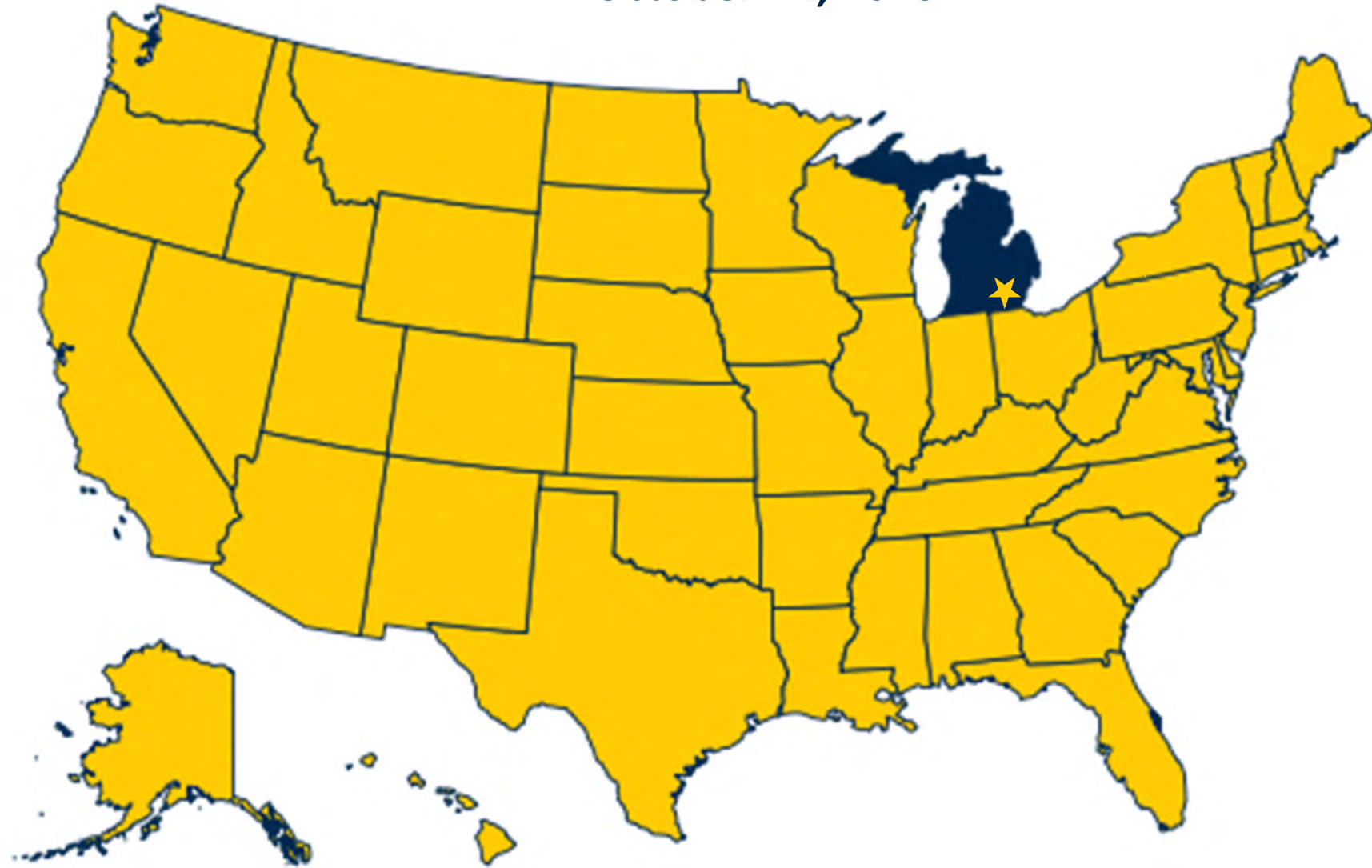


The Economic Outlook for 2023–2025

Oxford Bank

October 24, 2023

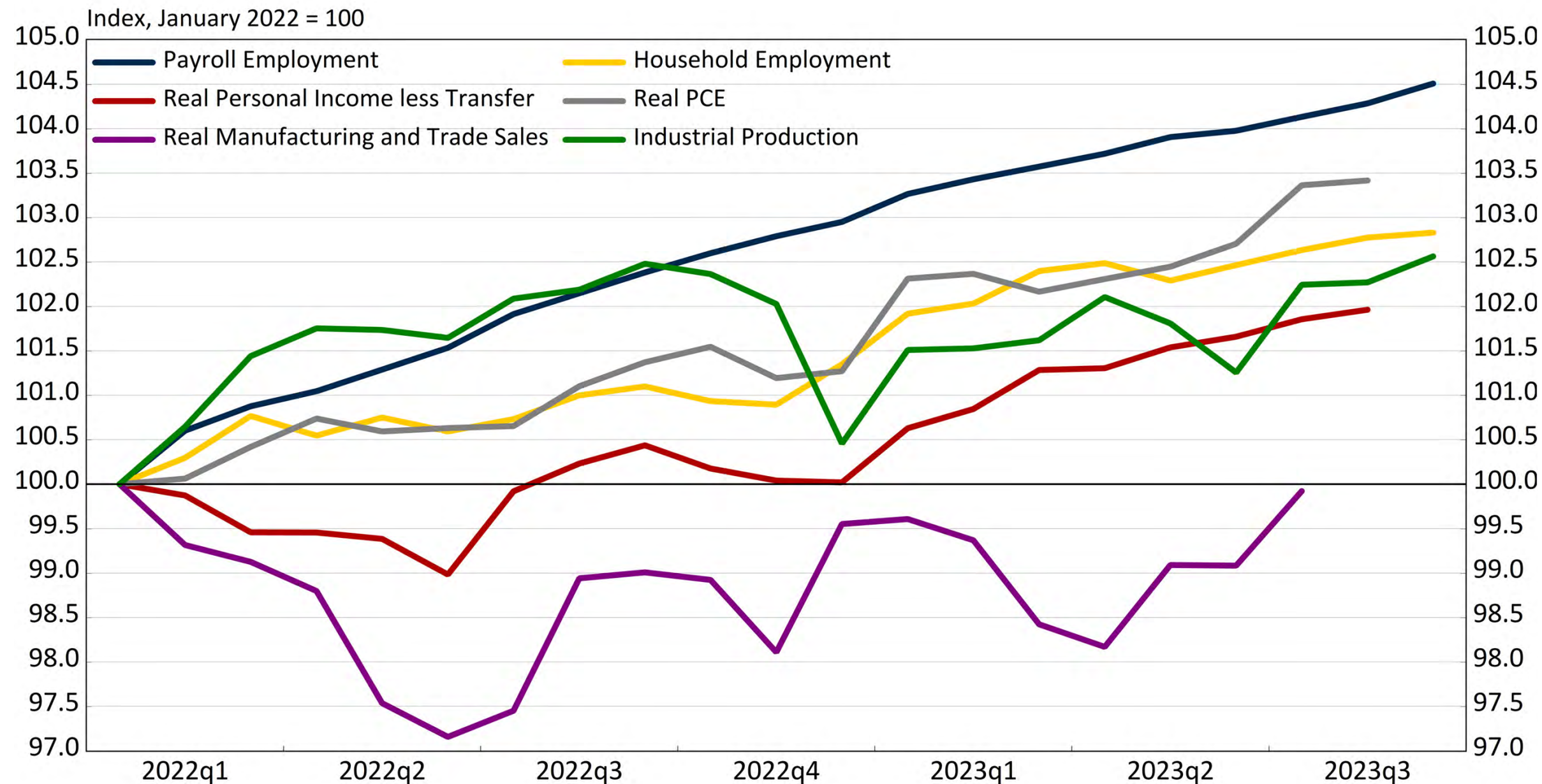


Research Seminar in Quantitative Economics

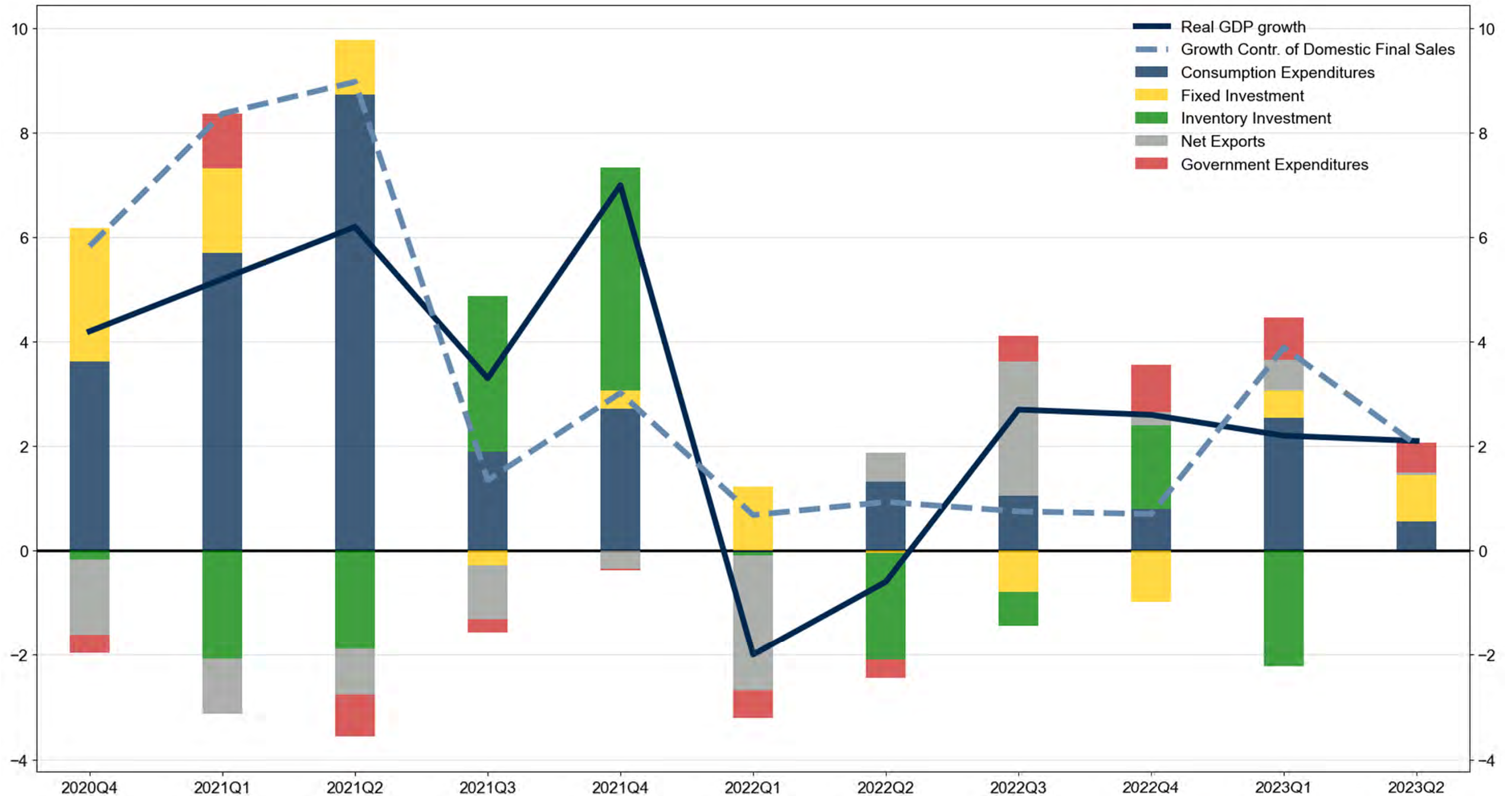


Current State of the Economy

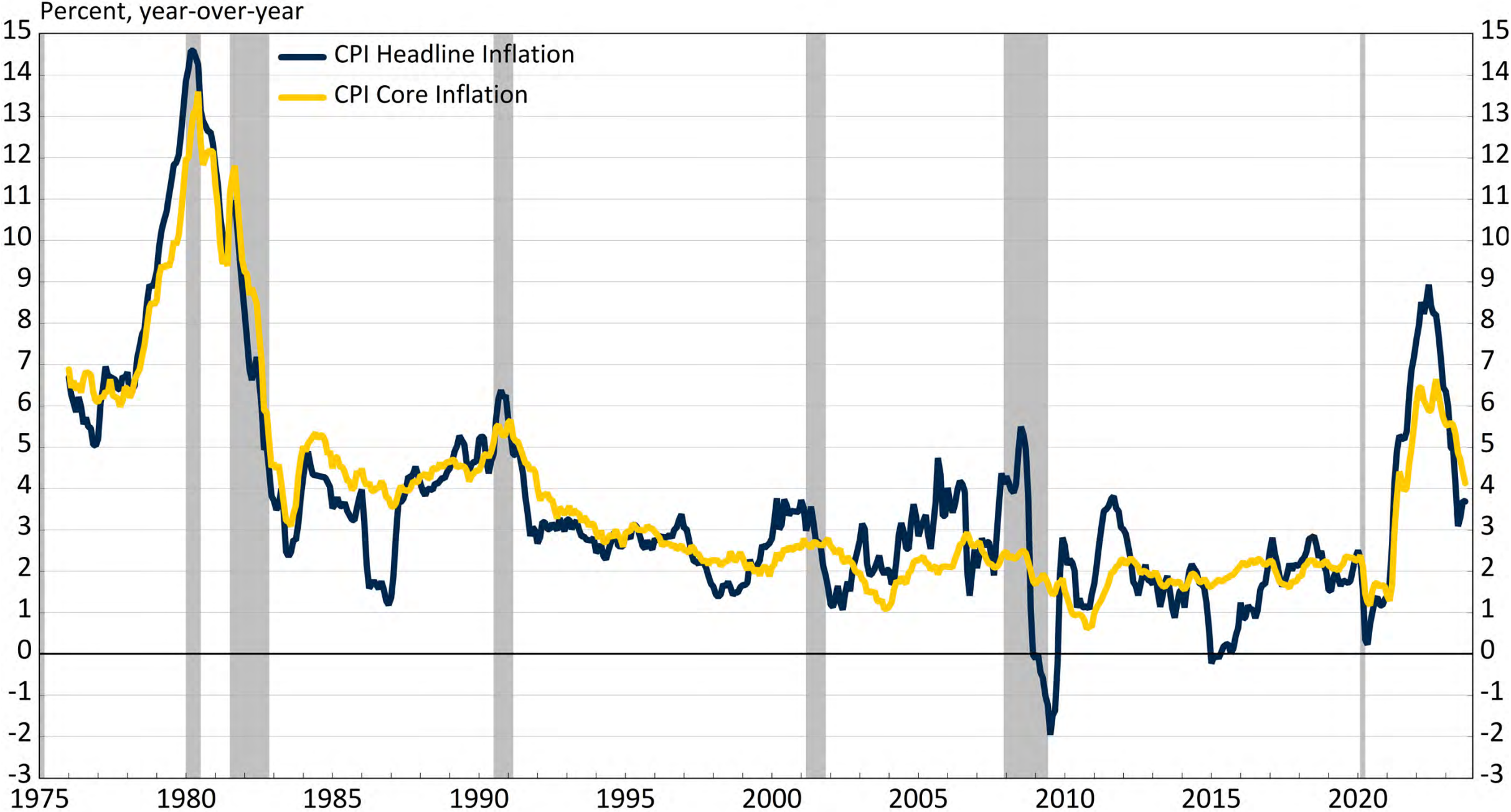
NBER Recession Indicators: The U.S. Economy Is Not Currently in Recession



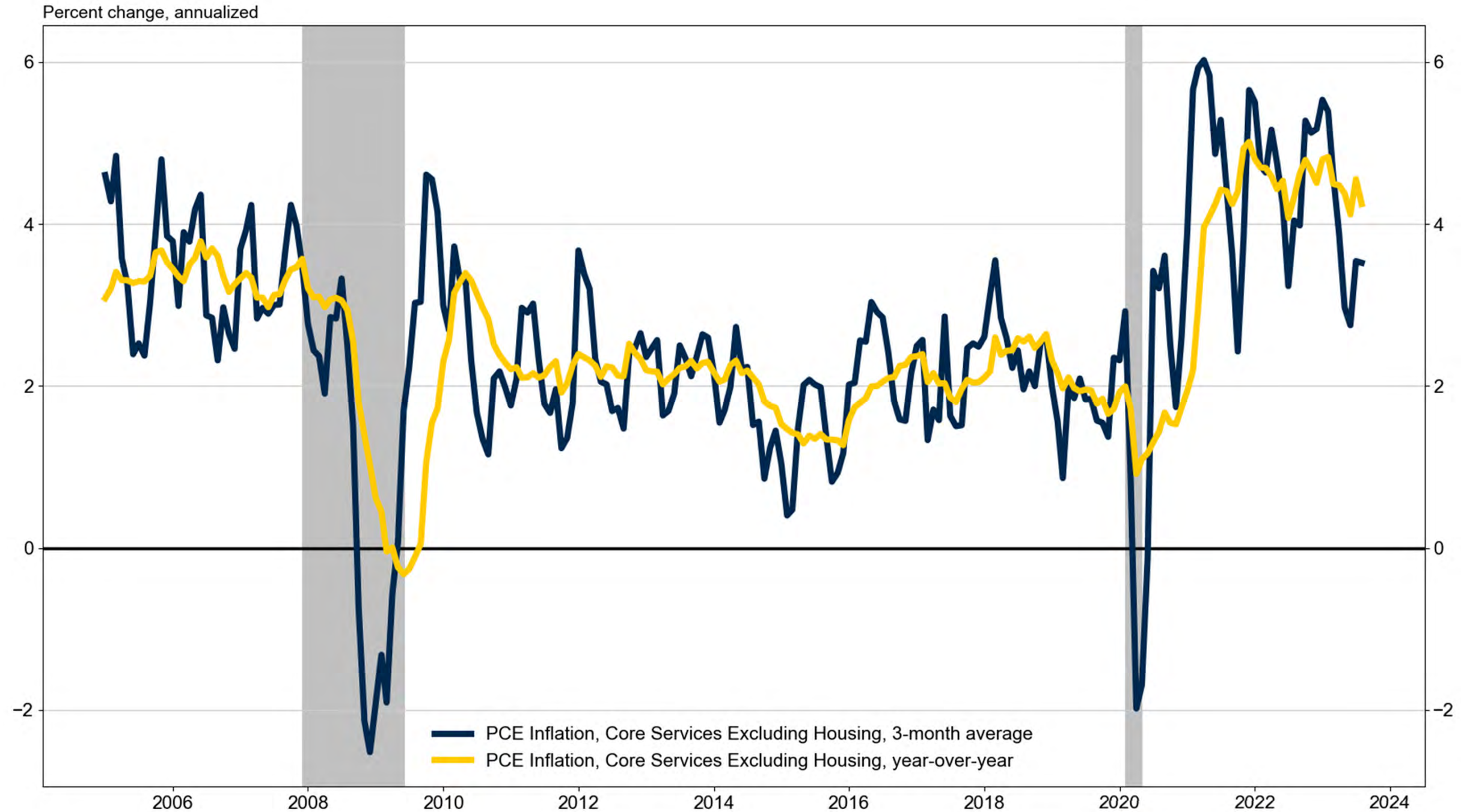
Underlying Details of Real GDP Growth Remain Solid



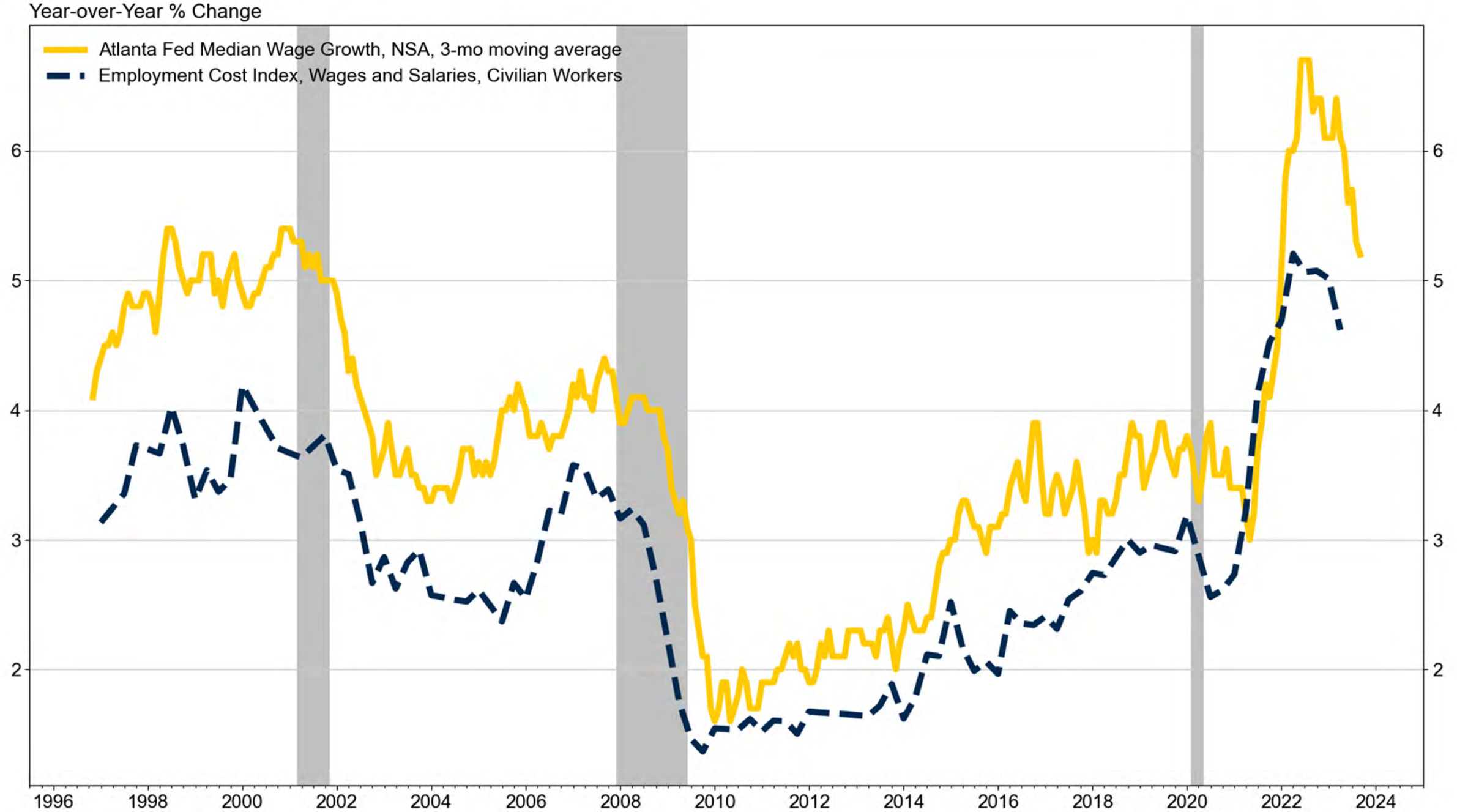
Inflation Retreating from Its Highs



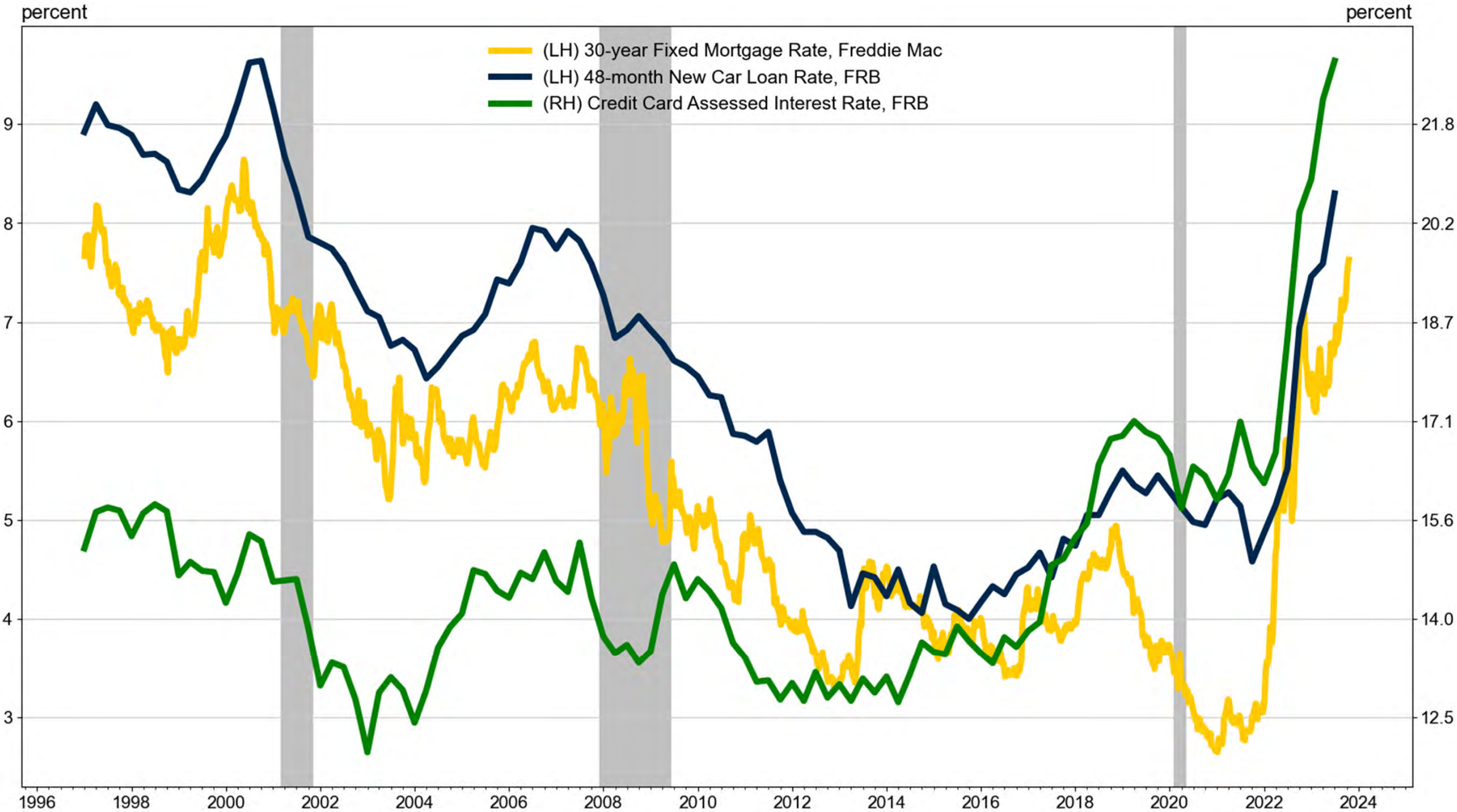
Fed Is Focused on Core PCE Services Inflation Excluding Housing— It Remains above Target



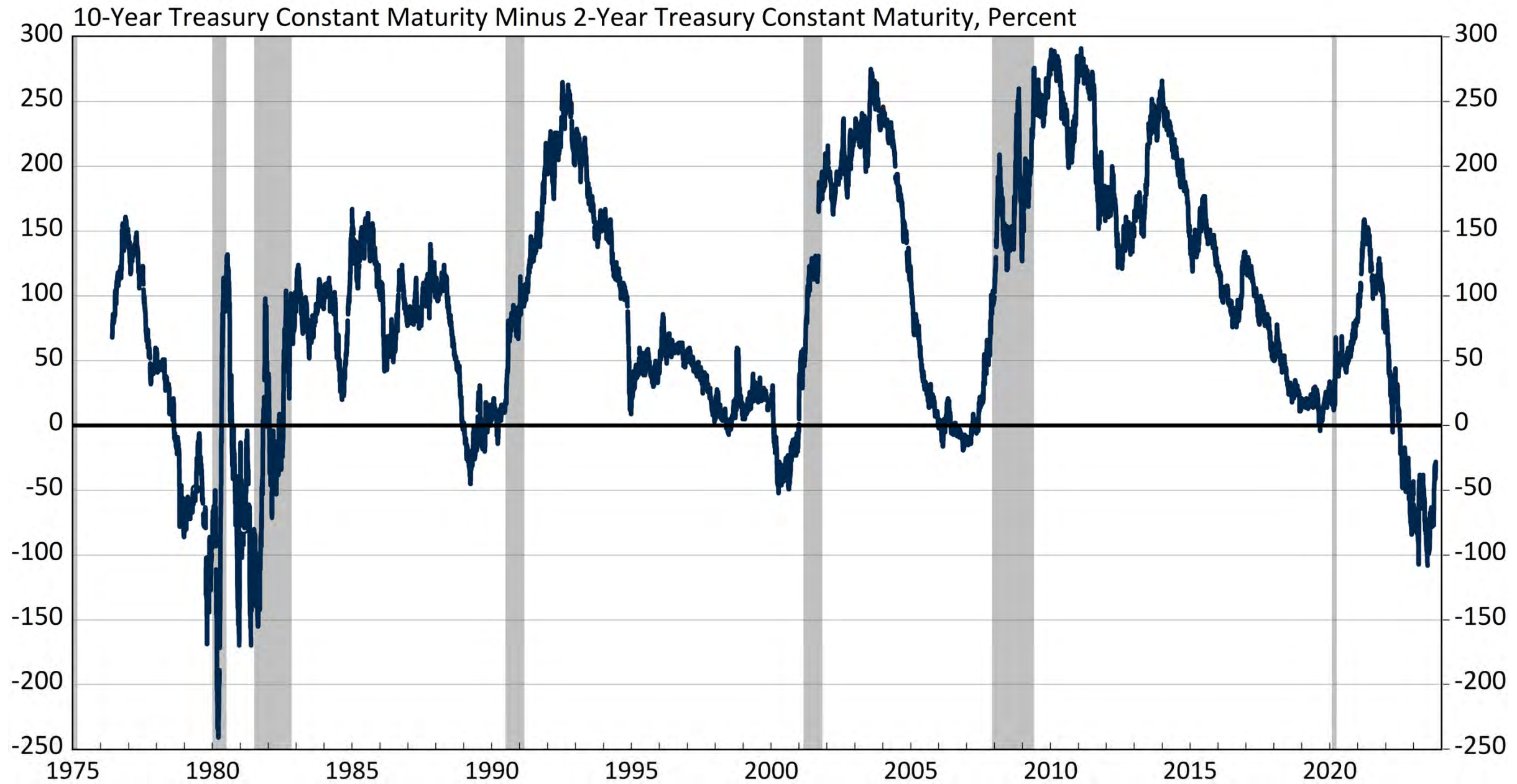
Wage Gains Starting to Decelerate



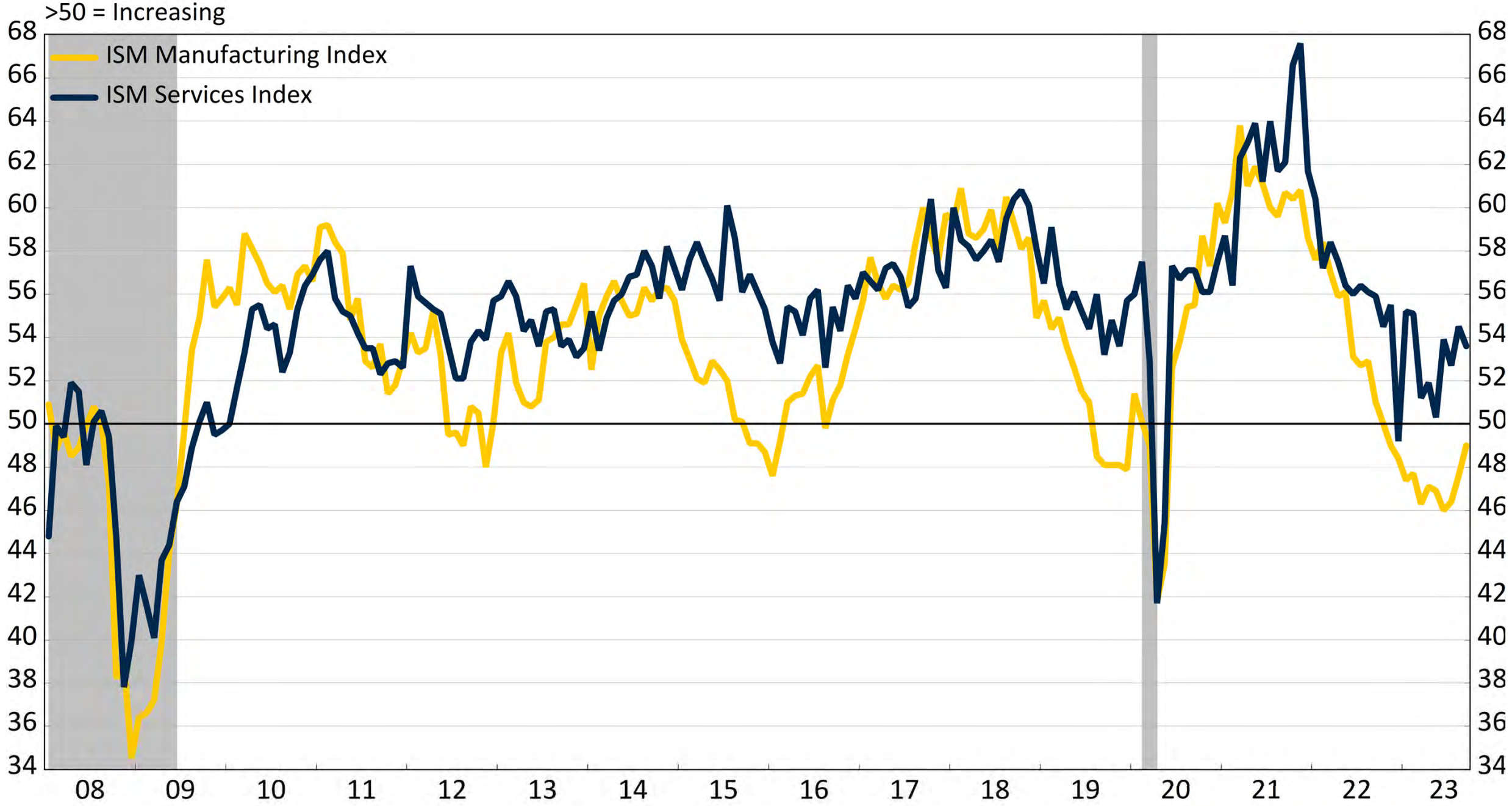
High Consumer Interest Rates Should Slow the Economy



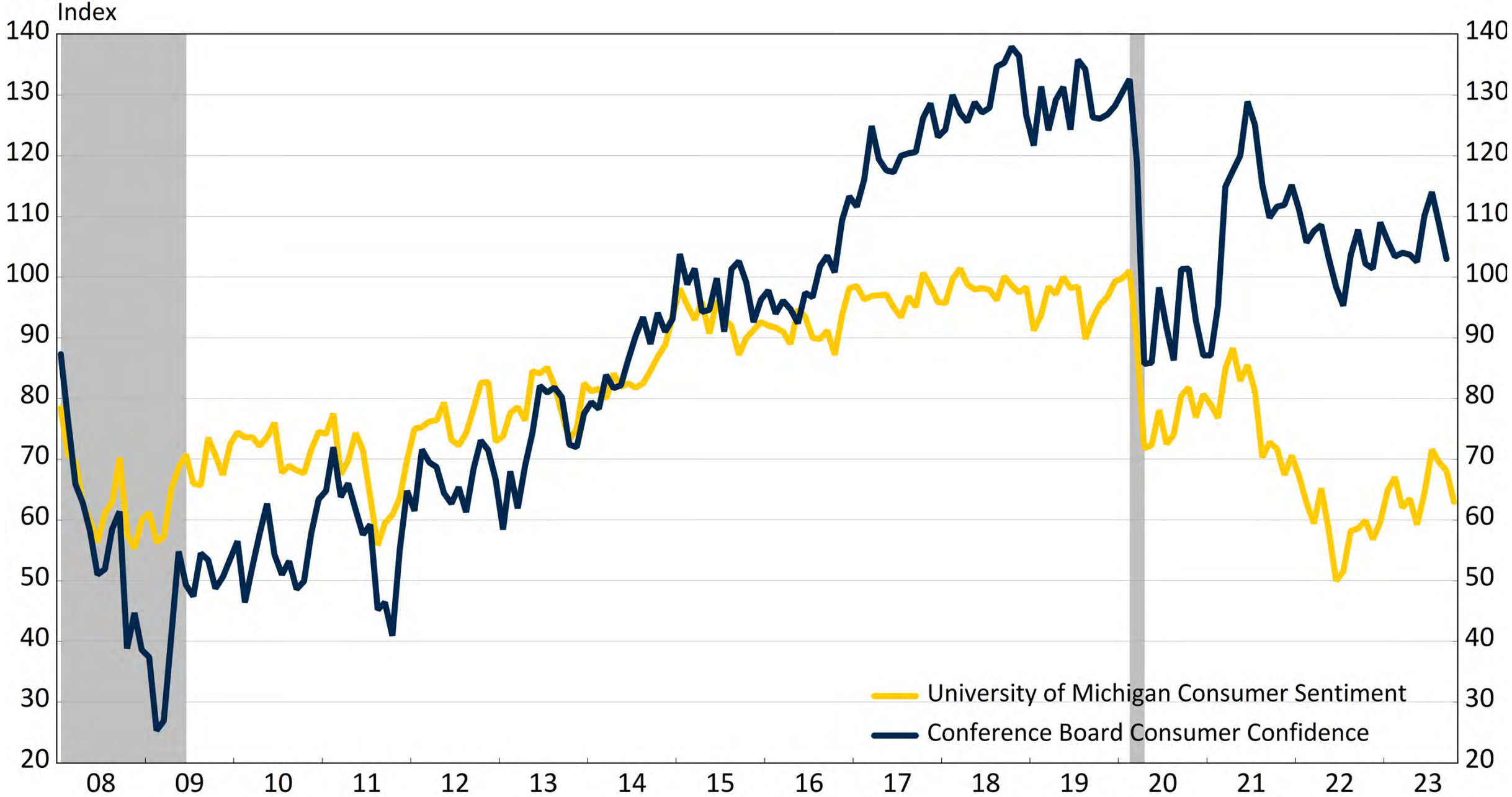
The Yield Curve Is Becoming Less Inverted



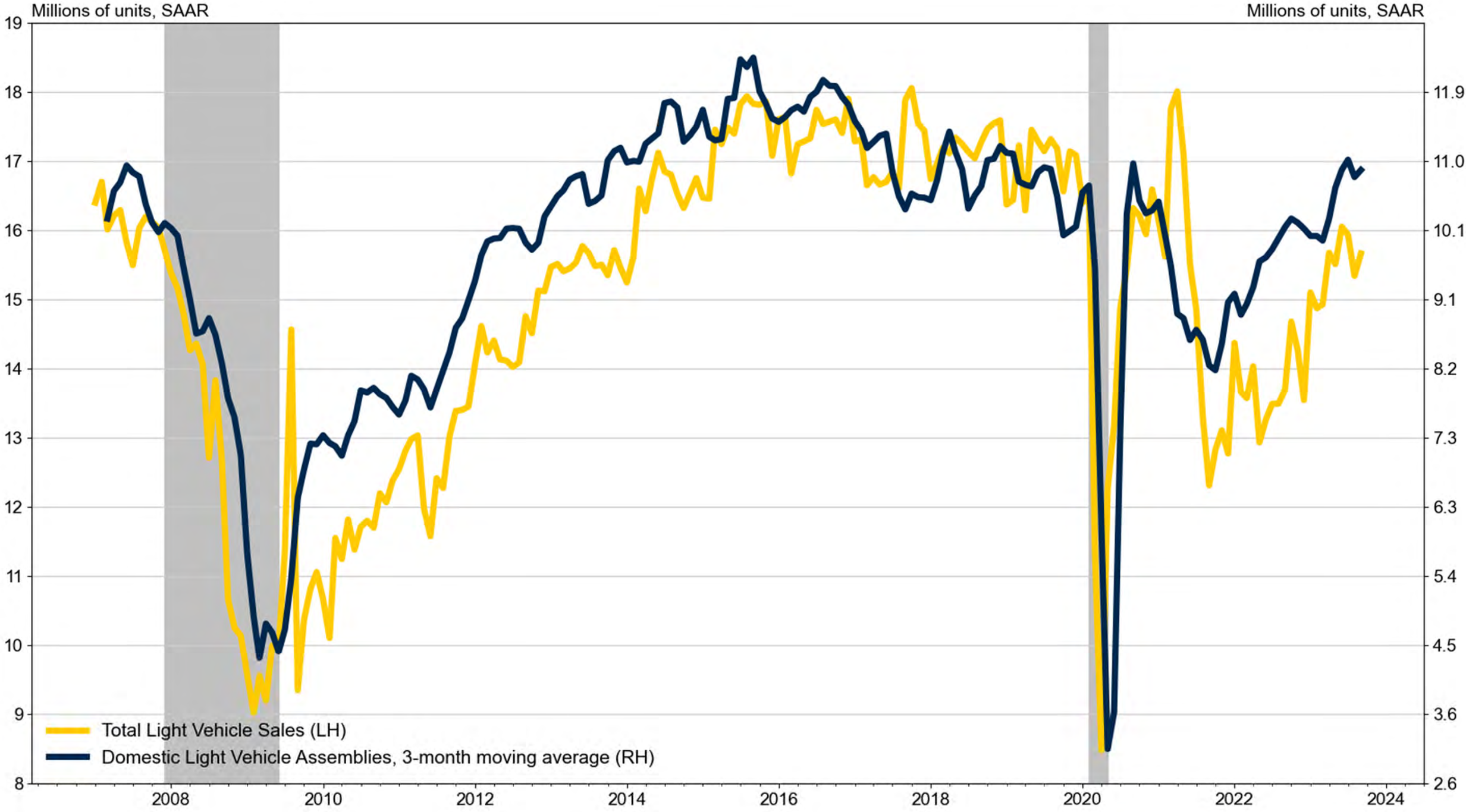
Institute for Supply Management Diffusion Indices: Manufacturing in Contraction, Services in Expansion



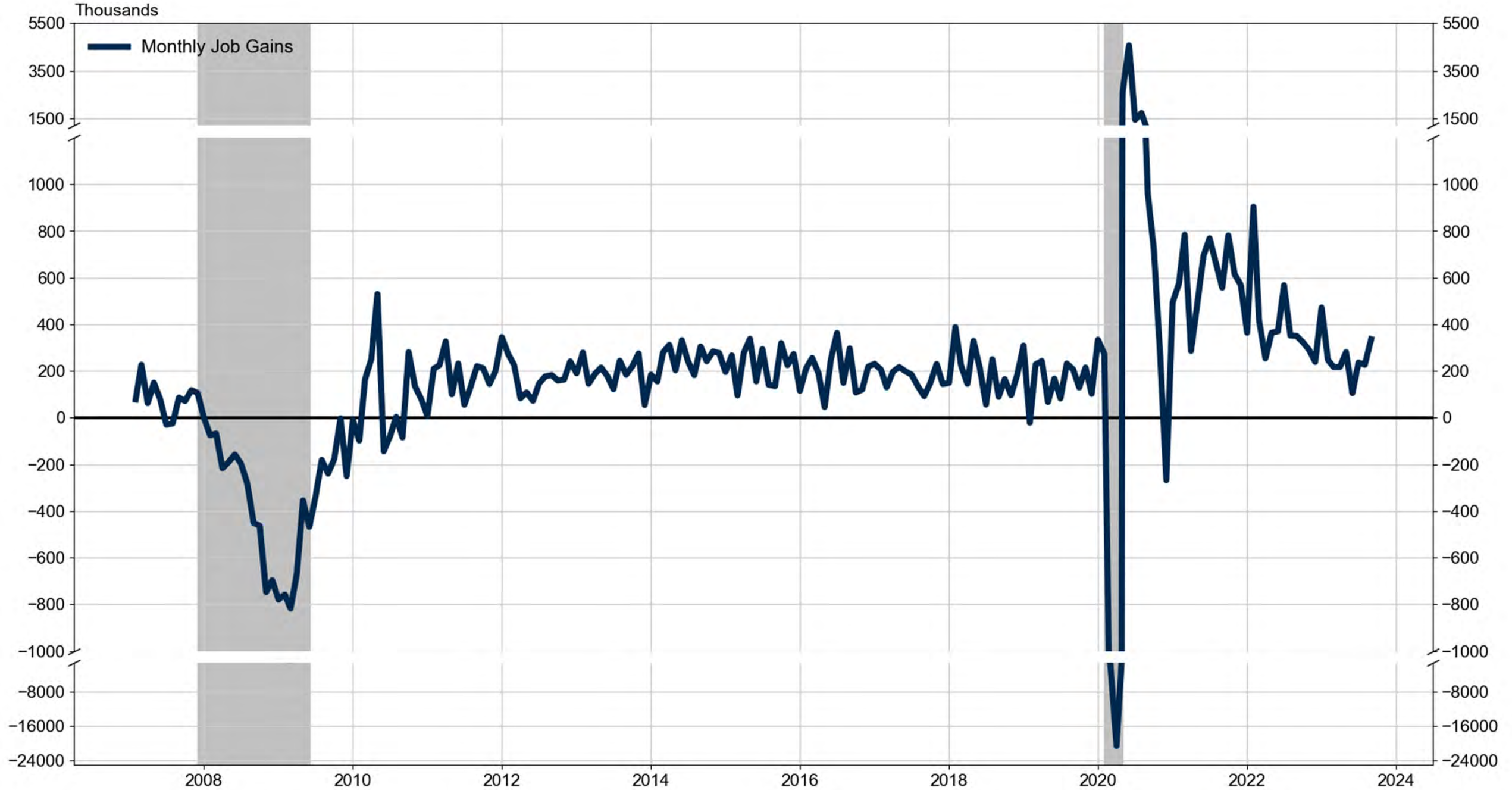
Consumer Sentiment Indices Have Rebounded Partially



Domestic Light Vehicle Sales and Assemblies



Job Gains Slowing Down?



U.S. Economic Outlook

Policy

➤ Monetary Policy:

- One more fed funds rate hike to the **5.5–5.75** percent range, followed by a pause until mid-2024.
- The Fed starts easing once PCE inflation forecasts show return to 2.0 percent inflation over 1–2 year horizon. Gradual fed funds rate range cuts through 2024H2–25.

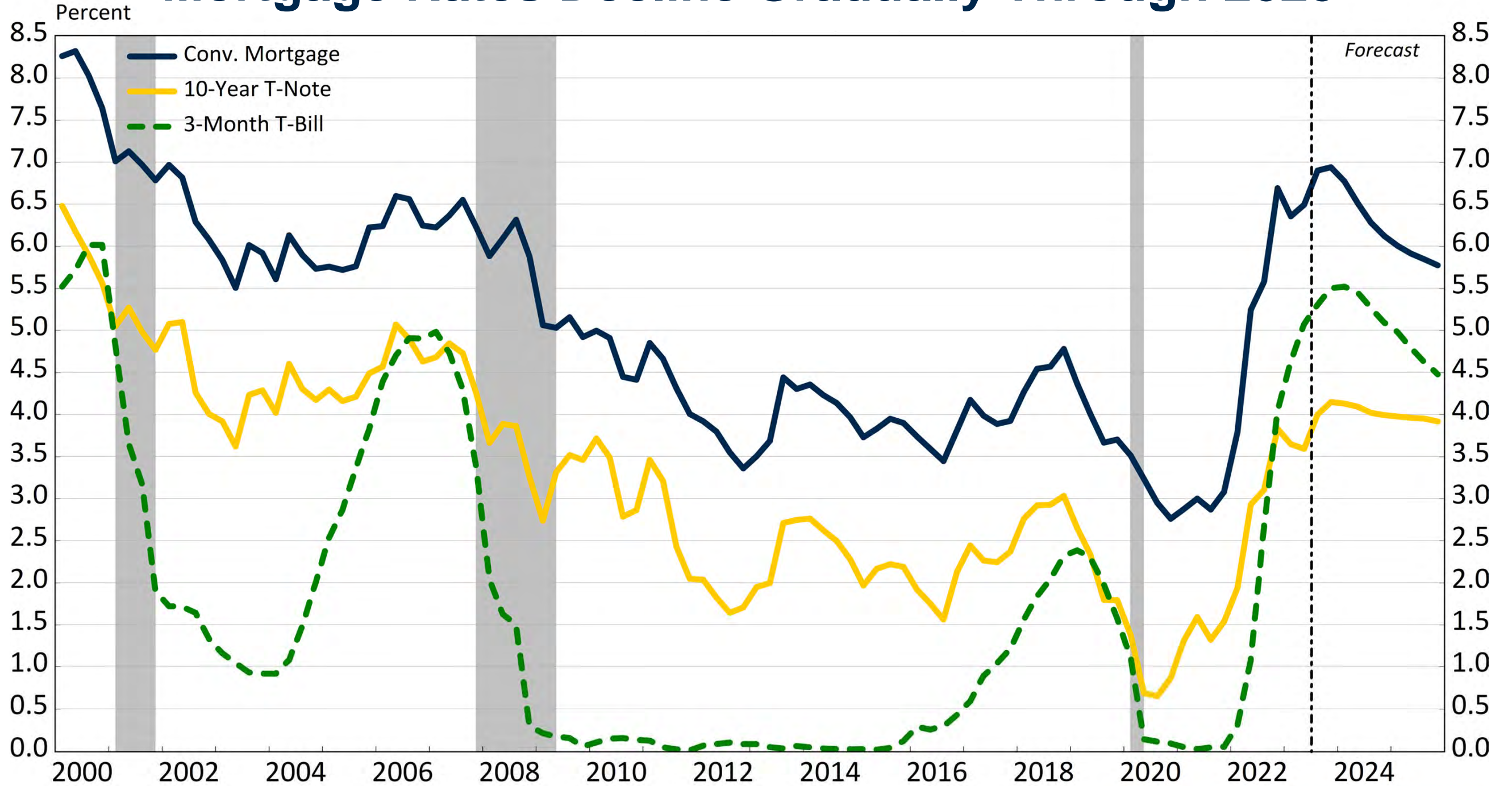
➤ Fiscal Policy:

- Divided government: more contentious fights, including risk of shutdown in November
- Defense spending likely set for brisk growth
- Slow growth of discretionary nondefense spending likely
- Budget deficit of about 5.9 percent of GDP in fiscal 2023–25

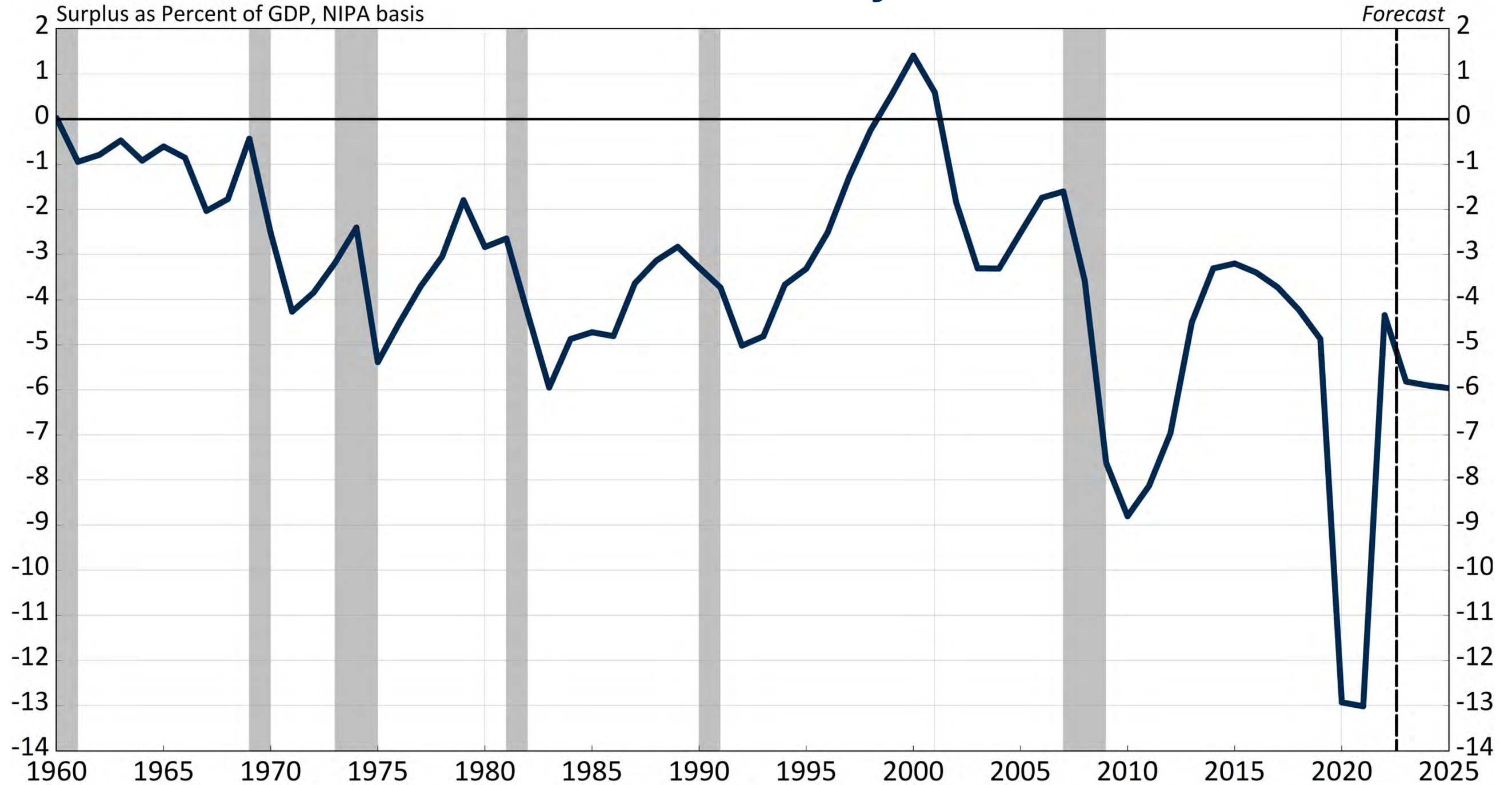
End-of-Year Headwinds

- UAW strike:
 - Economic effects accumulating over time as the strike goes on
 - Vehicle sales could suffer, since inventories are still tight
- Federal government shutdown:
 - Shutdown averted at last minute, but risk has been pushed back to November
 - Economic data collection could be seriously disrupted
- Student debt interest payments resumed in October
 - A measurable hit to discretionary consumption growth is likely
- Oil prices are \$20–\$25 per barrel higher since June
- We don't think these speedbumps will tip the economy into recession...
 - But they won't help

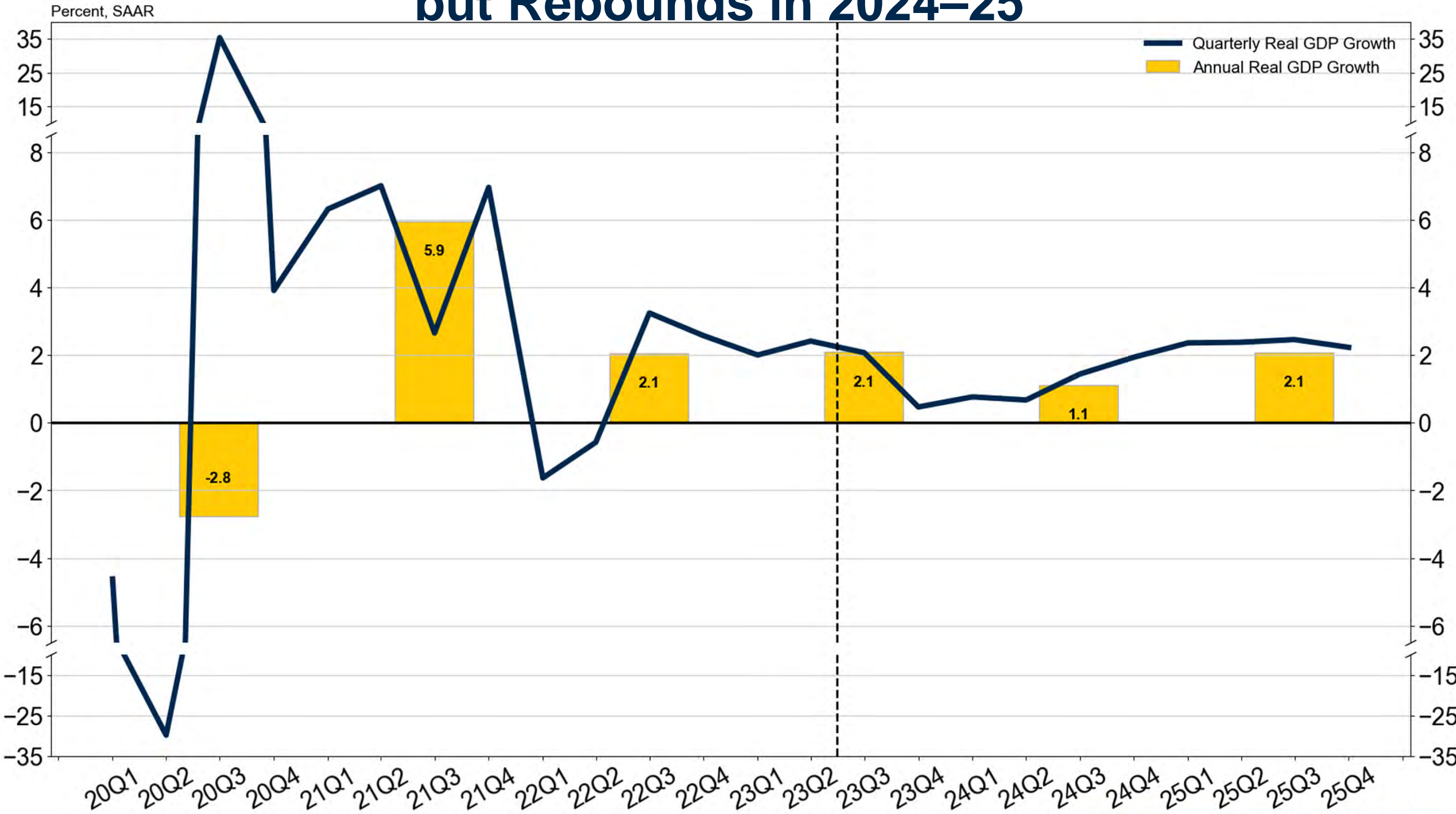
Short Rates Begin To Fall Next Year Mortgage Rates Decline Gradually Through 2025



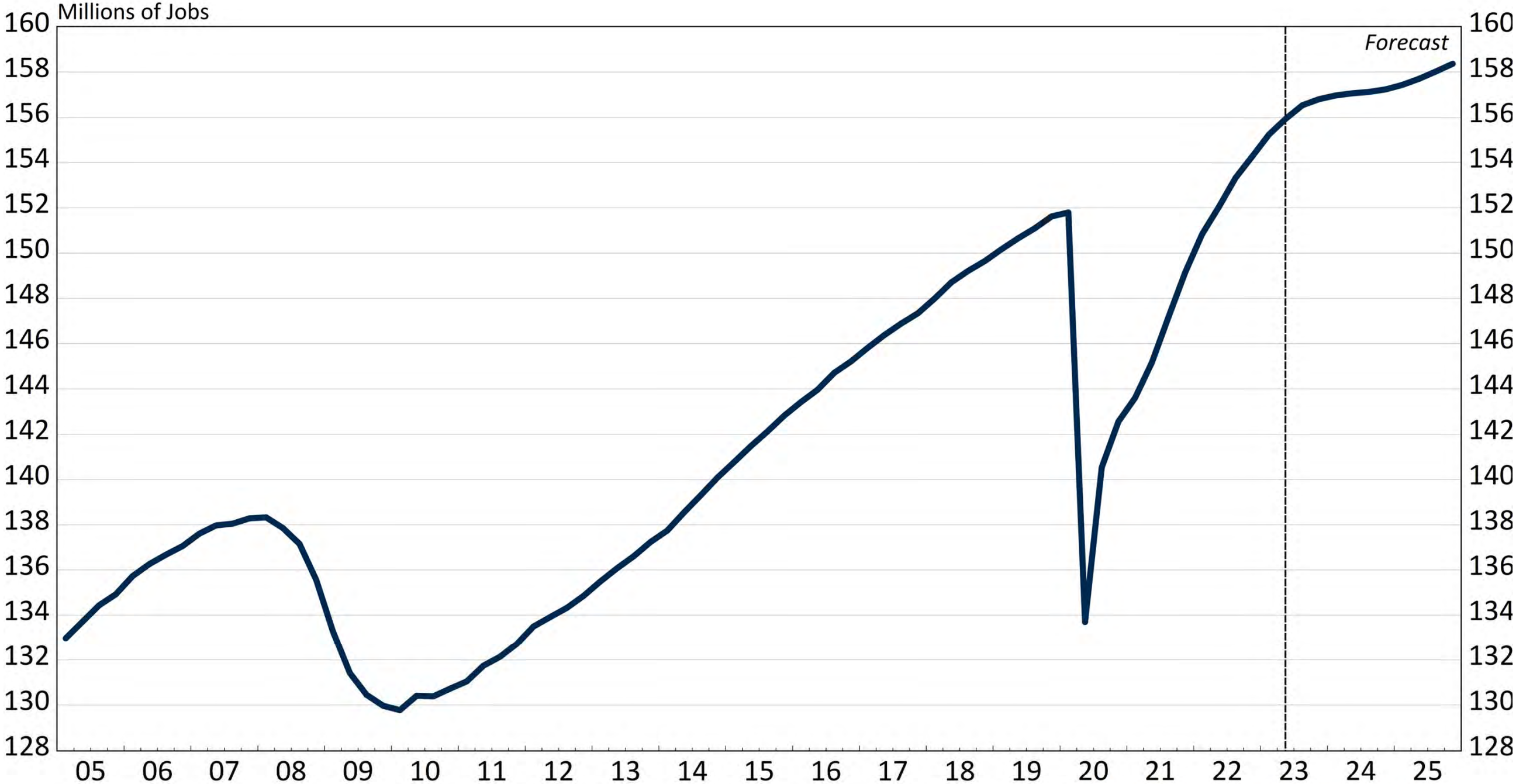
The Federal Budget Deficit Grows without Discretionary Stimulus



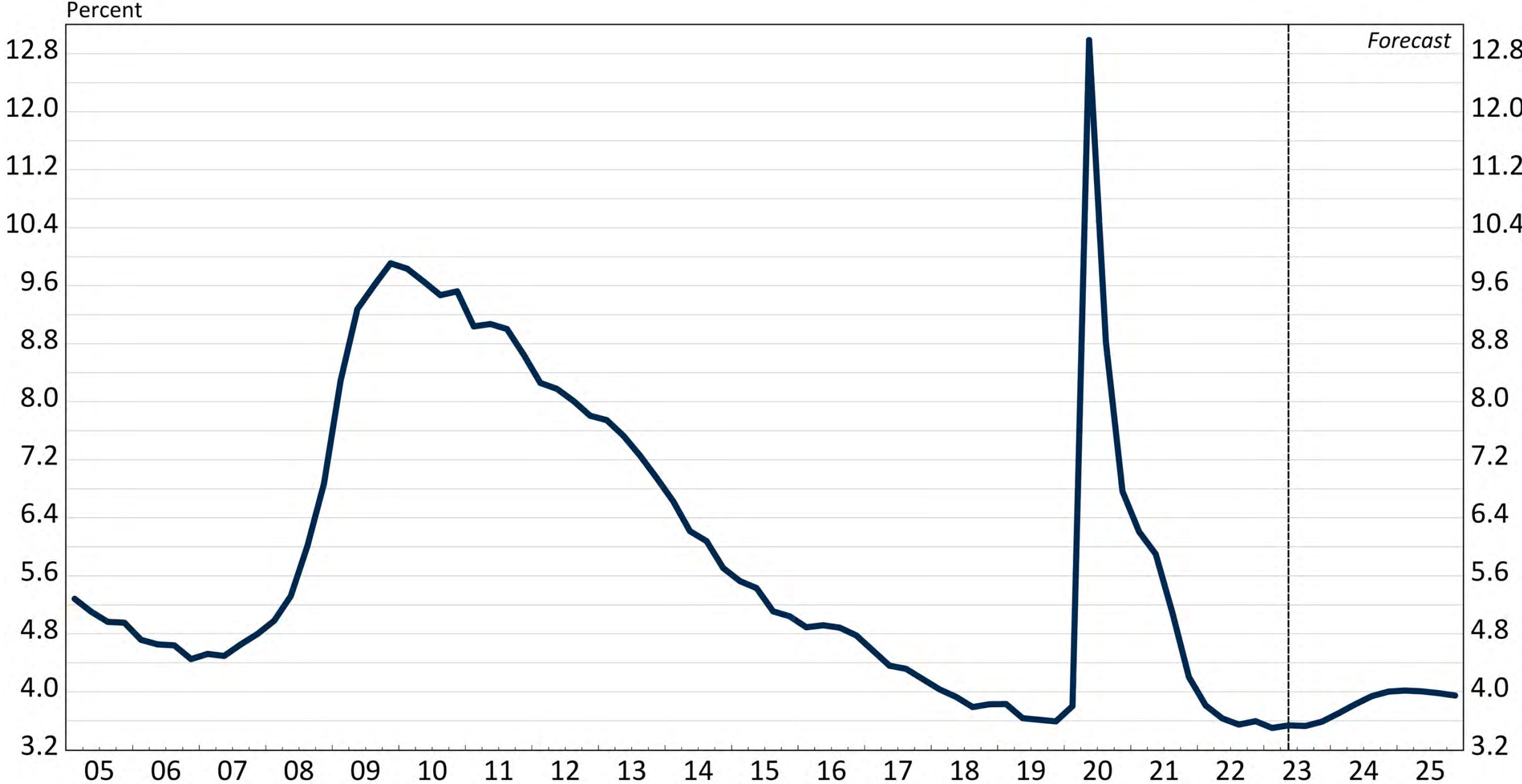
Real GDP Growth Slows in Late 2023 but Rebounds in 2024–25



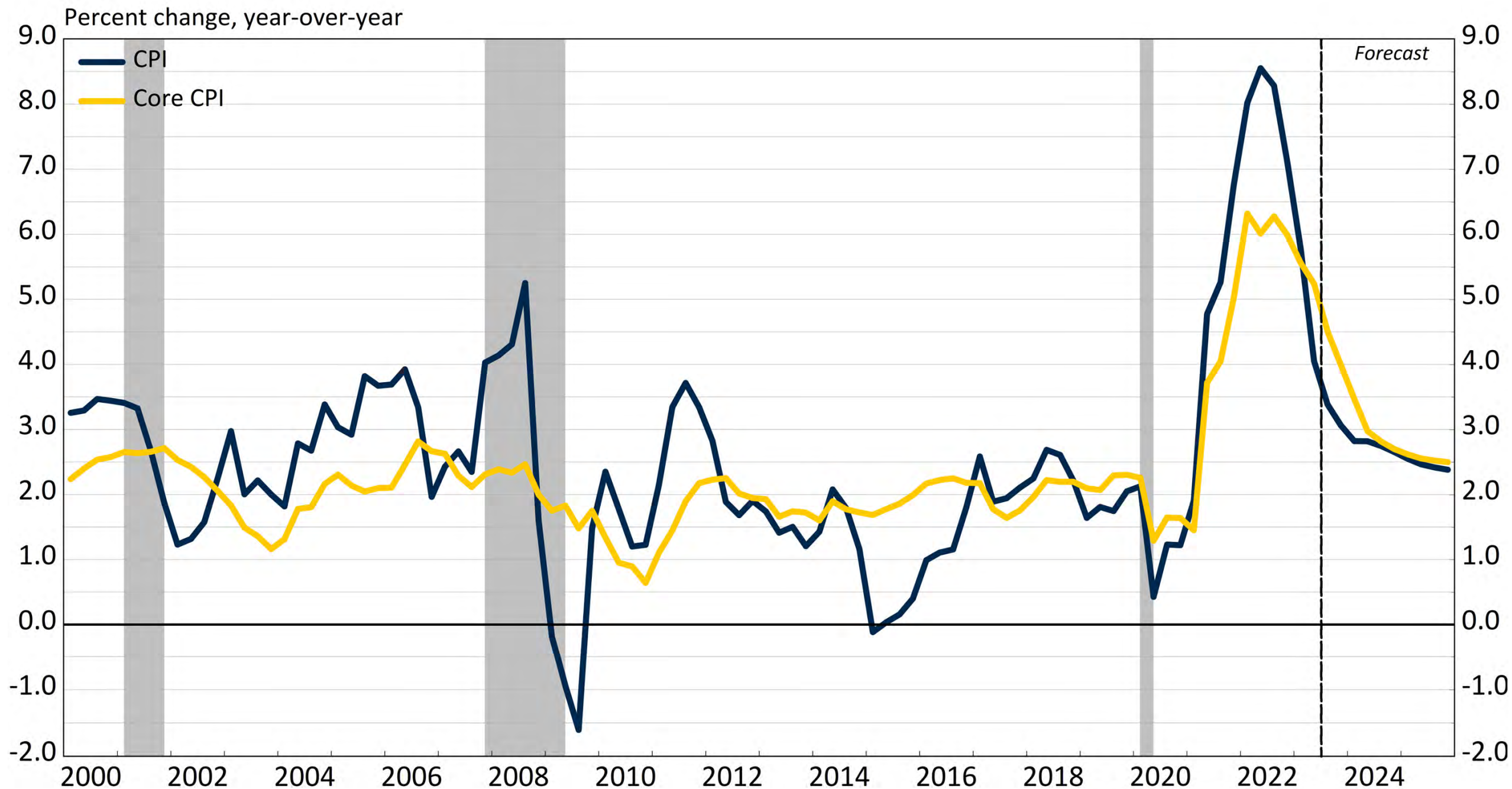
Payroll Employment Growth Returns by The End of 2024



Unemployment Rate Peaks in Mid-2024

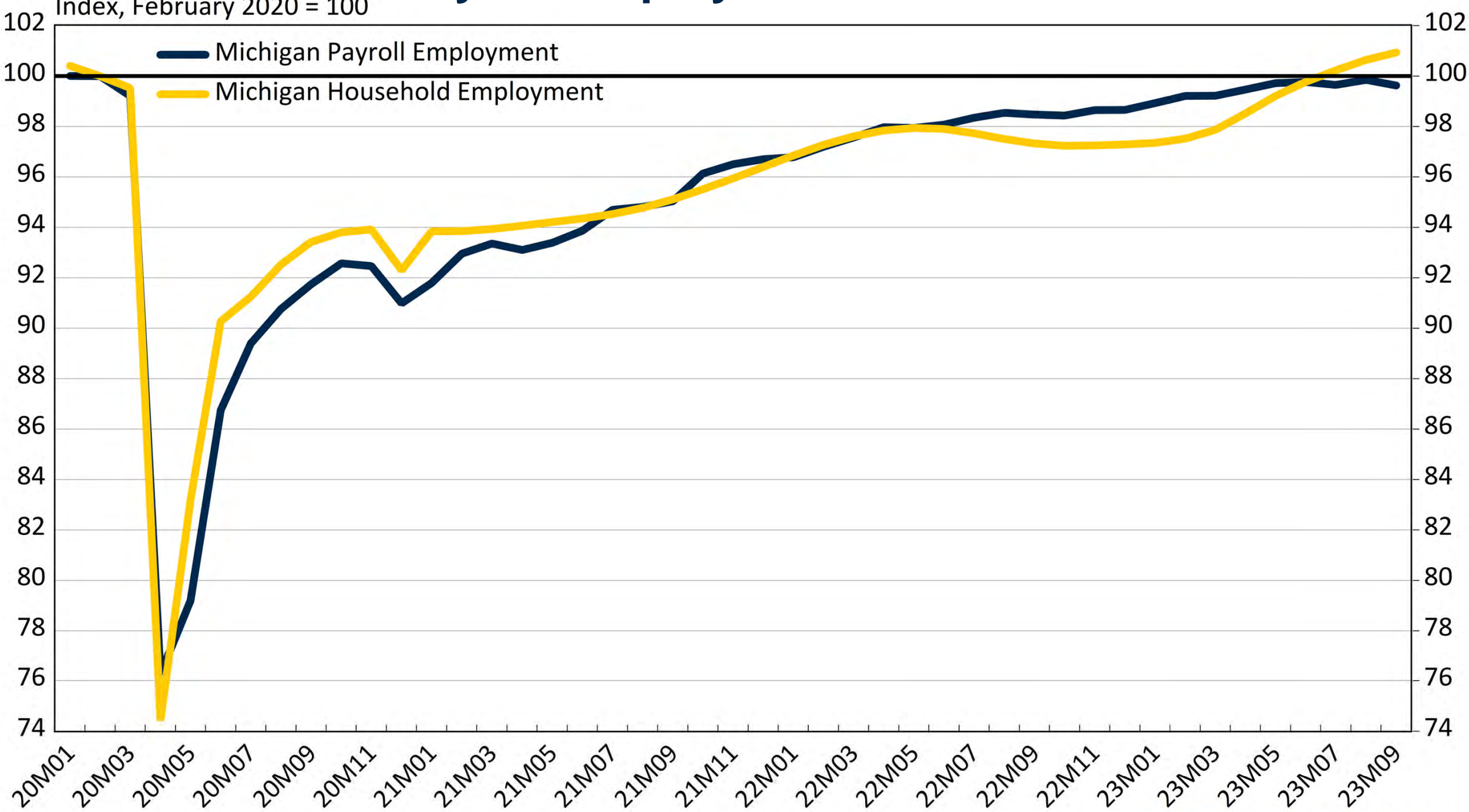


Year-over-Year Inflation Keeps Falling but Remains above the Fed's Target through 2025

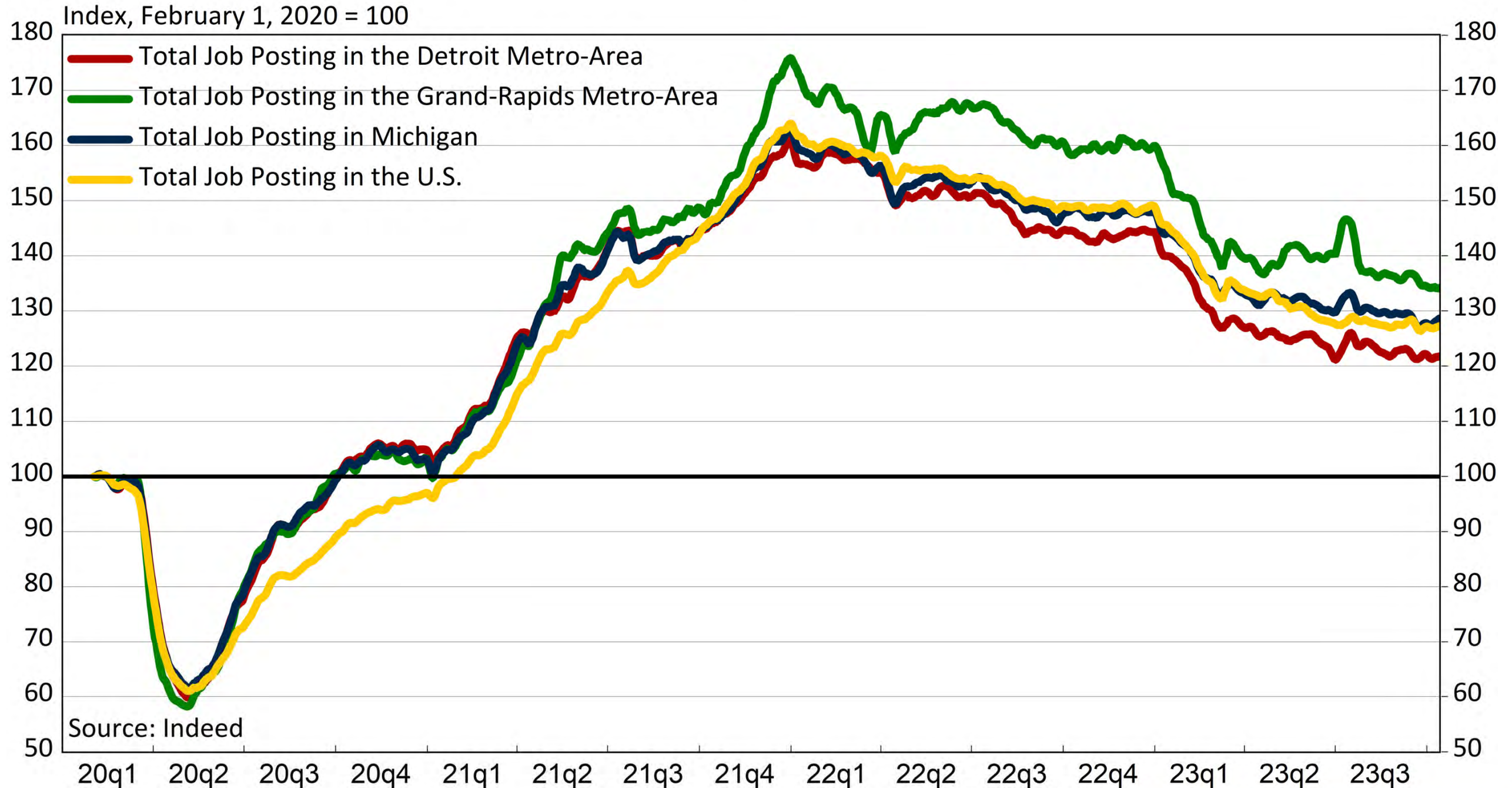


Current State of the Michigan Economy

Michigan Household Employment Back Above Pre-Pandemic Level; Payroll Employment Almost There

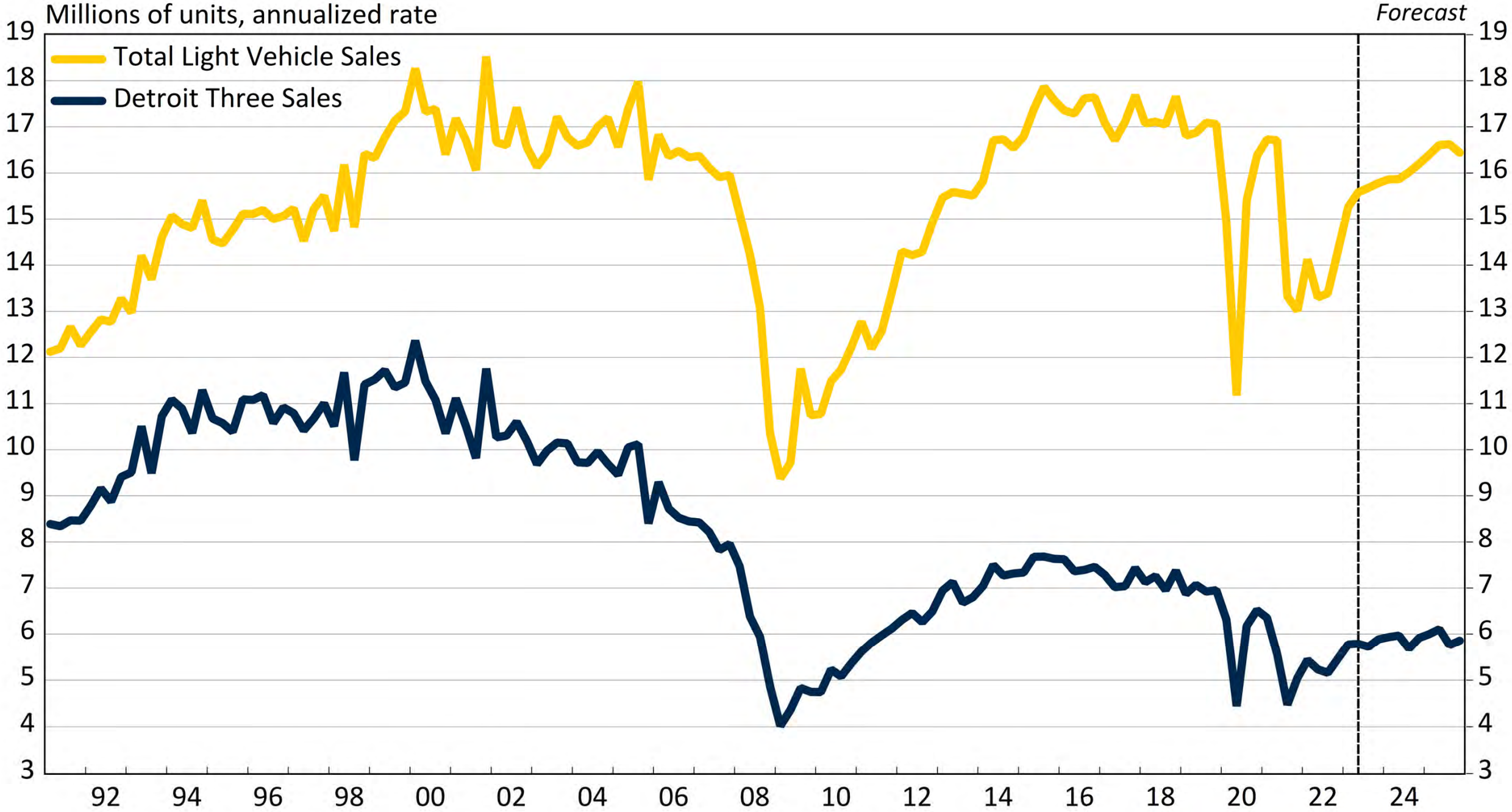


Labor Demand Has Cooled Off, but Remains Solid

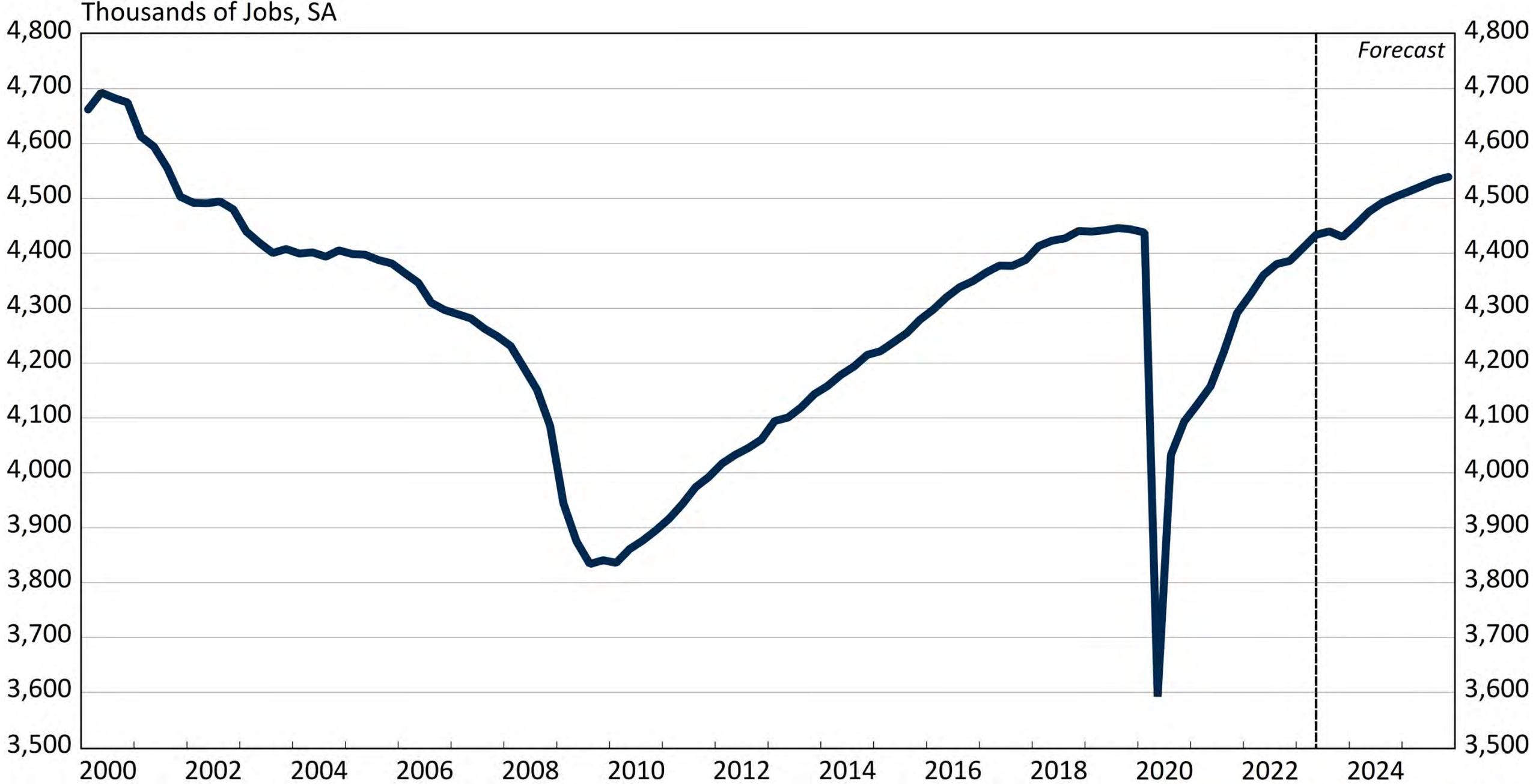


Michigan Economic Outlook

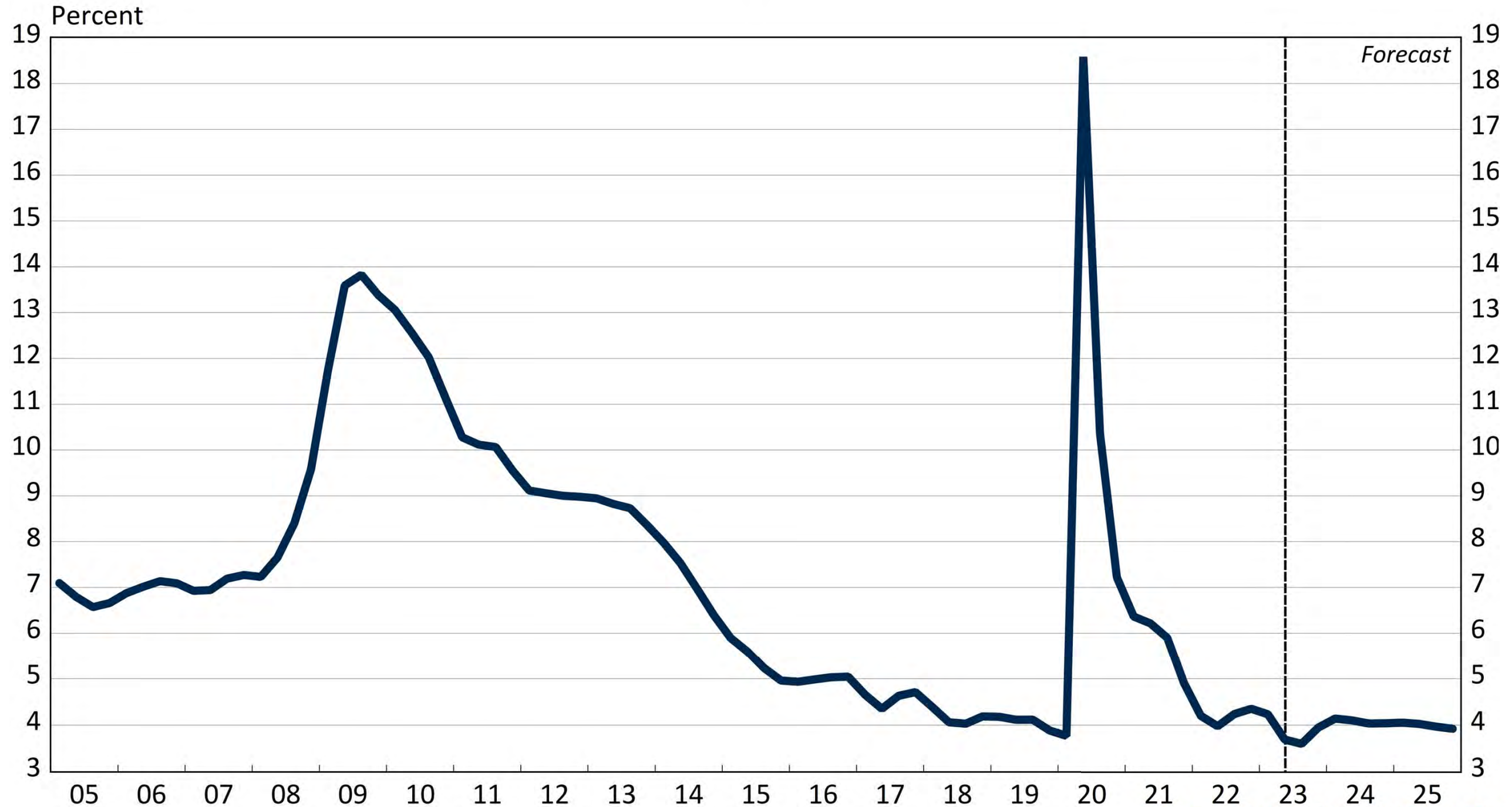
Light Vehicle Sales Experience a Choppy Recovery but Remain below Pre-Pandemic Levels through 2025



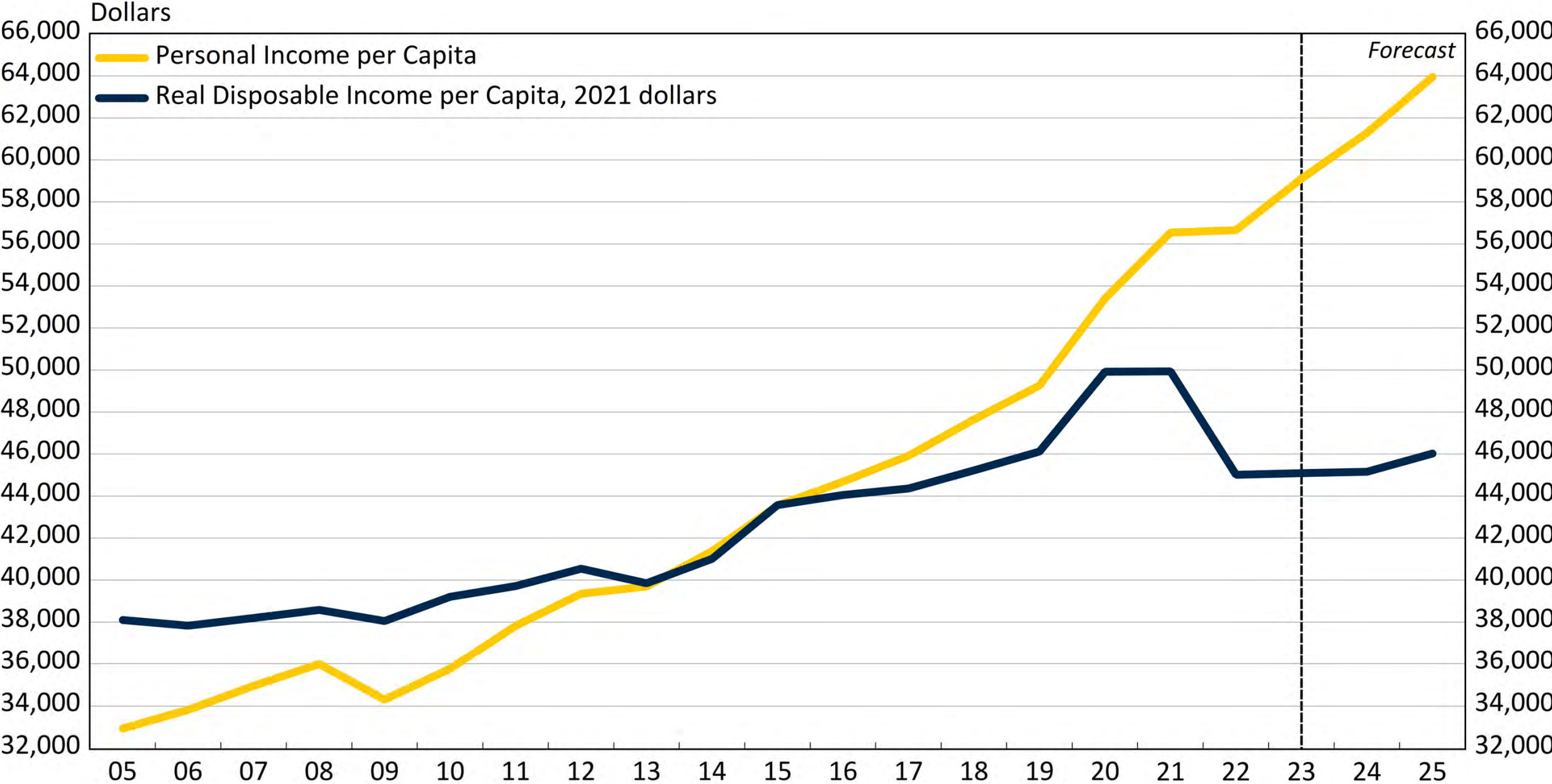
Michigan Employment Growth Continues at a Moderate Pace



Unemployment Rate Ticks Up... But Not Much

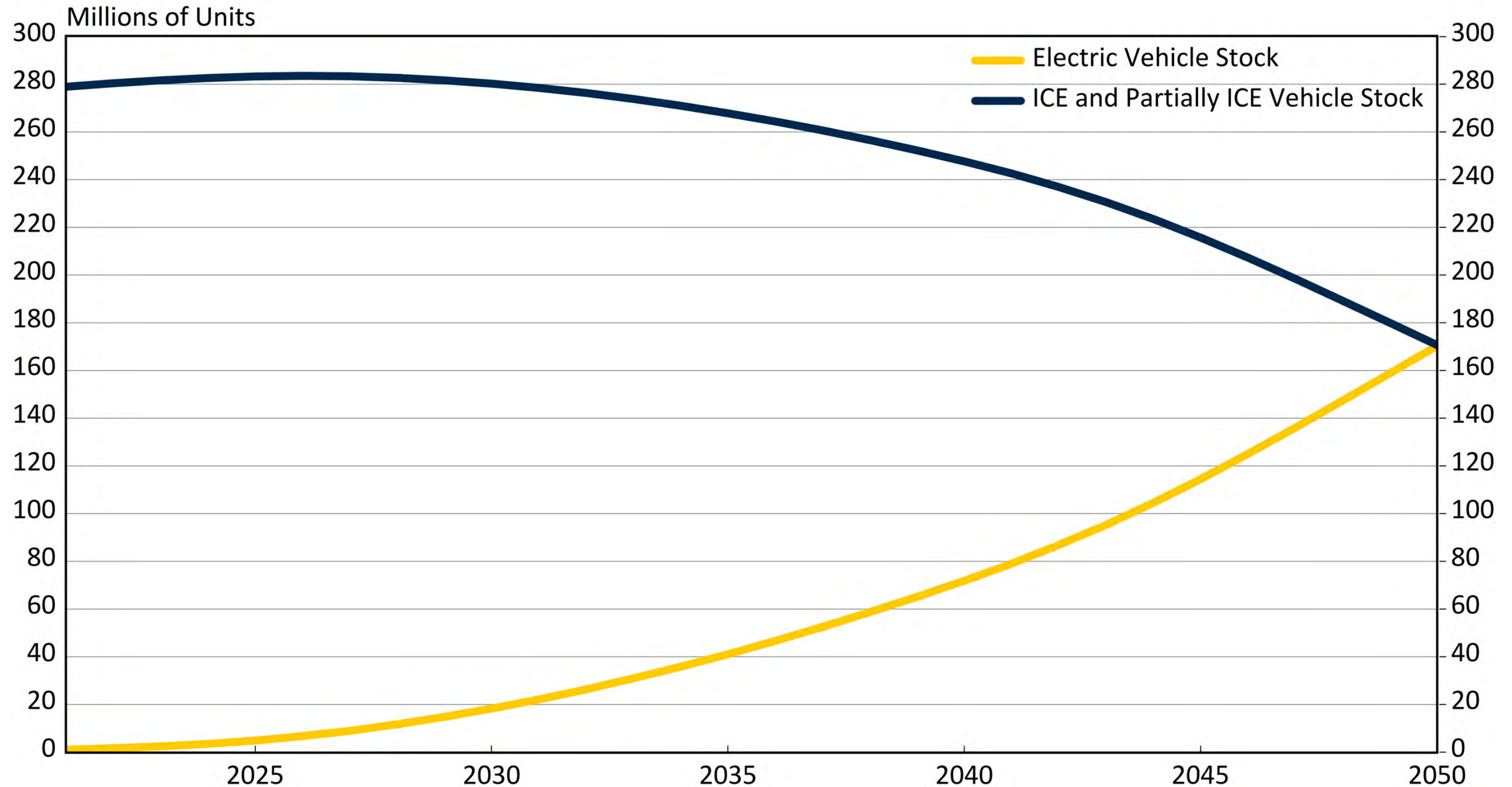


Inflation Devours Michigan Personal Income Gains

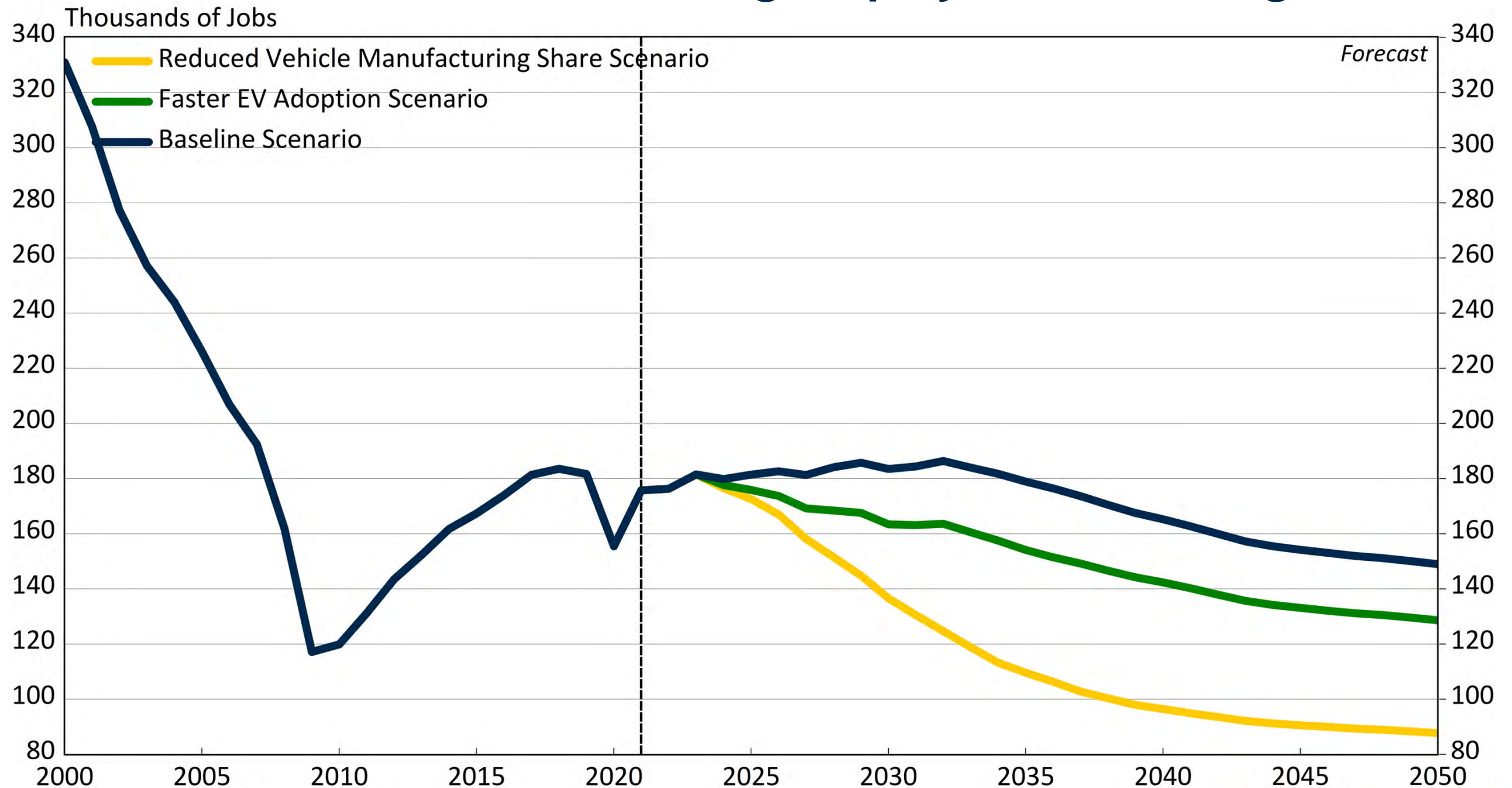


Michigan's Long-Run Outlook and Implications of Vehicle Electrification

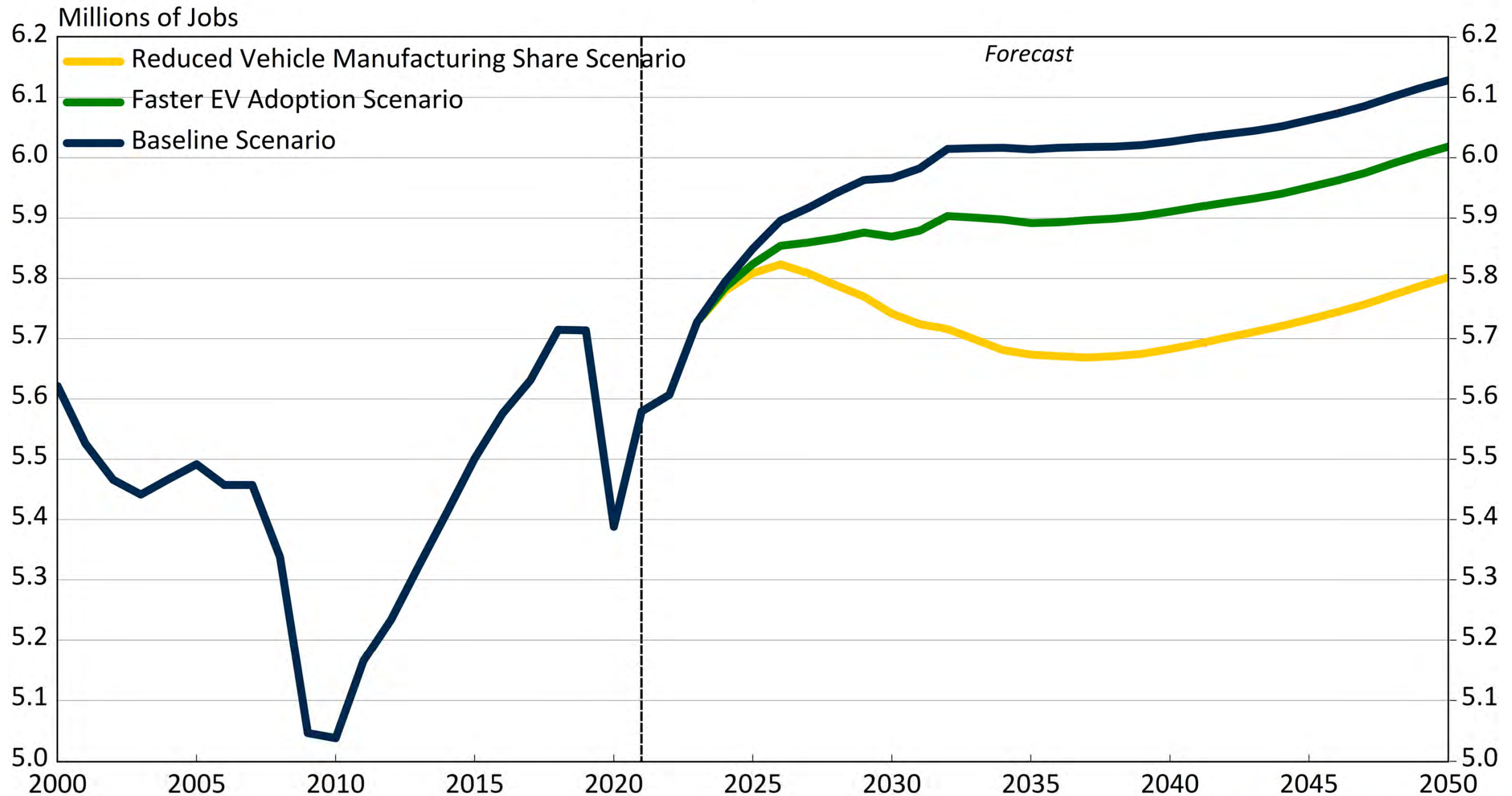
U.S. Light Vehicle Fleet by Power Type: 50% Electric by 2050



Faster EV Adoption/Potential Loss of Detroit Three Share would Reduce Auto Manufacturing Employment in Michigan



Faster EV Adoption Slows Total Michigan Employment Gains; Adding Loss of Market Share Leads to Job Losses through mid-2030s



The Leading Edge of Economic Forecasting since 1952

SAVE THE DATE!

The 71st Annual Economic Outlook Conference will take place on November 16–17, 2023 in Ann Arbor. The conference will feature RSQE's forecasts of the U.S. and Michigan economies plus a range of leading speakers from government, academia, and the private sector.

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