

# Outlook for the US and Illinois economies



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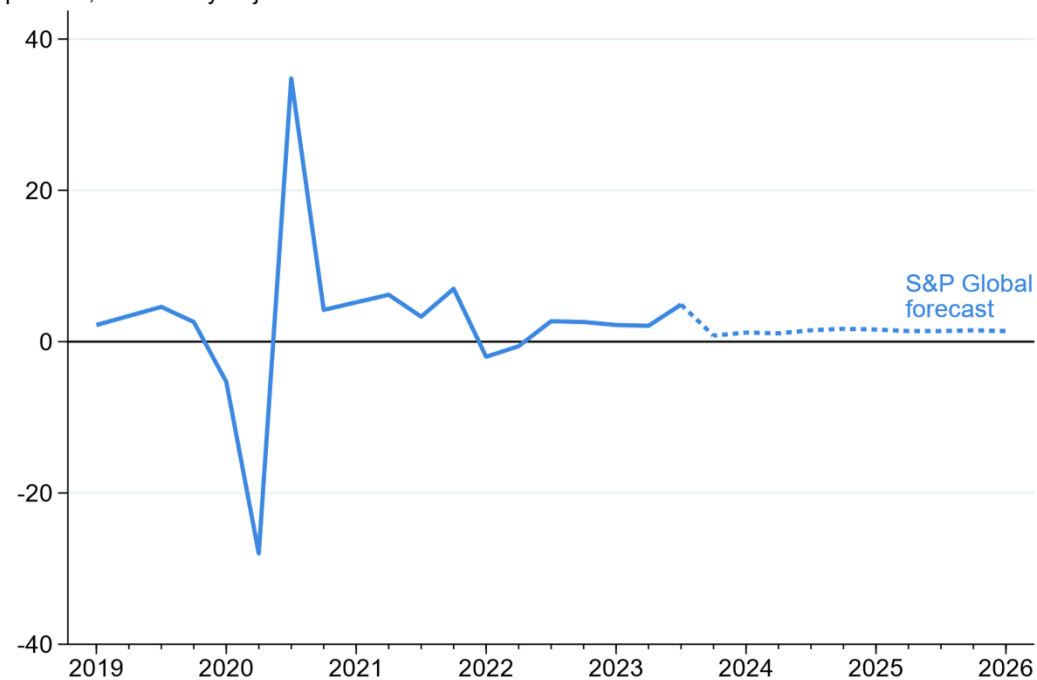
FEDERAL RESERVE BANK *of* CHICAGO

# Slow growth ahead

- 2023 better than expected; 2024 gives back some of it
- Forecast
  - Q1-2024 to Q1-2025: 1.5%
  - Longer Run: 1.8%
- Risks to the forecast
  - Inflation stops slowing
  - Unknown lagged effects of interest rate increases
  - Geopolitical upheaval

## Real GDP growth

percent, seasonally adjusted annual rate

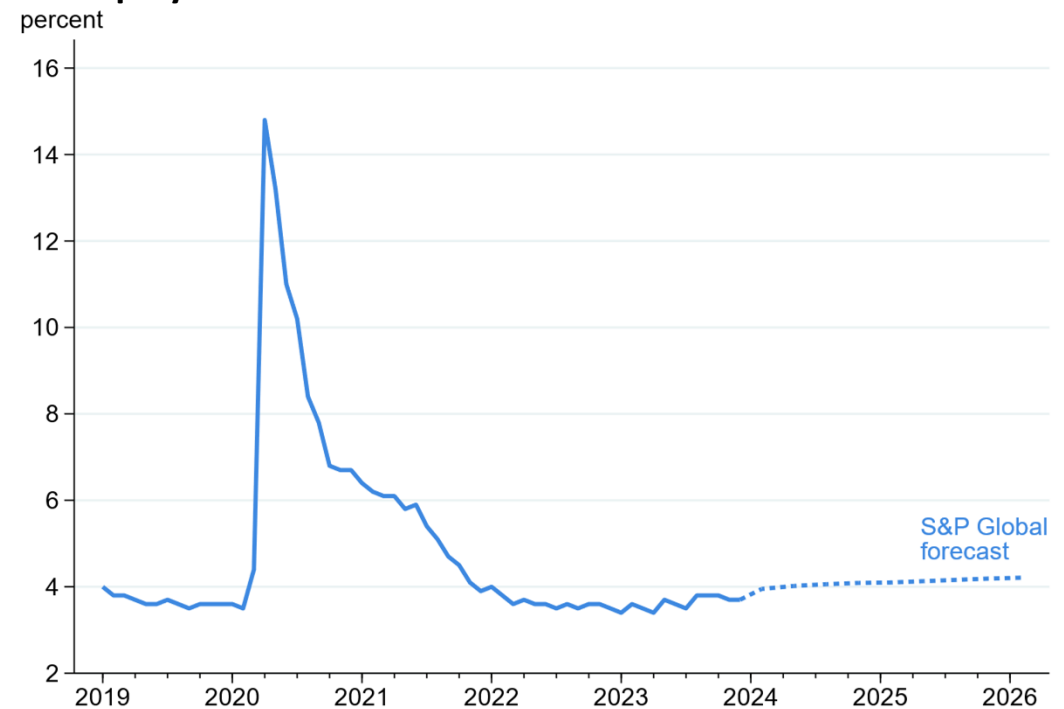


Source: Bureau of Economic Analysis and S&P Global from Haver Analytics

# Soft landing in sight

- Unemployment expected to move above long run rate, but not by far
  - 4.1% in Q1-2025
  - Peak at 4.4% in 2027
  - Longer run: 4.0%

## Unemployment



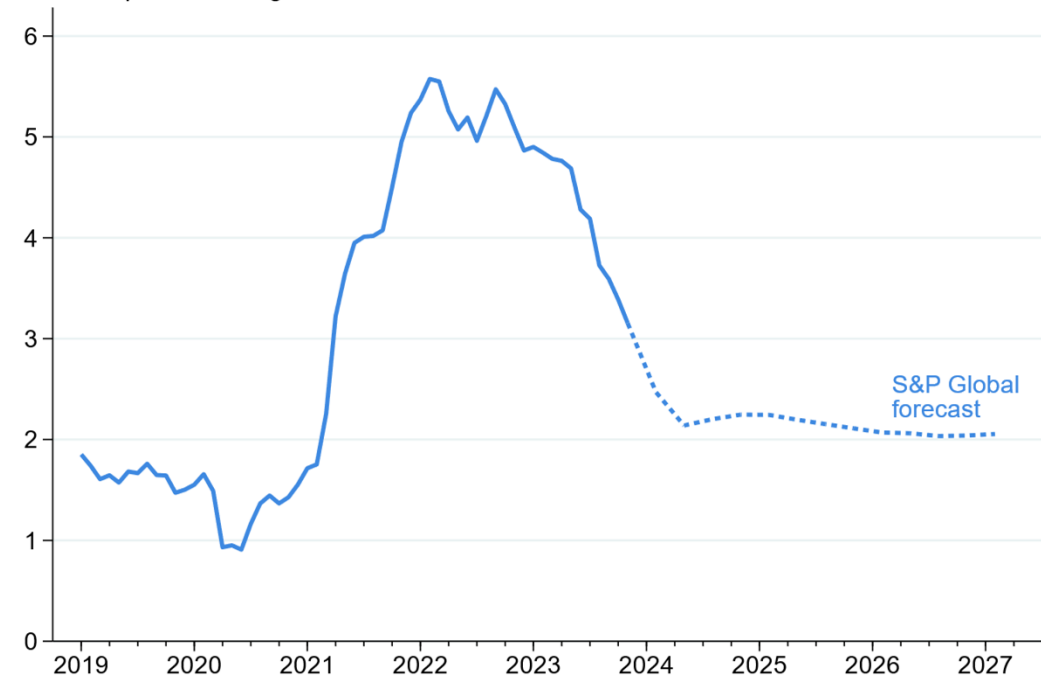
Source: Bureau of Labor Statistics and S&P Global from Haver Analytics

# Good progress on inflation

- S&P Global forecast for Q1-2024 to Q1-2025: 2.24%
  - Fed's target: 2.0%

## Core Personal Consumption Expenditures price index

12-month percent change

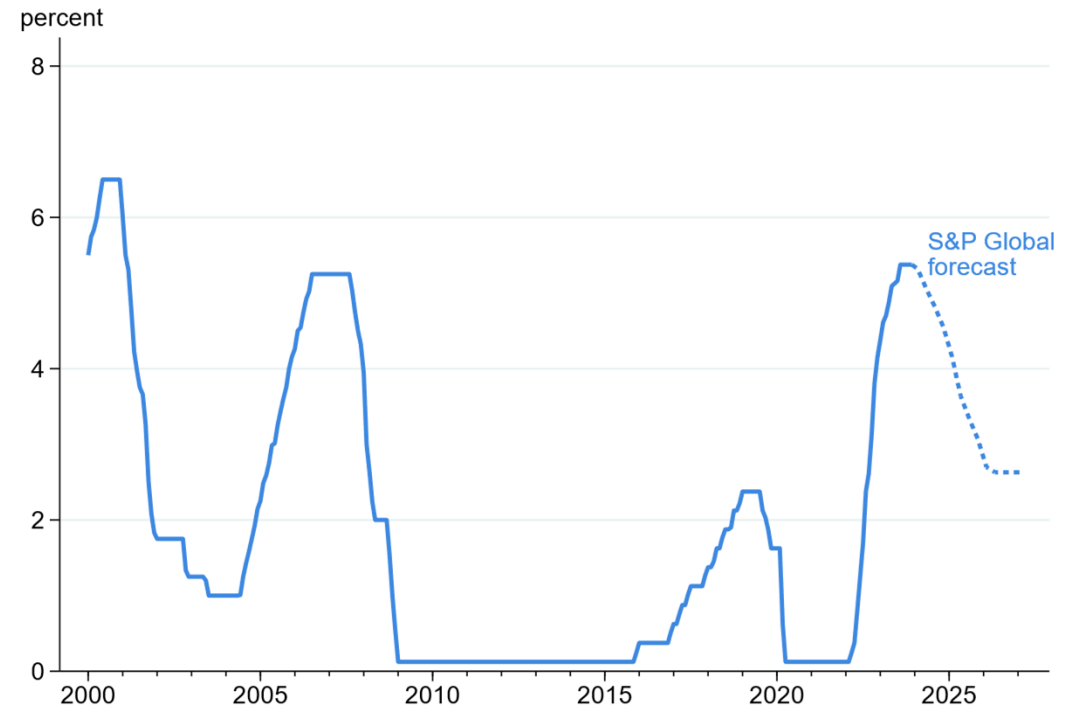


Source: Bureau of Economic Analysis and S&P Global from Haver Analytics

# Fed Funds Rate has probably peaked

- Forecasted peak of 5.375% this quarter
- Latest FOMC SEP says something similar
- “Neutral”: 2.625%

## Fed Funds Rate

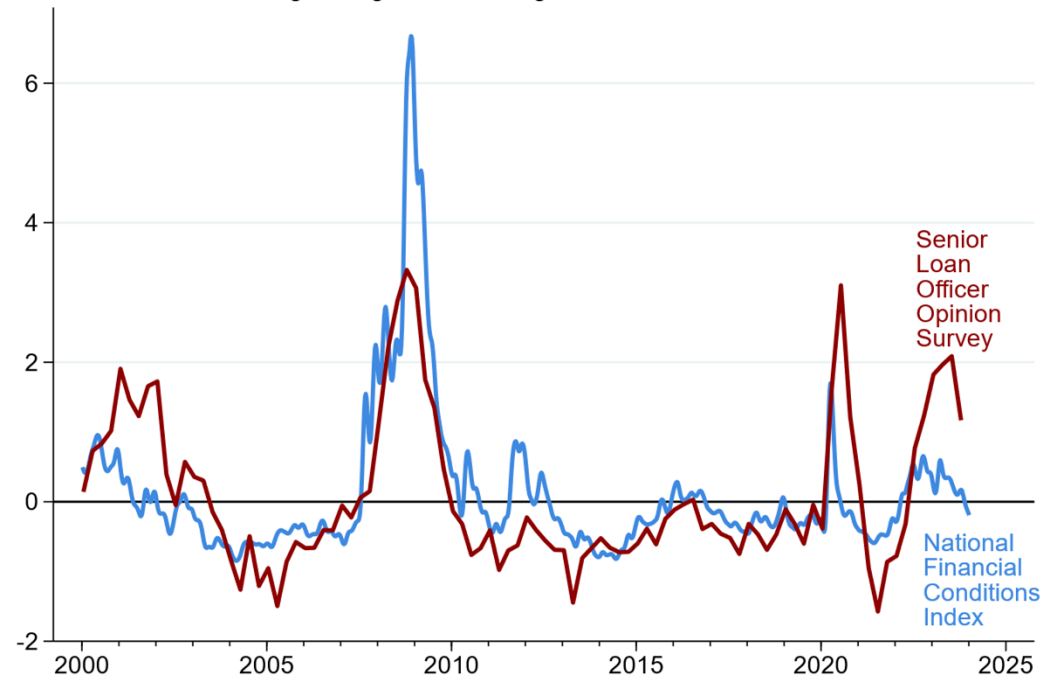


Source: Federal Reserve Board and S&P Global from Haver Analytics

# Credit conditions easing some

## National Financial Conditions Index and Senior Loan Officer Opinion Survey

standard deviations, + = tightening, - = loosening



Source: Chicago Fed and Federal Reserve Board from Haver Analytics

# Labor supply bounceback was *not* over in 2023

- 0.5pp higher rate equals 1.3 million more people

Labor force participation rate



Source: Bureau of Labor Statistics and S&P Global from Haver Analytics

# Supply chain problems got better

## Global Supply Chain Pressures Index

standard deviations, + = above 25-year average



Source: New York Fed from Haver Analytics

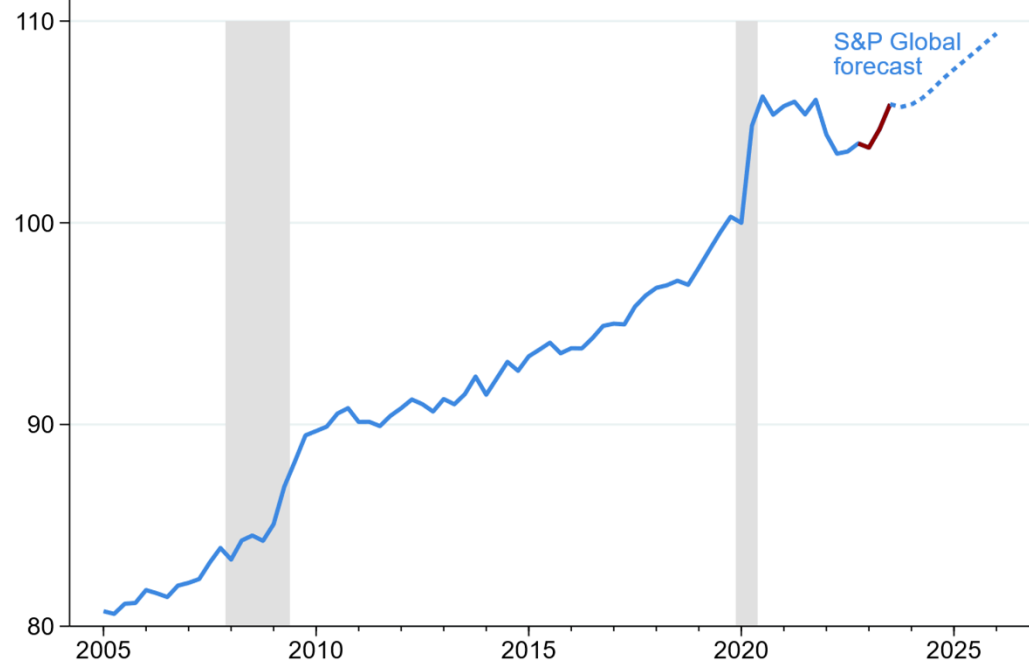


# Productivity picked up

- Grew faster than trend

## Index of output per hour worked

percent, 2020-Q1 = 100



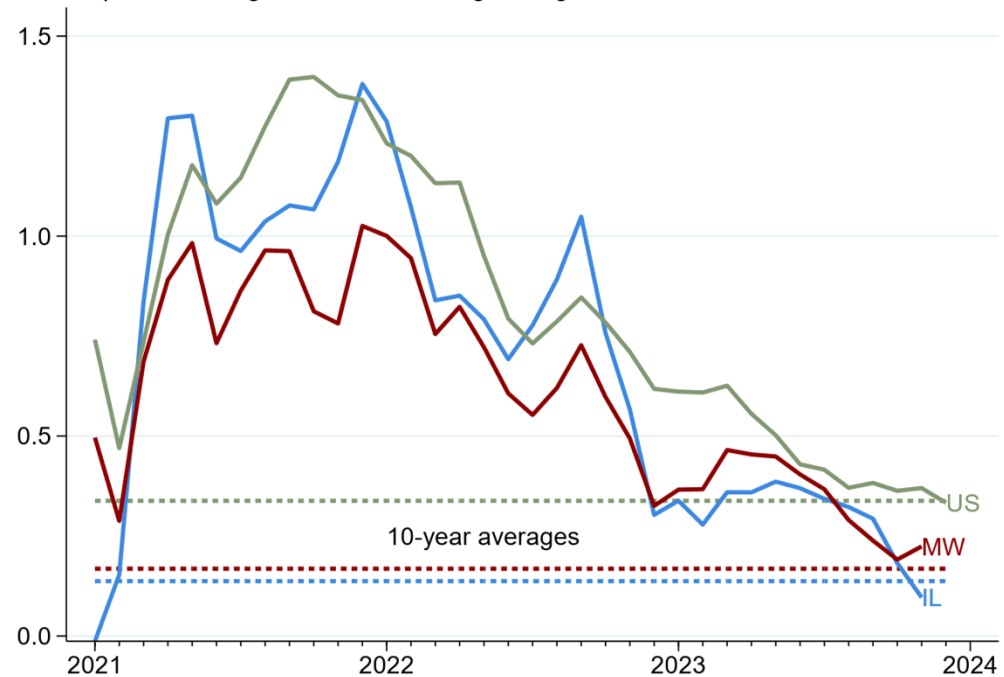
Source: Bureau of Labor Statistics and Macro Advisers from Haver Analytics

# Growth has slowed to long run averages

- Midwest and Illinois growth consistently below overall US growth

## Payroll employment growth

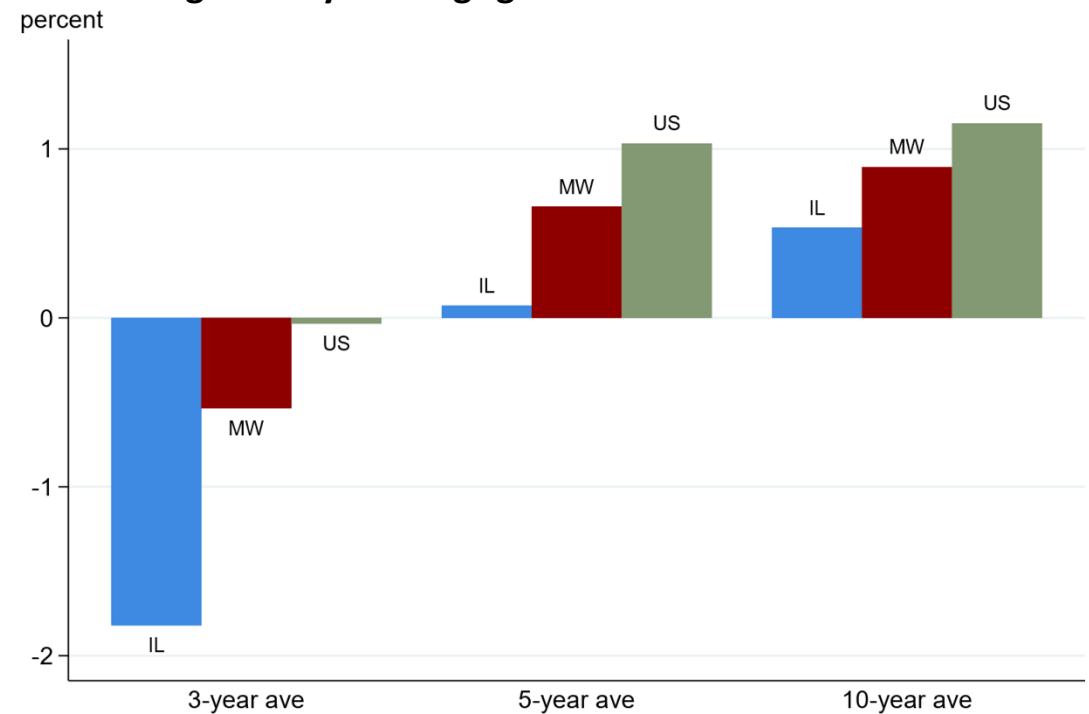
3-month percent change in 3-month moving average



Source: Bureau of Labor Statistics from Haver Analytics

# Region's wages growing more slowly too

Real average hourly earnings growth

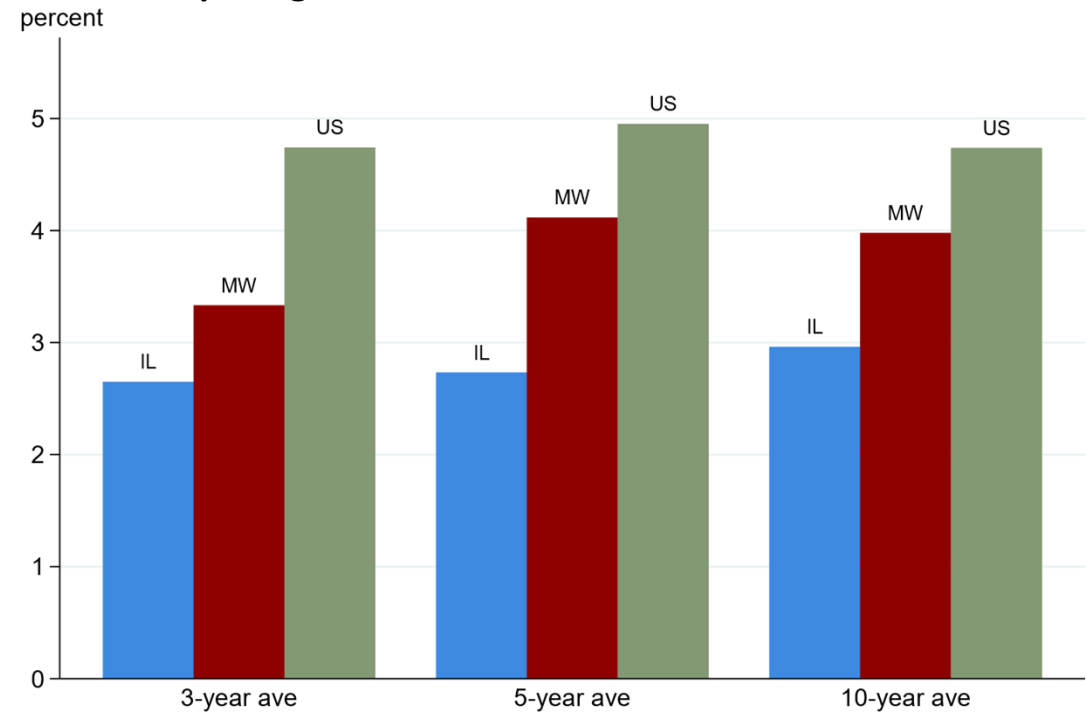


Source: Bureau of Labor Statistics from Haver Analytics

# And so are home prices

- Midwest comfortably the cheapest part of the country

## Real home price growth



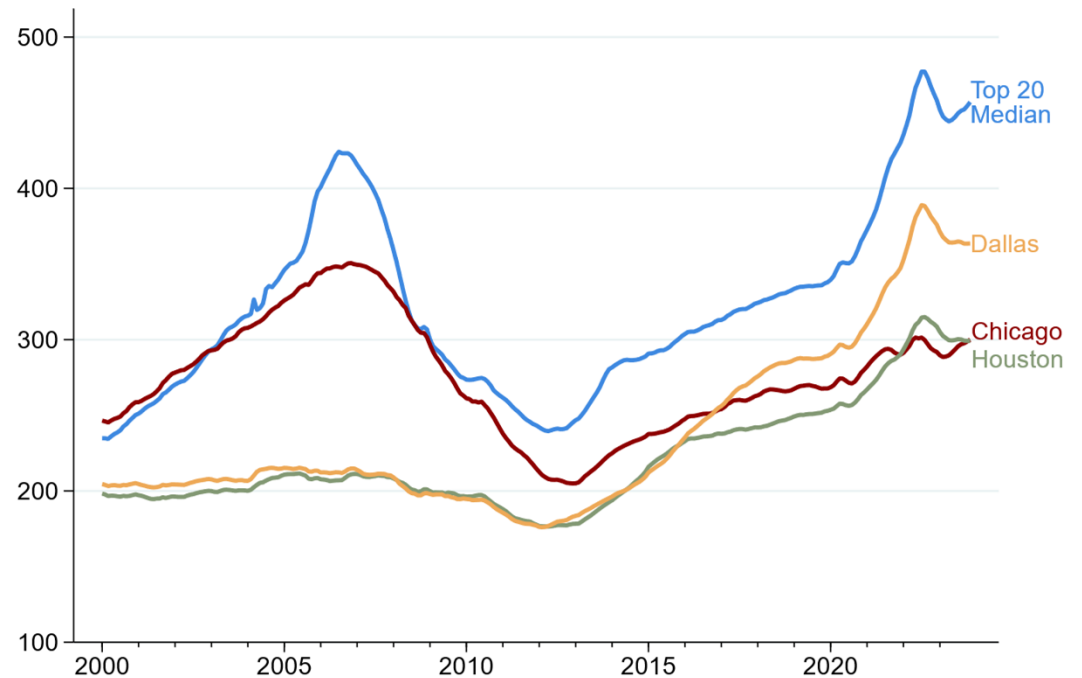
Source: Zillow from Haver Analytics

# Chicago now 3rd cheapest of 20 largest US metros

- Detroit is cheapest, Houston (barely) second
- Dallas and Houston have gotten much bigger; size pushes up prices

Average home price in large metro areas

thousands of 2022 dollars

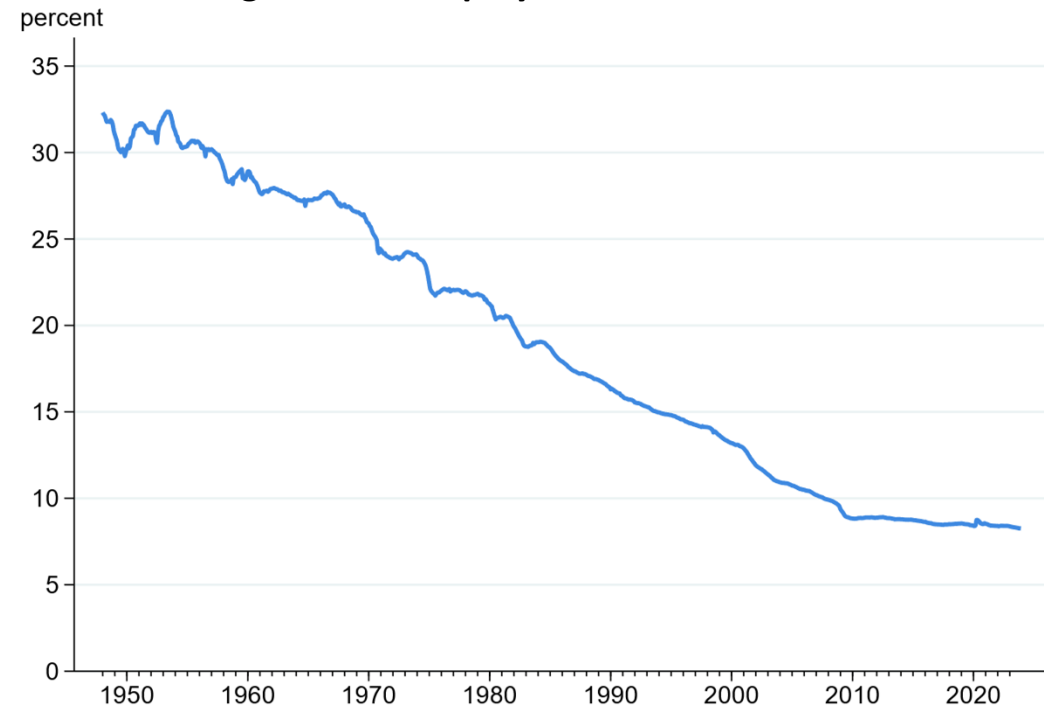


Source: Zillow from Haver Analytics

# Manufacturing's share of employment still shrinking

- Shrinking manufacturing share drags down Midwest growth
- Chicago not concentrated in manufacturing, but surrounding region is

Manufacturing share of employment in US



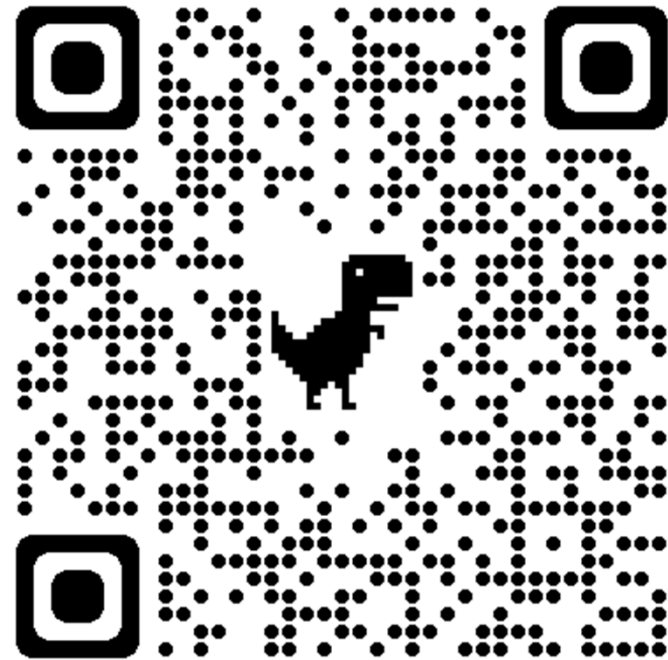
Source: Bureau of Labor Statistics from Haver Analytics

# Summary

- 2023 was better than expected
- A soft landing is possible
- Long run differences in regional growth are back
- Illinois's performance largely in line with the Midwest

# Share your knowledge with us.

- Fill out our monthly survey to help keep the Fed up to date on what you're seeing.
- Results are shared with the Chicago Fed's president and help inform monetary policy.
- Responses are kept confidential, but aggregate results are made public.





# Q&A

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