



THE US ECONOMY AND FLYING: WHY FED CAN'T ENGAGE THE AUTOPILOT

Central States Conference

Your presenter



Brandon Koeser

Financial Services Industry Senior Analyst

Brandon is a senior analyst in RSM's cutting-edge Industry Eminence Program, positioning him to understand, forecast and communicate economic, business and technology trends shaping the industries RSM serves. Brandon's focus is on advising financial institution and capital markets leaders and clients on business conditions, industry trends and regulatory developments influencing their ecosystems across North America.

[in www.linkedin.com/in/brandon-koeser/](https://www.linkedin.com/in/brandon-koeser/)

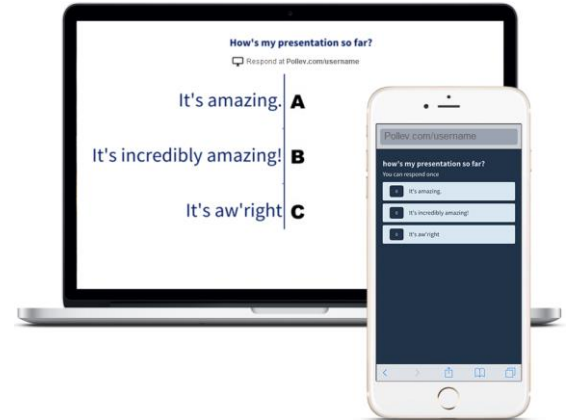
[✉ Brandon.Koeser@rsmus.com](mailto:Brandon.Koeser@rsmus.com)

Poll Everywhere

Enter the address below into your web browser on your phone, tablet or laptop.

www.pollevo.com/rsm23

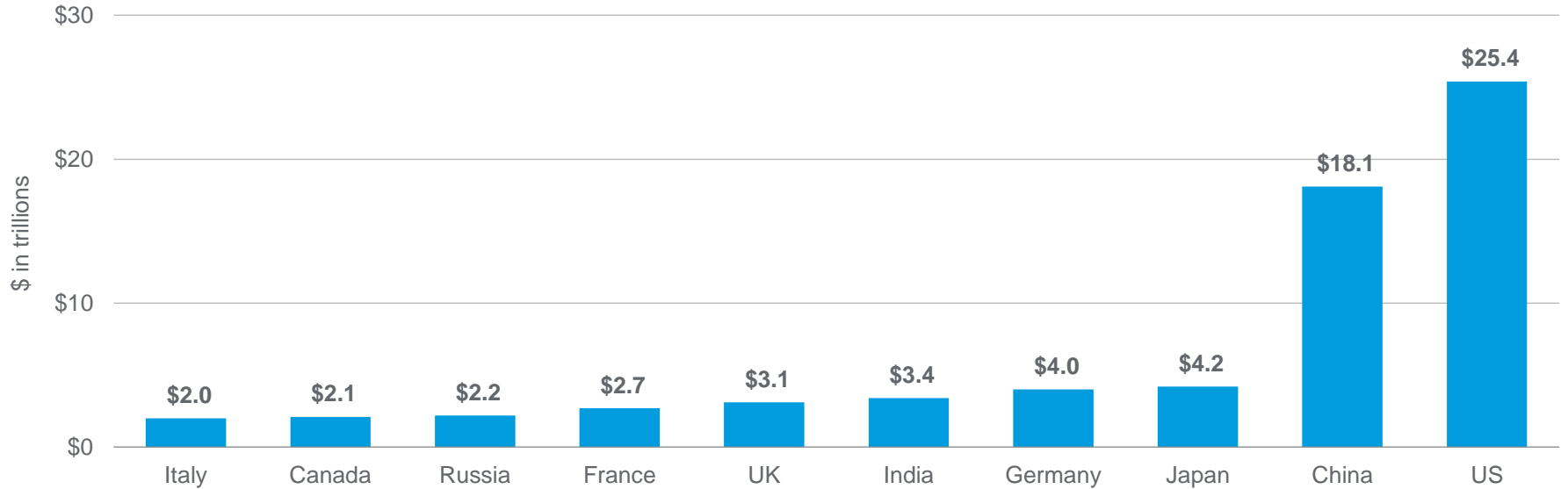
Or text **RSM23** to **22333** to join the session and text your answer.



Poll Tip: If submitting multiple words, use a **hyphen**. For example, **interest-rates**.

US economy leads the pack

10 largest economies
Measured by 2021 gross domestic product



Source: World Bank

The Fed's job: Fly the **biggest** airplane but with no autopilot



Refresher on the Fed structure



Source: Federal Reserve

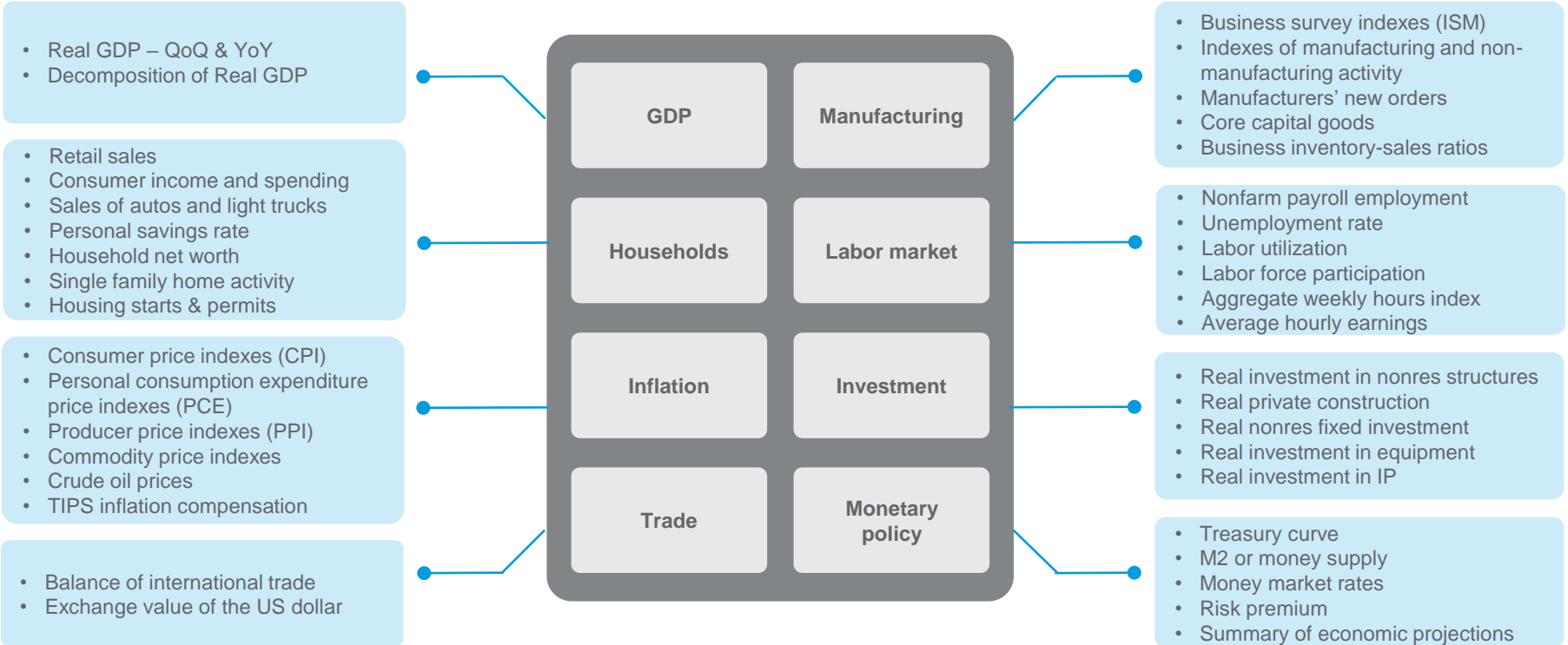
FOMC at a glance

Fed Spectrometer: A Summary of FOMC Participants' Policy Inclinations			
2023 FOMC Voting Members		[-2 = dovish/ 0 = neutral/ +2 = hawkish(1)]	
Board of Governors		Alternate Voters(2)	
Jerome Powell, Chair	+1	Sushmita Shukla, First VP of FRB New York	N/A
Philip Jefferson, Vice Chair of Board of Governors (3)	0	Loretta Mester, Cleveland	+1
Michael Barr, Vice Chair for Supervision	-1	Thomas Barkin, Richmond	0
Michelle Bowman, Governor	+2	Raphael Bostic, Atlanta	-1
Christopher Waller, Governor	+1	Mary Daly, San Francisco	-1
Lisa Cook, Governor	-1		
Adriana Kugler, Governor (3)	-2		
Voting Regional FRB Presidents		Non-Voters	
John Williams, Vice Chair of FOMC, New York	0	James Bullard, St. Louis	+2
Austan Goolsbee, Chicago	-2	Kelly Dubbert, Interim President of Kansas City Fed	+1
Patrick Harker, Philadelphia	0	Susan Collins, Boston	0
Neel Kashkari, Minneapolis	+2		
Lorie Logan, Dallas	0		

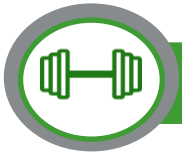
(1) Numerical ratings are subjective assessments of Bloomberg's U.S. Economics team based on recent public comments.
 (2) Alternate Voters are non-voting unless required to vote in the absence of a voting member.
 (3) Nominated to be confirmed by Senate.

Source: Bloomberg

Fed's preferred national economic indicators



Distinguishing the types of data and relative importance



Hard data

Data that is tracked and produced by government agencies, which support improvements in the economy feeding into economic growth. Examples include:

- Real gross domestic product
- Consumer price index
- Personal consumption expenditure price indexes
- Producer price indexes
- Nonfarm payroll employment
- Unemployment rate
- Retail sales



Soft data

Data is representative of business, consumer confidence and sentiment surveys, financial market variables, and labor statistics. Examples include:

- RSM Middle Market Business Index
- ISM Manufacturing Survey
- NFIB Small Business Optimism Index
- NAHB Housing Market Index
- U. of Mich. Sentiment Index
- S&P Global Services PMI Index

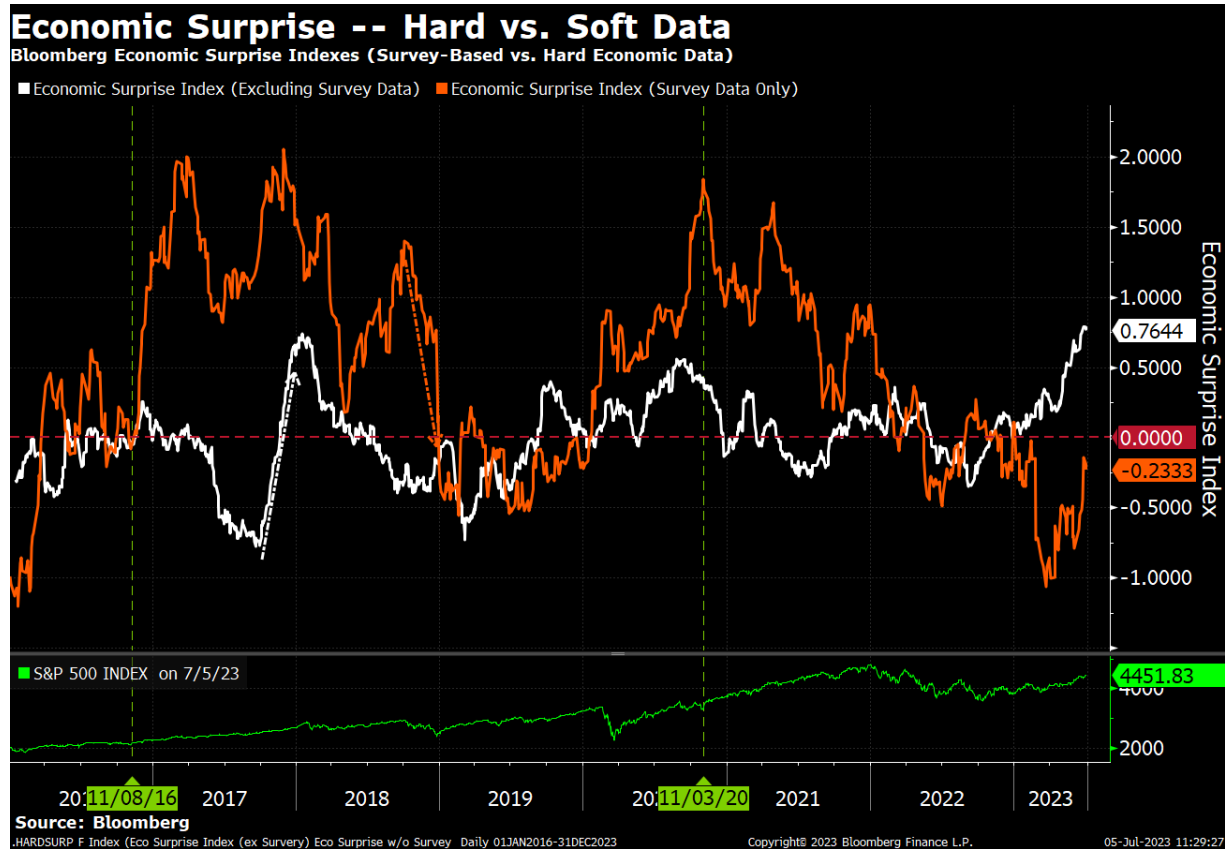
The Fed doesn't ignore high frequency data

			31-Mar	7-Apr	14-Apr	21-Apr	28-Apr	5-May	12-May	19-May	26-May	2-Jun	9-Jun	16-Jun	23-Jun	30-Jun
Labor Market	Jobless Claims ^{1M}		228	240	246	229	242	231	225	230	233	262	264	265	239	
	Job Posting - New ^{1M}		48	55	47	50	54	55	55	48	52	50	55	48	41	
Consumer Demand	Airline Passengers ^{1M}		2332	2343	2318	2364	2321	2290	2361	2420	2503	2377	2470	2567	2603	2634
	Gasoline Demand ^{1M}		10155	9720	9462	10246	9460	10063	9838	10147	10049	10206	10150	10233	10173	
	Mortgage Applications ^{1M}		-41	-37	-43	-40	-42	-39	-42	-44	-46	-46	-42	-42	-40	
	Consumer Comfort ^{1M}															
	Johnson Redbook Same Store Sales ^{1M}		3	2	1	2	1	1	2	2	1	1	1	1	1	
	Credit Card Transactions ^{1M}		6	6	6	6	9	8	7	8	7	8	11	10	11	
Industrial Demand	Restaurant Bookings ^{1M}		-2	-1	-3	-9	-4	-6	-11	11	-2	-3	-5	-4	-3	-3
	Oil Rigs ^{1M}		-11	-11	-12	-11	-11	-12	-12	-13	-14	-16	-16	-17	-18	-18
	Steel Production ^{1M}		-12	-13	-12	-12	-11	-10	-10	-10	-10	-8	-9	-9	-8	
	Internet Truckstop ^{1M}		2	-1	-6	-1	4	-2	-5	23	12	12	6	1	-3	
Sentiment	Railroads Freight Carloads ^{1M}		-6.8	-7.2	-7.5	-7.6	-7.8	-8.0	-8.3	-8.5	-8.8	-8.9	-9.1	-9.3	-9.4	
	Economic Sentiment ^{1M}		-0.32	-0.26	-0.20	-0.18	-0.21	-0.27	-0.34	-0.35	-0.38	-0.41	-0.37	-0.27	-0.24	
Banking Turmoil	Bank Loans ^{1M}		-18.3	7.7	-4.2	13.8	28.3	-5.3	2.8	7.3	0.4	0.2	-35.8	23.5	9.7	
	Bank Deposits ^{1M}		-40.6	4.6	-61.6	23.7	-28.0	15.1	-17.0	16.9	53.7	30.2	-56.7	21.2	47.0	
	Bank Borrowing at the Discount Window & BTFP ^{1M}		-11.4	-3.8	-9.3	4.4	11.3	-74.1	11.3	3.6	0.1	1.5	5.7	2.3	0.4	0.3
Fin. Markets	S&P 500 ^{1M}		26	27	28	27	27	27	27	28	28	30	32	35	35	35
	Financial Cond. Index ^{1M}		-0.4	-0.4	0.0	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.3	0.3
Global	Brent Crude Oil Price		77.9	85.5	86.9	83.8	80.2	75.1	76.1	75.7	76.9	74.5	75.8	74.3	75.3	74.2
	Dollar Index ^{1M}		102.5	101.9	101.8	101.9	101.6	101.6	101.8	102.9	103.8	104.1	103.8	102.9	102.5	102.9

Notes: 1. Jobless claims are in thousands. 2. Job Postings are from Indeed.com, data vs. 2019 % gap in trend indexed to Feb 1, 2020 -- ([https://github.com/hiring-lab/data]) 3. Airline passengers are in thousands. 3a. DOE Motor Gasoline Implied Demand. 4. Mortgage applications are percent changes from the average of the first two weeks in January 2020. 5. Redbook sales (%YoY) 5a. Card Transactions (4-week moving average, [https://www.bea.gov/data/special-topics/near-real-time-spending]) 6. Restaurant bookings (%YoY vs. 2019) from OpenTable; 9, 10. Oil rigs, steel production and S&P 500 are percent changes from the average of the first two weeks in January 2020. 9. Truckstop.com 10. Association of American Railroads; US Freight Carloads (52-week moving average) 11. Daily New's Sentiment Index from San Francisco Fed. 12, 13, 14 H8 (week over the previous level week change). 16. Bloomberg Financial Conditions Index. 17. The Bloomberg Dollar Spot Index tracks the performance of a basket of ten leading global currencies versus the U.S. Dollar.

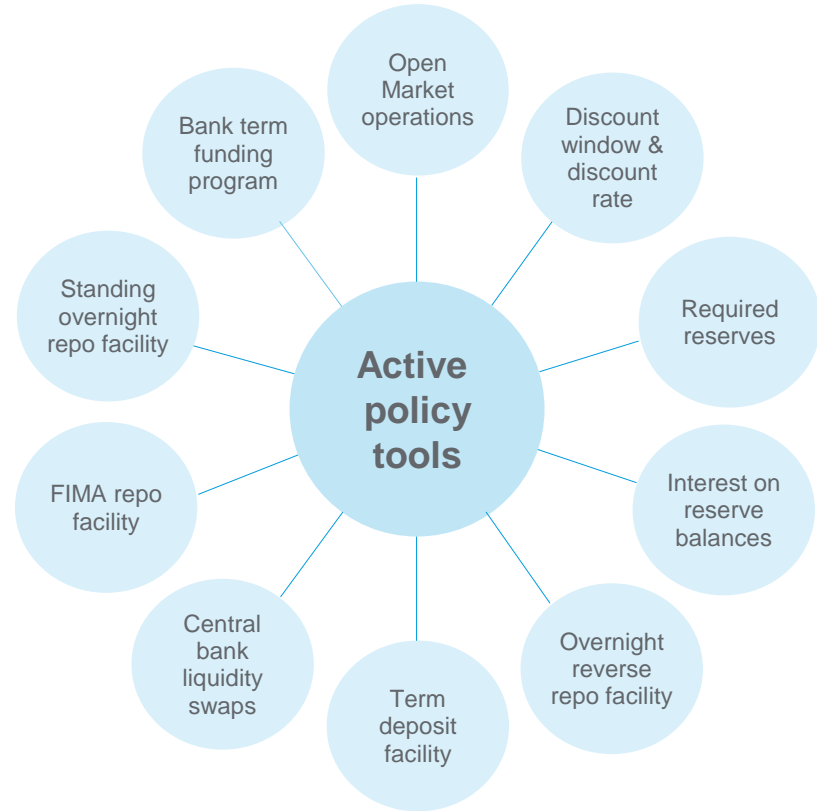
Source: Bloomberg, RSM US

Decision making when the data is conflicting



The Fed's open mouth operations and toolbelt

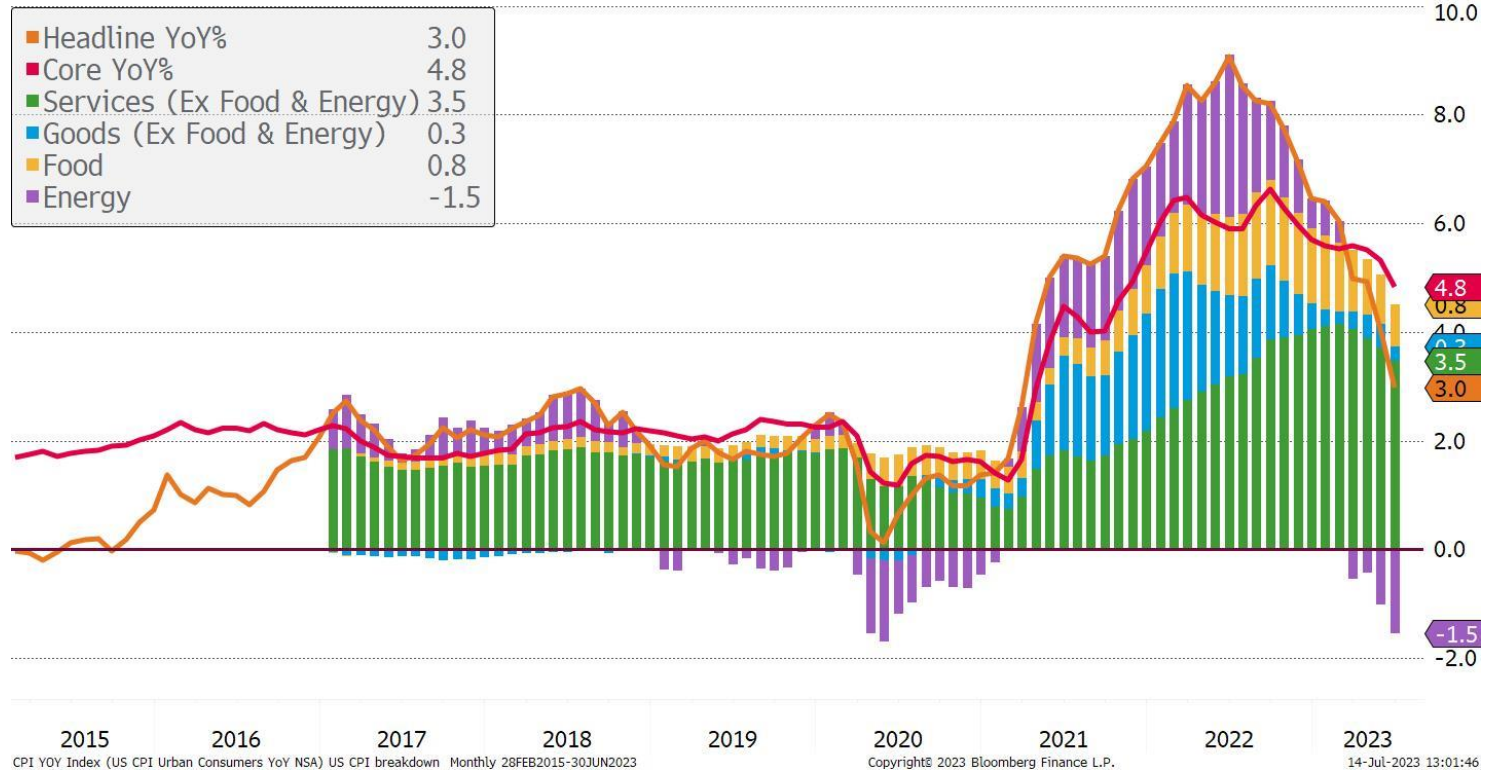
Fed speak



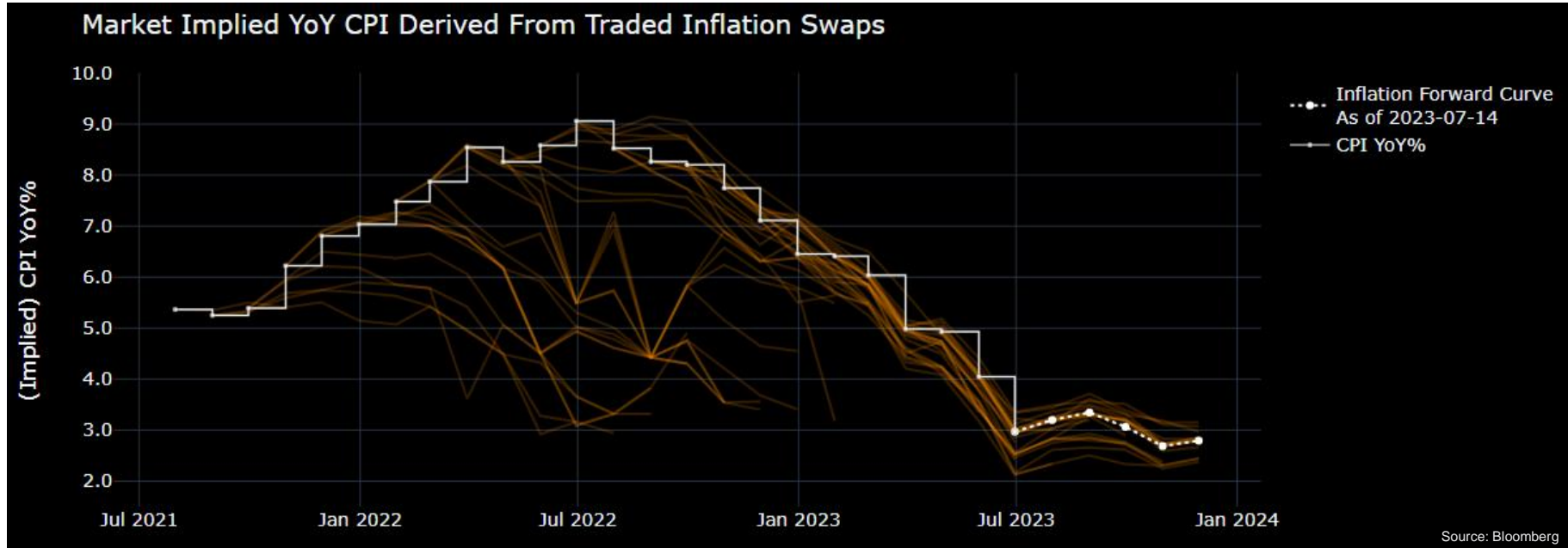


THE DATA DRIVING MONETARY POLICY

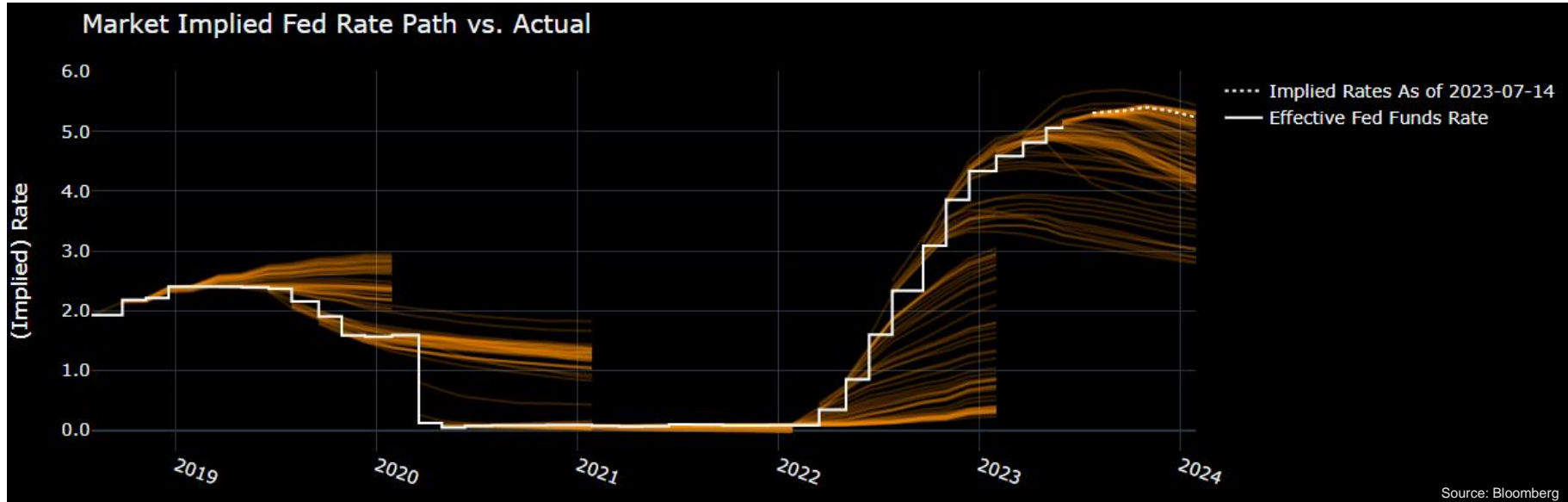
Inflation still top of mind for Fed



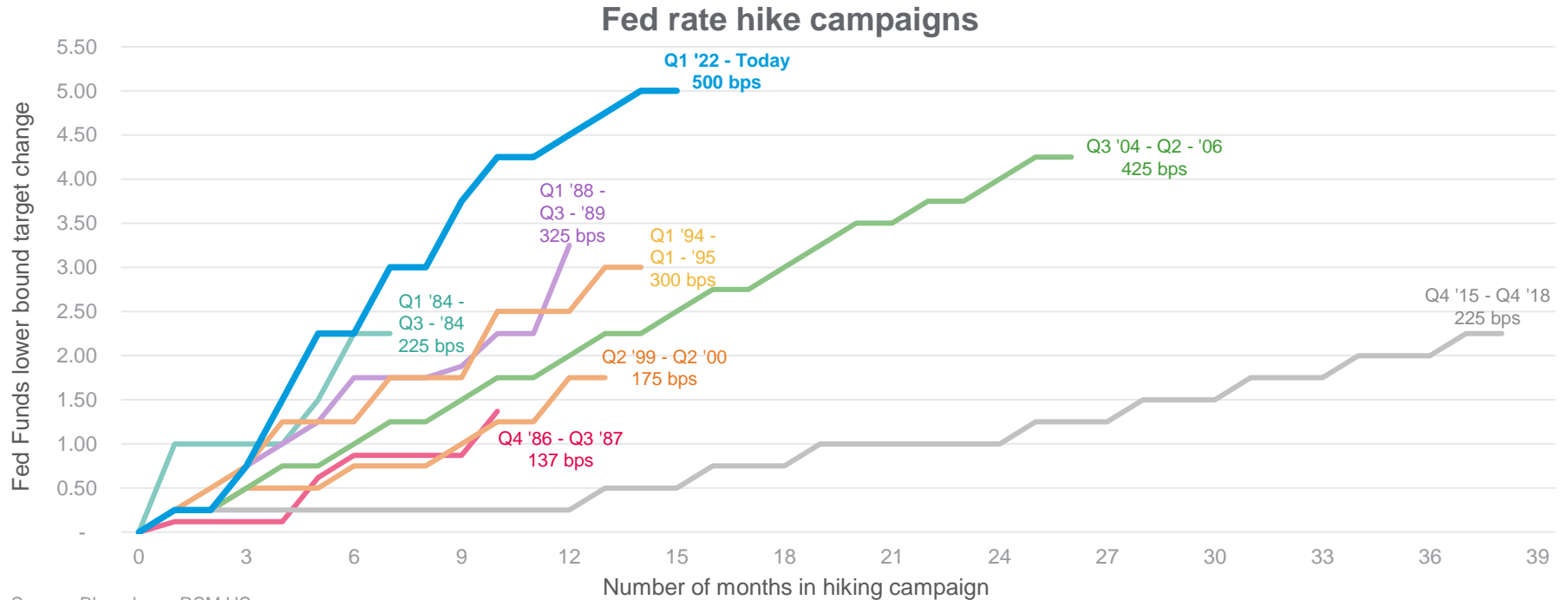
Markets see inflation continuing to fall



Markets *now* believe Fed's higher for longer message



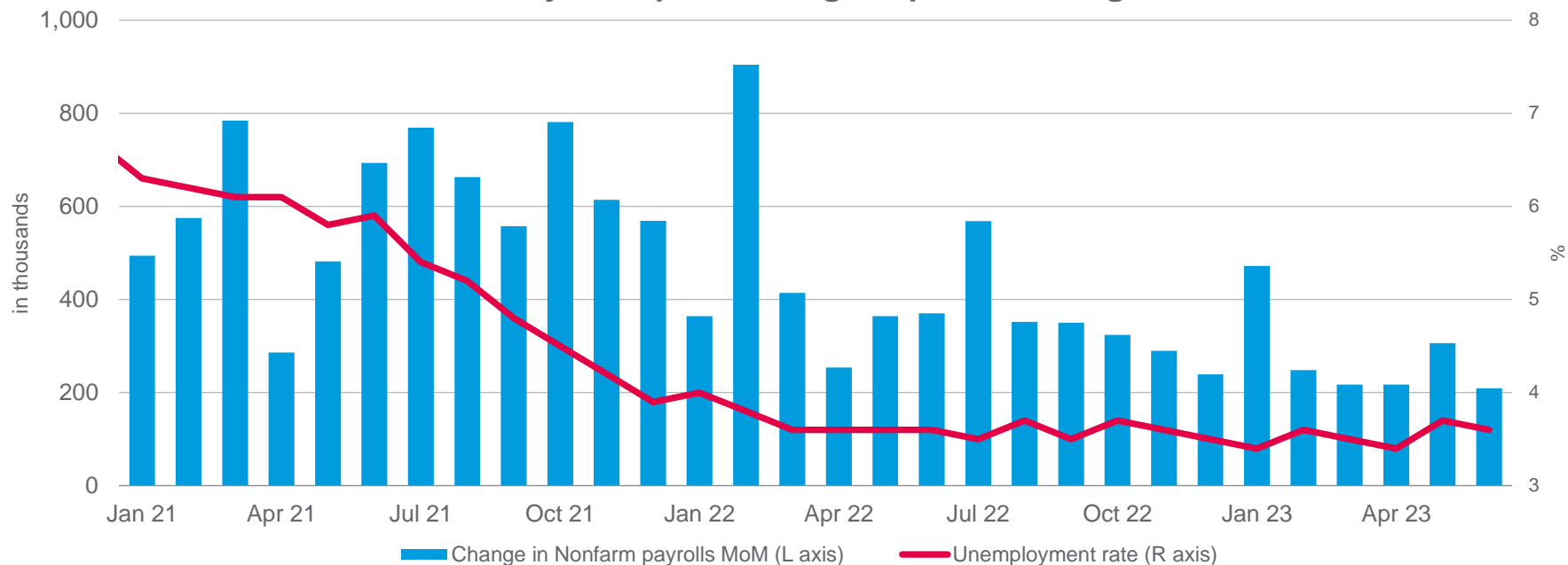
The meteoric rise in short term rates



Source: Bloomberg, RSM US

Labor market remains resilient

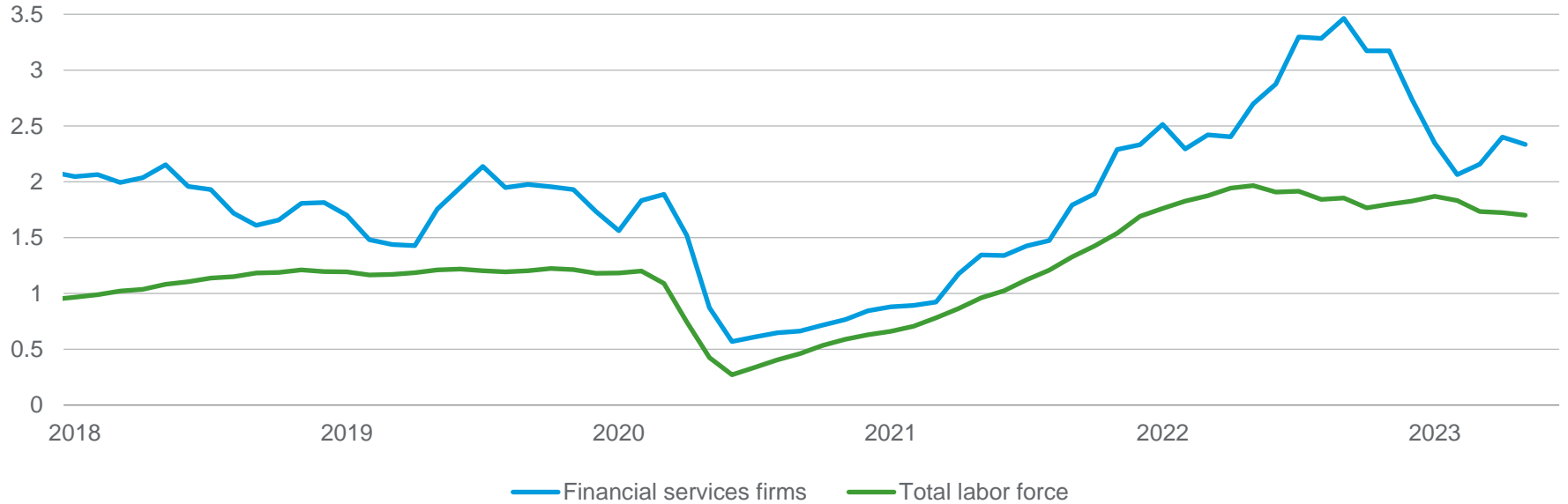
June jobs report: strong despite softening



Source: BLS, RSM US

Plenty of jobs for every unemployed person

Job openings to unemployed workers ratio
Seasonally adjusted, 3 month moving average

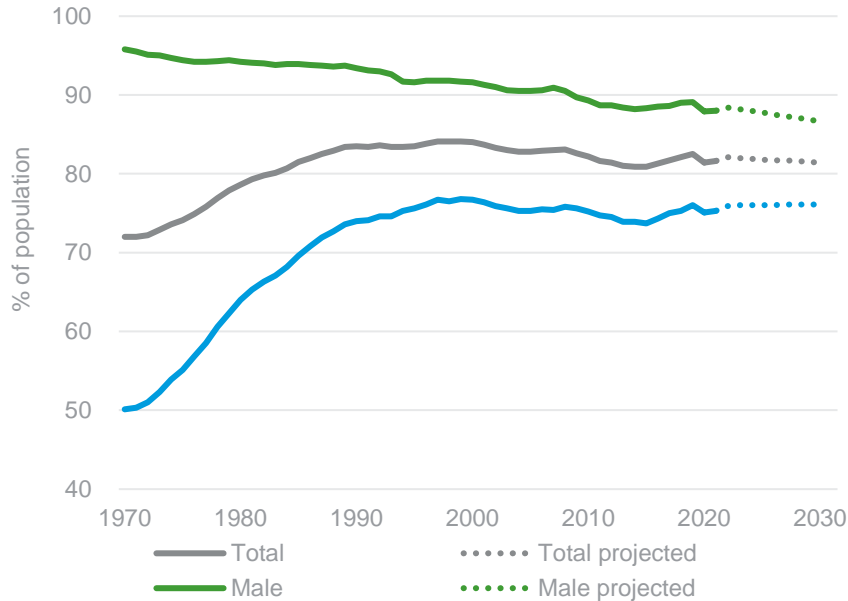


Source: BLS, RSM US

Smaller workforce to drive innovation, M&A

Labor force participation: prime-age population

1970 - 2021 actual and 2022 - 2031 projected



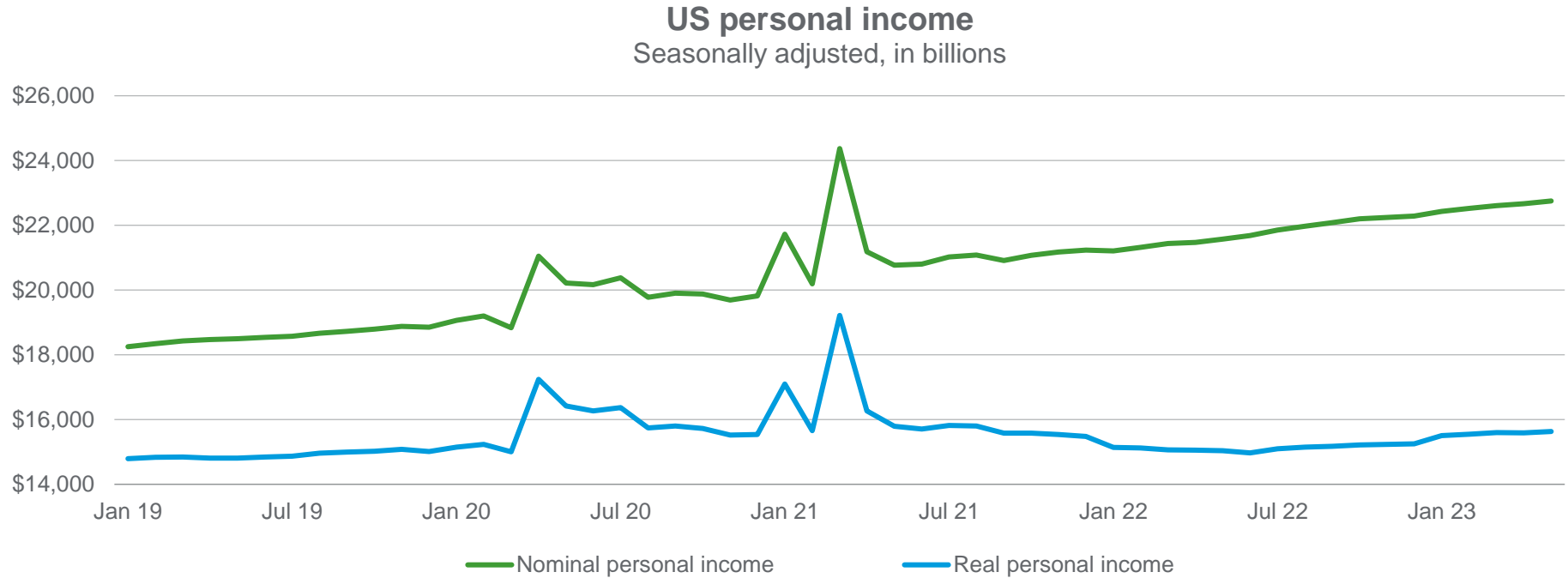
Source: BLS, RSM US

Labor force participation: 55 and older



Source: BLS, RSM US

Personal income: inflation takes a bite

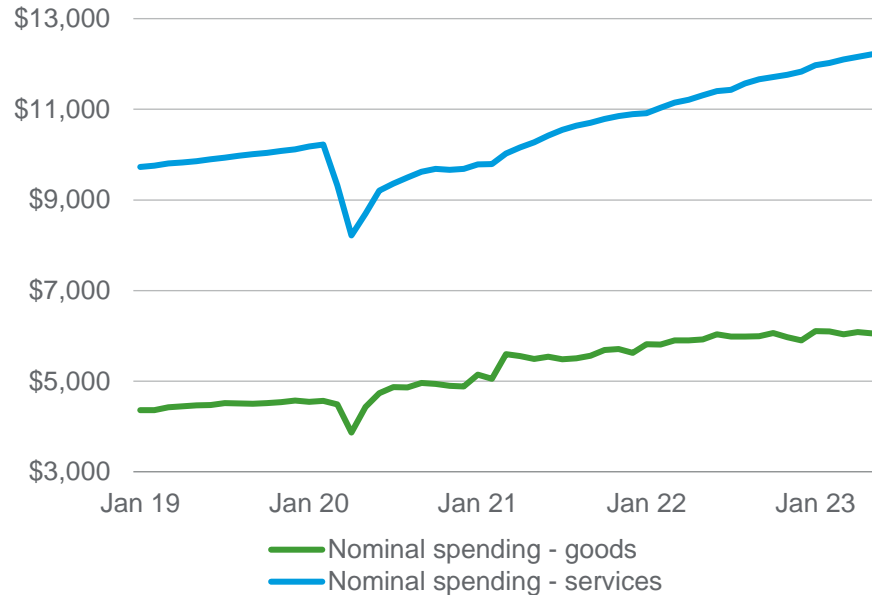


Source: BEA, RSM US

Personal spending: More is not more

US personal spending

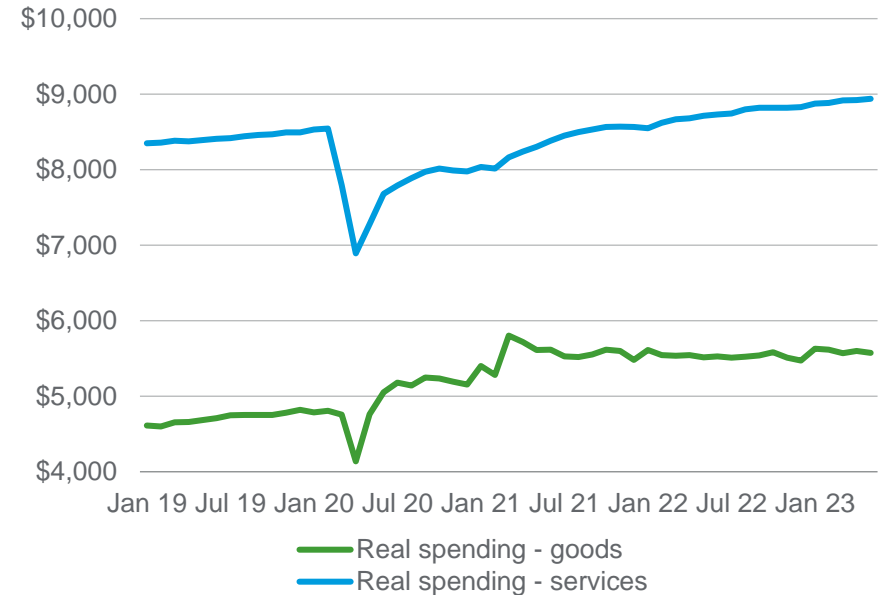
Nominal values, seasonally adjusted, in billions



Source: BEA, RSM US

US personal spending

Real values, seasonally adjusted, in billions

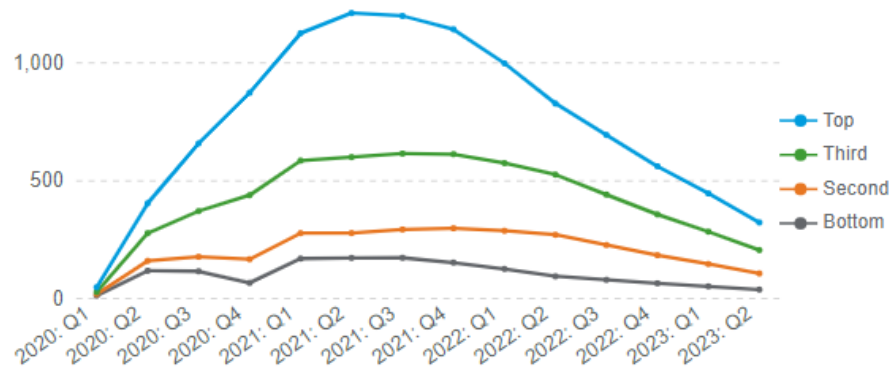


Source: BEA, RSM US

Excess savings falling

Excess savings by income quartile

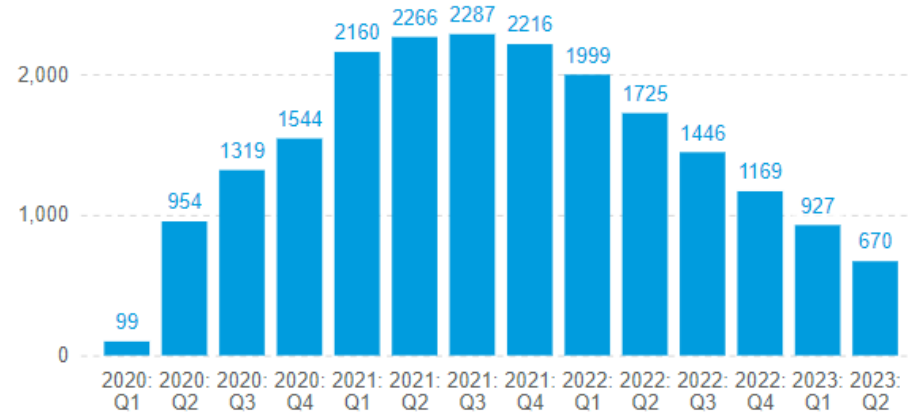
\$ billions; assuming constant change rates



Source: BEA, RSM US

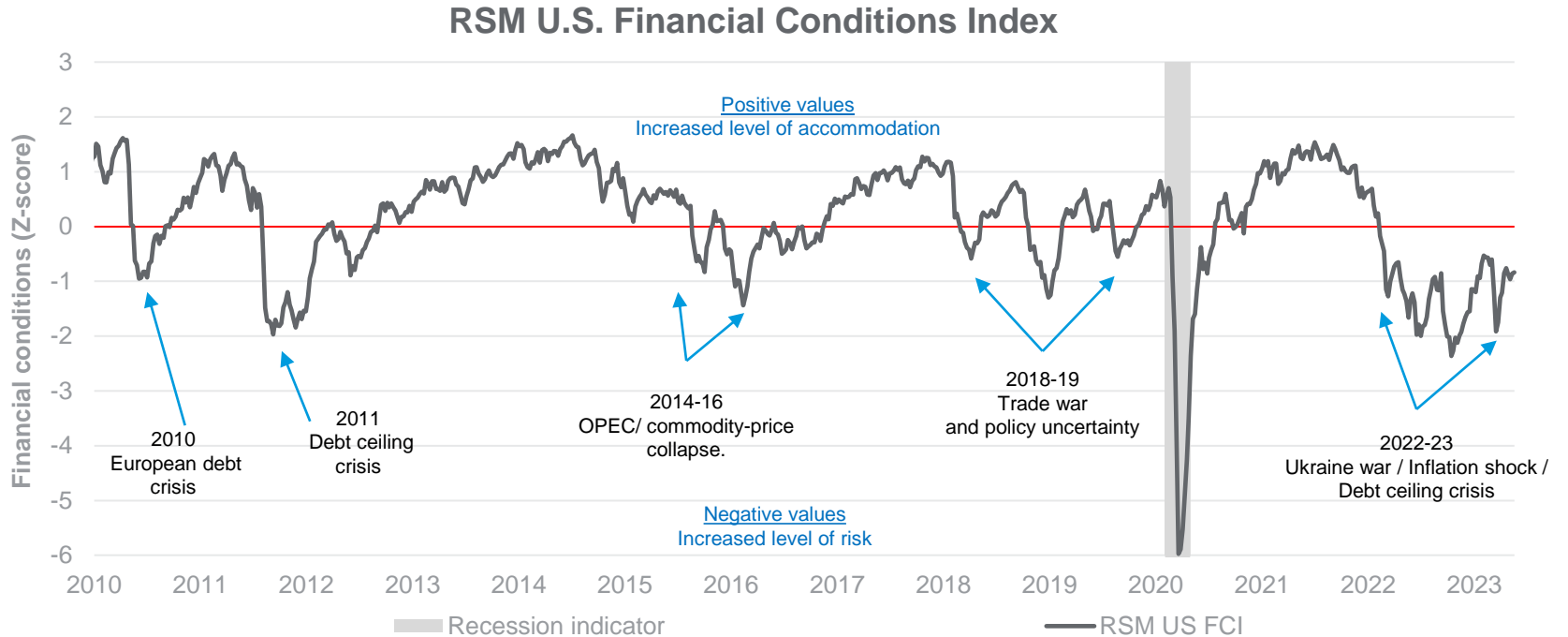
Total excess savings

\$ billions



Source: BEA, RSM US

Financial conditions remain tight against economic outlook

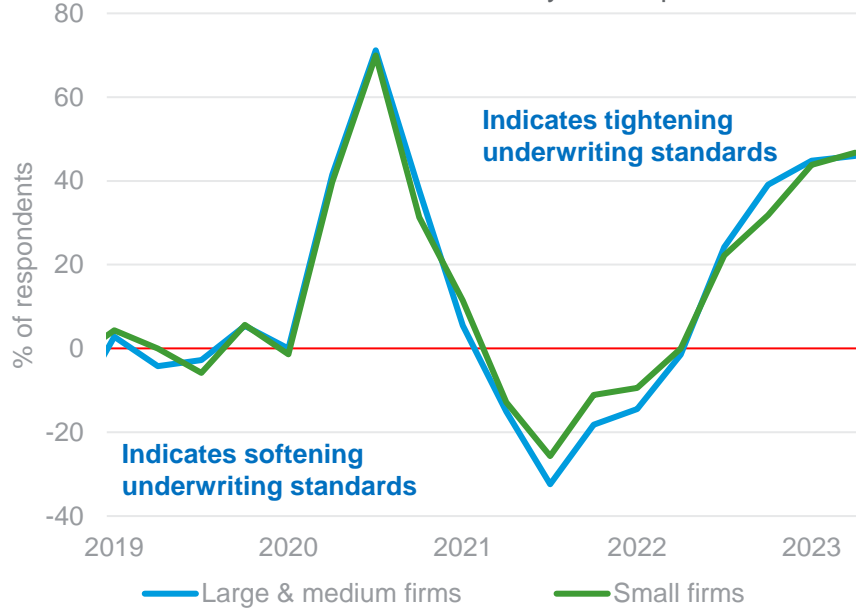


Source: Bloomberg; RSM US calculations

Credit standards tightening

C&I loan lending standards

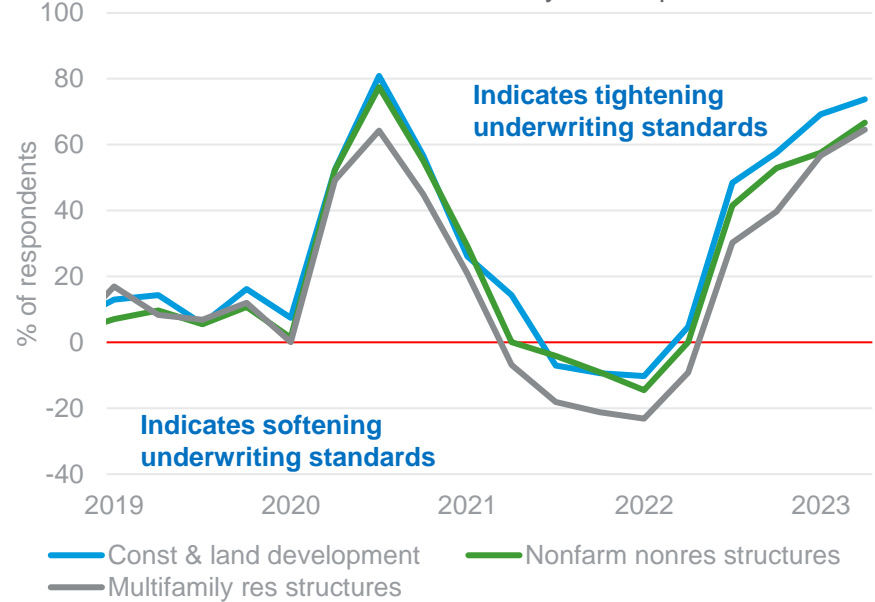
Fed Senior Loan Officer Survey as of April 2023



Source: Federal Reserve Bank, RSM US

CRE loan lending standards

Fed Senior Loan Officer Survey as of April 2023



Source: Federal Reserve Bank, RSM US

US economy: The slowdown, stubborn inflation and headwinds



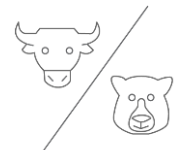
US economic growth outlook: slowdown is underway

- Continued economic growth below long-term trend between 1.5% and 1.8%
- Easy money era is over as low to no-interest rates are gone and unlikely to return soon
- Growth in real wages as inflation moderates; wages will not “reset” to pre-pandemic levels
- Productivity is key as labor force growth stalls



US inflation outlook: risk around stubborn inflation

- Despite being in a disinflationary environment, services inflation is still stubbornly sticky
- Upper end consumers spending at robust clip despite inflation
- Elevated services inflation likely to require higher policy rates absent a true crisis
- Higher long-term rates will require innovation to allay increasing costs



US Recession Outlook: Risk elevated over the next 12 months

- Economists calling for a ~65% probability of recession in the next 12 months
- Tightening credit underwriting standards and decreasing loan demand elevate risk of slowing economic output
- Resiliency or recession – end of current business cycle to impact industries differently
- Indicators pointing to ending of business cycle

THANK YOU

RSM US LLP

30 South Wacker Drive, Suite 3300
Chicago, IL 60606
312 634 3400

+00 (1) 800 274 3978
www.rsmus.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

RSM® and the RSM logo are registered trademarks of RSM International Association. The power of being understood® is a registered trademark of RSM US LLP.

© 2023 RSM US LLP. All Rights Reserved.

