

Economic Outlook

Heart of America Tax Institute
November 4, 2022

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Vice President and Economist

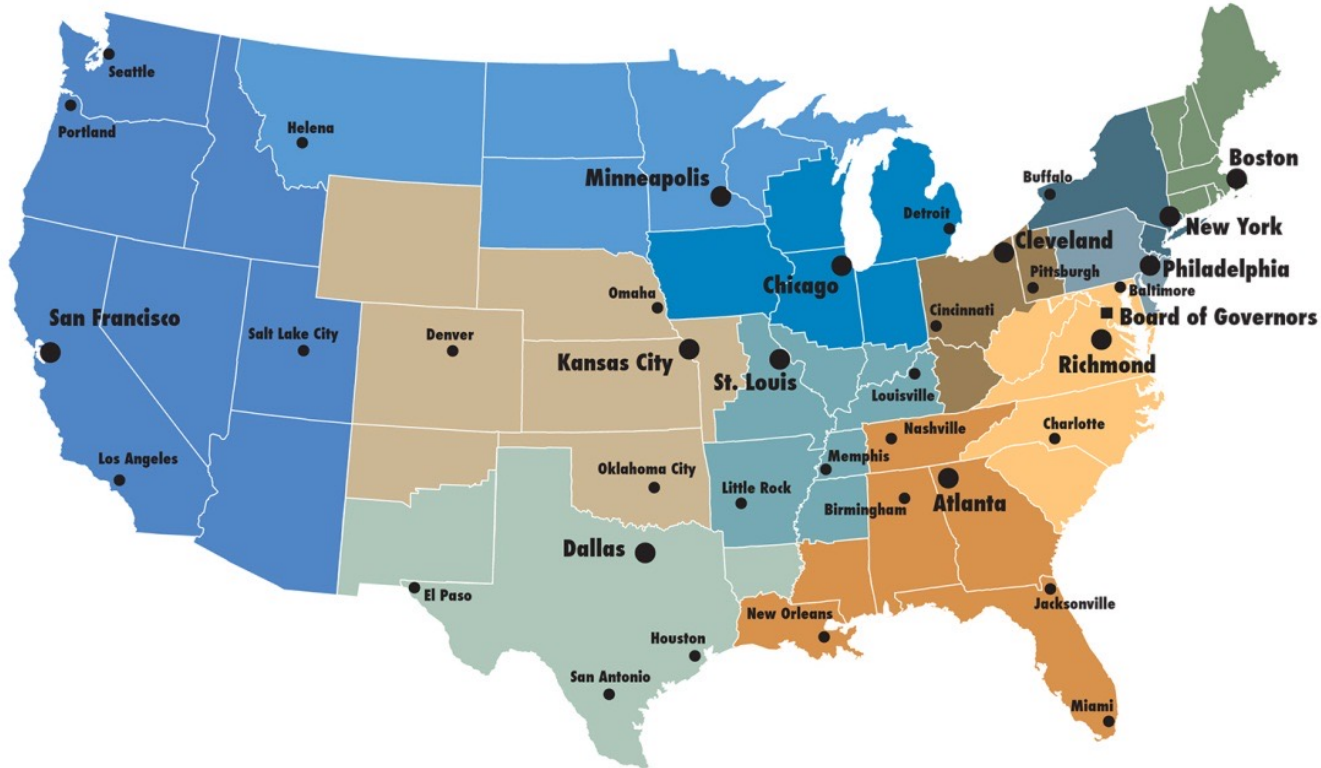


Outlook themes

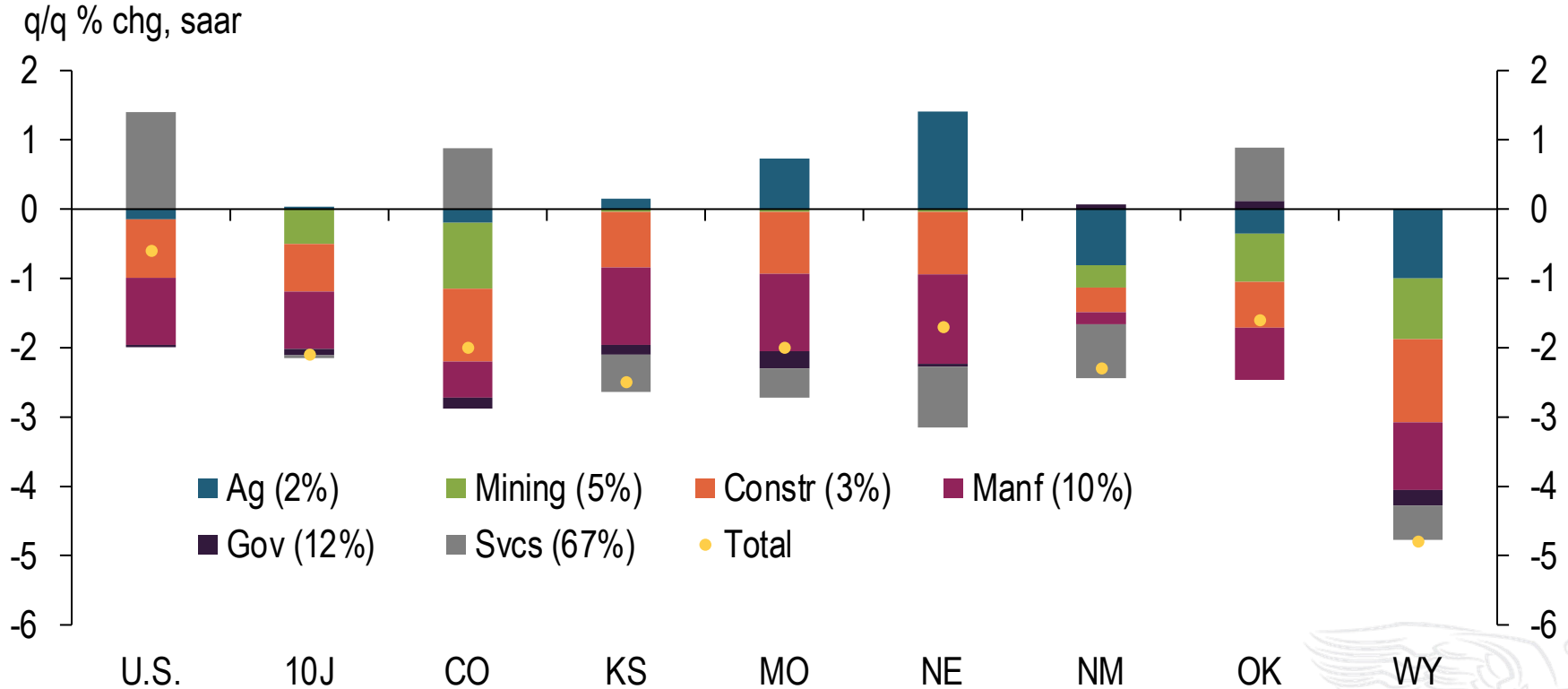
- Inflation remains stubbornly high and broad based.
- Labor markets are very tight, which has boosted wage growth and supported consumer spending.
- However, labor productivity has declined substantially.
- Interest rate sensitive sectors are responding to Fed action against inflation.
- Long-term trends in supply may limit housing and rental price declines.



Federal Reserve Districts and Office Locations



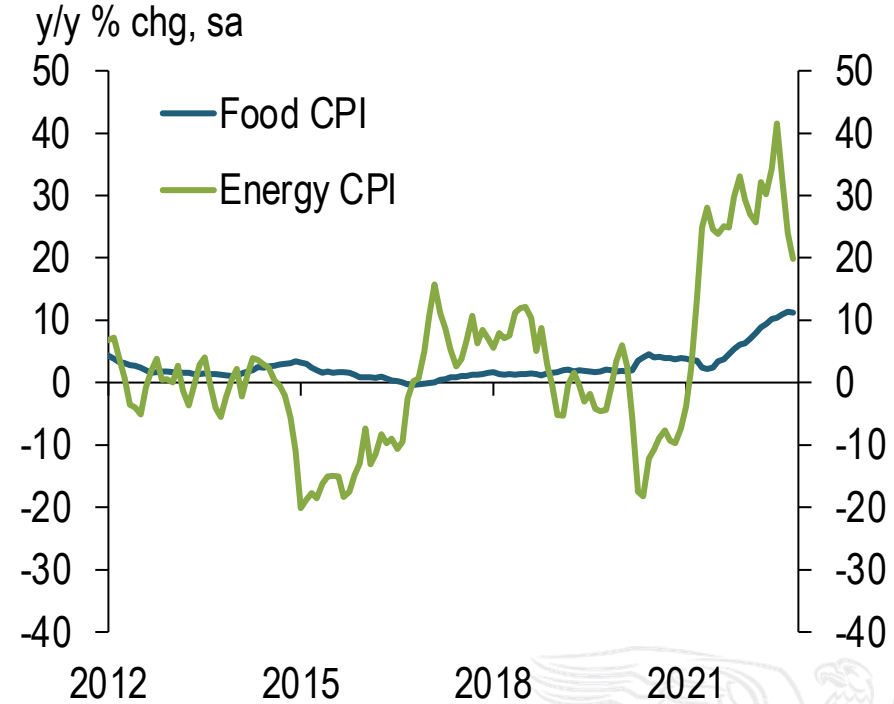
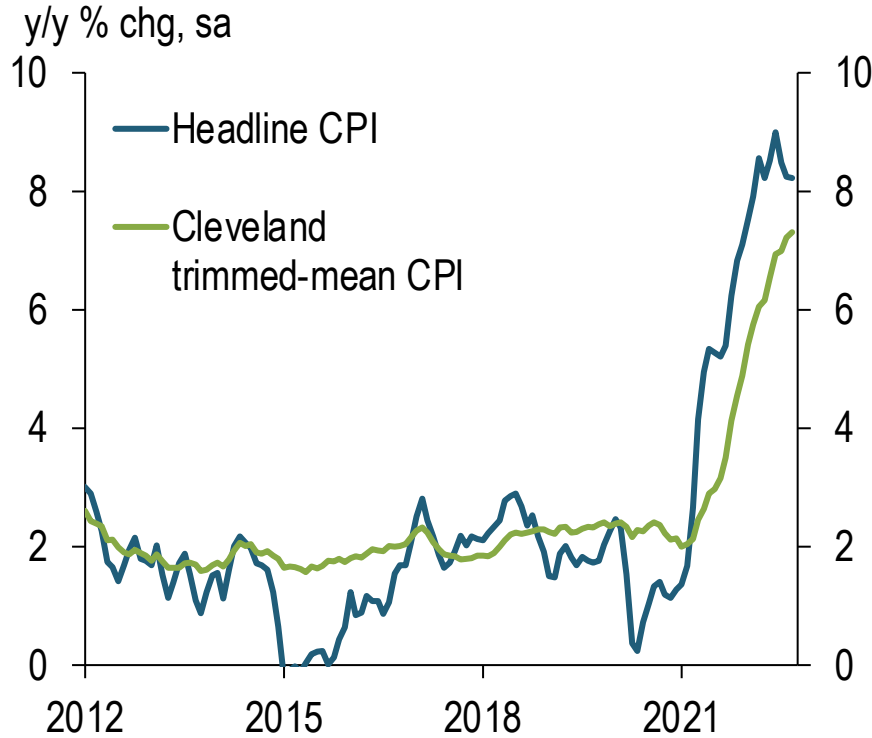
GDP declined in Q2 led by contractions in manufacturing and construction.



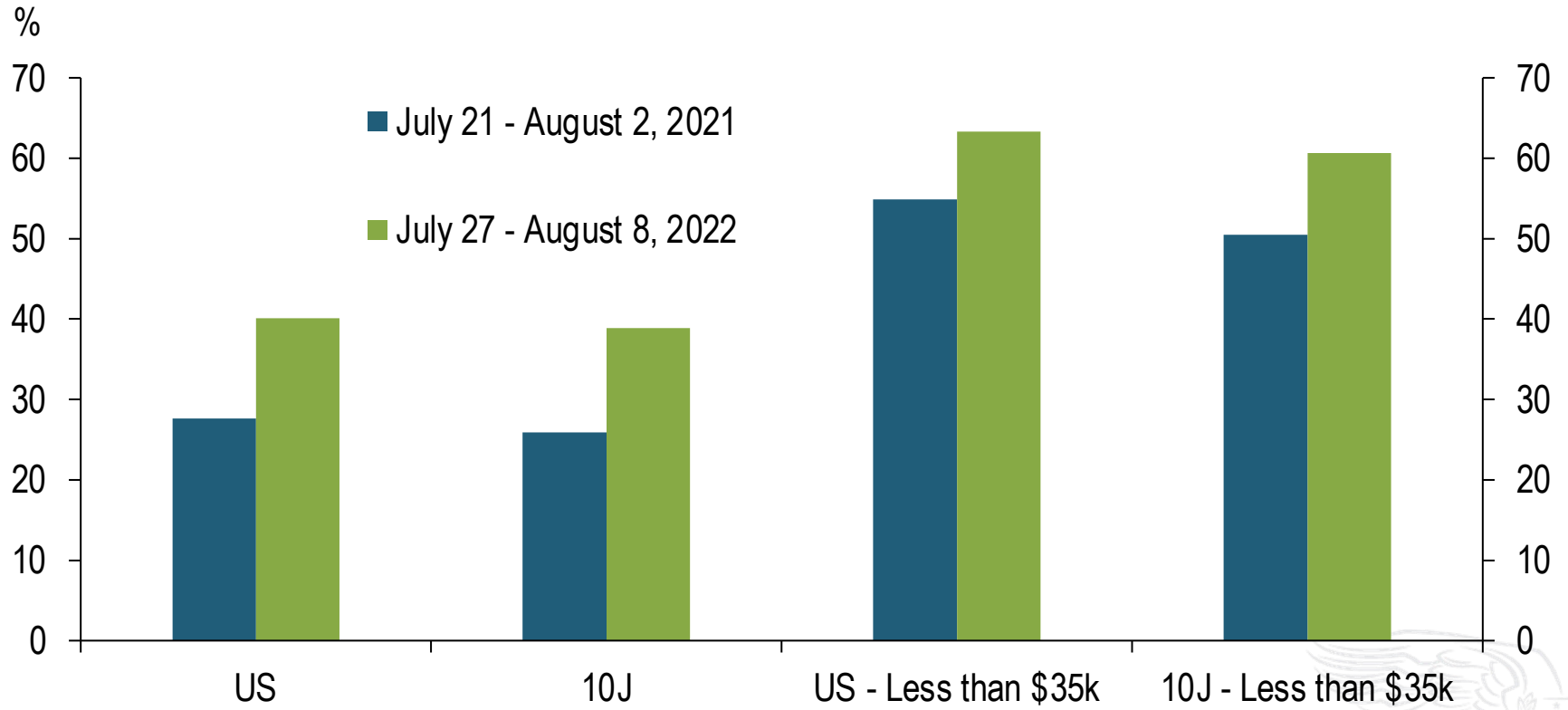
Note: Industry's share of overall District GDP is in parentheses

Sources: BEA, Staff

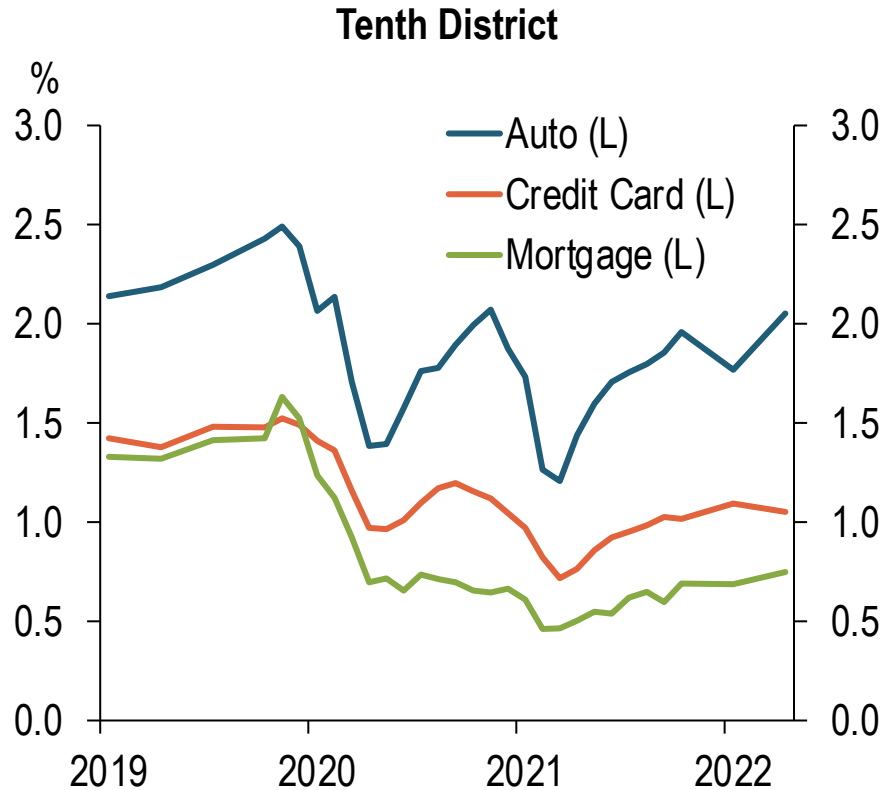
Inflation remains elevated and broad-based.



More households report difficulty paying for usual household expenses.



Delinquency rates on consumer debt are near pre-pandemic levels.

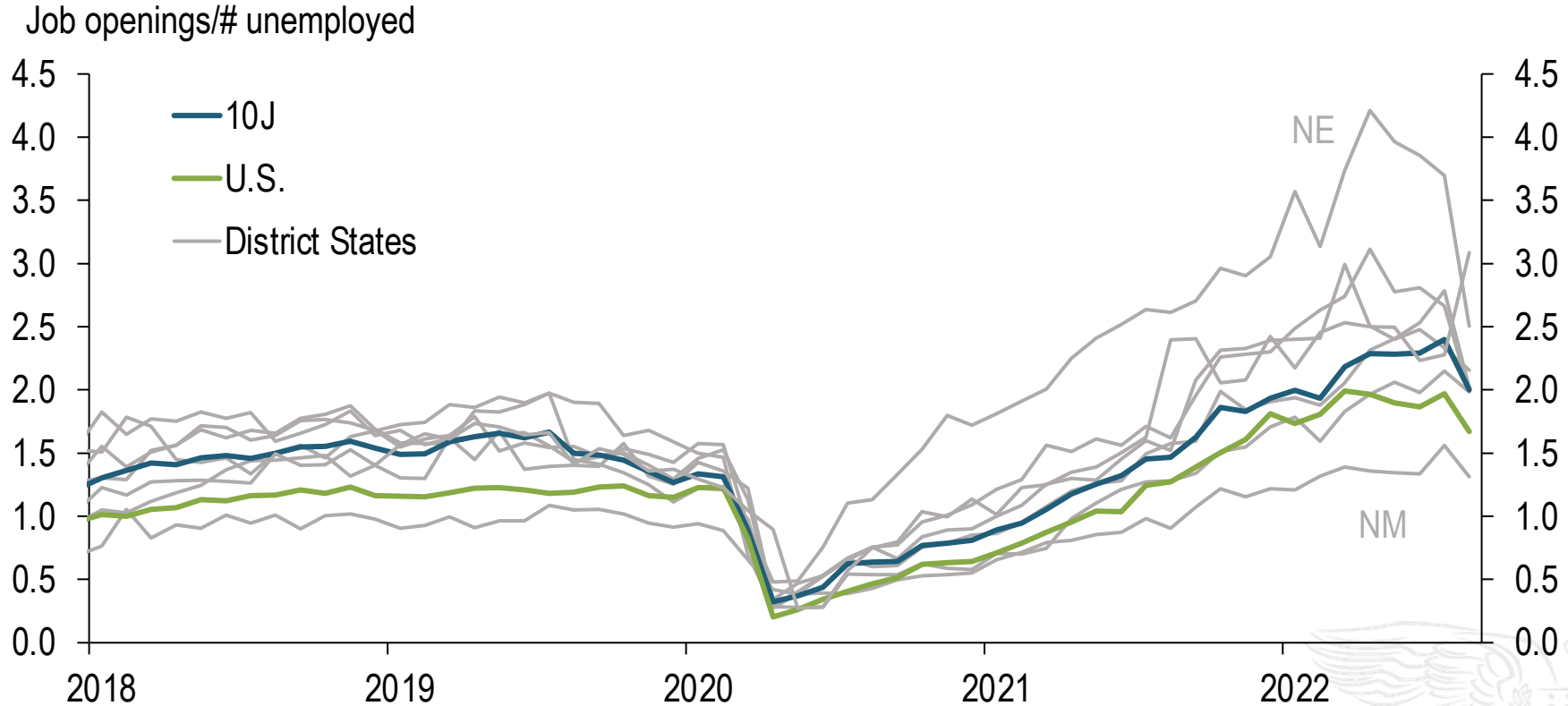


Subprime

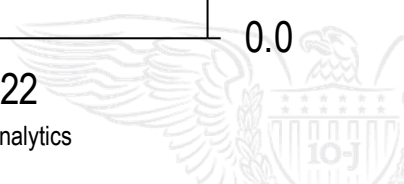
	Q1-20	Q2-22
Auto	10.2%	9.8%
Credit Card	8.5%	6.9%
Mortgage	20.9%	13.7%



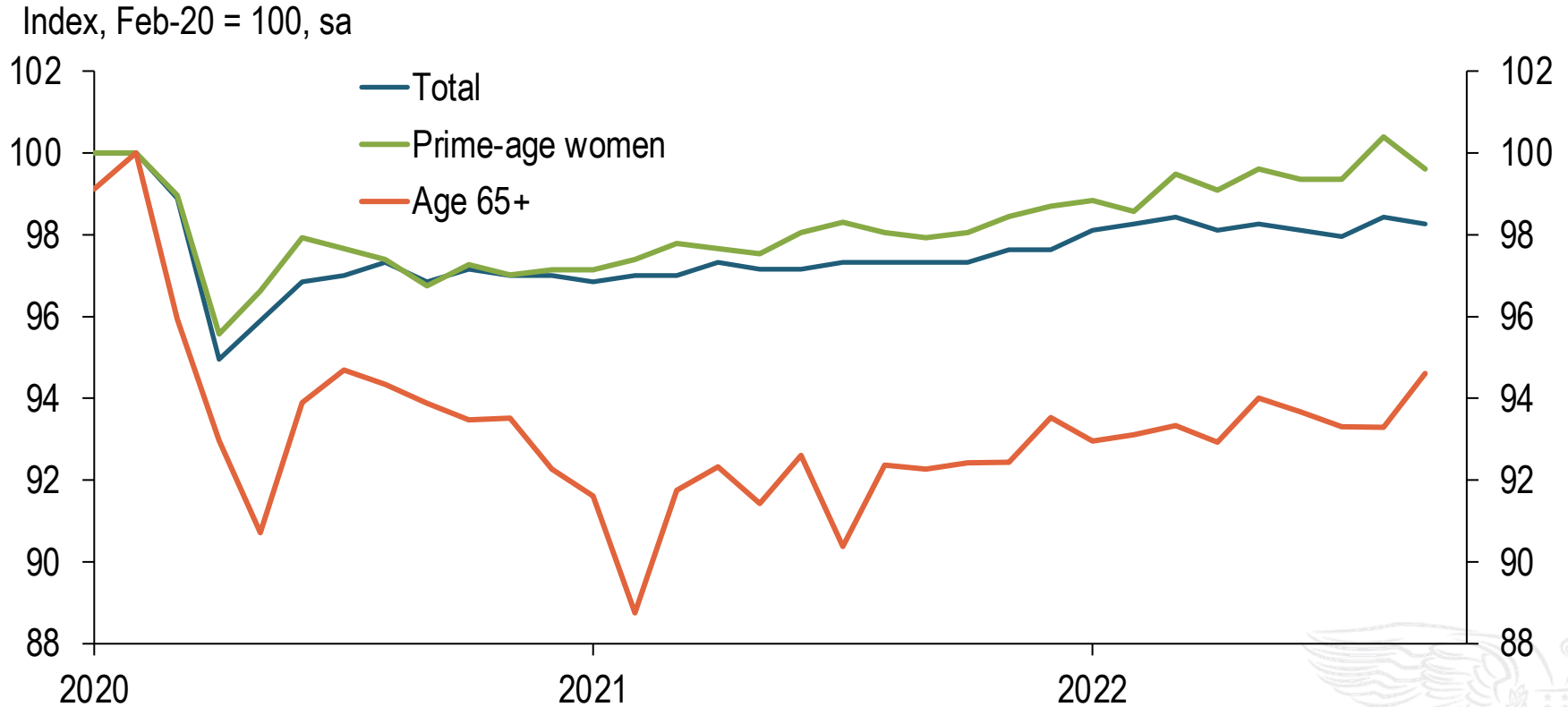
There are nearly twice as many job openings as unemployed workers.



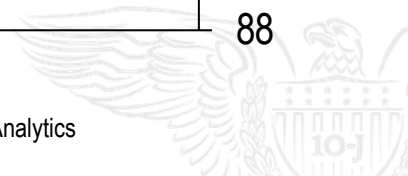
Sources: BLS, Haver Analytics



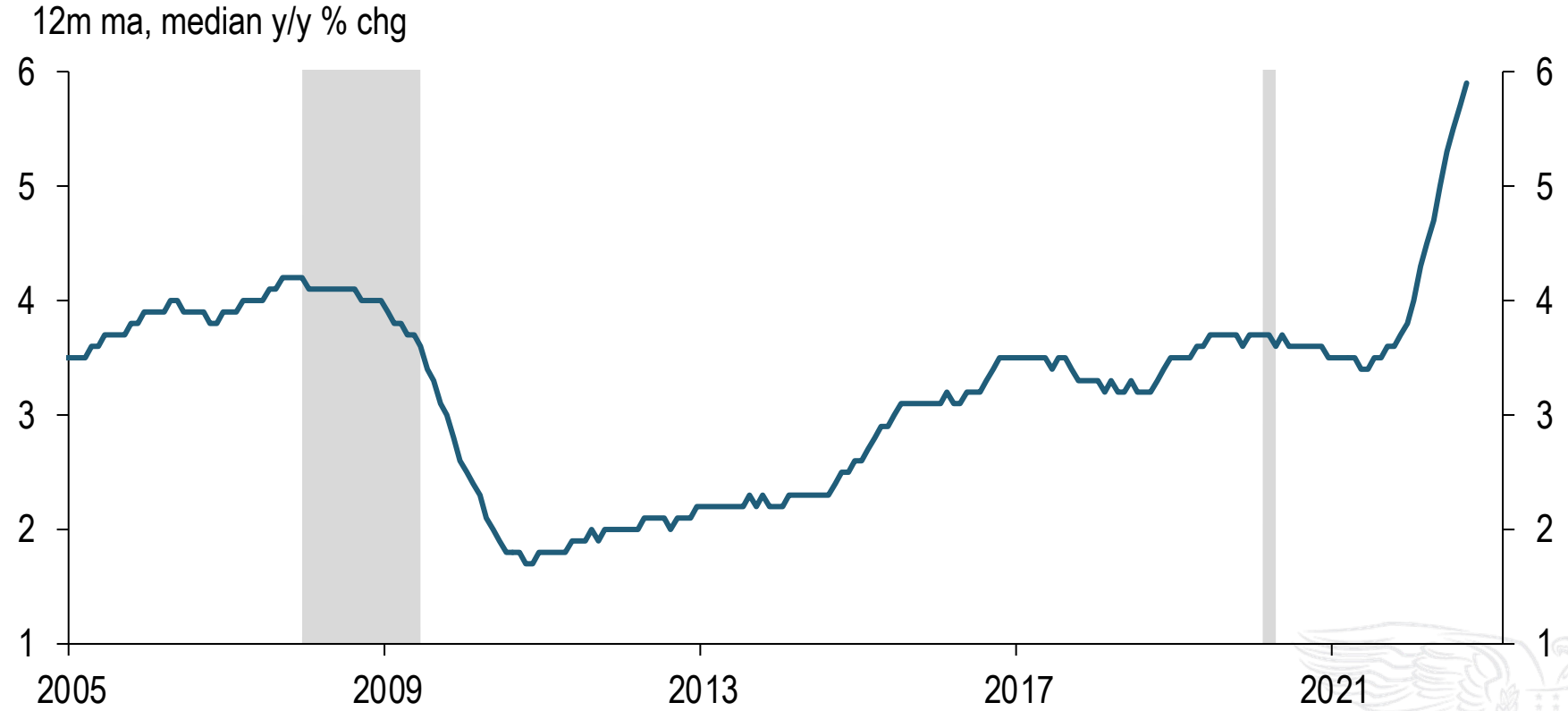
Labor force participation has not fully recovered.



Sources: BLS, Haver Analytics



The imbalance in the labor market has caused faster wage growth.



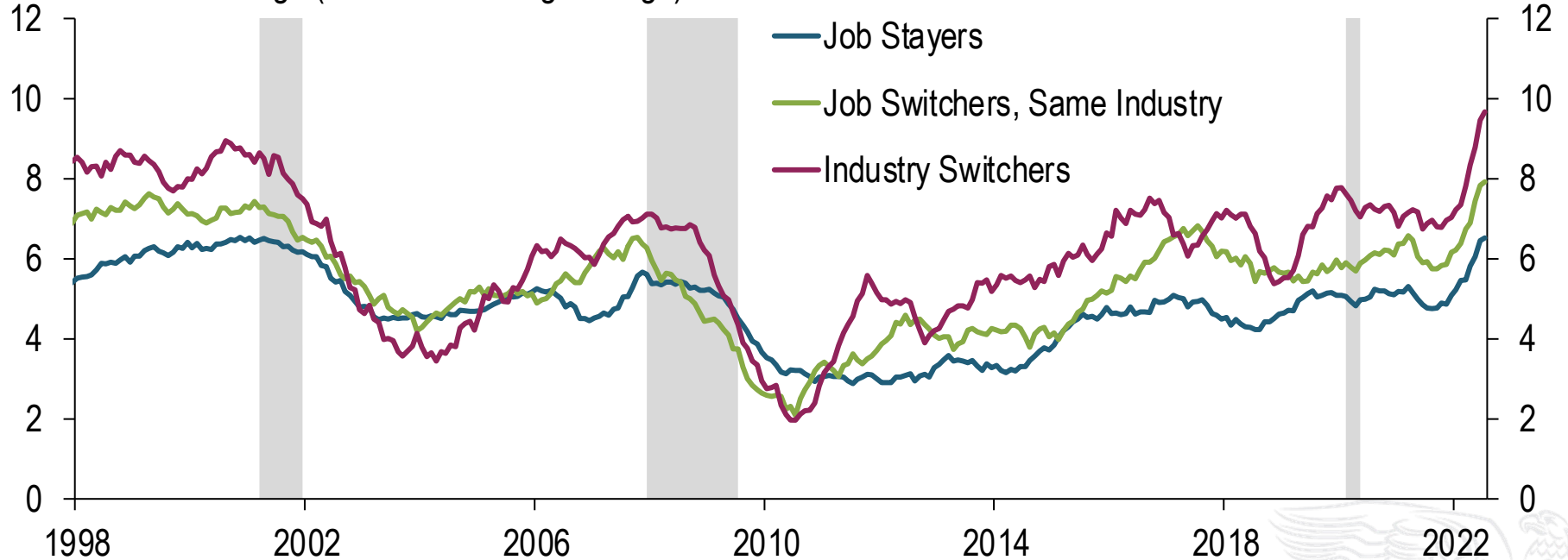
Sources: FRB Atlanta, Haver Analytics



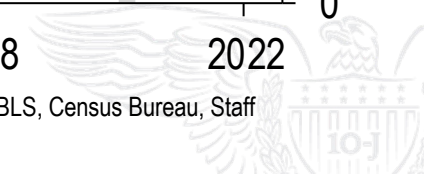
Wage growth has accelerated, particularly among industry switchers.

Monthly Mean Wage Growth by Job Mobility

Year/Year % Change (12-month moving average)

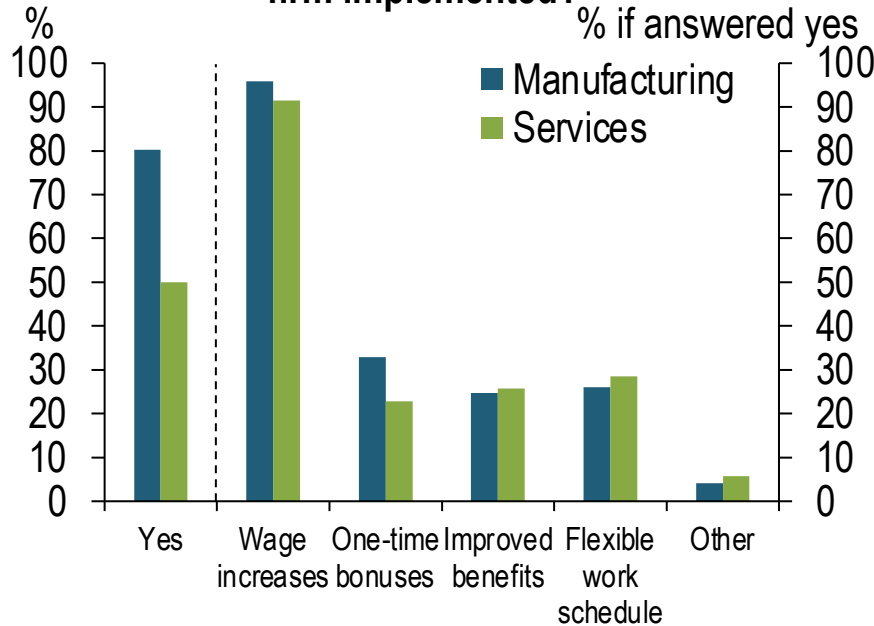


Sources: FRB Atlanta, BLS, Census Bureau, Staff

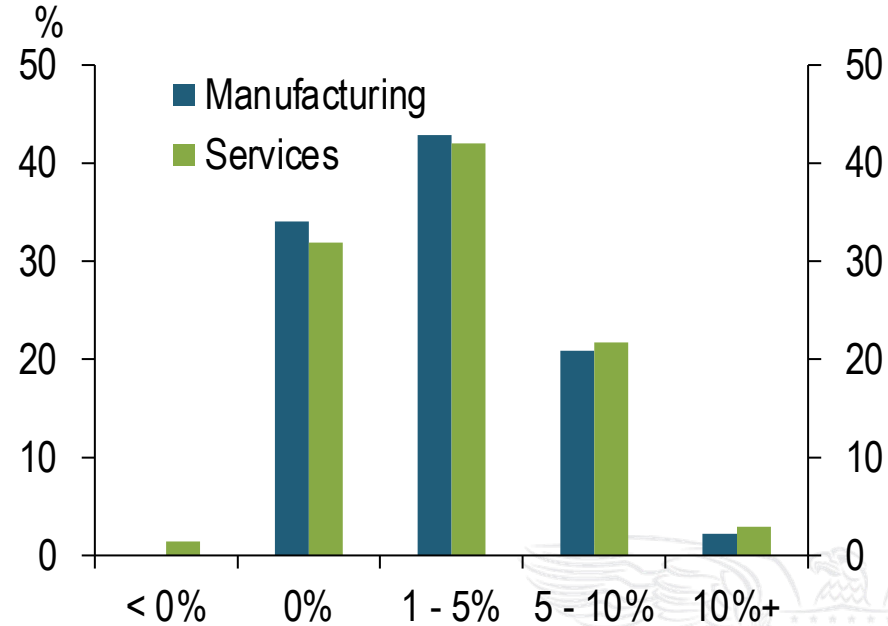


Many contacts report adjusting compensation due to inflation.

Did you adjust employees' compensation due to inflation during this year? If yes, what has your firm implemented?

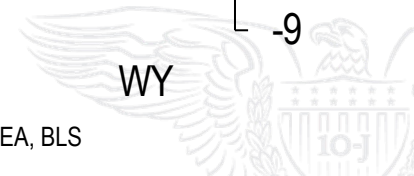
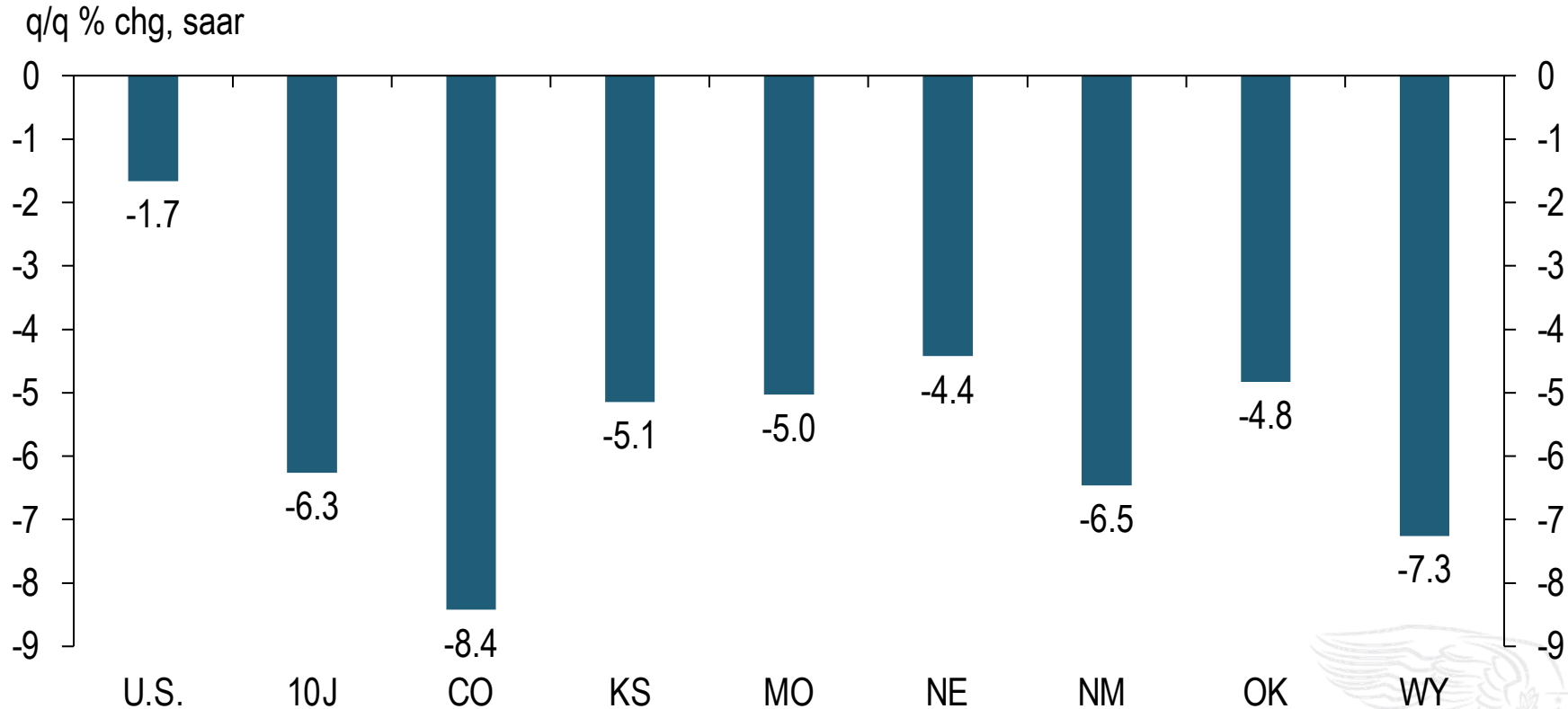


On average, how much do you intend to change employees' wages for the rest of 2022?



Sources: FRBKC Surveys

Higher wages with less output has led to lower labor productivity.

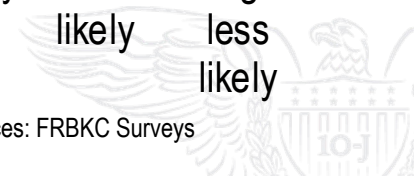
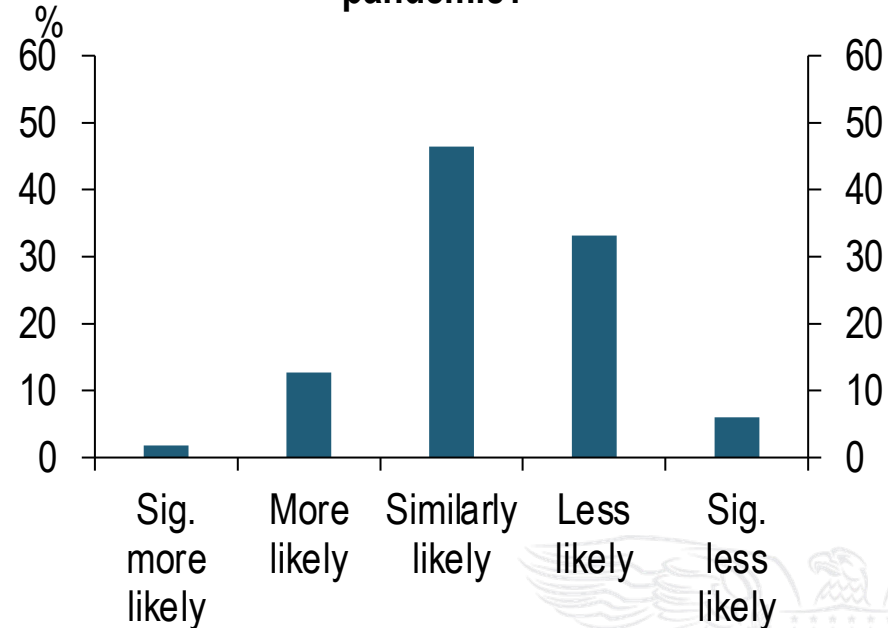


Skill miss-match and quiet quitting may help explain less productive workers.

How competent/skilled is your company's workforce compared to pre-pandemic (January 2020) levels?



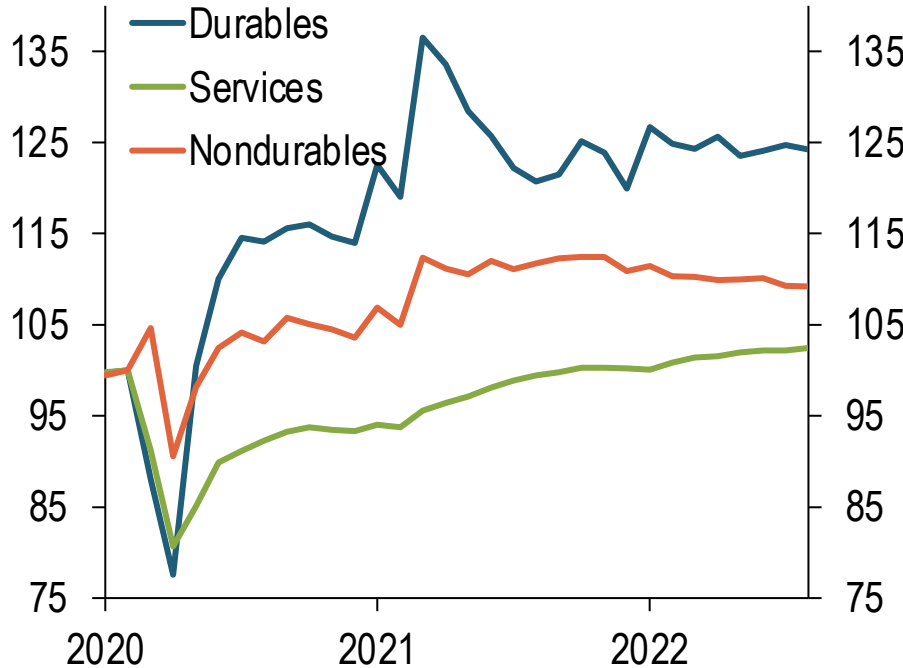
How likely are your employees to go above and beyond their job expectations relative to pre-pandemic?



Higher wages have helped sustain consumer spending.

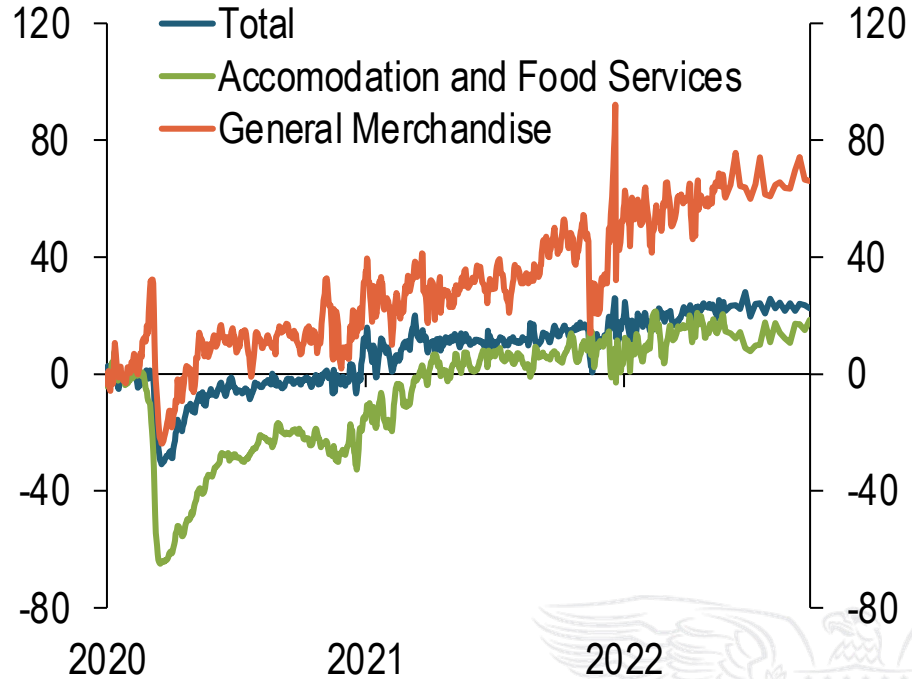
United States

Index, Feb-20 = 100, sa



Tenth District

% chg

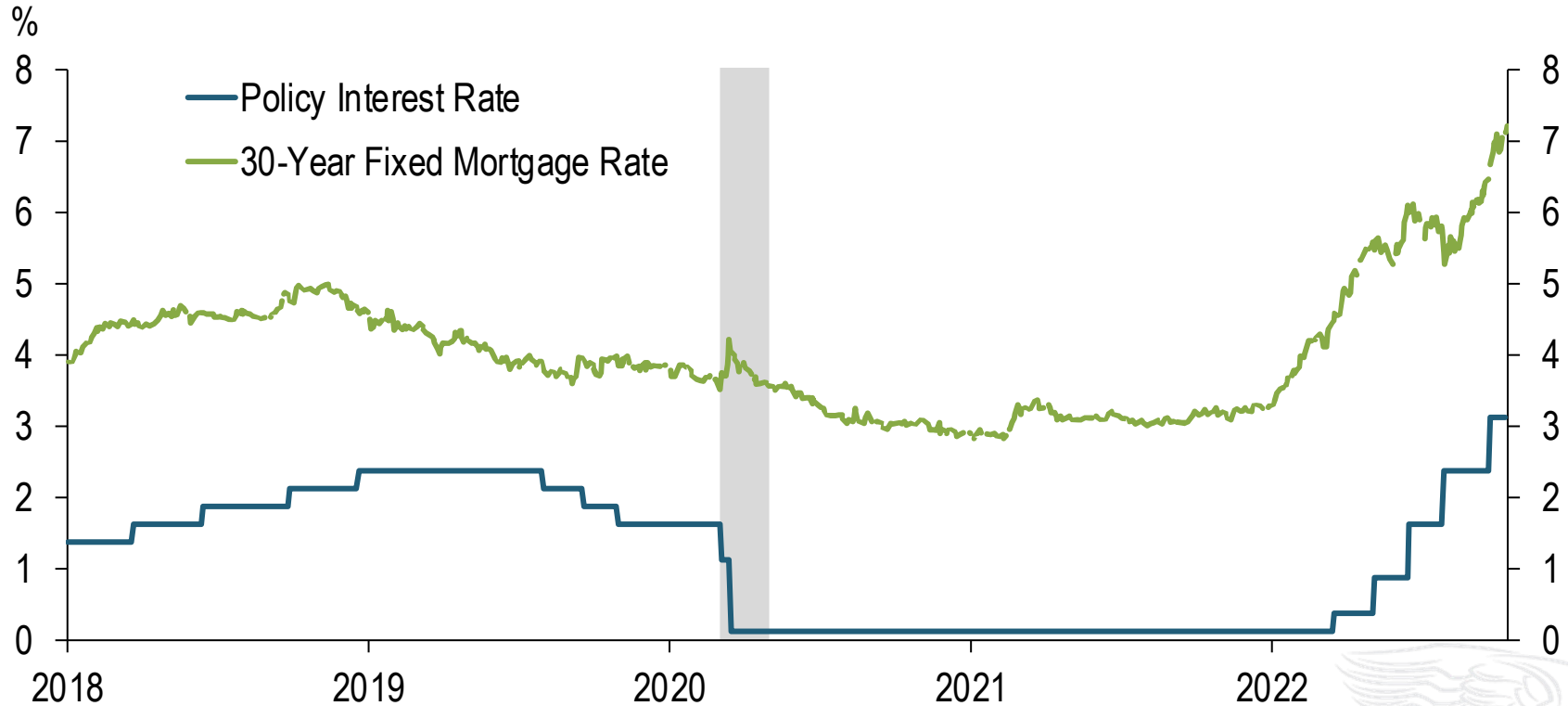


Note: Change is relative to January 4-31, 2020.

Sources: BEA, Affinity Solutions, Opportunity Insights, Haver Analytics



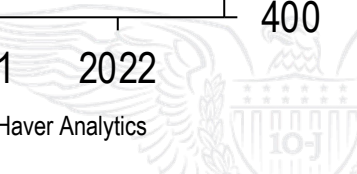
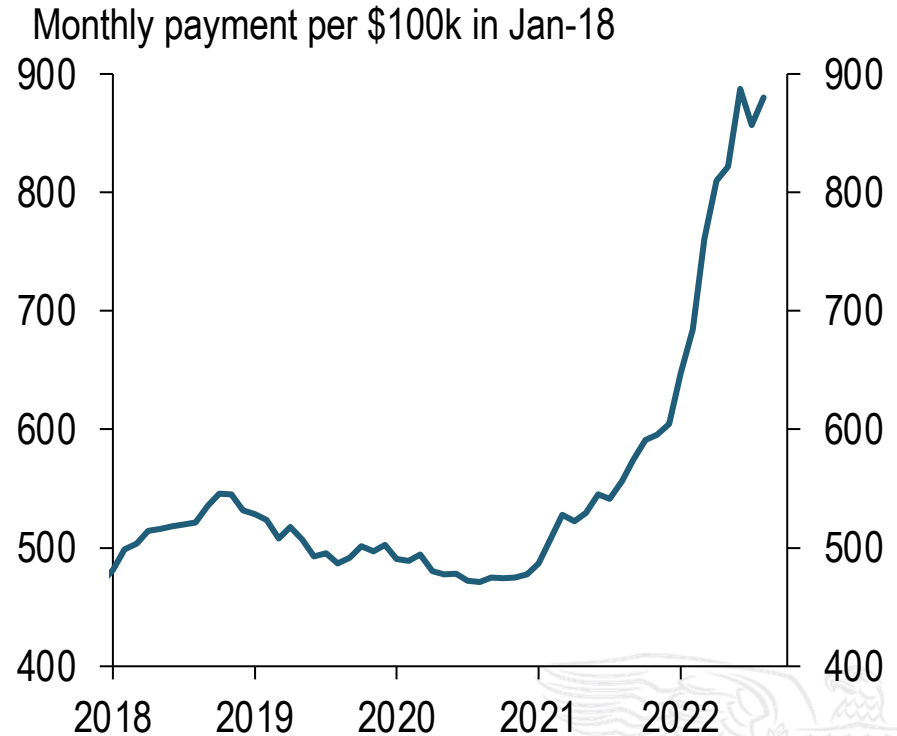
Interest rates have risen following FOMC action to slow inflation.



Rate hikes are tightening financial conditions and weighing on consumer expectations.

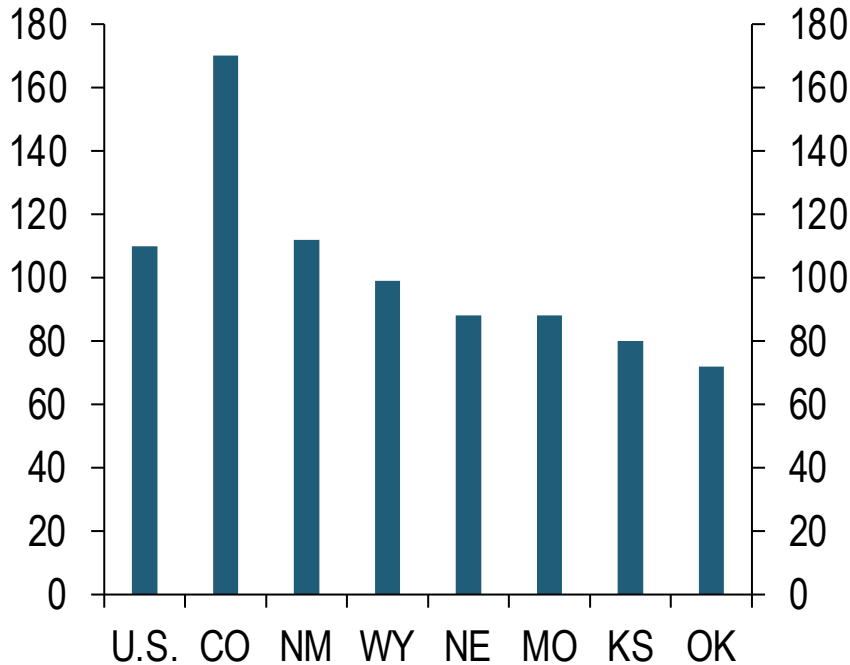


Consumer sentiment for buying a house has fallen sharply.

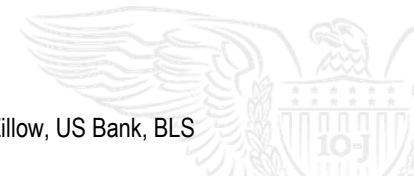


Nearly three weeks of wages are currently needed to pay mortgage.

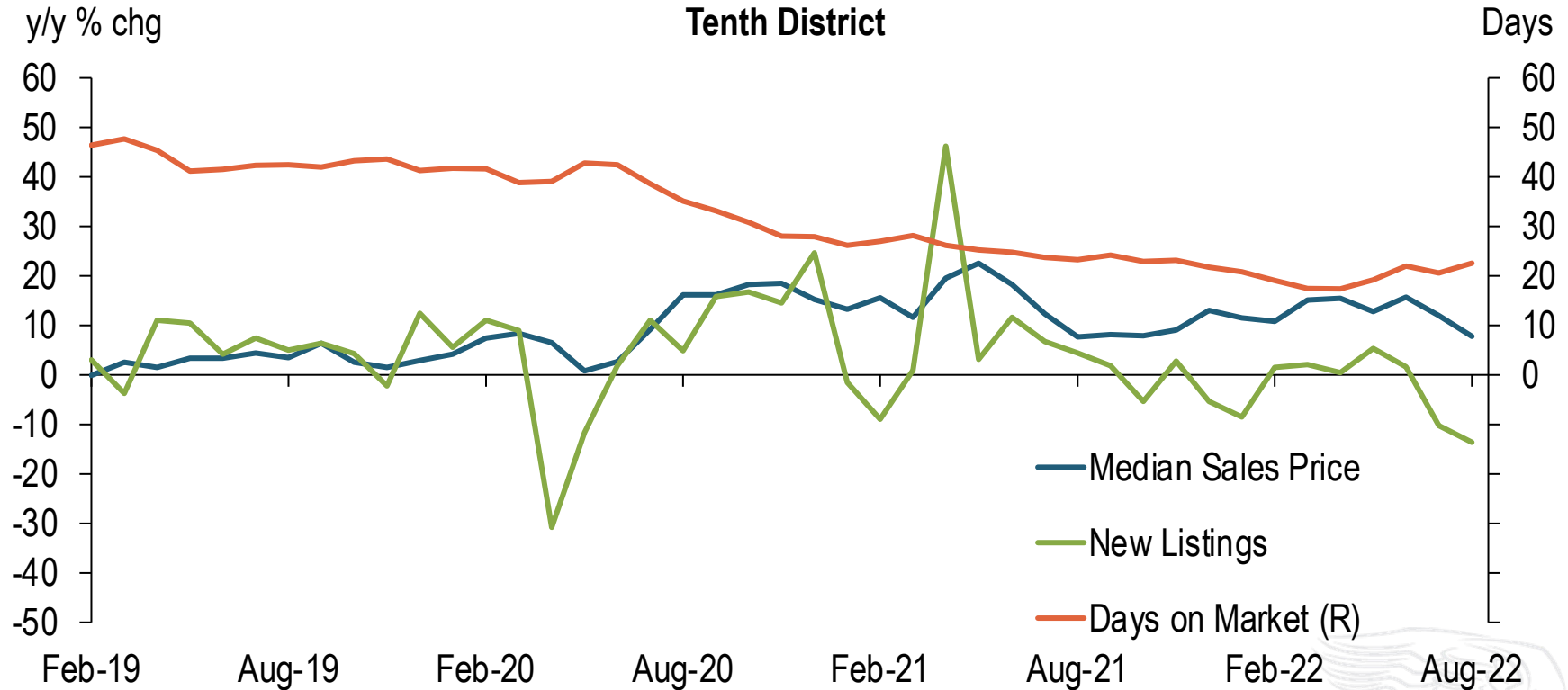
Hours needed to afford mortgage



	U.S.	10J
Median Hourly Wage (\$ per hour)	22	19
Median Home Value	355,852	295,000
Monthly Mortgage Payment	2,431	2,023
Hours Worked to Afford Mortgage	110	101

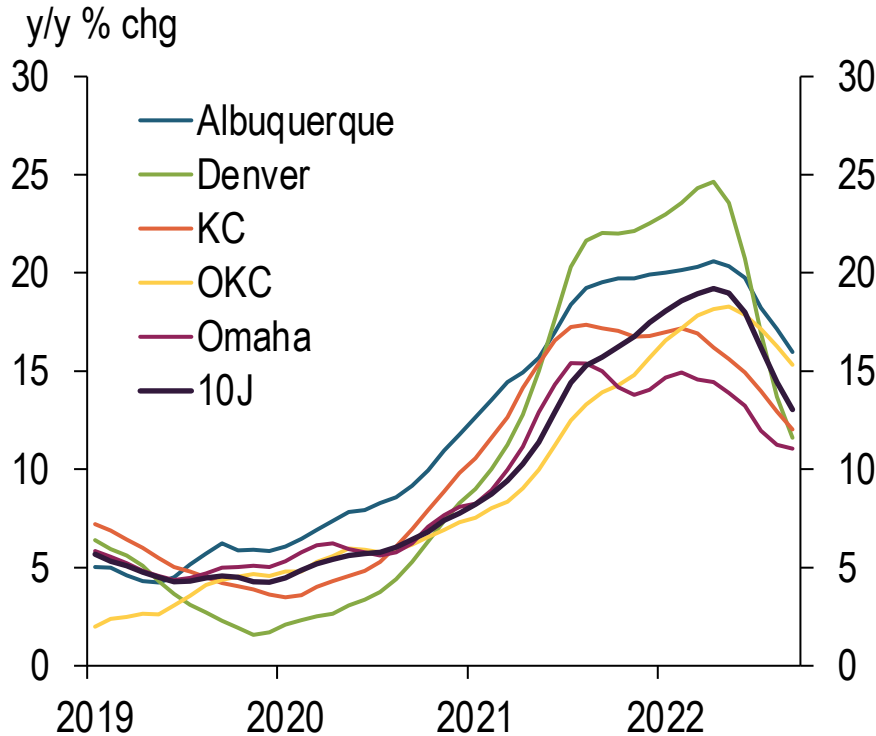


New housing listings are declining while days on market is rising.

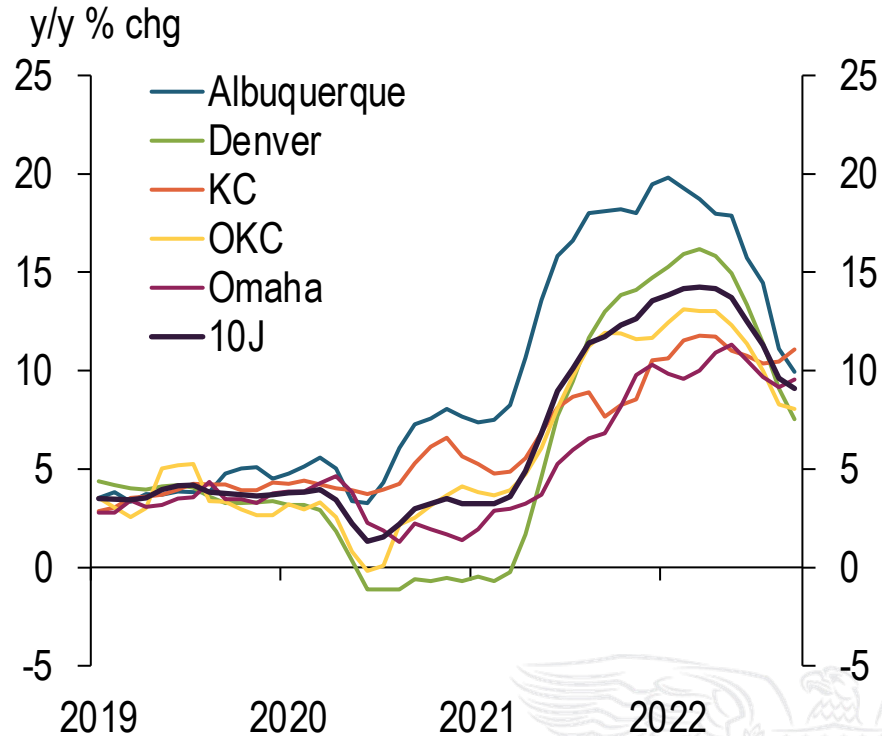


House price growth and rental rates have slowed but remain high.

Home Price Growth



Rental Price Growth



Home builder sentiment has also dropped, which may limit supply of new homes.



Sources: National Association of Home Builders, Haver Analytics



Construction activity has shifted toward multi-family housing.

