

National Economic Trends and Aviation

9:05 AM – 9:35 AM



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Economist

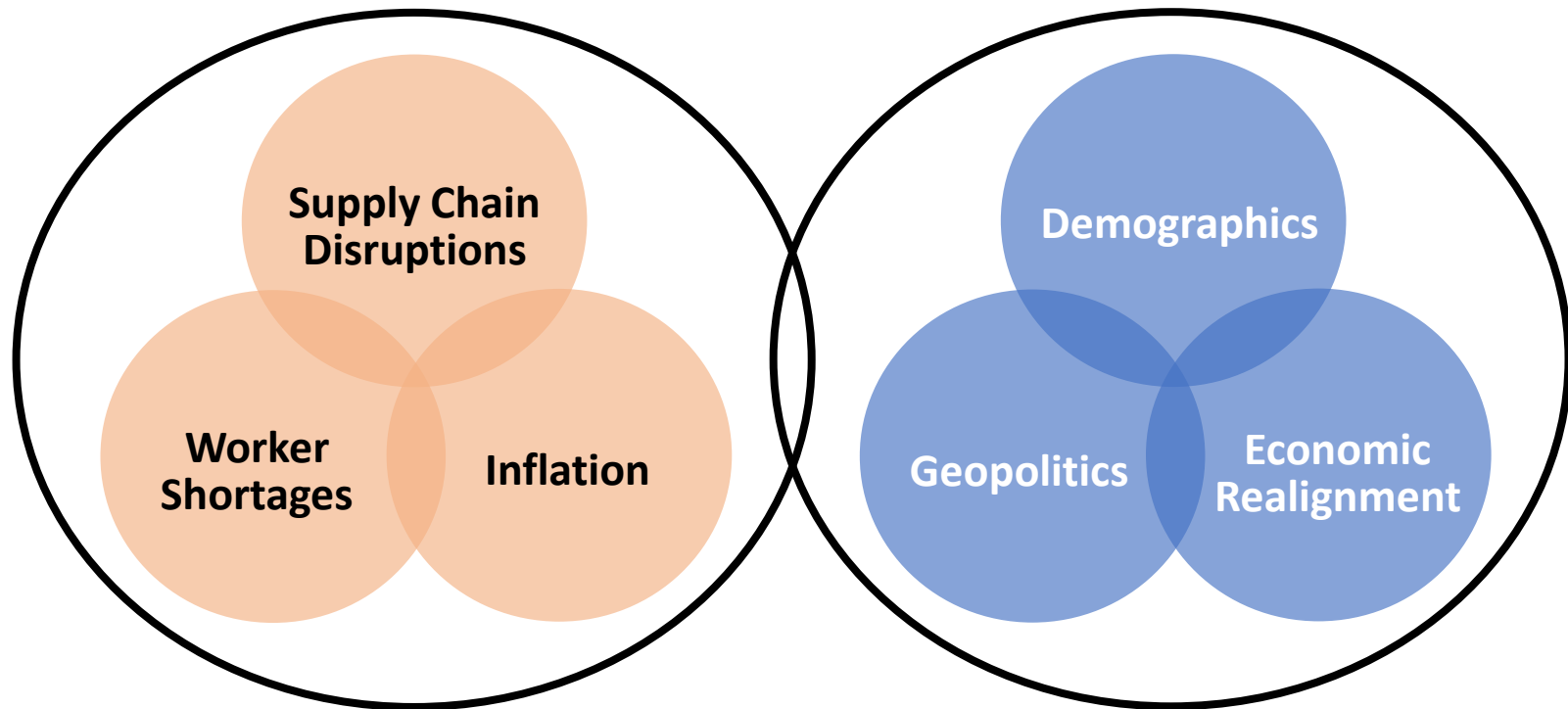
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U.S. Economic Outlook 2023-2024

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A “Bumpy Road” Ahead...



2023: Slow Growth at Best...

- **Recession likely; timing/depth TBD...**
- **Economy is struggling:**
 - **Interest rate hikes**
 - **Quantitative Tightening**
 - **Fall out from bank runs, bailouts**
 - **Pull back in business, consumer capital investment**

Will the Federal Reserve continue to tighten or take a pause?

March 7, 2023 Federal Reserve Chairman Jerome Powell

*“...In light of the cumulative tightening of monetary policy and the lags with which monetary policy affects economic activity and inflation, the Committee slowed the pace of interest rate increases over its past two meetings. We will continue to make our **decisions meeting-by-meeting, taking into account the totality of incoming data** and their implications for the outlook for economic activity and inflation.”*

Weak Banking System

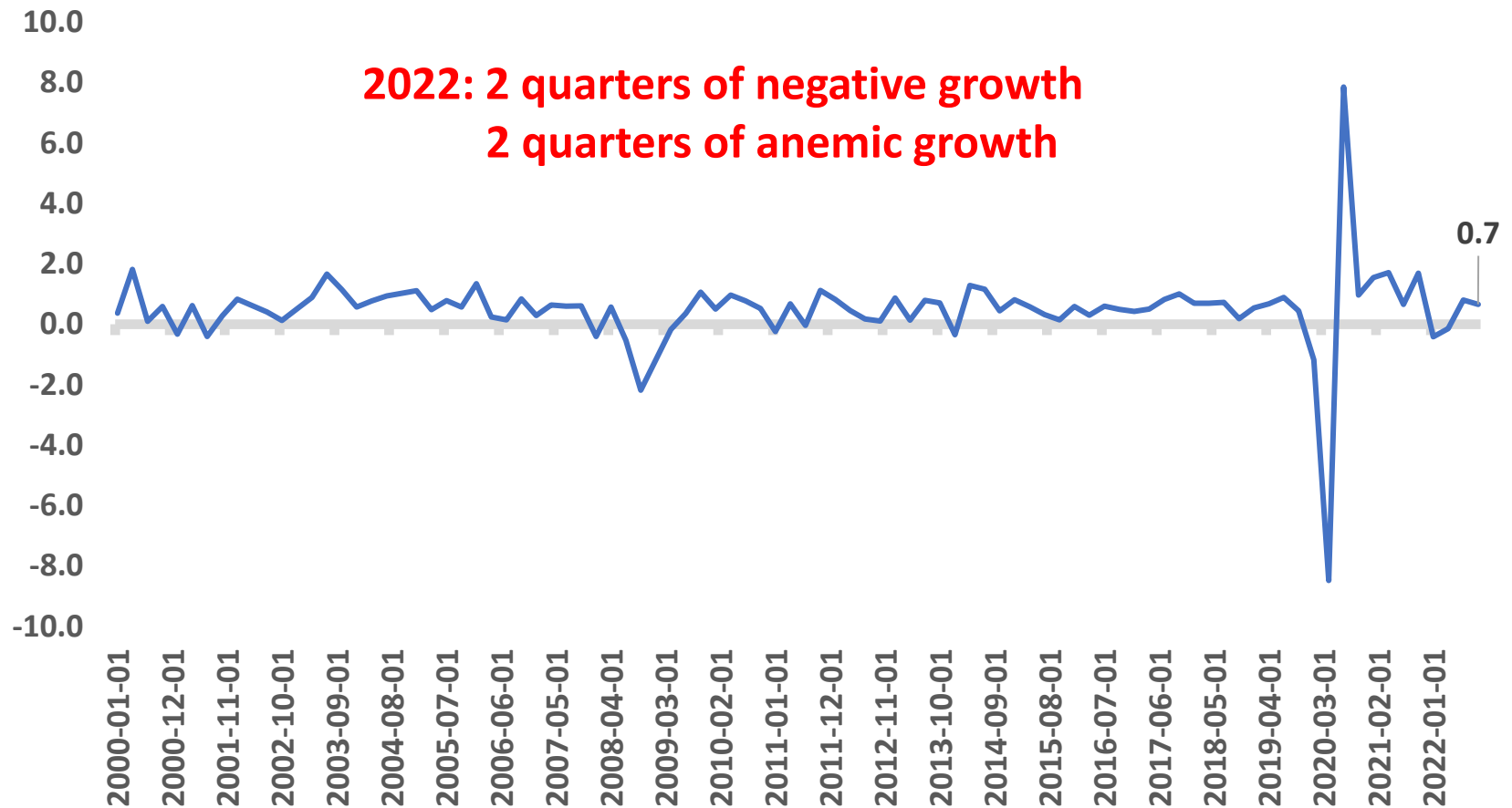
- Bank closures showing weakness in the financial system
 - Silvergate Capital: **failed**
 - Signature Bank: **failed**
 - Silicon Valley Bank: **failed**
 - First Republic Bank: **bailed out by other banks**
 - Credit Suisse: **\$54 B liquidity lifeline: Swiss National Bank/\$3 B UBS purchase**

Credit Suisse: twice the size of Lehman Brothers

Macro Trends

U.S. Real GDP

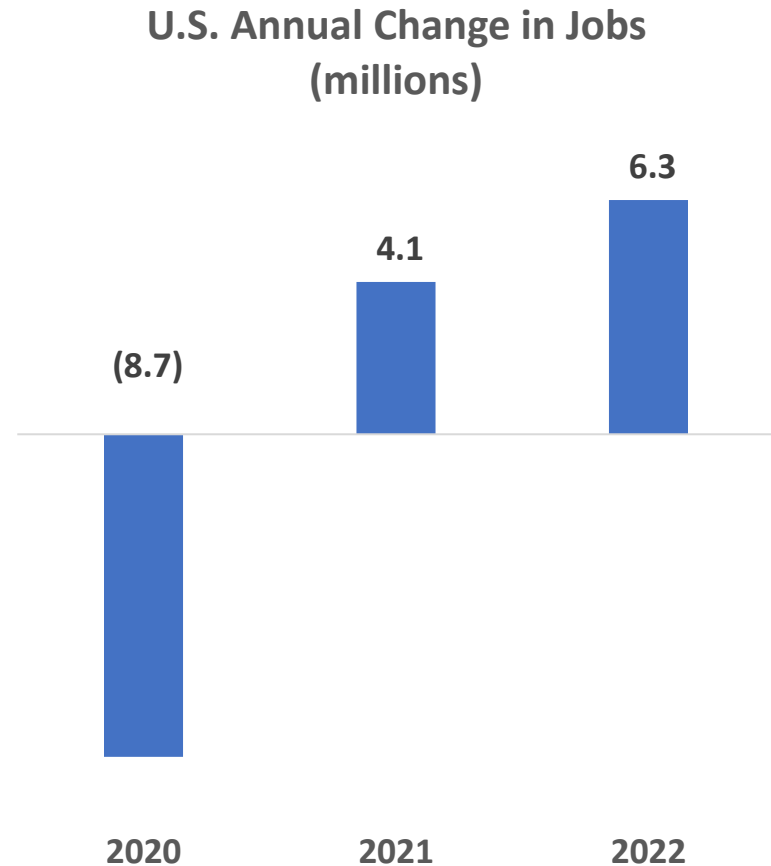
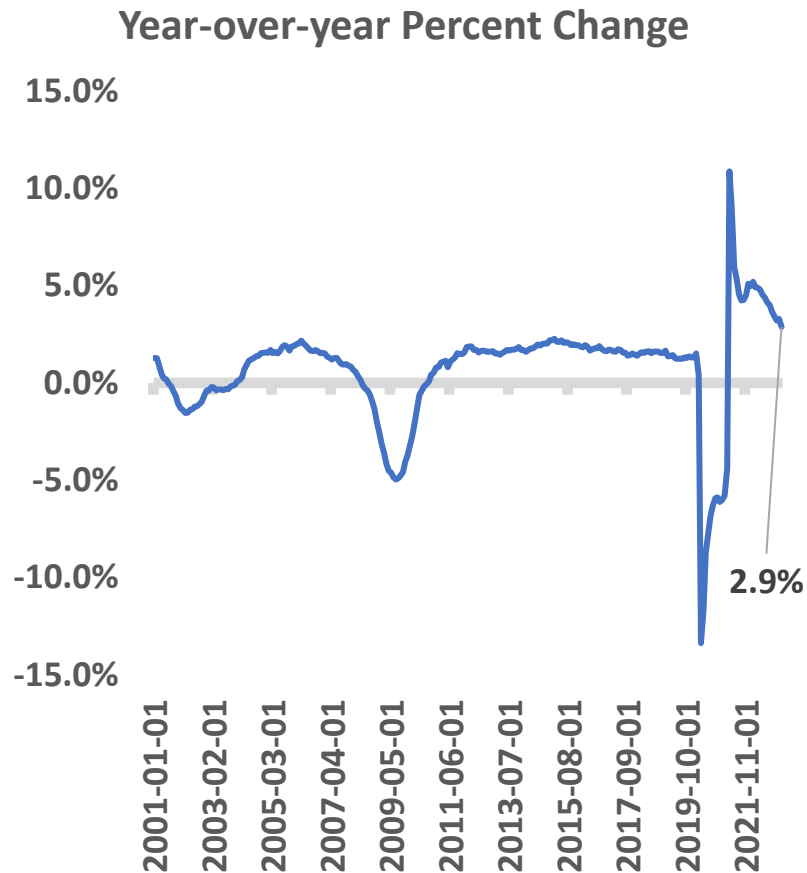
Percent Change, Quarterly, seasonally adjusted annual rate: 2000-2022



Perfect Storm or Calm Waters?

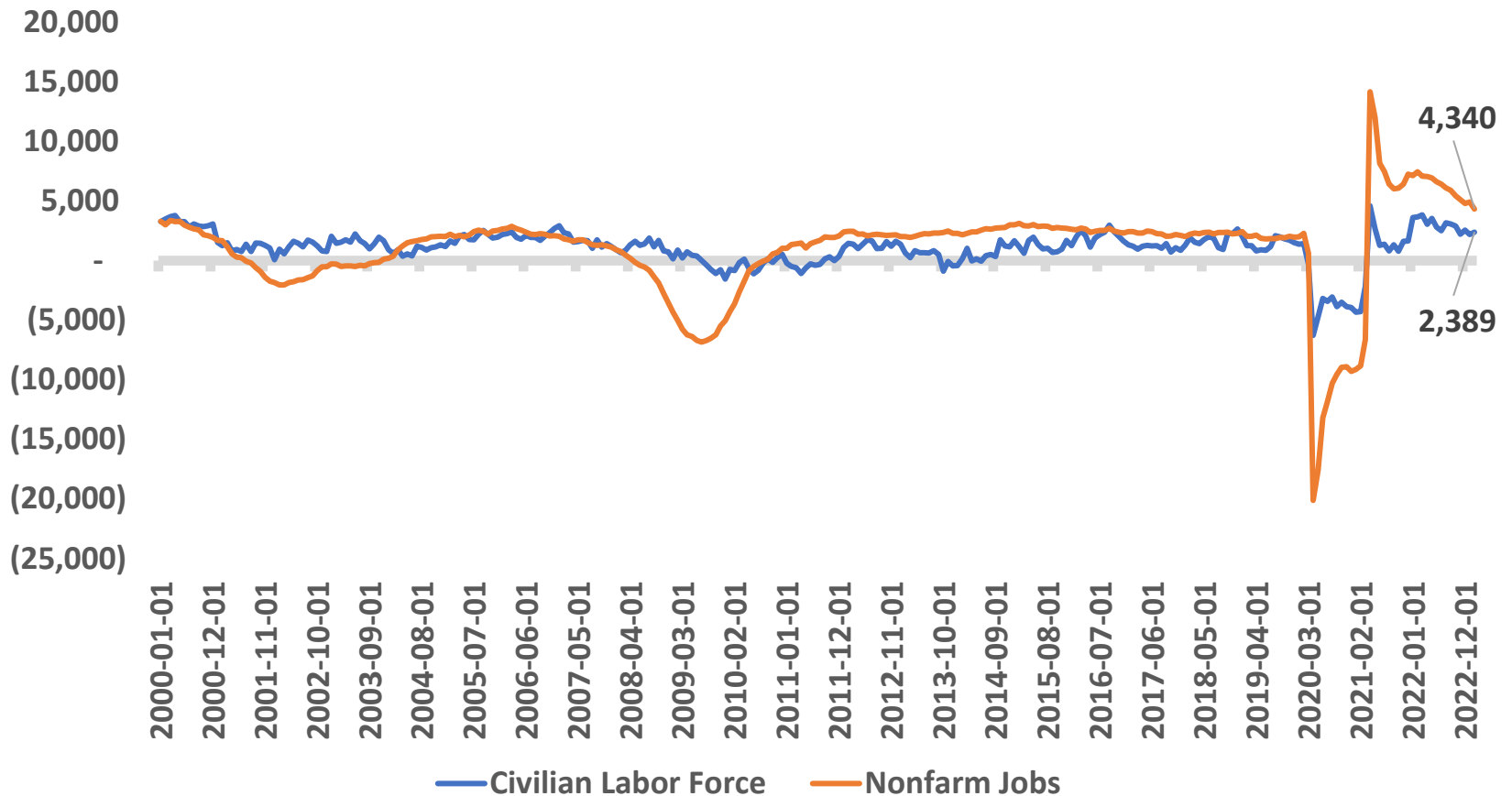
- **Conference Board:** recession starting in second quarter 2023, lasting about 3 quarters.
- **Moody's:** “slowcession” – growth that comes to a near-standstill, but never slips into contraction
- **No consensus across economists:**
 - What will the Fed do about interest rates – how high, how fast?
 - Most forecasts are assuming a fast drop in inflation

U.S. Total Nonfarm Employment 2001-present

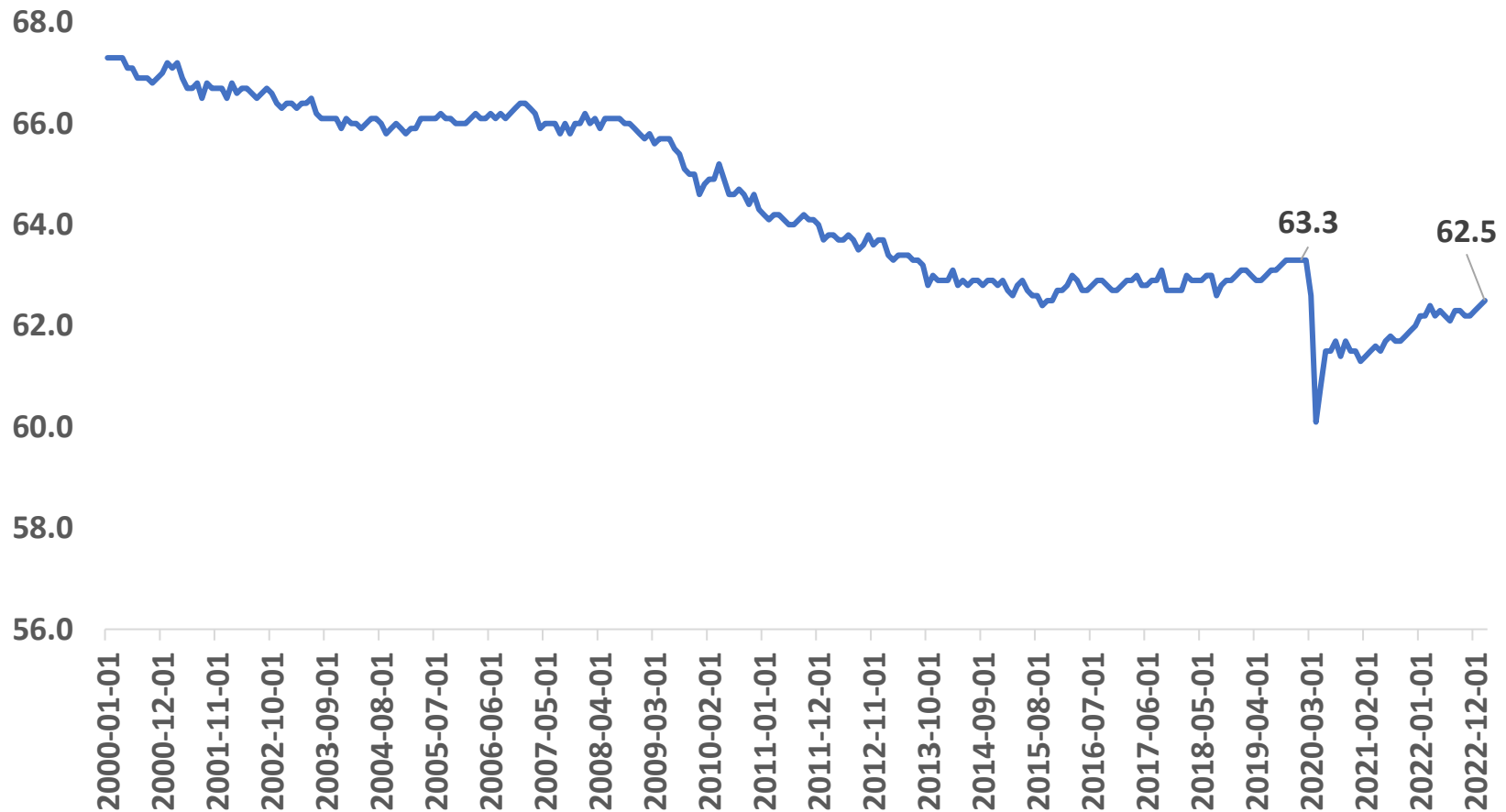


U.S. Job Growth Outpacing Labor Force Growth: 2000-present

(year-over-year change in thousands of jobs)

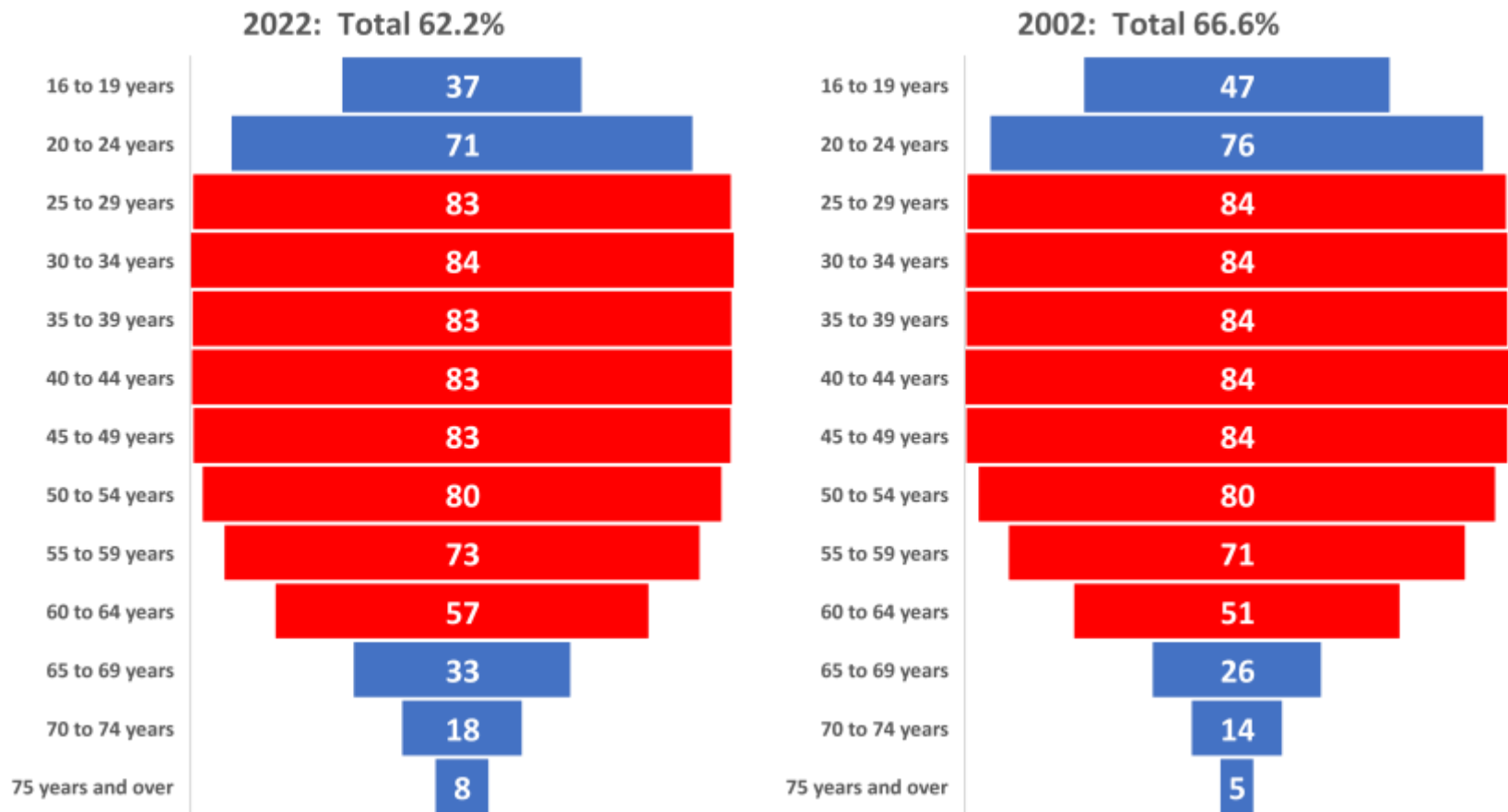


Labor Force Participation Rate: Percent, Monthly, Seasonally Adjusted 2000-present

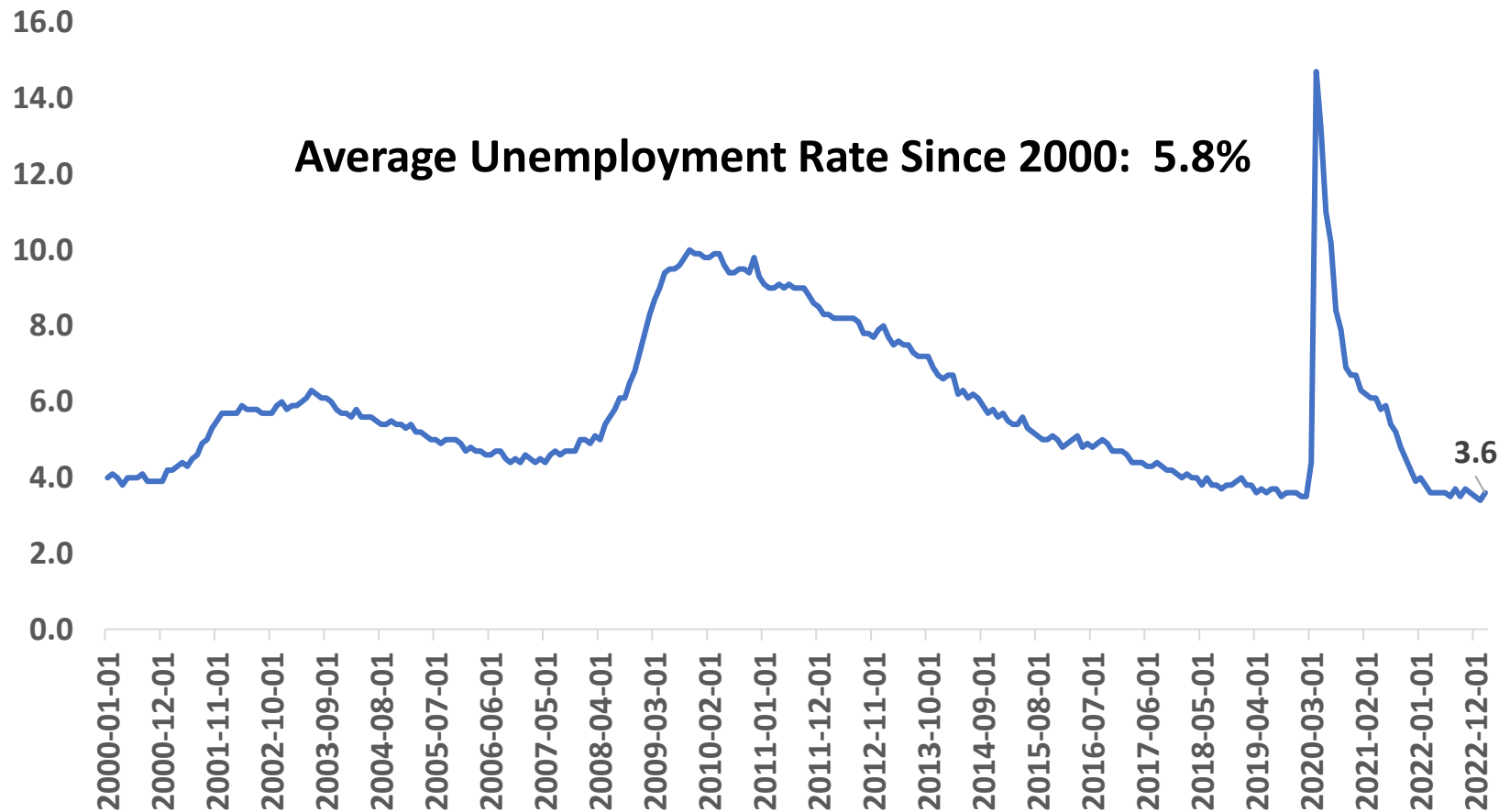


The Great Resignation Myth

U.S. LFPR by Age Cohort

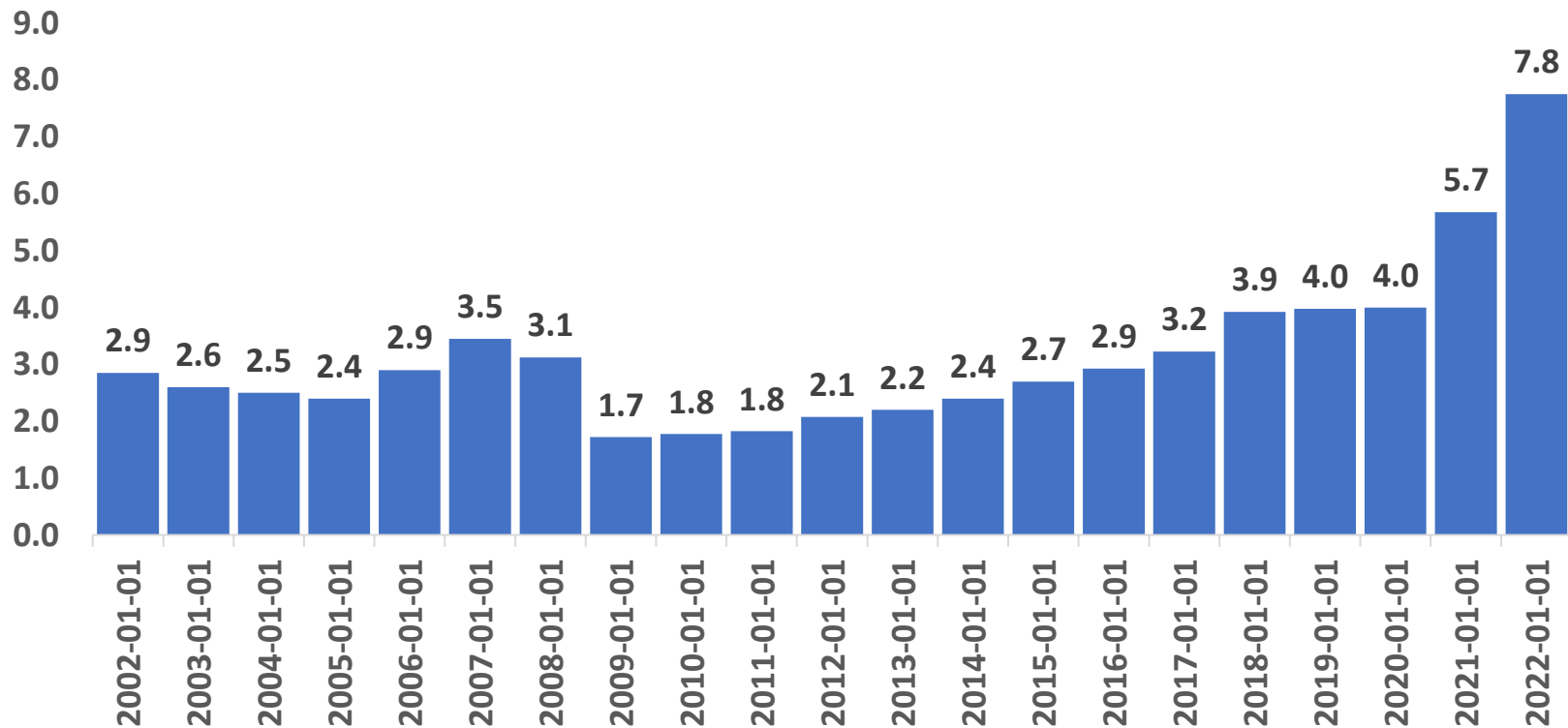


U.S. Unemployment Rate: Percent, Monthly, seasonally adjusted 2000-present

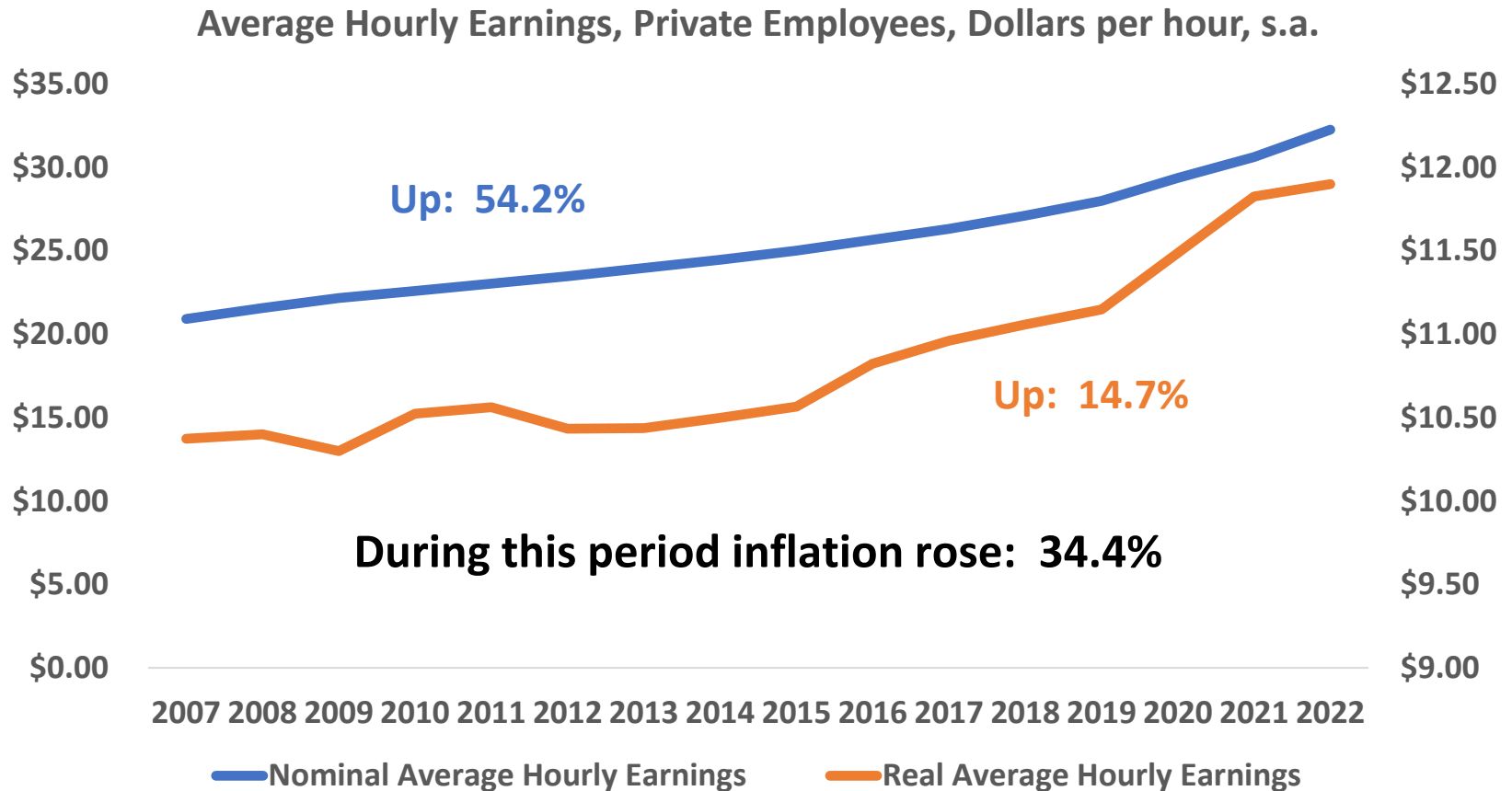


Employment Cost Index: Wages and Salaries: Private Industry Workers 2002-present

Change from Year Ago, Index Dec 2005=100, Annual, Seasonally
Adjusted



Wages are Very Sticky



Labor Market Summary:

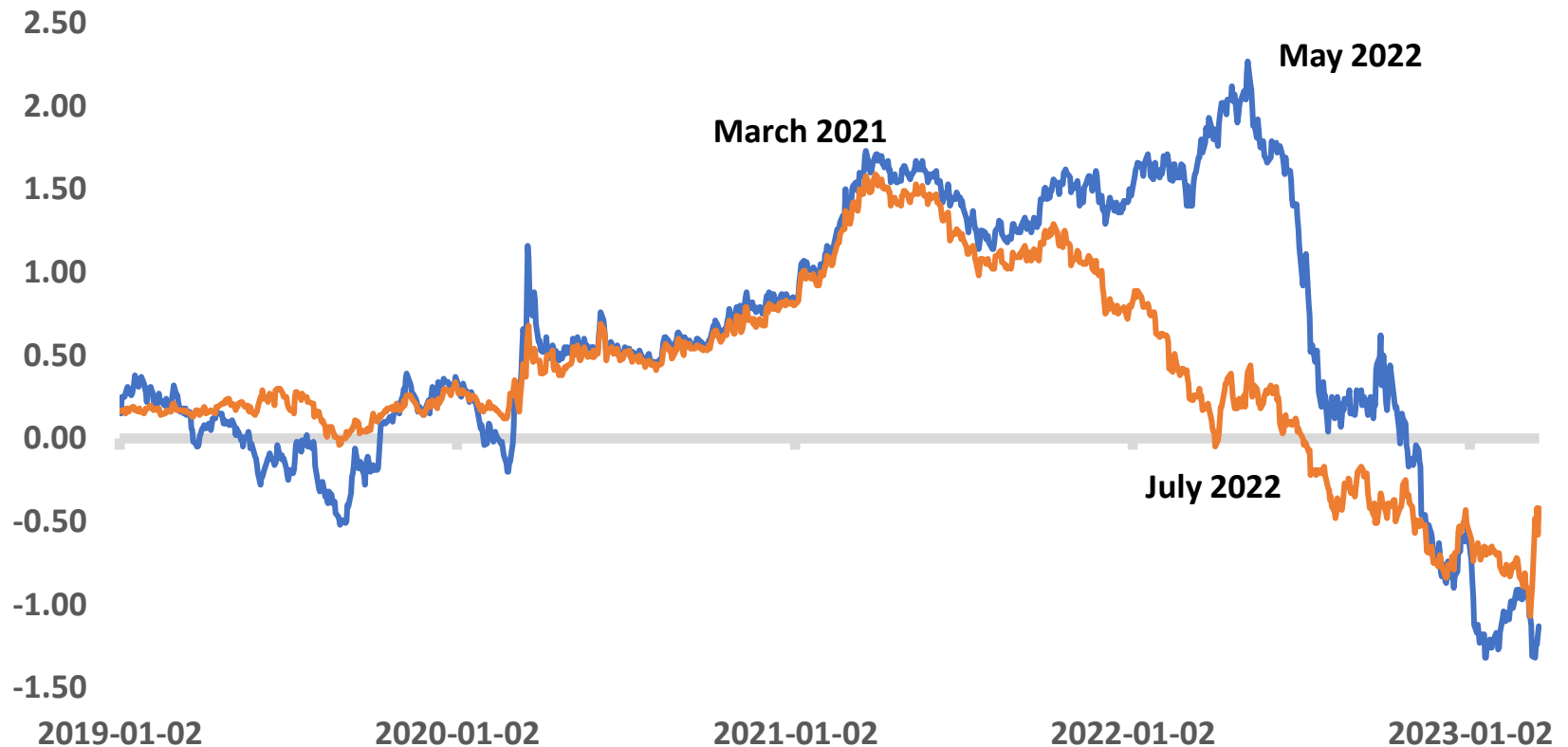
- Job growth: outpacing labor force growth
- Unemployment rate: well below the 20-year average
- Employment costs: rising, fueling inflation
- Most age groups continue to participate at rates similar to past 20 years

Financial Markets and Inflation

Types of Yield Curves...

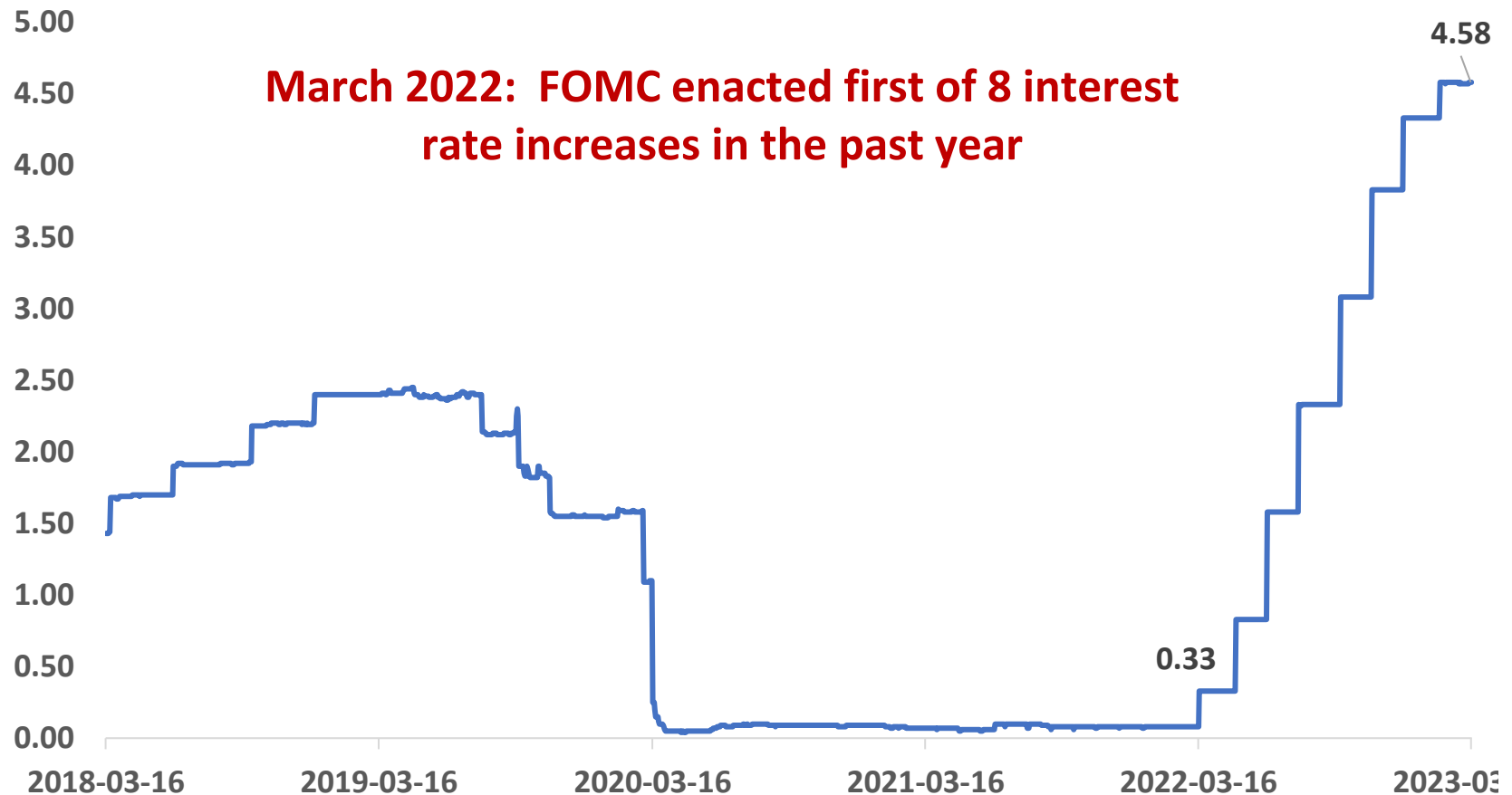
- **Yield Curve:** line that plots yields (**interest rates**) of bonds having equal credit quality, but differing maturity dates
- **Normal (upward sloping) Yield Curve:** longer maturity bonds have a higher yield, compared to shorter-term bonds
 - **GROWTH**
- **Inverted (downward sloping) Yield Curve:** shorter-term yields are higher than the longer-term yields
 - **RECESSION**
- **Flat Yield Curve:** short-term and long-term yields are very close
 - **UNCERTAINTY**

Yield Spread: Negative Implies Economic Downturn



- 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity, Percent, Daily, Not Seasonally Adjusted
- 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity, Percent, Daily, Not Seasonally Adjusted

Federal Funds Effective Rate: Percent, Daily, Not Seasonally Adjusted

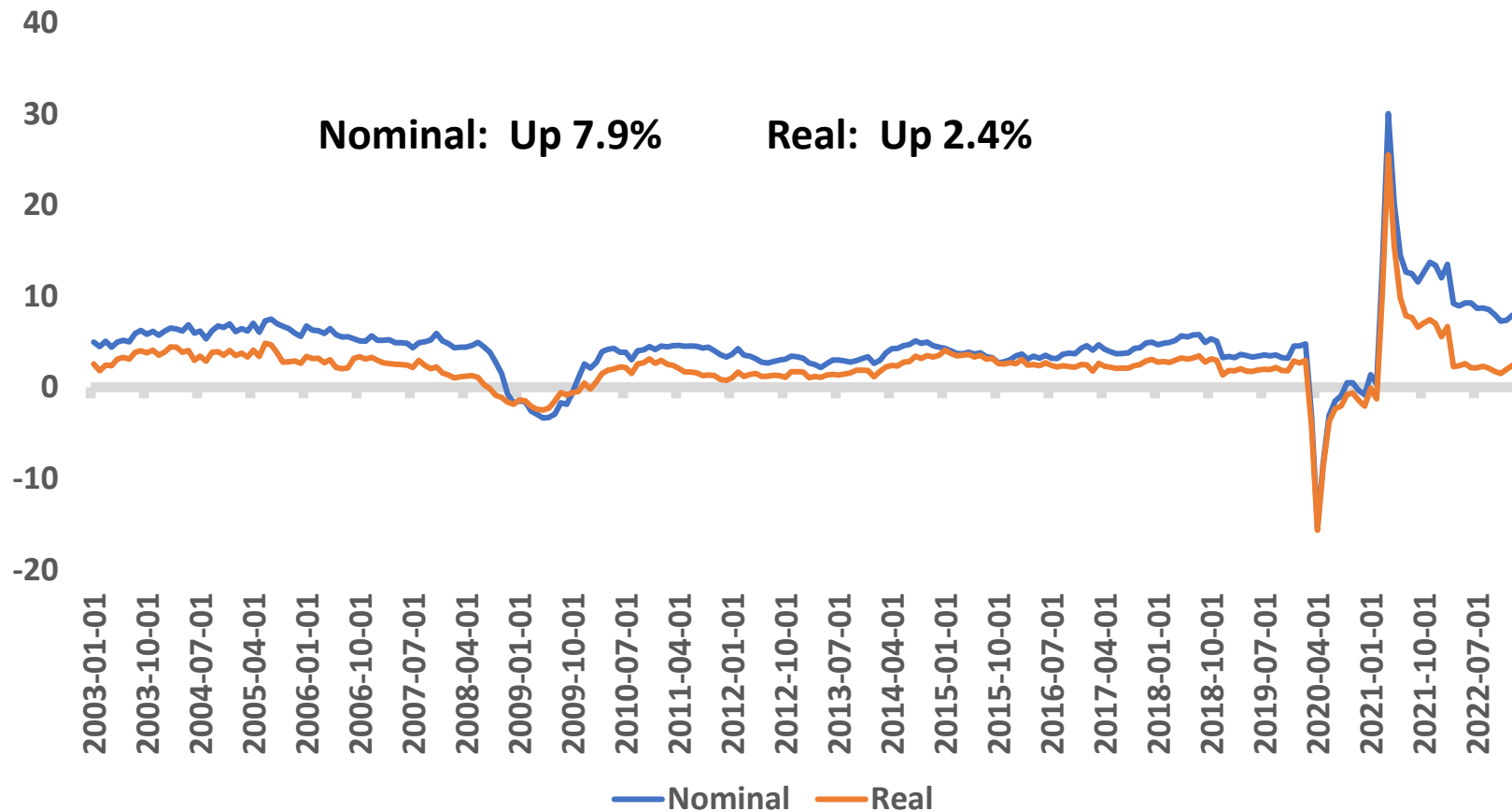


Inflation May Slow, But Remain Sticky: Well Above 2%

- **Built into demand pipeline for 2023/2024:**
 - **Higher defense spending**
 - **Infrastructure spending**
 - **Unspent COVID appropriations**
 - **Higher food prices: USDA forecasting 8% increase led by at home food prices**
 - **Oil Prices: EIA (U.S.) down; IEA (Int'l.) up**

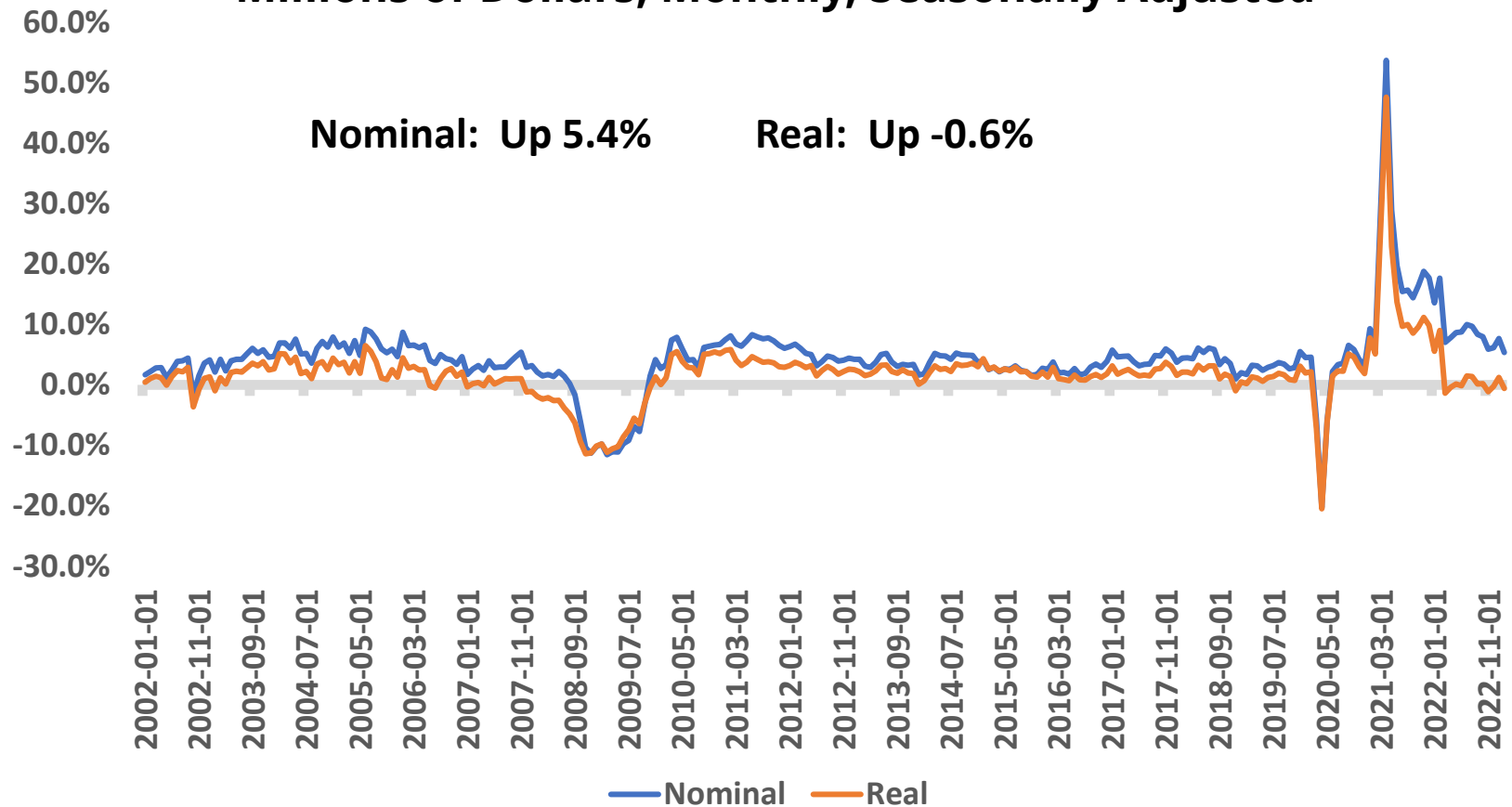
Consumers

Personal Consumption Expenditures: Year-over-year Percent Change 2007-present

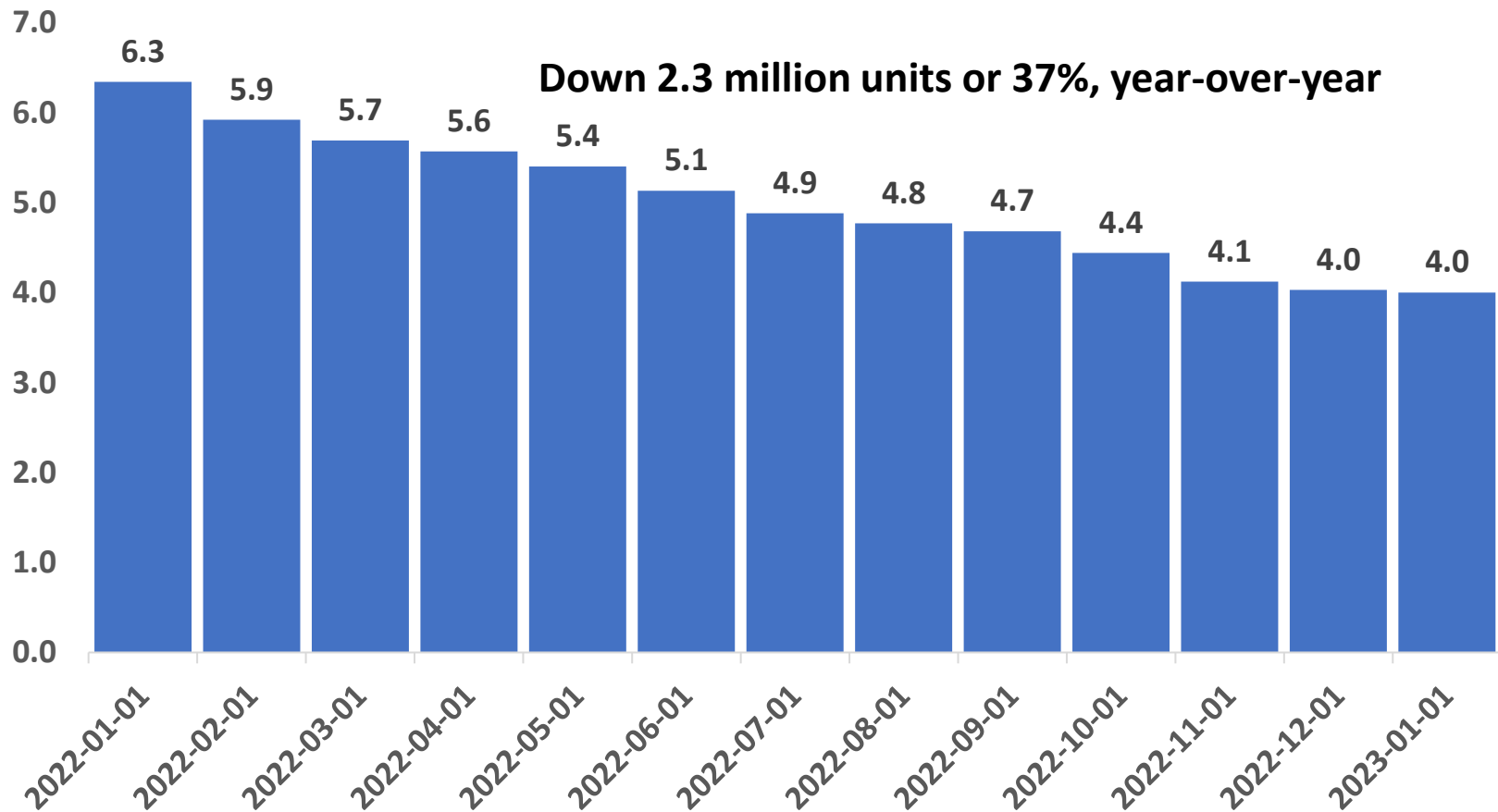


Advance Retail Sales: Retail Trade and Food Services 2002-present

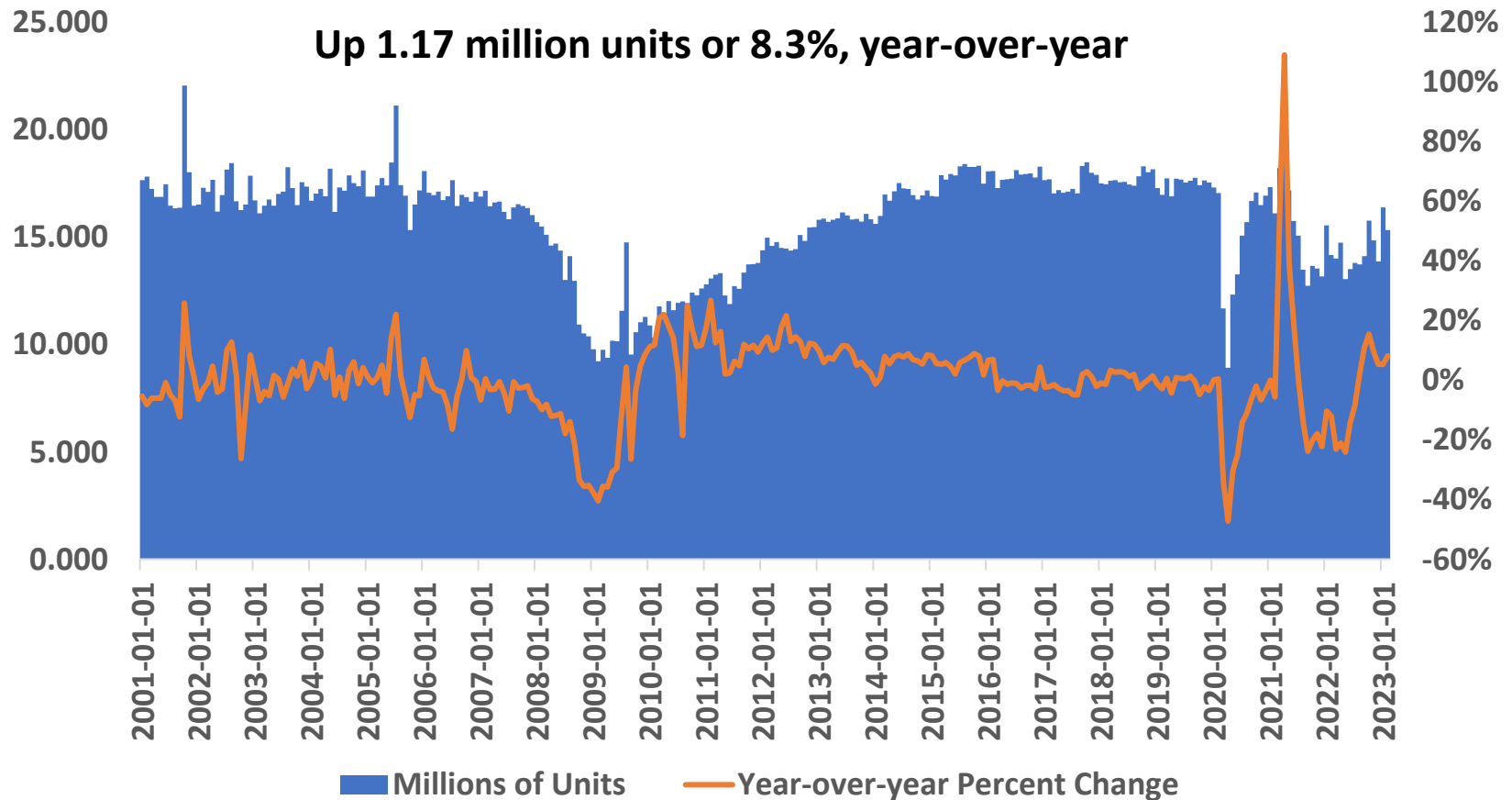
Millions of Dollars, Monthly, Seasonally Adjusted



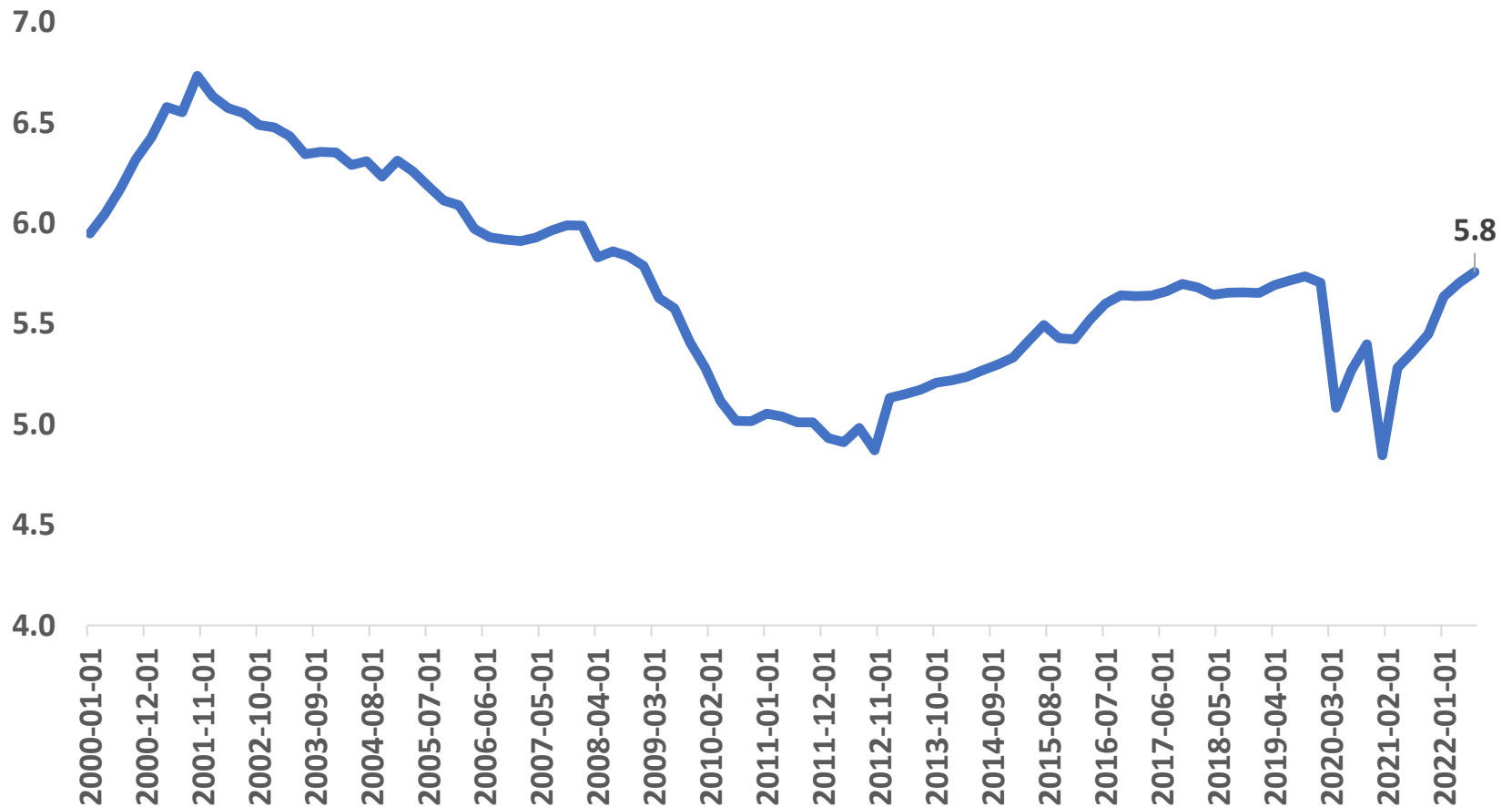
Existing Home Sales: Millions of Units, Jan.2022-Jan.2023 Monthly, Seasonally Adjusted Annual Rate



Total Vehicle Sales: Millions of Units, Monthly, Seasonally Adjusted Annual Rate 2001-present

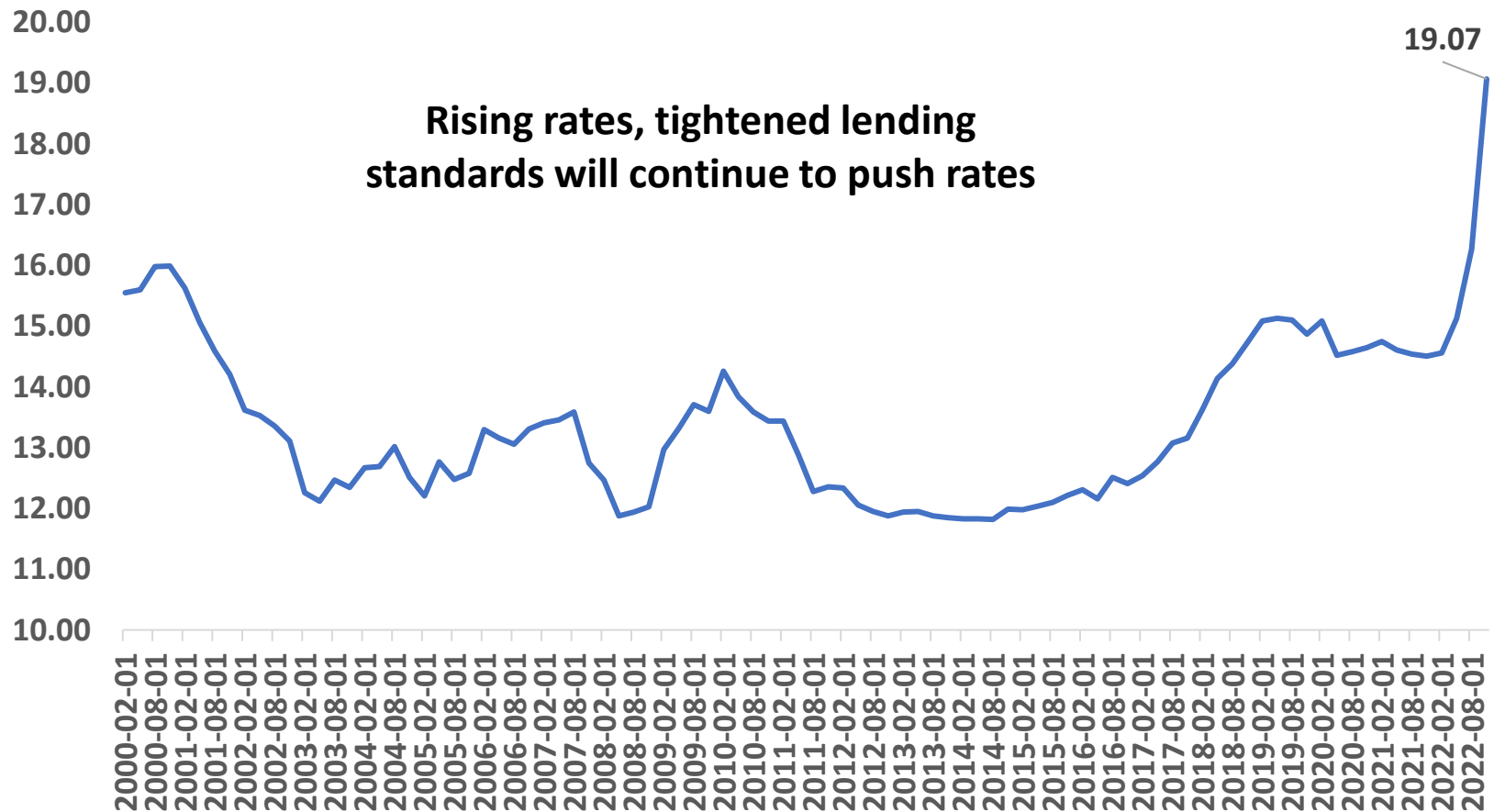


Consumer Debt Service Payments as a Percent of Disposable Personal Income, Percent, Quarterly, Seasonally Adjusted 2000-2022



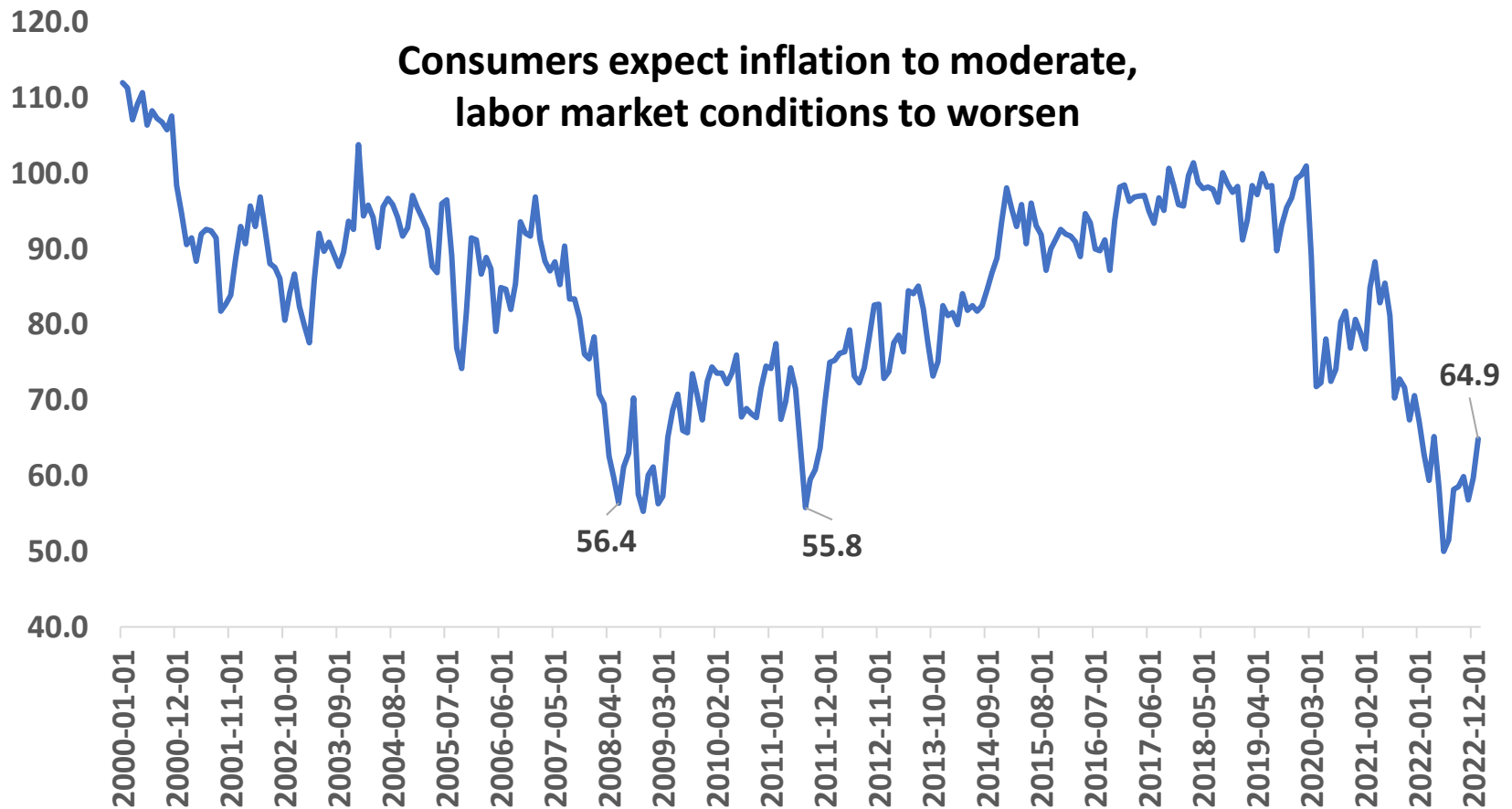
Commercial Bank Interest Rate: Credit Card Plans, 2000-2022

All Accounts, Percent, Monthly



University of Michigan Consumer Sentiment, 2000-present

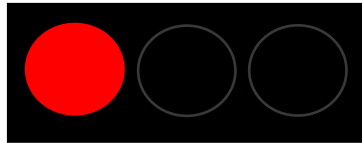
Index 1966:Q1=100, Monthly, Not Seasonally Adjusted



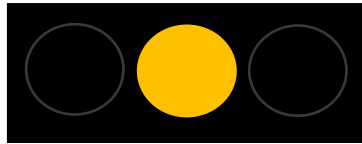
Consumer Summary:

- Consumers continue to spend, but at slowing rates
- Home sales down; vehicle sales still up
- Consumer debt: rising
- Interest rates: increasing the cost of debt service
- Falling consumer confidence points to less consumer spending, all else equal

Forecast Summary: Real GDP, Mixed Signals



- Inflation
- Interest rates
- Yield curve



- Consumer spending
- Consumer debt



- Job growth
- Unemployment rate
- LFPR

Wildcards (risks)

- **Government shutdown**
 - Delayed federal discretionary spending
 - A small dip in GDP, followed by a bounce
 - Most impacted are Federal workers (delayed paychecks) and private-sector business losses
- **U.S. Debt Ceiling vs. Default vs. Budget**
 - Federal spending plummets, taxes rise
 - Default: worldwide recession
- **War Spreads Beyond Ukraine/Russia**

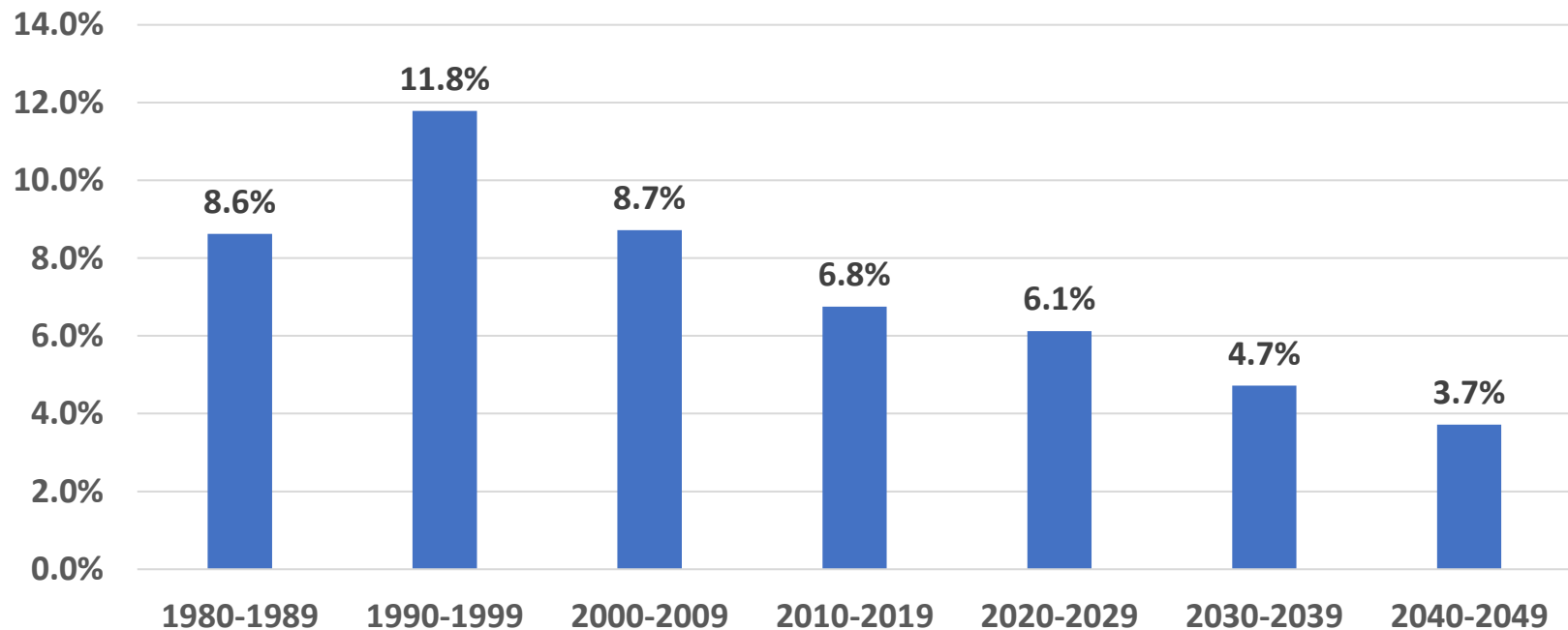
Long-term Trends

Three Big Demographic Trends

- U.S. rate of population growth is slowing
- U.S. population is rapidly aging
- U.S. population is becoming more diverse

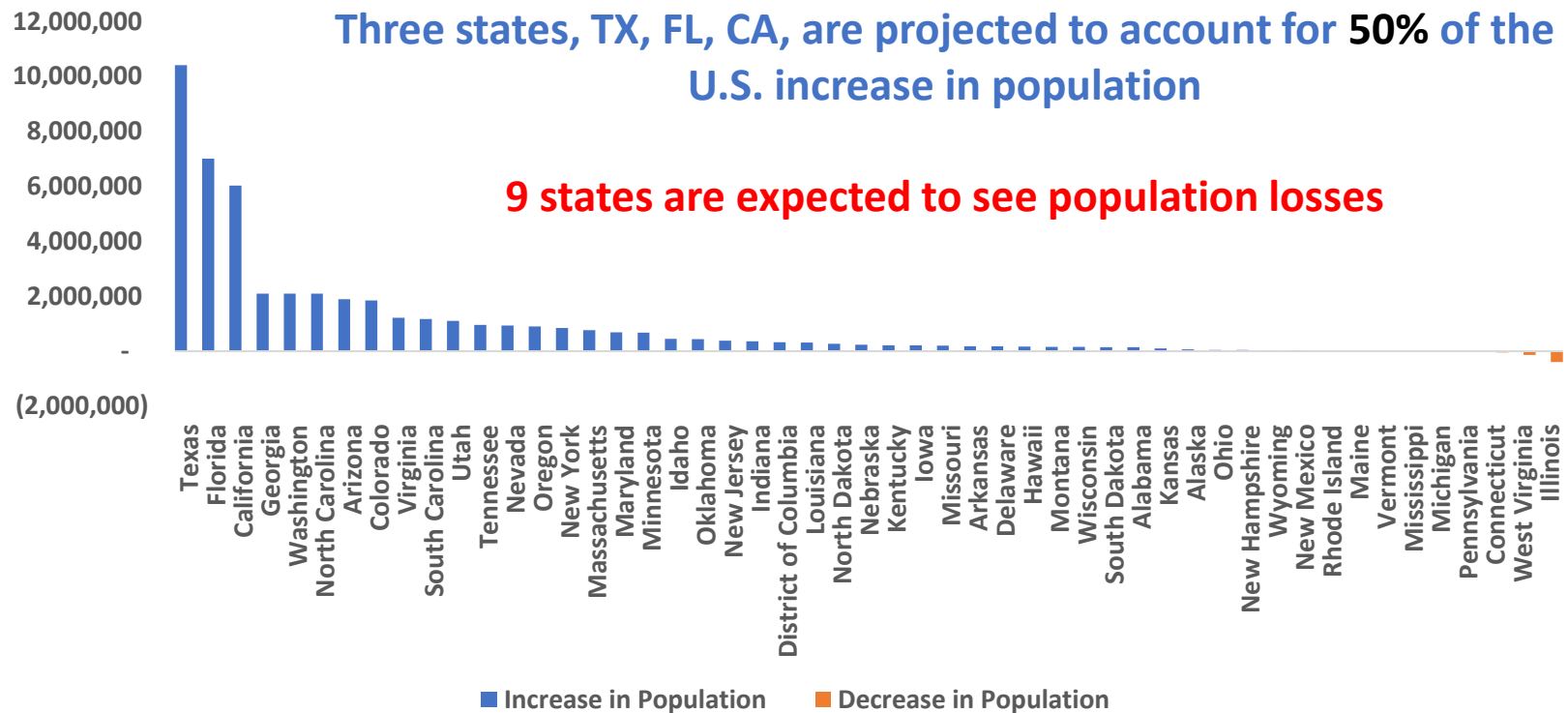
TRENDS ARE NOT EVEN ACROSS THE COUNTRY

U.S. Percent Change in Population by Decade, 1980-2050



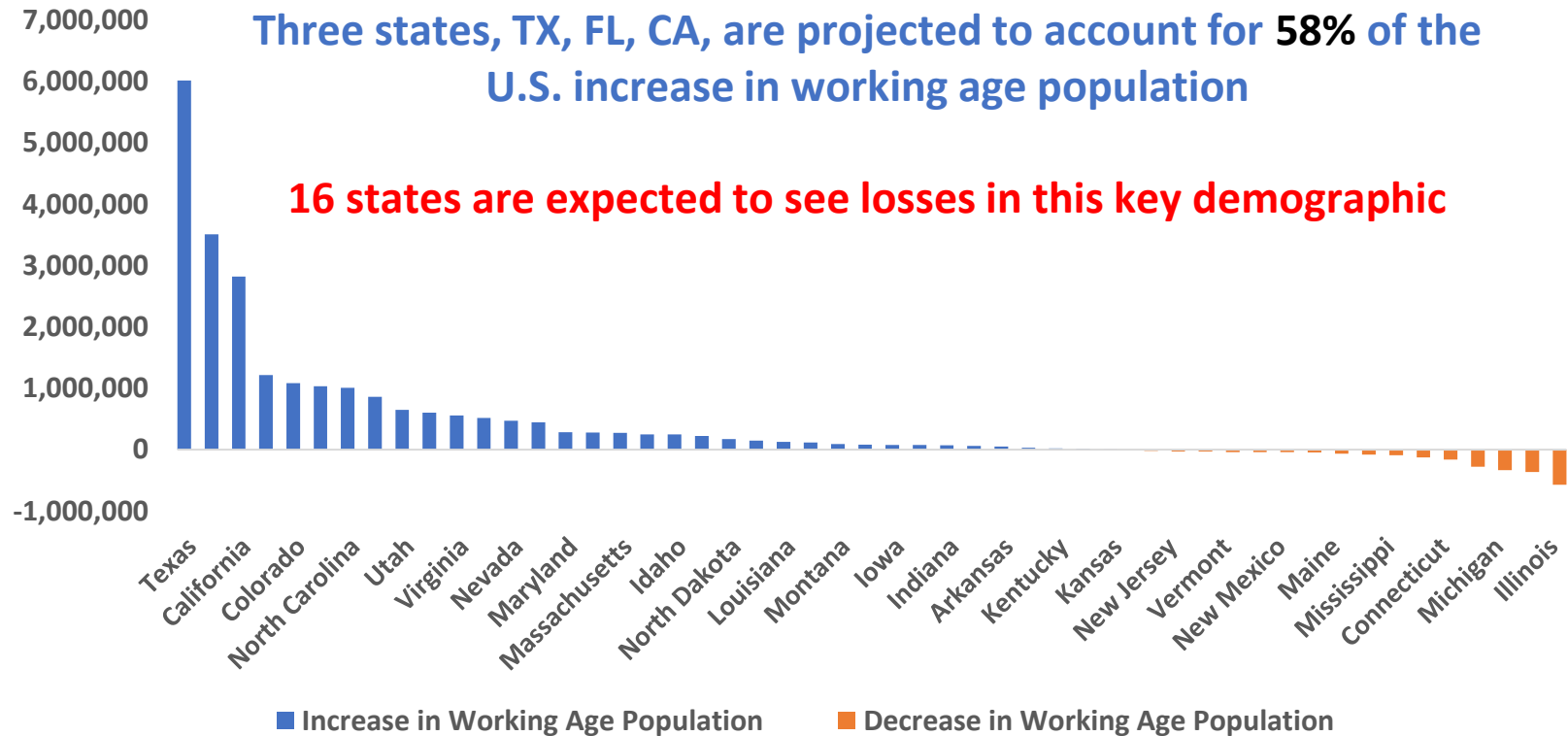
Data source: U.S. Census Bureau

Numeric Change in Population, 2020-2040 by State



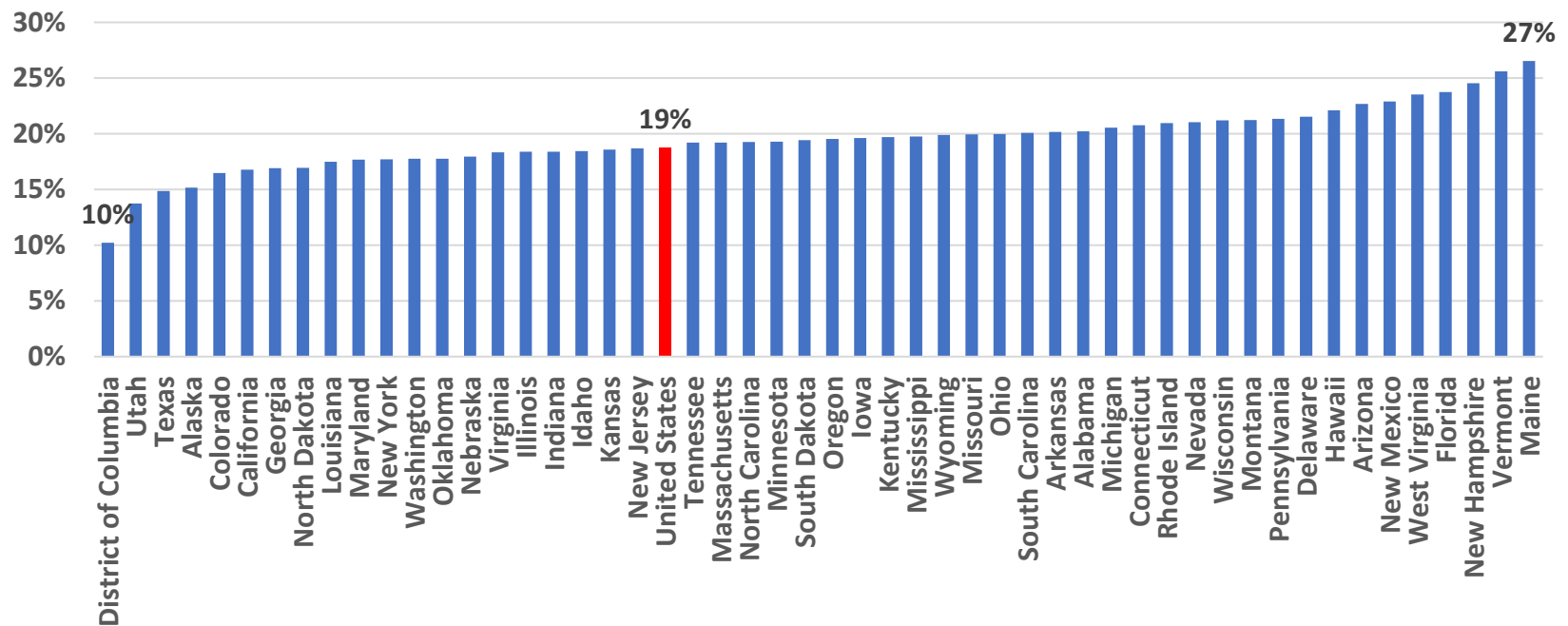
Data source: Weldon Cooper Center, Demographics Research Group and U.S. Census Bureau, 2018

Numeric Change, Working Age Population 15-64 Years, 2020-2040



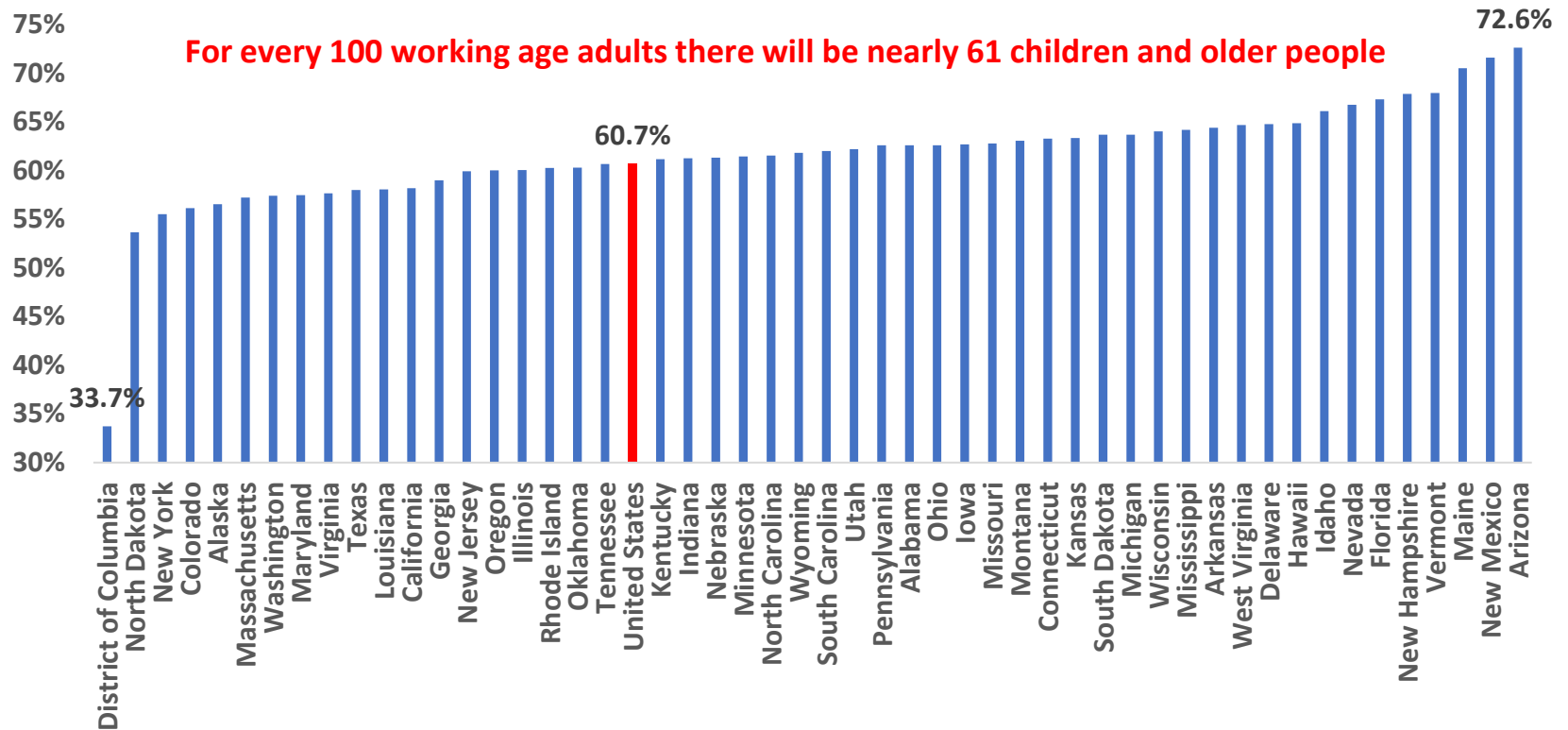
Data source: Weldon Cooper Center, Demographics Research Group and U.S. Census Bureau, 2018

Percent of Population 65 Years and Over, 2040 by State



Data source: Weldon Cooper Center, Demographics Research Group and U.S. Census Bureau, 2018

U.S. Total Dependency Ratio by State, 2040



Data source: Weldon Cooper Center, Demographics Research Group and U.S. Census Bureau, 2018; CEAD calculations

Questions Arising From Long-Term Demographics Trends

- How does U.S. slowing population growth affect air travel when combined with rapid population growth in selected markets concentrated in a few states?
- How does the aging of the population impact air travel? Cargo usage?
- If slower population growth leads to slower economic growth, what are the implications for air travel?

Thank You

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