Economic Update

California's Labor Market Has Recovered from the Pandemic but the Outlook Is Uncertain

LMID Advisory Group Meeting

December 7, 2022

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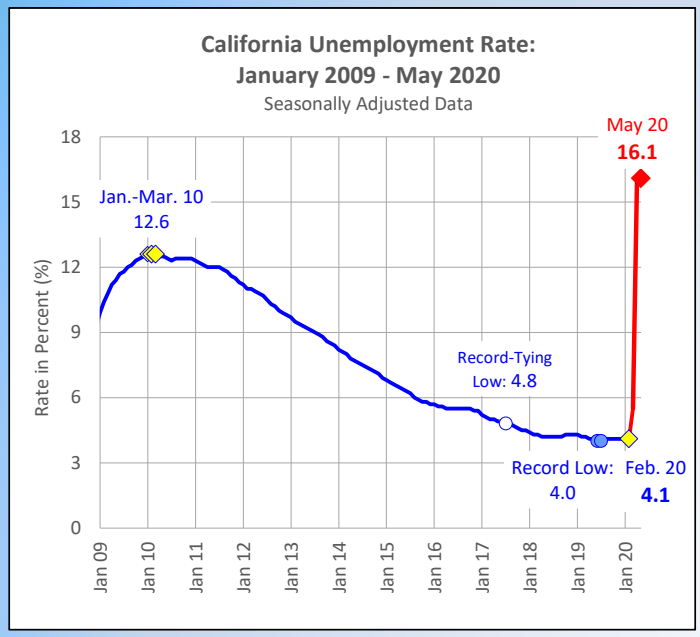
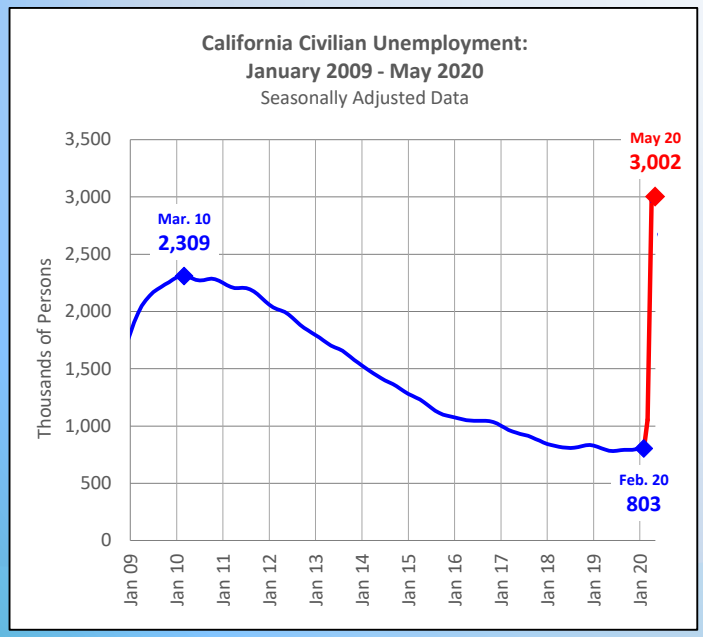
Labor Market Information Division

Employment Development Department

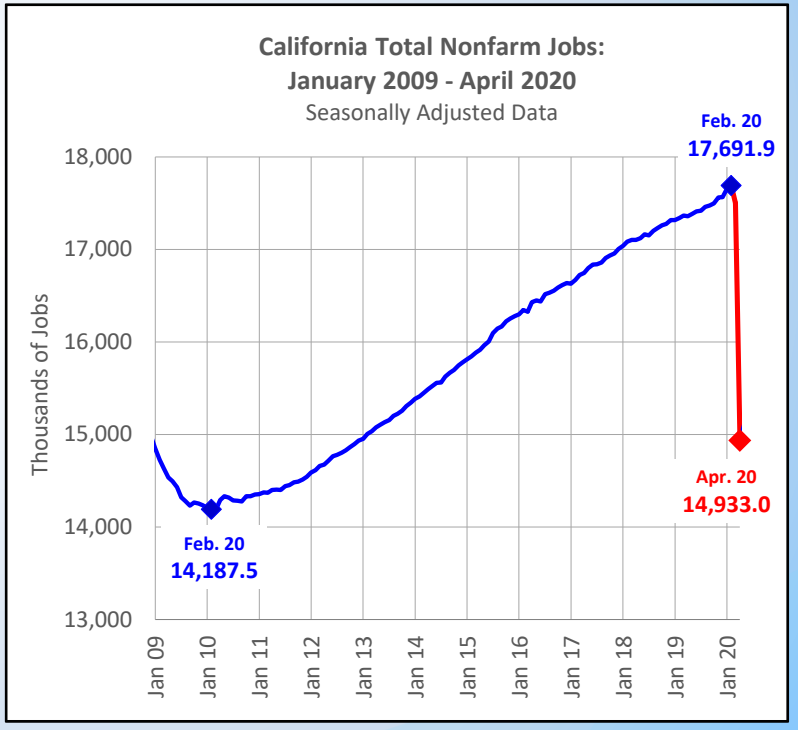
State of California

The External Shock to the Labor Market: The Pandemic Outbreak and Public Health Response





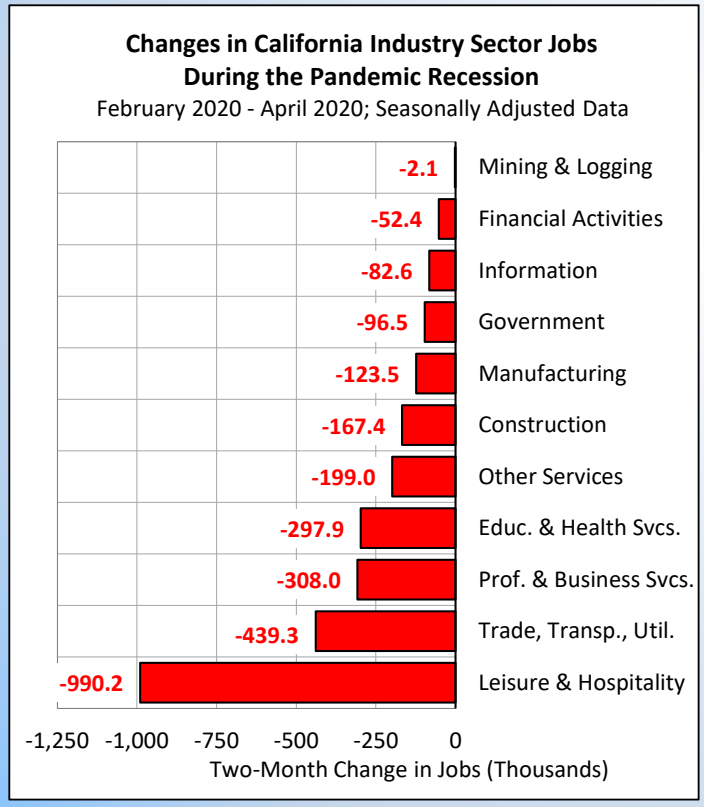
- Change in Unemployment from February 2020 through May 2020 Peak:
  - Rate = +12.0 percentage points
  - Number: +2,199,000 persons (274 percent!)

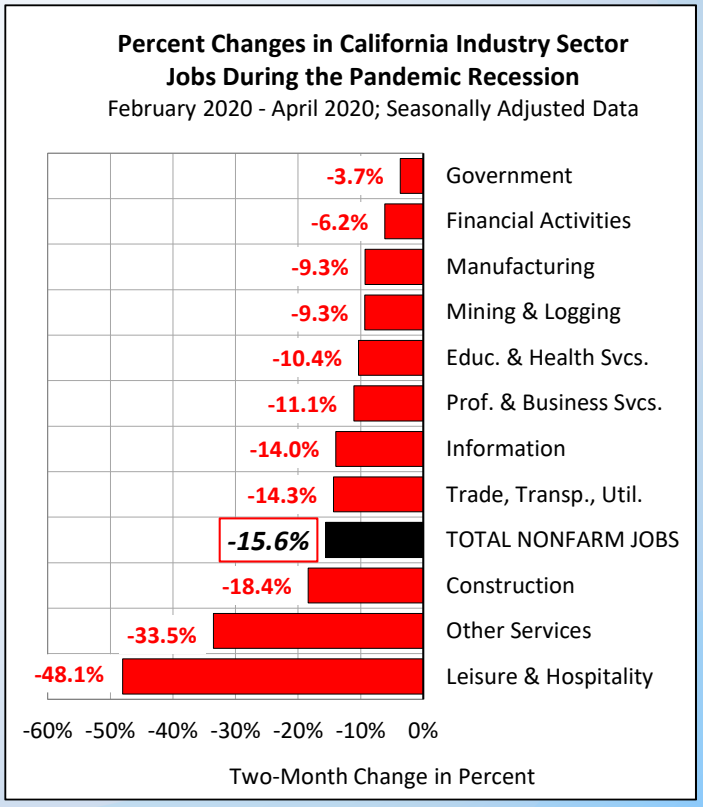


- Change in Number of Jobs from February 2020 through April 2020: -2,758,900 (-15.6 percent).

With all but essential services shuttered (roughly half the labor market), job losses were widely distributed across the economy, but concentrated in the low-wage leisure and hospitality and other services (personal care) sectors. State and federal governments launched unprecedented investments in social safety nets and strong economic stimulus totaling several trillions of dollars to help cushion the blow of the pandemic-induced disruption to the labor market.

As a rule, workers who could transition to working remotely from home were able to weather the shutdown better than those who could not.





Job losses were also widespread across all regions of the state, but perhaps most highly concentrated in those areas that are travel and entertainment destinations.

Changes in Total Nonfarm Jobs in California's Seasonally Adjusted Metroplitan Divisions (MDs) and Metropolitan Statistical Areas (MSAs) During the Pandemic-Induced Recession: FEBRUARY 2020 - APRIL 2020

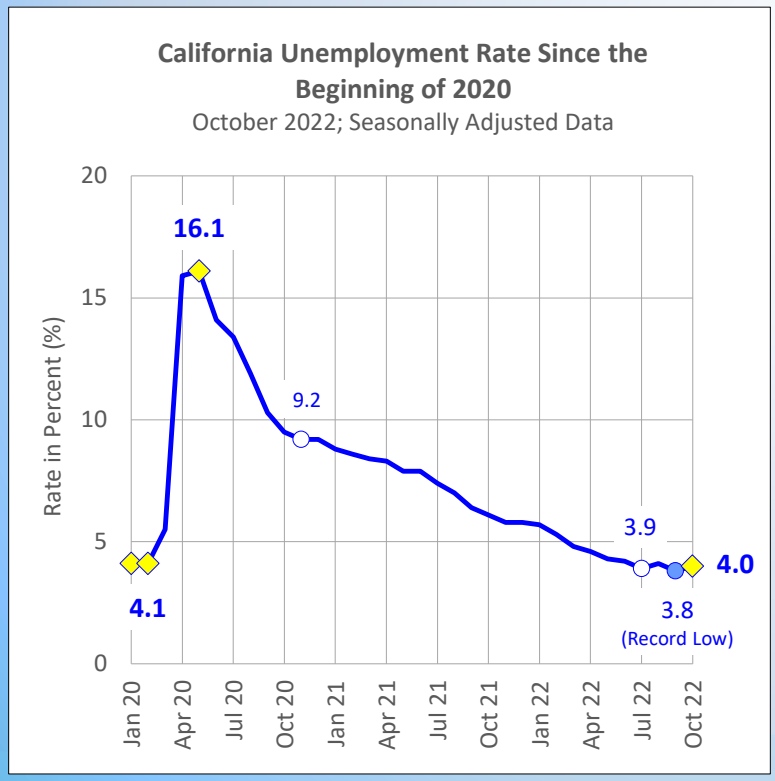
(Areas with 1 million or more jobs are in bolded italics.)

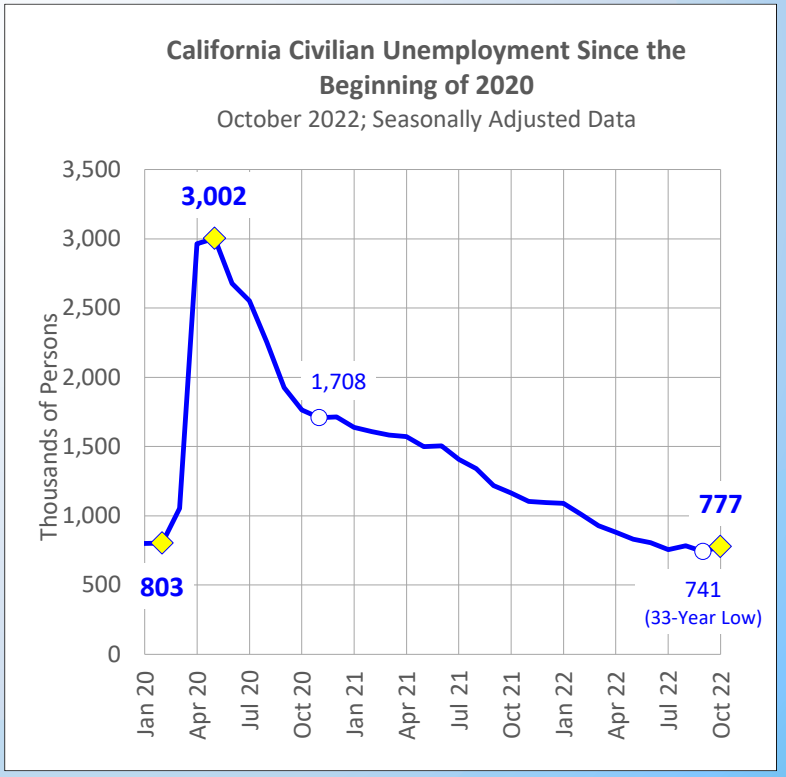
	Number of Jobs
California	***-2,758,900***
Los Angeles-Long Beach-Glendale MD	***-778,100***
Anaheim-Santa Ana-Irvine MD	***-274,700***
San Diego-Carlsbad MSA	***-255,100***
Riverside-San Bernardino-Ontario MSA	***-228,700***
Oakland-Hayward-Berkeley MD	***-198,300***
San Francisco-Redwood City-So. San Francisco MD	***-186,800***
San Jose-Sunnyvale-Santa Clara MSA	***-161,100***
Sacramento--Roseville--Arden-Arcade MSA	***-139,700***
Oxnard-Thousand Oaks-Ventura MSA	-51,900
Fresno MSA	-47,100
Santa Rosa MSA	-39,200
Santa Maria-Santa Barbara MSA	-33,600
Bakersfield MSA	-33,300
Stockton-Lodi MSA	-29,600
Salinas MSA	-28,700
San Rafael MD	-25,400
San Luis Obispo-Paso Robles-Arroyo Grande MSA	-23,300
Modesto MSA	-22,700
Vallejo-Fairfield MSA	-21,800
Santa Cruz-Watsonville MSA	-21,500
Napa MSA	-18,000
Visalia-Porterville MSA	-14,000
Chico MSA	-13,800
Redding MSA	-7,900
Merced MSA	-5,900
El Centro MSA	-5,900
Yuba City MSA	-5,000
Madera MSA	-5,000
Hanford-Corcoran MSA	-2,900

	Percent Change
California	***-15.6%***
Napa MSA	-23.9%
San Rafael MD	-21.7%
Santa Cruz-Watsonville MSA	-20.6%
Salinas MSA	-19.6%
San Luis Obispo-Paso Robles-Arroyo Grande MSA	-19.4%
Santa Rosa MSA	-18.6%
Chico MSA	-17.1%
Santa Maria-Santa Barbara MSA	-17.0%
Los Angeles-Long Beach-Glendale MD	***-16.8%***
San Diego-Carlsbad MSA	***-16.8%***
Oakland-Hayward-Berkeley MD	***-16.5%***
Oxnard-Thousand Oaks-Ventura MSA	-16.4%
Anaheim-Santa Ana-Irvine MD	***-16.3%***
San Francisco-Redwood City-So. San Francisco MD	***-15.5%***
Vallejo-Fairfield MSA	-15.2%
Riverside-San Bernardino-Ontario MSA	***-14.3%***
San Jose-Sunnyvale-Santa Clara MSA	***-13.7%***
Sacramento--Roseville--Arden-Arcade MSA	***-13.5%***
Fresno MSA	-12.7%
Modesto MSA	-12.3%
Madera MSA	-12.2%
Bakersfield MSA	-11.9%
Stockton-Lodi MSA	-11.7%
Redding MSA	-11.5%
El Centro MSA	-10.7%
Visalia-Porterville MSA	-10.6%
Yuba City MSA	-10.4%
Merced MSA	-8.3%
Hanford-Corcoran MSA	-7.0%

California's Recovery: Unemployment Has Returned to Historically Low Levels

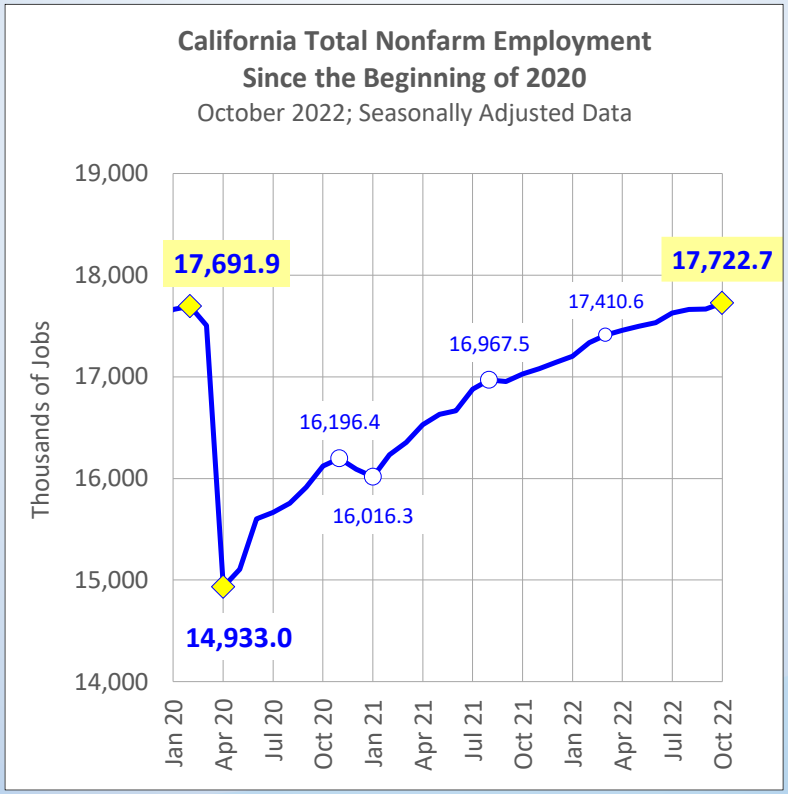
- Although California's seasonally adjusted unemployment rate rose to 4.0 in October 2022, it rose from a record low of 3.8 percent in September. California's unemployment rate has been below where it was entering the pandemic (4.1 percent in Feb. 2020) for four consecutive months.
- There were 777,000 unemployed Californians in October 2022, which is 26,000 persons fewer than there were just prior to the pandemic outbreak in February 2020. In September 2022, the number of unemployed Californians stood at a 33-year low.



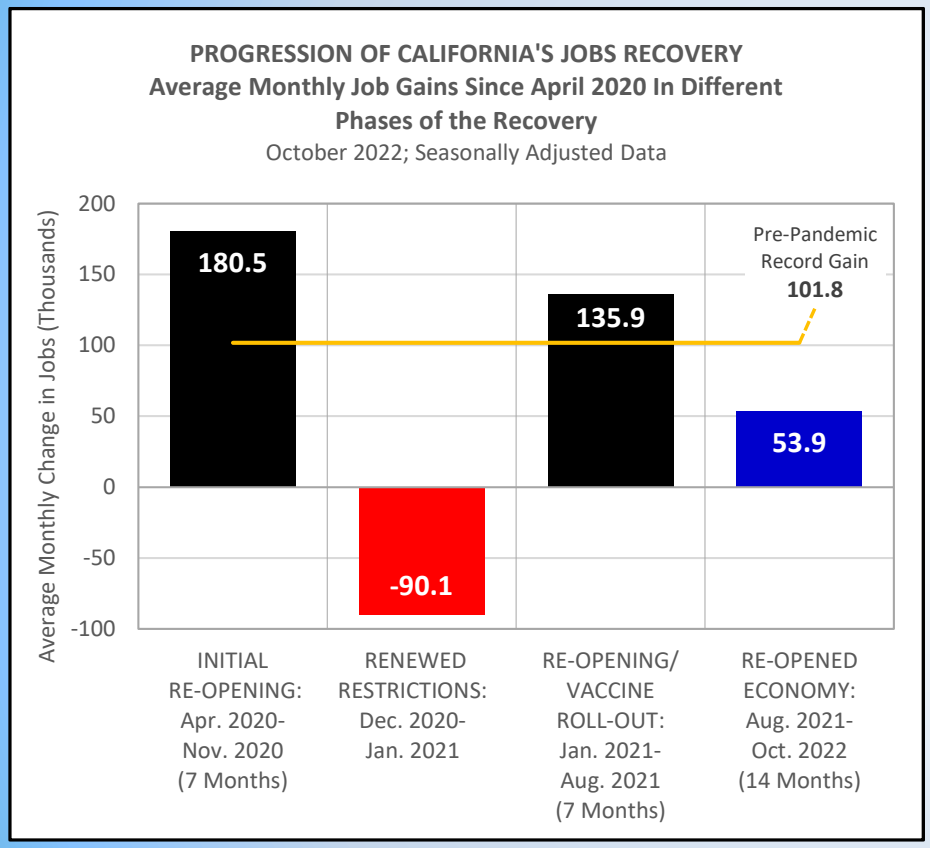


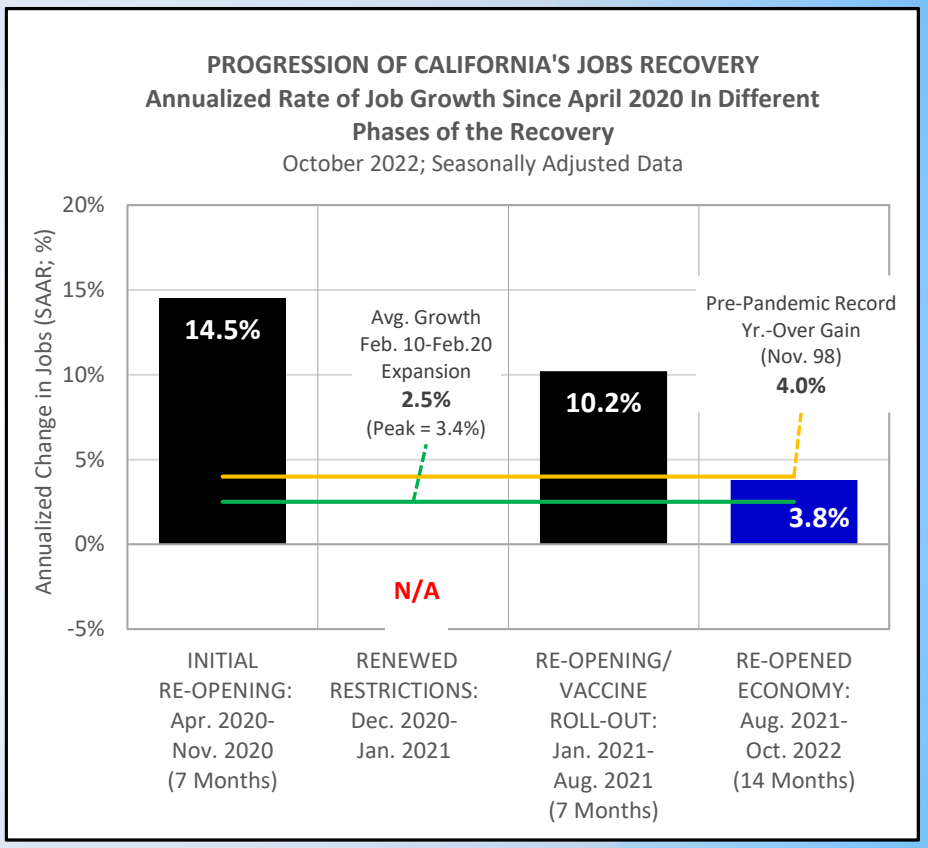
California Has Fully Recovered its Pandemic-Induced Job Losses

- With a gain of 56,700 nonfarm jobs in October 2022, California has now fully recovered the jobs it lost during the pandemic-induced recession. The state added 2,789,700 nonfarm jobs (an increase of 18.7 percent) from the pandemic low in April 2020 through October 2022, lifting nonfarm employment 30,800 jobs (0.2 percent) above its pre-pandemic level in February 2020. As of October 2022, California had recovered 101.1 percent (with 100 percent representing full recovery) of the 2,758,900 nonfarm jobs it lost during the February 2020-April 2020 recession.

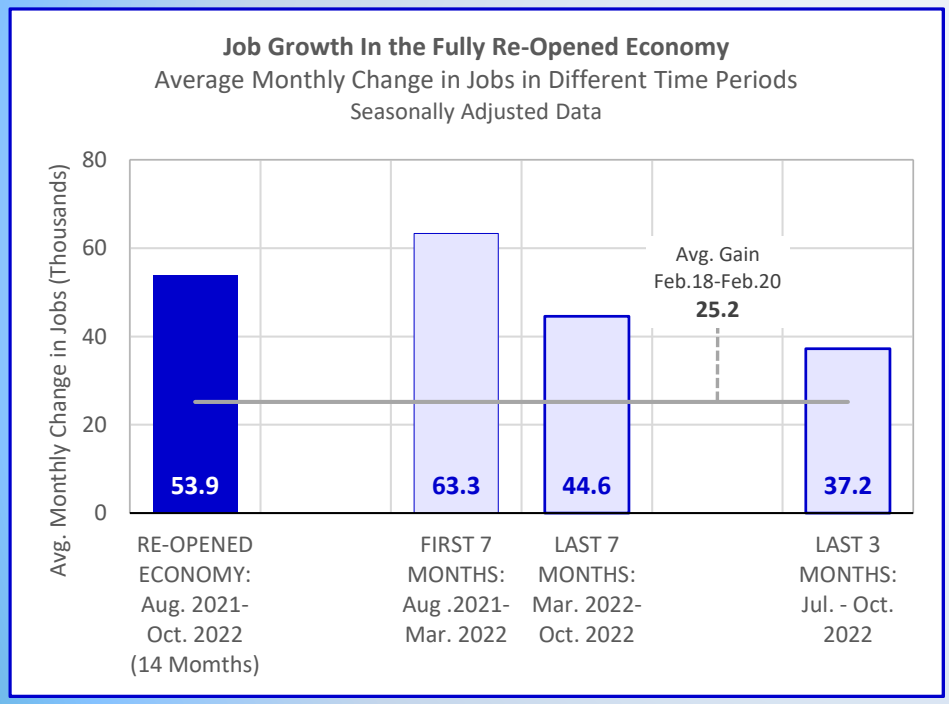


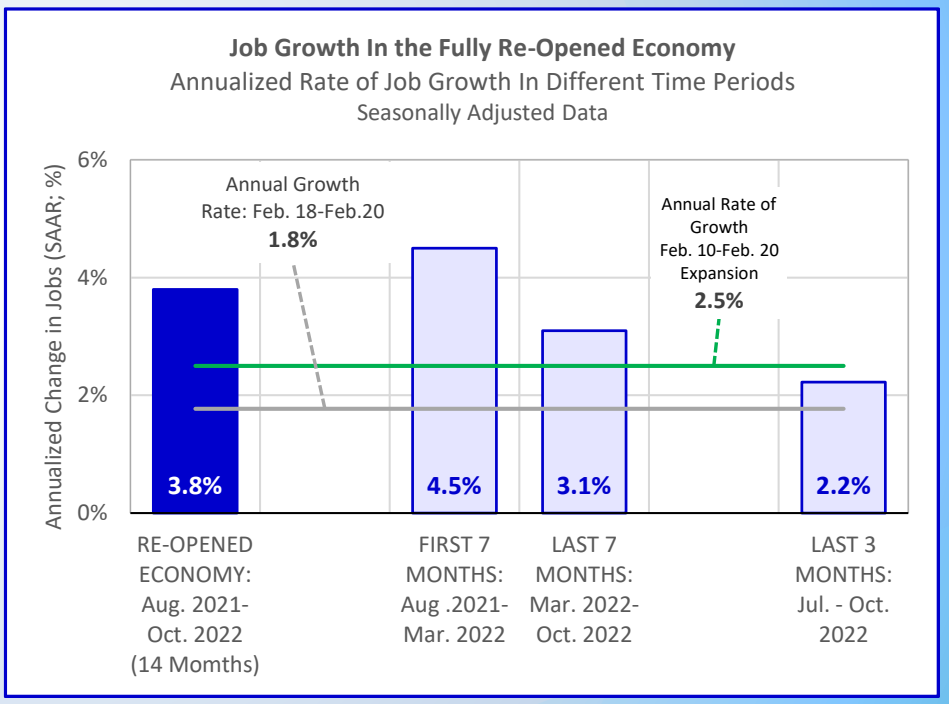
California's Path to a Full Jobs Recovery



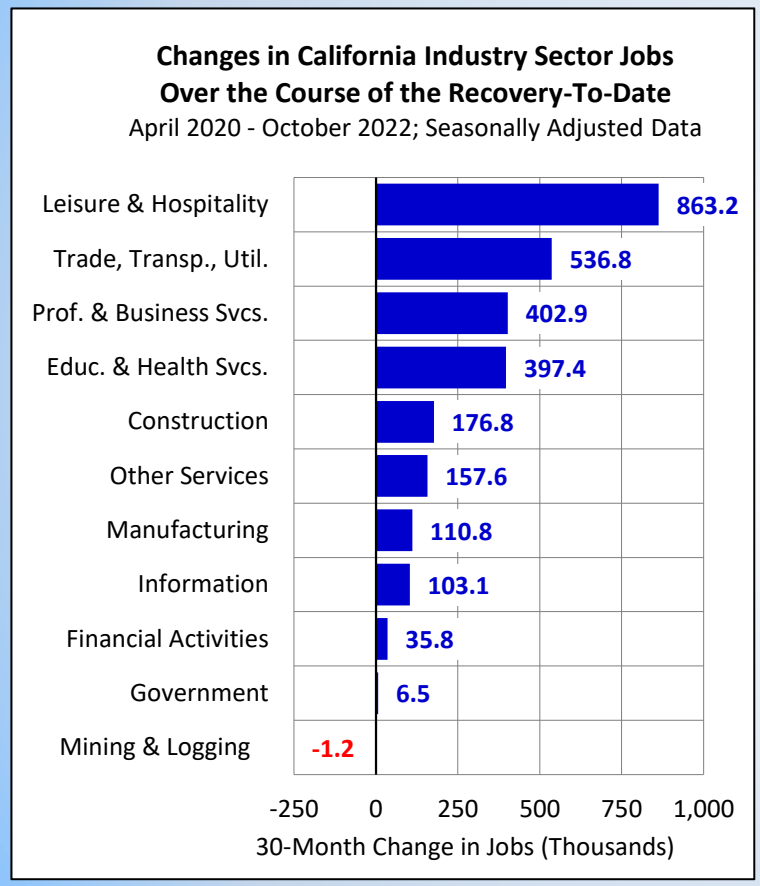


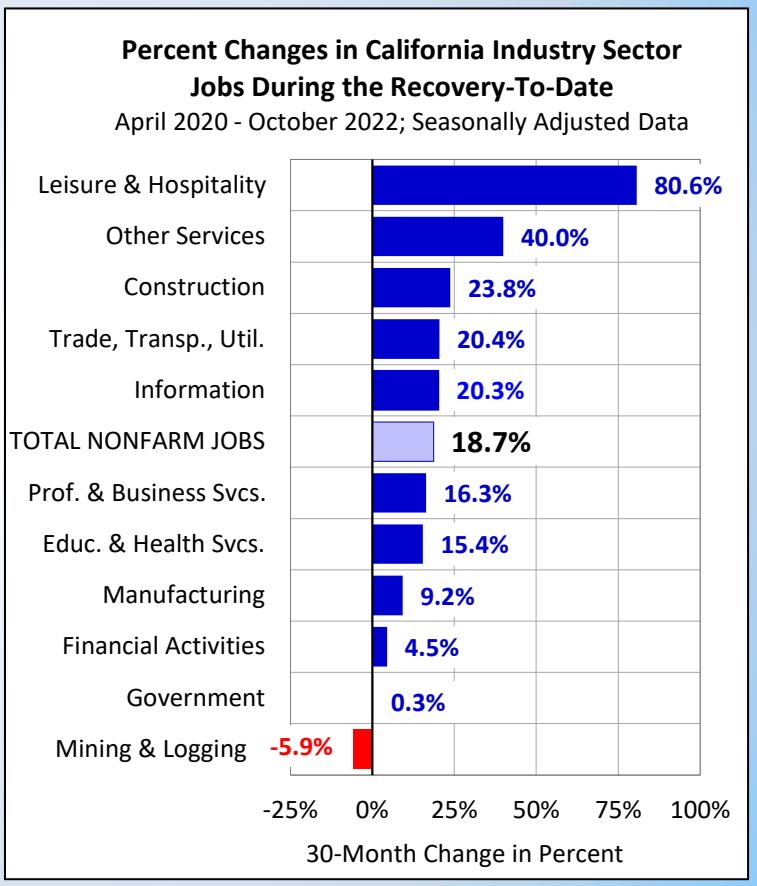
Job growth in California has slowed in the fully re-opened economy but appears to be settling into a pattern that is more consistent with the pre-pandemic labor market conditions now that a full jobs recovery has been achieved.





Recovery from the Pandemic-Induced Recession: Major California Industry Sectors





Tracking California's Industry Sector Recovery as of October 2022

Five sectors had fully recovered their pandemic job losses. Manufacturing and leisure and hospitality were approaching 90 percent recovery.

Even after adding 863,200 jobs over the course of the recovery, leisure and hospitality had 127,000 fewer jobs than in February 2020.

*Government job losses continued through June 2020. As of October 2022, government had recovered 114,200 (55.9%) of the 204,200 jobs it lost from Feb. 20 through June 20.

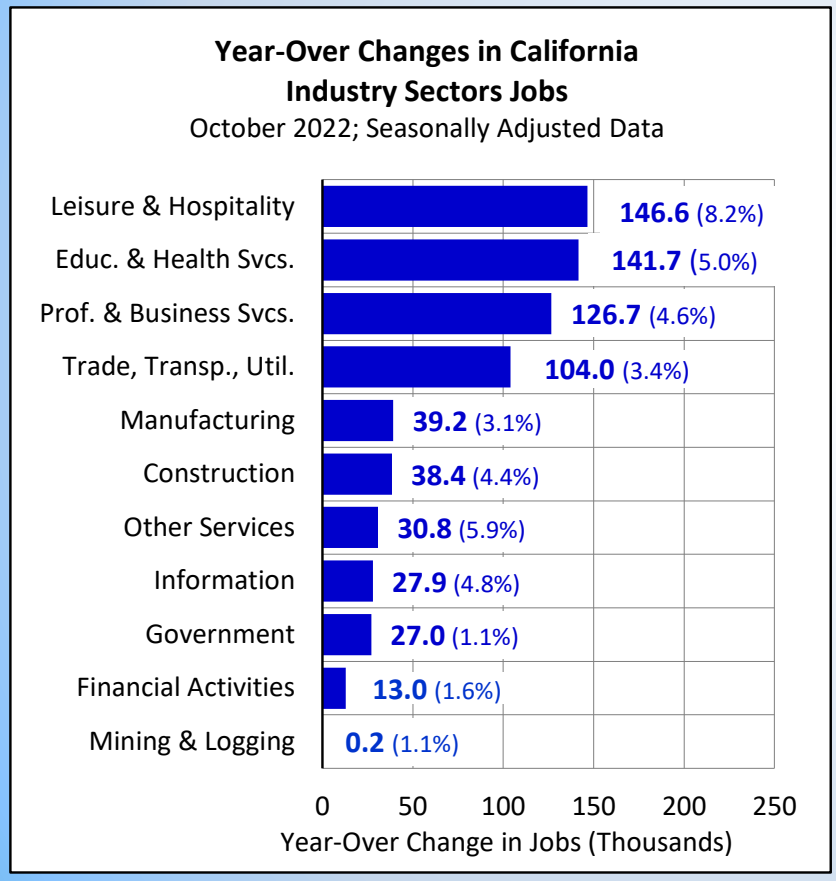
Tracking the Recovery: Industry Sector Job Changes in California During the Pandemic Shutdown (February-April 2020) and Subsequent Recovery (April 2020-October 2022)
(Thousands of Jobs; Seasonally Adjusted Data)

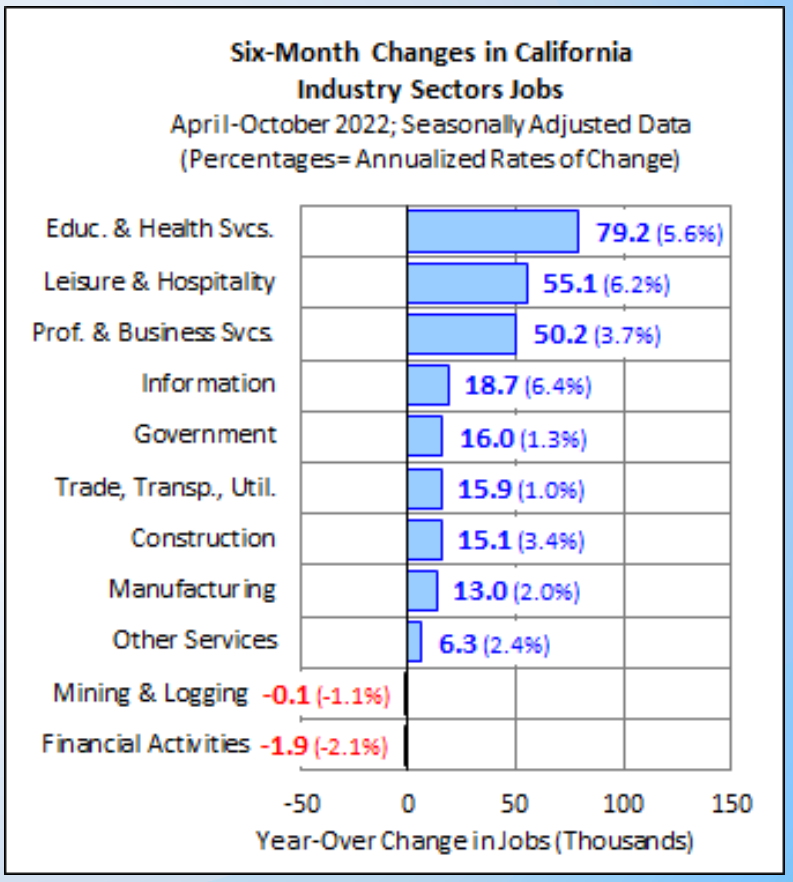
	The Shutdown	Recovery	
	Job Change: Feb.-Apr. 2020	Job Change: April 2020-October 2022	Share of Jobs Lost Recovered as of October 2022
TOTAL NONFARM JOBS	**-2,758.9**	**2,789.7**	**101.1%**
Educational & Health Services	**-297.9**	**397.4**	**133.4%**
Health Care & Social Assistance	*-233.6*	*324.4*	*138.9%*
Educational Services	*-64.3*	*73.0*	*113.5%*
Professional & Business Services	**-308.0**	**402.9**	**130.8%**
Professional, Scientific & Technical Services	*-98.1*	*175.5*	*178.9%*
Administrative & Support & Waste Services	*-194.7*	*221.0*	*113.5%*
Management of Companies & Enterprises	*-15.2*	*6.4*	*42.1%*
Information	**-82.6**	**103.1**	**124.8%**
Trade, Transportation & Utilities	**-439.3**	**536.8**	**122.2%**
Transportation, Warehousing & Utilities	*-51.0*	*174.2*	*341.6%*
Retail Trade	*-311.1*	*308.0*	*99.0%*
Wholesale Trade	*-77.2*	*54.6*	*70.7%*
Construction	**-167.4**	**176.8**	**105.6%**
Manufacturing	**-123.5**	**110.8**	**89.7%**
Durable Goods	*-58.2*	*54.1*	*93.0%*
Nondurable Goods	*-65.3*	*56.7*	*86.8%*
Leisure & Hospitality	**-990.2**	**863.2**	**87.2%**
Accommodation & Food Services	*-819.2*	*731.3*	*89.3%*
Arts, Entertainment & Recreation	*-171.0*	*131.9*	*77.1%*
Other Services	**-199.0**	**157.6**	**79.2%**
Financial Activities	**-52.4**	**35.8**	**68.3%**
Finance & Insurance	*-12.1*	*10.5*	*86.8%*
Real Estate & Rental & Leasing	*-40.3*	*25.3*	*62.8%*
Government	-96.5	6.5	6.7%
State Government	*-10.3*	*17.8*	*172.8%*
Local Government	*-86.0*	*-5.3*	*N/A*
Federal Government	*-0.2*	*-6.0*	*N/A*
Mining and Logging	**-2.1**	**-1.2**	**N/A**

Color Key: Light blue shading and blue font indicates full recovery of job losses or better; blue font only indicates more than 80 percent of job losses recovered; grey font indicates less than half of jobs recovered; and light red shading indicates net job losses over the course of the recovery to-date.

More Recent Job Trends in California Industry Sectors

- Although job growth has slowed in several sectors over the last six months as it has in the overall economy, California's job gains over the last six months continued to be well-distributed across most industry sectors. Industry sector job growth trends continue to look strong.





Tracking the Recovery in California Metropolitan Areas As of October 2022

12 areas have now fully recovered.

10 additional areas have recovered 90 percent or more of their lost jobs, including the L.A., San Francisco , and Oakland MDs.

The recovery seems to be lagging most in Bay Area suburbs and exurbs.

Tracking the Recovery: Job Changes in Seasonally Adjusted California Metropolitan Areas During the Pandemic Recession (February-April 2020) and Subsequent Recovery (April 2020-October 2022)

The state's largest areas are bolded.	The Recession	The Recovery (October 2022)	
	Job Change: Feb.-Apr. 2020	Job Change: Apr. 2020-Oct. 2022	Share of Jobs Lost Recovered
Stockton-Lodi MSA	-29,600	41,200	139.2%
Riverside-San Bernardino-Ontario MSA	**-228,700**	**316,600**	**138.4%**
Visalia-Porterville MSA	-14,000	18,200	130.0%
Madera MSA	-5,000	5,800	116.0%
El Centro MSA	-5,900	6,800	115.3%
Redding MSA	-7,900	9,000	113.9%
Sacramento--Roseville--Arden-Arcade MSA	**-139,700**	**159,100**	**113.9%**
Merced MSA	-5,900	6,600	111.9%
Fresno MSA	-47,100	50,800	107.9%
San Jose-Sunnyvale-Santa Clara MSA	**-161,100**	**167,800**	**104.2%**
Yuba City MSA	-5,000	5,100	102.0%
California	***-2,758,900***	***2,789,700***	***101.1%***
Santa Maria-Santa Barbara MSA	-33,600	33,900	100.9%
San Diego-Carlsbad MSA	**-255,100**	**254,000**	**99.6%**
Anaheim-Santa Ana-Irvine MD	**-274,700**	**267,700**	**97.5%**
Modesto MSA	-22,700	22,000	96.9%
Bakersfield MSA	-33300	32100	96.4%
Los Angeles-Long Beach-Glendale MD	**-778,100**	**732,300**	**94.1%**
Hanford-Corcoran MSA	-2,900	2,700	93.1%
Oakland-Hayward-Berkeley MD	**-198,300**	**181,500**	**91.5%**
San Francisco-Redwood City-So. San Francisco MD	**-186,800**	**170,500**	**91.3%**
San Luis Obispo-Paso Robles-Arroyo Grande MSA	-23,300	21,200	91.0%
Oxnard-Thousand Oaks-Ventura MSA	-51,900	46,700	90.0%
Santa Cruz-Watsonville MSA	-21,500	18,900	87.9%
Santa Rosa MSA	-39,200	32,500	82.9%
Salinas MSA	-28,700	22,900	79.8%
Vallejo-Fairfield MSA	-21,800	16,500	75.7%
Napa MSA	-18,000	13,500	75.0%
Chico MSA	-13,800	10,200	73.9%
San Rafael MD	-25,400	14,200	55.9%

California's year-over job gains were well-distributed across most California areas. Five of the state's eight largest areas, including those in the Bay Area and L.A. Basin, had the fastest pace of job growth.

Year-Over Changes in Total Nonfarm Jobs in California's Seasonally Adjusted Metroplitan Divisions (MDs) and Metropolitan Statistical Areas (MSAs): OCTOBER 2022

(The state's largest areas with at least one million jobs are in bolded italics.)

	Number of Jobs		Percent Change
California	***695,500***	***California***	***4.1%***
Los Angeles-Long Beach-Glendale MD	***196,900***	***San Francisco-Redwood City-So. San Francisco MD***	***6.0%***
Riverside-San Bernardino-Ontario MSA	***86,500***	***Riverside-San Bernardino-Ontario MSA***	***5.4%***
Anaheim-Santa Ana-Irvine MD	***75,900***	***San Jose-Sunnyvale-Santa Clara MSA***	***5.0%***
San Francisco-Redwood City-So. San Francisco MD	***67,300***	***Anaheim-Santa Ana-Irvine MD***	***4.7%***
San Jose-Sunnyvale-Santa Clara MSA	***55,700***	***Los Angeles-Long Beach-Glendale MD***	***4.5%***
San Diego-Carlsbad MSA	***45,900***	Oxnard-Thousand Oaks-Ventura MSA	4.1%
Oakland-Hayward-Berkeley MD	***42,800***	Santa Maria-Santa Barbara MSA	4.0%
Sacramento--Roseville--Arden-Arcade MSA	***36,300***	Stockton-Lodi MSA	4.0%
Oxnard-Thousand Oaks-Ventura MSA	12,300	***Oakland-Hayward-Berkeley MD***	***3.7%***
Fresno MSA	11,500	Santa Rosa MSA	3.7%
Stockton-Lodi MSA	10,100	Redding MSA	3.6%
Santa Maria-Santa Barbara MSA	7,600	***Sacramento--Roseville--Arden-Arcade MSA***	***3.6%***
Santa Rosa MSA	7,300	Merced MSA	3.2%
Bakersfield MSA	6,000	Fresno MSA	3.2%
Modesto MSA	4,500	***San Diego-Carlsbad MSA***	***3.1%***
Vallejo-Fairfield MSA	3,900	Vallejo-Fairfield MSA	2.9%
Visalia-Porterville MSA	3,700	Visalia-Porterville MSA	2.8%
Santa Cruz-Watsonville MSA	2,600	Santa Cruz-Watsonville MSA	2.6%
Redding MSA	2,400	Modesto MSA	2.5%
Merced MSA	2,200	Napa MSA	2.5%
Salinas MSA	1,900	El Centro MSA	2.4%
Chico MSA	1,700	Chico MSA	2.3%
Napa MSA	1,700	Hanford-Corcoran MSA	2.2%
El Centro MSA	1,300	Bakersfield MSA	2.2%
Madera MSA	900	Madera MSA	2.2%
Hanford-Corcoran MSA	900	Salinas MSA	1.4%
San Luis Obispo-Paso Robles-Arroyo Grande MSA	800	San Luis Obispo-Paso Robles-Arroyo Grande MSA	0.7%
Yuba City MSA	200	Yuba City MSA	0.4%
San Rafael MD	-1,300	San Rafael MD	-1.2%

There has been a general slowdown in the pace of job growth in most, but not all, California areas in recent months, but nothing particularly alarming jumps from the data.

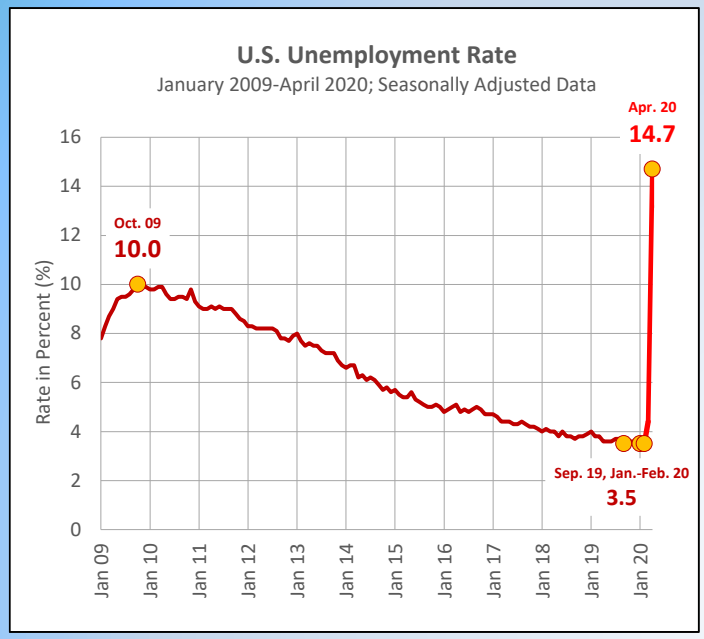
Changes in Nonfarm Jobs in California MDs and MSAs : April 2022-October 2022

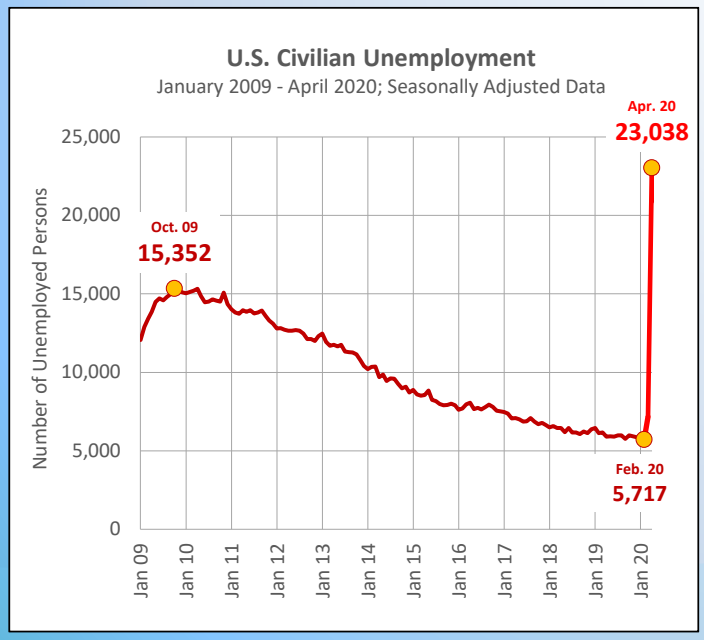
SIX-MONTH Changes in Total Nonfarm Jobs in California's Seasonally Adjusted Metroplitan Divisions (MDs) and Metropolitan Statistical Areas (MSAs): APRIL 2022 - OCTOBER 2022

(The state's largest areas with at least one million jobs are in bolded italics.)

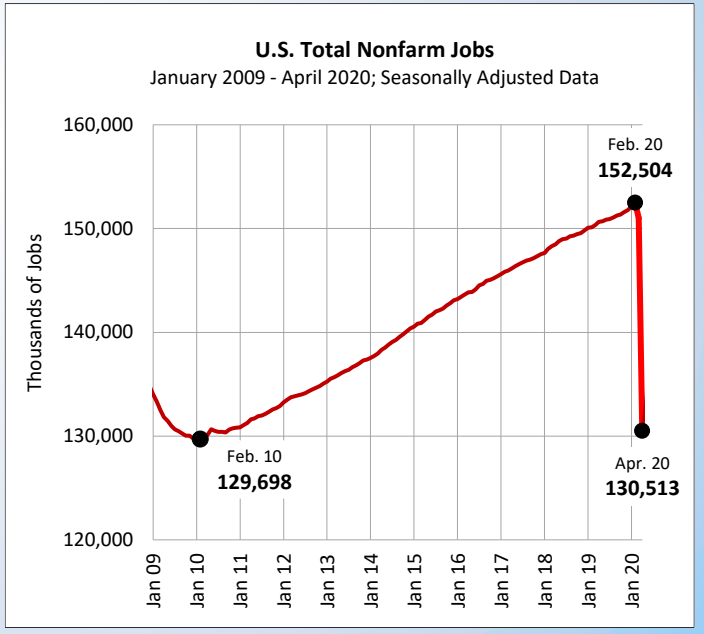
	Number of Jobs		Annualized Percent Change
California	***267,500***	***California***	***3.1%***
Los Angeles-Long Beach-Glendale MD	***84,500***	***San Jose-Sunnyvale-Santa Clara MSA***	***5.3%***
Riverside-San Bernardino-Ontario MSA	***37,000***	Oxnard-Thousand Oaks-Ventura MSA	4.9%
Anaheim-Santa Ana-Irvine MD	***36,700***	Santa Maria-Santa Barbara MSA	4.9%
San Jose-Sunnyvale-Santa Clara MSA	***30,600***	***San Francisco-Redwood City-So. San Francisco MD***	***4.6%***
San Francisco-Redwood City-So. San Francisco MD	***26,800***	***Riverside-San Bernardino-Ontario MSA***	***4.5%***
Oakland-Hayward-Berkeley MD	***17,200***	***Anaheim-Santa Ana-Irvine MD***	***4.5%***
San Diego-Carlsbad MSA	***12,900***	***Los Angeles-Long Beach-Glendale MD***	***3.8%***
Sacramento--Roseville--Arden-Arcade MSA	***7,500***	Stockton-Lodi MSA	3.5%
Oxnard-Thousand Oaks-Ventura MSA	7,400	***Oakland-Hayward-Berkeley MD***	***2.9%***
Santa Maria-Santa Barbara MSA	4,700	Santa Cruz-Watsonville MSA	2.8%
Stockton-Lodi MSA	4,600	Santa Rosa MSA	2.8%
Santa Rosa MSA	2,800	Vallejo-Fairfield MSA	2.3%
Fresno MSA	2,000	El Centro MSA	1.8%
Vallejo-Fairfield MSA	1,600	***San Diego-Carlsbad MSA***	***1.7%***
Santa Cruz-Watsonville MSA	1,400	Redding MSA	1.4%
Visalia-Porterville MSA	800	***Sacramento--Roseville--Arden-Arcade MSA***	***1.4%***
Bakersfield MSA	700	San Luis Obispo-Paso Robles-Arroyo Grande MSA	1.2%
San Luis Obispo-Paso Robles-Arroyo Grande MSA	700	Visalia-Porterville MSA	1.2%
Redding MSA	500	Fresno MSA	1.1%
El Centro MSA	500	Merced MSA	0.8%
Merced MSA	300	Bakersfield MSA	0.5%
Salinas MSA	200	Salinas MSA	0.3%
Chico MSA	-100	Modesto MSA	-0.2%
Madera MSA	-100	Chico MSA	-0.3%
Hanford-Corcoran MSA	-100	Madera MSA	-0.5%
Modesto MSA	-200	Hanford-Corcoran MSA	-0.5%
Napa MSA	-200	Napa MSA	-0.6%
Yuba City MSA	-900	San Rafael MD	-2.1%
San Rafael MD	-1,100	Yuba City MSA	-3.7%

California's COVID-19 Business Cycle Has, By and Large, Paralleled the Nation's: The Shock





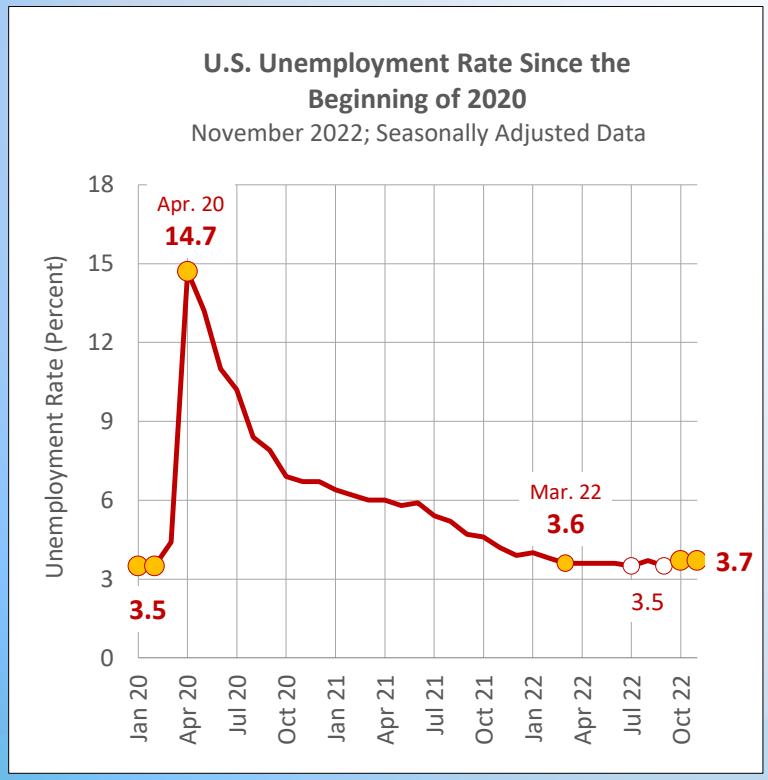
- Change in U.S. Unemployment from February 2020 through April 2020 Peak:
  - Rate = +11.2 percentage points
  - Number: +17,321,000 persons (303 percent!)

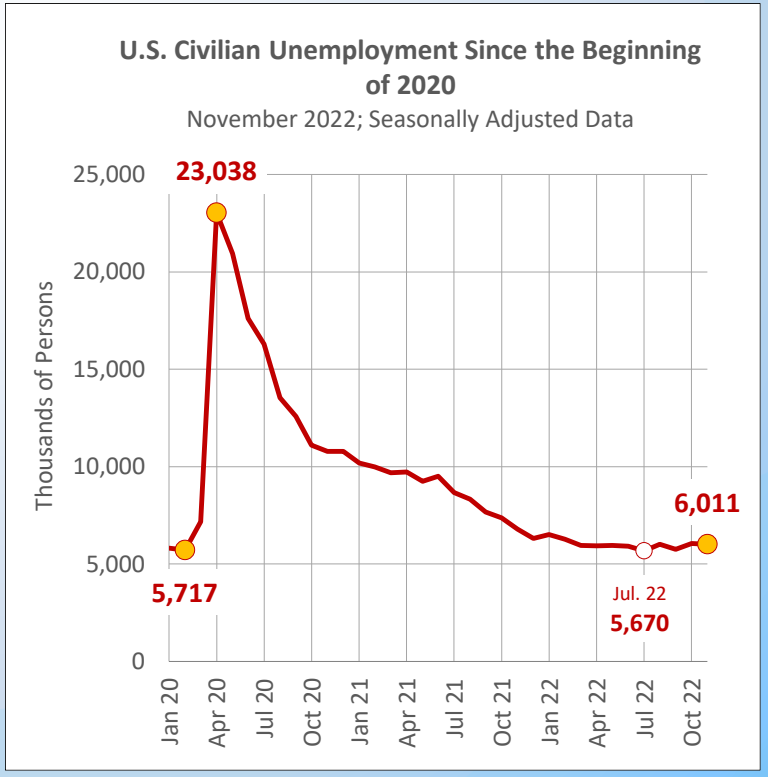


- Change in Number of Jobs from February 2020 through April 2020: -21,991,900 (-14.4 percent).

The U.S. Recovery: Unemployment Has Returned to Historically Low Levels

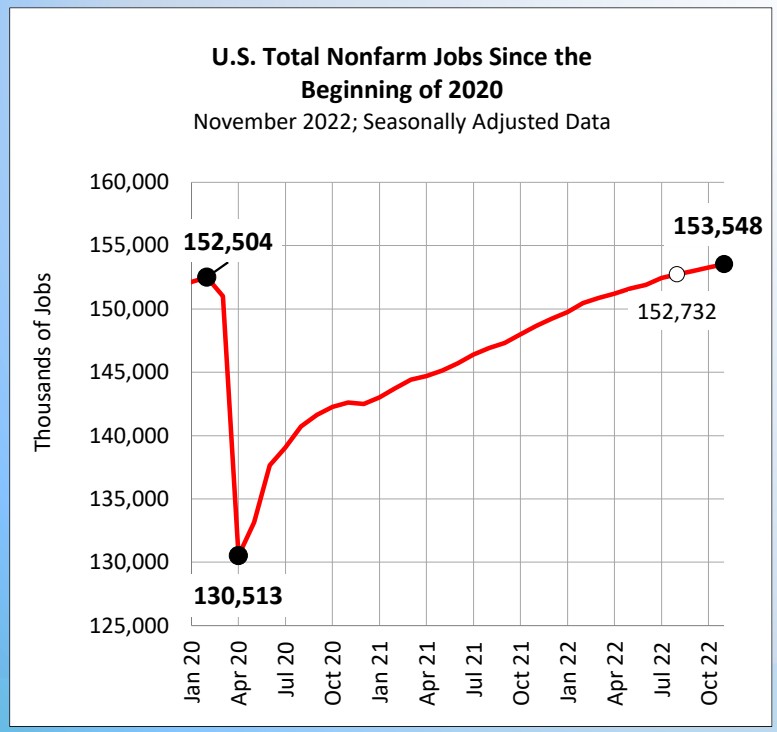
- The U.S. seasonally adjusted unemployment rate held steady at 3.7 percent in November 2022 and has essentially been flat for nine consecutive months, varying within a narrow band between 3.5 and 3.7 percent. The nation's 3.5 percent rate in July and September equaled the pre-pandemic low of February 2020. Given how low it currently is, a similar flattening out of the California unemployment is expected.
- There were 6,011,000 unemployed Americans in November 2022, which is 294,000 persons more than there were just prior to the pandemic outbreak in February 2020. However, the number of unemployed Americans fell to a 5,670,000 in July 2022, which was the lowest number since December 2000.

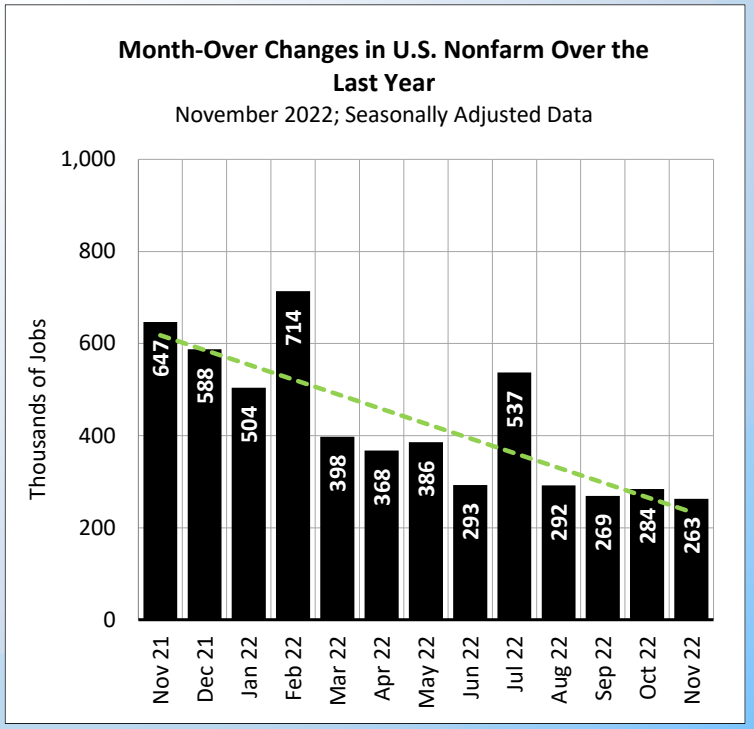




The U.S. Fully Recovered its Pandemic-Induced Job Losses in August, but the Pace of Job Growth Has Slowed Over the Last Year

- The nation added 23,035,000 nonfarm jobs from April 2020 through November 2022, an increase of 17.6 percent. The U.S. economy had 1,044,000 (0.7 percent) more nonfarm jobs in November 2022 than it had before the pandemic outbreak in February 2020. It fully recovered its pandemic-induced job losses in August 2022.
- As in California, U.S. job growth has slowed over the course of the last year. It, too, appears to be settling into a pattern of growth that is more consistent with pre-pandemic labor market conditions now that a full jobs recovery has occurred. For perspective, the U.S. added an average of 185,000 per month from February 2018 through February 2020, or the last two years of its pre-pandemic expansion. The nation's recent job growth still exceeds that pace.





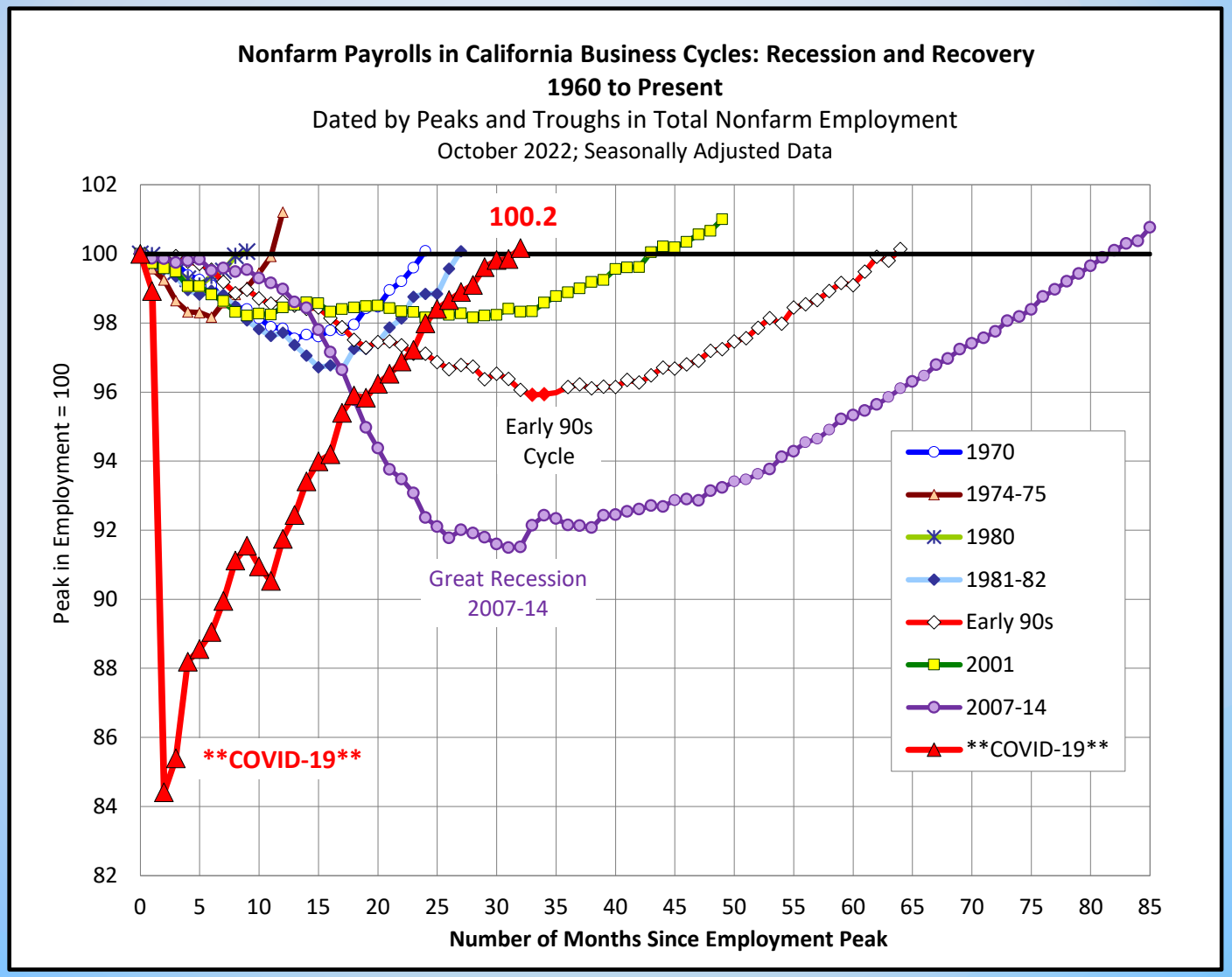
After a Slow Beginning, the Pace of Job Growth in California Has Quite Consistently Outpaced the Nation's Over Much of the Recovery

U.S. and California Job Comparisons During the Pandemic-Driven Business Cycle
October 2022; Seasonally Adjusted Data

	California	U.S.
THE PANDEMIC-INDUCED BUSINESS CYCLE		
Pandemic-Induced Recession: February 2020 - April 2020	-2,758,600 jobs; **-15.6%**	-21,991,000 jobs; ***-14.4%***
Recovery-to Date: April 2020 - October 2022 (Prelim.)	+2,789,200 jobs; ***18.7%***	+22,795,000 jobs; **17.5%**
Share of Lost Jobs Recovered October 2022 (Prelim.)	**101.1%**	***103.7%***
Net Change in Jobs Over the Entire Cycle: February 2020 - October 2022 (Prelim.)	+30,800 jobs; **0.2%**	+804,000 jobs: ***0.5%***
DIFFERENT STAGES OF THE RECOVERY-TO-DATE		
Prior to California's Re-Opening: April 2020 - January 2021	+1,083,000 jobs; **7.3%**	+12,504,000 jobs; ***9.6%***
California's Full Re-Opening Phase: January 2021 - October 2022 (Prelim.)	+1,706,400 jobs; ***10.7%*** (6.1% SAAR)	+10,291,000; 7.2% (4.1% SAAR)
As California Fully Re-Opened: January 2021 - August 2021	+951,200 jobs; ***5.9%*** (10.2% SAAR)	+3,887,000 jobs; **2.7%** (4.7% SAAR)
Since California Fully Re-Opened: August 2021 - October 2022 (Prelim.)	+755,200 jobs; ***4.5%*** (3.8% SAAR)	+6,404,000; 4.4% (3.7% SAAR)
YEAR-OVER CHANGE IN JOBS October 2022 (Prelim.)	+695,500 jobs; ***4.1%***	+5,303,000 jobs; 3.6%

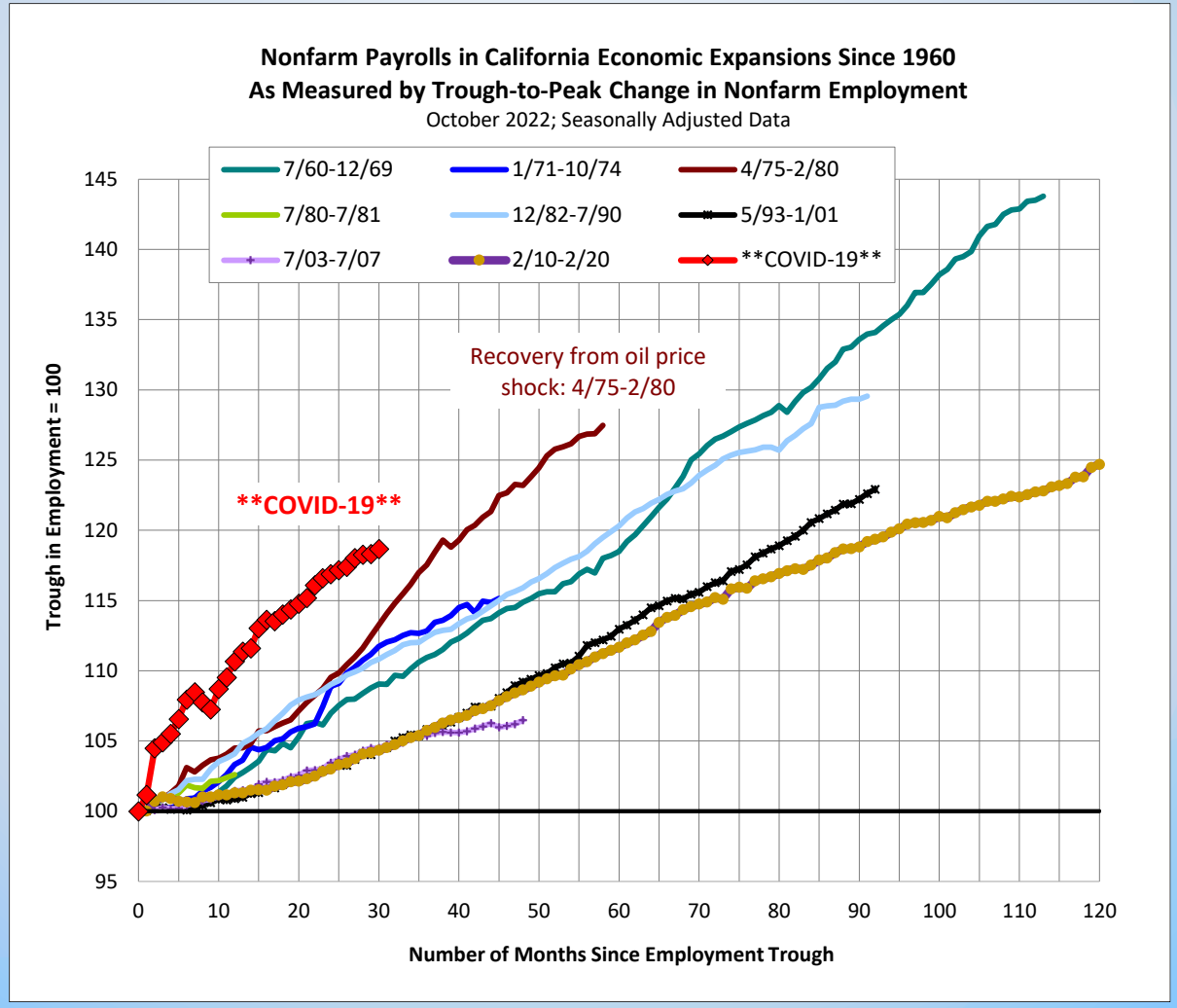
The COVID-19 Business Cycle In Comparison to Past Cycles: California

- Barring another business cycle induced by a public health emergency in the years to come, the COVID-19 business cycle is looking increasingly like it is an extraordinary event, or outlier, and has been asterisk-ed as such.



The Unique COVID-19 Recovery/Expansion In Comparison to Past Expansions: California

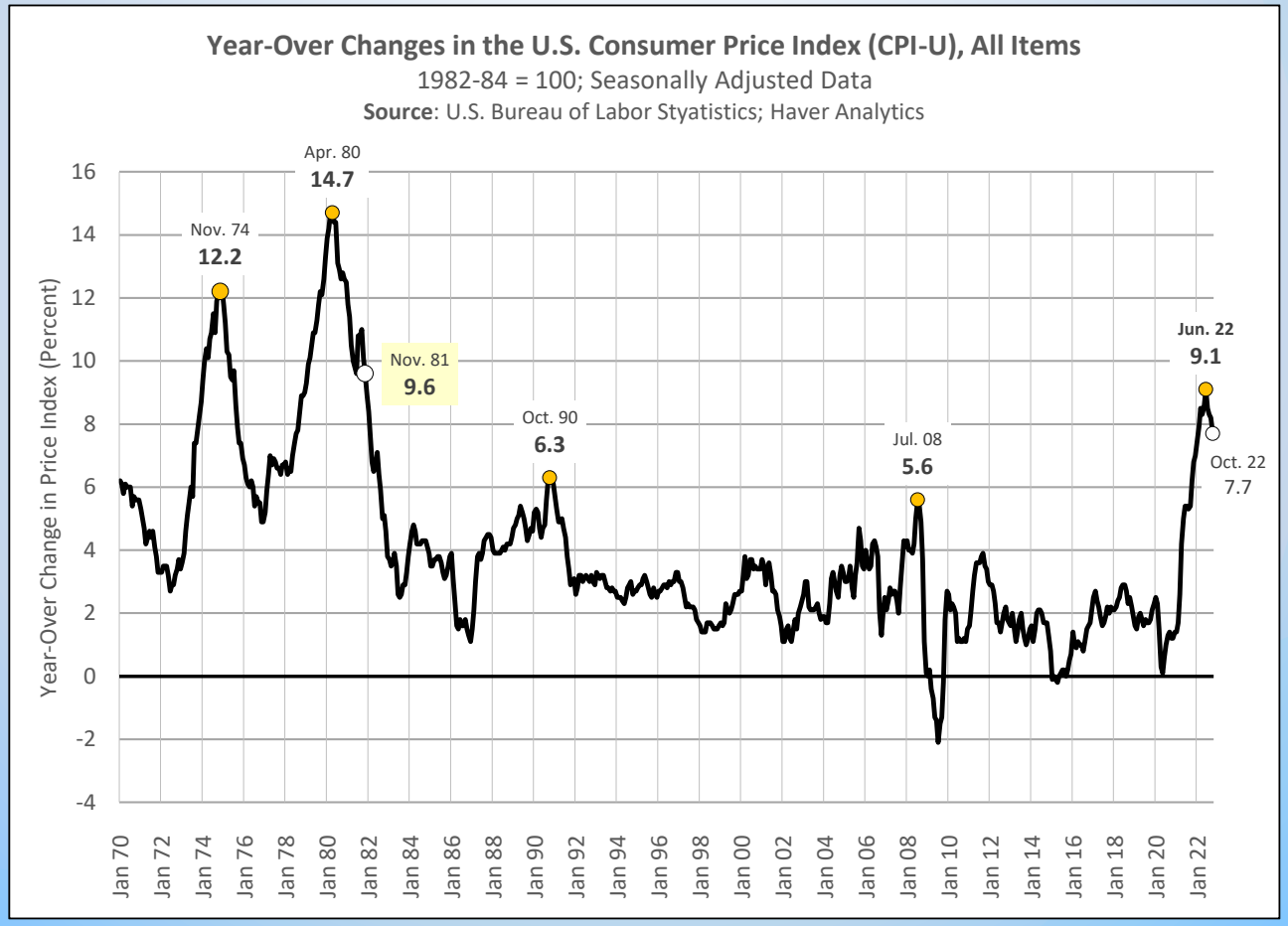
- Although exhibiting characteristics of a recovery from an external economic shock (rapid job growth fueled by pent up demand), the ongoing recovery from the pandemic-induced recession, or expansion, is also taking on the appearance of an extraordinary event. Extraordinary though it may be, the pandemic-induced business cycle will continue to influence estimation processes such as seasonal adjustment in the years to come.



If the Labor Market is Doing So Well, Why is Everybody Talking About a Recession?

Inflation!

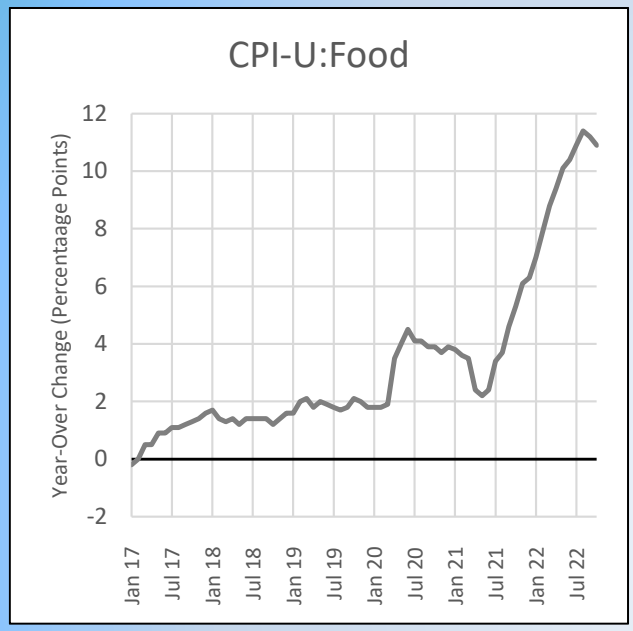
- Rising and persistently high inflation has accompanied the recovery-to-date—in the U.S. and globally. In June 2022, U.S. prices rose at a year-over pace of 9.1 percent. This was the nation's fastest pace of price inflation in over 40 years. Although the pace of inflation eased a bit to 7.7 percent by October 2022, it was still high—and well above the U.S. Federal Reserve's target pace of around 2 percent.

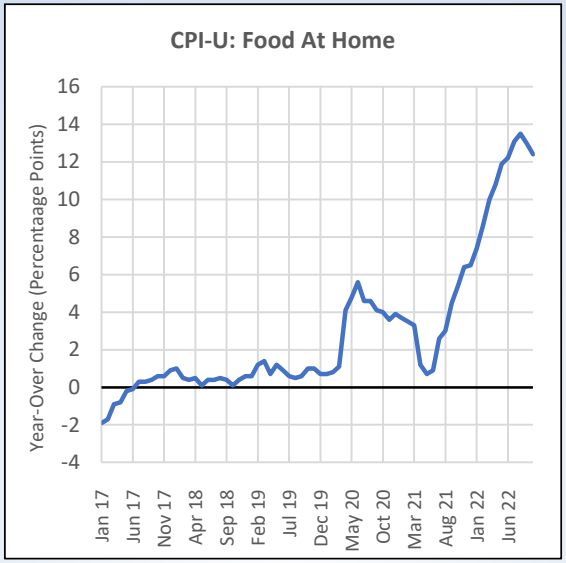


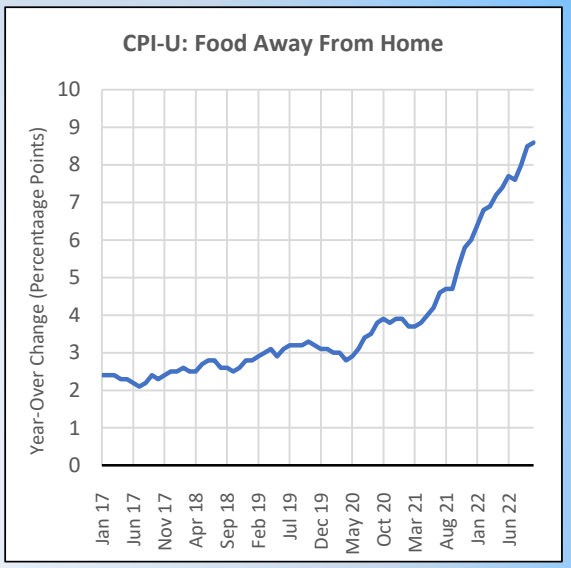
Inflation Has Pervaded All Segments of Life Within the U.S. Economy

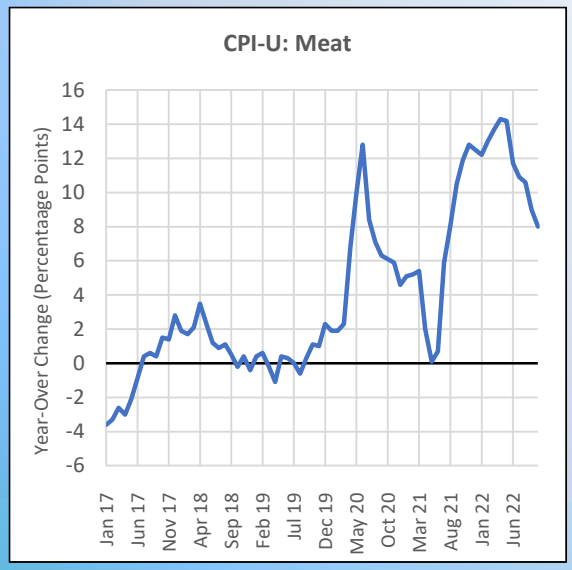
Year-Over Changes in CPI-U Components From January 2017 through October 2022

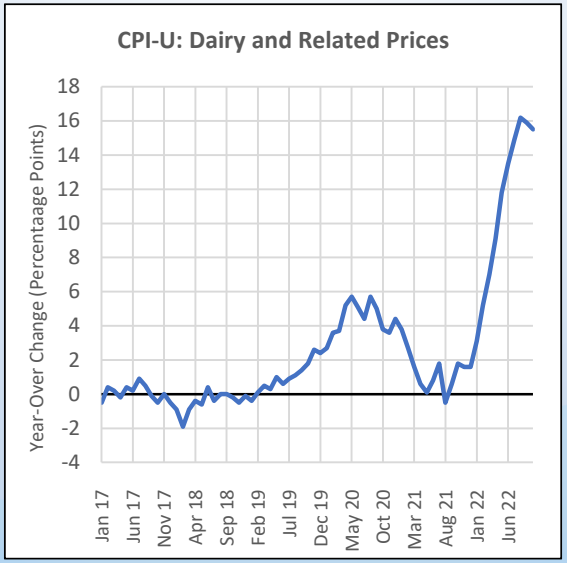
Source: U.S. Bureau of Labor Statistics; Haver Analytics

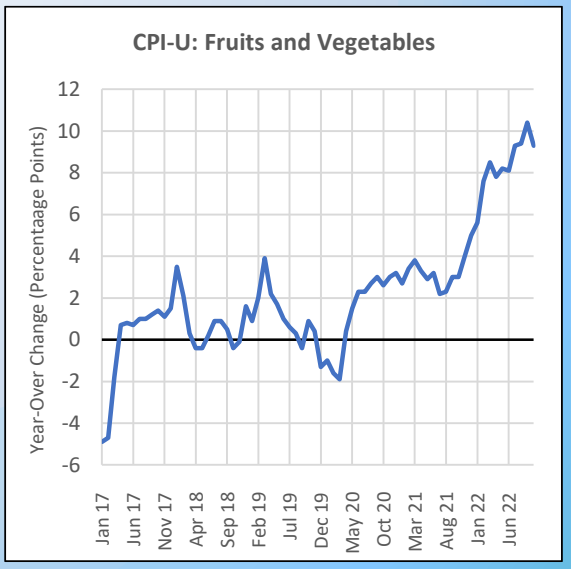












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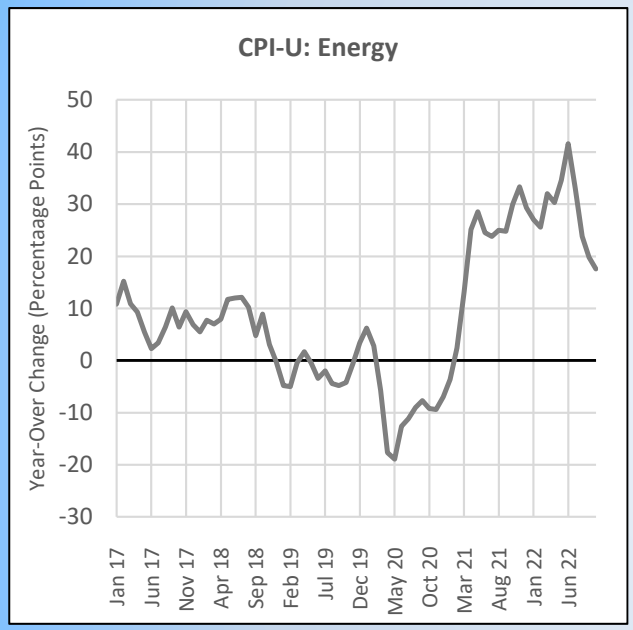

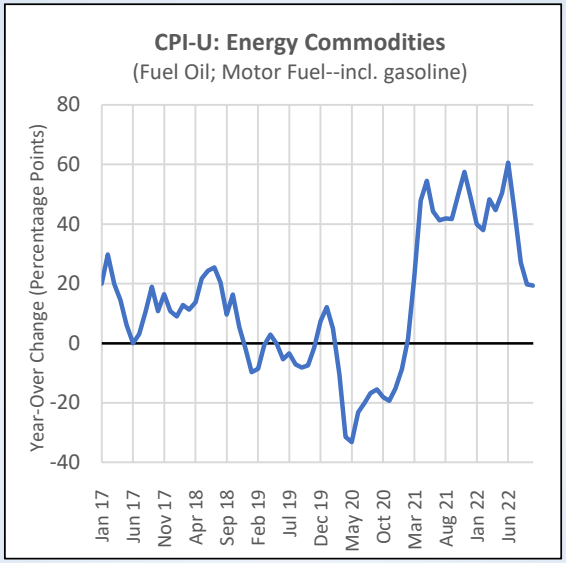

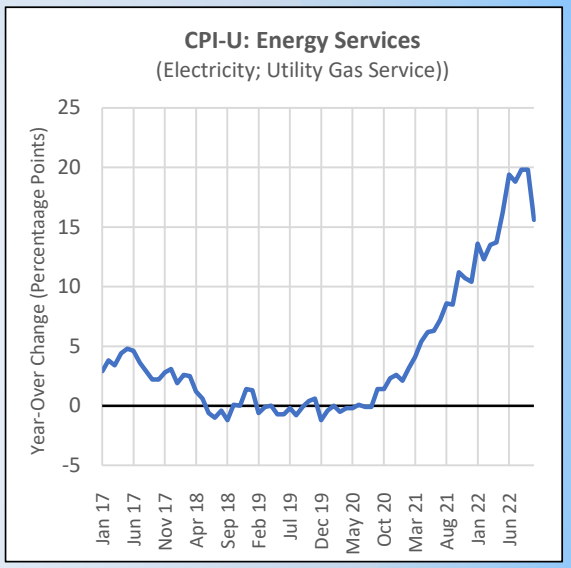

Inflation Has Pervaded All Segments of Life in the U.S. Economy

Year-Over Changes in CPI-U Components From January 2017 through October 2022

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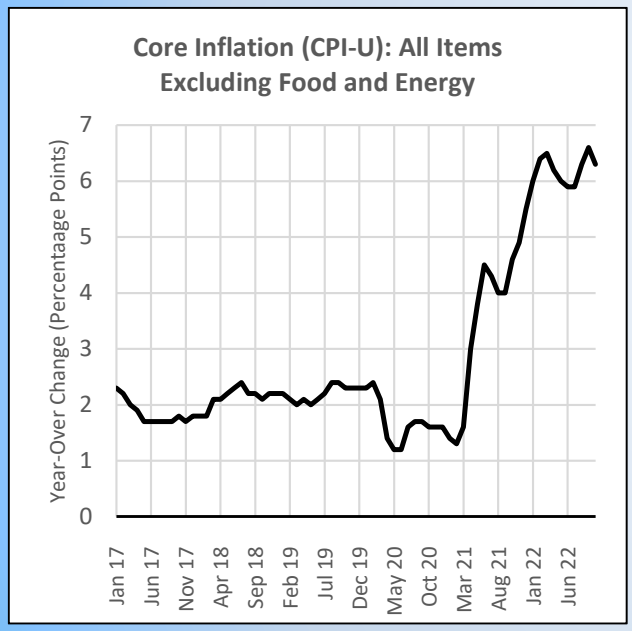
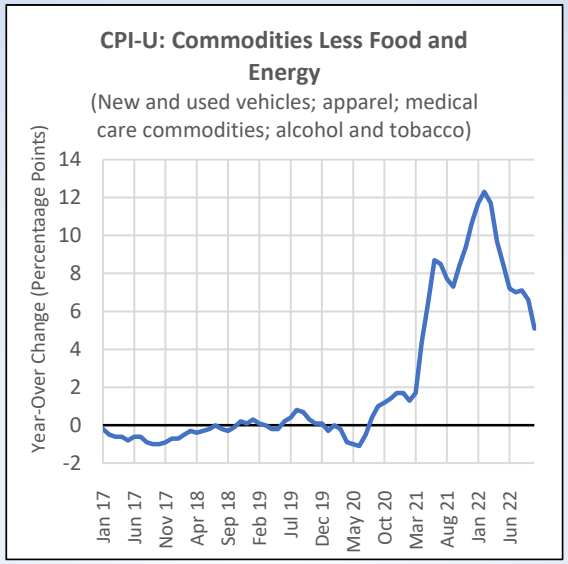
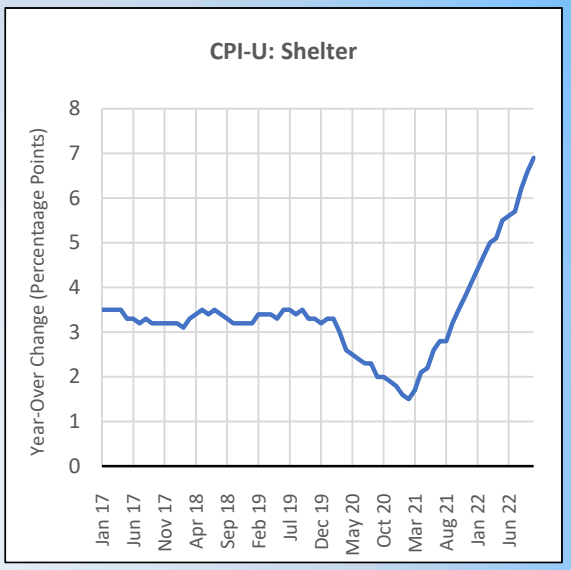
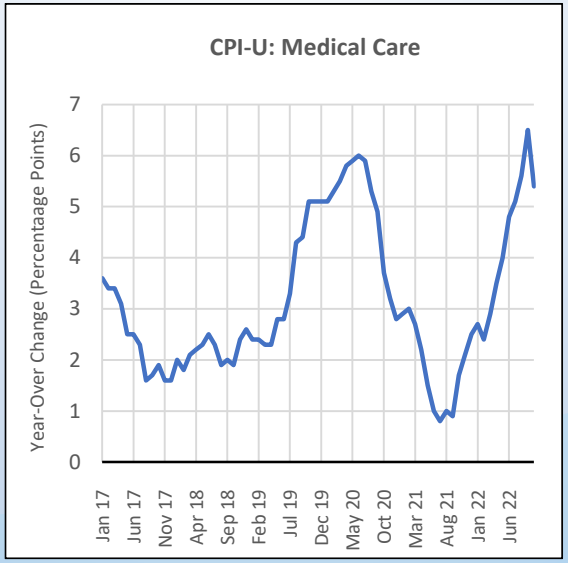
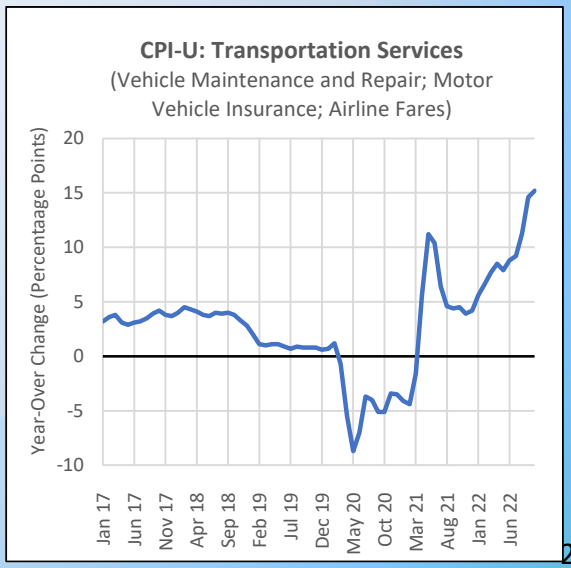








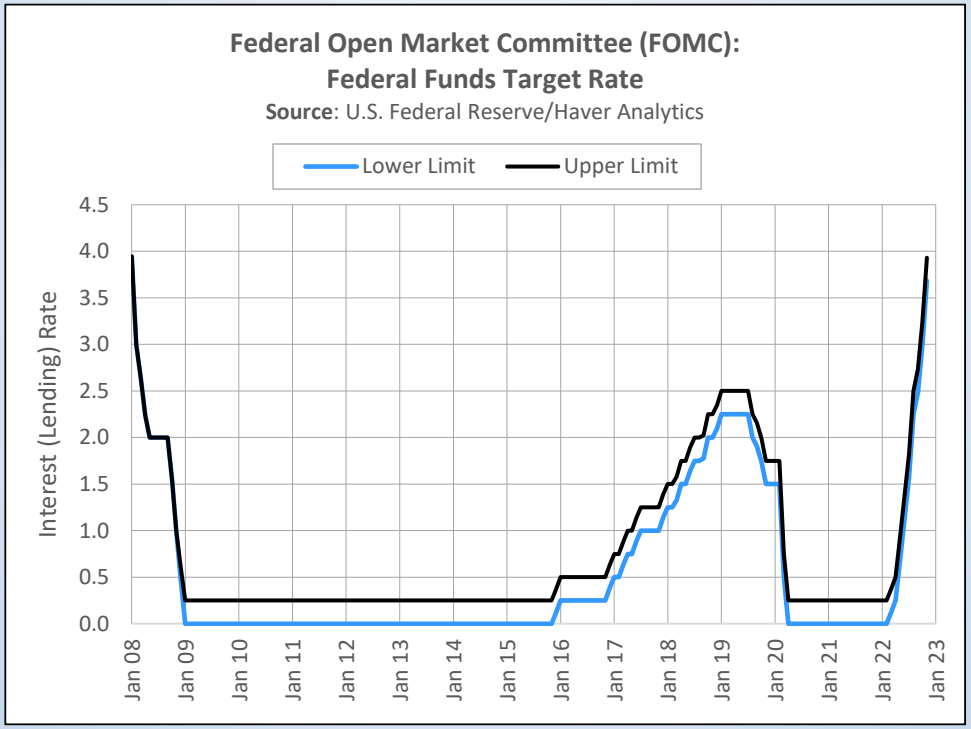


Persistently High Inflation Is Due to a Confluence of Factors

- Supply chain disruptions, domestically and abroad, caused by the pandemic shutdown. Zero tolerance COVID-19 policies in Asia, which continue today in China, don't help.
- Shift in consumer demand to goods away from services, particularly in the early stages of the pandemic. Supply shortages and stress amid strong consumer demand (semiconductors/microchips; energy).
- Strong/pent-up consumer demand both domestically and abroad fueled by build-up in consumer savings further strain supply chain issues. In part fueled by generous pandemic assistance domestically.
- Consumer demand may now be shifting away from goods, but it remains strong for services such as travel, tourism, entertainment.
- Difficulties finding workers in the ramping up economy have constrained supply and driven up wages, raising risks of wage-price spiral.
- High energy prices due to strong demand, domestically and globally.
- Geopolitics: The Russian invasion of Ukraine disrupted global energy and food markets, further constraining supply. (Recession in Europe, the U.K. and slow economic growth in China currently contributing to falling energy prices.)
- Unequal market and pricing power.

➔➔ ***Left unchecked and/or without compensating wage and salary increases, inflation erodes purchasing power and quality of life and damages the economy. Lower income households, who spend most of their income on necessities such as food, energy, and shelter, are particularly hard hit by inflation.***

Lacking tools to influence supply, particularly in the short- to medium-term, the U.S. Federal Reserve is aggressively trying to rein in inflation by dampening demand. More specifically, it has undertaken a policy of rapidly increasing interest rates (federal funds rate) to increase the costs of borrowing and dampen demand among consumers and businesses .

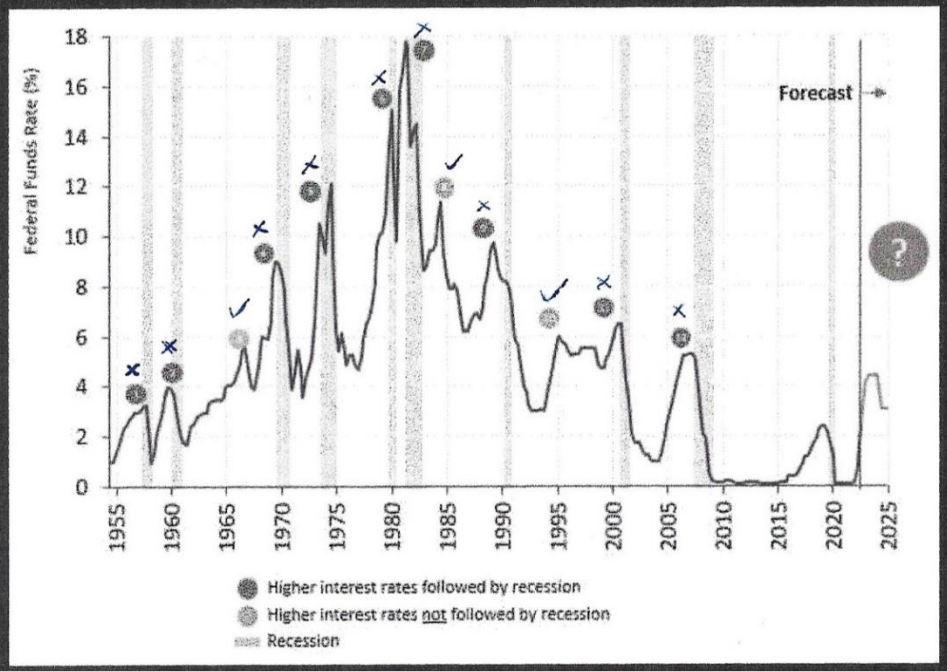


The Problem? The Federal Reserve Doesn't Have a Particularly Strong Track Record in Engineering a Soft Landing for the Economy When It Fightis Inflation

Raise interest rates too far = enhanced risks of recession (↑ unemployment, ↓ jobs)
Raise interest rates too little = inflation remains high, damages the economy
Get the balance right = inflation brought under control and recession avoided with minimal damage to the labor market.

<u>Per the UCLA Anderson Forecast, September 2022:</u>

The Fed has tried to rein in inflation 12 times by raising interest rates since 1955. Recession have followed nine times.



Source: UCLA Anderson Forecast and Federal Reserve Board
Notes: The UCLA Forecast does not count the 2020 pandemic recession or the rising Fed Funds rate that preceded it in the twelve tightening episodes, of which 9 were followed by recessions.

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