



# ECONOMIC OUTLOOK PREPARING FOR A SOFT LANDING

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National Association of Federally-Insured Credit Unions

# AGENDA:

- Macro Tour
- Household Financial Conditions
- Interest Rate Outlook
- Industry Trends



# POTENTIAL OUTCOMES



Hard Landing



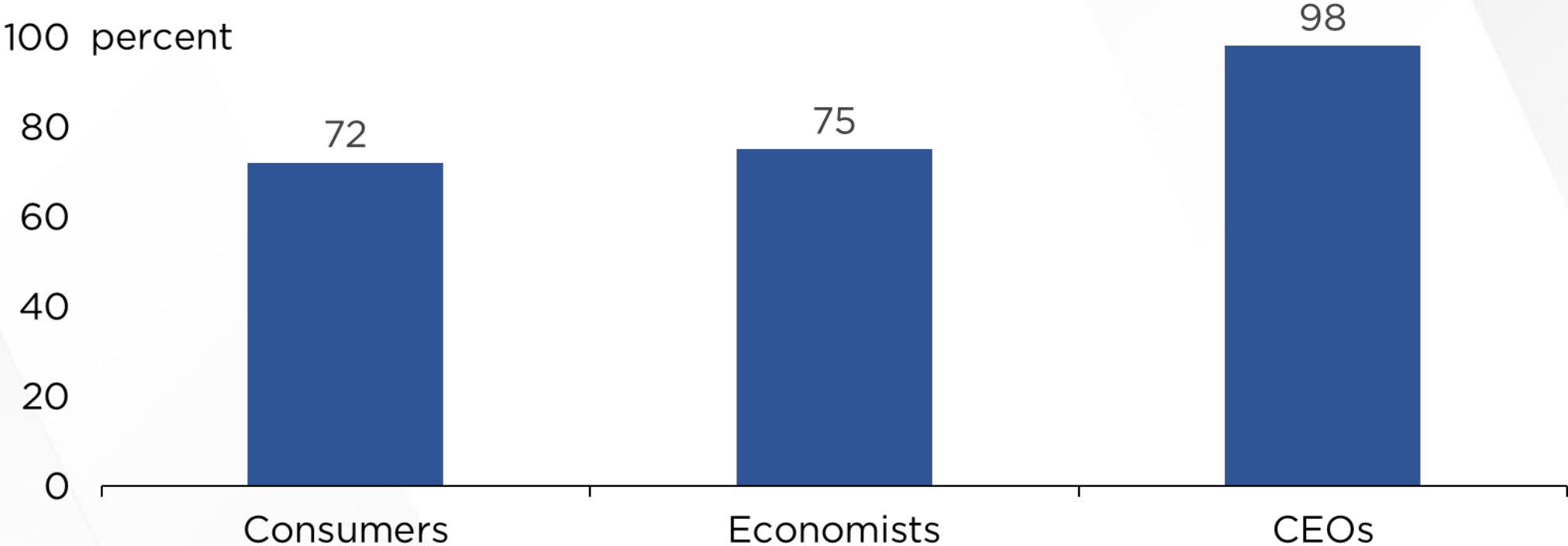
Soft Landing



No Landing

# RECESSION CALLS

Share Forecasting Recession Over Next 12 Mos. Entering 2023

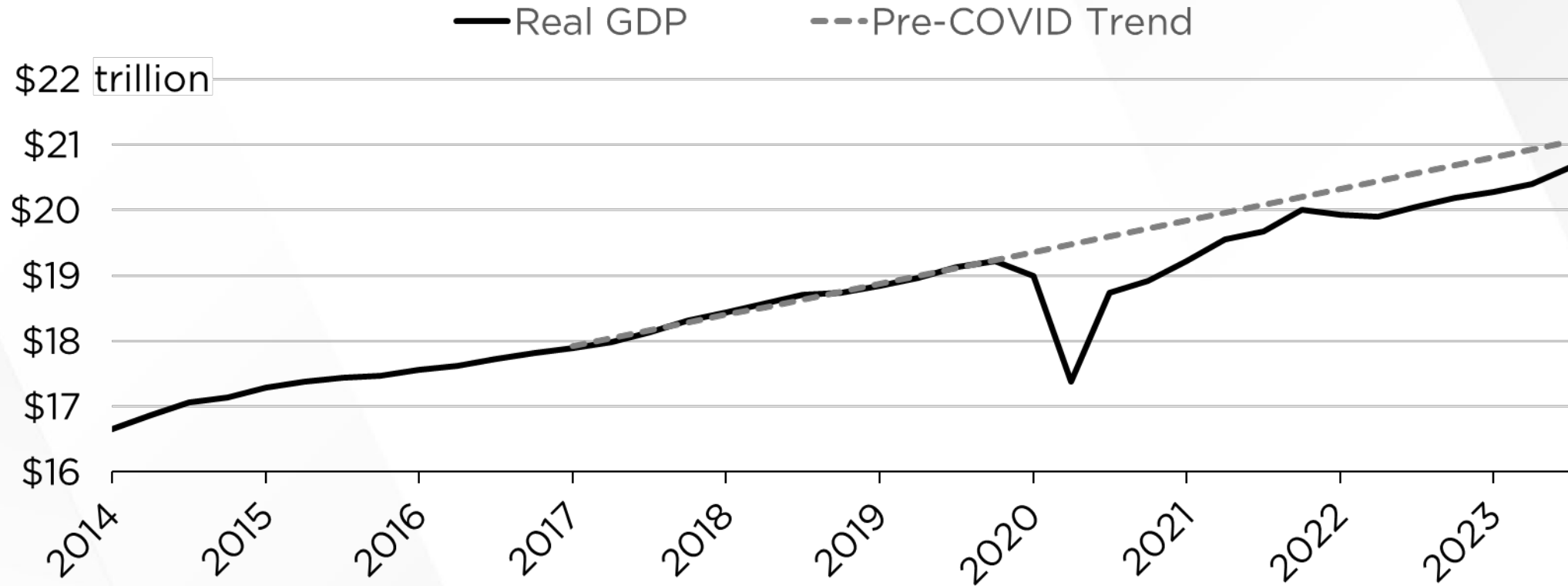


Sources: Wall Street Journal *Economic Forecasting Survey*, Conference Board

Note: WSJ survey (economists) asks for the probability of recession in the next 12 months. Figure shown represents the share of respondents placing a greater than 50 percent probability in the Jan 2023 survey.



# REAL GDP



Note: Pre-COVID series based on 3-year log-linear trend. 2023q3 figure is based on Atlanta Fed GDPNow estimate.

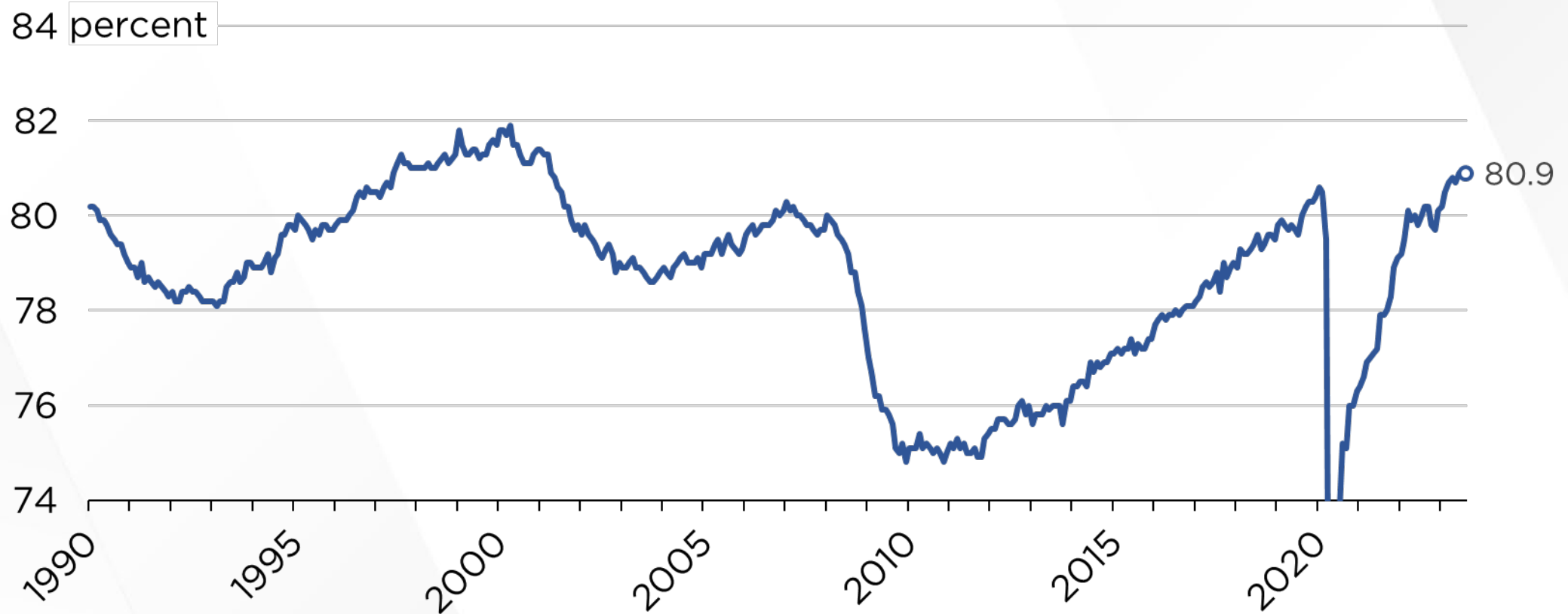
Source: Bureau of Economic Analysis, Federal Reserve Bank of Atlanta





# LABOR MARKET

## Employment-to-Population Ratio: Ages 25 to 54

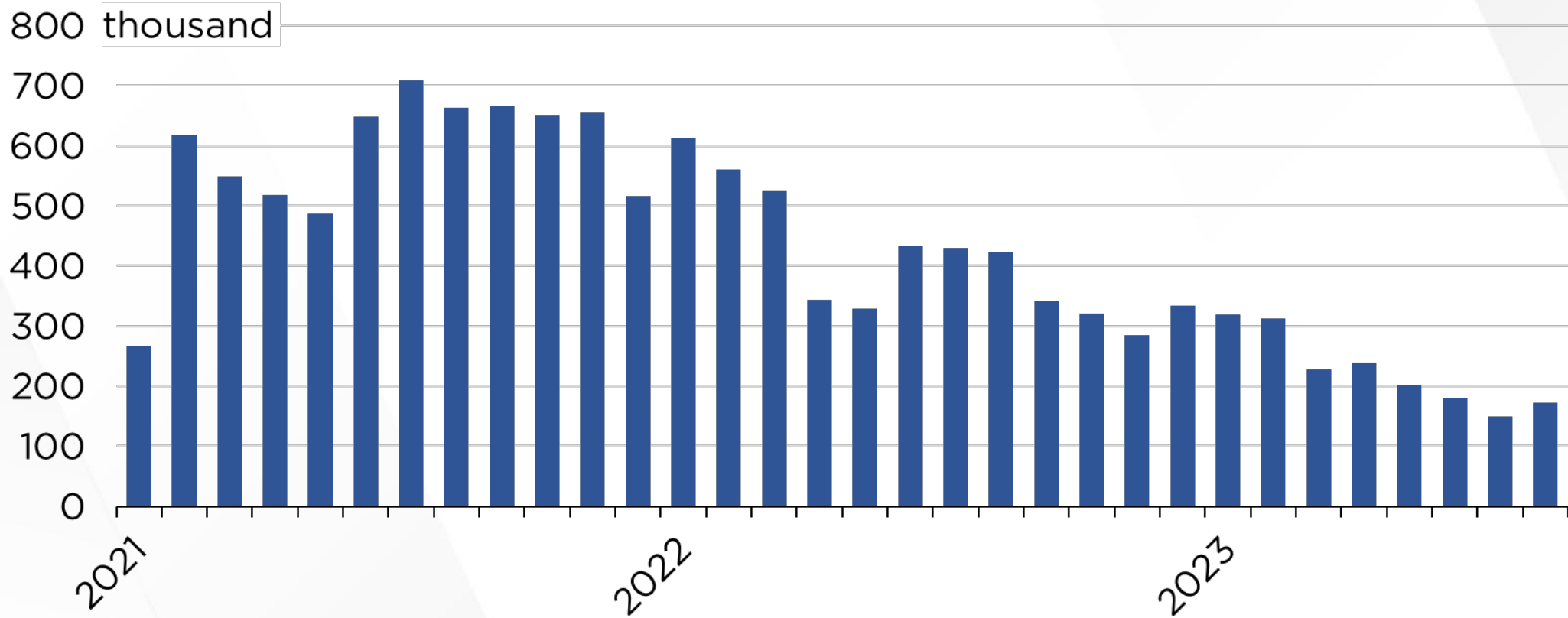


Source: U.S. Bureau of Labor Statistics



# LABOR MARKET

## Change in Nonfarm Payrolls (3mma)

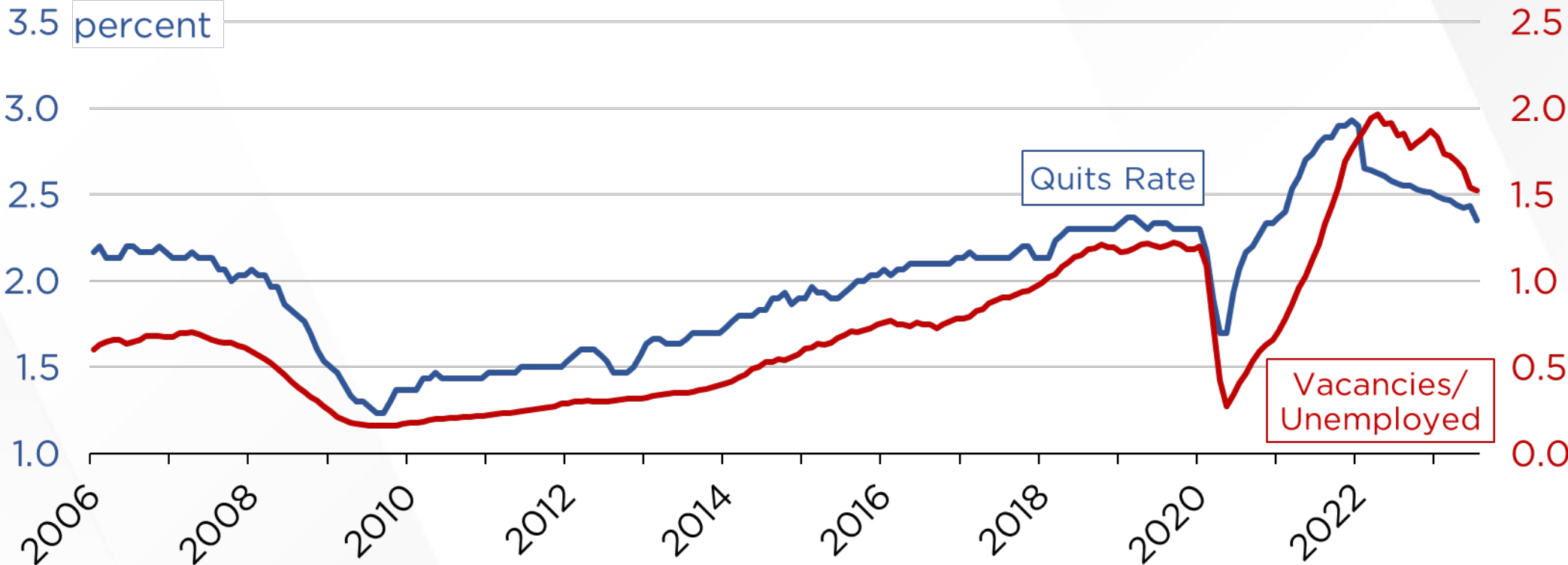


Source: U.S. Bureau of Labor Statistics



# LABOR MARKET

## Job Turnover & Vacancies



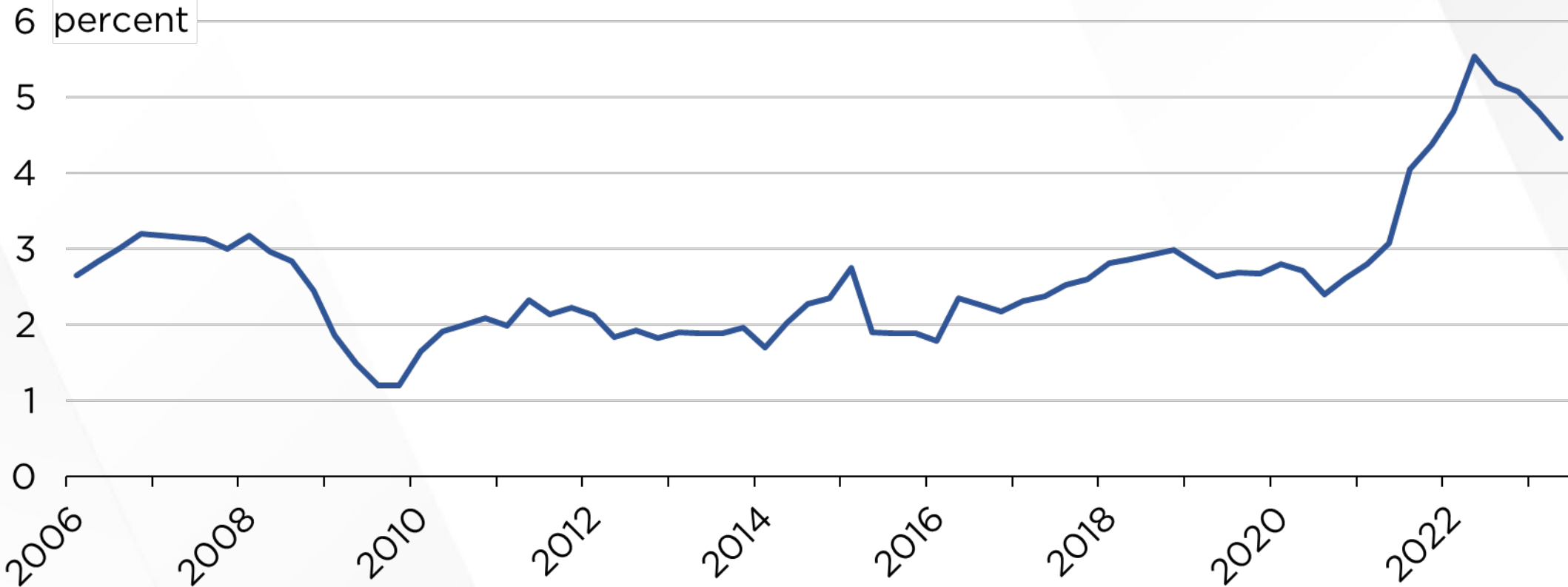
Note: Series reflect a 3-month moving average. Quits rate on left axis; vacancies on right.  
Source: U.S. Bureau of Labor Statistics





# LABOR MARKET

## Employment Cost Index: Total Comp. for Pvt. Industry Workers (y/y chg.)

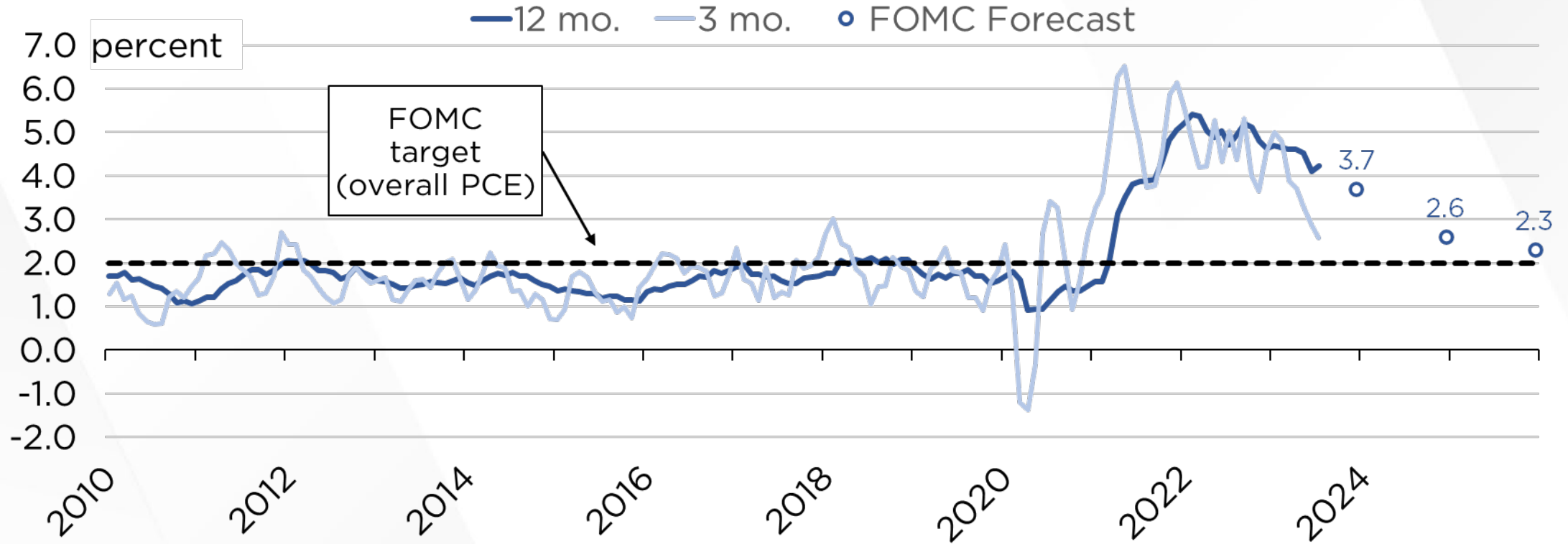


Sources: Bureau of Labor Statistics



# INFLATION

## Core PCE Inflation

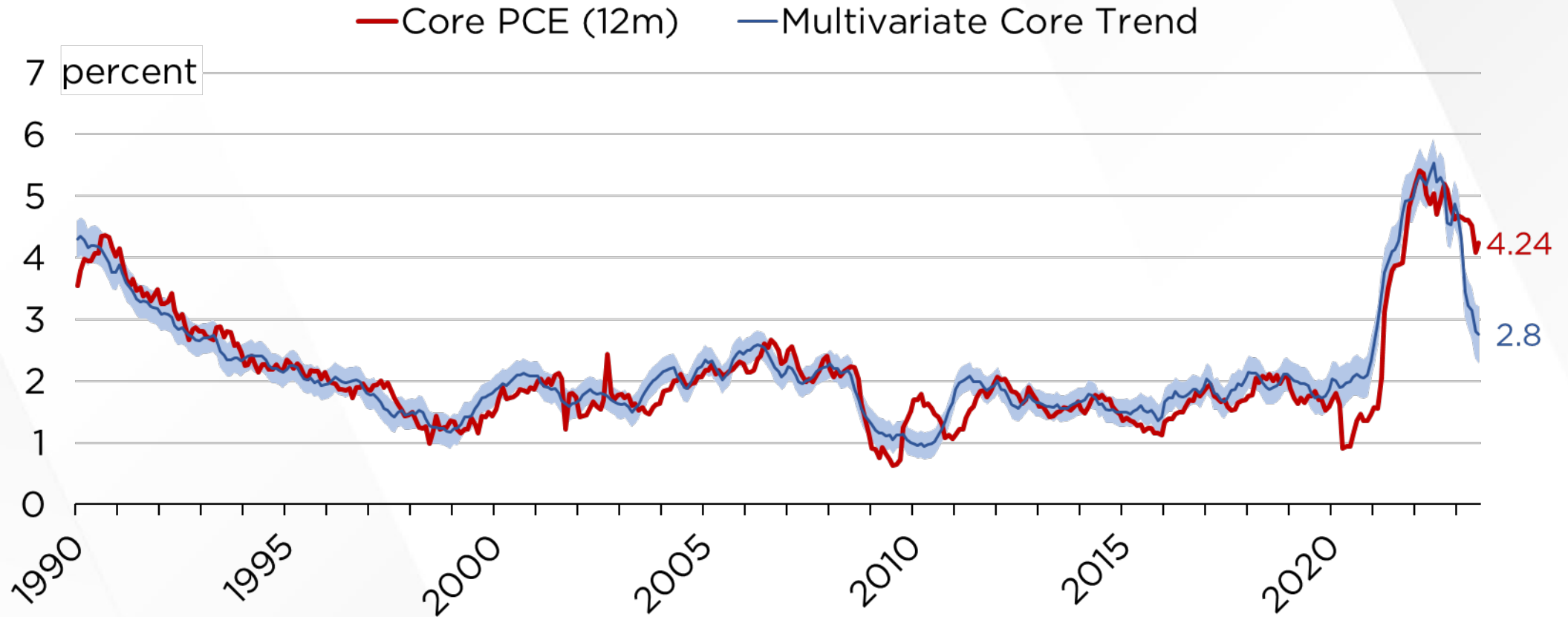


Note: FOMC forecast from Sept. 2023 *Summary of Economic Projections*

Sources: Bureau of Economic Analysis, Board of Governors of the Federal Reserve



# INFLATION

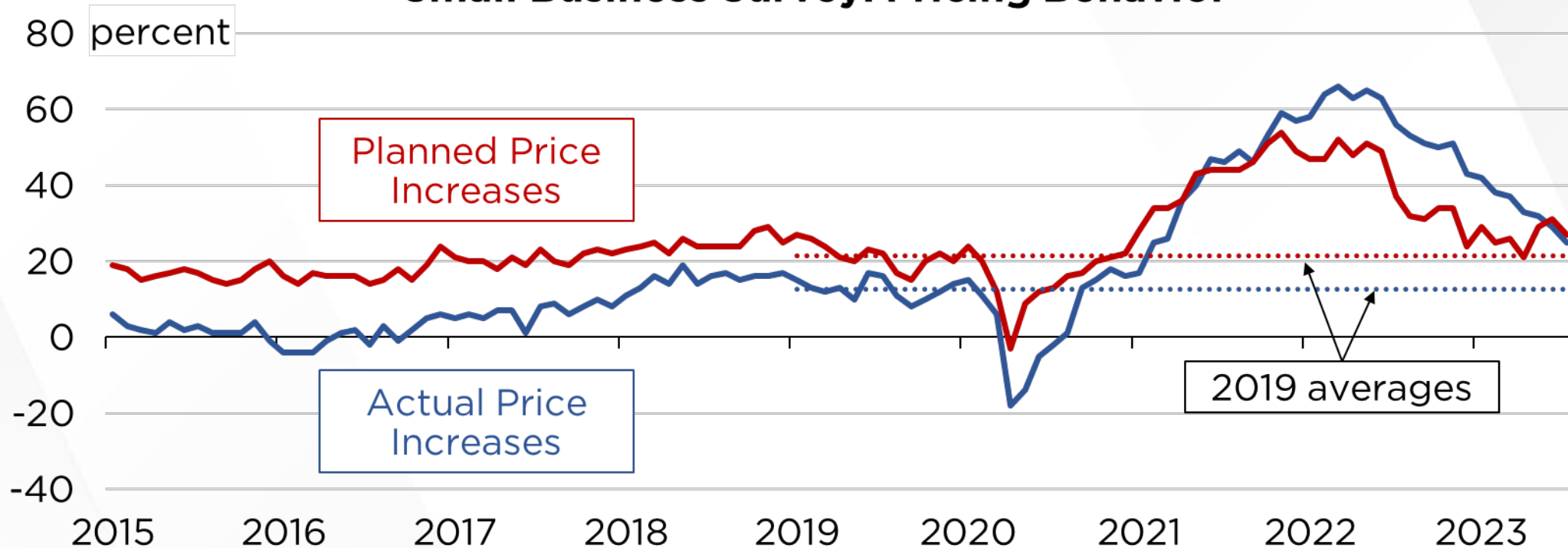


Note: The shaded area surrounding the MCT estimate is a 68 percent probability band.  
Sources: Bureau of Economic Analysis, Federal Reserve Bank of New York



# INFLATION

## Small Business Survey: Pricing Behavior



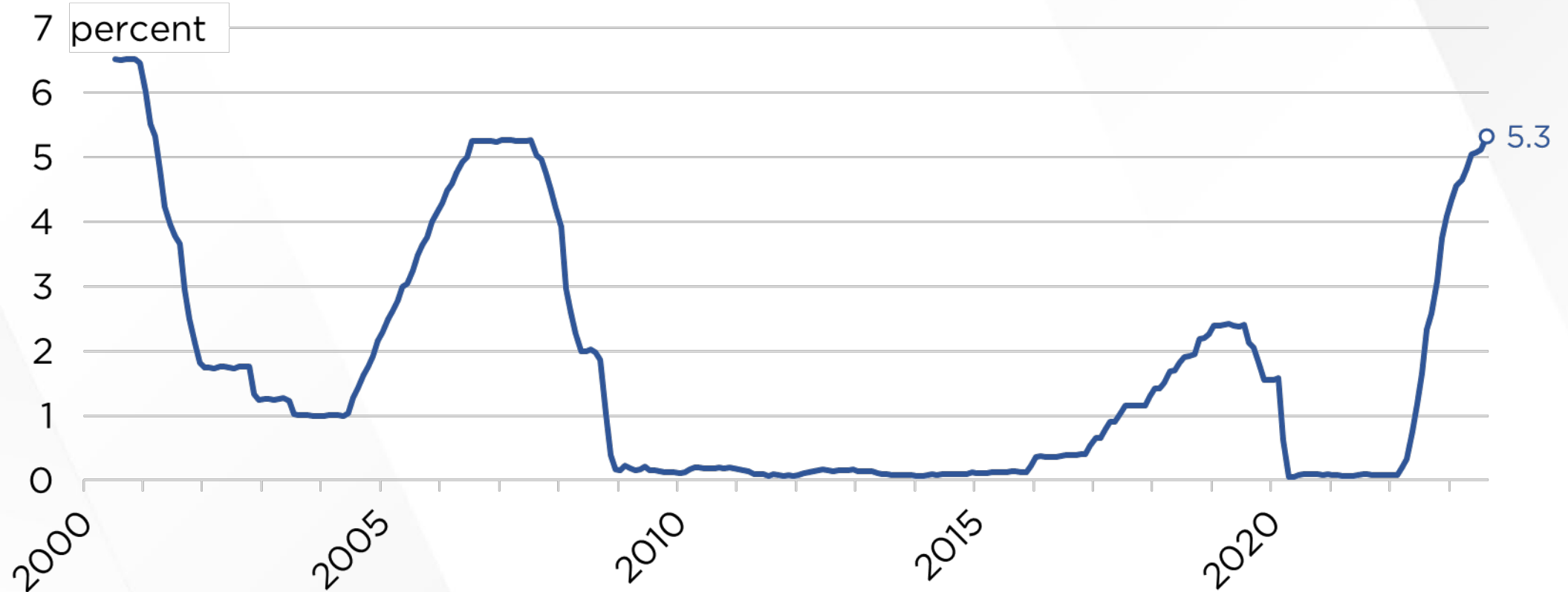
Note: Trends show the net share of respondents reporting higher prices vs. three months prior, and the net share planning to raise prices over the next three months.

Source: National Federation of Independent Business



# INTEREST RATES

## Fed Funds Rate



Source: Federal Reserve Bank of New York



# INTEREST RATES

“[I]f inflation is coming down, it will be natural to bring nominal interest rates down next year, consistent with that, to keep the stance of monetary policy appropriate for an economy that’s growing, and for inflation moving to the 2 percent level.”

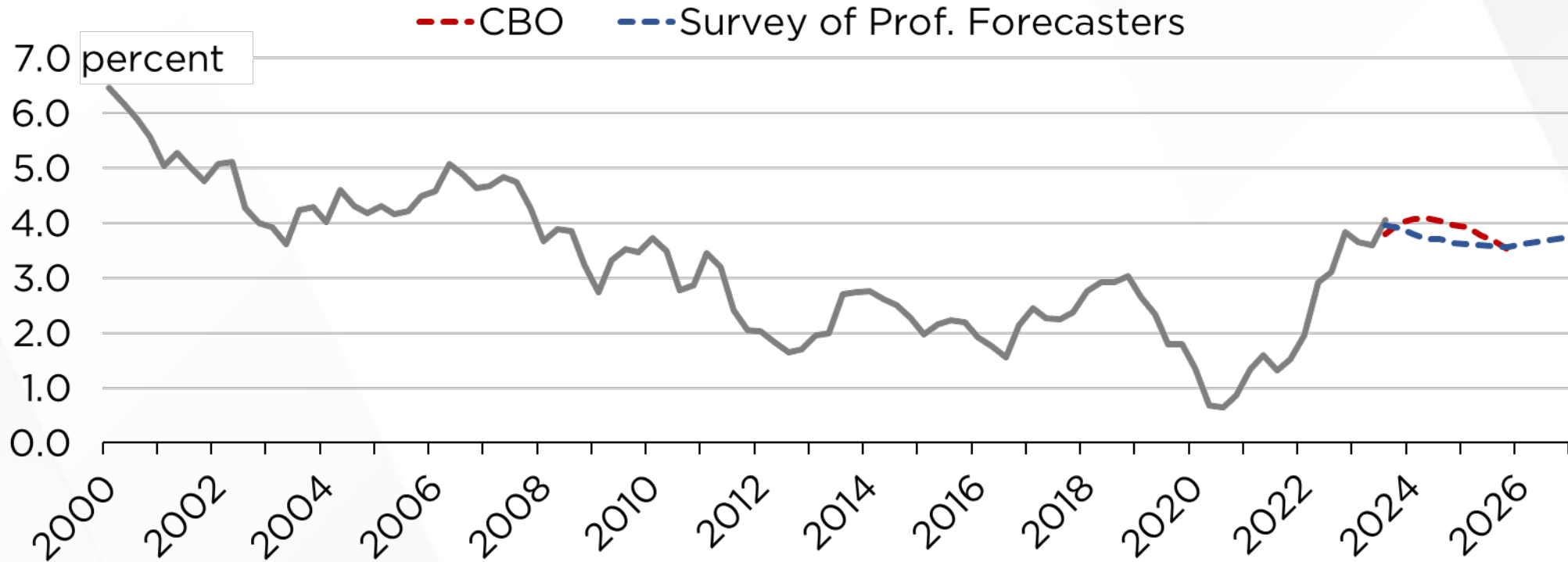
Federal Reserve Bank of NY President John Williams  
(NY Times, Aug 7, 2023)





# INTEREST RATES

## 10-Year Treasury Rates

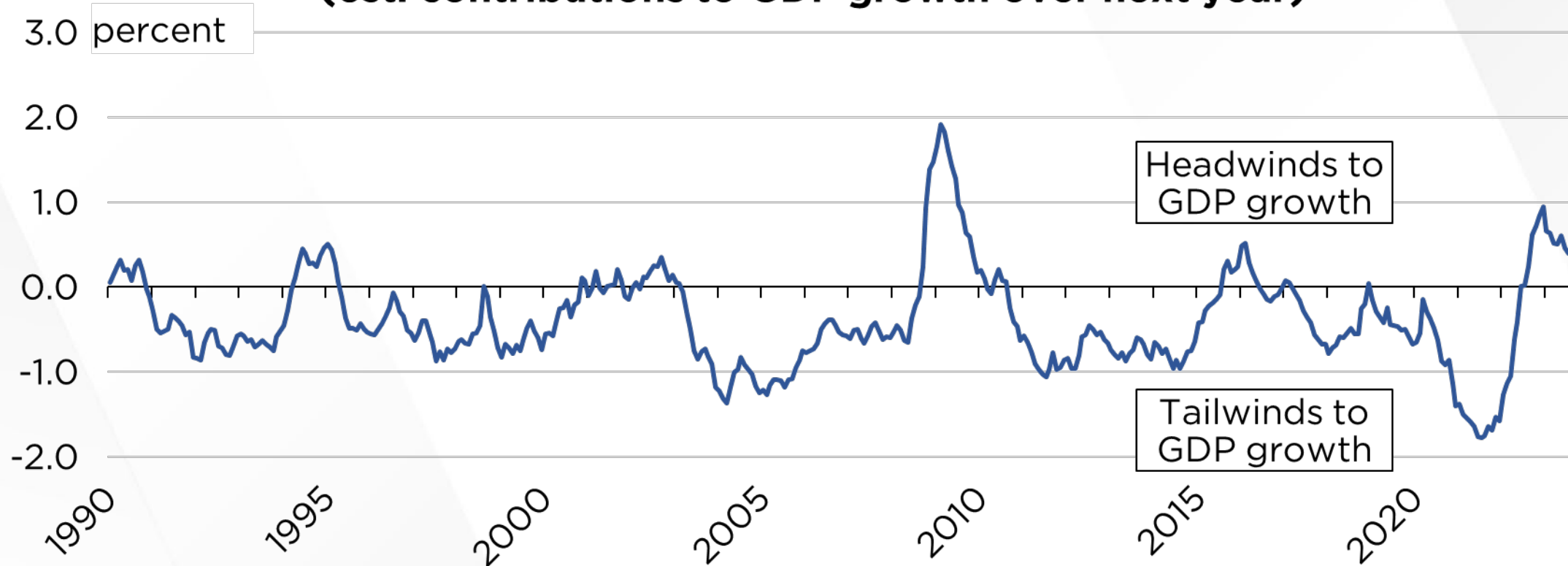


Sources: Congressional Budget Office (May 2023 2-Year Economic Projections), Federal Reserve Bank of Philadelphia (2023Q3 Survey of Professional Forecasters)



# INTEREST RATES

Fed Financial Conditions Index  
(est. contributions to GDP growth over next year)

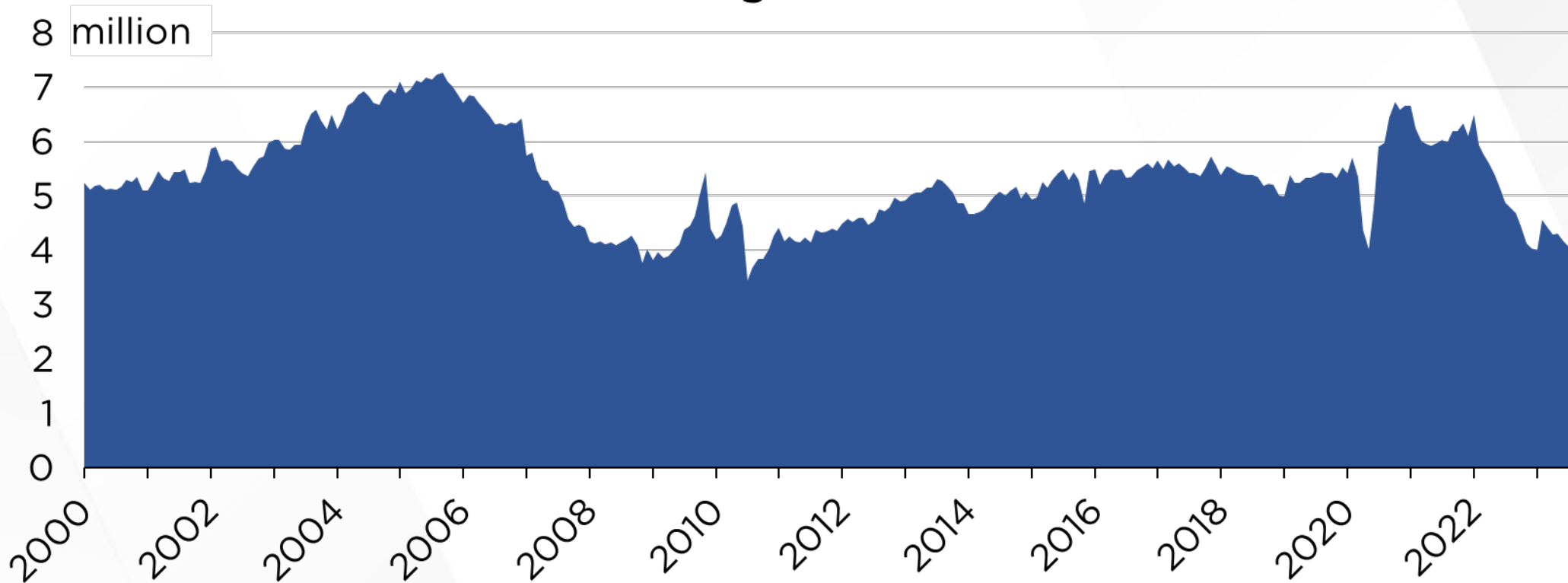


Source: Ajello et al., Board of Governors of the Federal Reserve System



# HOUSING

## Existing home sales



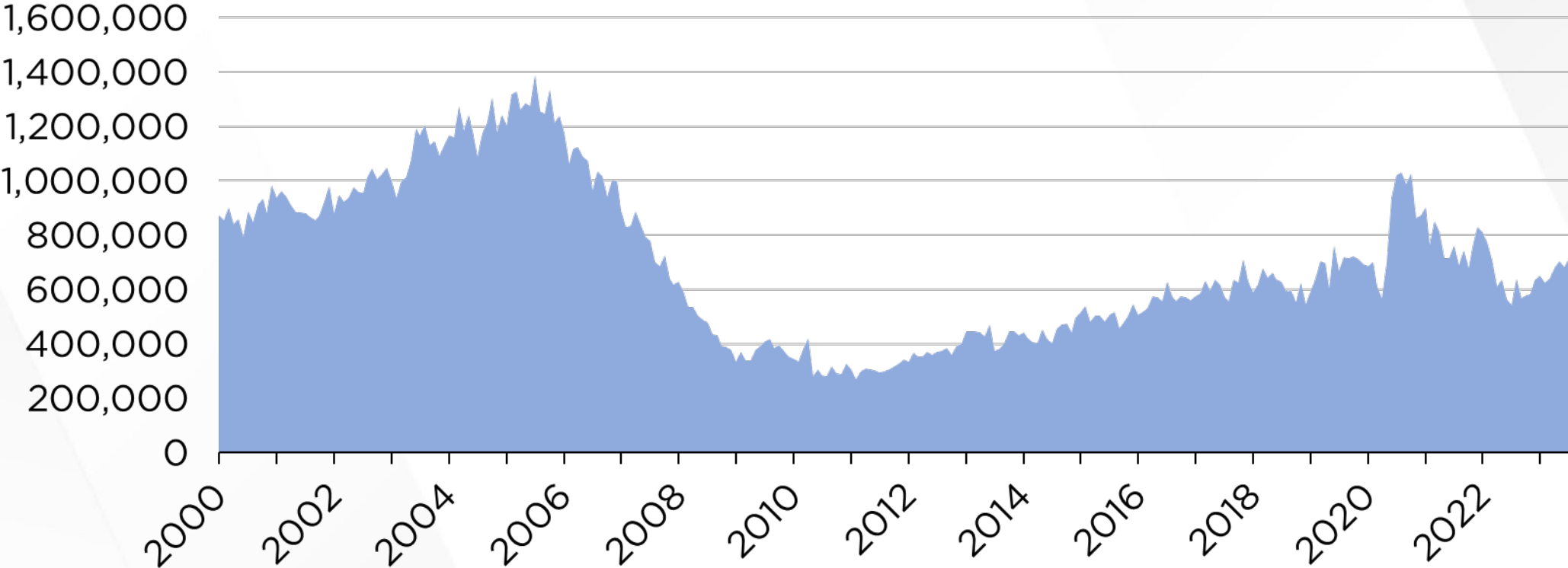
Note: data reflect seasonally adjusted annualized rates (SAAR)

Source: National Assoc. of Realtors



# HOUSING

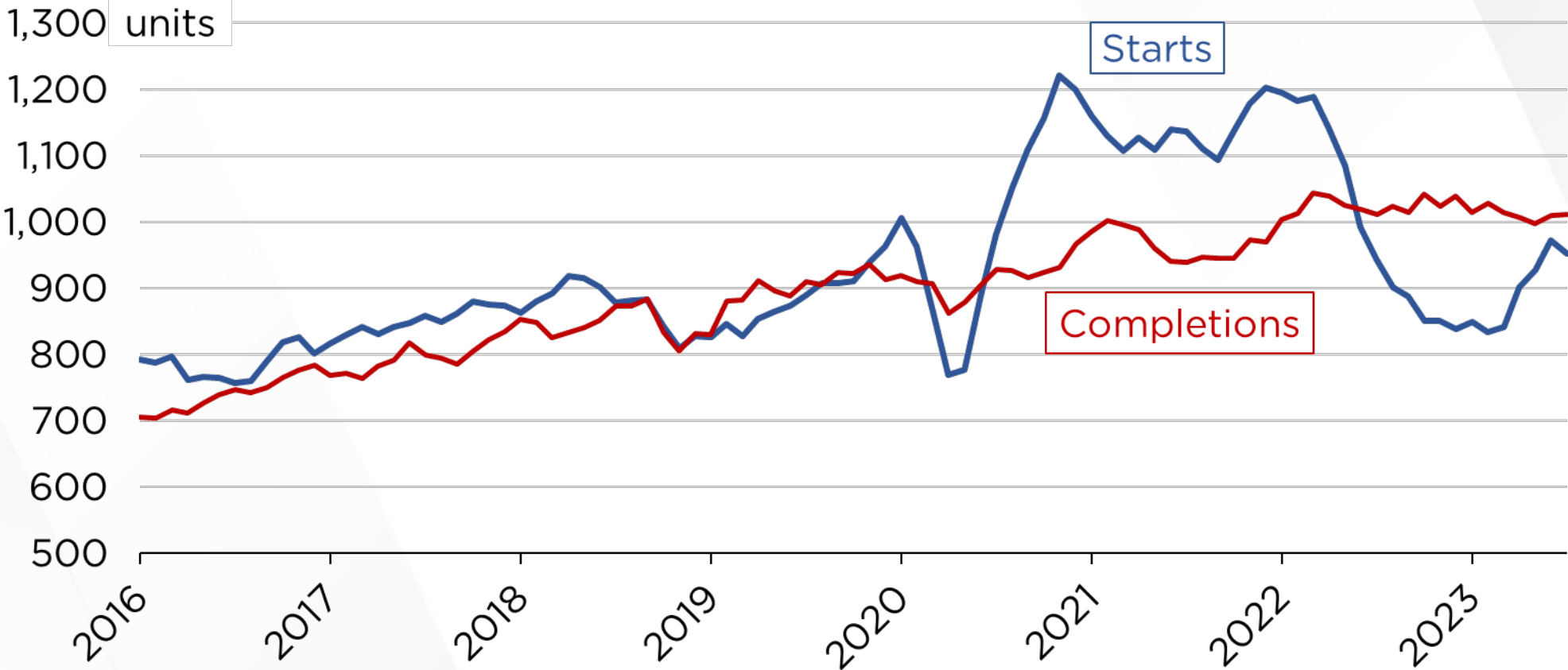
## New home sales



Note: data reflect seasonally adjusted annualized rates (SAAR)  
Source: U.S. Census Bureau



# HOUSING

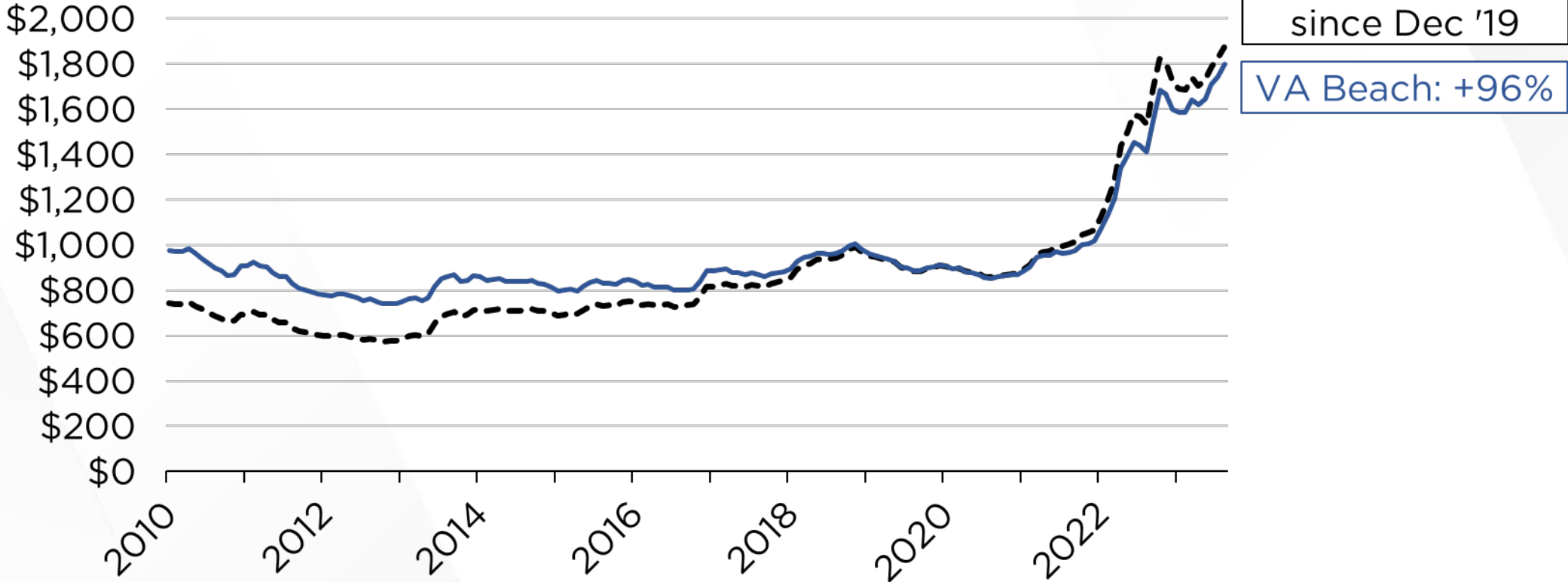


Source: U.S. Census Bureau



# HOUSING

## Avg. Monthly P&I Payment



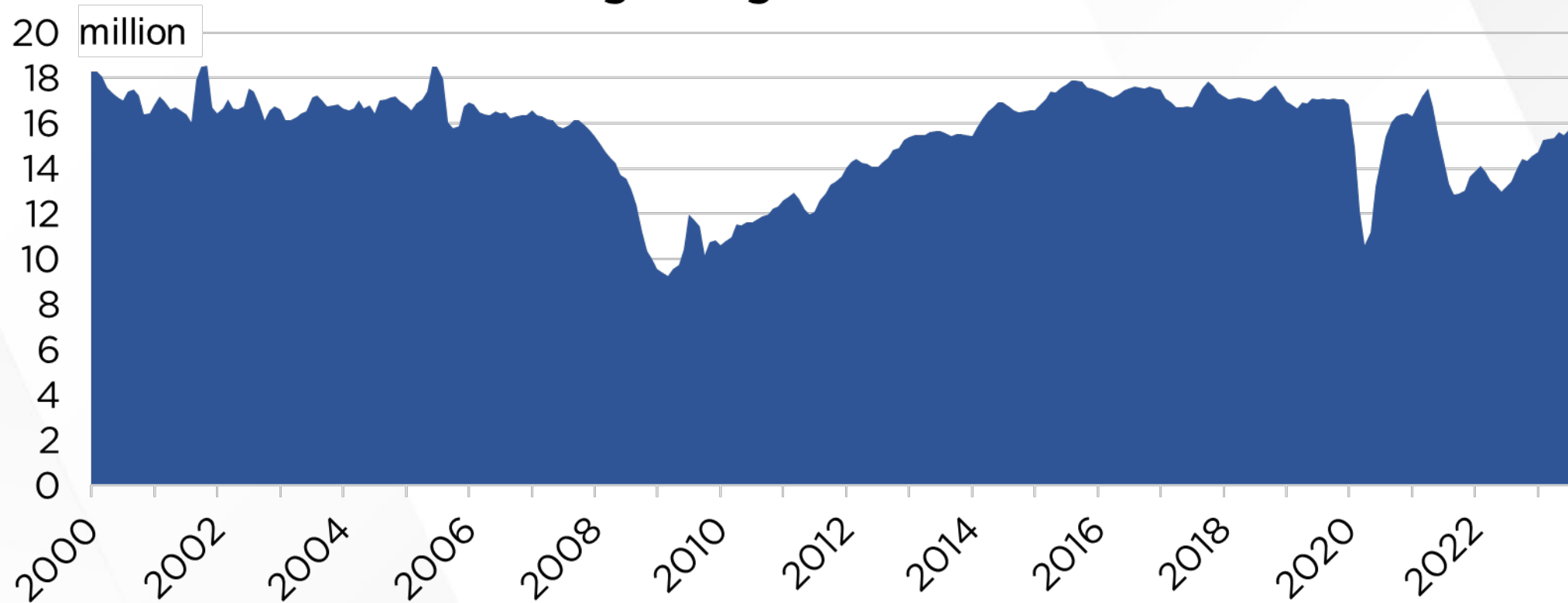
Note: Assumes 20% down payment, 30 year fixed rate mortgage at national avg rate  
Sources: Zillow Home Value Index, Freddie Mac





# AUTOS

## Lightweight Auto Sales

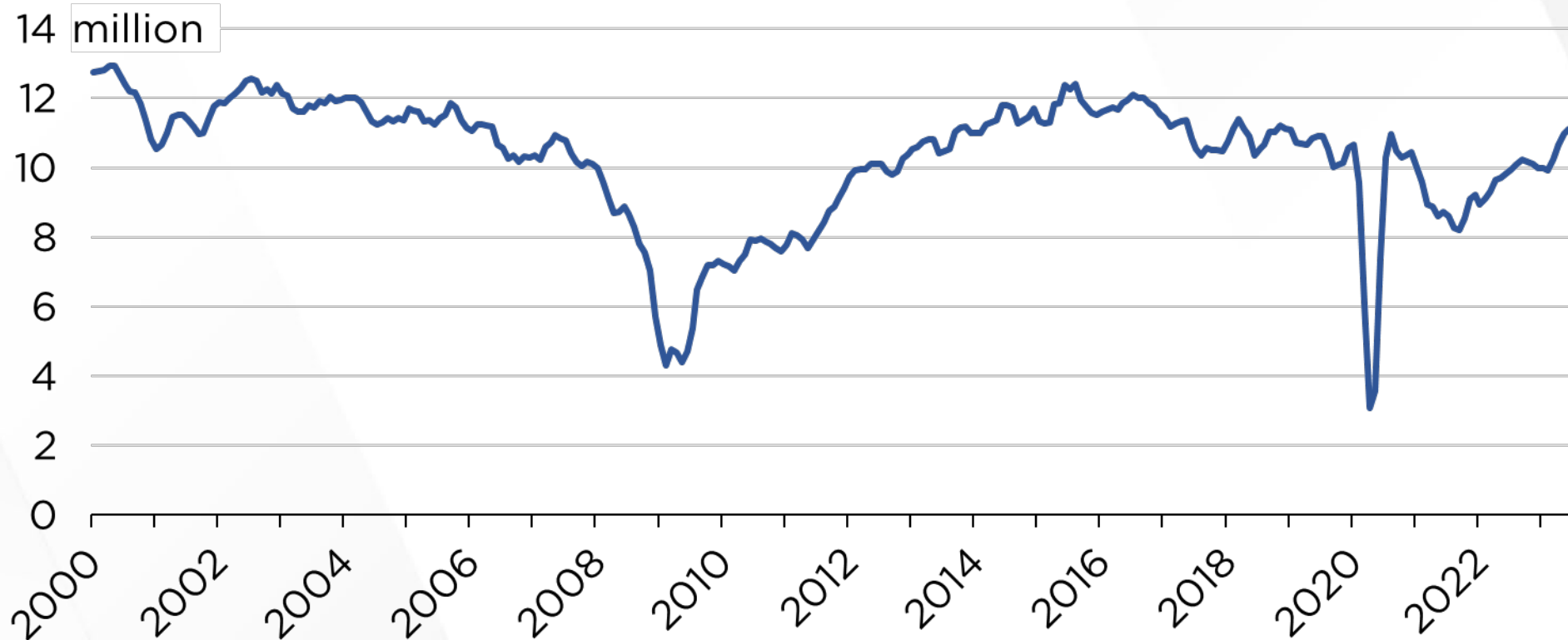


Note: Series represents 3-month moving average at seasonally adjusted annualized rate (SAAR)  
Source: Bureau of Economic Analysis



# AUTOS

## Motor Vehicle Assemblies (3mma)

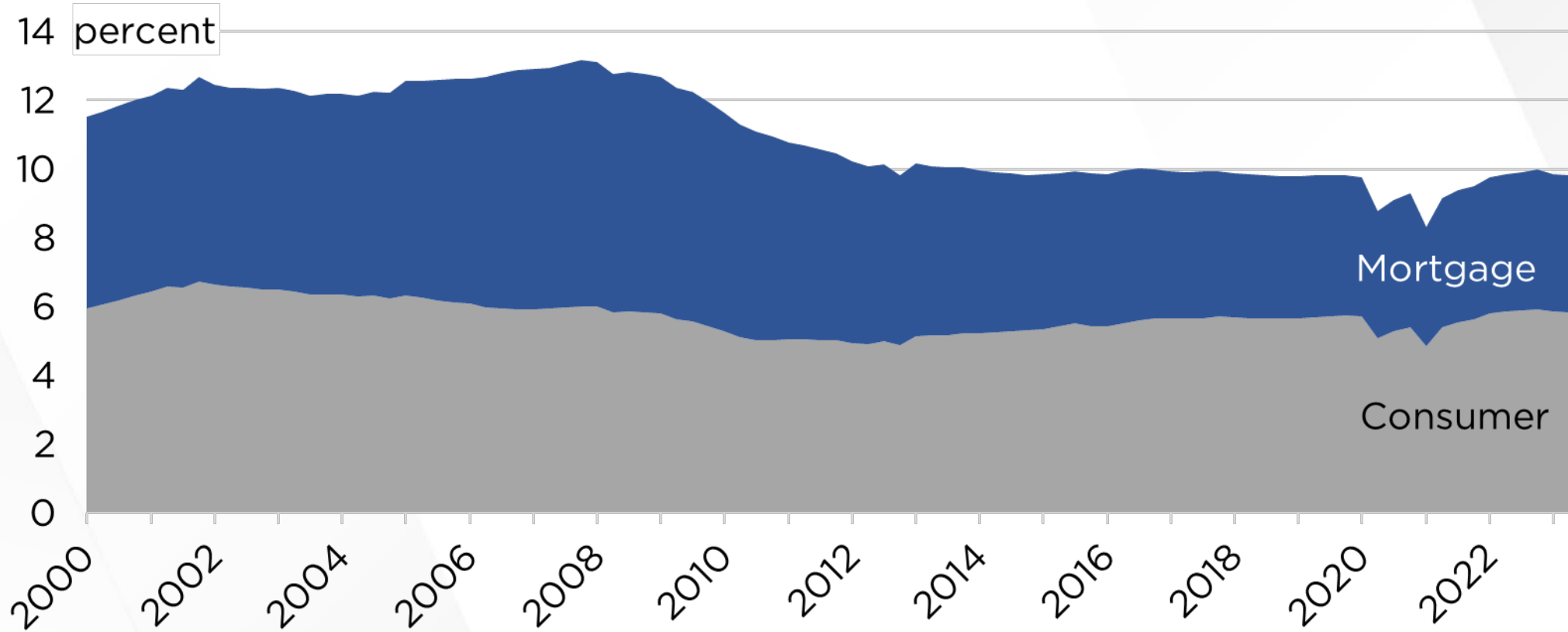


Sources: Federal Reserve Board of Governors



# HOUSEHOLD BALANCE SHEETS

## Debt Service Payments, as % of Disposable Income

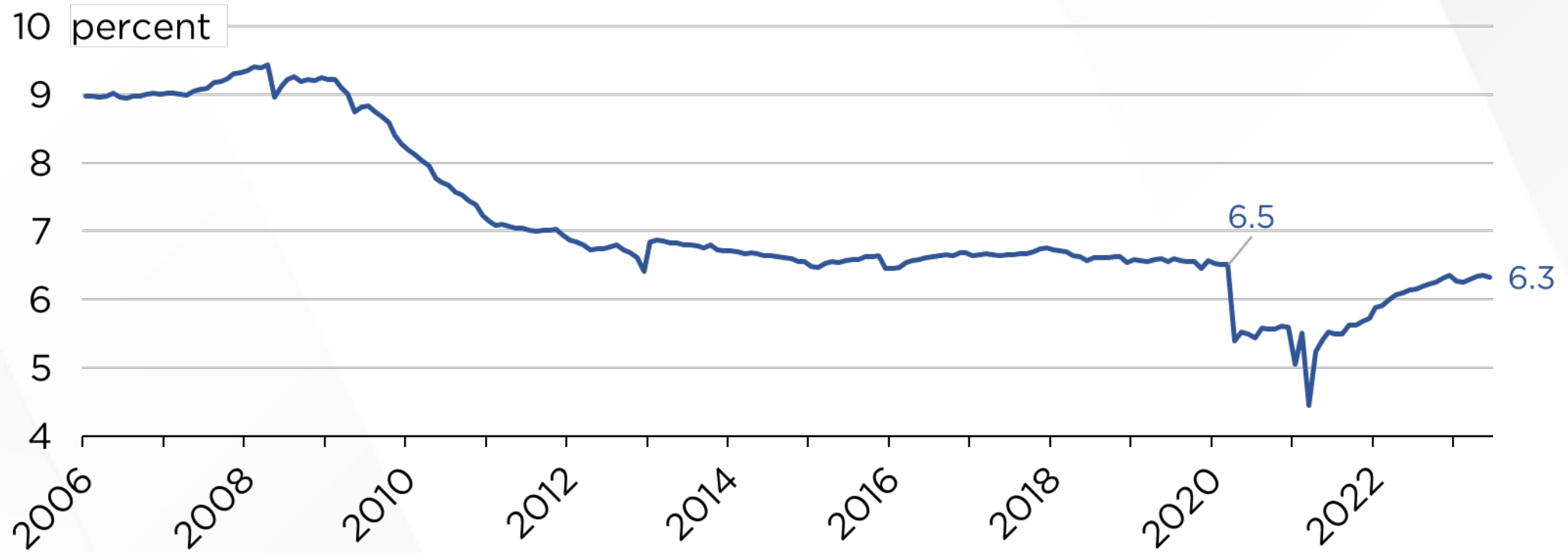


Source: Federal Reserve



# REVOLVING DEBT

As % of Disposable Personal Income



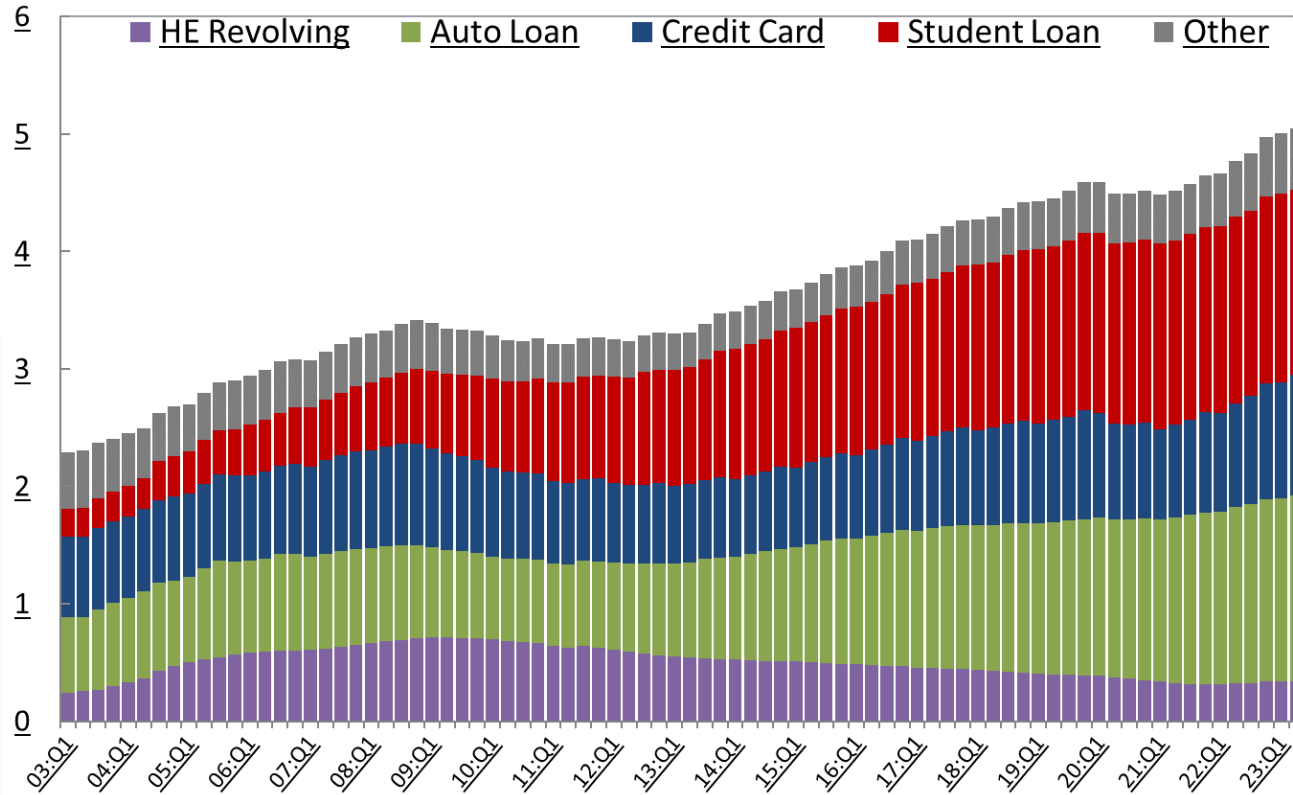
Sources: Federal Reserve Board of Governors, Bureau of Economic Analysis



# STUDENT DEBT

## Total Consumer Debt Balance and its Composition

Trillions of Dollars



Source: New York Fed Consumer Credit Panel/Equifax



# STUDENT DEBT

What happens when payments resume? Some observations:

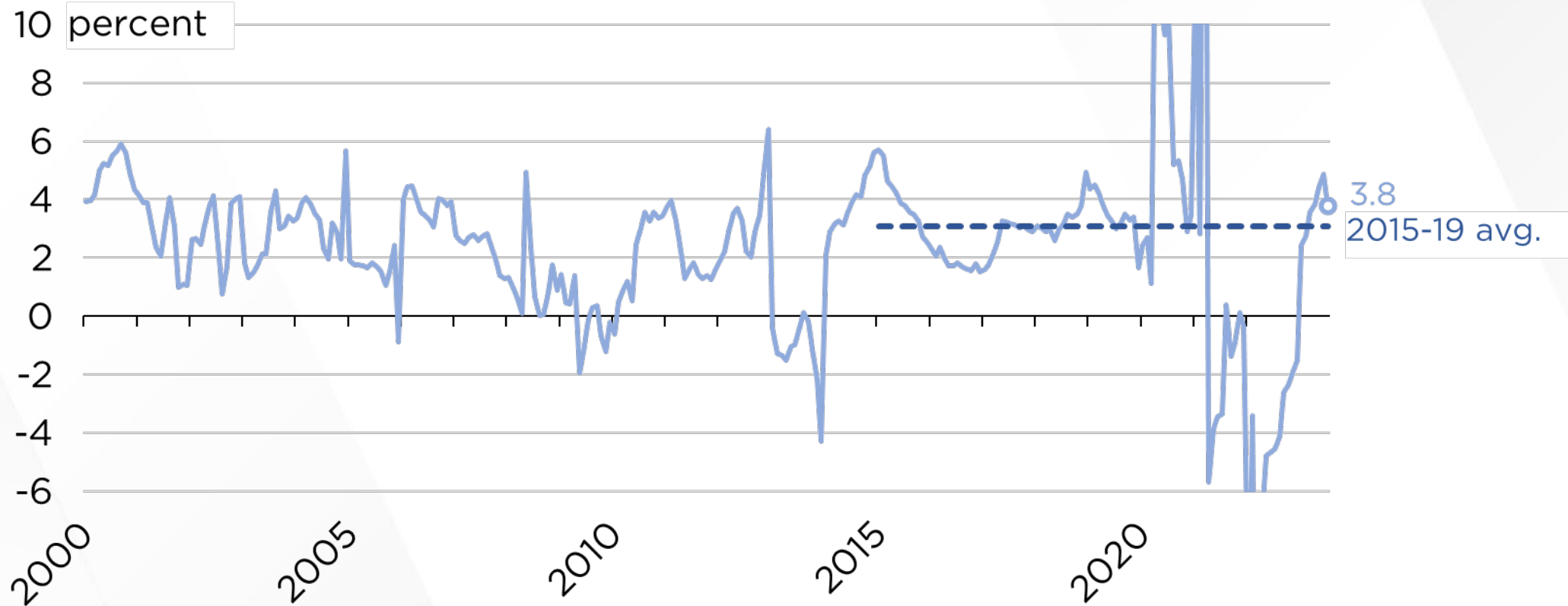
1. The median payment pre-COVID was ~\$200 per month per family. This amount represents about 14% of total monthly debt service costs for student loan borrowers.
2. One in three borrowers were enrolled in income-driven repayment (IDR) plans pre-COVID. Uptake increases with loan balance. The Biden Administration has expanded eligibility of IDR, which will presumably raise enrollment percentages once payments resume.
3. The population of student loan borrowers hold about 12 percent of the outstanding credit card, auto, and mortgage debt. This figure falls to 6 percent when the population is limited to those making payments on student loan debt.





# HOUSEHOLD INCOME

## Real Disposable Income Growth (12m)

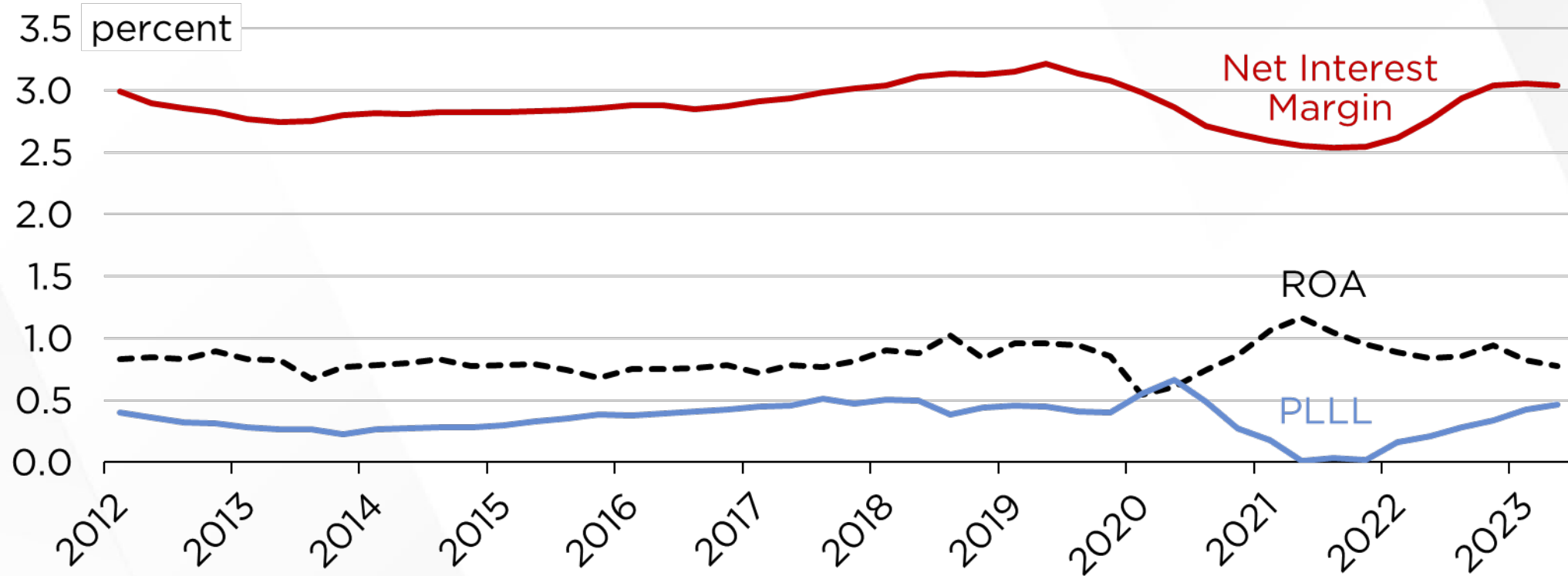


Sources: Bureau of Economic Analysis



# INDUSTRY TRENDS

## Earnings

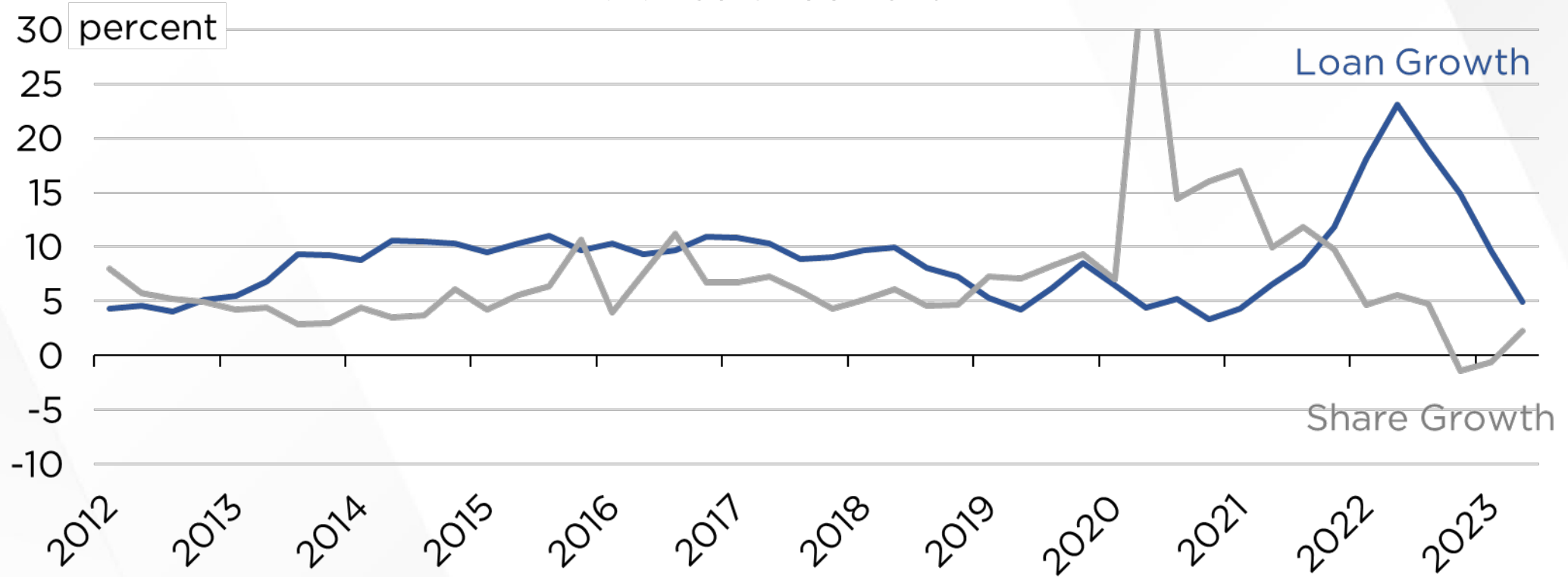


Note: All series are quarterly results at a seasonally adjusted, annualized rate (SAAR)  
Source: NCUA, NAFCU calculations



# INDUSTRY TRENDS

## Balance Sheet Growth



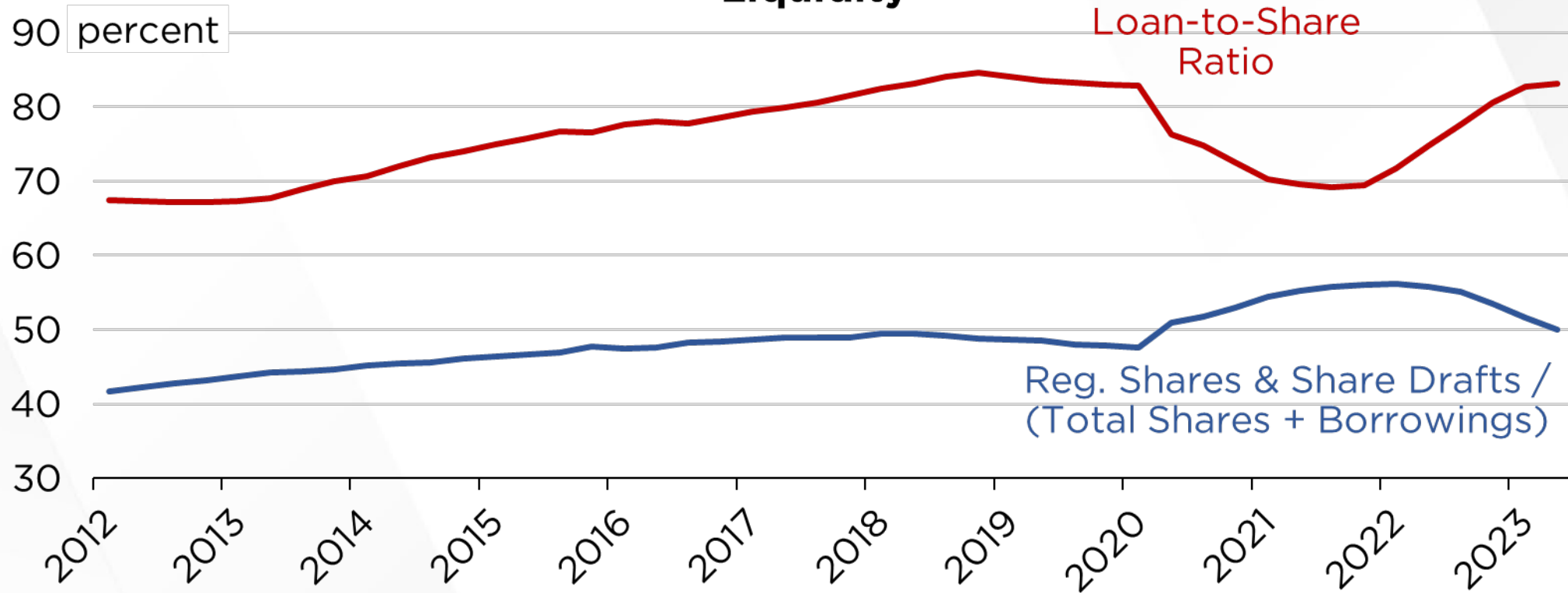
Note: Quarter-over-quarter growth at a seasonally adjusted, annualized rate

Source: NCUA, NAFCU calculations



# INDUSTRY TRENDS

## Liquidity

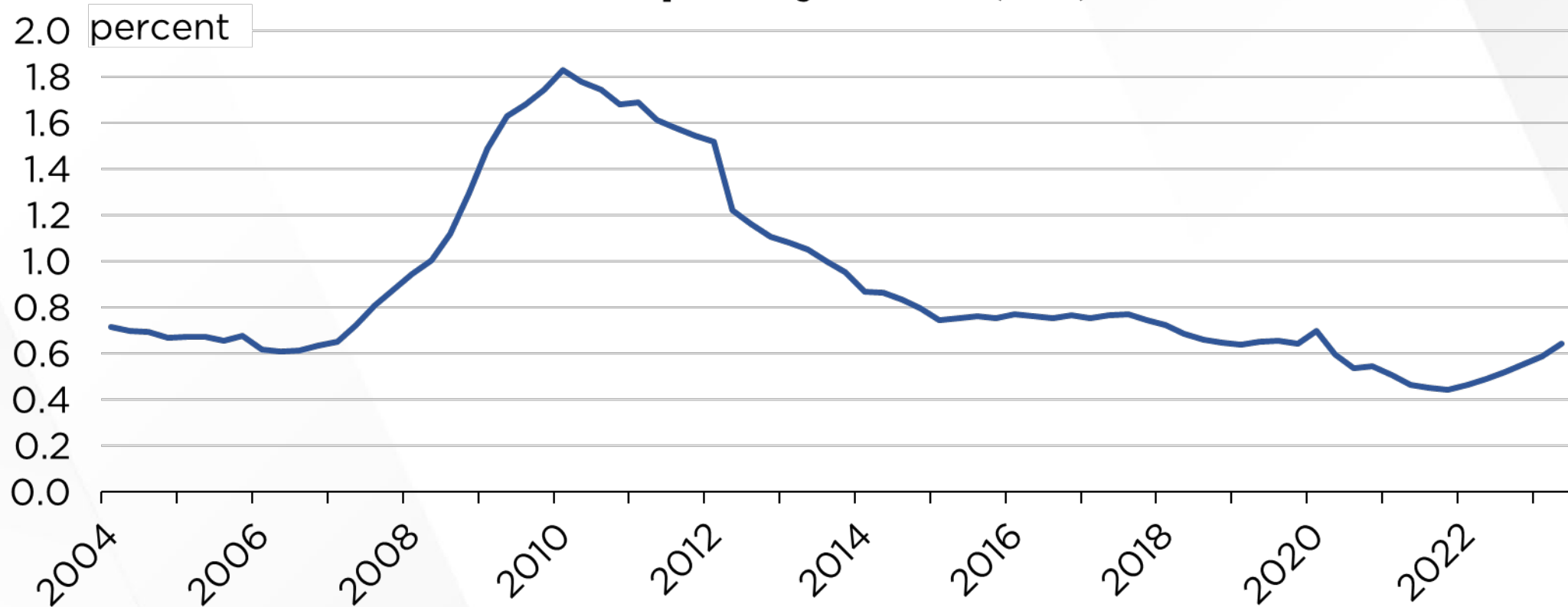


Note: All series are quarterly results, seasonally adjusted  
Source: NCUA, NAFCU calculations



# RISING DELINQUENCIES

## Delinquency Ratio (SA)

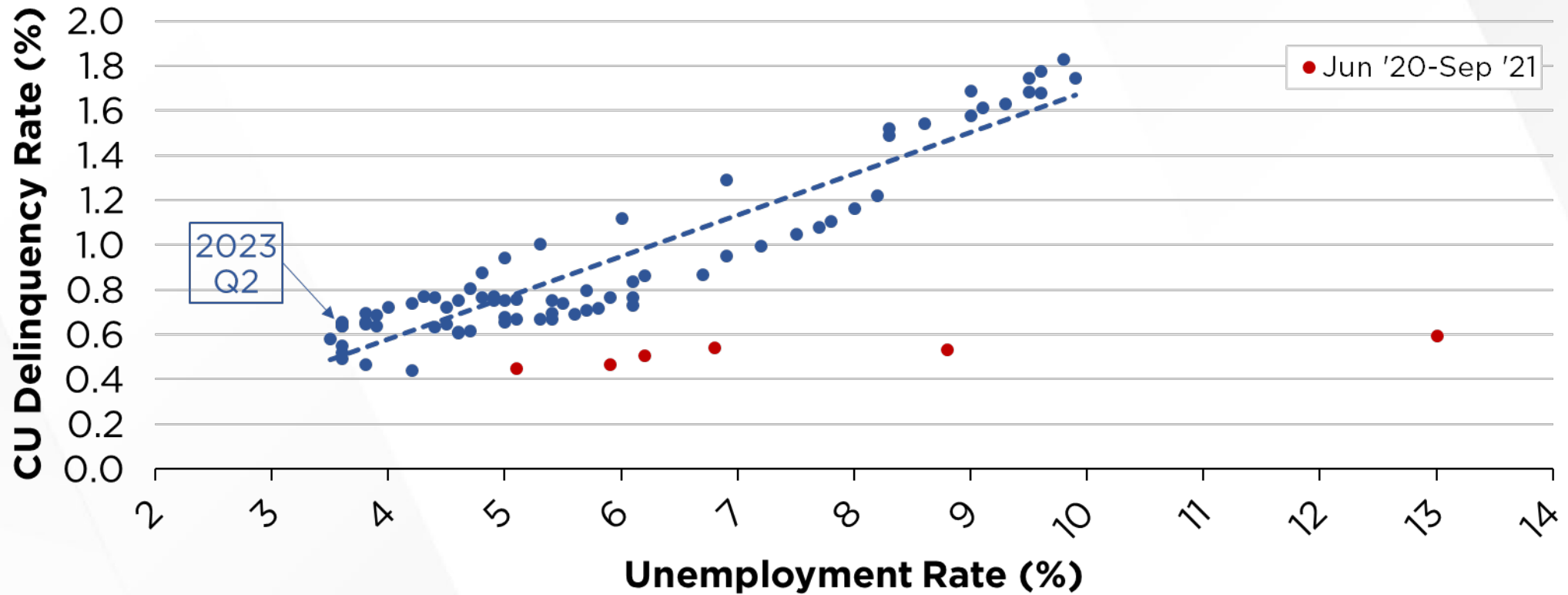


Source: NCUA, NAFCU



# RISING DELINQUENCIES

## CU Delinquencies vs U3 (quarterly, since 2003)



Source: NCUA, NAFCU calculations





# RECAP:

- Economic growth is slowing. A soft landing is the most likely outcome, but meaningful risk of hard landing/no landing.
- The Fed is done hiking. Expect a rate cut around the middle of next year.
- Household finances are strong enough to weather the storm. Trading one major stress (inflation) for other smaller ones (slowing wage growth, resumption of student debt repayments, cap gains taxes in '24).
- Credit unions are still short liquidity. Lending is slowing sharply.



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