

Labor Markets, Inflation and the Economy



with Sylvain Leduc,
Director of Economic Research
(moderated by Laura Monfredini)

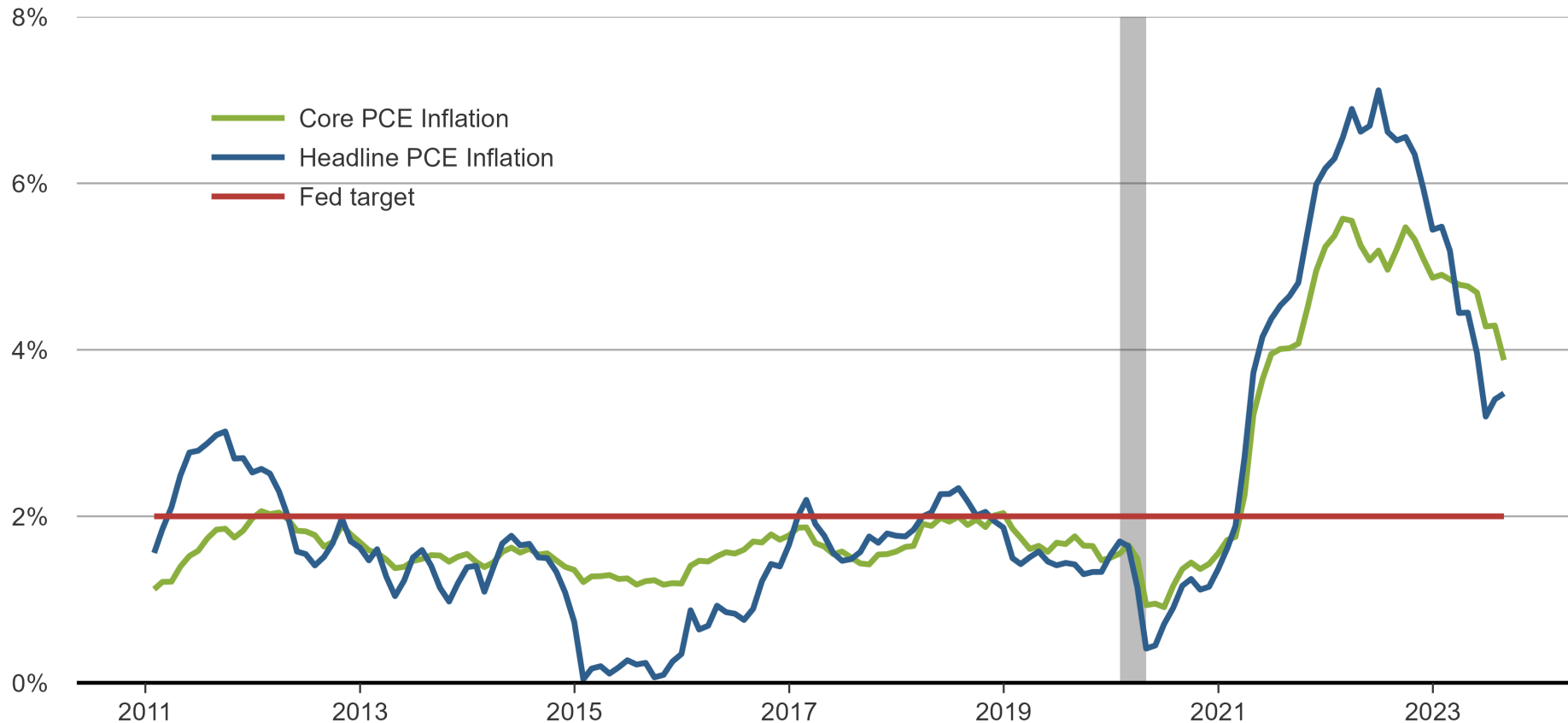
October 12 | 10:35 AM PT

**Ask the
SF Fed**

**Federal Reserve Bank
of San Francisco**

Inflation has declined but remains too high

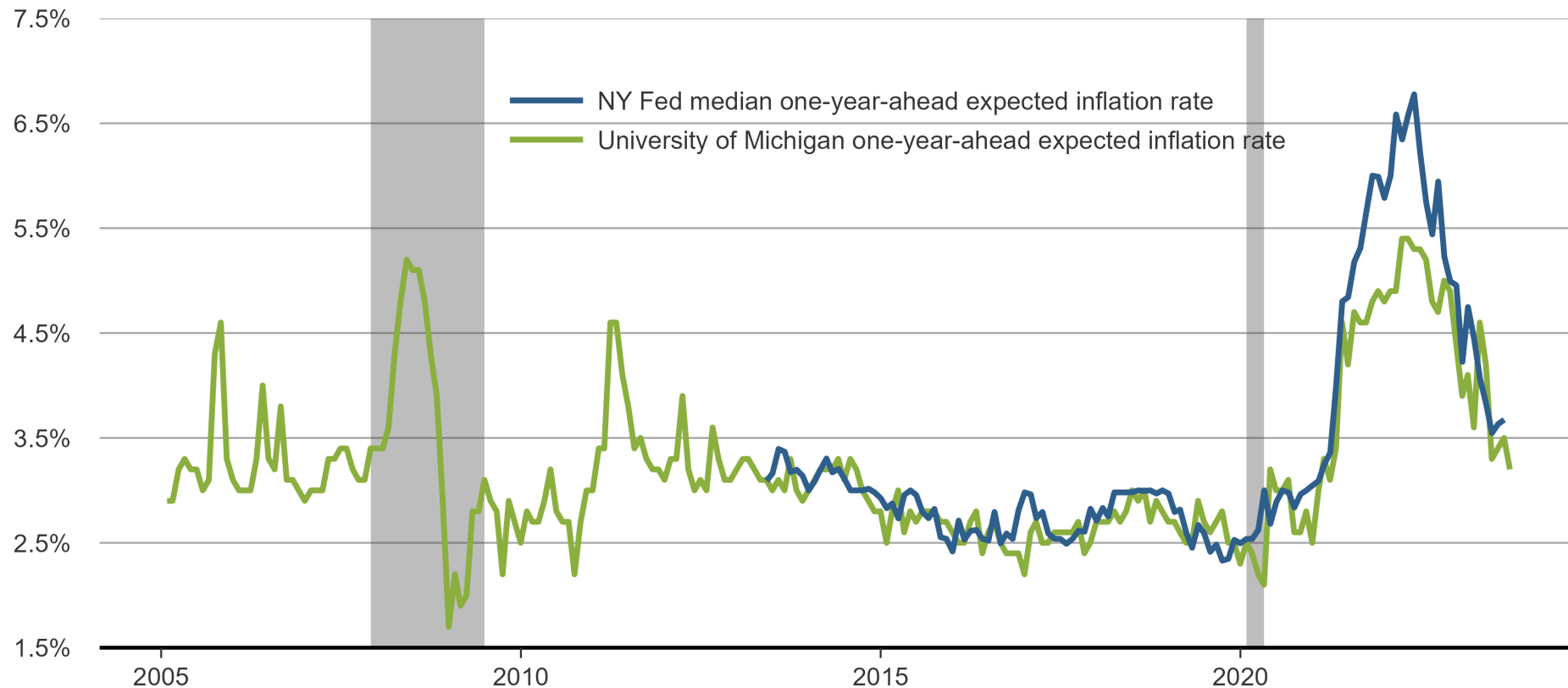
Core and headline personal consumption expenditures (PCE) inflation



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

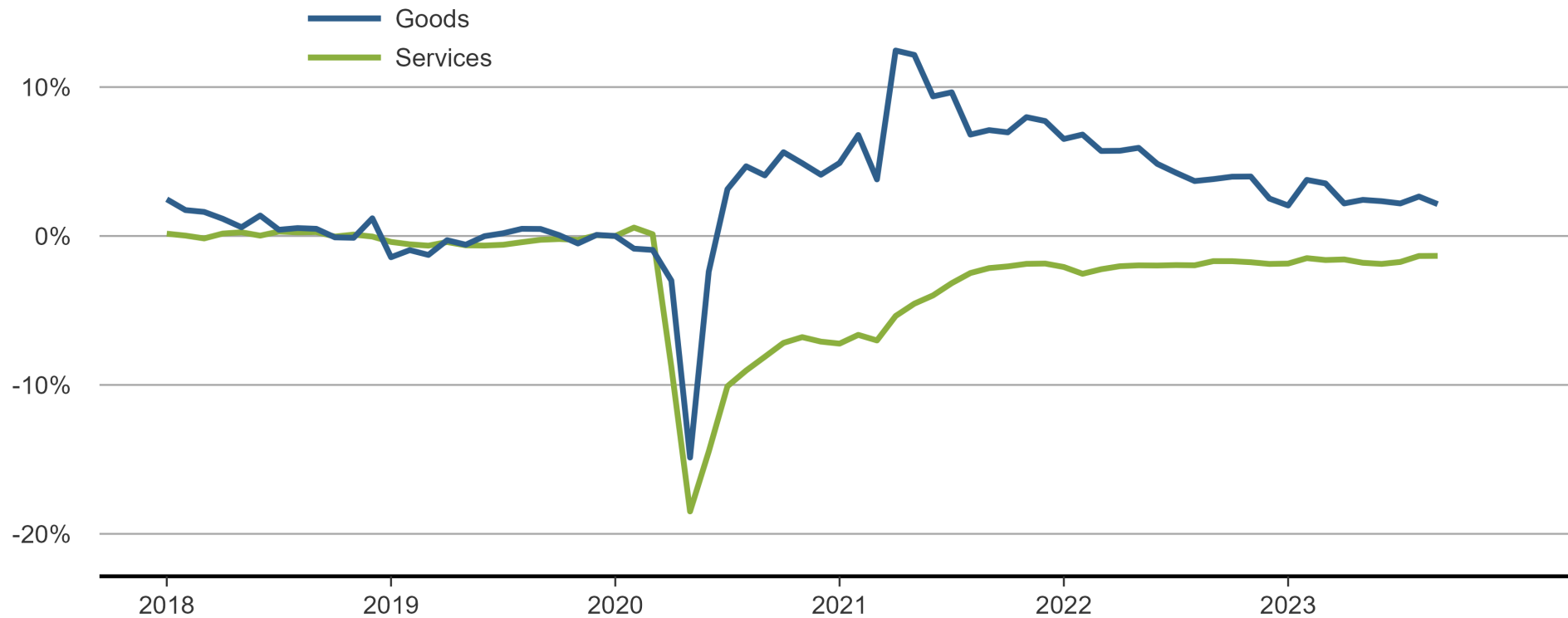
Household and business inflation expectations 1-year-ahead



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

Spending patterns are normalizing

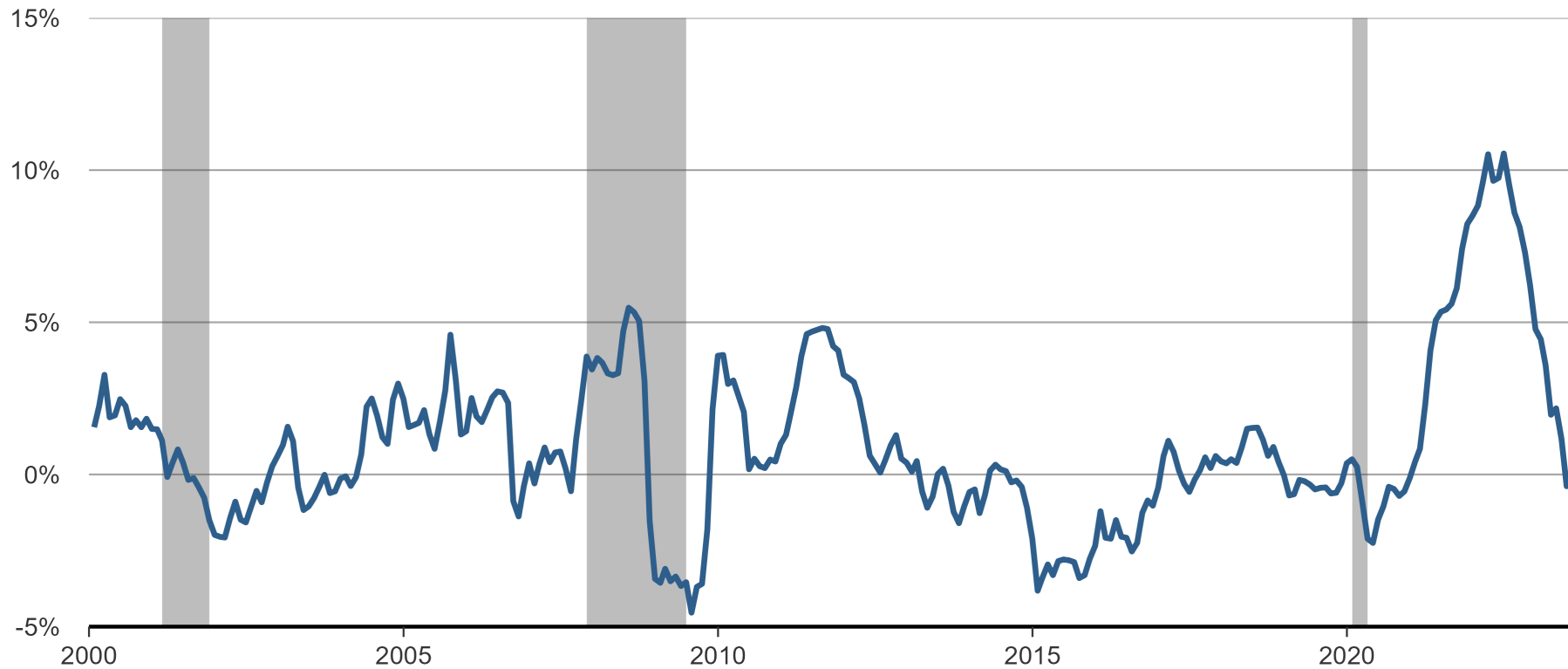
Real personal consumption expenditures relative to trend



Note: Trend is calculated from 2015-2019.
Source: Bureau of Economic Analysis via Haver Analytics

Goods price inflation falling to pre-Covid levels

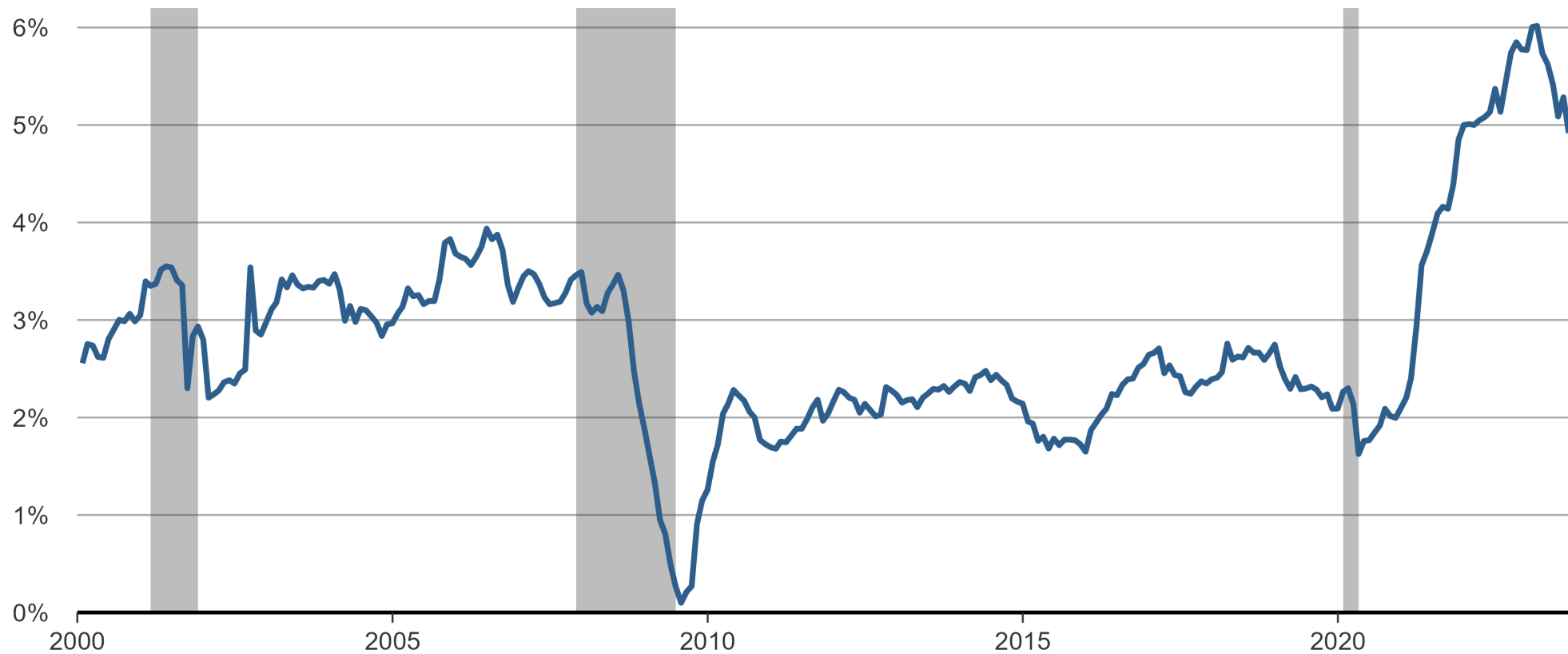
PCE goods price inflation



Note: 12-month percent change, seasonally adjusted.
Source: Bureau of Economic Analysis via Haver Analytics

Progress on services inflation is slow

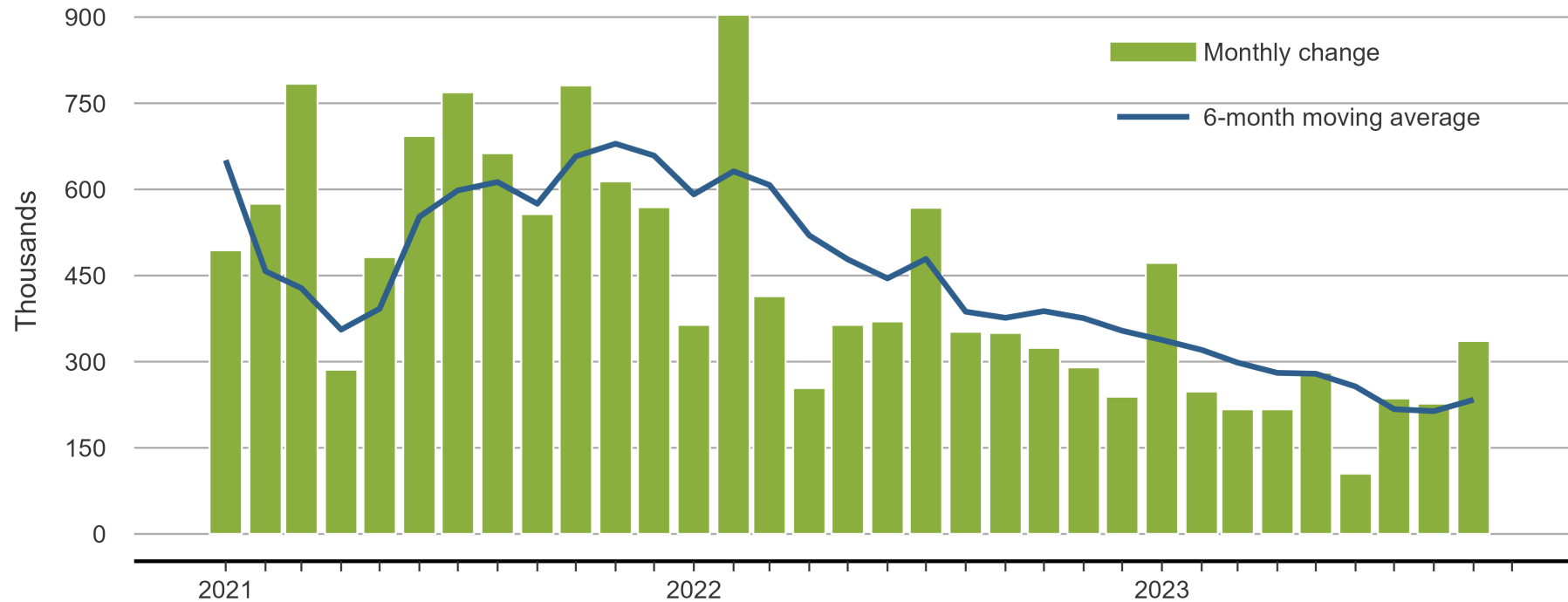
PCE services price inflation



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%

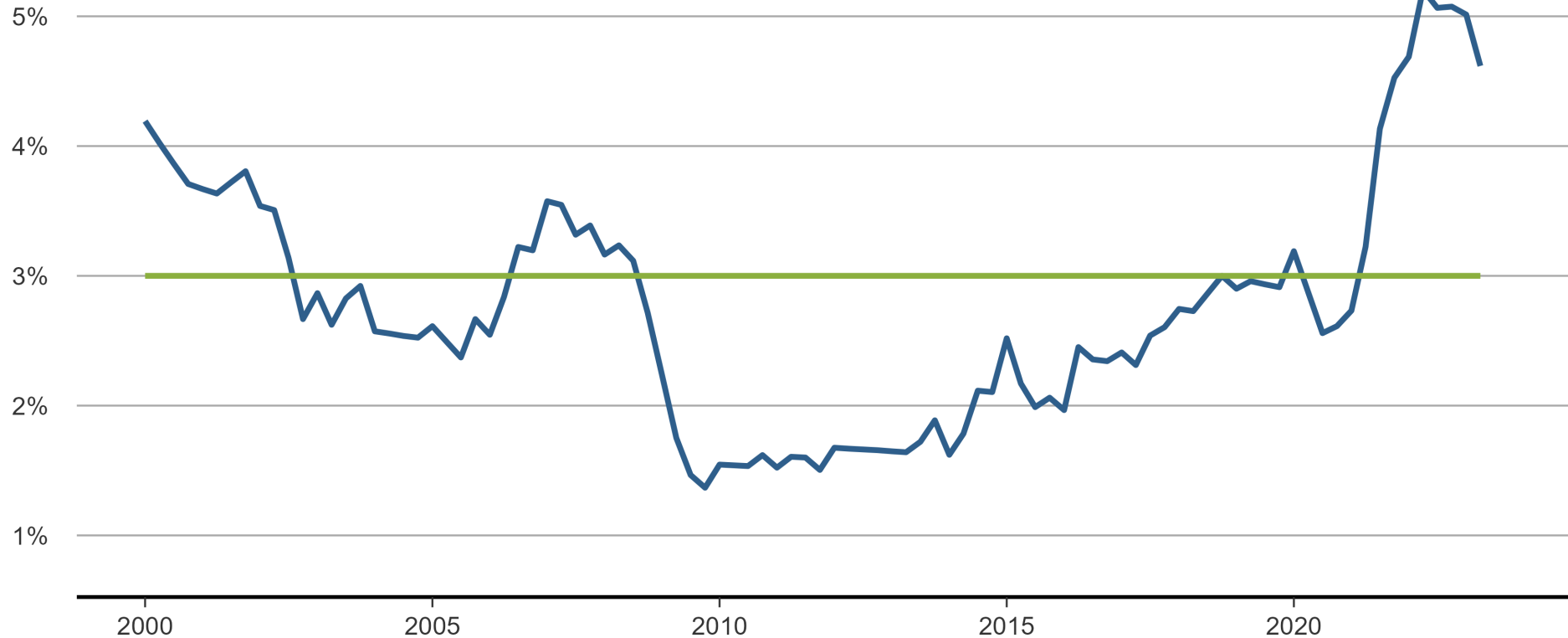
FRBSF forecast

	2023	2024	2025
Headline PCE Inflation	3.1	2.6	2.3
Real GDP Growth	2.3	1.3	1.6
Unemployment Rate	3.9	4.3	4.1

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

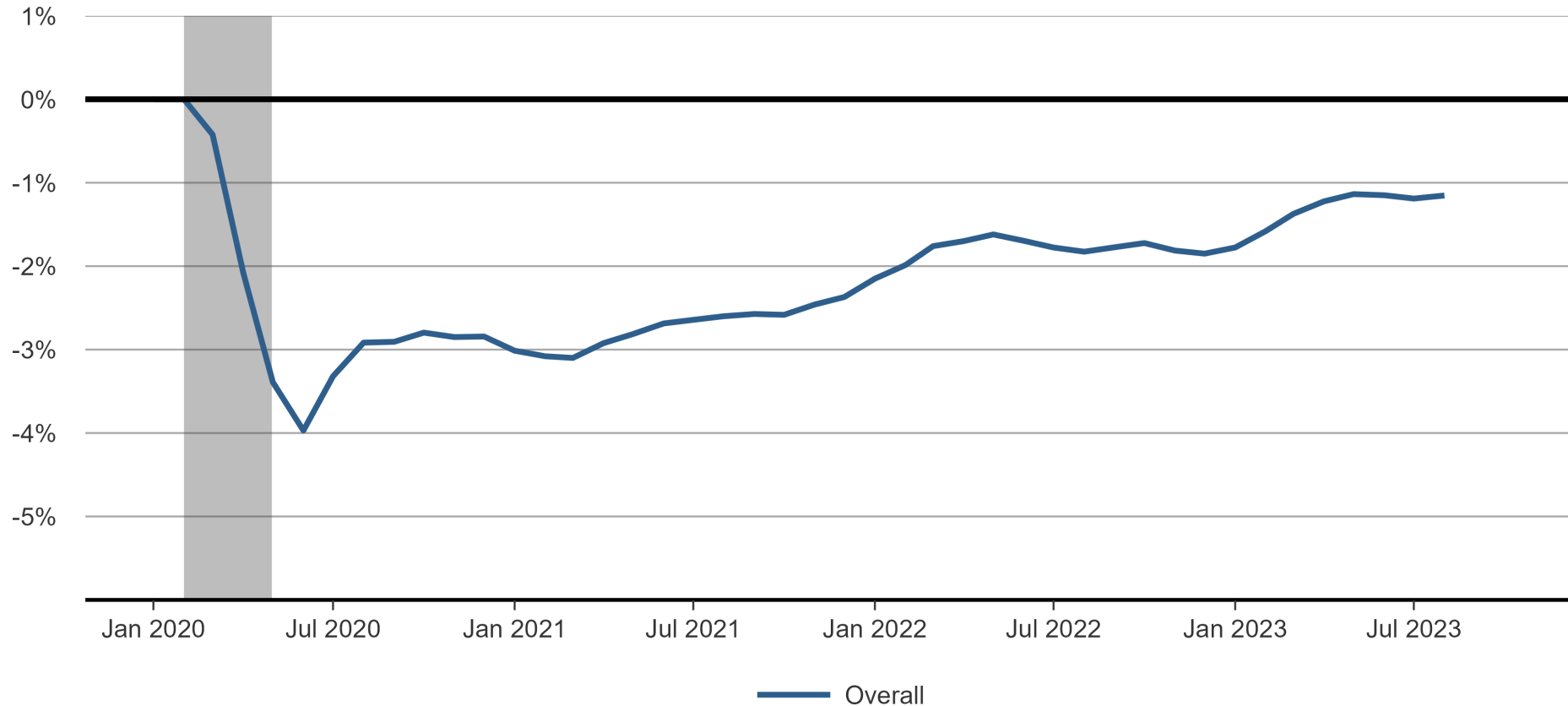
Wages and salaries (employment cost index)



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

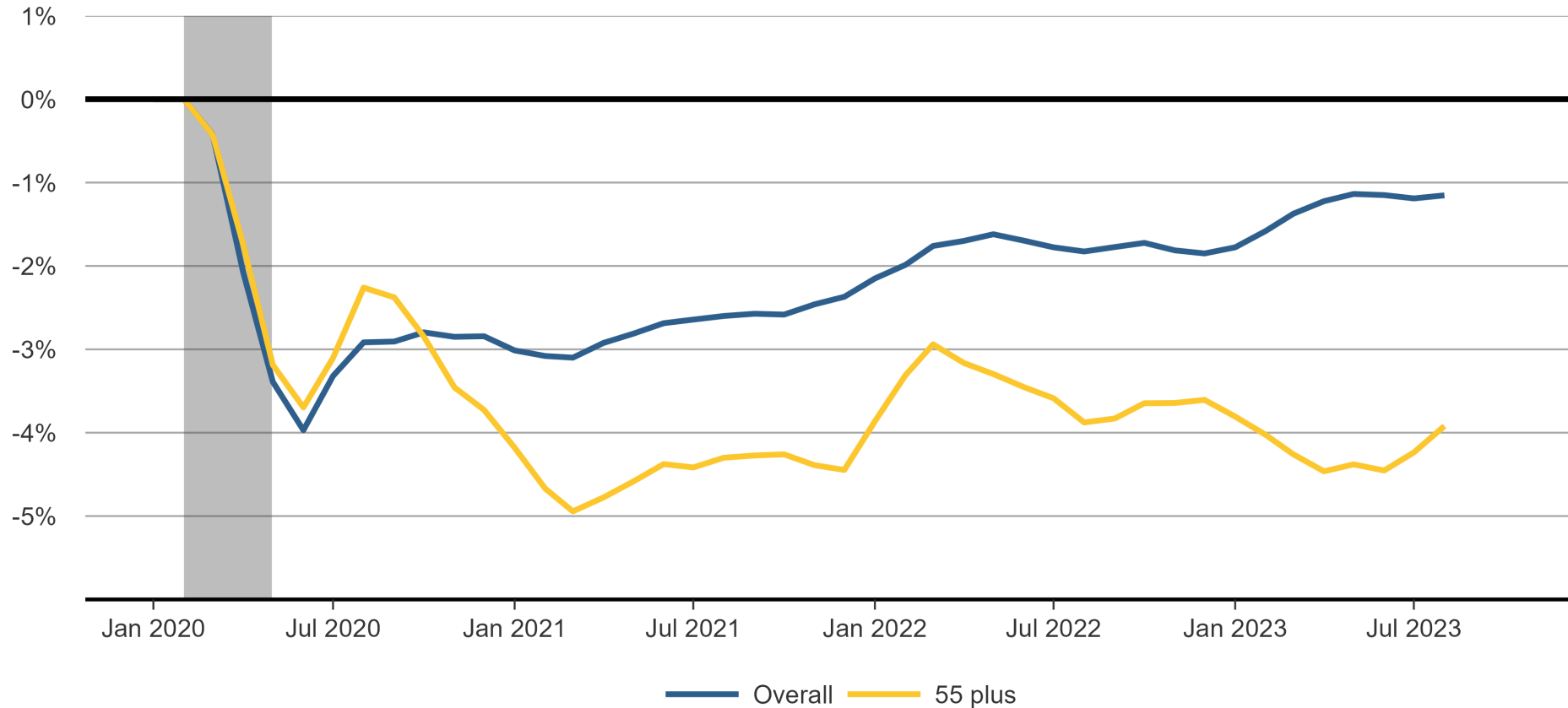
Labor force participation by age



Note: Change in labor force participation, seasonally adjusted, 3 month moving average, indexed to January 2020
Source: SF Fed Data Explorer, www.frbsf.org/economic-research/sf-fed-data-explorer/

Retirements pulling labor force down

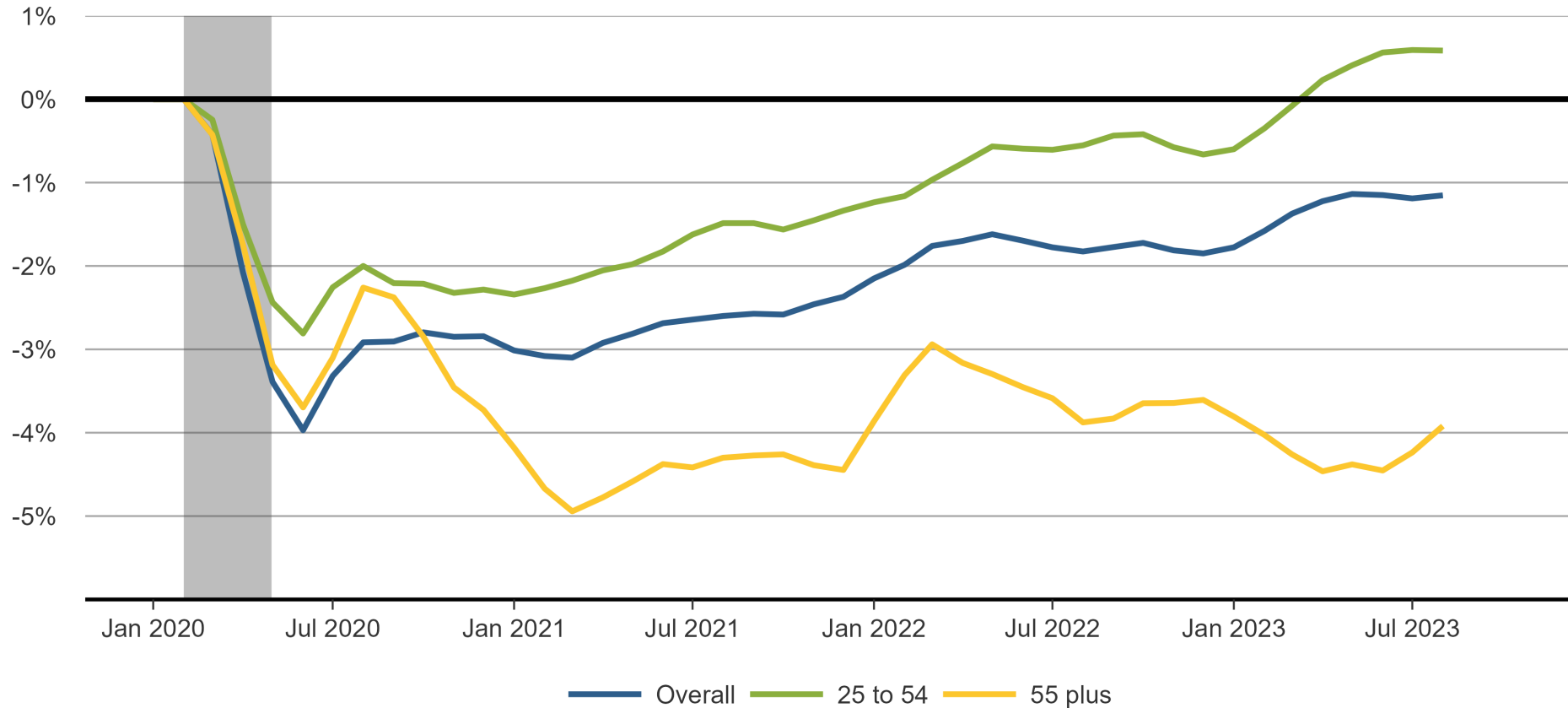
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Prime-age workers have recovered

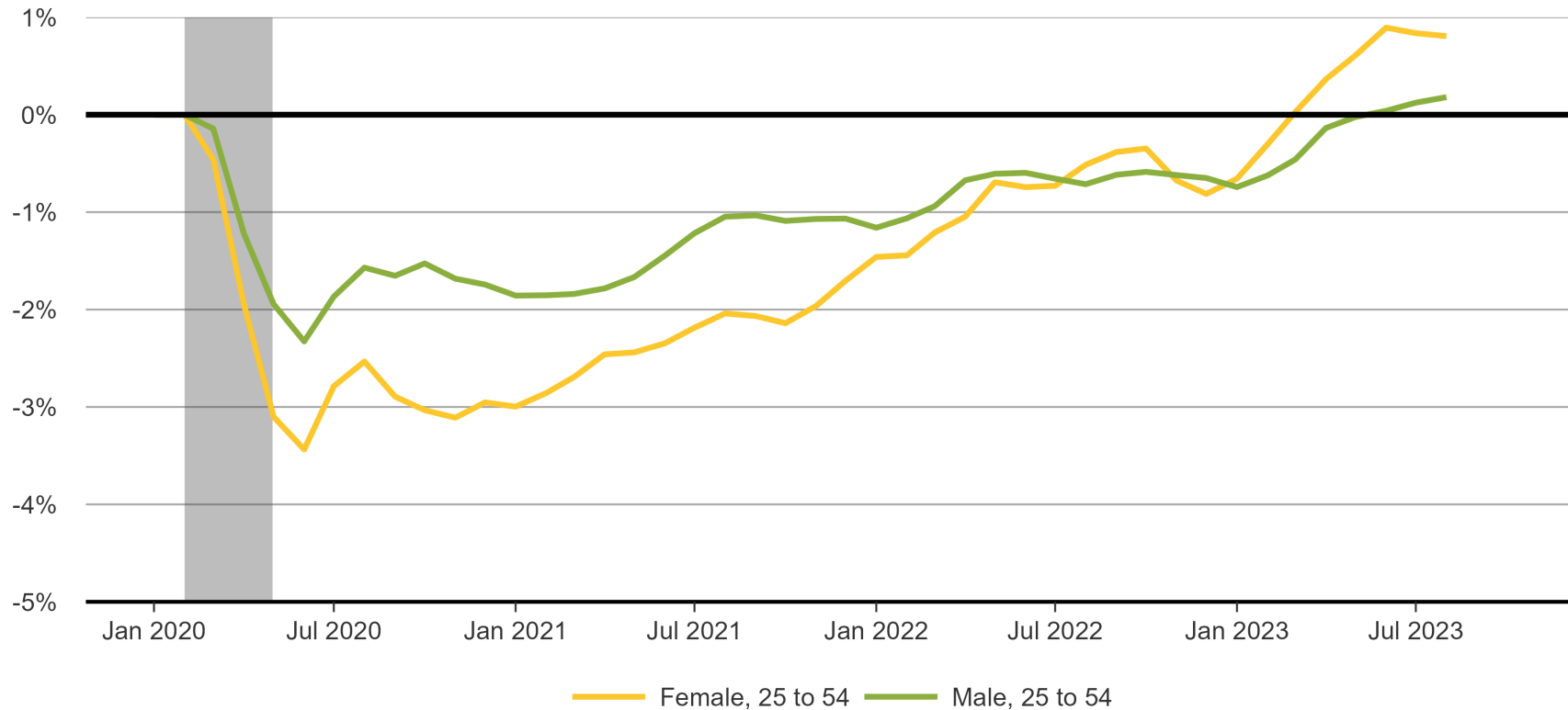
Labor force participation by age



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Source: SF Fed Data Explorer, www.frbsf.org/economic-research/sf-fed-data-explorer/

Prime-age female LFP has fully recovered

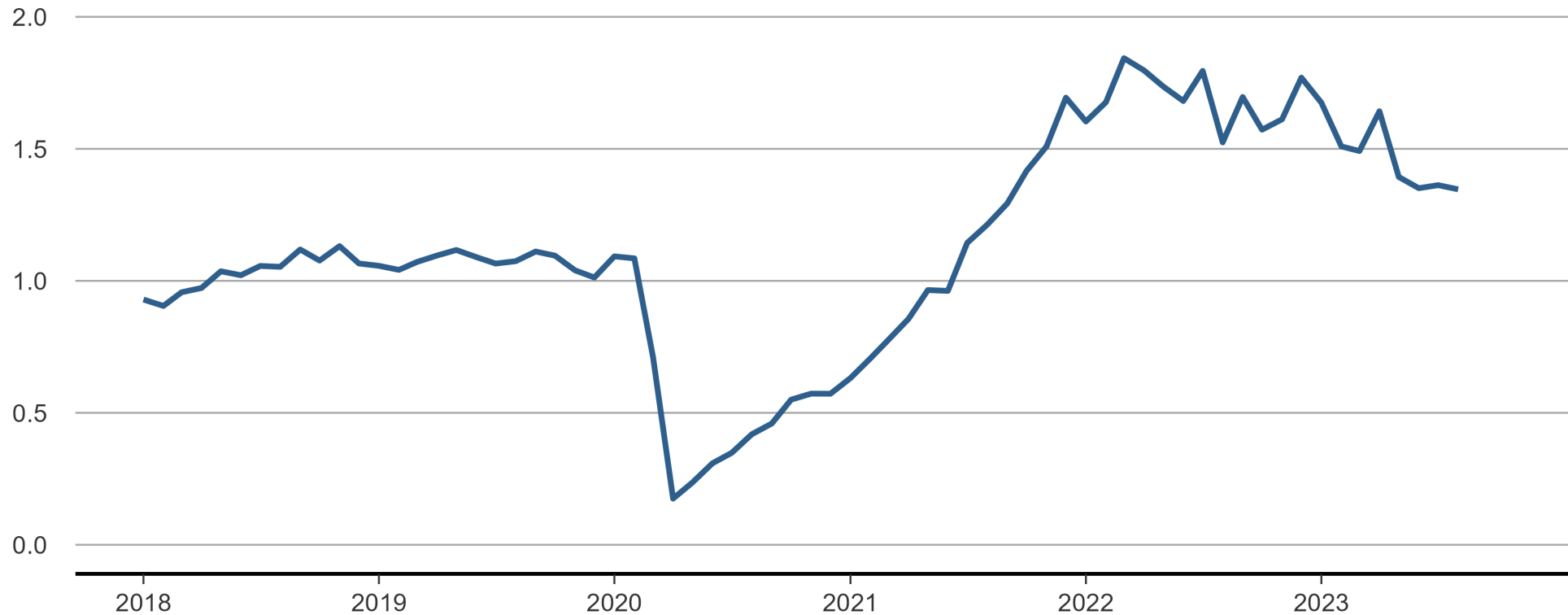
Prime-age labor force participation by gender



Note: Change in labor force participation, seasonally adjusted, 3 month moving average, indexed to January 2020
Source: SF Fed Data Explorer, www.frbsf.org/economic-research/sf-fed-data-explorer/

Still more vacancies than unemployed workers

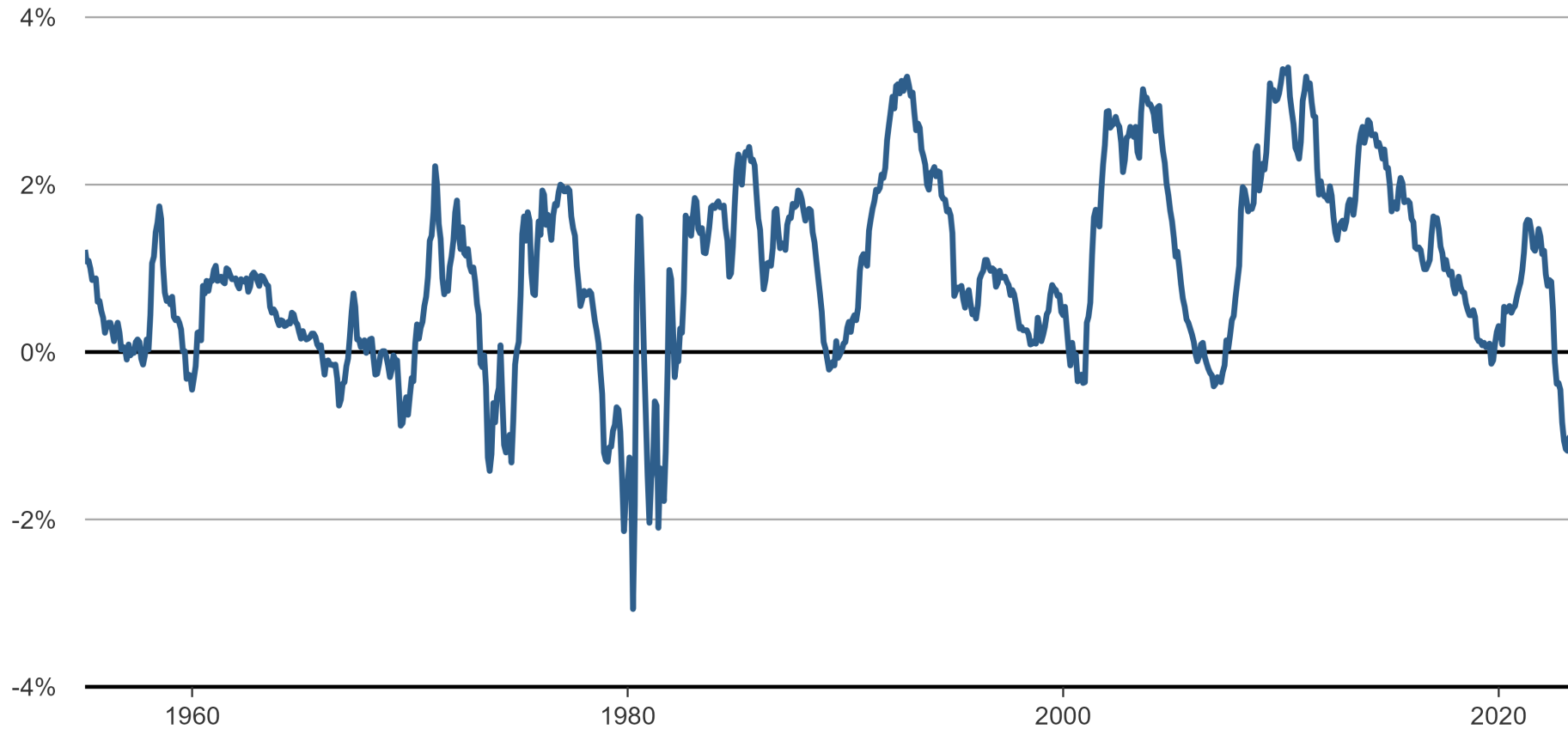
Ratio of vacancies to unemployed workers



Note: Seasonally adjusted
Source: Bureau of Labor Statistics via Haver Analytics

Is yield curve inversion giving the right signal?

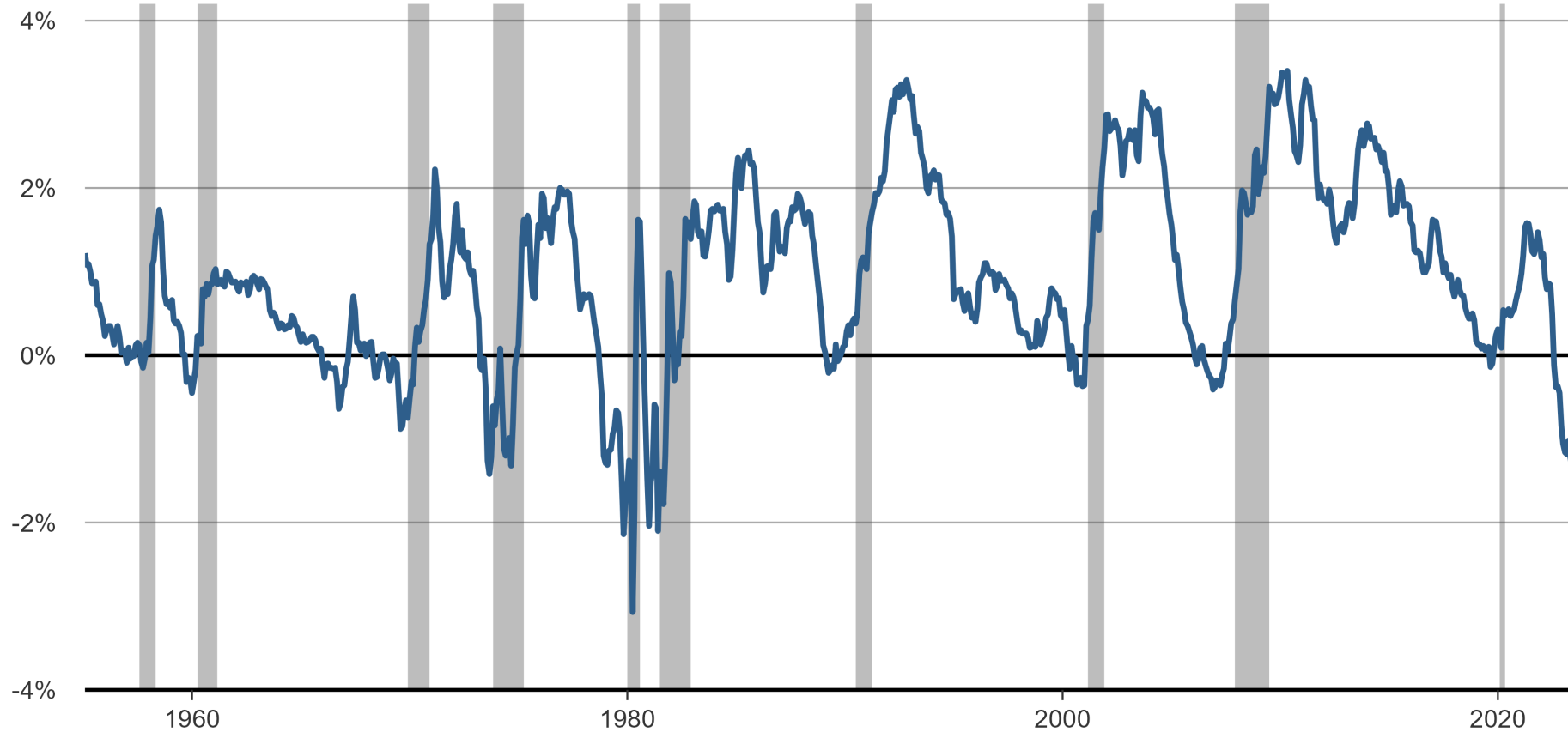
10Y-1Y Treasury bond yield curve



Source: Federal Reserve Board via Haver Analytics

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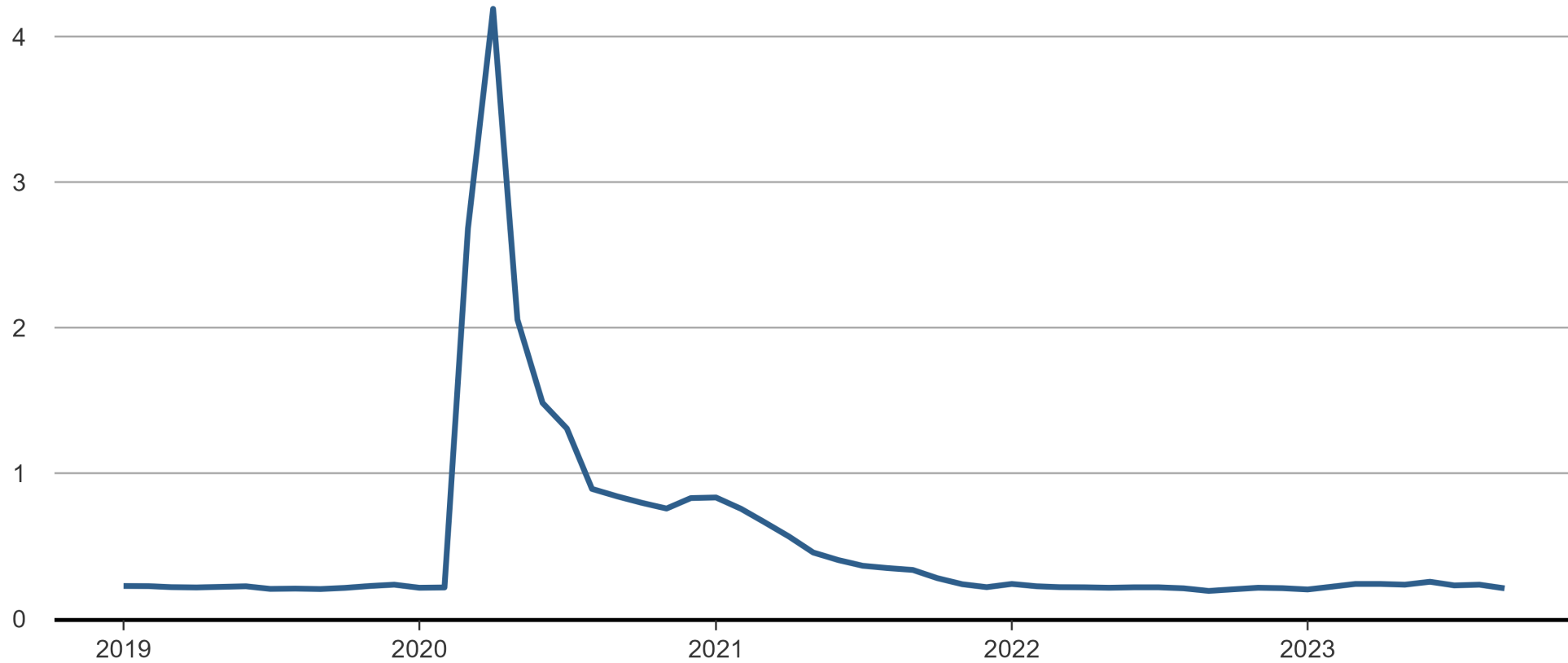
10Y-1Y Treasury bond yield curve



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