U.S. ECONOMIC SNAPSHOT

November 2022

GDP rebounded in 3Q:2022 but recession risk remains elevated

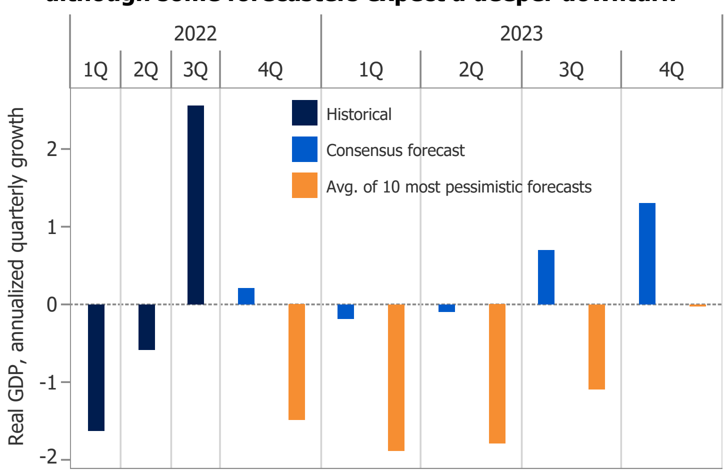
• **Real GDP rebounded at an annualized 2.6 percent pace in 3Q:2022 following declines in the first and second quarters of this year.** The pickup was largely driven by increases in net exports and consumption of services that were only partly offset by decreases in housing and inventory investment. The Blue Chip Consensus (Consensus) projects that real GDP will grow just 0.2 percent in 4Q:2022 before declining modestly over the first half of next year (Figure 1). The most pessimistic members of the panel expect a significantly longer and deeper period of retrenchment.

• **Housing starts have plunged 24 percent since April as rates have risen**. Homebuilding subtracted 1.4 percentage points from GDP growth in 3Q. And the drag on GDP will intensify. Weakness in housing spreads through the broader economy as it drags down sales of home furnishings and materials, and as layoffs in all of these areas lead to reduced spending on goods and services in other sectors. But so far, jobs in housing and related fields have held up reasonably well as builders continue to work on projects initiated months earlier before rates began to rise (Figure 2).

• **Headline and core inflation have eased somewhat, but inflationary pressures continue to persist (Figure 3).** While the Consensus expects inflation to slow through next year, the outlook is uncertain. Wage growth has moderated somewhat but an incomplete rebound in labor force participation makes it unclear how far growth will decelerate. Wage-sensitive services, as well as rent inflation, are likely to remain sticky. And households continue to hold a cushion of excess savings. Although this may support higher spending in the near term, it could also exacerbate inflationary pressures and keep interest rates higher for longer.

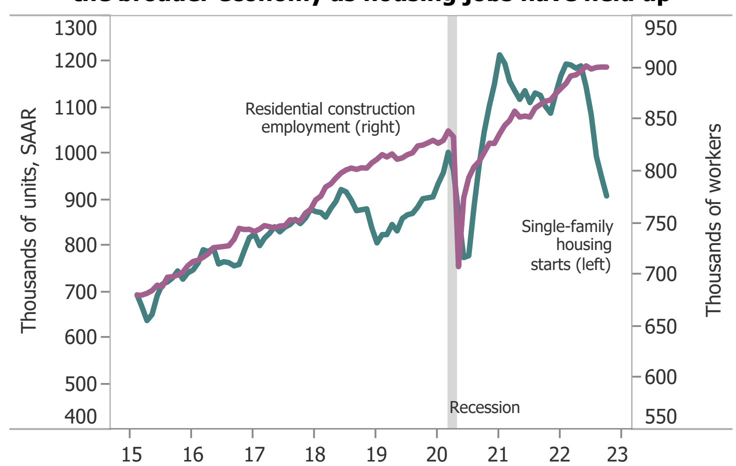
• **The Federal Reserve is expected to continue to prioritize price stability over growth.** The Consensus expects the 3-month Treasury yield to reach 4.3 percent by early 2023 and then to edge down as activity weakens. The 10-year Treasury yield is expected to increase a bit less than the 3-month yield before also edging down, implying that the yield curve will remain inverted throughout next year (Figure 4). Based on the experience of past cycles, this indicates a protracted period of elevated recession risks.

Figure 1: GDP projected to fall modestly in 2023, although some forecasters expect a deeper downturn



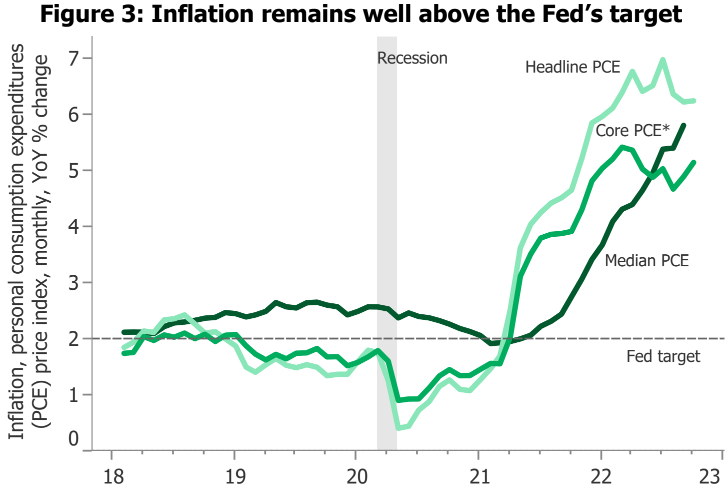
Sources: BEA (3Q:2022), Blue Chip Economic Indicators (October 2022)

Figure 2: Weakness in homebuilding has not fully spread to the broader economy as housing jobs have held up



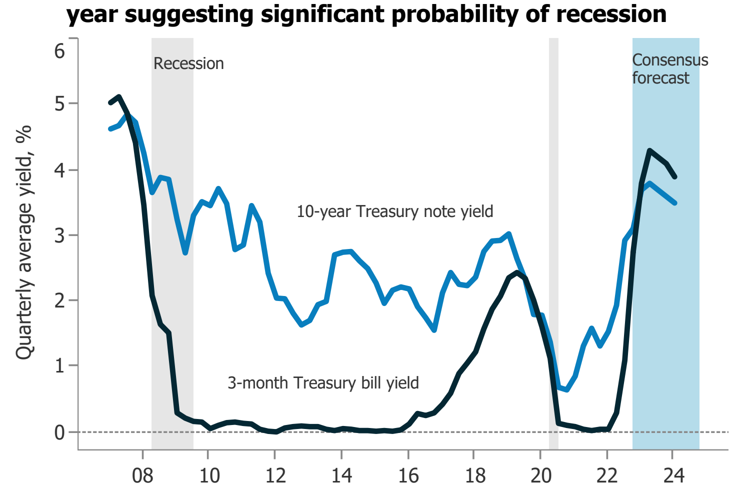
Sources: BLS (September 2022), Census (September 2022, 3-month moving avg.)

Figure 3: Inflation remains well above the Fed's target



Sources: BEA (Sept. 2022), Federal Reserve Bank of Cleveland (August 2022)
*excludes food and energy

Figure 4: Yield curve to remain inverted through next year suggesting significant probability of recession



Sources: FRB (3Q:2022), Blue Chip Economic Indicators (October 2022)