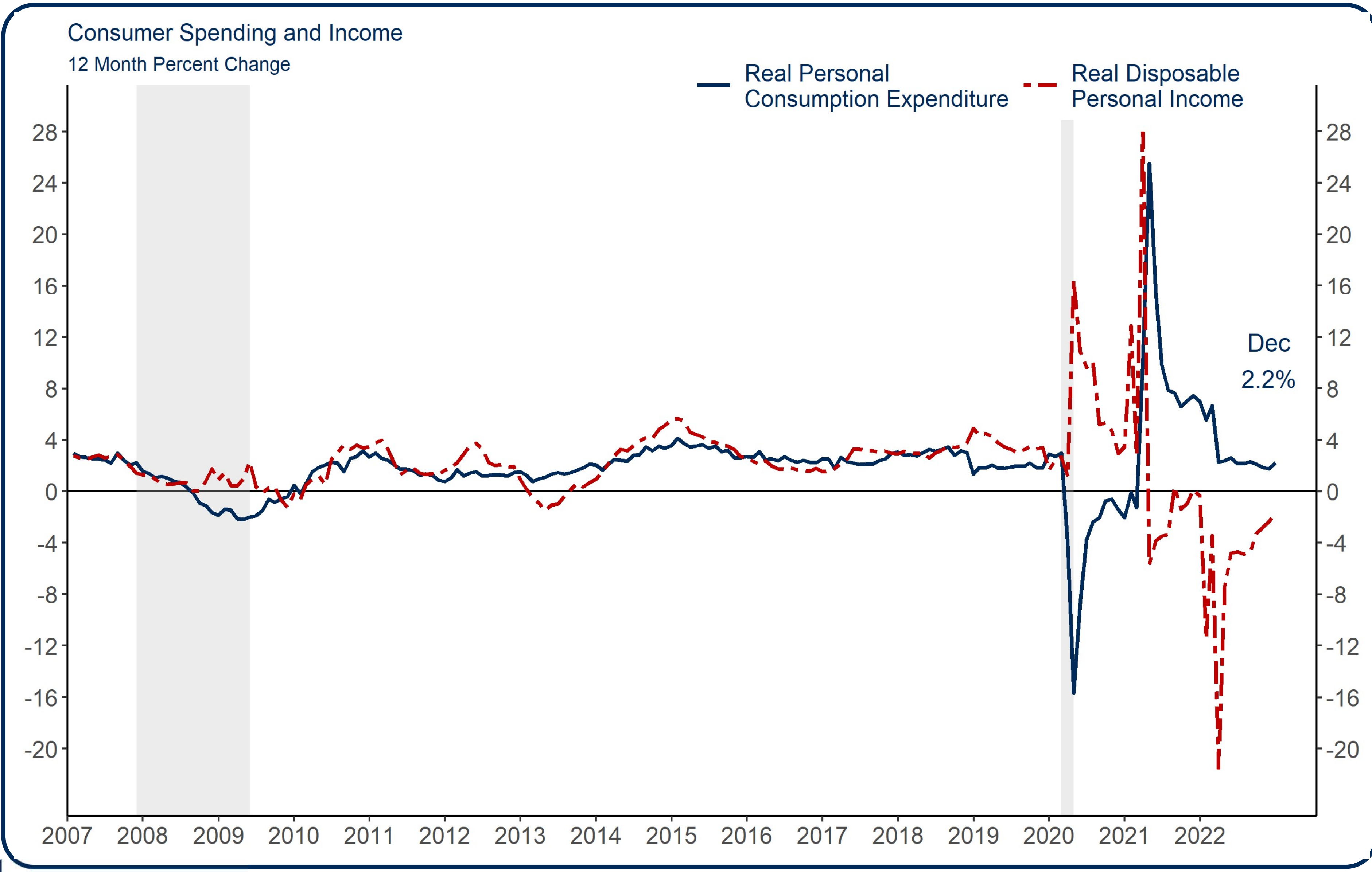
Consumer spending is holding up despite a fall in real income



Source: Bureau of Economic Analysis

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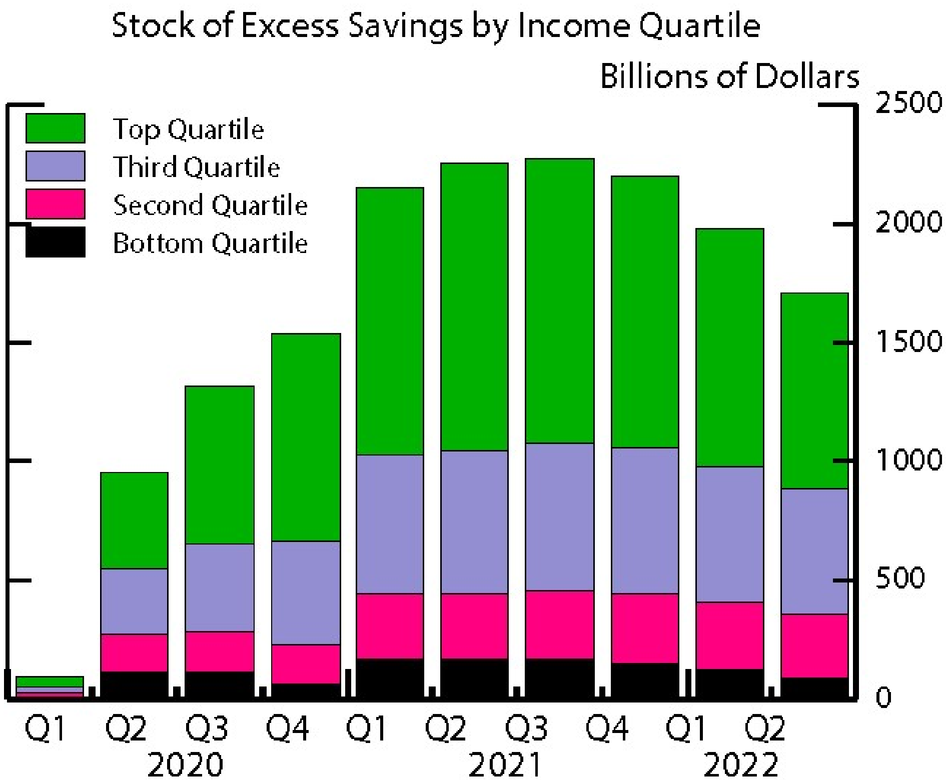
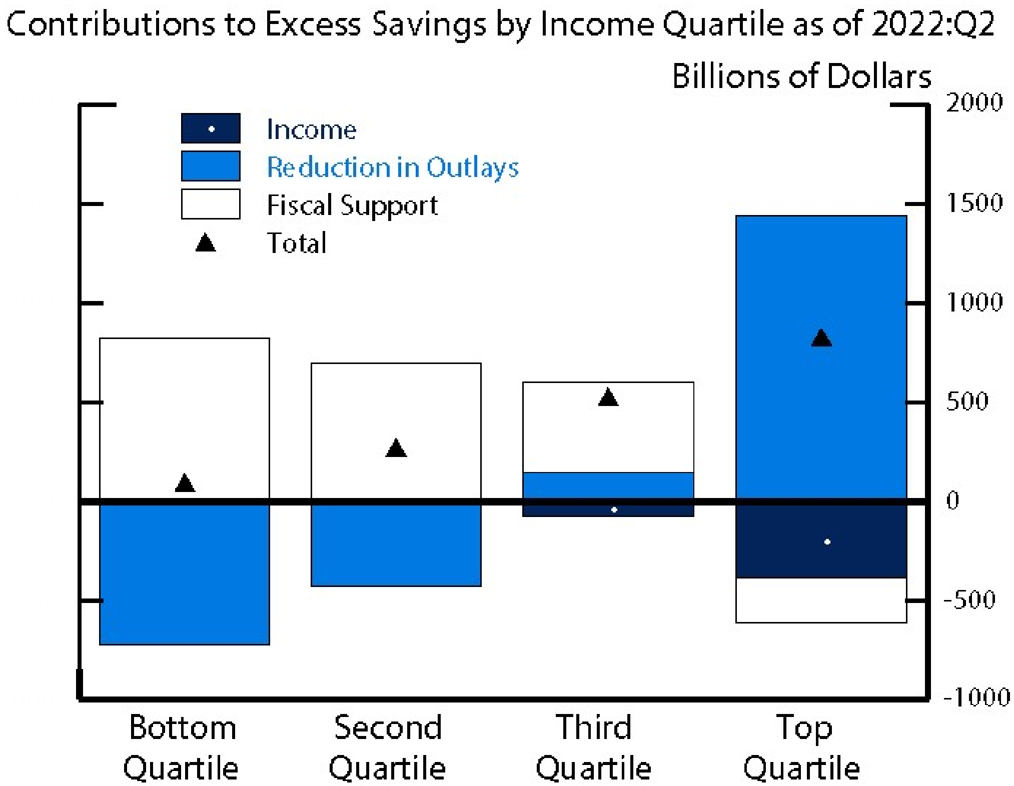
… supported by previous excess savings





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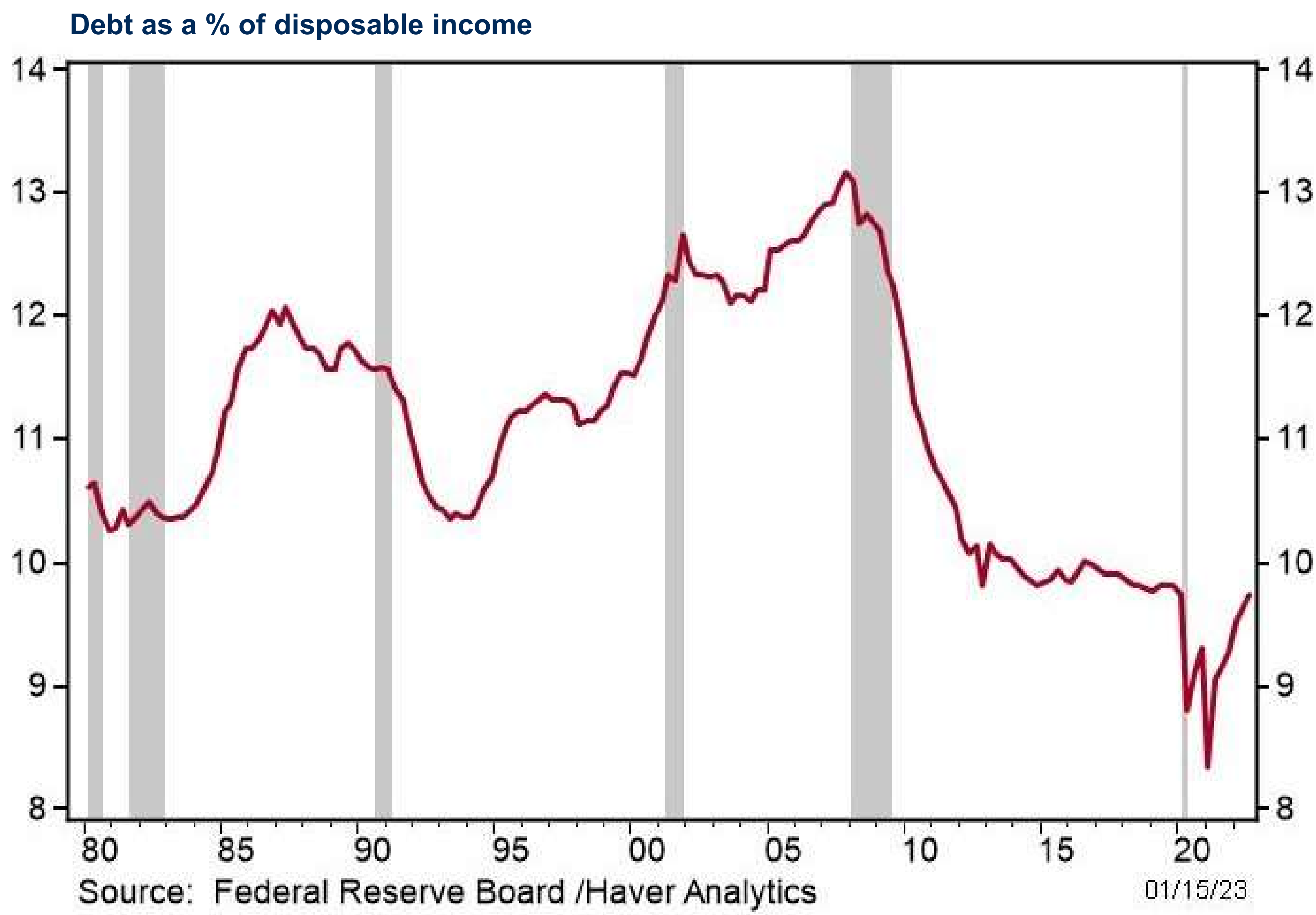
Source: Board of Governors FEDS Notes Oct 21, 2022

… and consumer debt levels are rising, but from historic lows



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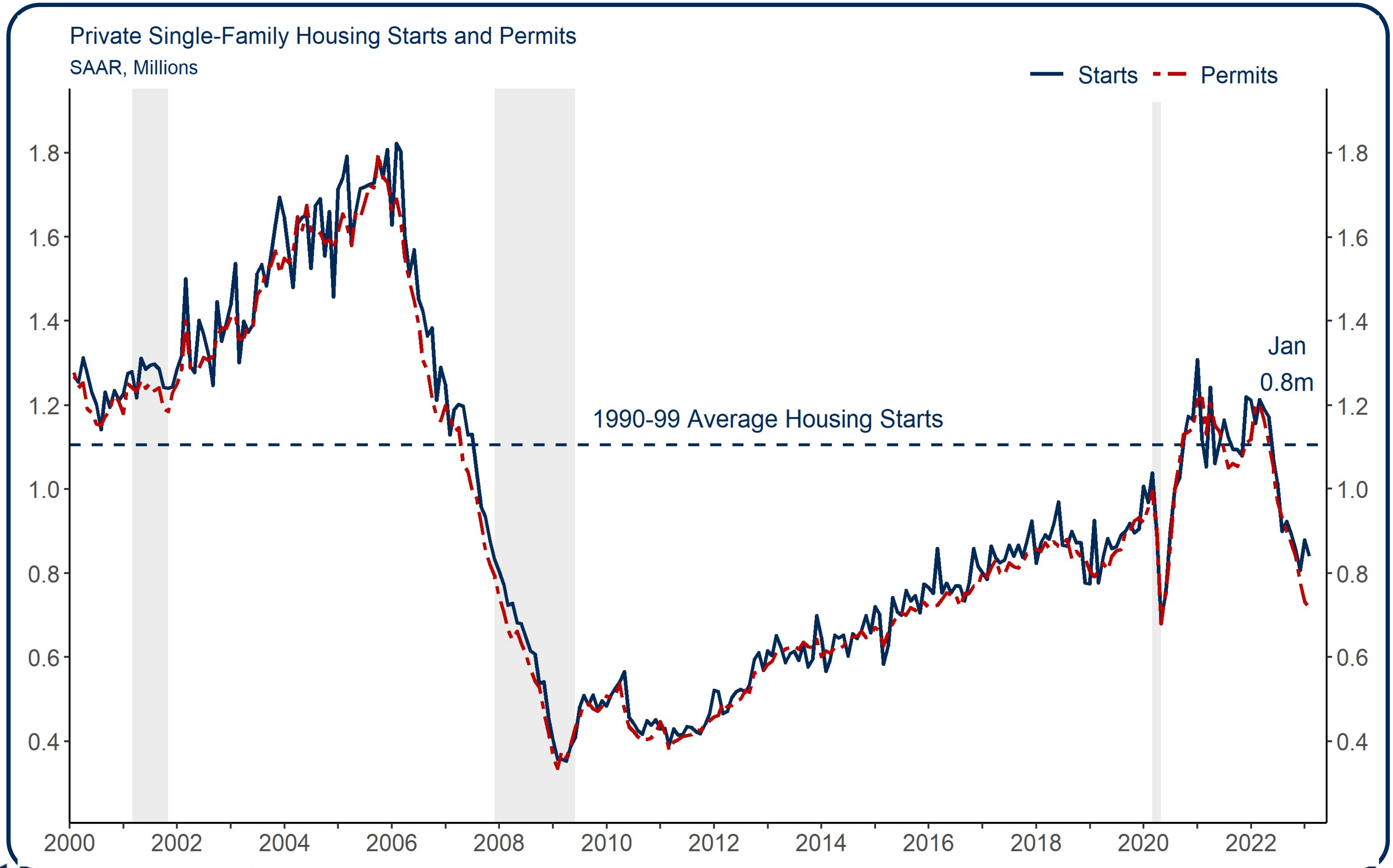
US home building is in recession …



Source: Census Bureau via Haver Analytics

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State Housing

Note: This chart reflects a three-month moving average of months of supply for single-family homes.

Source: Redfin and author's calculations

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State Housing

Note: This chart reflects a three-month moving average of the average sale-to-list price for single-family homes.

Source: Redfin and author's calculations

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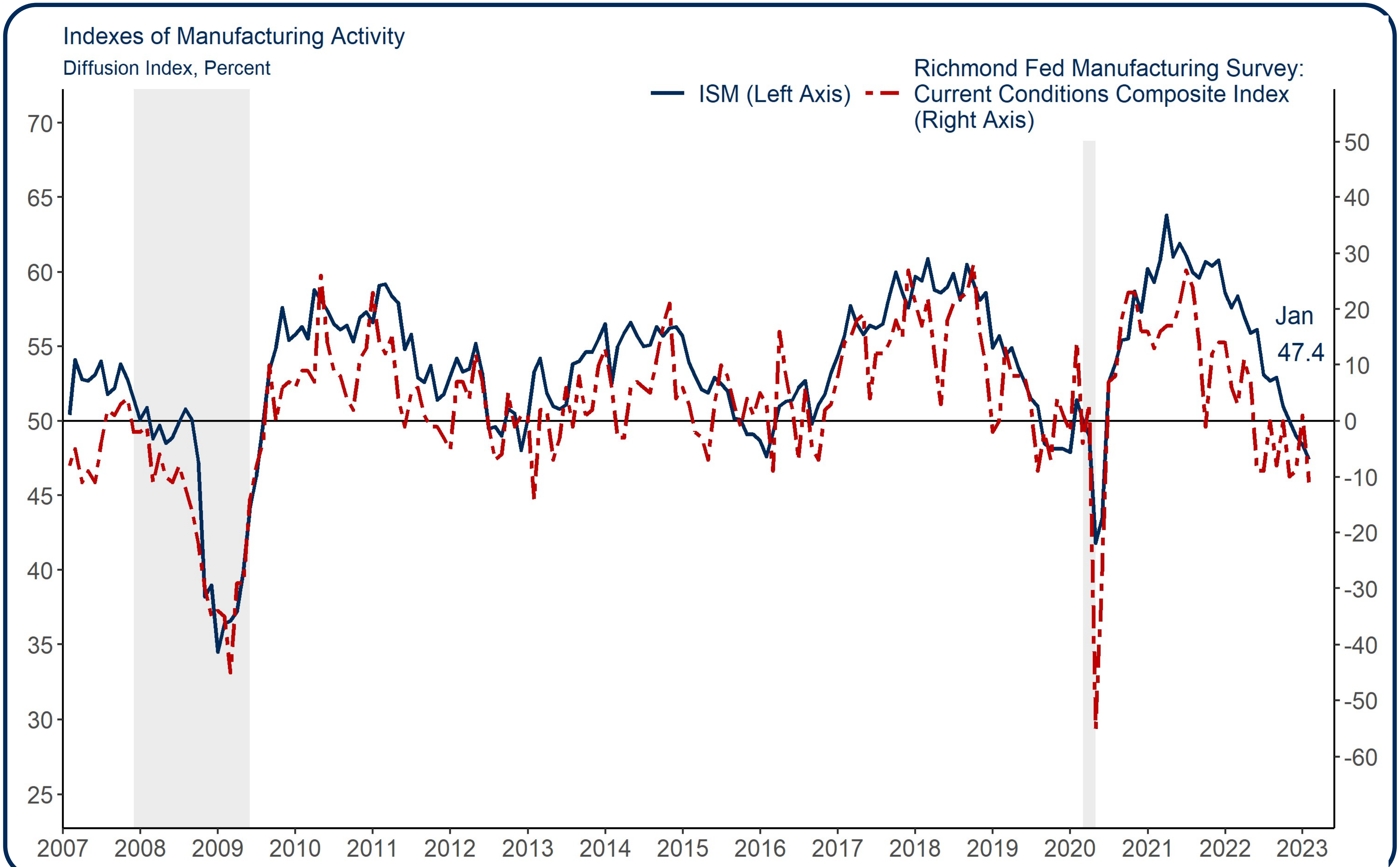
… and manufacturing activity is weakening



Source: Census Bureau via Haver Analytics

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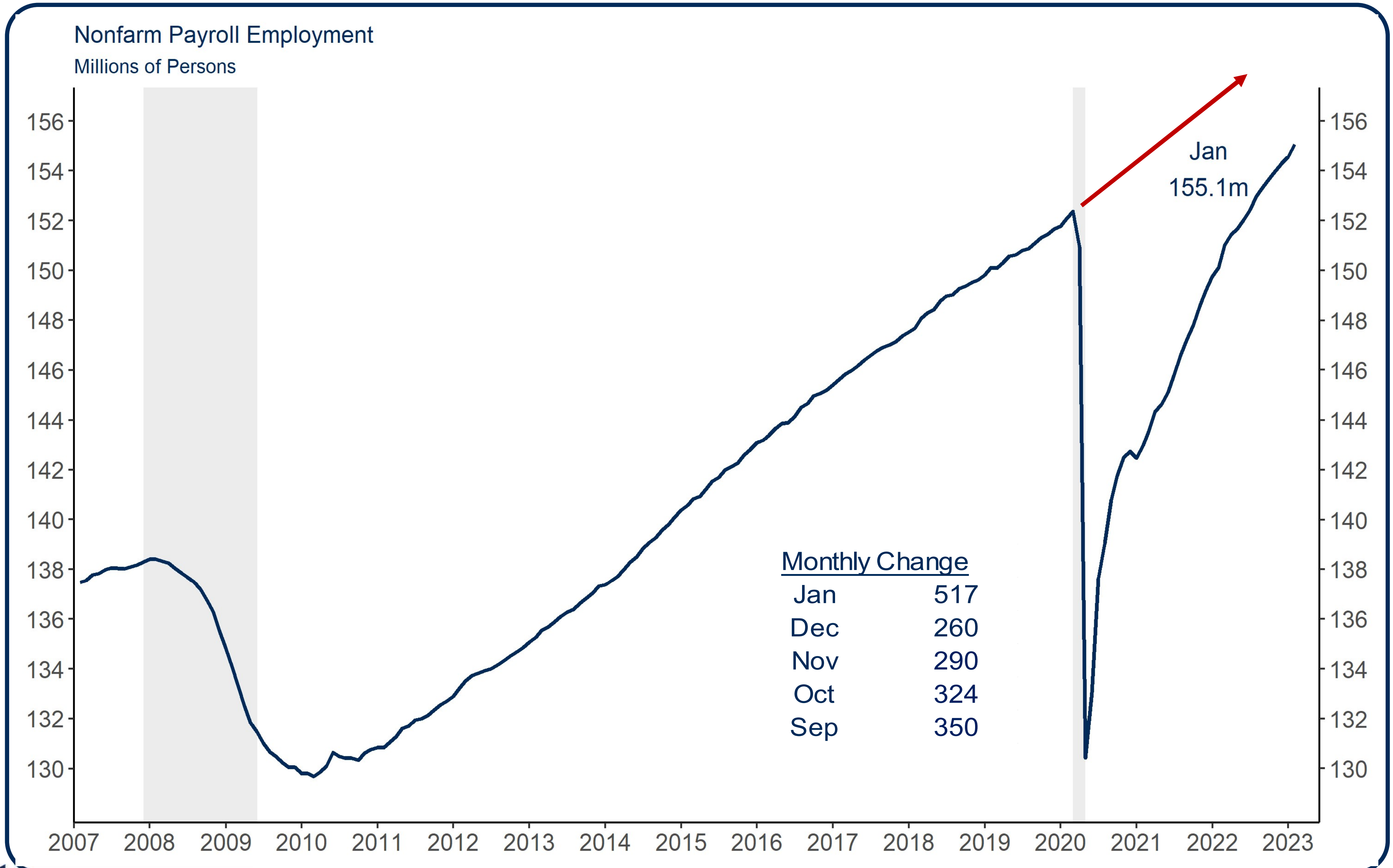
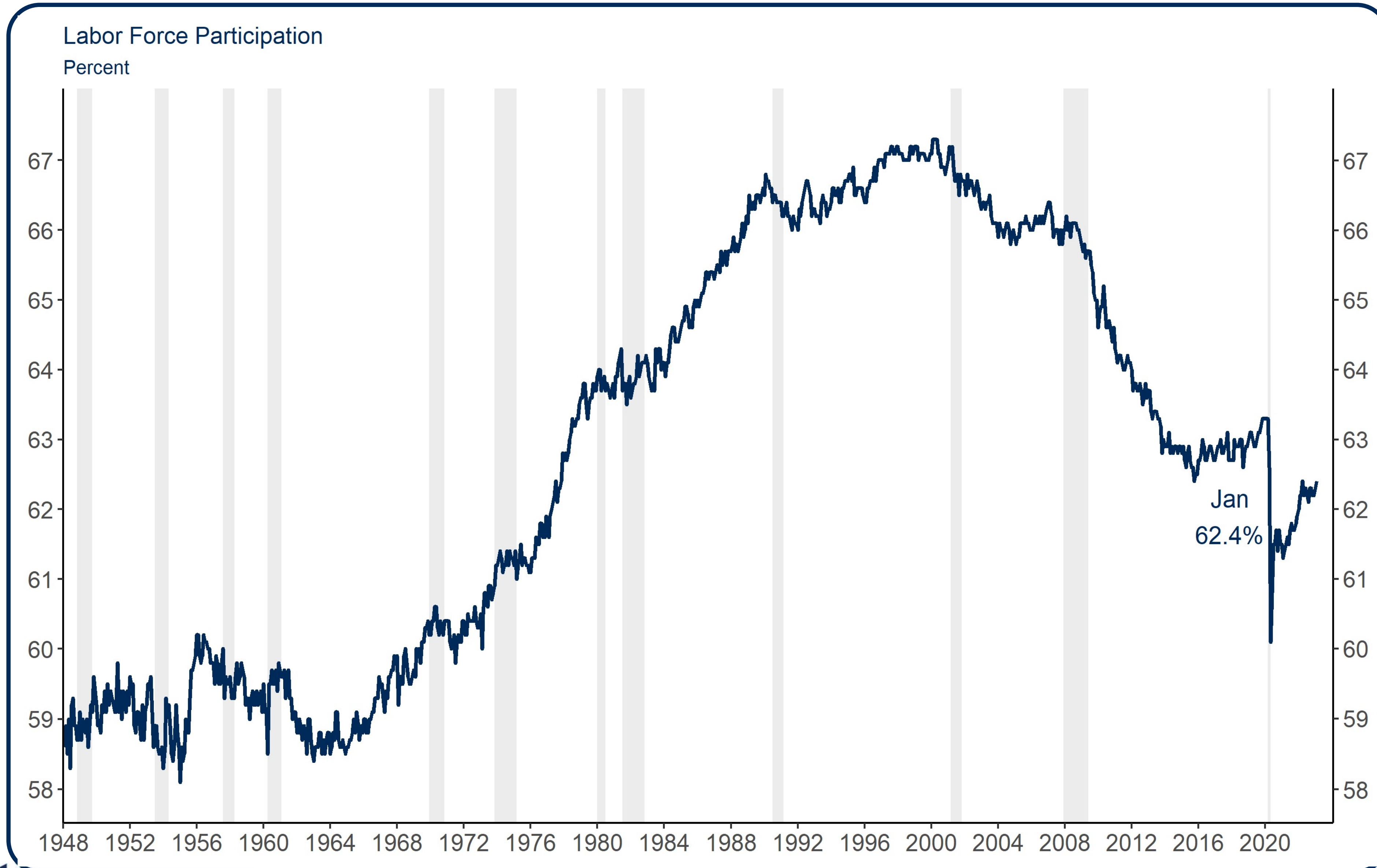
We are now above pre-COVID levels of employment nationally, but we haven't returned to the pre-COVID trajectory



Source: Bureau of Labor Statistics/Haver Analytics

The recovery looks a less impressive when considering labor force participation (LFP)



Source: Bureau of Labor Statistics/Haver Analytics

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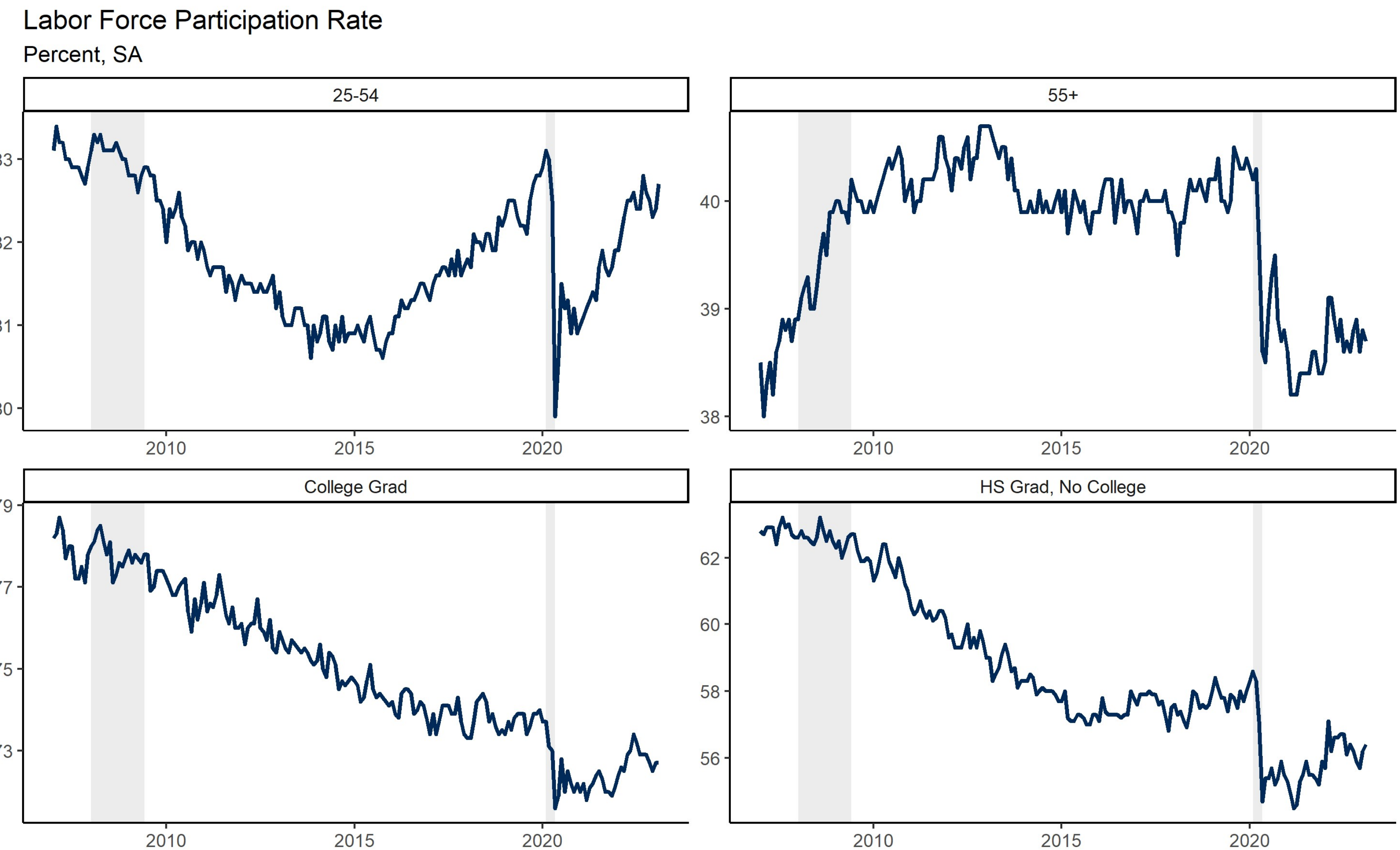
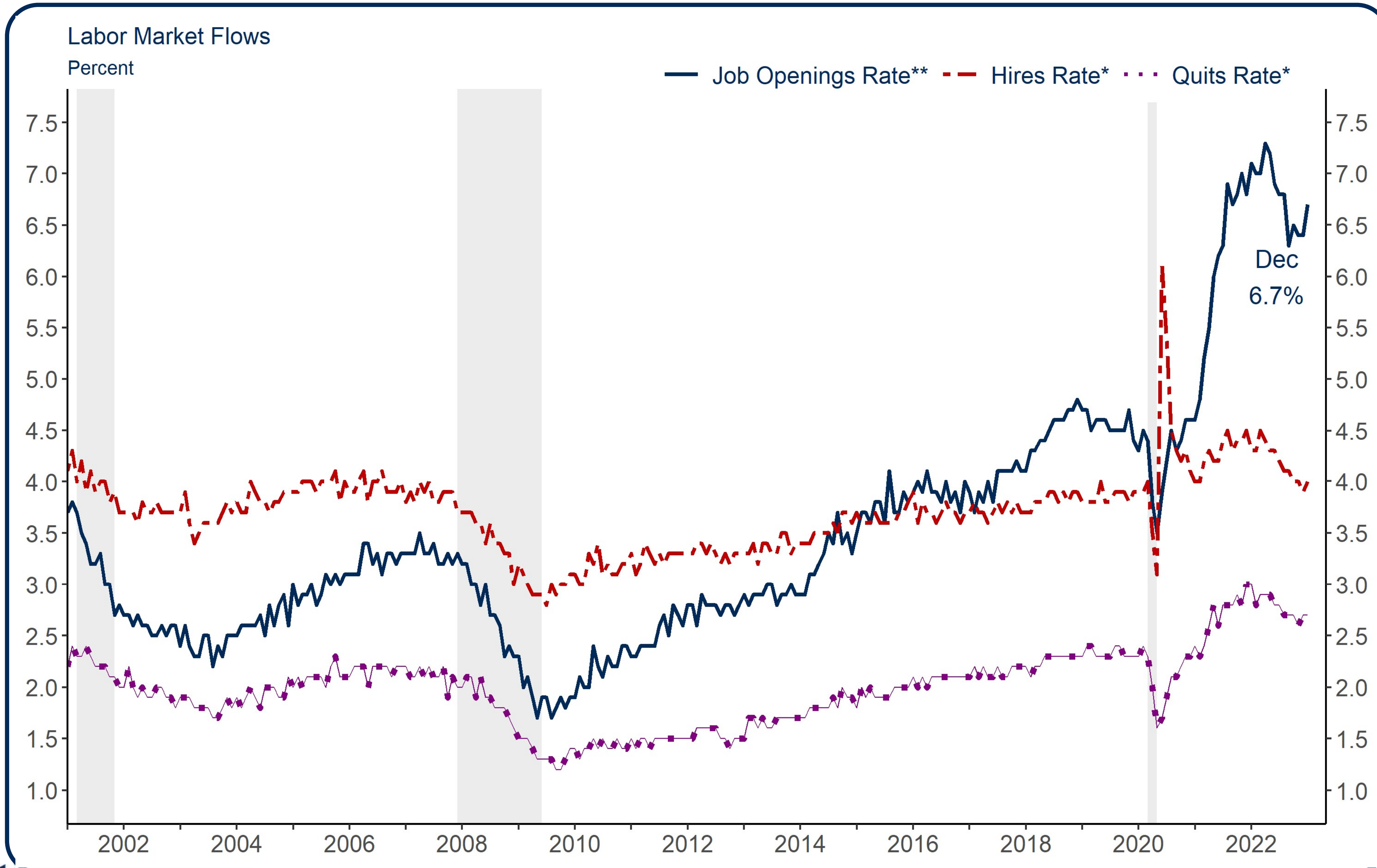
Who has left the labor force? Labor force participation rates by age and education



Job openings and quits remain elevated



Source: Bureau of Labor Statistics/Haver Analytics

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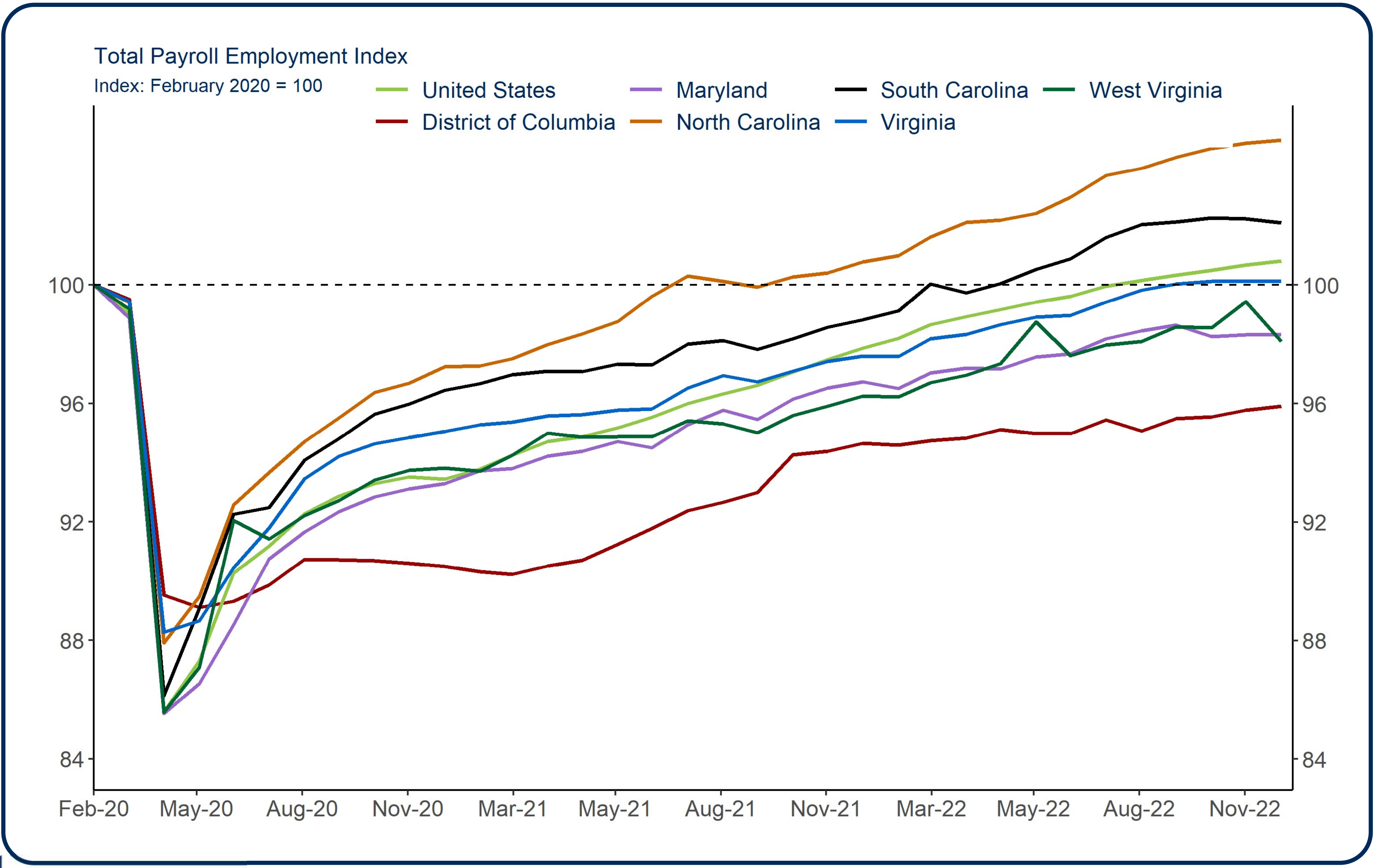
The Carolinas are clearly leading the employment recovery in the Fifth District



Source: Bureau of Labor Statistics/Haver Analytics

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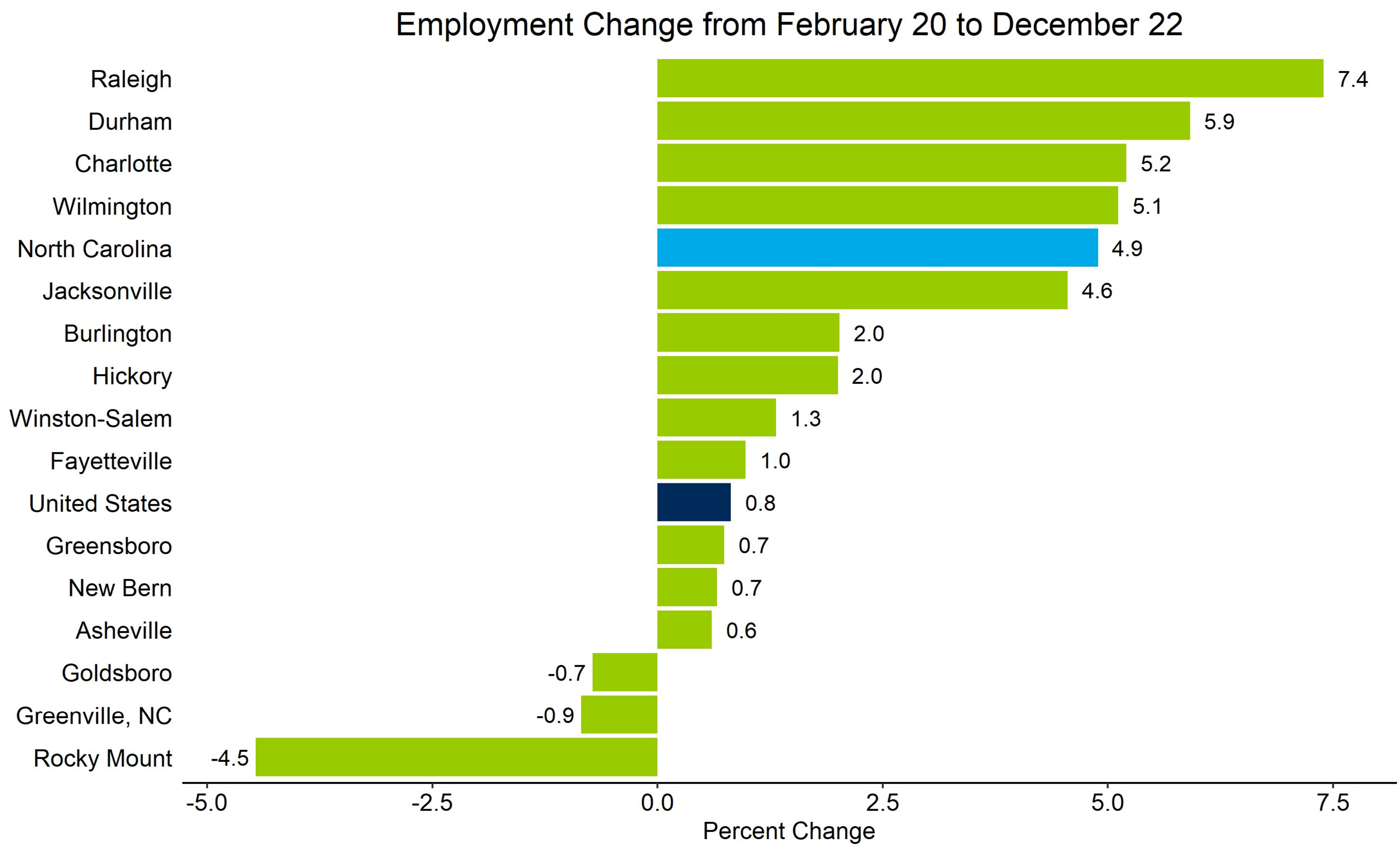
While most NC MSAs are now above pre-COVID employment, a few still lag behind…



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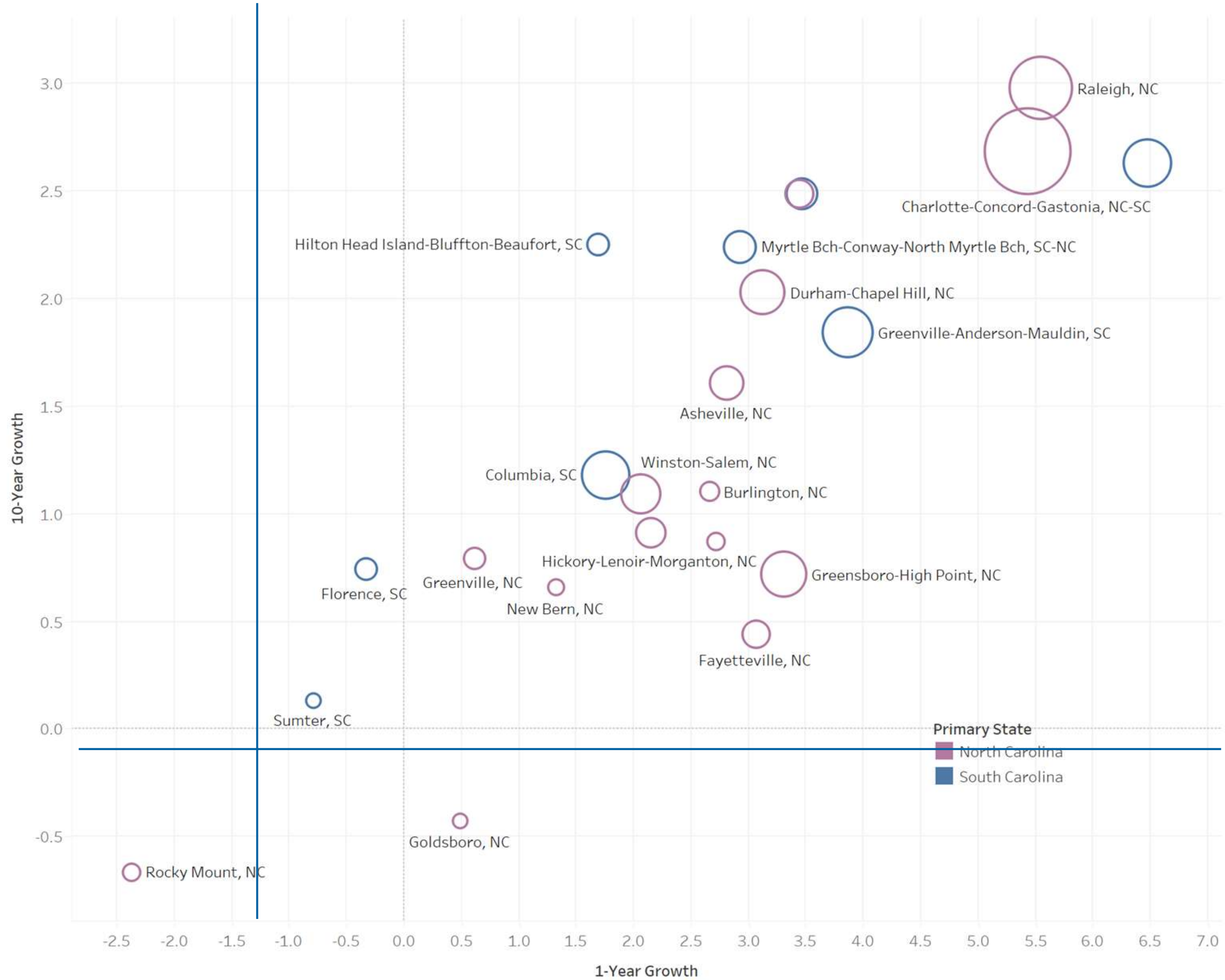
Source: Bureau of Labor Statistics/Haver Analytics

Long-term growth amongst NC and SC MSAs remains almost entirely positive, even considering COVID declines



Source: Bureau of Labor Statistics/Haver Analytics

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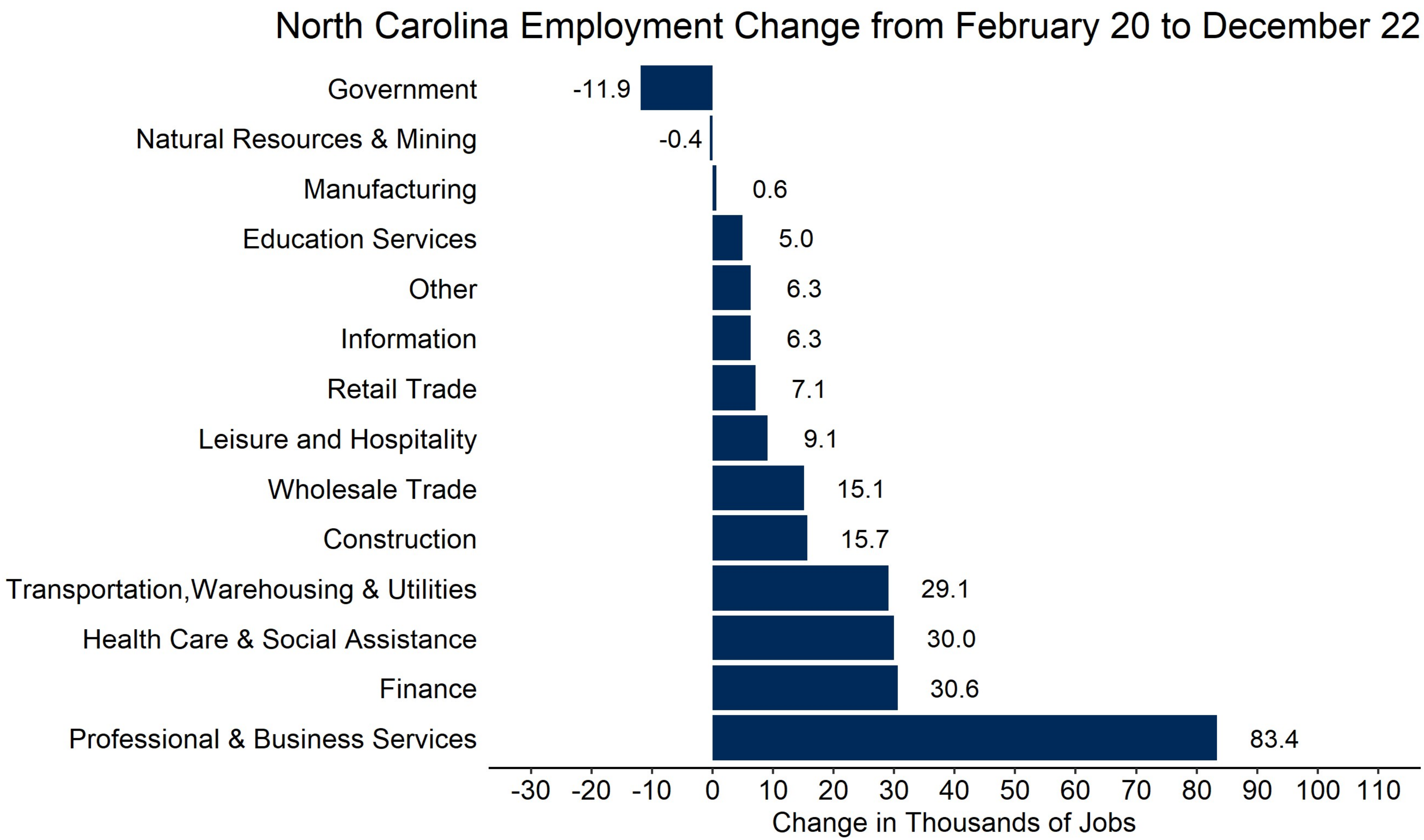
There have been major sectoral shifts in employment



Source: Bureau of Labor Statistics/Haver Analytics

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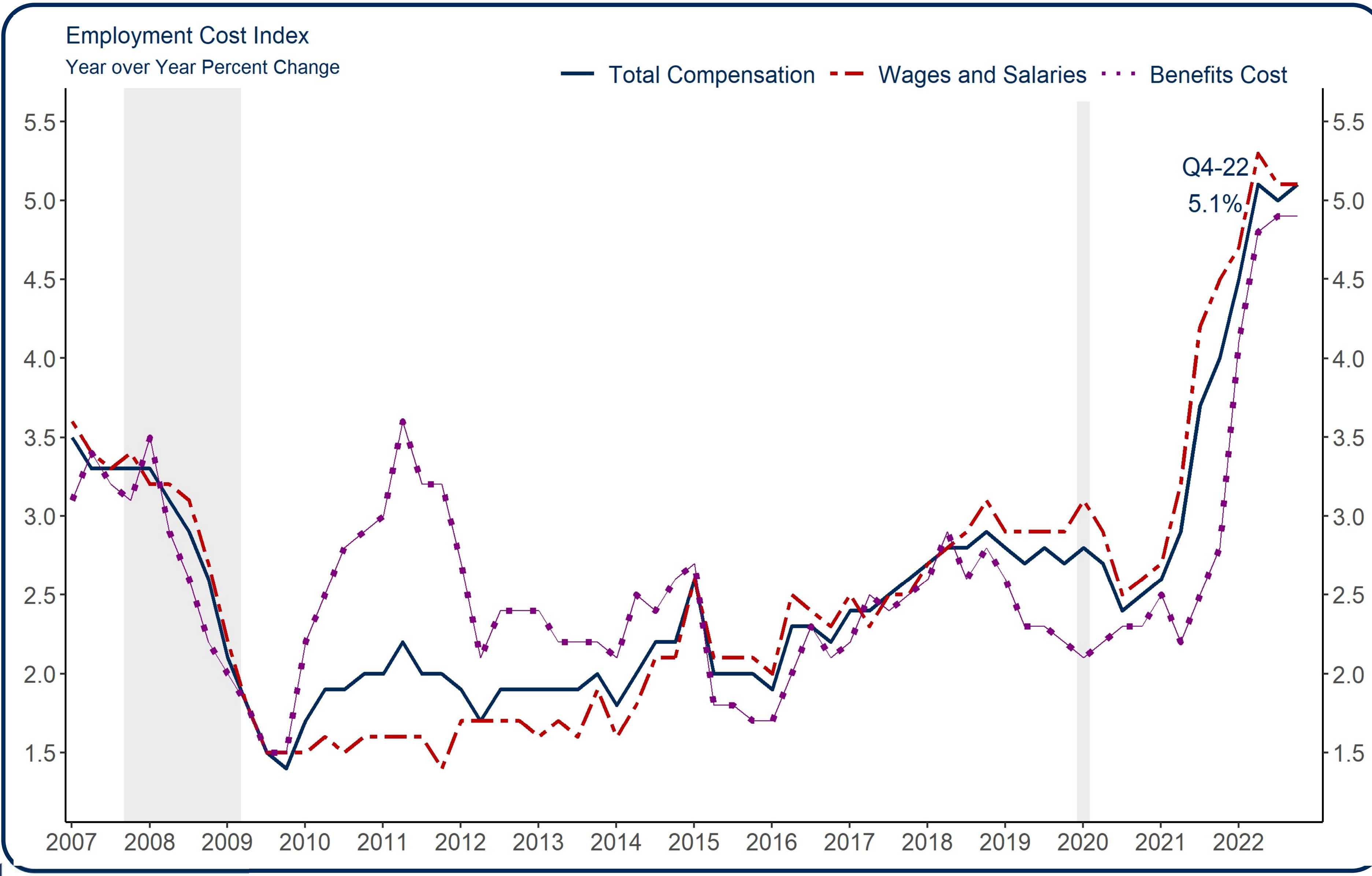
Nominal wage growth may have peaked



Source: FRB Atlanta via Haver Analytics

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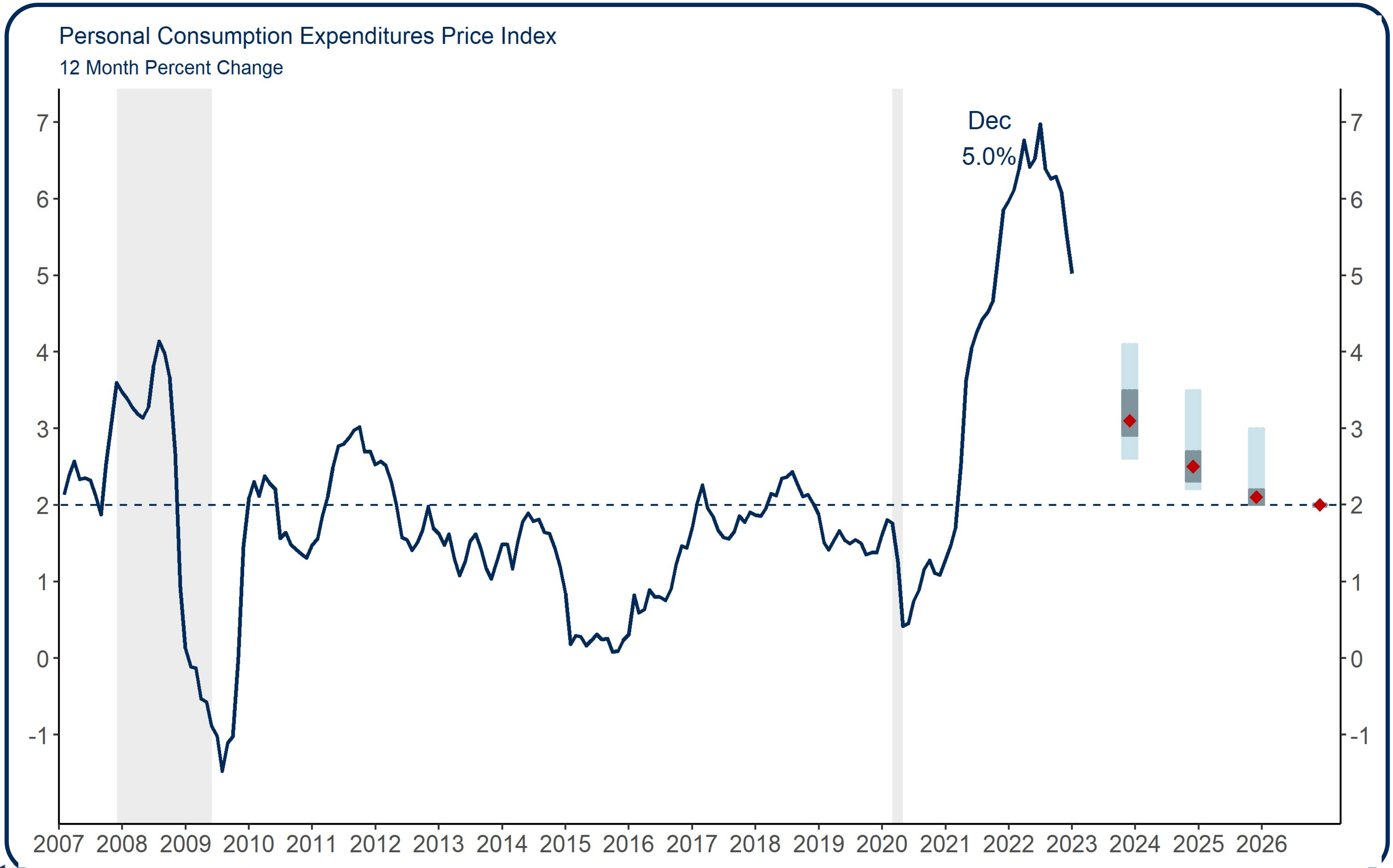
Fed's preferred inflation gauge is moving in the right direction …



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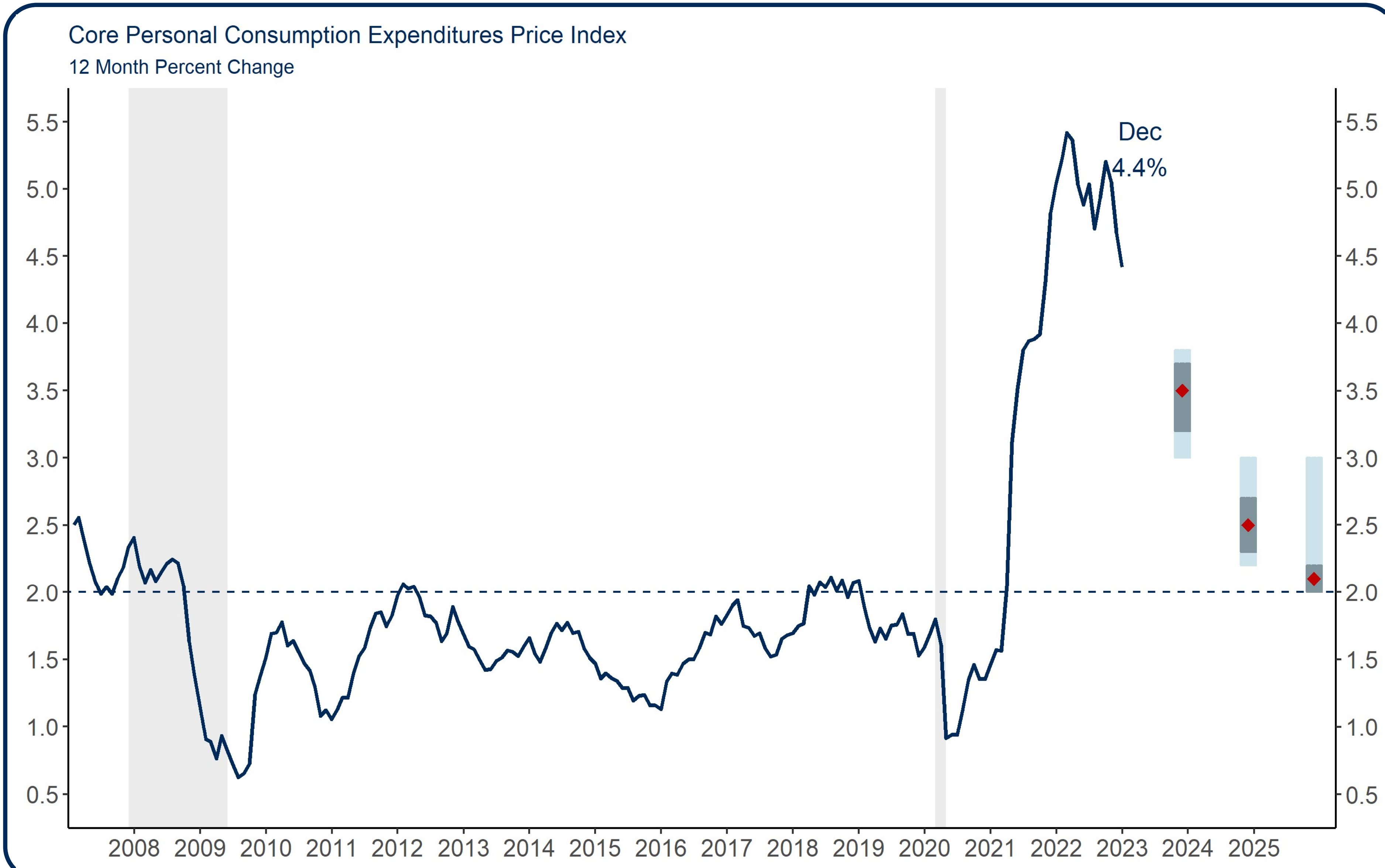
Source: US Census Bureau/Haver Analytics

… though core inflation remains elevated …



Source: Bureau of Labor Statistics via Haver Analytics

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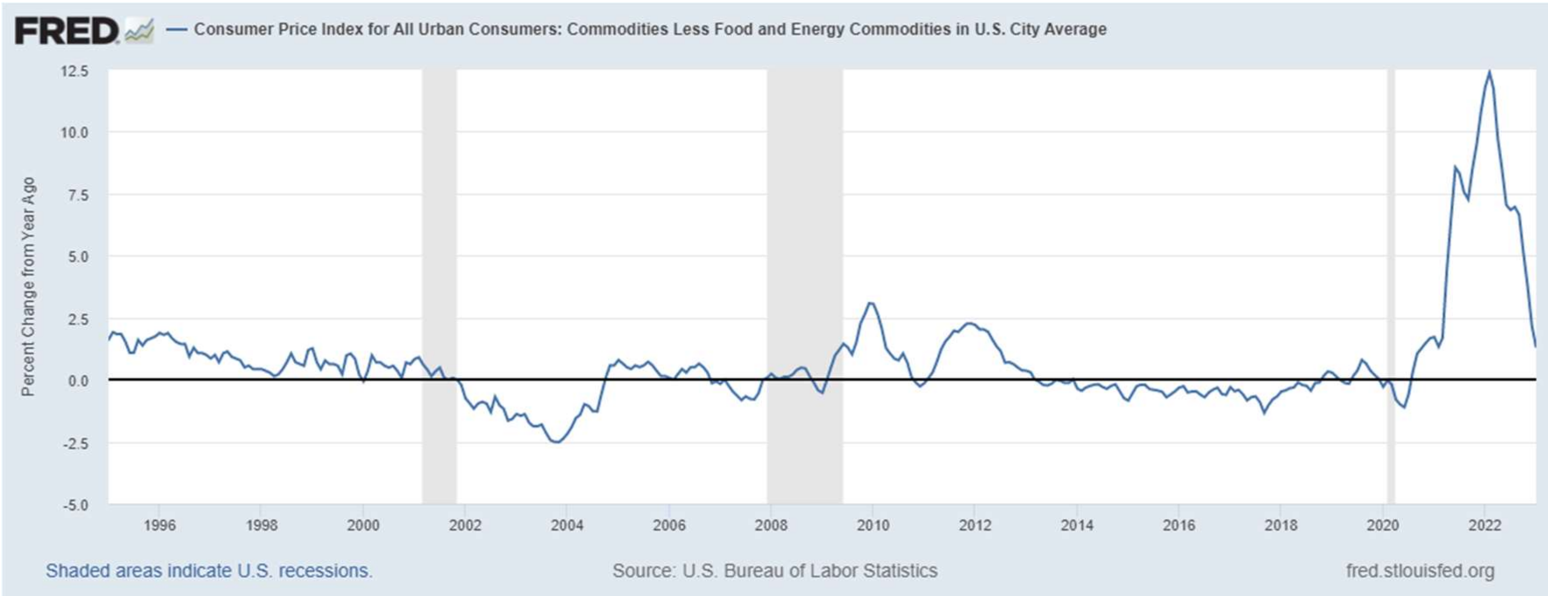
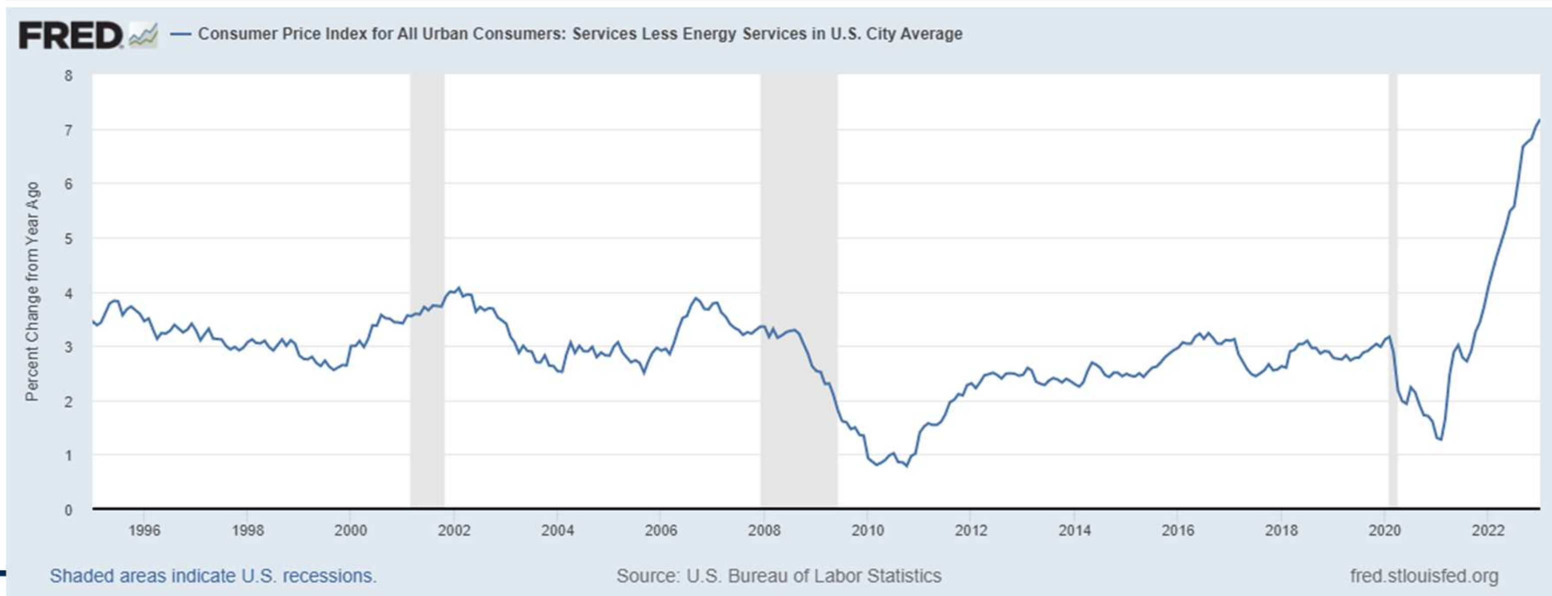
… and is now driven by services inflation





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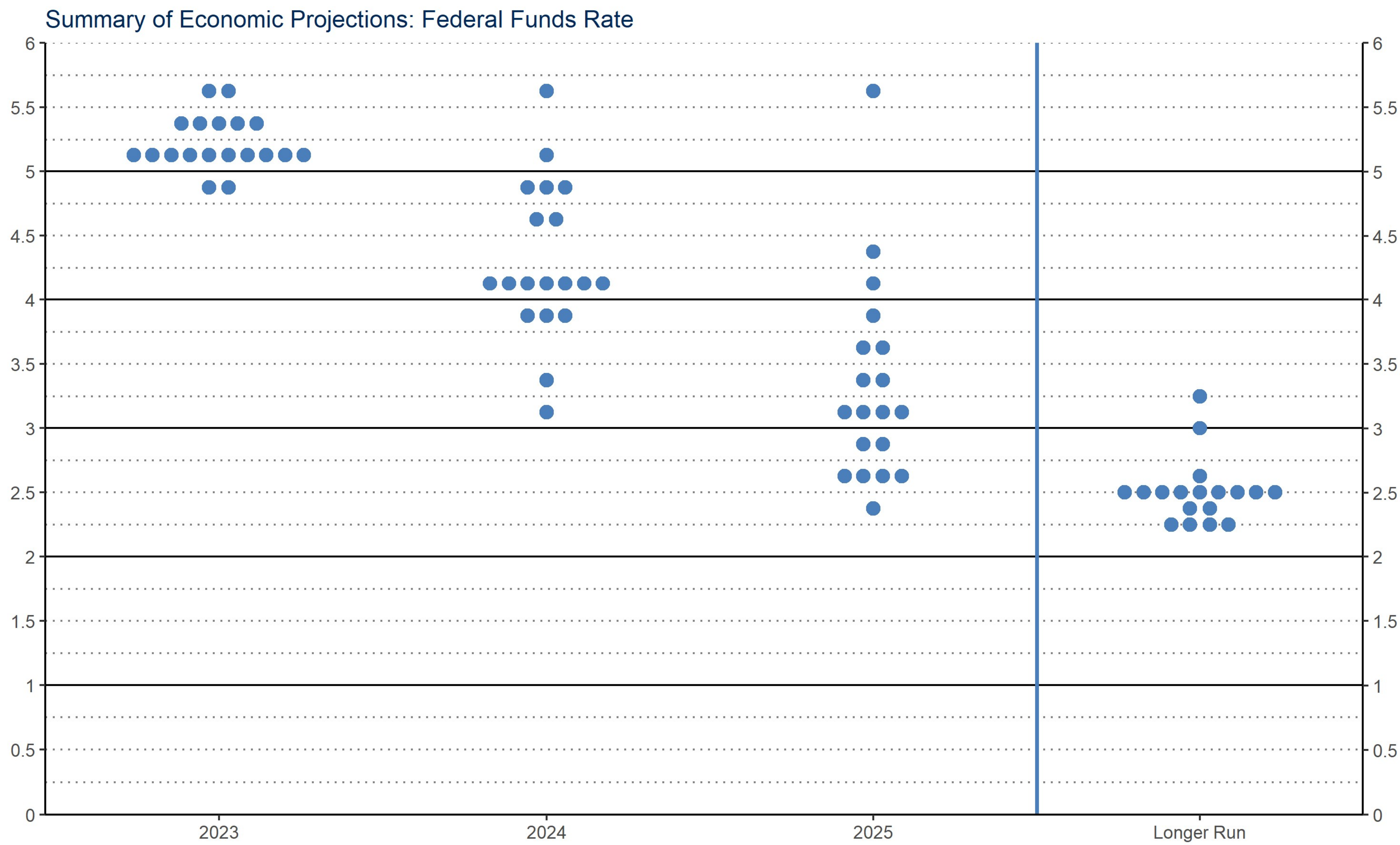
Latest FOMC rate outlook



Source: Board of Governors, December 2022

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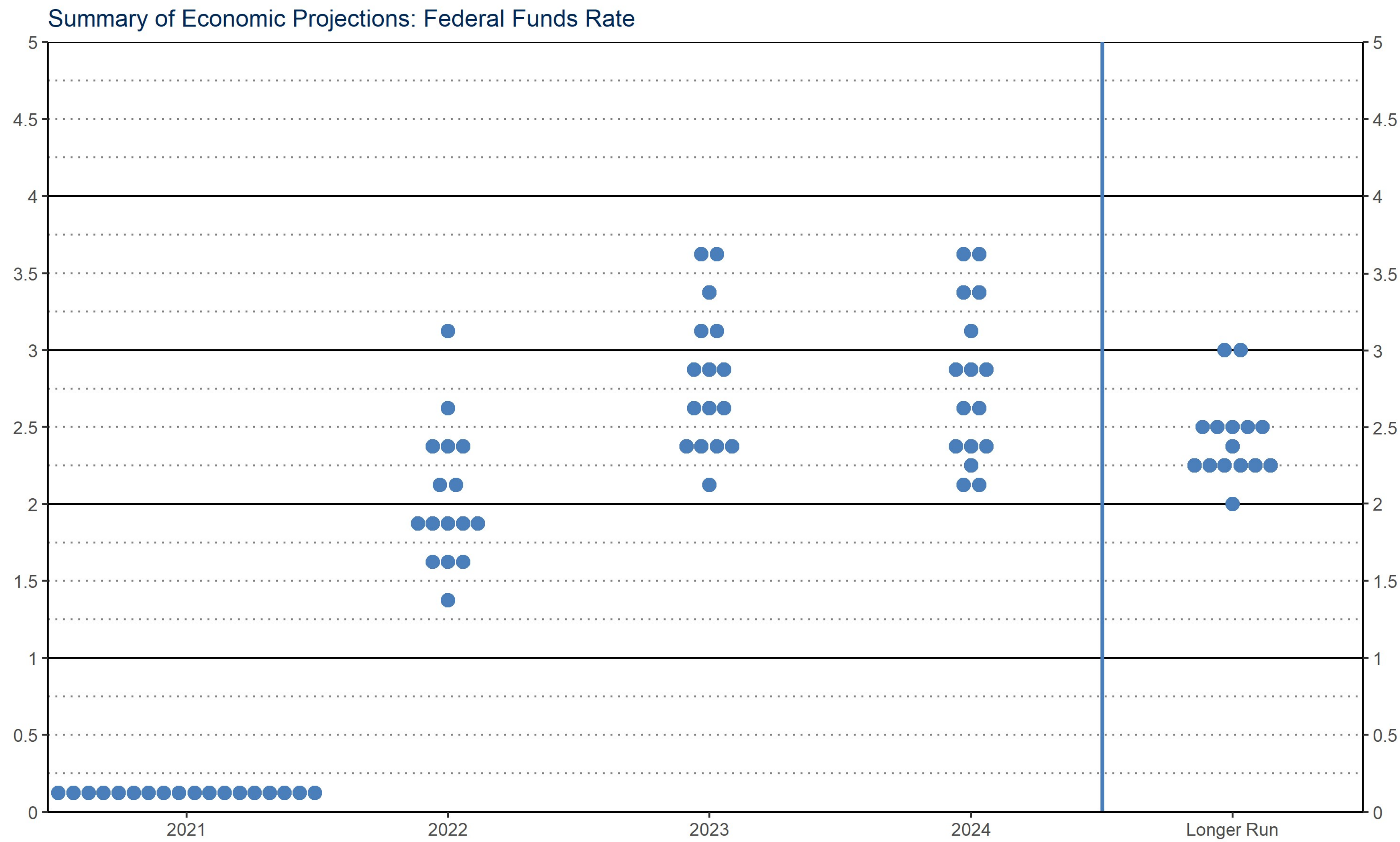
FOMC rate outlook from March 2022



Source: Board of Governors, March 2022

FOMC statement from February 1, 2023

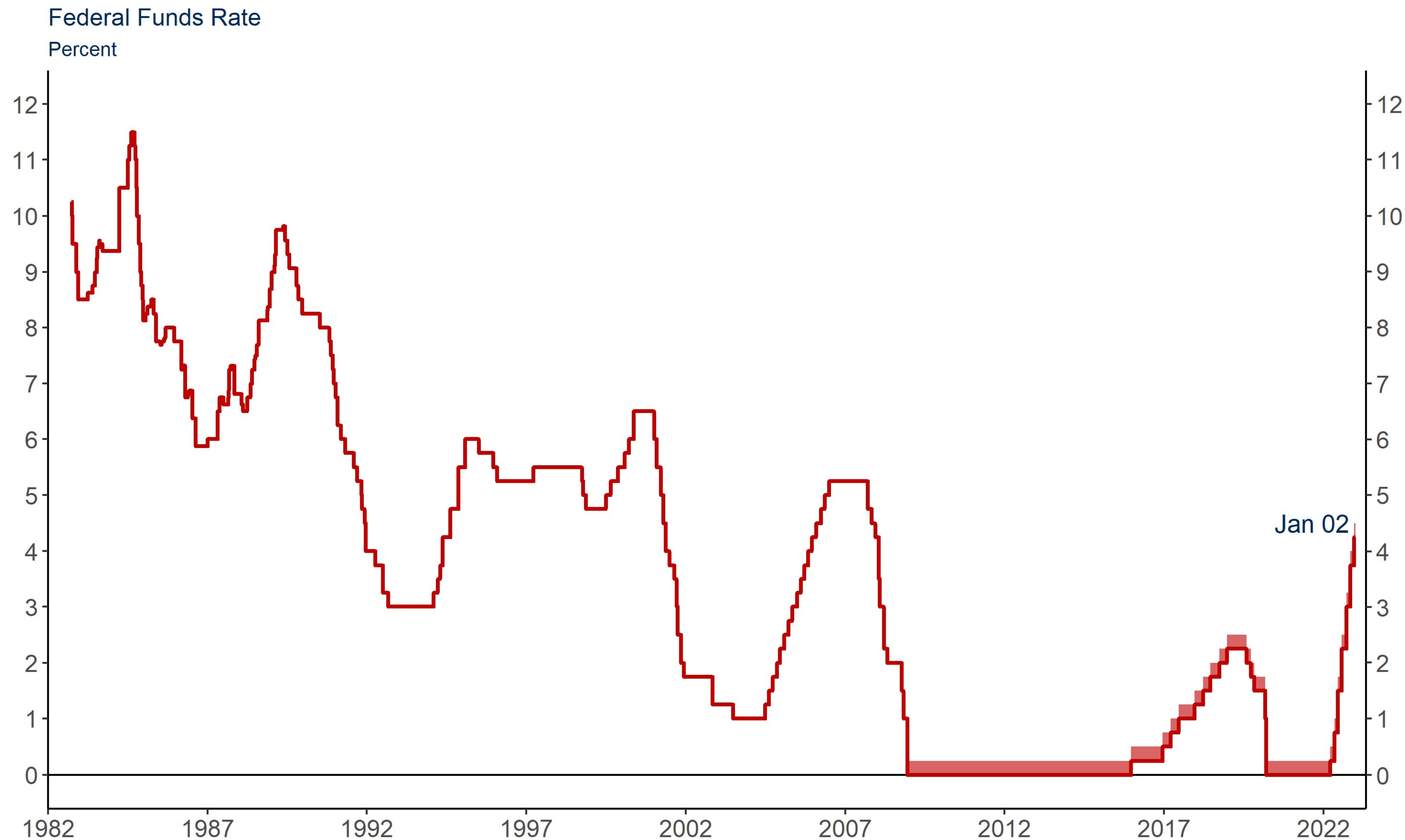
Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation has eased somewhat but remains elevated.

Russia's war against Ukraine is causing tremendous human and economic hardship and is contributing to elevated global uncertainty. The Committee is highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 4-1/2 to 4-3/4 percent. **The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time.** In determining the extent of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

Source: Board of Governors, March 2022

Historical context is important



Source: Federal Reserve Board

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Where do we go from here?

- The FOMC is focused on inflation reduction.
  - Inflation has likely peaked, but the 1970s a reminder to stay the course
  - Last year was about removing accommodation, now it’s a question of how much restraint demand may still need.
  - Ongoing resolution of supply chain issues would help, too

- 2023 is forecasted to be roughly flat overall, with a number of salient risks that could alter that outlook.
  - Geo-political issues, especially the situation in Ukraine
  - Other potential supply chain disruptors
  - China reopening could boost growth and inflation
  - Can Congress navigate the debt ceiling?

- North Carolina will fare better than the US

Questions/Comments?

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