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INTERNATIONAL ECONOMICS

A soft landing beckons but is not assured

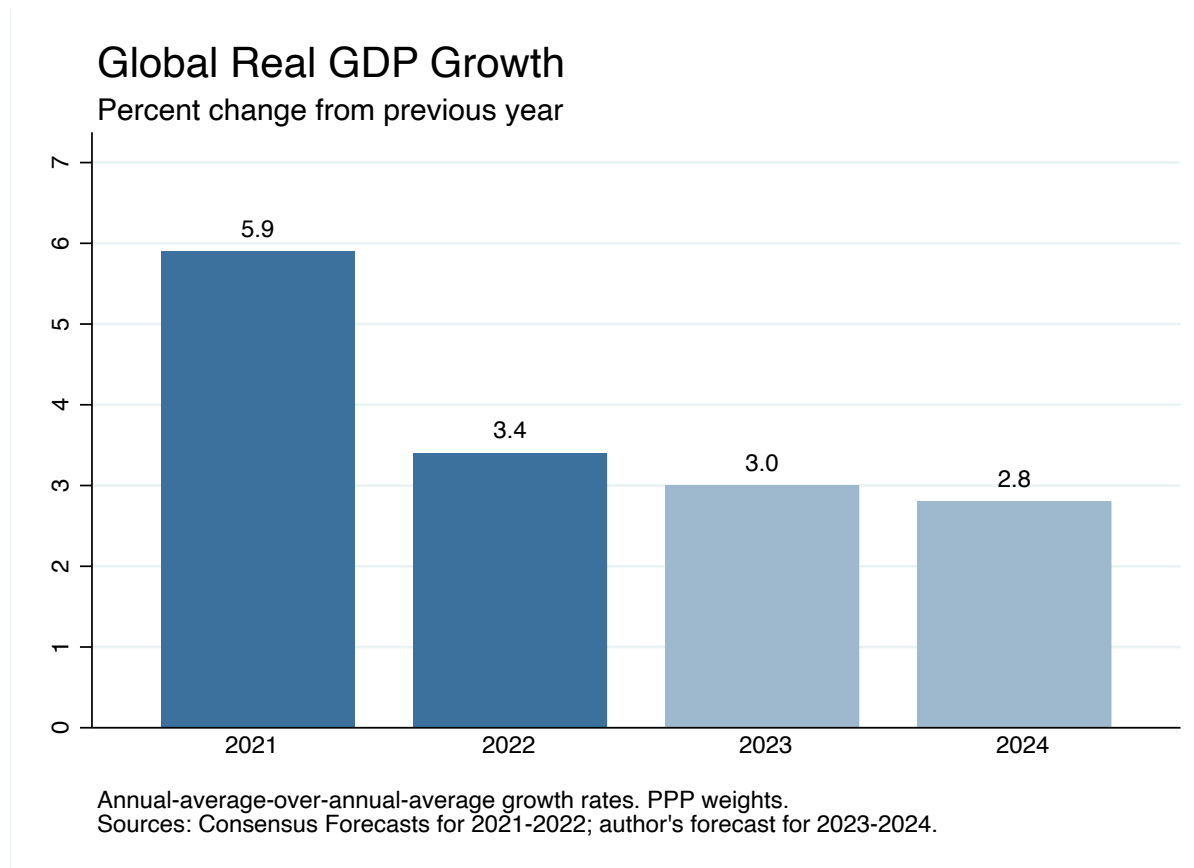
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Global growth continues to moderate

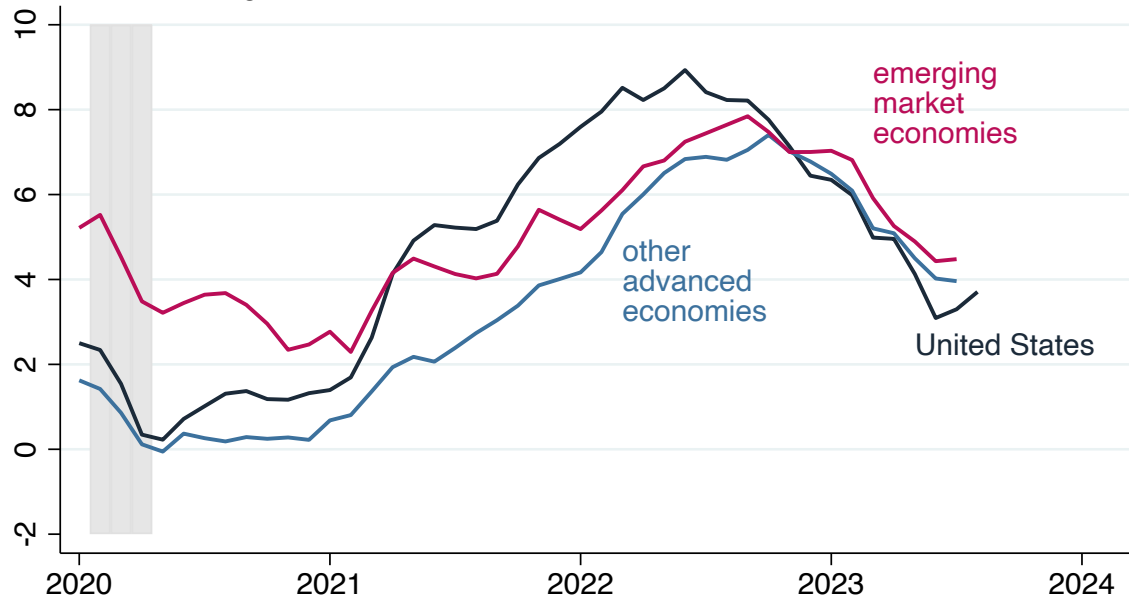


Amid restrictive financial conditions, the global recovery from COVID recessions has slowed and is likely to slow a bit further next year

Inflation is subsiding but has some distance to go to settle at target levels

Headline CPI Inflation

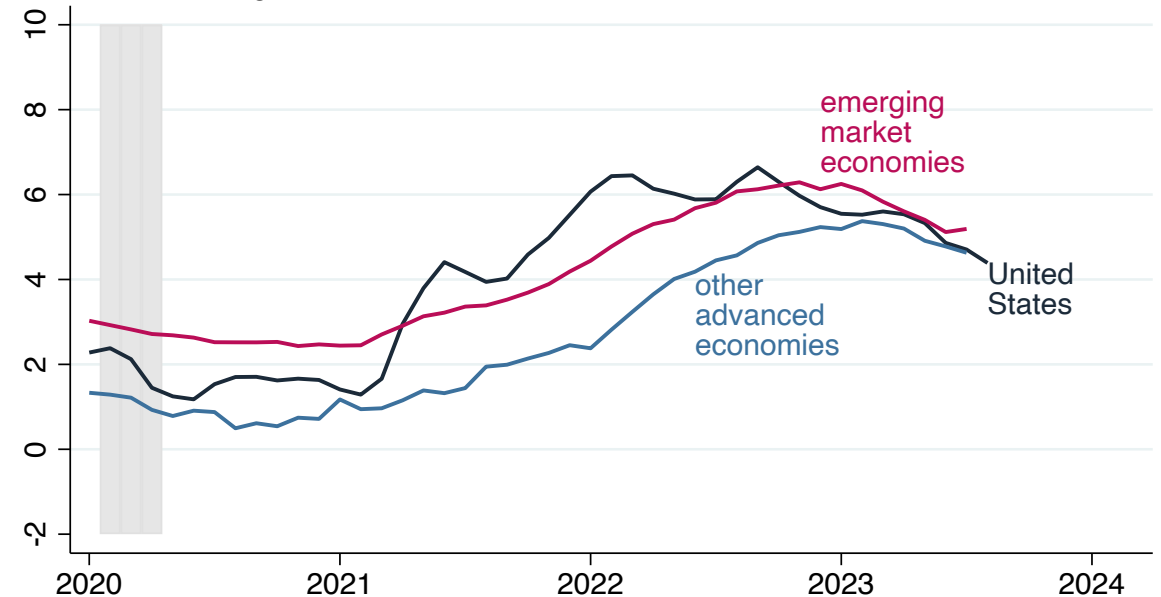
Percent change from 12 months earlier



Data source: Federal Reserve Bank of Dallas and Bureau of Labor Statistics (via FRED).
Shaded area corresponds to recession.
Last data point: August 2023 for the US and July 2023 for other series.

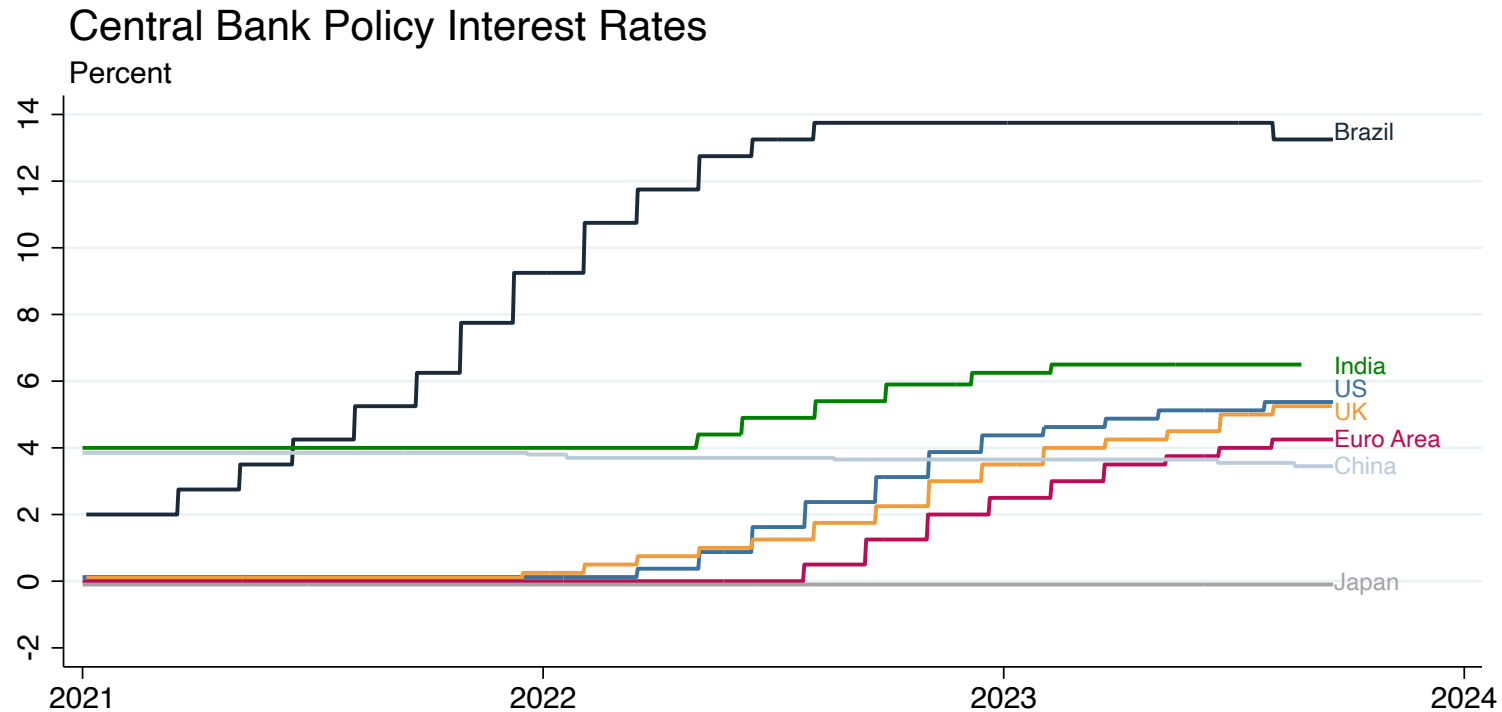
Core CPI Inflation

Percent change from 12 months earlier



Data source: Federal Reserve Bank of Dallas and Bureau of Labor Statistics (via FRED).
Shaded area corresponds to recession.
Last data point: August 2023 for the US and July 2023 for other series.

Major central banks are reaching the end of their tightening cycles

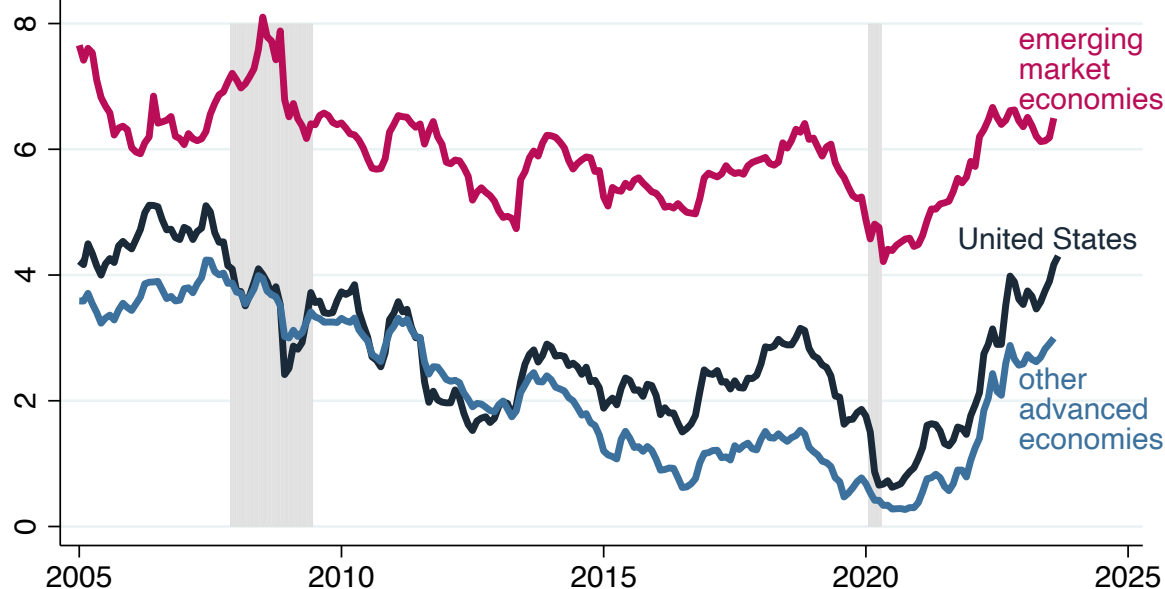


Data source: Bank of International Settlements.
Last data point: September 19, 2023.

Financial conditions are tight and will remain so, as widespread rate cuts are unlikely soon

Long-term Interest Rates

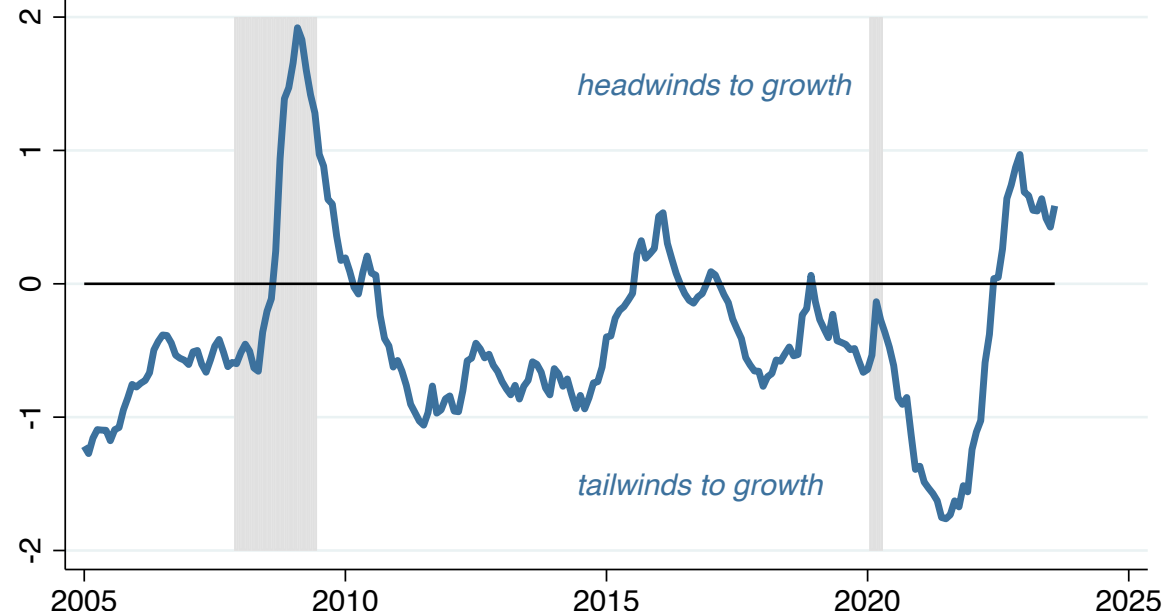
Percent



Data source: Federal Reserve Bank of Dallas and Federal Reserve Board (via FRED).
Shaded area corresponds to recession.
Last data point: September 2023 for the US and August 2023 for other series.

Federal Reserve Financial Conditions Impulse

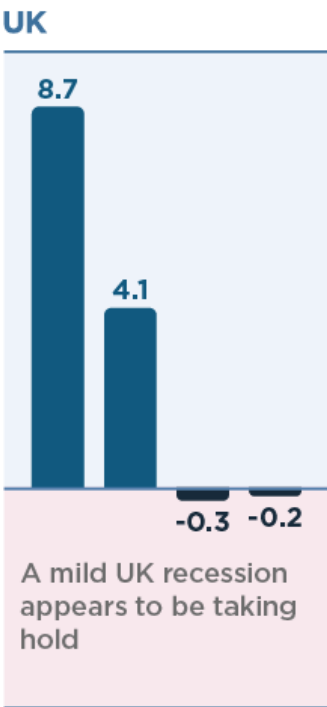
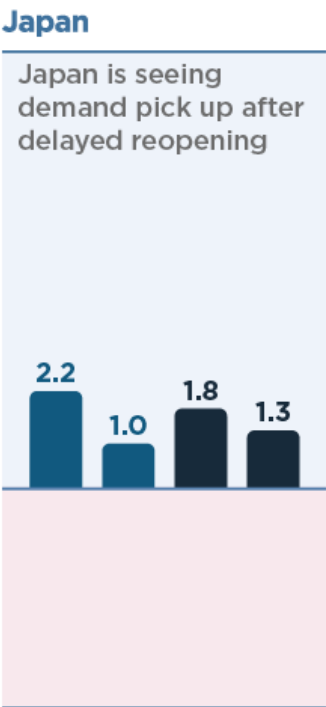
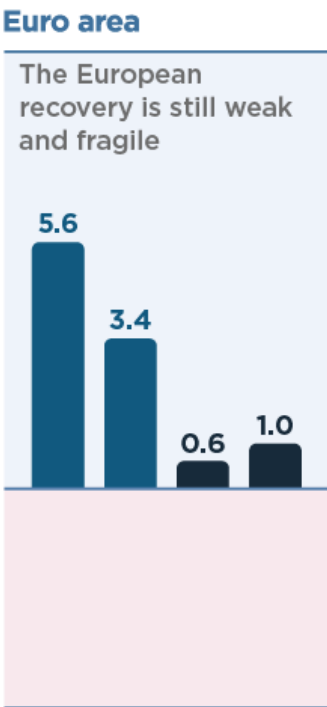
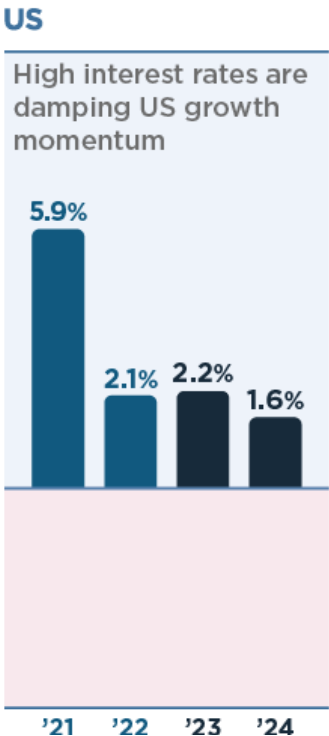
Negative Impact on US GDP growth over next year (in percentage points)



Data source: Federal Reserve Board. Shaded areas correspond to recessions.
Last data point: August 2023.

Advanced economies are likely to experience subdued growth to different degrees

Real GDP Growth
Percent change from previous year



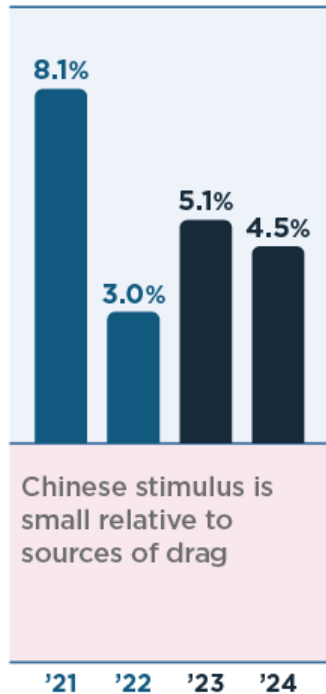
Annual-average-over-annual-average growth rates. PPP weights.
Sources: Consensus Forecasts for 2021-2022; author's forecasts for 2023-2024.

Prospects for emerging market economies also vary

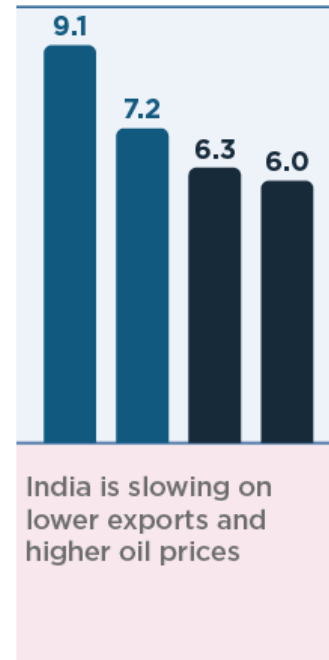
Real GDP Growth

Percent change from previous year

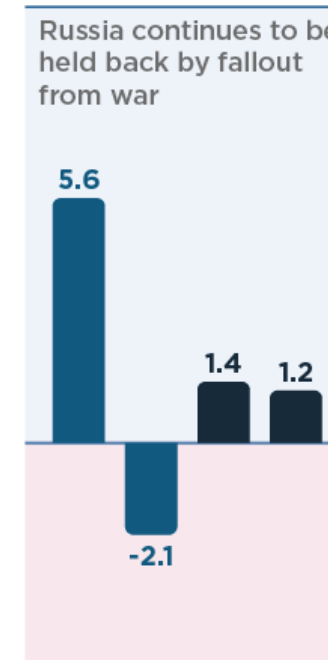
China



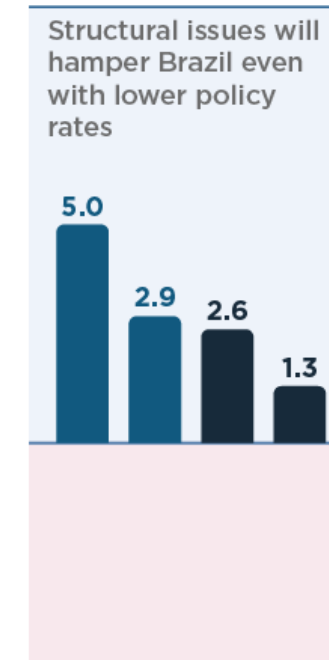
India



Russia



Brazil

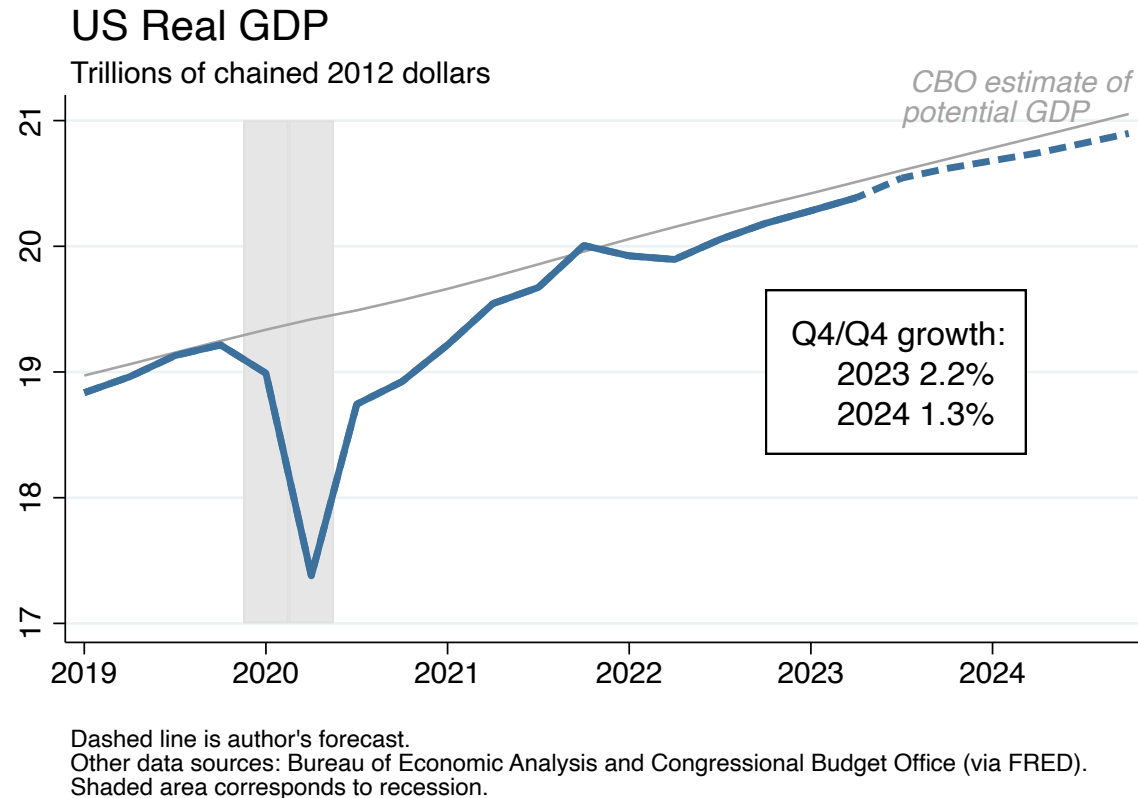


Annual-average-over-annual-average growth rates. PPP weights.
Sources: Consensus Forecasts for 2021-2022; author's forecasts for 2023-2024.

Summary of the outlook for large economies

Real GDP Growth (Y/Y)	2021	2022	2023	2024
Global Growth	5.9	3.4	3.0	2.8
United States	5.9	2.1	2.2	1.6
Euro Area	5.6	3.4	0.6	1.0
Japan	2.2	1.0	1.8	1.3
United Kingdom	8.7	4.1	-0.3	-0.2
China	8.1	3.0	5.1	4.5
India	9.1	7.2	6.3	6.0
Russia	5.6	-2.1	1.4	1.2
Brazil	5.0	2.9	2.6	1.3

US output will stay slightly below potential



Incoming data suggest robust growth in 2023:Q3

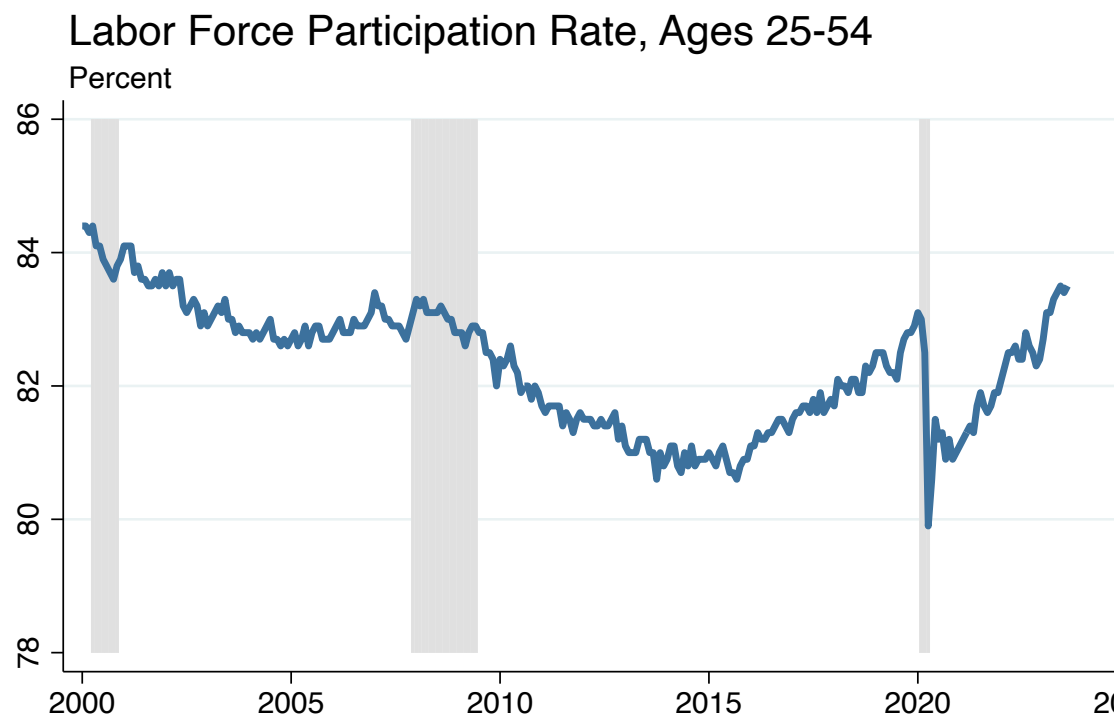
But 2023:Q4 is likely to see a lull in growth owing to:

the UAW strike

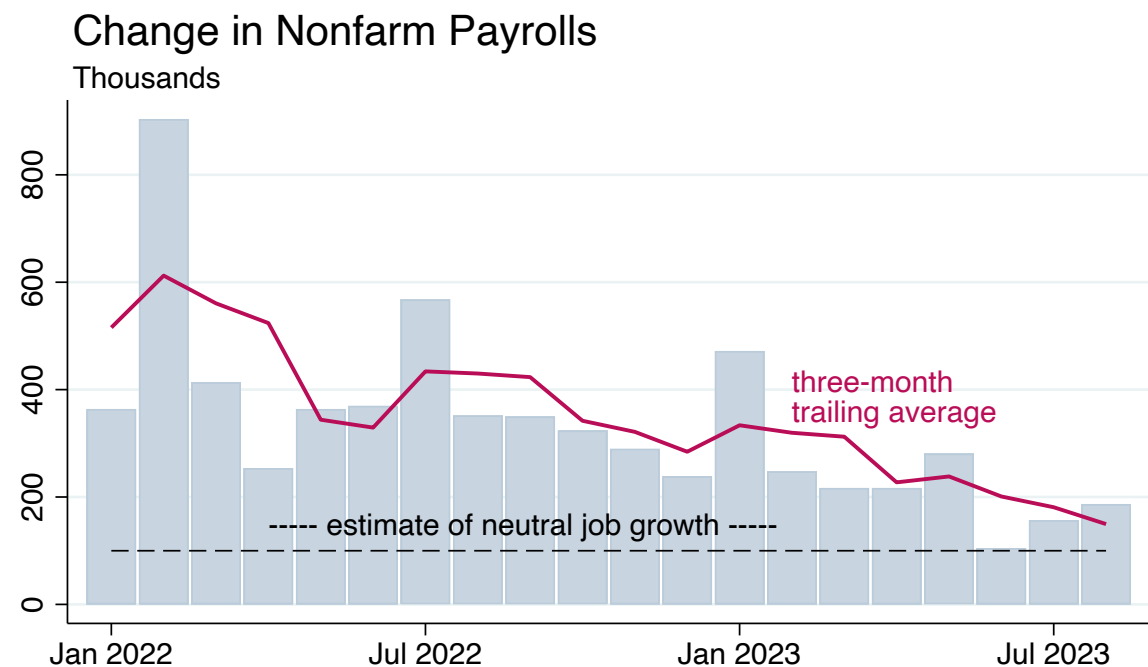
restart of student loan payments

probable government shutdown

The US labor market is rebalancing



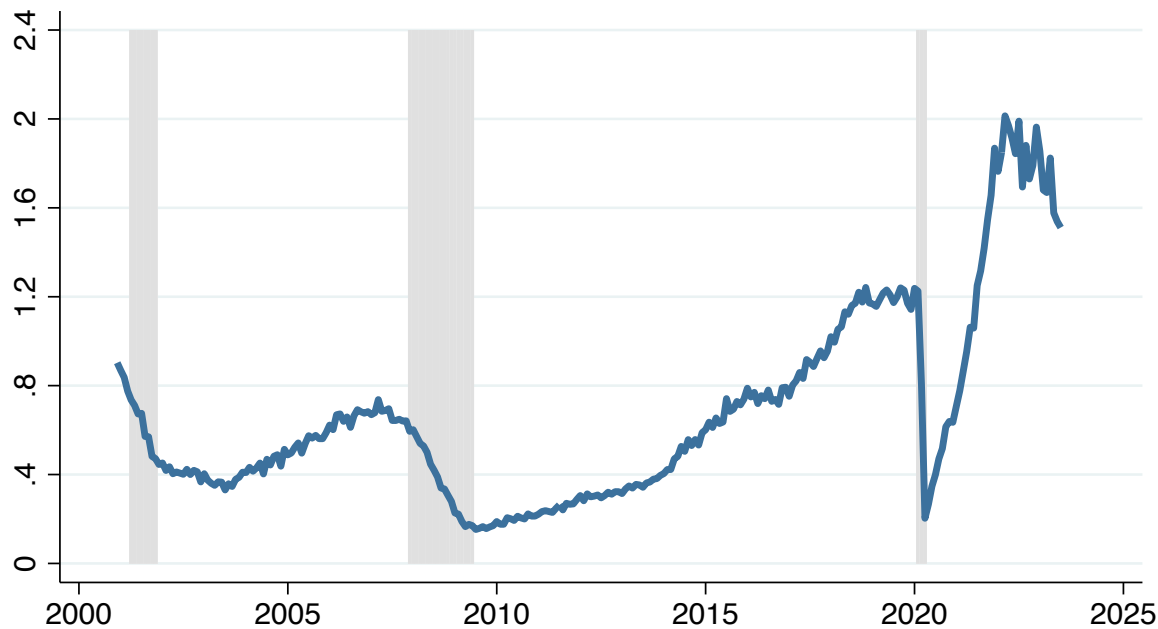
Data source: Bureau of Labor Statistics (via FRED). Shaded areas correspond to recessions.
Last data point: August 2023.



Data source: Bureau of Labor Statistics (via FRED) and Federal Reserve Bank of Atlanta.
Last data point: August 2023.
Black dashed line marks Atlanta Fed estimates of pace at which the unemployment rate would stay constant. See <https://www.atlantafed.org/chcs/labor-market-slider>.

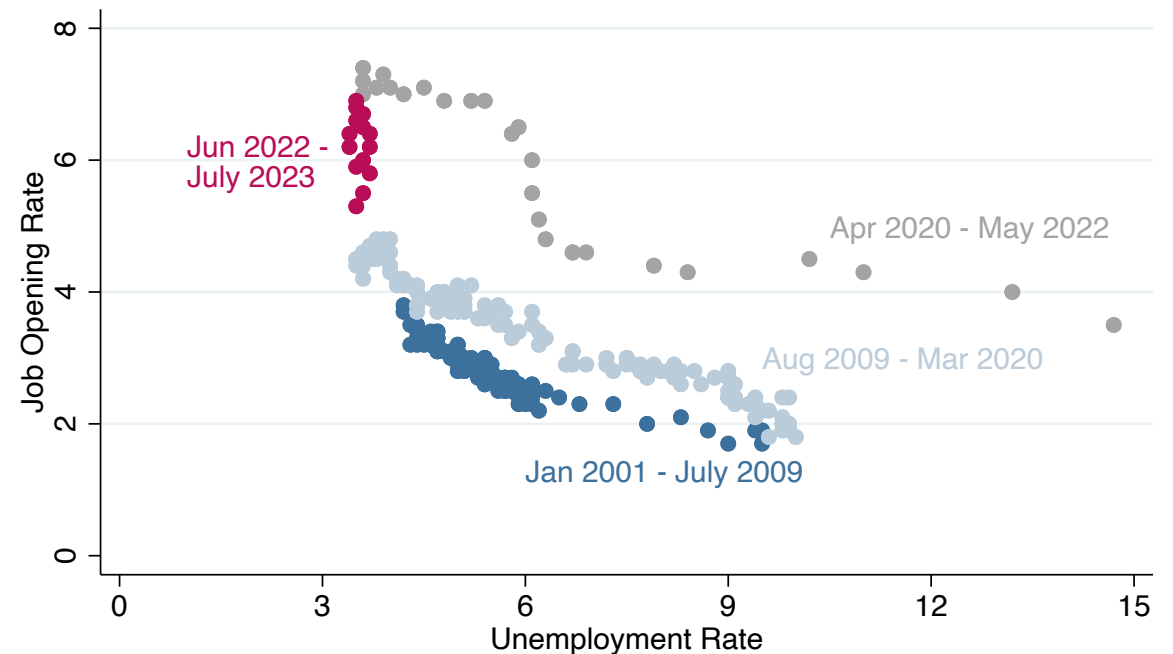
Slack in the US labor market is increasing—without much increase in unemployment

Job Openings per Unemployed Worker



Data source: Bureau of Labor Statistics (via FRED). Shaded areas correspond to recessions.
Last data point: July 2023.

Beveridge Curve

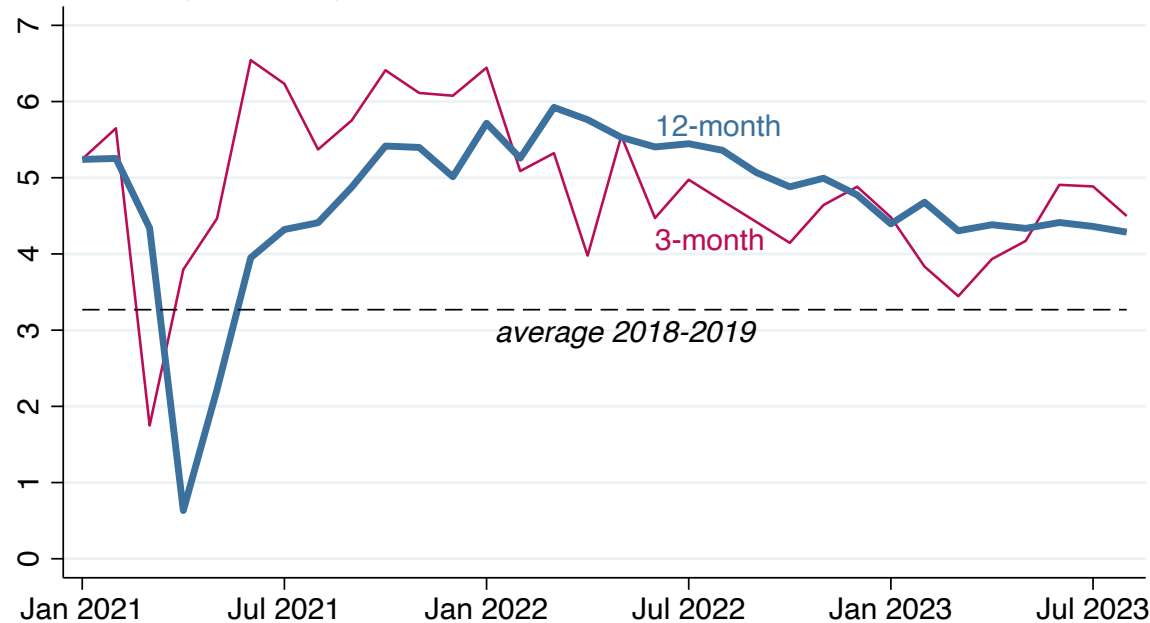


Data source: Bureau of Labor Statistics (via FRED).
Last data point: July 2023.

US wage growth and broader compensation growth are gradually slowing

Average Hourly Earnings Growth

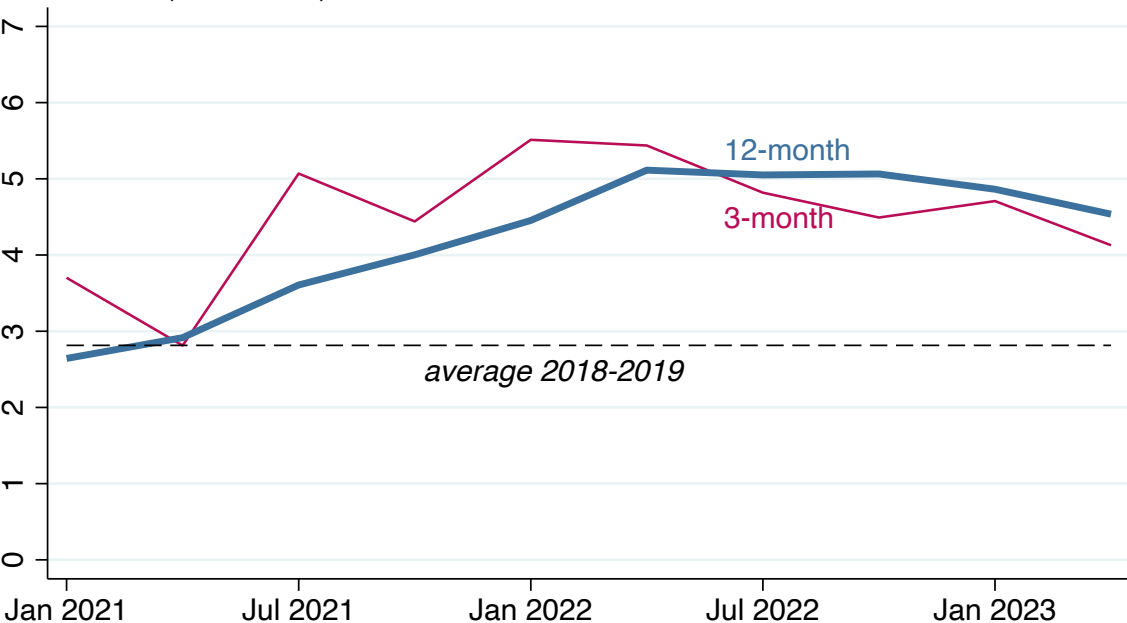
Percent (annualized)



Data source: Bureau of Labor Statistics (via FRED).
Last data point: August 2023.

Employment Cost Index Growth

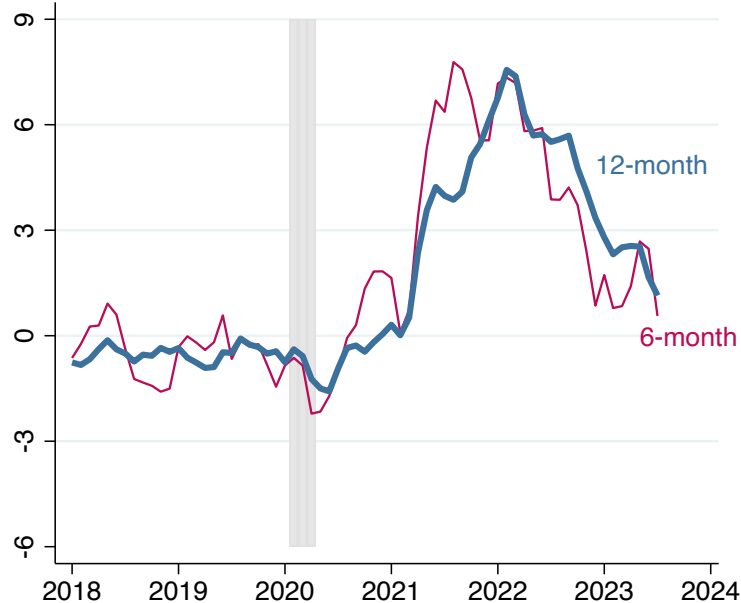
Percent (annualized)



Data source: Bureau of Labor Statistics (via FRED).
Last data point: June 2023.

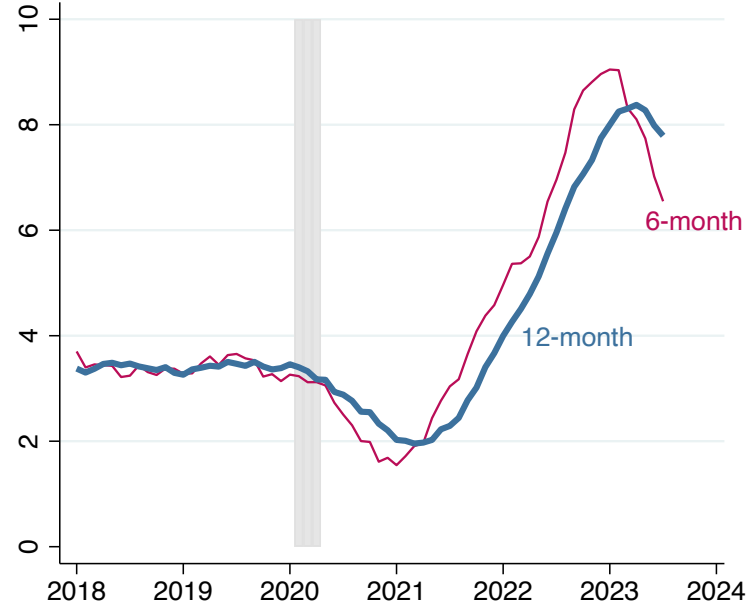
US core inflation is falling

PCE Core Goods Inflation
Percent (annualized)



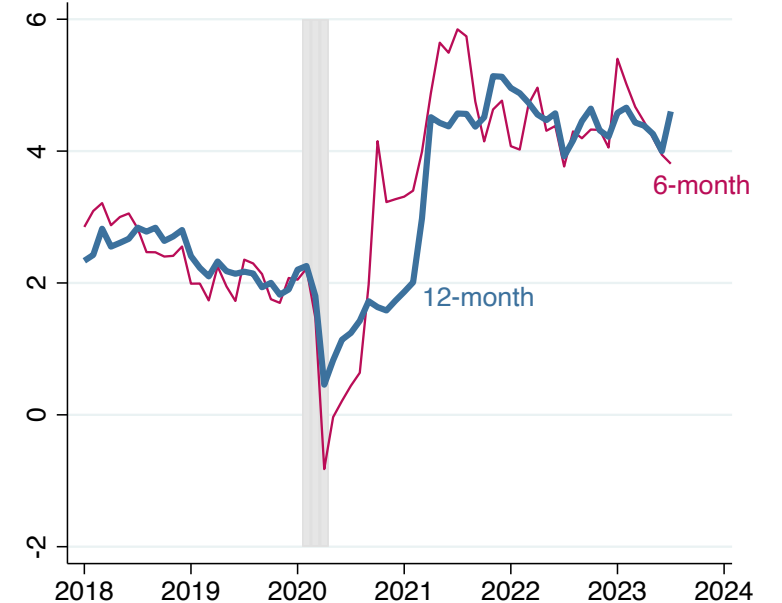
Data source: Bureau of Economic Analysis.
Shaded region corresponds to recession.
Last data point: July 2023.

PCE Core Housing Services Inflation
Percent (annualized)



Data source: Bureau of Economic Analysis and author's calculation.
Shaded region corresponds to recession.
Last data point: July 2023.

PCE Supercore Inflation
Percent (annualized)

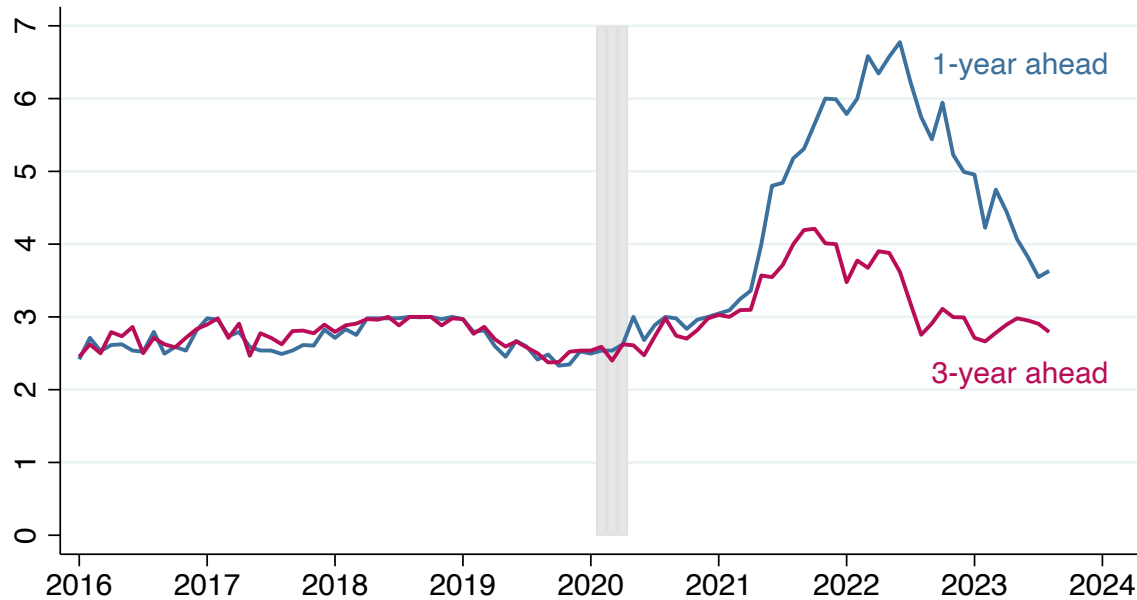


Inflation for core PCE services excluding housing.
Data source: Bureau of Economic Analysis and author's calculation.
Shaded region corresponds to recession.
Last data point: July 2023.

Households' expectations of inflation are subsiding; market expectations are fairly low

Median Expected Inflation: Household Survey

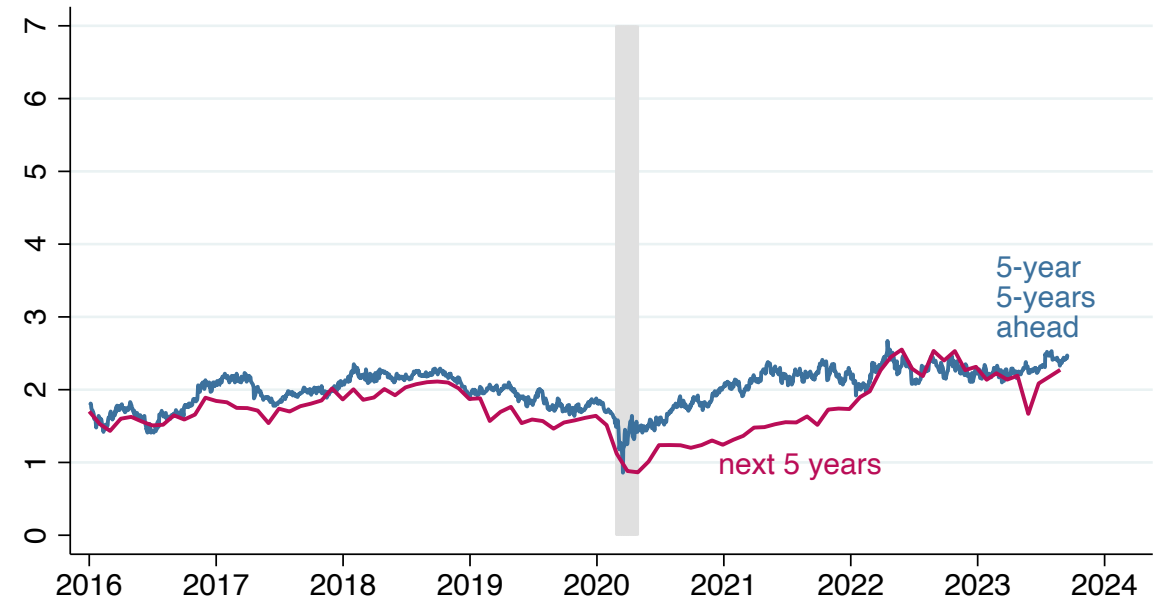
Percent



Data source: Survey of Consumer Expectations, Federal Reserve Bank of New York.
Shaded area corresponds to recession.
Last data point: August 2023.

Median Expected Inflation: Market-Based

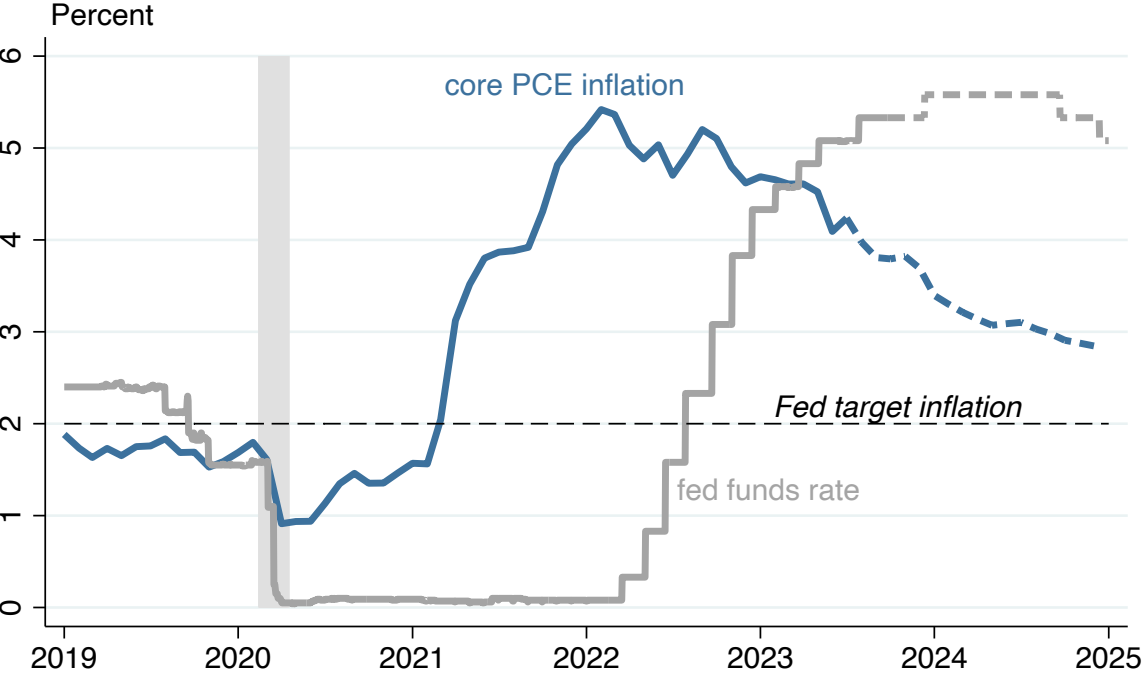
Percent



Data source: Federal Reserve Bank of Cleveland (via FRED).
Shaded area corresponds to recession.
Last data point: September 22, 2023.

The Fed will start cuts next fall, as 12-month US core PCE inflation slips below 3 percent

Core 12-Month PCE Inflation and Fed Funds Rate

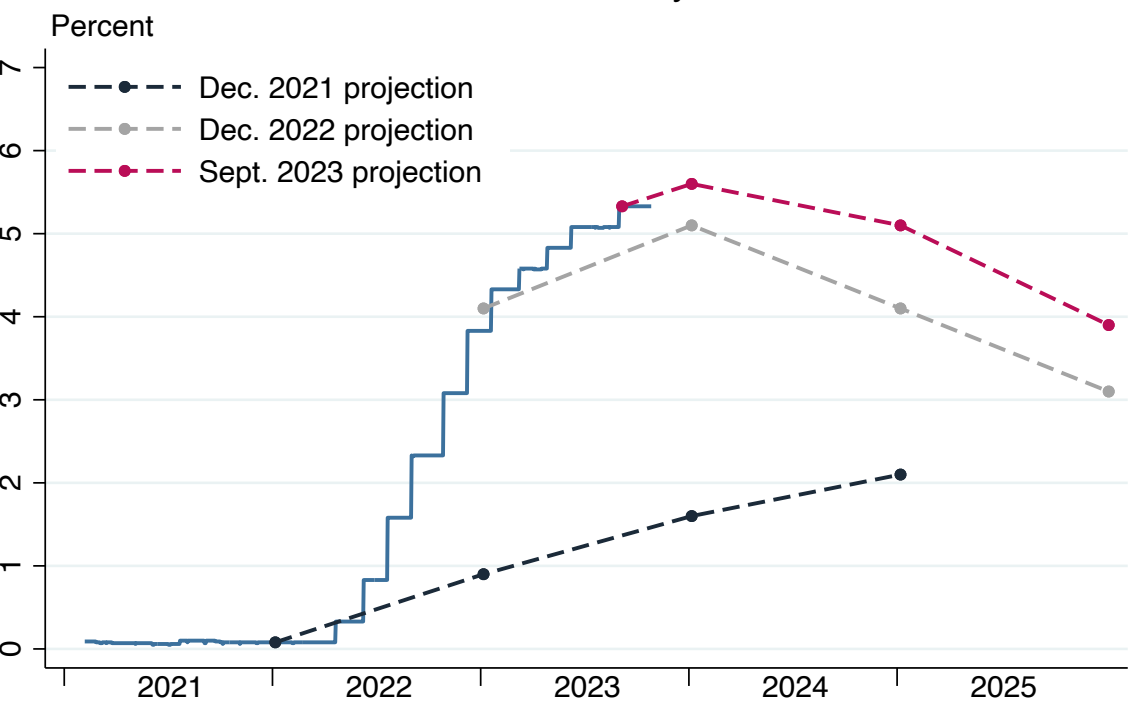


Data source: Bureau of Economic Analysis and Federal Reserve Board (via FRED); author's forecasts.
Shaded area corresponds to recession.

	2023	2024
PCE inflation (Q4/Q4)	3.3	2.6
Core PCE inflation (Q4/Q4)	3.8	2.8
Unemployment rate	3.8	4.2

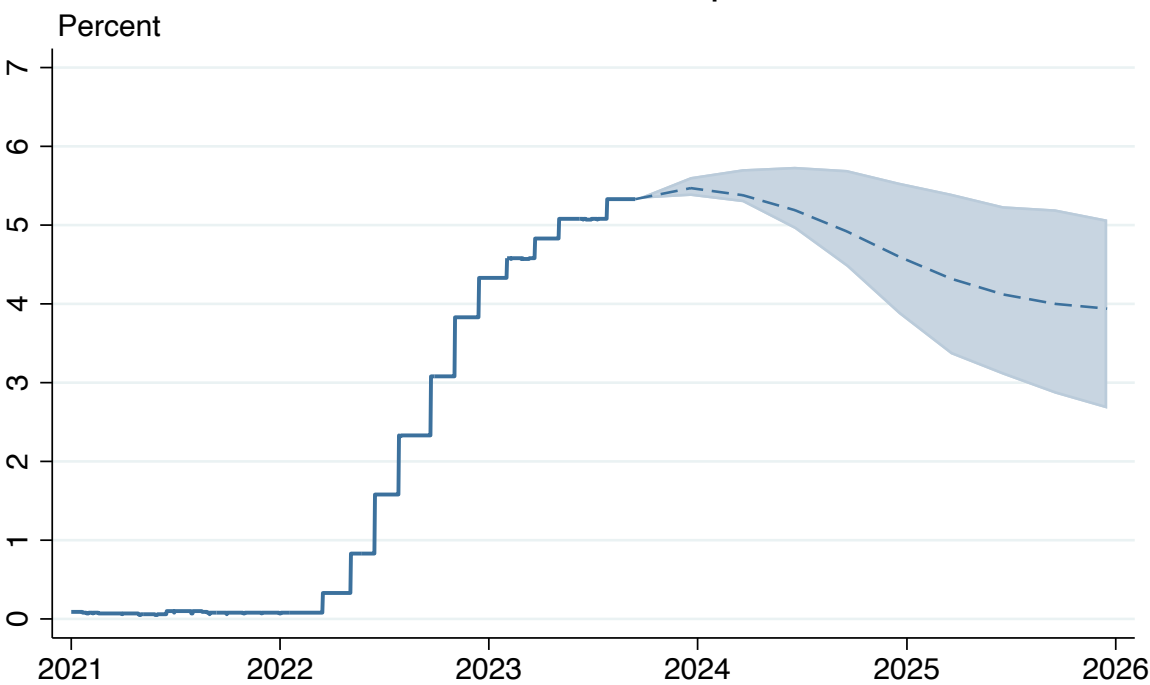
But bringing inflation all the way back to target is likely to take some time

Federal Funds Rate and SEP Projections



Data source: Federal Reserve Board. SEP projections are for end of each year.

Federal Funds Rate and Market Expectations



Data source: Federal Reserve Bank of Atlanta. Expectations as of September 19, 2023. Shaded region shows 25th to 75th percentile.

Risk scenario 1: Sustained overheating

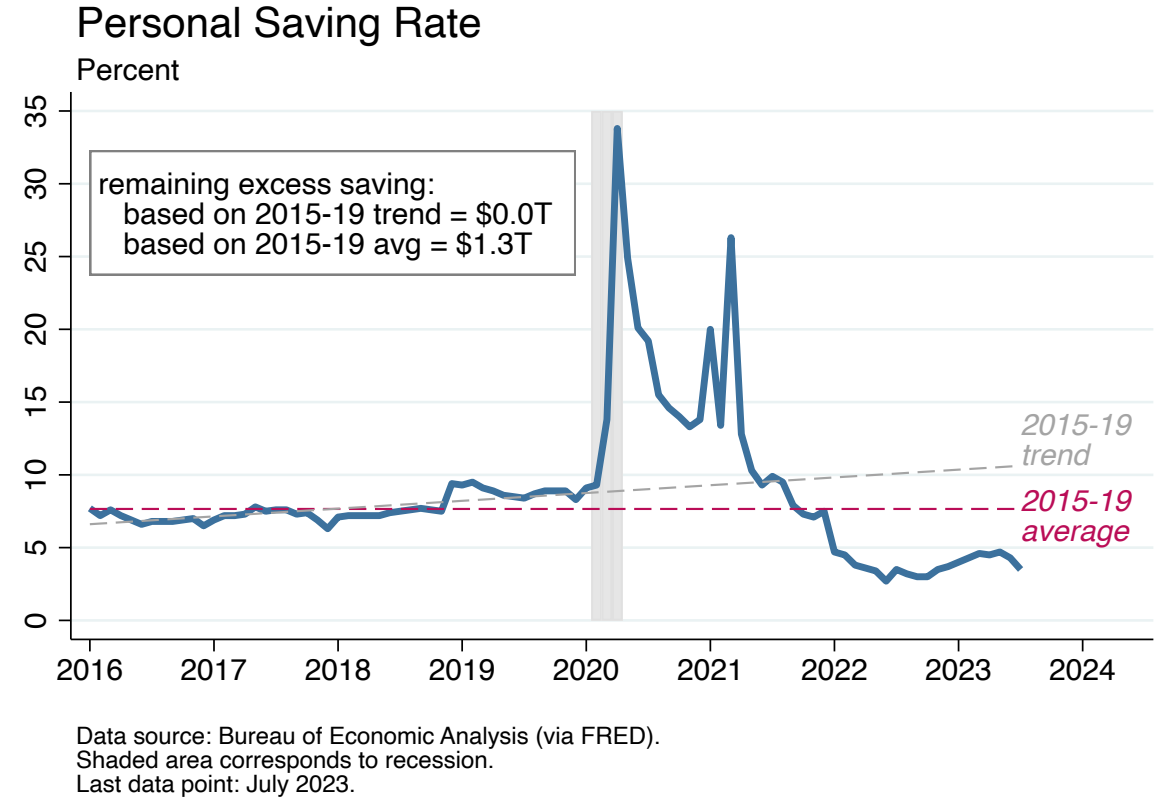
Underlying demand may be stronger than the current consensus:

Excess saving may still be large

Pent-up demand lingers

Strong labor markets supporting income

The Fed may need to tighten further, which increases the chance of a hard landing



Risk scenario 2: Global malaise

Demand may be dragged down by incipient weakness:

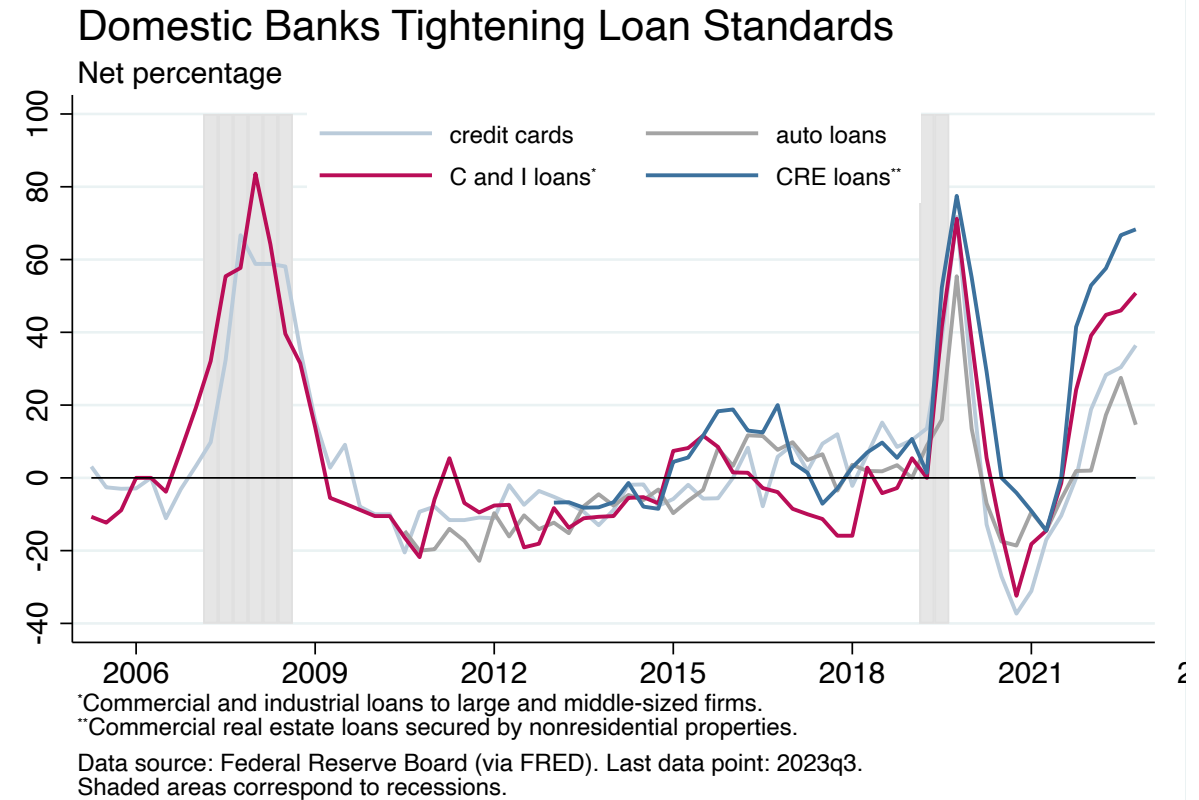
European recession

Weakening Chinese economy

Spillovers to the rest of Asia

Troubled US banking sector

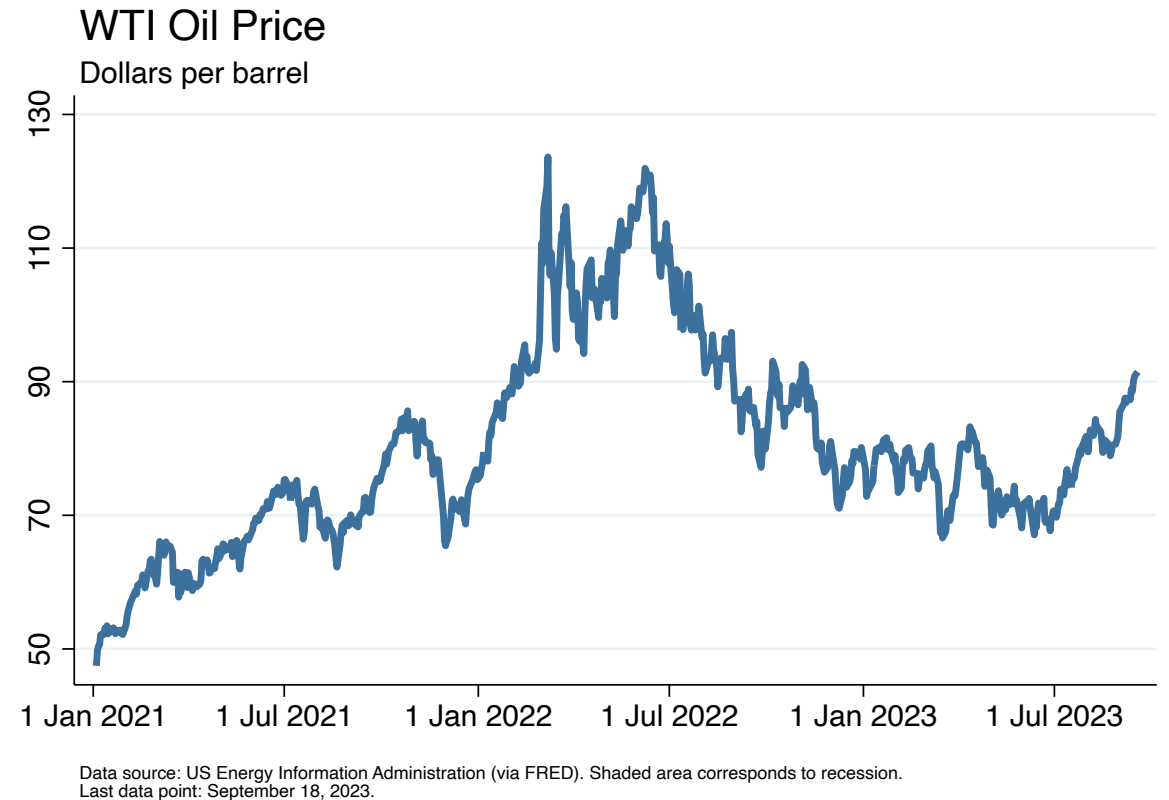
The Fed may not be able to cut rates quickly enough to avoid recession



Risk scenario 3: Further inflationary supply shocks

Inflation could materially reaccelerate if developments in global commodity markets push up energy and food prices or there is a significant disruption to supply chains

This scenario would be especially challenging for the Fed and other central banks—with more tightening amid economic conditions already weakened by the shocks





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