

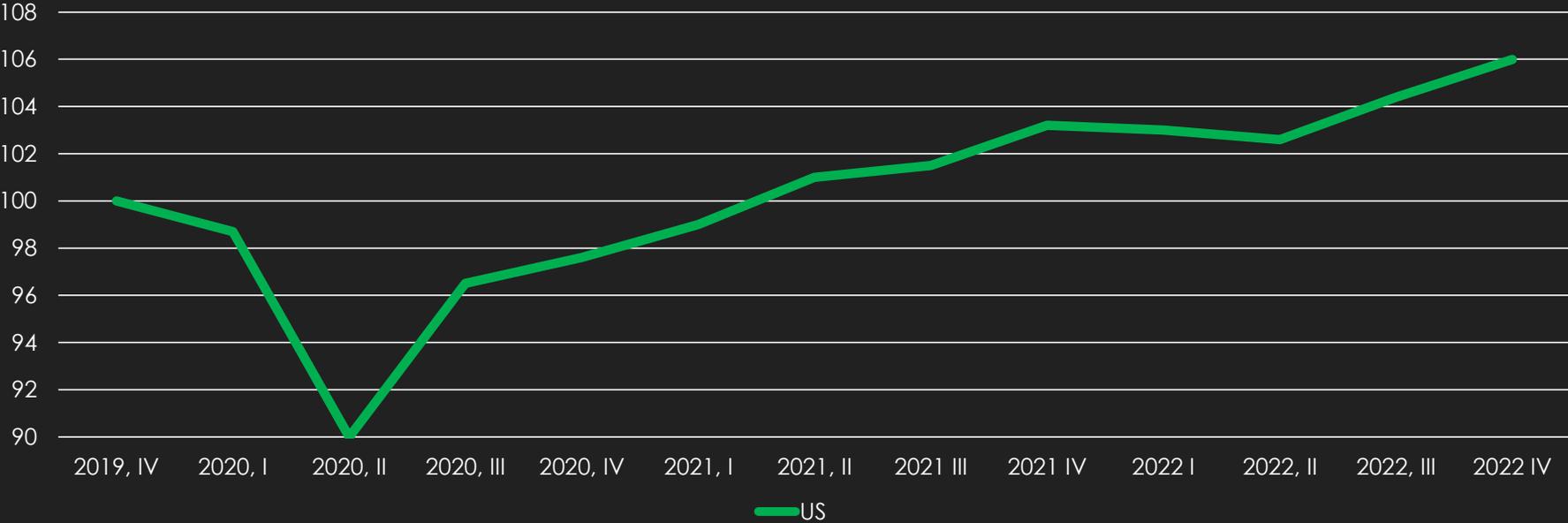
**PANDEMIC, INFLATION, LABOR SHORTAGES,
AND RECESSION, OH MY!**

WHEN WILL WE RETURN TO NORMAL?

Dr. Michael L. Walden, Reynolds Distinguished Professor Emeritus
North Carolina State University

THE ECONOMIC RECOVERY FROM THE PANDMIC CONTINUES

(QUARTERLY REAL GDP AS PERCENT OF 2019 IV REAL GDP)



FOCUS ON “BIG 3” ISSUES

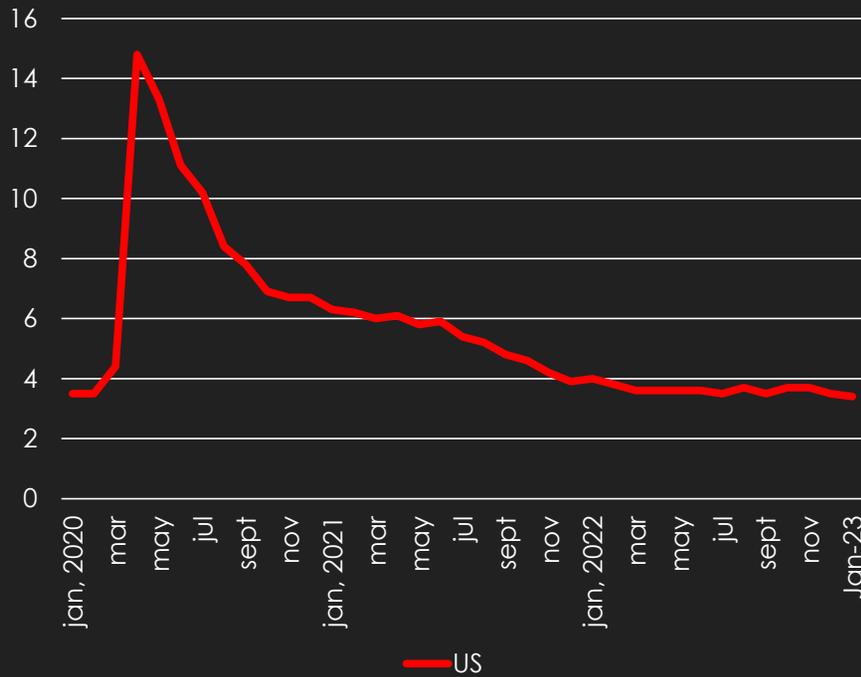
LABOR MARKET

INFLATION

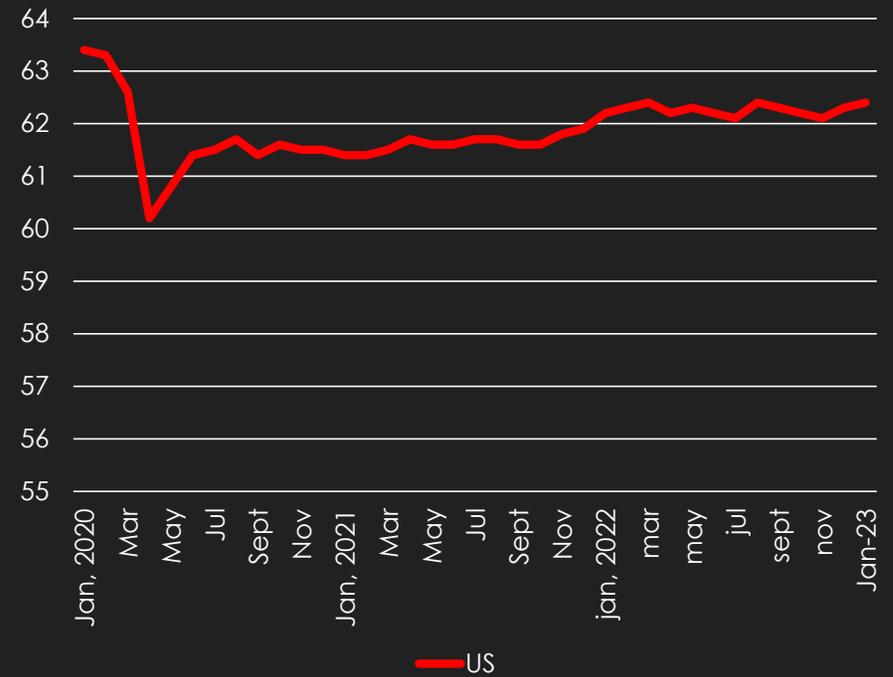
RECESSION

TWO PICTURES OF THE LABOR MARKET

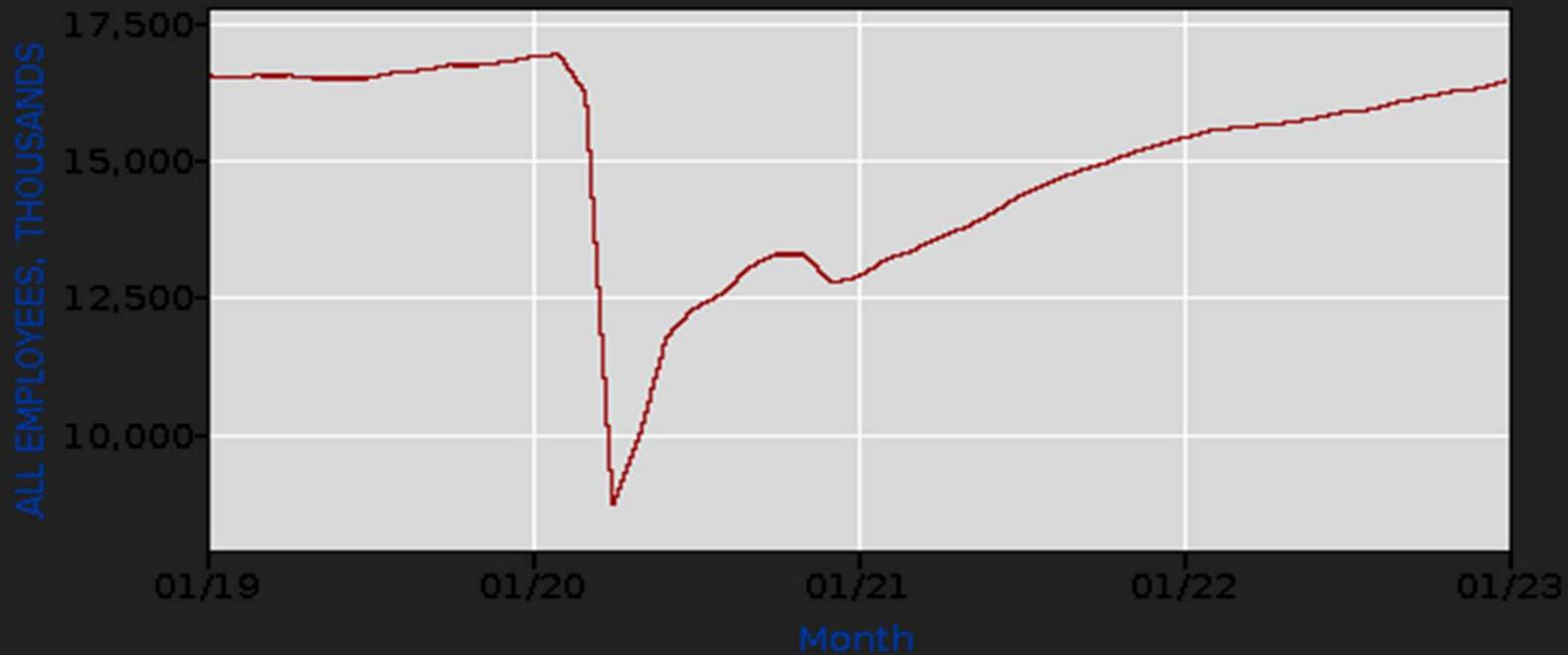
UNEMPLOYMENT RATE, %



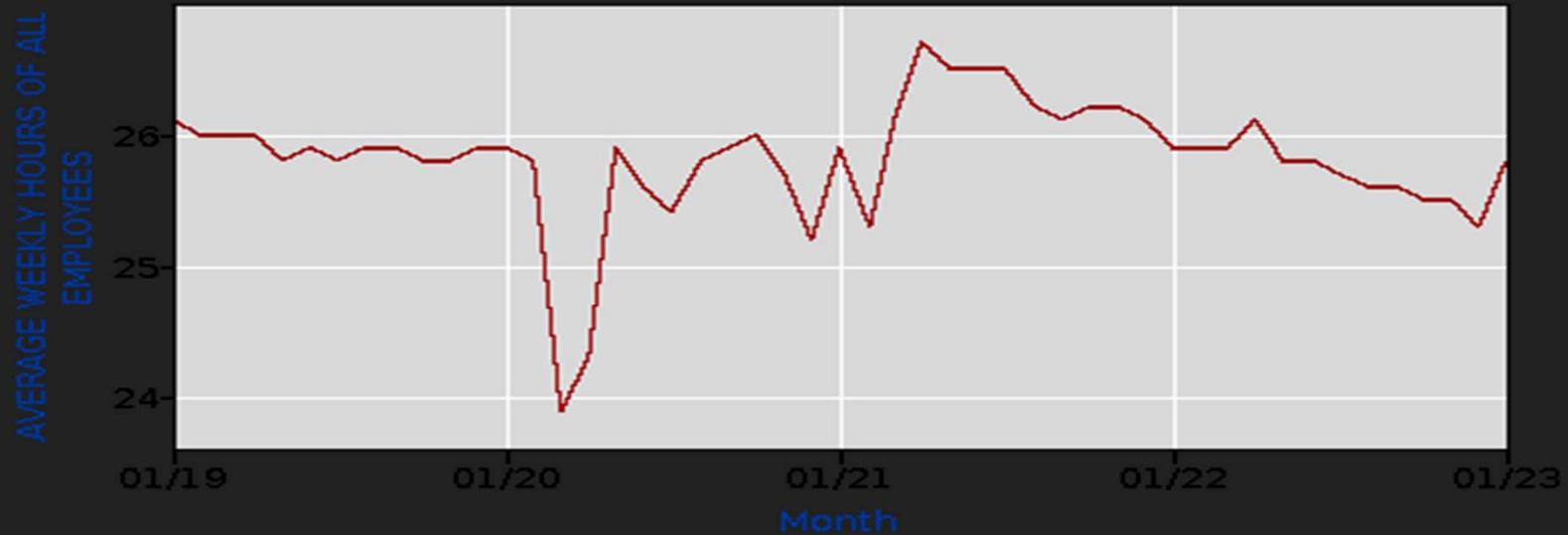
LABOR FORCE PARTICIPATION RATE



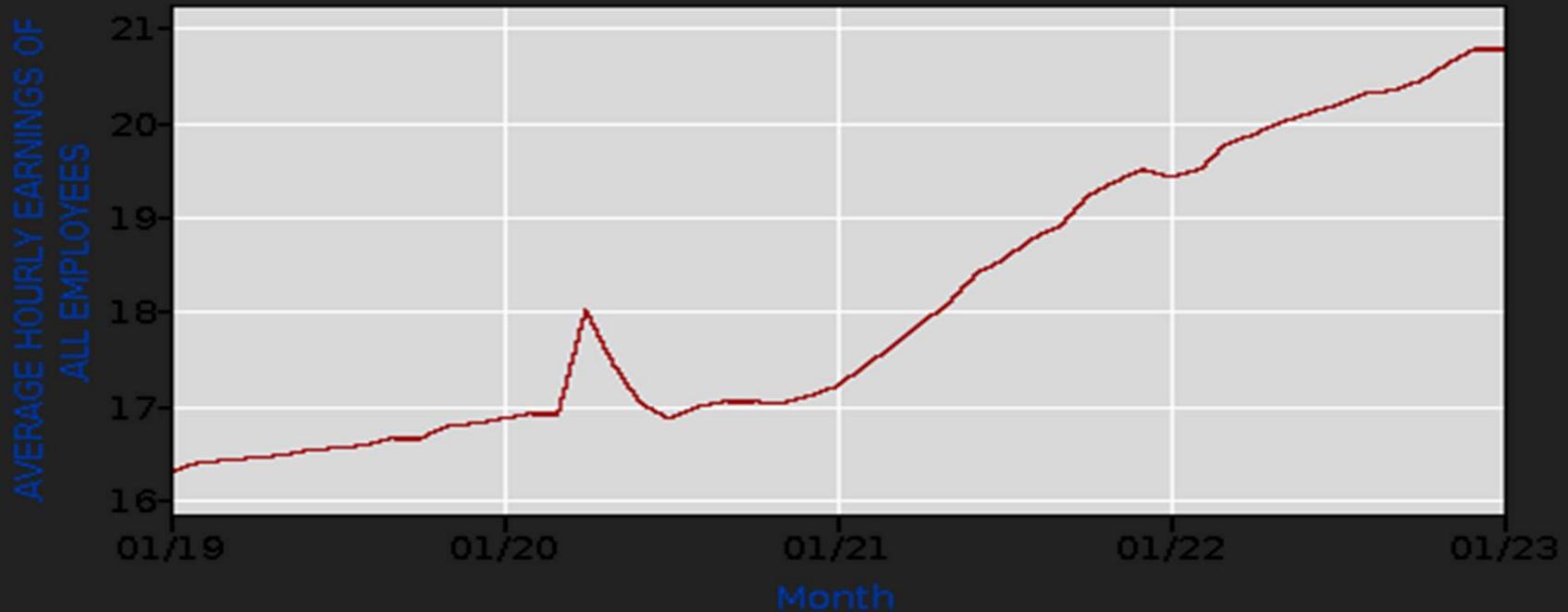
HOSPITALITY EMPLOYMENT IS SLOWLY RETURNING TO PRE-PANDEMIC LEVELS.



BUT AVERAGE HOURS WORKED PER WEEK HAS BEEN TRENDING DOWN - BUT A RECENT UPWARD TURN



PART OF THE REASON – RISING WAGE RATES, EVEN AFTER ADJUSTING FOR INFLATION



WHAT'S HOLDING BACK THE LABOR FORCE?

- * SLOW POPOULATION GROWTH
- * AGING POPULATION
- * DECLINE IN LABOR FORCE PARTICIPATION OF ELDERLY
- * DECLINE IN LABOR FORCE PARTICIPATION OF 18-24 YEAR OLDS

ALSO, A RE-ALLOCATION OF WORKERS OCCURRED

MANY WORKERS USED THE TIME AND FINANCIAL SUPPORT DURING THE PANDEMIC TO IMPROVE THEIR SKILLS AND MOVE TO HIGHER PAYING JOBS



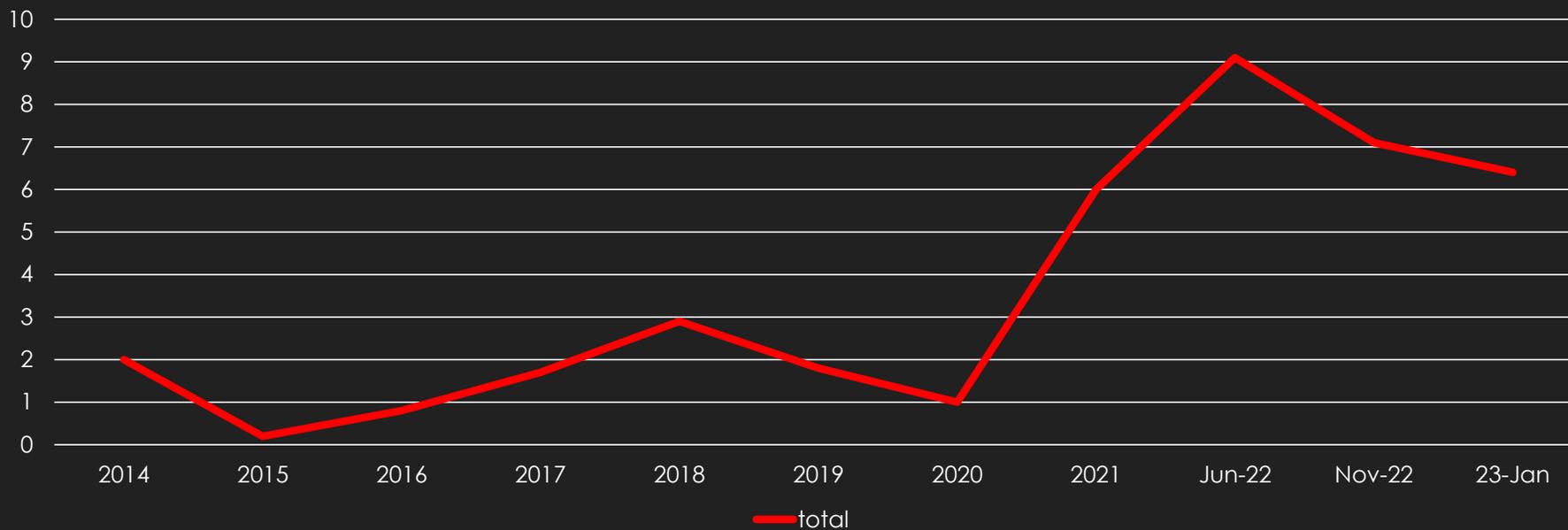
**MORE
TECHNOLOGY WILL
REPLACE WORKERS**

MCDONALD'S
RECENT TEST OF A
DIGITAL ONLY
RESTAURANT



PATH OF INFLATION: YEAR-OVER-YEAR

(% CHANGE)



WHAT INITIALLY CAUSED INFLATION?

DEMAND (BUYING) EXCEEDED
SUPPLY (PRODUCTION)

- STIMULUS PROGRAMS
- SUPPLY-CHAIN PROBLEMS



WHY HAS INFLATION RATE MODERATED?

"SUPPLY CHAIN" HAS
IMPROVED

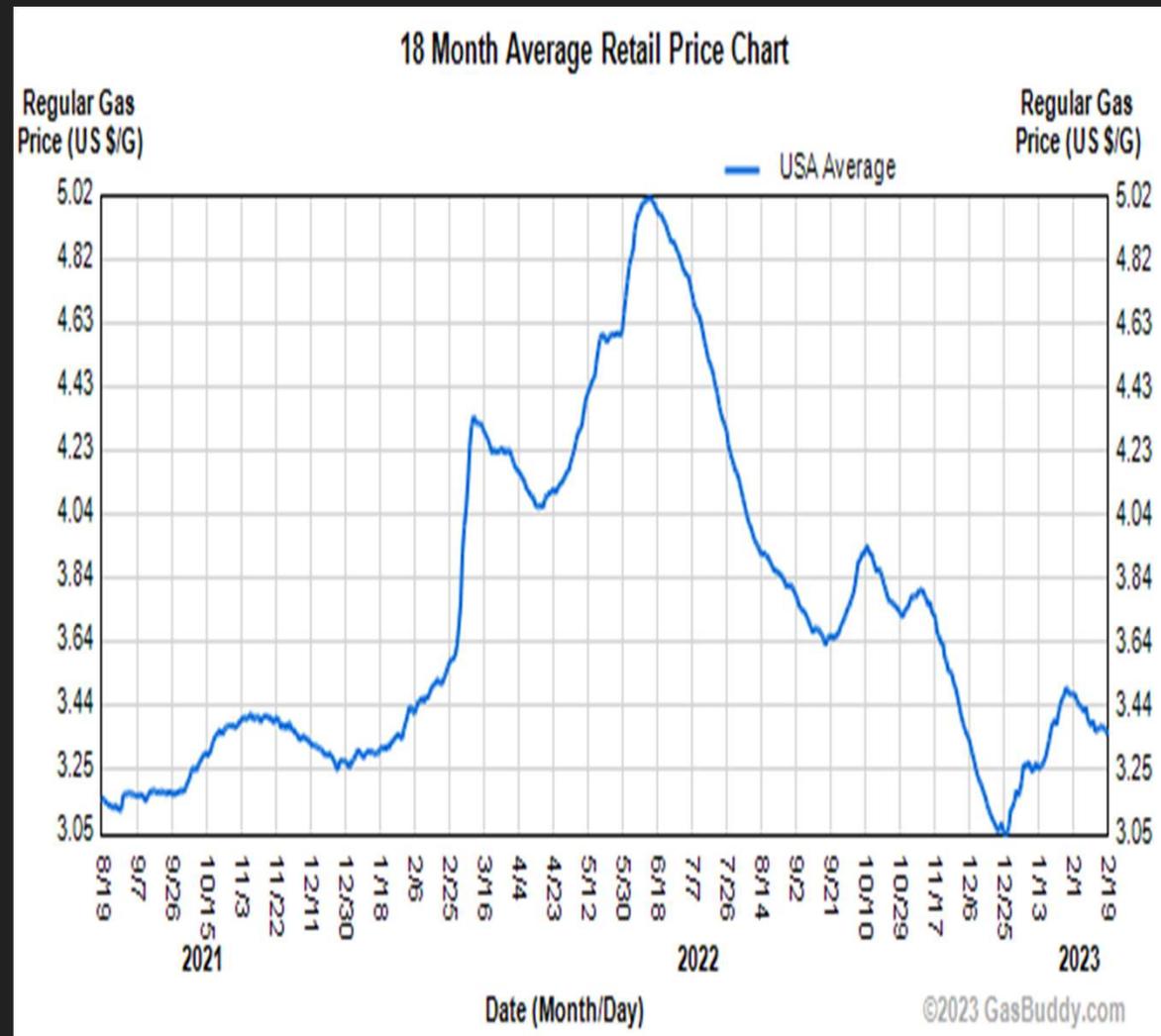


WHY HAS INFLATION RATE MODERATED?

GAS PRICES HAVE RETREATED

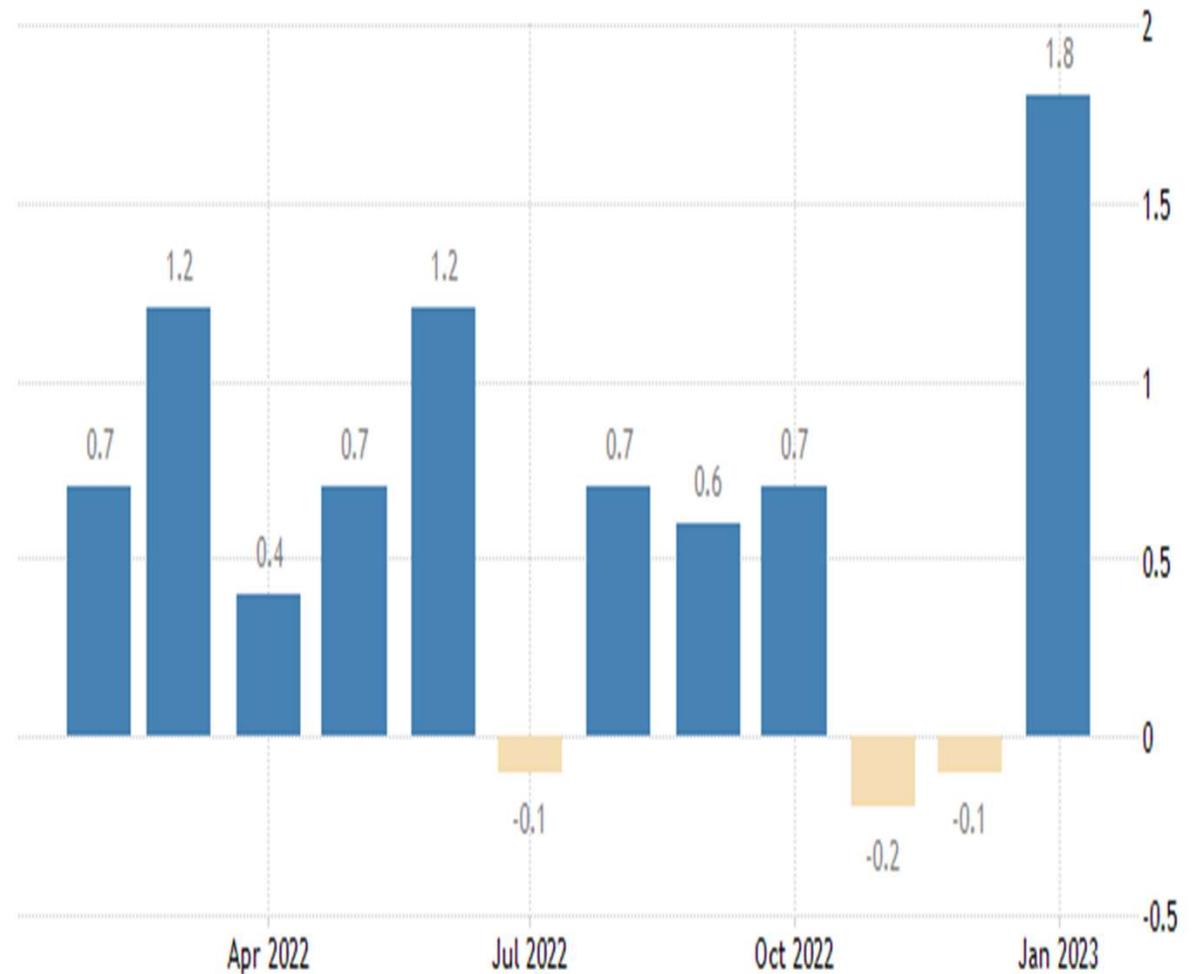
US AND WORLD PRODUCTION UP 16% SINCE THE COVID RECESSION

CHINA'S USE DOWN, BUT IS COMING BACK

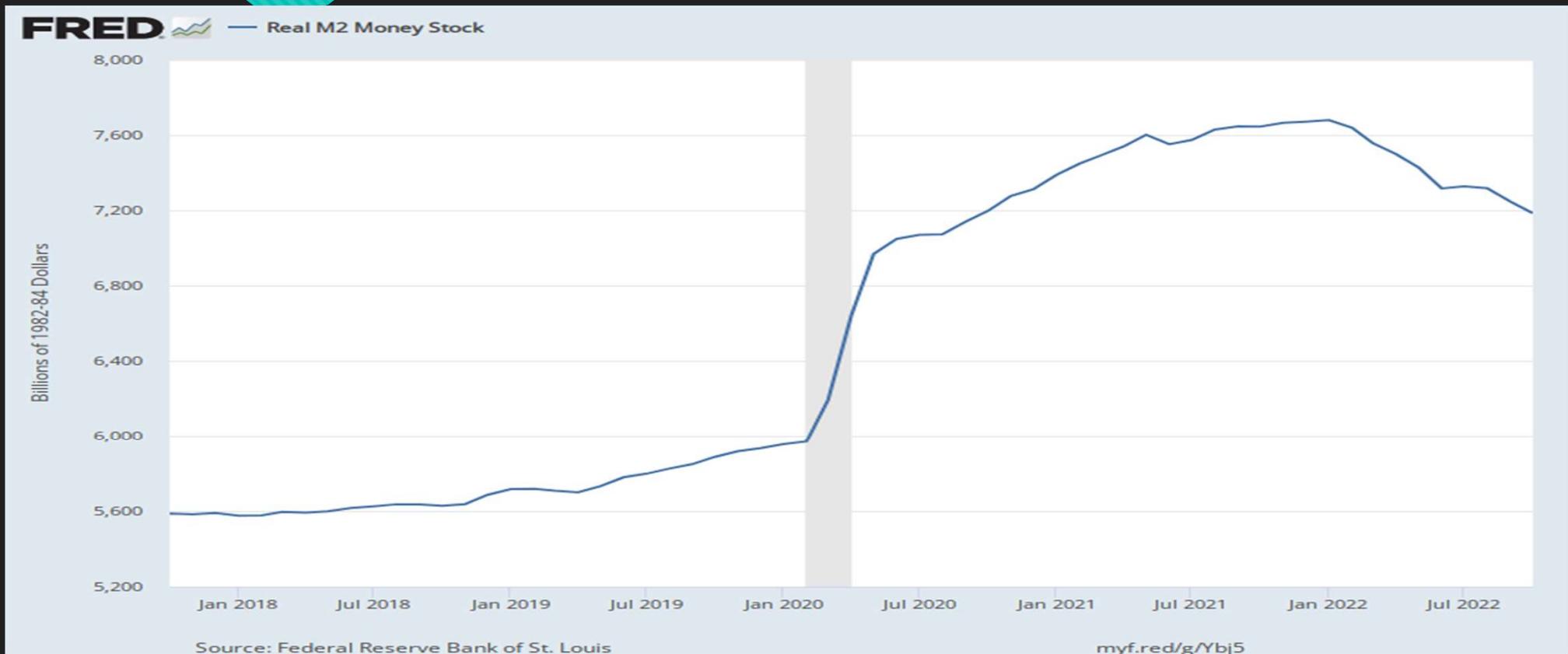


WHY HAS INFLATION RATE MODERATED?

YEAR-OVER-YEAR PERSONAL CONSUMPTION SPENDING HAD BEEN SLOWING, BUT REBOUNDED IN JANUARY



ALSO, FEDERAL RESERVE HAS PULLED MONEY OUT OF THE ECONOMY



EXPECTED PATH OF INFLATION

IF FEDERAL RESERVE STICKS TO ITS ANNOUNCED PLAN OF RAISING INTEREST RATES AND SLOWING THE ECONOMY, AT END OF 2023 THE YEAR-OVER-YEAR INFLATION RATE WILL BE BETWEEN 3% AND 4%.

QUESTION IS WHETHER THAT CAN HAPPEN WITHOUT A RECESSION

WHAT IS A RECESSION?

A BROAD-BASED DECLINE IN ECONOMIC
ACTIVITY THAT LASTS FOR A SIGNIFICANT
PERIOD OF TIME

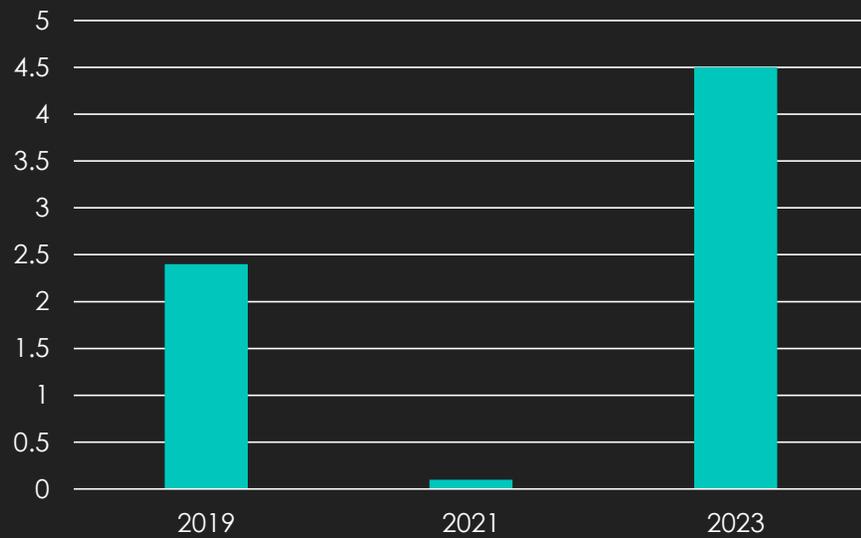
RECESSION IS OFTEN
THE “MEDICINE” TO
CURE HIGH INFLATION

FEDERAL RESERVE
(FED) TRIES TO SLOW
SPENDING TO TAKE
PRESSURE OFF PRICES

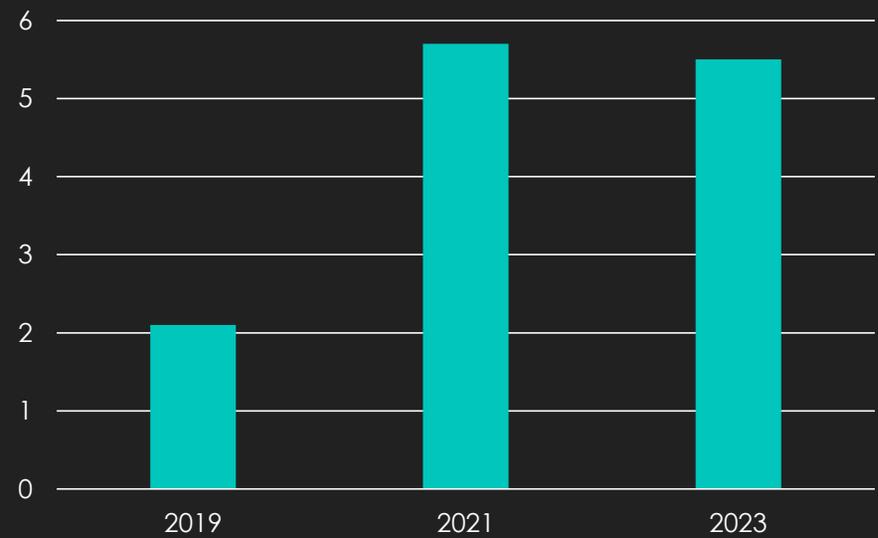


FEDERAL RESERVE HELPED STIMULATE SPENDING DURING COVID; NOW IT IS USING ITS TOOLS TO DO THE OPPOSITE

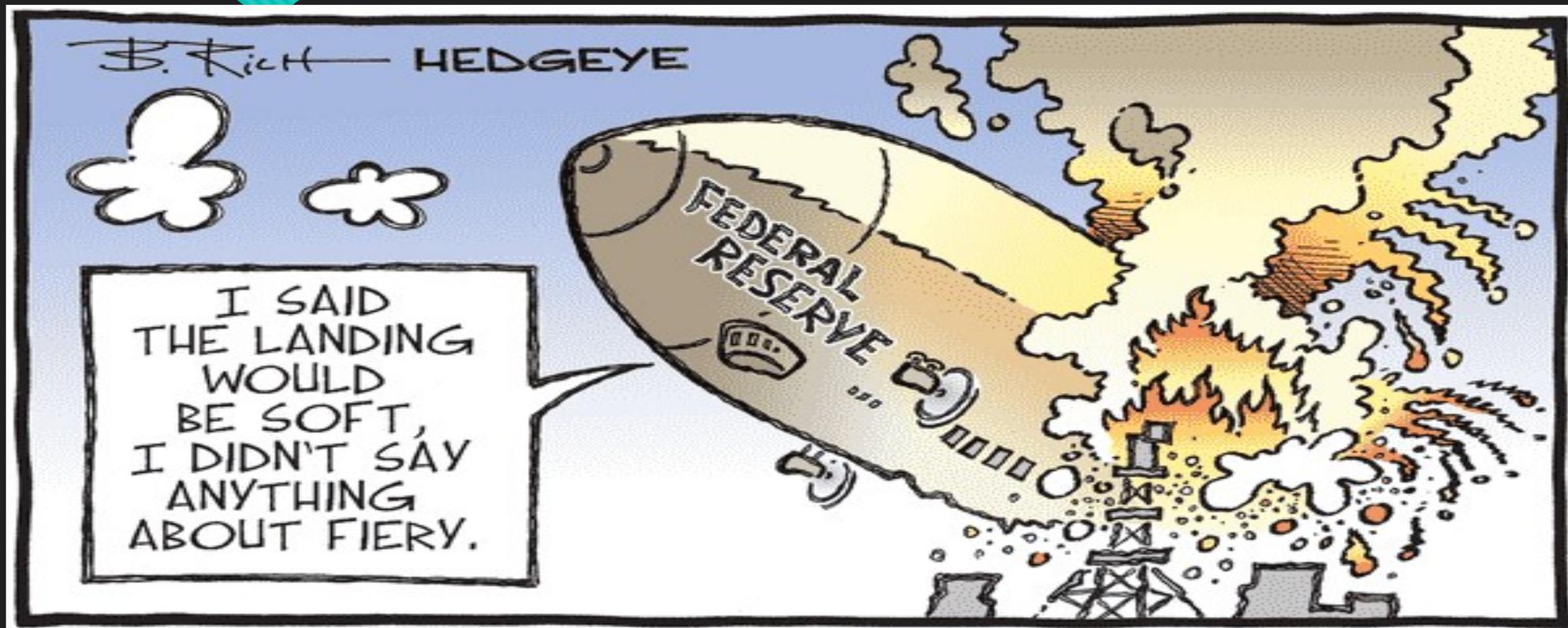
Federal Funds Rate, %



Federal Reserve Holdings, \$trillions



FED WANTS TO ACHIEVE A “SOFT LANDING”: LOWER INFLATION RATE WITHOUT CRASHING THE ECONOMY



SIGNS THE ECONOMY IS SLOWING

REAL ESTATE ACTIVITY HAS FALLEN

MANUFACTURING ACTIVITY HAS SLOWED – IS ACTUALLY CONTRACING
GROWTH IN CONSUMER SPENDING HAS SLOWED

QUESTION: WILL THIS BE ENOUGH FOR FED TO REALIZE ITS GOAL OF A
2% INFLATION RATE?

CAN THE FED ACHIEVE A “SOFT LANDING?”

THERE ARE SEVERAL FACTORS WORKING AGAINST THIS:

- * the Fed got started late
- * pent-up spending from last 3 years and Covid program savings
- * federal government is still providing fiscal stimulus
- * political backlash against higher interest rates

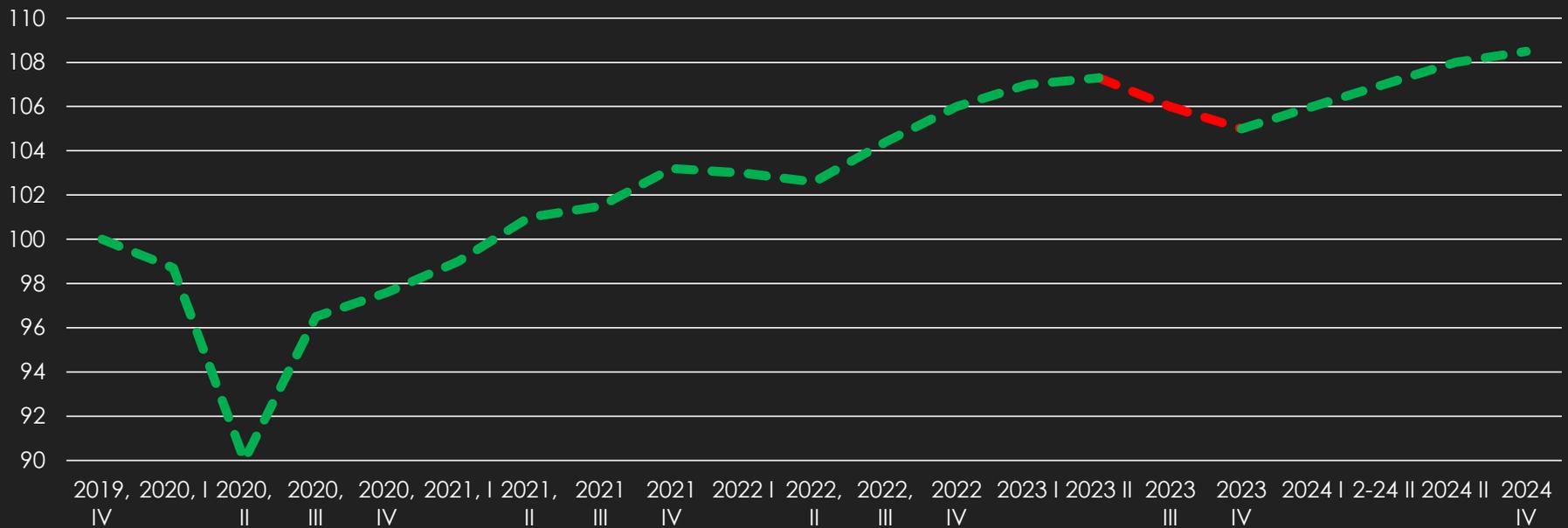
COULD WE HAVE A RECESSION WITHOUT JOB LOSSES?

REDUCE LABOR COSTS BY REMOVING JOB OPENINGS

WORRIED ABOUT LOSING WORKERS PERMANENTLY

MOST ECONOMISTS THINK UNLIKELY

ECONOMIC FORECAST – MILD RECESSION AT END OF 2023



HOW HIGH COULD UNEMPLOYMENT GO?

FROM UNDER 4% TO
BETWEEN 5% AND 6%

RELATIVELY LOW, BUT
STILL PAINFUL



LOOKING AHEAD: CHALLENGES BUT EXCITEMENT

BLENDING TECHNOLOGY WITH WORKERS

ADAPTING TO WORKERS WITH DIFFERENT EXPECTATIONS ABOUT WORK

WILL INTERNATIONAL OPPORTUNITIES GROW OR BE STIFLED BY GEOPOLITICAL COMPETITION



HOSPITALITY



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