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# Stubborn Inflation and Broader Uncertainty: Economic Outlook for 2023

21st Annual Multi-Chamber Economic Outlook  
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*The views expressed here do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Federal Reserve System.*

# Current environment

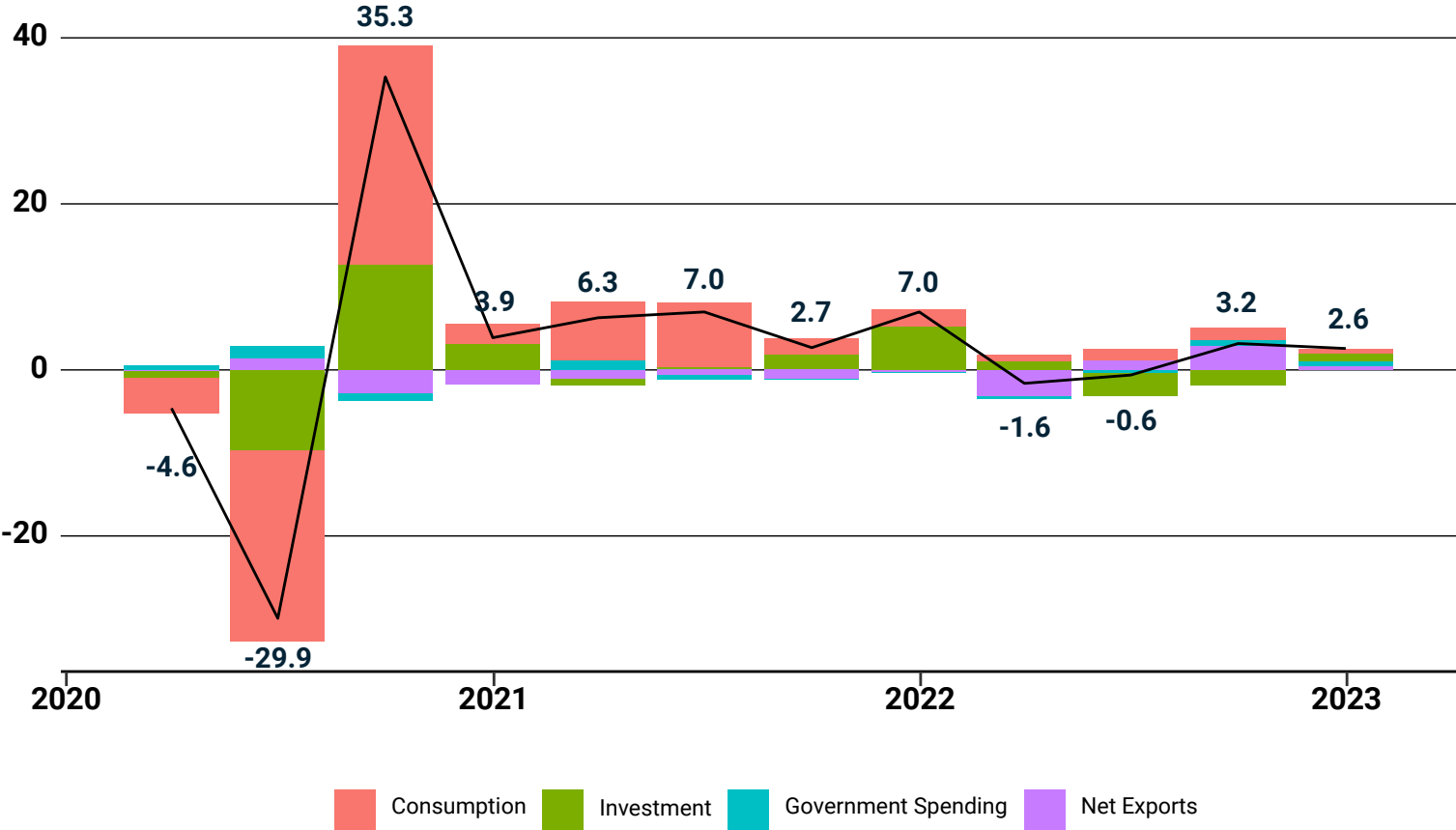
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- **High inflation**
- **Robust start to the year**
- **Significant monetary policy restraint**
- **Cracks in financial system**
- **What do we make of it all?**

# Economic activity recently robust

## Contributions to Real GDP Growth

(Percentage points)

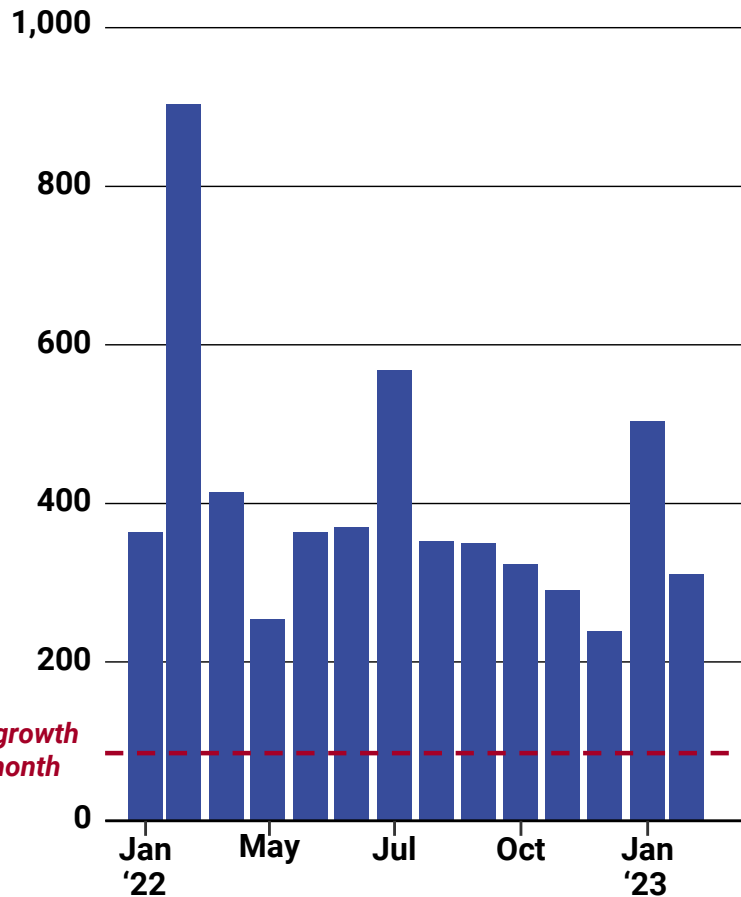


Source: BEA via Haver Analytics

# Labor market indicators really strong

## Monthly Change in TNP Employment

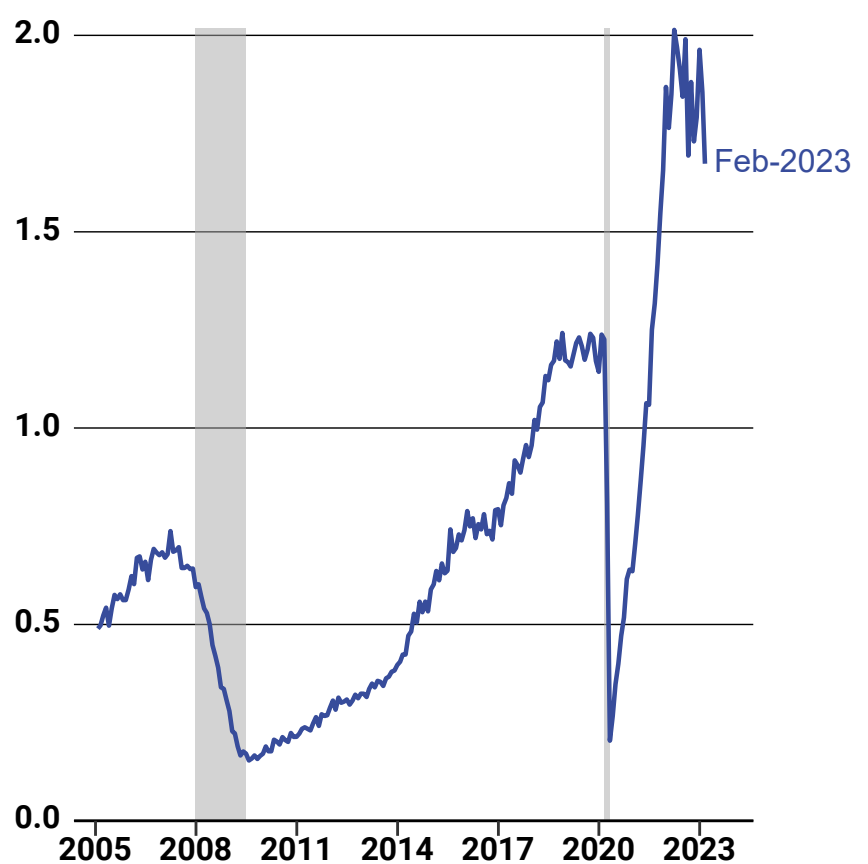
(Thousands)



Source: BEA via Haver Analytics

## Job Openings to Unemployed Workers

(Ratio)

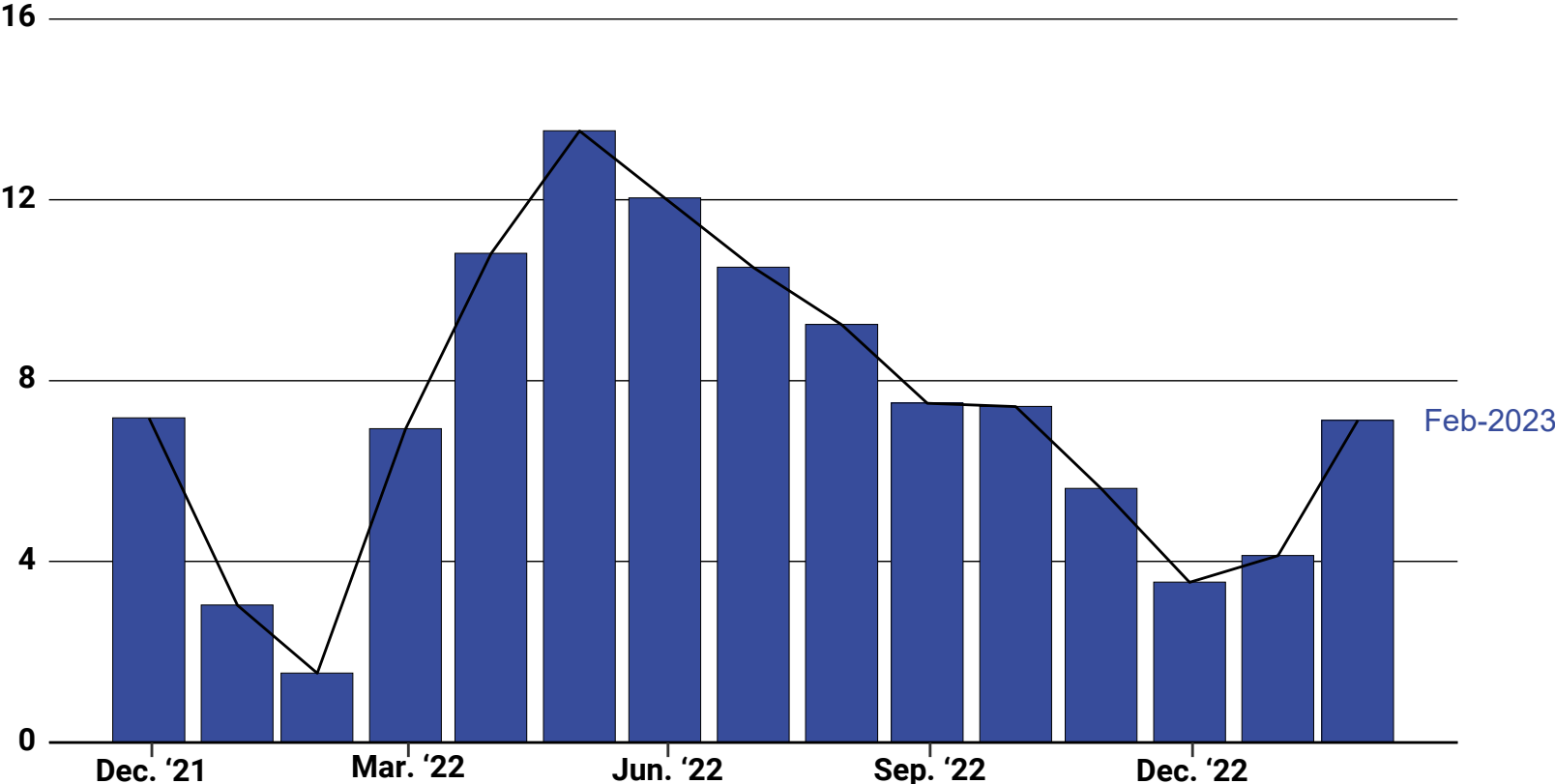


Source: BLS via Haver Analytics

# Household spending still quite robust

## Core Retail Sales

(3-month annualized growth rate)

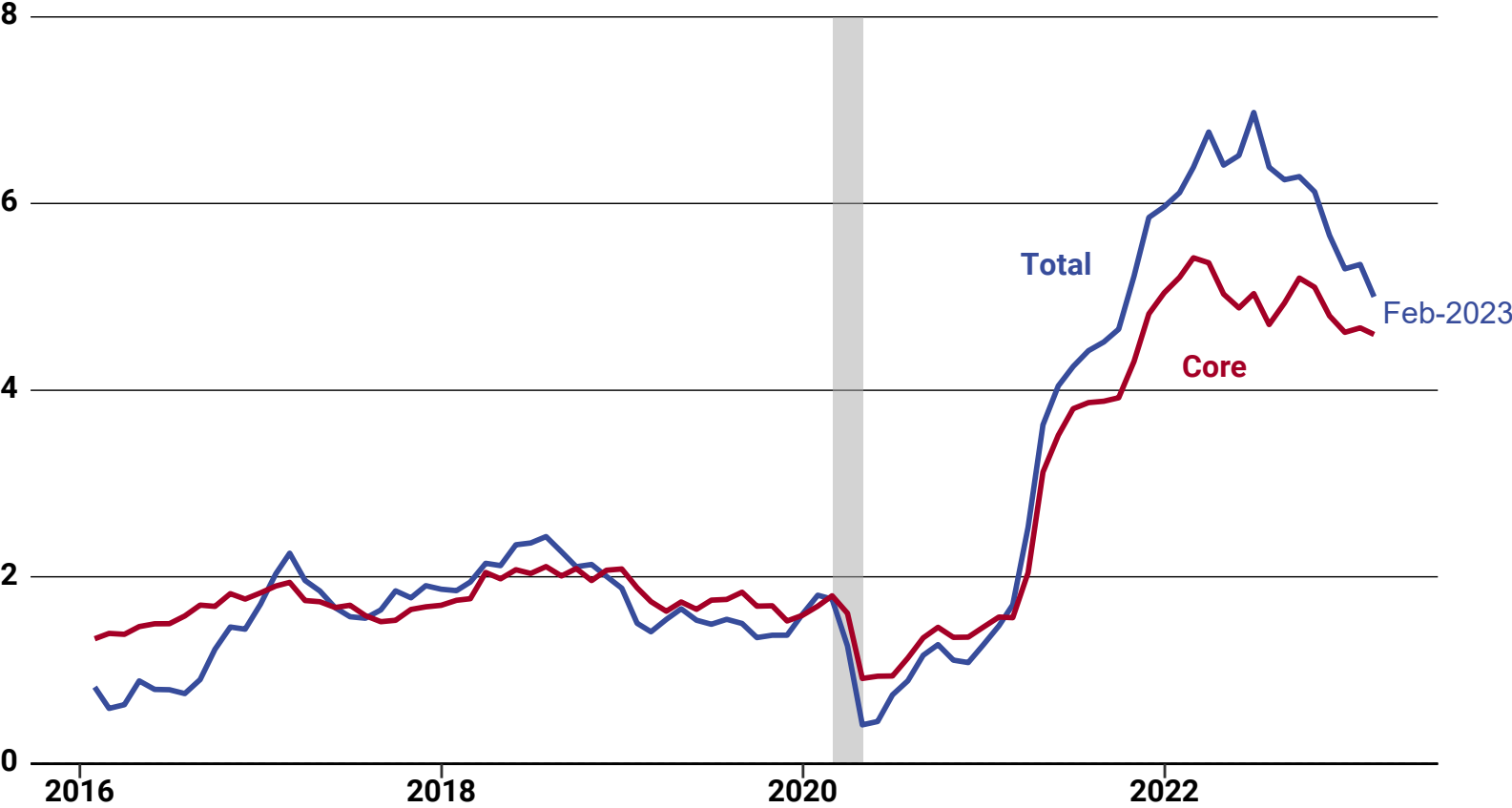


Note: Core retail sales are nominal retail sales and food services less auto, building supplies, and gasoline stations  
Source: U.S. Census Bureau via Haver Analytics

# Inflation way too high

## PCE Price Index

(12-month percent change)

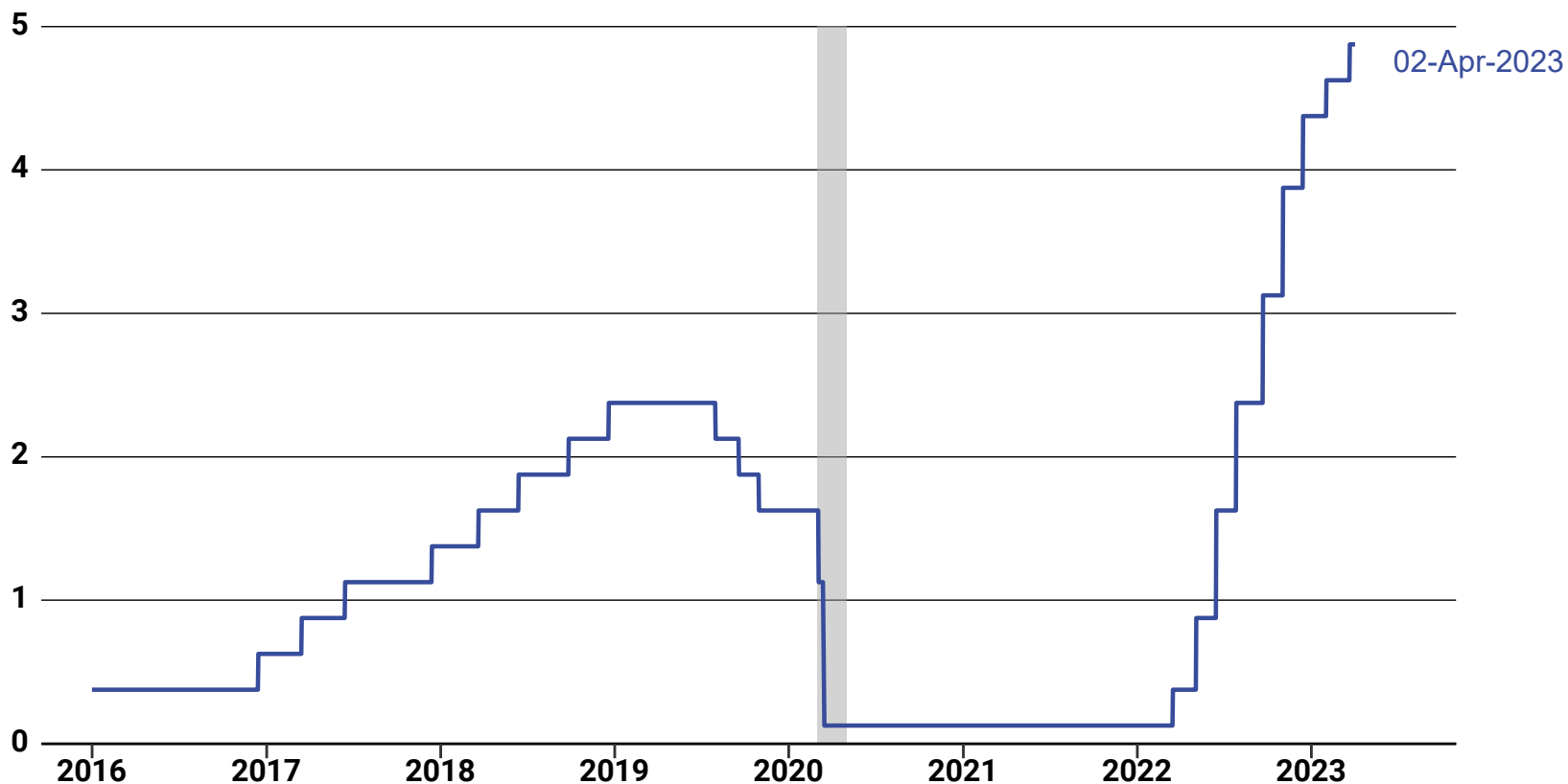


Source: BEA via Haver Analytics

# Strong monetary policy response

## Federal Funds Rate Target

(Percent)



Note: Chart shows midpoint of target range  
Source: Federal Reserve Board via Haver Analytics

# Housing market has slowed

## 30-Year Mortgage Rate

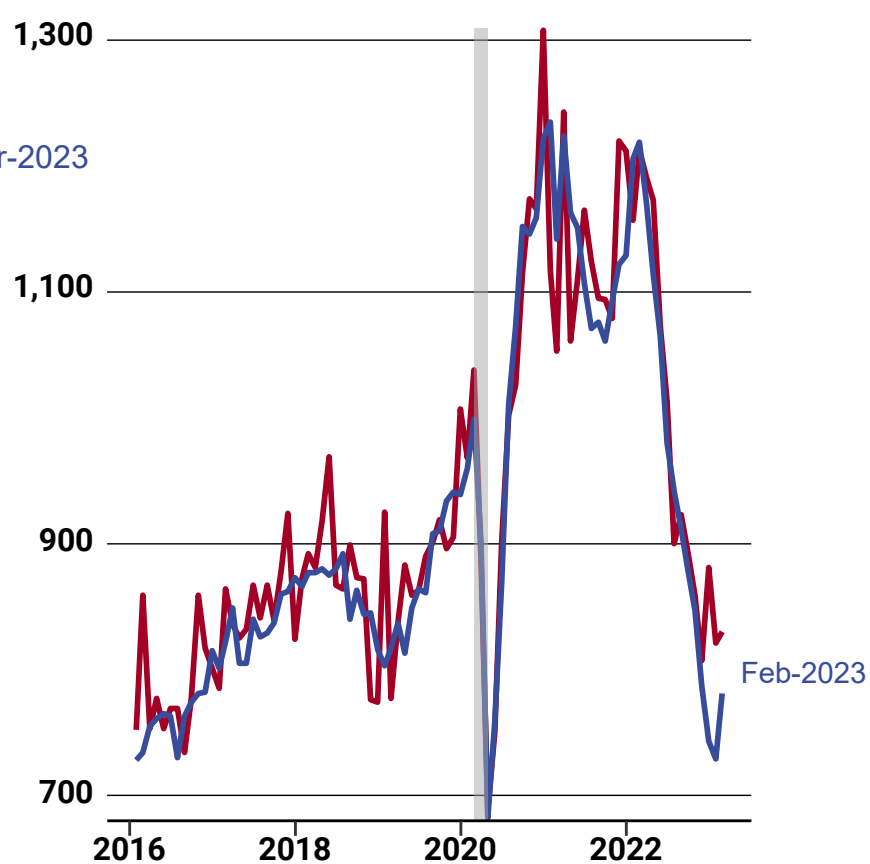
(Percent)



Source: Wall Street Journal via Haver Analytics

## Single-Family Housing Starts and Permits

(Thousands)



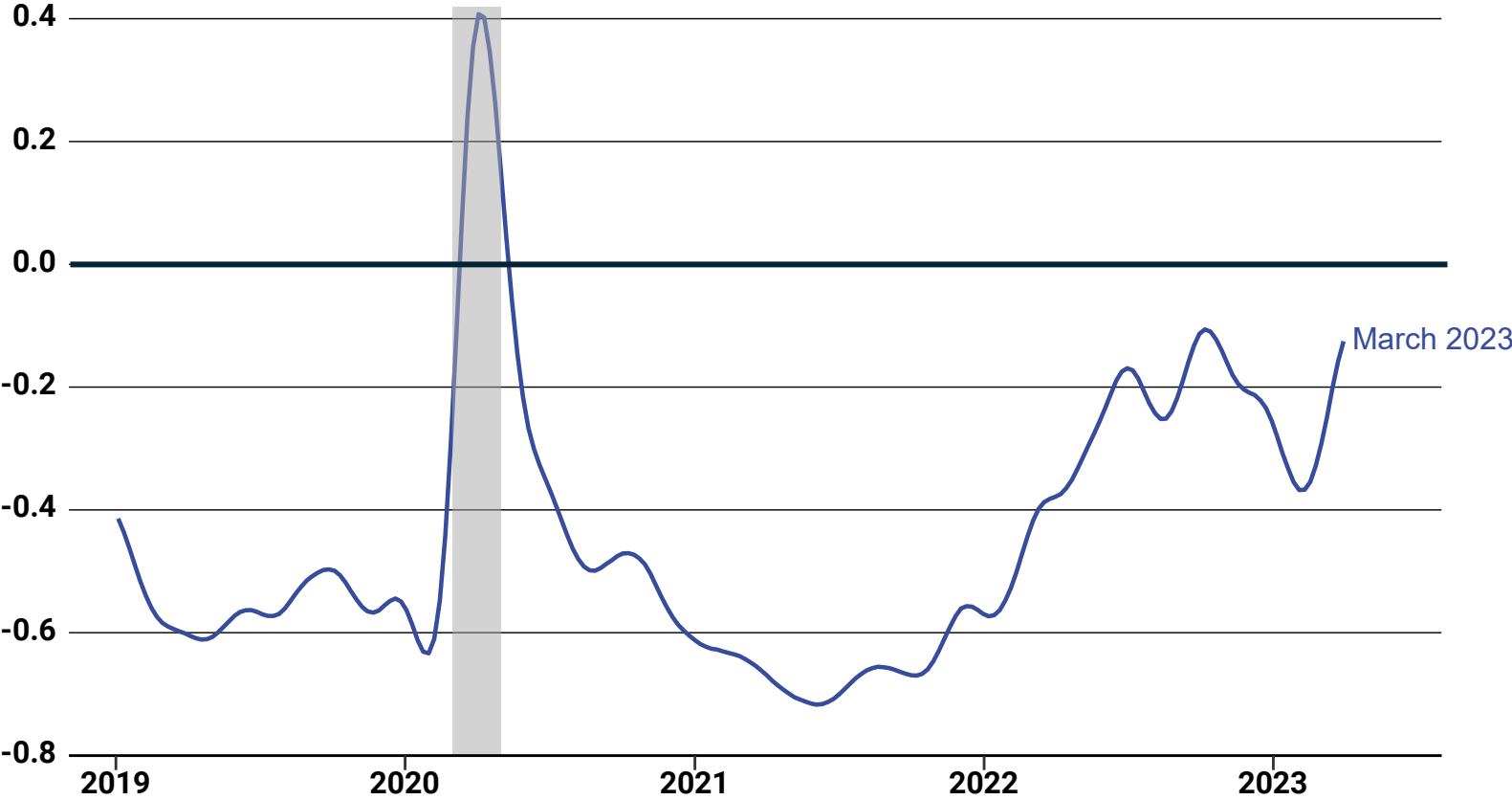
Source: U.S. Census Bureau via Haver Analytics



# Financial conditions tightening

## Chicago Fed National Financial Conditions Index

(>0 = tighter than average)



Source: Federal Reserve Bank of Chicago via Haver Analytics

# Taking stock

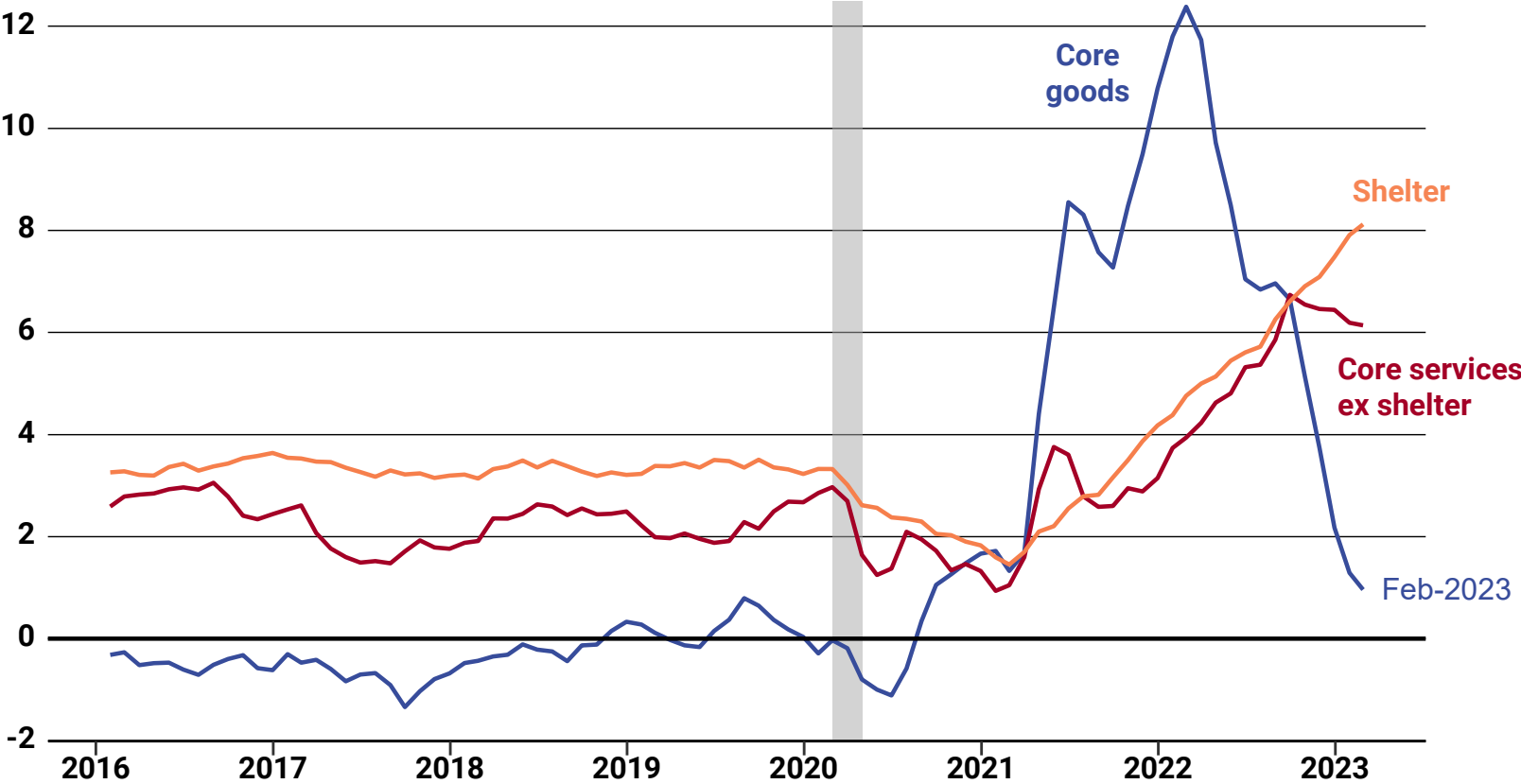
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- **Tight labor markets and high inflation (similar to April 2022)**
- **However, monetary policy has changed a lot**
- **Tightening cycle which began in March 2022 now has rates at 4.75-5.00%**
- **What lies ahead?**

# Breaking down trends in inflation

## Components of Core CPI Inflation

(12-month percent change)

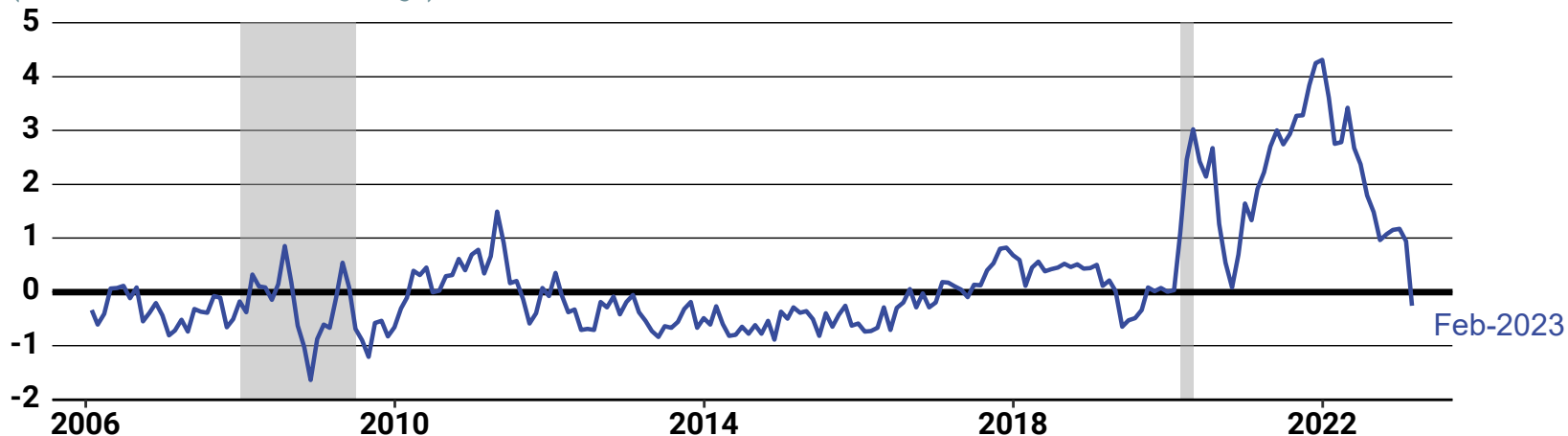


Source: BLS via Haver Analytics

# Some factors behind inflation are improving

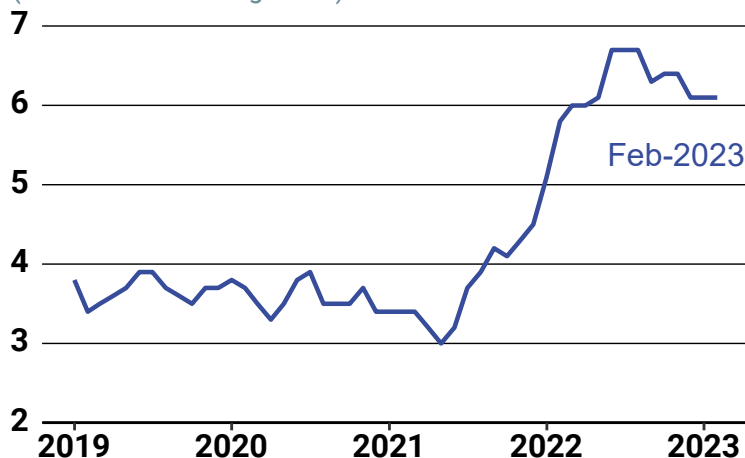
## Global Supply Chain Pressure Index

(Standard deviations from average)



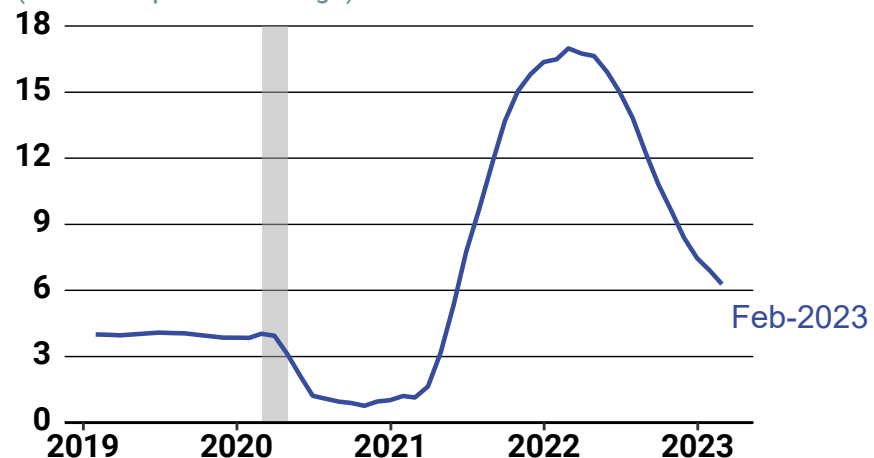
## Atlanta Fed Wage Growth Tracker

(12-month median growth)



## Zillow Observed Rent Index

(12-month percent change)

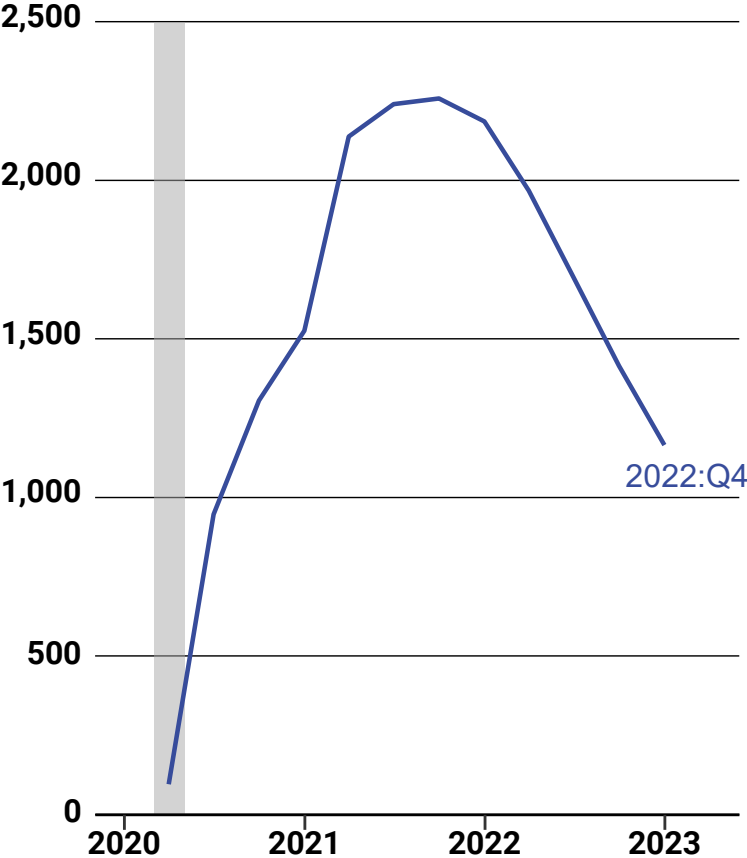


Source: Federal Reserve Bank of New York using data from Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Refinitiv; Federal Reserve Bank of Atlanta; Zillow via Haver Analytics

# Household balance sheets

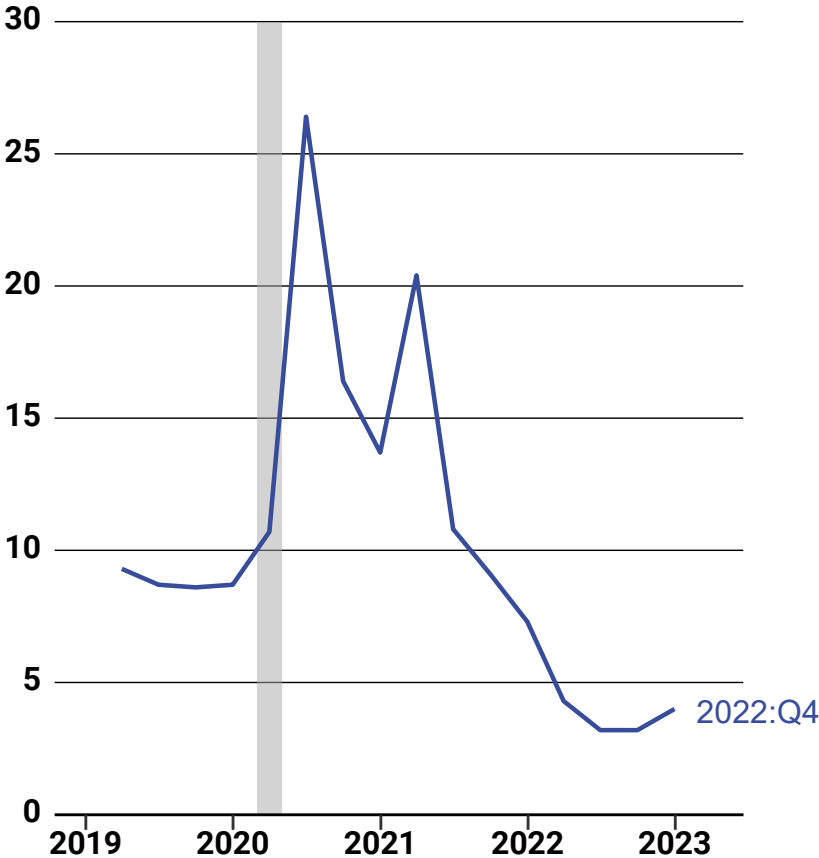
## Stock of Excess Savings

(\$ billions)



## Personal Savings Rate

(Percent)

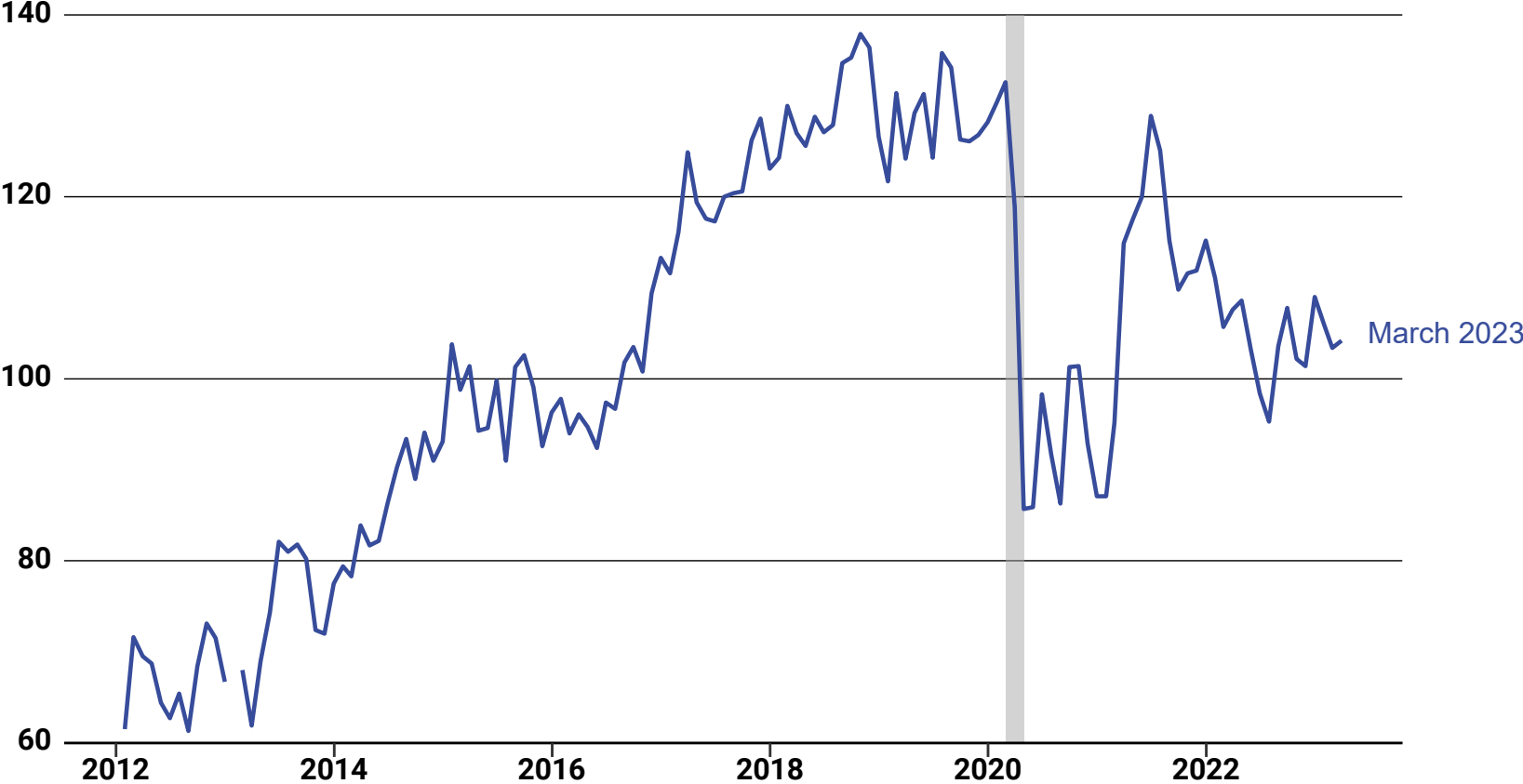


Source: Aladangady, Aditya, David Cho, Laura Feiveson, and Eugenio Pinto (2022). "Excess Savings during the COVID-19 Pandemic," *FEDS Notes*. Washington: Board of Governors of the Federal Reserve System, October 21, 2022, <https://doi.org/10.17016/2380-7172.3223>; BEA via Haver Analytics

# Consumer expectations

## Consumer Confidence

(Index level)

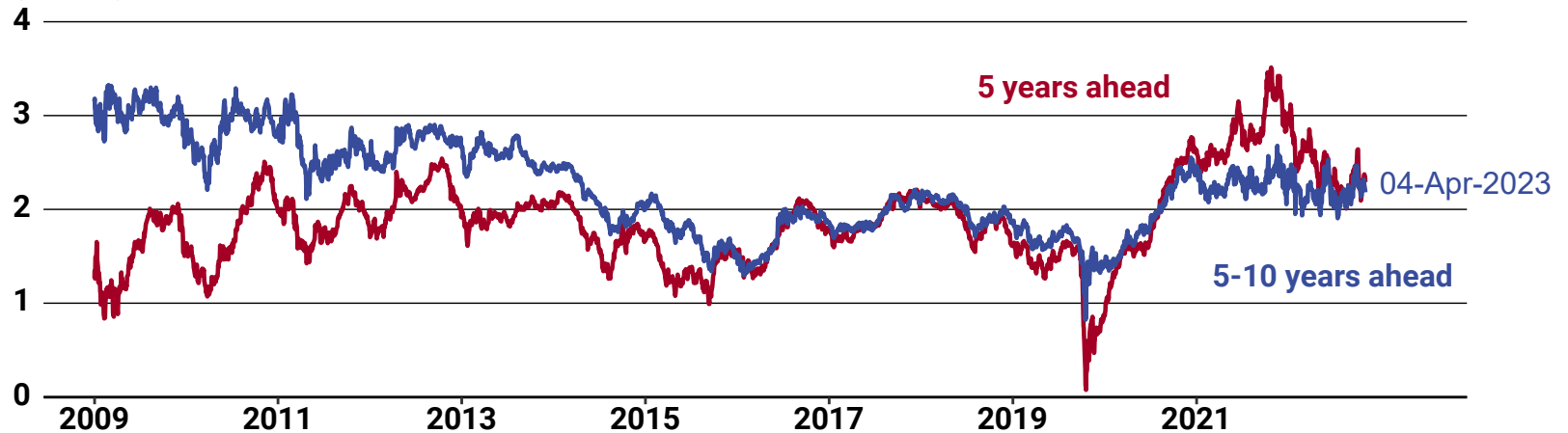


Source: Conference Board via Haver Analytics

# Inflation expectations steady

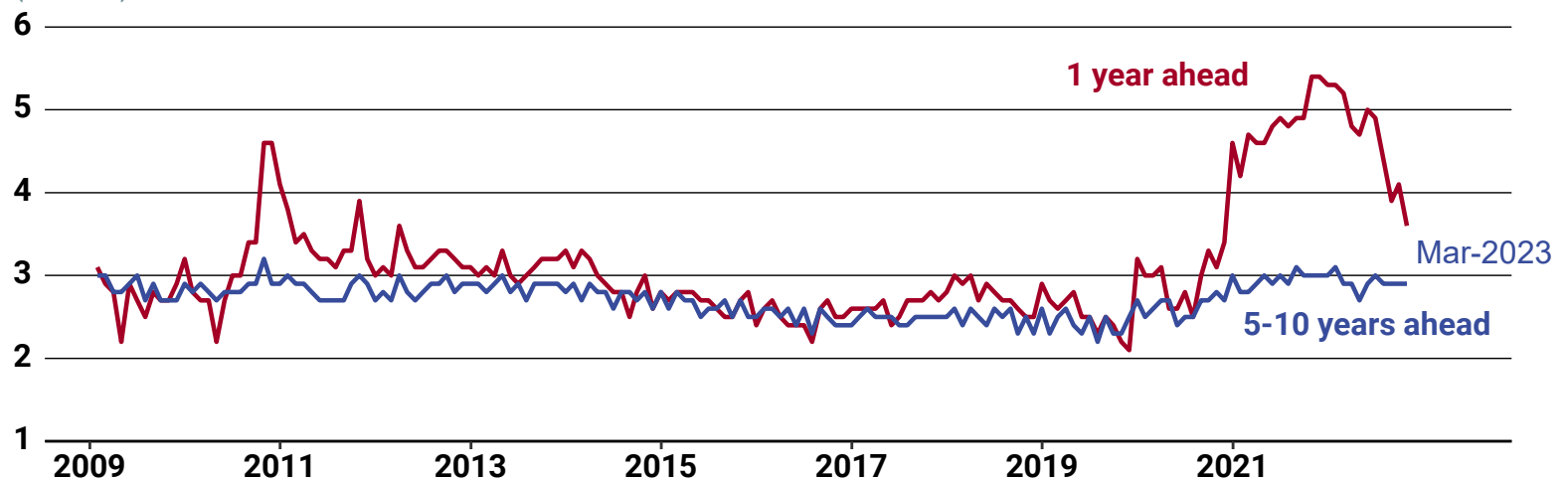
## TIPS Inflation Compensation

(Percent)



## Inflation Expectations

(Percent)

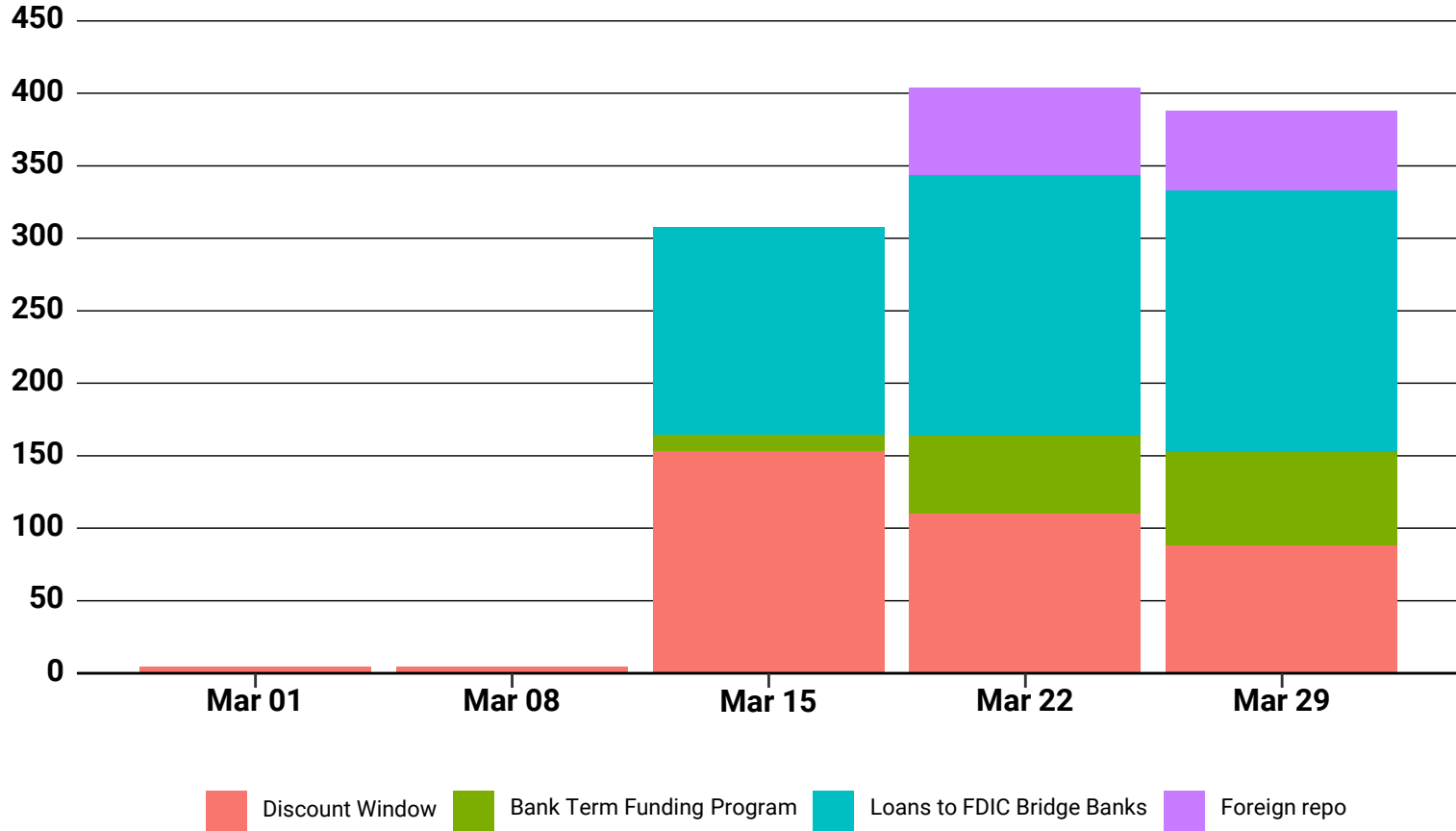


Source: Federal Reserve Board; University of Michigan via Haver Analytics

# Implications of bank failures

## Federal Reserve Lending Outstanding, Selected Programs

(\$ billions)



Source: Federal Reserve Board



# Outlook: SEPs

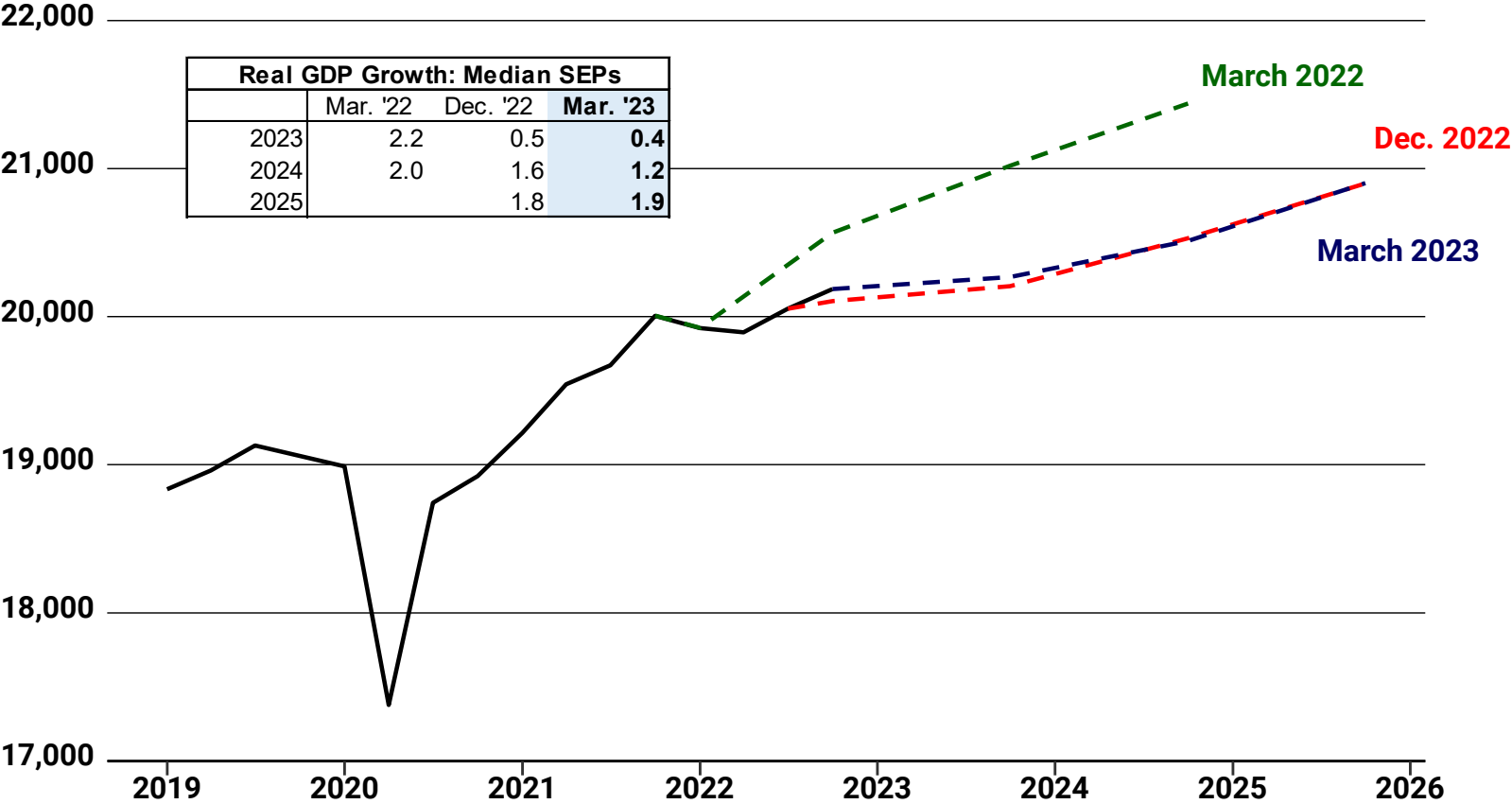
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- **Slower growth in 2023 and 2024**
- **Unemployment up about 1pp by end of year**
- **Inflation trending back down to 2% within next few years**

# Real GDP projections

## Real GDP Median SEPs

(\$ billion, SAAR)

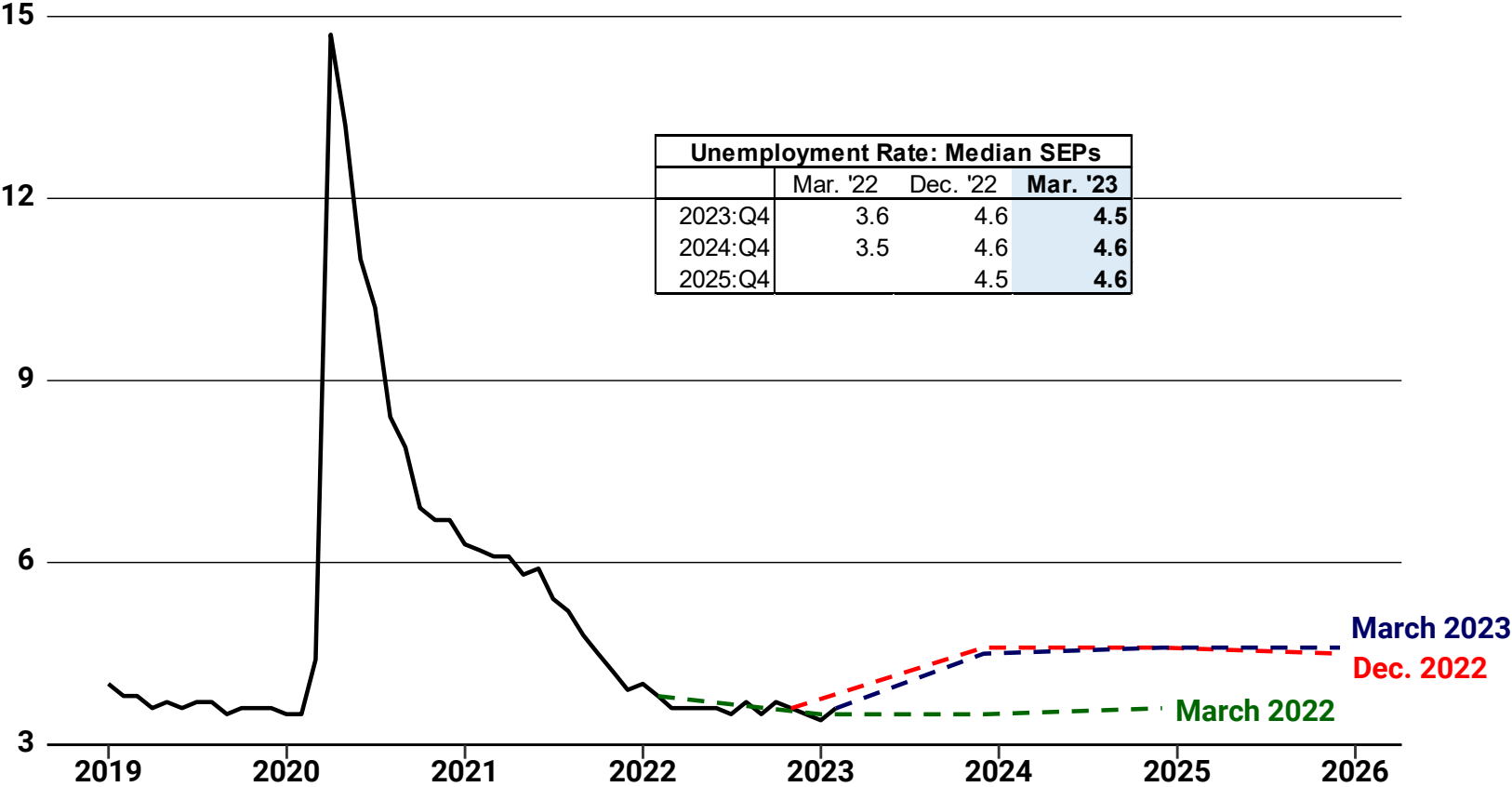


Source: BEA and FOMC Summary of Economic Projections via Haver Analytics

# Unemployment rate projections

## Unemployment Rate Median SEPs

(Percent)

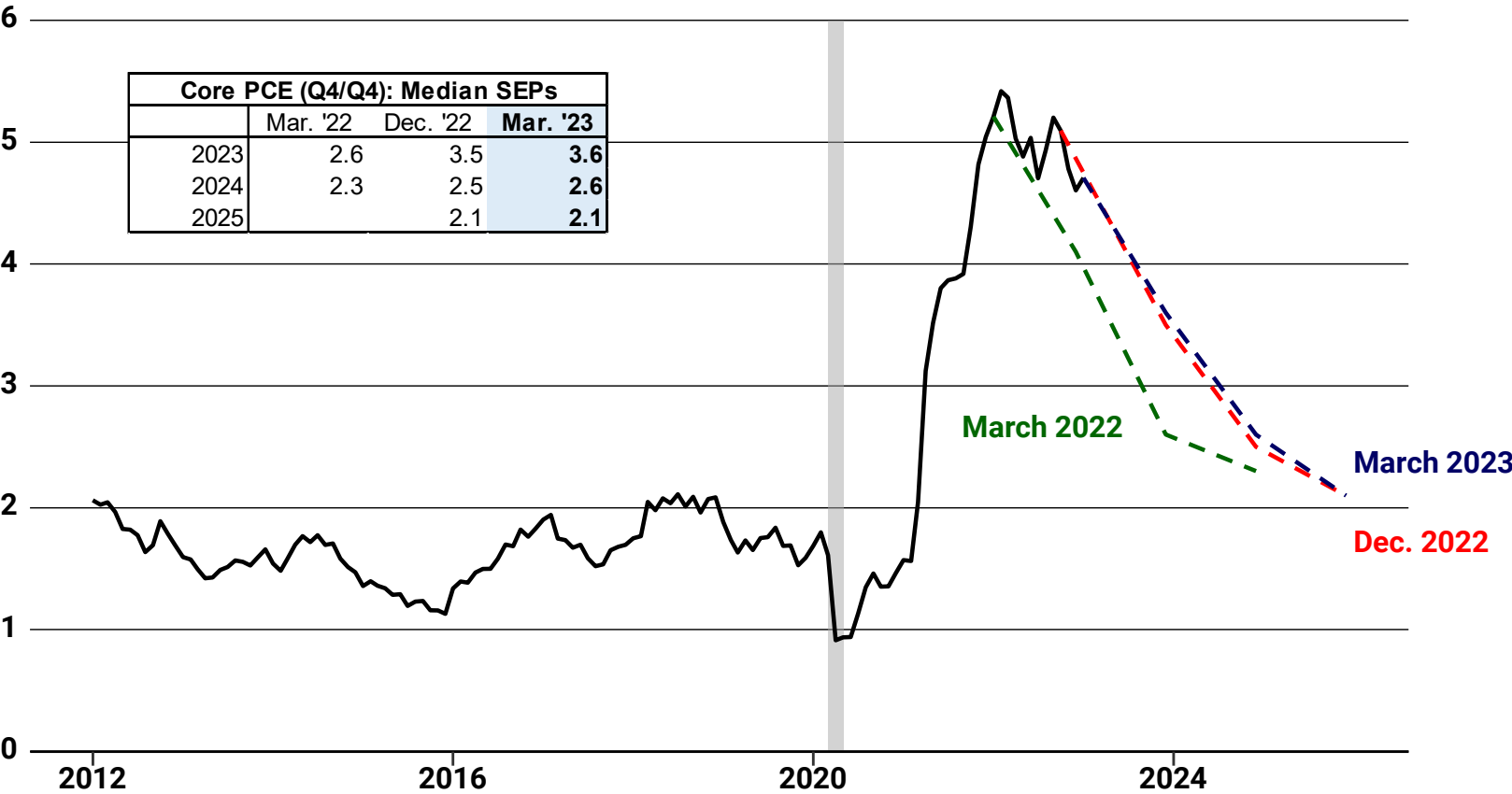


Source: BLS and FOMC Summary of Economic Projections via Haver Analytics

# Core PCE inflation projections

## Core PCE Inflation Median SEPs

(Percent change from one year ago)

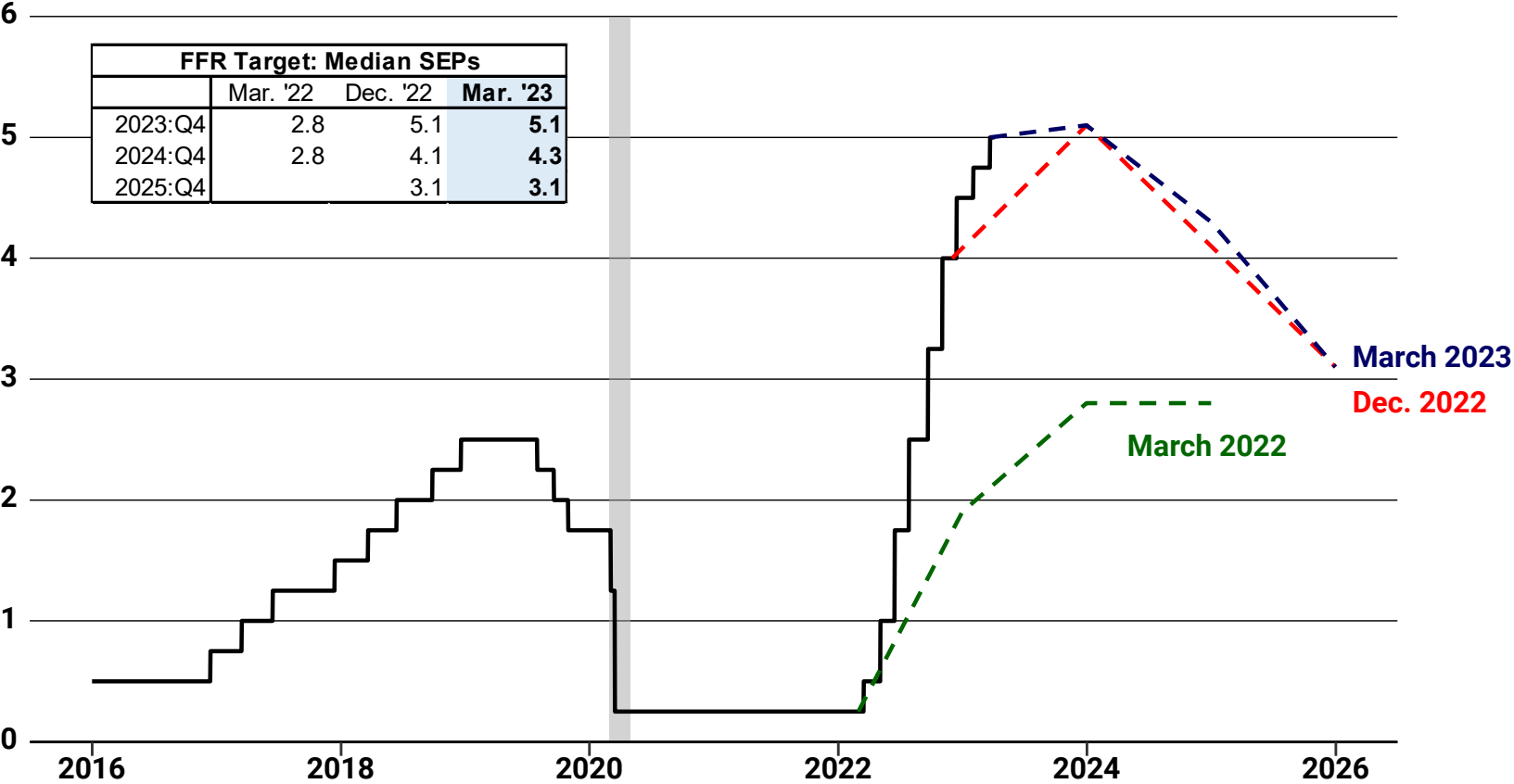


Source: BEA and FOMC Summary of Economic Projections via Haver Analytics

# Federal funds rate projections

## Federal Funds Rate Target Median SEPs

(Percent)



Source: Federal Reserve Board and FOMC Summary of Economic Projections via Haver Analytics

# Summing up

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- **Remaining uncertainty**
- **Risks**
- **If inflation doesn't subside, monetary policy will need to be more aggressive**
- **Financial markets**

# CONNECT WITH US

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- **Fill out our monthly survey to help keep the Fed up to date on what you're seeing.**
- **Results are shared with the Chicago Fed's President and help inform monetary policy.**
- **Responses are kept confidential, but aggregate results are made public.**

