Economic Outlook: Storm Clouds Gather

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Are we in a recession?

- **Recession**: a significant decline in economic activity spread across the economy lasting more than a few months.

- The rule of thumb is a 2-quarter contraction in GDP. But GDP is measured poorly in real time and subject to revision. The labor market is better and we are not close to the Sahm Rule of a 0.5pp increase in unemployment from the cycle low.

**No we are not in a recession (yet)!**
Clouds on the Horizon Around the Globe

- Fiscal policy tightening as COVID support expires
- Monetary policy tightening in response to high inflation
- China is slowing on a structural basis ending two decades as the engine of global growth
- Europe is at war with lasting disruption to the economy
- Globalization to global fragmentation
The US Recovery Outperformed Global Peers

Sources: BEA, ABS, StatCan, ONS, EUROSTAT/Haver/Macropolicy Perspectives LLC

Source: MacroPolicy Perspectives/BEA/Haver
Consumer Shifted Spending to Goods Adding to Supply Chain Pressures

Real Personal Consumption Expenditures (SAAR, Bil.Chn.2012$)

Source: Bureau of Economic Analysis/Haver Analytics

Consumer Price Index: Core Goods (% 6-month saar, lagged 3 months, left scale)
Global Supply Chain Pressure Index (Std Dev Pts, right scale)

Sources: BLS, NYFED, SE/Haver/MacroPolicy Perspectives LLC
A Strong Recovery and Impaired Supply Side Contributed to High Inflation

Source: MacroPolicy Perspectives/BLS/Haver
High Inflation is Global and Central Banks are Responding with Higher Rates

Core Consumer Price Indexes Harmonized for Cross Country Comparison (% Y/Y)

Sources: BLS, MIC, ABS/H, SCAN/H, ESTAT/H/Haver/Macropolicy Perspectives LLC

US Fed Funds Rate (%) - U.K.: Official Bank Rate (%) - ECB Refinancing Rate (%)
Canada: Overnight Target (%) - Australia: Official Cash Rate (%)

Sources: FRB, BoE, ECB, BoC, RBA/Haver/MacroPolicy Perspectives LLC
The Fed’s Balance Sheet: A New Dimension of Policy Tightening

The Fed’s Balance Sheet as a % of GDP

Spread of 30-Year Mortgage over 10-year Treasury yield (pp)

3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0

2005
2010
2015
2020

0.5
1.0
1.5
2.0
2.5
3.0
3.5

Source: MacroPolicy Perspectives/Haver Analytics

3-Year Fixed Mortgage Rate (%), WSJ daily

FHLMC: 30-Year Fixed-Rate Mortgages: U.S. (%)

9.0
7.7
6.4
5.1
3.8
2.5
1.2
0.0

2005
2010
2015
2020

Sources: MacroPolicy Perspectives/WSJ, FHLMC/Haver
Housing and Commercial Real Estate are Responding Rapidly to Higher Rates

Source: MBA/Haver/Macropolicy Perspectives LLC
Home Prices are Falling after Extraordinary Appreciation

S&P CoreLogic Case-Shiller Home Price Index: US National (% 3m saar)
- FHFA House Price Index: Purchase Only, United States (% 3m saar)

Sources: S&P, FHFA/Haver/MacroPolicy Perspectives LLC
The Labor Market Remains Strong Texas is a Mixed Bag

Source: BLS/Haver/MacroPolicy Perspectives LLC
Job Gains Cooling Led by Policy Impacted Sectors

Sources: BLS, ADP/haver/Macroeconomic Perspectives LLC
Wage Growth is Moderating Without a Notable Rise in Unemployment

Source: BLS/Haver/Macropolicy Perspectives LLC
Texas Employment and Population Have Grown Faster than US Overall

NOTE: Data show September 2022/February 2020 non-annualized job growth. Numbers in parenthesis indicate share of total state employment for July.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.
Job Gains in September Remained Solid and Broad Based

Job growth September 2022/August 2022 (percent)

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>Trade, Transp. &amp; Util. (20.0%)</th>
<th>Prof. &amp; Bus. Serv. (14.8%)</th>
<th>Gov’t (0.5)</th>
<th>Educ. &amp; Health Serv. (10.7%)</th>
<th>Leisure &amp; Hosp. (6.9%)</th>
<th>Mfg. (8.1)</th>
<th>Fin. Activ. (1.8)</th>
<th>Constr. (1.6)</th>
<th>Info. &amp; Other Svc. (6.0)</th>
<th>Oil &amp; Gas, Mining Sup. (6.0)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>2.1</td>
<td>5.4</td>
<td>2.5</td>
<td>1.8</td>
<td>4.5</td>
<td>15.6</td>
<td>3.0</td>
<td>1.8</td>
<td>4.2</td>
<td>4.2</td>
<td>8.0</td>
</tr>
<tr>
<td>Texas</td>
<td>4.3</td>
<td>0.1</td>
<td>0.5</td>
<td>-1.3</td>
<td>4.2</td>
<td>6.5</td>
<td>8.1</td>
<td>1.1</td>
<td>3.0</td>
<td>6.5</td>
<td>6.0</td>
</tr>
</tbody>
</table>

NOTE: Data show September 2022/August 2022 annualized growth. Numbers in parentheses indicate share of total state employment for August.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.
Labor Force Engagement is Mostly Recovered but Shortfalls Remain

Employment-Population Ratio (SA, %)

Source: Bureau of Labor Statistics/Haver Analytics
Lower Wage Workers are Enjoying Greater Bargaining Power

Source: BLS/Haver/Macropolicy Perspectives LLC

Source: FRBATL/Haver/Macropolicy Perspectives LLC
Texas Growth Losing Momentum

Dallas Fed Texas Economy Surveys ( >0 = expansion)
Conclusions

• The US is not in a recession, the job market is still strong
• But the Fed is trying to cool off high inflation through higher rates and housing is cooling fast
• Multiple global headwinds point to downside risk
• Texas has outperformed in part due to a growing population but momentum is slowing
• The demographics of the workforce are changing