



Economic Outlook Robert Fry

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SOCMA
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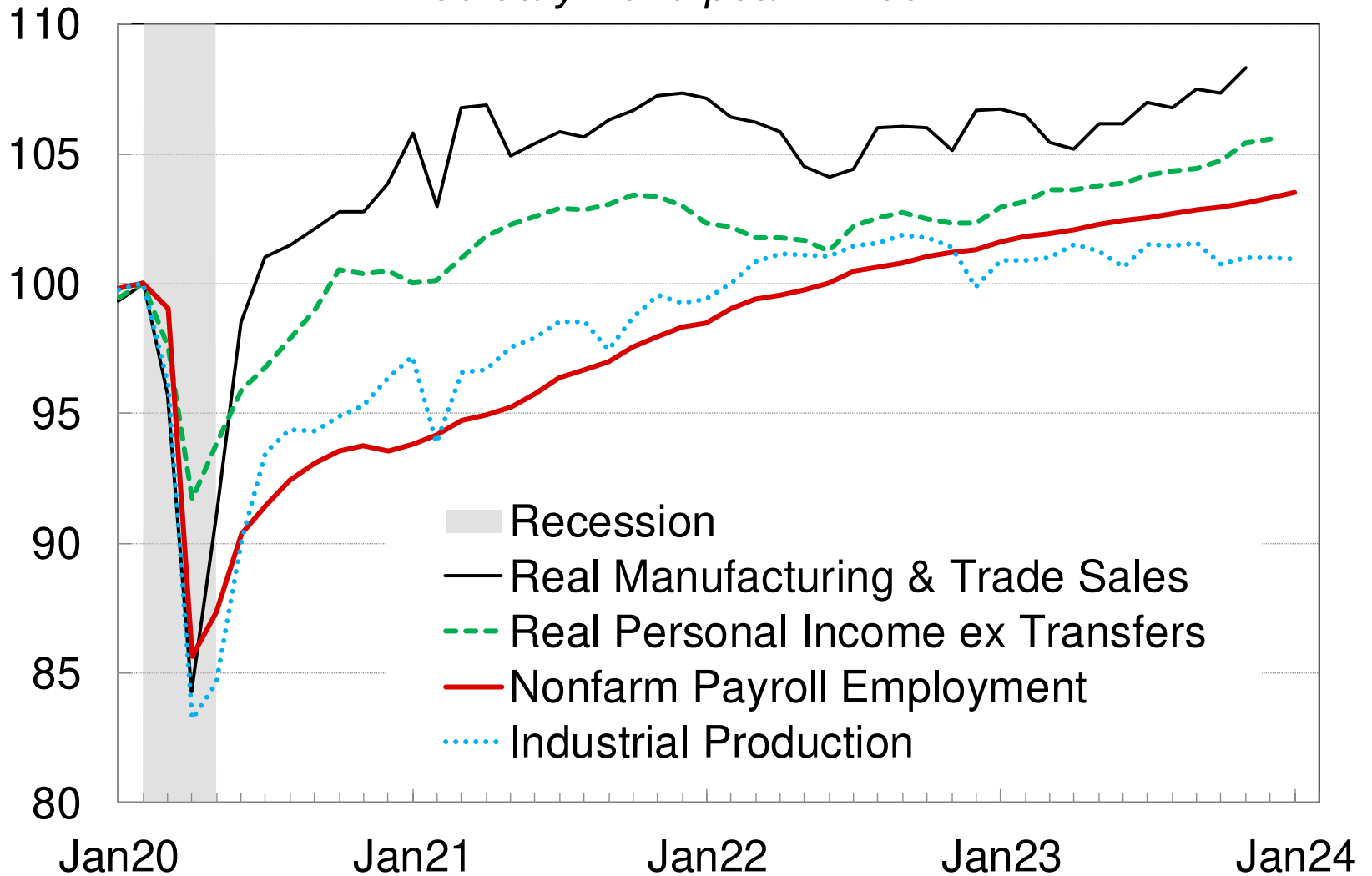
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Economics

The science of explaining tomorrow why
the predictions you made yesterday
didn't come true today.

US Coincident Indicators

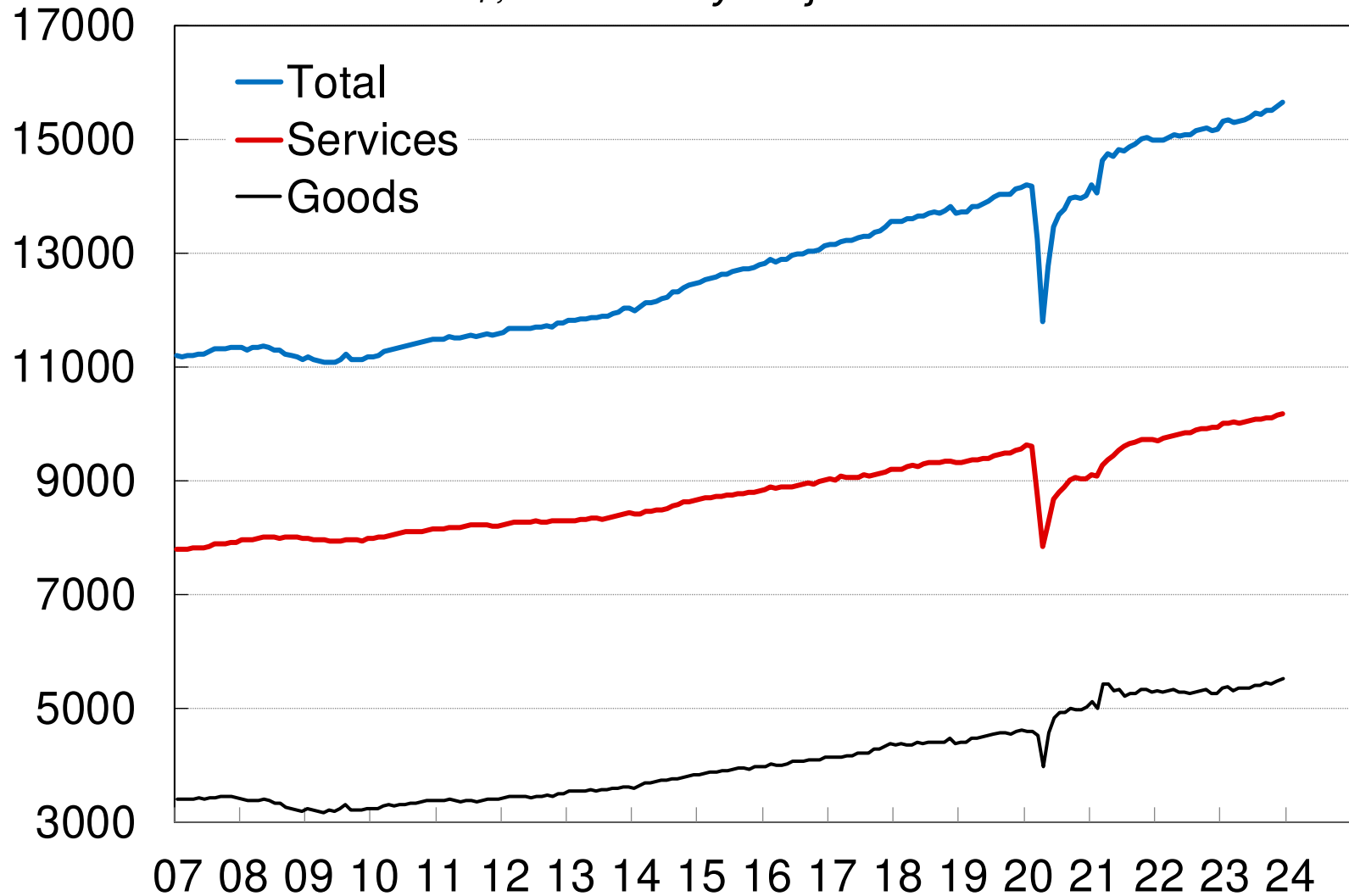
February 2020 peak = 100



Source: U.S. Bureau of Labor Statistics/FRED

US Real Personal Consumption Expenditures

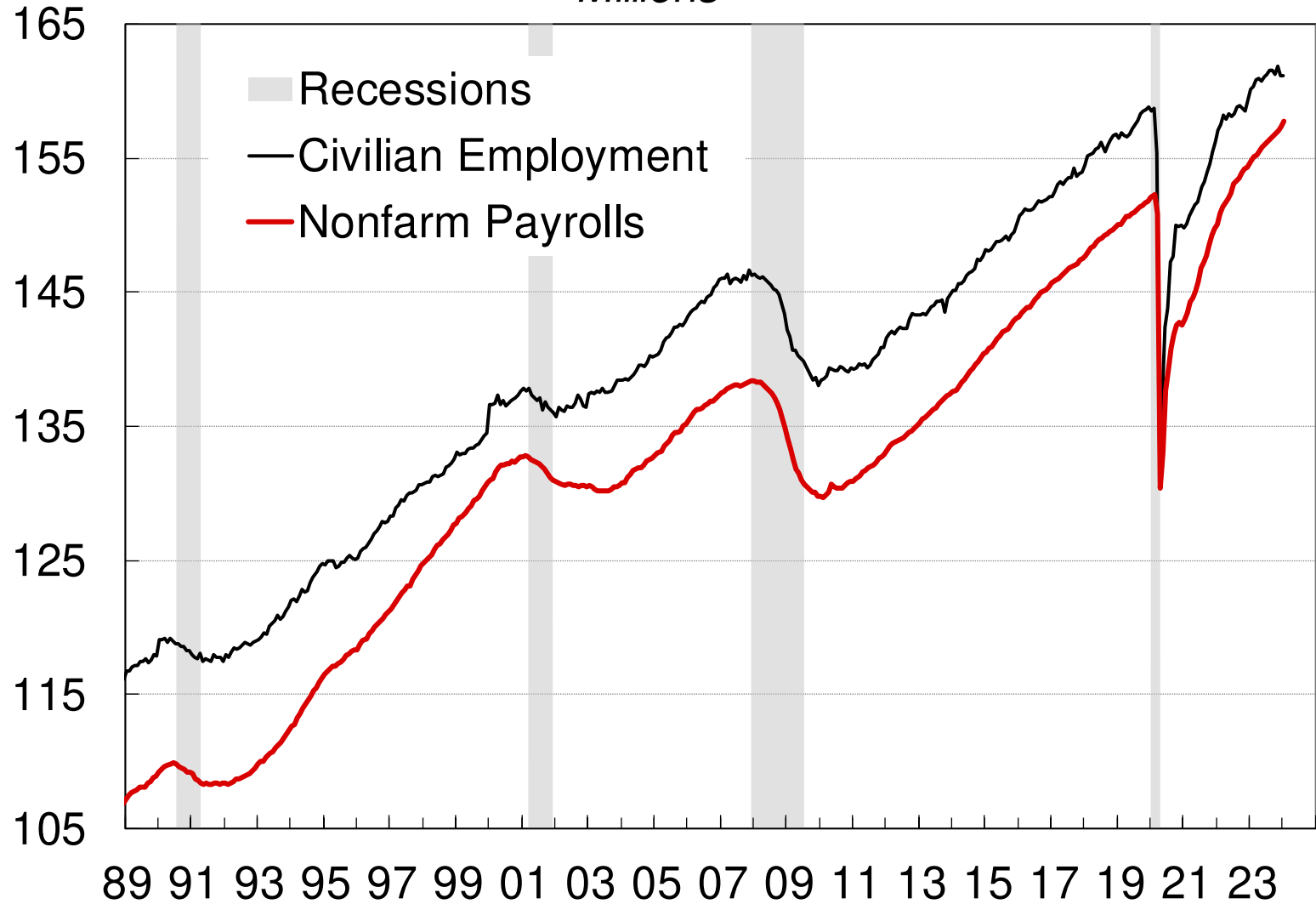
Billion 2017 \$, Seasonally Adjusted Annual Rates



Source: U.S. Bureau of Economic Analysis/FRED

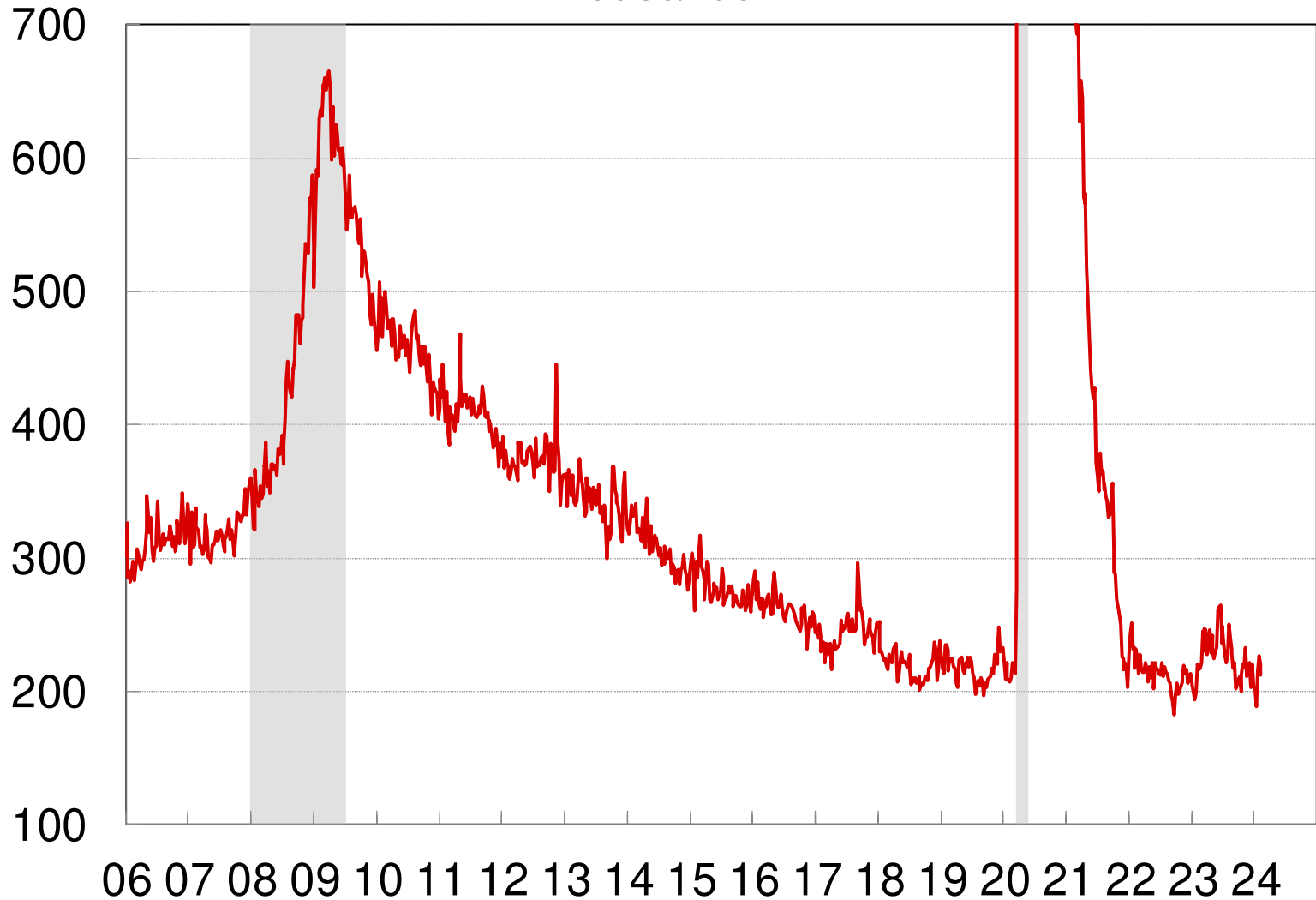
US Employment

Millions



Initial Claims for Unemployment Insurance

Thousands



Source: U.S. Employment and Training Administration/FRED

If we're in a recession, it started this week.

Payroll employment still rising (strongly) through January.

Real personal consumption expenditures still rising through December.

Real personal income excluding transfers still rising through December.

Real manufacturing & trade sales still rising through November.

But

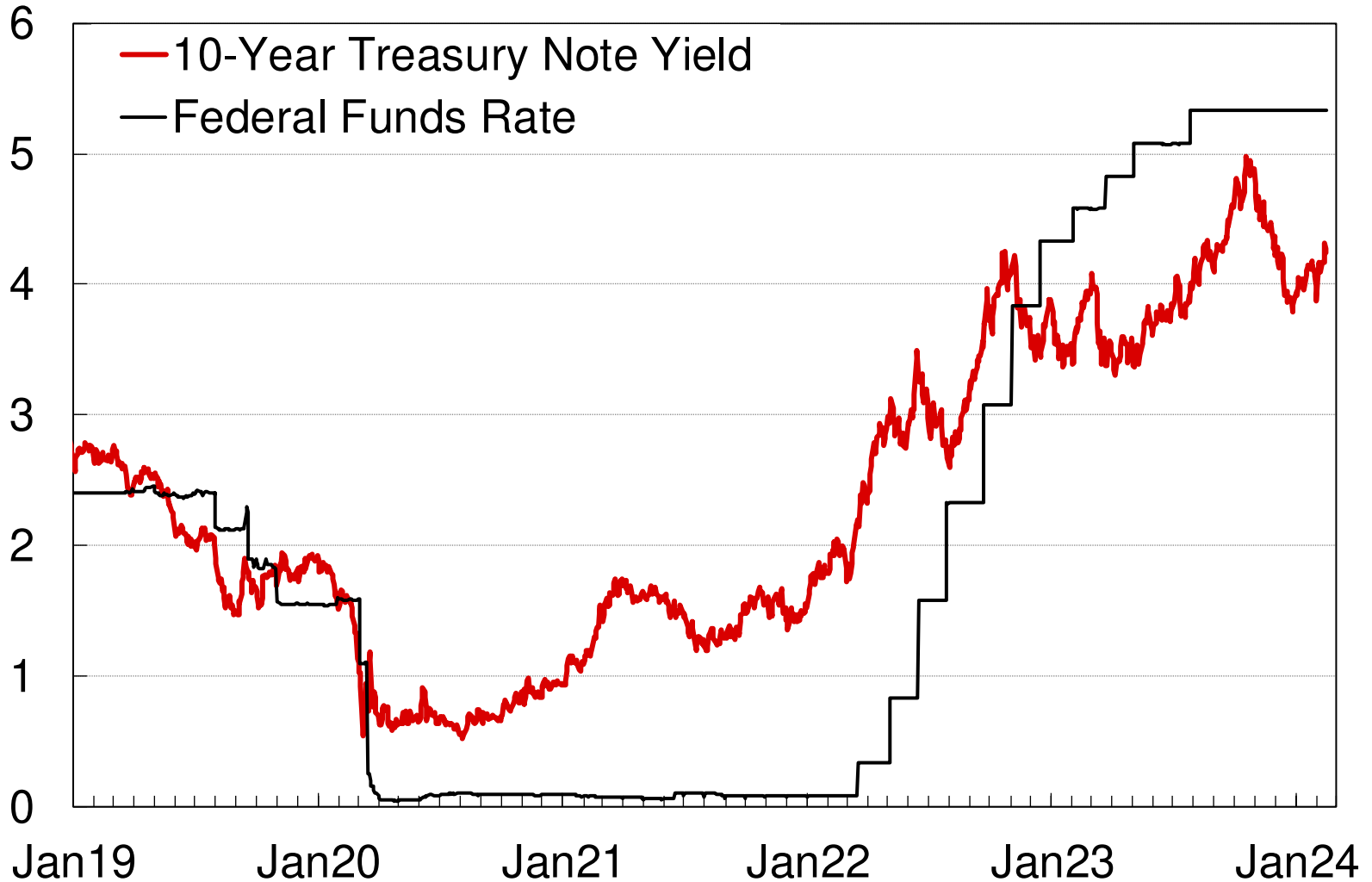
Industrial production peaked in September 2022.

Civilian employment fell in December and January.

ALL DATA ARE SUBJECT TO REVISION!

US Interest Rates

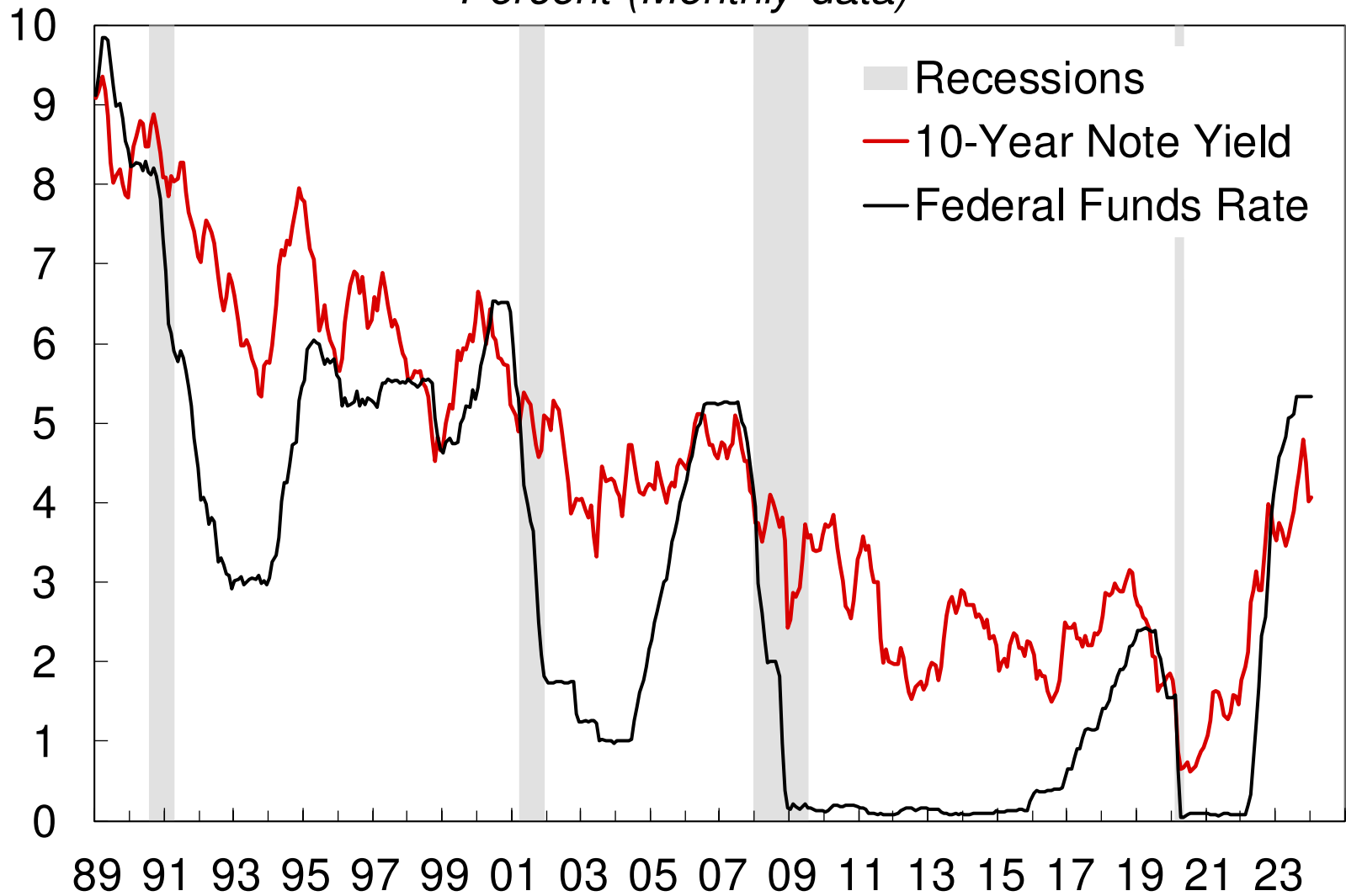
Percent



Source: Board of Governors of the Federal Reserve System (US)/Federal Reserve Bank of New York/FRED

US Interest Rates

Percent (Monthly data)



Leading indicators call for a recession.

Rates have never risen this much without a recession.

Since 1970, yield curve has never been inverted this much without a recession.

M2 has never declined without a recession.

Conference Board's Leading Economic Index has never fallen this much for this long without a recession.

Housing permits/starts and stock prices seemed to signal a recession but have since reversed course.

Why no recession (yet)?

Economy is less interest-sensitive than in the past.

- 2017 TCJA increased standard deduction, reduced deductions for mortgage interest.
- Many businesses locked in long-term financing when interest rates were extremely low.
- Higher interest income of risk-averse elderly savers is offsetting higher interest expenses.

Fiscal stimulus has offset monetary tightening.

- Excess savings from 2020-21 pandemic relief packages.
- Bipartisan Infrastructure Act, CHIPS Act, Inflation Reduction Act.

Monetary policy did work . . . on inflation.

- Share-gaining retailers quickly met declining demand with lower prices.
- Usually money affects volume first, but there is no reason it should.

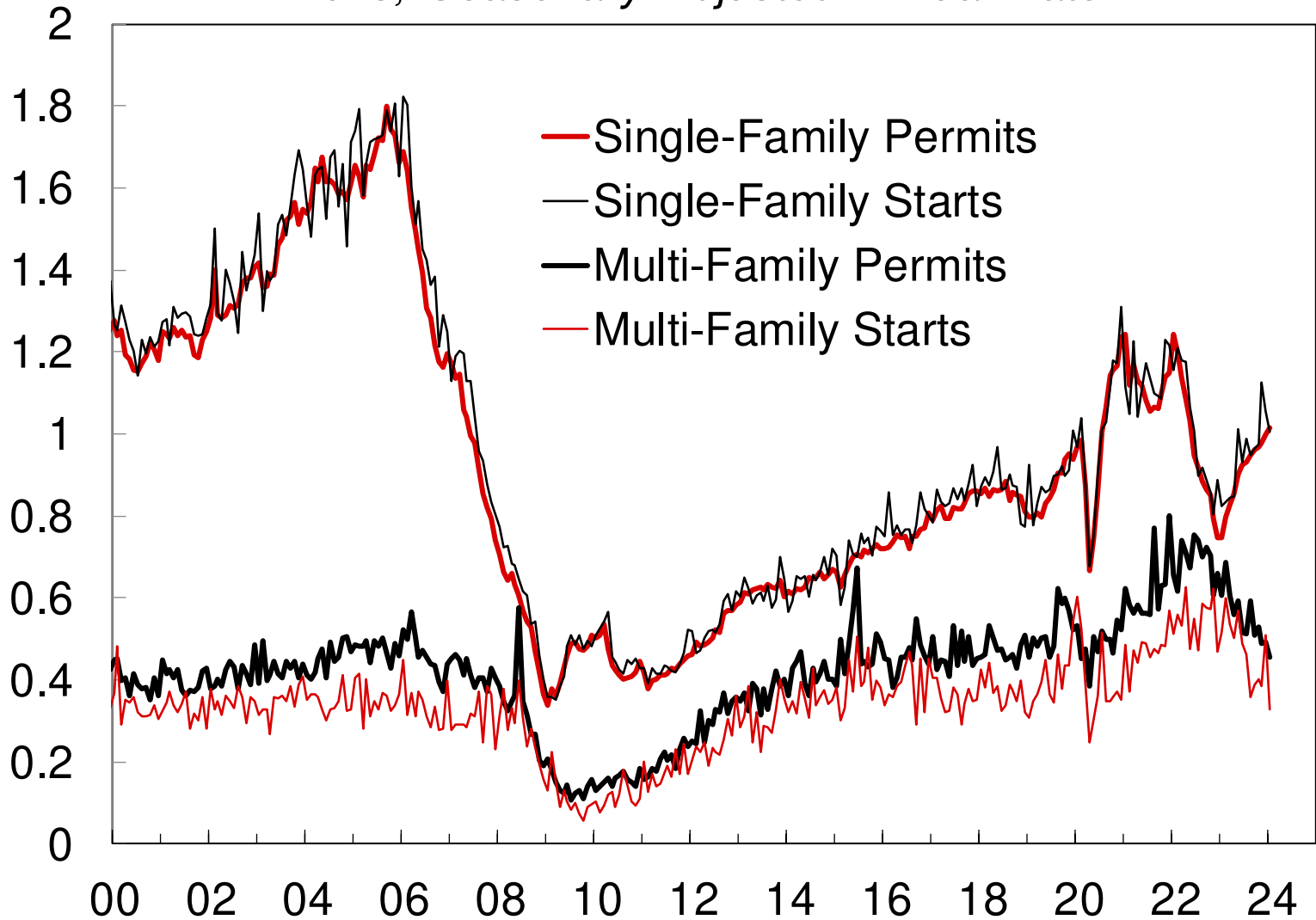
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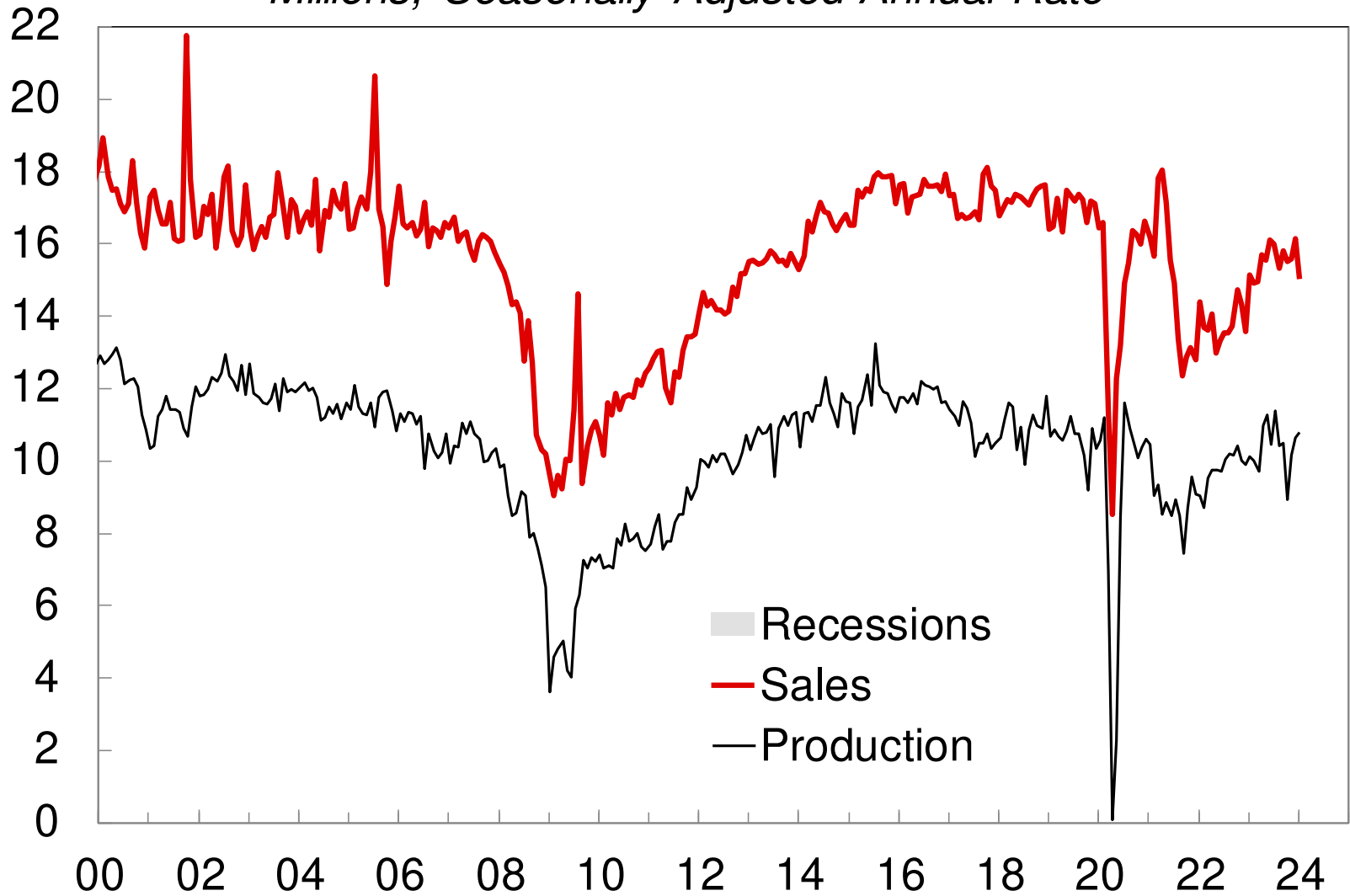
US Housing Starts & Building Permits

Millions, Seasonally Adjusted Annual Rate



US Light Vehicle Sales & Production

Millions, Seasonally Adjusted Annual Rate



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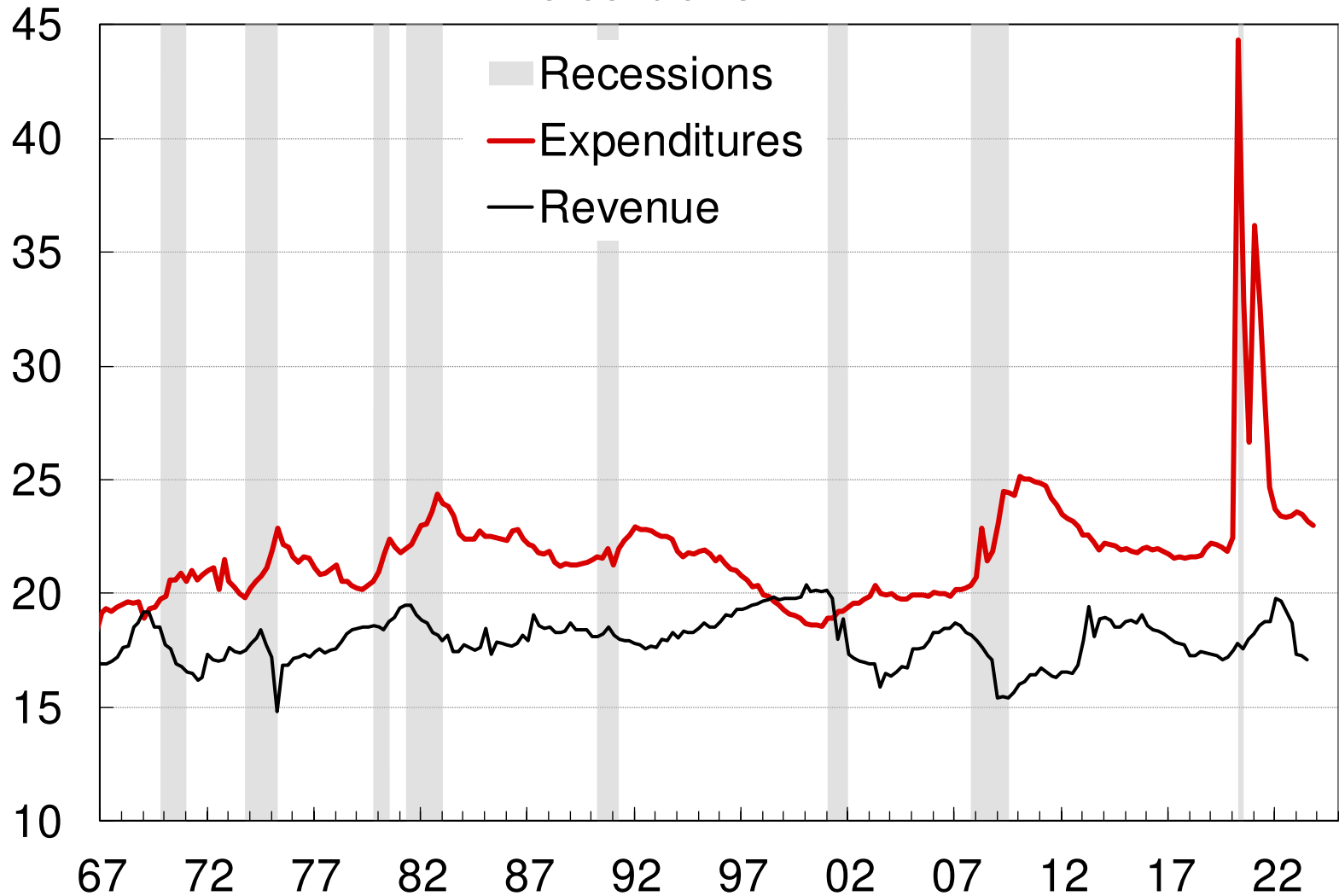
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US Federal Govt Current Expenditures & Revenue *Percent of GDP*



Source: U.S. Bureau of Economic Analysis/FRED

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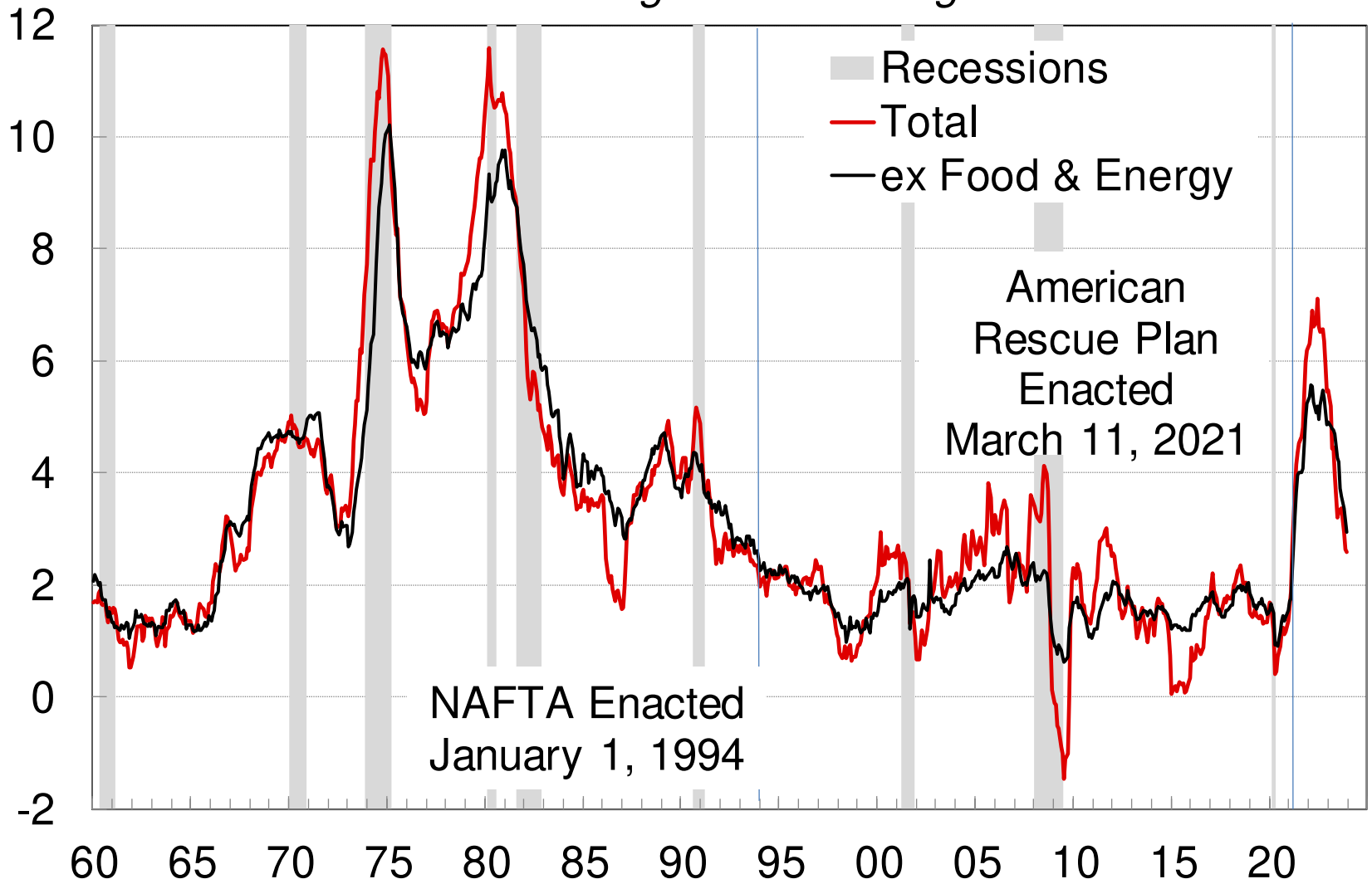
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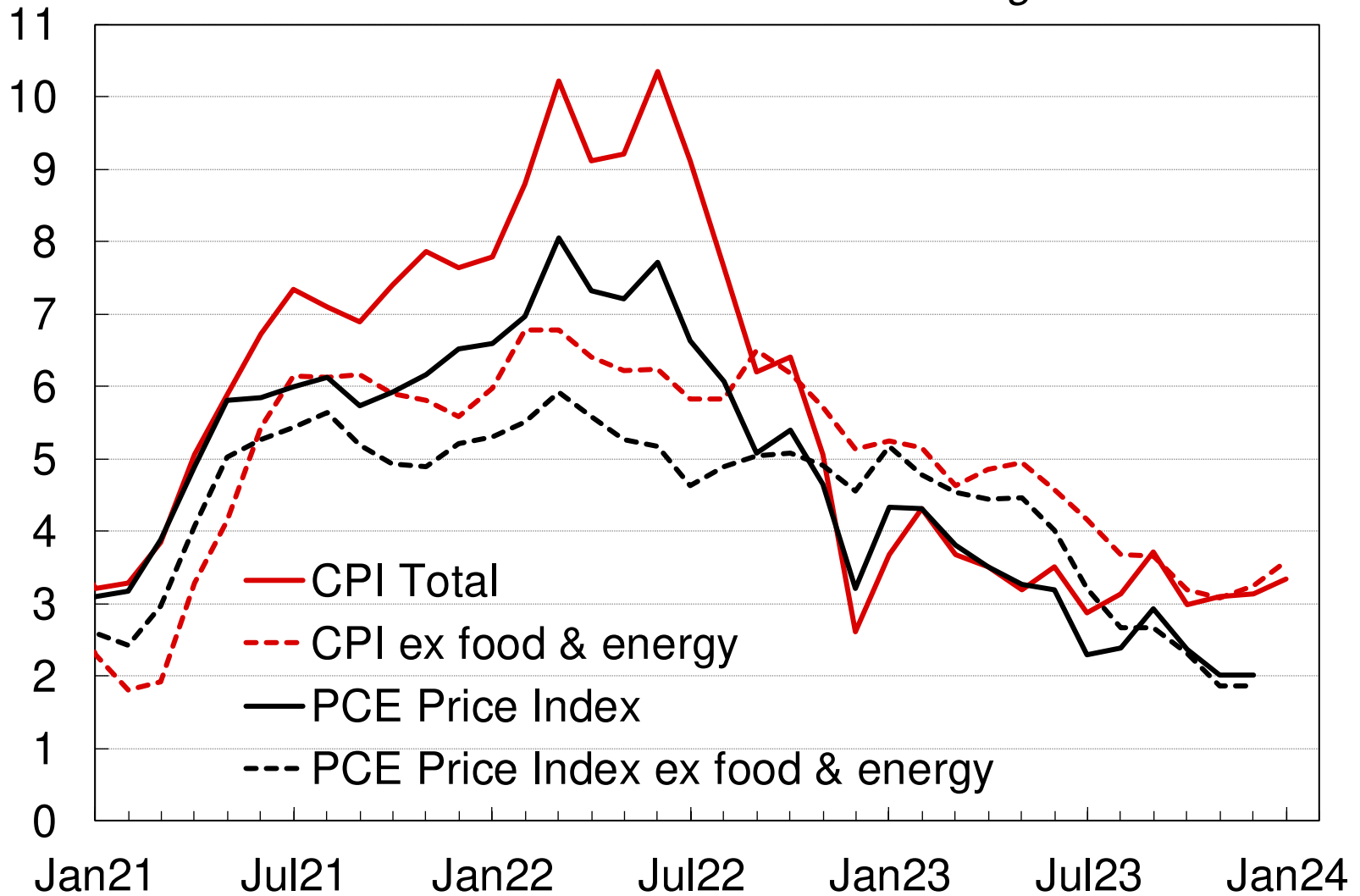
US Personal Consumption Expenditures Price Index

Percent Change from Year Ago



US Price Indexes

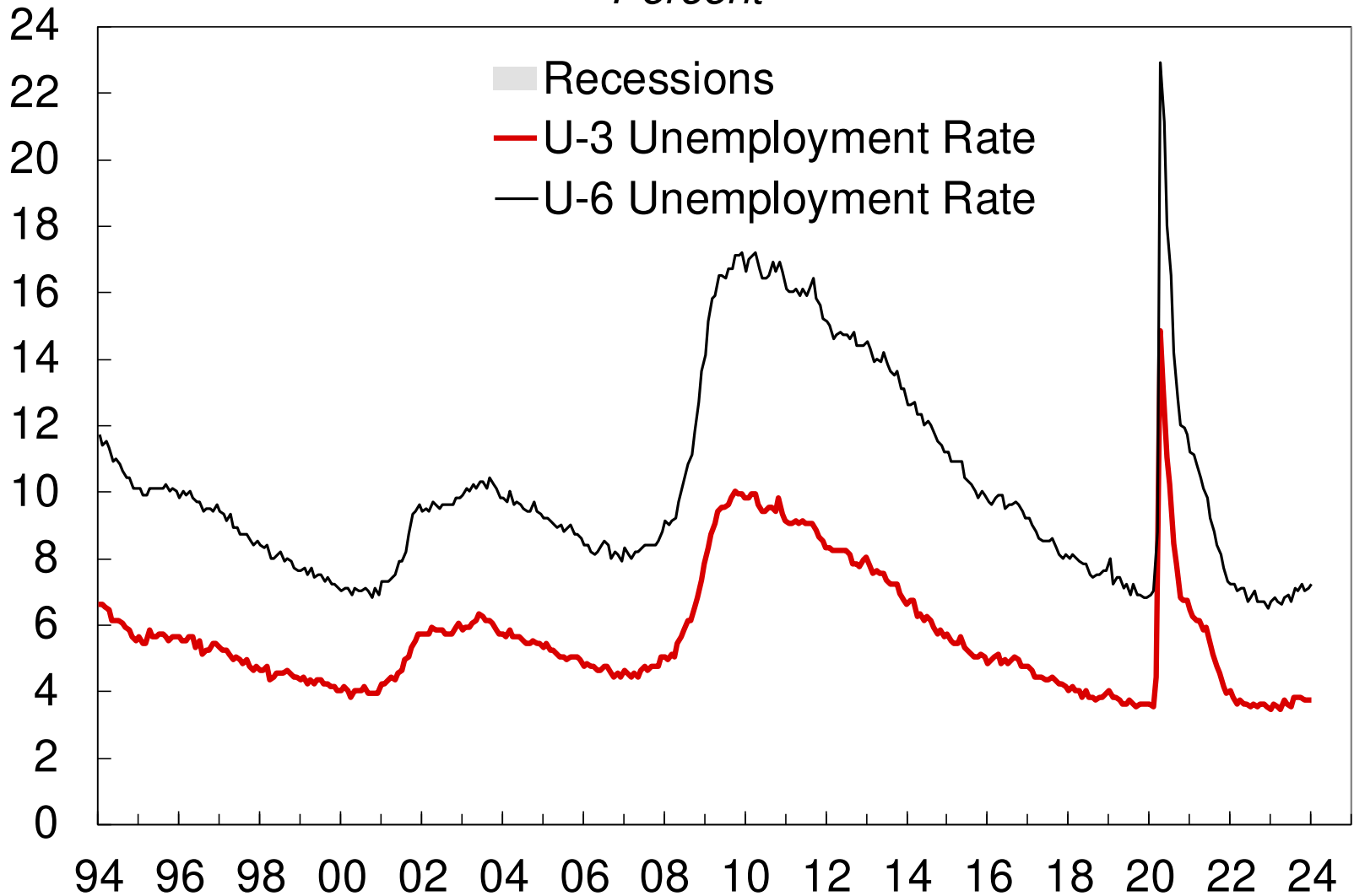
6-Month Annualized Percent Change



Source: U.S. Bureau of Labor Statistics/FRED

US Civilian Unemployment Rate

Percent



Inflation rose and fell faster than the Fed expected

Rise in inflation was bigger and more persistent than the Fed expected. Fed had to raise rates more than it planned.

Supply CONSTRAINTS boosted PRICES.

- Supply **constraints** were due mostly to strong demand and restocking, not to supply **disruptions**. Imports & semiconductor shipments set records.

“Inflation” has come back down.

- Did monetary tightening work without hurting the US economy?
- Did weakness abroad (China, Europe) bring down inflation?
- Was apparent increase in “inflation” really a one-off jump in prices?

Inflation has never fallen this much without a recession.

The Fed is done. But has the damage been done?

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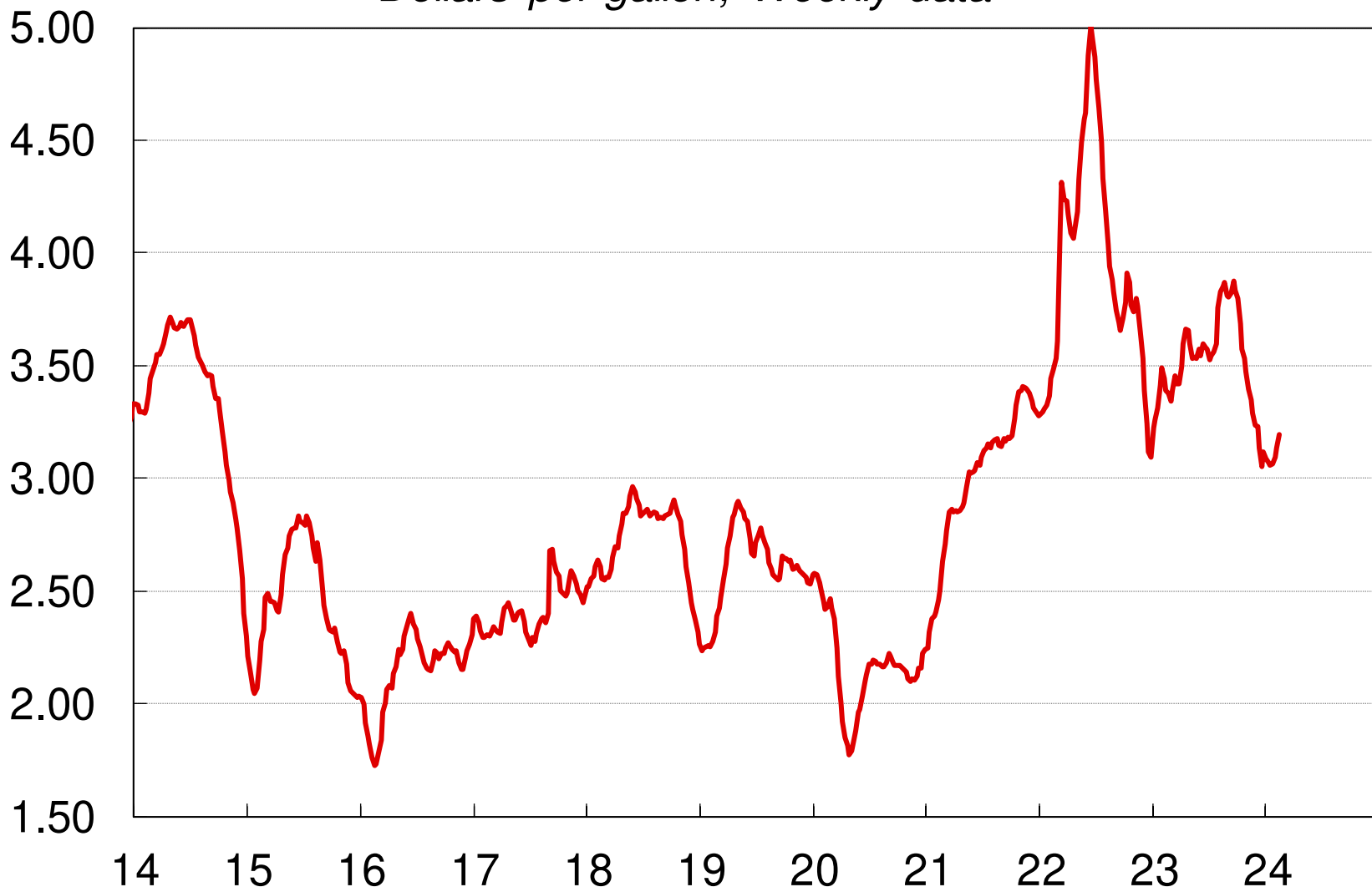
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US Regular Gasoline Price

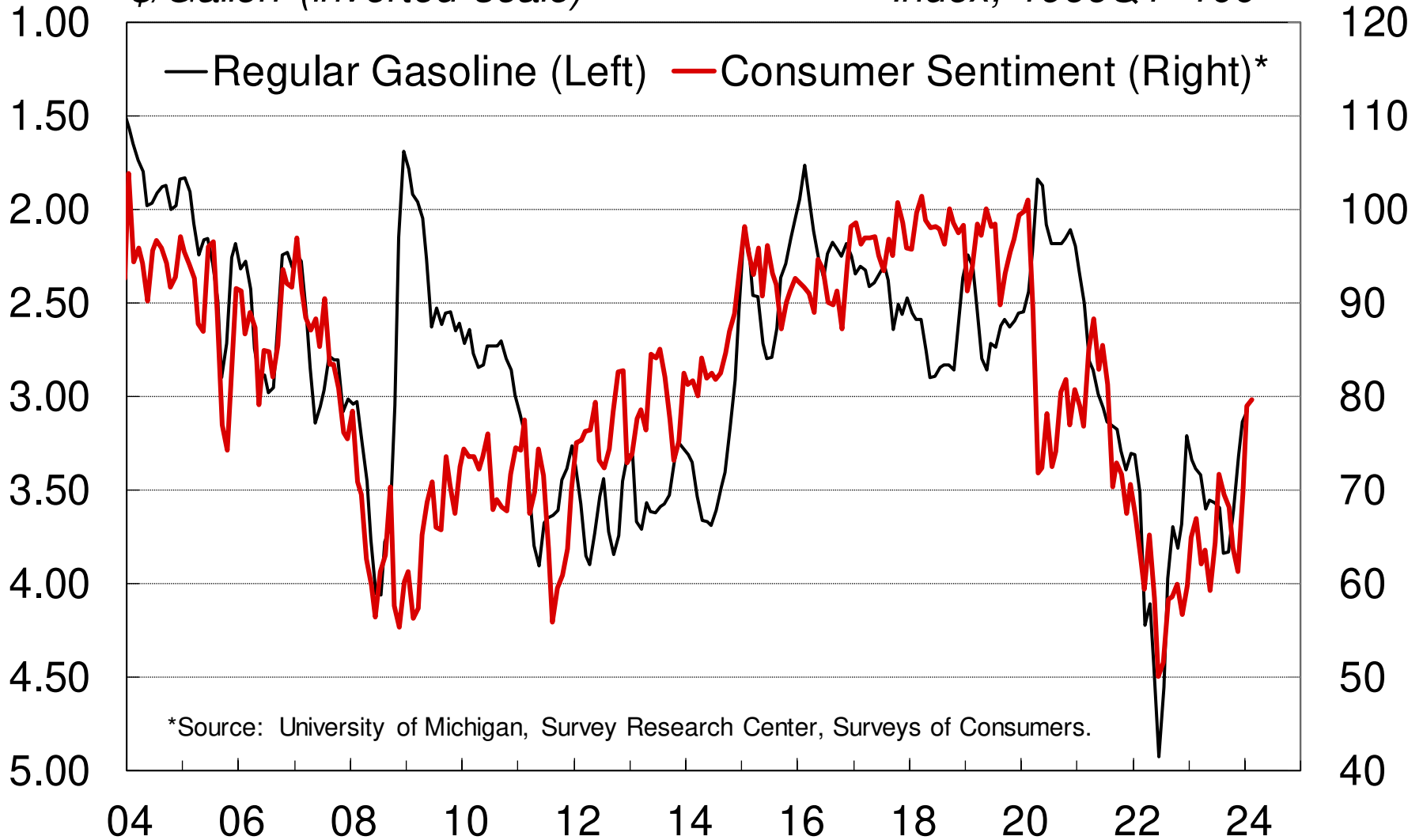
Dollars per gallon, Weekly data



Gasoline Price and Consumer Sentiment

\$/Gallon (inverted scale)

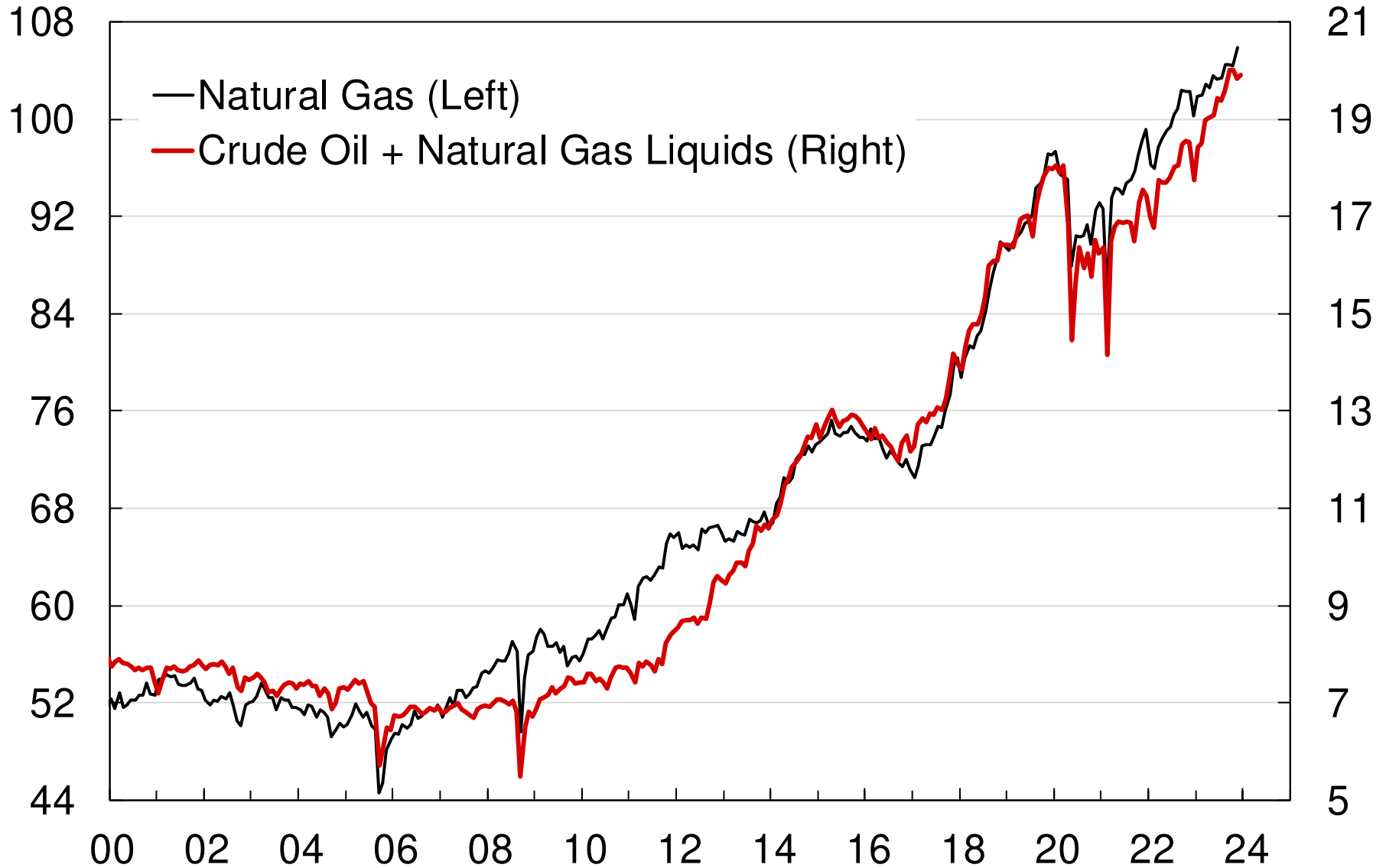
Index, 1966Q1=100



US Oil & Gas Production

Billion Cubic Feet per Day

Million Barrels per Day



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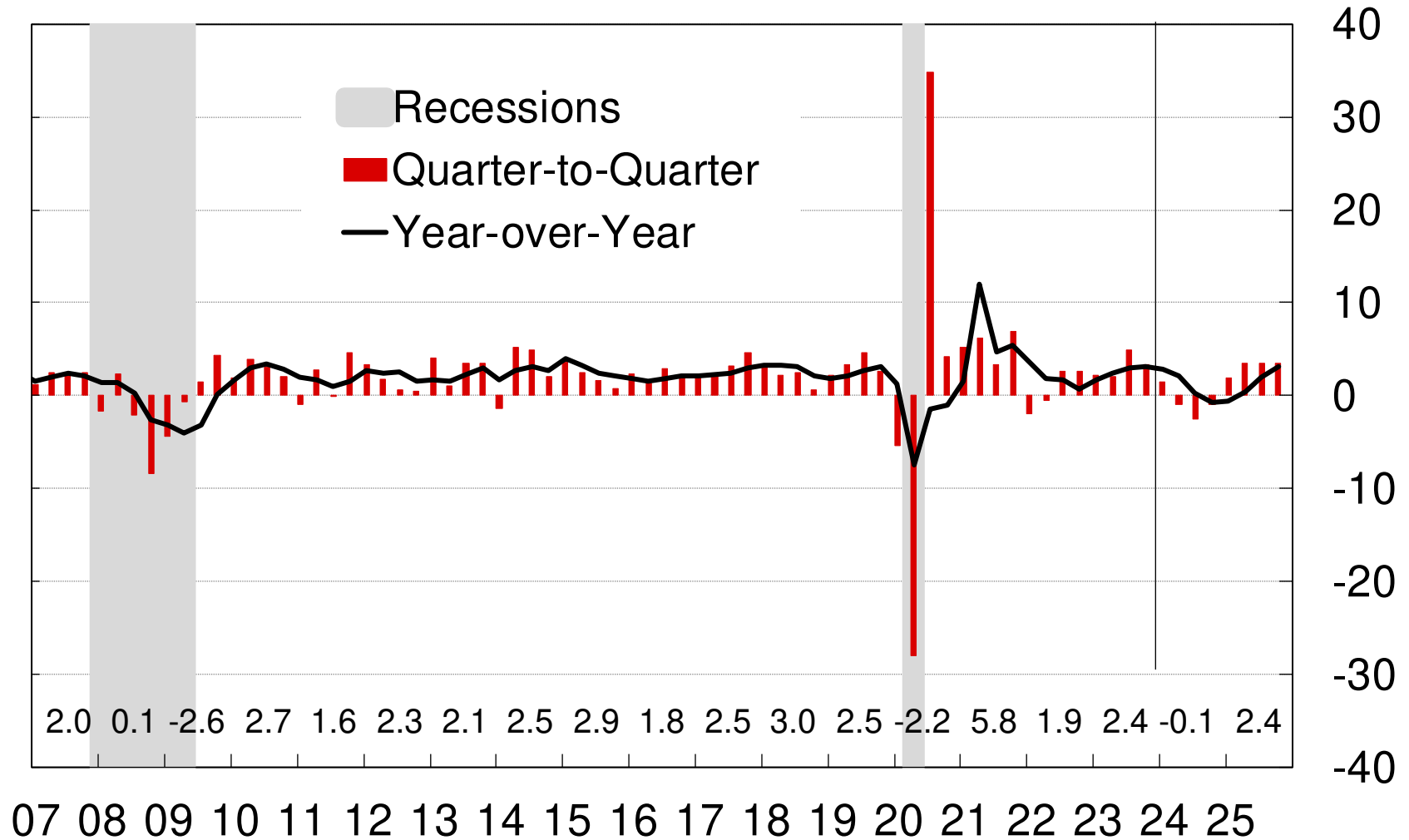
“The crisis takes a much longer time coming than you think and then it happens much faster than you would have thought.”

Rudiger Dornbusch
1942-2002



US Real Gross Domestic Product

Annualized Growth Rates



**“The race isn’t
always to the swift,
nor the battle to the
strong, but that’s
the way to bet.”**

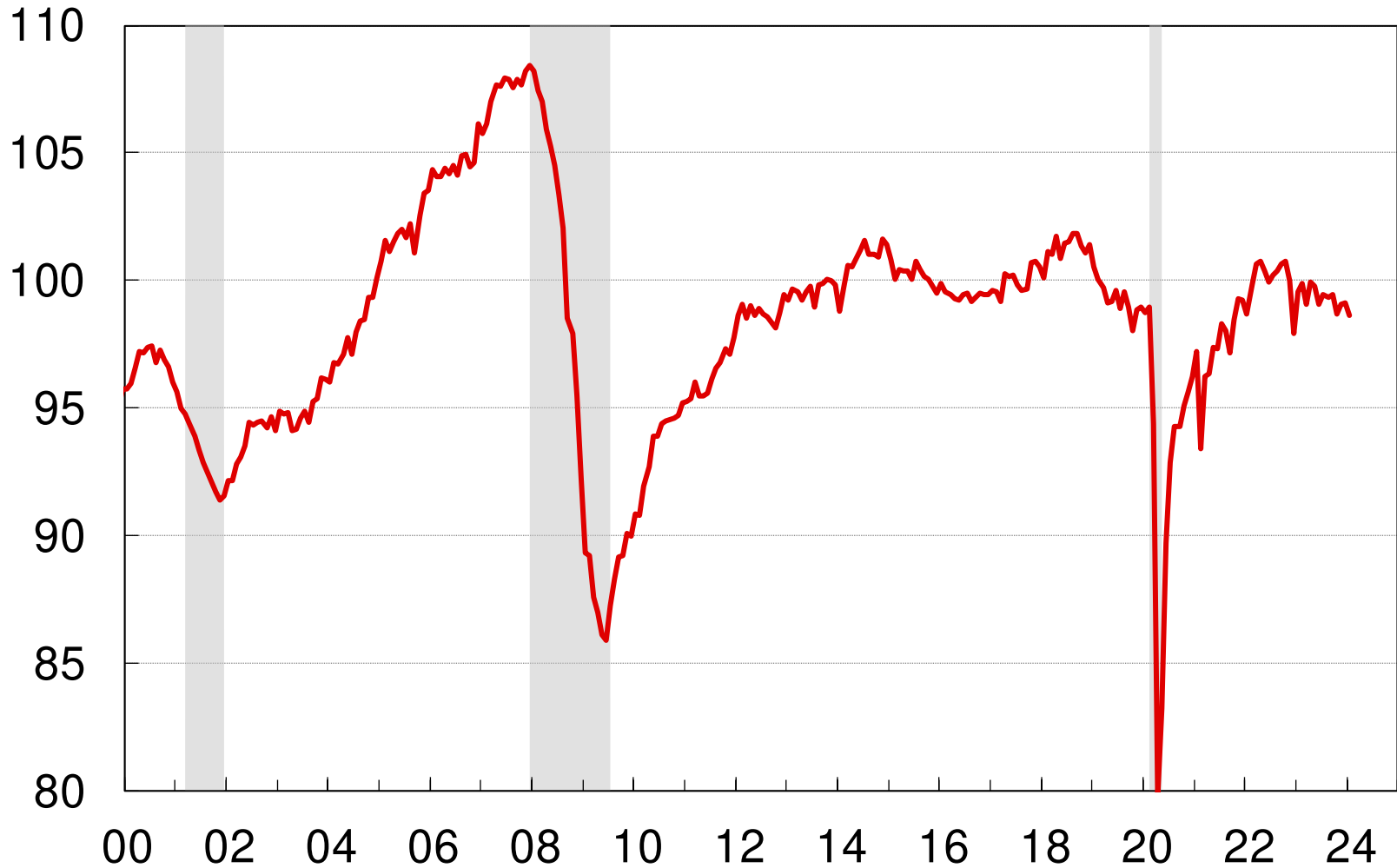
**Damon Runyon
1880-1946**



Industry Detail

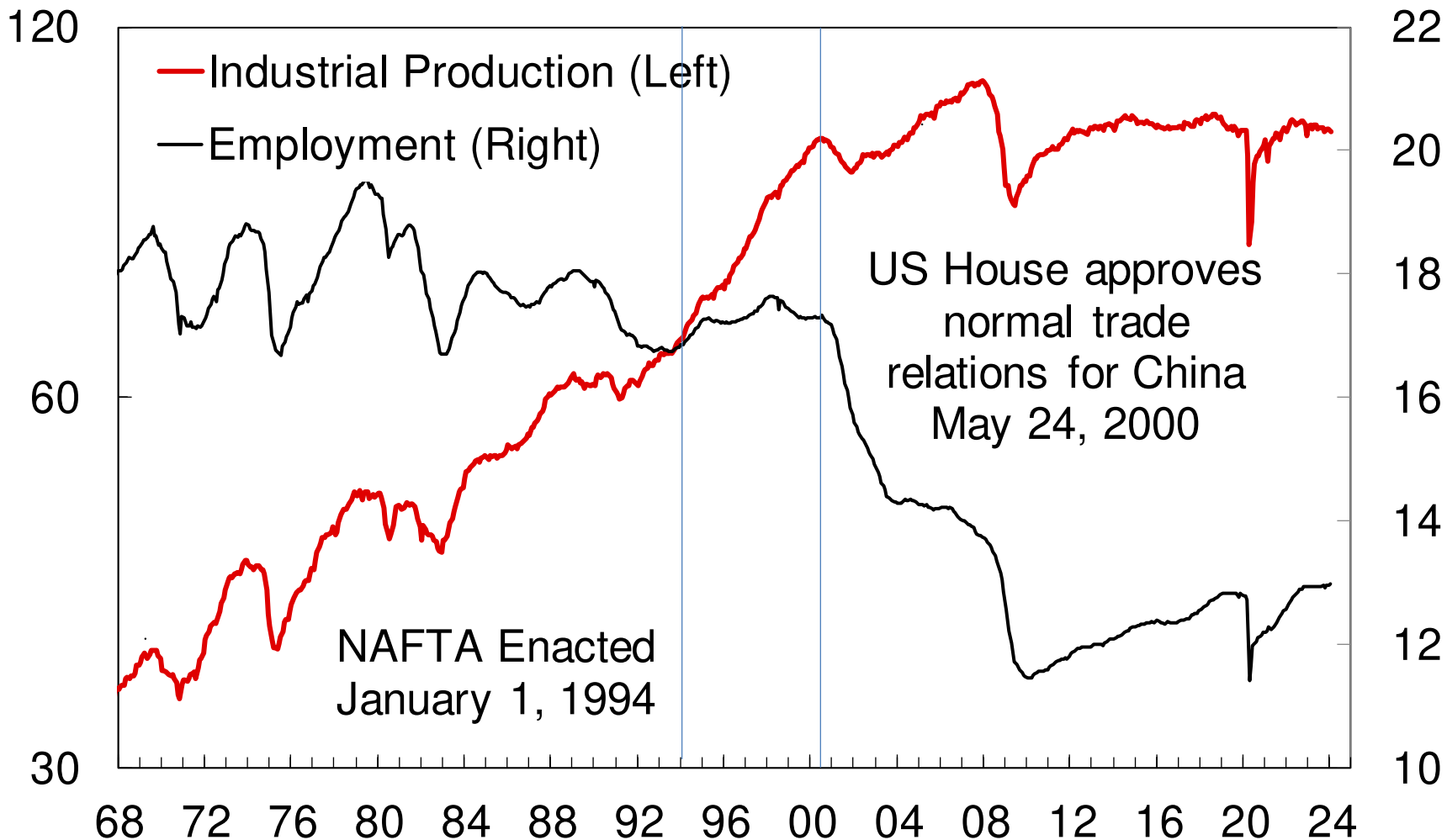
US Industrial Production: Manufacturing

Index, 2017=100



US Industrial Production & Employment: Manufacturing

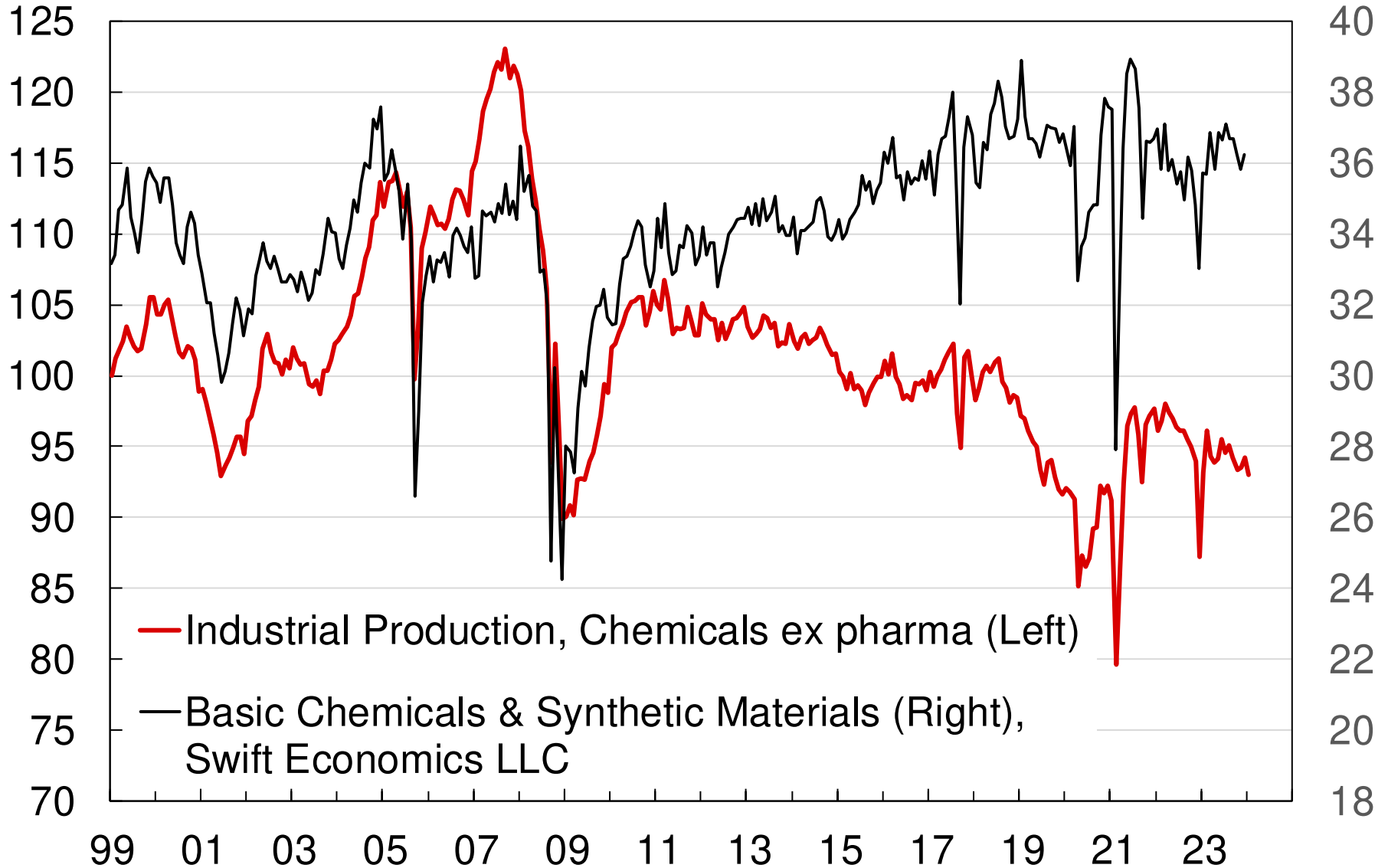
Index, 2017=100 *Millions*



Chemical Production: Federal Reserve vs Kevin Swift

Index, 2017=100

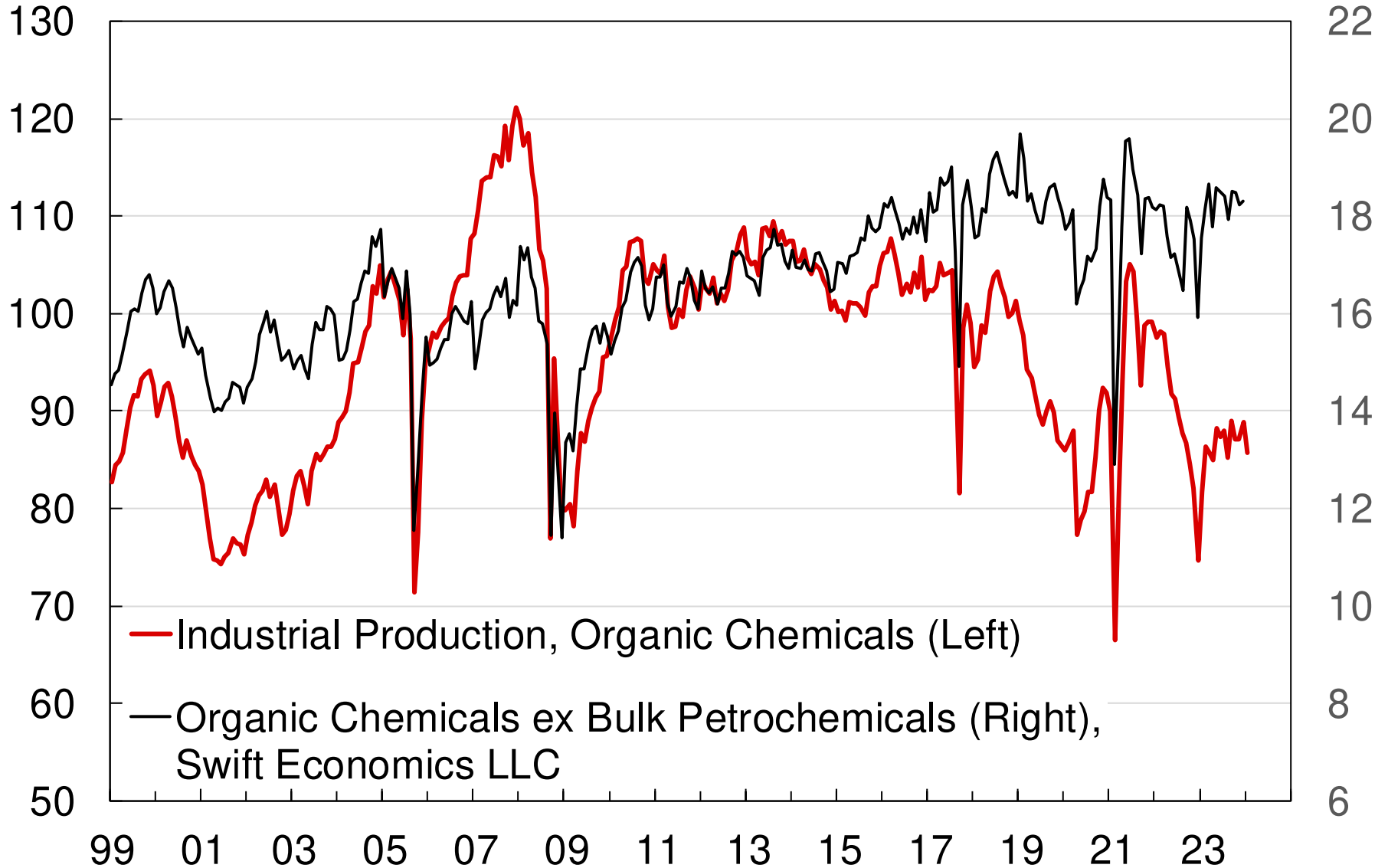
Million Metric Tonnes



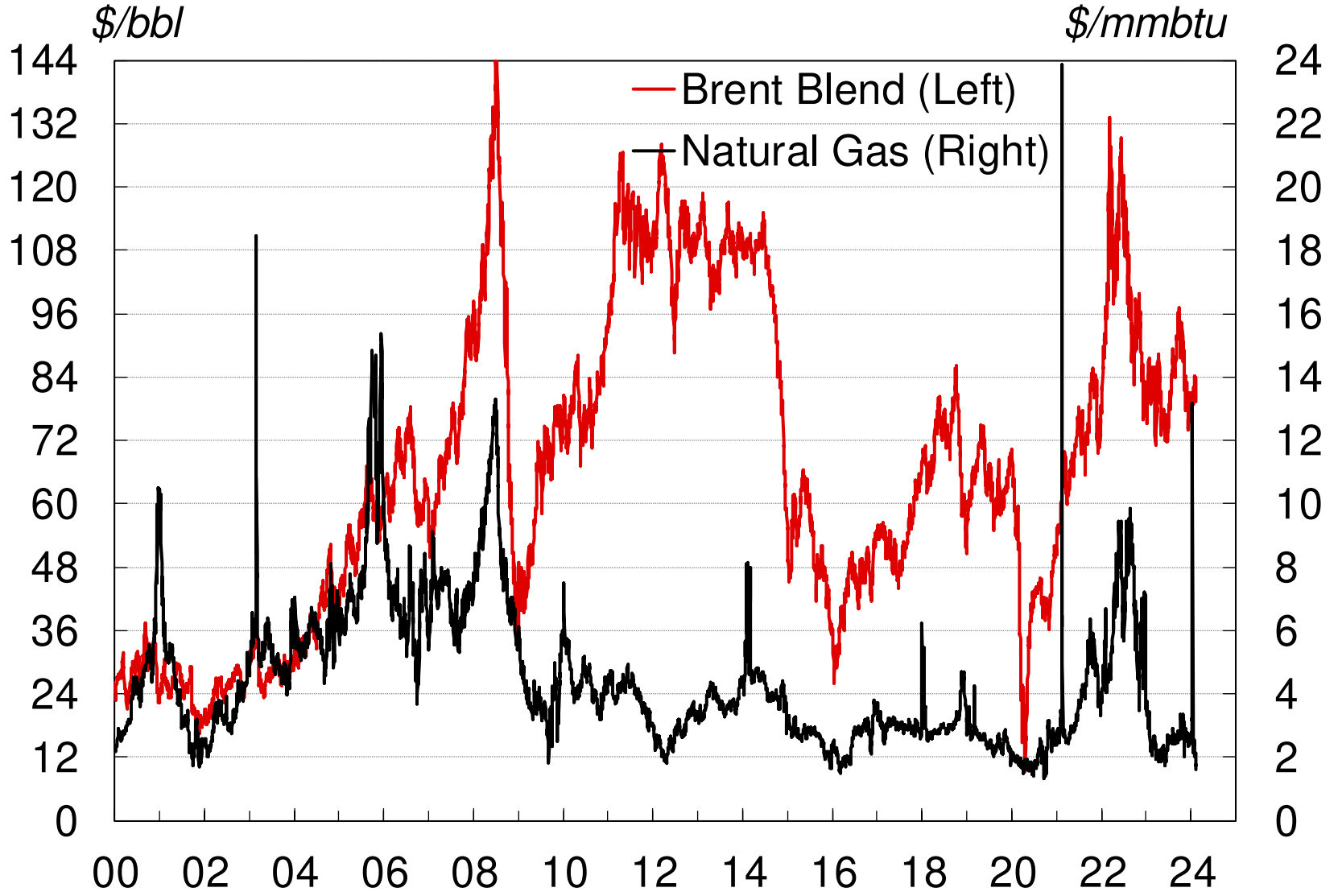
Chemical Production: Federal Reserve vs Kevin Swift

Index, 2017=100

Million Metric Tonnes



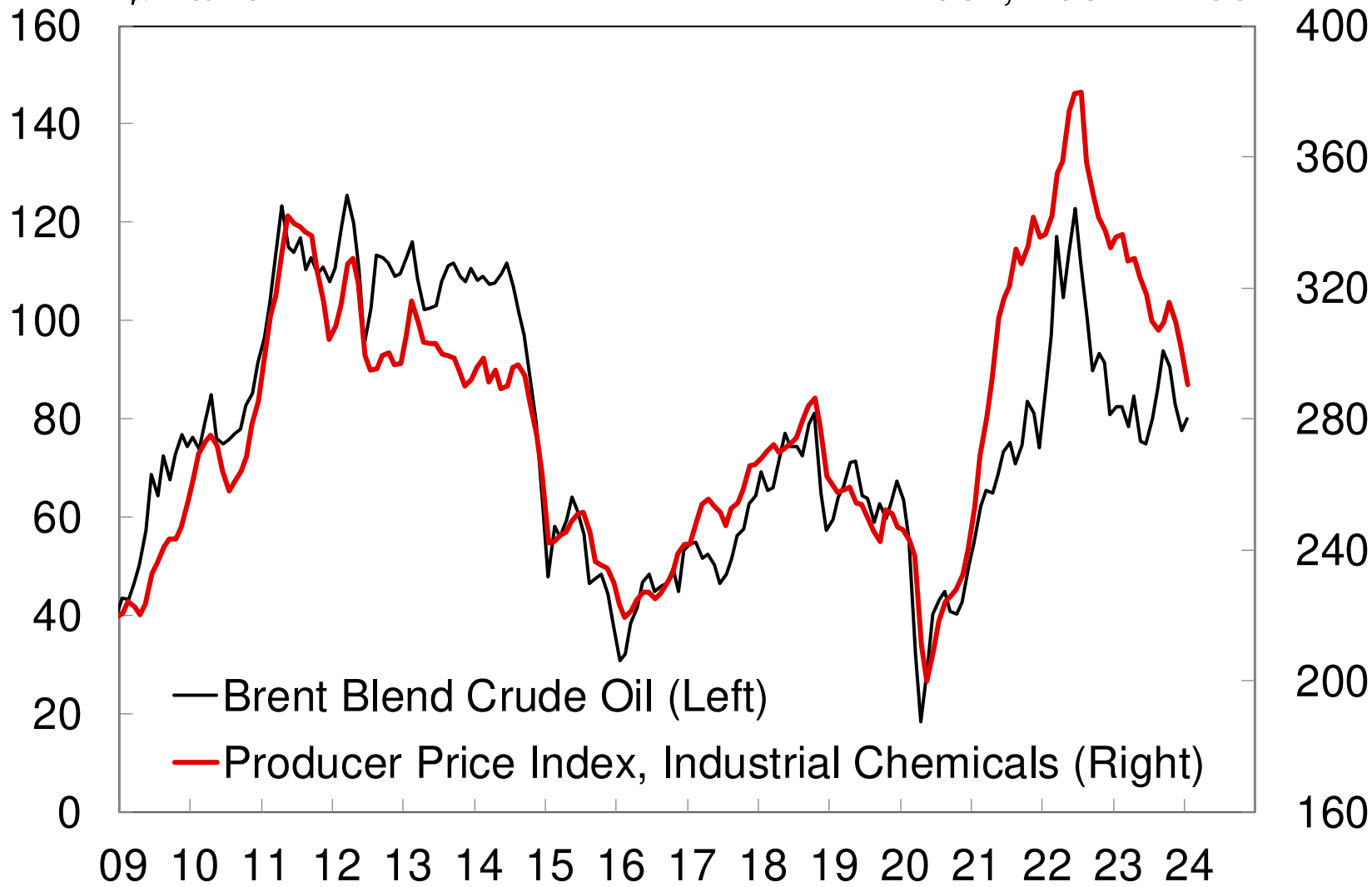
Global Crude Oil and US Natural Gas Spot Prices



Brent Oil Price vs Industrial Chemical Prices

\$/Barrel

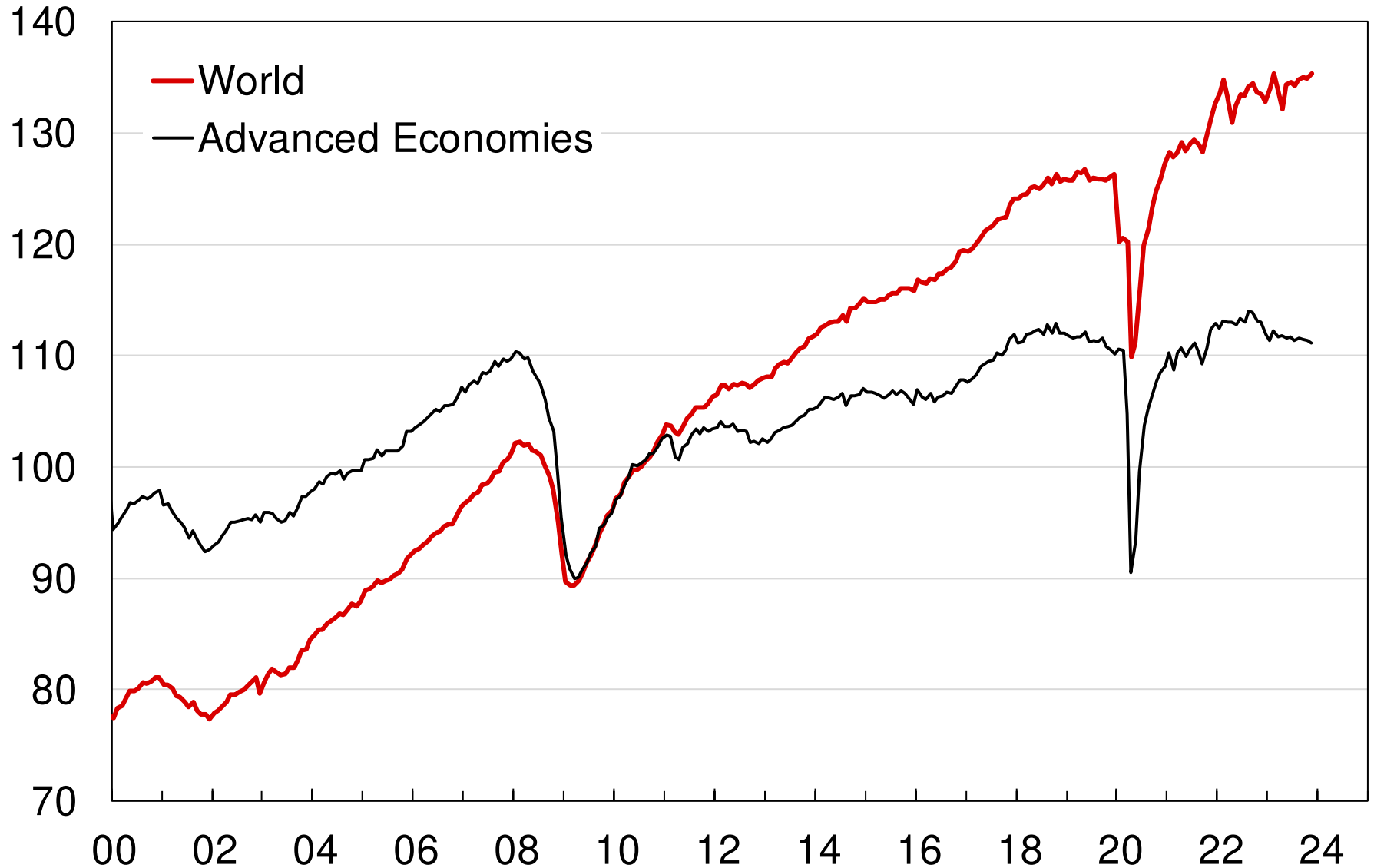
Index, 1982 = 100



Global Overview

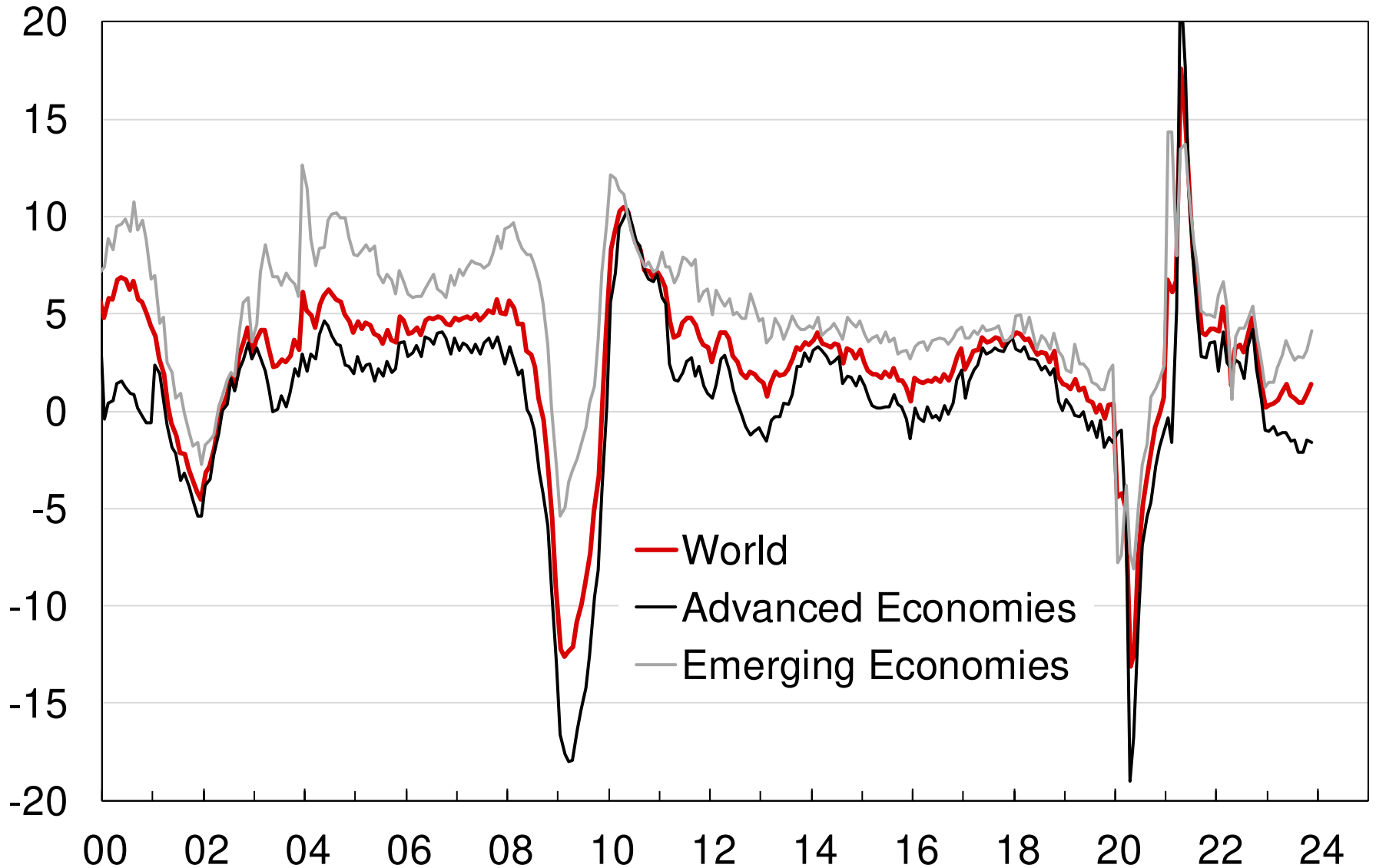
Industrial Production ex Construction

Index, 2010 = 100



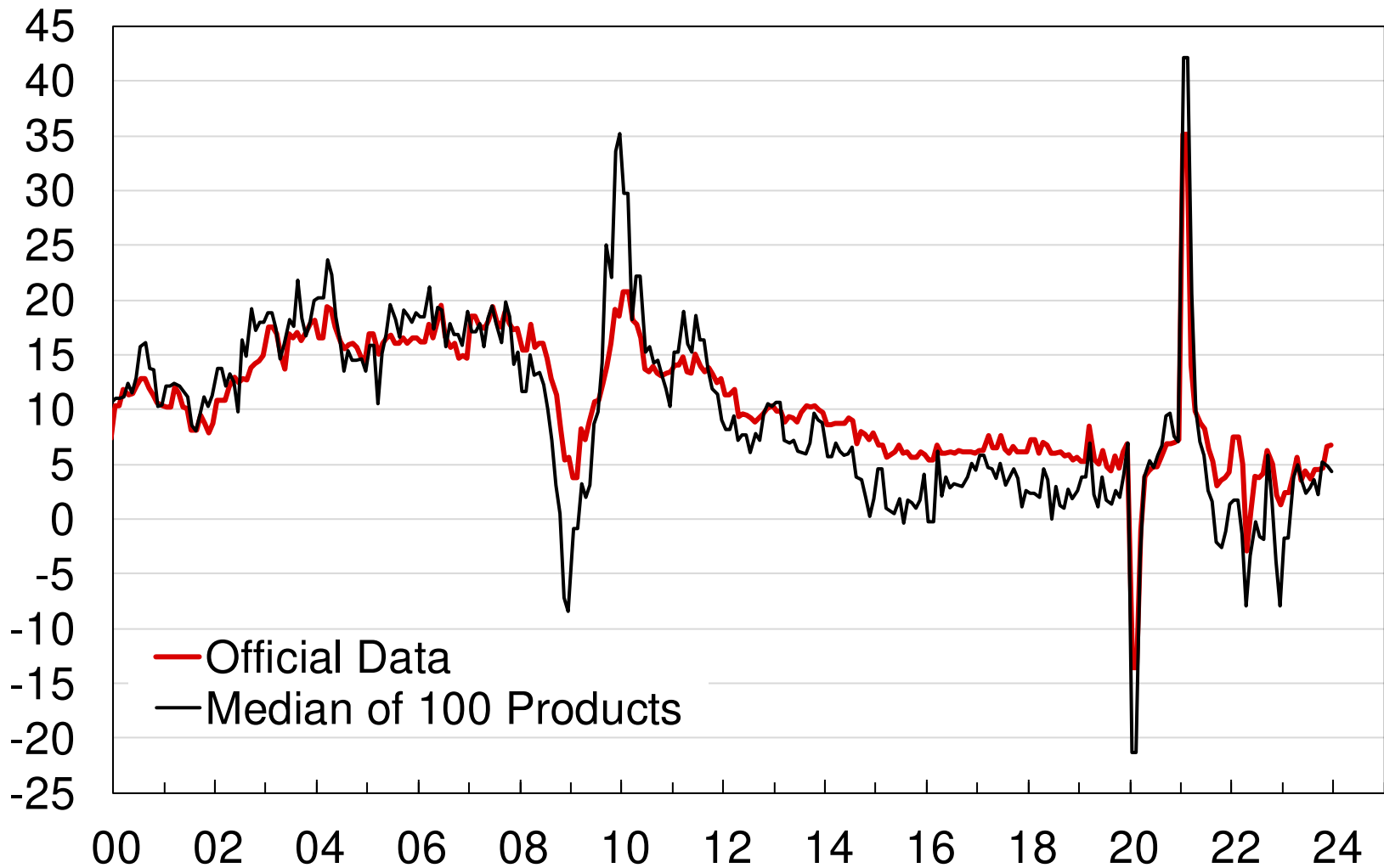
Industrial Production ex Construction

Percent Change from Year Ago



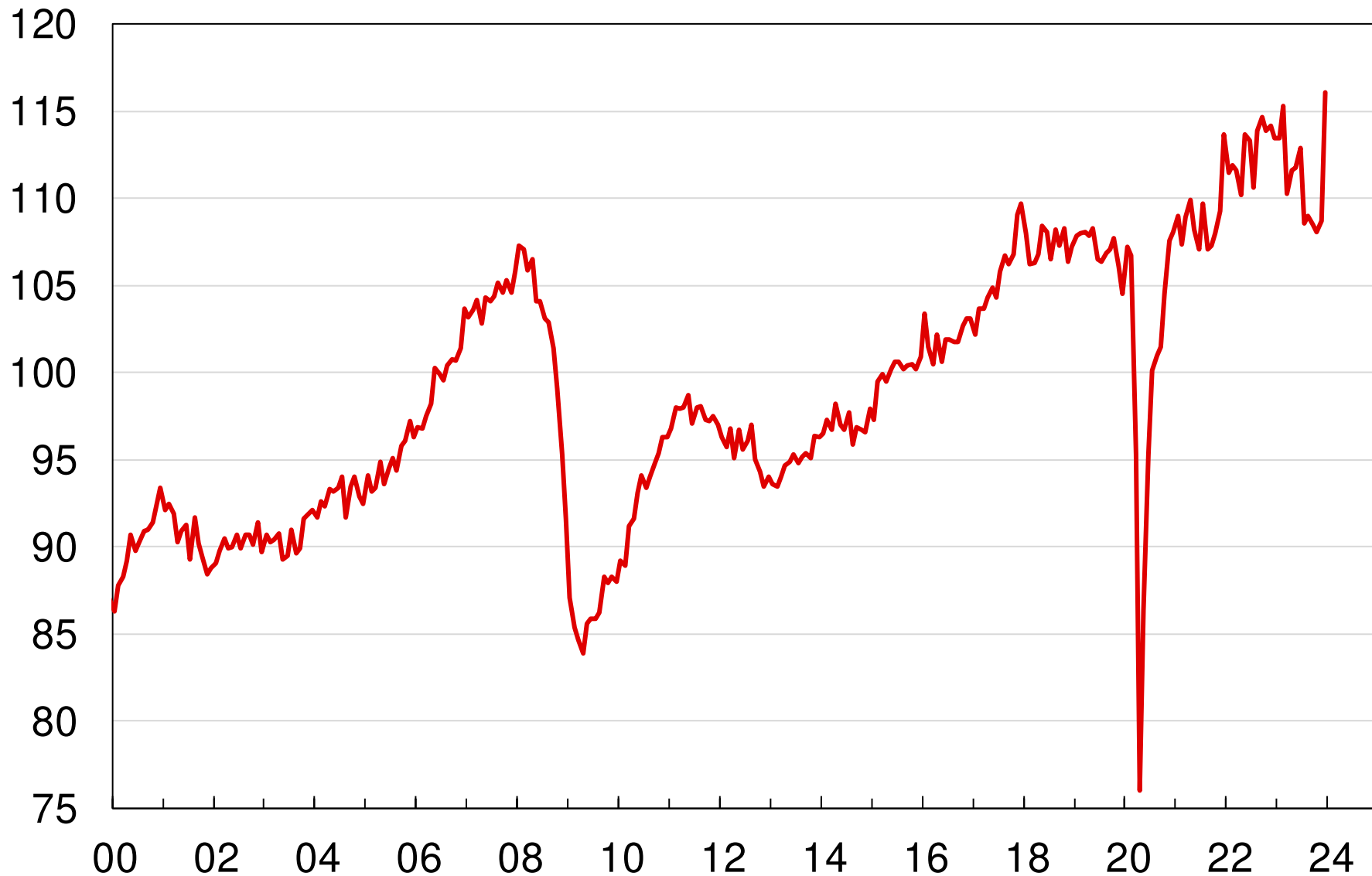
Value Added of Industry (Industrial Production): China

Percent Change from Year Ago



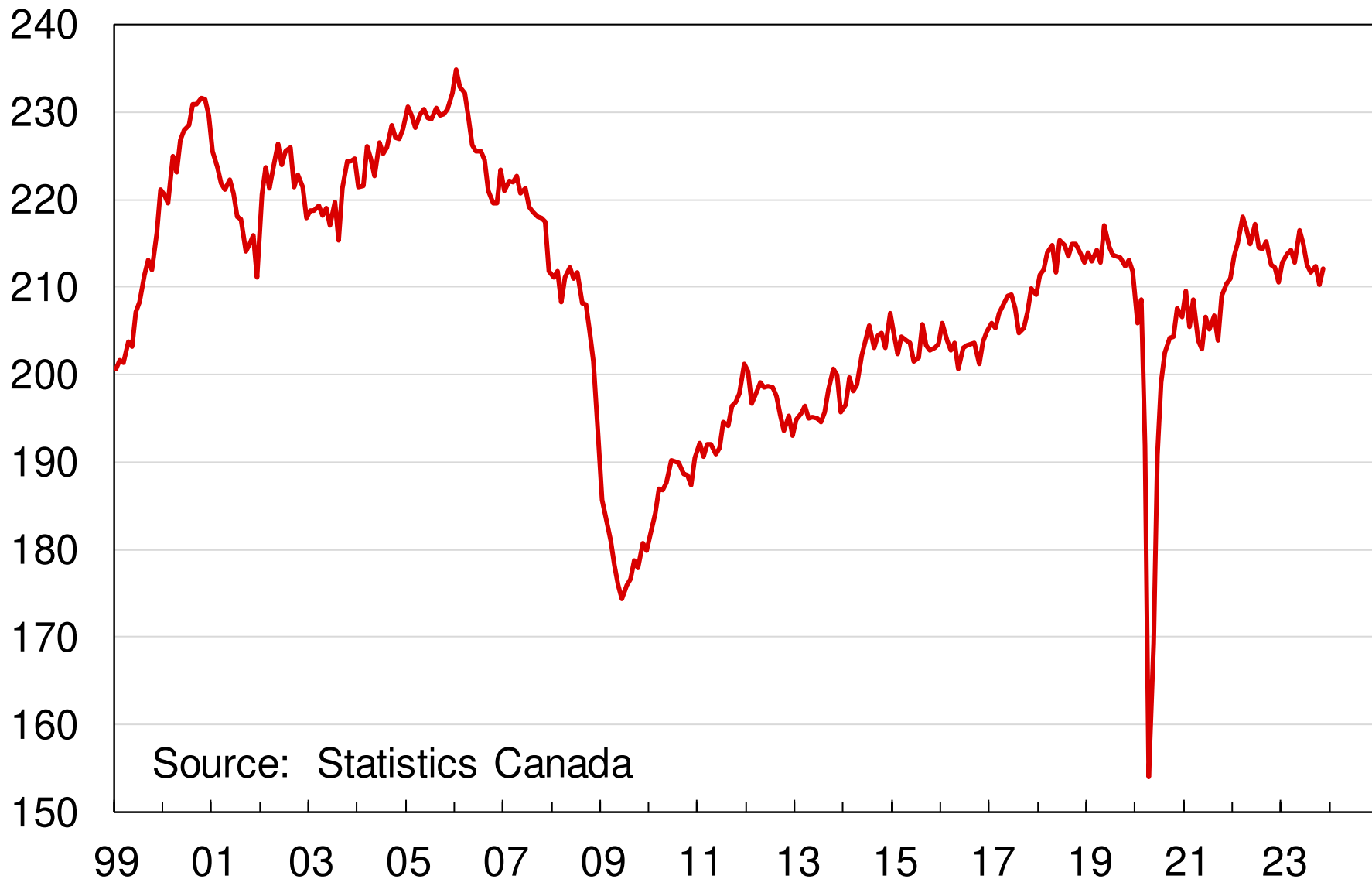
Industrial Production, Manufacturing: European Union

Index, 2015 = 100



Real GDP at Basic Prices, Manufacturing: Canada

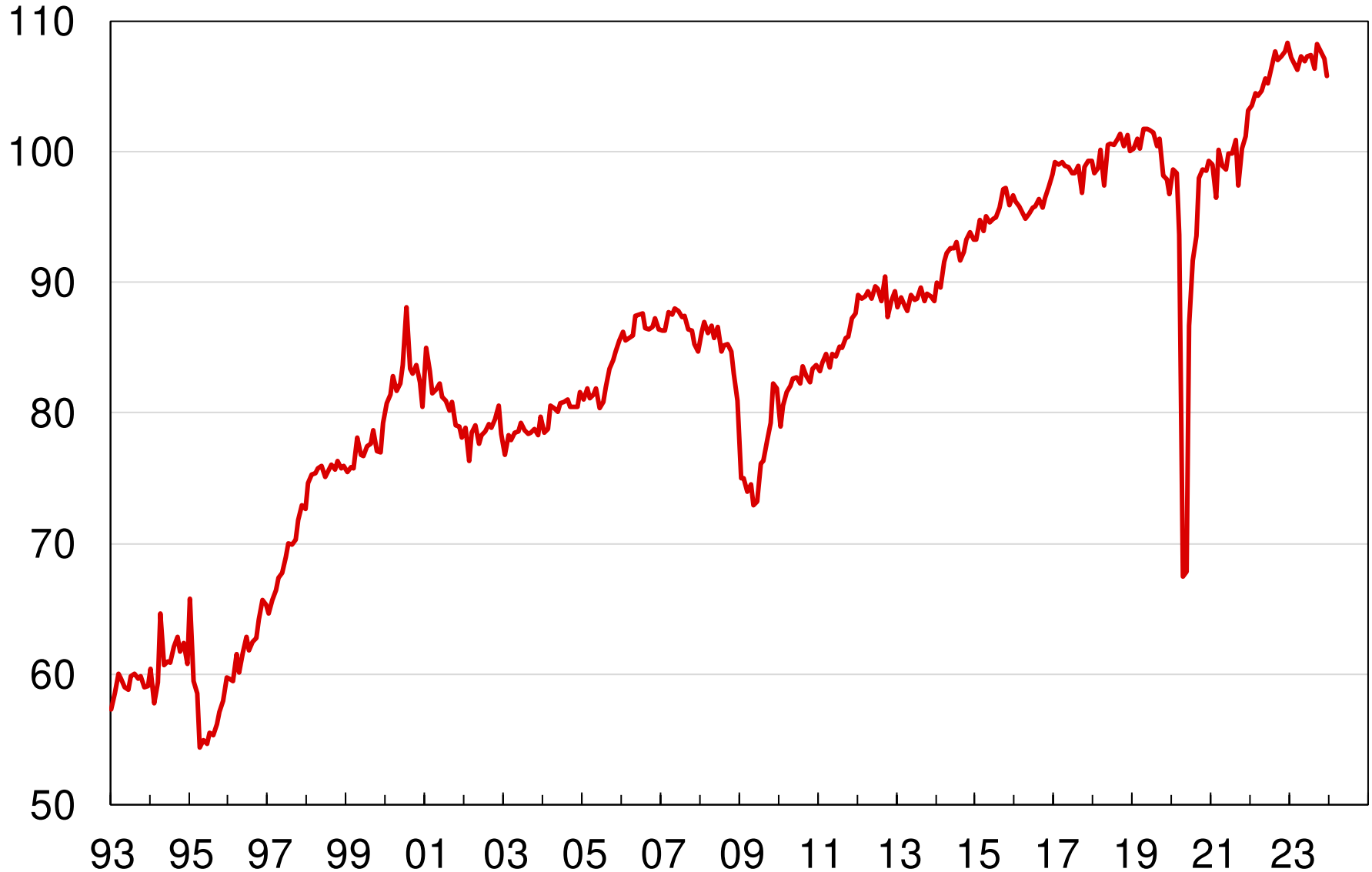
Billion 2017 Chained Canadian Dollars



Source: Statistics Canada

Industrial Production, Manufacturing: Mexico

Index, 2018 = 100



Key takeaways

Risk of US recession has come down but remains elevated despite persistent growth and big decline in inflation.

If we don't get a recession, we won't get big rate cuts and a strong 2025 recovery.

Germany, UK, and Japan already in recession.

Chinese growth at risk from shrinking population, bad policy.

The US recession has important implications for the 2024 Presidential election, but not as big as in past.

Longer term

Labor is likely to remain the scarce factor of production.

- Labor shortage is demographics, not just COVID fears and bad policies.
- Seven highest years for US births were 1956-62.

Reshoring looks increasingly attractive but will be limited.

- Pandemic, geopolitics, port/shipping constraints argue for moving supply chains out of China and to North America.
- Capital-intensive business can move to US. Labor-intensive business can't (without major immigration reform).

Fed has probably learned to go big, but to reverse course sooner.

Fiscal policy will be constrained by size of debt/deficit.

Debt burden, “sub-optimal” policies could slow long-term growth.

Robert Fry Economics LLC

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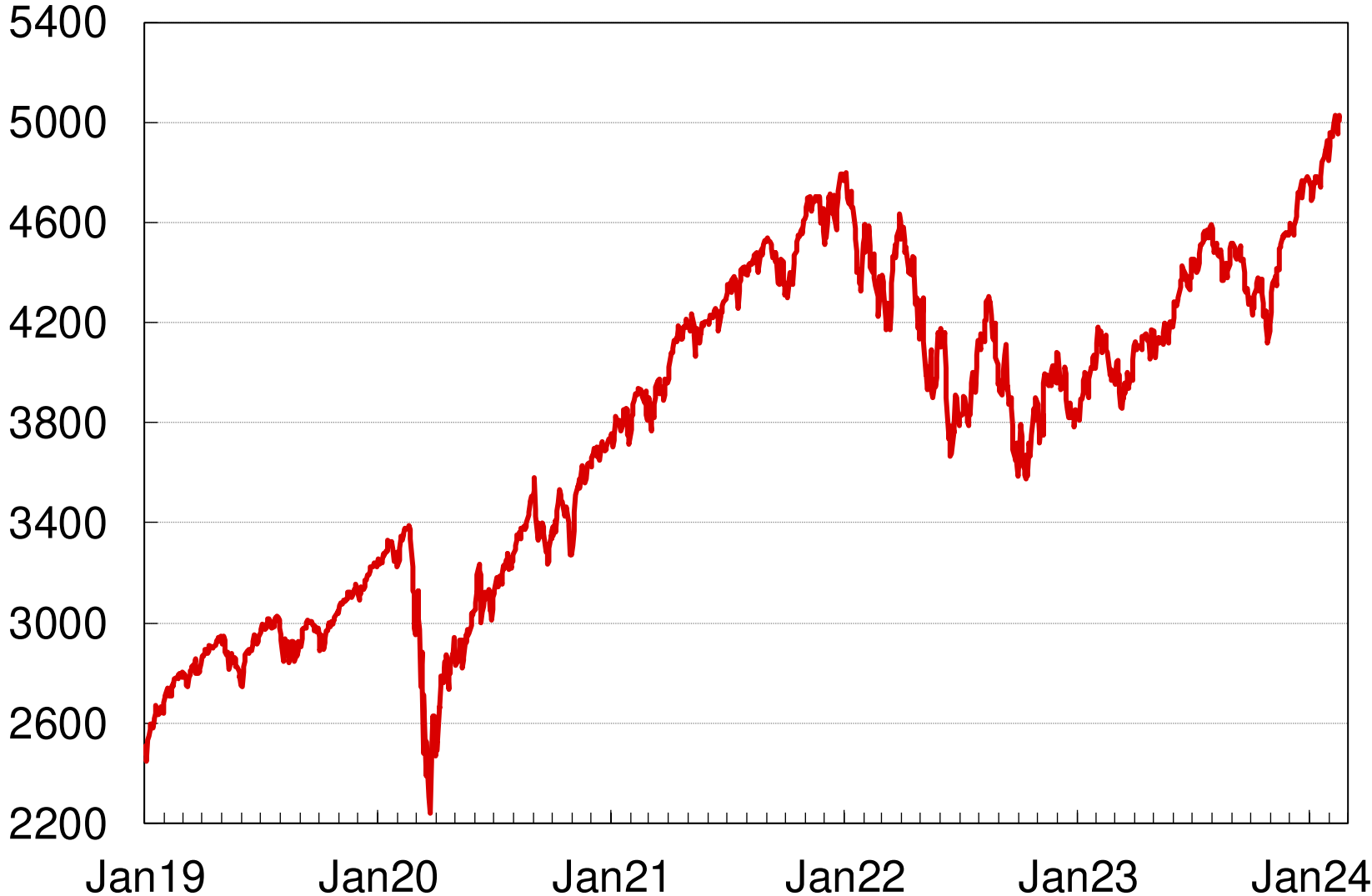
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Appendix

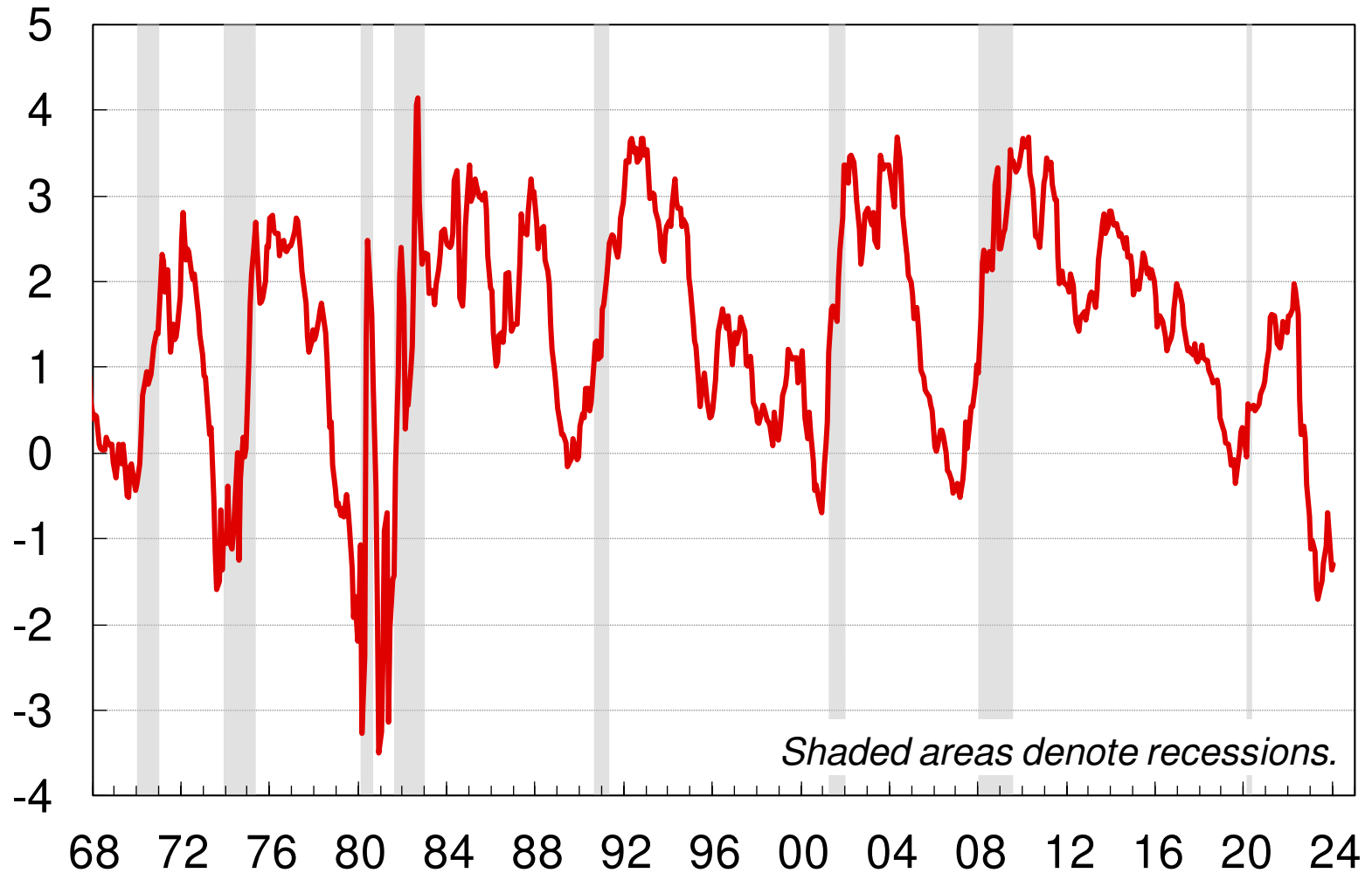
S&P 500 Stock Price Index



Source: S&P Dow Jones Indices LLC/FRED

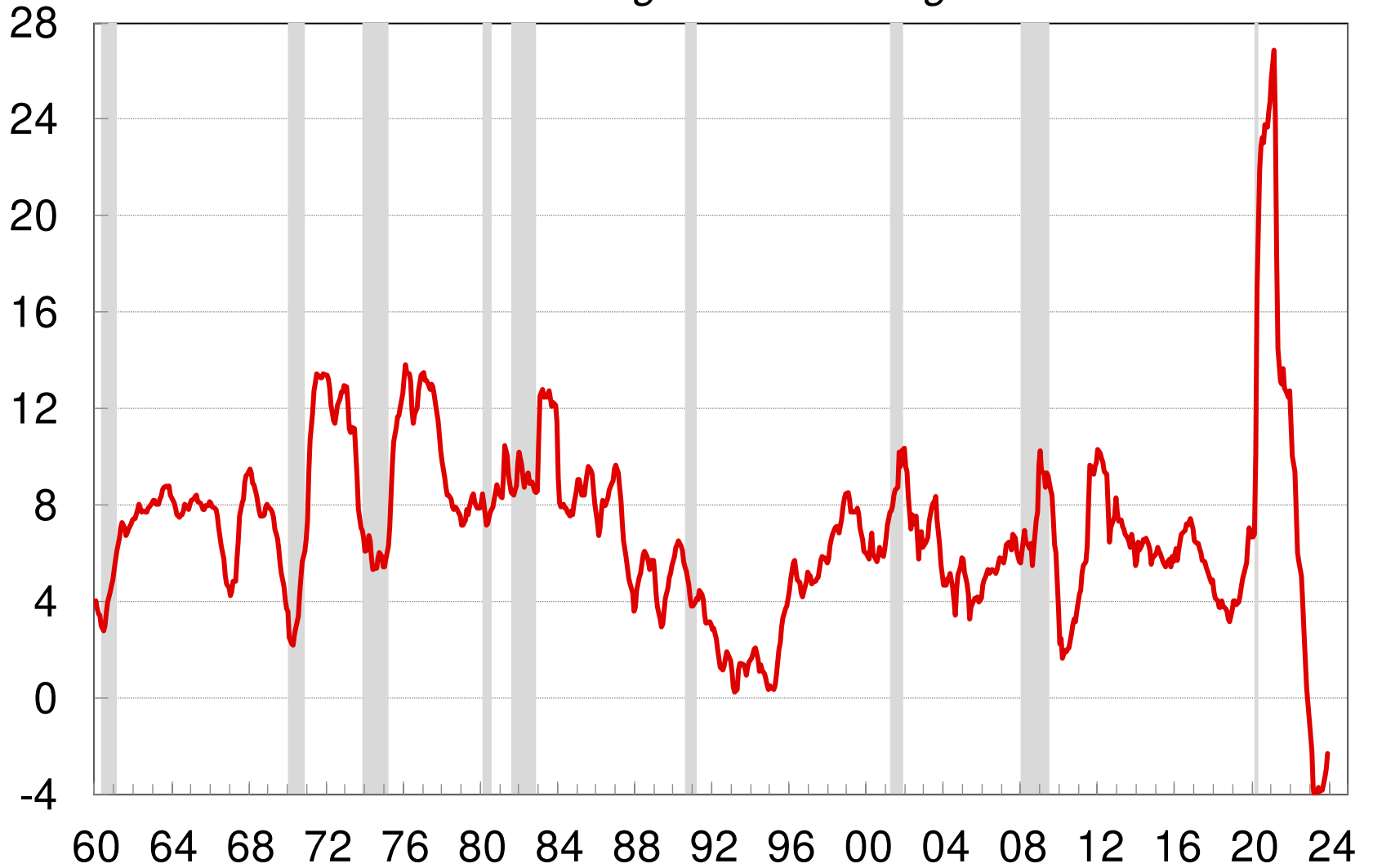
US Treasury Yield Spread

10-Year Treasury Note minus 3-Month Treasury Bill, Percent



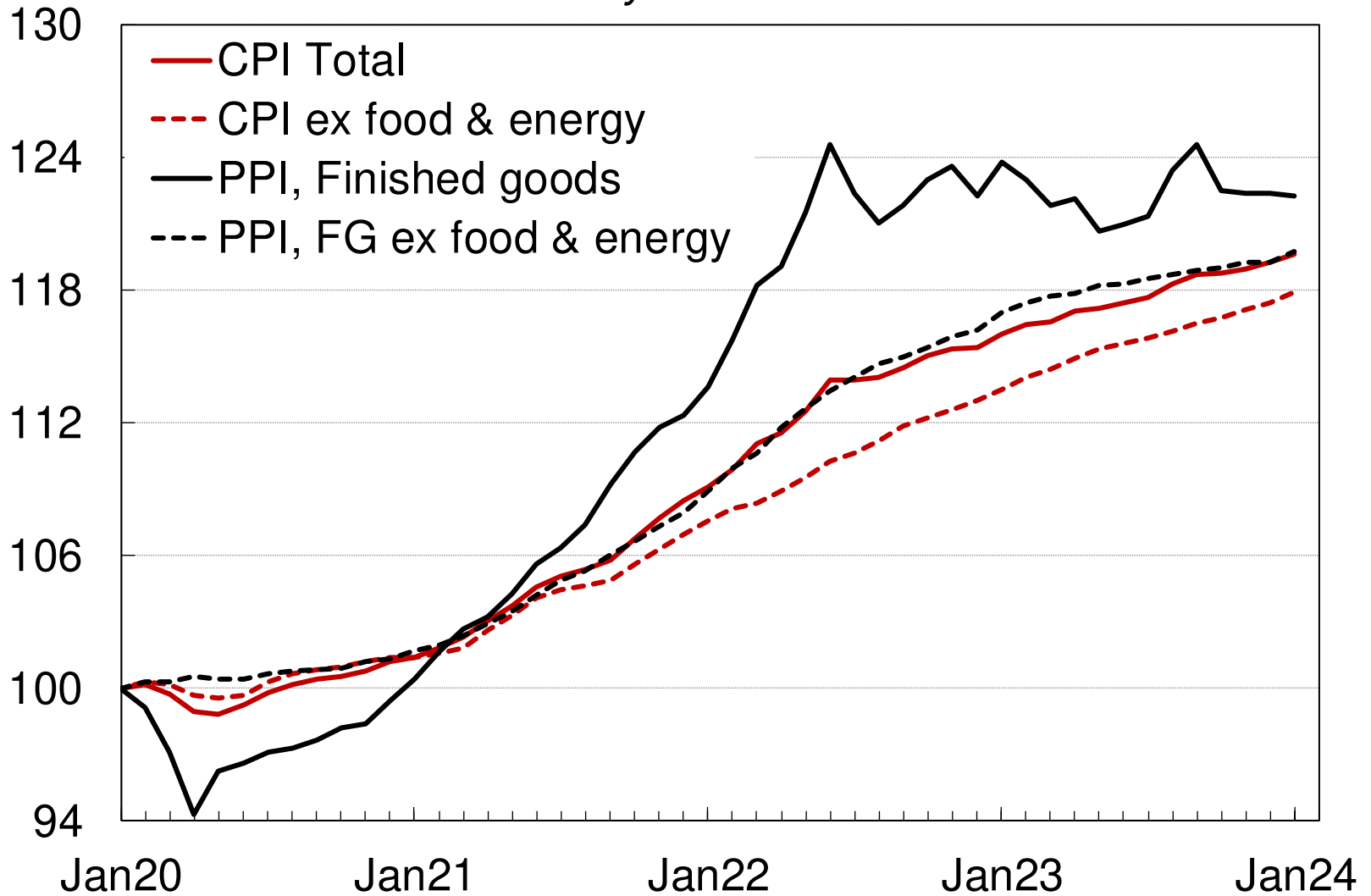
US M2 Money Supply

Percent Change from Year Ago



US Consumer & Producer Price Indexes

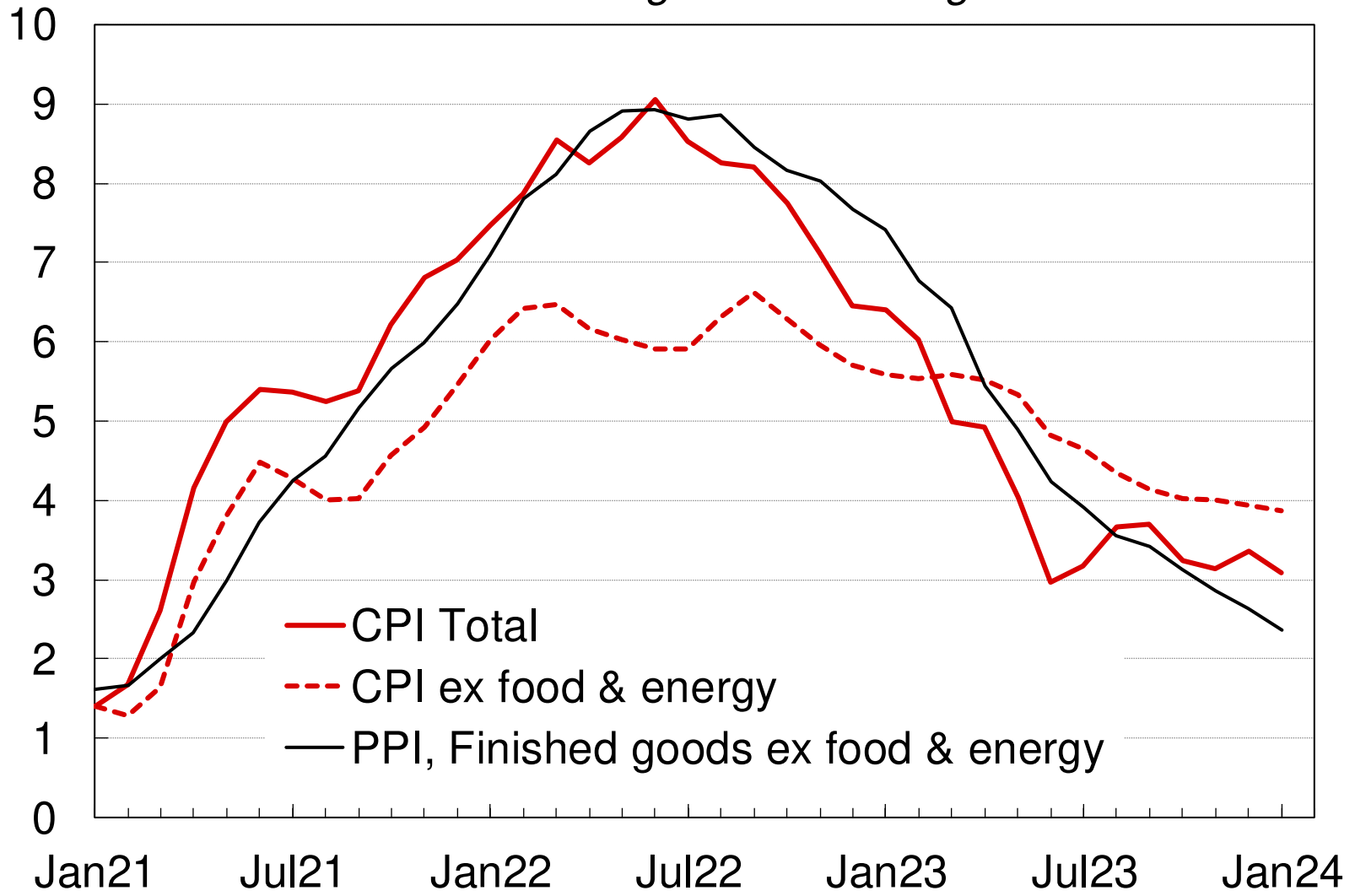
January 2020 = 100



Source: U.S. Bureau of Labor Statistics/FRED

US Consumer & Producer Price Indexes

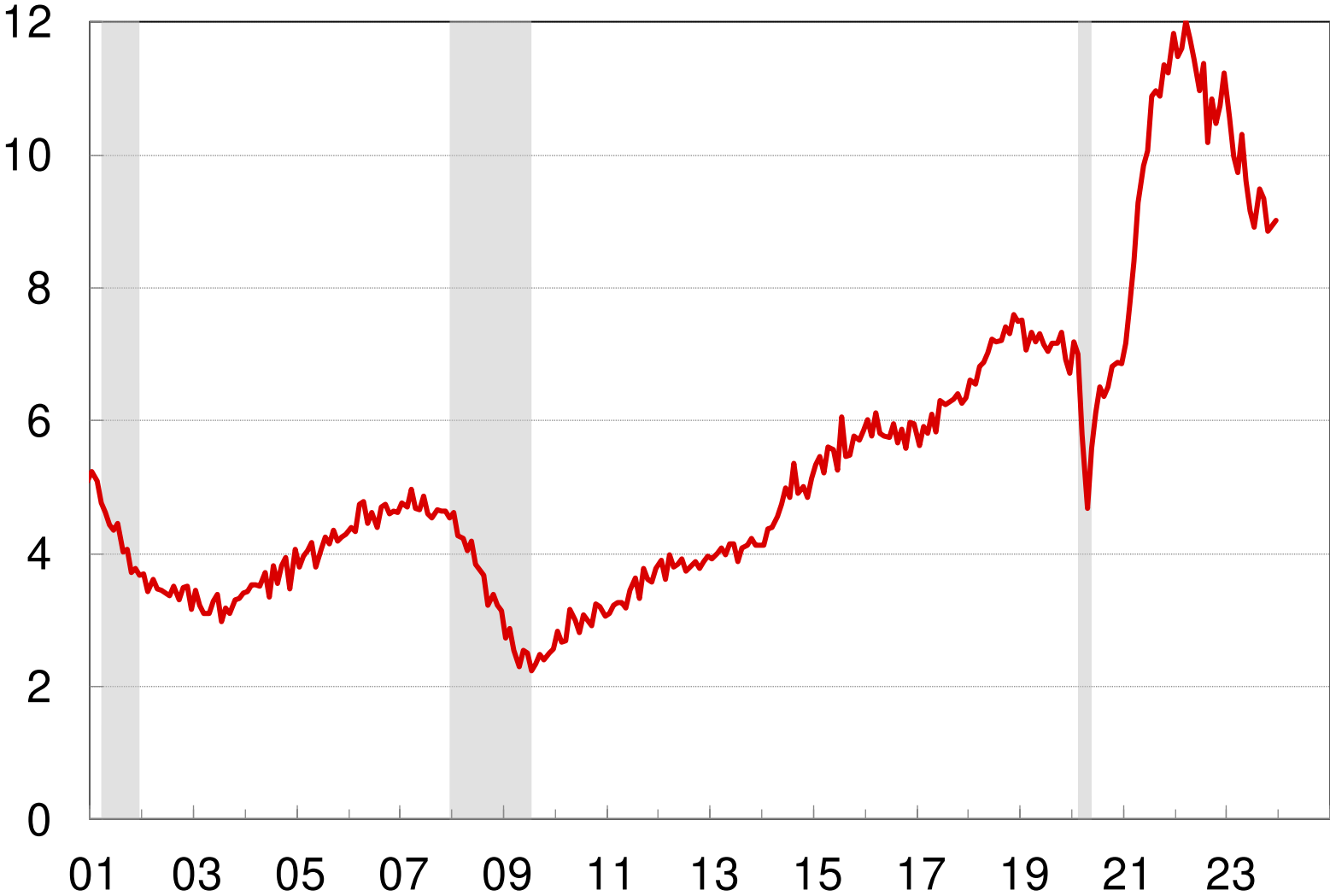
Percent Change from Year Ago



Source: U.S. Bureau of Labor Statistics/FRED

US Job Openings: Total Nonfarm

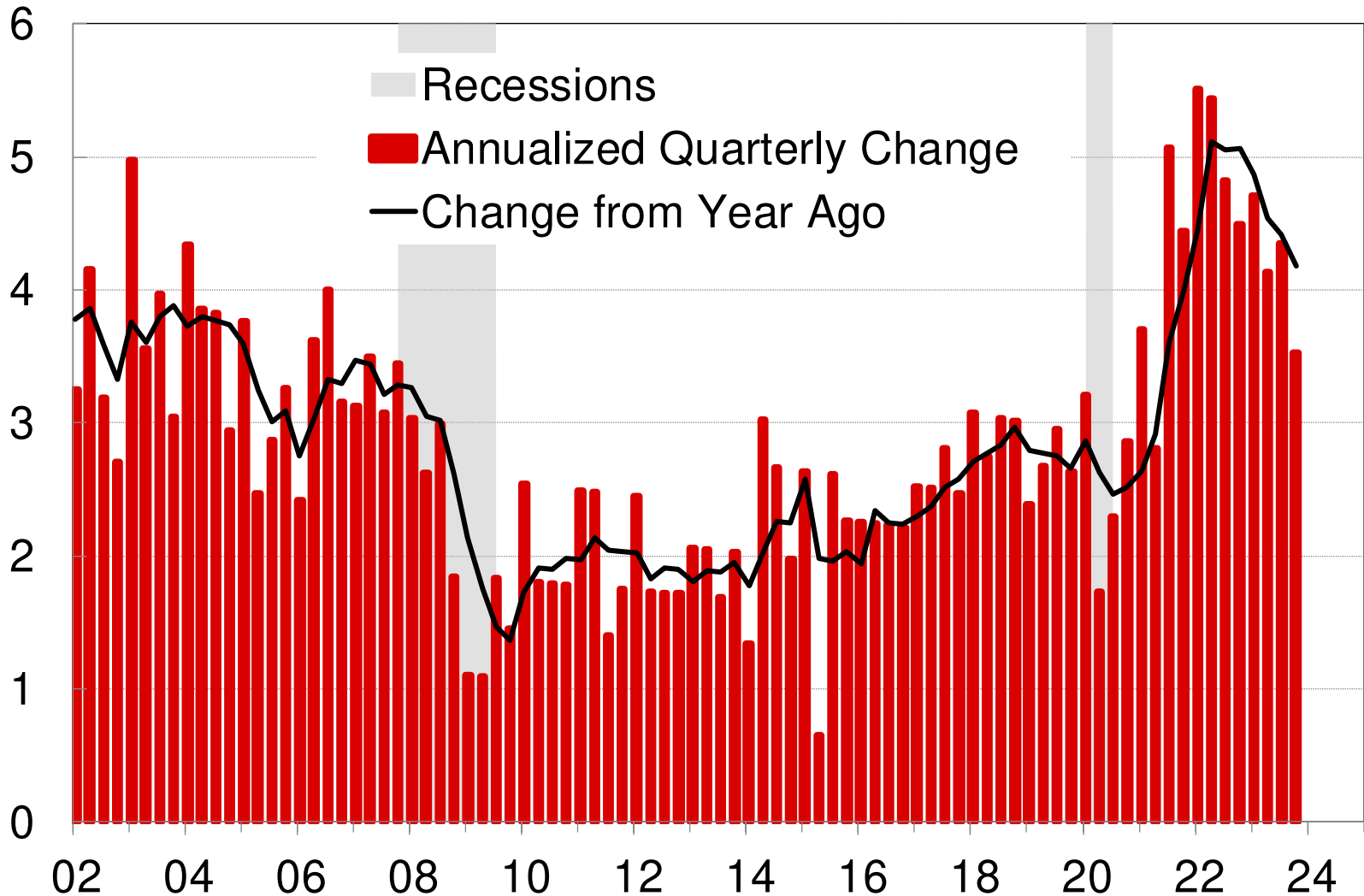
Millions



Source: U.S. Bureau of Labor Statistics/FRED

US Employment Cost Index: Total compensation

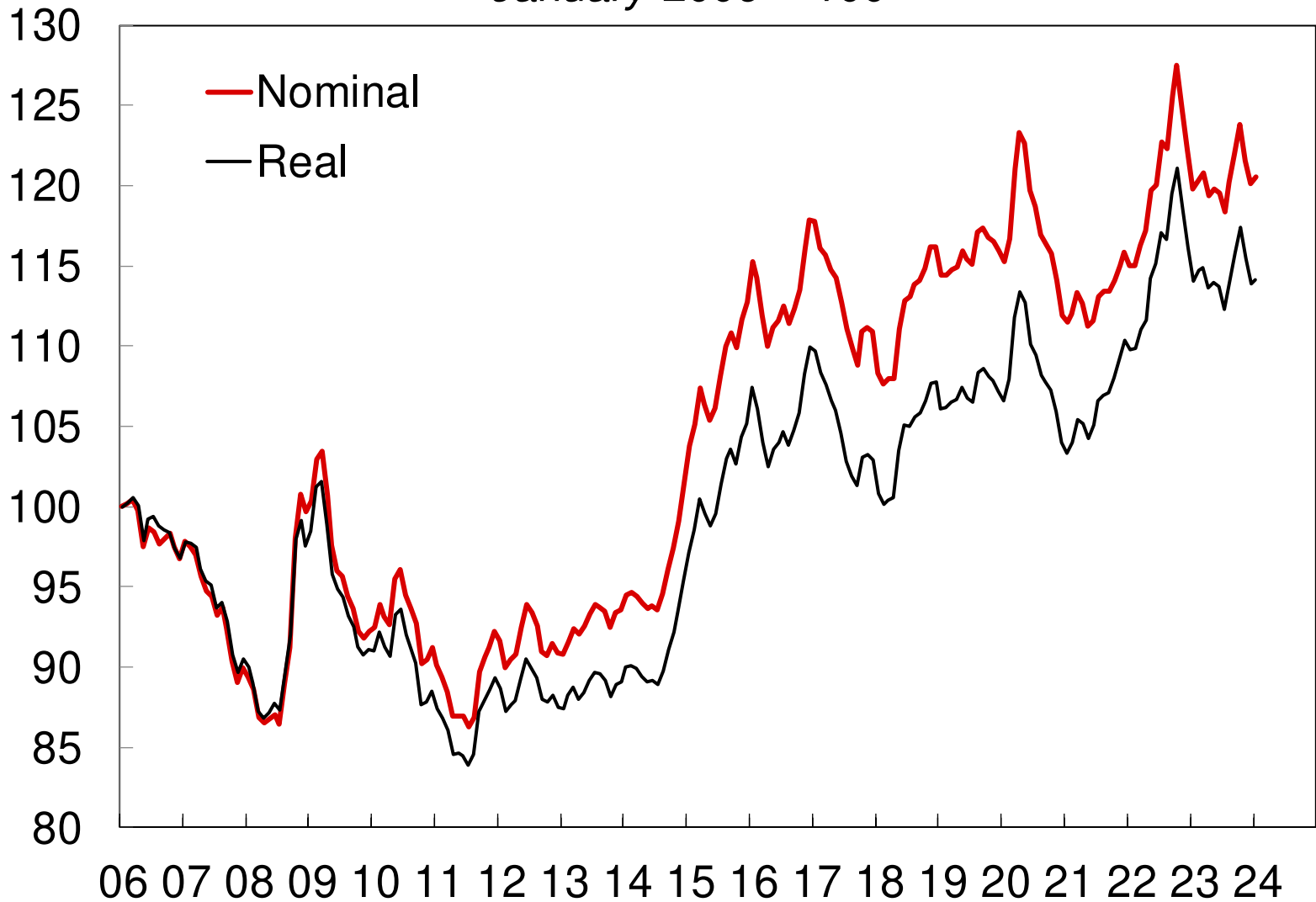
Percent



Source: U.S. Bureau of Labor Statistics/FRED

Federal Reserve Broad Dollar Index

January 2006 = 100



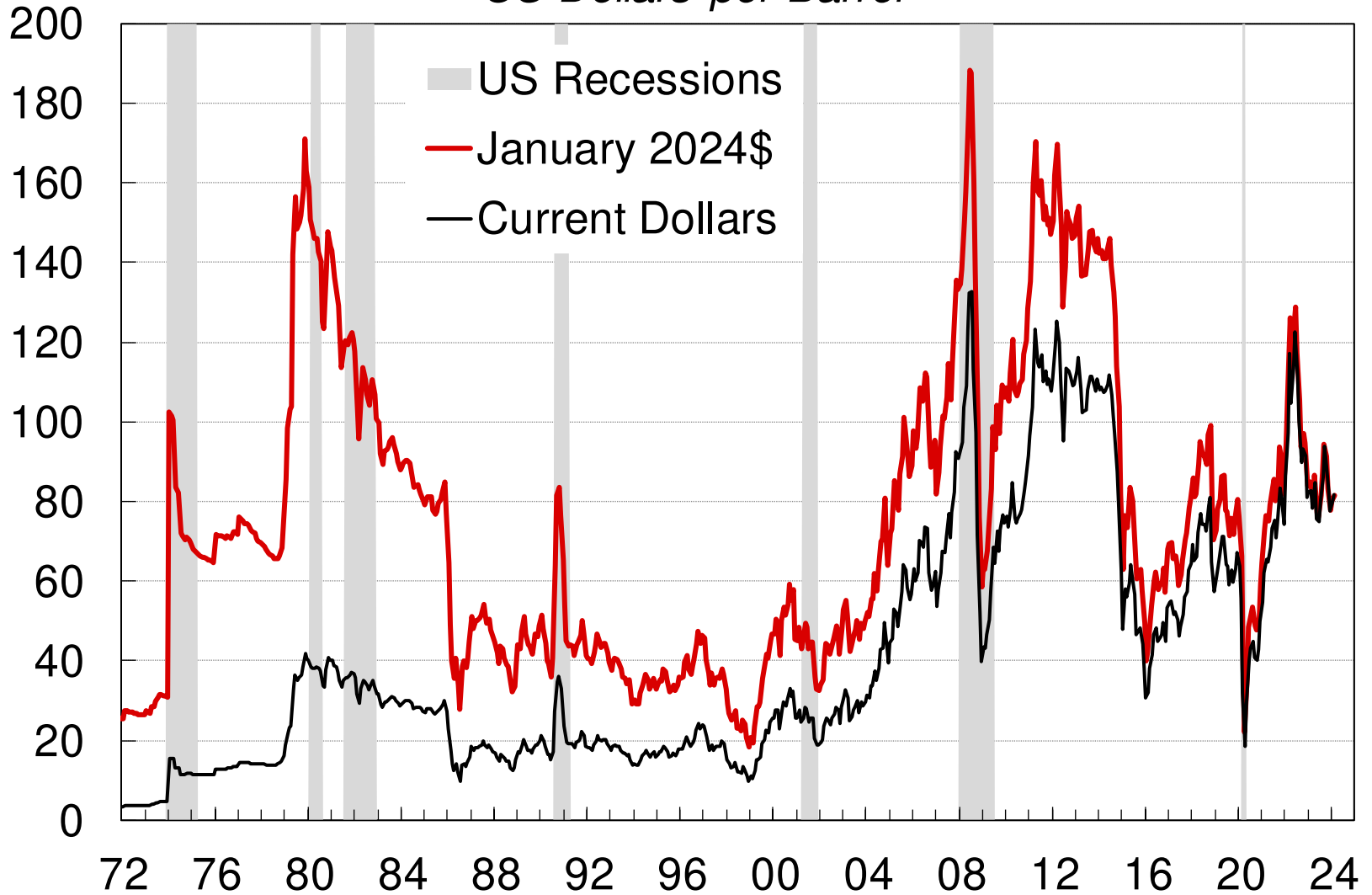
US Industrial Production: Chemicals ex pharma

Index, 2017=100



Brent Blend Oil Price

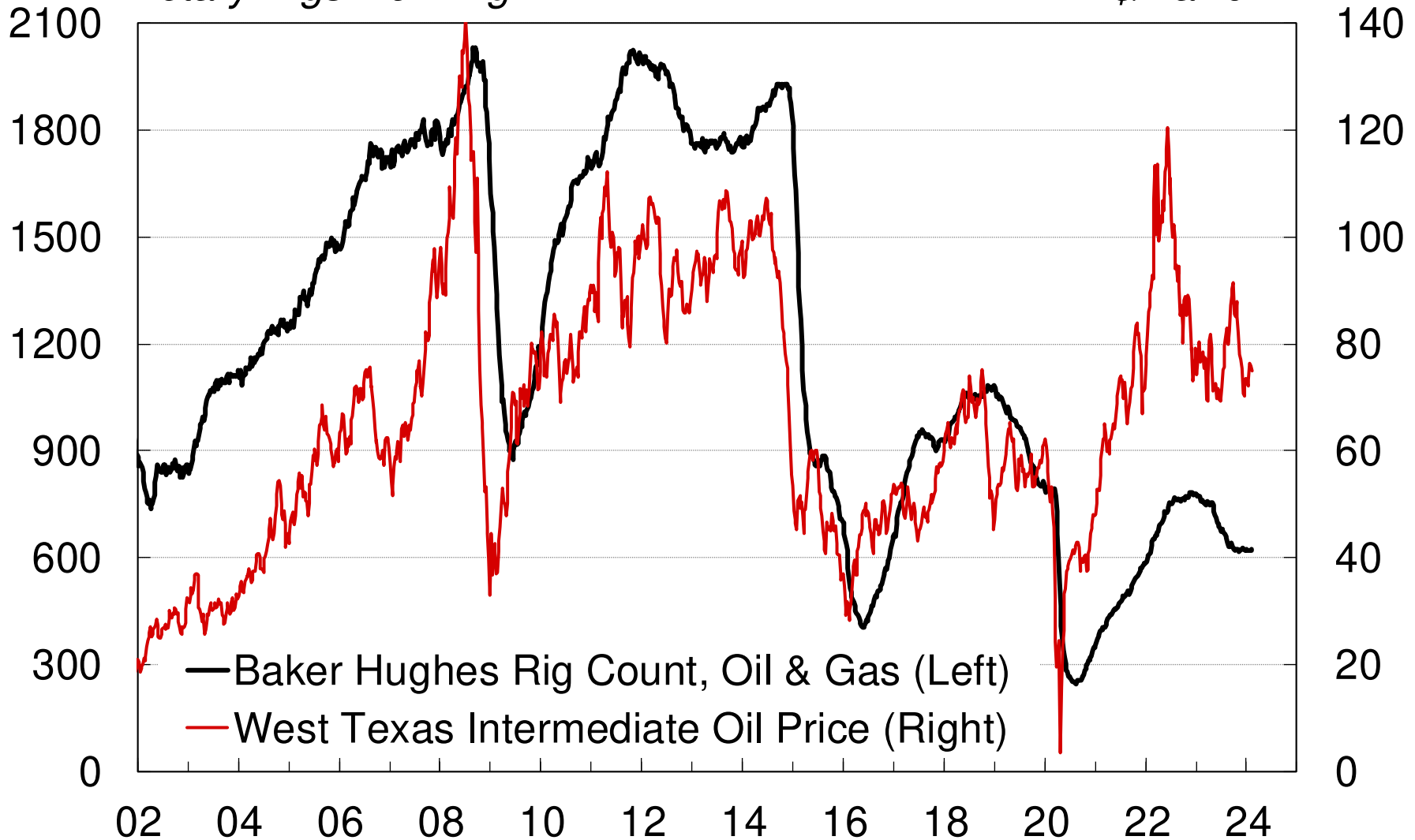
US Dollars per Barrel



US Drilling Rig Count versus Oil Price

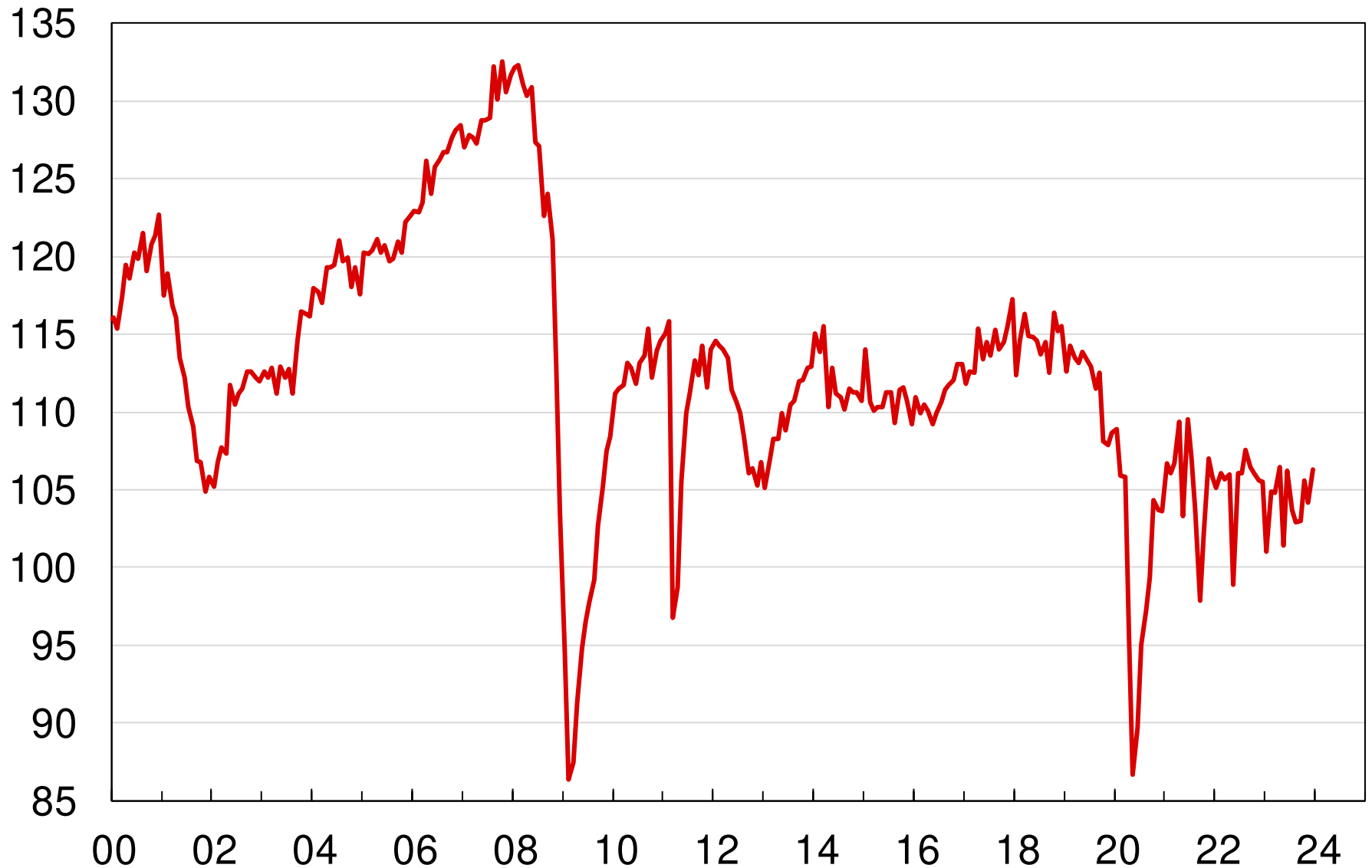
Rotary Rigs Running

\$/Barrel



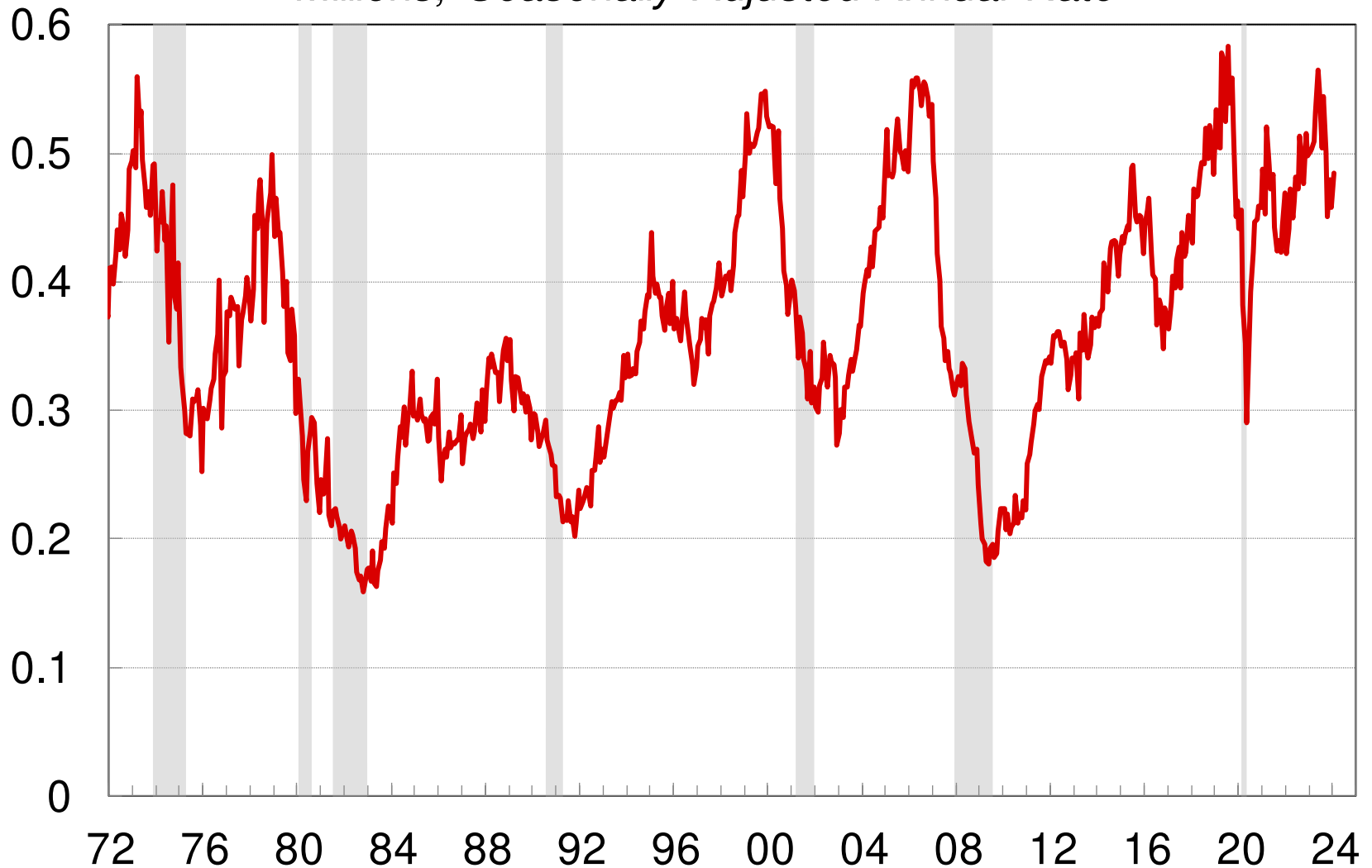
Industrial Production, Manufacturing: Japan

Index, 2018 = 100



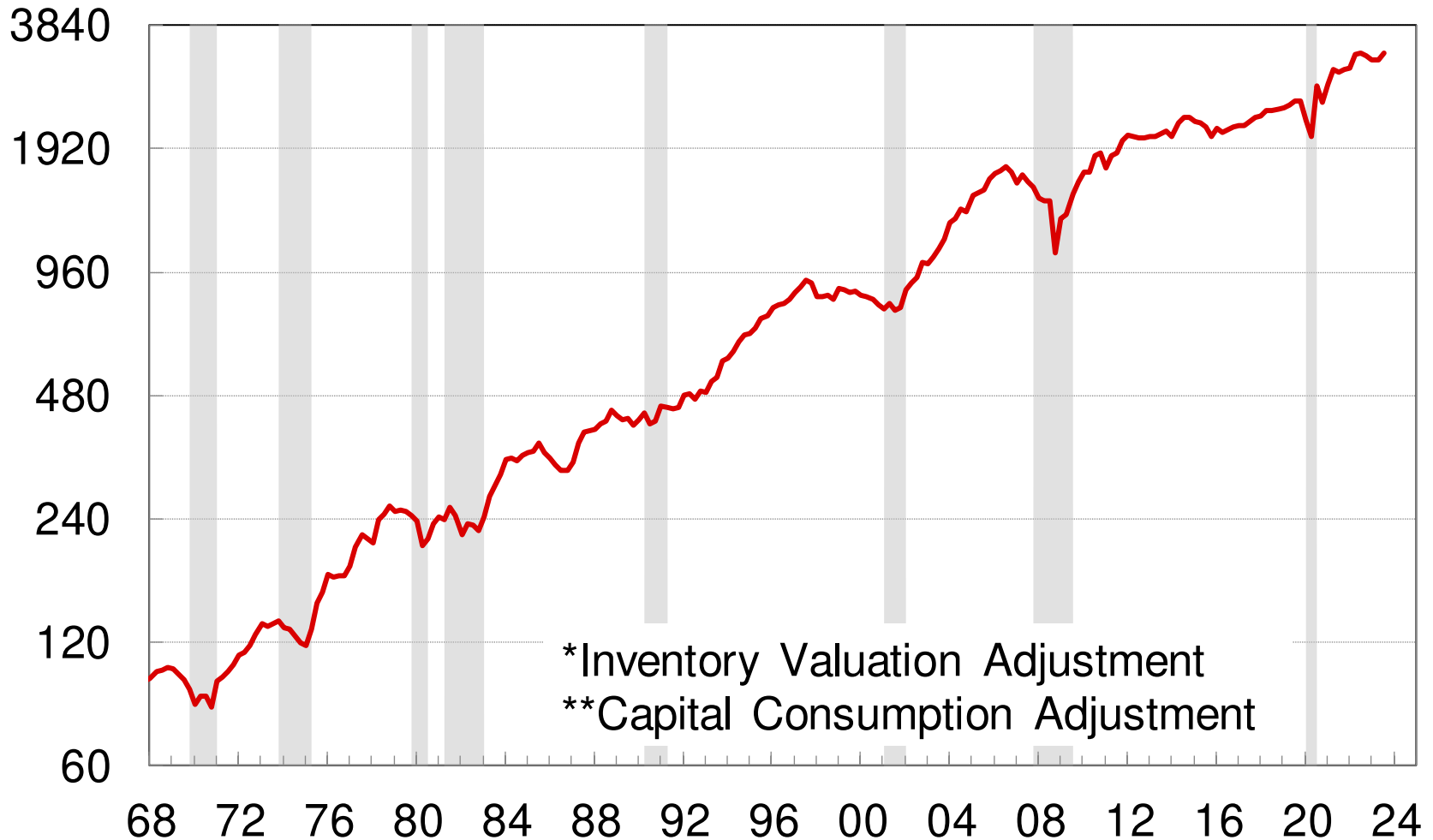
US Heavy Truck Sales

Millions, Seasonally Adjusted Annual Rate



US Pre-tax Corporate Profits with IVA* and CCAdj**

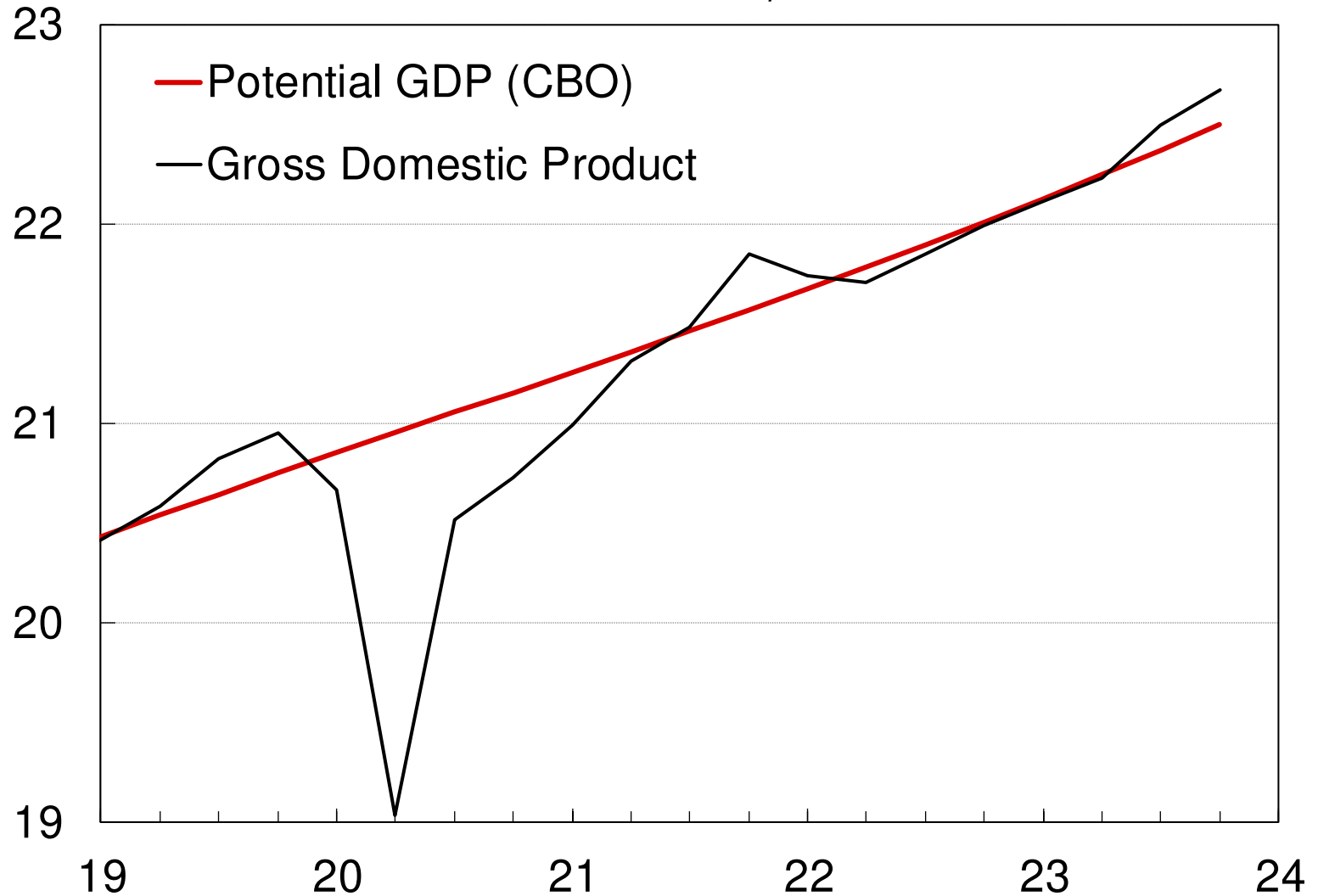
Billion \$



Source: U.S. Bureau of Economic Analysis/FRED

US Real Gross Domestic Product

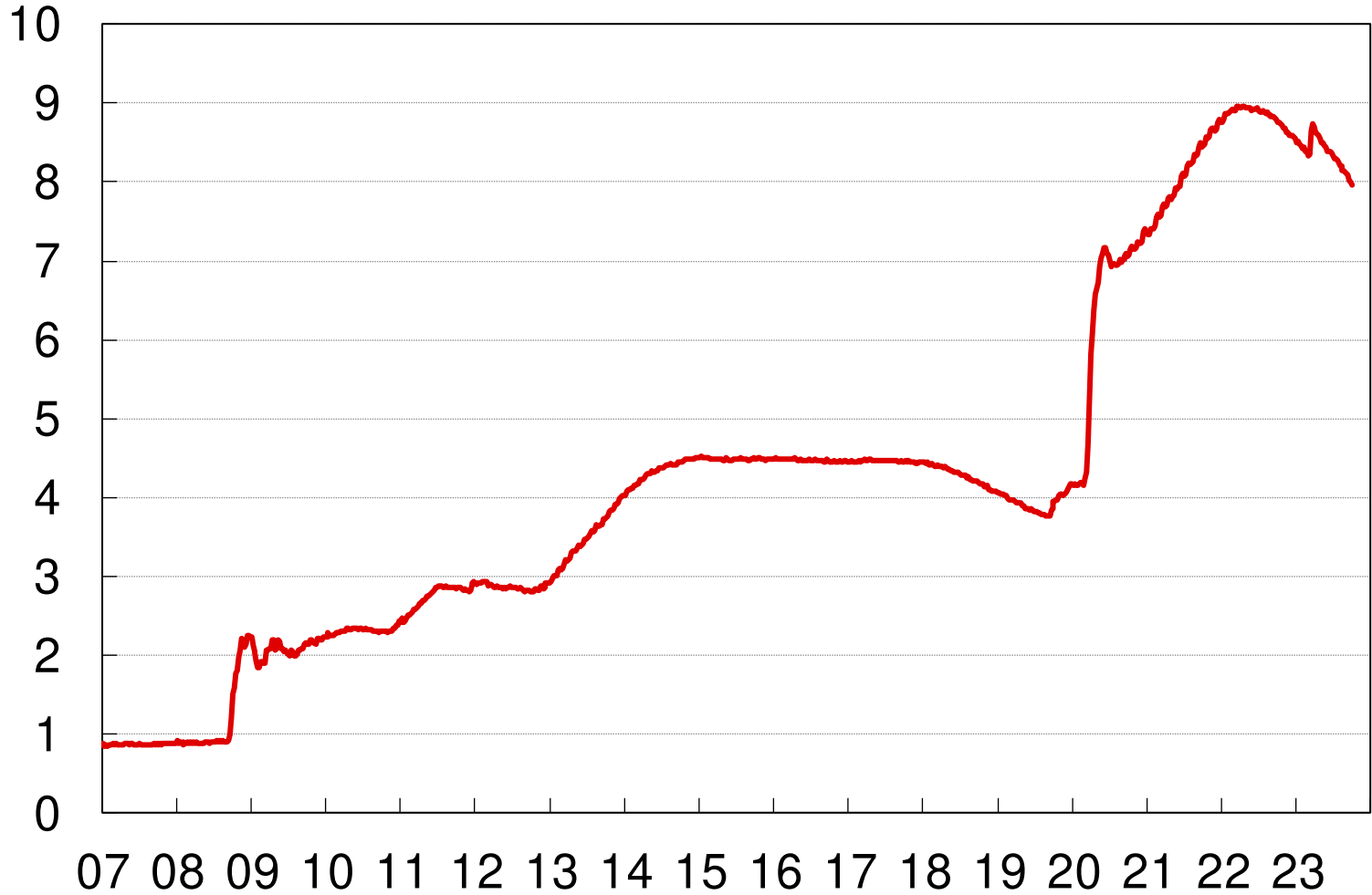
Trillion 2017 \$



Source: U.S. Bureau of Economic Analysis/U.S. Congressional Budget Office/FRED

Federal Reserve Balance Sheet (Assets)

Trillion\$



Source: Board of Governors of the Federal Reserve System (US)/FRED

Is this like the 1970s?

Similarities to 1970s

Higher energy prices

Higher food prices

Policymakers blame supply shocks for consequences of THEIR (demand) policies.

High inflation BEFORE food and energy prices spiked

It will probably take a recession to get inflation down to an acceptable level.

Differences from 1970s

Demographics

- Young adults are inflationary; create huge demand for housing and motor vehicles. Old adults are more willing to defer spending.

Globalization

- Free trade reduces inflation, despite some backtracking.

Fed got serious after one year of high inflation rather than after 13.

Prices are more flexible now.

“Prediction is very difficult, especially about the future.”

**Niels Bohr, 1885-1962
Nobel Laureate, 1922**

