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U.S. Economic Outlook: Recession is coming!

Three Reasons for Optimism

Q3 2022 started with significant policy announcements and major data releases that are making the likely outcome of a recession almost all but guaranteed within the next year. Aggressive monetary policy shifts, rising inflation, and all-time low consumer confidence are just some of the reasons that the state of the economy is looking bleak in the second half of 2022 and early 2023.

BUT, our current outlook does not project the economy to be all doom and gloom. In fact, there is reason to believe that the U.S. will only experience a "light recession" that will limit the extent of GDP contraction.

Here are three economic indicators that are giving us reason for optimism despite the current challenging market:

1. The labor market remains robust despite recession fears

With significant recession fears headlining the news, the simultaneous trends of some industries announcing mass layoffs, a dip in labor force participation, and rising jobless claims supported a negative narrative for the labor market.

Yet, to the surprise of most experts, the U.S. economy added 372,000 jobs in June 2022, with unemployment remaining fixed at 3.6%.

This served as a very positive sign, along with the fact that wages are still rising, and there are 1.8 job openings per every unemployed person looking for work. As a result, the workers that are being displaced as a result of layoffs are finding opportunities very quickly.

This is particularly encouraging because it will minimize income loss and decrease the likelihood that mass layoffs will occur throughout the economy during a recession.

2. Easing of supply chain constraints

Inventory growth has started outpacing sales in key retail industries. This serves as an indicator that supply chain constraints are easing up as mobility improves and demand slows down.

Retailers will look for ways to clear out excess inventories by reducing prices on the shelves to attract consumers.

3. Inflation should peak in Q3

The combination of improved flow within the supply chain with a slowly softening labor market that consists of low unemployment and rising wages will alleviate pricing pressures in the long term. As a result, in Q3 2022, we anticipate that the rise of inflation will slow and eventually reach its peak.

With that being said, it is still expected that prices will continue to rise at historic levels as the war in Ukraine continues. As a result, higher food and energy prices are here to stay, along with the rising housing costs, especially as rents continue to put upward pressure on consumer prices.

Conclusion

It is important to remember that this is a very dynamic situation, which depends upon many factors. Consumer pessimism is serving as a significant driver toward recession as sentiment hit its lowest level ever recorded in June 2022.

Historically, consumer attitudes and behavior do not change quickly, and the negativity that is being displayed is likely to continue throughout the rest of the year. So, while a number of factors give us reason to be optimistic, the reality is that even a light recession will be challenging for U.S. businesses, especially those that are consumer-facing.

Thank you

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