

Economic Outlook Robert Fry

Robert Fry Economics LLC

Racemics
Weehawken, New Jersey
October 13, 2023

RobertFryEconomics.com

robert@robertfryeconomics.com

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Economics

The science of explaining tomorrow why
the predictions you made yesterday
didn't come true today.

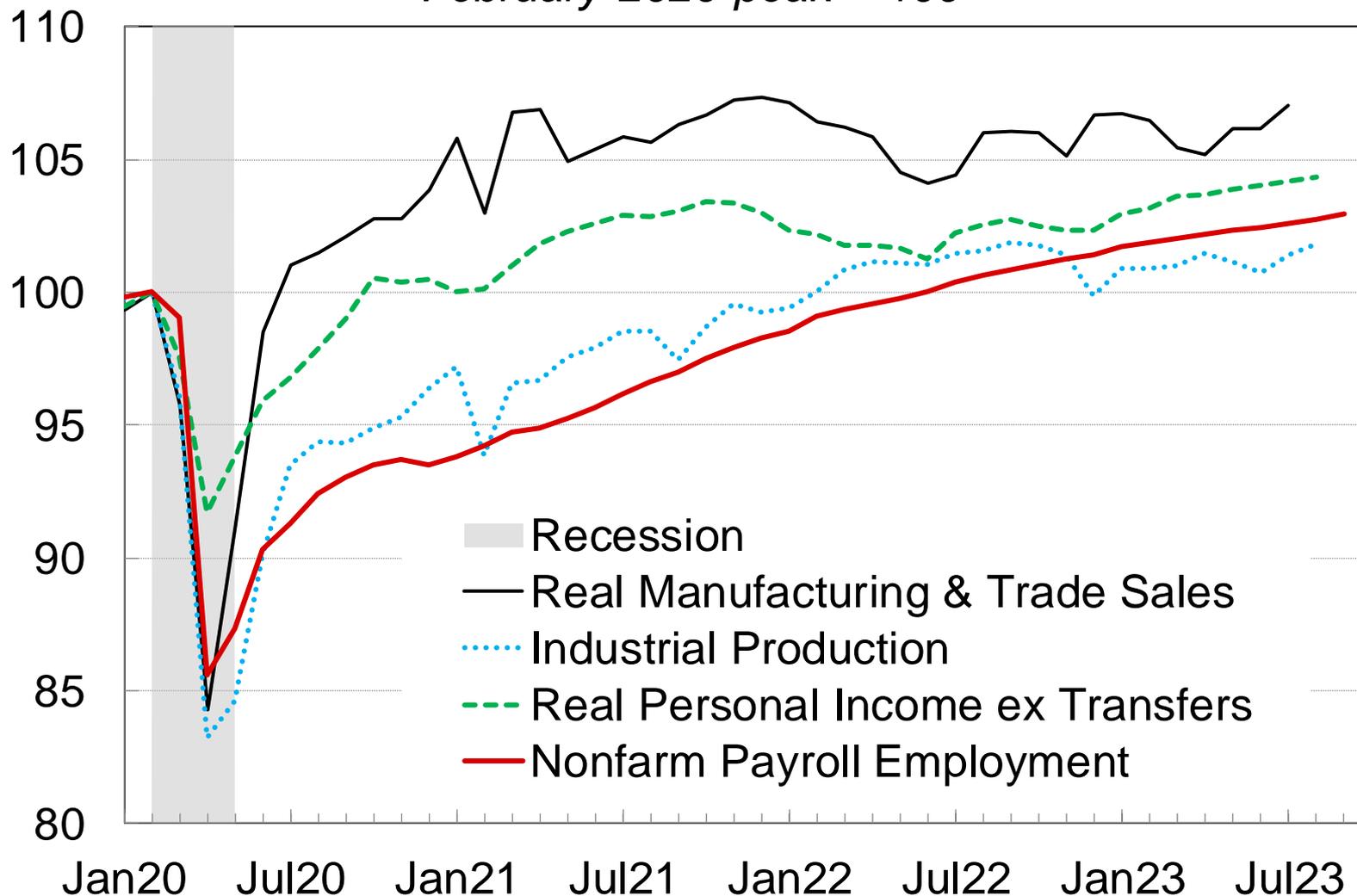
“The crisis takes a much longer time coming than you think and then it happens much faster than you would have thought.”

**Rudiger Dornbusch
1942-2002**



US Coincident Indicators

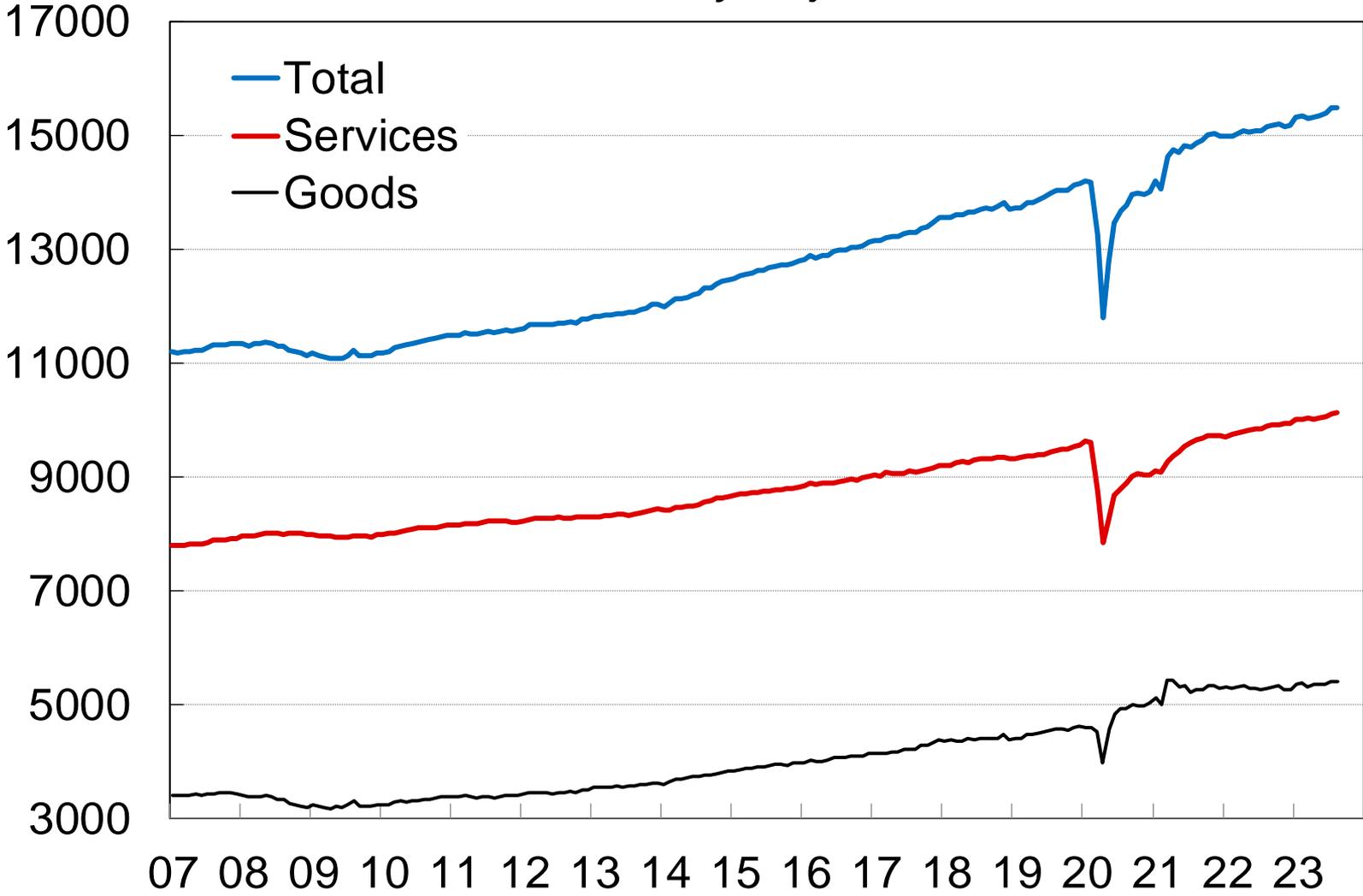
February 2020 peak = 100



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

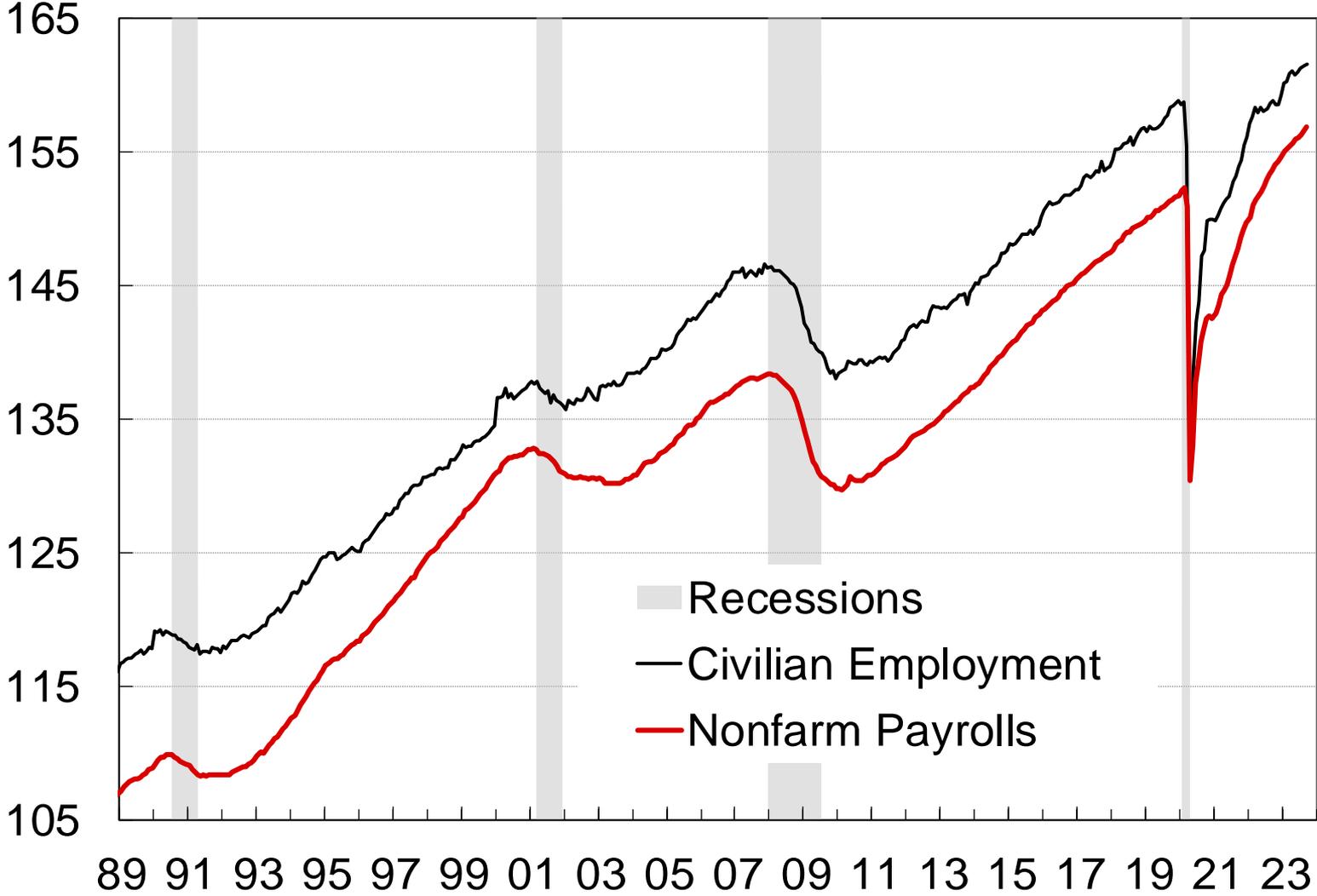
US Real Personal Consumption Expenditures

Billion 2017 \$, Seasonally Adjusted Annual Rates



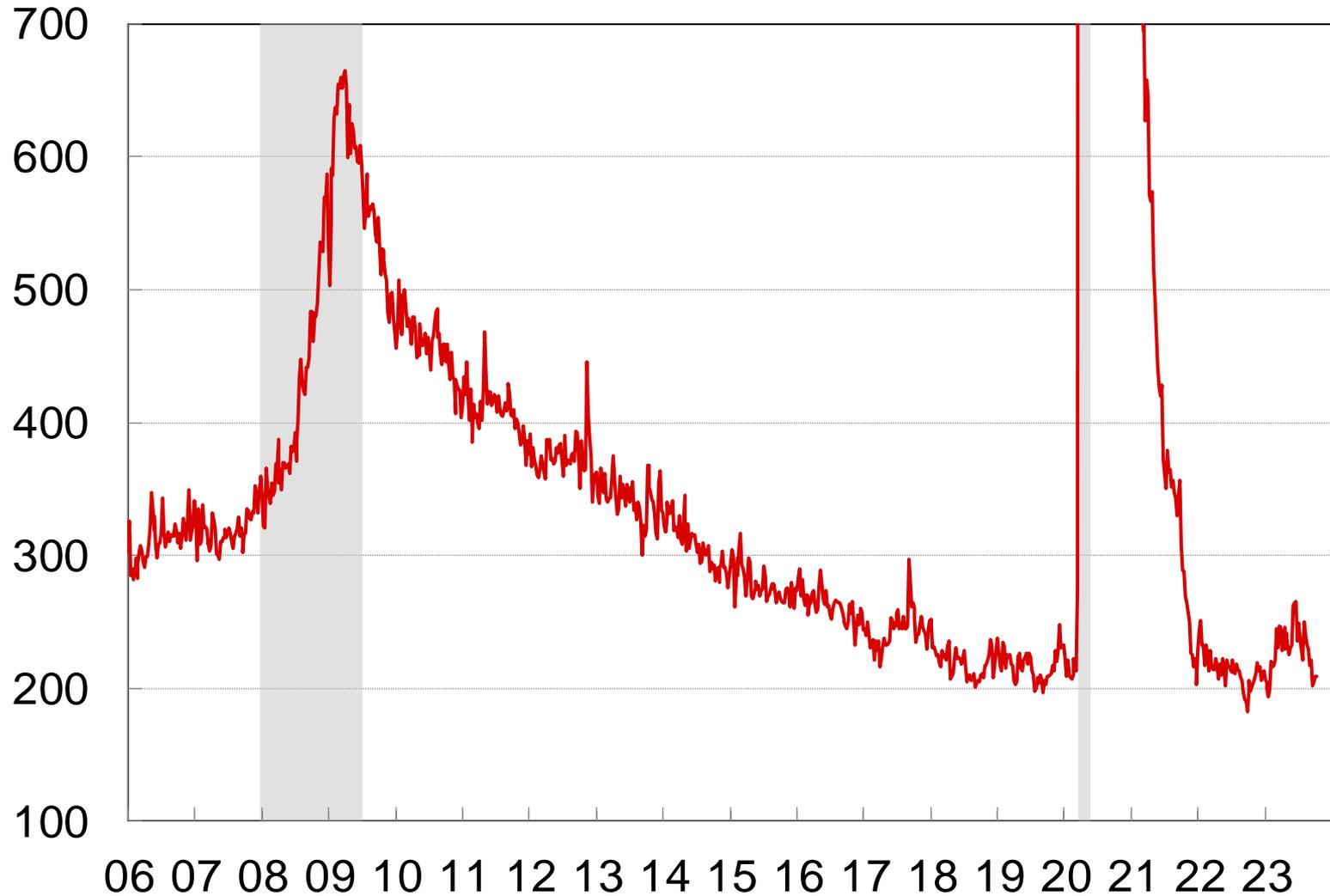
Source: U.S. Bureau of Economic Analysis/FRED

US Employment *Millions*



Initial Claims for Unemployment Insurance

Thousands



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

If we're in a recession, it started this week.

Payroll employment still rising through August.

Civilian employment still rising through August.

Personal income excluding transfers still rising through August.

Real personal consumption expenditures still rising through August.

But

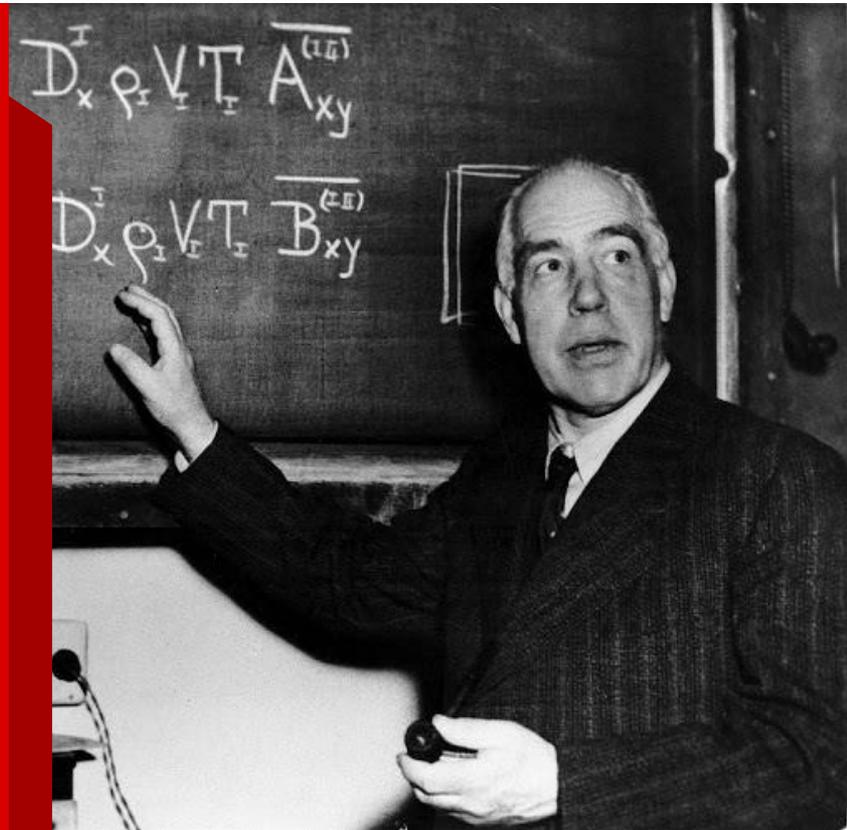
Real manufacturing & trade sales peaked in December 2021.

Industrial production peaked in September 2022.

ALL DATA ARE SUBJECT TO REVISION!

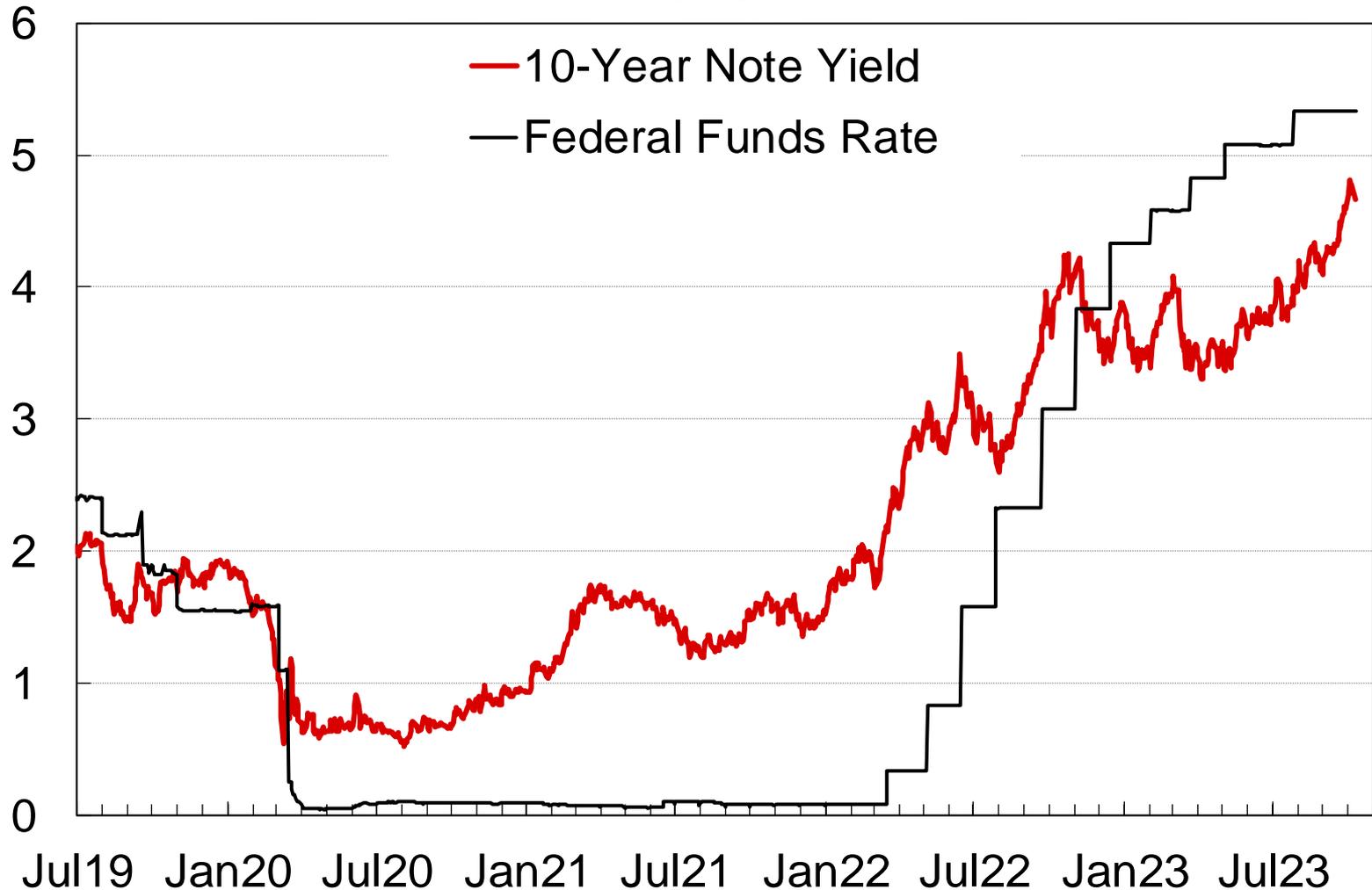
“Prediction is very difficult, especially about the future.”

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



US Interest Rates

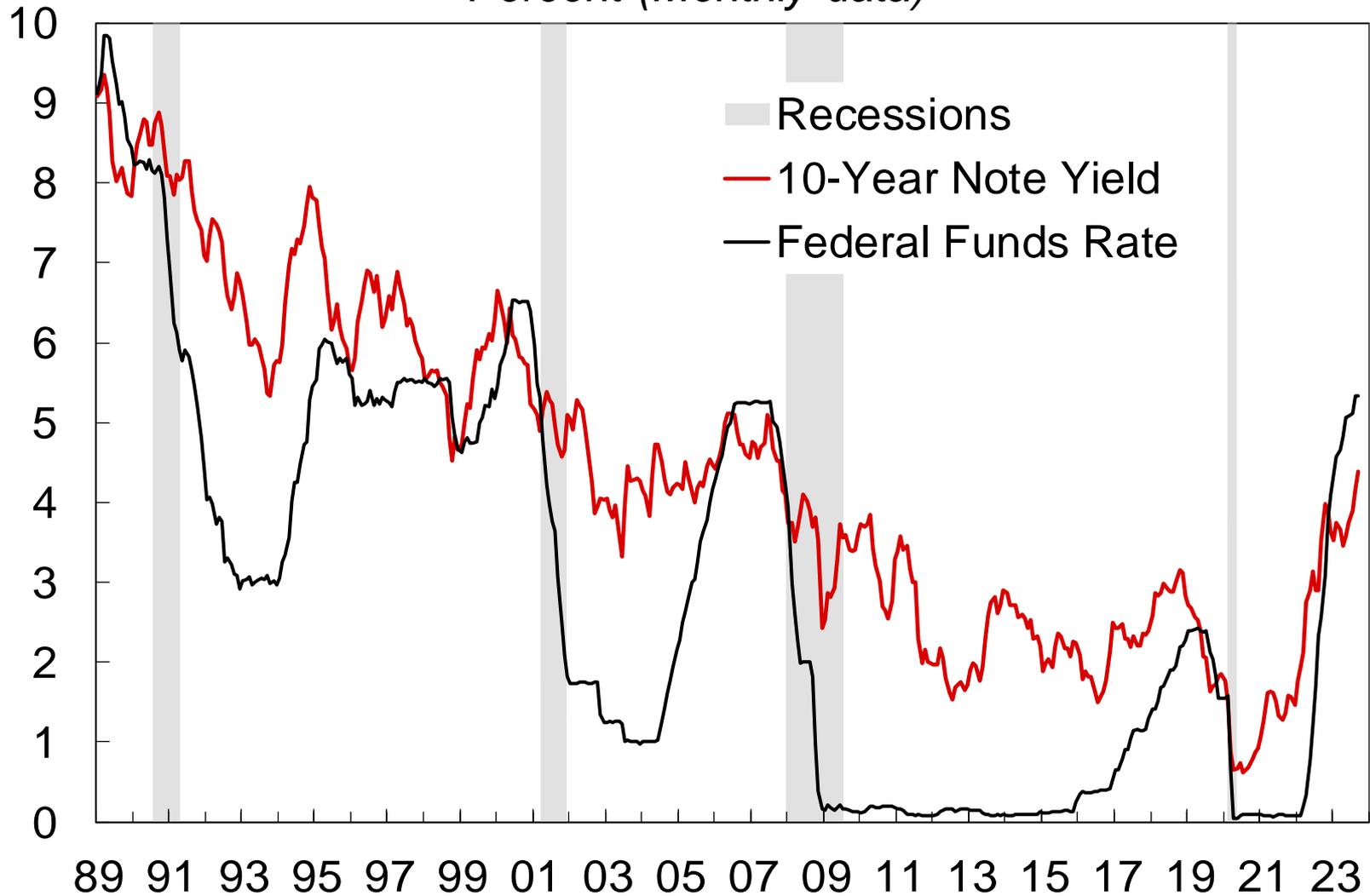
Percent



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

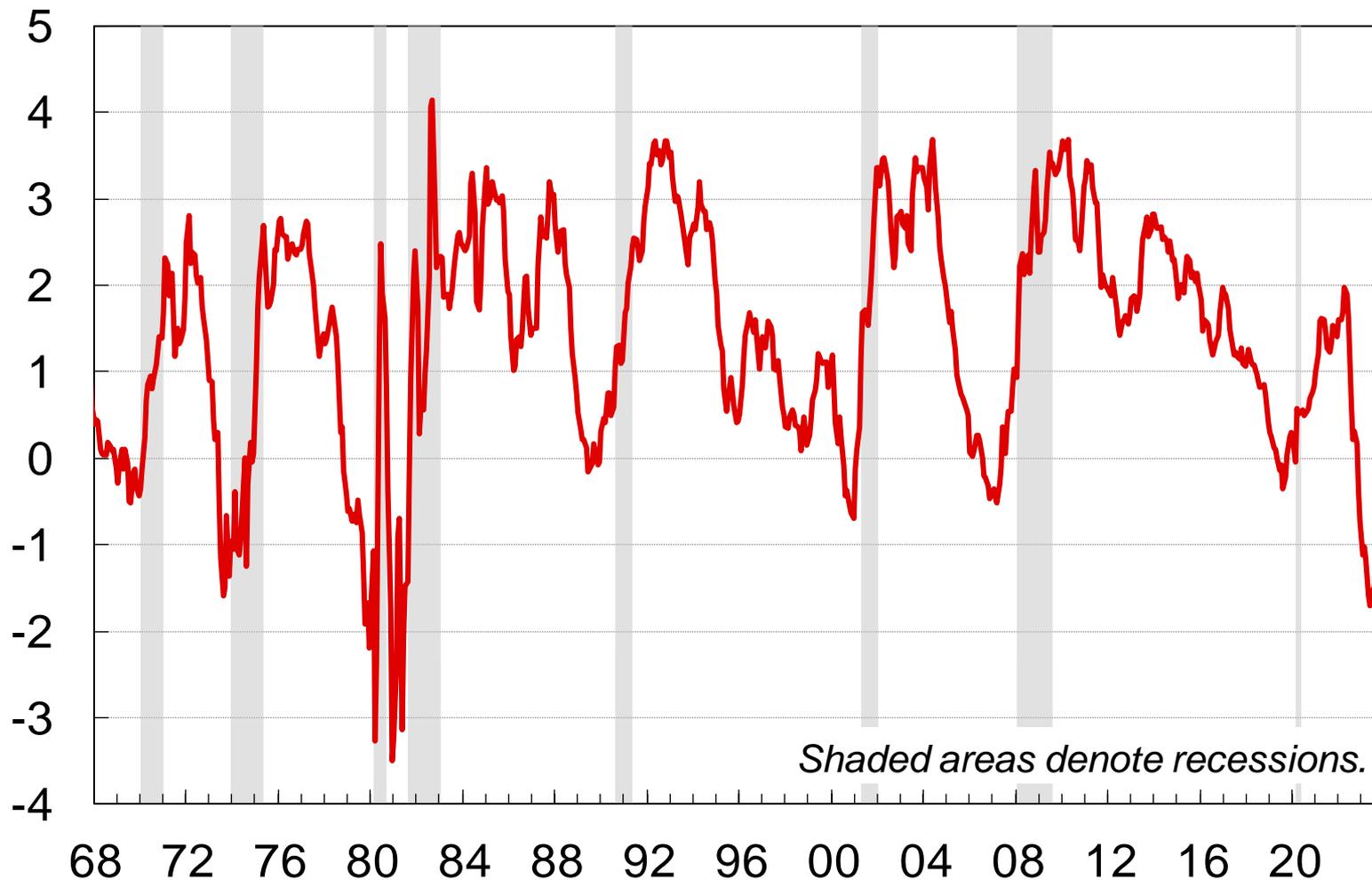
US Interest Rates

Percent (Monthly data)



US Treasury Yield Spread

10-Year Treasury Note minus 3-Month Treasury Bill, Percent



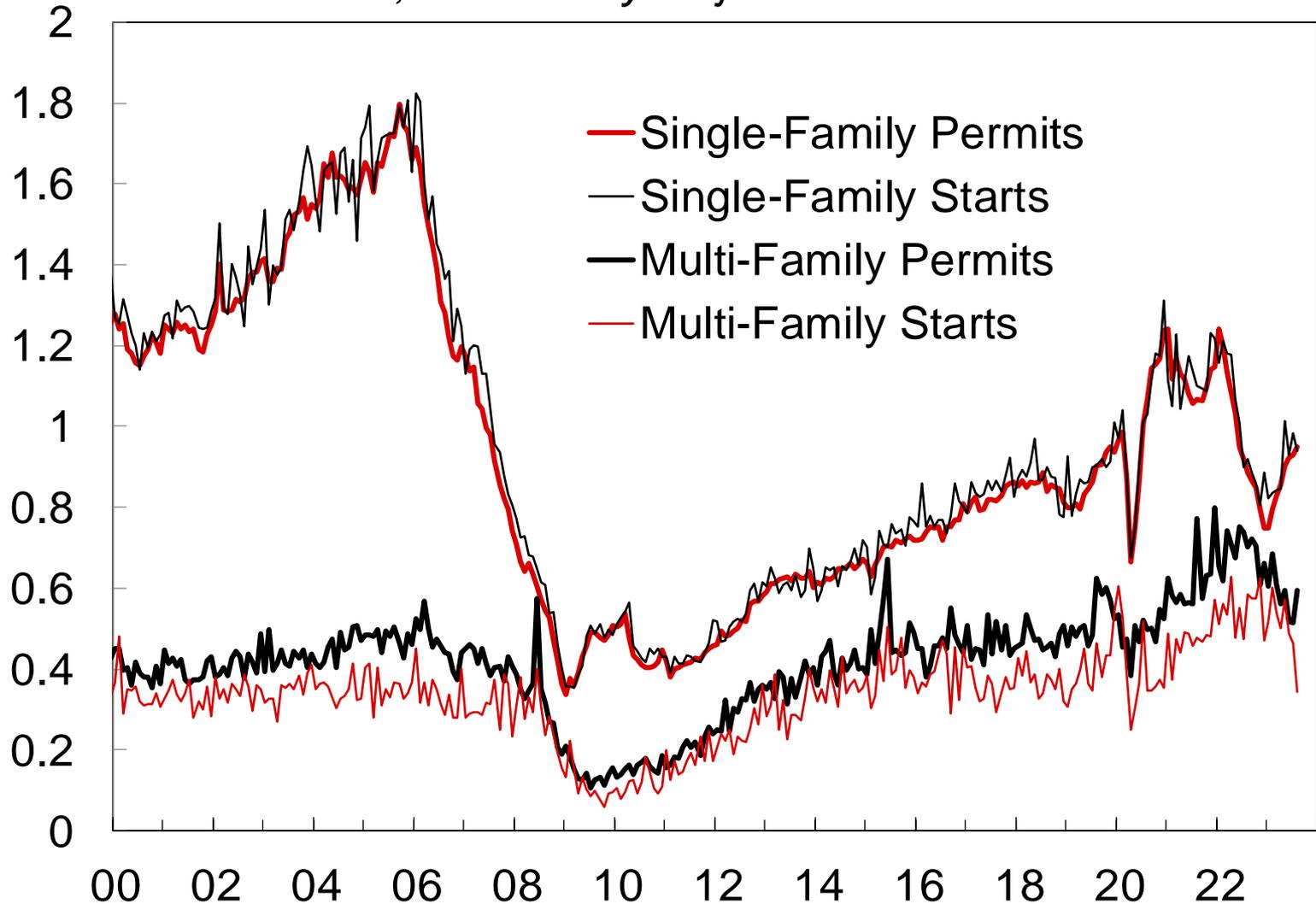
**“The race isn’t
always to the swift,
nor the battle to the
strong, but that’s
the way to bet.”**

**Damon Runyon
1880-1946**



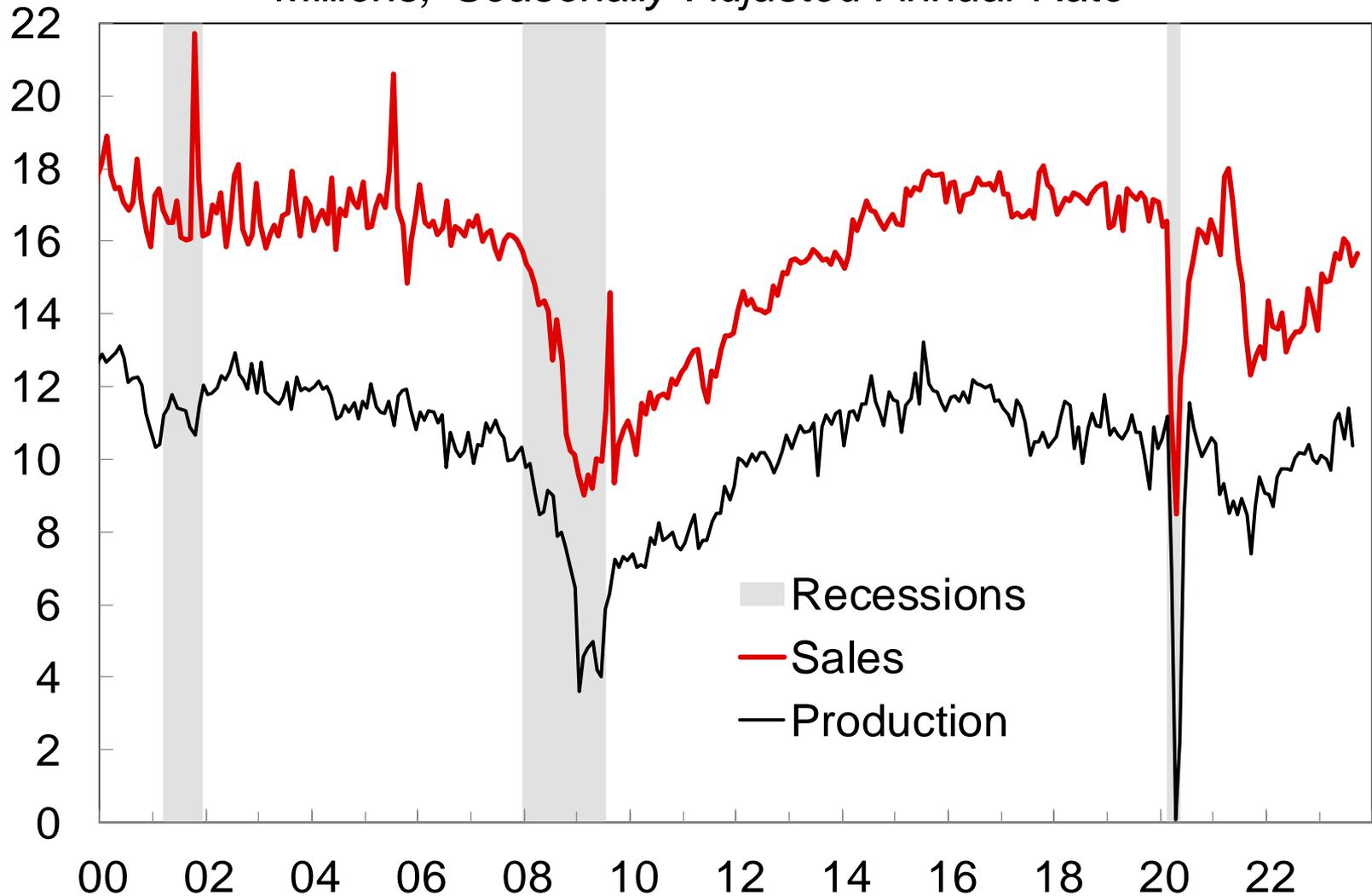
US Housing Starts & Building Permits

Millions, Seasonally Adjusted Annual Rate



US Light Vehicle Sales & Production

Millions, Seasonally Adjusted Annual Rate



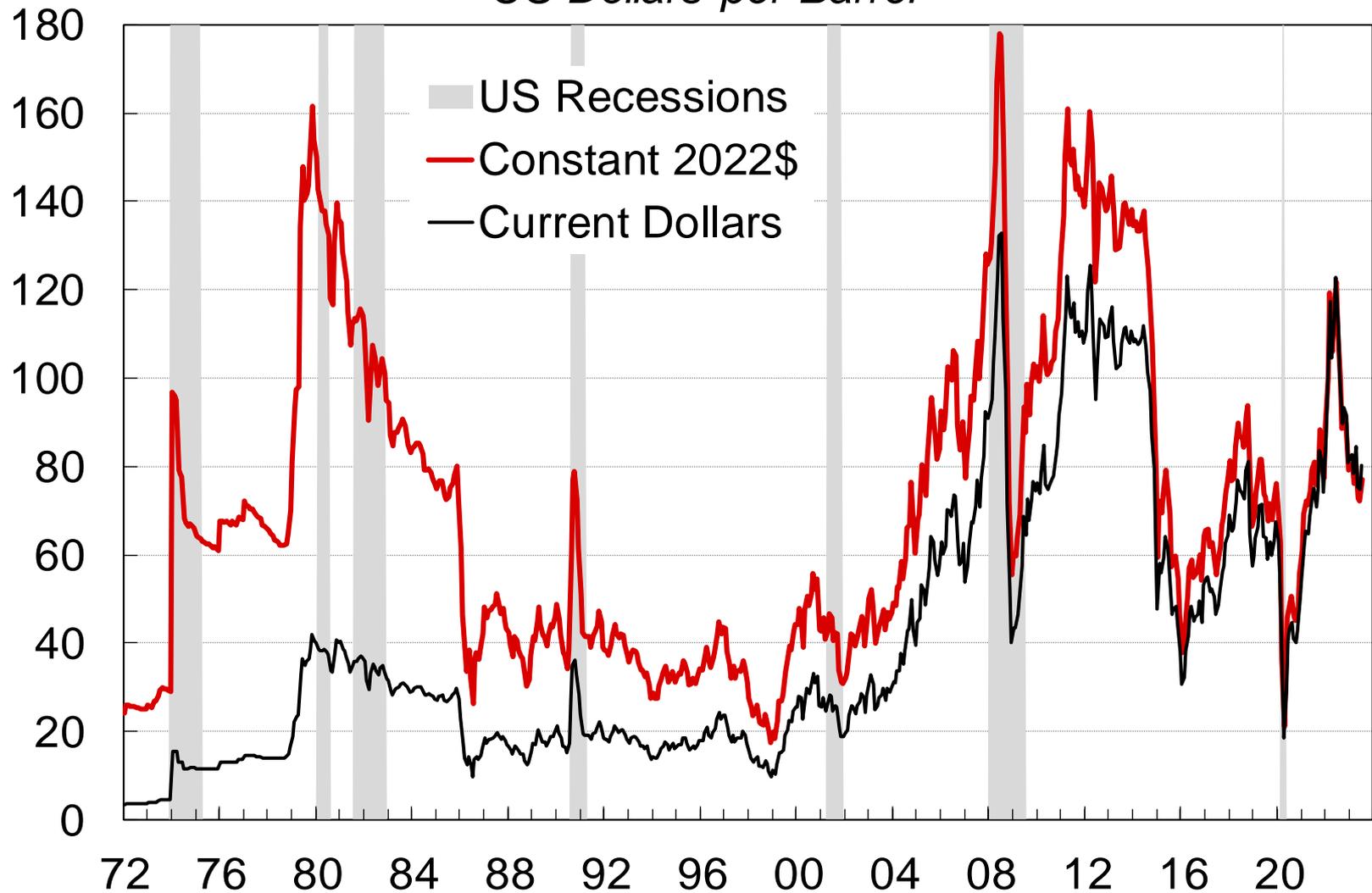
S&P 500 Stock Price Index



Source: S&P Dow Jones Indices LLC/FRED

Brent Blend Oil Price

US Dollars per Barrel



US Regular Gasoline Price

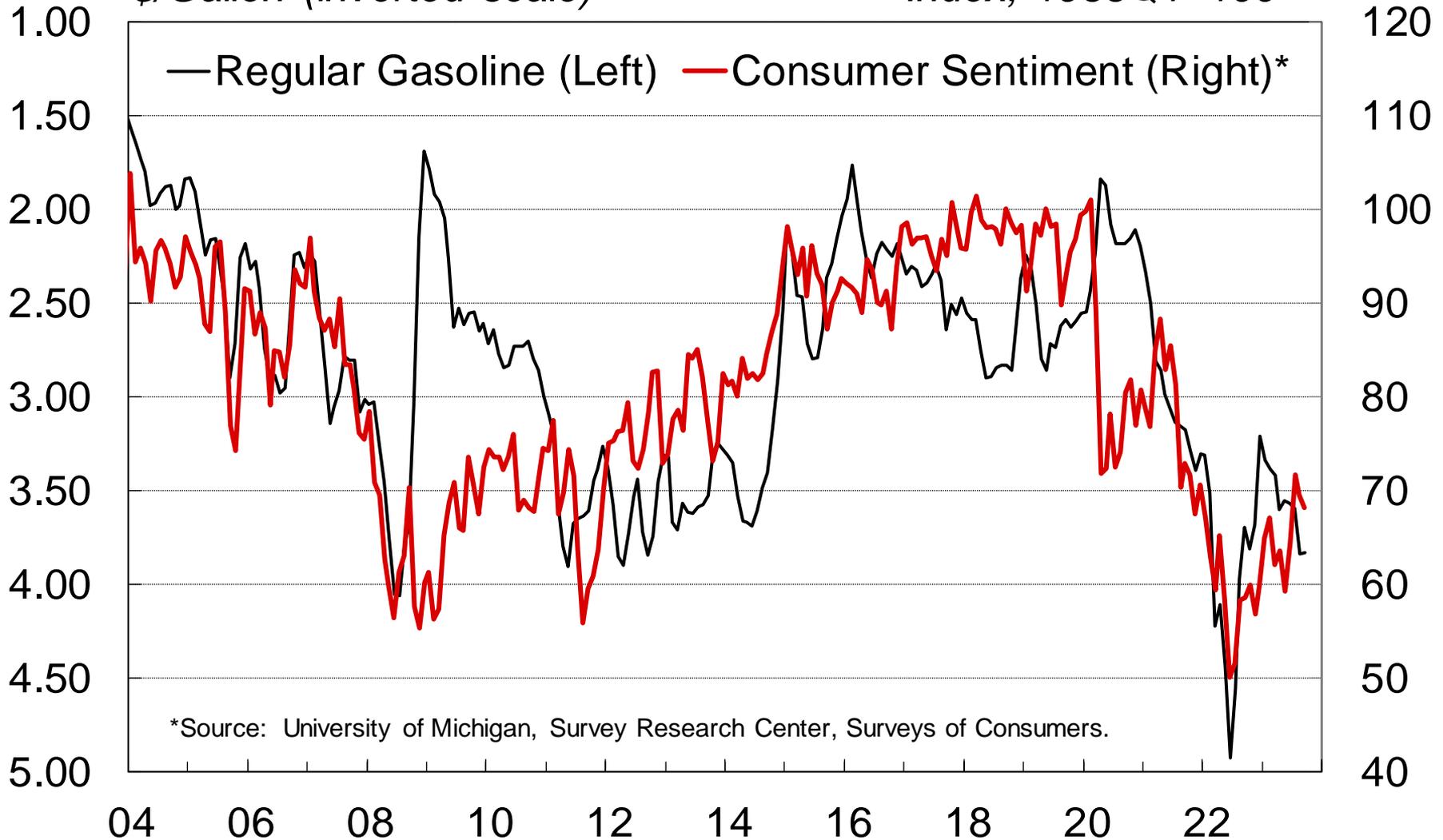
Dollars per gallon, Weekly data



Gasoline Price and Consumer Sentiment

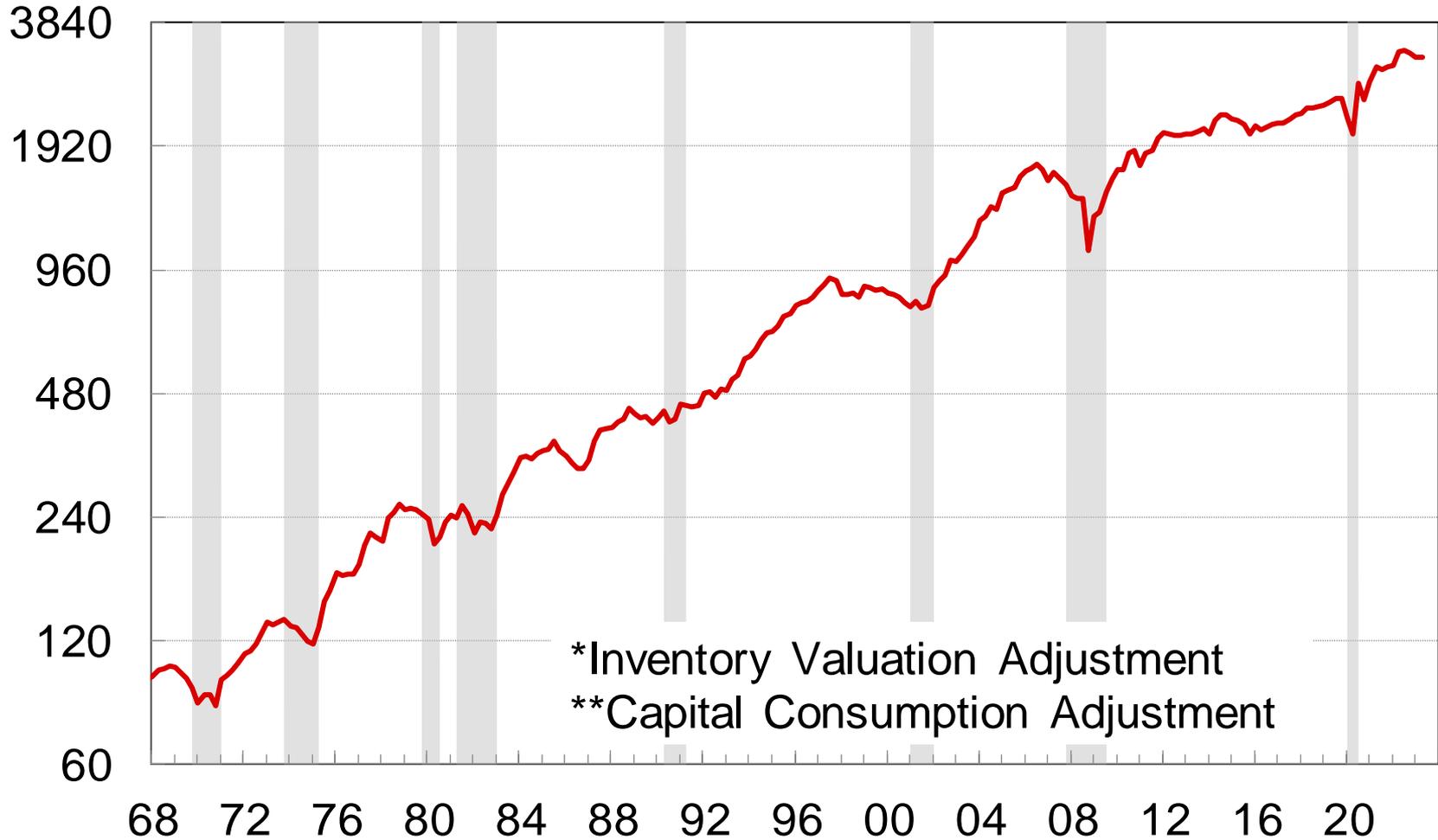
\$/Gallon (inverted scale)

Index, 1966Q1=100



US Pre-tax Corporate Profits with IVA* and CCAAdj**

Billion \$



Source: U.S. Bureau of Economic Analysis/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 (10Y-3M) inverted in October 2022.
- With normal lags, that would mean recession starting about November 2023.
- Oil prices more than doubled from 2020 to 2022. Came back down. Rising again.

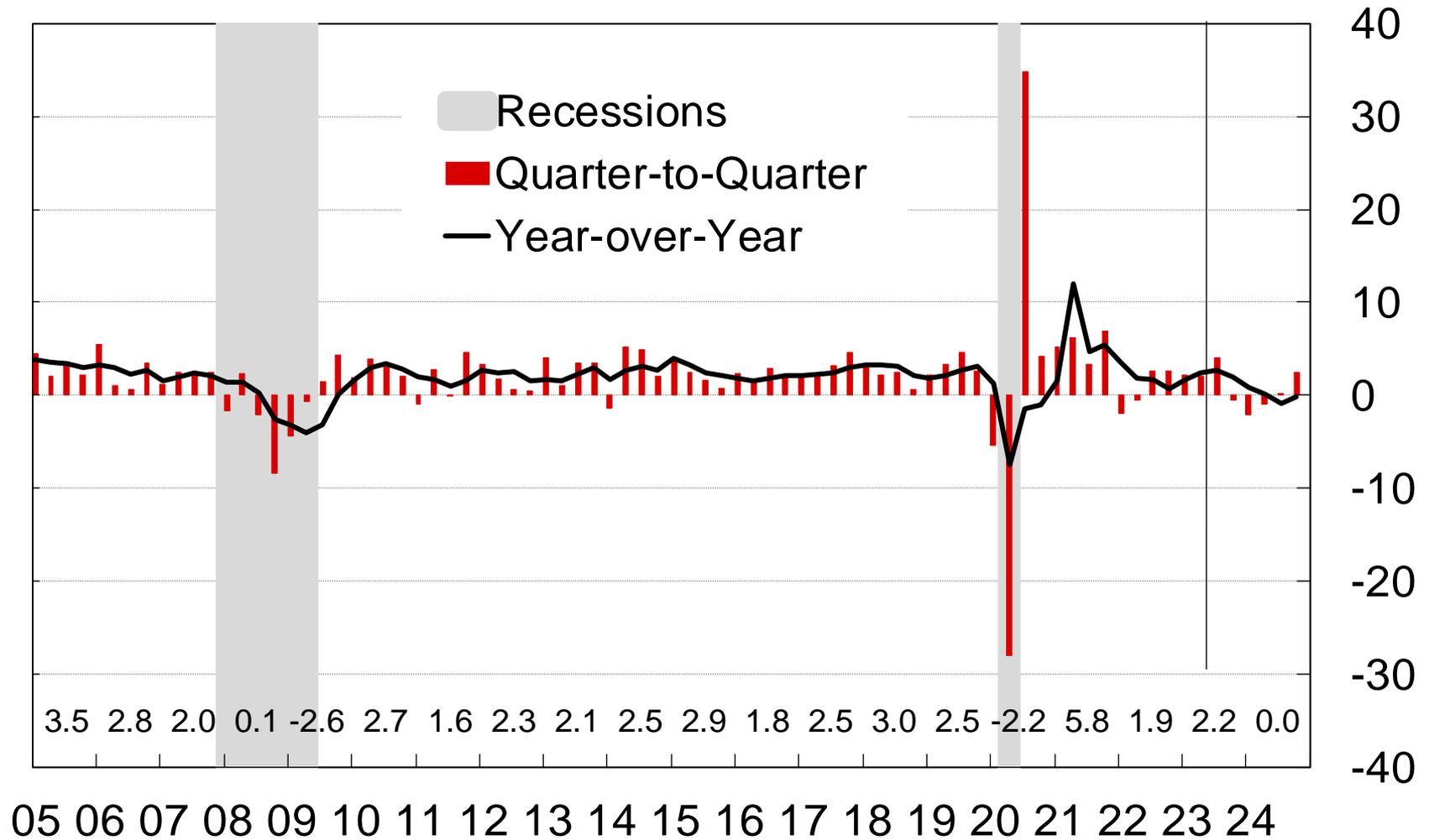
Most leading indicators say recession is overdue.

UAW strike, resumption of student loan payments on October 1, government shutdown could be the straws that break the camel's back.

Arguments against recession are really 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*



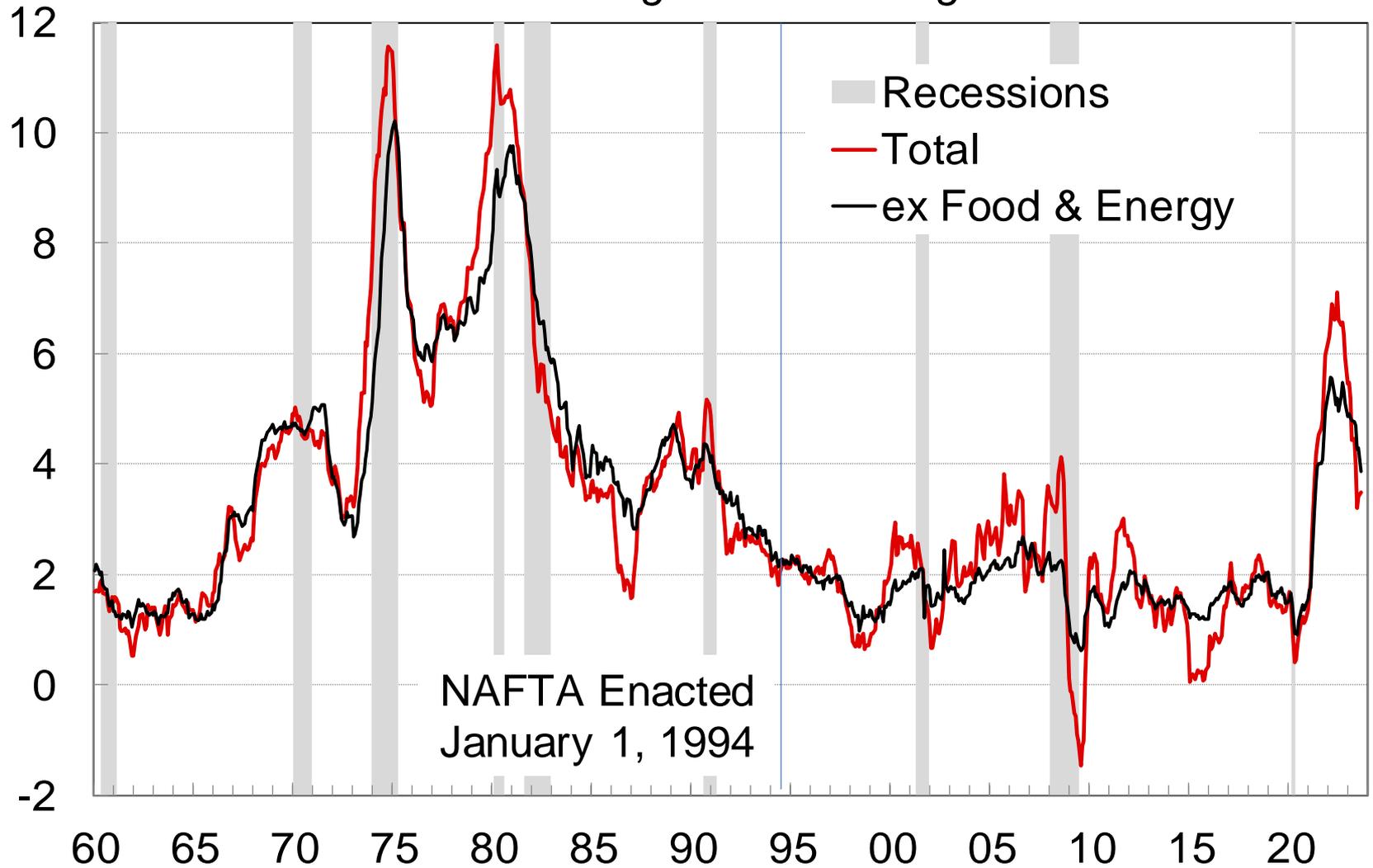
“The crisis takes a much longer time coming than you think and then it happens much faster than you would have thought.”

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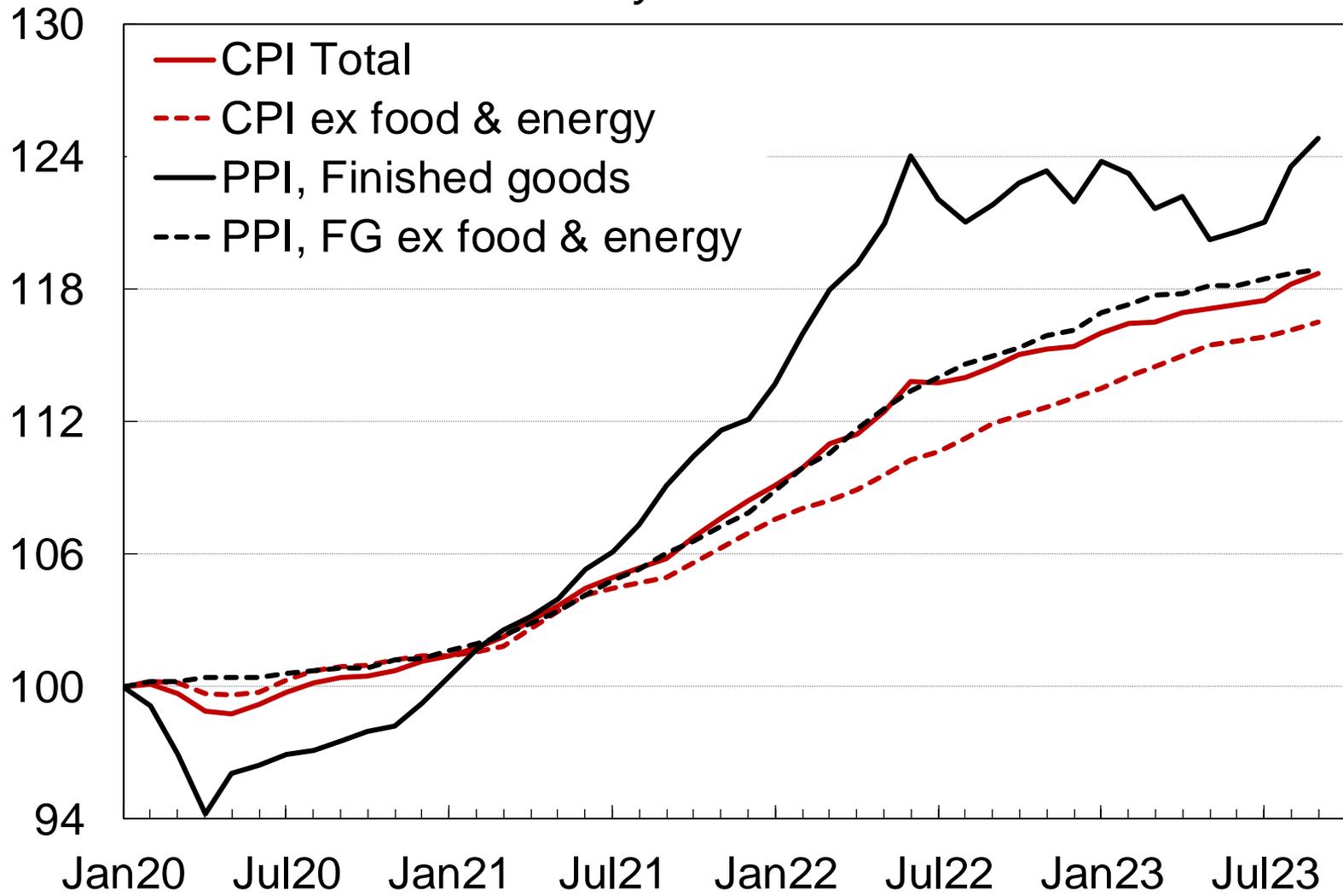
US Personal Consumption Expenditures Price Index

Percent Change from Year Ago



US Consumer & Producer Price Indexes

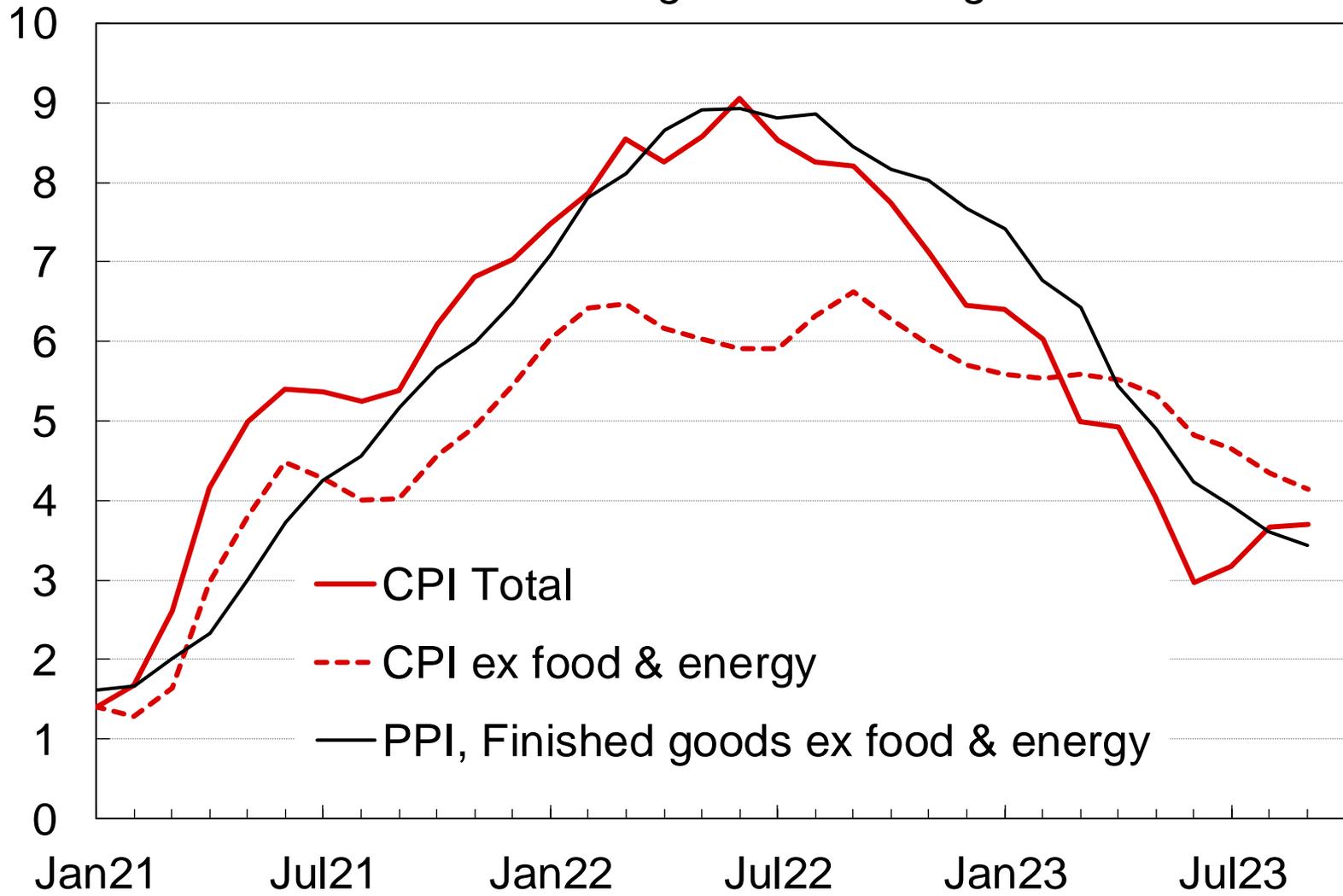
January 2020 = 100



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

US Consumer & Producer Price Indexes

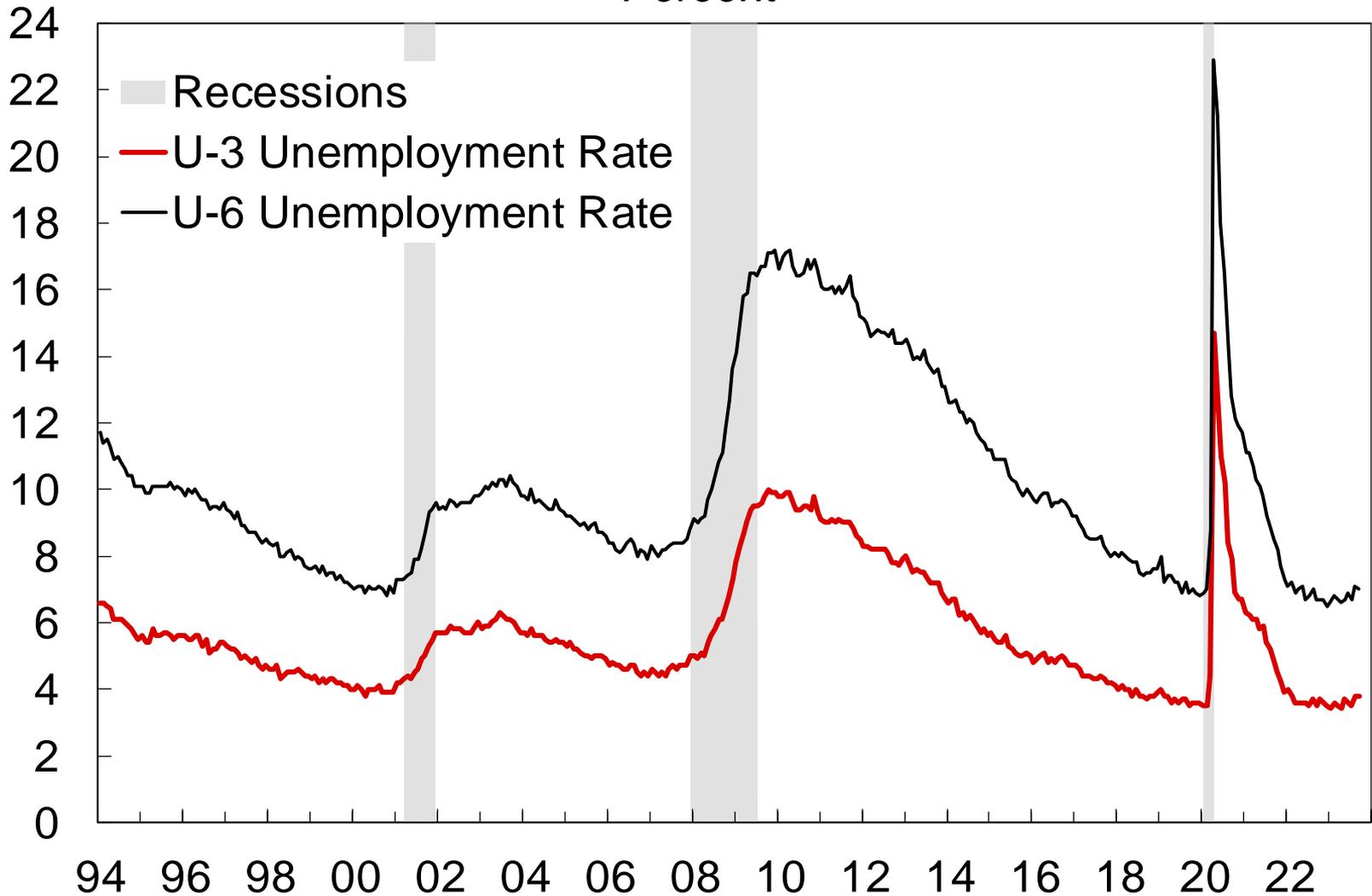
Percent Change from Year Ago



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

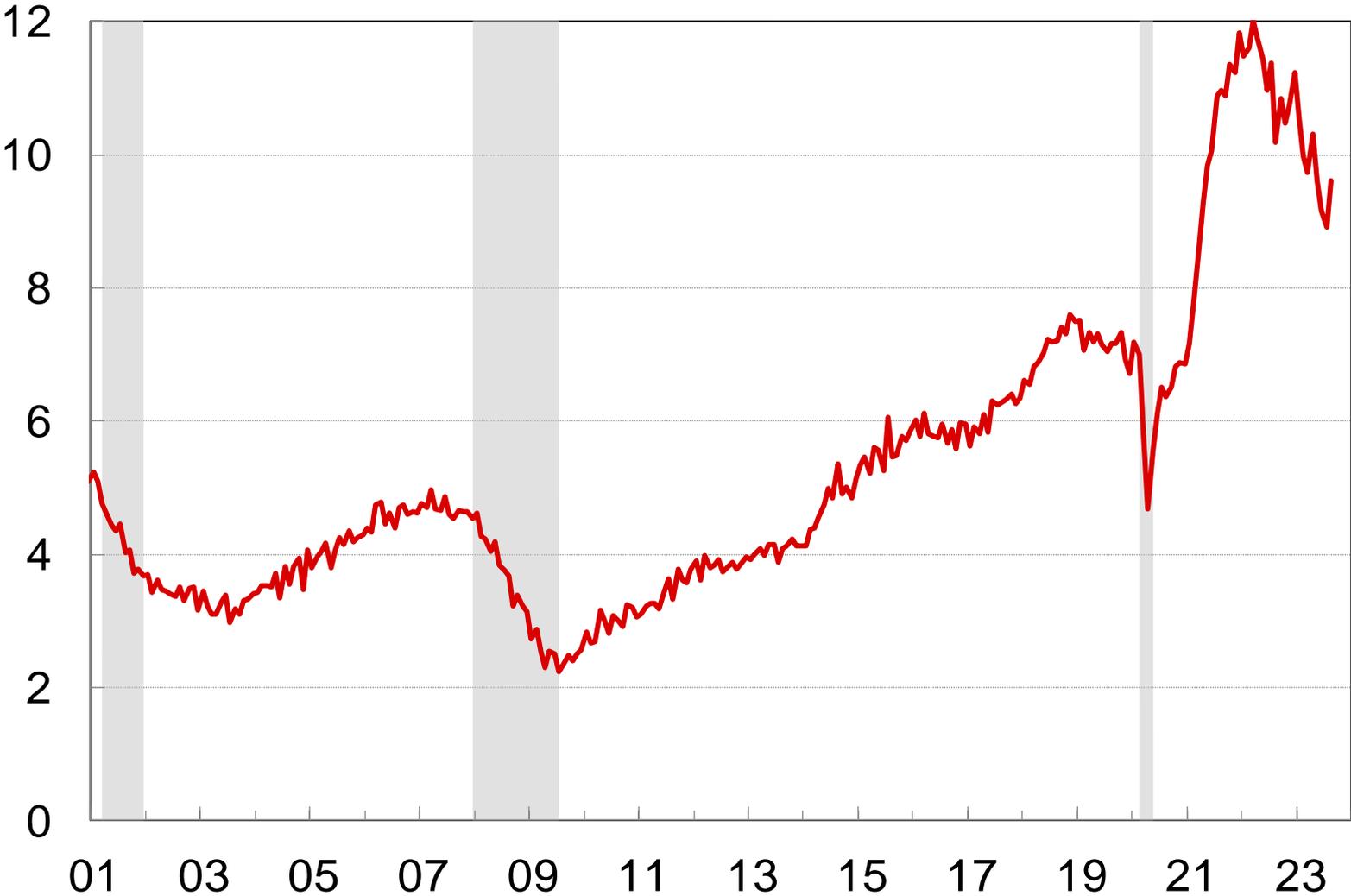
US Civilian Unemployment Rate

Percent



US Job Openings: Total Nonfarm

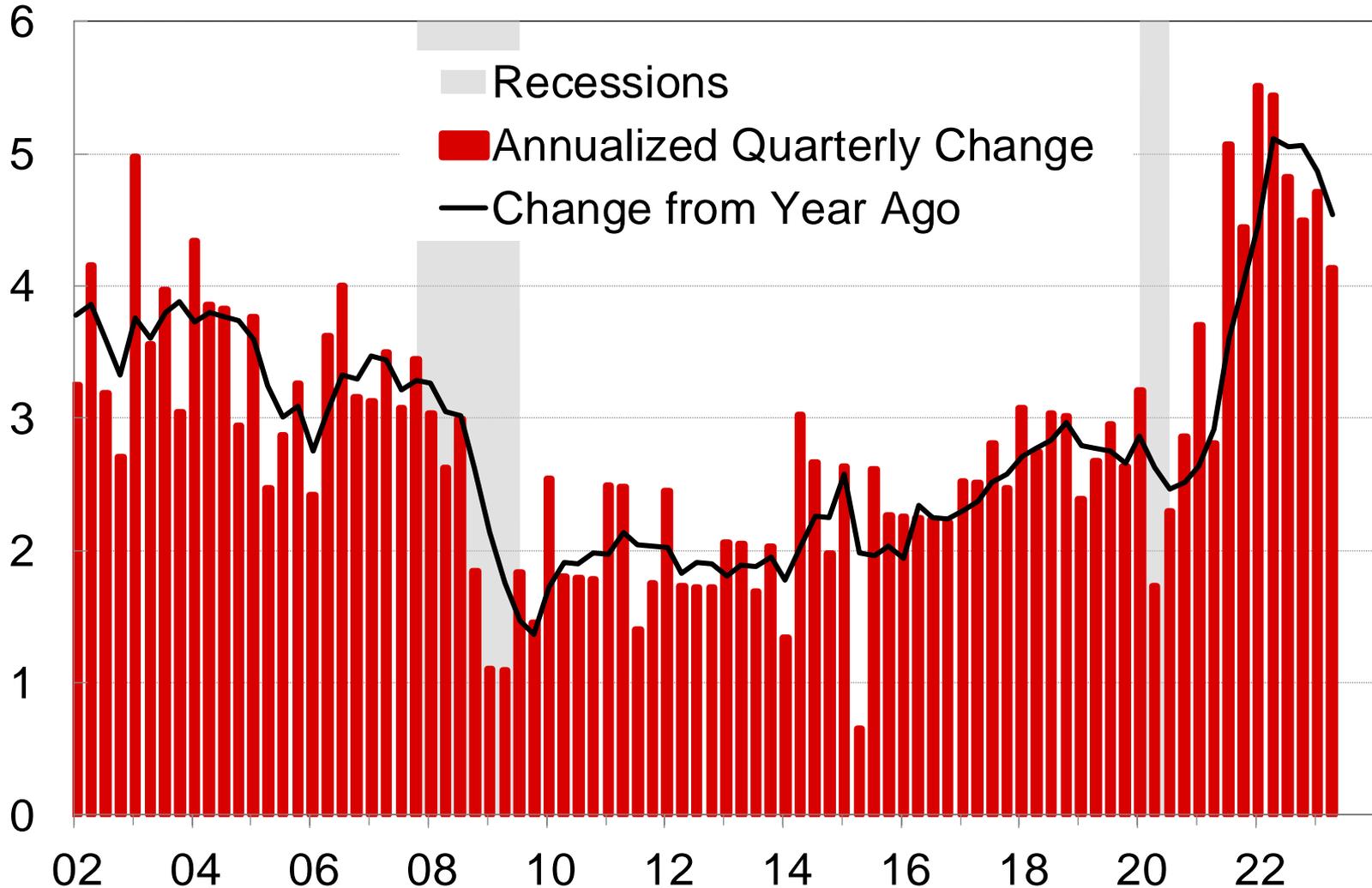
Millions



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

US Employment Cost Index: Total compensation

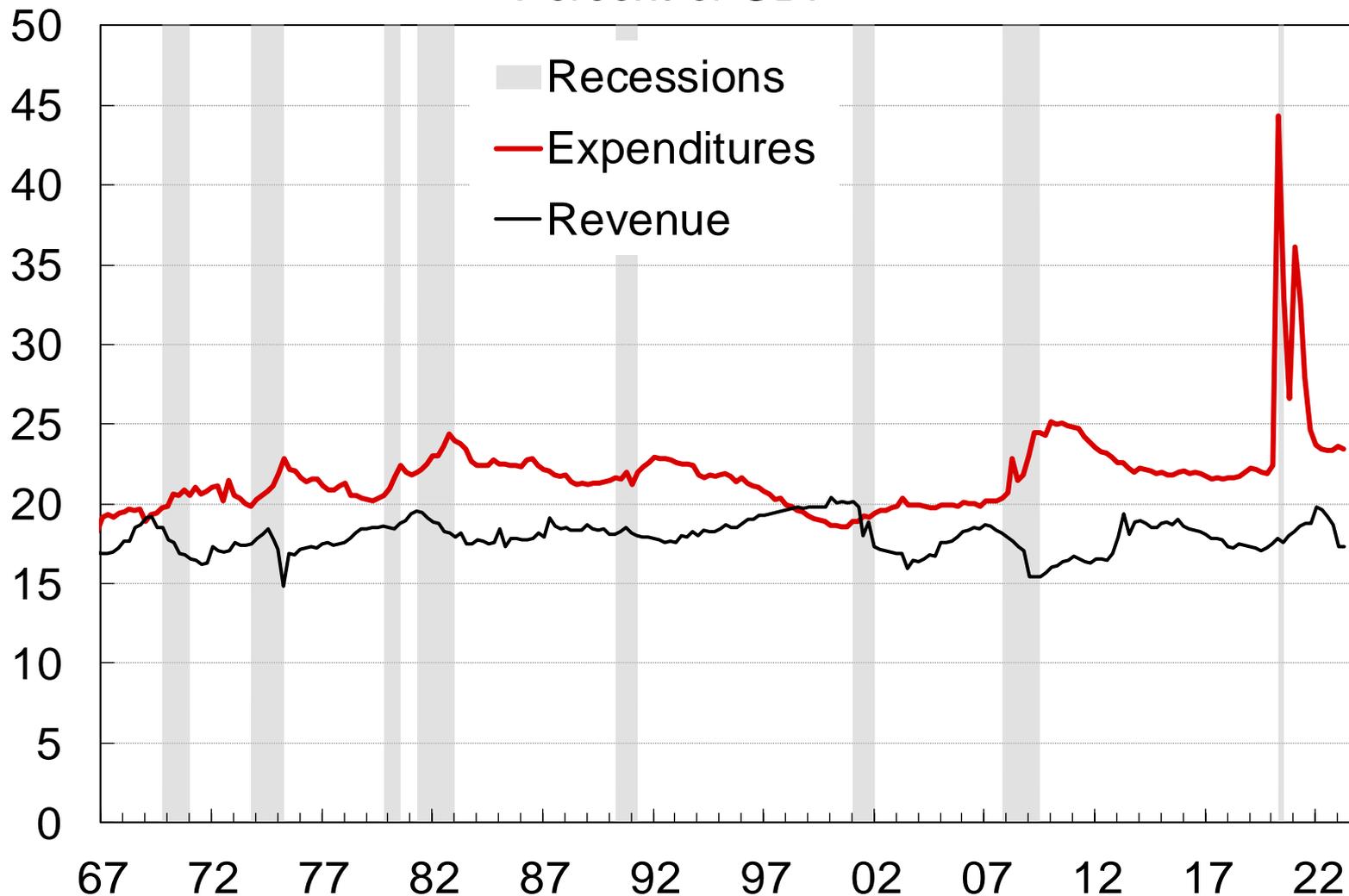
Percent



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

US Federal Govt Current Expenditures & Revenue

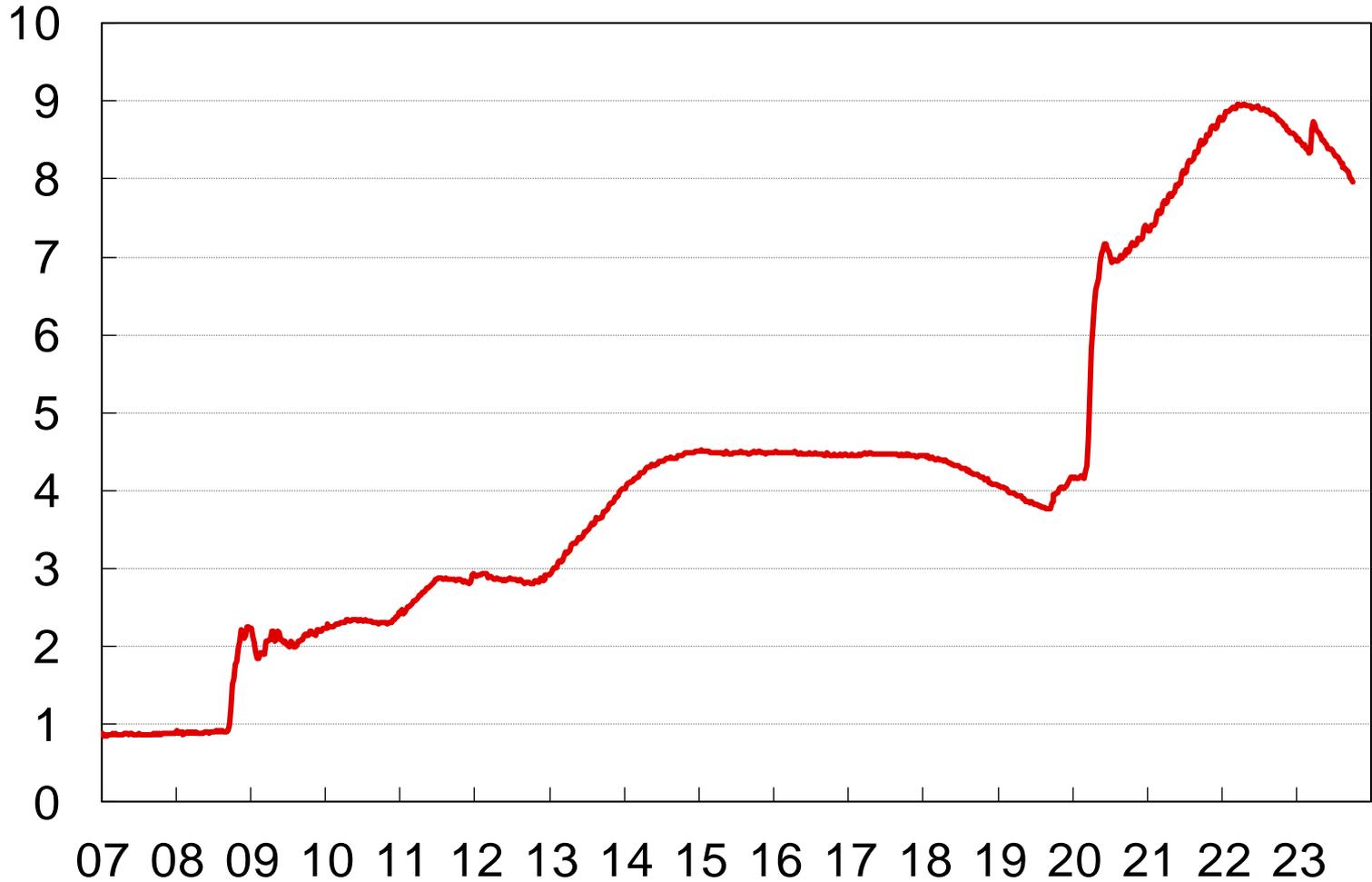
Percent of GDP



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

Federal Reserve Balance Sheet (Assets)

Trillion\$



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

Rise in inflation was bigger and more persistent than Fed expected.

Labor market was tighter than employment data suggested.

GDP rose above Congressional Budget Office's potential GDP.

Supply CONSTRAINTS boosted prices.

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

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

As usual, Fed raised rates until something broke. More will break.

Is this like the 1970s?

Similarities to 1970s

Higher energy prices

Higher food prices

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

High inflation BEFORE food and energy prices spiked

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, despite some backtracking.

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

Prices are more flexible now.

Industry Detail

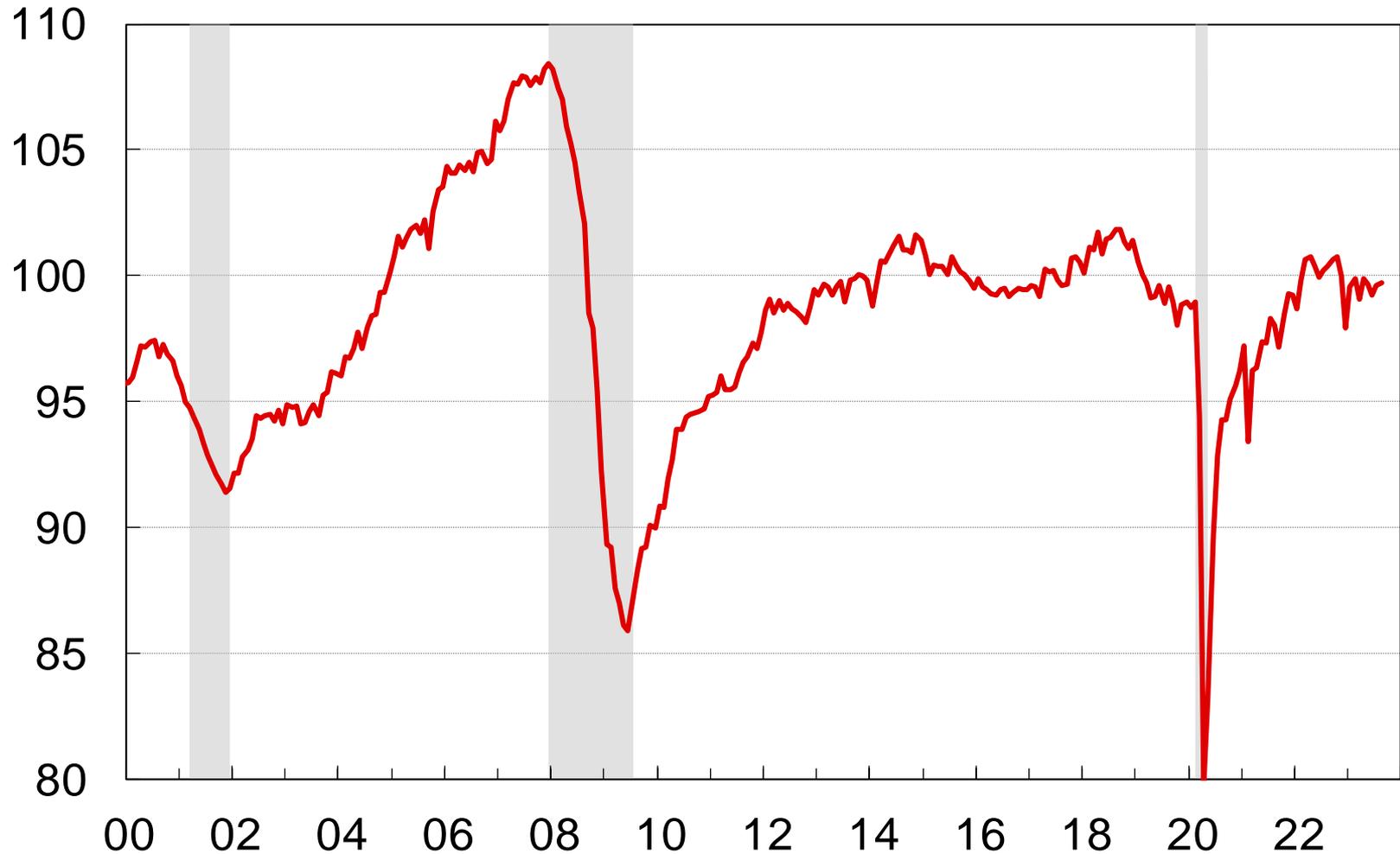
US Industrial Production: Chemicals ex pharma

Index, 2017=100



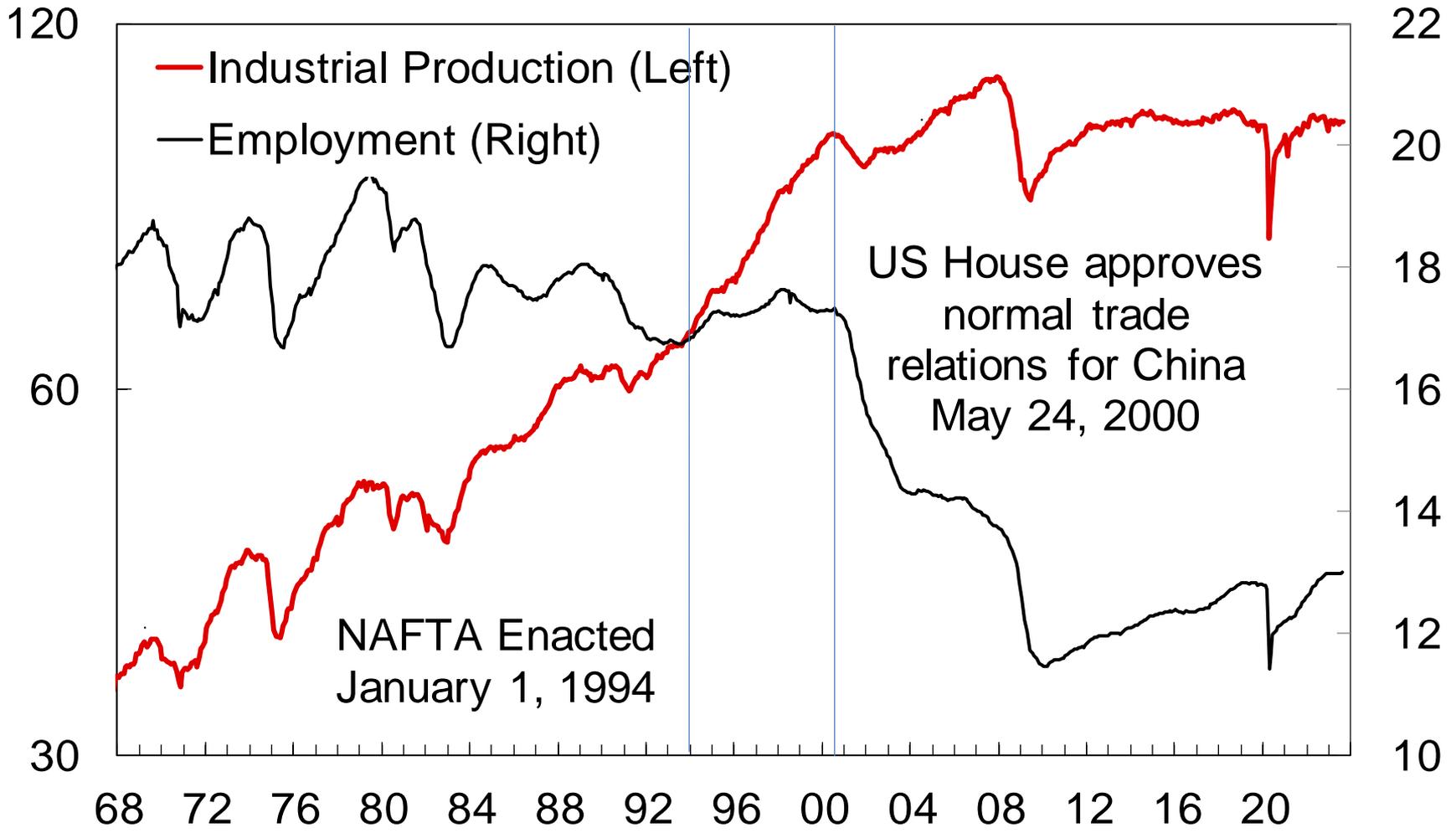
US Industrial Production: Manufacturing

Index, 2017=100

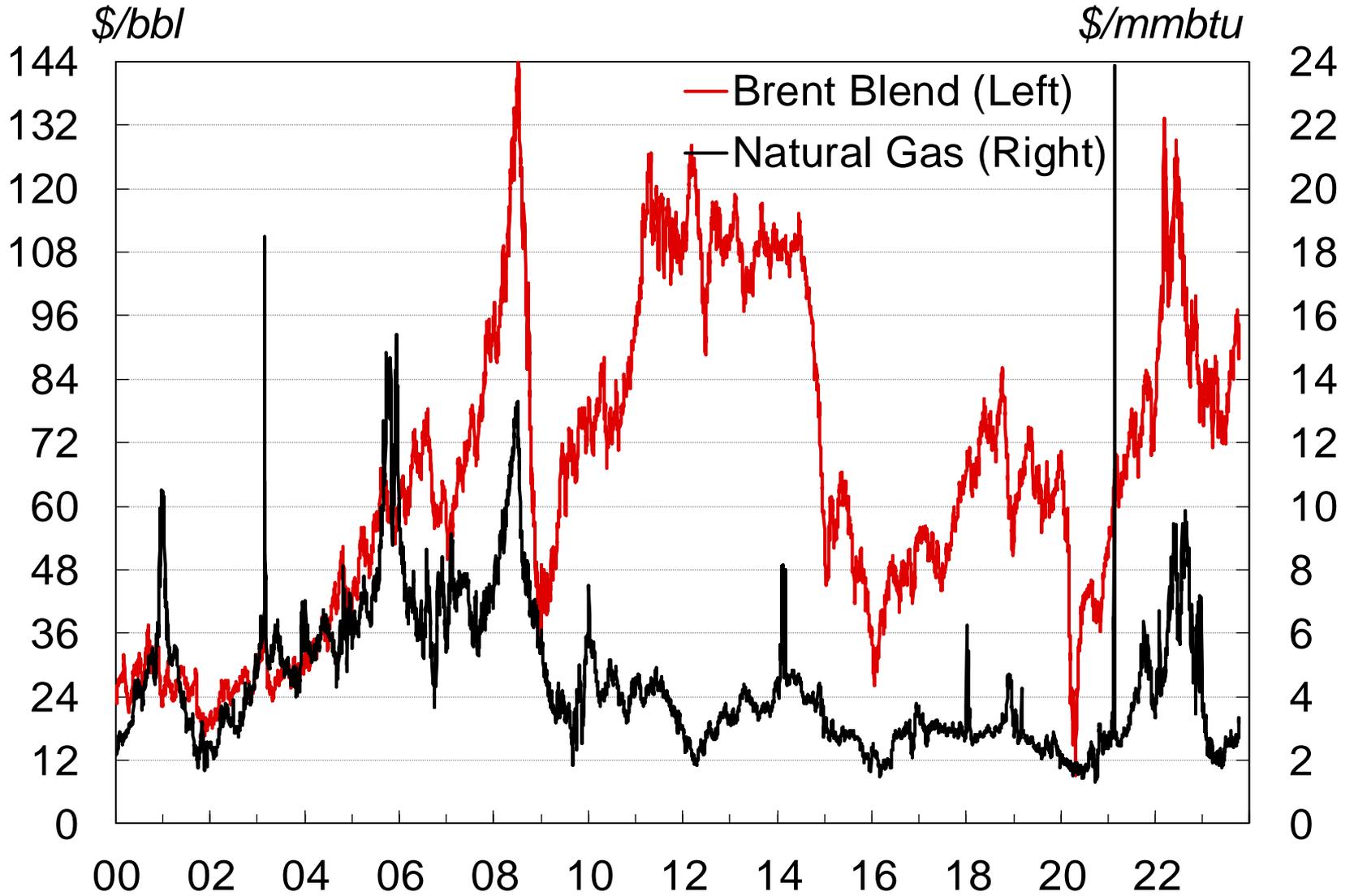


US Industrial Production & Employment: Manufacturing

Index, 2017=100 *Millions*



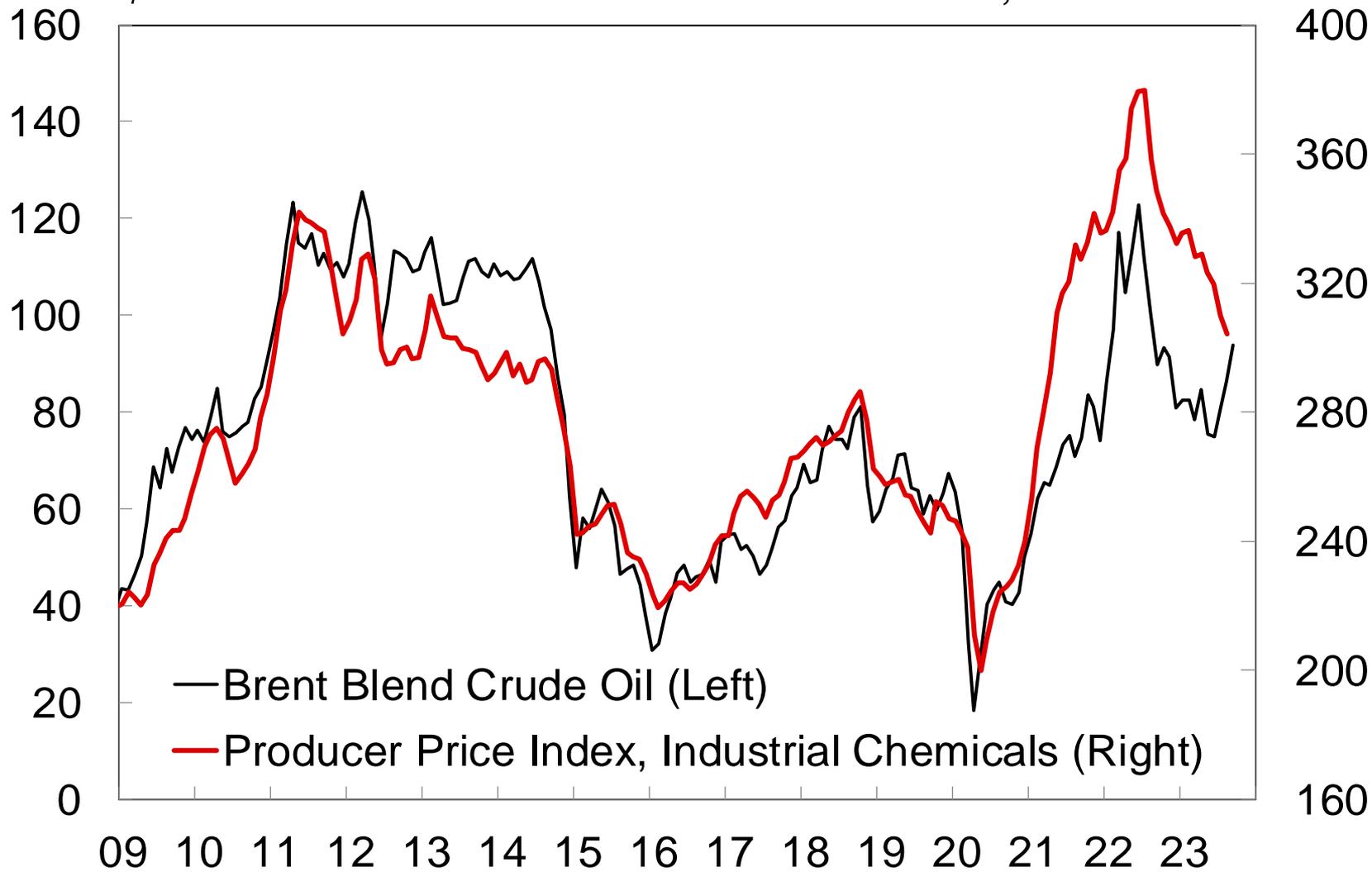
Global Crude Oil and US Natural Gas Spot Prices



Brent Oil Price vs Industrial Chemical Prices

\$/Barrel

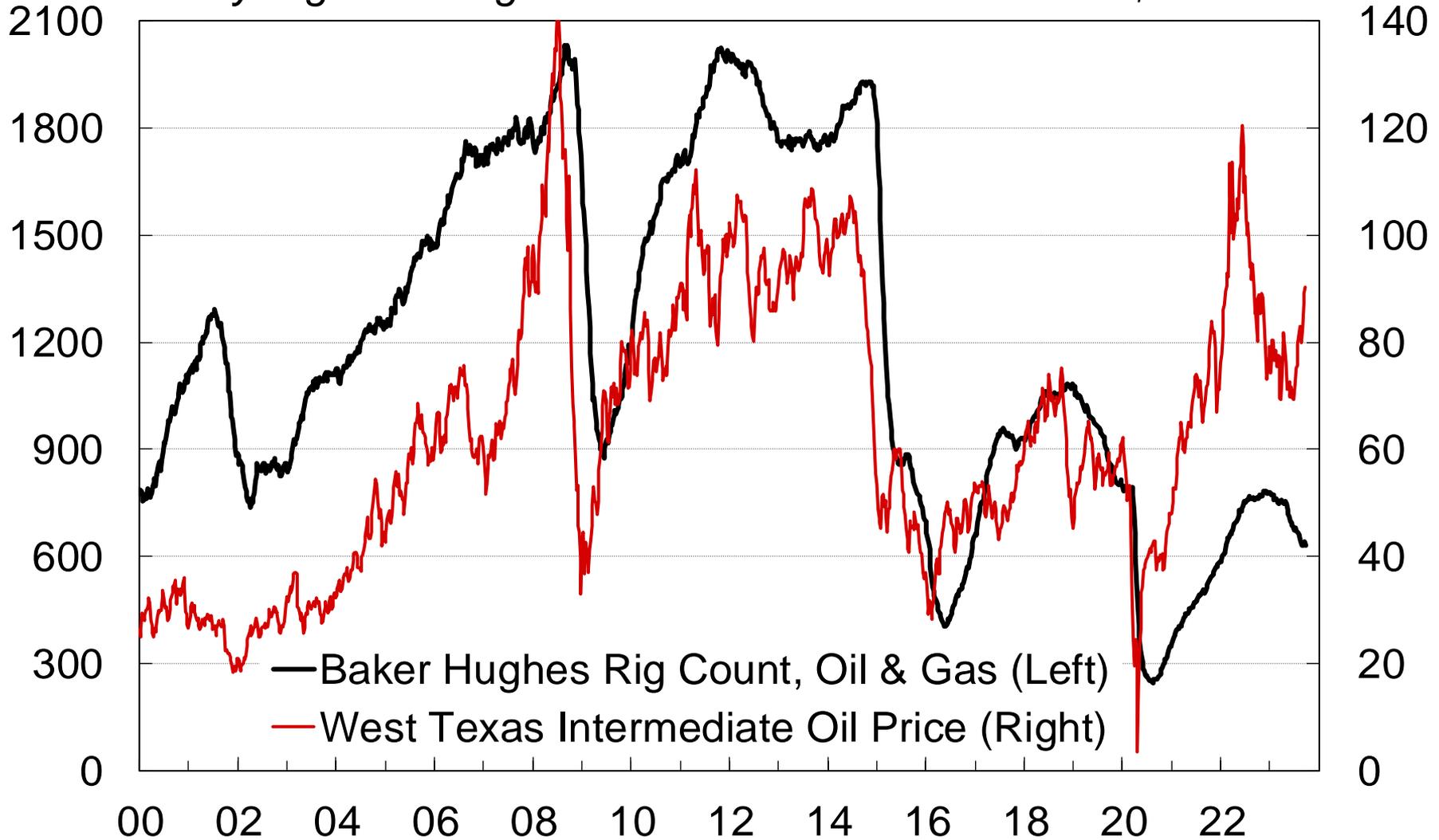
Index, 1982 = 100



US Drilling Rig Count versus Oil Price

Rotary Rigs Running

\$/Barrel



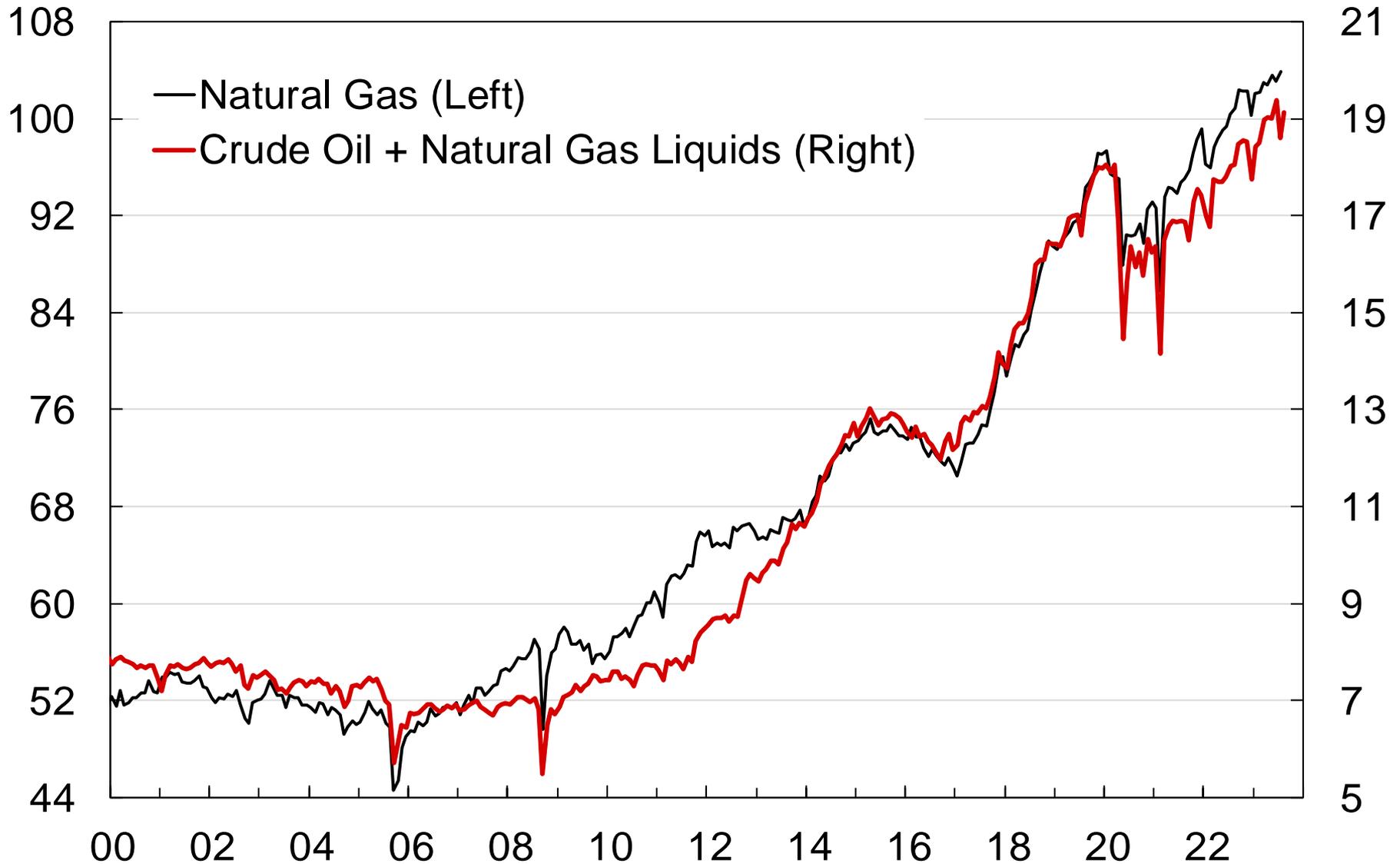
— Baker Hughes Rig Count, Oil & Gas (Left)

— West Texas Intermediate Oil Price (Right)

US Oil & Gas Production

Billion Cubic Feet per Day

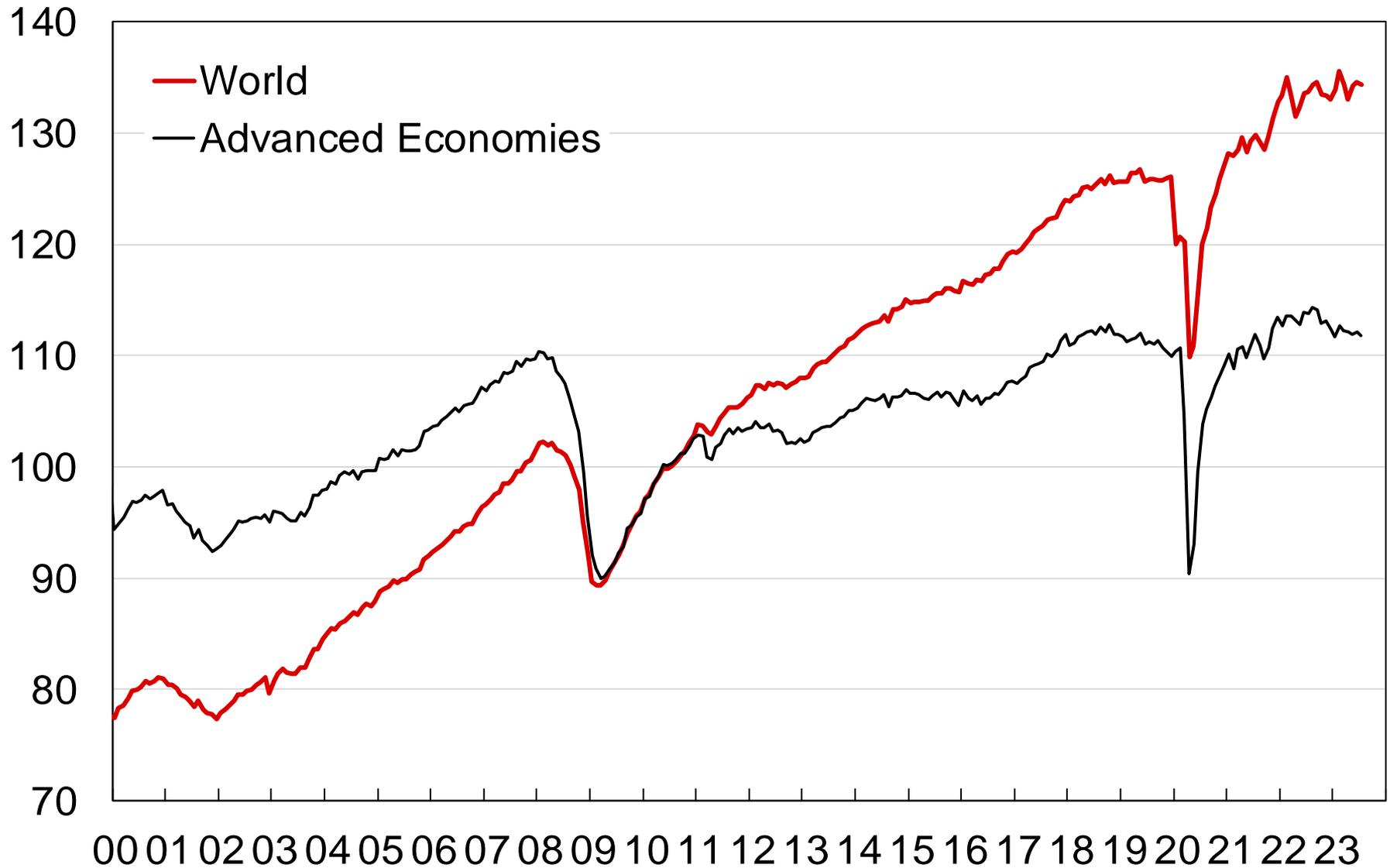
Million Barrels per Day



Global Overview

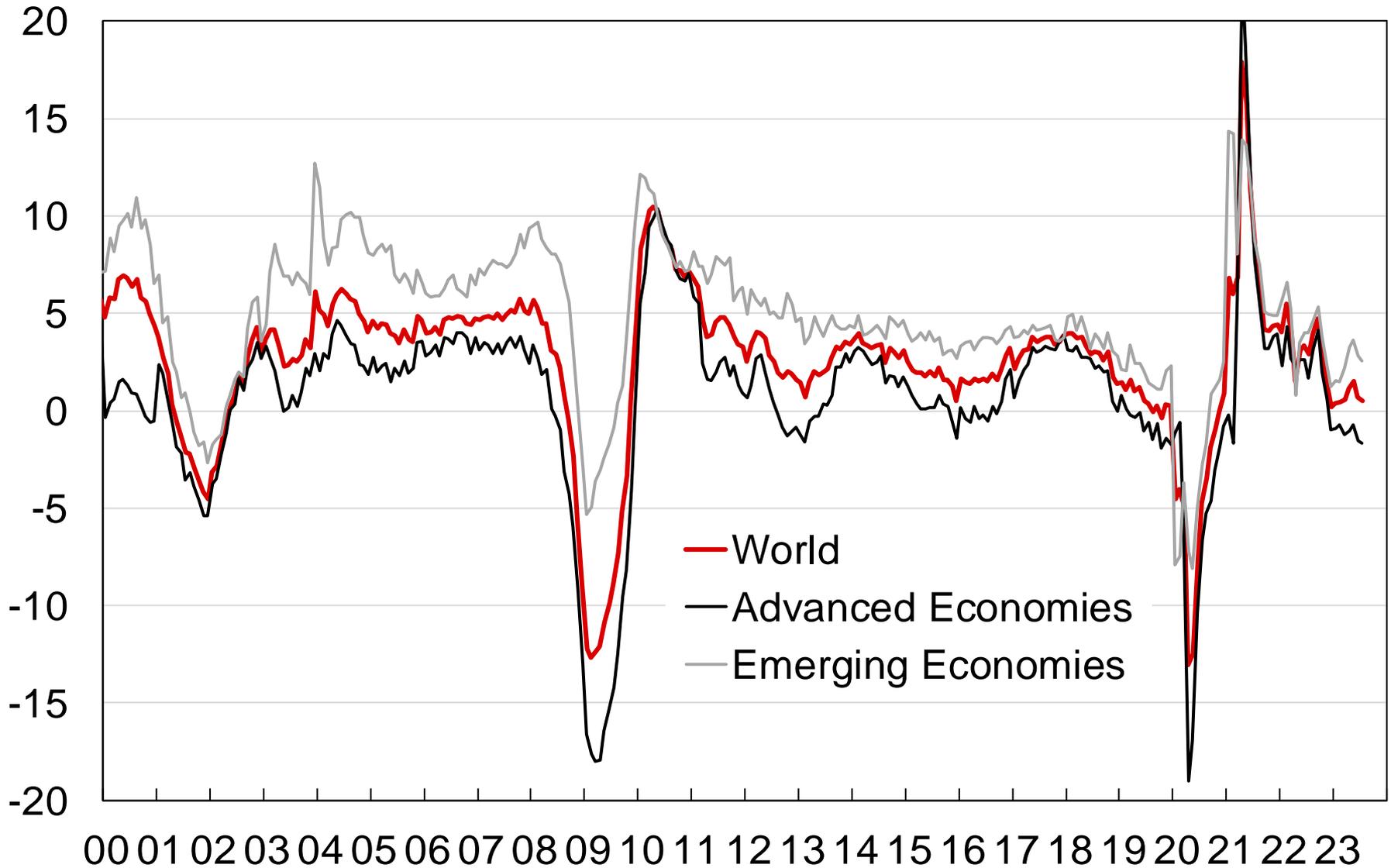
Industrial Production ex Construction

Index, 2010 = 100



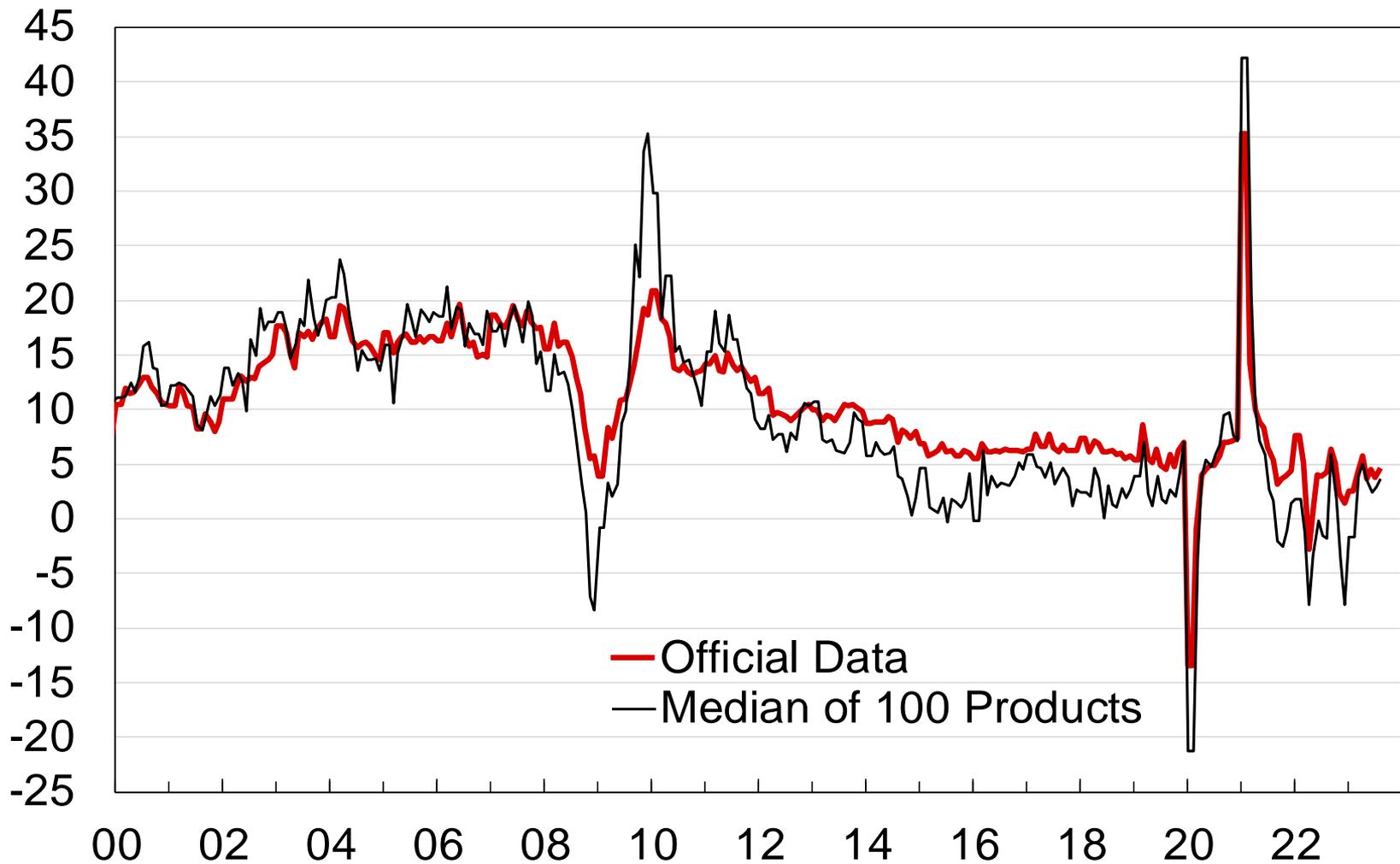
Industrial Production ex Construction

Percent Change from Year Ago



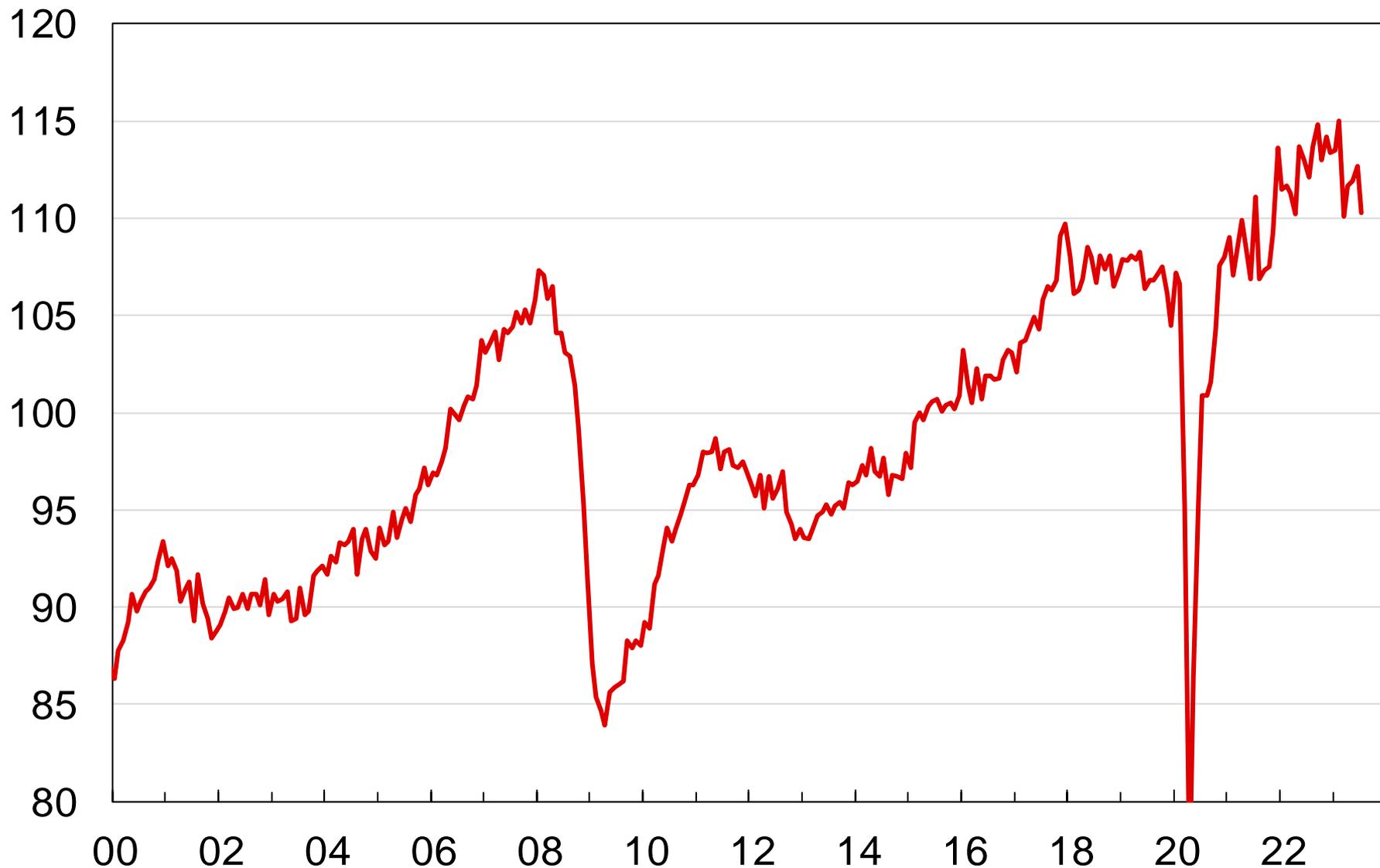
Value Added of Industry (Industrial Production): China

Percent Change from Year Ago



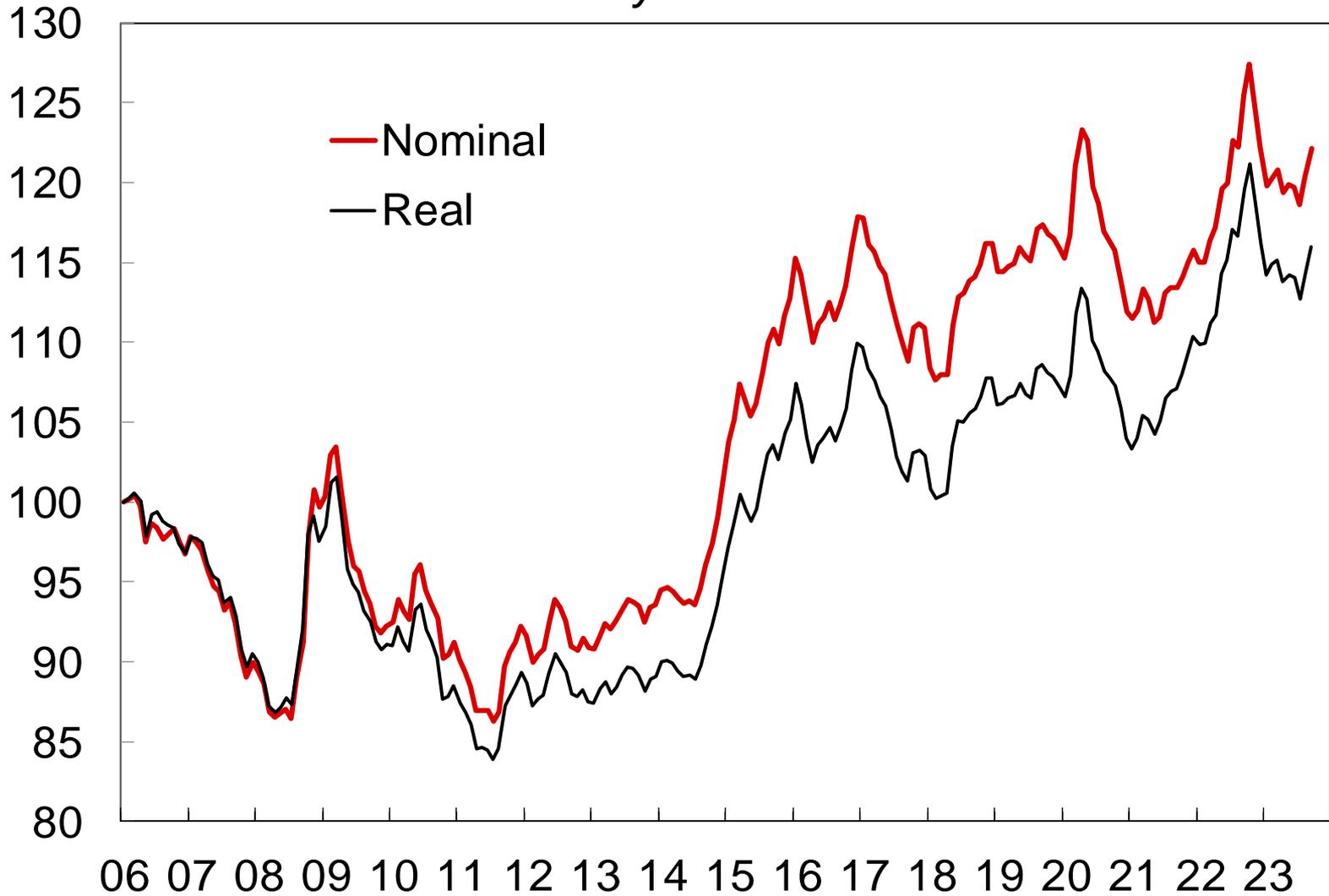
Industrial Production, Manufacturing: European Union

Index, 2015 = 100



Federal Reserve Broad Dollar Index

January 2006 = 100



Key takeaways

US economy (and most other advanced economies) likely to fall into recession in late 2023 or early 2024.

Recession is necessary to bring inflation down to 2%.

The faster inflation comes down, the milder the recession.

The US recession has important implications for the 2024 Presidential election.

Chinese growth at risk from shrinking population, bad 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 (without major immigration reform).

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

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

Potential GDP growth might be less than CBO estimates.

- Debt burden, “sub-optimal” policies could slow recovery, long-term growth.

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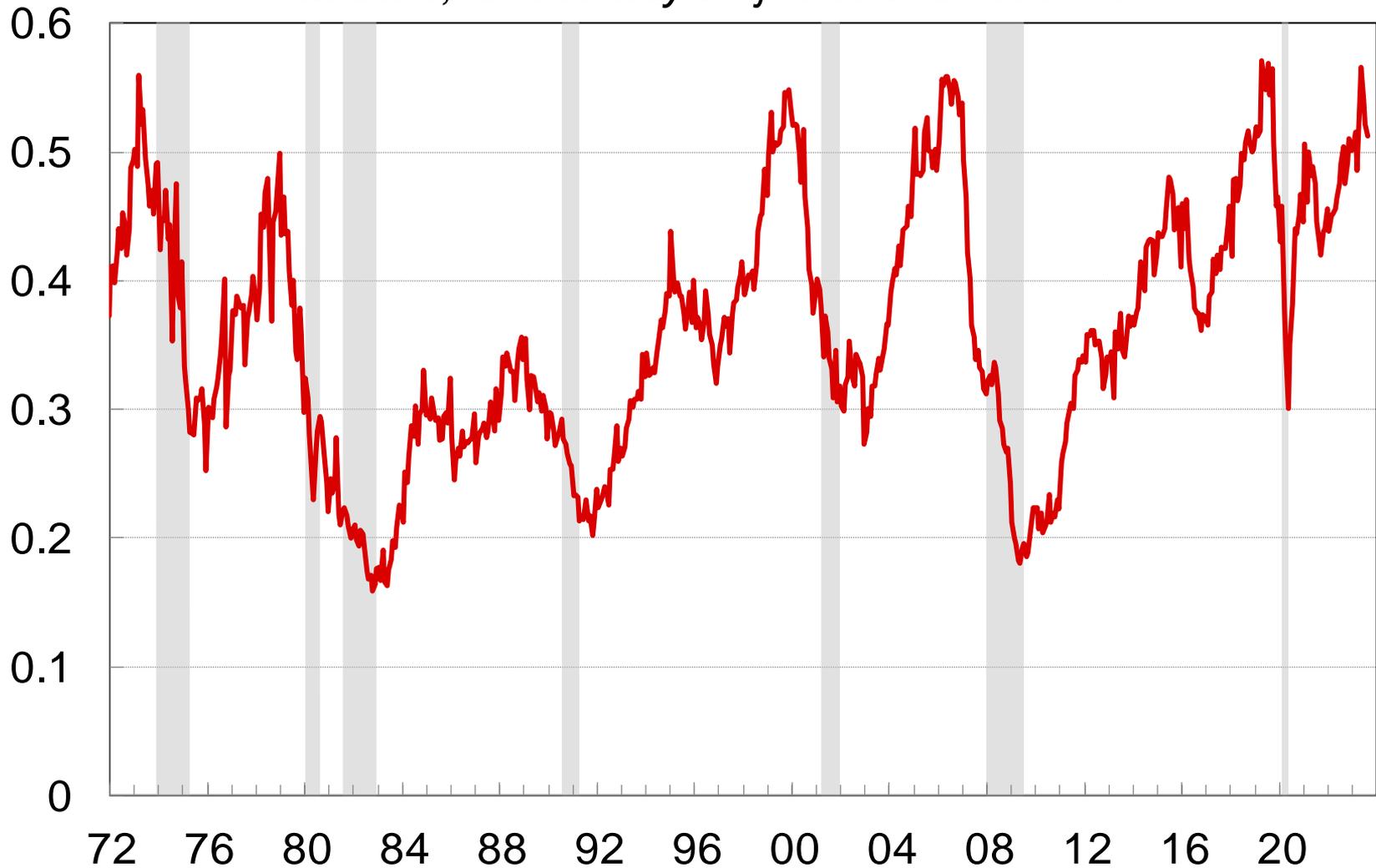
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US Heavy Truck Sales

Millions, Seasonally Adjusted Annual Rate



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

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>