Office of the Comptroller of the Currency

U.S. ECONOMIC SNAPSHOT

February 2023

GDP growth is moderating, but the job market remains tight

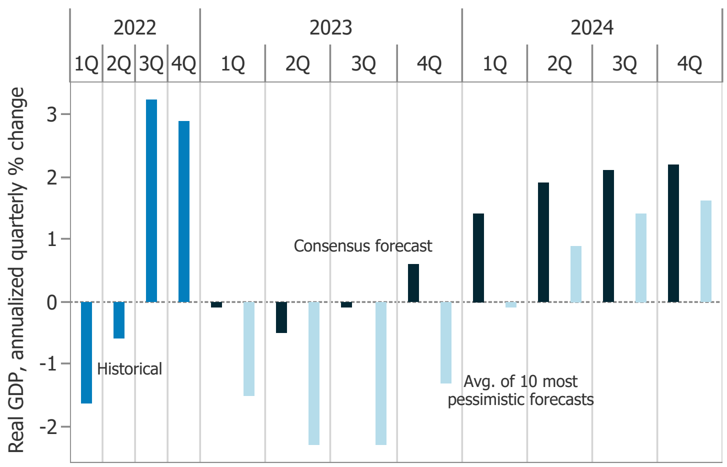
• **Real GDP grew at a 2.9 percent annual rate in 4Q:2022, down slightly from the 3Q pace.** Households continued to drive the expansion, supported by solid job gains and excess savings. Momentum in 4Q activity was also buoyed by a big jump in inventories. But companies may not have planned for this, which could place a drag on growth in 1H as producers work off excess stocks. The Blue Chip consensus forecast (Consensus) is for real GDP to decline slightly in the first three quarters of 2023, indicating that the risk of recession remains high (Figure 1).

• **Businesses added 517,000 jobs in January, far above expectations (Figure 2).** The increase followed 6 months of steady declines in job creation and raised the possibility that real activity could exceed forecasts in 1Q:2023. Despite tight labor markets, wage growth eased to a 4.4 percent over-the-year pace in January from 4.8 percent the prior month. Even so, this rate remains inconsistent with the Federal Reserve's 2 percent inflation target. Without stronger growth in the labor force, it is unclear whether wage growth will slow enough to help ease inflation pressures.

• **Inflation cooled over the last six months, but remains elevated**. Headline inflation was 6.4 percent in January 2023 on a year-over-year basis, down from its June peak of 9.1 percent. While the Consensus forecasts inflation to decelerate, the outlook is uncertain. Inflation slowed mostly in the goods sector as supply chains eased and heavy pandemic-related demand for goods rotated back to services (Figure 3). But rent of shelter inflation (which follows home price growth with a 12-18 month lag) will accelerate in the first half of 2023 while wage-sensitive services inflation is likely to remain sticky, complicating the direction of monetary policy.

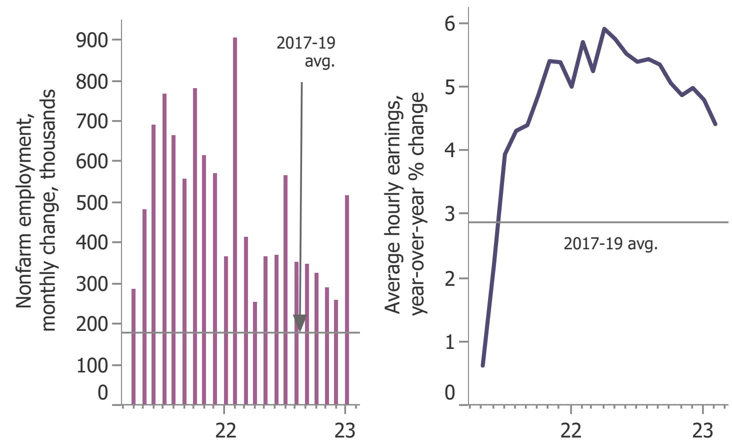
• **Interest rates could remain high well into a 2023 economic slowdown.** The Consensus expects the 3-month Treasury yield to reach 4.9 percent by the middle of this year and then to edge down as activity softens. By contrast, the Consensus believes the 10-year Treasury will peak at just 3.8 percent this quarter (Figure 4). This implies that the yield curve is forecast to remain inverted throughout this year and next, suggesting a protracted period of elevated recession risk.

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



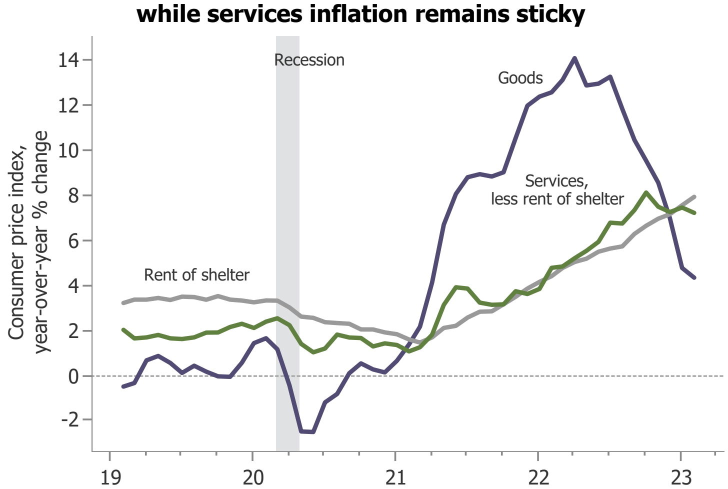
Sources: BEA (4Q:2022), Blue Chip Economic Indicators (February 2023)

Figure 2: Job growth exceeded expectations in January, but wage growth continued to decelerate



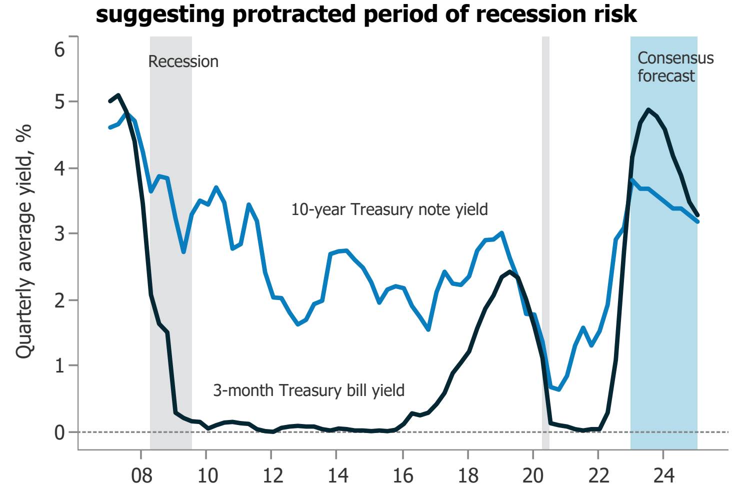
Source: BLS (Establishment Survey, January 2023)

Figure 3: Goods inflation has sharply slowed while services inflation remains sticky



Source: BLS (January 2023)

Figure 4: Yield curve to remain inverted through 2024 suggesting protracted period of recession risk



Sources: FRB (4Q:2022), Blue Chip Economic Indicators (February 2023)