



Economic and Banking Conditions Update and Outlook

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Division of Insurance and Research

Federal Deposit Insurance Corporation

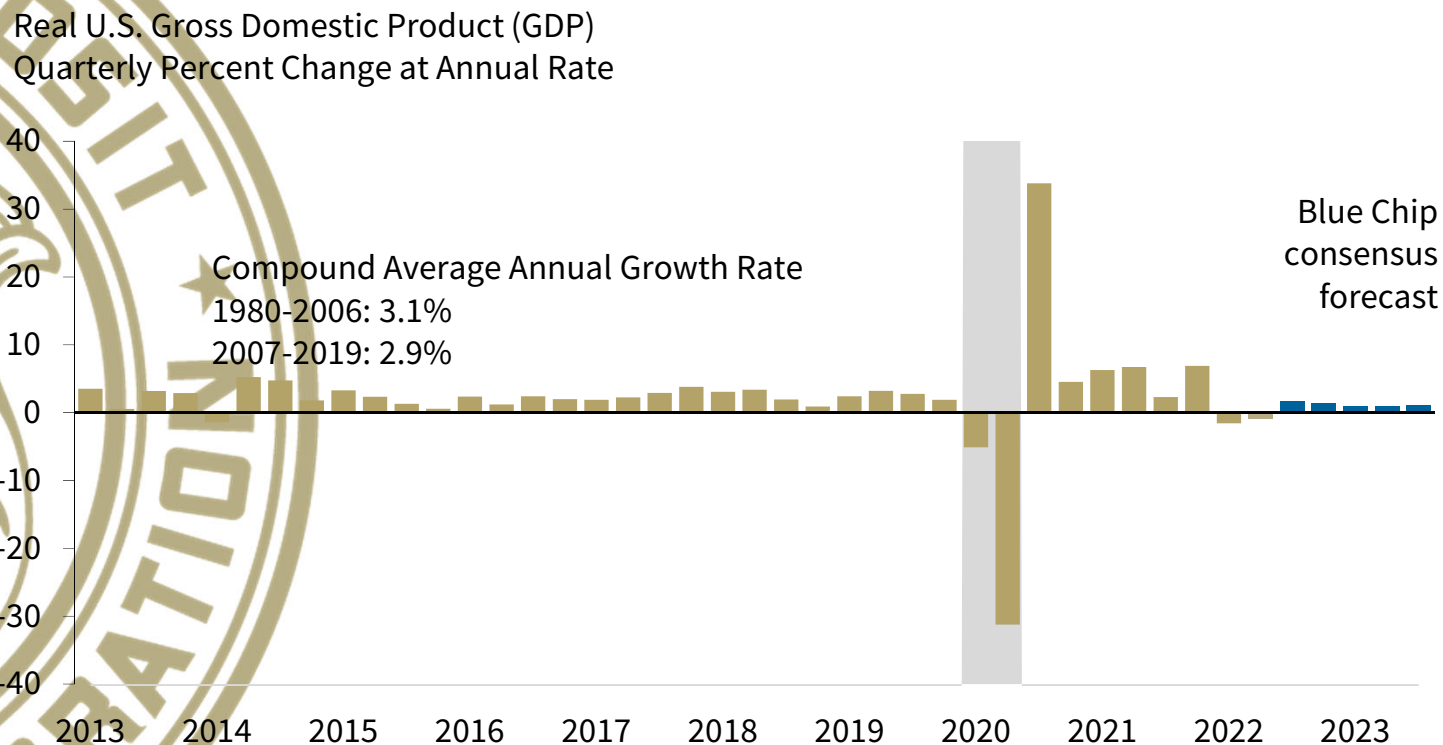




Session Goals:

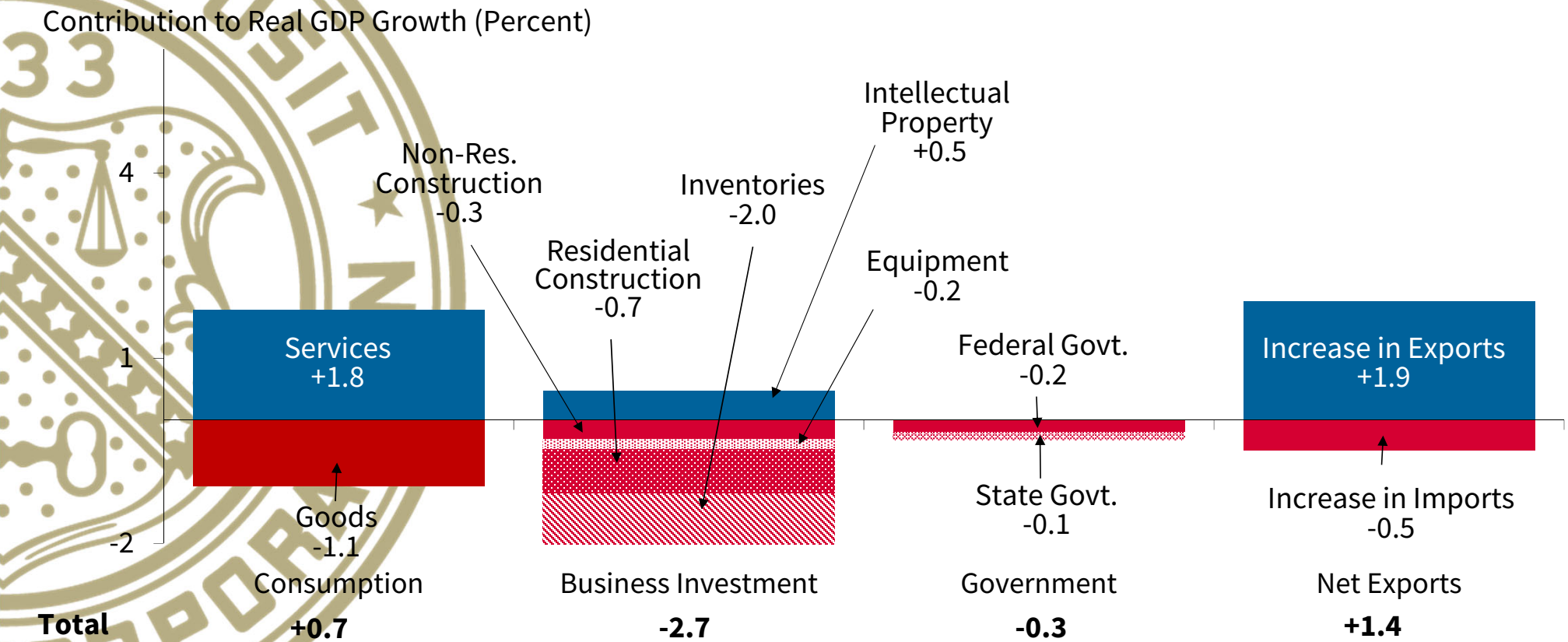
- Understand the current condition of the U.S. economy.
- Identify and characterize existing and emerging risks to U.S. economic growth.

Real gross domestic product (GDP) fell in first and second quarters after several quarters of strong gains. Growth is expected to grow but at a slower pace in 2022.



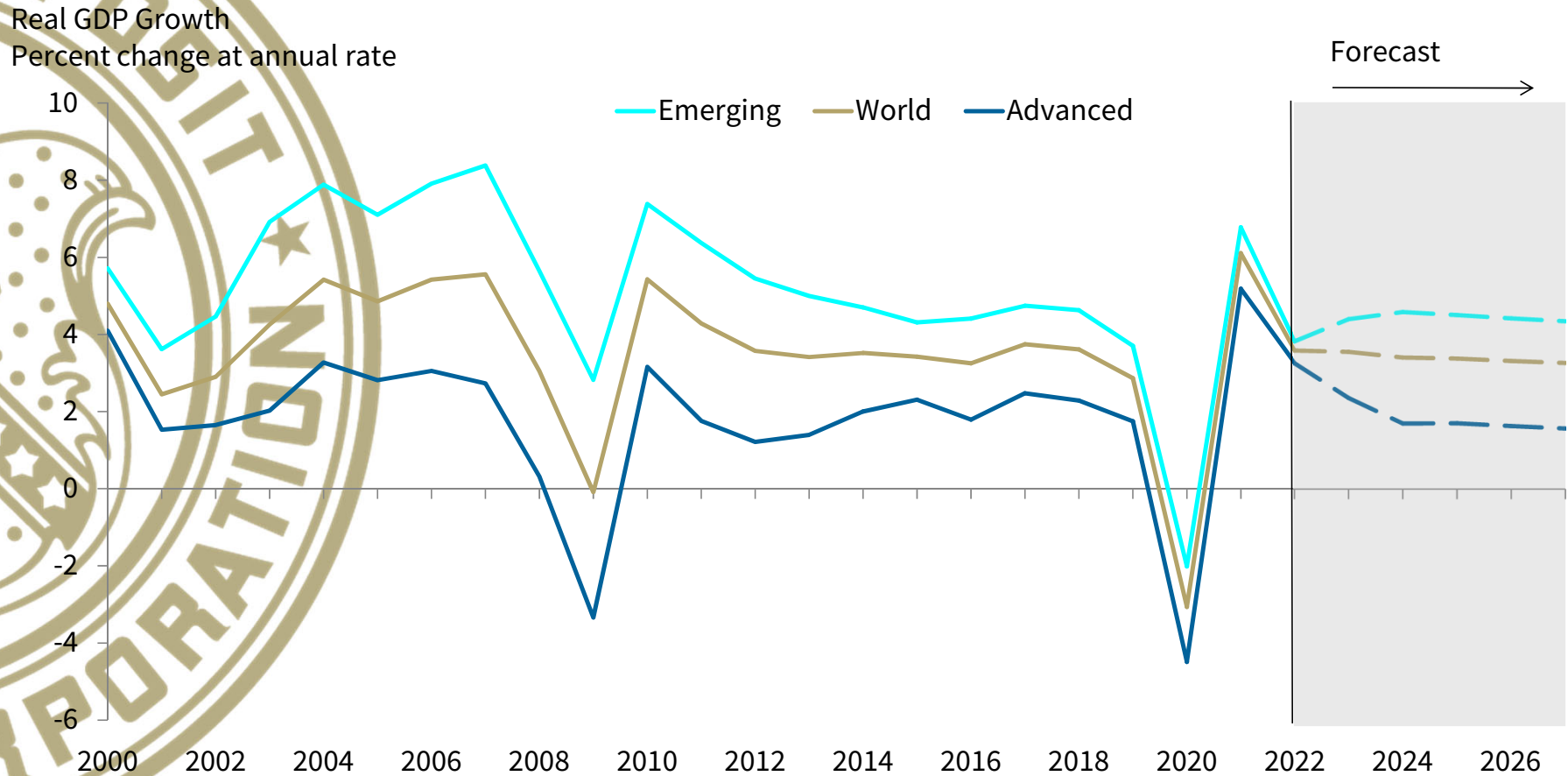
Sources: Bureau of Economic Analysis (Haver Analytics); Blue Chip Consensus Forecast (July 2022); FDIC.
Note: Shaded areas indicate recessions.

GDP fell in second quarter as the drag from investment more than offset consumption growth.



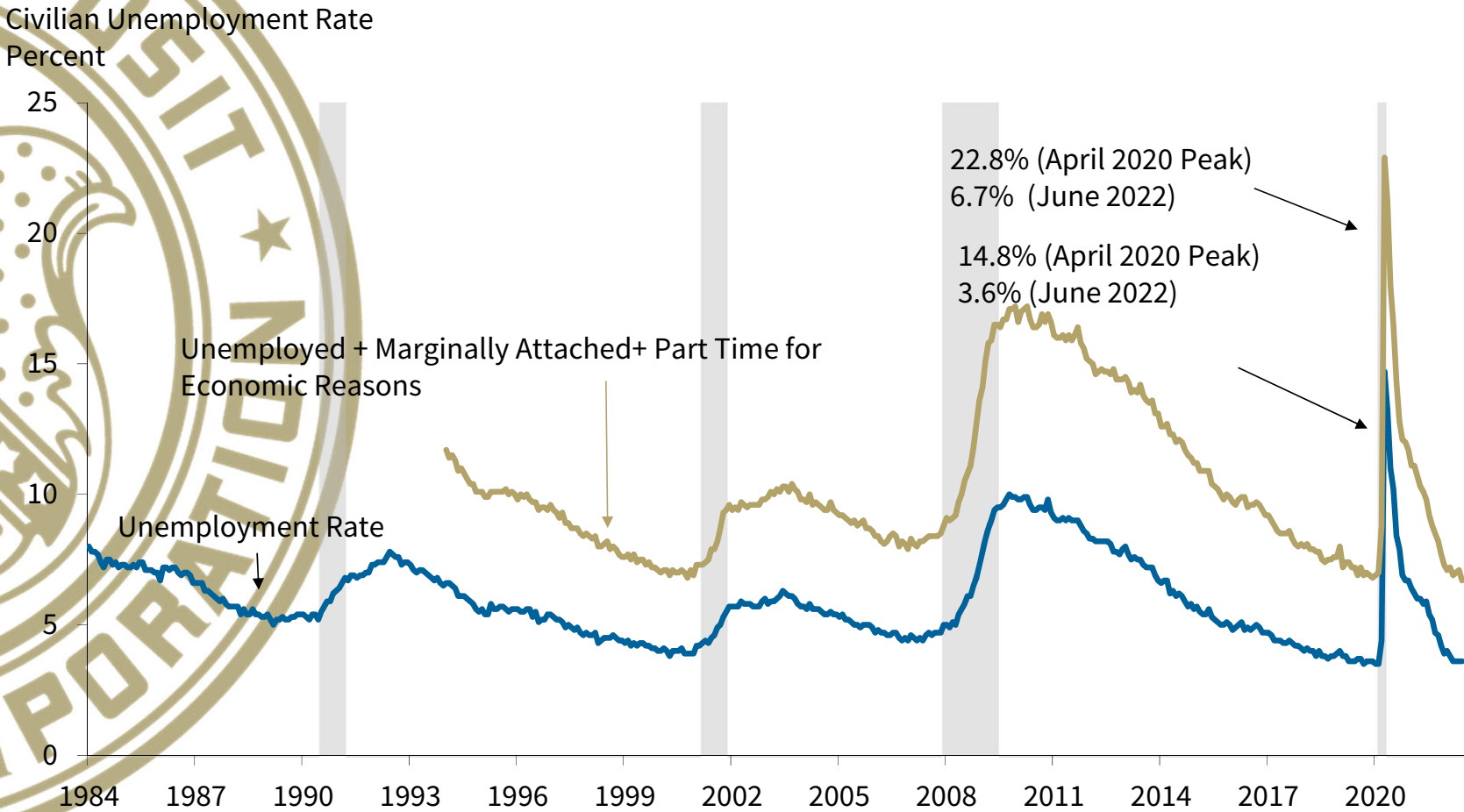
Source: Bureau of Economic Analysis (Haver Analytics). Due to rounding, numbers do not sum.

Global economic growth is expected to fall slow in 2022 and 2023 as high inflation and geopolitical disruptions weigh on the economy.



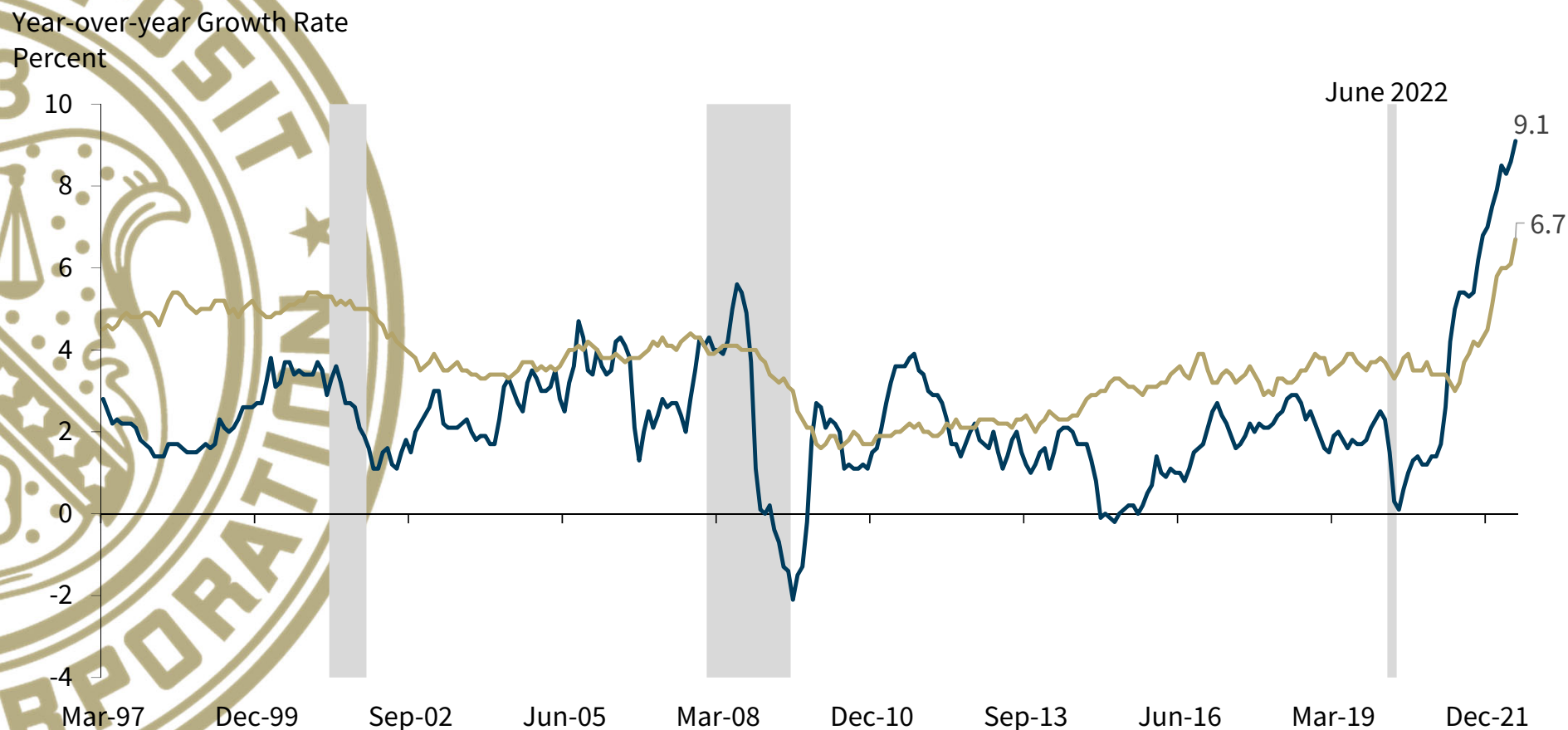
Source: IMF World Economic Outlook, April 2022 (forecast shaded).

The labor market recovery remains strong, with the unemployment rate near cyclical lows and job growth



Source: Bureau of Labor Statistics (Haver Analytics). Shaded areas indicate recessions.

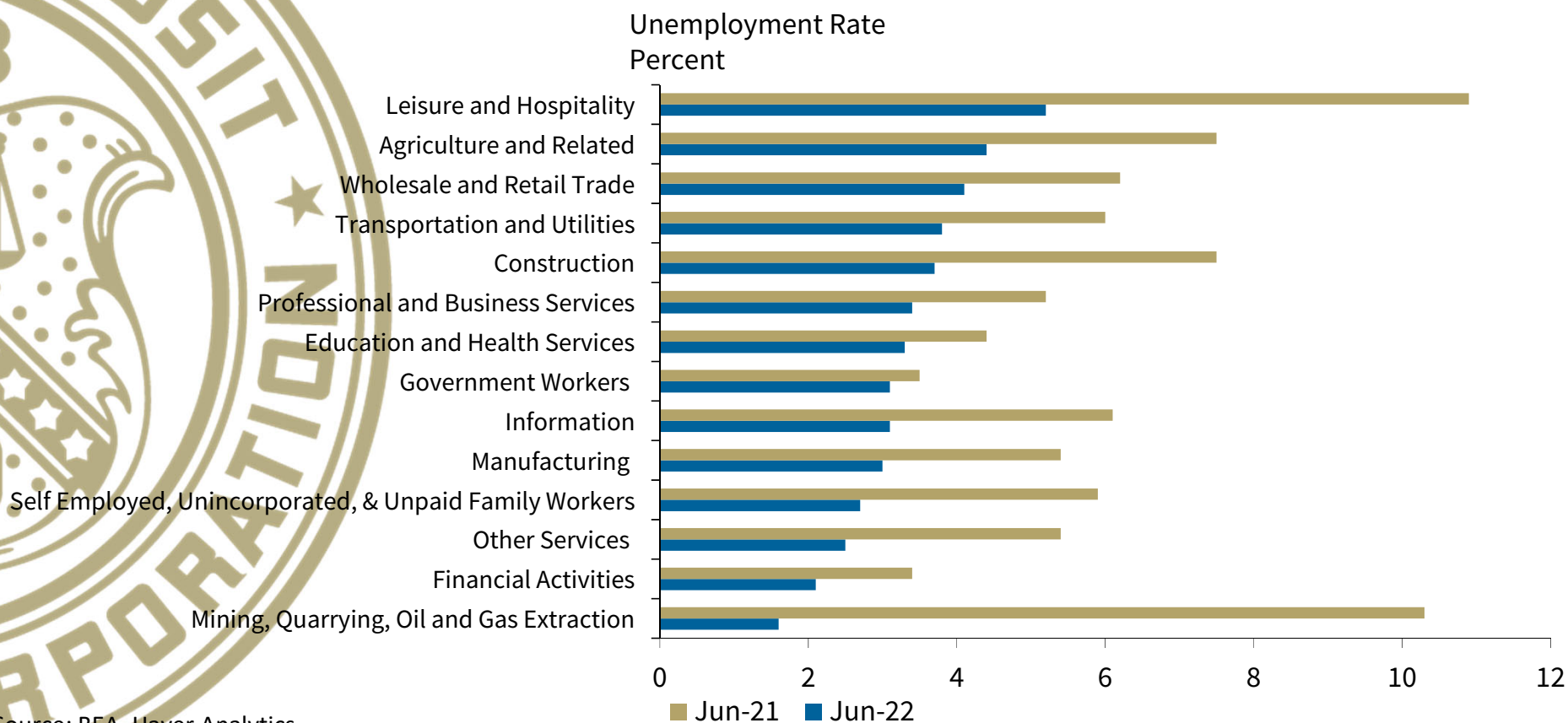
Labor markets are tight and wages are increasing but trail the pace of inflation.



Source: Bureau of Labor Statistics (Haver) and Atlanta Federal Reserve Bank.

Note: Shaded area indicate recession. Data are from March 1997 to June 2022.

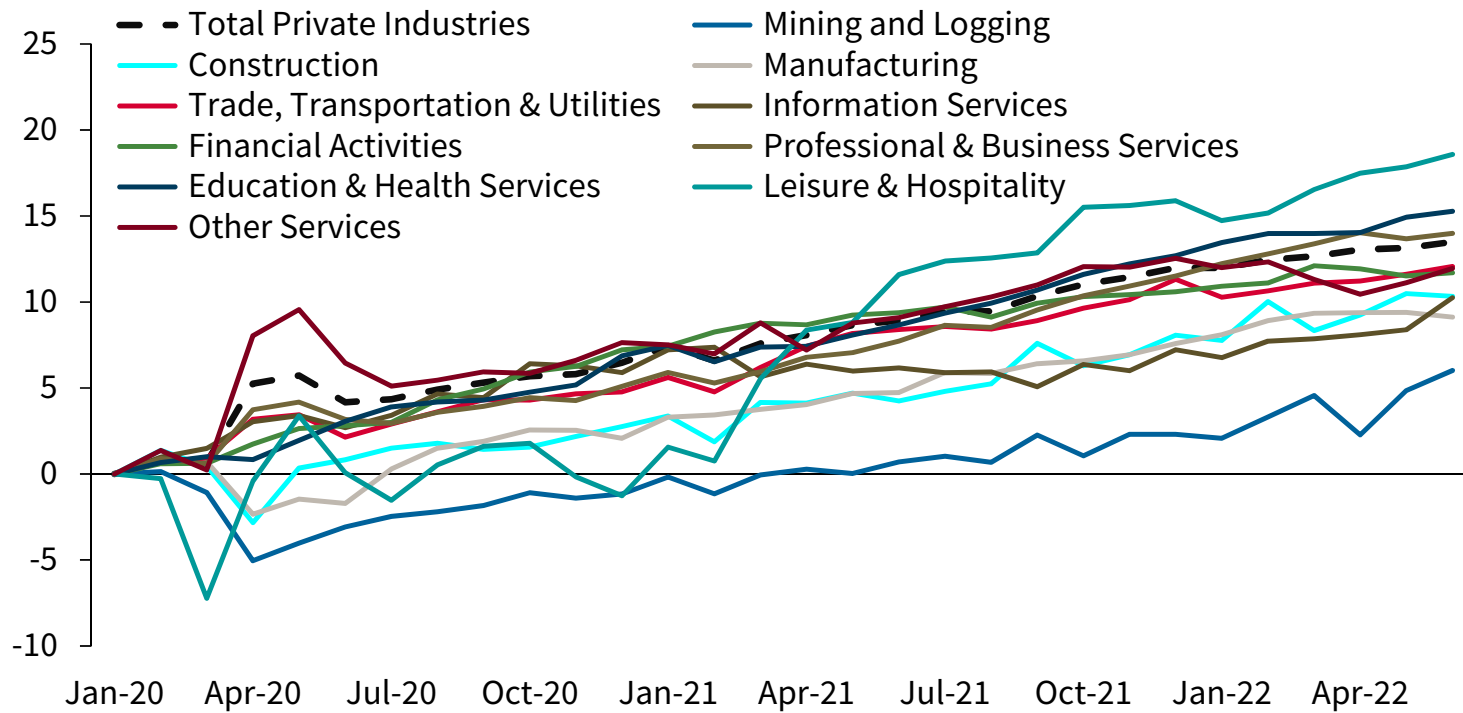
The jobs recovery was broad-based, with the largest improvement in Transportation and Utilities.



Source: BEA, Haver Analytics.

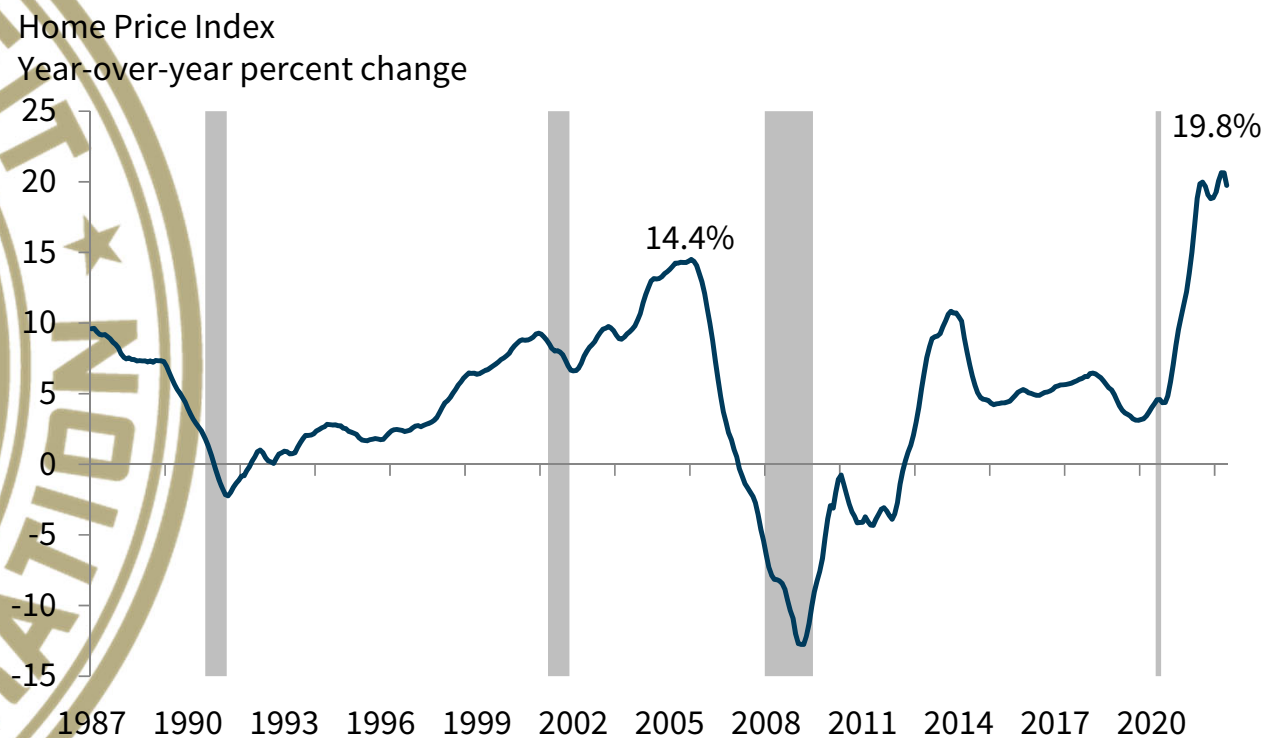
Wages rose across all sectors, led by growth in Leisure and Hospitality.

Average Weekly Earnings Relative to January 2020
Percent



Source: Bureau of Labor Statistics (Haver Analytics). Note: Data through June 2022.

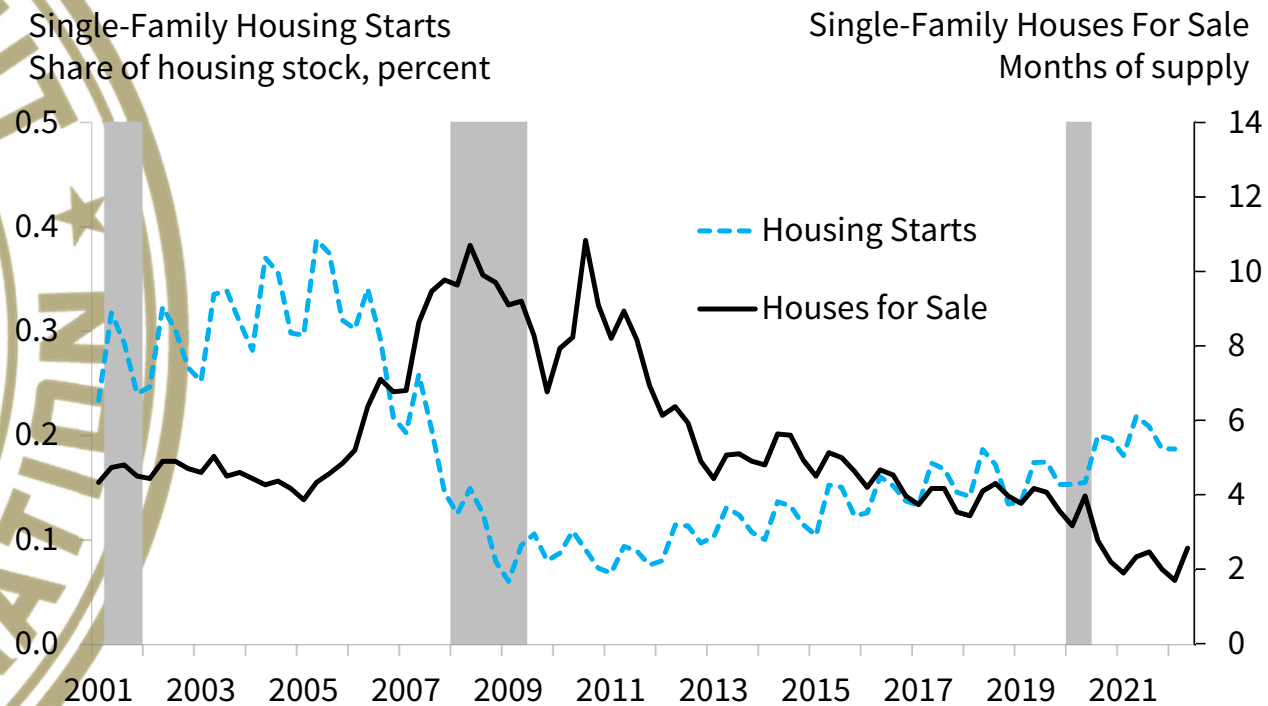
Home price appreciation moderated in recent months but remained historically high.



Source: S&P CoreLogic Case-Shiller (Haver Analytics).

Notes: The home price index is indexed to a level of 100 at January 2000. Data as of February

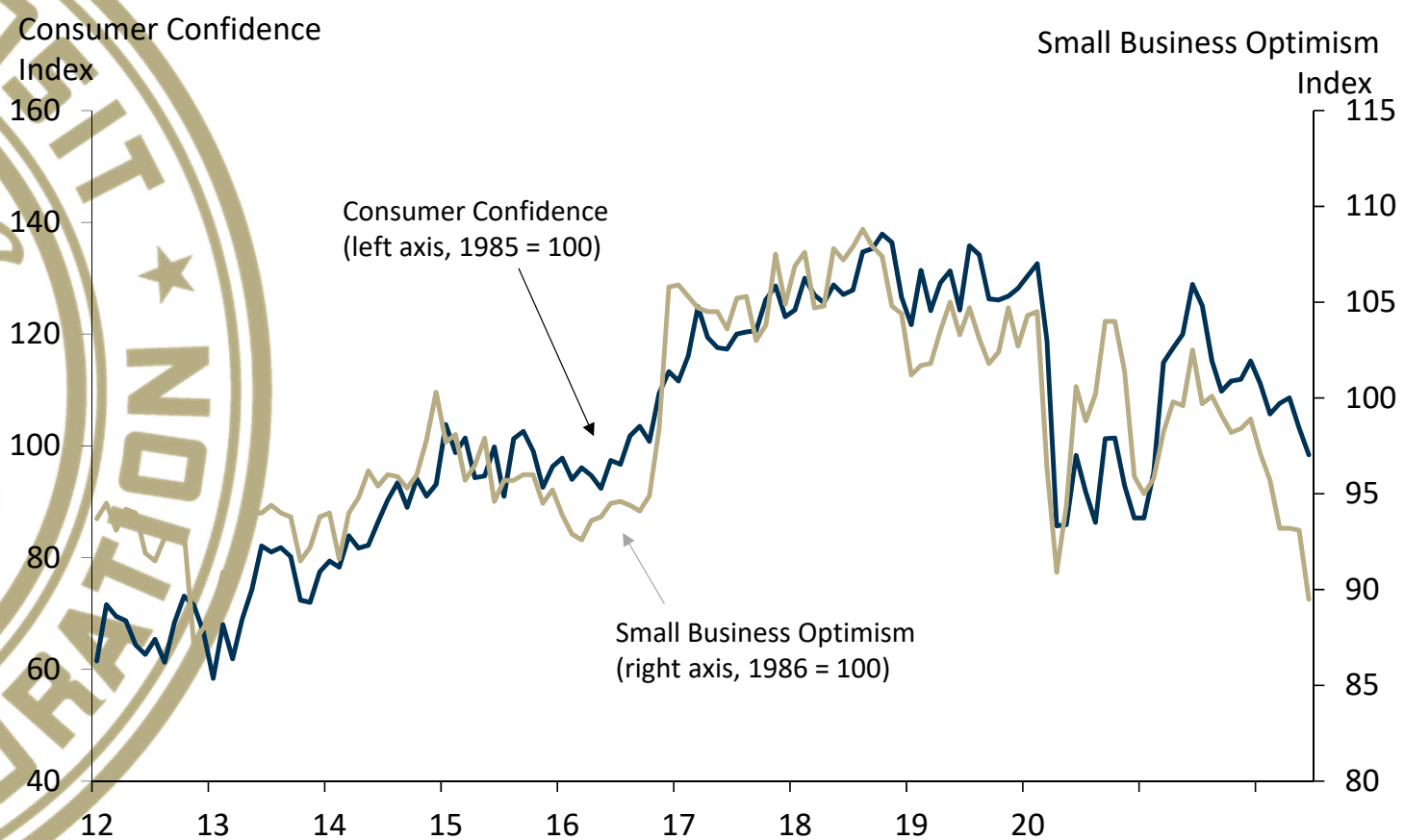
High price appreciation and rising mortgage rates weighed on affordability, and supply constraints limited inventory.



Sources: National Association of Realtors, Census Bureau, National Bureau of Economic Research (Haver Analytics).

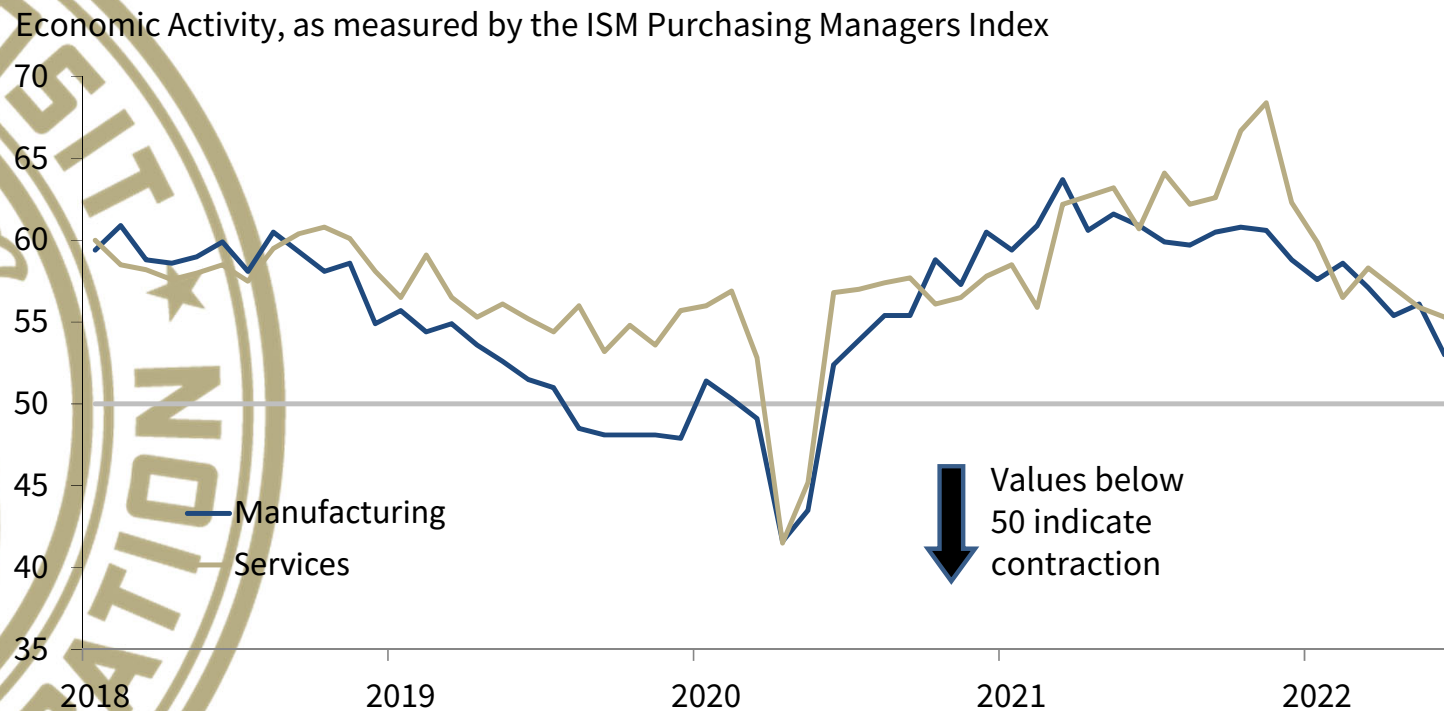
Note: Data are quarterly through second quarter 2022. Shaded area indicate recessions.

Consumer confidence and small business optimism trended down.



Sources: Conference Board, NFIB (Haver Analytics).

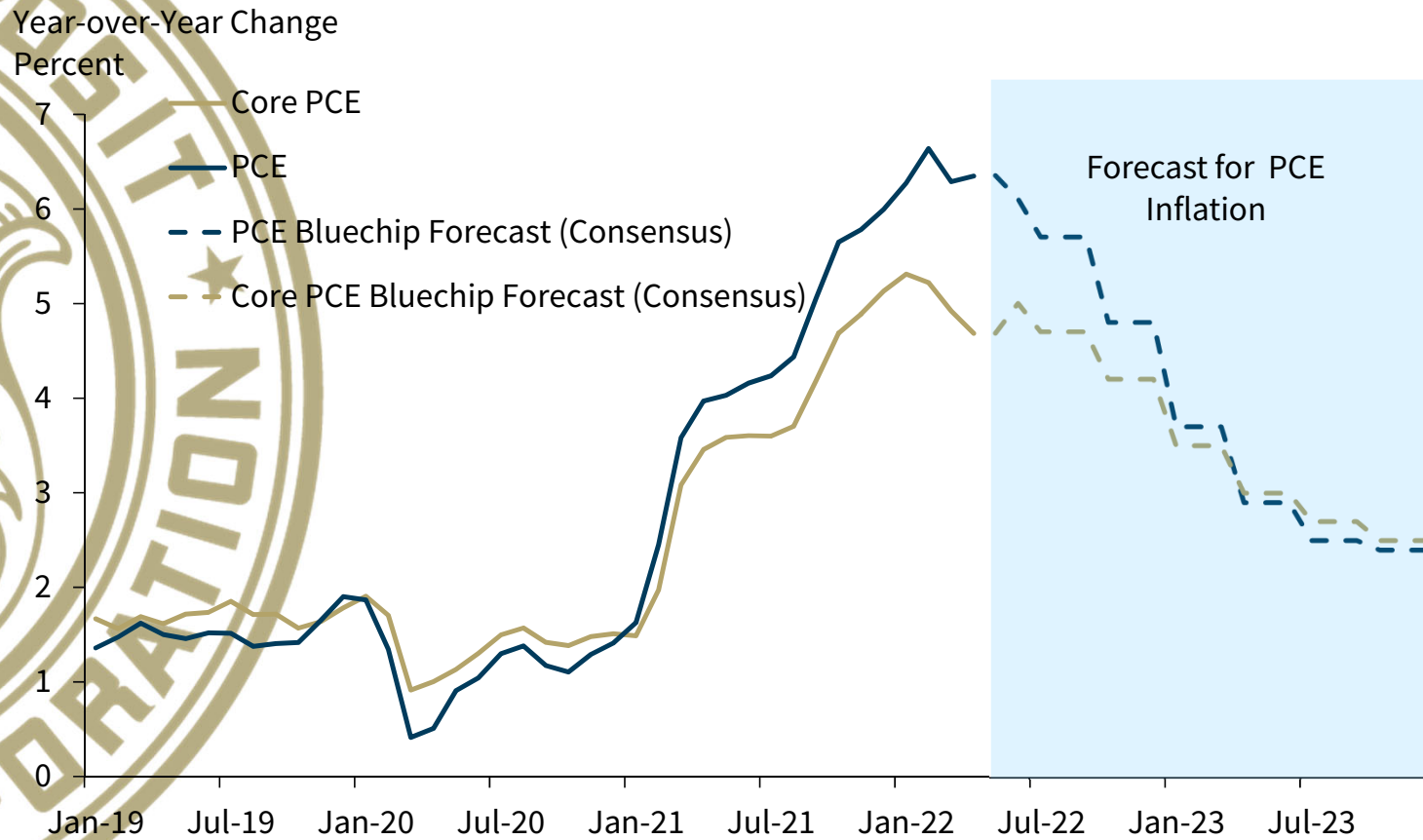
Both manufacturing and service conditions slowed but continued to indicate expansion.



Source: Institute for Supply Management (Haver Analytics).

Note: The ISM Purchasing Managers index is based on a survey of executives on a variety of business activity indicators including new orders, backlog of orders, production, supplier deliveries, and inventories. The index measures the percent of positive responses plus one-half of those responding the same. Index values above 50 percent indicates that activity in the sector--manufacturing or services--is generally expanding.

Inflation continued to rise in first half 2022 but is expected to moderate through the end of 2023.

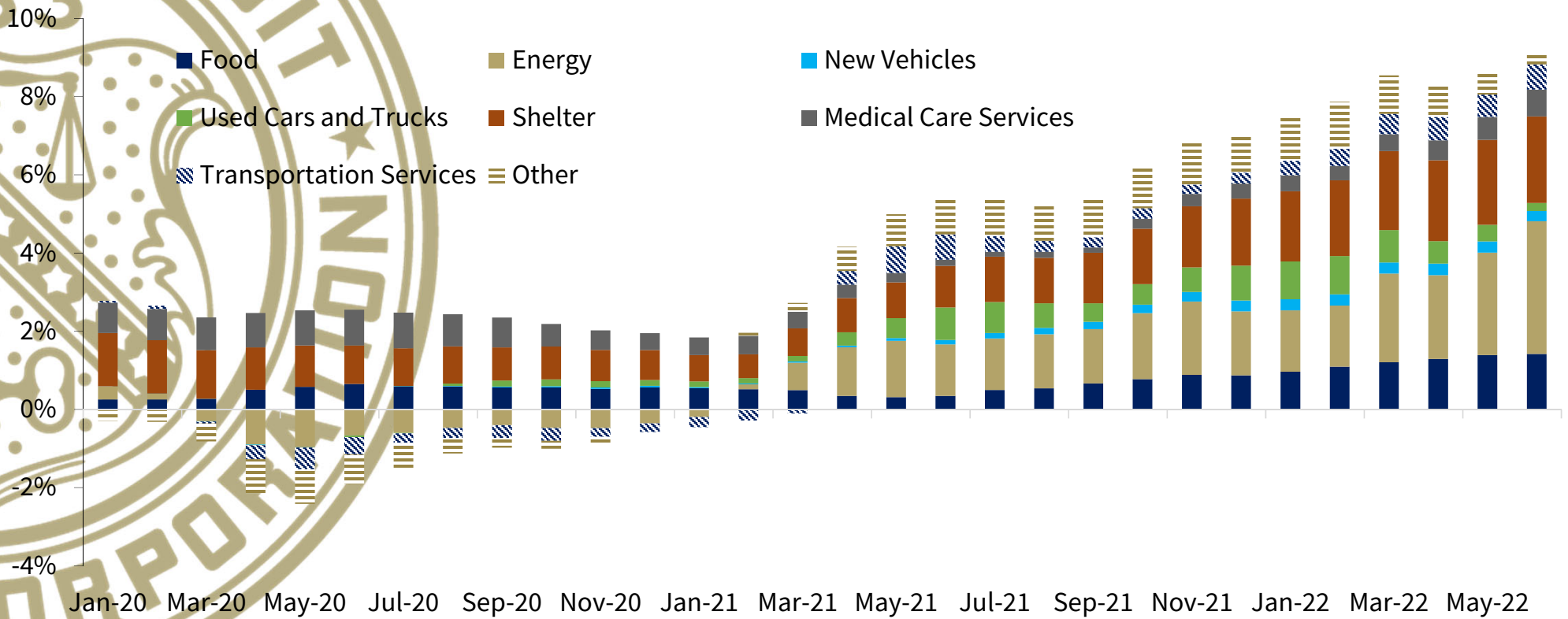


Source: Bureau of Economic Analysis, April 2022 Blue Chip Consensus Forecast (Haver Analytics).

Inflation has been broad-based, more recently driven by energy, shelter, and food.

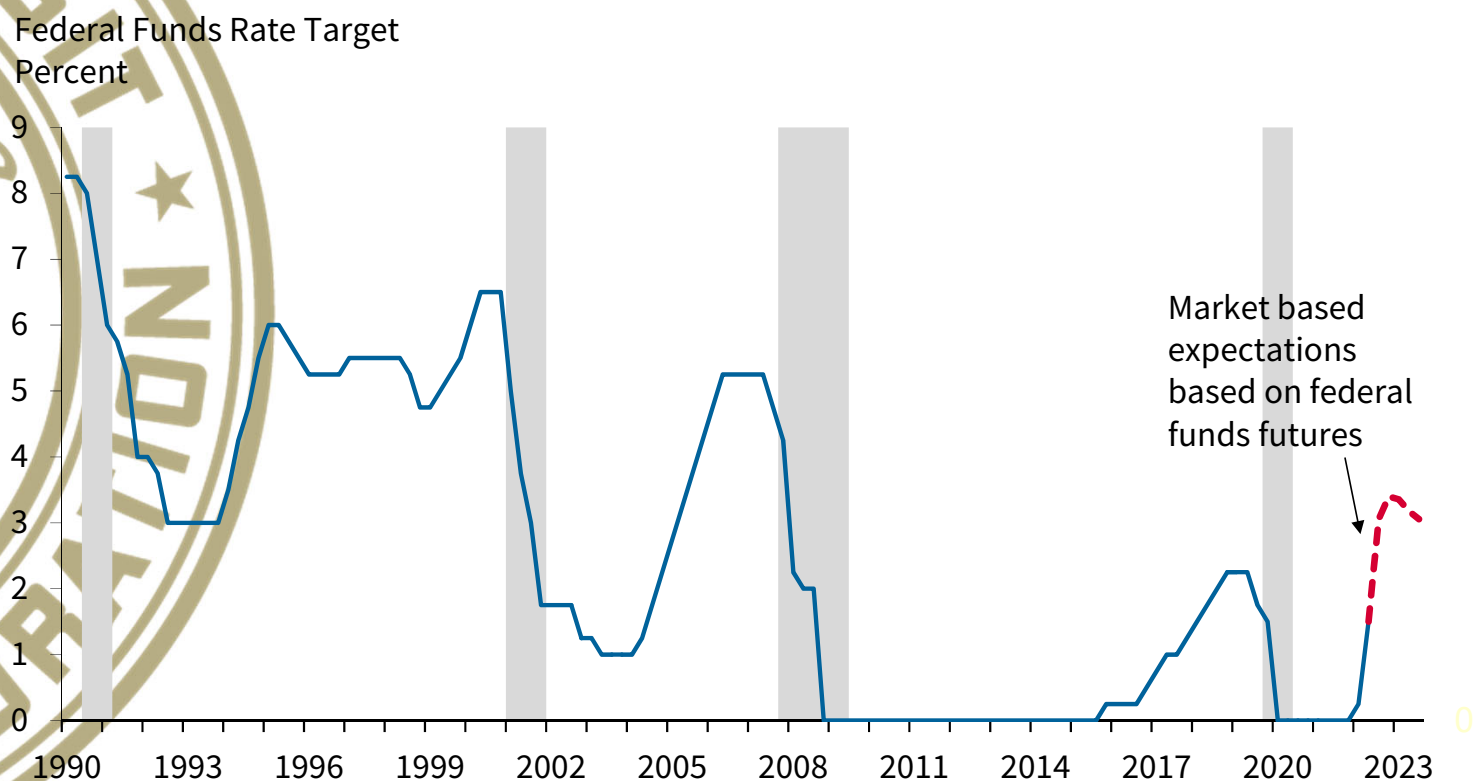
Contributions to Annual CPI Inflation

Percent



Source: Bureau of Labor Statistics (Haver Analytics). Data are through June 2022.

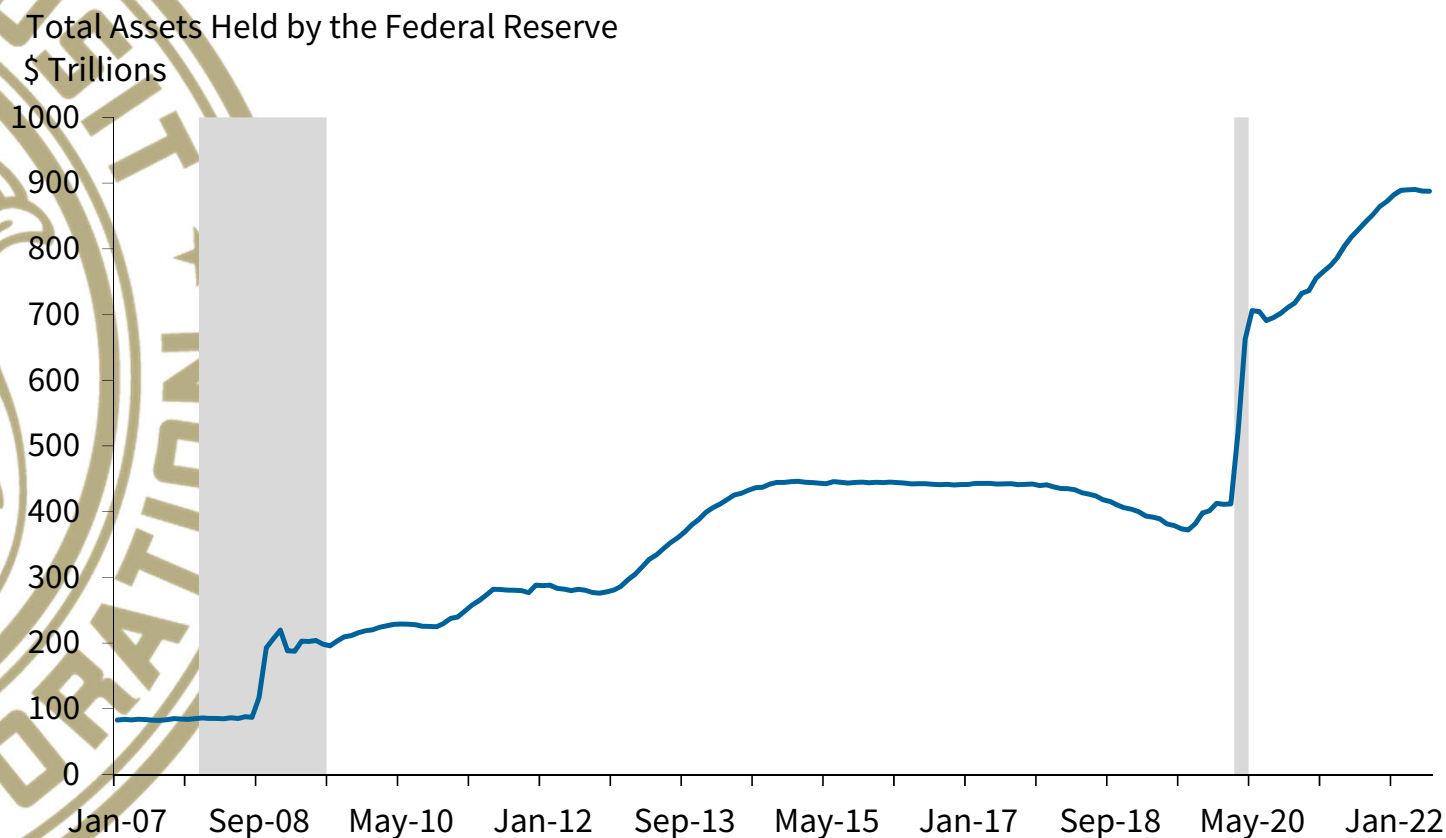
The Federal Open Market Committee raised the federal funds rates in June and July by the largest increase since 1994. Markets expect additional rate hikes at every meeting in 2022.



Sources: Federal Reserve; CME Group.

Note: Data points to lower limit of federal funds target rate.

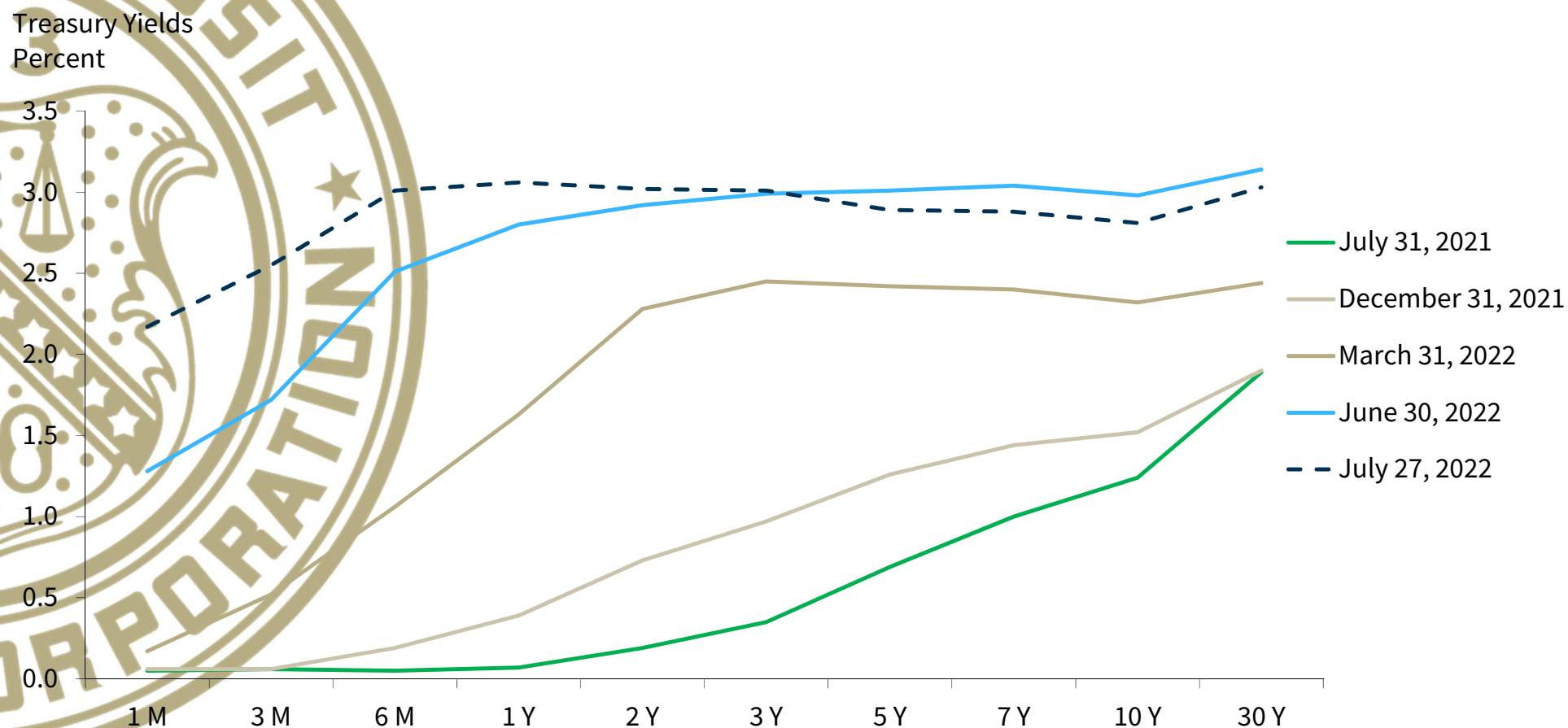
The Fed increased its balance sheet to almost \$9 trillion, the highest level on record, through the pandemic. The Fed began reducing its balance sheet in June.



Source: Federal Reserve Board (Haver Analytics)

Note: Shaded areas indicate recession.

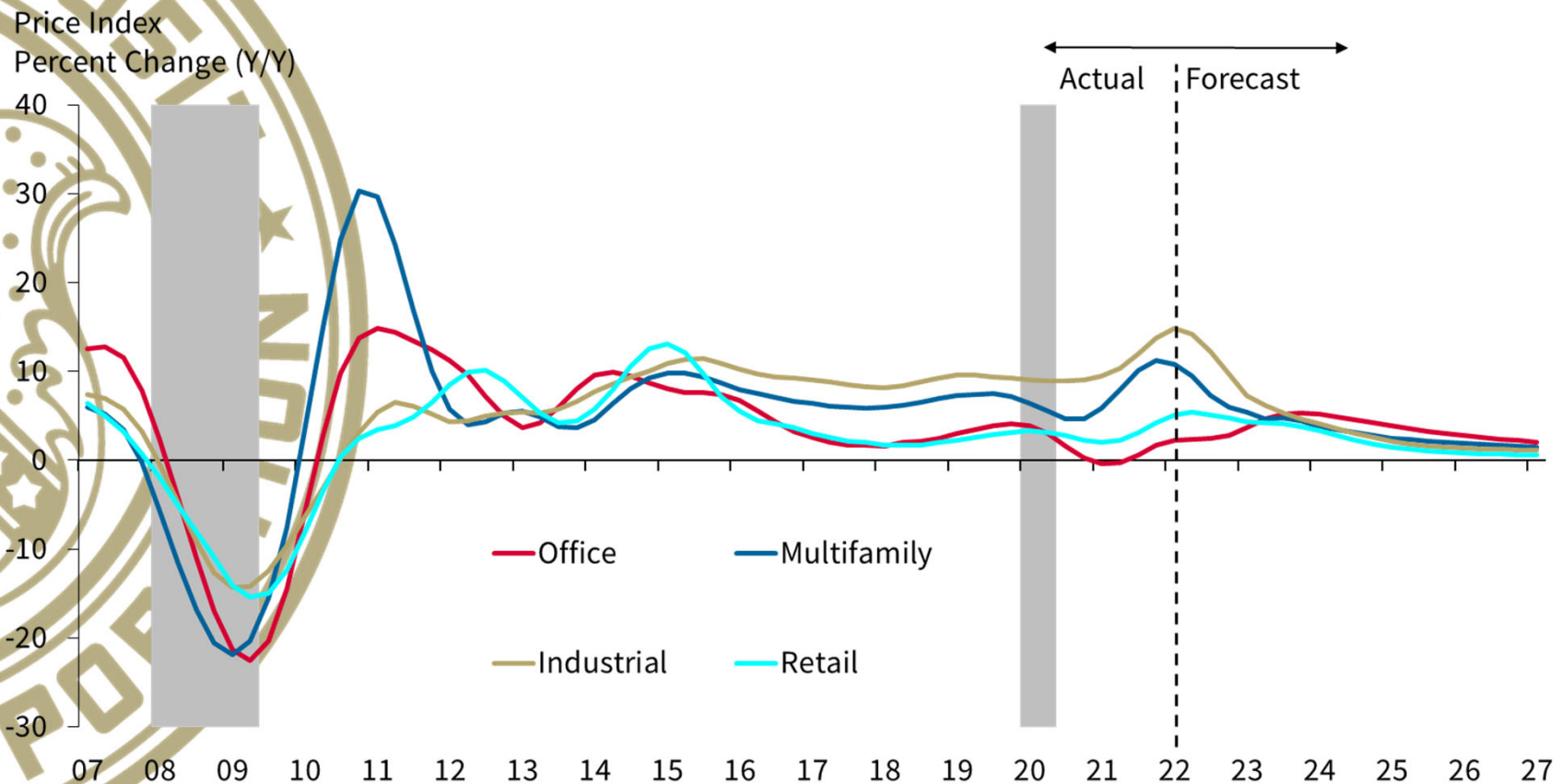
The yield curve recently inverted as shorter term yields rose on higher federal fund rate expectations and longer term yields fell on the weaker economic outlook. This challenges bank profitability.



Source: CapitalIQ.

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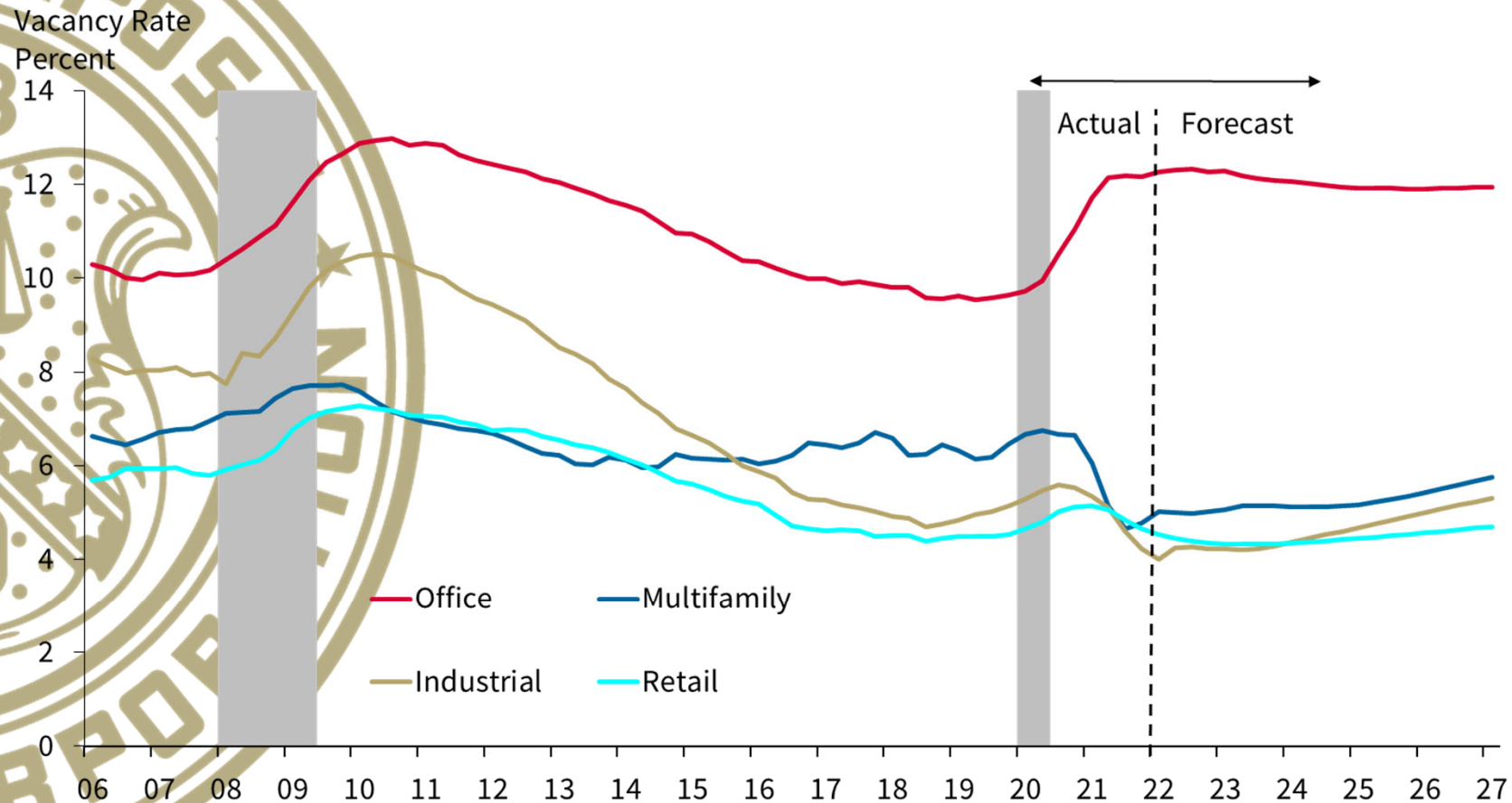
Higher interest rates may lead to weaker growth in both CRE rents and property prices in the years ahead.



Source: CoStar Portfolio Strategies. Data as of March 2022.

Note: Shaded area indicates recession.

Elevated vacancy rates and easing credit standards could challenge borrowers and lenders.



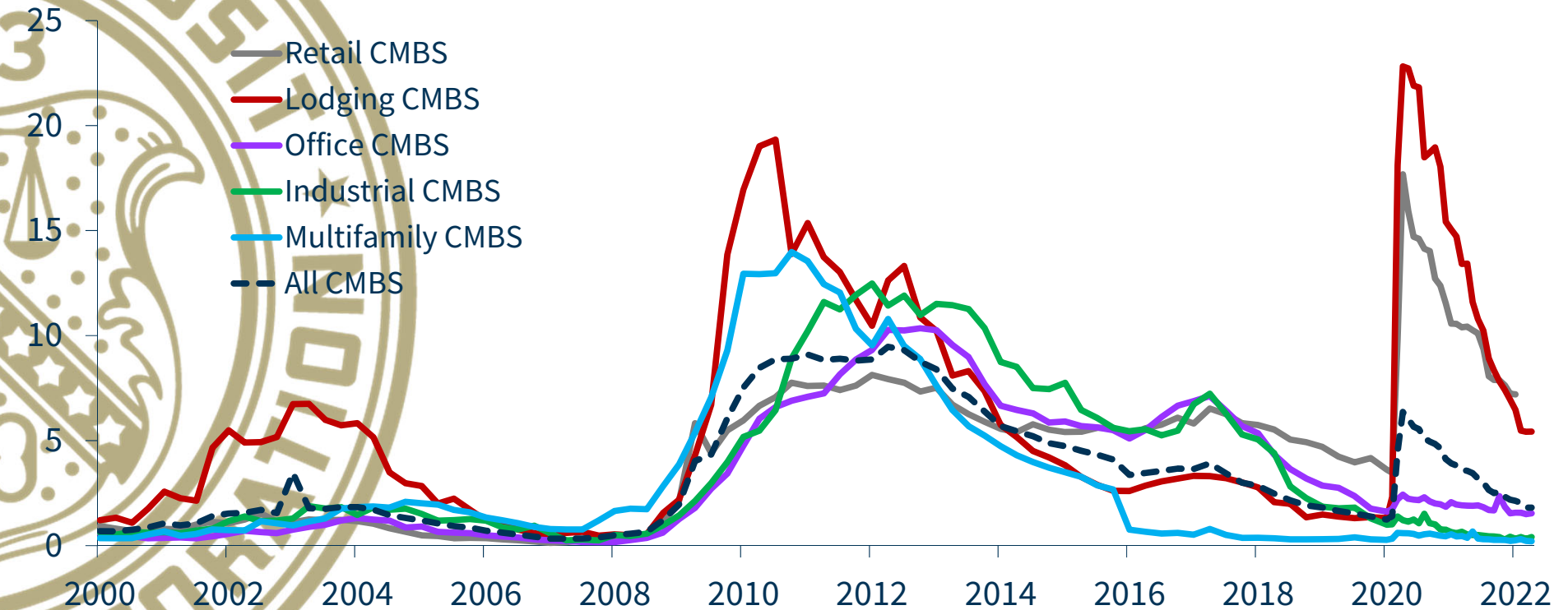
Source: CoStar Portfolio Strategies. Data as of March 2022.

Note: Shaded area indicates recession.

Credit quality weakened in lodging and retail, with office yet to come.

Loan Delinquency Rates

Percent



Sources: FDIC; Trepp Loan.

Note: Data are monthly figures through June 2022 compiled from Trepp's Standard Loan Portfolio.



Factors Affecting the Outlook

- Inflationary pressures
 - Global supply / demand developments for food and energy
 - Production bottlenecks
 - Continued consumer demand from excess savings from pandemic support programs
- Geopolitical developments / war in Ukraine
- Supply chain issues
- Global pandemic conditions
- Tighter financial conditions / higher interest rates
- Recession Concerns

FDIC has several economic and banking publications available online.



<https://www.fdic.gov/analysis/>