



FEI Central Pennsylvania – Economic Outlook

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Topics Covered Today

We continue to recover from the many changes brought on by the pandemic and continue to navigate a mixed economic data landscape. What are current signals telling us?

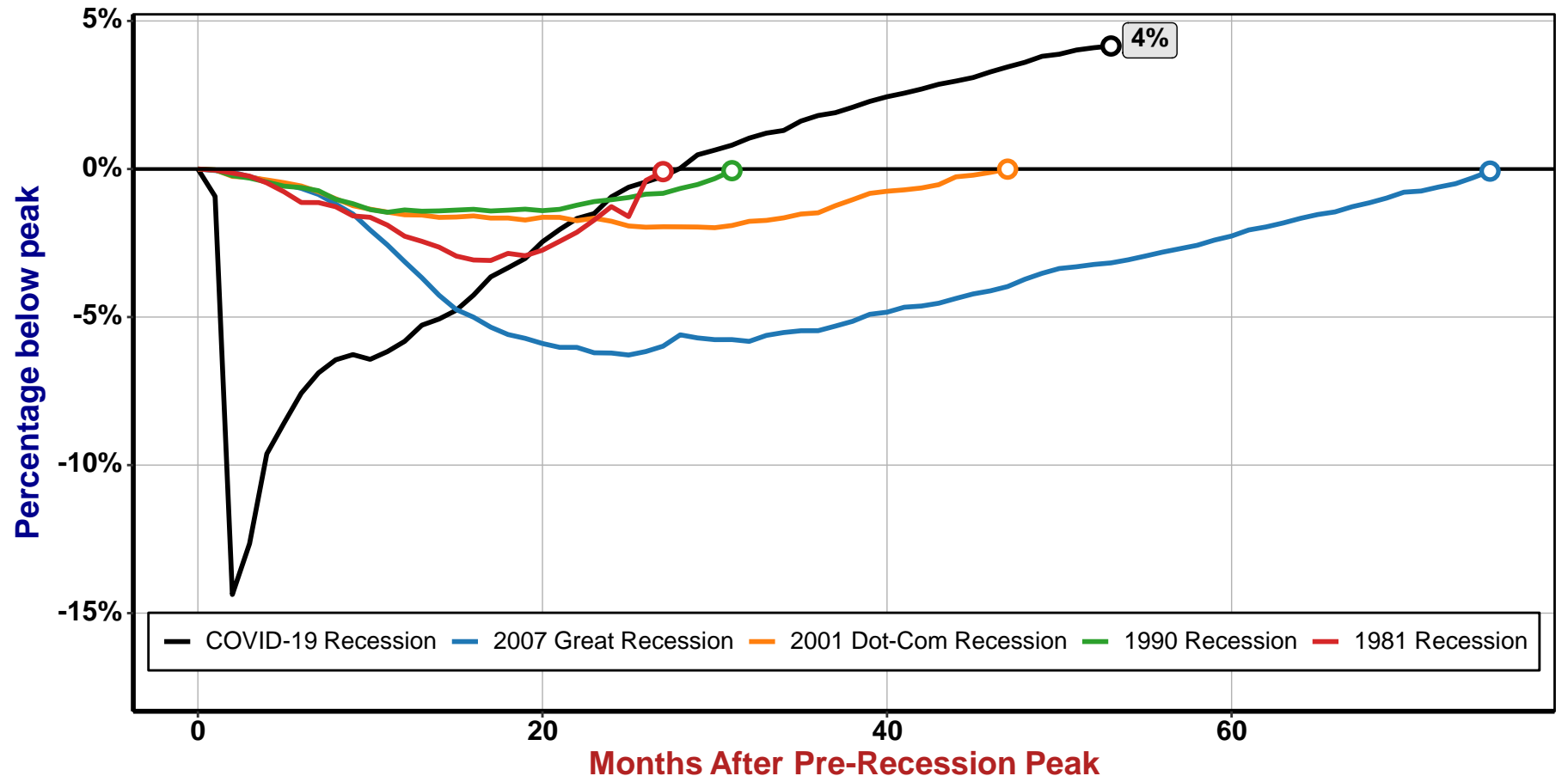
- Labor Market
- Consumers
- Inflation and Monetary Policy
- Housing
- Business Conditions

U.S. Economic Outlook

- Labor Market
 - Rebalanced from pandemic era; growing but slowed; levels are good, cautious of trends
- Consumers
 - still pessimistic; continued strength in spending, but more cost-burdened
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Employment Recovery – COVID vs Other Recent Recessions

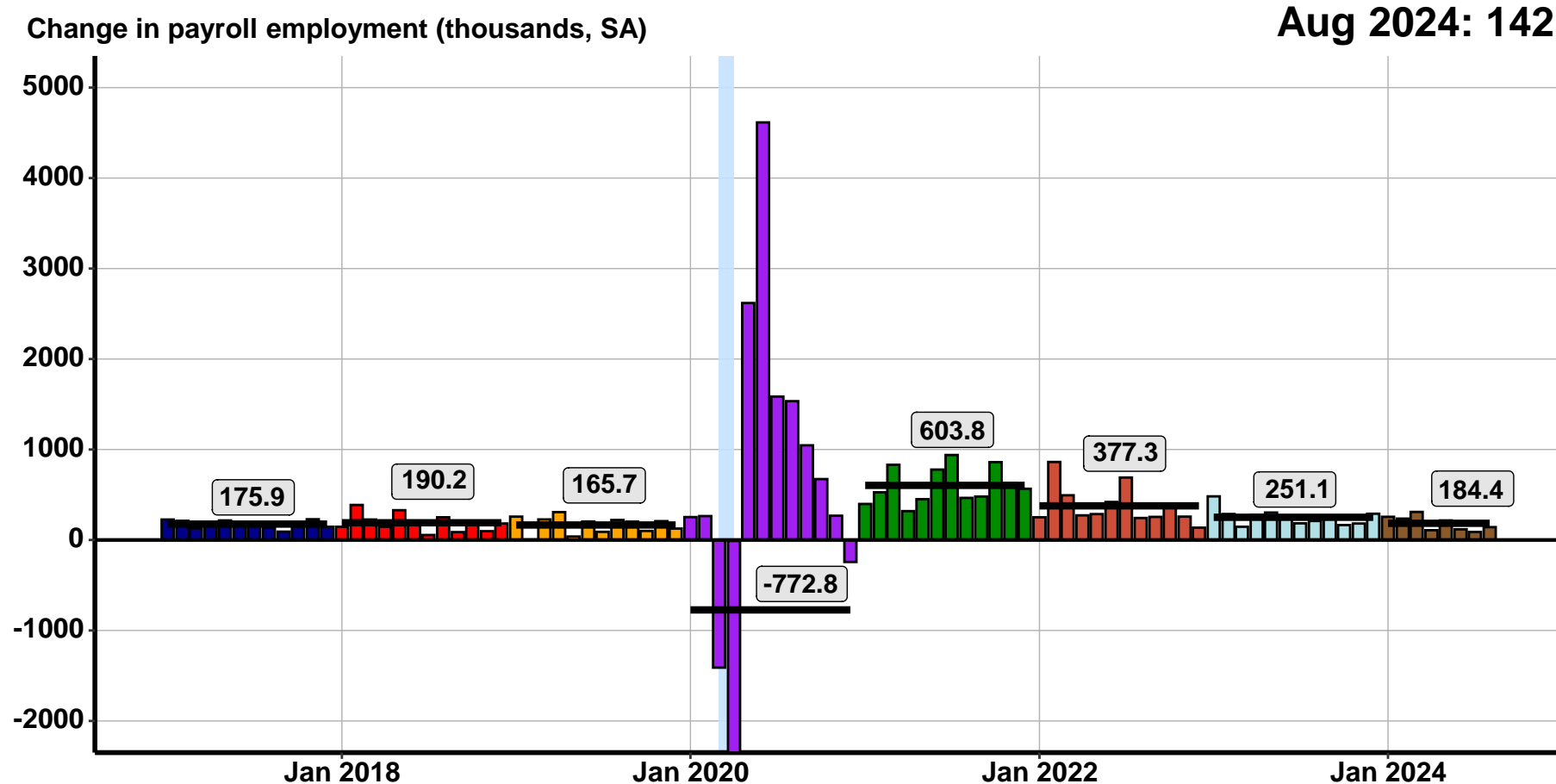
- Unprecedented decline in payroll jobs in April 2020, more extreme than troughs of previous recessions
- Robust recovery
- Where are we now with the labor market?
 - continues to grow – slower pace, but positive



Source: Calculations from BLS via Haver Analytics
Each period's peak determined individually.

U.S. Payroll Employment

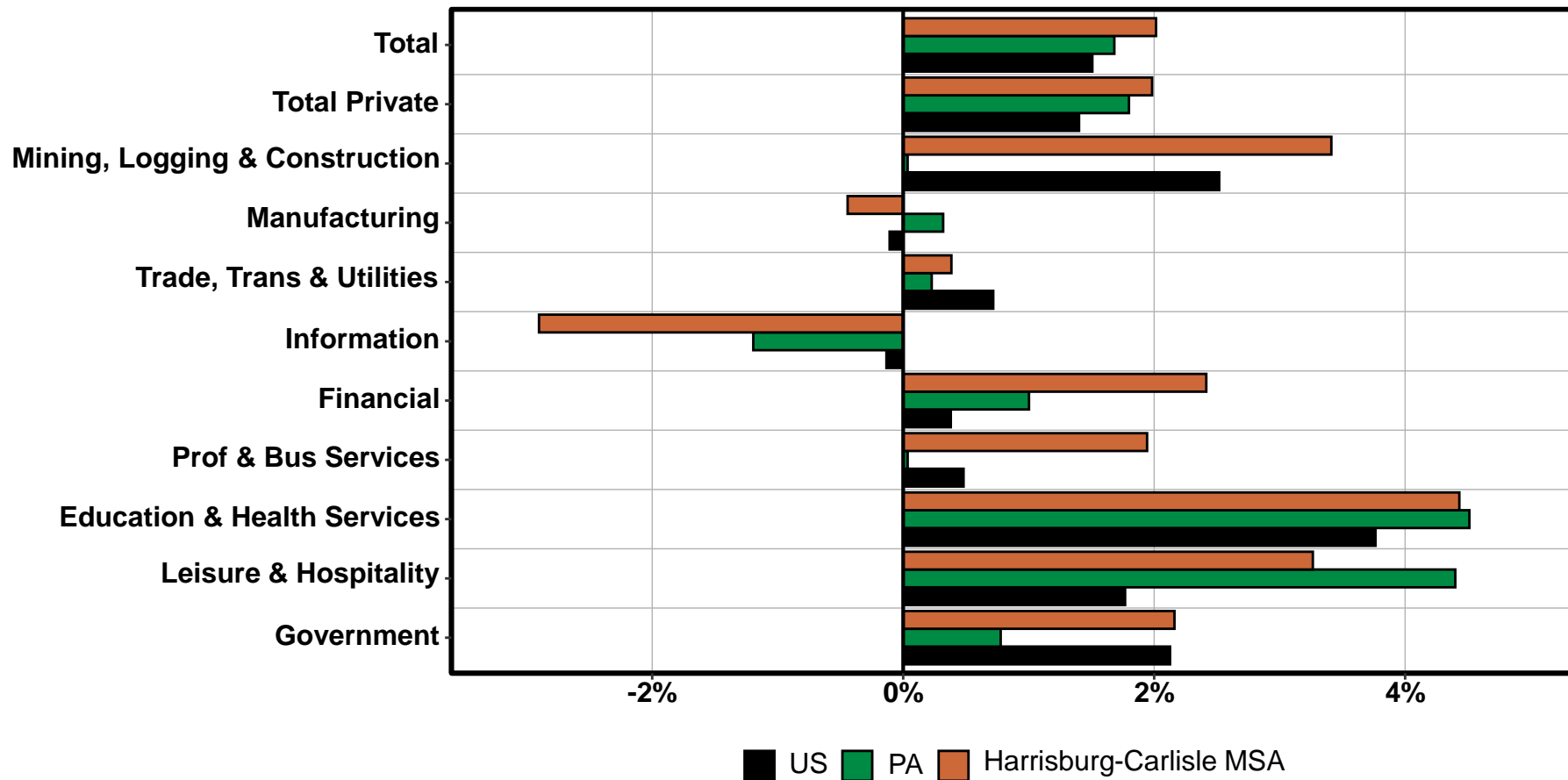
- Black lines indicate annual averages (in thousands)
- The labor market remains healthy, despite a clear cooling off relative to the past few years



Source: BLS via Haver Analytics
Months plotted: Jan 2017 - Aug 2024
Black lines indicate annual averages.

U.S., PA and Local Annual Employment Growth by Sector

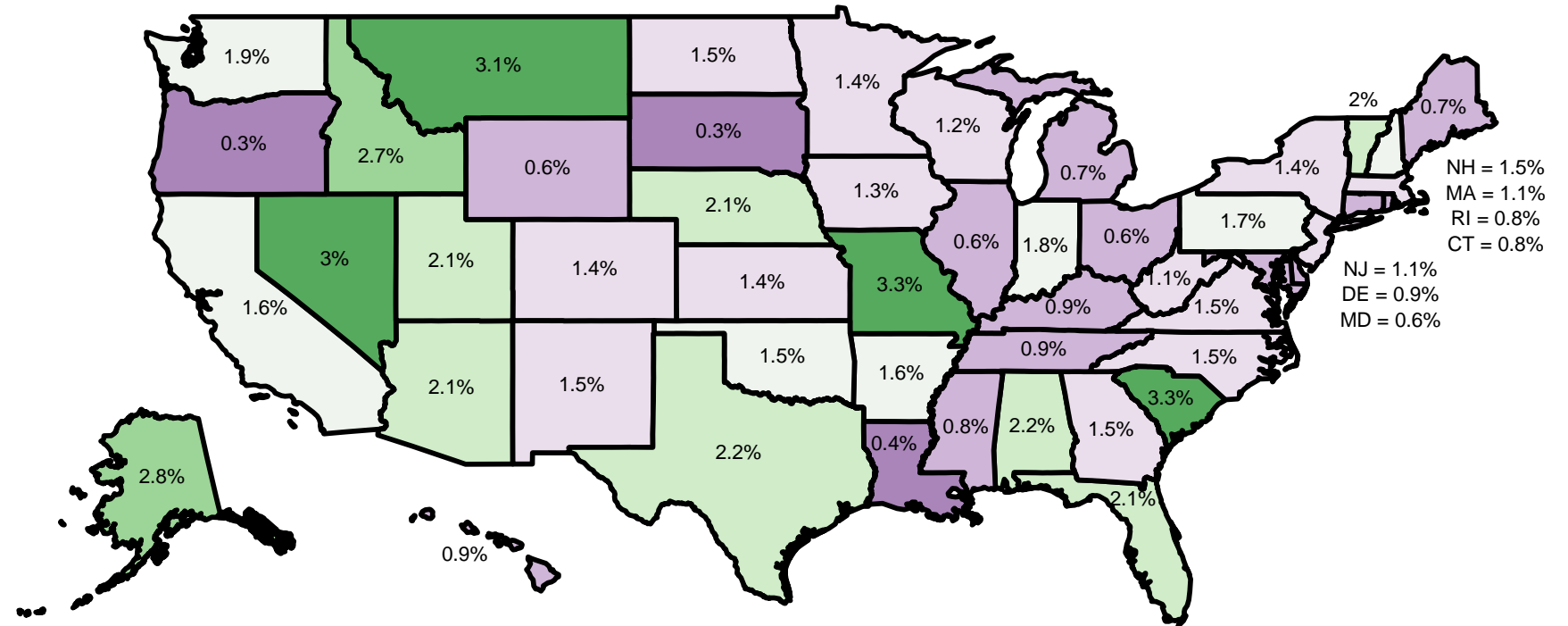
- Employment weakness in a handful of industries – employment losses in information, and slower growth in several others (e.g., manufacturing)
- Continued strength in education and health services, leisure and hospitality, and government



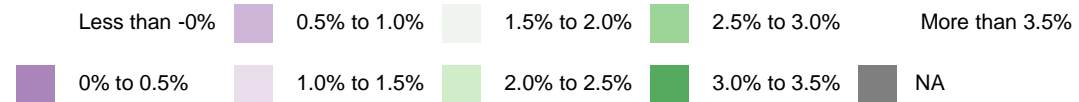
Source: Calculations from BLS via Haver Analytics.
 Last month included: US (Aug 2024); PA and Harrisburg MSA (Aug 2024)

Total State Payroll Employment Growth

- In general, modest growth, but there are regional differences



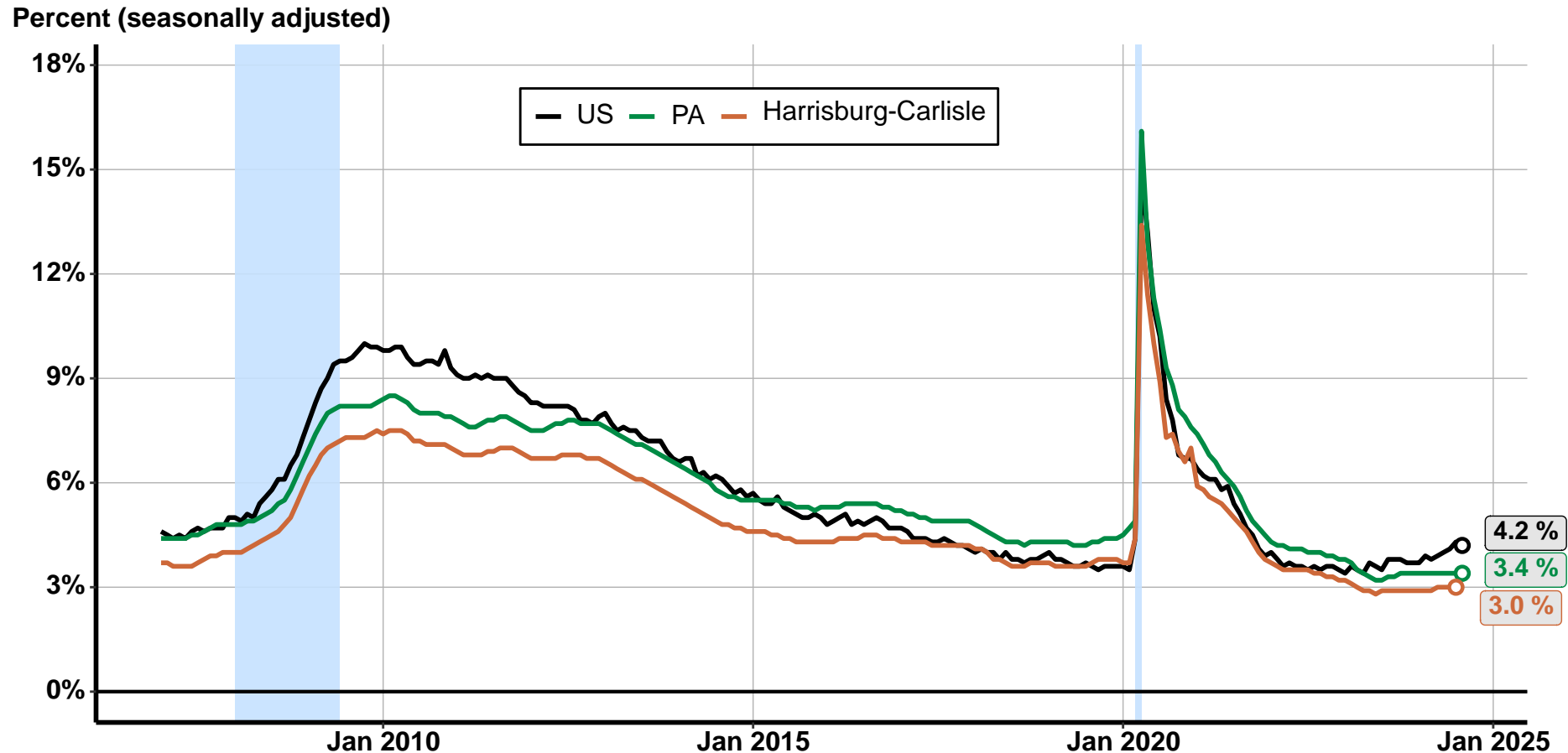
Payroll Employment Growth from Aug 2023 to Aug 2024



Calculations using data from Haver Analytics

U.S., PA, and Local Unemployment Rates

- Unemployment rates across US have remained at historically low levels over the past several years, but US rate has ticked up over the last year
- Pennsylvania and Harrisburg MSA unemployment rates remain at historically low levels

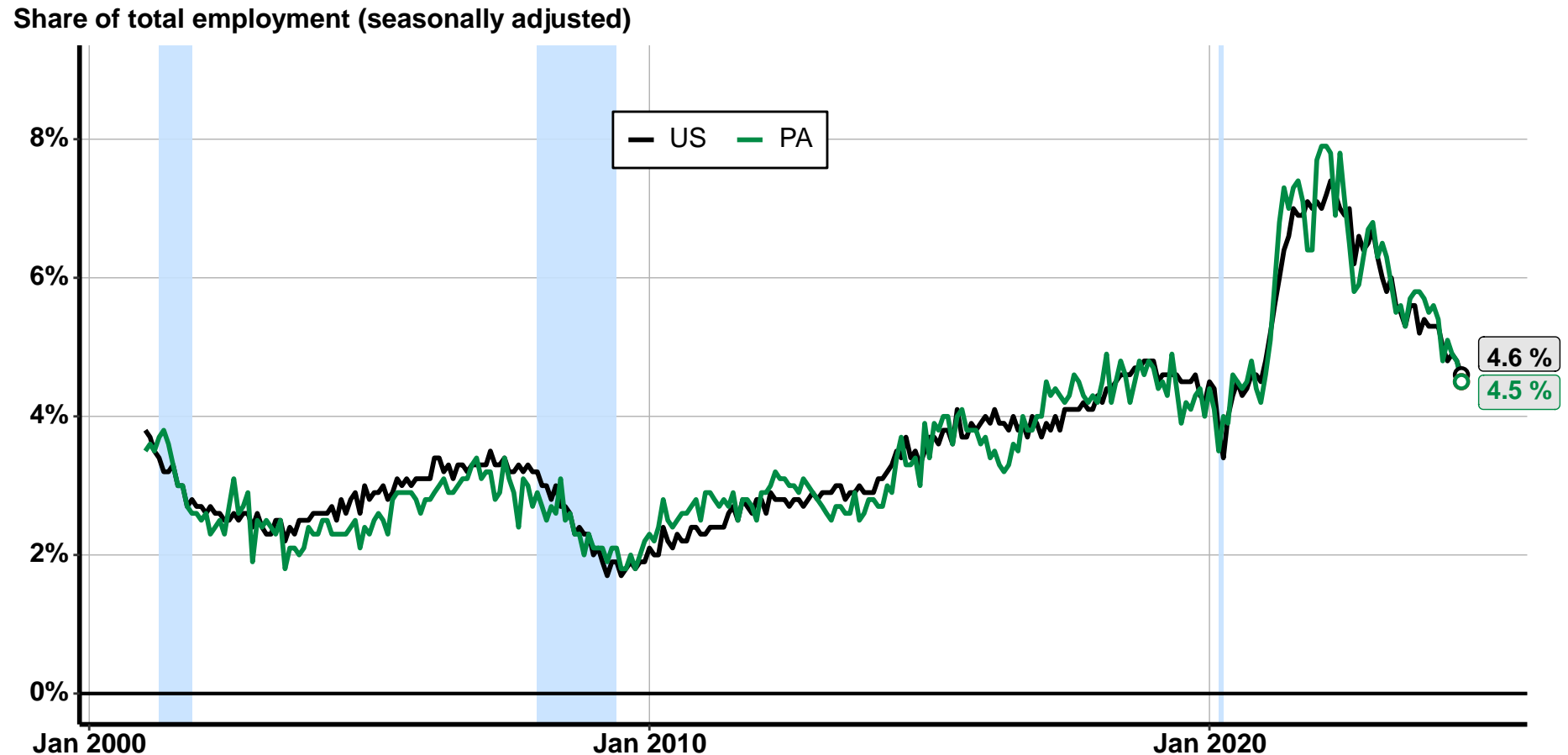


Source: BLS via Haver Analytics

Last month plotted: US (Aug 2024); State and MSA (Aug 2024)

U.S. and Pennsylvania: Job Openings Rate

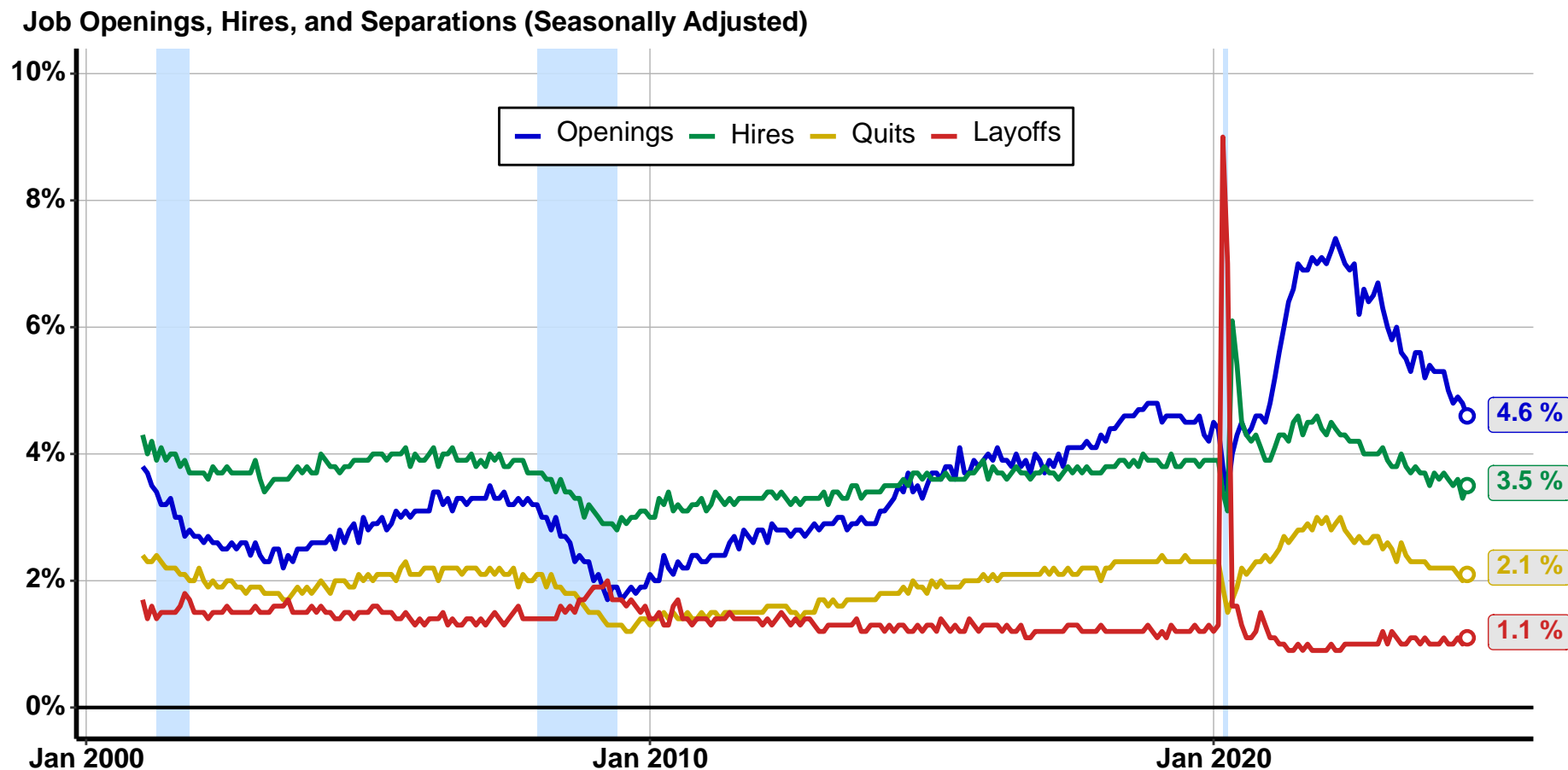
- From the BLS' Job Openings and Labor Turnover Survey (JOLTS)
- Openings and Hires rates had a historic gap during pandemic – as labor demand far exceeded supply
- Demand has come back into better balance with supply; current level is good but cautious about continued weakness



Source: BLS via Haver Analytics
Months plotted: Jan 2001 - Jul 2024

U.S. Job Openings and Labor Turnover Survey (JOLTS)

- Openings and Hires rates had a historic gap during pandemic – as labor demand far exceeded supply; high levels of quits and low layoffs have also signaled the tightness in the labor market
- Current data showcases labor market cooling without an increase in layoffs –
 - Decline in openings and hires
 - Quits rate is below pre-pandemic levels
 - But layoffs remain low (similar patterns in unemployment insurance claims data)

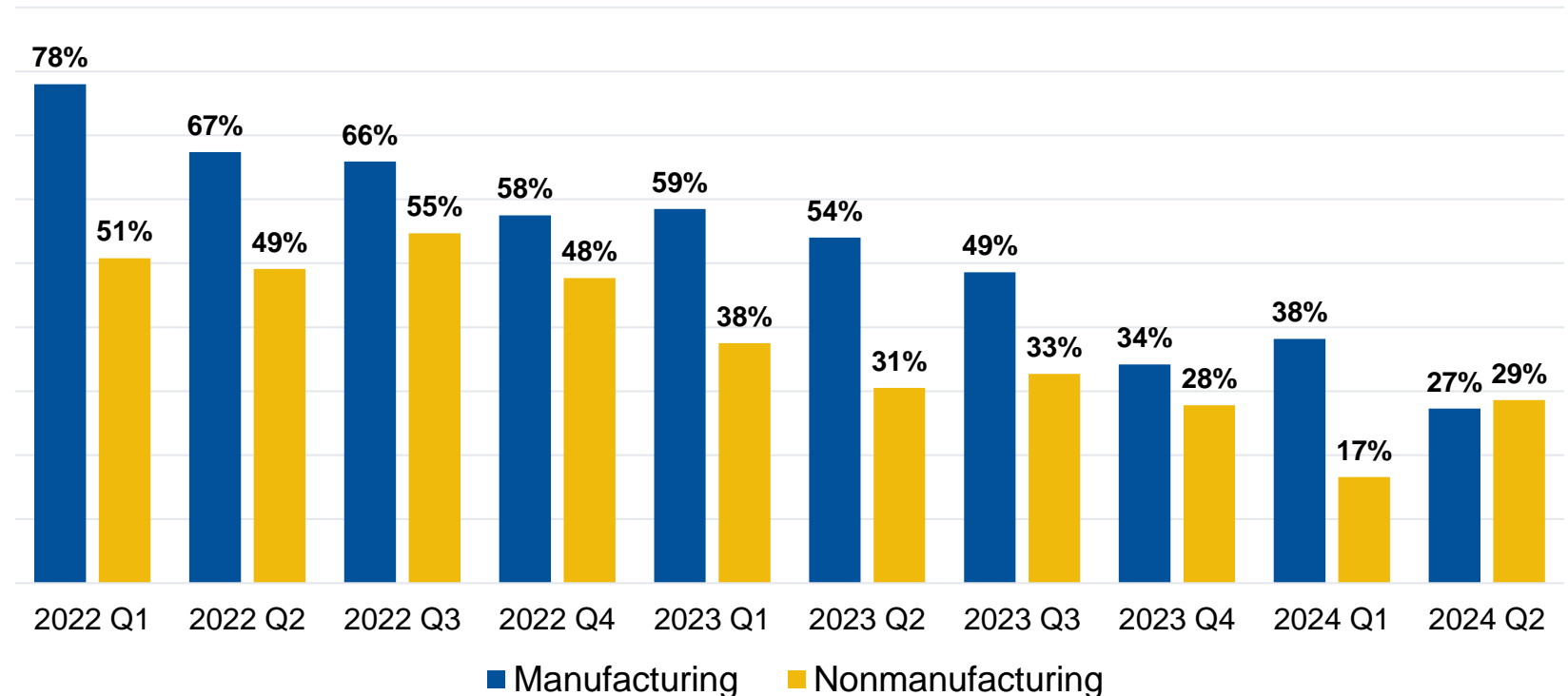


Source: BLS via Haver Analytics
Months plotted: Jan 2001 - Jul 2024

Philly Fed Business Outlook Surveys: Labor Supply

- MBOS and NBOS quarterly Special Questions; respondents are manufacturing and nonmanufacturing firms throughout the Third District
- Gradual easing of labor supply challenges, though still a prominently cited issue for businesses

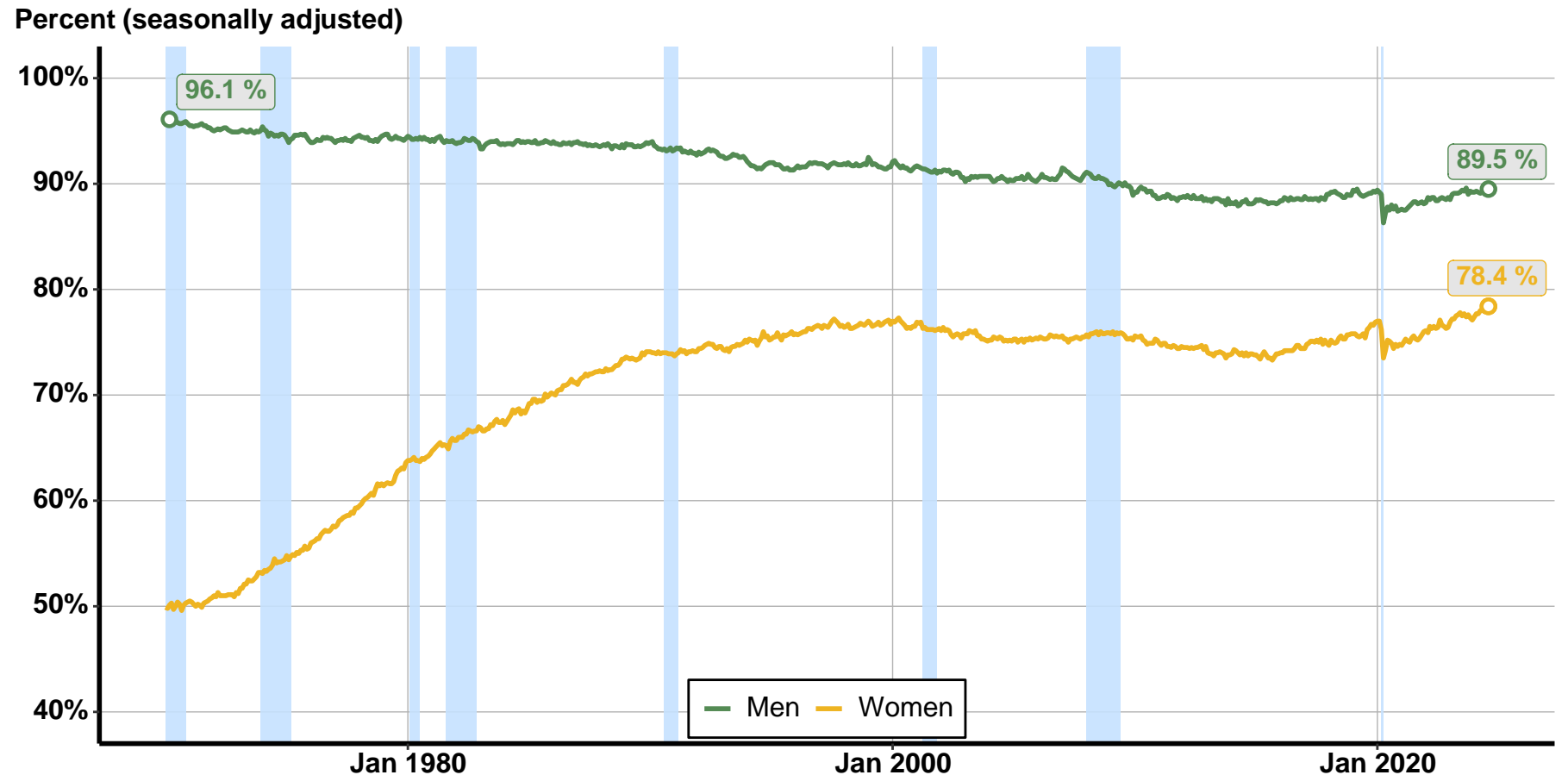
Percent of businesses experiencing a 'moderate' or 'significant' labor supply constraint on business:



Source: FRB Philadelphia, Manufacturing/Nonmanufacturing Business Outlook Survey (June 2024)

U.S. Labor Force Participation Rates by Sex (Prime Age, 25-54)

- Most recent and maximum plotted
- Prime-age labor force participation has rebounded to above pre-pandemic levels
- Women's prime-age labor force participation is higher than it's ever been
- Are more flexible work arrangements a contributing factor?



Source: Bureau of Labor Statistics via Haver Analytics
Months plotted: Jan 1970 to Aug 2024

Philly Fed Business Outlook Surveys: Wages

- *How have wages and compensation changed at your firm over the past three months?*
- Smaller share of local employers are reporting increased compensation levels
- Majority of respondents holding wages steady, but some wage decreases

Date	Manufacturing			Nonmanufacturing		
	Increase	No Change	Decrease	Increase	No Change	Decrease
April '22	80.0%	20.0%	0%	69.7%	30.3%	0%
July '22	78.6%	21.4%	0%	57.4%	41.2%	1.5%
April '23	55.3%	44.7%	0%	49.2%	46.0%	4.8%
July '23	57.5%	42.5%	0%	47.5%	50.0%	2.5%
April '24	31.3%	68.7%	0%	50.0%	38.1%	11.9%
July '24	29.0%	64.5%	6.5%	29.5%	68.2%	2.3%

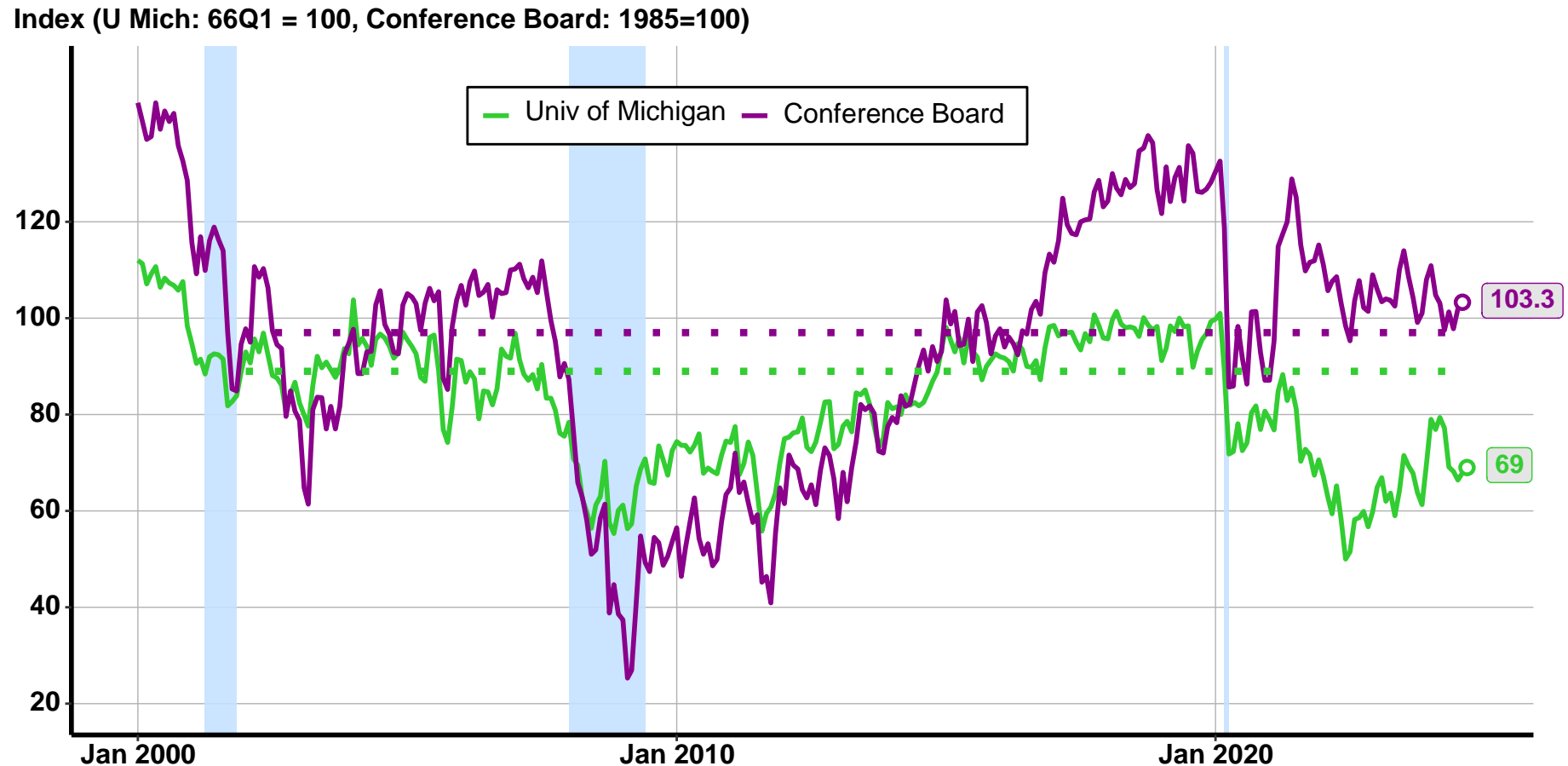
Source: Federal Reserve Bank of Philadelphia Monthly Business Outlook Surveys

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- Business Conditions
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U.S. Consumer Confidence Indexes

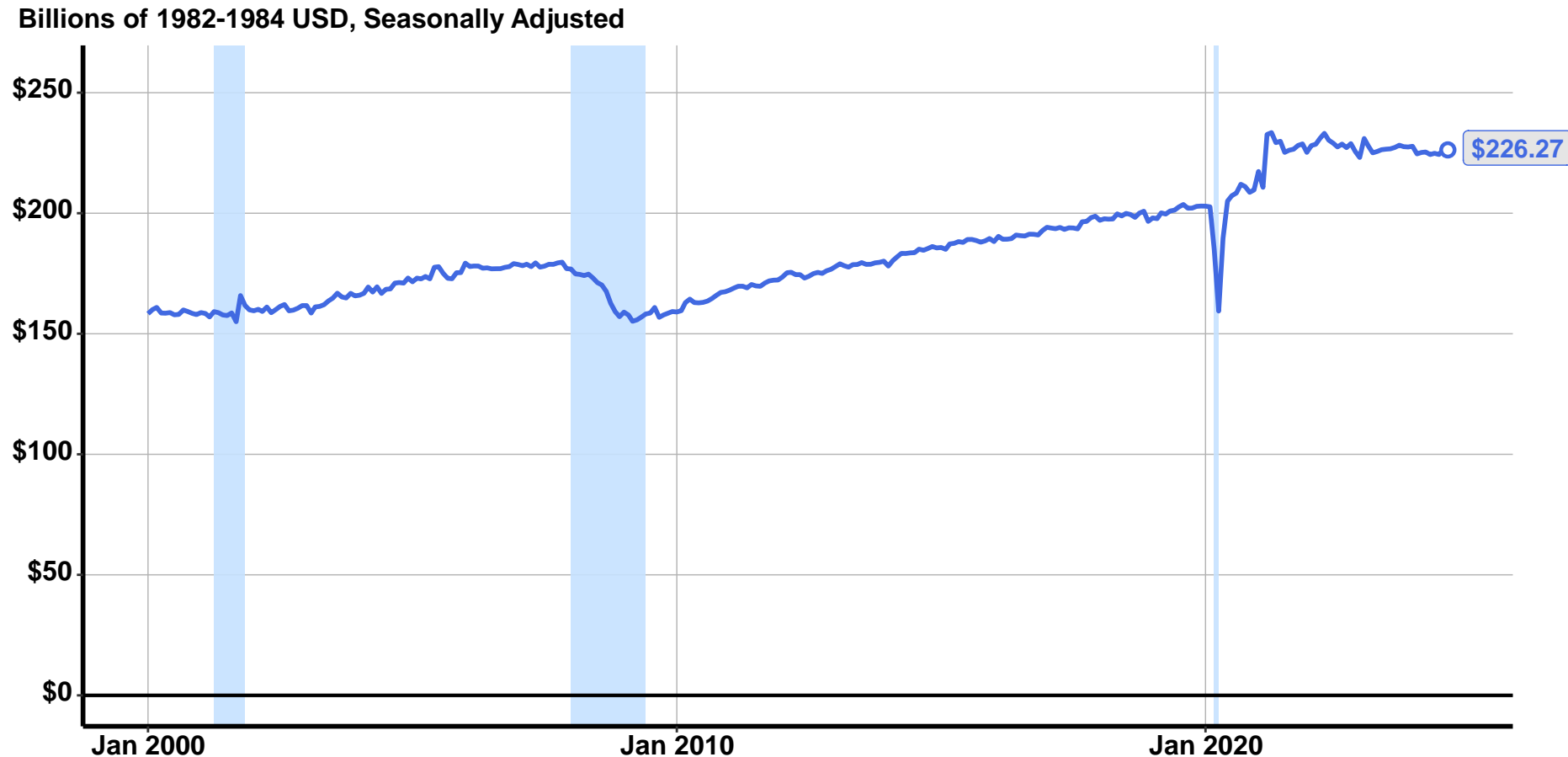
- Consumer's sentiment towards the economy can influence how they engage in the economy (spending, etc.)
- Consumers have been pessimistic over the last several years; confidence has trended more positively, but remain suppressed in comparison to pre-pandemic



Source: University of Michigan and Conference Board via Haver Analytics
Months plotted: Jan 2000 to Sep 2024

U.S. Total Monthly Retail Sales (Inflation Adjusted)

- Retail sales moderated from pandemic-era highs, though remains intact
- Consumers continue to be a fundamental strength of the current economy



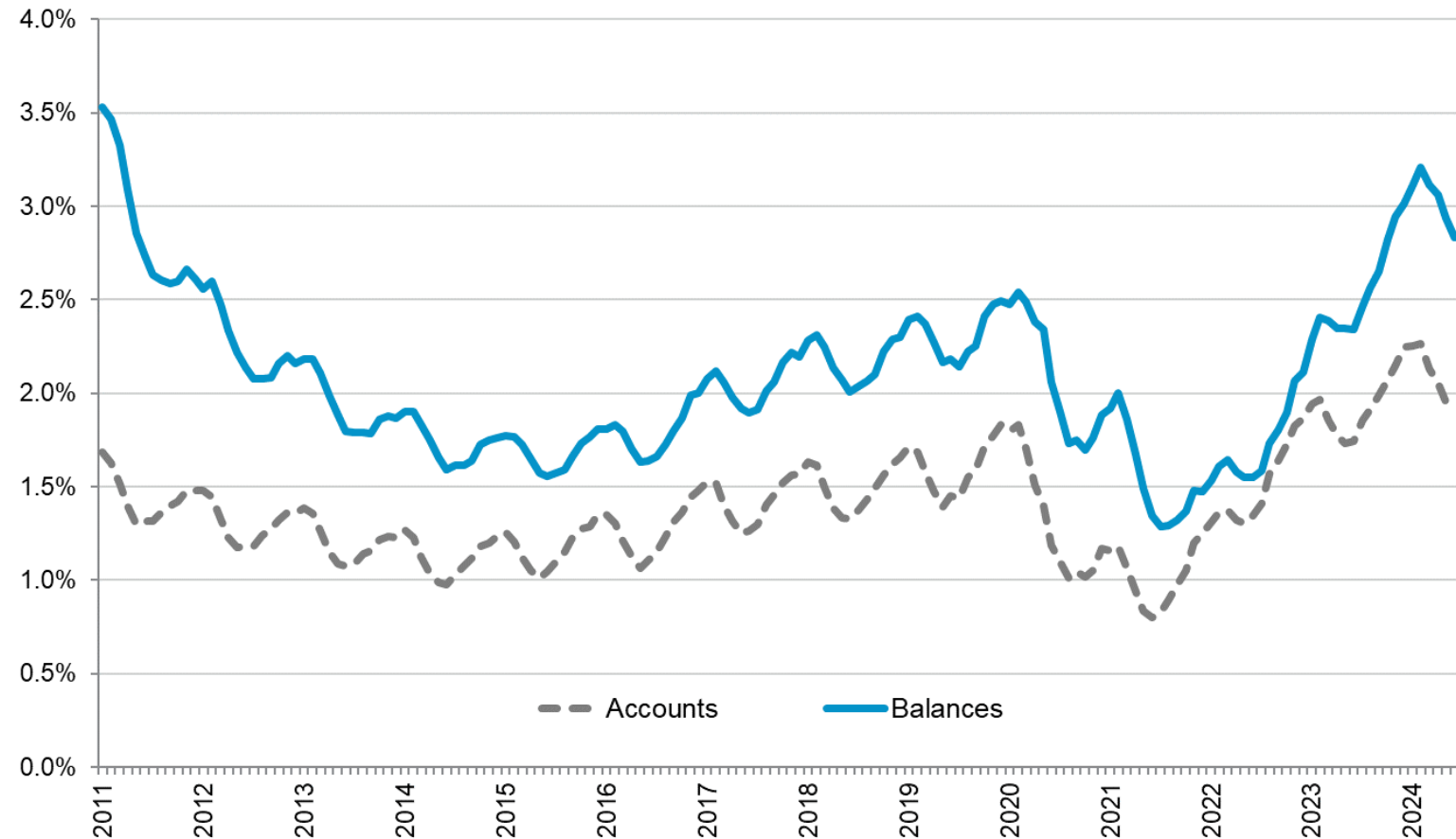
Source: US Census Bureau
Months plotted: Jan 2000 to Aug 2024

Soft Data from Fed Beige Book

- “Contacts reported that customers visited less frequently, purchased slightly fewer items per visit, and opted for lower-priced options when available.” – August Beige Book (Philadelphia Fed).
- “...spending on entertainment and recreation continued to decline.” – August Beige Book (New York Fed)
- “Demand was stable for groceries and fresh produce, while sales of nonessential goods weakened further... Contacts continued to characterize consumers as more cautious with spending decisions and reluctant to pay full price.” – August Beige Book (San Francisco Fed)
- “As the economy weakens, we are seeing modest growth in our category of dinner sausage. This category tends to grow when the economy weakens.” – August Texas Manufacturing Outlook Survey (Dallas Fed)

U.S. Credit Card Loan Severe Delinquency Rate

- Percent of accounts and balances 60+ days past due; not seasonally adjusted
- Credit card delinquency rates have picked up since mid-2022 and remain at the highest levels in more than a decade
- Have we reached the peak?



Source: Equifax
Last month plotted: June 2024

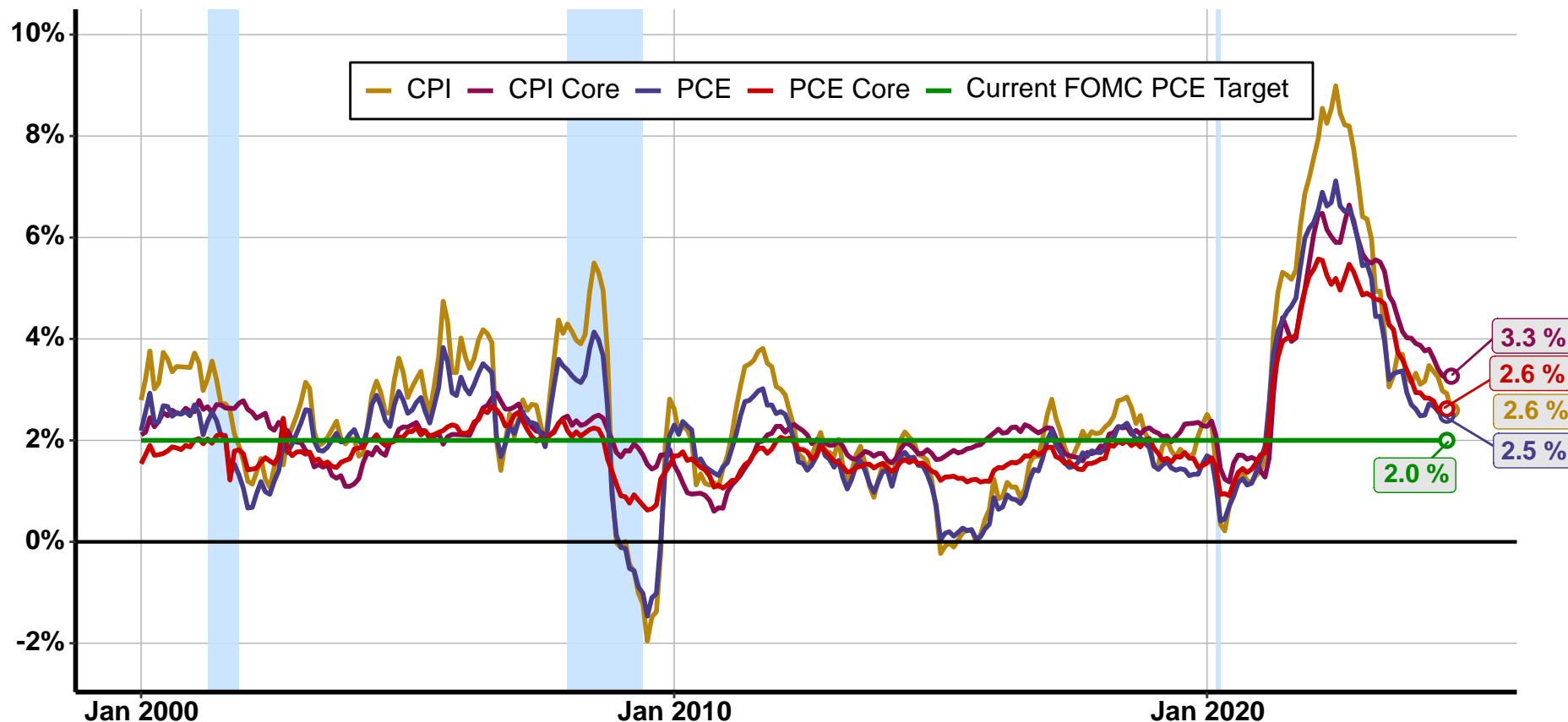
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U.S. Inflation

- Two major data releases on inflation: Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE)
 - PCE index primarily uses data from business surveys
 - CPI primarily uses surveys from households
- Continuous, but bumpy progress on inflation over the last several years

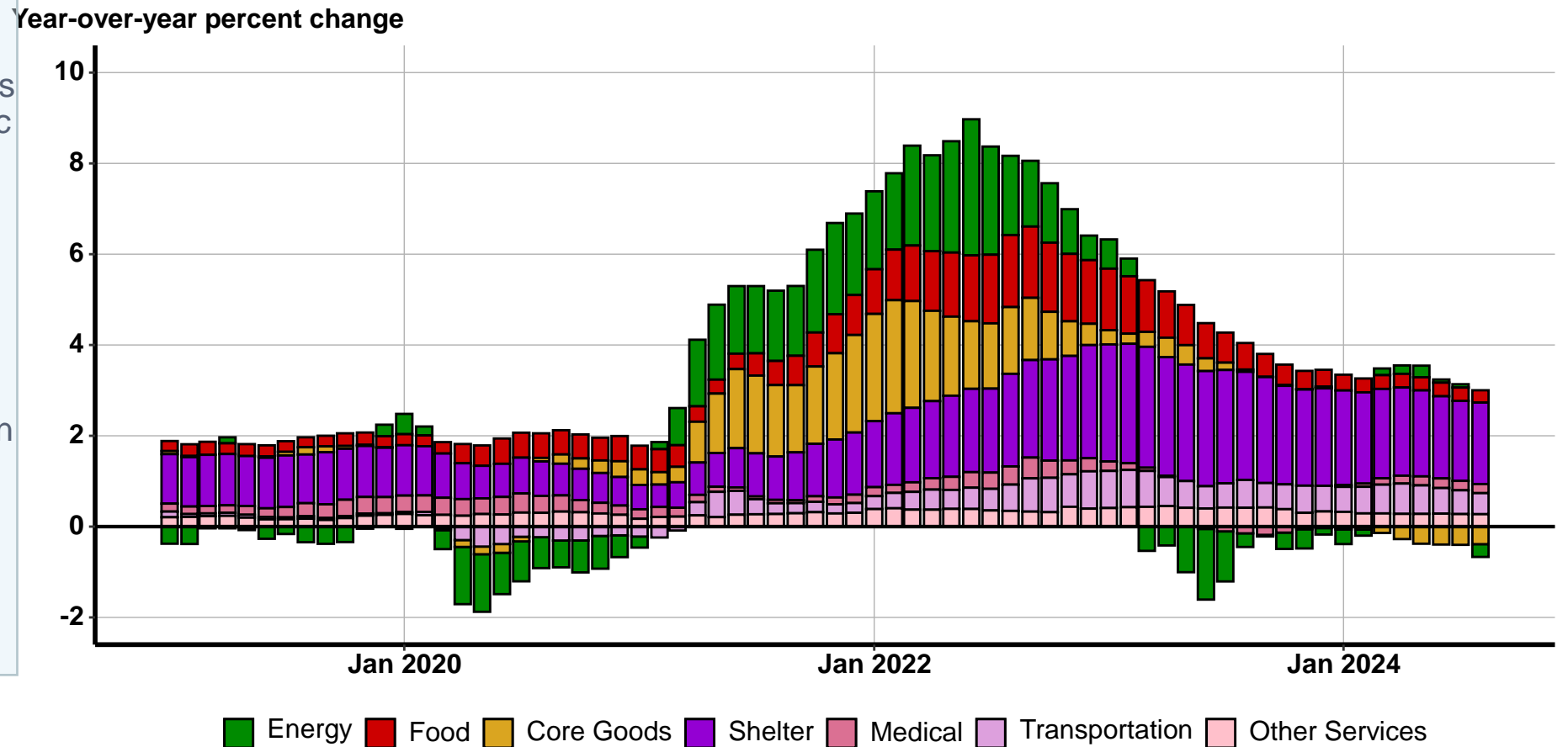
Year-over-year percent change (seasonally adjusted)



Source: BEA via Haver Analytics
Last month plotted: Jul 2024(PCE); Aug 2024(CPI).

Headline CPI Inflation – Contributions by Expenditure Category

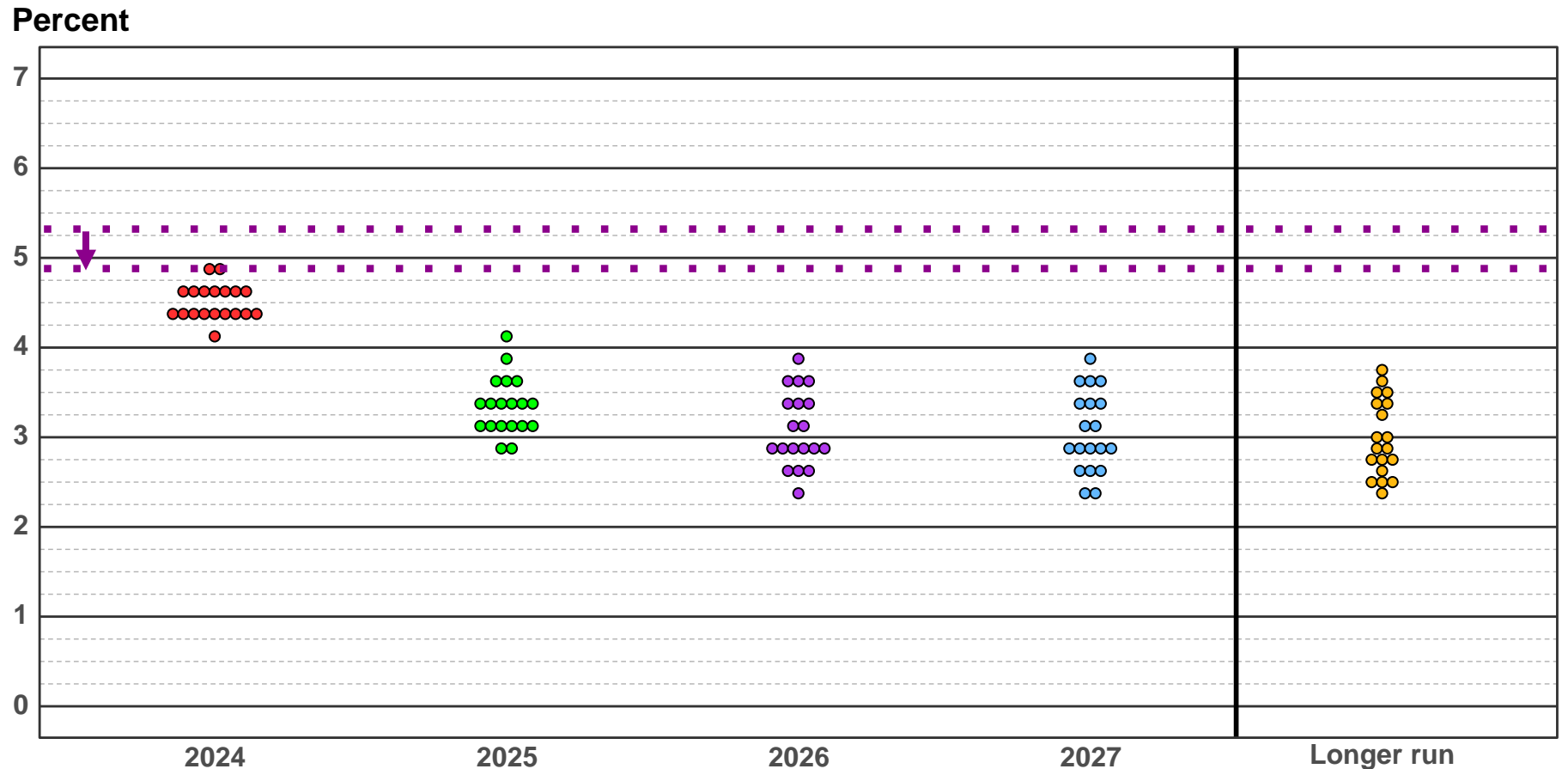
- Core good and energy largely impacted by supply/demand mismatches coming out of the pandemic
 - Energy and core goods have since experienced disinflation/deflation
- Some lingering inflationary pressures, though are headed in the right direction
 - Higher shelter costs enter (and exit) inflation readings with a lag
 - Food is volatile but some recent supply side issues



Source: Calculation using data from BLS via Haver Analytics
 Months plotted: Jan 2000 - Aug 2024

FOMC Projections of Appropriate Policy (as of September FOMC)

- At the September 2024 Federal Open Market Committee (FOMC) meeting, policymakers voted to cut the target rate by 50 bps
- The latest dot plot suggests a few more rate cuts for the remainder of 2024

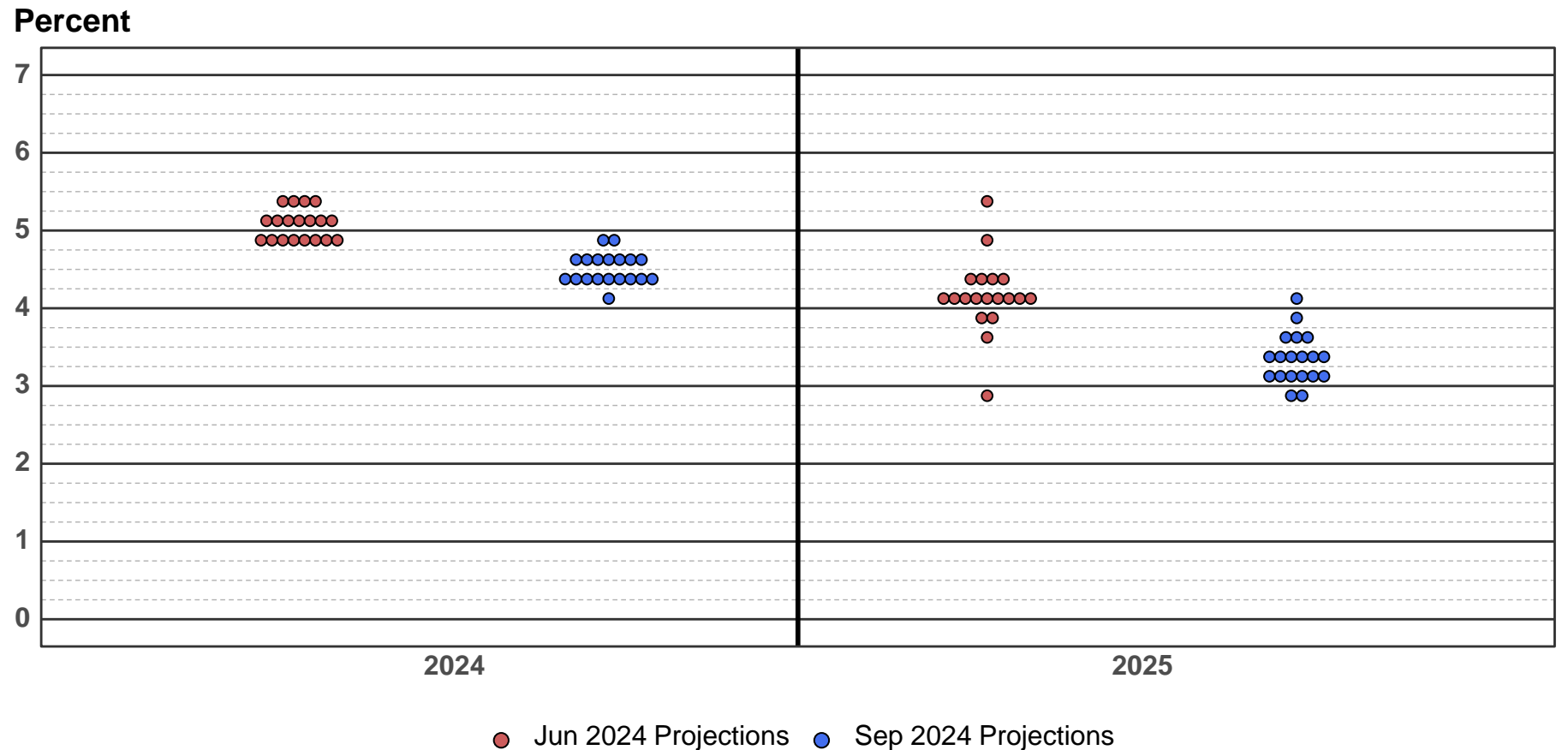


Source: FOMC Projections, September 2024

Solid purple dashed line indicates the Fed Funds target rate as of the conclusion of the September 2024 FOMC meeting. (4.75 – 5%).

Federal Funds Rate Dot Plot Comparison – June vs. September

- Appropriate path for monetary policy has been revised downward given improvements in inflation and deceleration in the labor market
- “The Committee has gained **greater confidence** that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are **roughly in balance.**” – September 2024 FOMC statement



Source: FOMC Projections, June 2024 and September 2024

Market-Implied Target Rate Probabilities

- Probability based on CME Fed Funds Futures Contracts, as of September 23, 2024
- Current target: 4.75 - 5%
- Market has priced in at least two more 25 bps cuts by the end of the year

FOMC Meeting Date	3.5-3.75%	3.75-4%	4-4.25%	4.25-4.5%	4.5-4.75%	4.75-5% (Current)
November 6-7, 2024	0%	0%	0%	44.7%	55.3%	0%
December 17-18, 2024	0%	21.7%	50.1%	28.2%	0%	0%
January 28-29, 2025	30.9%	43.0%	19.0%	0%	0%	0%

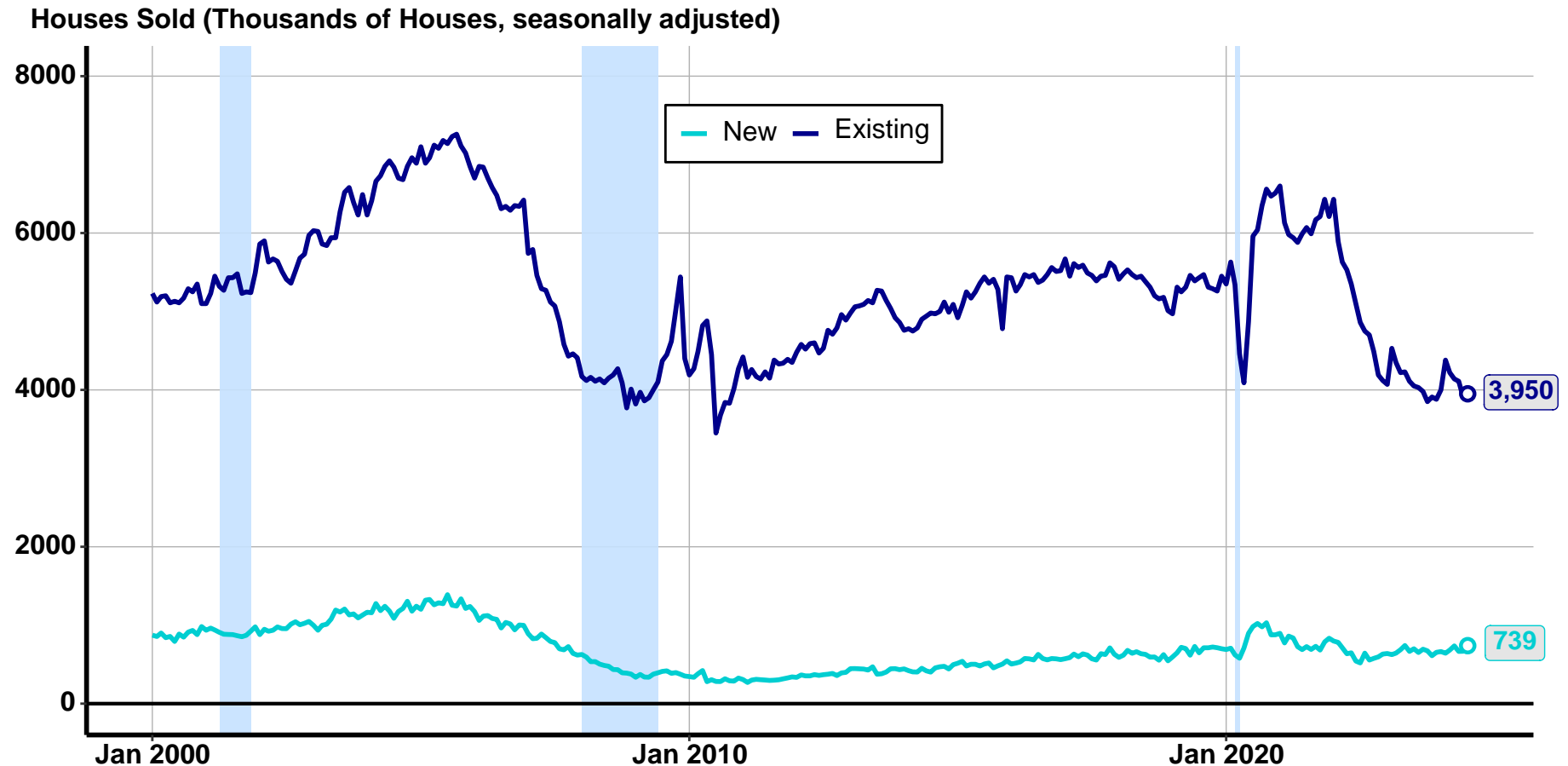
Source: CME Group

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U.S. New and Existing Home Sales

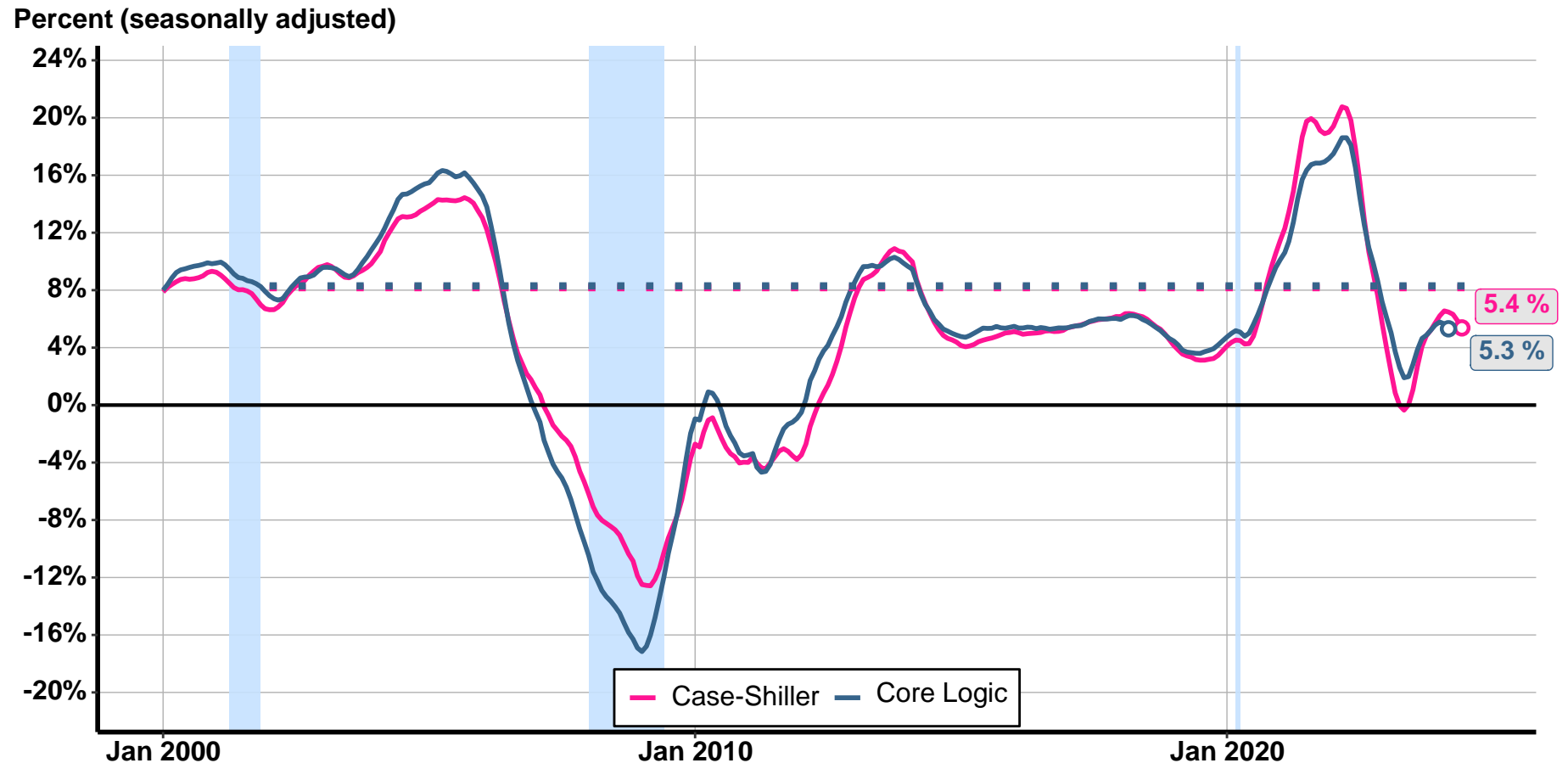
- Interest-rate sensitive markets such as housing experience more immediate shifts with tightened monetary policy
- Existing home sales declined substantially
- New housing sales have also declined but have been more sensitive to fluctuations in mortgage rates throughout this period



Source: Bureau of the Census and the Dept. of Housing & Urban Development and National Association of Realtors. Economics and Research Division. 'Home Sales.' via Haver Analytics
Months plotted: Jan 2000 - Jul 2024

U.S. Home Price Growth

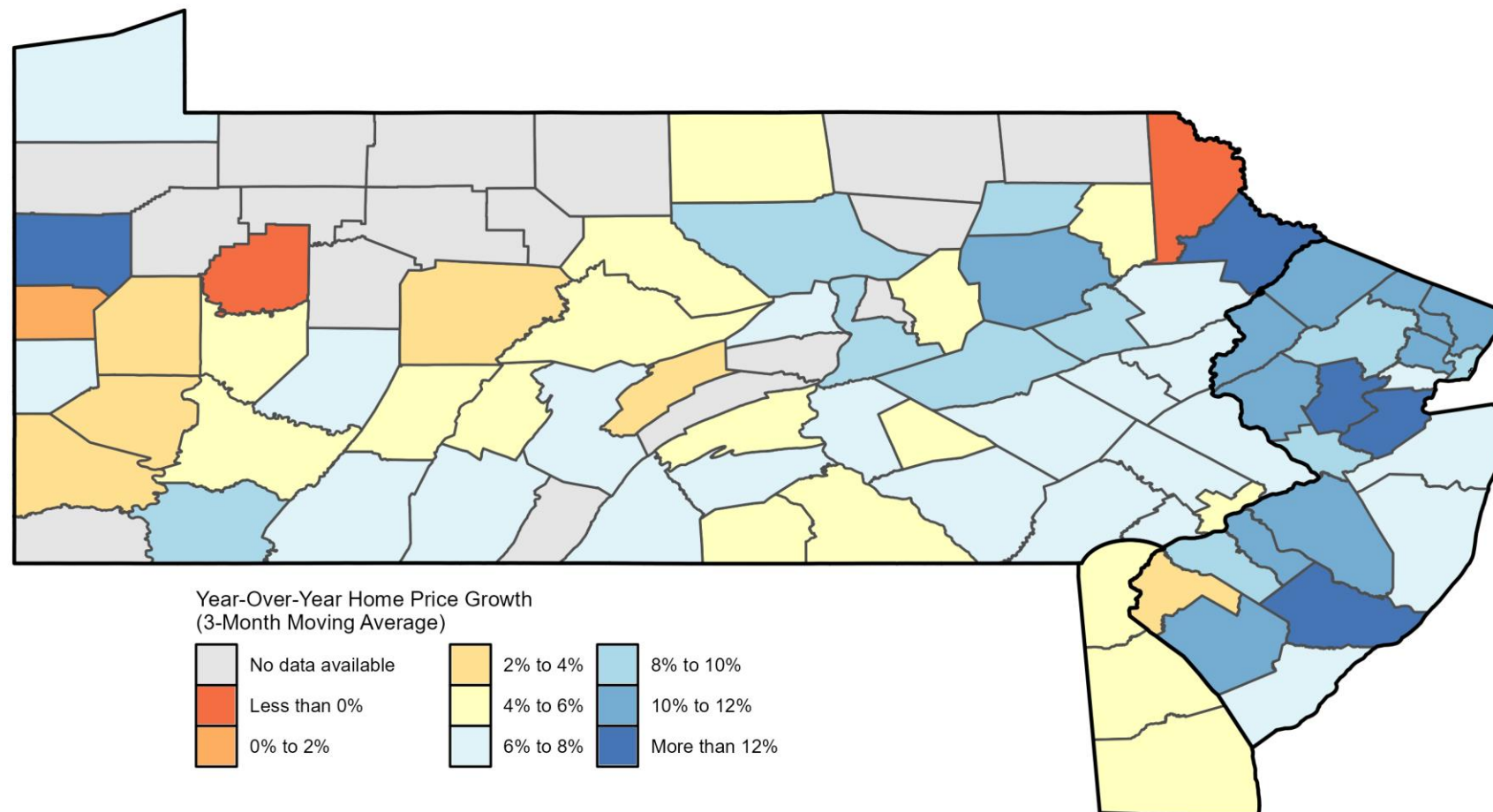
- Year-over-year home price growth in the U.S. dropped sharply from pandemic-era highs
- In the past year, home price growth has re-accelerated but remains lower than the historic average



Source: Standard & Poors and Core Logic via Haver Analytics
Months plotted: Jan 2000 to Aug 2024
Dotted lines indicate average from 2002-2007.

Tri-State Area Home Price Growth

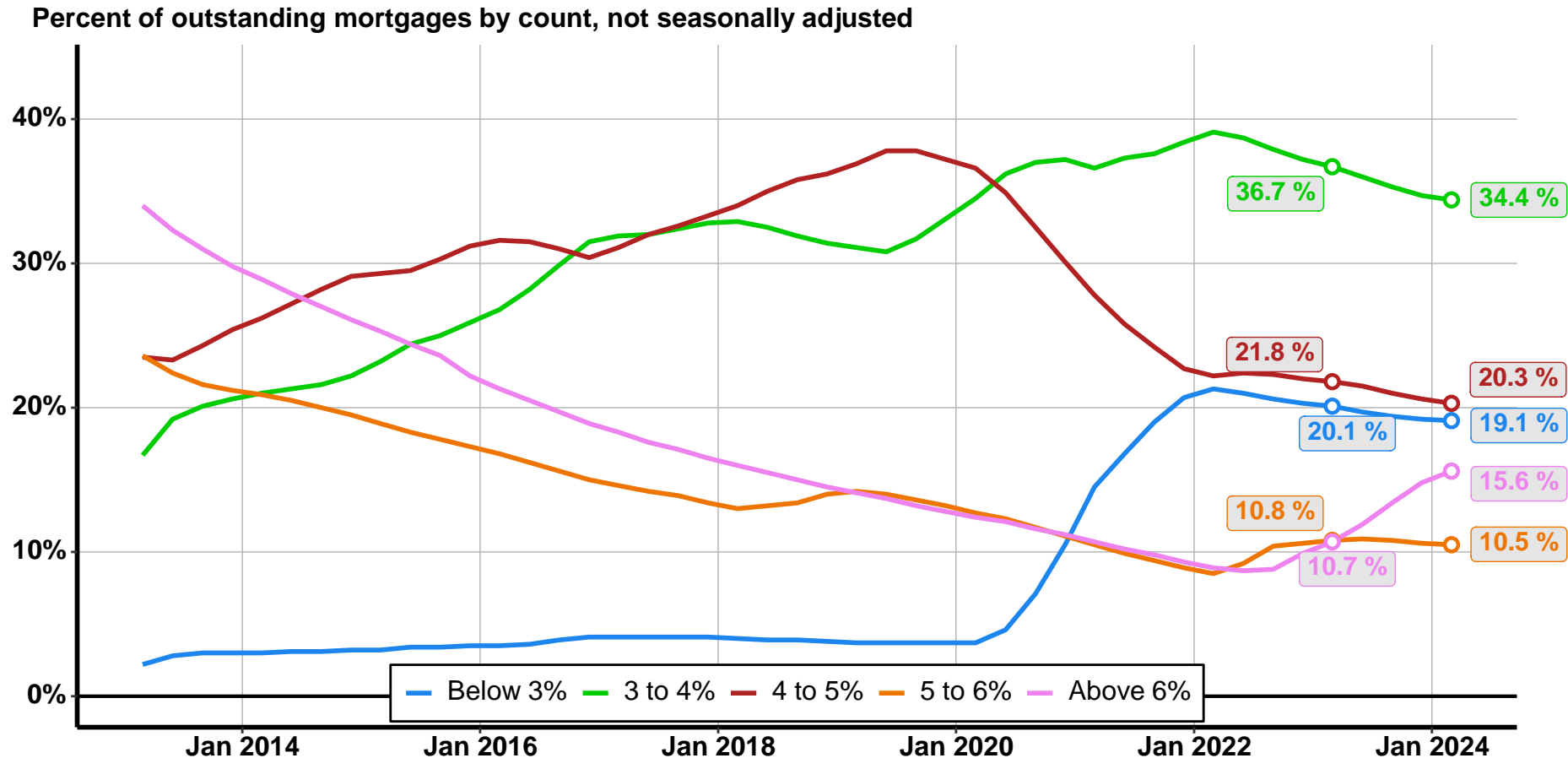
- Home price growth depends on an area's specific supply and demand factors
- Most areas have continued home price growth but at a more moderated pace from pandemic highs



Source: Calculations from Core Logic data.
Last month included: Jul 2024

PA, Distribution of Interest Rates on Outstanding Mortgages

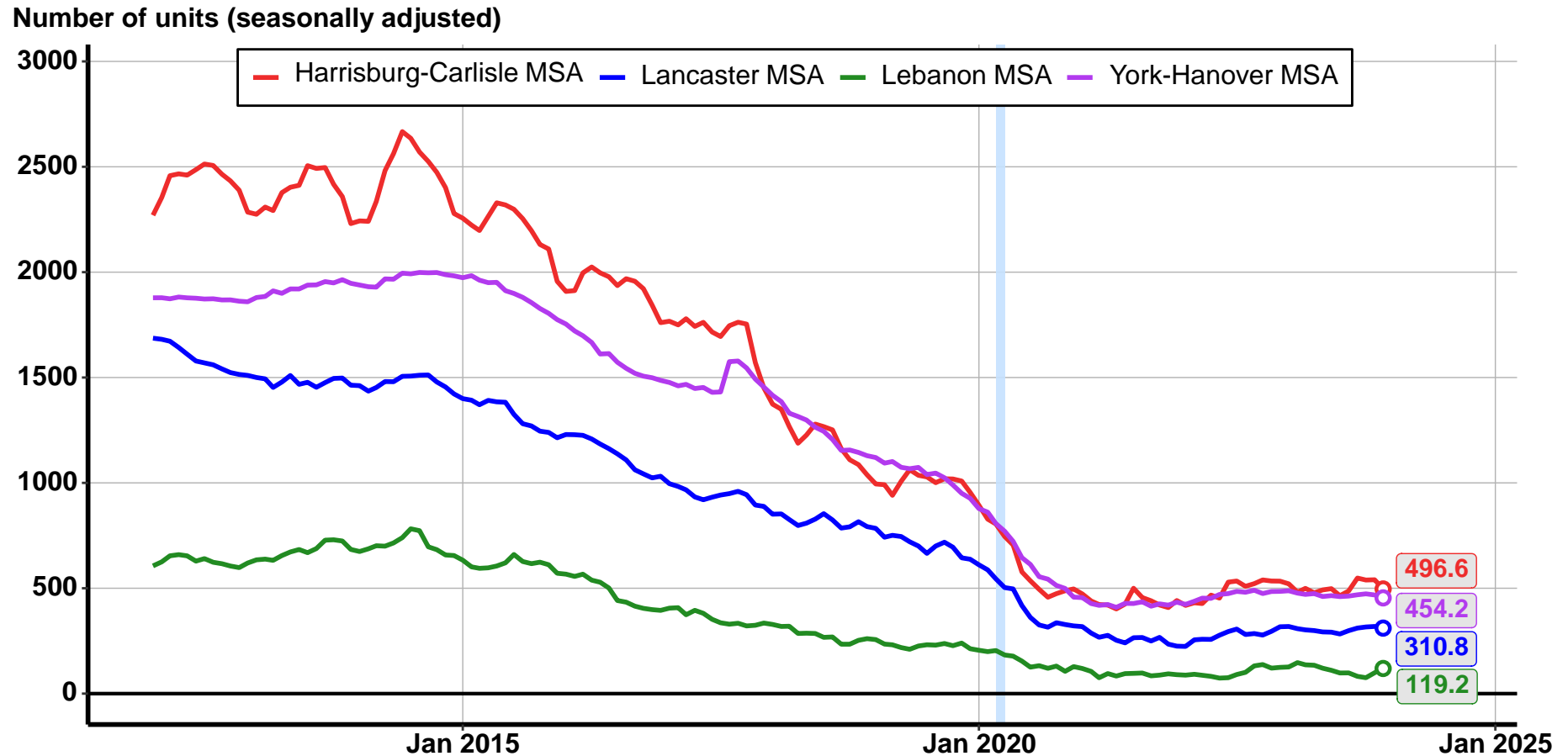
- The most recent and last year's observations are labeled
- The share of outstanding mortgages that are 4% or below has been decreasing over the past year .. But slowly
 - > 50% still 4% or lower
- This causes the so-called "lock-in effect" – current homeowners have difficult time letting their low mortgage rate go



Source: Federal Housing Finance Agency
 Quarters plotted: 2013:Q1 - 2024:Q1

Central PA, Single Family Residential Housing Inventory

- Total number of active listings, Central PA Metro Areas
- Significantly lower number of housing units listed for sale
- Lower supply still puts upward pressure on prices, even as demand could be lower because of higher cost of borrowing



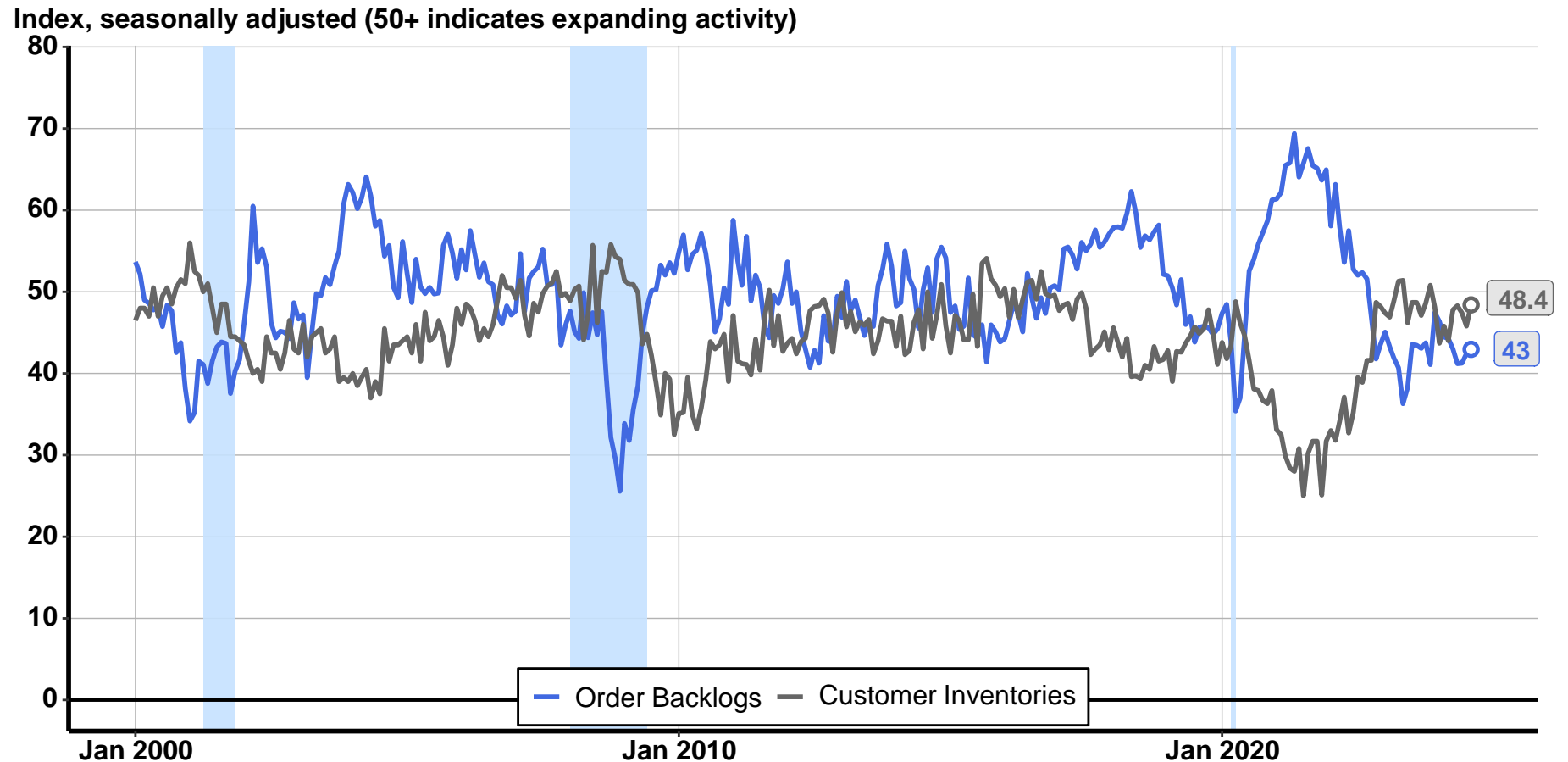
Source: Redfin via Haver Analytics
 Months plotted: Jan 2012 to Feb 2024

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U.S. Customer Inventories and Order Backlogs

- Order backlogs have returned after pandemic-era supply chain challenges
- Inventories have been building up to pre-pandemic levels, indicating better balance in supply and demand
- Overall, manufacturing activity has decelerated

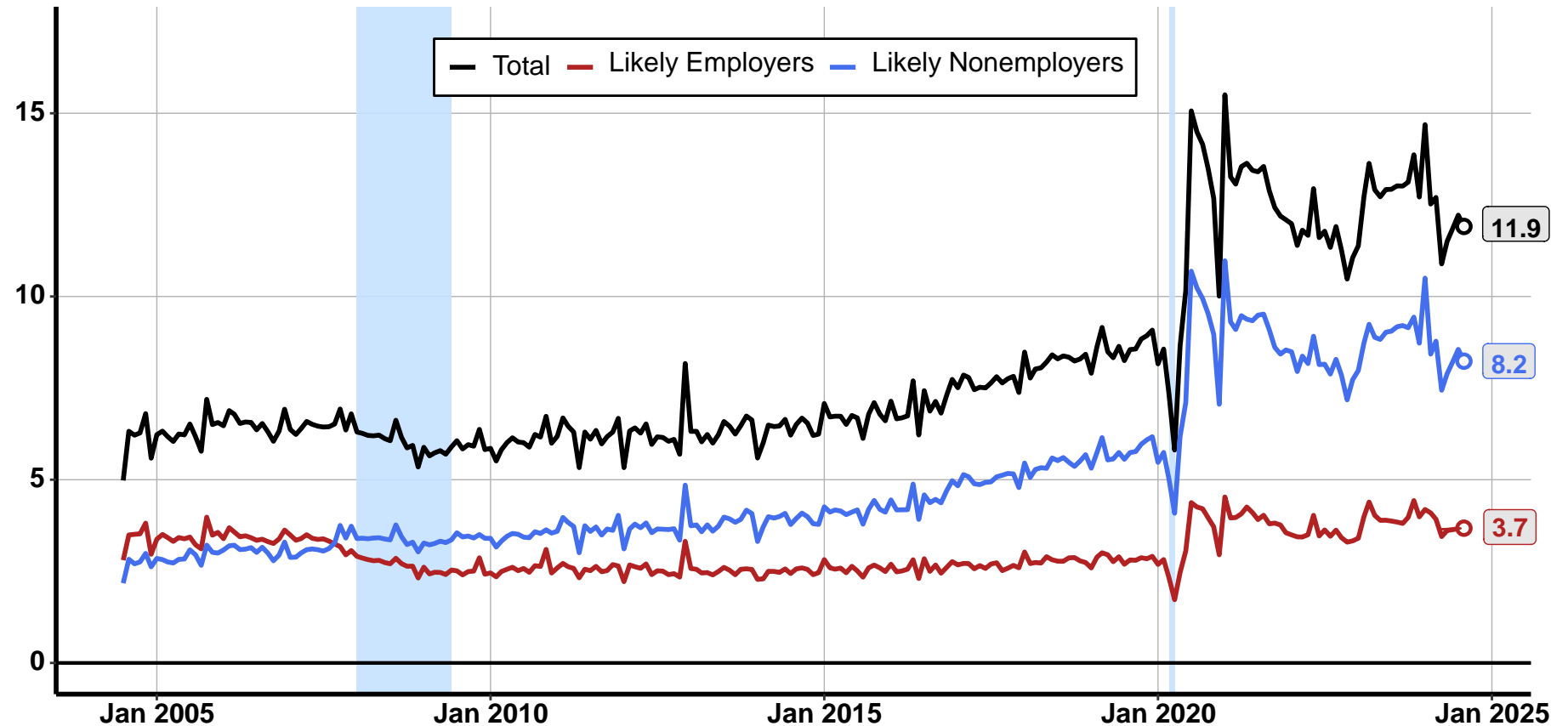


Source: Institute for Supply Chain Management via Haver Analytics
Months plotted: Jan 2000 - Aug 2024
Blue shade represents recession months.

Pennsylvania New Business Applications

- Since the pandemic, new businesses (of various sizes) have formed at an elevated levels
- Elevated business formation continues – a signal of continuing confidence in the economy?

Business applications (thousands, seasonally adjusted)



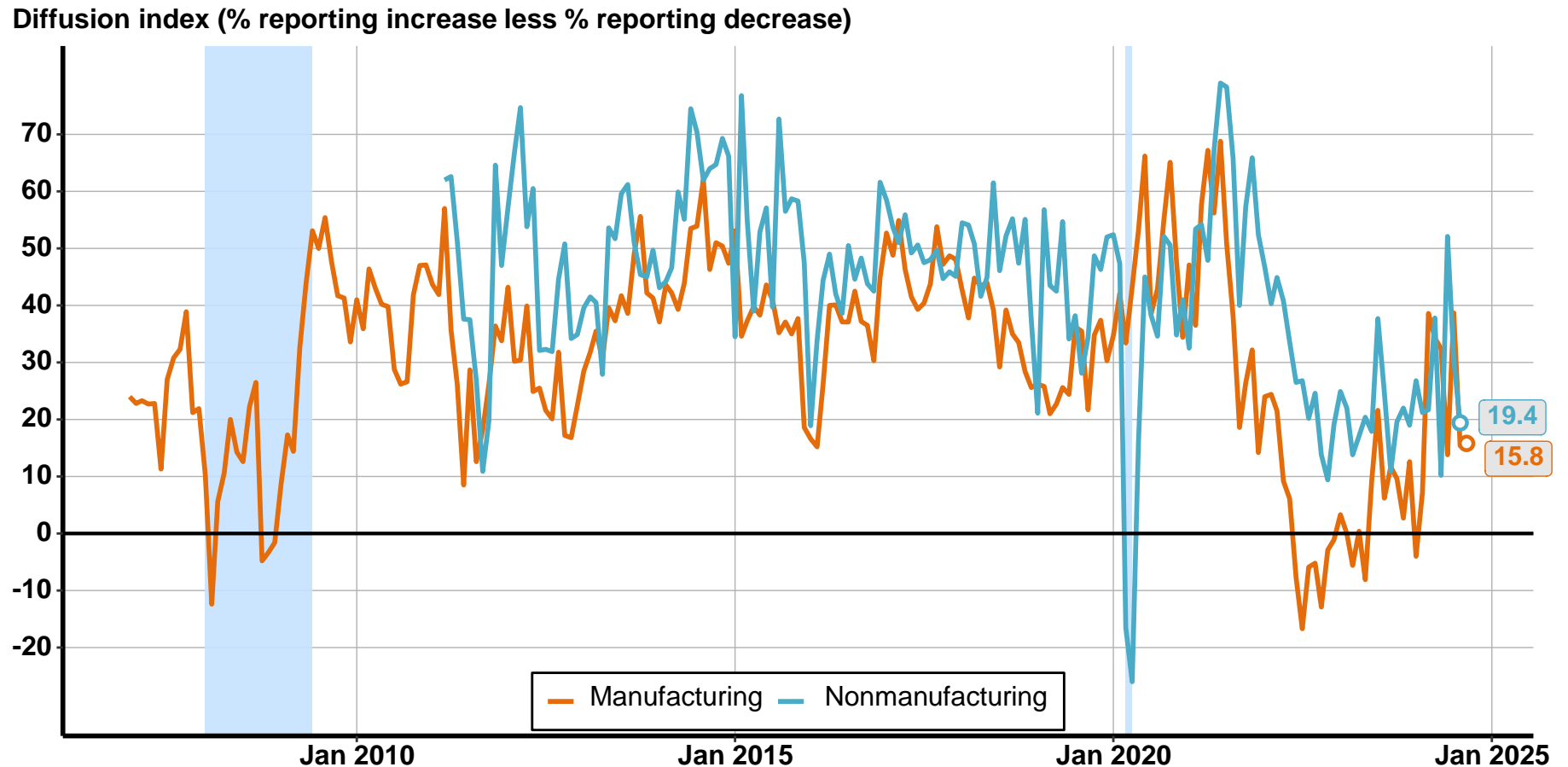
Source: Census Bureau and Bureau of Economic Analysis via Haver Analytics

Quarters plotted: Jul 2004 - Aug 2024

High-propensity business applications: applications from business that have a high propensity of turning into businesses with payroll.

Philly Fed Business Outlook Survey – Future Activity Index

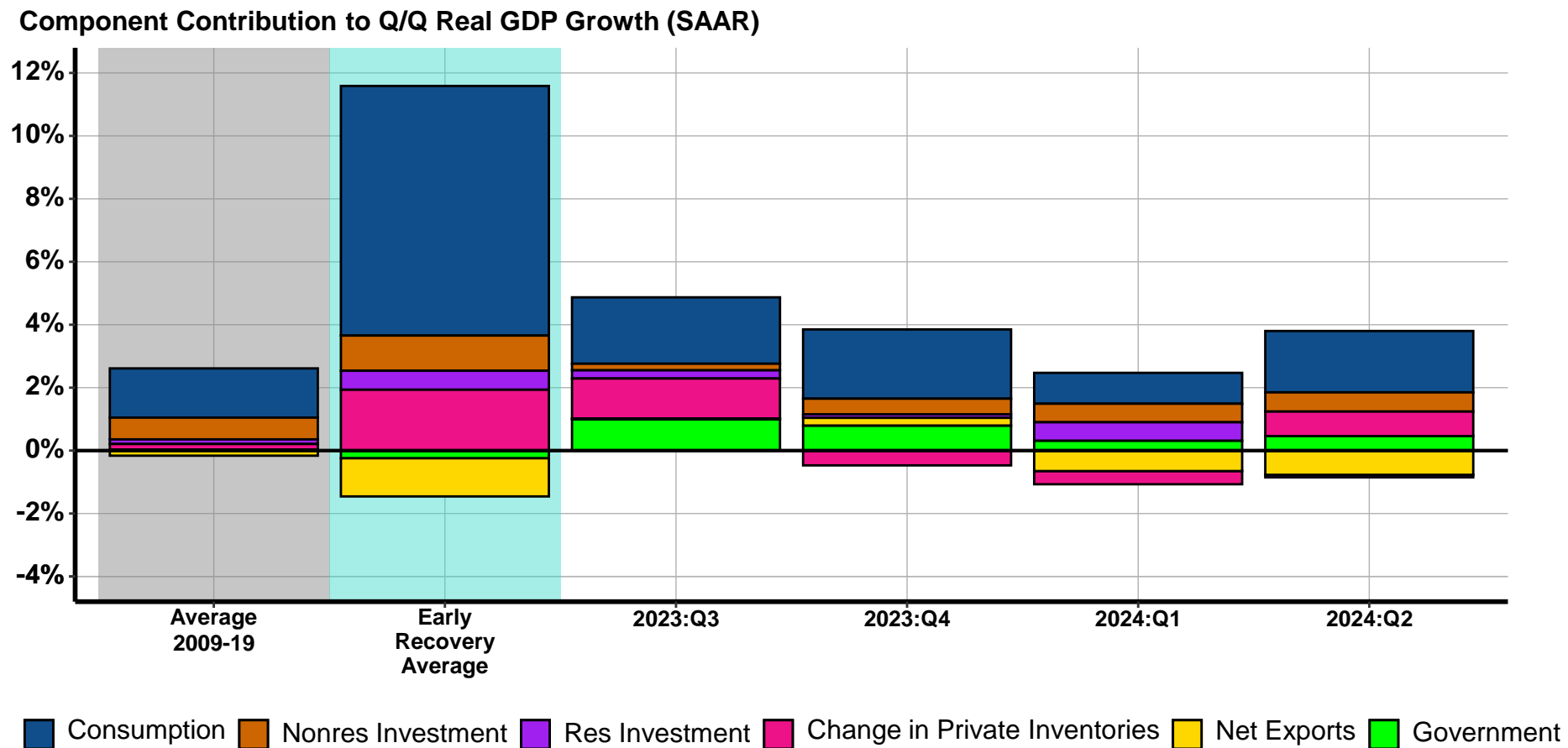
- Future General Activity Index (next 6 months); respondents are manufacturing and nonmanufacturing firms throughout the Third District
- After a period of deterioration, survey results indicate business' expectations for growth over the next six months has improved for manufacturers and nonmanufacturers, but is tempered



Source: FRB Philadelphia via Haver Analytics
Last month plotted: Sep 2024
Blue shade represents recession months.

U.S. Real GDP Growth by Component – Last 4 Quarters

- Last 4 quarters, Average 2009-2019, and Early Recovery Average
- Have moderated from strong growth in late 2020 and 2021
- GDP in 2023 surprised to the upside, and that continues in 2024. The economy remains resilient overall despite the many challenges experienced



Source: BEA via Haver Analytics
 Early recovery average is from 2020:Q3 to 2021:Q4

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