



The Economic Outlook: The Perspective from the Midwest

Consensus Revenue Estimating Conference

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The views expressed here do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Federal Reserve System.

The National Economic Picture and How it Maps into the Midwest

Plan for Presentation

Midwest Environment

- Midwest Census Region
- Great Lakes Region (BEA)
- Chicago Fed District States



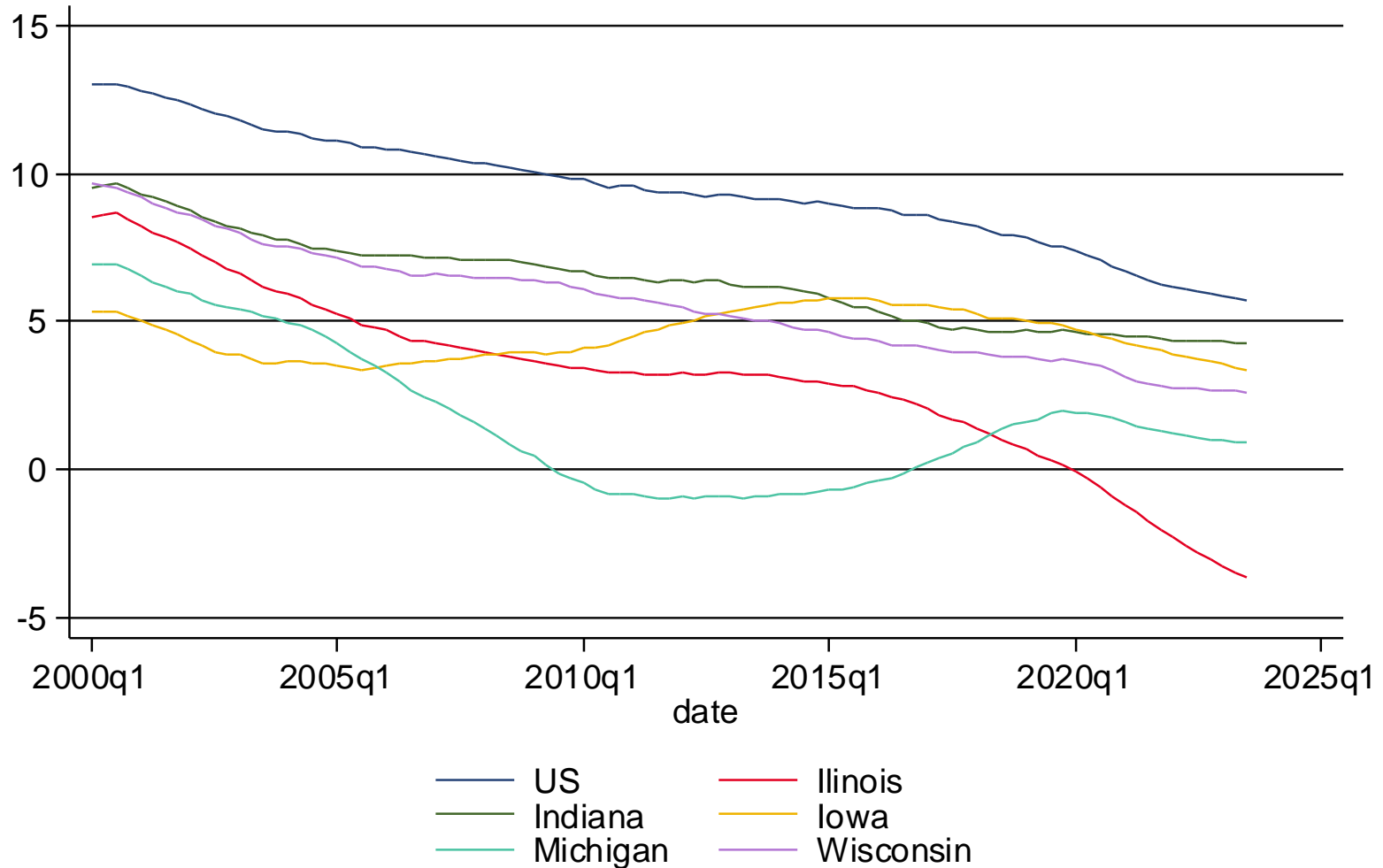
Overall Outlook with additional Midwest content

Risks to the forecast

- Overall and Midwest Specific Risks

Setting the Midwest Context: Population Growth is Slow

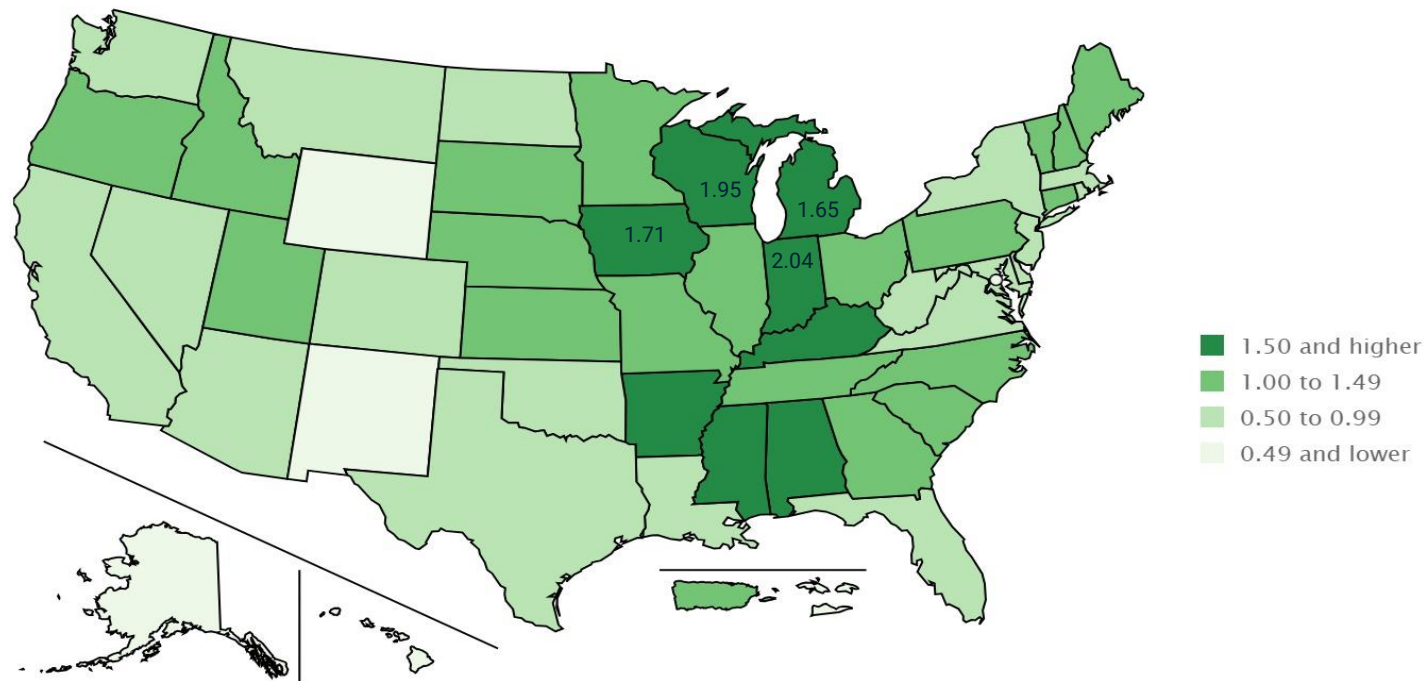
Ten Year Percent Change in Population



Source: Bureau of Economic Analysis/Haver Analytics; Created: 9 Jan 2024

Setting the Midwest Context: Industry Mix

- **Concentration of manufacturing employment (location quotient) by state, private industry, 2022**



Hover, tap on mobile devices, or use tab and arrow keys to see area data.

Source: U.S. Bureau of Labor Statistics

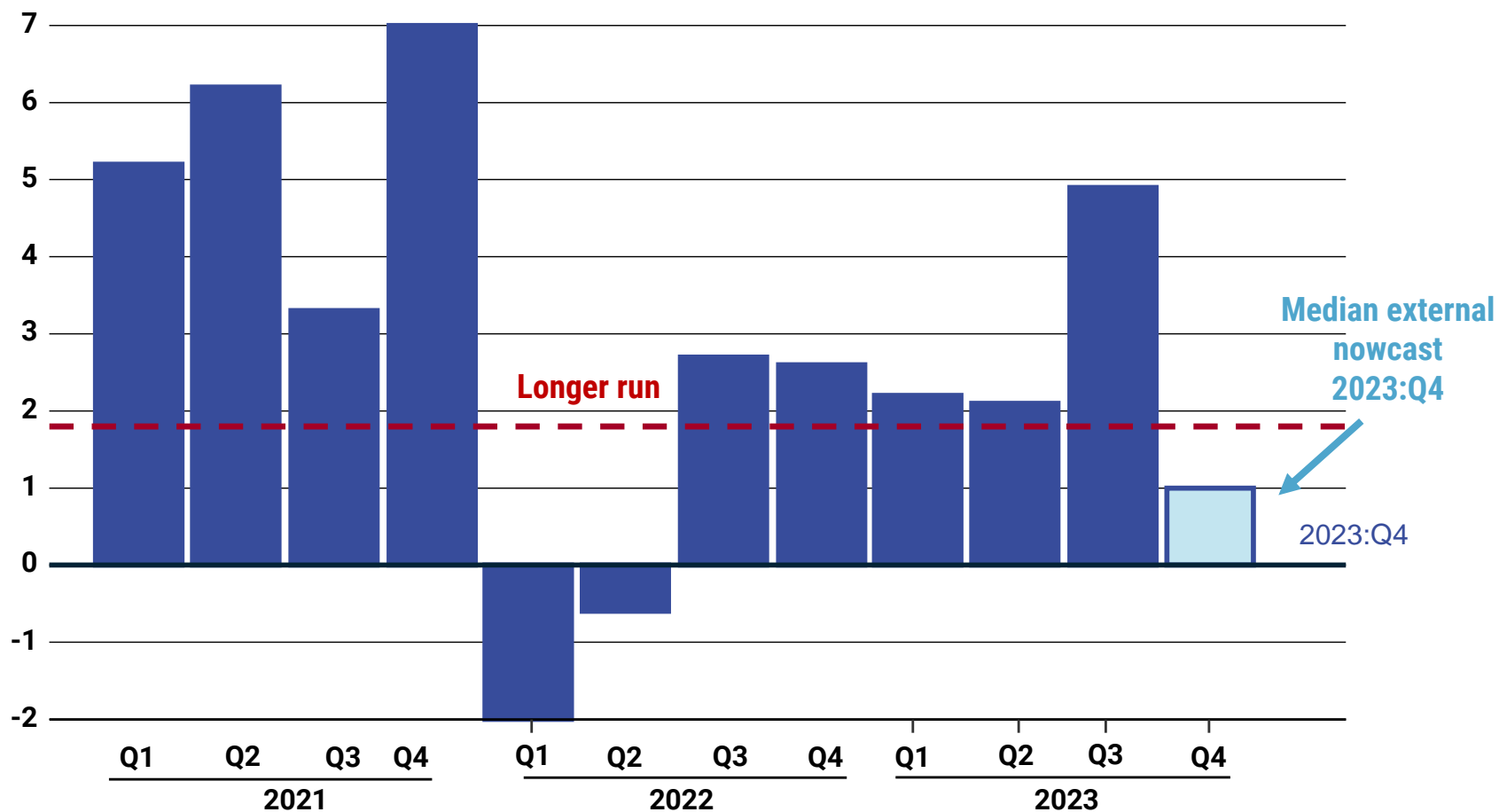


[A look at manufacturing jobs on National Manufacturing Day : The Economics Daily: U.S. Bureau of Labor Statistics \(bls.gov\)](#)

Growth Has Surprised to the Upside

Real GDP growth

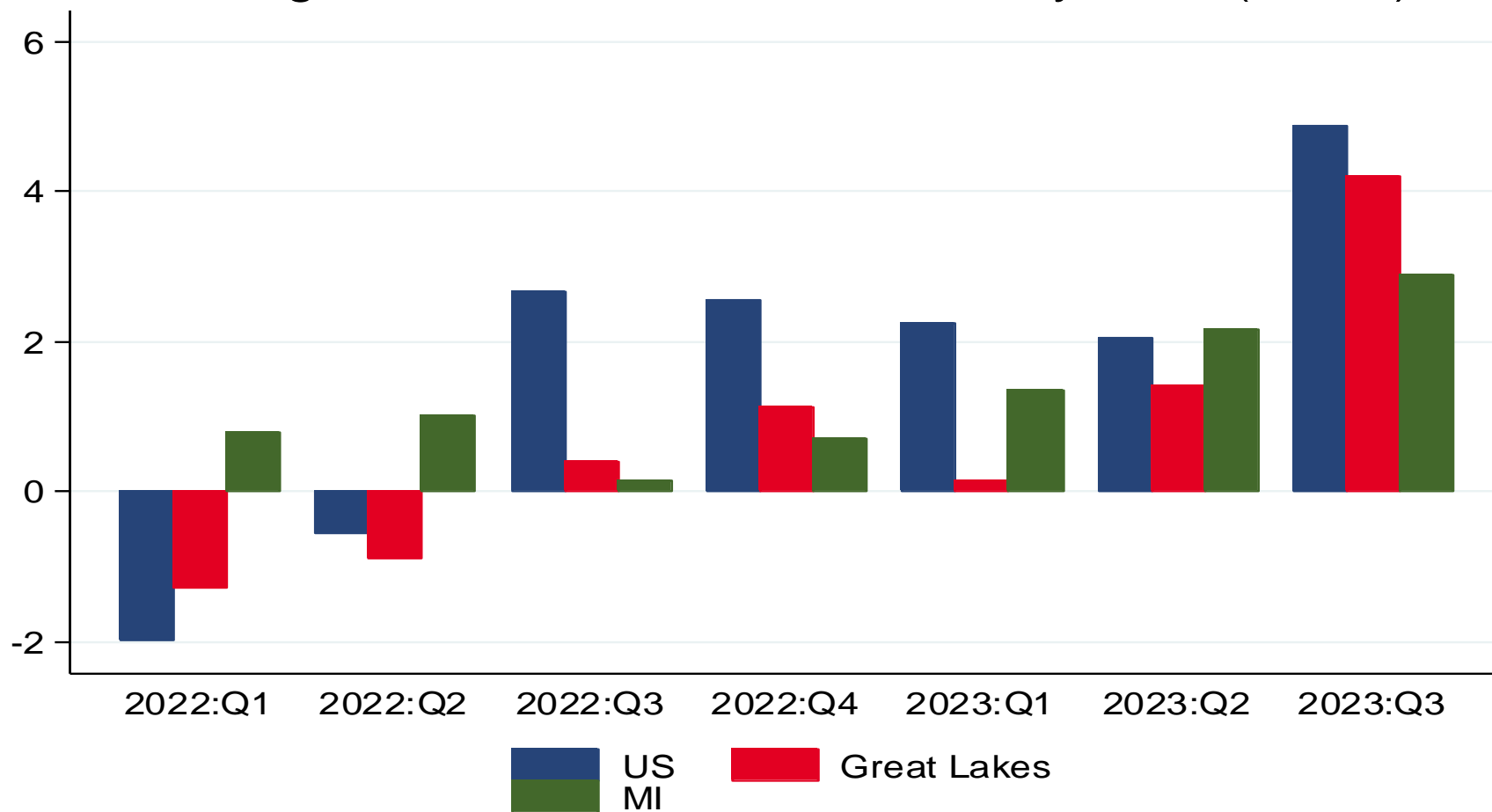
(quarterly, SAAR)



Source: BEA & Wolters Kluwer via Haver Analytics

Growth Mostly Weaker in Midwest

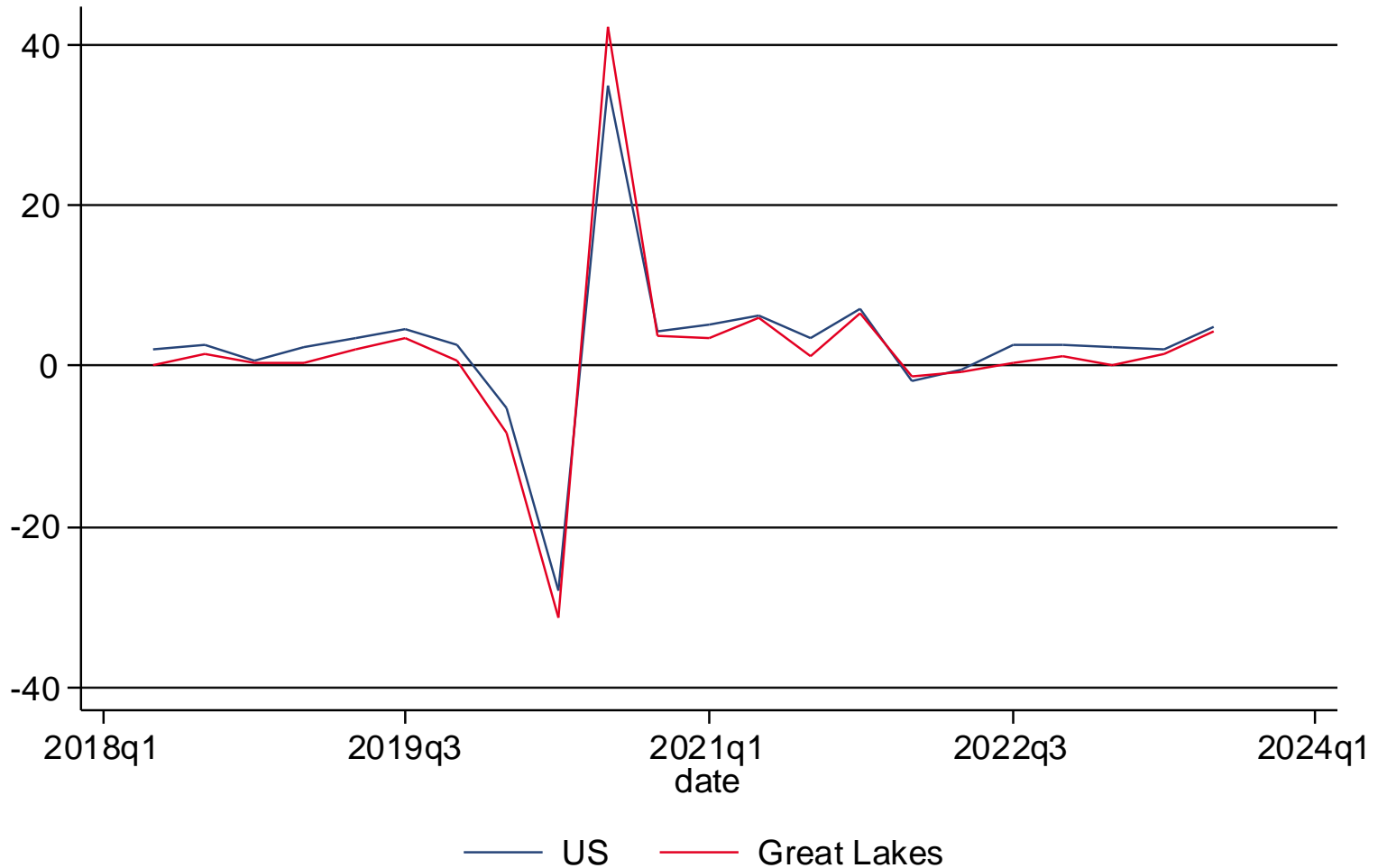
Change in Gross Domestic Product, by State (SAAR)



Source: Bureau of Economic Analysis/Haver Analytics; Created: 9 Jan 2024

Growth also Slower at Longer Horizon

Annual Change in Gross Domestic Product

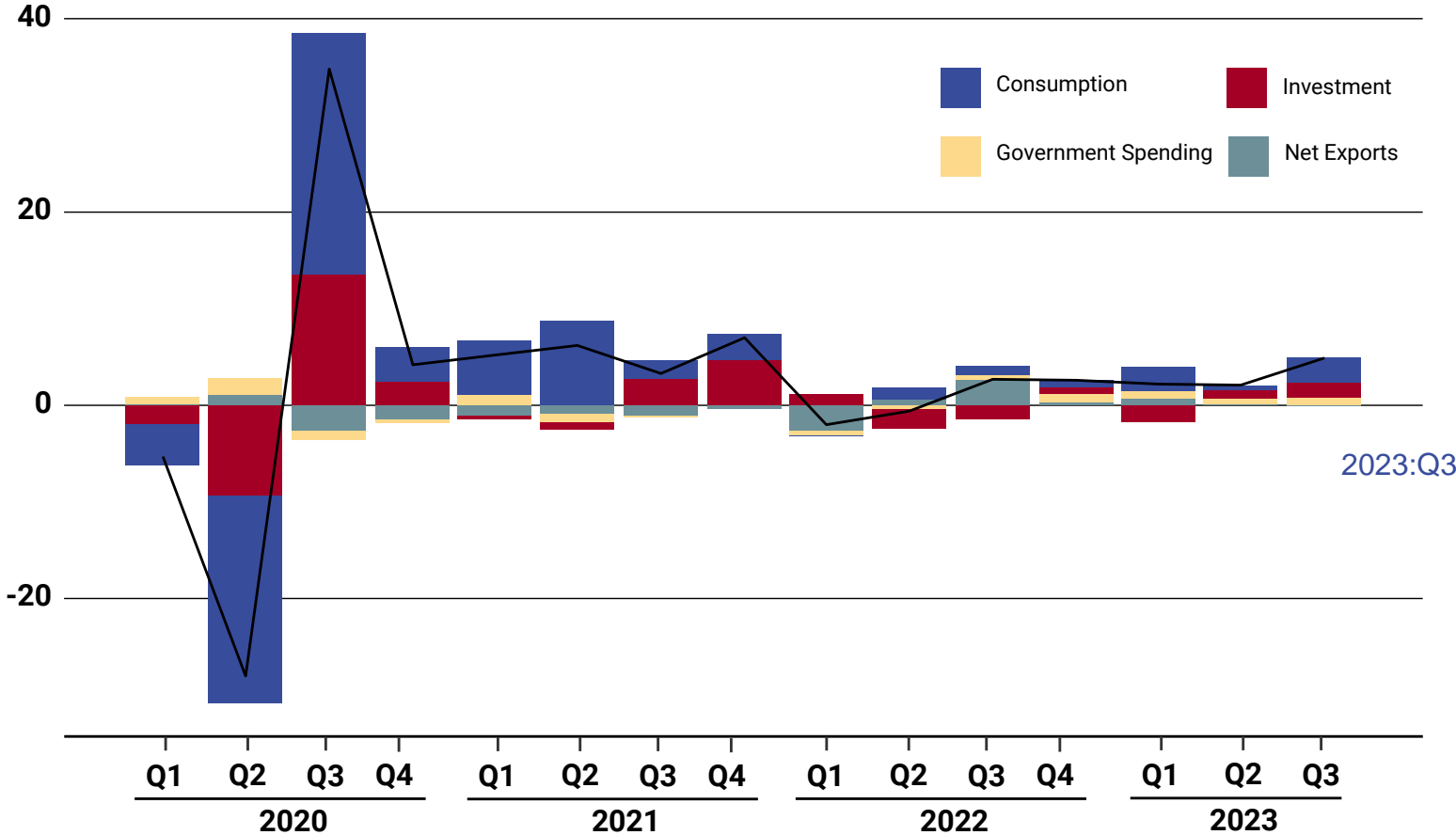


Source: Bureau of Economic Analysis/Haver Analytics; Created: 9 Jan 2024

Recently Led by Resilient Consumer

Contributions to Real GDP Growth

(percentage points)

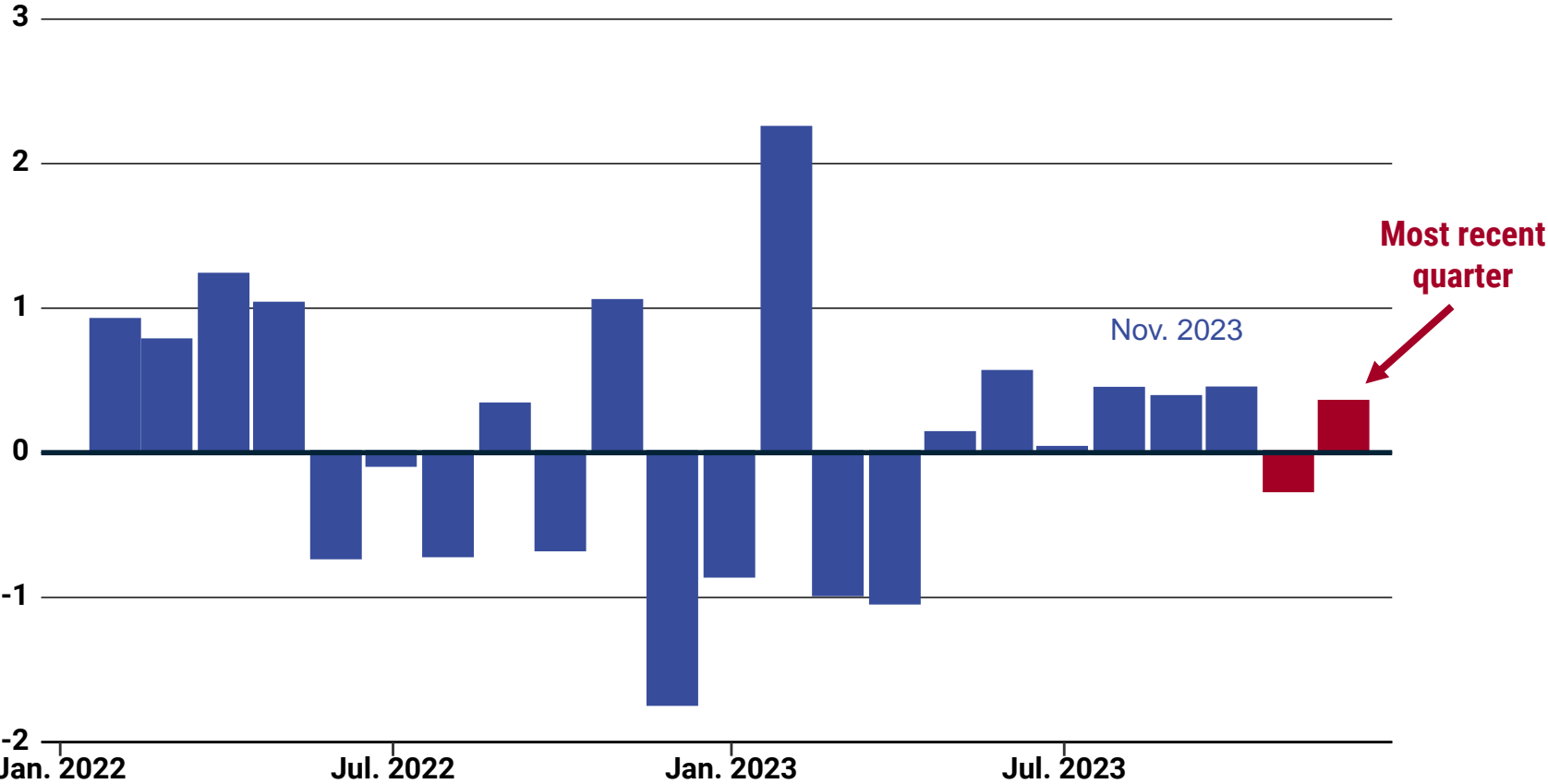


Source: BEA via Haver Analytics

Consumer has been Spending

Real retail sales

(1-month % change)

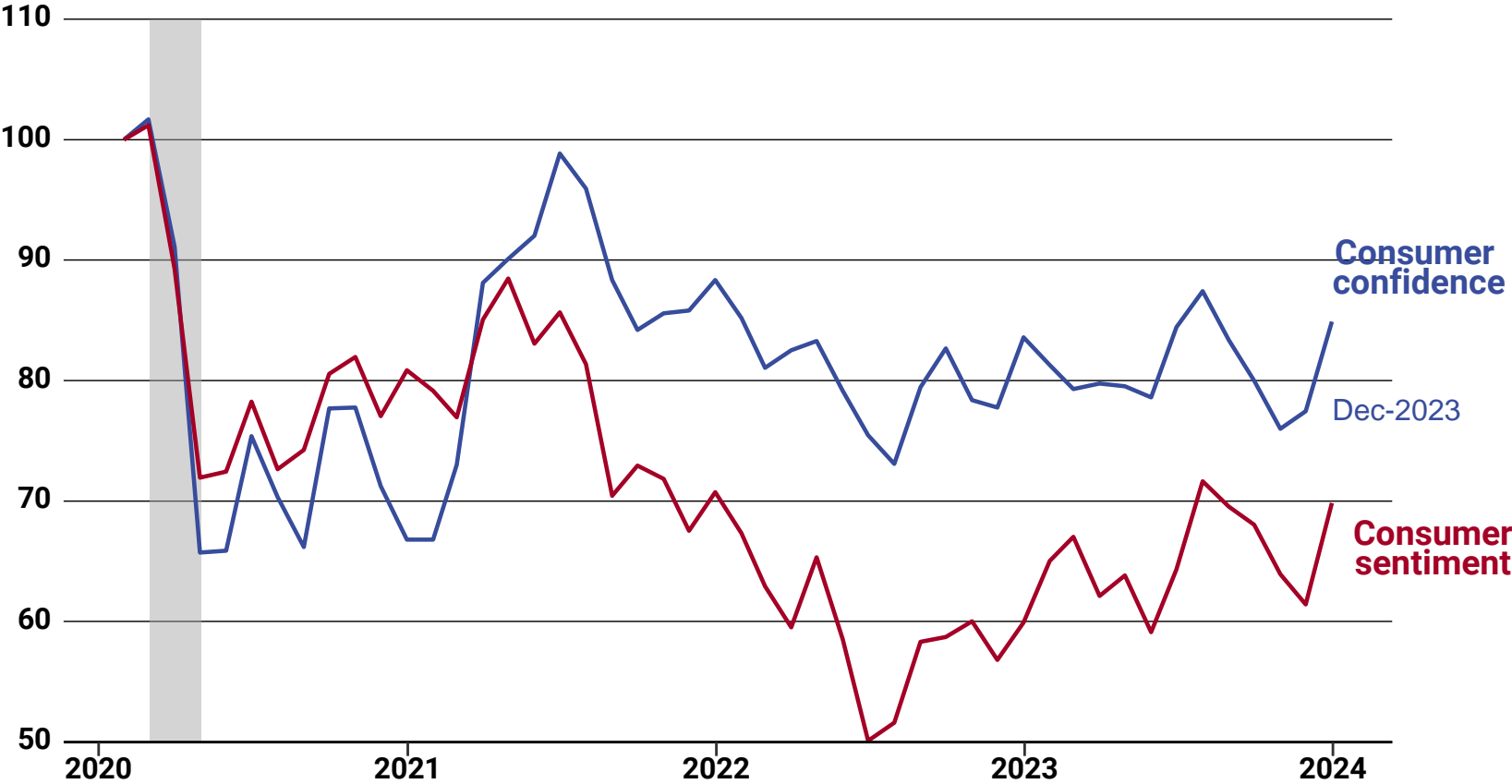


Source: Census Bureau via Haver Analytics, staff calculations

With Sentiment That is Hard to Read

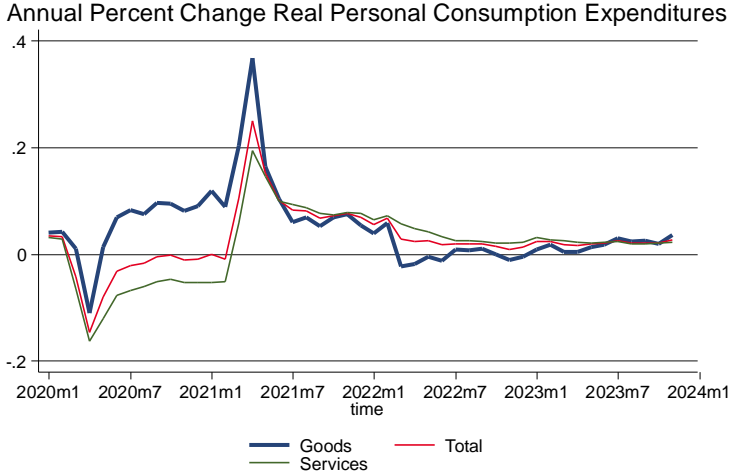
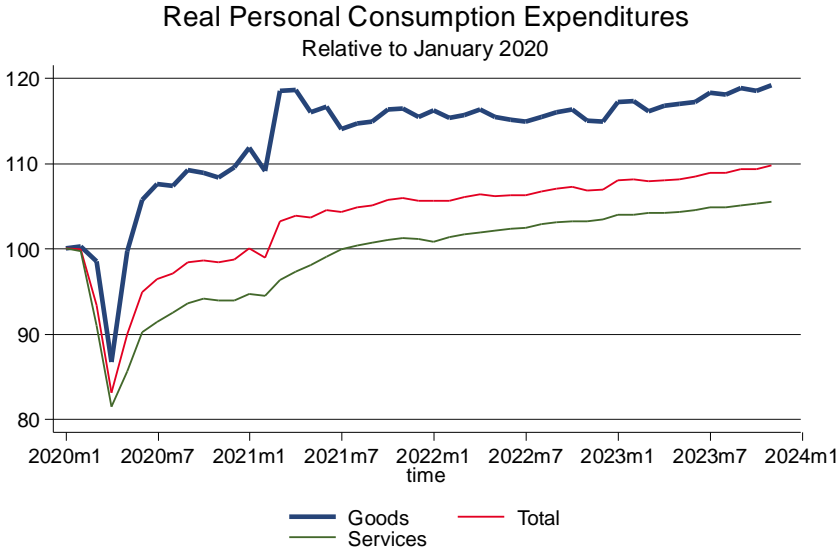
Measures of consumer sentiment and confidence

(January 2020 = 100)



Source: University of Michigan and Conference Board via Haver Analytics

Different Patterns for Goods and Services

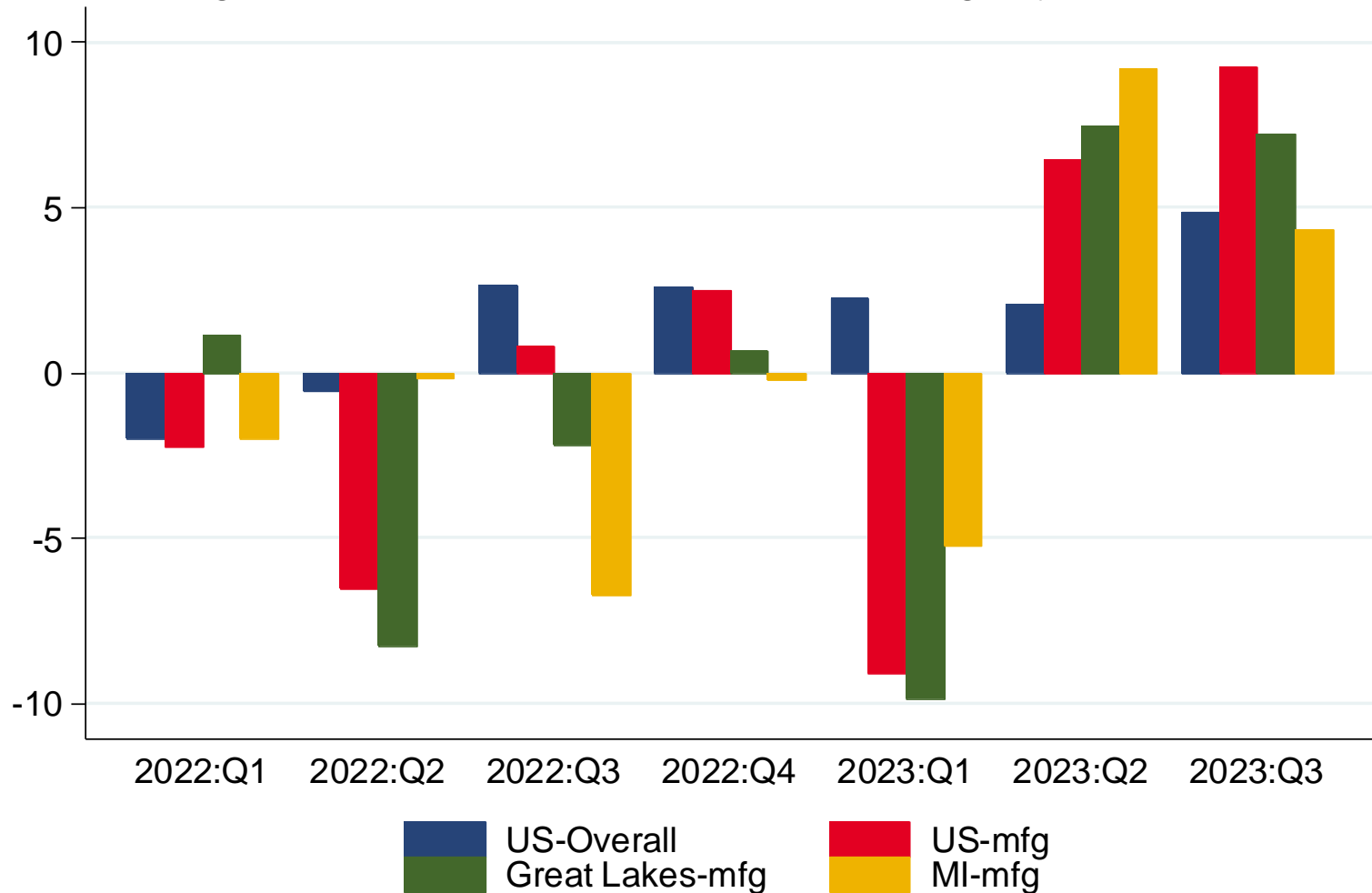


Source: Bureau of Economic Analysis/Haver Analytics; Created: 10 Jan 2024

Source: Bureau of Economic Analysis/Haver Analytics; Created: 10 Jan 2024

Does Industry Mix Partly Explain the GDP Patterns By State?

Change in GDP Overall vs Manufacturing, by State (SAAR)

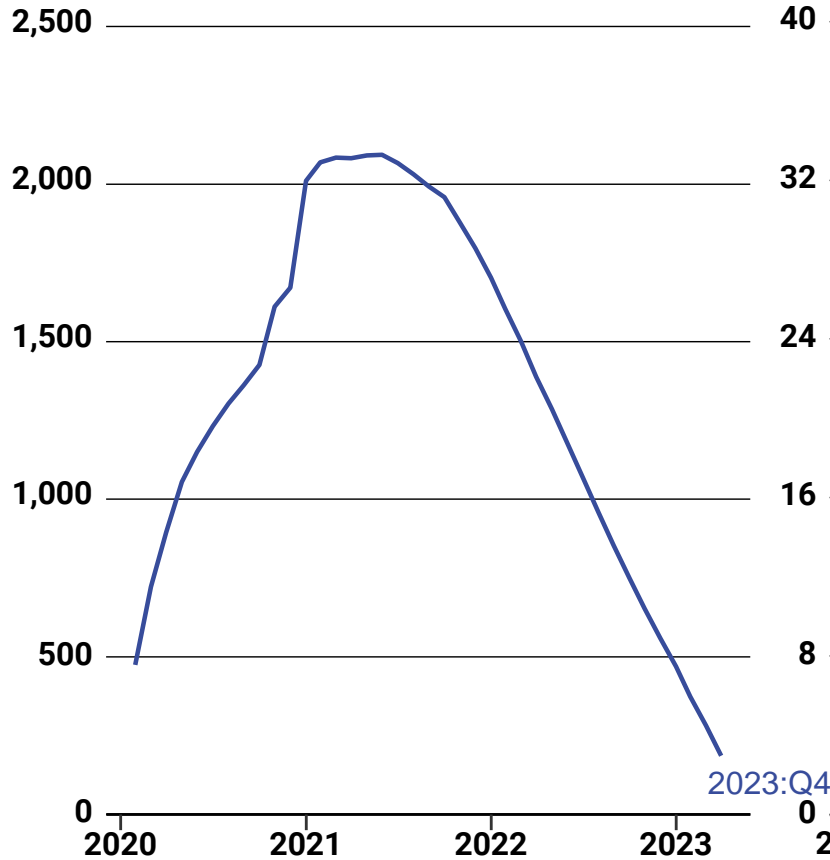


Source: Bureau of Economic Analysis/Haver Analytics; Created: 10 Jan 2024

... But drawing down savings

Stock of excess savings

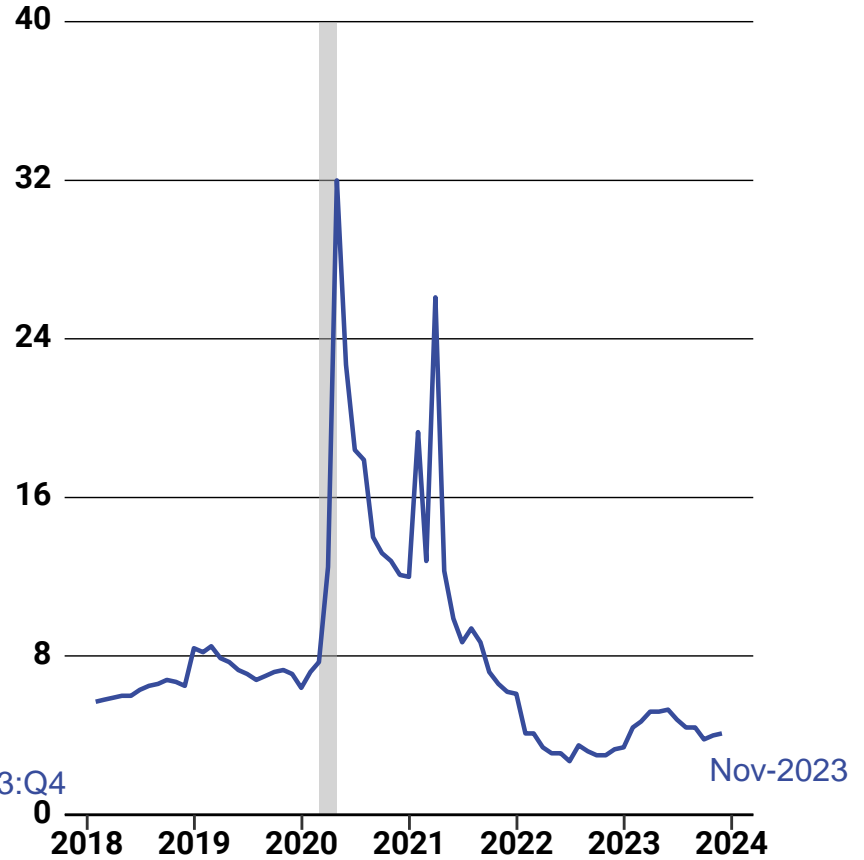
(\$ billions)



Source: E. Oliveira, Luiz E., and Hamza Abdelrahman. "The Rise and Fall of Pandemic Excess Savings." San Francisco Fed, May 8, 2023.

Personal savings rate

(percent, SA)

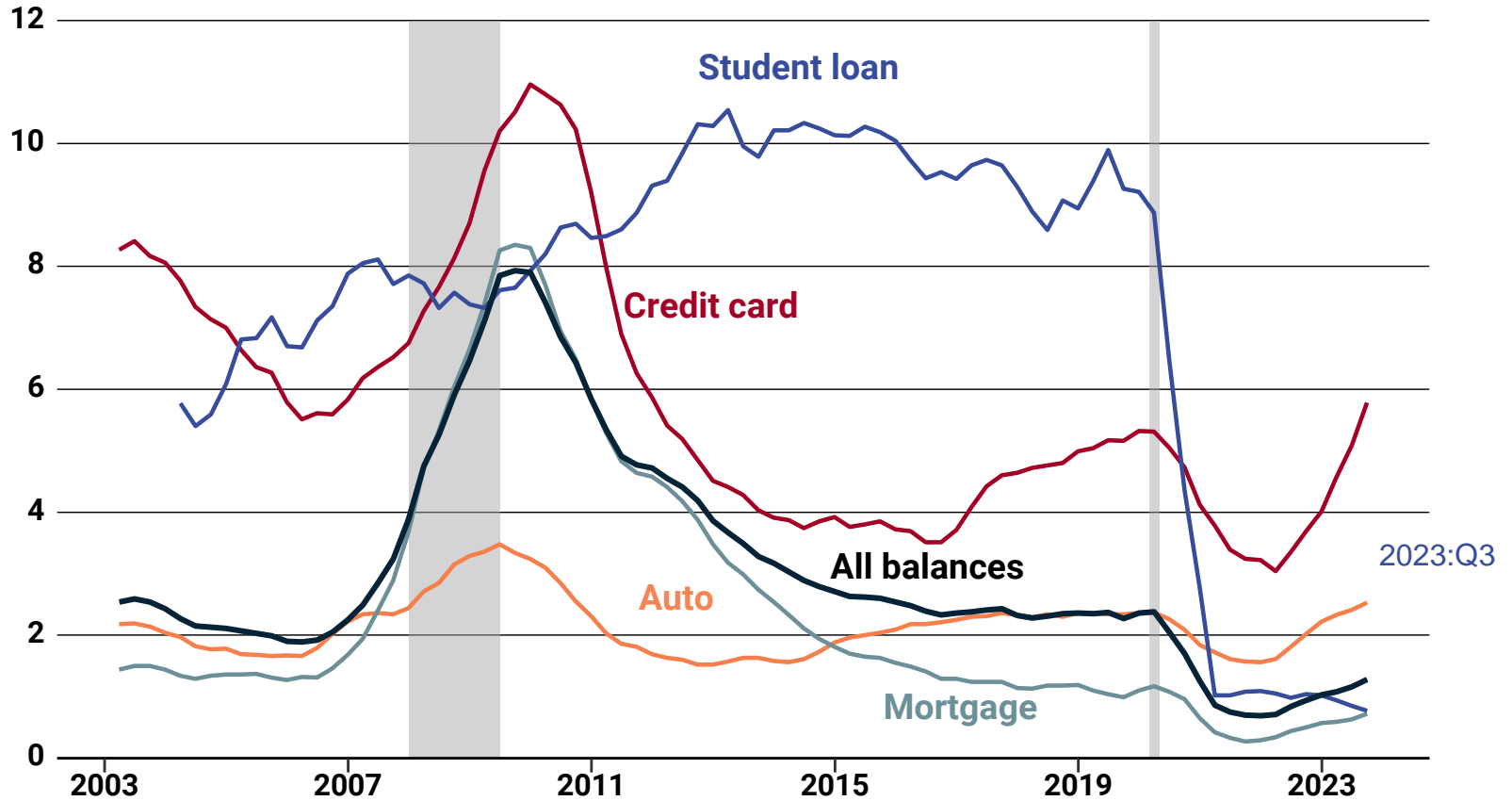


Source: BEA via Haver Analytics

And Signs of Stress Appearing

New seriously delinquent balances

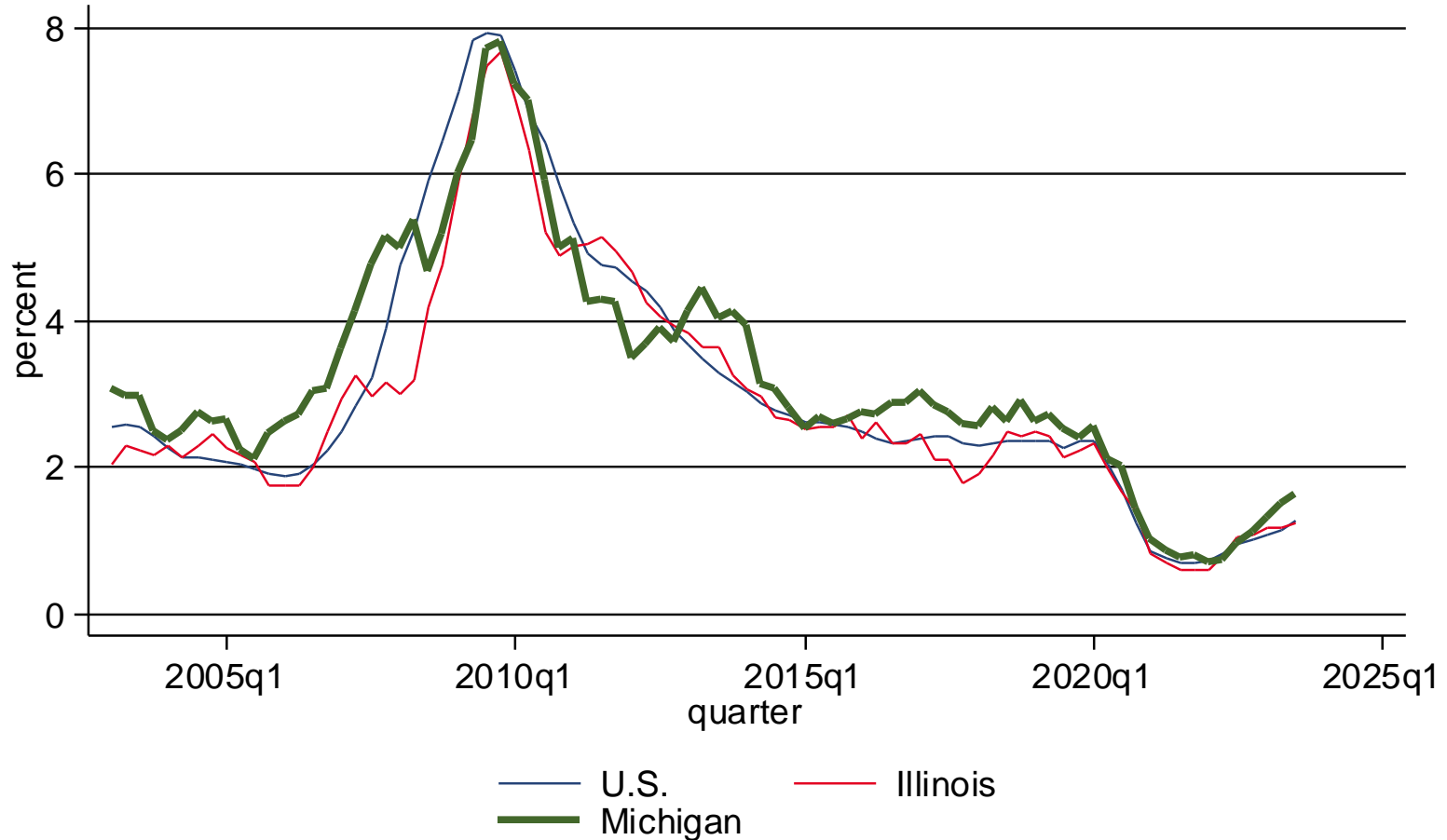
(percent of current balance)



Source: BLS via Haver Analytics

Doesn't seem Different in Midwest

New Seriously Delinquent Balances, By State (90+ Days) Quarterly Transition Rates, 4Q Moving Sum

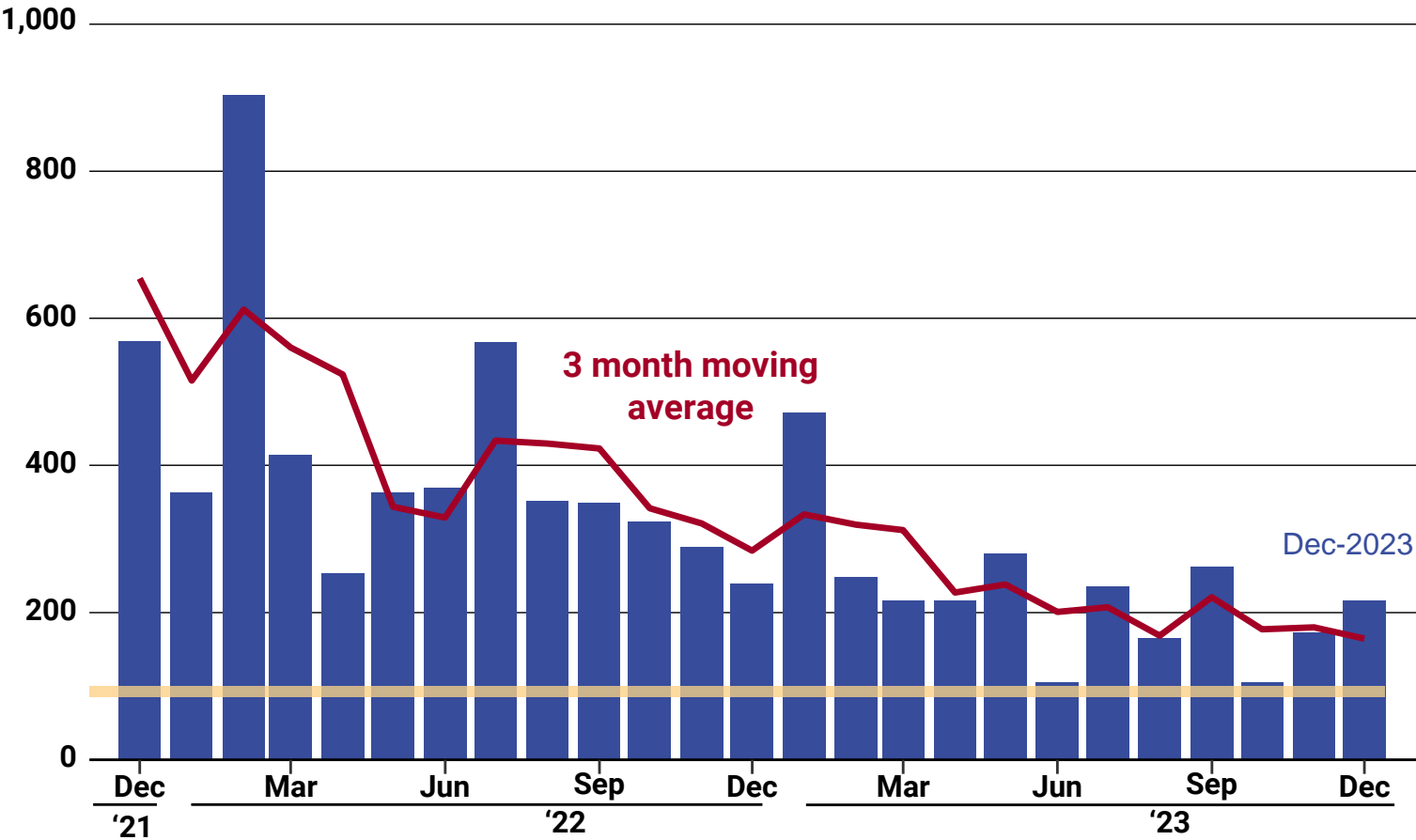


Source: FRBNY Consumer Credit Panel & Equifax/Haver Analytics; Created: 9 Jan 2024

Labor Market remains robust

Change in Total Nonfarm Payroll Employment

(Thousands, SA)

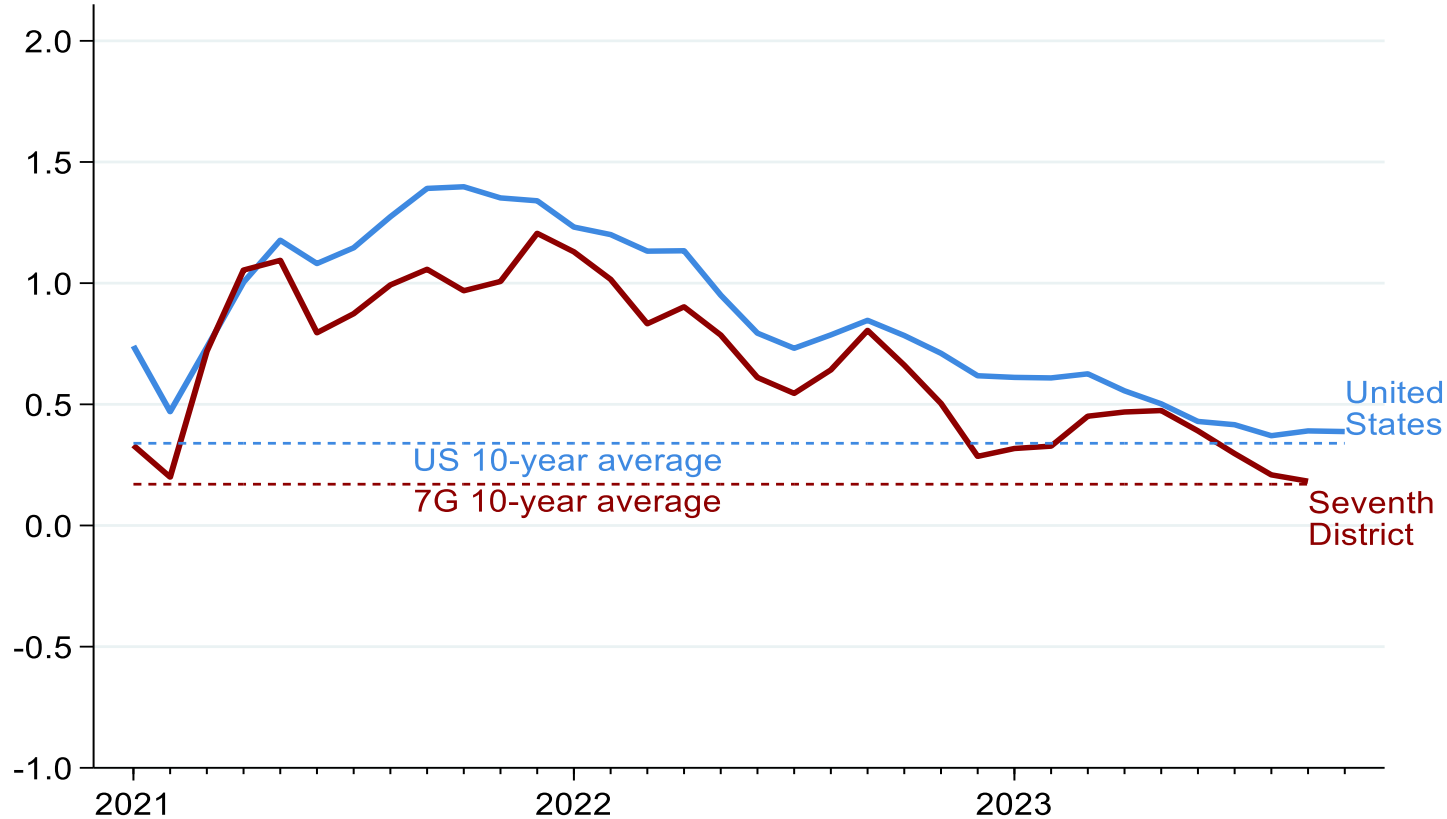


Source: BLS via Haver Analytics

Midwest Employment Growth Rates Below Nation

Payroll employment growth

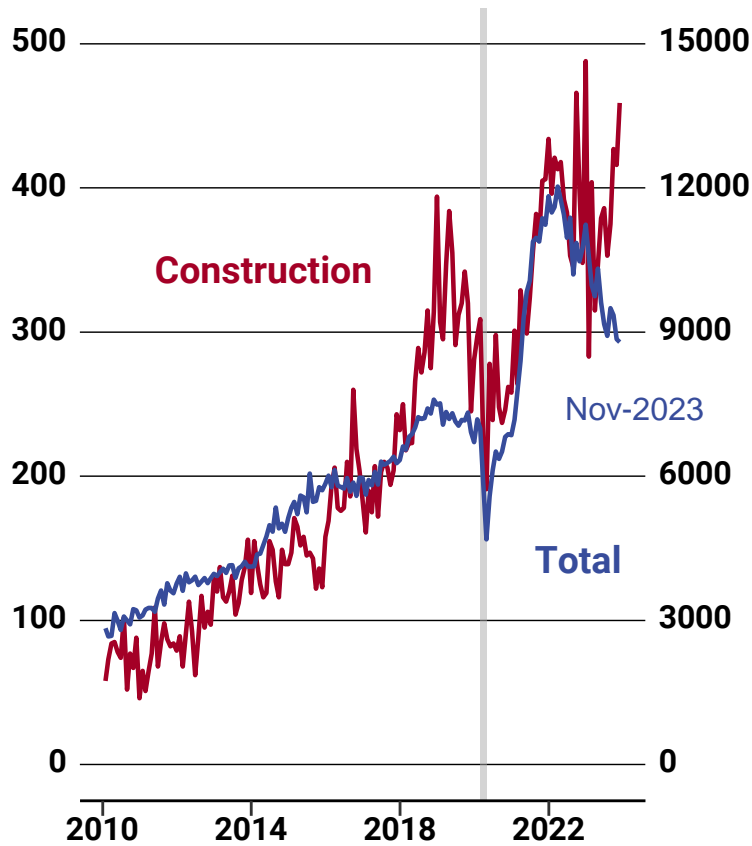
3-month percent change in 3-month moving average



Source: BLS via Haver Analytics

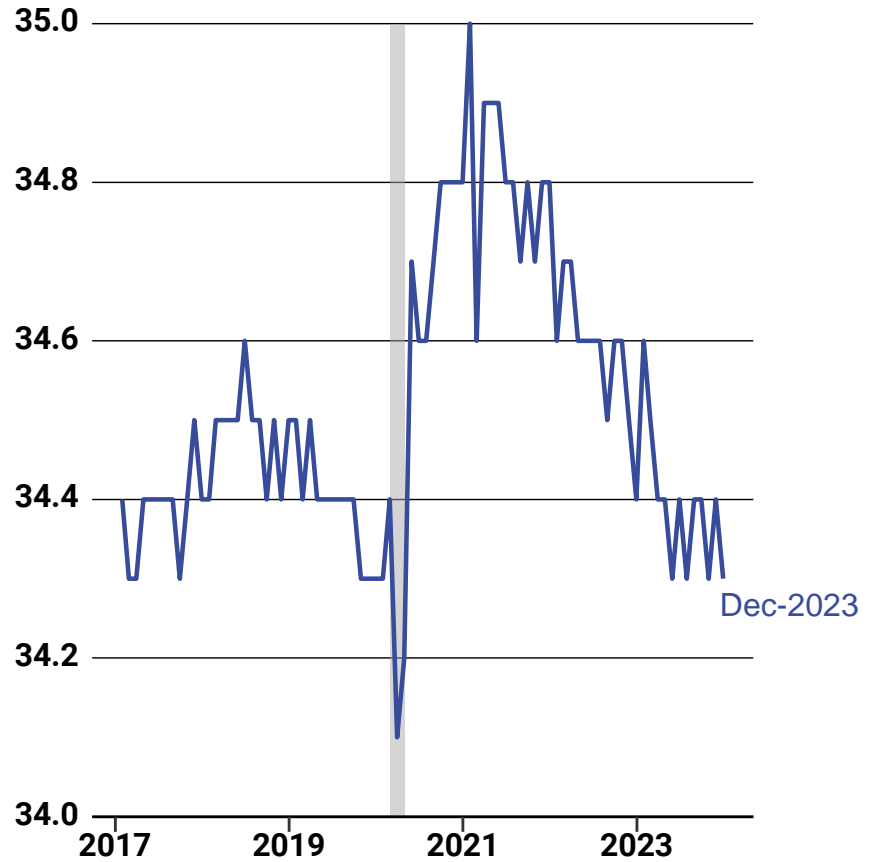
Labor Market is cooling

Job openings
(thousands)



Source: BLS via Haver Analytics

Average weekly hours worked, private employees
(seasonally adjusted)

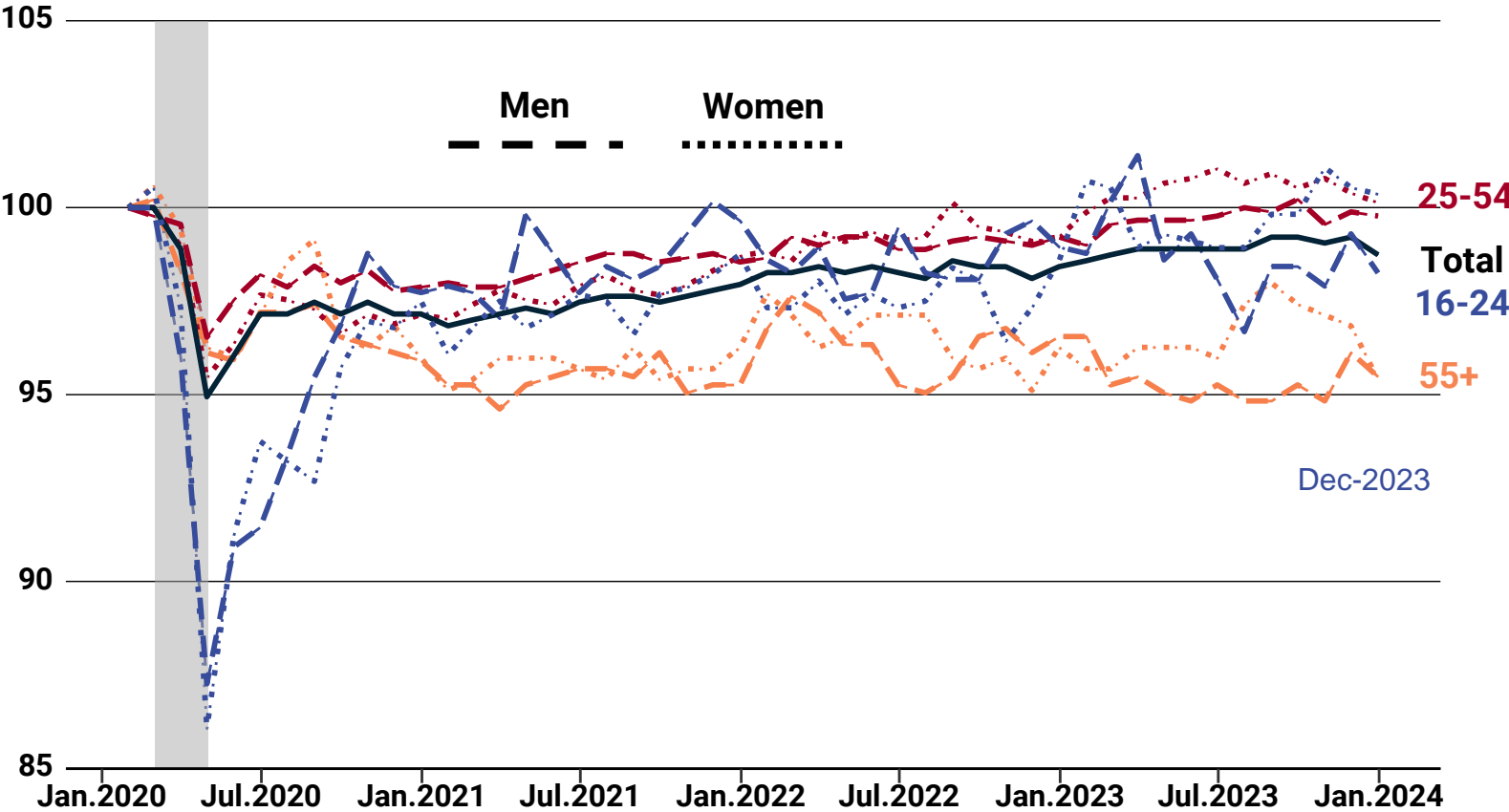


Source: BLS via Haver Analytics

Participation has trended up...

Labor force participation

(index, Jan. 2020 = 100; SA)



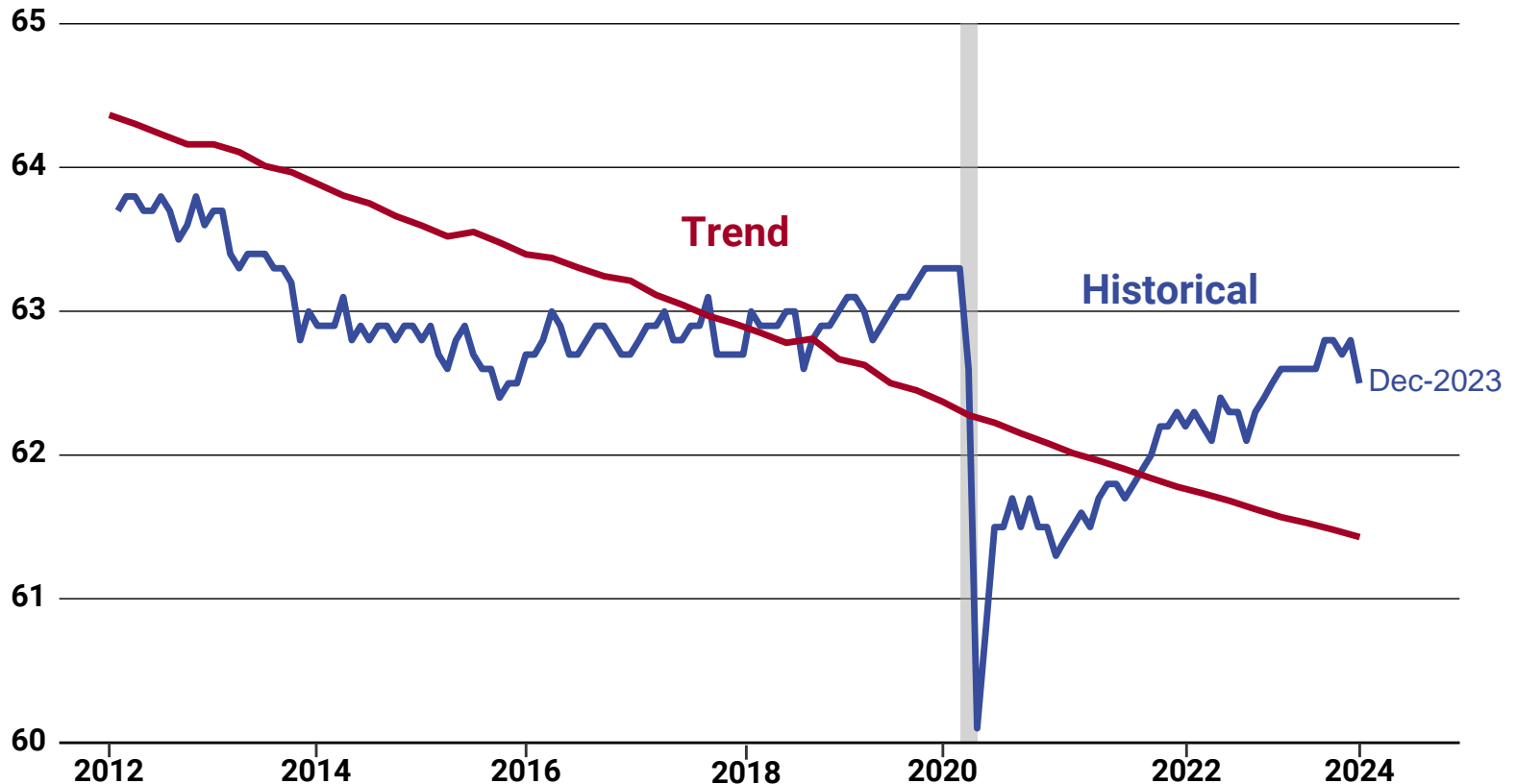
Dec-2023

Source: BLS via Haver Analytics

With limited additional upside?

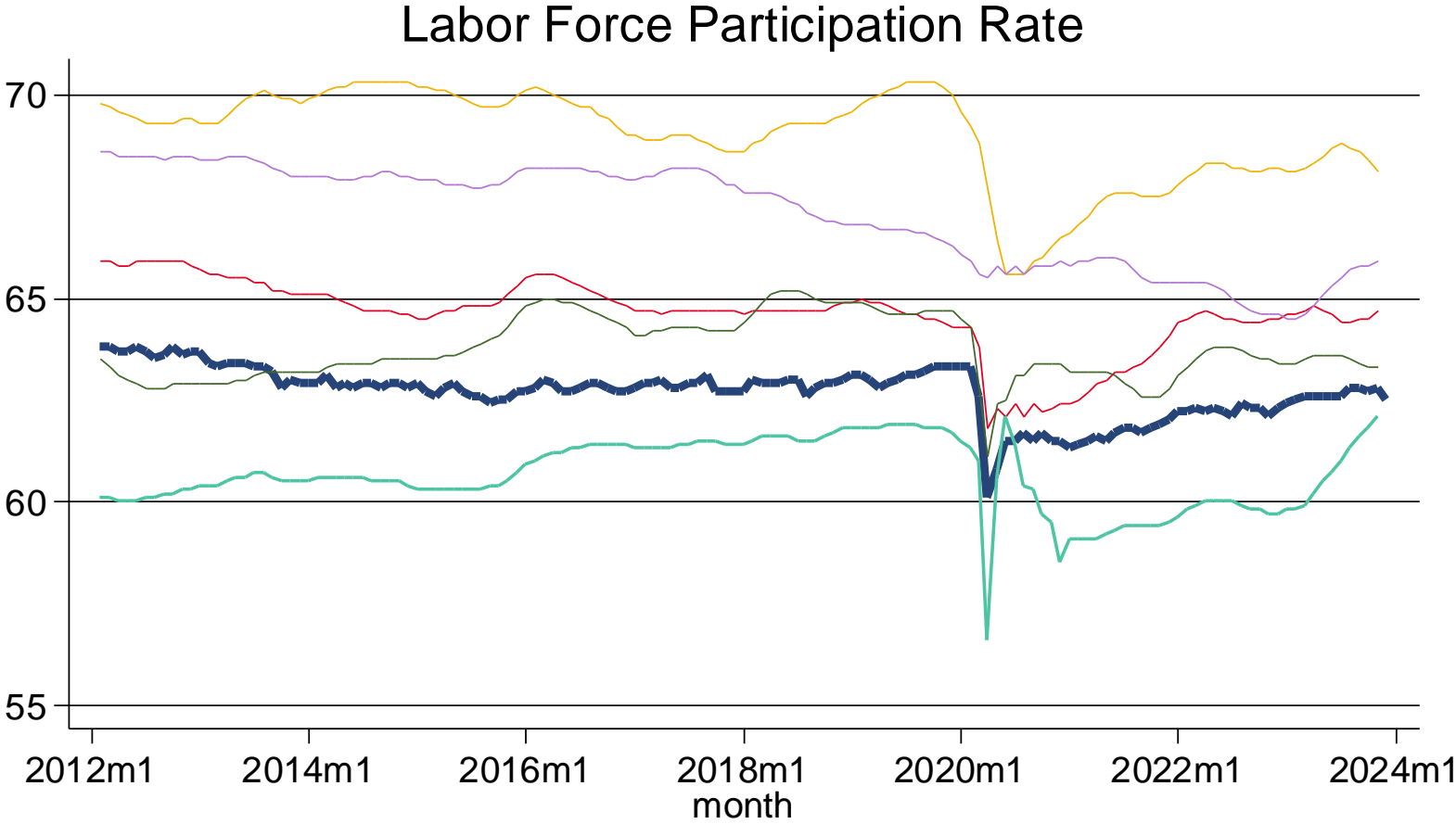
Labor force participation rate

(percent, SA)



Sources: Bureau of Labor Statistics via Haver Analytics, internal series from the Chicago Fed using methodology in Aaronson, Hu, Saifoddini, and Sullivan

Midwest Participation Usually Higher



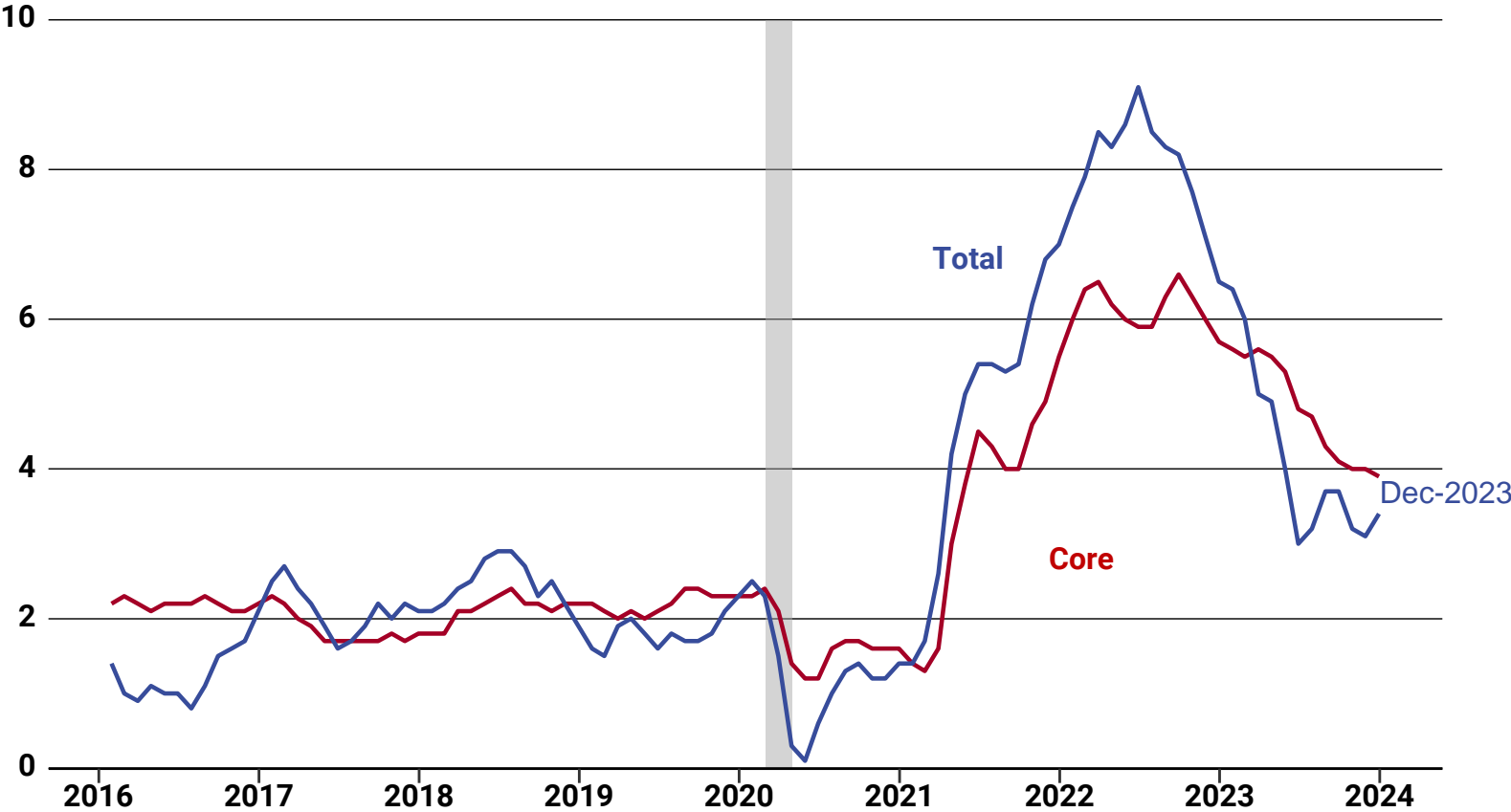
- U.S.
- Illinois
- Indiana
- Iowa
- Michigan
- Wisconsin

Source: Bureau of Labor Statistics/Haver Analytics; Created: 10 Jan 2024

Progress, but inflation remains high

Consumer Price Index

(12-month percent change)

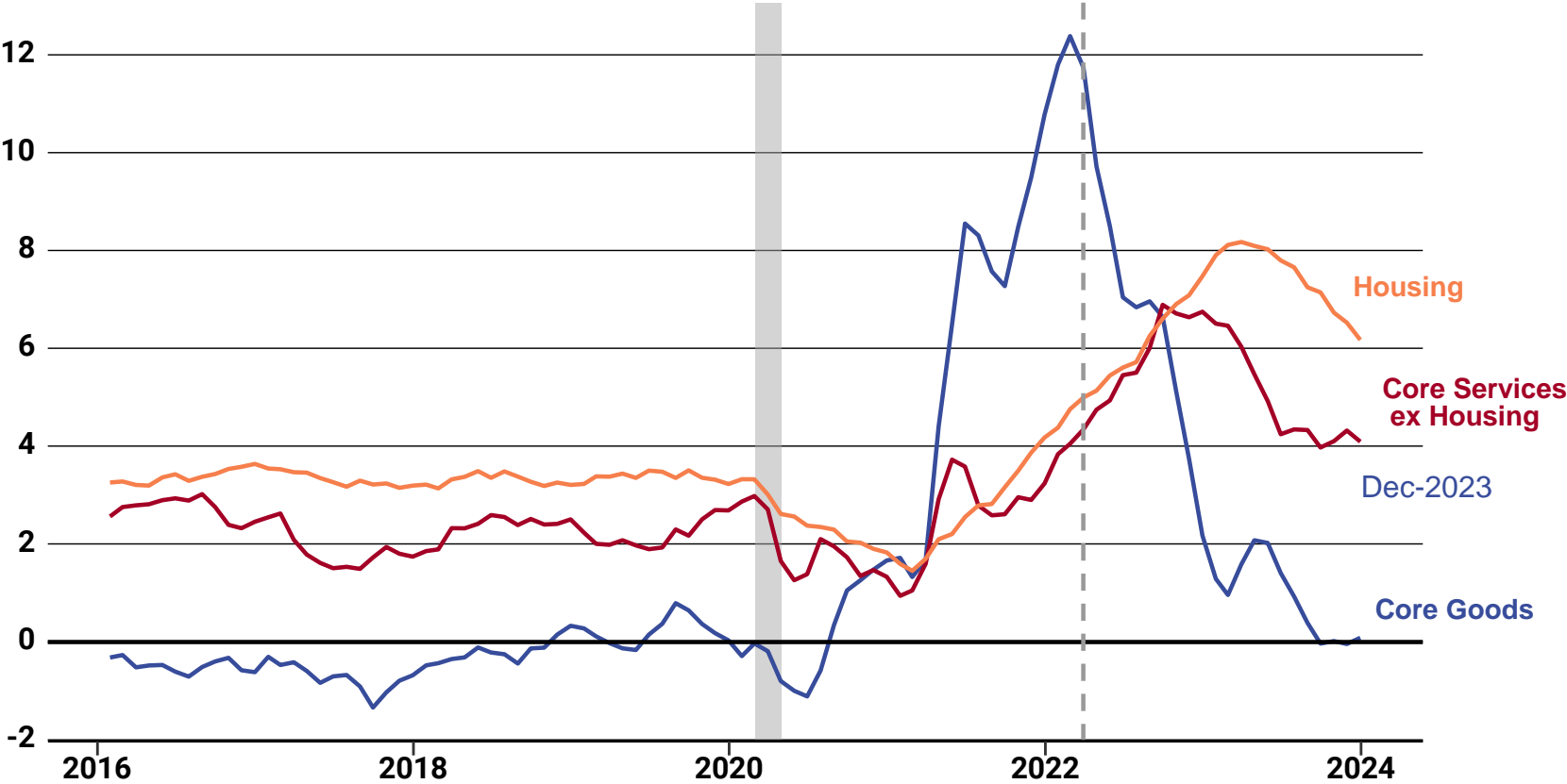


Source: BLS via Haver Analytics

Look at components to gauge progress

Core CPI Inflation Components

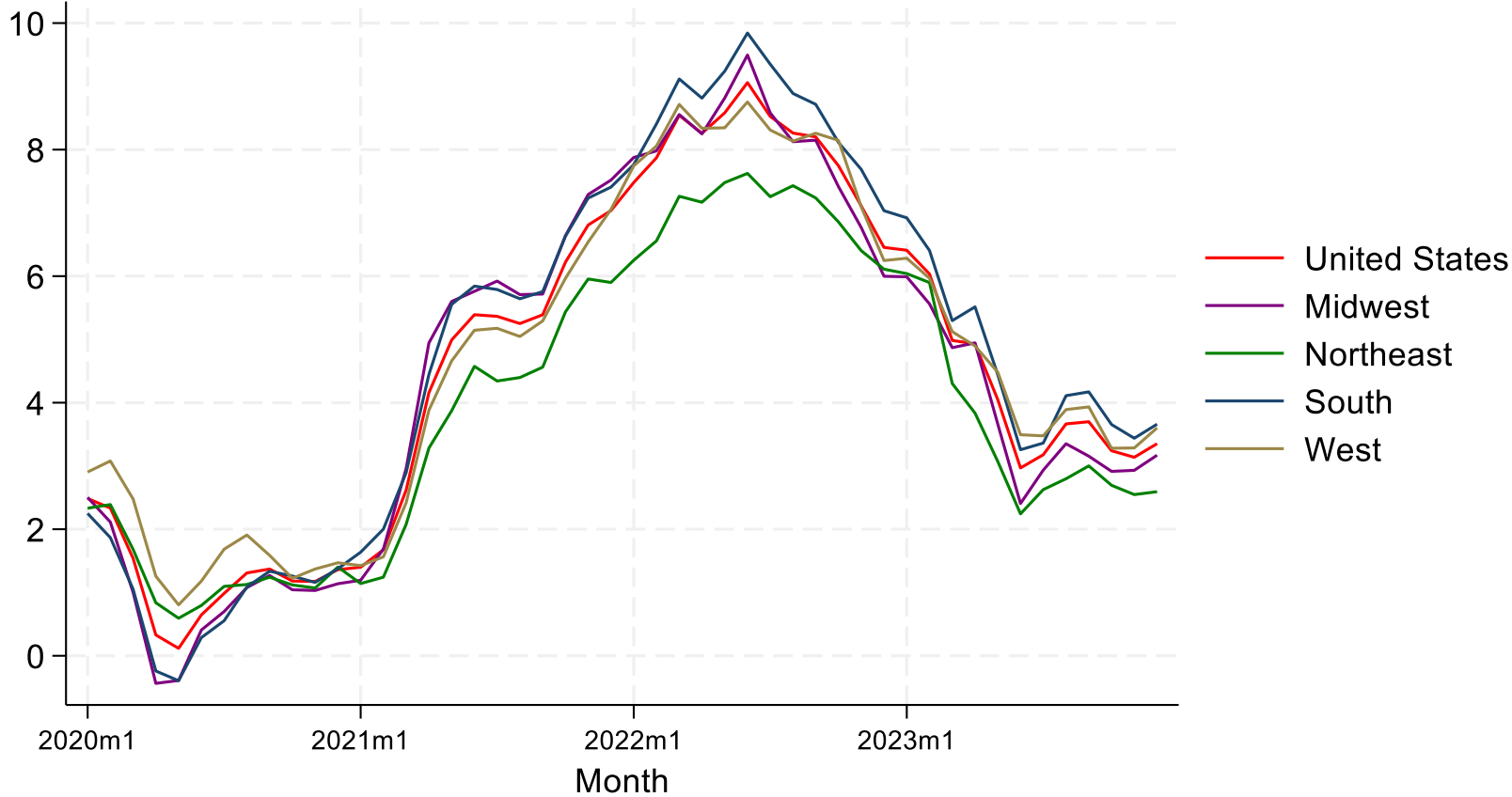
(12 -month percent change)



Source: BLS via Haver Analytics; staff calculations

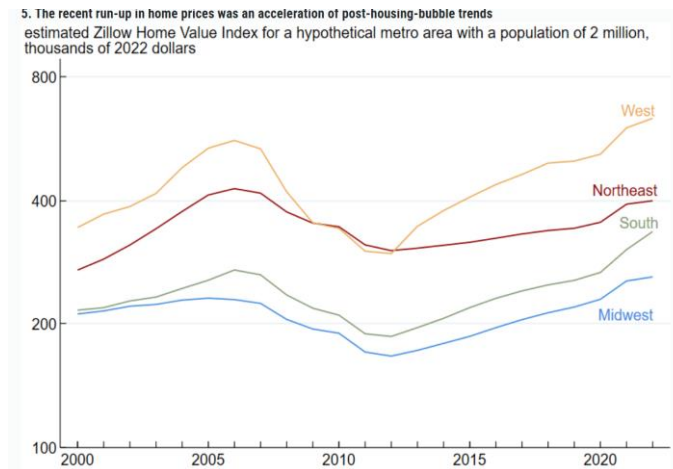
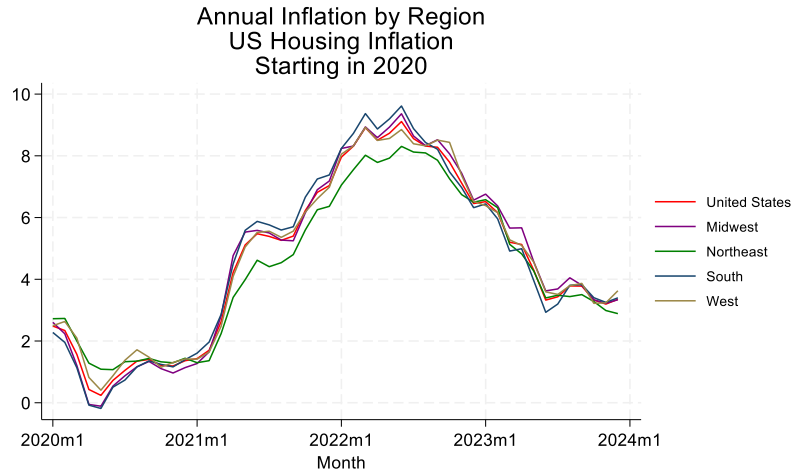
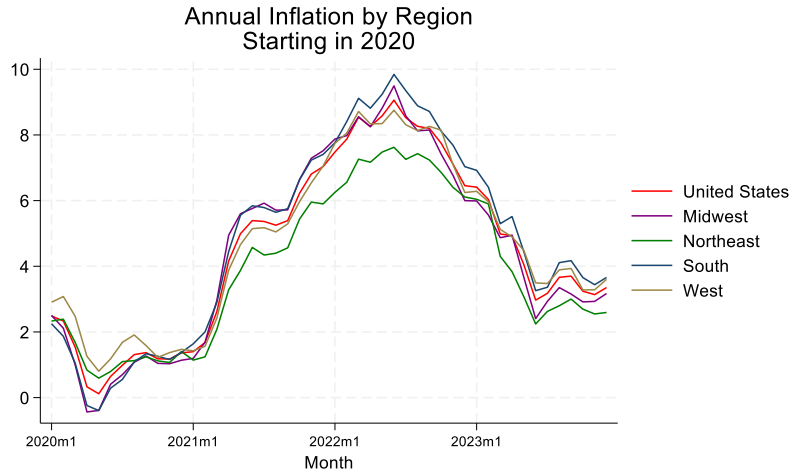
Inflation within the Midwest

Annual Inflation by Region Starting in 2020



Source: Calculations based on BLS via Haver Analytics

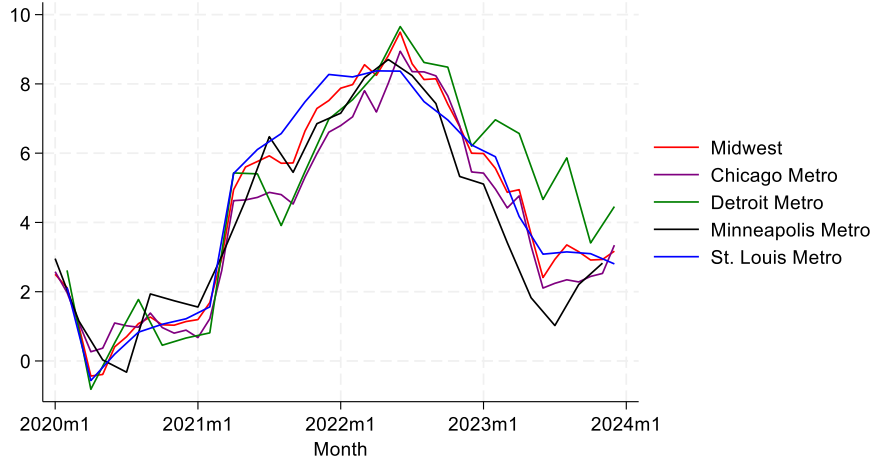
Largely a Housing Story?



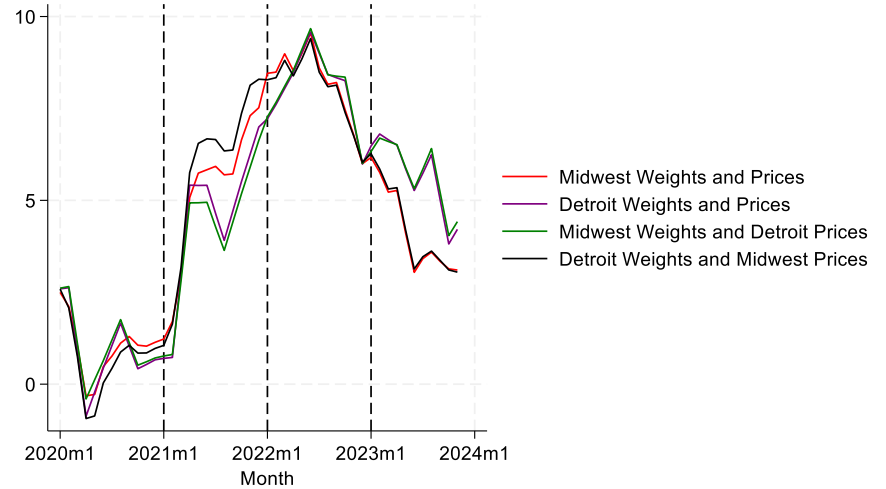
Source: Calculations based on Zillow & BLS via Haver Analytics

Inflation for Midwest Cities – Including Detroit

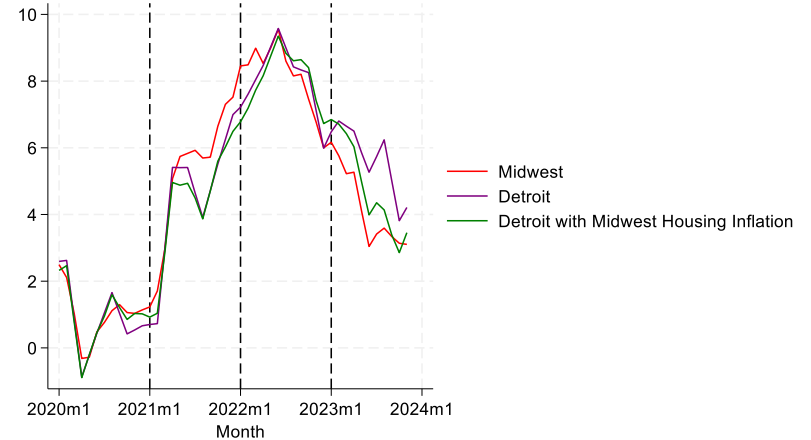
Annual Inflation within Midwest
Starting in 2020



Detroit



Detroit

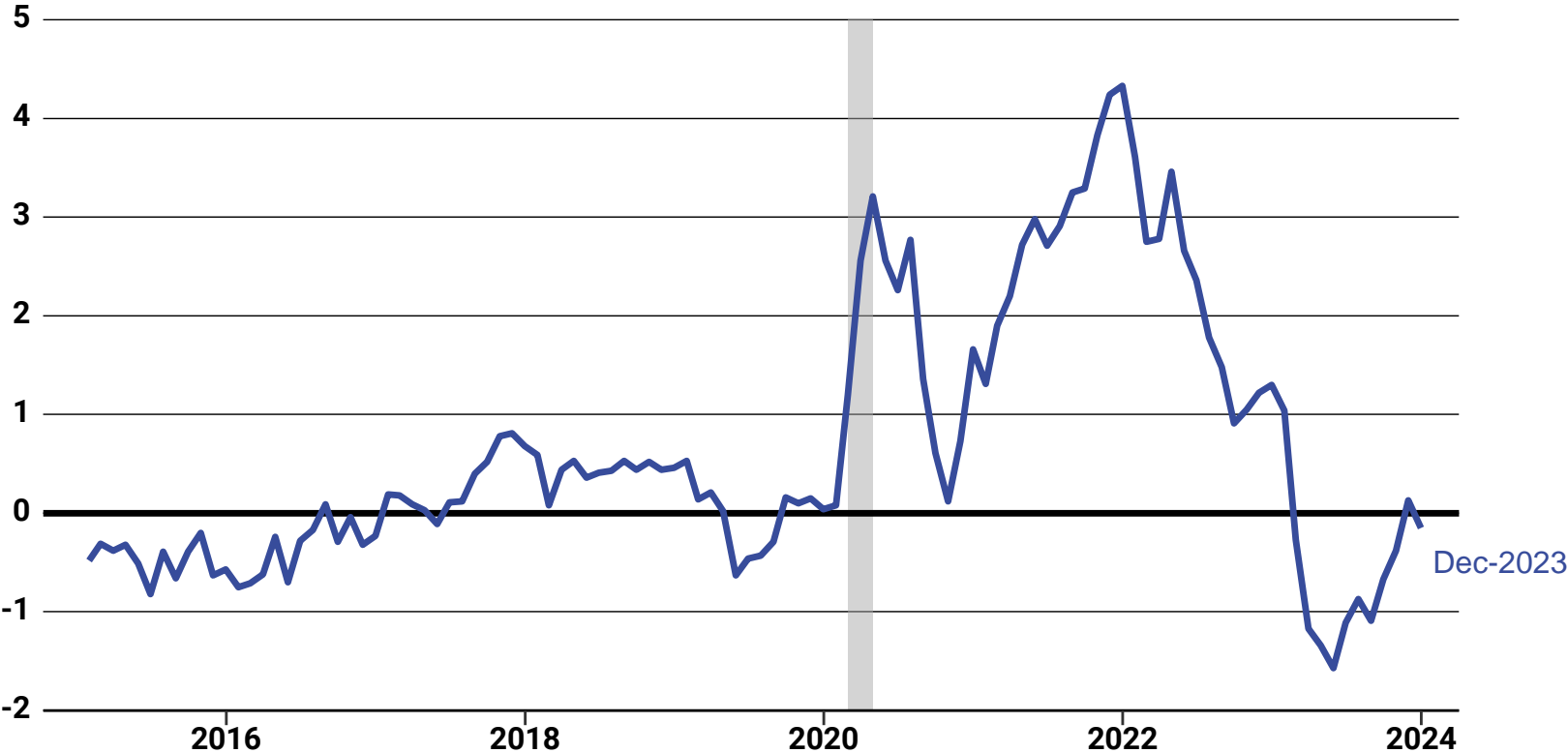


Source: Calculations based on BLS via Haver Analytics

Supply chain healing

Global supply chain pressure index

(standard deviations from average; 12-month % change)

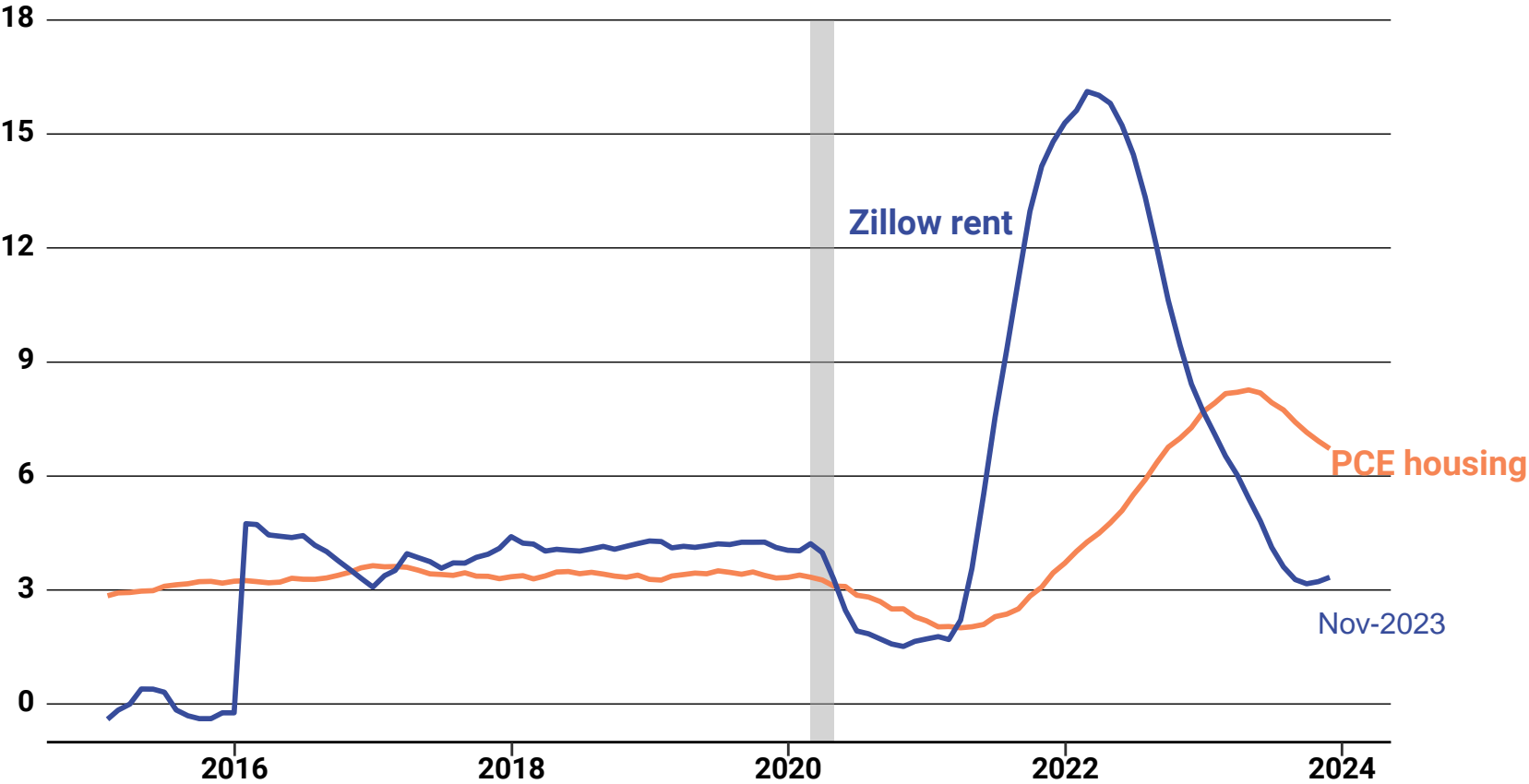


Source: Federal Reserve Bank of New York using data from Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Refinitiv

More to come on rents

PCE housing spending and Zillow Observed Rent Index

(12-month percent change)

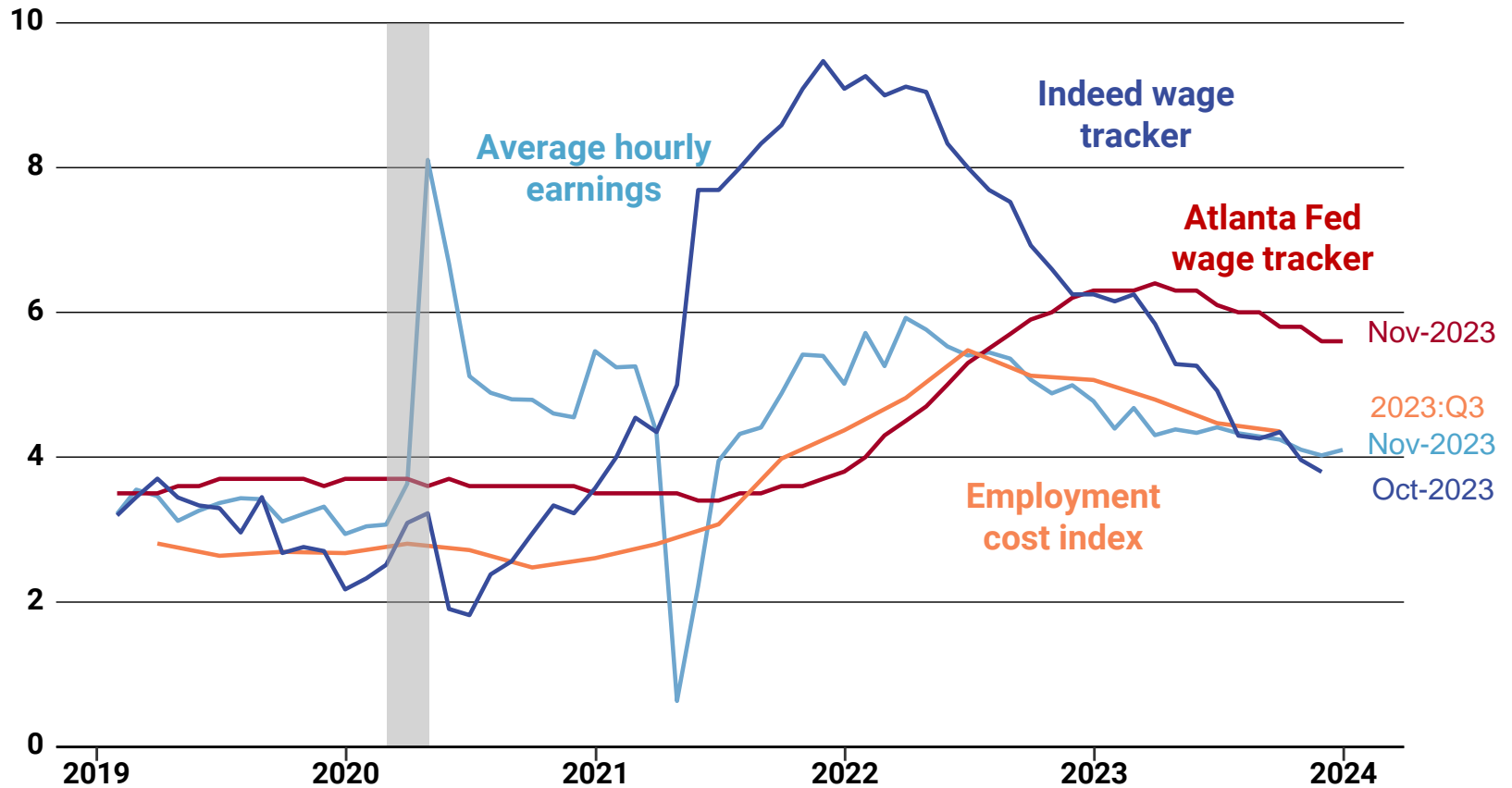


Source: BEA and Zillow via Haver Analytics; staff calculations

Wage growth slowing

Wage growth

(12-month percent change)

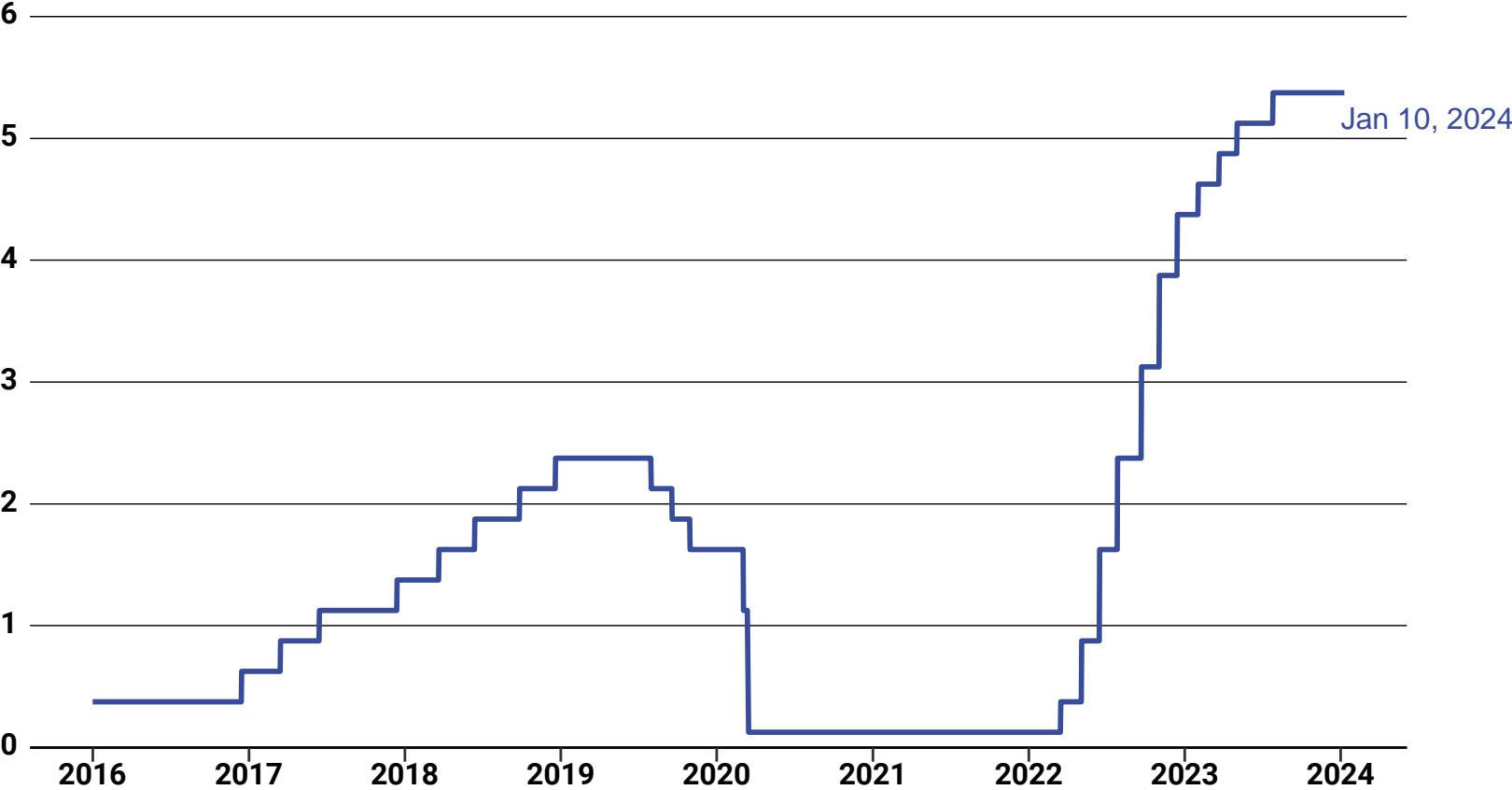


Source: BLS, Federal Reserve Bank of Atlanta via Haver Analytics; Indeed

Monetary Policy Tighter

Federal Funds Rate Target and Median SEPs

(percent)

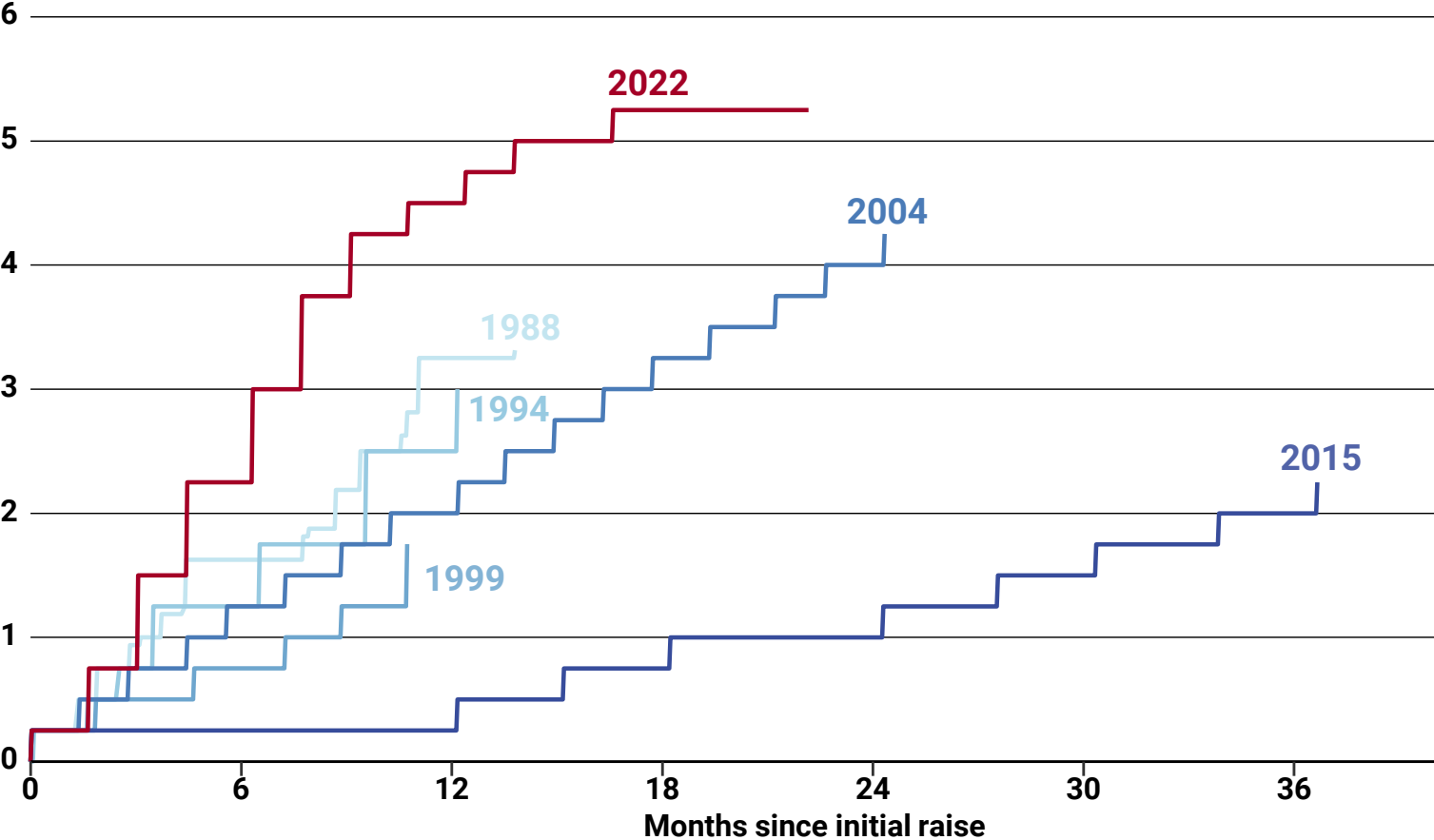


Source: Federal Reserve Board via Haver Analytics, FOMC Summary of Economic Projections

Monetary Policy Tighter

Cumulative Effective FFR since Initial Raise

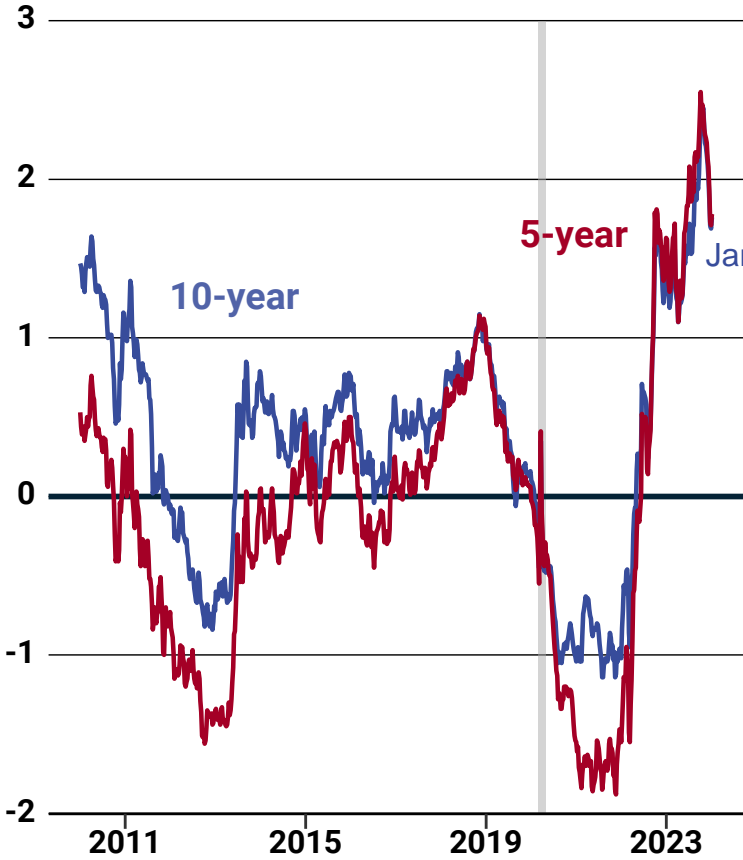
(Percent)



Source: Federal Reserve Board via Haver Analytics

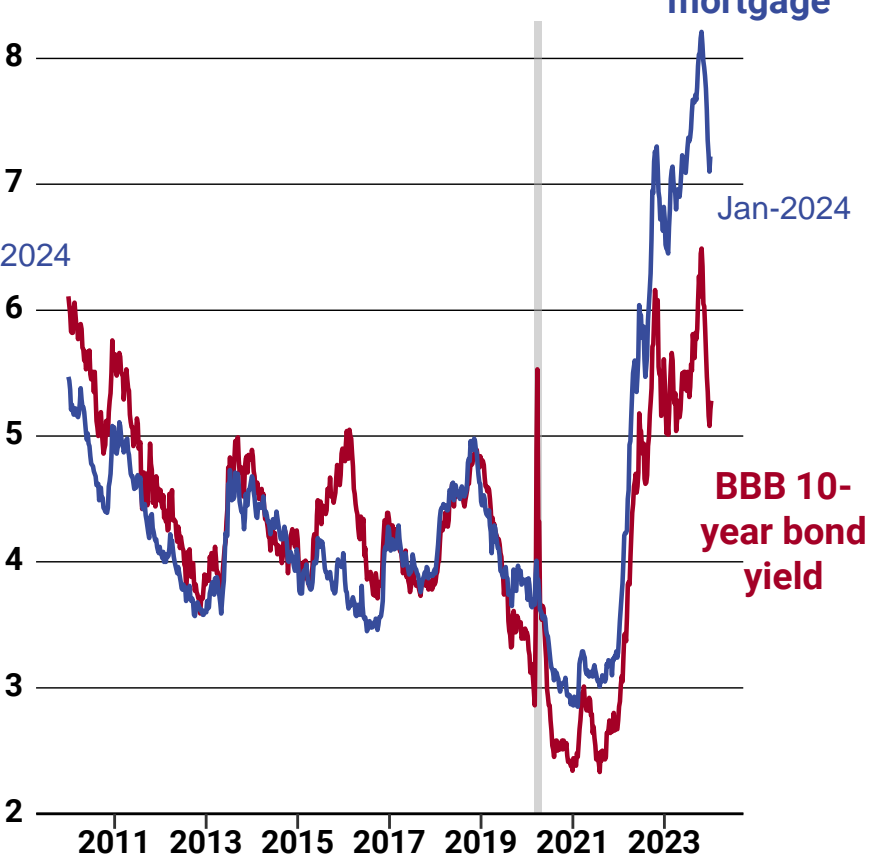
Higher Interest Rates

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

Signs of moderating activity

Industrial production, manufacturing sector

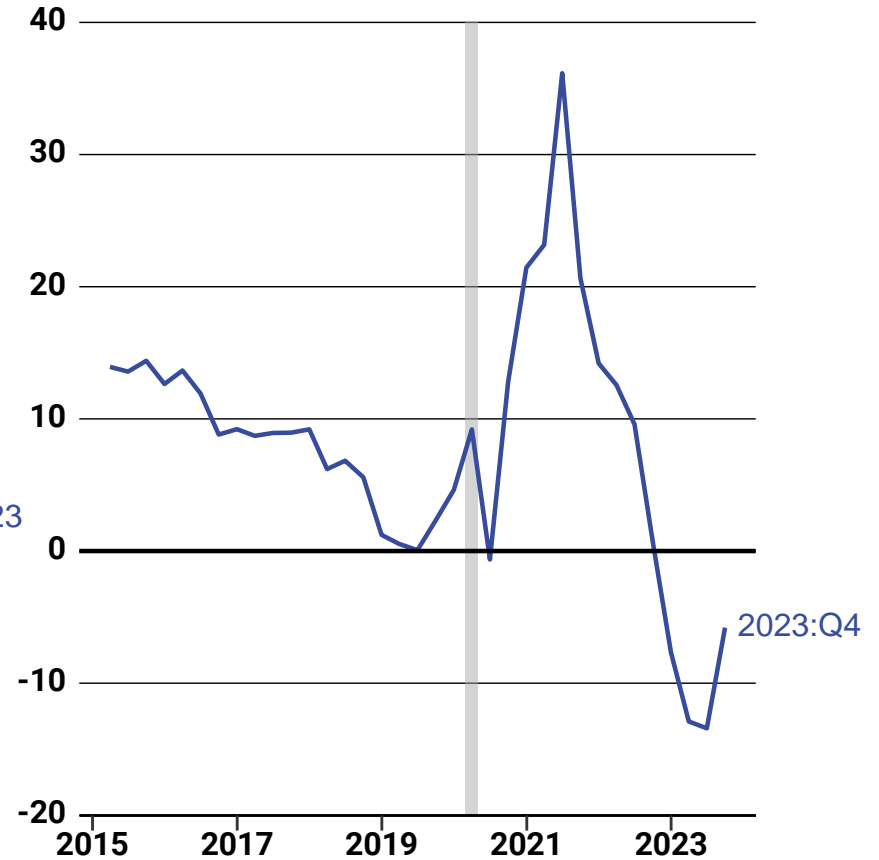
(12-month percent change)



Source: Federal Reserve Board via Haver Analytics

Private residential investment

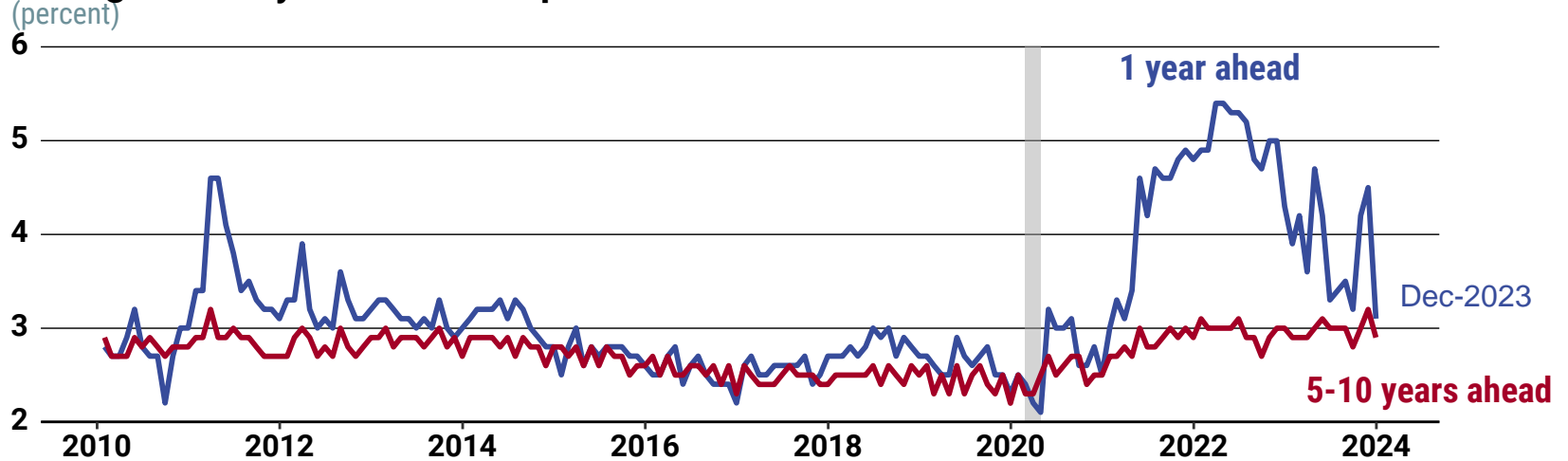
(4-quarter percent change)



Source: BEA via Haver Analytics

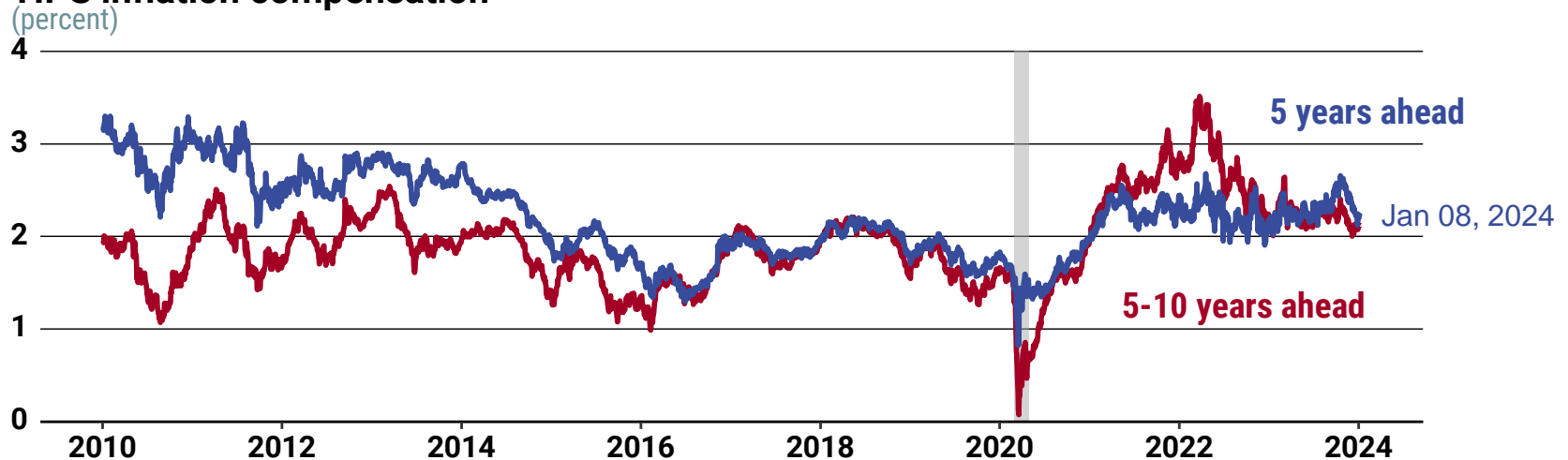
Stable longer term inflation expectations

Michigan Survey of Inflation Expectations



Source: University of Michigan from Haver Analytics

TIPS inflation compensation



Source: Board of Governors of the Federal Reserve System

Taking Stock

- **Robust Growth**
- **Slowly Cooling Labor Market**
- **Inflation still high but coming down**
 - Aided by the improved supply environment
- **Midwest**
 - Growing more slowly
 - Less people
 - Less labor
 - More goods
 - Long term structural factors at play

Outlook: December SEPs

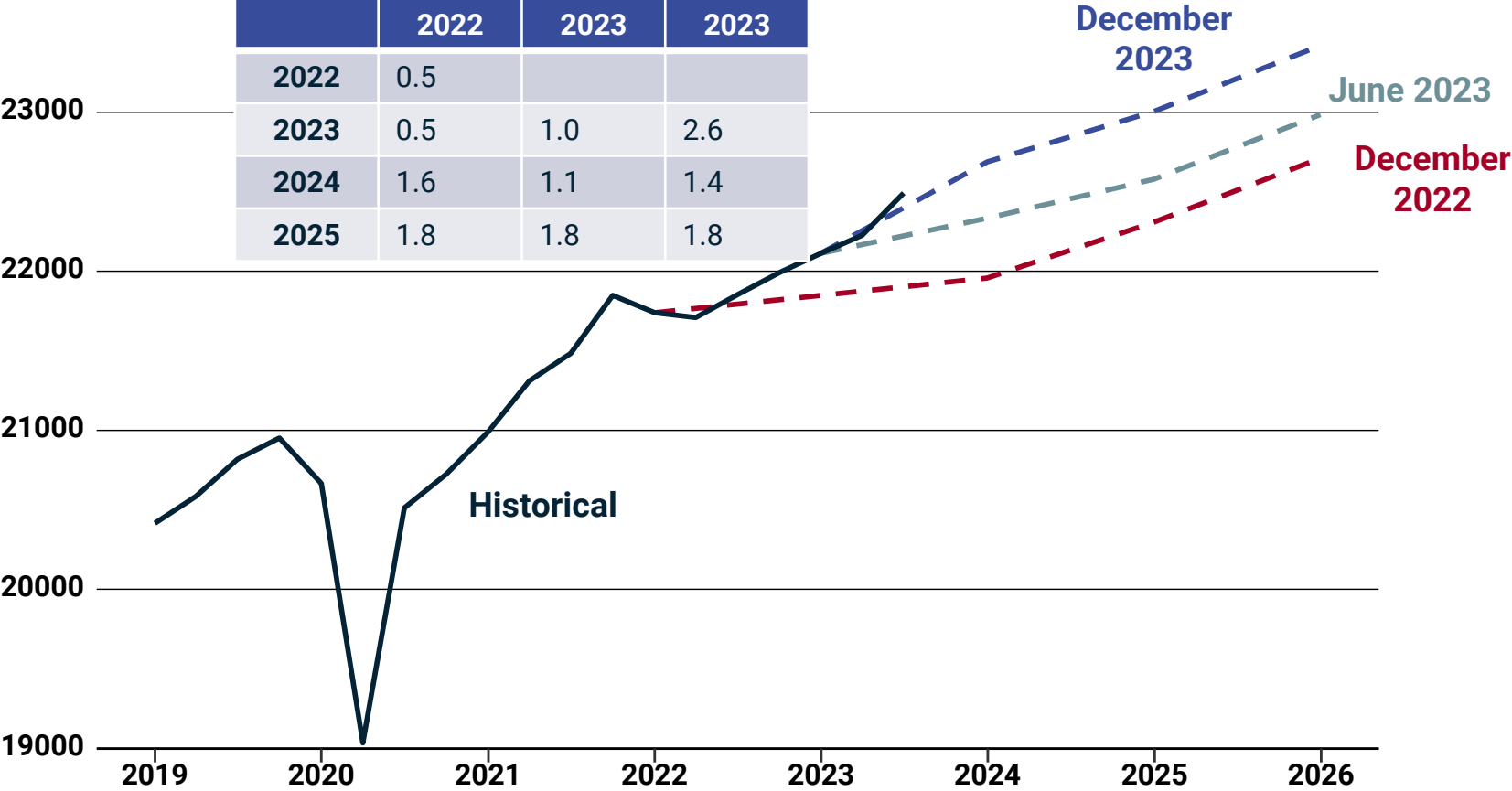
- **Slower growth in 2024 and 2025 than in 2023**
- **Unemployment up a bit next year**
- **Inflation trending back down towards 2% within next few years – median at 2.0 in 2026**

Real GDP projections

Real GDP and Median SEPs

(\$ billion, SAAR)

Year	Dec. 2022	Jun. 2023	Dec. 2023
2022	0.5		
2023	0.5	1.0	2.6
2024	1.6	1.1	1.4
2025	1.8	1.8	1.8



Source: BEA via Haver Analytics, FOMC Summary of Economic Projections

Unemployment rate projections

Unemployment rate median SEPs

(percent)

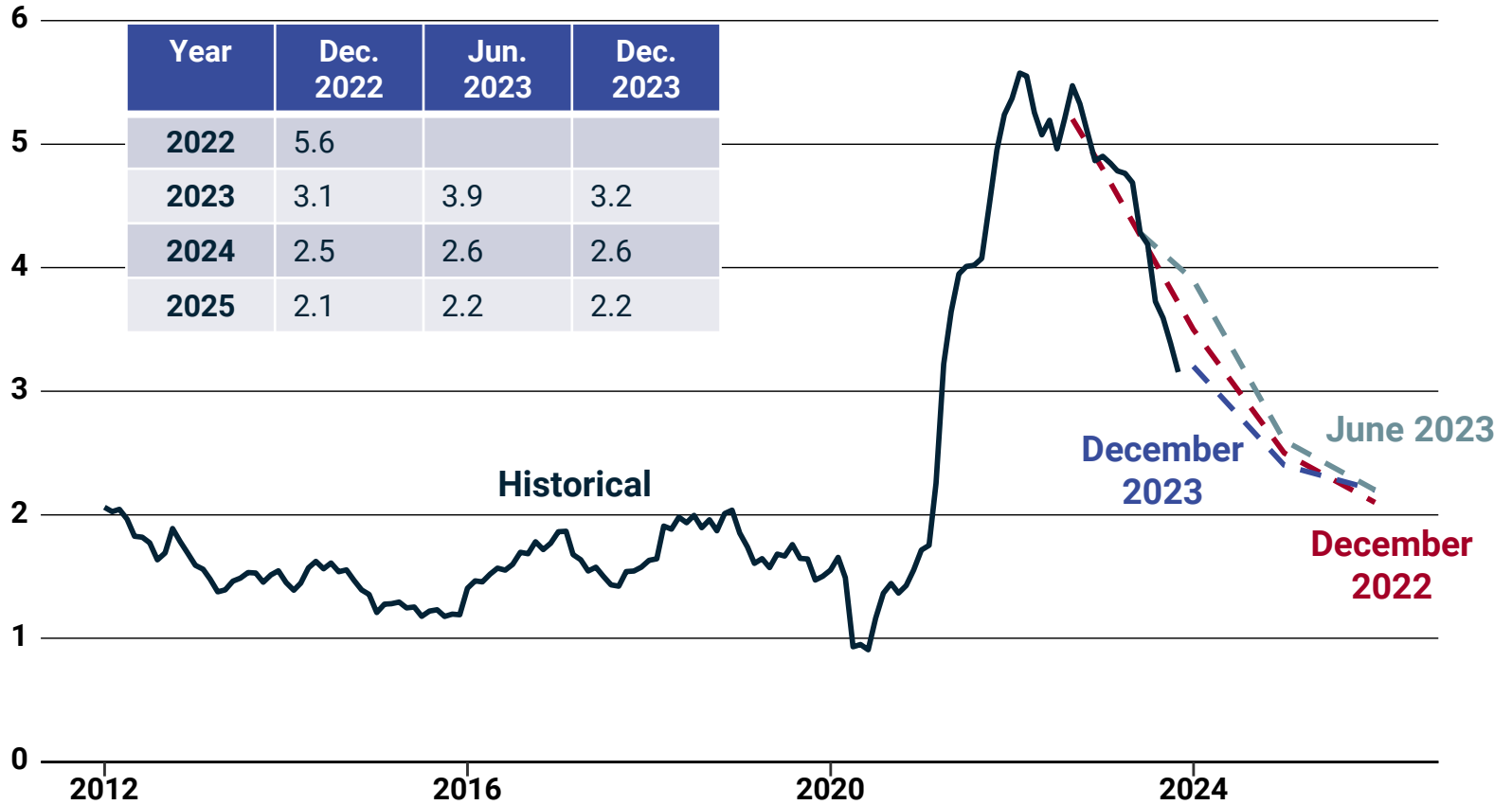


Source: BLS via Haver Analytics, FOMC Summary of Economic Projections

Core PCE inflation projections

Core PCE inflation and Median SEPs

(percent change from one year ago, SAAR)

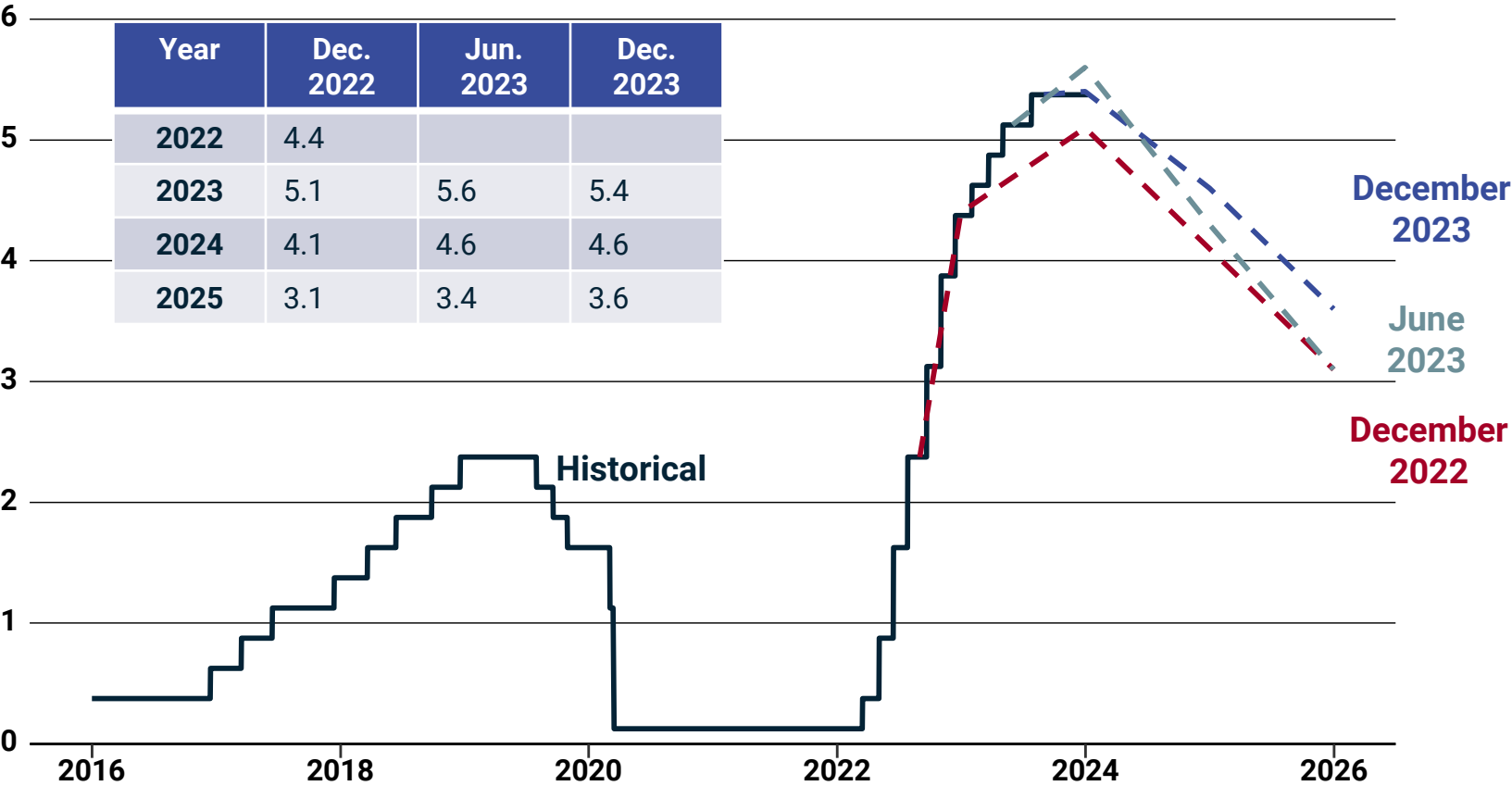


Source: BLS via Haver Analytics, FOMC Summary of Economic Projections

Federal funds rate projections

Federal Funds Rate Target and Median SEPs

(percent)

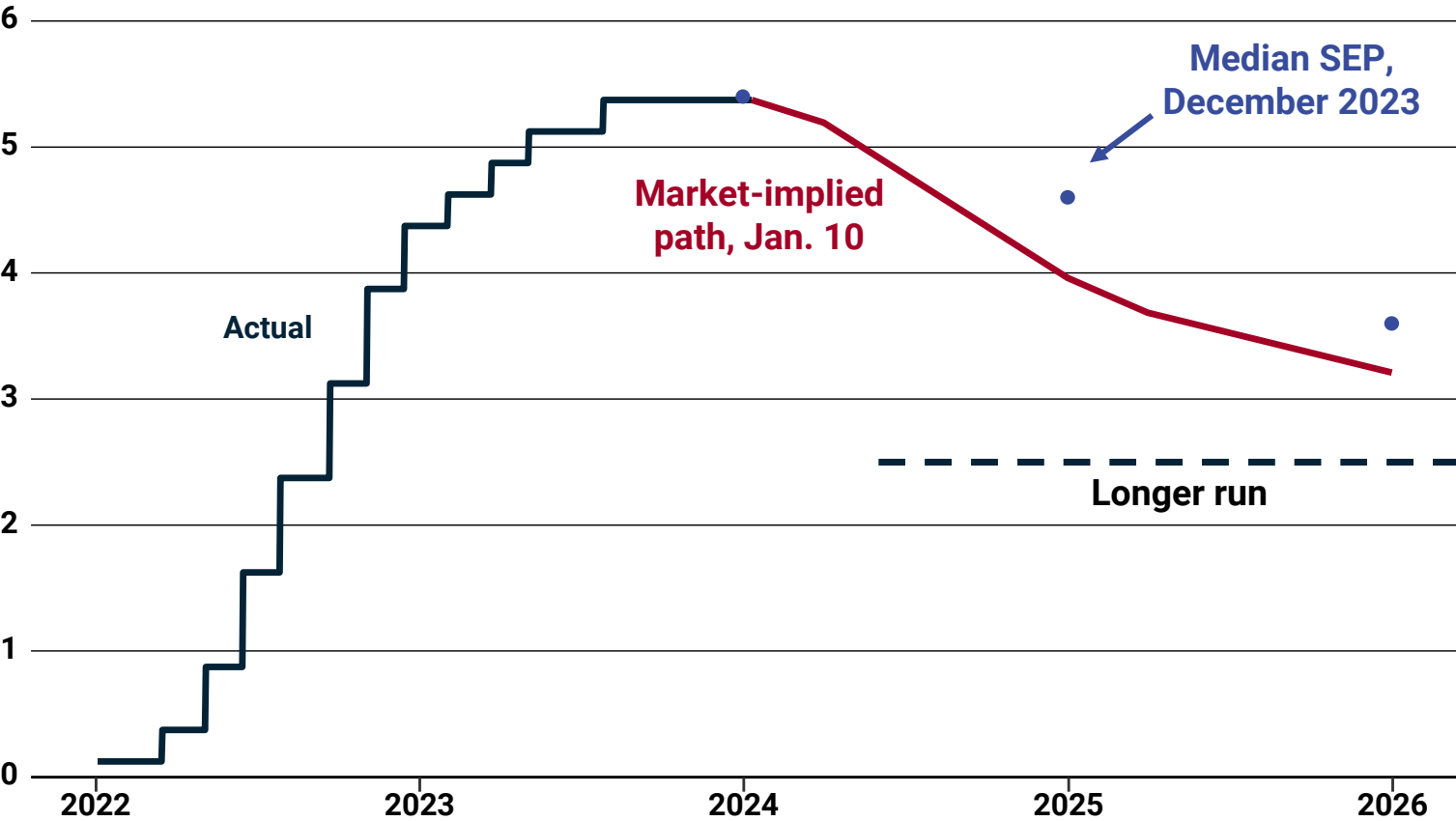


Source: Federal Reserve Board via Haver Analytics, FOMC Summary of Economic Projections

Monetary policy: federal funds rate

Federal Funds Rate, actual and projected

(percent)



Sources: Federal Reserve Board of Governors

Risks to a Benign Forecast

- **Risk of additional/over tightening**
 - What we've put in place is too much
 - Inflation could be more persistent and need to tighten more
 - Credit conditions could tighten beyond what expect from monetary tightening, e.g. fallout from CRE, banking stress
- **External shocks**
 - Threats to growth in Europe, China; broad-based international tightening of monetary policy
 - External shocks derailed us in the past (1990, 2001)
- **Consumer could retreat**

Monetary policy the key going forward

- **Pandemic-related distortions are mostly resolved**
 - Supply side repair largely run its course
 - Pent up demand satisfied
- **Monetary policy must do the heavy lifting now**
- **Looking for below trend growth and further softening in labor market**



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