

INFLATION AND ECONOMIC CONDITIONS

February 24, 2023

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Regional Outreach Director



FEDERAL RESERVE BANK
OF MINNEAPOLIS

DISCLAIMER

The views expressed here are the presenter's and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.



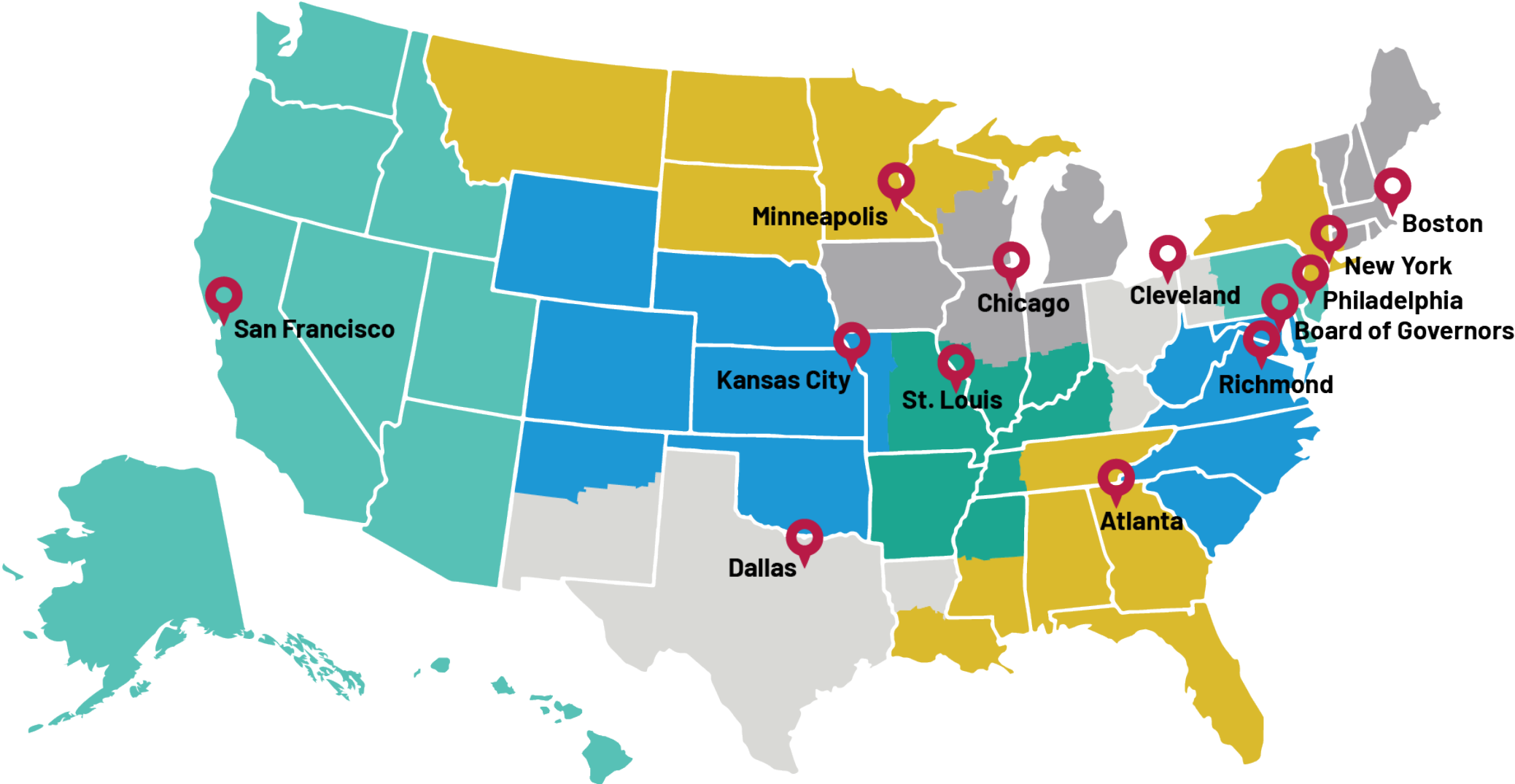


AGENDA

- **Federal Reserve background**
- **Economic update**
 - Labor market progress
 - Inflation dynamics
 - The Fed's response
- **U.P. business conditions**

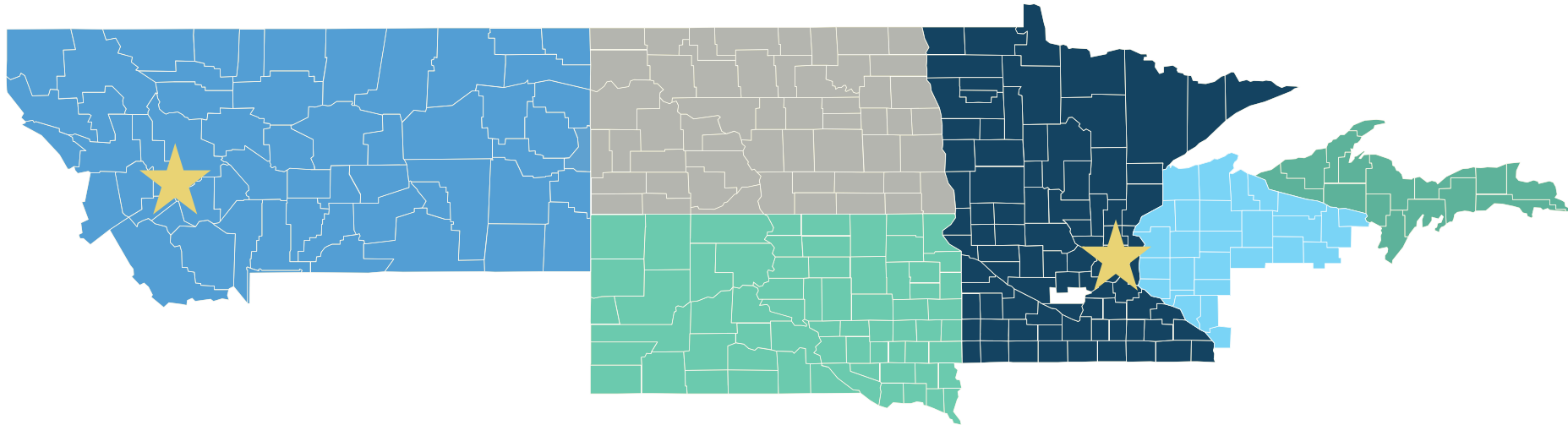


ORGANIZATION OF THE FED



MISSION OF THE MINNEAPOLIS FED

We serve the public by pursuing a growing economy and stable financial system that work for all of us.



FEDERAL RESERVE BANK OF MINNEAPOLIS

THE FEDERAL RESERVE'S CONGRESSIONAL MANDATE

The Federal Reserve Act mandates that the Federal Reserve conduct monetary policy “*so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.*”

Dual Mandate: maximum employment and price stability



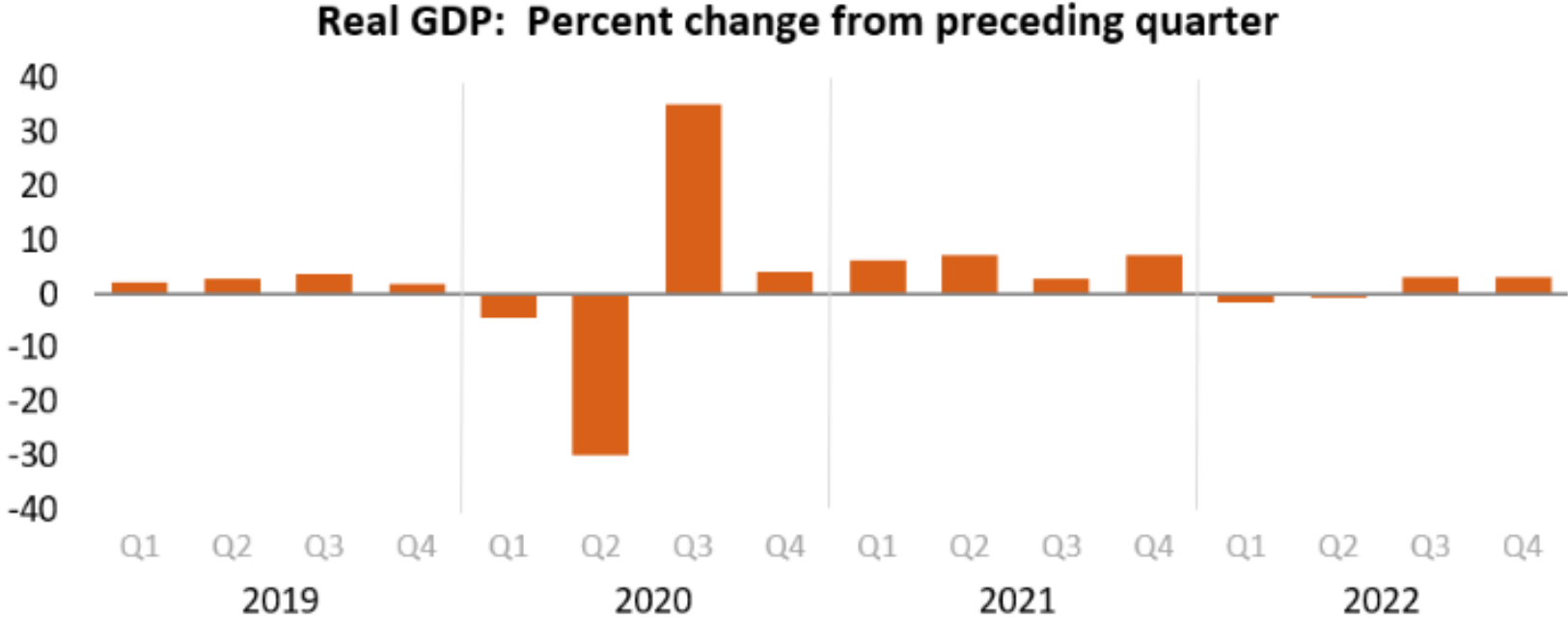
CROWN JEWELERS

GOURMET PIZZA

U.S. ECONOMIC UPDATE

Boar's Head
MON-TUES
SPECIALS
LARGE 18" PIE
\$8.99
WHOLE TH COM
\$9.99

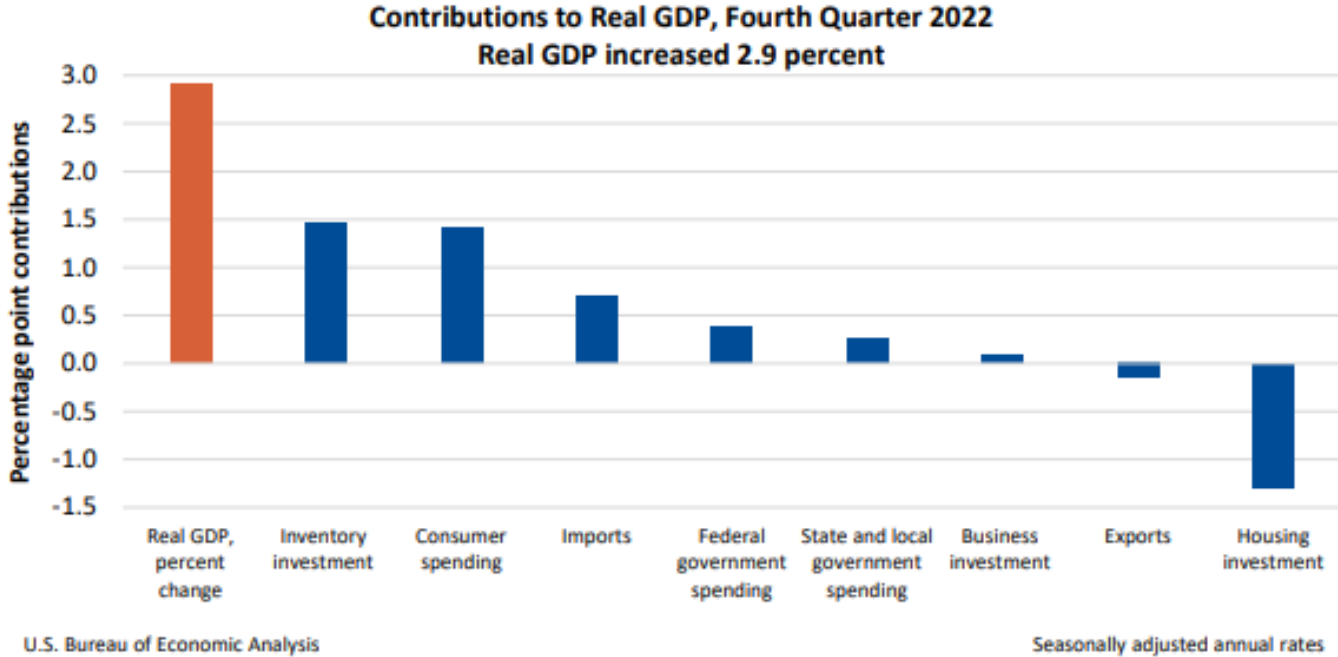
RECESSION?



U.S. Bureau of Economic Analysis

Seasonally adjusted annual rates

RECESSION?

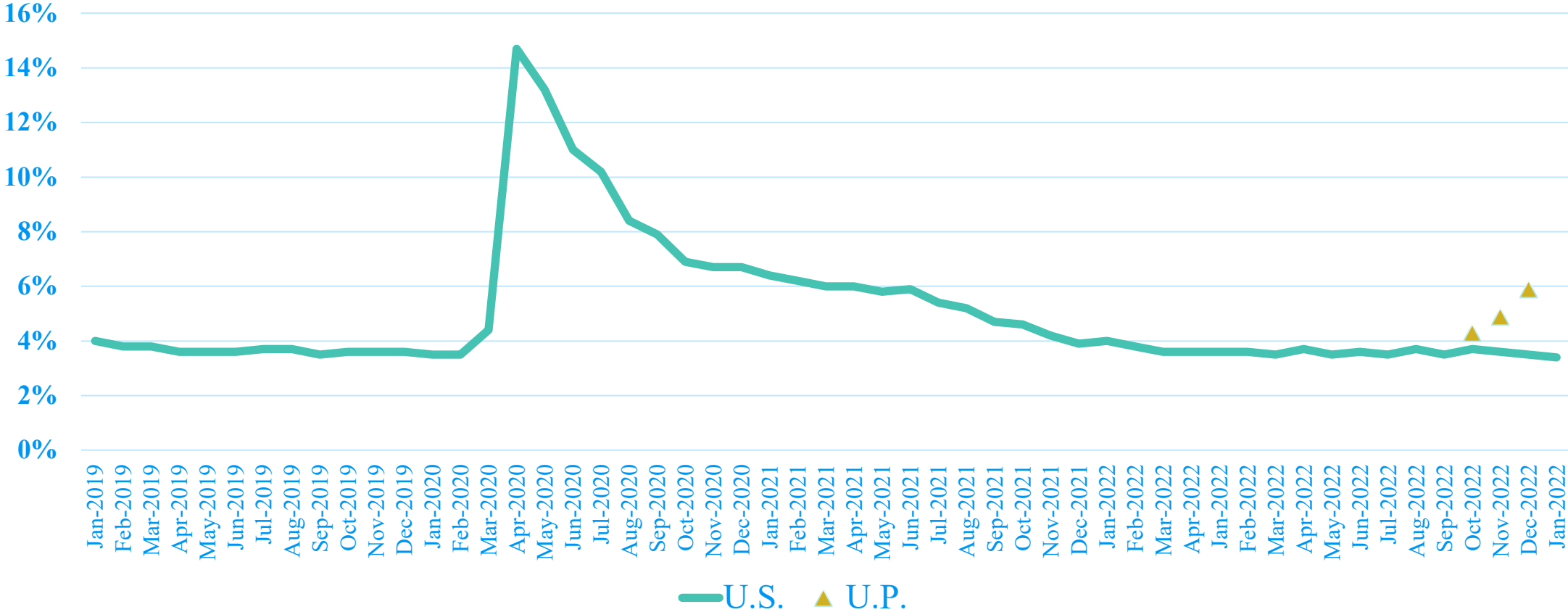




**EMPLOYMENT MANDATE
PROGRESS**

UNEMPLOYMENT NOW BELOW PRE-PANDEMIC LEVELS

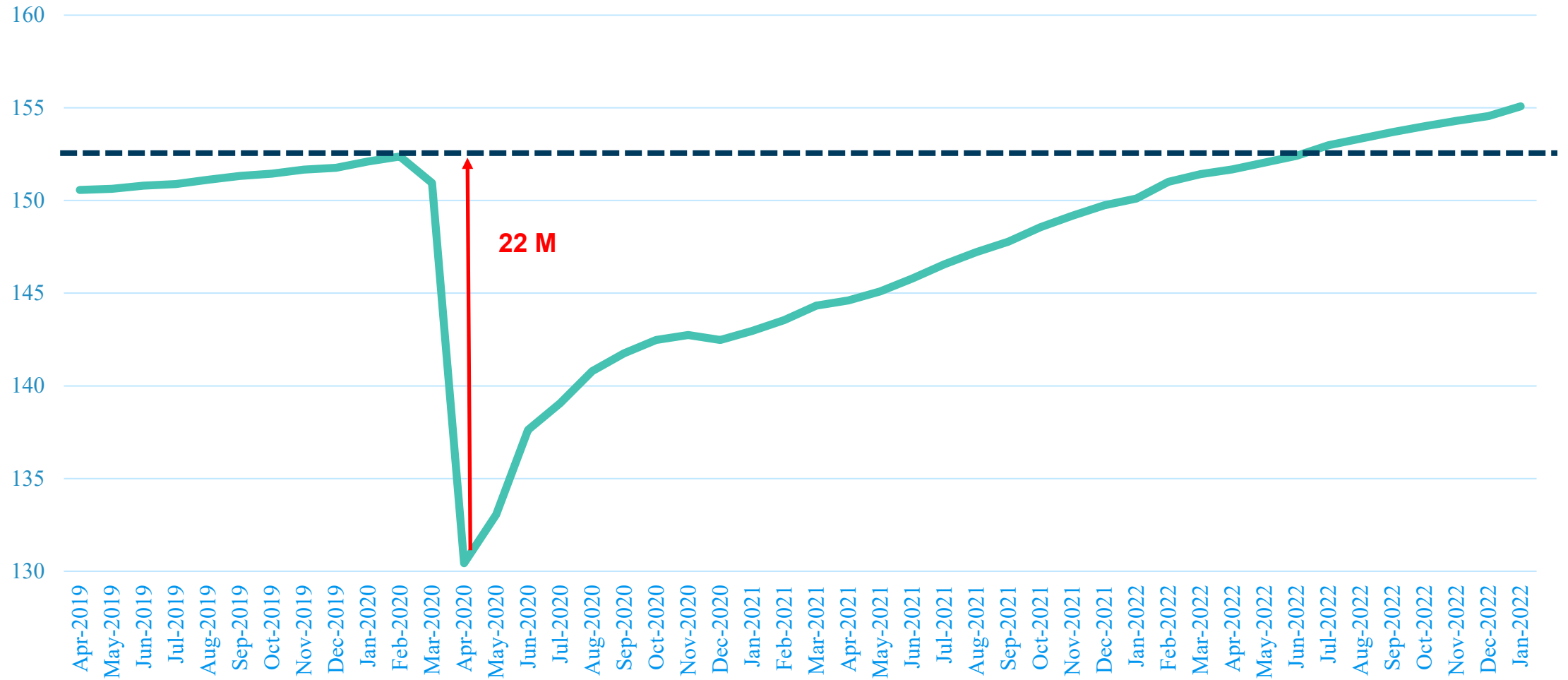
Unemployment rate



Source: Bureau of Labor Statistics

EMPLOYMENT BACK ABOVE PRE-PANDEMIC PEAK

MILLIONS, LEVEL



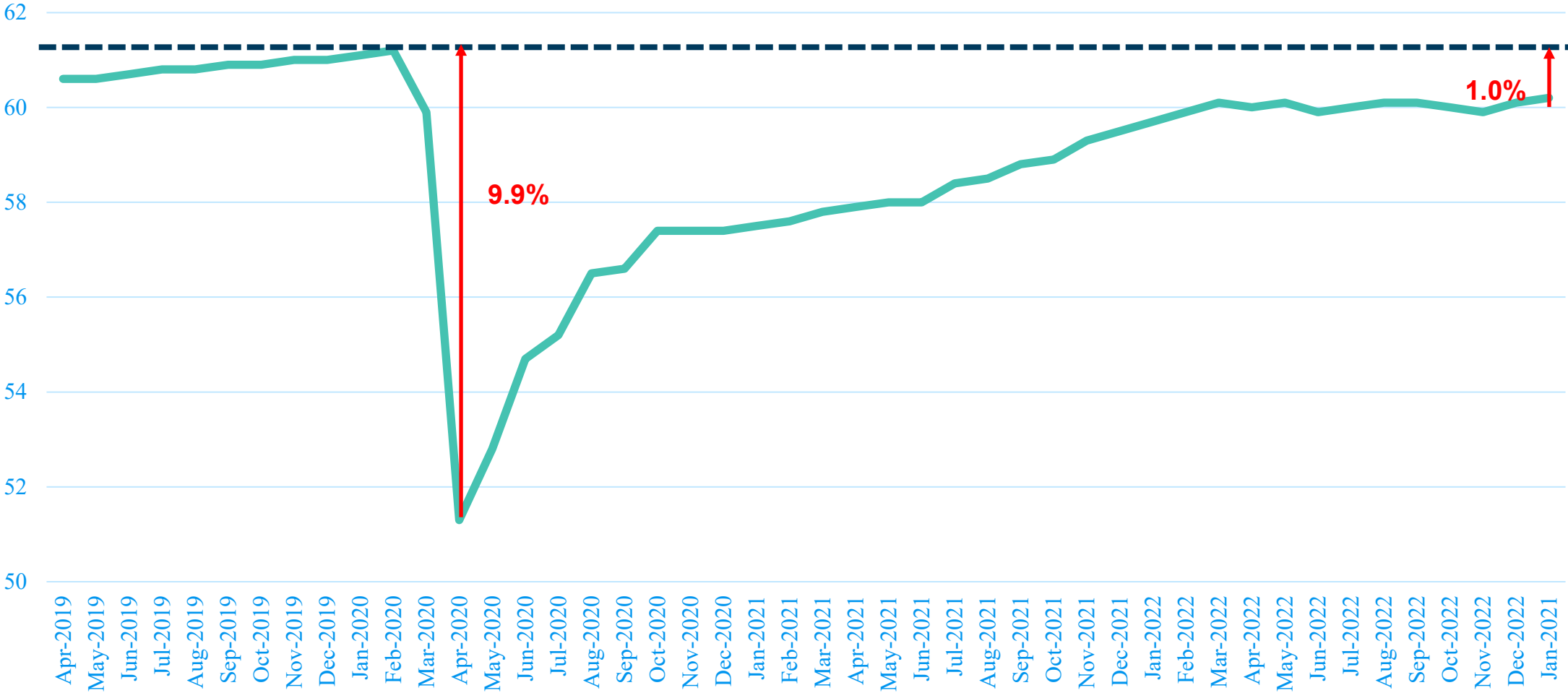
Source: Bureau of Labor Statistics



FEDERAL RESERVE BANK OF MINNEAPOLIS

EMPLOYMENT-POPULATION RATIO

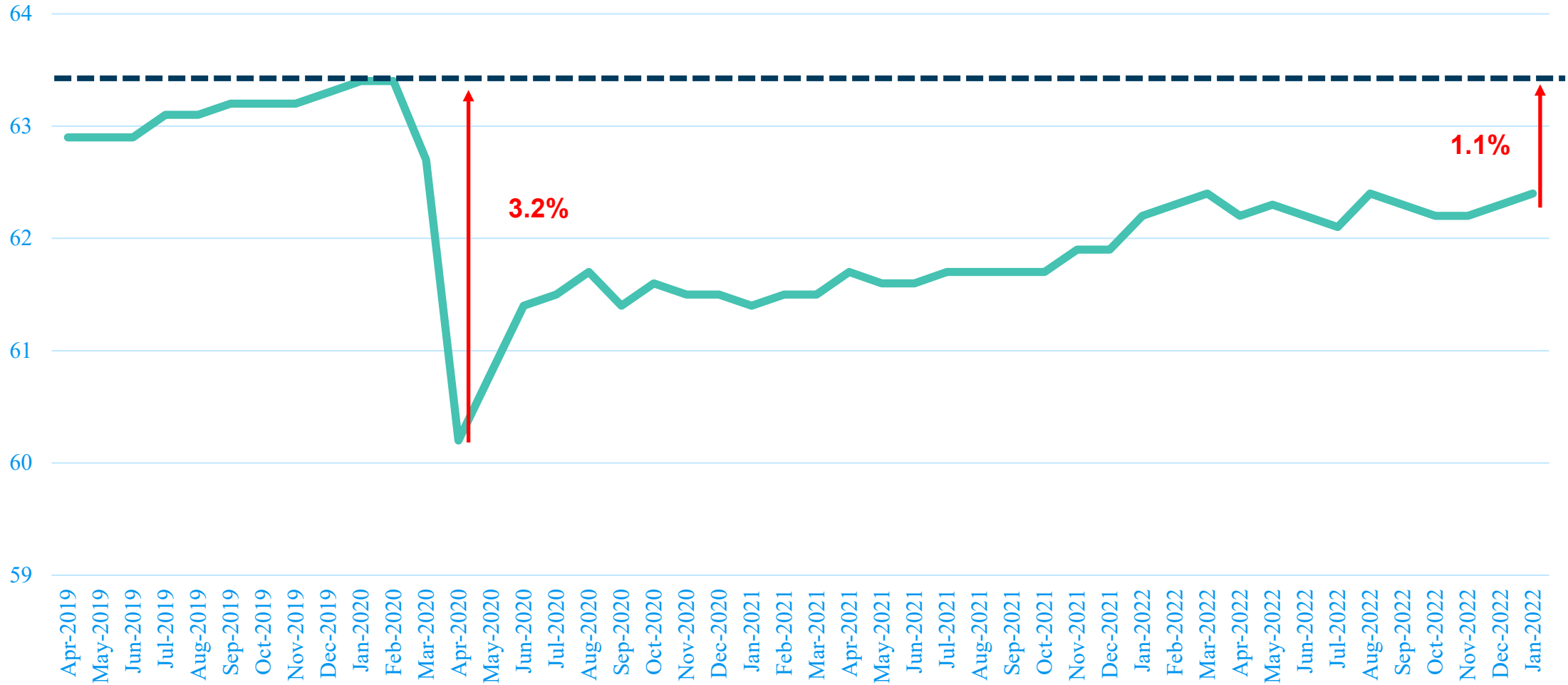
16+, PERCENT



Source: Bureau of Labor Statistics

LABOR FORCE PARTICIPATION RATE

16+, PERCENT



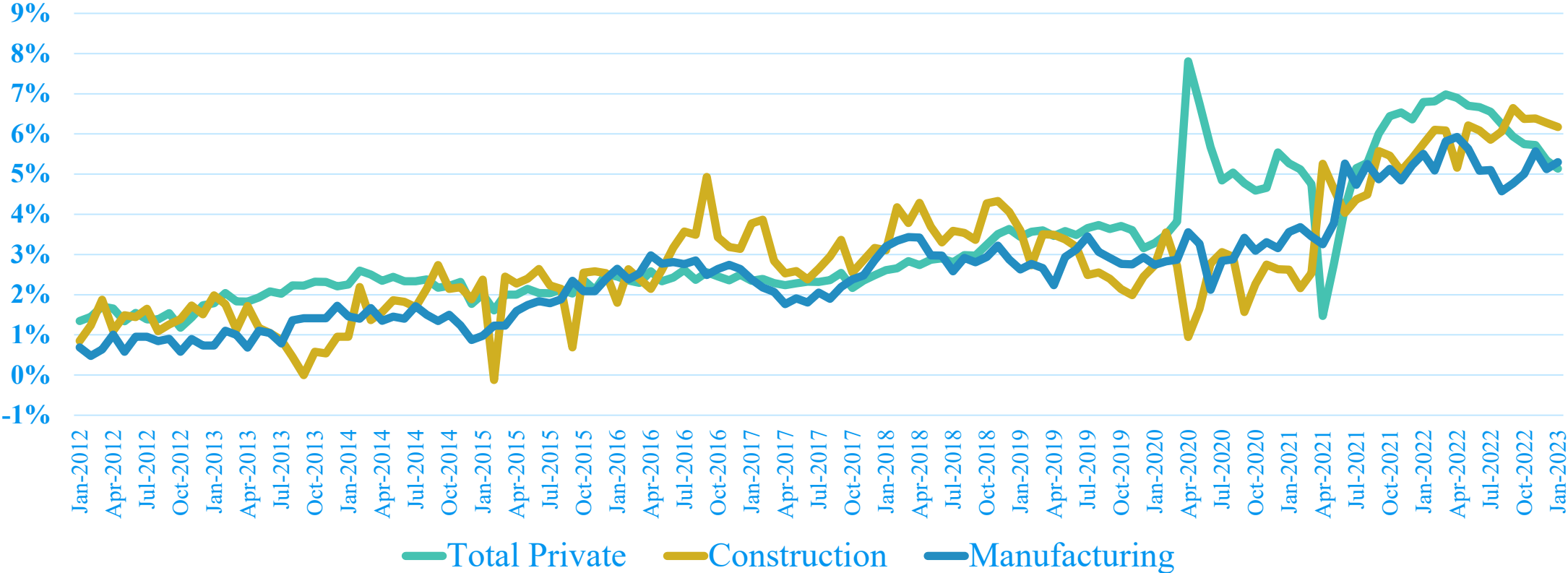
Source: Bureau of Labor Statistics



FEDERAL RESERVE BANK OF MINNEAPOLIS

WAGES RISING (BEFORE INFLATION)

Average Hourly Earnings
Production and nonsupervisory employees, % Ch. Y/Y

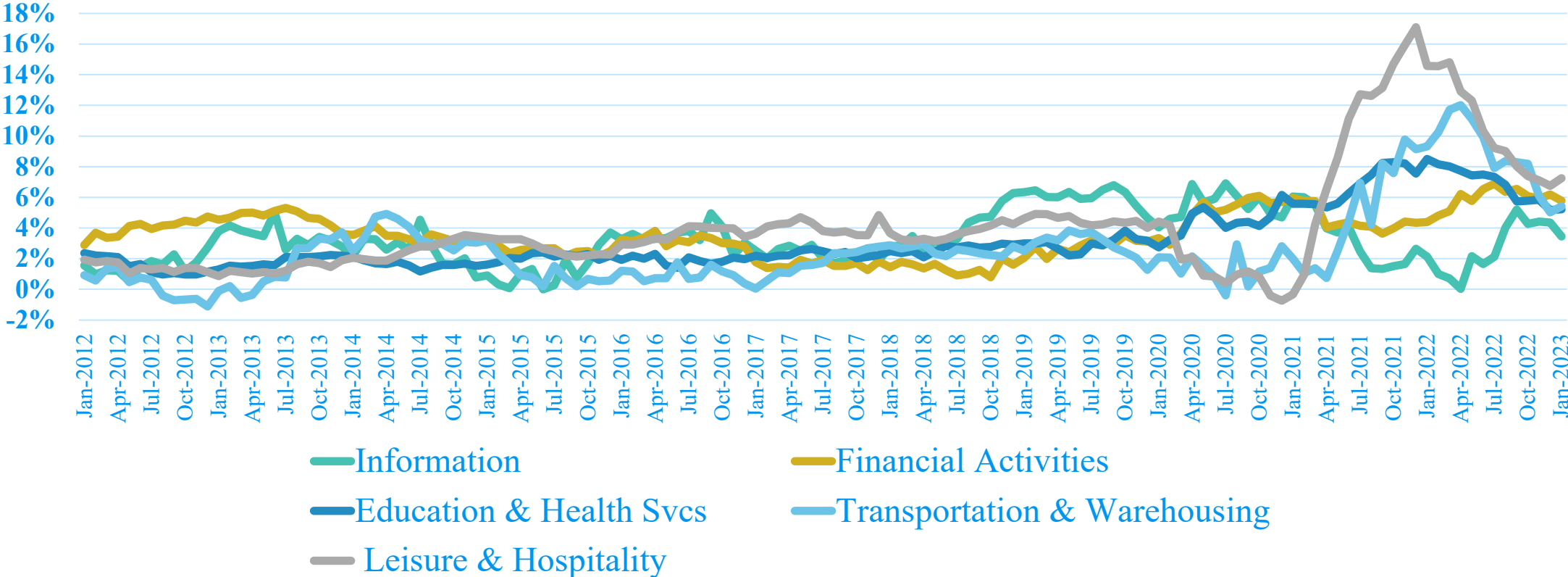


Source: Bureau of Labor Statistics

WAGES RISING (BEFORE INFLATION)

Average Hourly Earnings

Production and nonsupervisory employees, % Ch. Y/Y



Source: Bureau of Labor Statistics

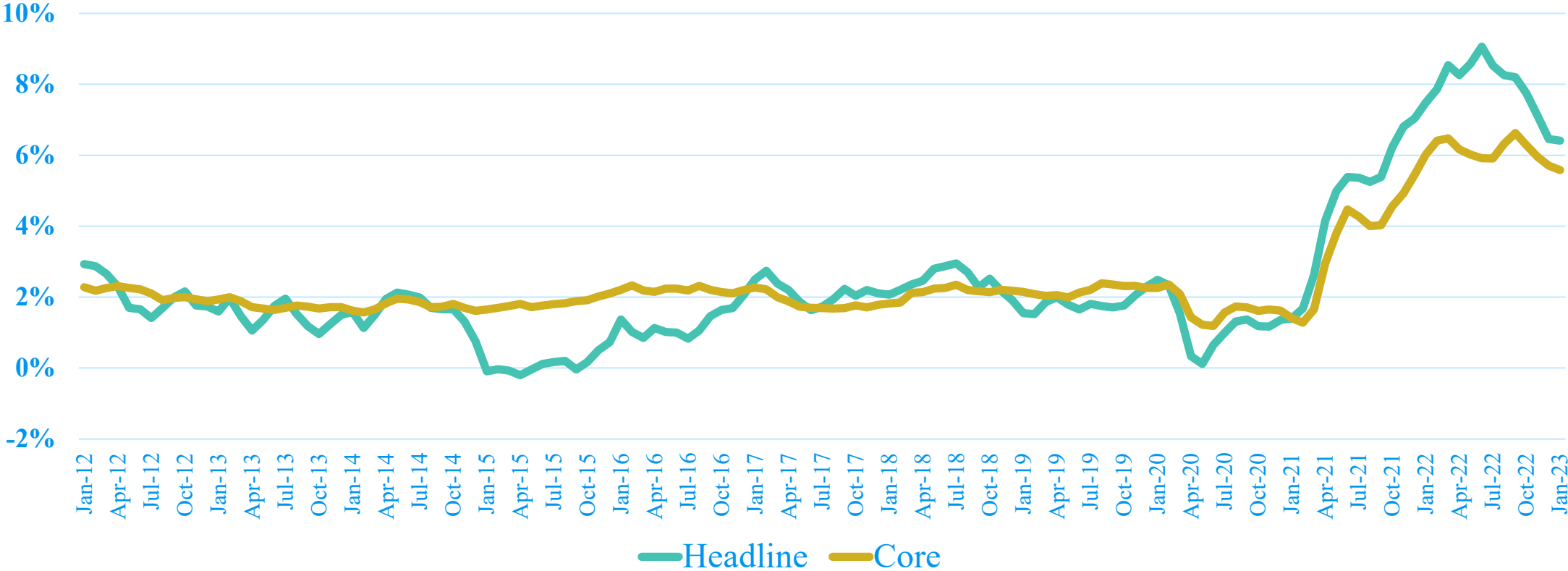


PANDEMIC AND INFLATION

INFLATION HAS INCREASED BUT DECELERATED RECENTLY

Consumer Price Index

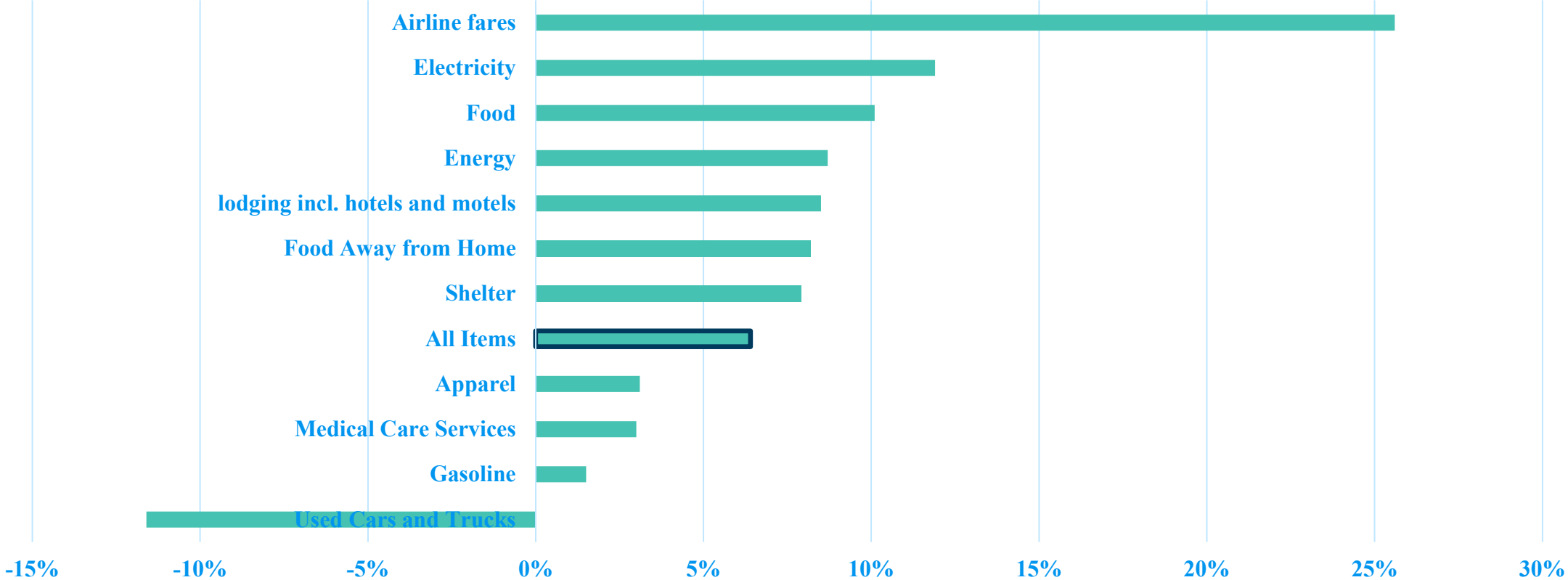
12-month percent change



Source: Bureau of Labor Statistics

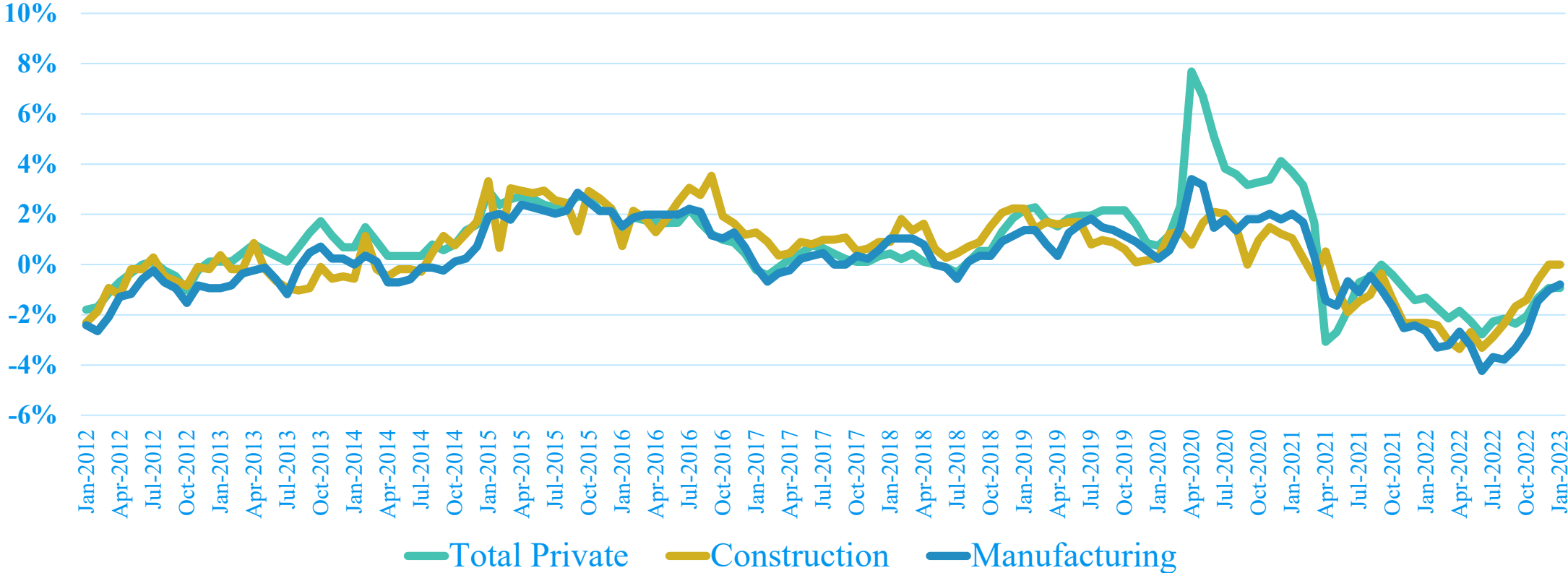
WHAT'S GOING UP THE MOST?

CPI, January 2023
12-month change



INFLATION TAKING A BITE OUT OF WAGE GAINS

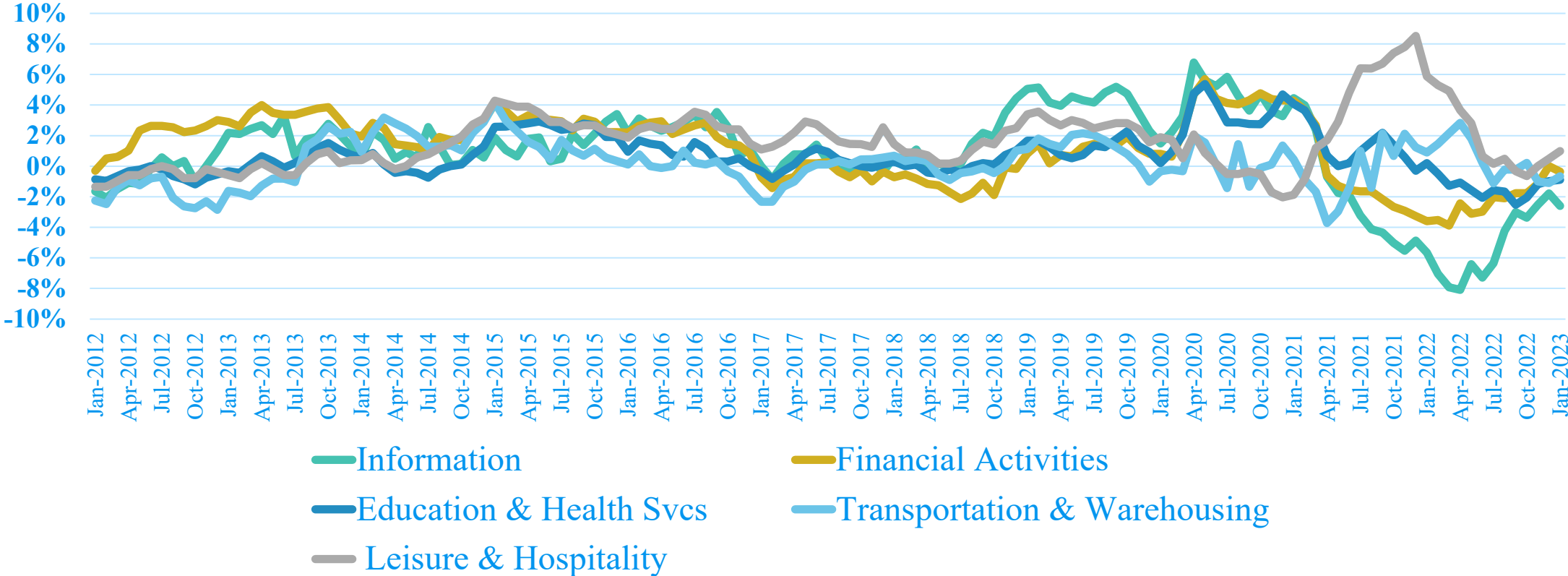
Real Average Hourly Earnings
Production and nonsupervisory employees, % Ch. Y/Y



Source: Bureau of Labor Statistics

INFLATION TAKING A BITE OUT OF WAGE GAINS

Real Average Hourly Earnings
Production and nonsupervisory employees, % Ch. Y/Y

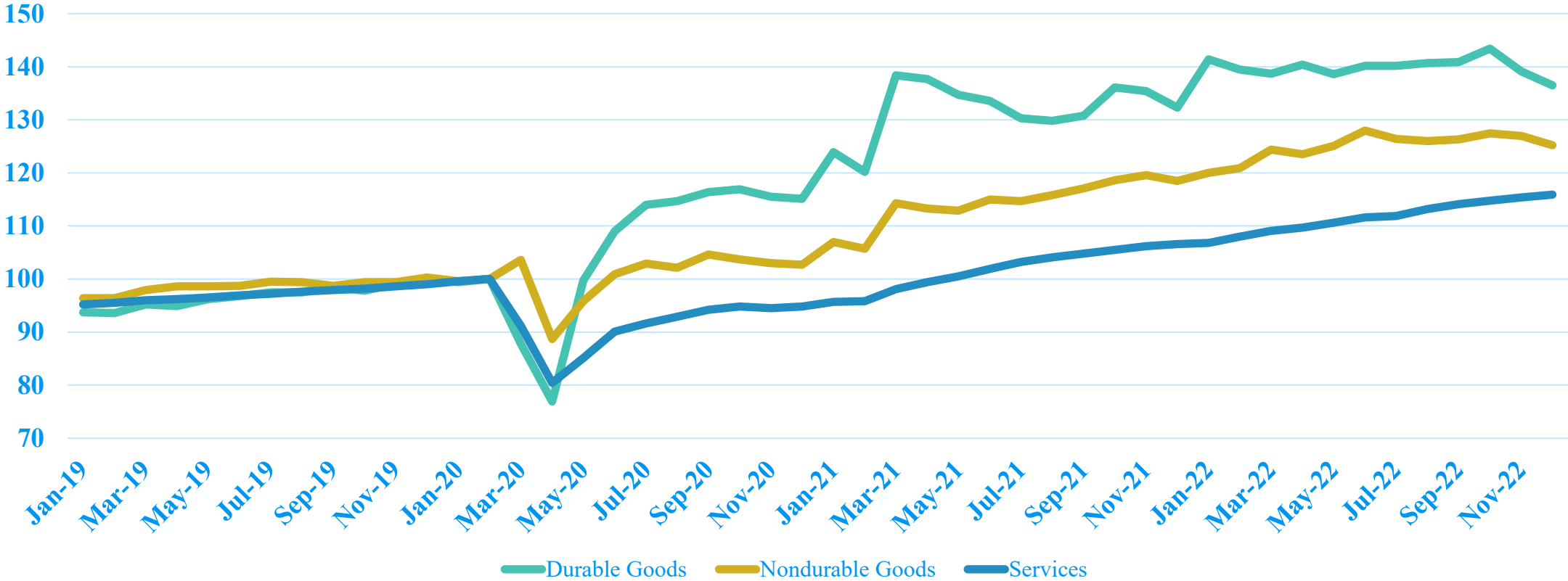


Source: Bureau of Labor Statistics

CONSUMER SPENDING WAY UP, ESPECIALLY FOR GOODS

Personal Consumption Expenditures

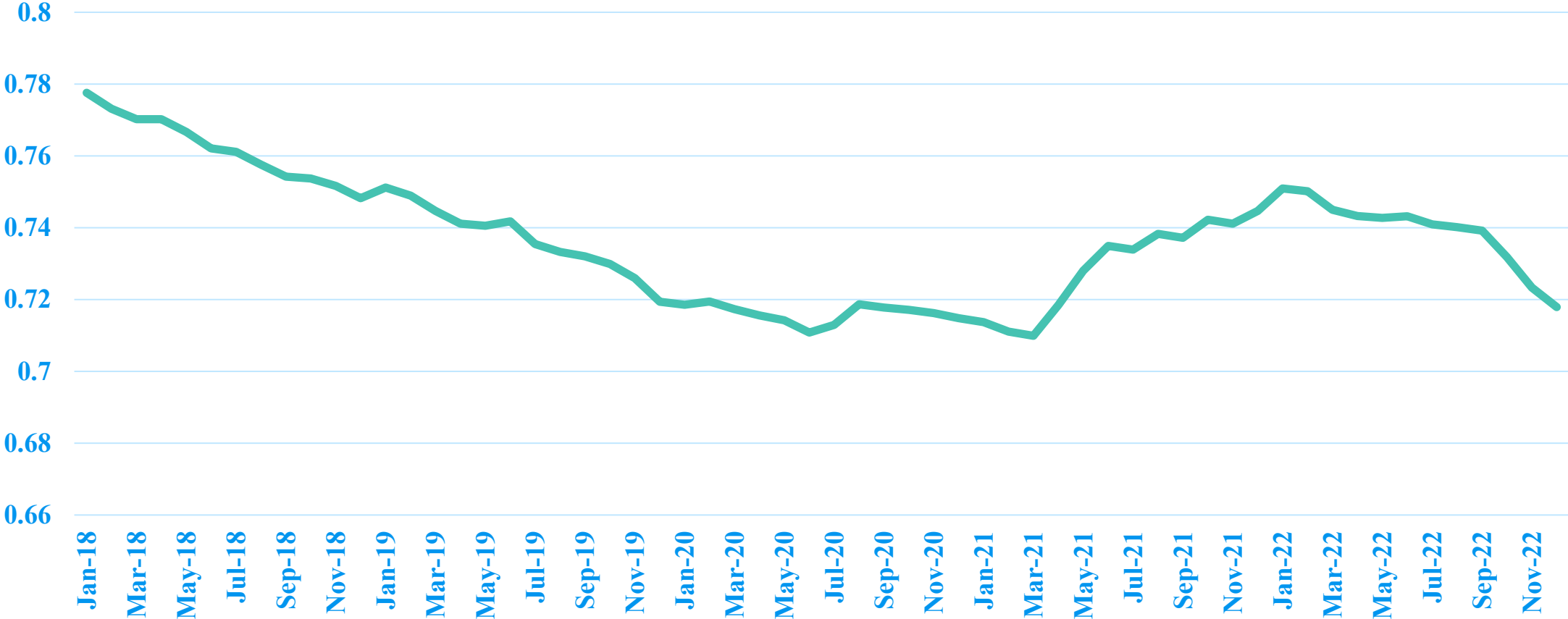
Index Feb 2020=100, Monthly, Seasonally Adjusted



Source: Bureau of Economic Analysis

GOODS GOT MORE EXPENSIVE RELATIVE TO SERVICES

Ratio: PCE-Durable Goods/PCE-Services

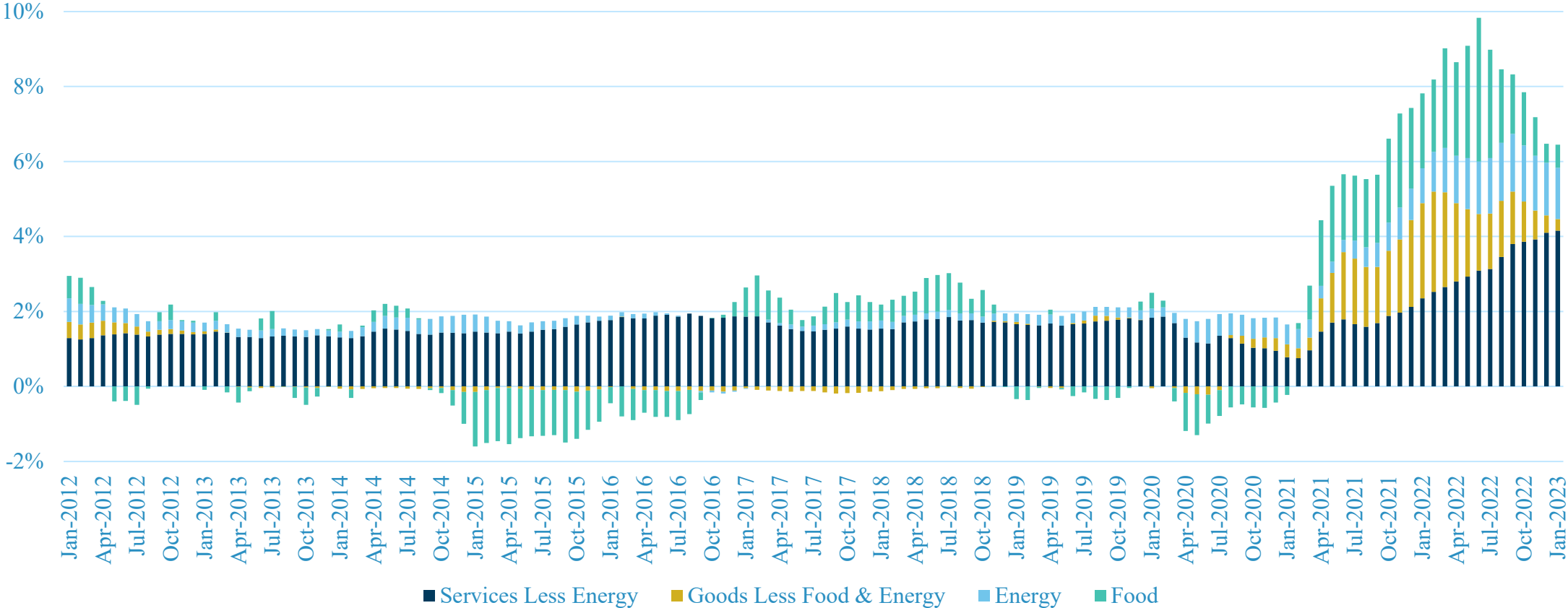


Source: Bureau of Economic Analysis

A LOT OF RECENT INFLATION STILL IN GOODS AND ENERGY

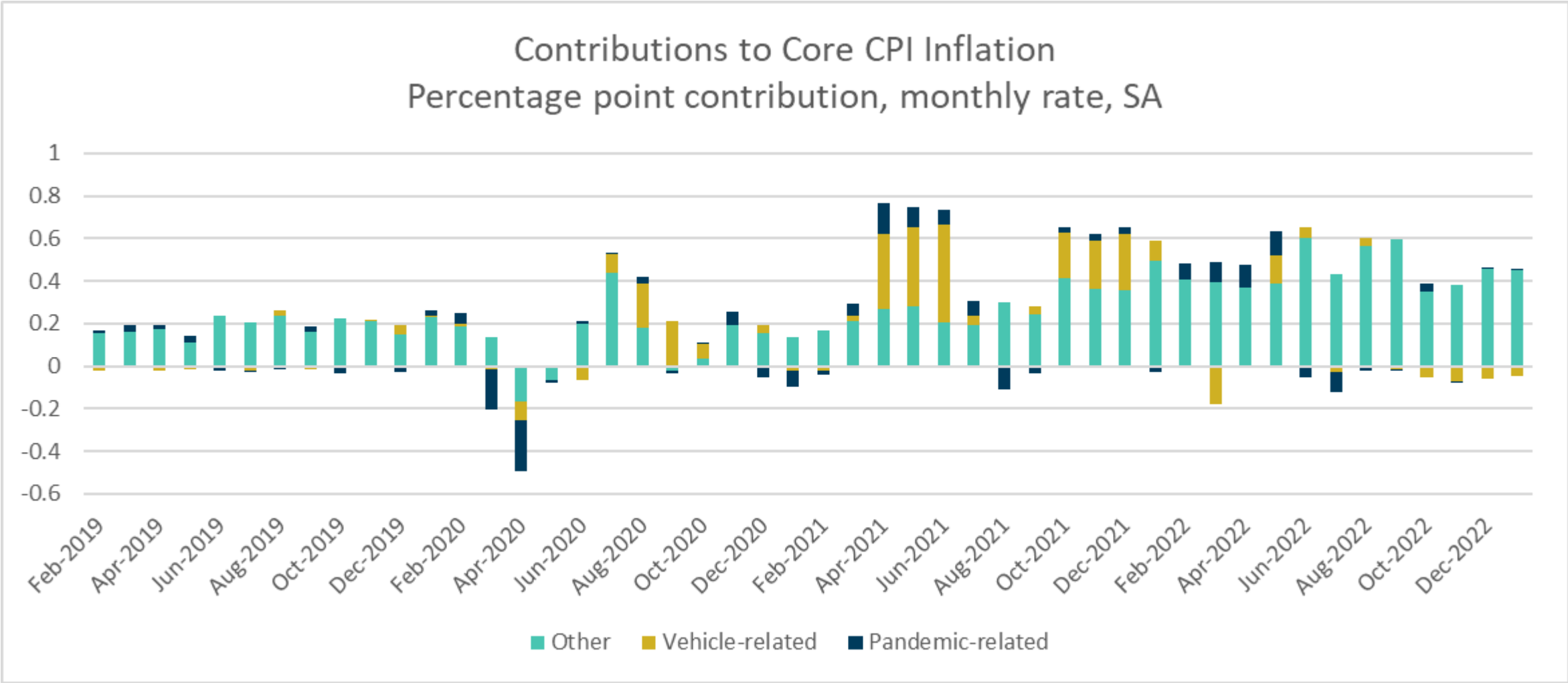
Components of CPI inflation

Percentage point contribution, NSA



Source: Bureau of Labor Statistics

CONTRIBUTIONS TO CORE CPI



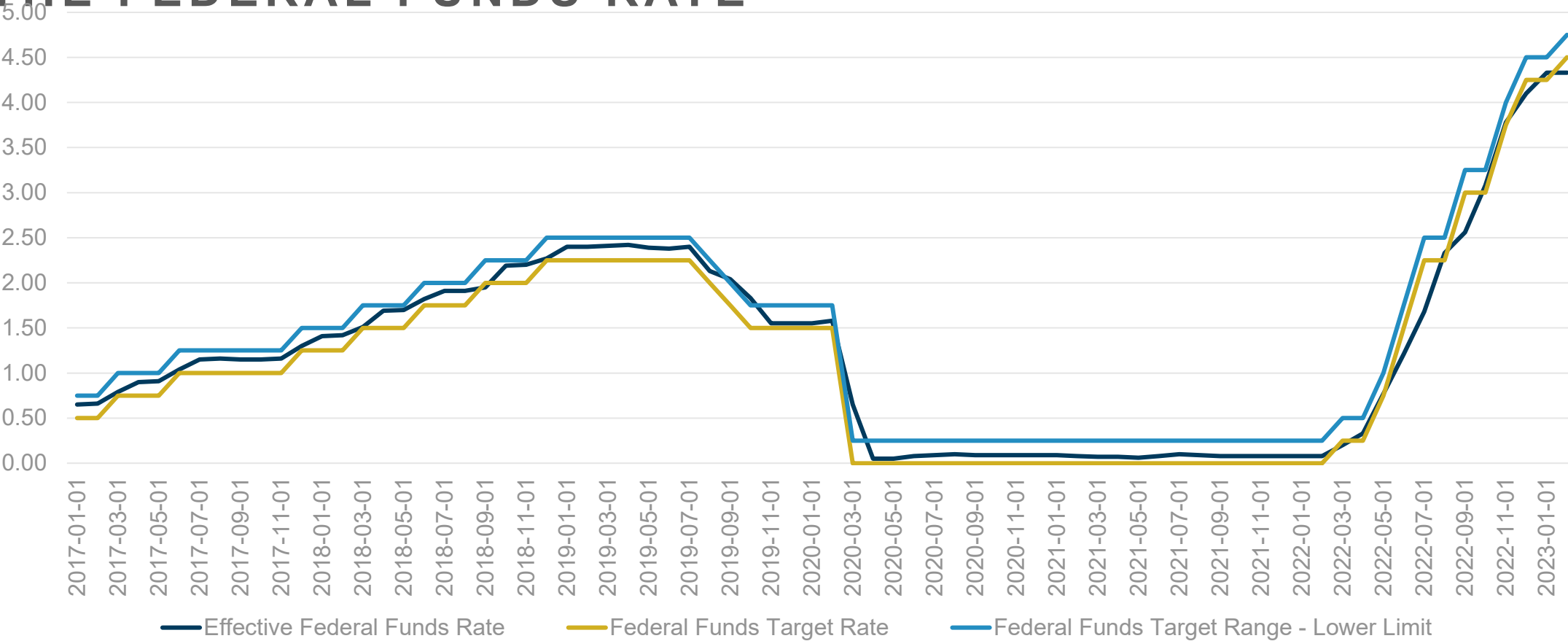
Source: Bureau of Labor Statistics



THE FED'S RESPONSE

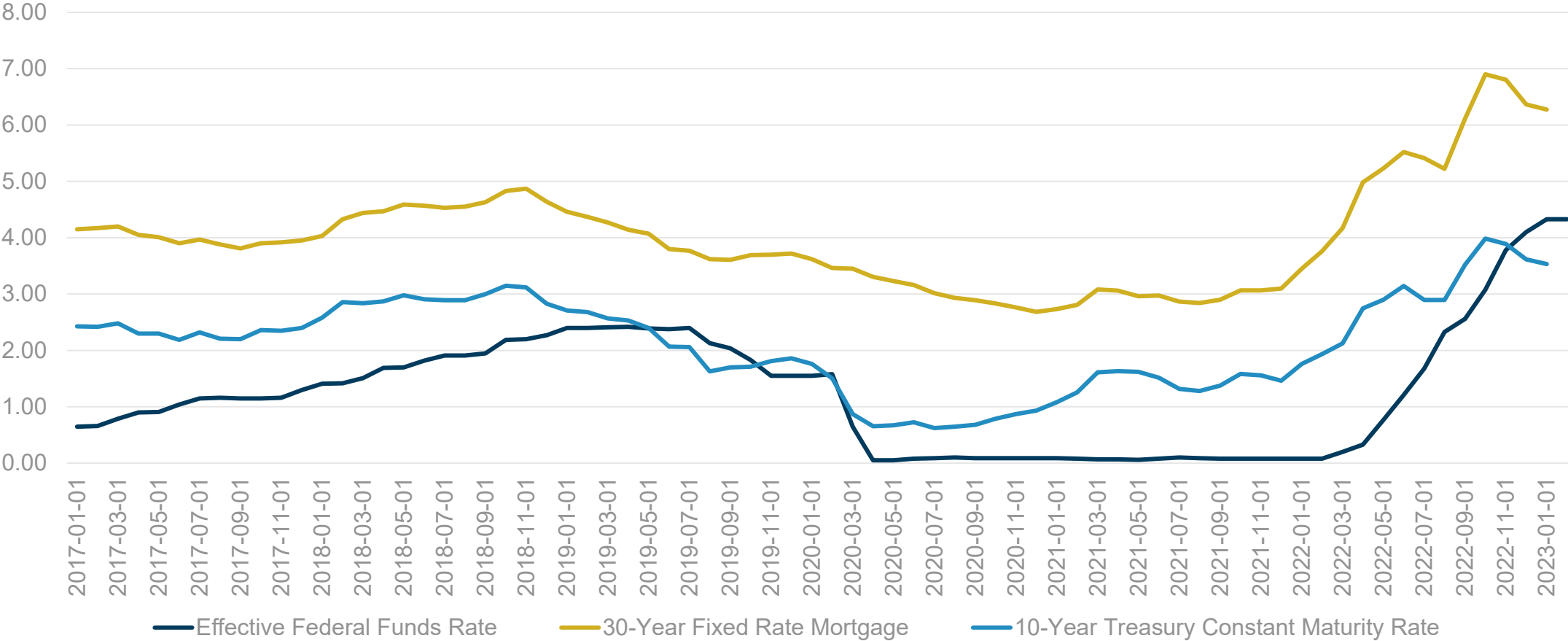
RATES INCREASING

THE FEDERAL FUNDS RATE



Source: Board of Governors of the Federal Reserve System

RATES INCREASING

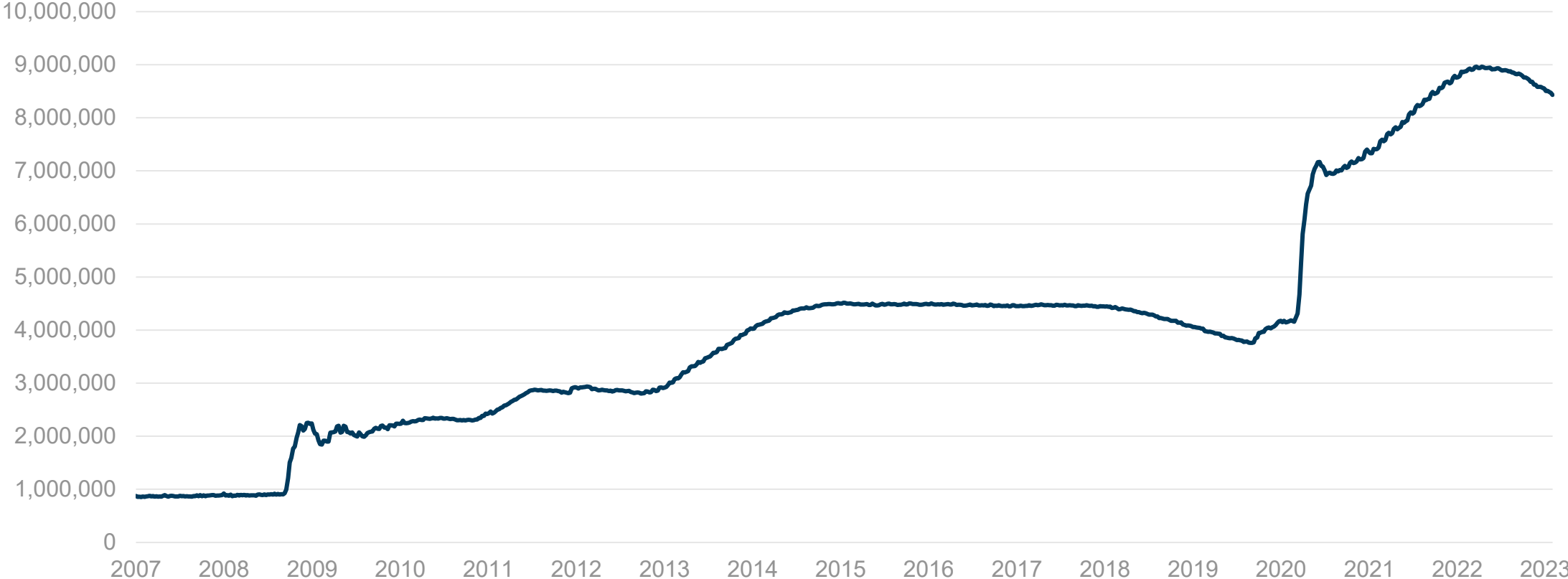


Source: Board of Governors of the Federal Reserve System

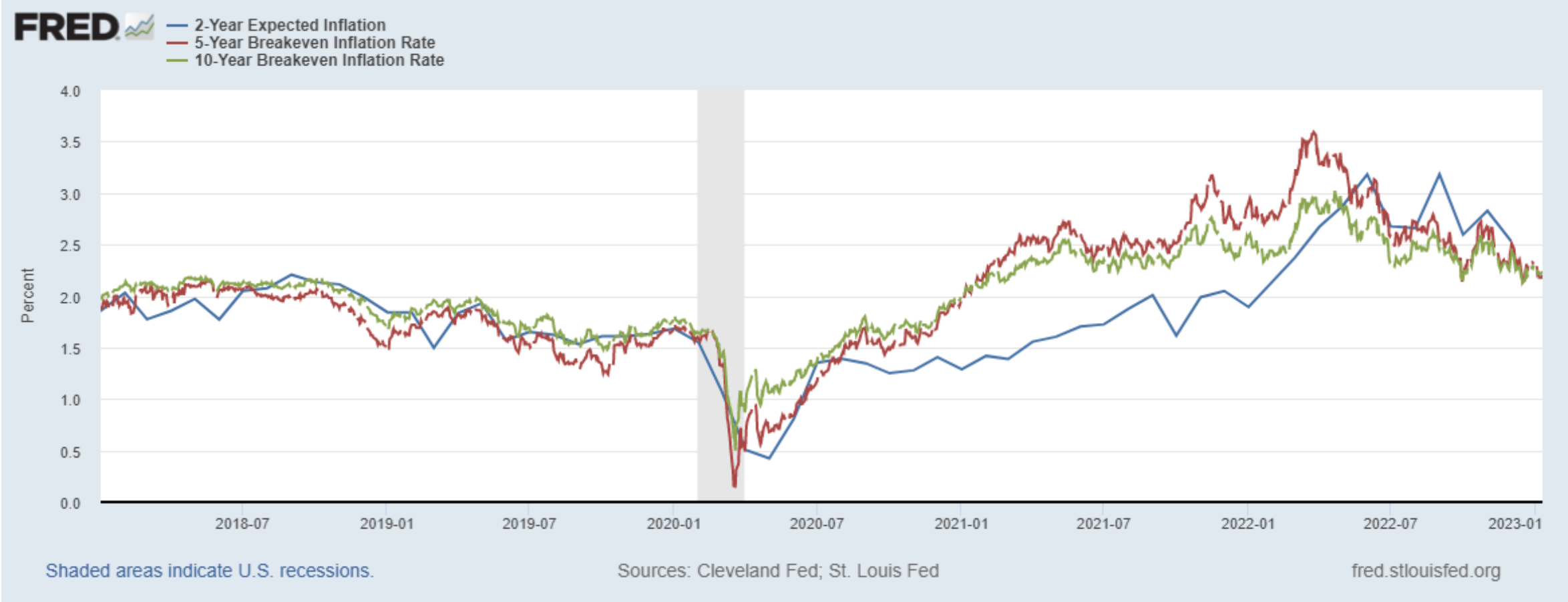


BALANCE SHEET NORMALIZATION

Total assets of the Federal Reserve System
Millions of U.S. Dollars, Weekly



LONG TERM INFLATION EXPECTATIONS STABLE





UPPER PENINSULA BUSINESS CONDITIONS AND OUTLOOK

Hapag Lloyd

HLCU 837980
4561

GL

MAX GROSS 32 500 kg
71 650 lbs
TARE 4 010 kg
8 840 lbs



THANK YOU TO PARTNERS (AND SURVEY-TAKERS!)

- About 60 partnering organizations across the Ninth District
 - Chambers of commerce, economic development organizations, government agencies and other business/workforce organizations
- Partners get our surveys out to their members and contact networks
- Always looking for more partners to get our surveys to more businesses





TODAY'S FOCUS

GENERAL BUSINESS SURVEY

- Conducted Jan 17- Feb. 8, 2023
- 535 responses from across region, <50 from Michigan's Upper Peninsula
- Improved geographic balance
- Results are a snapshot
 - Not a scientifically sampled survey
 - Interpret with care





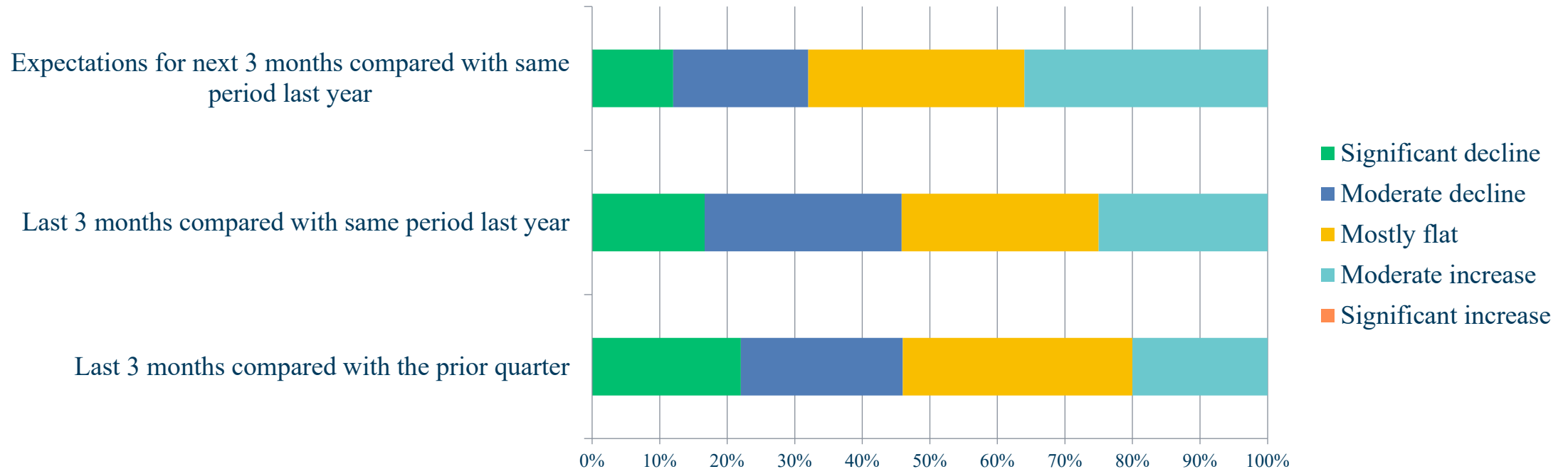
THE QUICK-TAKE

- Q1 revenues were not particularly upbeat
- However, size, sector, state and ownership remain big factors
 - Size illustrates a picture of overall growth
- Improved, growing optimism across many metrics and most subgroups
- Significant threats remain, particularly related workforce, increased costs and supply chains



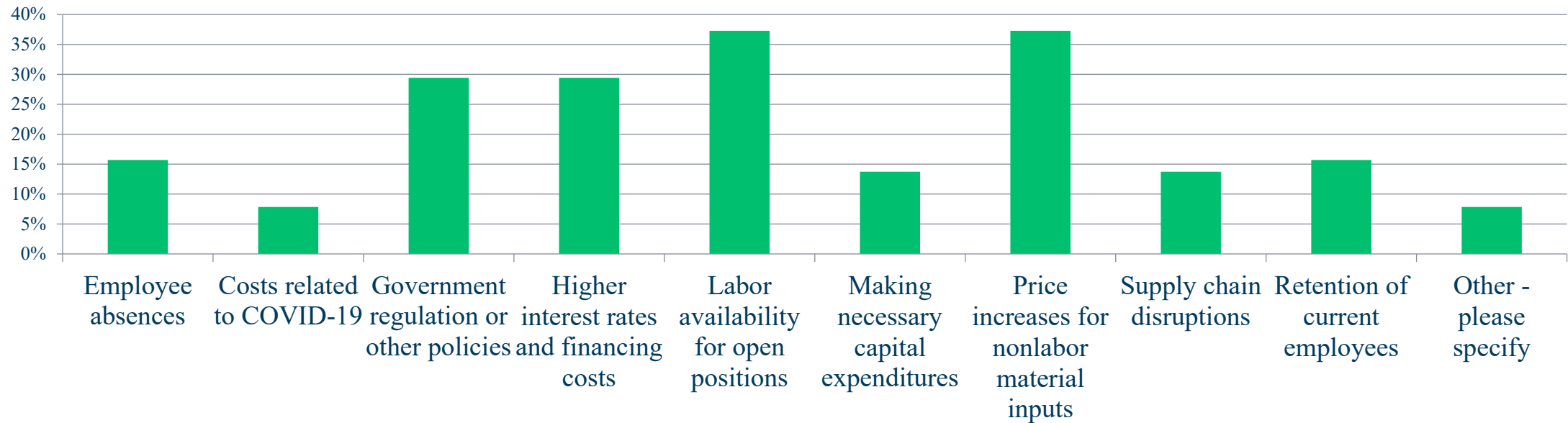
U.P. FIRMS EXPECT REVENUE GROWTH, ON BALANCE

Recent and future revenues: Please estimate recent quarterly revenue and your expectations for revenue in the near future.



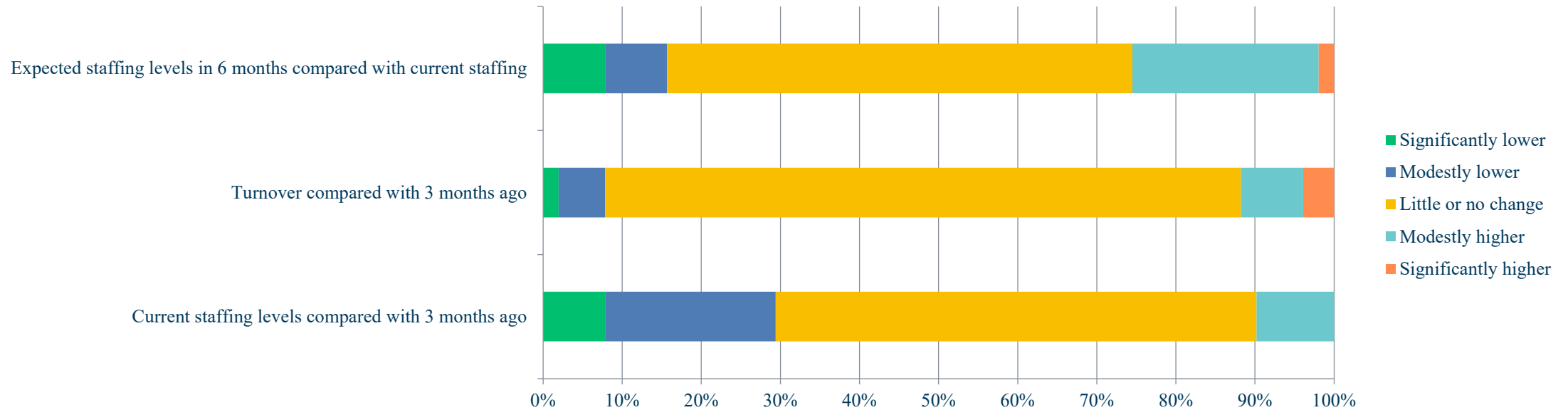
LABOR SUPPLY, INFLATION REMAIN BIGGEST CHALLENGES

Challenges: Aside from customer demand, what are the two greatest challenges to your current operating capacity and productivity? (Please check only two boxes)



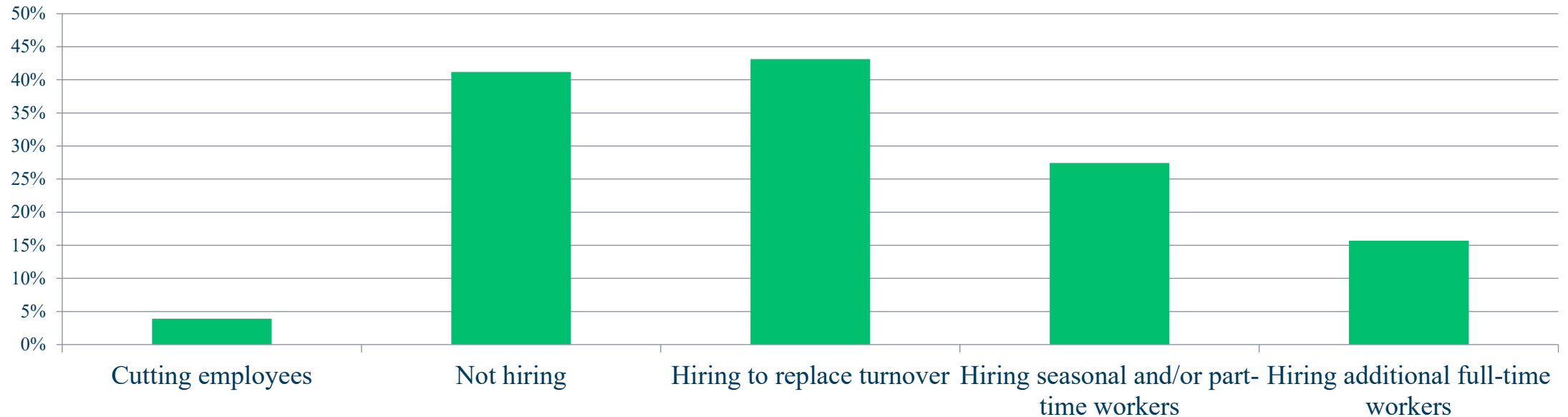
OVERALL STABILITY IN STAFFING LEVELS (FOLLOWING SOME CUTS)

Staffing changes: Please estimate changes in staffing levels at your firm, as well as expected future staffing expectations.



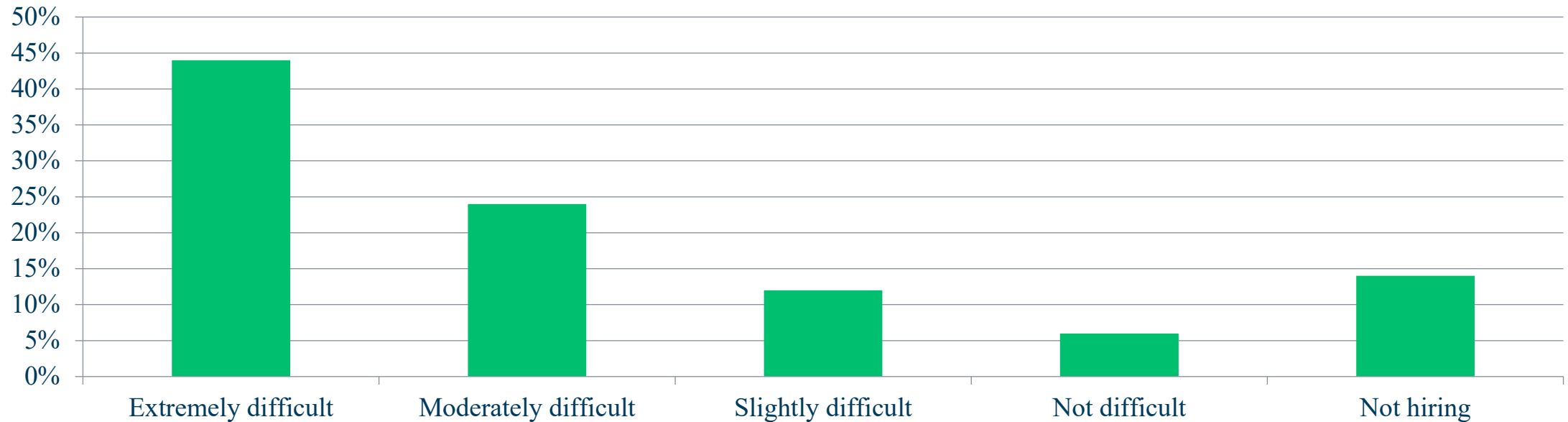
MOST HIRING ACTIVITY IN RESPONSE TO TURNOVER

Labor demand: Regarding hiring demand, is your firm doing any of the following (Check all that apply.)



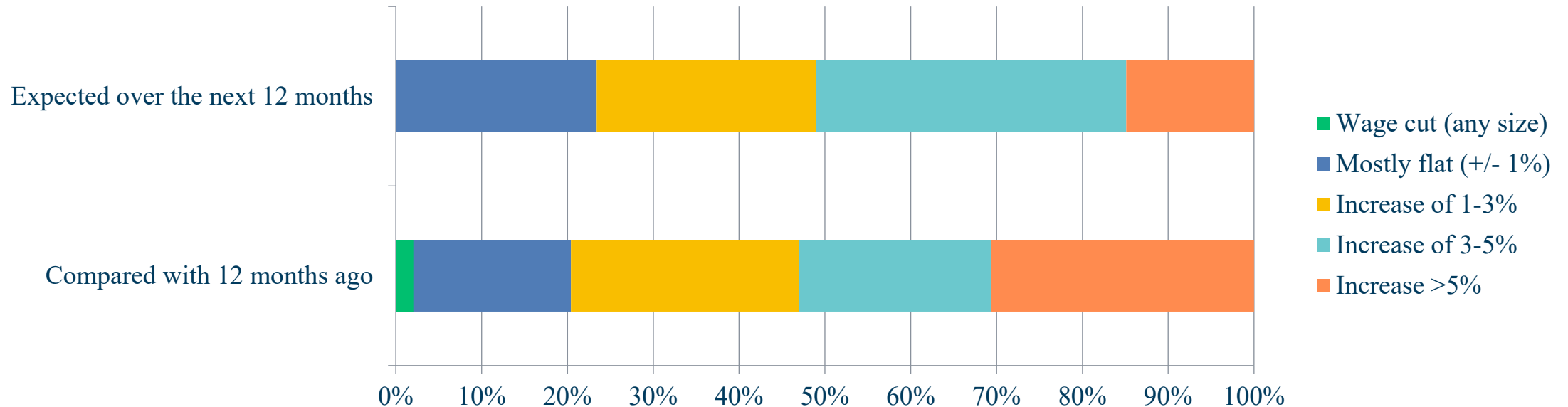
ALMOST EVERYONE HAVING TROUBLE HIRING

Labor availability: If hiring, how would you assess current ability to find and hire necessary labor?



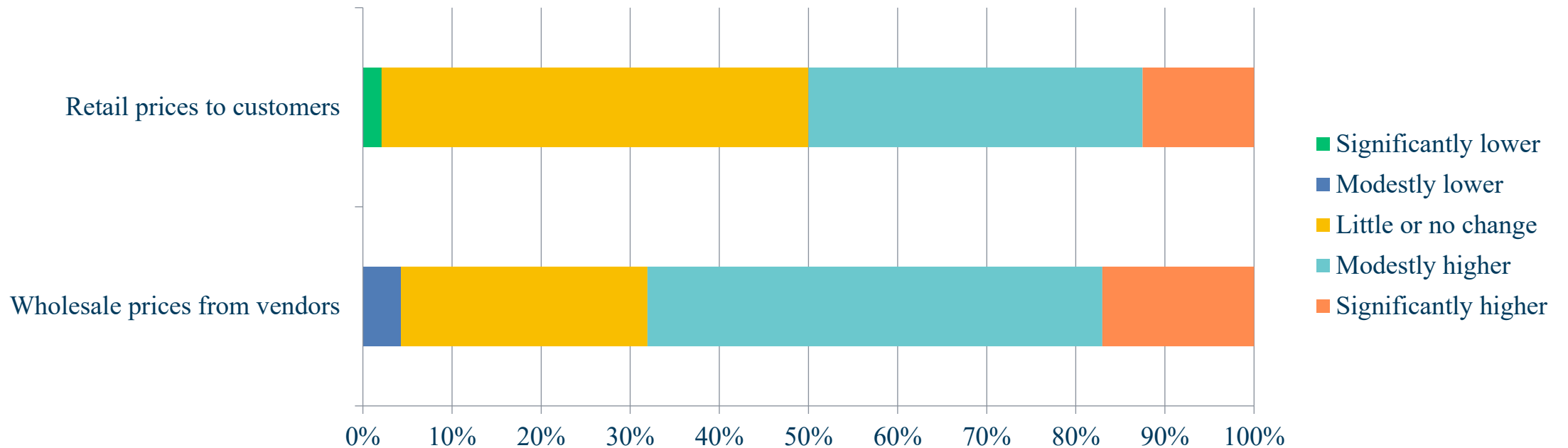
YET WAGE OUTLOOK HAS MODERATED

Wages: Please describe recent changes to average wages per worker at your firm and expected future changes.



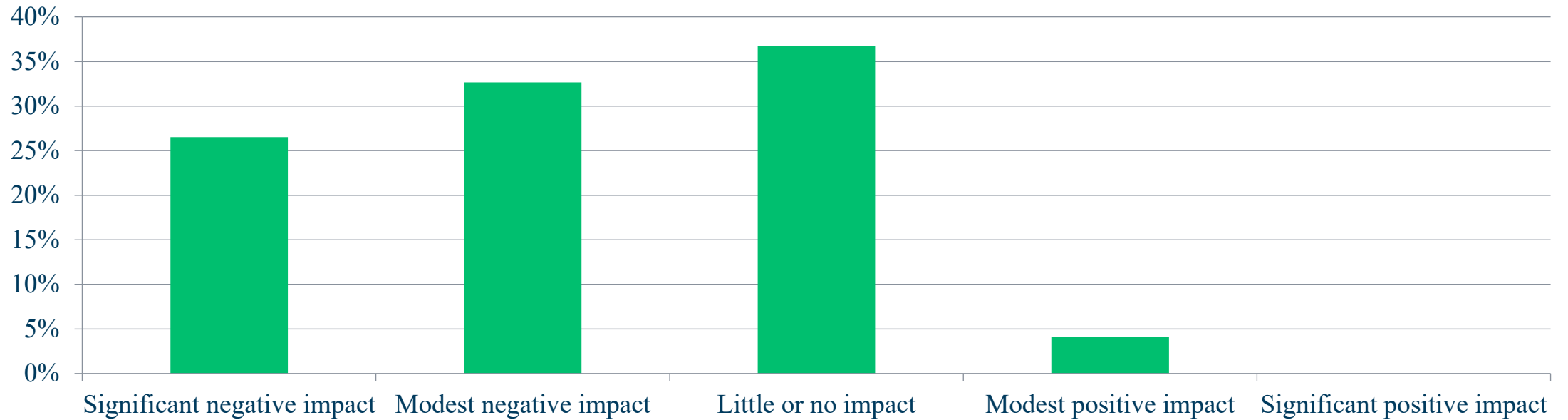
RECENT PRICE PRESSURE HIGHER FOR INPUTS

Prices: How would you describe current price levels compared with last month?



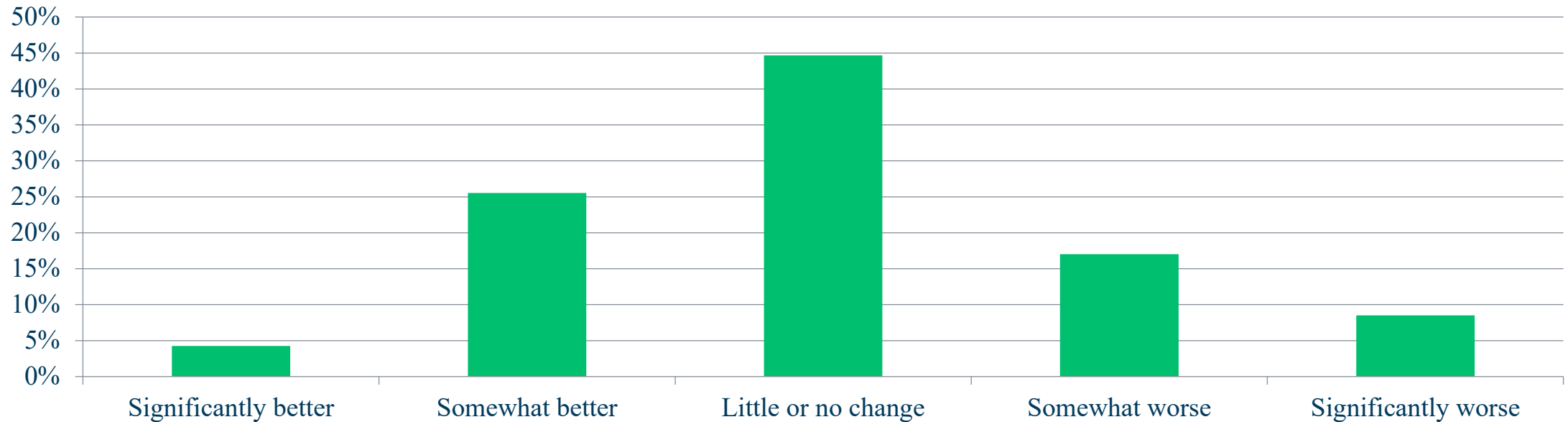
RISING RATES HAVING SOME IMPACT

Interest rates: How would you describe the impact of current interest rates on your business's operations?



SUPPLY CHAIN CHALLENGES MOSTLY THE SAME

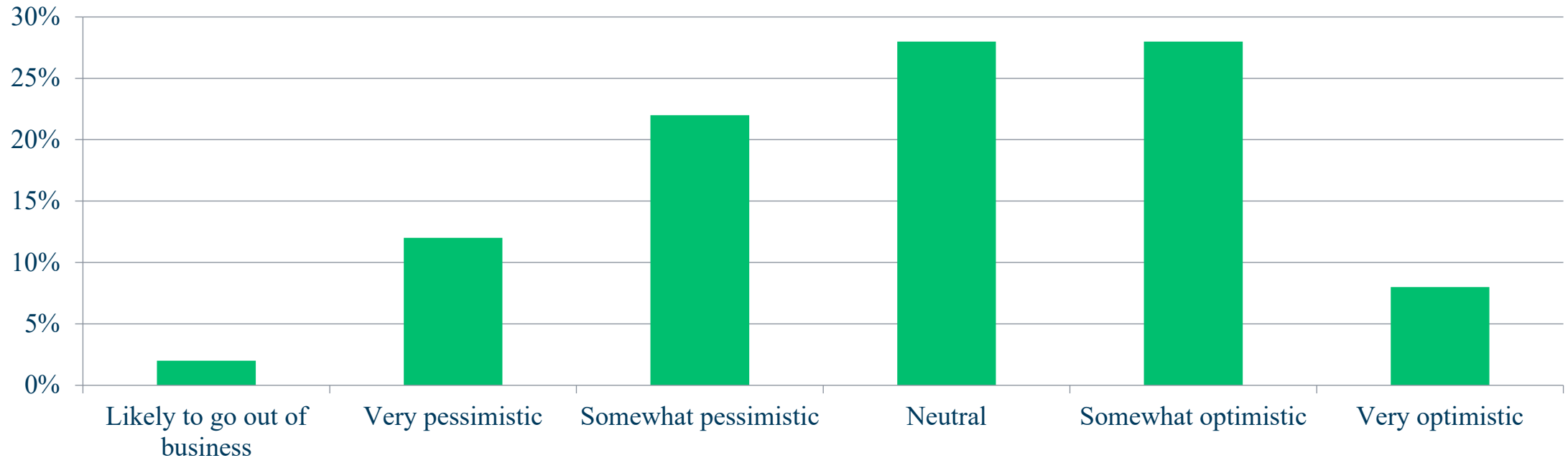
Supply chain: How would you describe any change in your firm's ability to receive critical supplies for your operations in the last six months?



U.P. BUSINESS CONDITIONS

AND YET, NEAR TERM OUTLOOK MILDLY OPTIMISTIC

Outlook: What is the outlook for your business in the next six months?





THANK YOU!
QUESTIONS?

@MINNEAPOLISFED

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OR CONNECT ON LINKEDIN