



The Inflation Outlook

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*The views expressed here do not necessarily reflect the views of the
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Historical perspective

Core PCE

(year-year percent change)

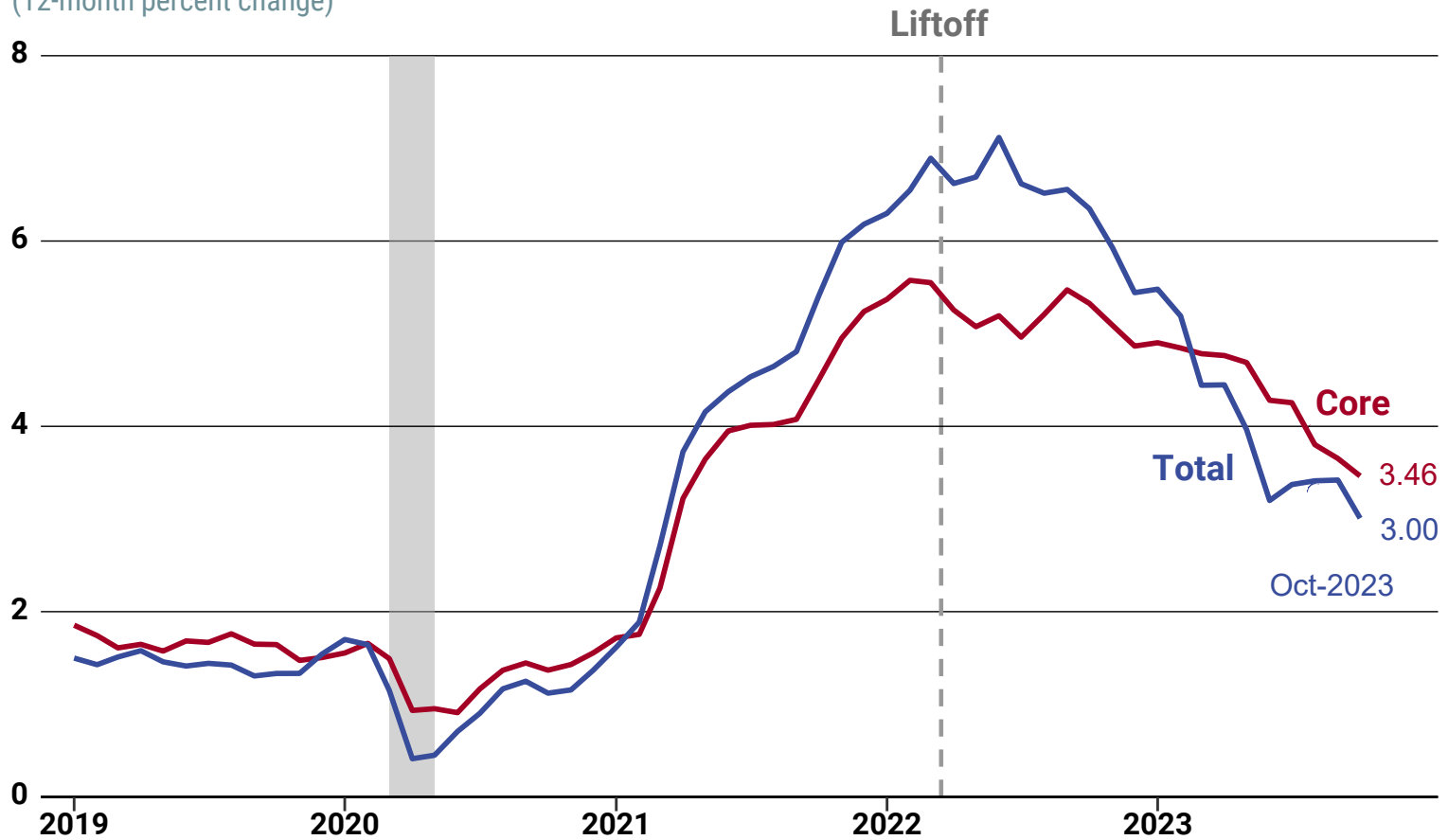


Source: BEA via Haver Analytics, Federal Reserve Board of Governors

Progress, but inflation remains elevated

PCE price index

(12-month percent change)

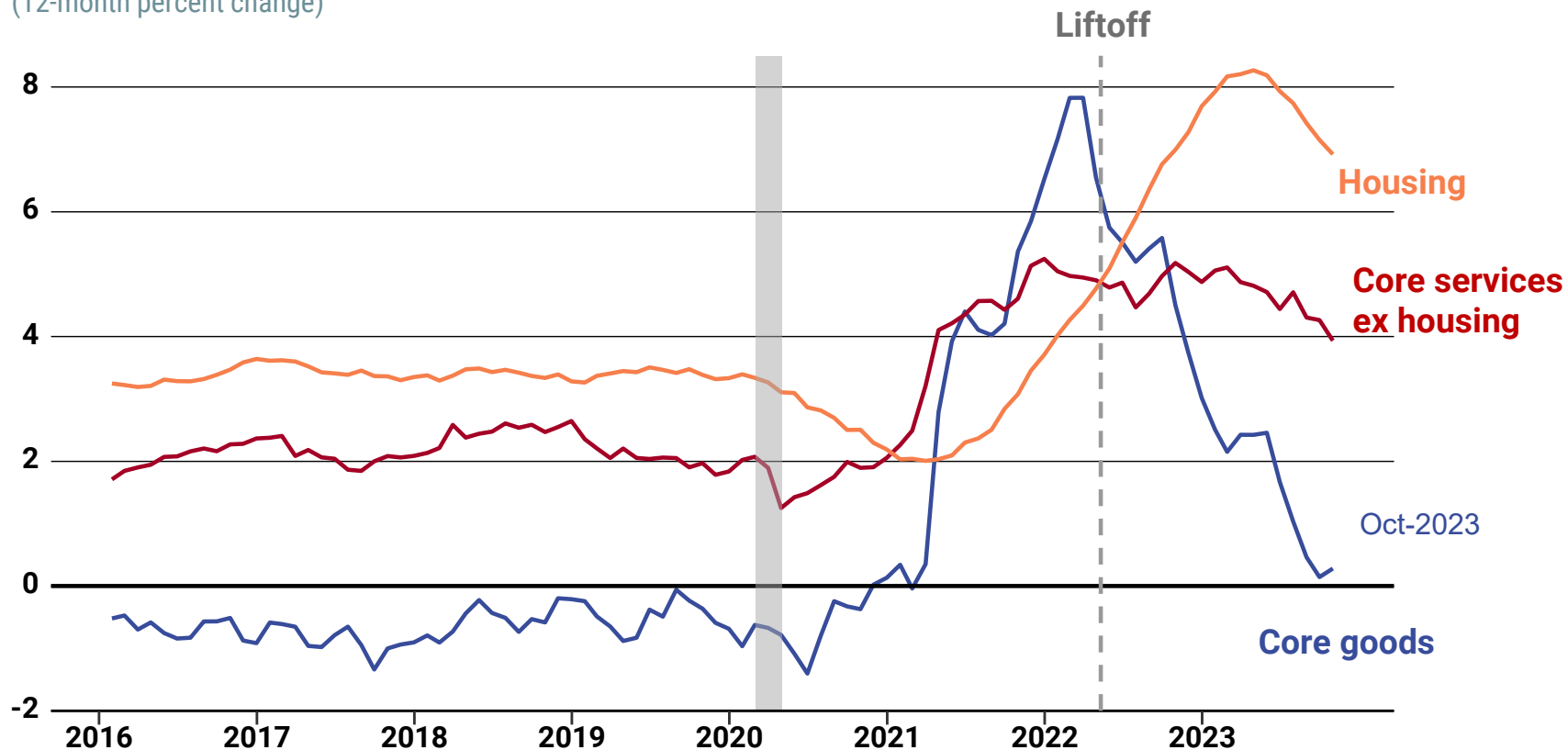


Source: BEA via Haver Analytics

Look at components to gauge progress

Core PCE Inflation Components

(12-month percent change)



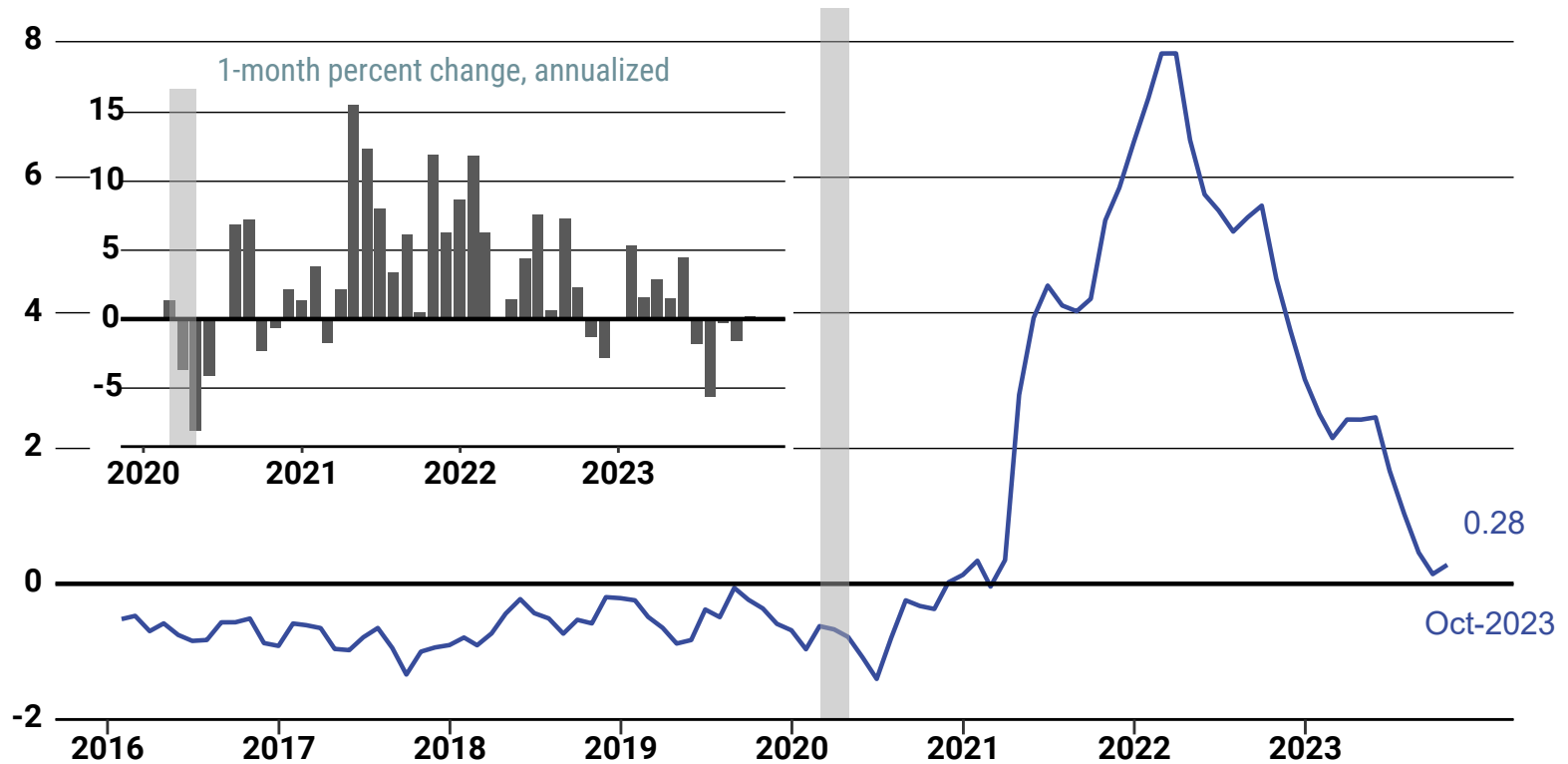
Note: Core goods are goods less food and beverages purchased for off-premise consumption and gasoline and other energy goods. Core services are services less electricity and gas. Food services are included, as is the case in BEA core PCE prices.

Source: BEA via Haver Analytics; staff calculations

Core goods

PCE core goods

(12-month percent change)



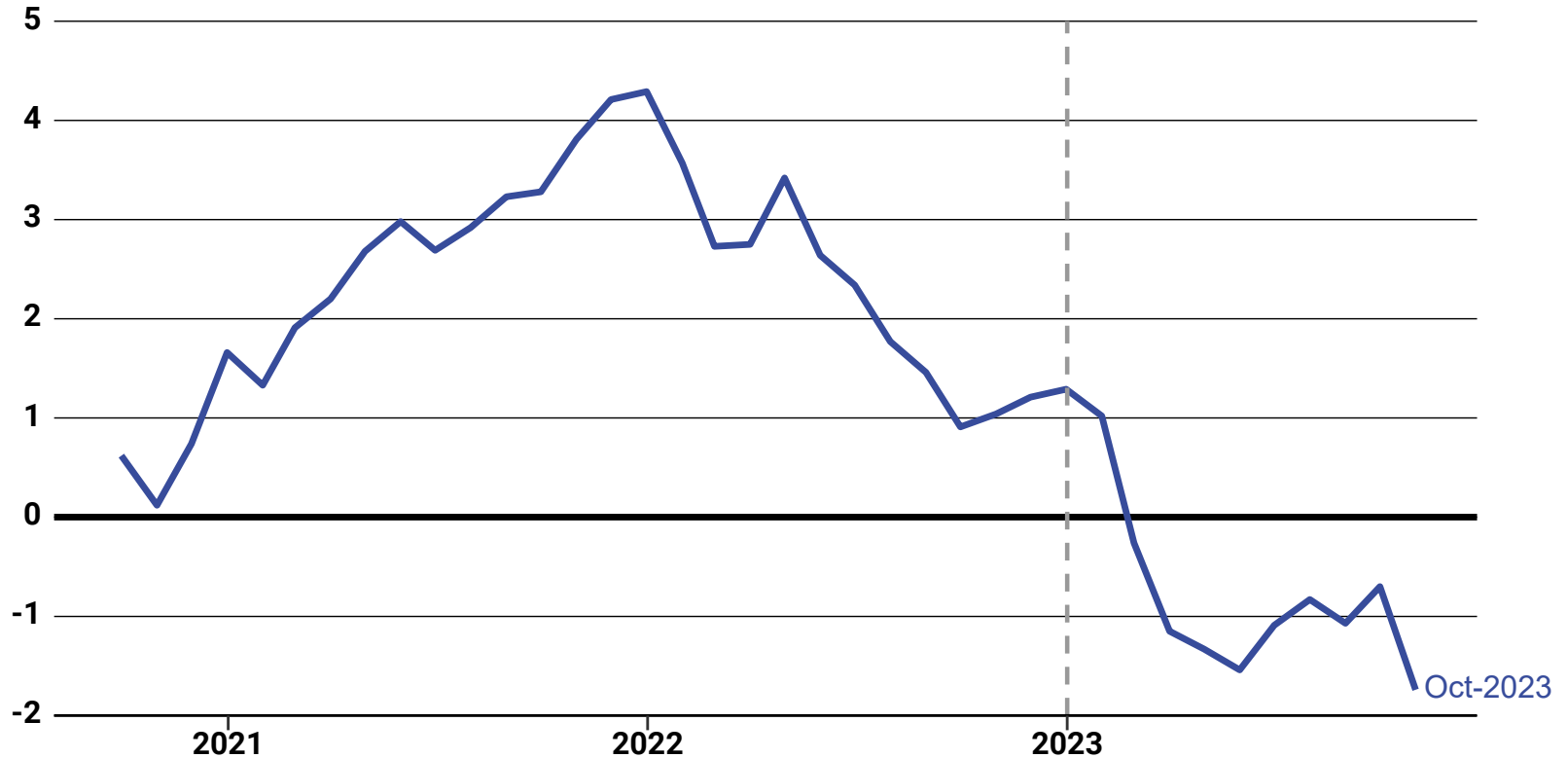
Note: Core goods are goods less food and beverages purchased for off-premise consumption and gasoline and other energy goods.

Source: BEA via Haver Analytics; staff calculations

Core goods: Supply chain healing

Global Supply Chain Pressure Index

(Standard deviations from average)

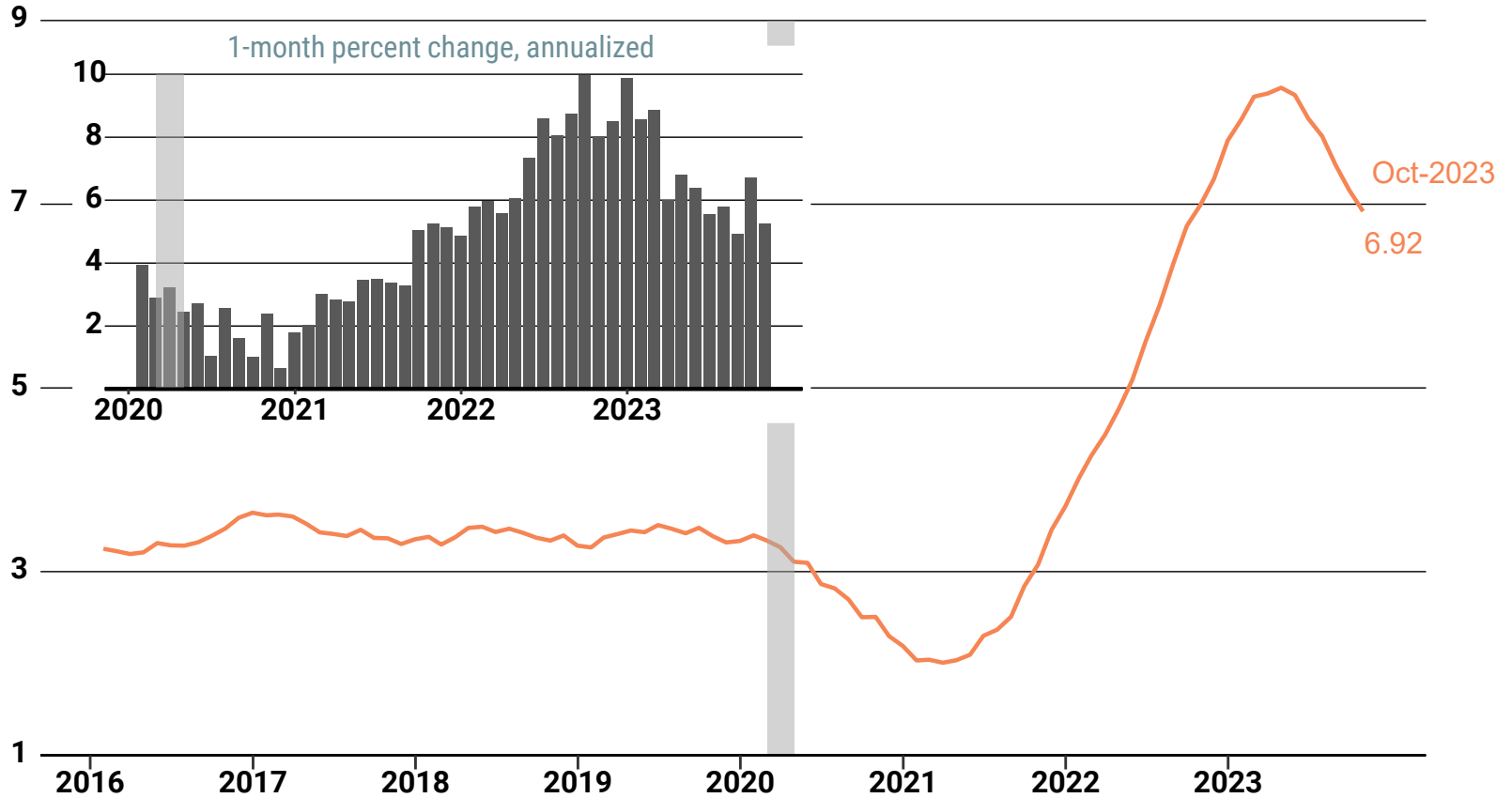


Source: Federal Reserve Bank of New York using data from Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Refinitiv

Housing services

PCE housing services

(12-month percent change)

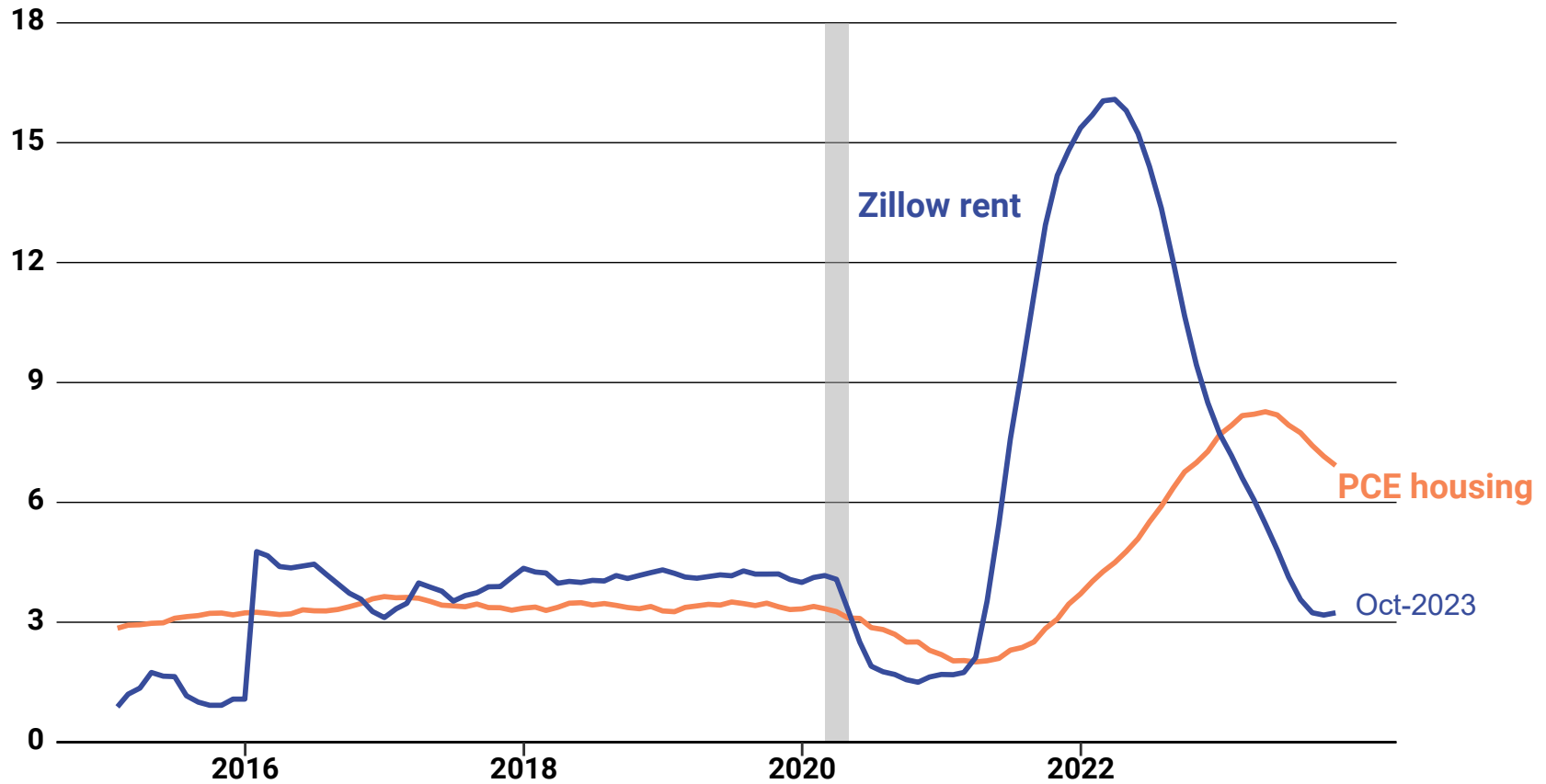


Source: BEA via Haver Analytics; staff calculations

Housing services: More to come on rents

PCE housing services and Zillow Observed Rent Index

(12-month percent change)

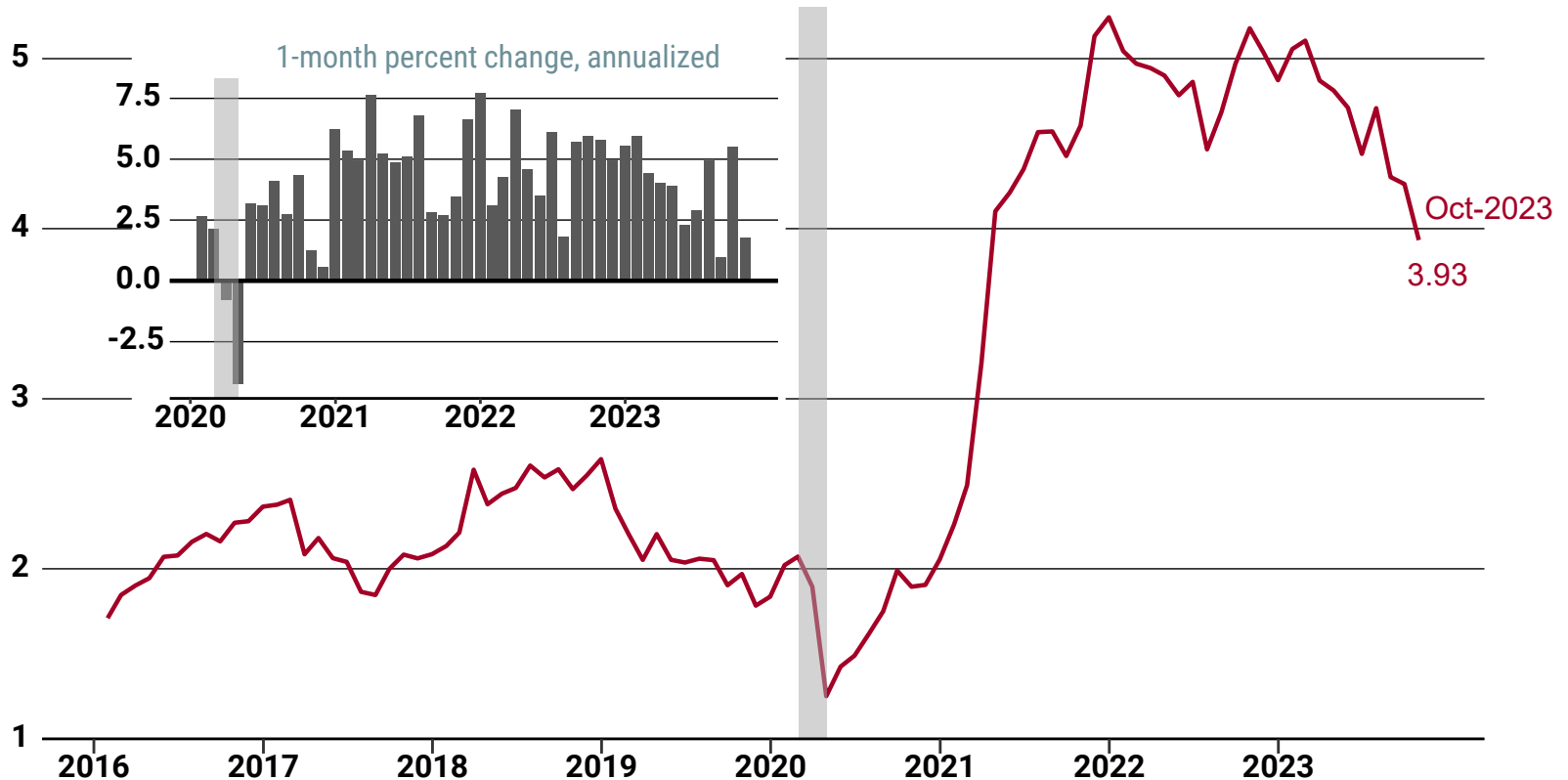


Source: BEA and Zillow via Haver Analytics; staff calculations

Services ex housing

PCE core services ex housing

(12-month percent change)



Note: Core services are services less electricity and gas. Food services are included, as is the case in BEA core PCE prices.
Source: BEA via Haver Analytics; staff calculations

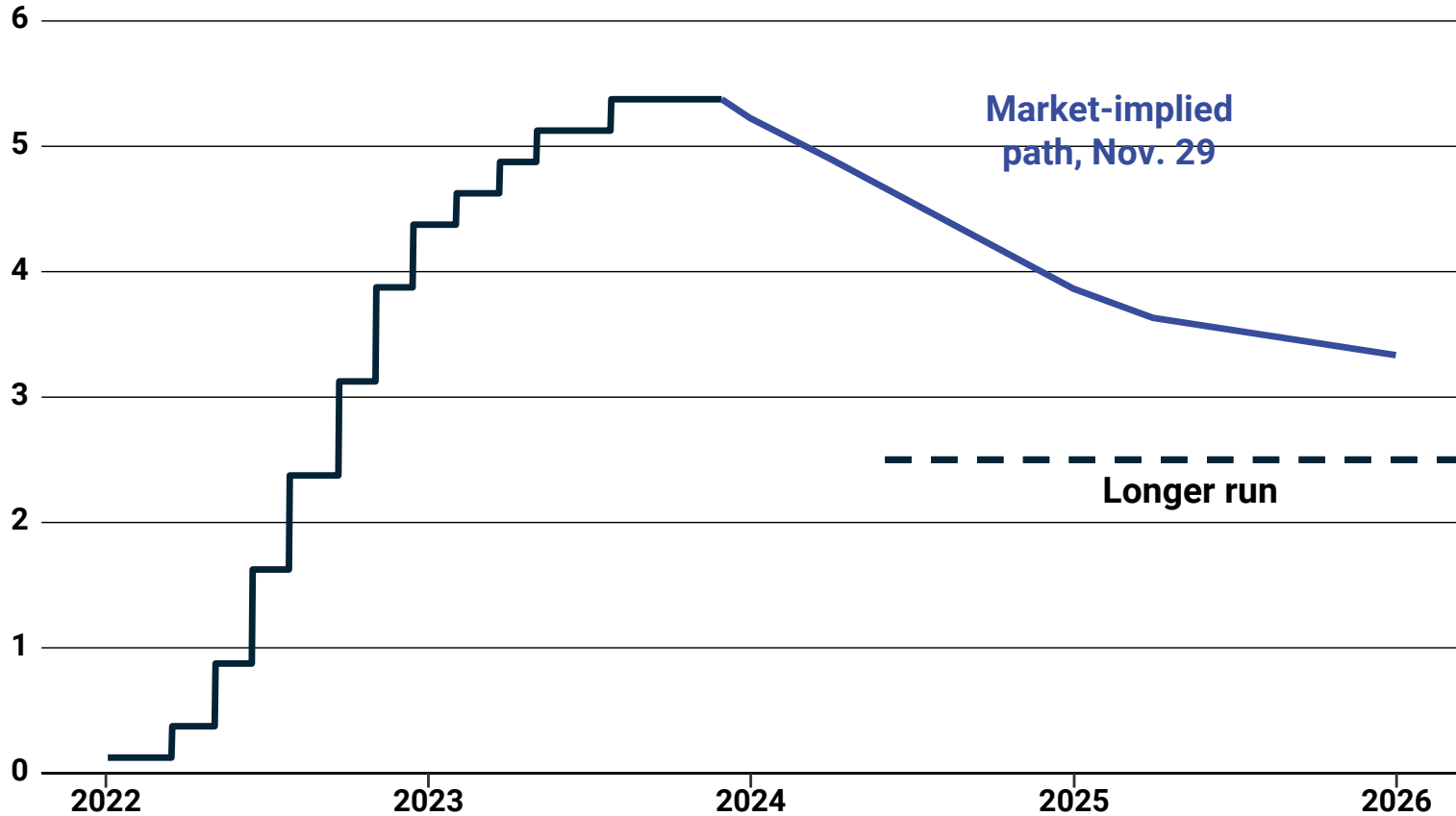
Monetary policy the key going forward

- **Pandemic-related distortions are mostly resolved**
- **Monetary policy must do the heavy lifting now**
- **Looking for further softening in labor market and below trend growth**
- **Stable long term inflation expectations**

Monetary policy: Federal Funds Rate

Federal Funds Rate

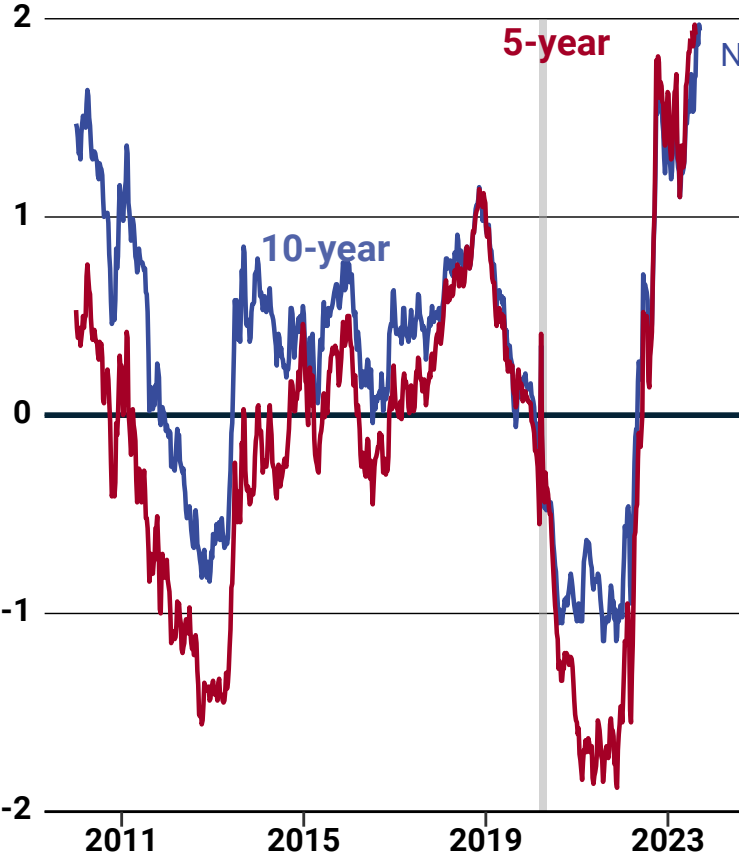
(percent)



Sources: Federal Reserve Board of Governors

Tight financial conditions

Treasury inflation protected securities
(percent,p.a.)



Source: Federal Reserve Board via Haver Analytics

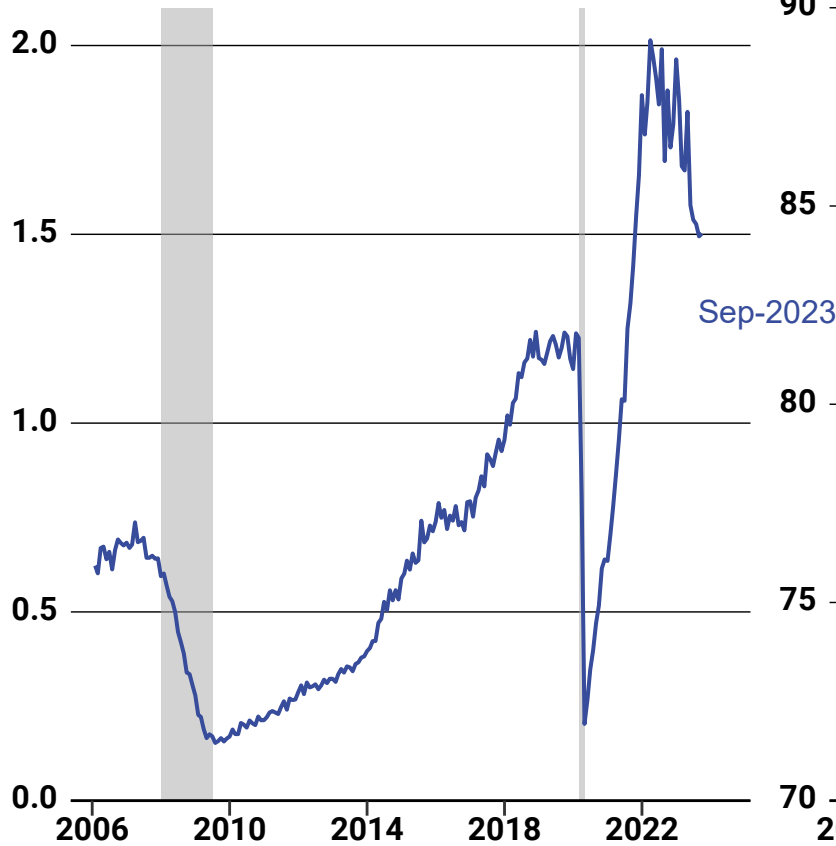
Nominal interest rates
(percent,p.a.)



Source: Wall Street Journal and S&P via Haver Analytics

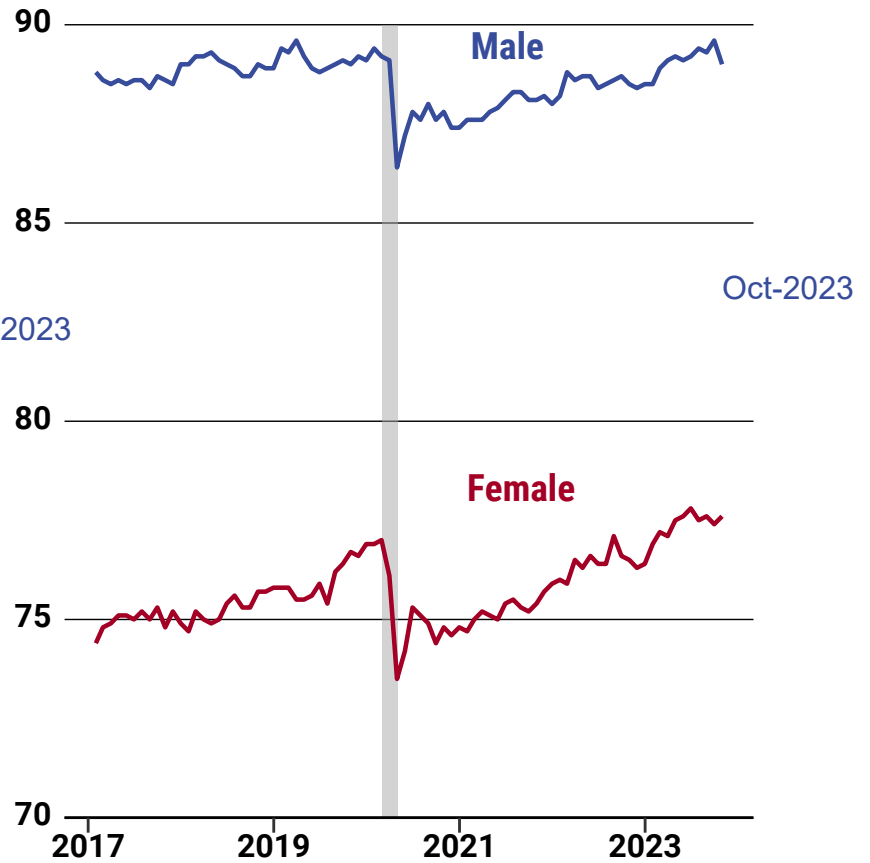
Labor market coming into balance ...

Job openings per unemployed worker
(SA)



Source: Bureau of Labor Statistics via Haver Analytics

Prime-age labor force participation
(percent, SA)

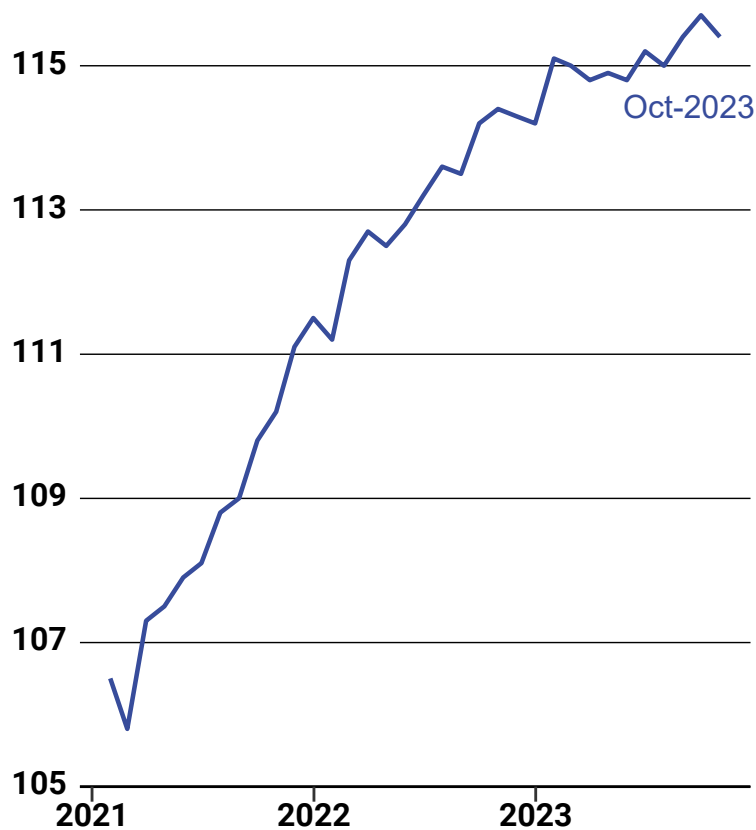


Source: BLS via Haver Analytics

... with signs of cooling

Total Hours Worked, Private Employees

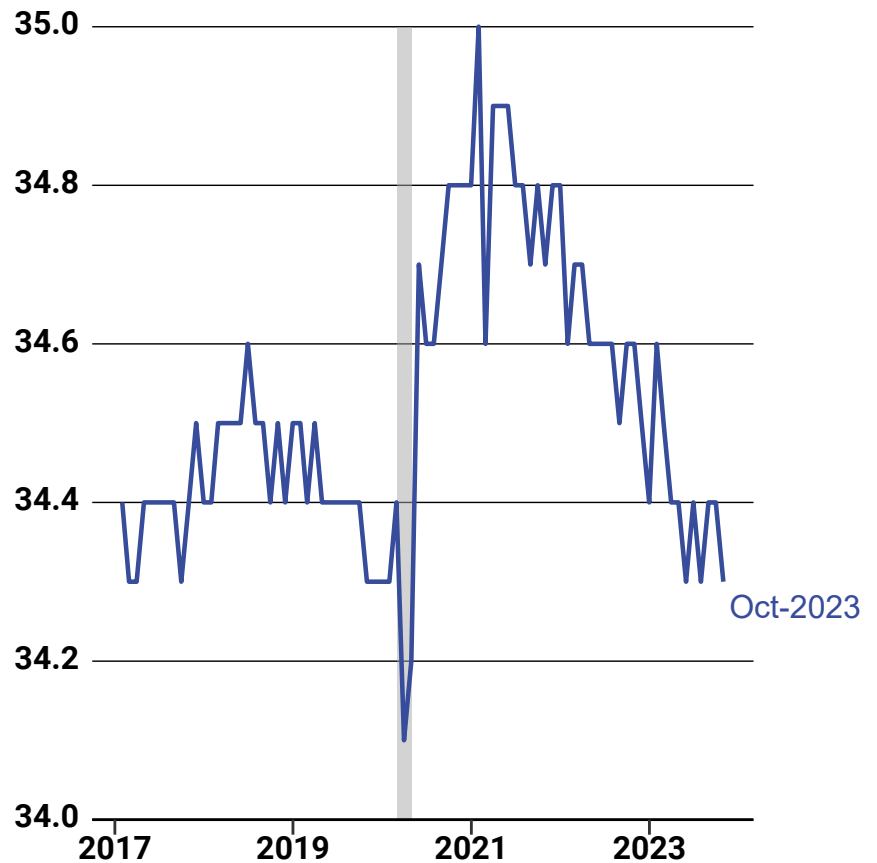
(Index = 100 @ 2007; seasonally adjusted)



Source: BLS via Haver Analytics

Average weekly hours worked, private employees

(seasonally adjusted)

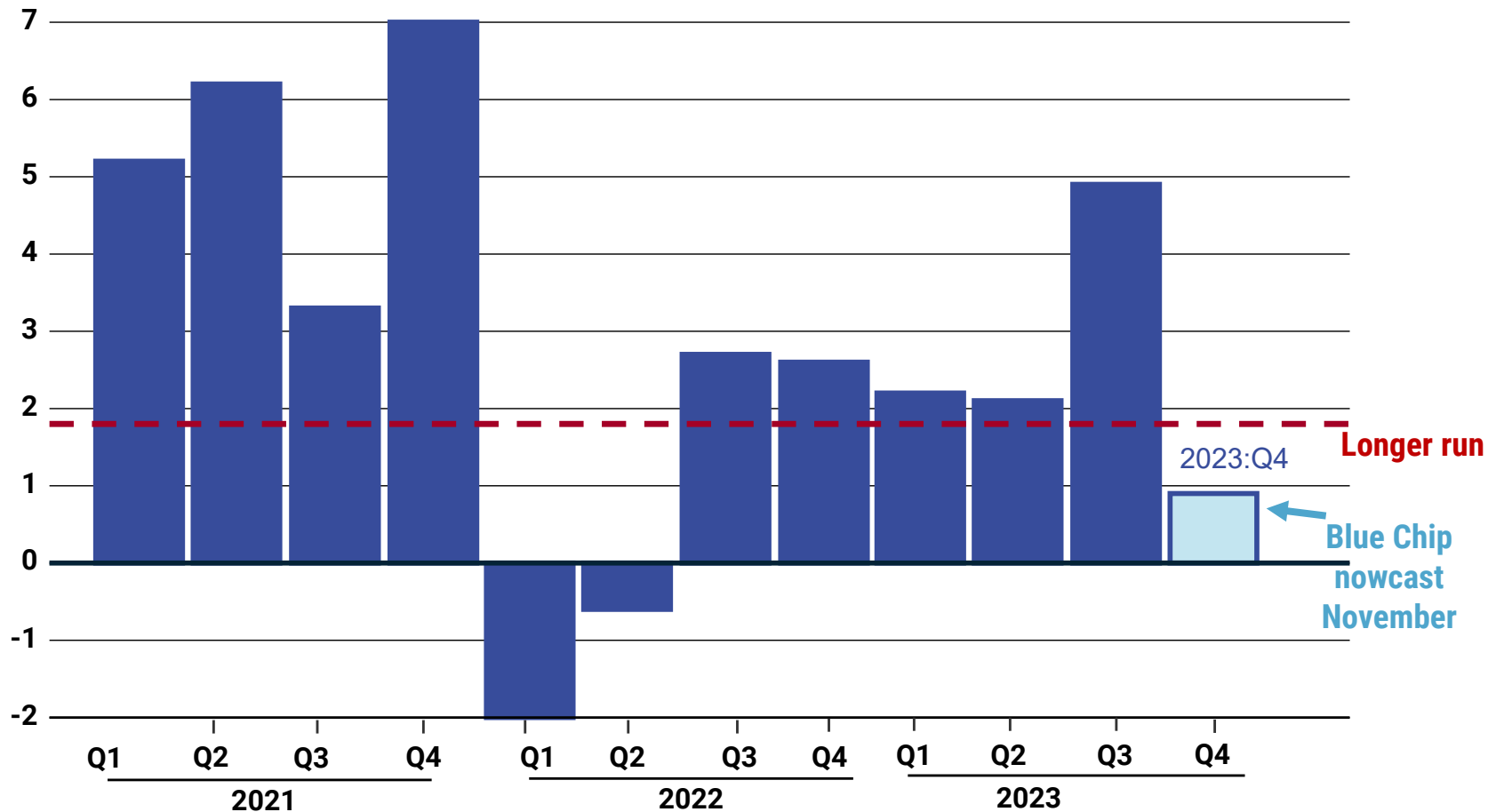


Source: BLS via Haver Analytics

But growth has come in strong

Real GDP growth

(quarterly, SAAR)

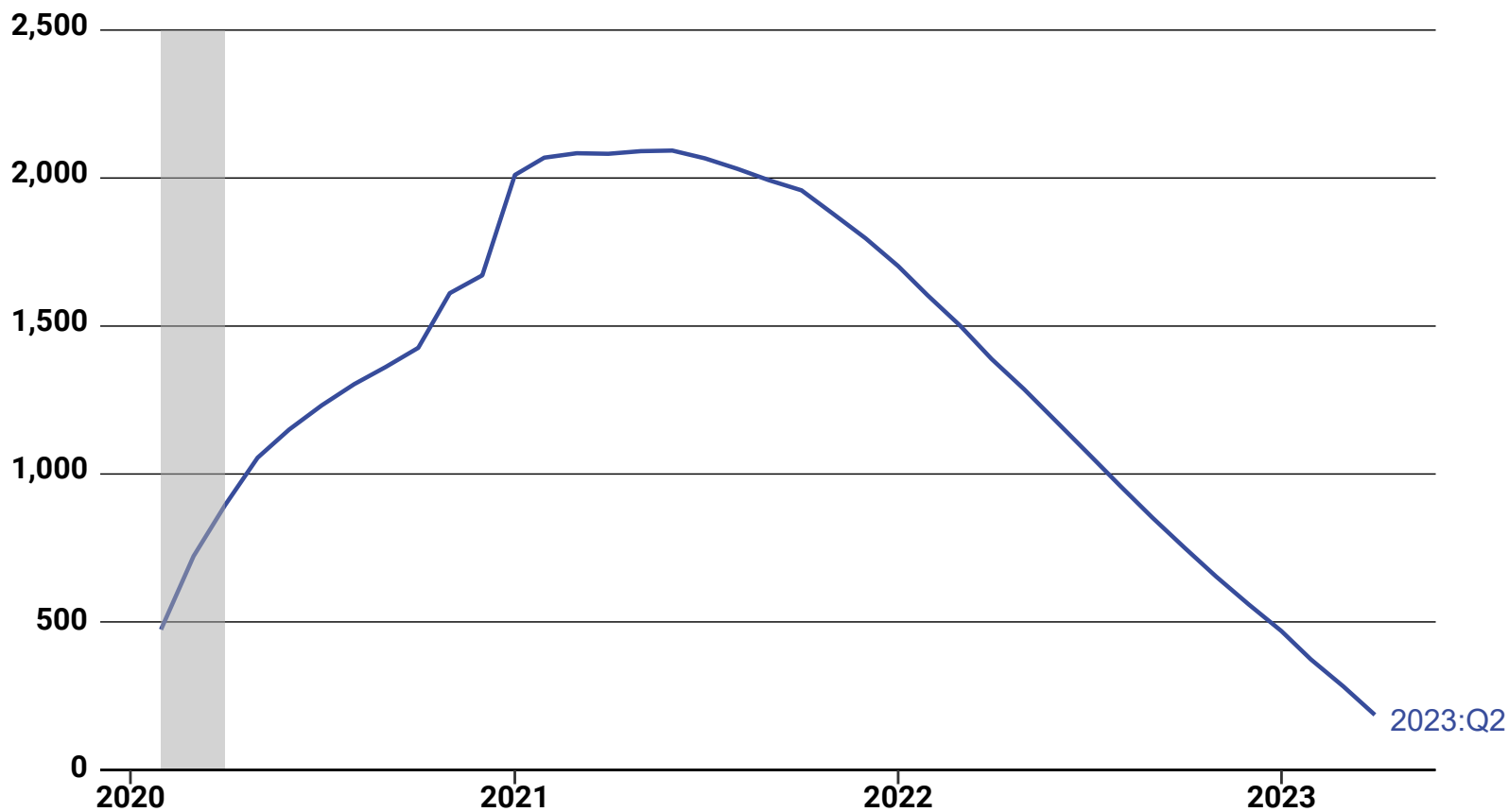


Source: BEA & Wolters Kluwer via Haver Analytics

Households have less “extra” savings

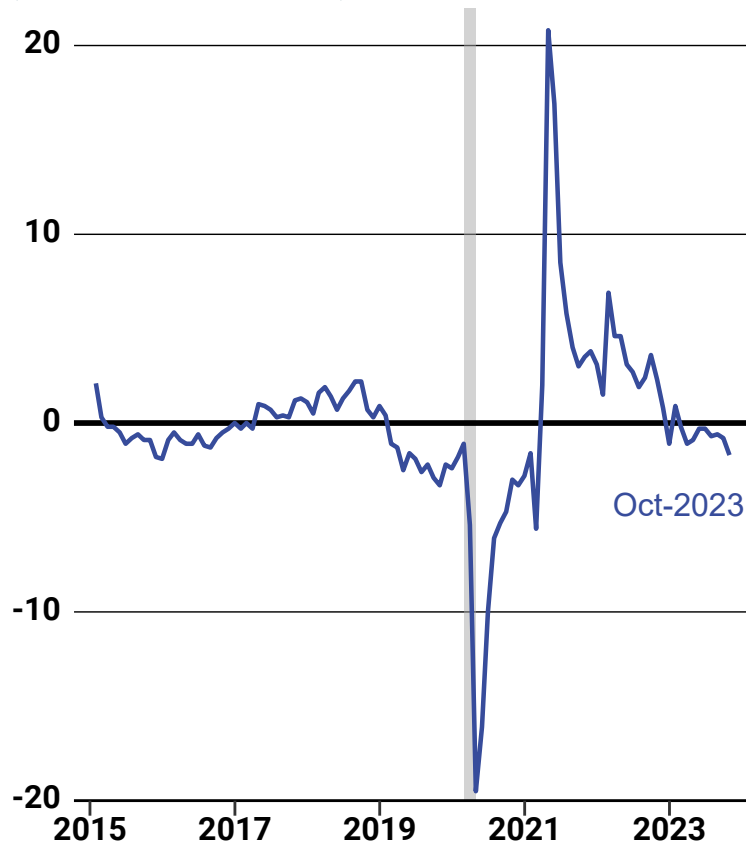
Stock of Excess Savings

(\$ billions)



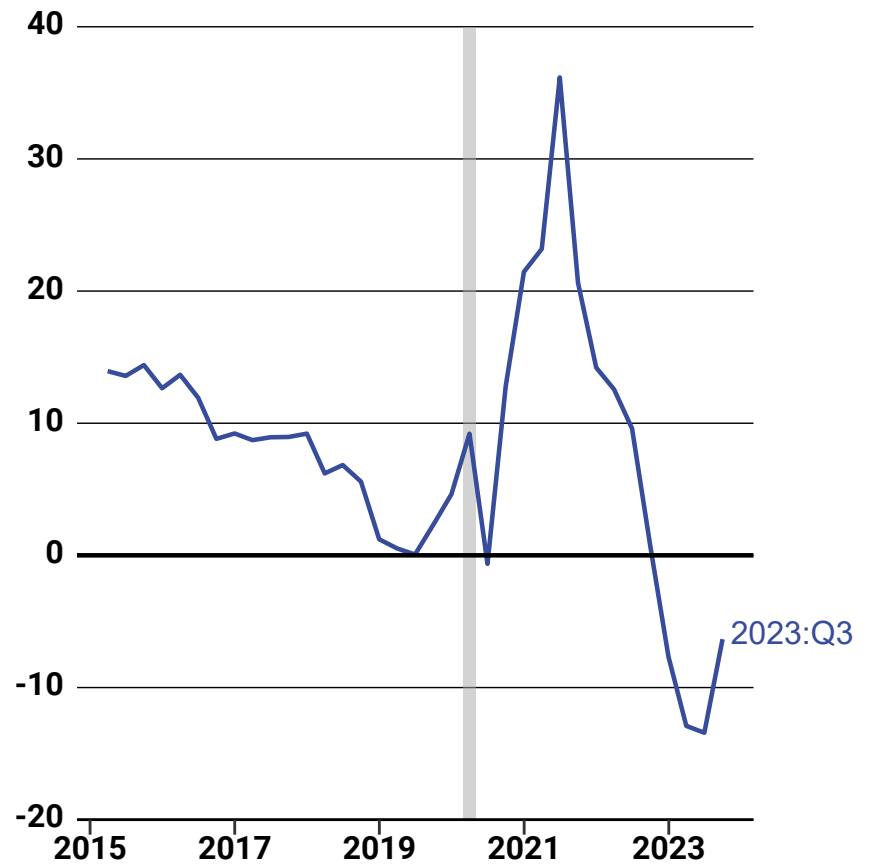
Moderating real activity

Industrial production, manufacturing sector
(12-month percent change)



Source: Federal Reserve Board via Haver Analytics

Private residential investment
(4-quarter percent change)

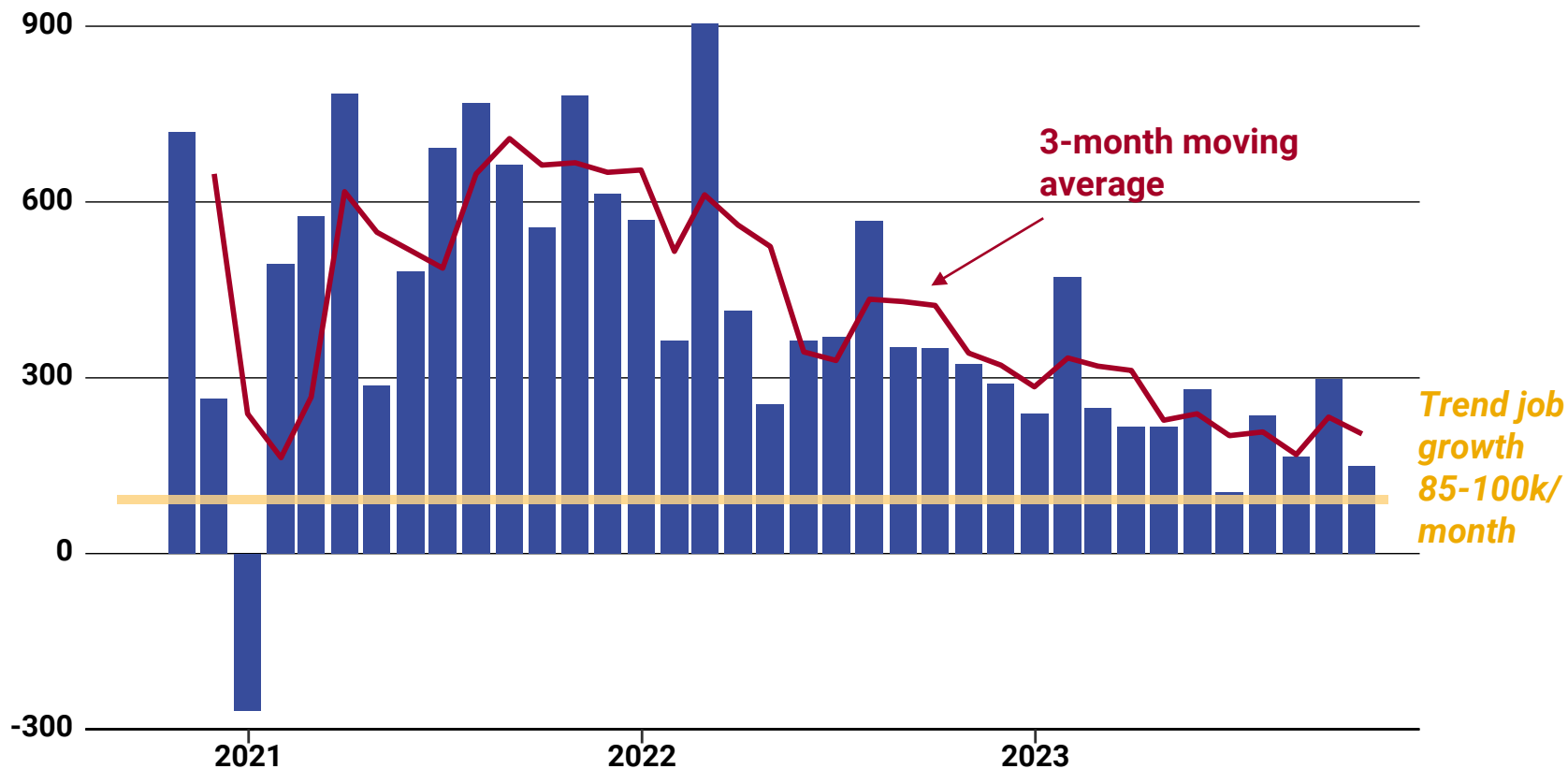


Source: BEA via Haver Analytics

Yet labor market still strong

Change in Total Nonfarm Payroll Employment

(Thousands, SA)



Source: BLS via Haver Analytics

Soft landing?

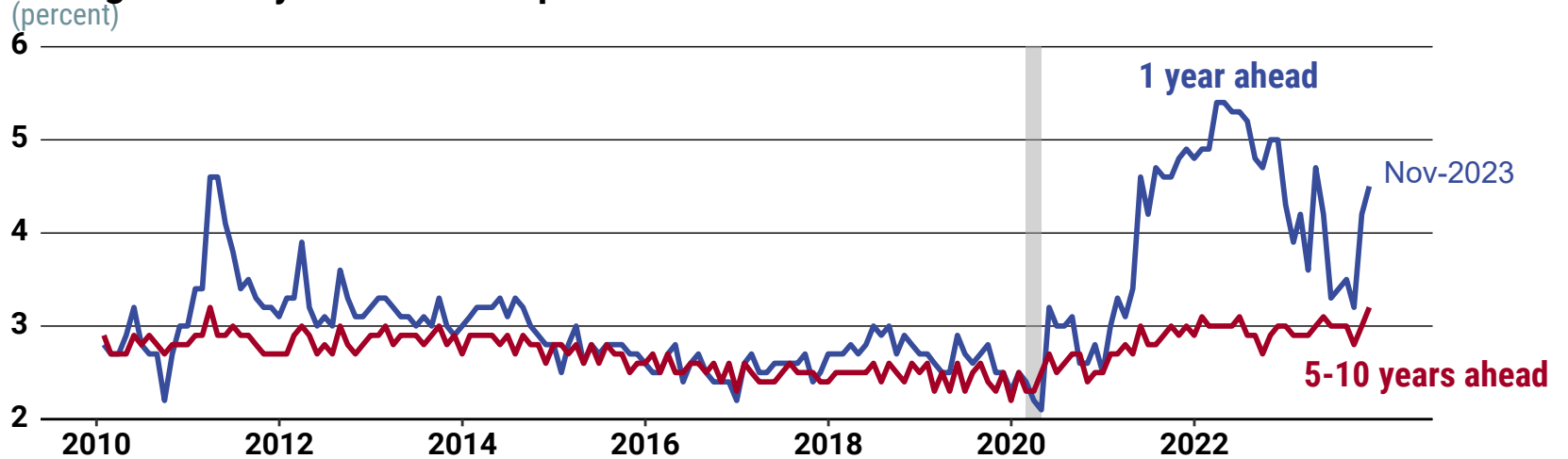
	GDP	Unemployment Rate	Total PCE	Core PCE
2023 Year-to-date	3.1	3.9	3.1	3.3
2024 Blue Chip Median Forecast (Nov. 2023)	0.8	4.3	2.3	2.4

Notes: 2024 Blue Chip Forecast as of November 2023. For Blue Chip forecasts, GDP and total and core PCE prices are Q4/Q4 percent changes. Unemployment rate is the Q4 average. For YTD data, GDP is the annualized real GDP growth rate from 2022:Q4 through 2022:Q3; unemployment rate is the rate in Oct. 2023; and total and core PCE inflation are the annualized percent change in the indexes from December 2022 through October 2023.

Sources: Wolters Kluwer, BEA, and BLS via Haver Analytics

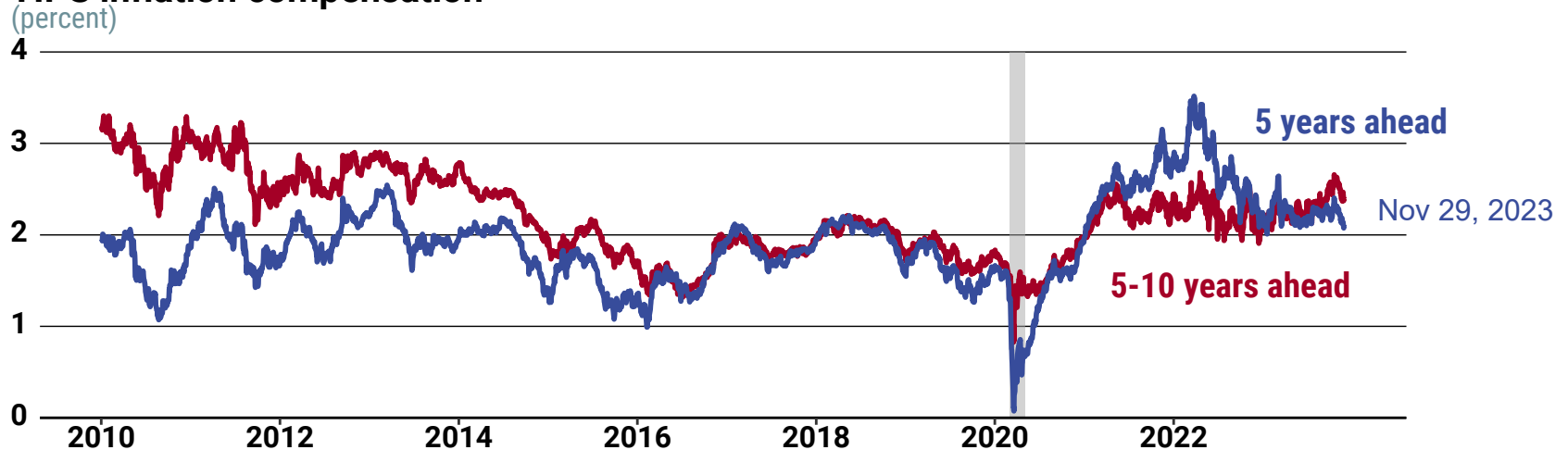
Stable longer term inflation expectations

Michigan Survey of Inflation Expectations



Source: University of Michigan from Haver Analytics

TIPS inflation compensation



Source: Board of Governors of the Federal Reserve System

Summing up

- **Inflation remains elevated, but clear progress**
- **Monetary policy remains restrictive**
- **Cooling labor market and reasons to expect a slowdown**
- **Soft landing?**

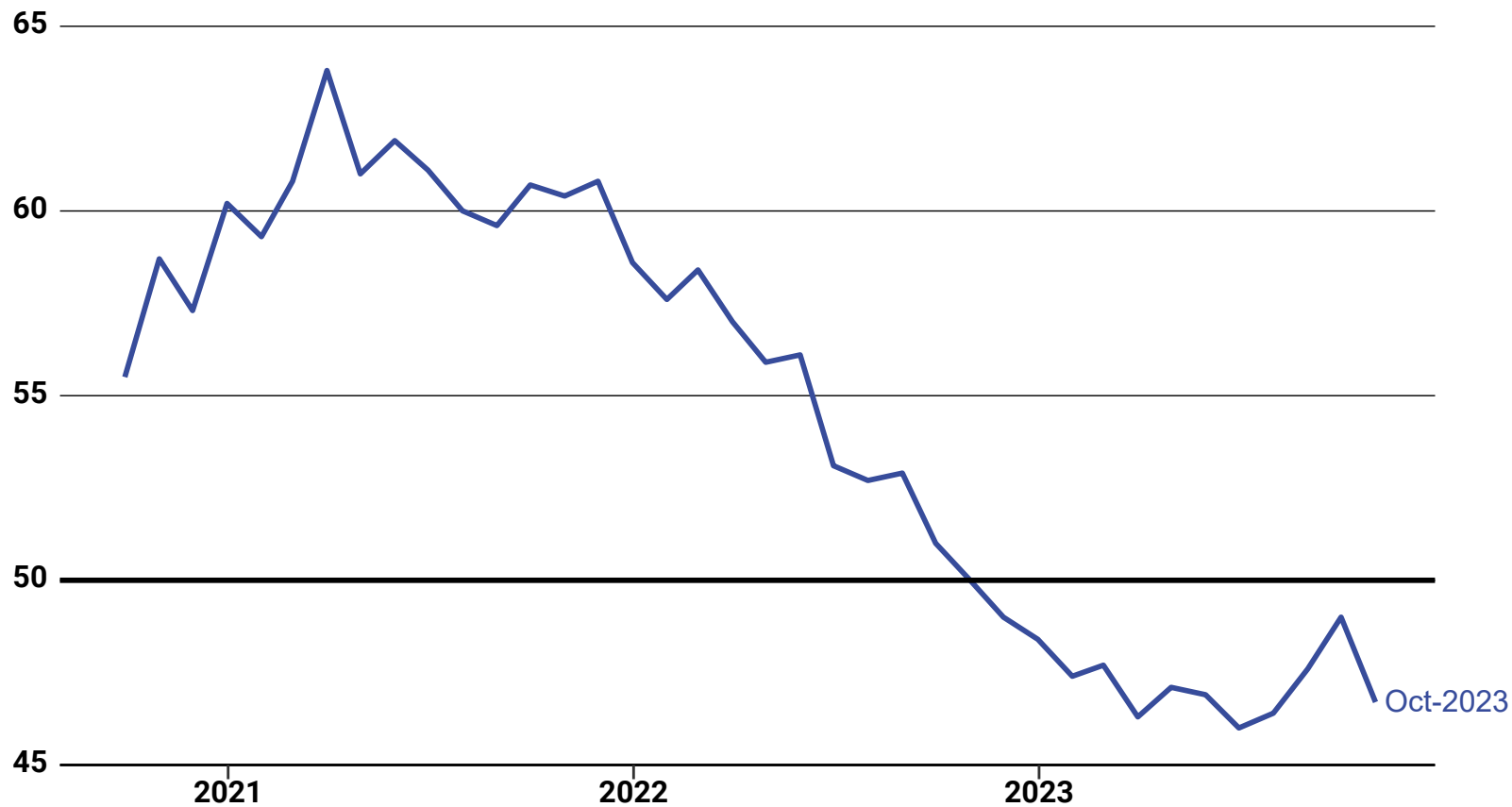


www.chicagofed.org

Manufacturing activity still slowing

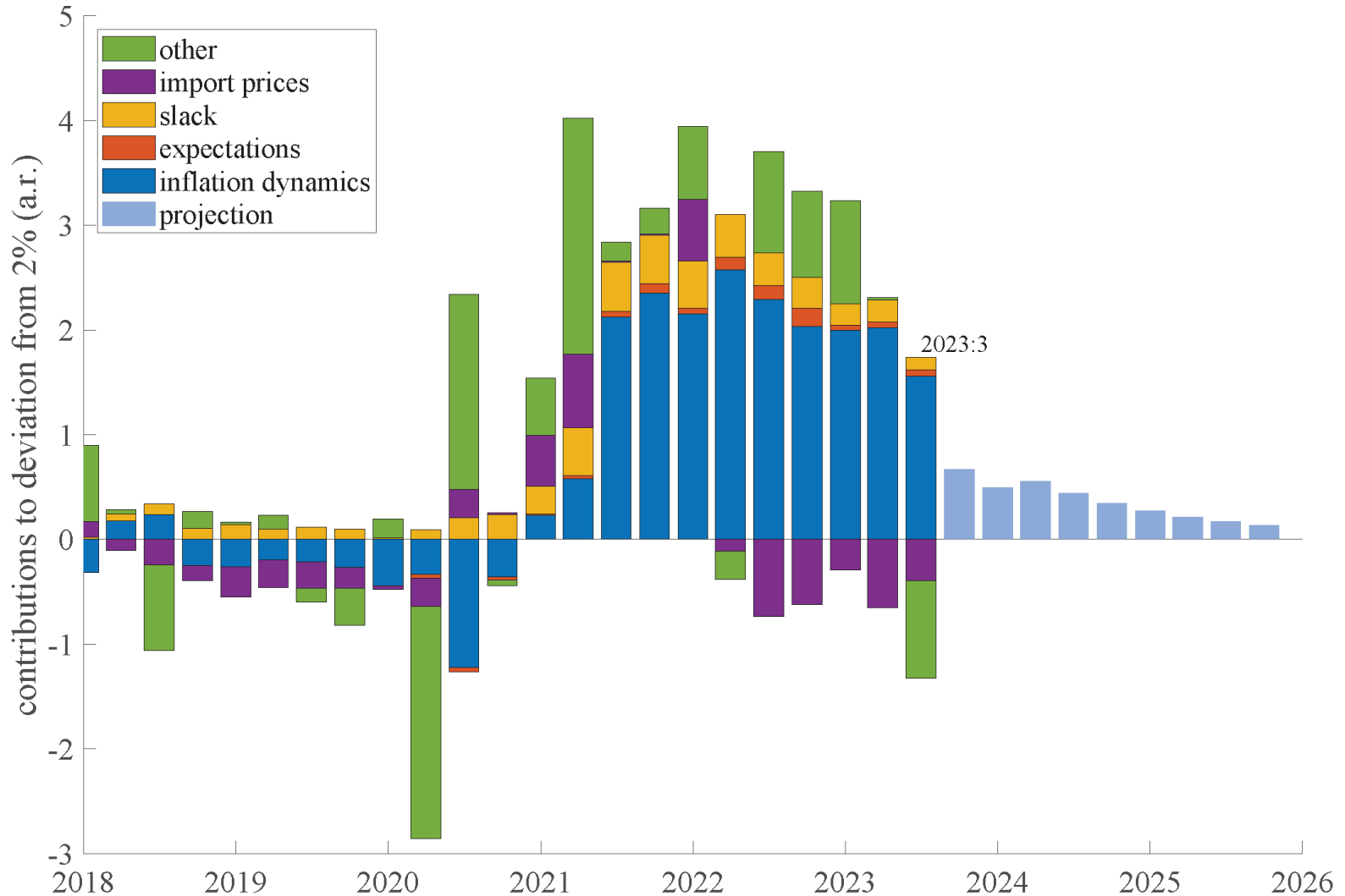
ISM Manufacturing: PMI Composite Index

(>50 indicates expansion)



Source: Institute for Supply Management via Haver Analytics

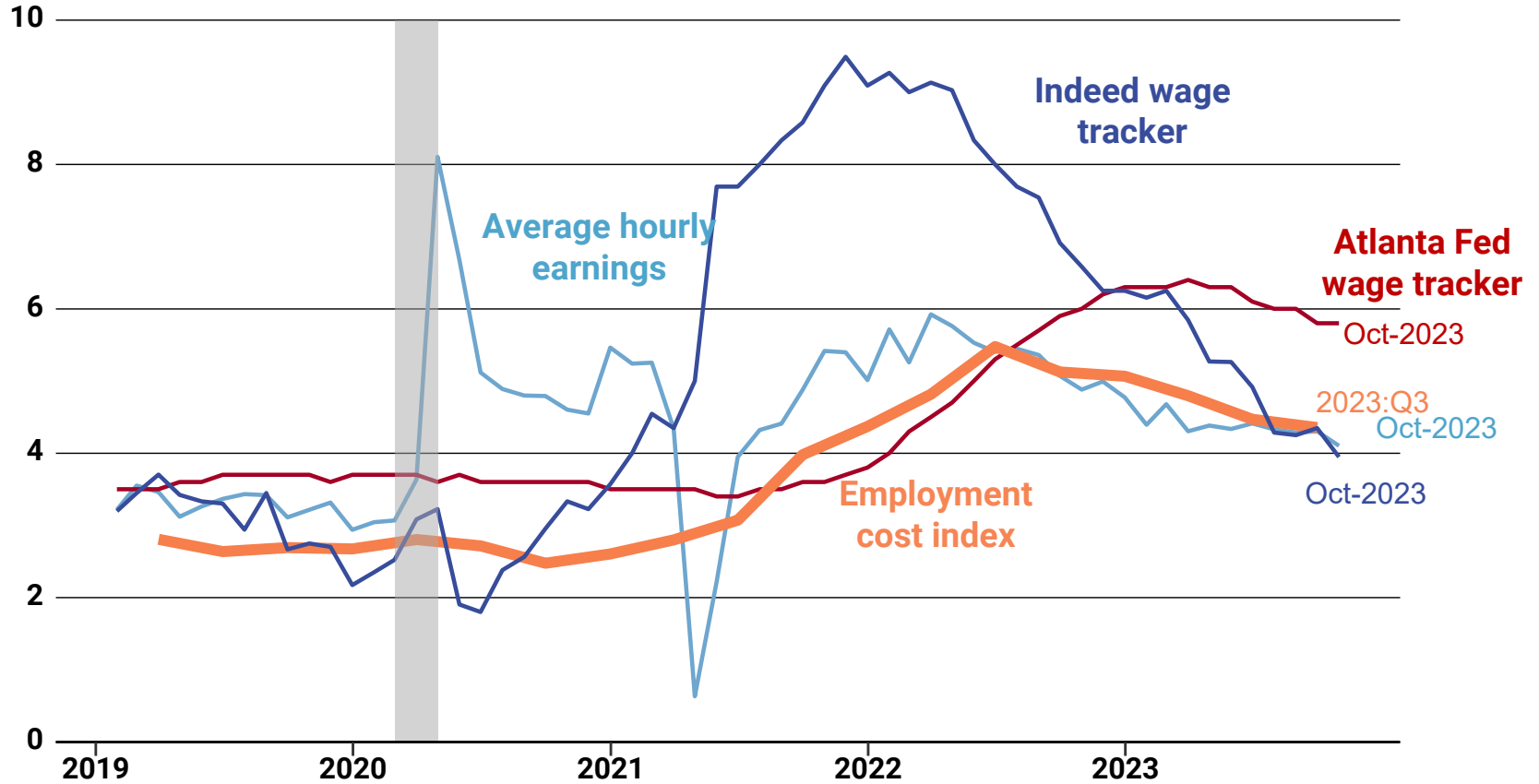
Drivers of core PCE inflation



Wage growth slowing

Wage growth

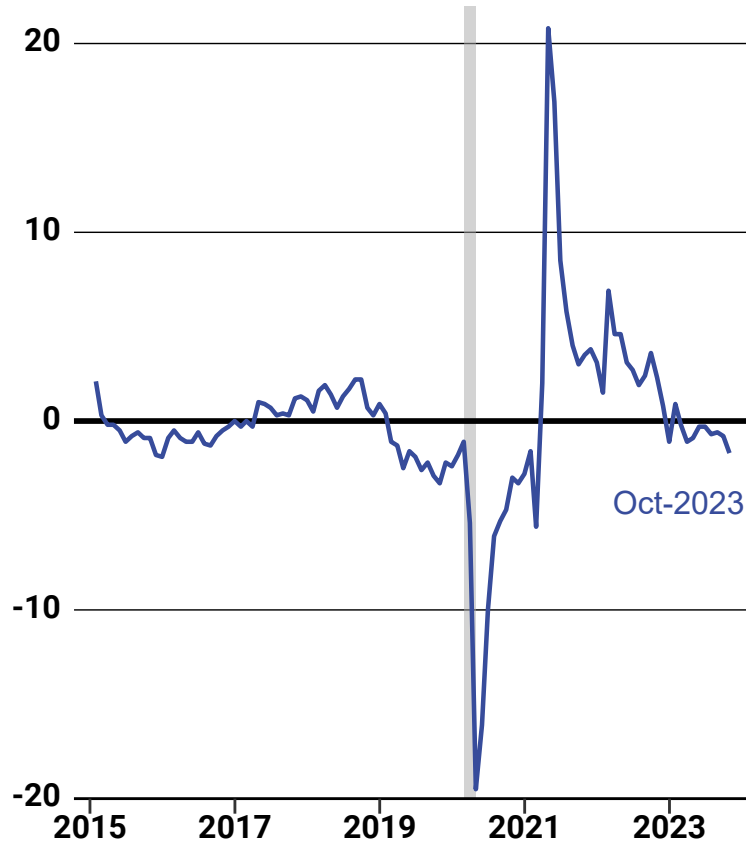
(12-month percent change)



Source: BLS, Federal Reserve Bank of Atlanta via Haver Analytics; Indeed

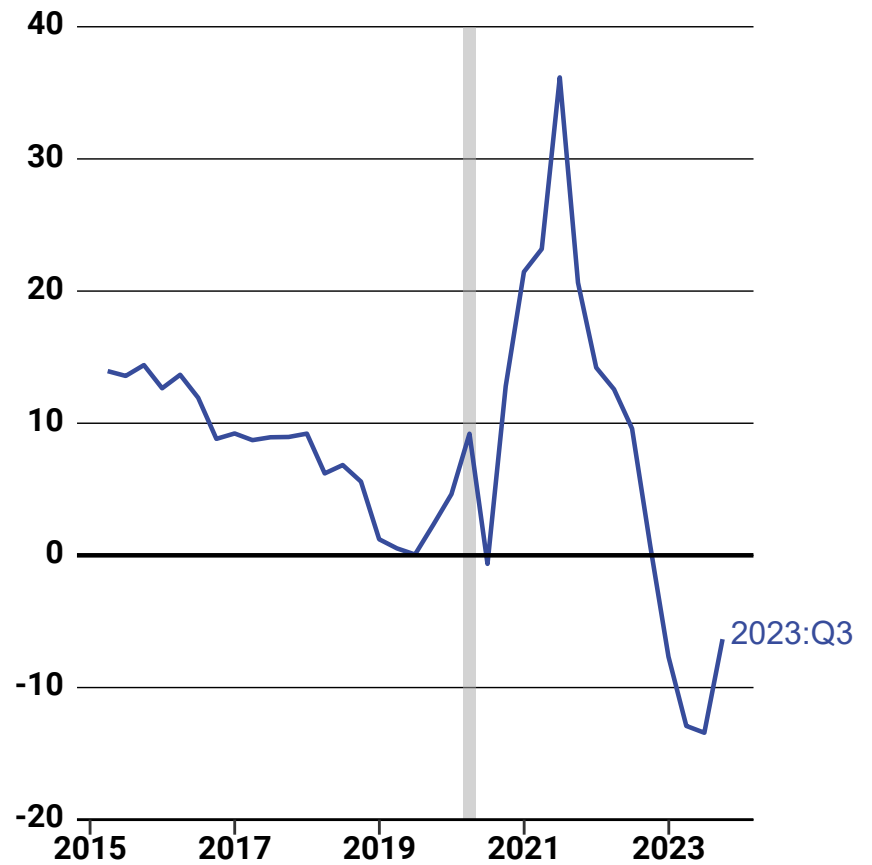
Signs of moderating real activity

Industrial production, manufacturing sector
(12-month percent change)



Source: Federal Reserve Board via Haver Analytics

Private residential investment
(4-quarter percent change)



Source: BEA via Haver Analytics