Economic Conditions

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August 17, 2023

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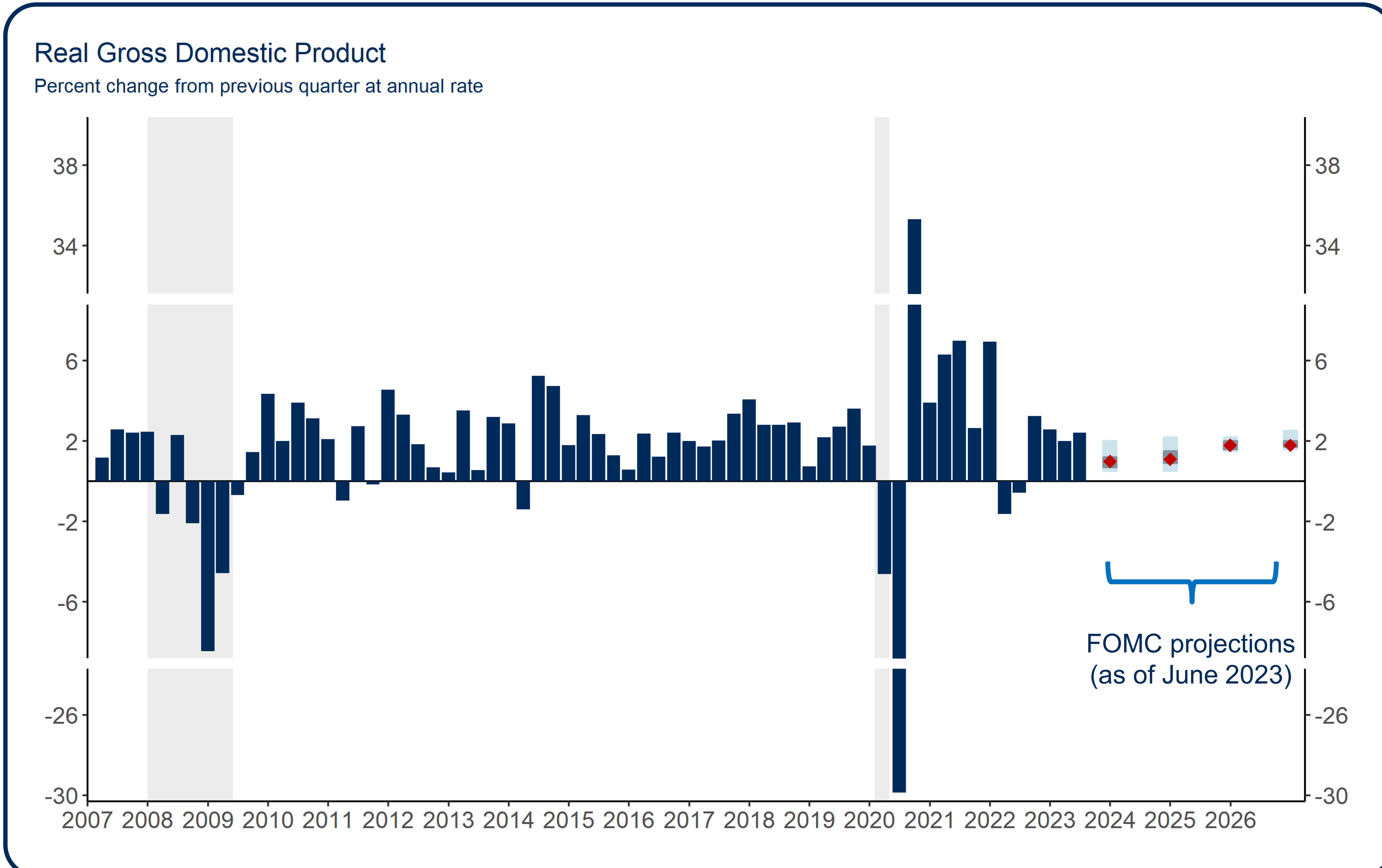
Upshot: Recession keeps not happening

- **Demand surged in Covid, but supply couldn't meet it – so we got inflation**

- **Supply/demand are balancing, but still not there**
  - Demand is slowing, but still strong & inflation momentum too high
  - Few businesses I talk to report recessionary dynamics currently
  - Growth <u>expected</u> to soften more broadly as rate hikes take hold (though recession probability keeps getting pushed out)
  - But lots of artificial "stuff" still propping the economy/inflation up
    - fiscal policy, extra household savings, supply chain disruptions, etc.

- **Virginia continues to lag in growth and recovery, but it tends to not take slowdowns as hard**

Growth strong today. Forecasts tepid (though economists have been saying that for months)



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 June 2023 meeting. Red dots indicate median projections.

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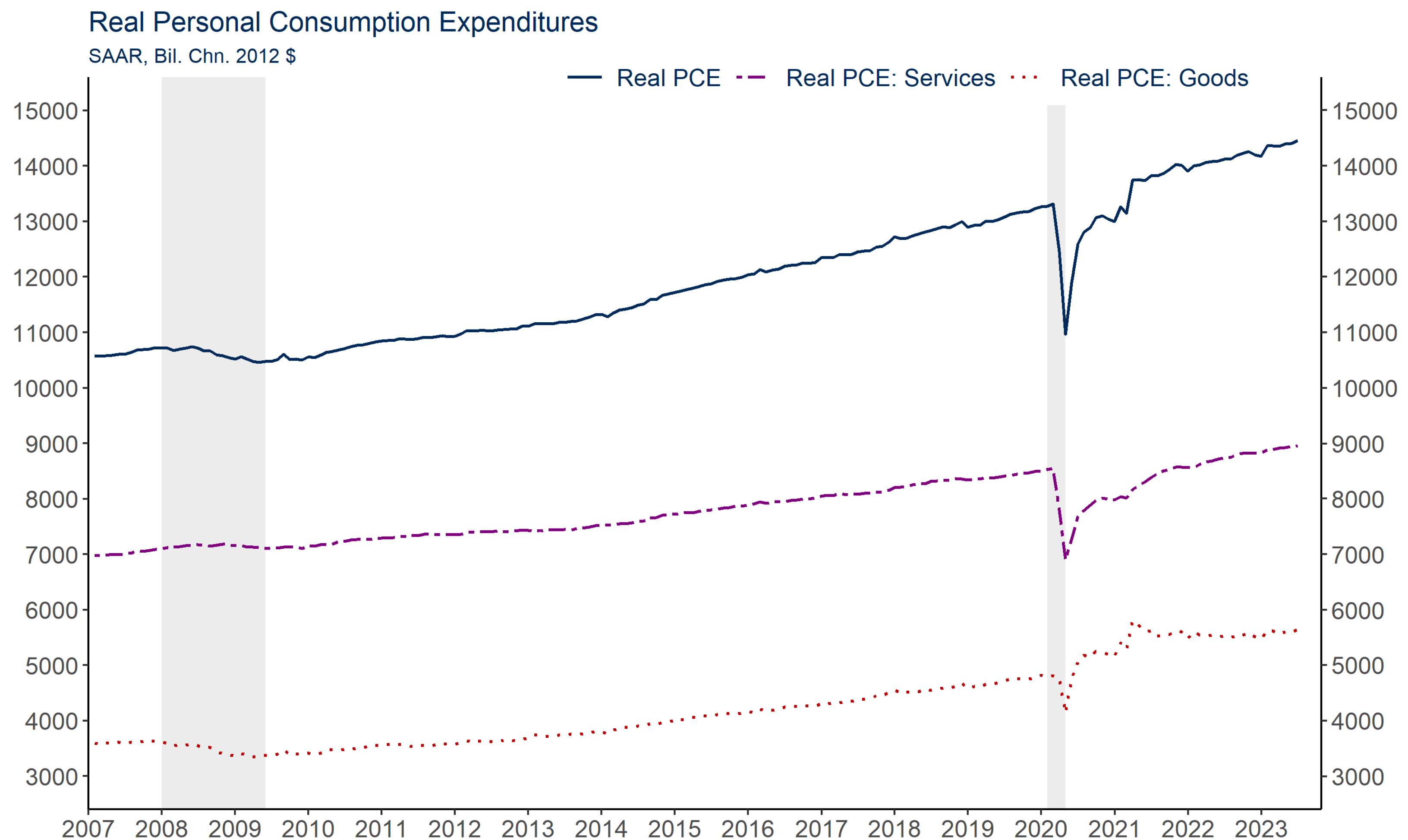
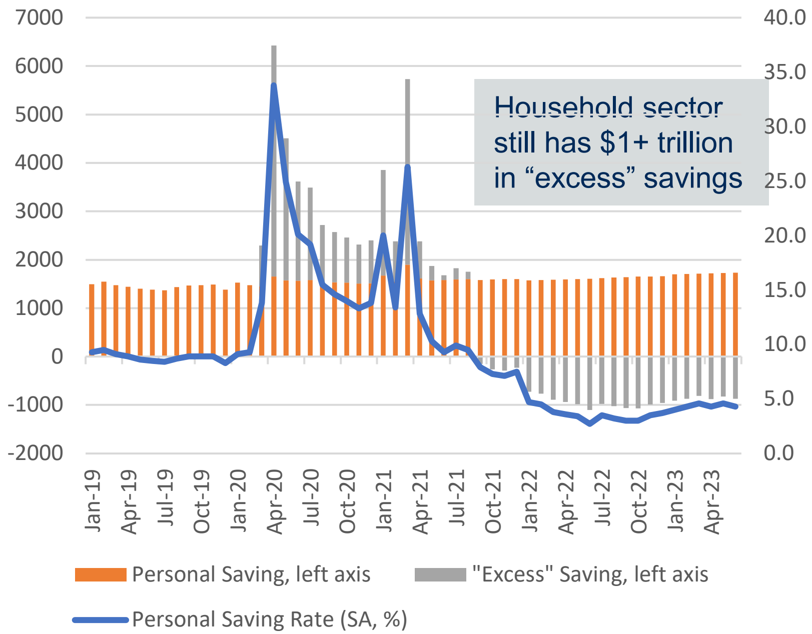
Consumption is pivoting back to services, but both categories are proving resilient



Source: Bureau of Economic Analysis

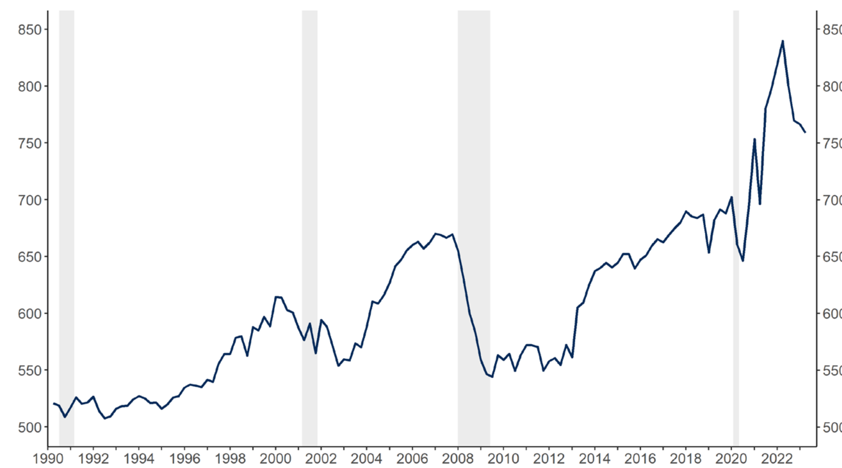
Households are <u>overall</u> in much better financial position vs. pre-Covid, but drawing down savings

Personal Saving *($billions)*
Personal Saving Rate *(as % of disposable income)*



Source: Bureau of Economic Analysis via Haver Analytics

Household Net Worth
% of disposable income



Source: Financial Accounts of the U.S. via Haver Analytics

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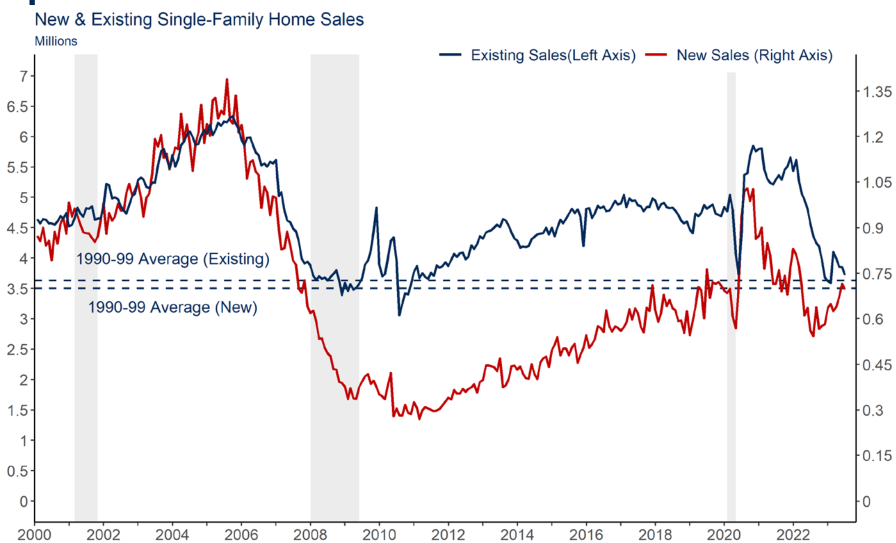
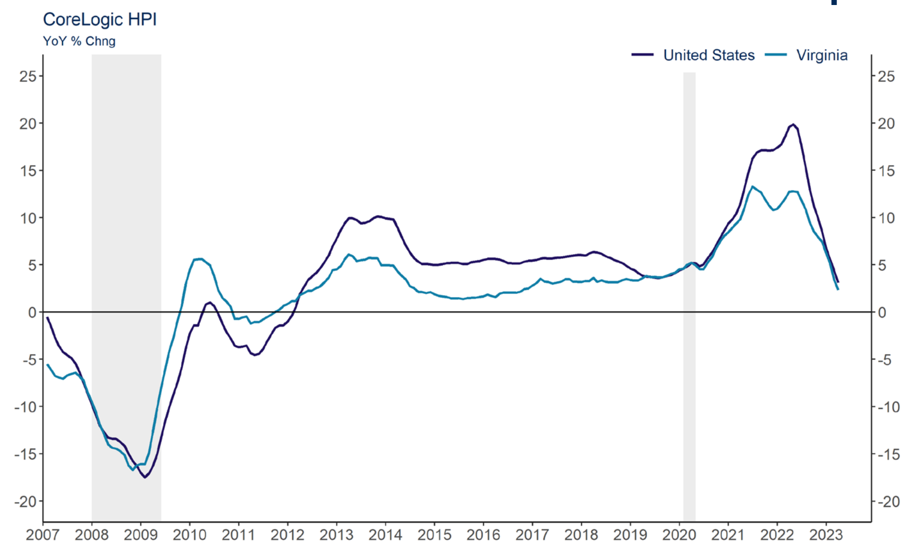
Housing has not slowed as much as many folks expected

New and existing single-family home sales



House prices (US and VA)



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

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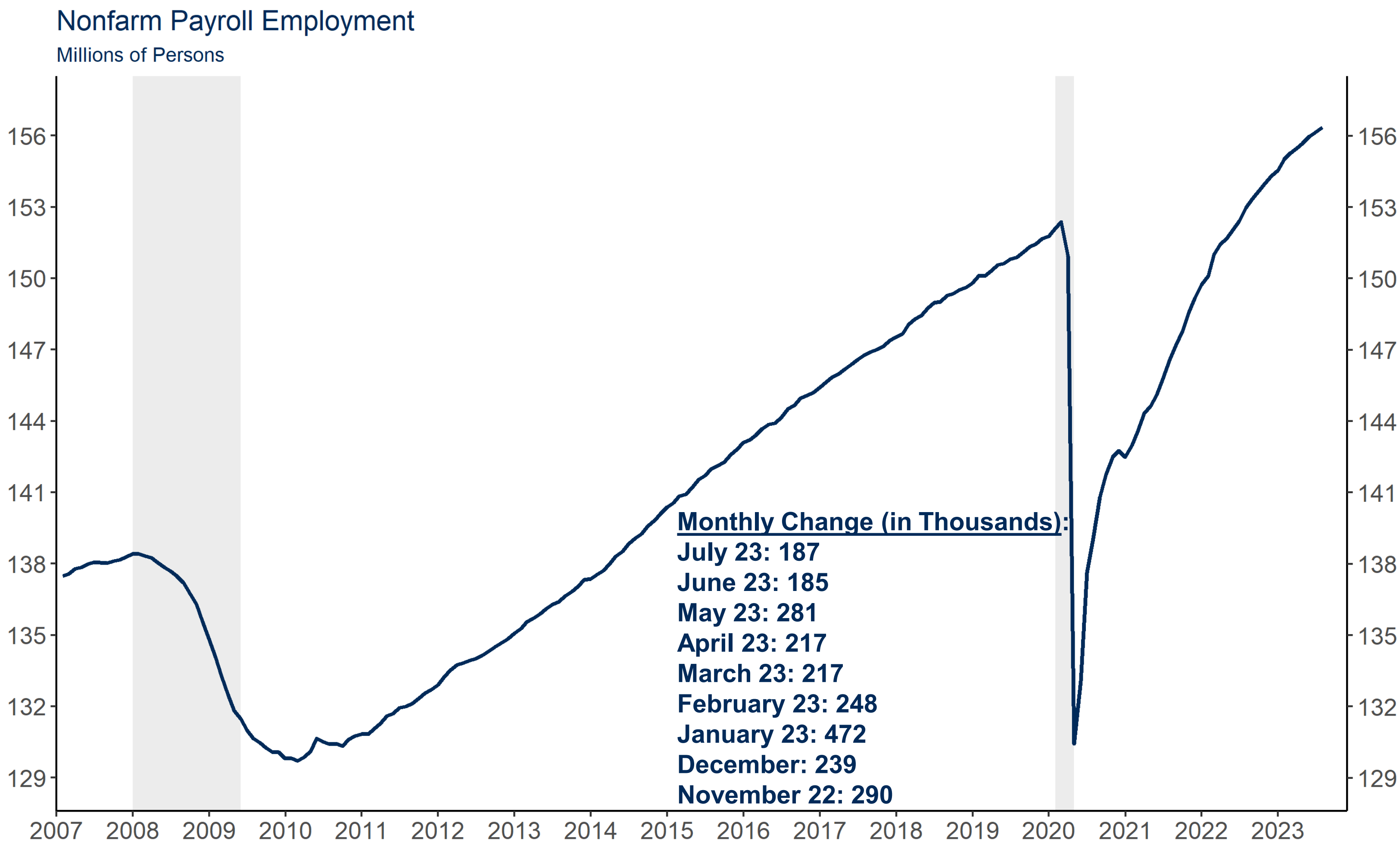
Maybe job growth is slowing… if you squint?



Source: Bureau of Labor Statistics/Haver Analytics

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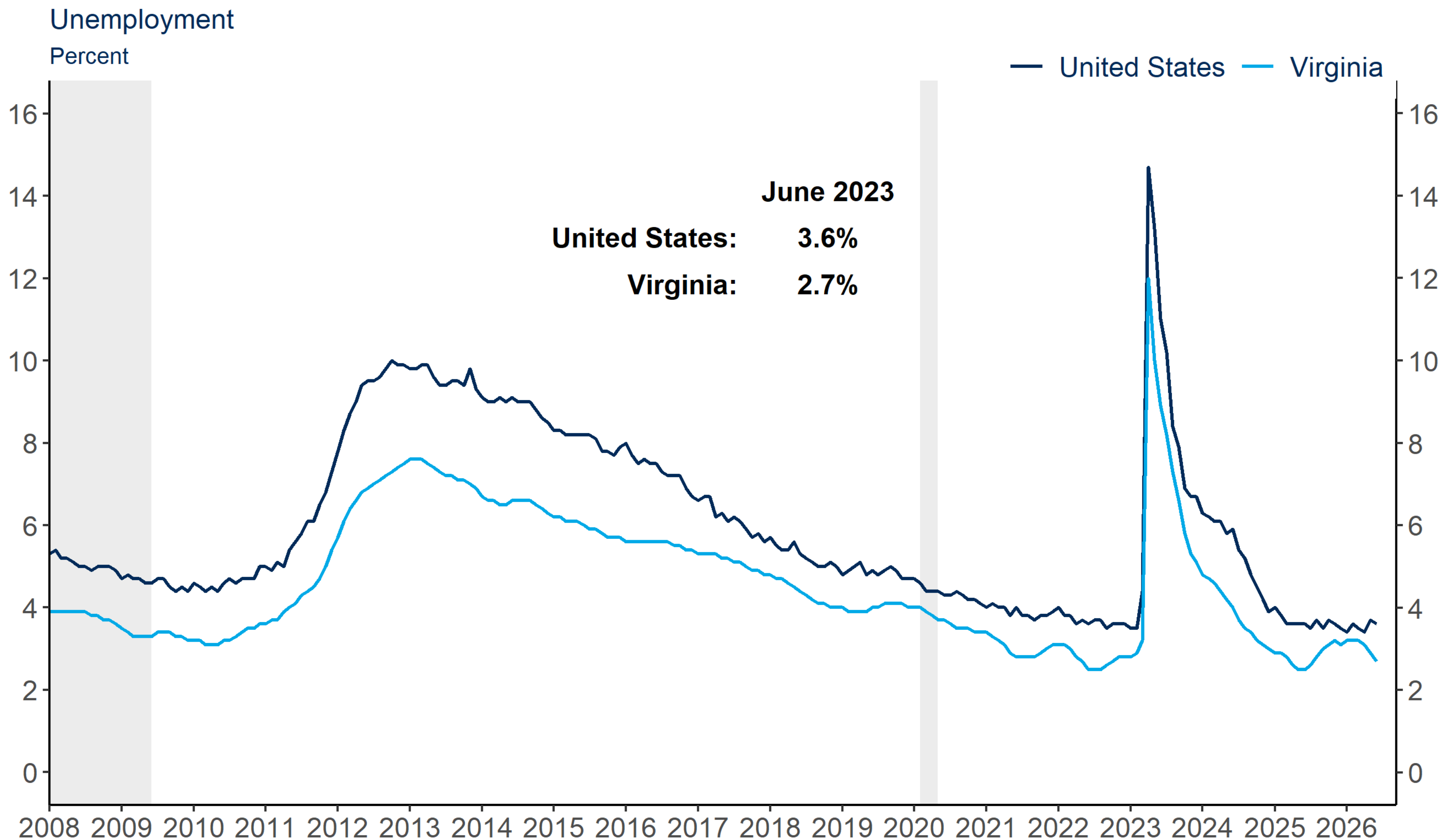
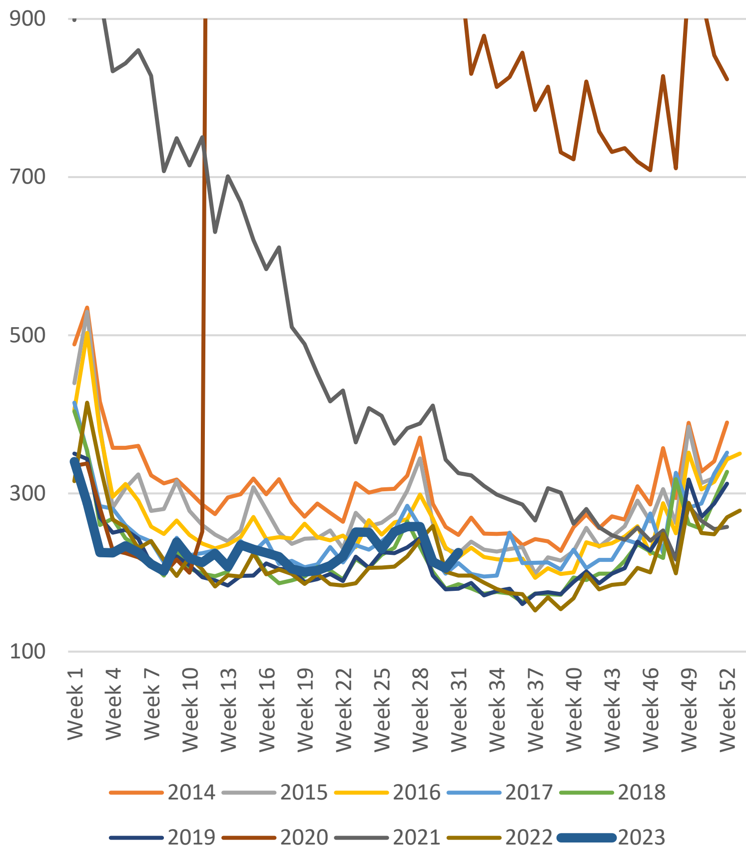
Labor market still is very tight, U at 50-year low



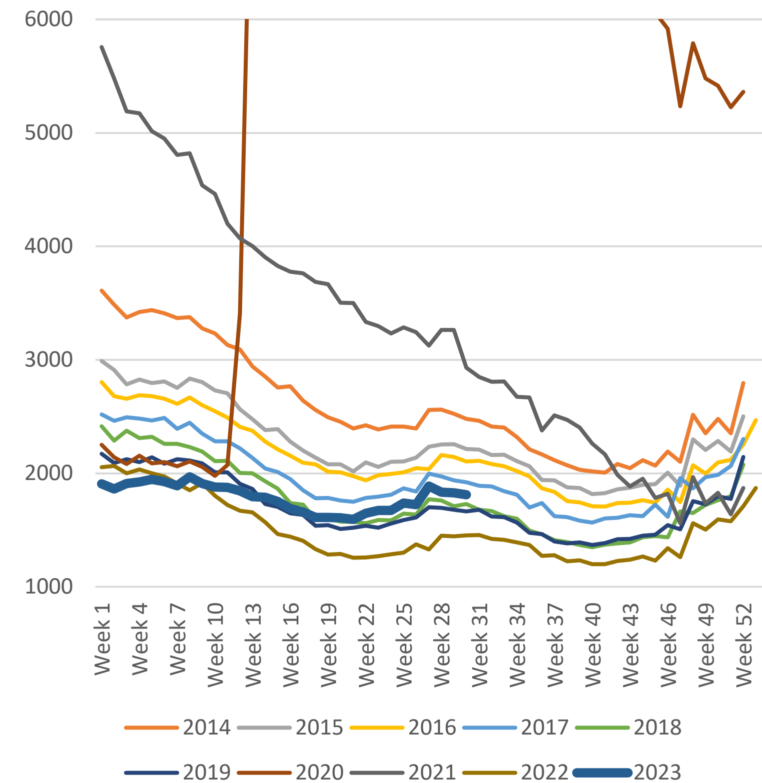
Source: Bureau of Labor Statistics/Haver Analytics

Little sign of mass layoffs (despite tech announcements)

US Initial Jobless Claims (Weekly, Not Seasonally Adjusted, 1000s)



US Continuing Jobless Claims (Weekly, Not Seasonally Adjusted, 1000s)



Source: FRED

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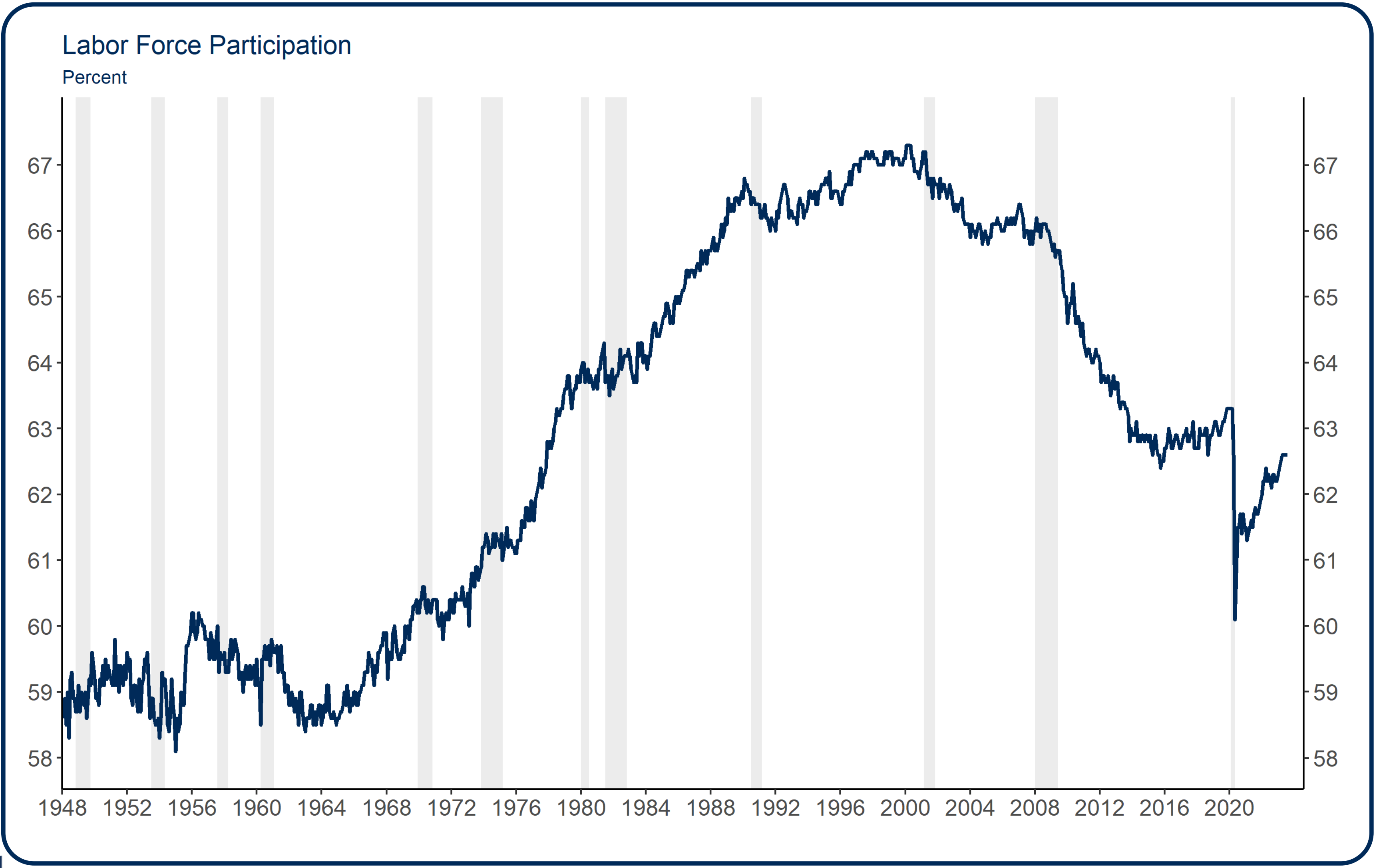
Labor is normalizing #1: LFP is recovering (though probably won't make it all the way back)



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Source: Bureau of Labor Statistics/Haver Analytics

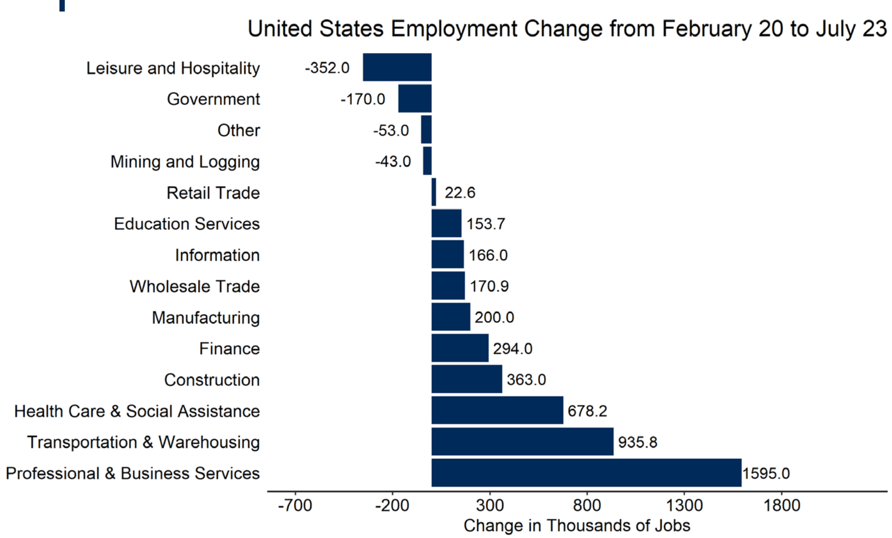
Labor is normalizing #2: "Churn" is cooling, though still high (Could this be a less painful way for labor to adjust?)

Source: JOLTS/Haver Analytics

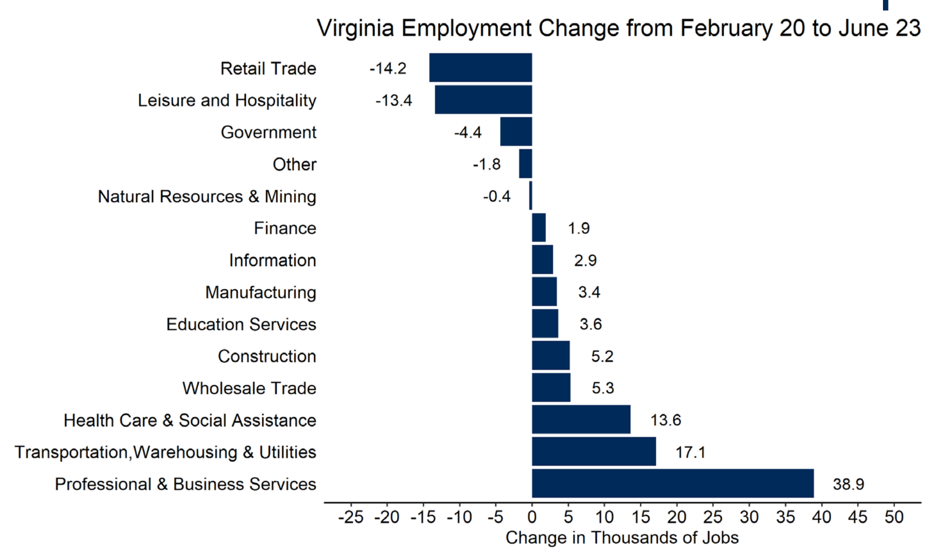
Labor is normalizing #3: The payoff to job-switching is falling

Covid changed things: Workers shifted sectors

U.S. job change



Virginia job change



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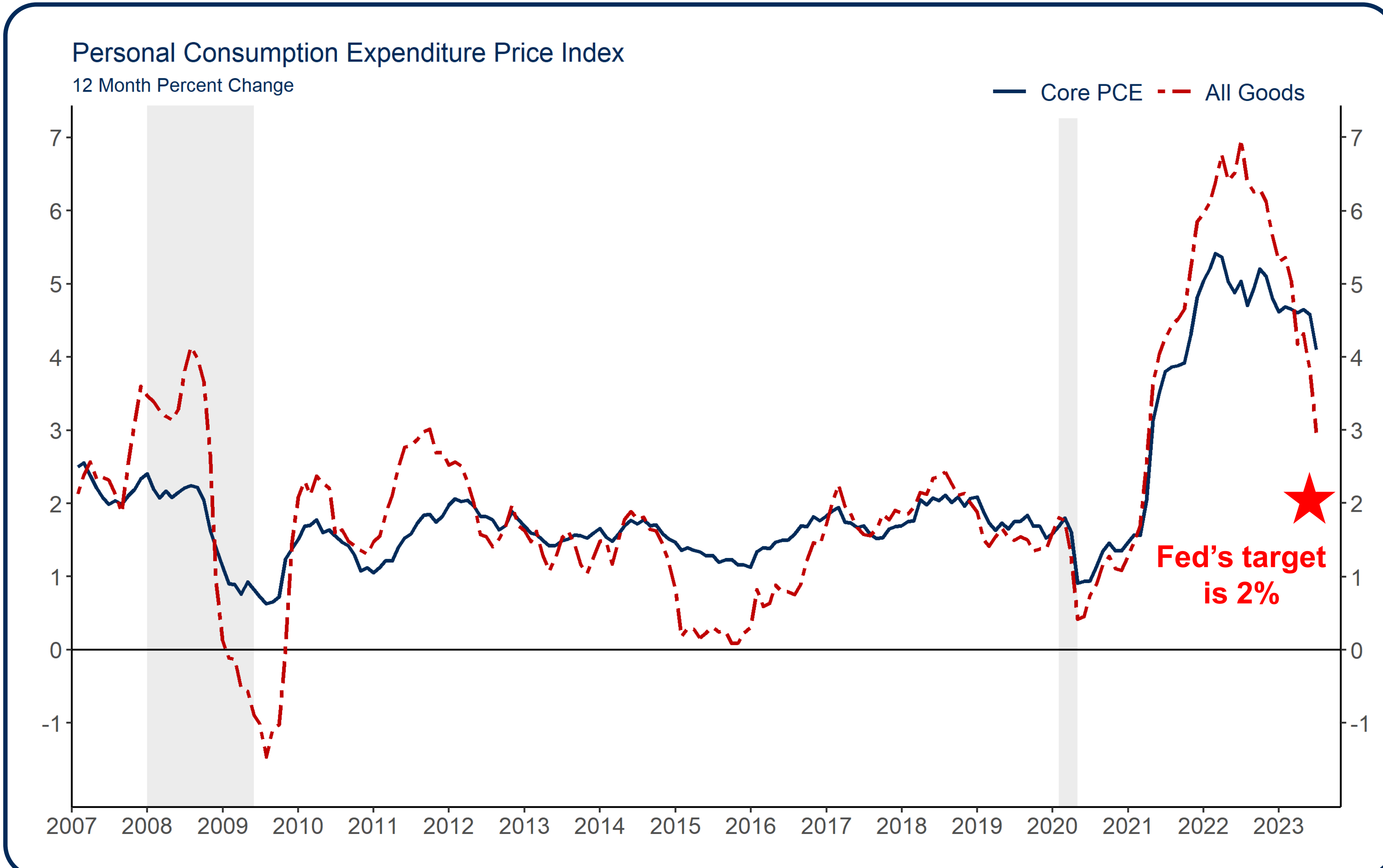
Source: Bureau of Labor Statistics/Haver Analytics

Inflation is heading in the right direction…



Source: Bureau of Economic Analysis/ Haver Analytics

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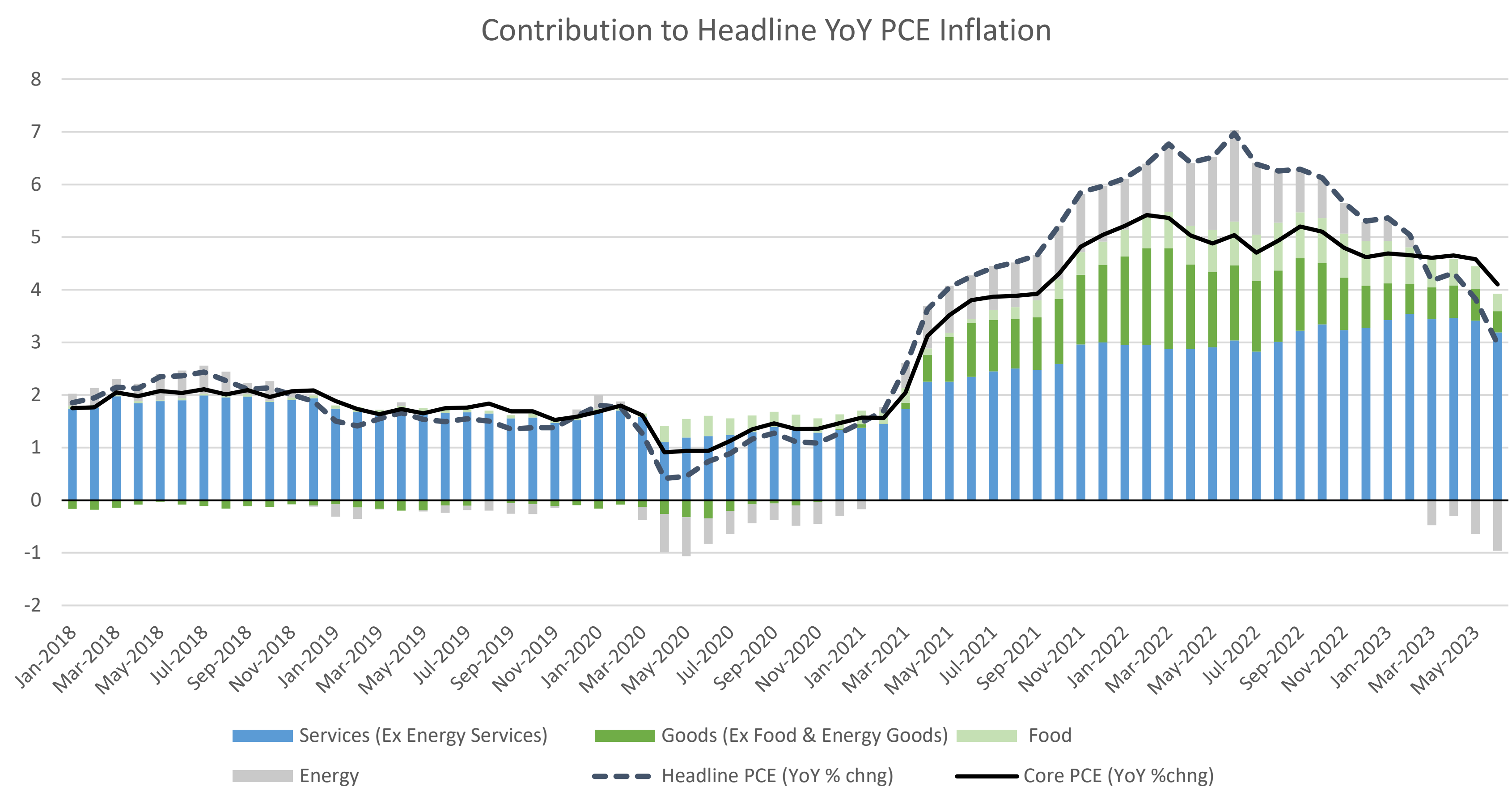
… but momentum in services inflation is still too high



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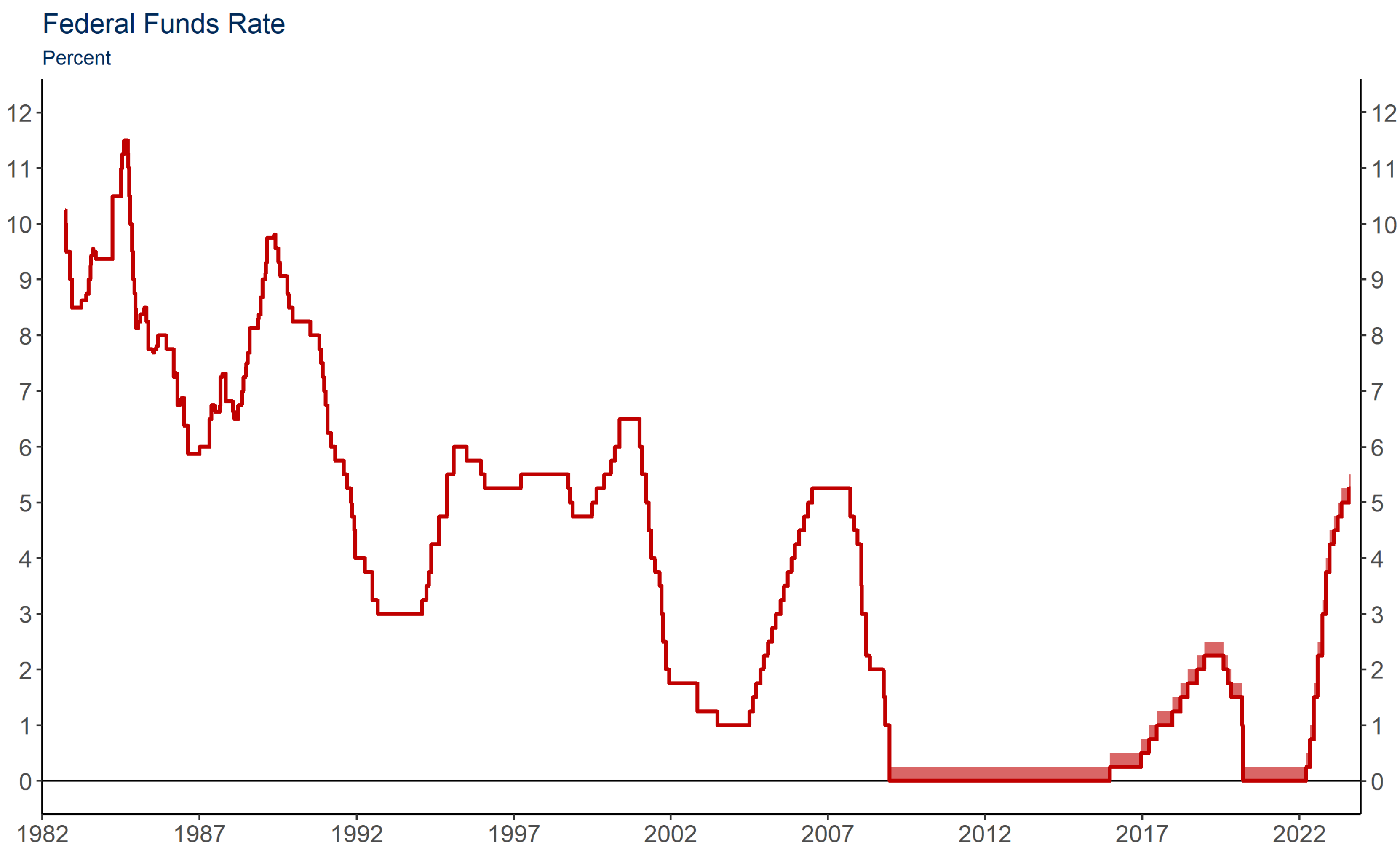
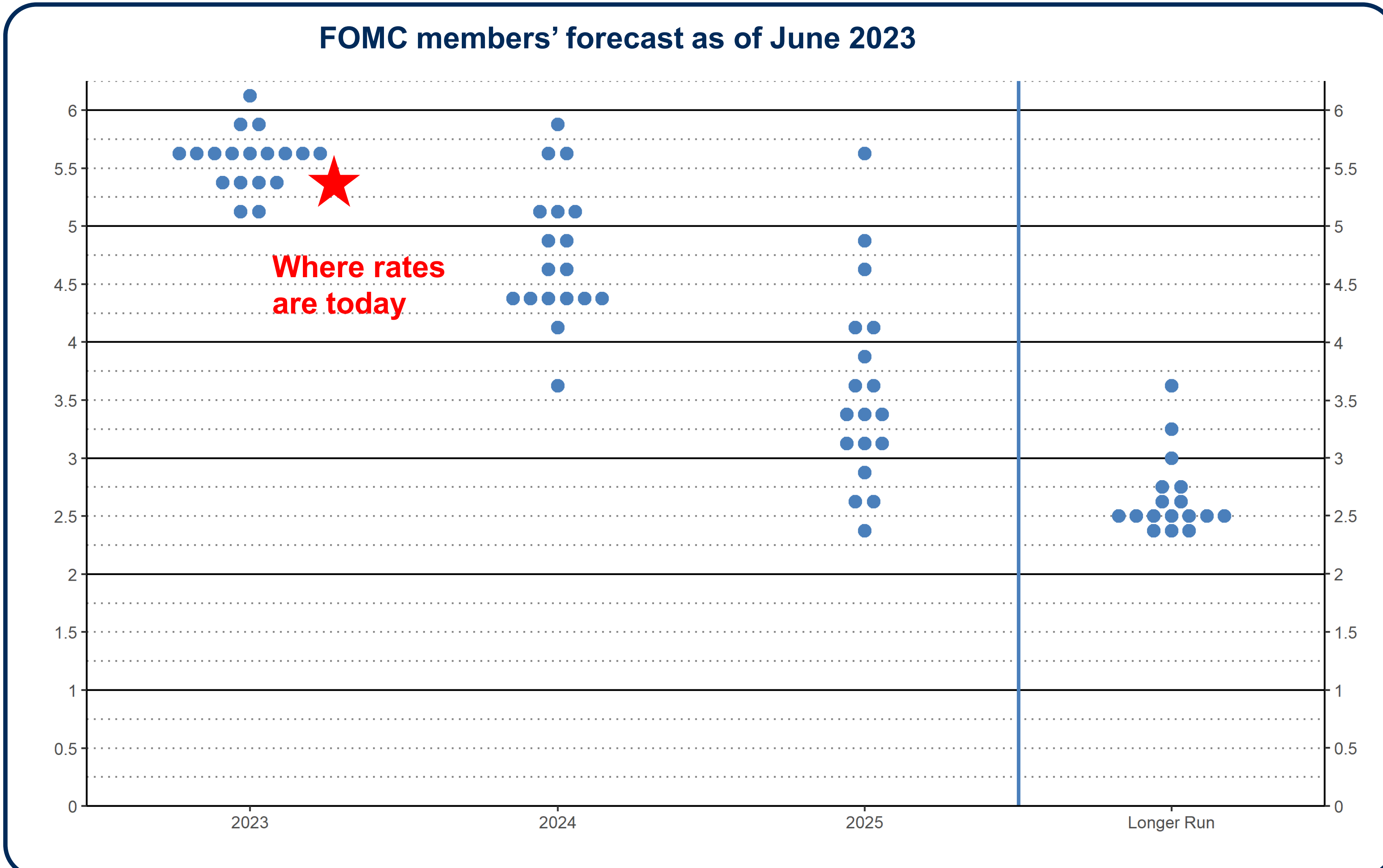
Fed has raised rates unusually fast to deal with inflation



Source: Federal Reserve Board of Governors / Haver Analytics

We raised in June; markets betting on a pause in September



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

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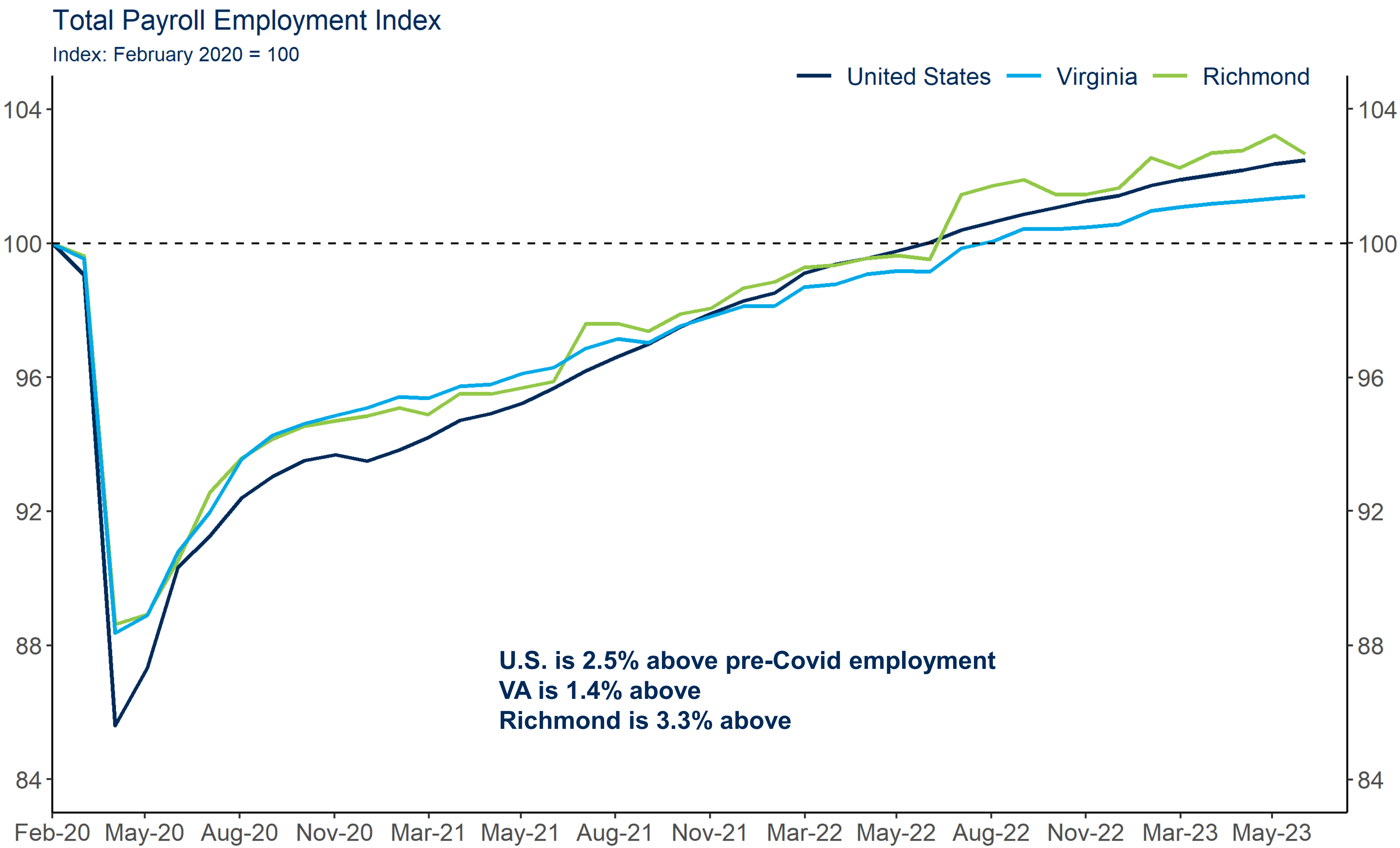
How is the region doing?

Virginia's recovery has been slower…



Source: Bureau of Labor Statistics/Haver Analytics

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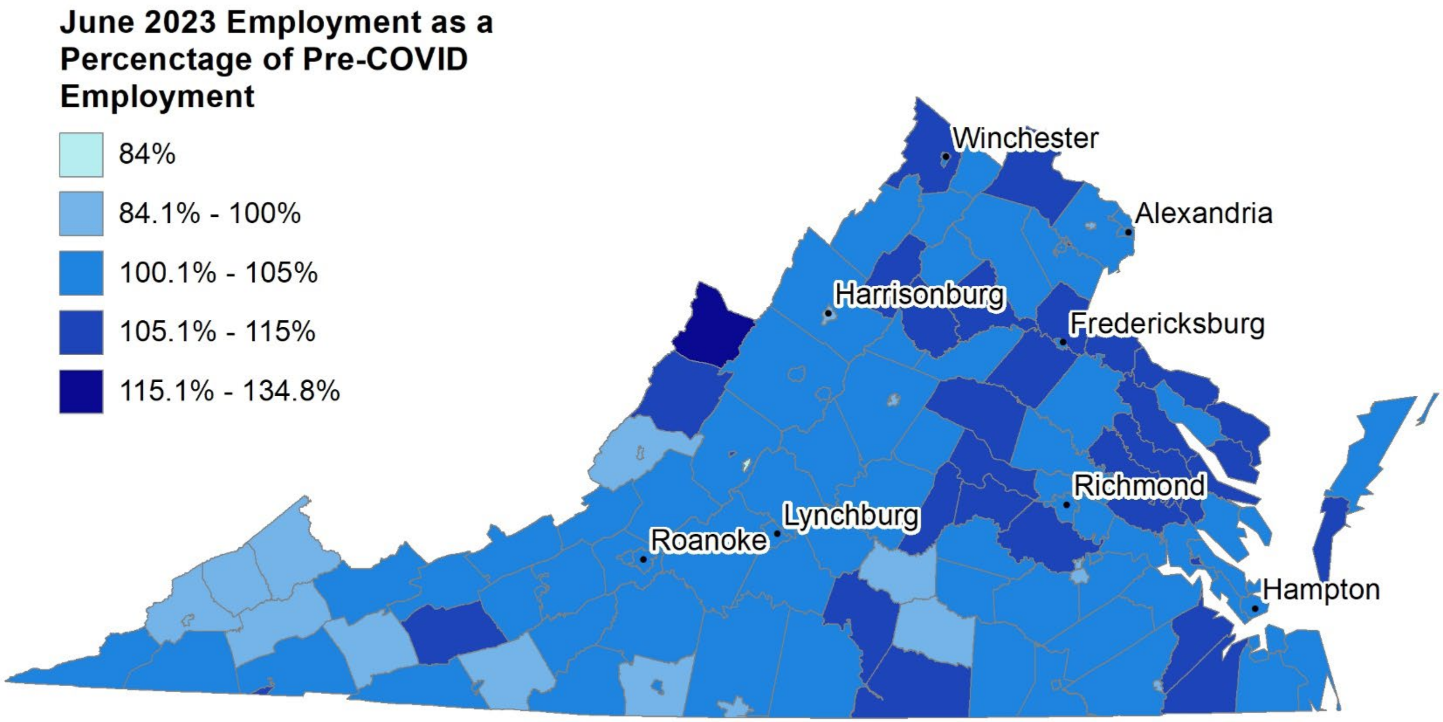
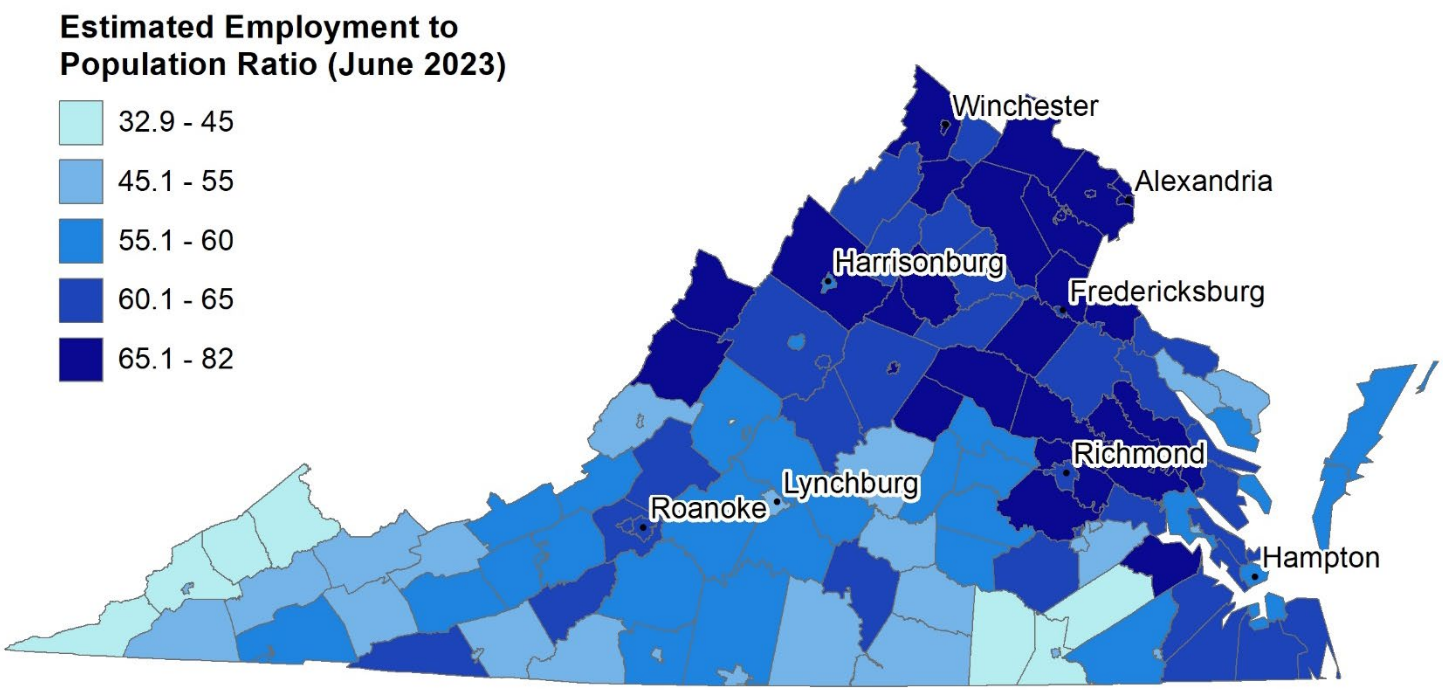
… but recovery varies a lot across the state



Note: June 2023 employment data is preliminary and may be revised.

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

And in general, employment outcomes vary a LOT by region



Notes: Calculated for population 16 years and older. June 2023 employment data is preliminary and may be revised.

Source: Calculated using Bureau of Labor Statistics Local Area Unemployment Statistics, Civilian Employment (June 2023) and Census Bureau's American Community Survey (2021 5-Year Estimates)

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What keeps workers on the sidelines?

Even when there are jobs, lots of things keep people from work:

- Skill barriers (education, training)
- Non-skill barriers
  - Personal: childcare, health
  - Infrastructure: housing, transportation, broadband
  - Incentives: benefits cliffs, aspiration

This is where community development <u>is</u> economic development

The Richmond Fed has a focus on helping communities thrive

Community of practice
Capital development
Access to credit
Benefits cliffs
Digital equity
Investment Connections

Research on barriers to employment
Rural Spotlights
CDFI survey
Community college survey
Rural typologies

Community Partnership

Events and Communications

Small Town and Rural Initiative

Applied Research

Sensing and Engagement

Annual rural conference
Website
Publications

Community Conversations
Listening sessions
Workgroups
Presentations

https://www.richmondfed.org/region_communities/rural

What do I want you to leave here knowing?

- Further slowing is likely – rate increases hit with a lag. But also reason to believe a recession could be mild:
  - Labor is still tight
  - Businesses have had a long time to prepare
  - Interest-sensitive sectors (like housing and autos) still have pent-up demand

- Short-term risks:
  - Commercial real estate
  - Credit/capital flow
  - Inflation stops coming down, requiring more action from the Fed
  - Shocks (where most recessions come from!)

- For a strong economy, <u>regions</u> need to thrive – so the Richmond Fed cares a lot about understanding what works across communities

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Topics of interest

- *The economy*
- ***Rural and small towns***
- *Community colleges*
- *Access to credit*
- *… And much more*

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Questions/Comments?

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