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APRIL 2022 U.S. ECONOMIC OUTLOOK

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U.S. Economic Outlook Report:
Is a Recession On its Way?

Prevedere Director of Economic Services, Michelle Green, provides a personal view on topical economic issues

From inflation to geopolitical issues to changes in consumer behavior, the world remains in a state of uncertainty. The question on everybody's mind right now is, "How does all of this uncertainty impact economic recovery?"

Post-Pandemic Recovery Losing Steam

Uncertainty is on the rise given the Russian-Ukrainian conflict in Eastern Europe. There's a lot of concern over the impact of the conflict on rising prices and the consumer wallet. In times of uncertainty, it's best to look at a blend of high-frequency indicators and monthly structural traditional economic indicators to get a sense of what's going on, including how consumers are responding in real-time and what the risk is to economic recovery.

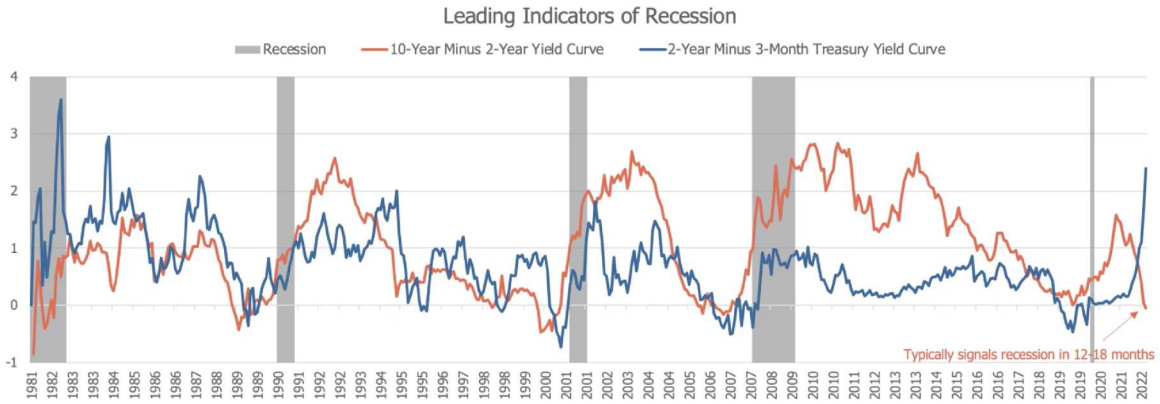
Indicator	Impact
Initial unemployment insurance claims	↑
Continuing unemployment insurance claims	↑
Federal taxes withheld (Income Growth)	↑
Redbook same-store sales	↑
Rasmussen Consumer Index	↑
The American Staffing Association Staffing Index	↑
Raw steel production	↓
U.S. railroad traffic	↓
U.S. fuel sales to end users	↓
U.S. electricity output	↑

GDP Growth Units, Source: Federal Reserve Bank of NY

One of the best indicators in times like these is the Weekly Economic Index produced by the New York Federal Reserve Bank. It is a composite indicator of several high-frequency measures that track overall economic activity and is typically a good proxy for overall real GDP growth.

As the graph shows, the post-pandemic recovery is losing steam. However, there are still a lot of positive signals in the high-frequency data today, which would suggest that, at least in the immediate term, the U.S. shouldn't be at any risk of recessionary pressures. However, that's not to say that the economic recovery is not slowing down. It certainly is, relative to the U.S. peak recovery period in 2021, when consumer spending and overall economic activity were accelerating at an incredibly fast rate.

Policy Warning? Risk to Recovery is Growing



Percent Spread, Source: Federal Reserve Bank of St. Louis

There are a lot of other high-frequency indicators that have historically been pretty good predictors of recessions. For example, this graph shows the 10-year minus 2-year yield curve and the 2-year minus 3-month treasury yield curve, which historically have been excellent predictors of slowdowns in economic activity. What's interesting about this data is that although the 10-year minus 2-year yield curve inverted last week, which historically has been a reliable signal that a recession may take place within 12 to 18 months, the 2-year minus 3-months yield curve is showing some disjointed signals. This is not surprising because this isn't a typical economic expansion cycle, and there will be a little bit of noise in the more traditional indicators. However, the inversion of the 10 minus 2, the market-preferred measure, indicates policy warnings to the Federal Reserve as it seeks to tame higher pricing pressures.

Is a Recession On its Way?

Despite some warnings coming from the high-frequency indicators, there's still a lot of evidence that the U.S. recovery has a lot of strength, particularly in some of the labor market dynamics. There's some thinking right now that suggests consumer spending, which is the engine of economic growth, will slow down so much this year that recessionary conditions are inevitable. However, there's not enough evidence in the data yet to make that claim. Consumers are relying on that drawdown of excess savings that they received in 2021 through added government benefits as well as extraordinary wage gains and a reduction in spending in the services sector, which leaves the consumer in a relatively strong position compared to pre-pandemic levels.

Relative to 2021, consumers may be feeling a bit more cautious and are starting to see some evidence of a slowdown in discretionary spending. This is something to keep an eye on when considering how inflationary pressure and rising uncertainty impact consumer behavior. Still, as of today, there is no reason to suggest that a recession is upon the U.S., at least through the end of 2022. As of now, Prevedere's baseline scenario expects real GDP to grow below the pre-pandemic average of 2.3%. I'm calling this a growth recession because even though technically the U.S. is in year-over-year growth, we're growing at a rate that's much slower than previous expansions that it's likely going to feel like a recession even if it's not in negative territory.

Keeping an eye on inflationary pressures is going to be critical this year. A lot of economic uncertainty right now depends on the duration of the conflict in Eastern Europe. Since there aren't any real measures of how long the conflict will last or what additional sanctions or policy measures global governments may enact in response to it, inflationary pressures could increase in magnitude or remain longer than originally anticipated. The longer those inflationary pressures rise, the more likely consumers will have a more severe reaction in terms of reducing their spending. So while planning for 2022 and 2023, every business leader needs to be mindful of how the geopolitical environment and future pandemic risks can impact consumer wallets.

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WE HELP YOU PLAN WITH CERTAINTY.

Unprecedented times.

Almost all businesses have had forecasts and plans adversely impacted by pandemic sourced volatility. Moreover, current geopolitical issues add to the stress of economic uncertainty.

Now more than ever, businesses need to pay close attention to relevant external influences and to economic and industry signals, especially those that are leading indicators for their current and future business.

We can help.

For years, as a predictive AI technology and solution provider, Prevedere has been helping enterprises predict and incorporate industry, economic and behavioral volatility into their planning processes. We help clients leverage global data, correlation analysis, predictive AI and econometric modelling to create three-month to five-year economic baseline forecasts, economic guard rails, future market insight and growth/share projections.

Get in touch.

We help companies plan and forecast more intelligently in the new world.

We would love to talk with you about adding predictive AI and economic intelligence to your business to plan for what's next.

Contact us today.

For questions or more information, please contact us at 888-686-7746 or inquiries@prevedere.com.
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