

NC Economy Watch

May 2023



NC DEPARTMENT
of **COMMERCE**
LABOR & ECONOMIC
ANALYSIS

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May 16, 2023

The Inflation Sensation

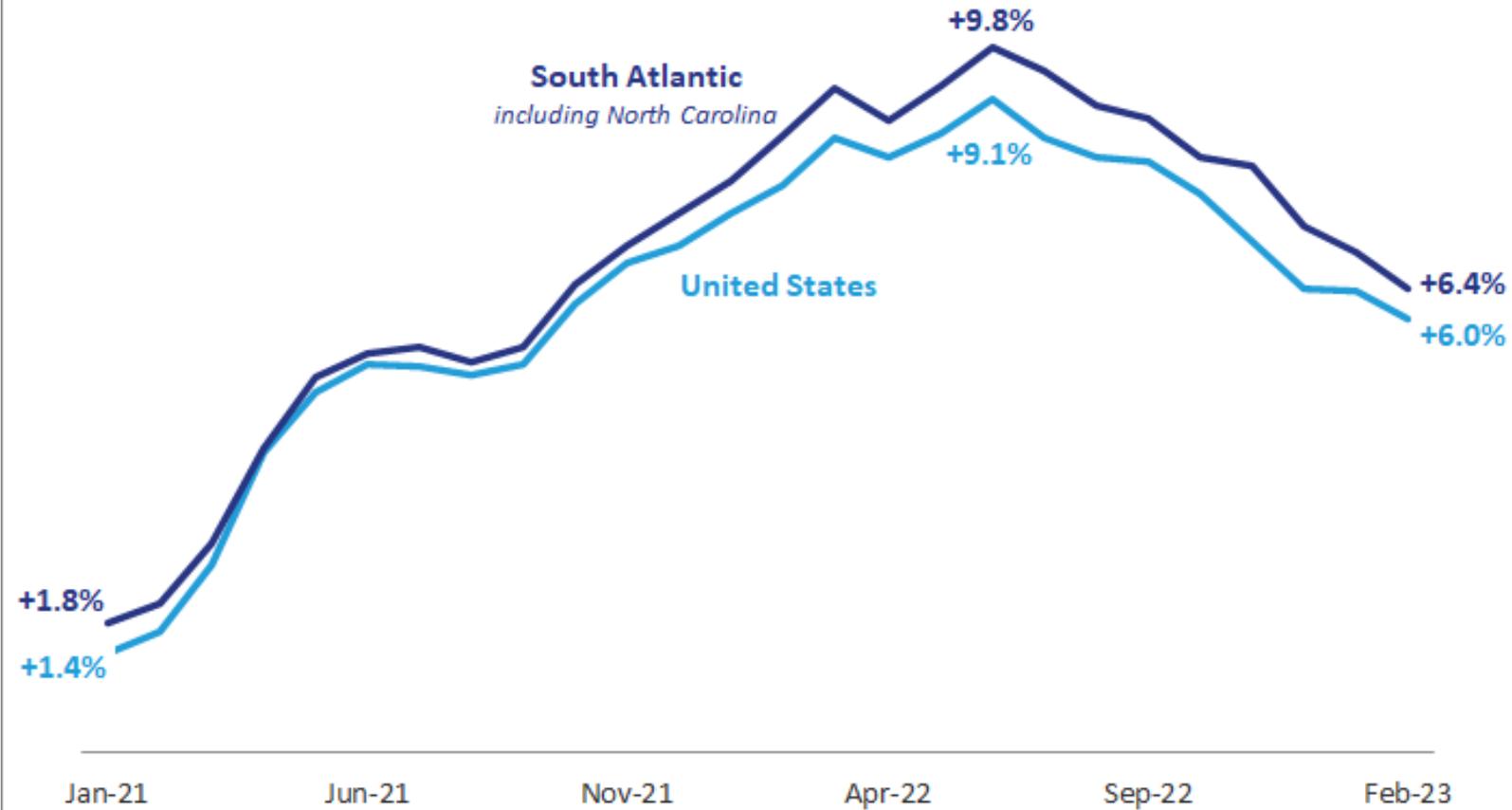
What goes up doesn't always come down

Price inflation remains stuck at decades-high levels

- Over-the-year price growth was **4.9% in April 2023**, peaked at 9% in June 2022
- Inflation has been even more intense in the **South Atlantic region** (including North Carolina)
- Robust **consumer demand**, shortage of **available workers**, and overwhelmed **supply chains**
- **The nature of today's inflation** is different than a year ago
 - In 2022, **transportation** (e.g., motor vehicles and gasoline) primarily affected price growth
 - Now, the **rising cost of housing** has emerged as the primary driver
 - Although the labor market has cooled, **wage growth remains hot**

Inflation Is Still Running Hot in Our Region and Nationwide

Over-the-year price growth: South Atlantic region vs. United States



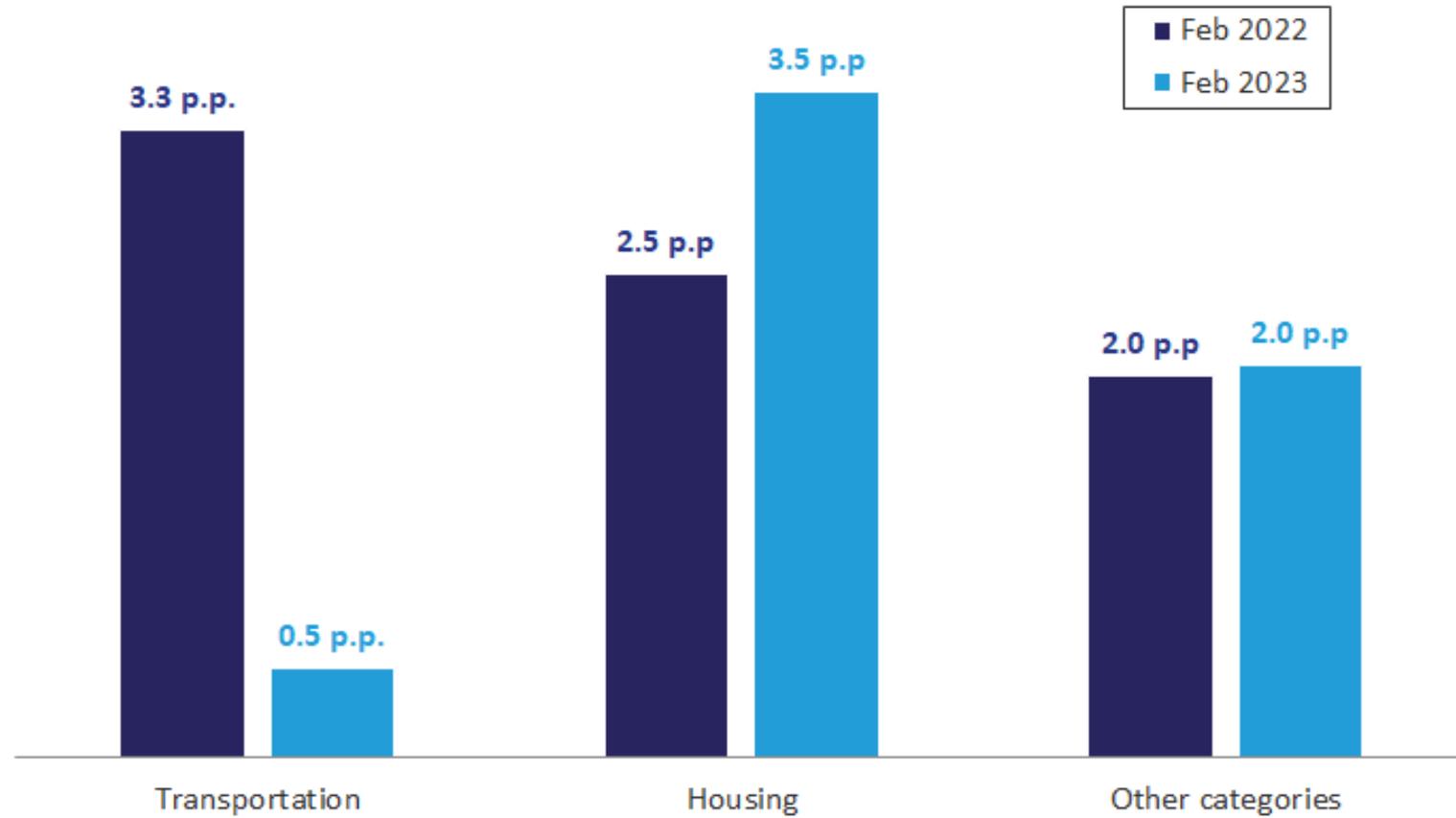
NC Department of Commerce, Labor & Economic Analysis Division (LEAD)

Source: US Bureau of Labor Statistics (Consumer Price Index for All Urban Consumers)

Note: these data are not seasonally adjusted

Primary Drivers of Price Inflation Have Shifted From Autos and Gas to Housing

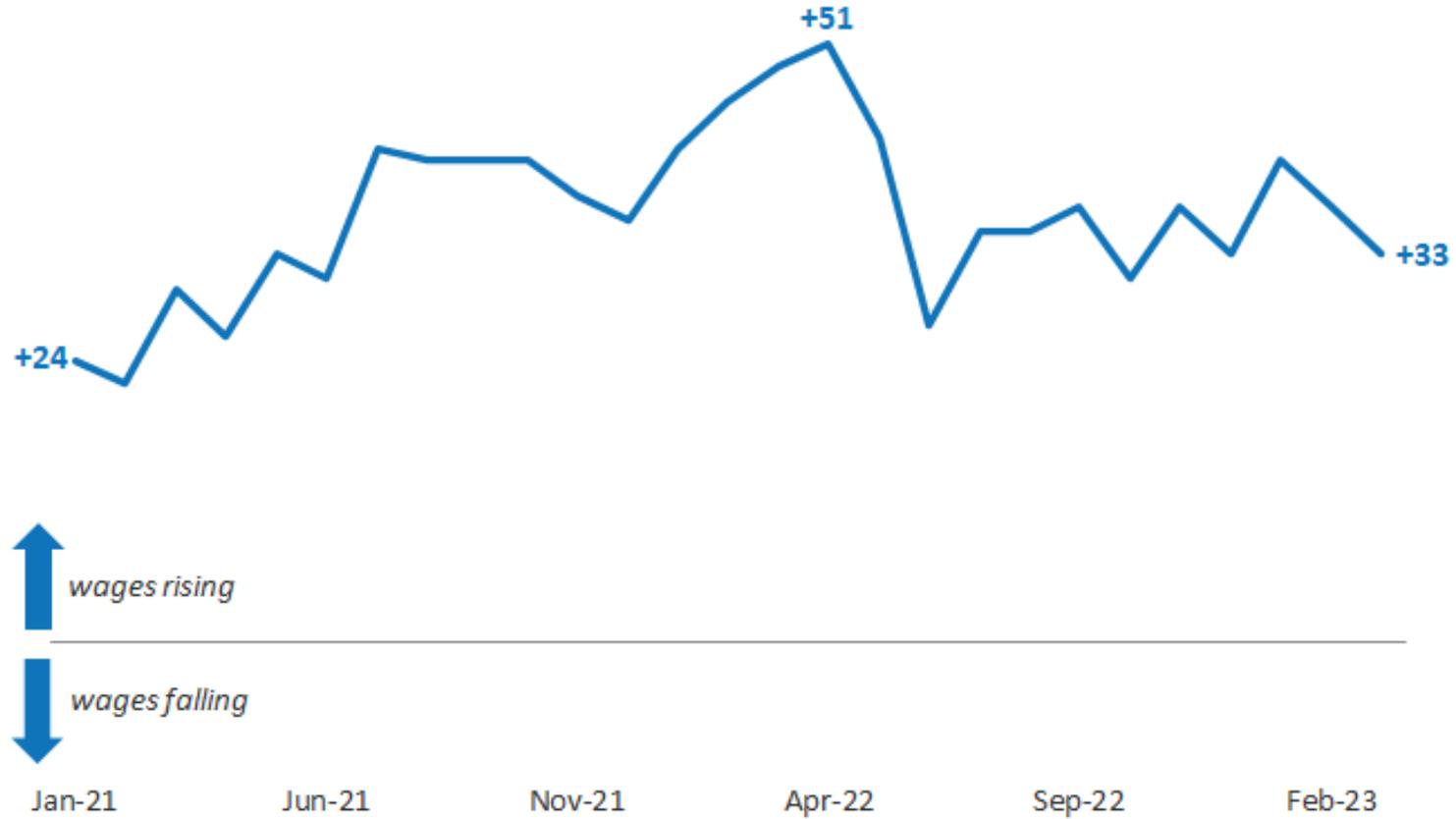
Components of over-the-year price growth nationwide (in percentage points): Feb 2022 vs. Feb 2023



NC Department of Commerce, Labor & Economic Analysis Division (LEAD)
Source: US Bureau of Labor Statistics (Consumer Price Index for All Urban Consumers)
Note: these data are not seasonally adjusted

Firms in the Carolinas Keep Raising Wages, Putting Pressure on Prices

Diffusion index: % of firms reporting wage increase - % of firms reporting wage decrease



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Source: Richmond Fed (Carolinas Survey of Business Activity)

Note: these data are not seasonally adjusted

Rising Interest Rates

“Long and Variable Lags”

To fight price inflation, the **Federal Reserve** has **raised interest rates**

- Higher interest rates = **higher borrowing costs** for consumers and businesses
- More expensive borrowing should **slow economic growth and reduce price pressure**

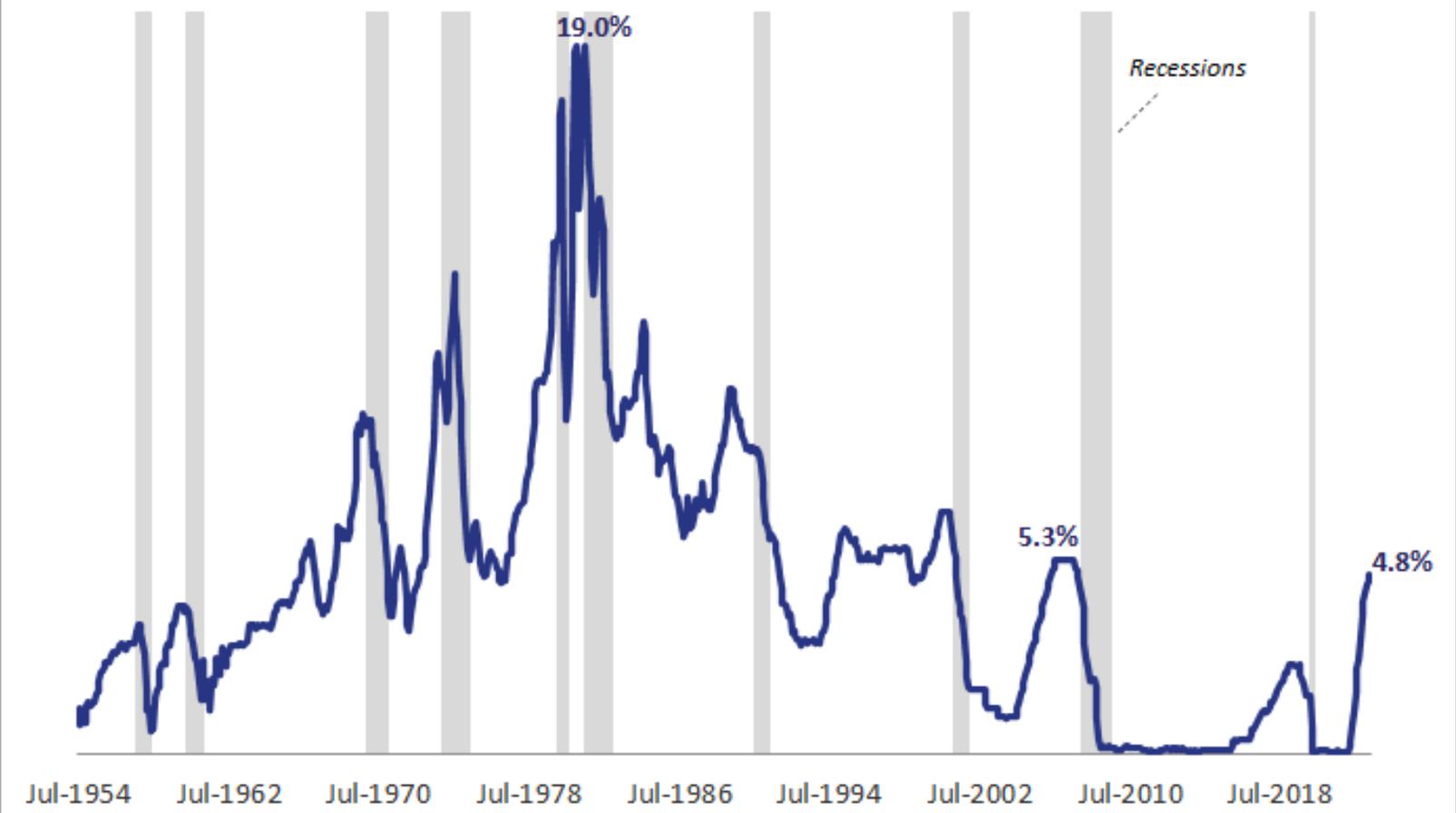
Initial effects on **interest-rate sensitive sectors** of our economy

- Rising mortgage rates have **slowed residential homebuilding activity**
- However, continued growth in **construction employment** and in other sectors

Monetary policy works under “**long and variable lags**”

The Fed Is Raising Interest Rates in Their Fight Against Price Inflation

Average federal funds effective rate (Jul 1954 - Apr 2023)

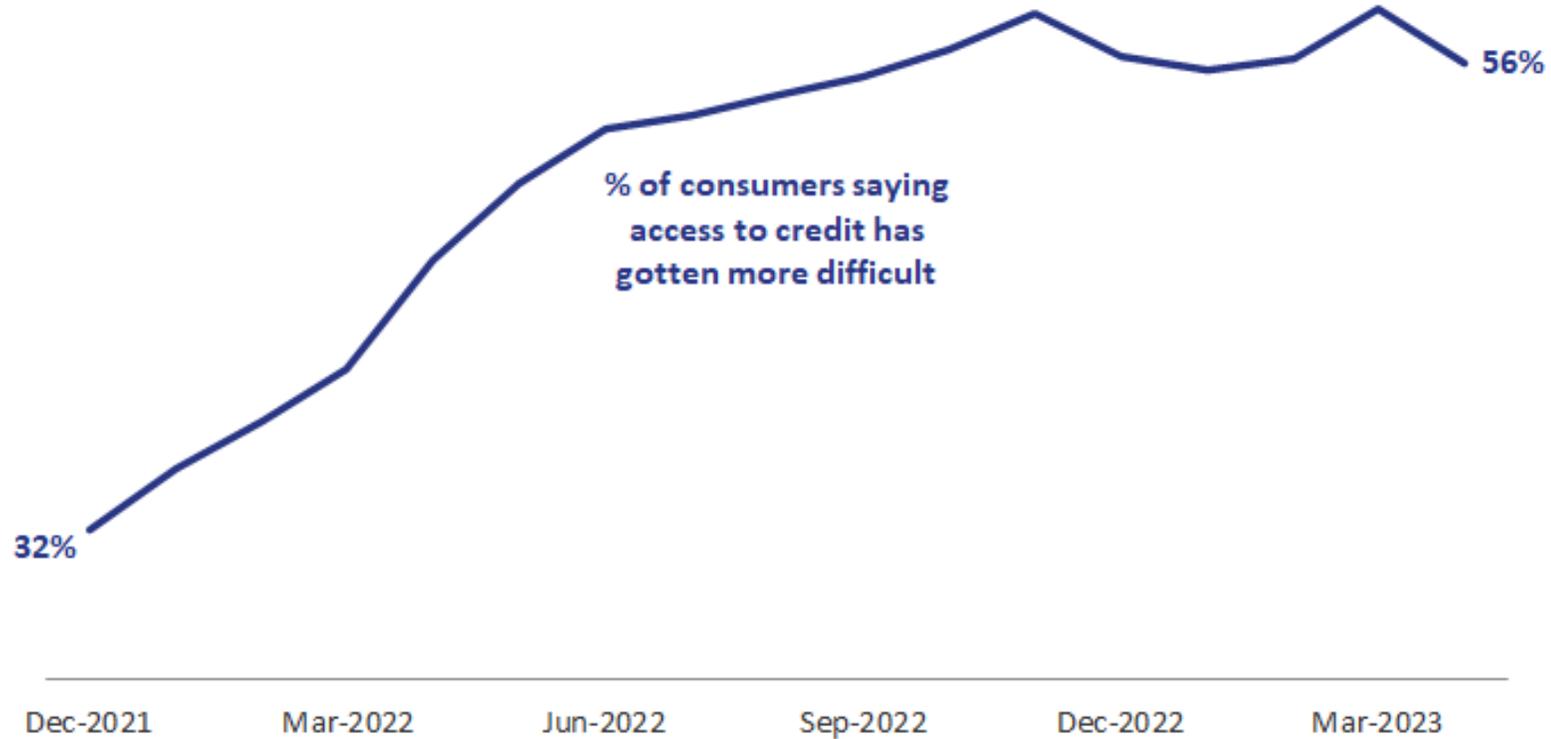


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Source: Federal Reserve

Consumers Are Struggling To Obtain Credit Amid Rising Interest Rates

Nationwide consumer credit availability (Dec 2021 - Apr 2023)



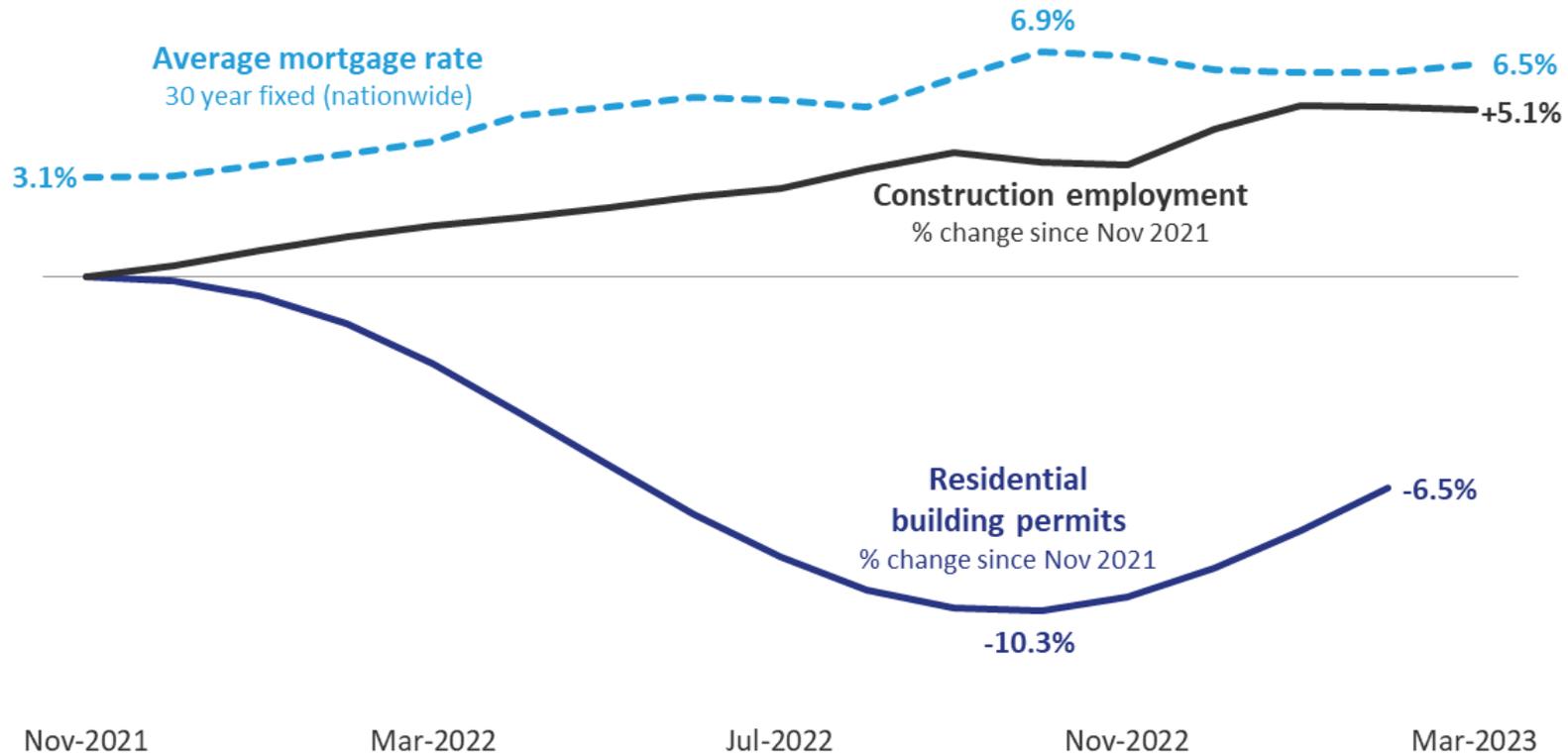
NC Department of Commerce, Labor & Economic Analysis Division (LEAD)

Source: Federal Reserve Bank of New York (Survey of Consumer Expectations)

Note: these data are not seasonally adjusted

So Far, Rising Mortgage Rates Haven't Impacted Construction Employment

North Carolina housing market indicators (Nov 2021 - Mar 2023)



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Source: Freddie Mac (mortgage rates); US Census Bureau (building permits); US Bureau of Labor Statistics (employment)

Note: building permit data are seasonally adjusted and smoothed by LEAD

The outlook

How long will inflation remain elevated?

Future course of **inflation remains uncertain**; however, some **moderation** is expected

- Tightening credit conditions will likely slow demand and economic growth
- Continuing goods disinflation and expected housing disinflation later this year

Despite some moderation, **price growth may persist** at higher levels

- Shortage of available workers may continue to add inflationary pressure
- Persistent price inflation would lead to **higher-for-longer interest rates**, increasing the risk of a recession

Bank failures and the impending **debt-ceiling** standoff also increase the **risk of recession**

Resources of interest

April 2023 NC Economy Watch

The Inflation Sensation That Rocked the Nation

- <https://www.commerce.nc.gov/news/the-lead-feed/april-2023-nc-economy-watch>

May 2023 NC Economy Watch

Rising Interest Rates Are Making It Harder to Access Credit

- <https://www.commerce.nc.gov/blog/2023/05/09/may-2023-nc-economy-watch-rising-interest-rates-are-making-it-harder-access-credit>

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“Thank you!”

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