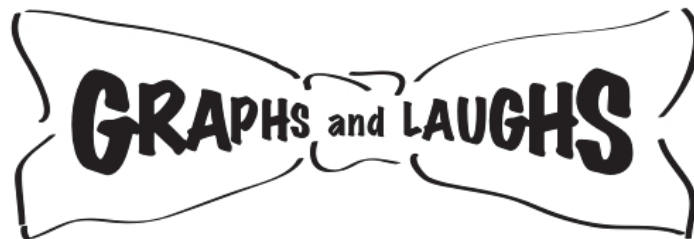


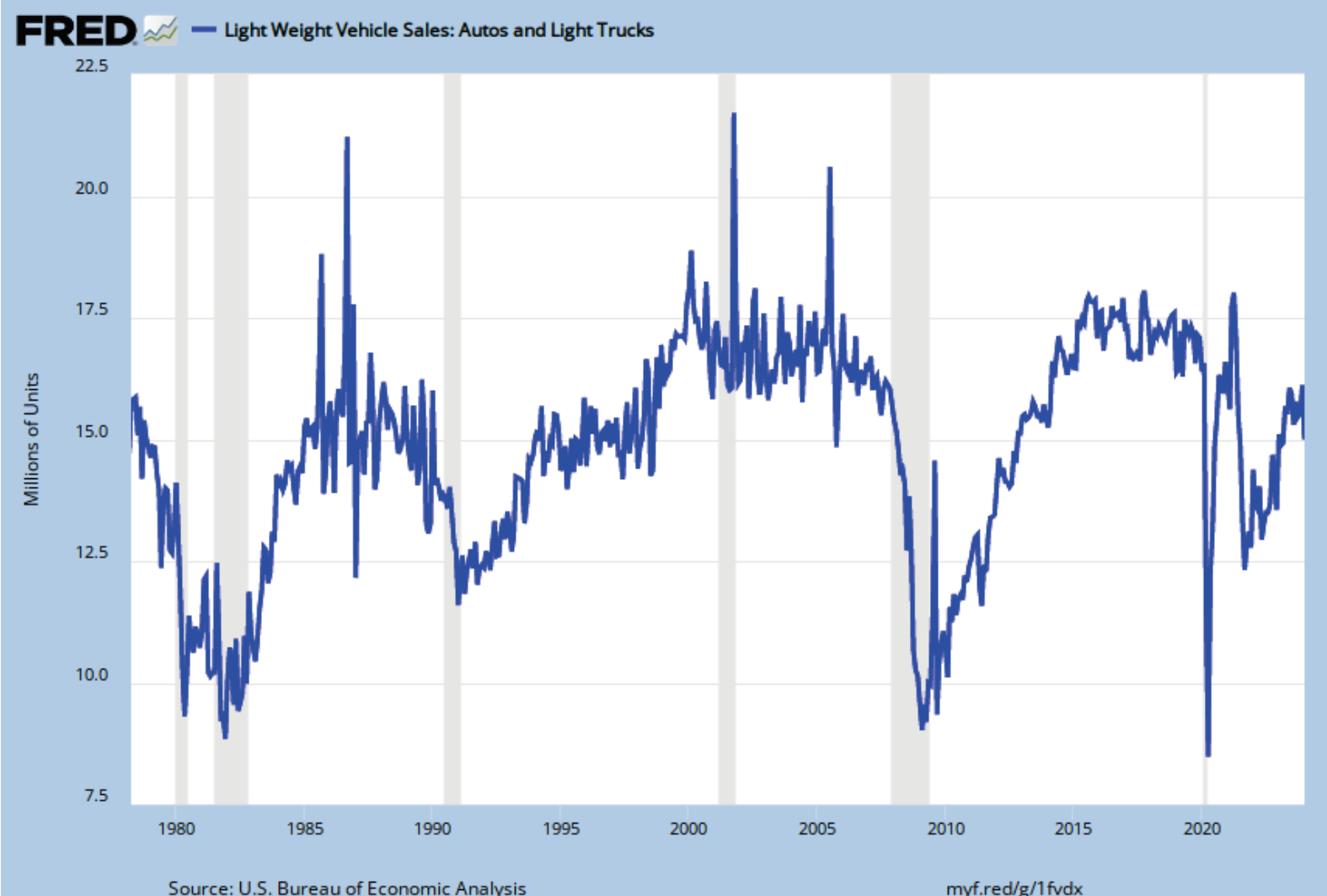
# The Economy Surprises

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



# US Light Vehicle Sales

Chip shortages are not a problem. Are rates?

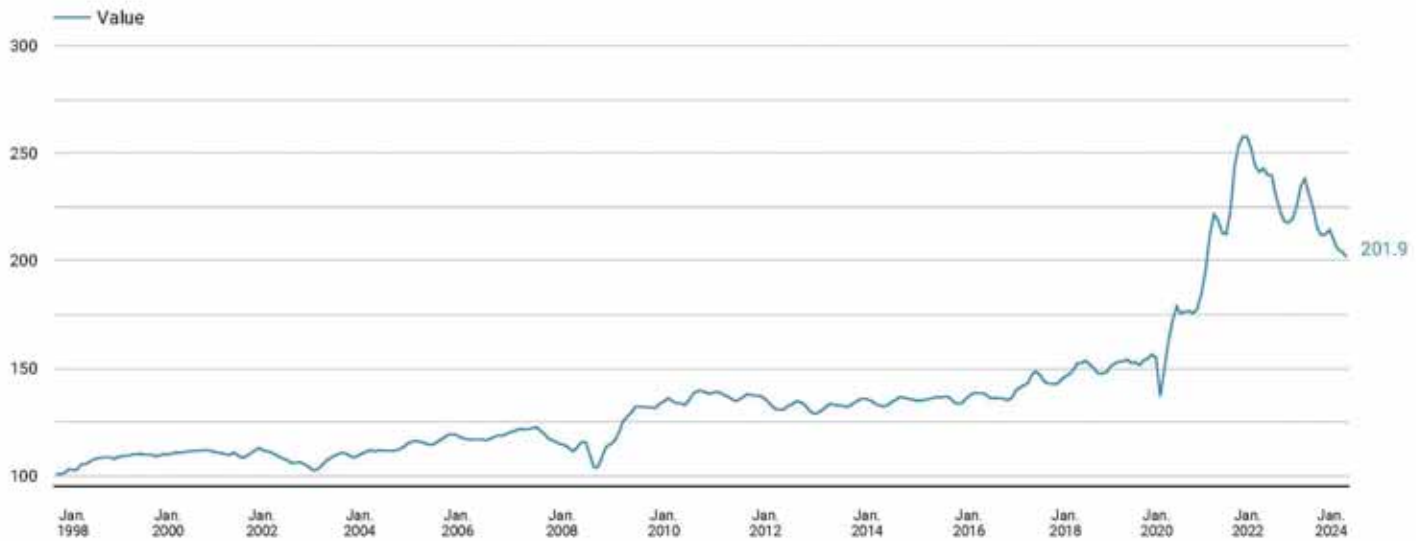


# Used Cars Prices

They are now rapidly declining

## MANHEIM USED VEHICLE VALUE INDEX

Mid-January 2024



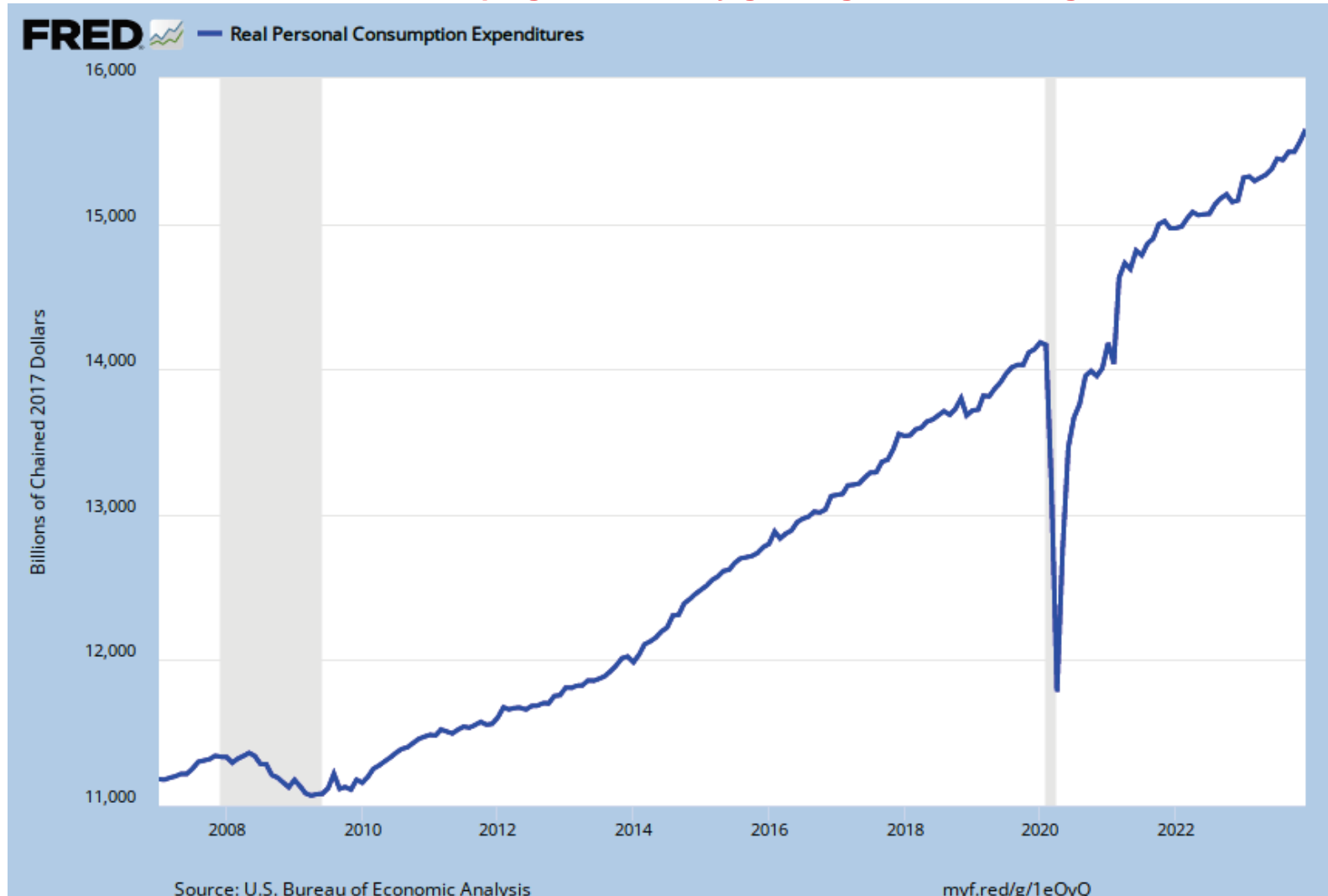
Cox  
AUTOMOTIVE™



Manheim  
by Cox Automotive

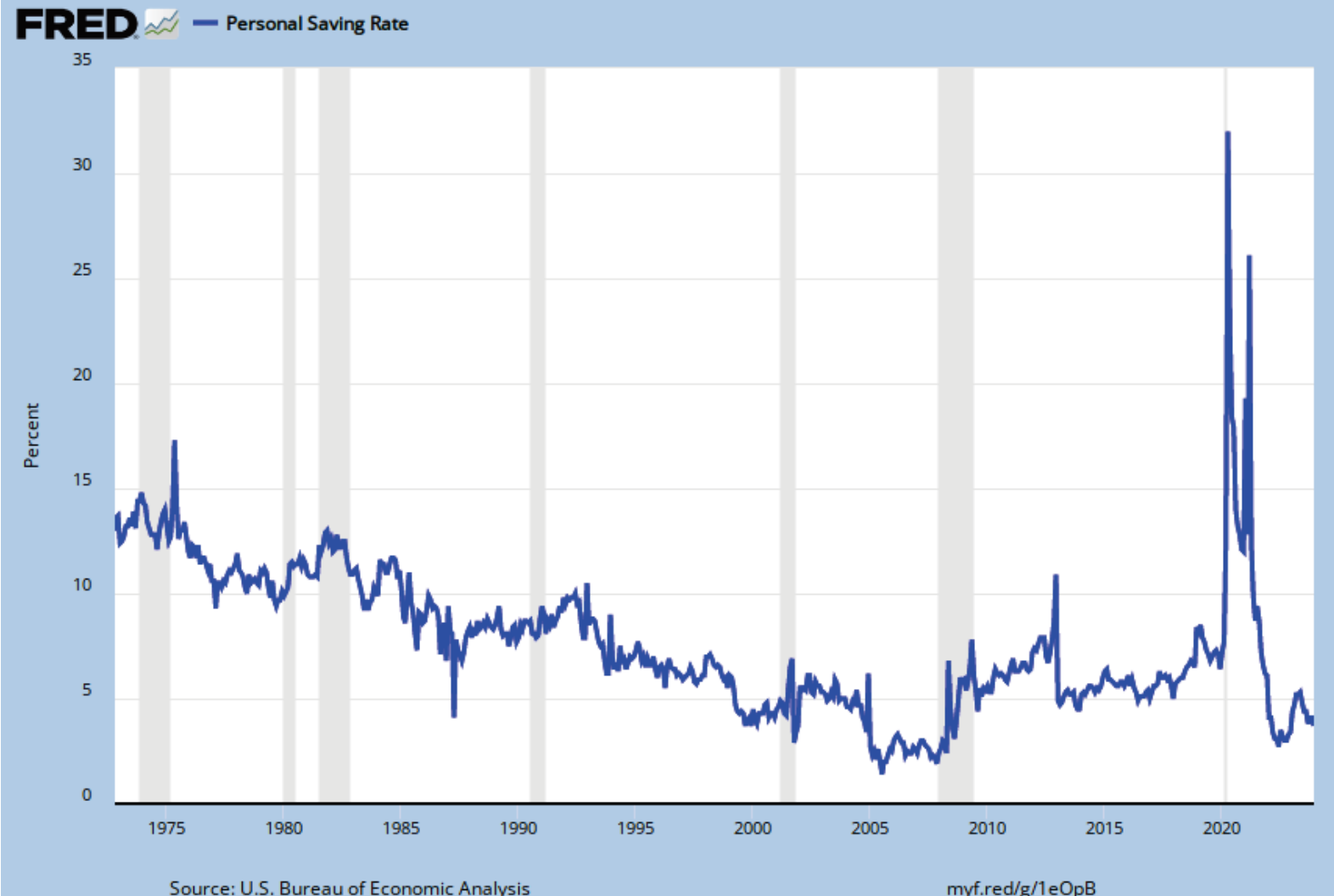
# Real Personal Consumption Expenditures

It remains on trend, keeping the economy growing, and frustrating the Fed



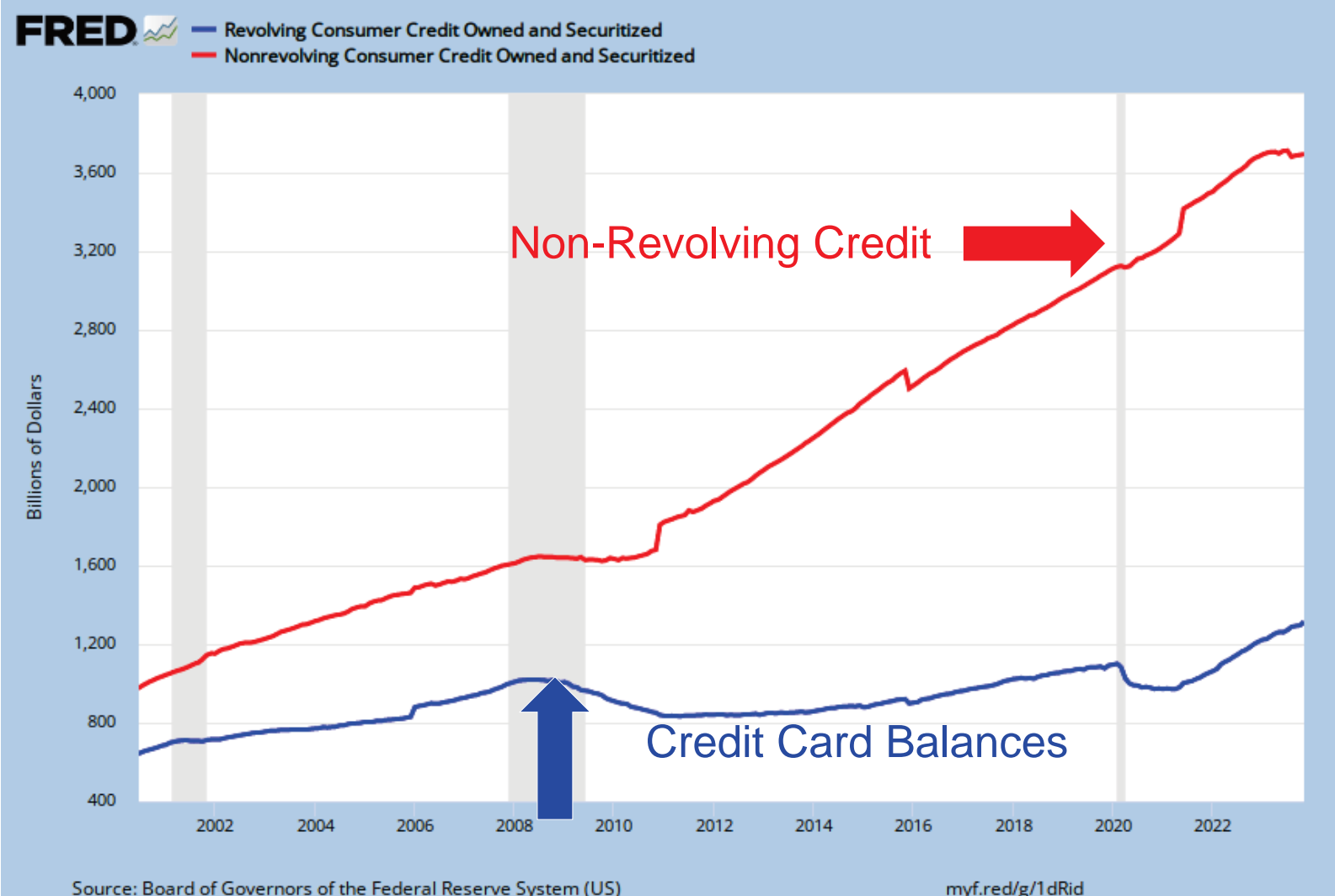
# Household Savings Rate

It is profoundly low



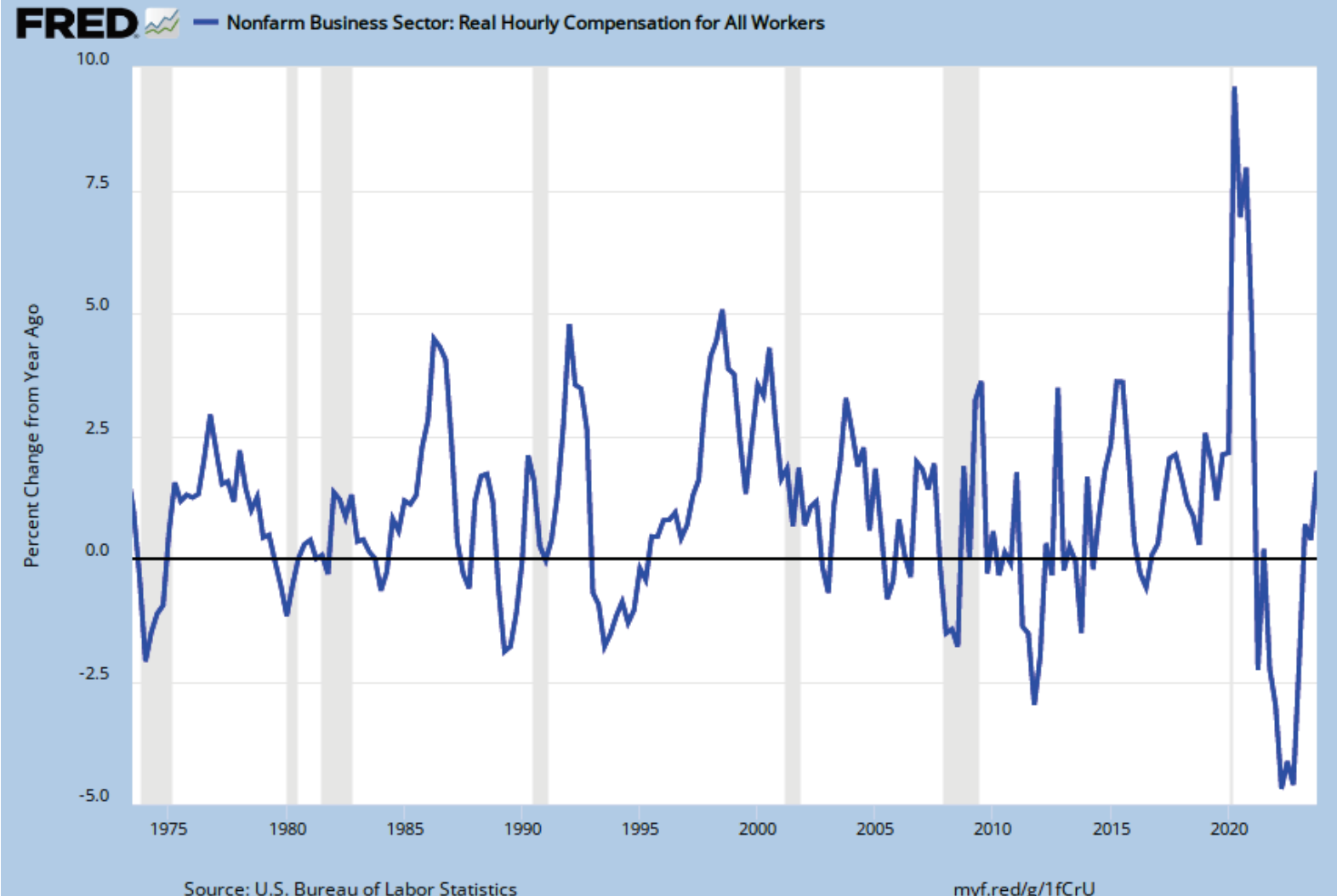
# Non-Revolving Credit Growth Slows

Revolving credit is well above its pre-Covid trend



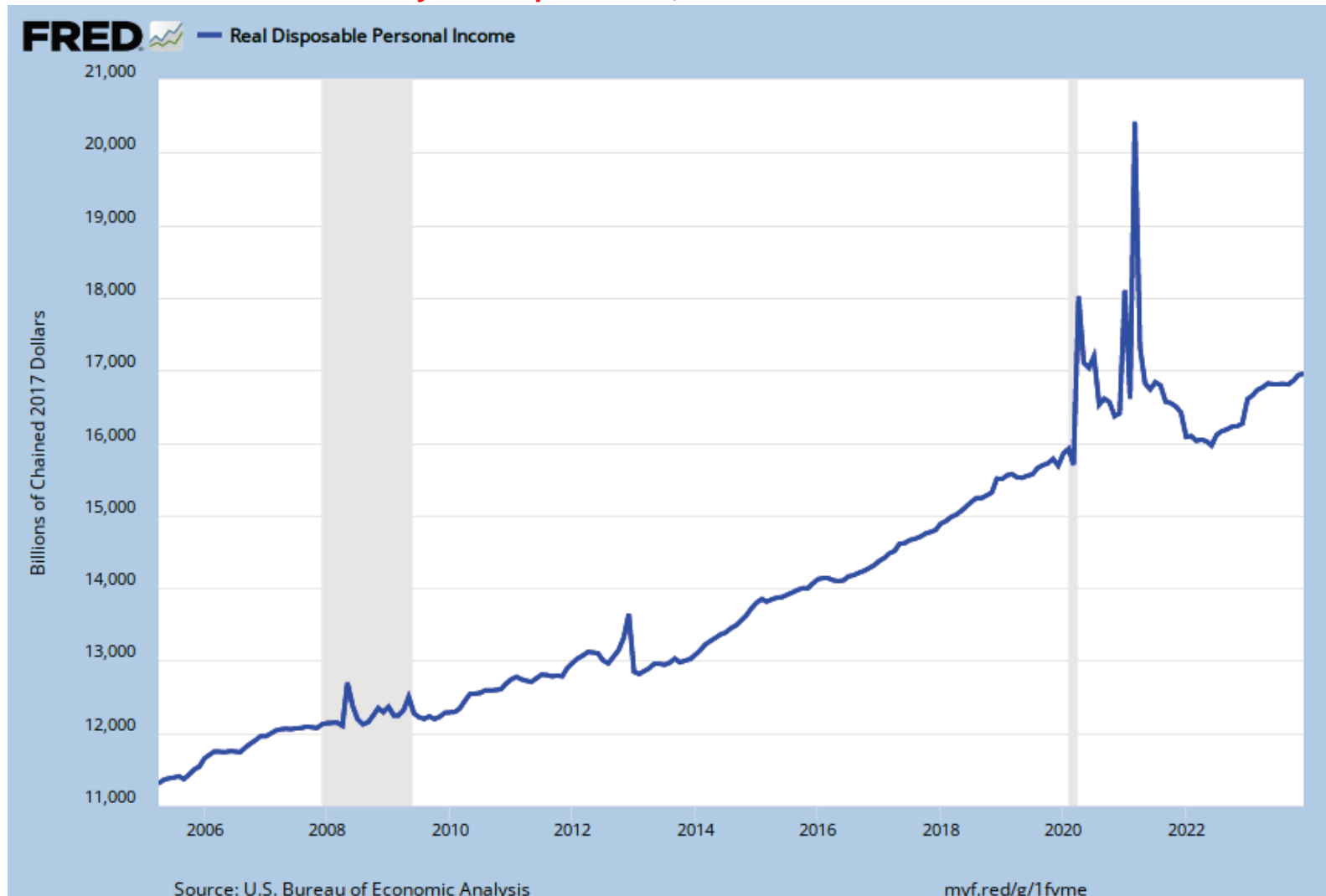
# Y-o-Y Pct. Change in Real Hourly Compensation

It's was negative for two straight years but now it growing



# Real Disposable Personal Income

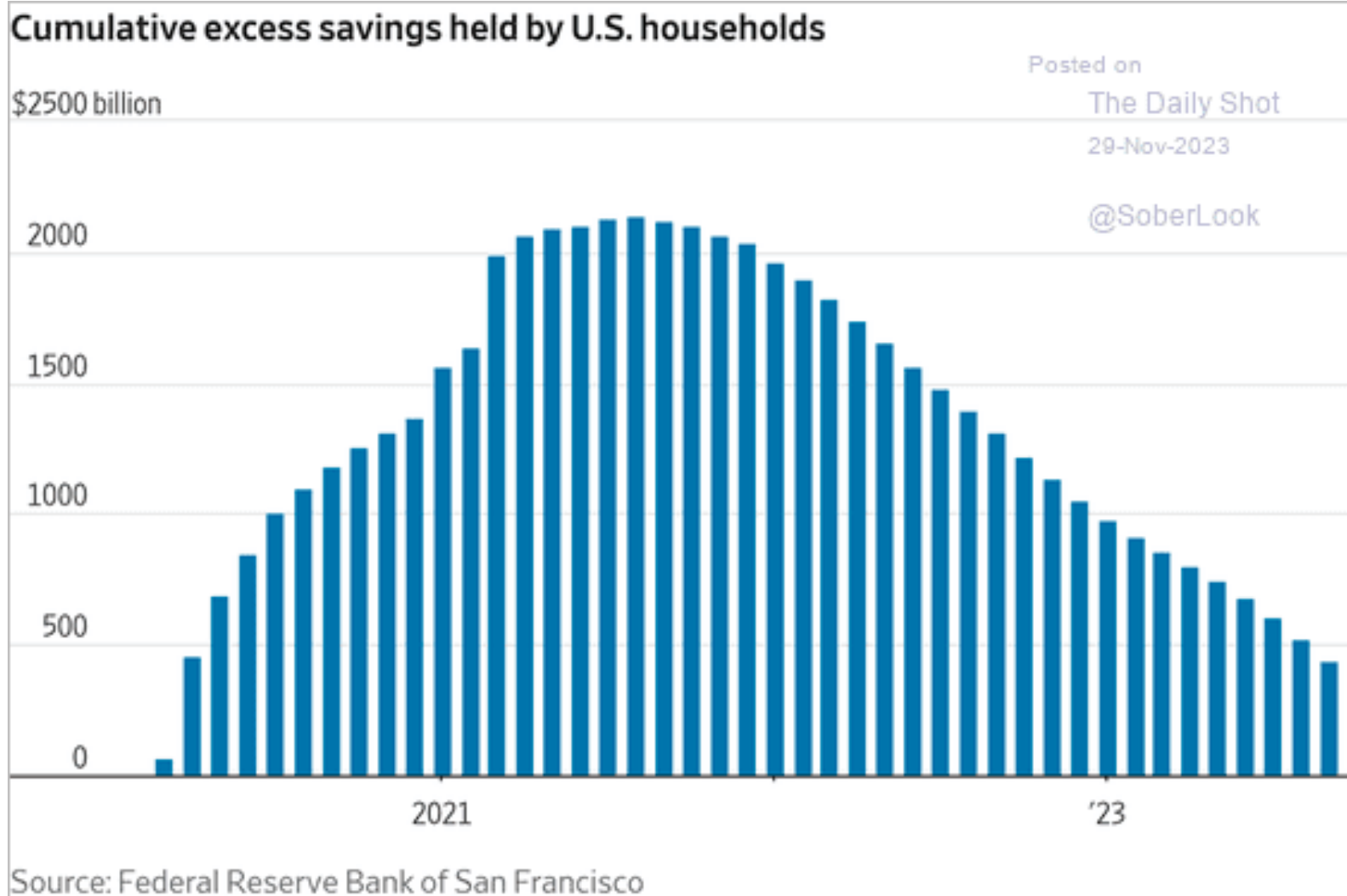
It is way above pre-Covid, but well below the trend





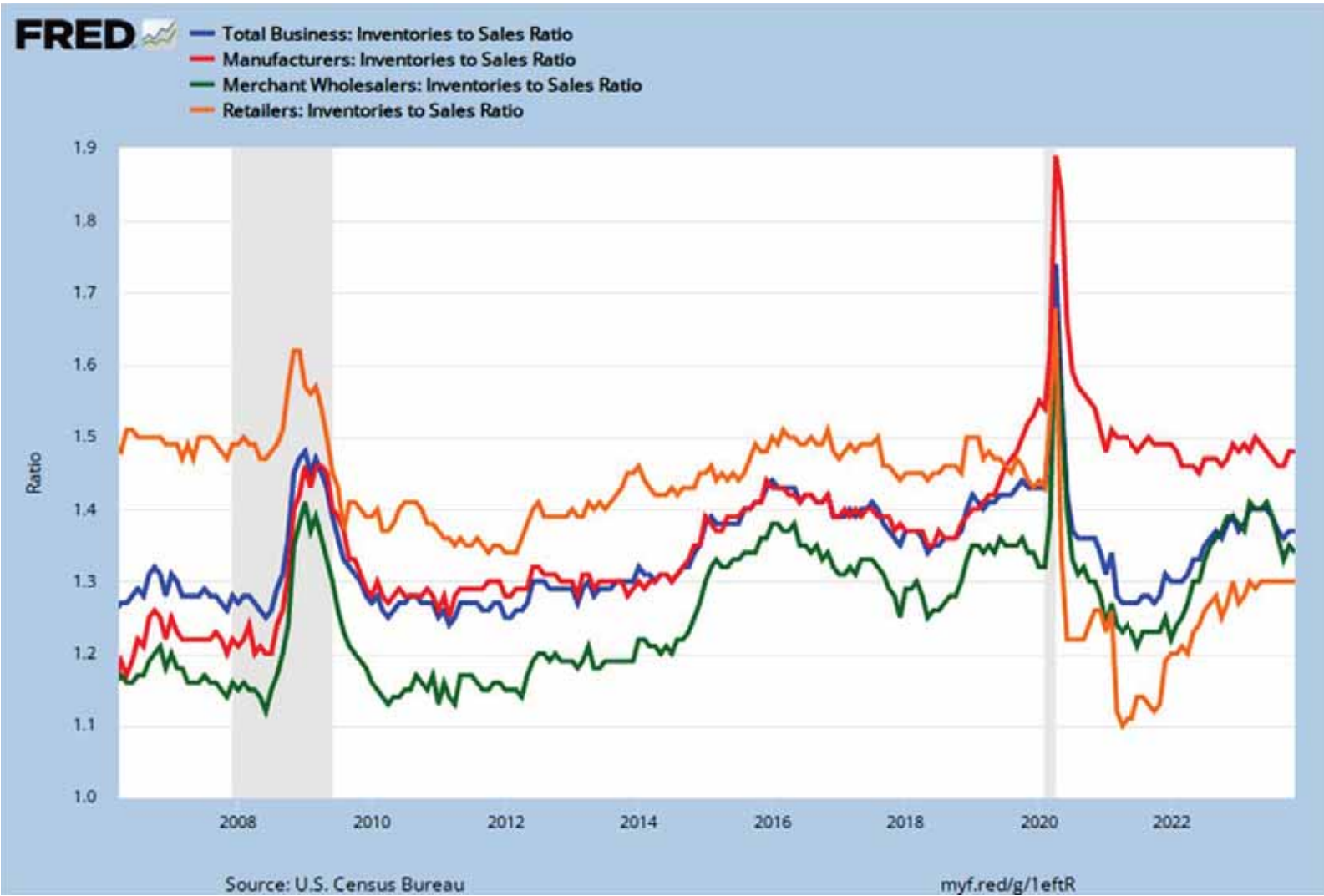
# Household Covid Savings

It is being dissipated



# Inventory to Sales Ratios

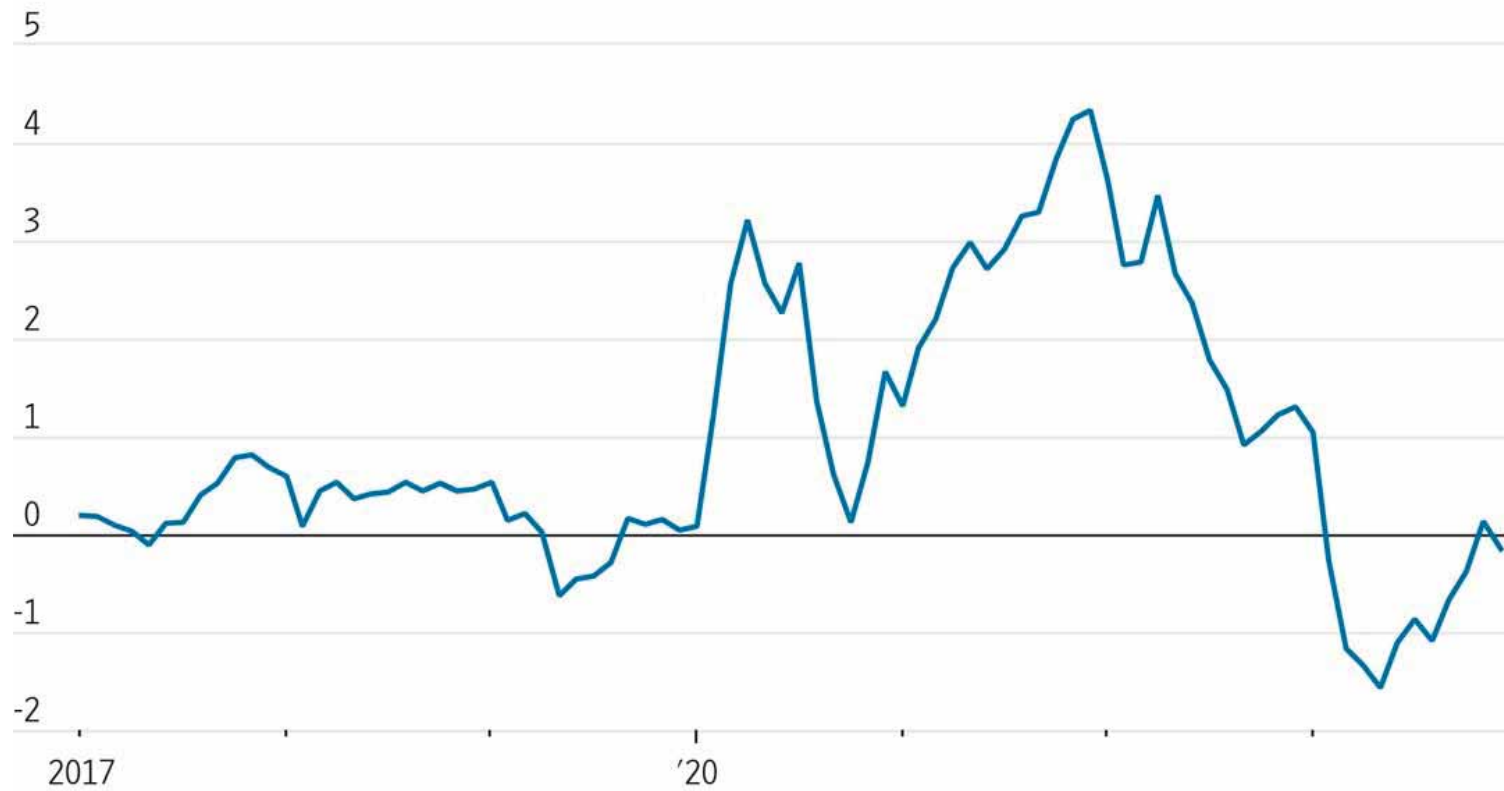
Inventory ratios have stopped improving



# Global Supply-Chains

The reversal is complete

## Global Supply Chain Pressure Index

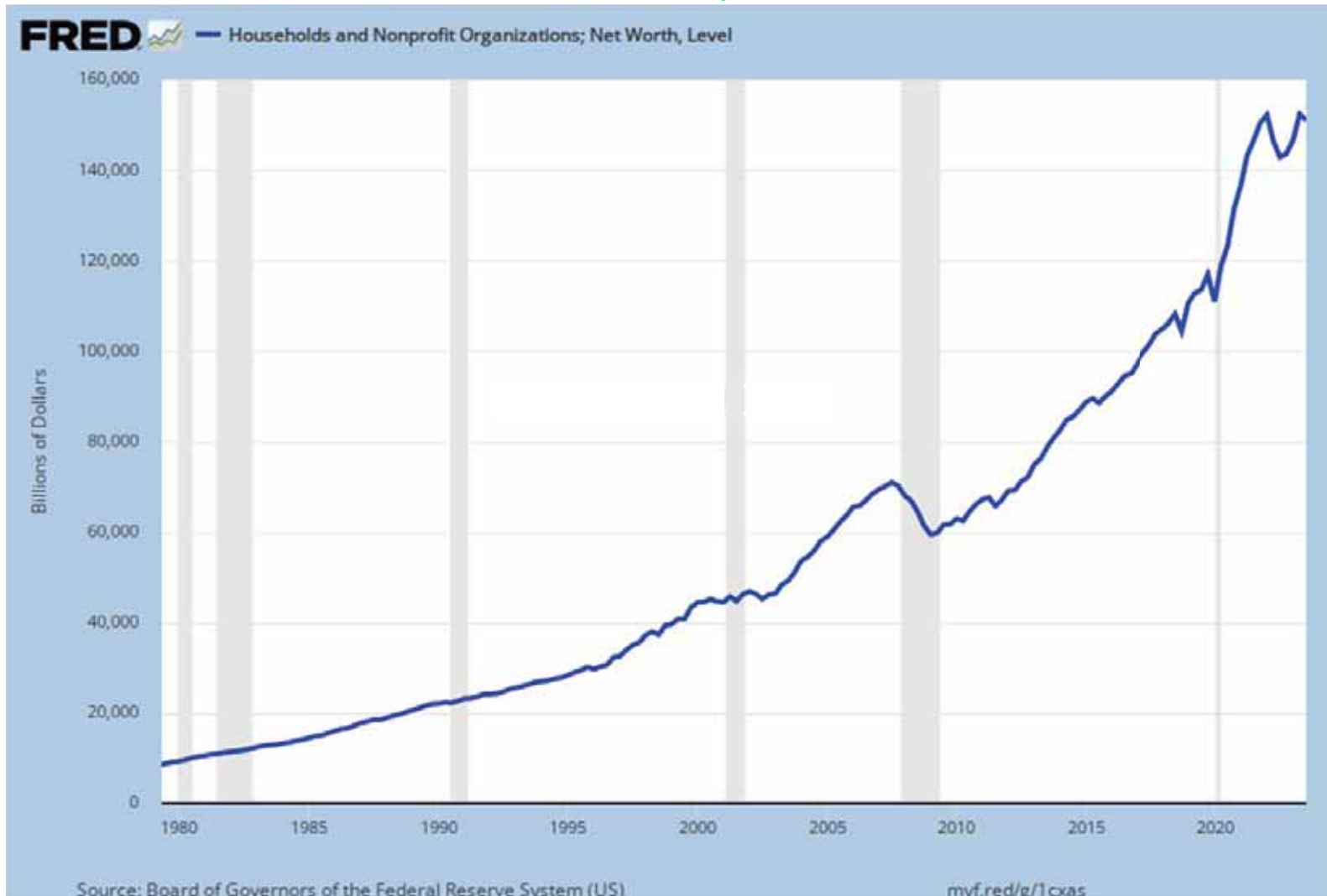


Note: GSCPI readings measure standard deviations from the index's historical average.

Source: Federal Reserve Bank of New York

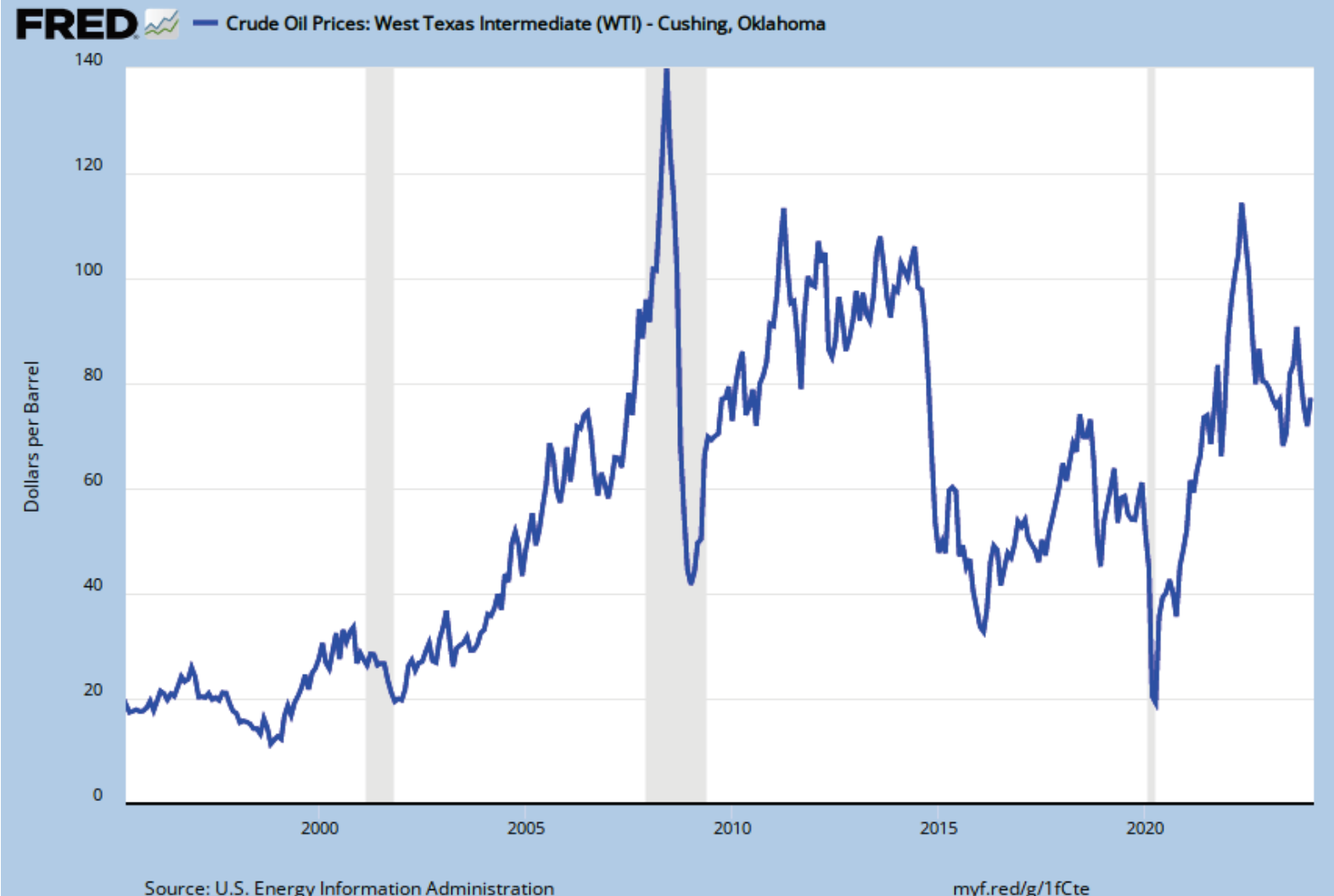
# Household Balance Sheets

Is essentially flat



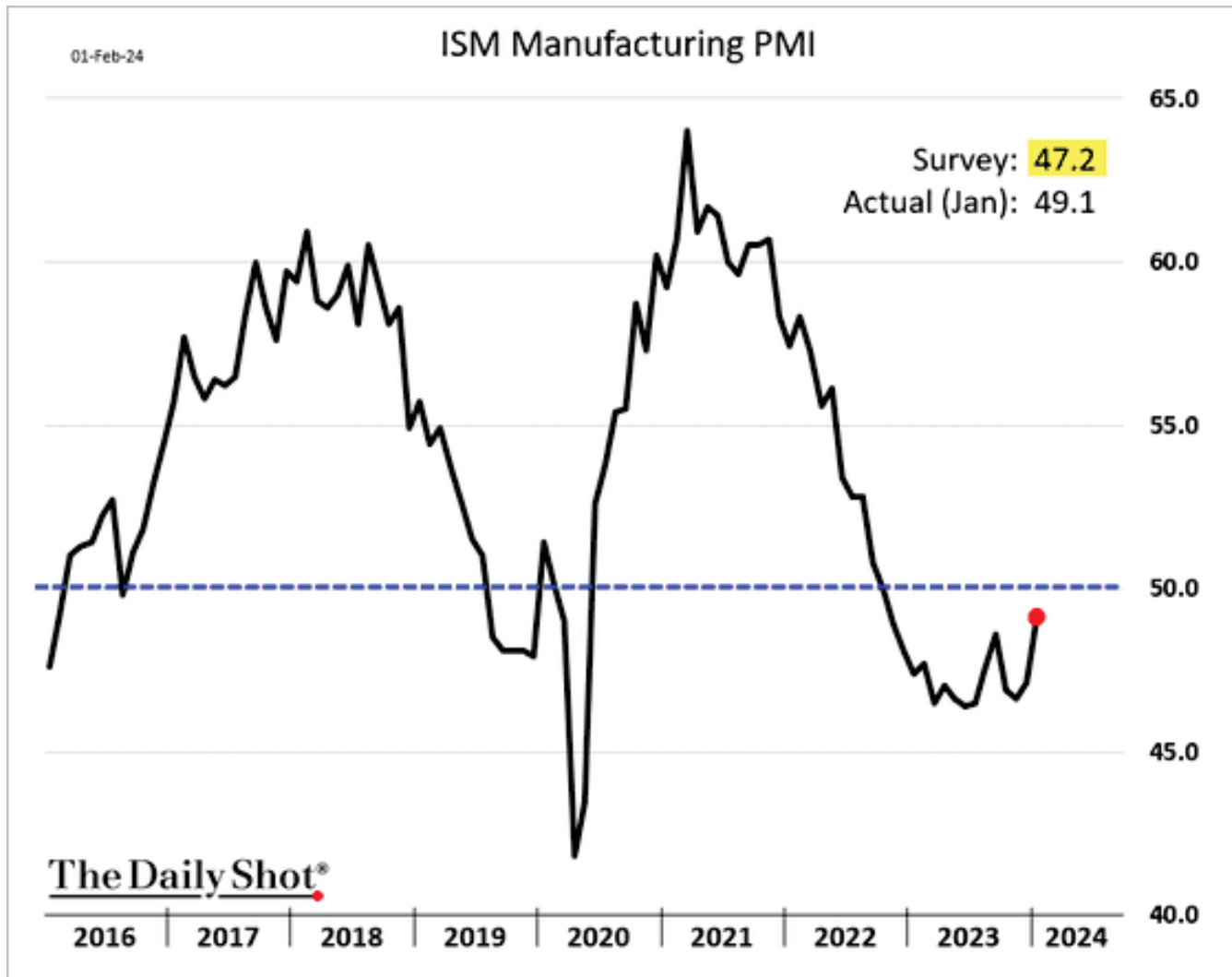
# Oil Prices Stabilize

Production cuts from OPEC+ but production increases elsewhere



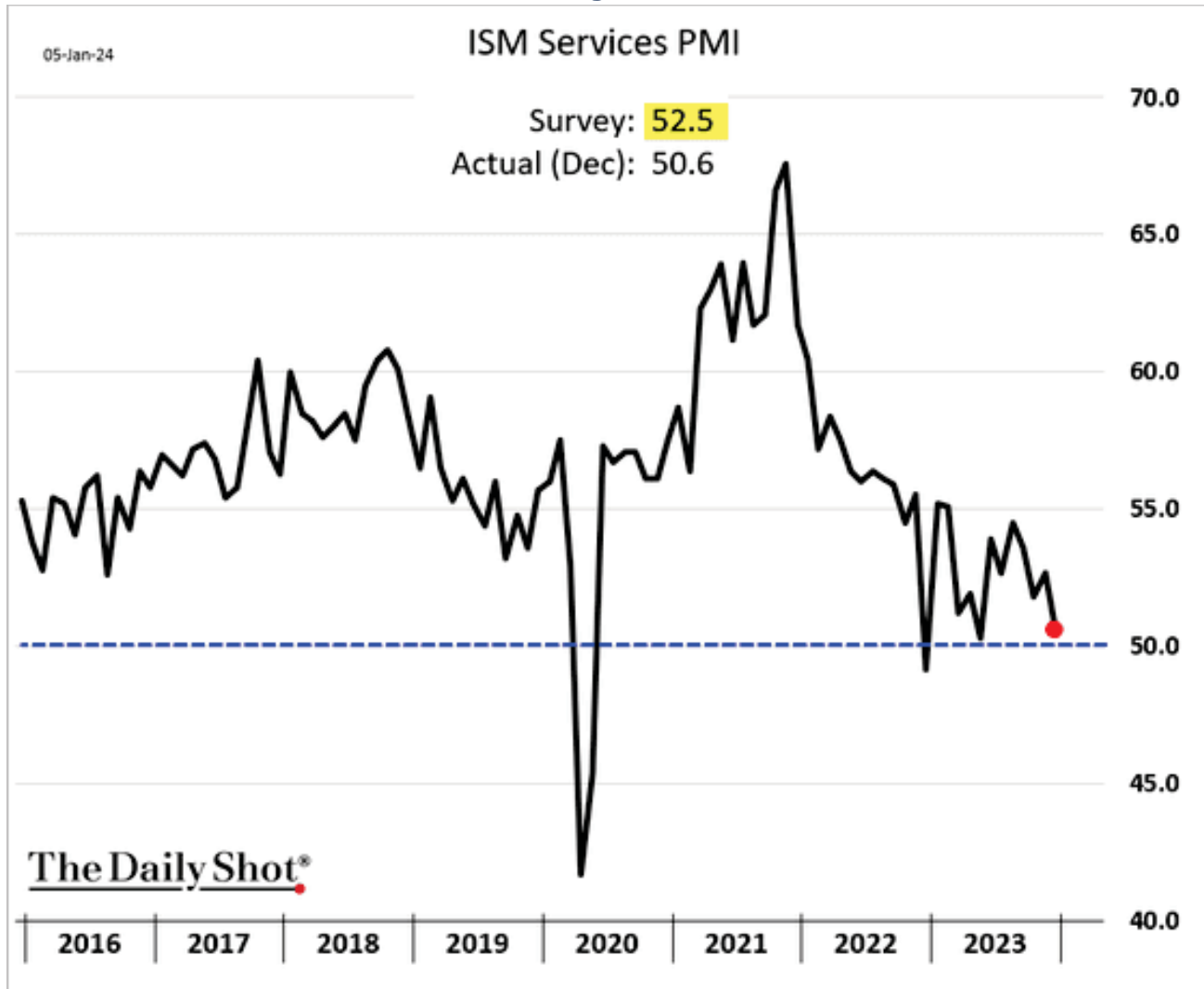
# ISM Manufacturing Index

Manufacturing is in a long recession



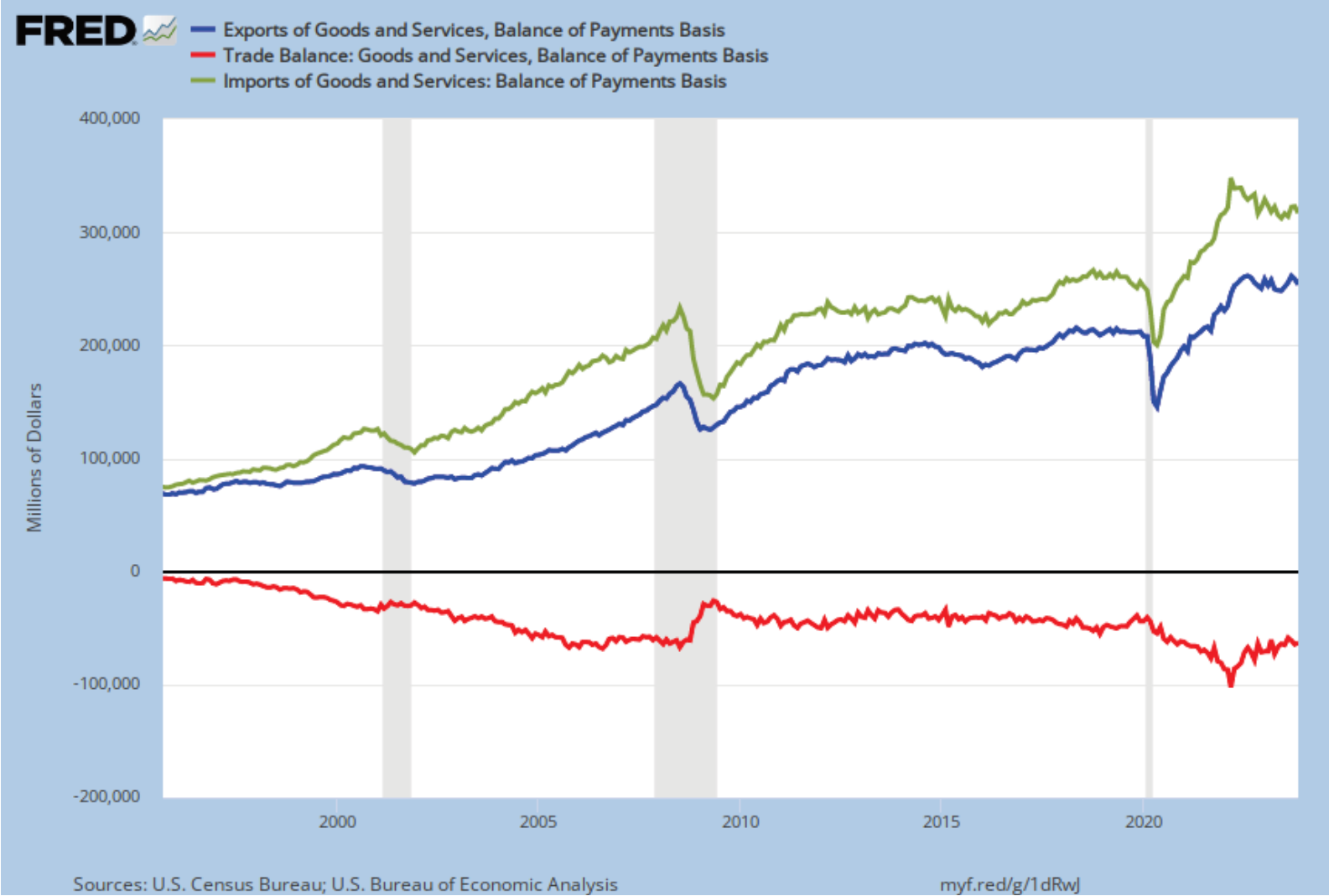
# ISM Services

This is starting to look a bit soft



# The Trade Deficit Flattens

Imports and exports are now both declining



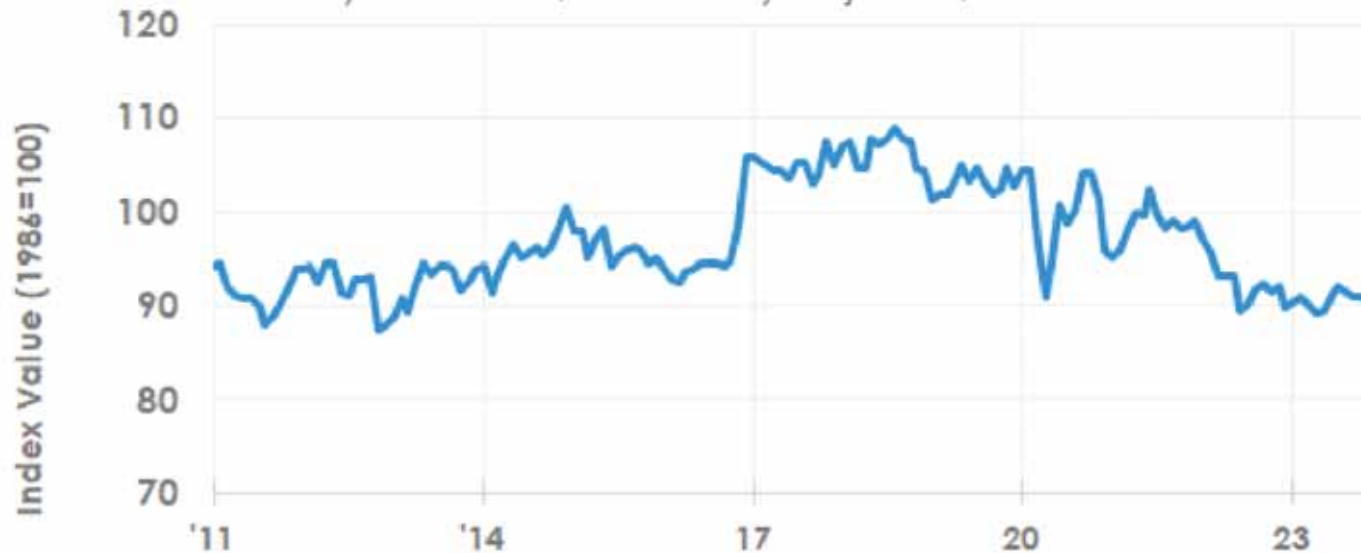


# Small Business Confidence Struggles

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

## Small Business Optimism Index at 91.9

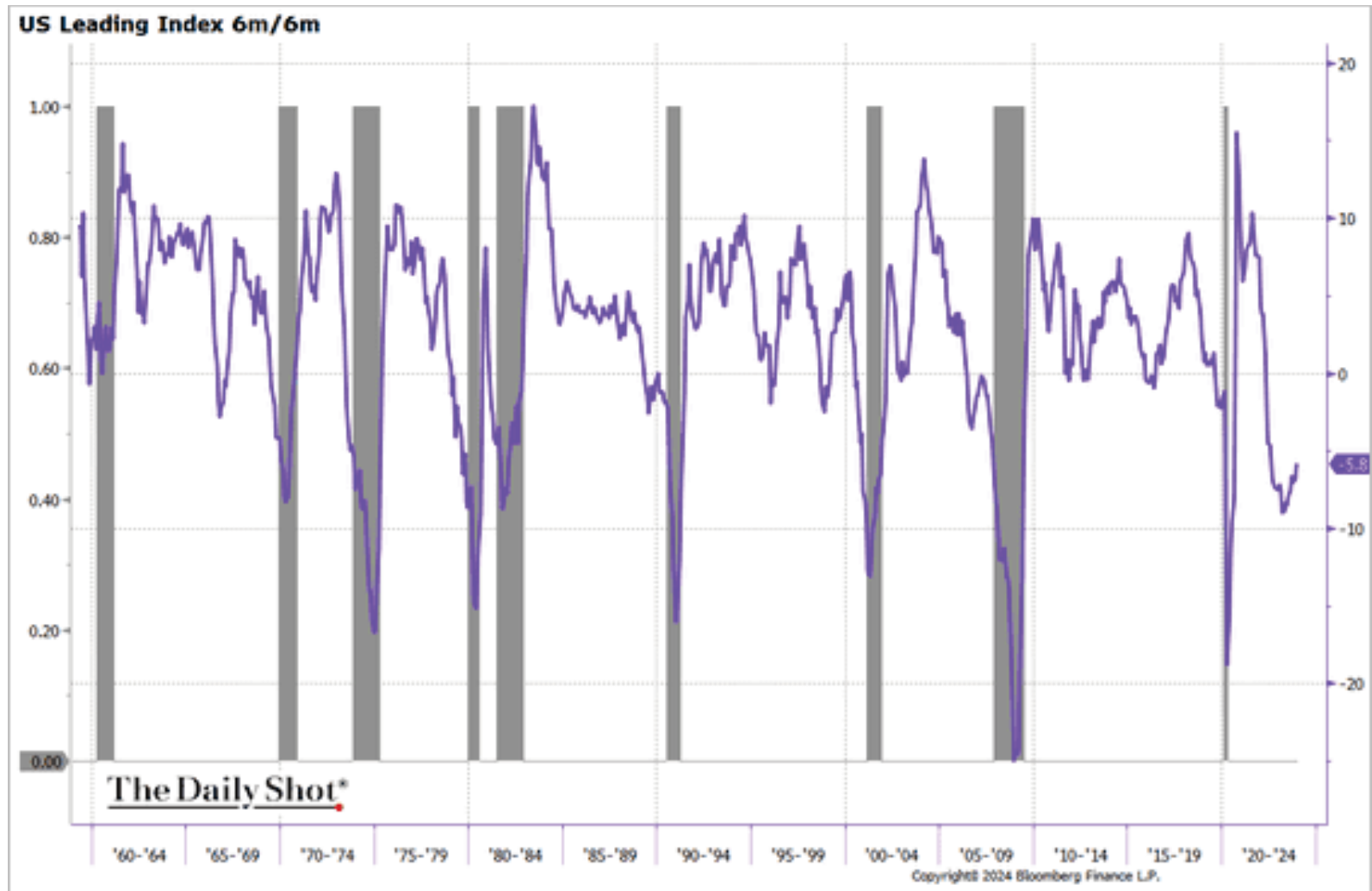
Based on 10 survey indicators, seasonally adjusted, Jan. '10 – Dec. '23



[NFIB.com/sboi](https://www.nfib.com/sboi)

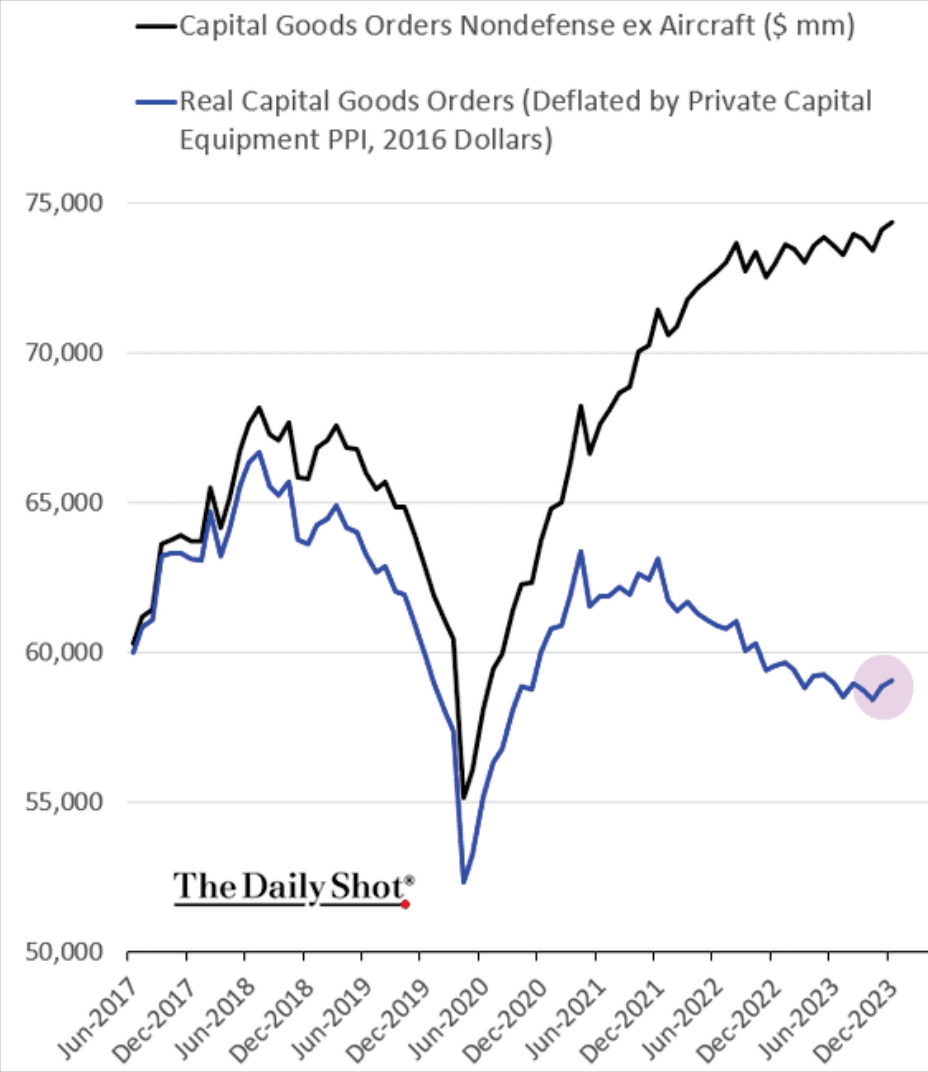
# Conference Board Leading Economic Indicators

It is very low but rebounding. Has been negative for 21 months



# Real Capital Goods Orders

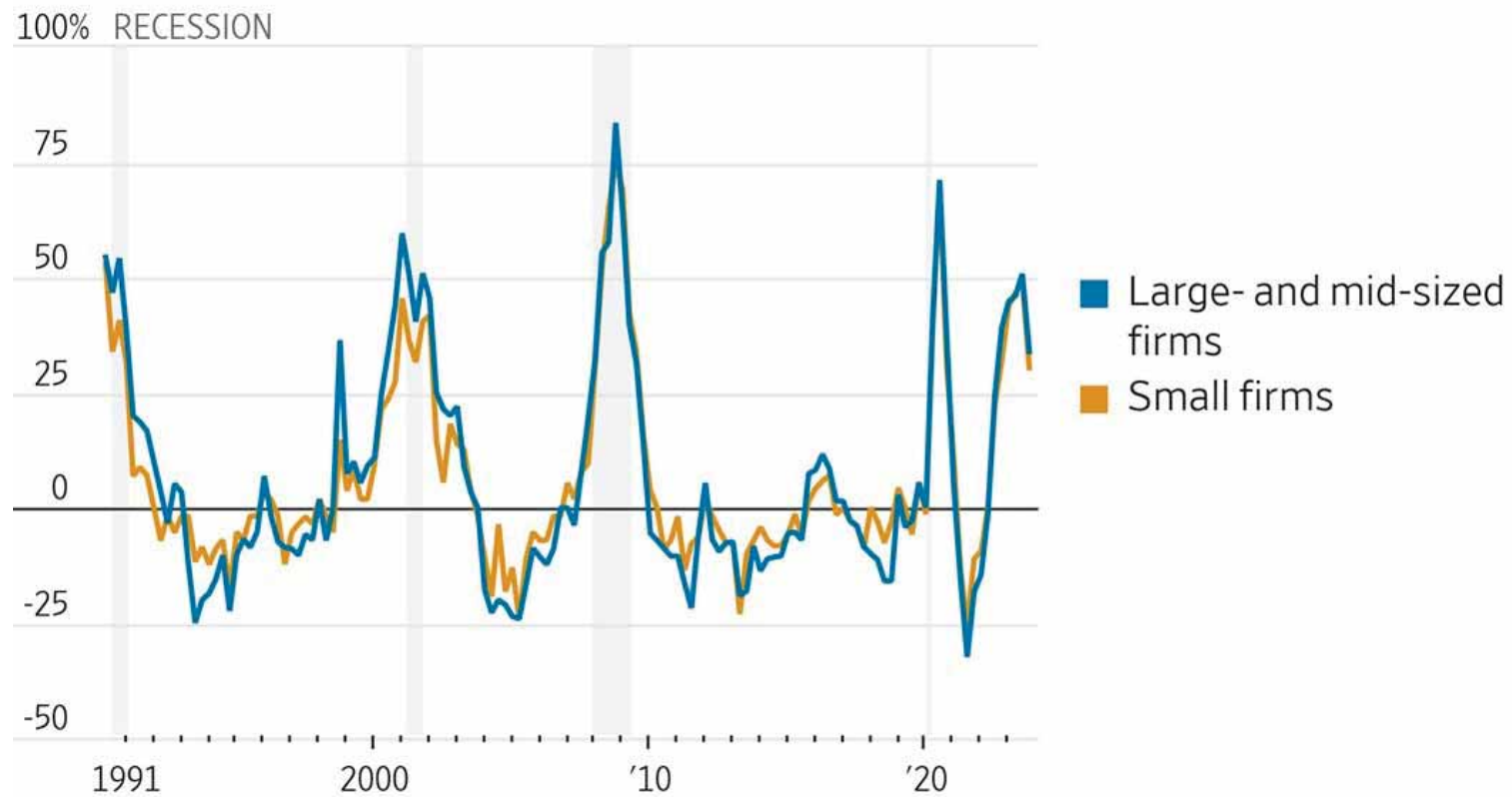
Firms are investing in IP. Think software and AI



# Loan Officers are Tightening Up

This is for C&I loans

Net percentage of domestic banks tightening standards for commercial and industrial loans to ...

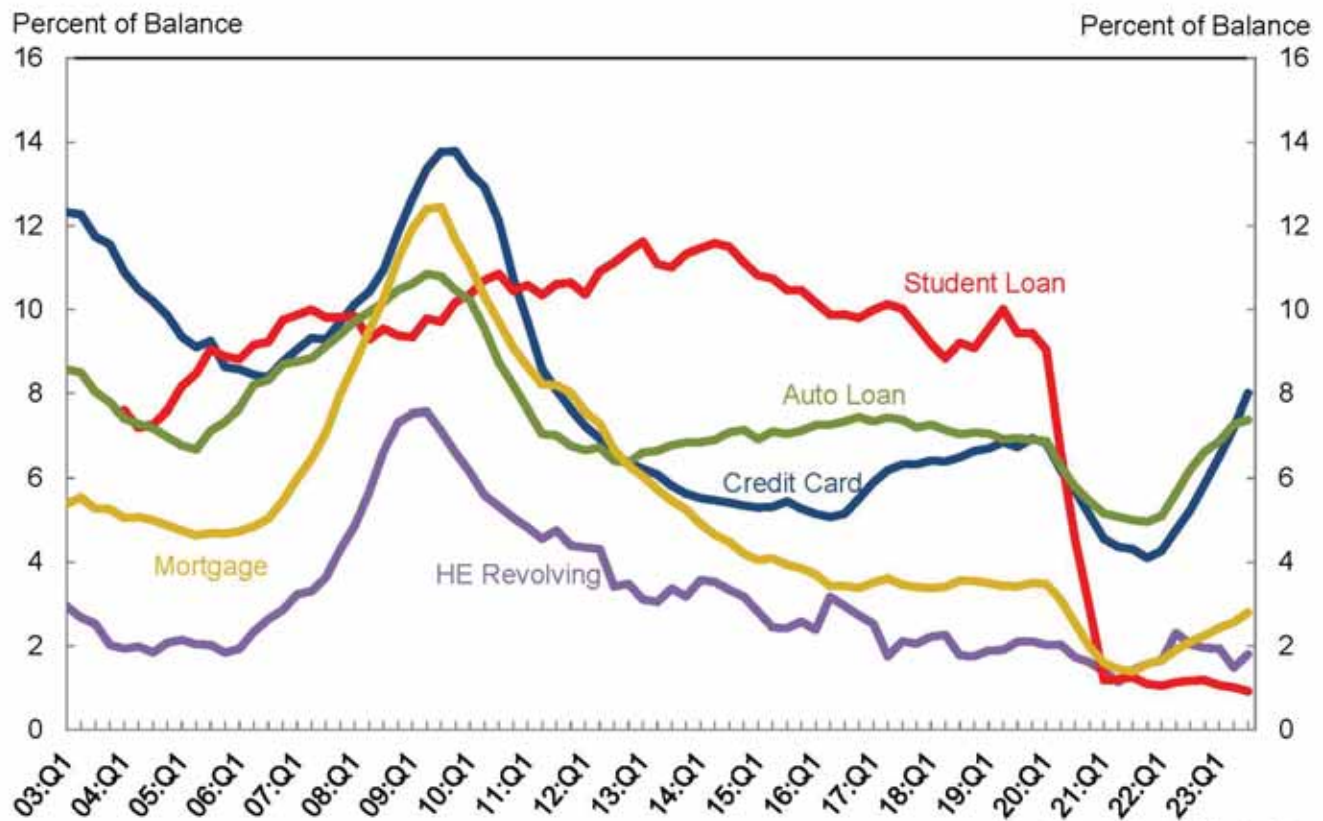


Source: Federal Reserve

# Percent of Balance 30+ Days Delinquent

Most loan types now show deterioration

## Transition into Delinquency (30+) by Loan Type

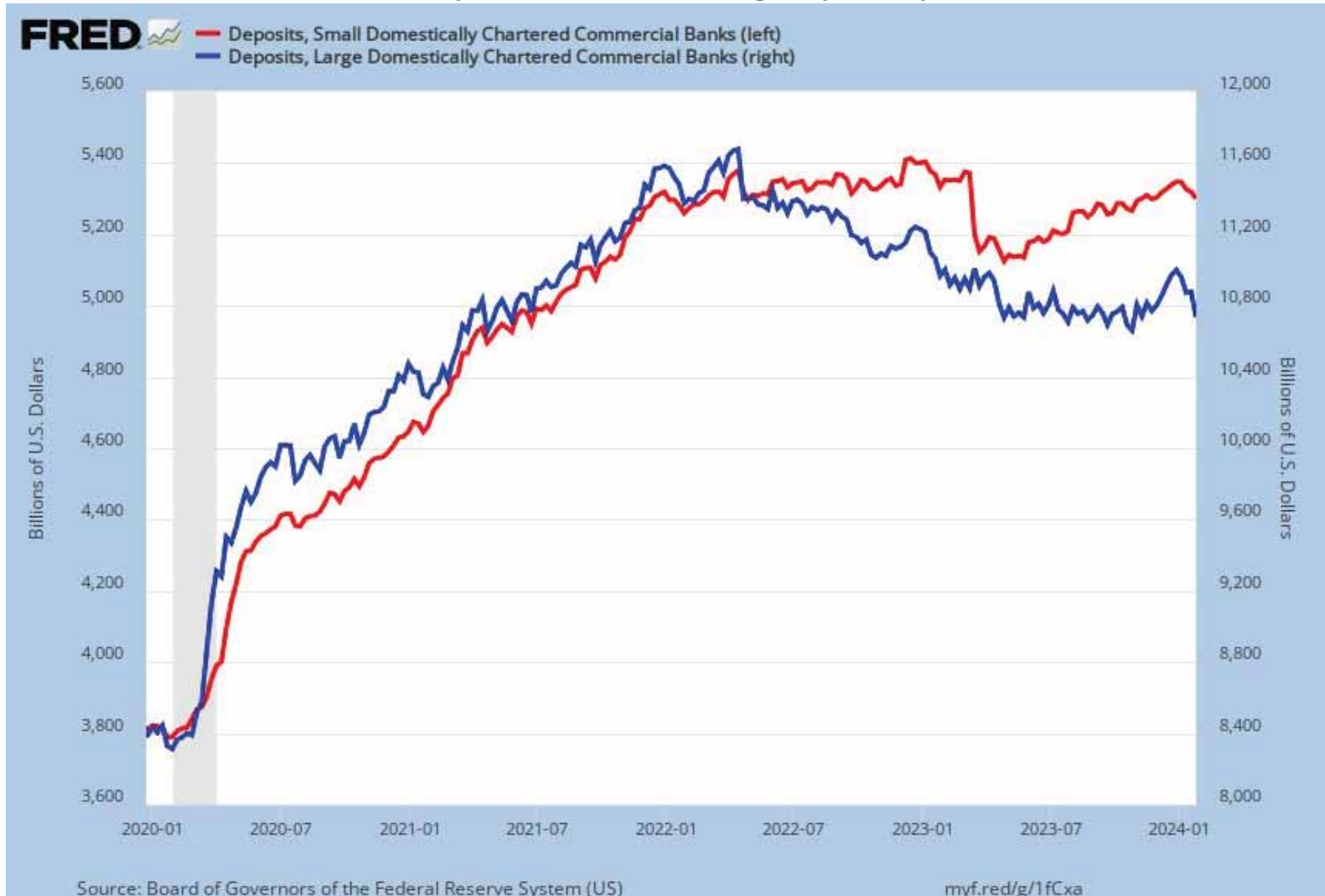


Source: New York Fed Consumer Credit Panel/Equifax

Note: 4 Quarter Moving Sum  
Student loan data are not reported prior to 2004 due to uneven reporting

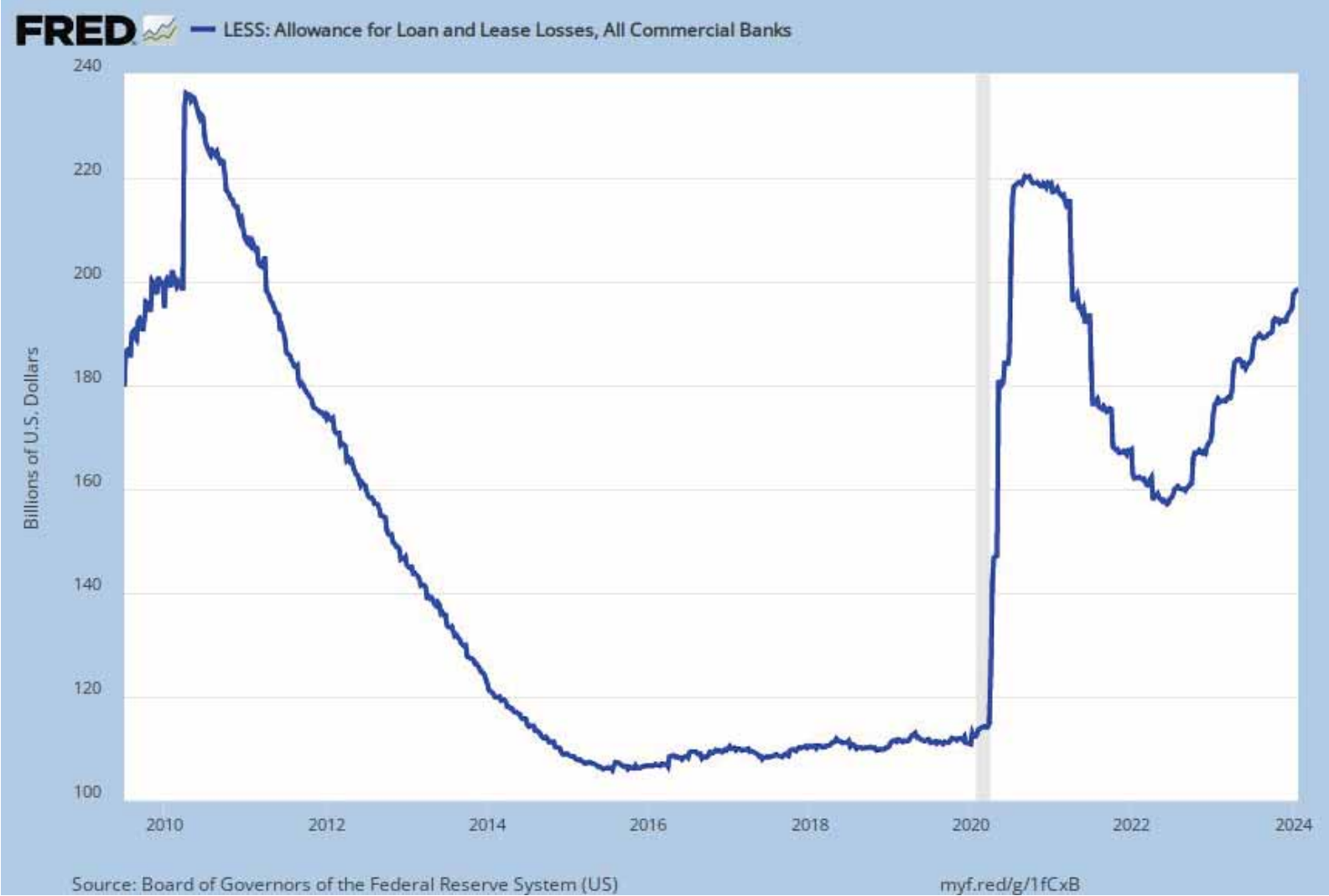
# All Banks Lost Deposits

They are now flat or rising very slowly



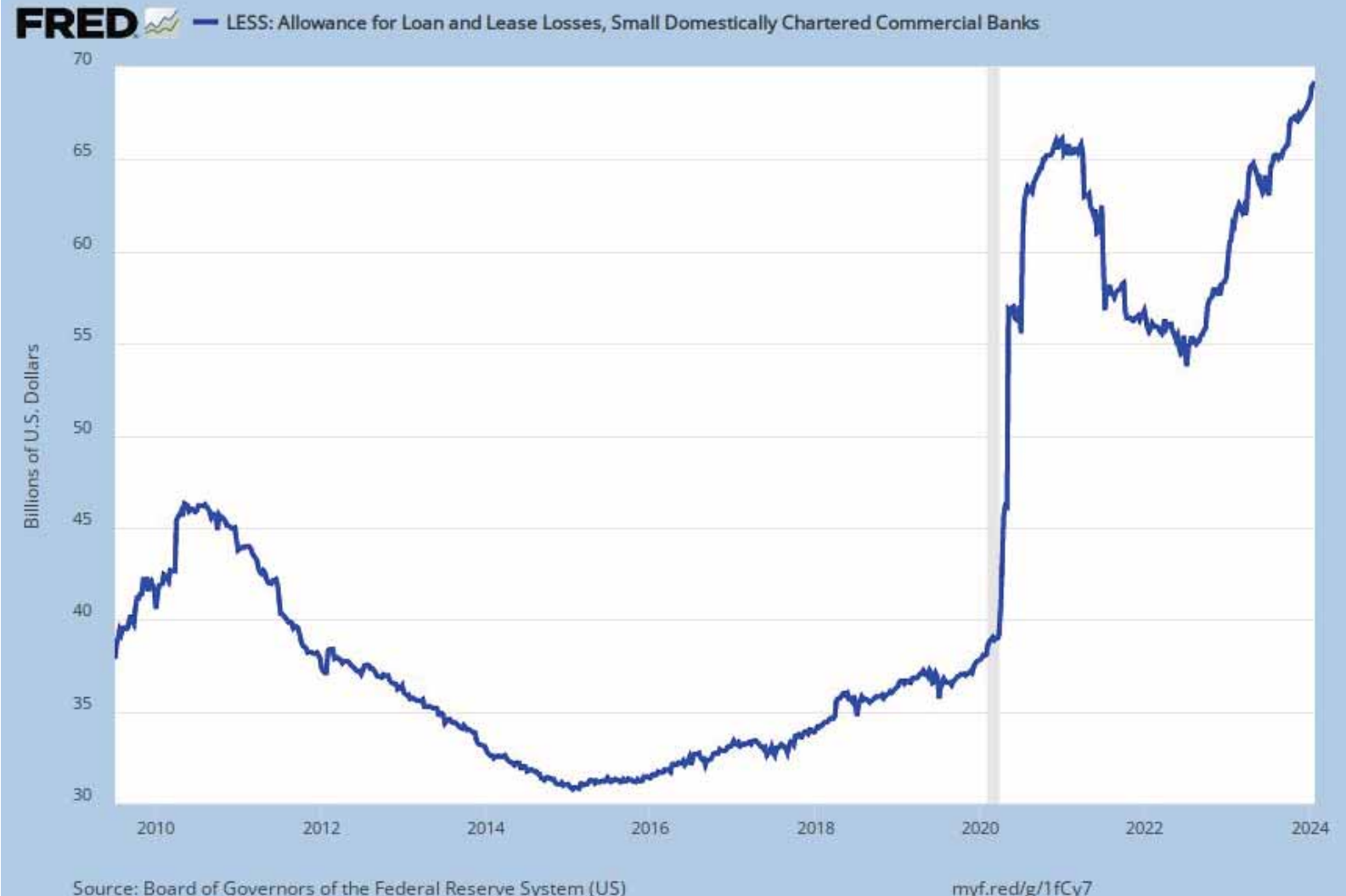
# Banks Loan Loss Reserves

They are again rising



# Small Domestic Banks Loan Loss Reserves

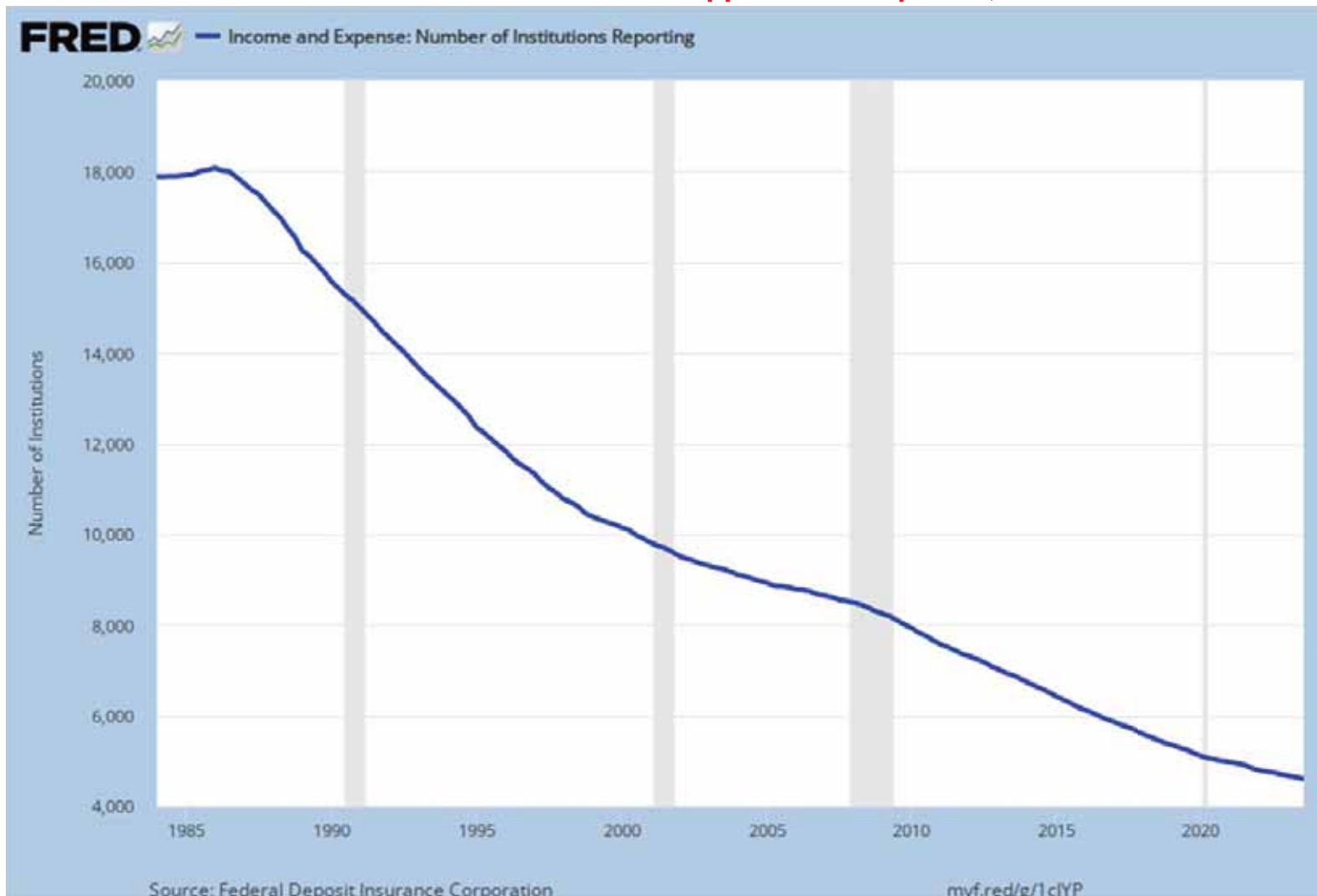
They are rising quite quickly





# Banks Are Simply Disappearing

Relentless economies of scale. 31 banks disappeared last quarter, 132 last 12 months



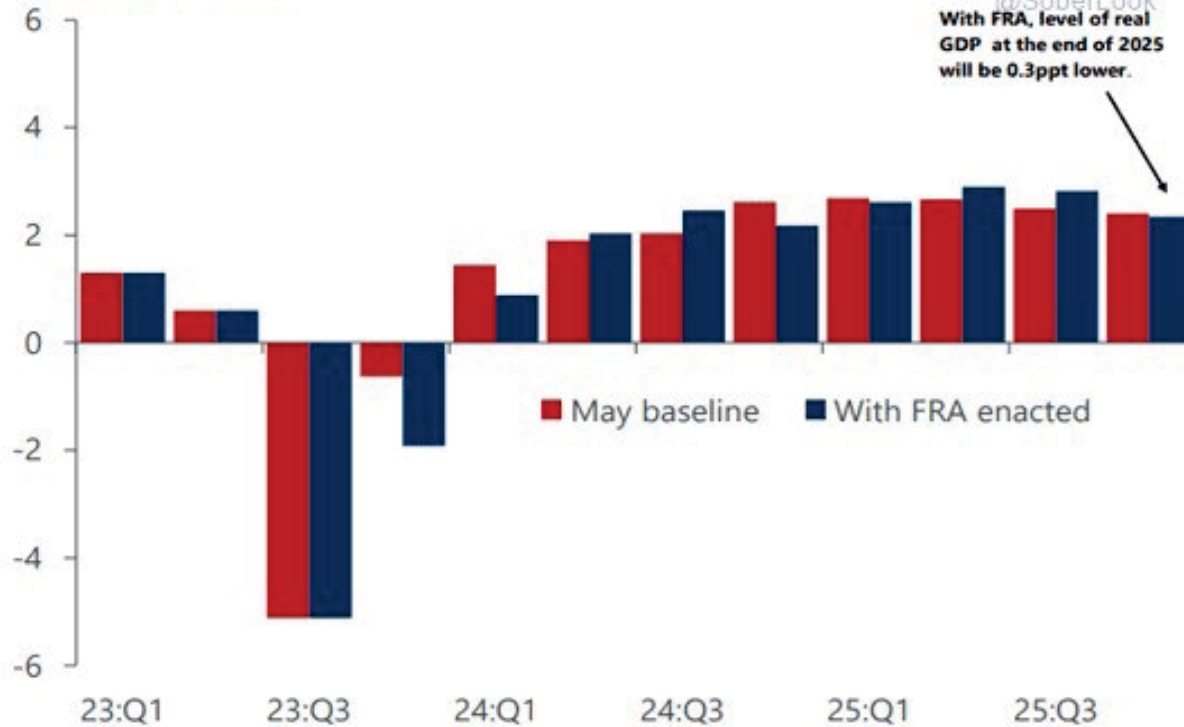
# Policy Is Contractionary

Both monetary and fiscal policy

Enacting the FRA will weigh on growth – modestly– as the economy enters a recession

US: Real GDP growth, baseline and with FRA incorporated

% change, annualized



Source: Oxford Economics/Congressional Budget Office

# Student Loans Repayments Restart

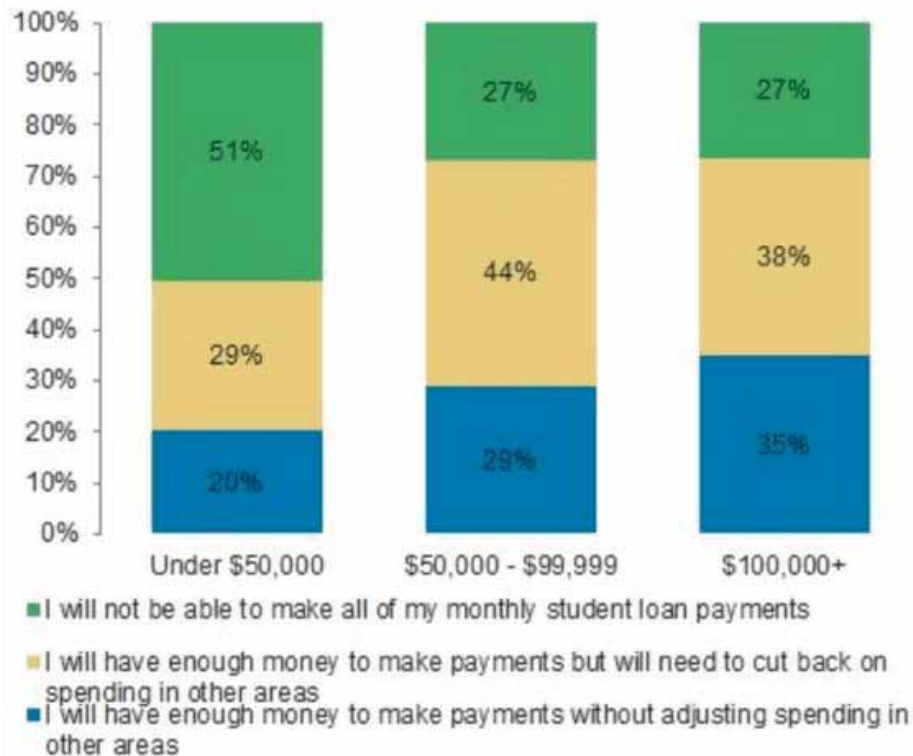
No one is excited about it

**Exhibit 2:** Lower income borrowers less likely to be able to make payments

Posted on  
The Daily Shot  
01-Sep-2023

Impact of Federal Student Loan Payment Freeze Ending, by HH Income (Among Federal Student Loan Holders)

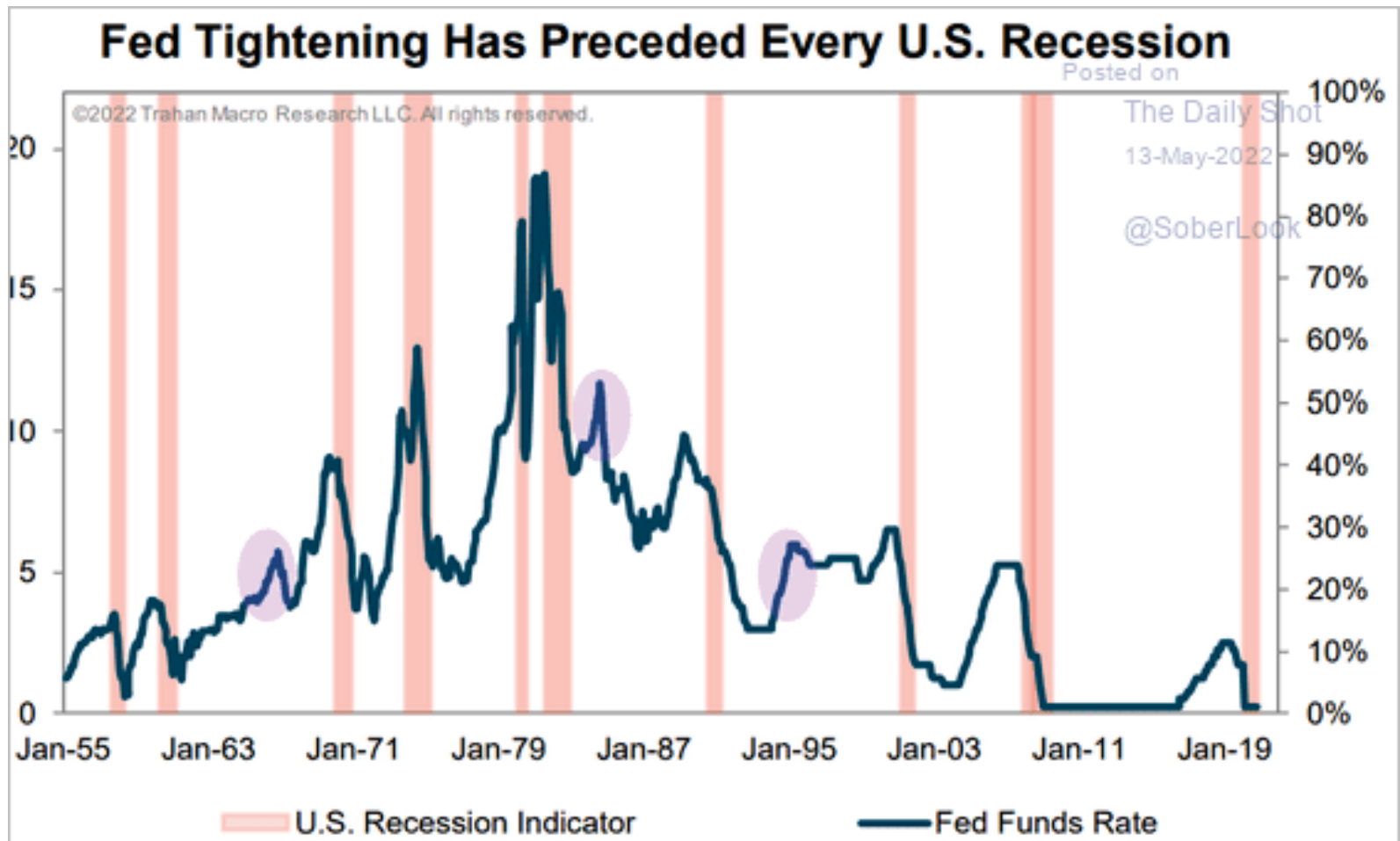
@SoberLook



Source: AlphaWise Consumer Pulse Survey, Morgan Stanley Research. Morgan Stanley's AlphaWise provides proprietary evidence-based investment research.

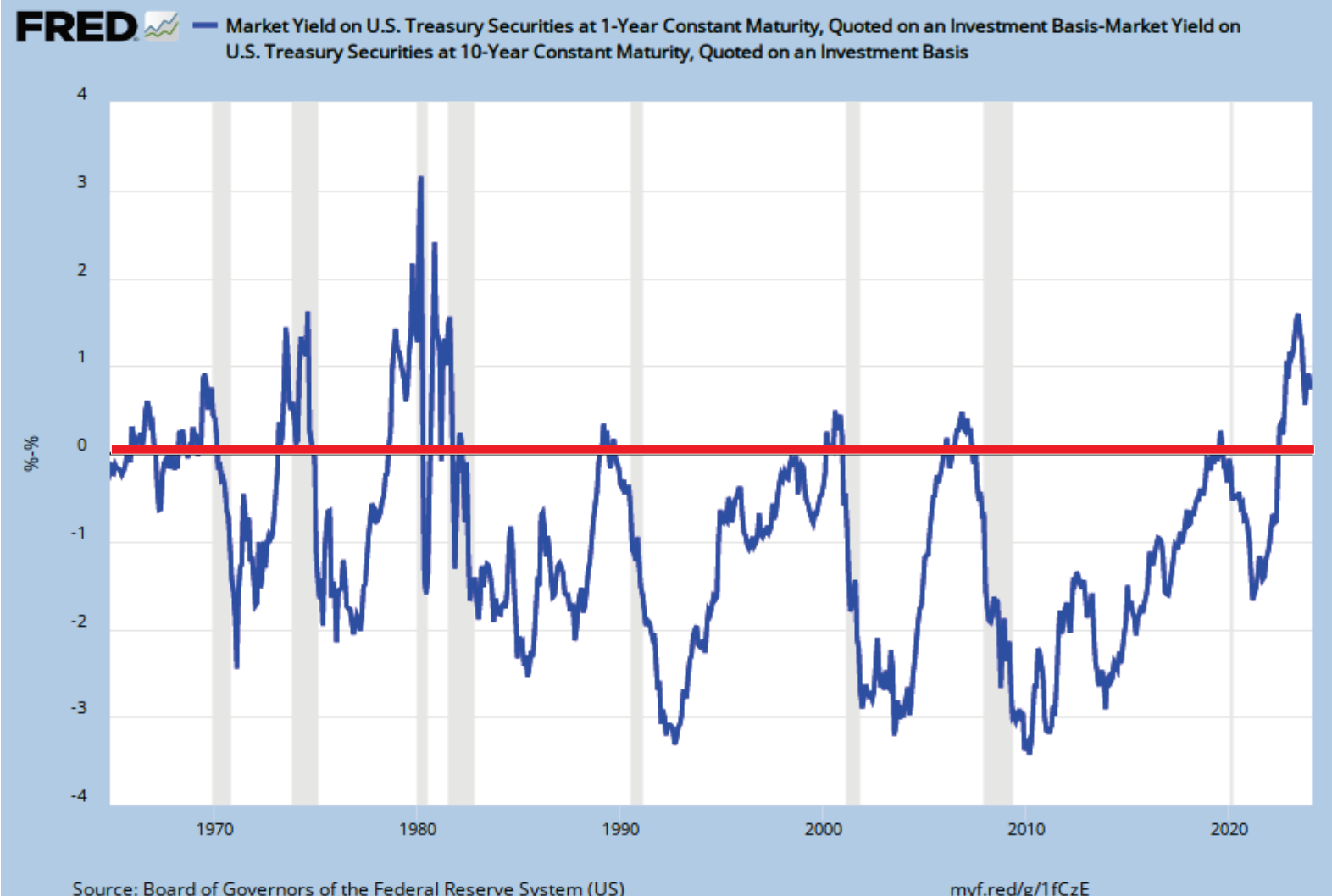
# Fed Rate Hikes and Recessions

They generally travel together



# The Yield Curve is Inverted

Yield Curve Inversion Test: 1-Year Treasury Yield – 10-Year Treasury Yield



# 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

# Fed Rate Hikes and Lags

They generally take time before being fully felt

The lagged effects of Fed hikes will continue to drag down growth over the coming 12 months

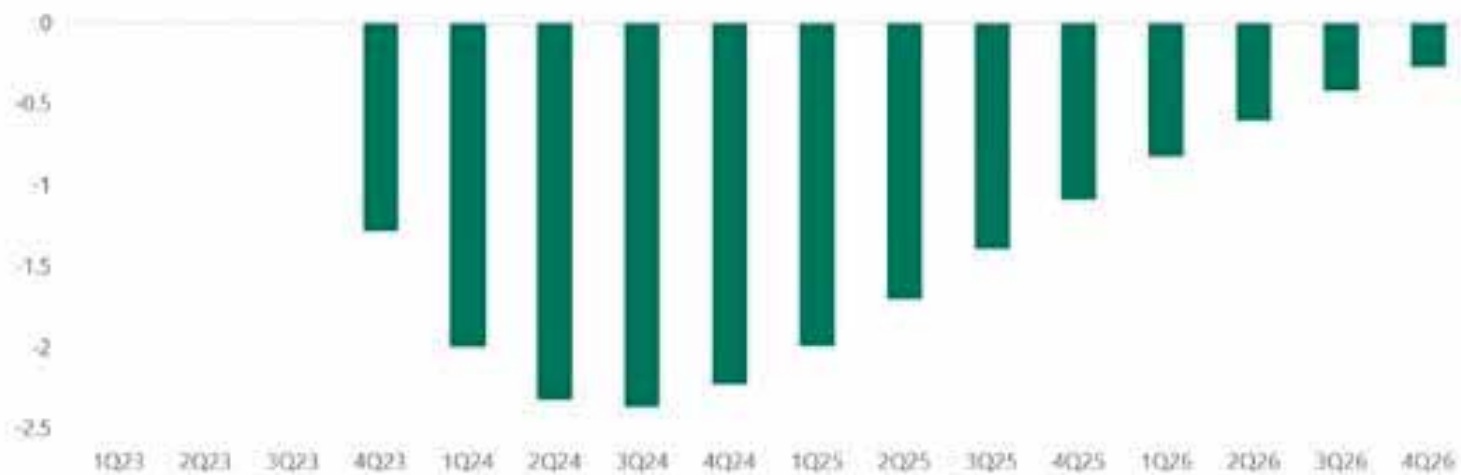
The Daily Shot

21-Aug-2023

% difference from baseline

Impact on GDP level of a 5%-point increase in the Fed funds rate, compared with baseline forecast

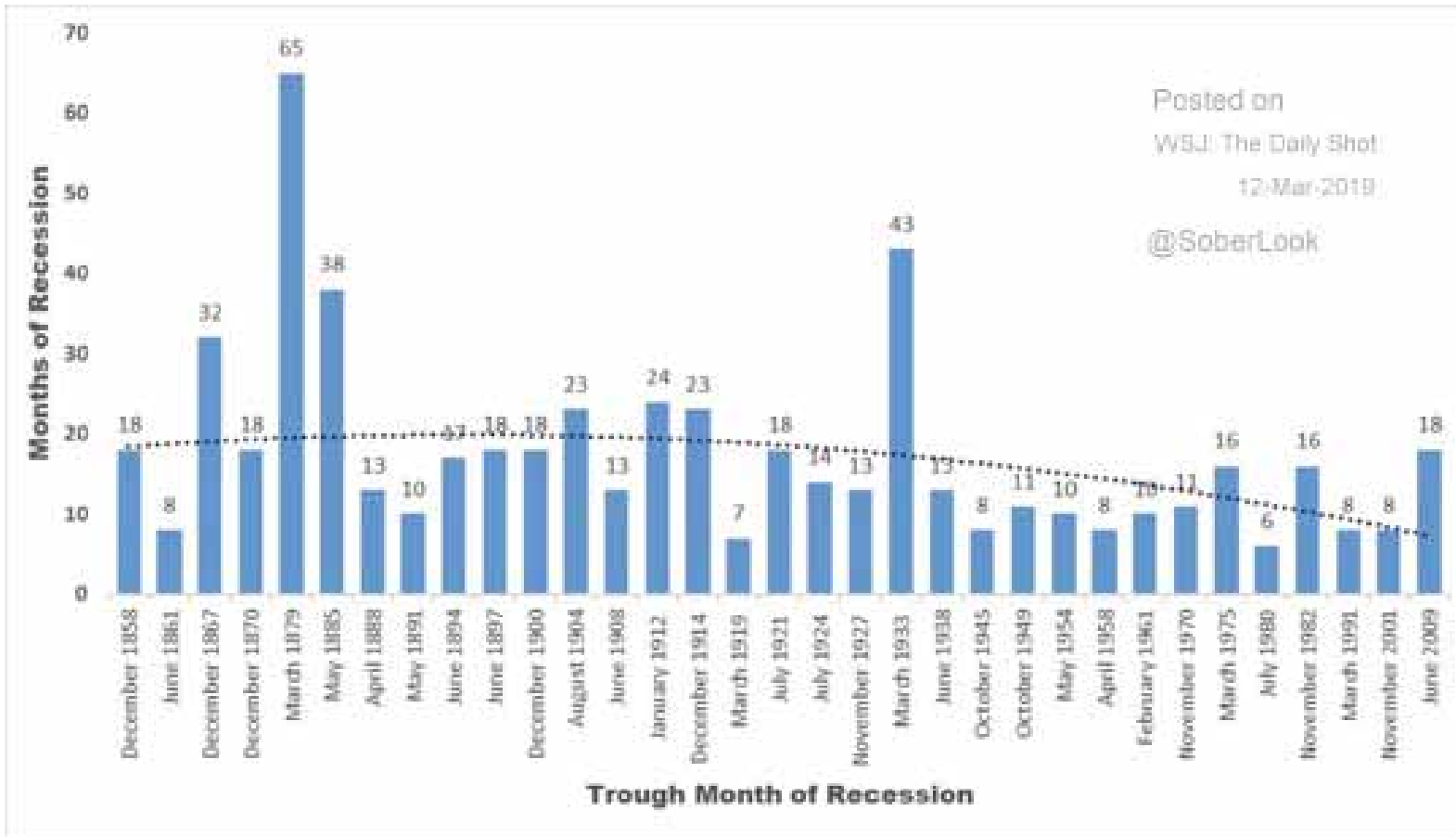
@SoberLook



Source: Bloomberg, Apollo Chief Economist. Note: 500bps monetary policy shock in 3Q23.

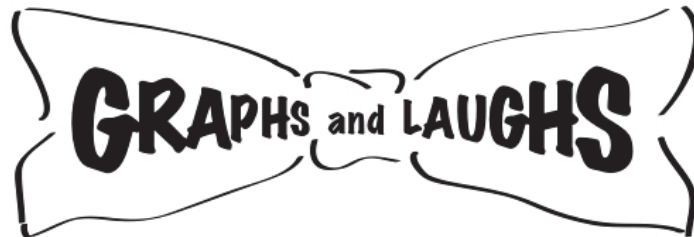
# Duration of All Recorded US Recessions

Since the Depression they tend to be shorter





# Labor Markets: They are Softening



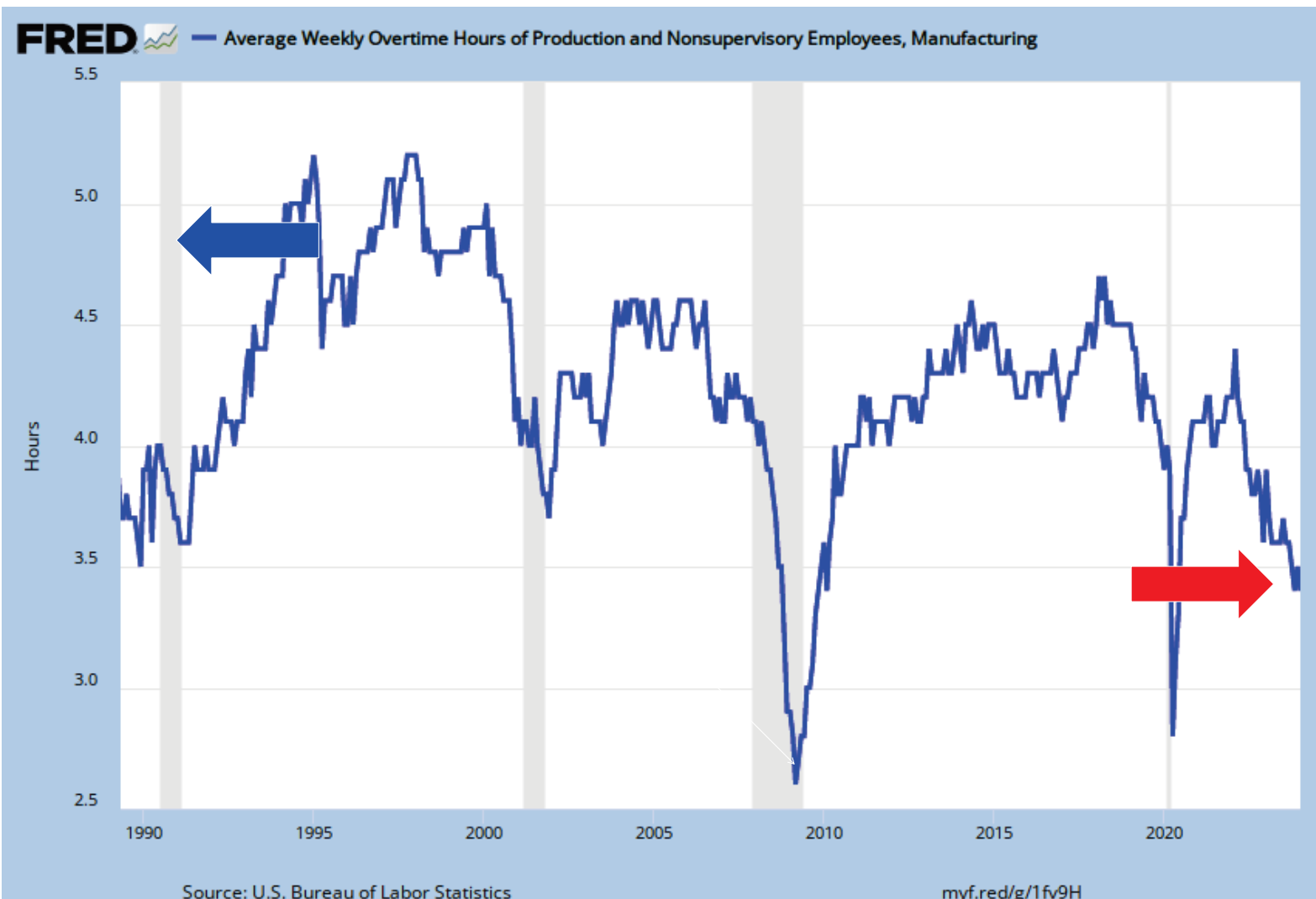
# The Unemployment Rate

The rate is still low at 3.7%



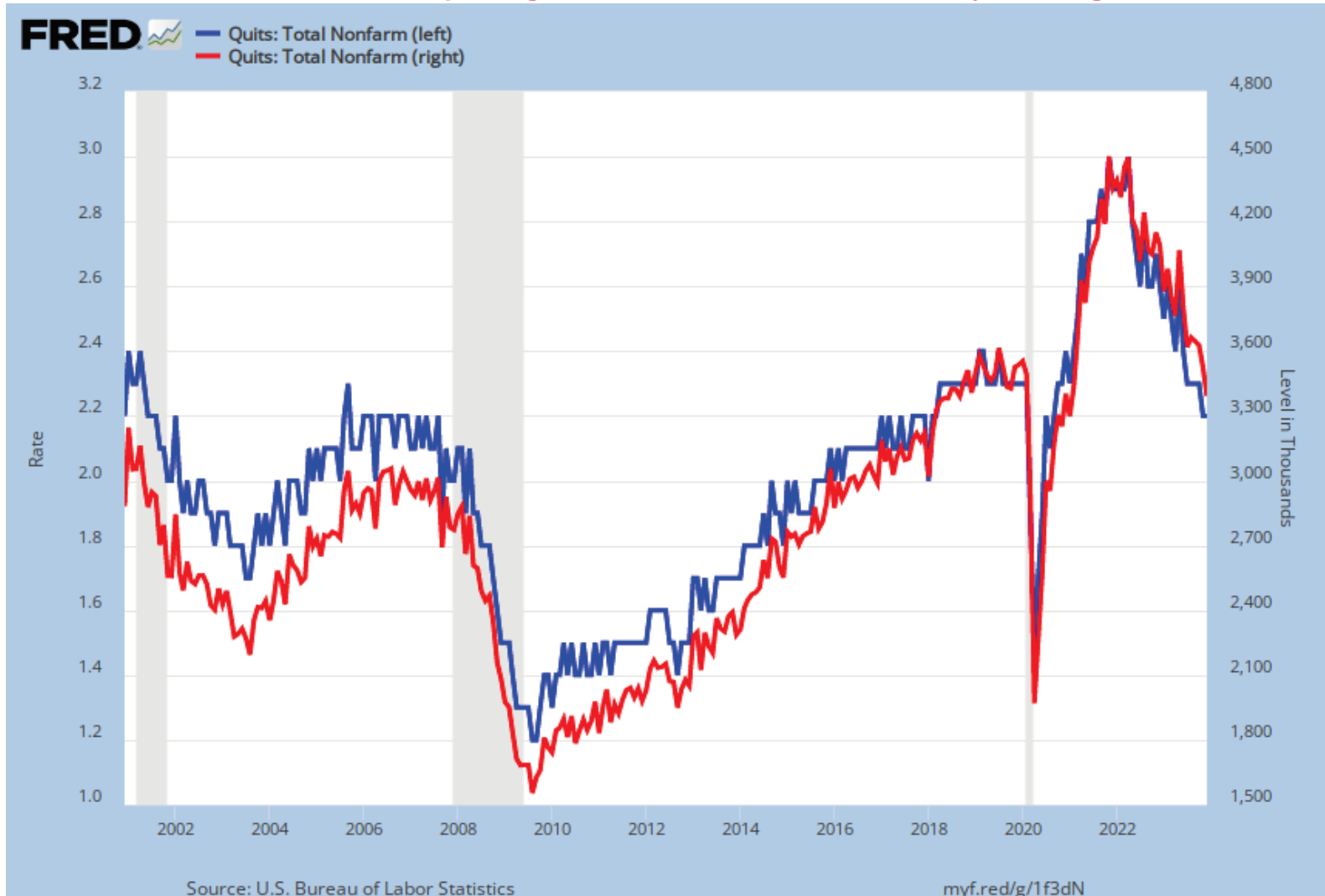
## Overtime Hours

They are historically low



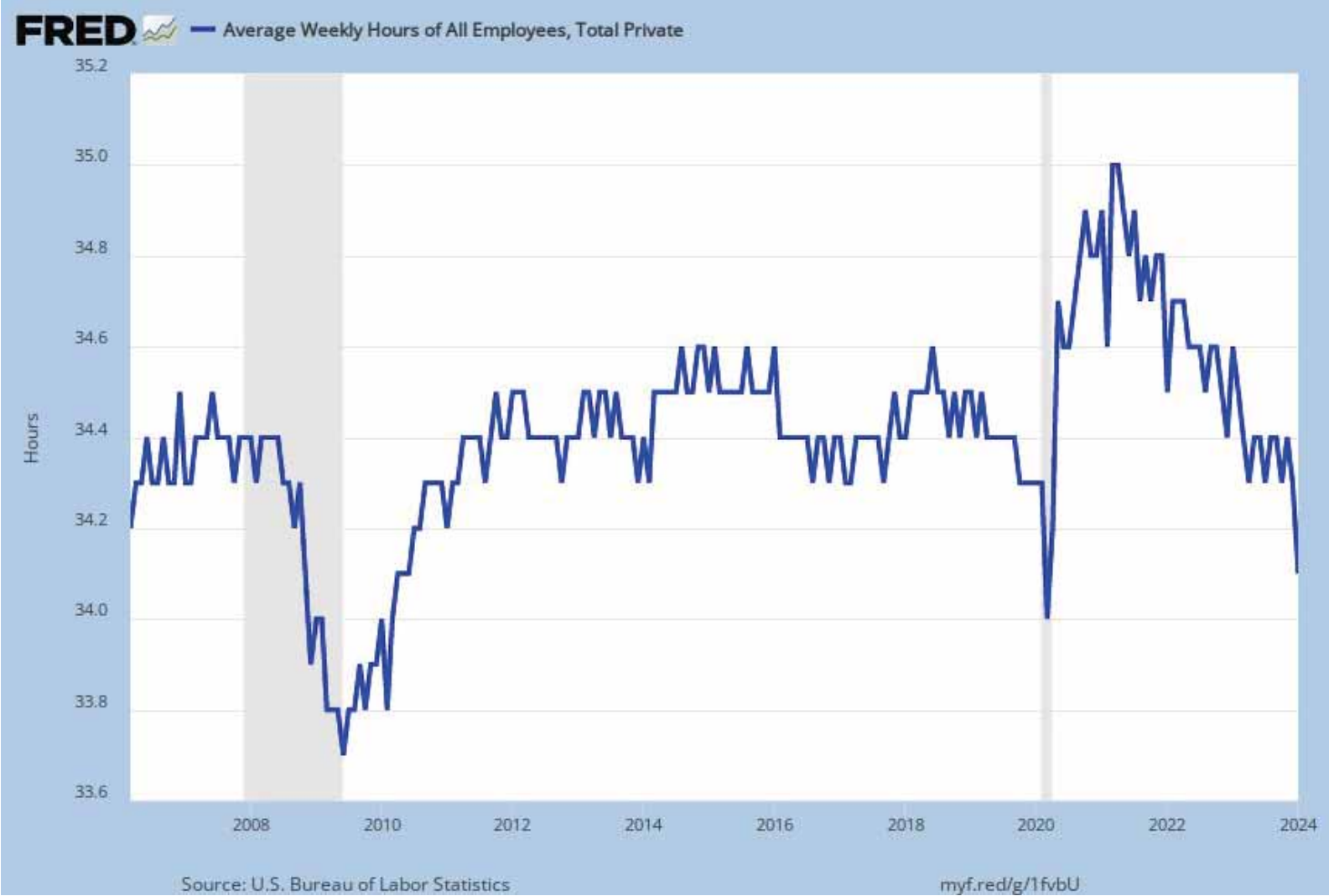
# Quit Rates Are Reversing

Workers were quitting in droves, but the rate is slowly slowing



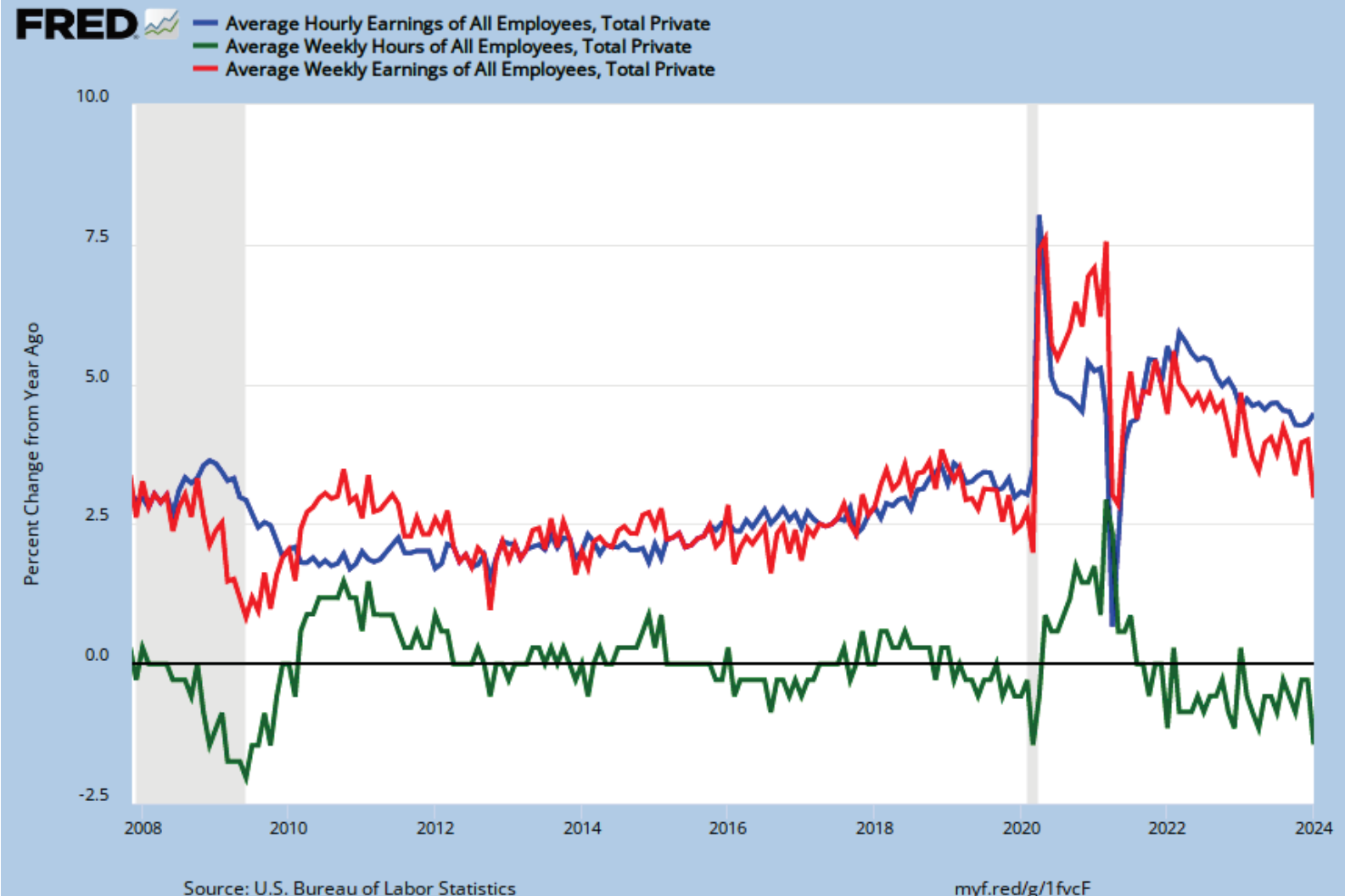
# Weekly Hours Worked

Hours worked have been falling of late



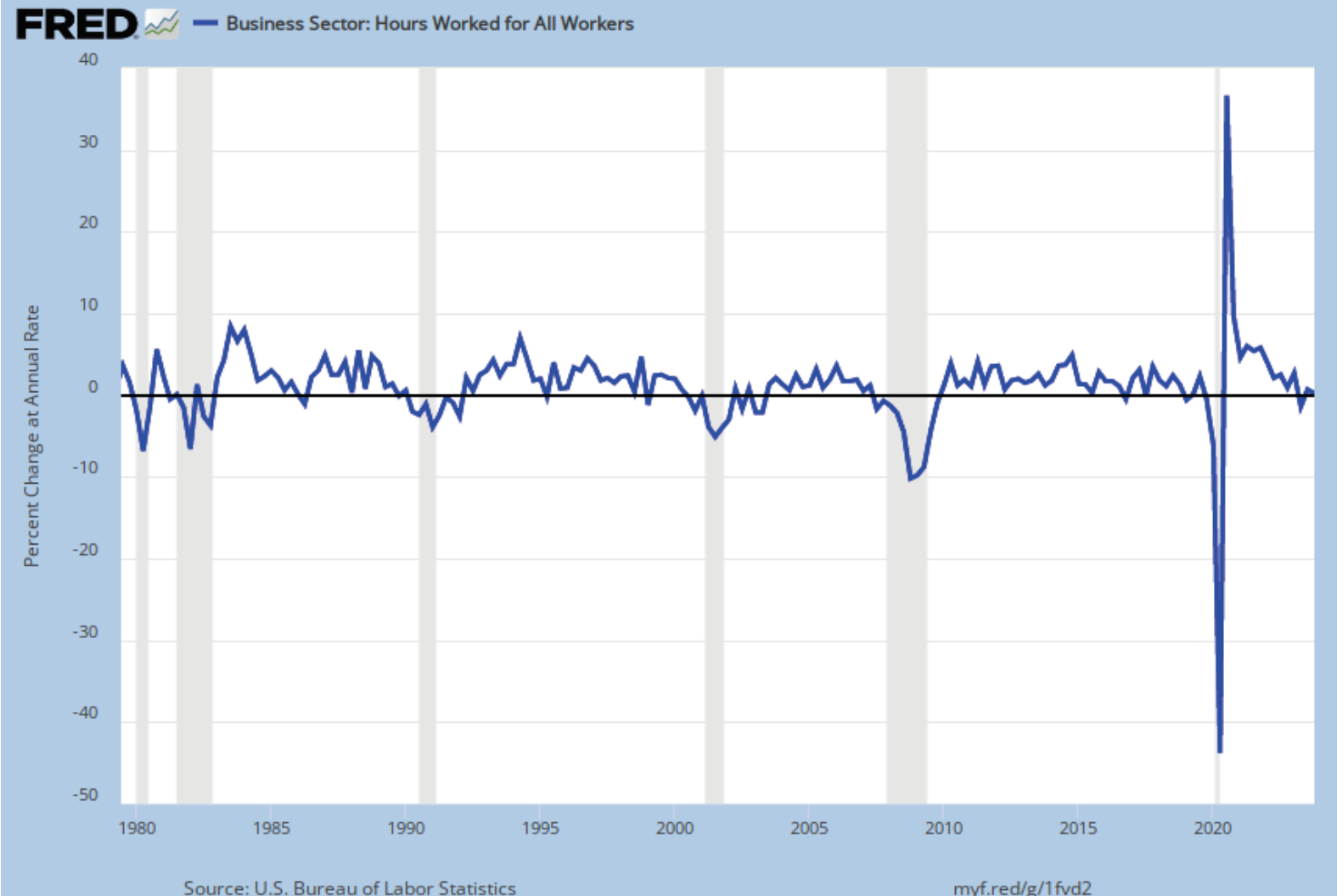
# Y-o-Y Percent Change in Hours & Earnings

Hourly earnings are up 4.1% Y-o-Y, weekly earnings are up 3.0%



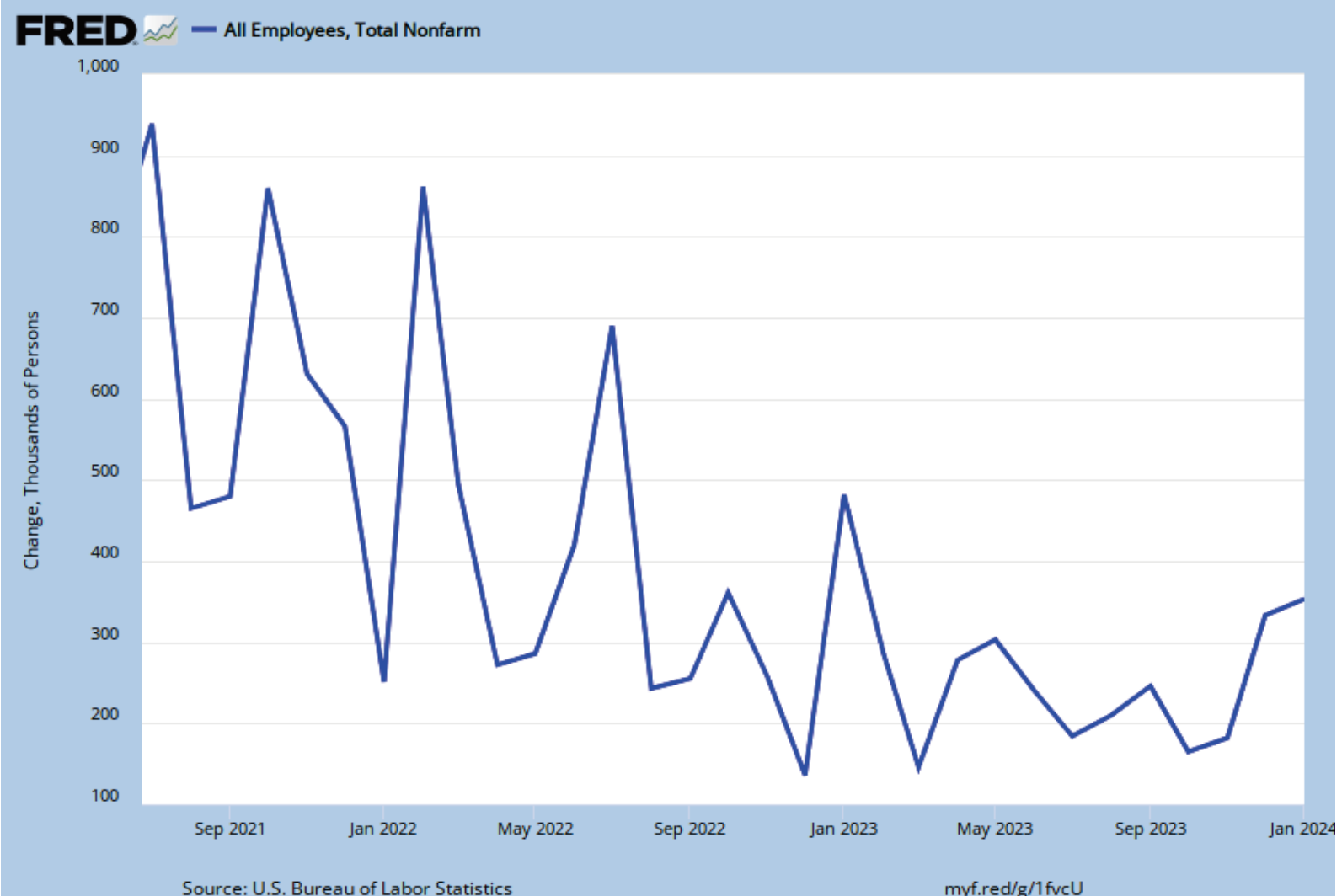
# Y-o-Y Pct. Change in Hours Worked

It's barely positive



# Historical Job Growth

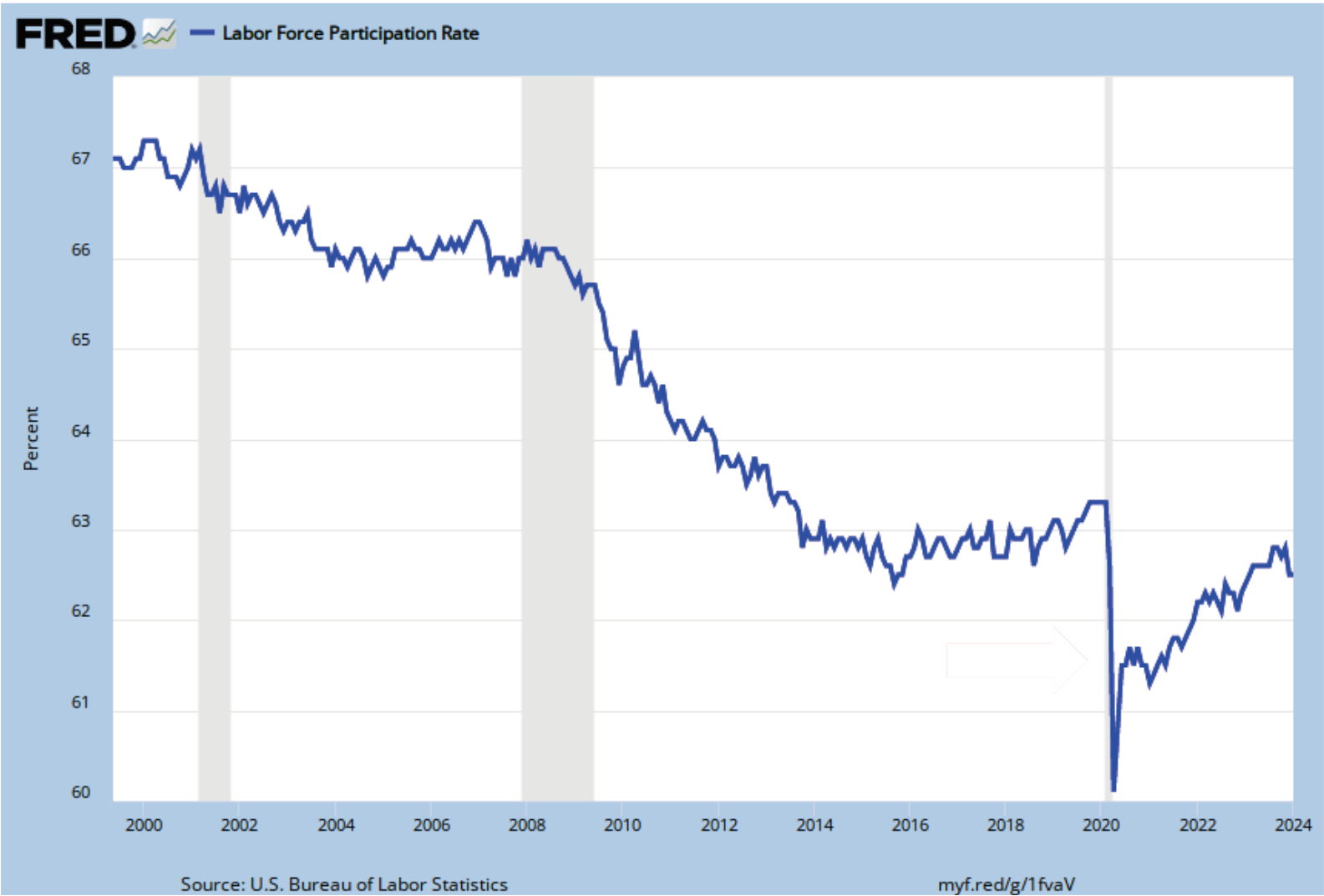
## Month-over-month employment change





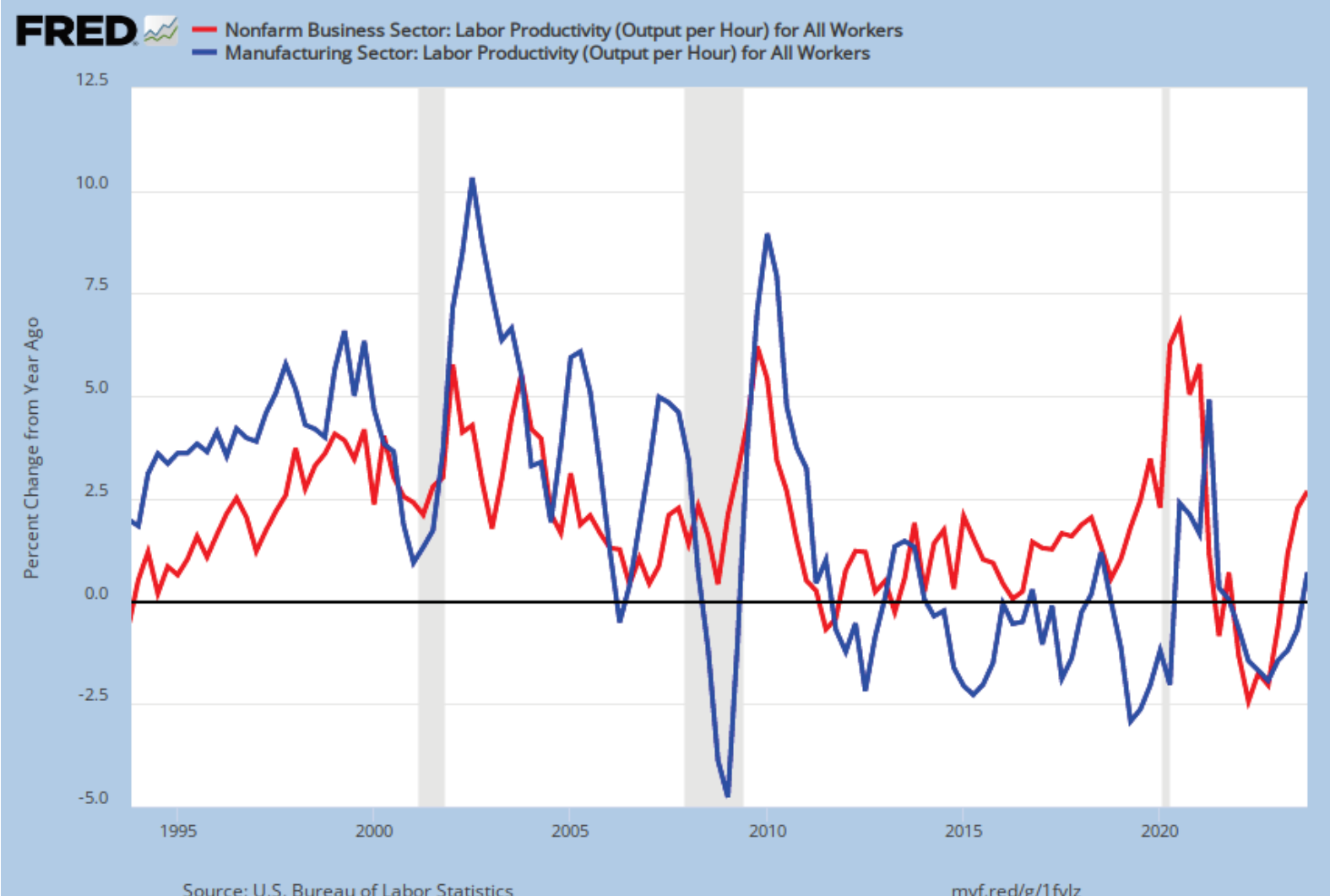
# The Labor Force Participation Rate

It had been pleasantly rising



# Labor Productivity Growth

It is now suddenly much better



# Inflation & The Fed





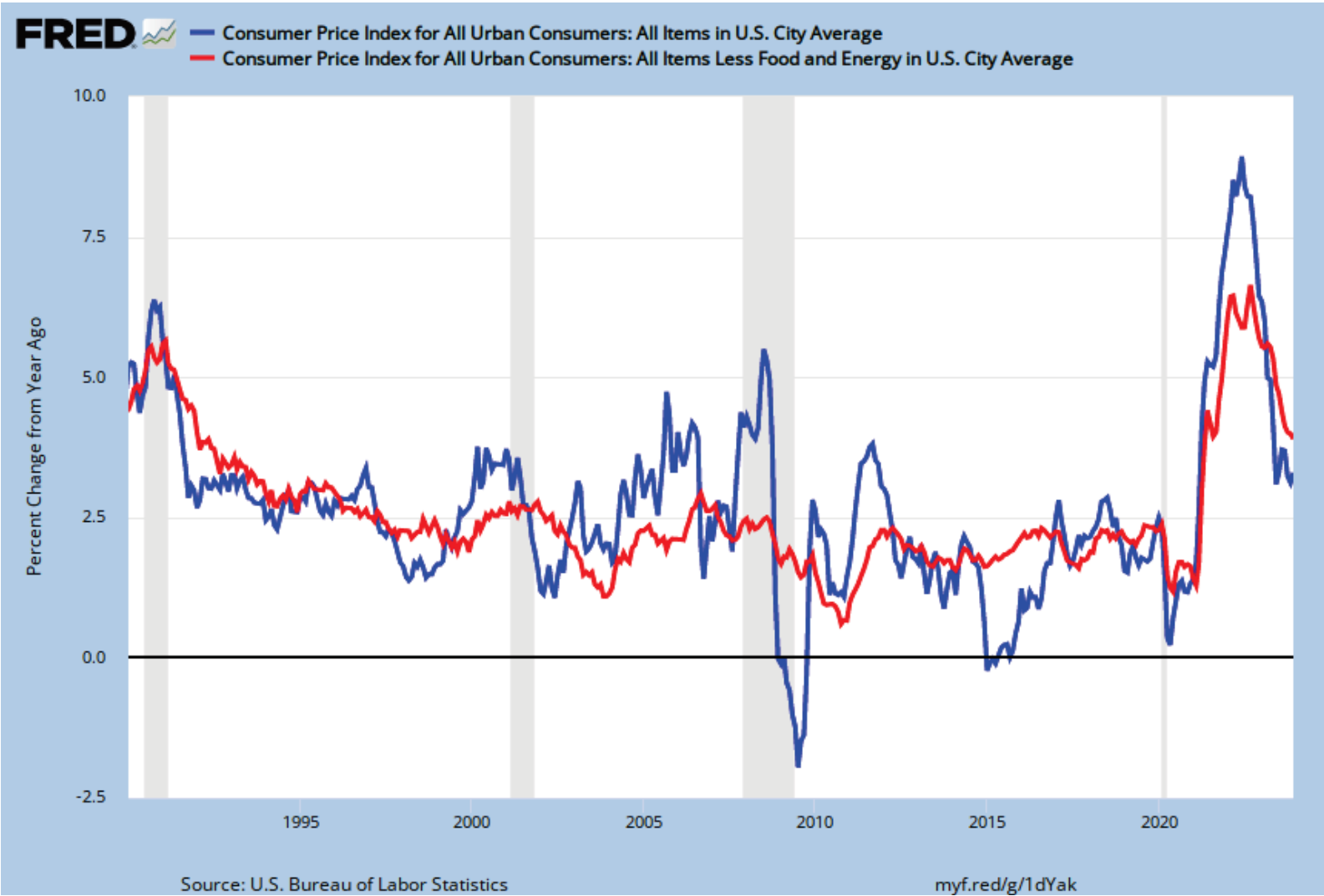
**INFLATION? WHAT INFLATION?**

THE ATLAS SOCIETY

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

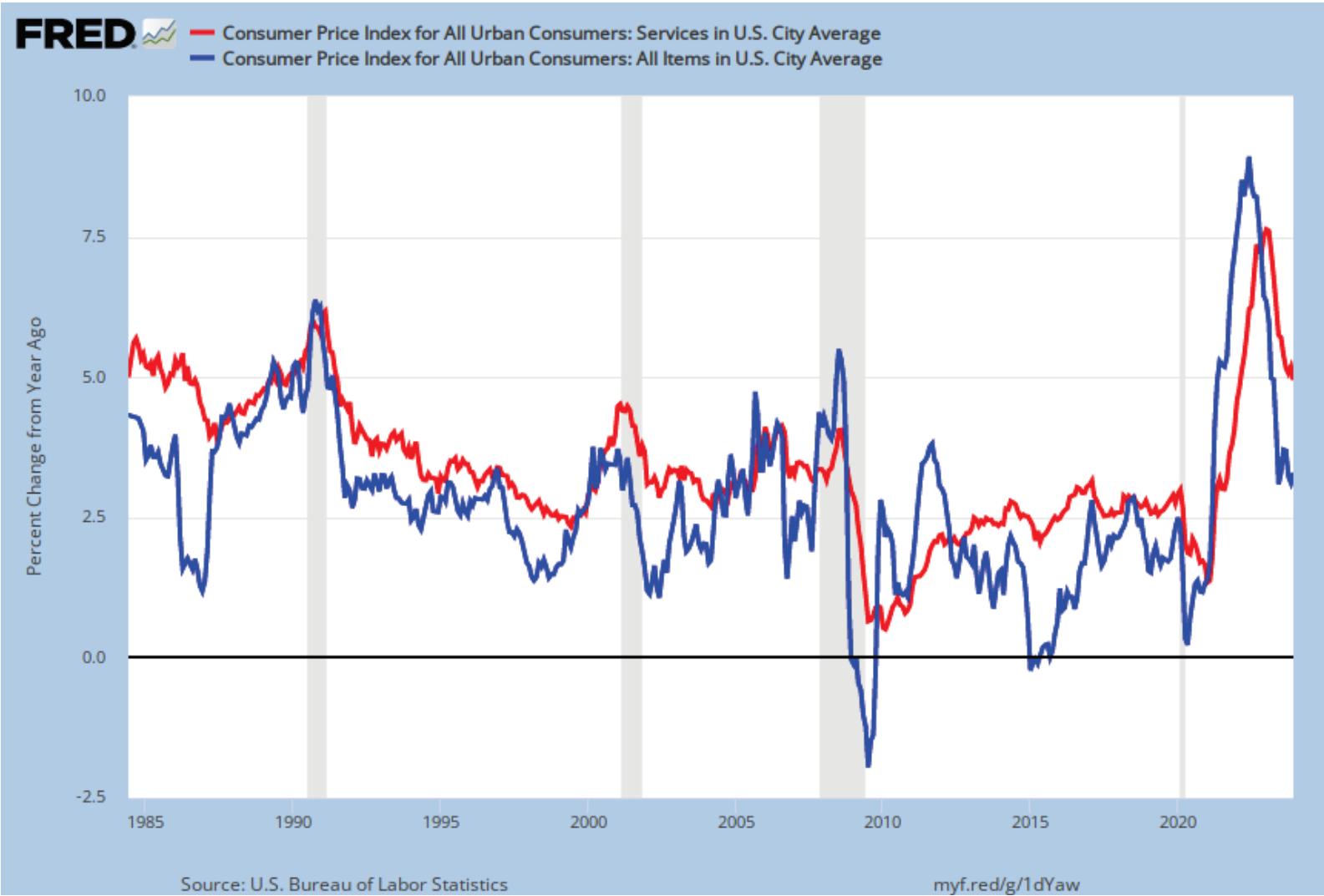
# CPI: Inflationary Pressures Weaken

Watch the core numbers closely



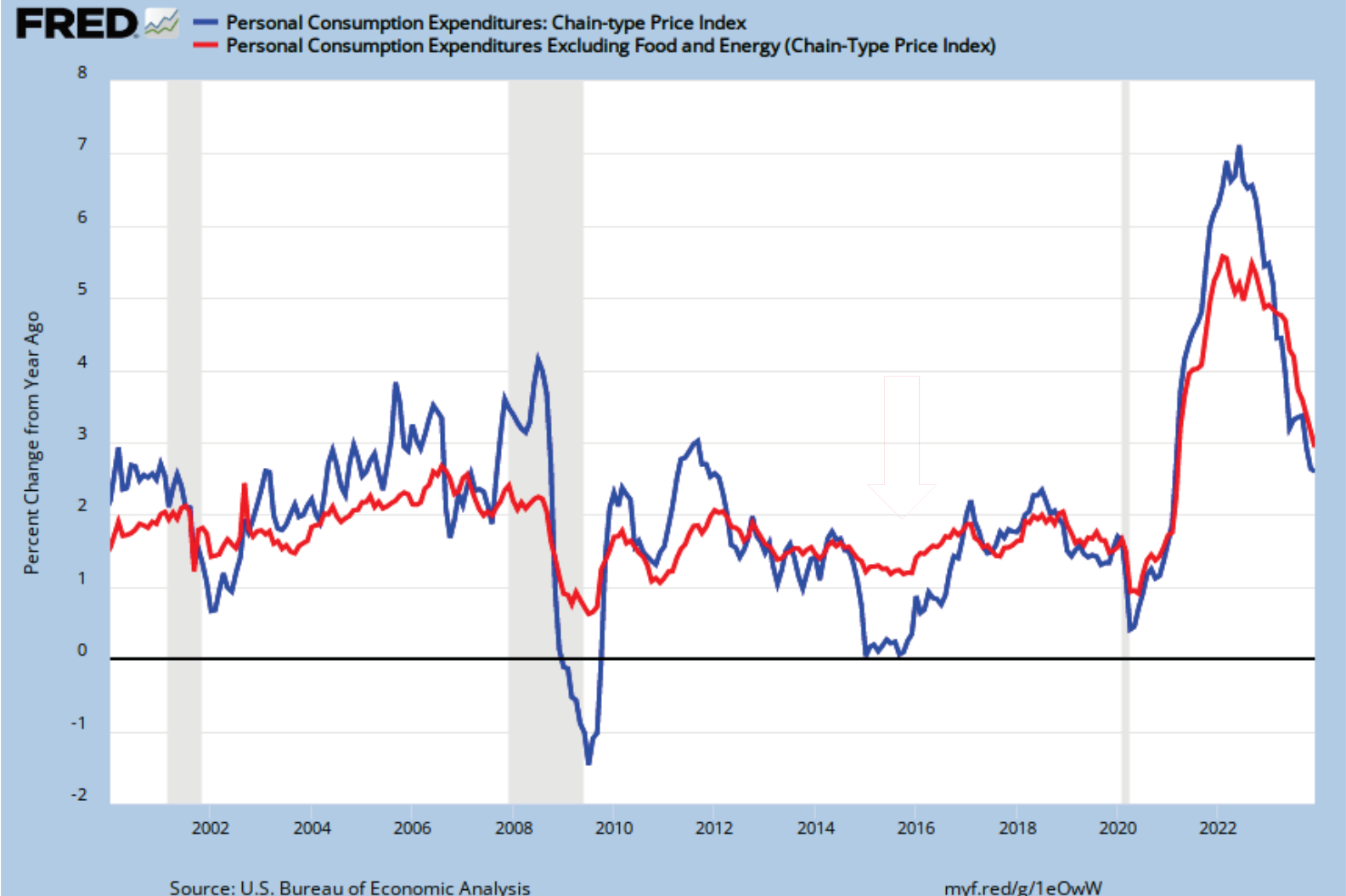
# Consumer Price Index: Look at Service Inflation

Inflationary pressures are clearly abating



# Core PCE Price Index

Focus on core (red) inflation



# Federal Reserve Behavior

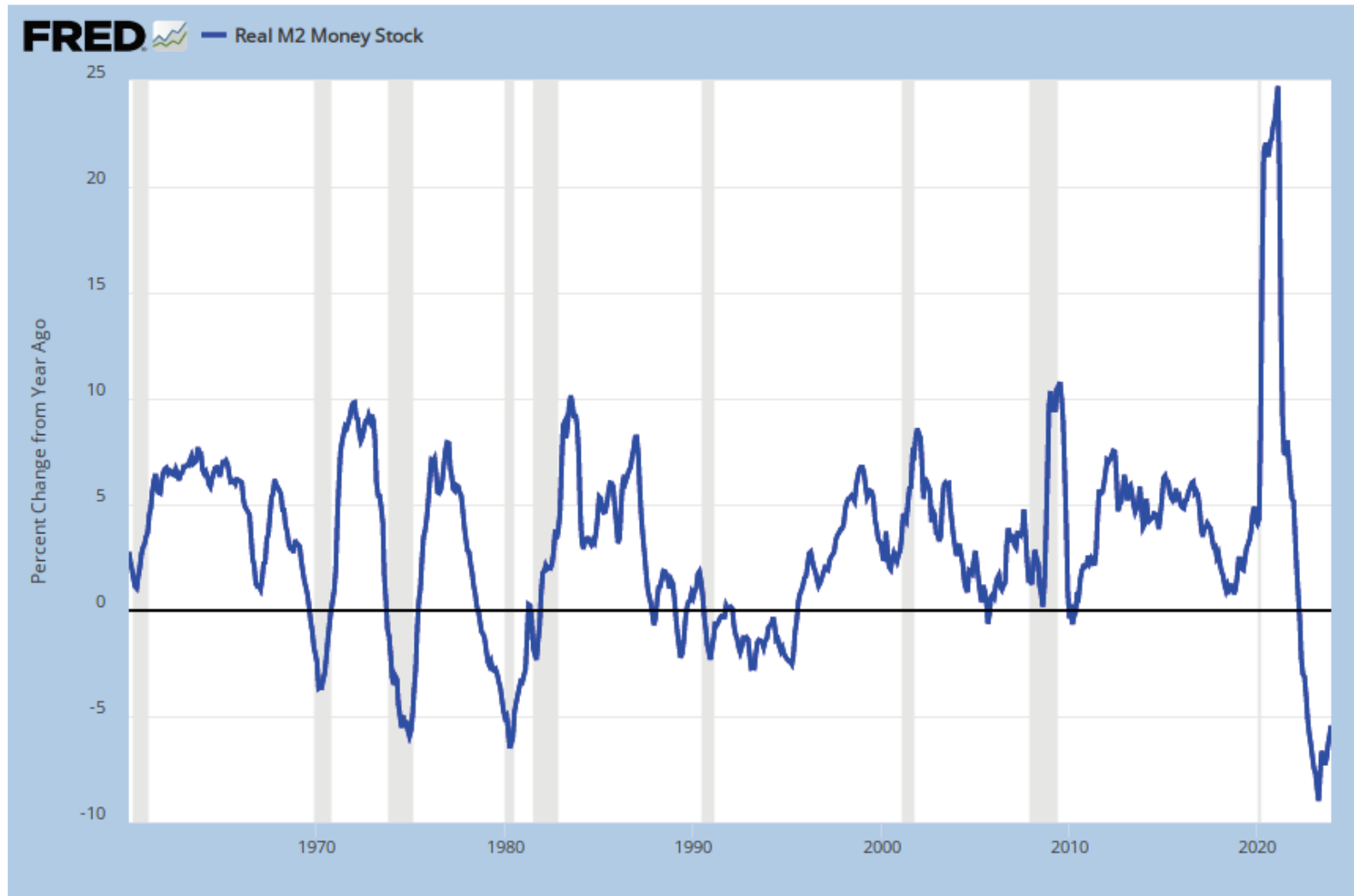
Most likely scenario

- Fed funds is currently 5.375%
- On 12/13/23 the Fed held at 5.375%
- On 1/31/24 it stays at 5.375%
- On 3/20/24 it remains at 5.375%

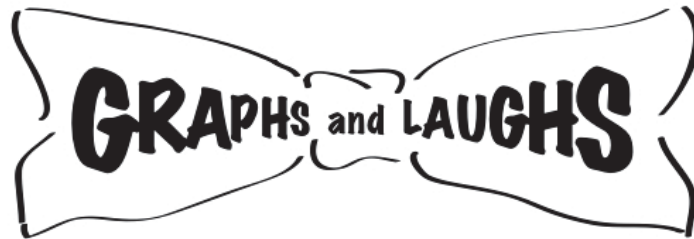


# Monetary Stock Shrinks Quickly

This threatens the economy



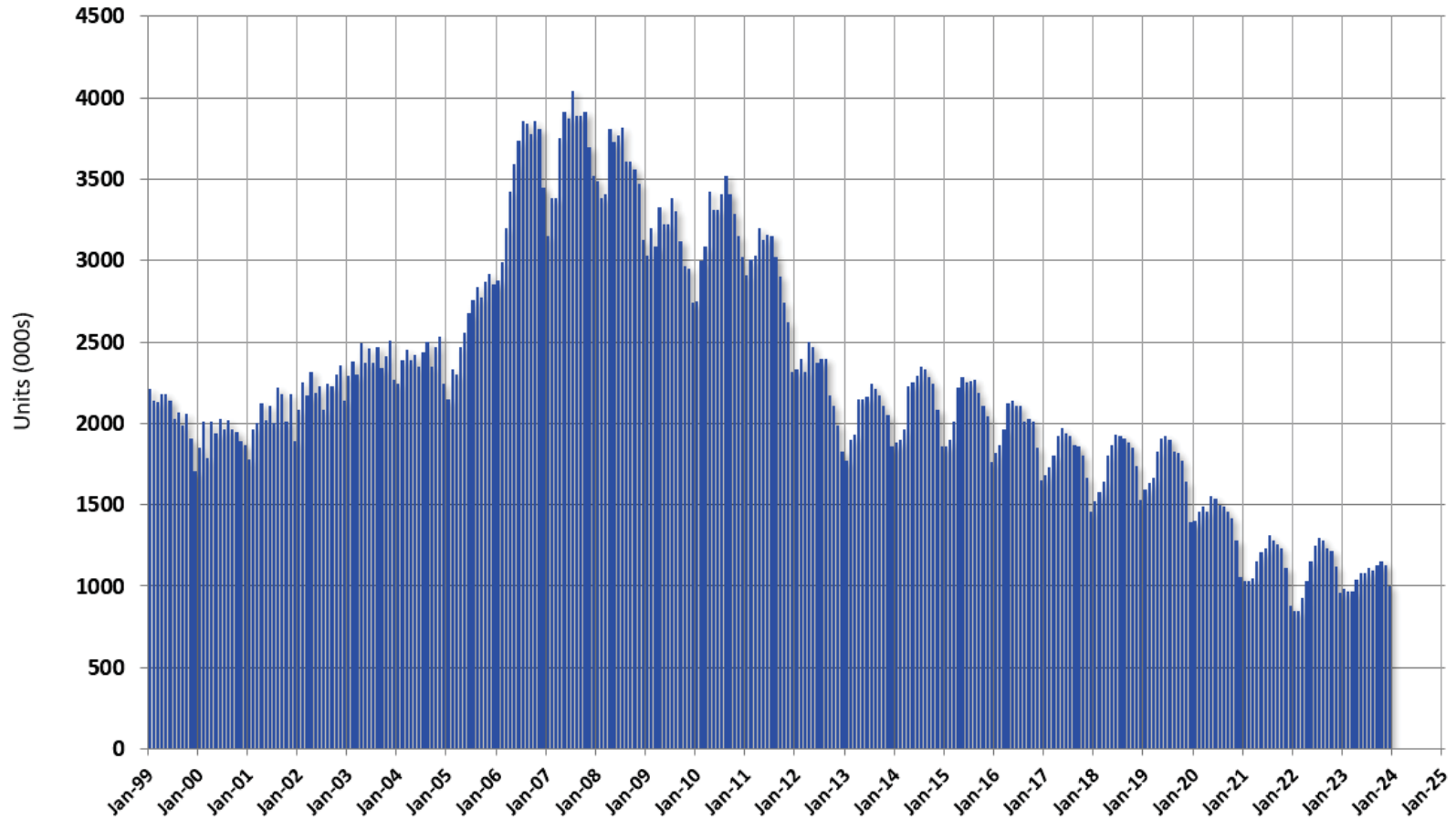
# How About Housing?



# Inventory is Very Low

Watch it closely

Existing Home Inventory



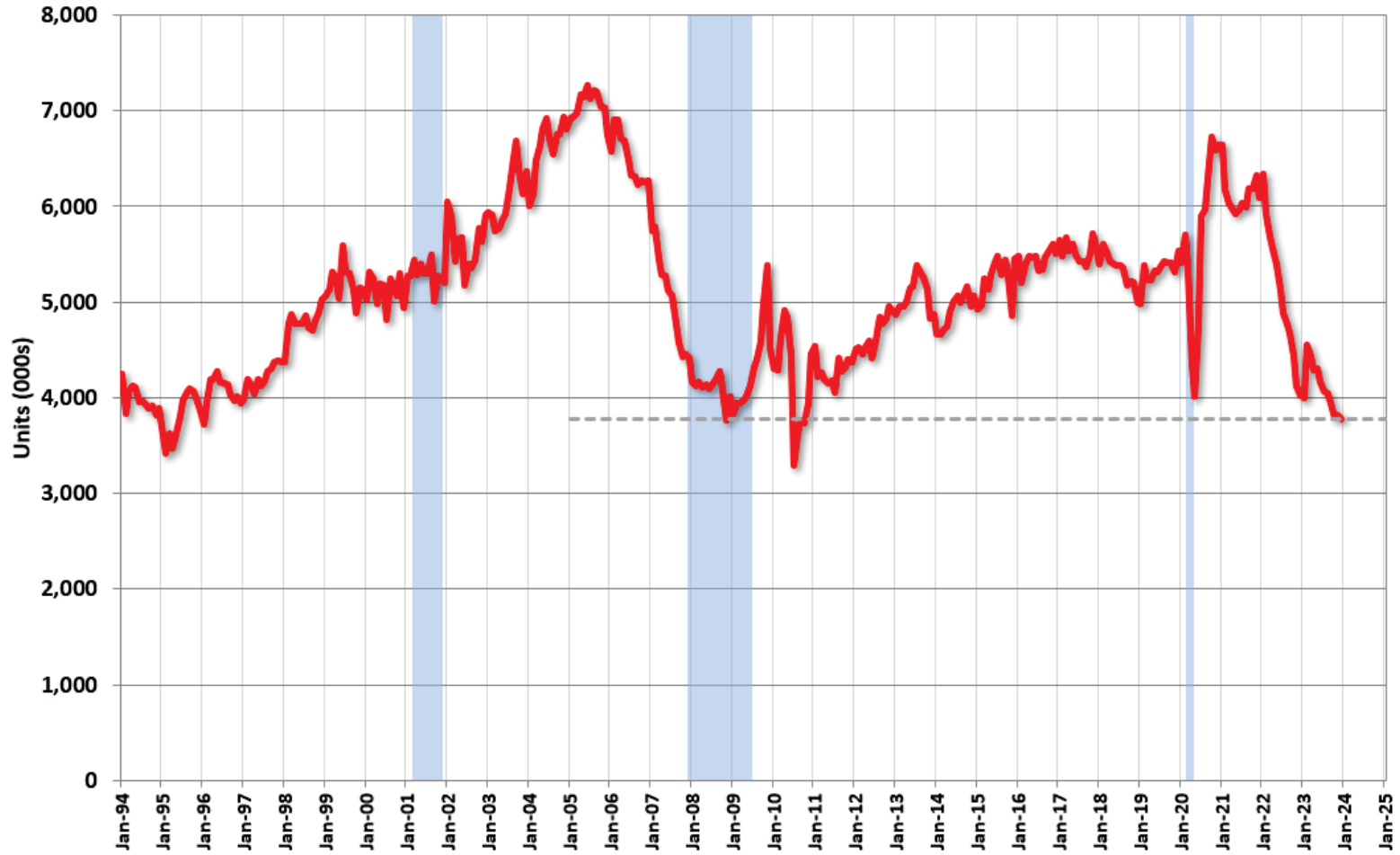
<http://www.calculatedriskblog.com/>

Source: NAR

# Existing Home Sales Are Soft

They should rise in 2024 as rates decline

Existing Home Sales (SAAR)



<http://www.calculatedriskblog.com/>

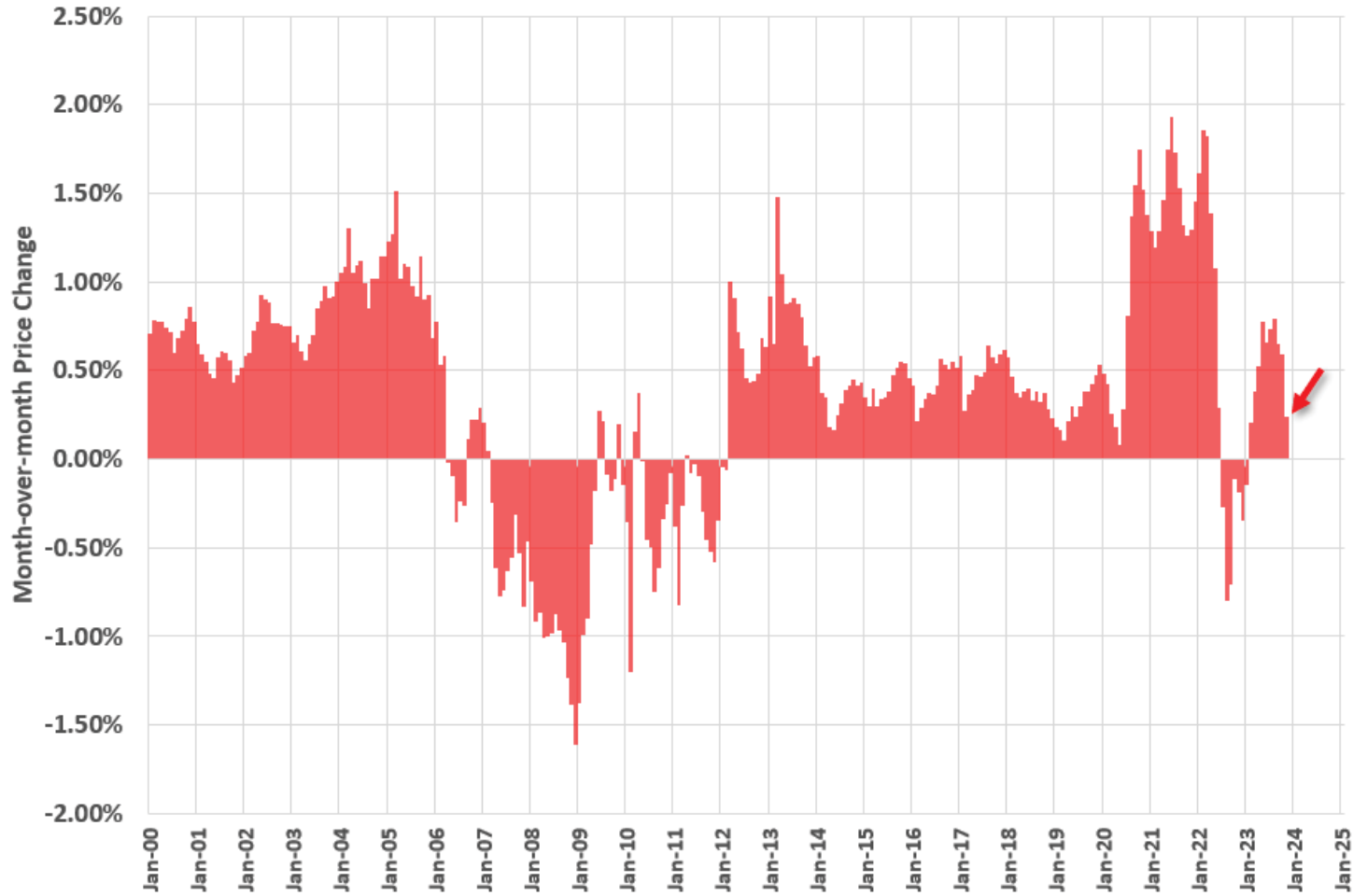
Source: NAR



# Case-Shiller M-o-M Price Changes

House prices fell for 7 months but have been rising steadily since

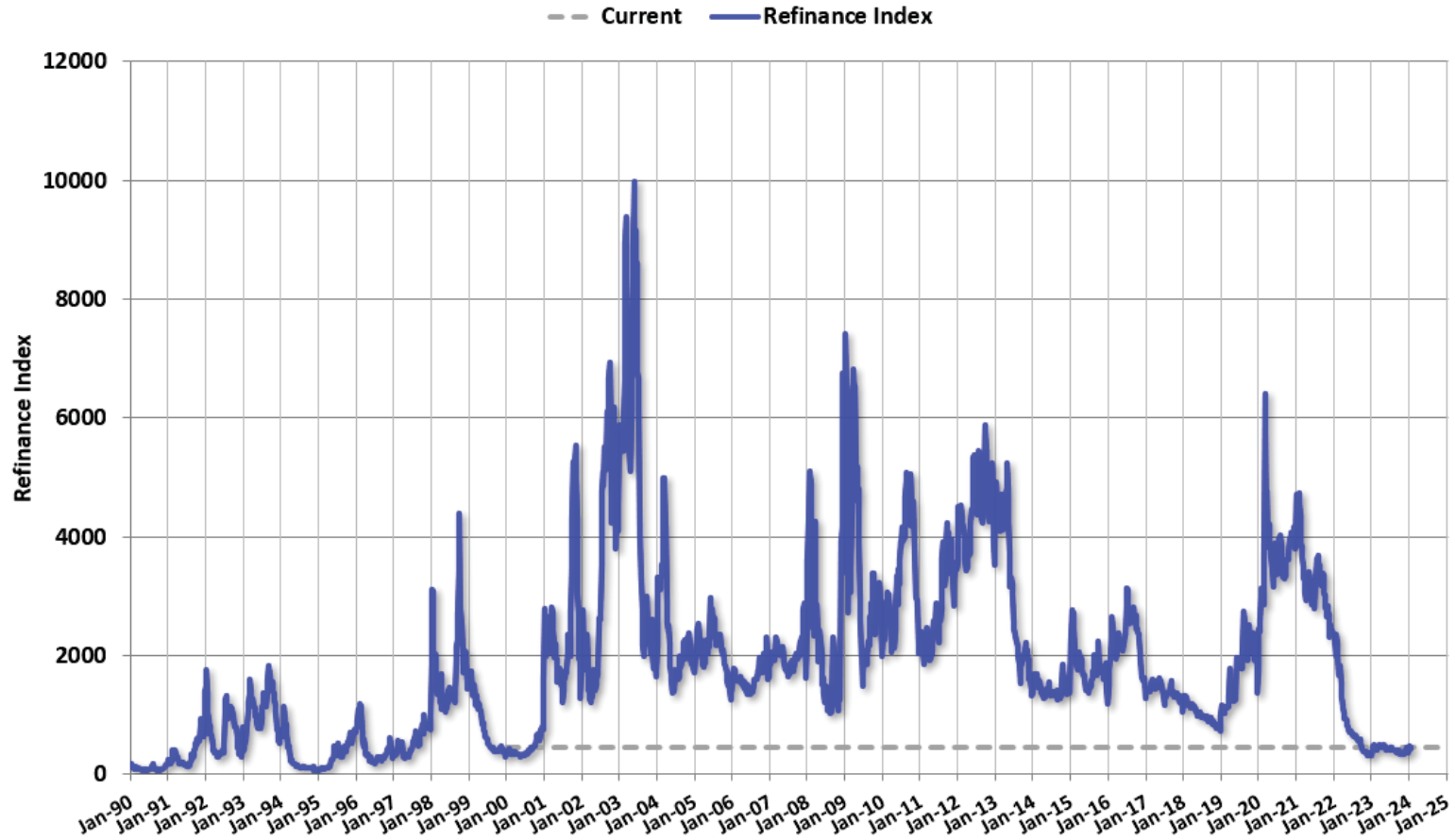
Case-Shiller National Index, Month-over-month, Seasonally Adjusted



# Refinance Activity is Dormant

Refi was \$2.6 trillion in 2021, \$686 billion in 2022, \$315 billion in 2023, maybe \$500 in '24

MBA Refinance Applications Index



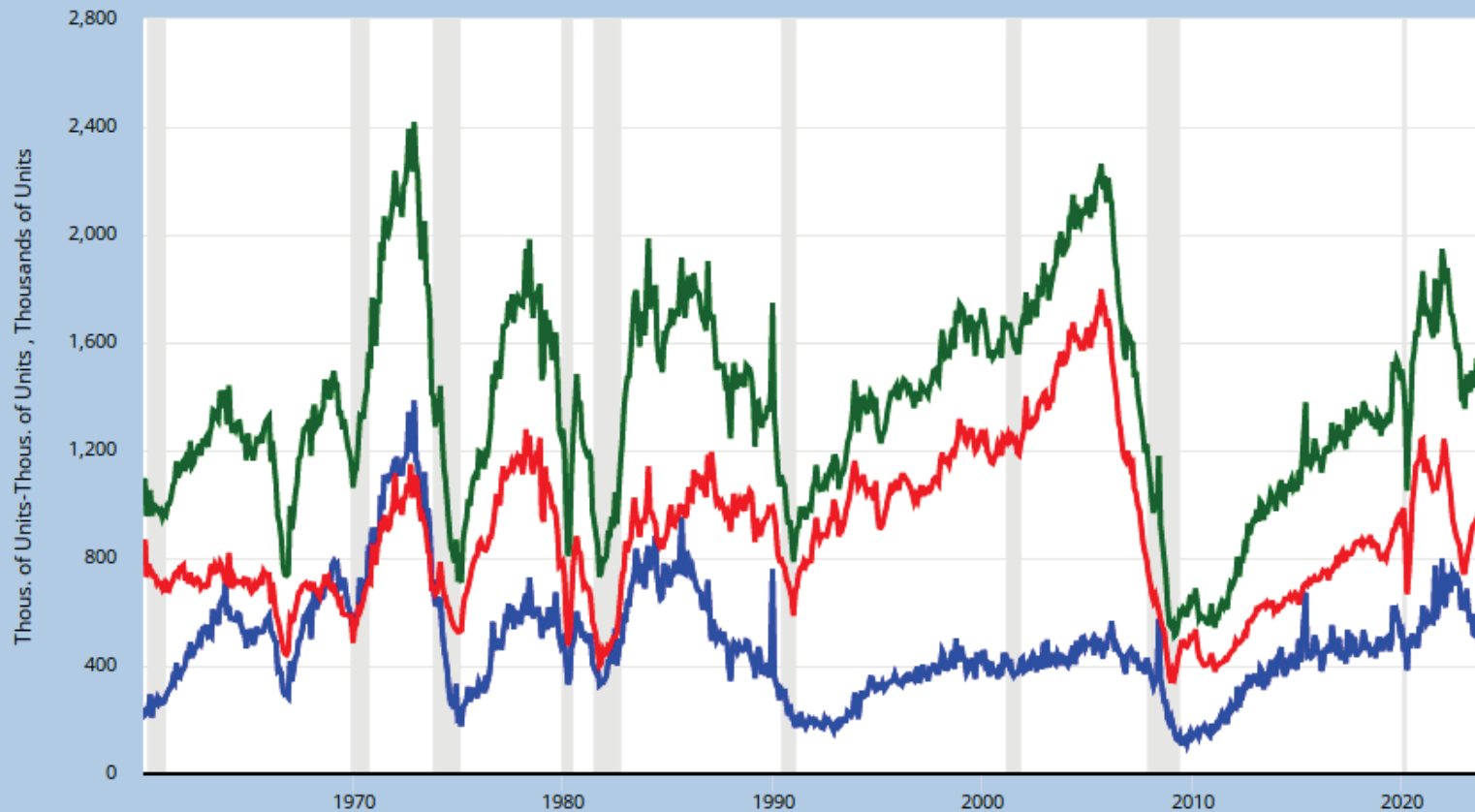
<http://www.calculatedriskblog.com/>

# Residential Housing Permits

Single-family is perking up, multifamily will weaken more

FRED

- New Privately-Owned Housing Units Authorized in Permit-Issuing Places: Total Units-New Privately-Owned Housing Units Authorized in Permit-Issuing Places: Single-Family Units
- New Privately-Owned Housing Units Authorized in Permit-Issuing Places: Single-Family Units
- New Privately-Owned Housing Units Authorized in Permit-Issuing Places: Total Units



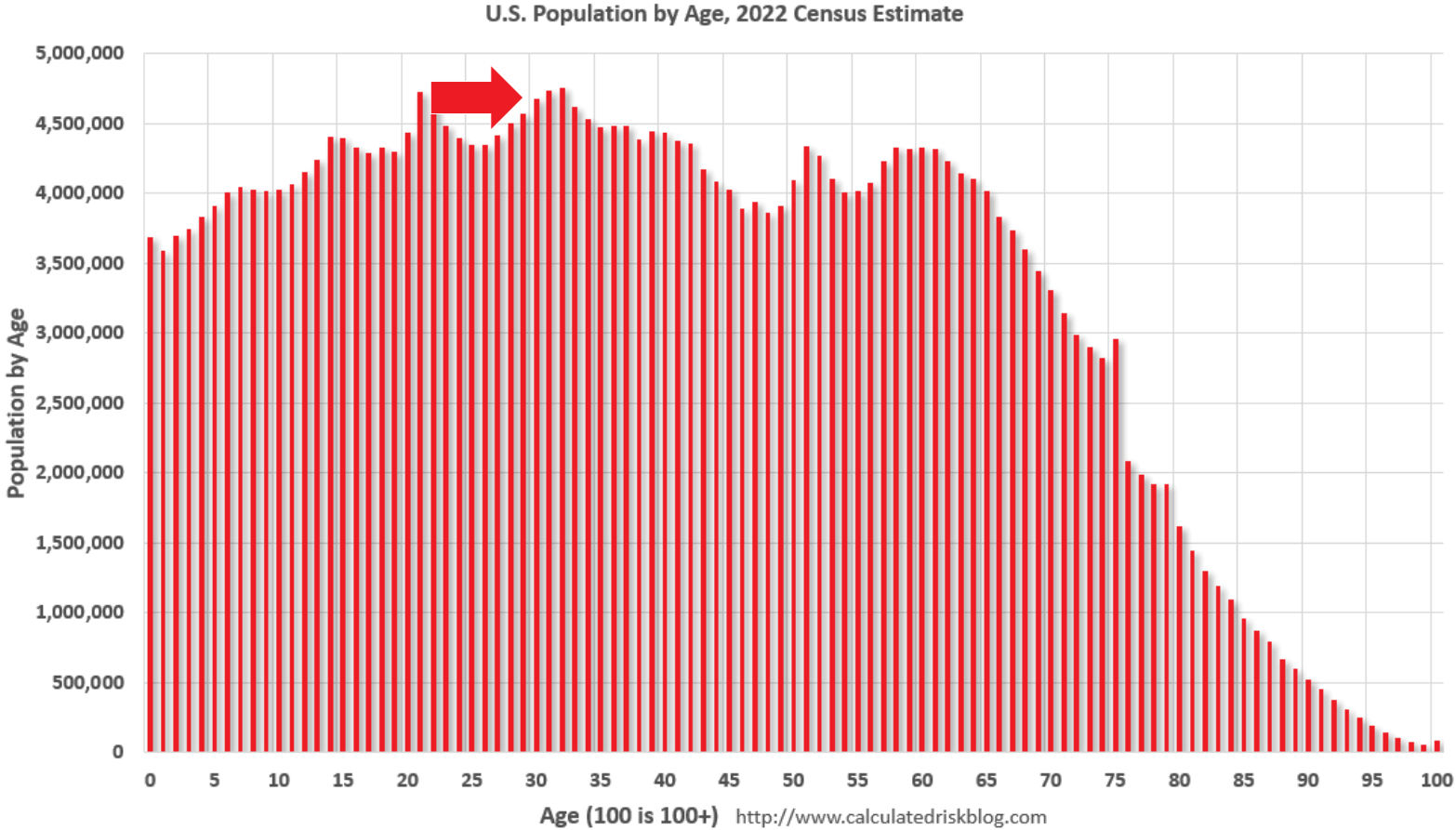
Sources: Census; HUD

[myf.red/g/1eh3j](https://myf.red/g/1eh3j)



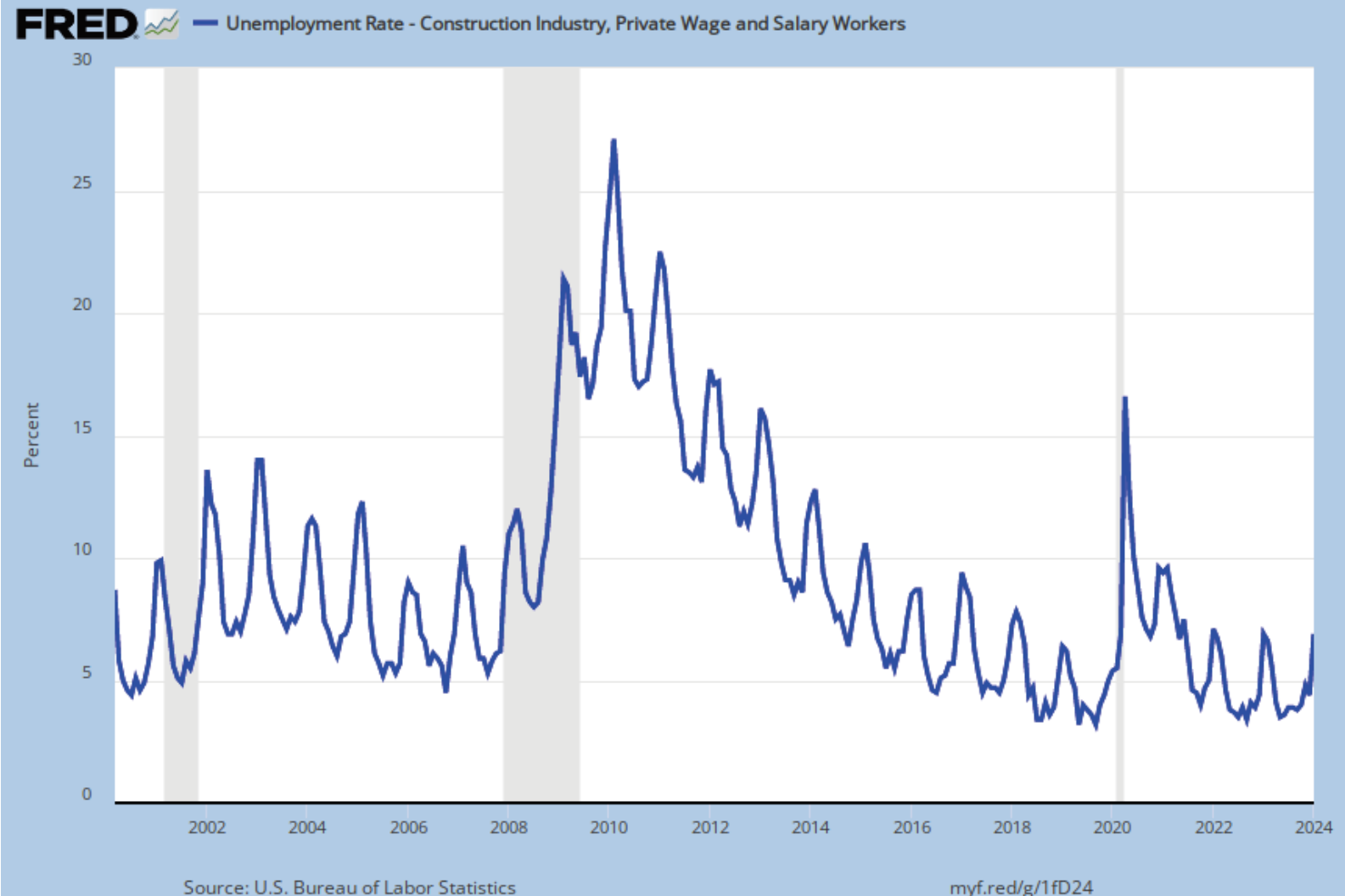
# Millennials Will Keep This Issue Front and Center

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



# Construction Unemployment

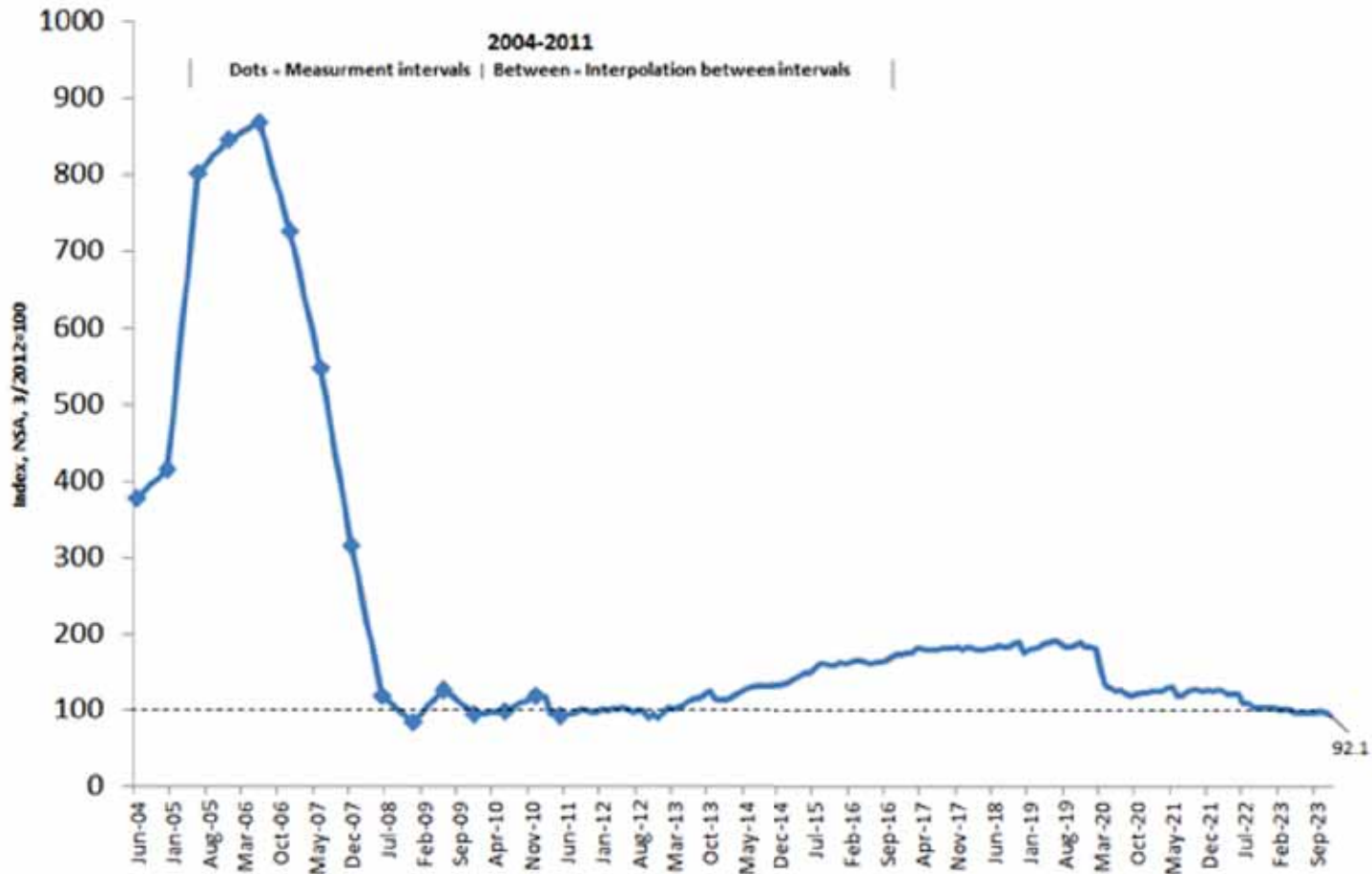
Is near its best level in at least 20 years



# Credit is Generally Hard to Get

It was getting easier, but no longer!

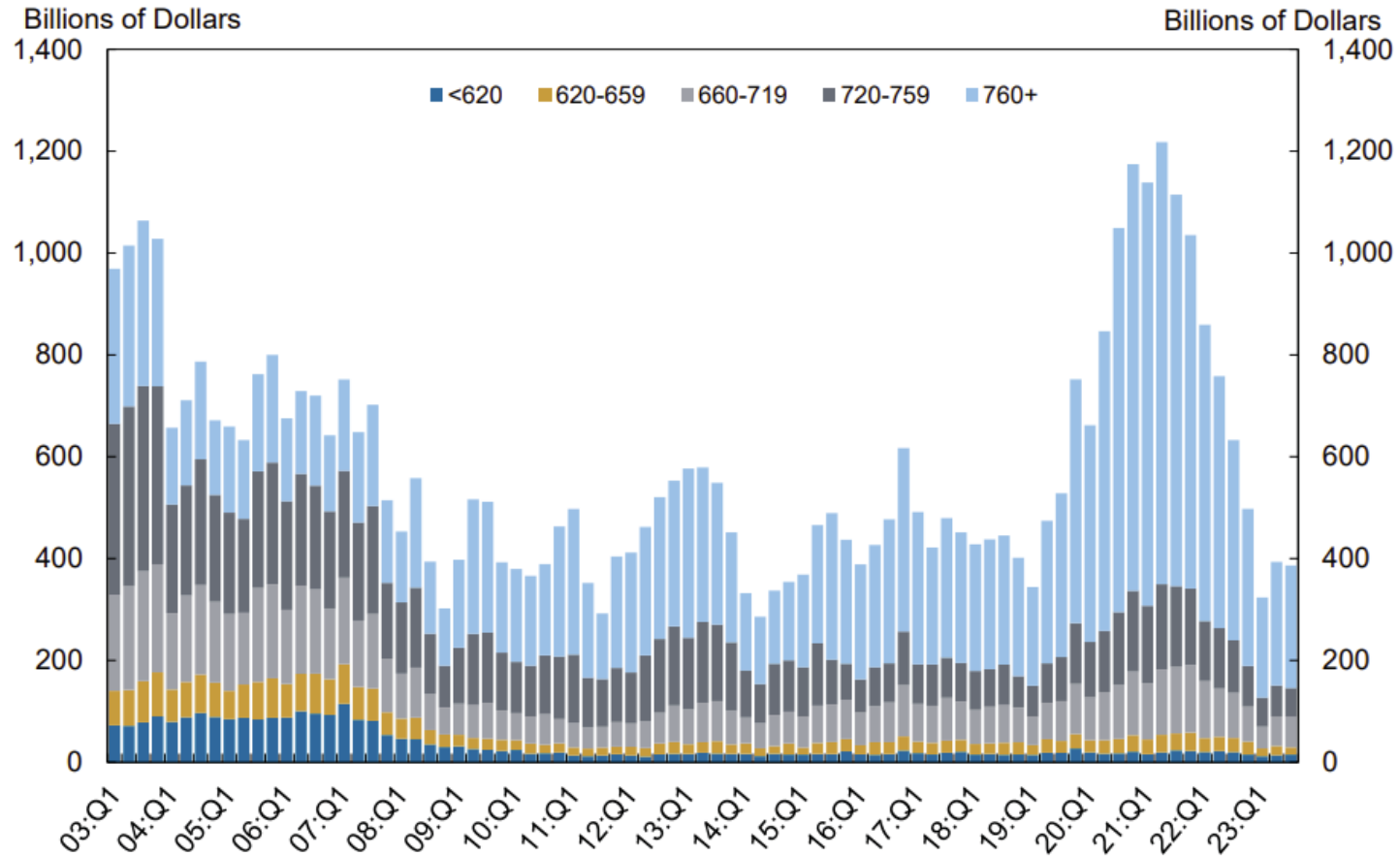
**Mortgage Credit Availability Index (NSA, 3/2012 = 100)**  
Expanded Historical Series



# Mortgage Quality Rises

It has risen and shows no sign of deterioration

## Mortgage Originations by Credit Score\*



Source: New York Fed Consumer Credit Panel/Equifax

\* Credit Score is Equifax Riskscore 3.0

# Construction Costs are Way Up

The increases since Covid-19 are astounding

Producer Price Index, December 2023

	1-Month % Change	12-Month % Change	Change Since Feb 2020
<b>Inputs To Industries</b>			
Inputs to construction	-0.6%	1.2%	37.5%
Inputs to multifamily construction	-0.5%	2.0%	36.9%
Inputs to nonresidential construction	-0.4%	1.6%	38.6%
Inputs to commercial construction	-0.2%	1.4%	39.2%
Inputs to healthcare construction	-0.3%	1.5%	38.7%
Inputs to industrial construction	-0.5%	2.5%	34.6%
Inputs to other nonresidential construction	-0.6%	1.5%	38.4%
Inputs to maintenance and repair construction	-0.9%	0.4%	35.2%
<b>Commodities</b>			
Adhesives and sealants	0.0%	1.6%	33.7%
Brick and structural clay tile	0.0%	5.5%	25.2%
Concrete products	0.1%	7.3%	35.7%
Construction machinery and equipment	0.2%	7.6%	28.9%
Construction sand, gravel, and crushed stone	0.6%	8.5%	30.6%
Copper wire and cable	1.5%	0.7%	30.5%
Crude petroleum	-13.2%	-10.8%	37.7%
Fabricated structural metal products	1.6%	2.5%	55.8%
Gypsum products	0.5%	-1.7%	44.0%
Hot rolled steel bars, plates, and structural shapes	2.9%	-4.7%	56.4%
Insulation materials	0.1%	0.9%	36.6%
Iron and steel	4.3%	1.9%	57.3%
Lumber and wood products	0.1%	-4.4%	23.8%
Natural gas	1.5%	-60.5%	54.8%
Plumbing fixtures and fittings	0.2%	1.5%	18.7%
Prepared asphalt, tar roofing and siding products	0.3%	2.8%	41.6%
Softwood lumber	0.2%	-14.6%	5.0%
Steel mill products	3.3%	-2.0%	65.0%
Switchgear, switchboard, industrial controls equipment	0.2%	5.2%	40.1%
Unprocessed energy materials	-9.1%	-28.7%	55.6%

Source: U.S. Bureau of Labor Statistics

**What About  
Things Here?**

# The Most Numeric Growth 7/1/22-6/30/23


Top 10 States by Numeric Growth: 2022 to 2023

Rank	Geographic Area	April 1, 2020 (Estimates Base)	July 1, 2022	July 1, 2023	Numeric Growth
1	Texas	29,145,459	30,029,848	30,503,301	473,453
2	Florida	21,538,216	22,245,521	22,610,726	365,205
3	North Carolina	10,439,459	10,695,965	10,835,491	139,526
4	Georgia	10,713,771	10,913,150	11,029,227	116,077
5	South Carolina	5,118,422	5,282,955	5,373,555	90,600
6	Tennessee	6,910,786	7,048,976	7,126,489	77,513
7	Arizona	7,157,902	7,365,684	7,431,344	65,660
8	Virginia	8,631,373	8,679,099	8,715,698	36,599
9	Colorado	5,773,707	5,841,039	5,877,610	36,571
10	Utah	3,271,614	3,381,236	3,417,734	36,498



# The Fastest Percentage Growth 7/1/22-6/30/23

Top 10 States or State Equivalent by Percent Growth: 2022 to 2023

Rank	Geographic Area	April 1, 2020 (Estimates Base)	July 1, 2022	July 1, 2023	Percent Growth
1	South Carolina	5,118,422	5,282,955	5,373,555	1.7
2	Florida	21,538,216	22,245,521	22,610,726	1.6
3	Texas	29,145,459	30,029,848	30,503,301	1.6
4	Idaho	1,839,117	1,938,996	1,964,726	1.3
5	North Carolina	10,439,459	10,695,965	10,835,491	1.3
6	Delaware	989,946	1,019,459	1,031,890	1.2
7	District of Columbia	689,548	670,949	678,972	1.2
8	Tennessee	6,910,786	7,048,976	7,126,489	1.1
 9	Utah	3,271,614	3,381,236	3,417,734	1.1
10	Georgia	10,713,771	10,913,150	11,029,227	1.1



# KEY TAKEAWAYS

- 1) 2024 will probably not be a great year
- 2) The Fed has stopped raising rates
- 3) Job growth will most likely slow
- 4) Inflation should keep decelerating
- 5) Watch inflation and unemployment

# ANY QUESTIONS?

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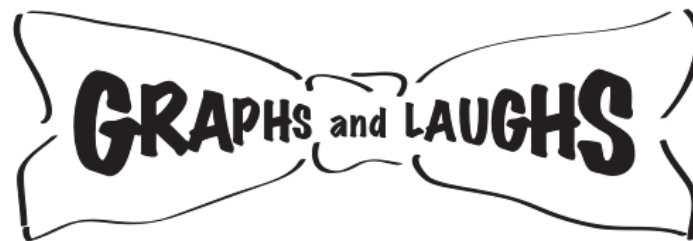
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Thank YOU all very very much!

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