Labor Markets, Inflation and the Economy

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(moderated by Laura Monfredini)

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Federal Reserve Bank of San Francisco
Inflation has declined but remains too high

Core and headline personal consumption expenditures (PCE) inflation

Note: 12-month percent change, seasonally adjusted, values based on 2017 U.S. dollars. Source: Bureau of Economic Analysis
Year-ahead expected inflation down notably

Household and business inflation expectations 1-year-ahead

Source: University of Michigan Surveys of Consumers and Federal Reserve Bank of New York Survey of Consumer Expectations
Spending patterns are normalizing

Real personal consumption expenditures relative to trend

Note: Trend is calculated from 2015-2019. Source: Bureau of Economic Analysis via Haver Analytics
Goods price inflation falling to pre-Covid levels

PCE goods price inflation

Note: 12-month percent change, seasonally adjusted.
Source: Bureau of Economic Analysis via Haver Analytics
Progress on services inflation is slow

PCE services price inflation

Note: 12-month percent change, seasonally adjusted. Source: Bureau of Economic Analysis via Haver Analytics.
Declining job gains, but resilient labor market

Nonfarm payroll employment (thousands)

Note: Seasonally adjusted.
Source: Bureau of Labor Statistics
It will take some time for inflation to fall to 2%

FRBSF forecast

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline PCE Inflation</td>
<td>3.1</td>
<td>2.6</td>
<td>2.3</td>
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<tr>
<td>Real GDP Growth</td>
<td>2.3</td>
<td>1.3</td>
<td>1.6</td>
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<tr>
<td>Unemployment Rate</td>
<td>3.9</td>
<td>4.3</td>
<td>4.1</td>
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Note: Values for headline PCE inflation and real GDP growth are Q4/Q4 percent while those for the unemployment rate are for the fourth quarter of the year indicated.
Wage growth and price stability must align

Wages and salaries (employment cost index)

Note: 4-quarter change, green line is the average growth from 2000 to 2009
Source: Bureau of Labor Statistics via Haver Analytics
Labor force participation remains low

Labor force participation by age

Note: Change in labor force participation, seasonally adjusted, 3 month moving average, indexed to January 2020
Retirements pulling labor force down

Labor force participation by age

Note: Change in labor force participation, seasonally adjusted, 3 month moving averages, indexed to January 2020
Prime-age workers have recovered

Labor force participation by age

Note: Change in labor force participation, seasonally adjusted, 3 month moving averages, indexed to January 2020
Prime-age female LFP has fully recovered

Prime-age labor force participation by gender

Note: Change in labor force participation, seasonally adjusted, 3 month moving average, indexed to January 2020
Still more vacancies than unemployed workers

Ratio of vacancies to unemployed workers

Note: Seasonally adjusted
Source: Bureau of Labor Statistics via Haver Analytics
Is yield curve inversion giving the right signal?

10Y-1Y Treasury bond yield curve

Source: Federal Reserve Board via Haver Analytics
Is yield curve inversion giving the right signal?

10Y-1Y Treasury bond yield curve

Source: Federal Reserve Board via Haver Analytics
No signs that the labor market is weakening

Initial claims for unemployment insurance

Note: Weekly Average in millions, seasonally adjusted
Source: Department of Labor via Haver Analytics