



EAST TENNESSEE STATE
UNIVERSITY

Macroeconomic Overview

The recession that never happened

Recession Calls for 2023

Forecast for US Recession Within Year Hits 100% in Blow to Biden

Deutsche Bank's top minds put U.S. recession chance near 100%—and say avoiding a hard landing would be 'historically unprecedented'

Why a global recession is inevitable in 2023

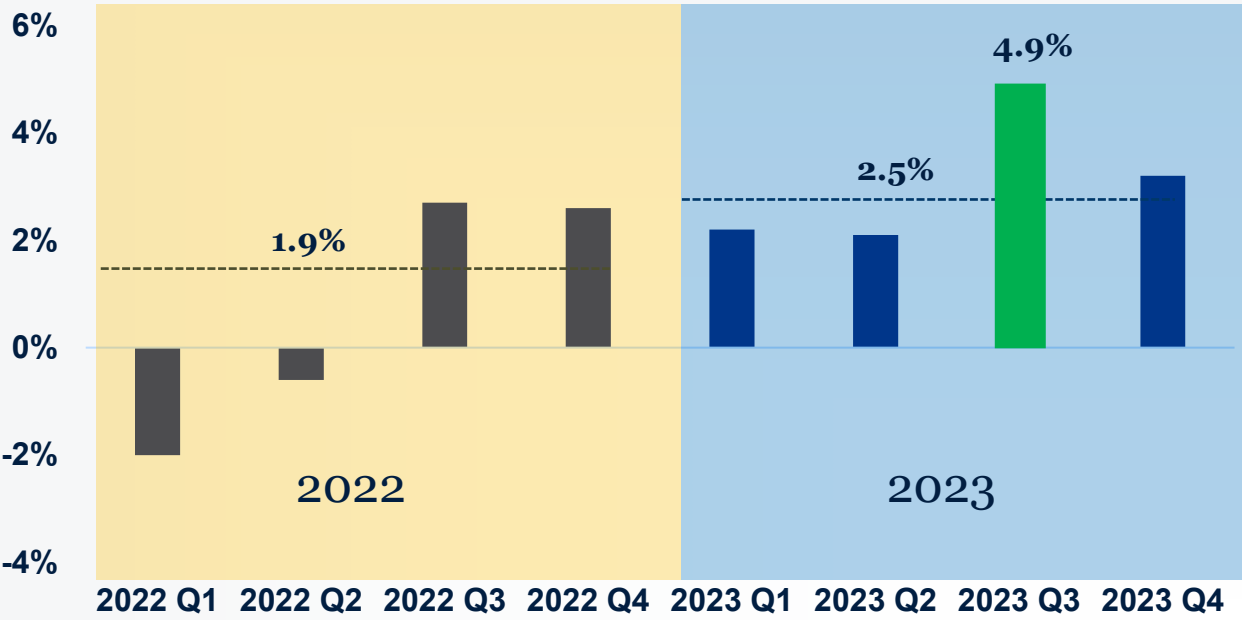
The world is reeling from shocks in geopolitics, energy and economics



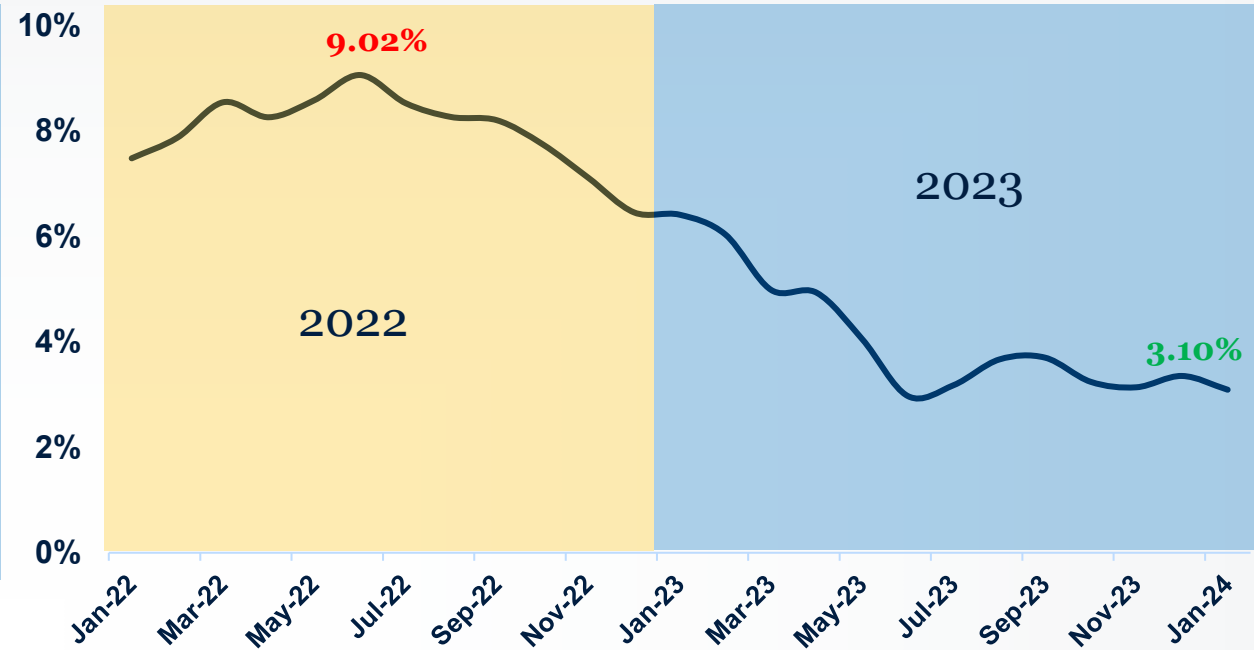
Snapshot of the US Economy in 2023



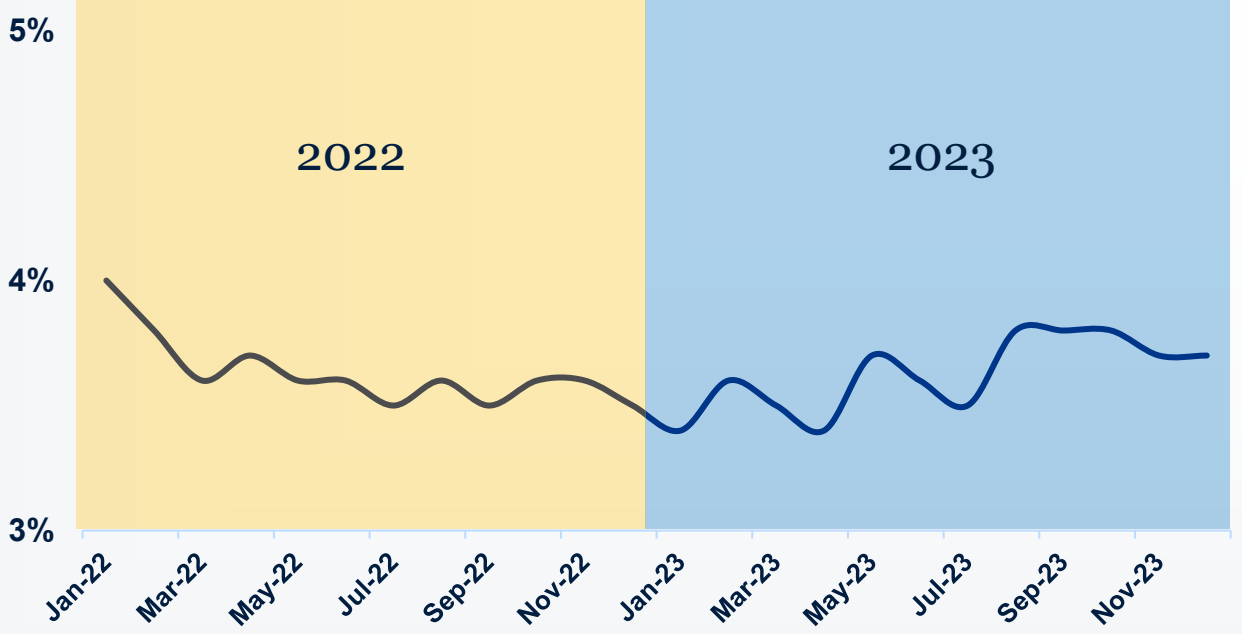
Real GDP Growth



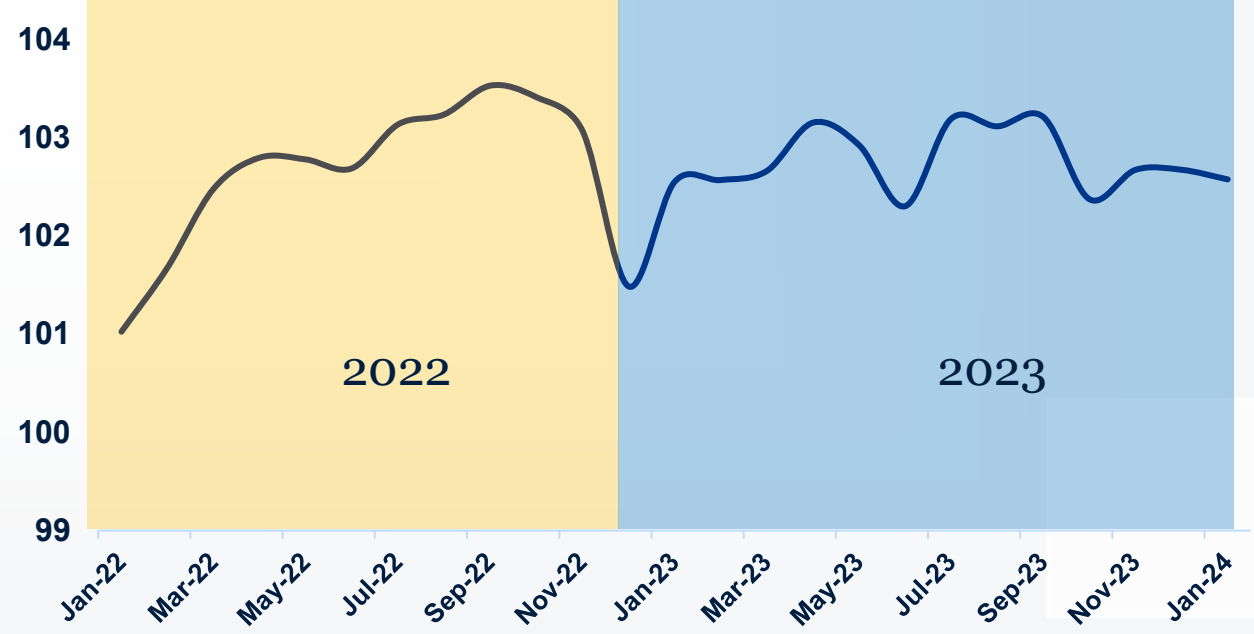
CPI Inflation



Unemployment Rate



Industrial Production



Contents

- Why did economists expect a recession in 2023?
- Why didn't we get one?
- What can we expect this year?

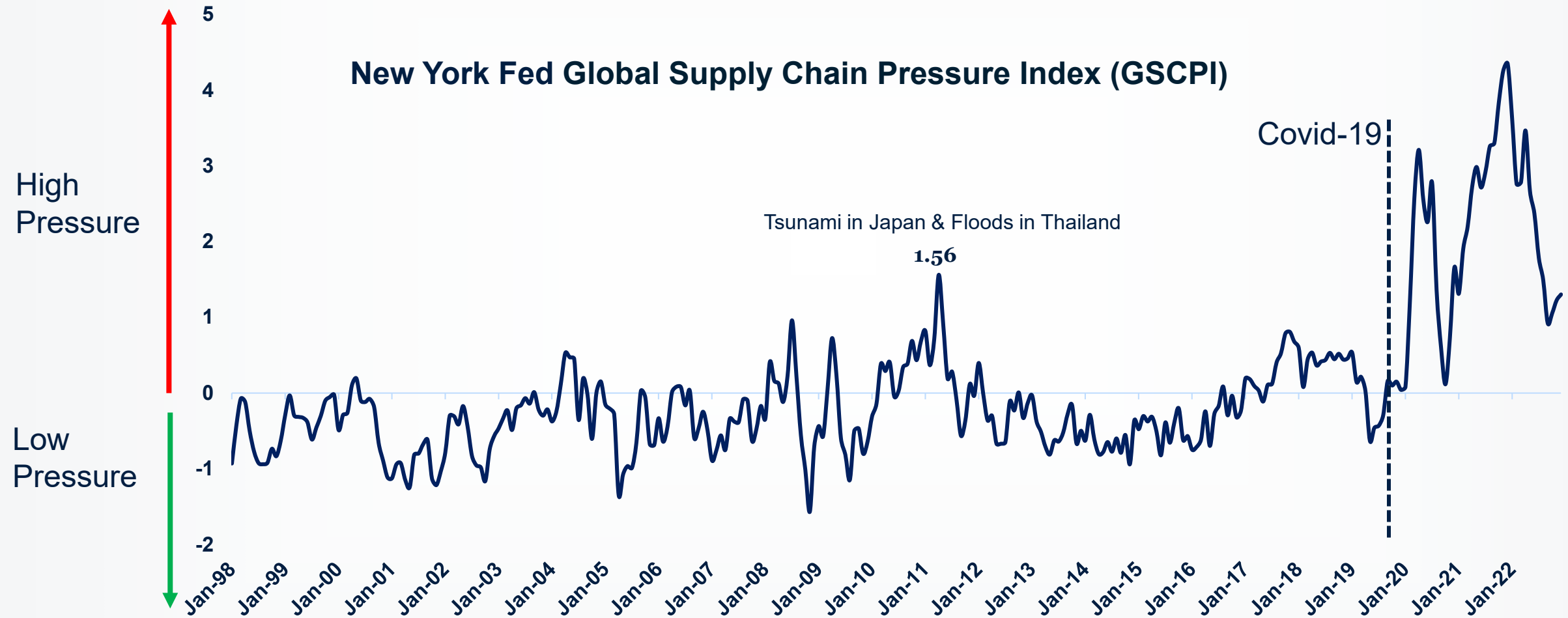


Two Major External Shocks

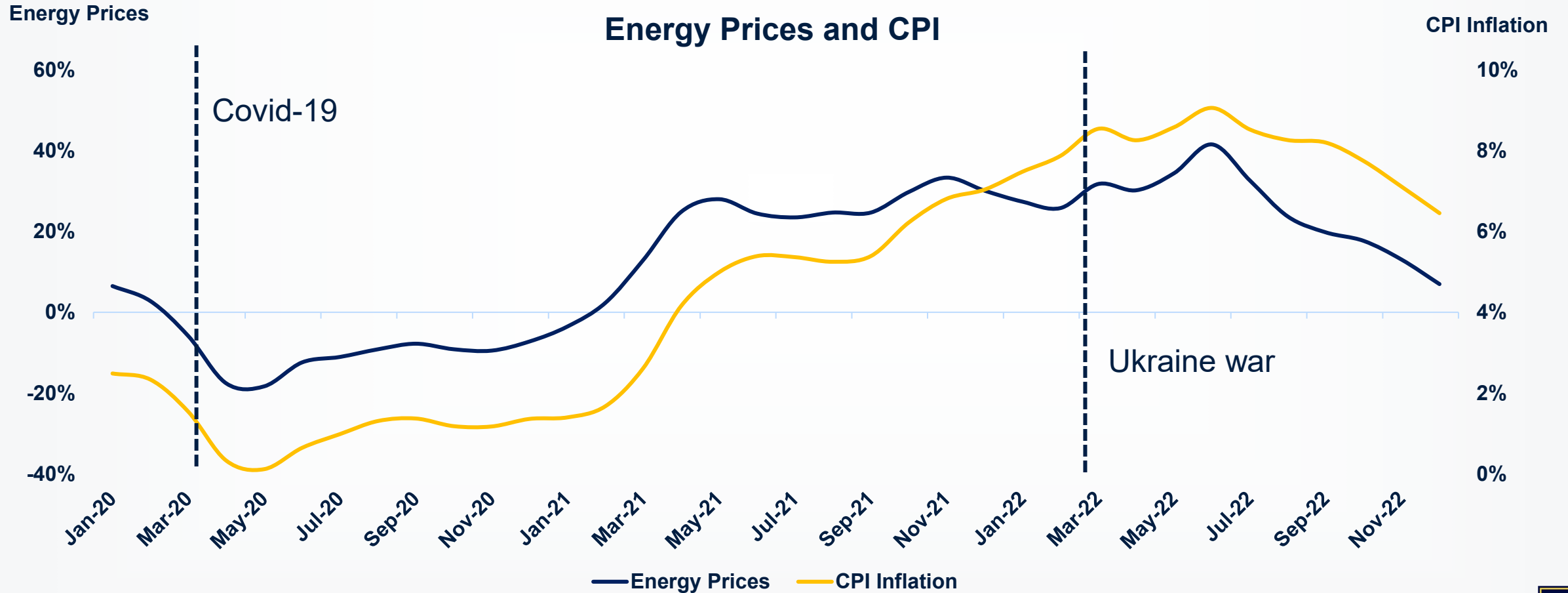
- Covid-19
- War in Ukraine



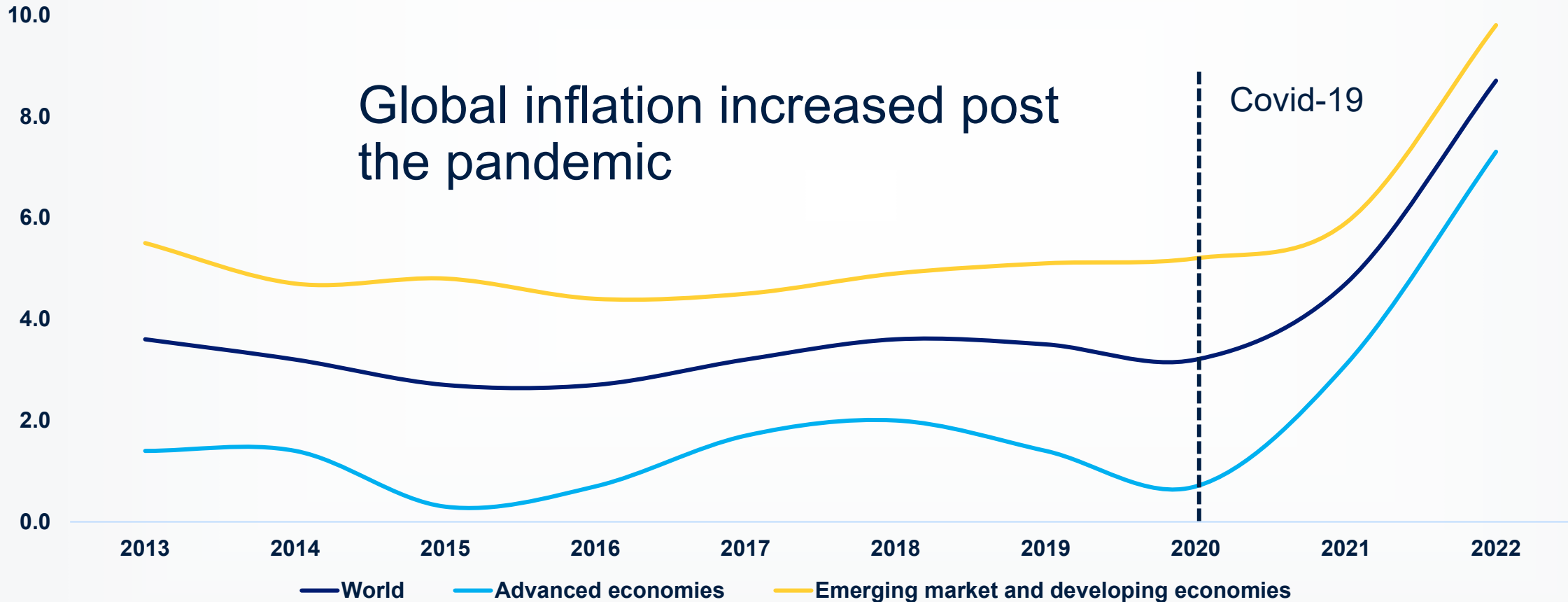
Impact on Supply Chains



Impact on Energy Prices

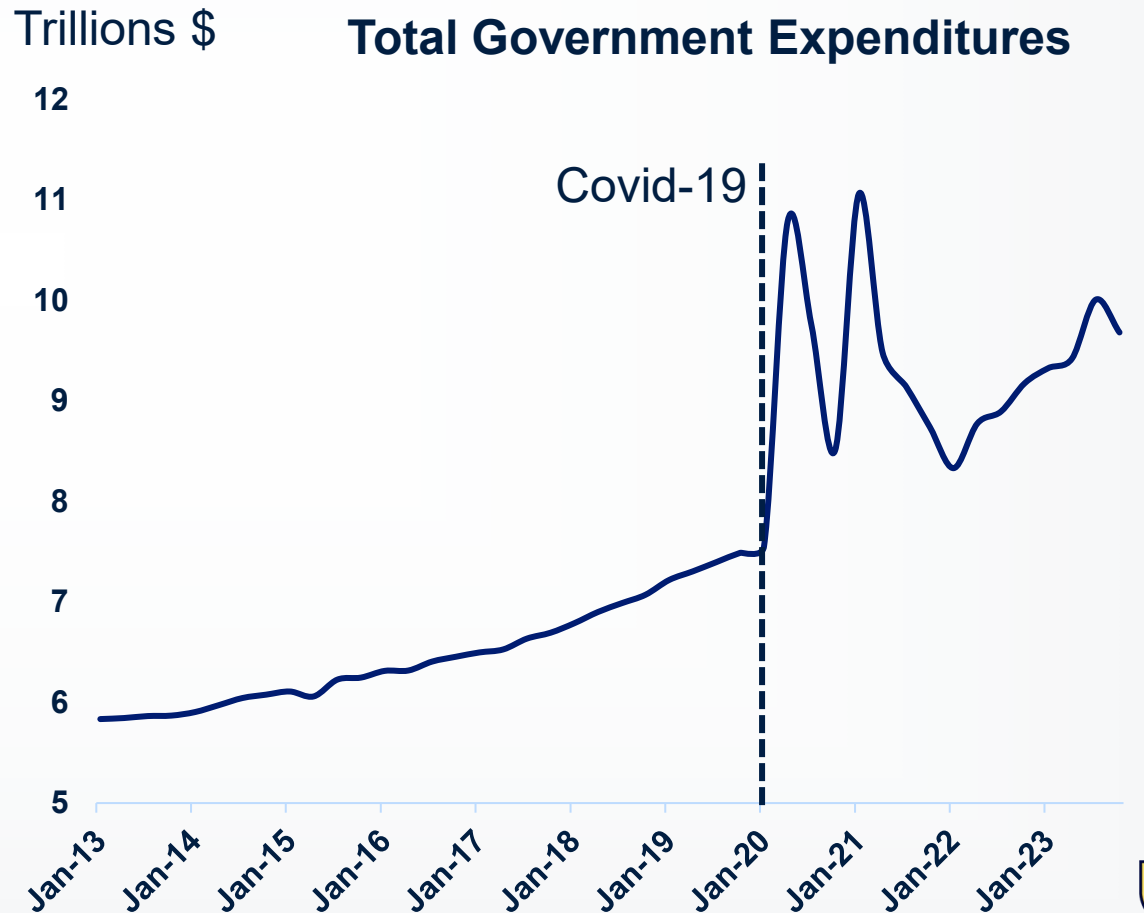
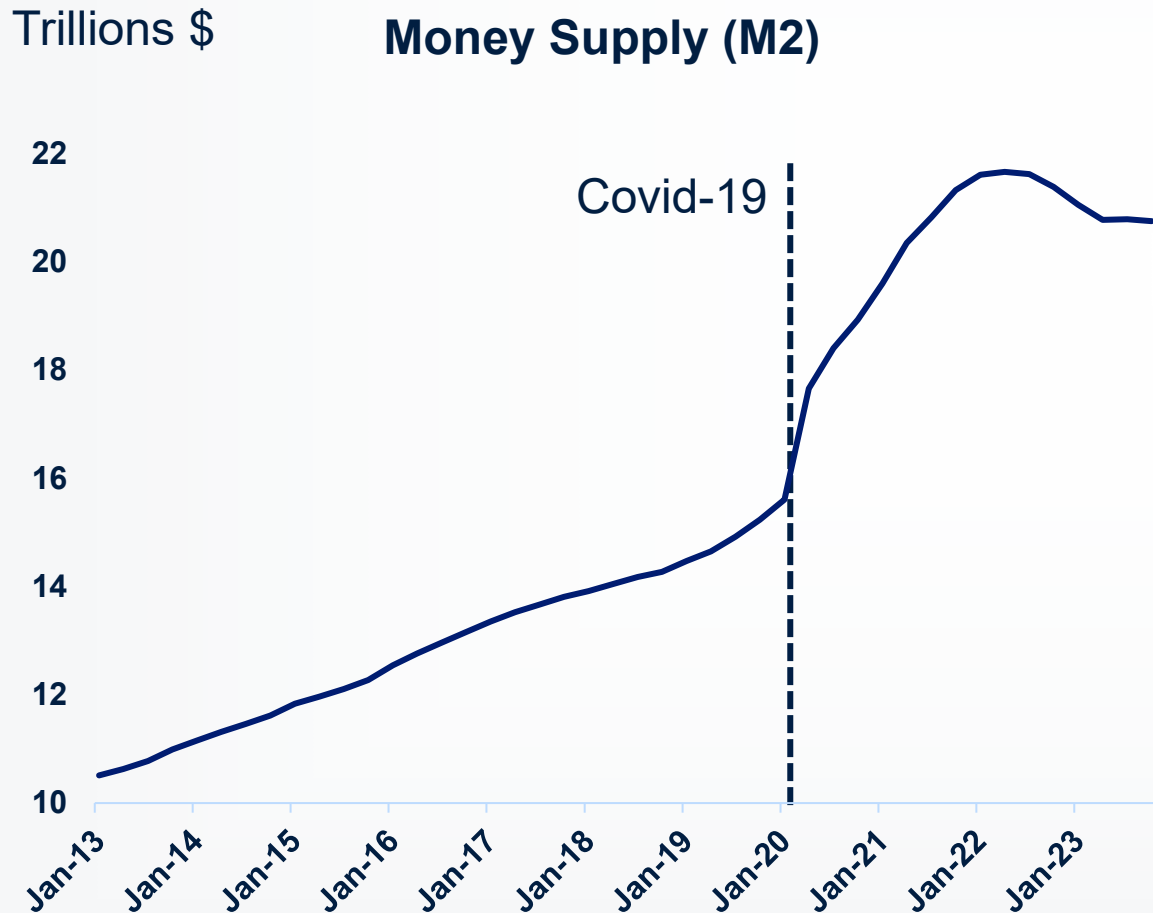


Global Inflation

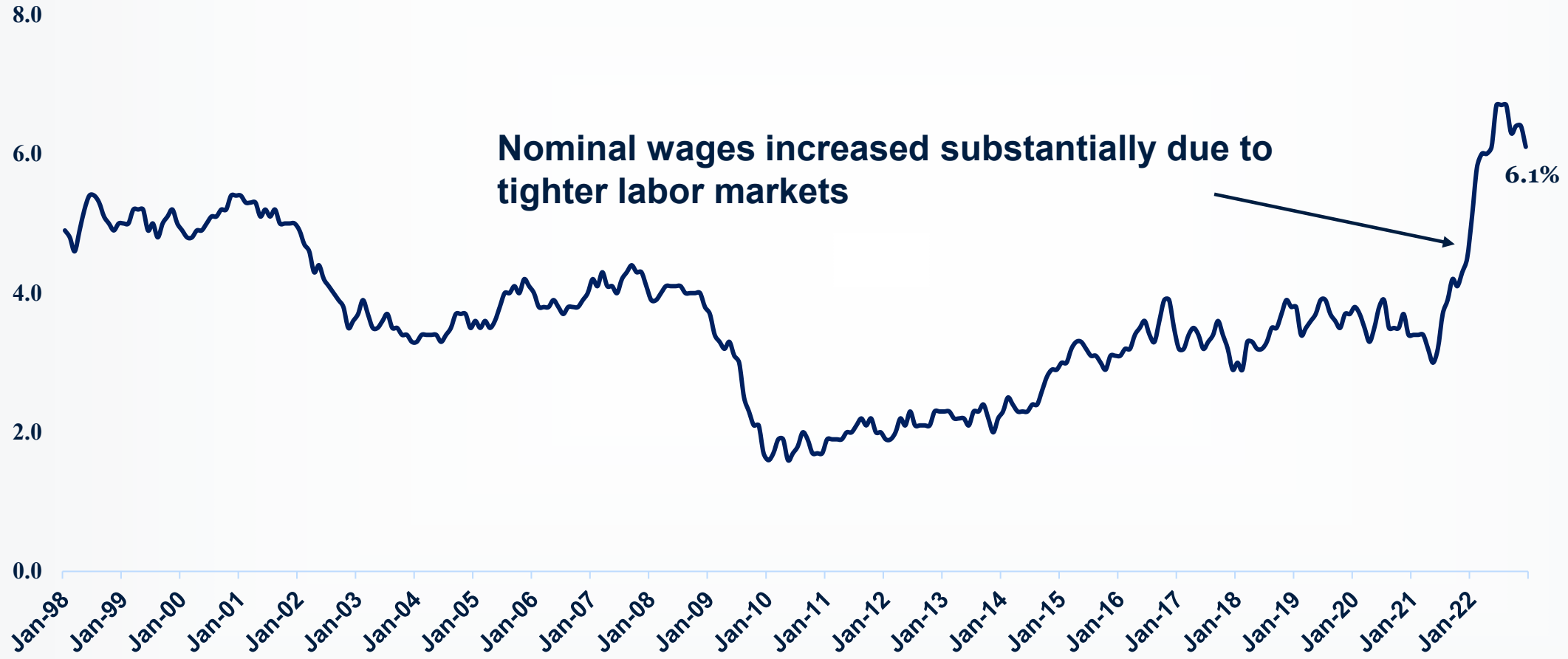


Stimulus Spending

The US government flooded the market with stimulus money



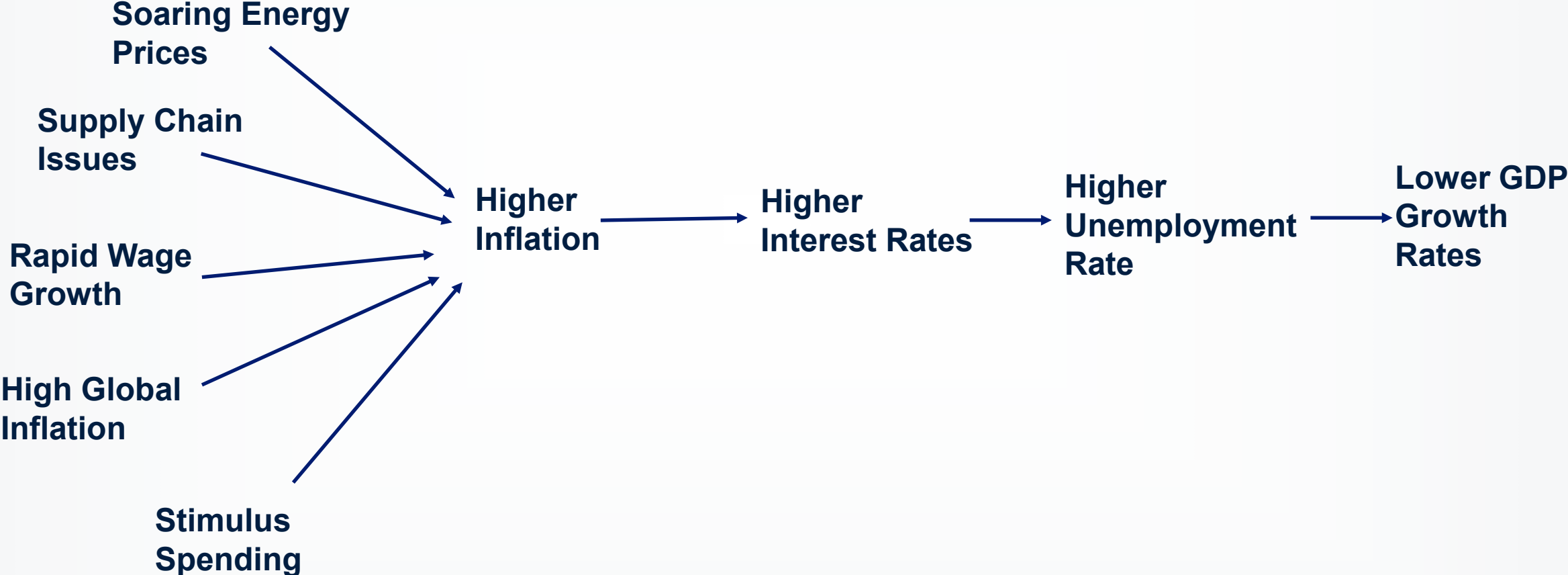
Nominal Wage Growth



Atlanta Fed Wage Growth Tracker

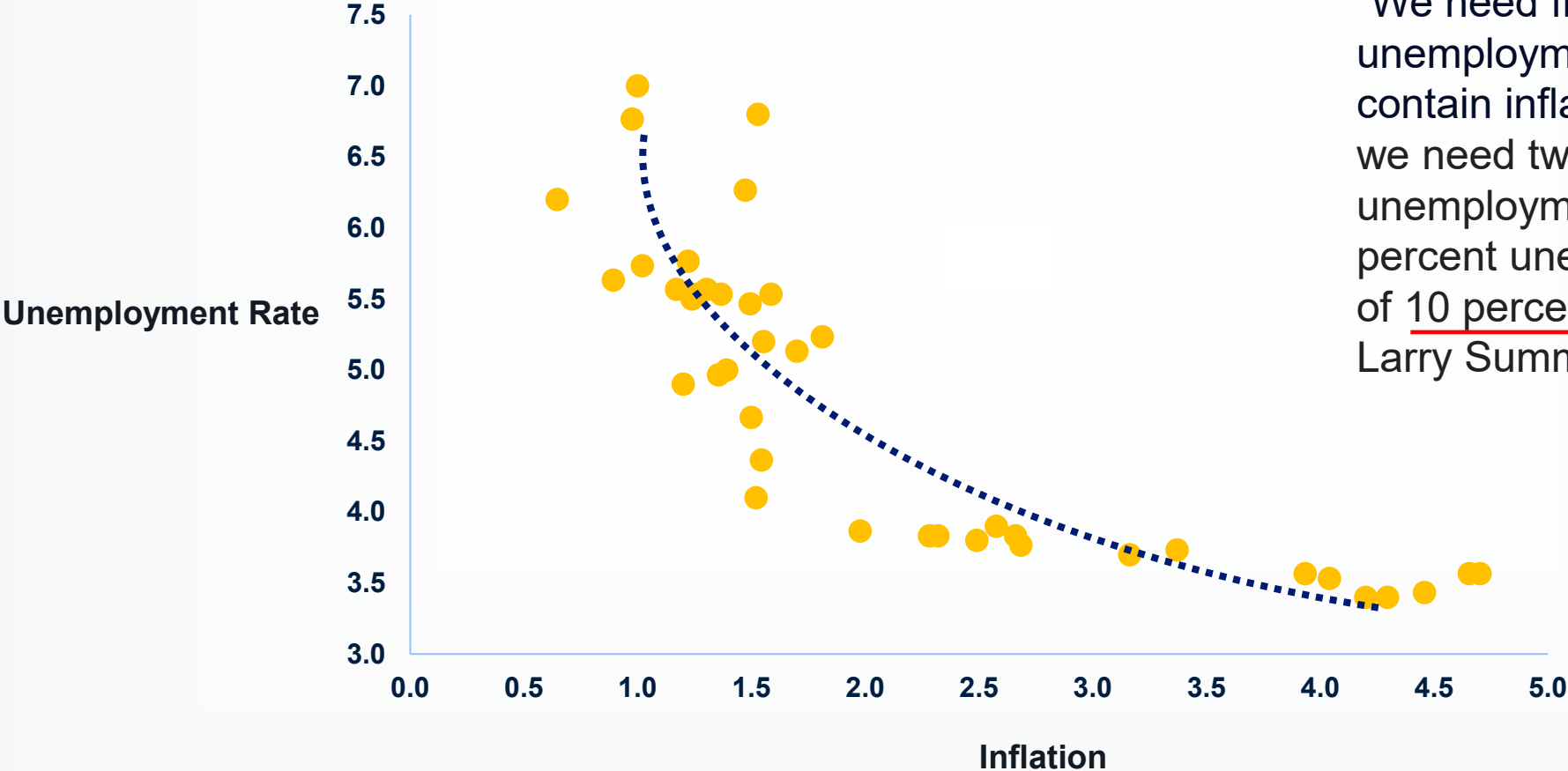


The 2023 Recession



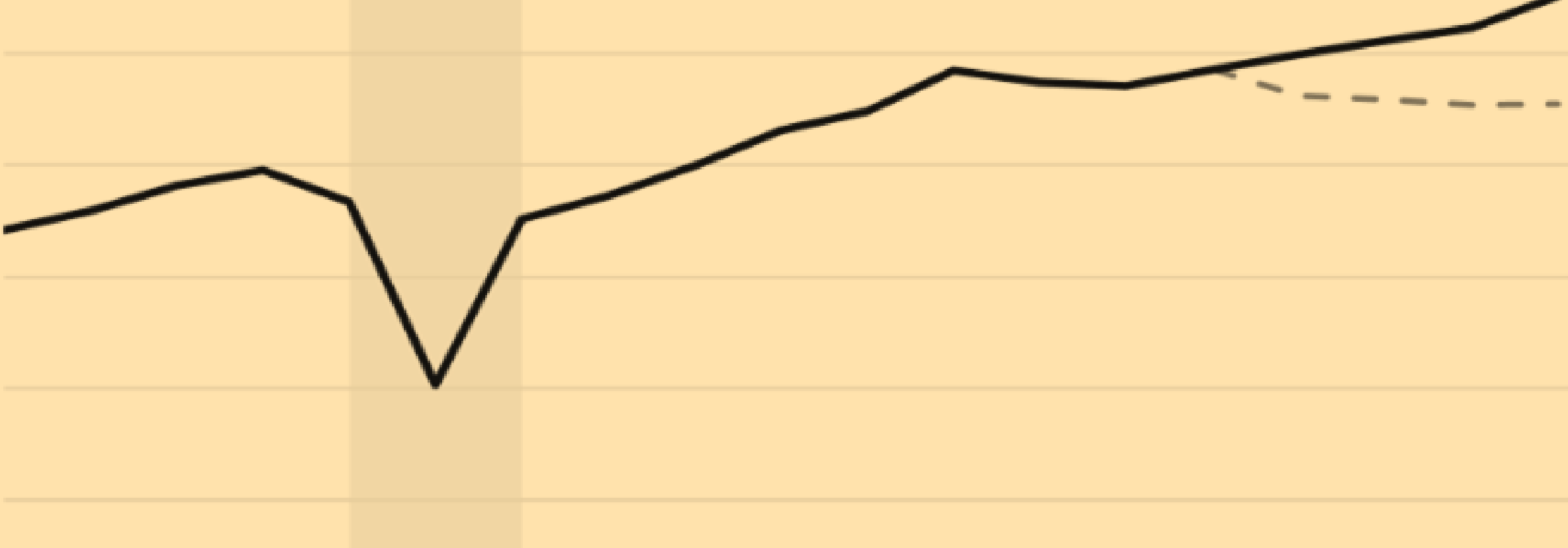
The Phillips Curve

Phillips Curve (1960-1969)



“We need five years of unemployment above 5 percent to contain inflation—in other words, we need two years of 7.5 percent unemployment or five years of 6 percent unemployment or one year of 10 percent unemployment.”- Larry Summers, 2022





Why Did We Not See a Recession in 2023?

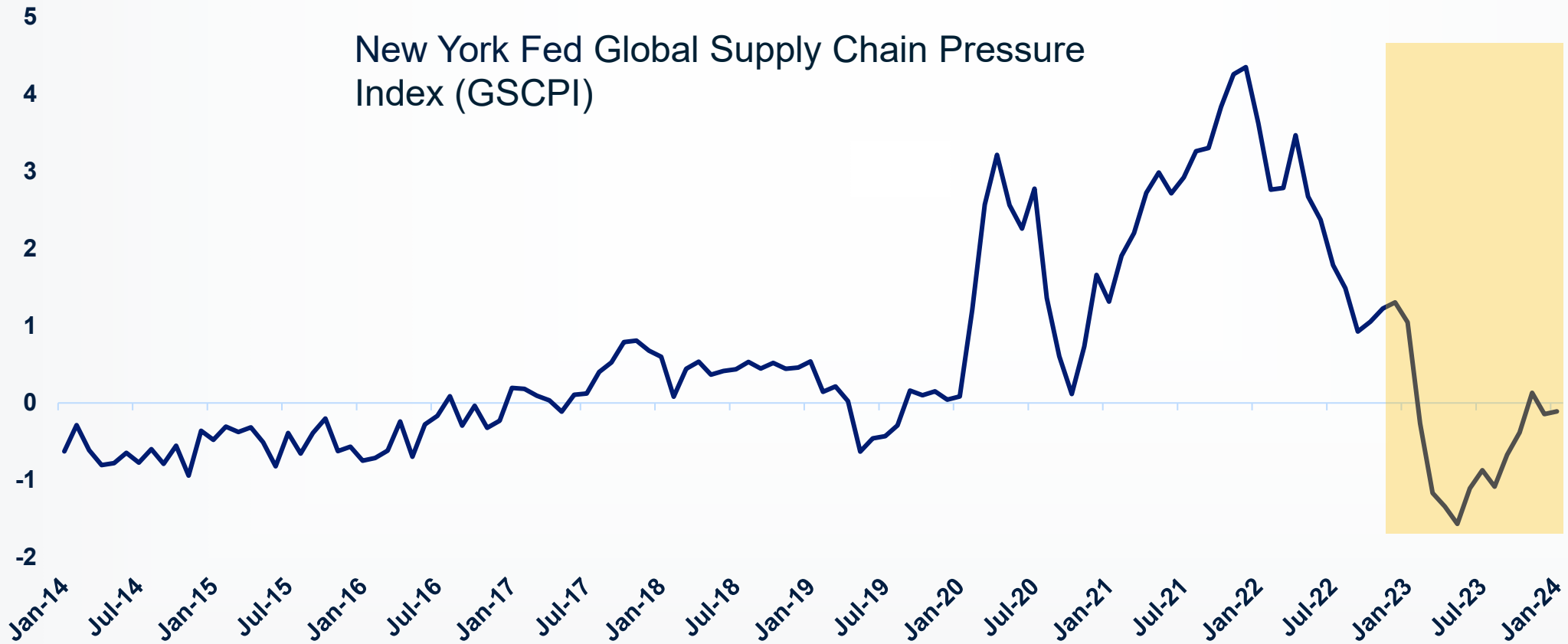


1. Reversal of Bad Luck



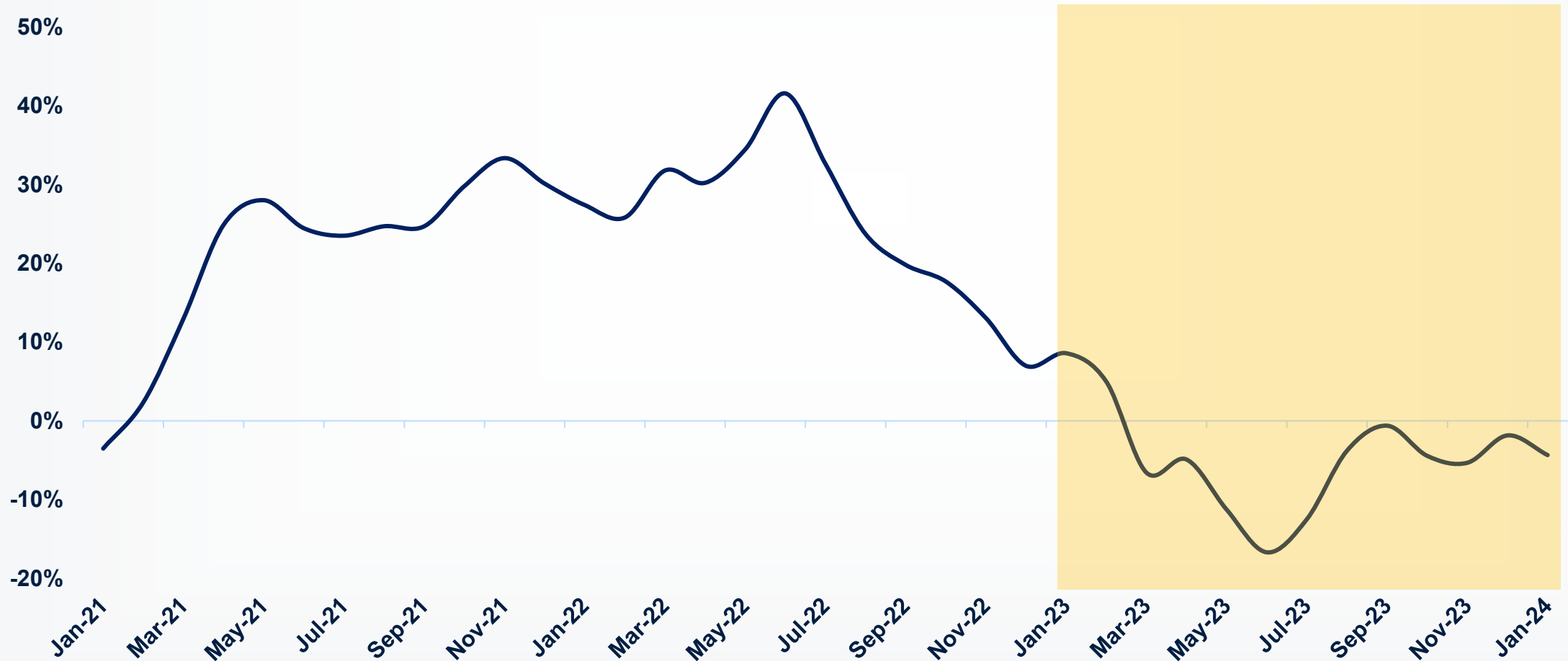
Supply Chain

Supply chains eased considerably



Energy prices

Energy prices plummeted in 2023

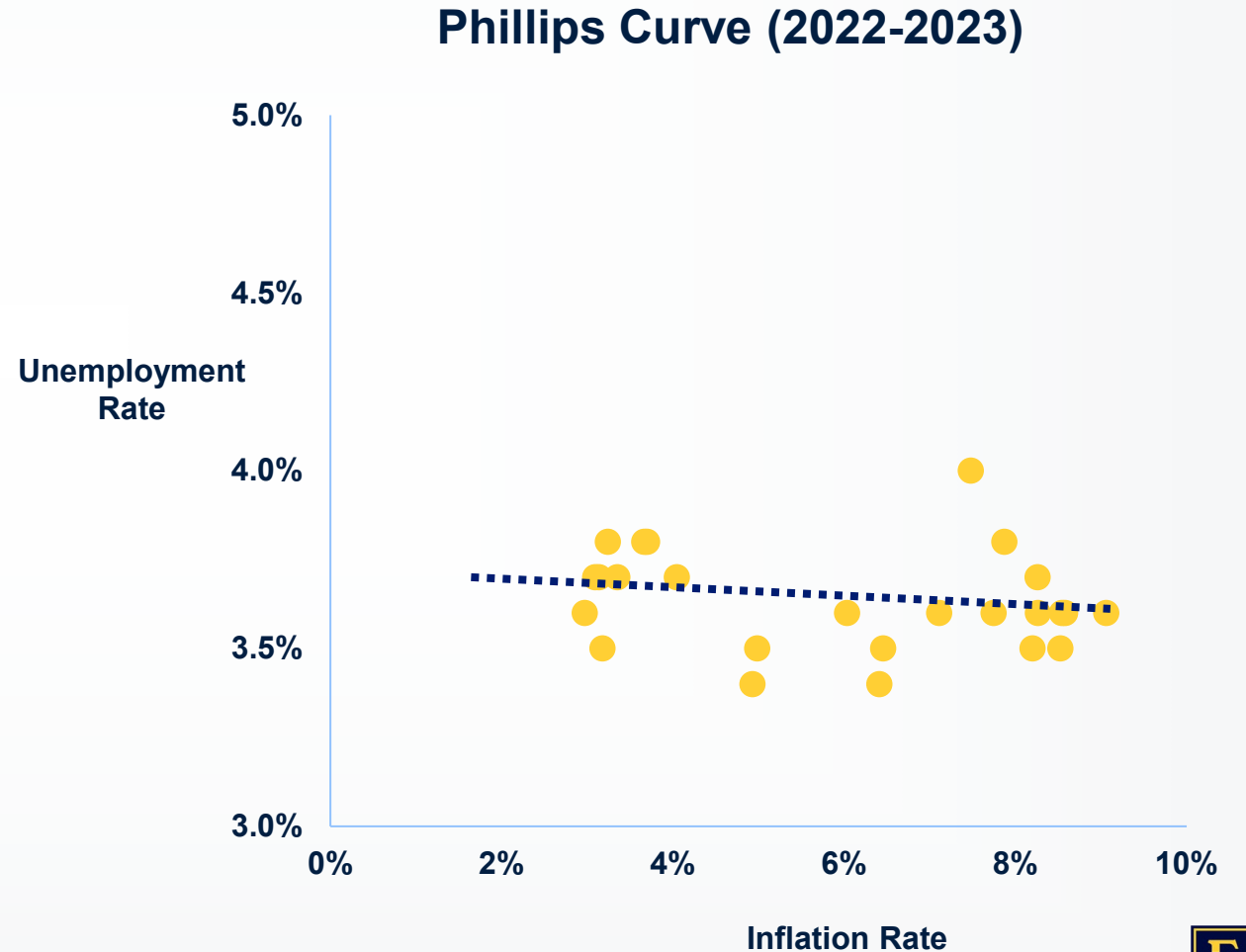


2. Structural Changes



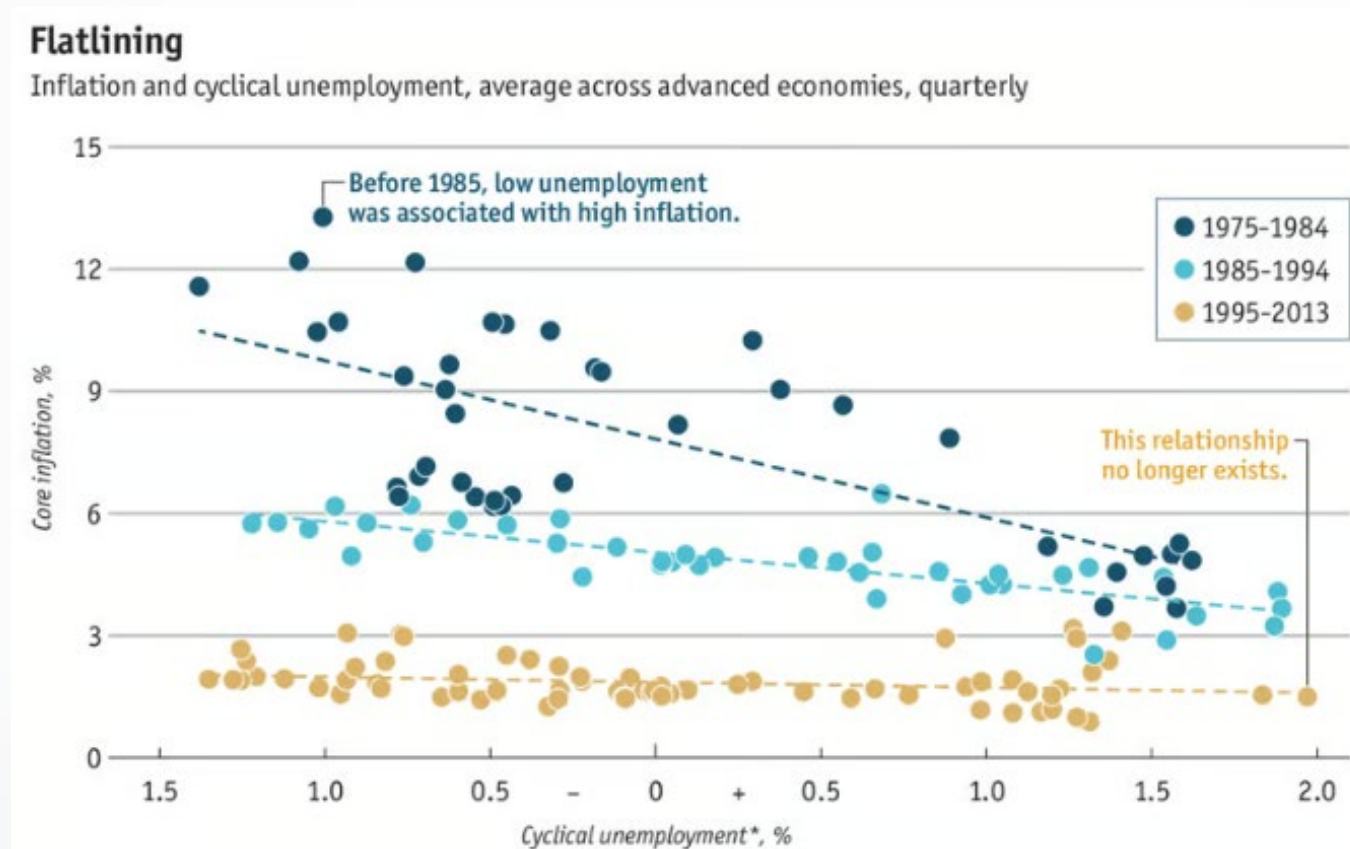
1. The Disappearing Phillips Curve

- Phillips curve prediction: To bring inflation down, we need to increase unemployment rates
- The Phillips curve has flattened



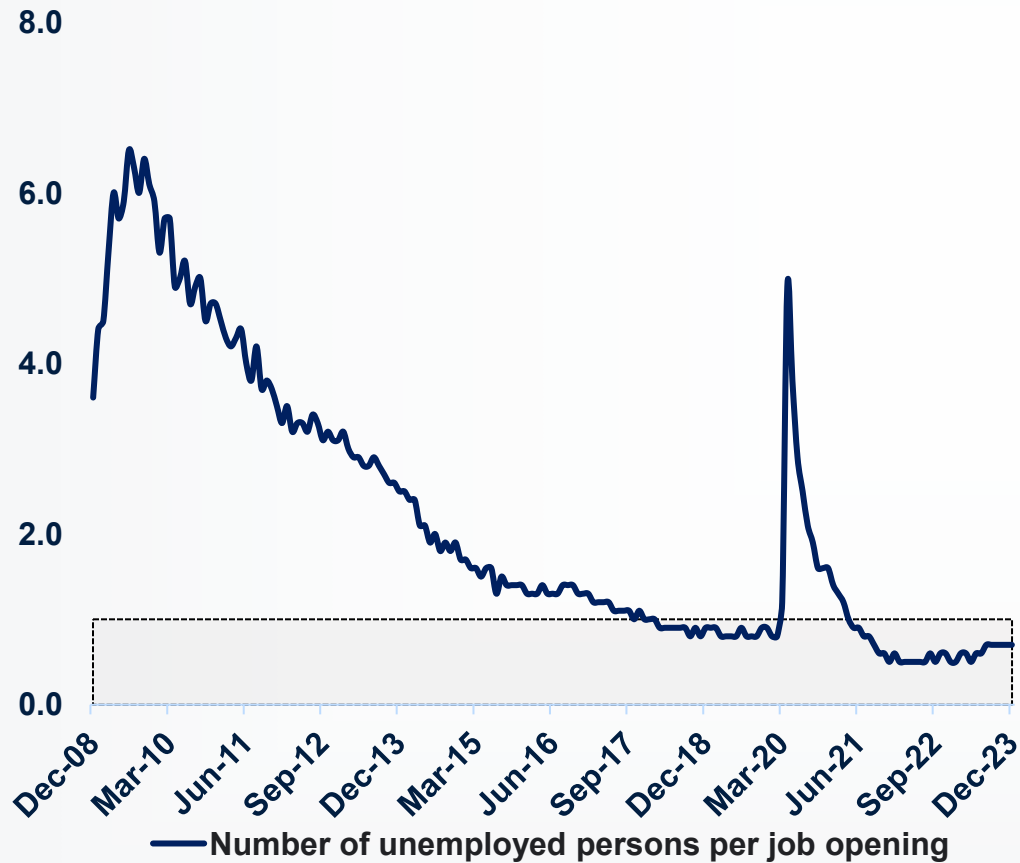
1. The Disappearing Phillips Curve

- The Phillips curve has become flatter over time
- Alternate theories?



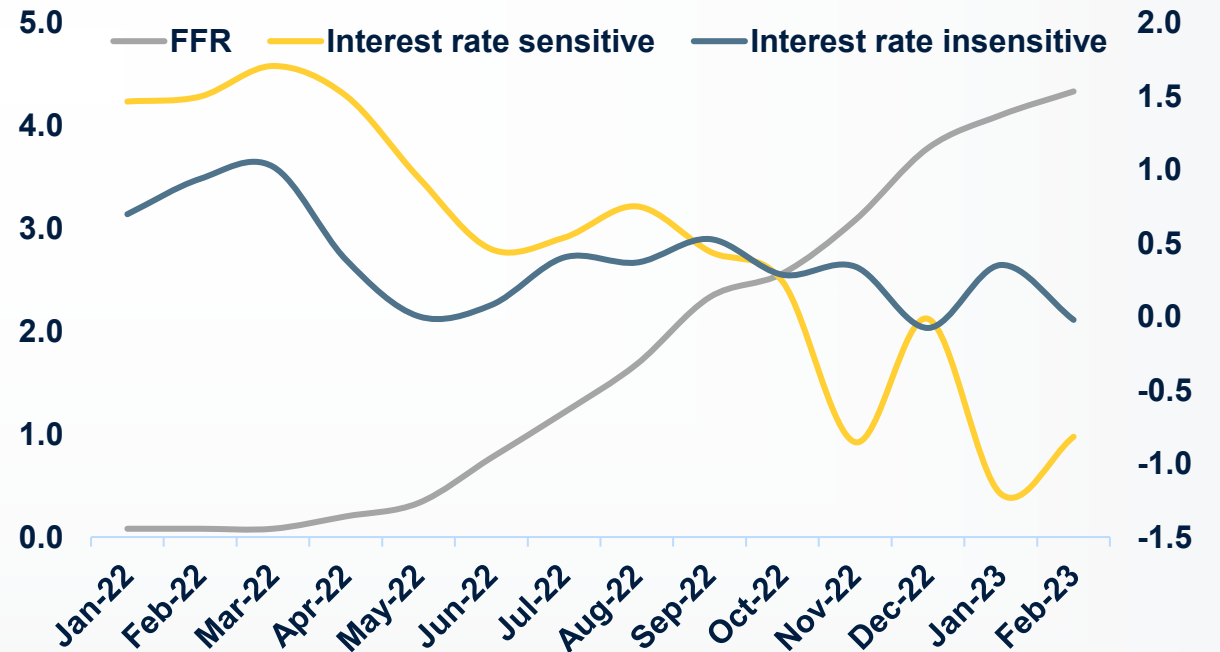
2. Modified Transmission Mechanism

1. Tighter labor market



2. More rate insensitive industries

“A long-term shift away from manufacturing towards services, which require less capital, could also mean slower transmission of a tighter monetary policy.”

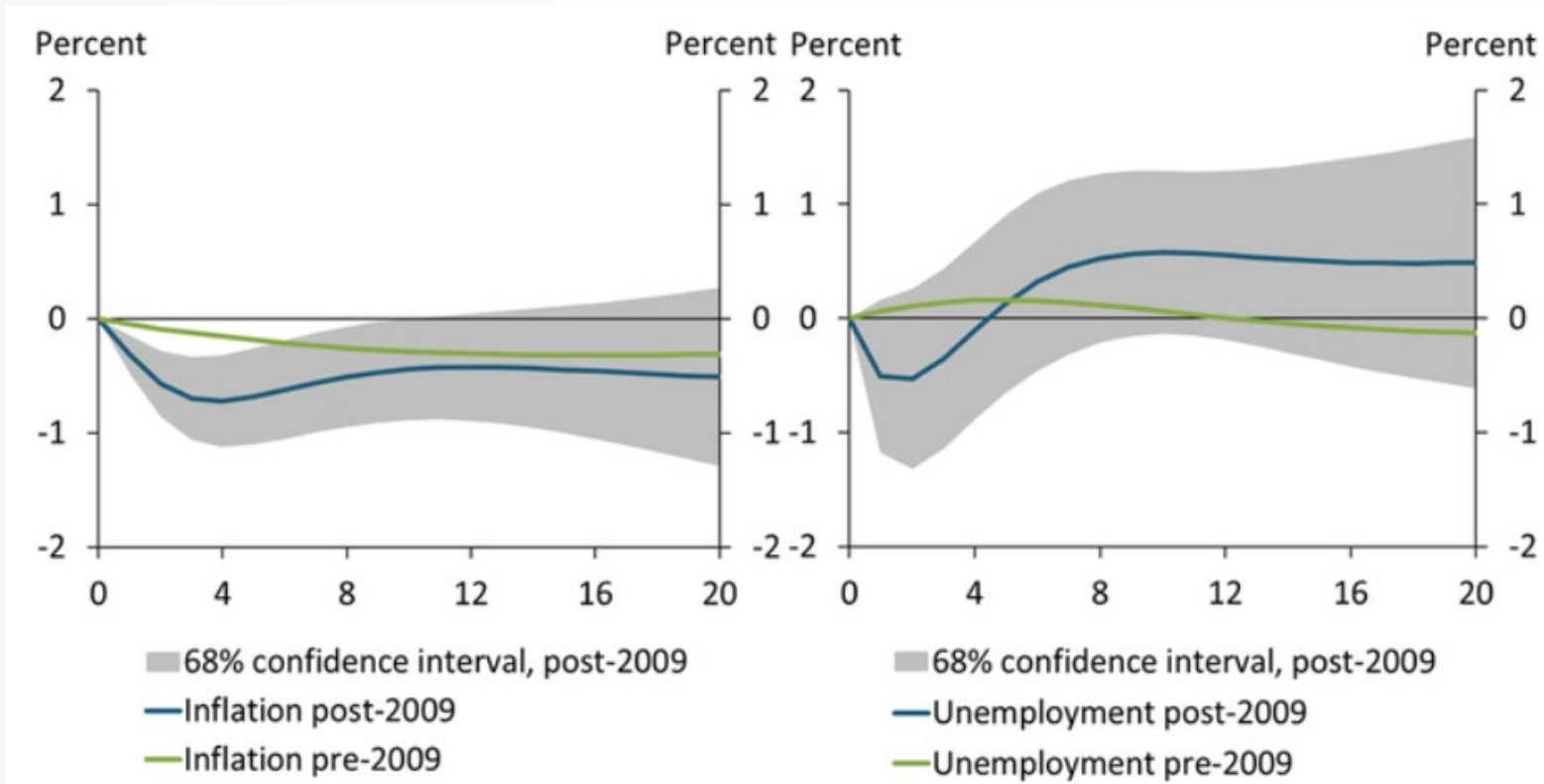


Source: KC Fed



3. Longer Lags?

Monetary policy lags might have decreased for inflation and increased for unemployment



*“The truth is, we don’t have a lot of data.... It’s highly uncertain – **highly uncertain.**” – Jerome Powell, Federal Reserve Chairman (November 2, 2022)*



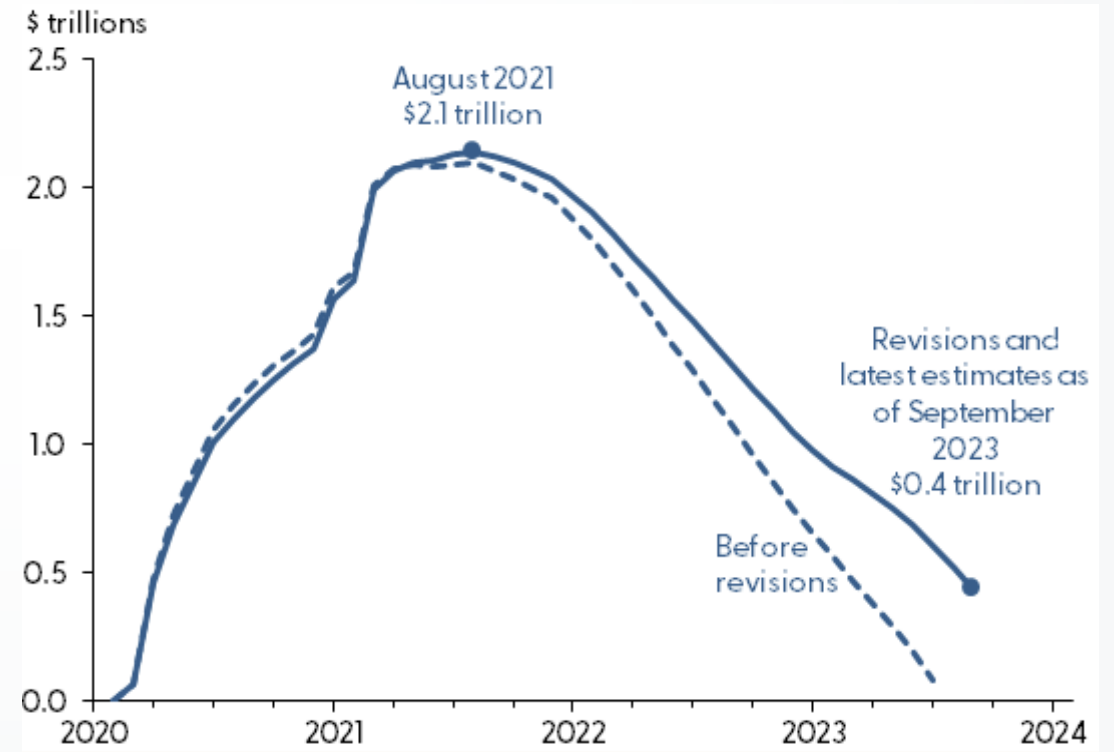
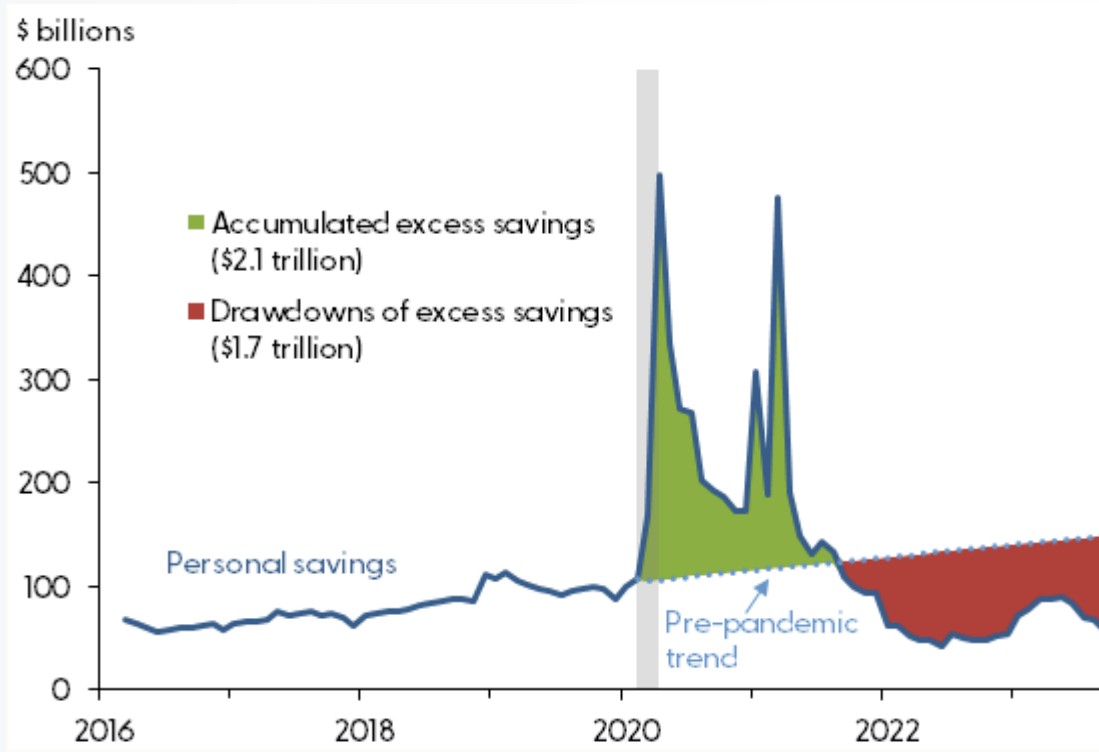


Outlook for 2024



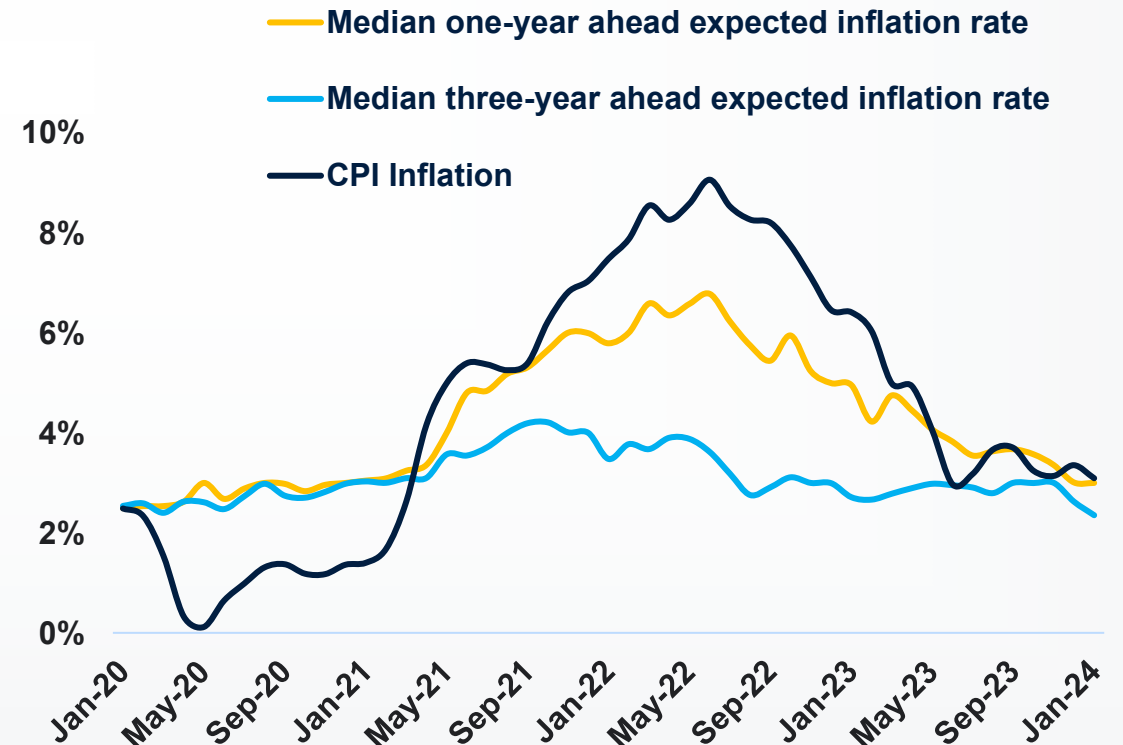
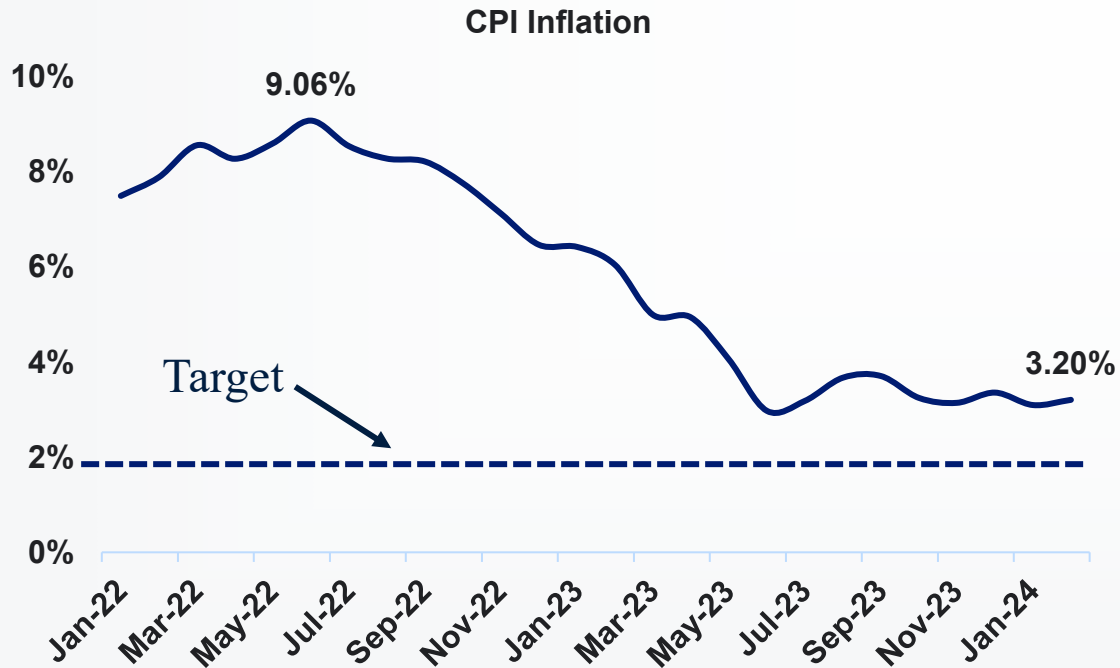
Excess Savings

Households are expected to run out of excess savings by middle of 2024



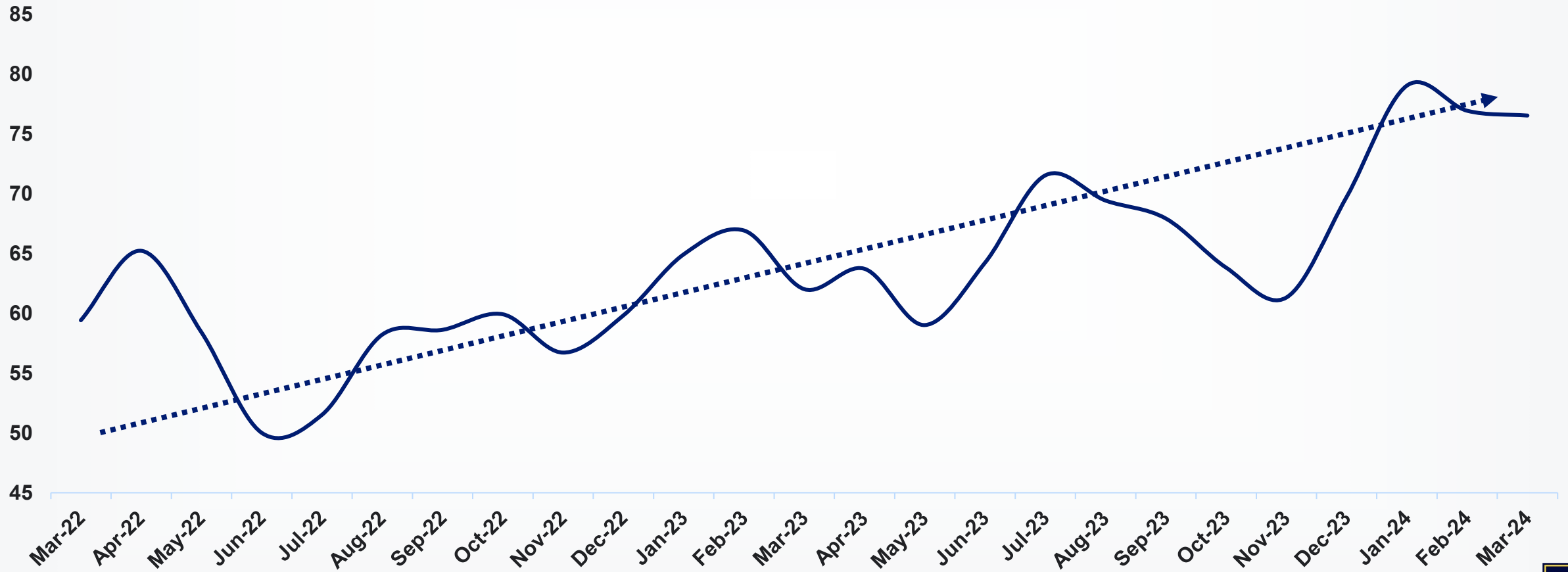
Inflation

- Inflation has stabilized around the 3% mark
- Inflation expectations have come down
- Rent and grocery prices still high



Consumer Sentiment

Consumer sentiment has been improving

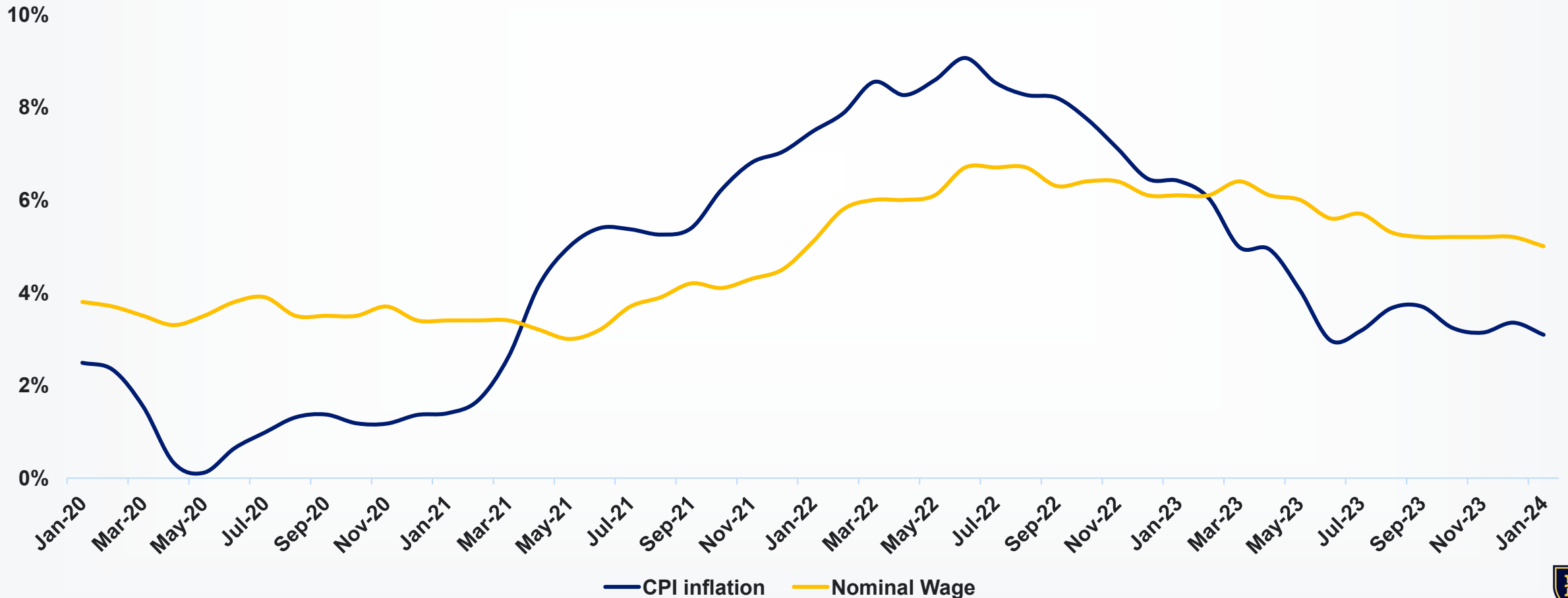


Consumer sentiment index- University of Michigan



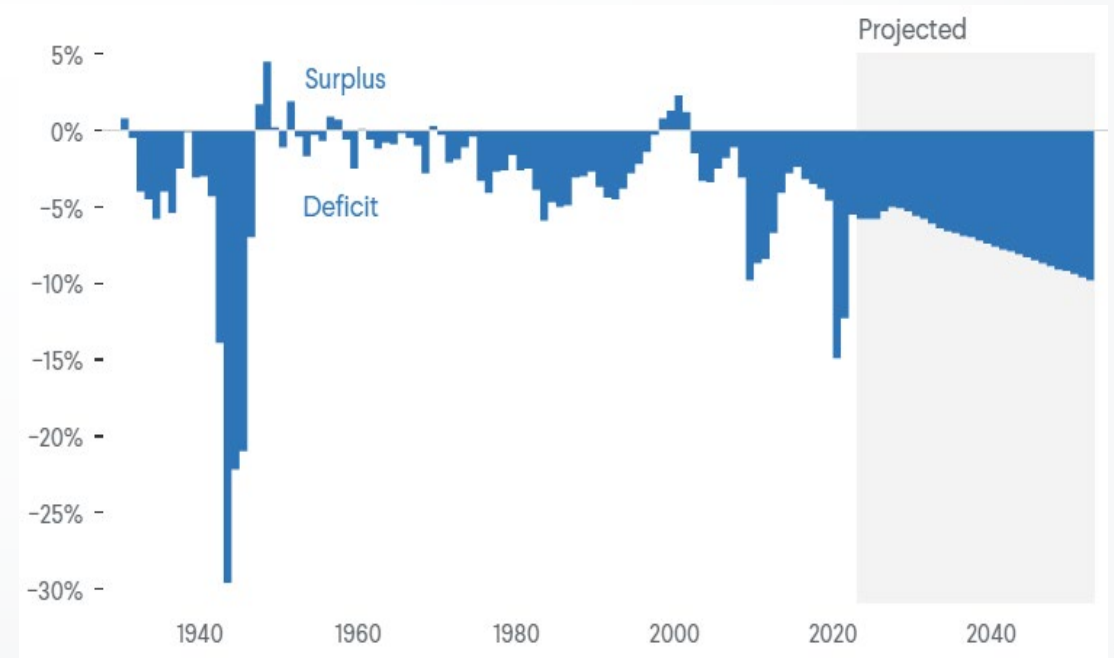
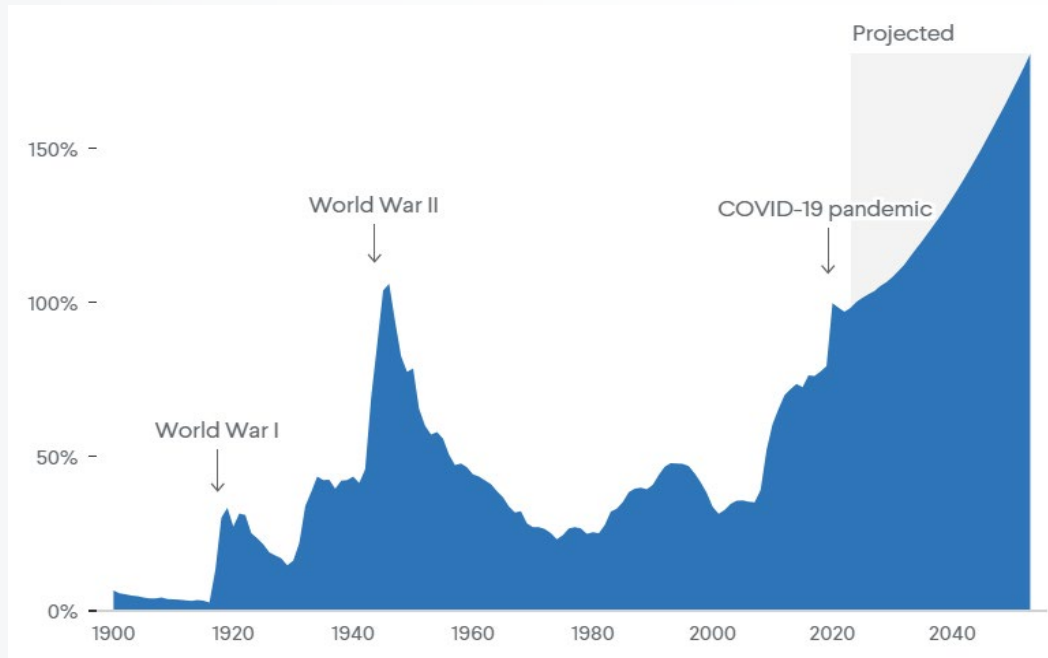
Real Wage Growth

Real wage growth has been positive since 2023



Debt and Deficits

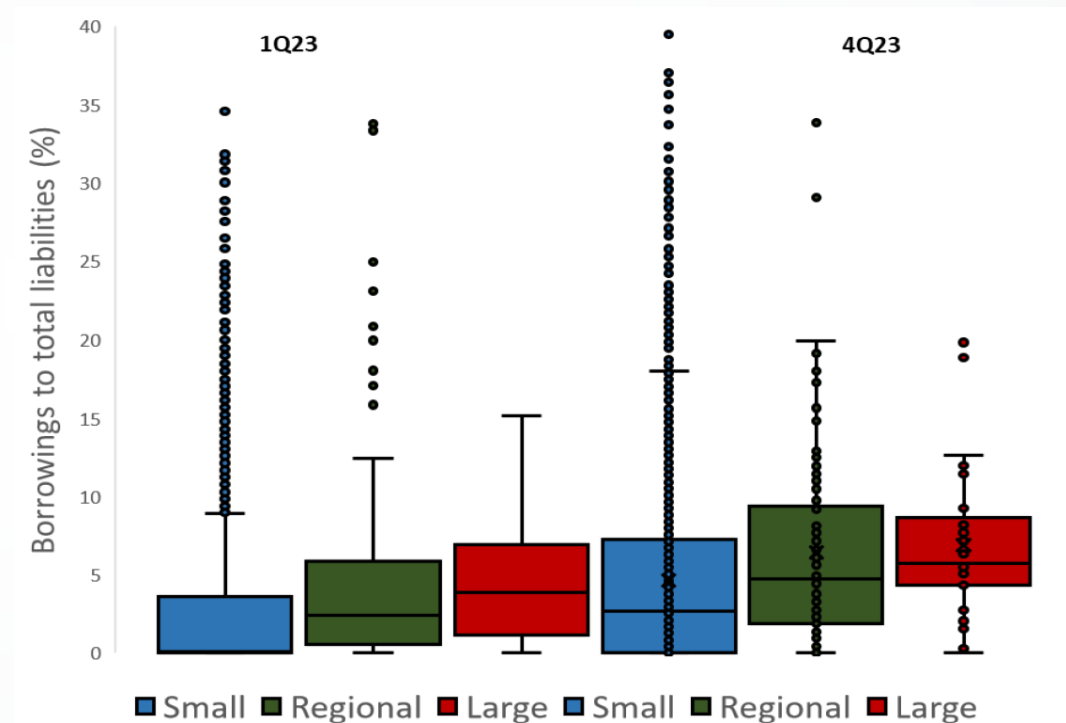
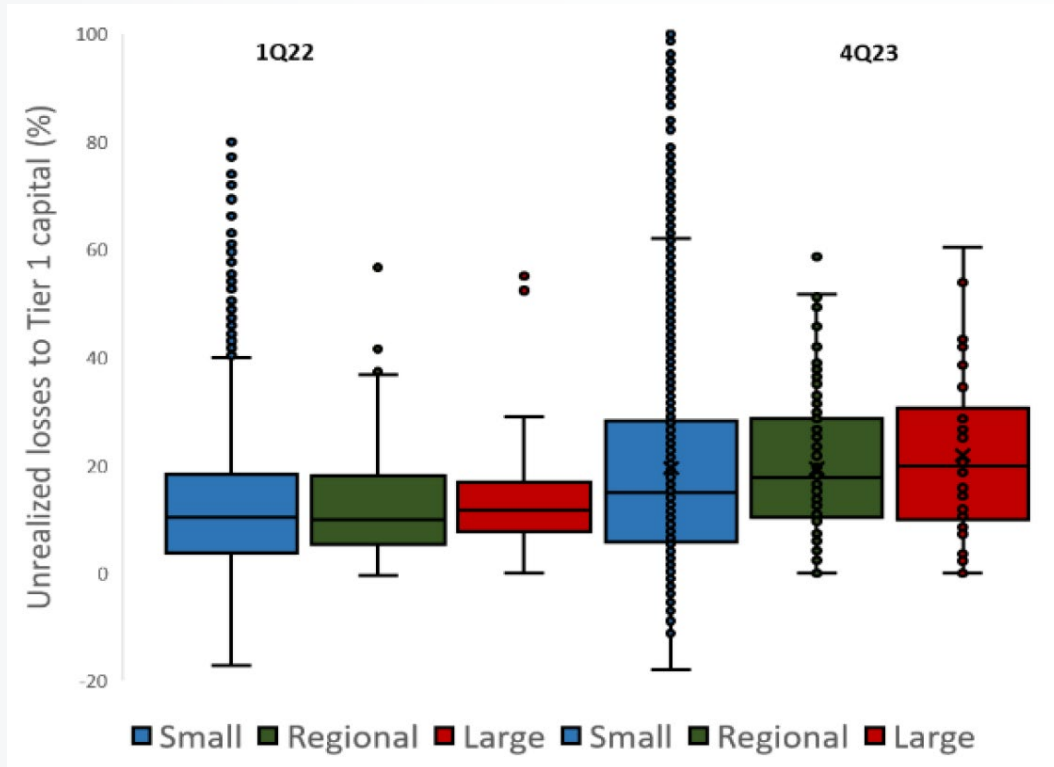
- Public debt has been increasing at an unsustainable pace
- Debt and deficit both are projected to increase
- Increase in future taxes or future inflation?



Public Debt and Fiscal Deficit as % of GDP (Source: CBO)



Banking Sector Issues

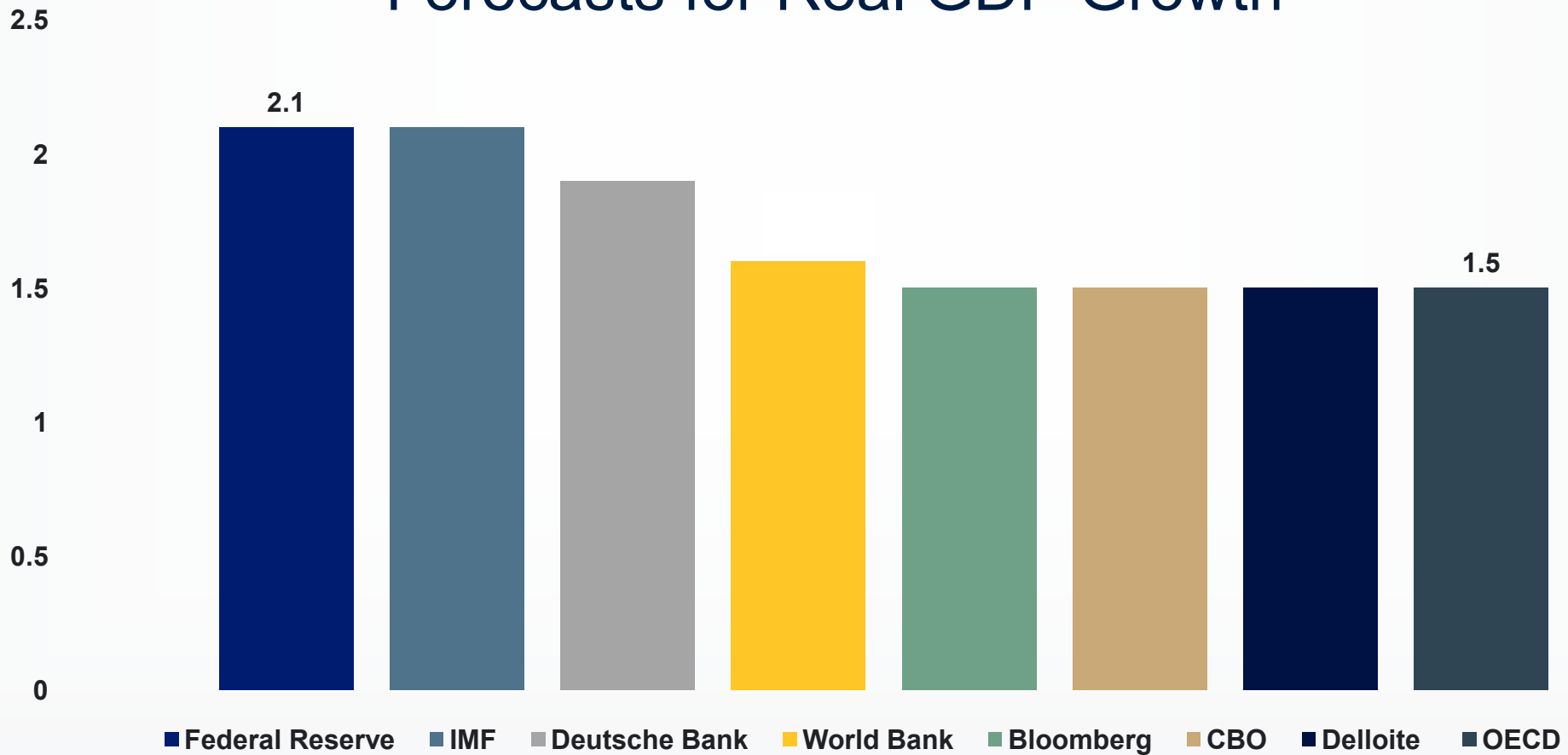


Source: Global Financial Stability Report (IMF), March 2024



Outlook for 2024

Forecasts for Real GDP Growth



Summary of outlook

- Higher than normal risks
- Slight slowdown in economic growth
- Inflation seems under control but is still not quite low
- Positives: Labor market still robust; Real wage growth is still high; consumer sentiment and inflation expectations moving in the right direction.
- Concerns: Diminishing excess savings; Losses in the banking sector; Debt.
- Soft landing/ hard landing/ No landing?
“We’ve landed softly; we just need to make it to the gate”



APPALACHIAN HIGHLANDS ECONOMIC FORUM

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