



Economic Outlook

WITH A FOCUS ON REGIONAL BUSINESS CONDITIONS

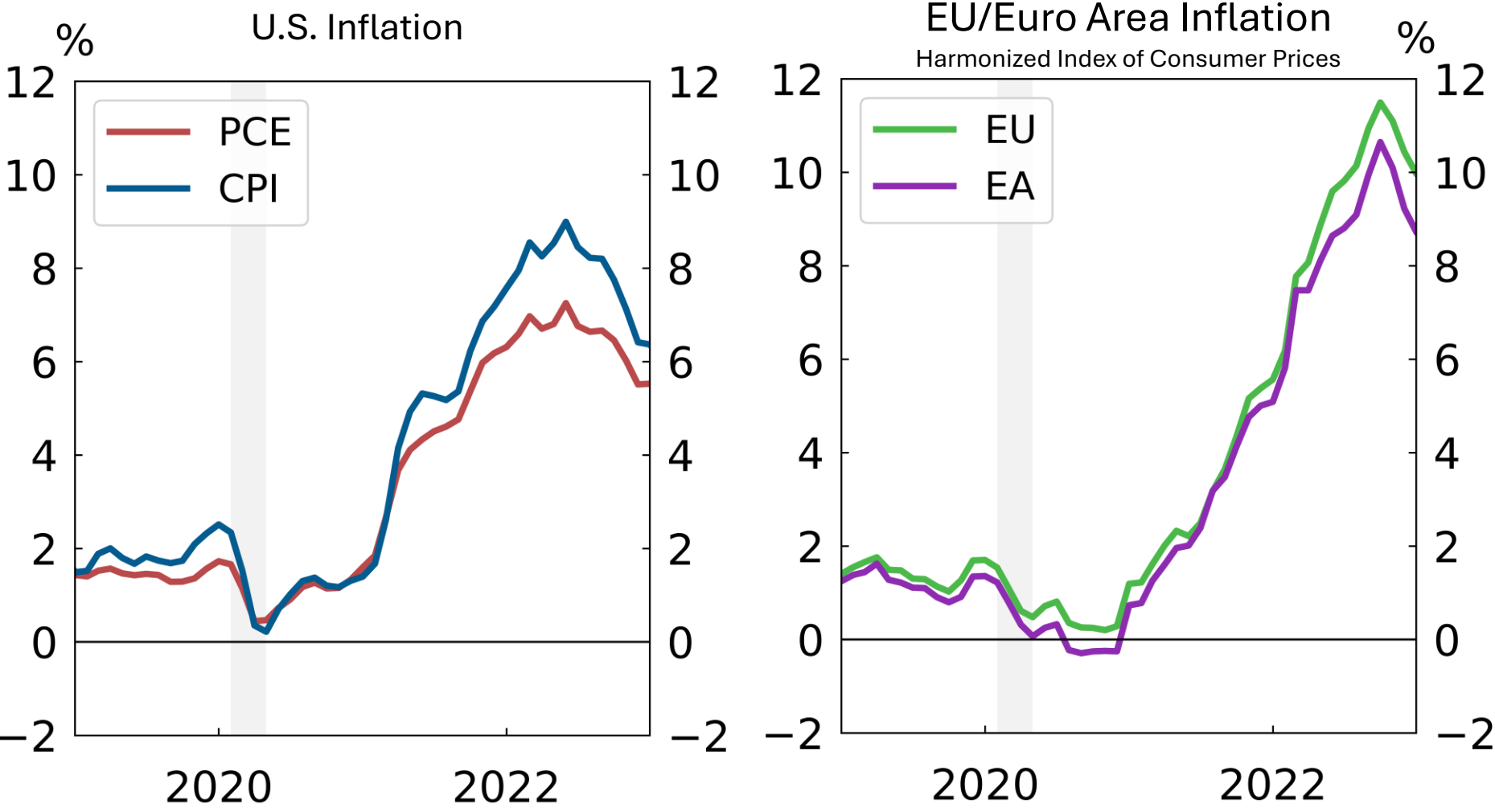
February 13, 2025

| Kartik Athreya, Federal Reserve Bank of New York

The background of the slide features a faint, light-colored graphic. It includes a compass rose with a central sphere, a line graph with a fluctuating line, and the word "ECONOMY" in large, bold, capital letters. The word "ECONOMY" is partially obscured by the word "Disinflation" in the foreground.

Disinflation

Two Years Ago: A Pandemic-Induced Burst Of Inflation Was Upon Us

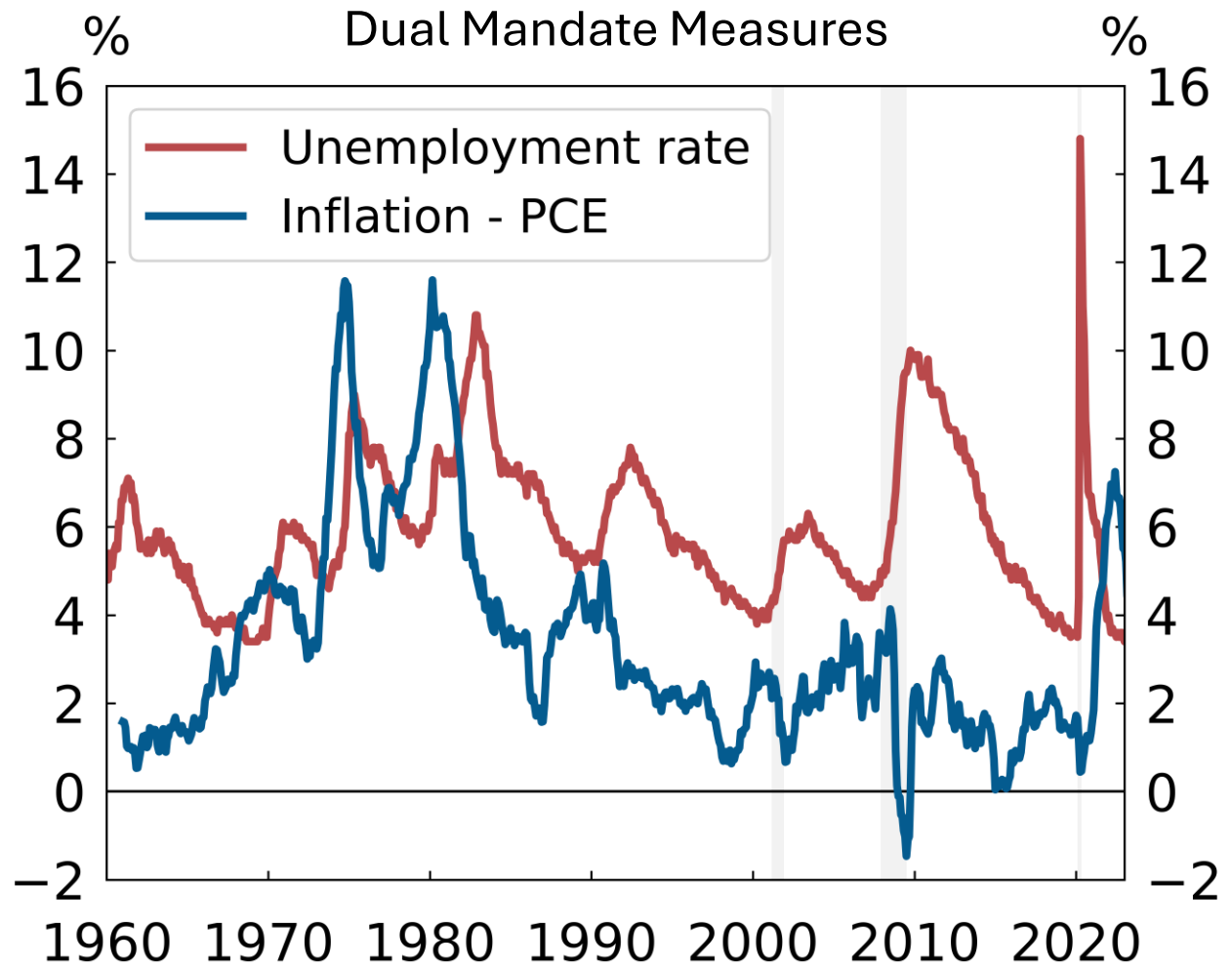


Sources: Haver Analytics, Bureau of Labor Statistics, European Central Bank, Statistical Office of the European Communities.

The Challenge: Could Disinflation Be Done Without a Recession?

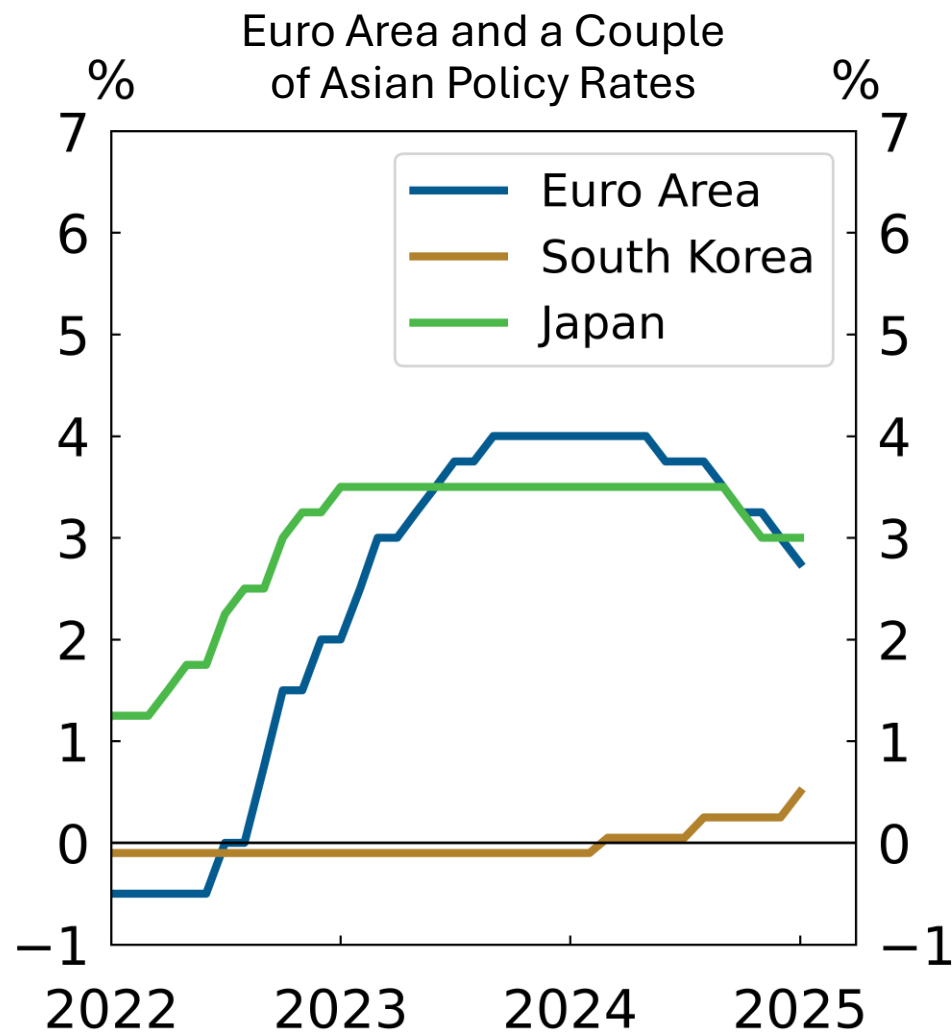
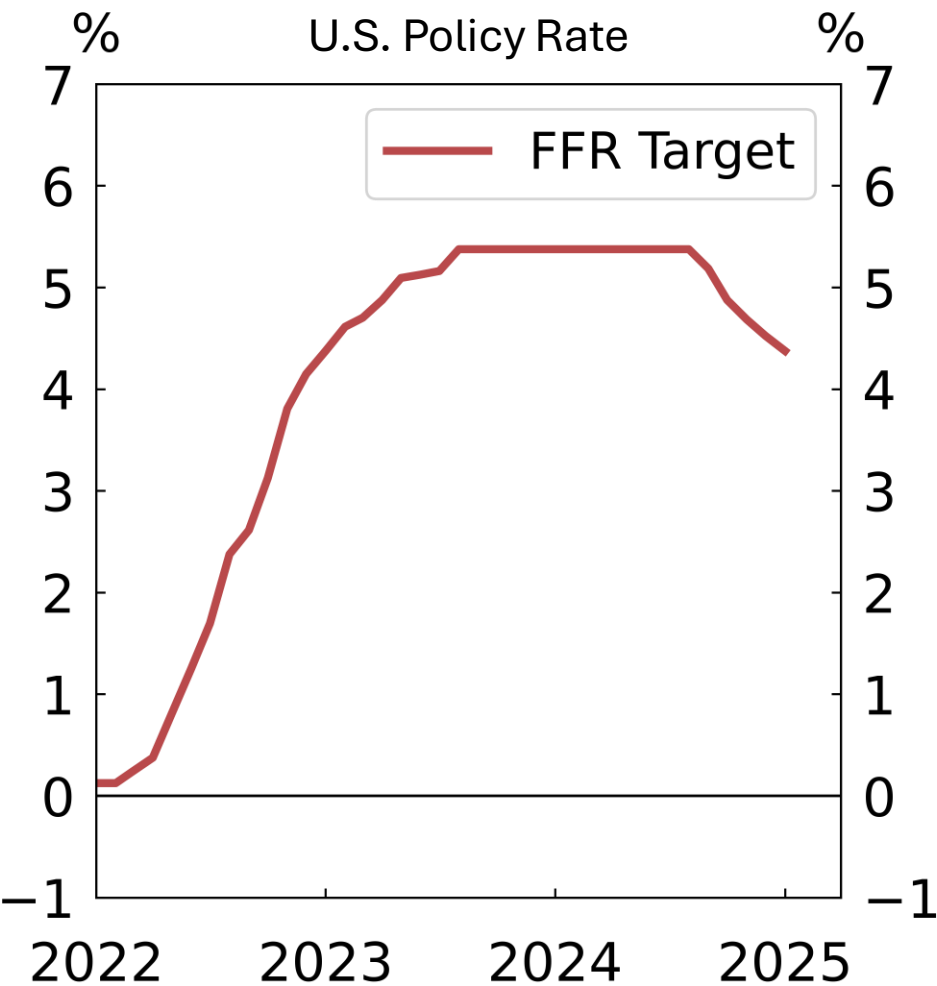
Why was this seen as a challenge?

- Conquests of inflation—or at least, disinflation—have at times been very costly.
- Early 1980s U.S.: Inflation lowered, but deepest recession in postwar (unemployment slightly *higher* than in the Great Recession!)



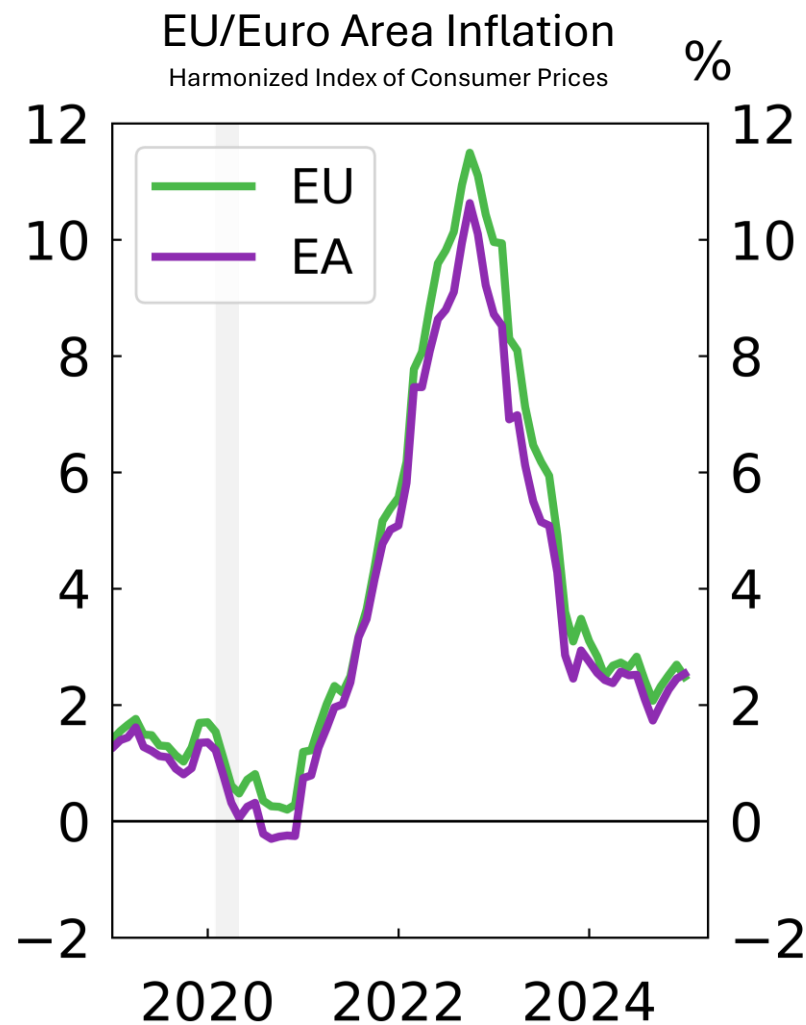
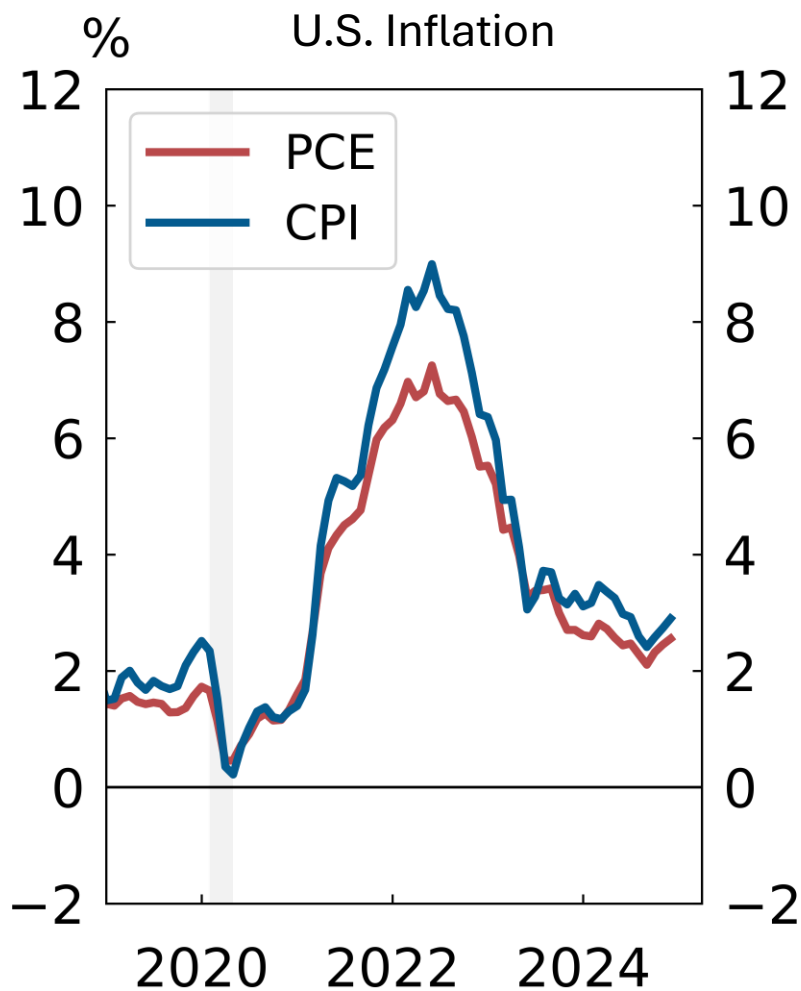
Sources: Haver Analytics, Bureau of Labor Statistics.

Challenge... Accepted



Sources: Haver Analytics, Bureau of Labor Statistics, European Central Bank, Statistical Office of the European Communities.

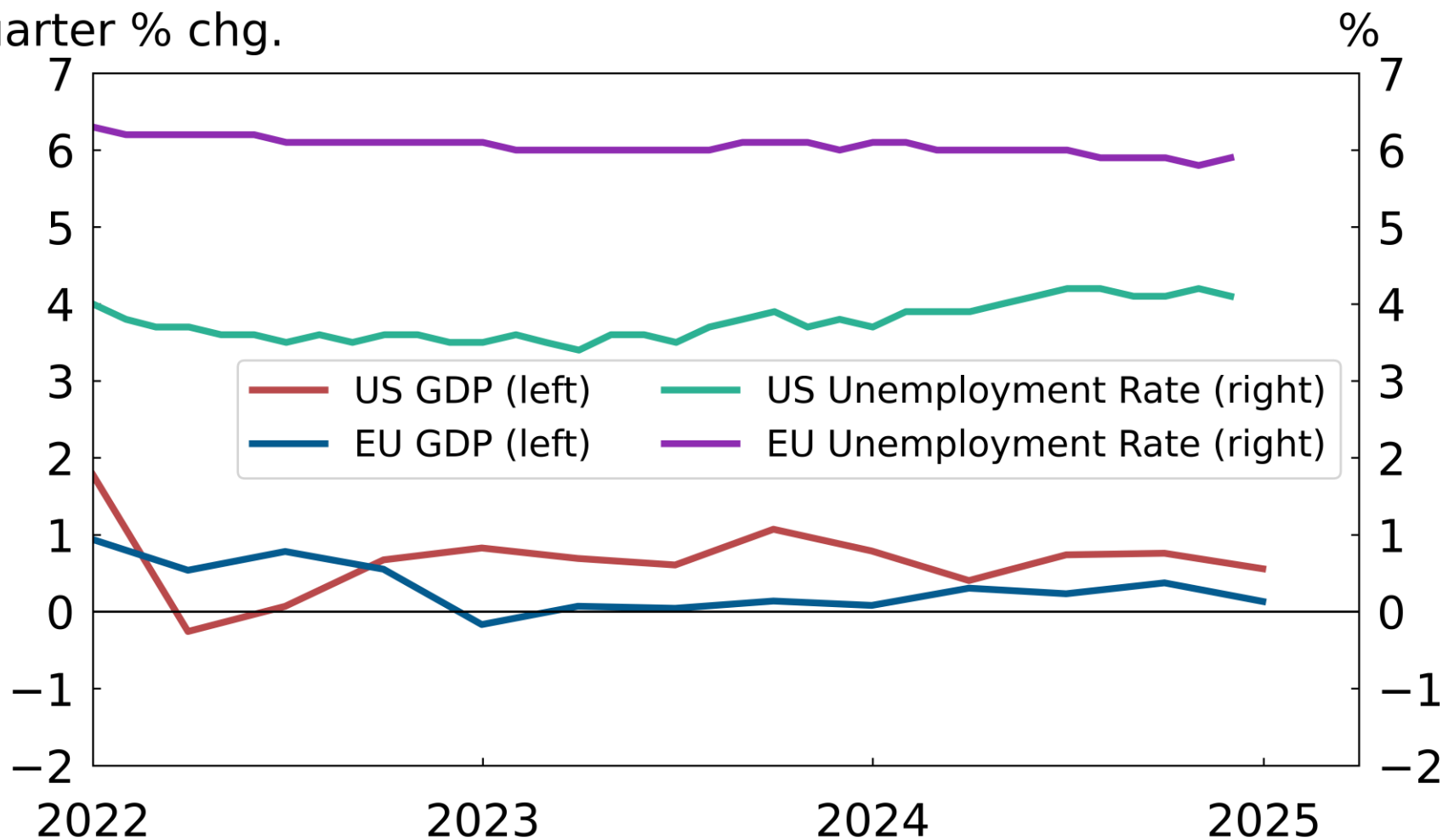
So Far: Challenge... Met



Sources: Haver Analytics, Bureau of Labor Statistics, European Central Bank, Statistical Office of the European Communities.

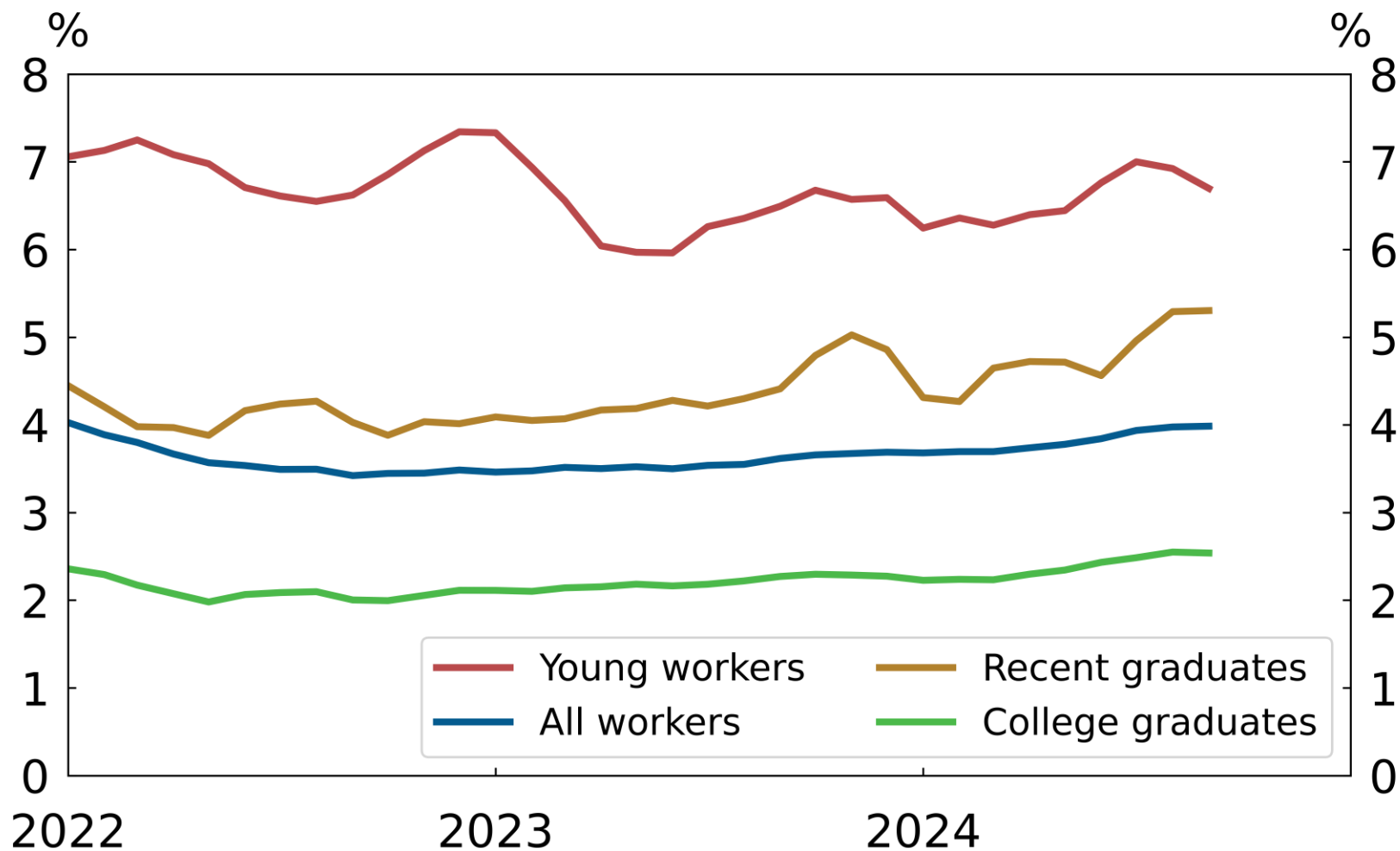
And So Far, A Smooth — Not Traumatic — Disinflation...

1-quarter % chg.



Sources: Haver Analytics, Bureau of Economic Analysis, Bureau of Labor Statistics, Statistical Office of the European Communities.

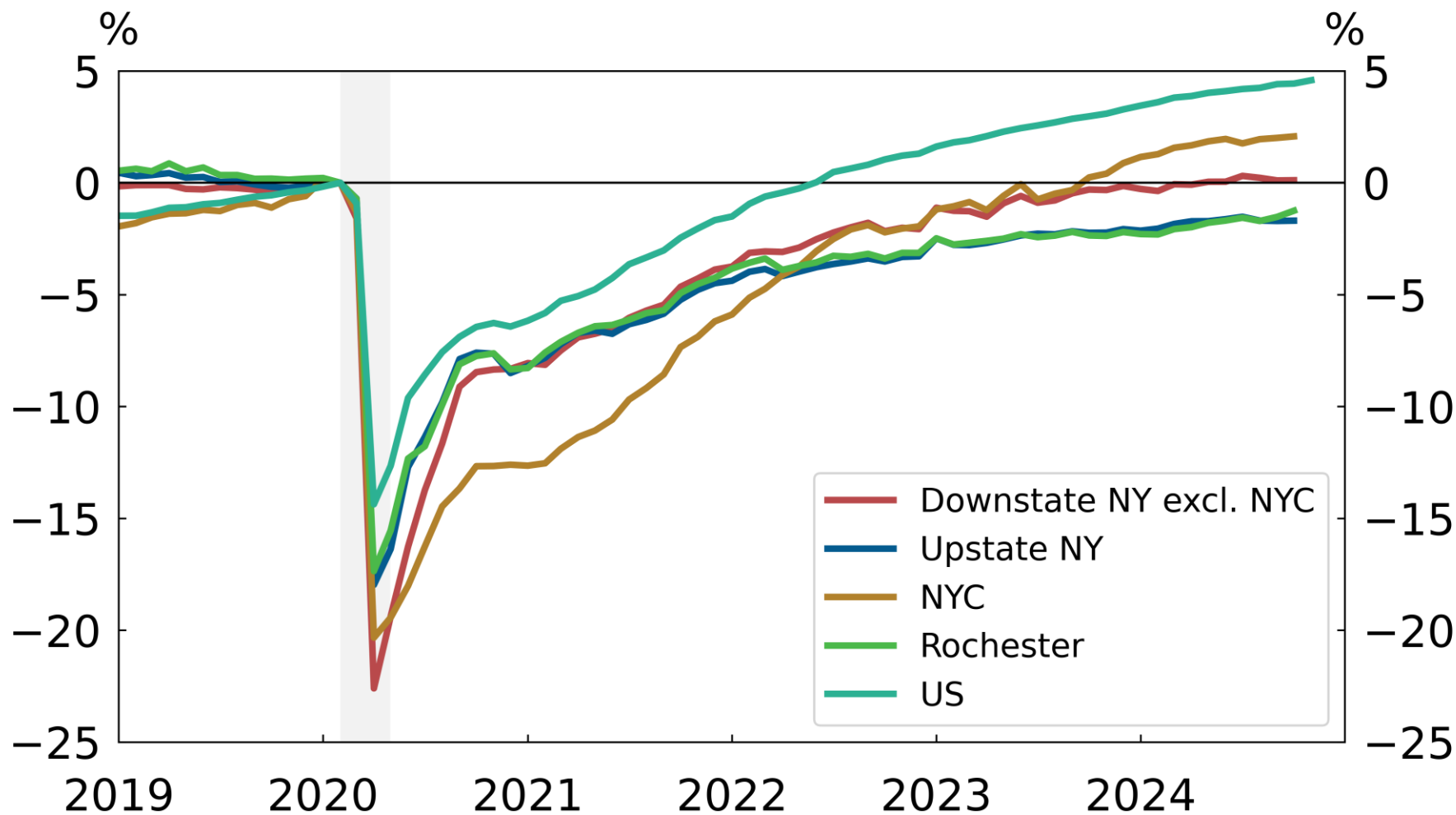
Unemployment Rate Did Not Spike



Sources: BLS Consumer Expenditure Survey microdata, CPI.

Notes: Expenditure shares use 2021 CEX microdata.

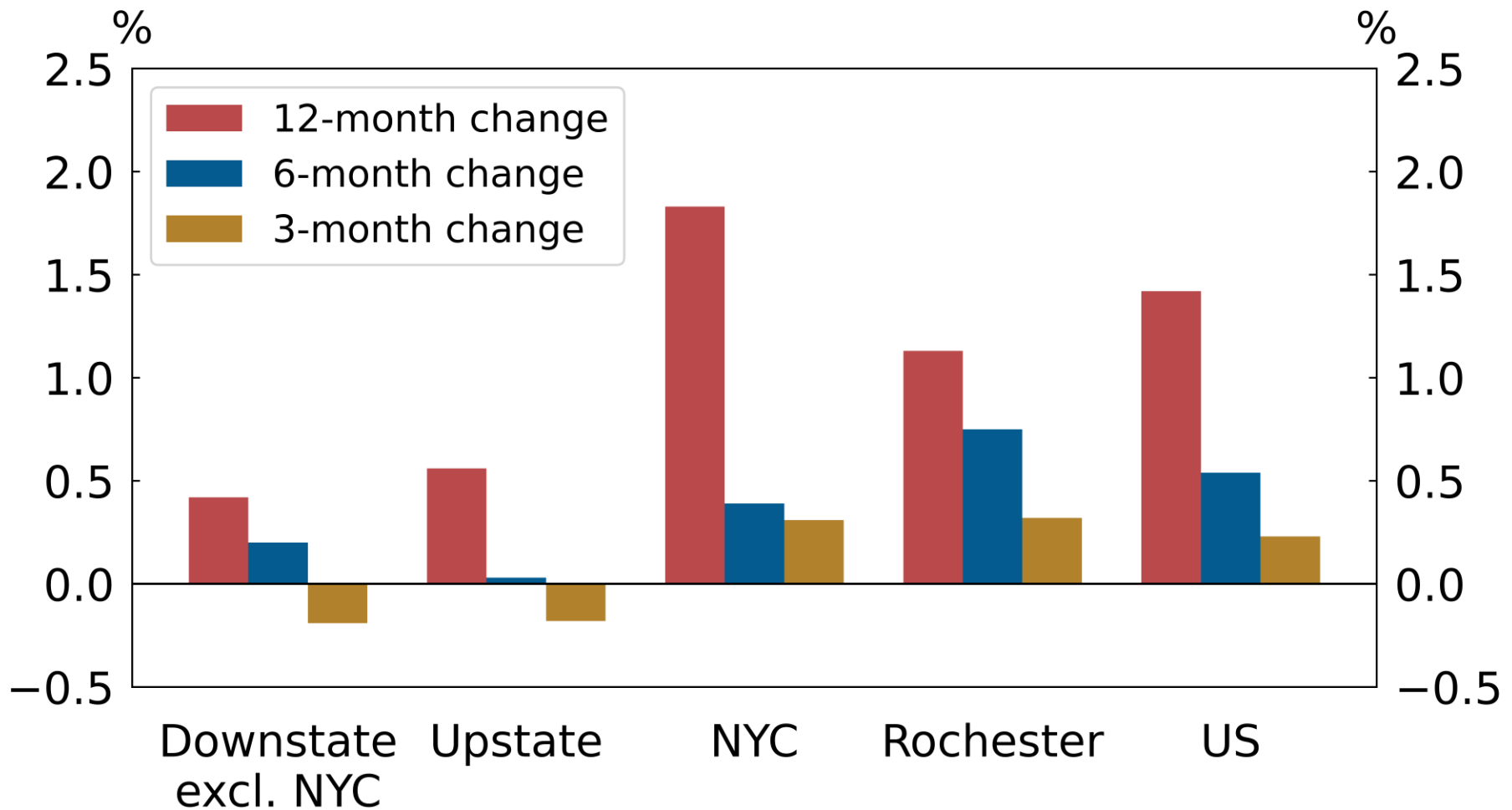
Job Growth Has Been Sustained



Sources: Bureau of Labor Statistics, Moody's Economy.com.

Notes: Regional data are early benchmarked by New York Fed staff.

Our Region's Growth Has Been Solid



Sources: Bureau of Labor Statistics, Moody's Economy.com.

Notes: Regional data are early benchmarked by New York Fed staff.



Why Wasn't Disinflation a Lot Worse?

Modern Central Banking Matters

Longer term inflation expectations remained very stable—did not jump

- Private sector never doubted that inflation would be tamed
- They also understood that conditions had changed and needed response
 - 2021-22 was that response: Rapid and large rate hikes

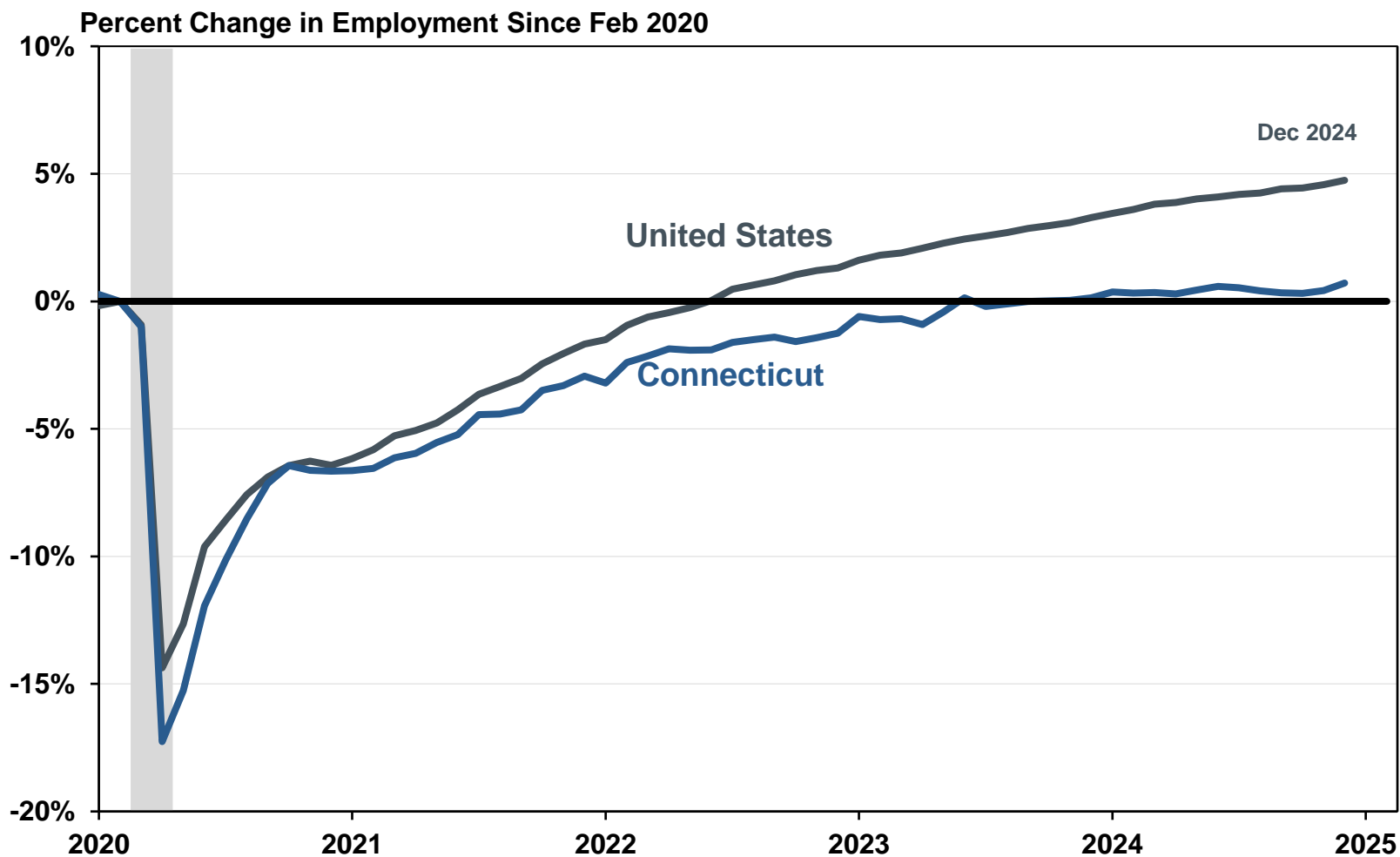
Stable inflation expectations + rate hikes means:

- Expected “real” interest rates that guide decisions rose
- Economic growth slowed
- Pressure on businesses and households to ask for price and wage hikes abated



Regional Business Conditions: Spotlight on Connecticut

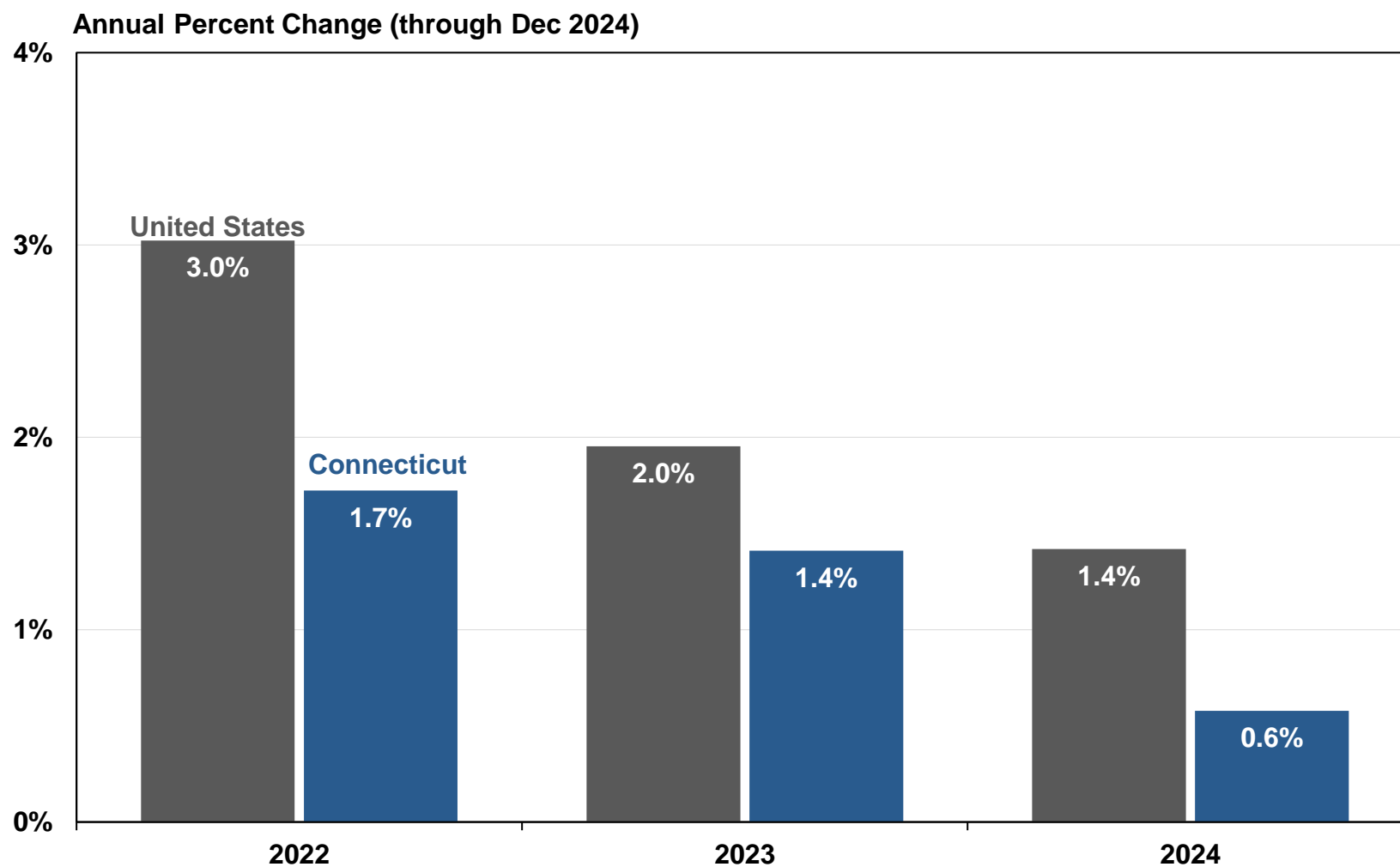
Employment Trends Since the Pandemic



Sources: Bureau of Labor Statistics, Moody's Economy.com.

Notes: Regional data are early benchmarked by New York Fed staff.

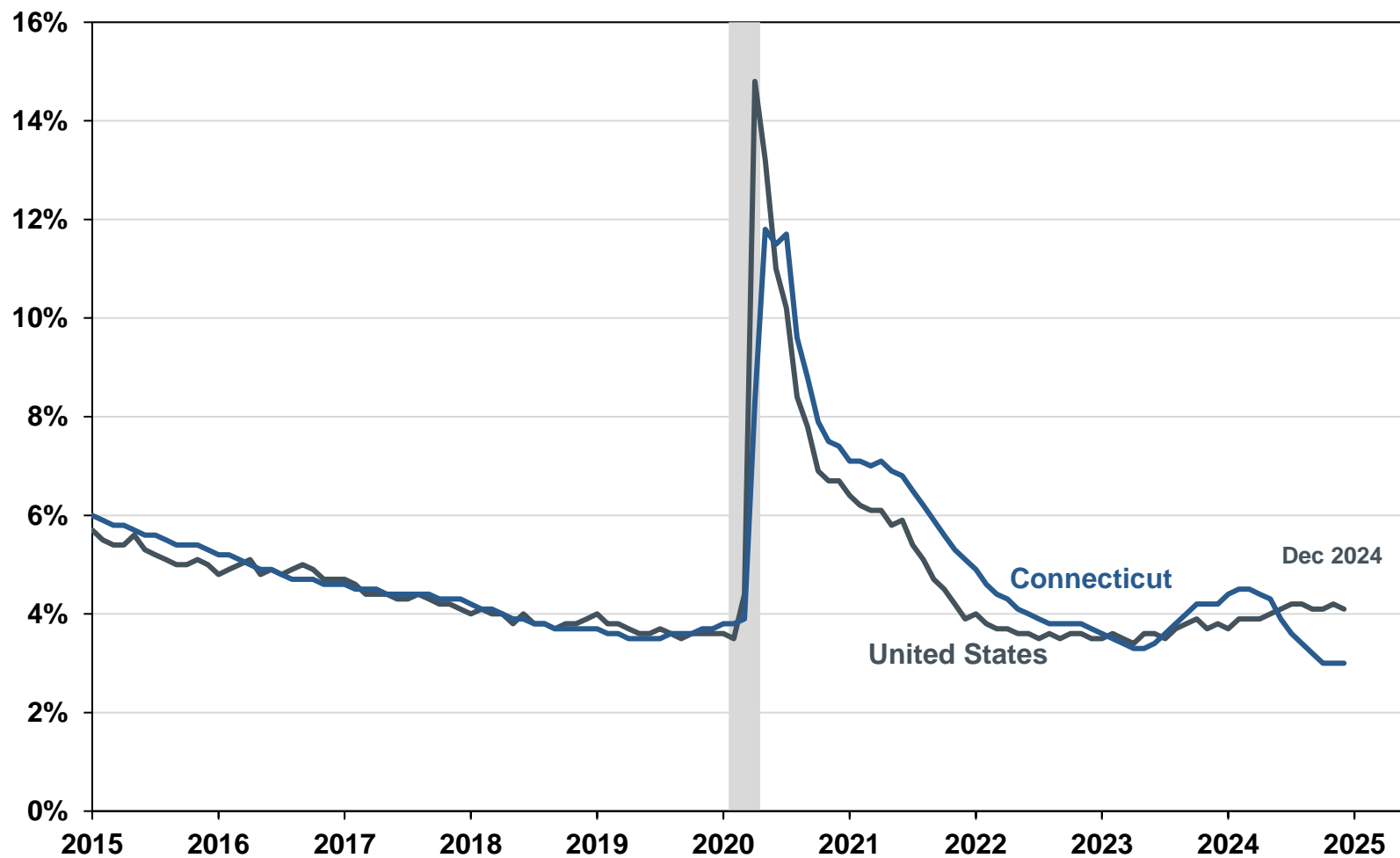
Recent Employment Growth



Sources: Bureau of Labor Statistics, Moody's Economy.com.

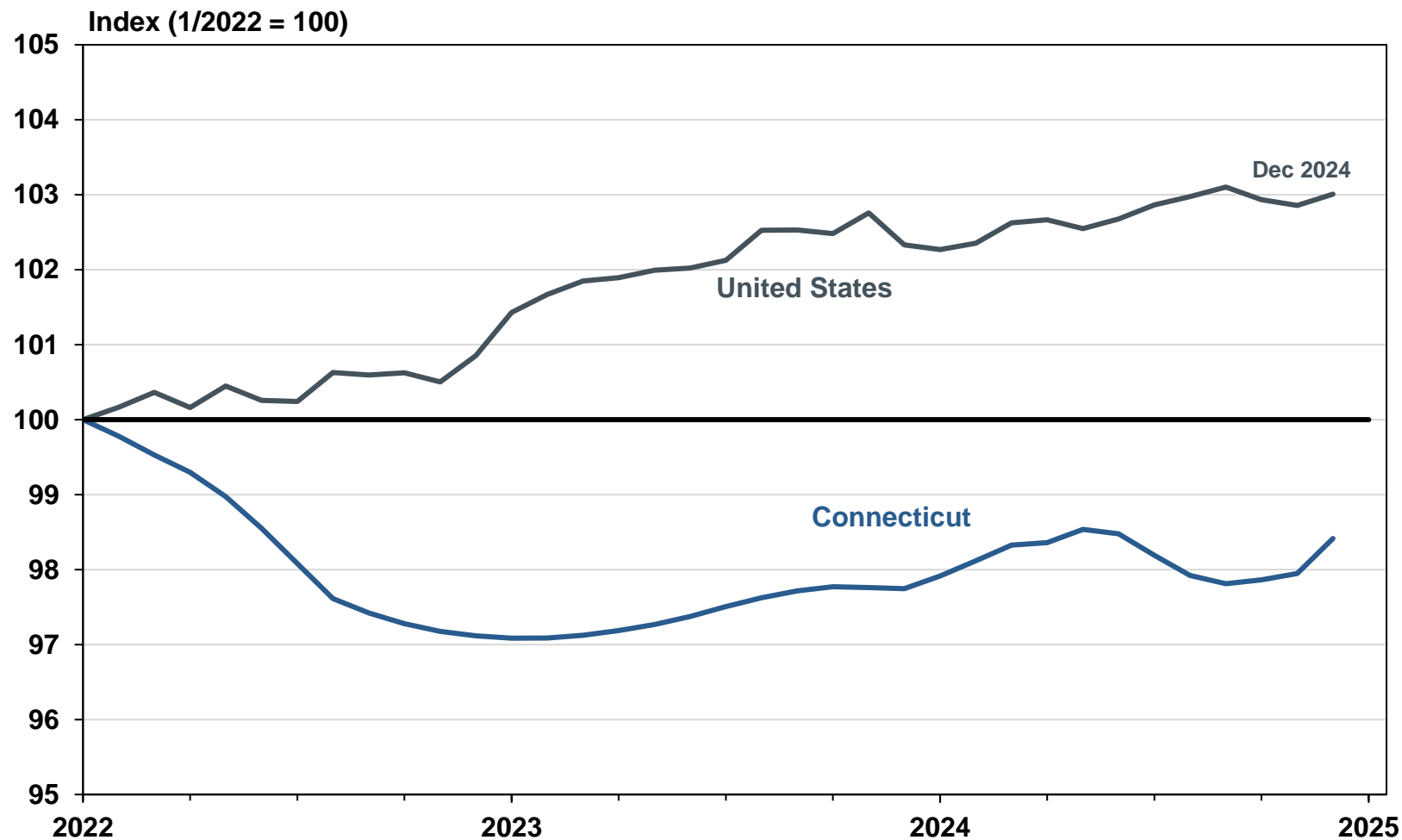
Notes: Regional data are early benchmarked by New York Fed staff.

Unemployment Rates



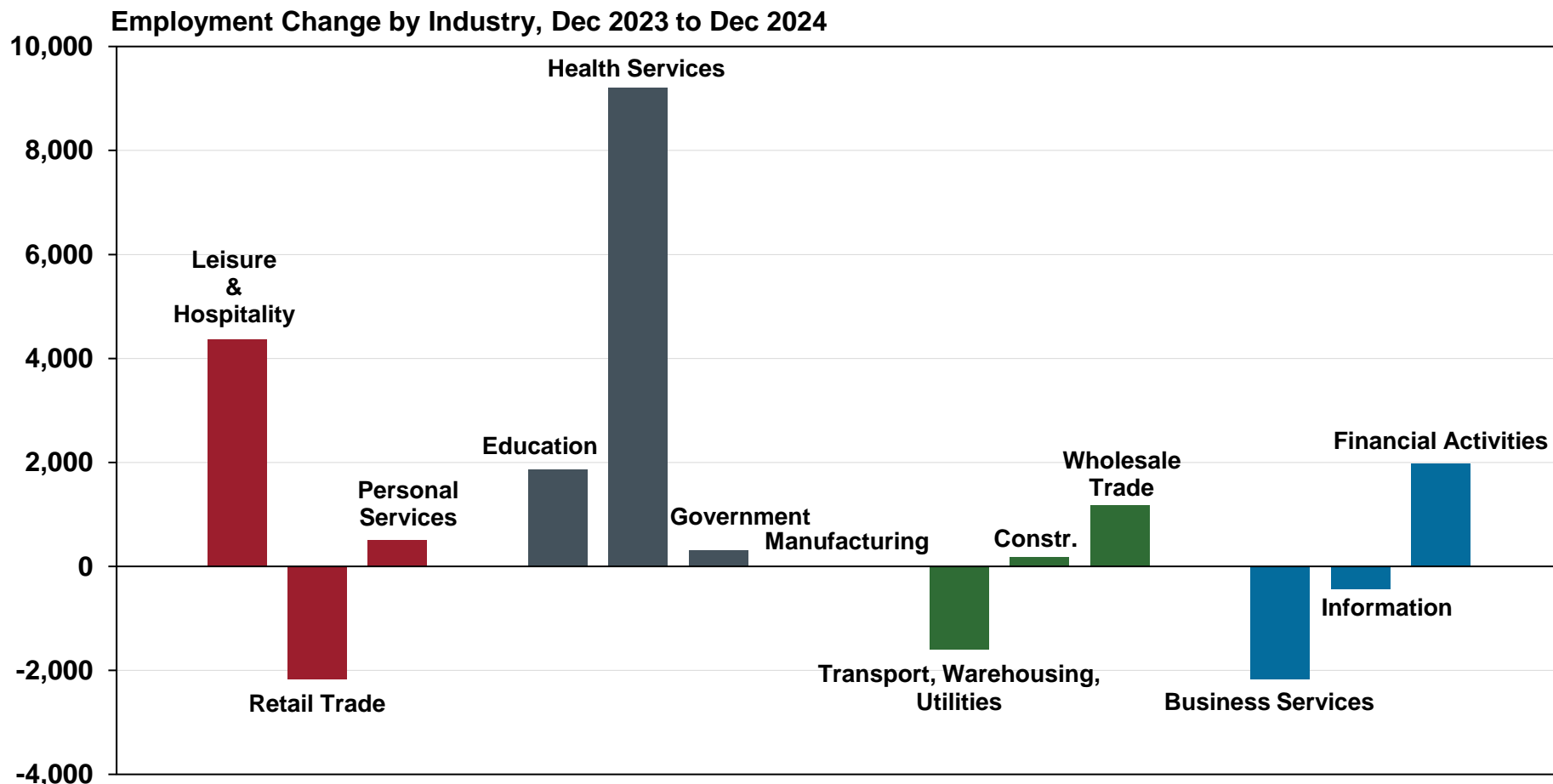
Sources: Bureau of Labor Statistics, Moody's Economy.com.

Recent Change in the Labor Force



Sources: Bureau of Labor Statistics, Moody's Economy.com.

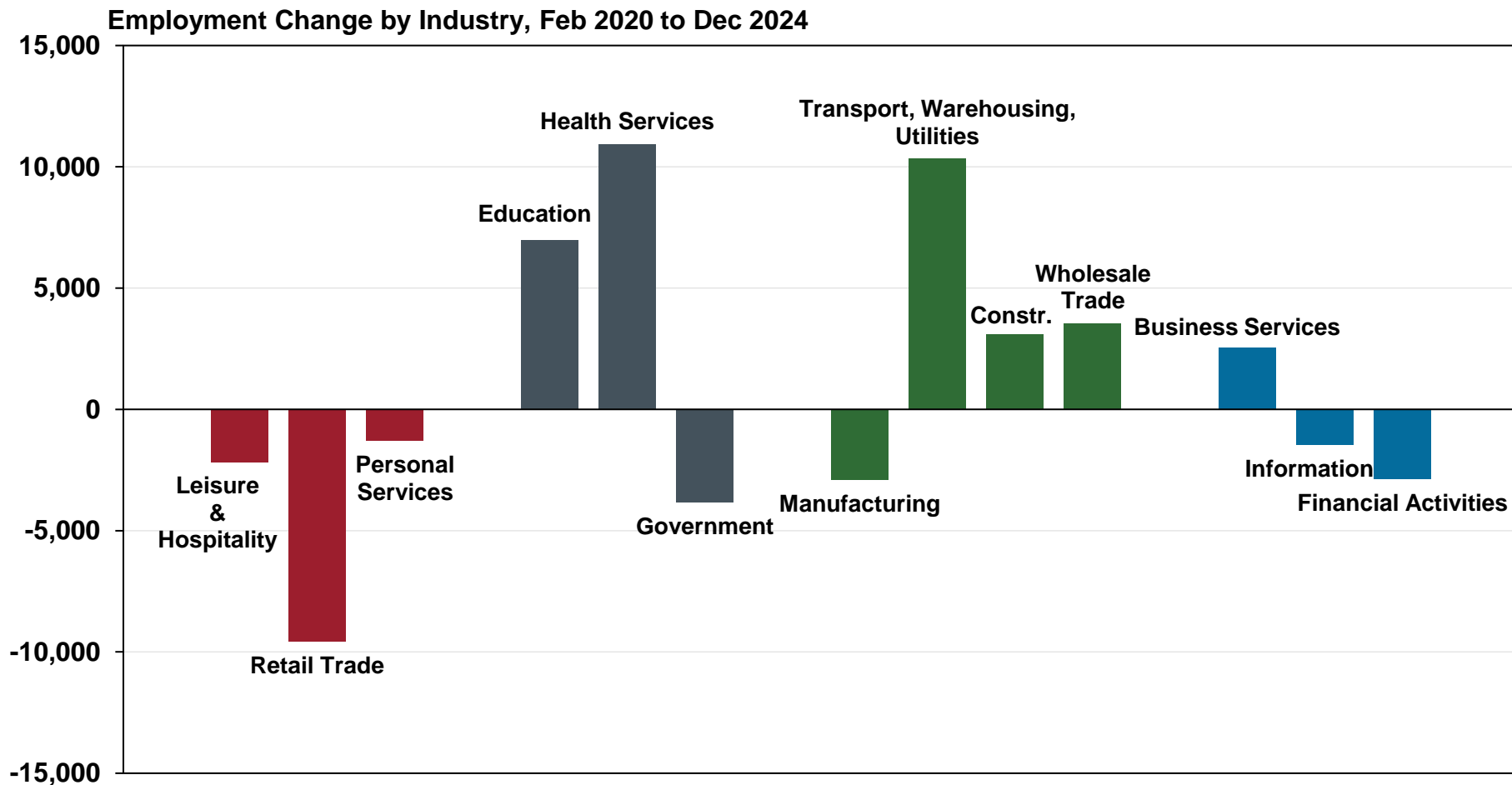
Recent Sectoral Employment Trends



Sources: Bureau of Labor Statistics, Moody's Economy.com.

Notes: December endpoints are a three-month average.

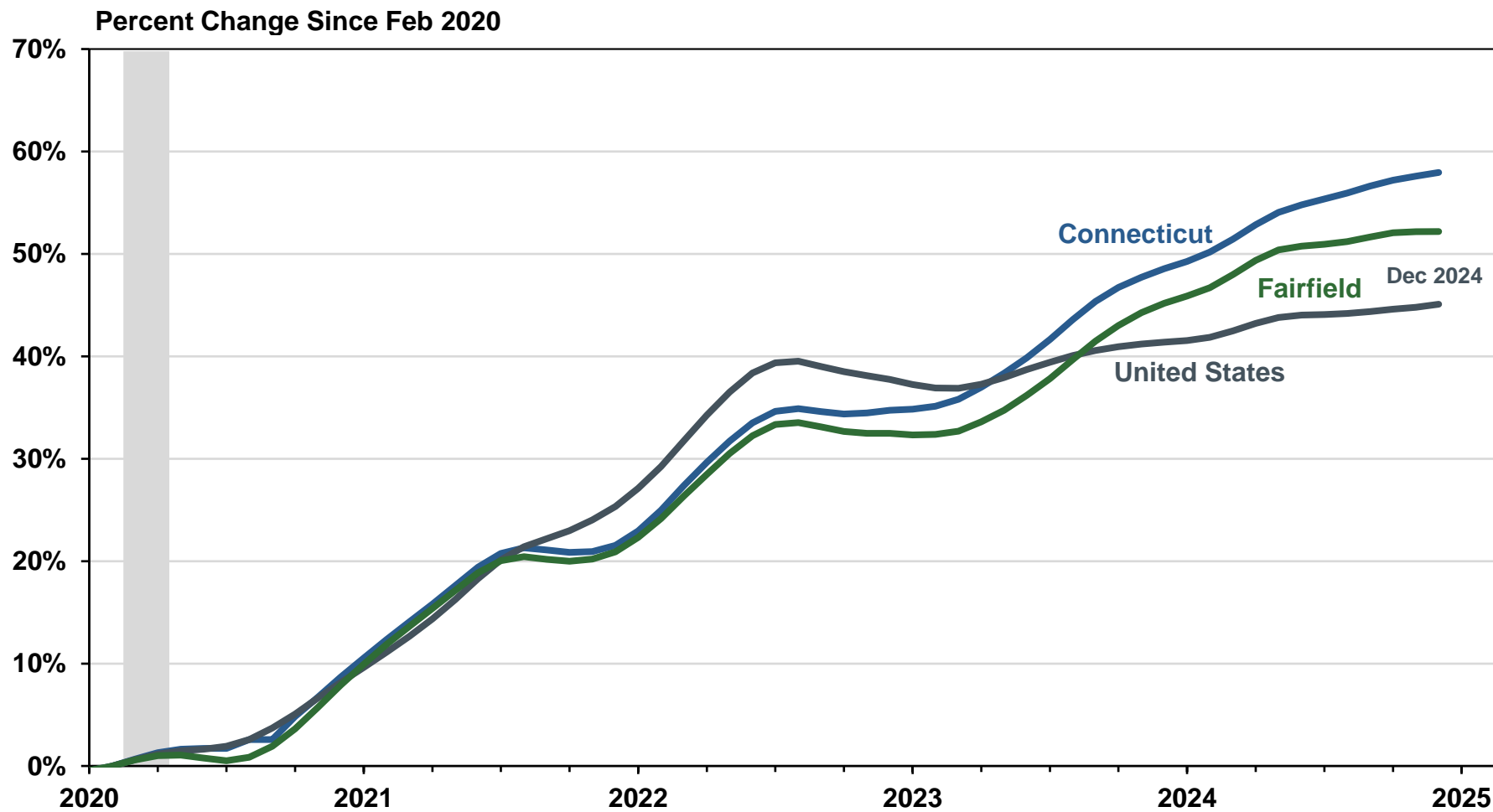
Sectoral Employment Trends Since Pandemic



Sources: Bureau of Labor Statistics, Moody's Economy.com.

Notes: December endpoints are a three-month average.

Home Price Trends



Sources: Zillow Home Value Index.

Connecticut Economy

Job growth has slowed; employment growth is below national average

- 0.6% (CT) vs 1.4% (national) employment growth in 2024

Unemployment rate has fallen

- 3% in 2024, lowest level in over two decades
- Driven by shrinking labor force rather than strong job growth

Recovery has been patchy

- Healthcare has largest job gains over past year
- Retail, L&H, and finance remain relatively weak

Housing market remains solid

- Home price growth outpaces national average
- Increased by 60% in Connecticut and 50% in Fairfield County during the pandemic boom



Questions, Comments, Thoughts?



Appendix: Special Free Bonus Material

Modern Central Banking Means Communication...

"For starters, **we need to raise interest rates to a level that is sufficiently restrictive to return inflation to 2 percent.**"

- Chair Powell at the Hutchins Center on Fiscal and Monetary Policy, Brookings Institution (Nov 30, 2022)

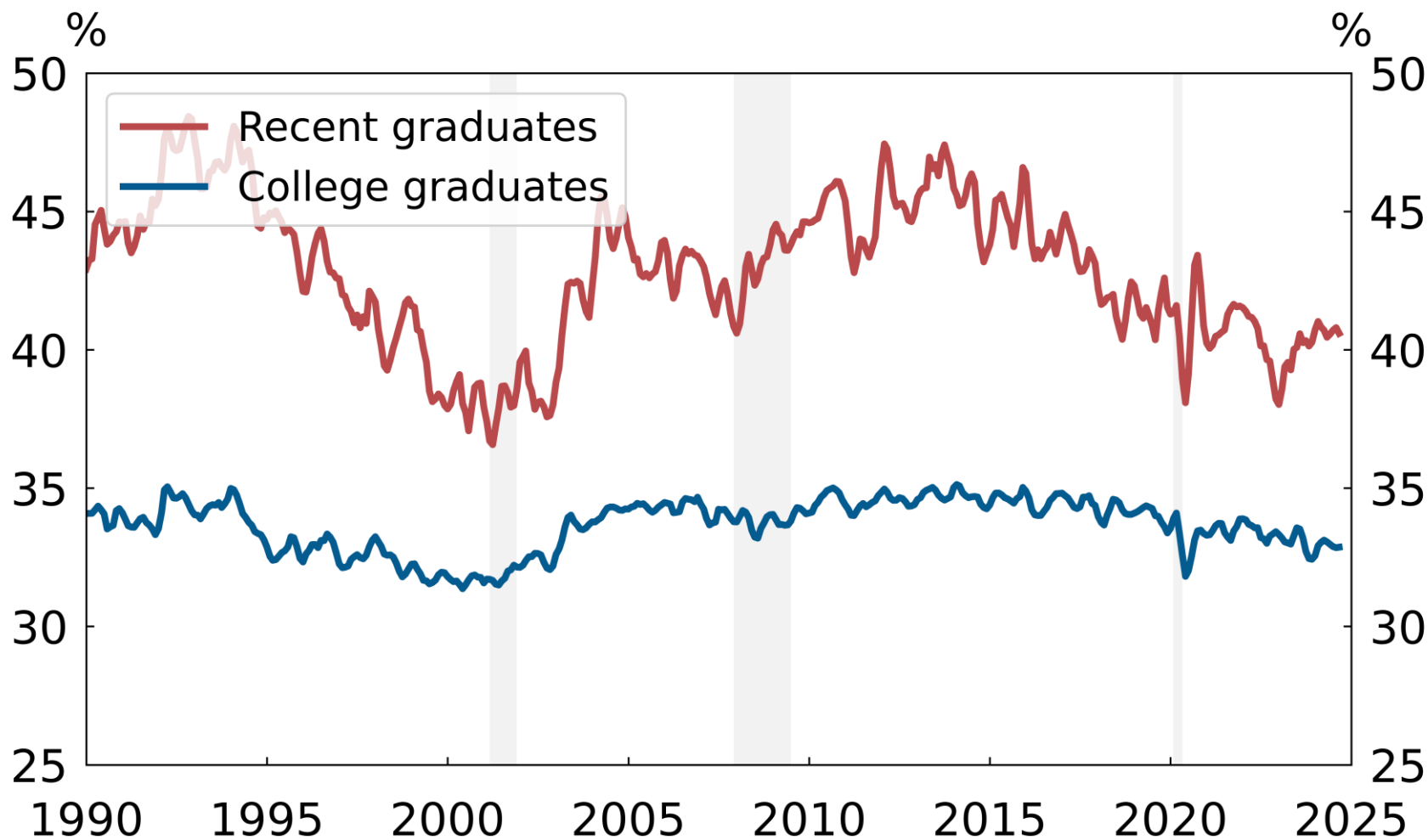
"In conclusion, inflation is still too high, and **we will use our monetary policy tools to restore price stability.** I am confident that we will attain and maintain a sufficiently restrictive stance to bring inflation down to our 2 percent longer-run goal."

- NY Fed President Williams at NYU (April 19, 2023)

"Two percent is and will remain our inflation target. **We are committed to achieving and sustaining a stance of monetary policy that is sufficiently restrictive** to bring inflation down to that level over time."

- Chair Powell at Jackson Hole, WY (Aug 25, 2023)

Underemployment in Line with Past Trends



Sources: Federal Reserve Bank of New York, *The Labor Market for Recent College Graduates*.

New York Fed Content That I Hope You'll Read!

- [Every Dollar Counts: The Top 5 Liberty Street Economics Posts of 2024](#)
- [A New Indicator of Labor Market Tightness for Predicting Wage Inflation](#)
- [Tracking Reserve Ampleness in Real Time Using Reserve Demand Elasticity](#)
- [Why Do Forecasters Disagree about Their Monetary Policy Expectations?](#)
- [The Federal Reserve and its Monetary Policy Implementation Framework](#)