

# BEA Regional Advisory Committee

October 16, 2023

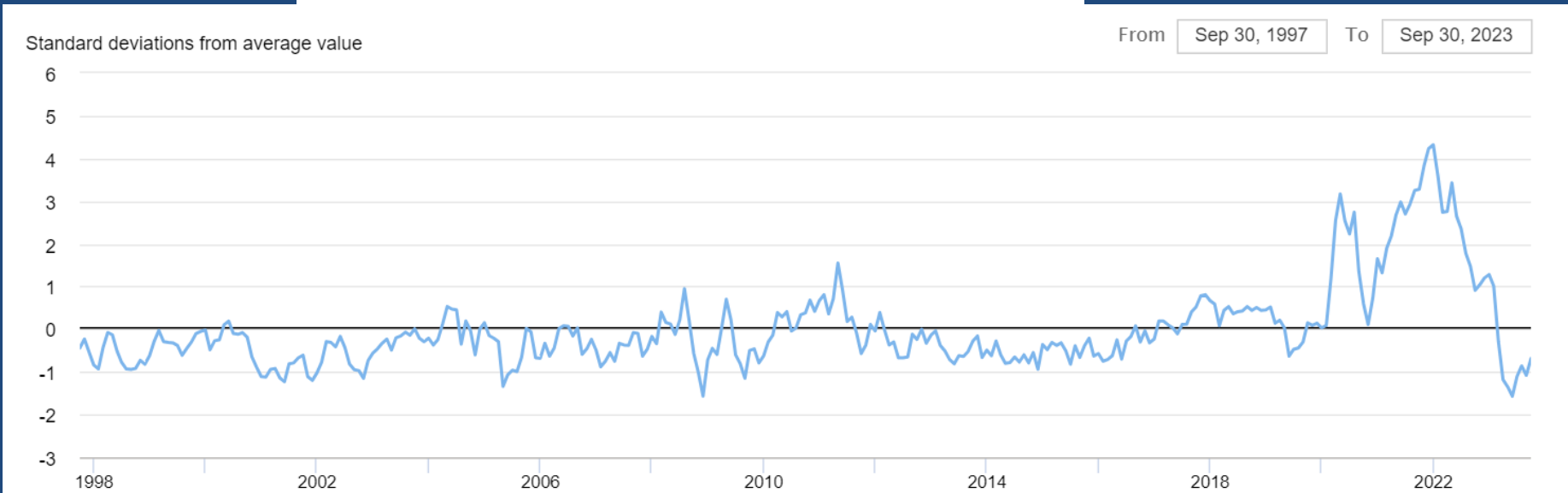
Russell S. Sobel, Ph.D.



# The Economic Situation

- First, some good news:
  - Global Supply Chain Issues are Resolving:

## Global Supply Chain Pressure Index (GSCPI)

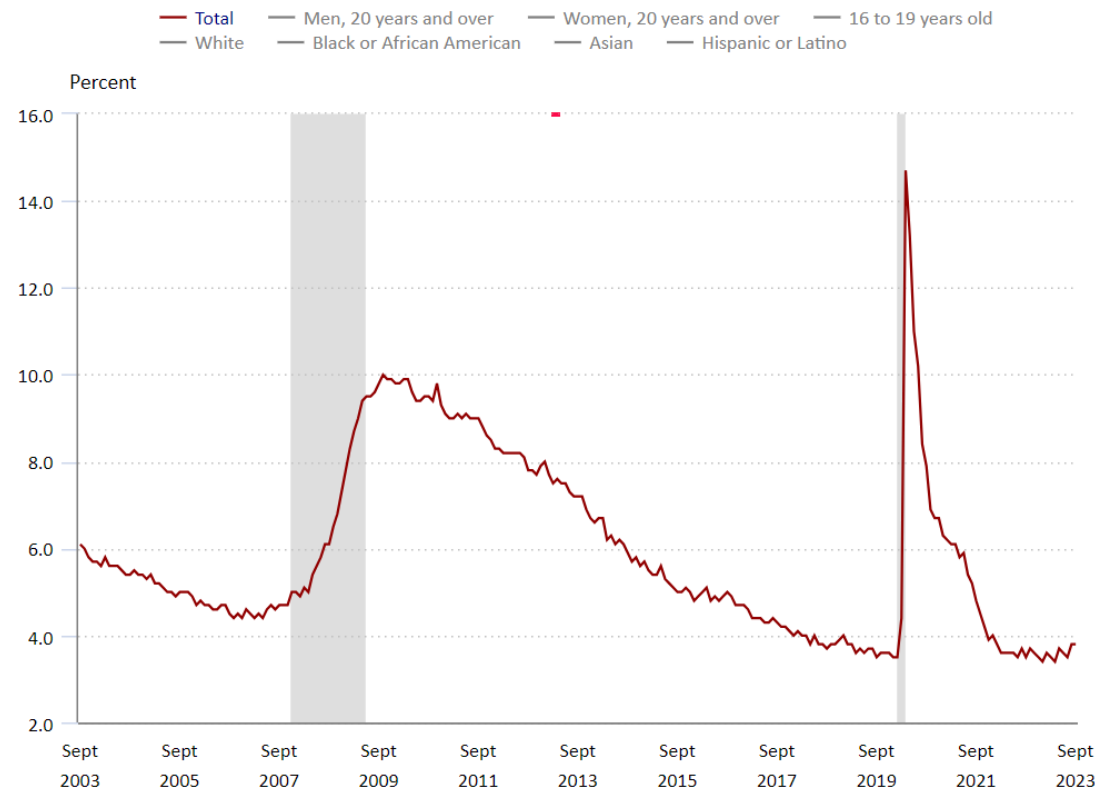


# Labor Markets / Unemployment

– Labor market tightness is easing  
(unemployment ticking up from record lows):

**Civilian unemployment rate, seasonally adjusted**

Click and drag within the chart to zoom in on time periods



## Recent U.S. Data:

**3.5% July 2023**

**3.8% Aug. 2023**

**3.8% Sept. 2023**

## Recent S.C. Data:

**3.0% July 2023**

**3.1% Aug. 2023**

## Median U.S. Forecasts:

<b>2023: Q4</b>	<b>3.7%</b>
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<b>2024: Q1</b>	<b>3.9%</b>
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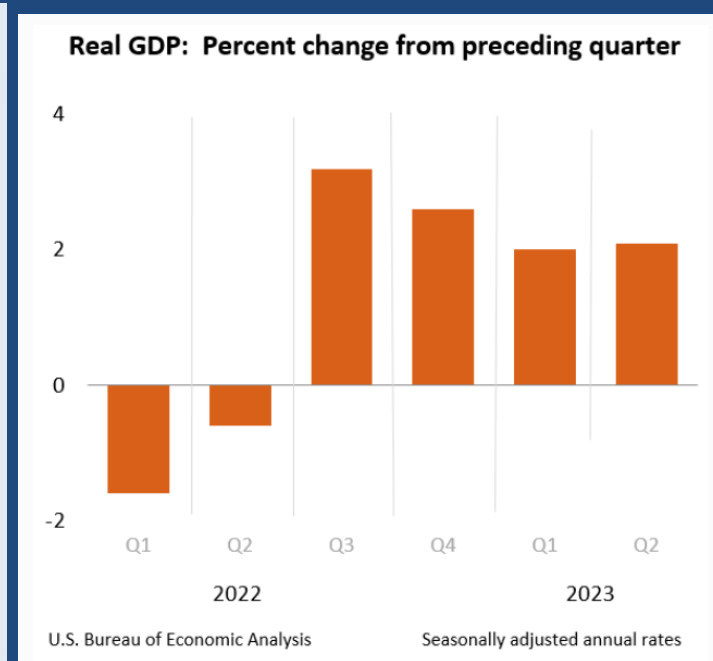
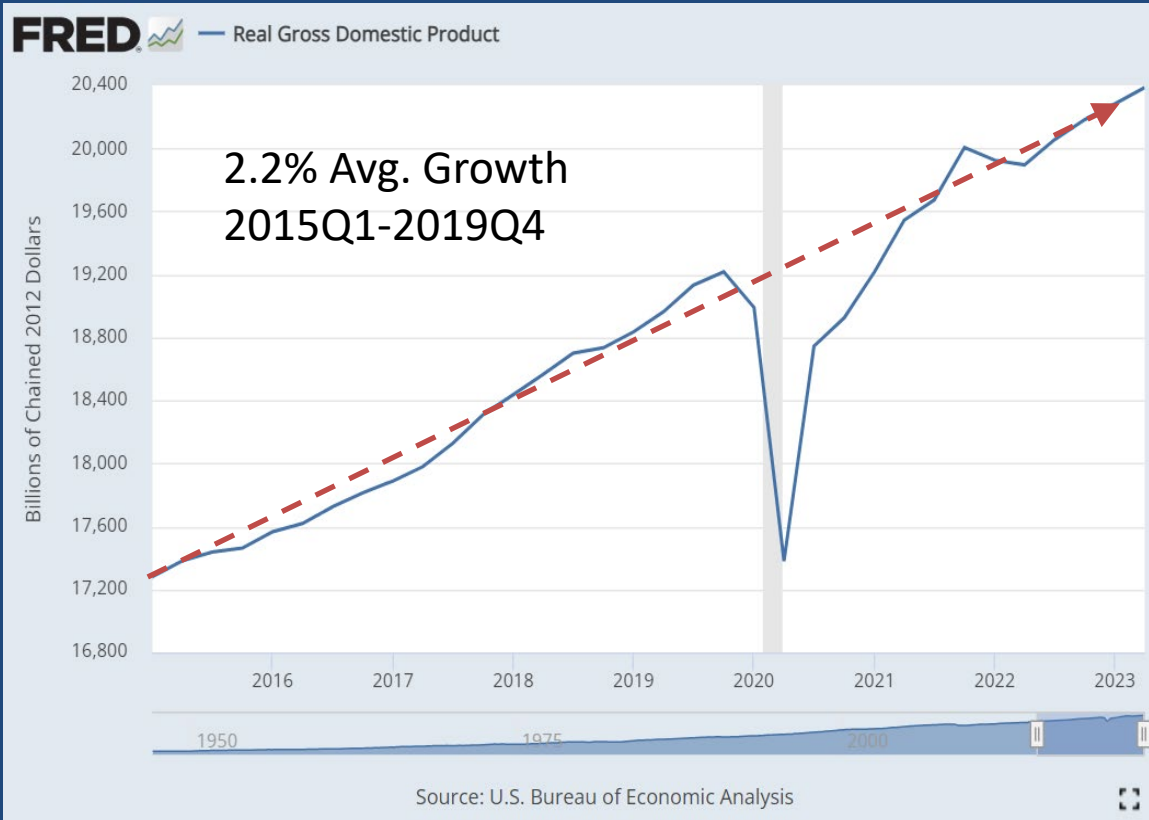
<b>2024: Q2</b>	<b>4.0%</b>
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<b>2024: Q3</b>	<b>4.1%</b>
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<b>2025 Annual</b>	<b>4.2%</b>
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**+0.5%**

# Real Economic (GDP) Growth

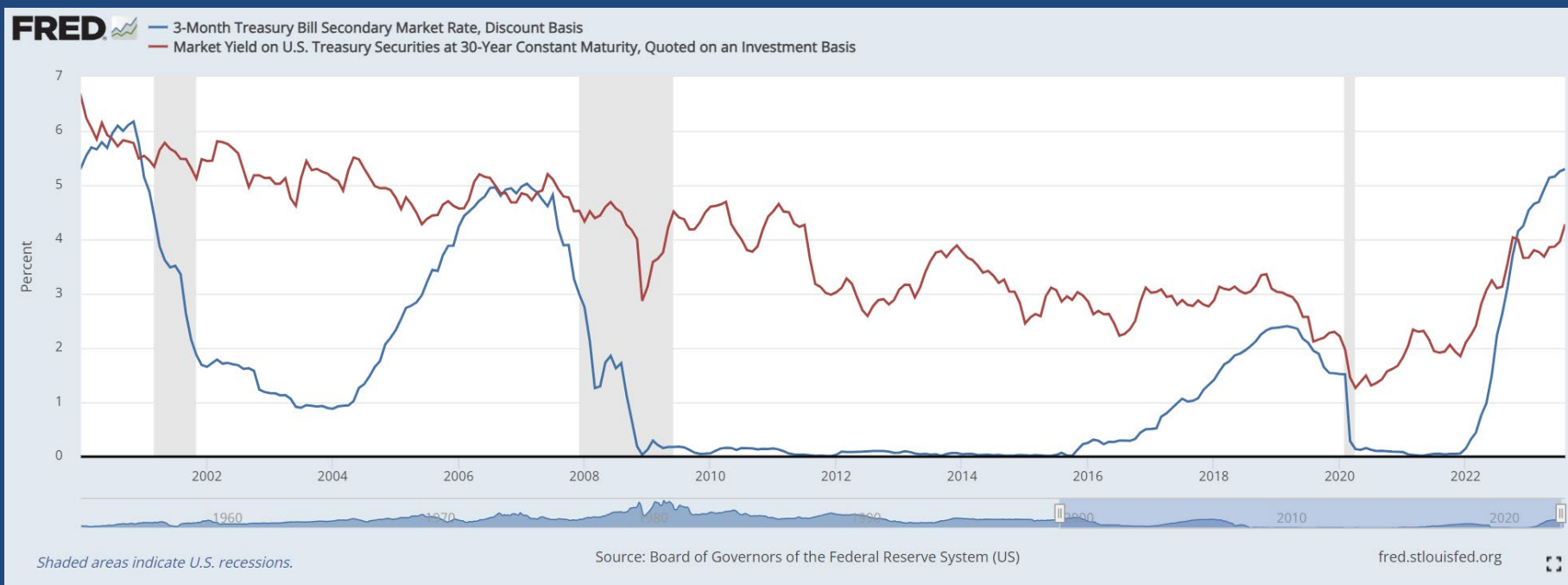


**Recent Data:**  
**2.1% 2023: Q2**  
**2.0% 2023: Q3**

<b><u>Median Forecasts:</u></b>	
<b>2023: Q4</b>	<b>1.2%</b>
<b>2024: Q1</b>	<b>1.1%</b>
<b>2024: Q2</b>	<b>1.0%</b>
<b>2024: Q3</b>	<b>1.3%</b>
<b>2025 Annual</b>	<b>2.1%</b>

# Interest Rates

- Interest rates continue to rise as the Fed tries to combat inflation - Yield curve remains inverted (which usually precedes recessions)



**Red = long-term rates / blue = short-term rates**

# Interest Rates

## 30-Year Fixed-Rate Mortgage Average - June 2021 to Present

For new purchase loans with an 80% LTV, a 700–760 FICO score, and no discount points



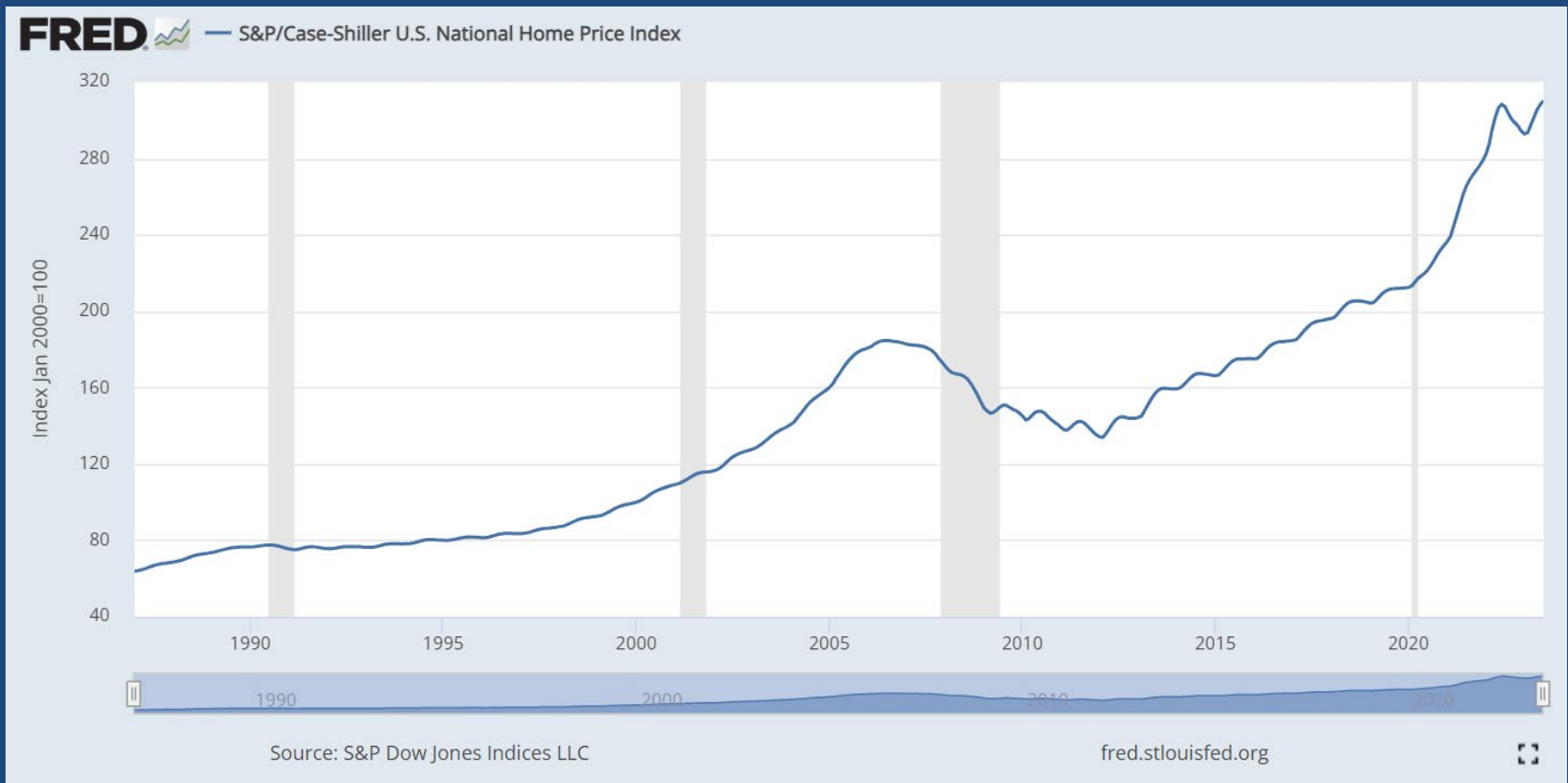
Source: Investopedia daily mortgage rate data

Investopedia

- 30-year mortgage rates highest in over two decades

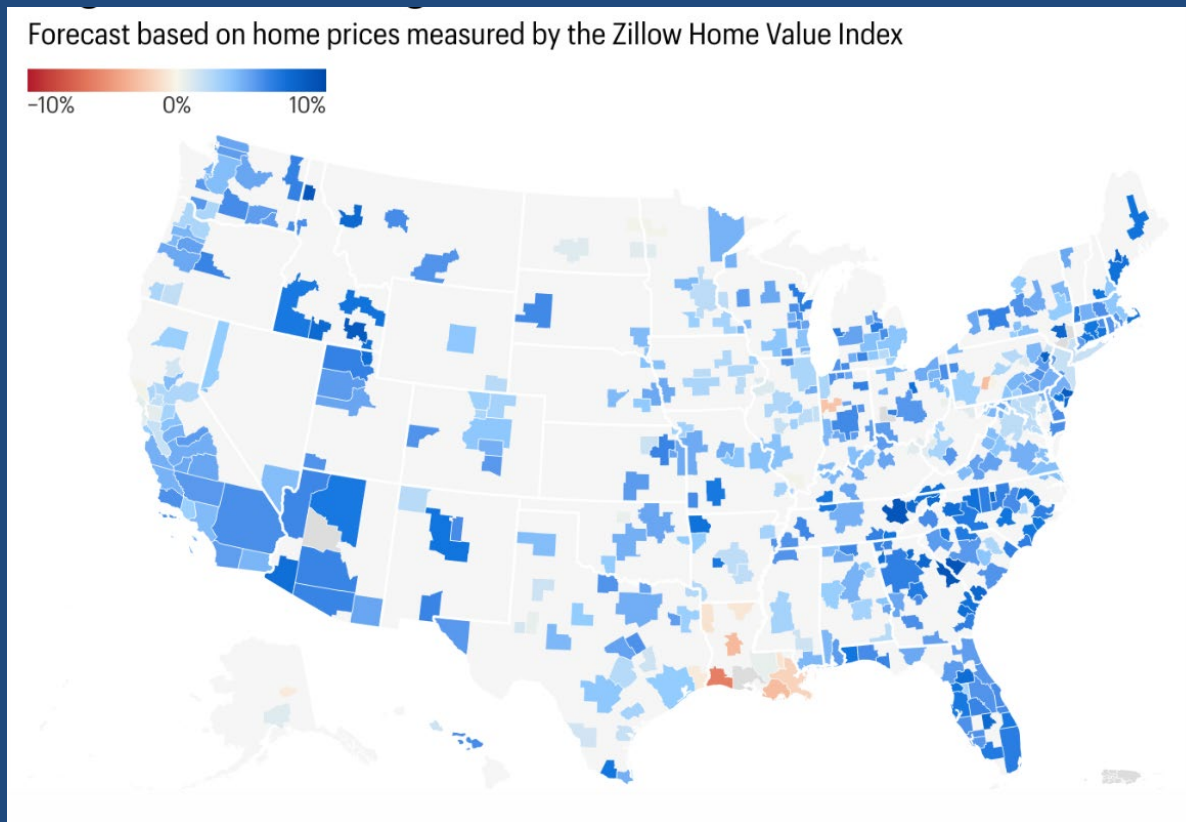
# Housing Prices

- Higher interest rates are starting to have an effect, but not a lot – housing prices continue to rise:



# Housing Price Forecast

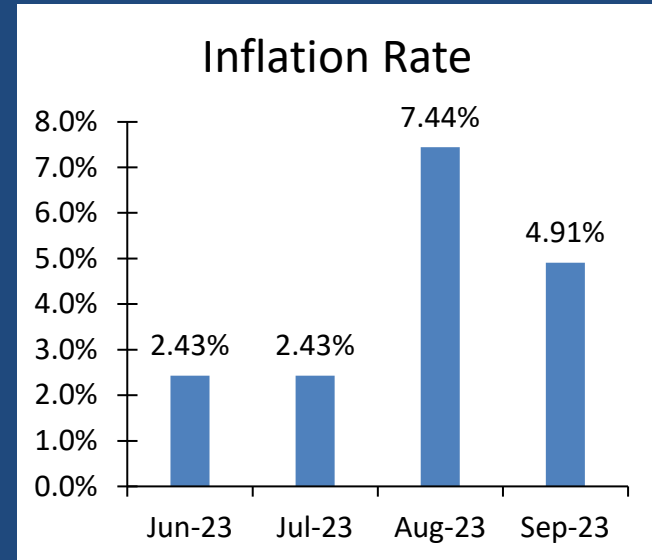
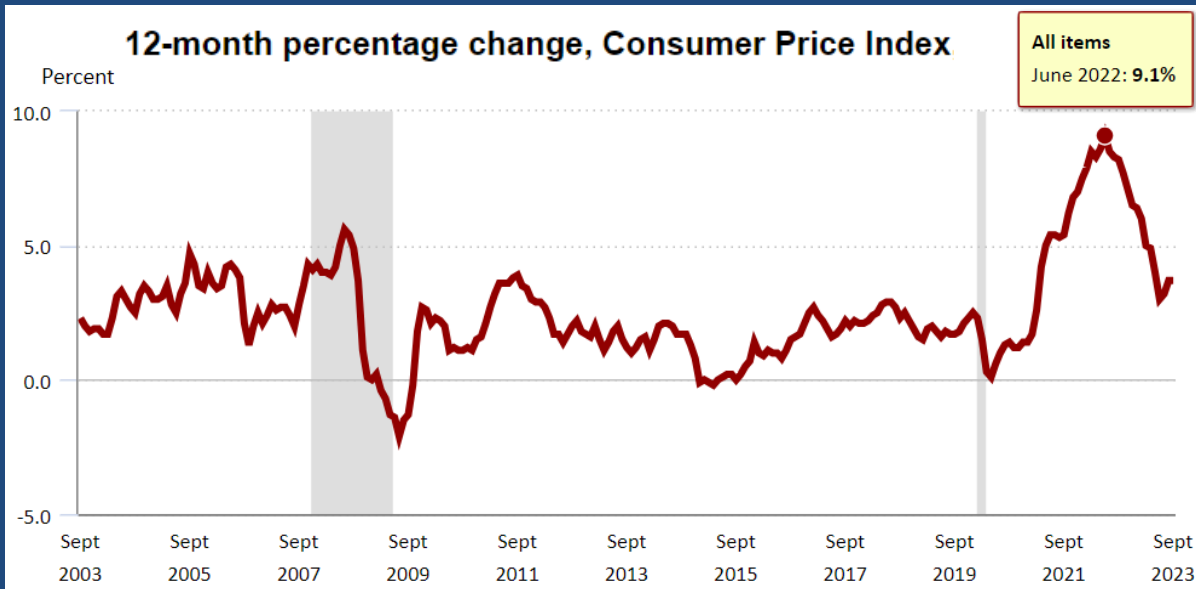
- And housing prices are expected to continue to increase in 2024:





# Inflation

- Inflation is down a bit, but rising again...



## Median Forecasts:

2023: Q4	I think it	2.9%
2024: Q1	will be	2.6%
2024: Q2	higher	2.5%
2024: Q3	than this	2.6%
2025 Annual		2.5%

# The “Real Question”...

- The real question:
  - How much inflation is left?
  - Will affect how much more the Fed raises interest rates

# The Monetary Expansion Hangover

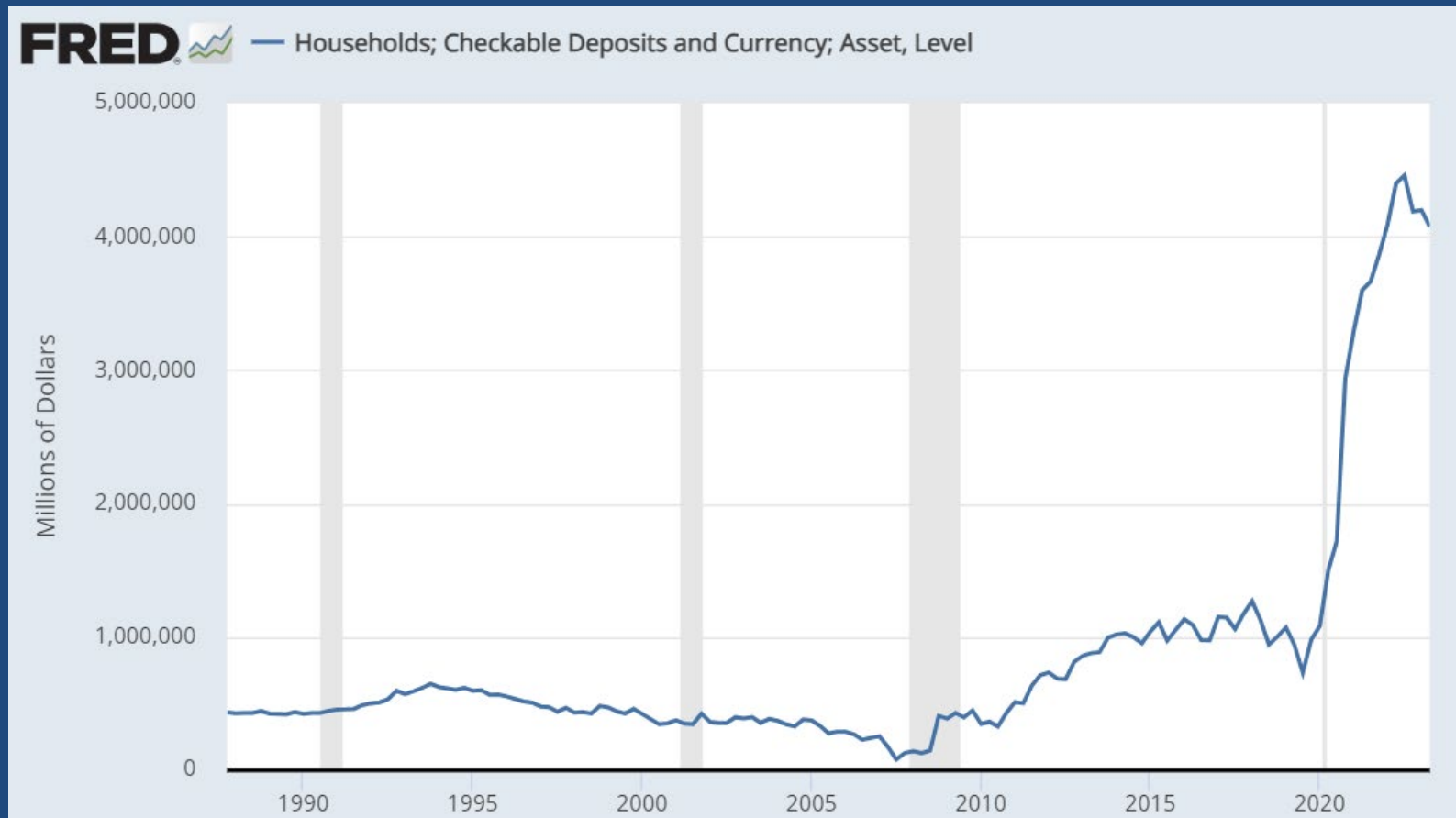
## The M2 Money Supply:

- 44% increase (Feb 20 to Apr 22)
- Only a 6% decrease since Apr 2022 → so still up 38%



# Household Bank Deposits

Much of this additional purchasing power remains in bank accounts



# Velocity of Money



**Upward pressure on prices/inflation as this money comes into circulation**

**My calculations suggest roughly 8% to 10% inflation is “left” to occur from the monetary expansion**

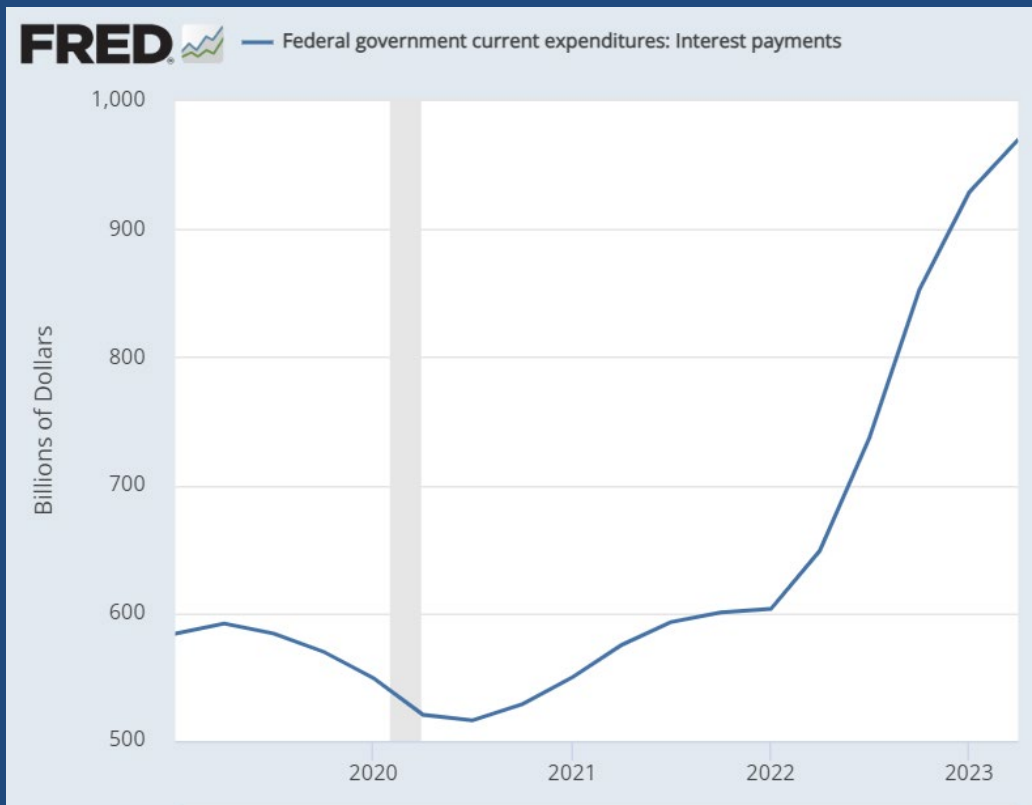
# Other Factors...

- Student Loan Payments Resume
  - Federal student loan payments resume in Oct. 2023
  - Affects 44 million people on the \$1.8 trillion in outstanding student loan debt
  - Could cut consumer spending by as much as \$9 billion per month



# Other Factors...

- Interest Payments on the National Debt Soaring



Will require major shifts in the Federal budget

Interest payments on the \$33 trillion national debt will almost double from \$475 billion in 2022 to \$842 billion in 2025.

Rise from 7.5% of the federal budget to 12.5%

Likely result in discretionary spending cuts and/or higher taxes

# The Economic Situation

## My Summary:

- Unemployment Rates Slowly Increasing
  - Labor Markets Less Tight
- Real GDP Growth Slowing in 2024 to around 1.0%
- Continued Upward Pressure on Inflation & Housing Prices
- Fed Continues to Increase Interest Rates Further
- Significant Pressure on the Federal Government Budget

## In a nutshell:

A Likely Return of 1970s "Stagflation"  
(high inflation with slow growth)



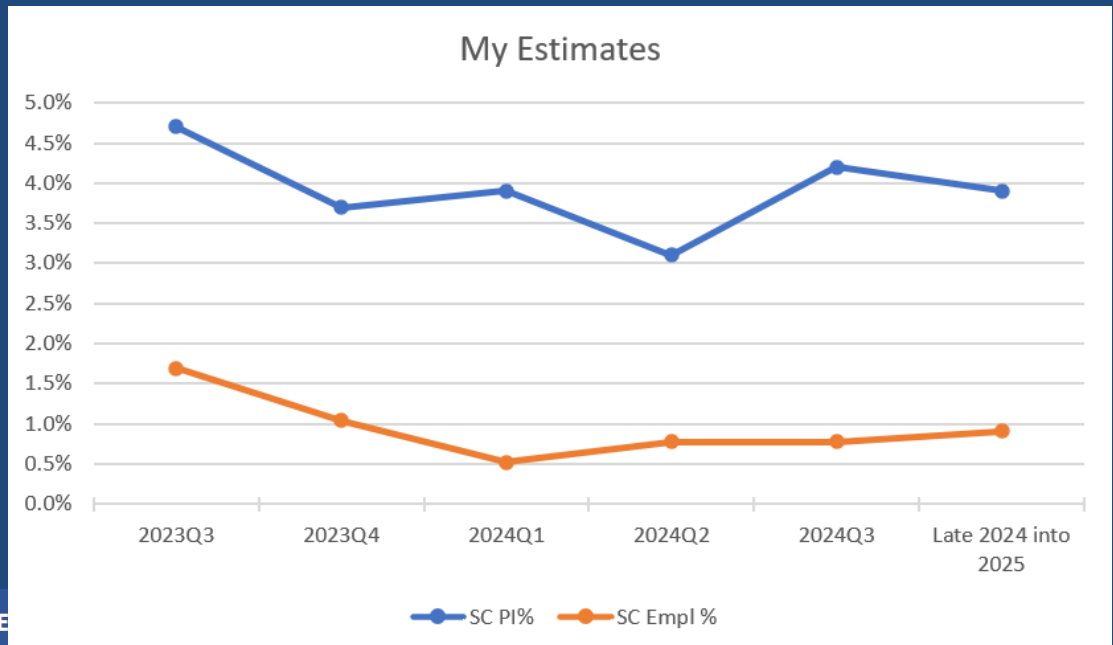
# My Forecasts

Forecasts by Fiscal Year:				Revenue Estimates:		
		These are my forecasts				
	SC PI%	SC Empl %	Inflation %	SLS Tx %	Inc Tx %	
FY 23-24	3.9%	1.0%	2.8% to 3.8%	2.7%	2.9%	
FY 24-25	4.1%	0.8%	2.6% to 5%	2.2%	2.6%	

MY PI% is slower for 23-24 and about the same for 24-25

My EMPL% is slower for both years by 1%

My INFL% is 'probably' a bit higher for 23-24, and definitely higher for 24-25



FISCAL YEAR GROWTH RATE

Fiscal Year	Personal Income	Employment	Inflation
2023-24	4.7%	2.0%	2.8%
2024-25	4.0%	1.8%	2.3%

These are the BEA estimates you sent us

QUESTIONS?

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