



FEDERAL  
RESERVE  
BANK  
*of* ATLANTA

# The inflation fight one-year in: Is a soft landing still in the cards?

Ball State University Annual Economic  
Forecasting Luncheon

Muncie, IN

January 17, 2023

# You may have heard about this inflation thing.

**Personal Consumption Expenditure Price Index**  
12-month percent change



# The Atlanta Fed Inflation Dashboard

## Color code:

### On target:

- **Within 0.25 percentage points (ppts) of target**

### Below target:

- **Between 0.25 and 0.50 ppt below target**
- **More than 0.50 ppt below target**

### Above target:

- **Between 0.25 and 0.50 ppt above target**
- **More than 0.50 ppt above target**

# Excluding food and energy, inflation has in fact been falling.

Inflation Measure	12-month	6-month	3-month	1-month
Core PCE Index				

# There are lots of statistics to ponder...

Inflation Measure	12-month	6-month	3-month	1-month
Core PCE Index				
Market-Based PCE Index				
FRB Dallas Trimmed-Mean Index				
FRB San Francisco Cyclical Core PCE Index				
Stock and Watson Cyclically Sensitive Inflation				
Core CPI				
FRB Cleveland Median CPI				
FRB Cleveland 16% Trimmed-Mean CPI				
FRB Atlanta Sticky-Price CPI				

... and here the picture is more complicated.

Inflation Measure	12-month	6-month	3-month	1-month
Core PCE Index *	Red	Red	Red	Green
Market-Based PCE Index*	Red	Red	Red	Purple
FRB Dallas Trimmed-Mean Index*	Red	Red	Green	Blue
Stock and Watson Cyclically Sensitive Inflation*	Red	Red	Red	Red
Core CPI	Red	Red	Red	Red
FRB Cleveland Median CPI	Red	Red	Red	Red
FRB Cleveland 16% Trimmed-Mean CPI	Red	Red	Red	Red
FRB Atlanta Sticky-Price CPI	Red	Red	Red	Red

\* Based on data through November.

Source: Federal Reserve Bank (FRB) of Atlanta *Underlying Inflation Dashboard*: <https://www.frbatlanta.org/research/inflationproject/underlying-inflation-dashboard>

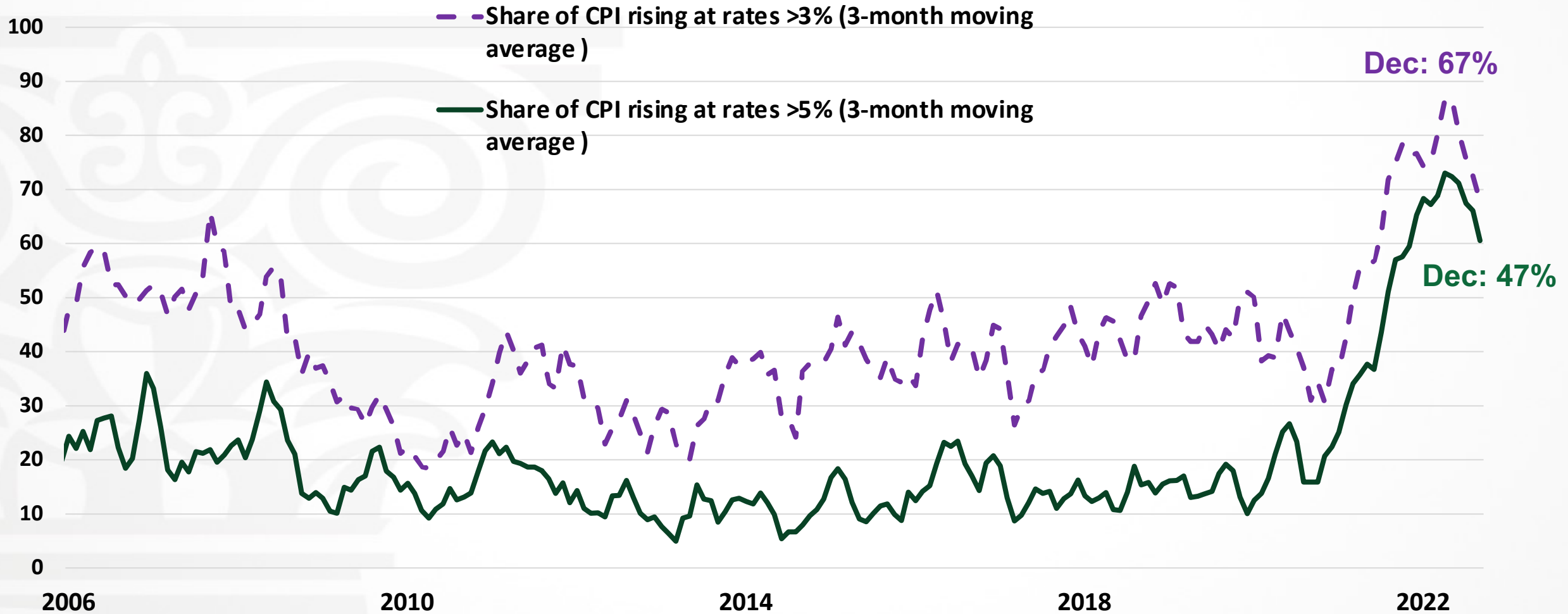
# Our inflation monitors *are* showing downward momentum – for the most part.

Inflation Measure	12-month	6-month	3-month	1-month
Core PCE Index *		↓	↓	↓
Market-Based PCE Index*		↓	↓	↓
FRB Dallas Trimmed-Mean Index*			↓	↓
Stock and Watson Cyclically Sensitive Inflation*			↓	↓
Core CPI		↓	↓	
FRB Cleveland Median CPI		↓	↓	↓
FRB Cleveland 16% Trimmed-Mean CPI		↓	↓	
FRB Atlanta Sticky-Price CPI		↓	↓	

\* Based on data through November.

Source: Federal Reserve Bank (FRB) of Atlanta *Underlying Inflation Dashboard*: <https://www.frbatlanta.org/research/inflationproject/underlying-inflation-dashboard>

# The proportion of prices rising too quickly remains high.

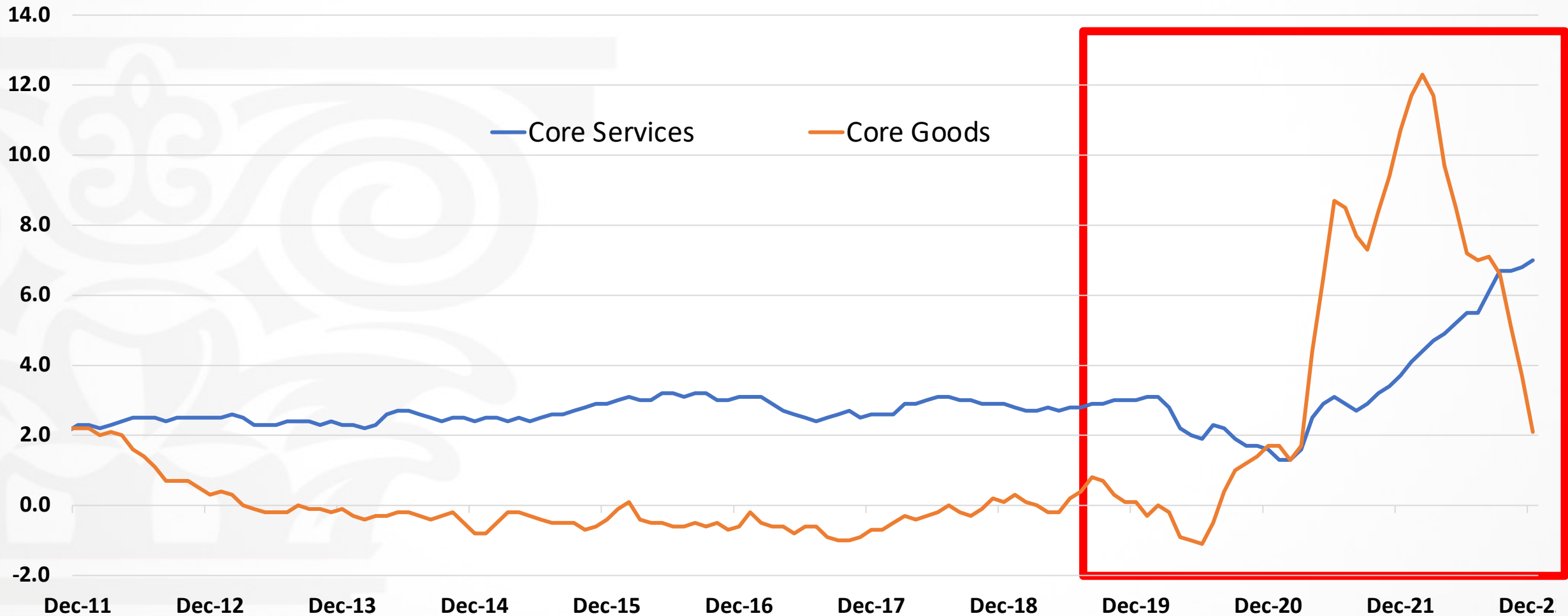




# A key dynamic: Goods disinflating, services not.

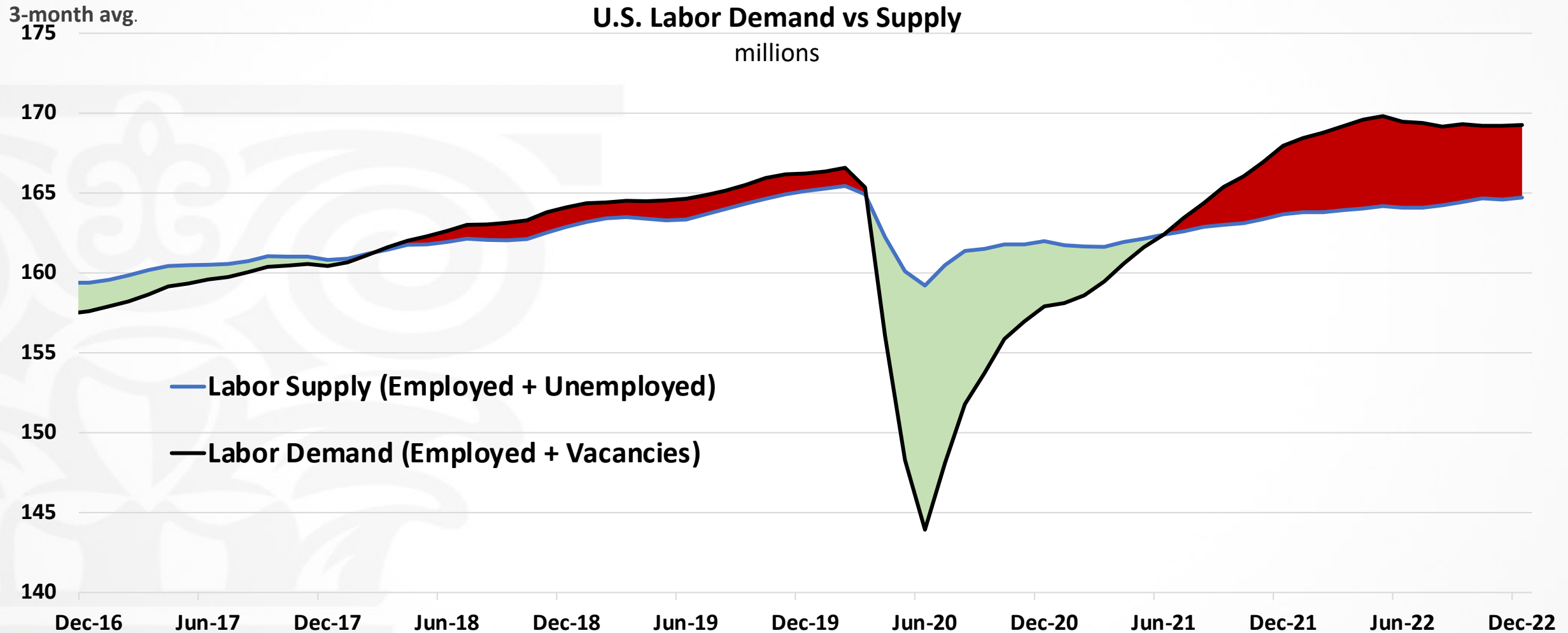
Year/Year % Change

## Inflation: Consumer Price Index (CPI)



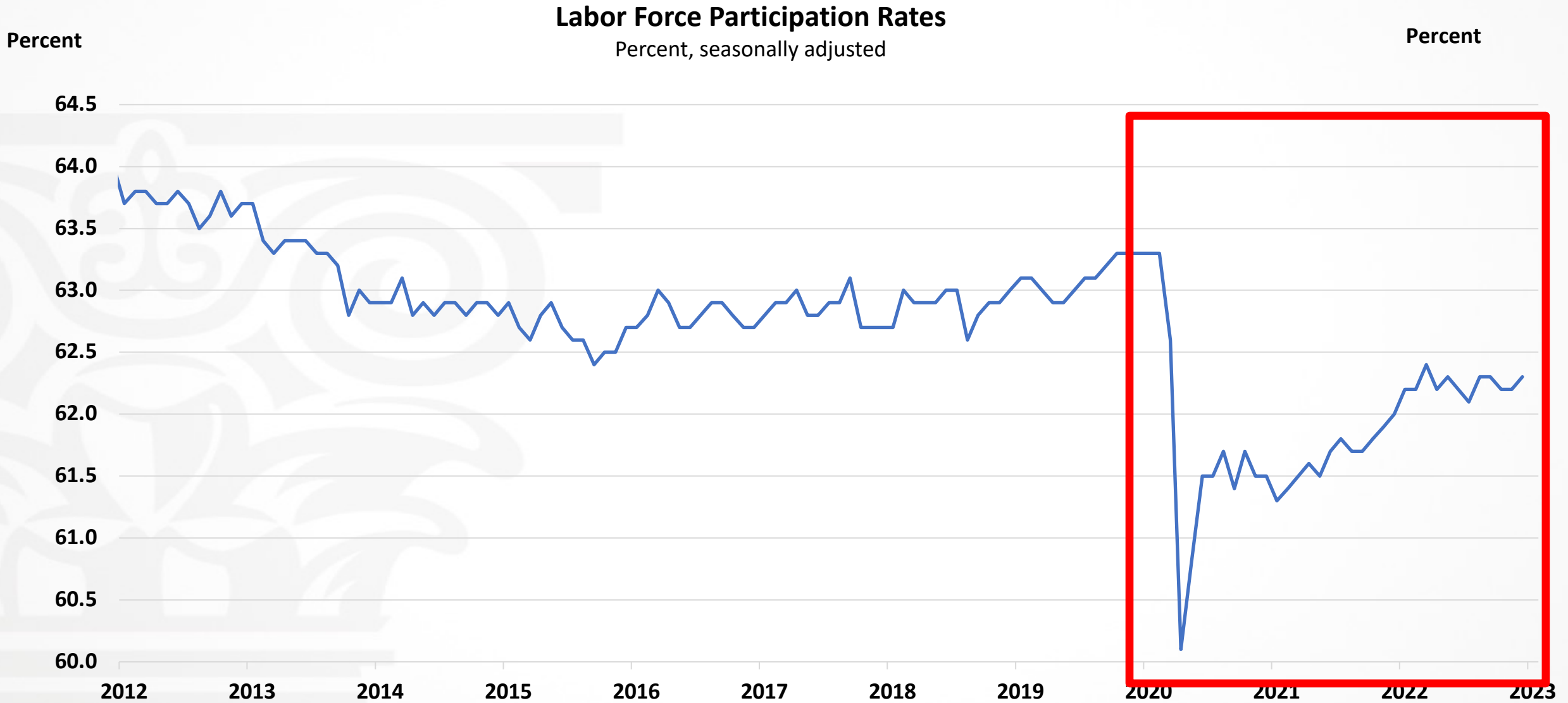
Sources: Bureau of Labor Statistics; Haver Analytics, Measures excluding food and energy. Data through December 2022.

# The “tight” labor market persists.



Data through December 2022. Source: For labor force and employment, BLS, Current Population Survey (adjusted for effects of population controls). For vacancies, BLS, Job Openings and Labor Turnover Survey. December vacancies assumed to be same as in November

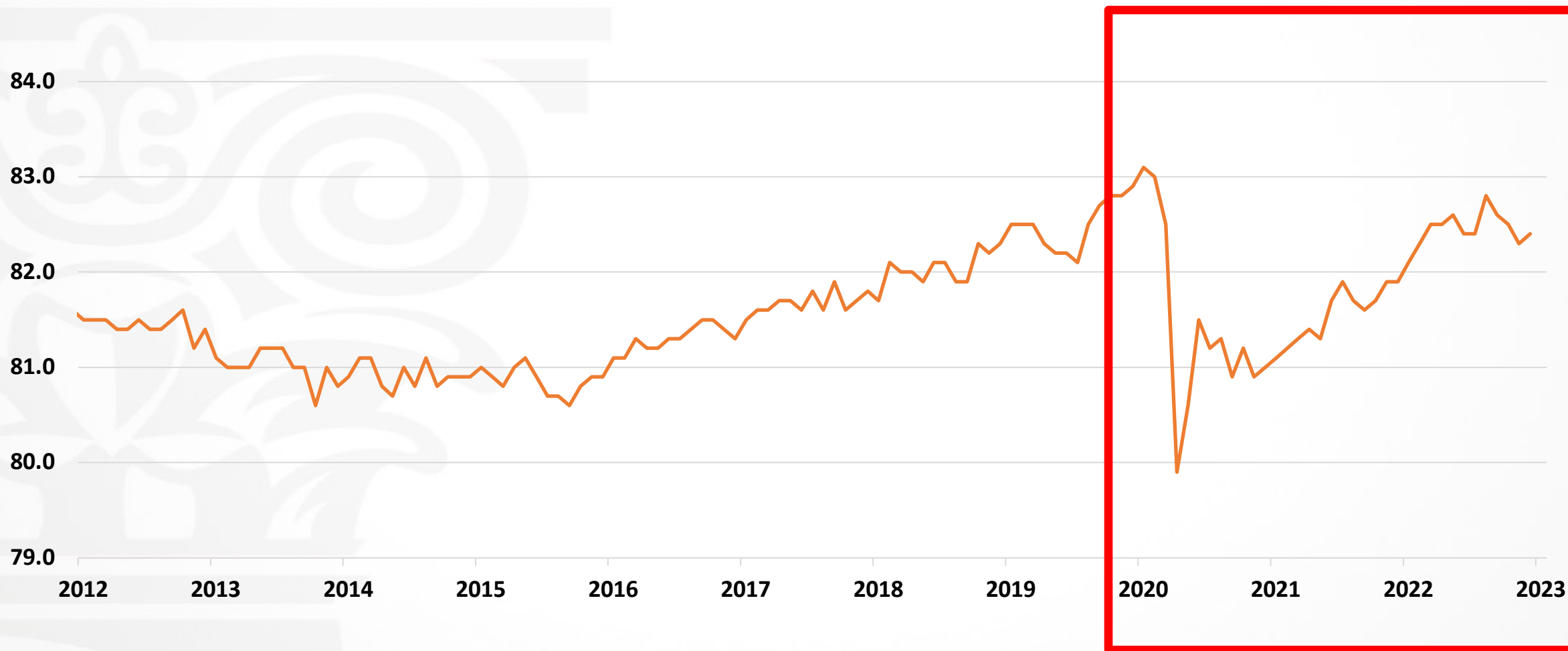
# Is there a supply side rescue? The missing labor force.



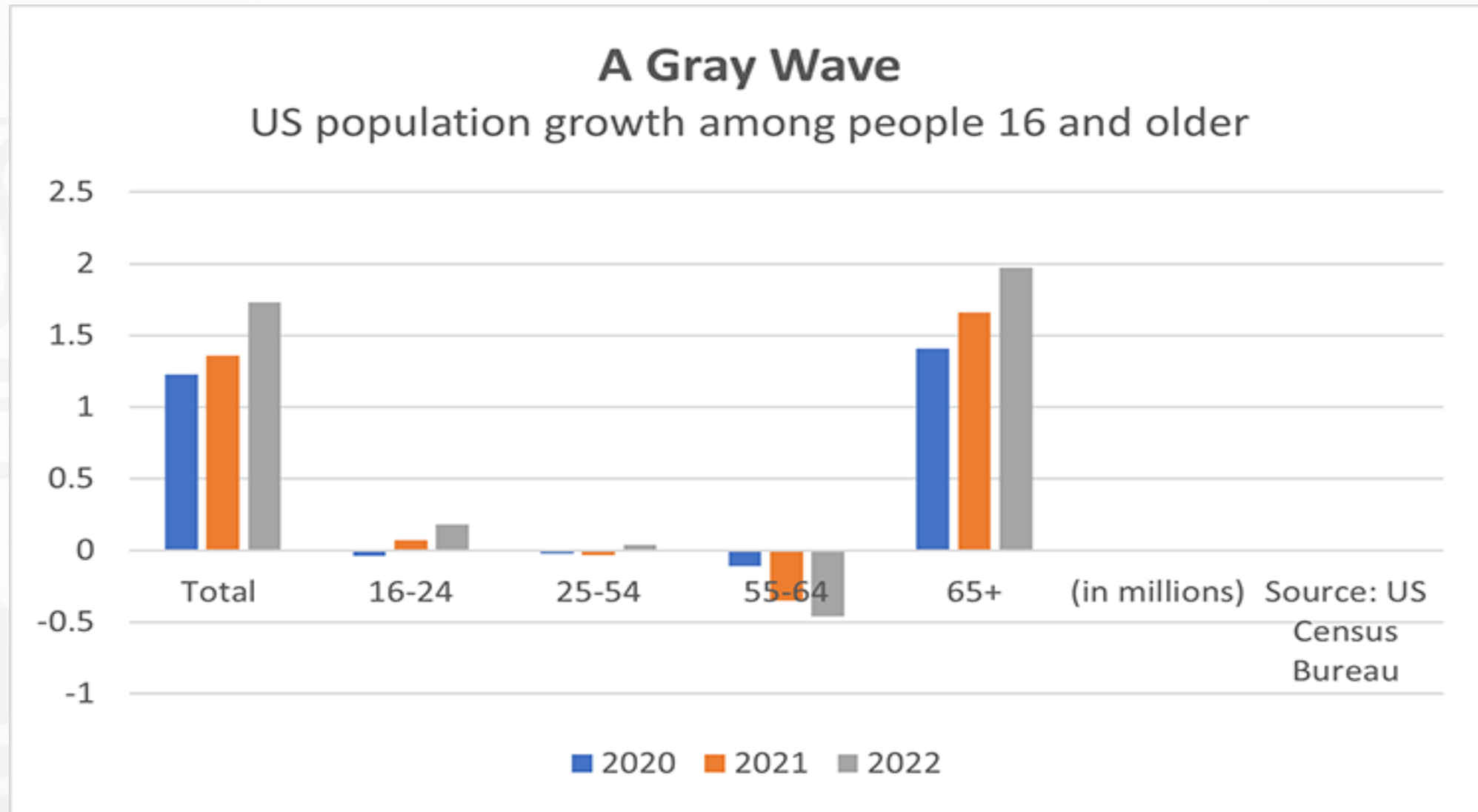
# The “prime-age” participation rate has recovered to levels that prevailed for most of 2019.

## Prime-Age Labor Force Participation Rates

Percent, seasonally adjusted

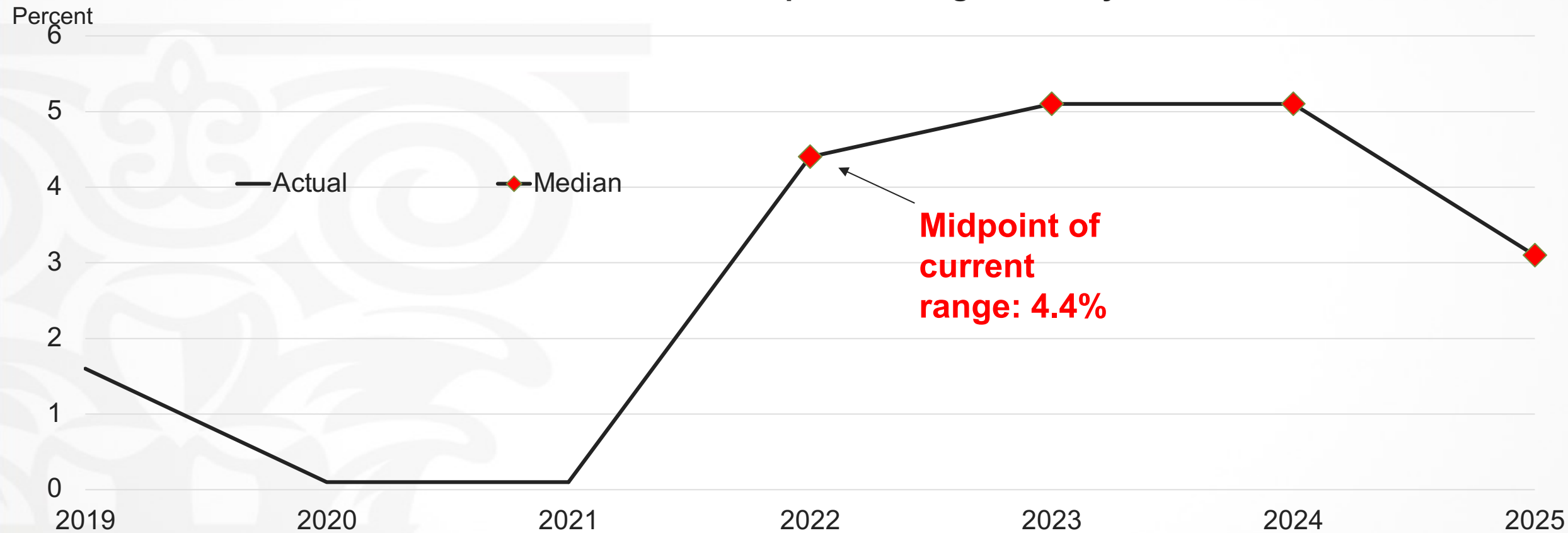


# The aging of the population is a persistent challenge.



# This Fed policymakers have been pretty clear about their intentions.

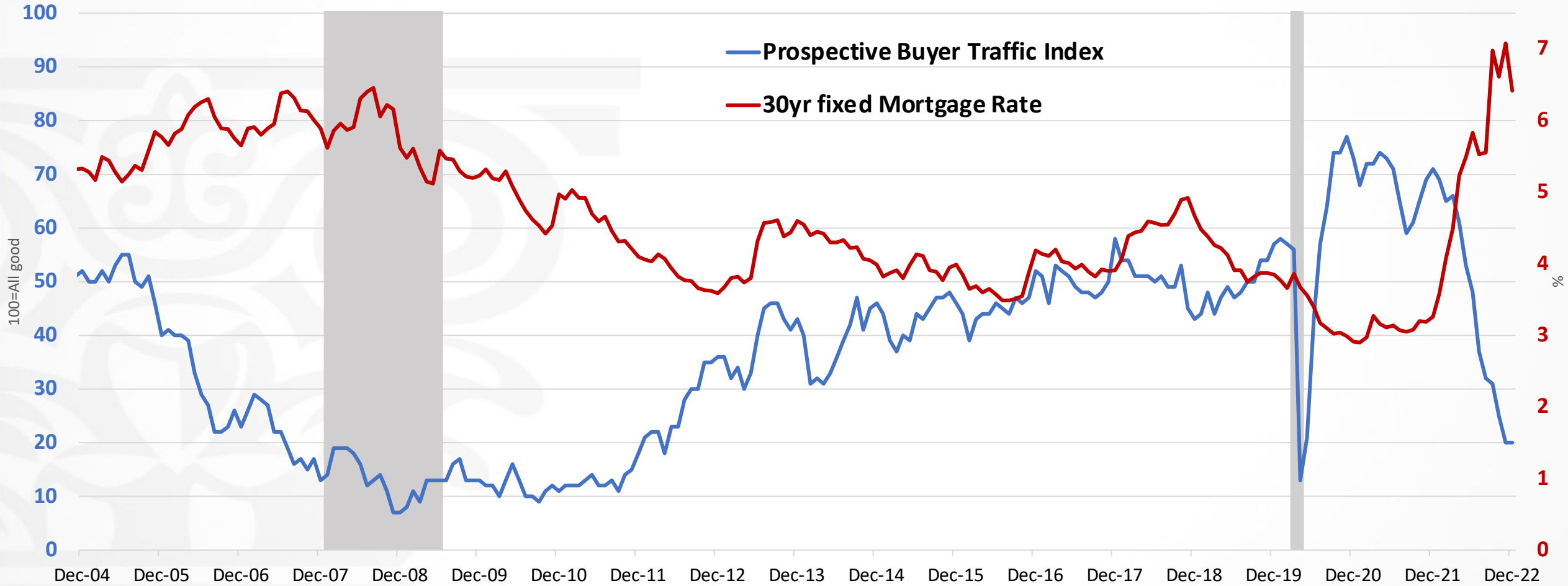
Median projection:  
Federal Funds Rate, midpoint of range, end of year



Source: Federal Open Market Committee Summary of Economic Projections from December 14, 2022.  
<https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20221214.htm>

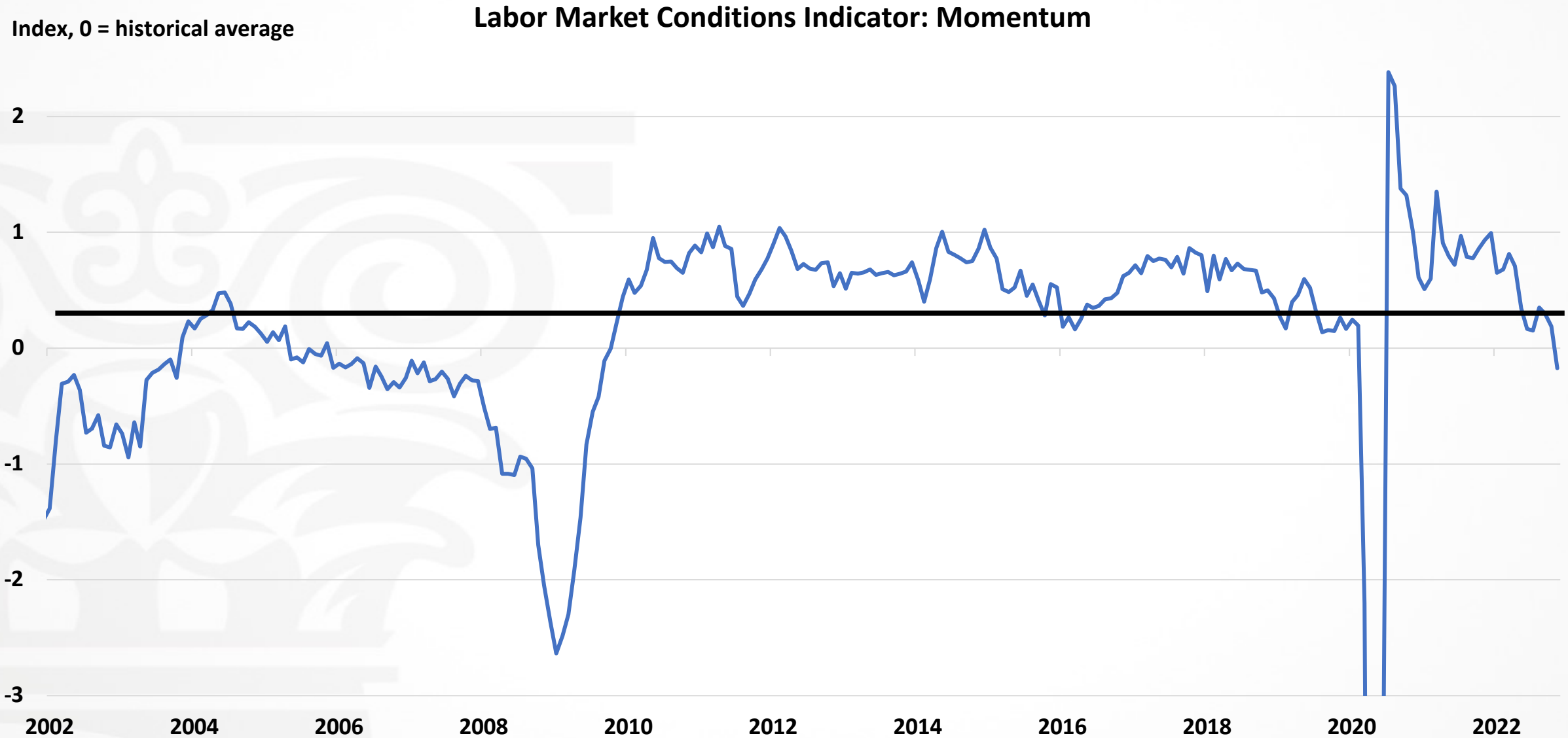
# The impact on interest-sensitive activity is apparent.

## Housing Activity



Source: National Association of Home Builders, Wall Street Journal. Data through December 2022

# At least some measures of labor market momentum are softening...



Source: Federal Reserve Bank of Kansas City

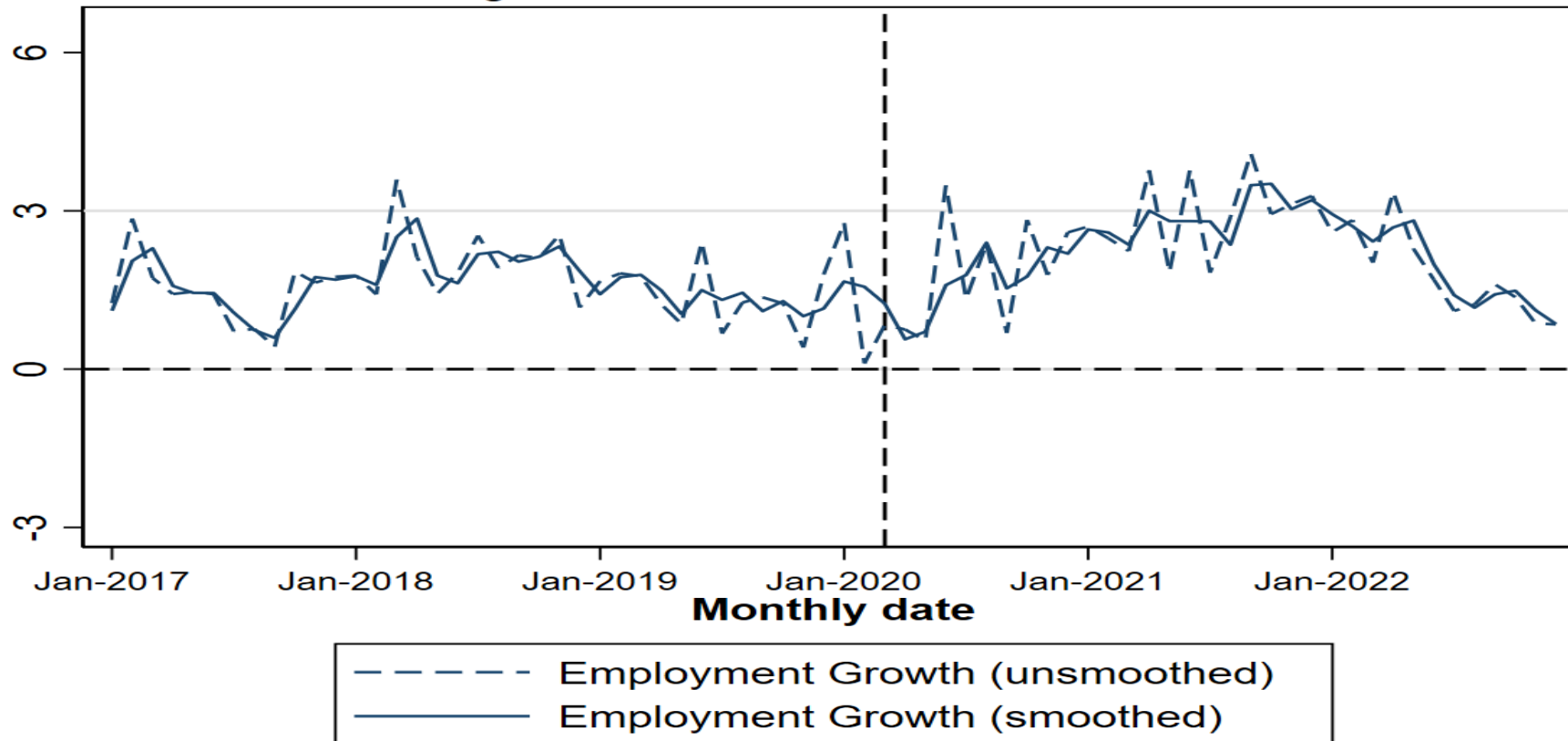


# ... business expectations about future employment growth have ebbed in recent months...

January 2017–December 2022

## Year-Ahead Employment Growth Rate Expectations

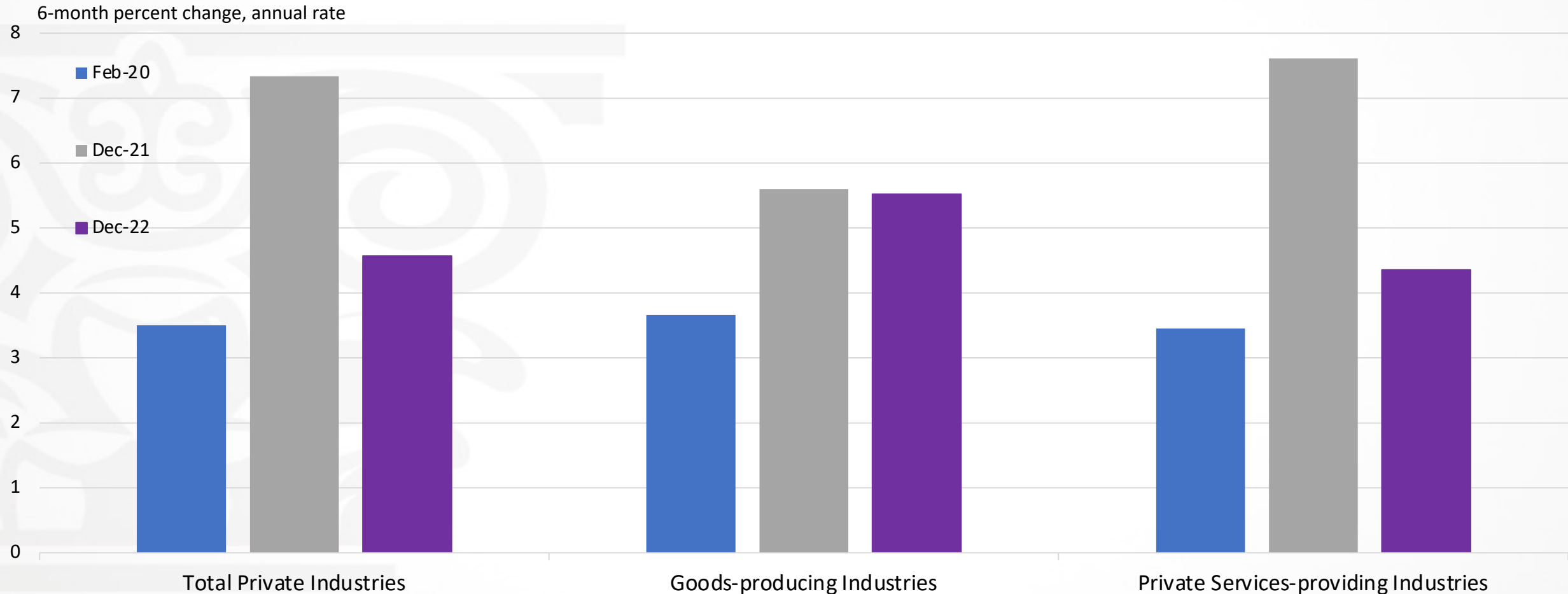
Percent changes from current month to twelve months hence



Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business. For more information, see "[Surveying Business Uncertainty](#)" by David Altig, Jose Maria Barrero, Nick Bloom, Steven J. Davis, Brent Meyer, and Nick Parker, NBER Working Paper No. 25956, February 2020.

# ... and wage growth has decelerated over the past year (especially in the service sector).

Average Hourly Earnings of Production and Nonsupervisory Employees

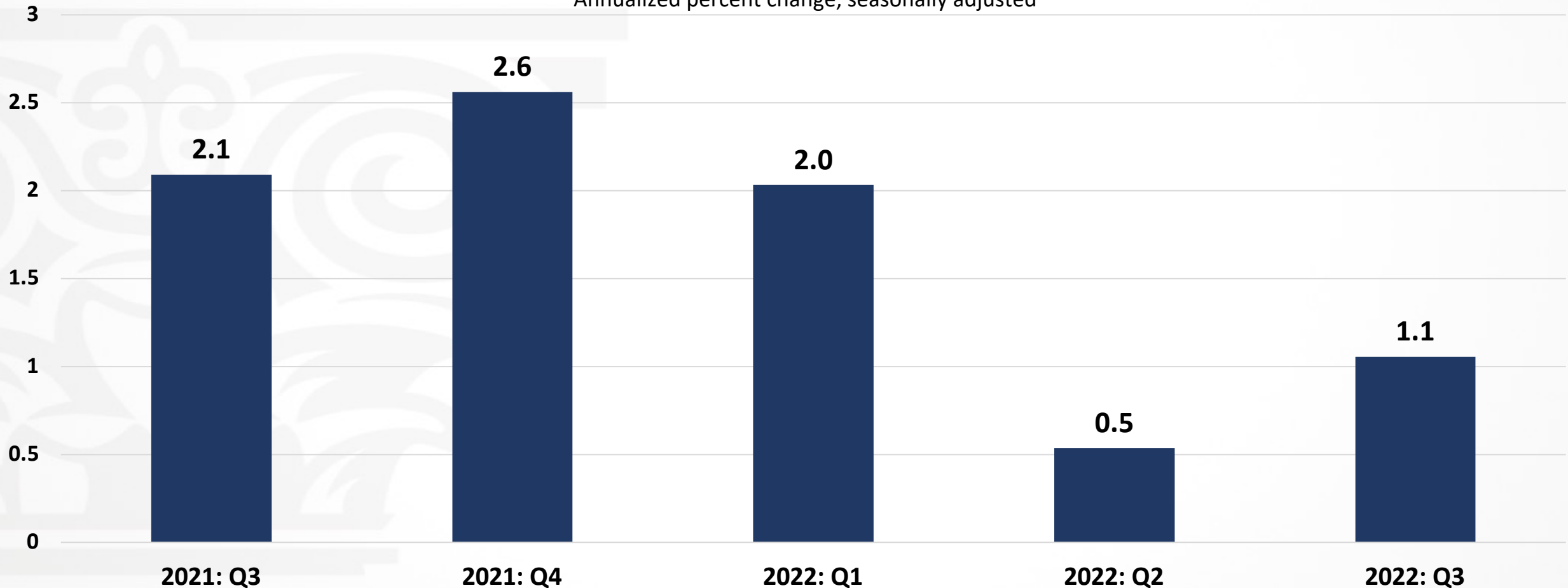


Source: Bureau of Labor Statistics

# Looking through volatile inventory and trade data, the slowdown in economic activity is apparent.

## Real Final Sales to Private Domestic Purchasers

Annualized percent change, seasonally adjusted



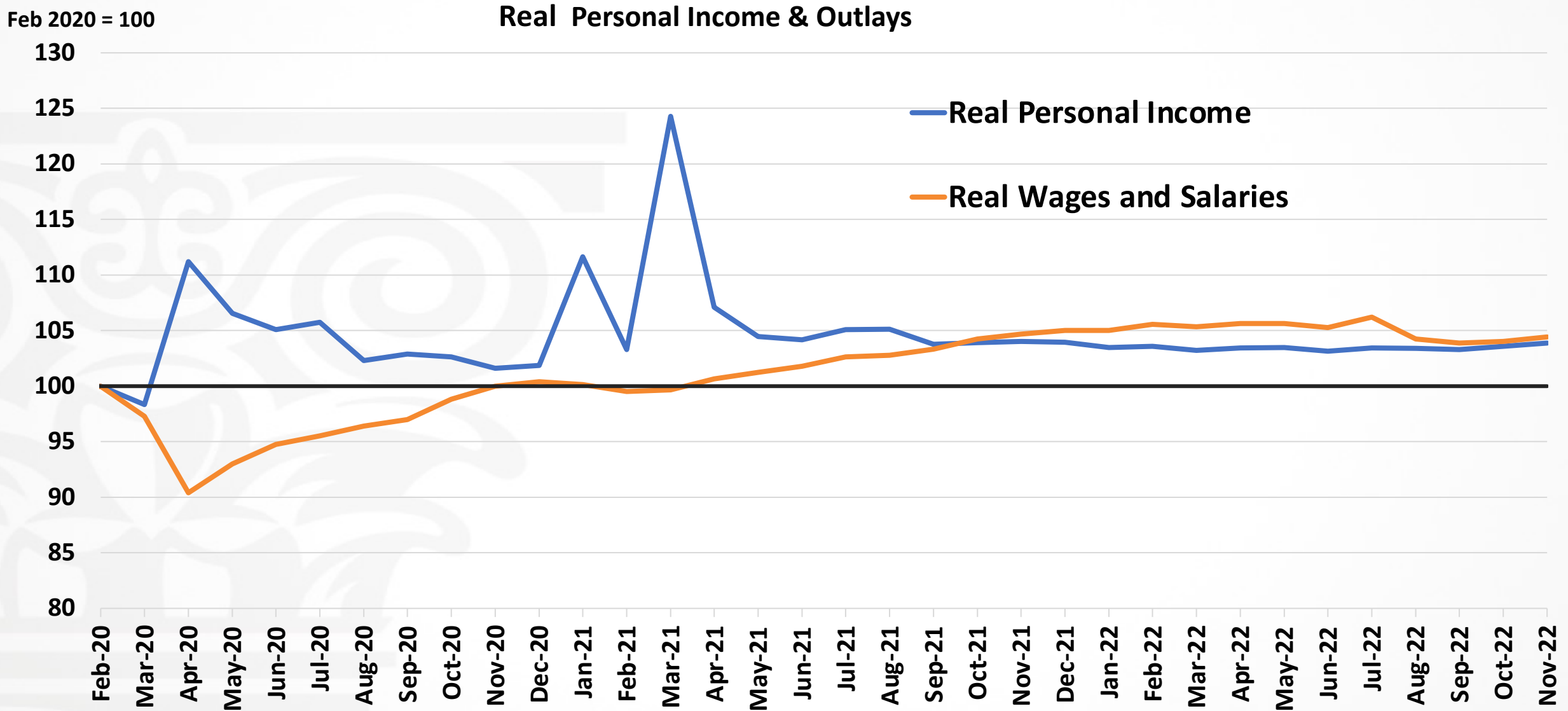
So far, growth in the 4<sup>th</sup> quarter appears to be bouncing back a bit.

Change in GDP Component (annualized % change)	22H1	22q3	Real GDP Tracking Estimates for 2022:Q4				Forecaster D (Jan 13 <sup>th</sup> )
			GDPNow (Jan 13 <sup>th</sup> )	Forecaster A (Jan 10 <sup>th</sup> )	Forecaster B (Jan 13 <sup>th</sup> )	Forecaster C (Jan 13 <sup>th</sup> )	
<b>Final Sales to Priv. Dom. Purchasers</b>	<b>1.3</b>	<b>1.1</b>	2.4	1.6	2.9	1.9	2.2

# Current signals suggest robust consumer spending.

Change in GDP Component (annualized % change)	22H1	22q3	Real GDP Tracking Estimates for 2022:Q4				Forecaster D (Jan 13 <sup>th</sup> )
			GDPNow (Jan 13 <sup>th</sup> )	Forecaster A (Jan 10 <sup>th</sup> )	Forecaster B (Jan 13 <sup>th</sup> )	Forecaster C (Jan 13 <sup>th</sup> )	
<b>Consumption</b>	<b>1.7</b>	<b>2.3</b>	<b>3.5</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>2.9</b>
<b>Final Sales to Priv. Dom. Purchasers</b>	<b>1.3</b>	<b>1.1</b>	<b>2.4</b>	<b>1.6</b>	<b>2.9</b>	<b>1.9</b>	<b>2.2</b>

# The period of government income support has clearly played out...



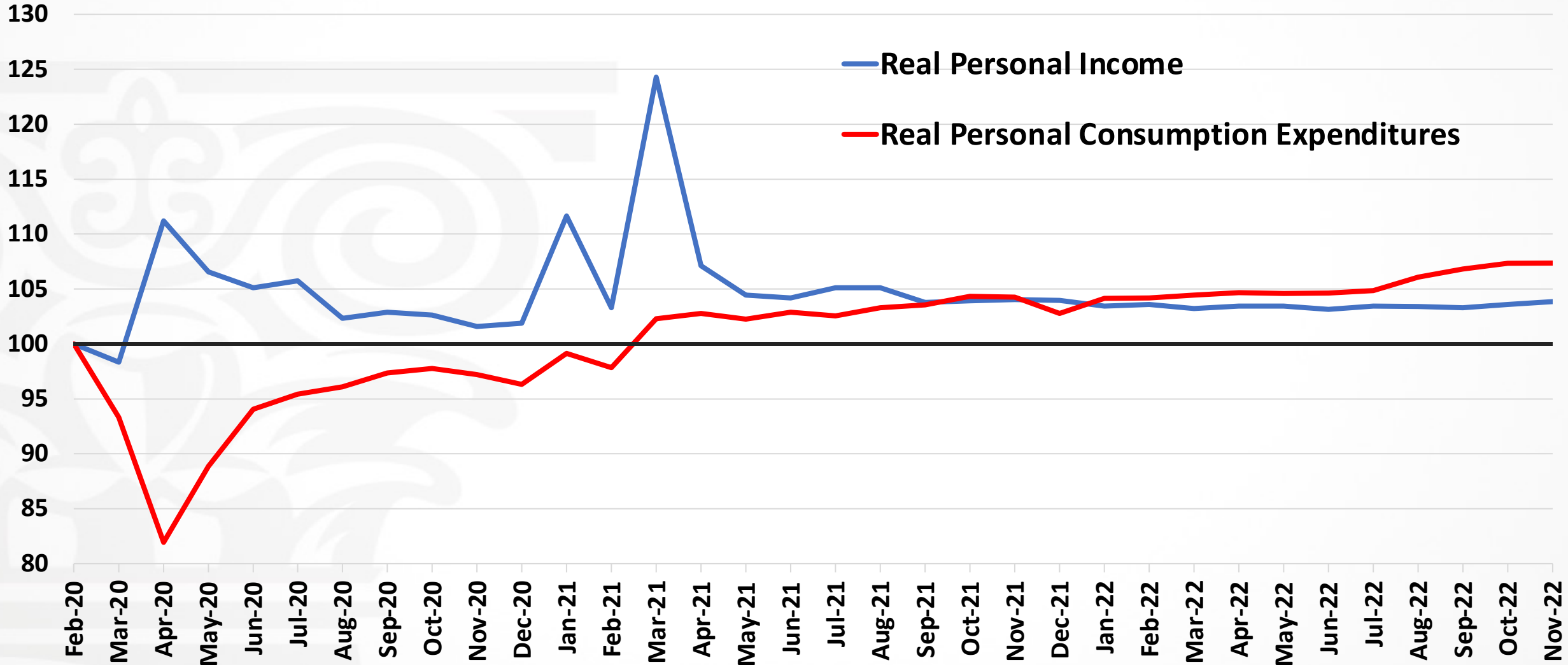
Sources: Bureau of Economic Analysis, Haver Analytics, Atlanta Fed staff calculations.

Data through December 2022

# ... consumer spending has outpaced income growth...

Feb 2020 = 100

## Real Personal Income & Outlays



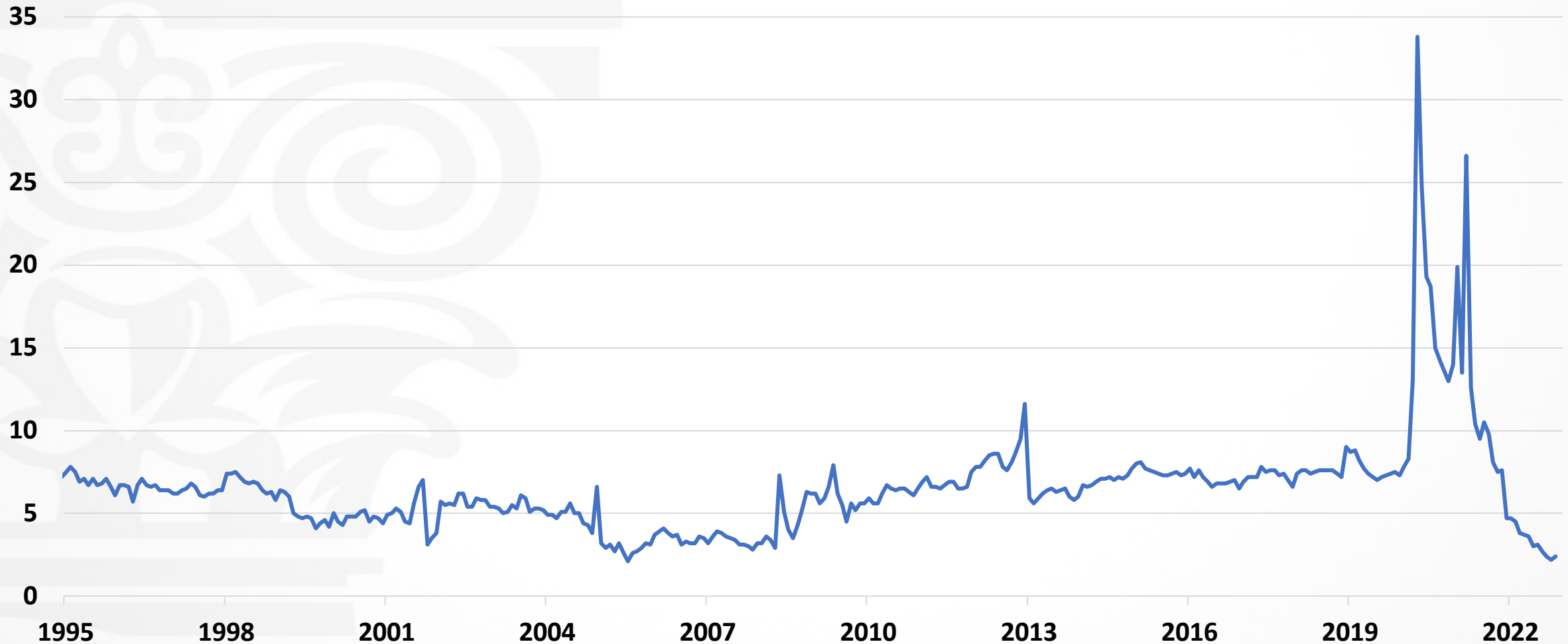
Sources: Bureau of Economic Analysis, Haver Analytics, Atlanta Fed staff calculations.

Data through December 2022

... and saving rates have fallen below pre-pandemic levels.

## Personal Savings Rate

Percent, Seasonally Adjusted Annual Rate



Sources: Bureau of Economic Analysis, Federal Reserve Economic Data (FRED).

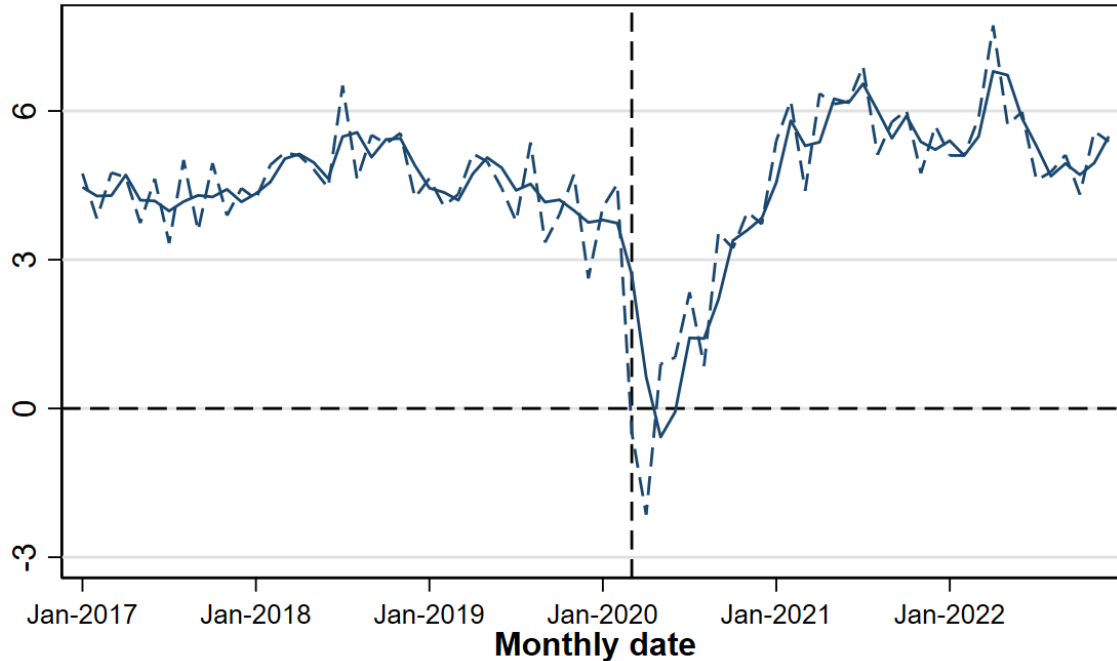


# Still, businesses expect continued solid sales (though, as has been true since Covid hit, uncertainty remains high.)

January 2017–December 2022

## Year-Ahead Sales Growth Rate Expectations

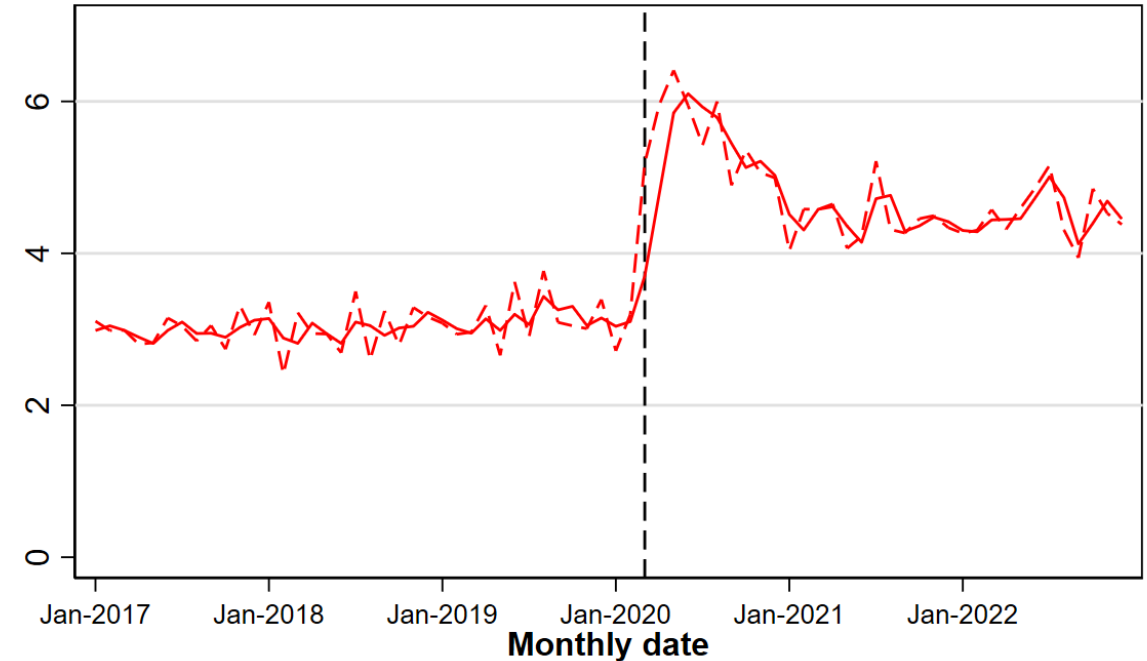
Percent changes from current quarter to four quarters hence



--- Sales Growth (unsmoothed)  
— Sales Growth (smoothed)

## Year-Ahead Uncertainty about Sales Growth Rates

Percent changes from current quarter to four quarters hence



--- Sales Uncertainty (unsmoothed)  
— Sales Uncertainty (smoothed)

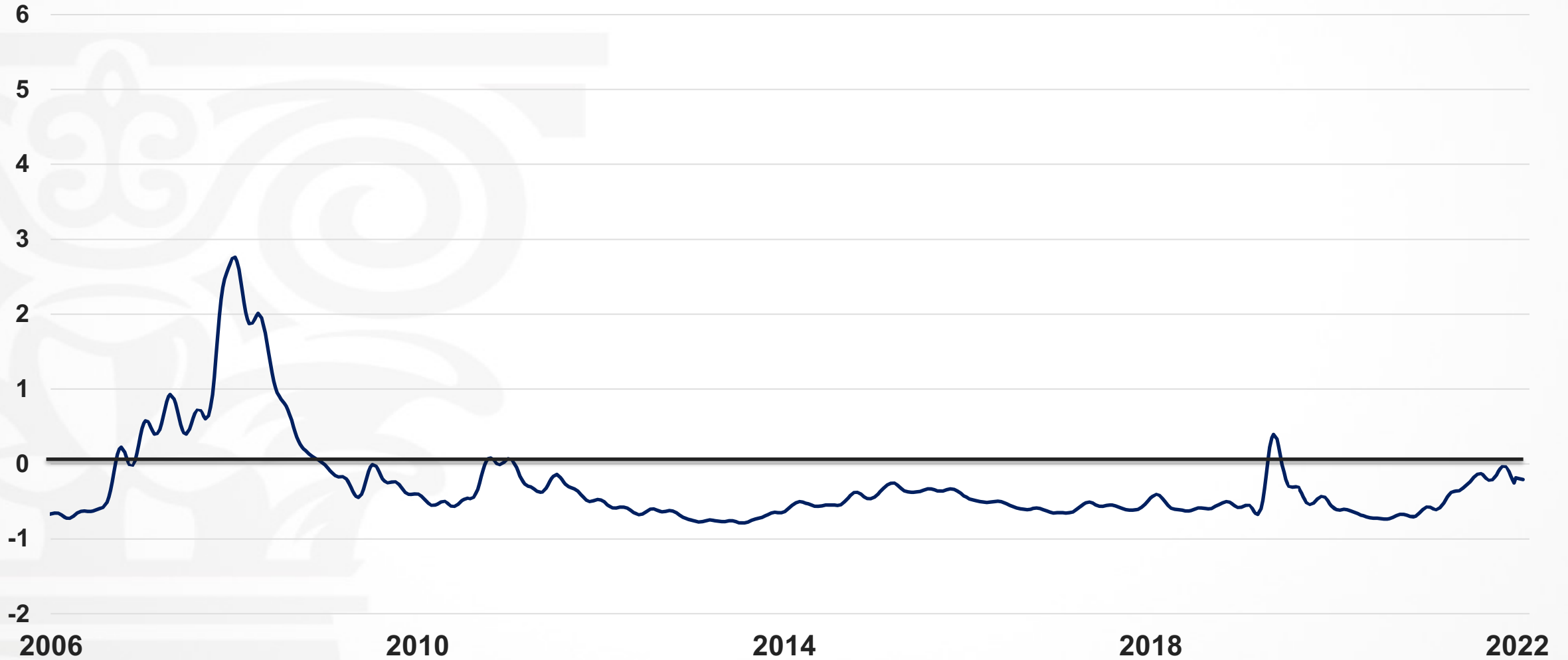
Source: Survey of Business Uncertainty conducted by the Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business. For more information, see "[Surveying Business Uncertainty](#)" by David Altig, Jose Maria Barrero, Nick Bloom, Steven J. Davis, Brent Meyer, and Nick Parker, NBER Working Paper No. 25956, February 2020.

# Residential investment has been hit hard, but capital expenditure by businesses is apparently holding strong.

Change in GDP Component (annualized % change)	22H1	22q3	Real GDP Tracking Estimates for 2022:Q4				Forecaster D (Jan 13 <sup>th</sup> )
			GDPNow (Jan 13 <sup>th</sup> )	Forecaster A (Jan 10 <sup>th</sup> )	Forecaster B (Jan 13 <sup>th</sup> )	Forecaster C (Jan 13 <sup>th</sup> )	
Consumption	1.7	2.3	3.5	3.3	3.4	3.4	2.9
Business Fixed Investment	3.9	6.2	6.6	3.5	5.5	4.6	5.9
Residential Investment	-10.8	-27.1	-23.5	-25.7	-12.0	-25.1	-23.0
Final Sales to Priv. Dom. Purchasers	1.3	1.1	2.4	1.6	2.9	1.9	2.2

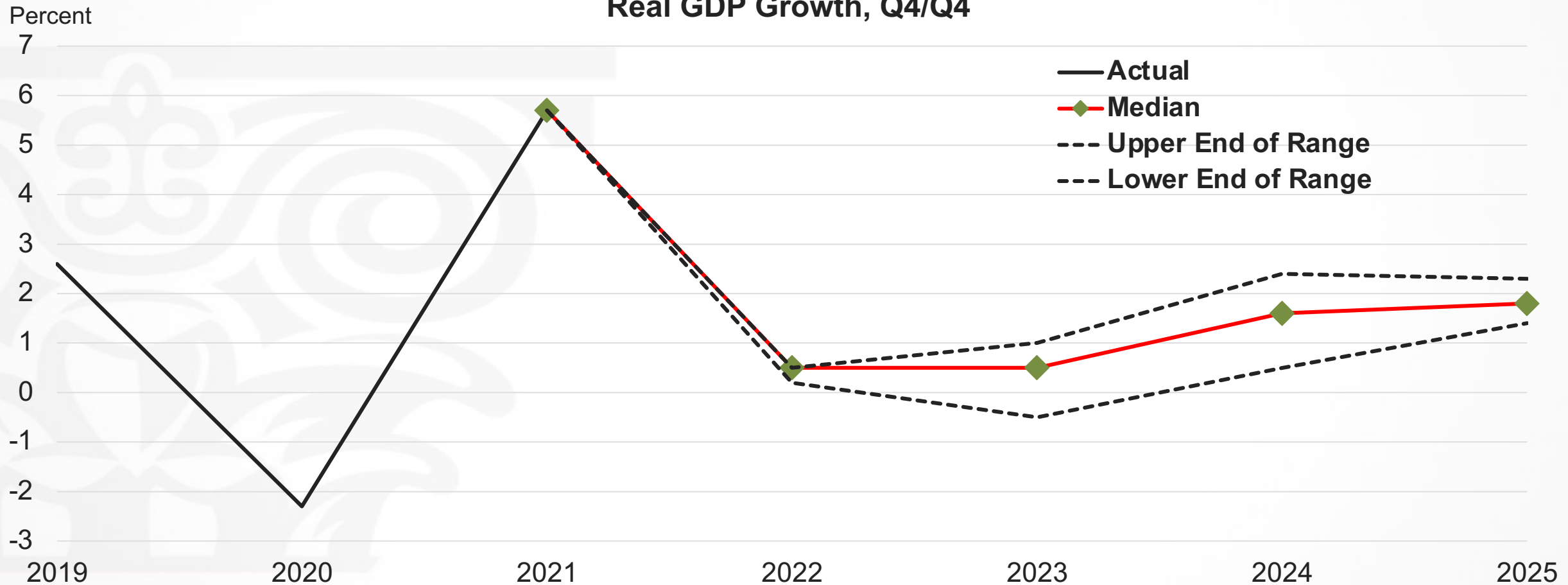
# Financial conditions have tightened, but not extraordinarily so.

## National Financial Conditions Index (NFCI)



# Hopes of a “soft landing” have not yet faded: Reasonable growth...

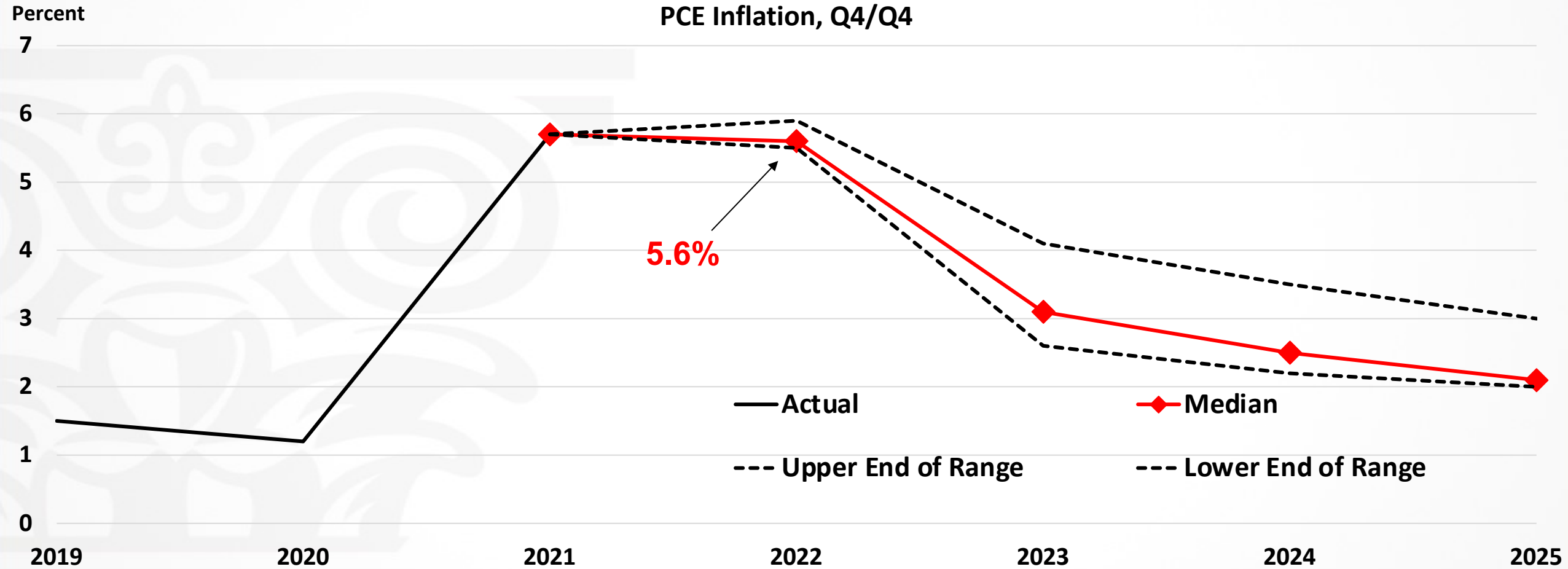
Medians and ranges of economic projections:  
Real GDP Growth, Q4/Q4



Source: Federal Open Market Committee Summary of Economic Projections from December 14, 2022.  
<https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20221214.htm>

# ... slow but steady progress on inflation.

Medians and ranges of economic projections:  
PCE Inflation, Q4/Q4



Source: Federal Open Market Committee Summary of Economic Projections from December 14, 2022.  
<https://www.federalreserve.gov/monetarypolicy/fomcproptabl20221214.htm>



FEDERAL  
RESERVE  
BANK  
*of* ATLANTA

**The inflation fight one-year in:  
Is a soft landing still in the  
cards?**