



Inflation, Recession and What's Happening in Our Economy Right Now

Wednesday, August 3, 2022

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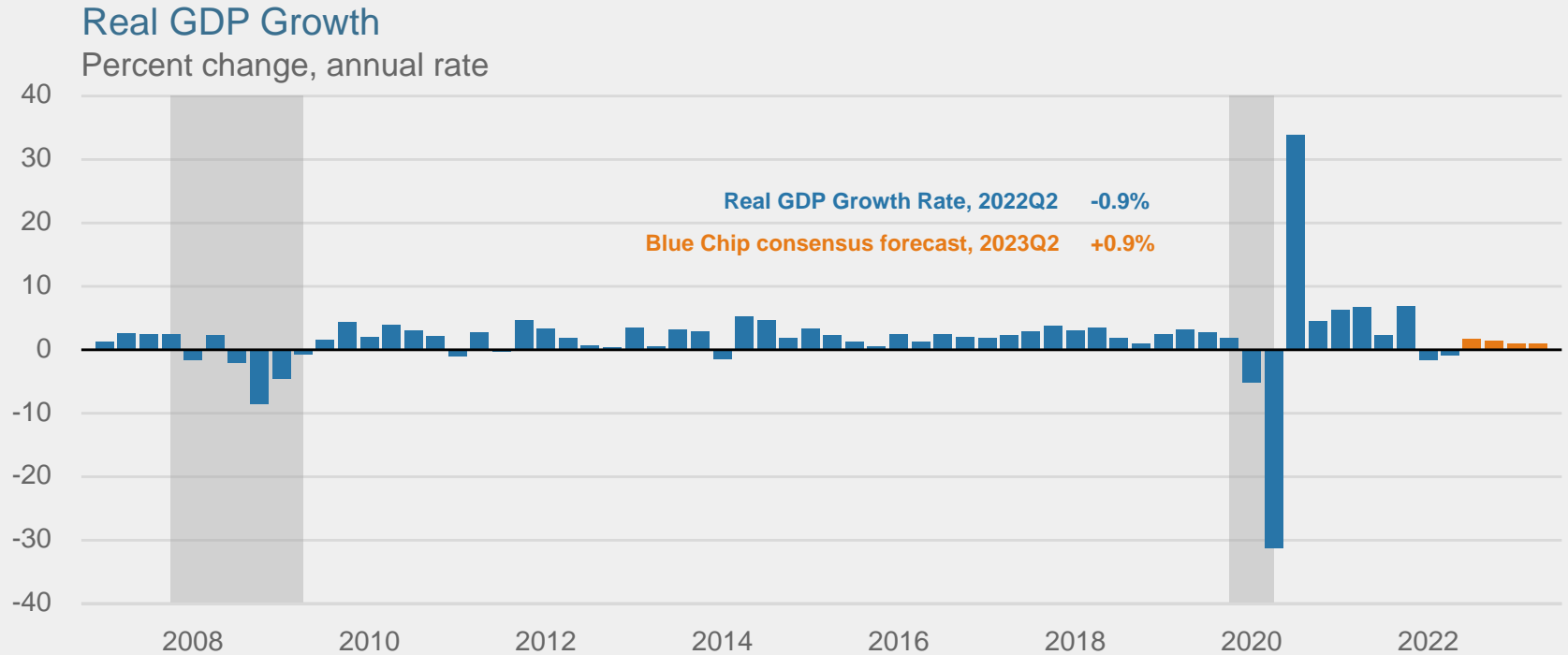
August 3, 2022

Overview

- Economic activity
- Labor market conditions
- Inflation and monetary policy

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Real GDP fell in the first half of the year

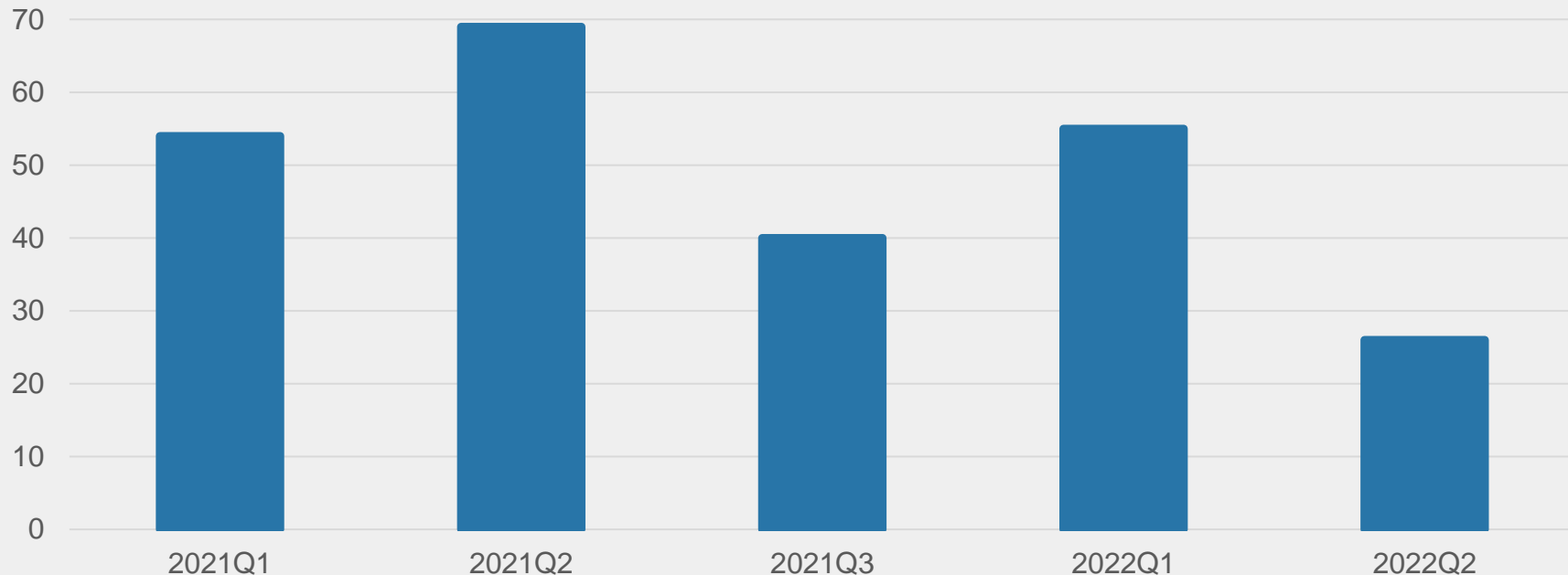


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators via Haver Analytics.
Last Data Points: Real GDP, 2022:Q2; Forecasts for 2023:Q2 as of July 10, 2022.

Pittsburgh firms also reported weaker activity

How has customer demand for your products or services changed in the last quarter?

Percent “better” minus percent “worse”

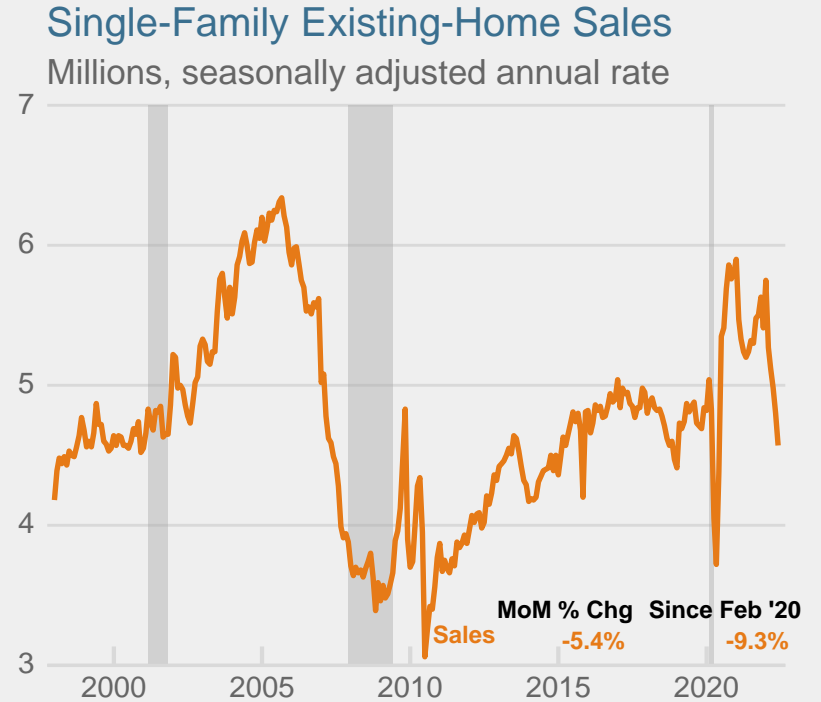
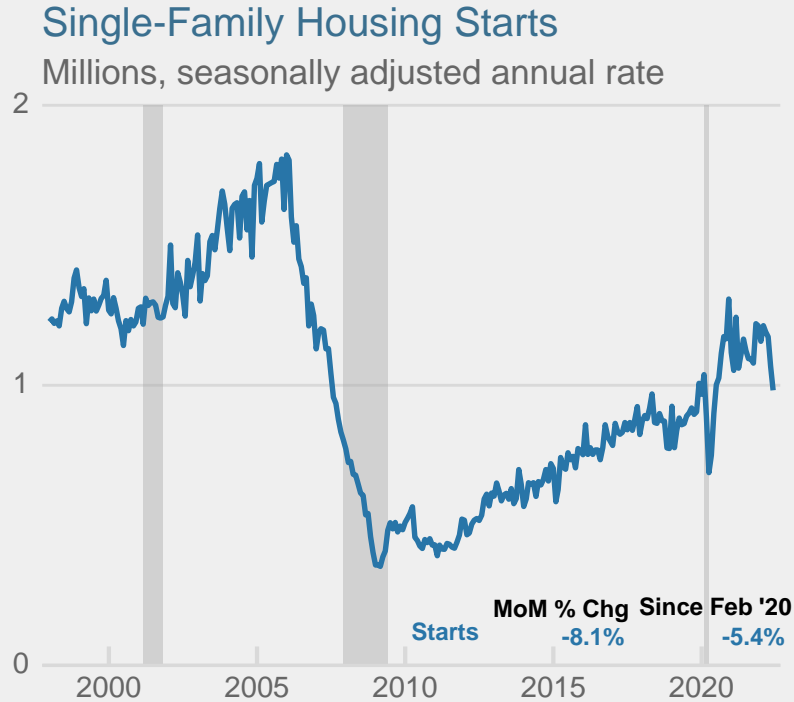


Source: Pennsylvania Economy League of Greater Pittsburgh

Notes: Most recent survey was conducted in July 2022; 40 companies participated in the current round.

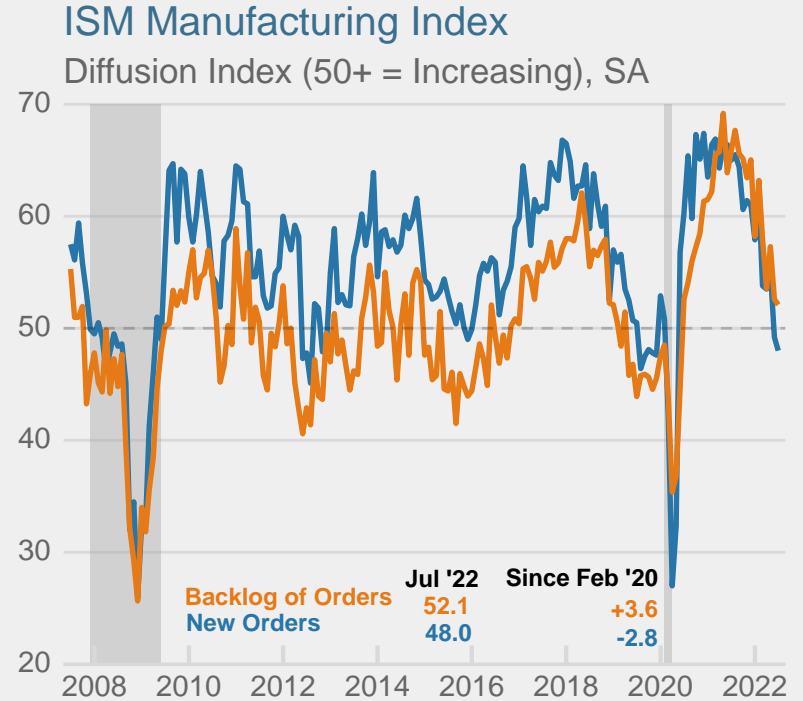
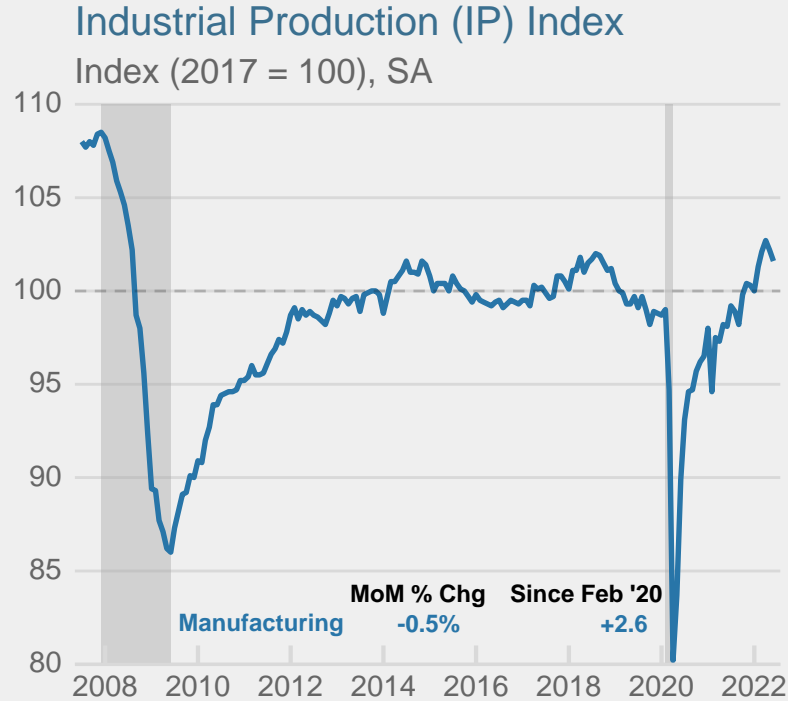
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Higher mortgage rates have slowed building and buying activity



Source: Census Bureau and National Association of Realtors via Haver Analytics.
Last Data Point: June 2022.

Declining new orders signal that production could weaken further

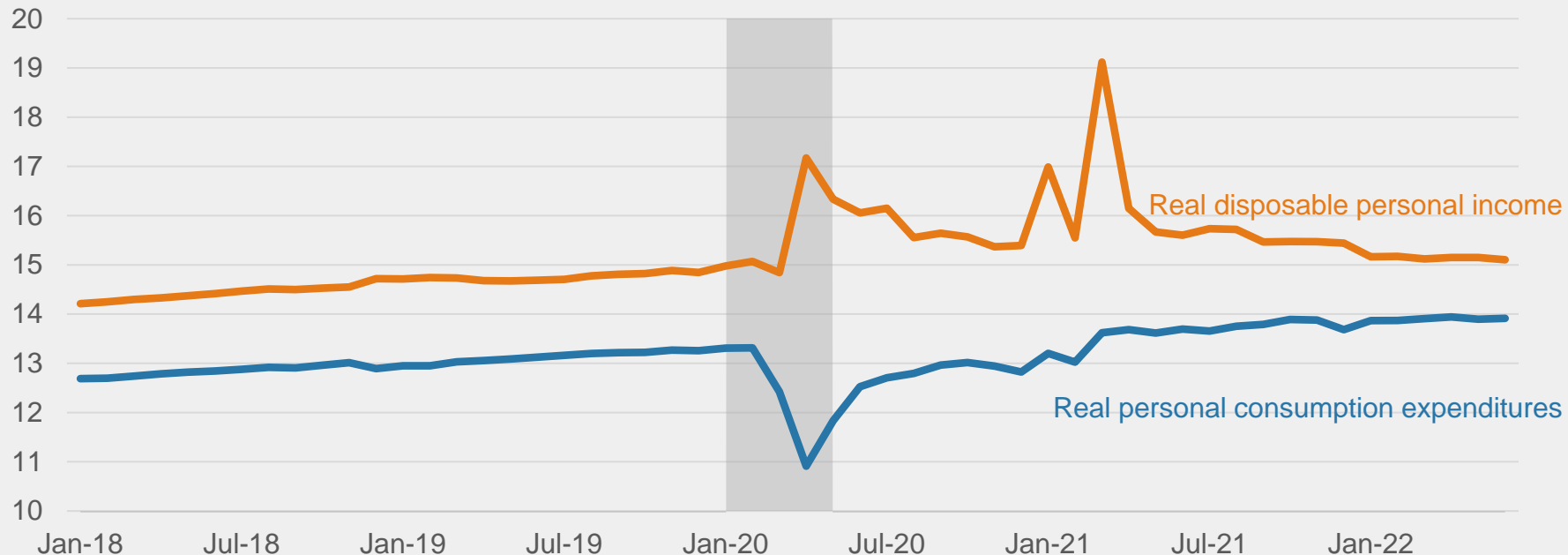


Source: Federal Reserve Board and Institute for Supply Management via Haver Analytics.
Last Data Points: IP, June 2022; ISM, July 2022.

Real consumer spending and disposable income have slowed

Real Disposable Personal Income and Real Personal Consumption Expenditures

Trillions of chained 2012 dollars, seasonally adjusted annualized rate



Source: Bureau of Economic Analysis, retrieved from Haver Analytics
Last observation: June 2022

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Household budgets are under stress from inflation

- Sales had been “amazing” and now are “just good.” –*Apparel retailer*
- Weaker spending was no longer confined to lower-income households. Middle-income consumers had also begun to trade down. –*General merchandiser*
- Customers are buying more frequently, but less per visit. –*Convenience store chain*
- Fourth of July weekend was weaker than expected, following a very busy Memorial Day weekend. –*Hotel chain*

Companies are recalibrating their investment plans...

- Hesitation in investment across industries. –*Chamber of commerce*
- A lot of business owners are “tapping the brakes” on capital expenditure plans they had for the remainder of 2022, unless those investments were absolutely necessary. –*Regional bank*
- Clients tapping the brakes on growth or expansion has been noticeable since beginning of June. –*Commercial real estate firm*

...And more firms are trimming inventories, though it varies by sector

General merchandisers are more broadly working to trim their inventories...

- The firm was receiving about 70% of its orders last year. It adjusted and started ordering 120% of what it needed. Things started to loosen up in Q1 and it received more than it had expected. –*Department store*

About a third of manufacturing contacts plan to reduce finished goods inventories through the remainder of 2022...

- Anticipating a slowdown in demand and will reduce inventories as a result. –*Chemicals manufacturer*

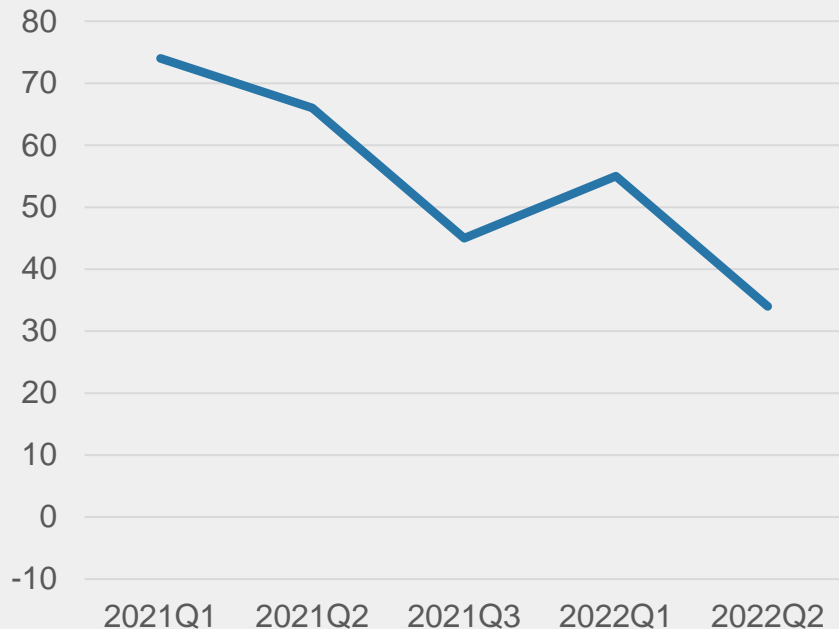
...but many other manufacturers to continue to stockpile inputs because of large backlogs and supply difficulties...

- The company just purchased a year's worth of stainless steel to avoid issues when we need them for production. –*Tool manufacturer*

Despite weaker expectations, local firms are holding capital plans

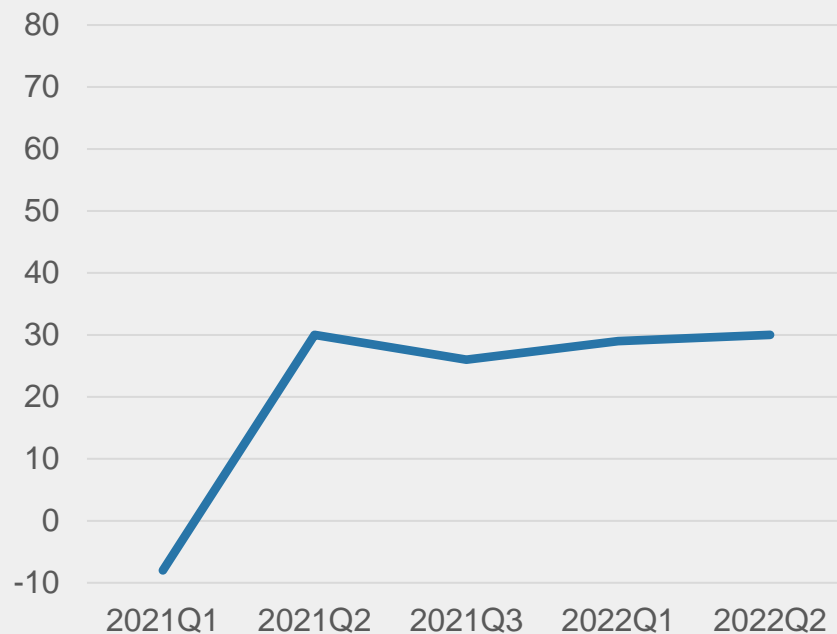
Expected Demand

Percent “better” minus percent “worse”



Planned Capital Expenditures

Percent “increase” minus percent “decrease”



Question (Expected Cond): How do you expect customer demand to change over the next quarter?

Question (Cap Ex): Compared to the previous two quarters, what changes do you anticipate with your capex levels over the next two quarters?

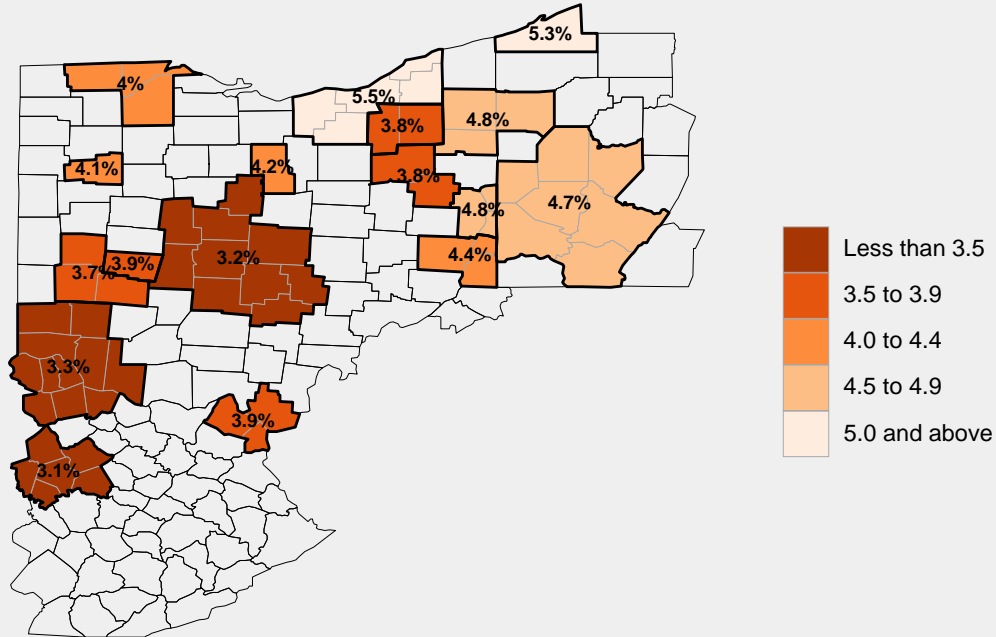
Source: Pennsylvania Economy League of Greater Pittsburgh

Notes: Most recent survey was conducted in July 2022; 40 companies participated in the current round.

Unemployment rates are near pre-pandemic lows in many metros

Unemployment Rate, Fourth District Metro Area

Percent, seasonally adjusted

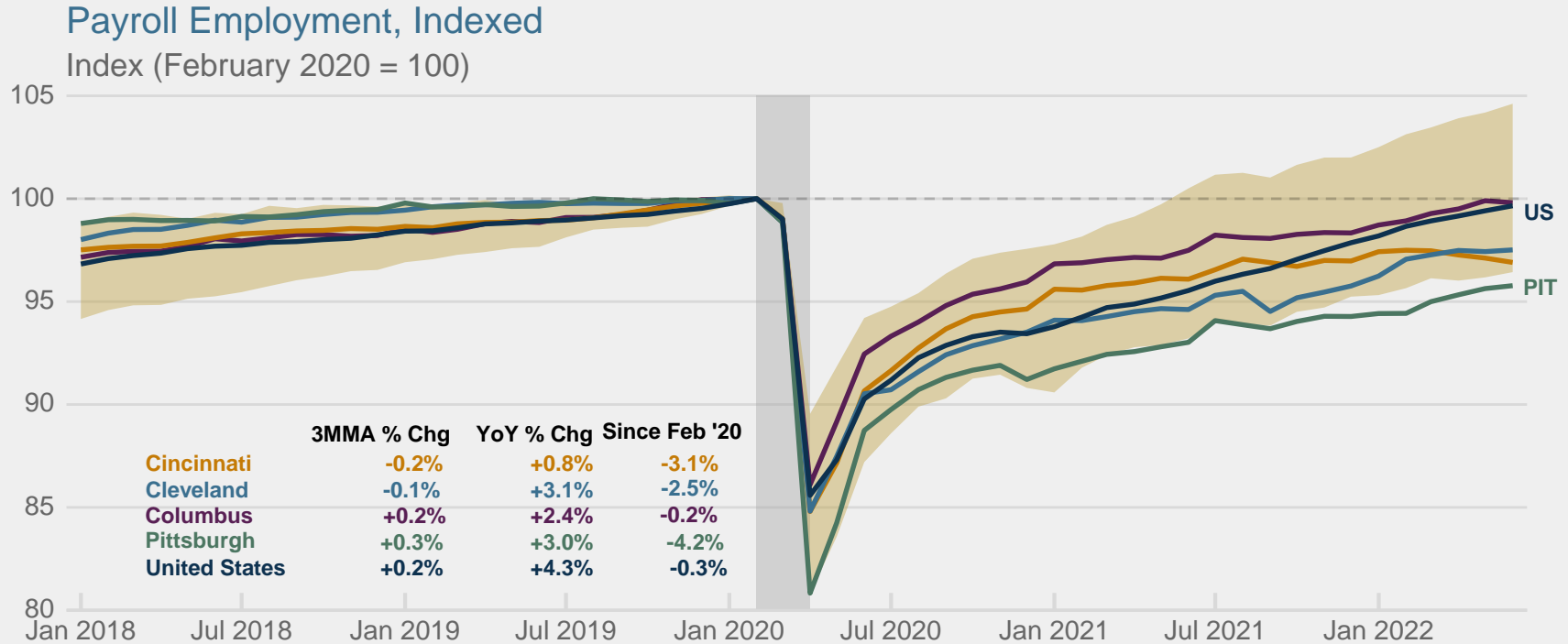


United States: 3.6%; District: 4.0%.

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

Data for: May 2022 for MSAs, June for US.

Job gains remain healthy



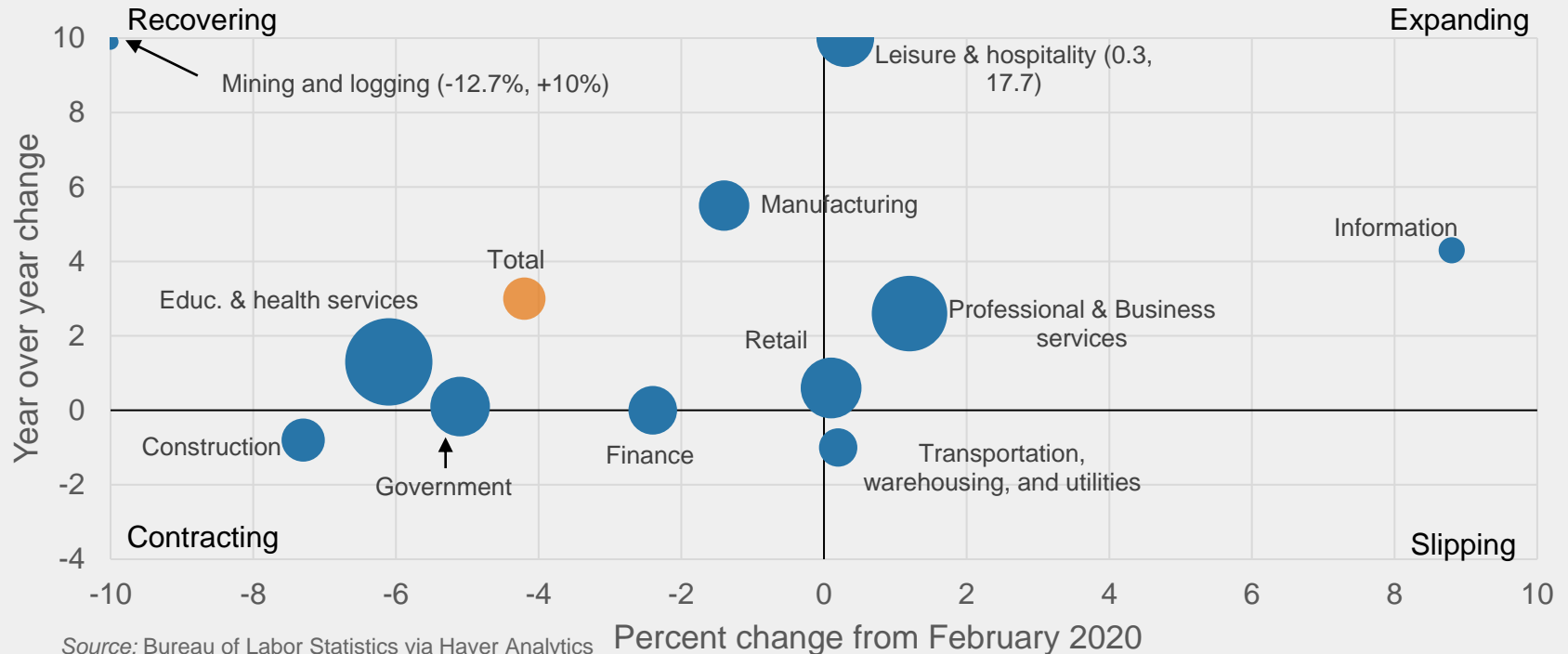
Source: Bureau of Labor Statistics via Haver Analytics.

Last Data Point: June 2022 for the United States, June 2022 for District MSAs.

Notes: Shaded area shows values from the 10th to the 90th percentile of distribution across the top 100 MSAs by 2019 employment level.
MSA ranking (1 = most recovered): Columbus (46/100); Cleveland (78/100); Cincinnati (85/100); Pittsburgh (95/100).

There is wide dispersion in the regional jobs recovery

Pittsburgh payroll employment by sector
Seasonally adjusted

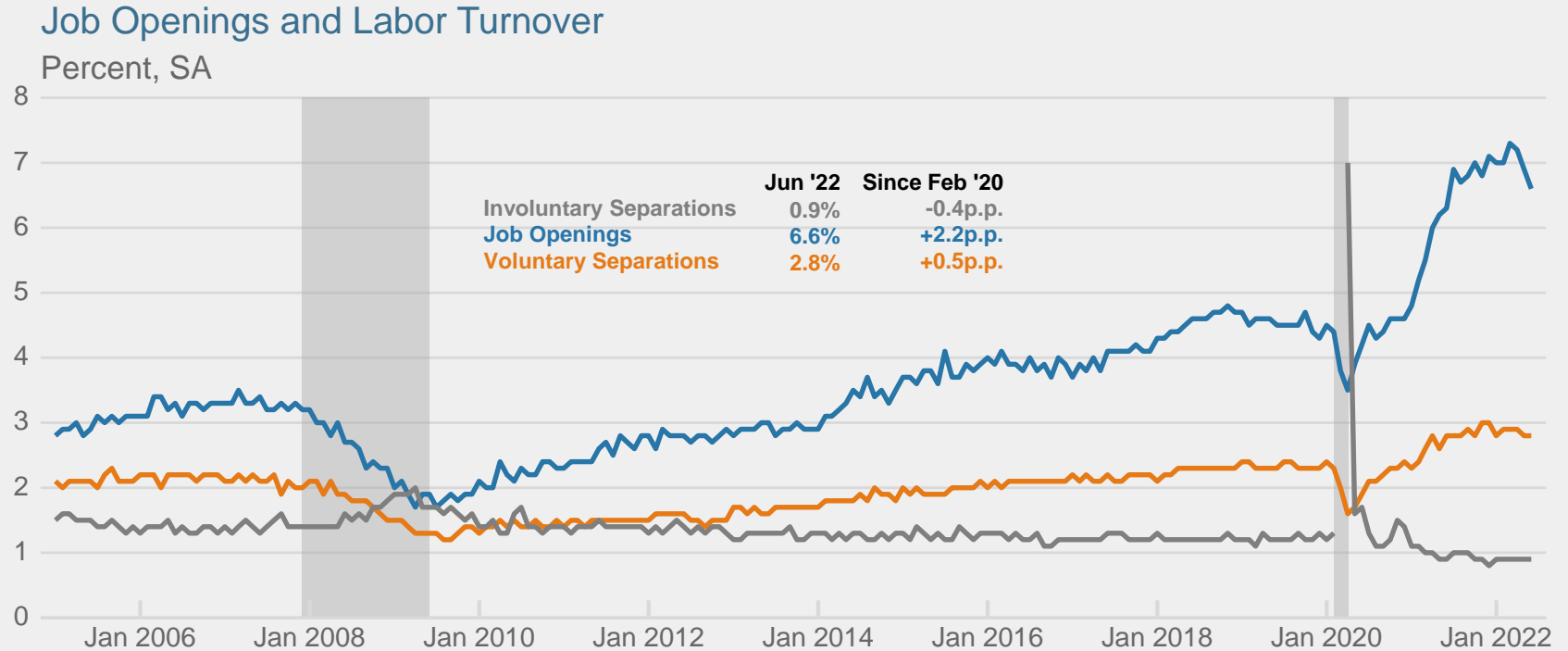


Source: Bureau of Labor Statistics via Haver Analytics

Note: Size of bubbles reflects relative weight in the industrial production index.

Last observation: June 2022

Labor availability continues to be a problem

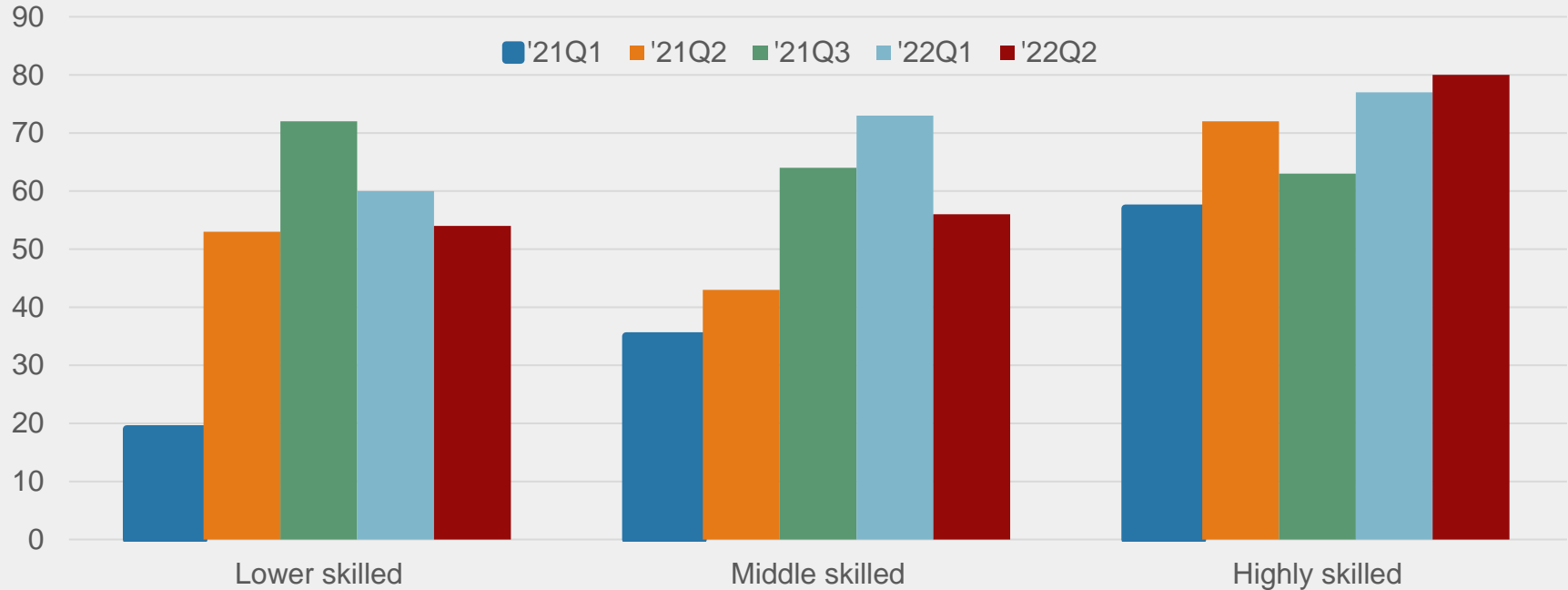


Source: Bureau of Labor Statistics via Haver Analytics
Last data point: June 2022.

It's become a bit easier to find lower and middle skilled workers

Over the last quarter, have you had difficulty hiring workers across skill levels?

Percent "yes"



Source: Pennsylvania Economy League of Greater Pittsburgh

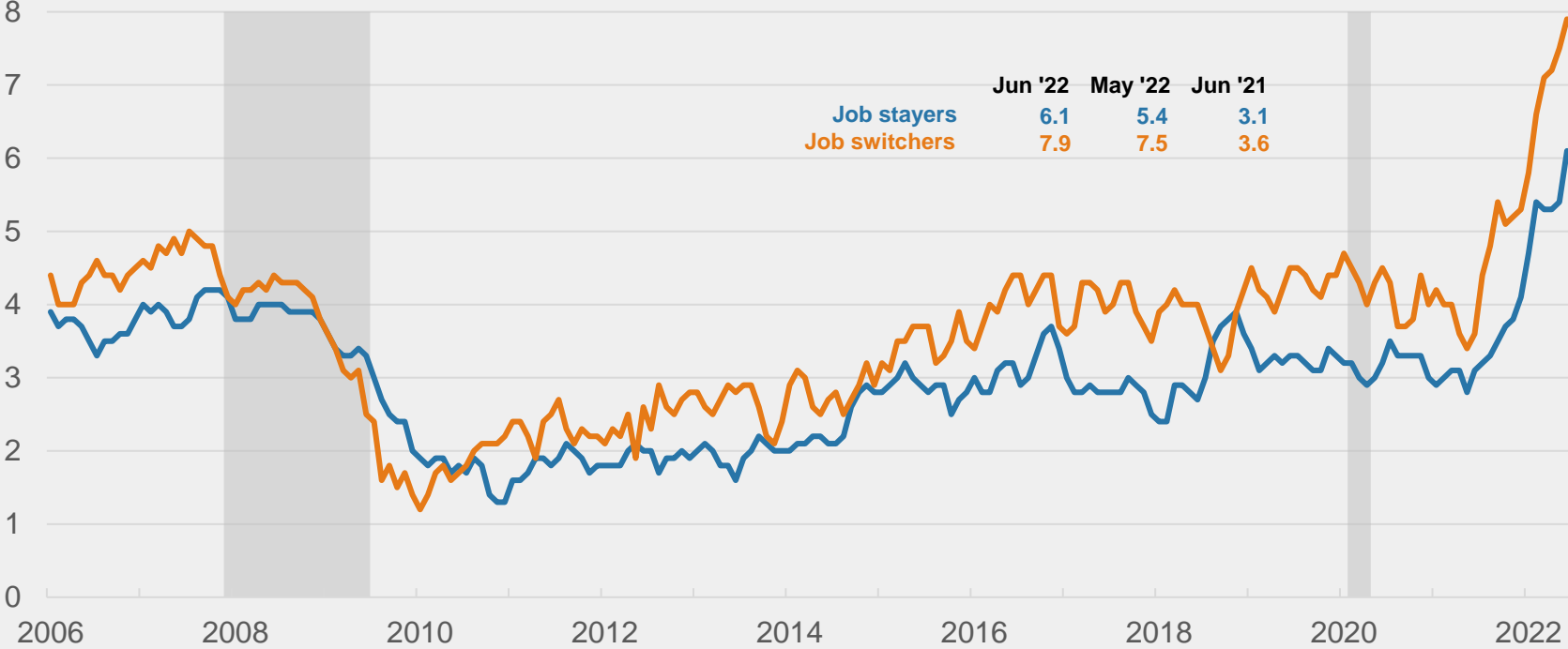
Notes: Most recent survey was conducted in July 2022; 40 companies participated in the current round.

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Wage growth is especially strong for job switchers

Wage Growth Tracker

Year-over-year percent change

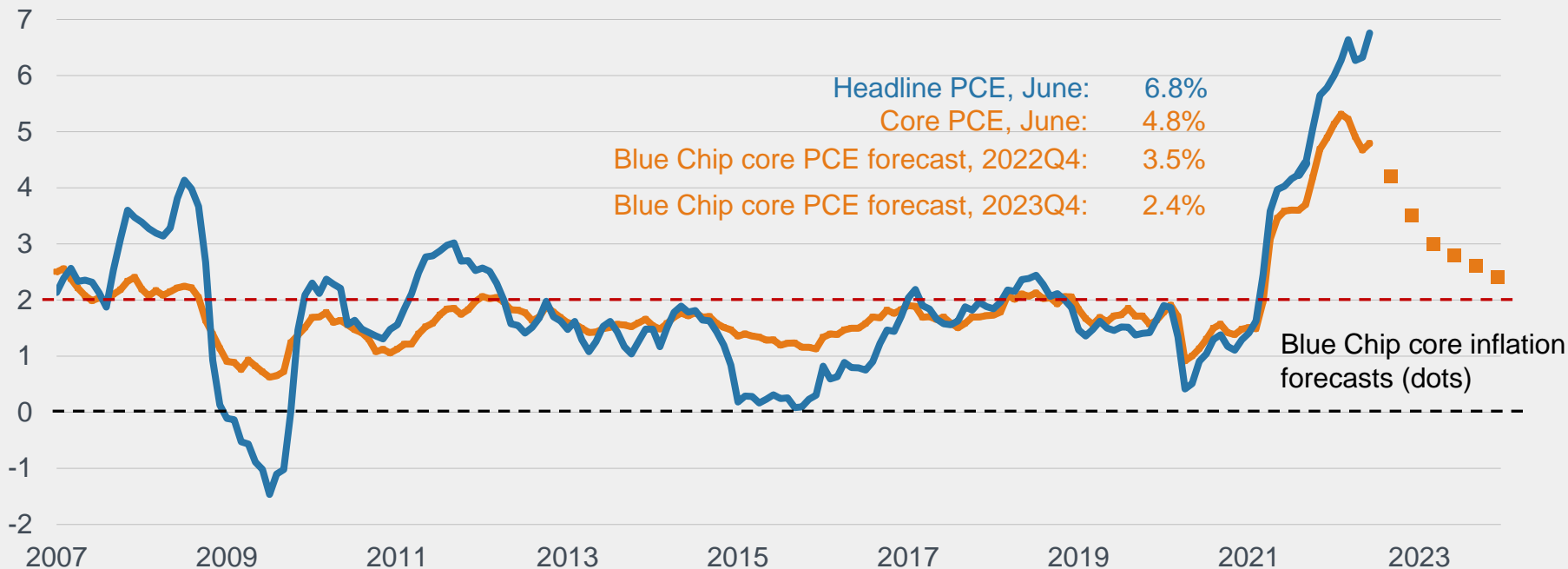


Sources: FRB Atlanta via Haver Analytics
Last observation: June 2022

Inflation remains elevated; forecasters expect some easing

PCE Inflation Measures

Year-over-year percent change



Sources: Bureau of Economic Analysis, FRB Cleveland, retrieved from Haver Analytics forecasts, Wolters Kluwer Legal and Regulatory Solutions US, Blue Chip Economic Indicators, July 2022

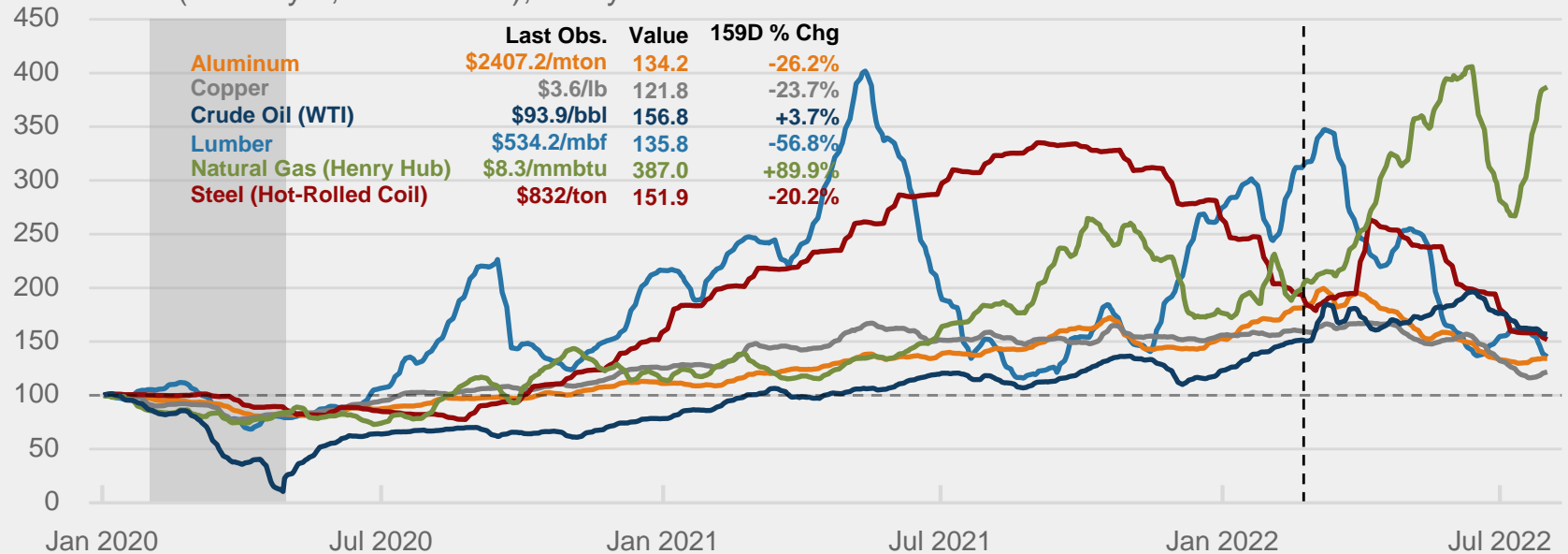
Last observation: Data through June 2022; forecasts through 2023:Q4

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Many commodity prices have come down

Commodity Futures

Index (January 2, 2020 = 100), 7-day MA



First expiring contracts.

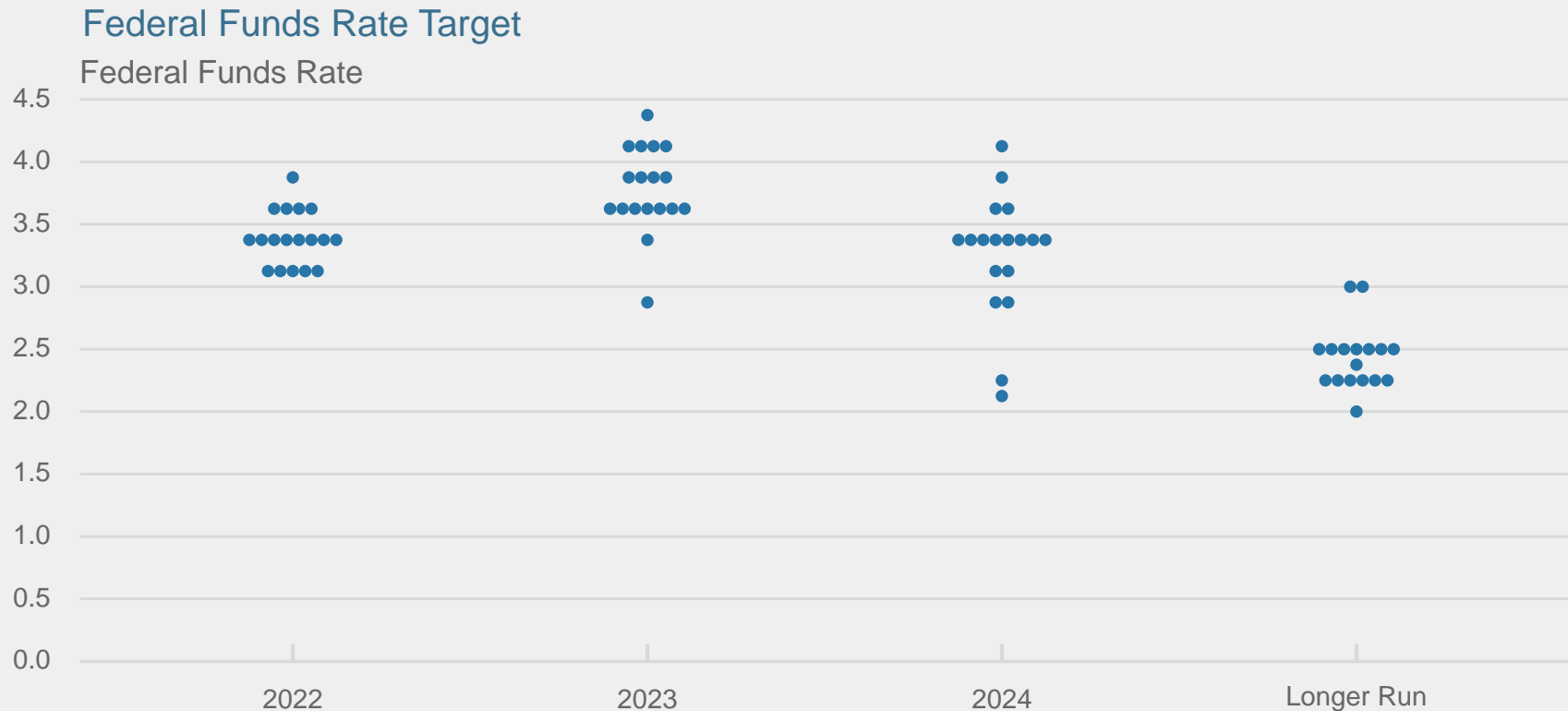
Source: Commodity Exchange, Chicago Mercantile Exchange, and New York Mercantile Exchange via Haver Analytics.

Note: Vertical dashed line indicates the beginning of the Russian invasion of Ukraine on February 23, 2022.

Legend shows settlement price for contracts fulfilled in Sep 2022 (Gas, Lumber, Oil) and Aug 2022 (Aluminum, Copper, Steel).

Last Data Point: August 01, 2022.

Rate hiking cycle could extend into 2023



Source: Federal Reserve Board via Haver Analytics
Projections from: June 2022.

Takeaways - National

- Economic activity softened across a broad range of sectors.
 - Saving grace: manufacturing and construction firms still have large backlogs.
- Contacts expect further weakness and are scaling back their investment plans.
- Labor market conditions remain tight, and employment continues to increase.
- Inflation measures continue to increase. There are tentative signs of some easing pressures, although it will take time for inflation to moderate meaningfully.

Takeaways - Regional

- The regional story is generally consistent with the national story.
 - Saving graces:
 - Local firms appear to be maintaining their investment plans.
 - It has become somewhat easier to hire lower and middle skilled workers.
 - Pain point: Highly skilled workers have become more difficult to find.

Additional Resources

- Center for Inflation Research - [Center for Inflation Research \(clevelandfed.org\)](https://www.clevelandfed.org/research-and-data/cir)
- Fourth District Beige Book - [Fourth District Beige Book \(clevelandfed.org\)](https://www.clevelandfed.org/publications/beige-book)

QUESTIONS

Add yours to the Q&A function in Zoom.

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