

Reflections on the U.S. Economy in 2023

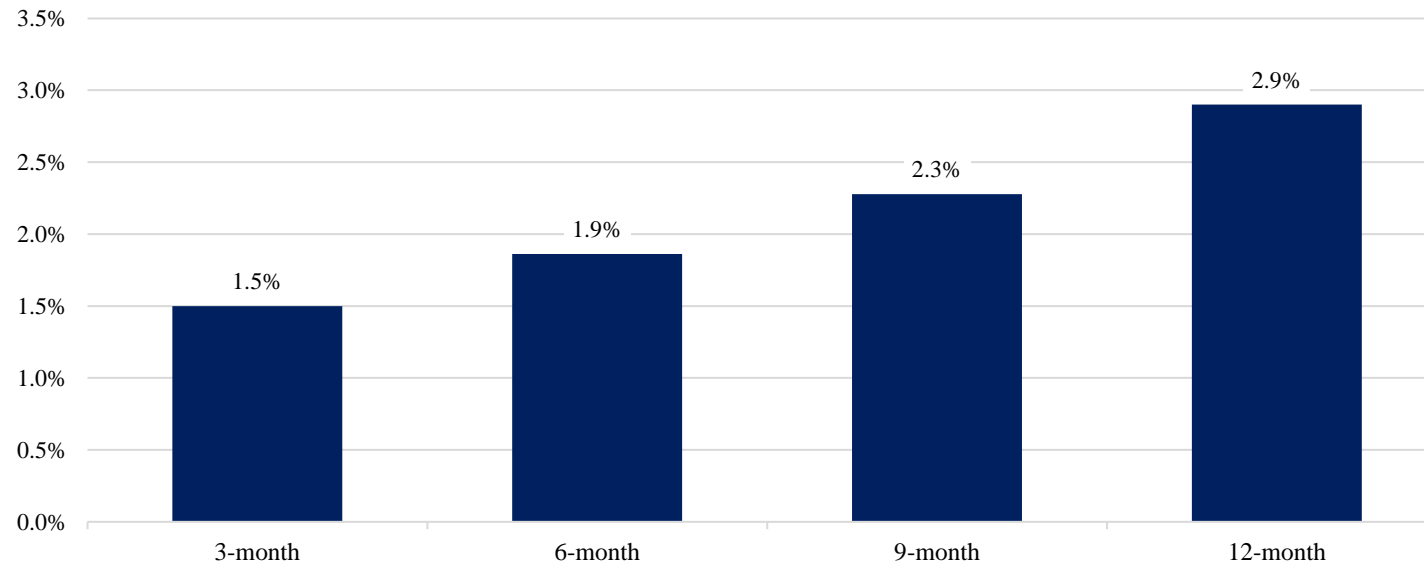
Lael Brainard

January 26, 2024

Core inflation is below 2% on a three- and six-month basis

Core 3-, 6-, 9-, 12-month

Annualized percent change

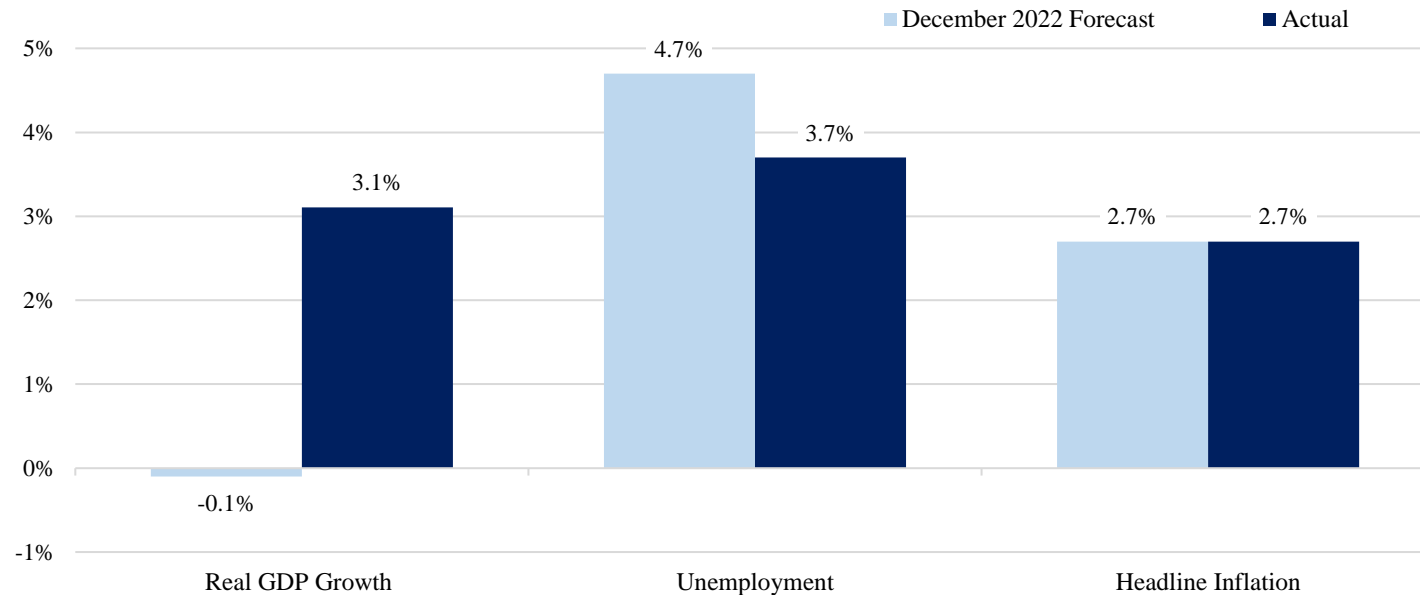


Source: Bureau of Economic Analysis

Today, we learned that core inflation fell to 1.5% on a three-month basis and 1.9% on a six-month basis. This marks the second month in a row where core inflation has been *below* 2% on a six-month basis.

Growth and unemployment have outperformed forecasts, while inflation has fallen as expected

Real GDP, unemployment, inflation, 2023



Notes

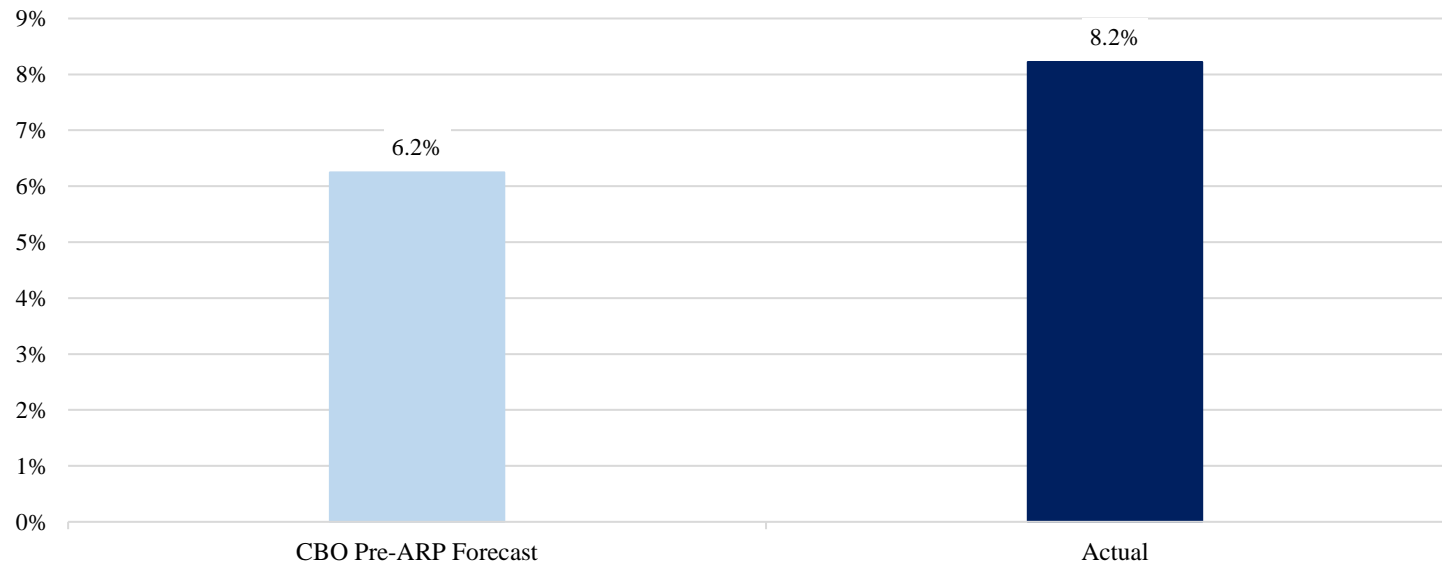
Inflation. Source: BEA Headline PCE, Blue Chip December 2022 Forecast; Dates: Q4/Q4 for 2023
Real GDP Growth. Source: BEA, Blue Chip December 2022 Forecast. Dates: Q4/Q4 for 2023
Unemployment Rate. Source: BLS, Blue Chip December 2022 Forecast. Dates: Q4 average for 2023

A year ago, forecasters thought that the U.S. economy would shrink in 2023 and unemployment would skyrocket. Instead, growth exceeded 3% and the unemployment rate remained below 4% for the entire year while inflation came down.

Real GDP is above the pre-pandemic level by more than expected.

Cumulative GDP growth, 2019 Q4 - present

Percent



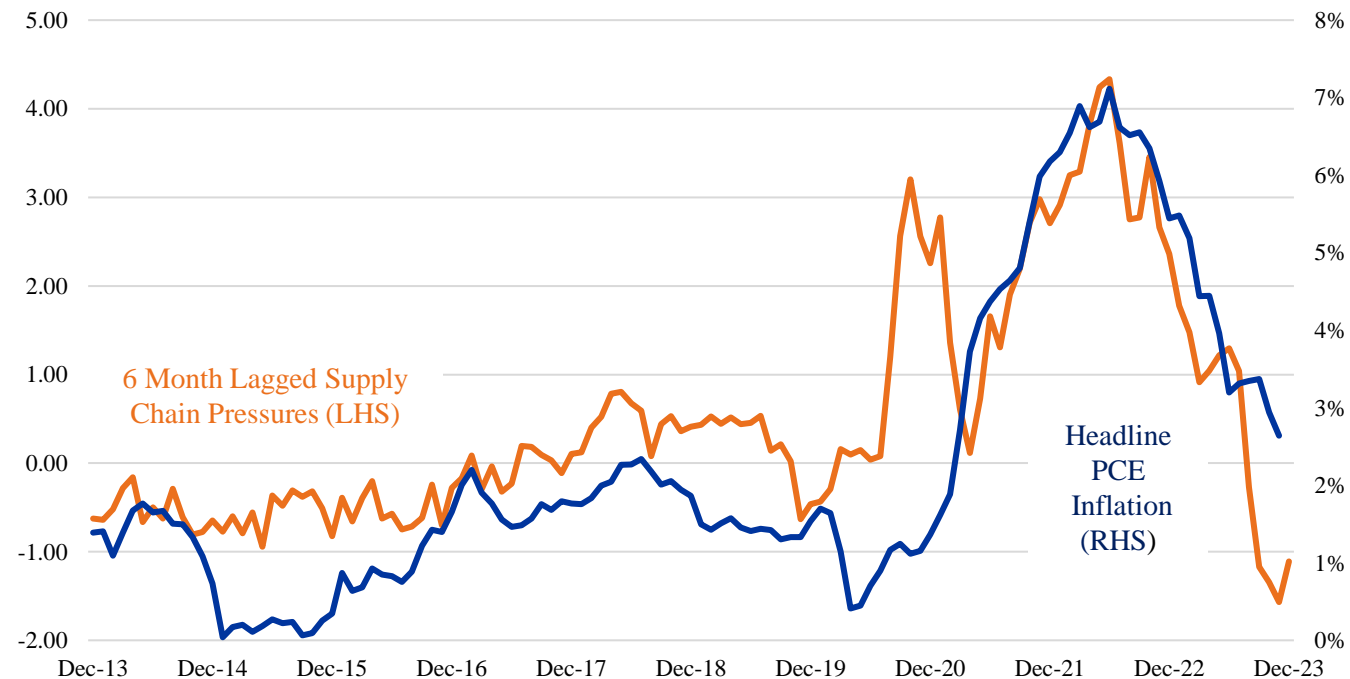
Source: Congressional Budget Office, February 2021, and Bureau of Economic Analysis

Growth has also been stronger than the Congressional Budget Office's (CBO) February 2021 forecast, before the American Rescue Plan. GDP is now more than 8.2% higher than pre-pandemic levels, the highest of any of the G-7 economies.

Inflation has tracked supply chain pressures closely

Global supply chain pressures index and PCE inflation, 2013-present

Standard deviations from average rule



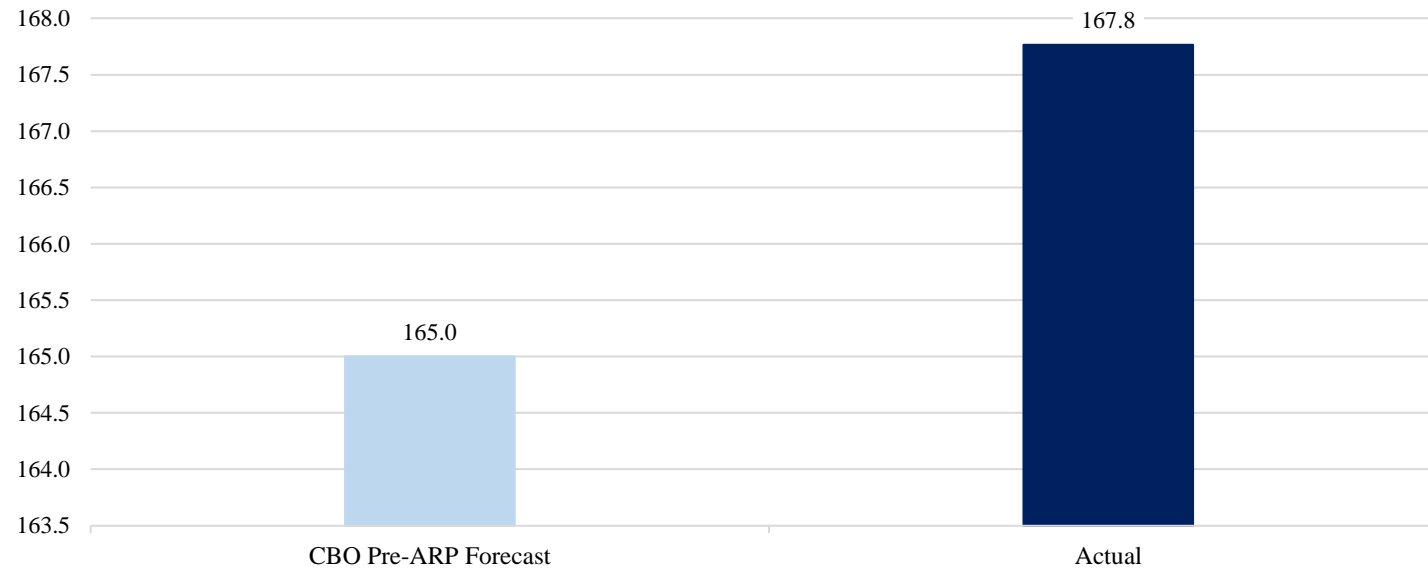
Source: New York Fed Global Supply Chain Pressures Index, Bureau of Labor Statistics

Inflation has fallen as supply chain pressures fell from record highs to record lows, reflecting the pandemic-driven nature of the global inflation surge and the importance of the Administration's efforts to help unsnarl supply chains.

Labor force growth has exceeded CBO forecasts by nearly three million Americans

Labor force level

Millions of Americans in the labor force



Source: Bureau of Labor Statistics, Congressional Budget Office (February 2021)

One of the reasons that the economy has outperformed forecasts is that labor supply expanded by more than forecast. Compared to the pre-American Rescue Plan CBO forecast, there are nearly 3 million more Americans in the labor force.

The U.S. economy in 2023 outperformed forecasts across a range of measures

	Outside Forecasts		Actual
	Blue Chip December 2023	CBO February 2023	
<i>Output (Q4/Q4)</i>			
Real GDP	-0.1%	0.1%	3.1%
PCE	0.3%	1.1%	2.6%
Residential Fixed Investment	n/a	-11.9%	0.0%
Non-Residential Fixed Investment	-0.3%	2.0%	4.1%
<i>Labor Force (Q4 Average)</i>			
Unemployment Rate	4.7%	5.1%	3.7%
Non-Farm Payroll Growth (Millions)	n/a	0.1	2.7%
Labor Force Participation Rate	n/a	62.2%	62.7%
<i>Prices, (Q4/Q4)</i>			
PCE	2.7%	3.3%	2.7%
Core PCE	3%	3.4%	3.2%

Source (Last Year's Forecast): Blue Chip December 2022 and CBO 2023 (n/a, not available). **Source (Actual):** BLS, BEA, Bloomberg

Forecasts that economic activity would come to a standstill and the labor market would deteriorate in order to achieve a reduction in inflation did not materialize. Instead, the U.S. economy finished the year in a healthy position and heads into 2024 stronger than forecast.

The strong economic data has produced benefits for middle class families, with wages and wealth up and key debt burdens down.

Kitchen Table Economics	
Real Increase in Wages and Salaries per Household	\$3,500
Real Increase in Median Wages per Worker	\$1,400
Real Increase in Median Wealth	\$51,800
Median Credit Card Balances	-\$400
Median Student Loan Balances	-\$1,300
Median Debt to Income Ratio	-0.6p.p.
Wages and salaries; Source: Joint Economic Committee Analysis (BEA wages and salaries, BLS), Dates: January 2021- October 2023. Median Workers Wages, Source: U.S. Treasury, Dates: Q4 2019 – Q4 2023 Median Wealth, Median Credit Card Balances, Student Loan Balance, Debt to Income, Source: Federal Reserve Survey of Consumer Finances, Dates: 2019-2022	

Since the start of the Administration, wages and salaries per household have outpaced price growth by \$3,500. According to the latest Survey of Consumer Finances, we saw historic gains in wealth and declines in credit card debt and student loan debt balances.