



# ACT Seminar 68 Economic Outlook

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# Big Picture Summary

- *Recession lite* may have started; then again, maybe not
- Sector variance make this “R” a different beast
  - Trouble in housing, tech, retail (inventories)
  - Cars, consumers, mfg soft but ahead of the average “R”
- Inflation relief = Fed hikes slow H1; drop rates H2?
- Focus increases on H2, as to whether it’s R, or post-R



# Good news, bad news

## Bad news

- Interest rates impact Main Street 6 mo lag
- Consumers anxious, but...
- Inventories in retail too high
- Housing peaked a year ago & still declining
- Diesel not following crude prices down
- New tech sector layoffs almost daily
- Politics – DC circus, House Speaker vote
- China more difficult than ever
- Rus-Ukr war drags on, no end in sight

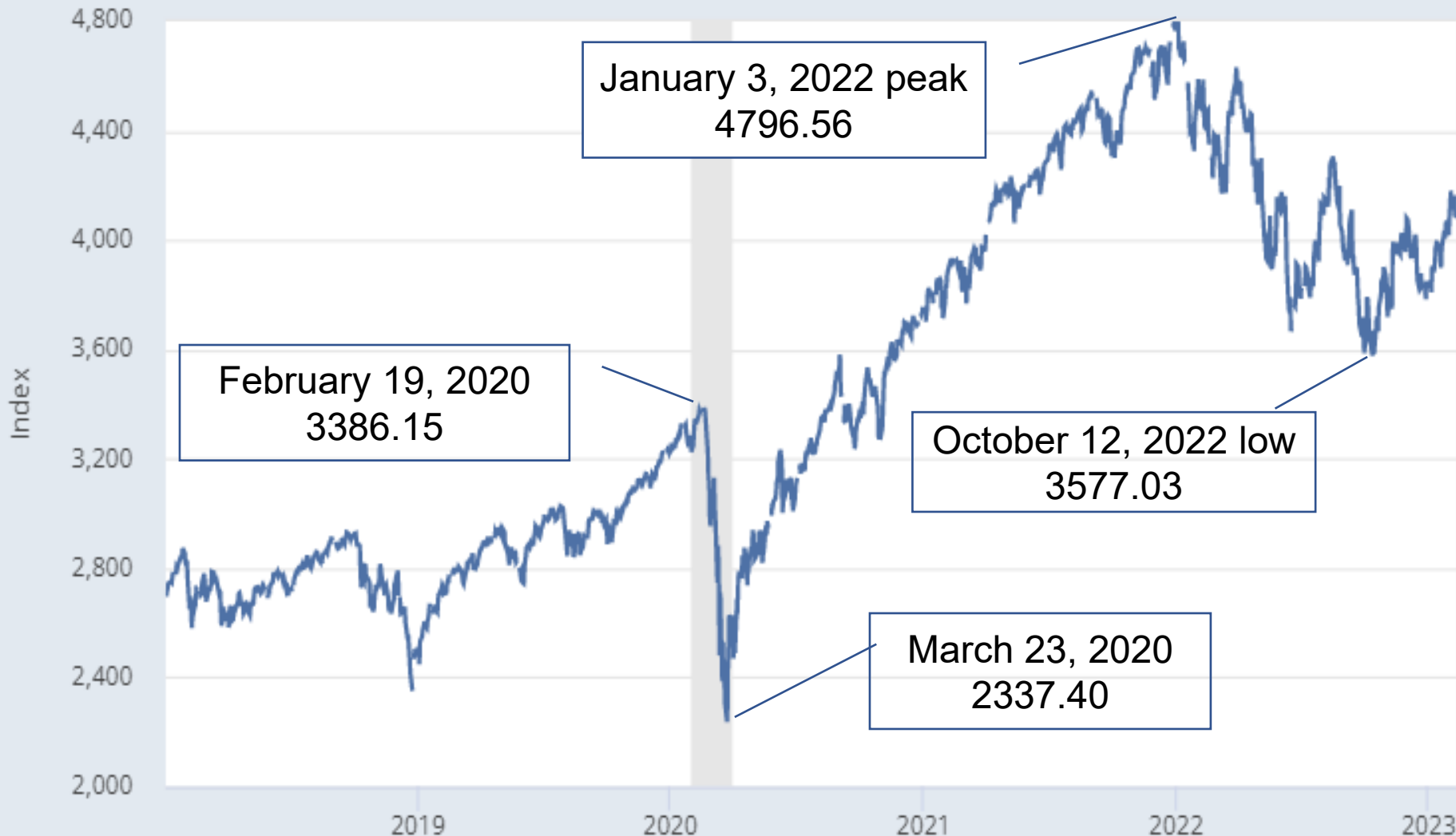
## Good news

- Recent data flow upbeat
- ...anxious consumers are spending
- Super strong job market
  - unemployment 3.4%
  - 11 million jobs open, near a record
- Inflation gradually retreating
- Pent-up demand for autos, CV, and other durables
- Energy prices down from peak
- COVID severity declining in NA



# Lessons from equities

## 2022 down 19%, 2023 ytd up 7.5%



Five months of Oct  
to Feb OK, up 15.6%

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20% correction on  
2022 H1 shocks

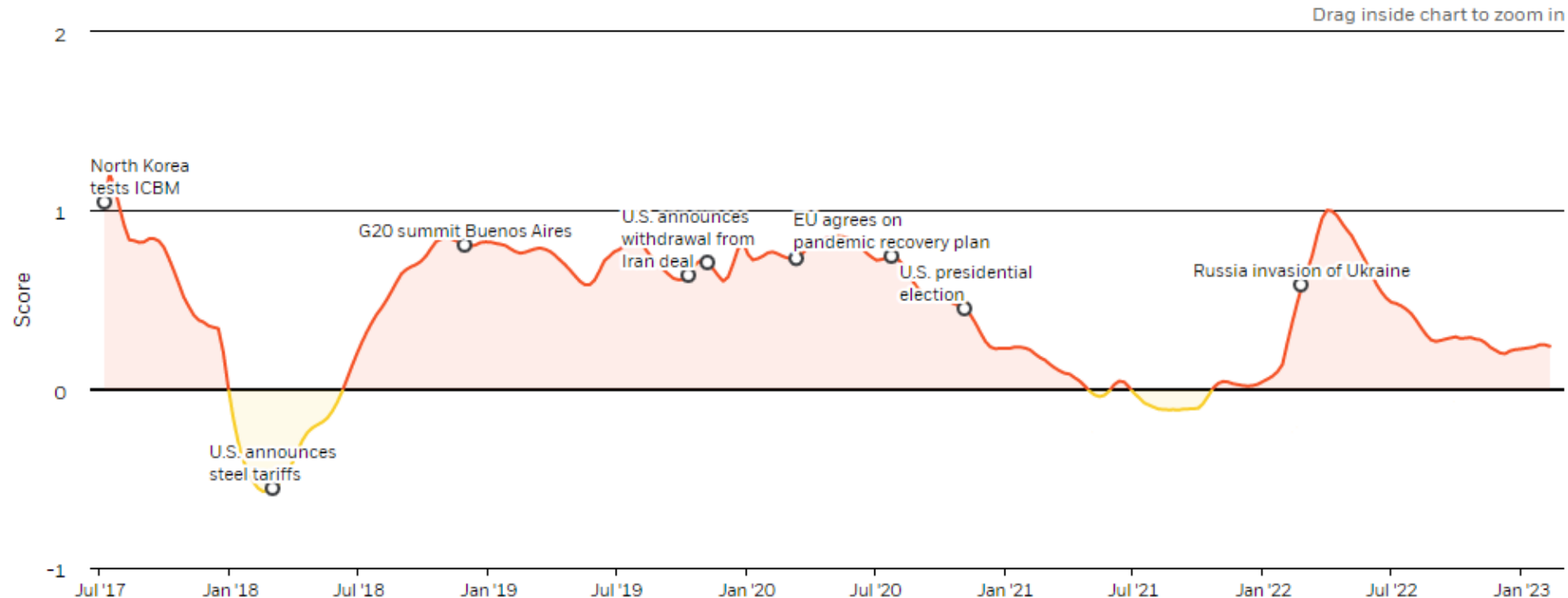
- Inflation
- Rus - Ukraine
- Fed rate hikes
- China COVID
- Recession risk



# High risks of de-globalization, COVID, Rus-Ukr now easing

## BlackRock global geopolitical risk indicator July 2017 to date

### Global indicator



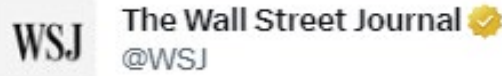
**Forward-looking estimates may not come to pass.** Source: BlackRock Investment Institute. February 2023. The BlackRock Geopolitical Risk Indicator (BGRI) tracks the relative frequency of brokerage reports (via Refinitiv) and financial news stories (Dow Jones News) associated with specific geopolitical risks. We adjust for whether the sentiment in the text of articles is positive or negative, and then assign a score. This score reflects the level of market attention to each risk versus a 5-year history. We use a shorter historical window for our COVID risk due to its limited age. We assign a heavier weight to brokerage reports than other media sources since we want to measure the market's attention to any particular risk, not the public's.

Source: BlackRock Geopolitical Risk Dashboard

<https://www.blackrock.com/corporate/insights/blackrock-investment-institute/interactive-charts/geopolitical-risk-dashboard#risk-indicator>

# CBO warns of July debt ceiling default risk

← Tweet



The U.S. could default as soon as July if the debt ceiling standoff isn't resolved, the Congressional Budget Office said



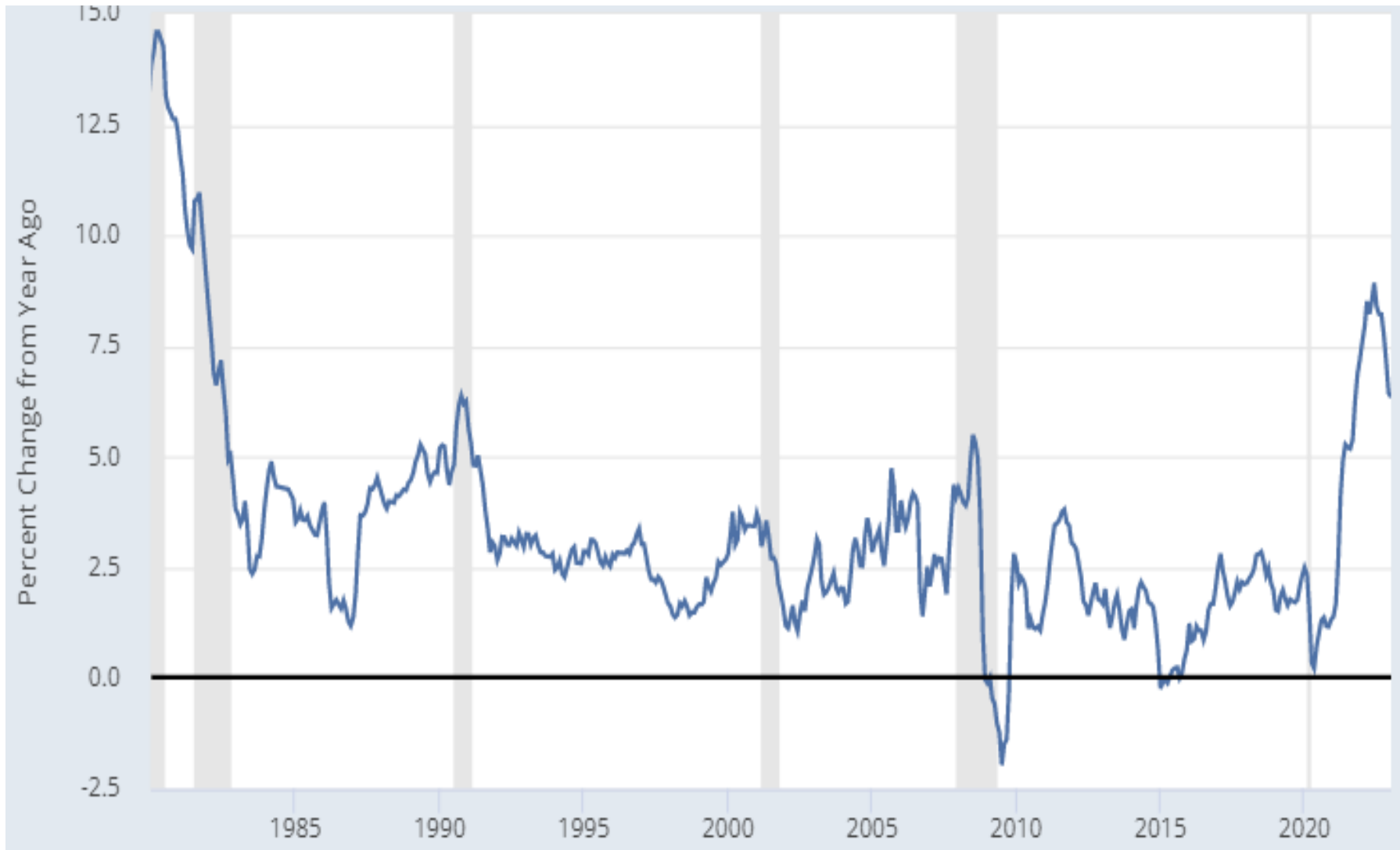
wsj.com

U.S. Could Default as Soon as July if Debt-Ceiling Standoff Isn't Resolved  
The CBO said the extraordinary measures to keep paying the government's bills could run out before July if its expectations for tax revenue are off.

Tight November election  
results empower House of  
Representative extremists

-----  
Chaotic House Speaker vote  
as portent of July snafu

# Inflation: gradual retreat in CPI



6.3% y/y in Jan

After 42-year high  
in June @ 9.0%

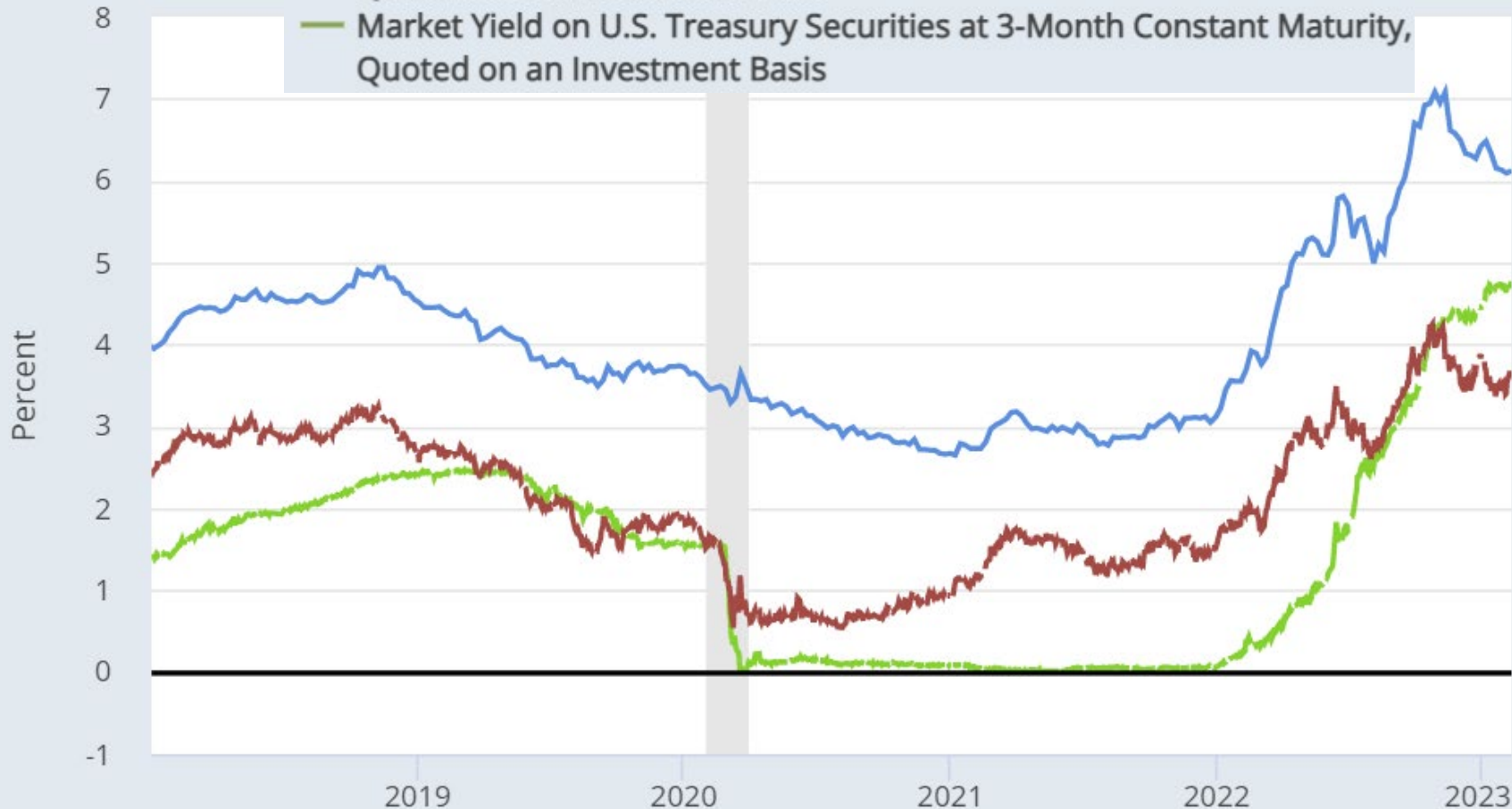
Still a big distance  
to cover to 2%  
FOMC goal



# Interest rates up over most of 2022...

## ...but mixed story in last 4 months

— 30-Year Fixed Rate Mortgage Average in the United States  
— Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis  
— Market Yield on U.S. Treasury Securities at 3-Month Constant Maturity, Quoted on an Investment Basis



Fed still raising rates (green line) but...

Longer-term rates are buying the story on inflation retreat

Red (10 yr Tbond)  
Blue (30 yr mortgage)



# Fed is not done – Powell Feb 1 press conf

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 **Nick Timiraos** ✓  
@NickTimiraos

Key takeaways from Powell's press conference:

"We are talking about a couple more" rate increases.

"We're going to be cautious about declaring victory and sending signals that we think the game is won."

"Certainty is just not appropriate here."



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**Relevant people**

 **Nick Timiraos** ✓  
@NickTimiraos Following

Chief economics correspondent, The Wall Street Journal • Author, "Trillion Dollar Triage"

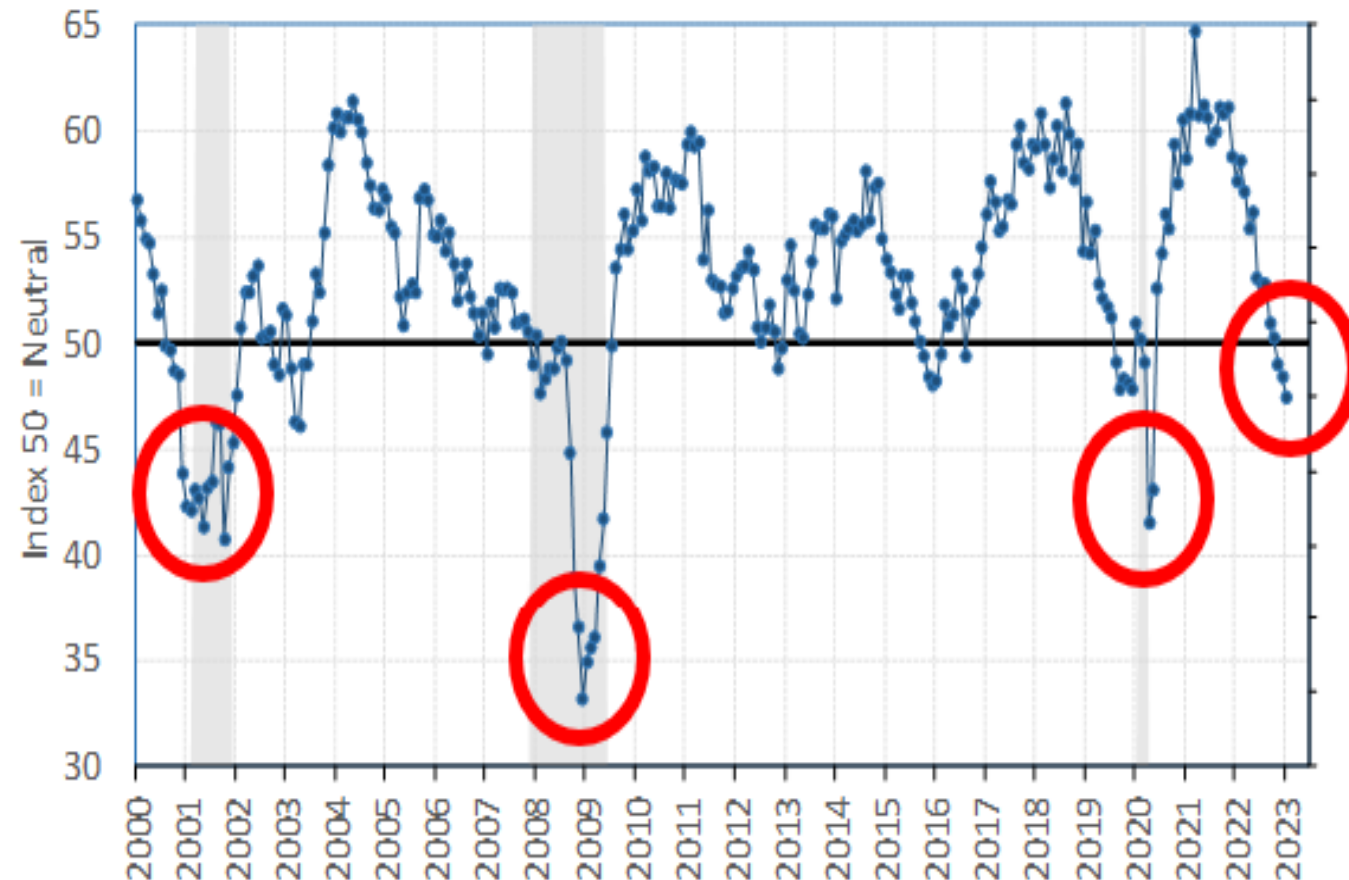
# ISM Purchasing Managers approaches recession territory

## MANUFACTURING AT A GLANCE

January 2023

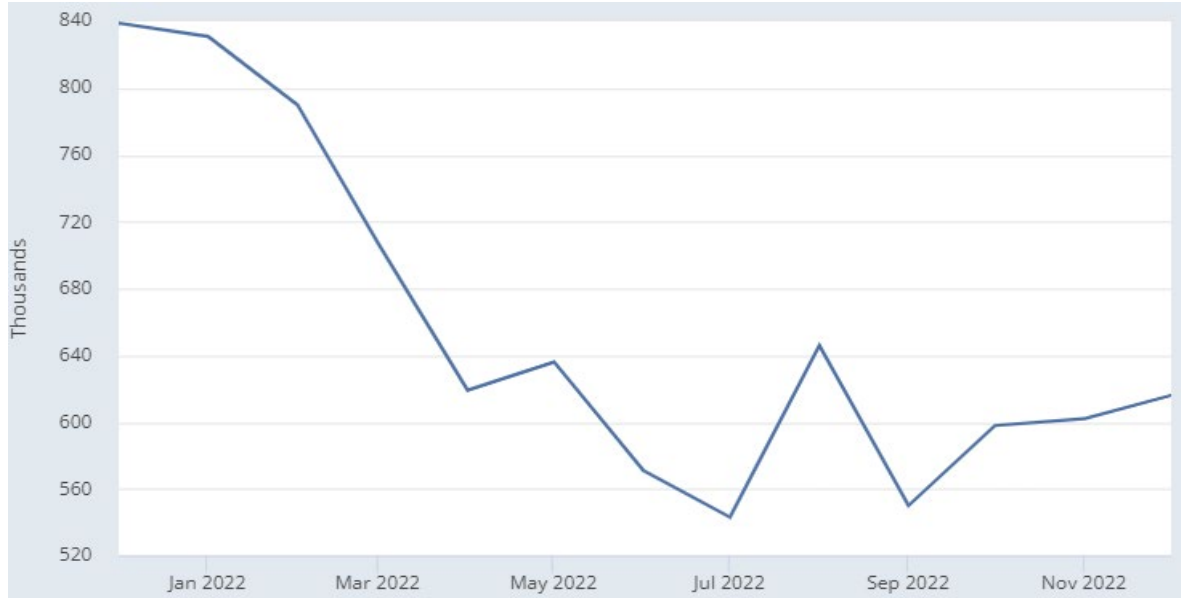
Index	Series Index Jan	Series Index Dec	Percentage Point Change	Direction	Rate of Chang
Manufacturing PMI®	47.4	48.4	-1.0	Contracting	Faster
New Orders	42.5	45.1	-2.6	Contracting	Faster
Production	48.0	48.6	-0.6	Contracting	Faster
Employment	50.6	50.8	-0.2	Growing	Slower
Supplier Deliveries	45.6	45.1	+0.5	Faster	Slower
Inventories	50.2	52.3	-2.1	Growing	Slower
Customers' Inventories	47.4	48.2	-0.8	Too Low	Faster
Prices	44.5	39.4	+5.1	Decreasing	Slower
Backlog of Orders	43.4	41.4	+2.0	Contracting	Slower
New Export Orders	49.4	46.2	+3.2	Contracting	Slower

## ISM Manufacturers Purchasing Managers Index



# Housing in recession

Fallout on building materials, appliances, furnishings



New home sales  
down 27% Dec 2022  
from Dec 2021

Existing home sales  
down 38% Dec 2022  
from Jan 2022



# Tech layoffs in multiple 10,000s

## Not just software...Dell, HP, Intel, Cisco, IBM, and others

### Top 10 U.S. Tech Companies in Terms of Layoffs, 2022-23

Google now ranks as the tech company with the second-highest number of layoffs.

Rank	Company	Total Layoffs
1	Amazon	18,150
2	Google	12,000
3	Meta	11,000
4	Microsoft	10,000
5	Salesforce	9,090
6	HP	6,000
7	Cisco	4,100
8	Peloton	4,084
9	Carvana	4,000
10	Better.com	3,900

INCLUDES ALL LAYOFFS ISSUED SINCE JANUARY 2022

SOURCE: [THE STANDARD RESEARCH FROM NEWS REPORTS AND LAYOFFS.FYI](#), REVISED JAN. 20, 2023



## TECH IS VULNERABLE

Layoffs have knock-on impact in housing – Bay Area, Seattle, Portland, other



# Purchasing Managers Indexes

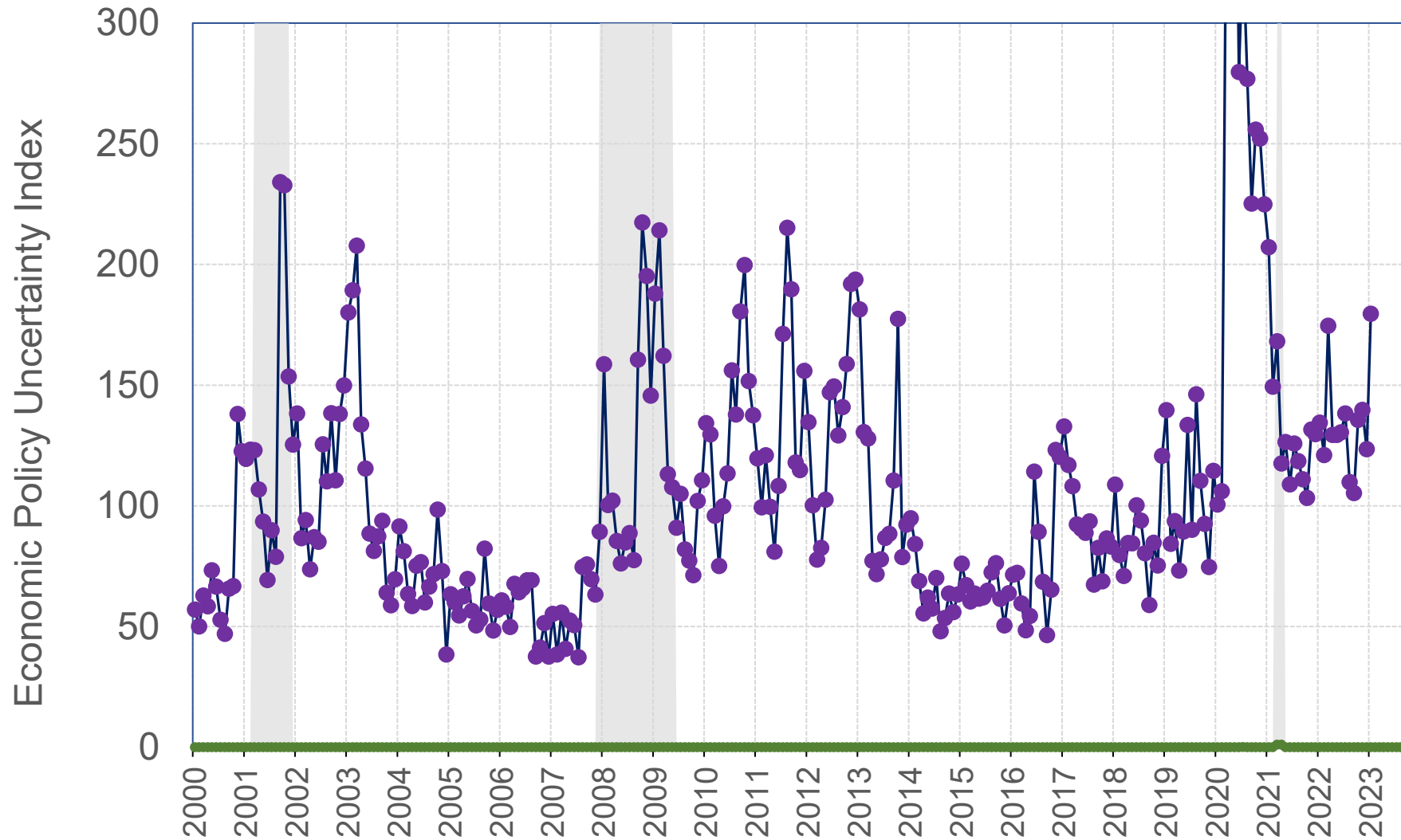
## Swimming in a sea of yellow

	Last 12 Months												
	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Global	53.2	53.6	52.9	52.3	52.3	52.2	51.1	50.3	49.8	49.4	50.6	48.7	49.1
United States	55.5	57.3	58.8	59.2	57.0	52.7	52.2	51.5	52.0	50.4	47.7	46.2	46.9
Canada	56.2	56.6	58.9	56.2	56.8	54.6	52.5	48.7	49.8	48.8	49.6	49.2	51.0
Mexico	46.1	48.0	49.2	49.3	50.6	52.2	48.5	48.5	50.3	50.3	50.6	51.3	48.9
Eurozone	58.7	58.2	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8	48.8
Germany	59.8	58.4	56.9	54.6	54.8	52.0	49.3	49.1	47.8	45.1	46.2	47.1	47.3
France	55.5	57.2	54.7	55.7	54.6	51.4	49.5	50.6	47.7	47.2	48.3	49.2	50.5
Italy	58.3	58.3	55.8	54.5	51.9	50.9	48.5	48.0	48.3	46.5	48.4	48.5	50.4
Spain	56.2	56.9	54.2	53.3	53.8	52.6	48.7	49.9	49.0	44.7	45.7	46.4	48.4
UK	57.3	58.0	55.2	55.8	54.6	52.8	52.1	47.3	48.4	46.2	46.5	45.3	47.0
Russia	51.8	48.6	44.1	48.2	50.8	50.9	50.3	51.7	52.0	50.7	53.2	53.0	52.6
Japan	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49.0	48.9	48.9
China	49.1	50.4	48.1	46.0	48.1	51.7	50.4	49.5	48.1	49.2	49.4	49.0	49.2
India	54.0	54.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4
Brazil	47.8	49.6	52.3	51.8	54.2	54.1	54.0	51.9	51.1	50.8	44.3	44.2	47.5

>54
Above Trend
51-54
Trend
45-51
Flat
<45
Recession



# US Economic Policy Uncertainty Index



## JUMP IN JANUARY

Threat of debt ceiling standoff rises with House Speaker snafu

Source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com). These data can be used freely with attribution to the authors, the paper, and the website.

# Super-strong labor market

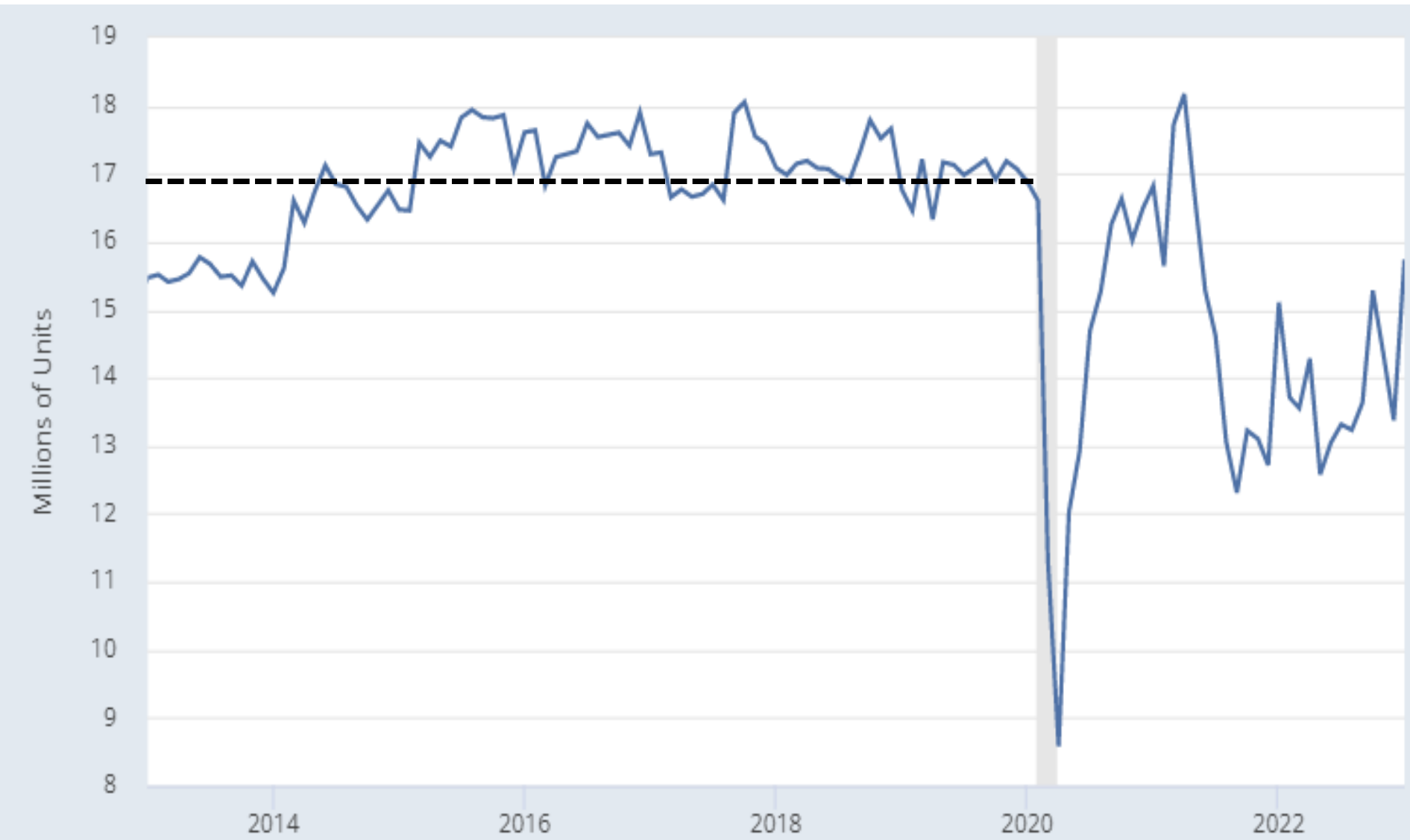


## JOB MARKET ON FIRE

- 3.4% unemploy rate
- 517k net new Jan jobs
- 11 million job openings in US, nearly a record

January 2023: 3.4

# Buyers still lining up for new autos



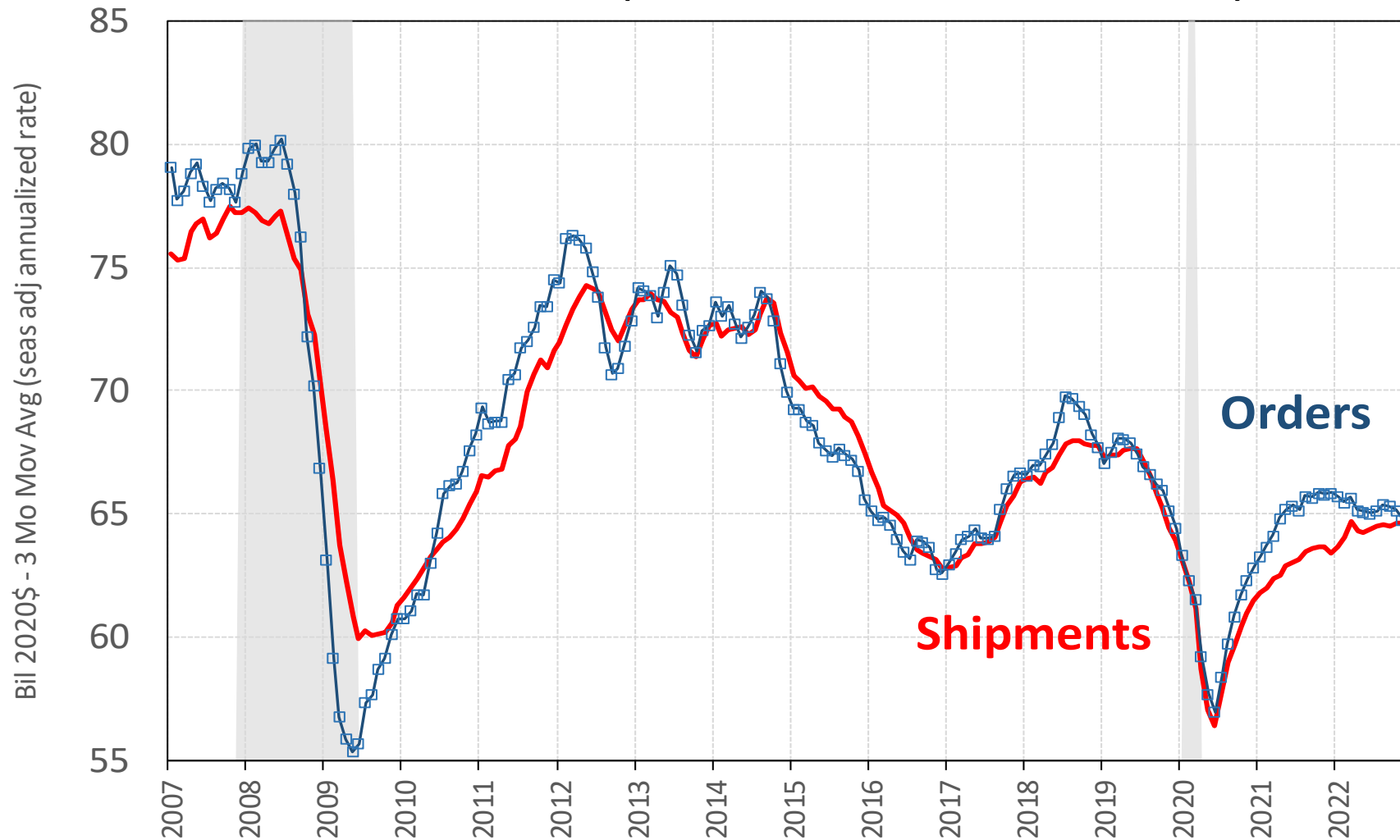
**PENT-UP  
DEMAND FOR  
NEW AUTOS**

16.9m pre-COVID  
norm 2013-2020

13.8m in 2022



# No swan dive for interest-rate sensitive cap goods (like Classes 4 to 8 trucks)



**PENT-UP  
DEMAND FOR  
CAPITAL  
EQUIPMENT**

Flat lining, no  
collapse like Great  
Recession, COVID  
Recession, even  
2015-2016 retreat

Note: Data series Census M3 Capital Goods excluding Aircraft, deflated by PPI Capital Equipment (Private)

# Summary Indicator Forecast Table

	FORECAST				
	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast
Real GDP	-2.8	5.9	2.1	0.3	2.1
Consumer Spending	-3.0	8.3	2.8	1.3	2.0
Capital Spending	-4.9	6.4	3.6	-1.1	2.2
Equipment	-10.5	10.3	4.3	-2.3	4.4
Structures	-10.1	-6.4	-7.4	-2.0	-2.0
Intellectual Property	4.8	9.7	8.7	2.0	2.0
Residential Investment	7.2	10.7	-10.7	-12.8	4.5
Government Consumption	2.6	0.6	-0.6	2.1	1.4
Net Exports (2012 \$B)	-923	-1233	-1355	-1255	-1262
Mfg Industrial Production	-6.3	5.8	3.2	-1.9	-2.0
Housing Starts (M)	1.38	1.60	1.56	1.35	1.44
US Light Vehicle Sls (M)	14.5	14.9	13.8	14.7	15.0
NA Lt Veh Production (M)	13.0	12.9	13.2	14.7	14.9
Unemployment Rate (%)	8.1	5.4	3.6	3.9	4.3
90 Day Treasury Yield	0.4	0.0	2.0	4.5	3.5
10 Year Treasury Yield	0.9	1.4	3.0	3.7	3.3
GDP Deflator	1.3	4.5	7.0	3.6	2.4

Percent Changes except where indicated

Updated February 10, 2023

Made early recession call in July 2022...

Some doubts creeping in with start-of-2023 strength



# Big Picture Summary

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- Sector variance make this “R” a different beast
  - Trouble in housing, tech, retail (inventories)
  - Cars, consumers, mfg soft but ahead of the average “R”
- Inflation relief = Fed hikes slow H1, drop rates H2?
- Focus increases on H2, as to whether it’s R, or post-R





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