



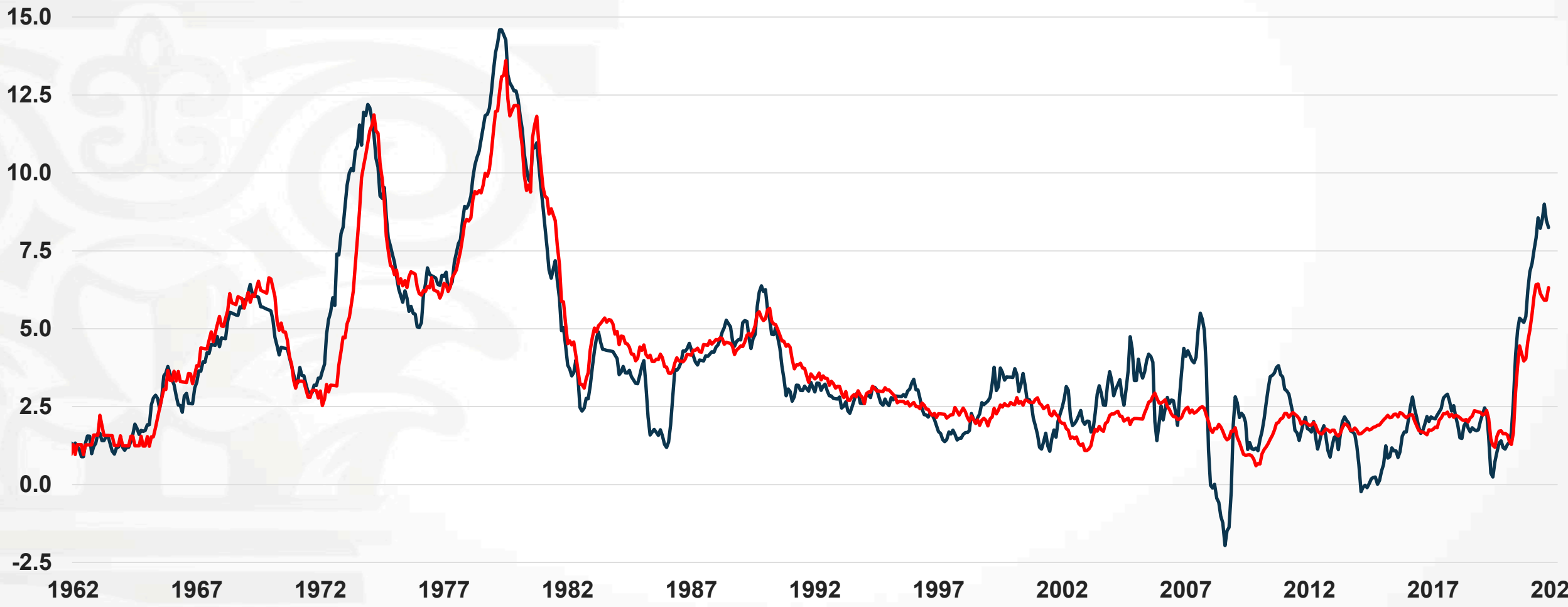
FEDERAL  
RESERVE  
BANK  
*of* ATLANTA

# Has Peak Inflation Come and Gone?

October 2022

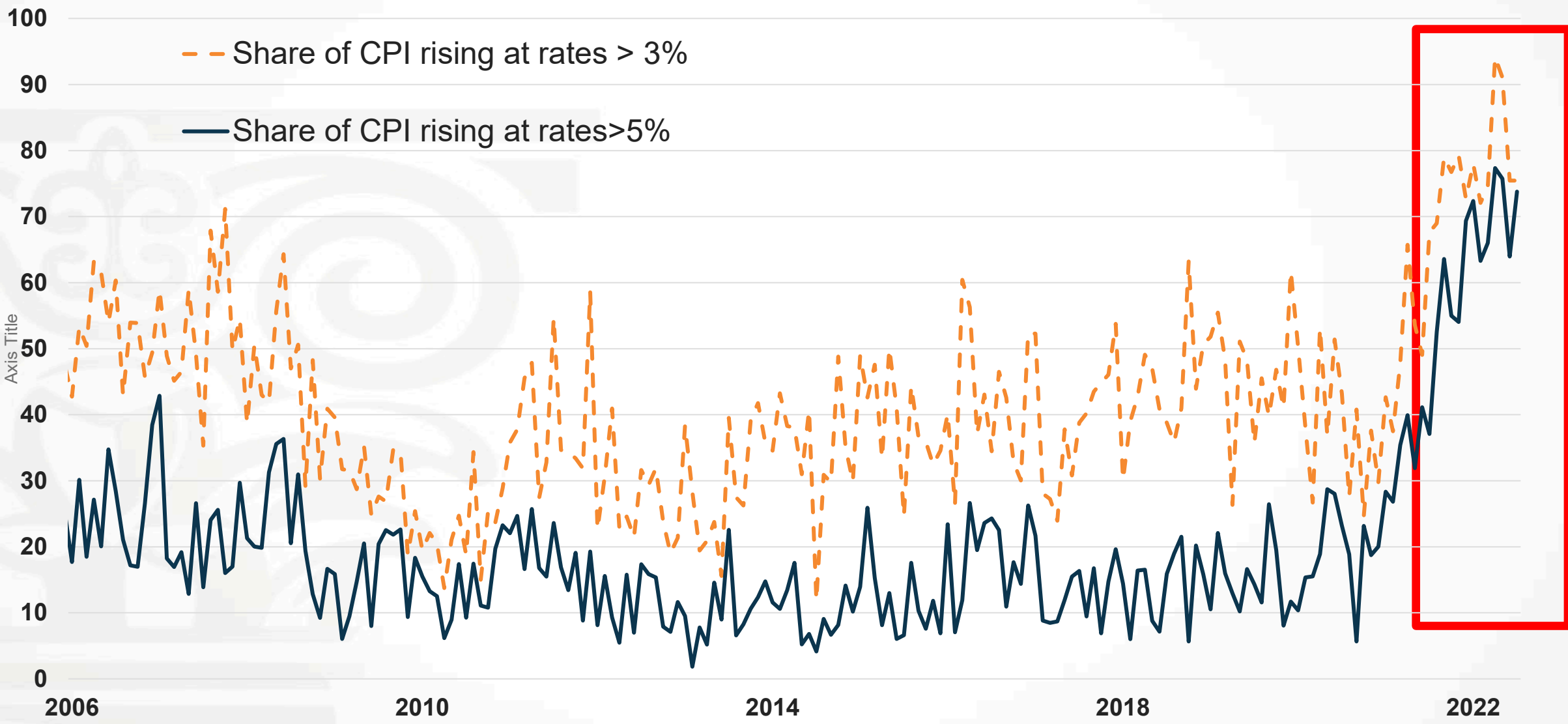
# You may have heard about that inflation thing.

- Consumer Price Index for All Urban Consumers: All Items in U.S. City Average
- Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average



Source: U.S. Bureau of Labor Statistics. Haver Analytics; Data through Jul 2022

# The breadth of the price acceleration has been remarkable.



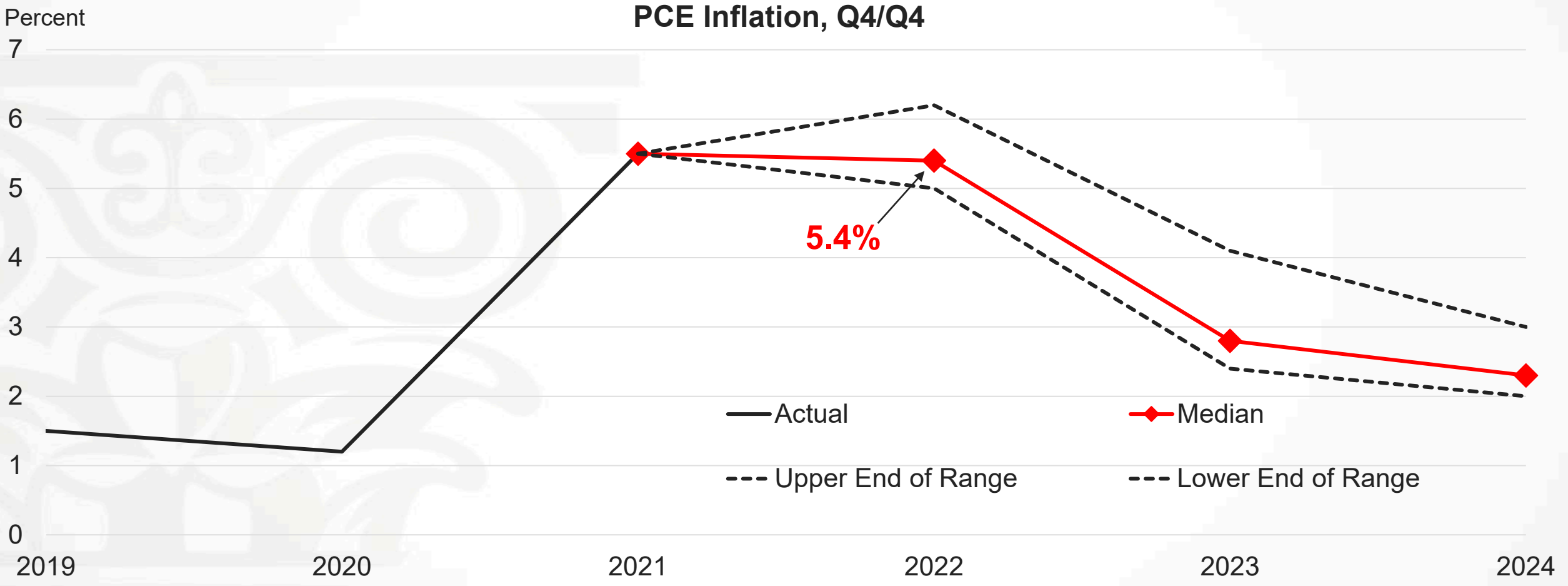
# Most measures still say: The inflation trend is too much.

## The Atlanta Fed Inflation Dashboard

Inflation Measure (12-month) Growth Rate	Aug 2021	Aug 2022
Core PCE Index		
Market-Based PCE Index		
FRB Dallas Trimmed-Mean Index		
FRB San Francisco Cyclical Core PCE Index		
Stock and Watson Cyclically Sensitive Inflation		
Core CPI		
FRB Cleveland Median CPI		
FRB Cleveland 16% Trimmed-Mean CPI		
FRB Atlanta Sticky-Price CPI		

# The latest inflation outlook, from the Federal Open Market Committee.

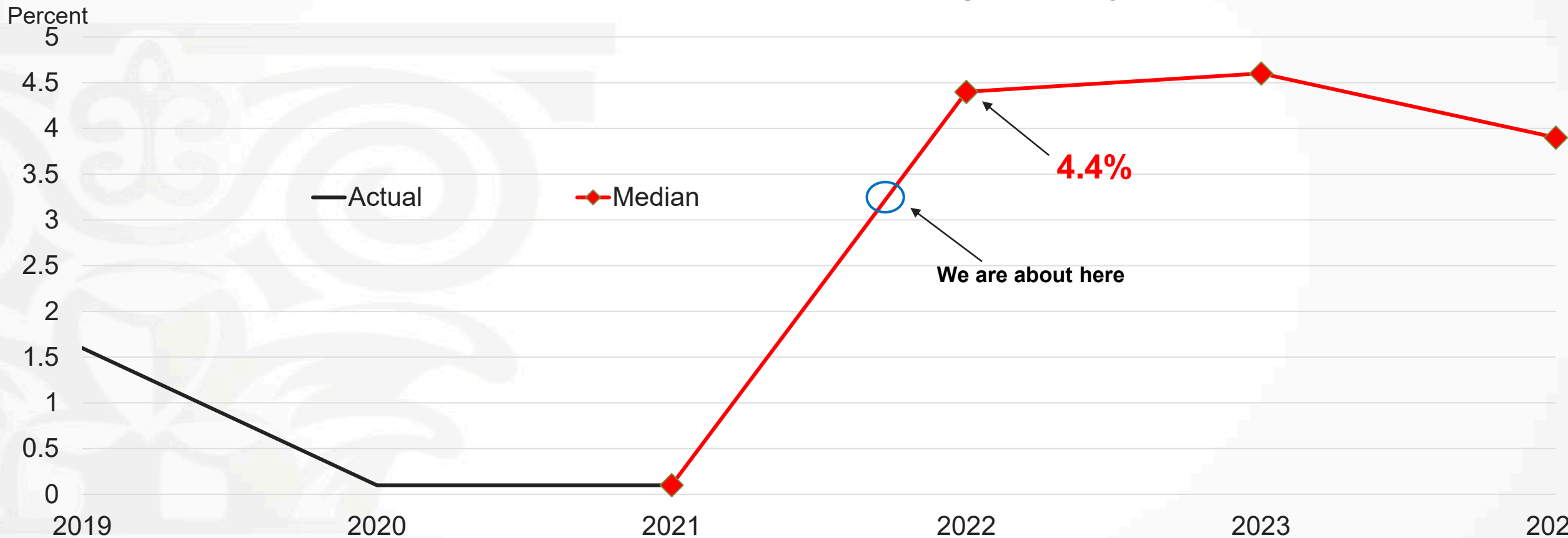
### Medians and ranges of economic projections: PCE Inflation, Q4/Q4



Source: Federal Open Market Committee Summary of Economic Projections from September 21, 2022. Figure 1:  
<https://www.federalreserve.gov/monetarypolicy/fomcprohtable20220921.htm>

# This projection is supported, in part, but a pretty significant increase in the policy interest rate.

Median projection:  
Federal Funds Rate, midpoint of range, end of year



Source: Federal Open Market Committee Summary of Economic Projections from September 21, 2022.  
<https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20220921.htm>

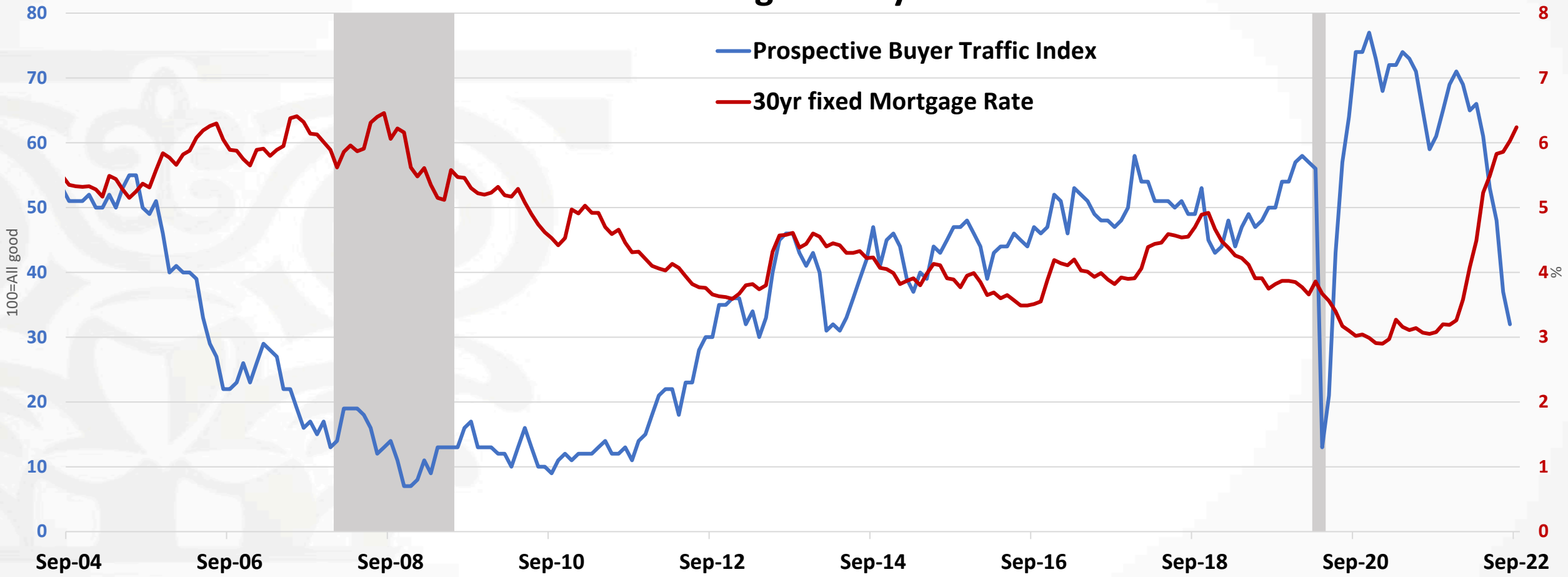
# Financial conditions have tightened, but probably not quite enough yet.

## National Financial Conditions Index (NFCI)



# The impact of tighter monetary policy in interest rate sensitive sectors such as housing *is* showing up...

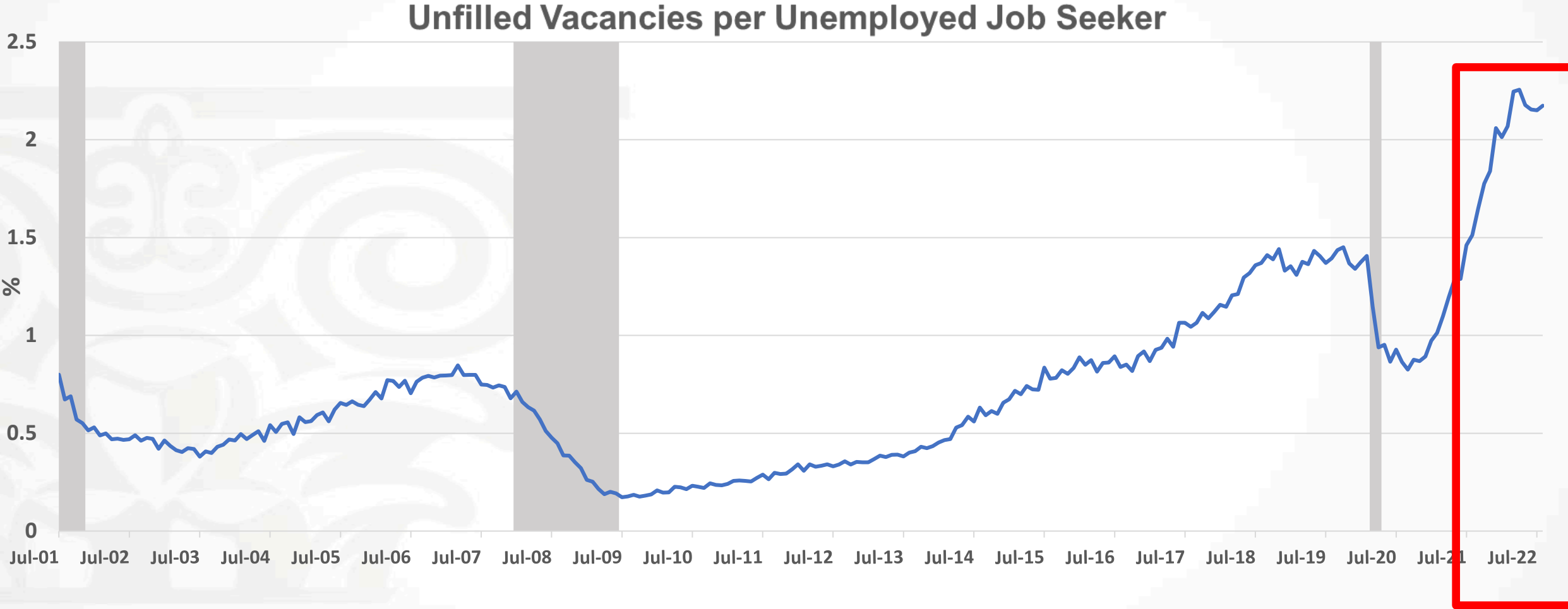
## Housing Activity



Source: National Association of Home Builders, Wall Street Journal. Data through September 21, 2022

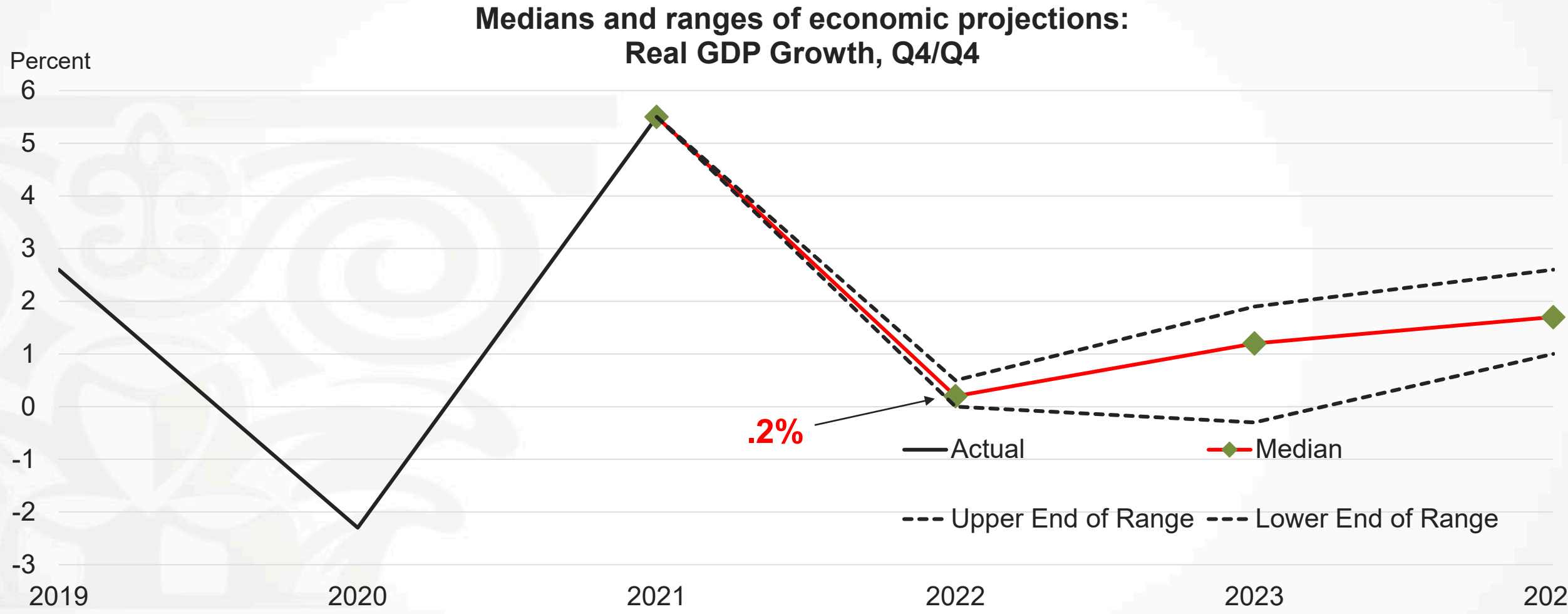


# There are still more than 2 job vacancies for every unemployed job seeker.



Source: U.S. Bureau of Labor Statistics. Data through August 2022 (the June value is an estimate that assumes vacancies for June continue the trend decline from the April 2022 peak). Unemployed excludes those on temporary layoff

# ... but hopes of a “soft landing” have not yet faded.



Source: Federal Open Market Committee Summary of Economic Projections from September 21, 2022. Figure 1 <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20220921.htm>

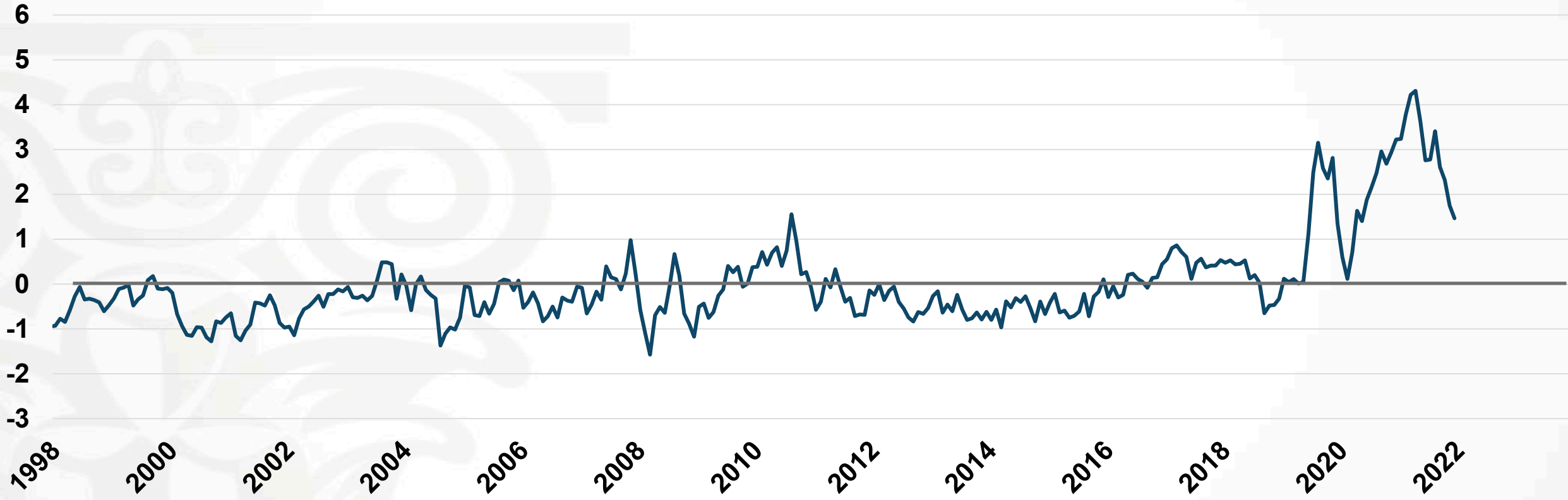
# What needs to go right?

**1. Supply constraints have to continue easing.**

# Though we hear of some progress in pockets, broad-based improvement is still unclear.

Standard deviations from average value

## Global Supply Chain Pressure Index



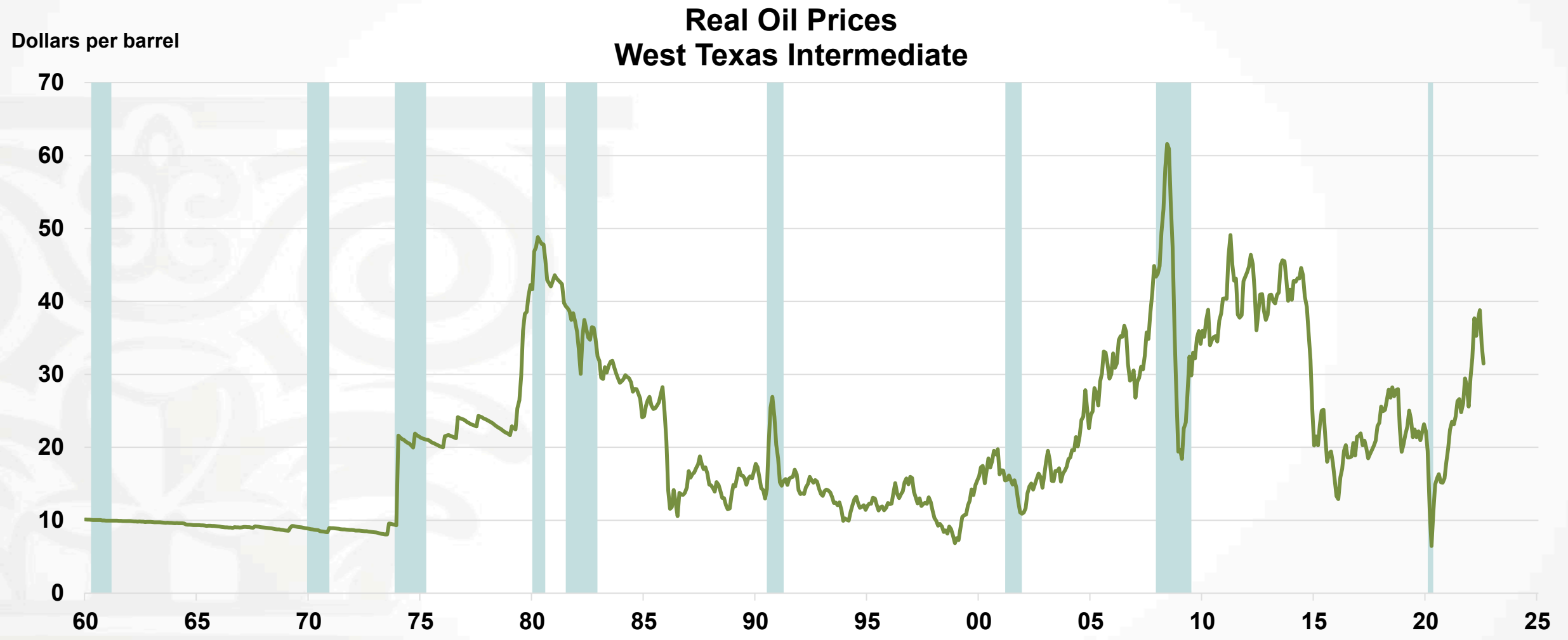
Sources: Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Bloomberg L.P.; authors' calculations.

Note: Each index is scaled by its standard deviation

# What needs to go right?

1. Supply constraints have to continue easing.
2. **On energy prices, history can't repeat itself.**

# A few breaks on the commodity front will help.

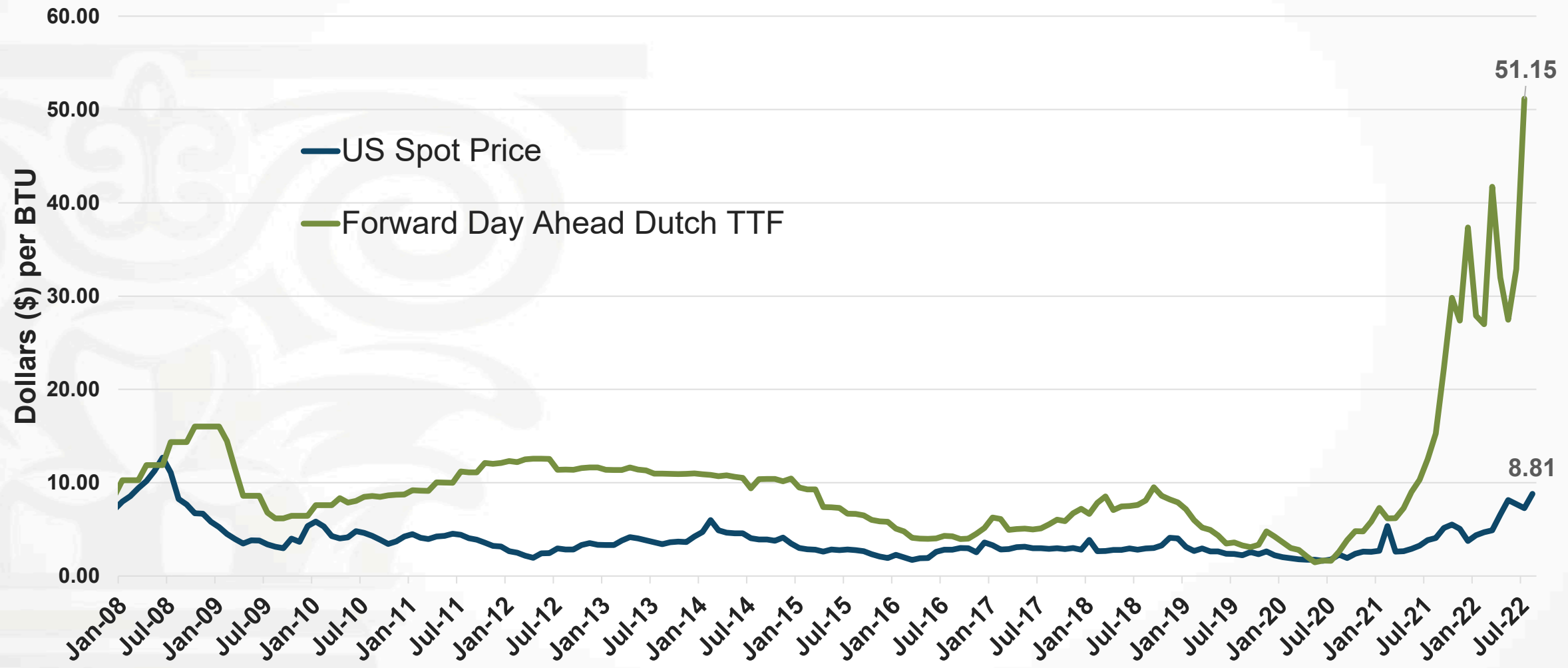


Note: Real oil prices calculated in 1982-1984 dollars using the consumer price index

through Aug 2022

# US gas prices have stayed relatively low compared to the EU

## U.S. vs European Natural Gas Prices



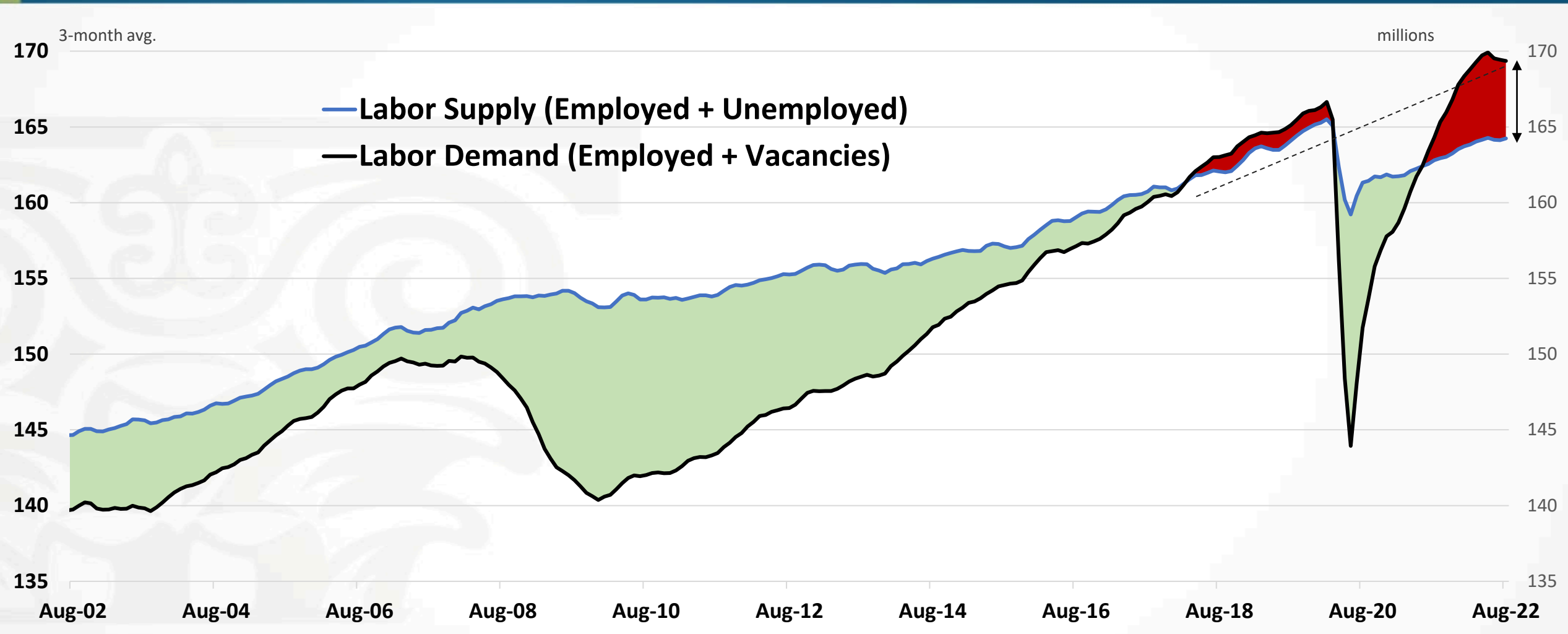
Source: FRED, International Monetary Fund

# What needs to go right?

1. Supply constraints have to continue easing.
2. On energy prices, history can't repeat itself.
3. **Labor supply needs to keep growing...**



# Overall, the imbalance between labor supply and demand is still large.

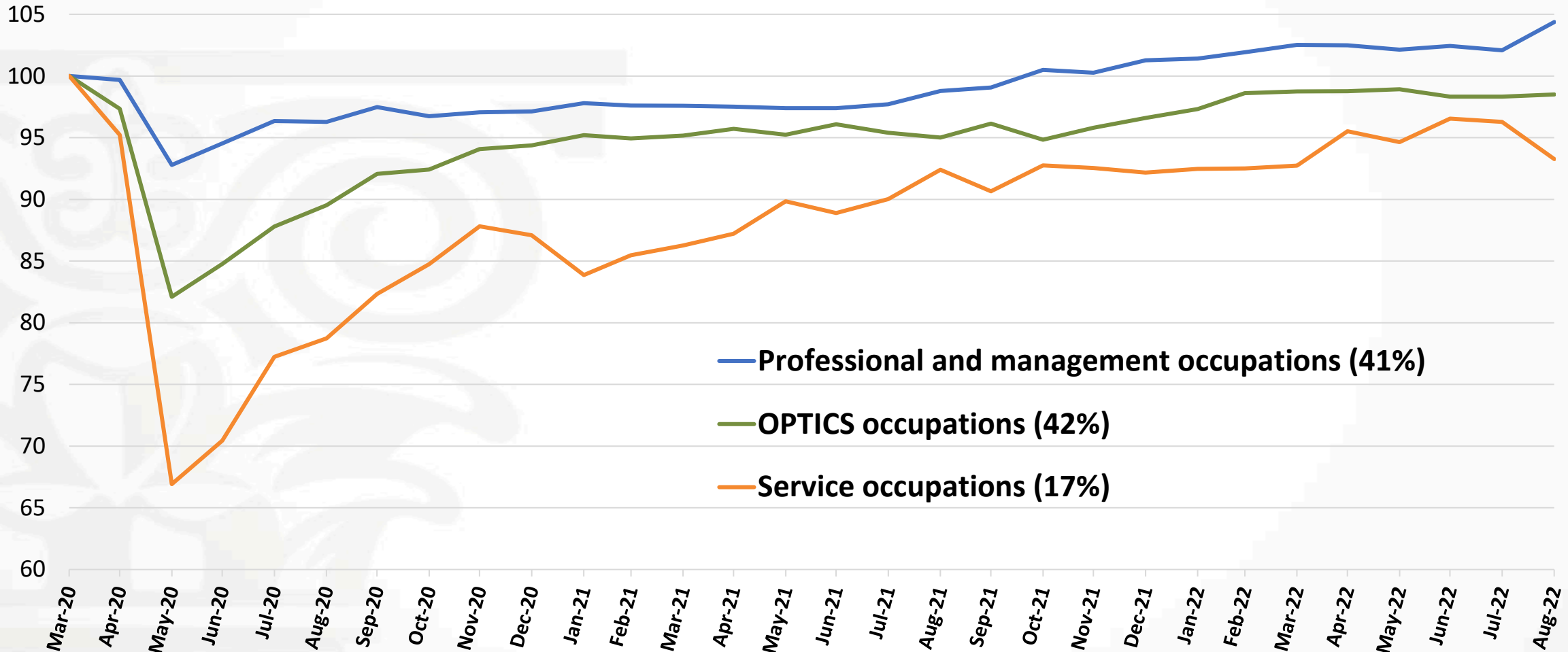


Data through August 2022. Source: For labor force and employment, BLS, Current Population Survey (adjusted for effects of population controls). For job openings, BLS, Job Openings and Labor Turnover Survey. The August value for job openings uses an average of the previous three months.

# We have finally recovered the jobs lost due to Covid, but the recovery has not been even.

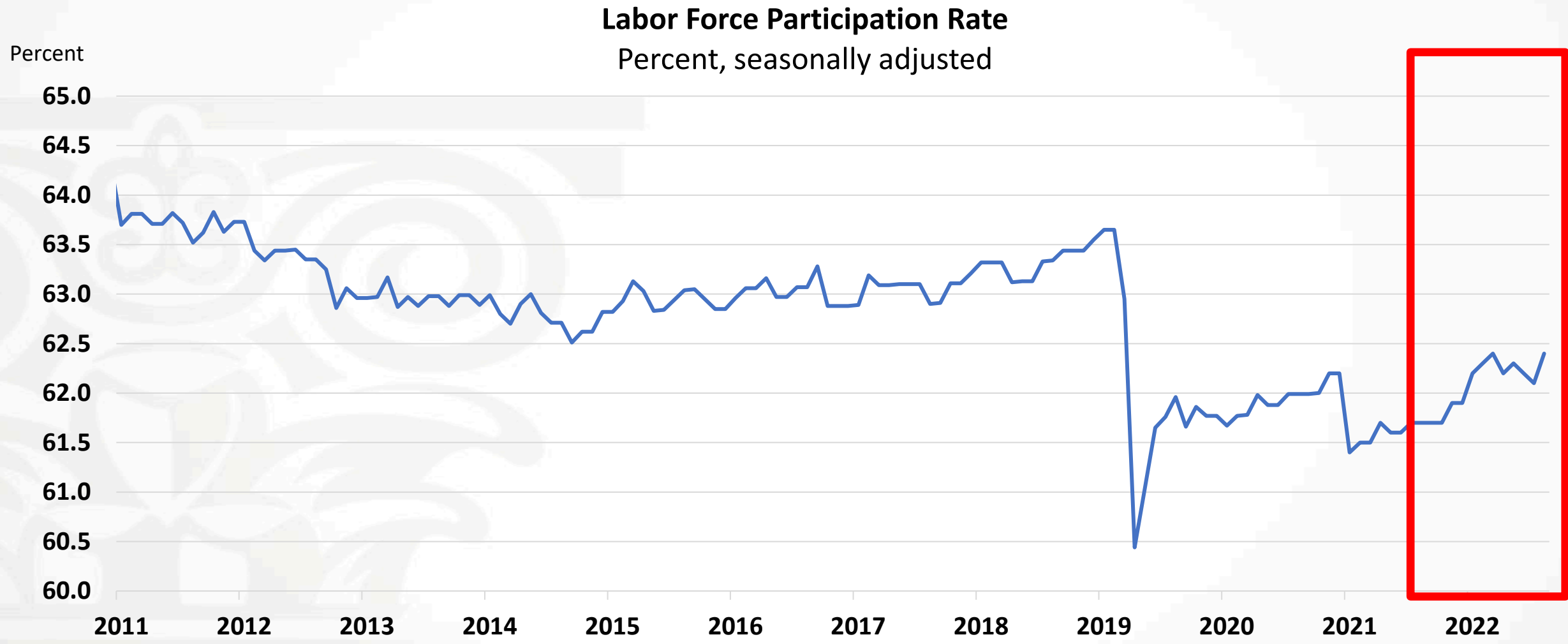
## Employment by Occupation

Index: Mar 2020 = 100



Source: Current Population Survey, staff calculations. All series are seasonally adjusted. OPTICS occupations include Office and admin support; Production; Transportation and material moving; Installation, maintenance and repair; Construction and extraction; and Sales and related. Share of total jobs in February 2020 shown in parentheses. Data through Aug 2022.

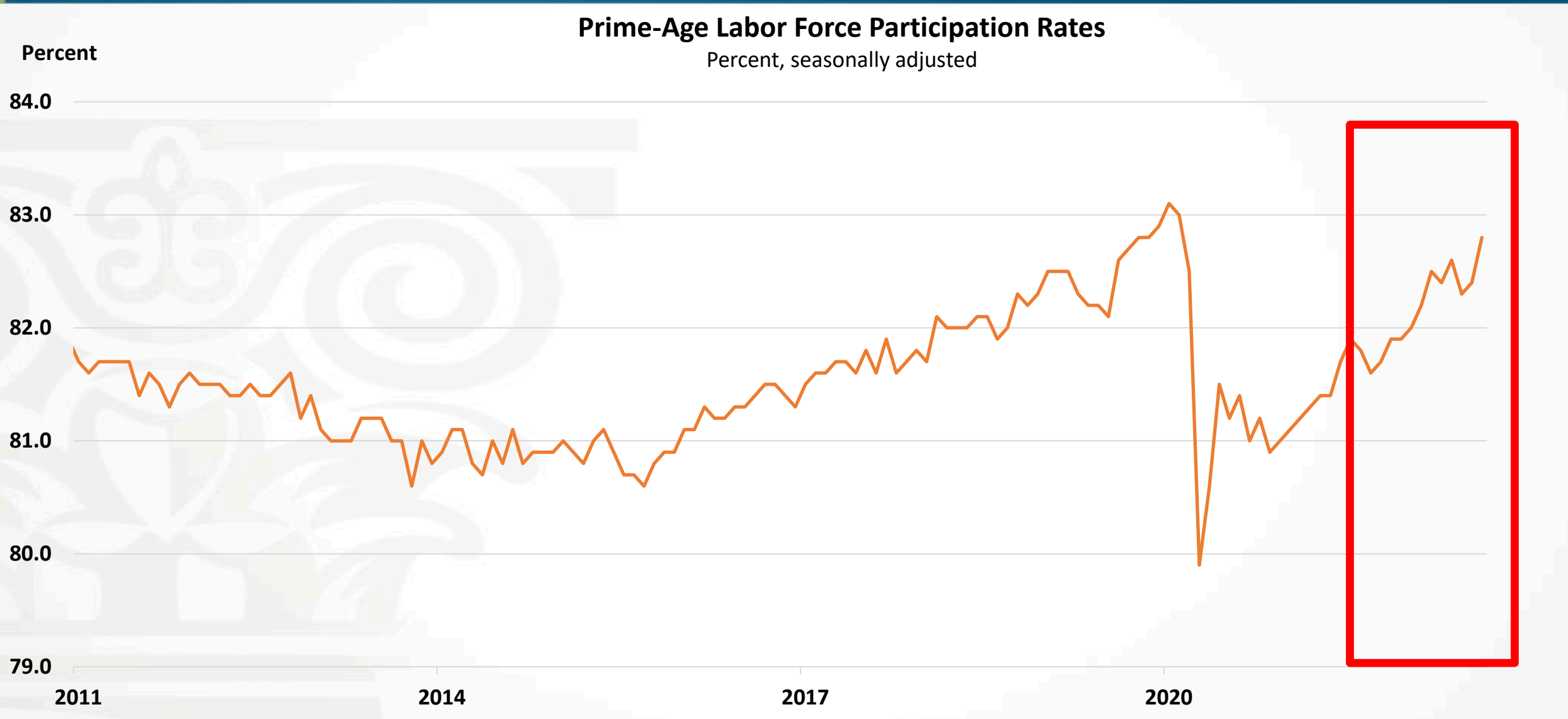
# Labor force participation rates would seem to suggest some room to move in labor markets...



Source: Bureau of Labor Statistics and staff calculations to historically adjust for population controls.

Through Aug 2022

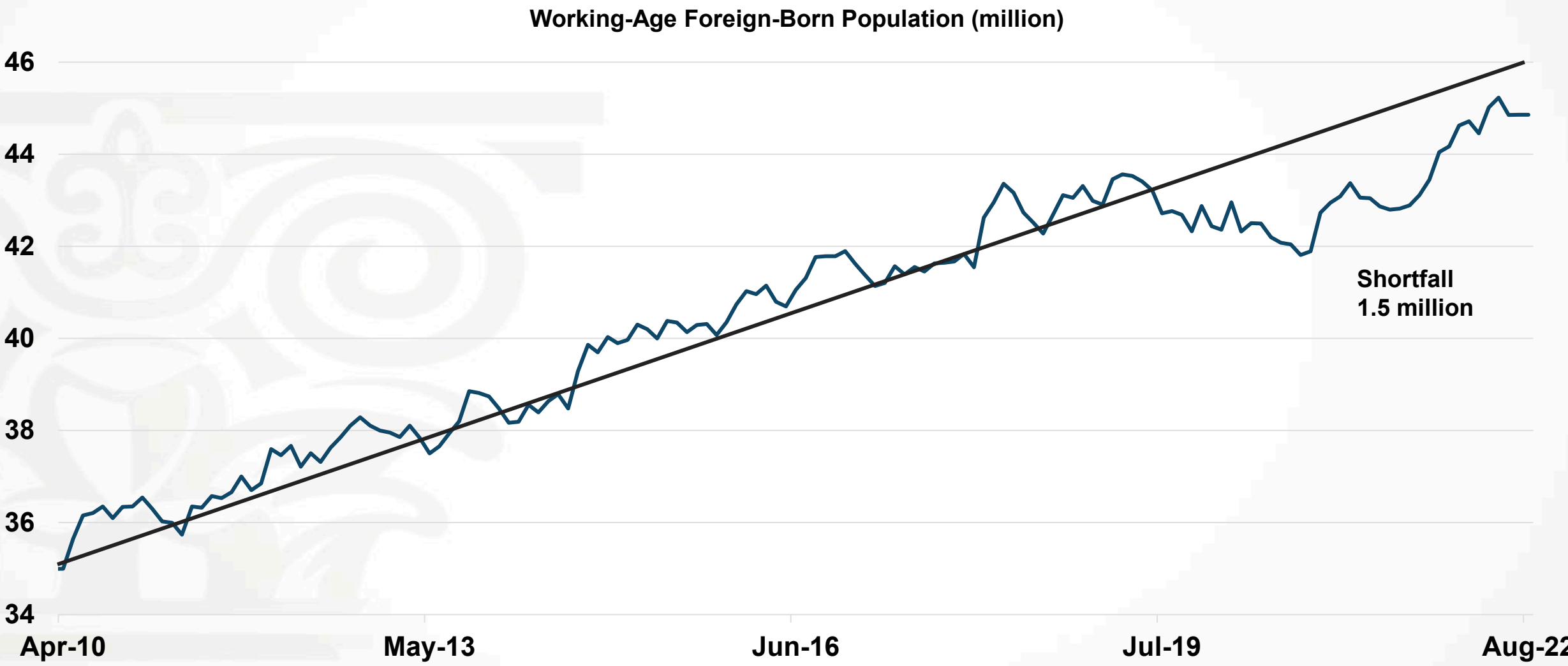
# ... but the “prime-age” participation rate has recovered to levels that prevailed for most of 2019.



Sources: Bureau of Labor Statistics; Haver Analytics

Through Aug 22

# The foreign-born working-age population is still shy of the decade-long pre-pandemic trend.

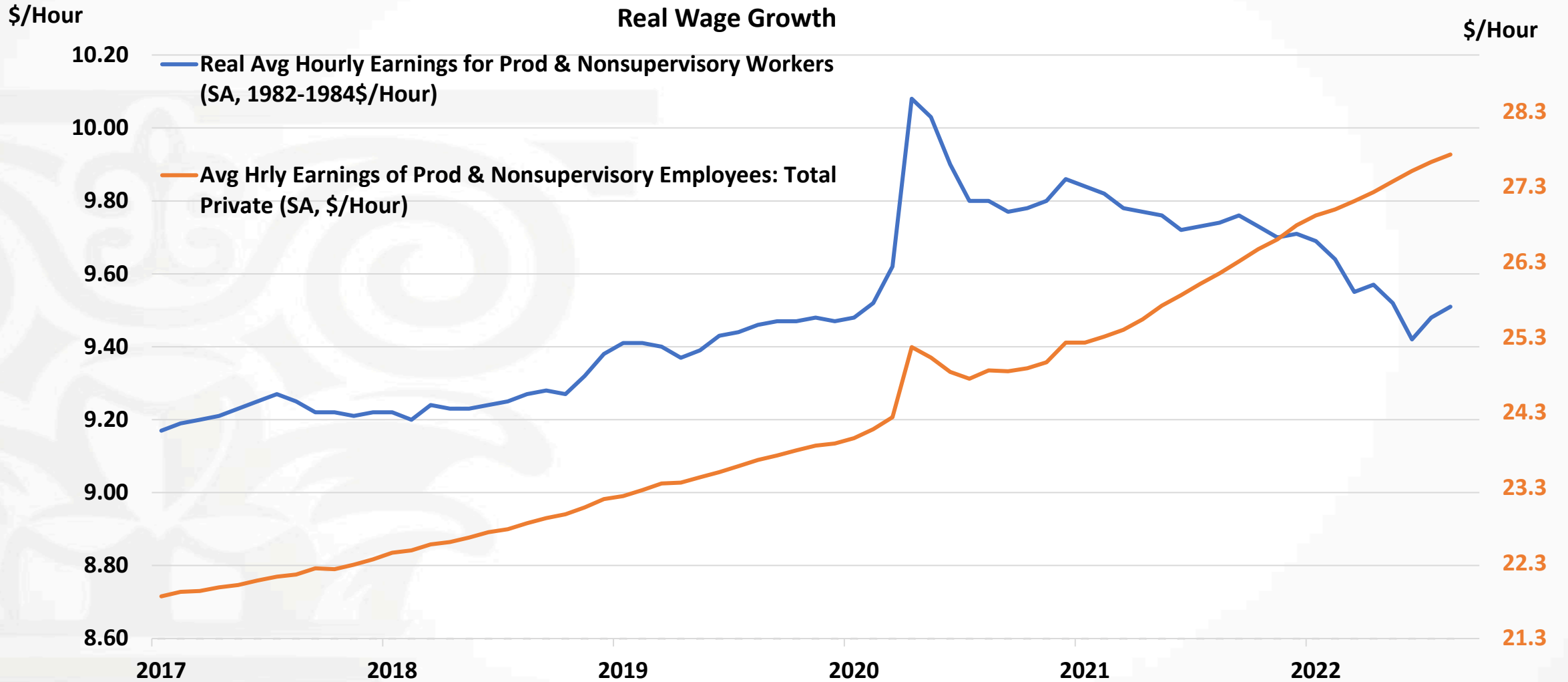


Source: Bureau of Labor Statistics, staff calculations. Population aged 16+

# What needs to go right?

1. Supply constraints have to continue easing.
2. On energy prices, history can't repeat itself.
3. **Labor supply needs to keep growing...but it probably needs to happen without accelerating wage pressure.**

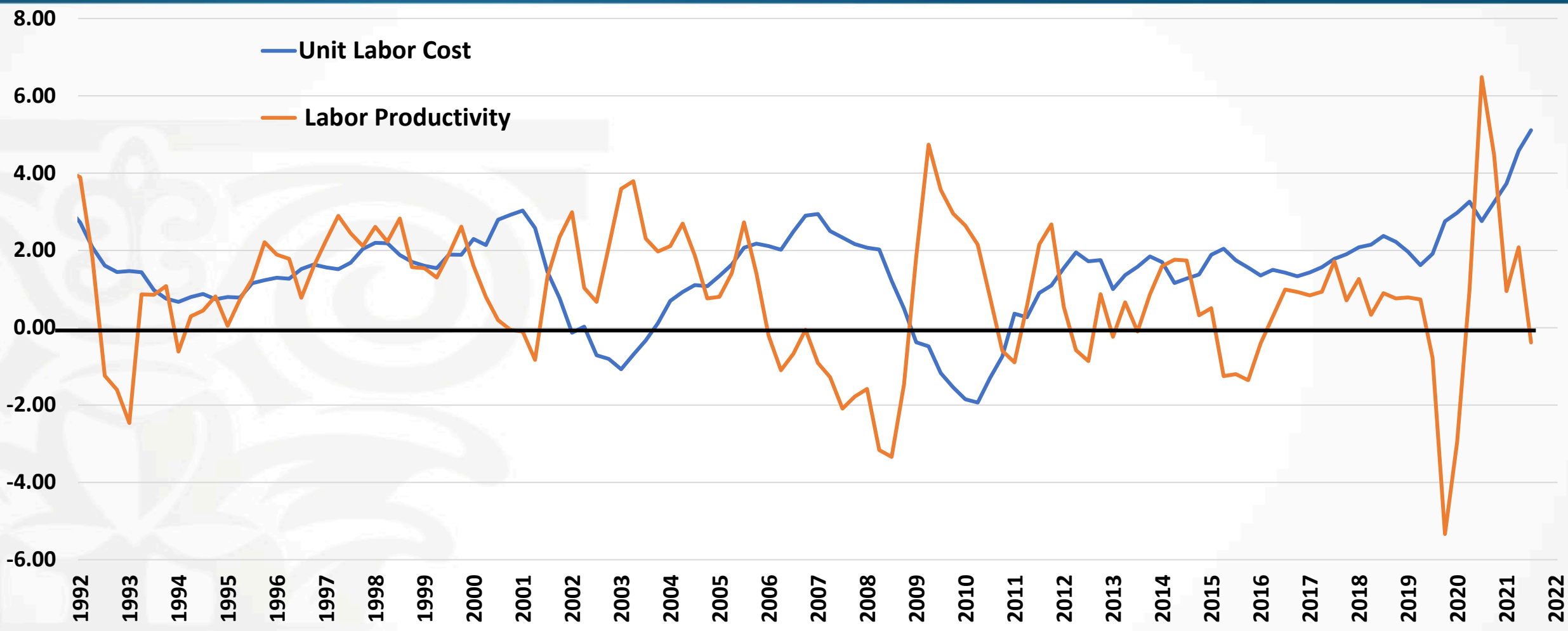
# Wages are rising, but not when adjusting for inflation: Is a catch-up in the cards?



Source: Bureau of Labor Statistics/Haver Analytics

Through Sept 22

# Unfortunately, productivity is waning and labor costs are waxing.



Source: U.S. Bureau of Labor Statistics. Data through Sep 2022 (Quarterly five-year moving average)



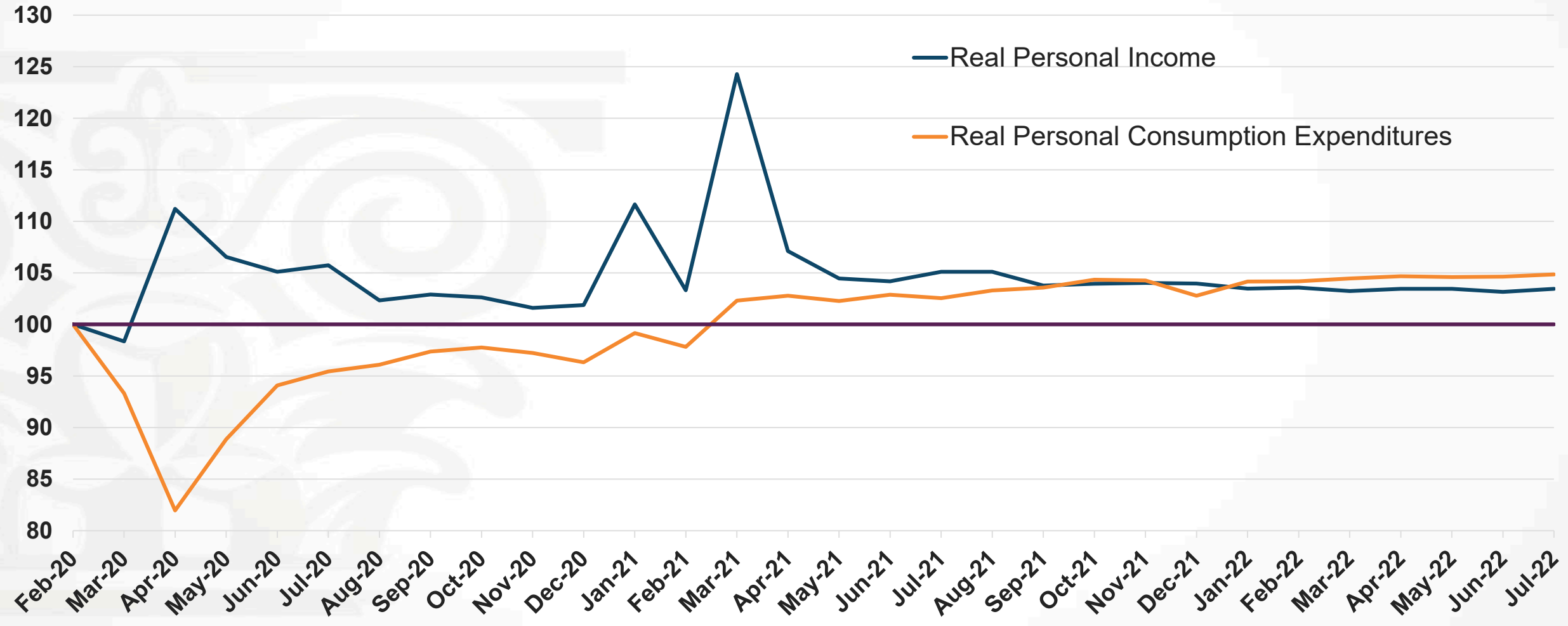
# What needs to go right?

1. Supply constraints have to continue easing.
2. On energy prices, history can't repeat itself.
3. Labor supply needs to keep growing...but it probably needs to happen without accelerating wage pressure.
4. **Demand has to moderate (but not *too much*).**

# Real personal income has not been growing – real consumer spending has, but only slowly.

Feb 2020 = 100

### Real Personal Income & Outlays

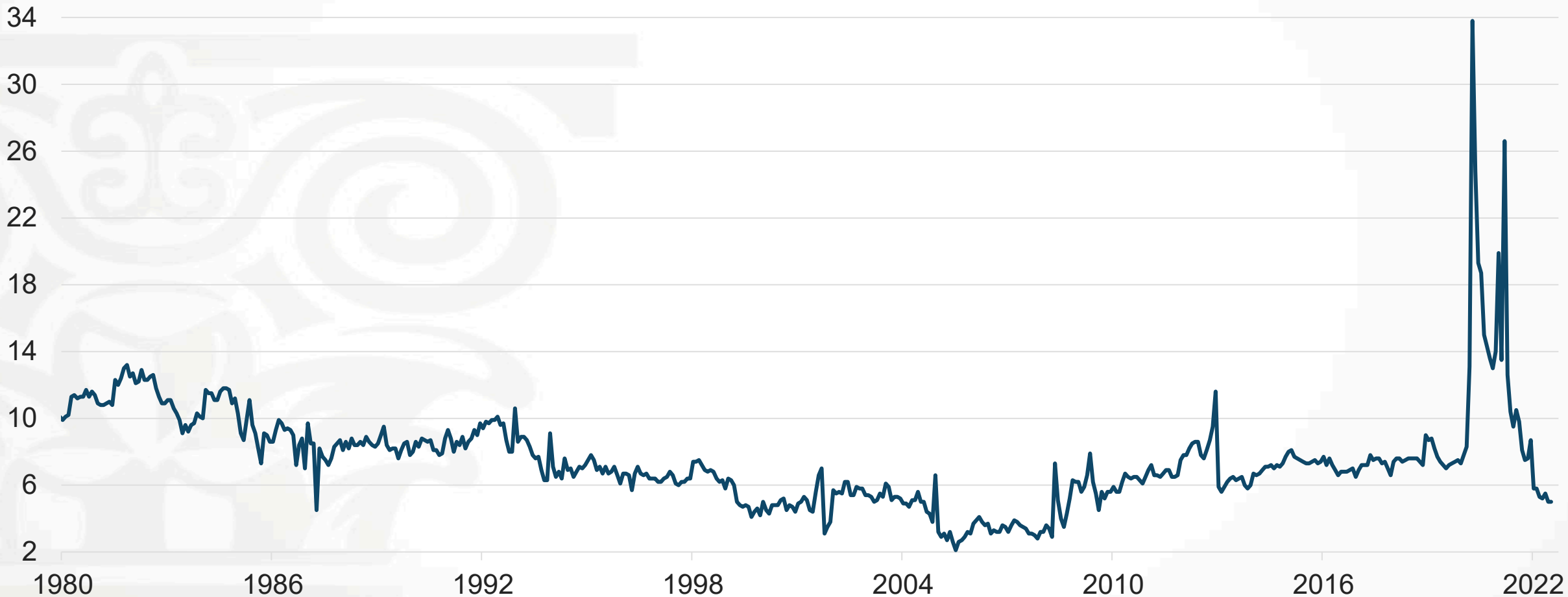


Source: Bureau of Economic Analysis / Haver Analytics / Atlanta Fed Calculations

# The elevated personal savings rate is not so elevated anymore.

Percent, Seasonally Adjusted Annual Rate

## Personal Savings Rate

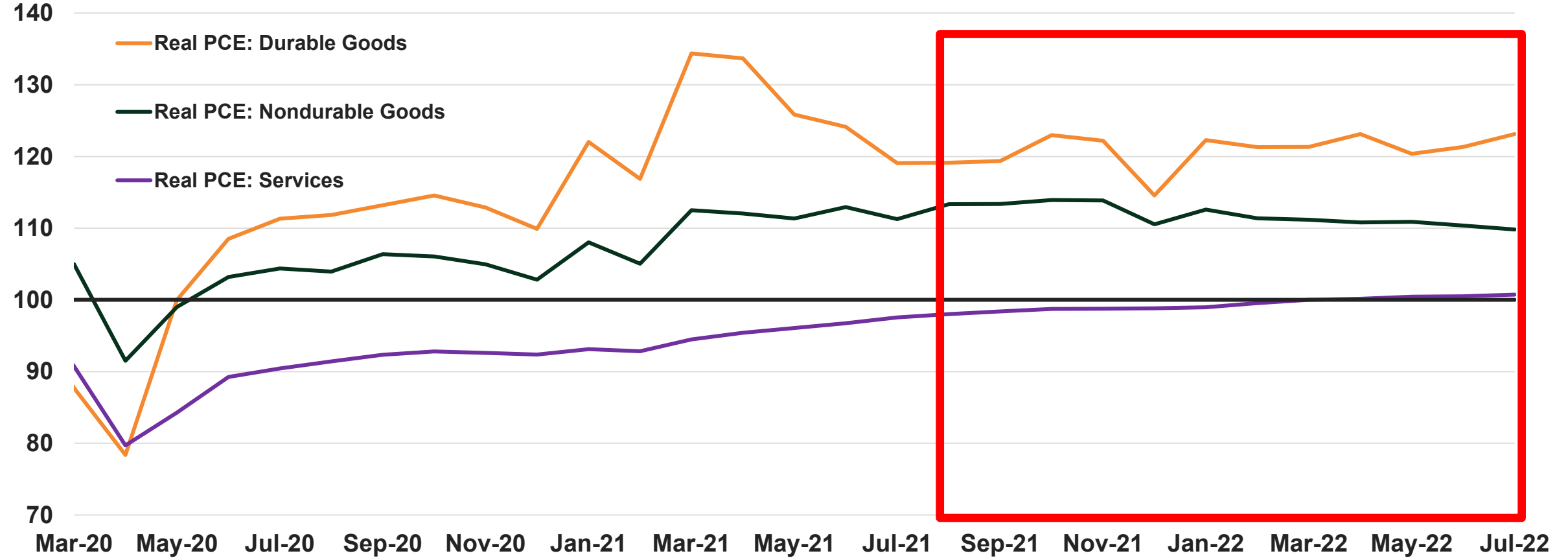


Sources: Bureau of Economic Analysis, Federal Reserve Economic Data (FRED)

# The pivot to services consumption continues...

Index: Feb 2020 = 100

## Real Personal Consumption Expenditures



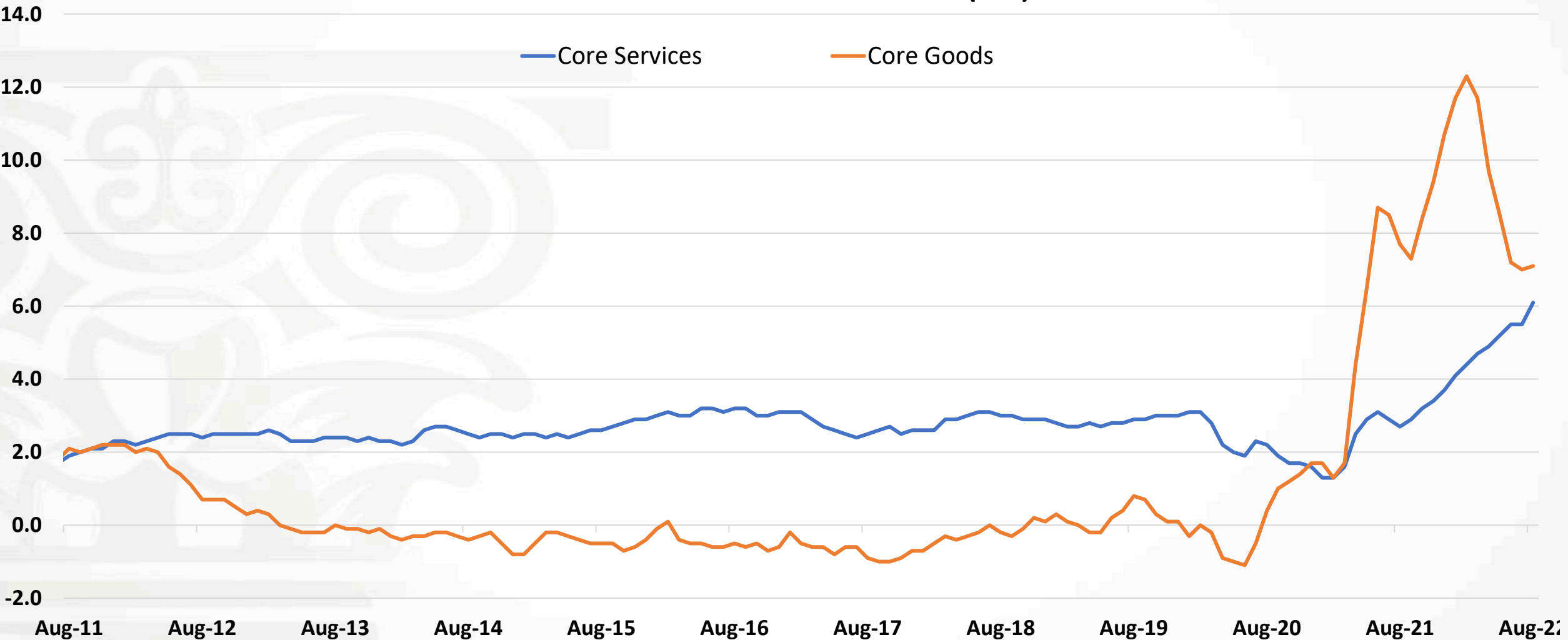
Source: Bureau of Economic Analysis

# ... but goods inflation has not declined to pre-pandemic levels while services inflation has jumped.

Year/Year % Change

### Inflation: Consumer Price Index (CPI)

— Core Services      — Core Goods



Sources: Bureau of Labor Statistics, Haver Analytics

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5. **Inflation cannot become a self-fulfilling prophecy.**

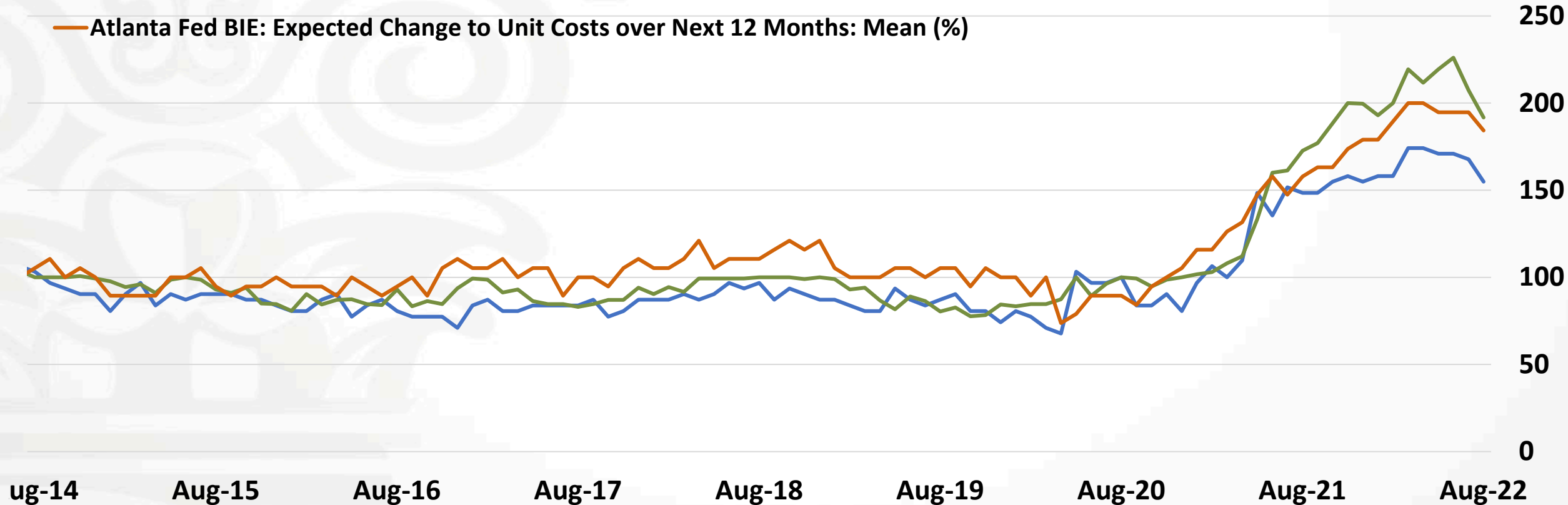
# Near-term inflation expectations are still quite elevated.

## Inflation Expectations

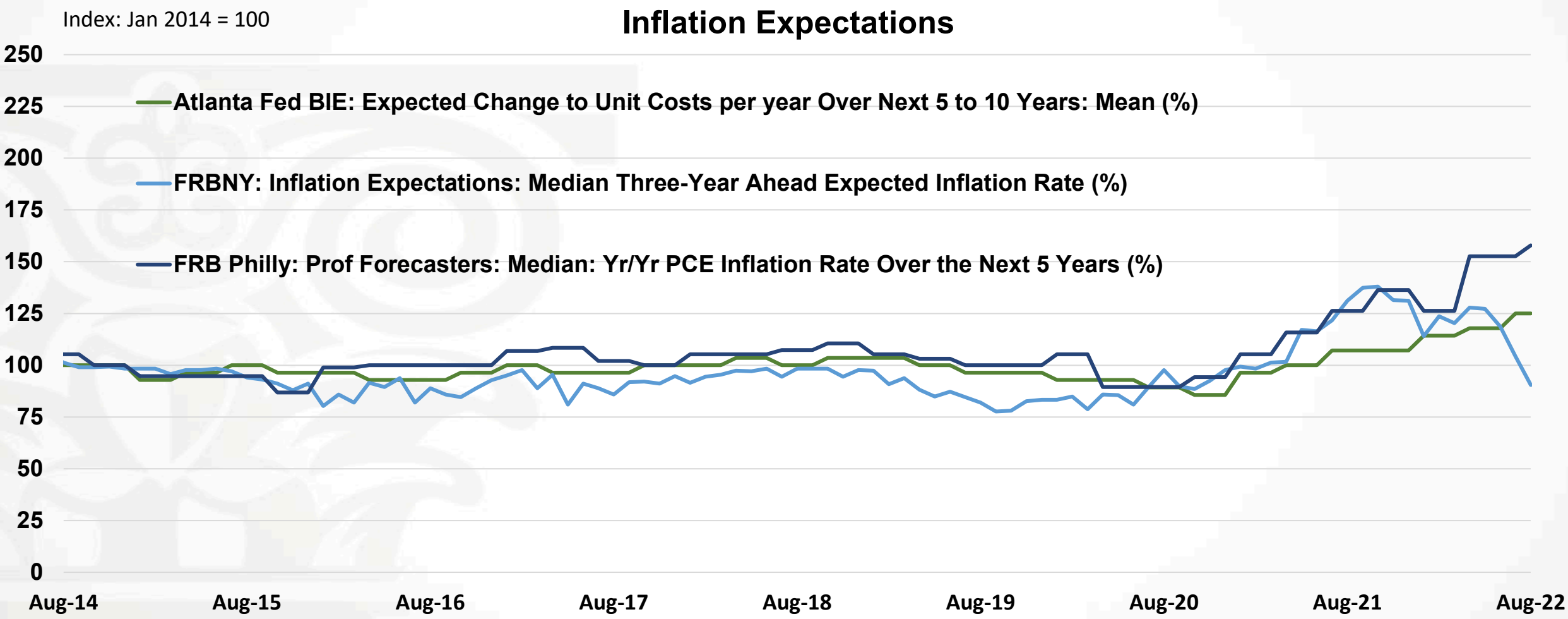
— UMich: Expected Inflation Rate, Next Year (%)

— FRBNY: Inflation Expectations: Median One-Year Ahead Expected Inflation Rate (%)

— Atlanta Fed BIE: Expected Change to Unit Costs over Next 12 Months: Mean (%)



# Longer-term inflation expectations have been more muted, but are drifting up.



Sources: Atlanta Fed, FRBNY, FRB Philly, University of Michigan, Haver Analytics



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3. **Labor supply needs to keep growing...but it probably needs to happen without accelerating wage pressure.**
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