

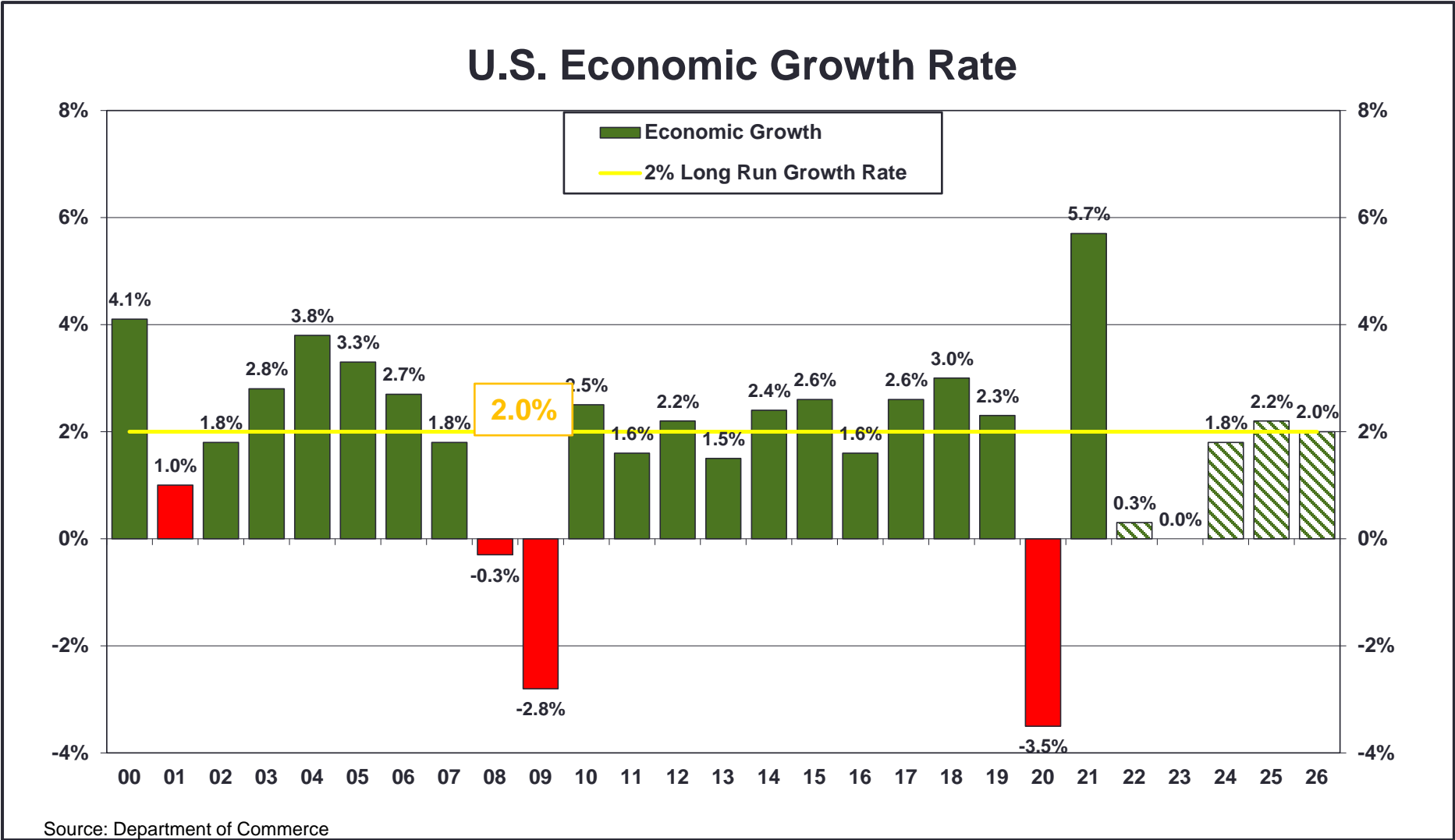


Economic Update

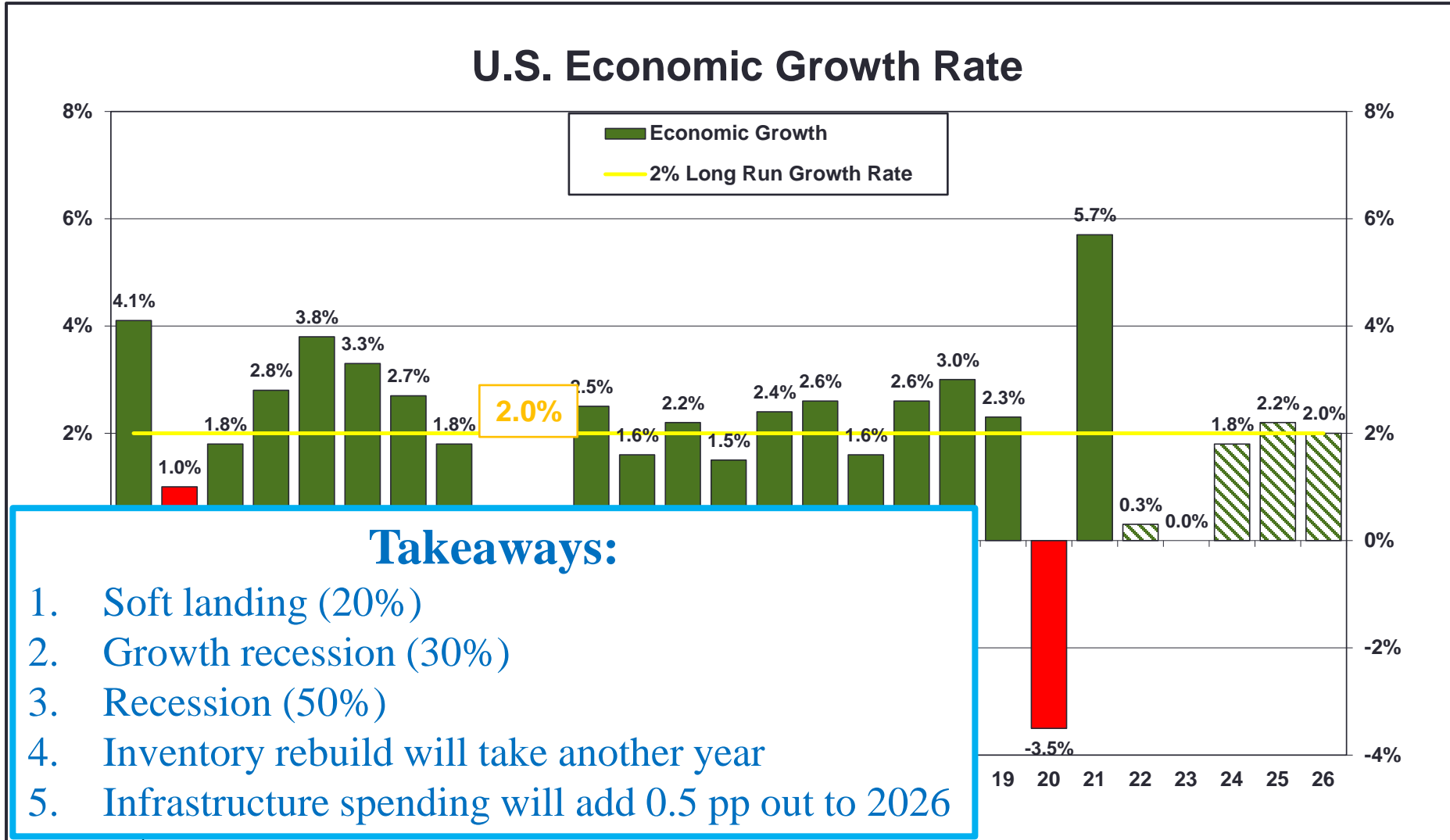
December 2022

If you have any questions or comments, please contact:
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CUNA Mutual Group – Economics
800.356.2644, Ext. 665.5454
Steve.rick@cunamutual.com

Weak Economic Growth for Next 2 Years



Weak Economic Growth for Next 2 Years

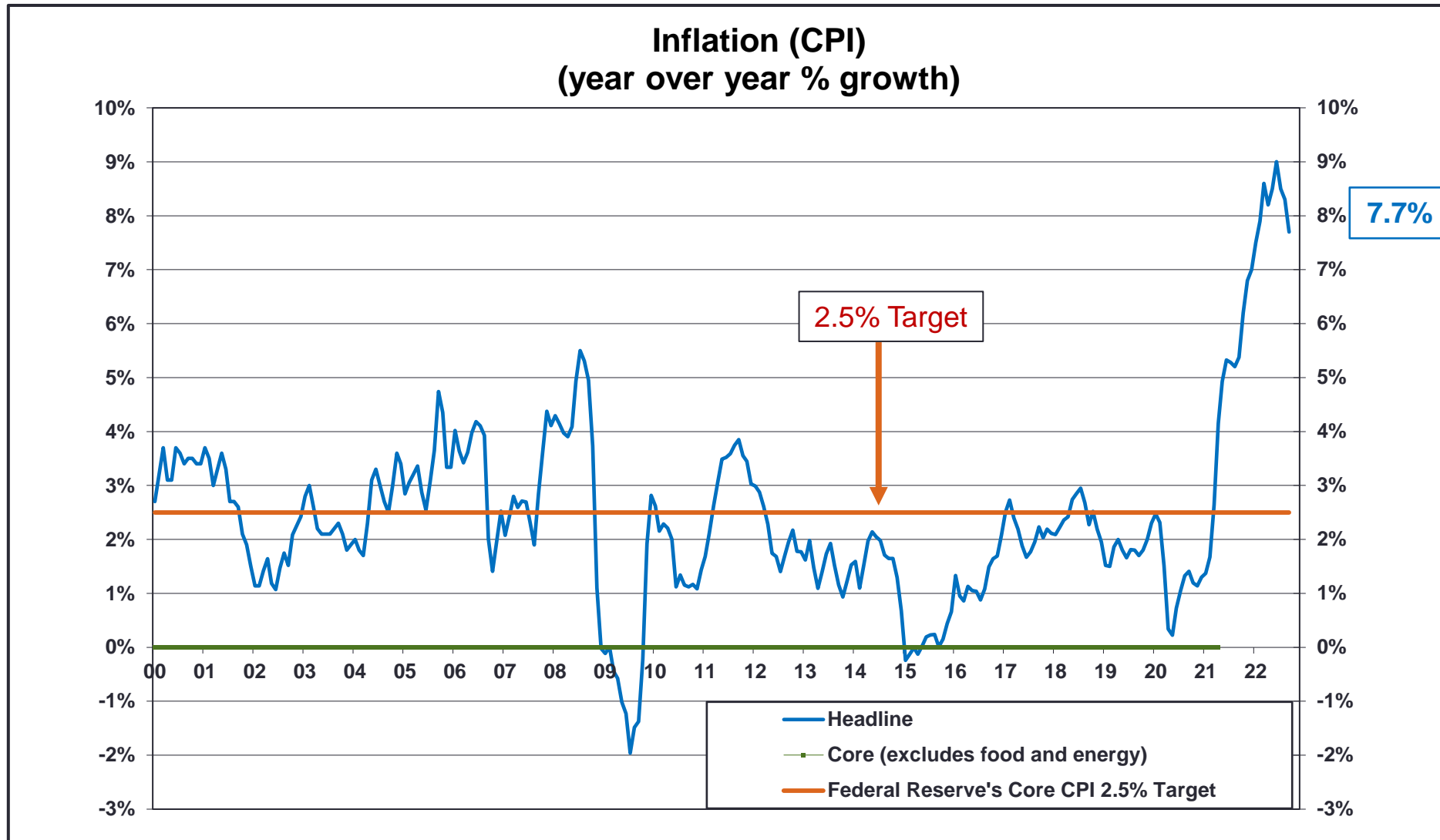


The Big Question

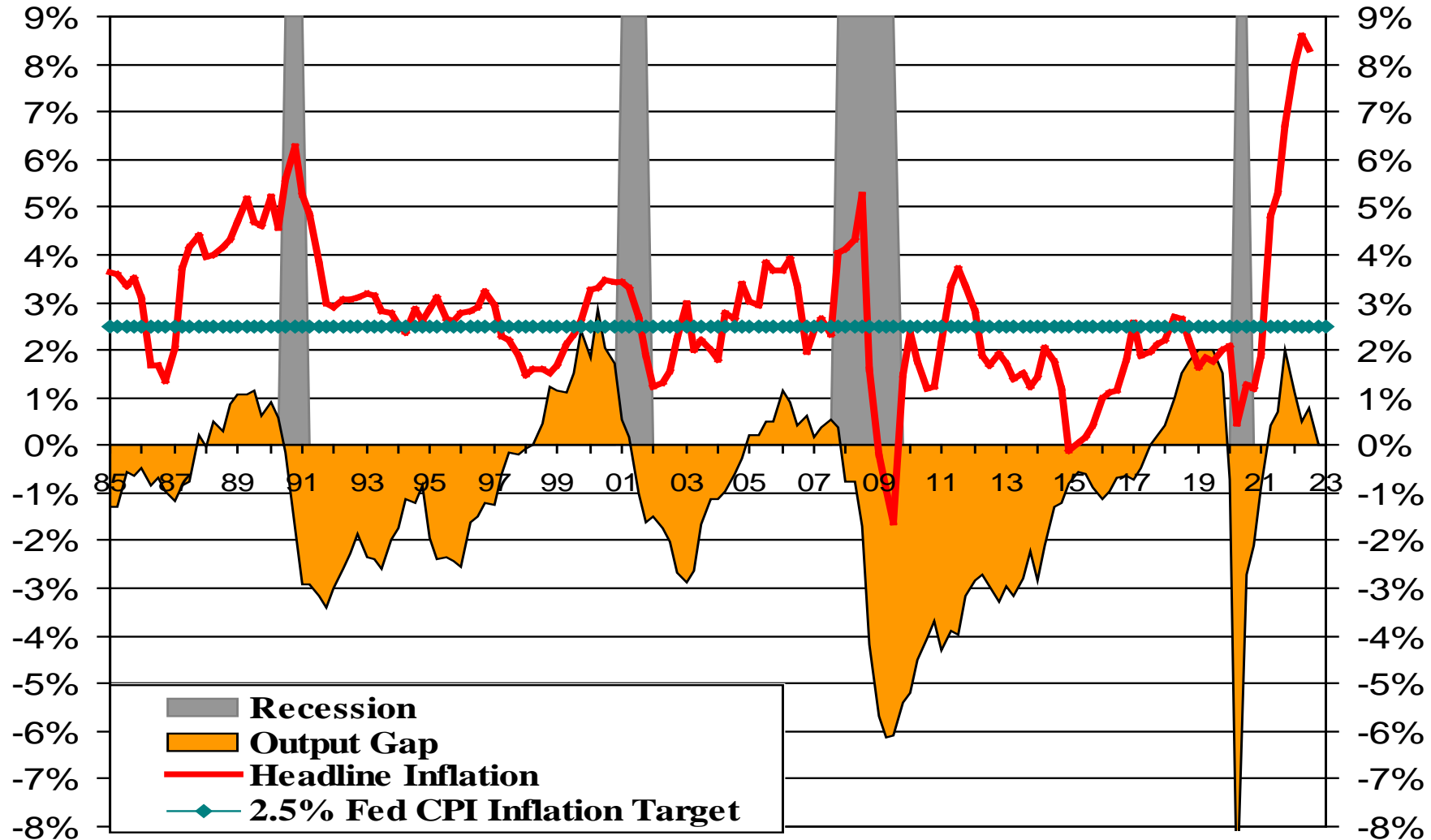
The Big Question

**Inflation or Deflation
tell me if you can
will we be Zimbabwe
or will we be Japan?**

High Inflation for the Next Year

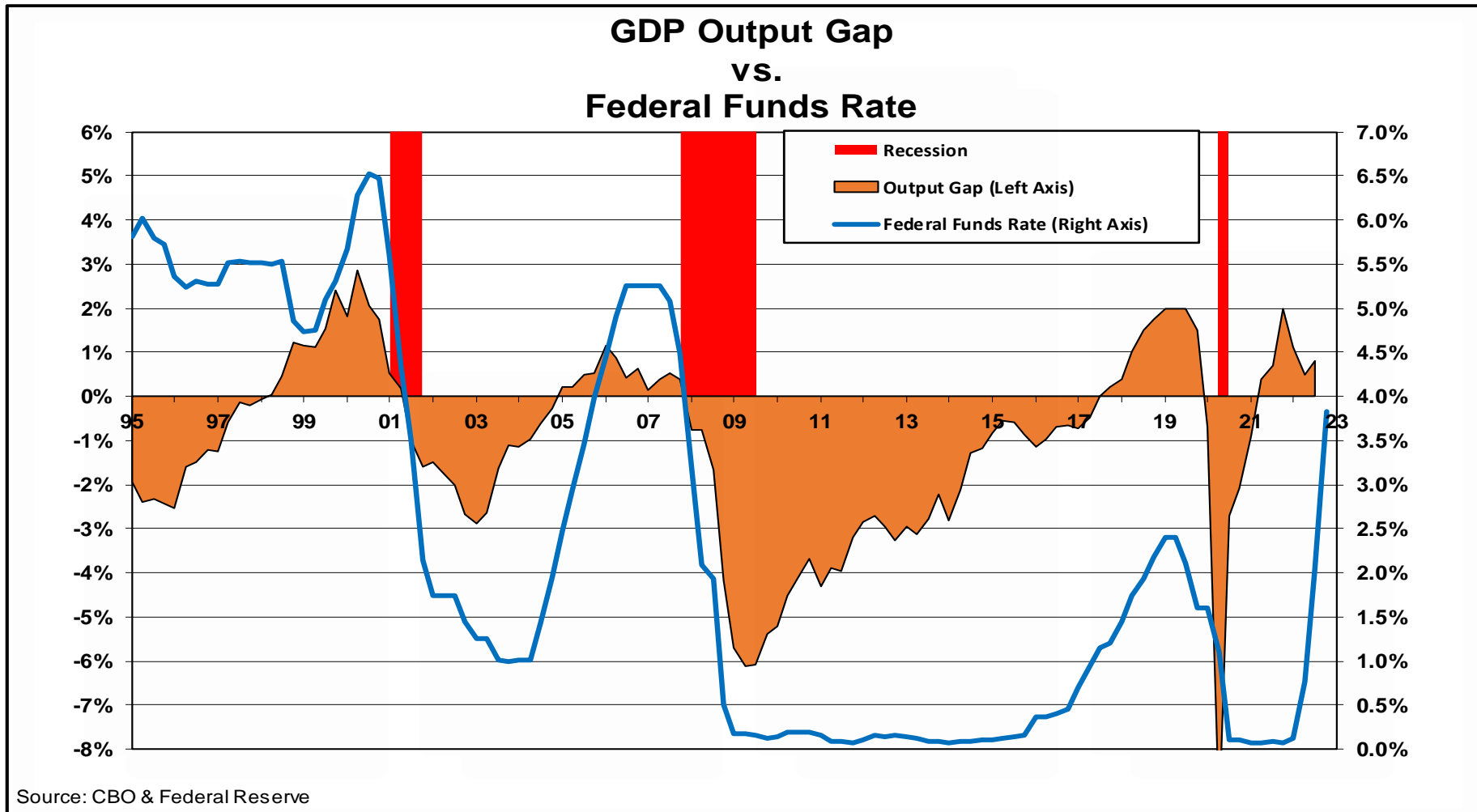


GDP Output Gap vs. Inflation (CPI)



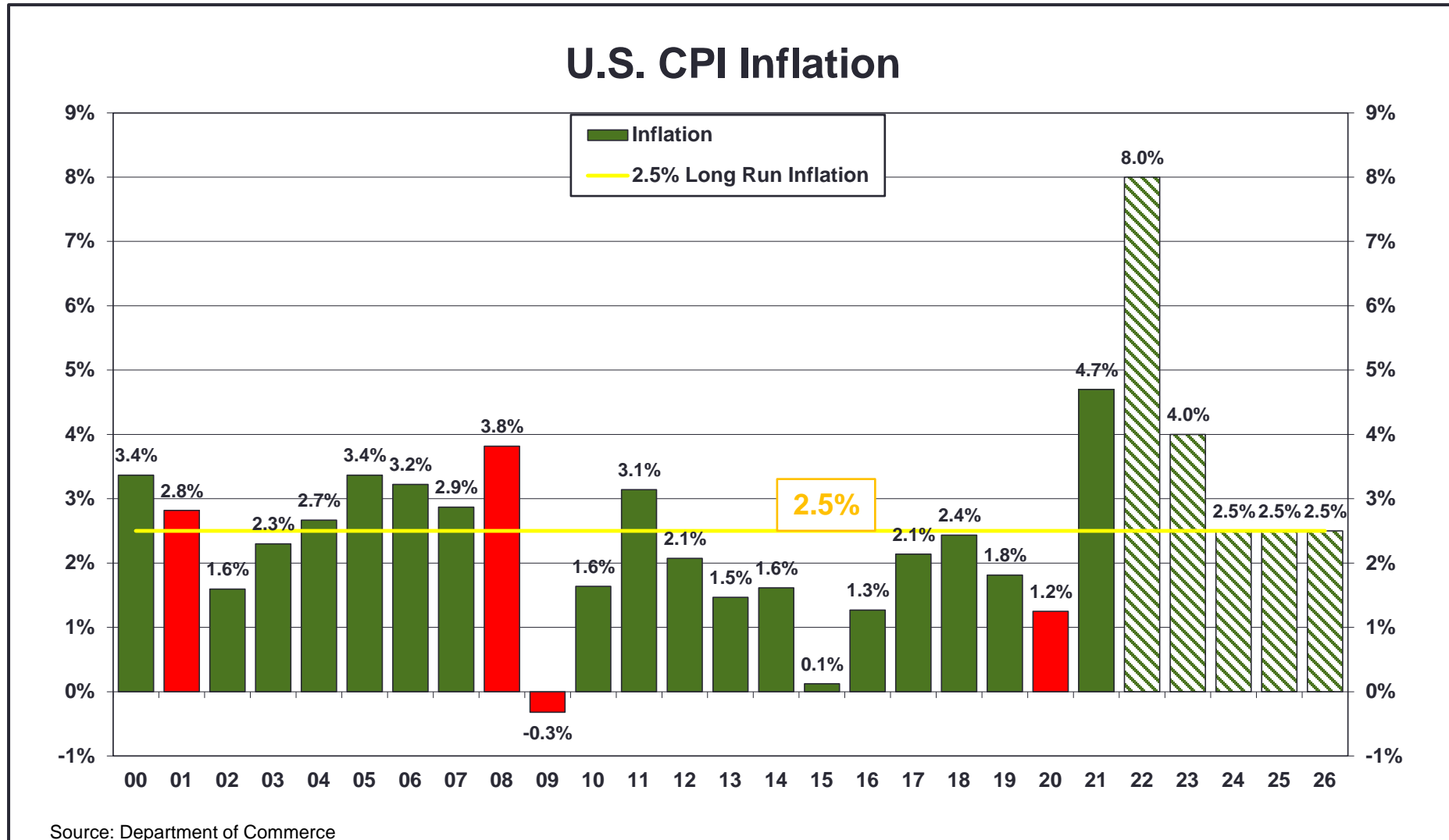
Source: CBO & Federal Reserve.

Economy is Operating Above its Potential Level of Output

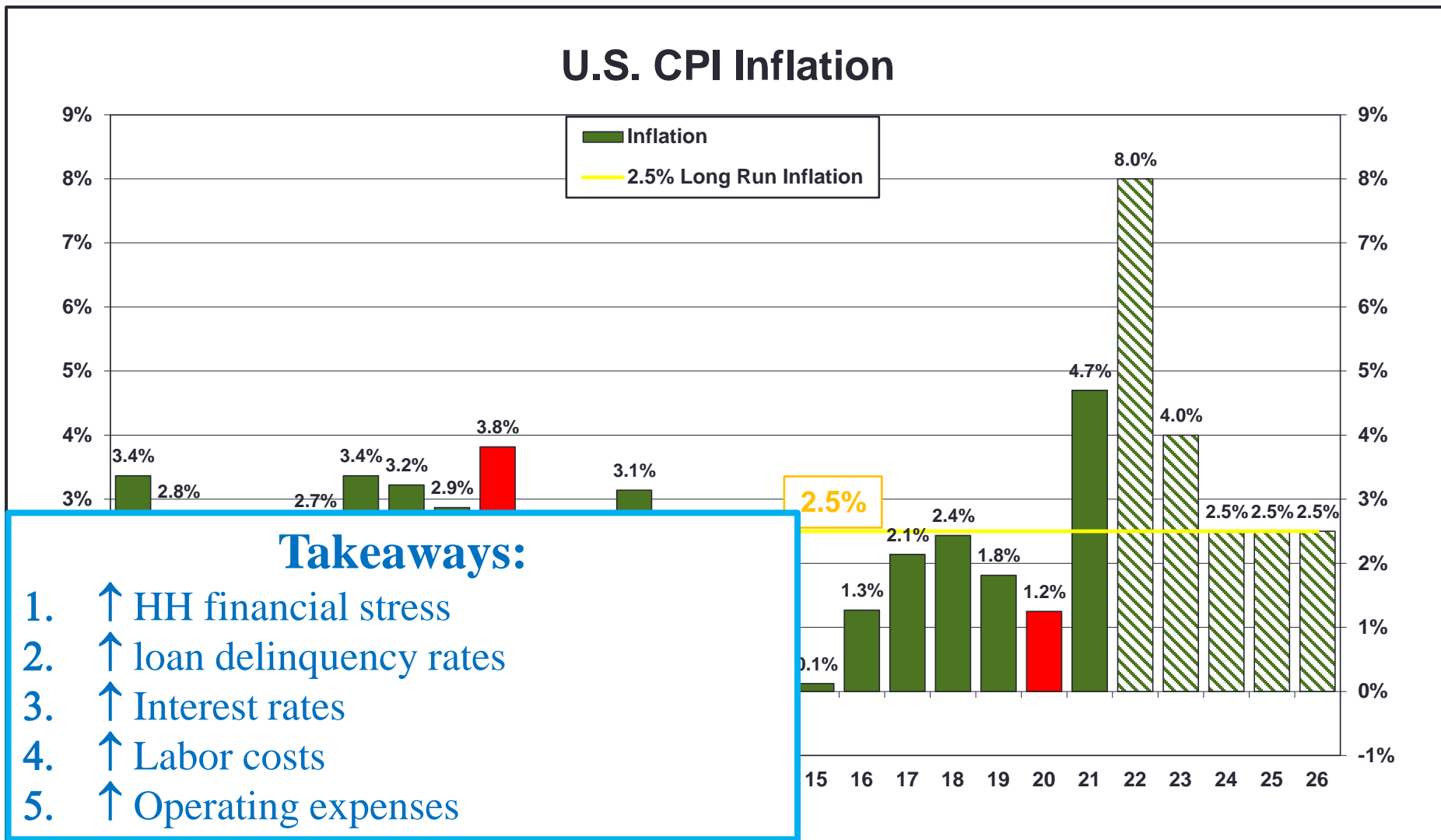


Output gap is the difference between actual GDP or actual output and potential GDP. The calculation for the output gap is $[(Y - Y^*) / Y^*]$ where Y is actual output and Y^* is potential output. If this calculation yields a positive number, it is called an **inflationary gap** and indicates the growth of aggregate demand is outpacing the growth of aggregate supply—possibly creating inflation; if the calculation yields a negative number, it is called a **recessionary gap**—possibly signifying deflation. Source: Federal Reserve Bank of St. Louis. https://ycharts.com/indicators/us_percent_gdp_gap

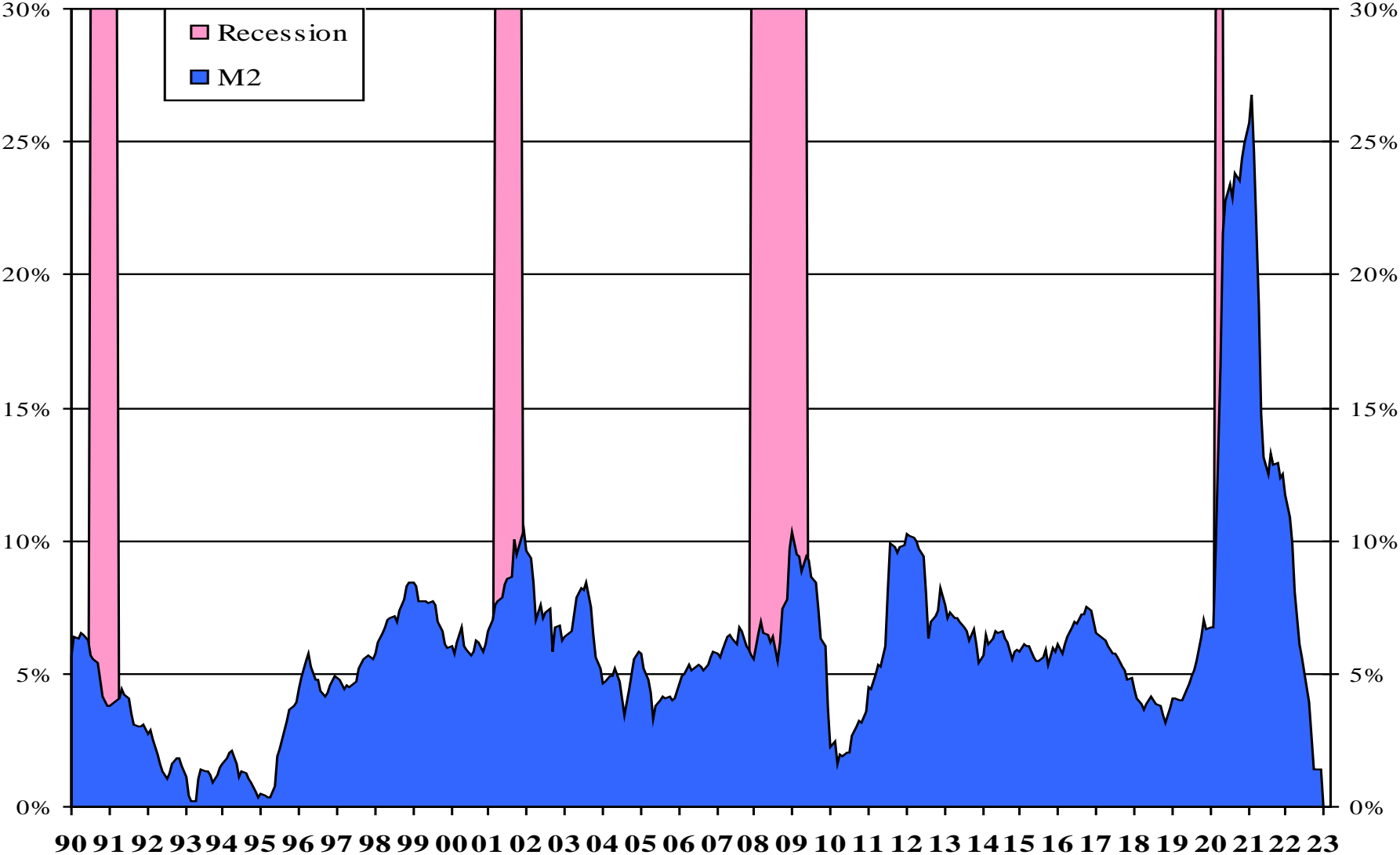
Inflation Above Target Until 2024



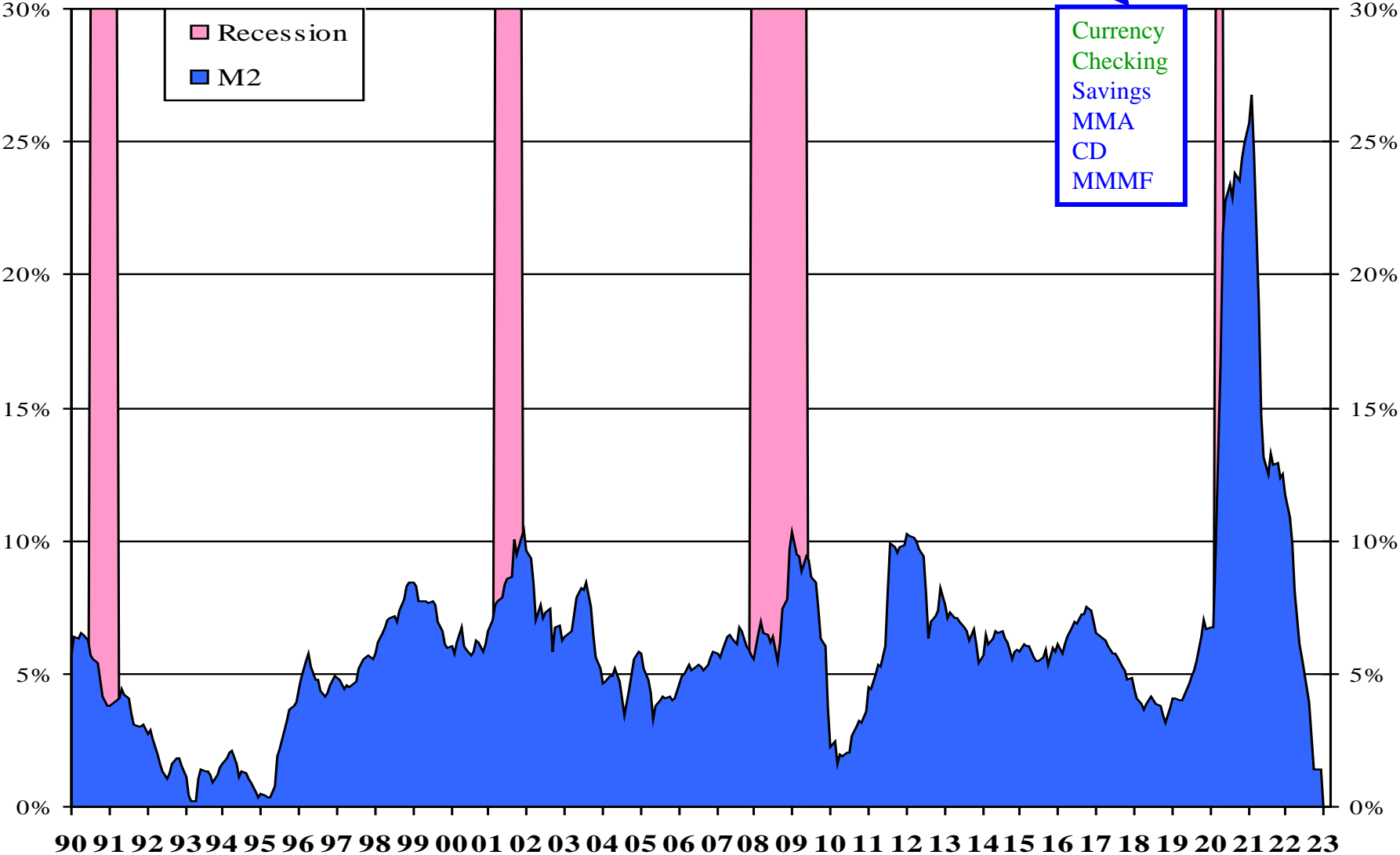
Inflation Above Target Until 2024



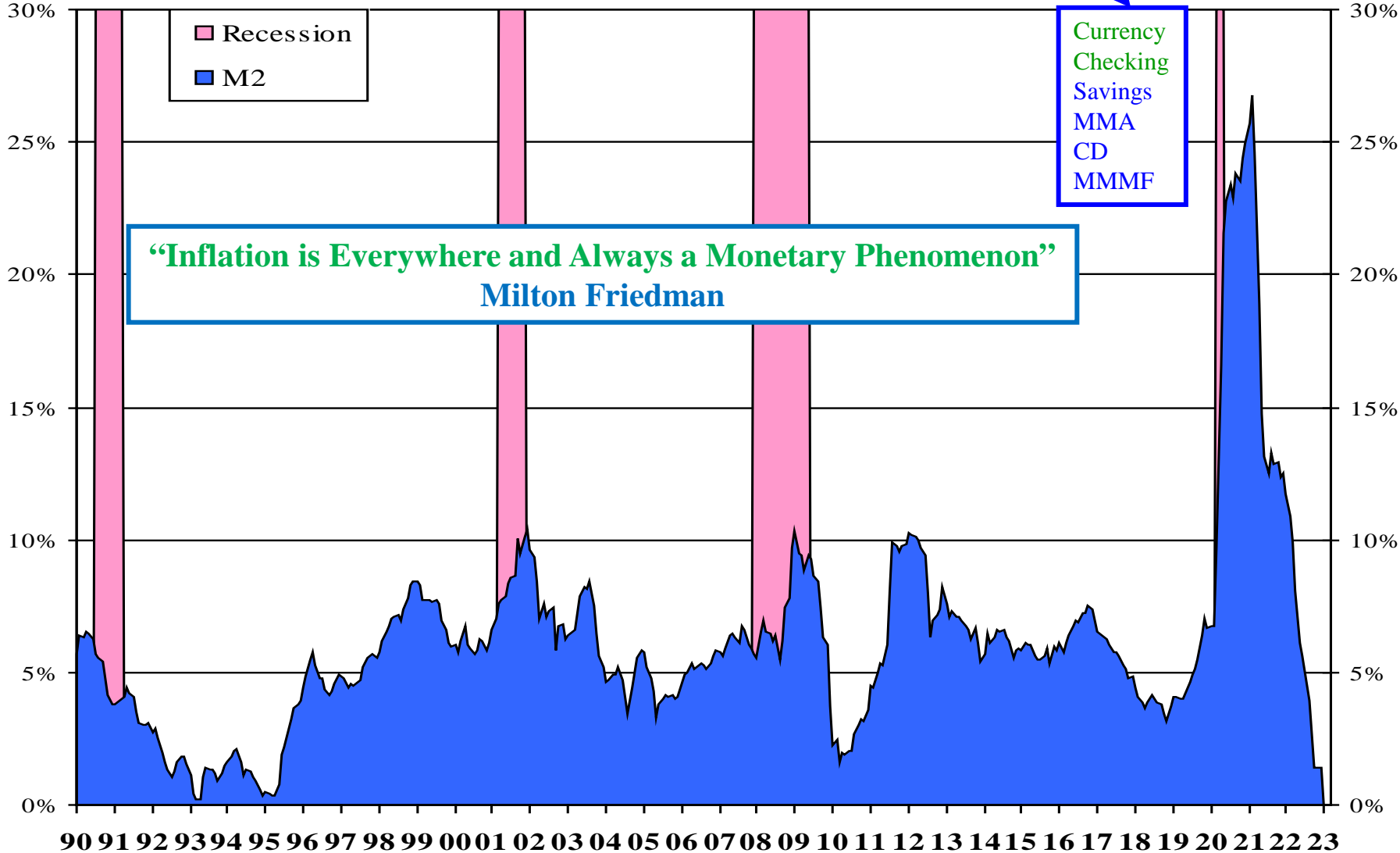
Money Supply Growth, M2



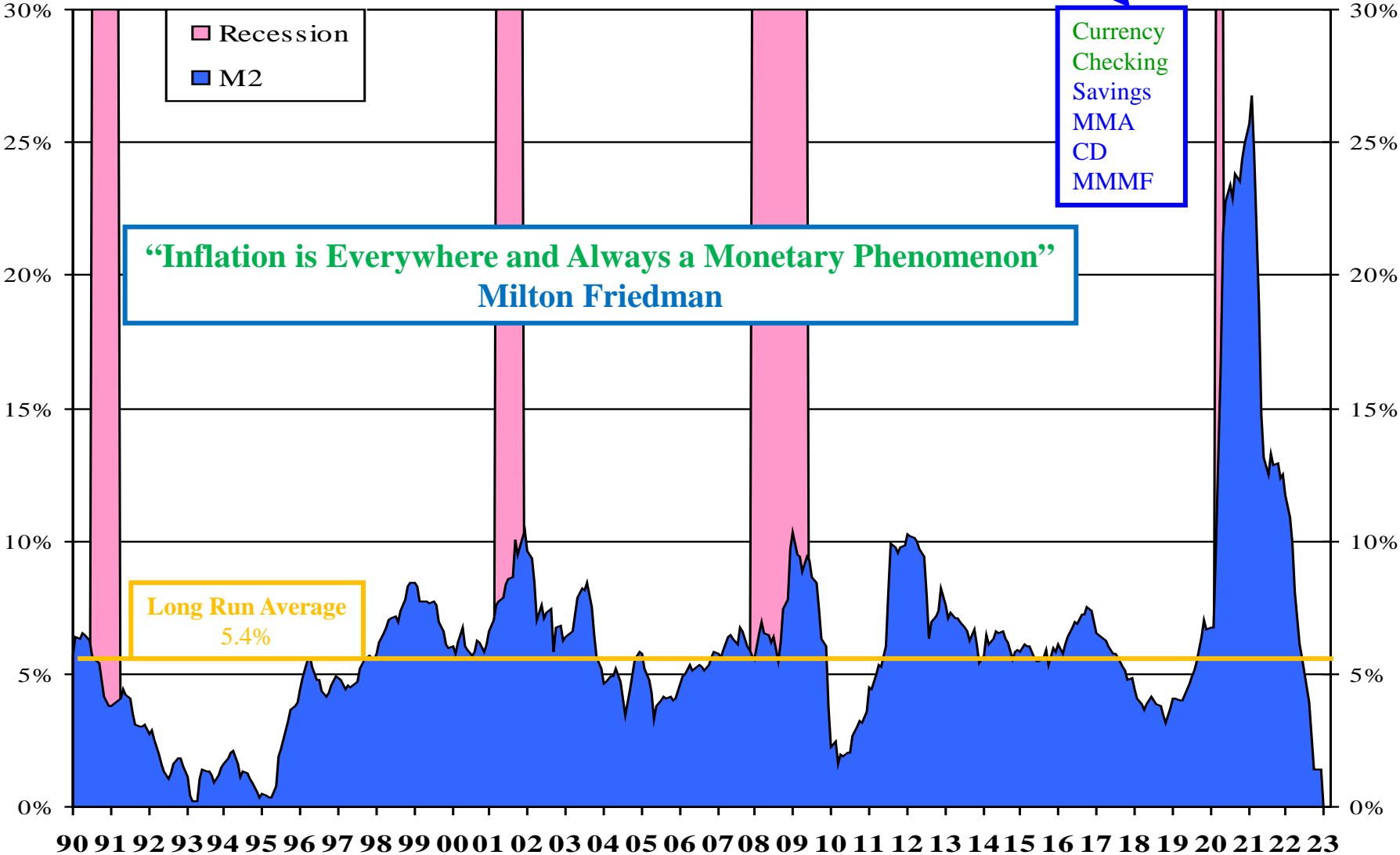
Money Supply Growth, M2



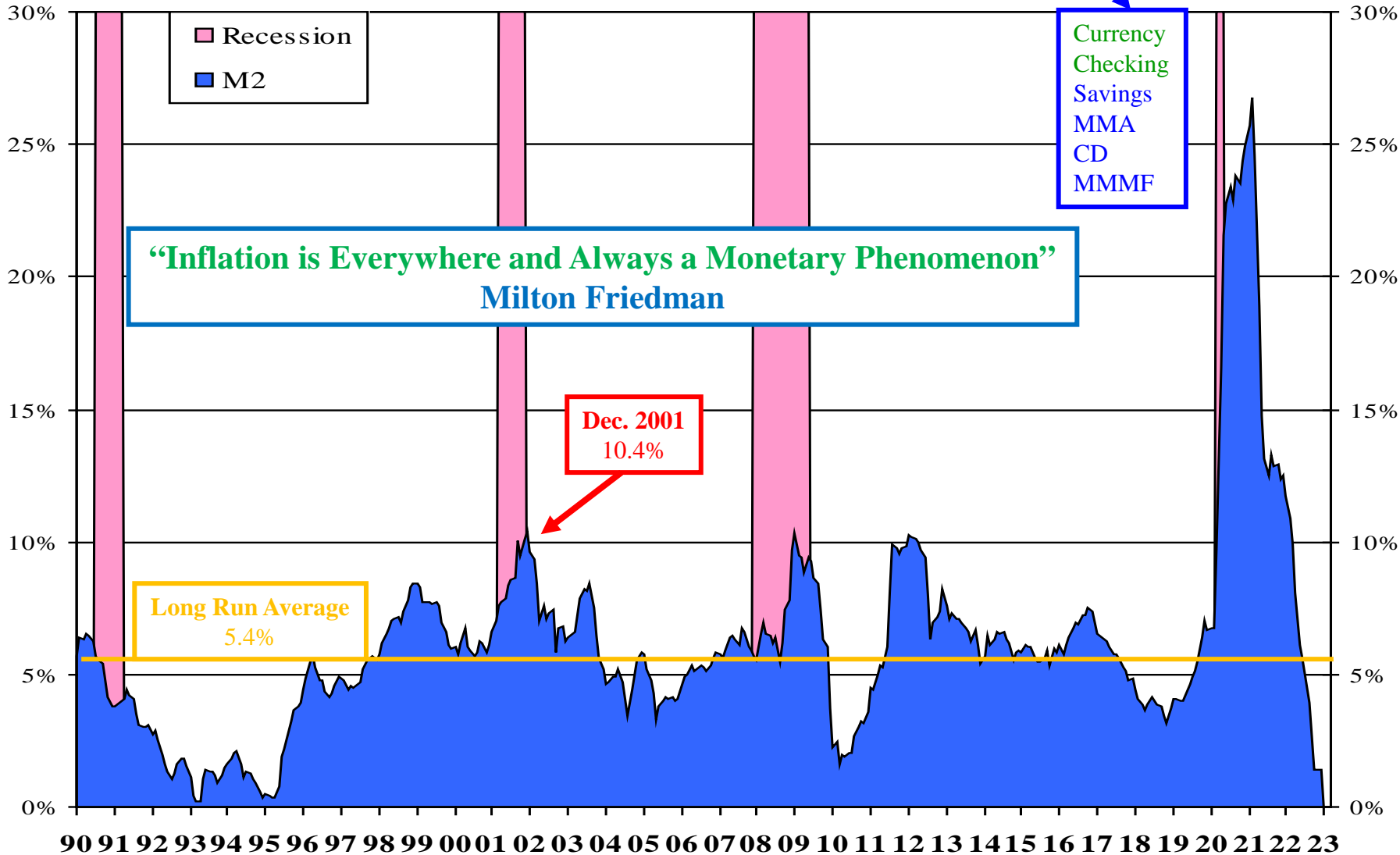
Money Supply Growth, M2



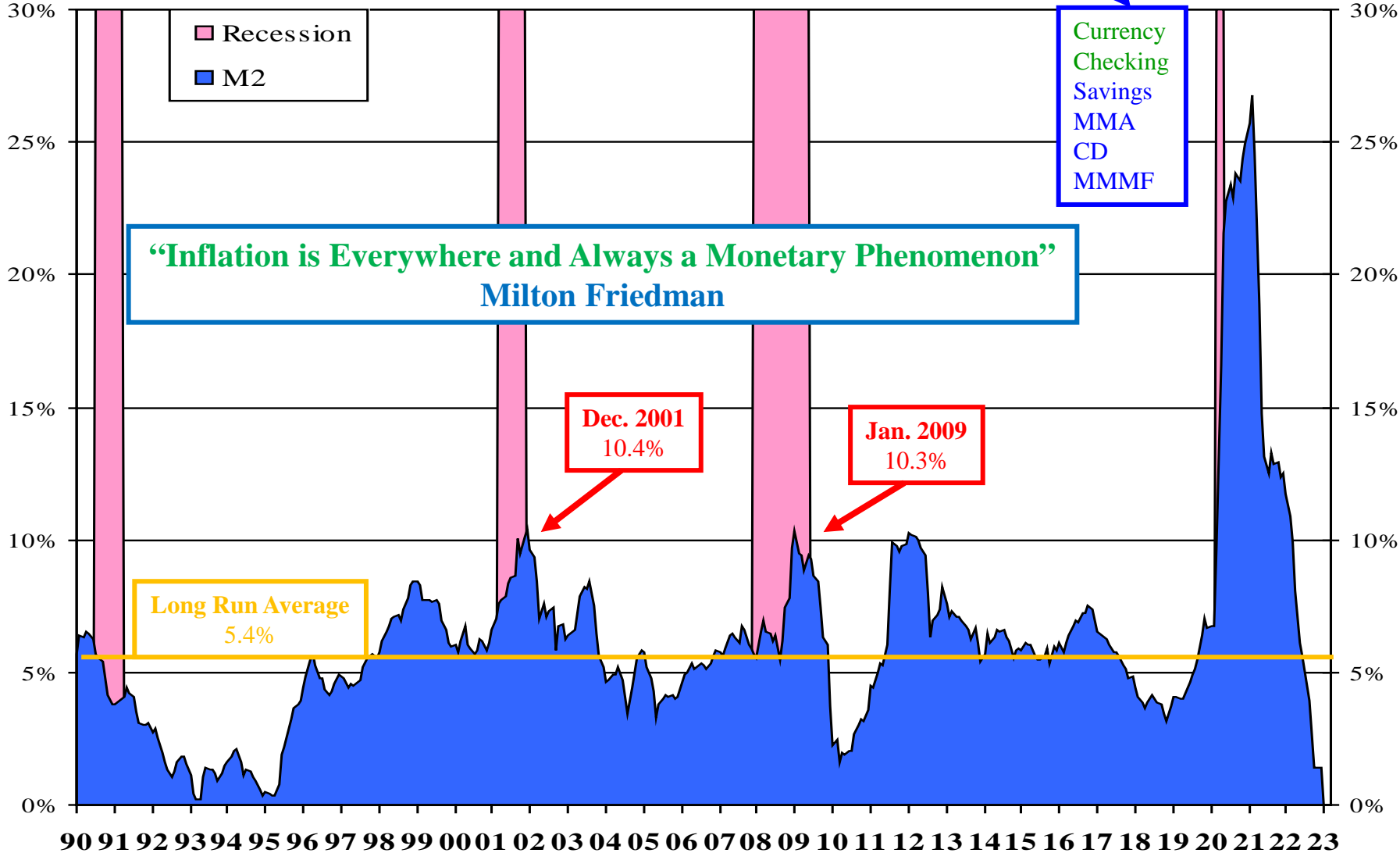
Money Supply Growth, M2



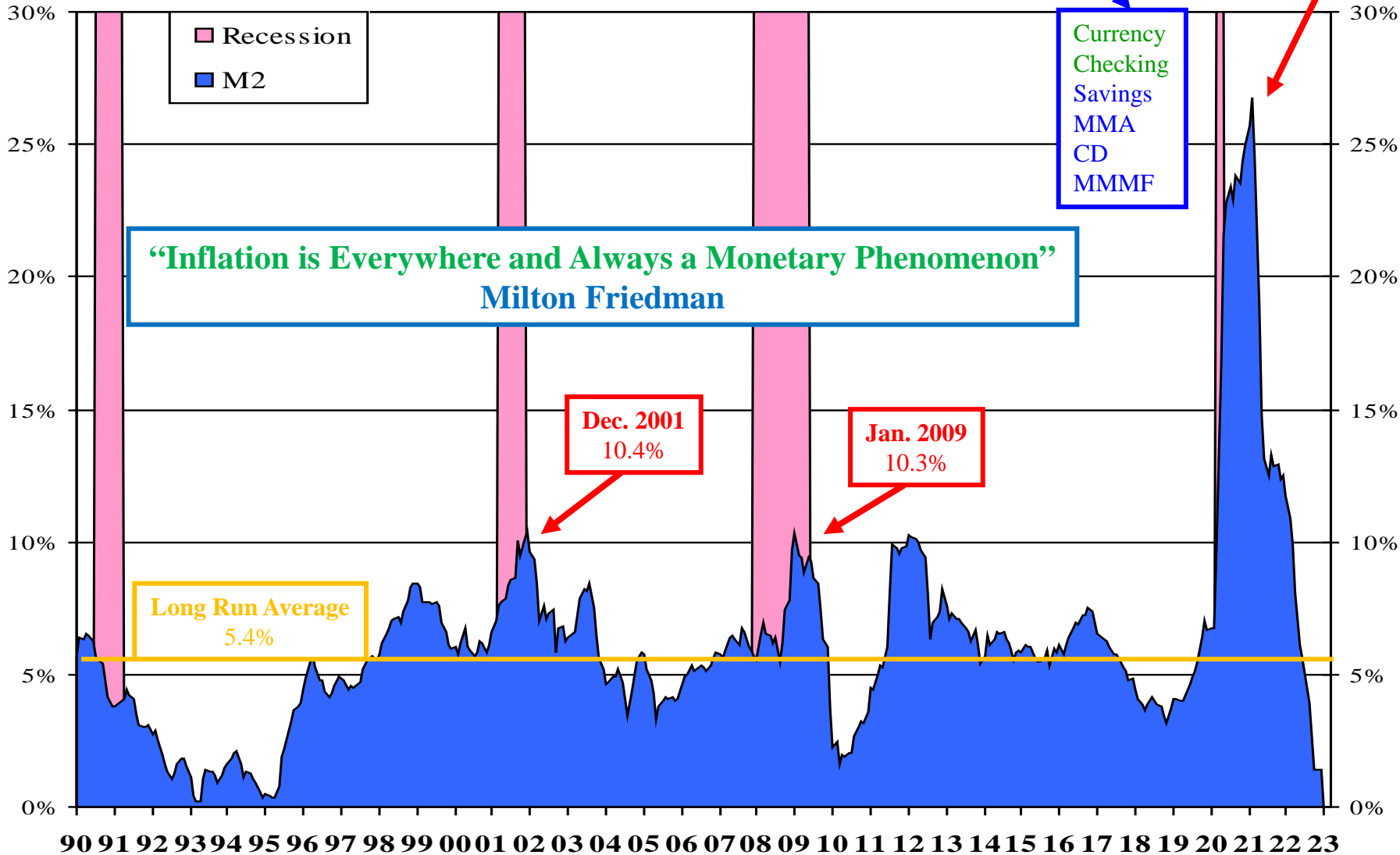
Money Supply Growth, M2



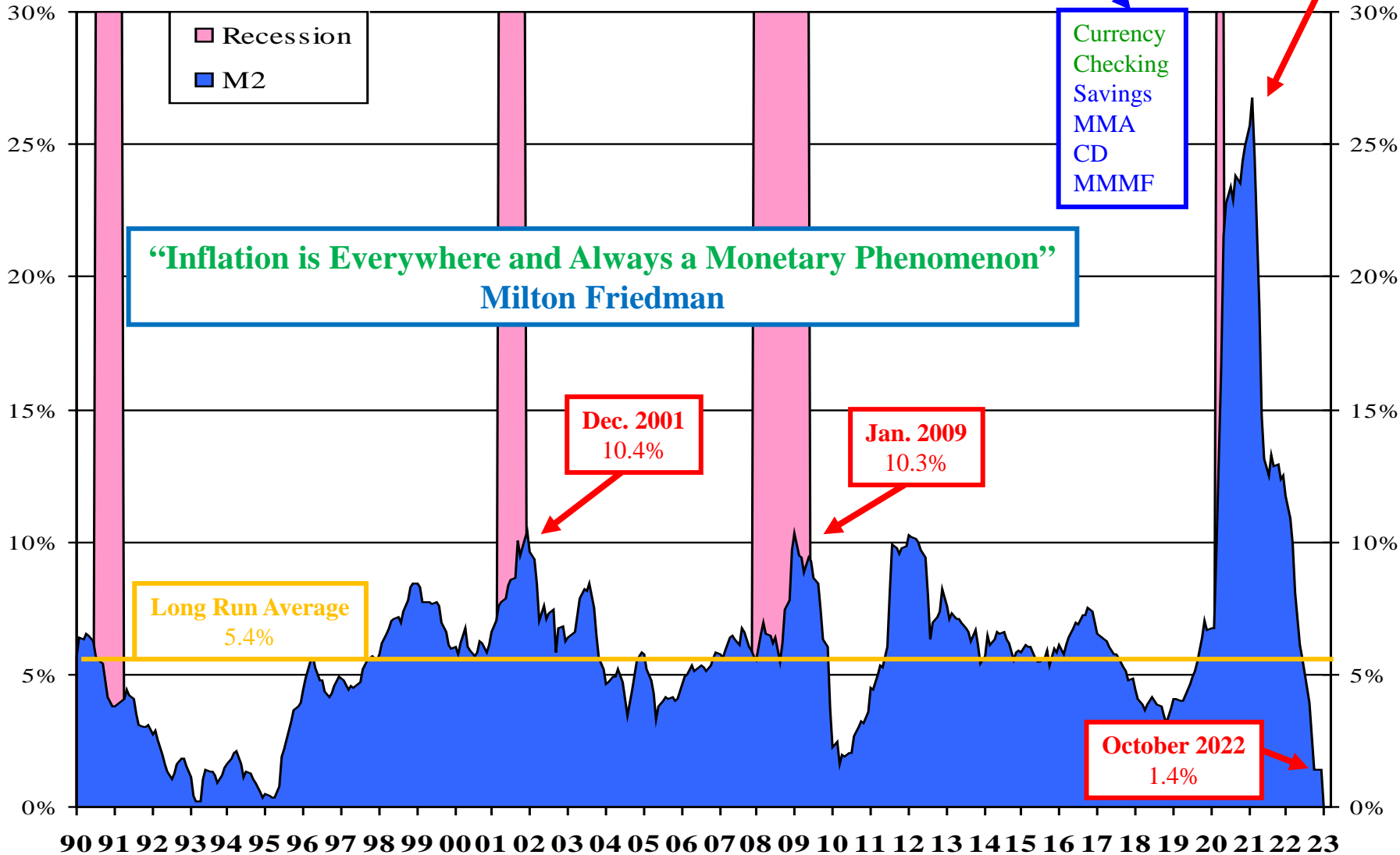
Money Supply Growth, M2



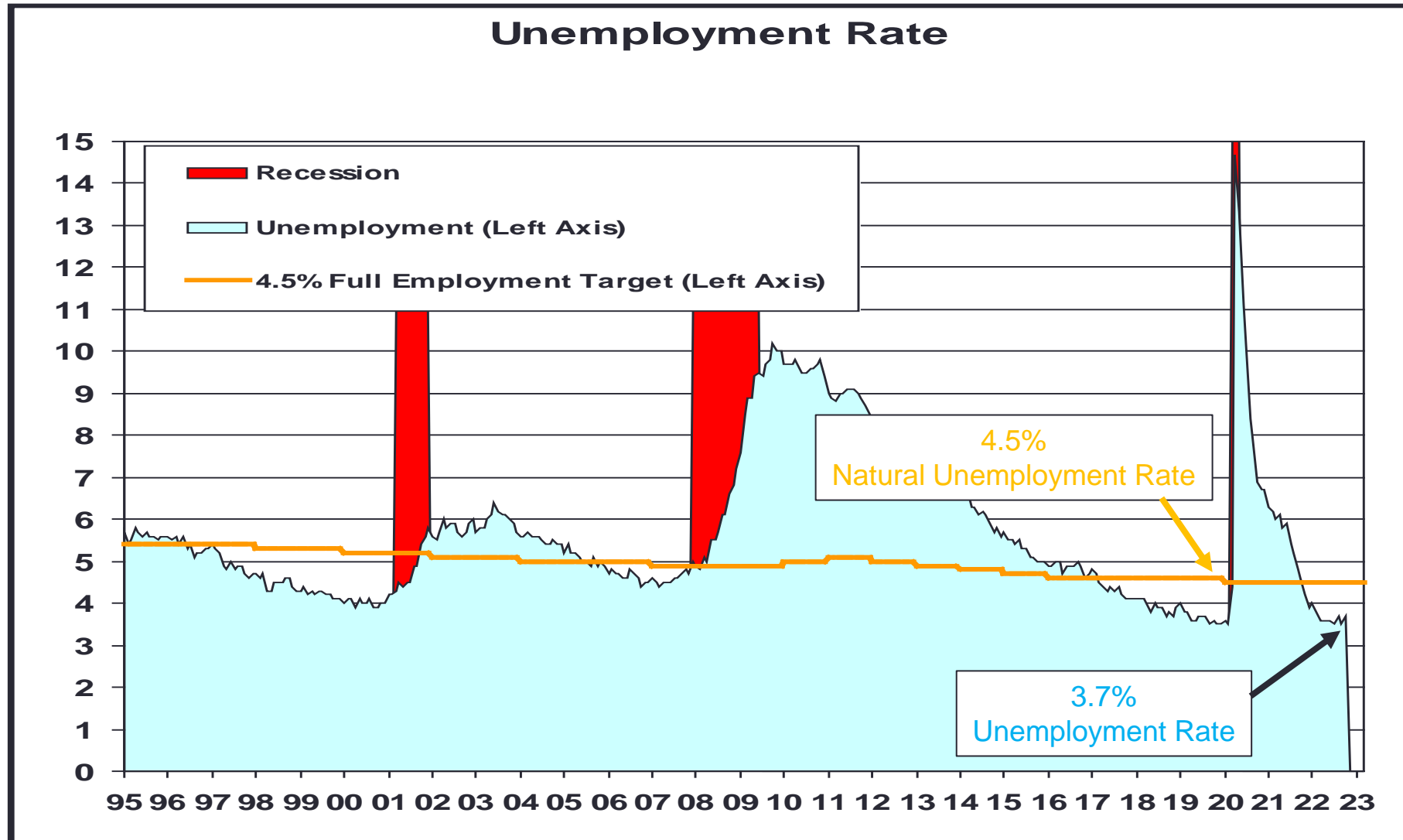
Money Supply Growth, M2



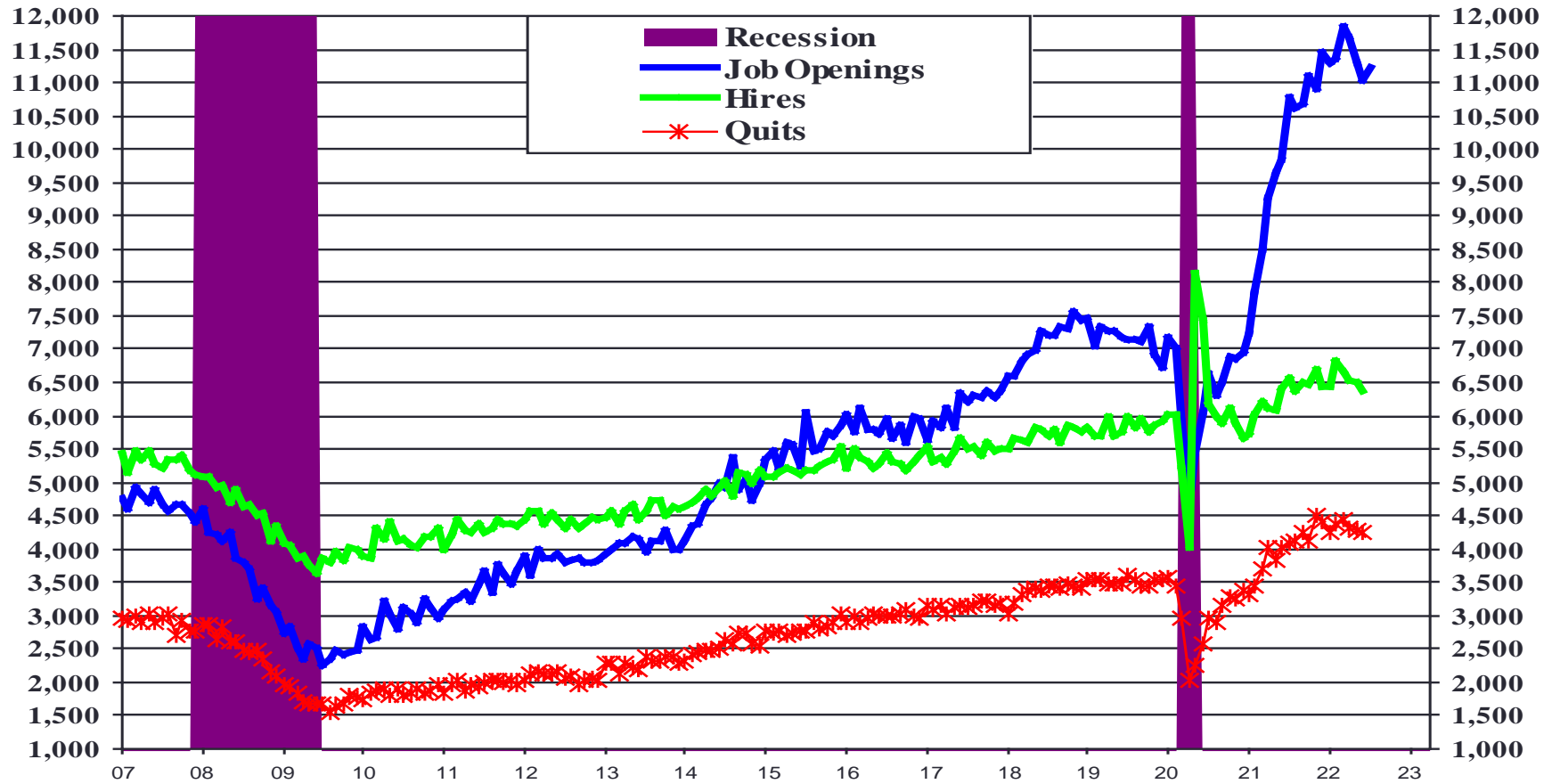
Money Supply Growth, M2



Unemployment Rate Below Natural Unemployment Rate



Job Openings, Hires, and Quits (Thousands, SA)



Job Openings Rate is the number of job openings on the last business day of the month as a percent of total employment plus job openings.

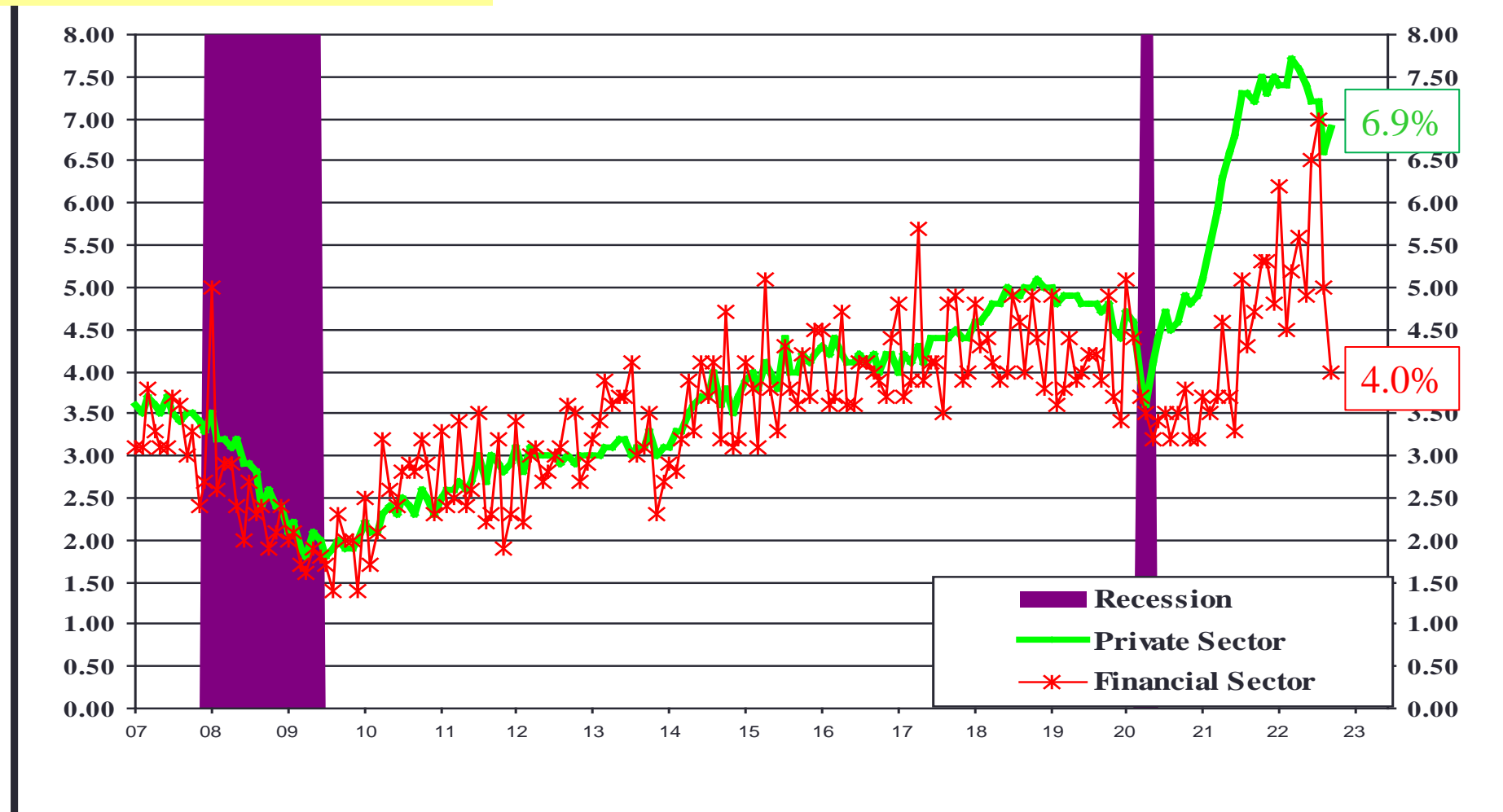
Quit Rate is the number of voluntary separations by employees as a percent of total employment

Job Openings Rate VS Quit Rate



Job Openings Rate is the number of job openings on the last business day of the month as a percent of total employment plus job openings.

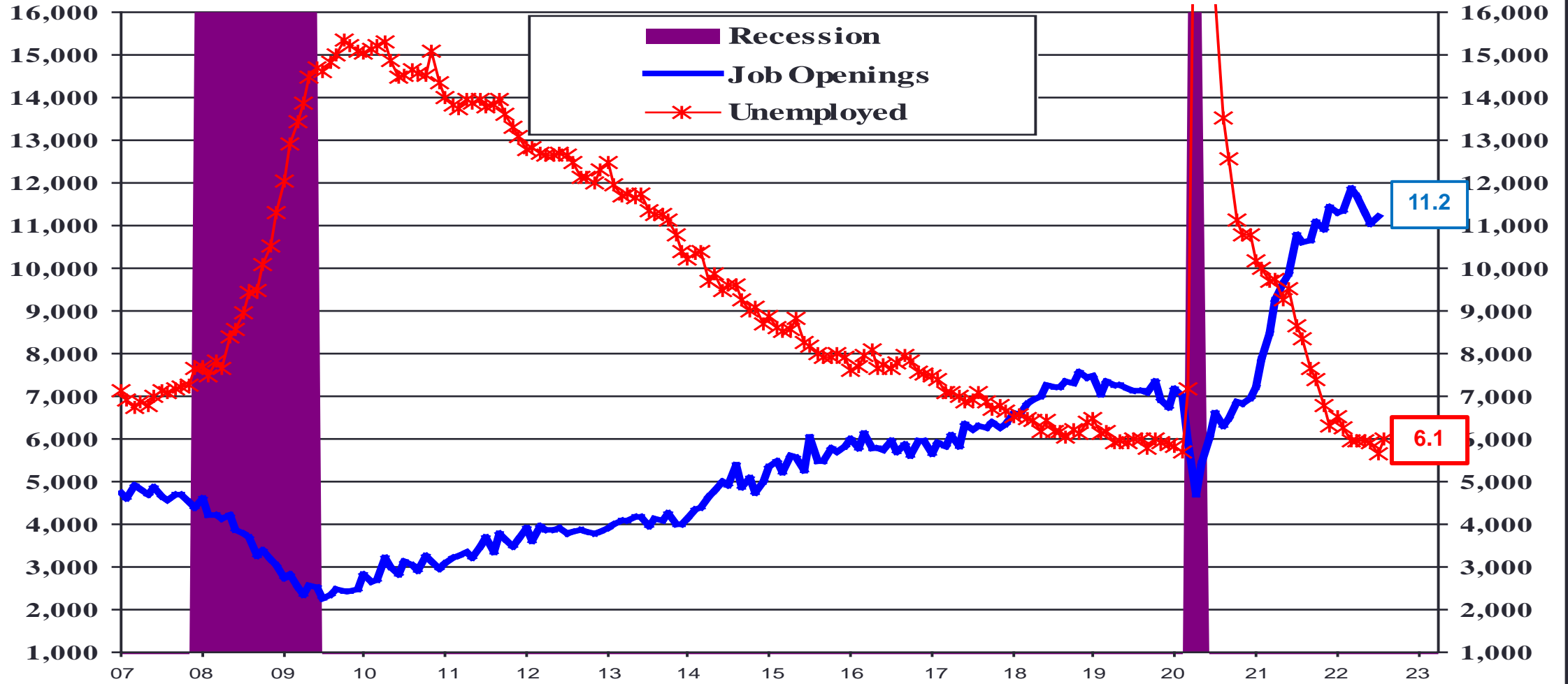
Job Openings Rate



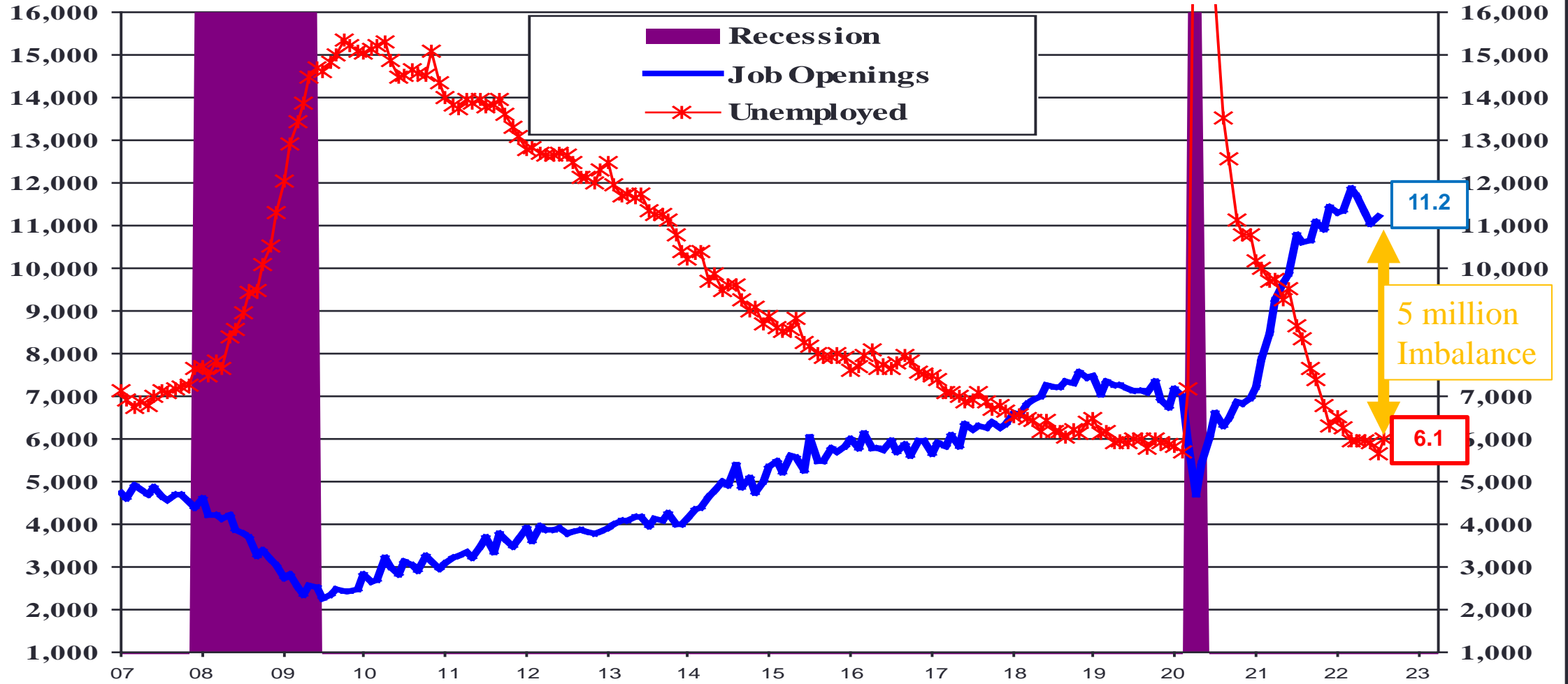
Job Openings vs Unemployed



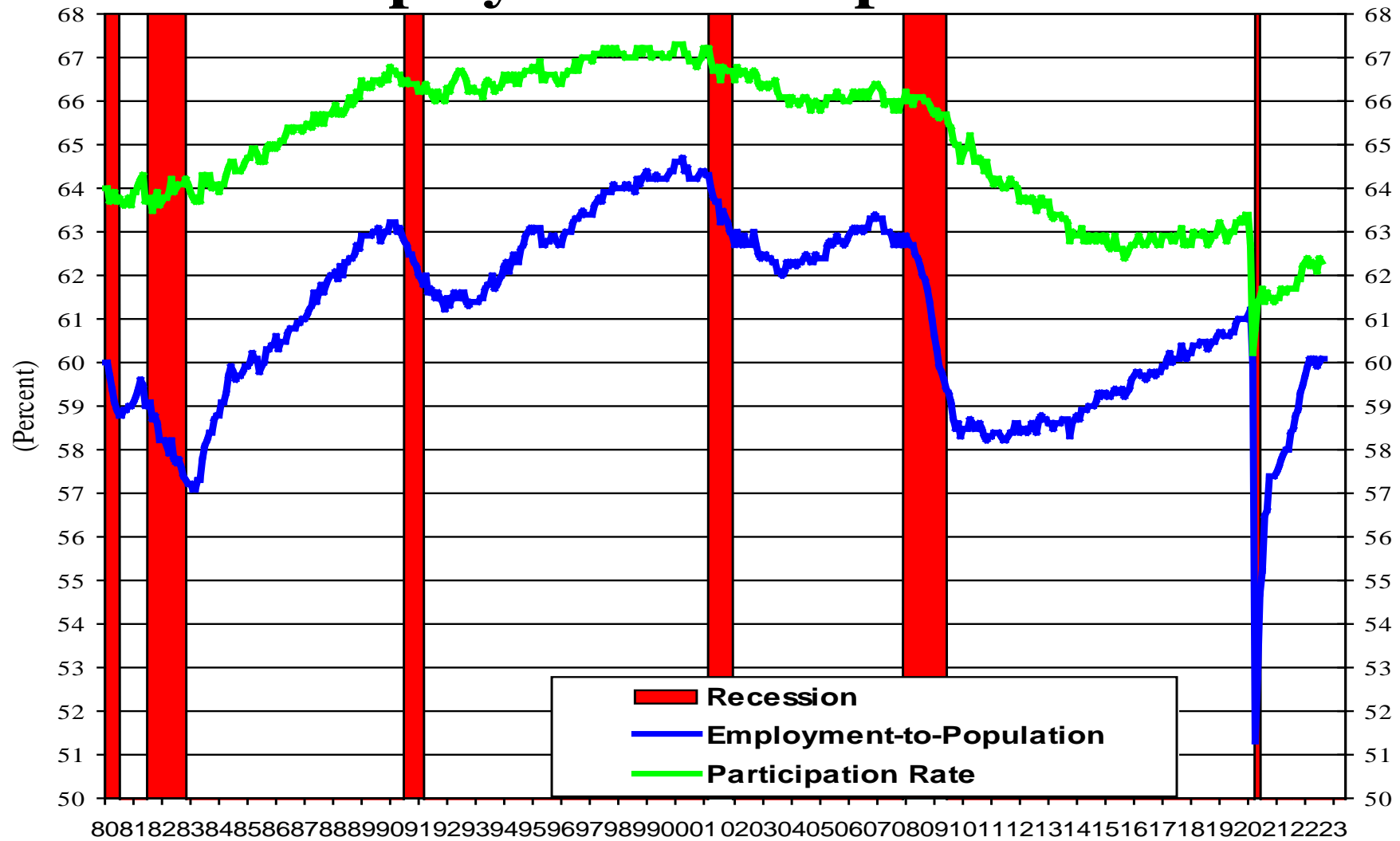
Job Openings vs Unemployed



Job Openings vs Unemployed

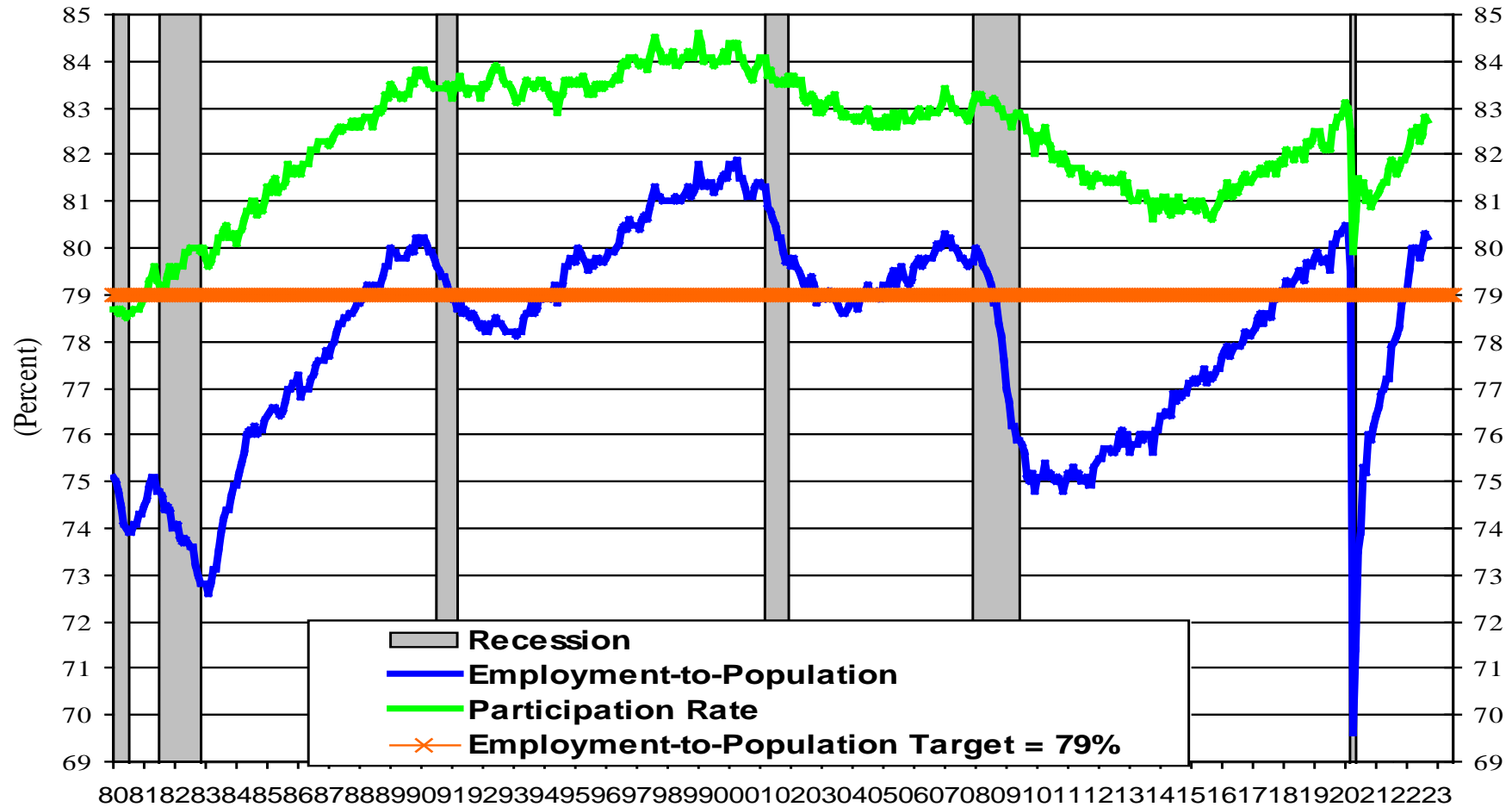


Participation Rate & Employment-to-Population



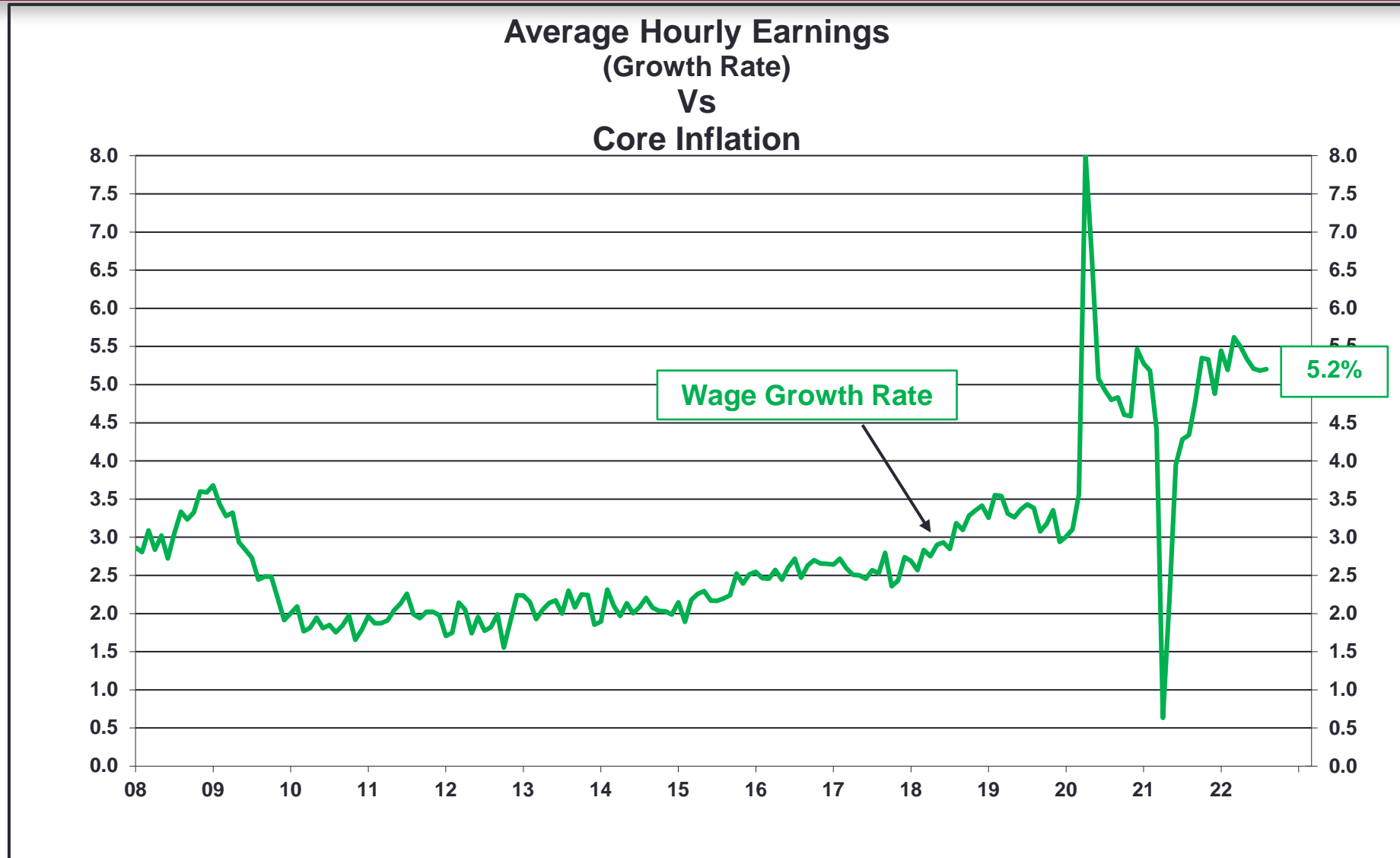
Source: Department of Labor.

25-54 Years Old Participation Rate & Employment-to-Population

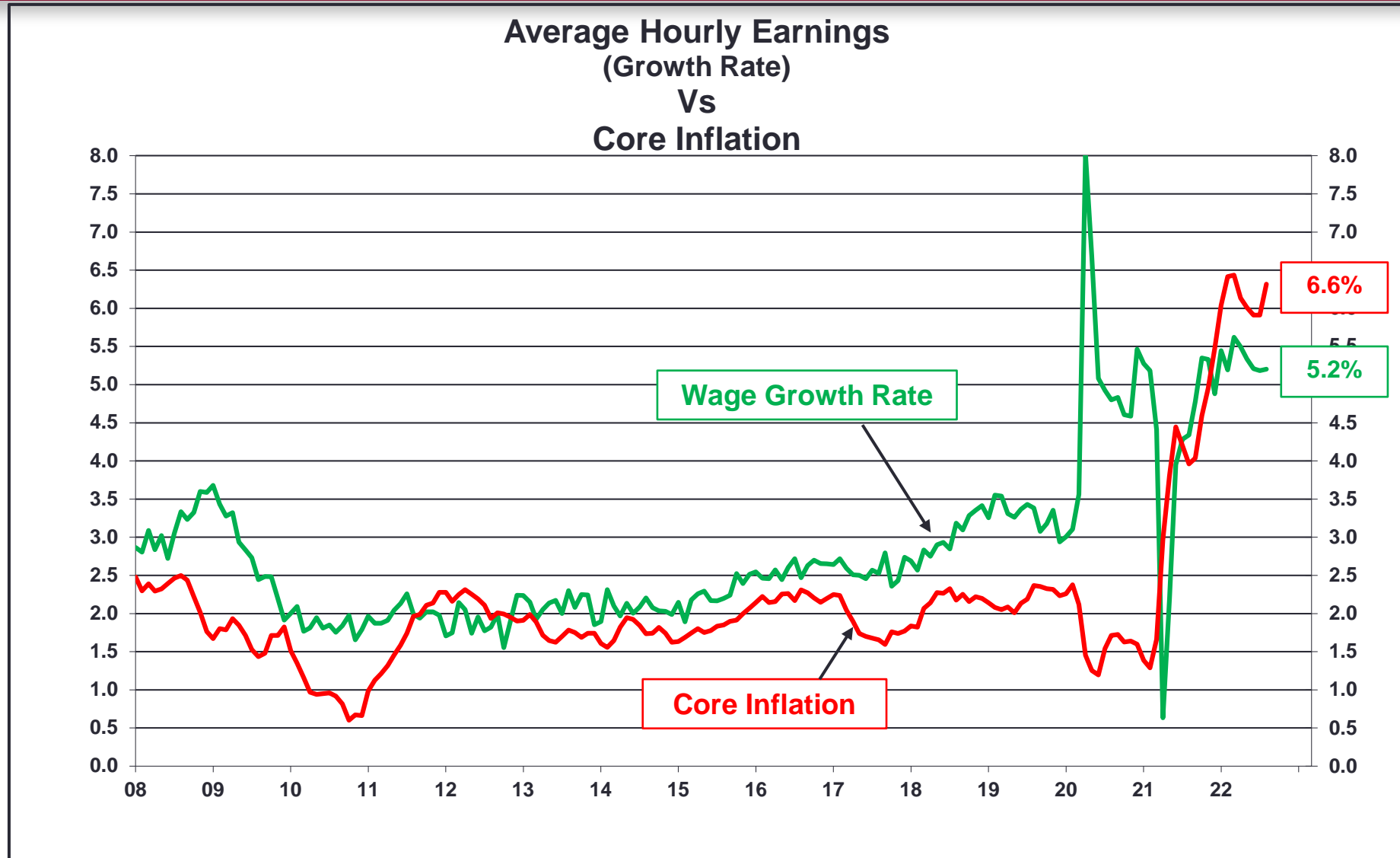


Source: Department of Labor.

Wage Growth Exceeds 5% Since October 2021



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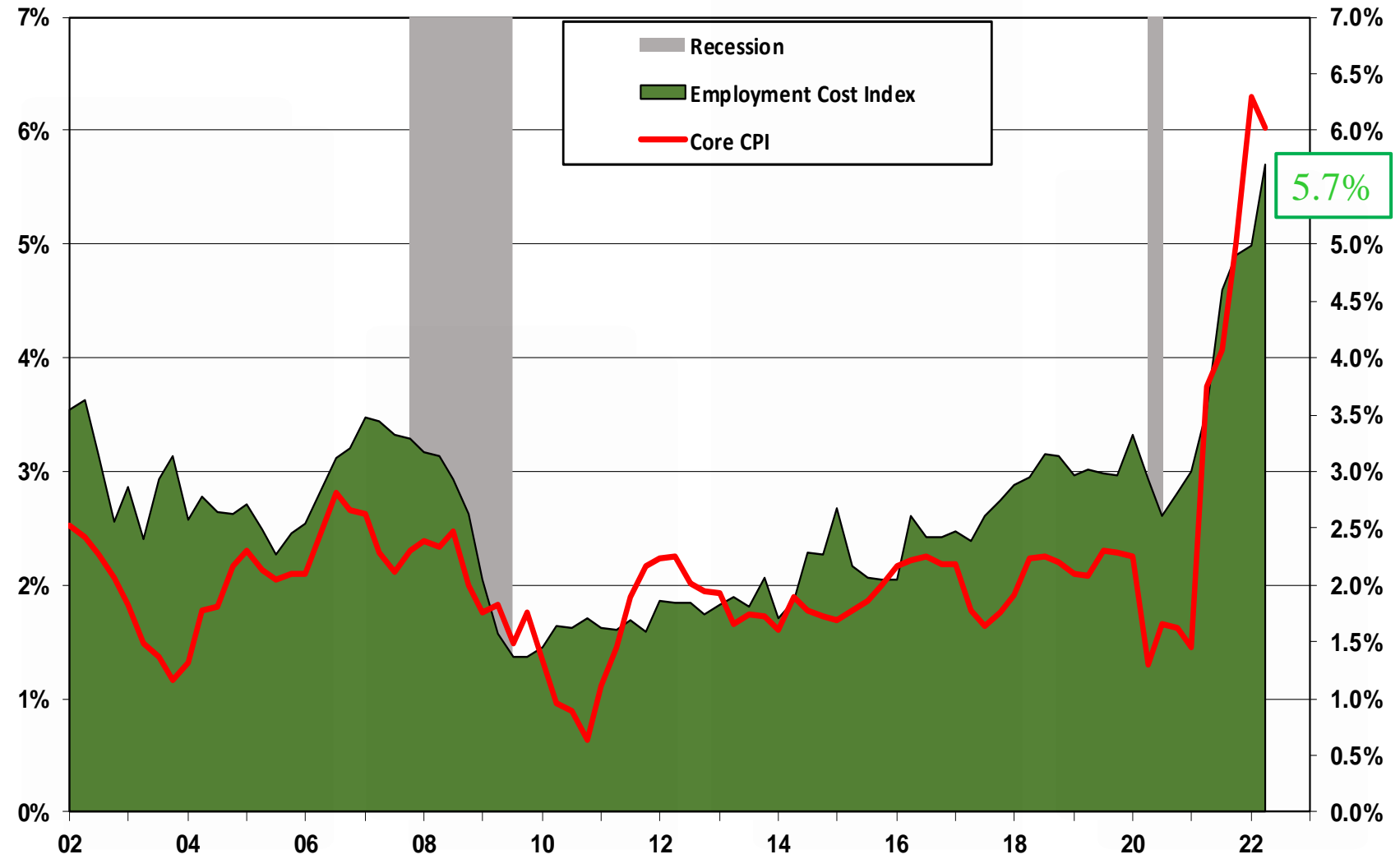


Employment Cost Index (Year over Year Percent Change)

Employment Cost Index measures the change in total employee compensation (salaries and benefits) per quarter.

1. Firms use to set pay scales for employees.
2. Wage pressures increase before firms hike consumer prices

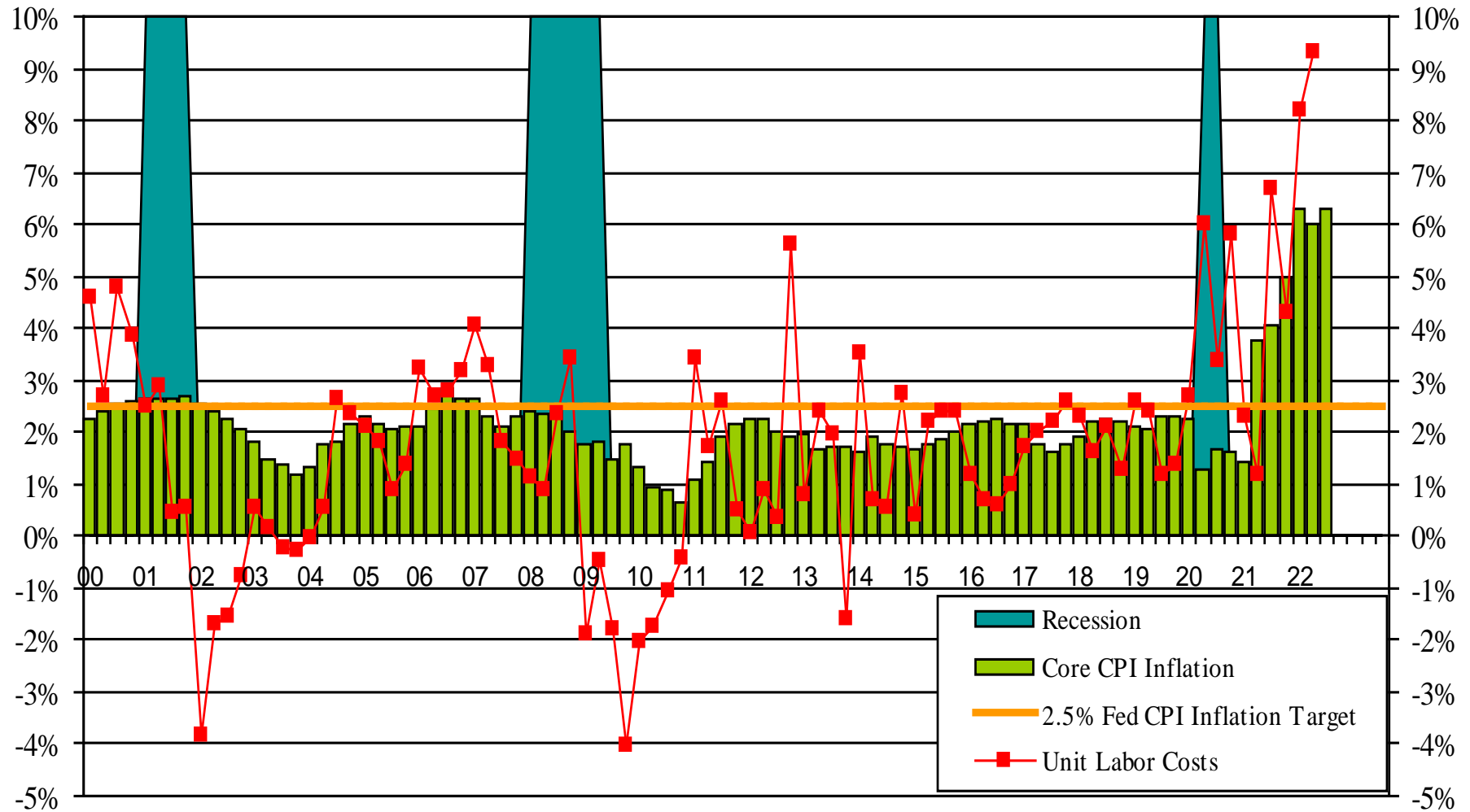
Employment Cost Index VS. Core CPI



Source: CBO & Federal Reserve

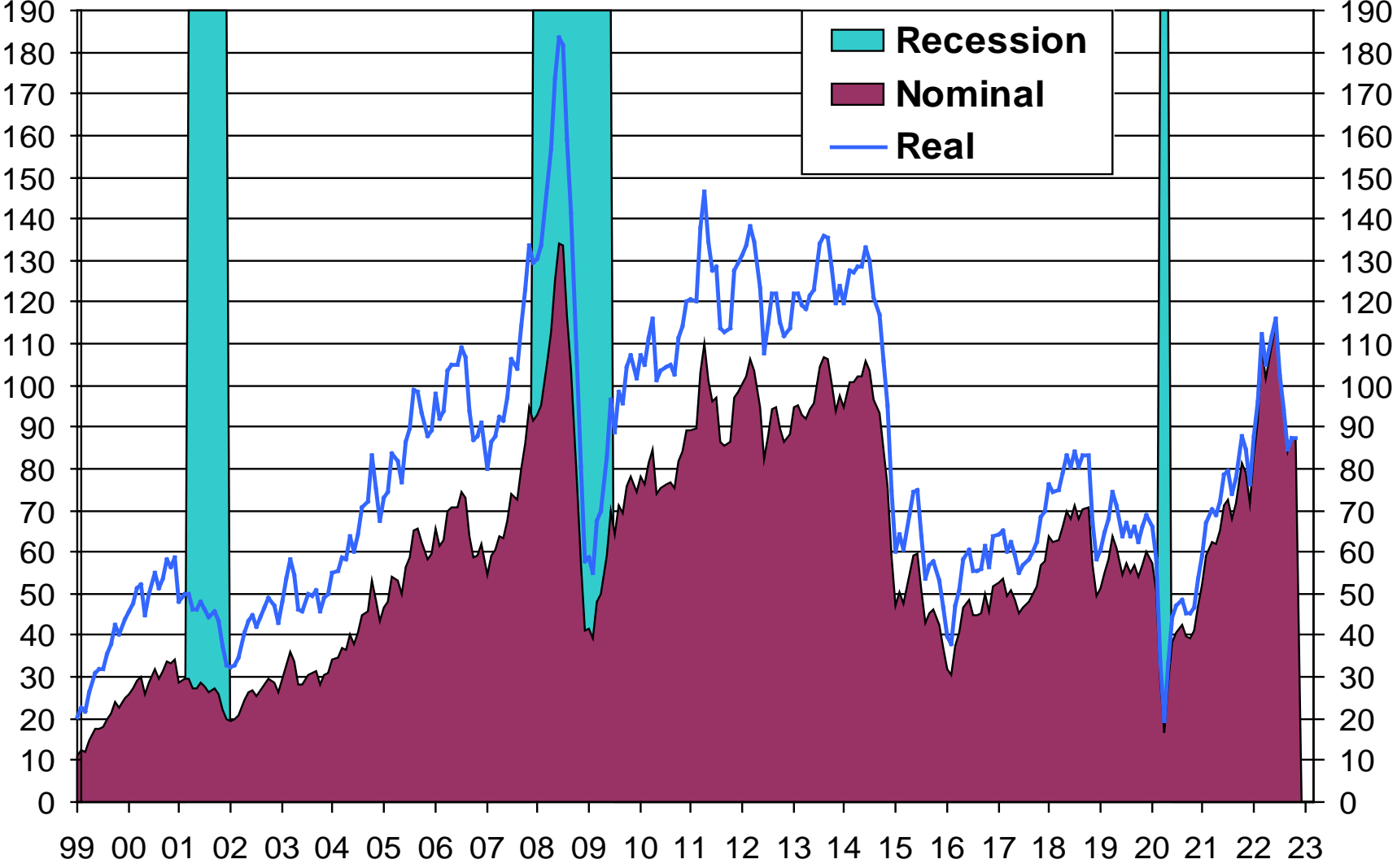
Unit Labor Costs Vs Core Inflation (Nonfarm Business)

(% chg from year ago)

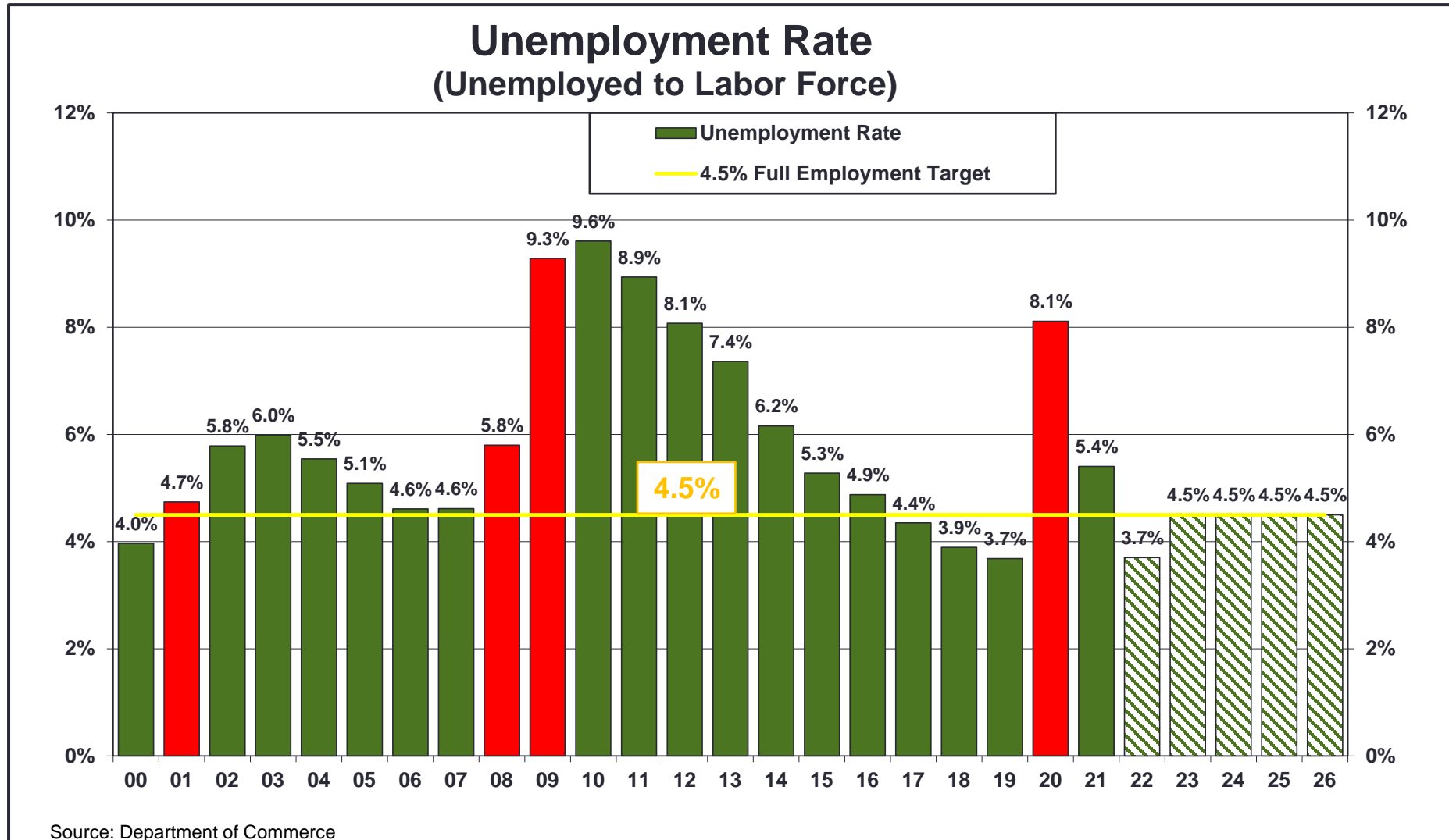


Source: Bureau of Labor Statistics

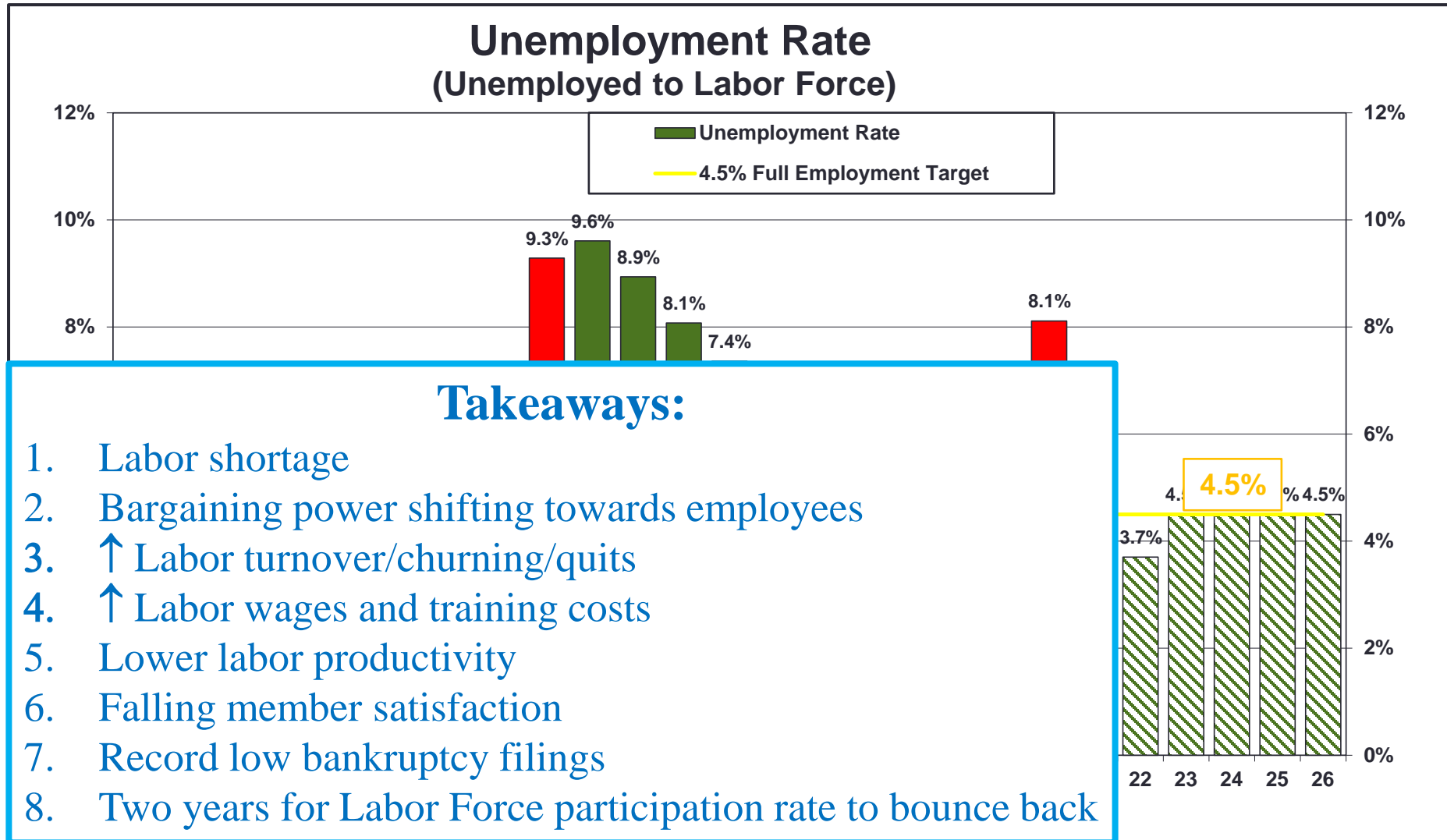
Oil Price per Barrel (West Texas Intermediate Crude)



Unemployment Rate Below Normal for Next 2 Years



Unemployment Rate Below Normal for Next 2 Years



**What is the most important
price in any economy?**

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price in any economy?**

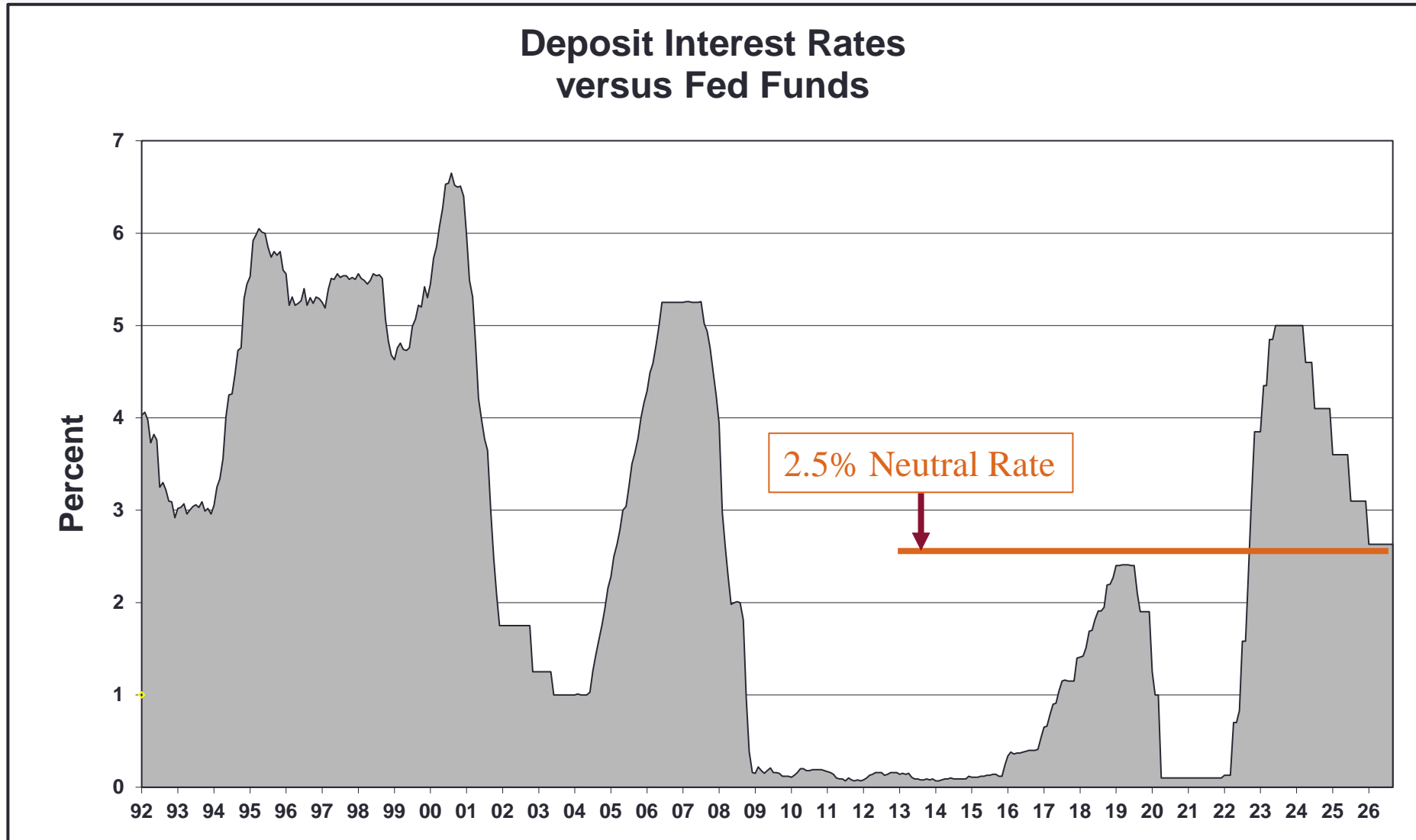
The Price of Money

**What is the most important
price in any economy?**

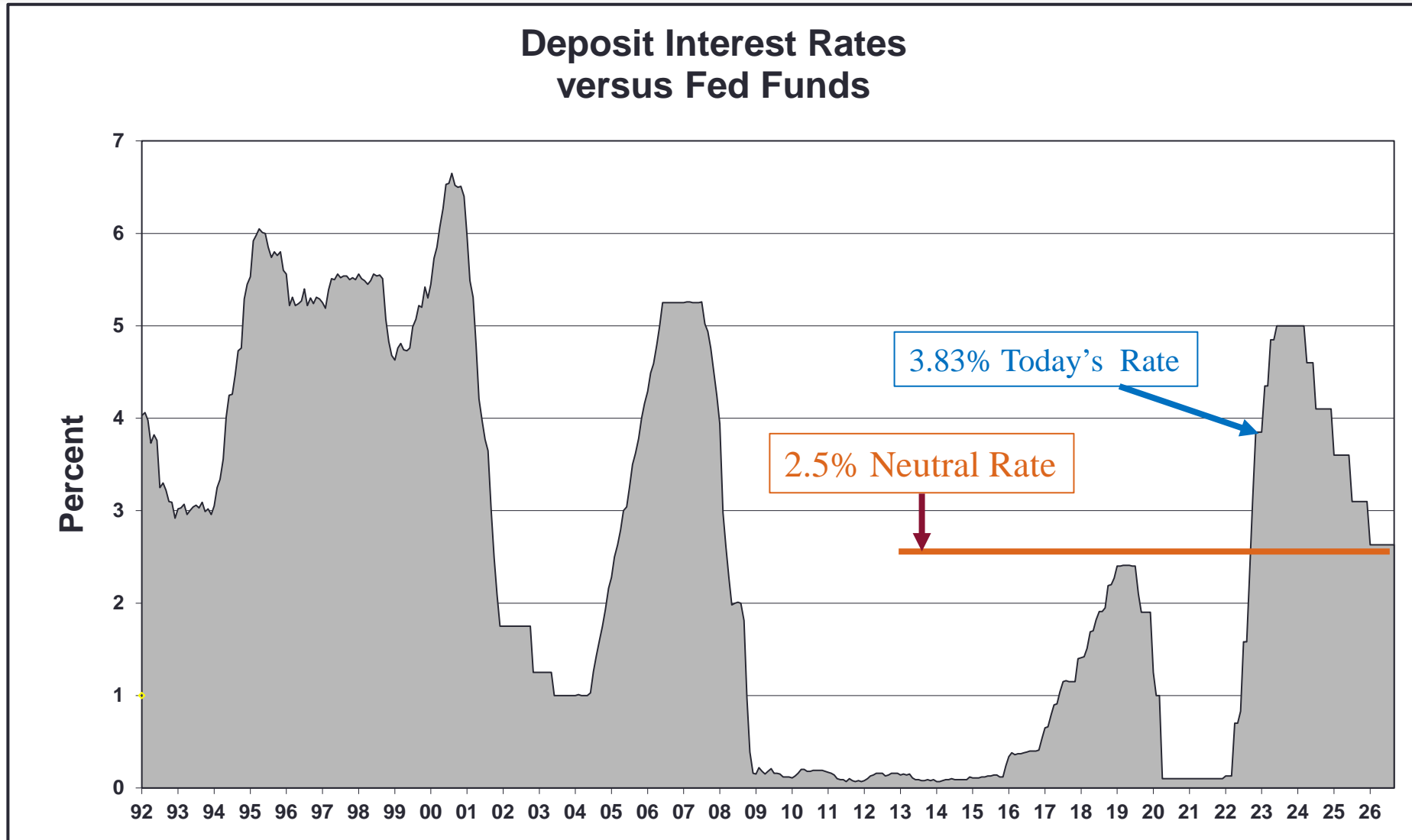
The Price of Money

Interest Rates

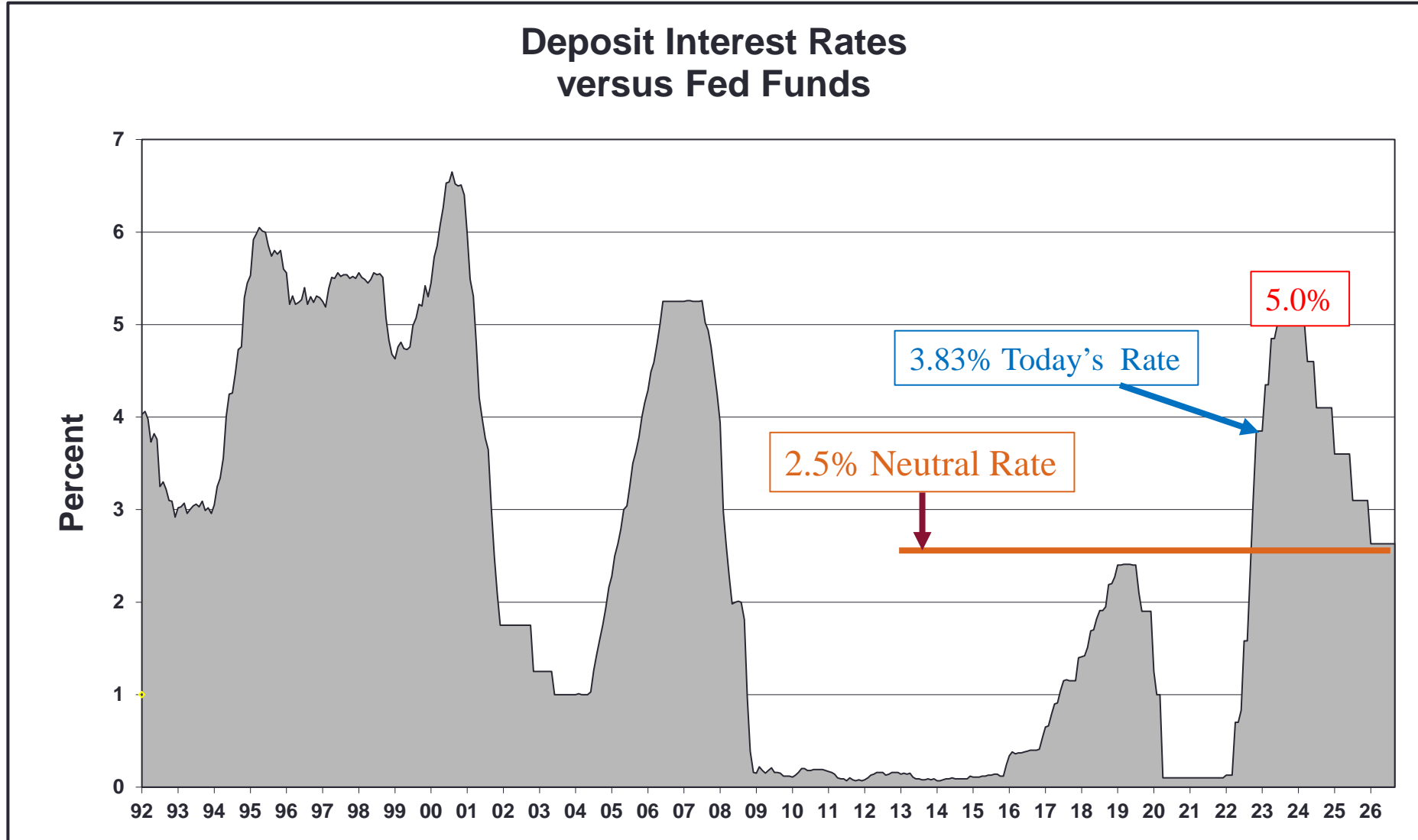
Rising Fed Funds Interest Rate and Deposit Pricing



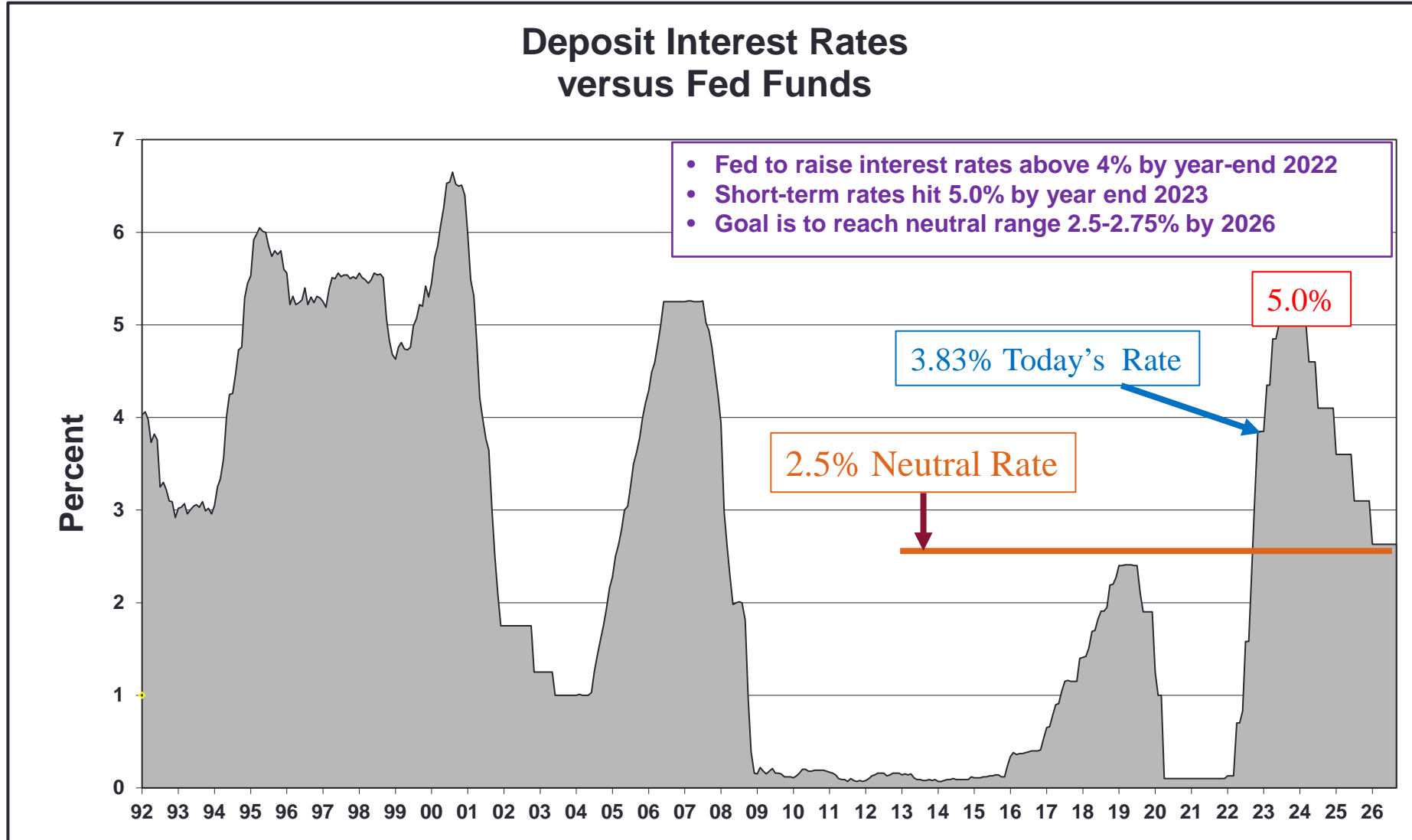
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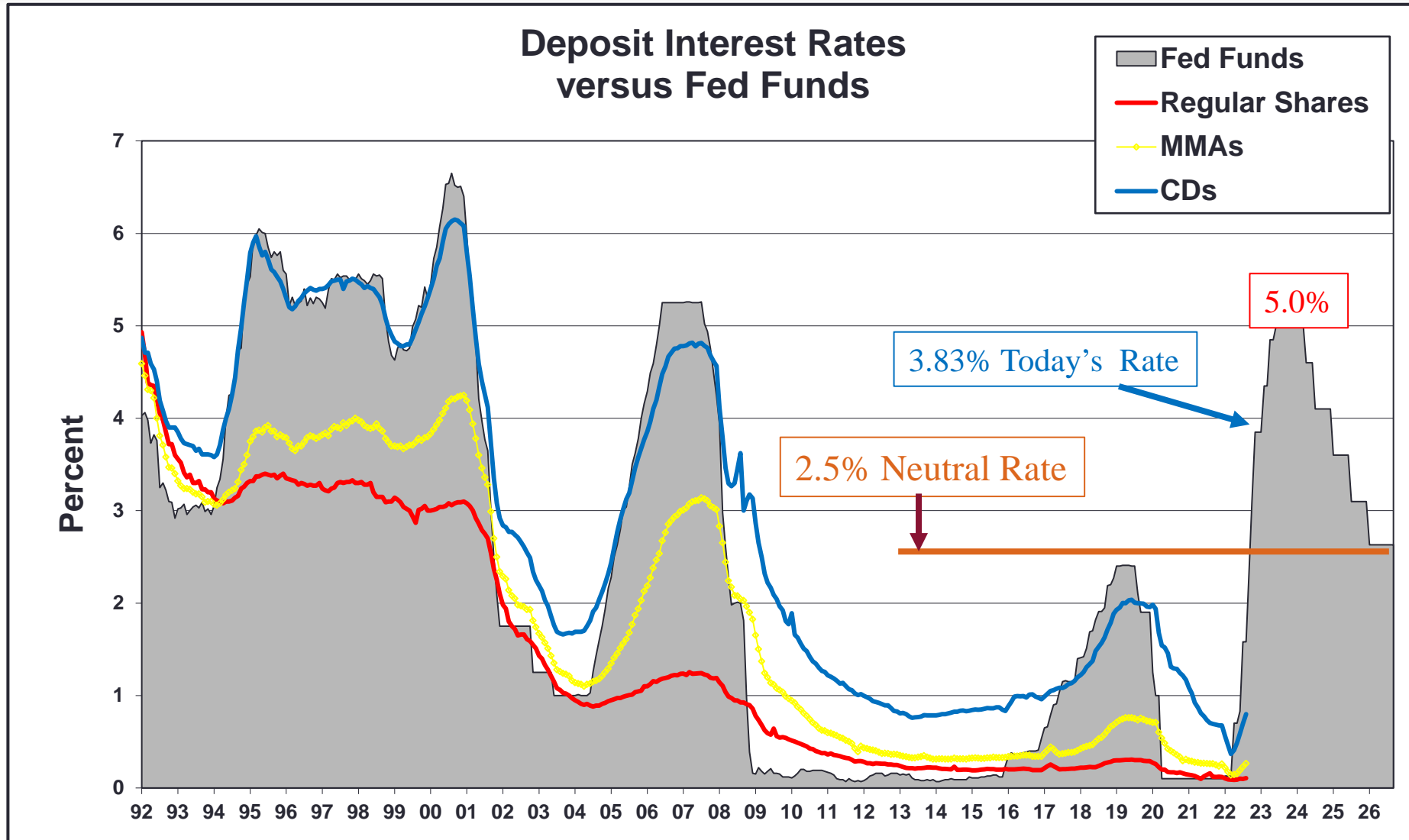
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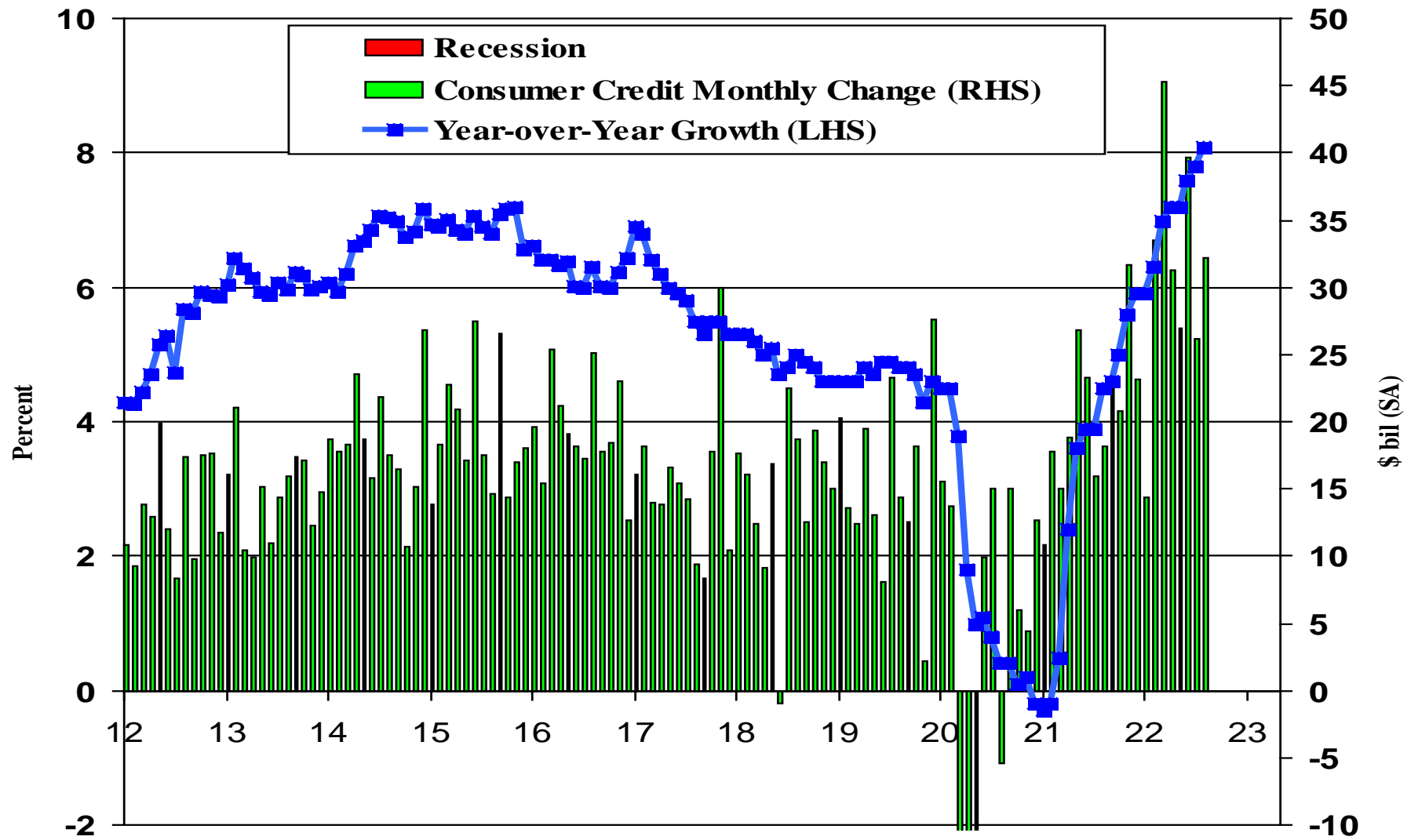


Rising Fed Funds Interest Rate and Deposit Pricing

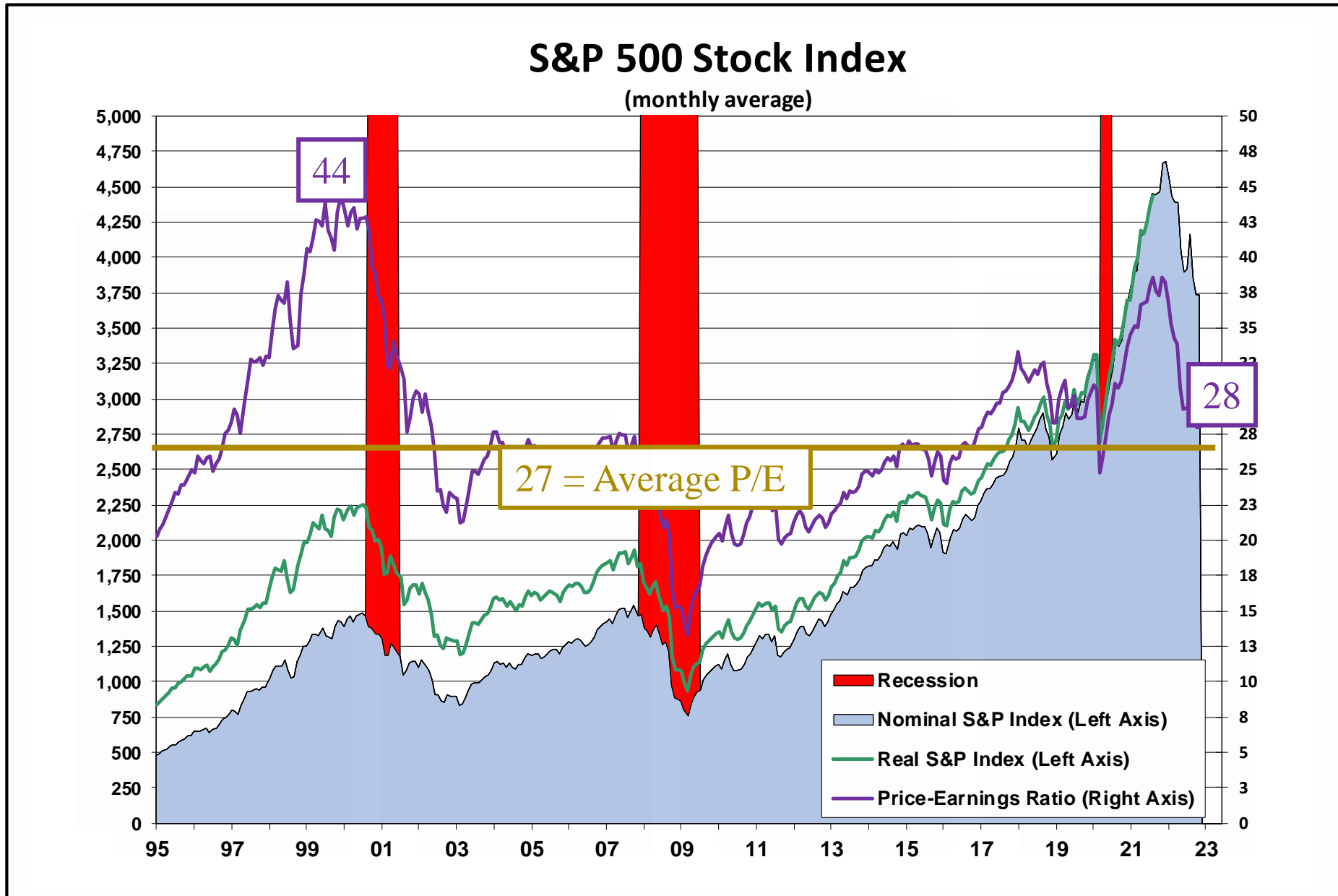


Consumer Credit Outstanding

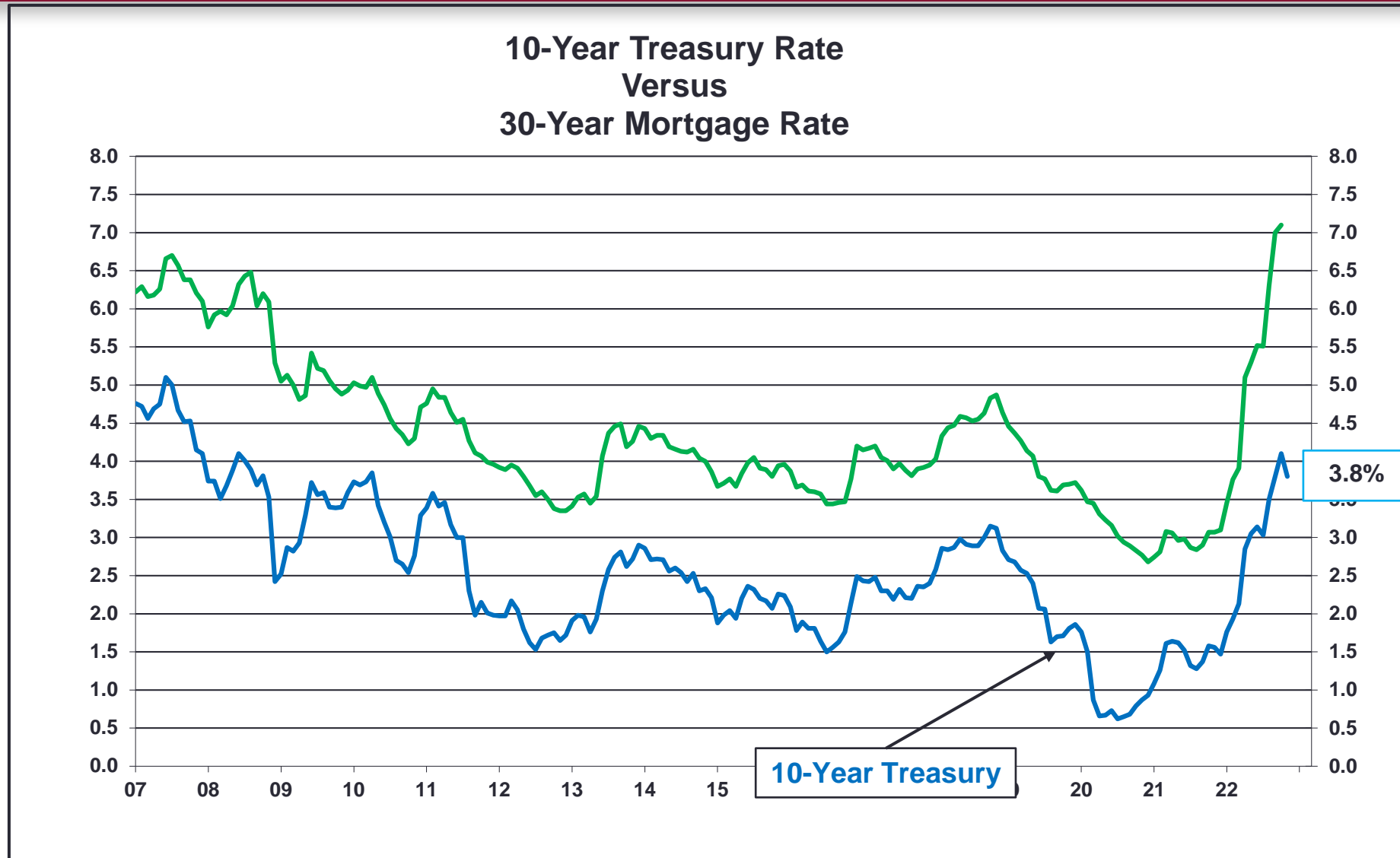
(monthly change & annual growth rate, SA)



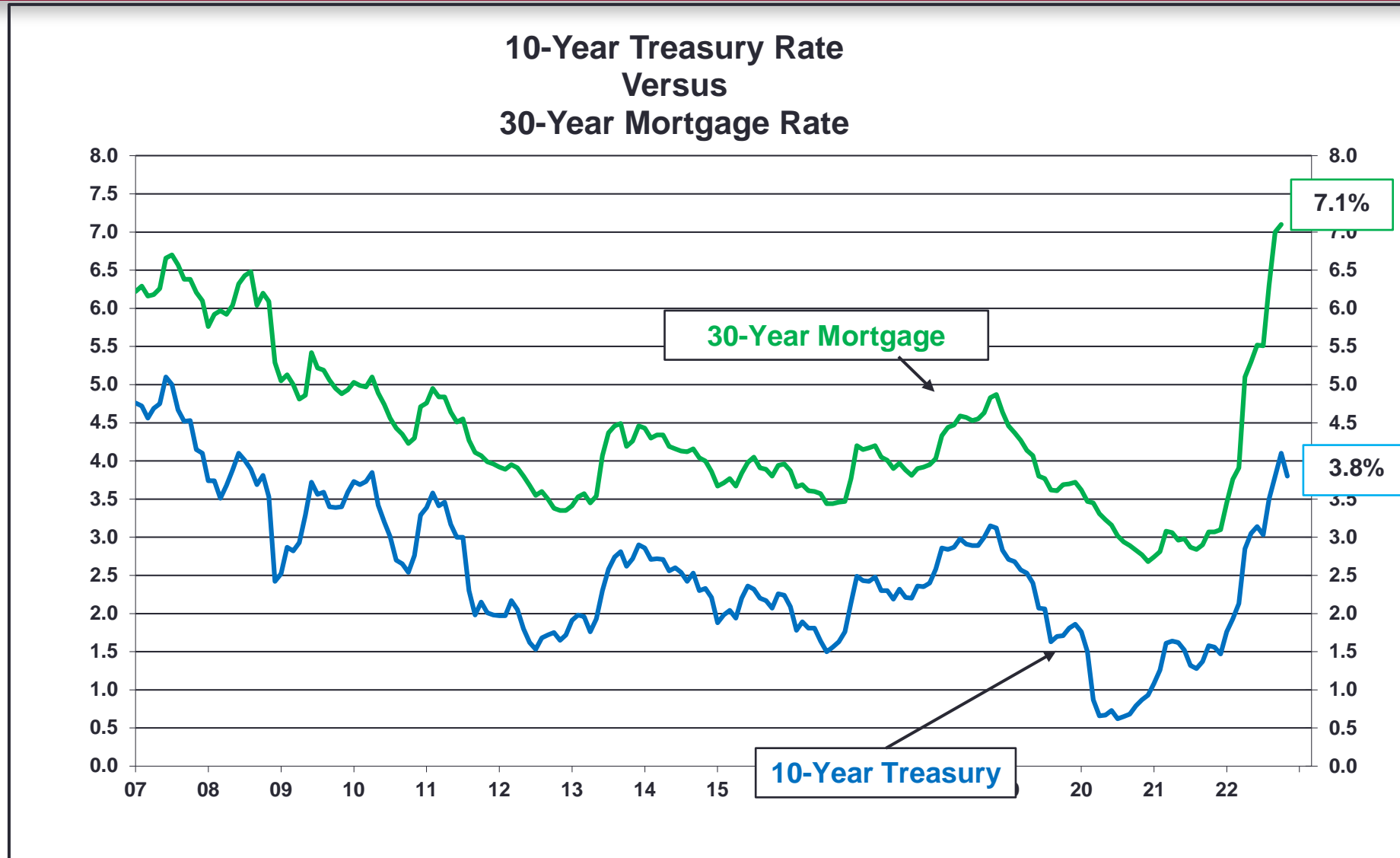
Lower Stock Prices Producing Negative “Wealth Effect” among High-Income Households



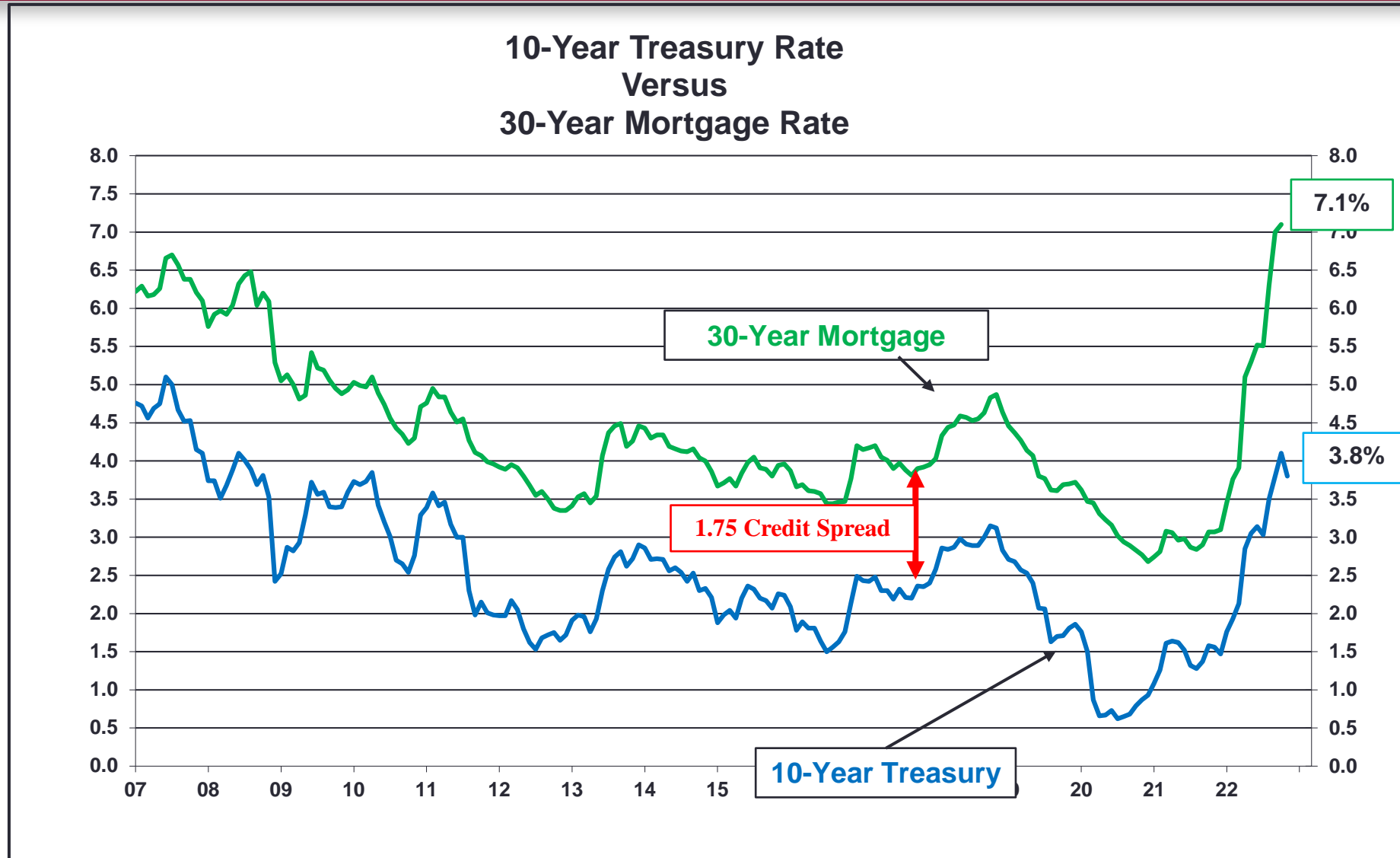
Rising Real Interest Rates, and Rising Inflation Expectations will Push Up Nominal Interest Rates



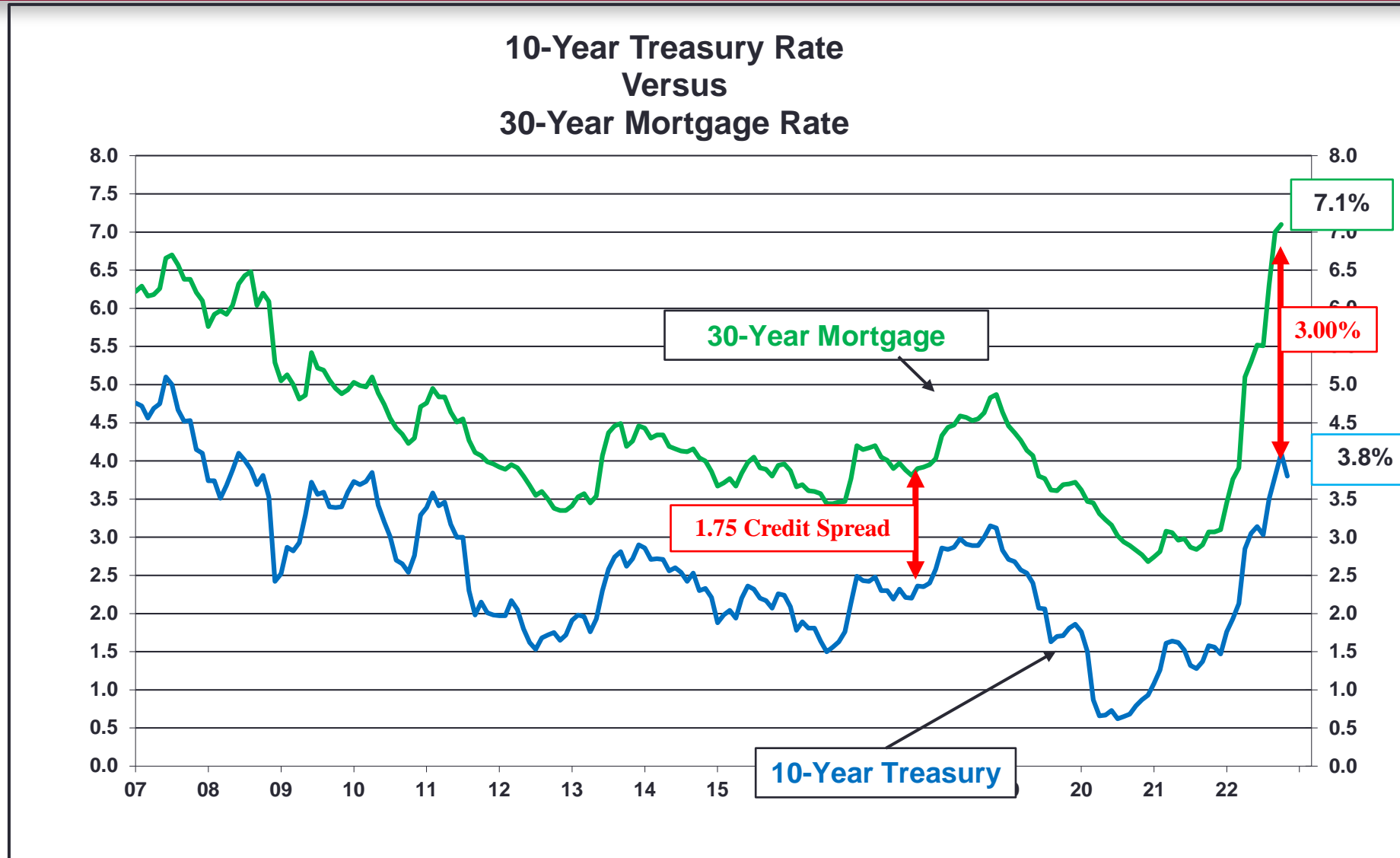
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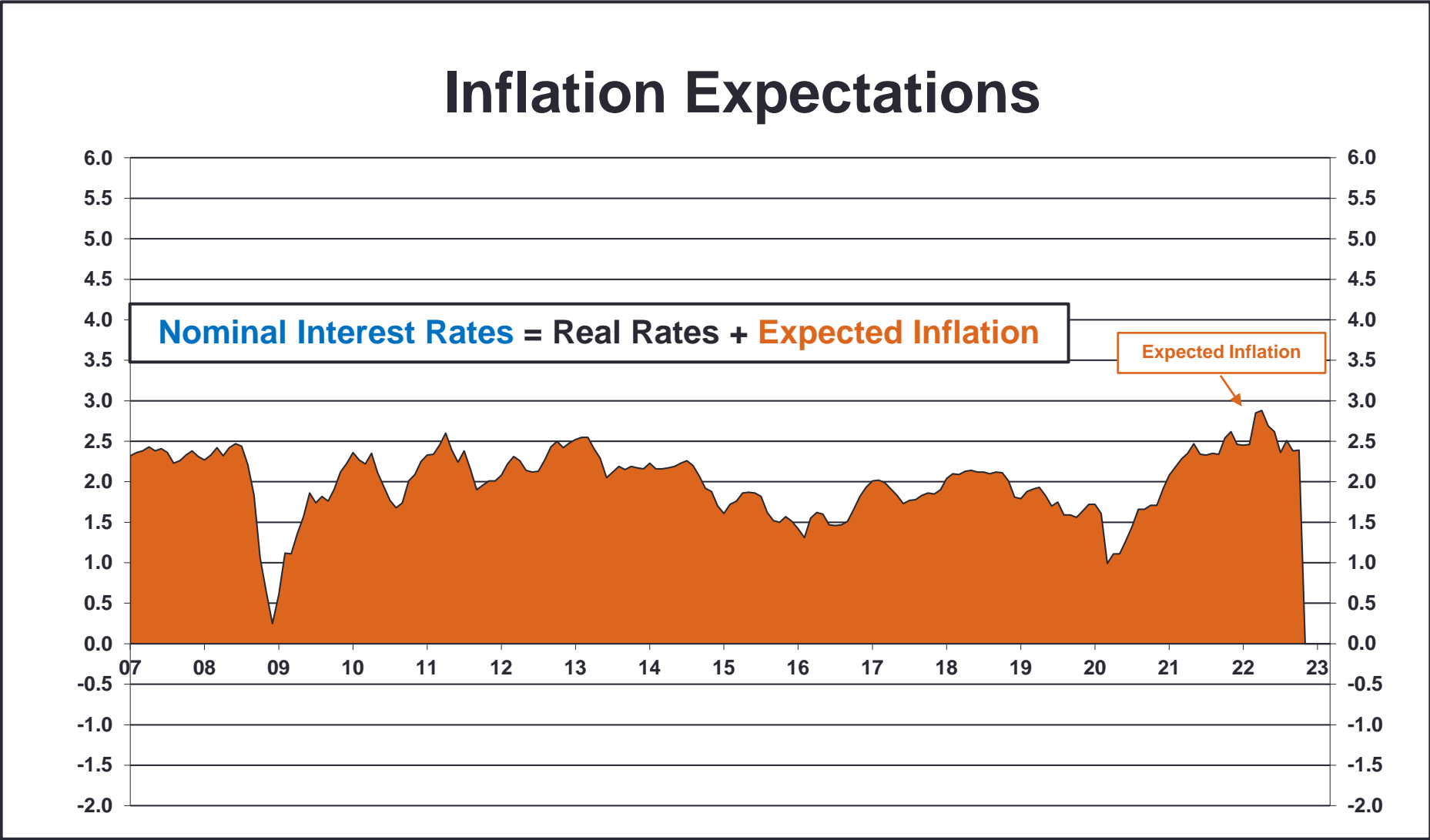
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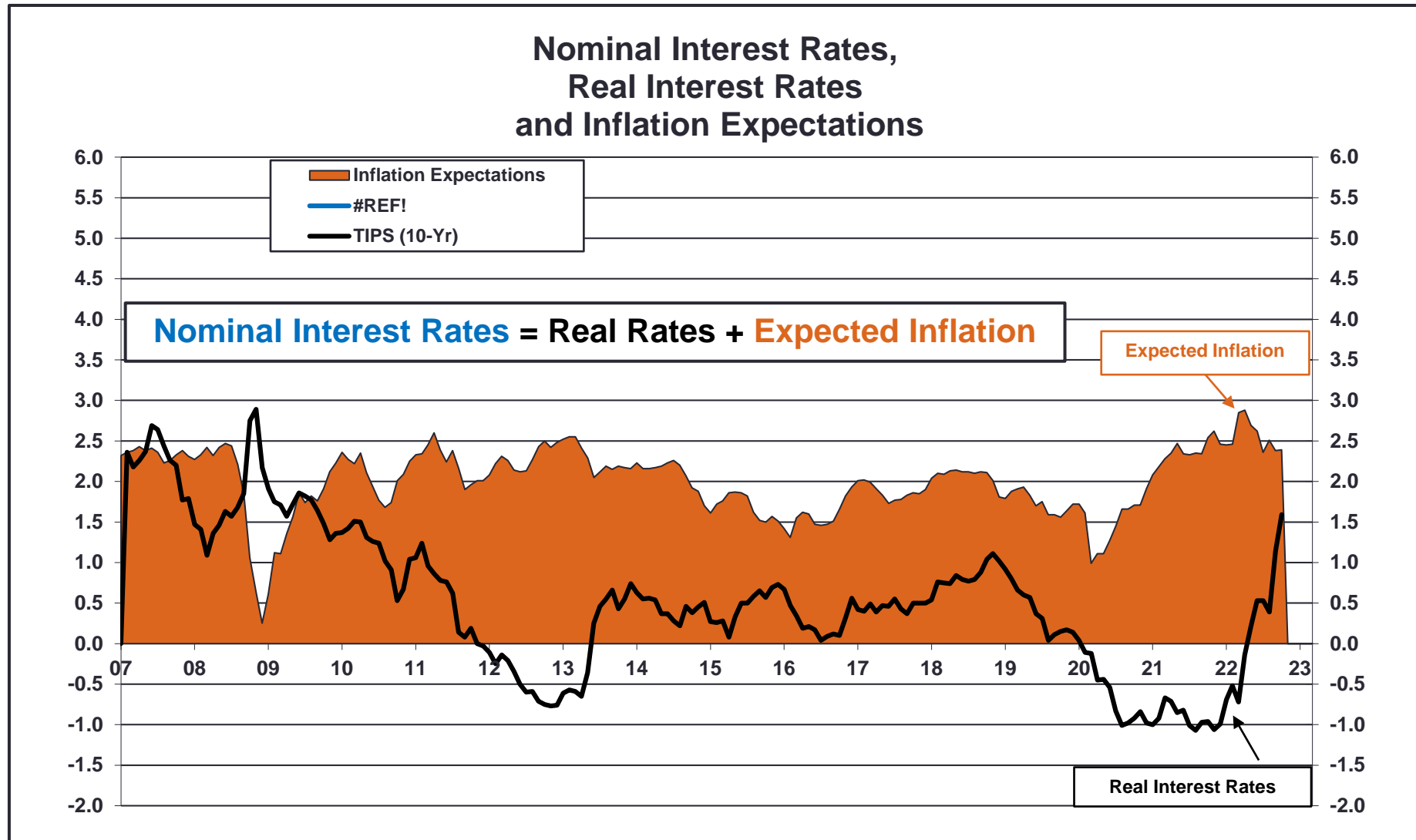
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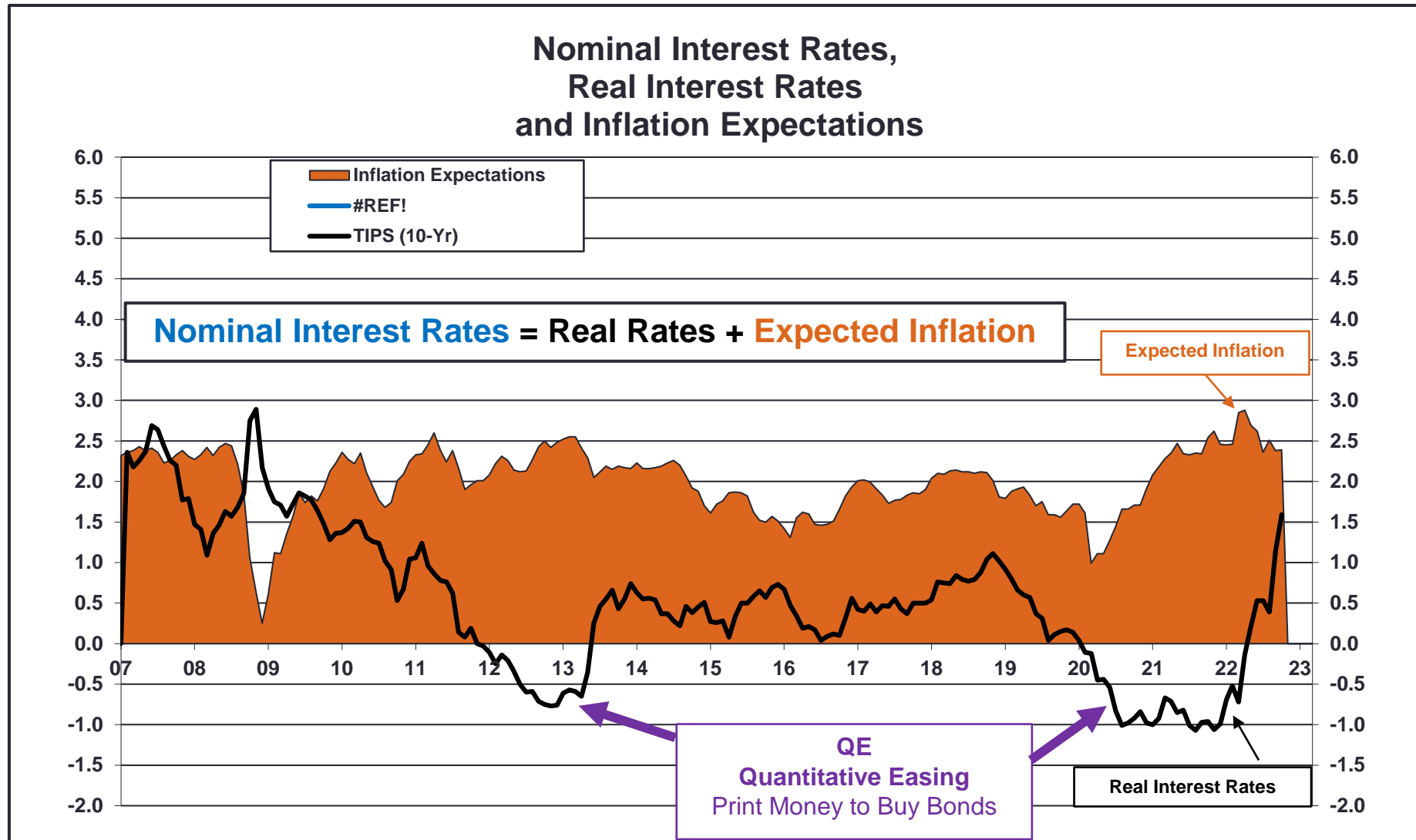
Inflation Expectations are Anchored Below 2.5%



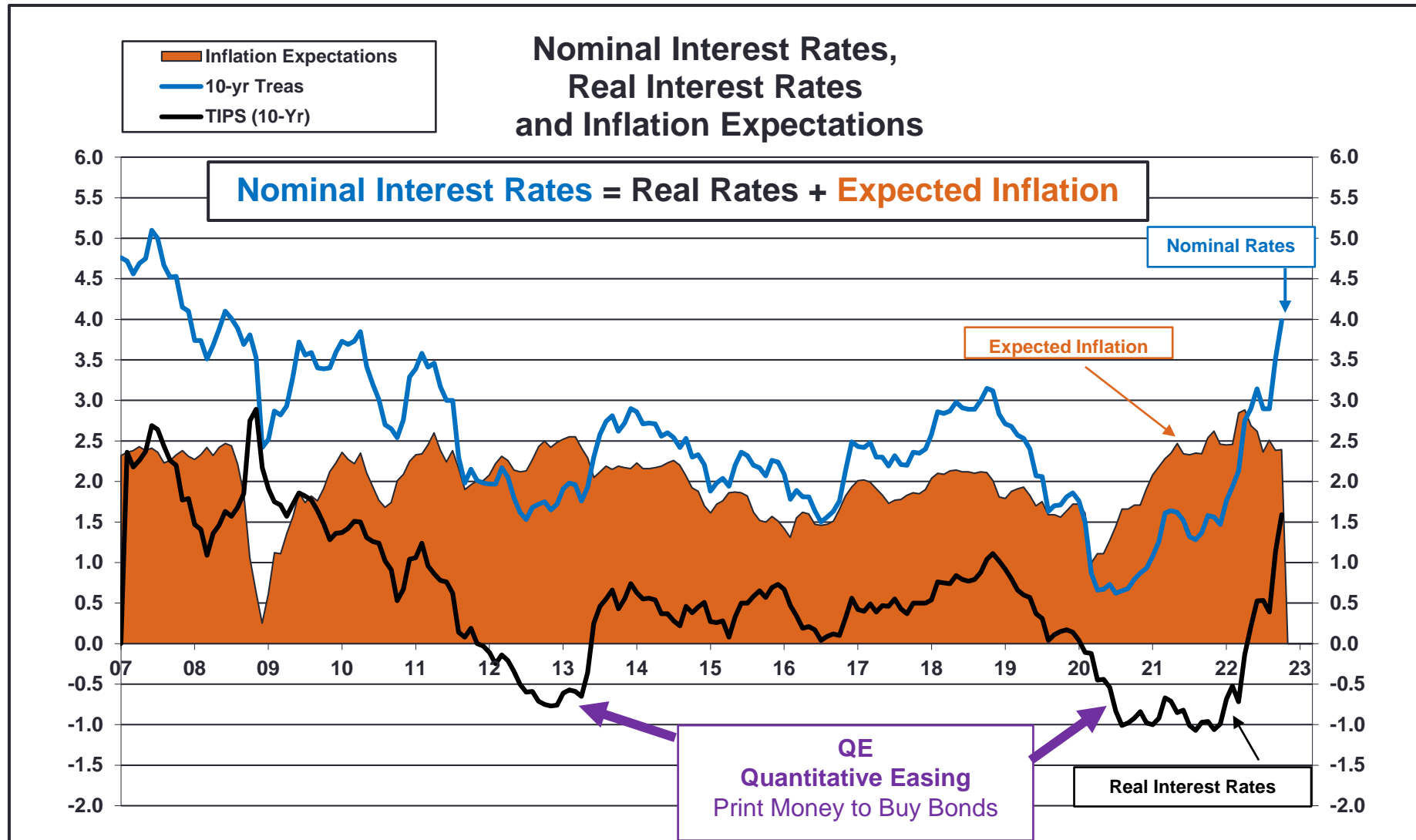
Rising Real Interest Rates, and Rising Inflation Expectations are Pushing Up Nominal Interest Rates



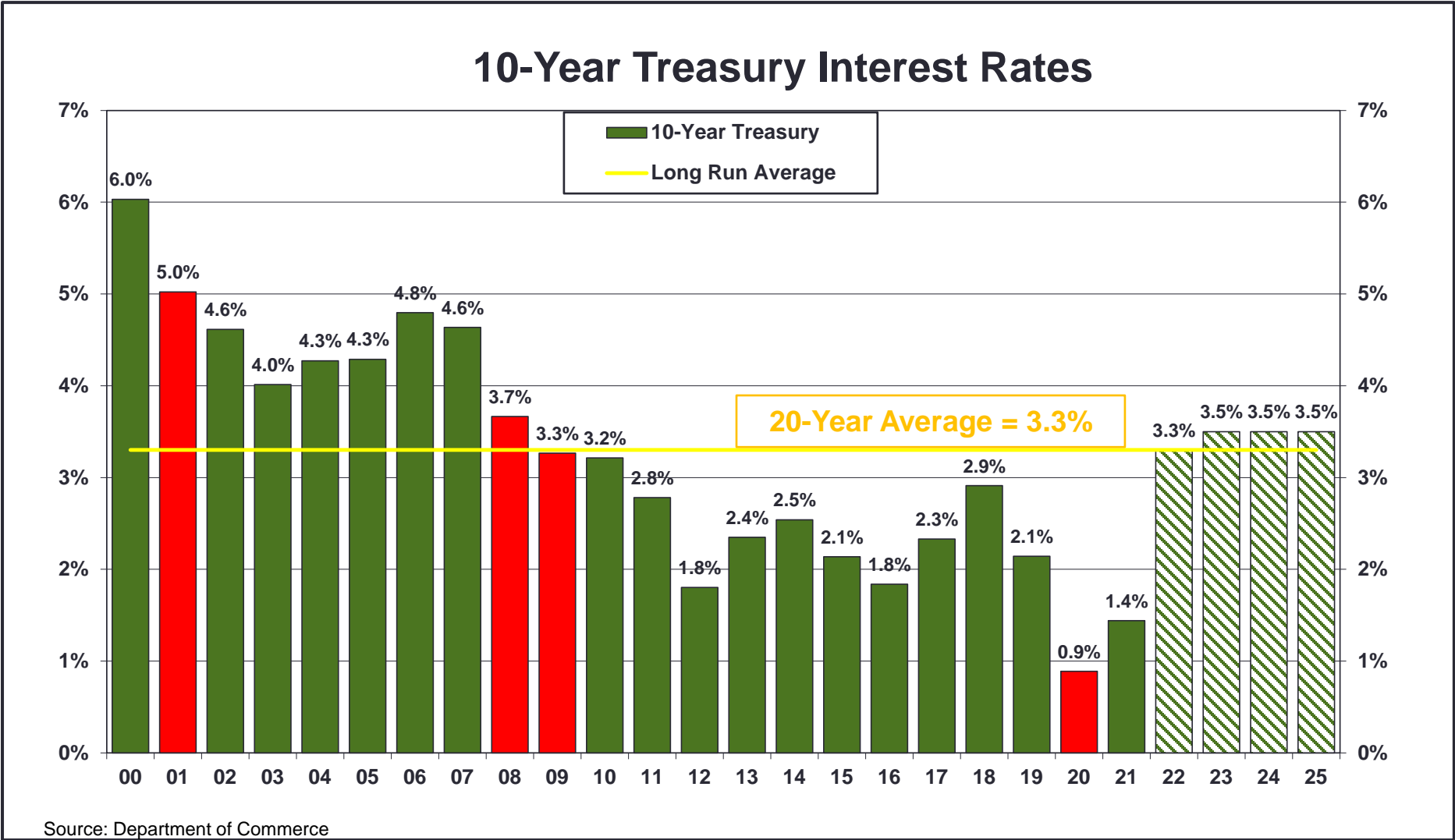
Rising Real Interest Rates, and Rising Inflation Expectations are Pushing Up Nominal Interest Rates



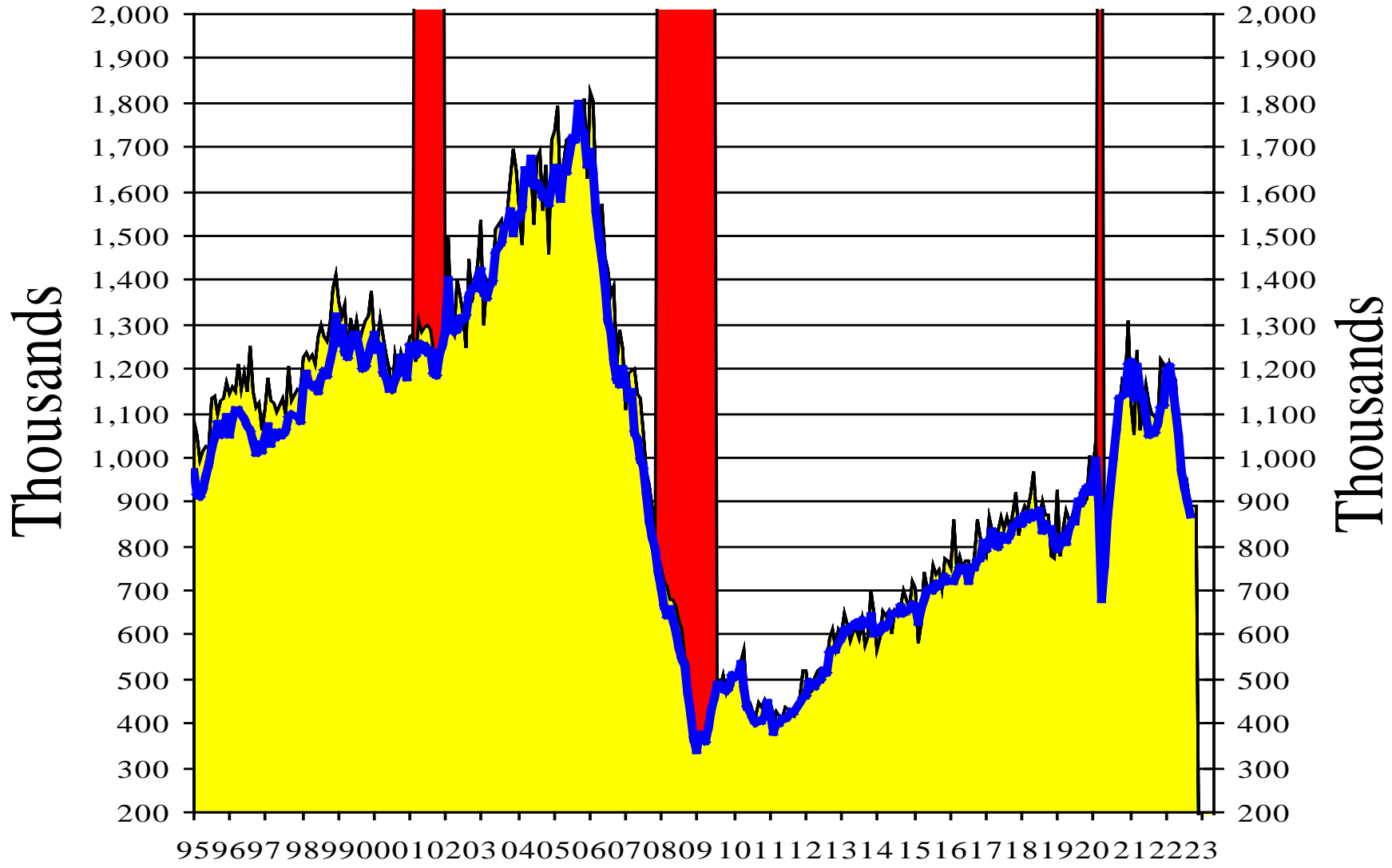
Rising Real Interest Rates, and Stable Inflation Expectations are Pushing Up Nominal Interest Rates



Rising Long-term Interest Rates

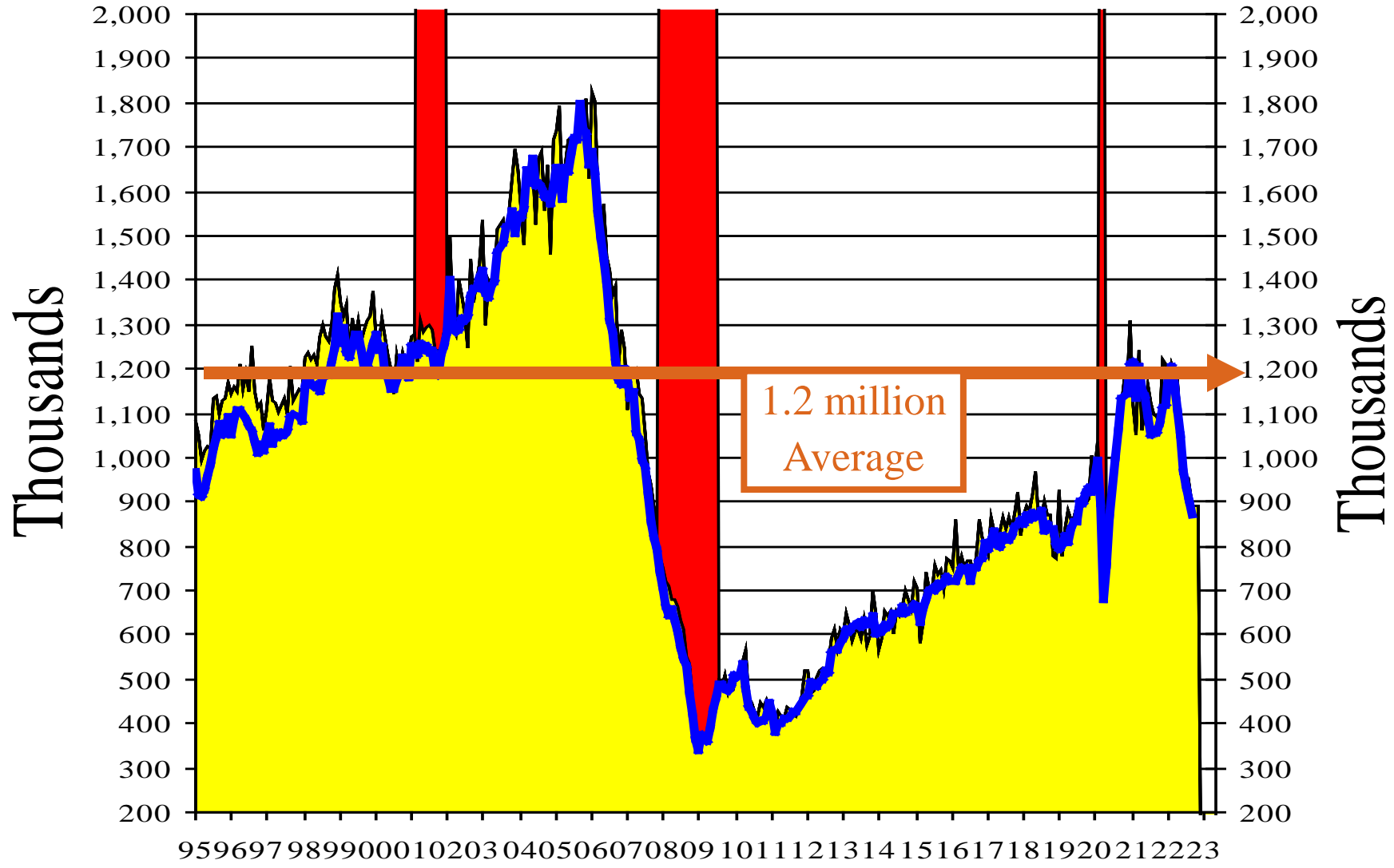


Single Family Housing Starts & Building Permits (seasonally adjusted annual rate)



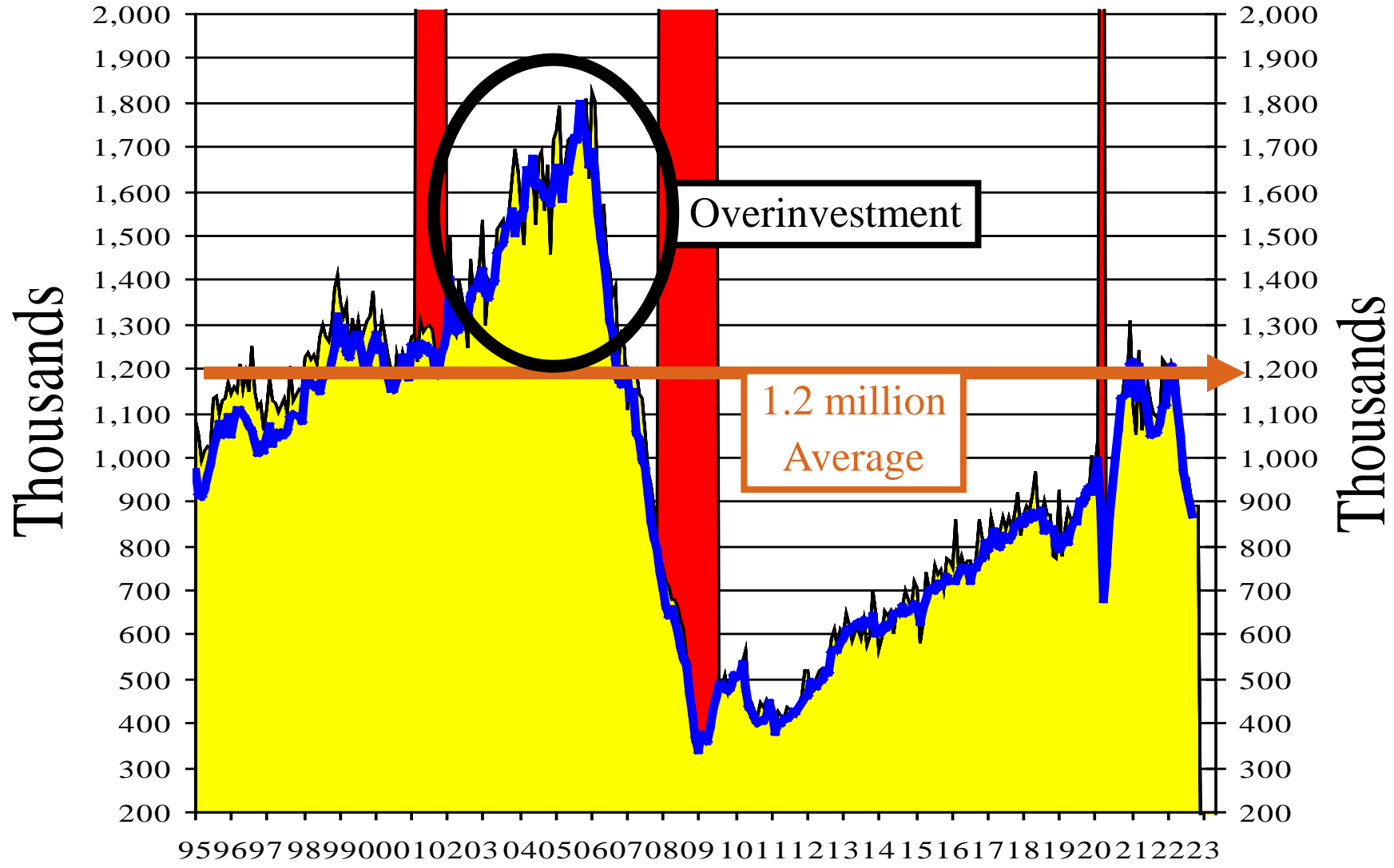
Starts Recession Building Permits

Single Family Housing Starts & Building Permits (seasonally adjusted annual rate)



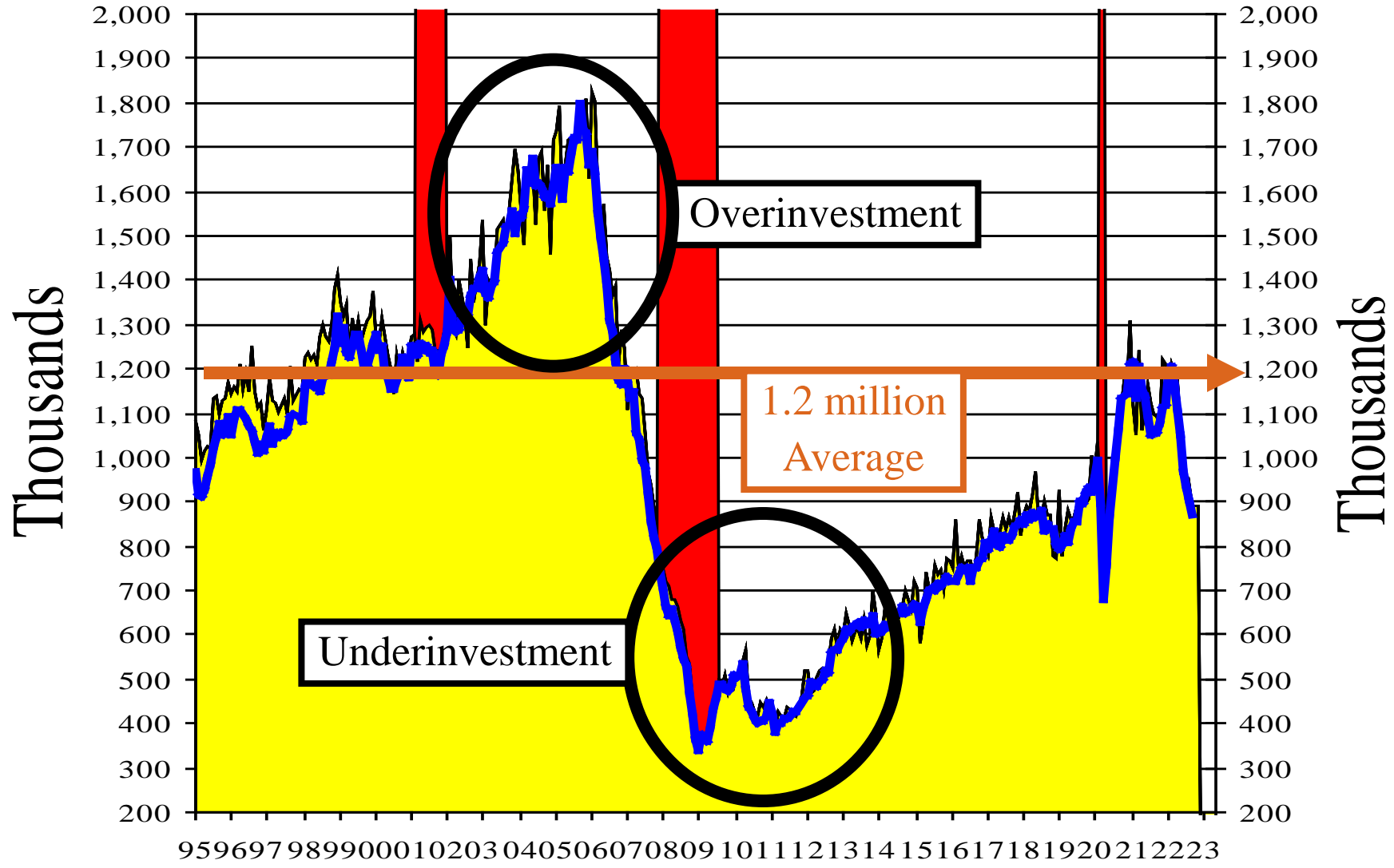
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Single Family Housing Starts & Building Permits (seasonally adjusted annual rate)



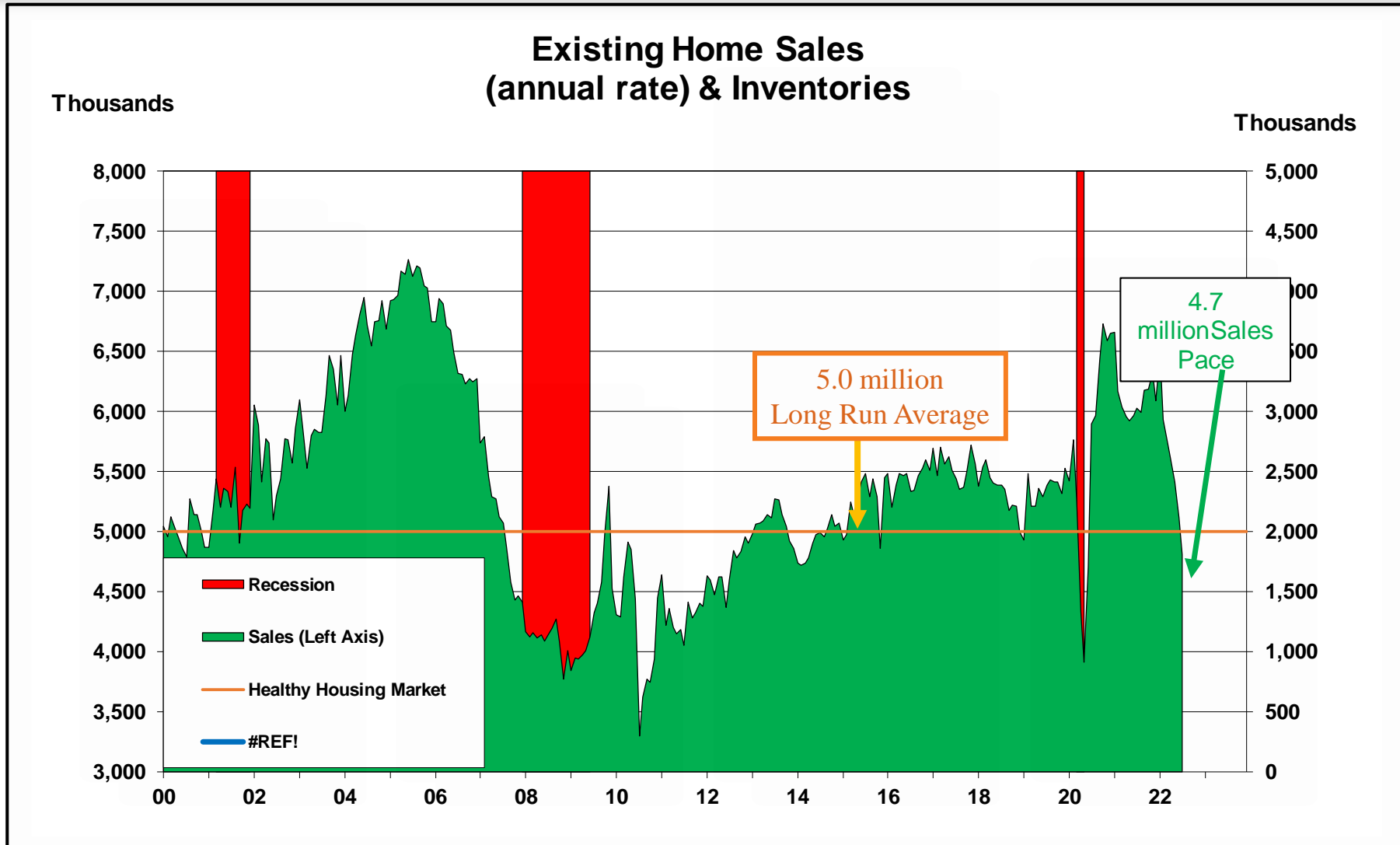
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Single Family Housing Starts & Building Permits (seasonally adjusted annual rate)

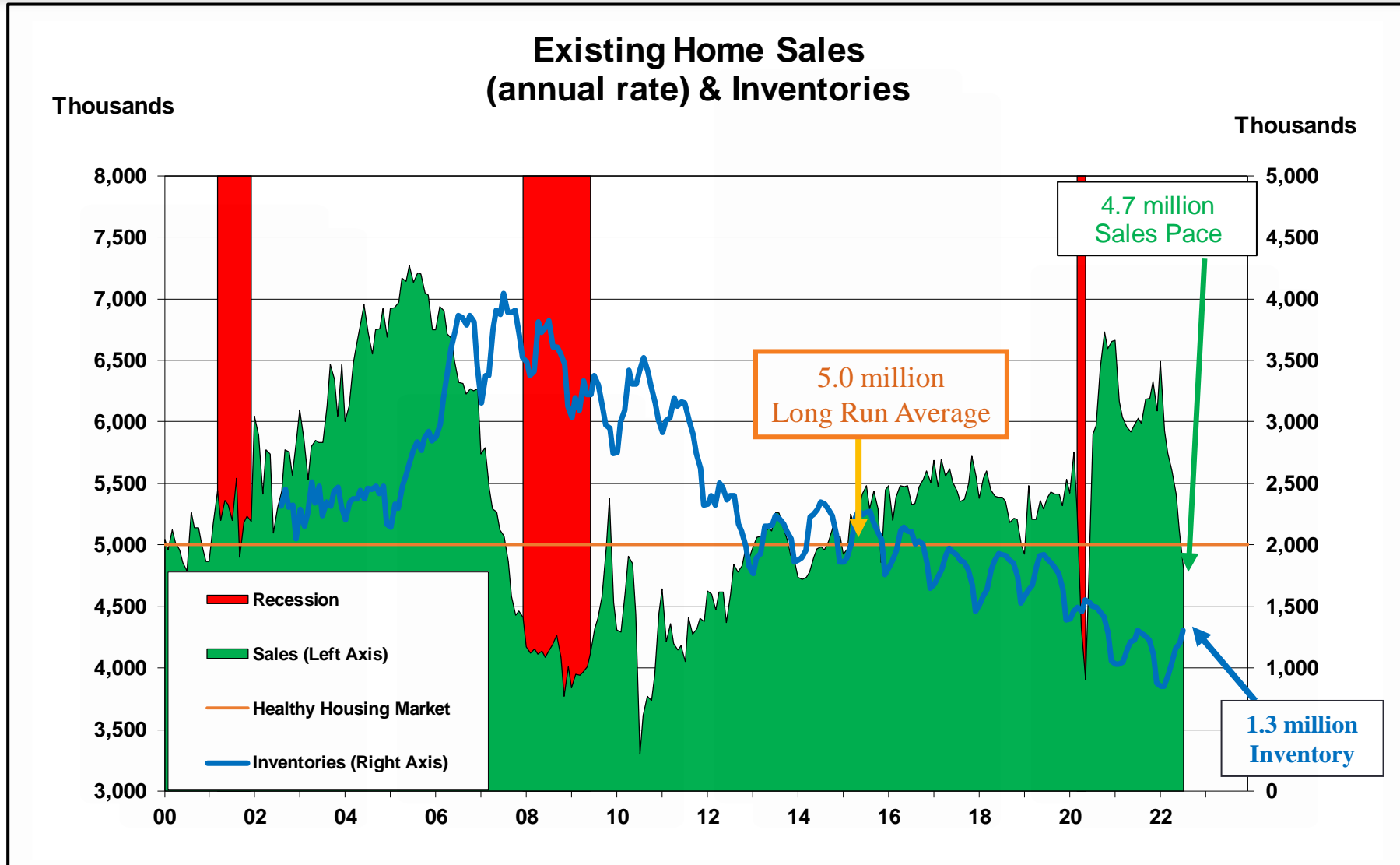


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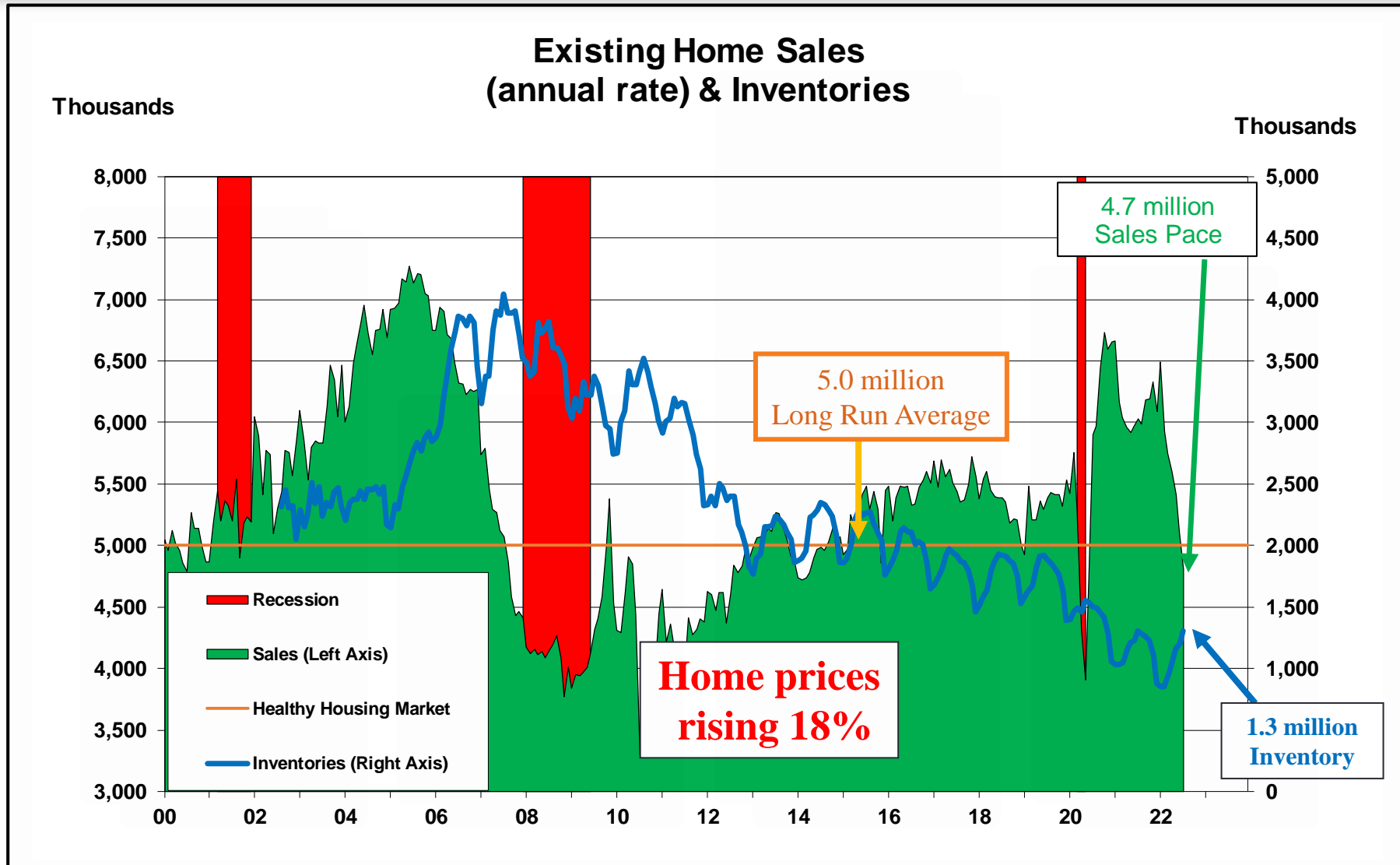
Home Sales are Strong, but Inventories are Low



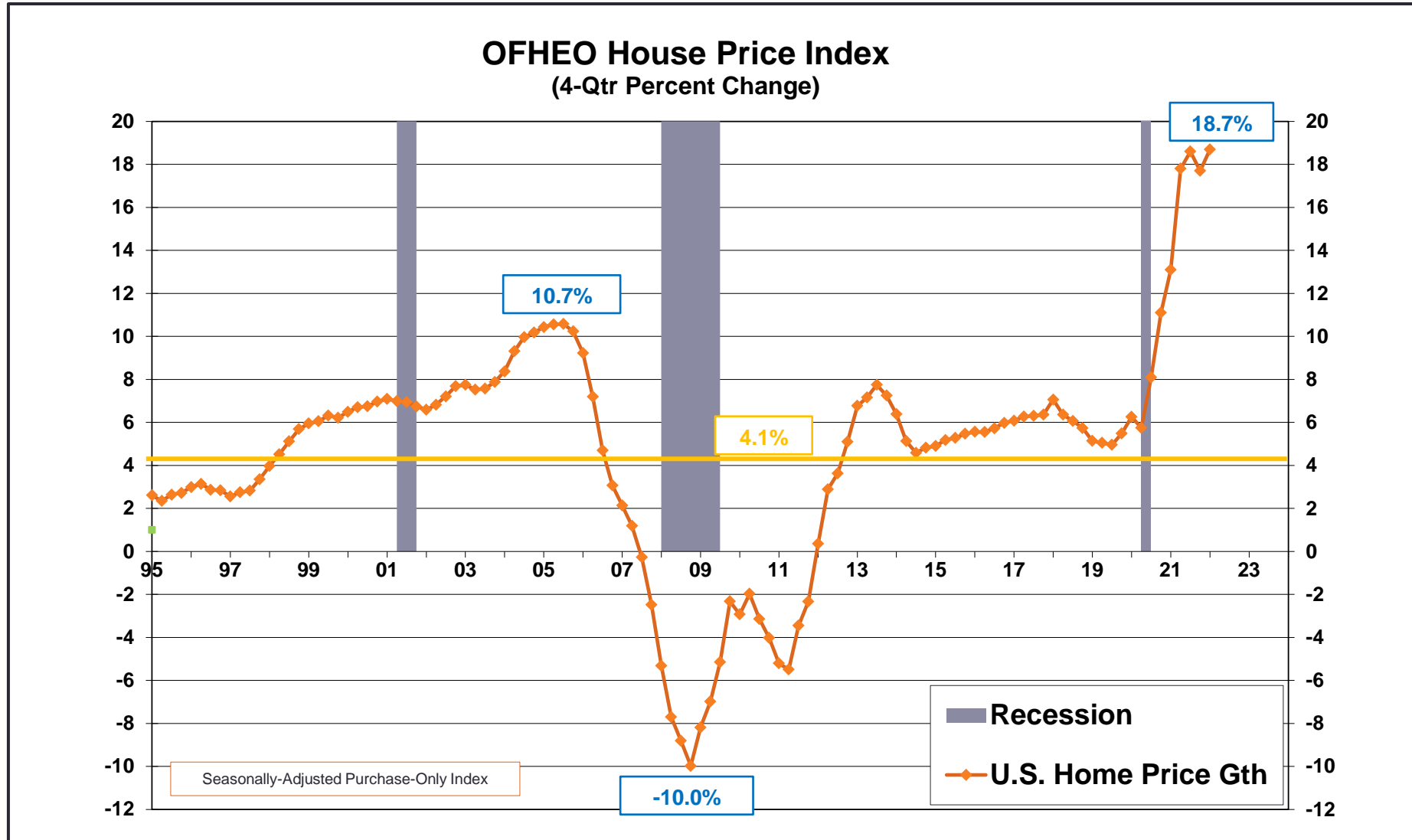
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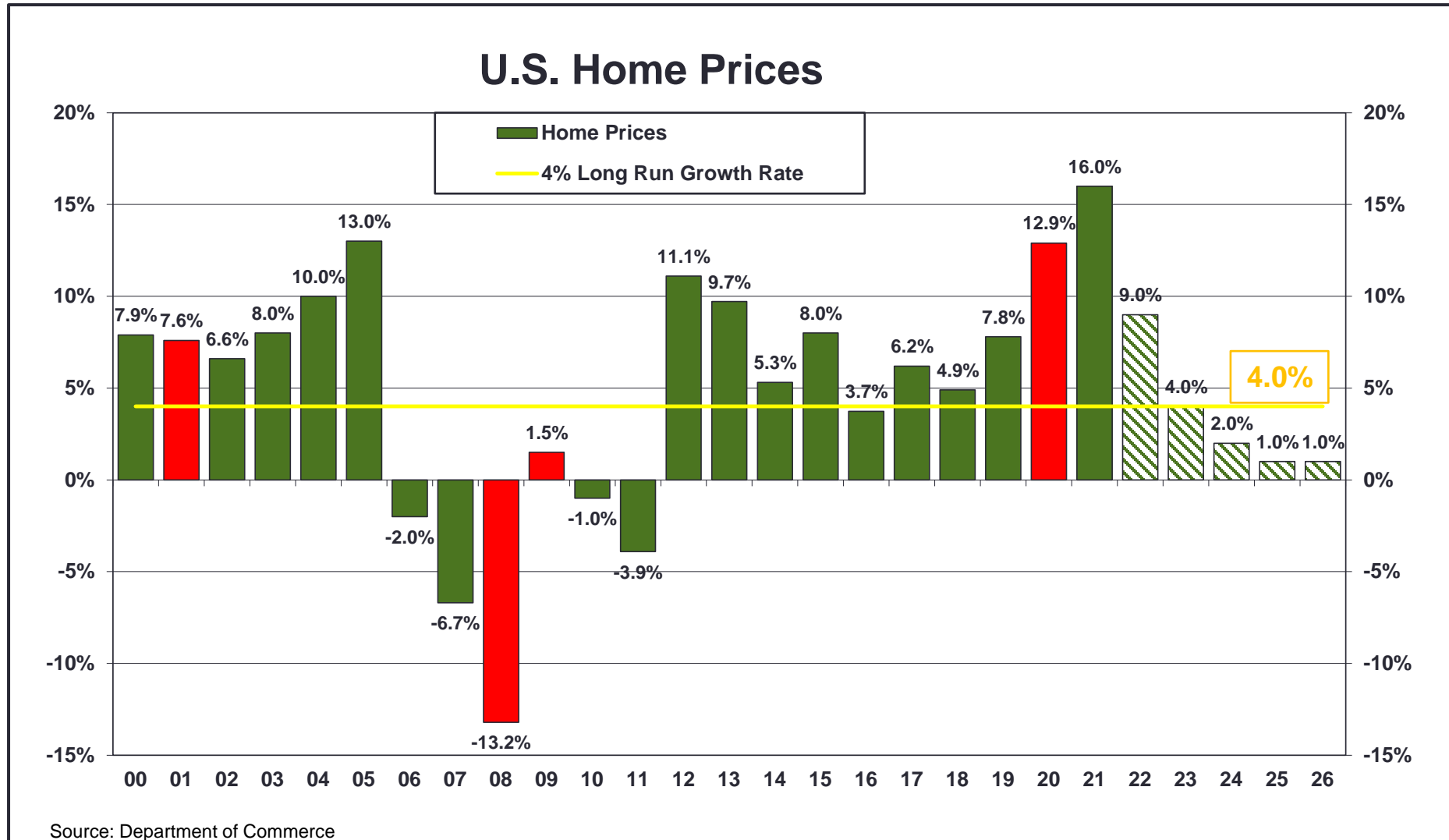
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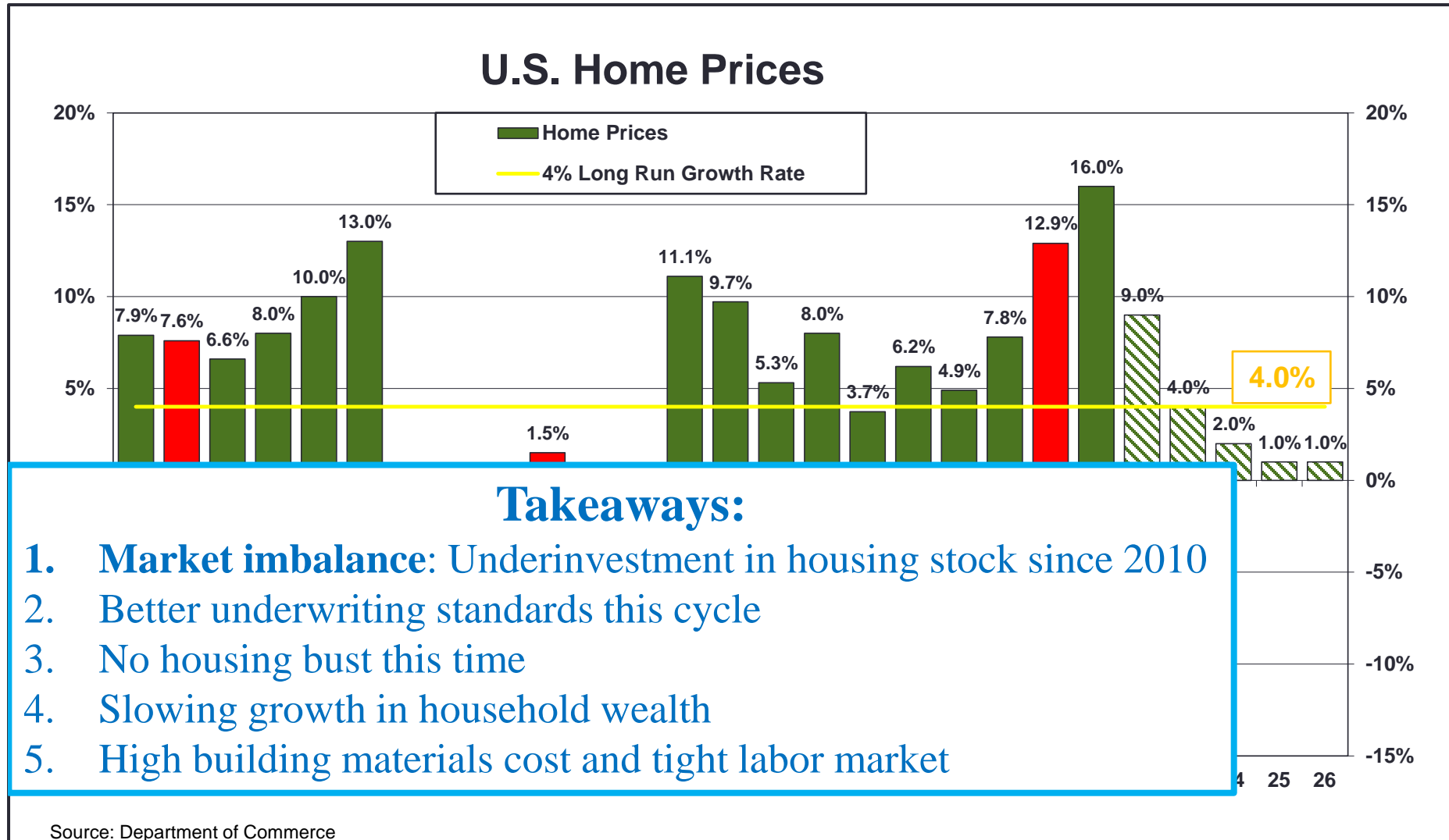
Home Price Appreciation are at Record Levels



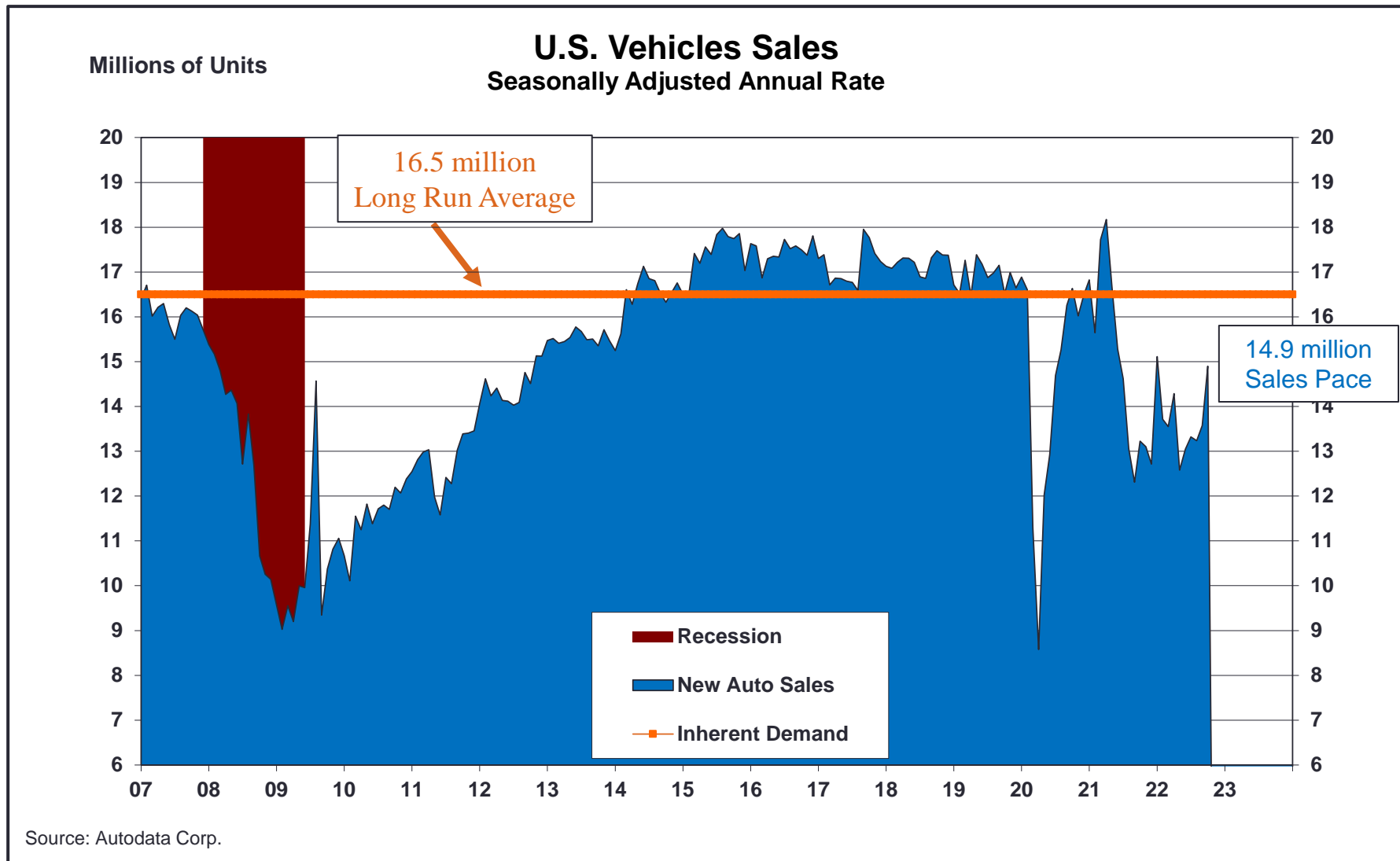
Home Price Growth Rate Slowing



Home Price Growth Rate Slowing



Low Auto Sales Below Long-term Trend



Economic Update Summary For 2023



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1. Slow economic growth for the next 2 years

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Economic Update Summary For 2023

1. Slow economic growth for the next 2 years
2. Falling inflation rate during the next 2 years
- 3. Unemployment rate below normal for next 2 years
4. Long-term interest rates rising to 3.5% over the next 2 years

Economic forecast

October 2022

	Past results		Quarterly results/forecasts				Annual forecasts	
	Previous 10 Yr. Avg	2021	2022:1	2022:2	2022:3	2022:4	2022	2023
Growth rates:								
Economic Growth (% chg GDP)*	2.1%	5.7%	-1.6%	-0.6%	2.5%	1.0%	0.3%	0.0%
Inflation (CPI, 12 mth % chg)	2.1%	7.1%	8.6%	9.0%	8.2%	7.5%	7.5%	4.0%
Unemployment Rate (BLS)	5.2%	3.9%	3.6%	3.6%	3.5%	3.7%	3.7%	4.5%
Federal Funds Rate (effective)	0.64%	0.07%	0.33%	1.58%	3.08%	4.35%	4.35%	4.60%
10-Year Treasury Rate	2.12%	1.52%	2.34%	2.98%	3.83%	4.00%	4.00%	4.00%
10-Year-Fed Funds Spread	1.48%	1.45%	2.01%	1.40%	0.75%	-0.35%	-0.35%	-0.60%

*Percent change, annual rate. All other numbers are end-of-period values.

Economic Forecast

October 2022

Economic Growth. GDP fell by 1.6% in the first quarter and 0.6% in the second. Two consecutive declines in GDP meet a popular definition of a recession, but not the National Bureau of Economic Research's official definition: a significant, widespread and persistent decline in economic activity. During the first half of the year, the unemployment rate was hovering just above 3.5%, payrolls were increasing by an average of 450 thousand jobs a month, industrial production was rising, and consumer spending was strong: all signs of a booming economy. It was fluctuations in inventory growth and the international trade balance that caused GDP to decline despite this strength. GDP growth resumed in the third quarter at a 2.6% annual rate, and we expect moderate growth in the fourth quarter. Next year, the substantial rise in interest rates that has occurred this year will slow interest sensitive sectors of the economy (housing is already slowing) enough to qualify as a real recession. A troubling sign is that the yield on two-year Treasury securities has exceeded the yield on ten-year Treasuries since July, by 30bp to 40bp for most of that time. Every time the yield curve has inverted as much as that during the past 50 years, a recession has followed about six to twelve months later.

Inflation. Headline (all items) inflation moderated in the third quarter to an annual rate of only 1.9%, from 10.6% in the second. But this was deceiving. After soaring in the previous year, gasoline prices tumbled during the quarter, pulling down the all-items average. The core inflation rate (all items less food and energy) remained elevated during the second quarter at 5.9%. This suggests a substantial decline in the headline inflation rate is not imminent. Service and shelter costs increases will persist for some time. Looking further ahead, the COVID related causes of the recent bout of inflation (supply chain problems, restricted labor supply, pent up demand) are abating, and interest rate increases will further slow demand. As a result, consumer price inflation should fall from 7.5% this year to 4% next year and to around 2.5% in 2024.

Unemployment. The labor market remains strong. All signs point to full employment: strong job growth, an unemployment rate below 4%, a working age labor force participation rate of 82.3%, more job openings than job seekers. Monthly job growth moderated slightly in the third quarter to 370,000 a month, and was declining during the quarter, but is still very strong. However, we expect the Fed's tightening to eventually soften the labor market with rising unemployment rates and several months of job losses next year.

Interest Rates. Since March, the Fed Fund's target range has risen by a whopping 3 percentage points. Longer term interest rates have also risen, but by less so that the yield curve has inverted. Expect the Fund's rate to rise another 100bp this year, and 25bp to 50bp more next year for a high for this cycle of between 4.5% and 5%. With the unemployment rate rising next year we might normally expect the Fed to reverse course quickly and lower the Fed Funds rate as it has several times over the past few decades. However, the inflation rate is now well above what it was during those episodes, so unless the recession is much worse than expected, the Fed is unlikely to lower the Funds rate until inflation is below 4% and falling. That will be toward the end of 2023 or later.