



The National Economy: Now and Ahead

Kartik Athreya
VBA, April 19, 2023



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

What is happening now?

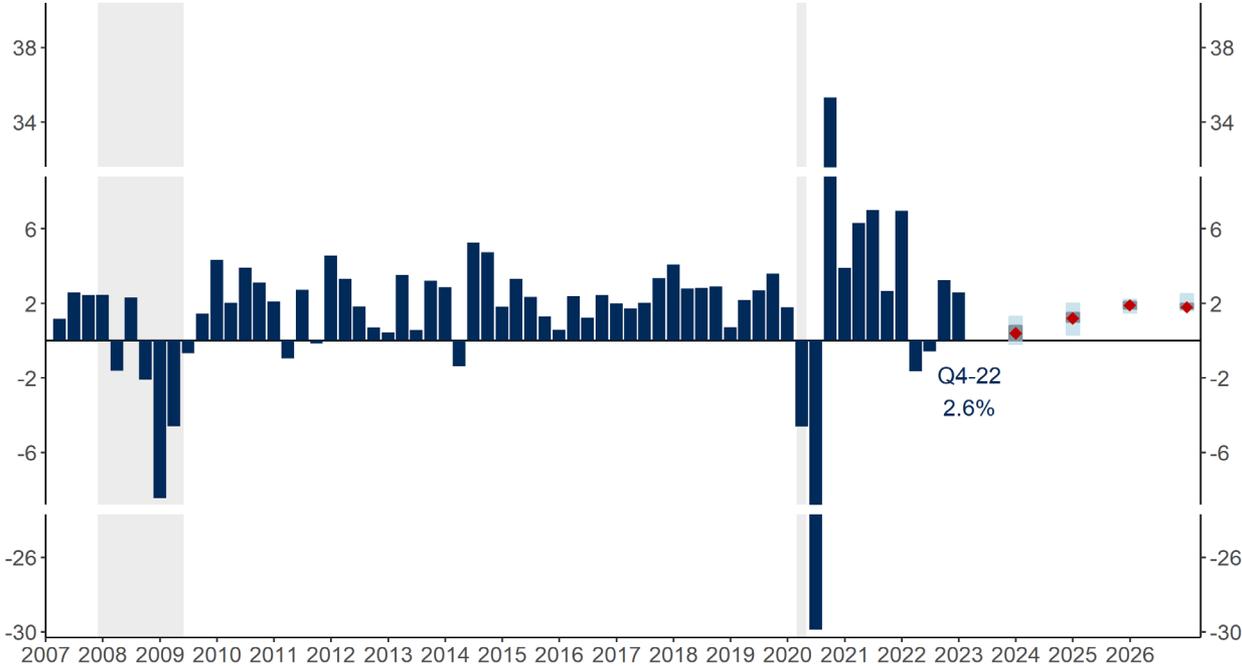
- GDP growth solid, consumption steady
- Labor market rolling still...

BUT....

- Inflation is well above target:
 - February PCE at 5.0% (0.3% mom), core PCE at 4.6% (0.3% mom)
 - March CPI at 5.0% (0.1% mom), core CPI at 5.6% (0.4% mom)
- Uptick in scrutiny on banks and banking

Q4 GDP Growth At 2.6%, Q1 Forecasts Around 2.5%

Real Gross Domestic Product
Percent change from previous quarter at annual rate



Source: Bureau of Economic Analysis and Bureau of Labor Statistics via Haver Analytics

Labor Market Conditions: Overview

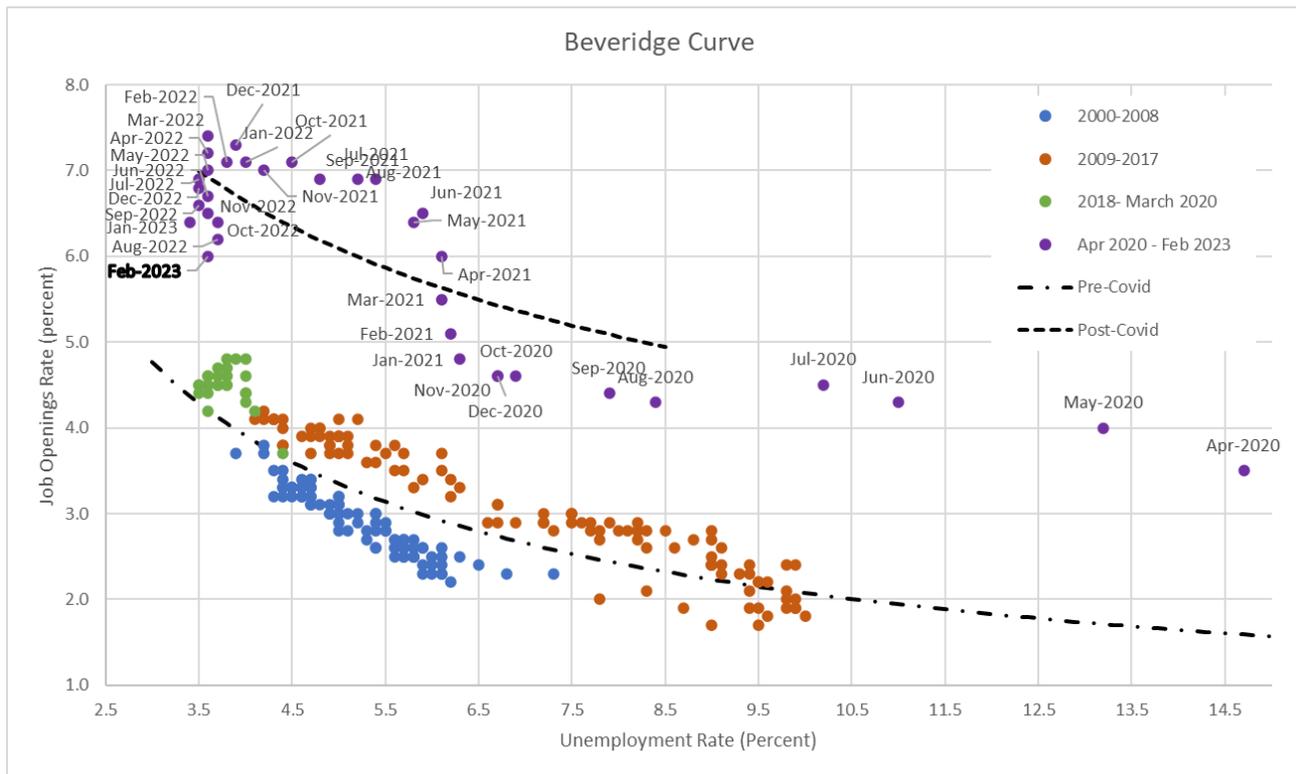
February

- Unemployment Rate: **3.6%**
- LFPR: **62.5%**
- E-Pop: **60.2%**
- UI Claims: **218,000** (4-week moving average from the week ending on February 25th)

March

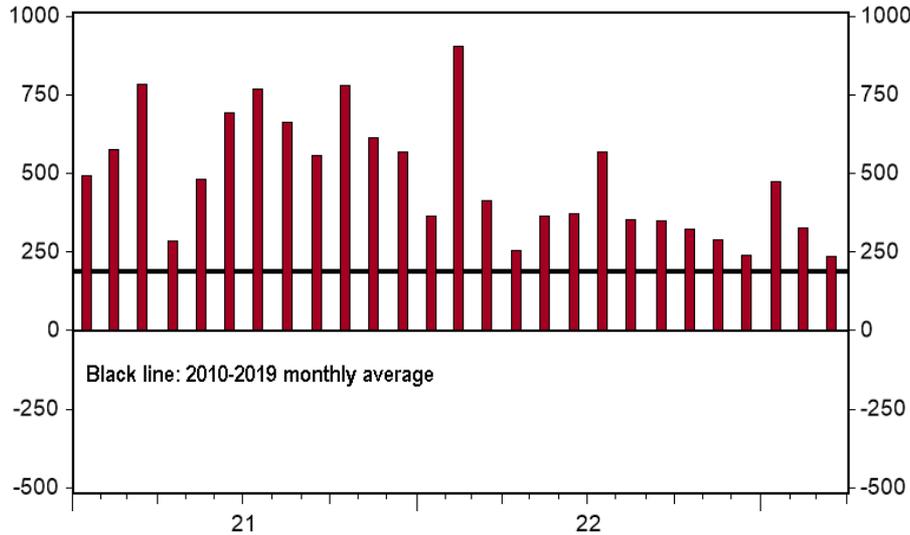
- Unemployment Rate: **3.5%**
- LFPR: **62.6%**
- E-Pop: **60.4%**
- UI Claims: **240,000** (4-week moving average from the week ending on April 8th)

Beveridge Curve Still Signaling a Soft Landing



236,000 Payroll Gain in March

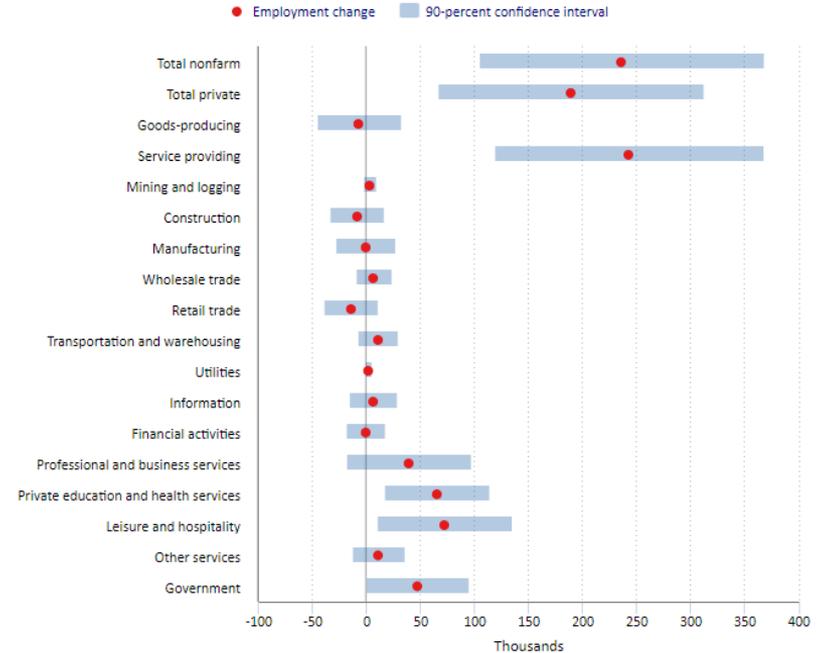
Change in Total Nonfarm Employment
SA, Thous



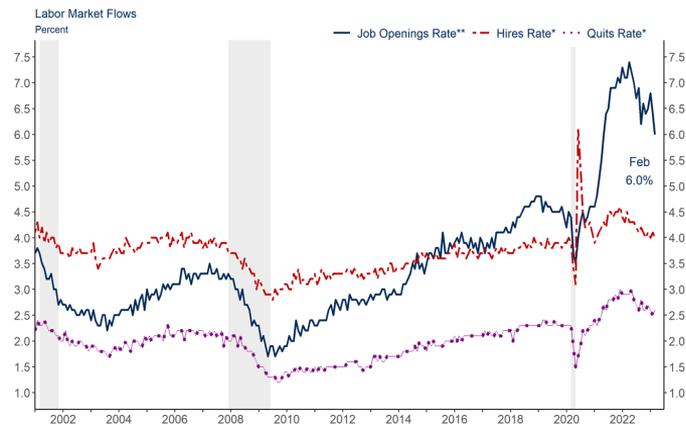
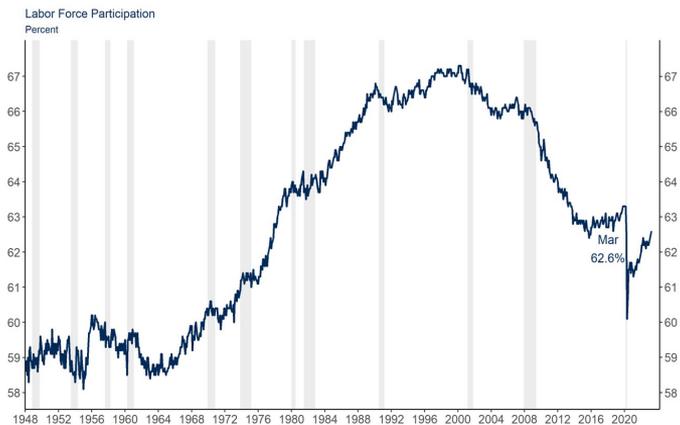
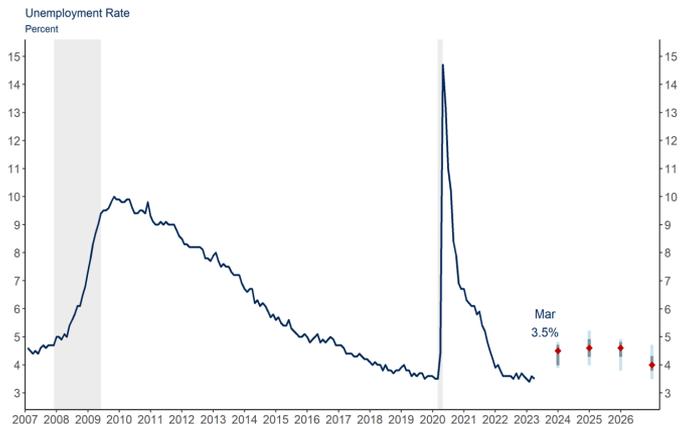
Source: Bureau of Labor Statistics/Haver Analytics

04/14/23

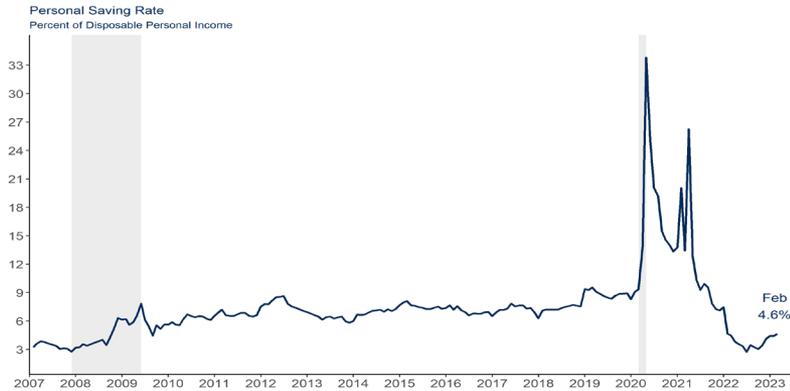
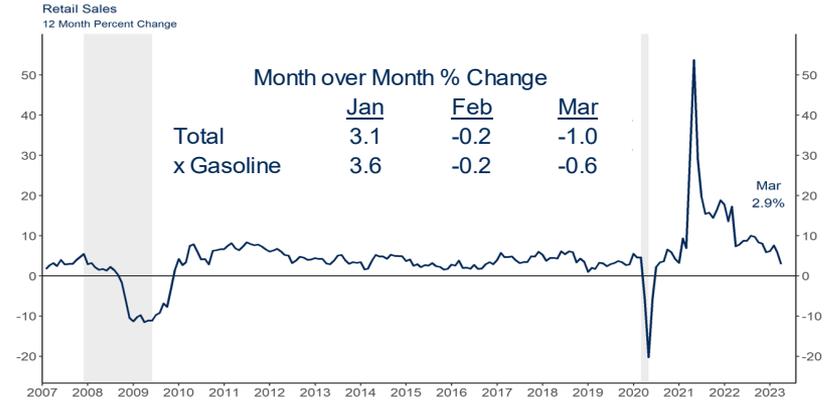
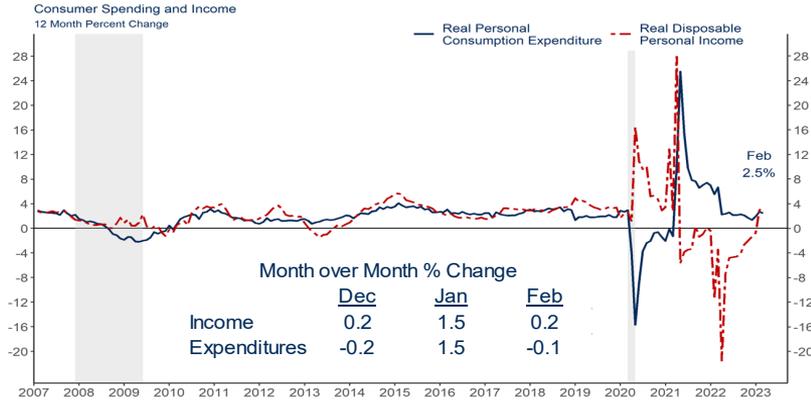
Employment change by industry with confidence intervals, March 2023, seasonally adjusted, in thousands, 1-month net change



Labor Market Conditions: Details



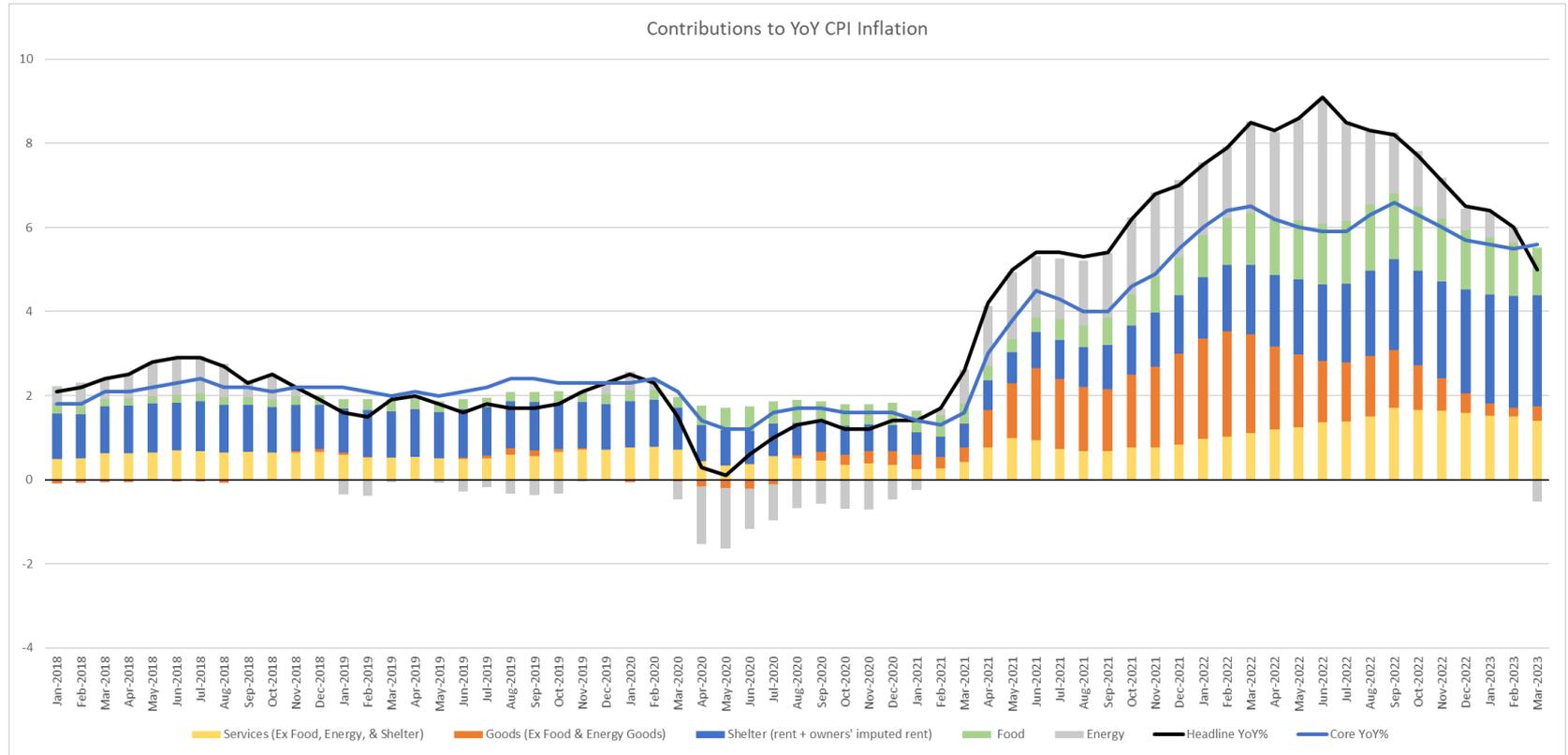
Consumers Holding the Line



Inflation is high, most ways you slice it...

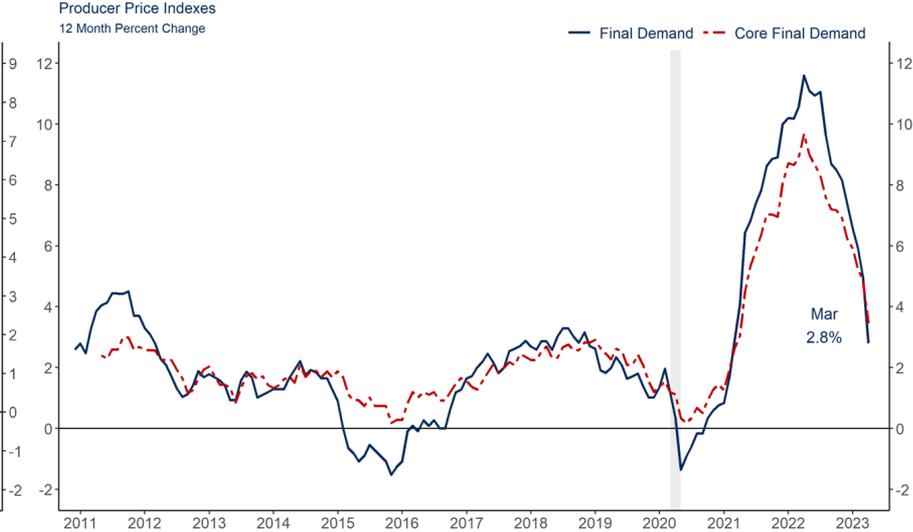
Expenditure Price Indexes		[Percent Change from Previous Month at Annual Rate]:		
		Jan.	Feb.	YoY %
Personal Consumption Expenditures		7.1	3.2	5.0
Core (excludes Food and Energy)		6.4	3.7	4.6
Consumer Price Indexes		[Percent Change from Previous Month at Annual Rate]:		
		Feb.	Mar.	YoY %
All Items		4.5	0.6	5.0
Core (excludes Food and Energy)		5.6	4.7	5.6
Producer Price Indexes		[Percent Change from Previous Month at Annual Rate]:		
		Feb.	Mar.	YoY %
Final Demand Goods		0.0	-5.8	2.8
Core (excludes Food and Energy)		2.0	-1.6	3.4
Core Intermediate Goods		0.7	1.2	0.1
Crude Goods		-44.3	-45.8	-17.0
Spot Commodity Price Index		[Percent Change from Previous Month]:		
		Feb.	Mar.	YoY %
CRB Spot Commodity Price Index		-1.5	0.4	-13.2

Inflation (CPI), and a tale of two periods...



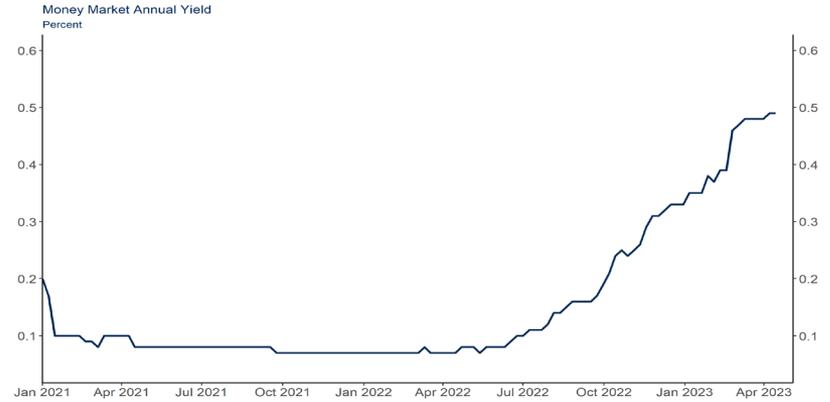
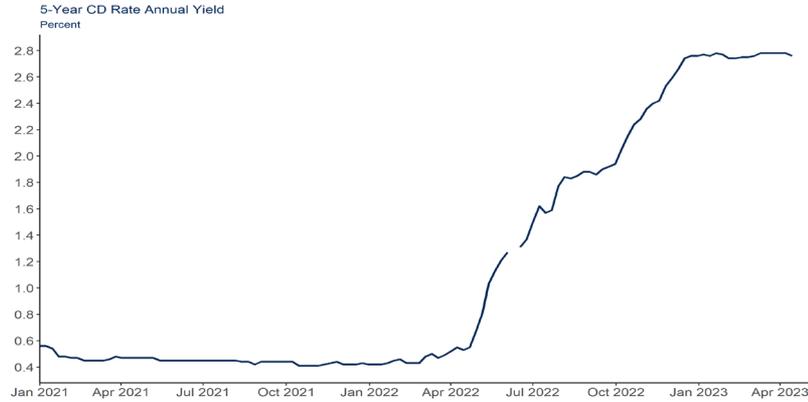
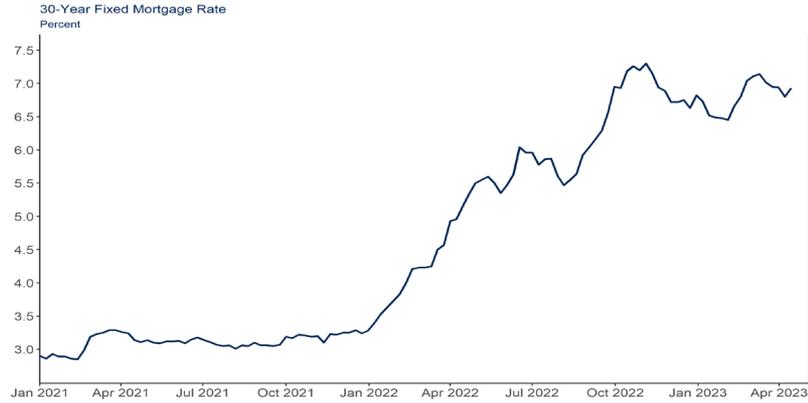


More Cheerfully: *some* softening in inflation outlook

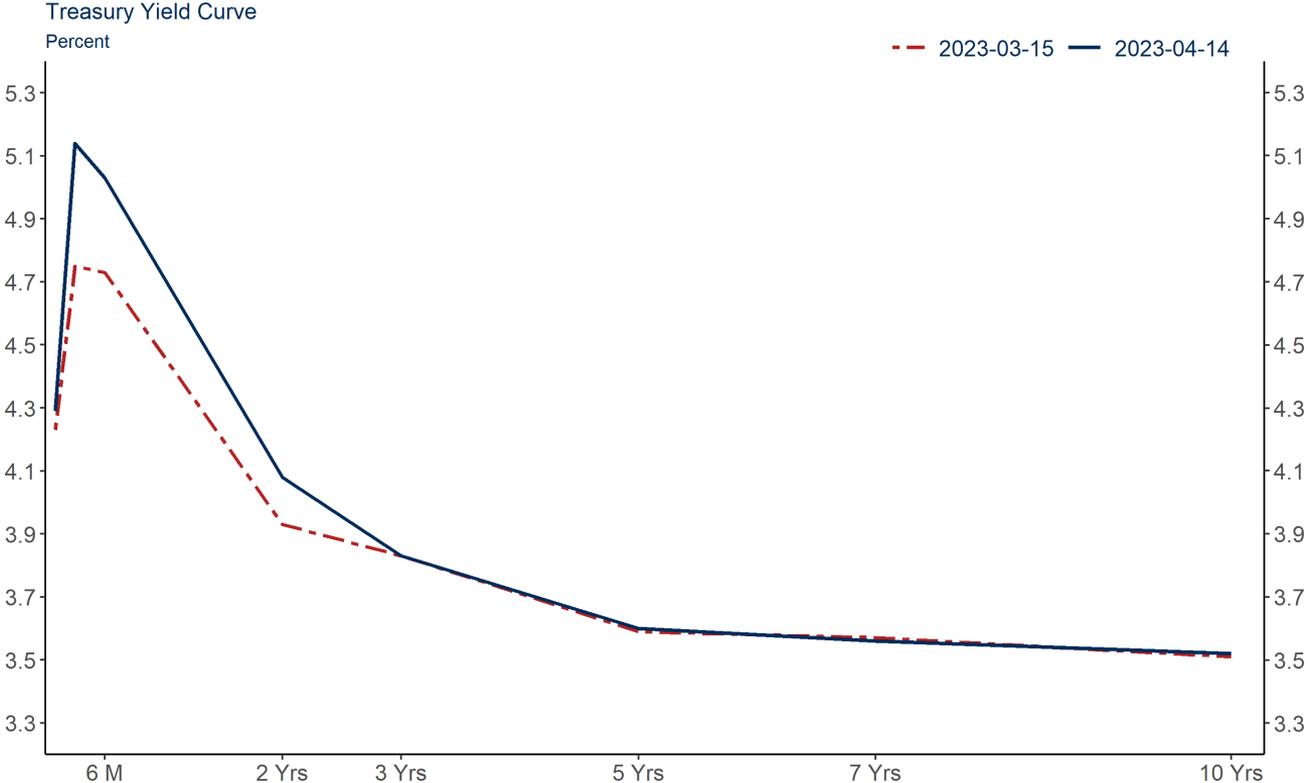


Source: Bureau of Economic Analysis via Haver Analytics

The screws have been turned...

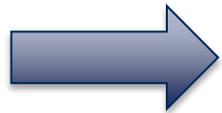


A market view of the path ahead...



Financial Instability: Aggregate Outlook

- Deposit outflow from small and regional banks to larger (“systemically important”) institutions
- Tightening bank lending standards
- BTFP facility provides much cheaper funding
- Uncertainty weighs on spending and investment decisions
- Worsening sentiment could lead to contagion



My base case: a wash or mildly restrictive



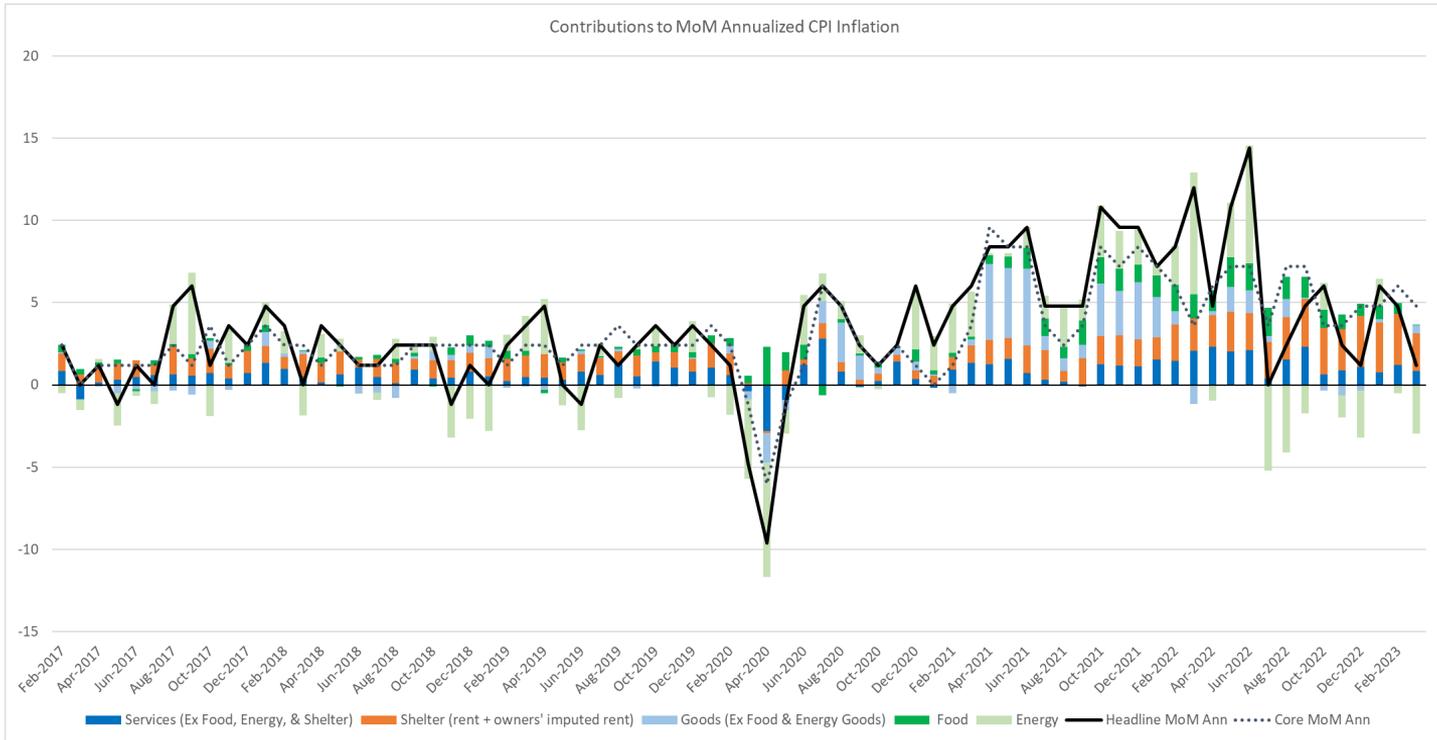
Thank You!



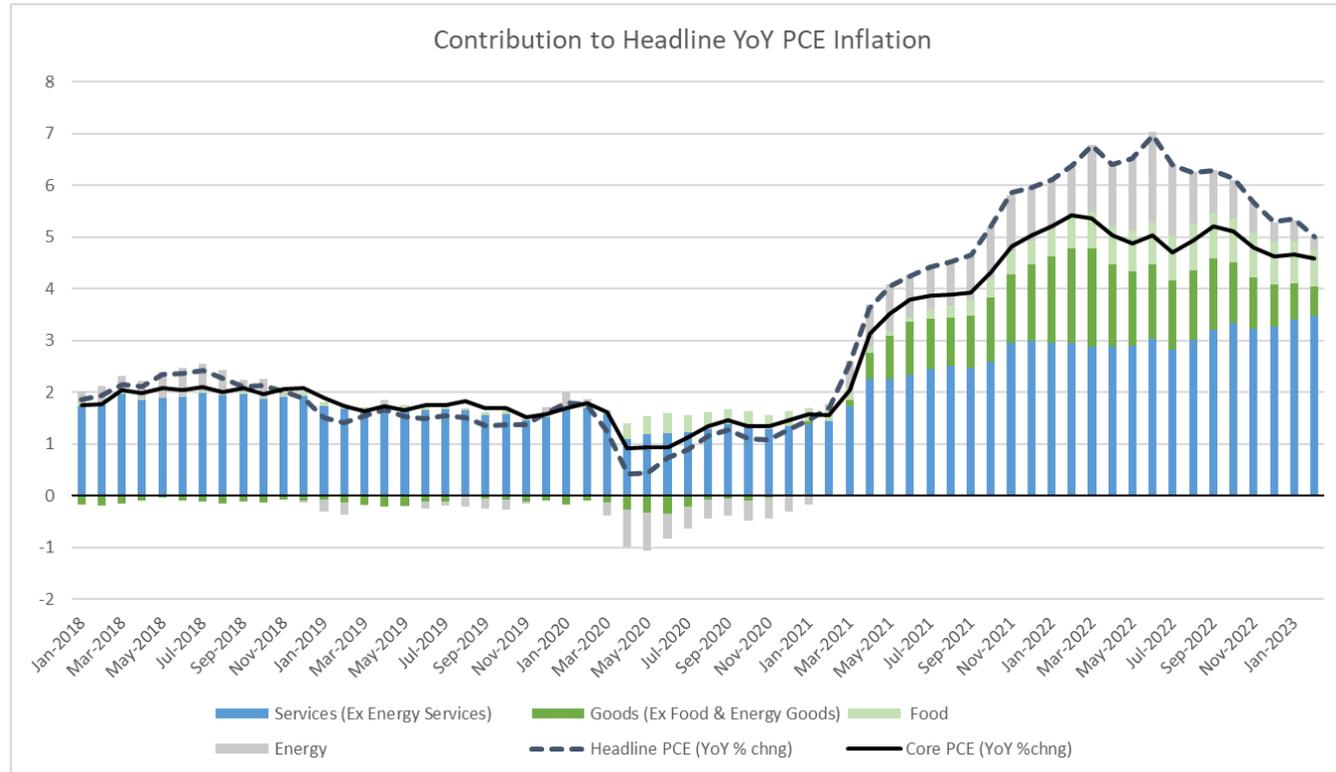
**FEDERAL RESERVE BANK
OF RICHMOND™**

Richmond • Baltimore • Charlotte

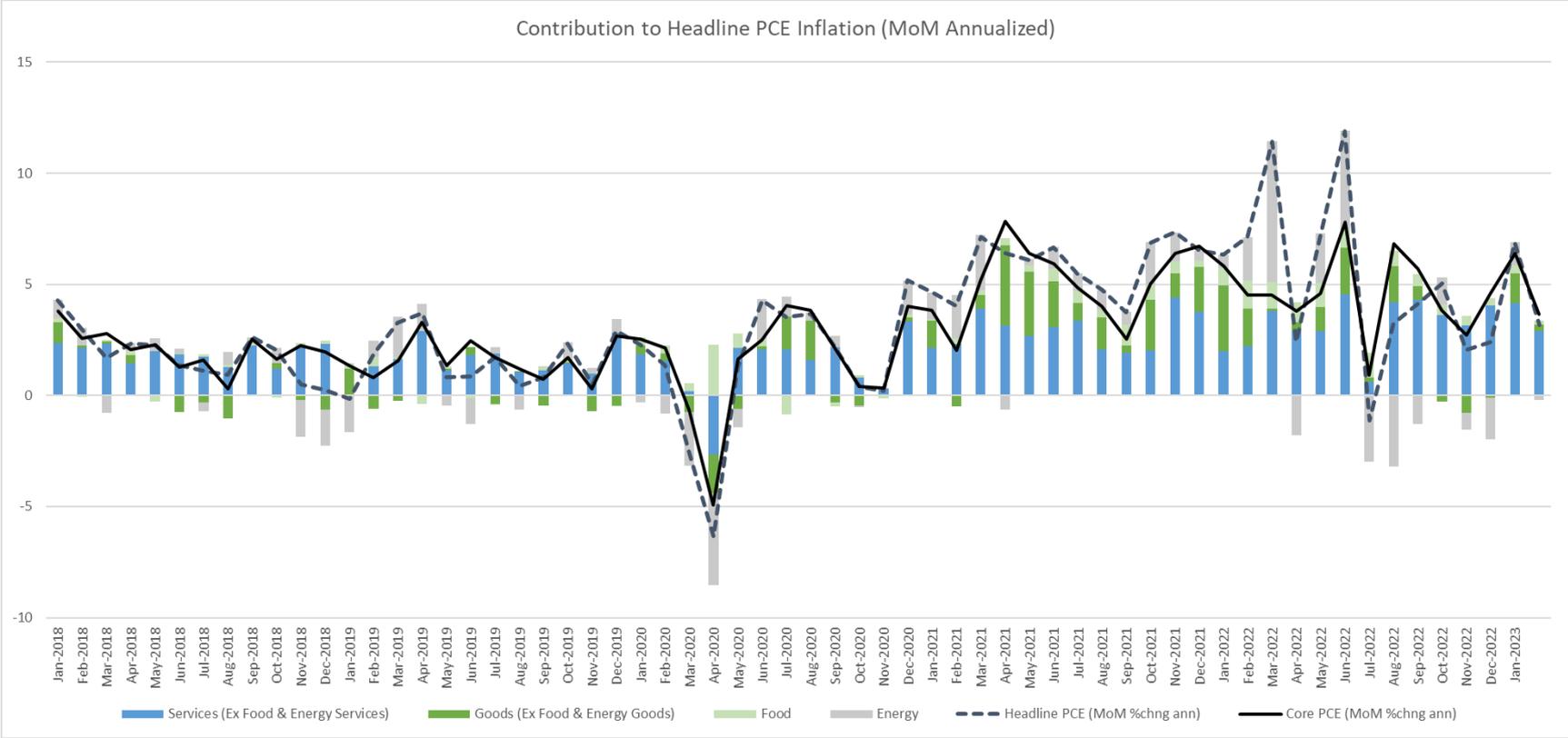
Breakdown of March CPI Inflation (MoM)



Breakdown of February PCE Inflation (YoY)



Breakdown of February PCE Inflation (MoM)



Source: Bureau of Economic Analysis via Haver Analytics

SVB Turmoil: Potential Direct Impact

- 16th largest bank in US with \$210 billion assets; provided banking services to half the country's VC-backed technology firms and 2,500 VCs
- Largest customers: Circle (crypto, payments), Block-Fi (crypto wealth management and consumer finance), Roku (streaming), Roblox (gaming), Lending Club (P2P lending), and many biotech start-ups
- Payroll impact: top-20 customers have roughly 20,000 employees
- Tech employment: 344k in CA, 2.5 million in US