

GDP and Jobs Running Stronger-Than-Expected, But Recession Warning Signs Are Flashing Red, Too; the Fed Nears the End of the Rate Hiking Cycle

Recent economic data have been mixed. The highest-profile economic indicators were much stronger than expected at the turn of the year. Real GDP surprised to the upside in the fourth quarter of 2022, growing 2.9% annualized. Then payroll employment surged 517,000 in January, job growth since early 2021 was revised up by over a million, and the unemployment rate fell to a new half-century low of 3.4%. A recession would be unprecedented while the labor market is strengthening so dramatically.

On the other hand, it would be unprecedented to avoid a recession when the most reliable indicators of business cycle turning points are flashing red—as they now are. This includes a deeply inverted yield curve; sharp declines in the Leading Economic Index and business fixed investment; and rising layoffs, continued jobless claims, and inventories of unsold new homes. Triangulating between these conflicting data, the economy is probably on course for positive growth this year, but likely interrupted by a relatively short and mild contraction. After inventories rose sharply late last year as wholesale and retail sales fell, real GDP is likely to turn negative in the first half of 2023 as businesses add to inventories more slowly (slower inventory growth subtracts from GDP).

The inflation outlook is clearer, and mostly upbeat. Wholesale prices of energy, metals, building supplies, and basic foodstuffs have mostly come down since mid-2022, helped by mild winter weather and big slowdowns in global housing and manufacturing. Durable consumer goods prices are lower, too; shortages are largely resolved outside of autos, and many consumers have reined in discretionary spending as inflation strained their household budgets. Shelter inflation will cool with housing prices falling. Wage increases slowed in January, making a wage-price spiral a less immediate risk. But inflation of non-shelter services is still too high, things like car repairs, daycare charges, veterinarian fees, and kids' music lessons. The Fed is worried that persistently high increases of these sticky prices will hold inflation above their target after the big price swings affecting other parts of the consumer price basket normalize. Also, the Fed is very worried that the job market could overheat and push trend inflation even higher.

After January's hot jobs report, the Fed will almost certainly raise the target rate another quarter percentage point at the next meeting in March. But the picture after that is murkier. Job growth is likely to cool soon, since layoff announcements rose in January to around their average in 2009, a year in which payrolls averaged a 420,000 monthly decline. The Fed is a bit likelier to end their rate hikes in March than to push rates even higher. But the decision is a near toss-up and will depend on whether the warning signs of an economic slowdown are correct, or whether the January jobs report marked the beginning of an unexpected reacceleration of the job market.

U.S. Economic Outlook, Summary

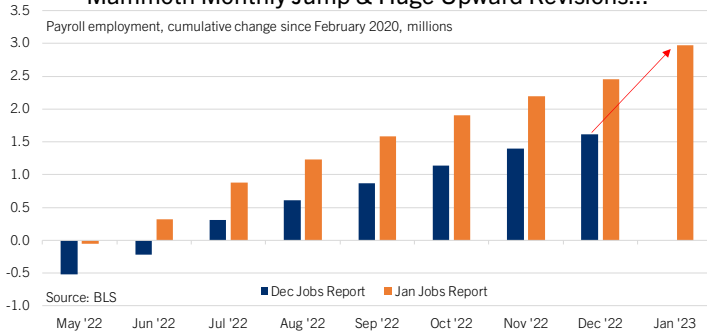
<i>a = actual f = forecast</i>	2Q'22a	3Q'22a	4Q'22p	1Q'23f	2Q'23f	3Q'23f	4Q'23f	2021a	2022p	2023f	2024f
Real GDP (Percent Change Annualized)	-0.6	3.2	2.9	-1.5	-0.8	-0.6	0.5	5.9	2.1	0.3	0.8
CPI (Percent Change Year-over-Year)	8.6	8.3	7.1	6.0	4.3	3.3	2.8	4.7	8.0	4.1	1.9
Payroll Jobs (Average Monthly Diff., Ths.)	399	429	318	166	-127	-222	-190	549	427	-93	-152
Unemployment Rate (Percent)	3.6	3.6	3.6	3.5	3.9	4.3	4.4	5.4	3.6	4.0	4.7
Federal Funds Rate (Period Average)	0.77	2.19	3.65	4.58	4.88	4.83	4.58	0.08	1.68	4.72	3.82
10-Yr. Treasury Rate (Period Average)	2.93	3.11	3.83	3.49	3.63	3.64	3.38	1.44	2.95	3.54	2.89
<i>a = actual p = preliminary f = forecast</i>											

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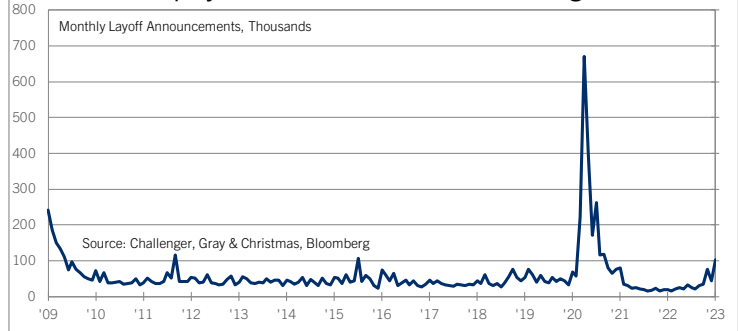
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January's Jobs Data Tell a Super Strong Story With a Mammoth Monthly Jump & Huge Upward Revisions...



...But Rising Layoff Announcements Suggest the Unemployment Rate's Next Move Will Be Higher



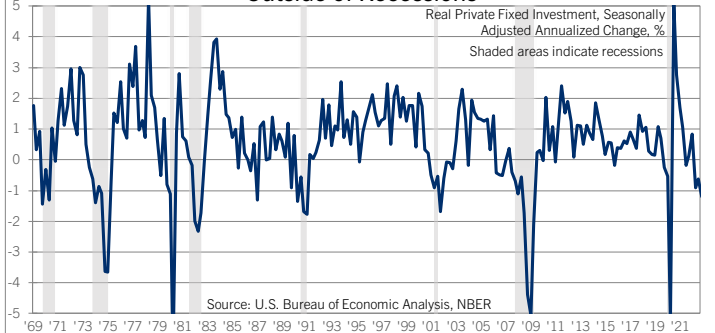
Initial Jobless Claims Are Historically Low...



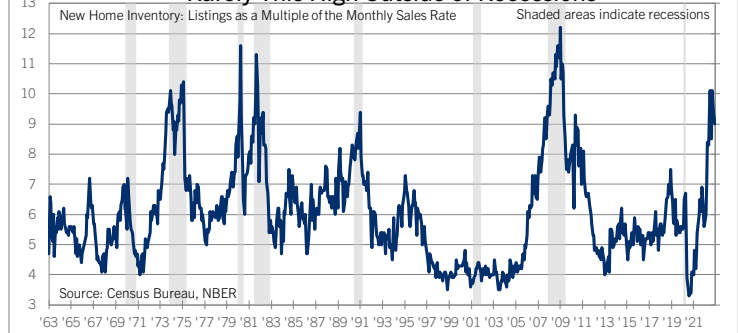
...While Continued Jobless Claims Are Rising at a Rate Typically Only Seen in Recessions



Business Capex Is Falling at a Rate Rarely Seen Outside of Recessions



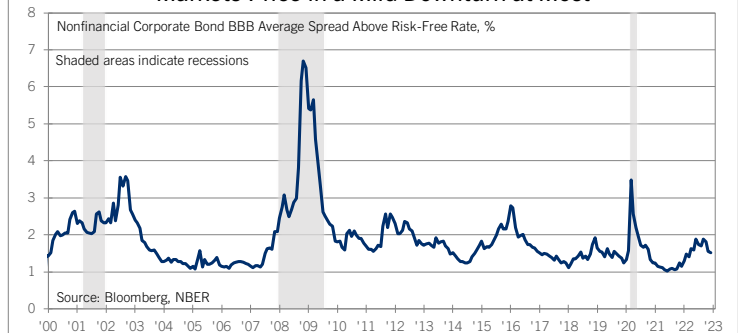
New Home Listings as a Multiple of Monthly Sales Are Rarely This High Outside of Recessions



The Leading Economic Index Is Also Declining at a Rate Rarely Seen Outside of Recessions



But Narrow Bond Risk Premiums Show Financial Markets Price in a Mild Downturn at Most



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	2Q'22a	3Q'22a	4Q'22p	1Q'23f	2Q'23f	3Q'23f	4Q'23f	2021a	2022p	2023f	2024f
Output											
Nominal GDP (Billions \$)	25,248	25,724	26,132	26,305	26,487	26,615	26,771	23,315	25,461	26,544	27,279
Percent Change Annualized	8.5	7.7	6.5	2.7	2.8	2.0	2.4	10.7	9.2	4.3	2.8
Real GDP (Chained 2012 Billions \$)	19,895	20,055	20,198	20,124	20,085	20,056	20,081	19,610	20,018	20,087	20,237
Percent Change Annualized	-0.6	3.2	2.9	-1.5	-0.8	-0.6	0.5	5.9	2.1	0.3	0.8
Pers. Consumption Expenditures	14,099	14,179	14,252	14,214	14,197	14,177	14,173	13,754	14,140	14,190	14,277
Percent Change Annualized	2.0	2.3	2.1	-1.1	-0.5	-0.6	-0.1	8.3	2.8	0.4	0.6
Nonresidential Fixed Investment	2,916	2,960	2,965	2,968	2,969	2,962	2,966	2,835	2,939	2,966	3,030
Percent Change Annualized	0.1	6.2	0.7	0.4	0.3	-1.0	0.5	6.4	3.6	0.9	2.2
Residential Investment	671	620	574	539	525	519	520	719	642	526	528
Percent Change Annualized	-17.8	-27.1	-26.7	-22.0	-10.2	-4.1	0.6	10.7	-10.7	-18.2	0.4
Change in Private Inventories	110	39	130	51	-15	-27	6	-19	123	4	34
Net Exports	-1,431	-1,269	-1,232	-1,175	-1,130	-1,123	-1,138	-1,233	-1,355	-1,141	-1,204
Government Expenditures	3,379	3,411	3,442	3,461	3,473	3,482	3,488	3,426	3,406	3,476	3,506
Percent Change Annualized	-1.6	3.7	3.7	2.2	1.4	1.1	0.7	0.6	-0.6	2.0	0.9
Industrial Prod. Index (2007=100)	104.1	104.6	104.1	103.2	103.4	104.1	104.9	100.0	103.9	103.9	106.1
Percent Change Annualized	5.0	1.8	-1.7	-3.5	0.7	2.7	3.0	4.9	3.9	0.0	2.2
Capacity Utilization (Percent)	80.0	80.0	79.4	78.4	78.0	78.0	78.1	77.4	79.7	78.1	78.2
Prices											
CPI (1982-84=100)	291.8	295.9	298.2	301.7	304.3	305.7	306.5	271.0	292.6	304.6	310.4
Percent Change Annualized	10.5	5.7	3.1	4.8	3.5	1.9	1.0	4.7	8.0	4.1	1.9
PCE Price Index (2012=100)	122.5	123.8	124.9	126.7	128.2	128.8	129.2	115.6	122.9	128.2	130.5
Percent Change Annualized	7.3	4.3	3.8	5.9	4.6	2.1	1.1	4.0	6.3	4.4	1.7
GDP Price Index (2012=100)	126.9	128.3	129.4	130.7	131.8	132.7	133.3	118.9	127.2	132.1	134.8
Percent Change Annualized	9.0	4.4	3.5	4.1	3.6	2.5	1.9	4.5	7.0	3.9	2.0
PPI, Final Demand (Nov. 2009=100)	139.1	139.9	140.6	142.5	142.9	143.1	143.6	126.7	138.7	143.0	145.1
Percent Change Annualized	12.0	2.2	2.0	5.4	1.3	0.6	1.3	3.9	8.3	4.4	1.5
Crude Oil, WTI (\$/barrel)	\$108	\$94	\$83	\$82	\$88	\$86	\$84	\$68	\$95	\$85	\$83
Labor Markets											
Payroll Jobs (Average Monthly Diff., Ths.)	399	429	318	166	-127	-222	-190	549	427	-93	-152
Unemployment Rate (Percent)	3.6	3.6	3.6	3.5	3.9	4.3	4.4	5.4	3.6	4.0	4.7
Labor Force Participation Rate (%)	62.2	62.2	62.2	62.3	62.2	61.9	61.9	61.7	62.2	62.1	62.1
Average Weekly Hours	34.6	34.6	34.5	34.6	34.1	34.2	34.3	34.8	34.6	34.3	34.4
Personal Income											
Average Hourly Earnings (\$)	32.06	32.43	32.80	33.13	33.45	33.70	33.94	30.61	32.25	33.56	34.53
Percent Change Annualized	4.7	4.7	4.6	4.2	3.8	3.1	2.8	4.2	5.3	4.1	2.9
Real Disp. Income (2012 Billions \$)	15,022	15,059	15,116	15,207	15,163	15,125	15,154	16,130	15,077	15,162	15,351
Percent Change Annualized	-2.3	1.0	1.5	2.4	-1.1	-1.0	0.8	1.9	-6.5	0.6	1.2
Personal Saving Rate (Percent)	3.2	2.7	2.9	4.0	5.0	5.8	6.2	11.8	3.3	5.3	6.6
Housing											
Housing Starts (Ths., Ann. Rate)	1,647	1,450	1,403	1,411	1,377	1,365	1,354	1,605	1,555	1,377	1,360
Exst. SF Home Sales (Ths., Ann Rate)	4,780	4,267	3,730	3,565	3,566	3,595	3,604	5,418	4,539	3,582	3,649
New SF Home Sales (Ths., Ann Rate)	609	580	605	641	610	535	542	769	642	582	552
Case/Shiller One-Family HPI (1/2000=100)	303.7	302.2	298.2	293.2	287.9	285.4	283.6	260.1	298.7	287.5	285.2
Year/Year Percent Change	19.6	13.1	7.6	0.9	-5.2	-5.6	-4.9	17.1	14.8	-3.7	-0.8
Consumer											
Consumer Confidence* (Conference Board)	103.4	102.2	104.2	112.7	110.6	108.0	107.5	112.7	104.5	109.7	108.0
Car and Light Truck Sales (Millions)	13.4	13.5	14.4	15.1	15.0	15.1	15.2	15.1	13.9	15.1	15.6
Retail & Food Service Sales (Monthly Avg, Bns)	678.6	683.8	684.7	681.3	687.0	684.7	679.8	620.0	677.1	683.2	681.4
Percent Change Annualized	10.9	3.1	0.5	-2.0	3.4	-1.4	-2.8	19.8	9.2	0.9	-0.3
Interest Rates (Percent, Period Average)											
Federal Funds Rate (Effective)	0.77	2.19	3.65	4.58	4.88	4.83	4.58	0.08	1.68	4.72	3.82
Prime Rate	3.94	5.33	6.77	7.70	8.00	7.95	7.70	3.25	4.83	7.84	6.94
1-Month BSBY	0.87	2.37	3.79	4.65	4.90	4.79	4.52	0.07	1.80	4.71	3.75
3-Month SOFR	1.31	2.84	4.24	4.79	4.84	4.71	4.40	0.05	2.18	4.68	3.63
1-Yr. Treasury Rate	2.20	3.40	4.61	4.63	4.51	4.29	3.97	0.10	2.79	4.35	3.17
5-Yr. Treasury Rate	2.95	3.23	4.00	3.60	3.65	3.57	3.27	0.86	3.00	3.52	2.73
10-Yr. Treasury Rate	2.93	3.11	3.83	3.49	3.63	3.64	3.38	1.44	2.95	3.54	2.89
30-Yr. Fixed Rate Mortgage	5.24	5.58	6.69	6.24	6.10	6.05	5.79	2.96	5.33	6.05	5.25
a = actual p = preliminary f = forecast								February 9, 2023			

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