

Monthly Economic Update

April 2022



Policy Decisions Increase Likelihood of Recession

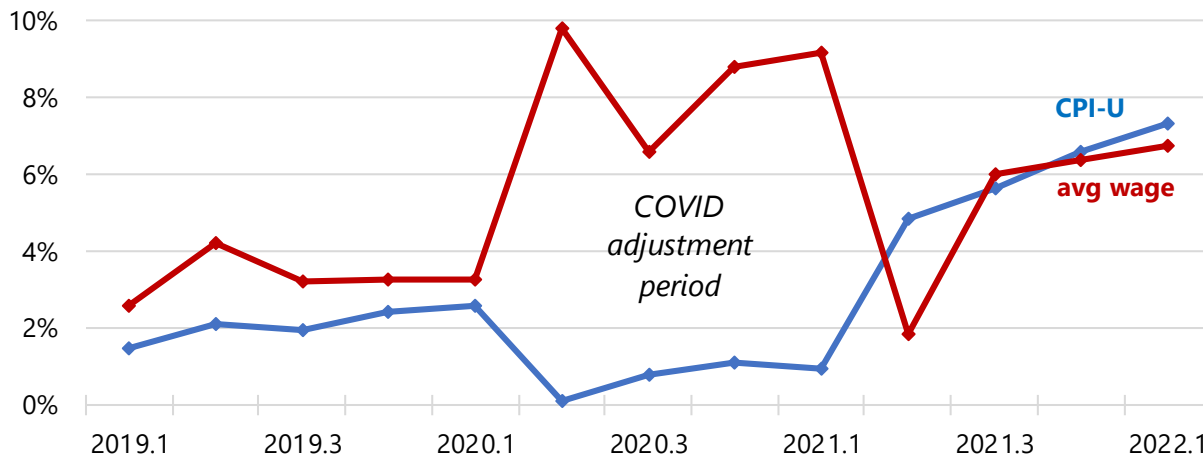
In the latest Wall Street Journal survey, economists estimate the average probability of recession during the next year at 28%, up from 18% in January. In a recent interview with Bloomberg's "Wall Street Week," former Treasury Secretary Larry Summers noted that "(t)he combination of overheating, followed by policy delay followed by supply shocks means I think it's a very difficult set of challenges, and recession in the next couple of years is clearly more likely than not..."

As noted by Summers, analysts generally cite three factors that are causing high inflation: (1) overstimulation of demand, largely from the American Rescue Plan; (2) excessive money creation and delayed intervention by the Federal Reserve and (3) ongoing supply chain constraints:

- A recent weekly newsletter by the Federal Reserve Bank of San Francisco found that federal stimulus may have contributed 3.0 percentage points to the inflation rate by the end of 2021.
- For February 2022, the Federal Reserve balance sheet includes \$8.9 trillion in "reserve bank credit" which determines the monetary base. In February 2020, the level was \$4.1 trillion. The Fed recently detailed plans to shrink the balance sheet by \$95 billion per month starting in May.
- China continues its zero-COVID policy and has effectively shut down certain major industrial centers.

A key factor that will determine the pace of inflation deceleration and likelihood of recession is how entrenched inflation has become in the economy and expectations. To provide insight, economists look to the labor market and wage growth. For Pennsylvania, data suggest that inflation is now affecting year-over-year (YOY) wage growth (see graph). From 2020 Q2 to 2021 Q1, average wage growth appeared very high due to the disproportionate contraction of lower-wage workers. The latest three quarters of data show that average wages are growing at a rate similar to the CPI-U. Because labor costs comprise a large portion of total costs across all sectors, this outcome makes it more likely that a slowdown may be necessary to reduce inflation. Some analysts project a "growth recession," where the economy does not contract, but expands only at a modest rate.

YOY Growth Philadelphia CPI-U and PA Average Wage



Source: U.S. Bureau of Labor Statistics. Average Wage growth based on withholding data.

Pennsylvania Economic Indicators

<u>Monthly Data</u>	<u>Nov-21</u>	<u>Dec-21</u>	<u>Jan-22</u>	<u>Feb-22</u>	<u>Mar-22</u>
Unemployment Rate ¹	5.5%	5.5%	5.4%	5.1%	n.a.
Net Job Gains (000s) ²	188.8	231.5	215.1	224.1	n.a.
Avg. Gasoline Price ³	\$3.49	\$3.44	\$3.42	\$3.63	\$4.26
CPI-U All Items ⁴	6.1%	6.6%	7.0%	7.3%	n.a.
Natural Gas Price ⁵	\$4.50	\$2.95	\$3.83	\$4.26	\$4.01
Number of Home Sales ⁶	0.0%	-1.4%	6.8%	-11.5%	n.a.
PA Turnpike Traffic (cars) ⁷	53.9%	32.8%	5.8%	n.a.	n.a.
PA Turnpike Traffic (commercial) ⁷	9.0%	6.6%	1.4%	n.a.	n.a.
<u>Quarterly Data</u>	<u>2020.4</u>	<u>2021.1</u>	<u>2021.2</u>	<u>2021.3</u>	<u>2021.4</u>
Gross Domestic Product ⁸	5.2%	2.7%	4.7%	2.4%	6.4%
Personal Income ⁹	4.5%	15.6%	-1.1%	2.2%	5.4%
Wages and Salaries ¹⁰	1.9%	1.0%	12.6%	9.5%	8.0%
FHFA House Price Index ¹¹	11.2%	12.3%	16.5%	14.8%	13.4%

United States Economic Indicators

<u>Monthly Data</u>	<u>Nov-21</u>	<u>Dec-21</u>	<u>Jan-22</u>	<u>Feb-22</u>	<u>Mar-22</u>
Unemployment Rate ¹	4.2%	3.9%	4.0%	3.8%	3.6%
Number of Home Sales ⁶	2.3%	-3.8%	6.6%	-7.2%	n.a.
S&P 500 ¹²	26.1%	26.9%	21.6%	14.8%	14.0%
10-Year Note ¹³	1.44	1.51	1.78	1.84	2.33
<u>Quarterly Data</u>	<u>2020.4</u>	<u>2021.1</u>	<u>2021.2</u>	<u>2021.3</u>	<u>2021.4</u>
Gross Domestic Product ⁸	4.5%	6.3%	6.7%	2.3%	6.9%
Personal Income ⁹	4.8%	16.1%	1.6%	5.3%	7.2%
Wages and Salaries ¹⁰	3.4%	2.9%	13.4%	11.4%	10.0%
Corporate Profits ¹⁴	2.6%	23.3%	53.8%	21.4%	23.5%

Sources and Notes:

1. Source: U.S. Bureau of Labor Statistics- Survey of Households.
2. Year-over-year increase in payroll employment. Source: U.S. Bureau of Labor Statistics- Survey of Establishments.
3. Average price for one gallon of regular gasoline. Source: U.S. Energy Information Administration.
4. Annual change in average price level for U.S. and PA-NJ-DE-MD. Source: U.S. Bureau of Labor Statistics.
5. Price is weighted average from major Pennsylvania gas hubs. Unit is dollars per MMBtu. Source: Bentek Energy.
6. Seasonally Adjusted Annual Rate. Pennsylvania figures represent northeast region. Source: National Association of Realtors.
7. Year-over-year growth rate of monthly traffic counts based on entry data. Source: Pennsylvania Turnpike.
8. The quarterly, annualized real growth rate of the economy. Excludes inflation. Source: U.S. Bureau of Economic Analysis.
9. Year-over-year growth rate of personal income. Source: U.S. Bureau of Economic Analysis.
10. Year-over-year growth rate of wages and salaries paid to all payroll employees. Source: U.S. Bureau of Economic Analysis.
11. Source: Federal Housing Finance Agency.
12. Year-over-year growth rate of S&P 500 closing price. Data as of the first of the month. Source: Yahoo! Finance.
13. Source: Yahoo! Finance.
14. Year-over-year growth rate, domestic profits only. Source: U.S. Bureau of Economic Analysis.