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# Insured Financial Institutions

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*\*The views expressed today are my own and not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.*

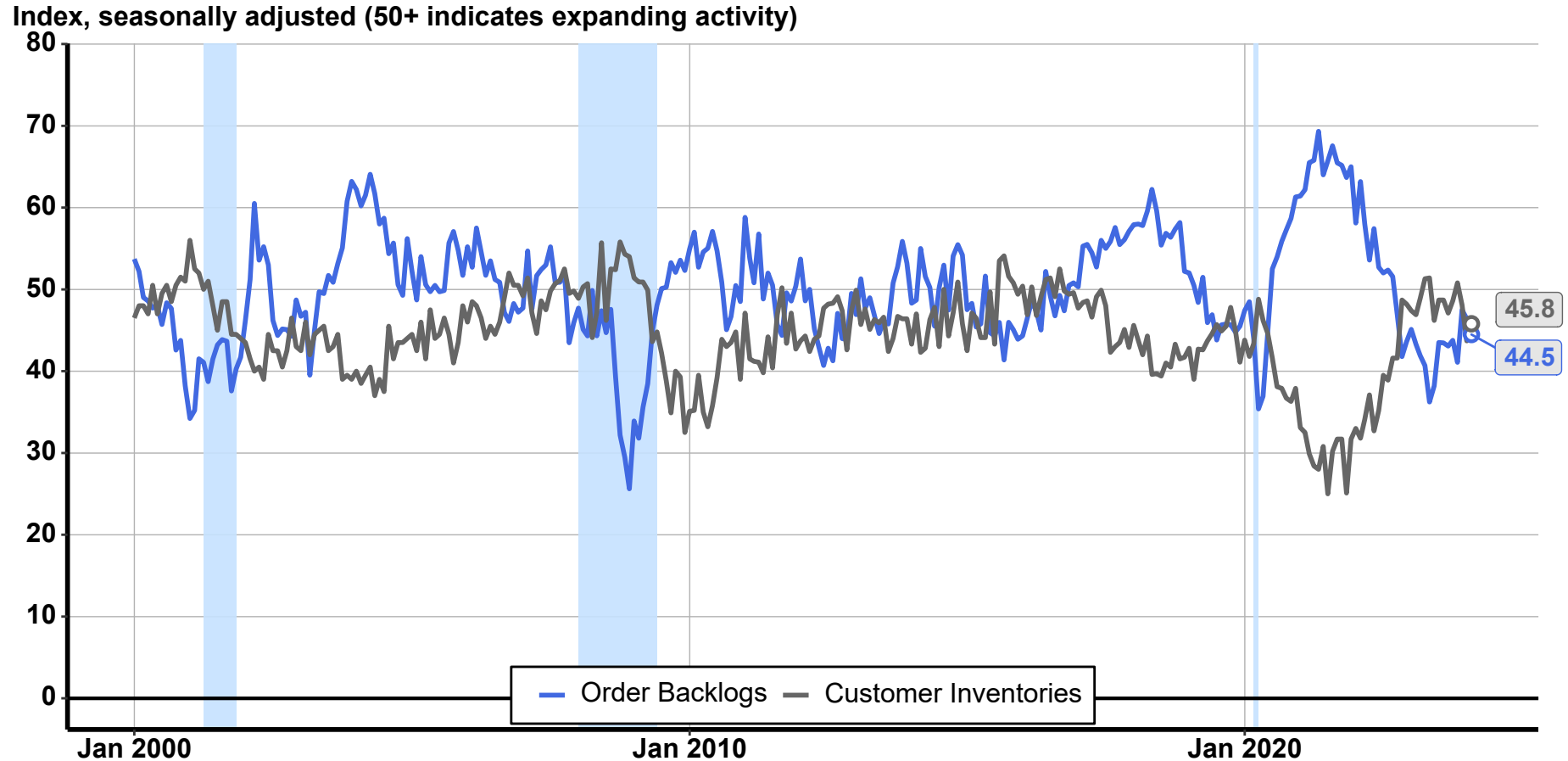
## Topics Covered Today

- General economic conditions
- Labor market conditions
- Inflation, housing conditions, and monetary policy implications

# General Economic Conditions

# Customer Inventories and Order Backlogs

- Order backlogs have returned to pre-pandemic levels.
- Inventories have been building up to pre-pandemic levels as well.



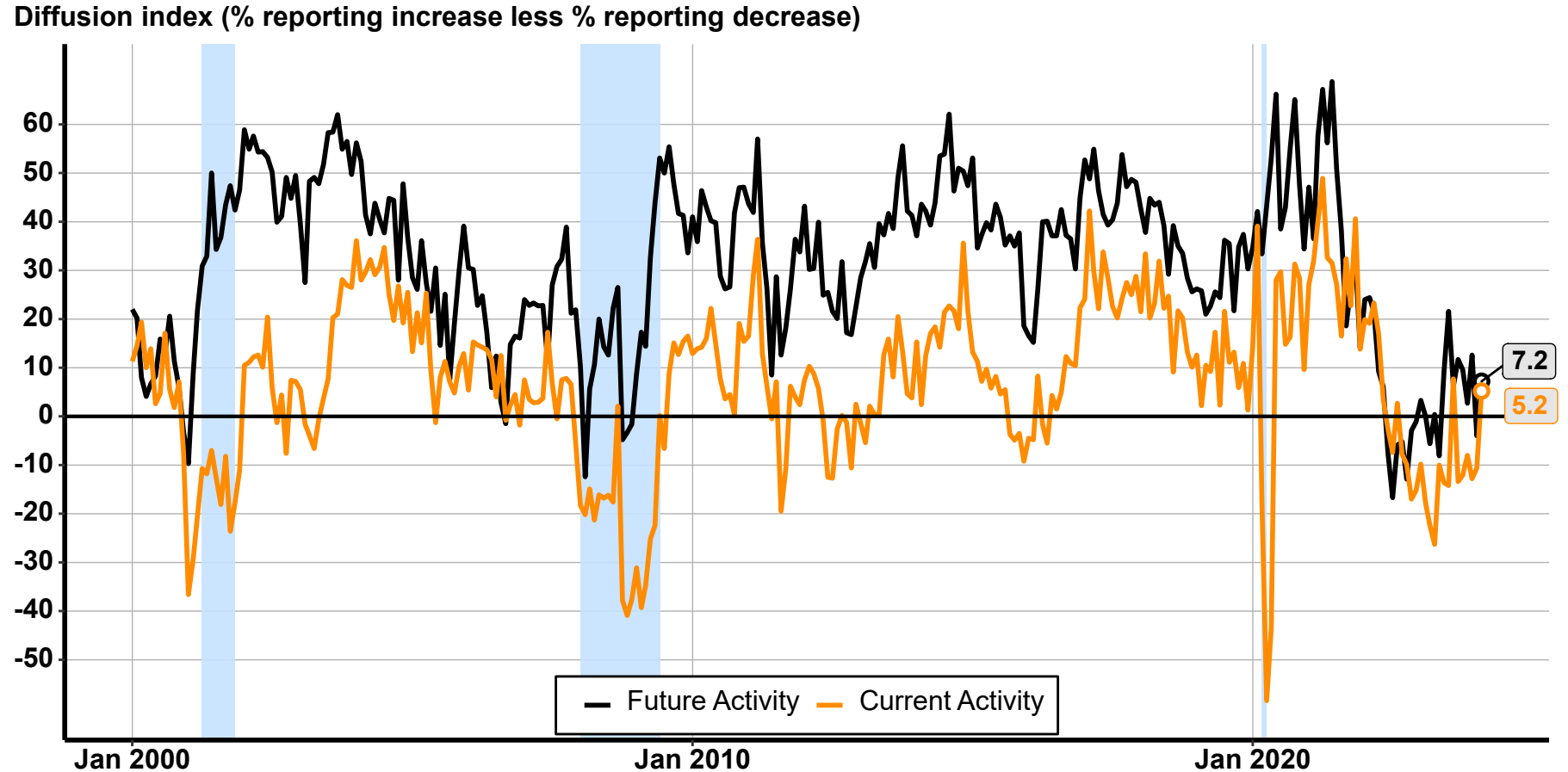
Source: Institute for Supply Chain Management via Haver Analytics

Months plotted: Jan 2000 - Feb 2024

Blue shade represents recession months.

# Third District Manufacturing Business Outlook

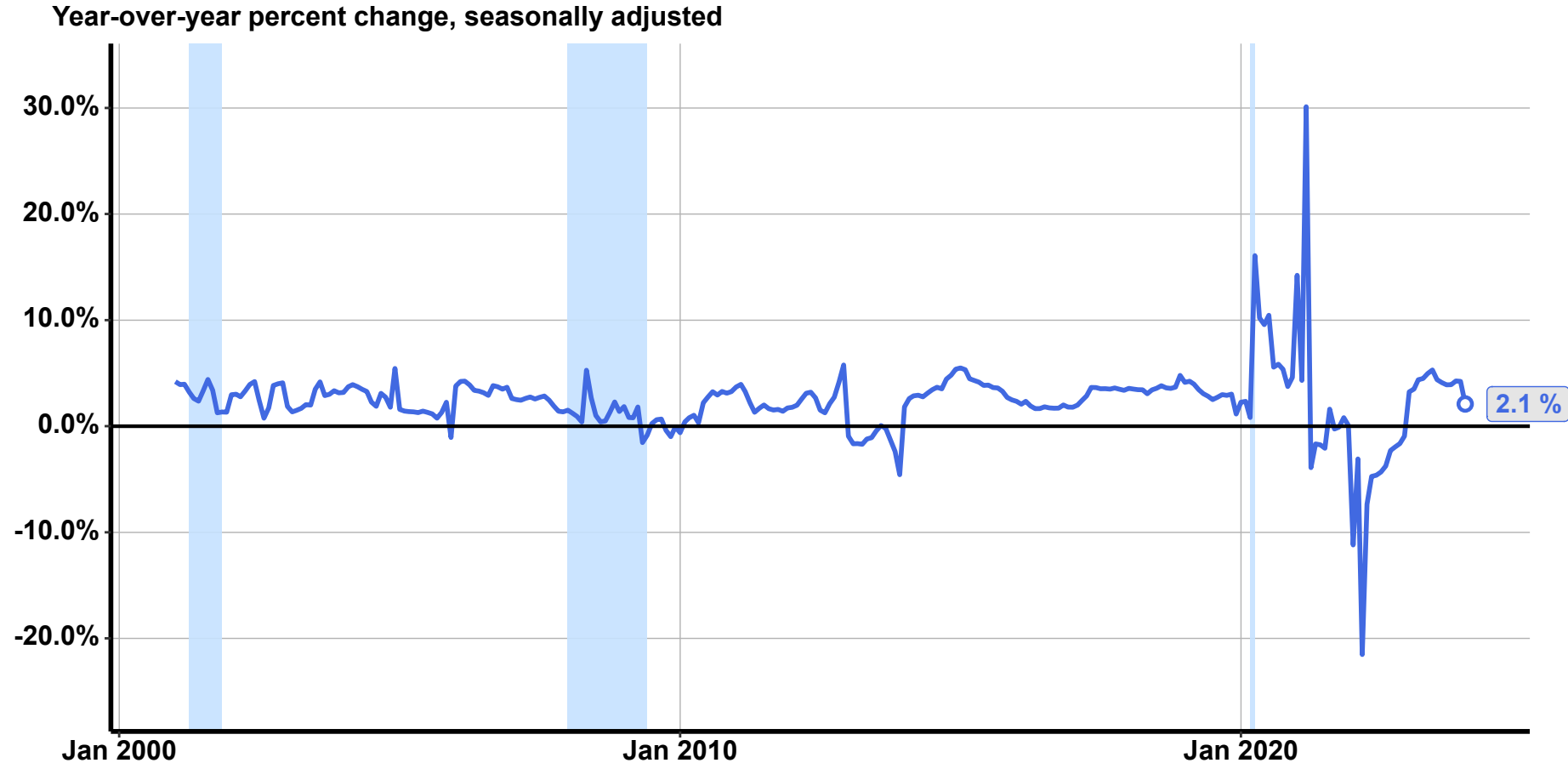
- Current manufacturing activity has been slowing down for a while.
- Regional manufacturers are cautiously optimistic about the 6-month outlook.



Source: FRB Philadelphia via Haver Analytics  
Months plotted: Jan 2000 - Feb 2024  
Blue shade represents recession months.

# Real Disposable Income Growth, United States

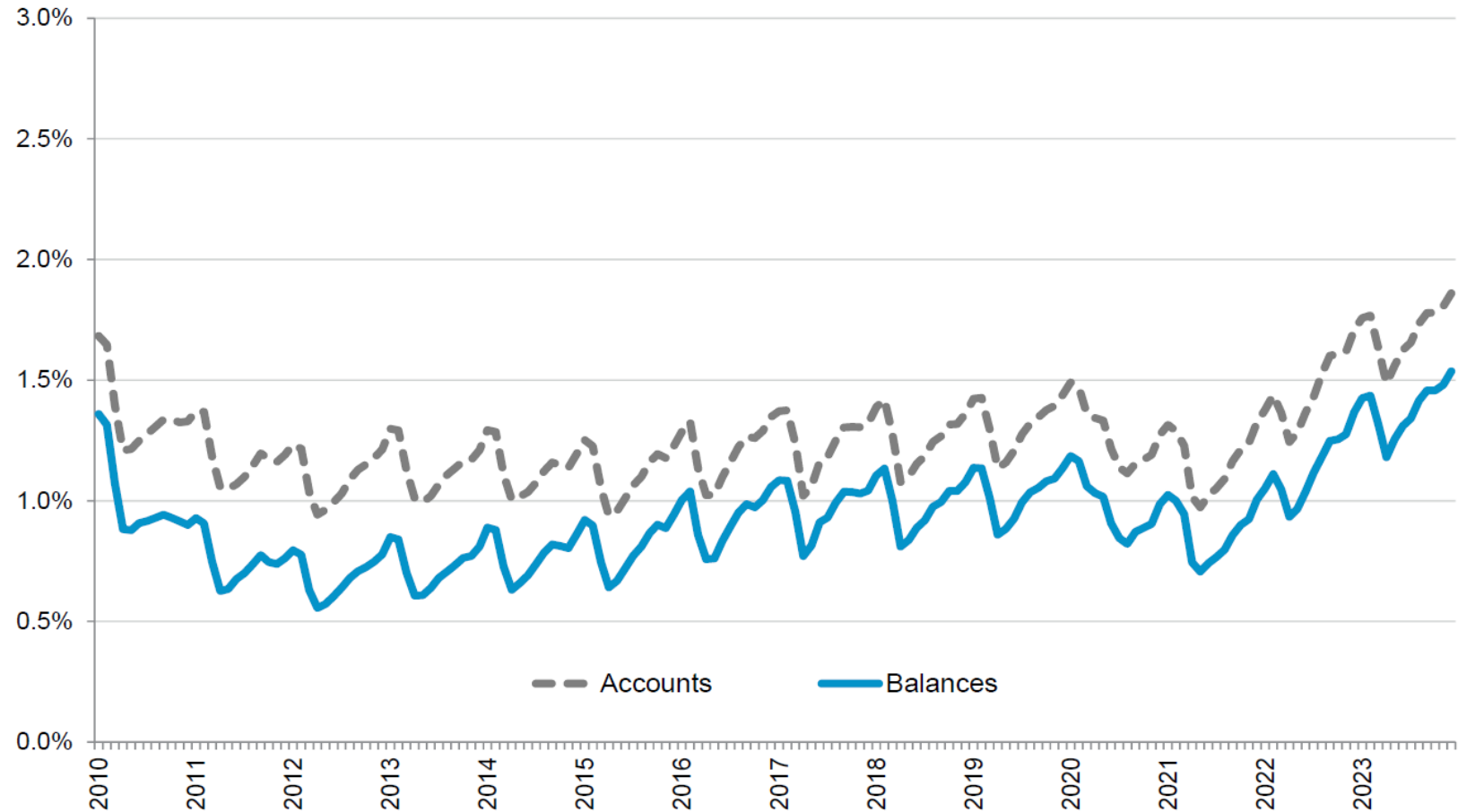
- Growth rate of real disposable income (total income minus total taxes, adjusted for inflation) recently peaked in June, 2023, and has been trending down since then.
- Average saving rate (not pictured) has stayed at historically low levels since the end of 2022.



Source: Bureau of Economic Analysis via Haver Analytics  
Months plotted: Jan 2001 to Jan 2024

# Auto Loan Severe Delinquency Rate (60+ Days Past Due)

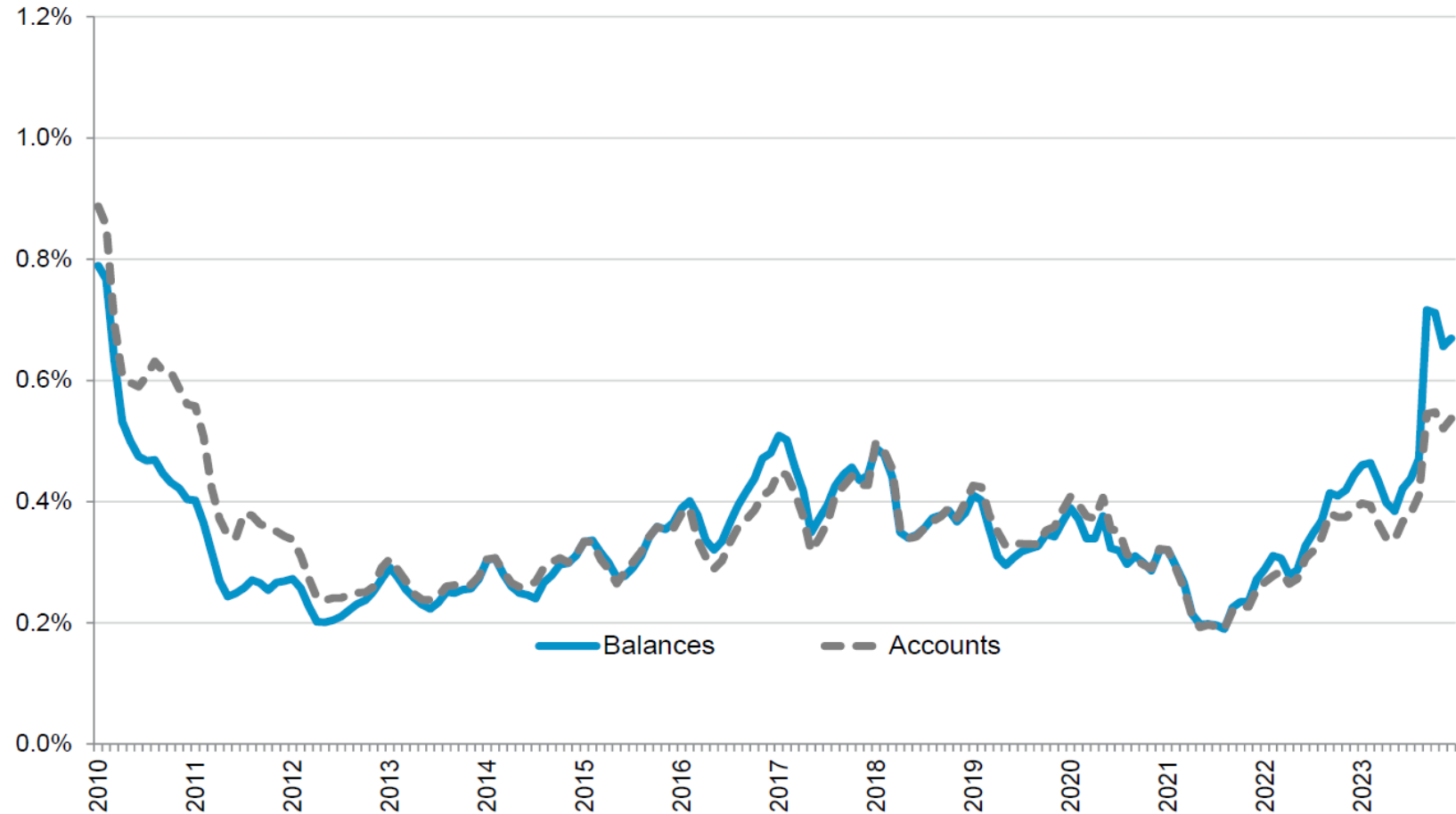
- Percent of accounts and balances; not seasonally adjusted.
- Highest severe delinquency rate for auto loans in more than a decade.



Source: Equifax  
Last month plotted: December 2023

# Credit Card Loan Severe Delinquency Rate (60+ Days Past Due)

- Percent of accounts and balances; not seasonally adjusted.
- Credit card delinquency rates have picked up since mid-2022, and currently stands at the highest rate in more than a decade.



Source: Equifax  
Last month plotted: December 2023



# Potential Headwinds Ahead of Us

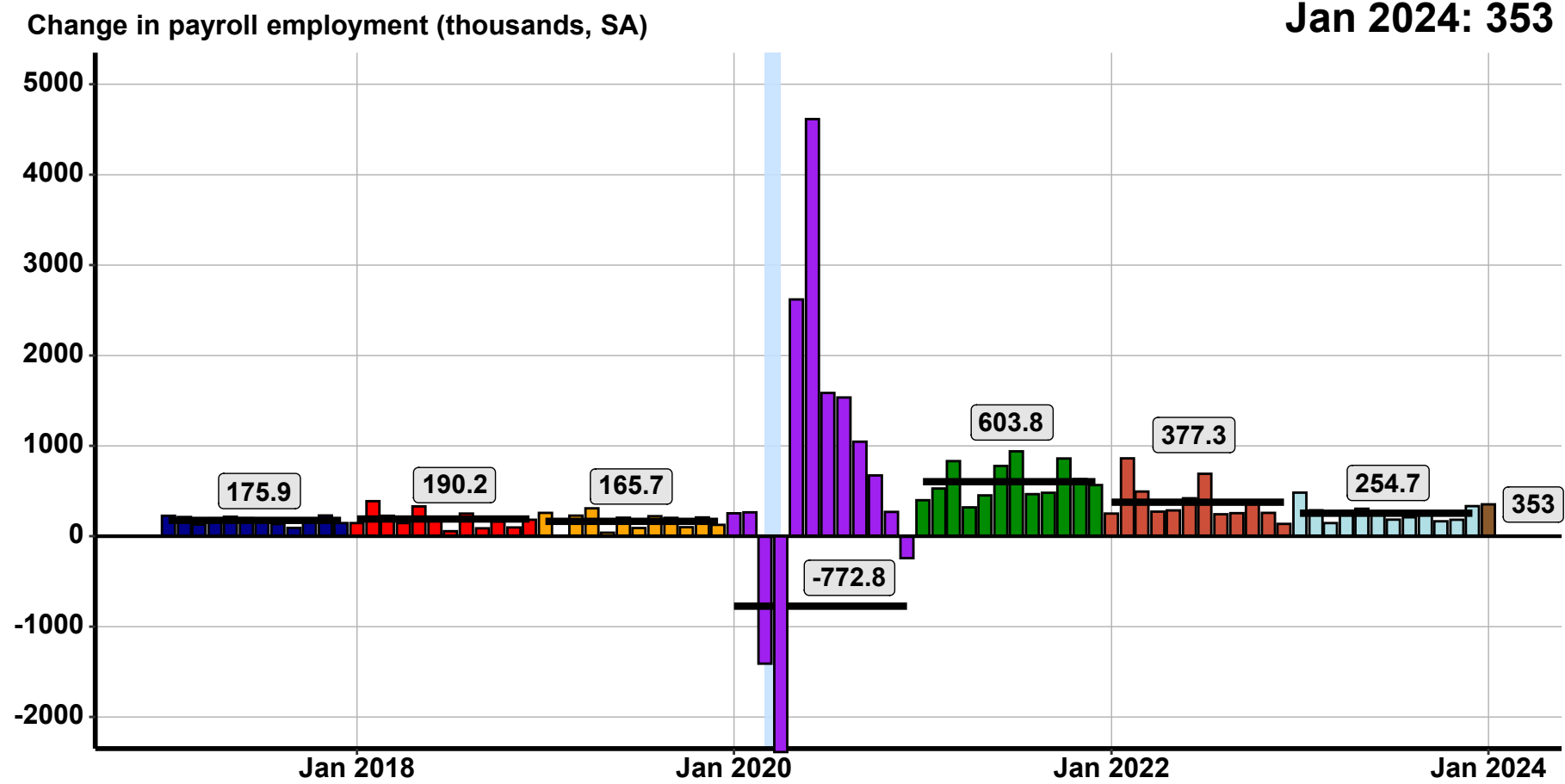
Several sources of uncertainty could act as headwinds in the economy, although their net impacts are unclear at this time:

- Access to capital
- Political uncertainty
- U.S. student loan repayment
- International conflicts

# Labor Market Conditions

# Change in Monthly U.S. Payroll Employment

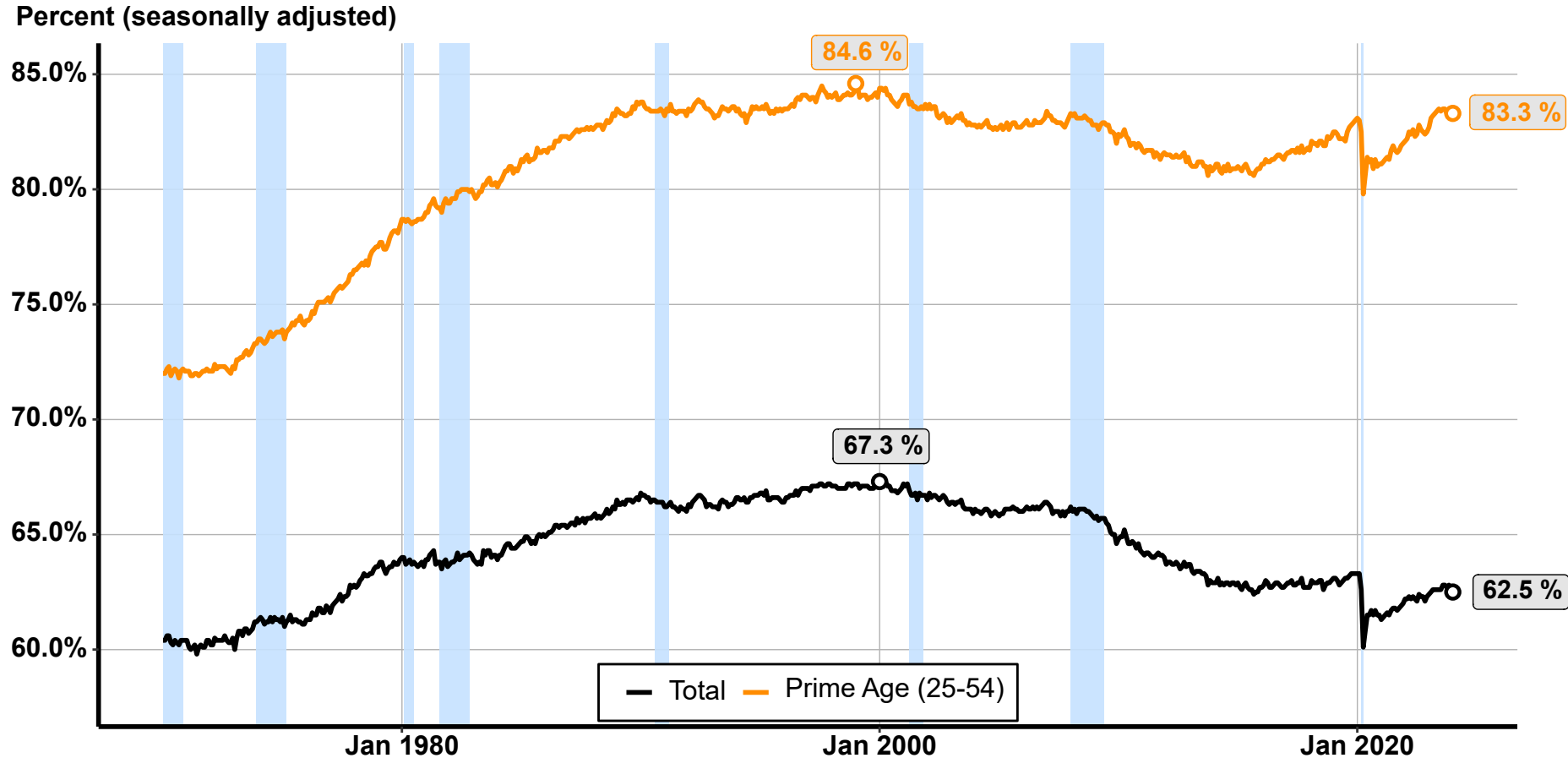
- Black lines indicate annual averages (in thousands).
- The labor market remains robust, despite a clear cooling off relative to the past few years.



Source: BLS via Haver Analytics  
Months plotted: Jan 2017 - Jan 2024  
Black lines indicate annual averages.

# U.S. Labor Force Participation Rate

- Monthly, seasonally adjusted (most recent and max values labeled).
- Total labor force participation rate dropped significantly during the pandemic and has not fully recovered.
  - Increased number of retirements has played a role.
- Prime Age participation rate has surpassed pre-pandemic levels.

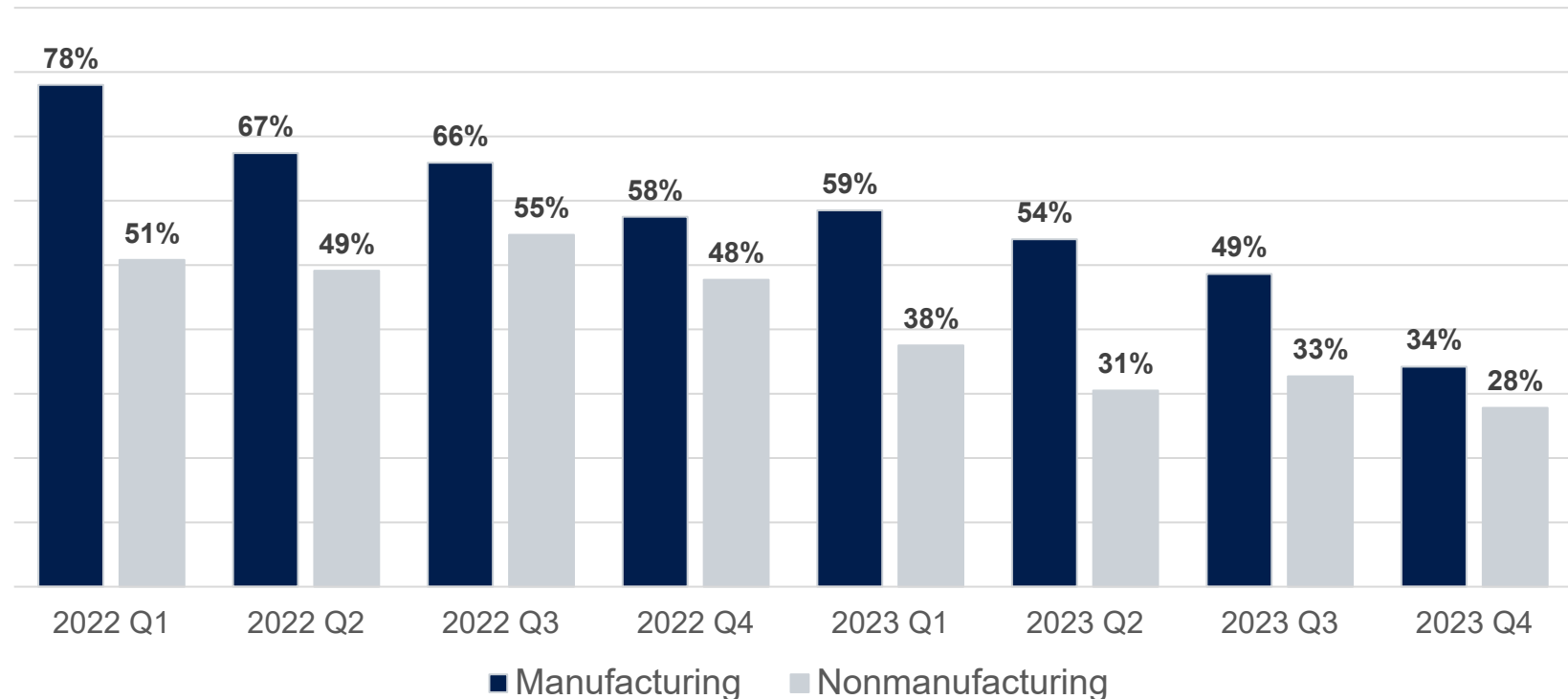


Source: BLS via Haver Analytics  
Months plotted Jan 1970 to Jan 2024

# Philadelphia Fed Business Outlook Survey – Special Questions

- MBOS and NBOS Quarterly Special Questions; respondents are manufacturing and non-manufacturing firms throughout the Third District.
- Gradual slowdown in labor supply challenges over the past year and a half, particularly among manufacturing firms.

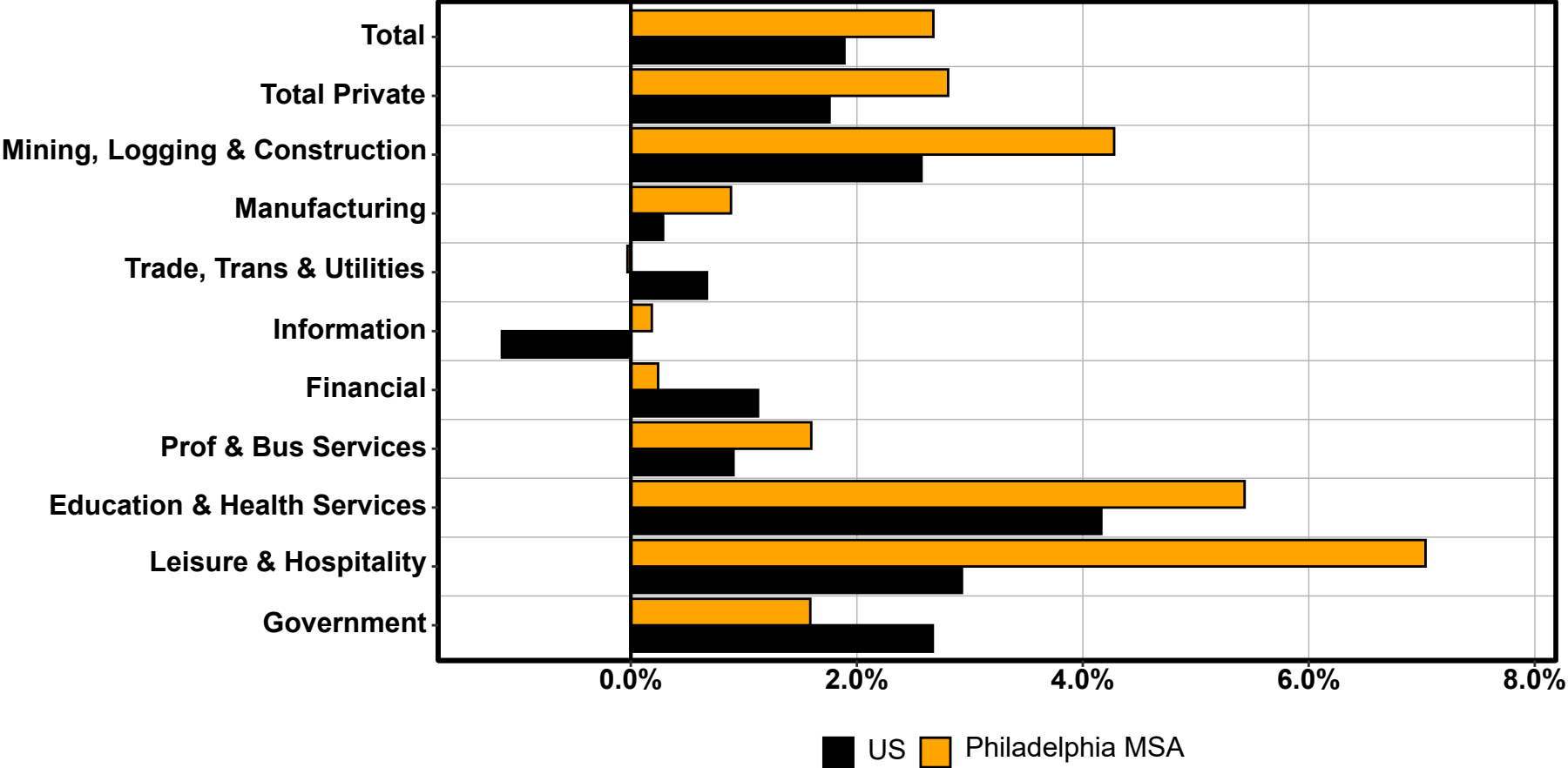
## Percent of businesses experiencing a ‘moderate’ or ‘significant’ labor supply constraint on business over the past two years:



Source: FRB Philadelphia, Manufacturing/Nonmanufacturing Business Outlook Survey (December 2023)

# Annual Employment Growth by Sector

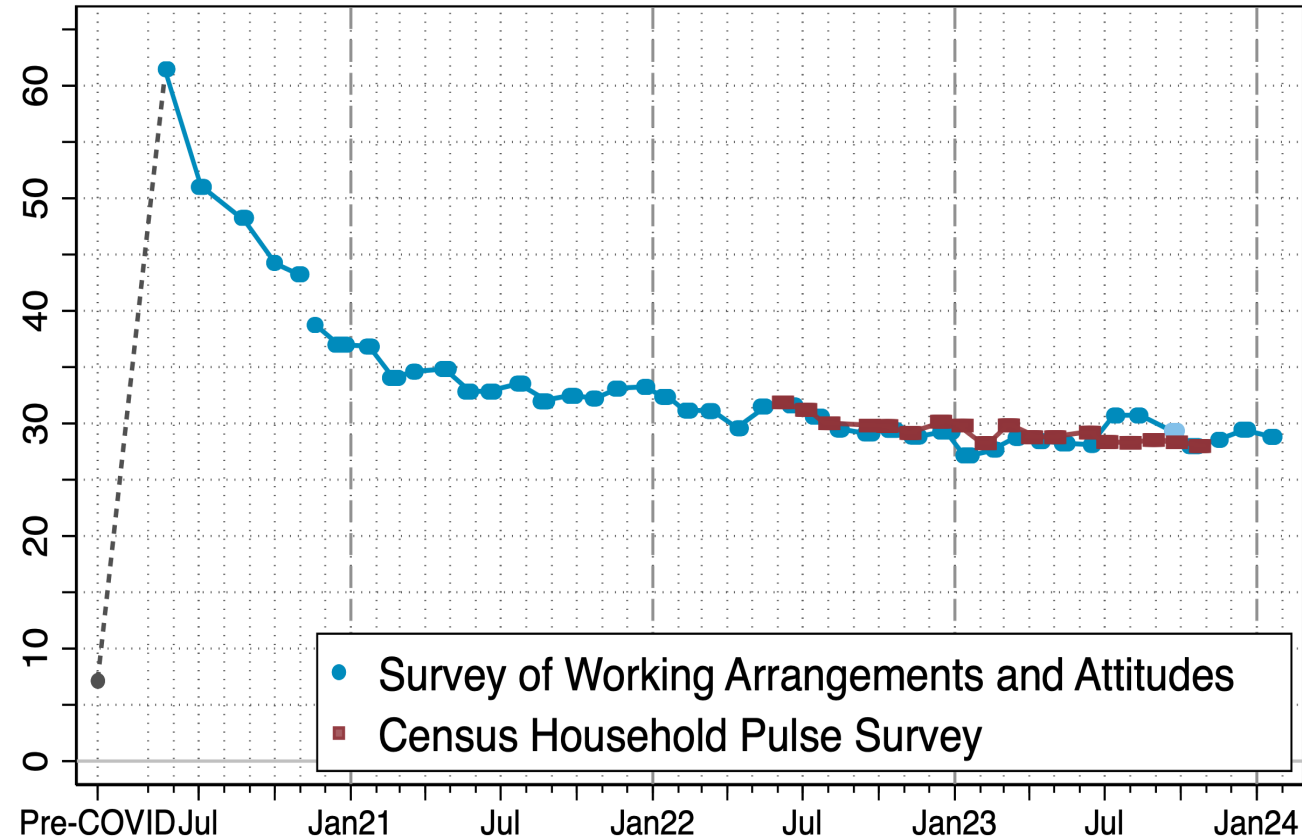
- Most sectors in the local labor market are reporting robust growth over the past 12 months.
- Higher activity among service industries.



Source: Calculations from BLS via Haver Analytics.  
Last month included: US (Jan 2024); Phil MSA (Dec 2023)

# Percentage of Paid Full Days Worked from Home

- Around 30% of paid days in the U.S. in January 2024 were work from home days.
- This figure has not changed much since mid-2022.
- Overall, 12% of full-time employees are now fully remote, 30% are in a hybrid arrangement, and 58% are on site full-time.



\*We estimate the pre-COVID rate using the 2019 American Time Use Survey

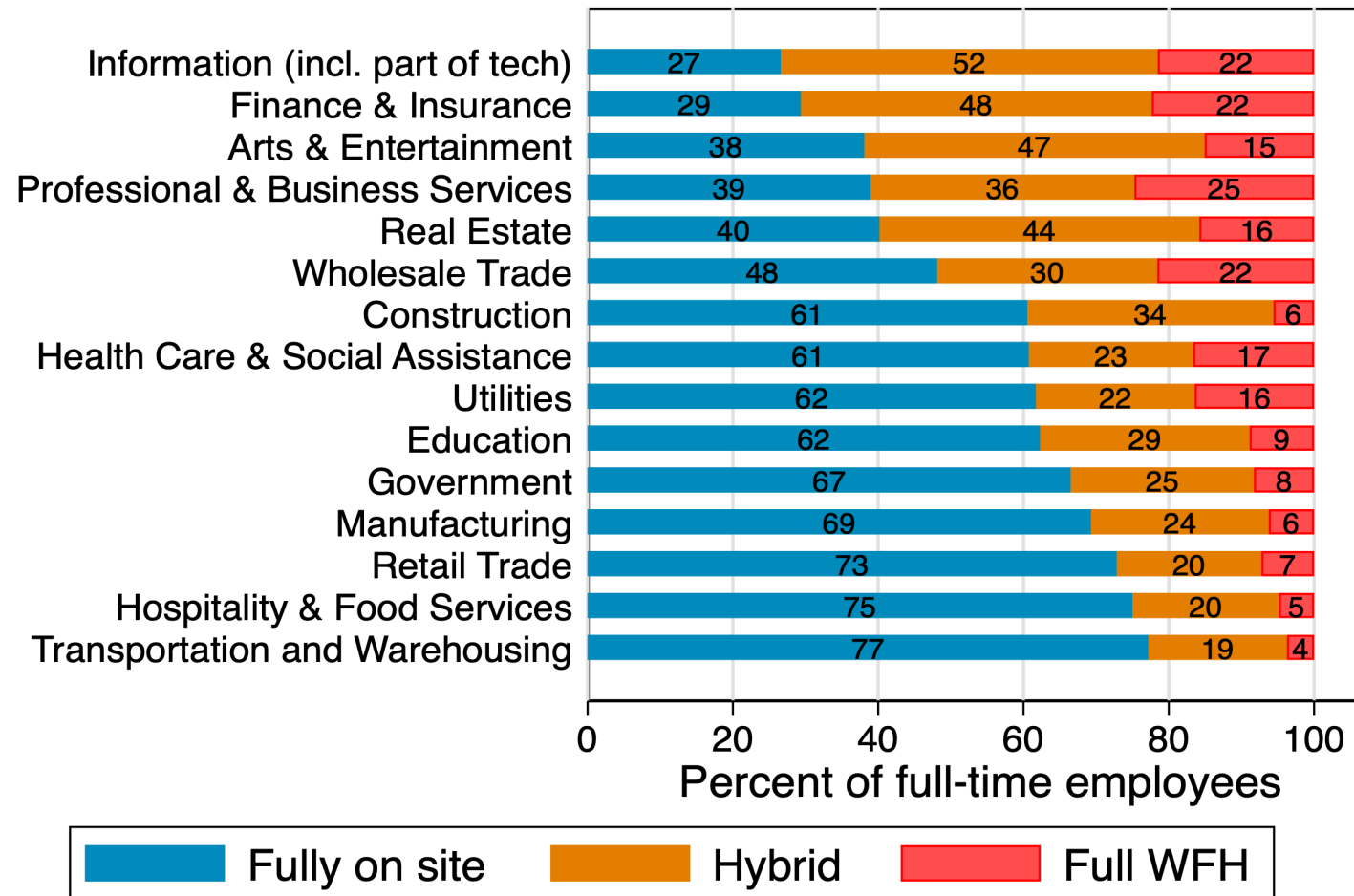
\*The break in the series in November 2020 reflects a change in the survey question.

\*The SWAA Sept. 2023 estimate averages August and October due to data quality issues in September.

Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731. February 2024 Update.

# Working Arrangements by Industry, Oct 2023 to Jan 2024

- Working arrangements vary substantially by industry – information, finance, and professional and business services have the largest share of hybrid and remote employees.



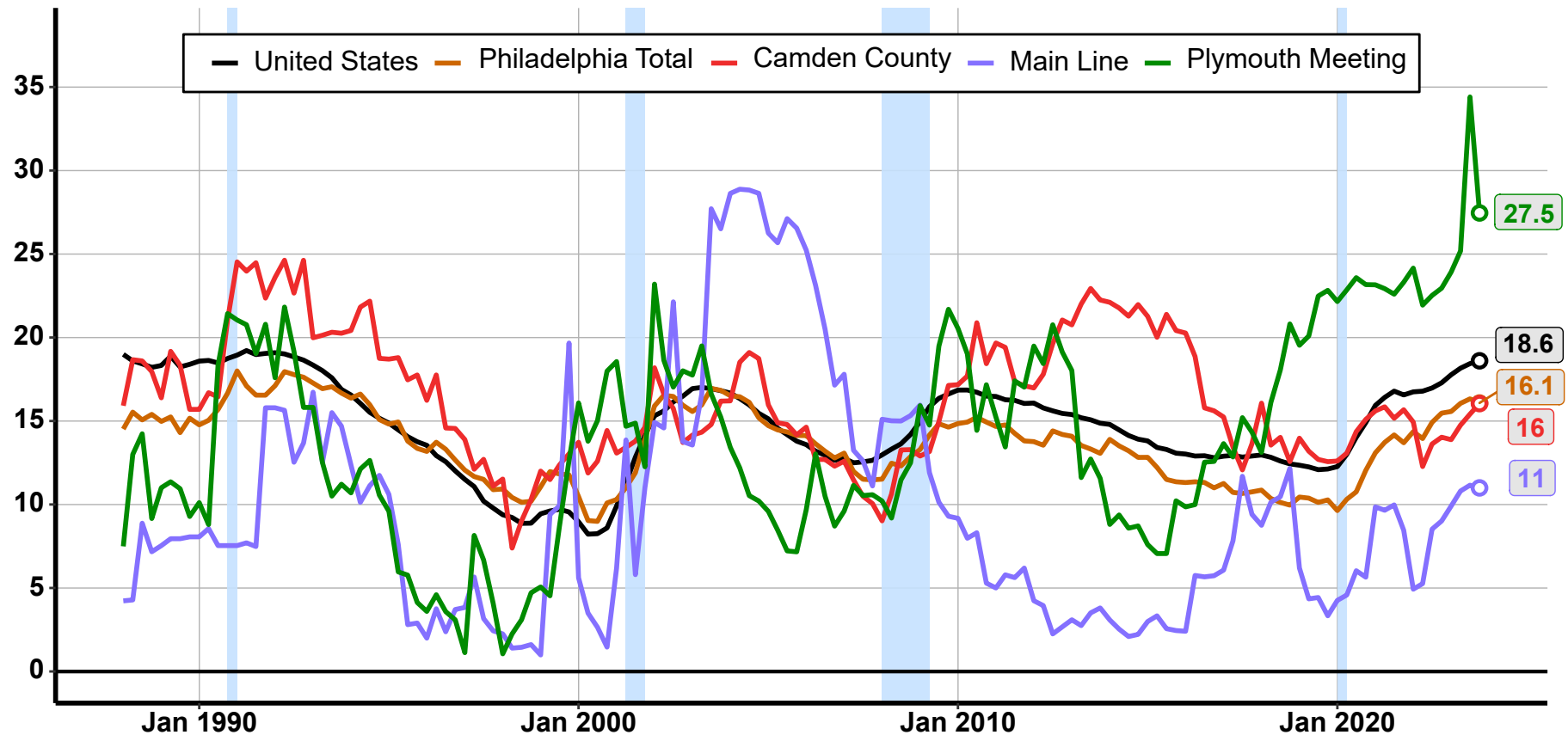
Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731. February 2024 Update.



# Office Vacancy Rates

- Office vacancy rate has been on the rise since the pandemic.
- The current rate is the highest rate in more than 20 years.
- With many firms adopting fully remote or hybrid working policy, demand for office space likely continues to fall.

Vacancy Rate (%)



Source: CBRE Econometric Advisors

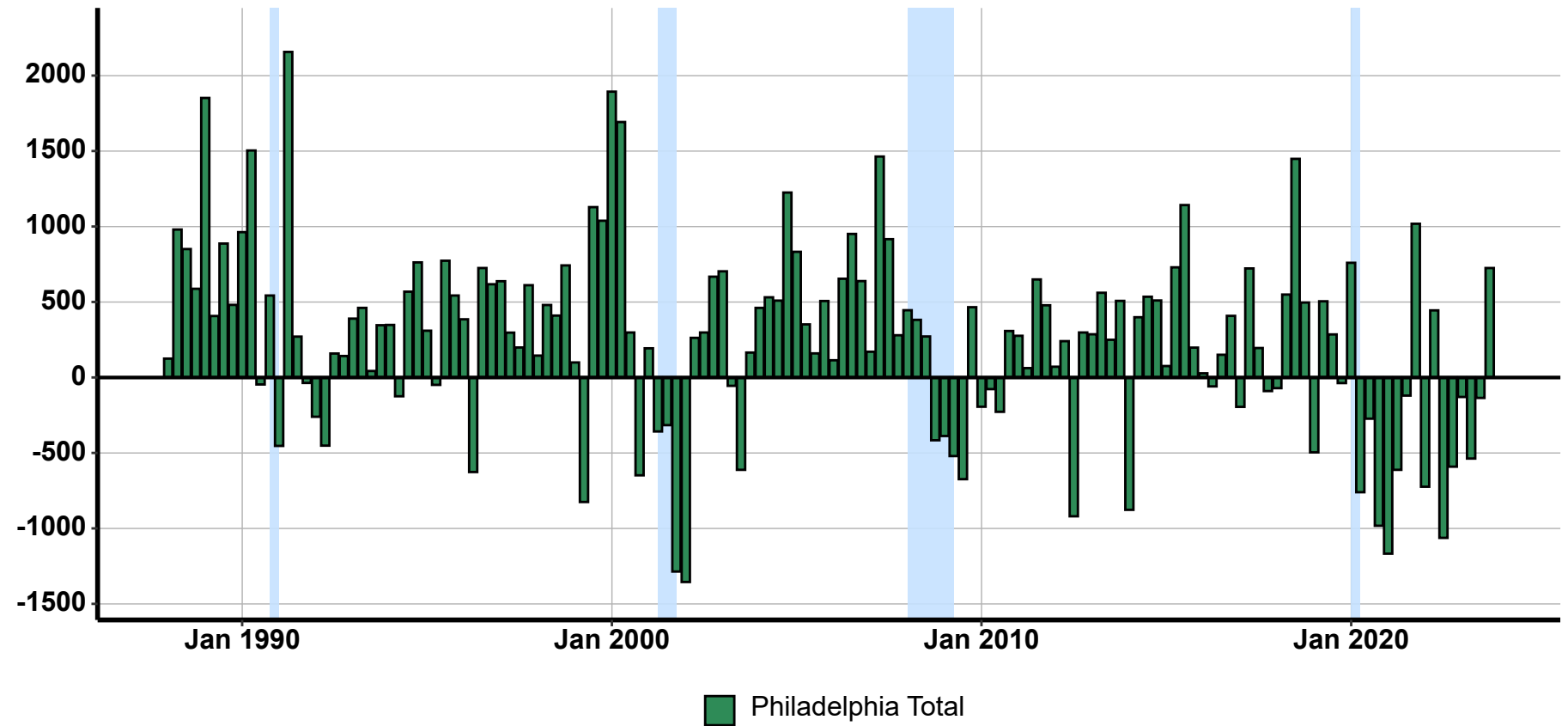
Quarters plotted: 1988:Q1 to 2023:Q4

Philadelphia Total includes all PA and NJ counties in the Philadelphia MSA.

# Office Net Absorption, Philadelphia Total

- Negative net absorption for the overall office space market during most quarters since the pandemic.

Net Absorption, Thousands of SF



Source: CBRE Econometric Advisors

Quarters plotted: 1988:Q1 to 2023:Q4

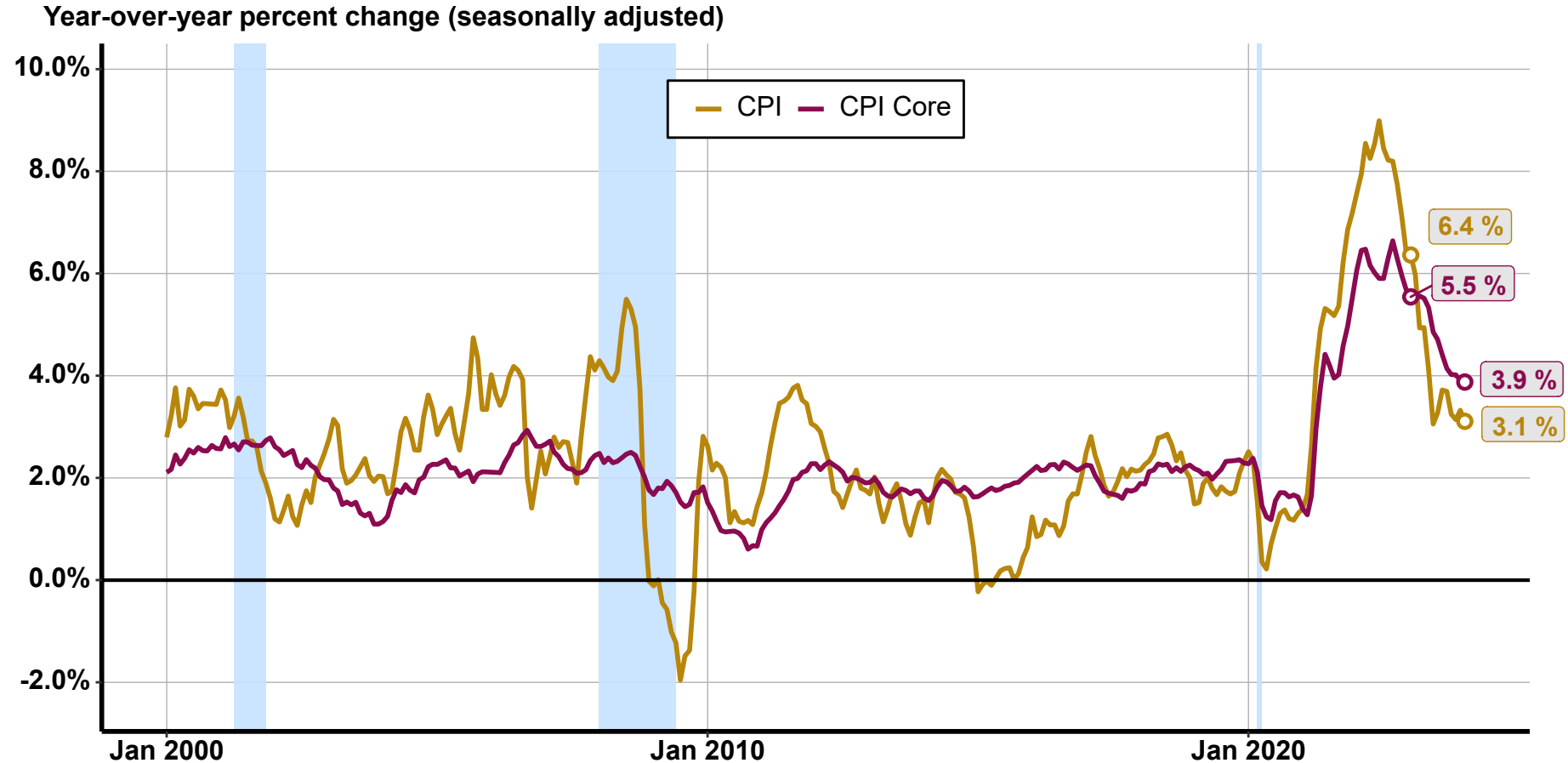
Net absorption = Sum of SF that became occupied minus sum of SF that became vacant

Philadelphia Total includes all PA and NJ counties in the Philadelphia MSA.

# Inflation, Housing Conditions, and Monetary Policy Implications

# U.S. Consumer Price Index Inflation

- Inflation has eased since the summer of 2022; however, the current rate is still higher relative to target levels.

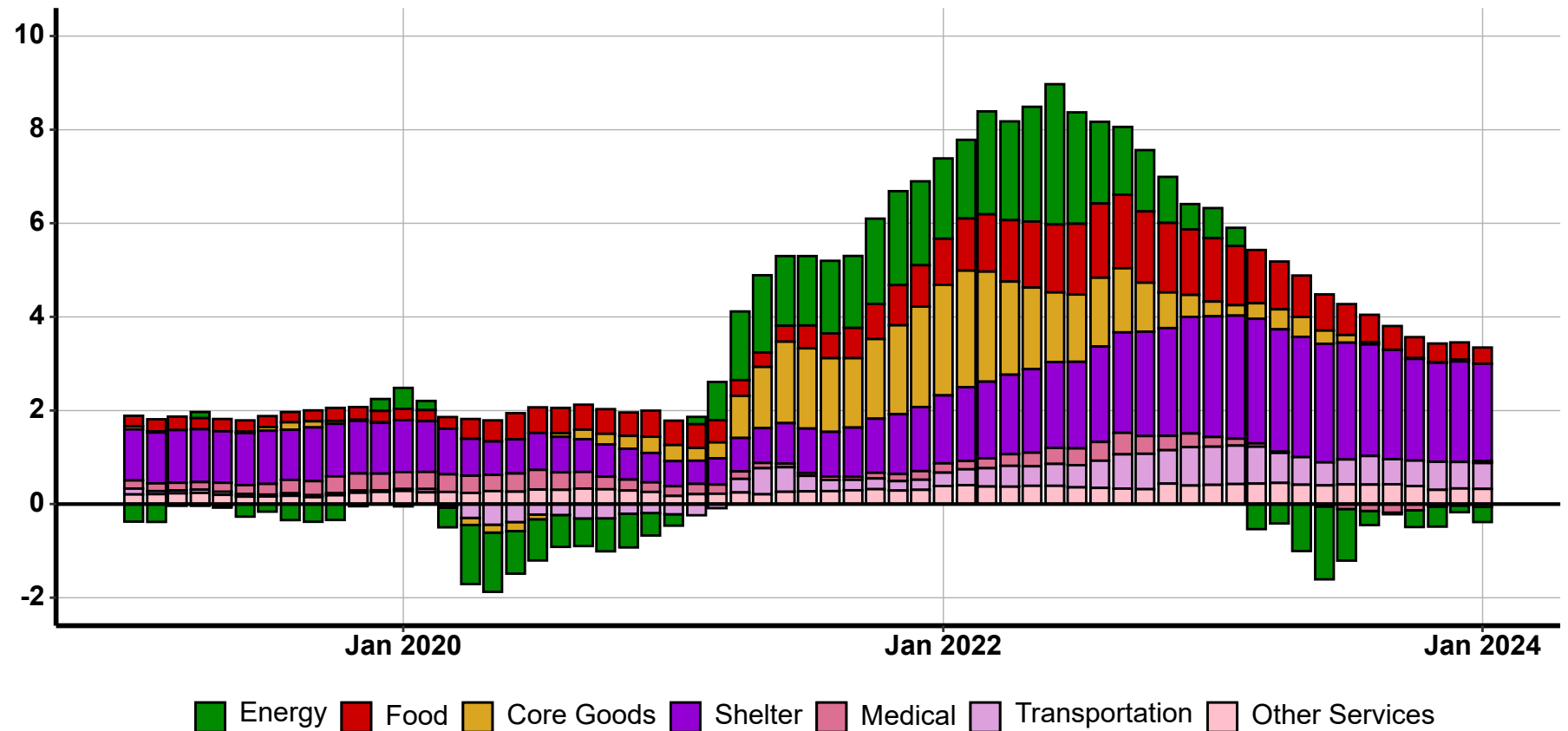


Source: BLS via Haver Analytics  
Months plotted: Jan 2000 - Jan 2024

# Headline CPI Inflation – Contributions by Expenditure Category

- Contributions to year-over-year percent growth by expenditure category.
- Inflationary pressure is concentrated on shelter and service expenditure categories.

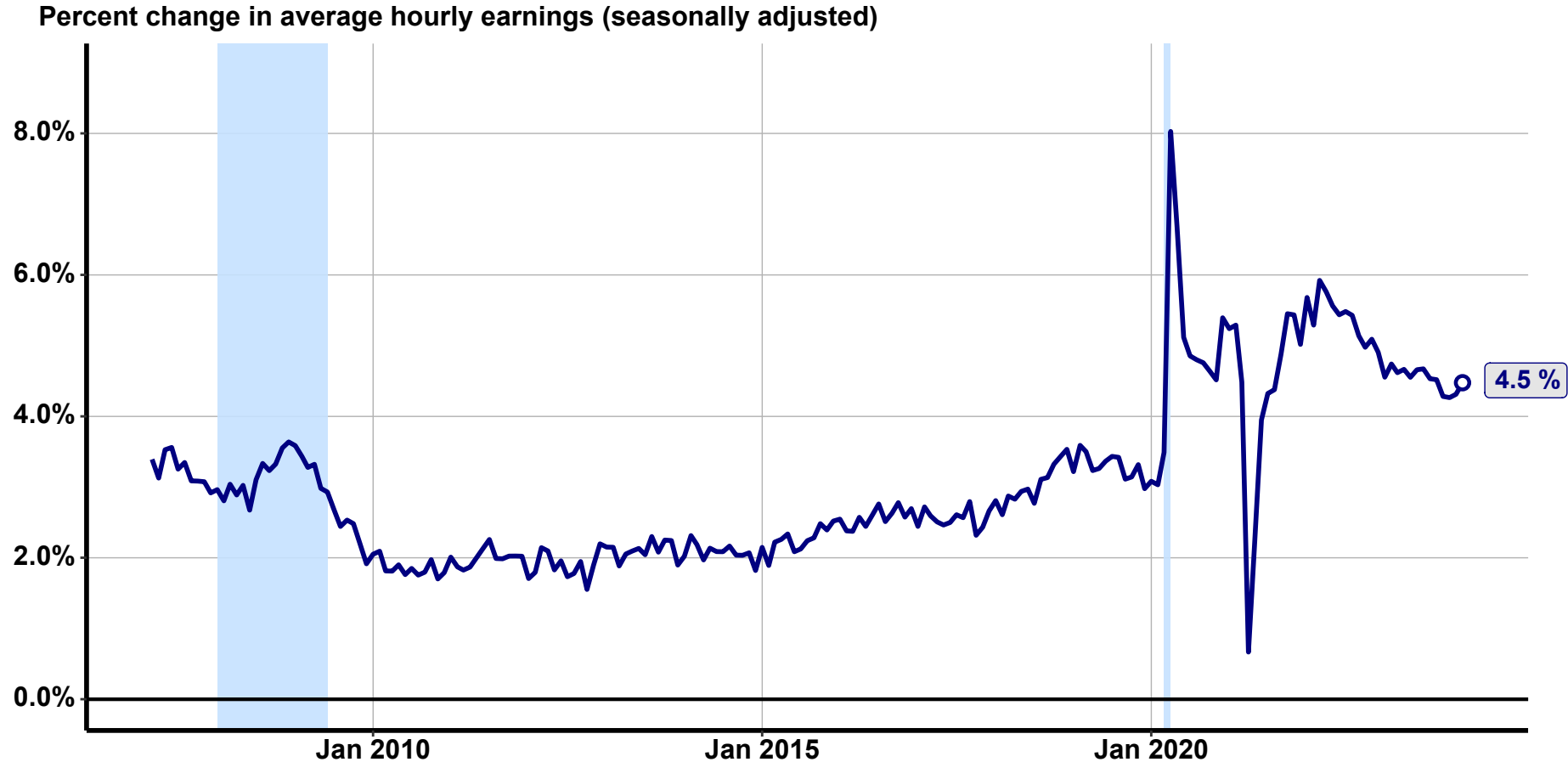
Year-over-year percent change



Source: Calculation using data from BLS via Haver Analytics  
Months plotted: Jan 2000 - Jan 2024

# Growth in Nominal Average Hourly Earnings

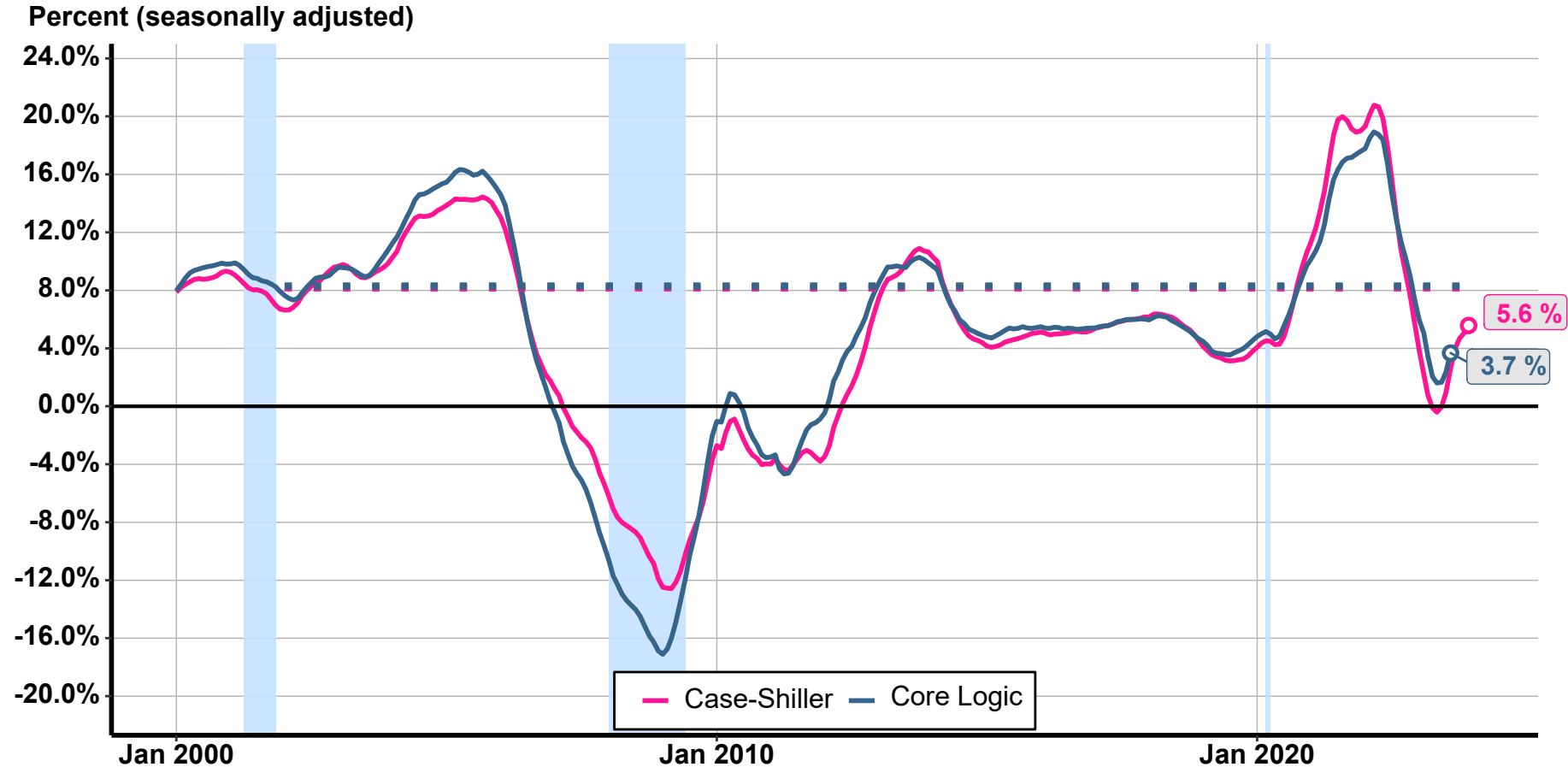
- Year-over-year percentage change, seasonally adjusted. All private sectors.
- While still higher than pre-pandemic levels, wage growth has been slowing down in the past year.
- As the labor market cools down further, wage growth is likely to follow a similar trend.



Source: Calculations from BLS  
Months plotted: Mar 2007 to Jan 2024

# Year-Over-Year Monthly U.S. Home Price Growth

- Case-Shiller and Core Logic Indexes, seasonally adjusted.
- Significant slowdown in home price growth relative to the post-pandemic peak – the rate of increase is back to pre-pandemic levels.



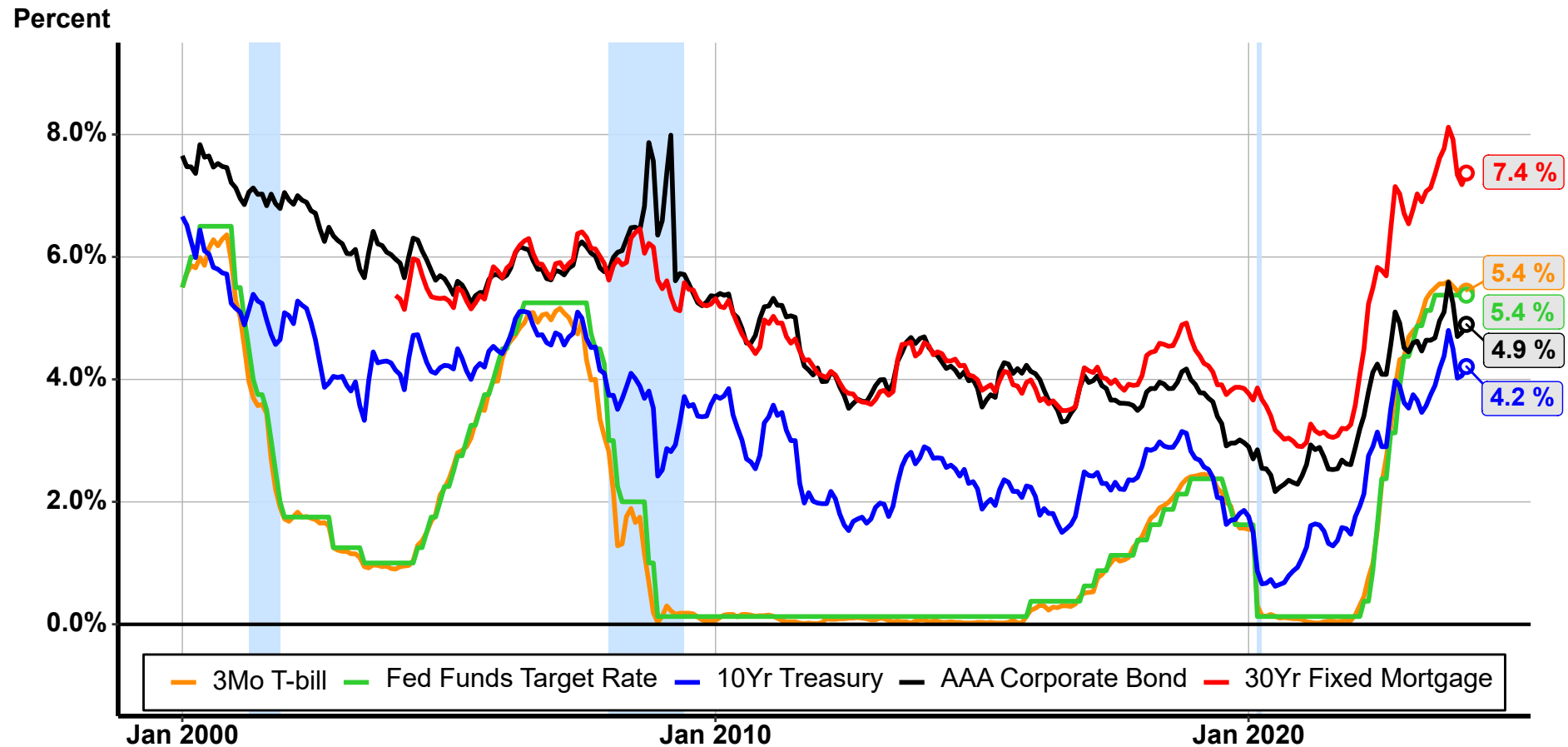
Source: Standard & Poors and Core Logic via Haver Analytics

Months plotted: Jan 2000 to Jan 2024

Dotted lines indicate average from 2002-2007.

# Selected U.S. Interest Rates

- Cost of borrowing has increased in the past year, as a result of tighter monetary policy.
- All else equal, higher cost of borrowing leads to dampening of demand.

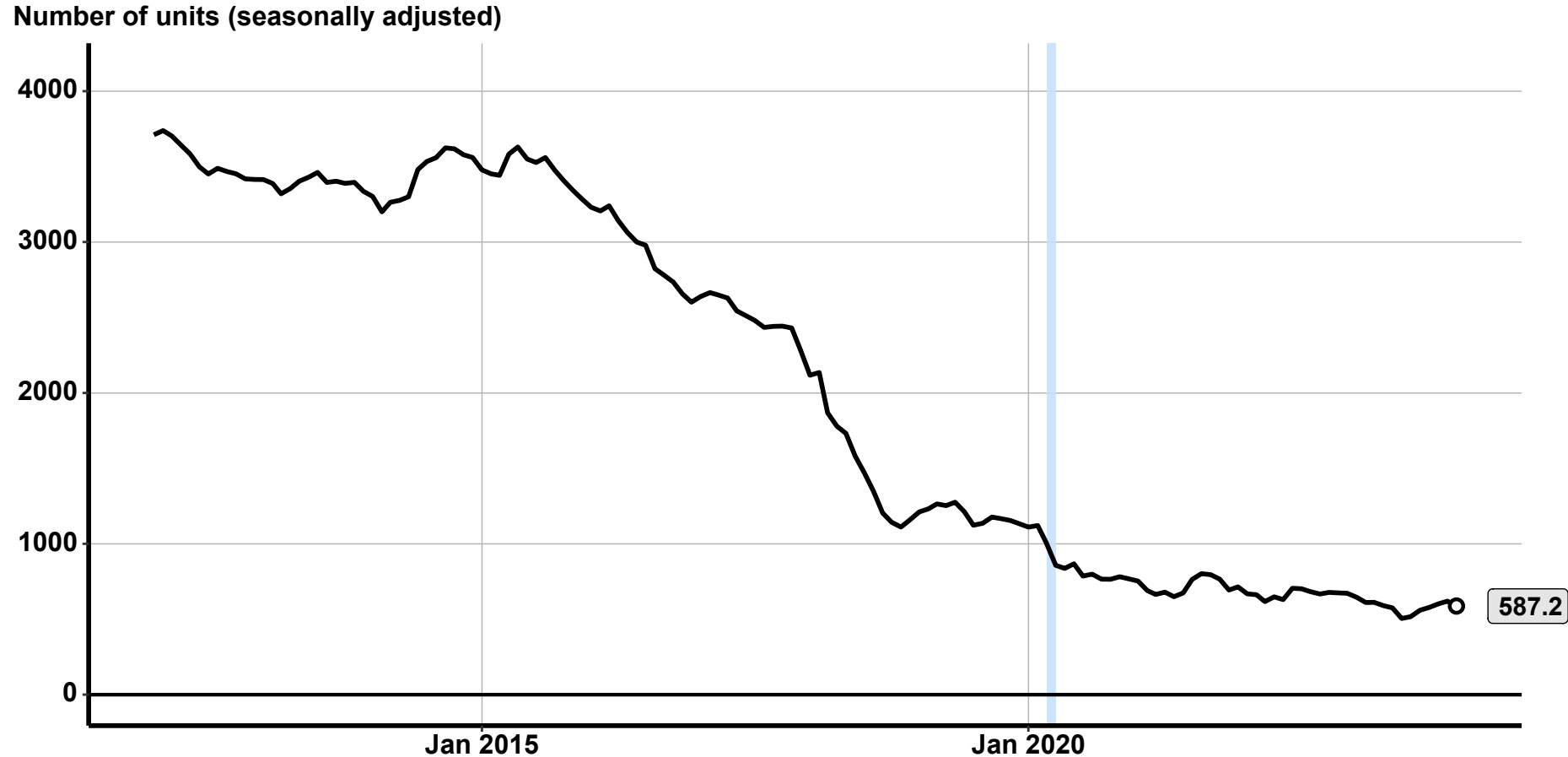


Source: FRB BOG and ICE/Bank of America Merrill Lynch/Wall Street Journal via Haver Analytics  
Months plotted: Jan 2000 - Feb 2024



# Single Family Residential Housing Inventory

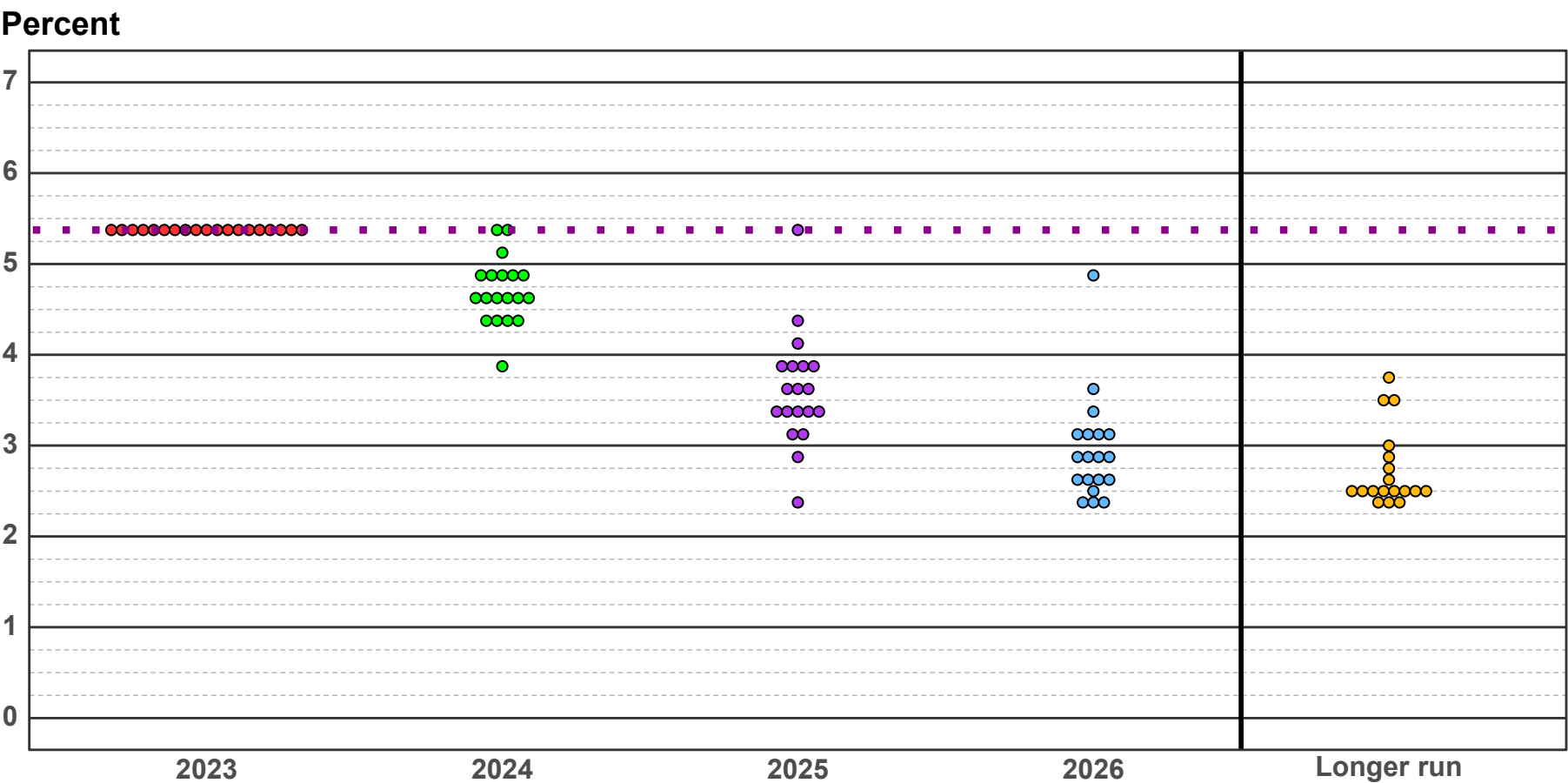
- Total number of active listings, Philadelphia Metropolitan Statistical Area.
- Significantly lower number of housing units listed for sale.
- Lower supply puts upward pressure on prices, even as demand could be lower as a result of higher cost of borrowing.



Source: Redfin via Haver Analytics  
Months plotted: Jan 2012 to Dec 2023

# FOMC Projections of Appropriate Policy (as of Dec FOMC)

- As of the December Federal Open Market Committee meeting, policymakers signaled the end of policy tightening cycle.
- The dot plot suggests a few 25 basis point rate cuts in 2024.
- *“Recent indicators suggest that economic activity has been expanding at a solid pace... The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent..”*



Source: FOMC Projections, December 2023  
Purple dashed line indicates the Fed Funds target rate as of the conclusion of the January FOMC meeting. (5.25 – 5.5%)

# Market-Implied Target Rate Probabilities

- Probability based on CME Fed Funds Futures Contracts, as of March 4, 2024.
- Current target: 5.25 - 5.5%.
- Market has priced in a pause in interest rate changes for the next FOMC meeting, but some participants are predicting a cut as early as in May.

| FOMC Meeting Date   | 4.5-4.75% | 4.75-5% | 5-5.25% | 5.25-5.5%<br>(Current) |
|---------------------|-----------|---------|---------|------------------------|
| March 19-20, 2024   | 0%        | 0%      | 3.0%    | 97.0%                  |
| Apr. 30-May 1, 2024 | 0%        | 0.7%    | 25.0%   | 74.2%                  |
| June 11-12, 2024    | 0.4%      | 14.0%   | 51.9%   | 33.7%                  |

Source: CME Group

## Summary

- While the *level* of economic activity may still be high, its *growth* has slowed down in the past year.
- Labor market data are indicating continuous cooling down; however, the market remains tight, and firms continue reporting hiring challenges.
- Inflation is still higher than the target – but recent trend shows that we are moving in the right direction.



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