

2023 State of the Economy

# Recession or Resilience?

February 2023

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2023 State of the Economy

# Recession or Resilience?

February 2023



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Professor, Economics & Data Analytics

Executive Director, CBEA

# SOE Audience Poll

Let's hear from you!



Is this your first time  
attending our State of the  
Economy event?

# Overview



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## 1 | GDP

Solid gains to end the year at 2.1% annual growth with consumer spending on services and inventory investment driving Q4 performance

## 2 | Labor market remains “tight”, but continues to cool

Labor market remains tight, but cooling continues with mixed industry resiliency

## 3 | Inflation still elevated, but also cooling

Overall inflation continues to decline from highs with stubborn core inflation

## 4 | Policy

Monetary policy is committed to controlling inflation while fiscal policy is facing challenges

## 5 | Housing market correction?

Rising rates contributed to a stalling housing market with a correction underway

## 6 | The “R” Word

Recession likelihood in early 2023 is 50/50

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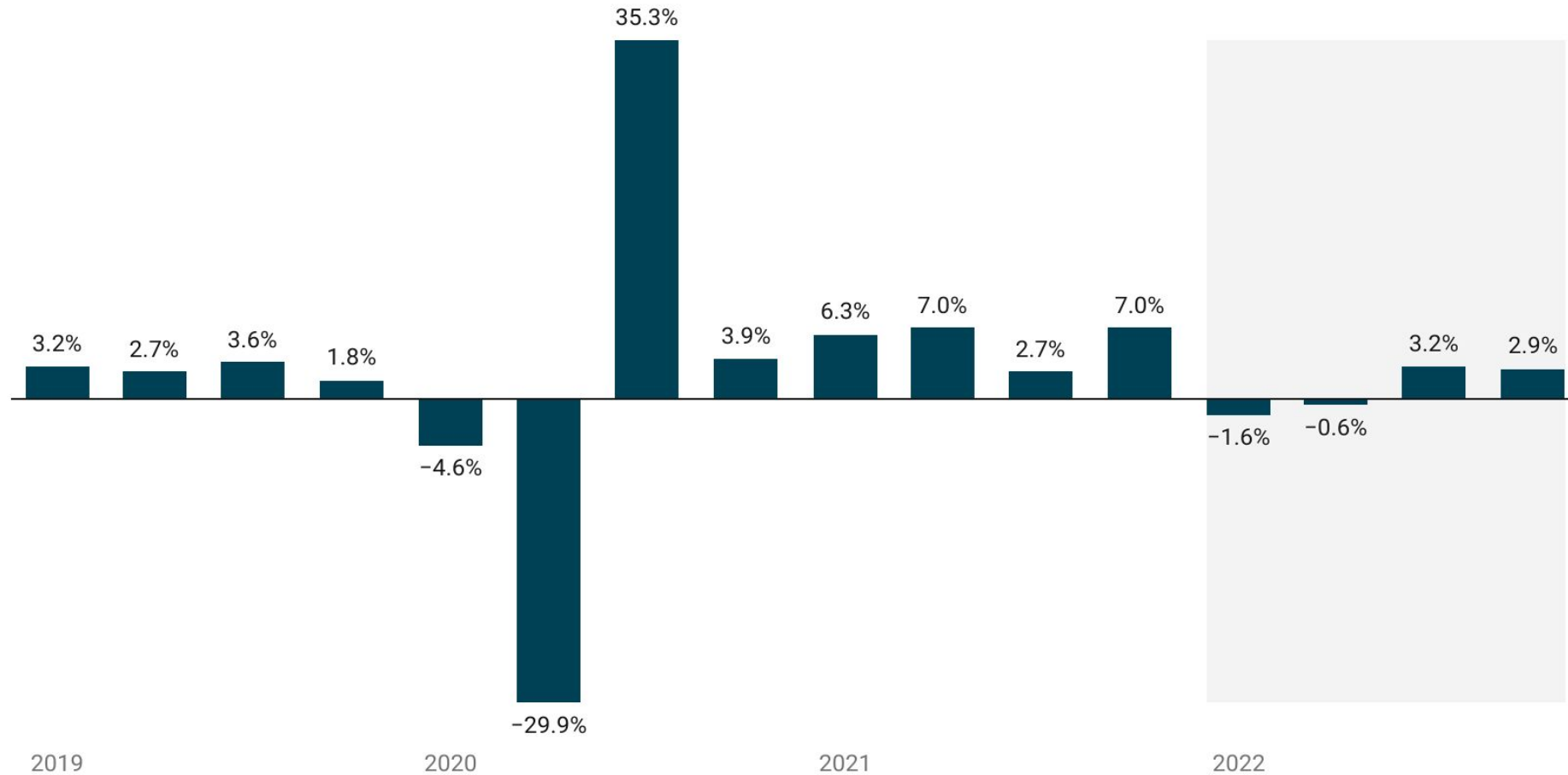
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# GDP clocks in at 2.1% annual growth for 2022 after a troublesome start

## Real GDP Finishes the Year Positive

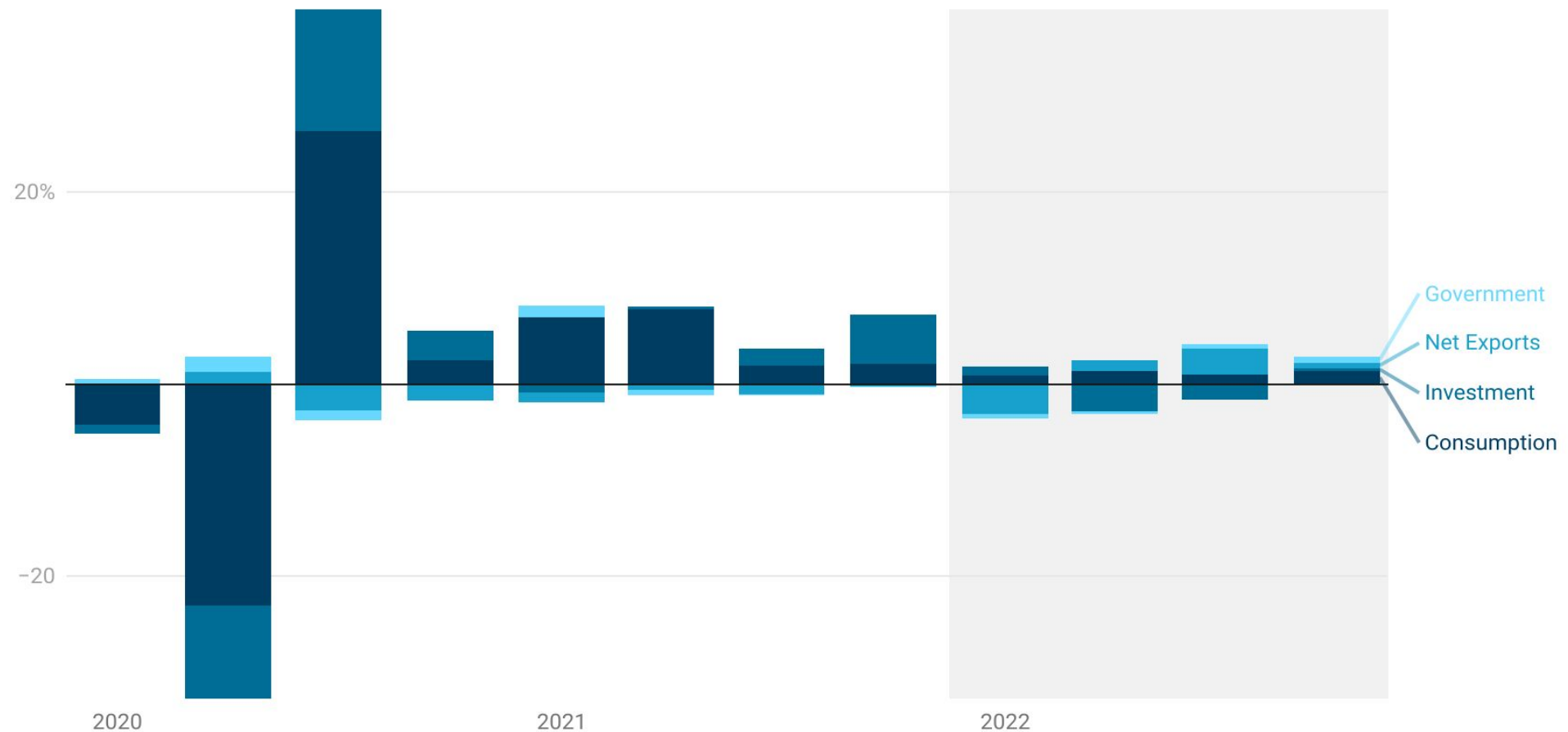
percent change from preceding quarter at seasonally adjusted annual rates



The headwind of growth in the past two quarters has been soft business investment and stabilizing consumption in the face of inflation

## Gross Domestic Product

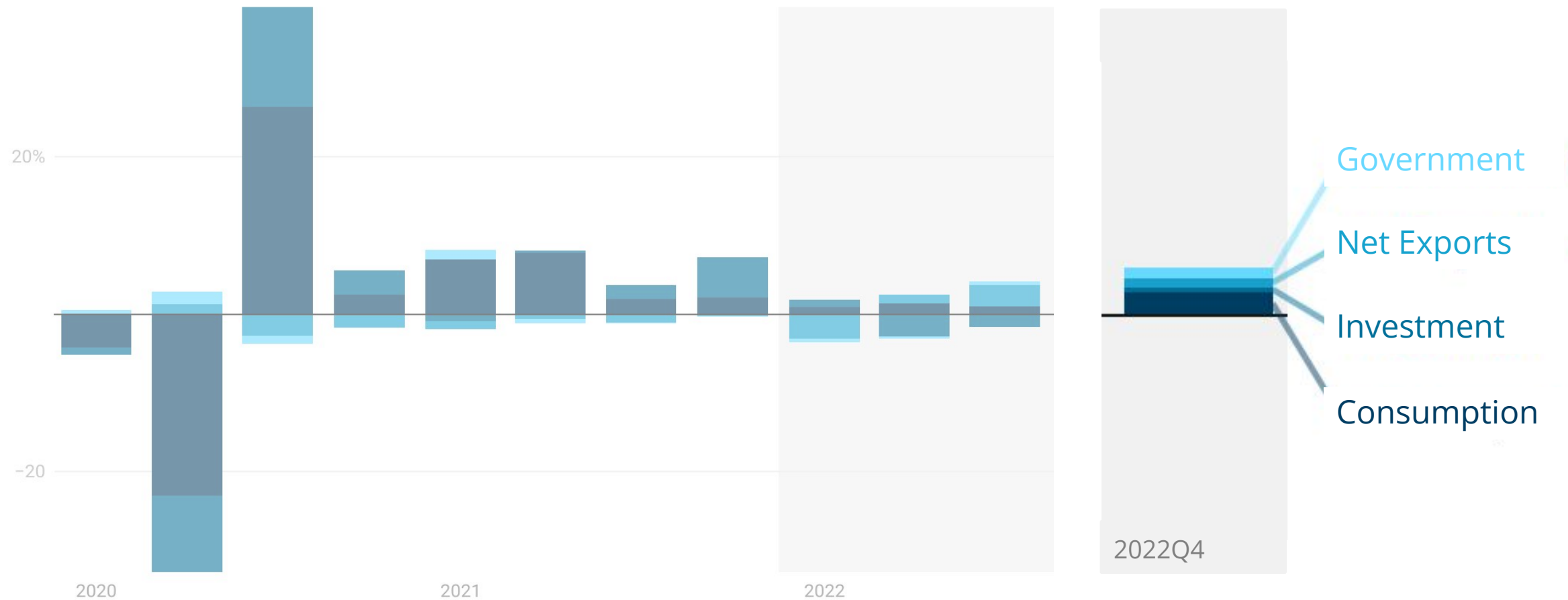
percentage component contribution to GDP



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## Gross Domestic Product

percentage component contribution to GDP

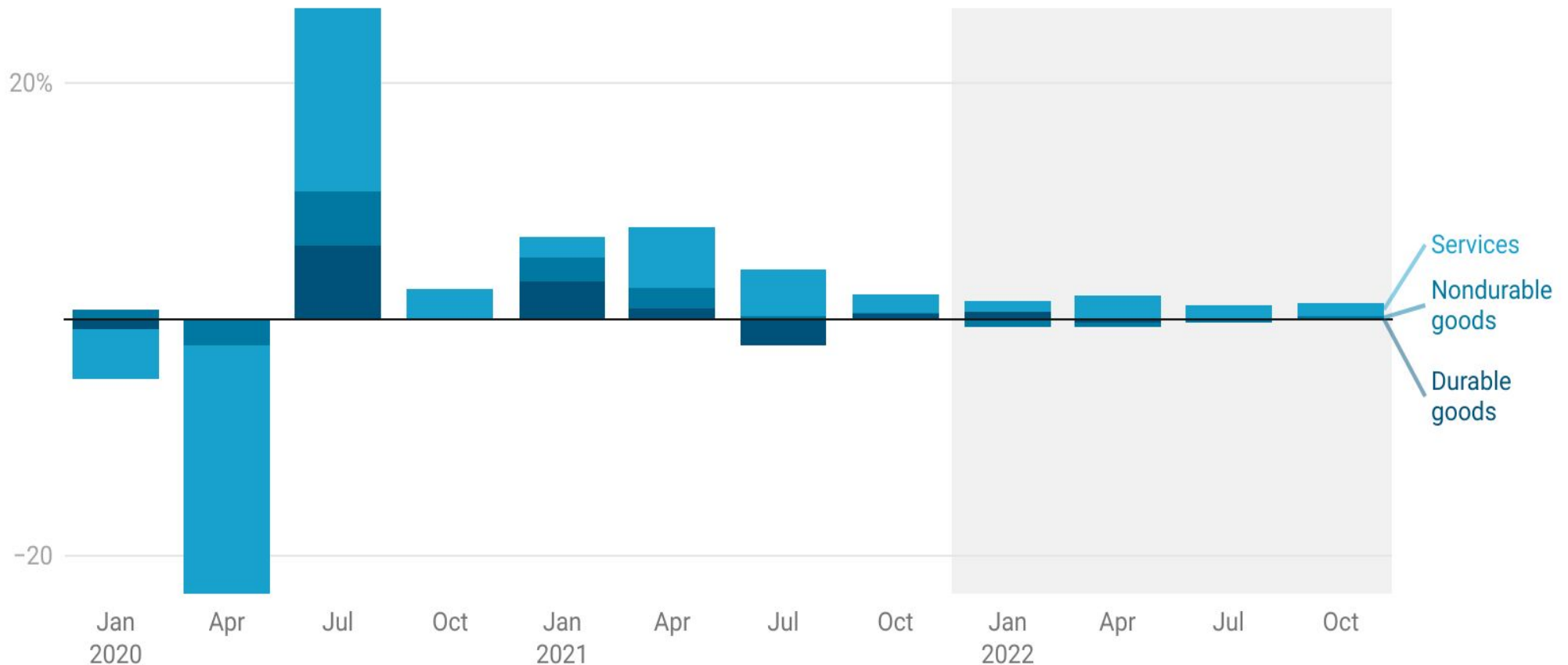




# Consumers have leaned into service spending, while pulling back on goods spending as a contribution to GDP

## Personal Consumption Expenditures

percentage component contribution to consumption

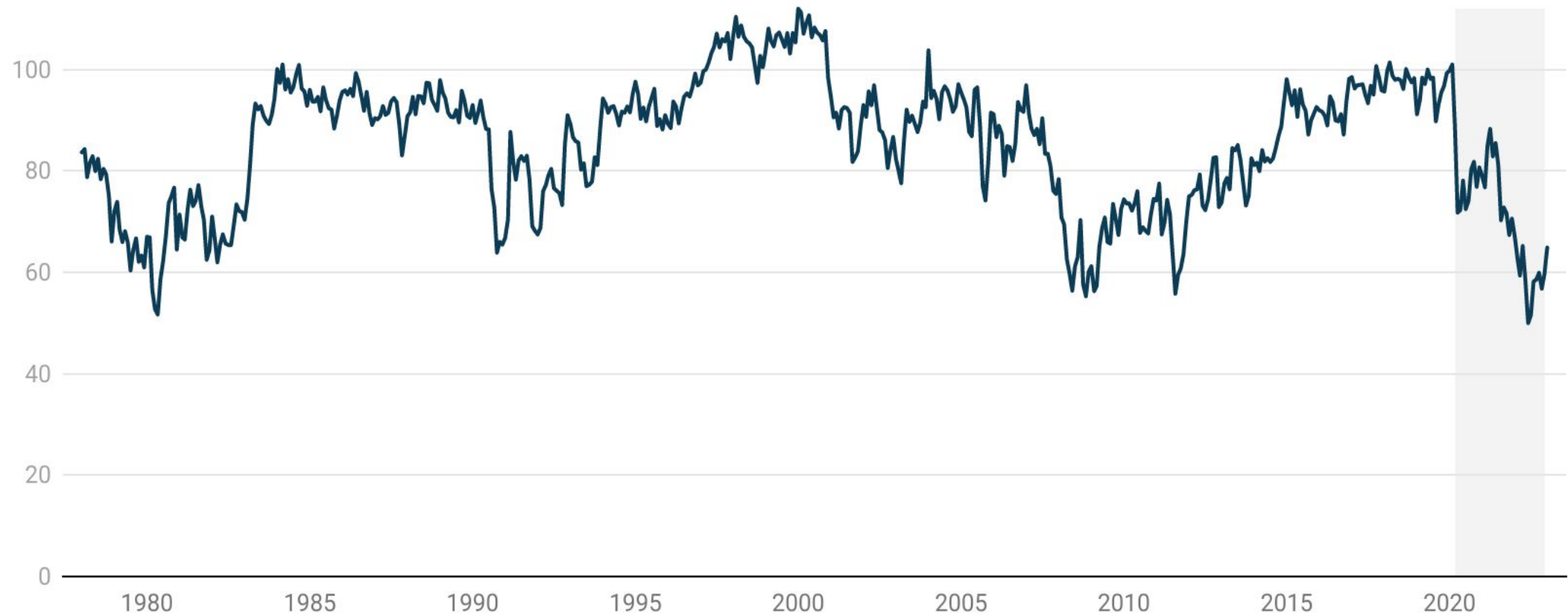


While consumption has been a driving force (with support) throughout the pandemic, consumers are losing optimism

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## Consumer Confidence is Low

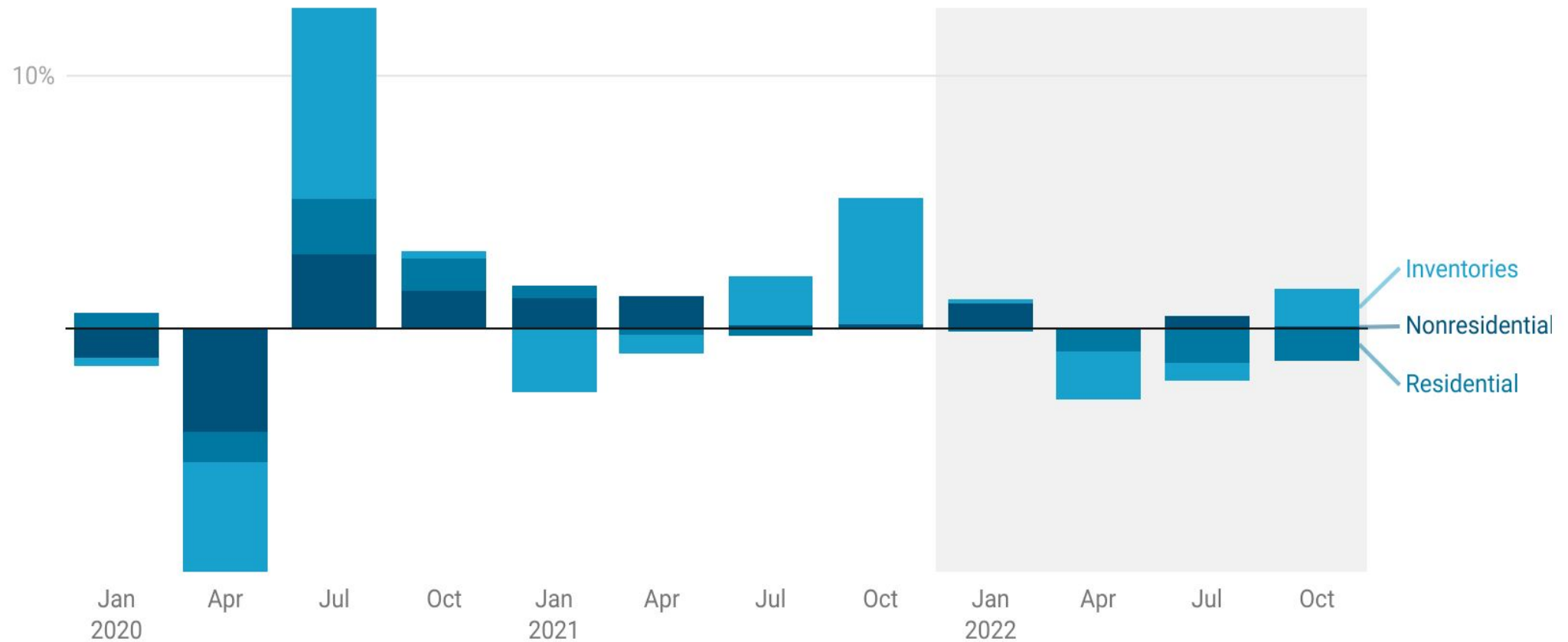
University of Michigan Consumer Sentiment Index



Firms have had inventory challenges (from supply and demand side), but that combined with a pull back in residential investment held investment back in 2022

## Gross Domestic Private Investment

percentage component contribution to Investment



Source | Bureau of Economic Analysis

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Let's hear from you!

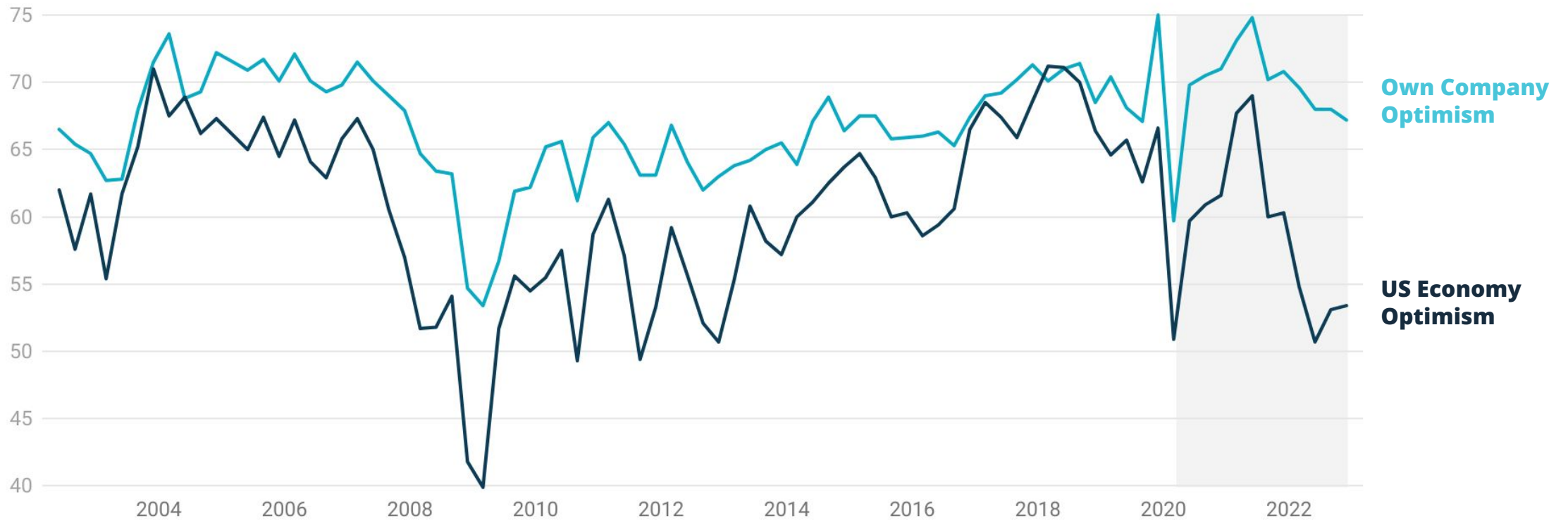


For your organization, overall, how would you describe your current performance?

Much like consumers, firms are feeling less than optimistic about the economic outlook

### CFO Confidence in the Economy is Low

survey-based optimism index



Source | Duke University, FRB Richmond

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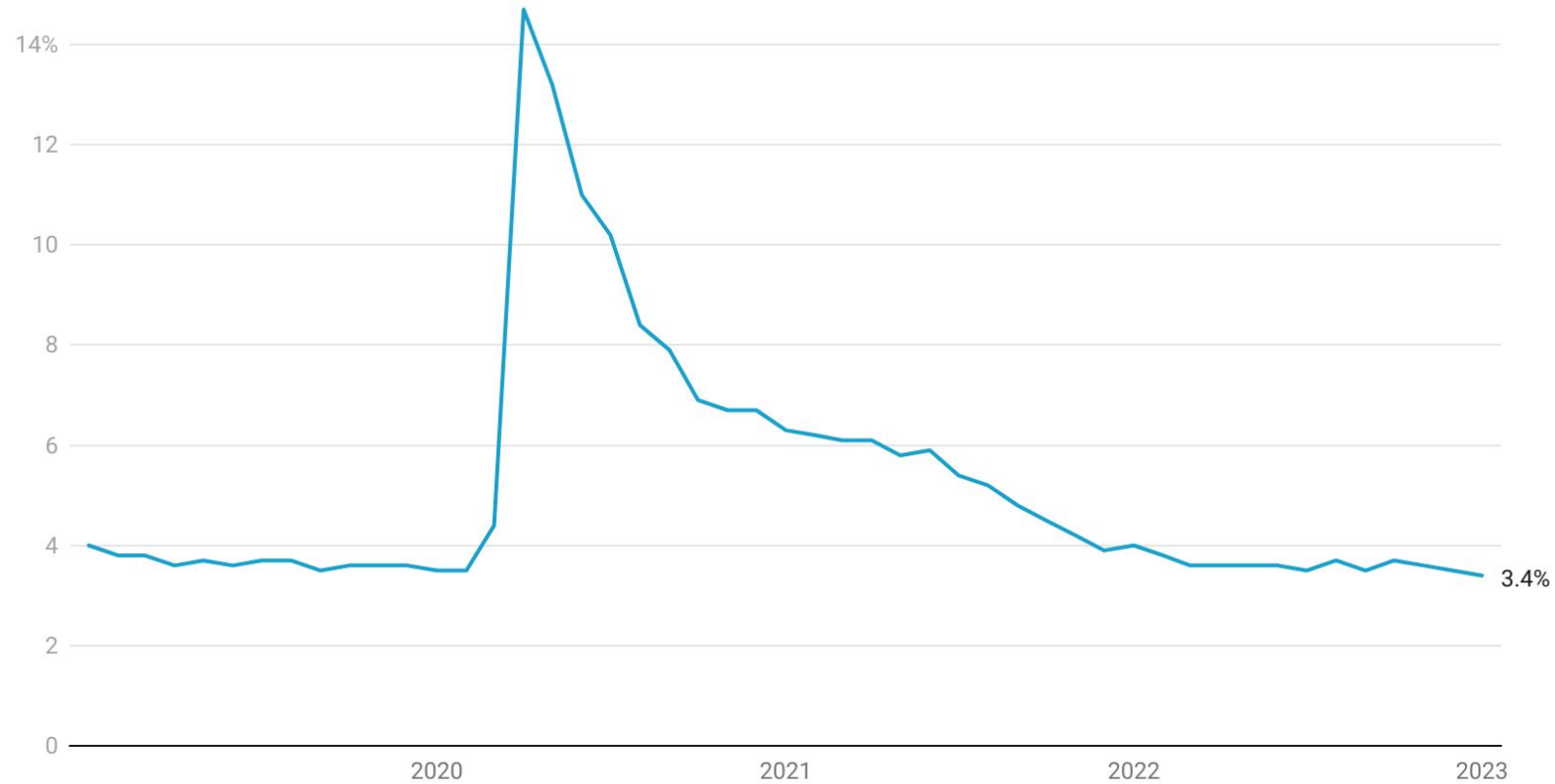
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# Unemployment continues to hover around all time low

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## Unemployment remains low

percentage of unemployment

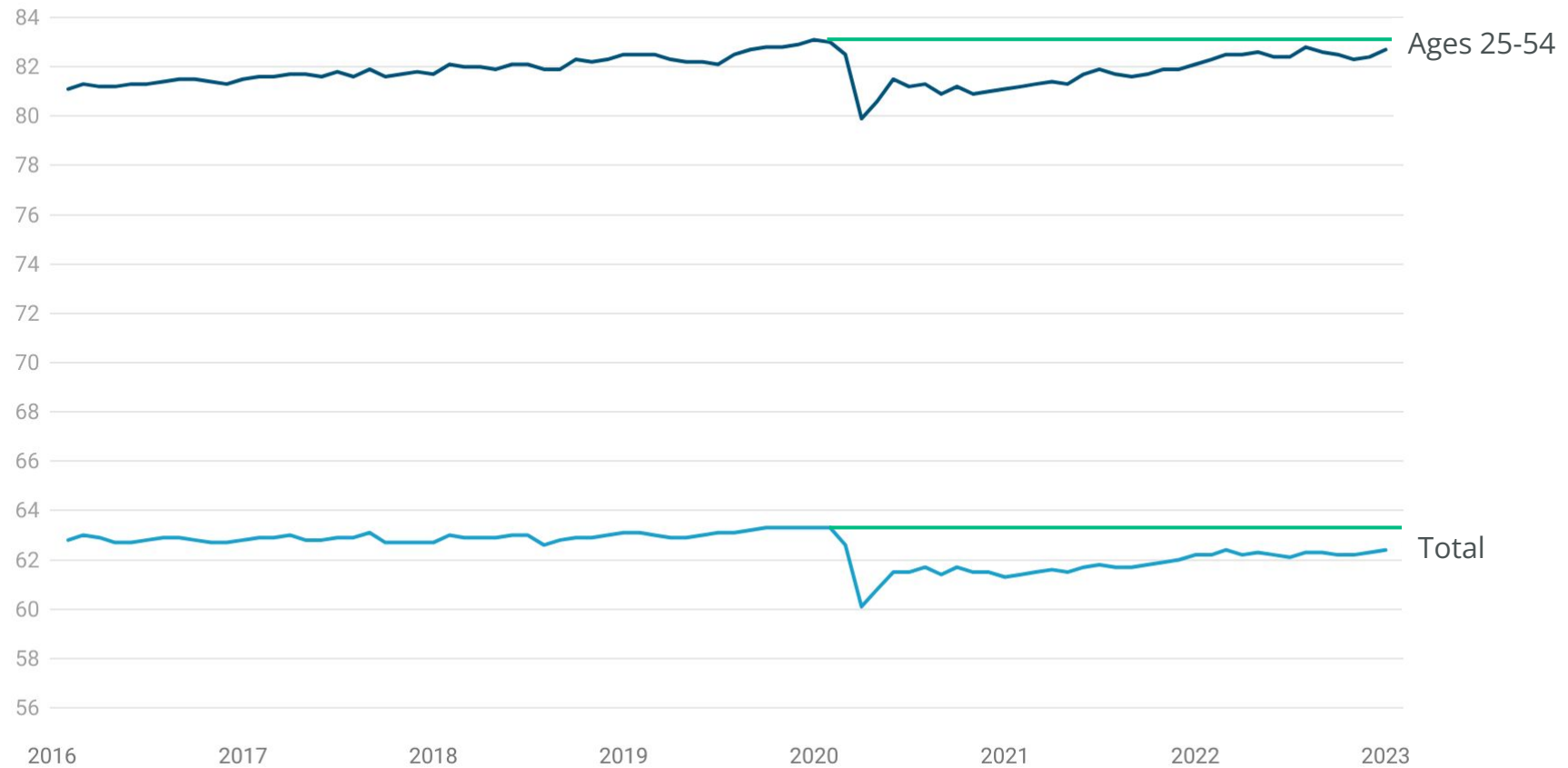


Source | Bureau of Labor Statistics

# Labor Force Participation Rate for ages 25-54 years is still lower than pre-pandemic levels

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**Labor force participation rate**



Source | Bureau of Labor Statistics



Openings and quits remain high with evidence of a downward trend, while nationally, layoffs stay persistently low

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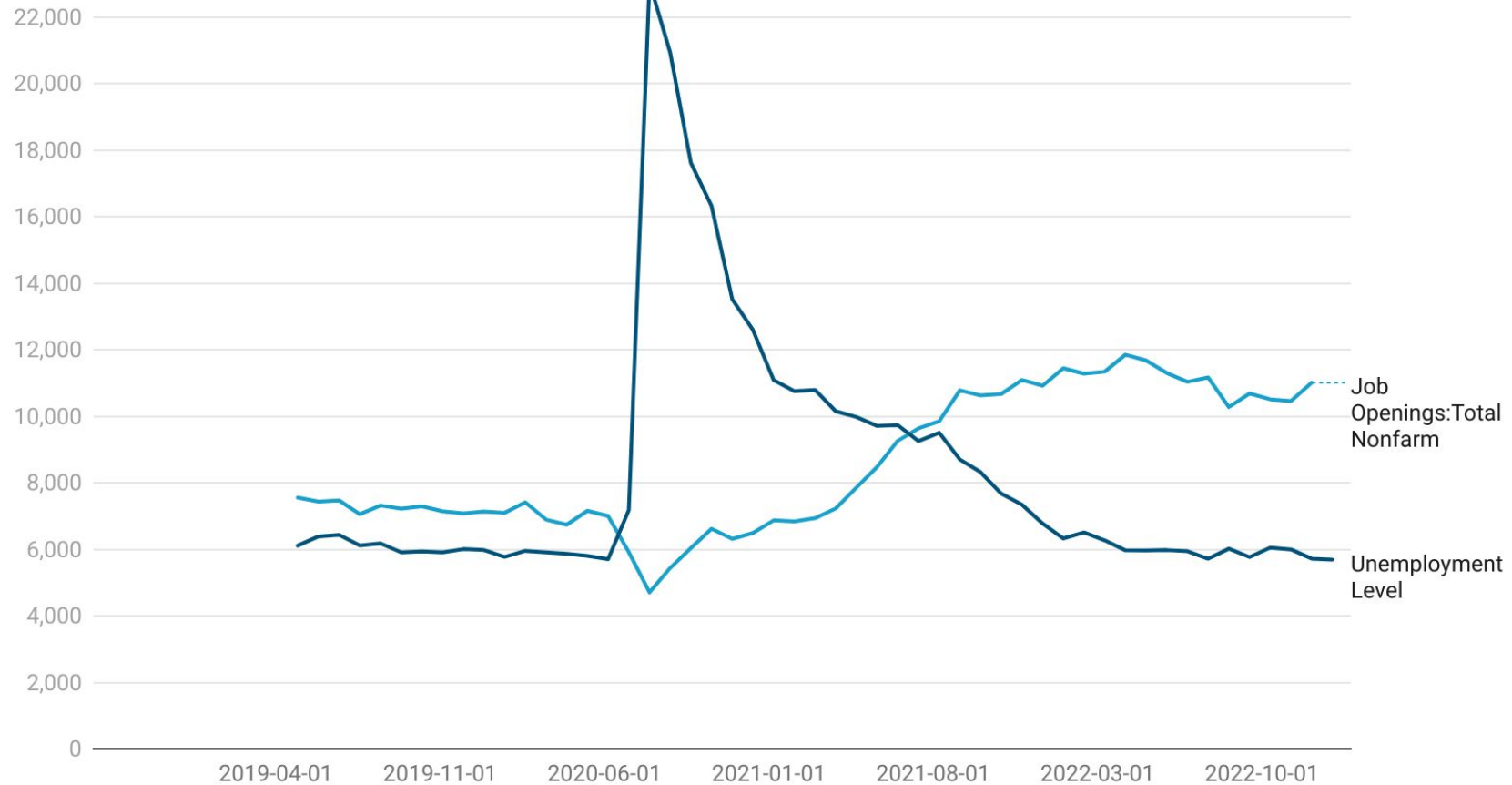


source | Bureau of Labor Statistics

# Surplus of job openings indicates labor market remains tight

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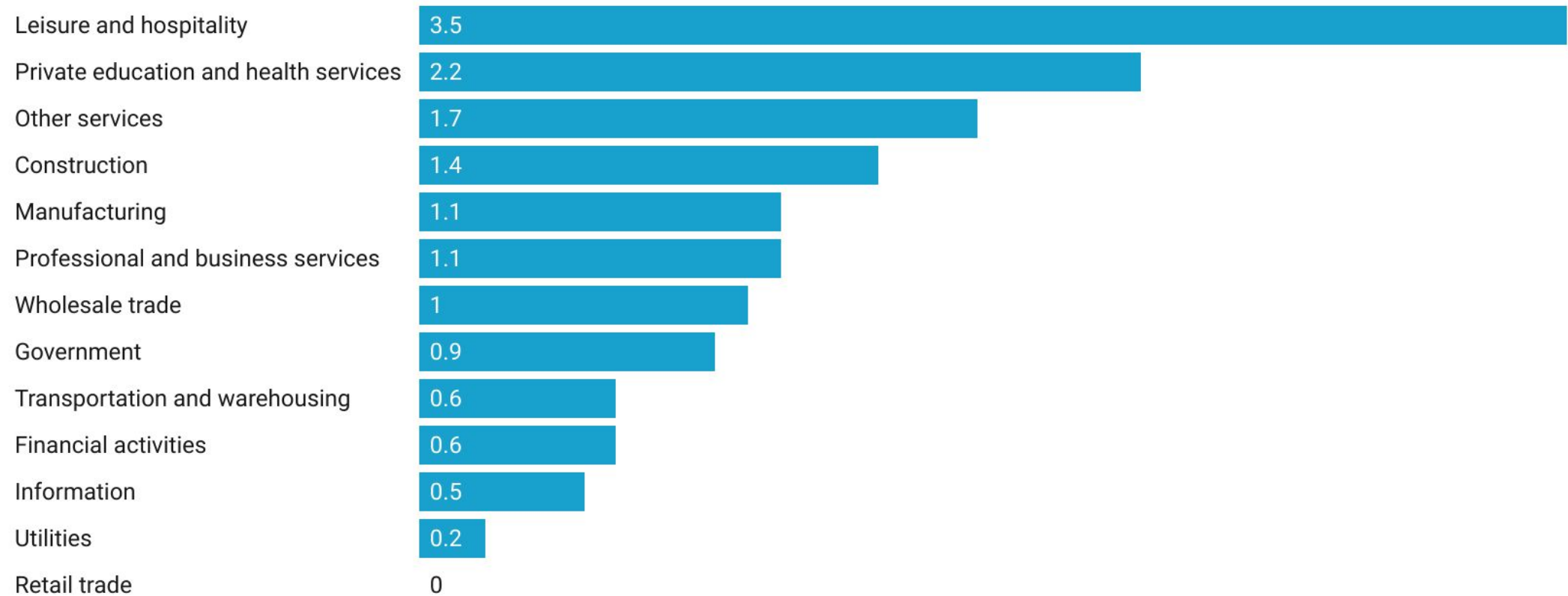
## Job openings continue to exceed unemployed



Source | Bureau of Labor Statistics

# 6-month change in employment from January 2023 shows service providing industry is experiencing notable gains

## 6-month percent change in employment

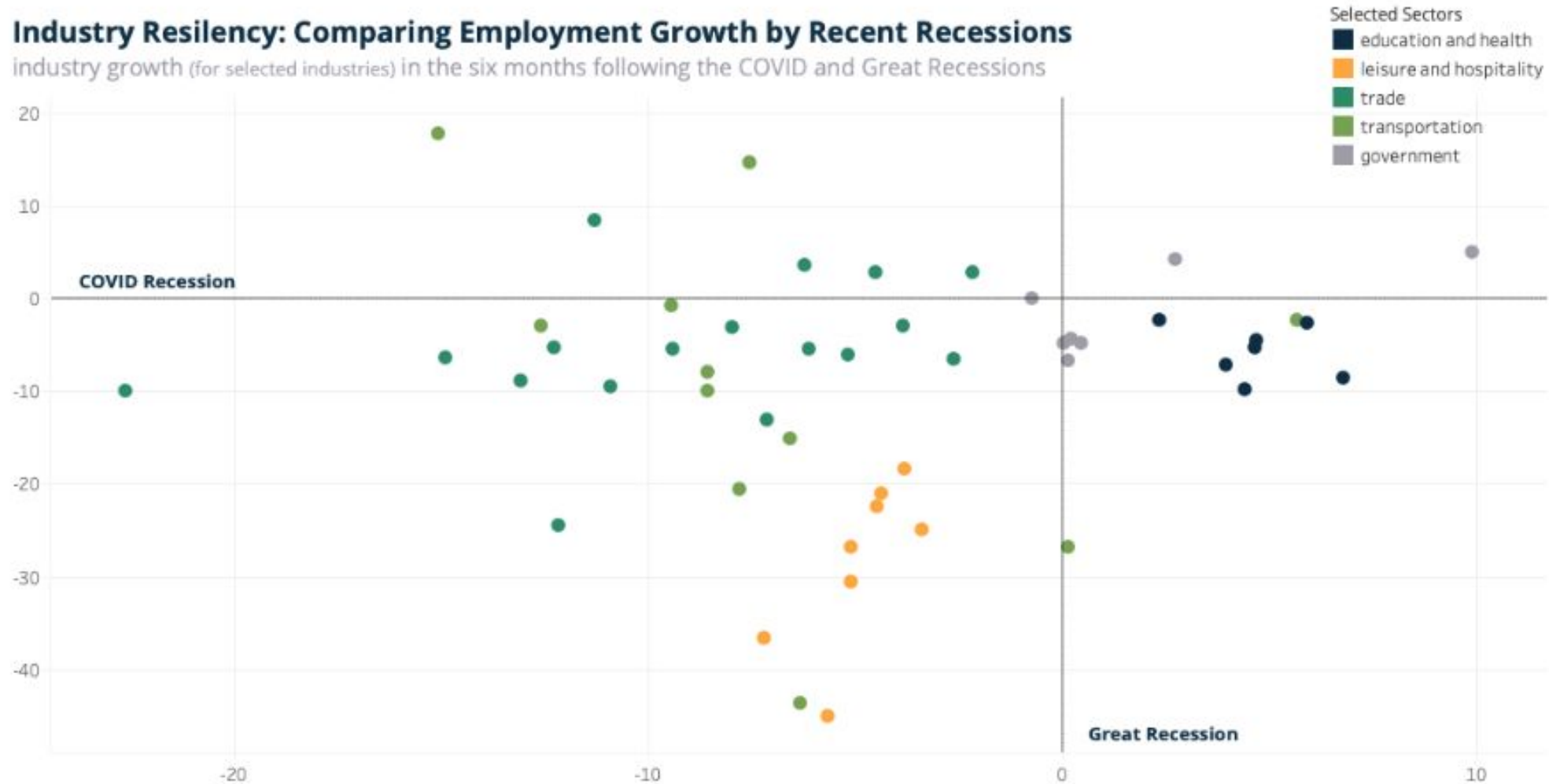


# Employment growth suggests some industries may be more resilient during recessions

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## Industry Resiliency: Comparing Employment Growth by Recent Recessions

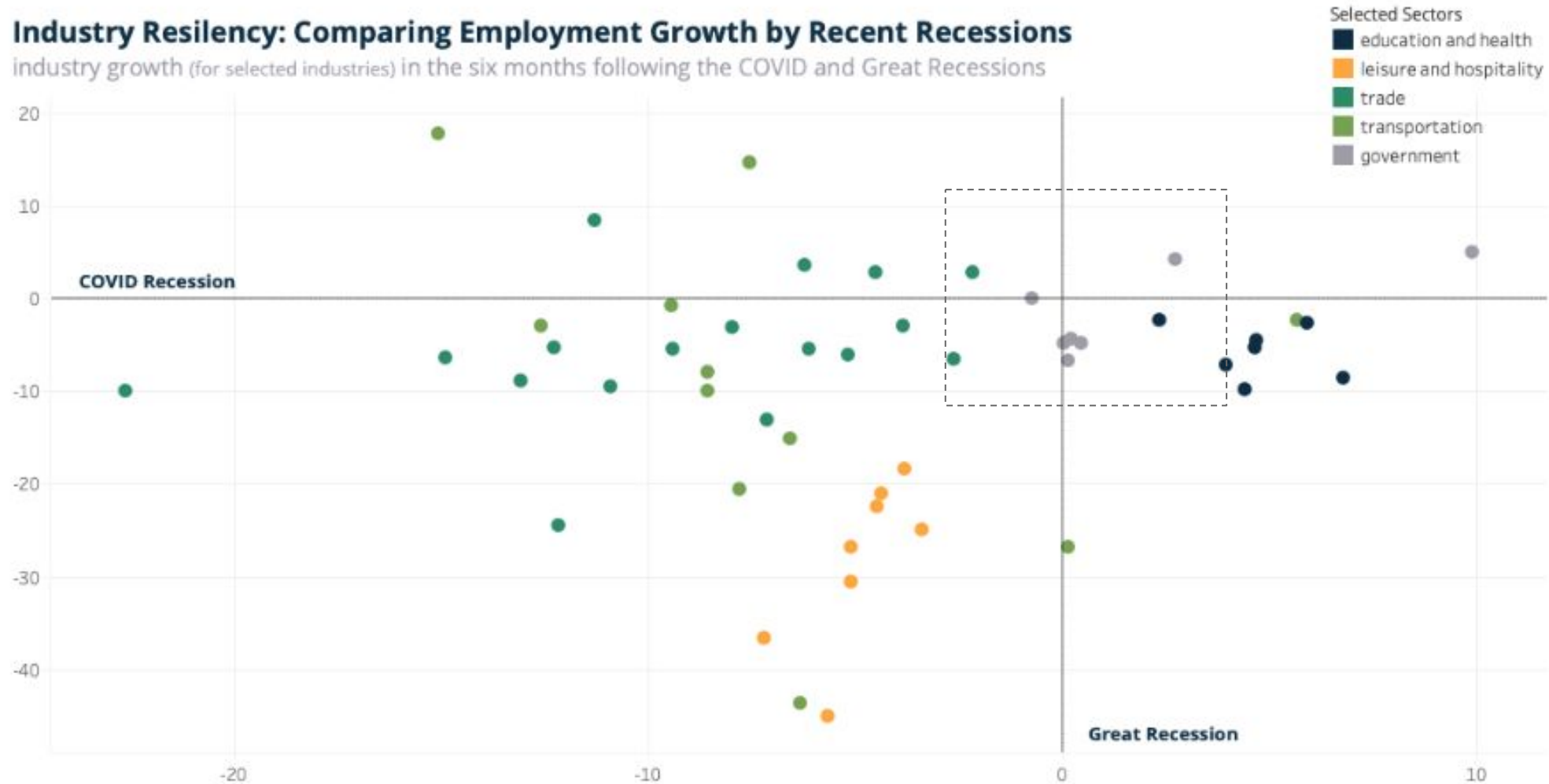
industry growth (for selected industries) in the six months following the COVID and Great Recessions



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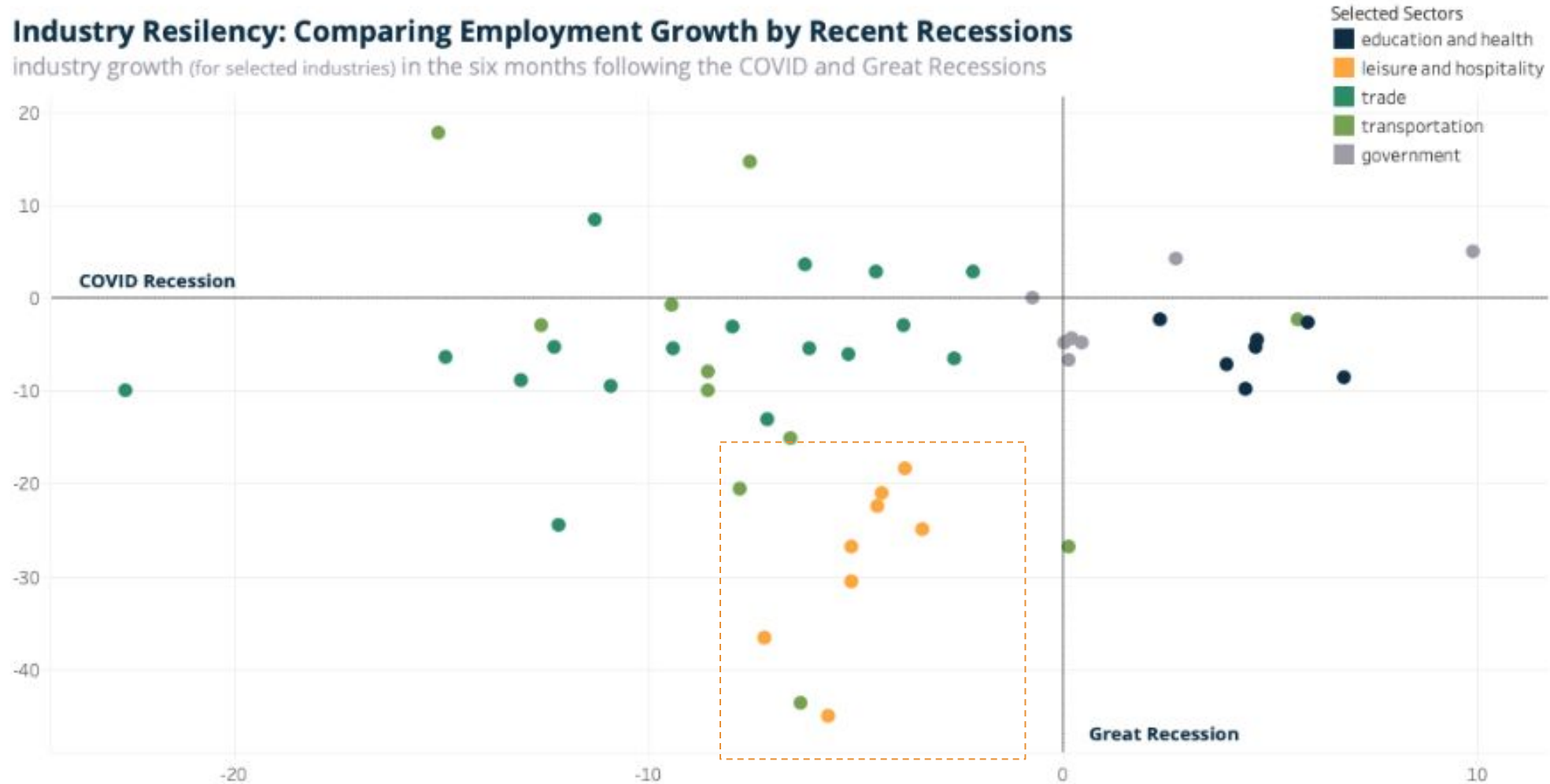
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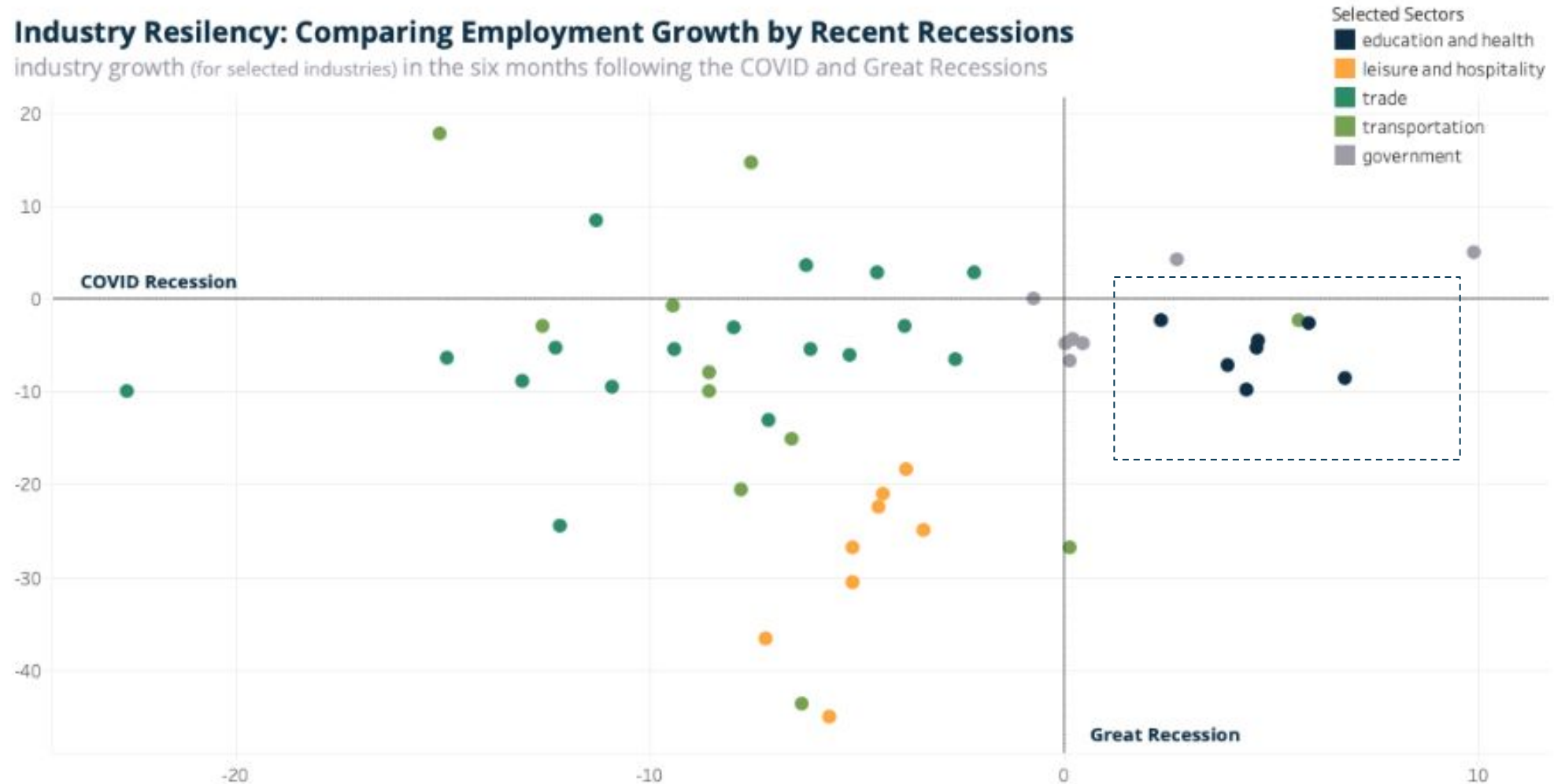
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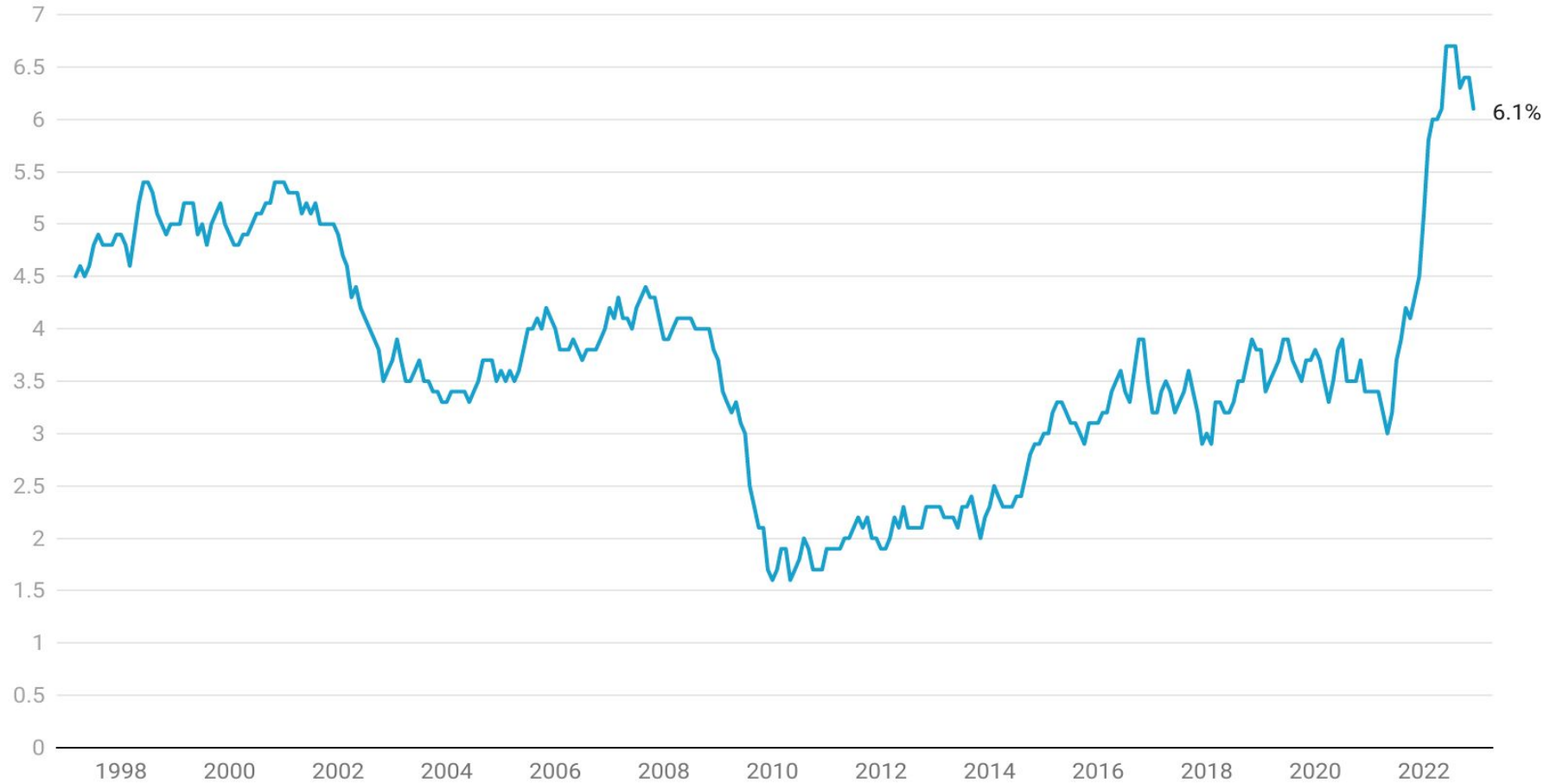
industry growth (for selected industries) in the six months following the COVID and Great Recessions



# Wage growth remains high, but trending downwards lately

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## Overall unweighted wage growth tracker

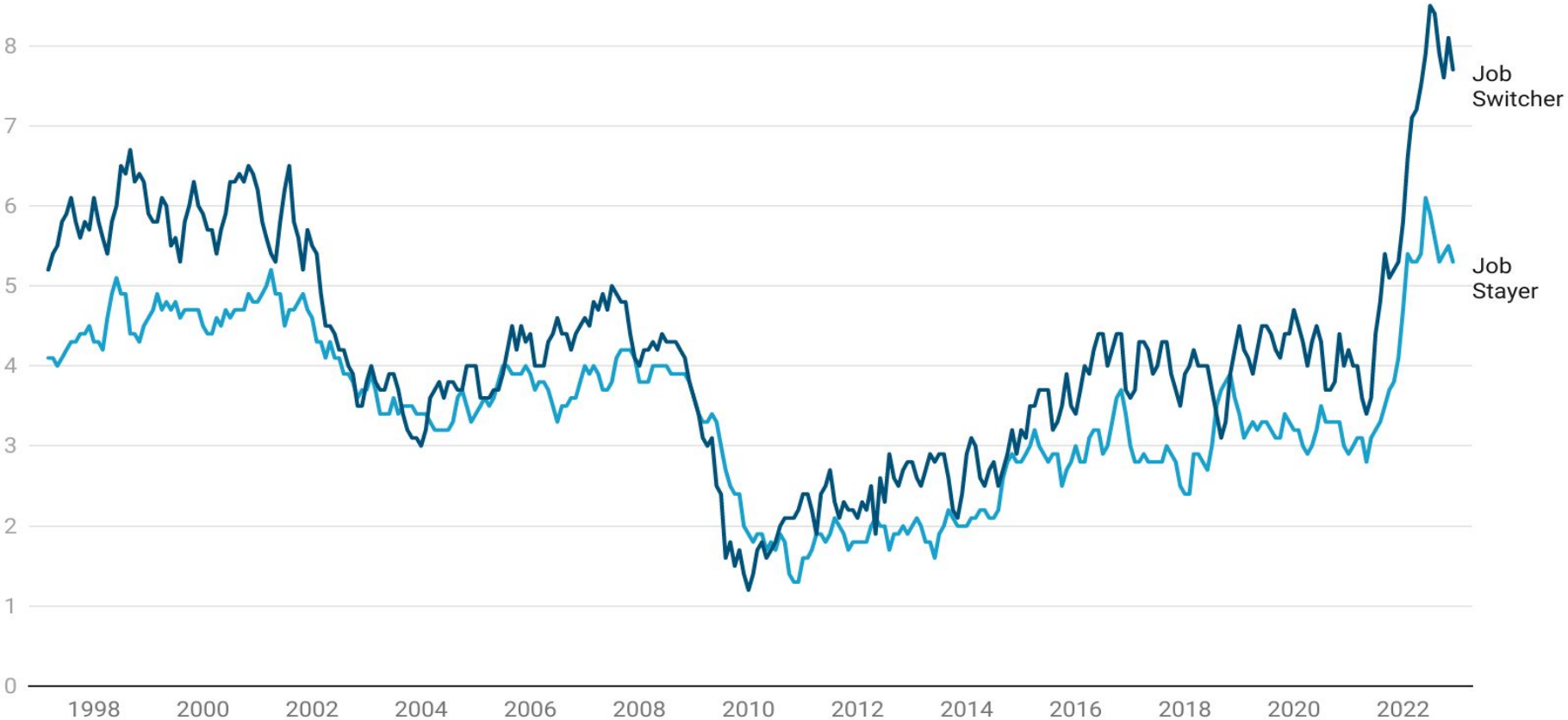




# Job switchers continue to see increasing wages at a level higher than job stayers

## Job Switchers Continue to See Increasing Wages

wage growth tracker by job stayer/switcher - annual percentage change

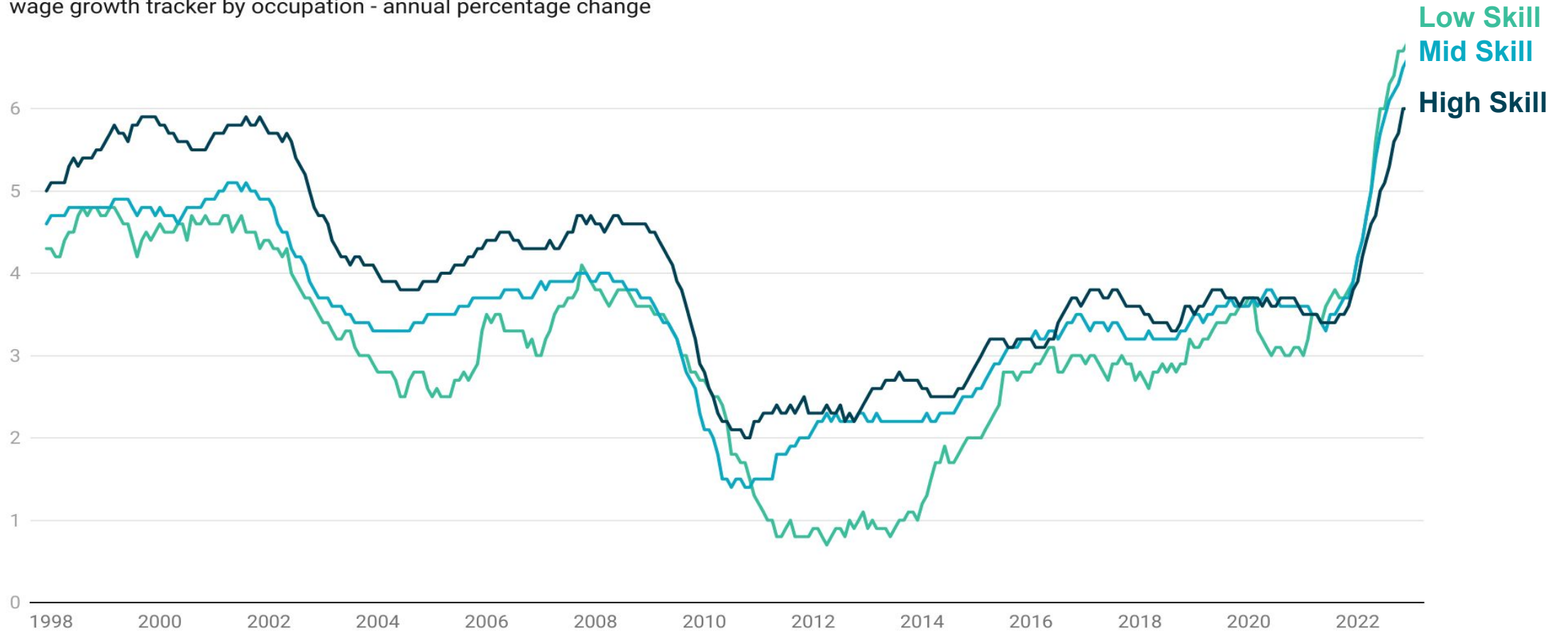


Source | Federal Reserve Bank of Atlanta

# Low skill workers are experiencing higher wage growth than mid and high skill workers

## Low Skill Workers Seeing More Wage Growth than Their High Skilled Counterparts

wage growth tracker by occupation - annual percentage change



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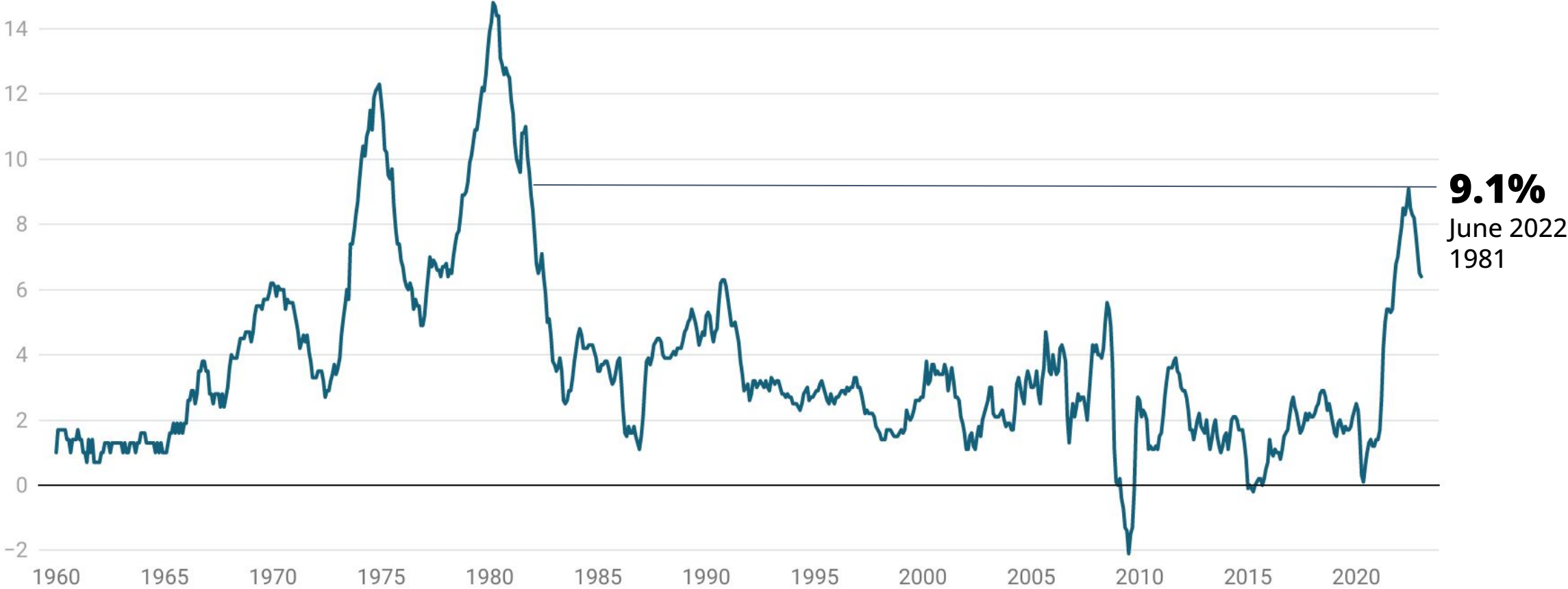
**Headline  
Inflation**

**6.4%**

**CPI year-over-year change in all prices  
January 2023**

Inflation hit historic highs in 2022 that haven't been seen since the 80's

### Inflation hits 40 year highs in 2022



Source | Bureau of Labor Statistics

# Inflation takes downward turn on the second half of 2022

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## Inflation continues downward trend in Q4

Year-over-year change in all items CPI

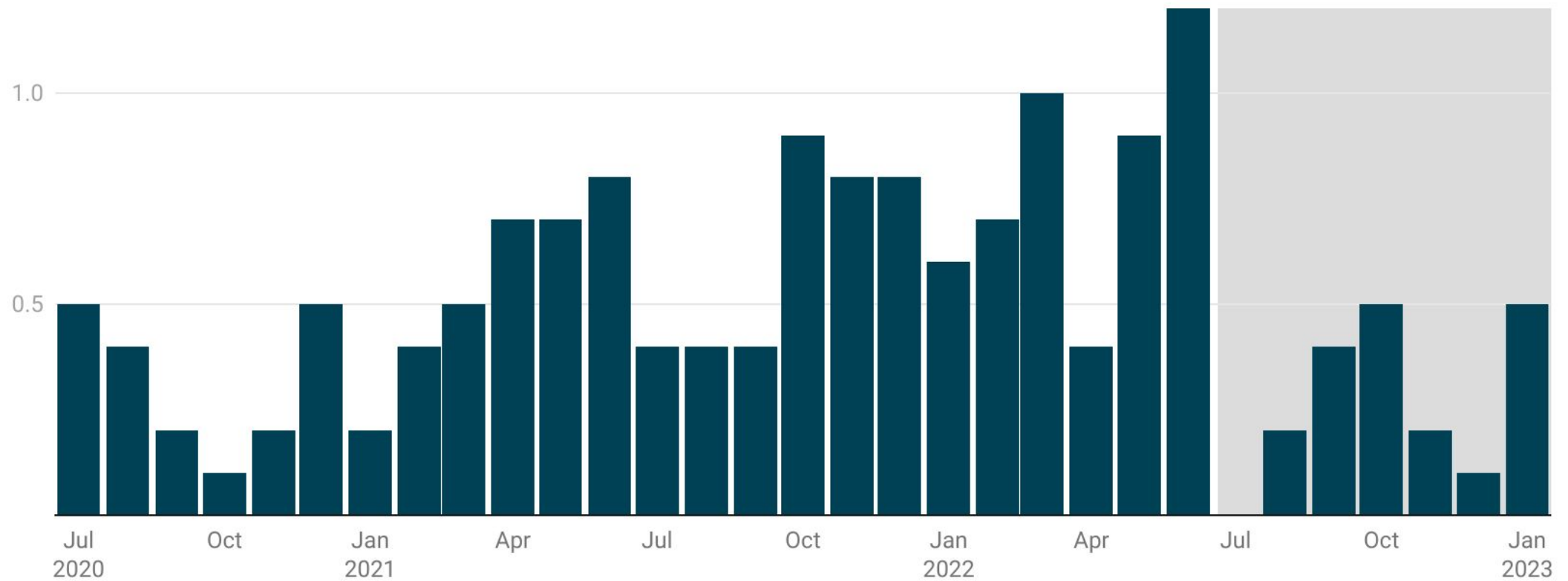


Source | Bureau of Labor Statistics

# Prices for all items are beginning to settle

## The last 7 months have experienced relatively low monthly inflation rates

Month-over-month change in CPI



Source | Bureau of Labor Statistics



While there are signs of inflation starting to turn, core inflation is rather stubborn

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## Headline Inflation vs Core Inflation

headline (all items CPI) vs. core (all items less food and energy CPI) | annual % change

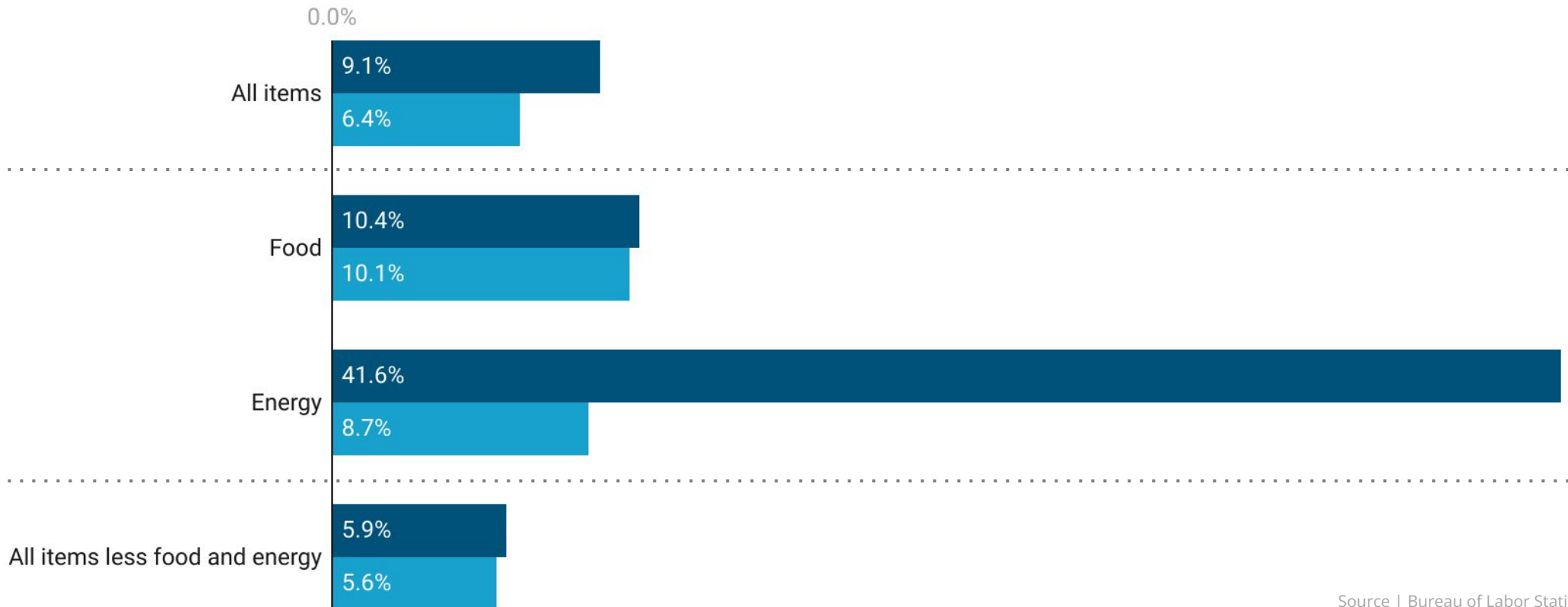


# Food remains persistent, but energy has settled from extremes

## Price Movers Perspective

Annual percentage change (June 2022 vs Jan 2023)

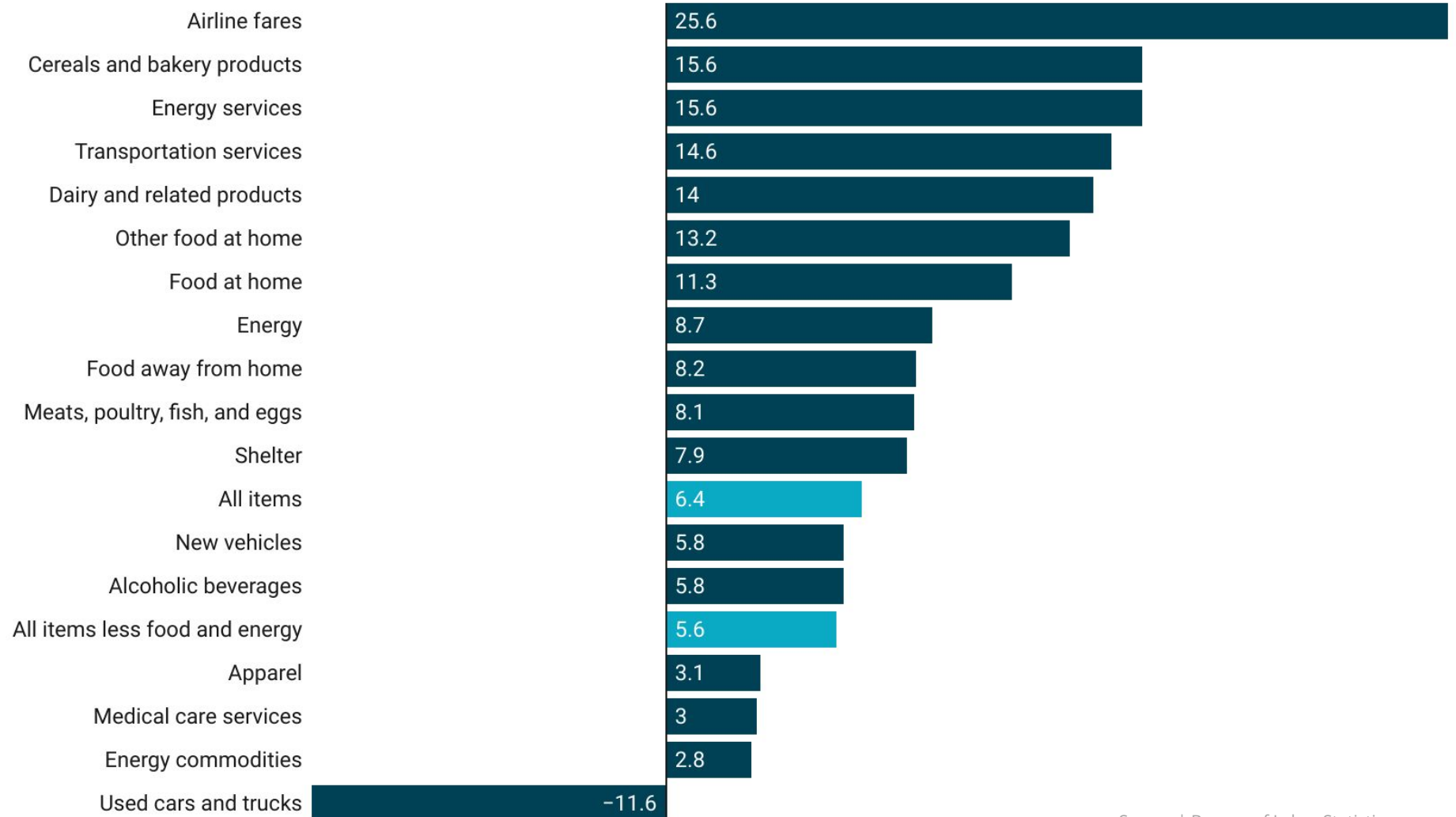
■ June 2022 ■ Now



Inflationary pressures are reasonably widespread

## Price Movers

annual percentage change Jan '23 for selected categories

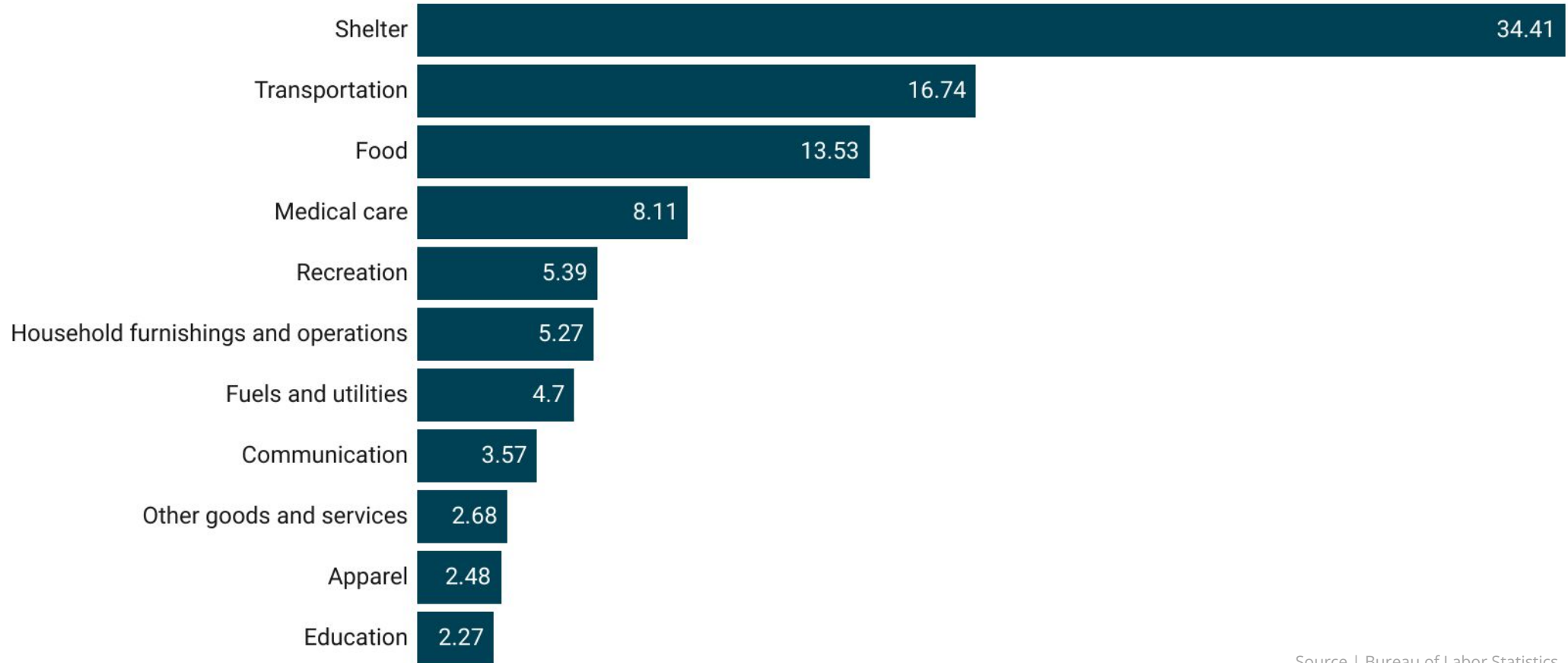


Source | Bureau of Labor Statistics

# Shelter prices make up over a third of all consumer spending

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## CPI Weights of Major Categories



Source | Bureau of Labor Statistics

# Shelter inflation has played a large role in the persistence of core inflation

## Shelter inflation has been consistently on the rise

annual percentage change



Source | Bureau of Labor Statistics

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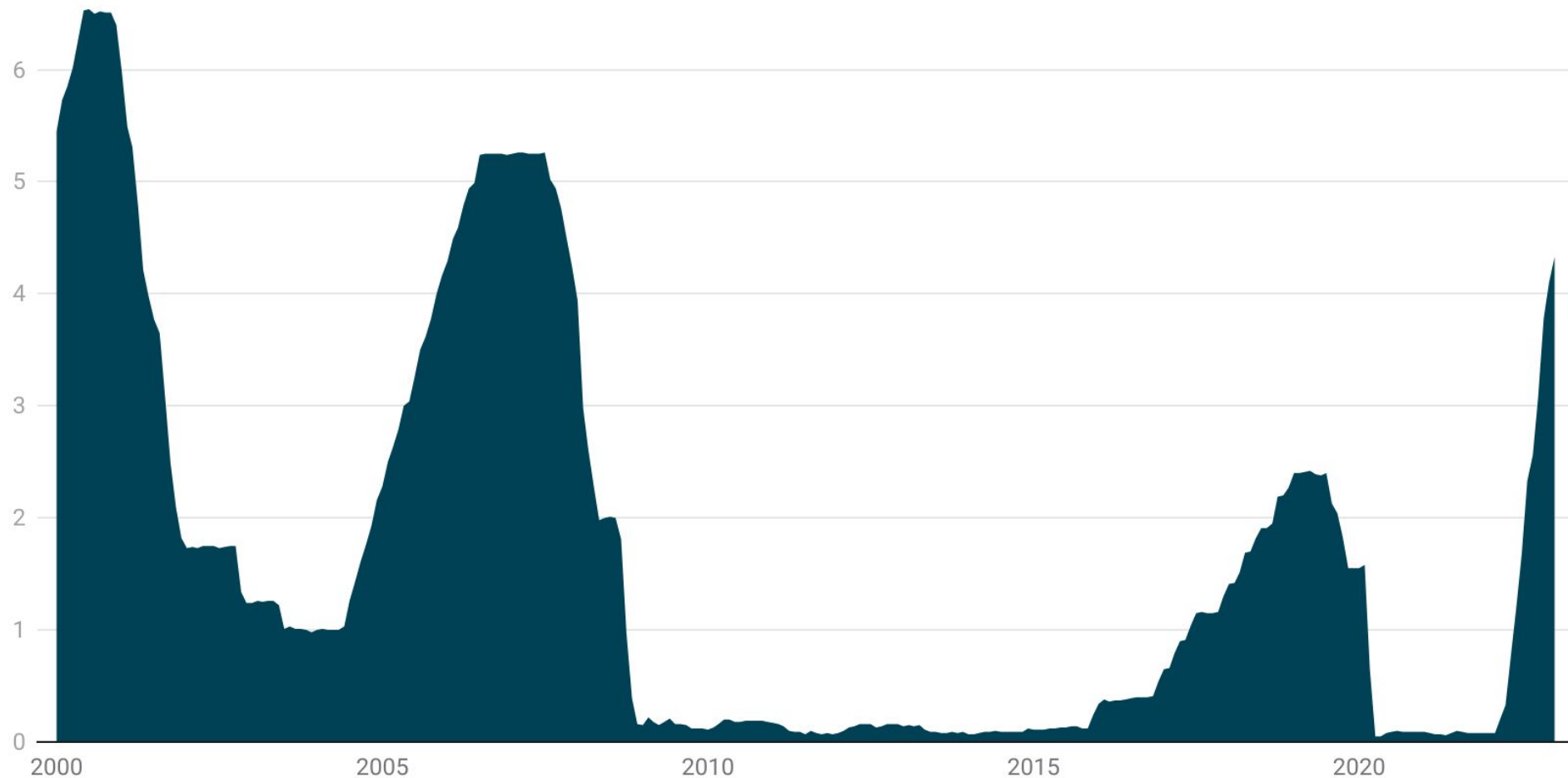
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The "wait-n-see" Fed is no more with aggressive policy action beginning in March 2022 with the hopes of pulling inflation down

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## Federal Reserve Raises Rates

Federal Funds Rate



Source | Federal Reserve



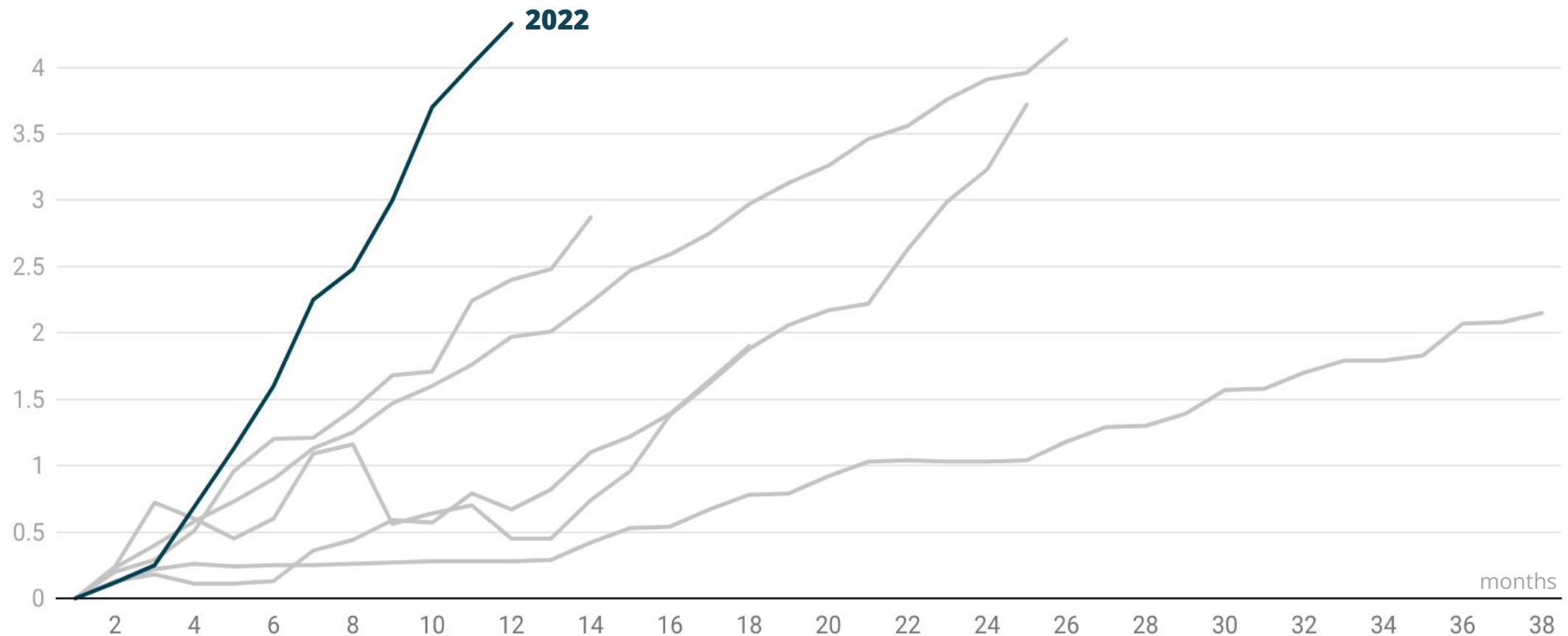
Jerome Powell  
Federal Reserve Chair  
2.07.23

“ We need to raise rates to a level that is sufficiently restrictive to return inflation to 2 percent...we anticipate that ongoing increases (to the federal funds rate) will be appropriate. ”

# The fastest rate hike in the past 40 years

## Fed Hiked Rates Up Aggressively in 2022

Change in Federal Funds Rate for different periods

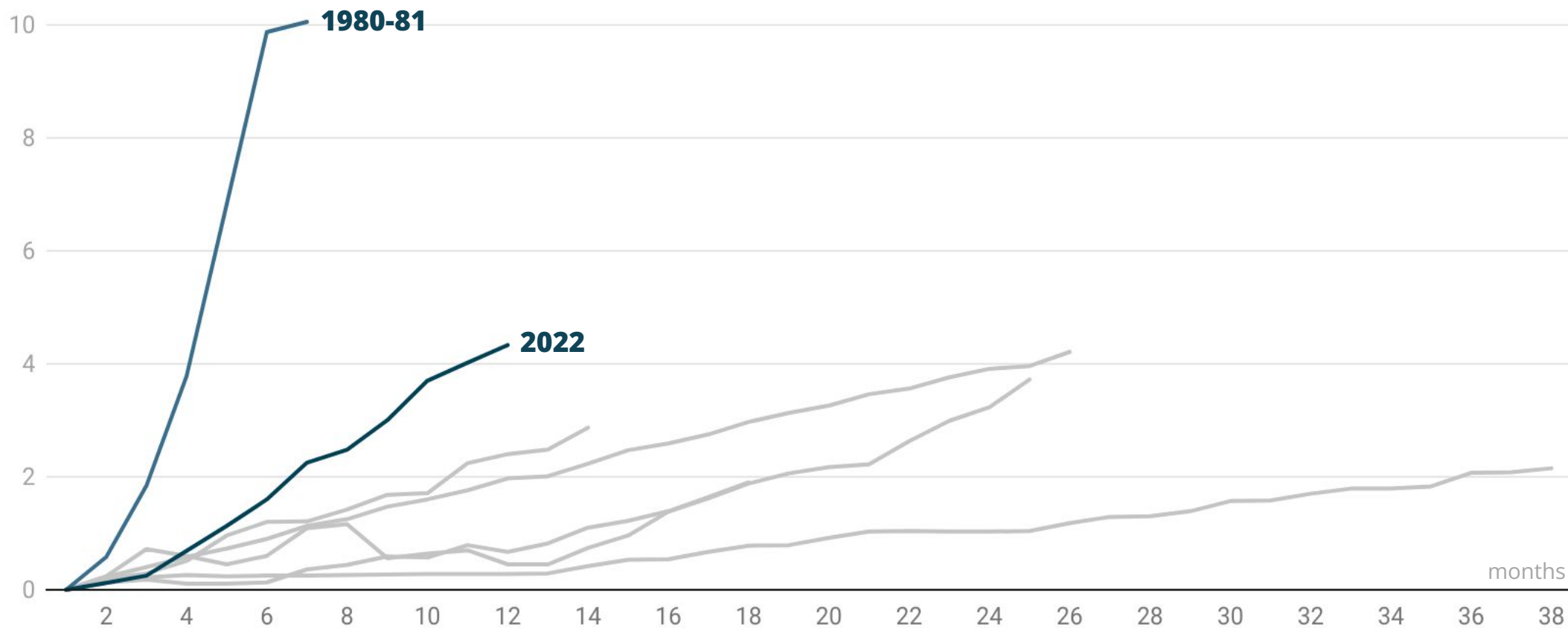


Source | Federal Reserve

However, this is not something unlike we have ever seen

## 1980-81 Federal Funds Rate Hike Takes the Cake

Change in Federal Funds Rate for different periods



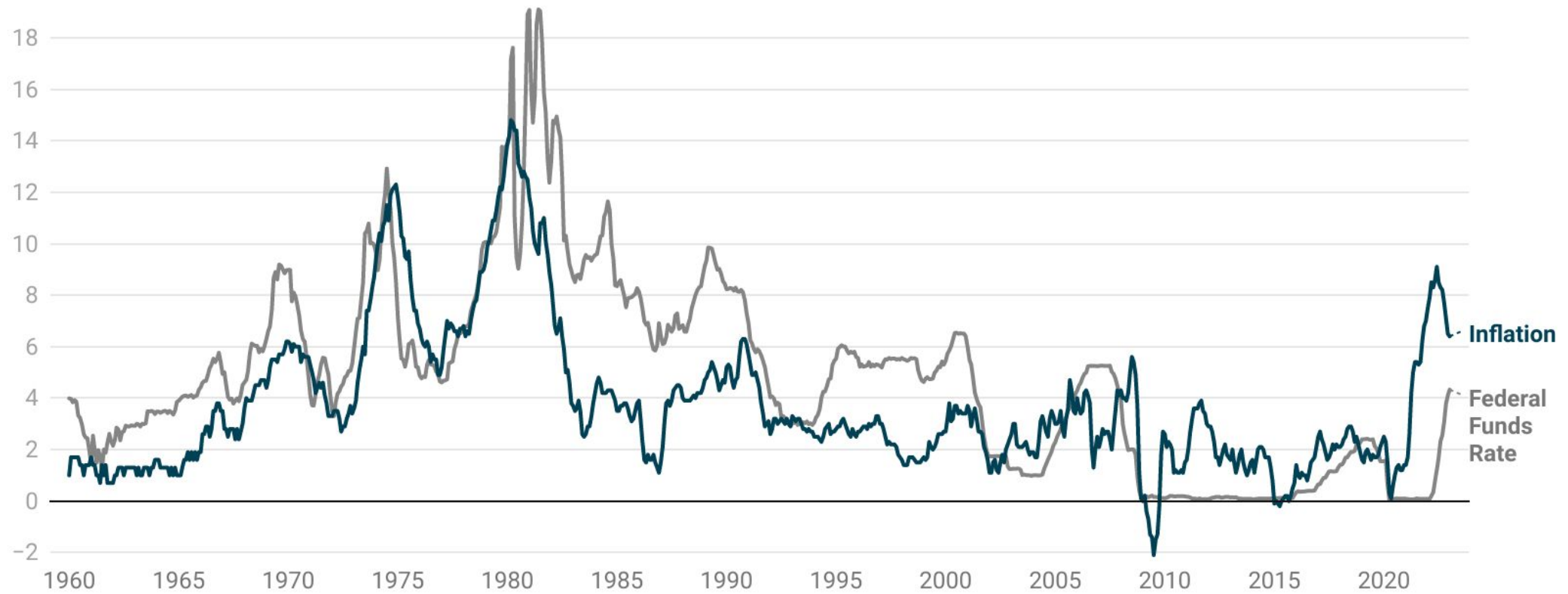
Source | Federal Reserve

What does make this hike different? The delayed response.

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## Interest rates + Inflation: a long run relationship

annual percentage change in all items CPI and the effective federal funds rate



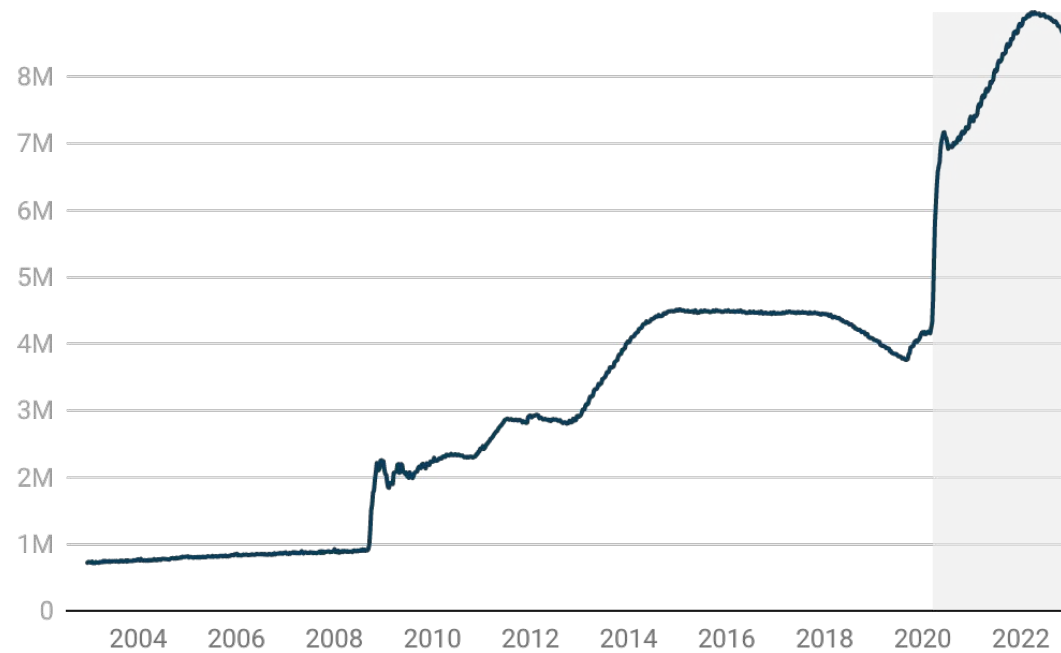
Source | Federal Reserve & Bureau of Labor Statistics

# Strong pandemic policy responses have contributed to demand side price pressure in addition to the interest rate behavior

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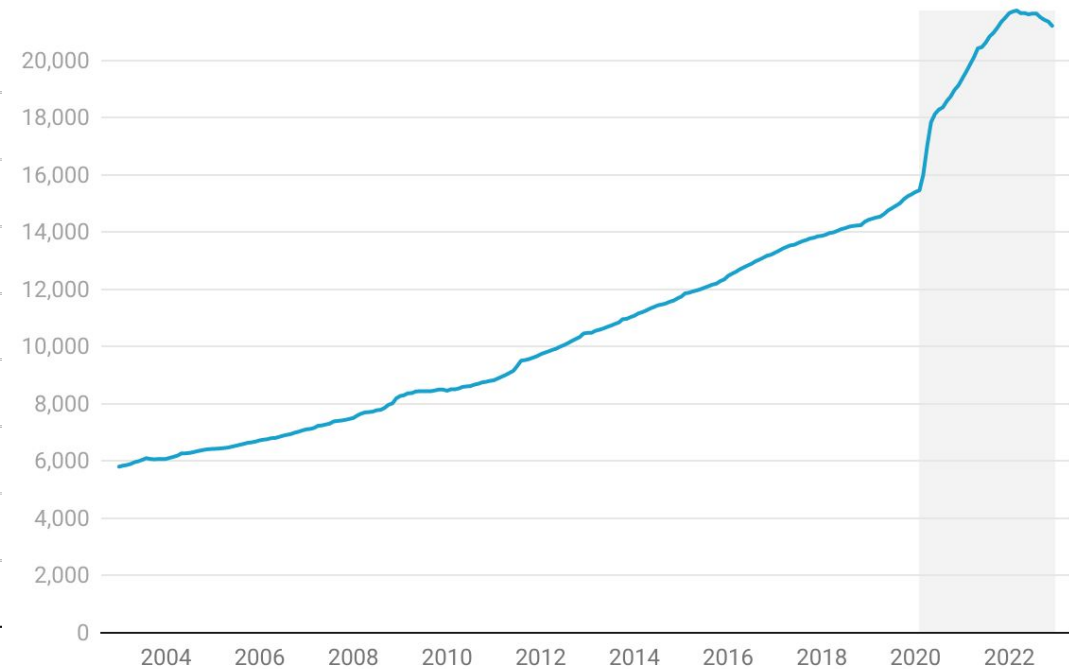
## Federal Reserve | Total Assets

millions (\$)



## Money Supply

M2 money supply in billions of \$



Source | Federal Reserve

After attempting to temper interest rates with quantitative easing, Fed begins to back off

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## Fed pulls back from quantitative easing

Year-over-year percent change of M2 money supply



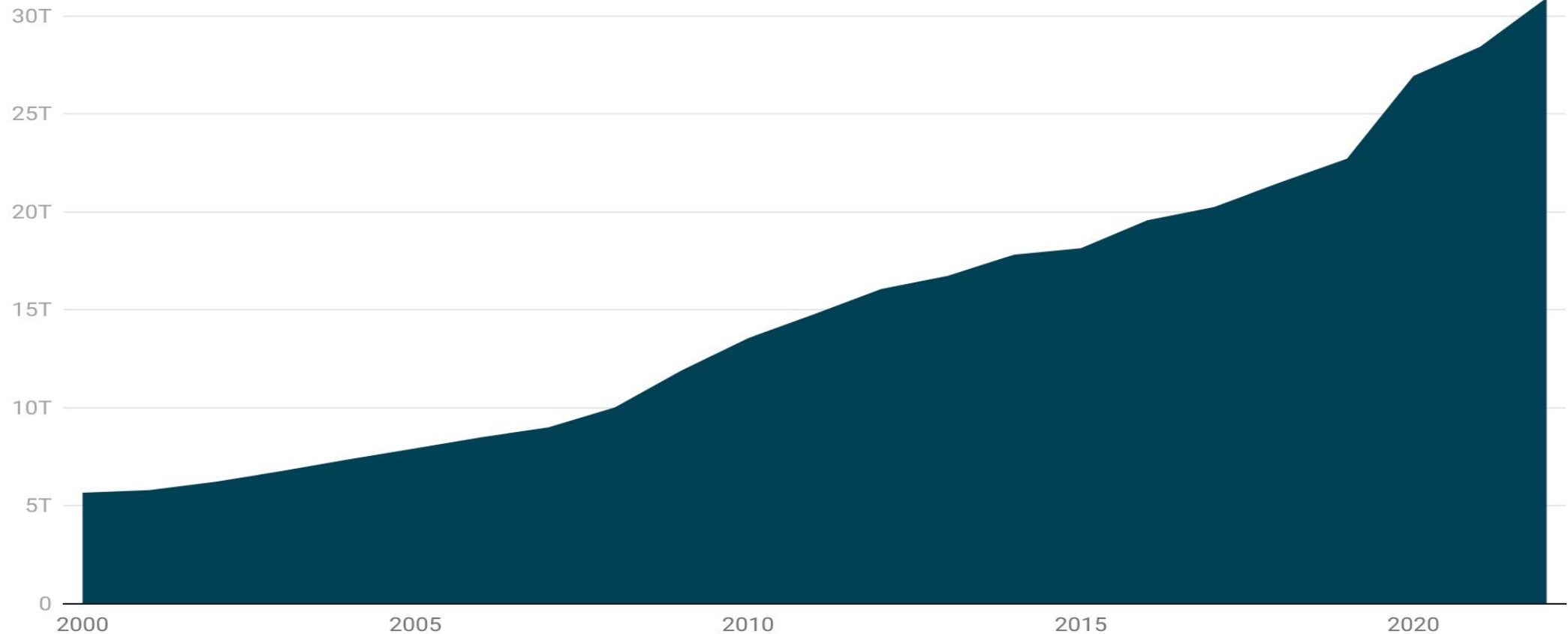
Source | Federal Reserve

# United States hits debt ceiling following aggressive post-2020 government spending

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## United States National Debt

Outstanding National Debt

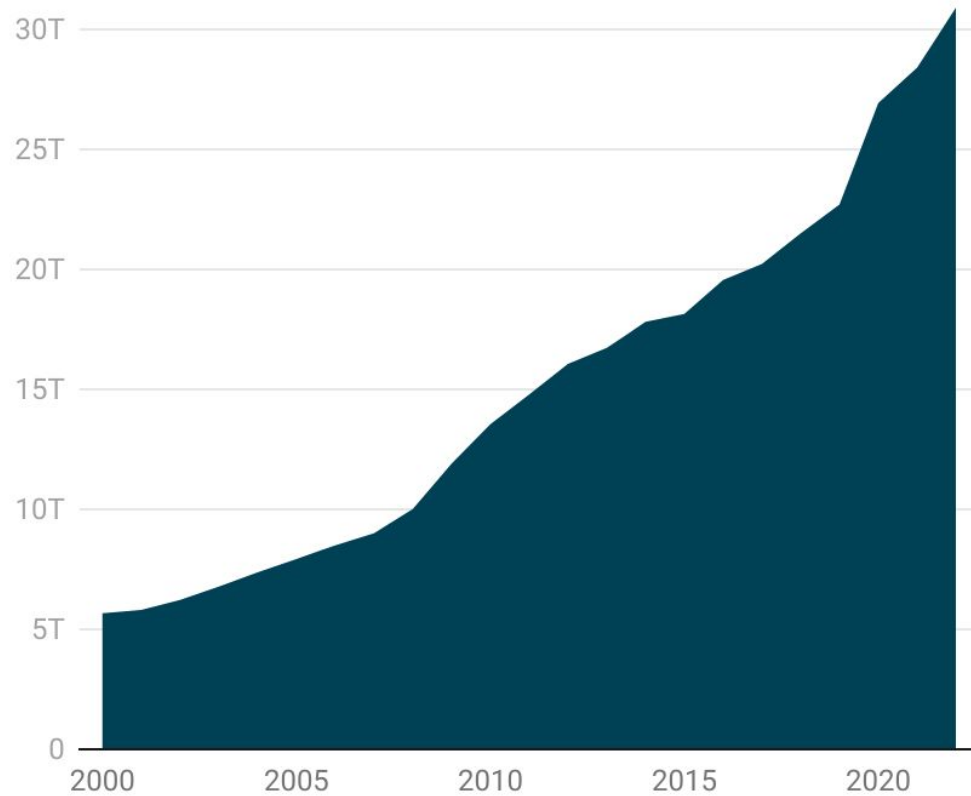


Source | US Treasury

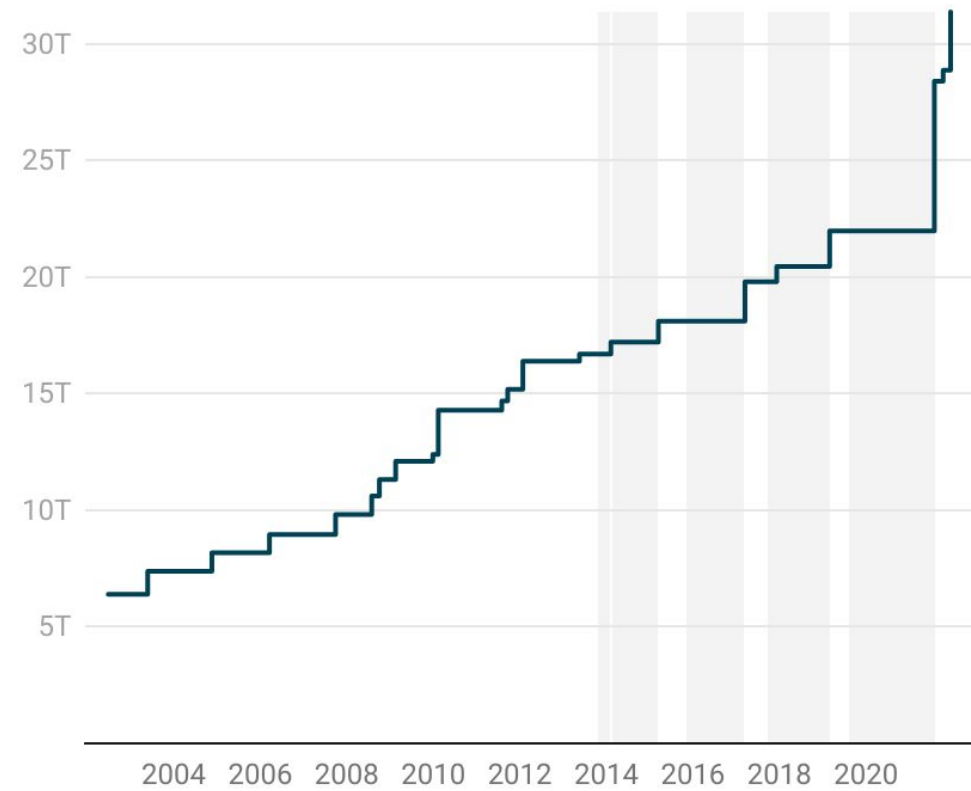
United States has raised debt ceiling in the past, subsequently reaching debt ceiling shortly after

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**United States National Debt**



**United States National Debt Limit**



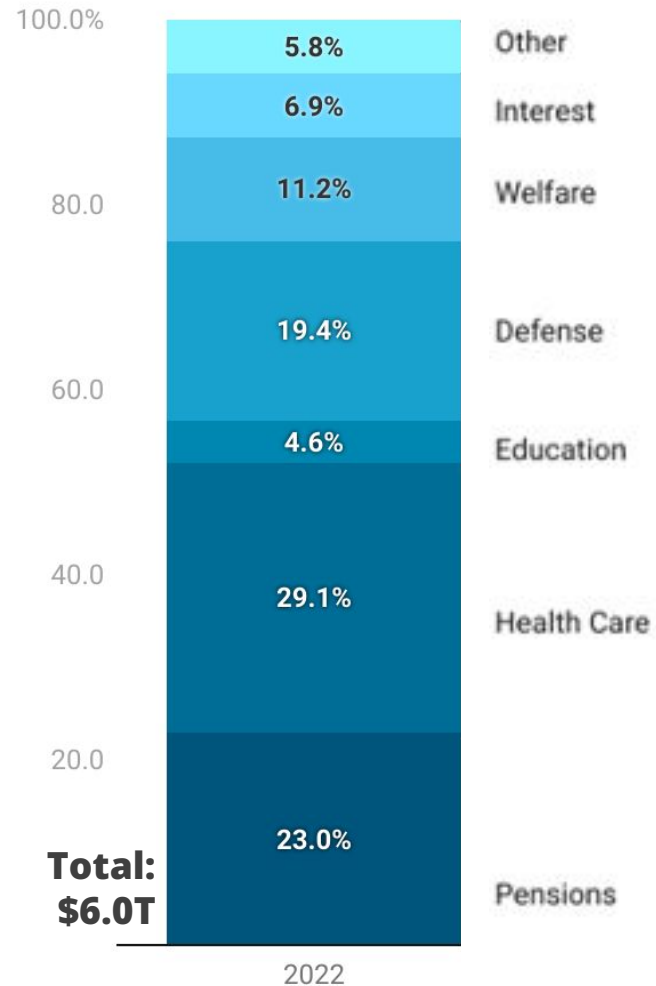
Source | US Treasury



Increases in federal debt & interest rates has budgetary implications as net interest payments are expected to rise in the future

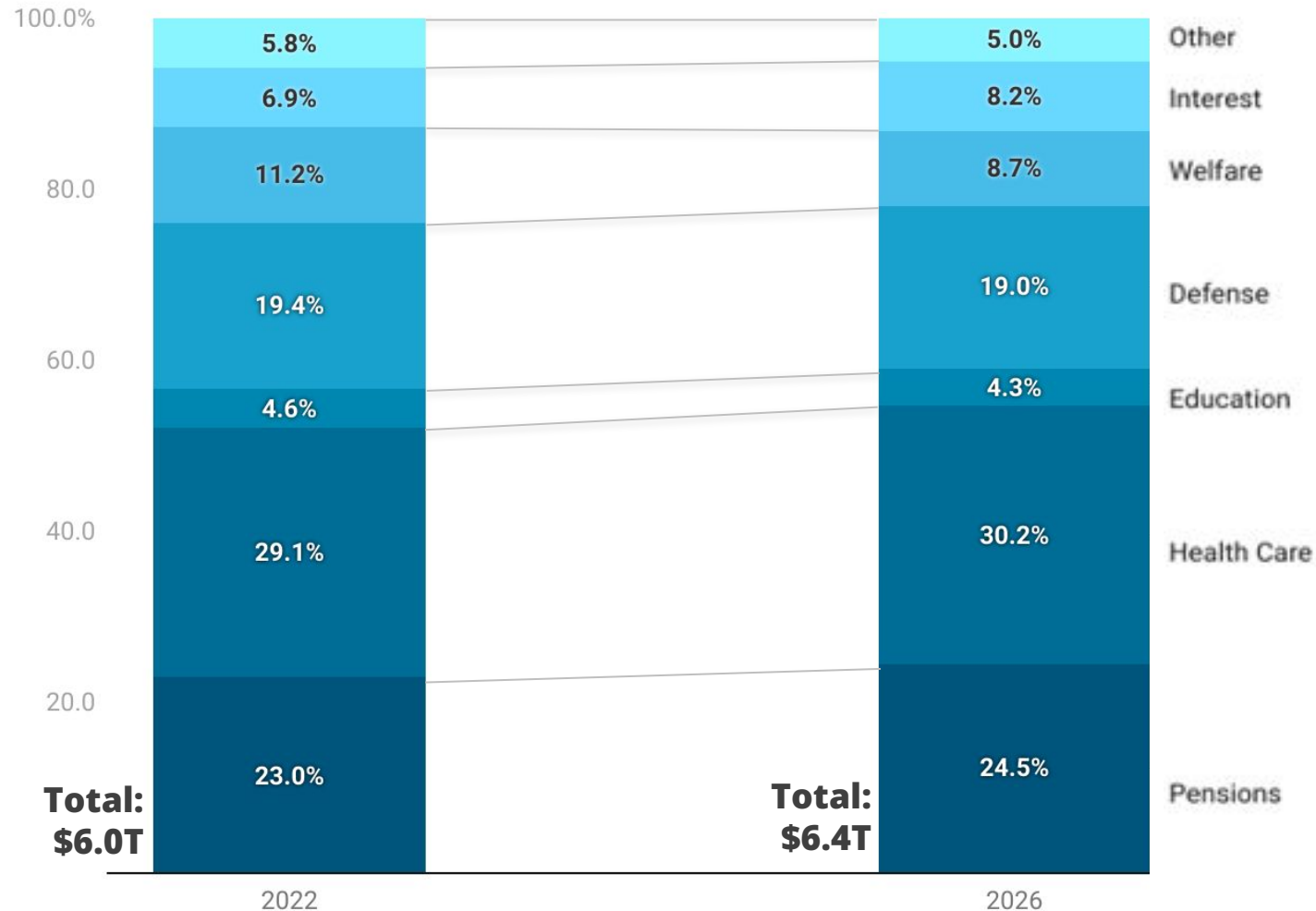
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### Estimated Government Spending in 2022 & 2026



Increases in federal debt & interest rates has budgetary implications as net interest payments are expected to rise in the future

### Estimated Government Spending in 2022 & 2026



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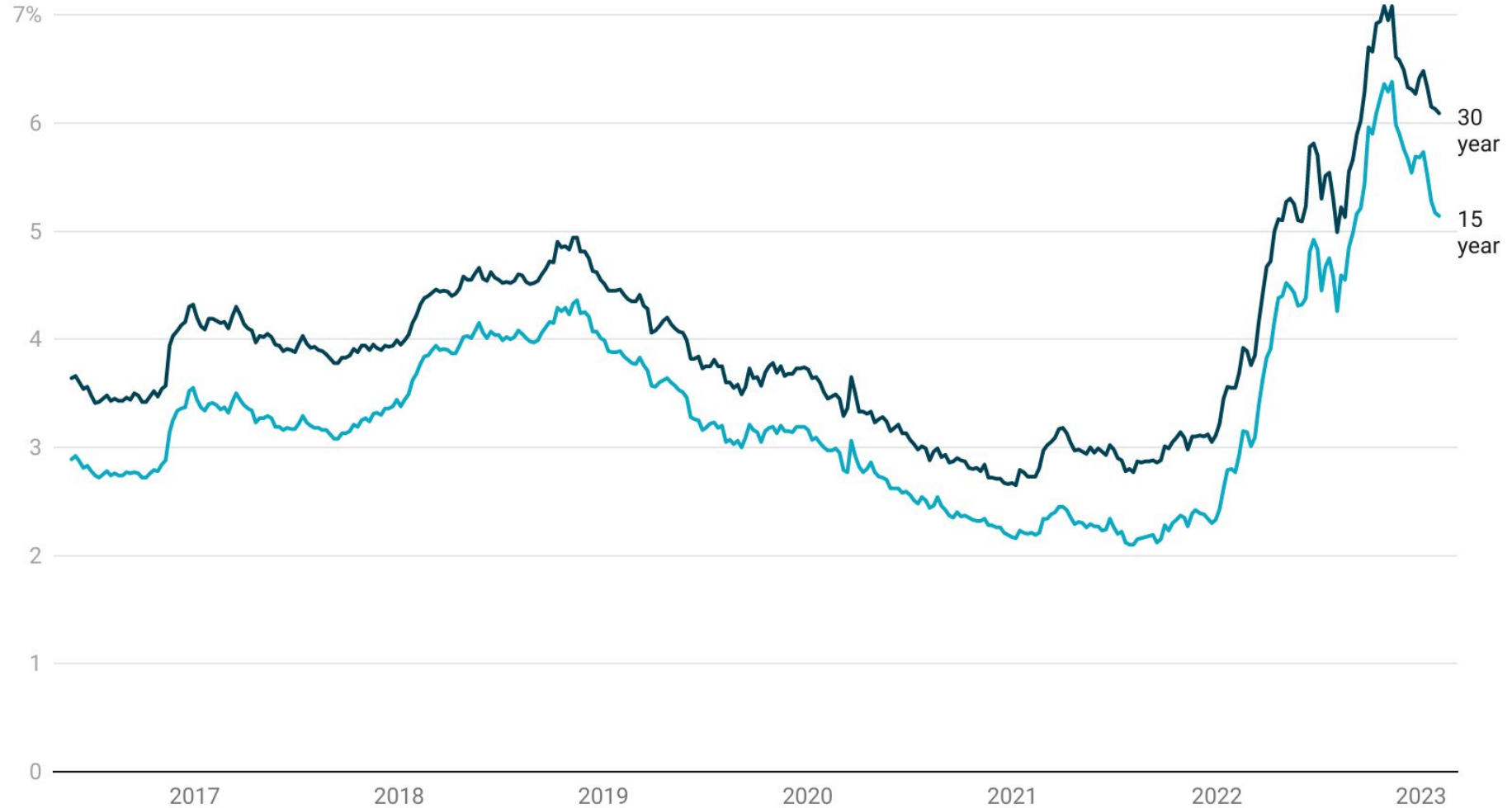


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Mortgage rates topped 7.8% in September in response to rising inflation and interest rates...however recent inflation cooling and expectations are softening rates lately

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### Fixed mortgage rates

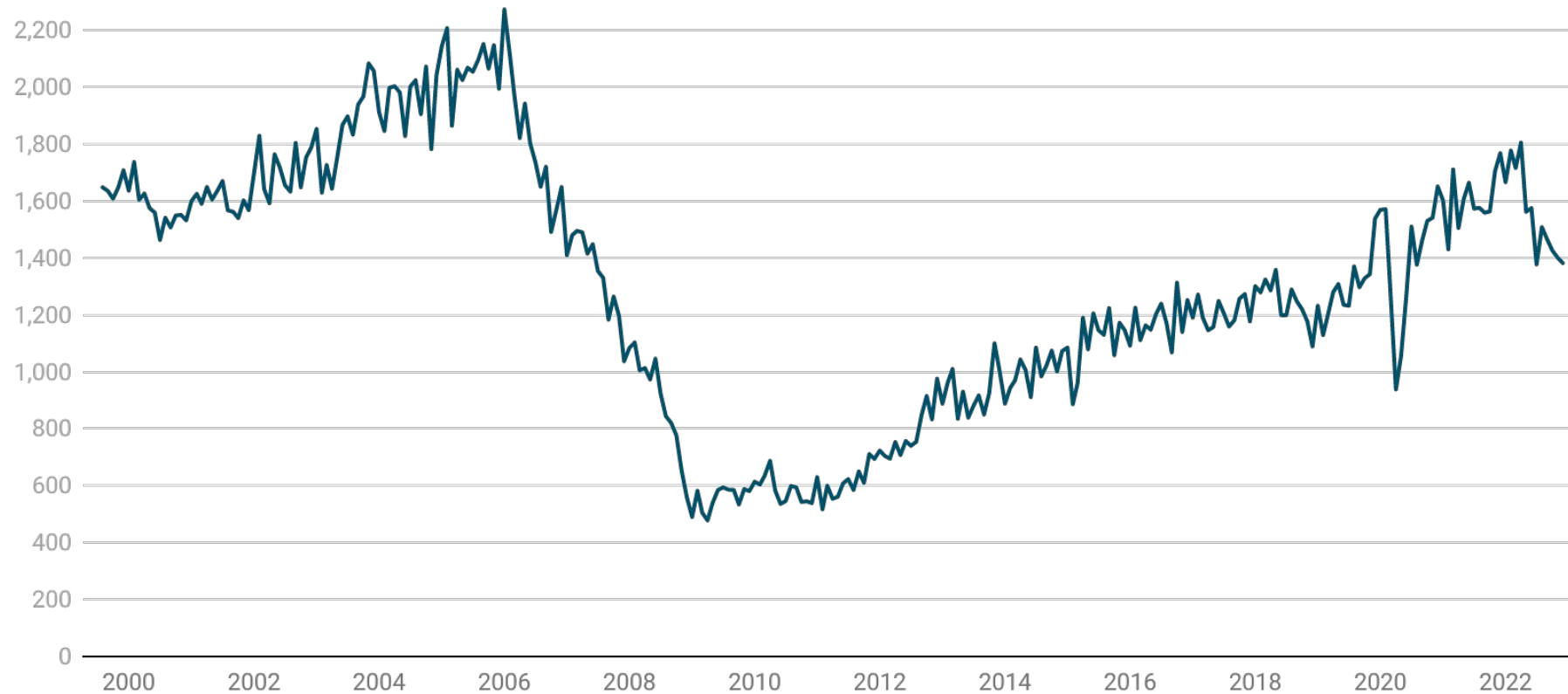


# Rising rates are hitting the residential housing market hard...

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## Housing Starts

new privately-owned housing units started: total units

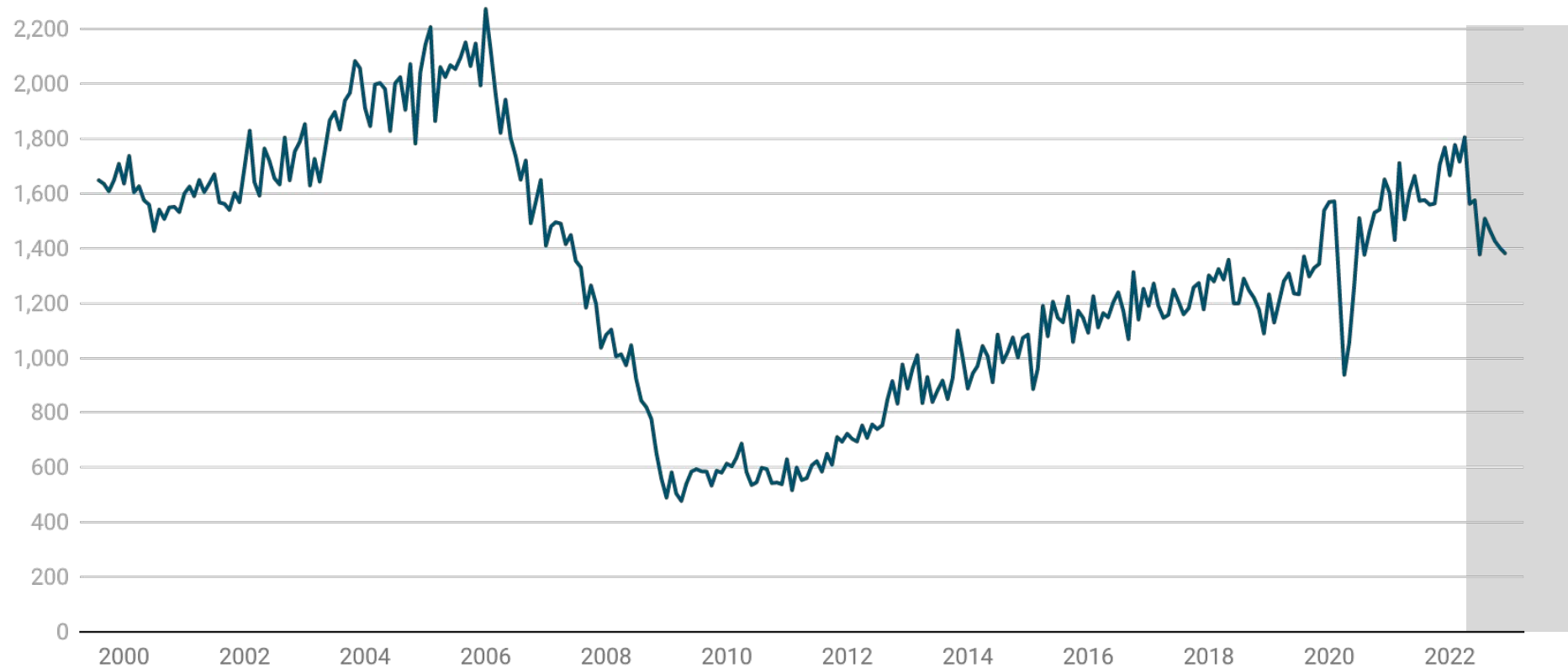


Source | US Census Bureau

# Rising rates are hitting the residential housing market hard...

## Housing Starts

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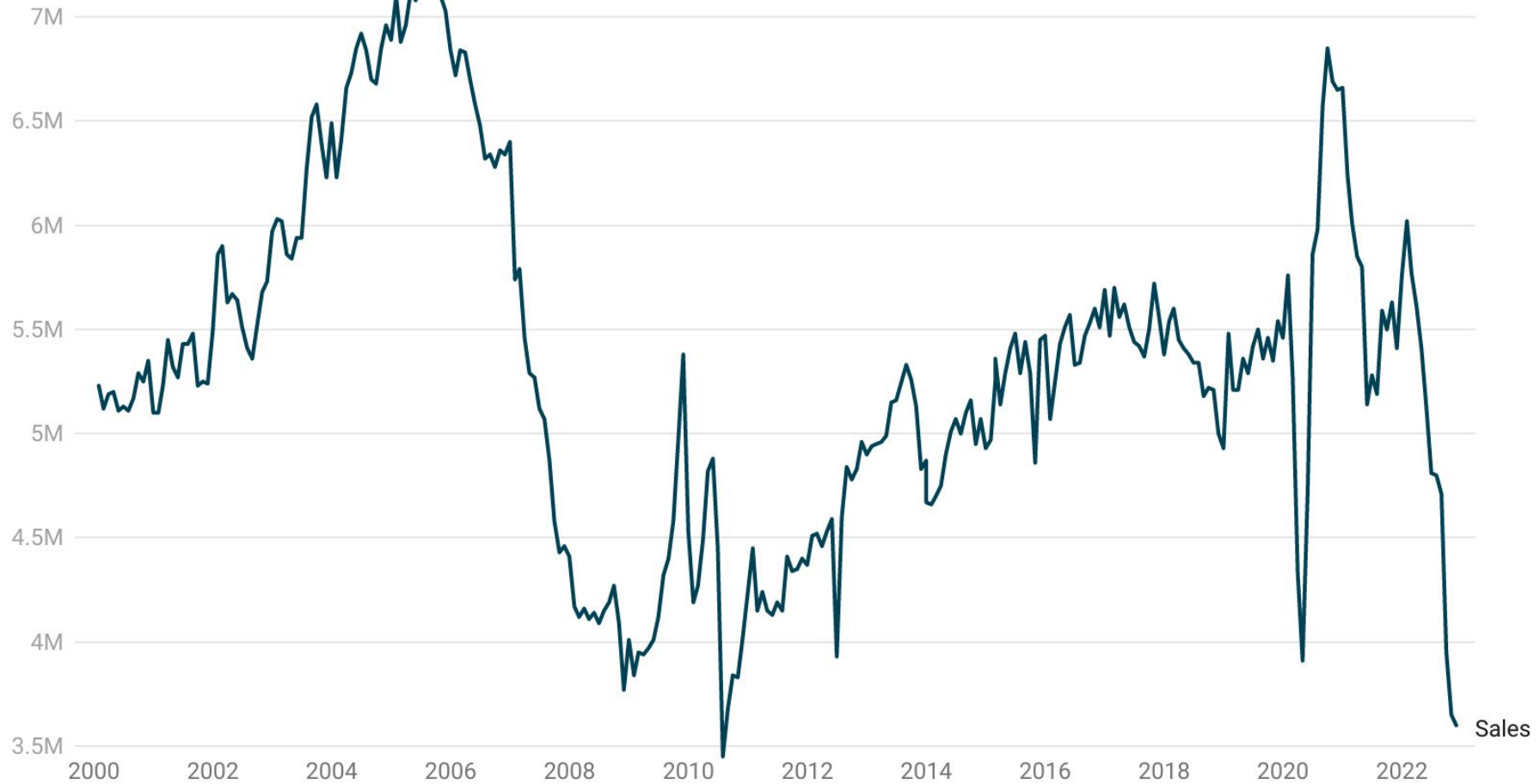


Source | US Census Bureau

# The affordability crisis is reflected in the plummeting sales reports

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## Existing home sales





# Rising home prices push many even further out of the market

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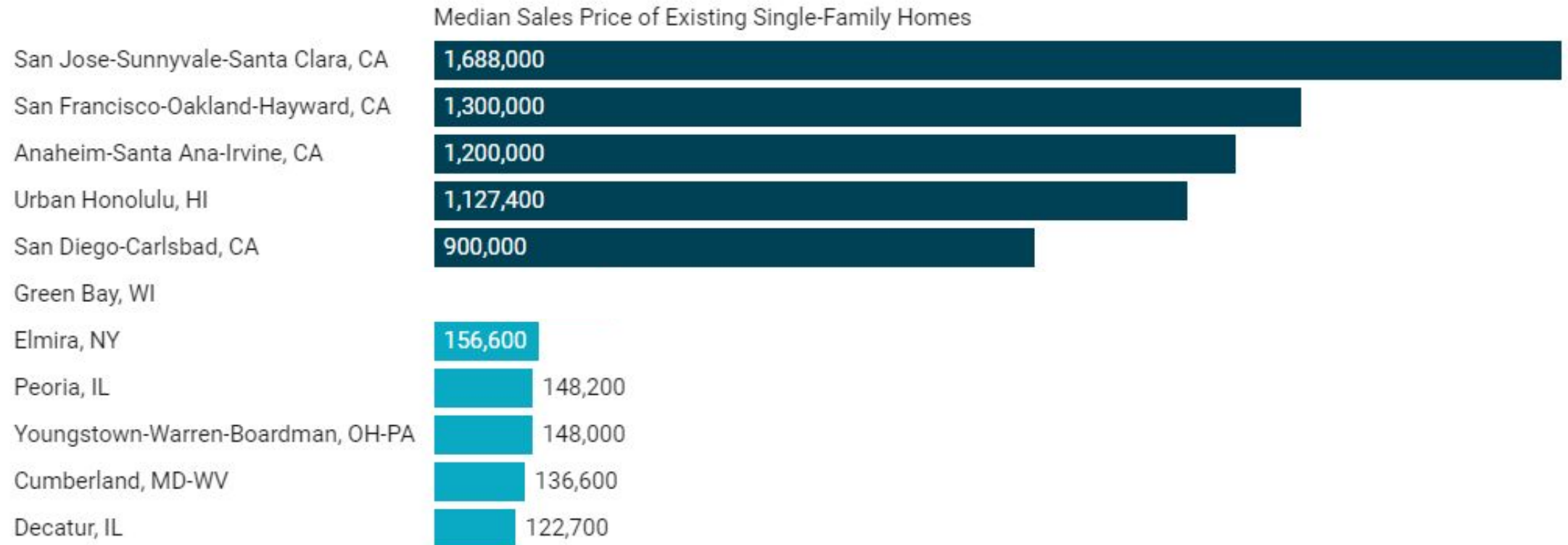
## Median sale price of homes sold in the United States



These numbers put Brown County on the more affordable end of median home prices across the U.S.

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## Metros with the 5 highest and lowest median home price compared to Green Bay



Source | National Association of Realtors

# SOE Audience Poll

Let's hear from you!

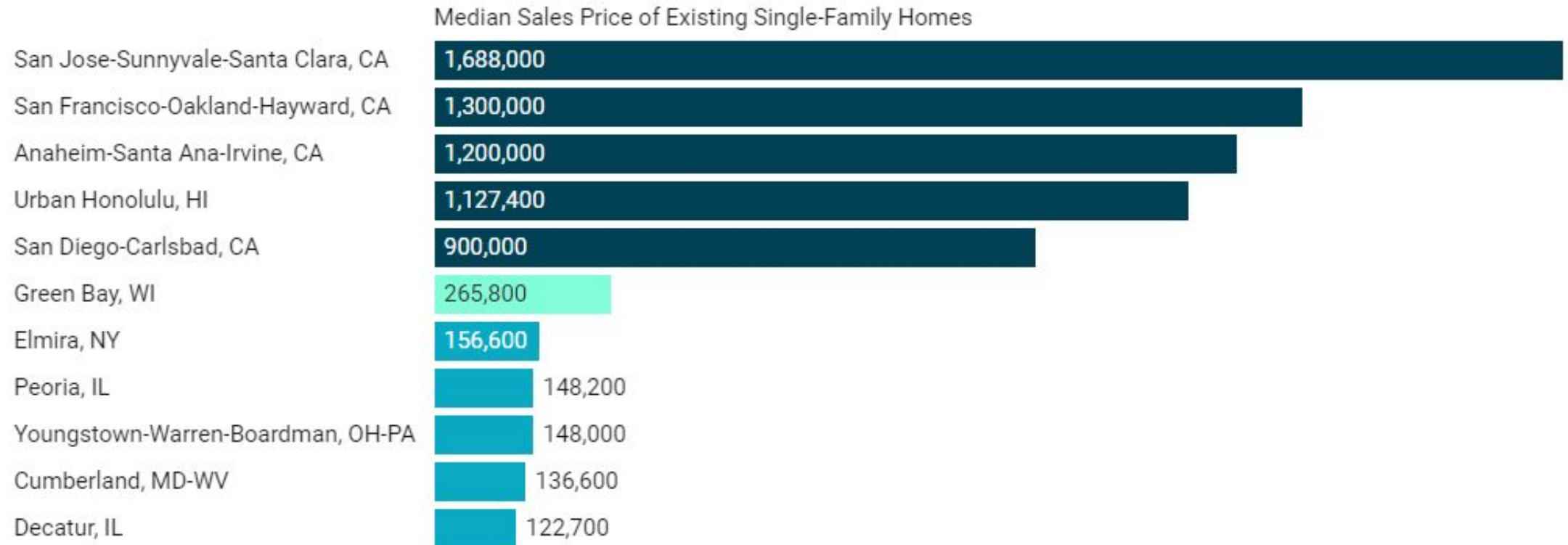


Given current housing market conditions, what do you think the median home price is in Brown County?

These numbers put Brown County on the more affordable end of median home prices across the U.S.

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## Metros with the 5 highest and lowest median home price compared to Green Bay

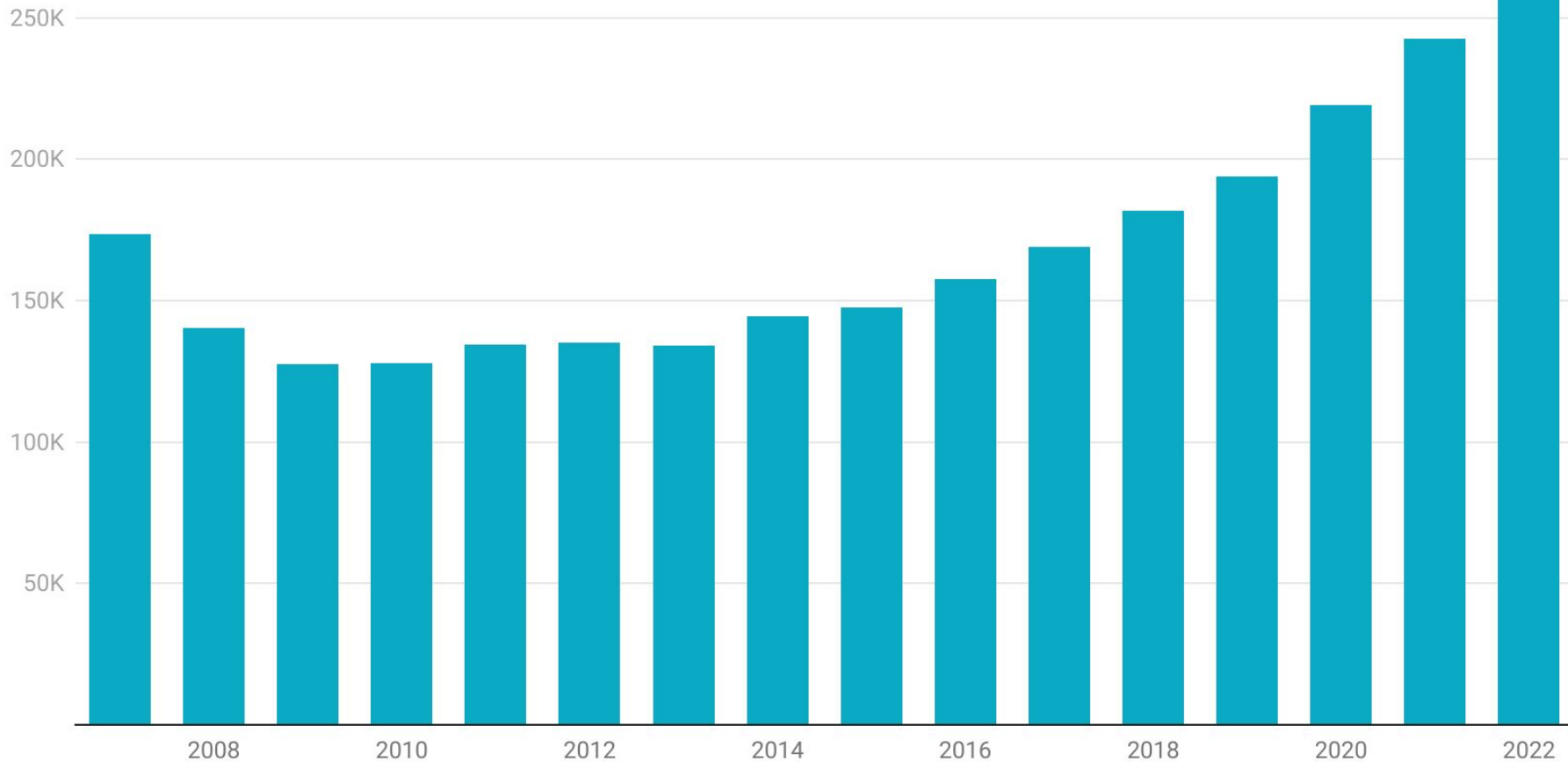


Source | National Association of Realtors

# A look closer to home: Brown County numbers rising with national trends

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## Average home prices in Brown County

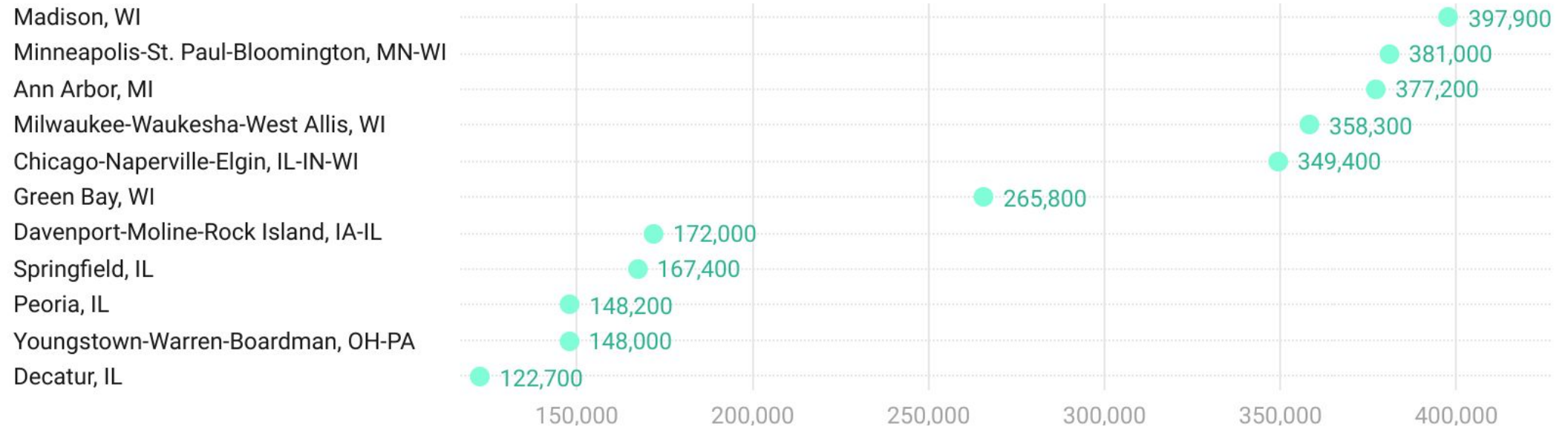


Source | Wisconsin Realtors Association

# A midwest outlook shows Green Bay close to \$247,615 area average

## Median home price of metros in the Midwest

five highest and five lowest compared to Green Bay



Source | National Association of Realtors

# Inflation of rent prices remains on a steady incline

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## CPI: rent of a primary residence

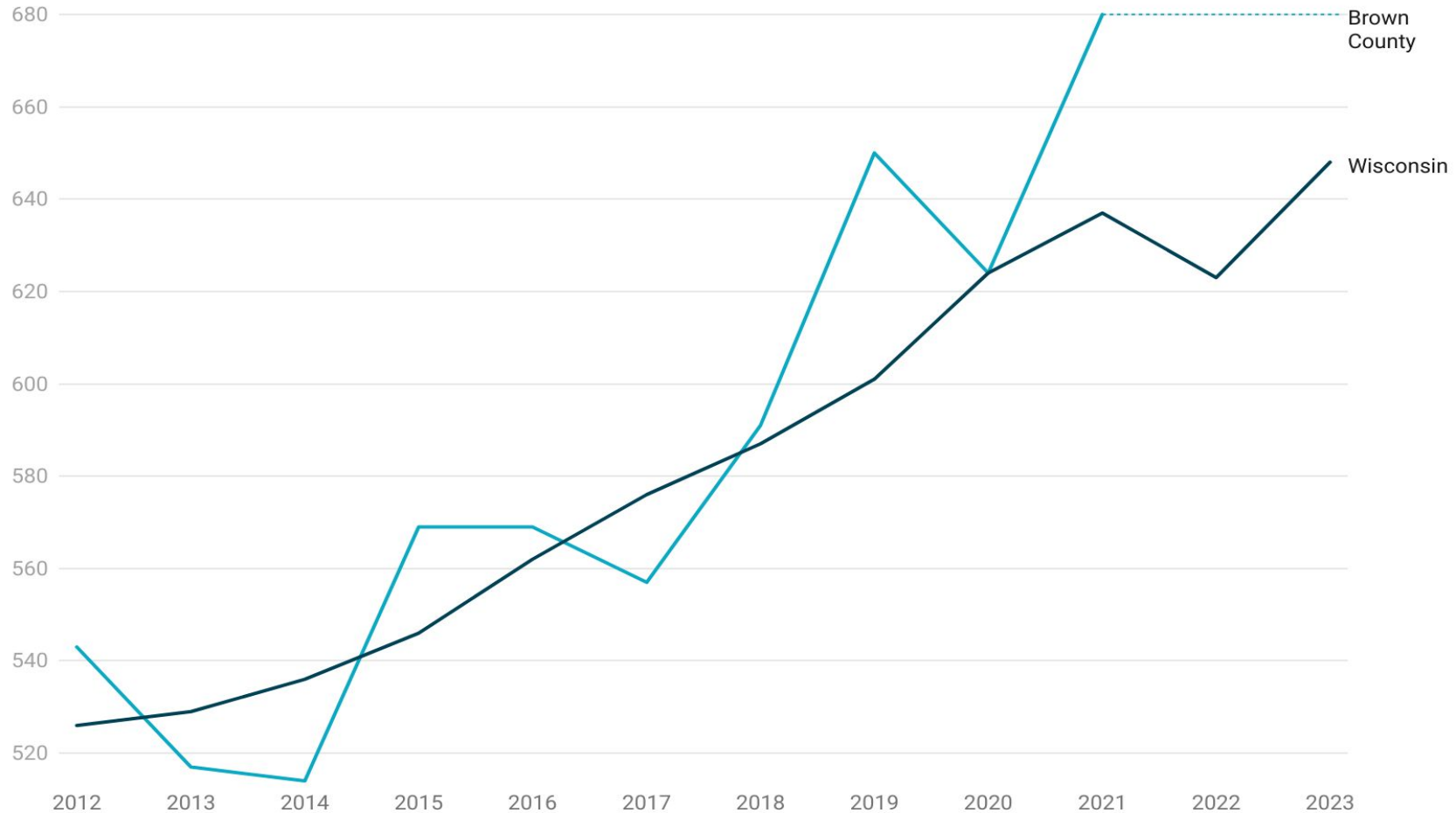
percent change from one year ago



# Brown County rent showing volatility along a steady increase

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**Average fair market rent for two-bedroom housing**



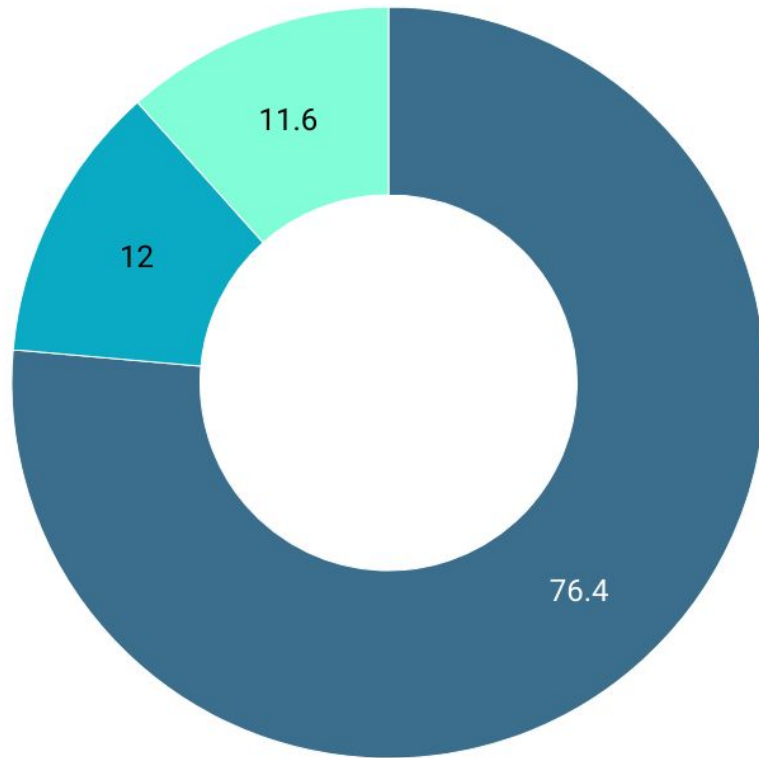


# New tenants much more susceptible to rent increases

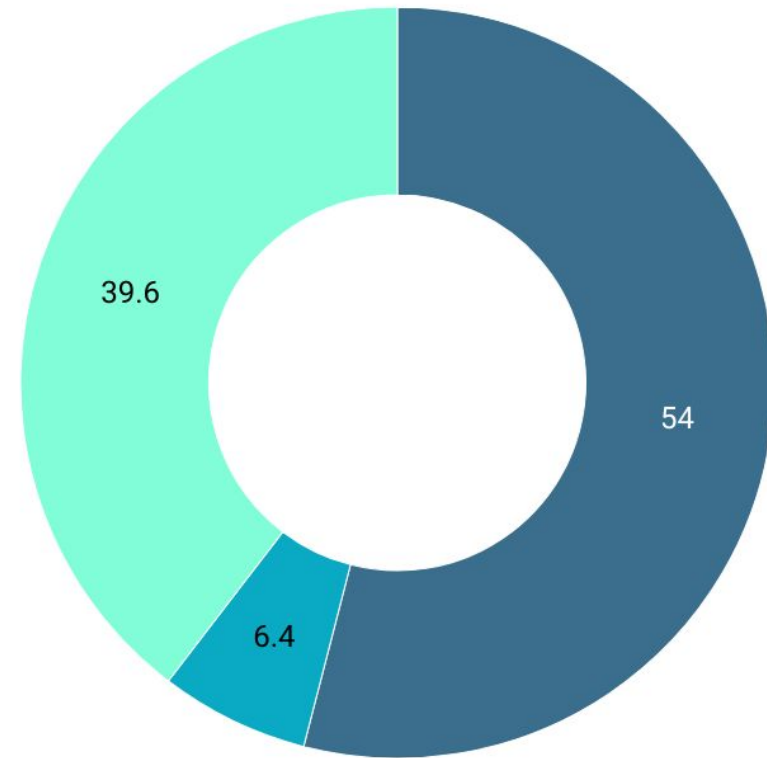
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## Frequency of rent fluctuation

■ Increase ■ Decrease ■ No Change



New tenant



Same tenant

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Overall inflation continues to decline from highs with stubborn core inflation
- 4 | Policy**  
Monetary policy is committed to controlling inflation while fiscal policy is facing challenges
- 5 | Housing market correction?**  
Rising rates contributed to a stalling housing market with a correction underway
- 6 | The “R” Word**  
Recession likelihood in early 2023 is 50/50

# Overview



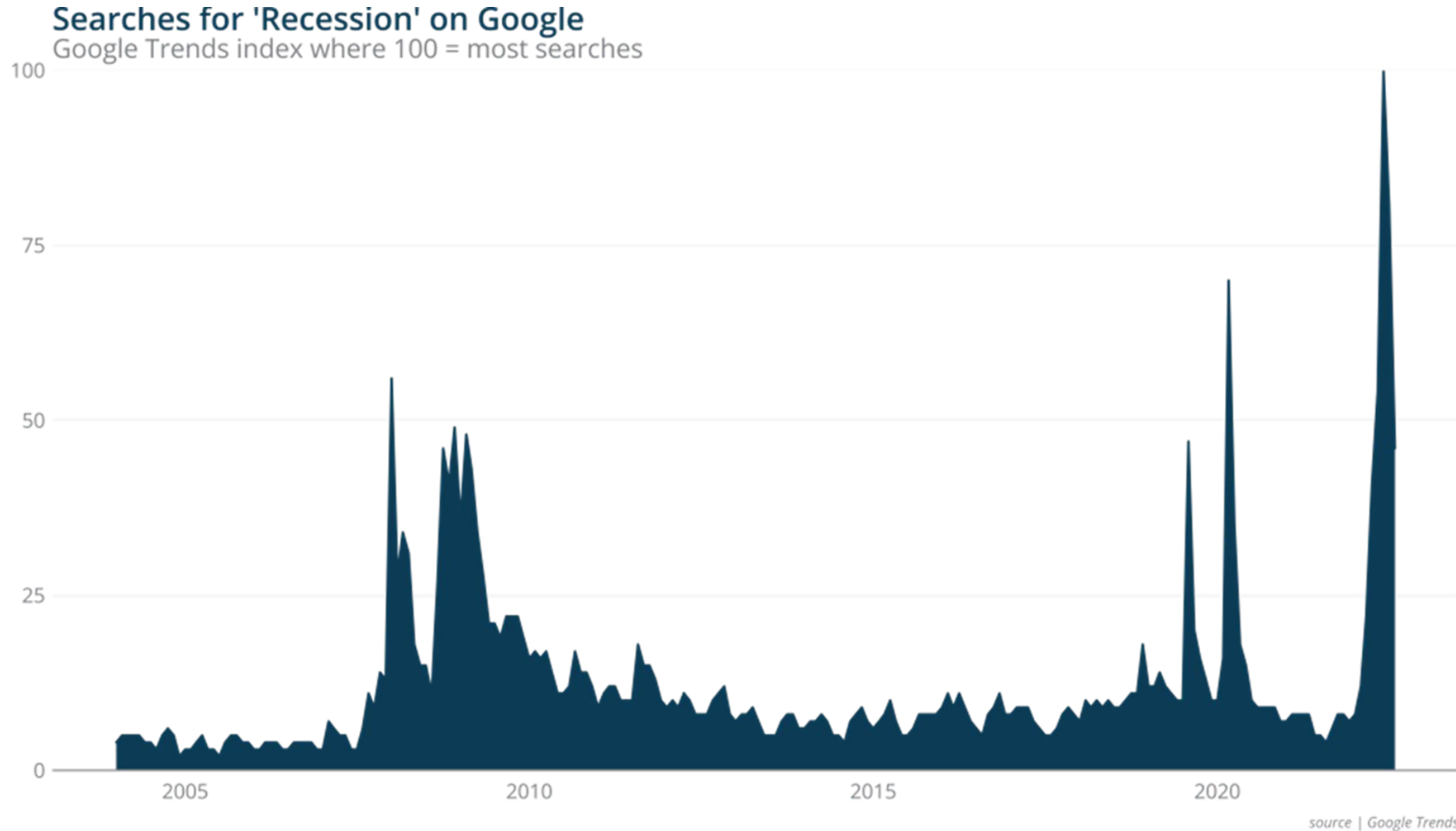
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Solid gains to end the year at 2.1% annual growth with consumer spending on services and inventory investment driving Q4 performance
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# The economic question of 2022 & 2023...is a recession on the way?

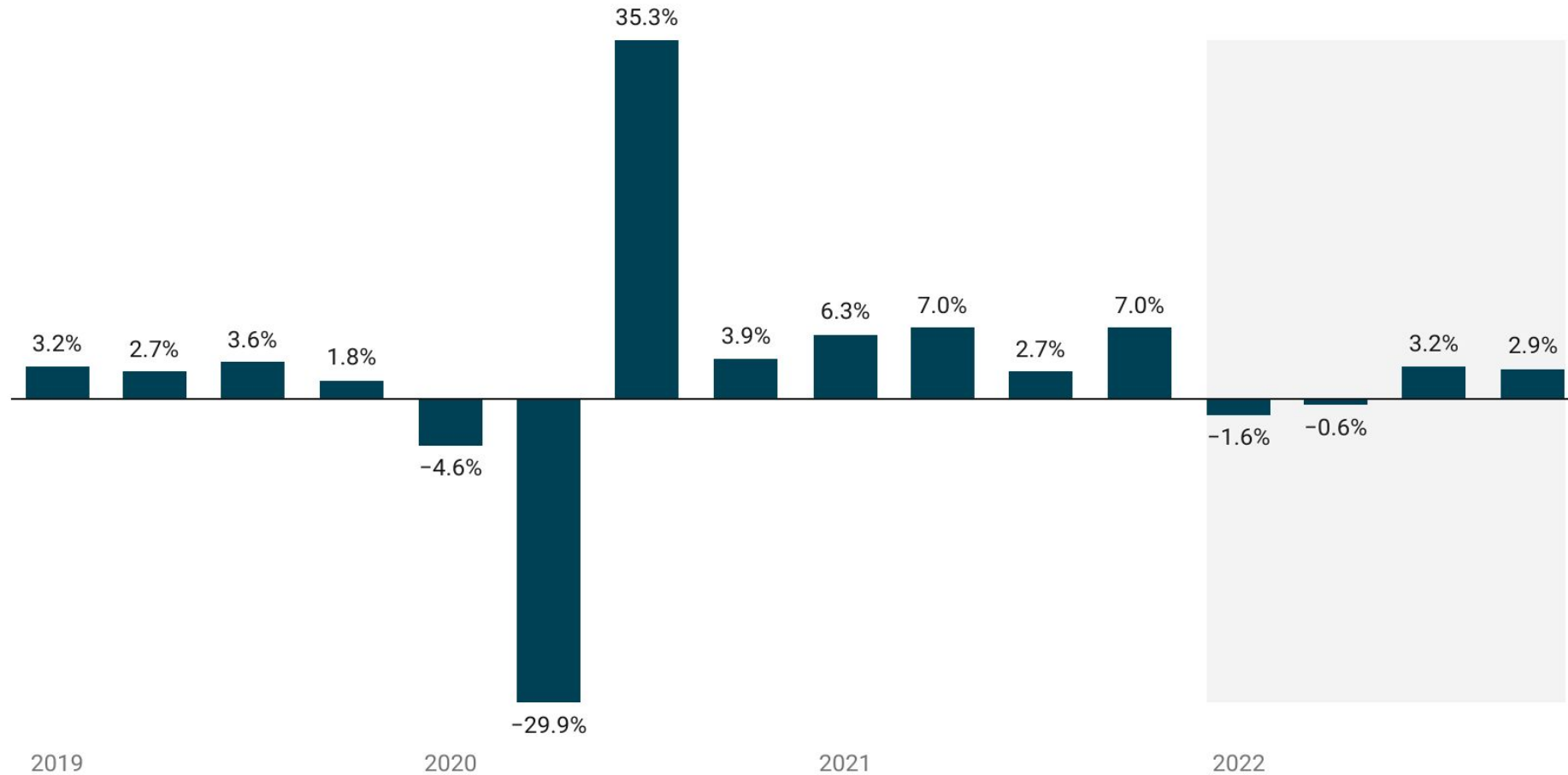
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# Officially recession fears failed to materialize in 2022 following negative GDP growth in early 2022

## Real GDP Finishes the Year Positive

percent change from preceding quarter at seasonally adjusted annual rates

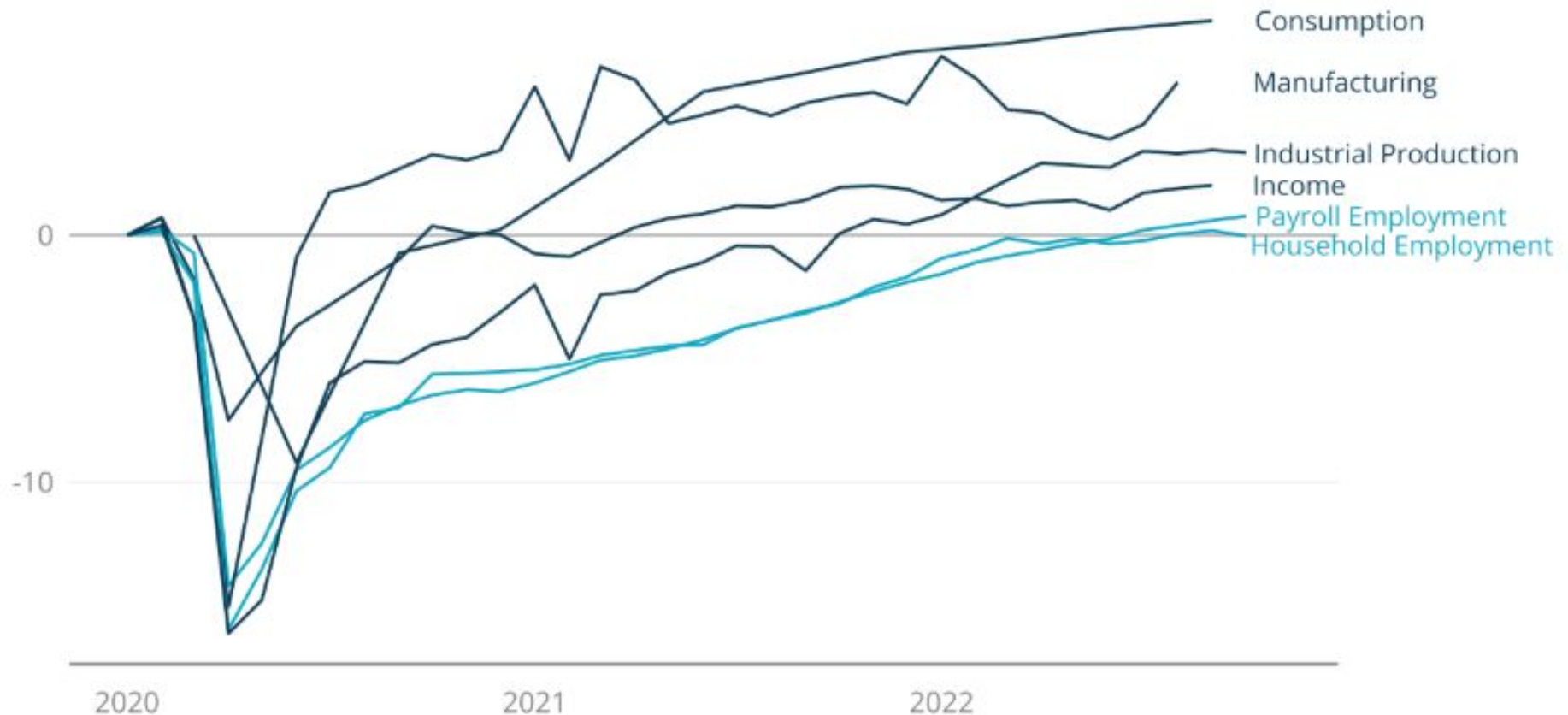


# Recession economic indicators are all up relative to pre-pandemic levels

---

## Selected NBER Economic Indicators

cumulative percentage change relative to Jan 2020

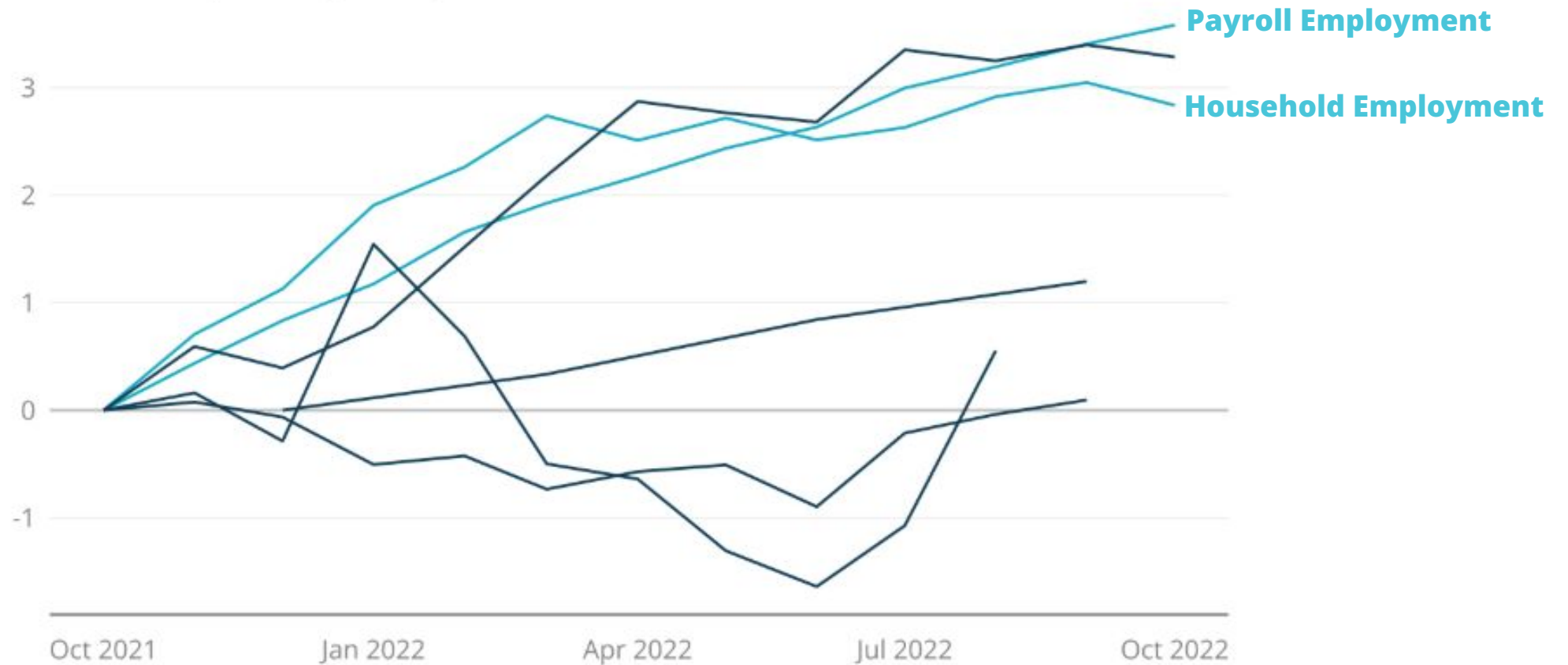


A closer look year-over-year suggests the resilience of the labor market has been a source of strength holding off the recession call

---

### Selected NBER Economic Indicators

cumulative percentage change relative to Jan 2020



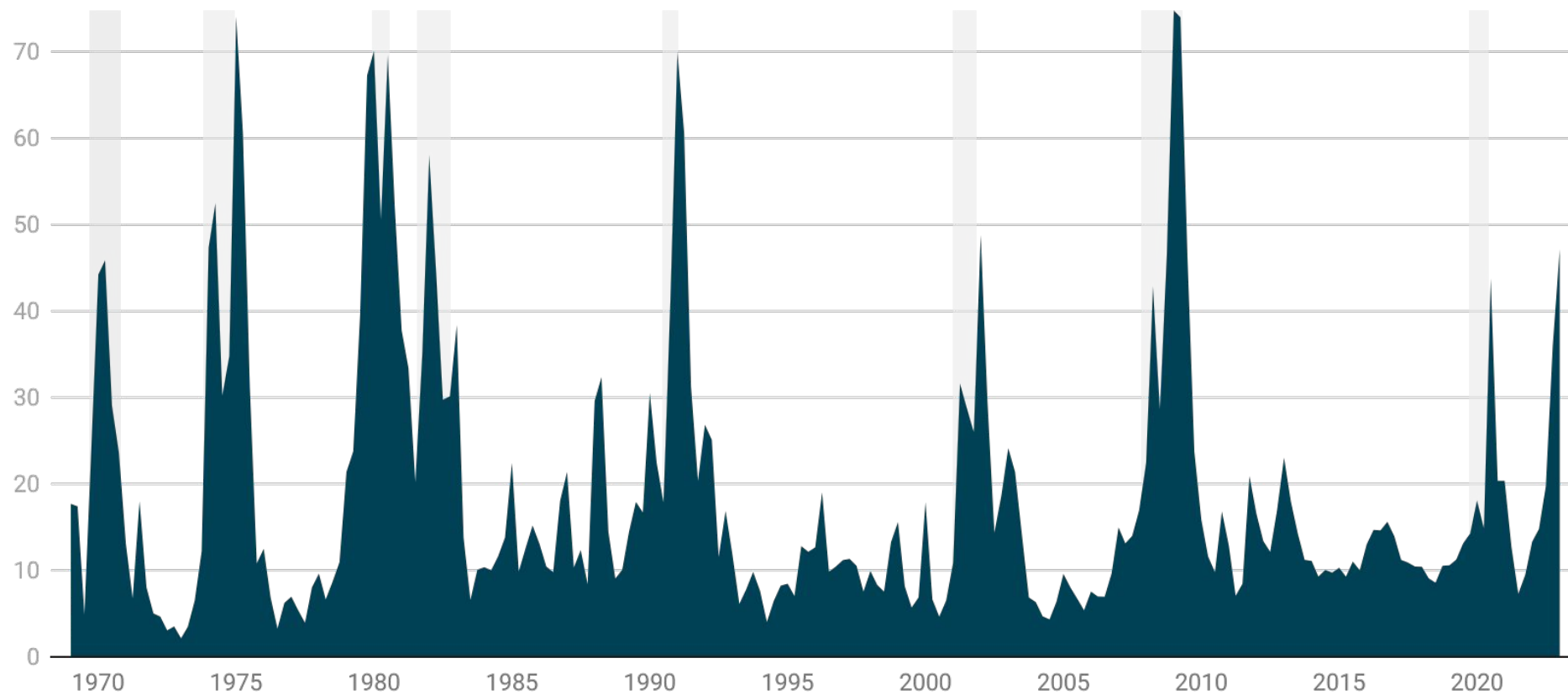
source | various collected from Federal Reserve Economic Database (FRED)

# However, recession probabilities on the rise...50/50

---

## The Anxious Index

Probability of a decline in GDP in the next quarter from the Survey of Professional Forecasters



Source: Federal Reserve Bank of Philadelphia



**Economic  
Outlook  
2023**

Possible  
Scenarios



**R**ecession



**r**ecession



**S**low**c**ession



**N**ormal growth

# SOE Audience Poll

Let's hear from you!



Which of the following do you think is the most likely economic outlook for 2023?

Recession?

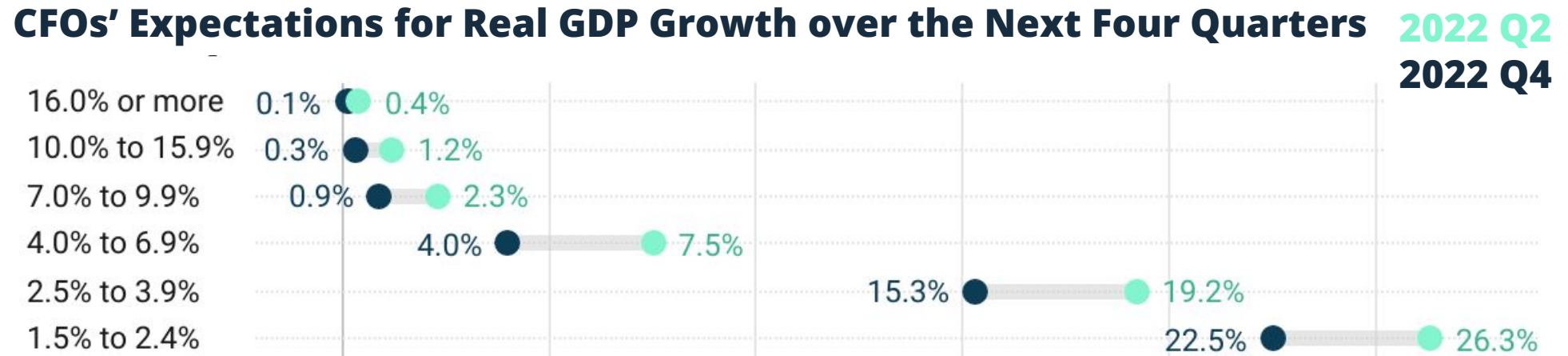
recession?

Slowcession?

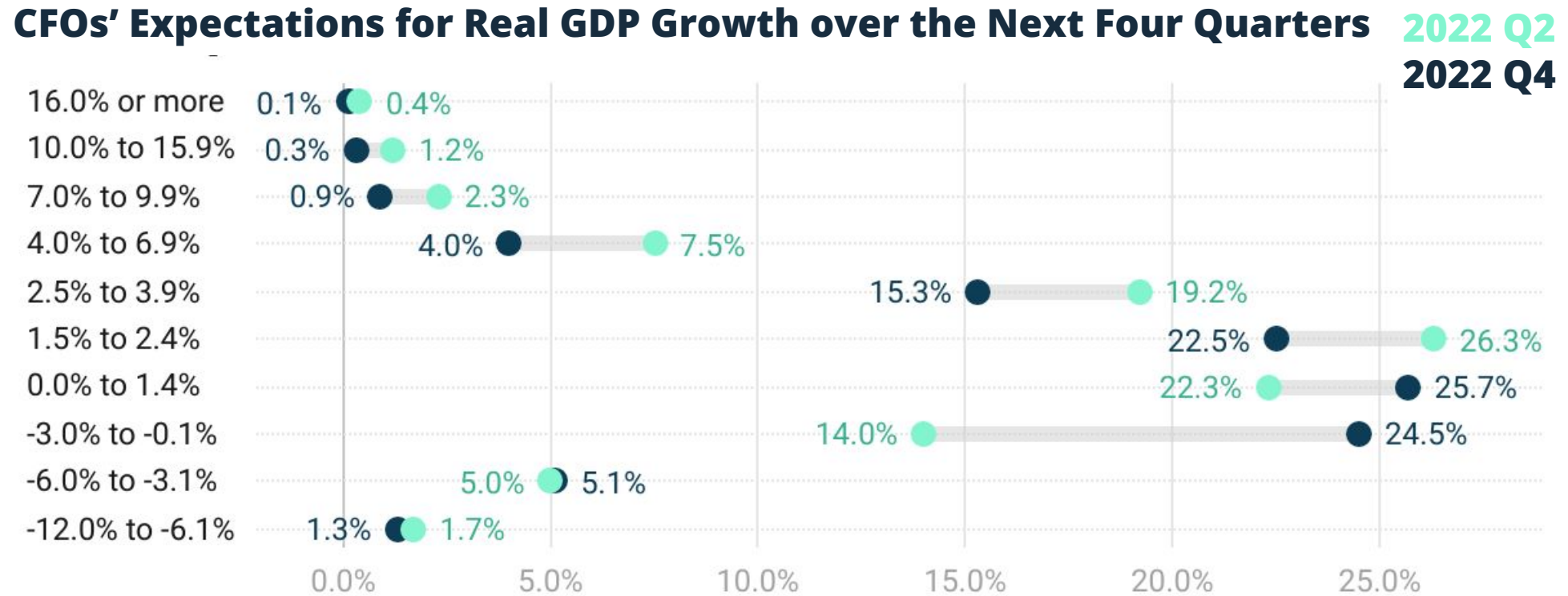
Normal growth?

Strong growth?

From Q2 of 2022 to Q4 of 2022, CFOs dropped expectations for positive economic growth over the next year....



# In favor of weak or possibility negative growth over the next year



**Economic  
Outlook  
2023**

Possible  
Scenarios



**R**ecession



**r**ecession



**S**lowcession



**N**ormal growth

# Scenario Tipping Points

- 1 | Inflation & the policy “Landing”
- 2 | Future expectations & behaviors
- 3 | Labor market resiliency
- 4 | Fiscal policy tail risk
- 5 | Global uncertainty



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# Scenario Tipping Points



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# Upcoming Events & Initiatives



April 11<sup>th</sup> - 13<sup>th</sup>

## **Money Smart Week**



April 28<sup>th</sup> | Change Management

## **The Cost of Staying in your Comfort Zone**

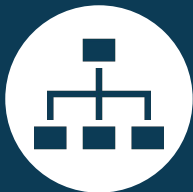
Dr. Kim Smith & Dr. Jamie O'Brien



May 10<sup>th</sup>

## **Regional Economic Update & Industry Spotlight**

Wisconsin Department of Revenue + New North + CBEA



## **CBEA/Data Analytics**

Advisory Board

2023 US Economic Outlook

# Recession or Resilience?

February 2023



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