



# Economic Outlook Robert Fry

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Weehawken, New Jersey  
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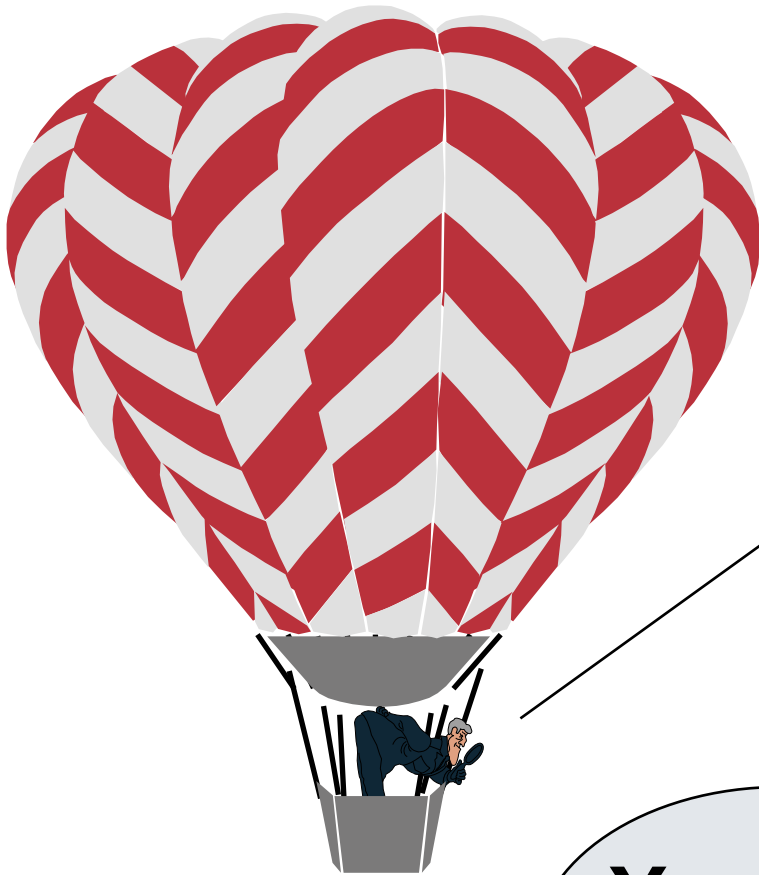
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**Excuse me.  
Can you tell  
me where I  
am?**

**You're in  
a balloon.**



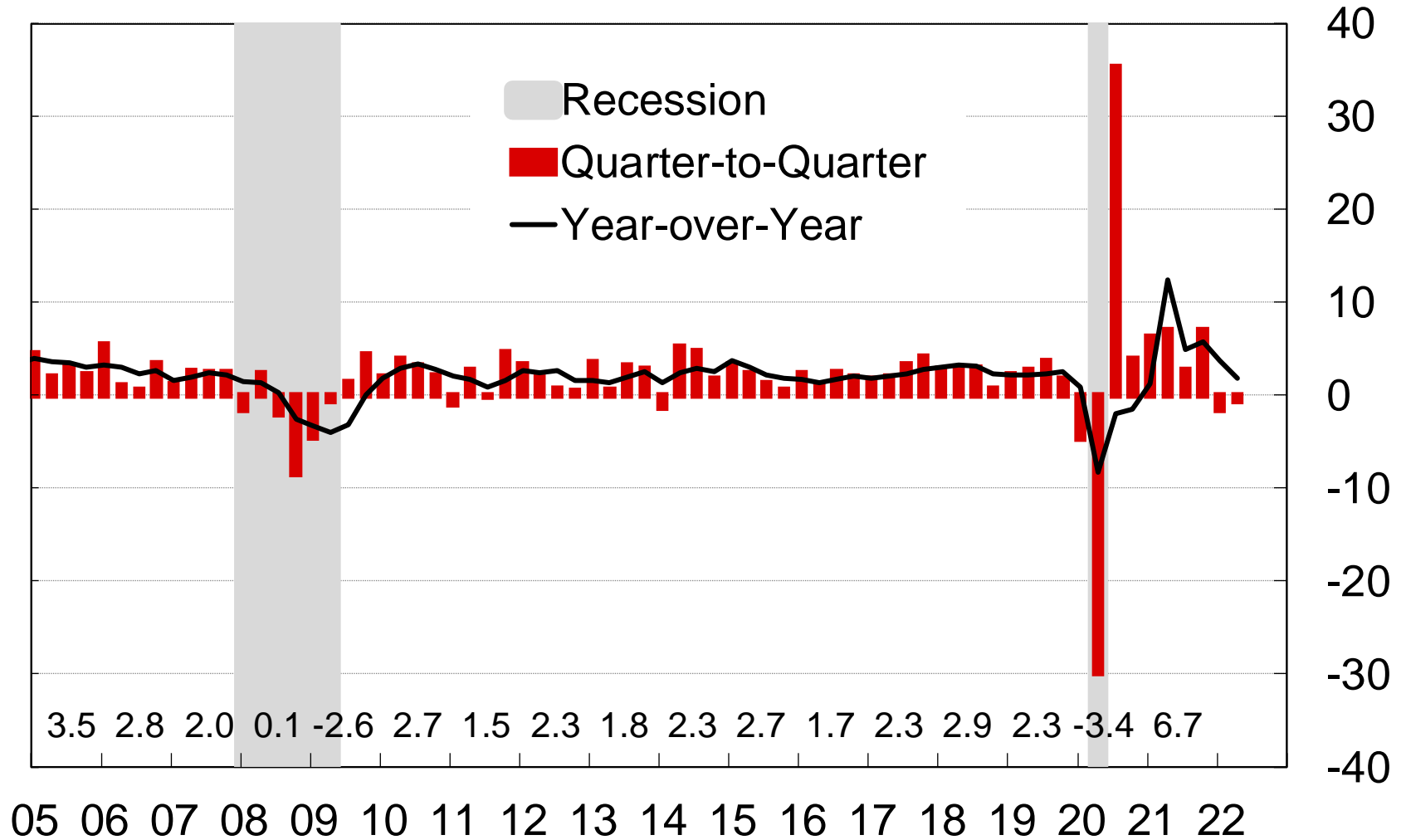


**You must  
be an economist.  
Your answer is  
perfectly correct  
and totally  
useless.**

**You must be a manager. You  
have a great view, but don't  
know where you are.**



# US Real Gross Domestic Product *Annualized Growth Rates*



# **Real GDP has declined two straight quarters**

**Real GDP declined at a 1.6% annual rate in the first quarter.**

**Real GDP declined at a 0.6% annual rate in the second quarter.**

**Two straight declines meet commonly (mis)used definition of recession.**

## Recession:

A period when money is returned to its rightful owner.

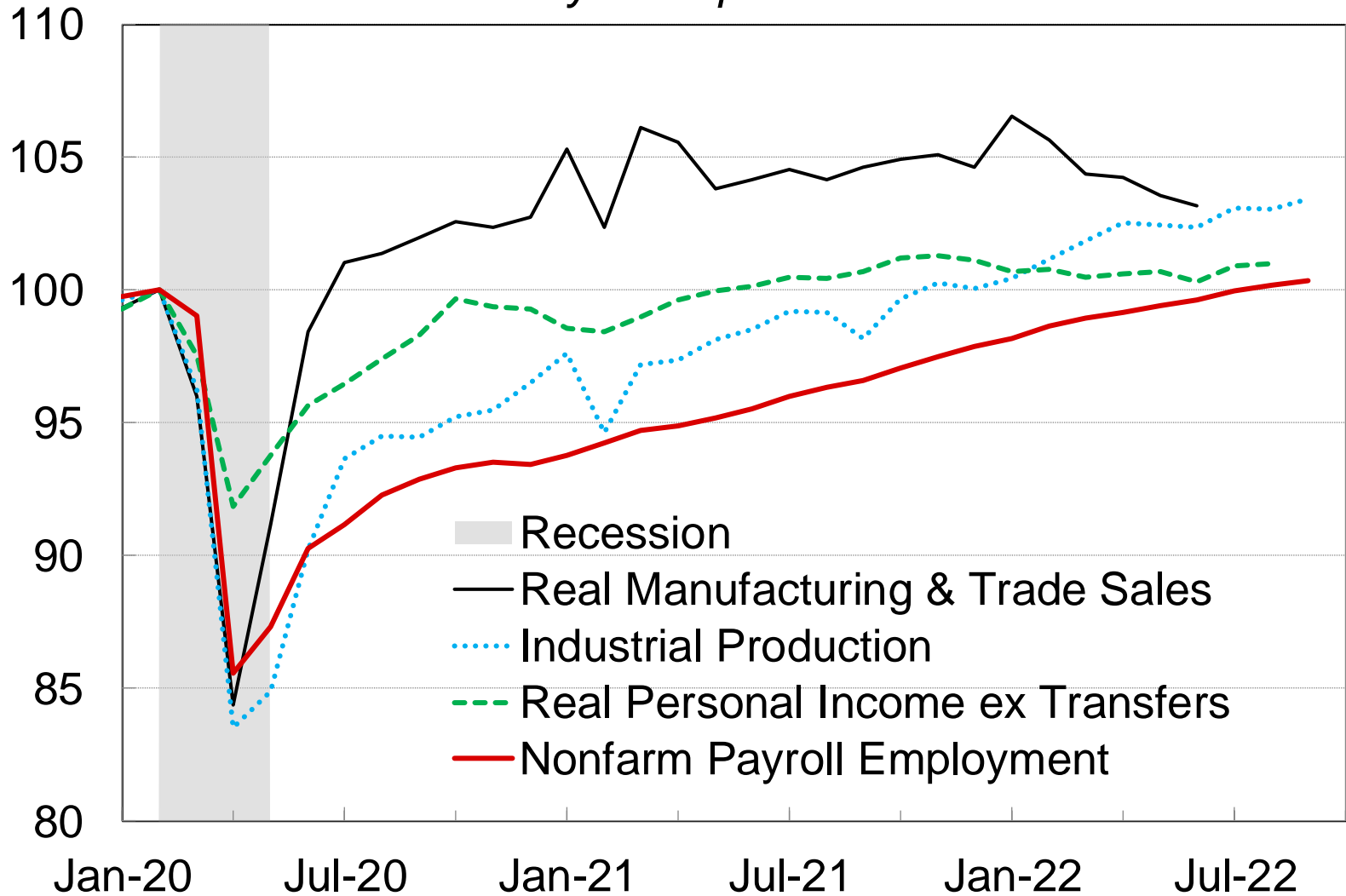
## Recession:

a significant decline in economic activity that is spread across the economy and lasts more than a few months . . . based on a range of **monthly** measures of aggregate real economic activity published by the federal statistical agencies. – nber.org



# US Coincident Indicators

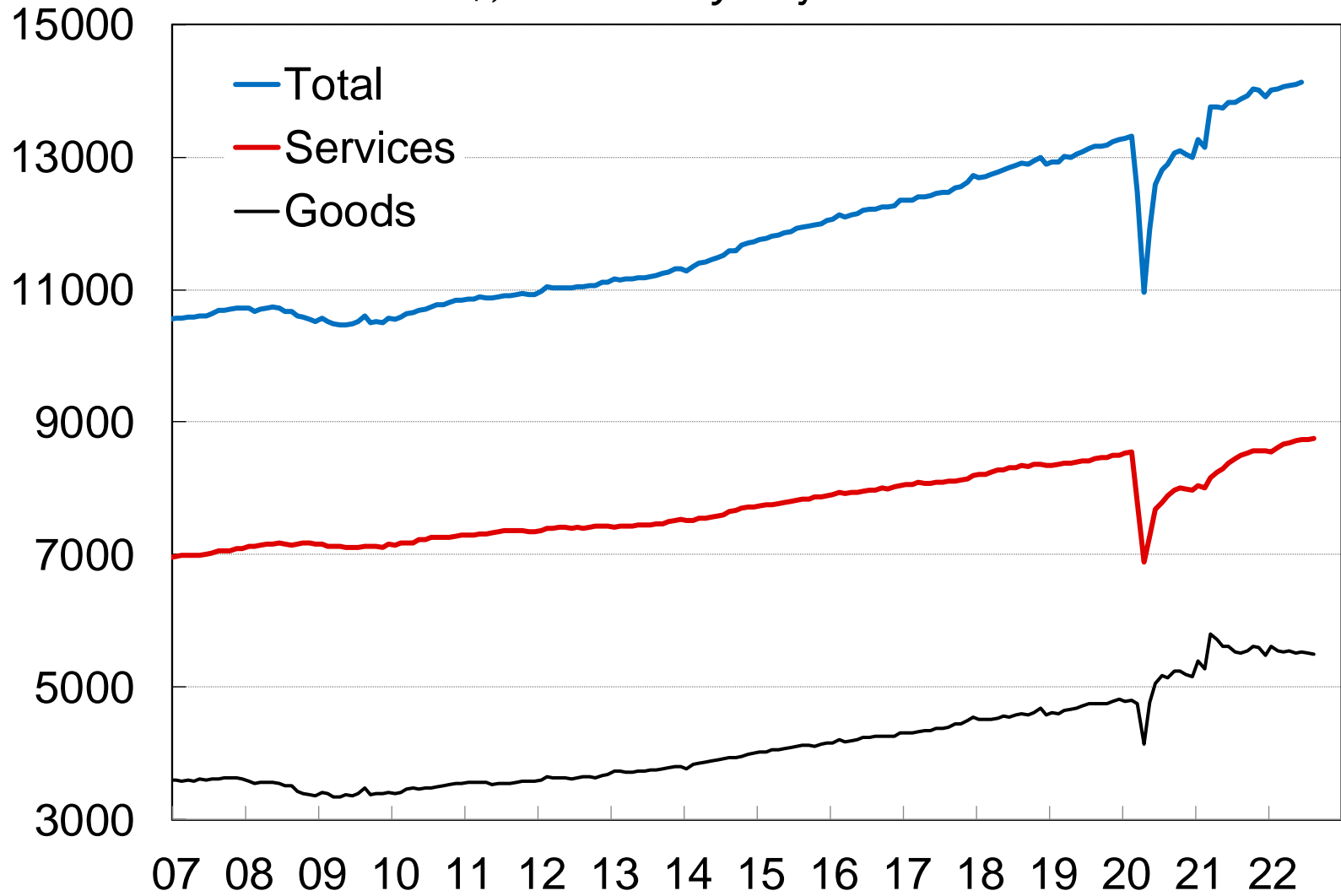
February 2020 peak = 100



Source: U.S. Bureau of Labor Statistics/FRED

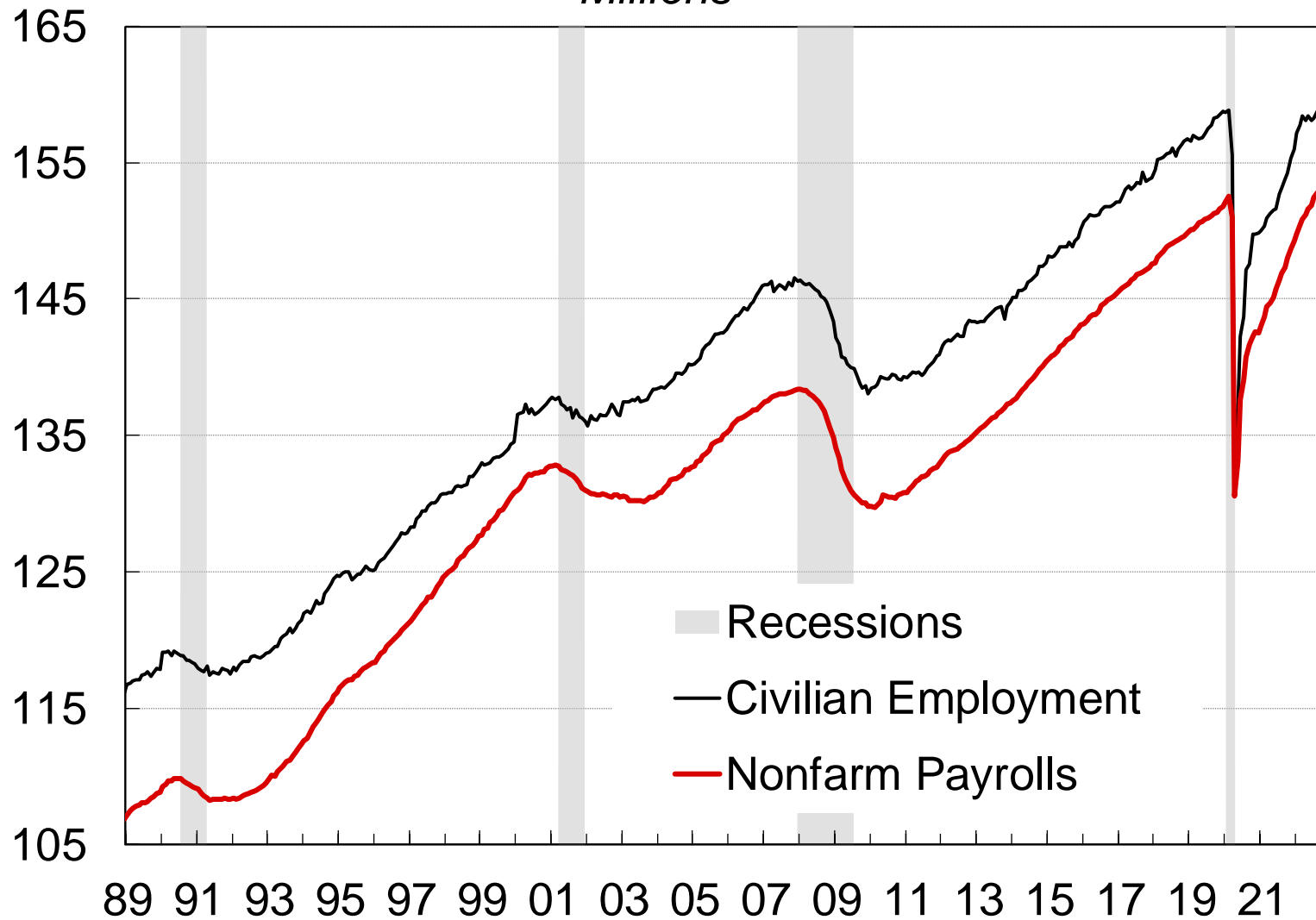
# US Real Personal Consumption Expenditures

*Billion 2012 \$, Seasonally Adjusted Annual Rates*



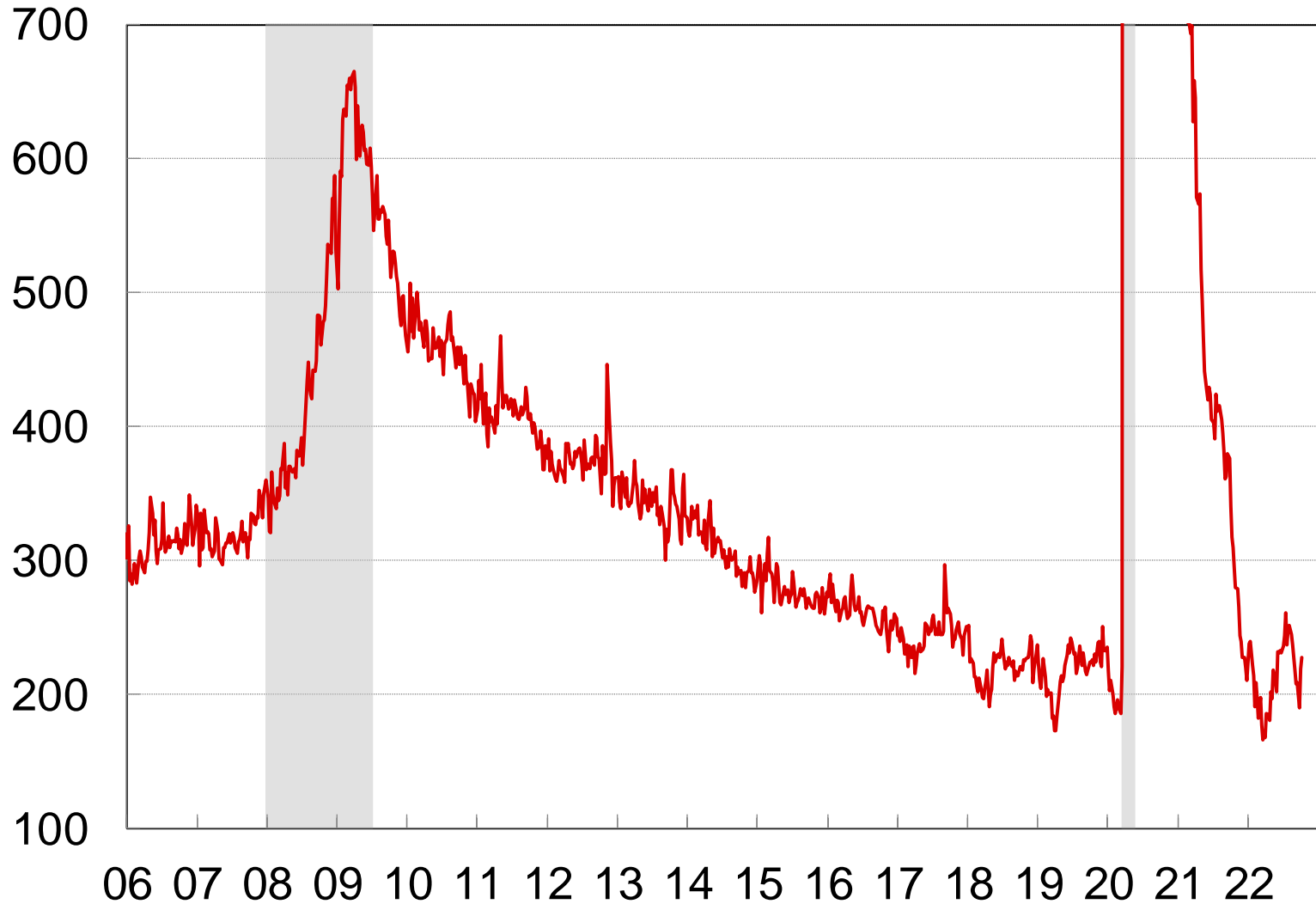
Source: U.S. Bureau of Economic Analysis/FRED

# US Employment *Millions*



# Initial Claims for Unemployment Insurance

*Thousands*



Source: U.S. Employment and Training Administration/FRED

# **If we're in a recession, it just started.**

**Payroll employment still rising (strongly) through September.**

**Civilian employment still rising through September.**

**Industrial production still rising through September.**

**Personal income excluding transfers still rising through August.**

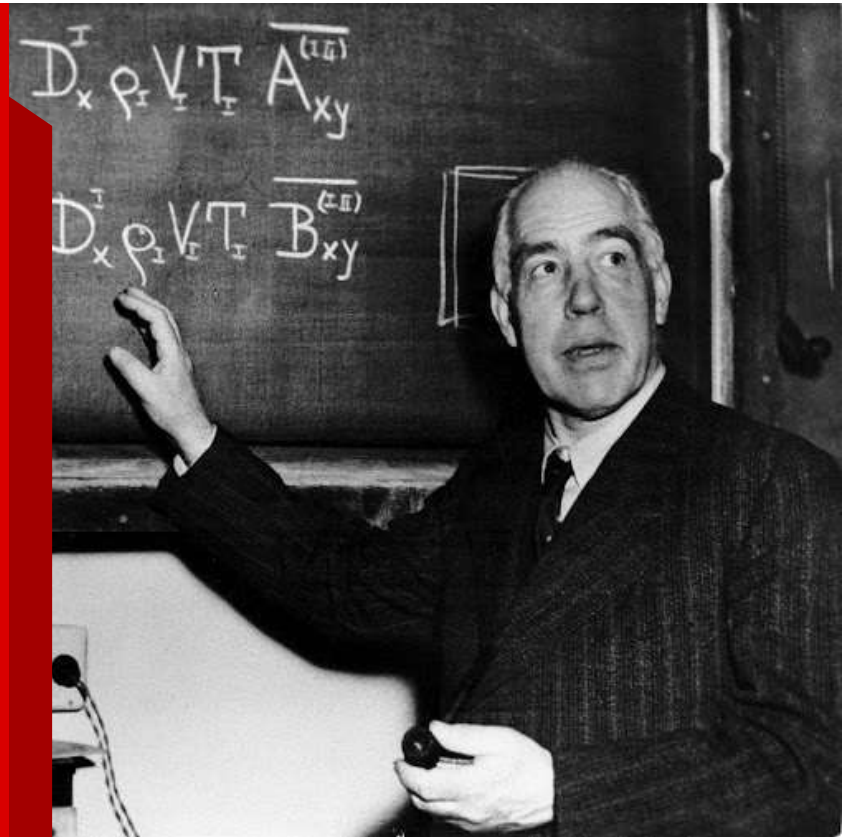
**Real personal consumption expenditures still rising through August.**

**Real manufacturing & trade sales peaked in March 2021, then in January.**

**ALL DATA ARE SUBJECT TO REVISION!**

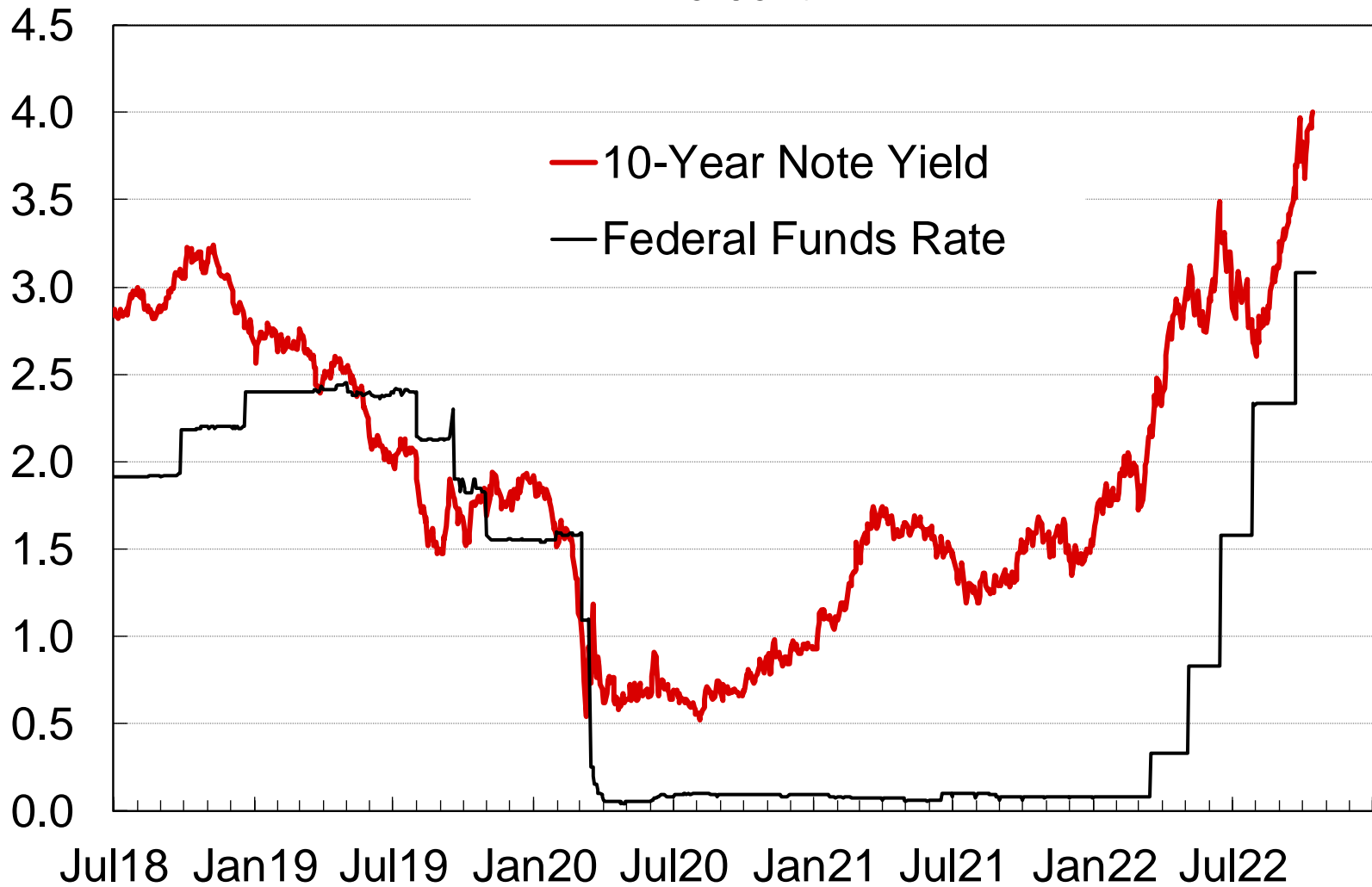
**“Prediction is very difficult, especially about the future.”**

**Niels Bohr, 1885-1962  
Nobel Laureate, 1922**



# US Interest Rates

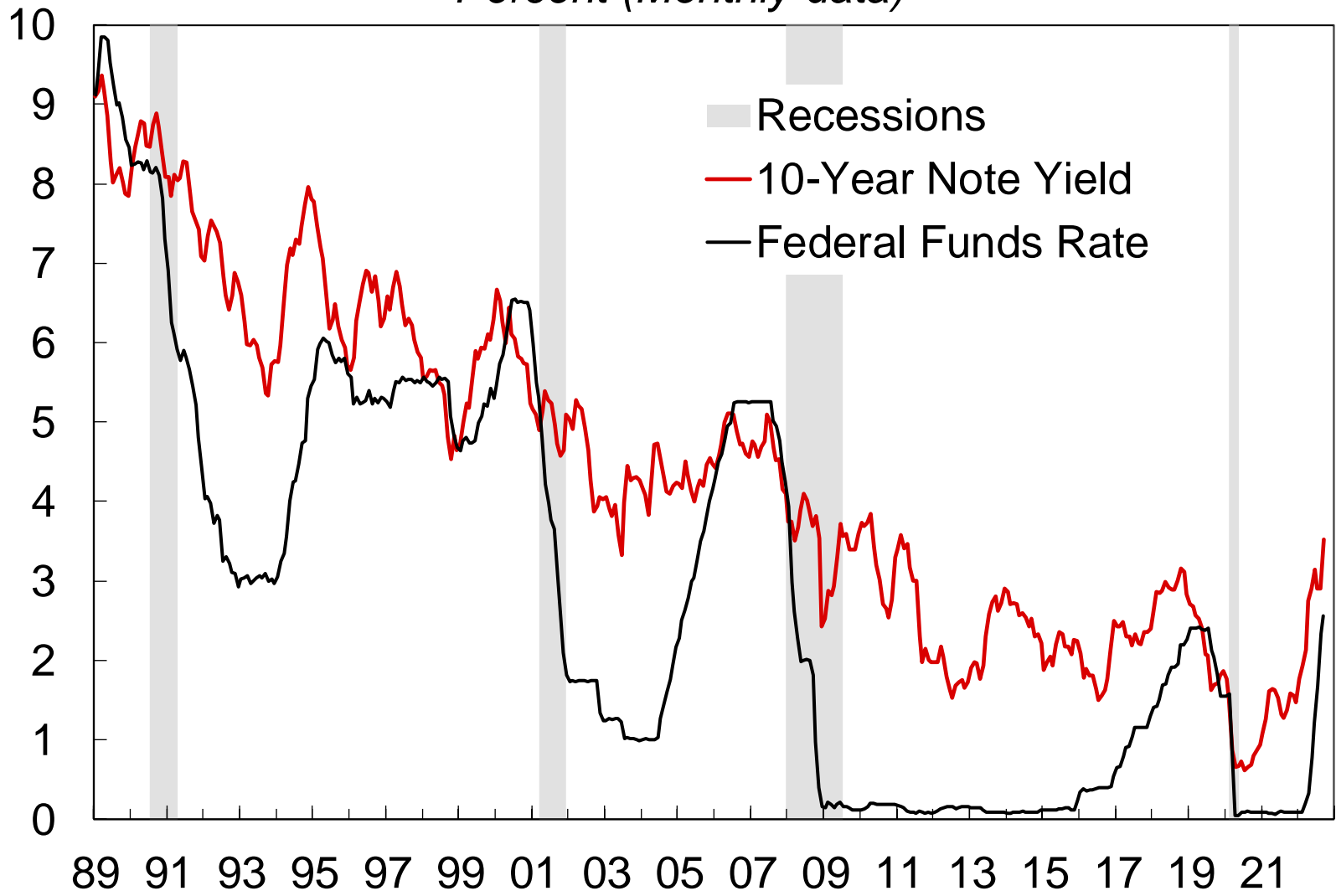
*Percent*



Source: Board of Governors of the Federal Reserve System (US)/Federal Reserve Bank of New York/FRED

# US Interest Rates

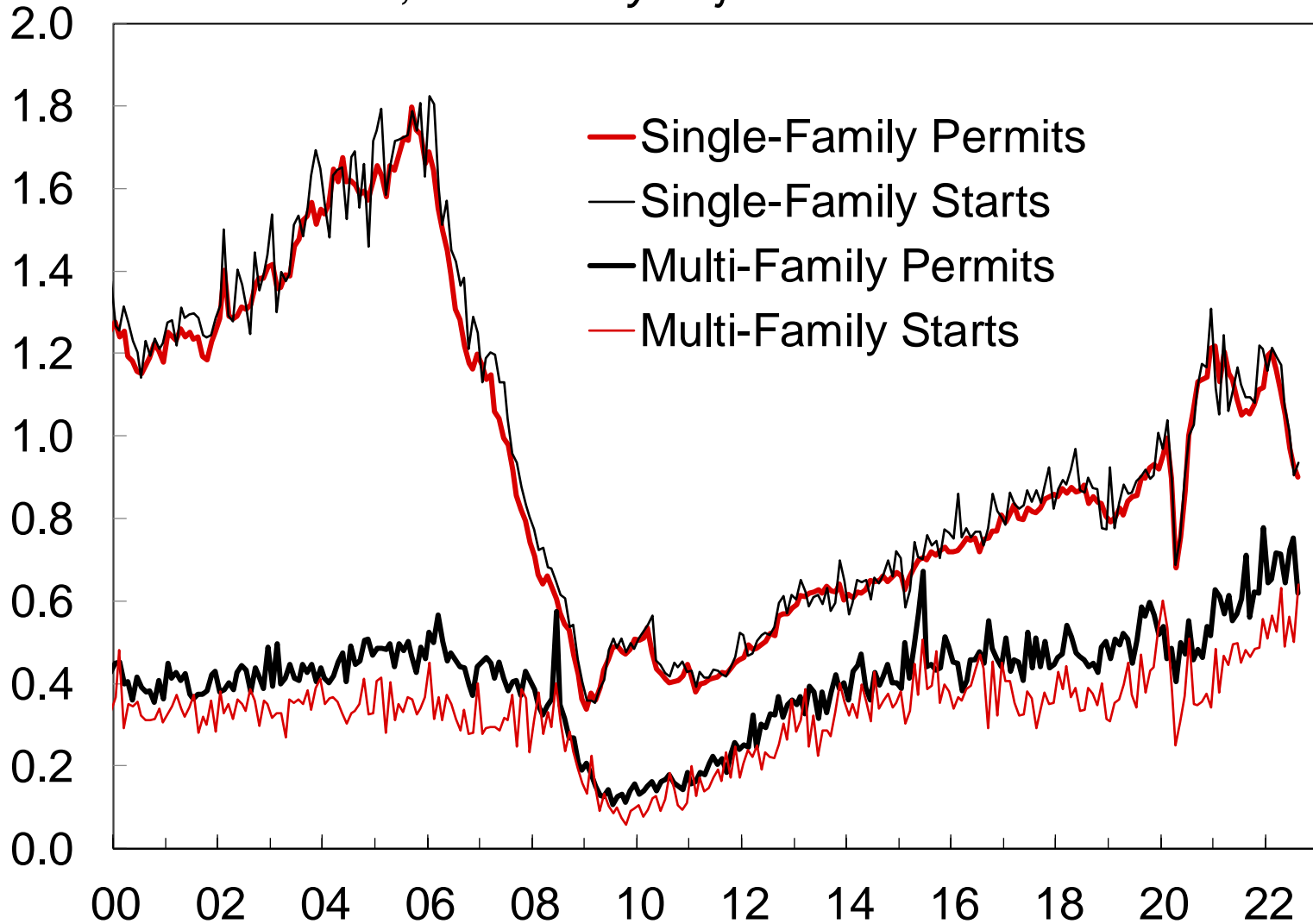
Percent (Monthly data)





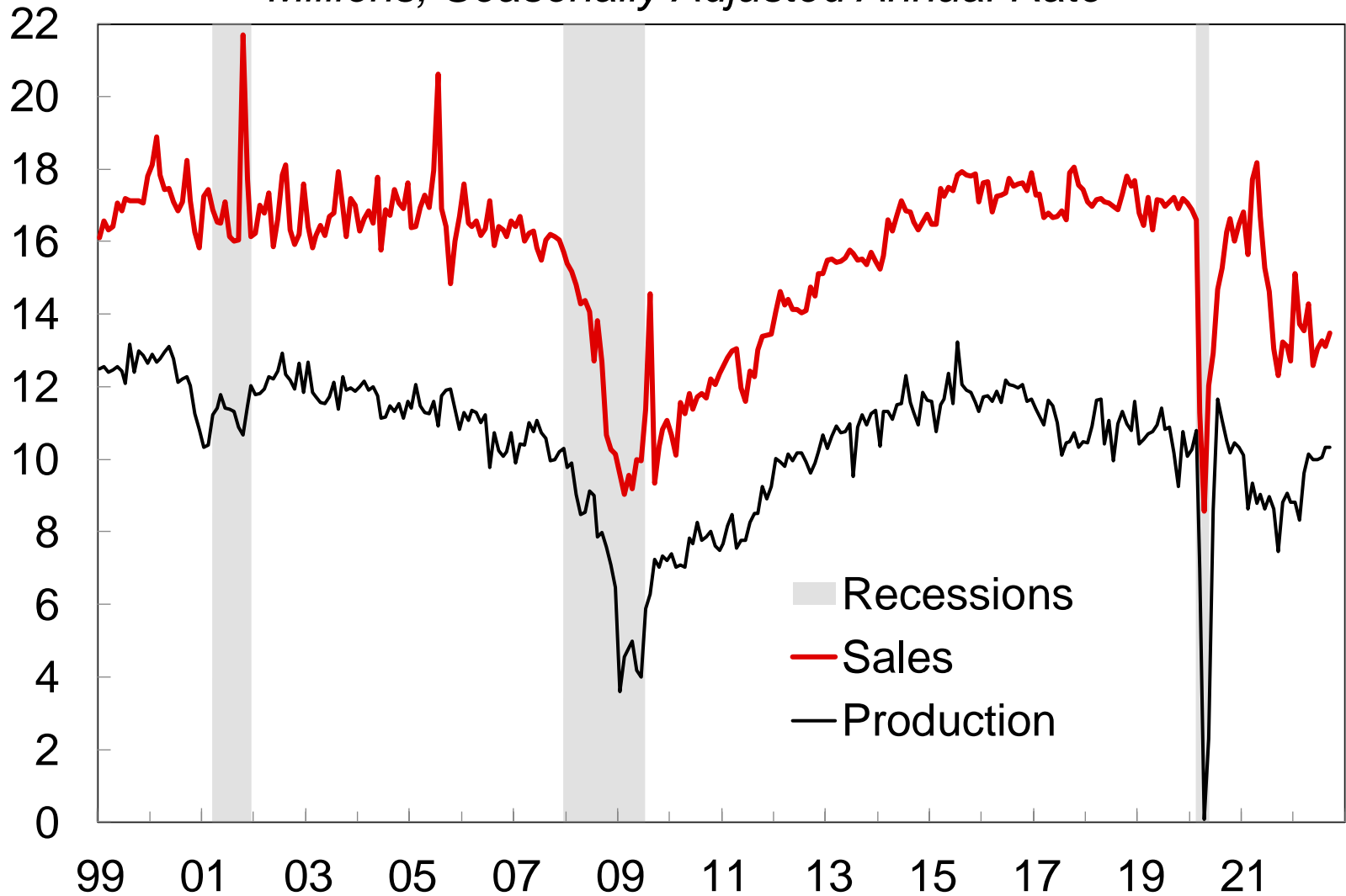
# US Housing Starts & Building Permits

*Millions, Seasonally Adjusted Annual Rate*

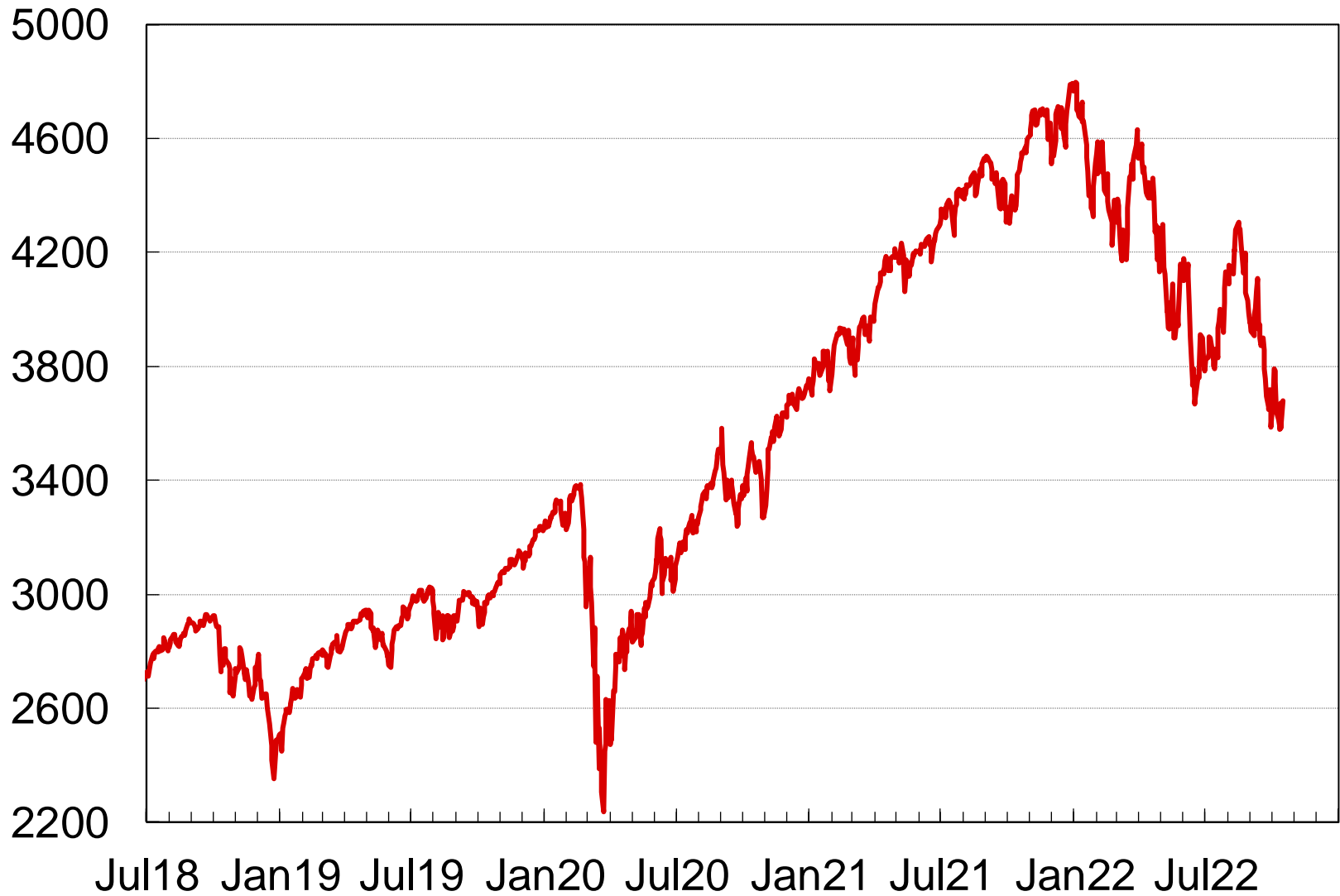


# US Light Vehicle Sales & Production

*Millions, Seasonally Adjusted Annual Rate*



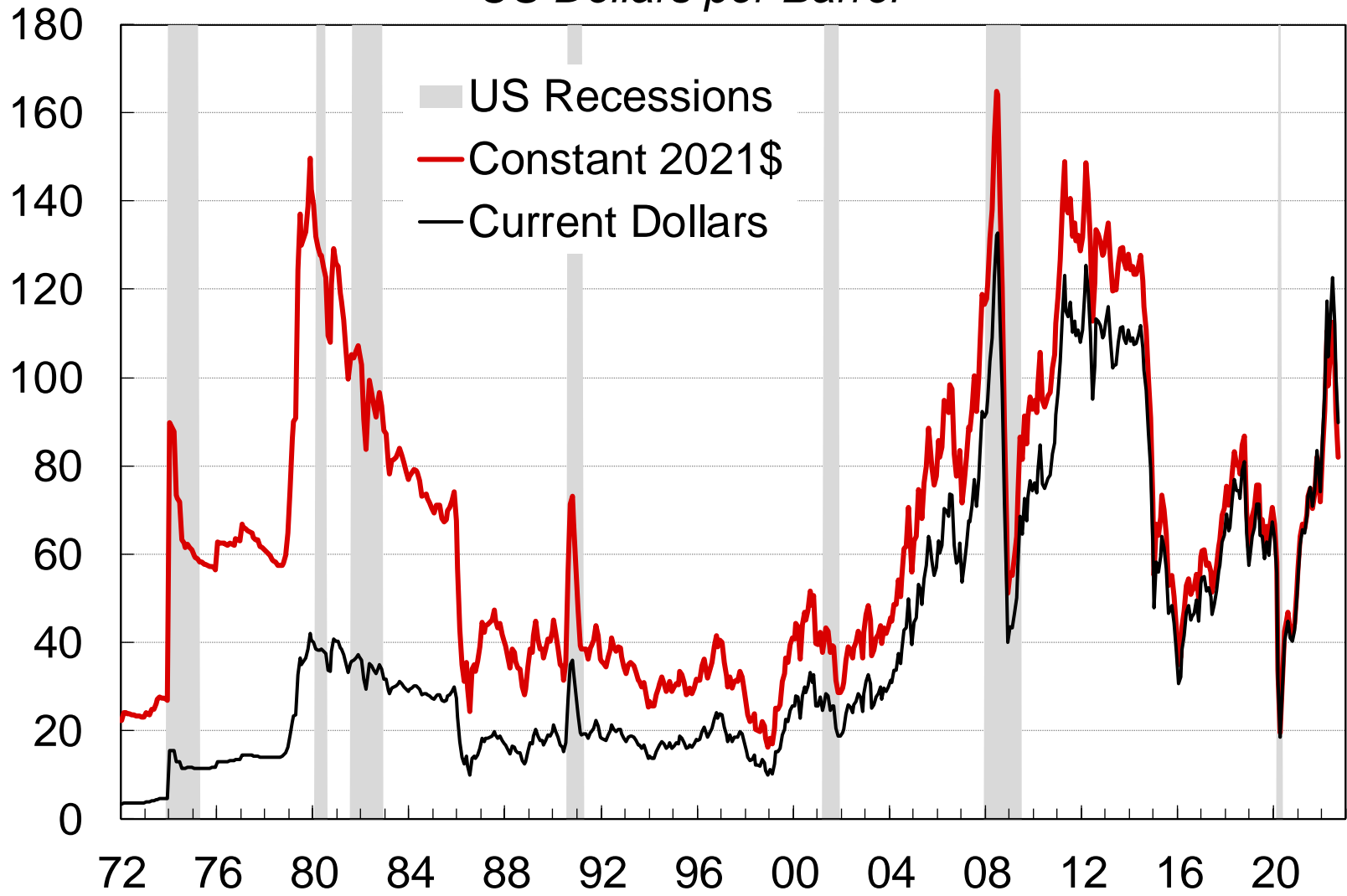
# S&P 500 Stock Price Index



Source: S&P Dow Jones Indices LLC/FRED

# Brent Blend Oil Price

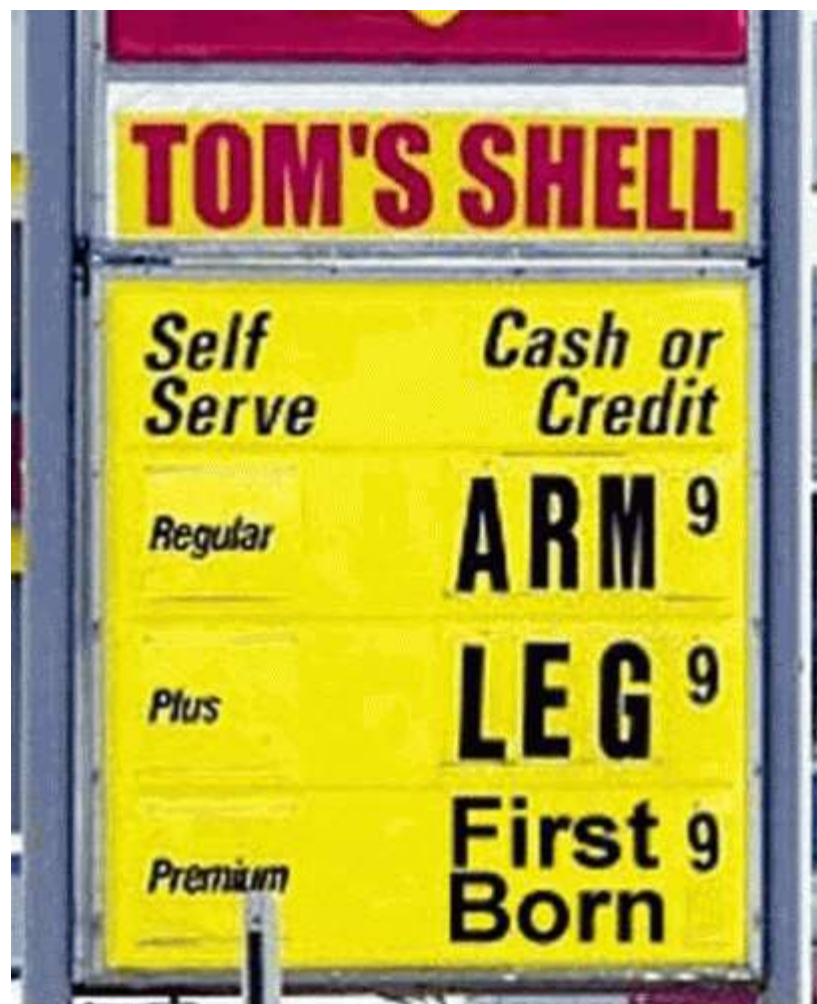
*US Dollars per Barrel*



# US Regular Gasoline Price

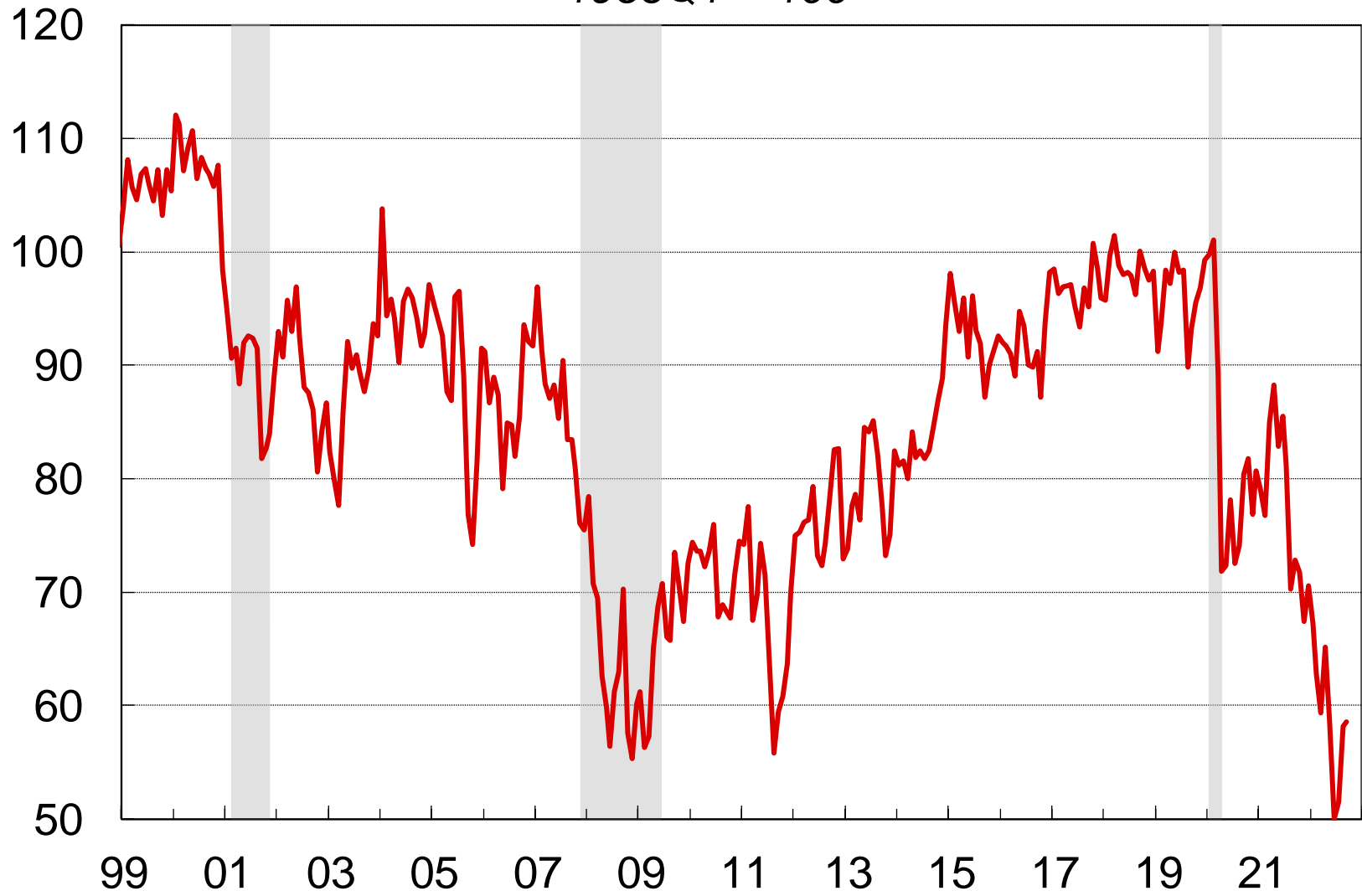
*Dollars per gallon, Weekly data*





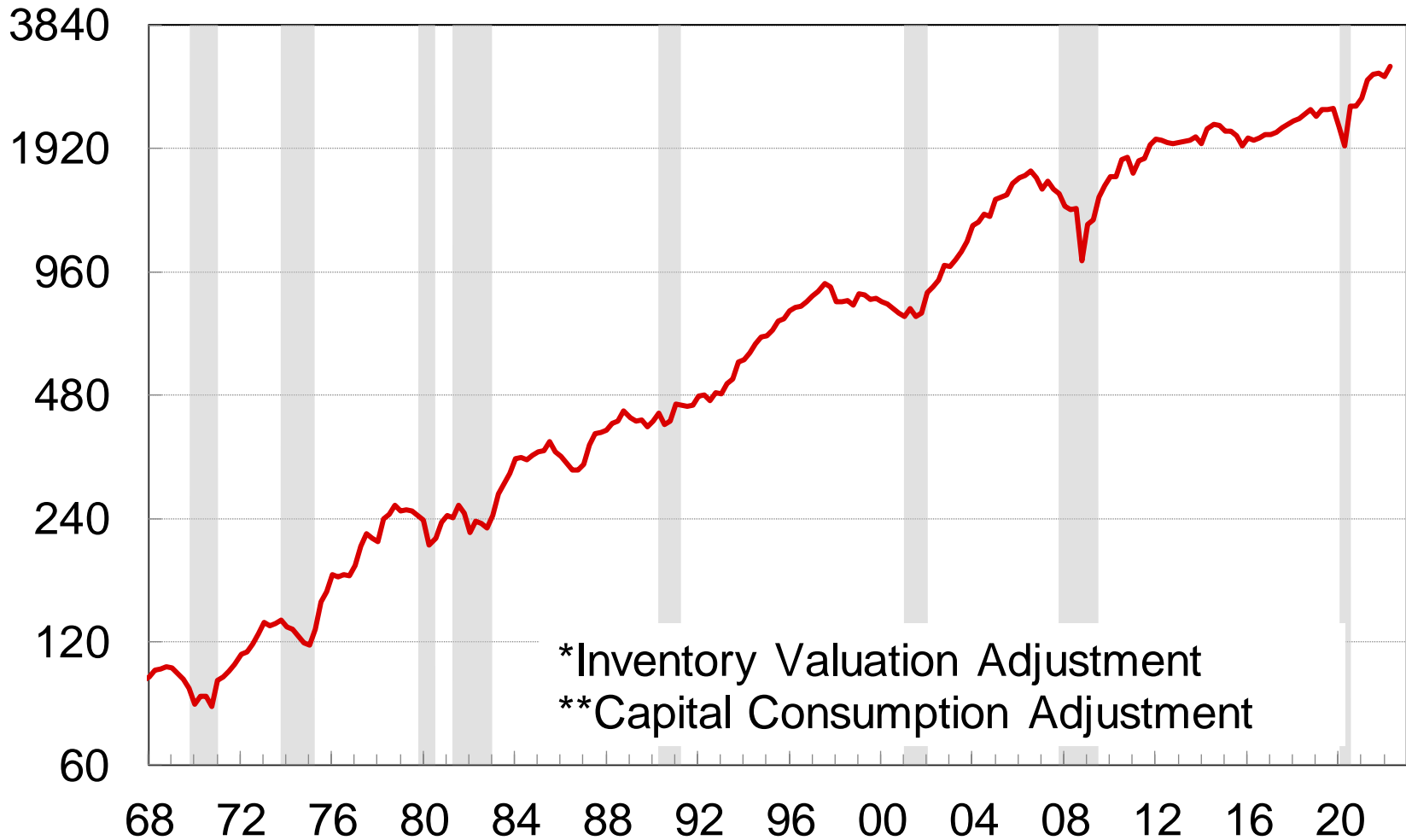
# University of Michigan Consumer Sentiment Index

1966Q1 = 100



# US Corporate Profits with IVA\* and CCAAdj\*\*

*Billion \$*

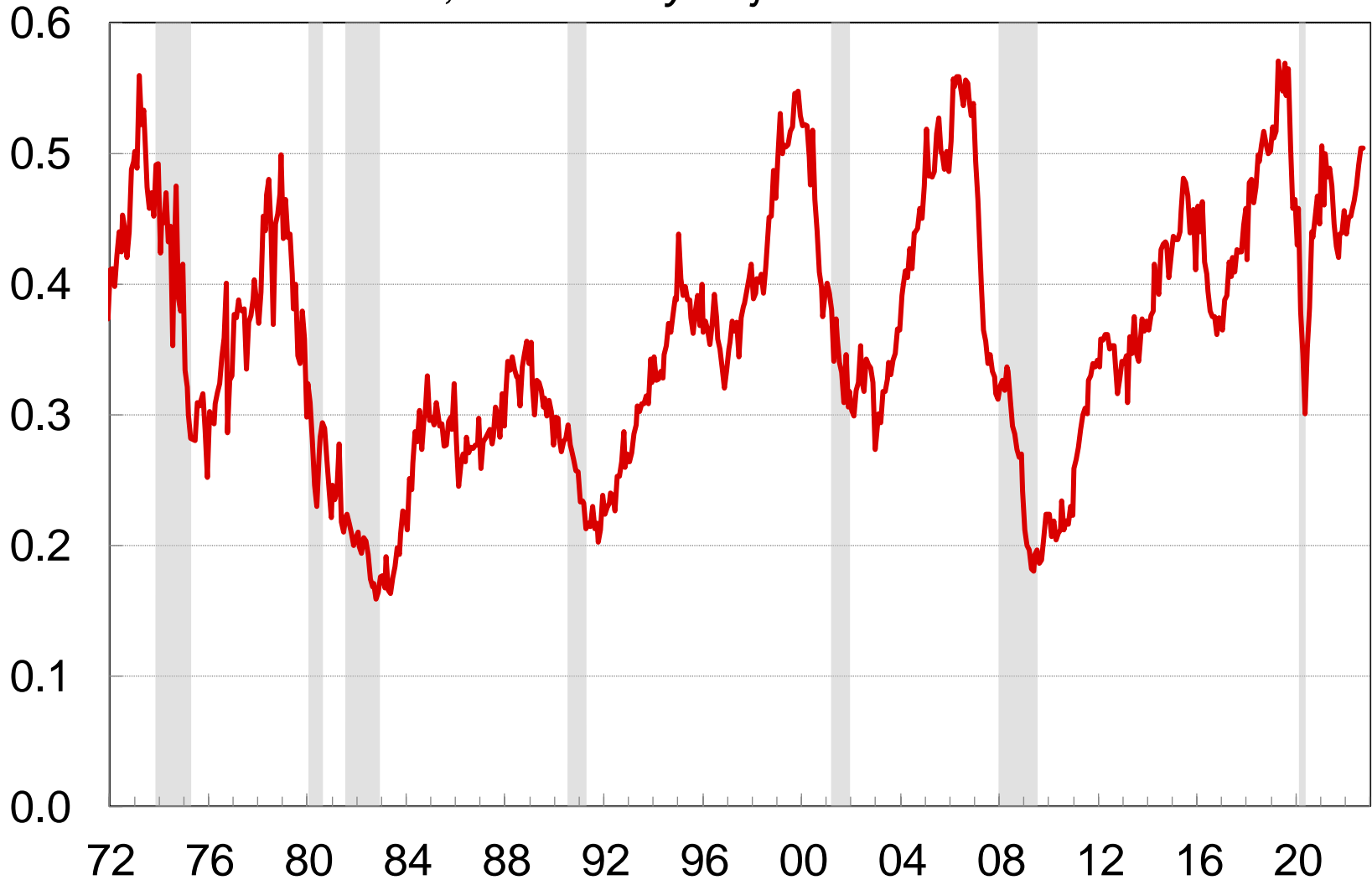


Source: U.S. Bureau of Economic Analysis/FRED



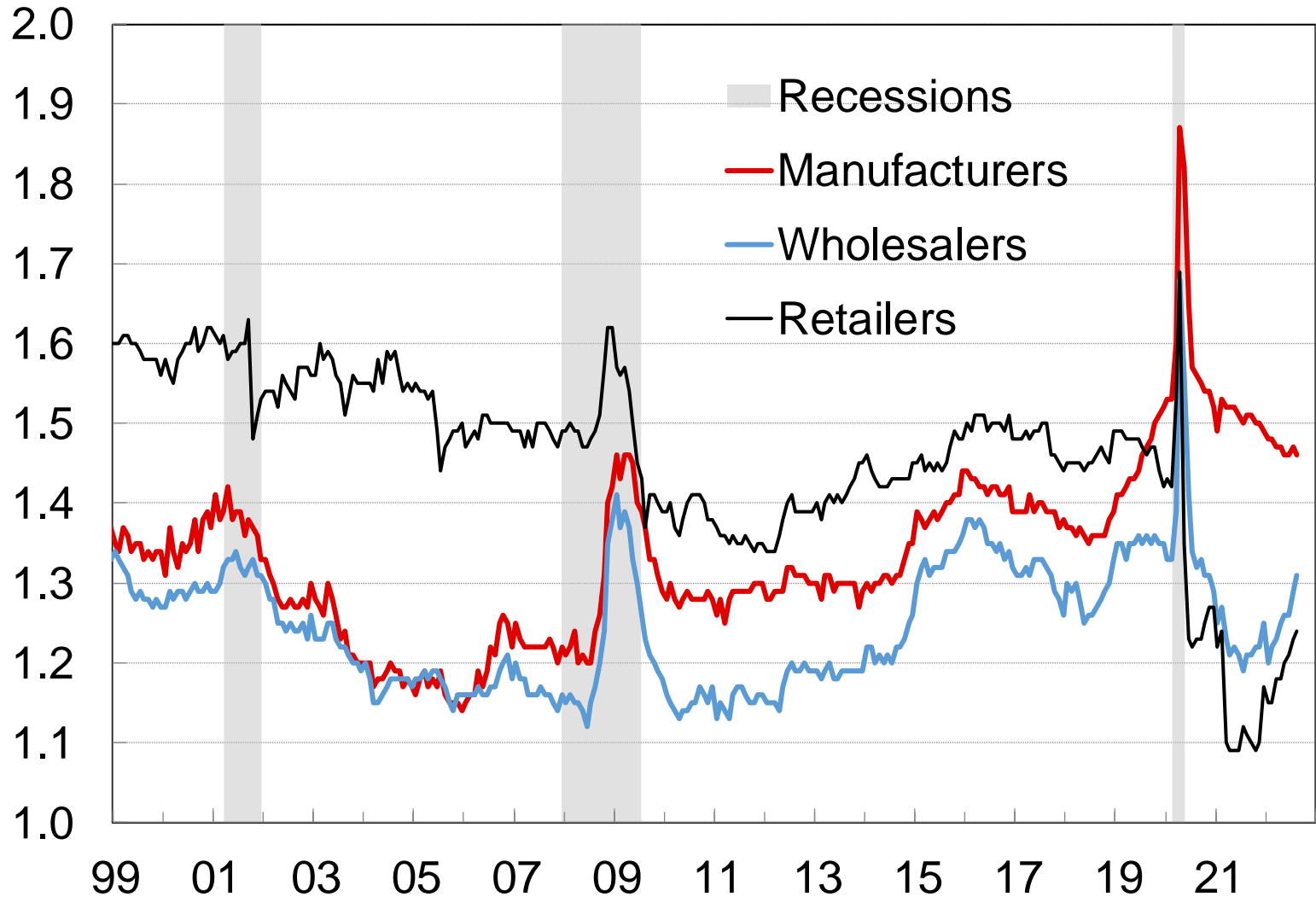
# US Heavy Truck Sales

*Millions, Seasonally Adjusted Annual Rate*



# US Business Inventories to Sales Ratio

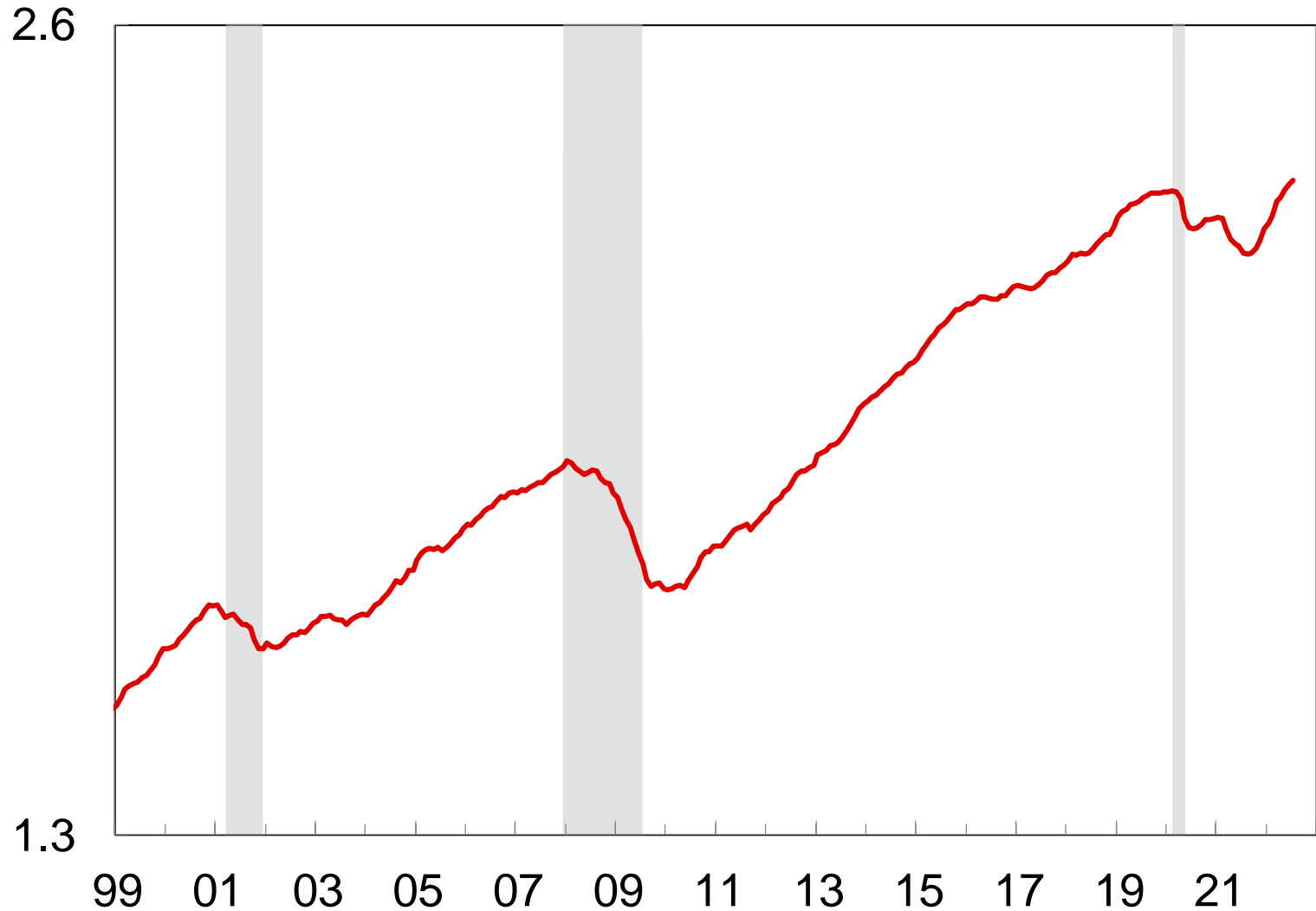
Months



Source: U.S. Census Bureau/FRED

# Real Manufacturing and Trade Inventories

*Trillion Chained 2012 Dollars*



Source: Federal Reserve Bank of St. Louis/FRED

# Leading indicators point to a recession.

**Every recession since 1973 has been preceded by an inverted yield curve and at least a doubling in oil prices.**

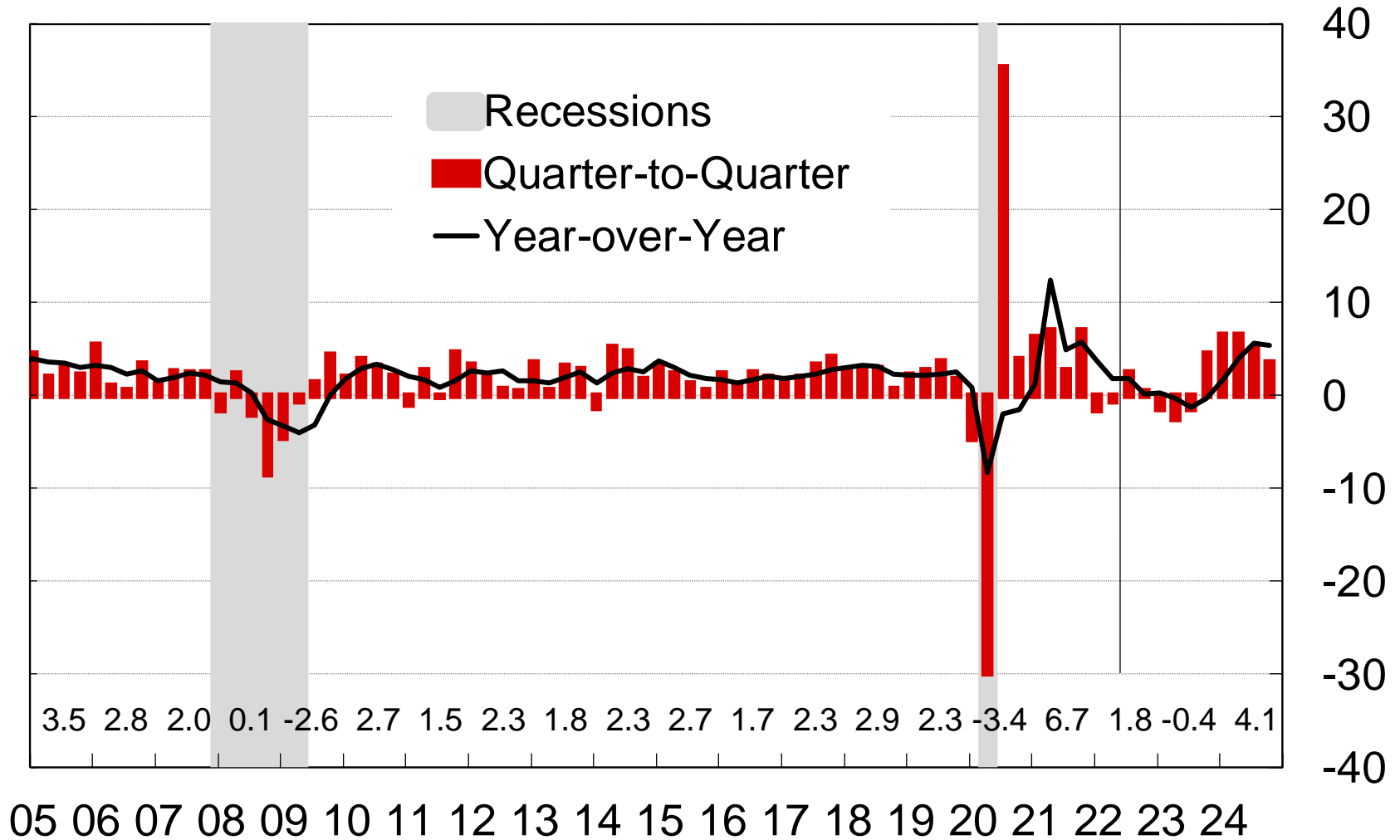
- Yield curve is not yet inverted, but likely will be in November.
- With normal lags, that would mean recession starting in or after **mid-2023**.
- Near-term recession would imply that either bond markets have done the Fed's work for them, or energy prices are causing a recession.

**Many leading indicators (e.g., stock prices, housing starts/permits, LEI, my own leading index) are pointing to a recession sooner than mid-2023.**

**Arguments against recession becoming arguments for mild recession.**

- Household and corporate balance sheets are still in good shape.
- There is still plenty of pent-up demand for houses and motor vehicles.
- Services, especially travel & entertainment, are still recovering from pandemic.

# US Real Gross Domestic Product *Annualized Growth Rates*



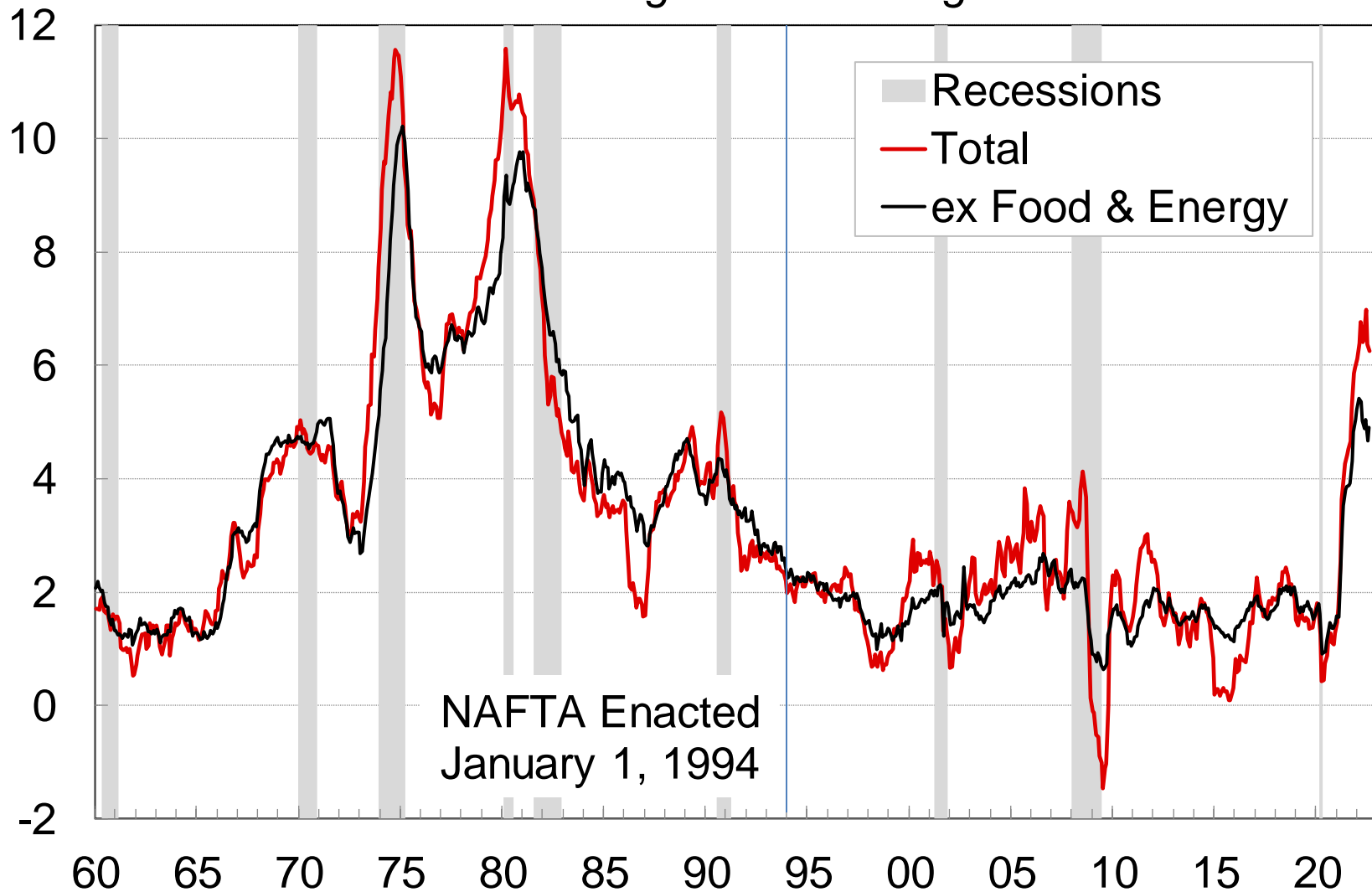
**“The crisis takes a much longer time coming than you think and then it happens much faster than you would have thought.”**

**Rudiger Dornbusch  
1942-2002**



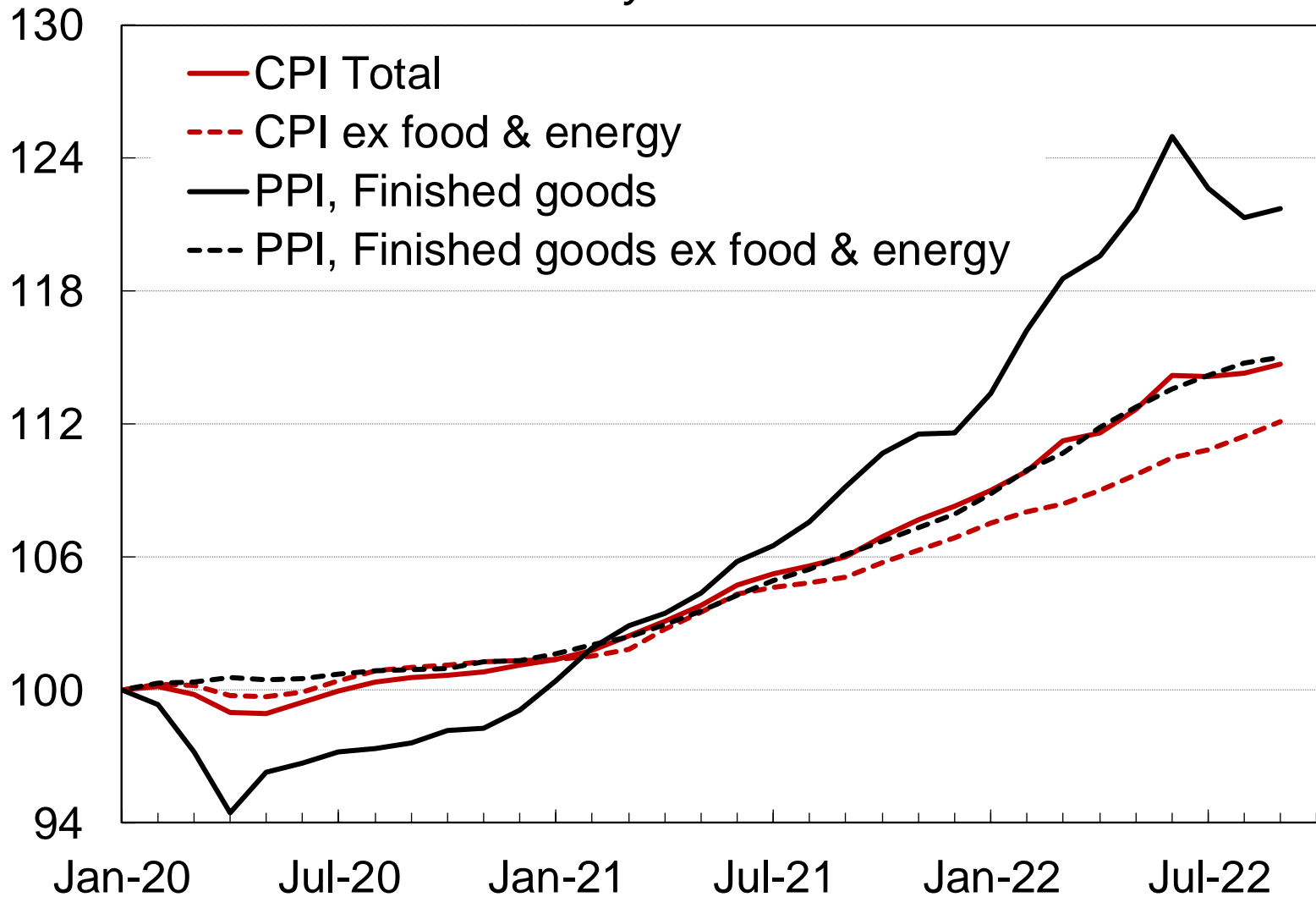
# US Personal Consumption Expenditures Price Index

*Percent Change from Year Ago*



# US Consumer & Producer Price Indexes

January 2020 = 100

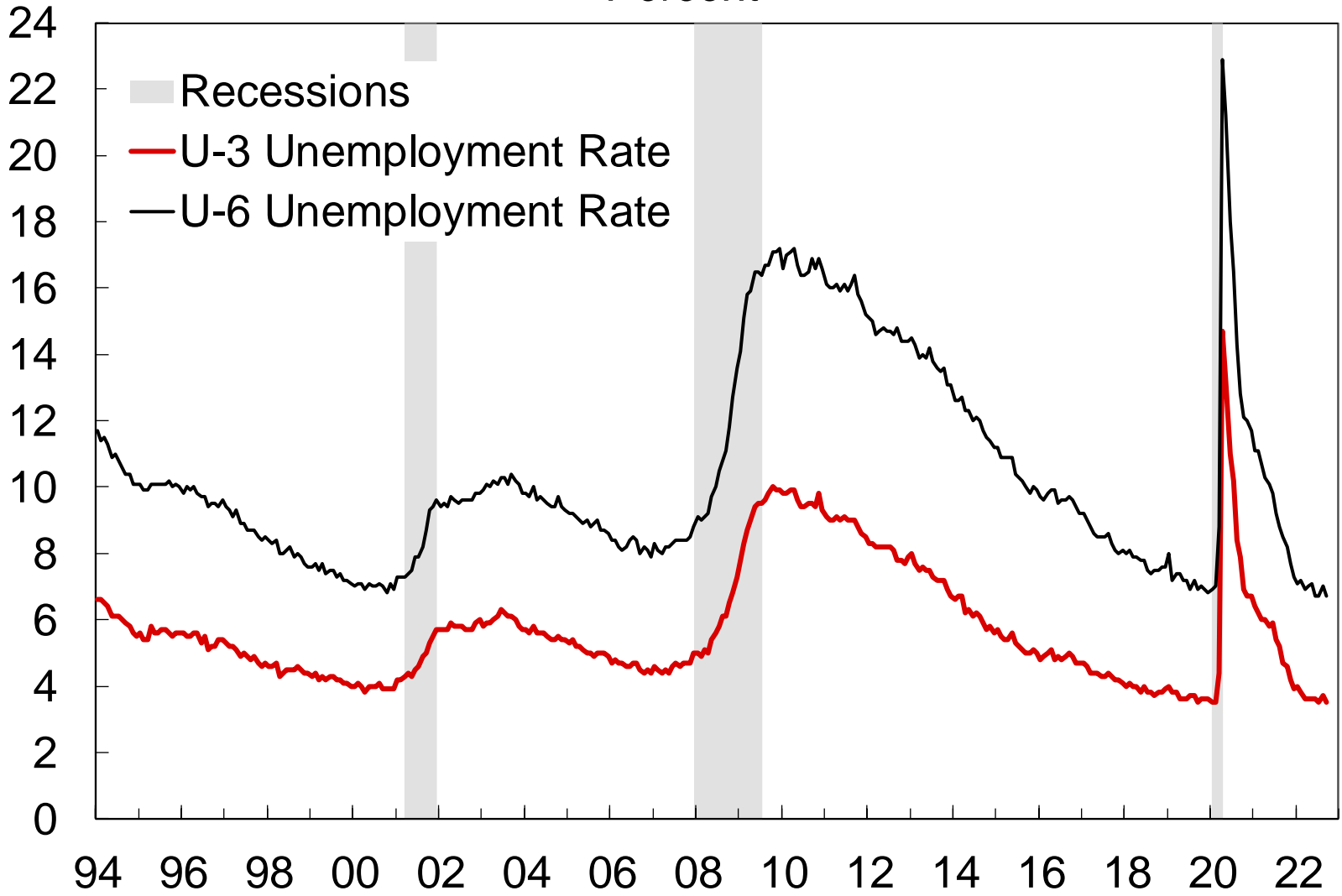


Source: U.S. Bureau of Labor Statistics/FRED

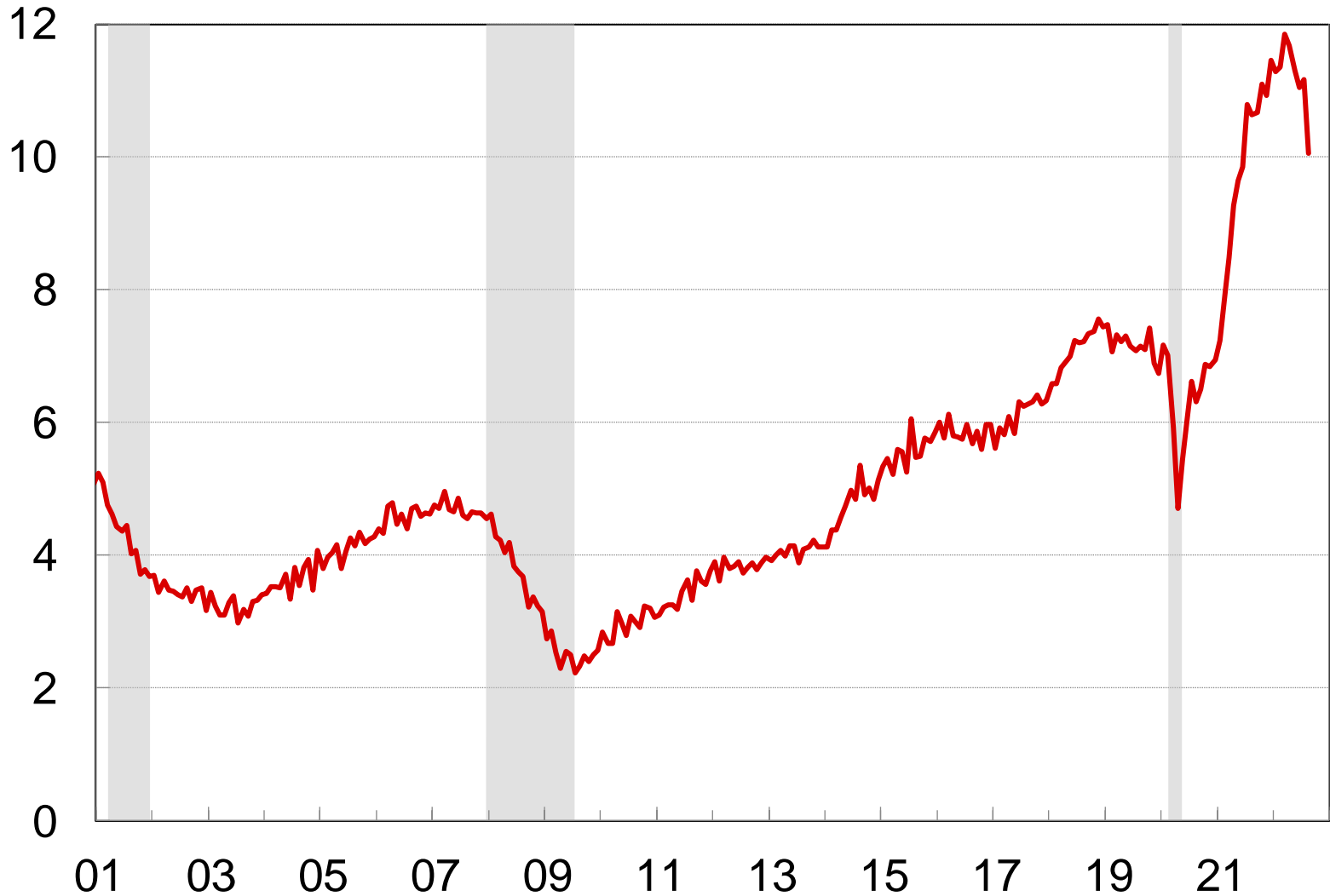


# US Civilian Unemployment Rate

Percent



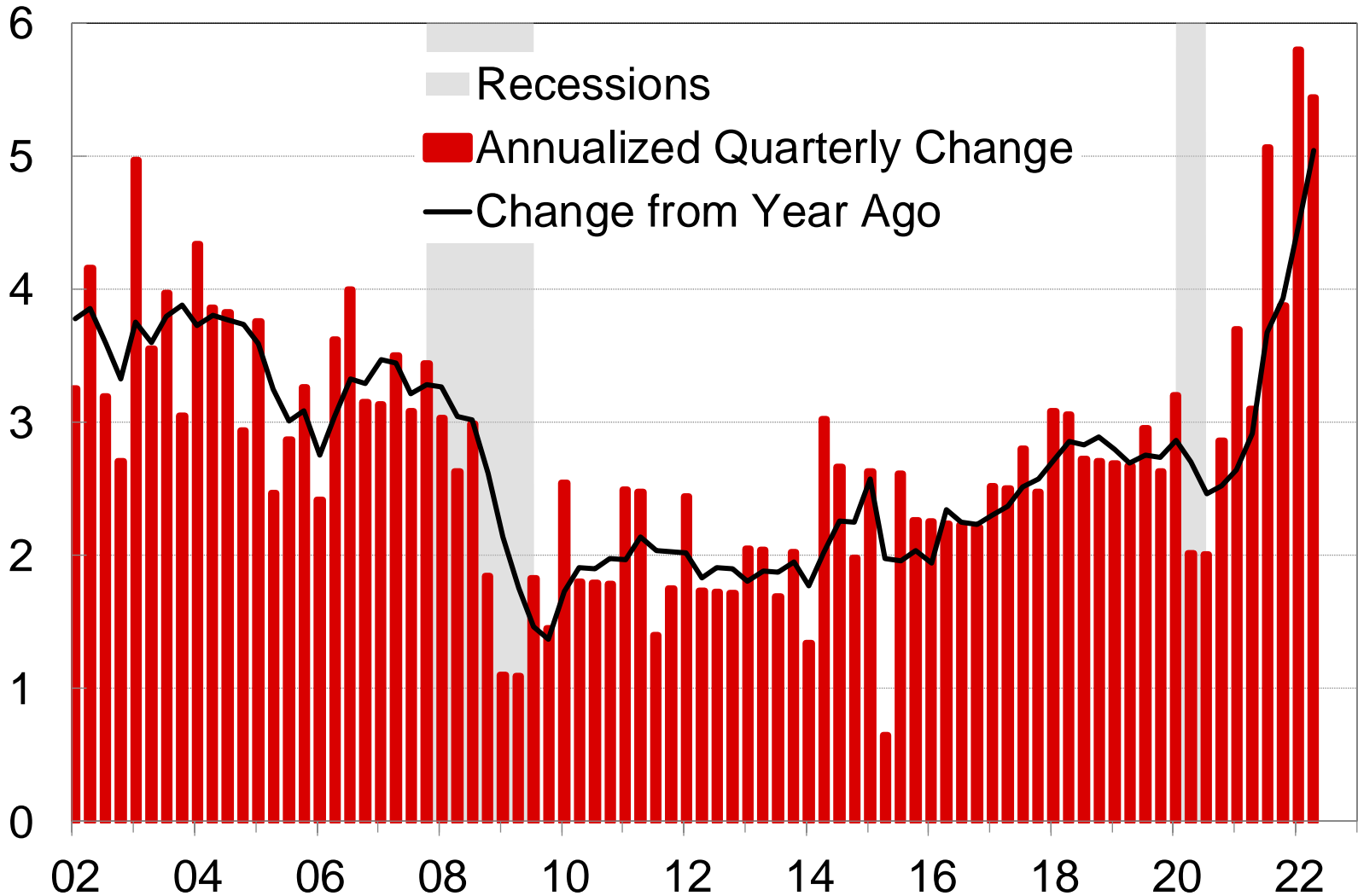
# US Job Openings: Total Nonfarm *Millions*



Source: U.S. Bureau of Labor Statistics/FRED

# US Employment Cost Index: Total compensation

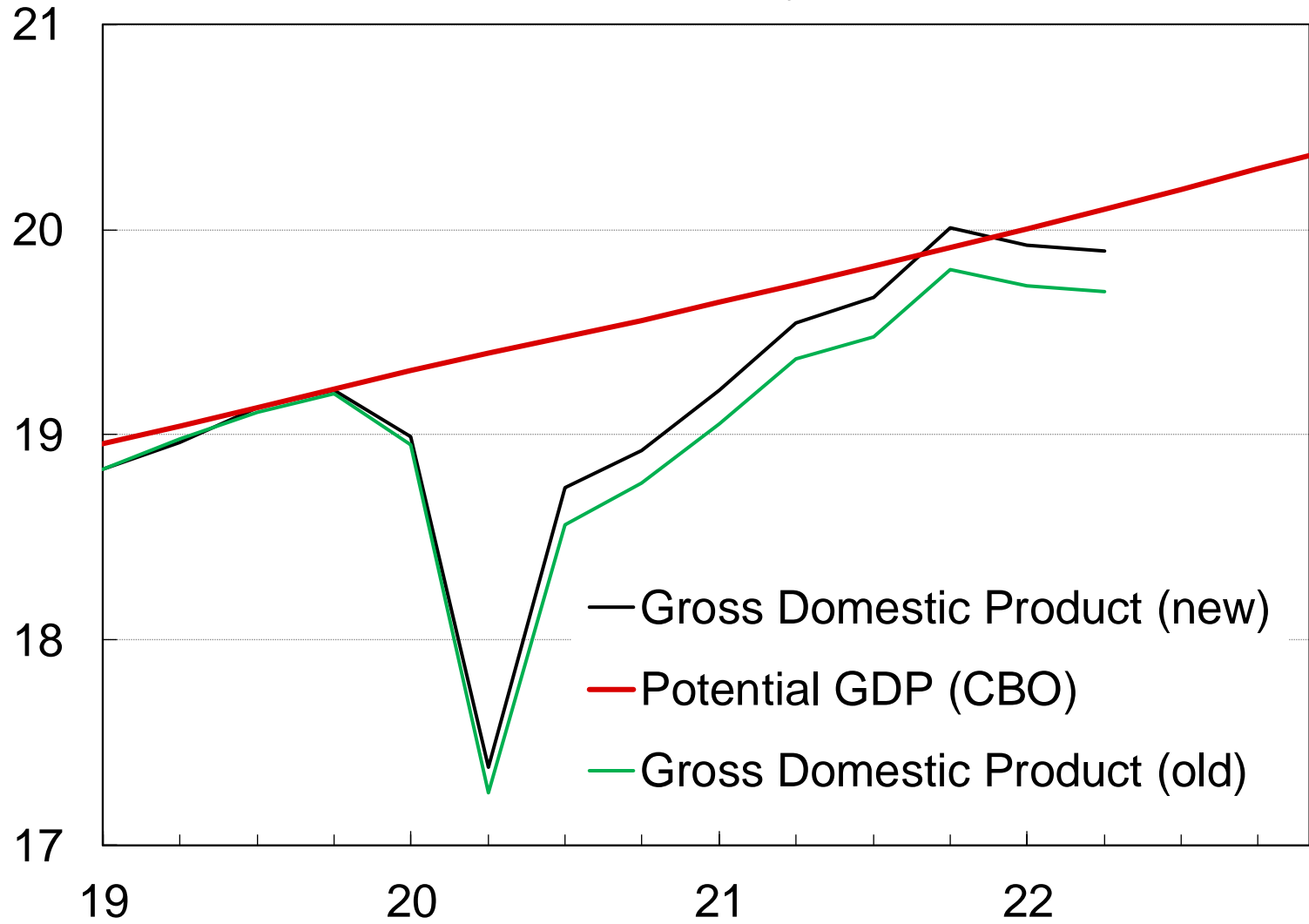
Percent



Source: U.S. Bureau of Labor Statistics/FRED

# US Real Gross Domestic Product

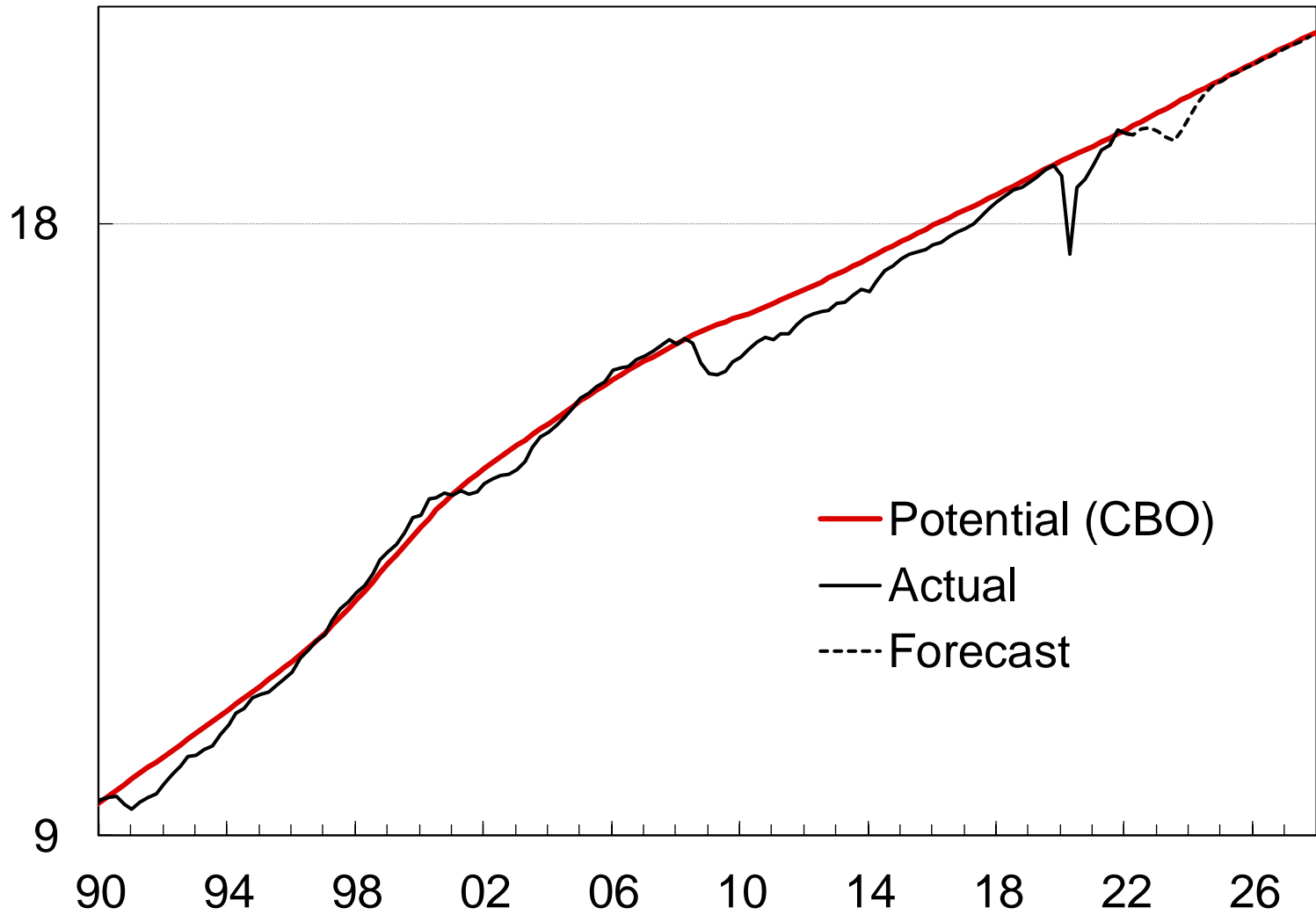
*Trillion 2012 \$*



Source: U.S. Bureau of Economic Analysis/U.S. Congressional Budget Office/FRED

# US Real Gross Domestic Product

*Trillion 2012 \$*



Source: U.S. Bureau of Economic Analysis/U.S. Congressional Budget Office/FRED

# Rise in inflation has been bigger and more persistent than Fed expected.

**Labor market has been tighter than employment data suggested.**

**GDP rose above Congressional Budget Office estimate of potential.**

**Supply CONSTRAINTS have boosted prices.**

- Supply **constraints** are due mostly to strong demand, not to supply **disruptions**. Imports and semiconductor shipments have hit record highs.
- “Shortages” (workers, semiconductors, containers) have boosted prices.
- Fed thought rise in measured inflation would be “transitory.”
- Fed was wrong. Will have to raise rates more than it had planned.

**Inflation unlikely to fall to Fed’s 2% target without a recession.**

**Fed will raise rates until something breaks.**

# Is this like the 1970s?

## Similarities to 1970s

**Higher energy prices**

**Higher food prices**

**High inflation BEFORE food and energy prices spiked**

**Policymakers blame supply shocks for consequences of THEIR (demand) policies.**

**It will probably take a recession to get inflation down to an acceptable level.**

## Differences from 1970s

### **Demographics**

- Young adults are inflationary; create huge demand for housing and motor vehicles. Old adults are more willing to defer spending.

### **Globalization**

- Free trade reduces inflation.
- We've backtracked under Trump & Biden & Putin & Xi.

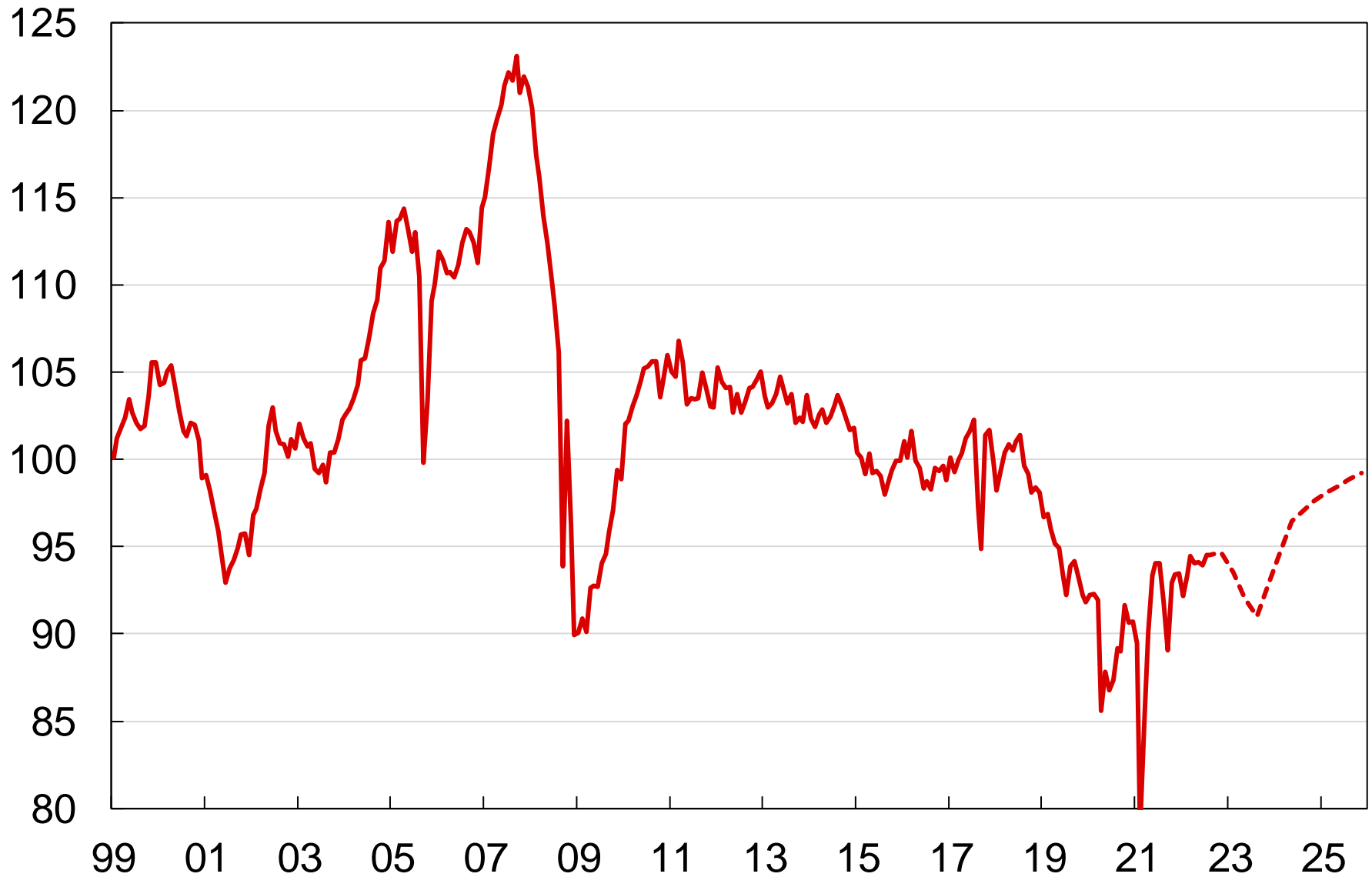
**Fed got serious after one year of high inflation rather than after 13 years of high inflation.**

# Industry Detail



# US Industrial Production: Chemicals ex pharma

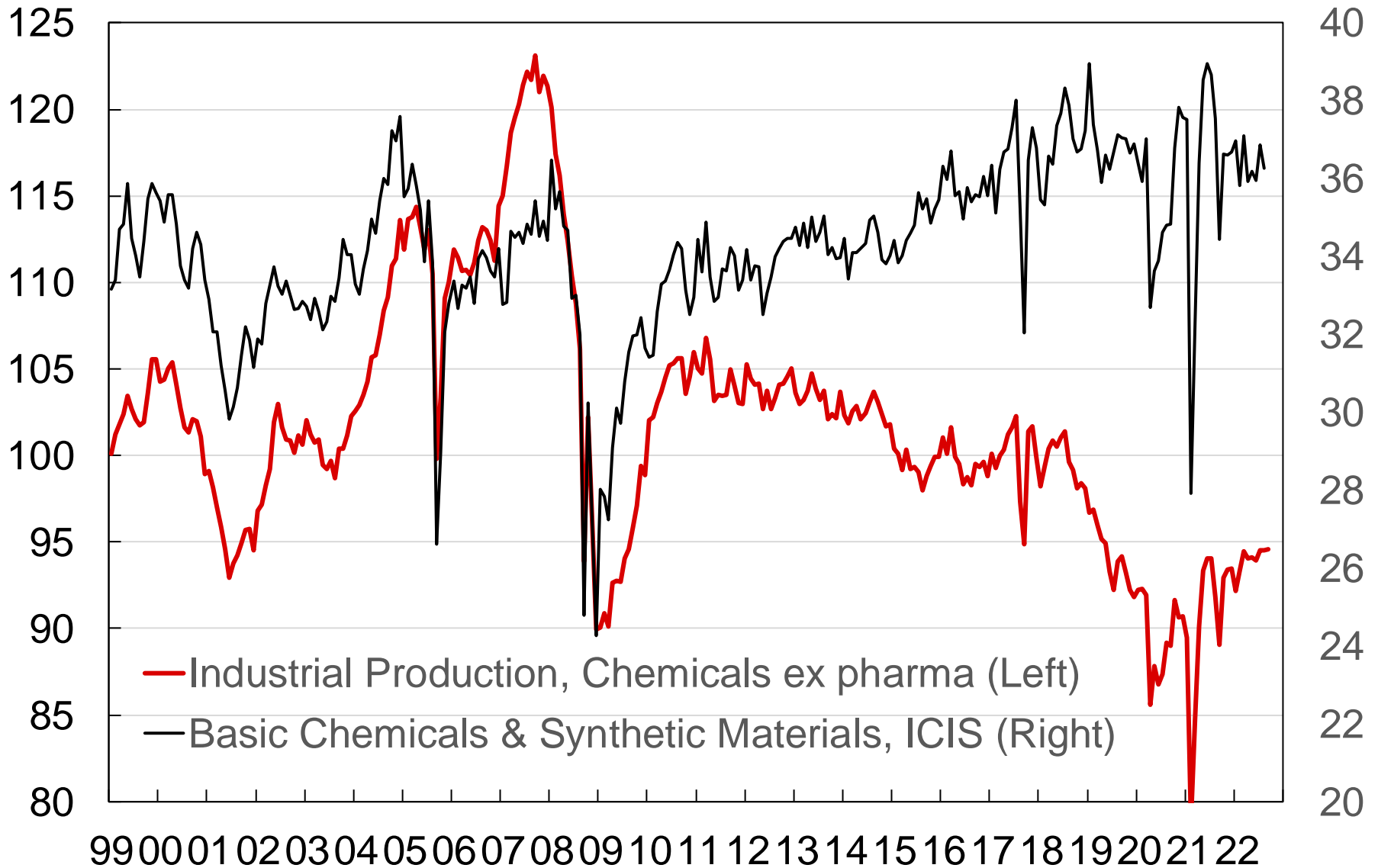
*Index, 2017=100*



# Chemical Production: Federal Reserve vs ICIS

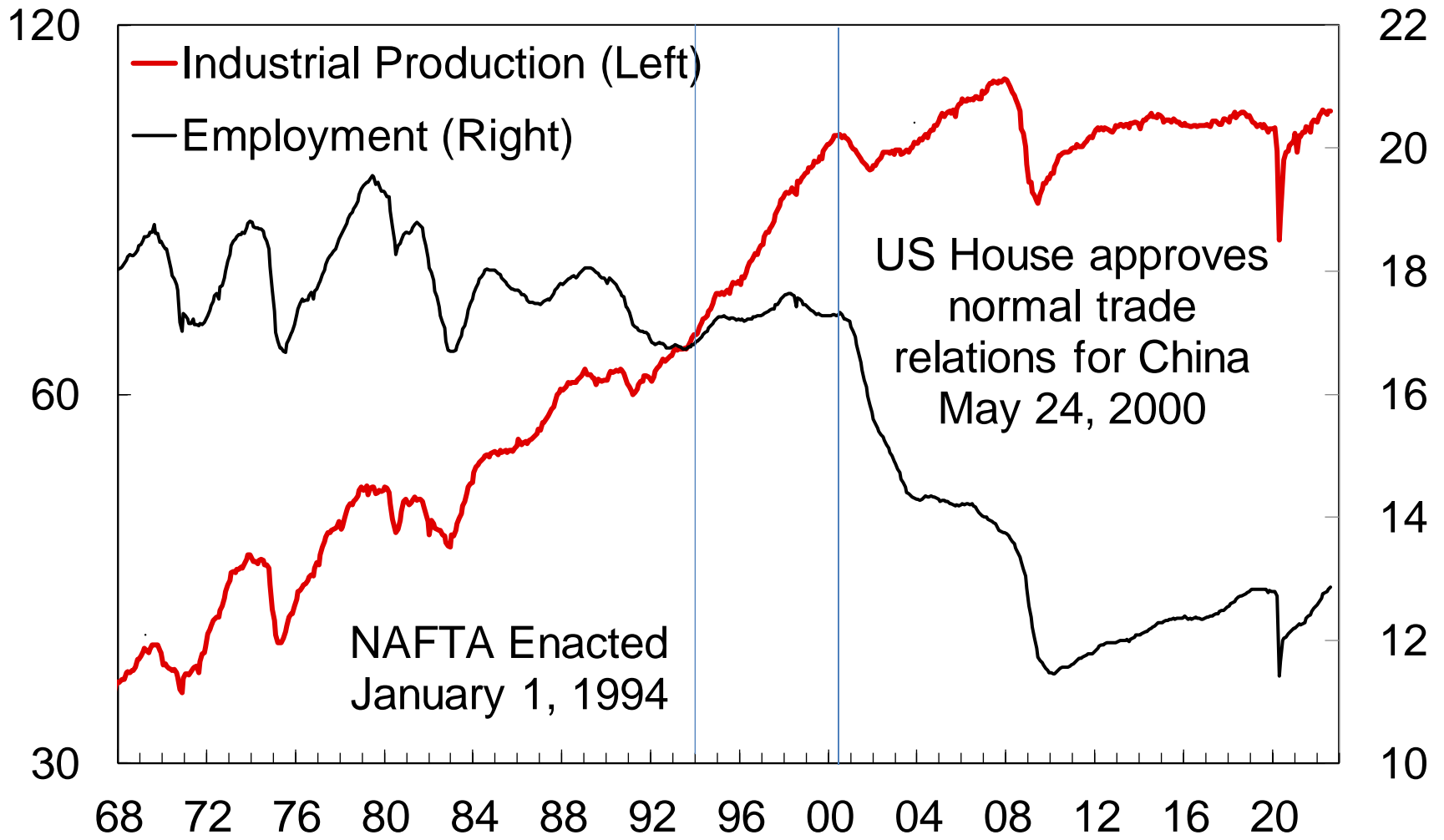
*Index, 2017=100*

*Million Metric Tonnes*

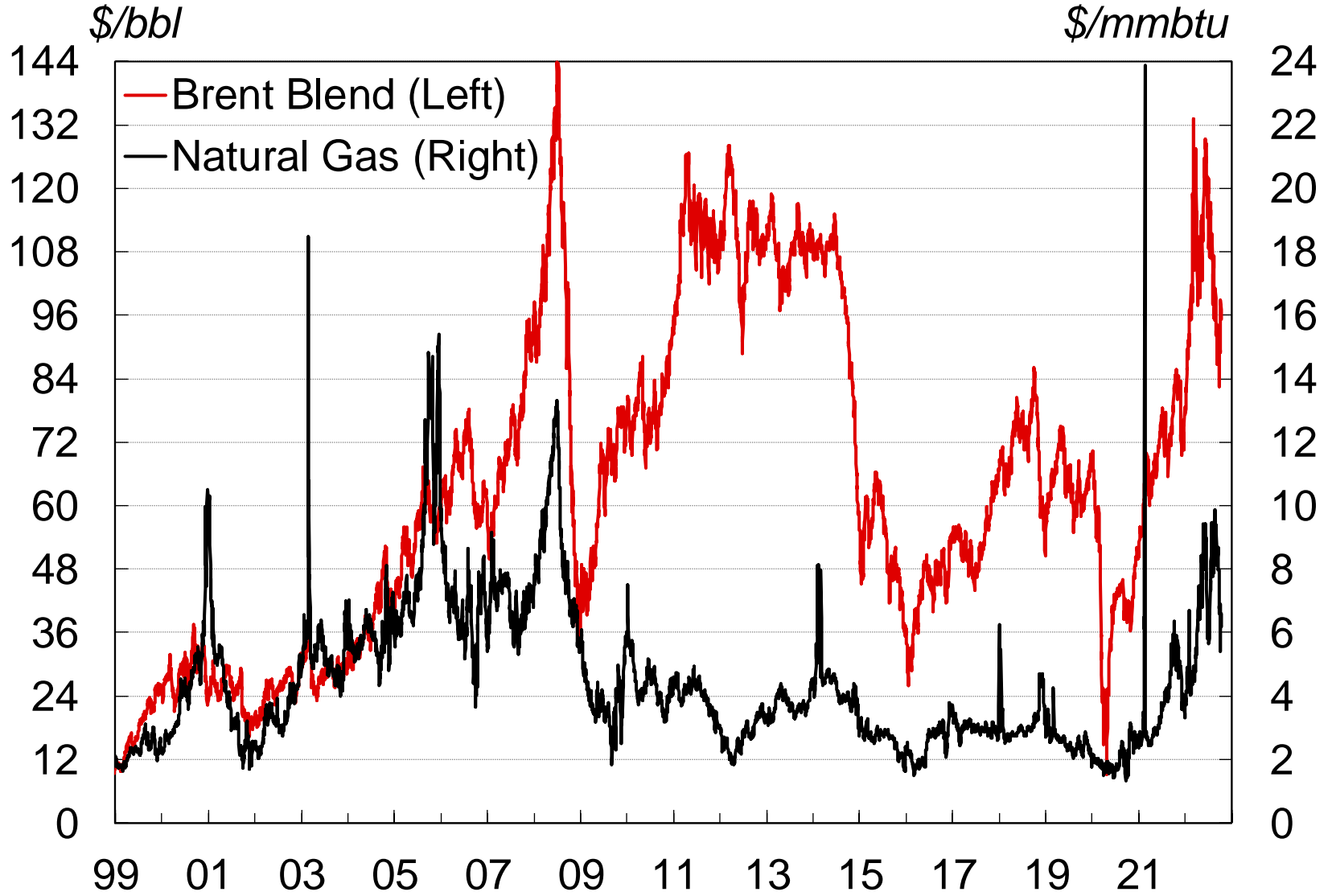


# US Industrial Production & Employment: Manufacturing

*Index, 2017=100* *Millions*



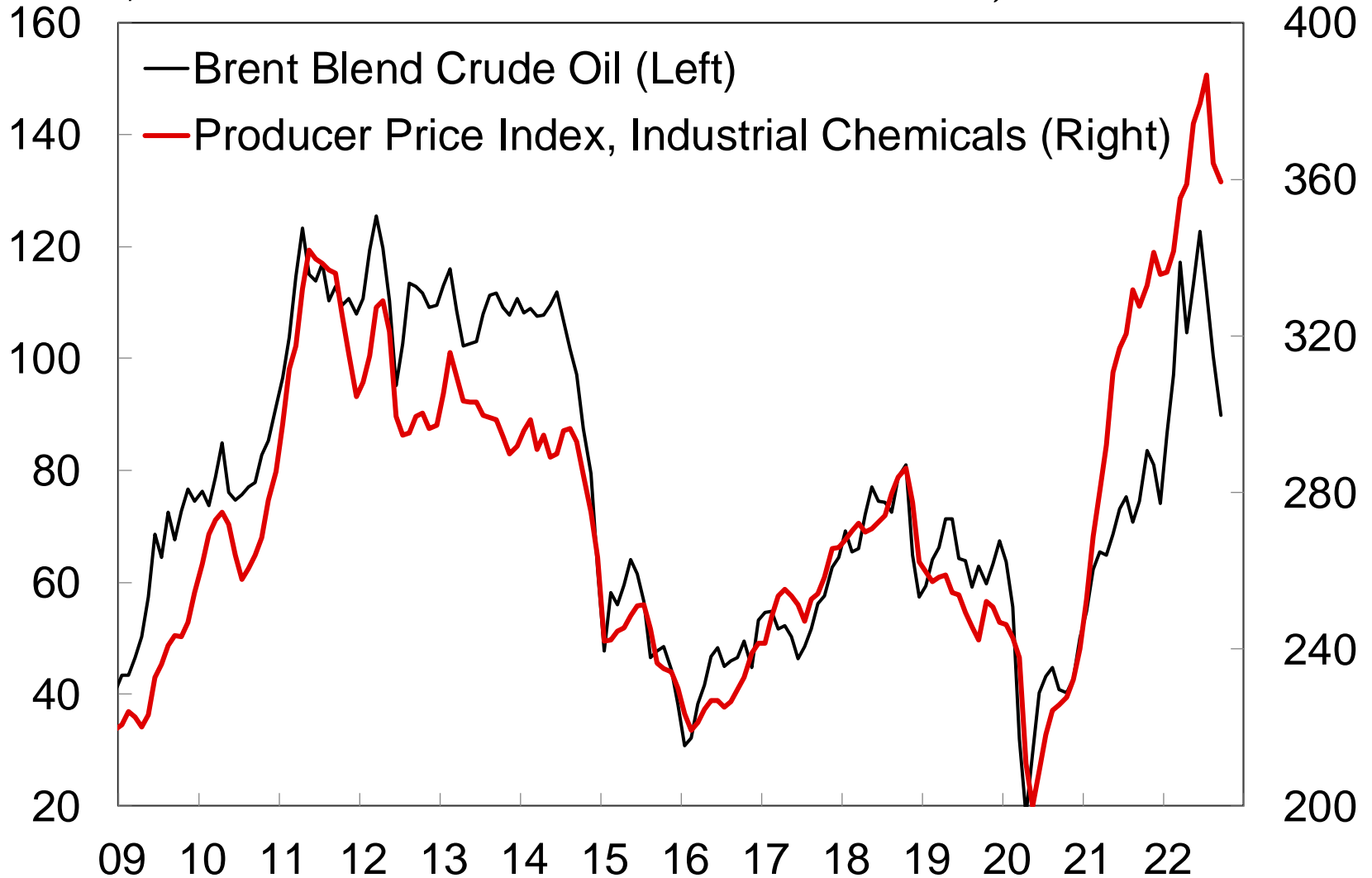
# Global Crude Oil and US Natural Gas Spot Prices



# Brent Oil Price vs Industrial Chemical Prices

*\$/Barrel*

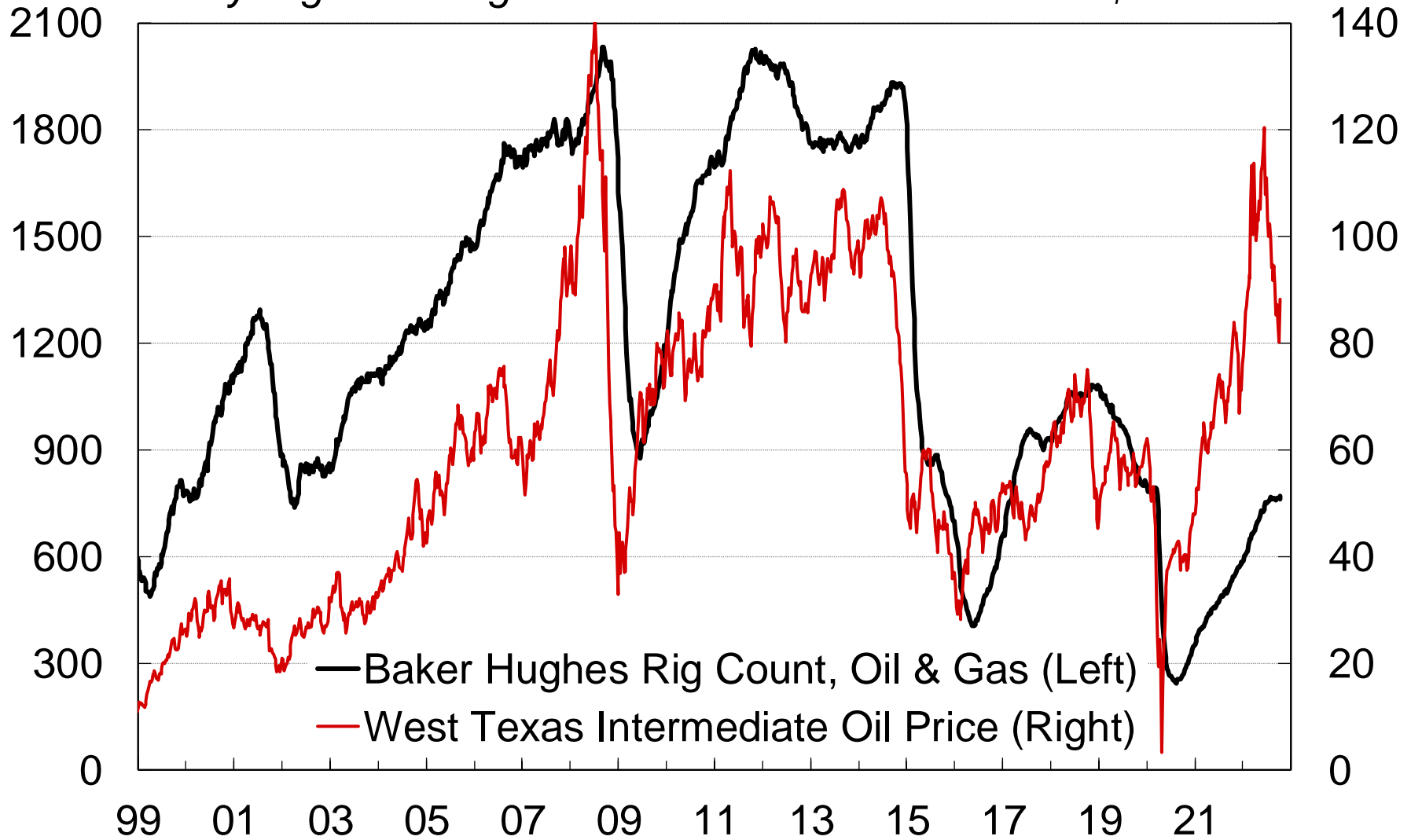
*Index, 1982 = 100*



# US Drilling Rig Count versus Oil Price

*Rotary Rigs Running*

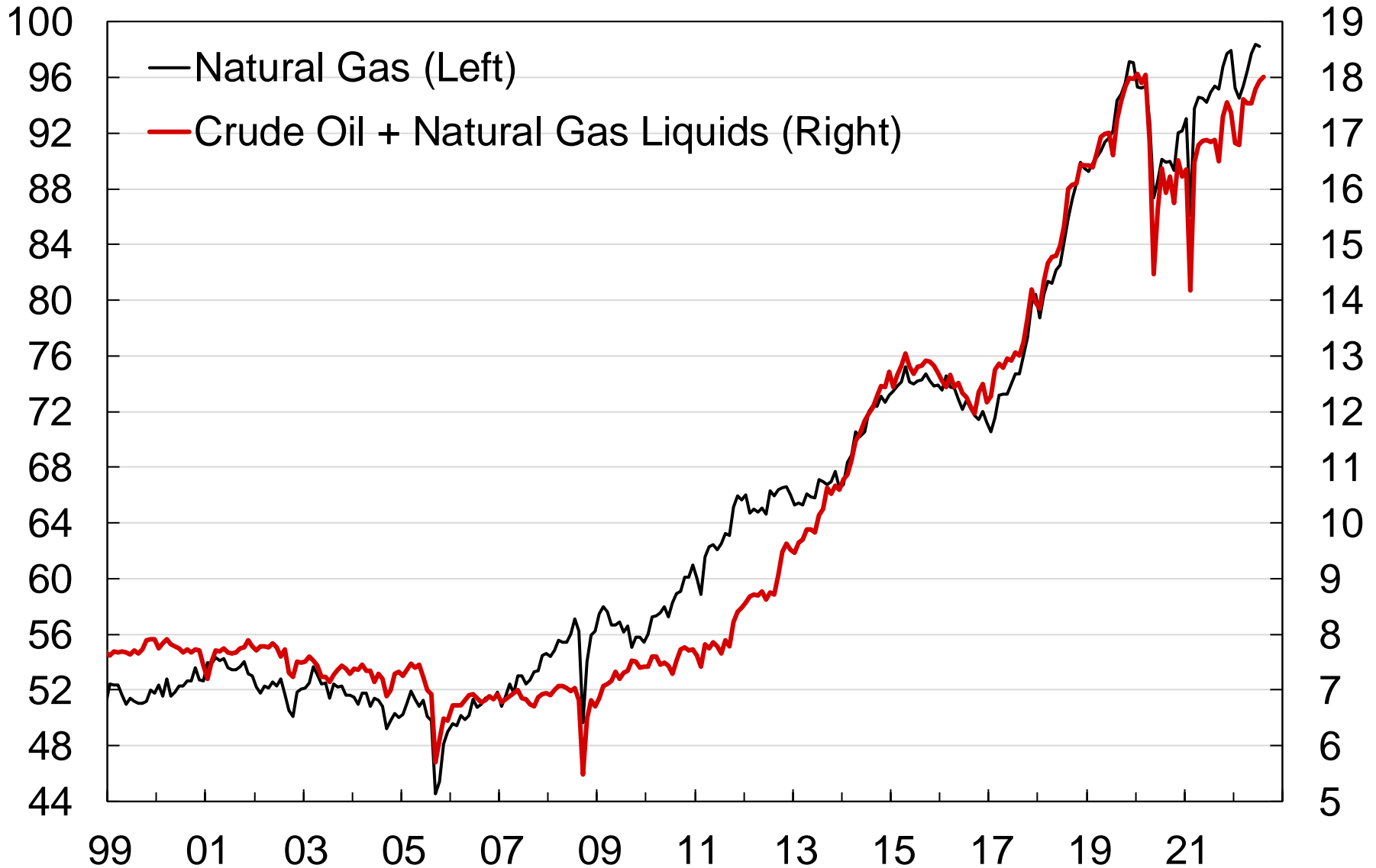
*\$/Barrel*



# US Oil & Gas Production

*Billion Cubic Feet per Day*

*Million Barrels per Day*

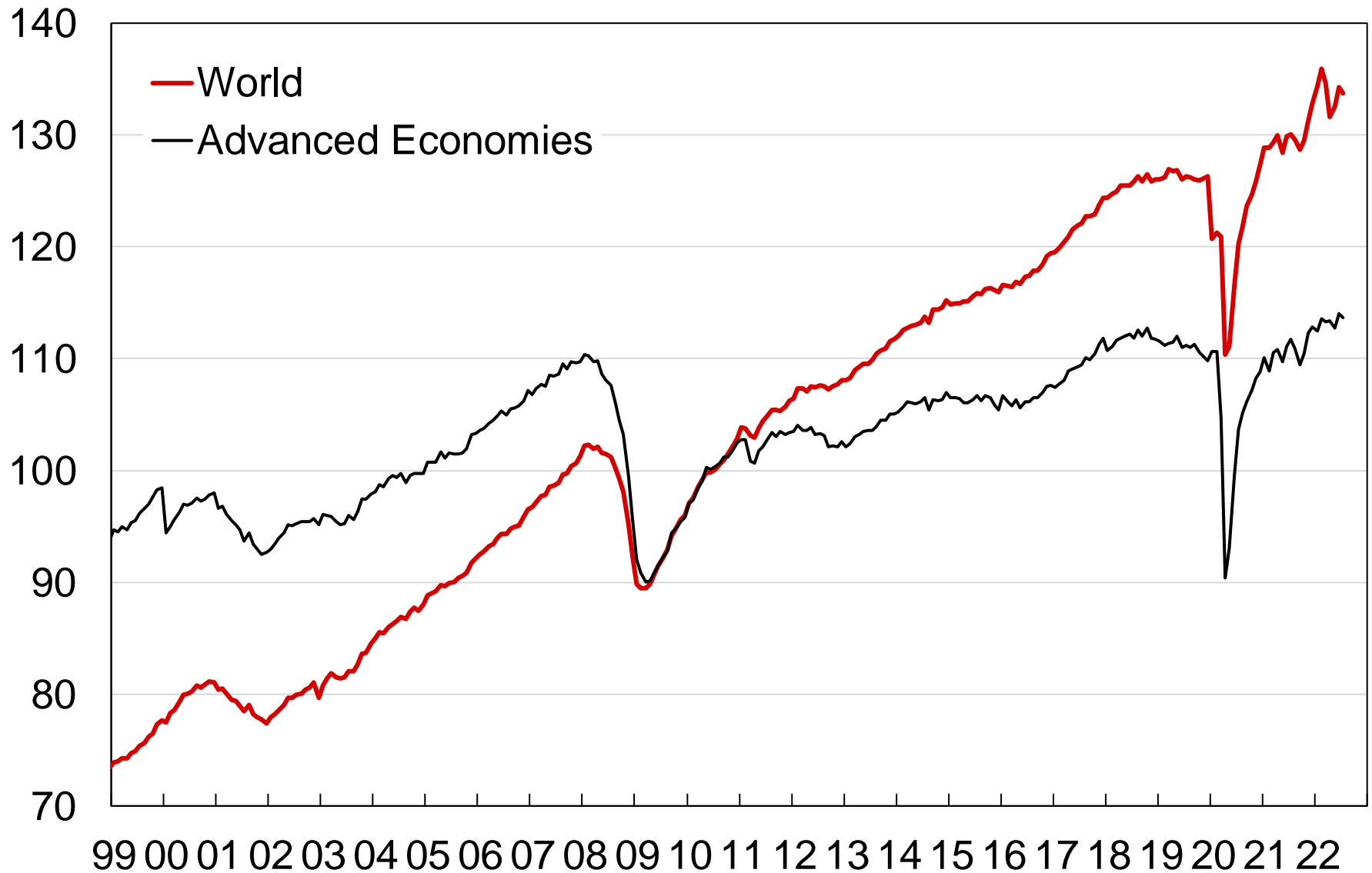


# Global Overview



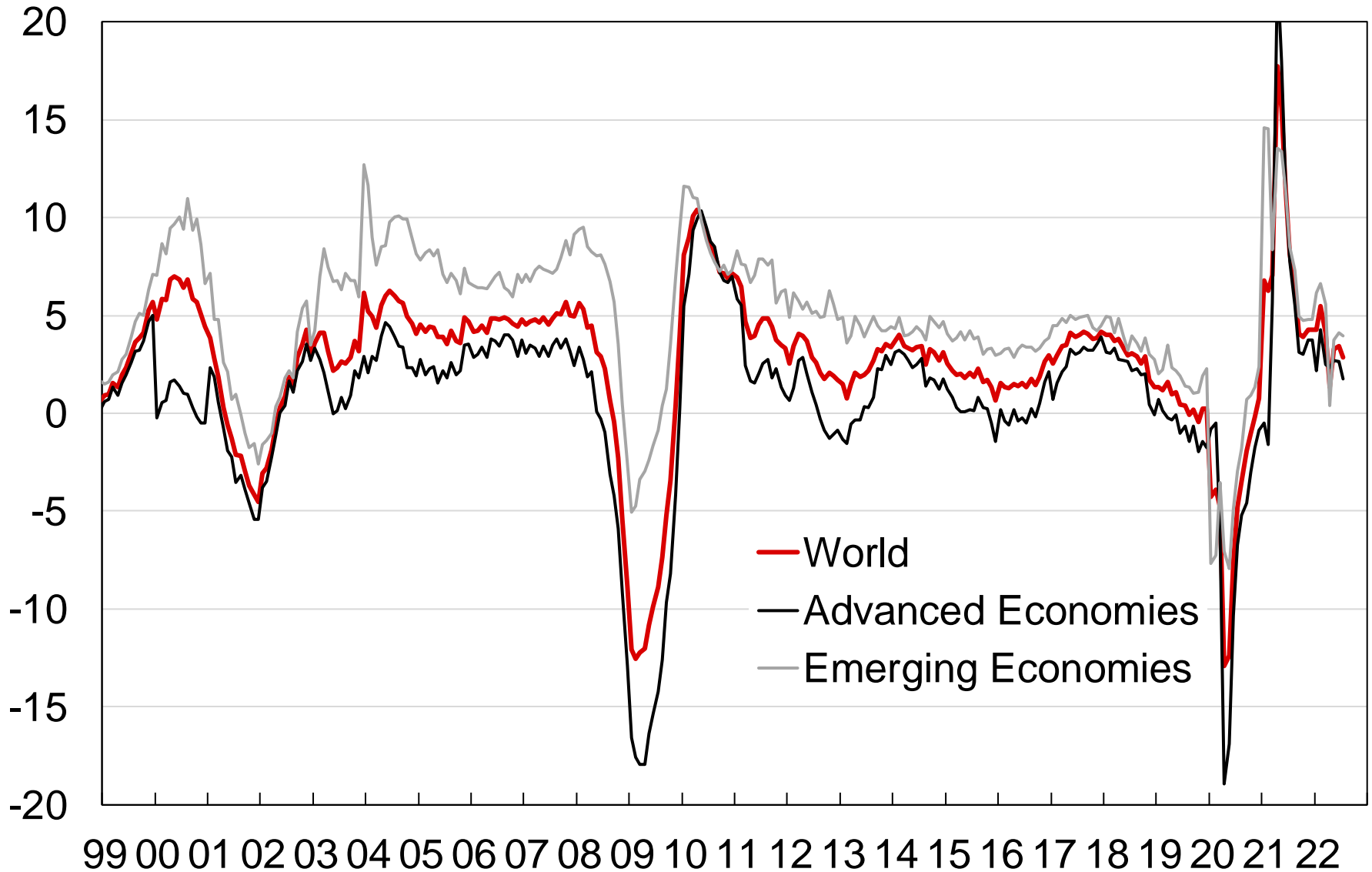
# Industrial Production ex Construction

*Index, 2010 = 100*



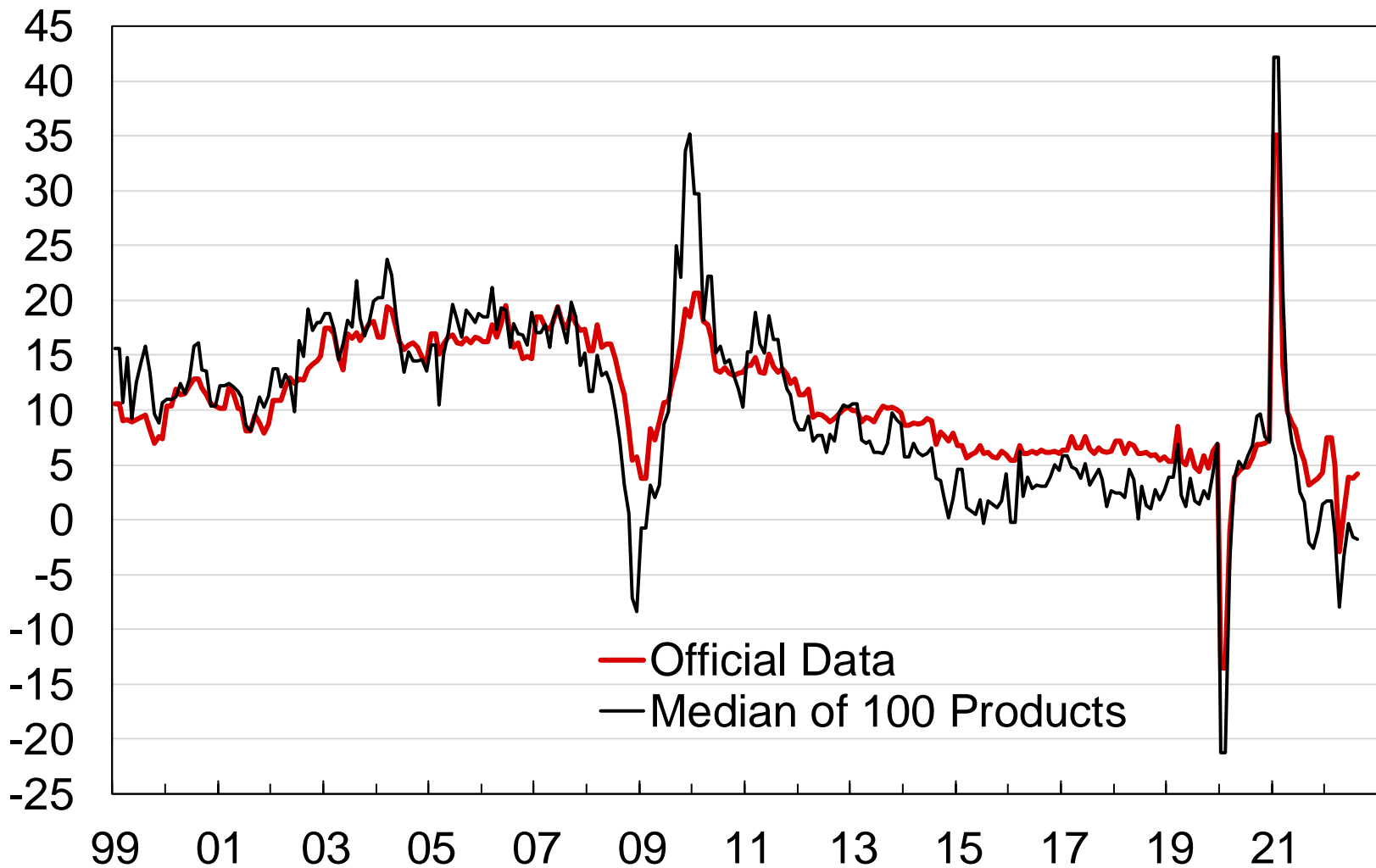
# Industrial Production ex Construction

*Percent Change from Year Ago*



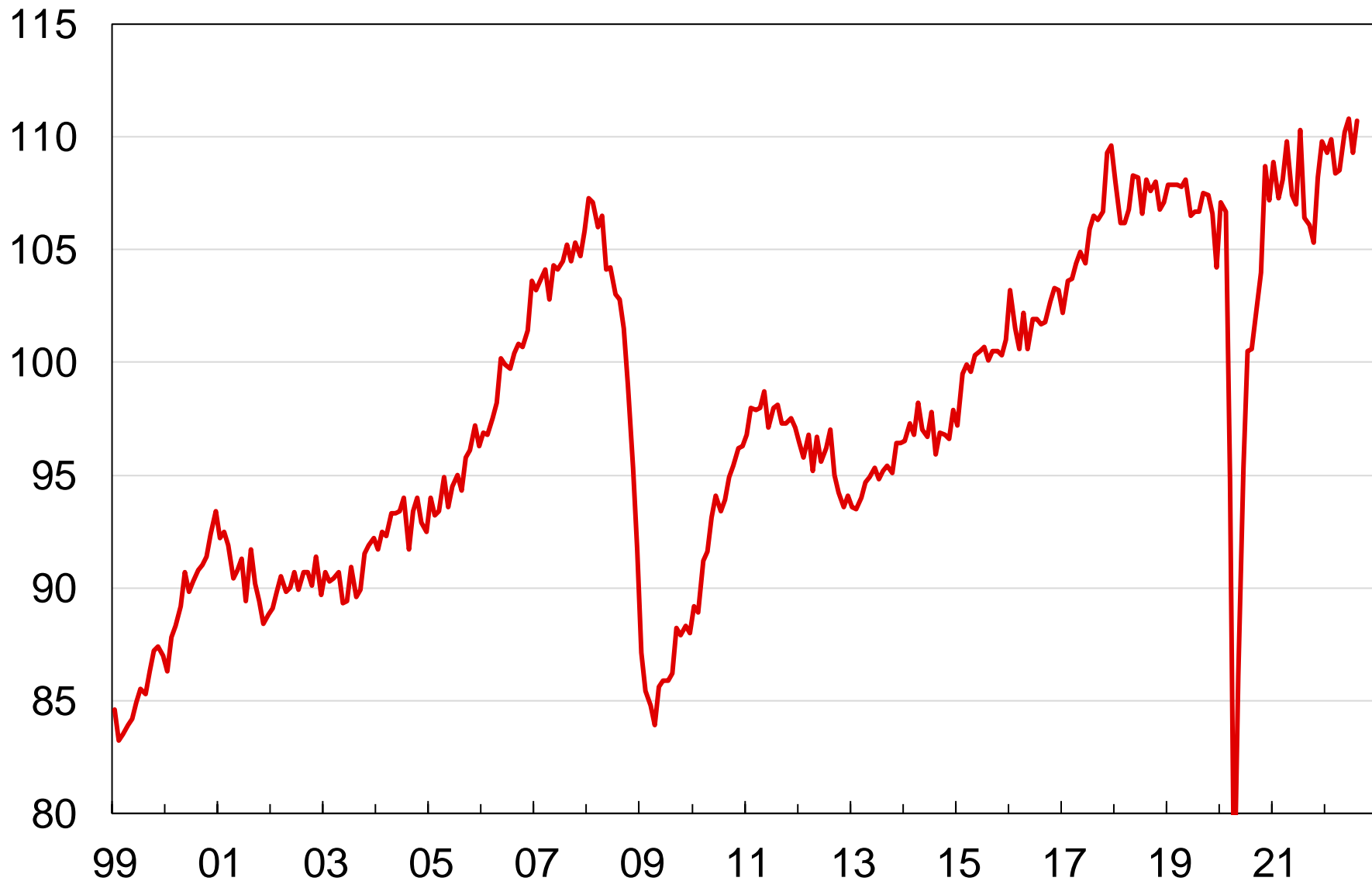
# Value Added of Industry (Industrial Production): China

*Percent Change from Year Ago*



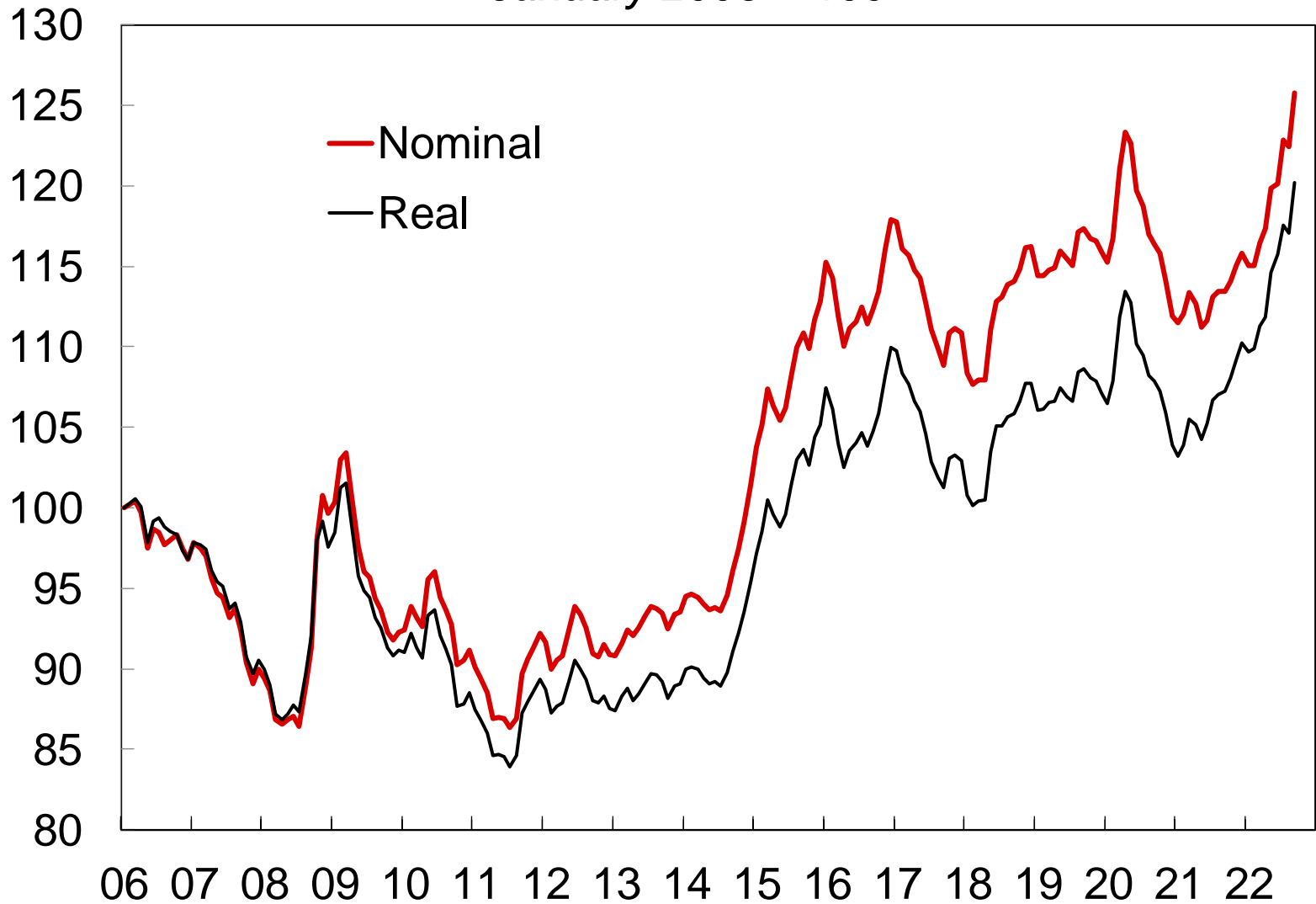
# Industrial Production, Manufacturing: European Union

*Index, 2015 = 100*



# Federal Reserve Broad Dollar Index

*January 2006 = 100*



# Key takeaways

**US economy likely to fall into recession in 2023.**

**Recession is necessary to bring inflation down to 2%.**

**The faster inflation comes down, the milder the recession.**

**Impact of Russian invasion of Ukraine on energy and food prices affects Europe, Middle East, and Africa more than US.**

**Chinese growth at risk from pandemic, population, and policy.**

# Longer term

## **Labor is likely to remain the scarce factor of production.**

- Labor shortage is demographics, not just COVID fears and bad policies.
- Seven highest years for US births were 1956-62.

## **Reshoring looks increasingly attractive but will be limited.**

- Pandemic, geopolitics, port/shipping constraints argue for moving supply chains out of China and to North America.
- Capital-intensive business can move to US. Labor-intensive business can't.

## **Fed has probably learned to go big, but to reverse course sooner.**

## **Fiscal policy will be constrained by size of debt/deficit.**

- Politicians less likely to admit/learn from mistakes than Fed.

# Robert Fry Economics LLC

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# Publications by Robert Fry

**Low Interest Rates Are Hurting Growth:**

<https://www.forbes.com/sites/realspin/2016/10/04/low-interest-rates-are-hurting-growth/#58cff2edb605>

**Put An Economist on Your Board:**

[http://media.wix.com/ugd/d2d439\\_73ba8ec9866a4c5c859d79effe7c60e1.pdf](http://media.wix.com/ugd/d2d439_73ba8ec9866a4c5c859d79effe7c60e1.pdf)

**10 Things To Look For In A Fed Governor:**

<https://www.forbes.com/sites/realspin/2017/01/20/10-things-to-look-for-in-a-fed-governor/#17c4c41b27ee>