The views expressed here are those of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.
Overview

- Real GDP declined in the first half of the year and consensus forecasts point to future growth being sluggish at best

- Indicators signal that the labor market remains tight

- Inflation continues to be high
GDP fell in H1, downward revision for the rest of year

- H1 GDP fell, partly because of net exports and inventories
- Tighter monetary policy and financial conditions behind fall in housing and signs of slower consumer spending growth
- Downward revisions to private forecasts reflect this

Sources: BEA, Blue Chip Economic Indicators
Soft consumption growth amid slow income growth

- Disposable income rose slowly in recent months
- Consumption growth has moderated in the past few months
- Personal saving rate was 3.5% in August, near its recent low
- Goods expenditures modestly fell recently
- Services expenditures are now slightly above pre-pandemic levels
- But a few service sectors still lag
Financial conditions continue to tighten

- Long-term Treasury yields, mortgage rates, and corporate bond yields have continued to rise in the last few months

- Equity prices have declined recently amid concerns about inflation and economic prospects

- Expectations of tighter monetary policy have contributed to these movements

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.
Rising mortgage rates start to hit housing activity

- Higher mortgage rates are leading to large increases in mortgage payments, hurting affordability
- Home sales have declined considerably this year
- Building activity has also declined

Sources: Census Bureau, National Association of Realtors
The labor market remains tight

- Unemployment rate ticked down to 3.5% in September
- Jobs gains have averaged over 350K during past 4 months, as total jobs surpassed pre-pandemic levels
- Despite recent signs of cooling, there are still many more job openings than people looking for work
- Wage growth is well above rates of recent years

Source: BLS. Note: Shading shows NBER recessions.
Inflation remains high

- Goods inflation has been volatile since the pandemic
- Services inflation has trended upward, supported by higher shelter inflation
- As a result, ex-food & energy (core) inflation remains elevated
- Food and energy price inflation also contribute to high headline inflation

Source: BLS.
Concluding observations

- Indications that elevated inflation is possibly becoming more persistent
  - One factor behind tightening of monetary policy in U.S. and globally

- Tighter policy has contributed to tighter financial conditions
  - Effect most evident on interest rate-sensitive housing sector
  - Some reduction in aggregate demand would influence supply-demand imbalances still apparent in economy

- Continue to monitor effects of these and other factors on inflation and employment