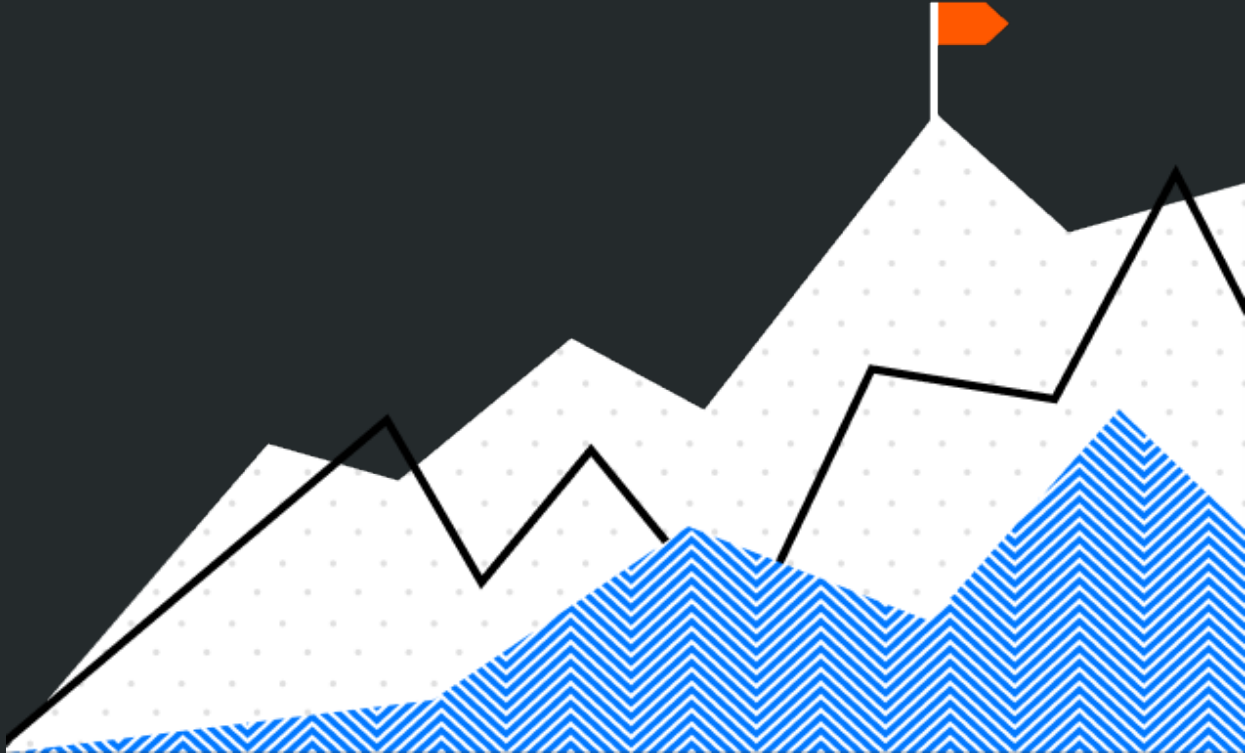


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Executive Summary

Last Updated October 18th, 2022





Key Insights

In this executive summary, Prevedere's economist team provides expert analysis of the key leading economic indicators that are most reliable in forecasting economic growth, as well as their outlook for recession and the recovery of the United States economy. This analysis was conducted on October 18, 2022.

What is the key takeaway?

The leading indicators are still pointing towards economic contraction towards the end of this year and into early 2023, despite a likely positive GDP reading for the third quarter of 2022.

What is the current status of the leading economic indicators?

During the last month, Small Business Optimism increased while Consumer Sentiment continued its nascent recovery trend. This suggests that the shift in optimism is holding. While these indicators are showing signs of positivity, there must be significantly more improvement before we can have confidence that the return of robust economic growth is imminent. As a result, these tentative turning points are positive signs that the bottom of this business cycle will take shape in early 2023.

One additional indicator to note is the falling of the Junk Bond Spread. This provides a positive sign for economic recovery around the second quarter of next year, as it is a reliable counter-cyclic variable with a 6-month lead time.

But, many of the other economic indicators such as the Prevedere GDP Leading Indicator, the OECD Leading Indicator, the Manufacturing PMI, Building Permits, and the Bond Yield Spread all maintained their declining trend.

What's next?

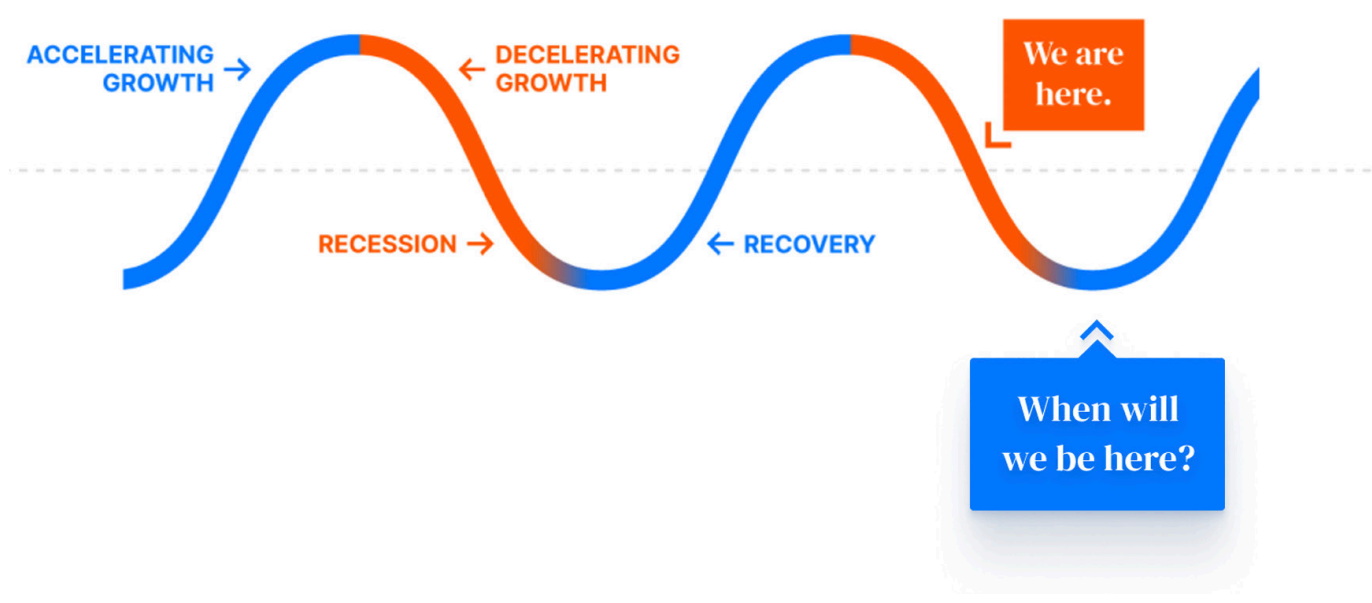
The positivity of these few indicators provides an early indication that the bottom of this business cycle may develop by midyear 2023. We will be watching to see if additional metrics within our RecoveryWatch Leading Economic Indicator Report start turning positive within the next two months. If that happens, it will further confirm that this downturn is likely to be short-lived.



Where are we currently “stand” in the business cycle

The U.S. economy is still in the downturn and more than a quarter away from bottoming out.

Four phases of the Economic Business Cycle



Three scenarios

Optimistic

Economy faces stagflation as prices remain elevated

- Economic growth drastically decelerates, with real GDP growth coming nearly to a halt
- Wage growth decelerates through 2023, limiting the consumers real spending power as prices remain historically high
- Job openings start to decrease as business activity slows, but widespread labor market disruption is avoided
- Global supply chains continue to face challenges, but domestic bottlenecks ease on slowing demand for goods and increasing availability of key inputs

Baseline

Light recession sets in as tightening financial conditions and persistently high inflation limit consumer and business activity

- A mild short recession will set in by the end of 2022 as demand for goods decelerates rapidly in response to persistently high inflation
- Consumers and businesses struggle to mitigate rising costs as financial conditions tighten
- Wage growth slows and demand for labor declines as the economy weakens; unemployment edges higher as more workers re-enter the labor market to seek relief from rising food and energy prices
- Continued COVID lockdowns in China and geo-political tensions stress global supply chains putting additional pressure on prices through year-end

Three scenarios cont.

Pessimistic

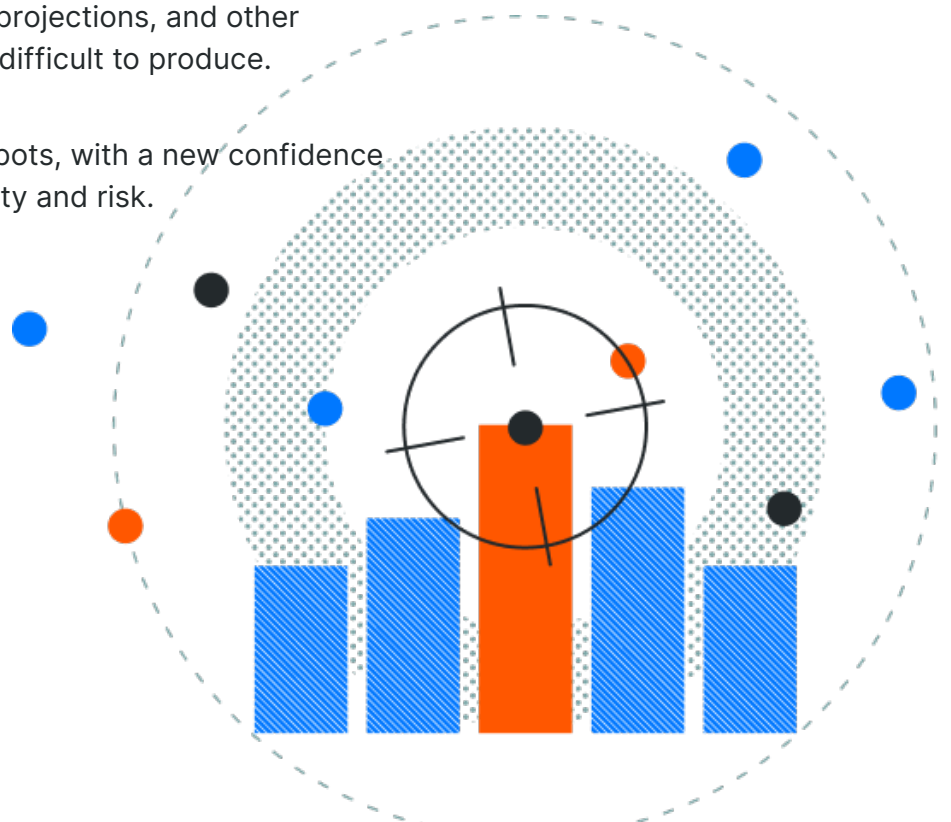
Aggressive quantitative tightening leads to more severe downturn as consumer and business demand falter

- Current contractionary cycle deepens as tightening financial conditions cause negative ripple effects through broad swathes of the U.S. economy such as housing, production and labor markets
- Sentiment continues to tumble as businesses and consumers struggle to cope with rising debt levels and decreased access to credit
- Recession persists into late 2023 as unemployment rises, income falls further and consumer spending contracts
- Prices remain elevated through first half of 2023, before rapidly decelerating as disinflationary pressures mount

Do you have the scenario planning platform to navigate a volatile market in 2023?

By working with Prevedere's global data, Advanced Predictive Planning platform, and expert in-house economists—your organization can realize both tactical and strategic advantages, including:

- Forecast accuracy, where a 1% improvement results in millions of dollars of cost savings or revenue growth.
- A new layer of understanding, with data driven predictions, to help drive supply chain decisions.
- Ability to attain insights and discover new and impactful consumer-level drivers.
- Ability to attain CAGRs, market size projections, and other financial metrics that were previously difficult to produce.
- No more surprises or market blind spots, with a new confidence and ability to plan for future opportunity and risk.



Thank you

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