Office of the Comptroller of the Currency

U.S. ECONOMIC SNAPSHOT

May 2023

GDP growth continues to slow under weight of higher interest rates

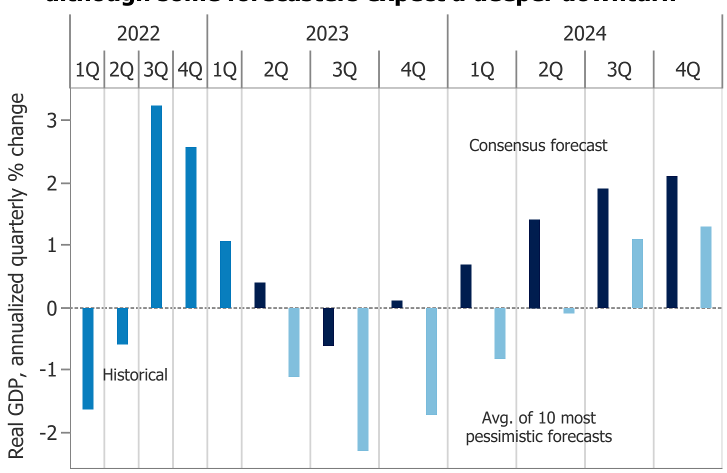
• **Real gross domestic product (GDP) grew a modest 1.1 percent at an annual rate in the first quarter of 2023, down from a 2.6 percent pace in the fourth quarter of 2022.** Consumer spending, which accounts for almost 70 percent of GDP, continued to support activity, contributing 2.5 percentage points to the first quarter's annualized rate. However, this contribution was offset by a slowdown in business capital spending and declines in housing and inventories. The Blue Chip Consensus expects real GDP growth to continue to slow, culminating with a modest decline in 3Q, before resuming growth in the final quarter of the year (Figure 1).

• **The labor market remains resilient despite interest rate headwinds.** Employers added 253,000 jobs in April, up significantly from 165,000 in March (Figure 2). At the same time, unemployment was 3.4 percent, a historic low. Wage growth, while trending lower, is still above the pre-pandemic trend and remains inconsistent with the Federal Reserve's 2 percent inflation target. An incomplete rebound in labor force participation, plus still strong labor demand, makes it unclear how far wage growth will continue to decelerate.

• **Inflation is cooling but remains elevated**. Headline CPI inflation was 4.9 percent in April 2023 on an over-the-year basis, down from its June peak of 9.1 percent. While the Consensus expects inflation to slow this year, the outlook remains uncertain. A significant slowdown in goods inflation is helping headline inflation to edge lower. However, wage-sensitive services, as well as rent inflation, are likely to remain sticky this year, complicating the direction of monetary policy (Figure 3).

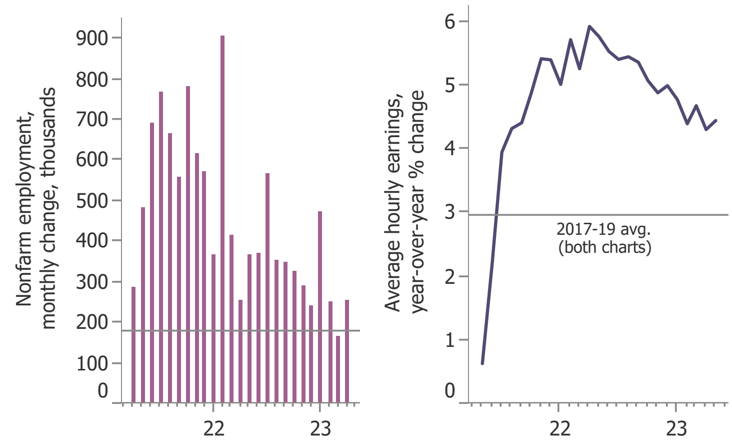
• **The Federal Reserve raised the Federal Funds rate by 25 basis points in May, but officials also suggested the possibility for a pause in further rate hikes.** This pause would allow time to assess the full impact of the aggressive rate increases enacted in 2022. Economists expect the 3-month Treasury yield to remain near 5 percent through the third quarter of 2023 and then to edge down as inflation slows. By contrast, the 10-year Treasury yield is projected to stay under 4 percent (Figure 4). These forecasts imply that the yield curve will remain inverted throughout 2023, suggesting continued elevated recession risk.

Figure 1: GDP projected to fall modestly in 3Q:2023, although some forecasters expect a deeper downturn



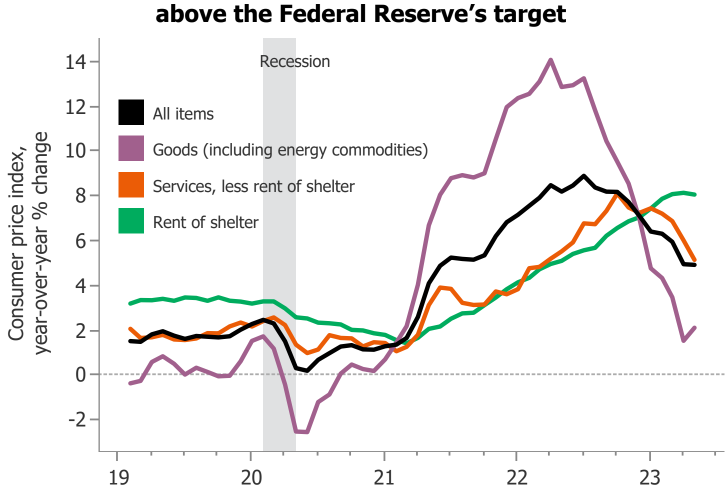
Sources: BEA (1Q:2023), Blue Chip Economic Indicators (May 2023)

Figure 2: Job growth is resilient, though wage growth has weakened



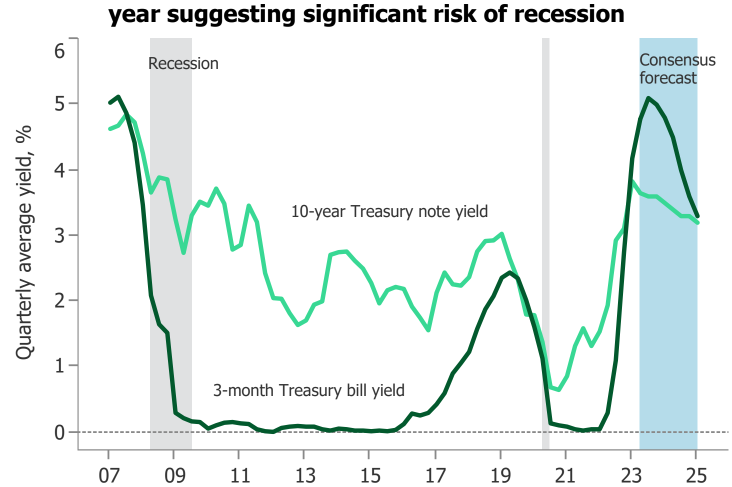
Source: BLS (April 2023)

Figure 3: Inflation is cooling, but still well above the Federal Reserve's target



Source: BLS (April 2023)

Figure 4: Yield curve to remain inverted through this year suggesting significant risk of recession



Sources: FRB (1Q:2023), Blue Chip Economic Indicators (May 2023)