

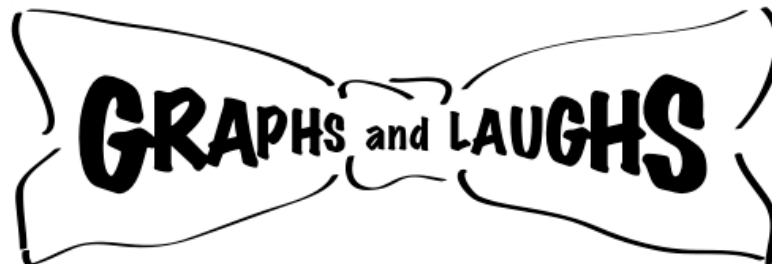
# **THE ECONOMY IN 2022: THE GREAT RATE RISE**

Presented by:

Elliot F. Eisenberg, Ph.D.

President: GraphsandLaughs, LLC

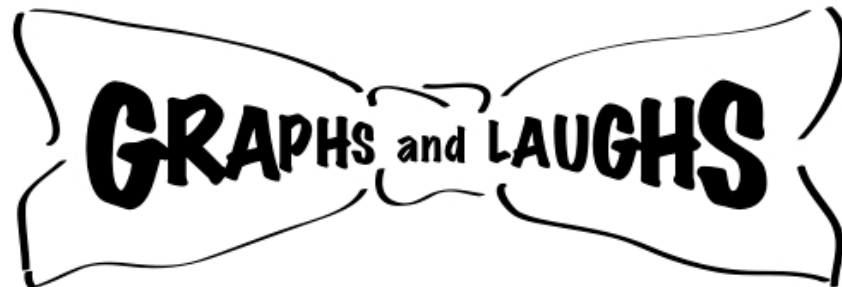
June 17, 2022



# The Economy Is OK


/

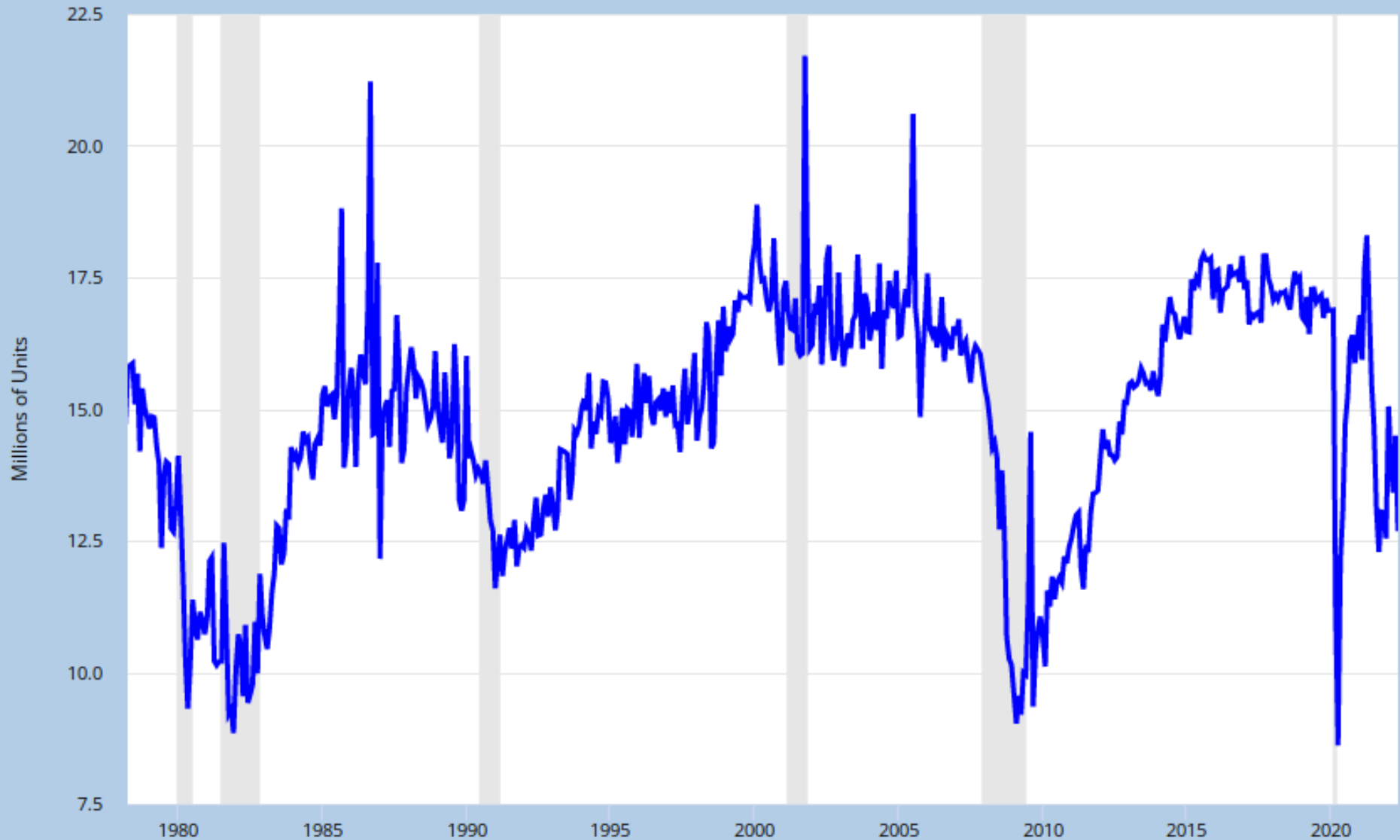
$$\text{GDP} = C + I + G + (X - M)$$



# US Light Vehicle Sales Partly Recover

No inventory due to a lack of chips is a problem

**FRED**  — Light Weight Vehicle Sales: Autos and Light Trucks

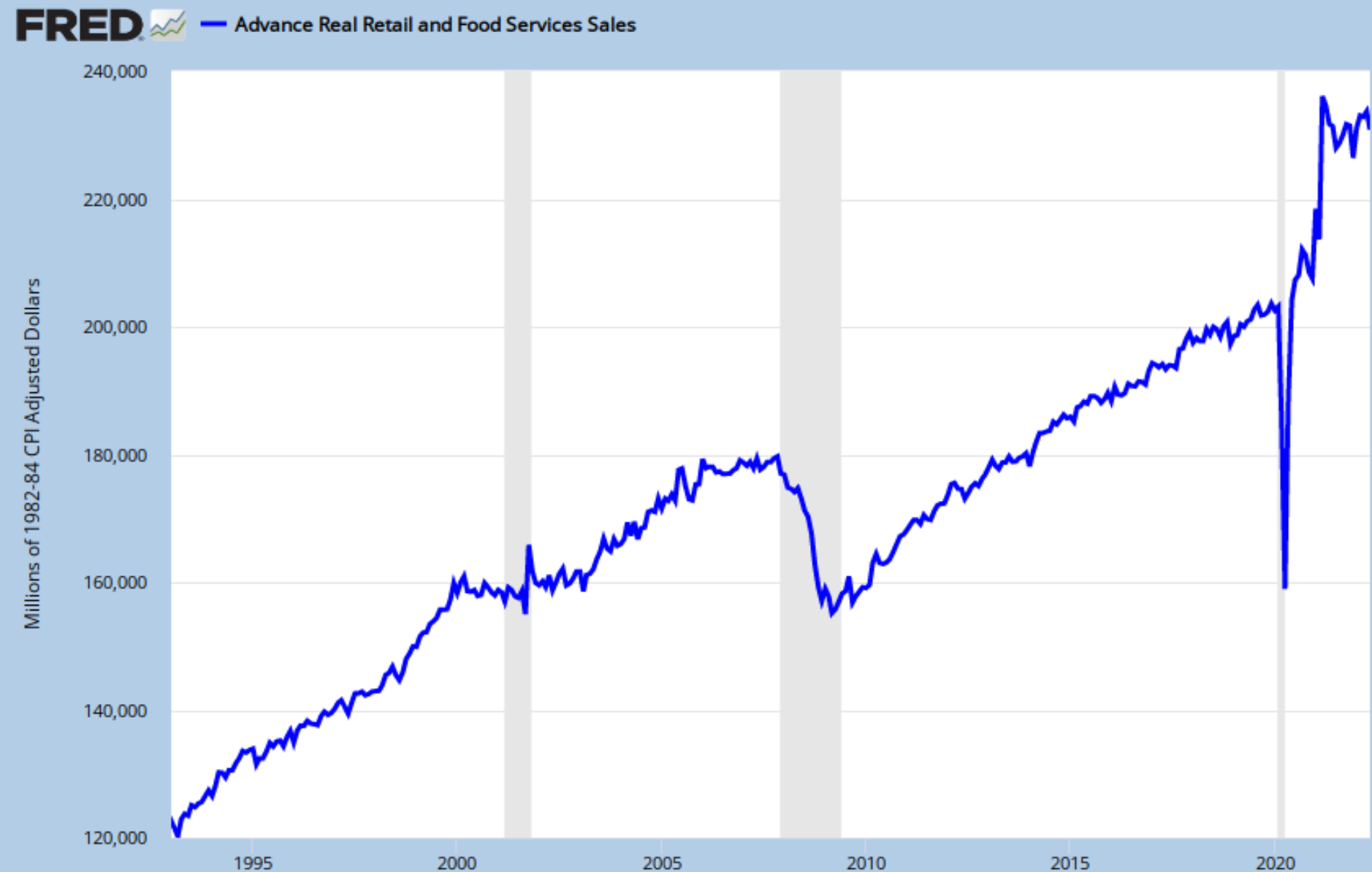


Source: U.S. Bureau of Economic Analysis

myf.red/g/QhmN

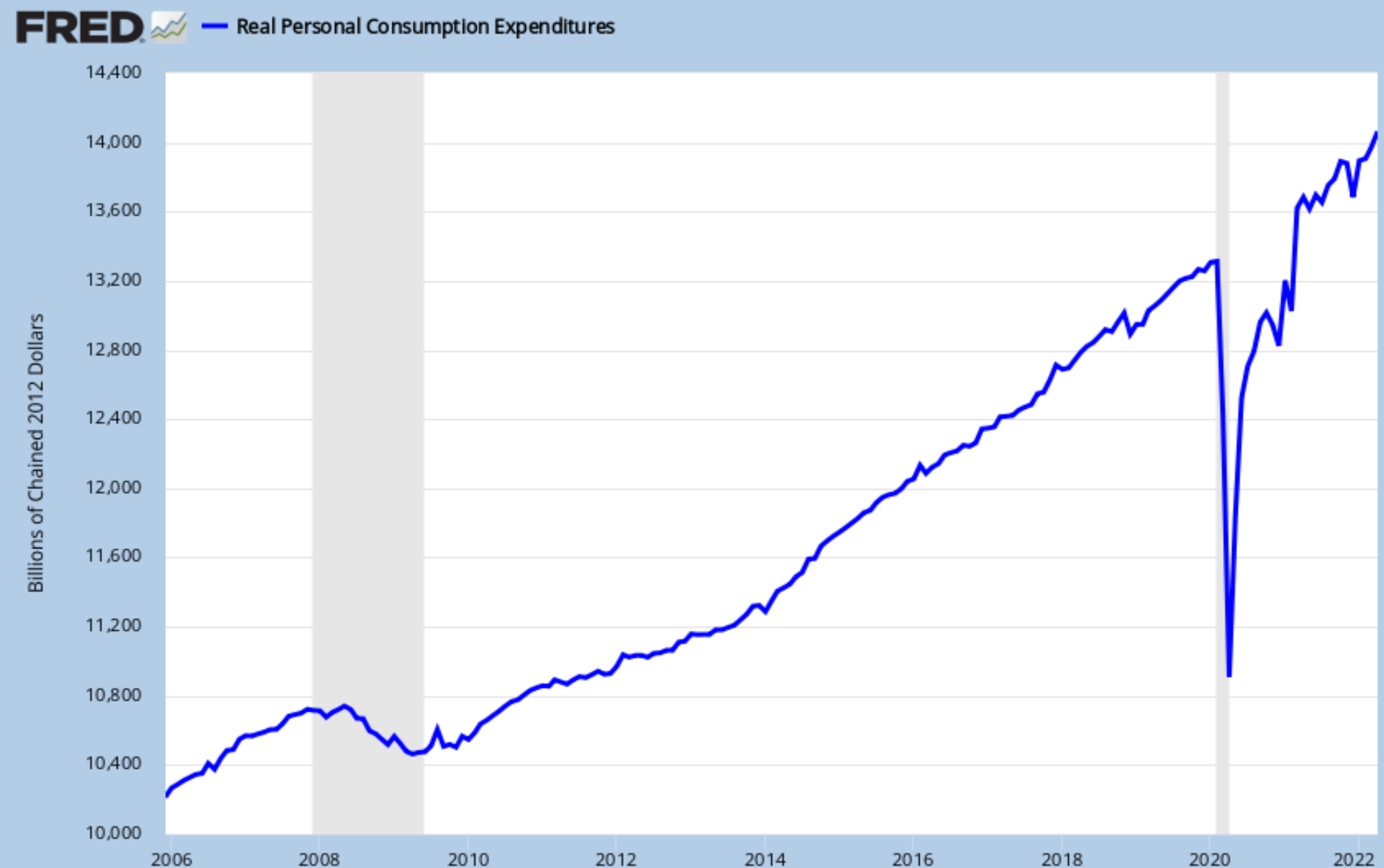
# Real Retail Sales

What is surprising is that it they are not falling faster



# Real Personal Consumption Expenditures

It has bounced back and is now on trend despite supply-chain struggles



Shaded areas indicate U.S. recessions.

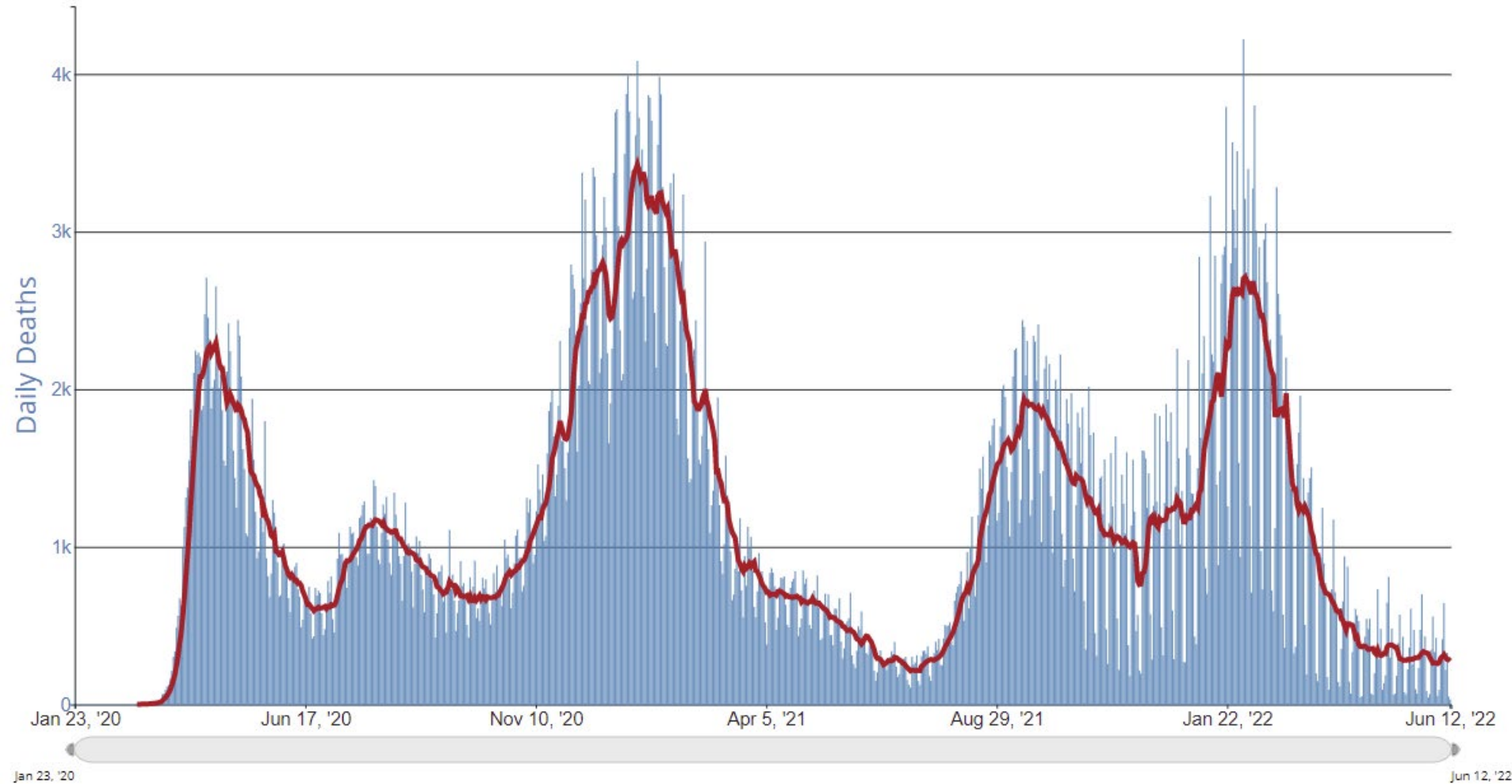
Source: U.S. Bureau of Economic Analysis

[myf.red/g/PWvW](https://myf.red/g/PWvW)

# US Coronavirus Deaths/Day

US rate is flat and low

Daily Trends in Number of COVID-19 Deaths in The United States Reported to CDC



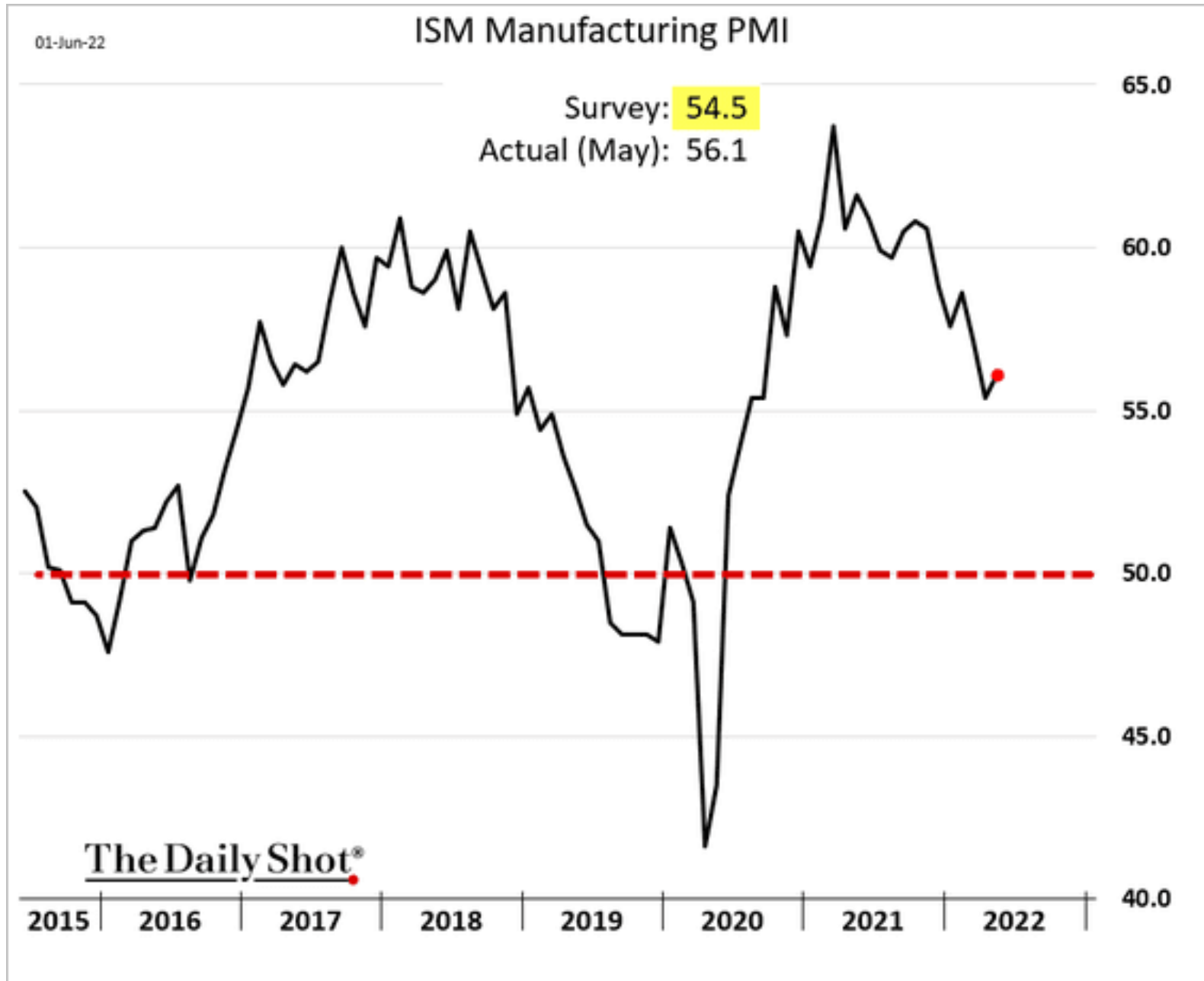
# University of Michigan Index

Combination of Omicron variant, less federal money, and inflation



# ISM Manufacturing Softens

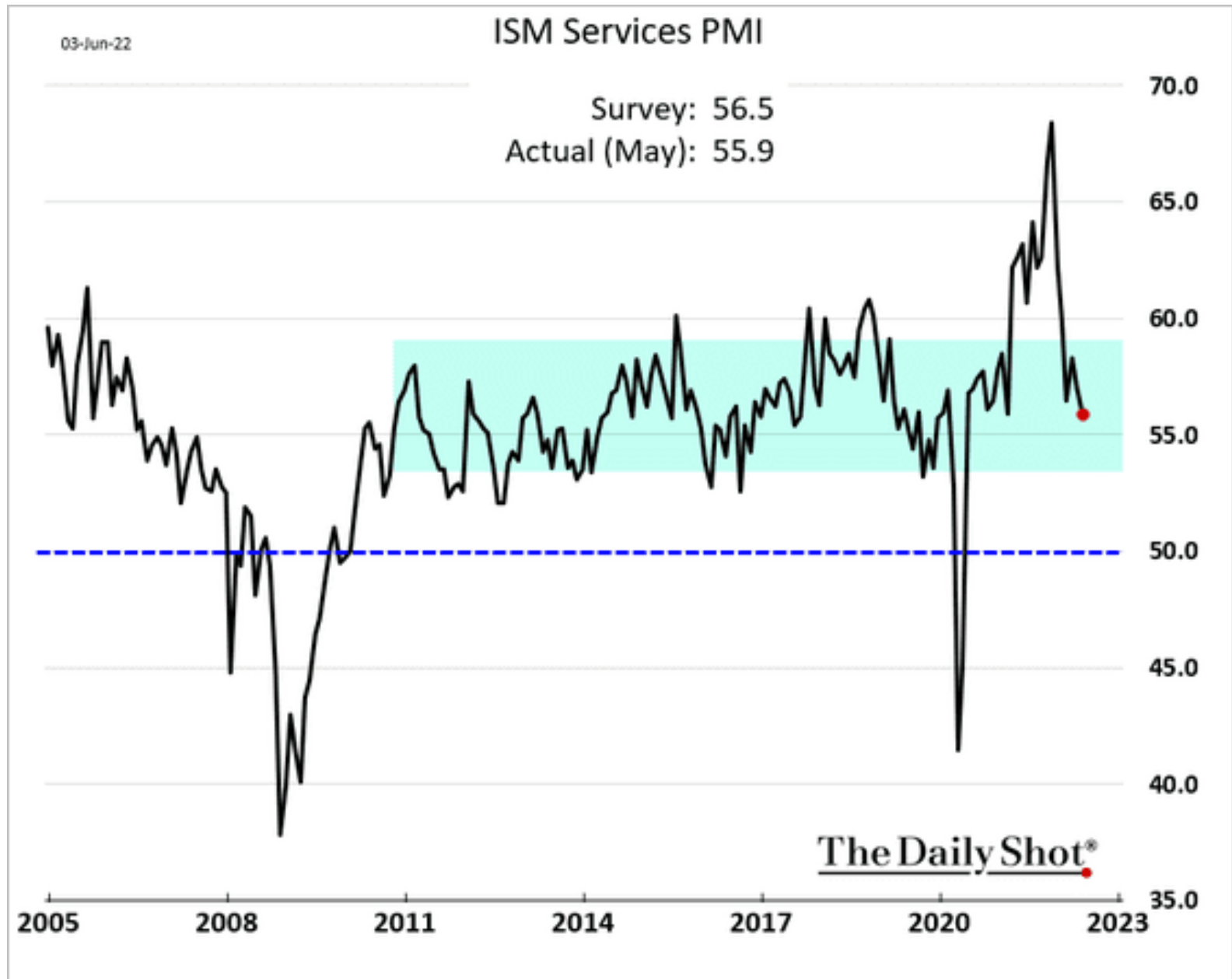
But is still OK





# ISM Services Number Softens

It is in the normal range



# Small Business Confidence Struggles

The level is well below its long-term average of 98

## Small Business Optimism Index at 93.2

Based on 10 survey indicators, seasonally adjusted, Jan. '10 – Apr. '22

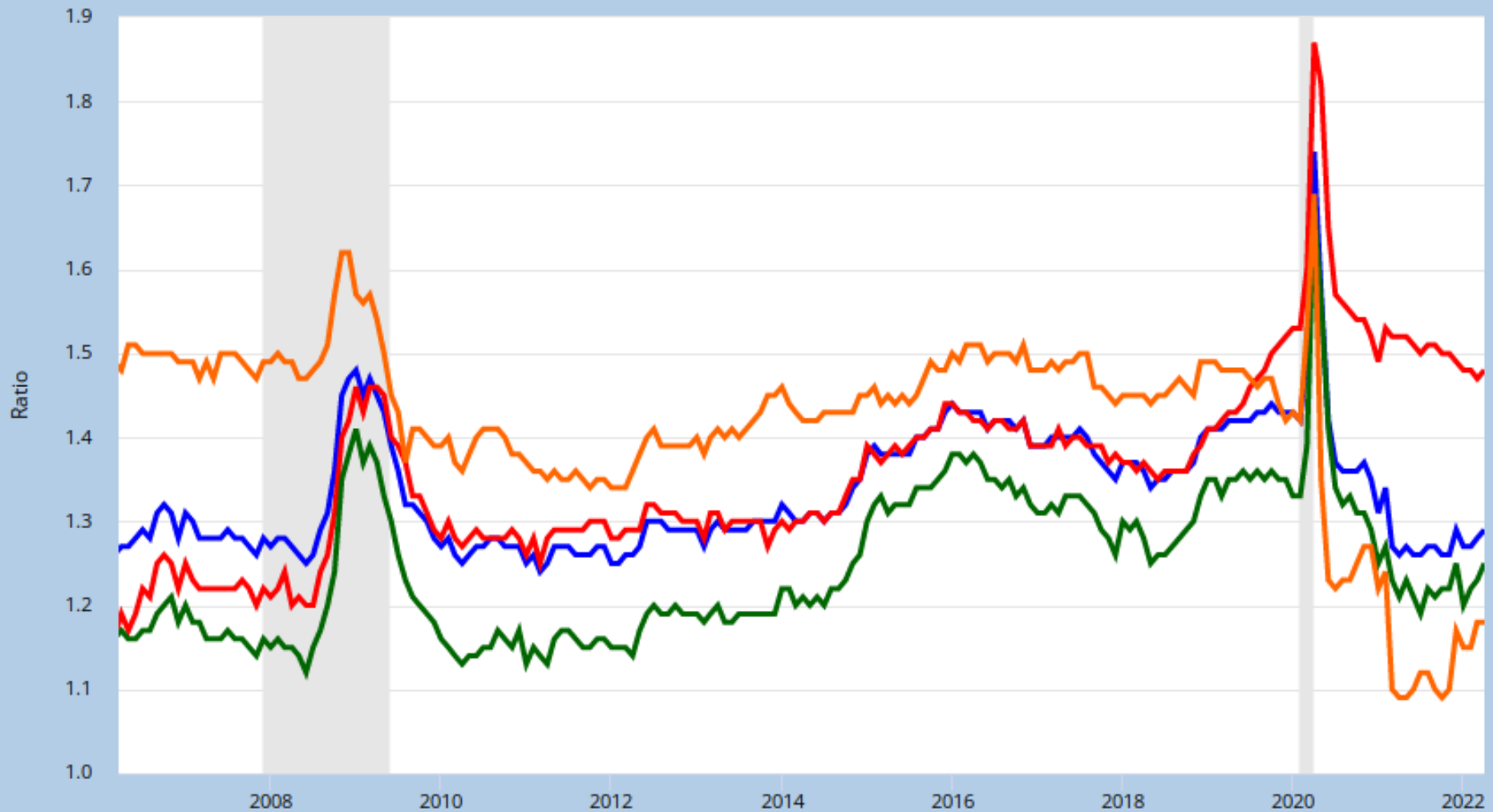


# Inventory to Sales Ratios

All inventory ratios are returning to normal

**FRED**

- Total Business: Inventories to Sales Ratio
- Manufacturers: Inventories to Sales Ratio
- Merchant Wholesalers: Inventories to Sales Ratio
- Retailers: Inventories to Sales Ratio



# Supply-Chains Appear to be Easing

At least they are not getting worse

Supply chain conditions are starting to trend in a more encouraging direction

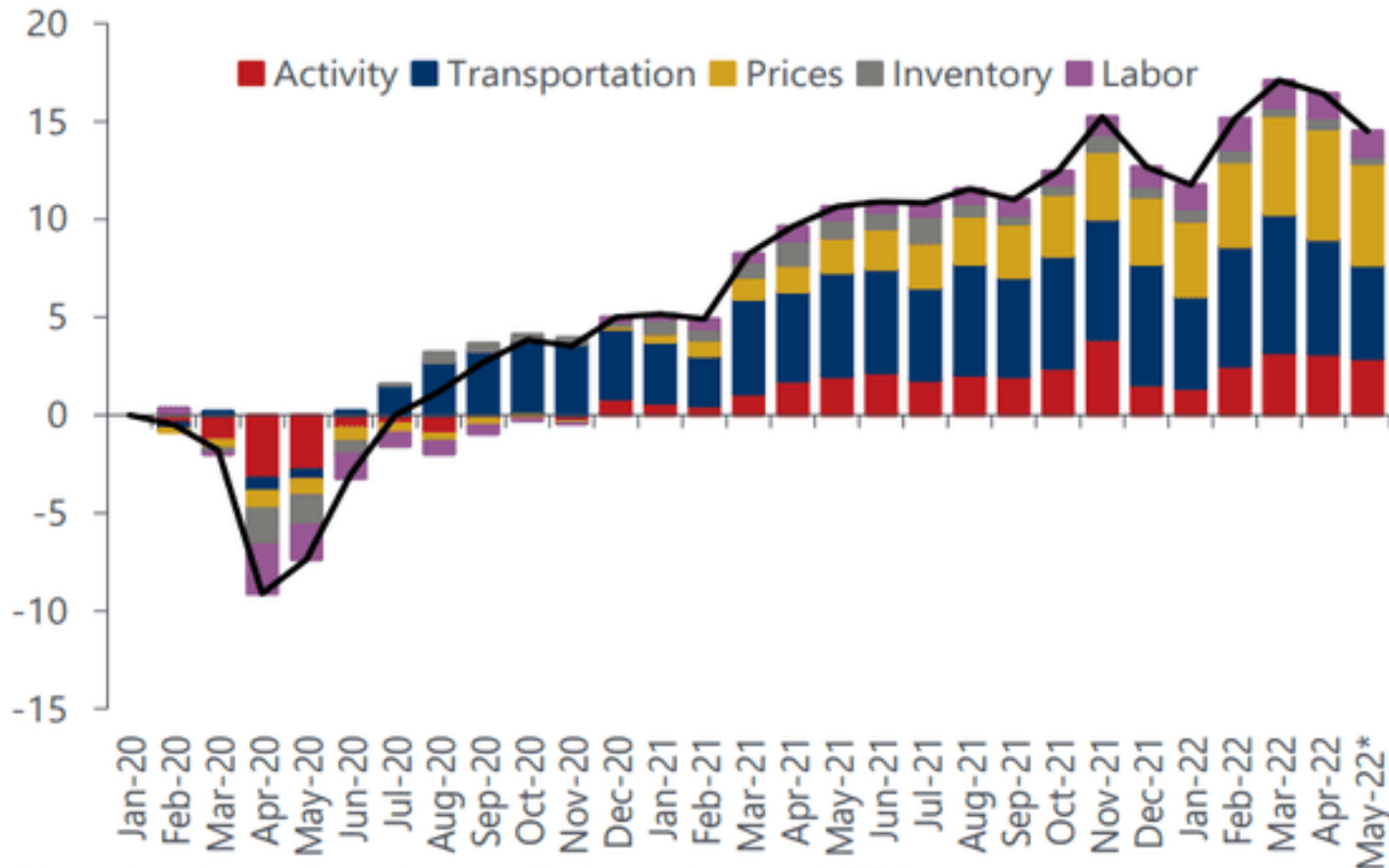
The Daily Shot

10-Jun-2022

@SoberLook

## US: Supply chain stress tracker

Index; > 0 = rising stress



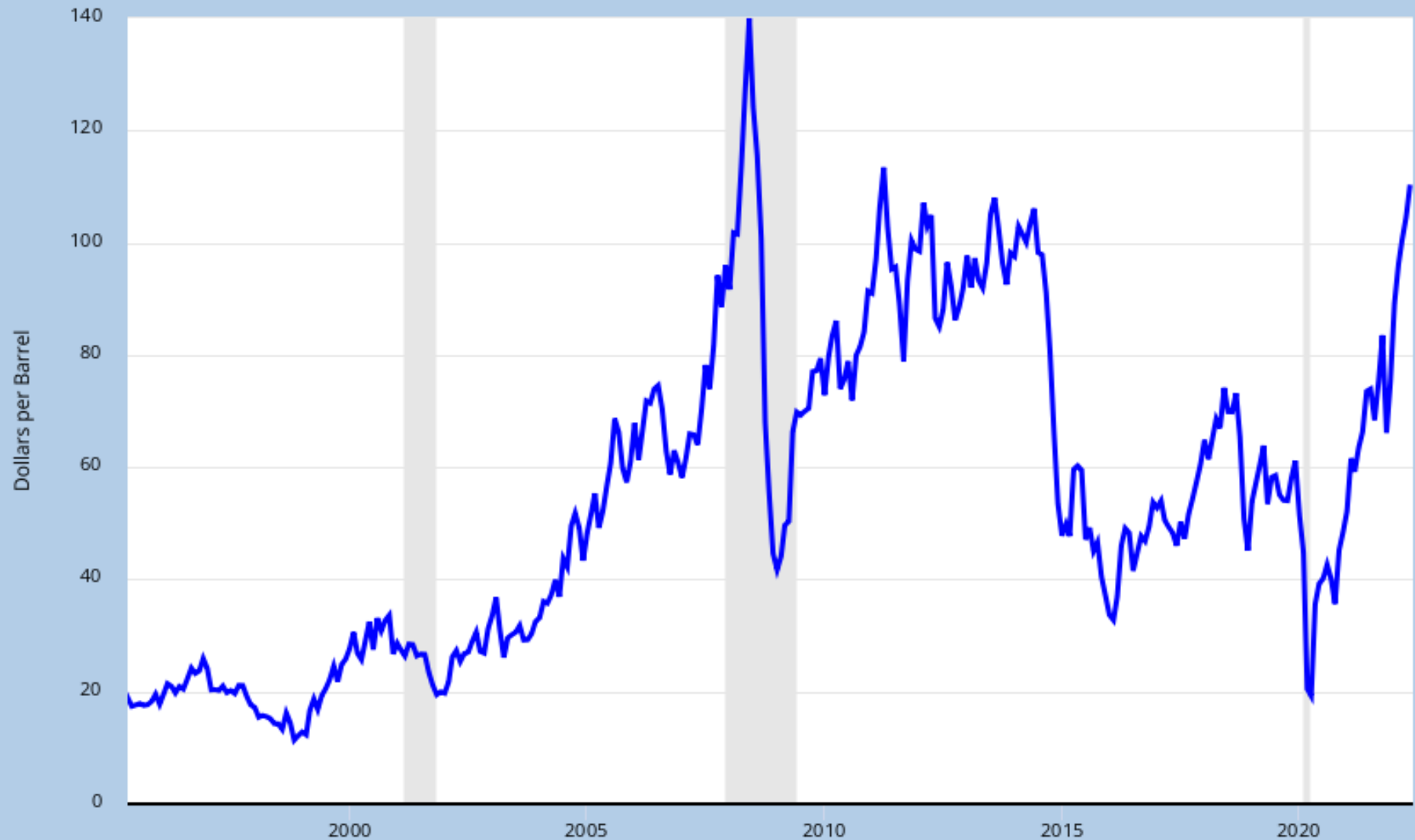
Note: \* estimate based on preliminary data and OE forecasts

Source: Oxford Economics/Haver Analytics

# Oil Prices Surge

This tells us global economic activity is picking up and supply is constrained

**FRED**  — Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma

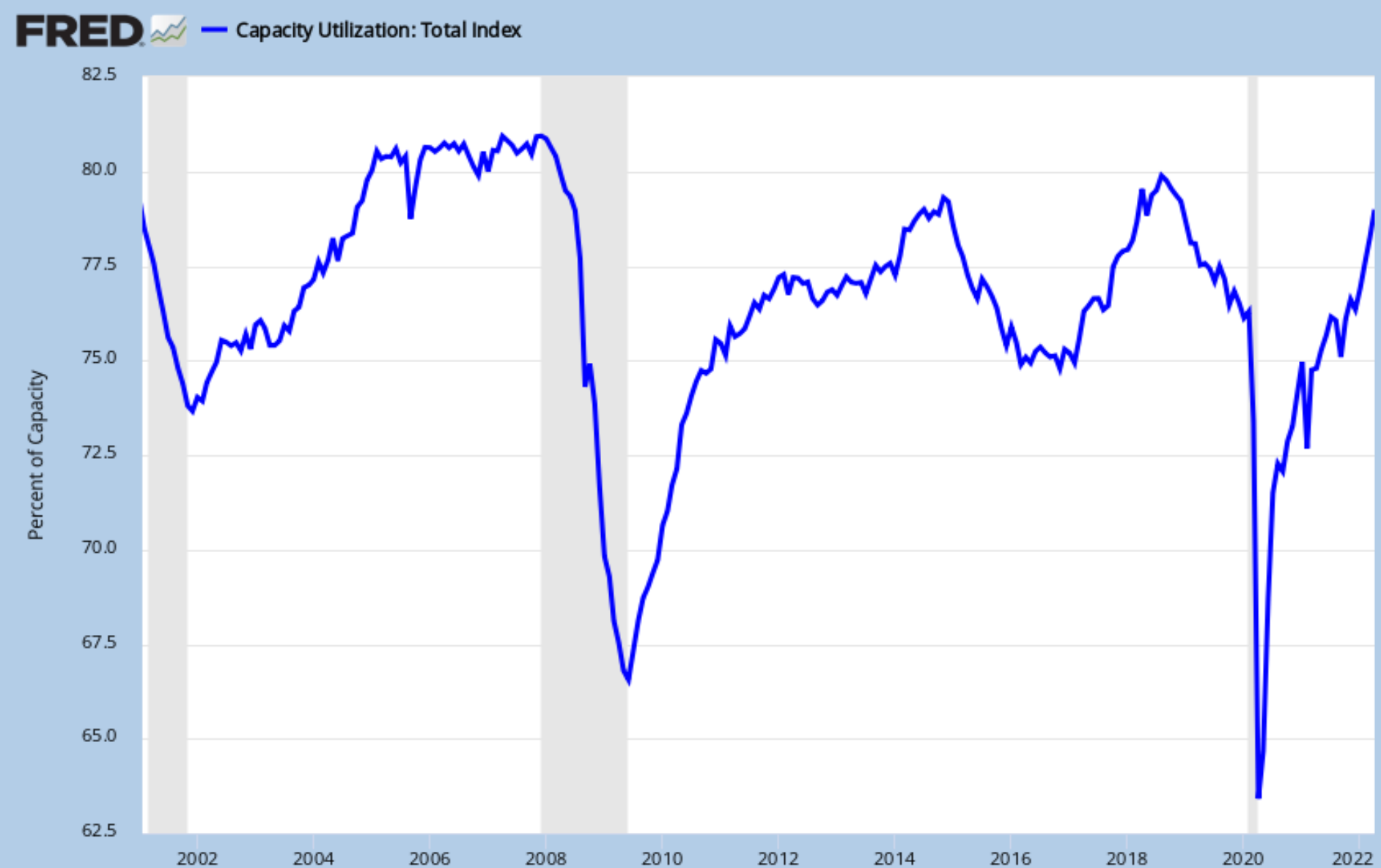


Source: U.S. Energy Information Administration

[myf.red/g/Q3wd](https://myf.red/g/Q3wd)

# Capacity Utilization Rates Recover

Close to its pre-Covid peak level




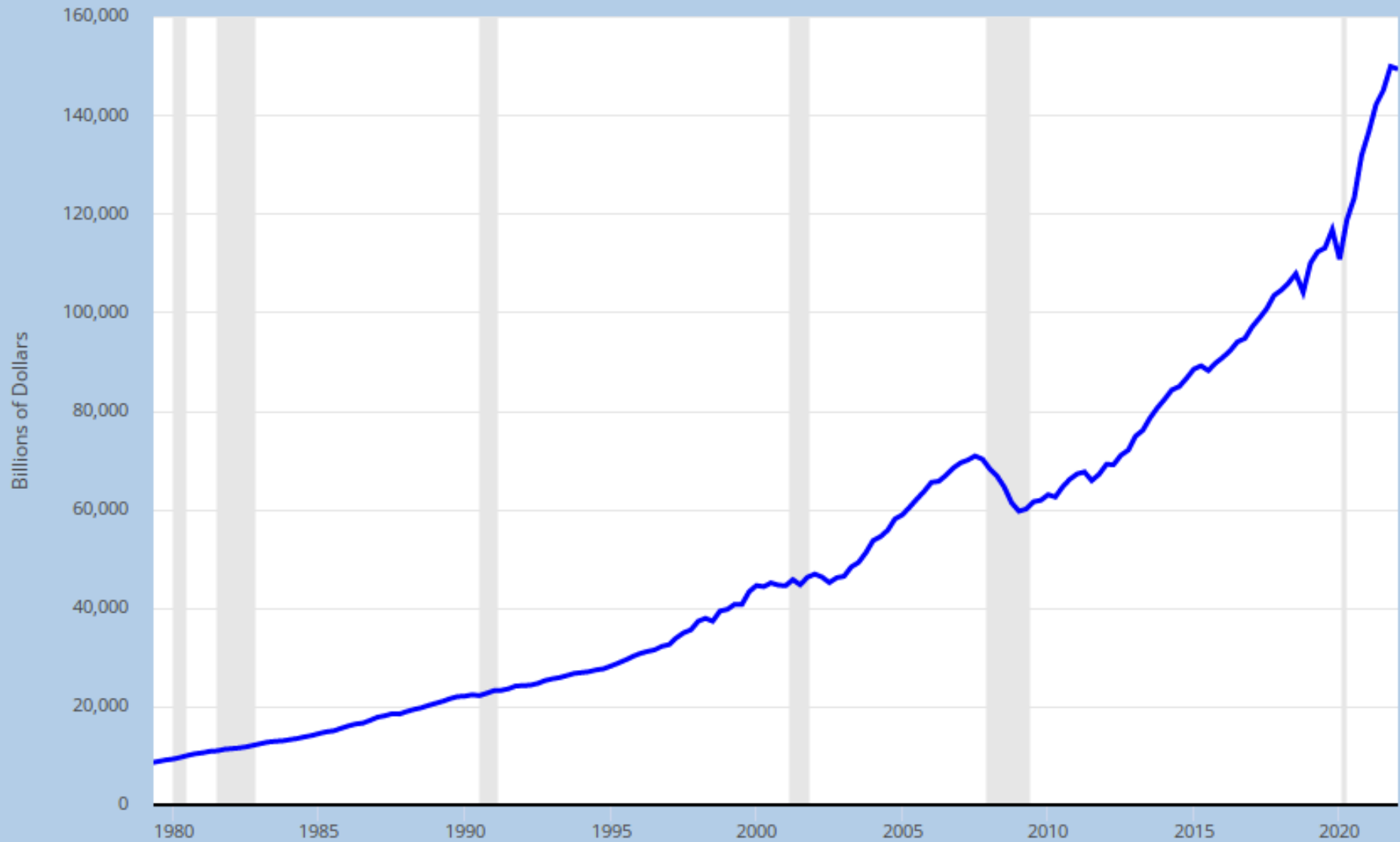
Source: Board of Governors of the Federal Reserve System (US)

[myf.red/g/PxhX](https://myf.red/g/PxhX)

# Household Balance Sheets Recover Quickly

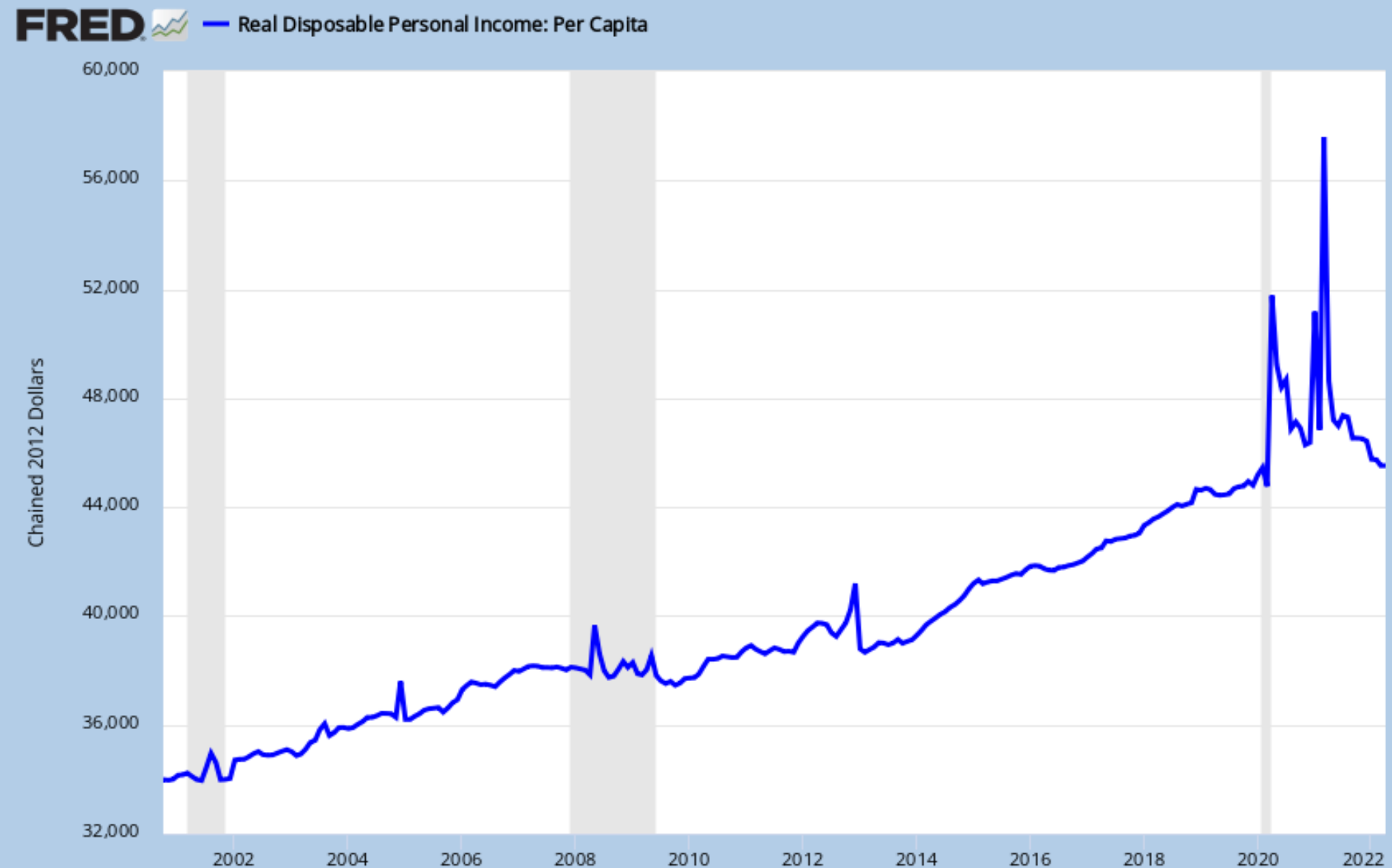
Trillions in net worth recovered; at a new record level

**FRED**  — Households and Nonprofit Organizations; Net Worth, Level



# Real Per Capita Disposable Income

It is now down almost \$2,000 from its recent peak



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

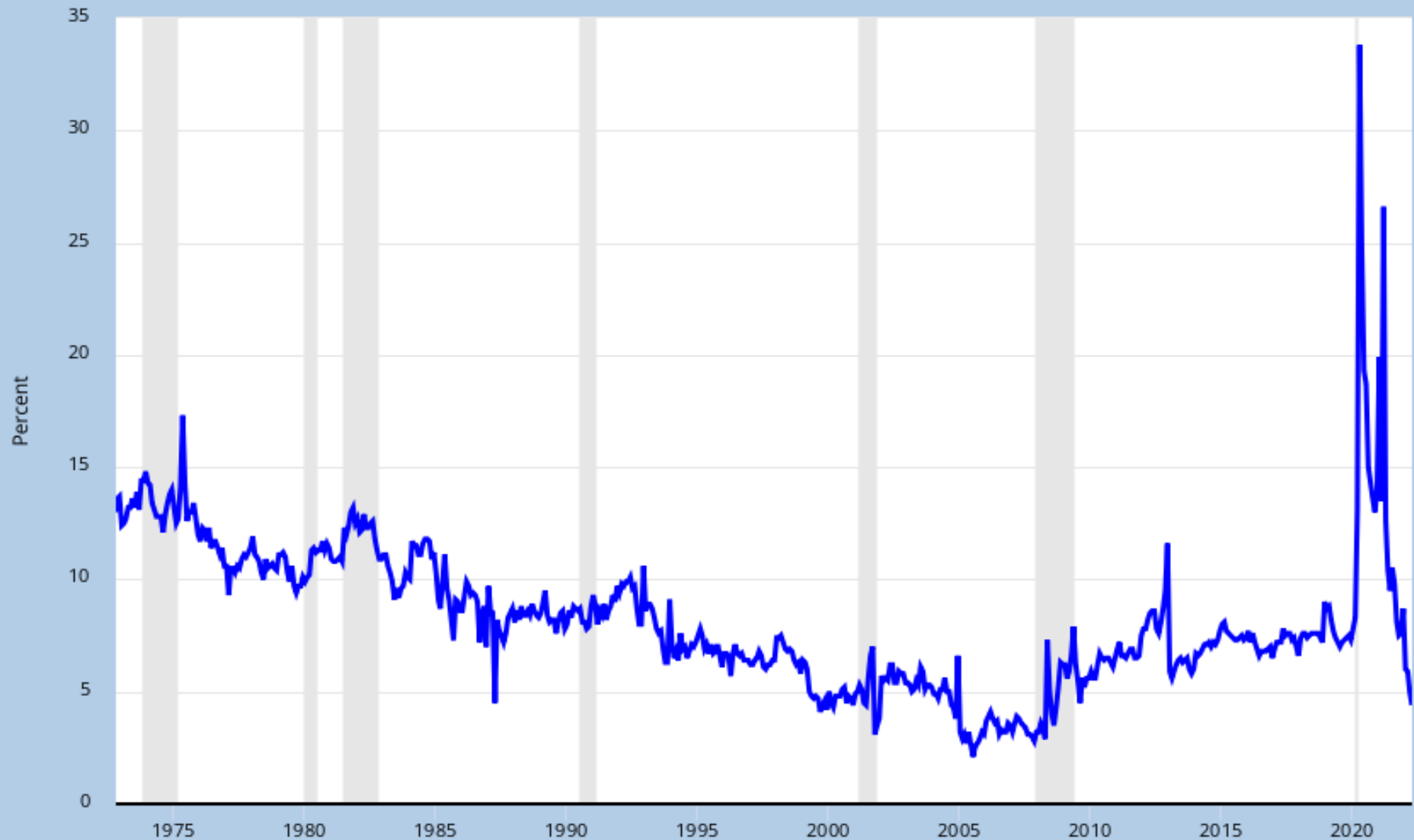
[myf.red/g/PWvF](https://myf.red/g/PWvF)



# Household Savings Rates

They are normalizing as enhanced UI benefits end and fiscal stimulus fades

**FRED**  — Personal Saving Rate



*Shaded areas indicate U.S. recessions.*

Source: U.S. Bureau of Economic Analysis

[myf.red/g/PWs3](https://myf.red/g/PWs3)

# Fiscal Policy Was Very Stimulative

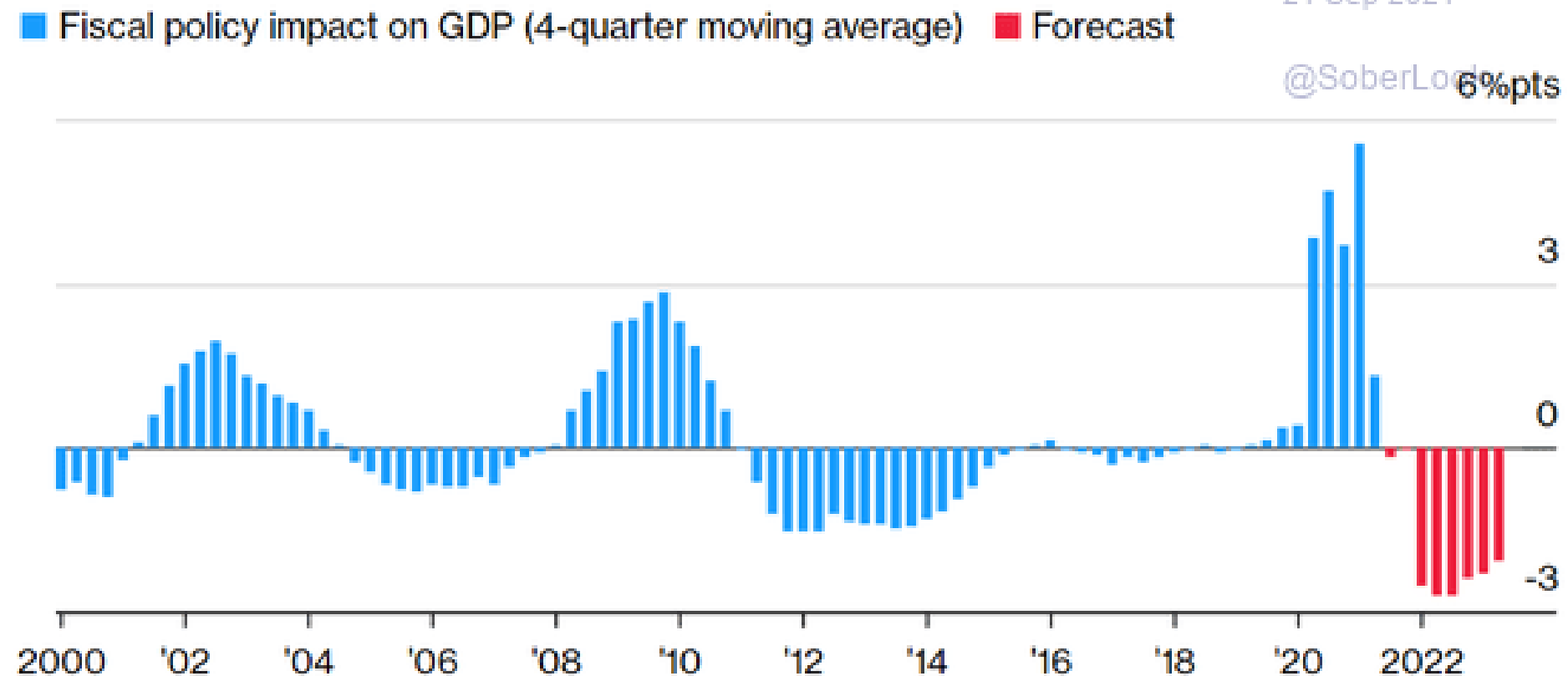
We are no longer enjoying fiscal stimulus

## Becoming a Drag

The U.S. government spent historic sums to support the economy in the pandemic. Its withdrawal will create an unusually big fiscal cliff

Posted on  
The Daily Shot  
21-Sep-2021

@SoberLook 6%pts



Source: Hutchins Center on Fiscal and Monetary Policy, Brookings Institution

Note: Figures include budgets of federal, state and local governments.

# Fed Rate Hikes and Recessions

They generally travel together

## Fed Tightening Has Preceded Every U.S. Recession

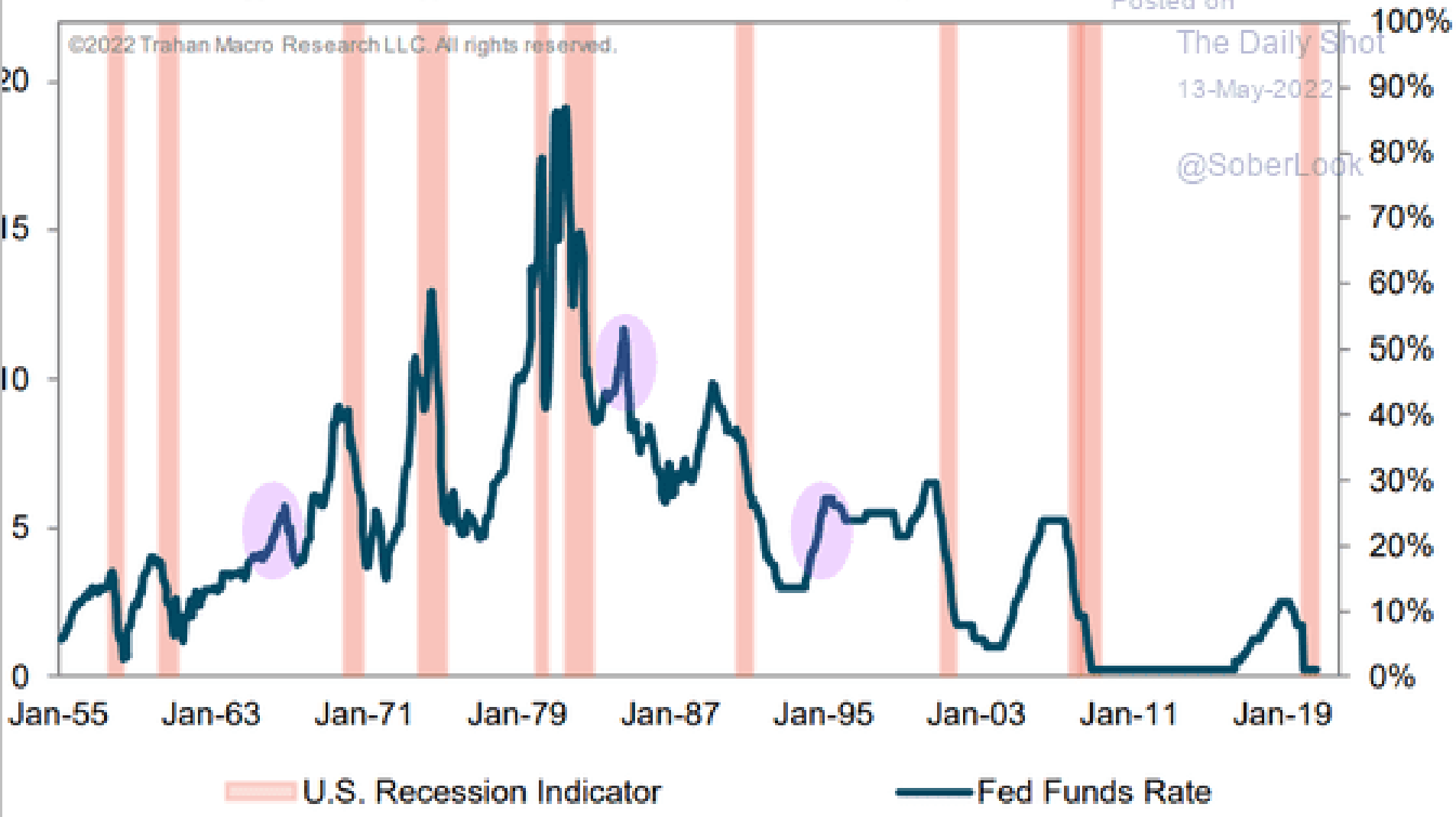
Posted on

The Daily Shot

13-May-2022

@SoberLook

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# Fed Rate Hikes and Recessions

They generally travel together

## Fed hiking cycles and recessions

Start of hiking cycle	Start of recession	Gap from start of hiking (# months)
Aug-58	Apr-60	20
Nov-67	Dec-69	25
Mar-72	Nov-73	20
Dec-76	Jan-80	37
Aug-80	Jul-81	11
Mar-83	Jul-90	87
Jan-87	Jul-90	42
Feb-94	Mar-01	85
Jun-99	Mar-01	20
Jun-04	Dec-07	41
Dec-16	Feb-20	38
Average in hard landings		27
Median in hard landings		23

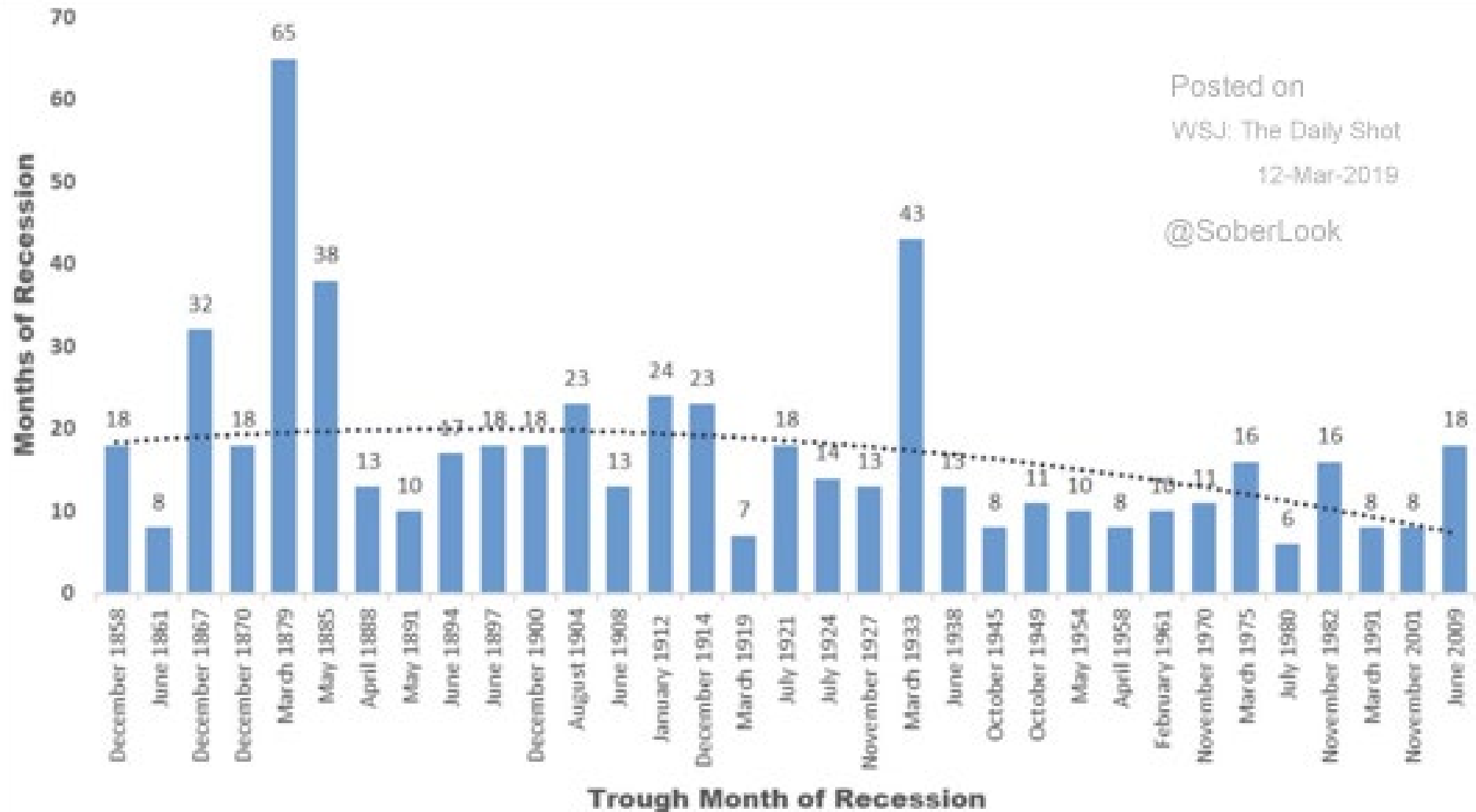
Shortest gap was 11 months

Typical gap was 2 years

\* Shaded episodes are soft landing cycles that avoided a recession

# Duration of All Recorded US Recessions

Since the Depression they tend to be shorter



# Historical Bear Market Duration

They generally are quite short



# Historical Bear Market Returns

They generally fall about 25%

Posted on

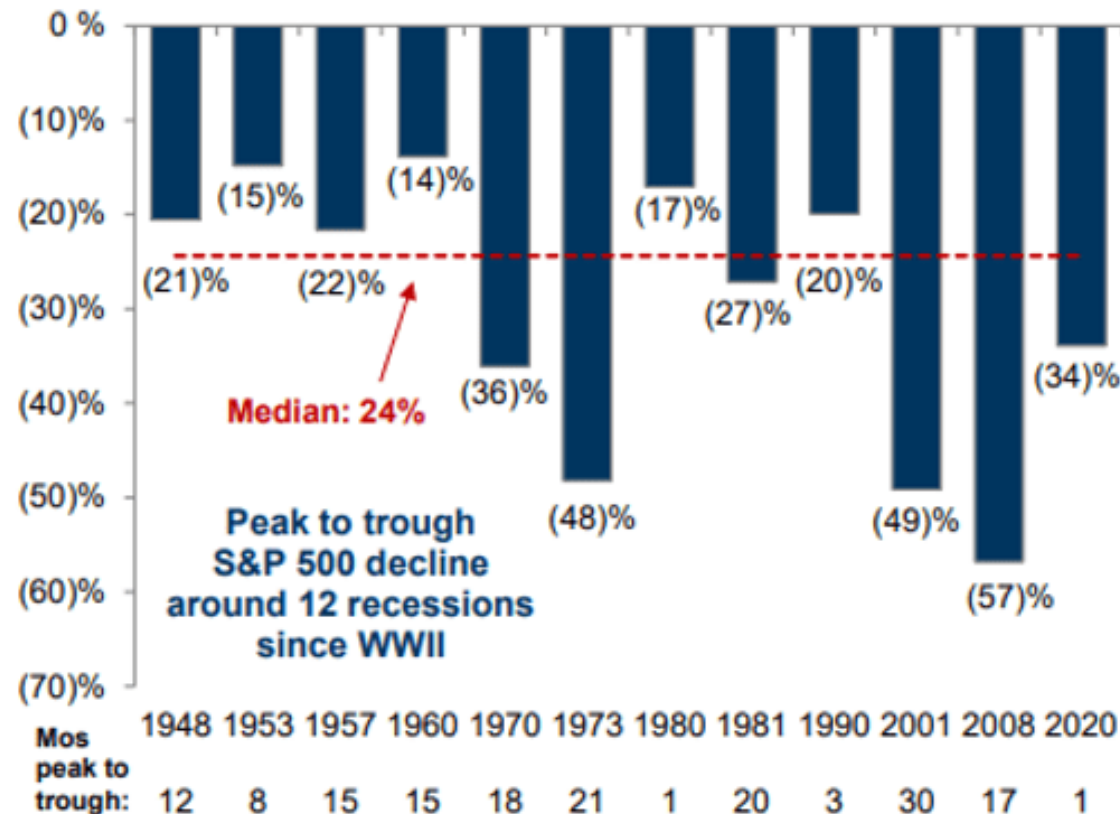
The Daily Shot

16-Jun-2022

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The S&P 500 has contracted 24% in the median recession

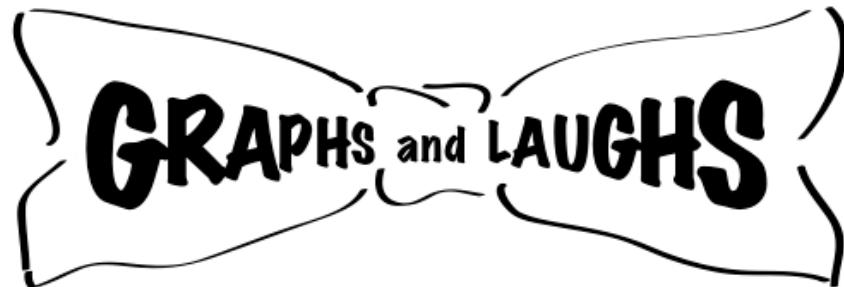
Peak to trough S&P 500 decline in recessions since WWII, %



Source: Goldman Sachs GIR.

# Labor Markets:

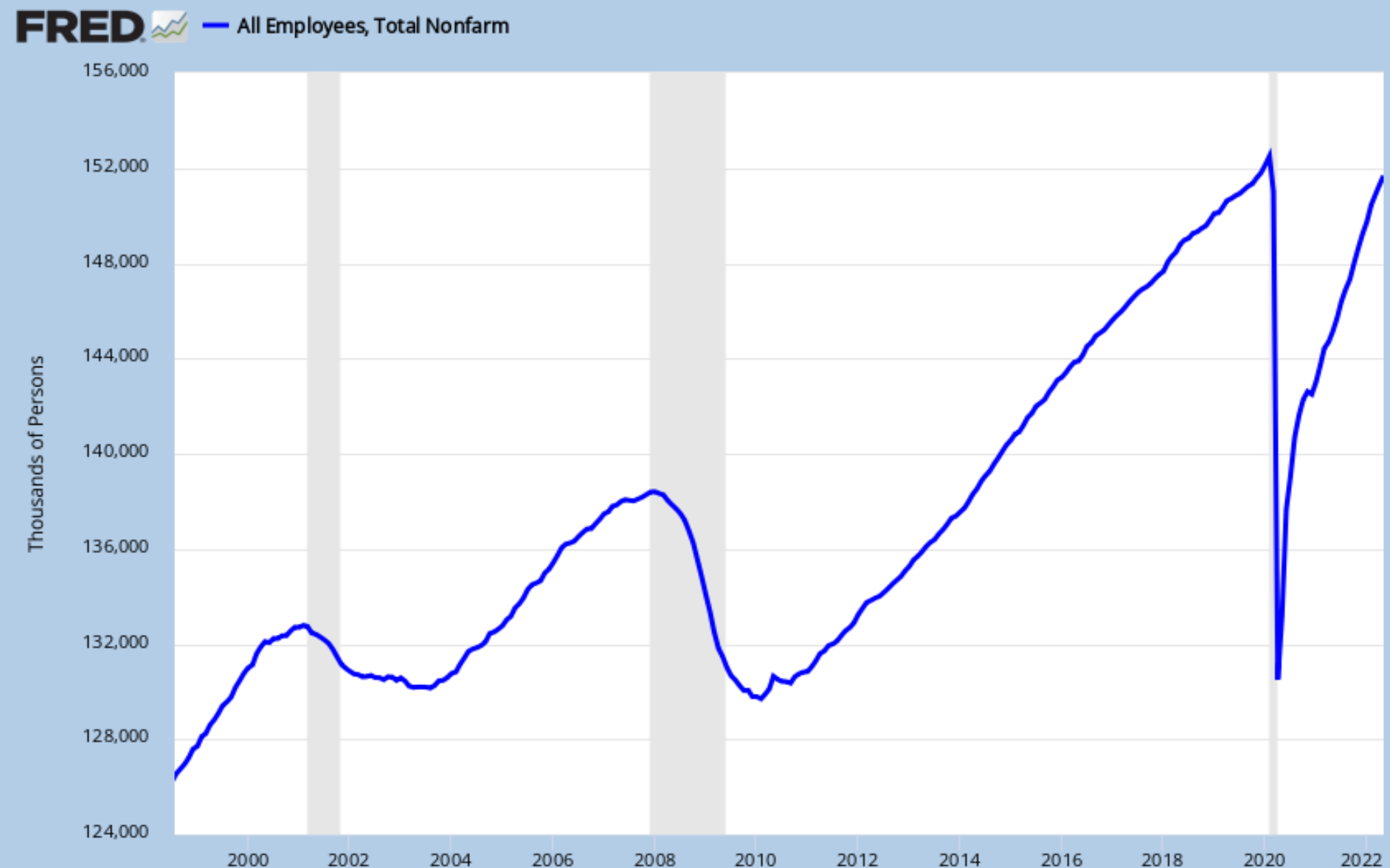
They Were Tight and  
They are Again





# Historical Employment Levels

Employment is now down by just 800,000



*Shaded areas indicate U.S. recessions.*

Source: U.S. Bureau of Labor Statistics

[myf.red/g/QaQ5](https://myf.red/g/QaQ5)

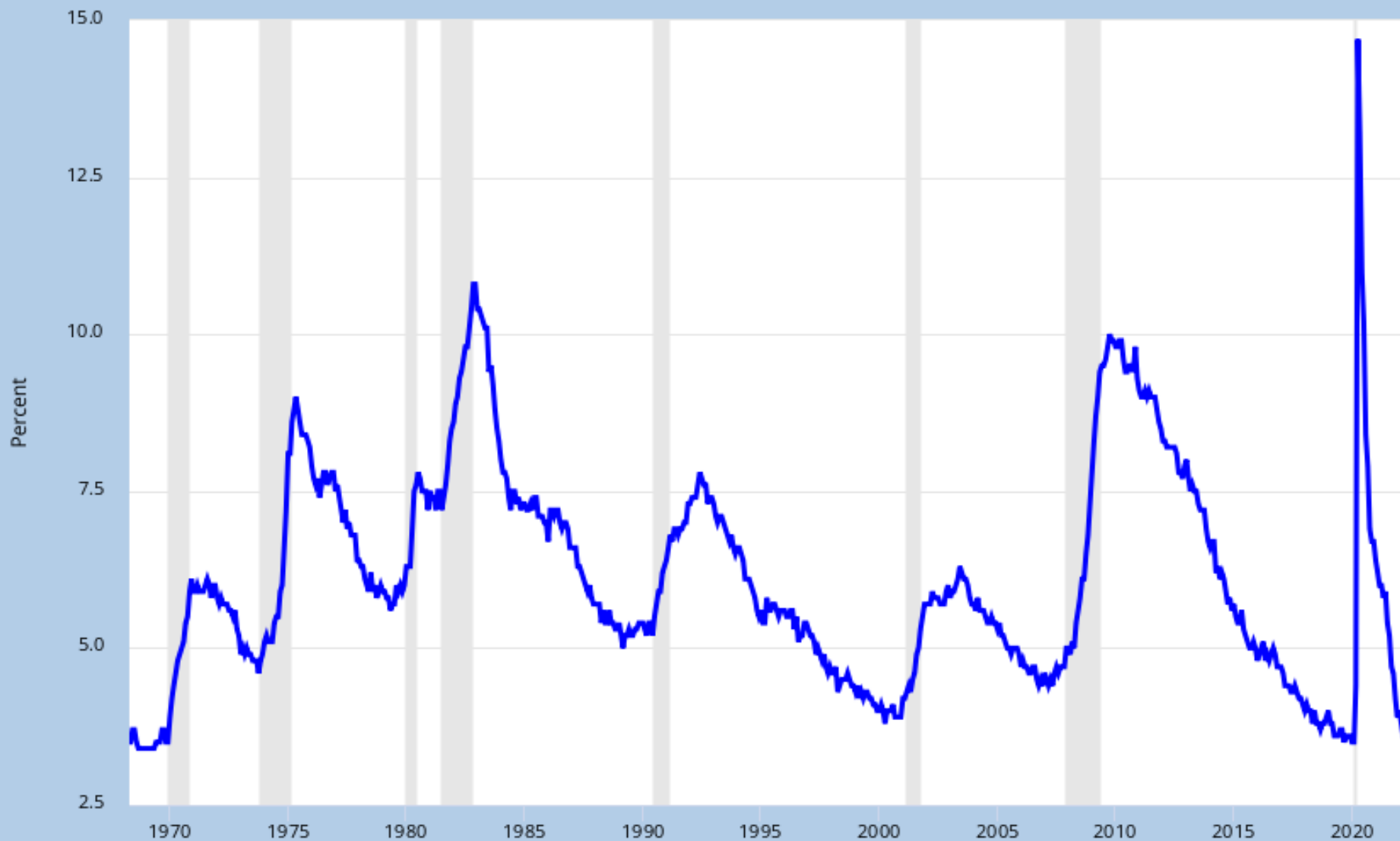
# The Unemployment Rate is Way Down

The decline has been spectacular

**FRED**



— Unemployment Rate



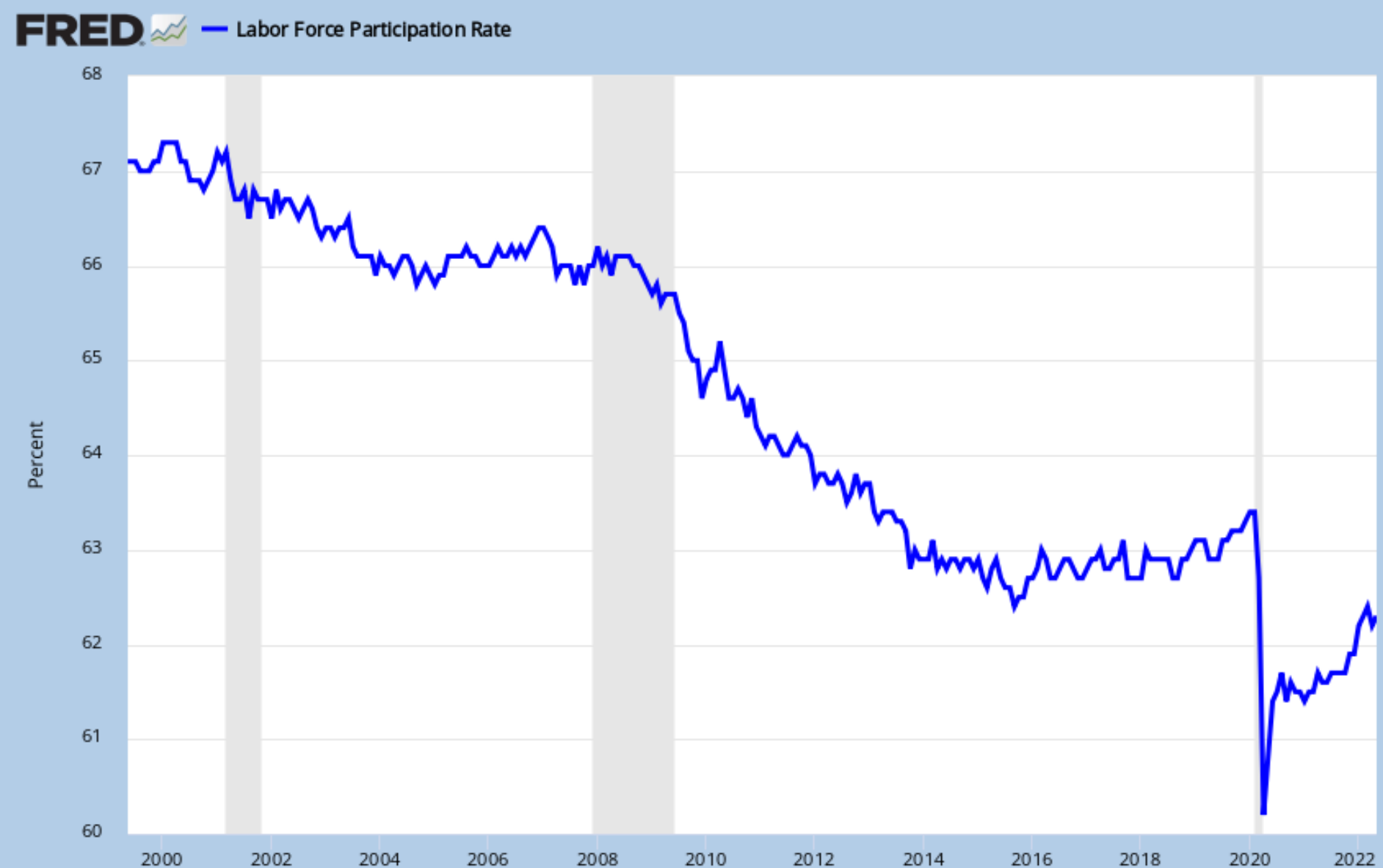
*Shaded areas indicate U.S. recessions.*

Source: U.S. Bureau of Labor Statistics

[myf.red/g/QaQz](https://myf.red/g/QaQz)

# The Labor Force Participation Rate

It is now steadily Improving



*Shaded areas indicate U.S. recessions.*

Source: U.S. Bureau of Labor Statistics

[myf.red/g/QaQF](https://myf.red/g/QaQF)

# Retirements Jump and Decline

These persons are returning to the labor force

## Retired population falls as the labor market heats up

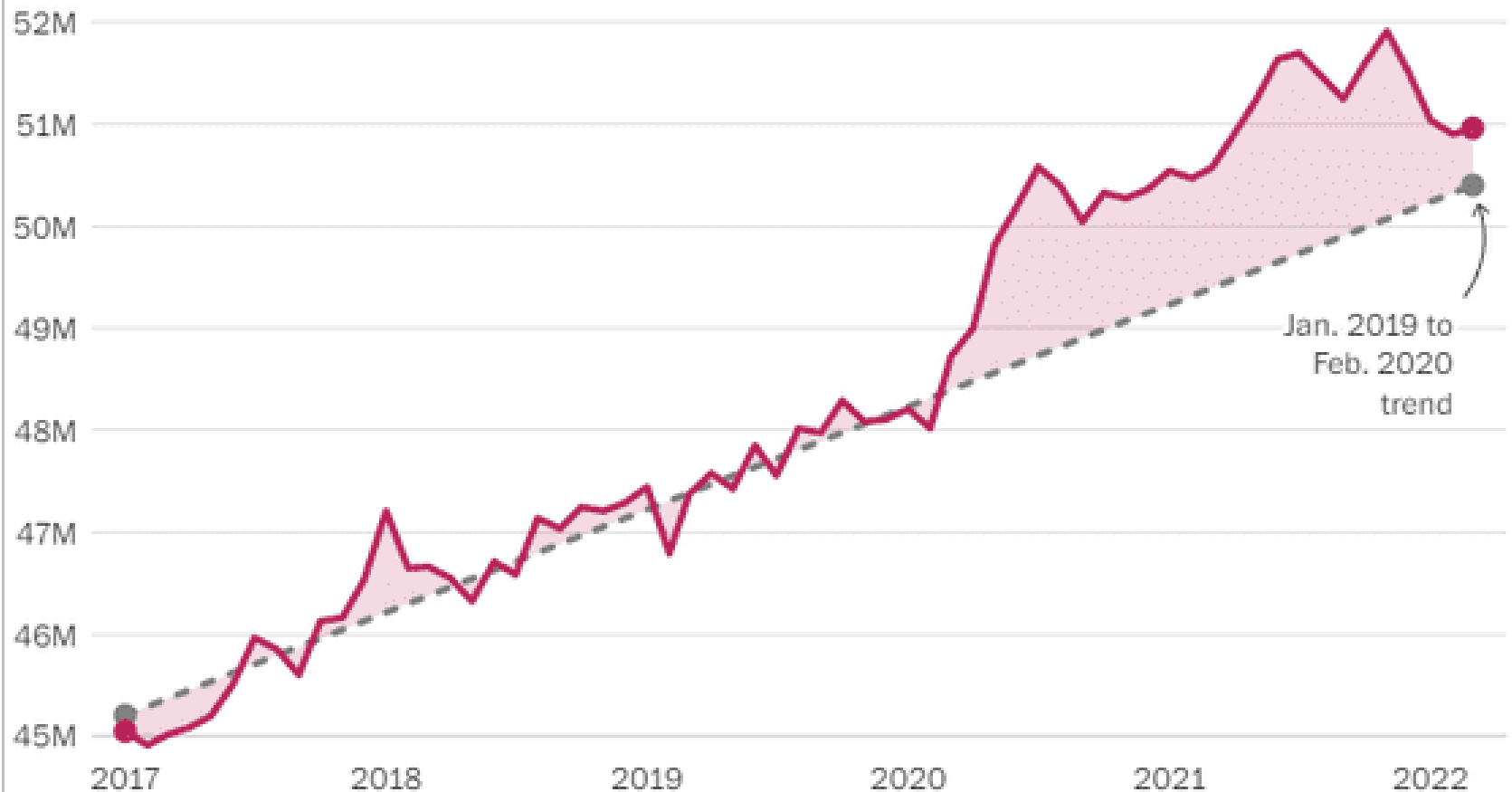
Posted on

The Daily Shot

27-May-2022

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U.S. retired population

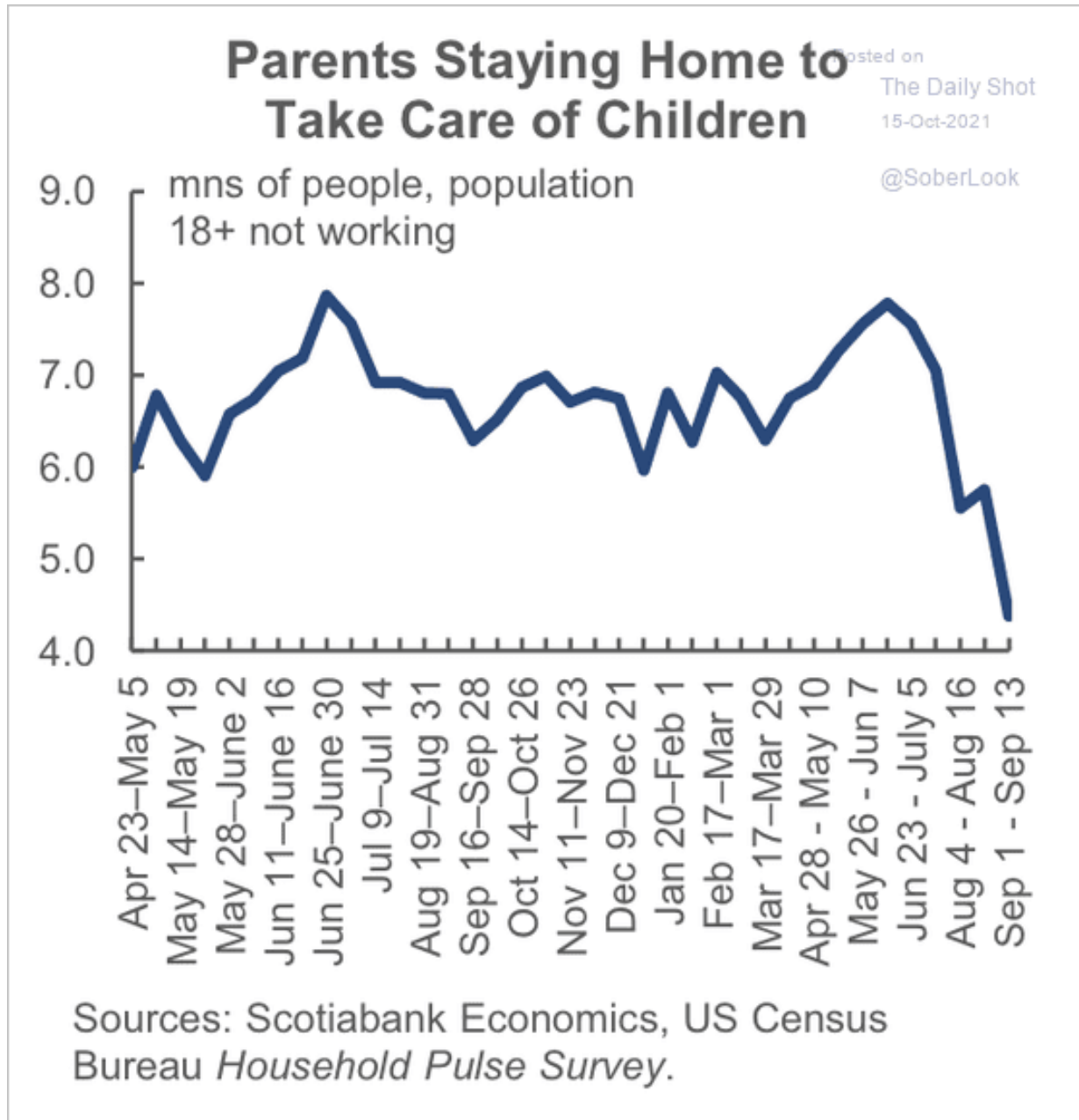


Source: Bureau of Labor Statistics survey data harmonized by the Economic Policy Institute

THE WASHINGTON POST

# Why Are Persons Not Working?

In-person schooling helps



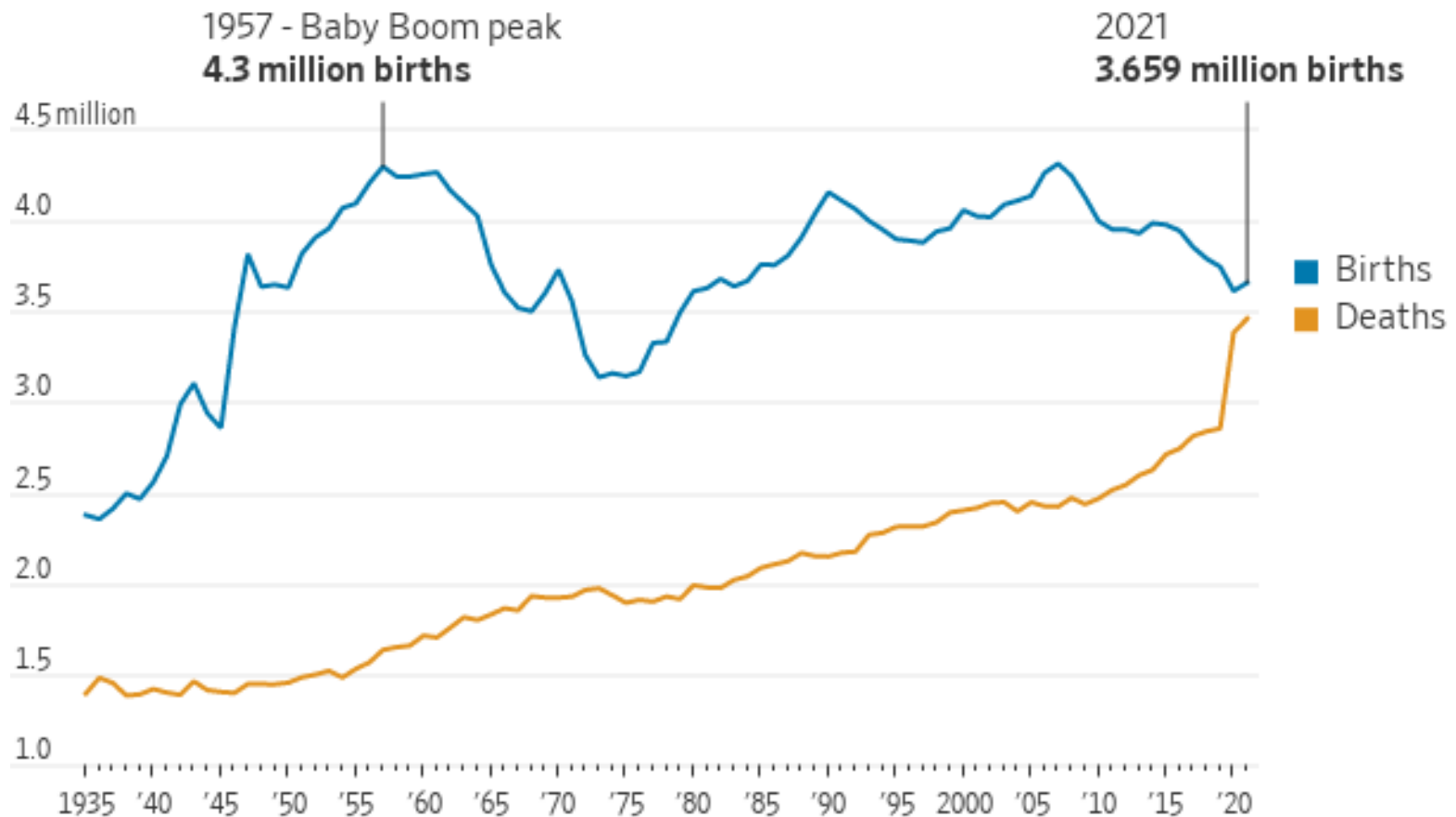
# Births and Deaths in the USA 1935 - Present

Covid has been a disaster

## Margin Narrows

The gap between U.S. births and deaths in 2021 narrowed to about 198,000 as births increased 1.3% and deaths remained elevated in the second year of the Covid-19 pandemic.

## U.S. births, deaths by year

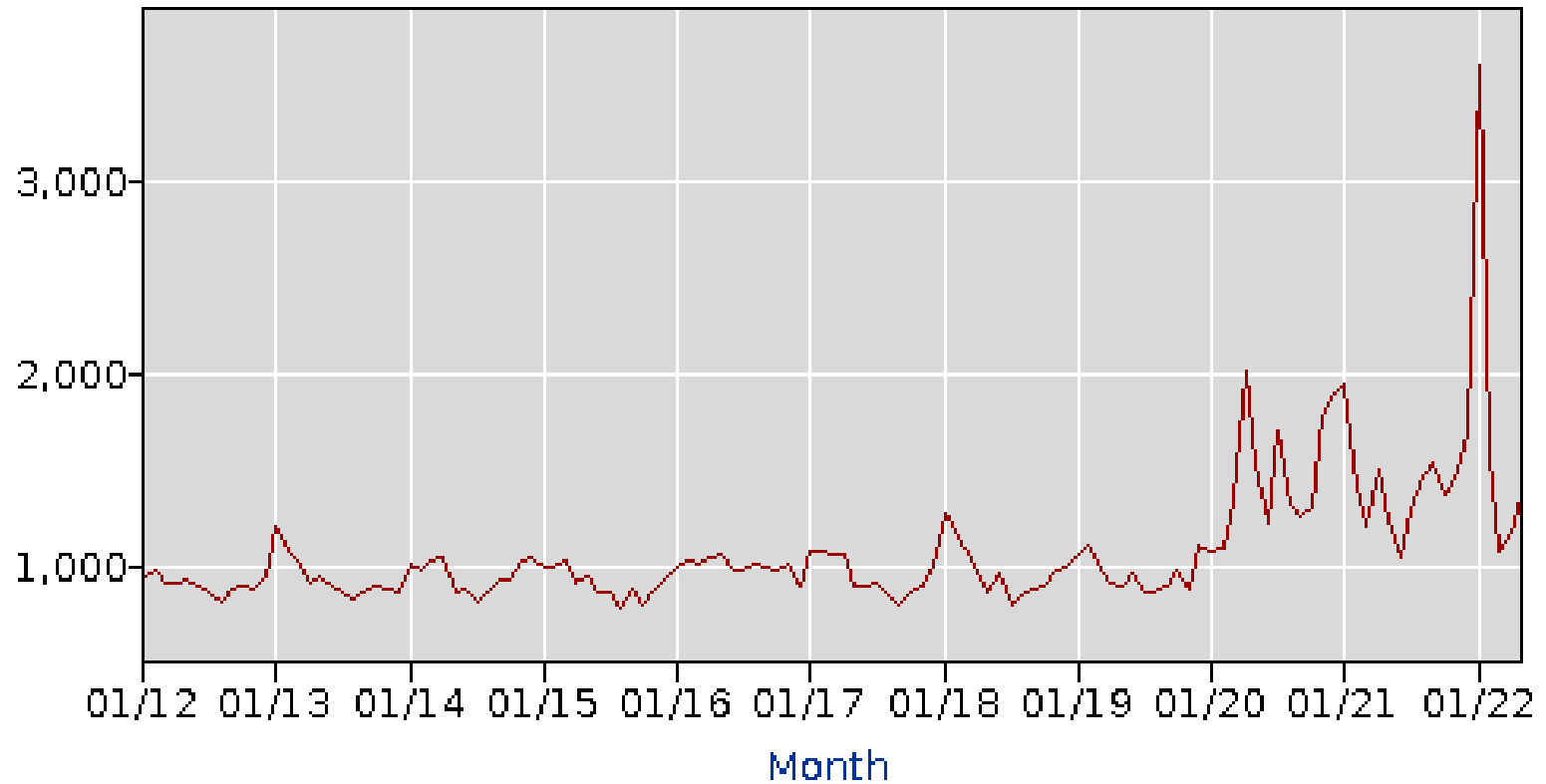


Note: 2021 data is provisional.

Source: Centers for Disease Control and Prevention

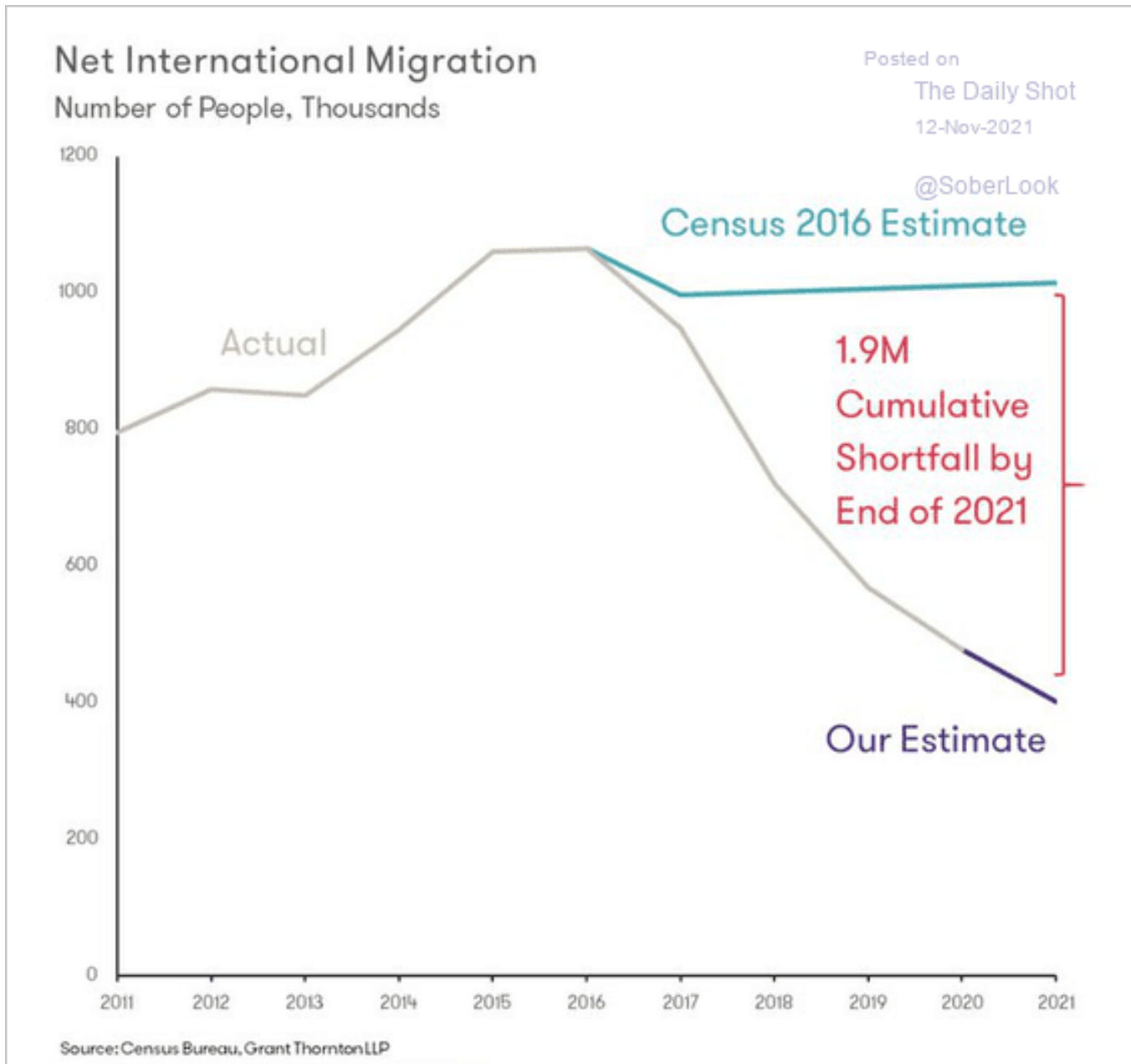
# Covid Keeps Fewer Persons Away

Employed but not working own illness



# Immigration Has Dramatically Fallen

If it rises it will help soften the labor shortage





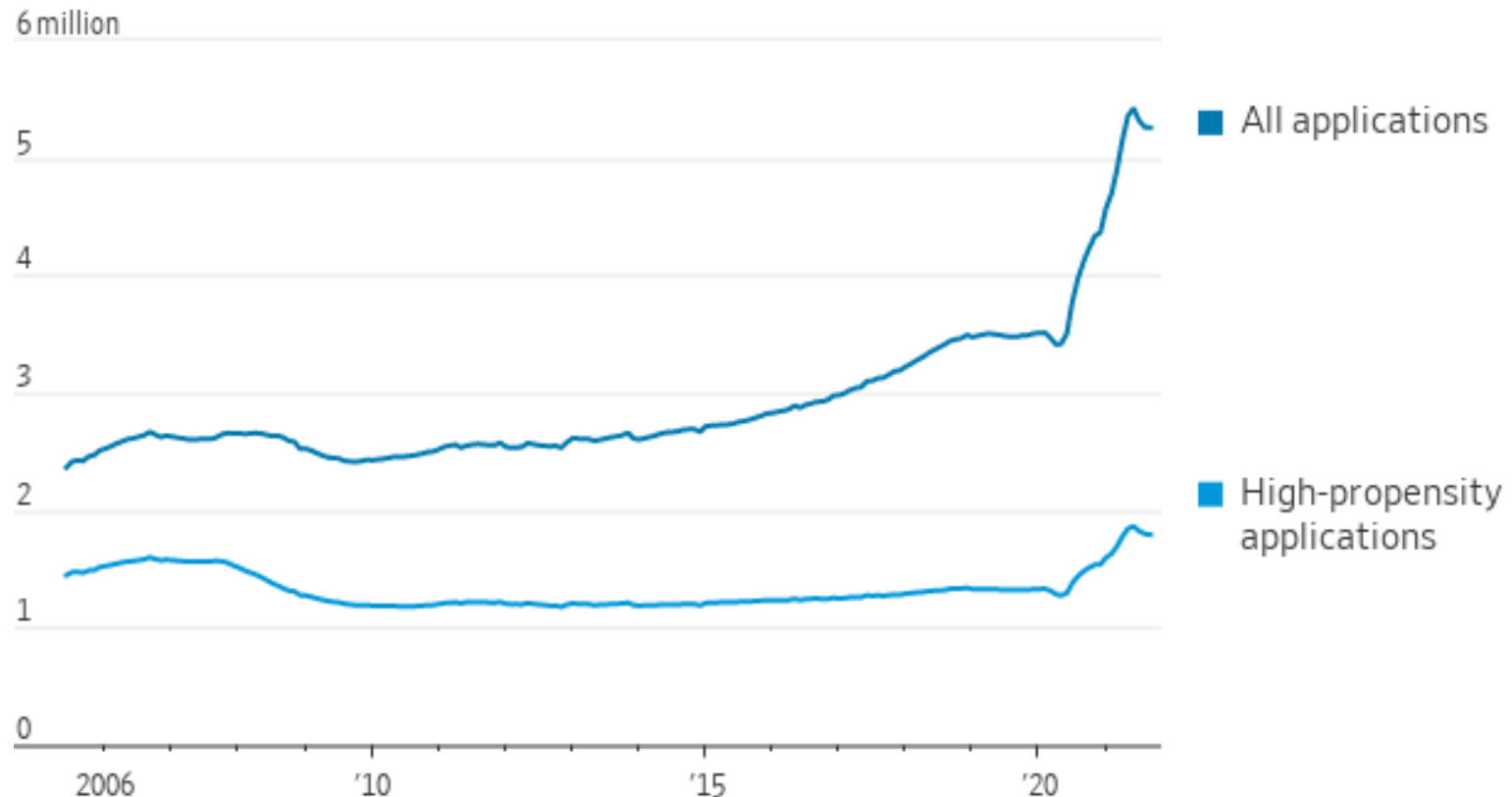
# New Firm Creation

It is booming

## Start Me Up

Applications to form businesses surged as coronavirus lockdowns lifted, though data suggest more interest in tiny startups rather than operations with a high propensity for hiring workers and paying wages.

### U.S. business applications for tax IDs, 12-month rolling sum

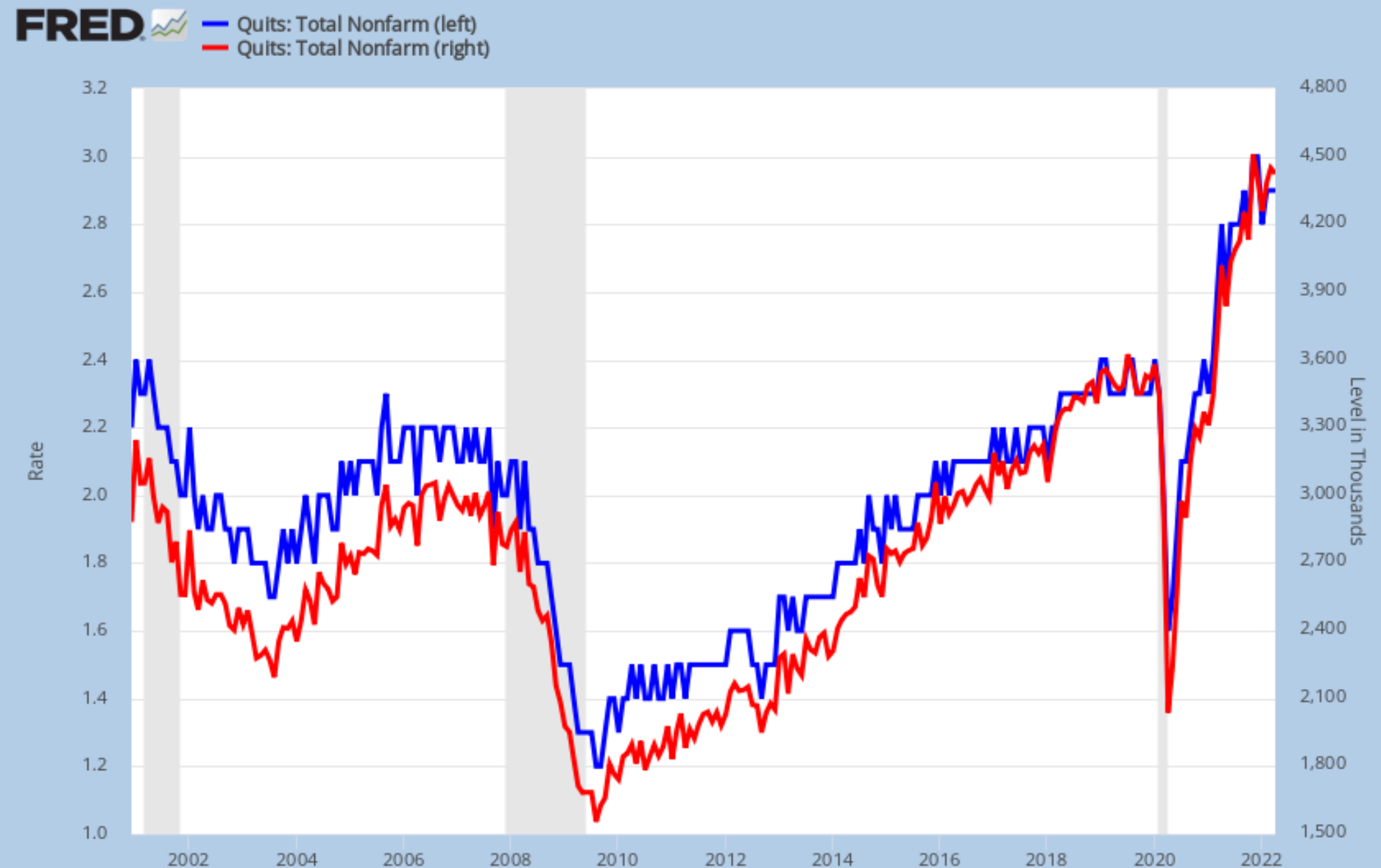


Note: Seasonally adjusted

Source: Census Bureau

# Quit Rates Have Skyrocketed

Workers are quitting in droves, this suggests large wage gains



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

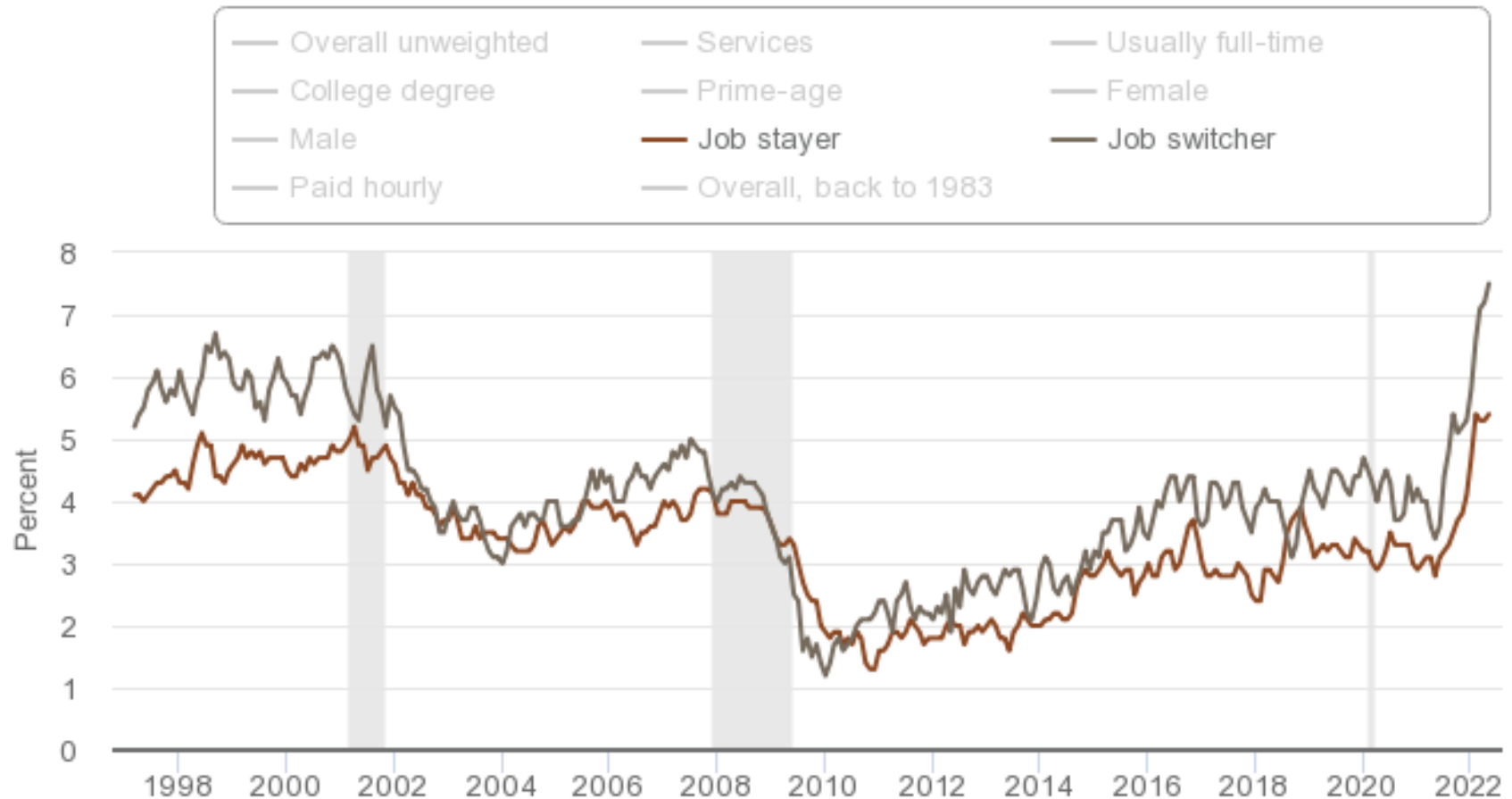
[myf.red/g/Q3ue](https://myf.red/g/Q3ue)

# Wage Growth Gap is Very Large

Of those continuously full-time employed

## Wage Growth Tracker

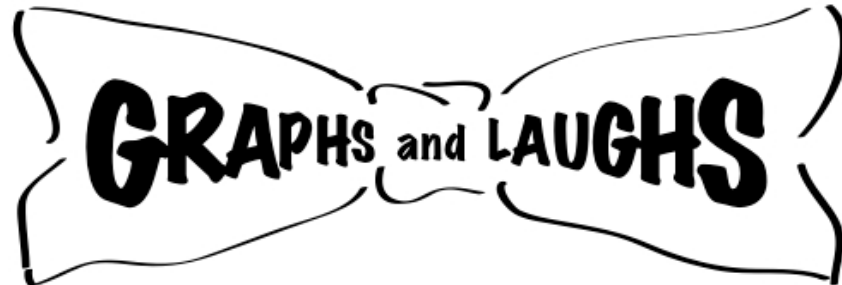
three-month moving average of median wage growth, hourly data



Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations

# Inflation?

# It's Here!



**INFLATION? WHAT INFLATION?**

THE ATLAS SOCIETY

**A PACK OF GROUND BEEF IS THE  
SAME PRICE AS LAST MONTH**

# CPI: Inflationary Pressures are Powerful

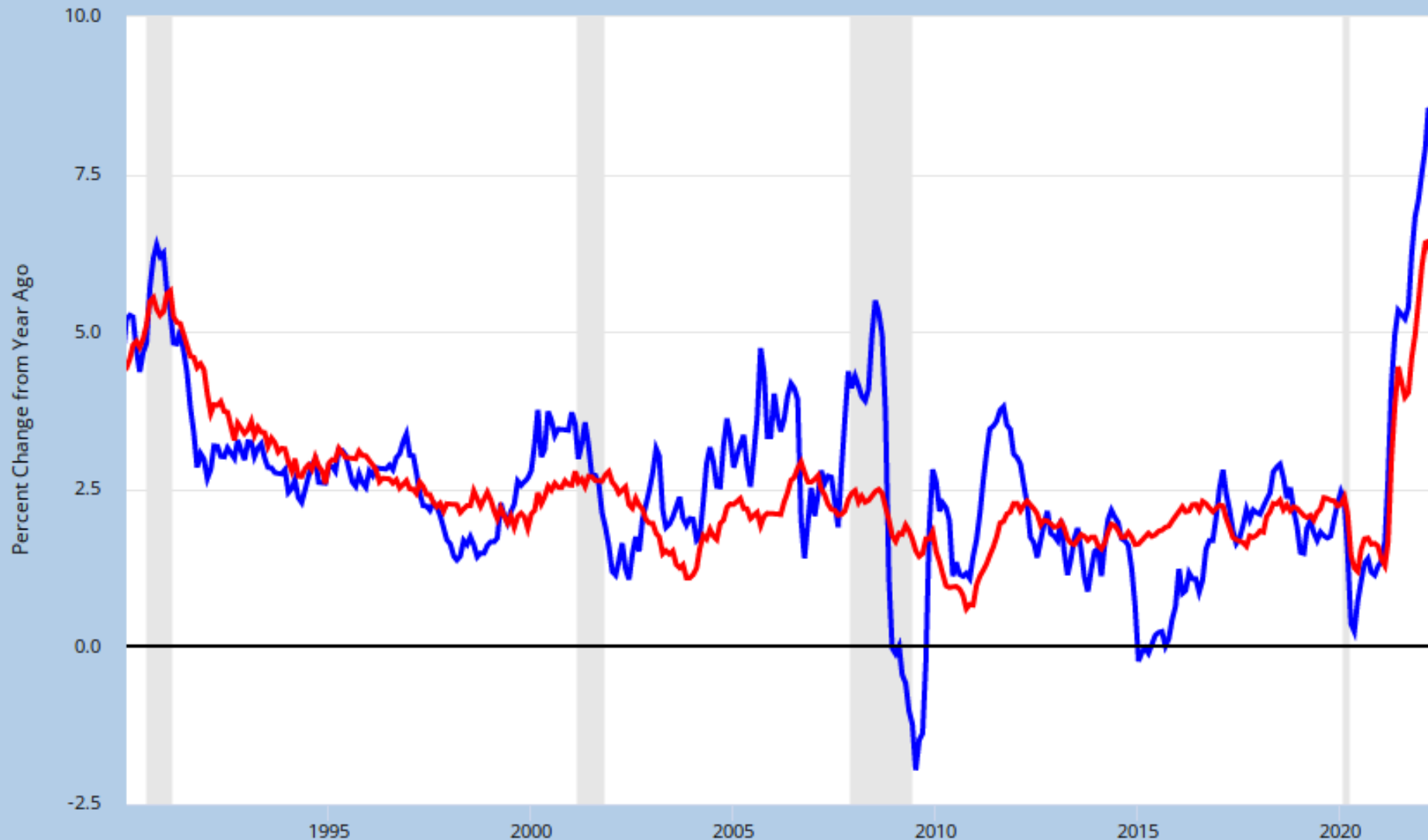
Watch the core numbers closely

**FRED**



— Consumer Price Index for All Urban Consumers: All Items in U.S. City Average

— Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average



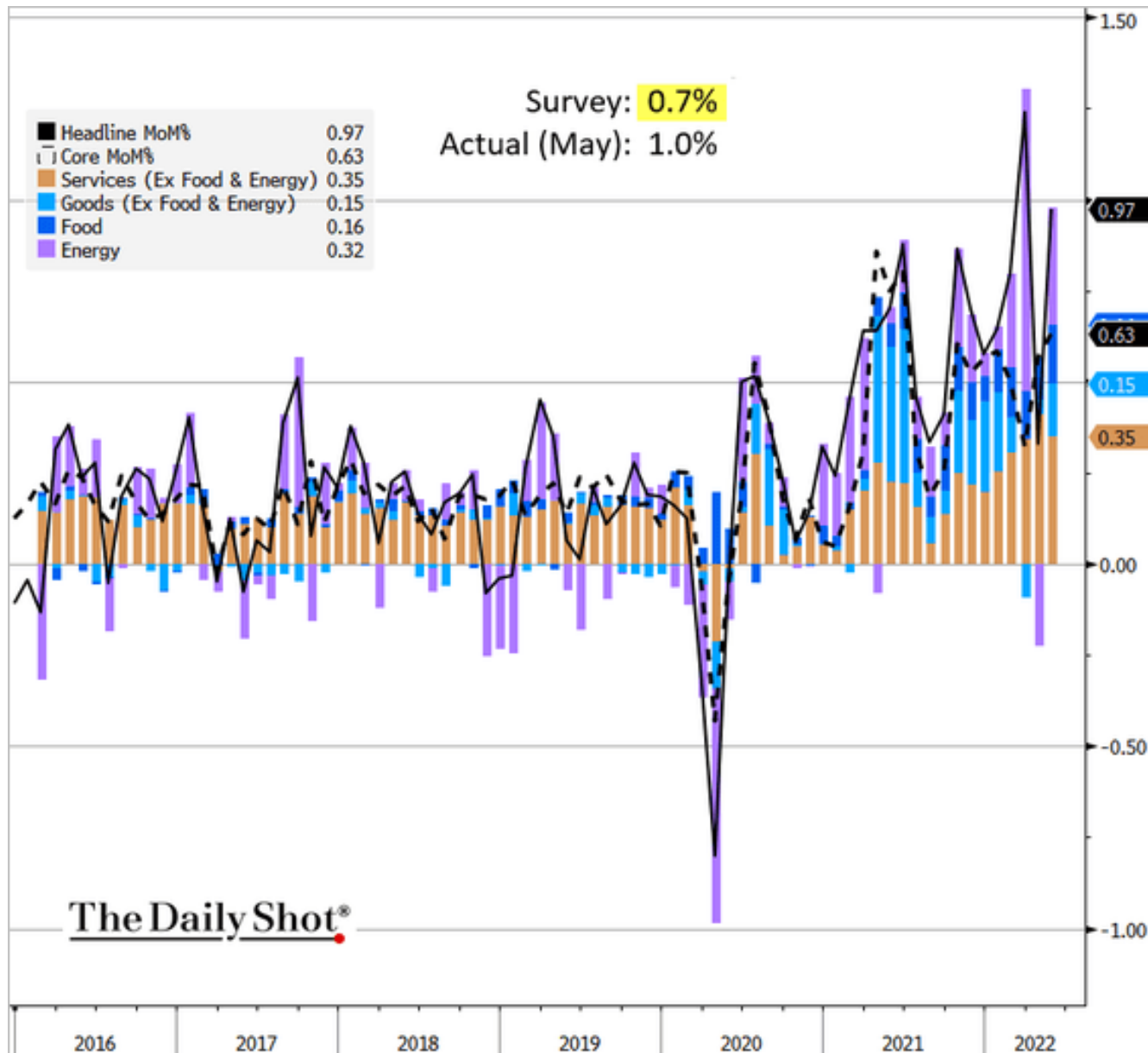
Source: U.S. Bureau of Labor Statistics

[myf.red/g/Qpw](https://myf.red/g/Qpw)



# Contributions to CPI

Energy and services are what is driving it



Source: BLS, DATA ECAN\_USCPI<GO>

CPI OHNG Index (US CPI Urban Consumers MoM SA) U.S. CPI MoM SA Monthly 31DEC2015-12JUN2022

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# Federal Reserve Behavior

Most likely scenario

- Fed funds is currently 1.625%
- 7/31/22: 2.375% 10-yr Treasury @ 3.30%

12/31/22: 3.375% 10-yr Treasury @ 3.40%

- 6/31/23: 3.875% 10-yr Treasury @ 3.30%



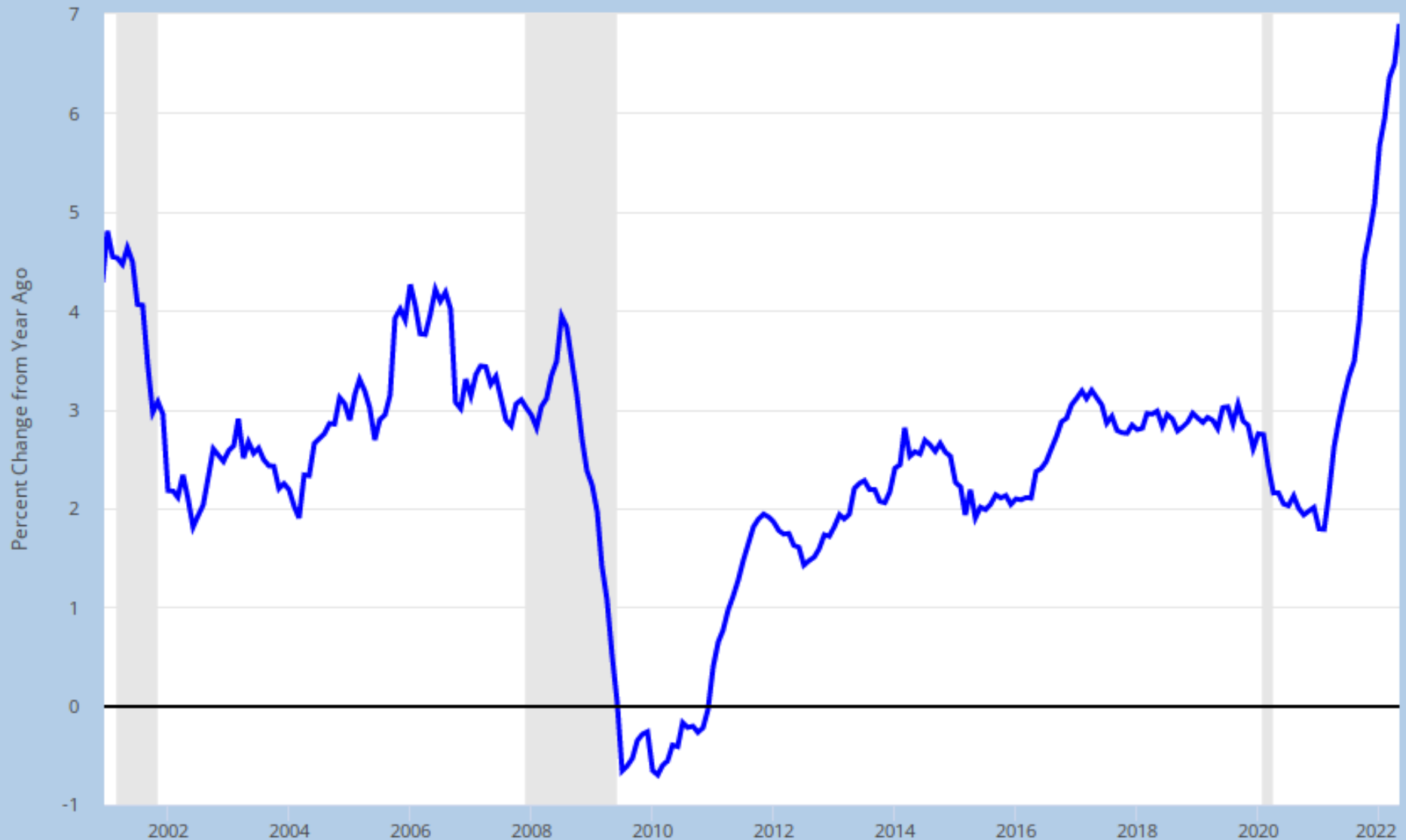
# Housing Inflation is On the Rise

Had been growing at 3% or less but is now 7%

**FRED**



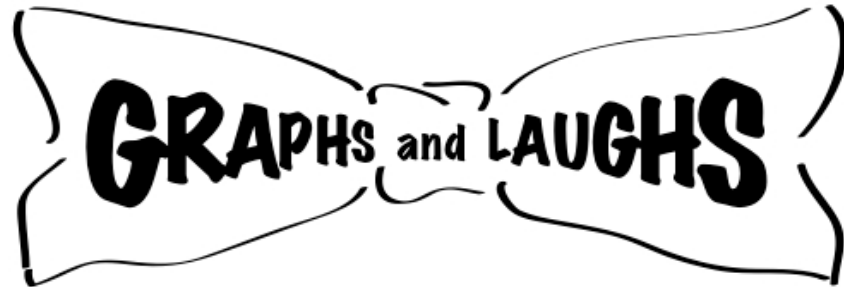
— Consumer Price Index for All Urban Consumers: Housing in U.S. City Average



Source: U.S. Bureau of Labor Statistics

[myf.red/g/QpX3](https://myf.red/g/QpX3)

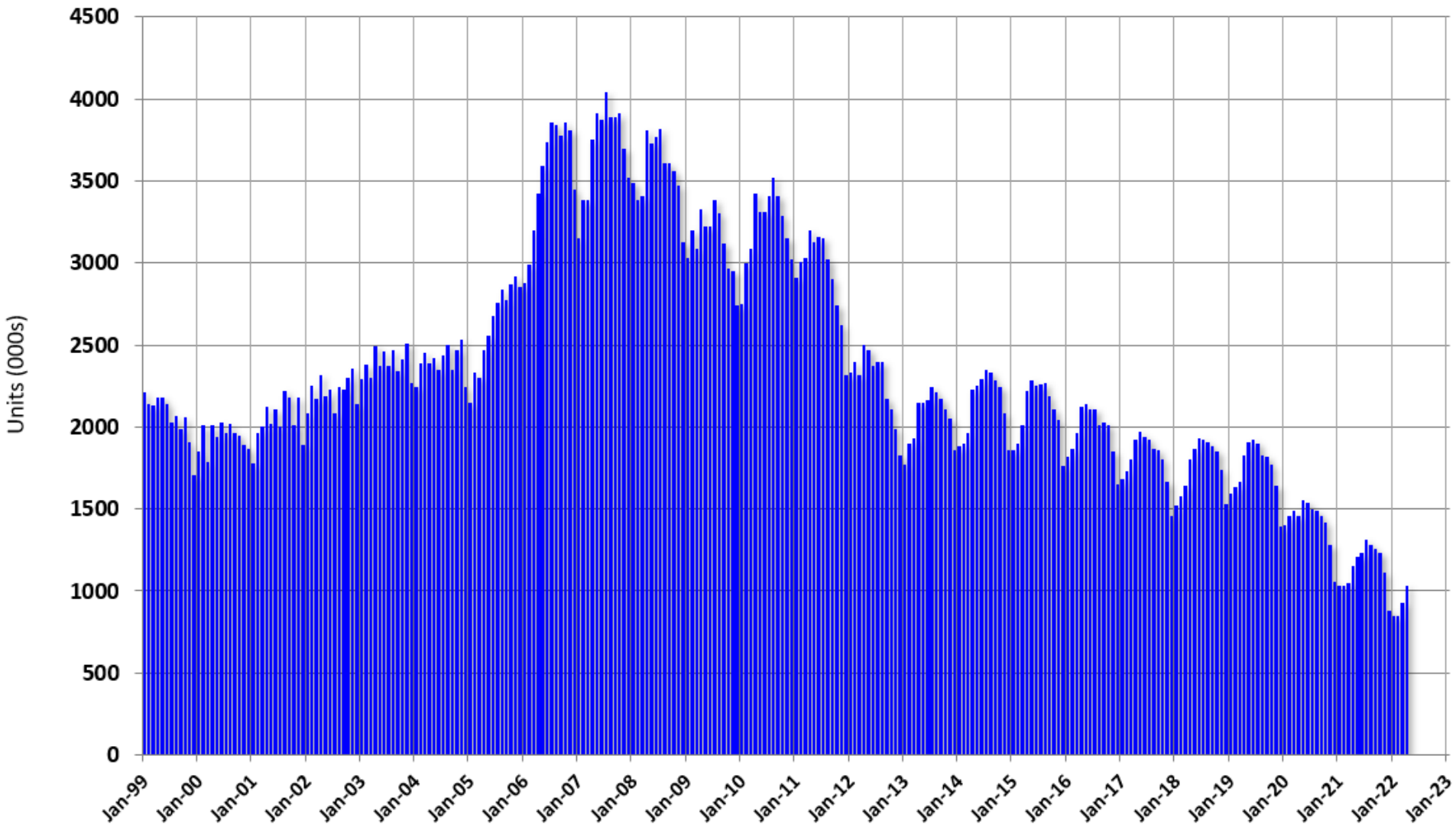
# How About Housing?



# Inventory is Now Rising

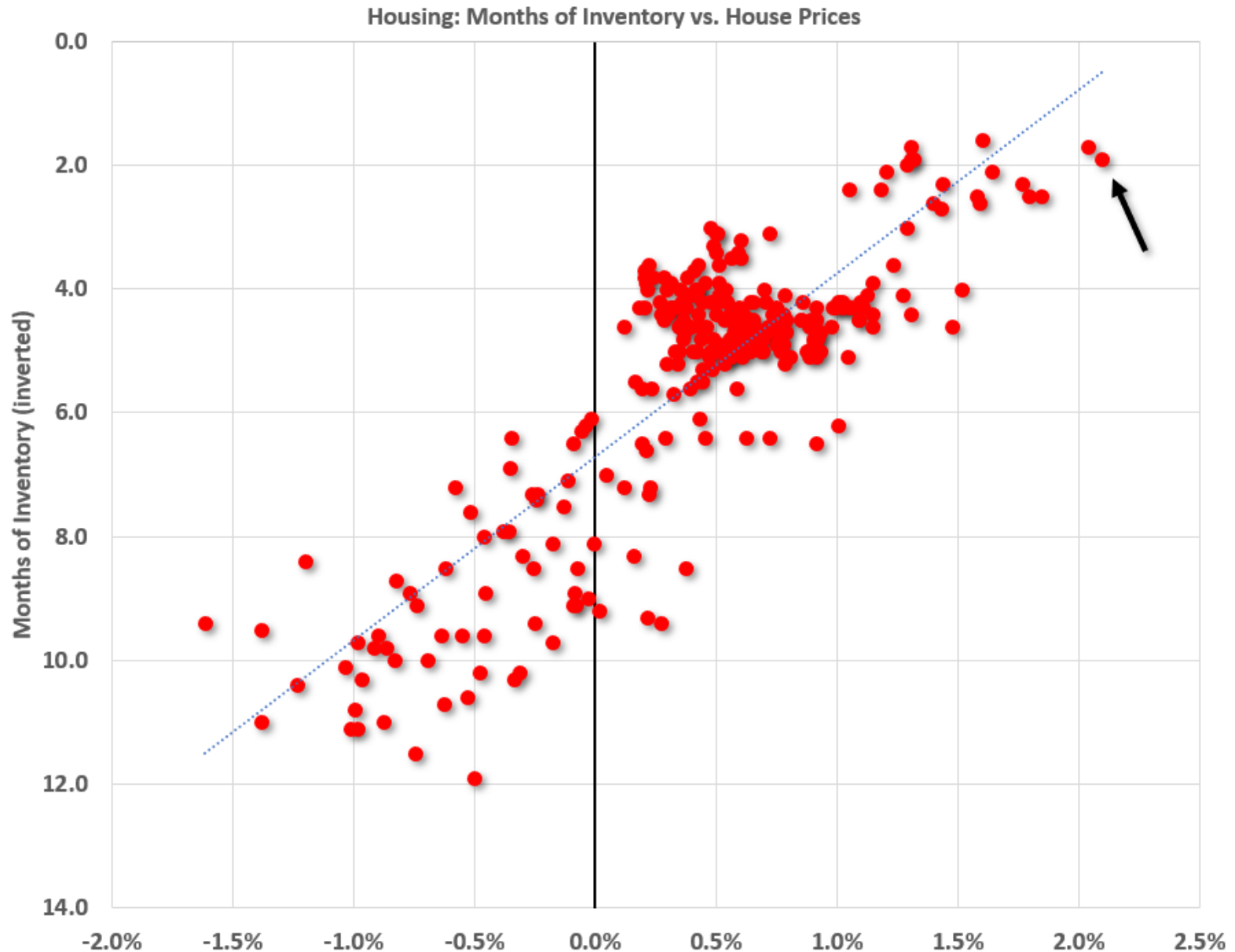
## How much it increases is the big question

Existing Home Inventory



# Existing Inventory is So Low!

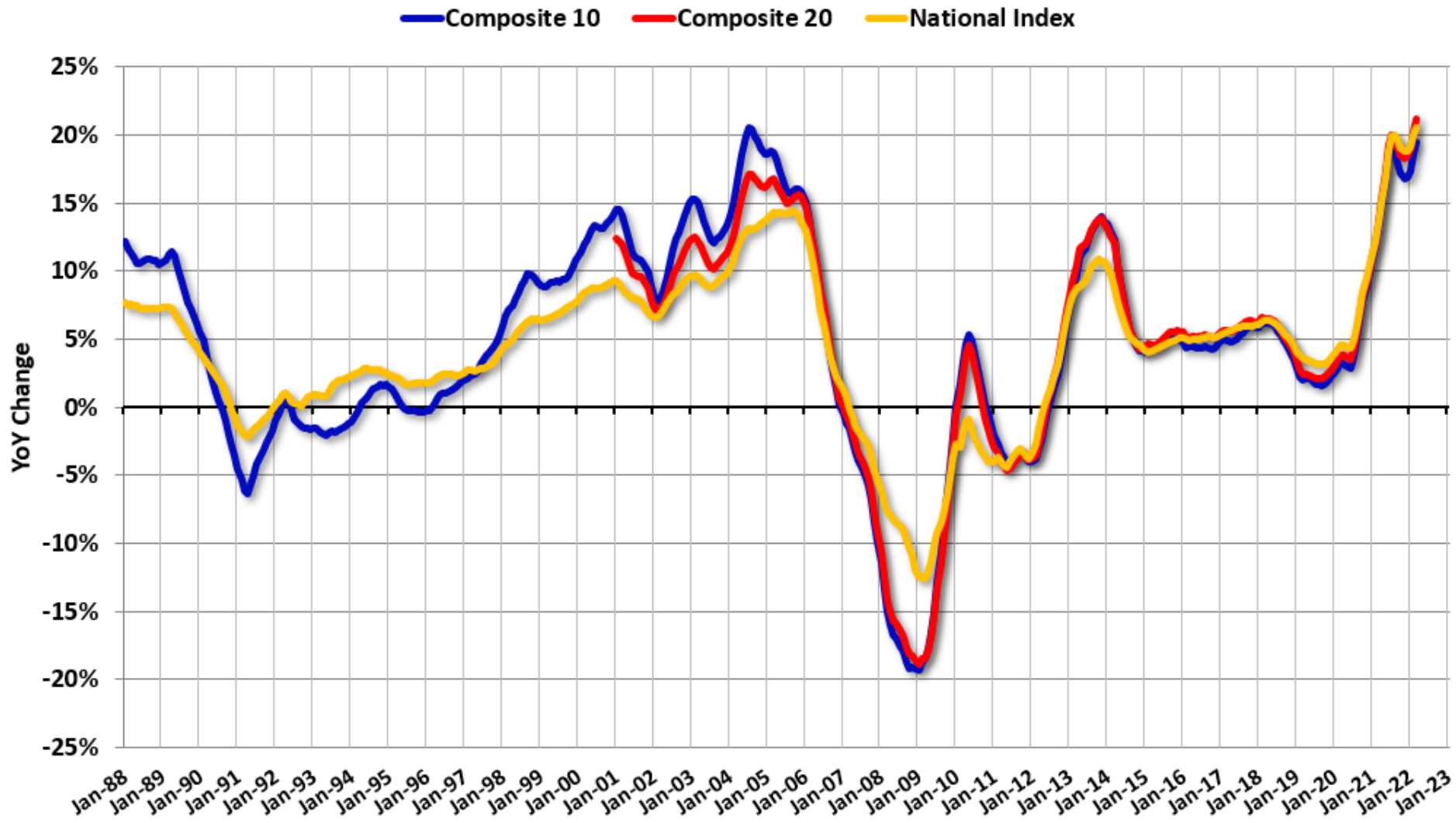
That is why home prices are rising so fast



# Price Growth Will Slow

Prices in '90 and '00 didn't collapse. Y-o-Y prices are up 19.5%, 21.2% or 20.68%

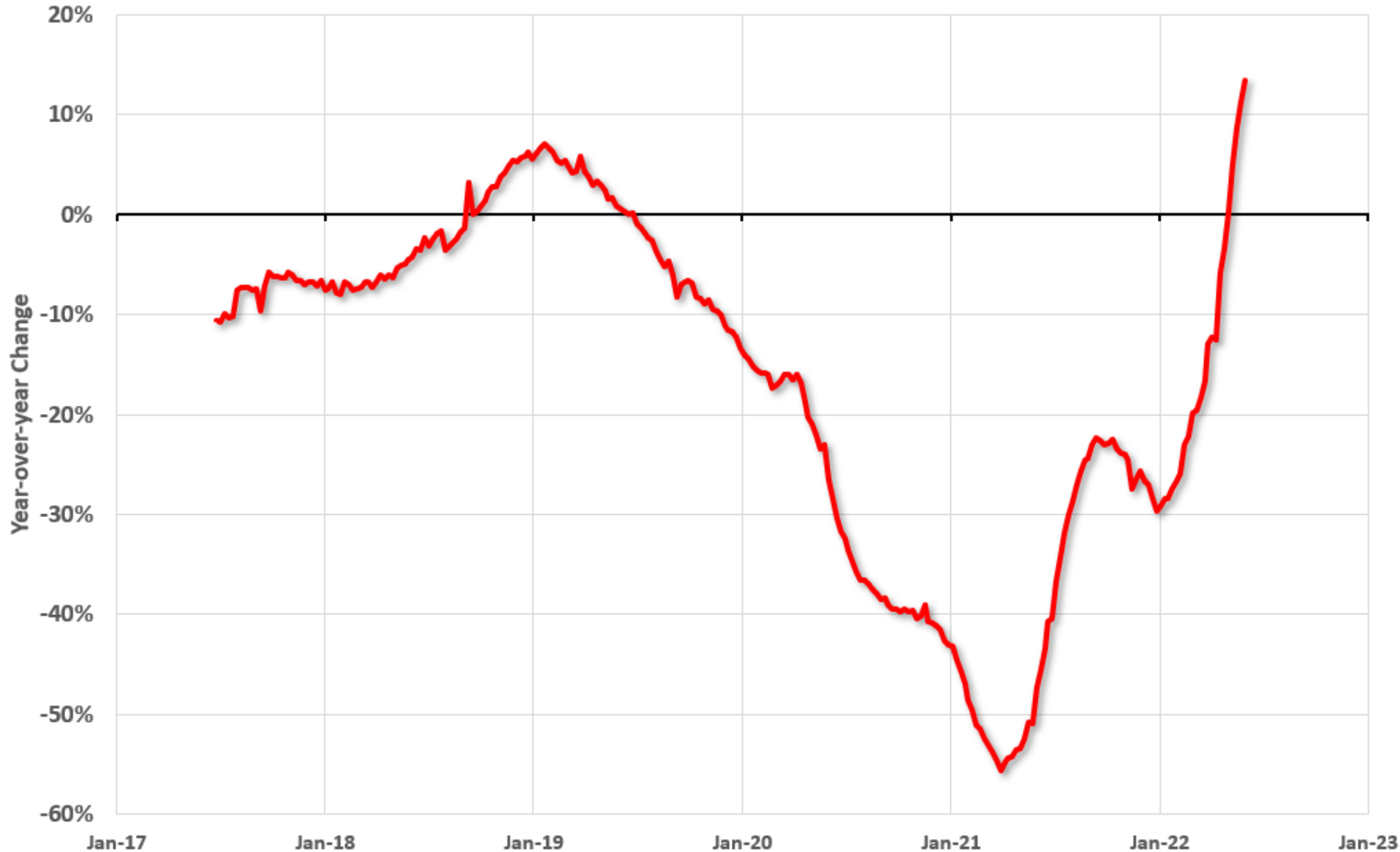
Case-Shiller National and Composite Indices SA, Year-over-year Change



# Inventory is Finally Growing

Inventory is rising for the first time in years

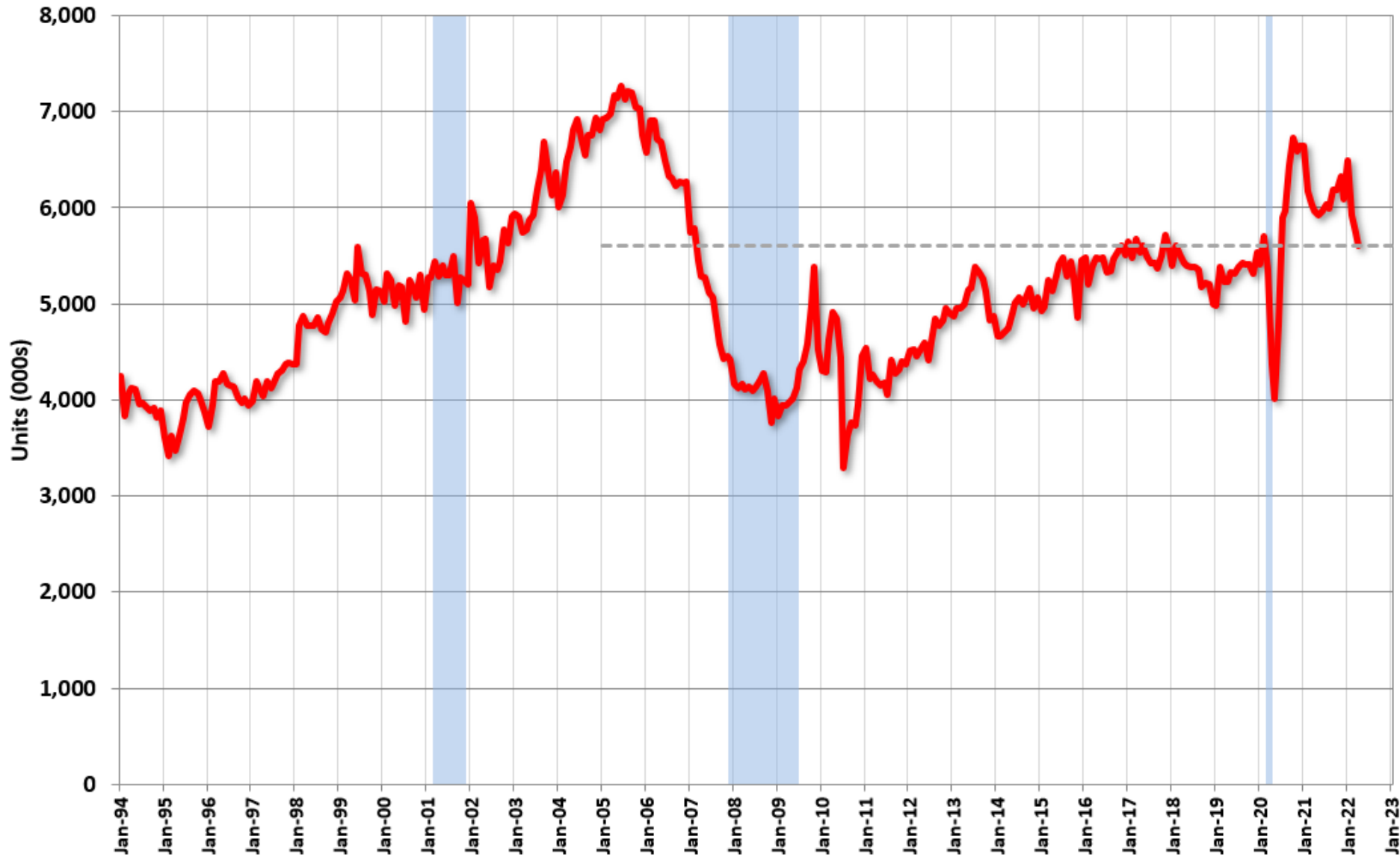
Weekly Active Listings, Year-over-year Change (Source: Realtor.com)



# Existing Home Sales Are Softening

Late 2020 and early 2021 was Peak House

Existing Home Sales (SAAR)



# House Payment to Income Ratio

It is getting quite high

## NATIONAL PAYMENT TO INCOME RATIO\*



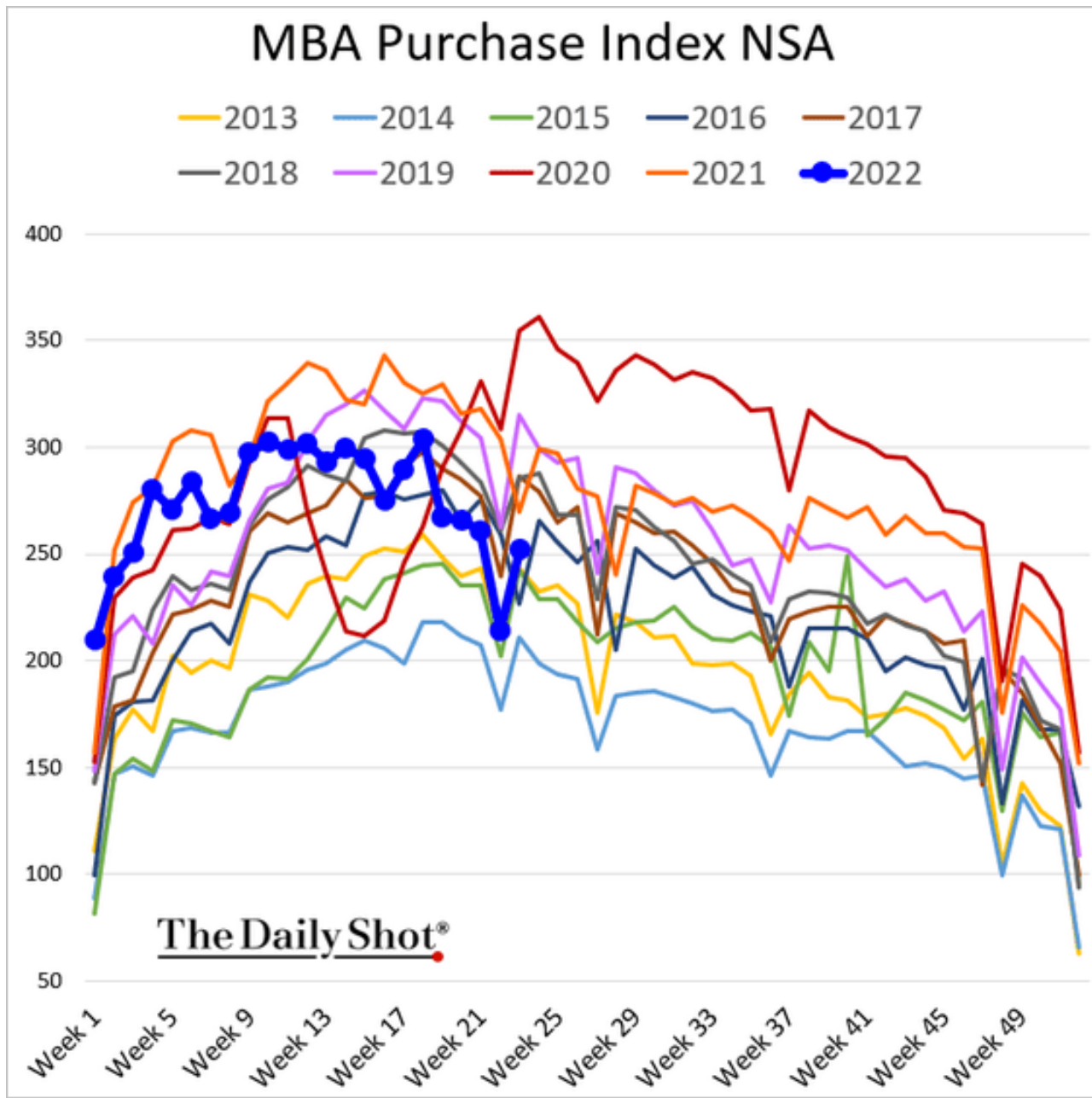
Source: Black Knight HPI, FHLMC PMMS, Moody's

\*The National Payment to Income Ratio is the share of median income needed to make the monthly principal and interest payment on the purchase of the average-priced home using a 20% down 30-year fixed rate mortgage at the prevailing interest rate



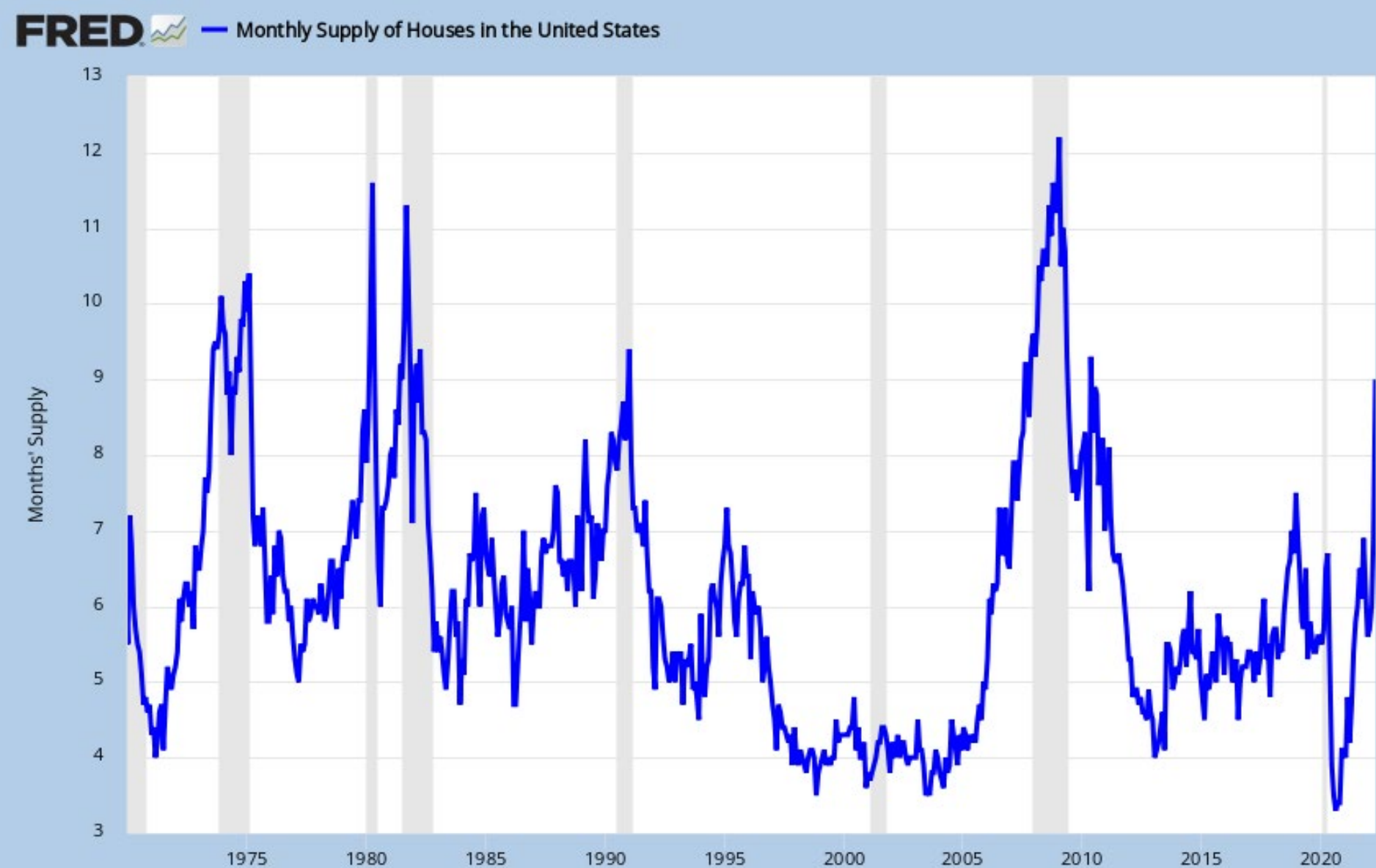
# Mortgage Purchase Applications

Purchase volume is softening. Time for HELOCs and ARMs



# Inventory of New Homes is Very High

Six months supply is healthy. It's now 9



*Shaded areas indicate U.S. recessions.*

Sources: Census; HUD

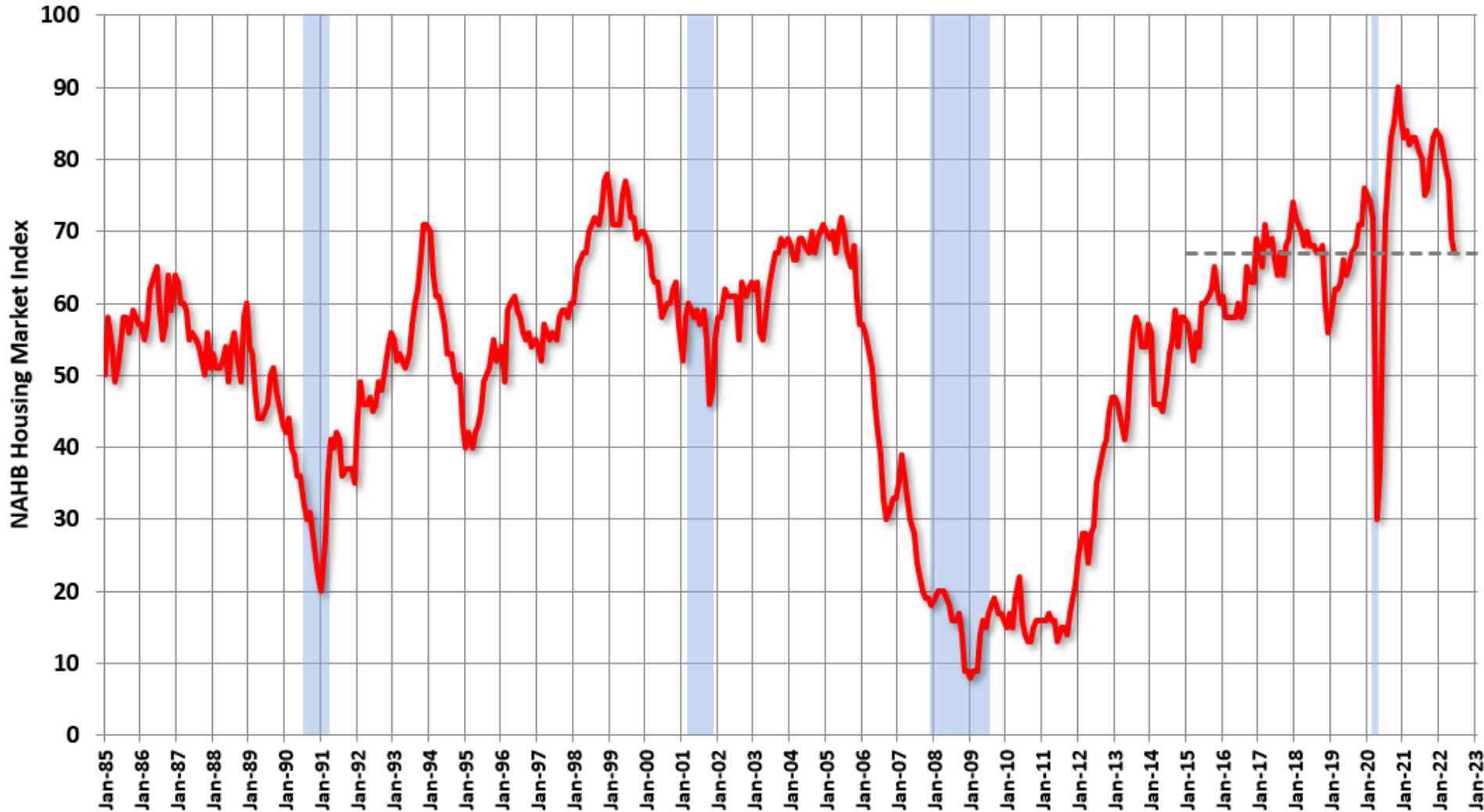
[myf.red/g/PNic](https://myf.red/g/PNic)

# Home Builder Sentiment Sinks

Higher lumber prices, higher rates and supply chain issues are unhelpful


NAHB Housing Market Index

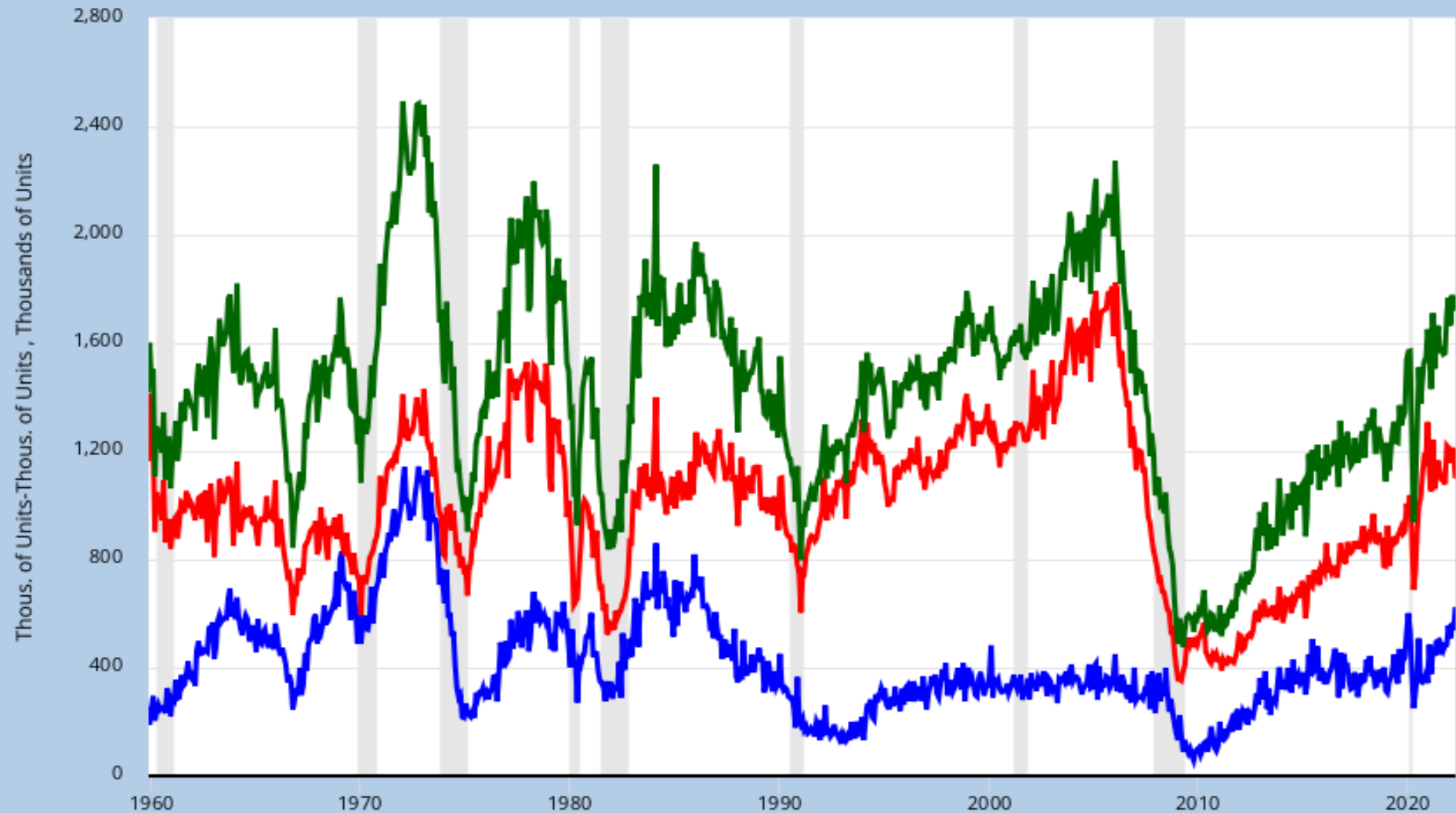
Recession HMI Current



# Single-Family and Multifamily Starts – A nice recovery

SF starts have turned around quickly but have topped out

**FRED**    
 — New Privately-Owned Housing Units Started: Total Units-New Privately-Owned Housing Units Started: Single-Family Units  
 — New Privately-Owned Housing Units Started: Single-Family Units  
 — New Privately-Owned Housing Units Started: Total Units



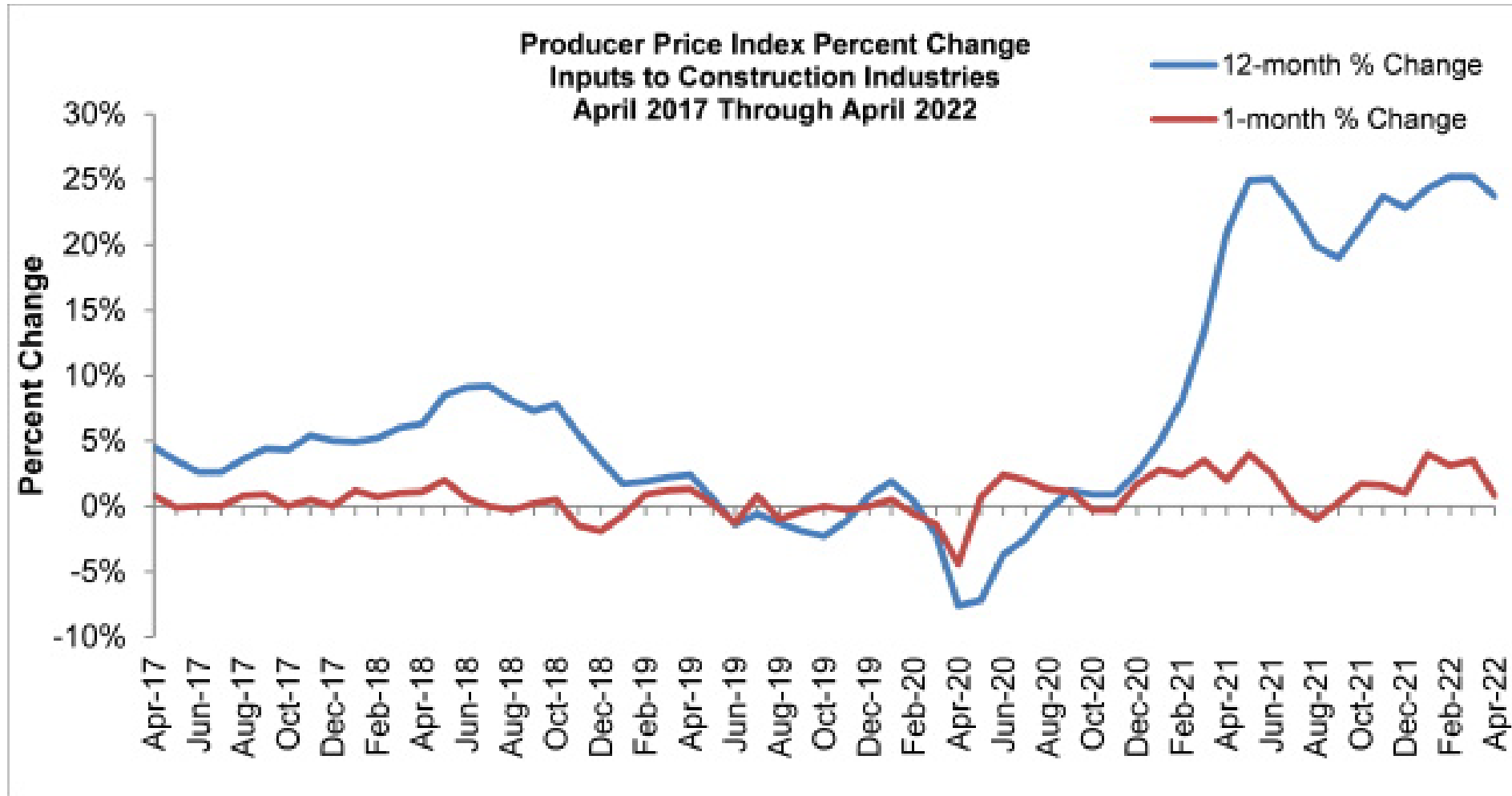
Shaded areas indicate U.S. recessions.

Sources: Census; HUD

[myf.red/g/PyRo](https://myf.red/g/PyRo)

# Construction Costs Dramatically Rise

The increases began in early 2021

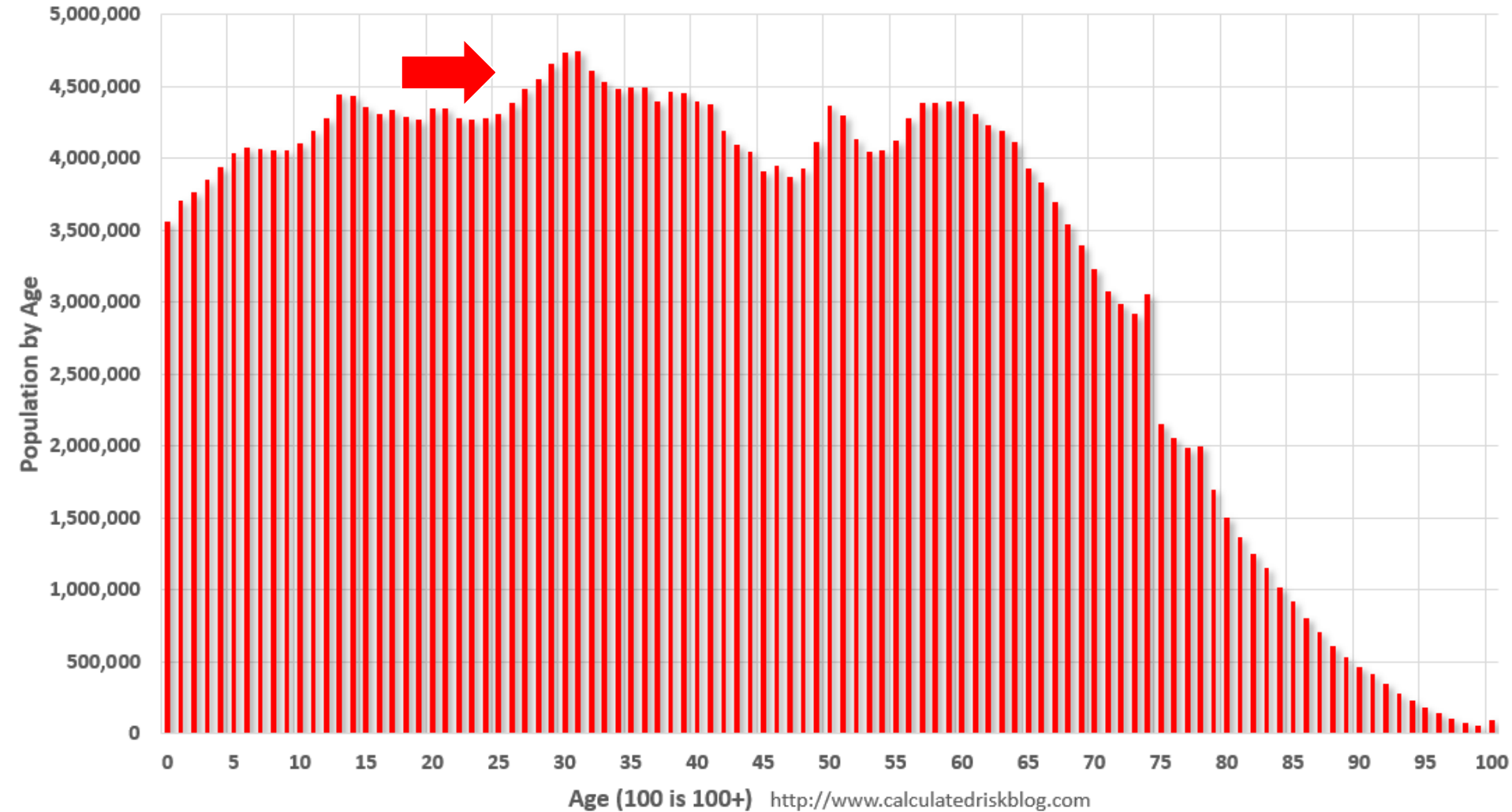


Source: U.S. Bureau of Labor Statistics

# Millennials Will Keep This Issue Front and Center

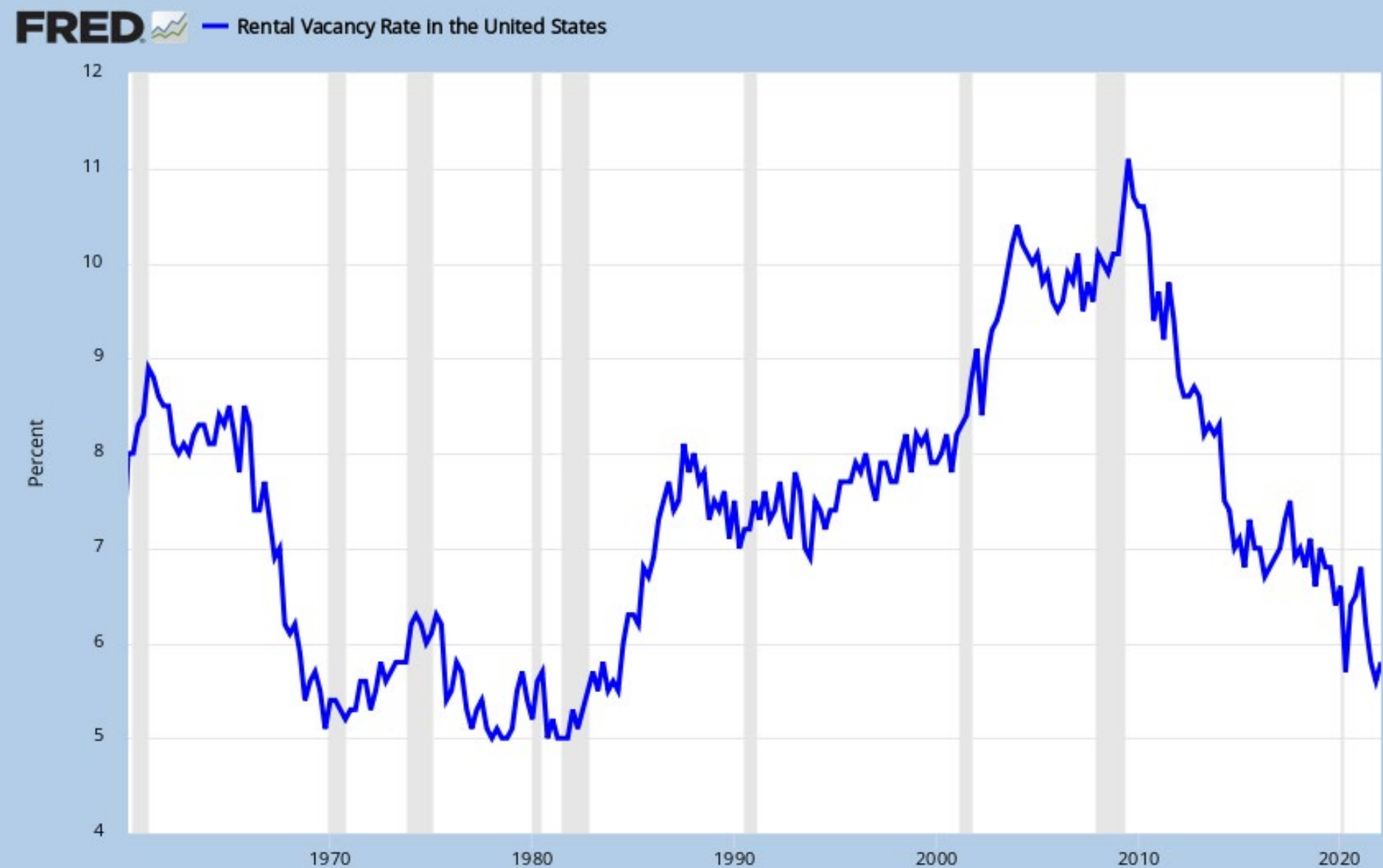
Beginning to approach Peak Millennial. Chase them, move-up buyers and Boomers

U.S. Population by Age, 2021 Census Estimate



# Apartment Vacancy Rates

## Rental vacancy rates are at 40-year lows



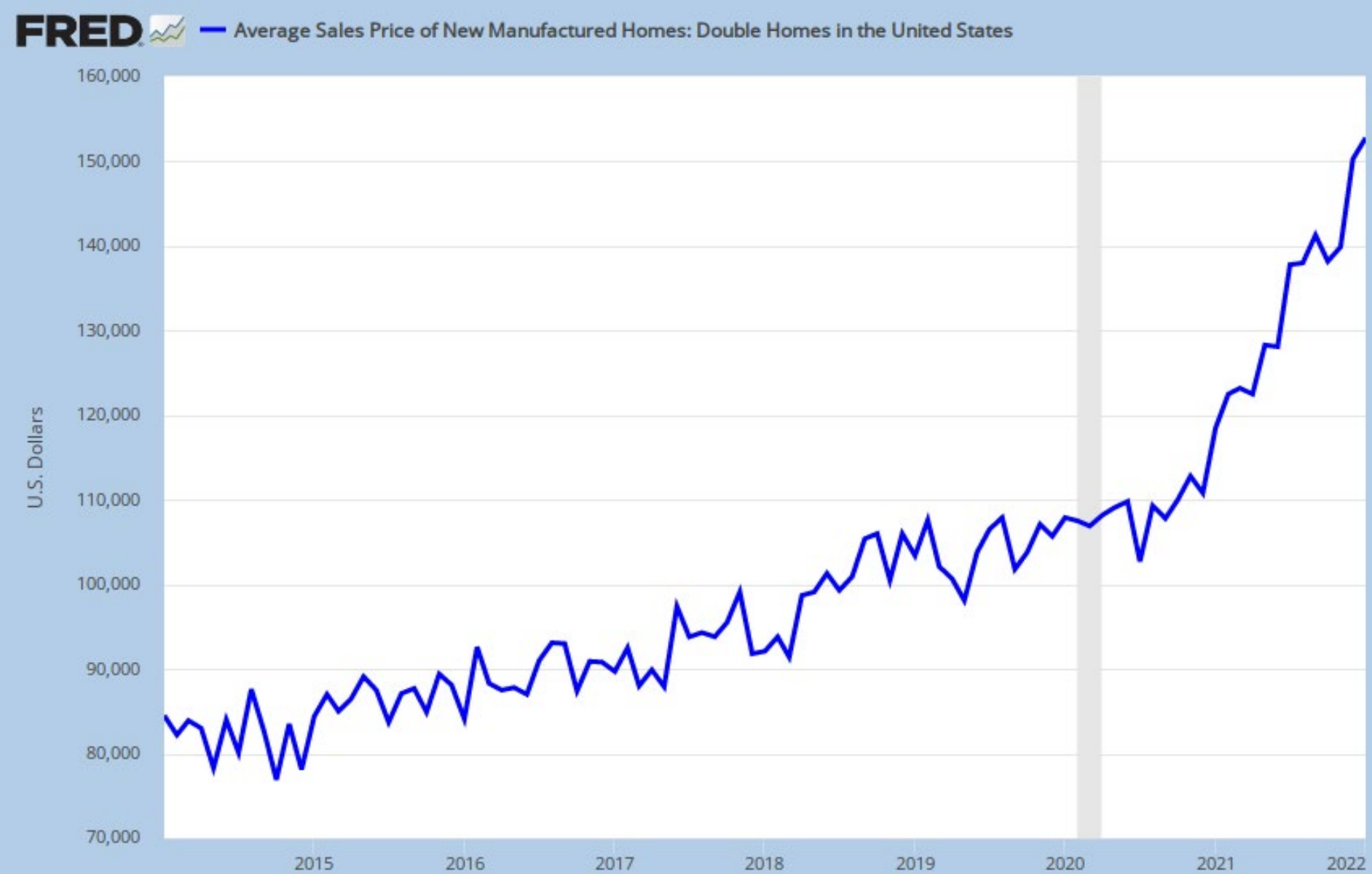
*Shaded areas indicate U.S. recessions.*

Source: U.S. Census Bureau

[myf.red/g/OBfH](https://myf.red/g/OBfH)

# Double-Wide Mobile Home Prices are Surging

Is this because home prices are out of reach? Supply-chain issues?



Source: U.S. Census Bureau

[myf.red/g/QpXX](https://myf.red/g/QpXX)



# KEY TAKEAWAYS

- 1) 2022 will be an OK year
- 2) The Fed will keep raising rates
- 3) The US Should create 3.5 million jobs
- 4) Inflation is now peaking
- 5) Spending on services will rise
- 6) Inflation, unemployment, and inventory

# ANY QUESTIONS?

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