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# Economic Outlook

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*Opinions expressed are those of the authors and do not necessarily reflect those of the Federal Reserve Bank of St. Louis or the Federal Reserve System.*

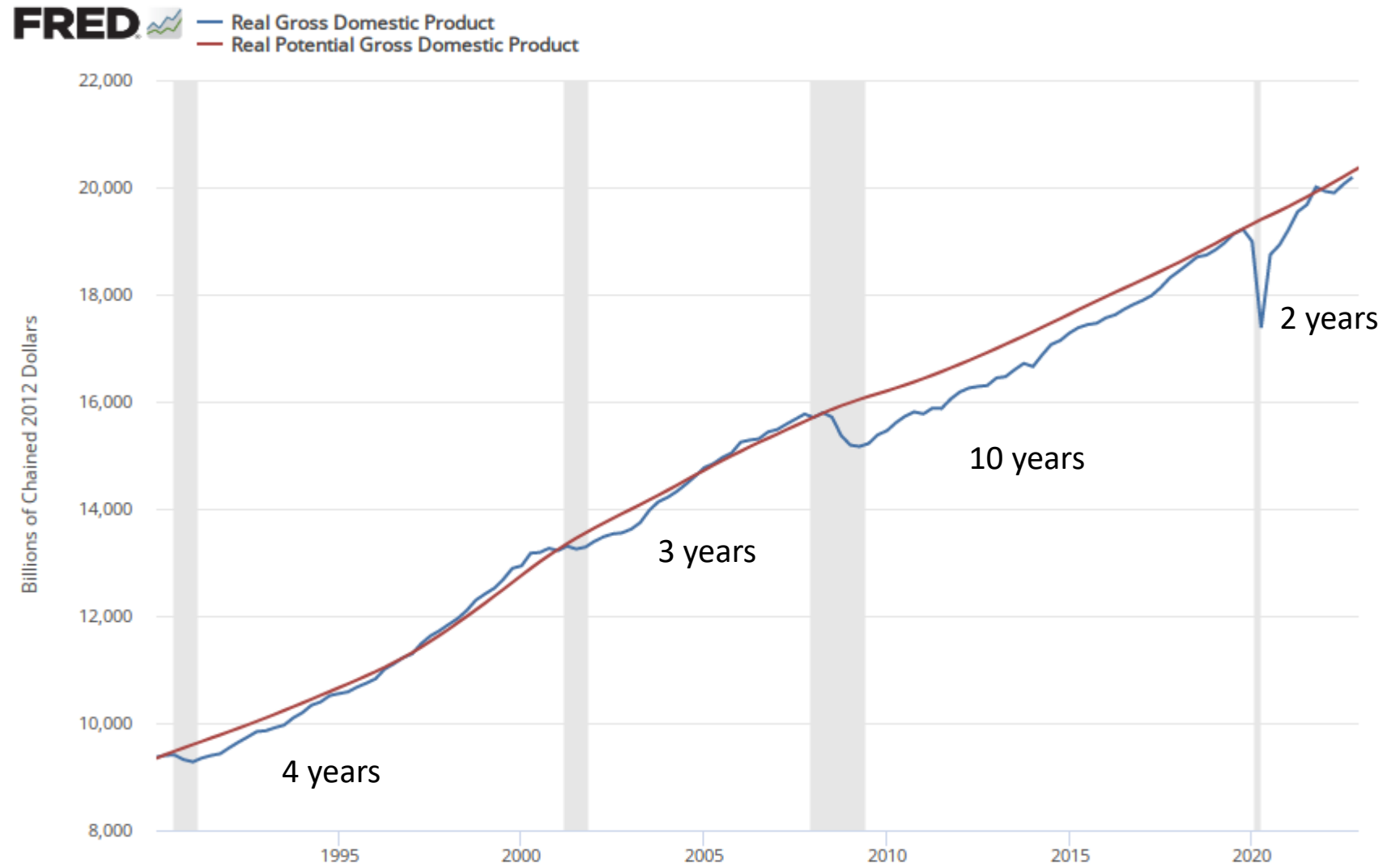
# Summary

- Recent developments
- Current economic conditions
- 2024 projections and interest rate outlook

# Where we stand

- Concerns about recession pushed forward
- Labor market remains strong; some slight recent easing
- Concern about effect of interest rate hikes on commercial real estate and manufacturing sectors
- Inflation slowing but price pressures remain

# Economy surges back after pandemic shock - F



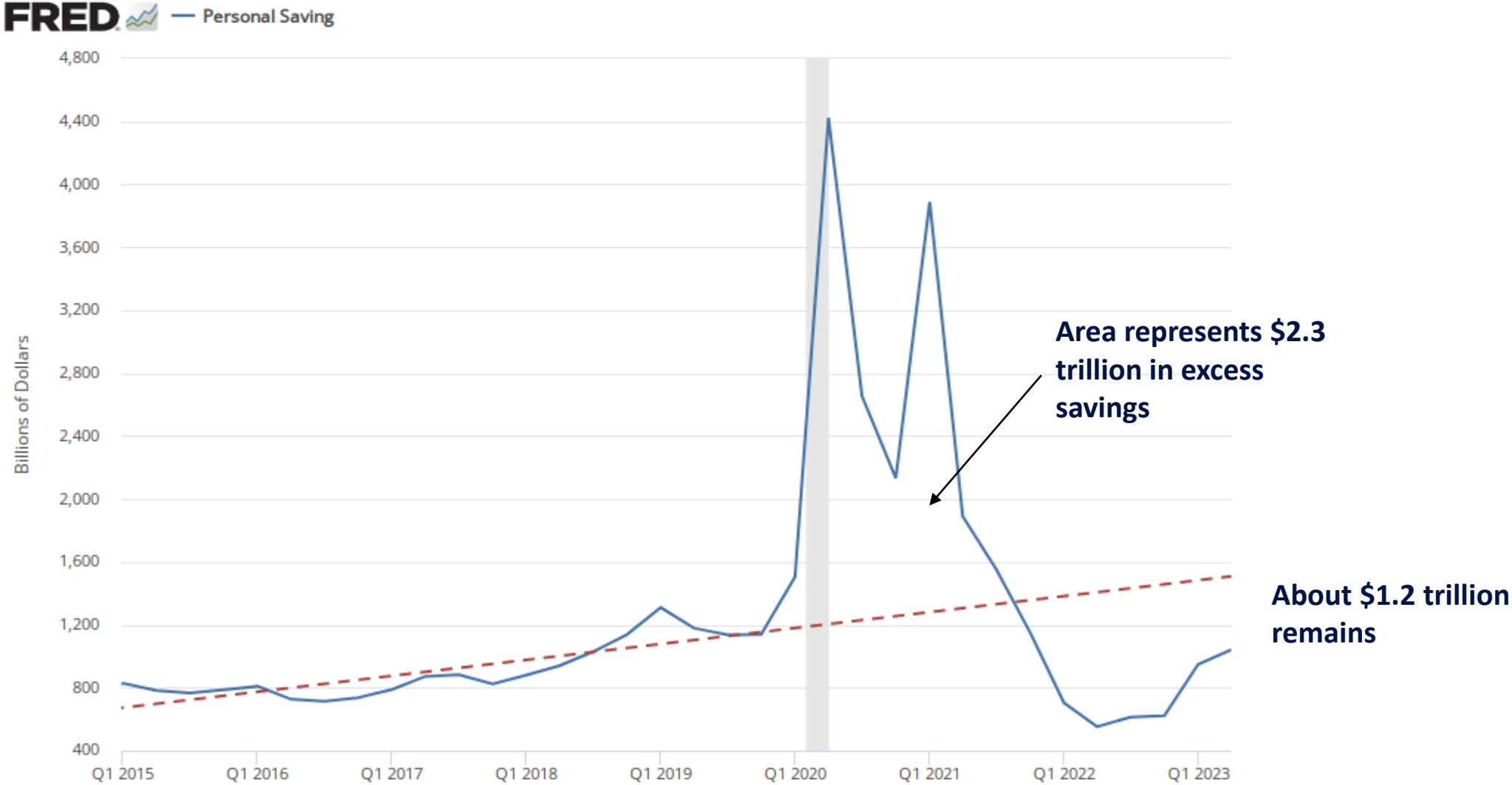
Sources: BEA; CBO

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# GDP growth holding up better than expected

- There were concerns about a recession in 2023, but not visible in the data right now
  - Consumers are adjusting to higher prices, spending carefully
  - Credit card usage up, delinquencies ticking up but still low overall
  - GDP growth 2.1% in Q1, 2.2% in Q2, projected 5.4% in Q3
- **Question: Are you seeing signs of slowing demand? Do you think the economy is worsening, holding steady, or getting better?**


# Households accumulated significant savings during pandemic

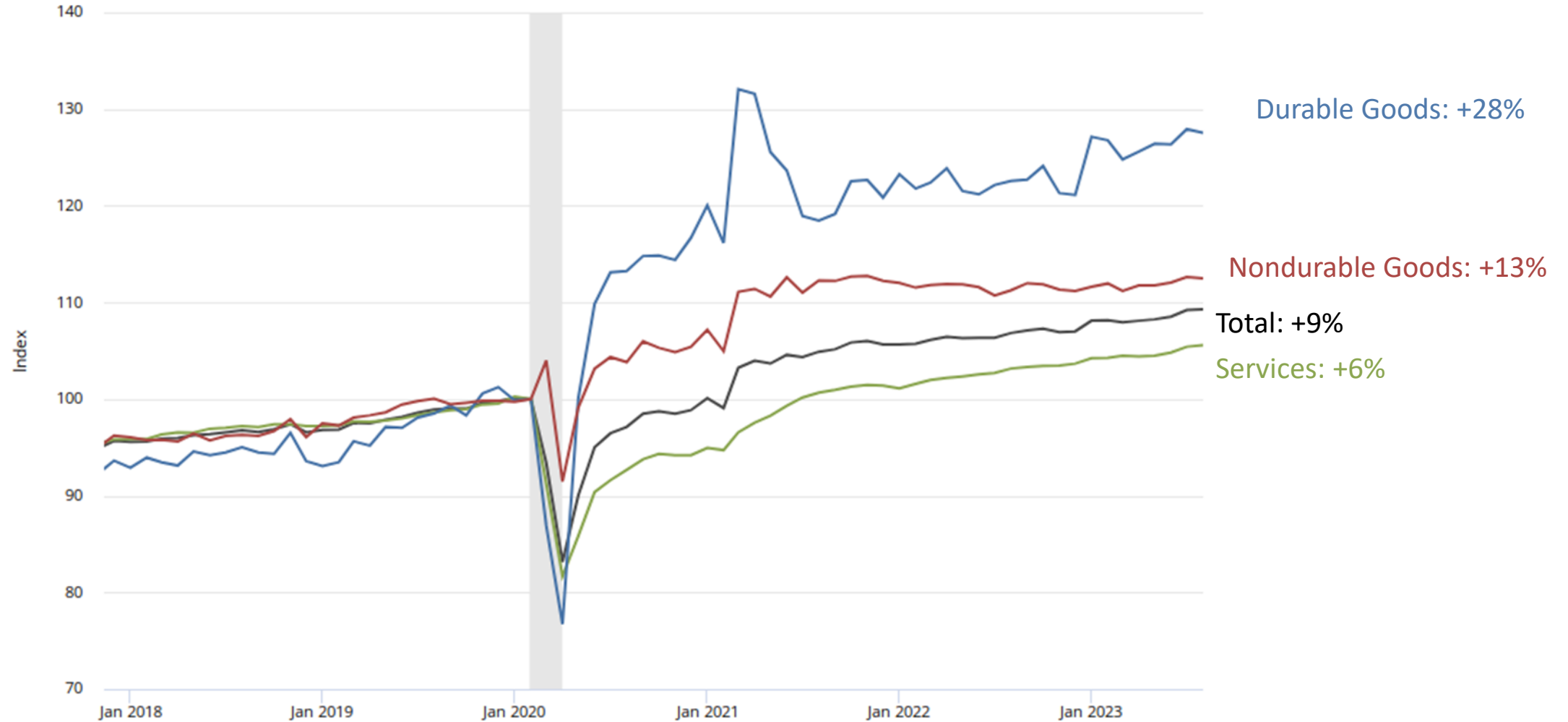


Source: U.S. Bureau of Economic Analysis

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# Spending growth healthy, with pivot back to services

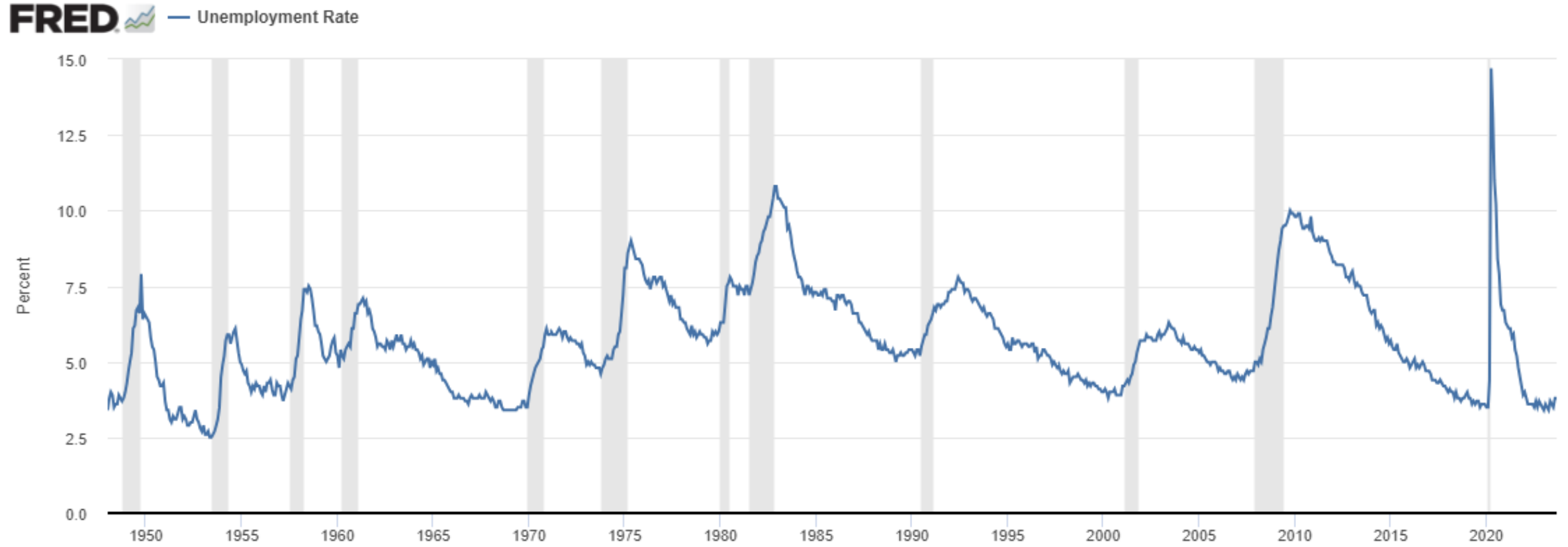
**FRED**  Real Personal Consumption Expenditures



Source: U.S. Bureau of Economic Analysis

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# Unemployment historically low - R



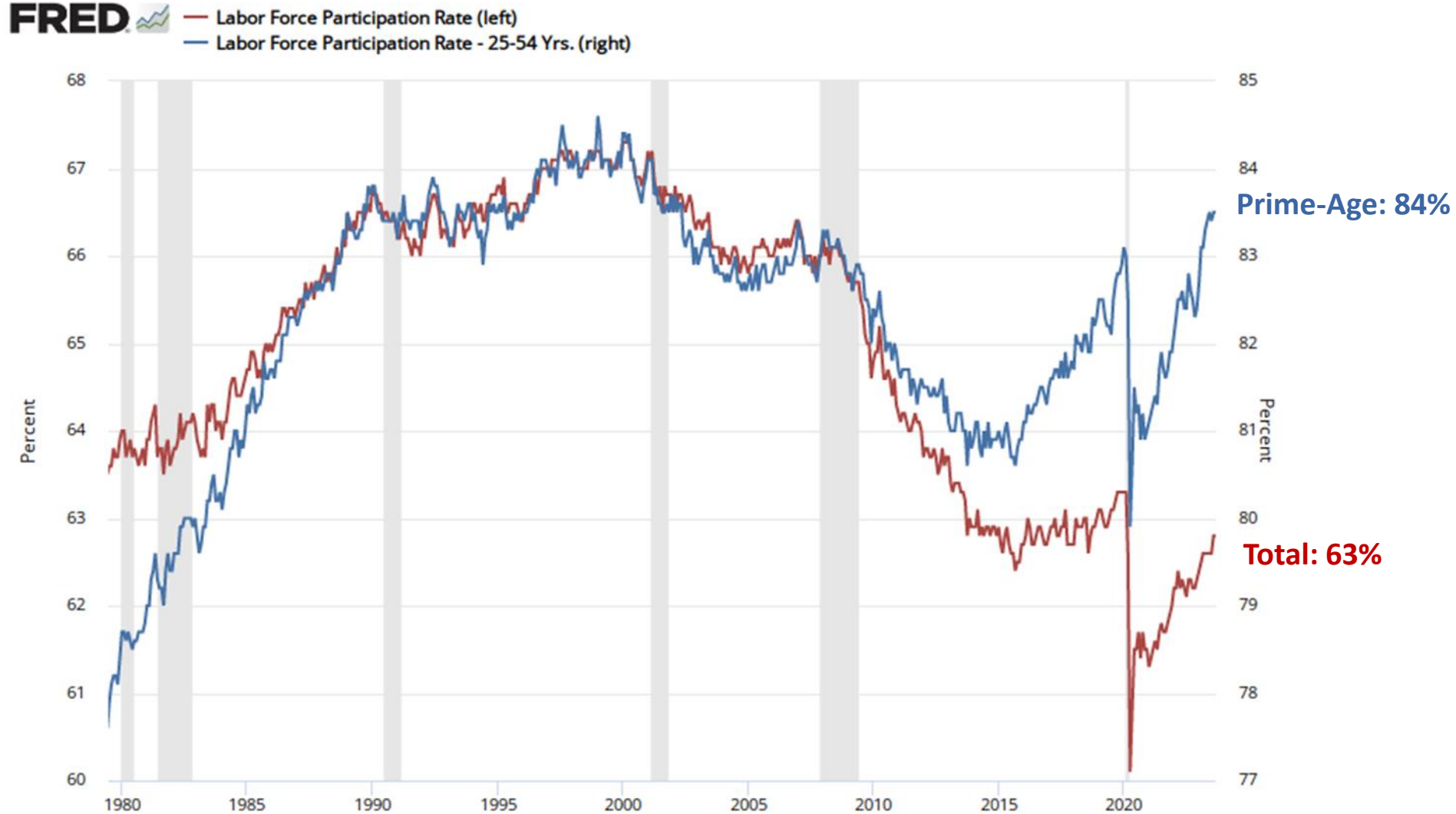
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

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# Labor constrained by aging population as pandemic effects fade



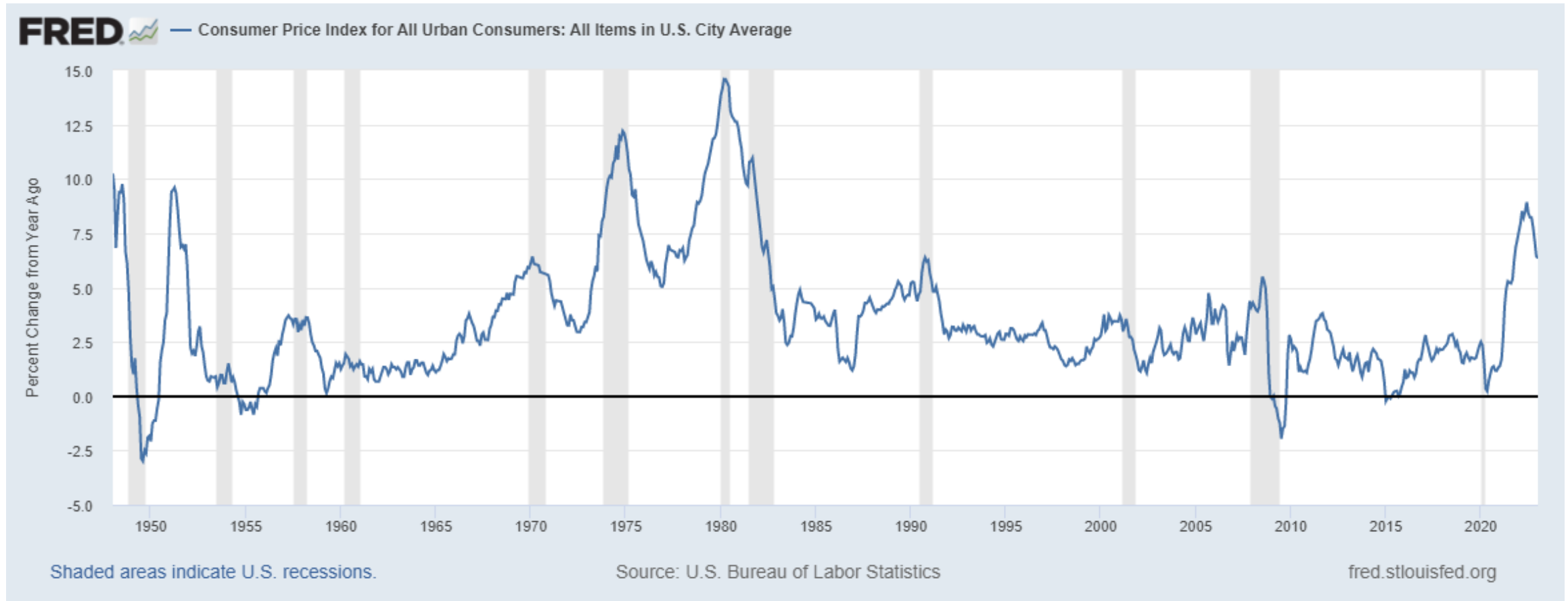
Source: U.S. Bureau of Labor Statistics

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# Labor constrained by aging population, lingering pandemic factors

- Why did people leave the labor force?
  - Early retirements: An estimated 2.4 million excess retirements due to COVID
  - Childcare responsibilities
  - Healthcare issues
- Many people moved from low-income to high-income jobs
  - Hospitality industry struggling to find low-wage workers
- **Question: How are employers you know trying to attract and retain workers?**

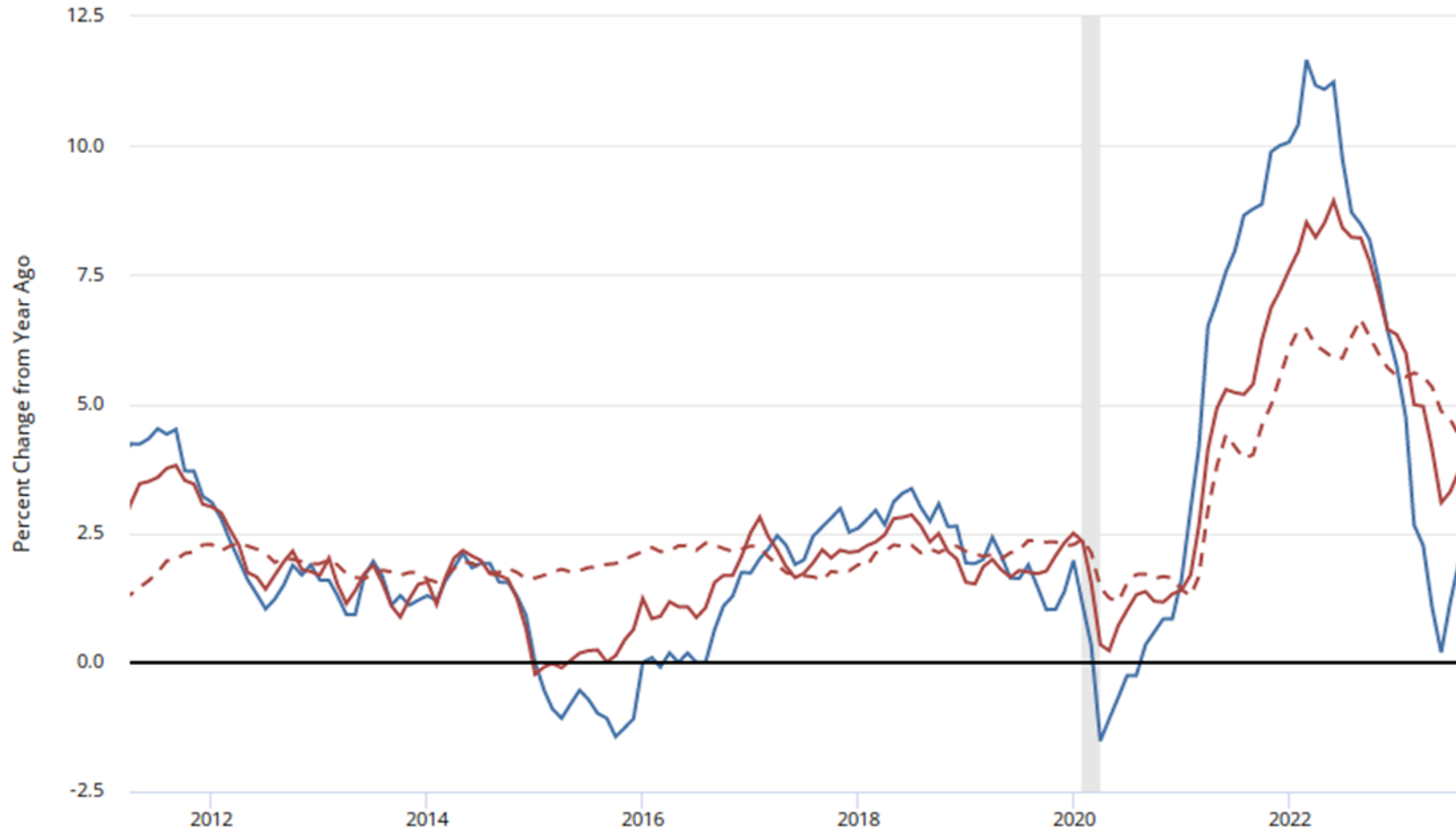
# Fighting inflation remains priority for the Fed



# Strong demand + constrained supply = high inflation

FRED

- Producer Price Index by Commodity: Final Demand
- Consumer Price Index for All Urban Consumers: All Items in U.S. City Average
- - - Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average

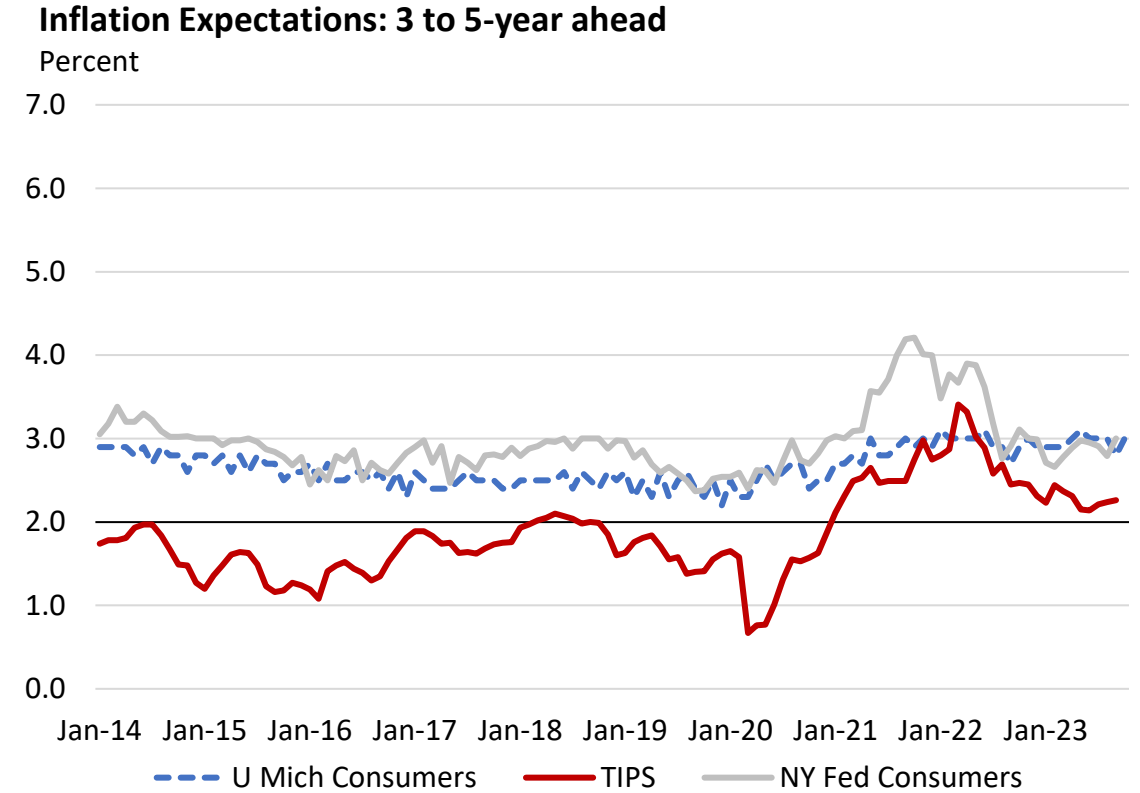
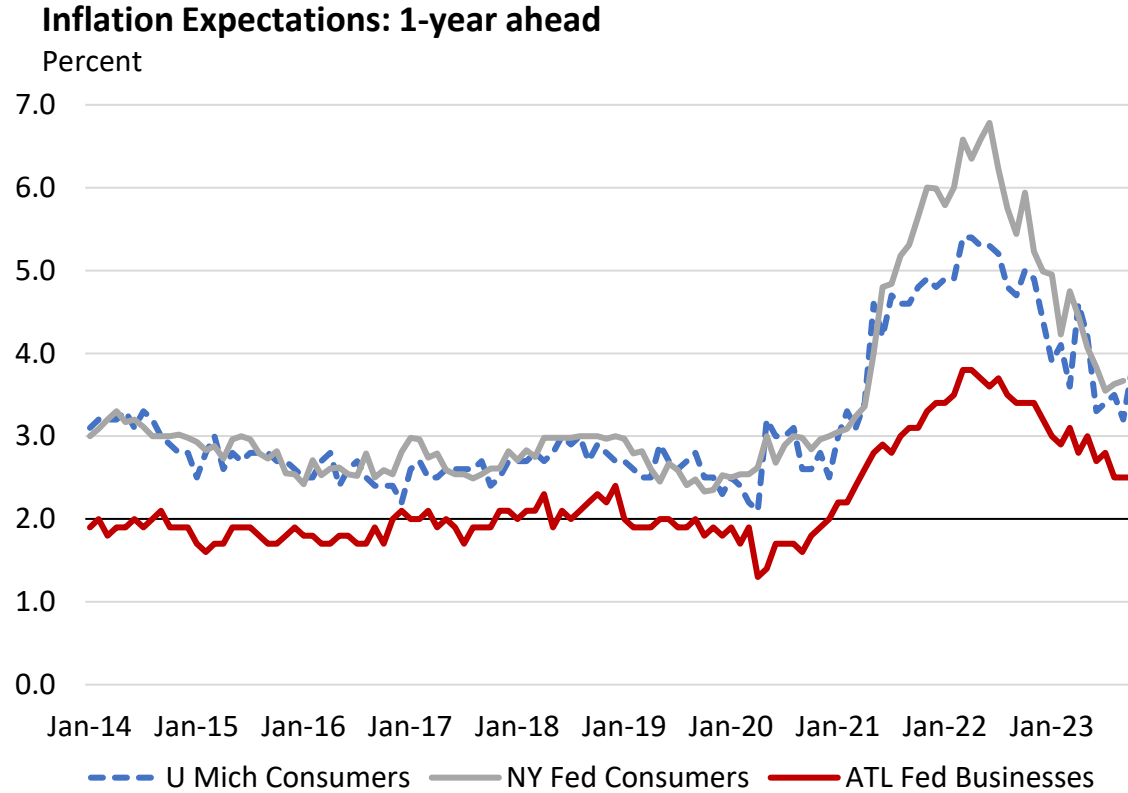


Ex. Food and Energy: +4.1%  
**Consumer Prices: +3.7%**  
**Producer Prices: +2.2%**

Source: U.S. Bureau of Labor Statistics

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# Inflation expectations trending downward but remain elevated



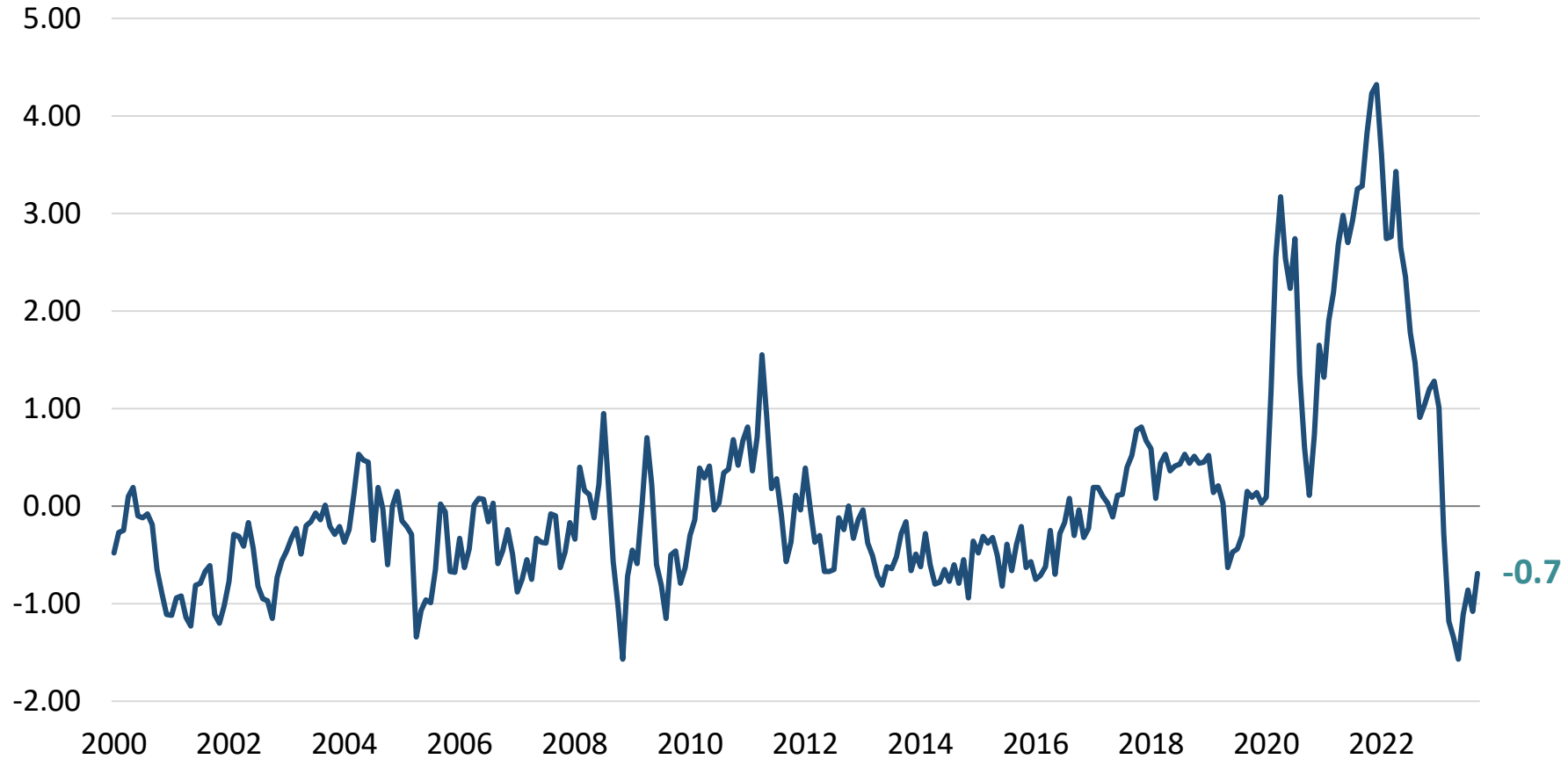
# Why is fighting inflation important? - B

- First, remember inflation is the increase in the general price level
  - Fed shoots for 2% core inflation (stripping out food and energy)
  - Prices don't need to fall, they just need to stop rising
- A strong economy needs price stability
  - Allows people and businesses to make plans with confidence (long-term and short-term)
  - High inflation brings instability
- The Federal Reserve tries to slow inflation by raising interest rates
  - Goal is to slow demand in the economy
- **Question: What products or services in your life have increased in price over the last 3 months?**

# Supply chains are returning to “normal” operations

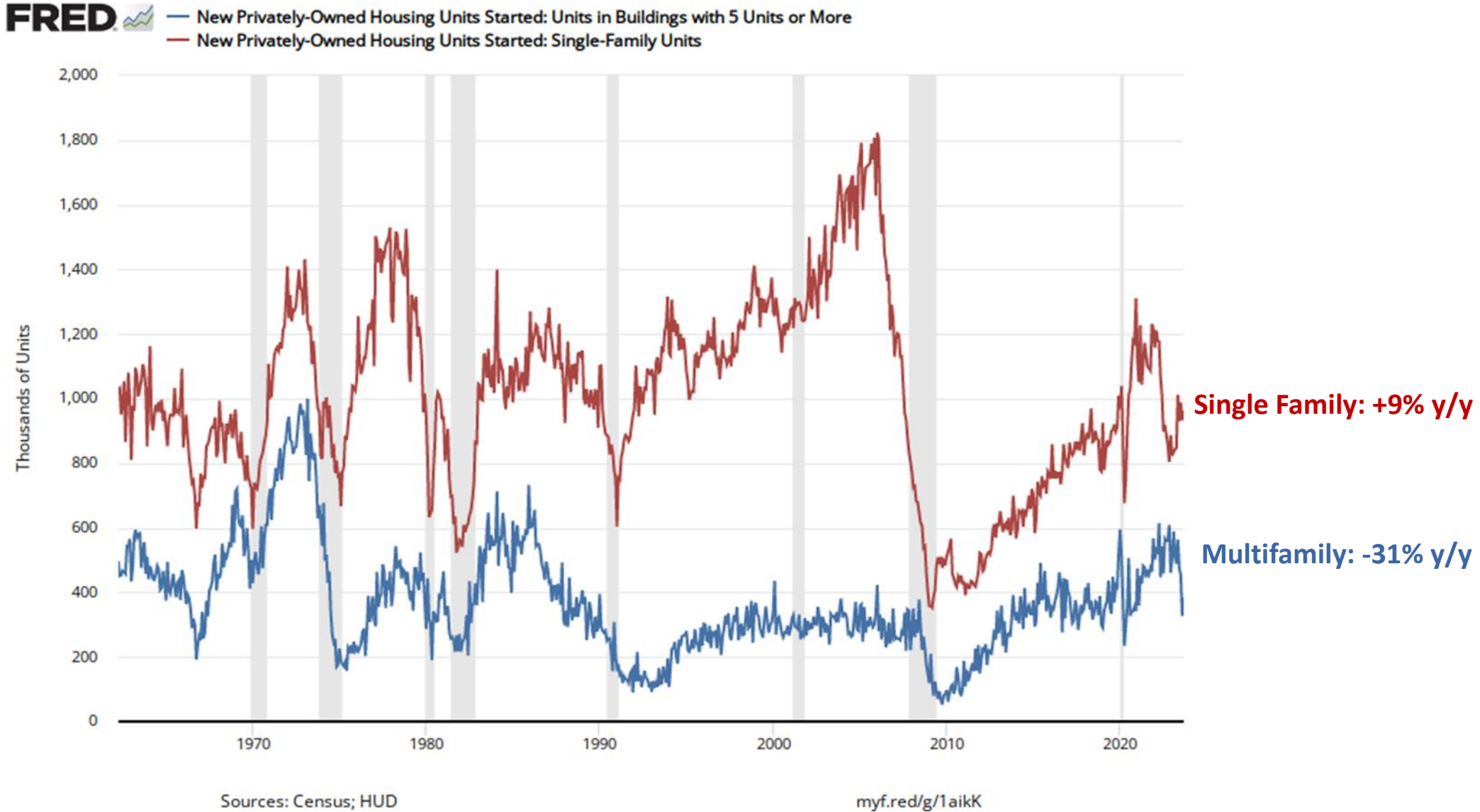
## FRBNY Global Supply Chain Pressure Index

Std. Dev. Pts



Source: Federal Reserve Bank of New York ([link to data](#))

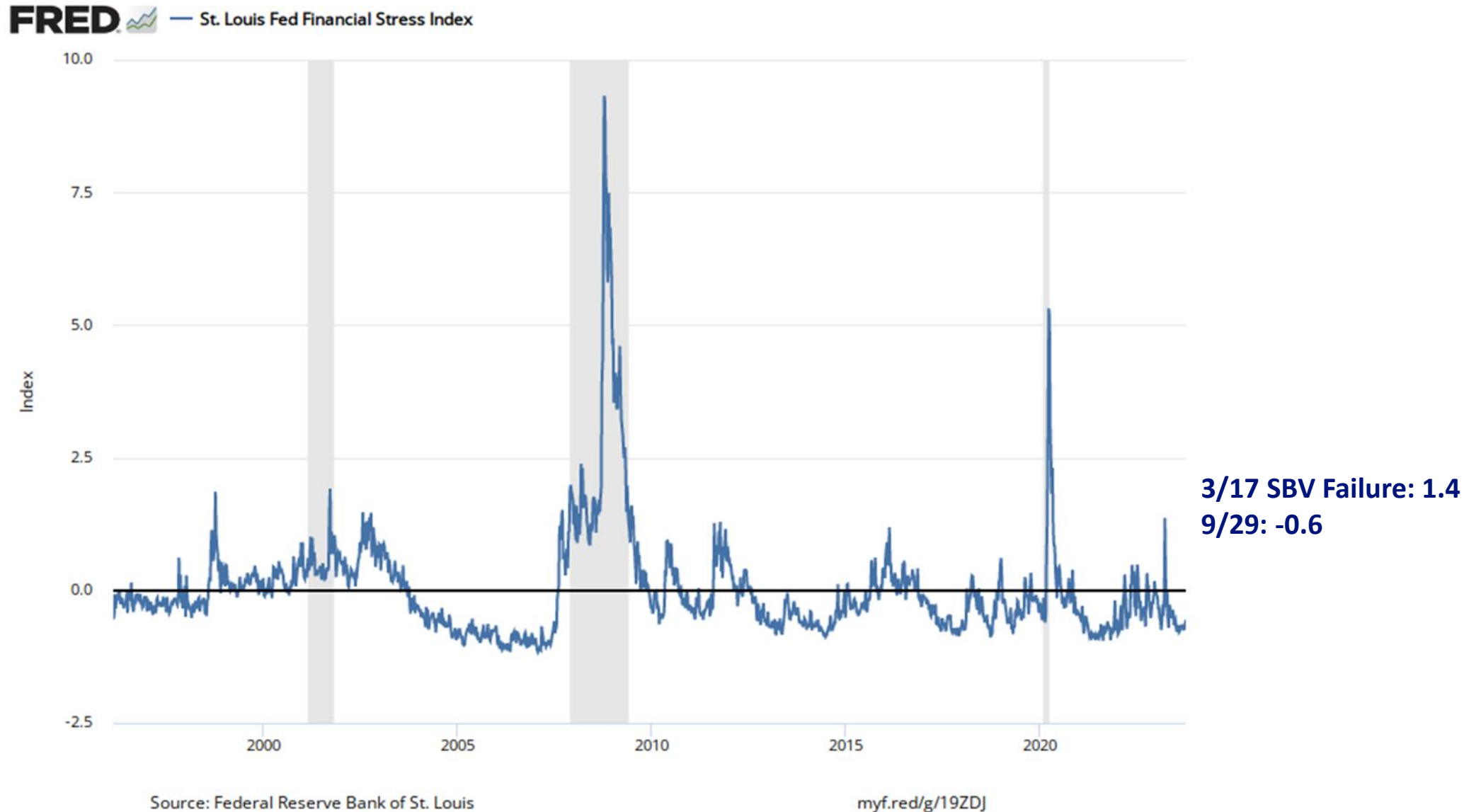
# Facing high costs and higher rates, hot real estate market cools off





# Outlook

# Financial stress spiked after bank runs but has returned to normal



# FOMC Summary of Economic Projections for 2023 - X

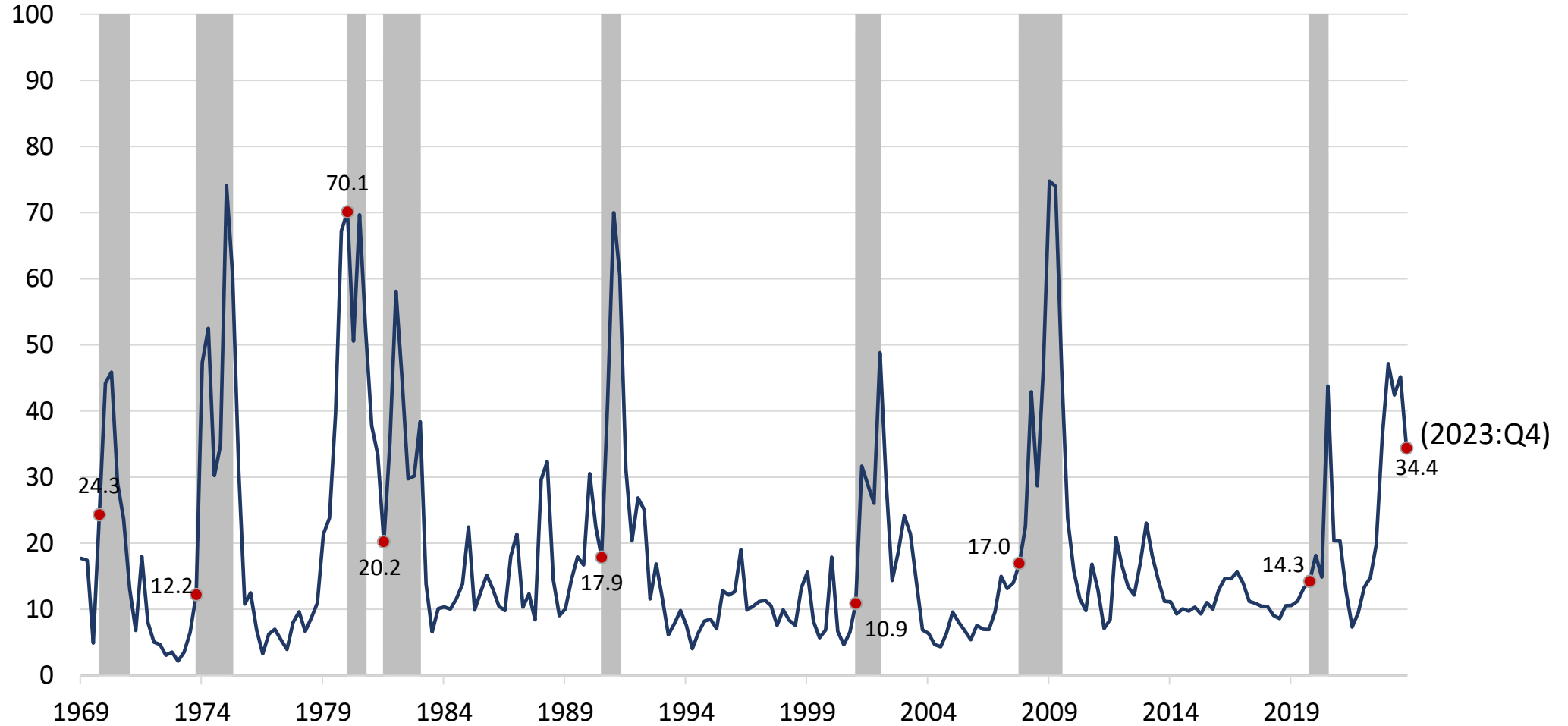
	Real GDP Growth	PCE Inflation Rate	Unemployment Rate	Fed Funds Rate
Median	2.1	3.3	3.8	5.6
Top	2.6	3.8	4.0	5.6
Bottom	1.8	3.1	3.7	5.4

Note: Projections are under the assumption of appropriate monetary policy. Real GDP, PCE Inflation are Q4/Q4 Growth, Unemployment and Fed Funds are Q4 Averages  
Source: Federal Open Market Committee (FOMC) Summary of Economic Projections September 2023. [See Macro Snapshot for Data](#)

# If recession occurs, it will be the one of the most anticipated in history

## The Anxious Index

Probability of Decline in real GDP

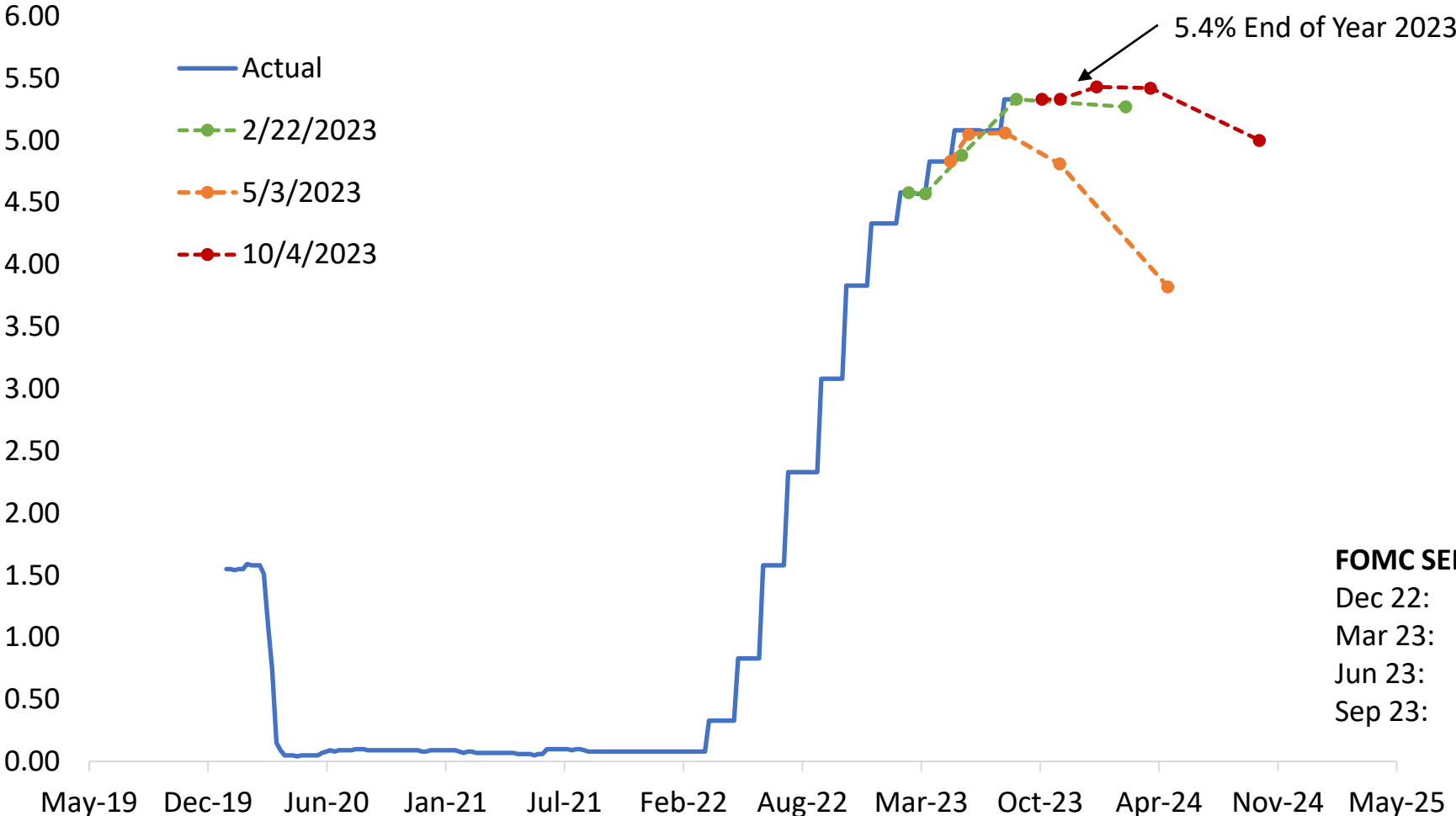


Note: Shaded areas indicate NBER recessions

Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters ([link to data](#))

# Expectations on future interest rates continue wild ride

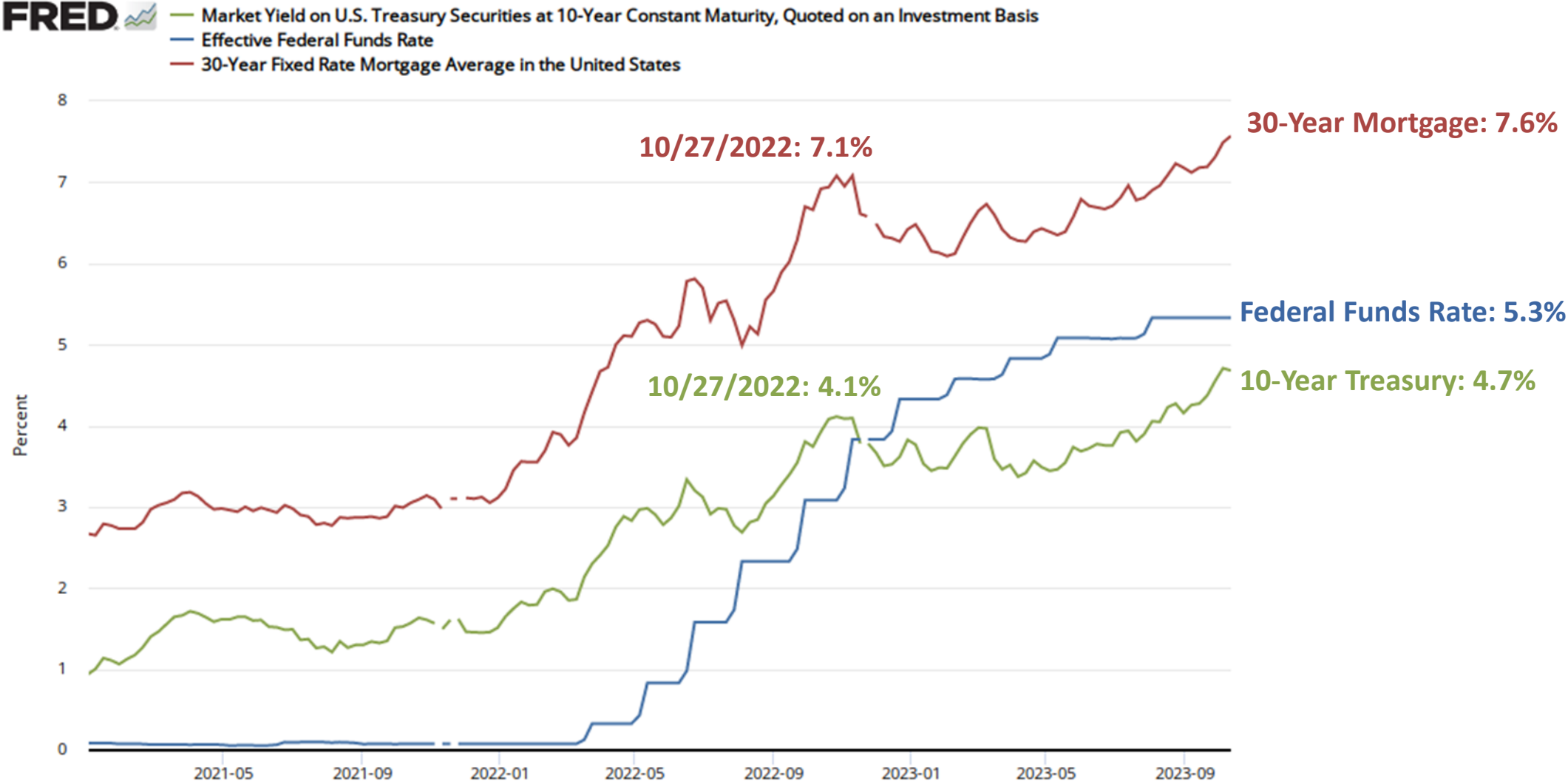
Federal Funds Rate and Implied Fed Funds Rate from Futures



FOMC SEP End of Year 2023	
Dec 22:	5.1
Mar 23:	5.1
Jun 23:	5.6
Sep 23:	5.6

Source: Federal Reserve Board, CME Group ([link to data](#))

# Long-term rates have been steadily increasing in 2023



Sources: Board of Governors; New York Fed; FHLMC

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# Key Takeaways

- Growth in 2023 has been stronger than expected
- Higher interest rates have slowed the housing market; inventory remains low and demand has stabilized
- Historically tight labor markets have eased slightly
- Risks: recession expectations, tightening credit conditions, inflation
- The Fed prioritizes the 2% inflation target above all else, and will continue to take action until inflation returns to that level
  - Low and stable inflation is necessary for long-term maximum employment
  - High inflation makes the world prone to economic and political instability

