# THE ECONOMIC OUTLOOK GROUP

**475 Wall Street**
**PRINCETON, NEW JERSEY 08540    Tel: 609 - 529 - 1300**
***www.EconomicOutlookGroup.com***


## ECONOMIC TALKING POINTS


**Bernard Baumohl**
**Chief Global Economist**


**July 7, 2022**

### Americans Are In A Recessionary State Of Mind

**Whether we're already in recession or not is debatable. But what is beyond dispute is that households and businesses are now in a recessionary state of mind.**

**By that I mean Americans are behaving as if a major economic downturn is unavoidable. It may happen this year or early in 2023. The precise timing is less important than the growing conviction that we are in the midst of a sharply slowing economy and that alone has led to changes in behavior. Households are turning more cautious about spending and businesses are reconsidering investment and hiring plans given the bleak economic outlook.**

**Take the latest weekly report on applications for jobless benefits. It showed a 4,000 rise in new filings. True, it's not an earth-shattering increase. But it did lift claims to a near six-month high last week. At the same time, though, we need to interpret this data point in a more nuanced way. During previous periods of economic weakness, employers moved quickly to layoff workers in an effort to trim operating expenses.**

**This time we don't expect to see employers rush to slash payrolls, since it was so hellishly difficult to find and retain qualified workers these past two years.**

**Instead, we will see a sharp departure in the pace of new hires. Given the Fed's eagerness to slash domestic demand and cool inflation pressures, companies are now questioning the wisdom of adding on expensive labor when the economic outlook is so gloomy. Manufacturers, wholesalers and retailers are already seeing their margins come under pressure. The result: Nonfarm payrolls increased an average of 488,000 a month so far this year. We now expect new hires to abruptly**

**drop by about half that pace in June's employment report, with even fewer job offers in the months that follow.**

**Simply put, the seeds for recession appear to be in place. Confidence surveys from both consumers (University of Michigan as well as the Conference Board) and businesses (NFIB and the Chief Executive's CEO survey) uniformly show Americans are in a sour mood. We're also seeing this play out in the financial markets. Sensing grave economic weakness ahead, investors this week have piled into longer dated Treasuries causing the yield curve to invert for the third time this year, another significant precursor of recession.**

**Linked to this pessimism is the growing belief that CPI inflation will not materially retreat from its current pace of 8.6%. The reason: Roughly 80% of the forces driving prices higher stem from events outside the US.**

**Should the war in Ukraine continue to rage past 2022, as now seems likely, it's difficult to see how that will lower headline inflation. And if China ramps up government spending----it is currently contemplating a $220 billion stimulus program to assure it outgrows the US this year ---such outlays would revive demand for key industrial commodities and keep prices high.**

**Thus any expectation that US inflation will drop back to 2% within the next 6 to 18 months borders on delusional.**

**Frankly, our assessment is it will be difficult to get inflation much below 6% by the end of the year. Yet the just-released minutes from the FOMC's June meeting suggests the Fed is prepared to fight inflation even if it means risking a recession.**

**What's so troubling about that stance is the Open Market Committee's failure to acknowledge that this time it may not have the ability to return inflation close to its 2% target. There is no question the Fed possesses the tools to quash demand by ratcheting up interest rates. But it doesn't have the means to pressure Putin to end the war. Nor can the Fed increase oil refining capacity or build more LNG plants in the US. It can't induce OPEC to boost production, or hasten the flow of goods in the global supply chain. Yet these are the primary culprits that will keep inflation elevated.**

**So we have to raise the obvious question. Does the Fed's super hawkish approach make economic sense? By continuing to heave up the cost of borrowing, all you manage to accomplish is just deepen the chokehold on the economy --- without a concomitant reduction of inflation.**

**Given the numerous geopolitical threats that loom ahead, the Fed may have to re-evaluate its approach on how to keep inflation under control. Raising interest rates alone won't cut it in a crisis-prone global economy. It's too crude a weapon. All it will do is cause more economic damage.**

===========================================

## United States

| | I 2021 | II 2021 | III 2021 | IV 2021 | I 2022 | II 2022 | III 2022 | IV 2022 | I 2023 | II 2023 | III 2023 | IV 2023 | I 2024 | II 2024 | III 2024 | IV 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Real Gross Domestic Product (GDP):** | | | | | | | | | | | | | | | | |
| % | 6.3 | 6.7 | 2.3 | 6.9 | -1.6 | 0.9 | 1.5 | 1.1 | -1.1 | -0.2 | 1.9 | 2.3 | 2.1 | 3.3 | 2.4 | 2.8 |
| **Personal Consumption Expenditures:** | | | | | | | | | | | | | | | | |
| PCE % | 11.4 | 12.0 | 2.0 | 2.5 | 1.8 | 2.1 | 1.8 | 2.4 | -0.9 | 1.4 | 2.6 | 2.4 | 2.7 | 3.8 | 2.7 | 2.2 |
| **Inflation, end of period, year-over-year:** | | | | | | | | | | | | | | | | |
| CPI % | 2.6 | 5.3 | 5.4 | 7.0 | 8.5 | 8.7 | 7.8 | 6.9 | 6.6 | 6.5 | 6.2 | 4.5 | 3.0 | 2.5 | 2.5 | 2.5 |
| **Unemployment Rate (end of period):** | | | | | | | | | | | | | | | | |
| % | 6.0 | 5.9 | 4.7 | 3.9 | 3.6 | 3.7 | 3.9 | 4.3 | 4.6 | 4.9 | 4.9 | 5.2 | 5.0 | 4.5 | 3.9 | 3.6 |
| **Non-farm Payrolls, monthly avg. thousand:** | | | | | | | | | | | | | | | | |
| | 513 | 615 | 651 | 365 | 562 | 375 | 245 | 195 | 190 | 190 | 210 | 255 | 275 | 310 | 315 | 325 |
| **Treasury 10-yr Note Yield % (end of period):** | | | | | | | | | | | | | | | | |
| | 1.75 | 1.44 | 1.52 | 1.51 | 2.32 | 2.97 | 2.90 | 2.80 | 2.75 | 2.80 | 3.05 | 3.07 | 3.07 | 3.10 | 3.15 | 3.20 |
| **Federal funds rate % (end of period):** | | | | | | | | | | | | | | | | |
| | 0.13 | 0.13 | 0.13 | 0.13 | 0.38 | 1.63 | 2.63 | 2.88 | 2.88 | 2.88 | 2.88 | 2.38 | 2.38 | 2.38 | 2.38 | 2.38 |

## GDP Growth - Global Economy - Year over Year

| Country | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| US | 2.6 | 1.6 | 2.2 | 1.8 | 2.3 | 2.7 | 1.7 | 2.3 | 2.9 | 2.3 | -3.4 | 5.7 | 1.2 | 1.0 | 2.6 |
| Eurozone | 1.7 | 1.4 | -0.9 | -0.2 | 1.4 | 2.1 | 1.9 | 2.5 | 1.9 | 1.2 | -6.7 | 5.2 | 1.6 | 1.5 | 2.5 |
| United Kingdom | 1.7 | 0.7 | 0.3 | 1.8 | 2.9 | 2.2 | 1.9 | 1.9 | 1.3 | 1.5 | -9.8 | 7.5 | 2.9 | 1.4 | 2.0 |
| Japan | 4.6 | -0.4 | 1.6 | 1.5 | -0.1 | 1.1 | 0.5 | 1.7 | 0.6 | -0.2 | -4.5 | 1.7 | 2.1 | 2.0 | 1.9 |
| Canada | 3.1 | 3.1 | 1.8 | 2.3 | 2.9 | 0.7 | 1.0 | 3.2 | 2.0 | 1.6 | -5.3 | 4.5 | 2.5 | 2.3 | 2.8 |
| India | 8.4 | 8.6 | 6.7 | 4.9 | 7.4 | 8.0 | 8.1 | 7.2 | 6.8 | 4.8 | -7.5 | 9.2 | 6.7 | 6.5 | 7.2 |
| China | 10.5 | 9.5 | 7.8 | 7.7 | 7.3 | 6.9 | 6.7 | 6.8 | 6.6 | 6.1 | 2.2 | 8.1 | 4.3 | 5.2 | 5.5 |
| Brazil | 7.5 | 2.7 | 0.9 | 2.3 | 0.1 | -3.5 | -3.5 | 1.2 | 1.2 | 1.1 | -3.9 | 4.5 | 0.9 | 2.1 | 2.4 |
| Mexico | 5.2 | 4.0 | 3.9 | 1.4 | 2.3 | 2.7 | 2.7 | 2.4 | 2.1 | -0.1 | -8.5 | 5.0 | 1.8 | 1.5 | 2.7 |
| Australia | 2.8 | 2.6 | 3.6 | 2.4 | 2.6 | 2.5 | 2.4 | 2.4 | 2.7 | 1.8 | -1.1 | 4.7 | 2.8 | 2.4 | 2.9 |
| Russia | 4.0 | 4.3 | 3.4 | 1.3 | 0.6 | -2.8 | -0.2 | 1.6 | 2.5 | 1.2 | -2.9 | 4.5 | -9.0 | -2.0 | 1.9 |
| World | 4.2 | 3.1 | 2.5 | 2.6 | 2.8 | 2.8 | 2.6 | 3.4 | 3.2 | 2.7 | –3.1 | 5.9 | 2.8 | 3.1 | 4.4 |