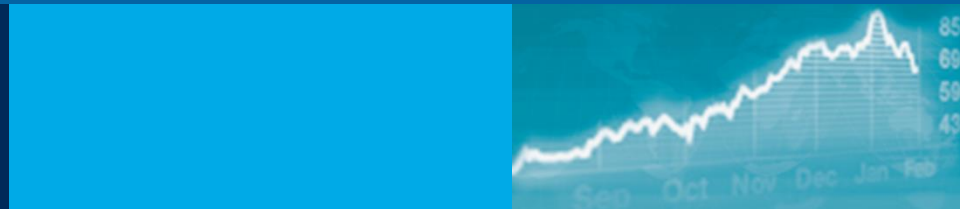




Economic Conditions

Renee Haltom
Vice President and Regional Executive
November 17, 2022

*Research Department
Federal Reserve Bank of Richmond*

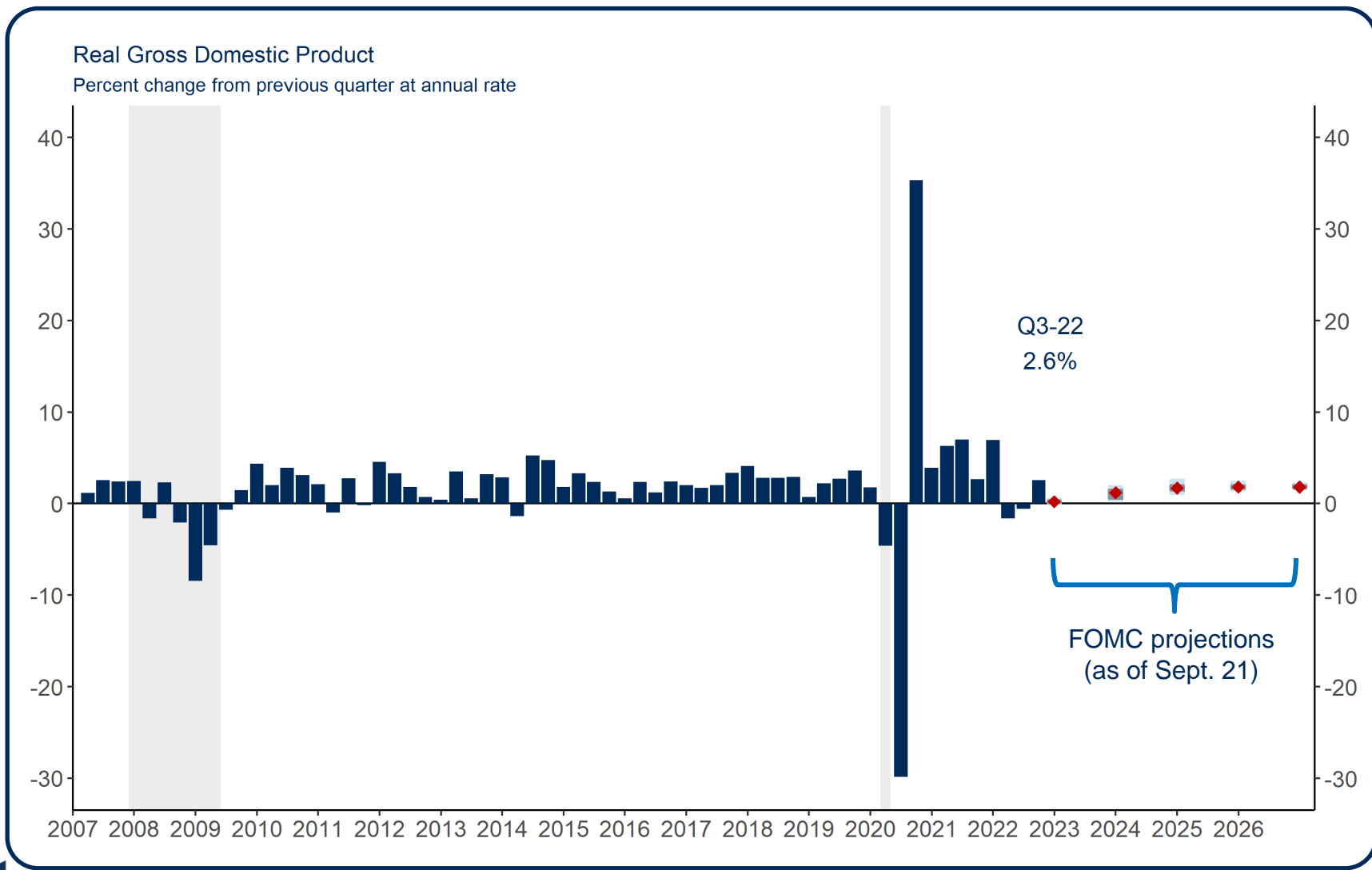


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The Economy Upshot: Demand > Supply = Inflation

- **How did we get here?**
 - Demand surged in Covid, but supply couldn't meet it
 - Global commodity prices made things worse
- **Supply and demand are starting to balance**
 - As of today, spending and production are strong. Only the earliest signs that labor is cooling off, and no relief on inflation
 - But growth is softening into 2023 as Fed rate hikes take hold
 - Key question: How much does the economy cool, and how quickly does inflation come down with it? The latter will drive Fed policy, and uncertainty will make it a tough call
- **Virginia continues to lag in growth and recovery, but it tends to not take slowdowns as hard**

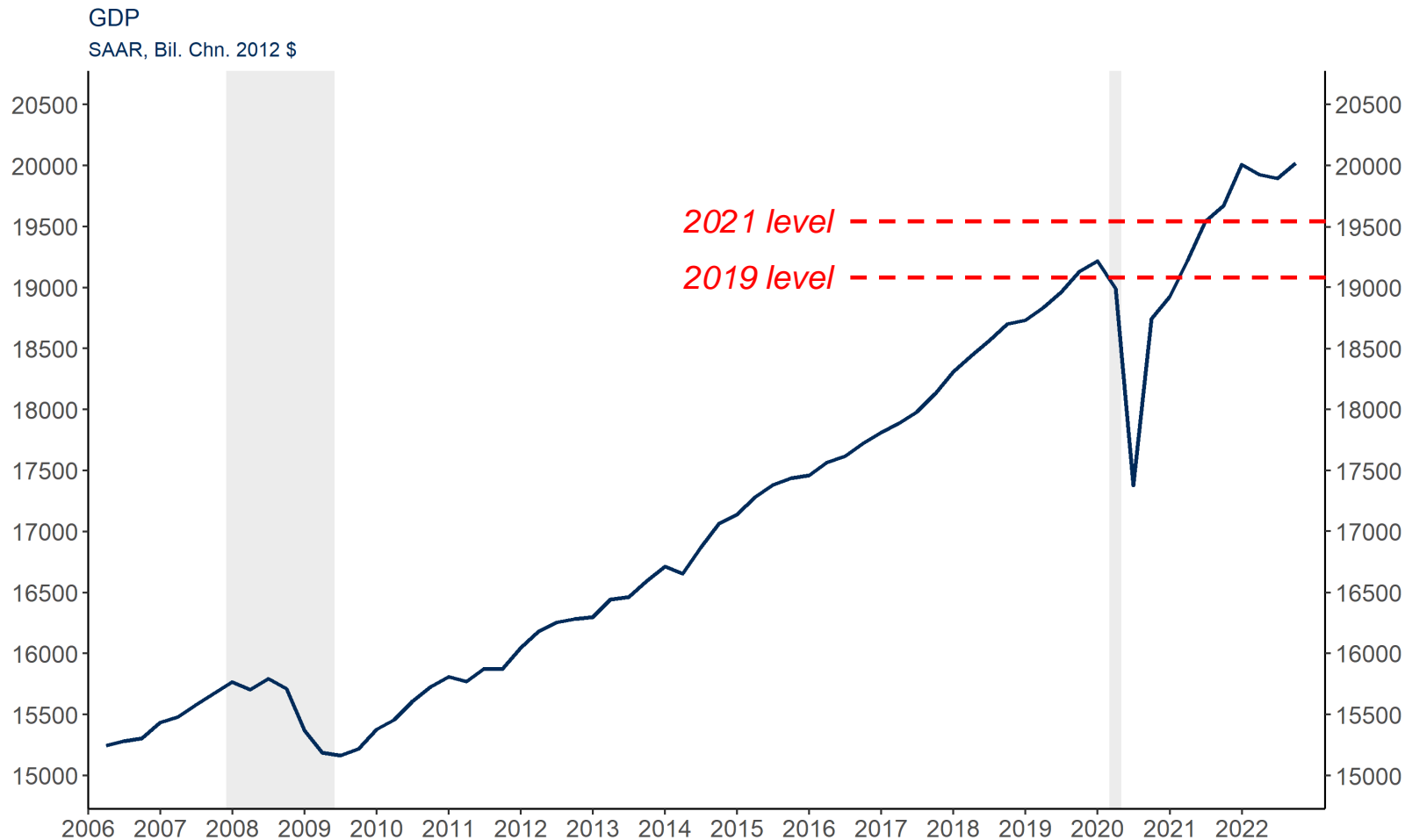
The growth outlook has cooled



Source: Bureau of Economic Analysis via Haver Analytics

Notes: FOMC projection is the median, range, and central tendency for Y/Y percent changes, from the September 2022 meeting. Red dots indicate median projections.

Even if GDP contracts, to what level? ... 2021? 2019?

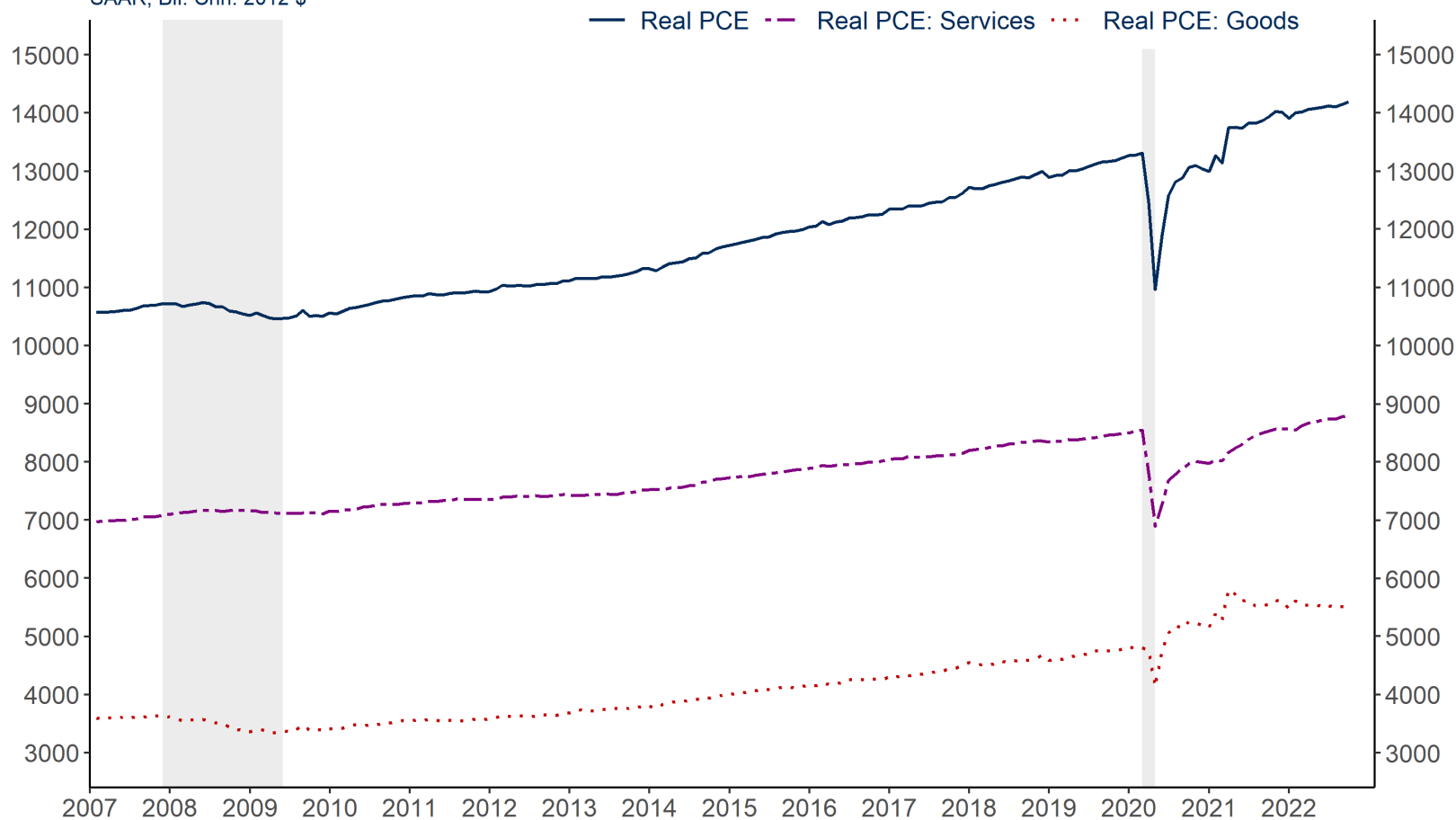


Source: Bureau of Economic Analysis /Haver Analytics

Consumer demand is slowing, but still strong

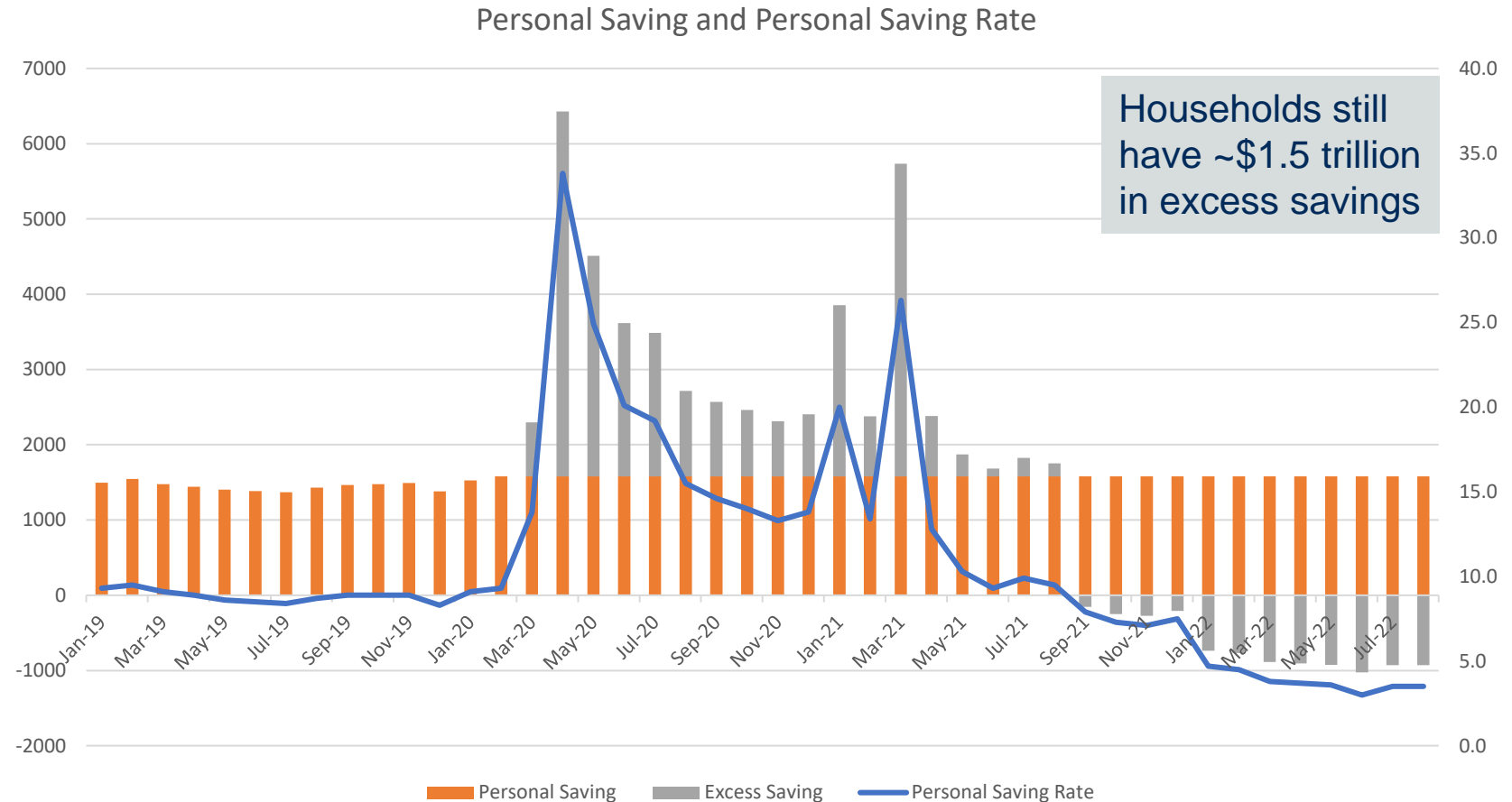
Real Personal Consumption Expenditures

SAAR, Bil. Chn. 2012 \$



Source: Bureau of Economic Analysis

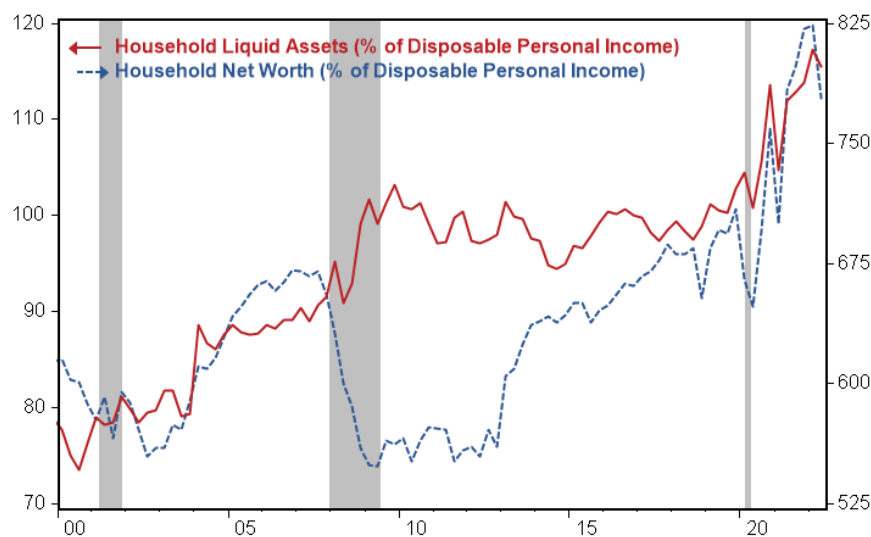
Consumers are starting to reduce excess savings



Source: Bureau of Economic Analysis via Haver Analytics

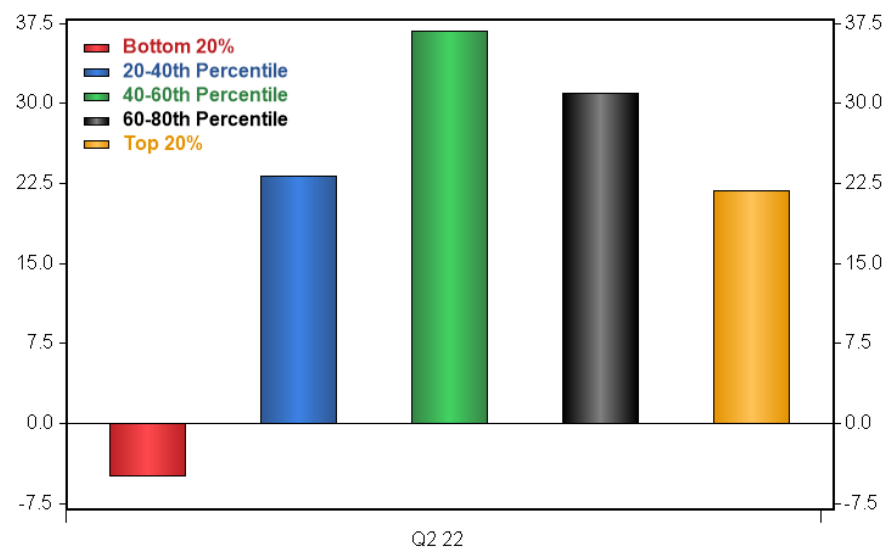
Households also have a lot of liquid assets to support spending, except at the low-income end

← Household Liquid Assets (% of Disposable Personal Income)
Household Net Worth (% of Disposable Income) ---->



Source: Haver Analytics

Percent change in liquid assets since 2019Q4



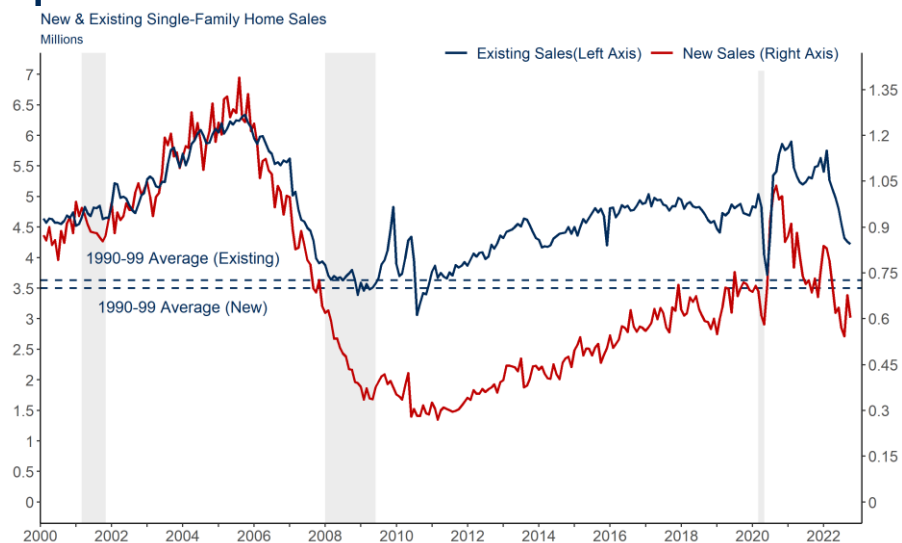
Source: Haver Analytics

Note: Liquid assets = foreign deposits + checkable deposits and currency + time and savings deposits + money market fund shares + Treasury securities+ municipal securities

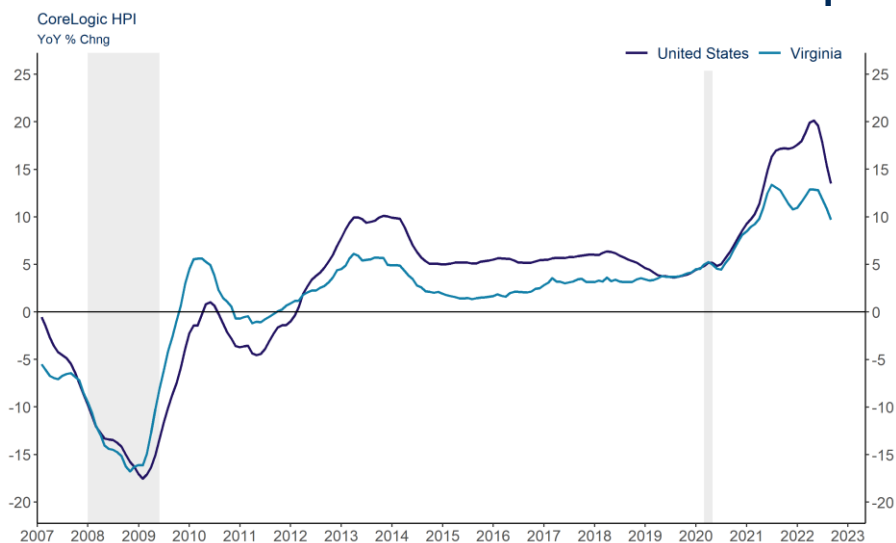
Source: Haver Analytics

The most slowing now is in housing. Home sales are softening, but prices haven't as much yet

New and existing single-family home sales



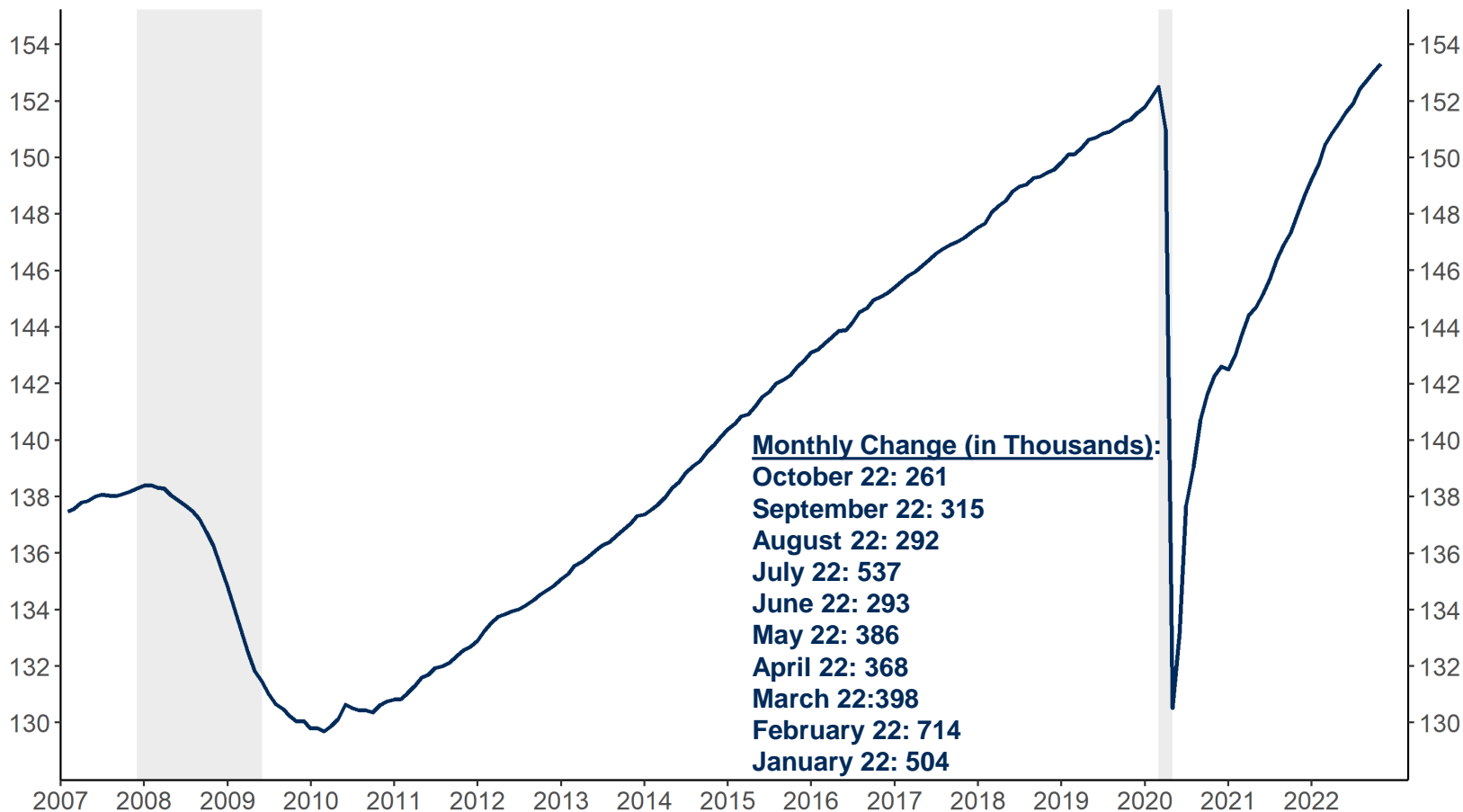
House prices (US and VA)



Source: Census Bureau via Haver Analytics
/ Federal Housing Finance Agency/Haver Analytics

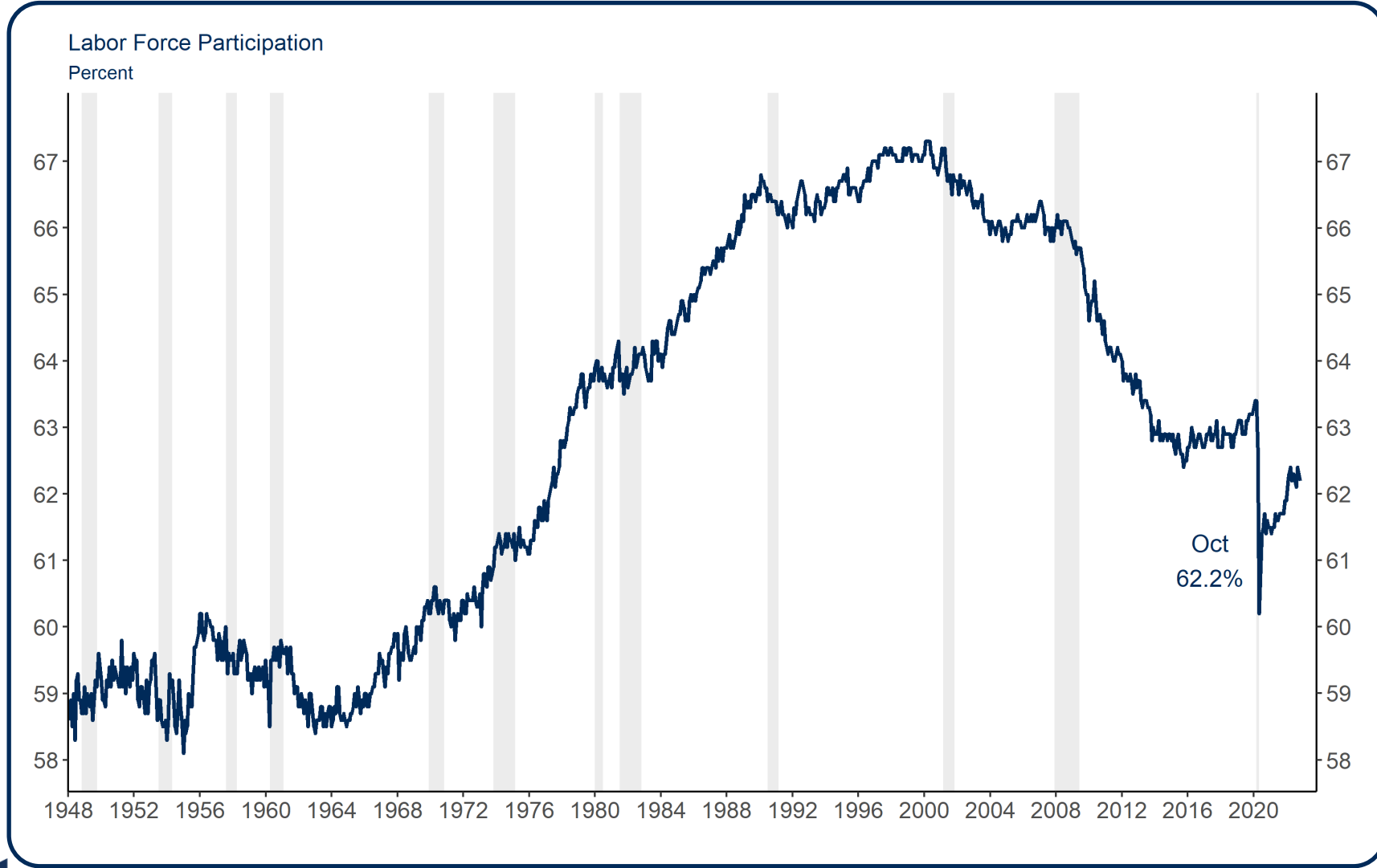
We're far above pre-Covid production... but with the same # of jobs

Nonfarm Payroll Employment
Millions of Persons



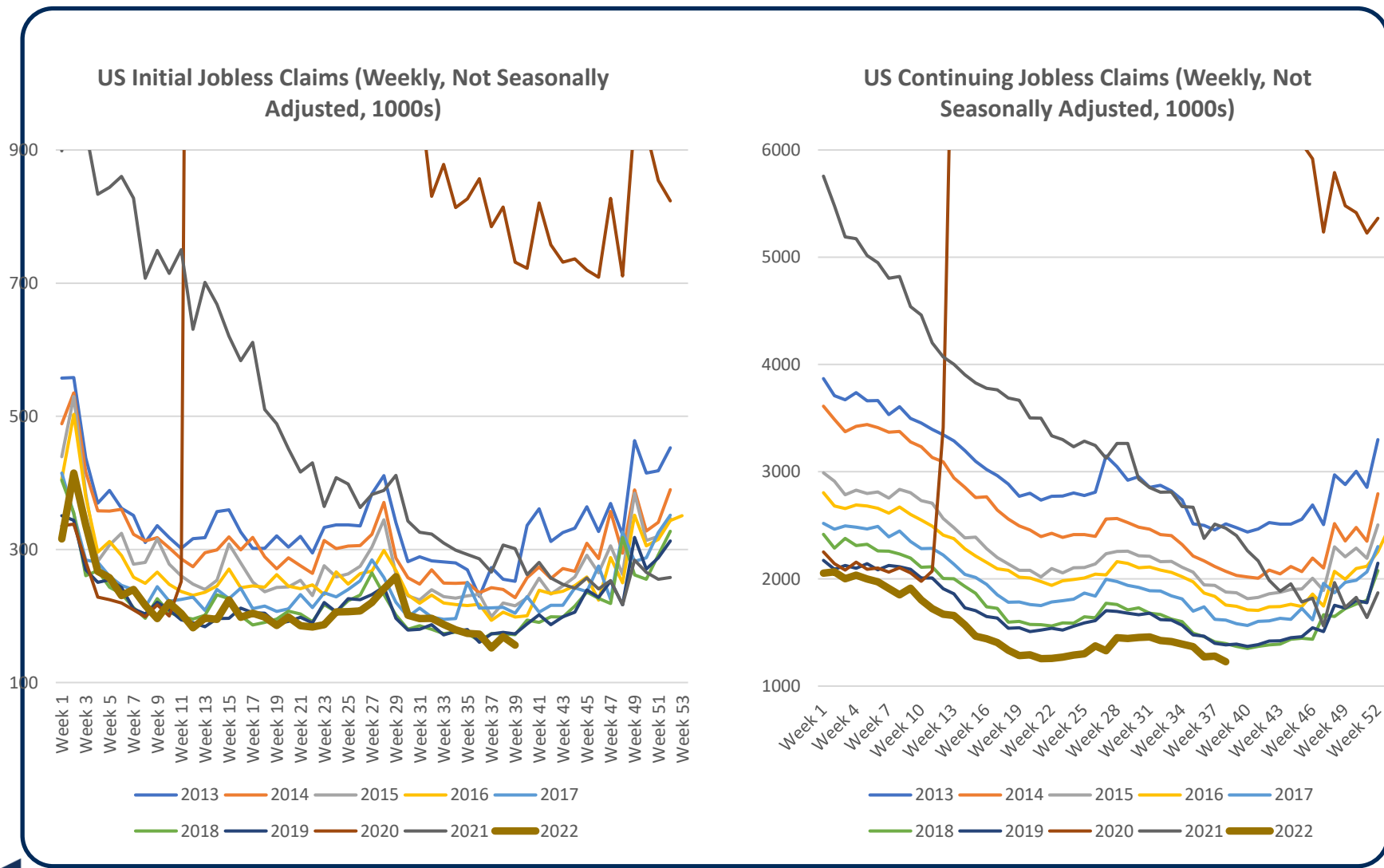
Source: Bureau of Labor Statistics/Haver Analytics

Labor is still incredibly tight

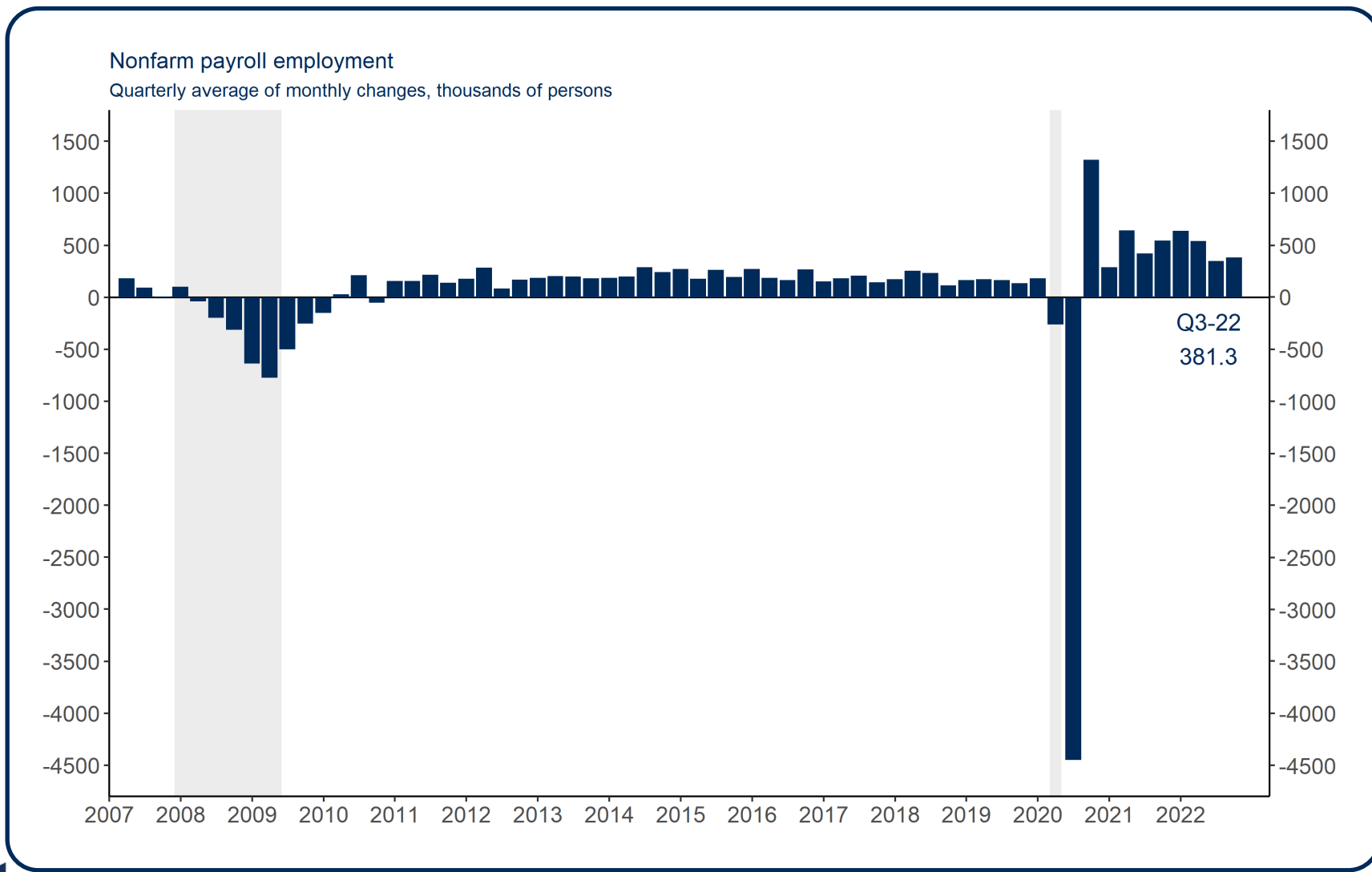


Source: Bureau of Labor Statistics/Haver Analytics

Not much traditional sign of the labor market weakening



But maybe job growth is slowing (if you squint)?



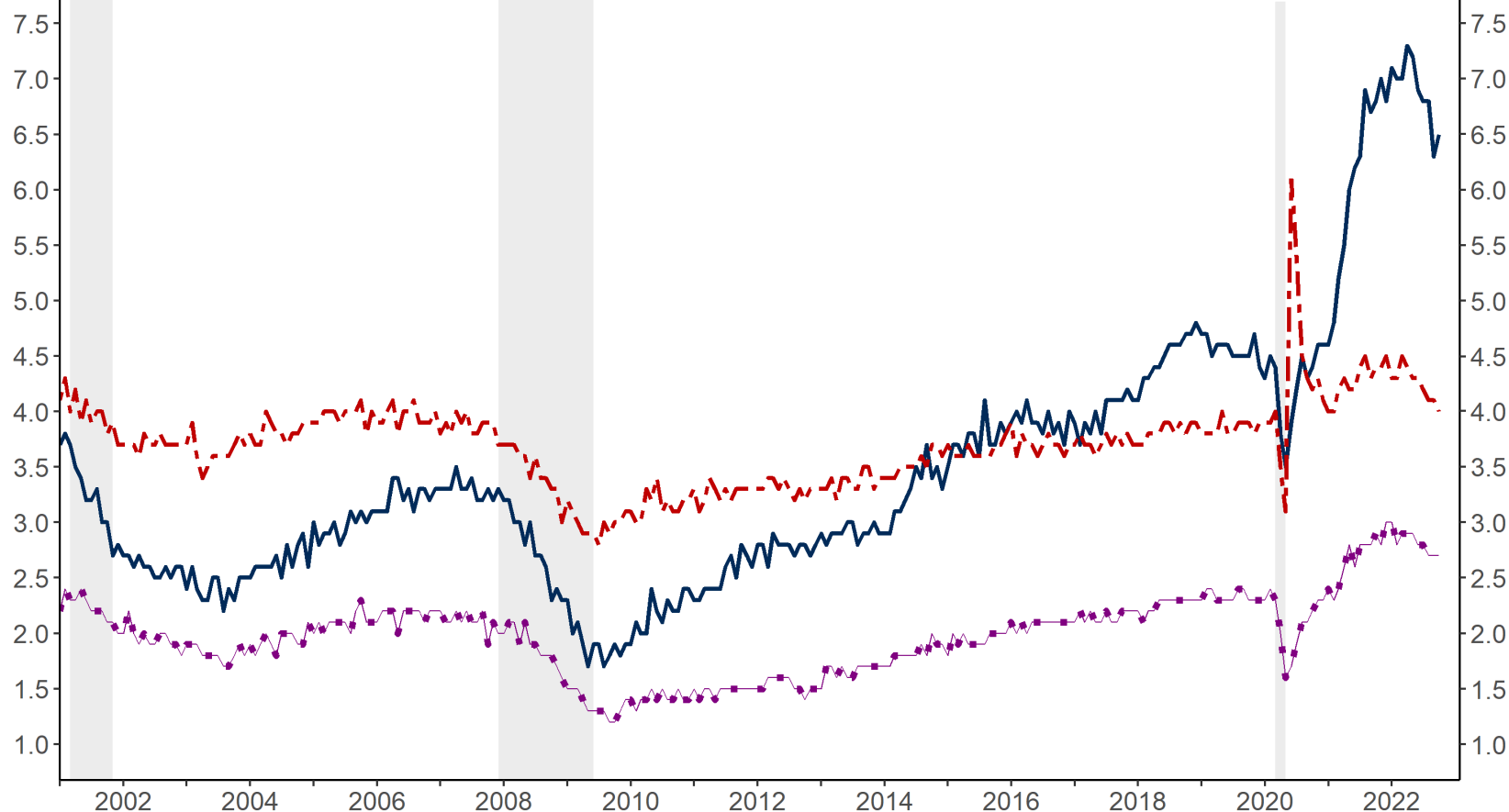
Source: Bureau of Labor Statistics/Haver Analytics

And could the labor market normalize by “churn” coming down (vs. mass layoffs?)

Labor Market Flows

Percent

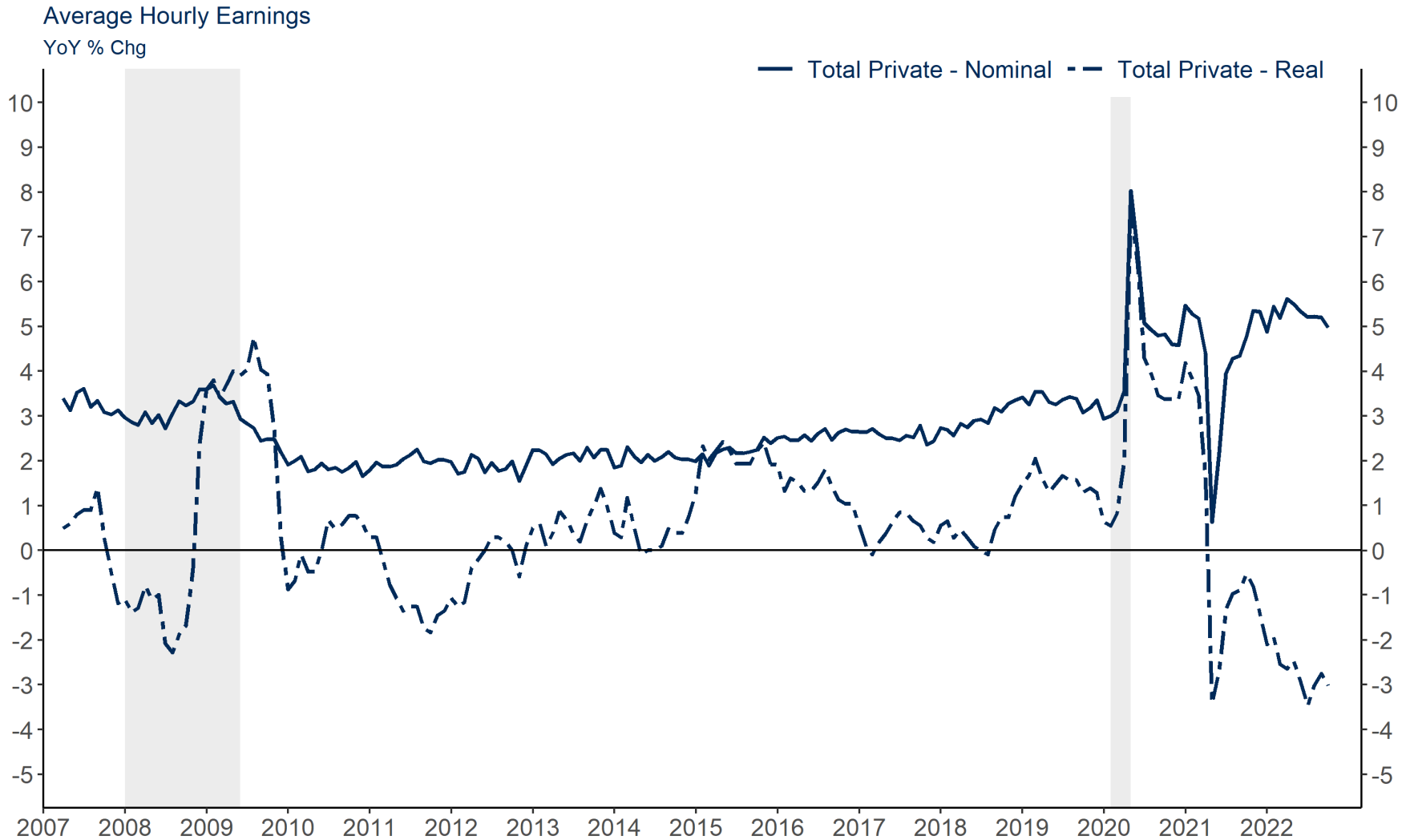
— Job Openings Rate** - - Hires Rate* ··· Quits Rate*



Note: *Percent of total employment. **Percent of total employment plus job openings.

Source: JOLTS/Haver Analytics

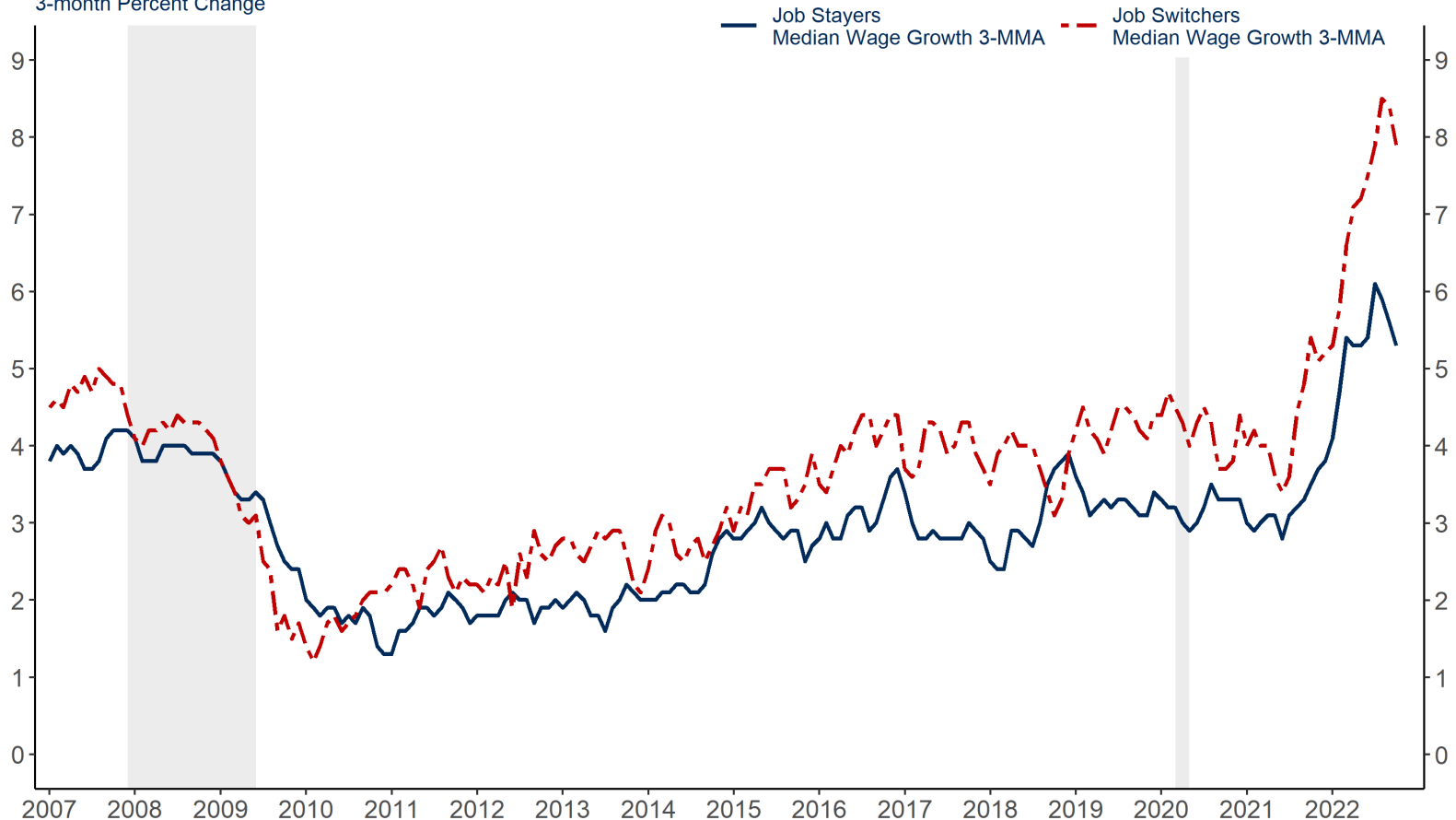
Wages are growing, but inflation is eating the gains



Source: Bureau of Labor Statistics/Haver Analytics

Makes sense that people are switching jobs... it pays

Wage Growth by Job Switcher
3-month Percent Change

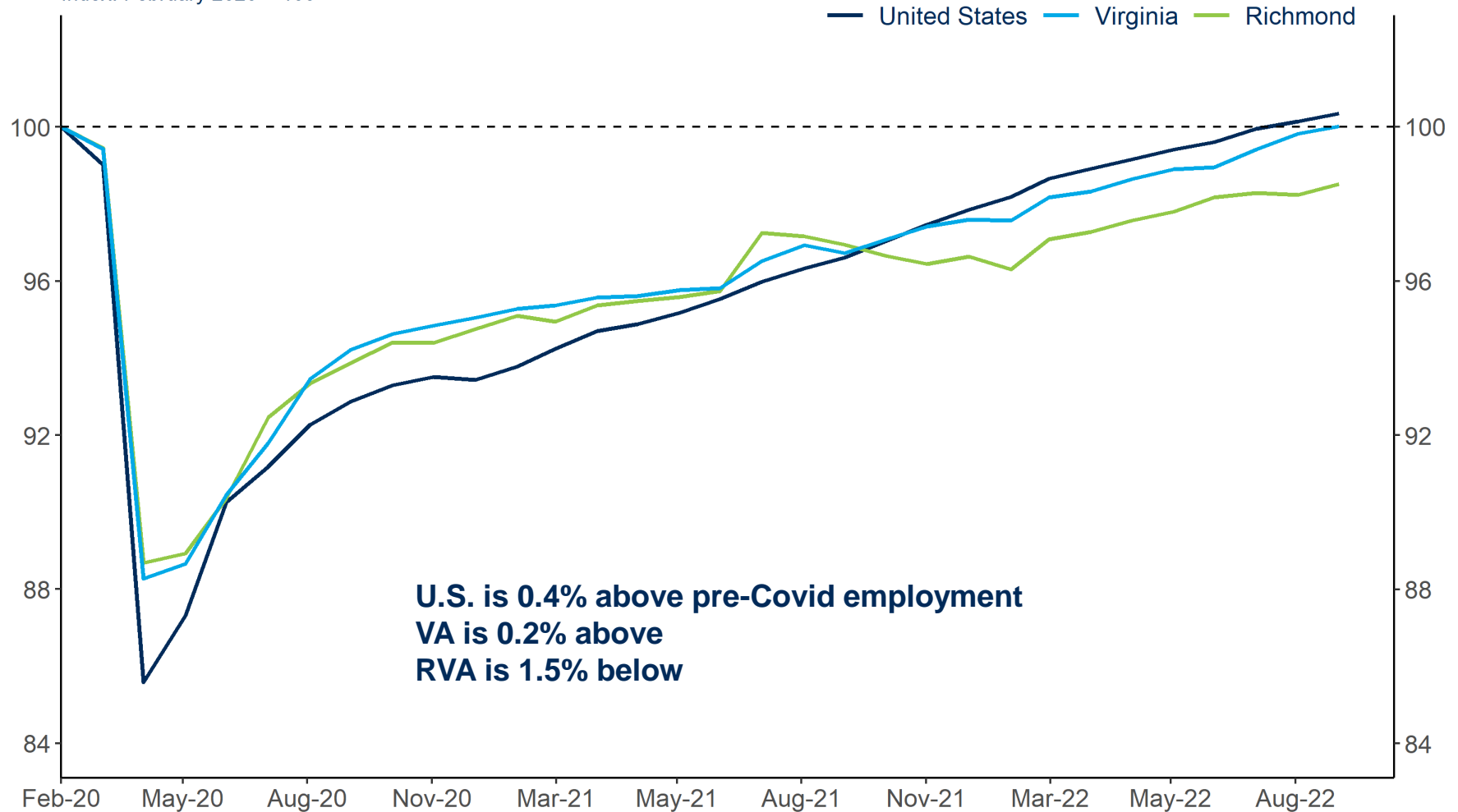


Source: Federal Reserve Bank of Atlanta

Virginia's recovery has been slower

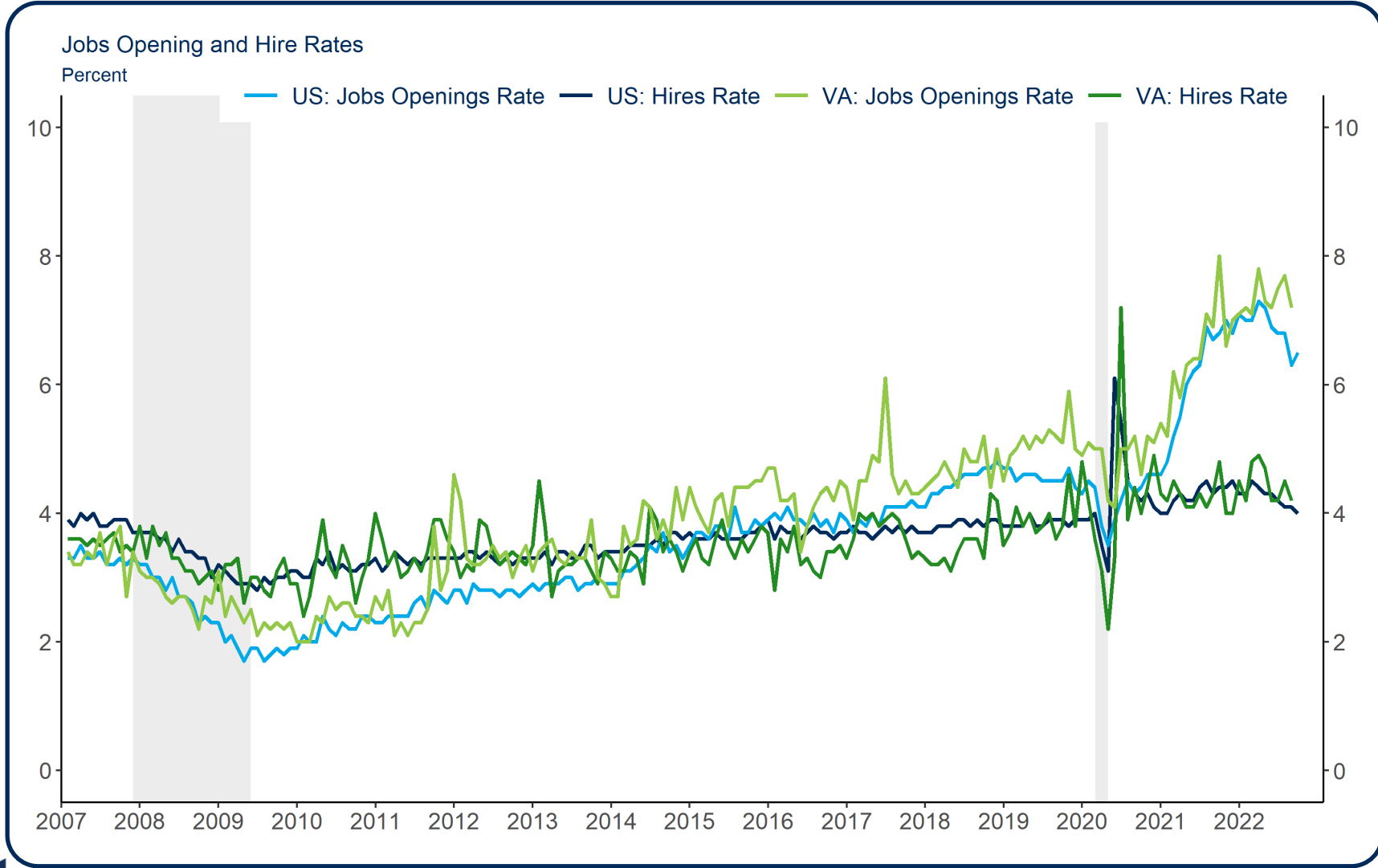
Total Payroll Employment Index

Index: February 2020 = 100



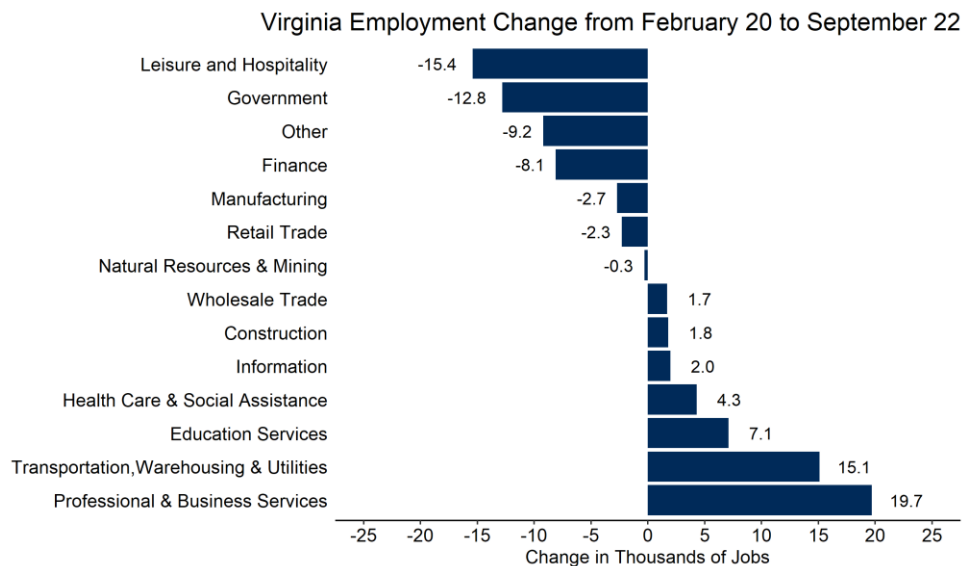
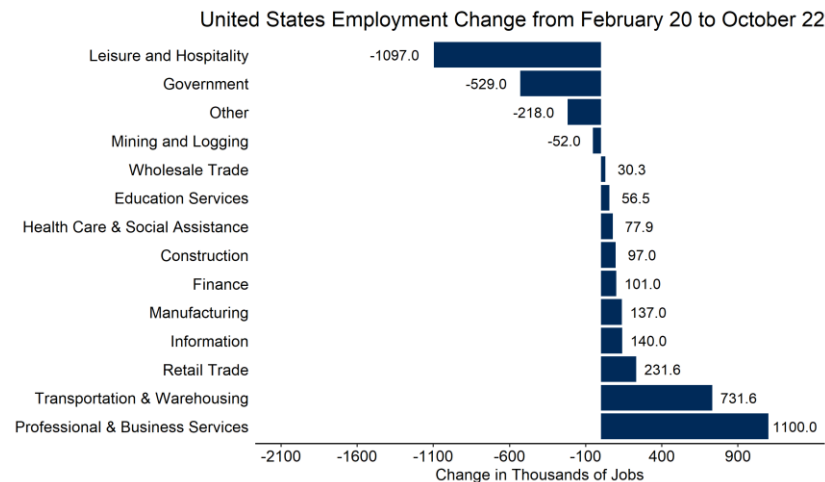
Source: Bureau of Labor Statistics/Haver Analytics

But VA's labor market hasn't cooled by the "churn" measure



Source: Bureau of Labor Statistics/Haver Analytics

Workers have shifted sectors

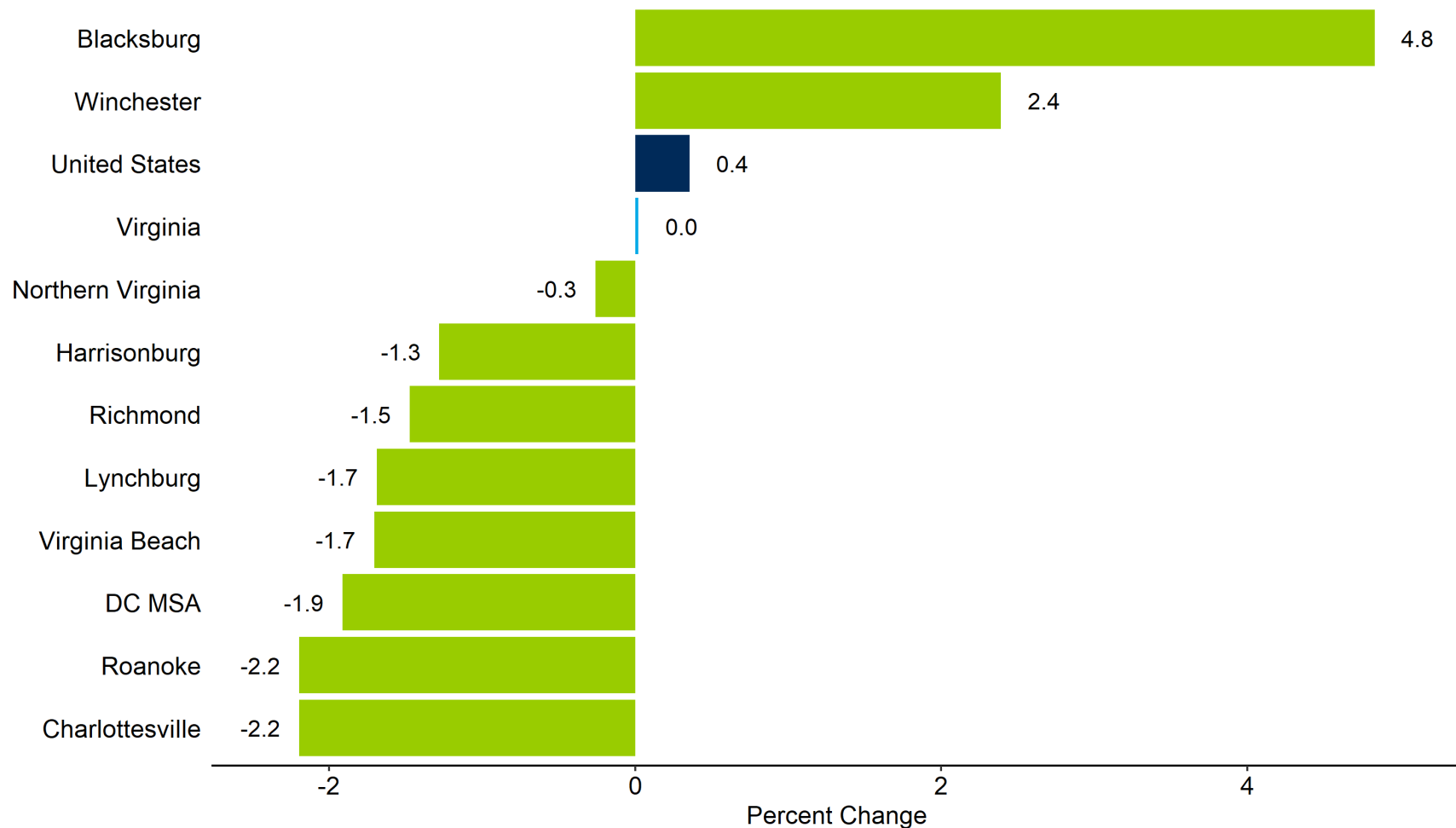


Average weekly wages, VA (Q2-2022):

L&H - \$482
 Gov - \$1,251
 Other - \$1,025
 Fin - \$2,475
 Manu - \$1,306
 Retail - \$706
 NRM - \$967
 Wholesale - \$1,922
 Cons - \$1,230
 Info - \$2,709
 HCSA - \$1,098
 Educ - \$1,079
 TW - \$1,064 / U - \$3,002 / Avg. \$2033
 PBS - \$2,068

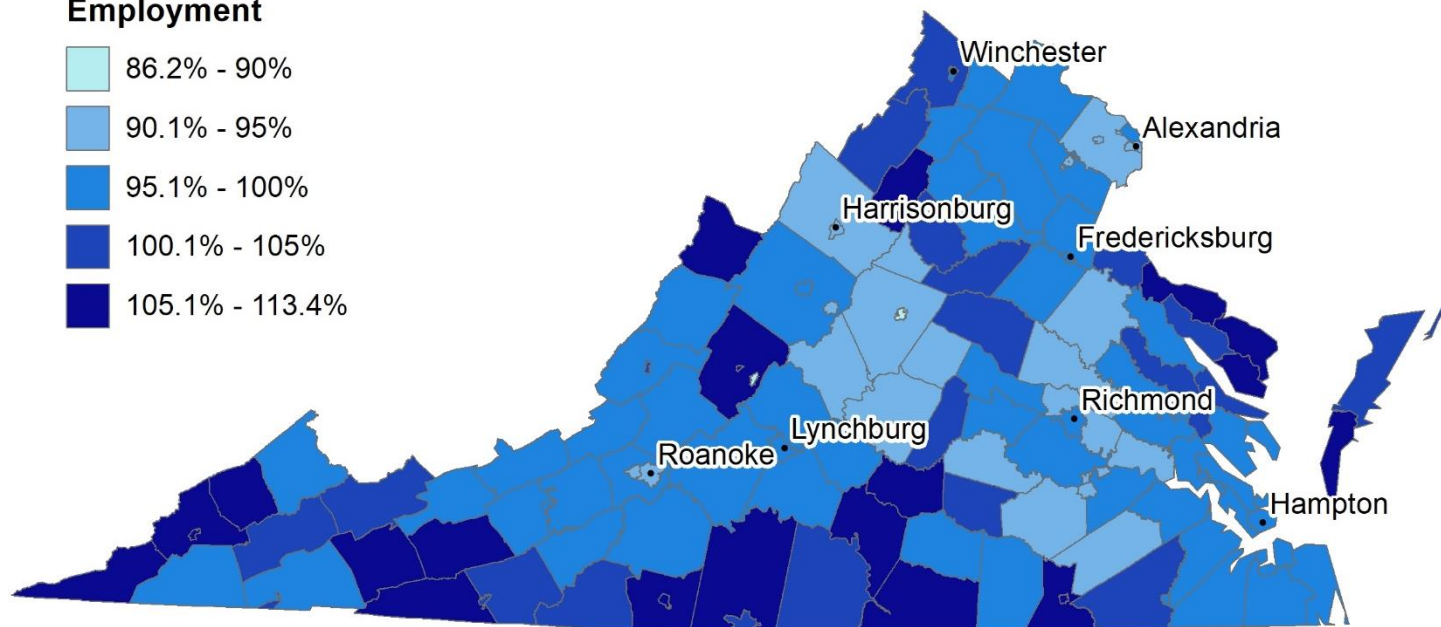
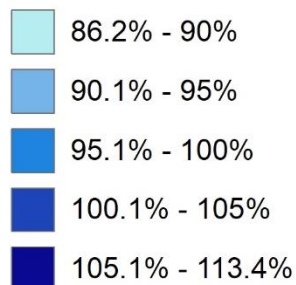
Most Virginia MSAs are under-performing the nation

Employment Change from February 20 to September 22



Covid narrowed rural-urban gaps some

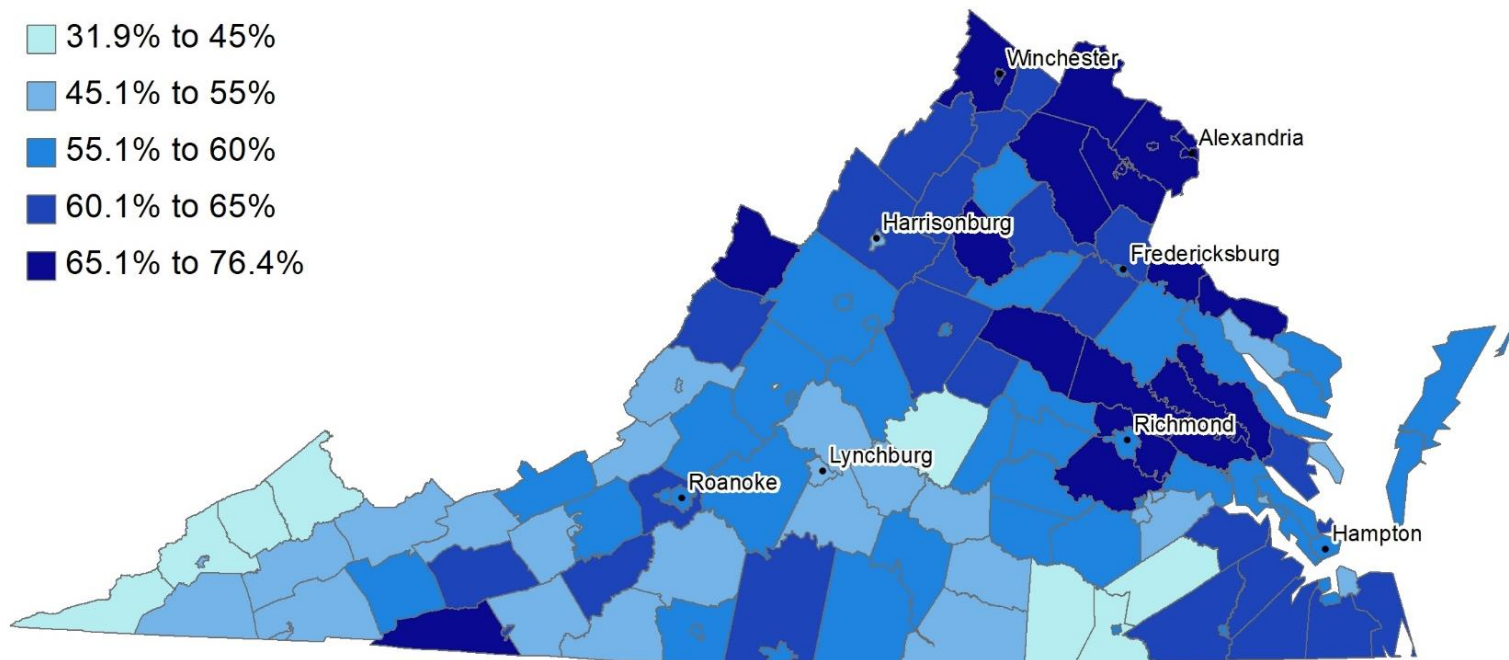
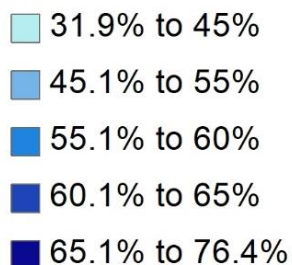
August 2022 Employment as a Percentage of Pre-COVID Employment



Source: Calculated using Bureau of Labor Statistics Local Area Unemployment Statistics, Civilian Employment

But outcomes still vary widely across rural-urban

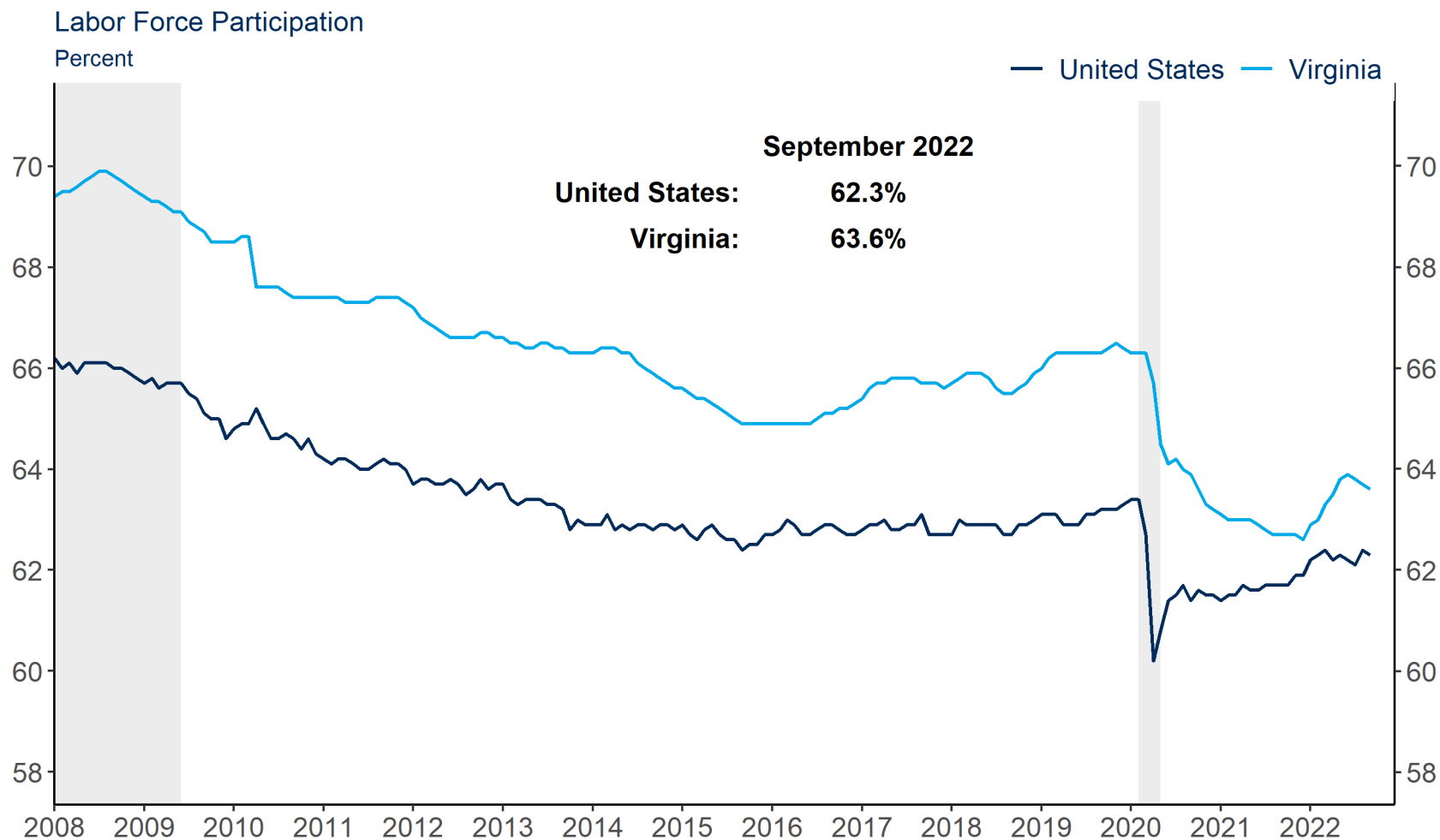
Estimated Employment to Population Ratio



Note: Population 16 Years and Over

Sources: Bureau of Labor Statistics Local Area Unemployment Statistics, Civilian Employment and Census Bureau American Community Survey 2020 Population Estimates

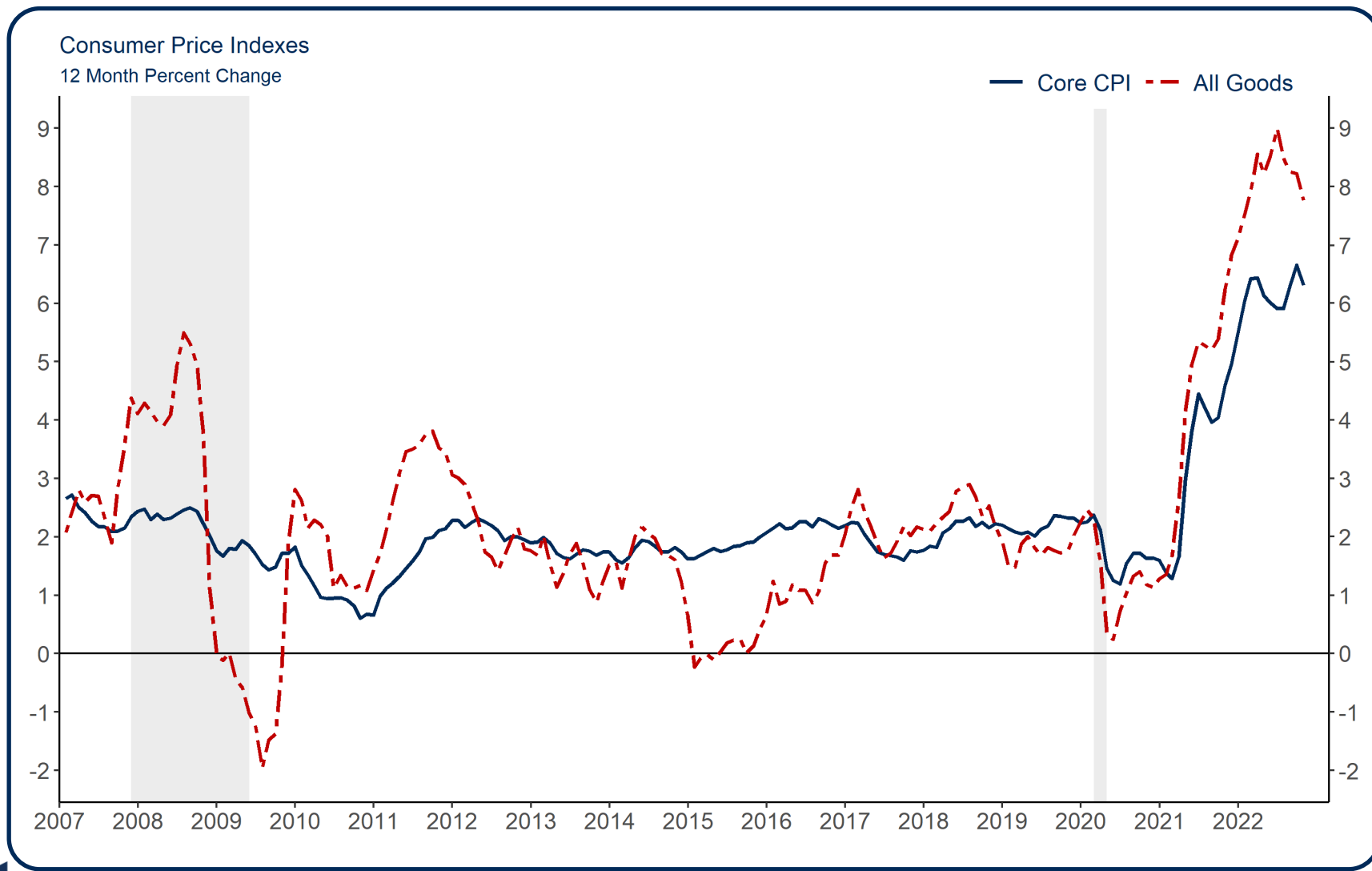
Labor force recovery is even slower in Virginia



The outlook for inflation

- Demand > supply = inflation
 - For the Fed, inflation is a sustained increase in average prices (not just gas or used cars or housing)
 - Specifically, we target 2% inflation
- Inflation will come down in three ways:
 - Demand moderating (the Fed mainly works via this channel)
 - Supply expanding (happening, but slowly)
 - Global commodity prices moderating (happening, but uncertain)
- All three forces are in progress, but all are hard to forecast, especially in a slowing economy

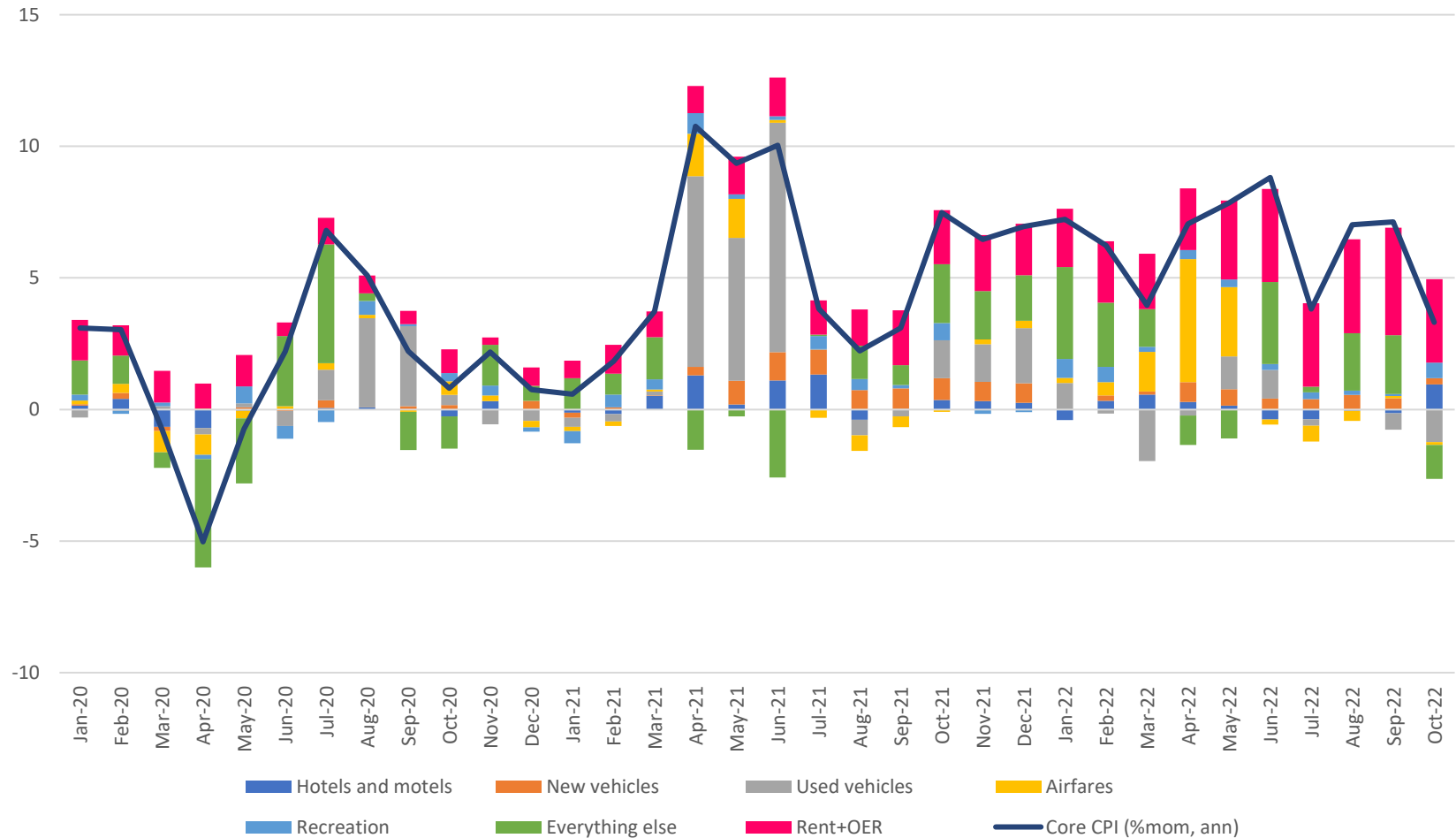
Surging demand → Surging inflation



Source: Bureau of Labor Statistics via Haver Analytics

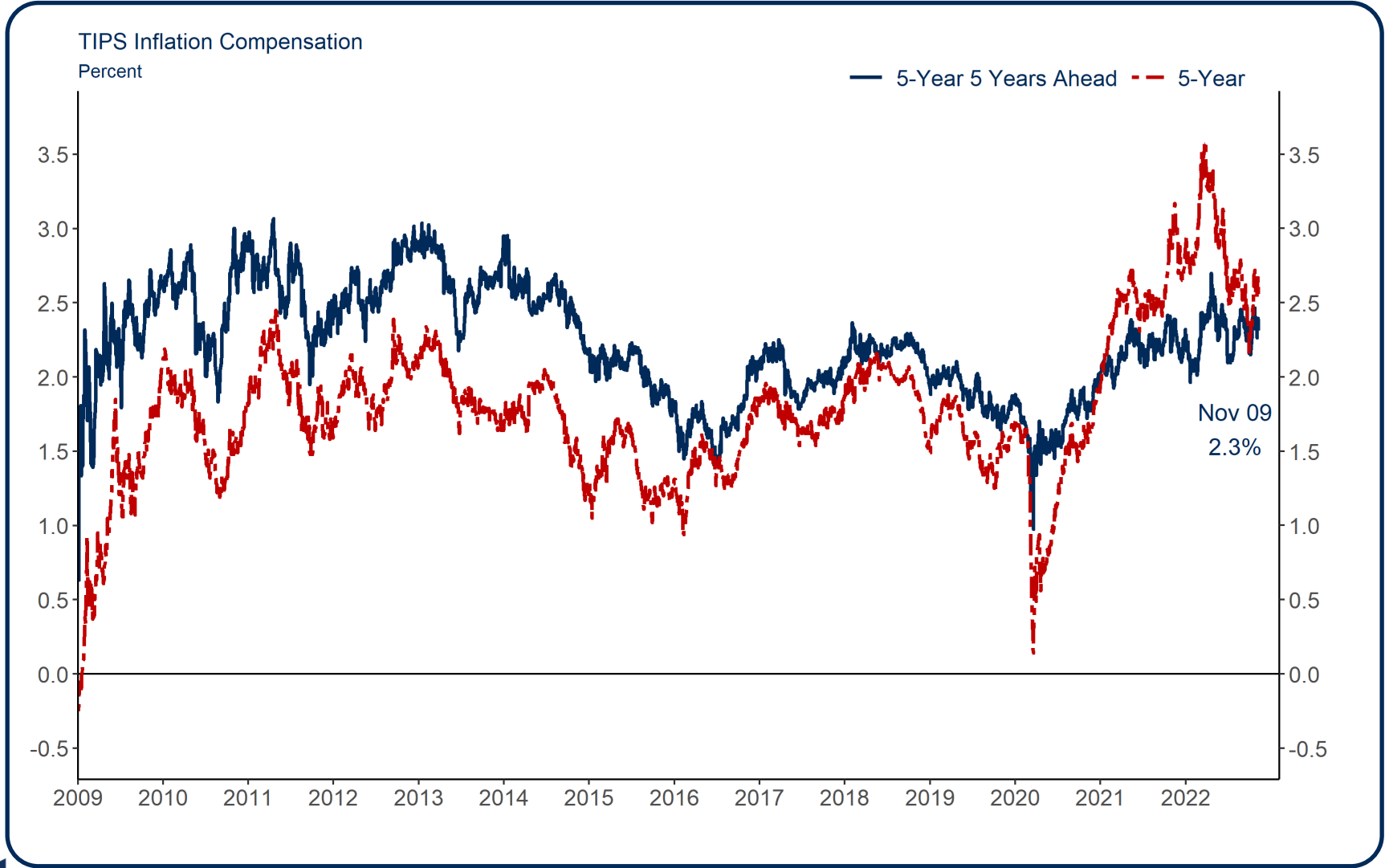
Inflation momentum is too high, but latest report was better

Annualized Month-Over-Month Core CPI Growth



Source: Bureau of Labor Statistics via Haver Analytics

Inflation expectations seem anchored (that's important)



Source: Federal Reserve Board via Haver Analytics

But perspective: We have only just begun to be restrictive,
and Fed officials are suggesting this is already outdated

FOMC members' forecast as of Sept. 21, 2022



Note: Each dot in the chart represents the value of an FOMC participant's judgment of the midpoint of the appropriate target range (or the appropriate target level) for the federal funds rate at the end of the calendar year.

Source: *Federal Reserve Board of Governors Forecast*

- **The economy is slowing, but how much?**

- The course of inflation will determine how high rates go, and for how long, not “are we in a recession.” Because staying the course until inflation is tamed minimizes pain
- Uncertainty remains high – global weakness, Ukraine, China, etc.
- Virginia tends to fare better in recessions, but we still have challenges with tight labor

- **What could a softer landing look like?**

- Job openings coming down (vs. mass layoffs)
- Inflation expectations staying anchored, thereby bringing inflation down without as much demand adjustment
- Supply continuing to expand to reduce price pressures
- Even if there’s a recession, one that’s mild and orderly (they don’t all have to be 2008)

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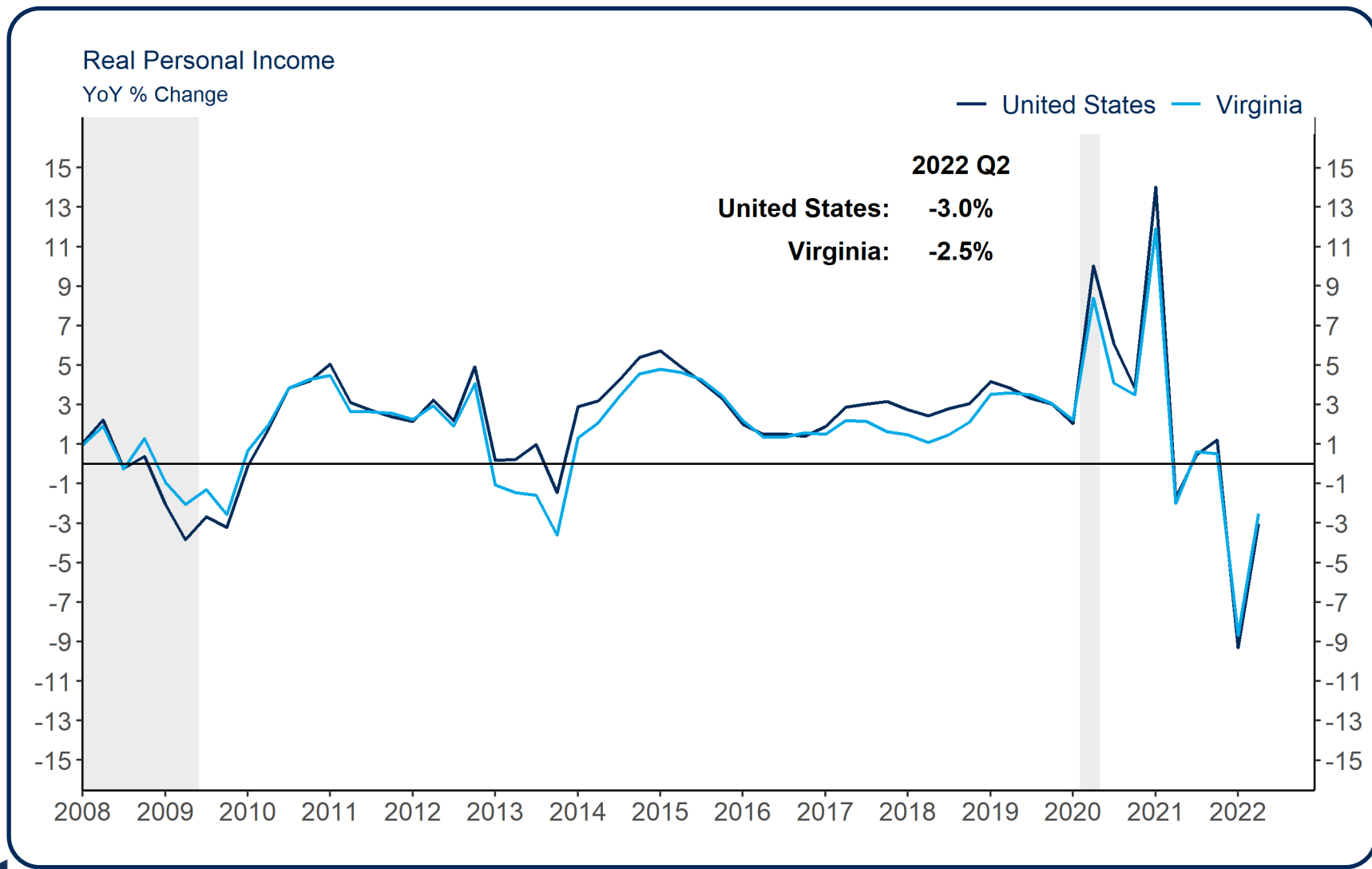
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- ***Rural and small towns***
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Virginia Real Personal Income



Virginia Wages and Salaries

