

THE ECONOMY AT A GLANCE

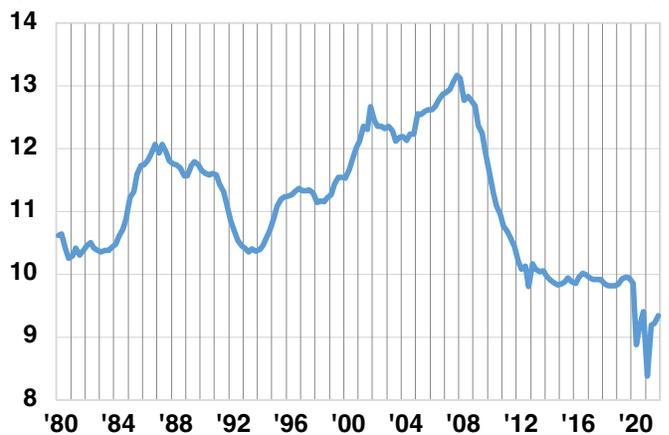
ECONOMIC HIGHLIGHTS

July 4, 2022
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HOUSEHOLD FINANCES IN GOOD SHAPE

The Federal Reserve keeps track of household debt service payments as a percentage of disposable personal income. This metric (the lower the better) is now at 9.3%. The average debt-service payment level since 1980 has been 11%. The high-water mark was established during the Great Recession (4Q07 to be exact) at 13.2%. We doubt that households will be eager take on much more debt in the coming quarters, as inflation is high and interest rates have risen, increasing the cost of debt to households while unemployment is still low. We do think the sound condition of household finances is an important indicator signaling that the consumer sector of the economy should continue to expand through 2022.

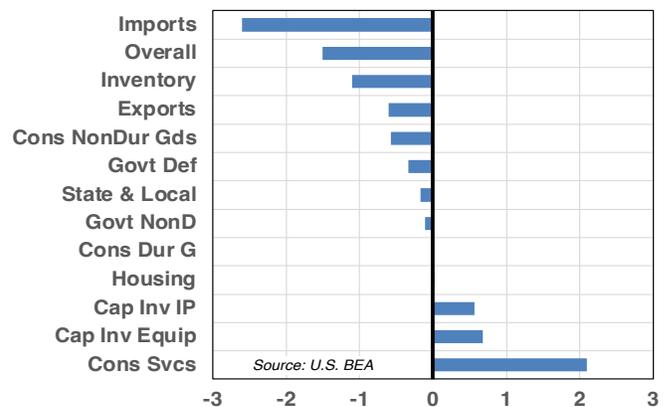
HOUSEHOLD DEBT LEVELS (SERVICE PAYMENTS AS % OF DISPOSABLE PERSONAL INCOME)



ECONOMIC TRENDS UNEVEN, BUT CORE FACTORS SOLID

There were several pockets of economic strength in the first quarter, including personal consumption expenditures (PCE) on services, as well as capital investments into equipment and investments in intellectual property products. These are core elements of the U.S. economy. But a few segments of the economy struggled in 1Q. PCE-nondurable goods were down due to reduced consumption of gasoline and other energy products. Export goods were negative due to the Russian invasion of Ukraine as well as COVID shutdowns in China. Government spending was also lower as the U.S. has largely moved past fiscal stimulus programs. Finally, spending on imports (which counts against GDP growth) surged for the second quarter in a row.

CONTRIBUTIONS TO 4Q GDP GROWTH (% CHANGE, ANNUAL BASIS)



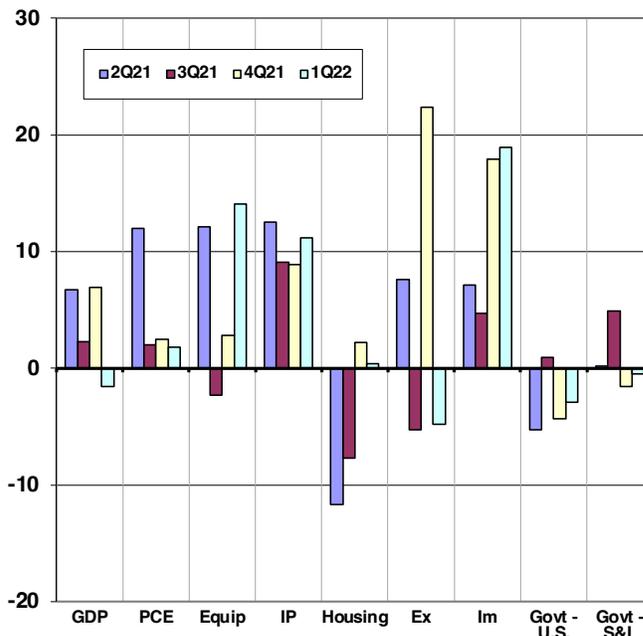
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ECONOMIC HIGHLIGHTS (CONTINUED)

FINAL 1Q GDP READING: NEGATIVE 1.6%

The U.S. Department of Commerce announced that its “third” estimate for 1Q22 GDP was a decline of 1.6%. Despite the negative number, we are not convinced that this data point indicates that the U.S. is headed for a near-term recession. There were just too many signs of core strength in the results, including a 5.9% increase in personal consumption expenditures (PCE) on durable goods, a 3.0% increase in PCE services, a 14% increase in investment in equipment, and an 11% increase in investment in intellectual property products. To be sure, high gas prices are weighing on the economy, as is the war in Ukraine. Government spending declined 3% and imports rose 19%. Neither of those latter trends seems sustainable. We anticipate a modest rebound in overall GDP in 2022. As for 2023, we will need to see how high short-term interest rates go – and how fast they rise – over the remainder of the year.

GDP GROWTH DRIVERS (%)



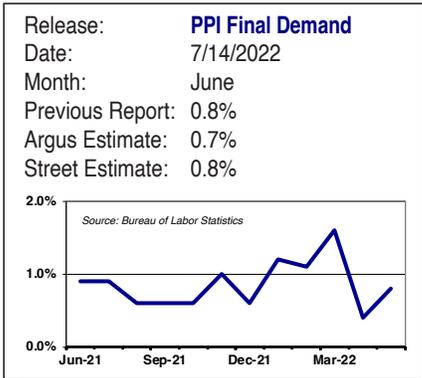
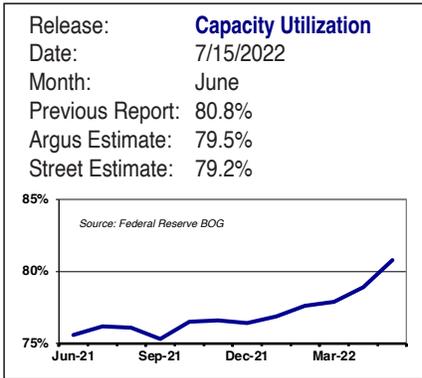
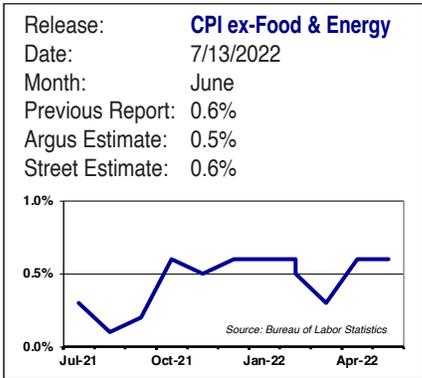
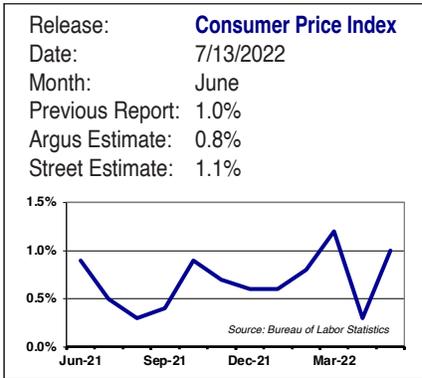
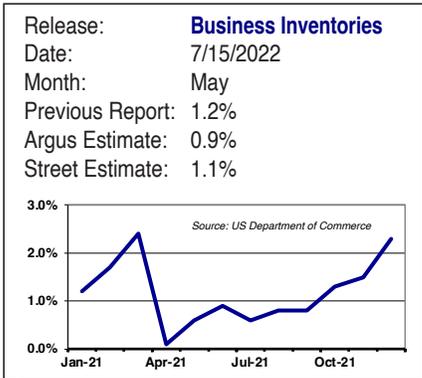
WHAT TO EXPECT IN A RECESSION

We have studied the six recessions in the U.S. since 1980. Five of them were “normal” pullbacks, while the sixth was the recent pandemic-induced decline. Averaging the results of those first five, we find that recessions typically last 3-4 quarters, and that the average peak-to-trough decline in output is 5.6%. Unemployment typically rises 250 basis points, which would lift the current rate back above 6.0%. Treasury yields typically fall during recessions, as often the Fed begins to lower rates in an attempt to revive the economy. On average, the change in the 10-year Treasury yield from start to finish during a recession is 60 basis points. So those are averages. Is the current economy an “average” economy? In many ways, it is not. Unemployment is lower than at the start of previous recessions, so the consumer sector is in pretty good shape. Treasury yields are lower than average as well, which could provide some relief for households and homebuyers. We are not yet forecasting a recession in 2023, but if one does occur, based on the current fundamentals, we would expect it to cause less-than-average damage to the economy.

RECORDS OF RECENT RECESSIONS

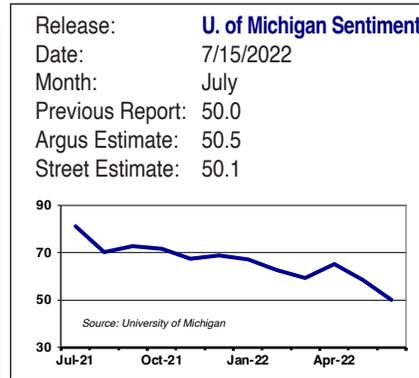
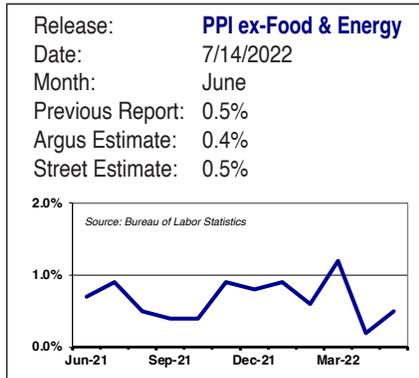
Recession Period	Duration (Quarters)	Depth of Decline (\$BIL)	Depth of Decline (%)	Onset Unem Rate (%)	Peak Unem Rate (%)	Unem Change (%)	10 Yr Tr. Yld. Reces Start (%)	10 Yr Tr. Yld. Reces End (%)	10 Yr Yield Change (BPs)
1Q80-3Q80	2	149	8.0	6.3	7.8	1.5	12.0	12.4	40
3Q81-4Q82	5	179	6.1	7.2	10.8	3.6	14.9	13.9	-100
3Q90-2Q91	3	129	3.6	5.2	6.8	1.6	8.7	8.1	-65
2Q01-1Q02	2	17	1.6	4.3	5.5	1.2	6.2	5.1	-110
4Q07-3Q09	7	486	8.5	5.0	9.5	4.5	4.3	3.5	-80
1Q20	1	1693	31.5	3.5	14.7	11.2	1.1	0.6	-49
AVERAGES	3.8	192	5.6	5.6	8.1	2.5	9.2	8.6	-63

ECONOMIC TRADING CALENDAR



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
5-Jul	Factory Orders	May	0.3%	0.4%	0.5%	NA
6-Jul	ISM Non-Manufacturing	June	55.9	55.7	55.9	NA
7-Jul	Trade Balance	May	-\$87.1 Bln.	-\$86.0 Bln.	-\$88.4 Bln.	NA
8-Jul	Wholesale Inventories	May	2.2%	1.0%	2.2%	NA
	Non-farm Payrolls	June	390 K	280 K	275 K	NA
	Average Weekly Hours	June	34.6	34.6	34.6	NA
	Average Hourly Earnings	June	0.3%	0.3%	0.4%	NA
	Unemployment Rate	June	3.6%	3.6%	3.6%	NA

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Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
19-Jul	Housing Starts	June	1549 K	NA	NA	NA
20-Jul	Existing Home Sales	June	5.41 Mil.	NA	NA	NA
21-Jul	Leading Economic Indicators	June	-0.4%	NA	NA	NA

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