

Jobs and Inflation Better Than Expected in July, But Leading Indicators Suggest a Recession Is Now More Likely Than Not

The first hard economic data for July came in much better than expected. The U.S. added a huge 528,000 non-farm payroll jobs in the month, more than twice the consensus forecast, and the unemployment rate edged down to 3.5%, matching the half-century low reached before the pandemic. Inflation was cooler than expected, too, with the CPI unchanged on the month as falling prices of gas and other energy products offset increases in most other parts of the price basket. Core CPI excluding food and energy also rose less than expected, up 0.3% on the month. Consumers are getting more relief in early August as national gas prices pull back to \$4.00 per gallon. While real GDP contracted slightly in the first half of the year, the economy also averaged 471,000 nonfarm jobs added per month through July. Job growth like that just doesn't happen during a recession.

However, some of the most reliable leading indicators of the business cycle are pointing to deeper trouble ahead. The differential between 2-year and 10-year Treasury yields, the Conference Board's Leading Economic Index, small business sales expectations, and unemployment insurance claims are flashing red to an extent rarely seen other than before or during a recession. These core economic forecasting tools now say a recession—falling employment, output, sales, and incomes that affect a broad swathe of the economy and last more than a few months—is more likely than not.

This forecast lays out a plausible path to recession. The housing, tech, and big box retail sectors are cooling in the second half of 2022. High prices of gas, food, utilities, and rents are stressing household budgets. And overseas, futures markets for British natural gas and German electricity show heating costs are set to surge again this winter as Russia weaponizes natural gas. Another tough heating season would hit American consumers harder than last year's, since many households have depleted the financial buffers they built up during the pandemic. With consumers likely to curtail discretionary spending, nonfarm employment would fall from November to April, and the unemployment rate rise by about three-quarters of a percent. A recovery is likely to begin in the spring as utility prices normalize.

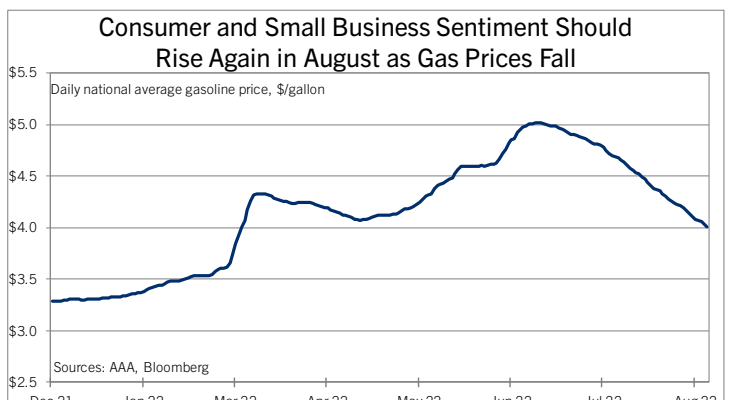
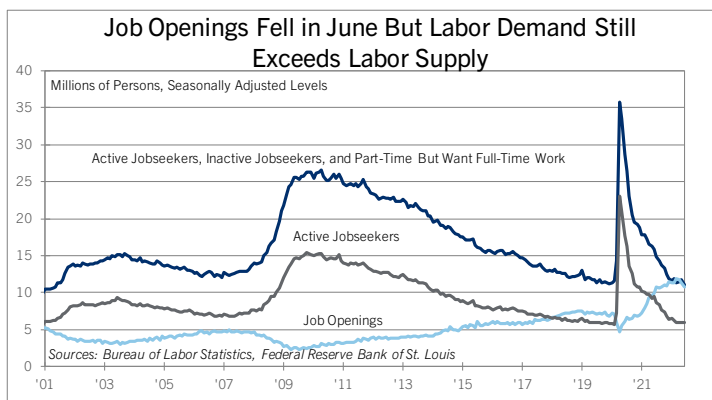
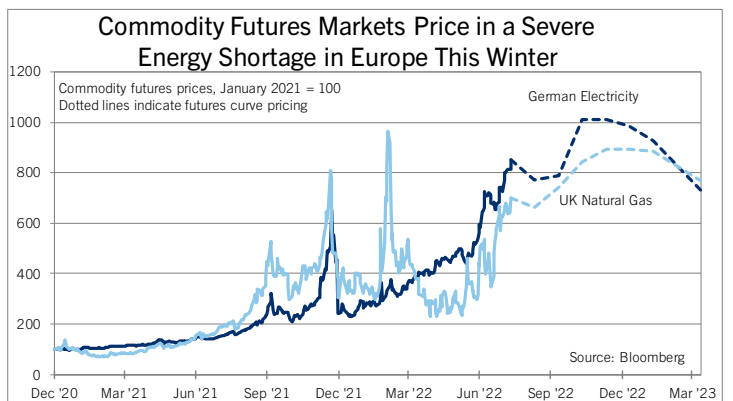
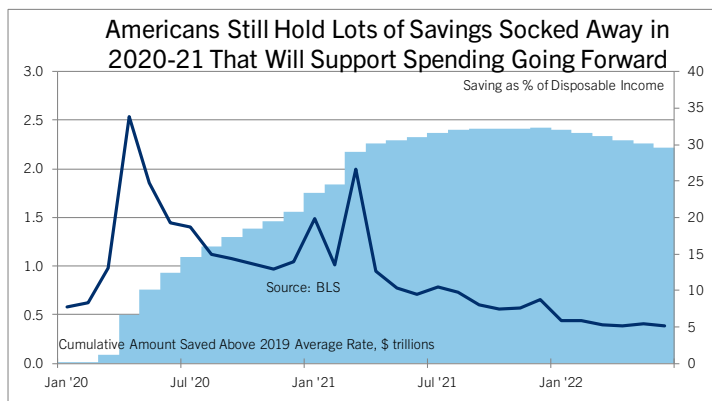
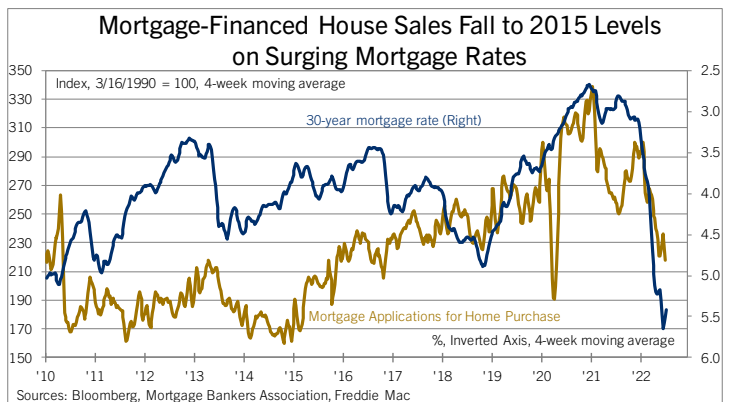
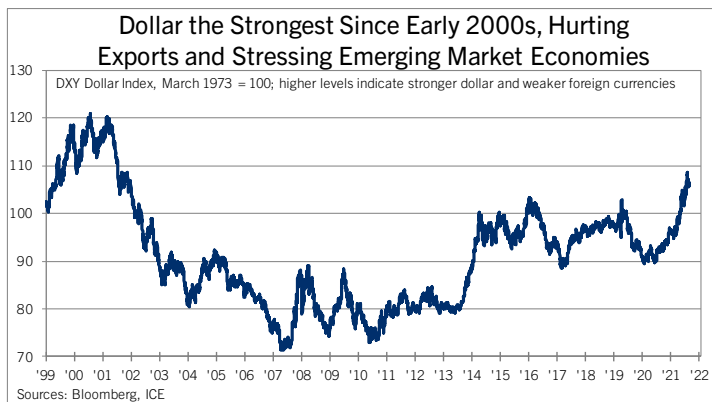
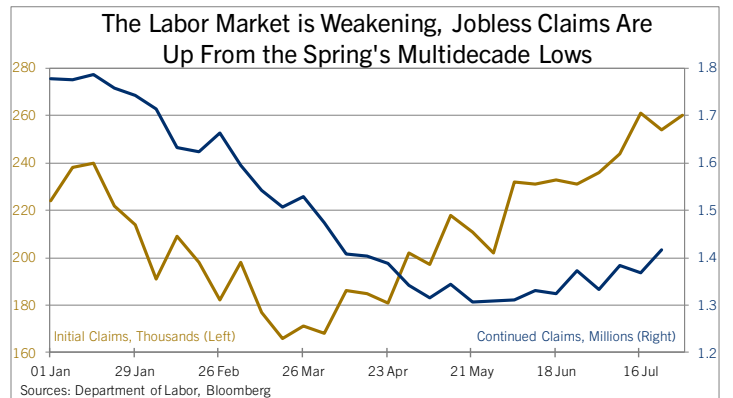
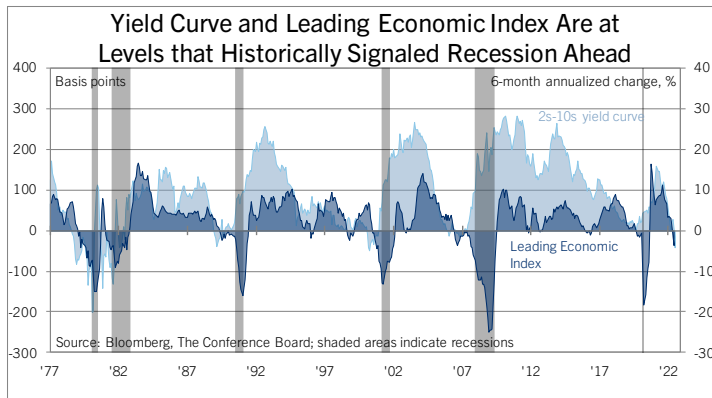
A recession is not a done deal, and it's easy to imagine ways the economy could outperform this baseline. The recent drop in gas prices is great news for household finances, and the further it goes, the better it gets. Job growth has consistently outperformed expectations in the year to date, and could hold up given that labor demand remains extremely high. And the stock market is up more than 10% from its June low, a sign that some investors think that the worst is behind us. A muddle-through expansion is still possible. But it has higher obstacles to overcome than seemed the case earlier this year.

U.S. Economic Outlook, Summary

<i>a = actual f = forecast</i>	1Q'22a	2Q'22p	3Q'22f	4Q'22f	1Q'23f	2Q'23f	3Q'23f	2021a	2022f	2023f	2024f
Real GDP (Percent Change Annualized)	-1.6	-0.9	0.5	1.3	-1.3	1.5	2.6	5.7	1.5	0.6	1.8
CPI (Percent Change Year-over-Year)	8.0	8.6	7.9	7.1	6.1	4.0	3.5	4.7	7.9	4.1	1.8
Payroll Jobs (Average Monthly Diff., Ths.)	573	420	318	100	-333	0	175	514	353	8	136
Unemployment Rate (Percent)	3.8	3.6	3.5	3.7	4.0	4.2	4.1	5.4	3.6	4.1	3.8
Federal Funds Rate (Effective)	0.12	0.77	2.21	3.04	3.38	3.38	3.13	0.08	1.53	3.15	2.38
10-Yr. Treasury Rate	1.94	2.93	2.73	2.50	2.44	2.72	2.67	1.44	2.52	2.62	2.67

a = actual f = forecast

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	1Q'22a	2Q'22p	3Q'22f	4Q'22f	1Q'23f	2Q'23f	3Q'23f	2021a	2022f	2023f	2024f
Output											
Nominal GDP (Billions \$)	24387	24852	25194	25535	25691	25956	26264	22996	24992	26104	27085
<i>Percent Change Annualized</i>	6.6	7.8	5.6	5.5	2.5	4.2	4.8	10.1	8.7	4.4	3.8
Real GDP (Chained 2012 Billions \$)	19728	19682	19708	19773	19707	19783	19909	19427	19723	19848	20205
<i>Percent Change Annualized</i>	-1.6	-0.9	0.5	1.3	-1.3	1.5	2.6	5.7	1.5	0.6	1.8
Pers. Consumption Expenditures	13881	13917	13976	14046	13963	14008	14092	13625	13955	14059	14364
<i>Percent Change Annualized</i>	1.8	1.0	1.7	2.0	-2.3	1.3	2.4	7.9	2.4	0.7	2.2
Nonresidential Fixed Investment	2975	2975	3006	3015	2984	2969	2955	2868	2993	2966	2956
<i>Percent Change Annualized</i>	10.0	-0.1	4.3	1.1	-4.0	-2.0	-1.8	7.4	4.3	-0.9	-0.3
Residential Investment	699	673	644	615	599	591	597	708	658	595	598
<i>Percent Change Annualized</i>	0.4	-14.0	-16.1	-16.6	-10.0	-5.6	3.9	9.2	-7.1	-9.5	0.4
Change in Private Inventories	188	82	10	-20	-40	-20	10	-33	65	-8	13
Net Exports	-1545	-1475	-1449	-1423	-1348	-1317	-1309	-1284	-1473	-1325	-1351
Government Expenditures	3334	3318	3331	3350	3362	3364	3374	3376	3333	3372	3434
<i>Percent Change Annualized</i>	-2.9	-1.9	1.5	2.4	1.4	0.2	1.3	0.5	-1.3	1.2	1.8
Industrial Prod. Index (2007=100)	103.0	104.5	103.8	102.8	101.5	101.9	102.4	100.0	103.5	102.2	104.1
<i>Percent Change Annualized</i>	5.1	6.1	-2.5	-4.0	-5.0	1.5	2.3	4.9	3.5	-1.3	1.9
Capacity Utilization (Percent)	79.5	80.3	79.7	78.7	77.4	77.1	77.0	77.4	79.5	77.1	76.9
Prices											
CPI (1982-84=100)	284.6	291.8	294.6	298.3	301.9	303.4	305.0	271.0	292.3	304.2	309.8
<i>Percent Change Annualized</i>	9.2	10.5	3.9	5.0	5.0	2.0	2.1	4.7	7.9	4.1	1.8
PCE Price Index (2012=100)	120.1	122.2	123.2	124.6	126.1	126.6	127.2	115.5	122.5	126.9	129.0
<i>Percent Change Annualized</i>	7.1	7.1	3.2	4.8	4.8	1.7	1.9	3.9	6.0	3.6	1.6
GDP Price Index (2012=100)	123.7	126.4	127.9	129.3	130.5	131.3	132.1	118.5	126.8	131.6	134.2
<i>Percent Change Annualized</i>	8.2	8.7	5.1	4.2	3.8	2.6	2.3	4.2	7.0	3.8	2.0
PPI, Final Demand (Nov. 2009=100)	135.2	139.0	141.5	143.6	145.6	146.4	147.2	126.7	139.8	146.8	148.9
<i>Percent Change Annualized</i>	13.1	11.7	7.5	6.0	5.8	2.2	2.1	3.9	8.1	4.1	1.9
Crude Oil, WTI (\$/barrel)	\$94	\$108	\$105	\$110	\$110	\$95	\$93	\$68	\$104	\$98	\$91
Labor Markets											
Payroll Jobs (Average Monthly Diff., Ths.)	573	420	318	100	-333	0	175	514	353	8	136
Unemployment Rate (Percent)	3.8	3.6	3.5	3.7	4.0	4.2	4.1	5.4	3.6	4.1	3.8
Average Weekly Hours	34.6	34.6	34.6	34.3	34.3	34.4	34.4	34.8	34.5	34.4	34.5
Population (Millions)	333.6	334.1	334.7	335.3	335.9	336.4	337.0	332.1	334.4	336.7	339.0
<i>Percent Change Annualized</i>	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Personal Income											
Average Hourly Earnings (\$)	31.64	31.99	32.34	32.66	32.94	33.20	33.51	30.60	32.16	33.36	34.54
<i>Percent Change Annualized</i>	5.2	4.5	4.5	4.0	3.5	3.2	3.7	4.2	5.1	3.7	3.5
Real Disp. Income (2012 Billions \$)	15152	15134	15199	15195	15063	15114	15296	16032	15170	15238	15718
<i>Percent Change Annualized</i>	-7.8	-0.5	1.7	-0.1	-3.4	1.3	4.9	2.3	-5.4	0.4	3.2
Personal Saving Rate (Percent)	5.6	5.3	5.2	5.2	5.3	5.5	5.8	12.1	5.3	5.7	6.4
Housing											
Housing Starts (Ths., Ann. Rate)	1720	1652	1525	1483	1395	1406	1404	1605	1595	1401	1440
Exst. SF Home Sales (Ths., Ann Rate)	5380	4783	4500	4483	4264	4500	4600	5418	4786	4516	4862
New SF Home Sales (Ths., Ann Rate)	776	612	575	580	536	575	585	769	636	577	676
Case/Shiller One-Family HPI (1/2000=100)	290.5	303.7	313.2	319.3	323.3	325.4	326.9	260.1	306.7	326.0	332.4
<i>Year/Year Percent Change</i>	20.0	19.3	17.4	15.4	11.3	7.1	4.4	17.1	17.9	6.3	2.0
Consumer											
Consumer Confidence® (Conference Board)	108.1	103.4	99.8	98.2	90.0	99.0	103.3	112.7	102.4	100.3	118.9
Car and Light Truck Sales (Millions)	14.3	13.6	13.8	14.1	13.9	14.5	15.0	15.1	13.9	14.7	16.8
Interest Rates (Percent)											
Federal Funds Rate (Effective)	0.12	0.77	2.21	3.04	3.38	3.38	3.13	0.08	1.53	3.15	2.38
Prime Rate	3.29	3.94	5.36	6.16	6.50	6.50	6.25	3.25	4.69	6.27	5.50
1-Month LIBOR	0.22	1.01	2.53	3.21	3.52	3.49	3.21	0.10	1.74	3.25	2.43
3-Month LIBOR	0.51	1.53	2.88	3.52	3.71	3.65	3.31	0.16	2.11	3.38	2.60
1-Yr. Treasury Rate	0.96	2.20	3.10	3.23	3.06	2.82	2.57	0.10	2.37	2.73	2.44
5-Yr. Treasury Rate	1.82	2.95	2.80	2.69	2.68	2.99	2.89	0.86	2.56	2.85	2.67
10-Yr. Treasury Rate	1.94	2.93	2.73	2.50	2.44	2.72	2.67	1.44	2.52	2.62	2.67
30-Yr. Fixed Rate Mortgage	3.79	5.24	5.44	5.59	5.38	5.02	4.75	2.96	5.02	4.90	4.38

a = actual p = preliminary f = forecast

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