

To: Interested Parties

From: Lael Brainard, National Economic Advisor

Re: The American Economy in 2023: Taking Stock of Progress and the Work that Lies Ahead

Date: December 12, 2023

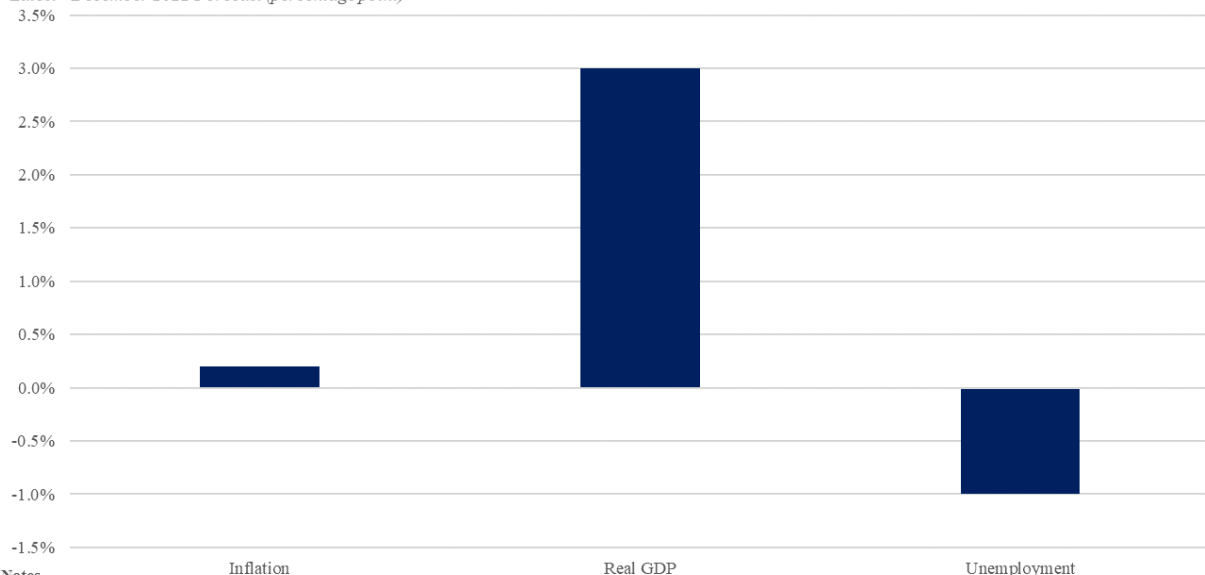
As 2023 comes to a close, it is a good time to take stock of the progress made and the work that lies ahead. Over the last year, economic growth has been strong, while inflation has declined by two thirds, and unemployment has remained below 4% for the longest stretch in 50 years. Supply chains have been rebuilt, and productivity is up. American workers are finishing the year in a stronger position than before the pandemic—with wages and wealth up by more than inflation and strong employment thanks in part to the President’s Bidenomics agenda. But many Americans continue to face challenges, and there is more work to do to lower costs for American families, which is the President’s top economic priority.

Defying many forecasts, inflation has fallen by two thirds as supply chains have improved, while unemployment has remained low.

How has the actual data compared to projections? A year ago, the consensus forecast expected inflation to fall to roughly where it is today at the expense of a large increase in unemployment and slowdown in growth. President Biden did not agree such a sacrifice would be necessary.

Inflation has fallen largely as projected, while growth has been far stronger and unemployment far lower

Latest - December 2022 Forecast (percentage point)



Notes

Inflation. Source: BLS Headline CPI, Blue Chip December 2022 Forecast; Dates: Q4/Q4 for Blue Chip, November 2023/November 2022 for Latest

Real GDP Growth. Source: BEA, Blue Chip December 2022 Forecast. Dates: Q3/Q3 2023

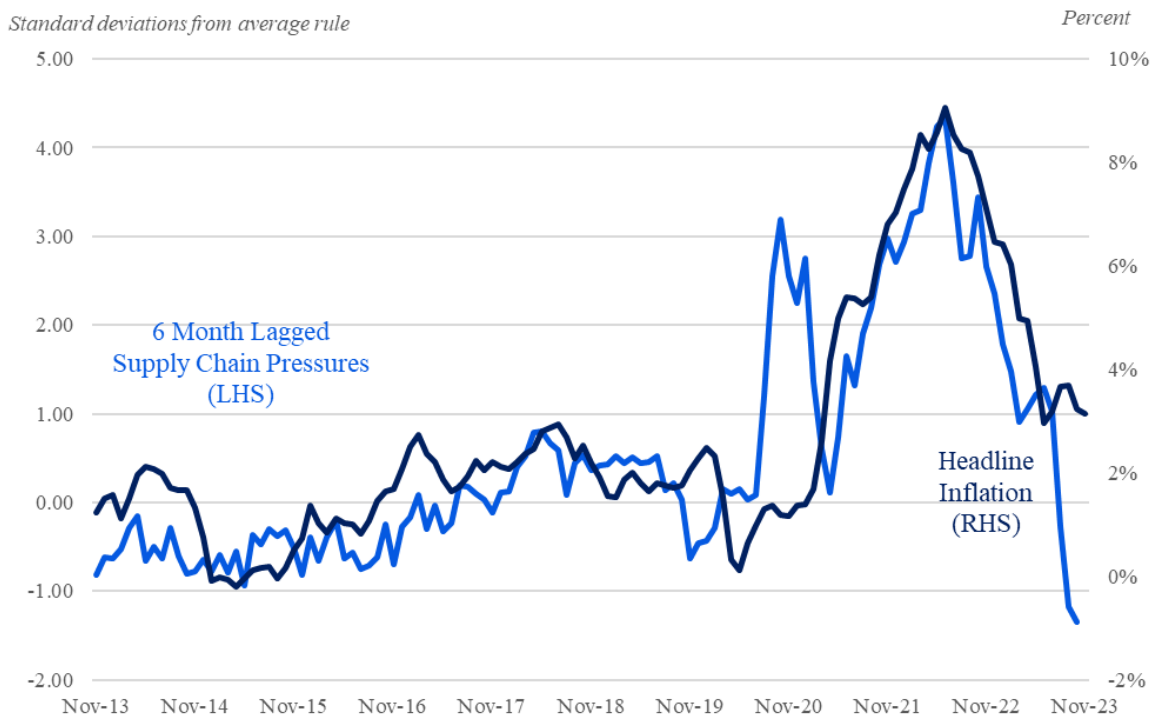
Unemployment Rate. Source: BLS, Blue Chip December 2022 Forecast. Dates: Q4 average Blue Chip, November 2023 for Latest

CPI inflation is running at 3.1% over the last year—similar to the decades prior to the global financial crisis—and down two thirds from its peak. Core inflation has fallen to 3.4% over the last three months. At the same time, employment and growth have far exceeded expectations, with the unemployment rate remaining below 4% for 22 months in a row, and the economy growing by 3.0% over the last four quarters.

Why has inflation come down so quickly without a significant slowdown? The rebuilding of supply chains, a large increase in Americans participating in the labor force, and a boost to productivity have enabled robust growth and employment to continue, while inflation moderated.

First, actions to rebuild supply chains have brought inflation down. The pandemic led to unprecedented stress in supply chains, creating shortages in everything from semiconductors to cars to washing machines to everyday household goods. The President took action and secured important legislation to address shipping and trucking bottlenecks and to enable investments in America’s transportation systems and vital sectors such as energy and semiconductors. When supply chain stress intensified, input prices rose, and many corporations increased consumer goods prices by as much or more, contributing to a surge in inflation. Today, in part as a result of President Biden’s efforts, [supply chain stress](#) has fallen from near record highs to record lows, and inflation has declined by two thirds.

Inflation has tracked supply chain pressures closely



Source: New York Fed Global Supply Chain Pressures Index, BLS

Second, experts warned that Americans might not rejoin the labor force after the pandemic in what they called the “Great Resignation.” But instead, we are seeing a Great Rebound, with 3.3 million Americans joining the labor force so far in 2023. Labor force participation among working-age Americans has reached its highest level in more than 20 years and working-age [women’s labor force participation](#) has been at a record high for much of the year.

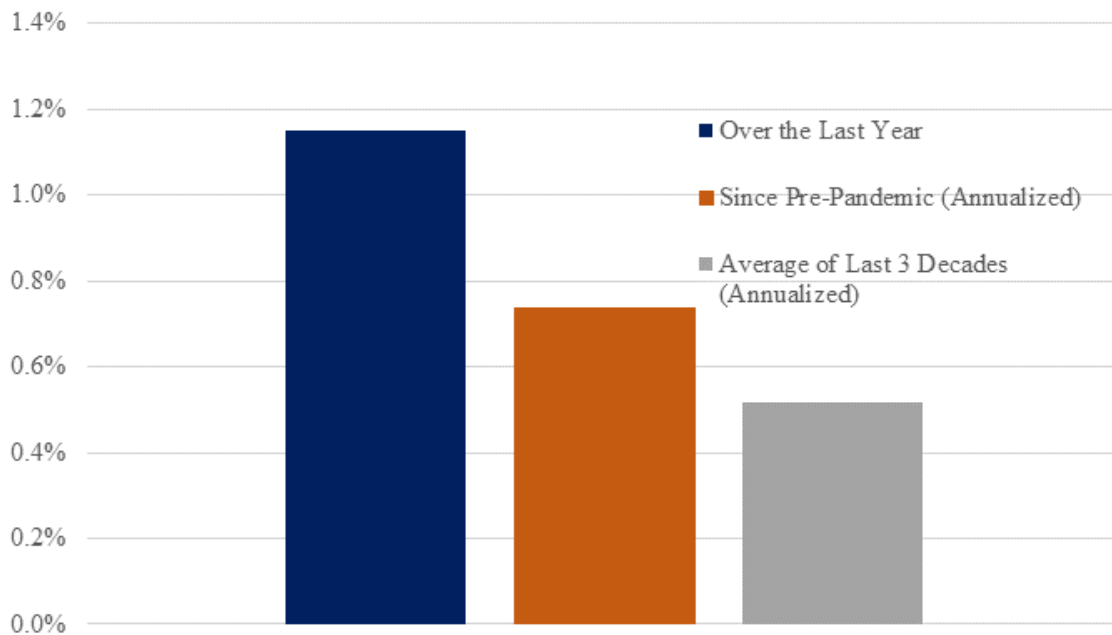
Third, after declining last year, productivity in the nonfarm business sector increased by 2.4% over the year ending in the third quarter—enabling solid growth to occur even as inflation declined. Productivity data are highly volatile and warrant some caution over shorter timeframes. But the data over the last year are encouraging. This has been accompanied by a surge in [business investment](#) in key sectors catalyzed by President Biden’s Bipartisan Infrastructure Law, CHIPS and Science Act, and Inflation Reduction Act, as well as in [new small business formation](#).

All told, workers’ wages are higher than before the pandemic, *adjusting for inflation*.

What have lower inflation and a solid job market meant for American workers? Wages are up by more than inflation over the last year and relative to before the pandemic, making the average worker’s net take home pay better than it was nearly four years ago. For middle- and lower-income workers—the “production non-supervisory” workers who make up 80% of the workforce—real wages are up 1.2% over the last year and 2.7% since before the pandemic, with wages for those workers having returned to their pre-pandemic trend.

Real wages grew strongly over the last year and are higher than pre-pandemic

Percent Change for Production & Non-Supervisory Workers



Source: BLS Average Hourly Earnings for production & non-supervisory workers deflated by CPI-U. Prior three decades 1989-2019.

To put this in historical perspective, at 1.2% over the last year, inflation-adjusted wage growth for those workers was well above the annual average over the three decades before the pandemic, when it ran at 0.5%. Even over the full business cycle, including the depths of the pandemic, the average annual wage growth for these workers has exceeded the annual average over the three decades before the pandemic.

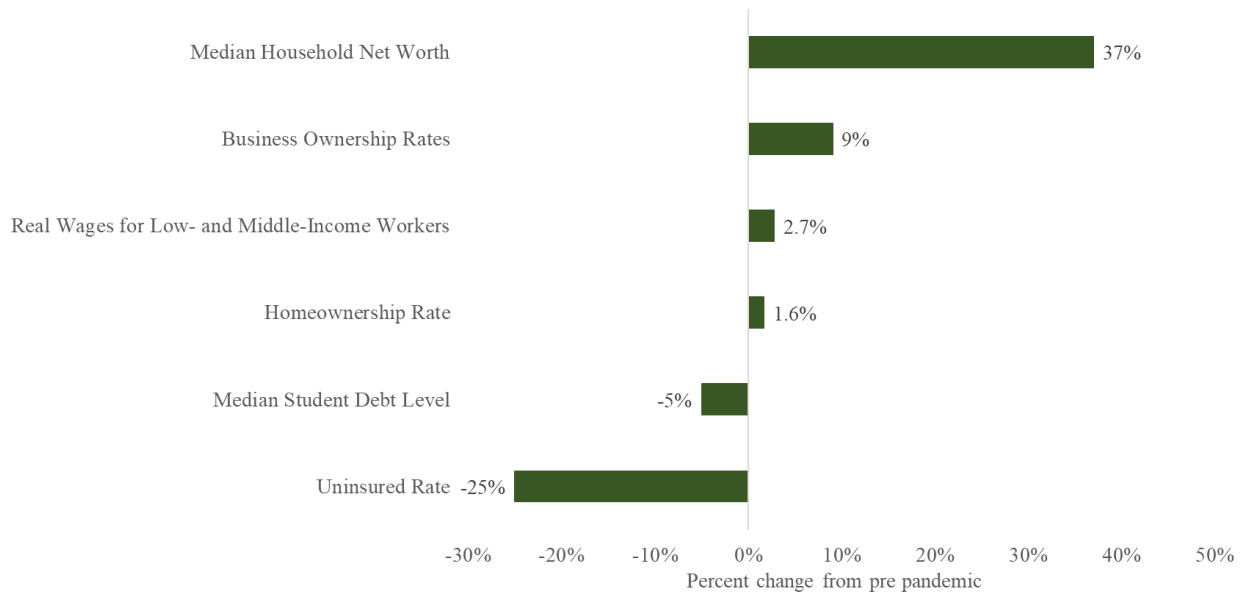
Moreover, a solid economy and the President's agenda to empower workers bode well for continued real wage gains in the years ahead. Following a successful year for organizing in 2022, unionized workers were able to lock in strong contracts this year that should support wage growth over the next several years. The income benefits of collective bargaining can extend to [non-unionized workers](#) as their employers often raise wages to retain their workers.

Americans' financial situation has improved since the pandemic across a range of measures beyond wages.

How are household balance sheets doing? Real wages aren't the only metric by which American economic well-being has improved. The latest [Survey of Consumer Finances \(SCF\)](#) reported that real median household net worth is 37% higher than before the pandemic—the largest percentage gain in wealth in the history of the survey. Households in the lower half of the income distribution saw the largest gains, with particularly large gains for Black and Hispanic households. According to the Conference Board, [job satisfaction](#) has also reached its highest level in 36 years.

President Biden's economic plan has helped enable American households to pay down debt and lower their debt payments, especially for credit card and student loan debt. Median debt payments as a share of income fell to the lowest level in the history of the SCF. This progress comes as the share of households without health insurance fell to a record low of 7.8% this year. Business ownership also reached new records: the business ownership rate rose 9% since 2019, with particularly strong gains for Hispanic and Black households.

According to the most recent data, several consumer finance metrics improved from pre-pandemic



Source and Notes: **Median household net worth**, source: Federal Reserve Survey of Consumer Finances, dates: 2022, 2019 annual. **Business Ownership**: source: Federal Reserve Survey of Consumer Finances, dates: 2022, 2019 annual. **Real wage growth**: source: BLS Average Hourly Earnings for Production & Non-Supervisory Workers deflated by CPI-U, dates: 11/2023, 2/2020. **Homeownership**: source: Federal Reserve Survey of Consumer Finances, dates: 2022, 2019 annual. **Median Student Debt**: source: Federal Reserve Survey of Consumer Finances, dates: 2022, 2019 annual. **Uninsured rate**: source: ASPE, dates: 2023-Q3, 2019.

Despite this progress, there is more work to do to lower costs for families—and ensure the benefits of our economic recovery are felt by all Americans.

What more can be done to improve kitchen table economics for hard working Americans?

Despite the increase in inflation-adjusted wages, we know that many Americans are worried that some essential expenses are less affordable. Lowering costs for hardworking American families remains the President’s top economic priority in the year ahead.

Gas prices at the pump are down by more than \$1.80 per gallon from the peak after Putin’s war, and the median gas price is below \$3.00 per gallon. Annual grocery inflation is down to its lowest level since June 2021, with price declines over the last year on items ranging from milk to eggs.

But there is more work to do. To address prescription drug prices that average two to three times higher for Americans than for those in many other countries, President Biden secured legislation to cap insulin costs for seniors at \$35 a month, to cap out-of-pocket drug costs for seniors at \$2,000 per year, and to give Medicare the authority to negotiate prices starting with 10 drugs next year.

In contrast, Republicans in Congress want to repeal these cost-reducing policies—from caps on insulin and out-of-pocket prescription drug costs to health insurance savings for nearly 15 million people—and spend trillions on tax cuts for wealthy individuals and large corporations.

American consumers are also tired of being hit by hidden fees. The President is working to lower costs by eliminating junk fees in industries like banking and airlines. The Administration's efforts have already reduced overdraft and bounced check fees by [\\$5 billion](#) annually, translating to \$150 in savings for the 33 million Americans that pay these fees. Cracking down on credit card late fees would save Americans another [\\$9 billion](#) each year.

Finally, the President will continue to call on corporations with higher markups to pass savings onto consumers now that supply chains are fixed and input costs are moderating. Markups remain [above](#) historic trends for [retail](#) and [wholesale](#) goods, and [corporate profits as a share of output](#) in the non-financial business sector remain elevated. This is the case even as supply chain pressures have abated, inflation has moderated, and some input costs have fallen. We will continue working to eliminate junk fees and to boost competition to help ensure that consumers get a fair deal.