FEDERAL RESERVE BANK of NEW YORK

# U.S. Economic Conditions

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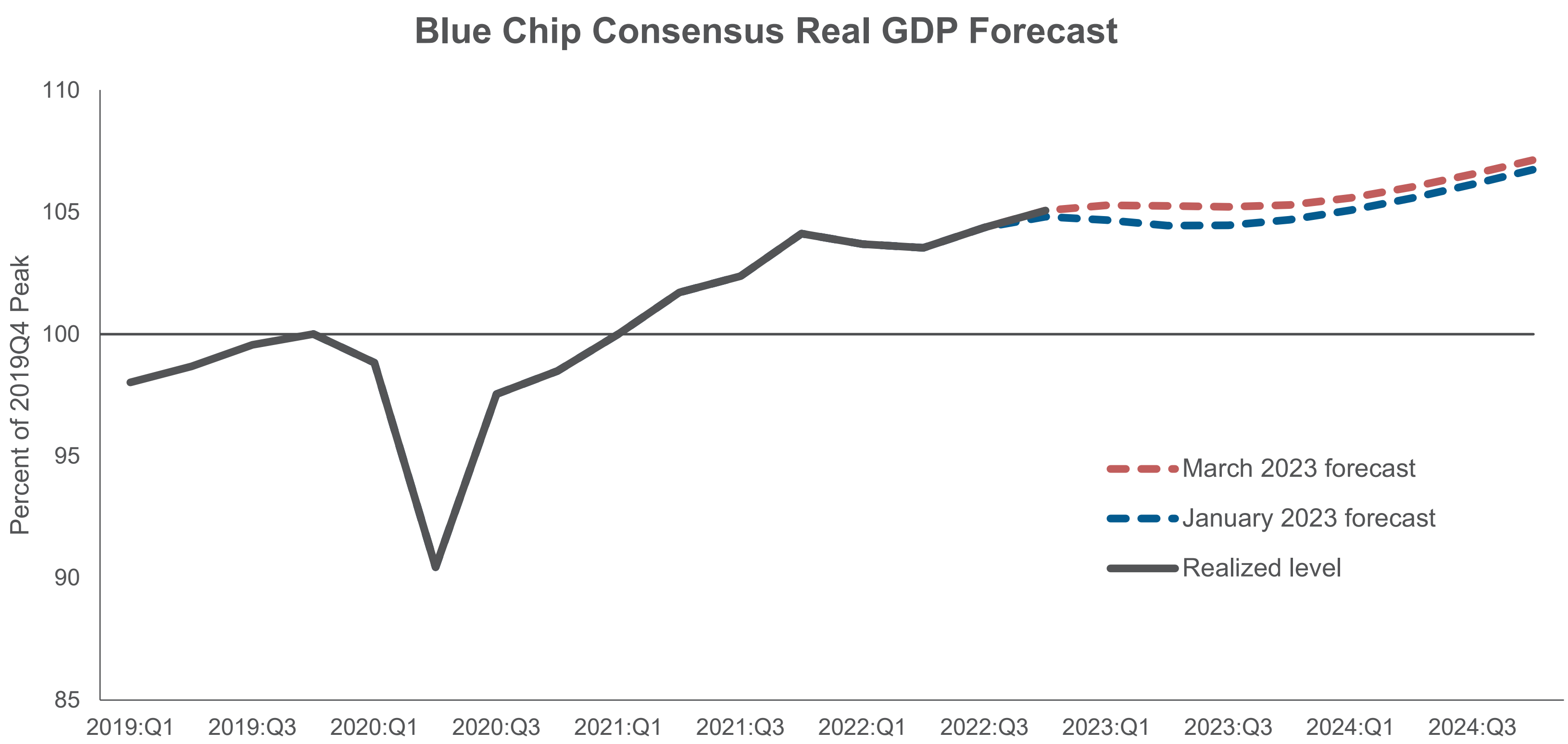
Community Depository Institutions Advisory Council: March 30, 2023

# Overview

- Real GDP increased solidly in the second half of 2022.
  - Economic activity was resilient at beginning of this year.
- The labor market remains tight.
- Inflation continues to be high.
- Banking system stresses raise uncertainty and could weigh on economic activity.

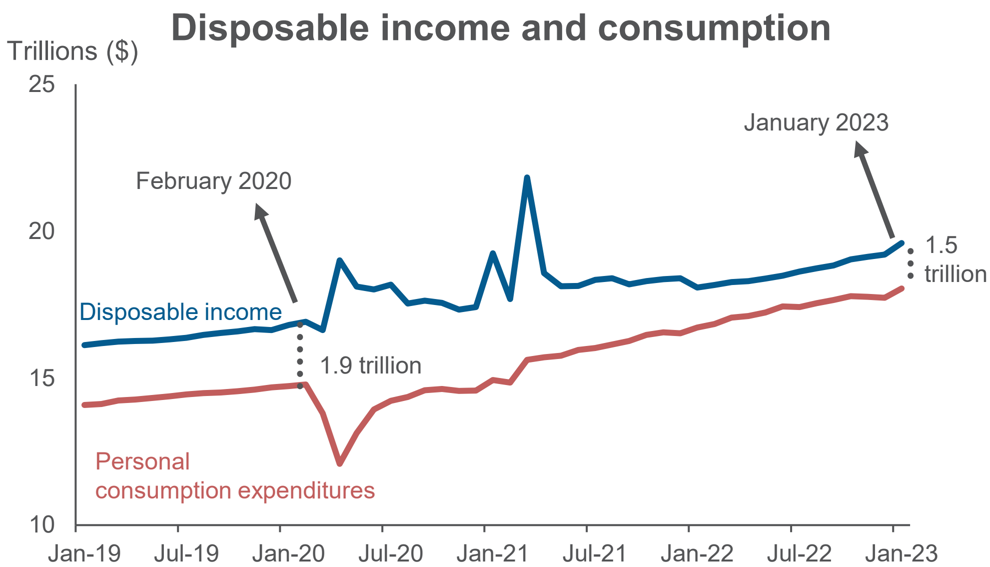
# GDP rose in 2022H2; spending sturdy in early 2023

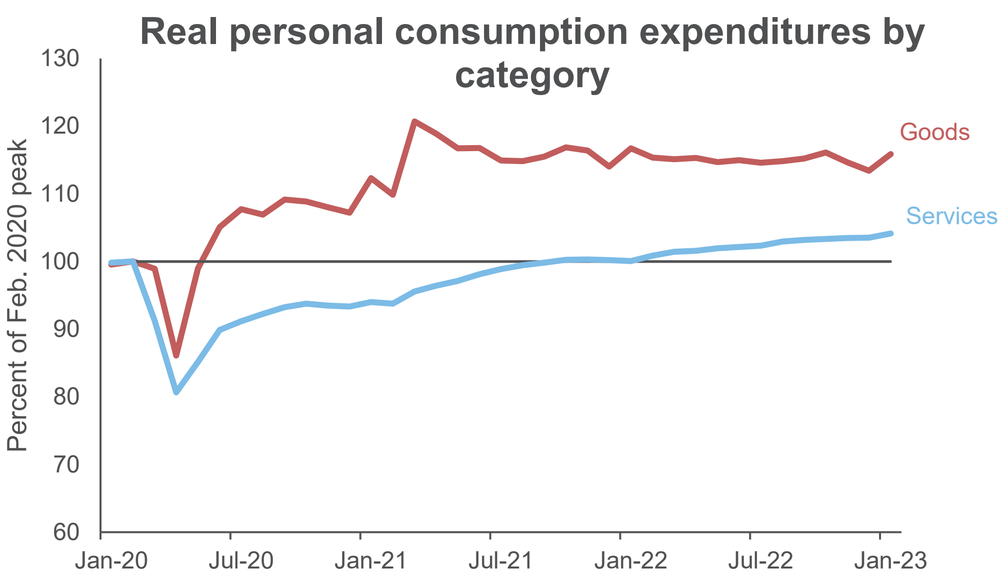



- 2022H2 GDP rose, partly from temporary factors.
- Expenditures showed resiliency in the early part of 2023.
- Data prompted modest upward revisions to private forecasts through early March.

Sources: Bureau of Economic Analysis, Blue Chip Economic Indicators

# Brisk consumption and income growth in early 2023



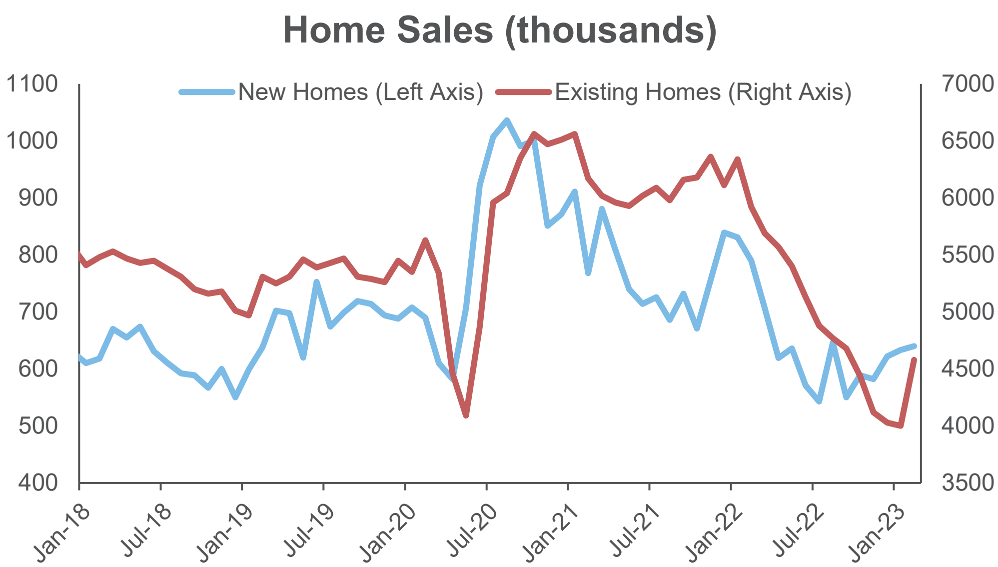




Source: Bureau of Economic Analysis via Haver Analytics.

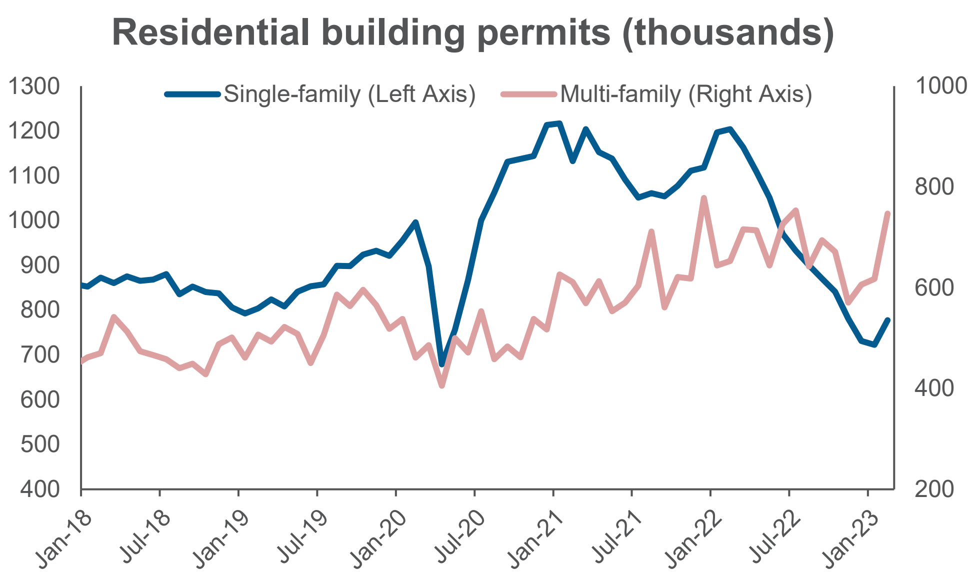
- Disposable income rose solidly since mid-2022.
- After a soft Q4, consumption increased briskly in January.
- Saving rate was 4.7% in January, above its recent low.

- Goods expenditures flat since mid-2021.
- Services expenditures are moderately above pre-pandemic levels.
- Rebalancing is proceeding slowly.

# Housing market remains weak



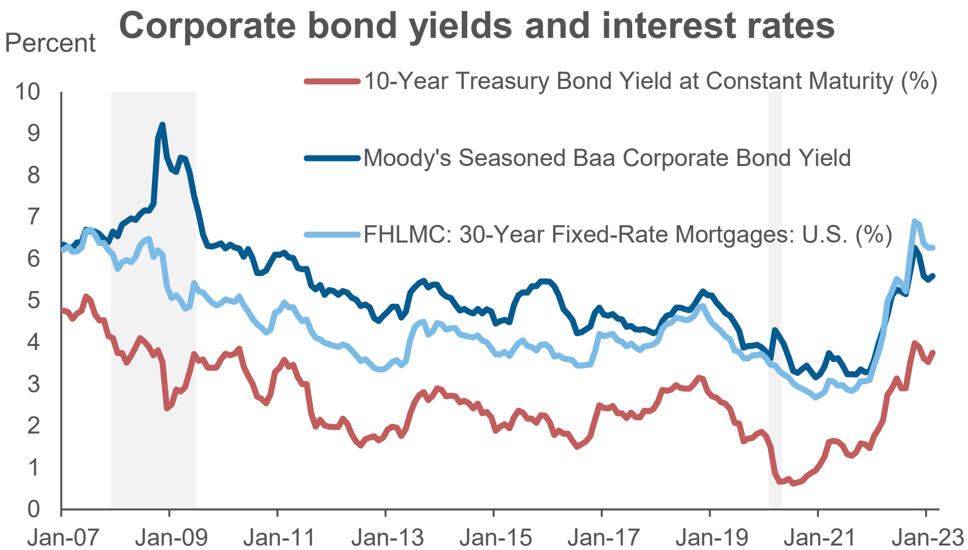

- Affordability is still impaired by rise in mortgage rates in 2022.
- Even though they have stabilized, home sales are at low levels.

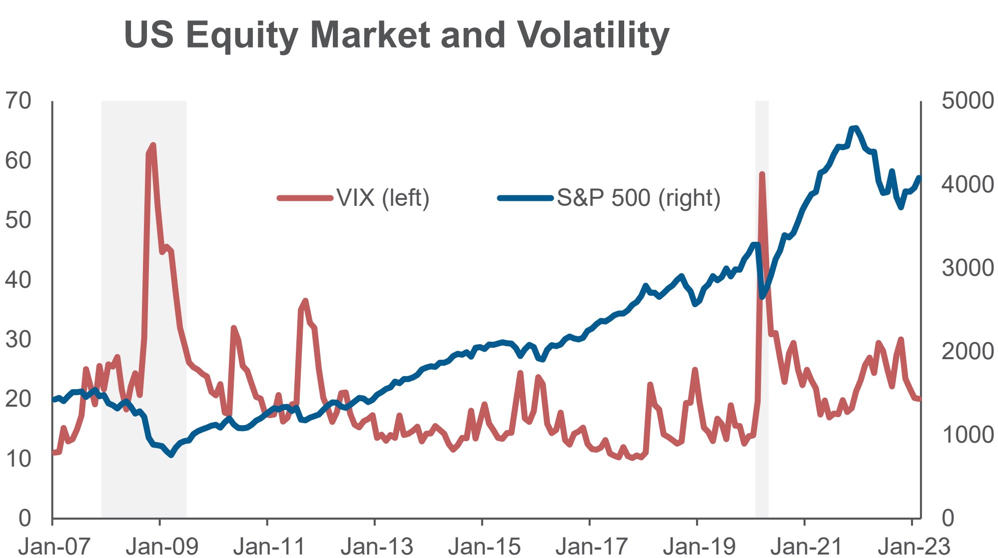



- Single-family home building is low, following a similar pattern as home sales.
- Multifamily building activity has held up fairly well.

Sources: Census Bureau, National Association of Realtors via Haver Analytics

# Financial market conditions still tight

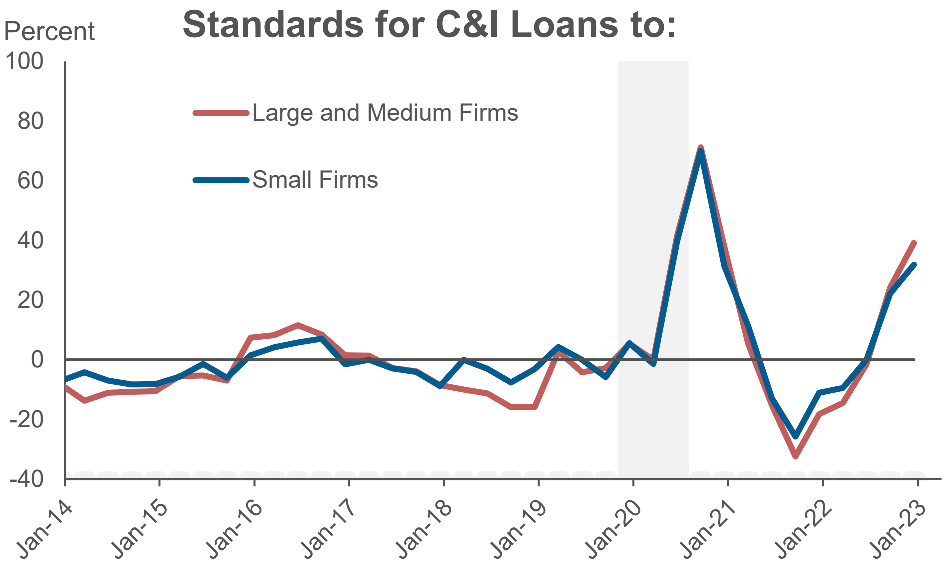


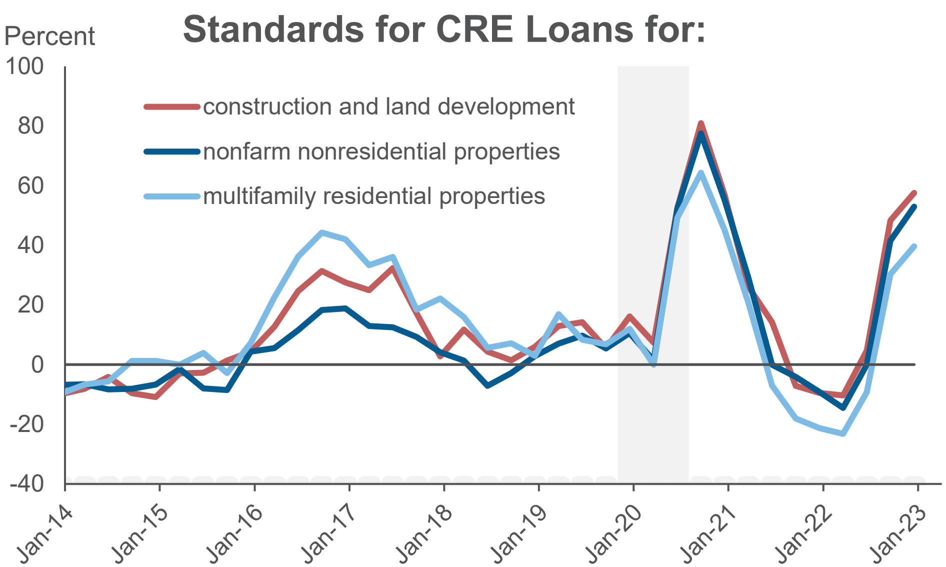

- Amid recent volatility, long-term Treasury yields, mortgage rates, and corporate bond yields are still above year-ago levels.
- Although volatile, equity prices have been flat on net since mid-2022.
- Policy expectations and banking system stresses have contributed to the volatility.

Sources: Federal Home Loan Mortgage Corporation, Federal Reserve Board, Moody's, Standard & Poor's, Wall St. Journal via Haver Analytics.
Note: Shading shows NBER recessions.

# Banks have tightened loan standards recently




- A rising percentage of banks had stated that they are tightening standards for C&I loans to firms.




- An even higher percentage had tightened standards for CRE loans.
- These data do not reflect effects from the recent banking system stresses.

Sources: Senior Loan Officer Opinion Survey, Federal Reserve Board via Haver Analytics.
Notes: Charts show net percentage of respondents tightening standards for loans. Shading shows NBER recessions.

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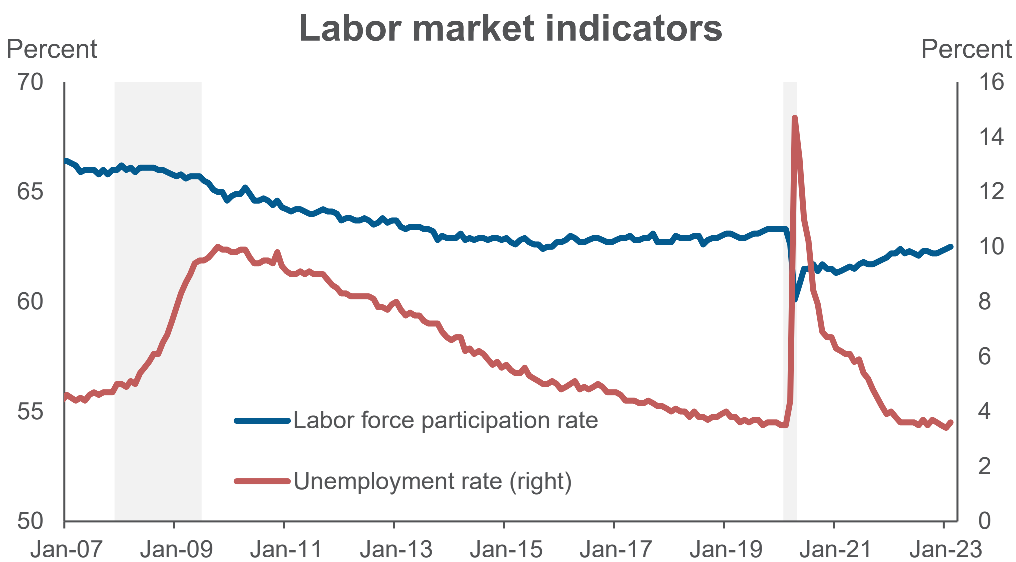
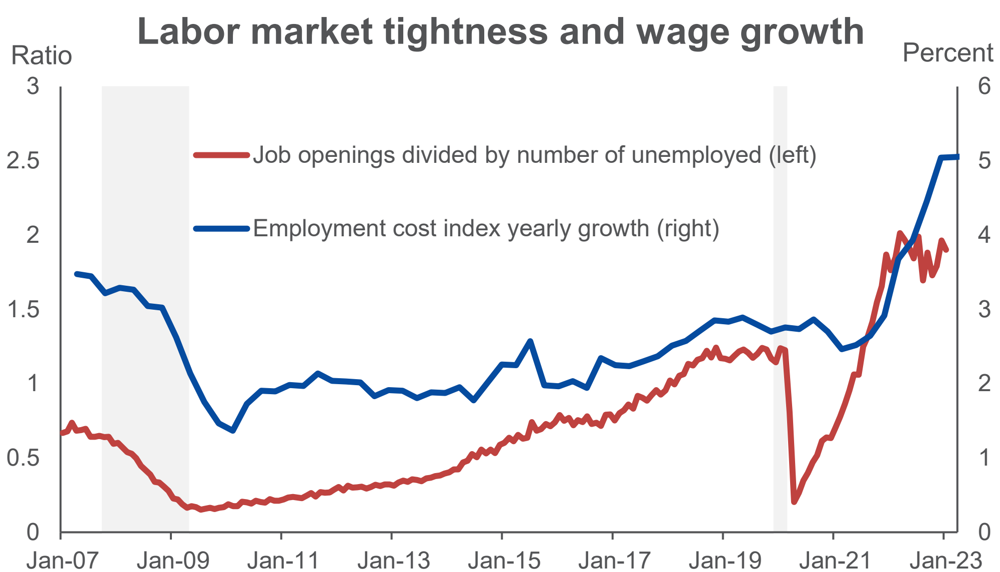
# The labor market remains tight



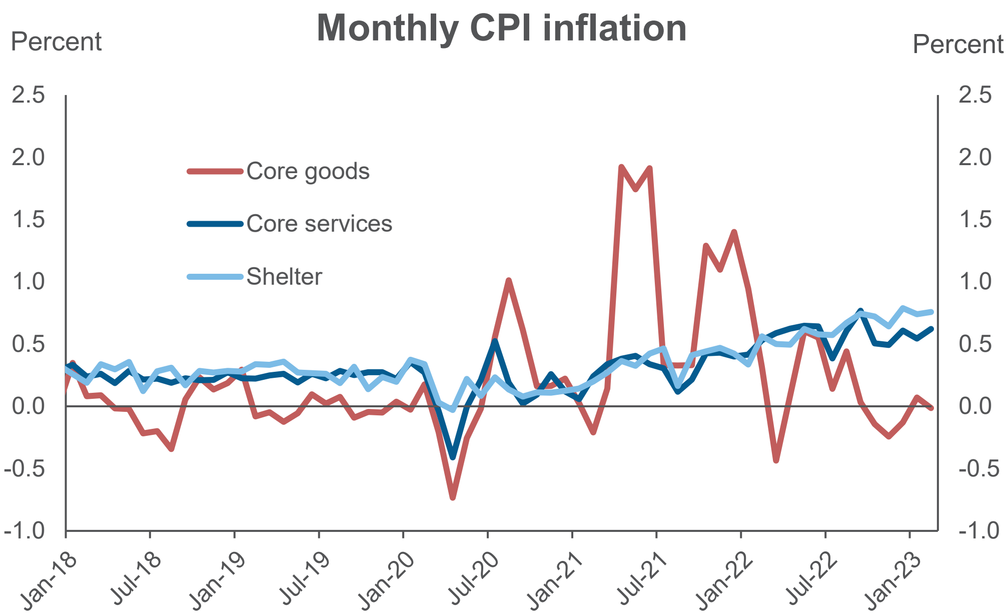

- Unemployment rate near 3½% for past year.
- Participation is still below pre-pandemic levels.
- Job growth remains strong: 3-month average at about 350,000 in February.



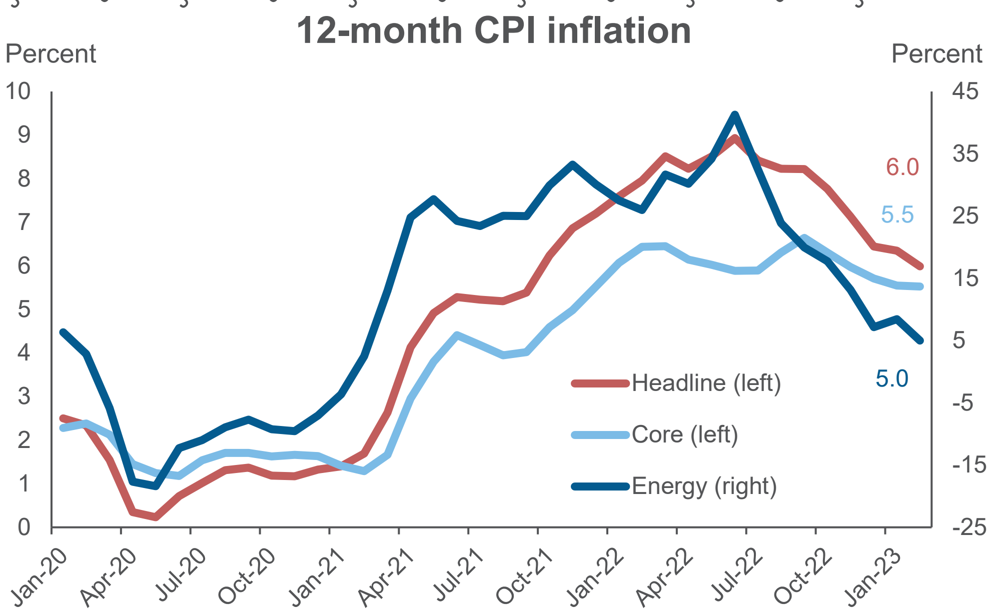

- There are many more job openings than people looking for work
- Wage growth has stabilized at a rate well above those of recent years

Source: Bureau of Labor Statistics via Haver Analytics. Note: Shading shows NBER recessions.

# Inflation continues to be high




- Core goods inflation has flattened recently.
- Core services inflation is still elevated, as shelter inflation moved up.




- Ex-food & energy (core) inflation thus remains high.
- Headline inflation has slowed more than core, as energy inflation has moderated.

Source: Bureau of Labor Statistics via Haver Analytics.

# Concluding observations

- Economic activity and labor market were resilient in early 2023.
- Inflation remains well above 2 percent.
- Tightening of policy over past year had some effects:
  - Most evident on housing sector.
- Recent banking stresses likely to tighten credit conditions and to weigh on economic activity, but the extent is uncertain.
- Monitor data closely for effects on inflation and employment.