

# **THE ECONOMY IN 2022: THE GREAT RENEGOTIATION**

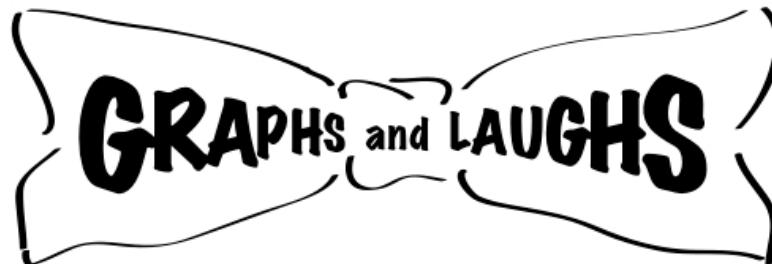
Presented by:

Elliot F. Eisenberg, Ph.D.

President: GraphsandLaughs, LLC

Detroit, MI

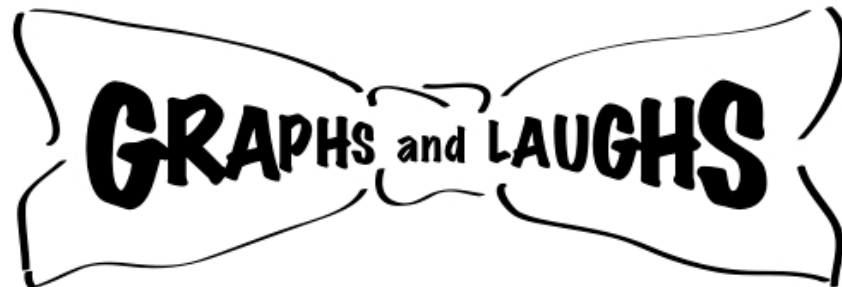
June 15, 2022



# The Economy Is OK

/

$$\text{GDP} = C + I + G + (X - M)$$



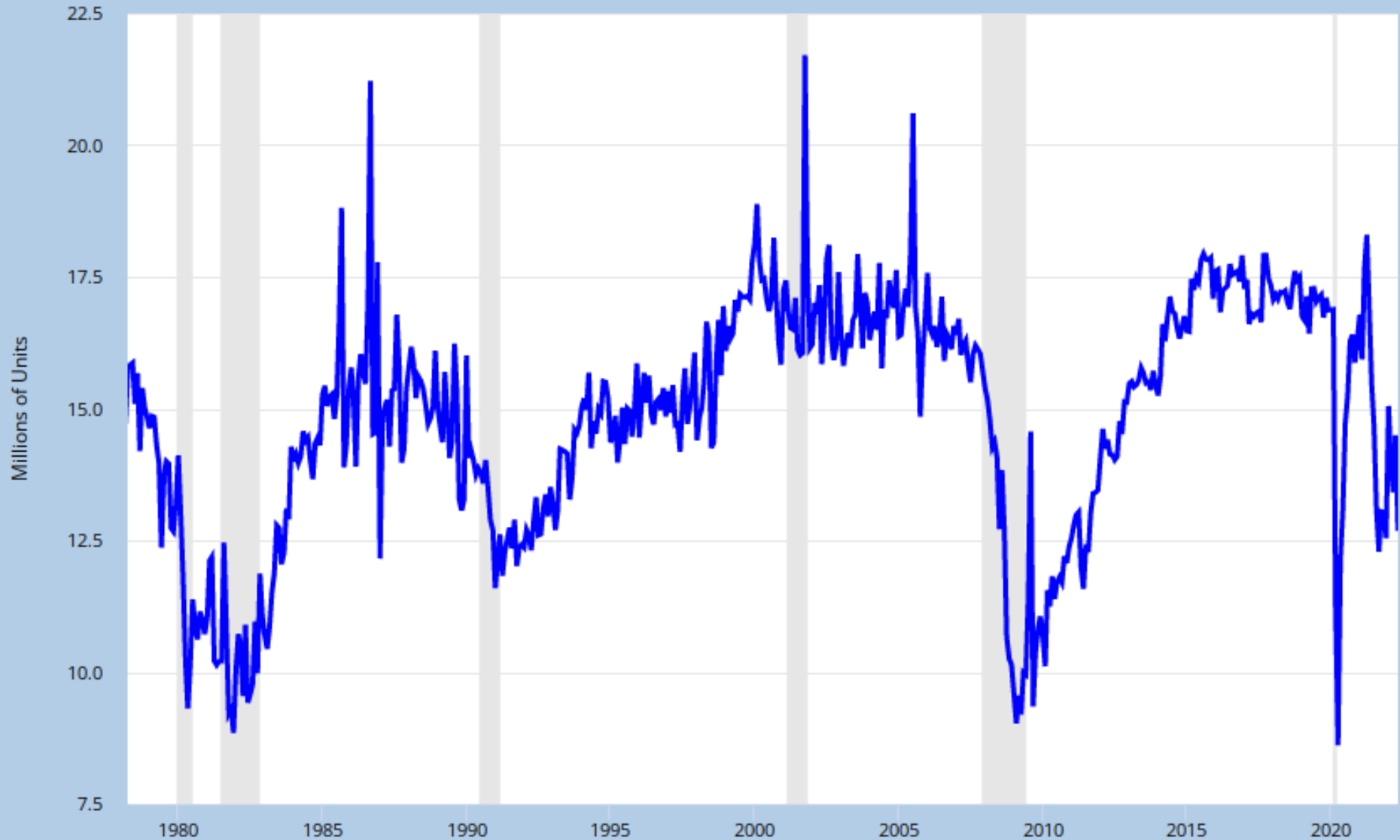
# US Light Vehicle Sales Partly Recover

No inventory due to a lack of chips is a problem

**FRED**



— Light Weight Vehicle Sales: Autos and Light Trucks

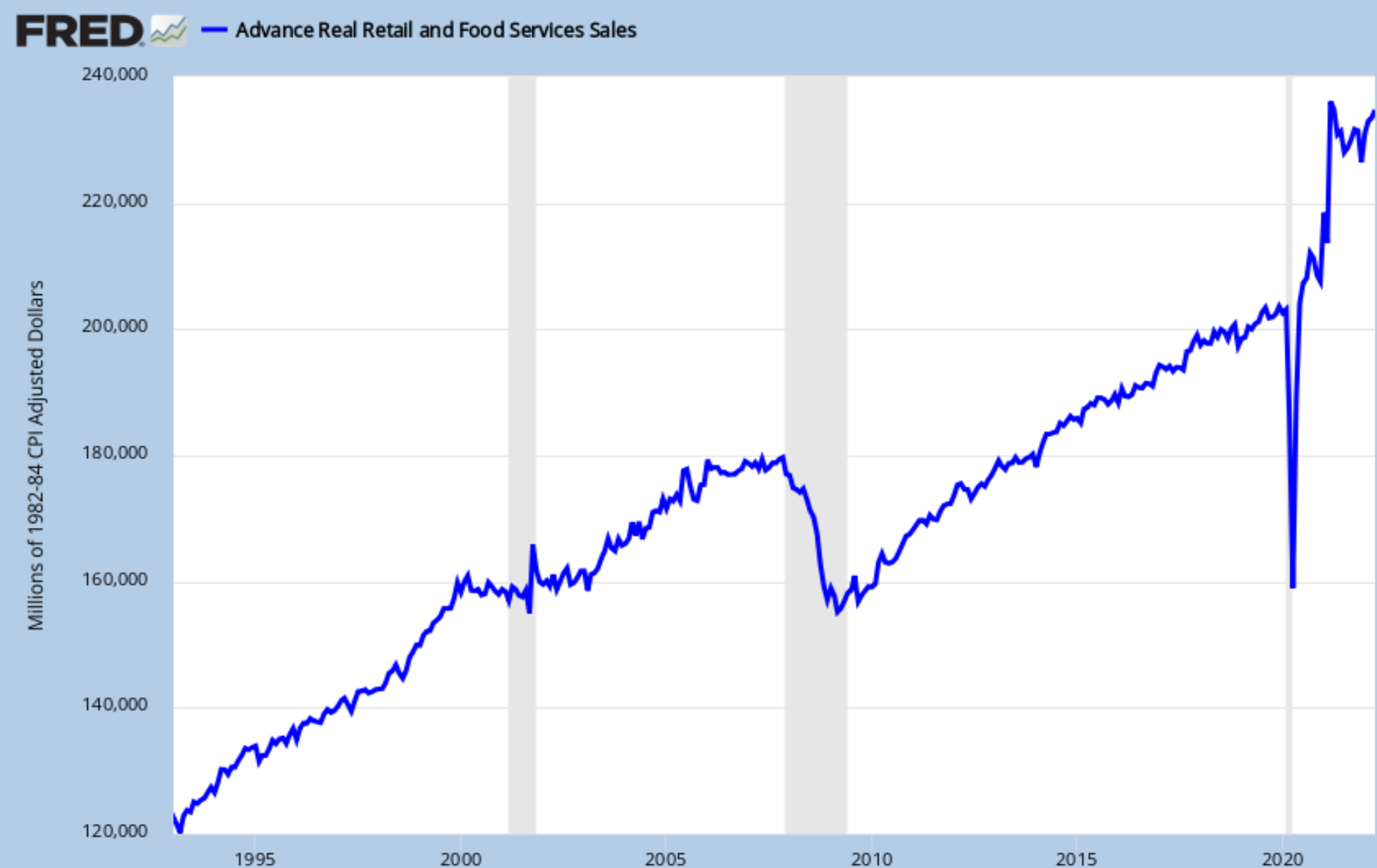


Source: U.S. Bureau of Economic Analysis

myf.red/g/QhmN

# Real Retail Sales

What is surprising is that it they are not much declining



Source: Federal Reserve Bank of St. Louis

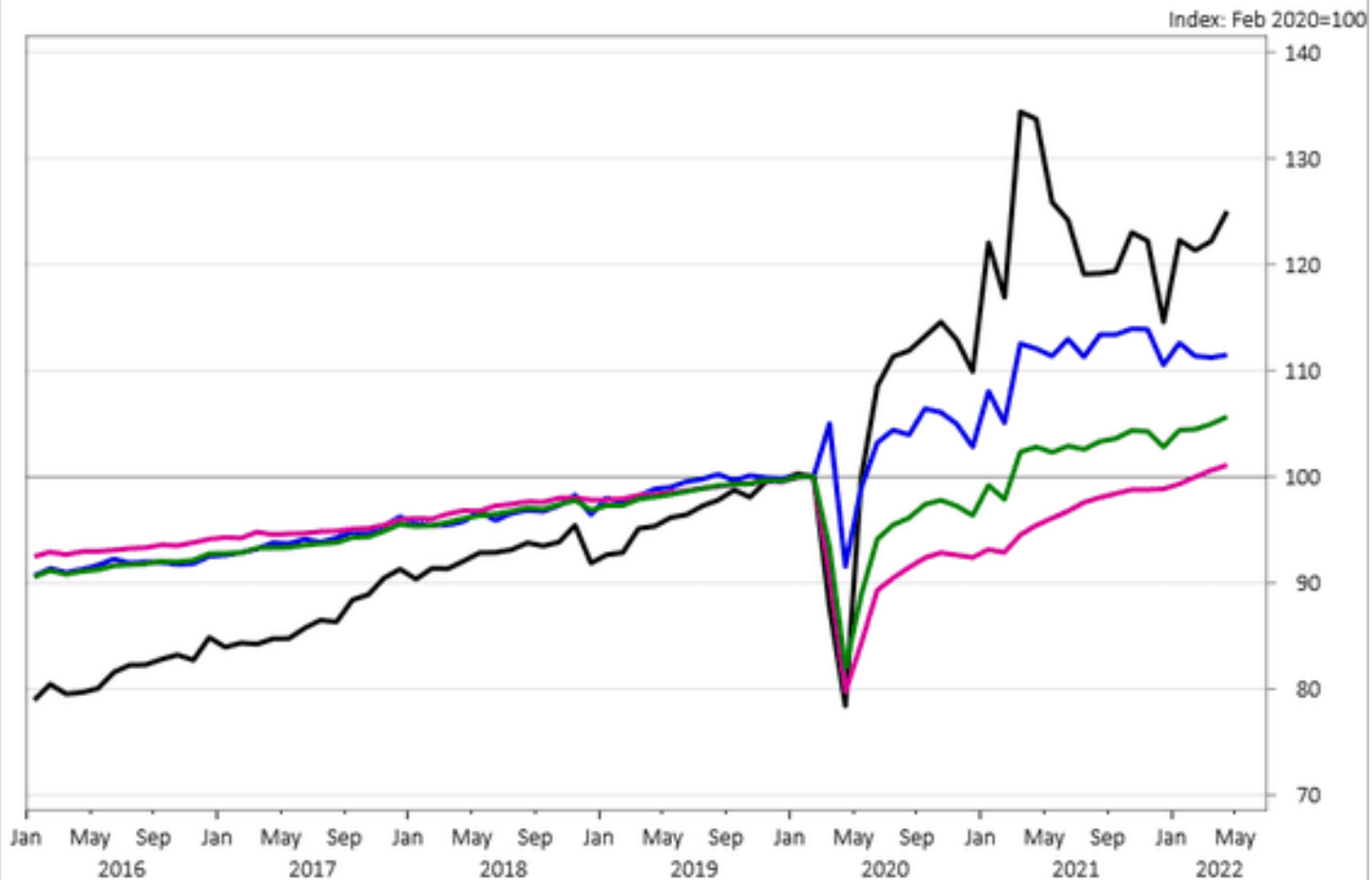
[myf.red/g/Pxiw](https://myf.red/g/Pxiw)

# Retail Spending Through April 2022

It is slowly returning to normal

## US Real Consumer Spending

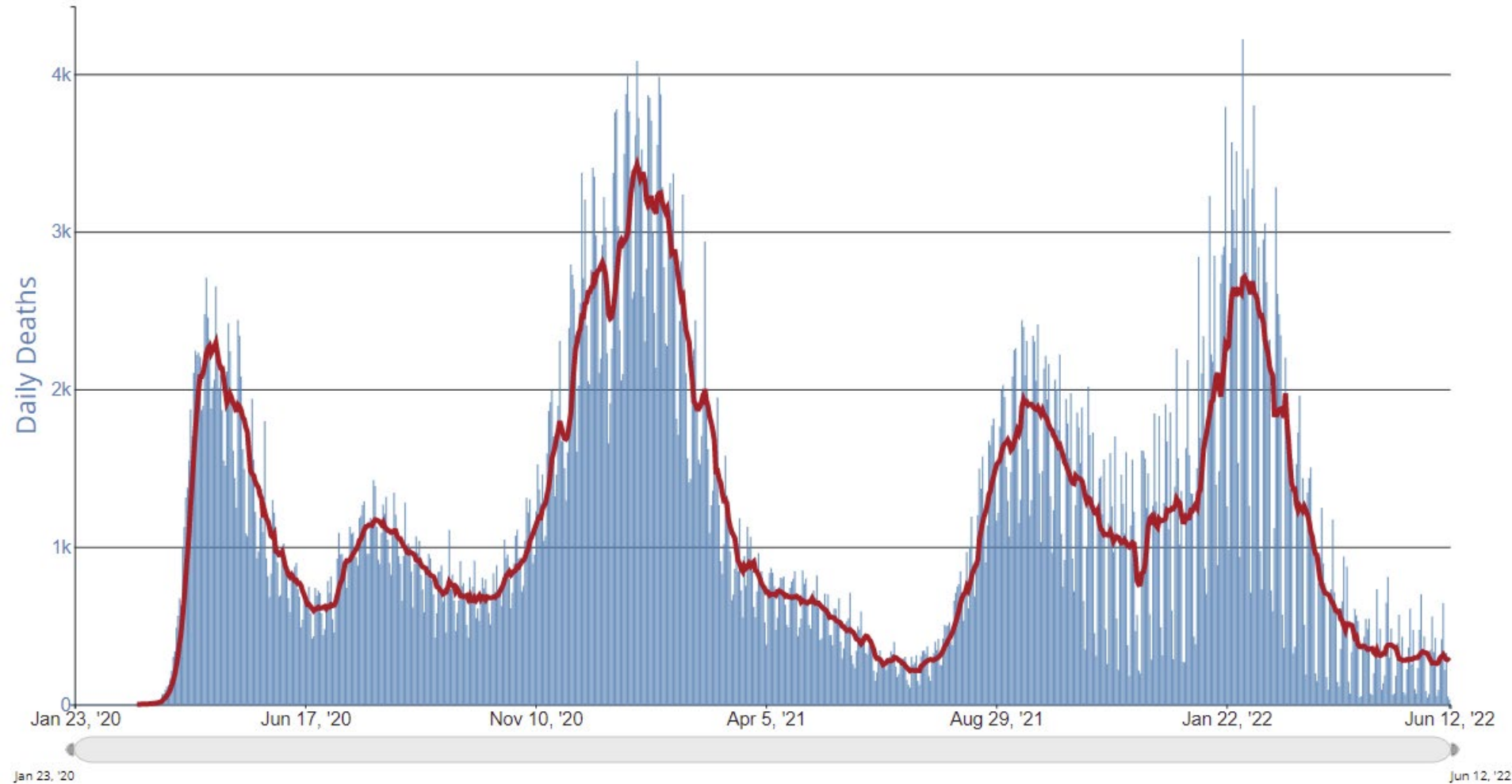
- Total [rebase 2/2020=100]
- Services [rebase 2/2020=100]
- Non-Durable Goods [rebase 2/2020=100]
- Durable Goods [rebase 2/2020=100]



# US Coronavirus Deaths/Day

US rate is flat and low

Daily Trends in Number of COVID-19 Deaths in The United States Reported to CDC



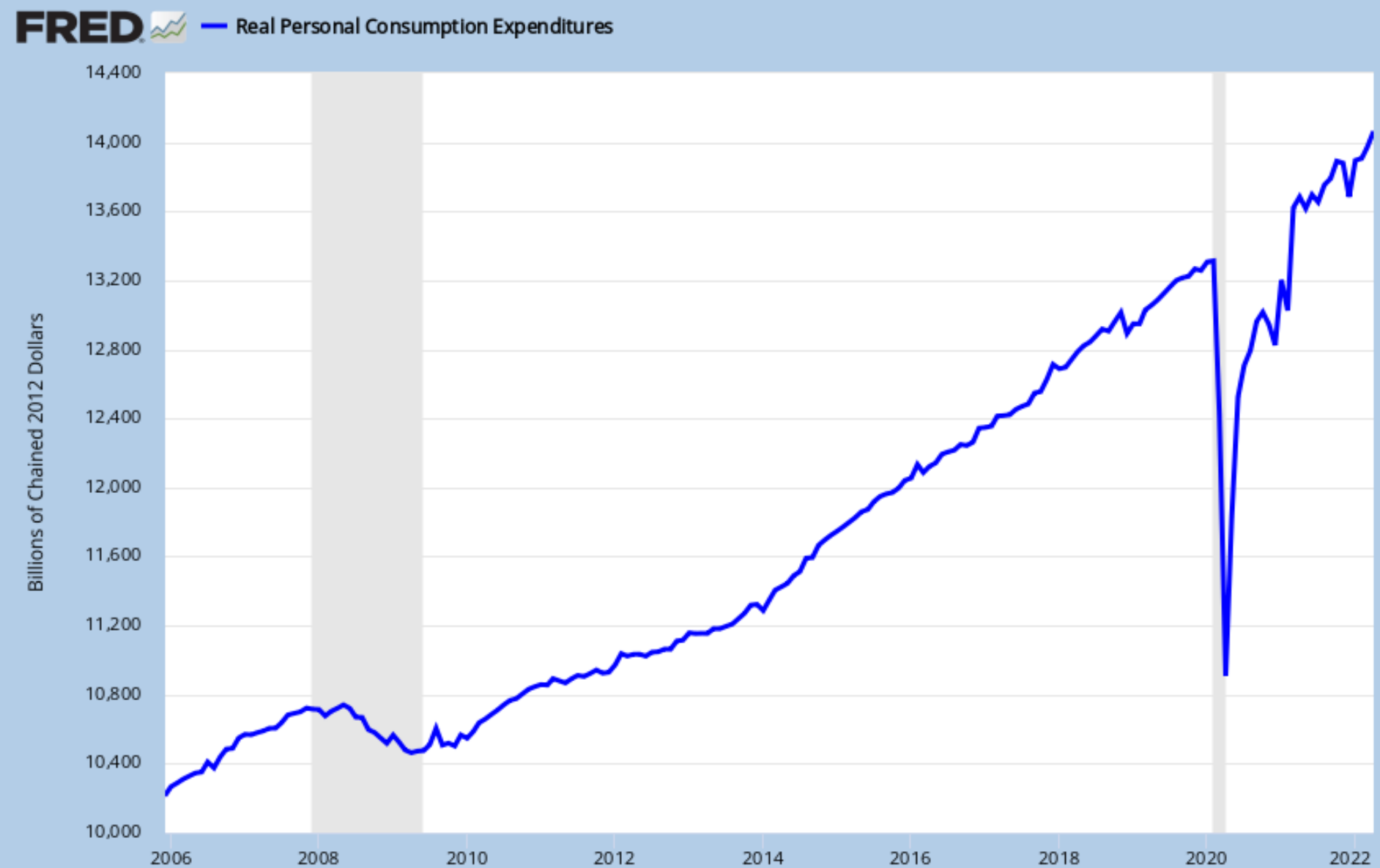
# University of Michigan Index

Combination of Omicron variant, less federal money, and inflation



# Real Personal Consumption Expenditures

It has bounced back and is now on trend despite supply-chain struggles



*Shaded areas indicate U.S. recessions.*

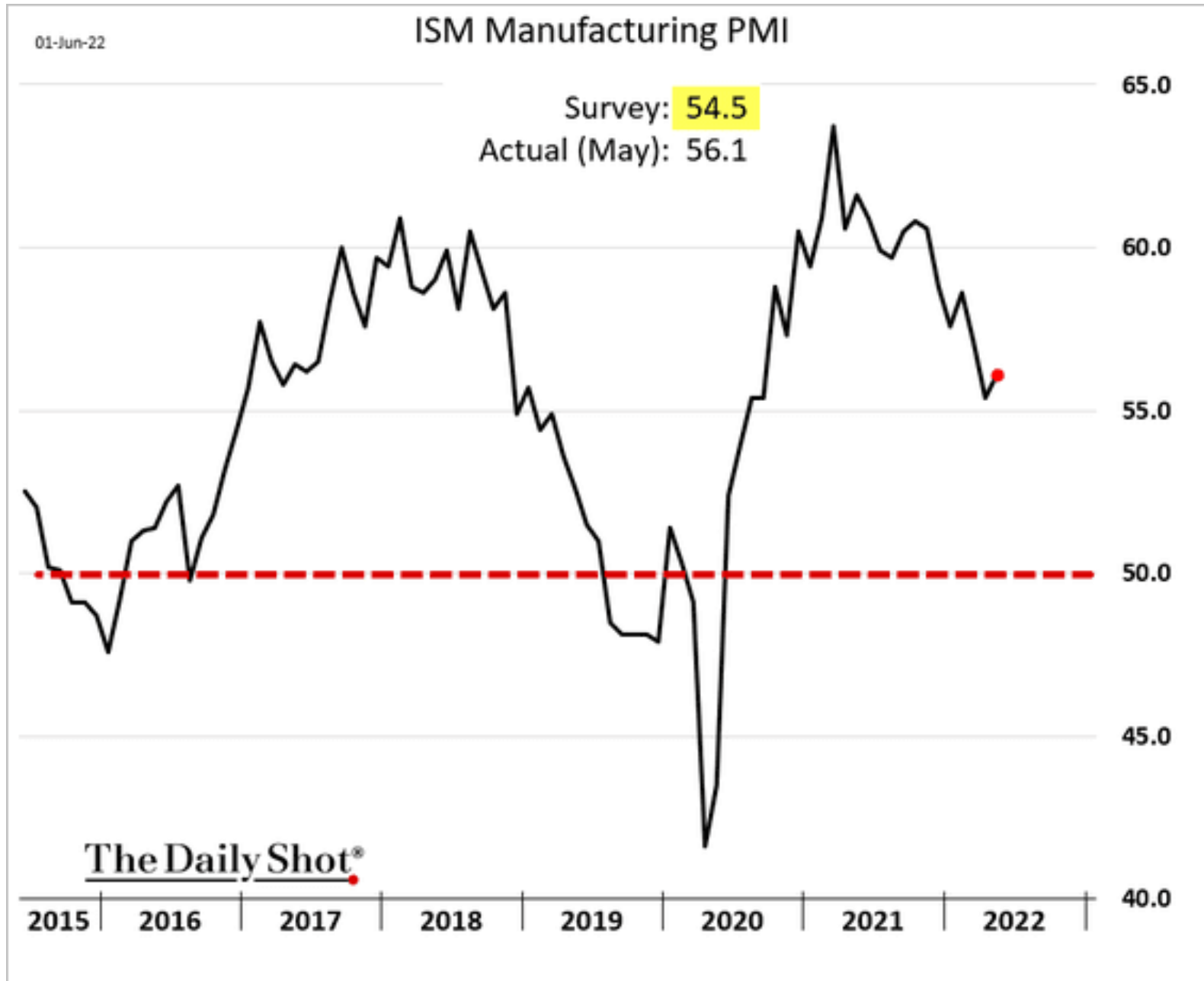
Source: U.S. Bureau of Economic Analysis

[myf.red/g/PWvW](https://myf.red/g/PWvW)



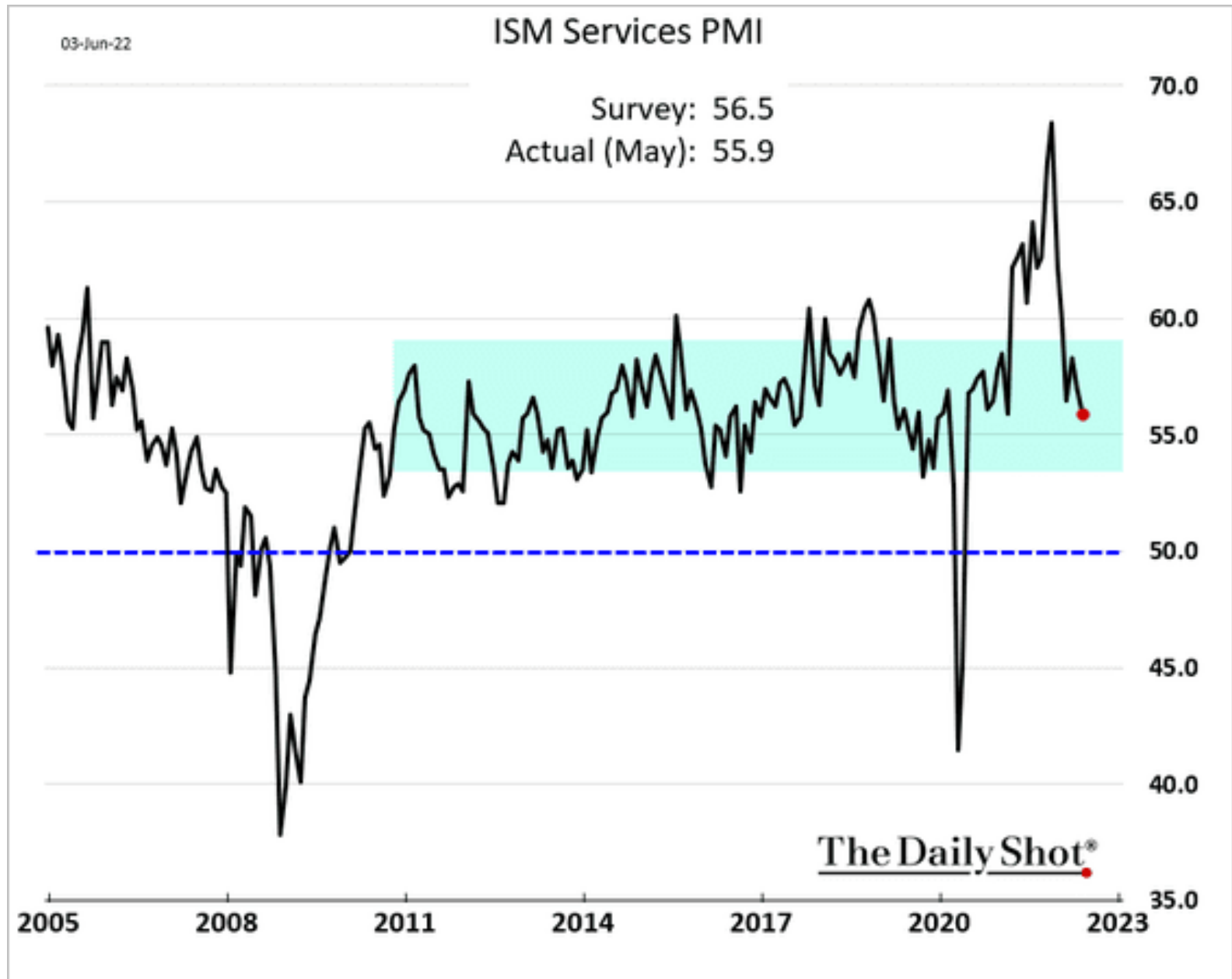
# ISM Manufacturing Softens

But is still OK



# ISM Services Number Softens

It is in the normal range

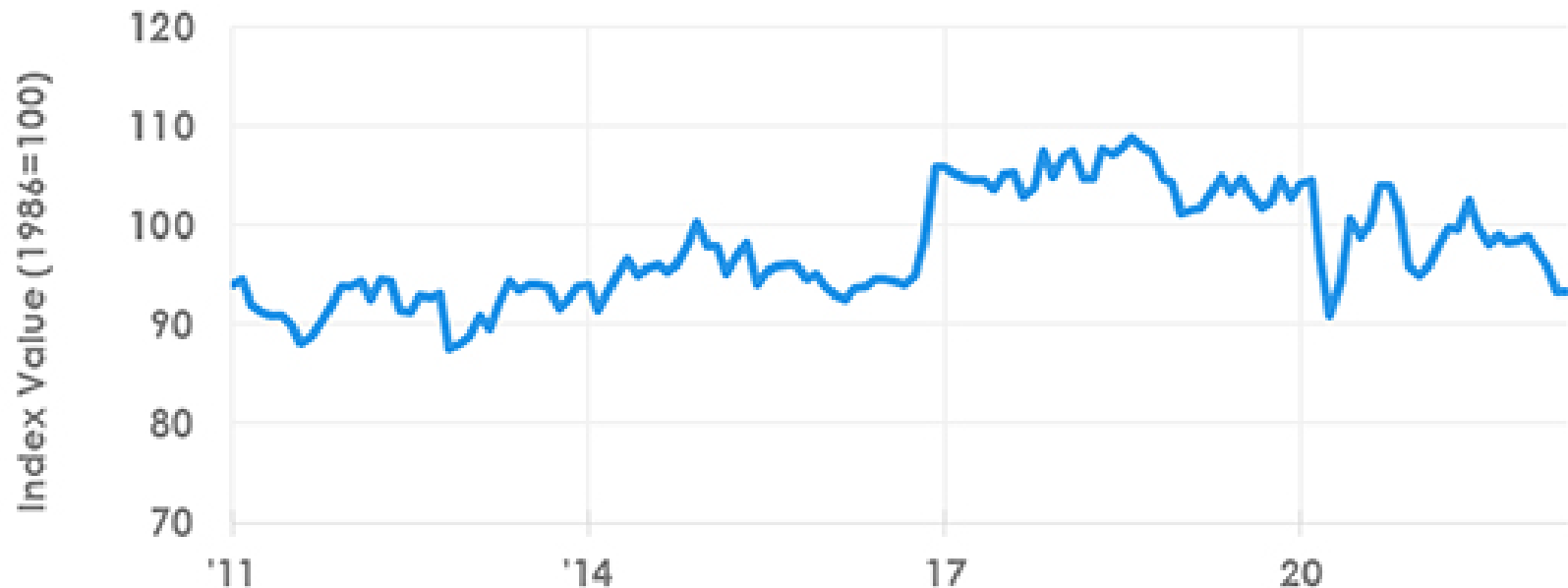


# Small Business Confidence Struggles

The level is well below its long-term average of 98

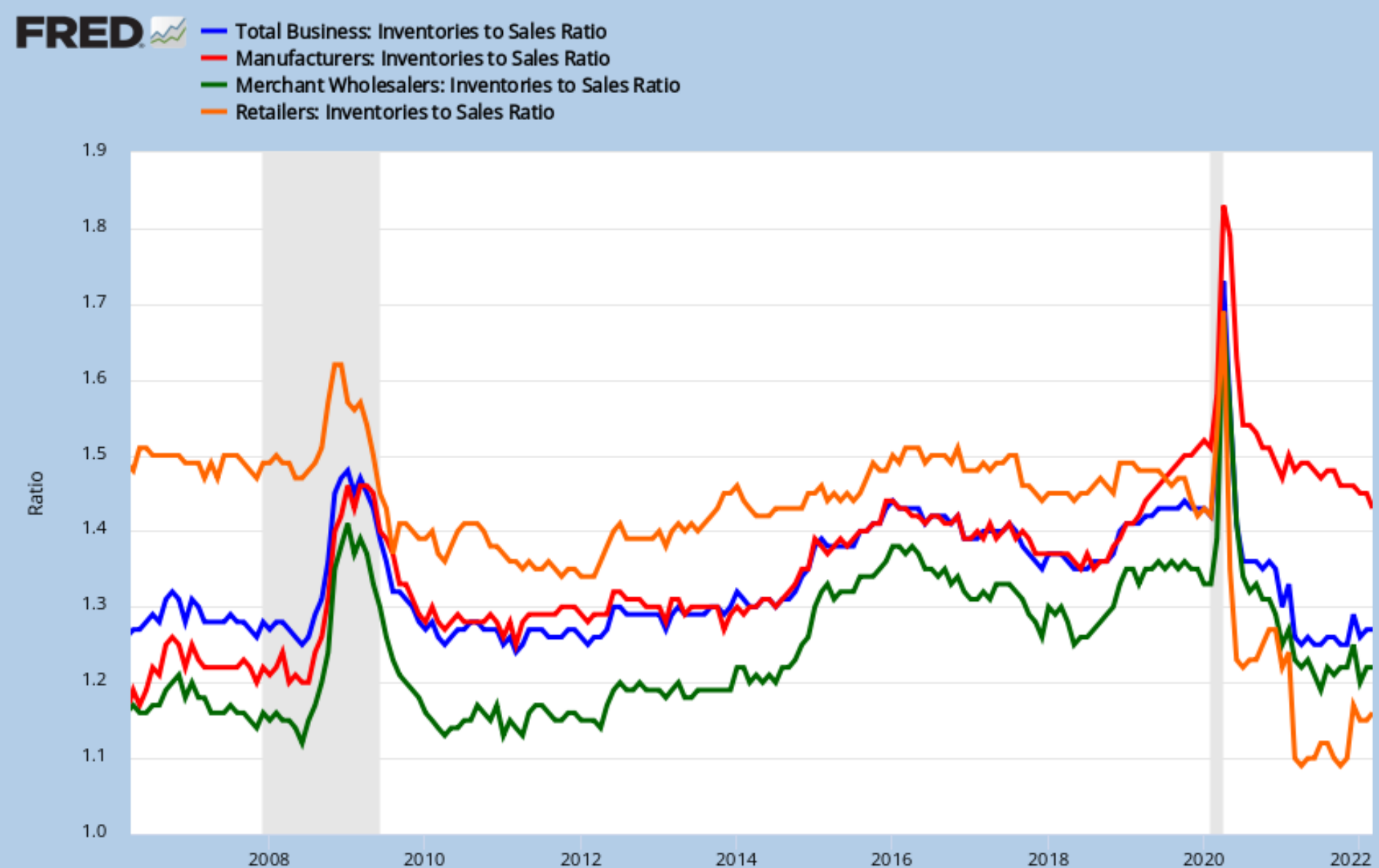
## Small Business Optimism Index at 93.2

Based on 10 survey indicators, seasonally adjusted, Jan. '10 – Apr. '22



# Inventory to Sales Ratios Stop Falling

All inventory ratios and especially retailer inventories are way too low



Shaded areas indicate U.S. recessions.

Source: U.S. Census Bureau

[myf.red/g/Pxhy](https://myf.red/g/Pxhy)

# Supply-Chains Appear to be Easing

At least they are not getting worse

Supply chain conditions are starting to trend in a more encouraging direction

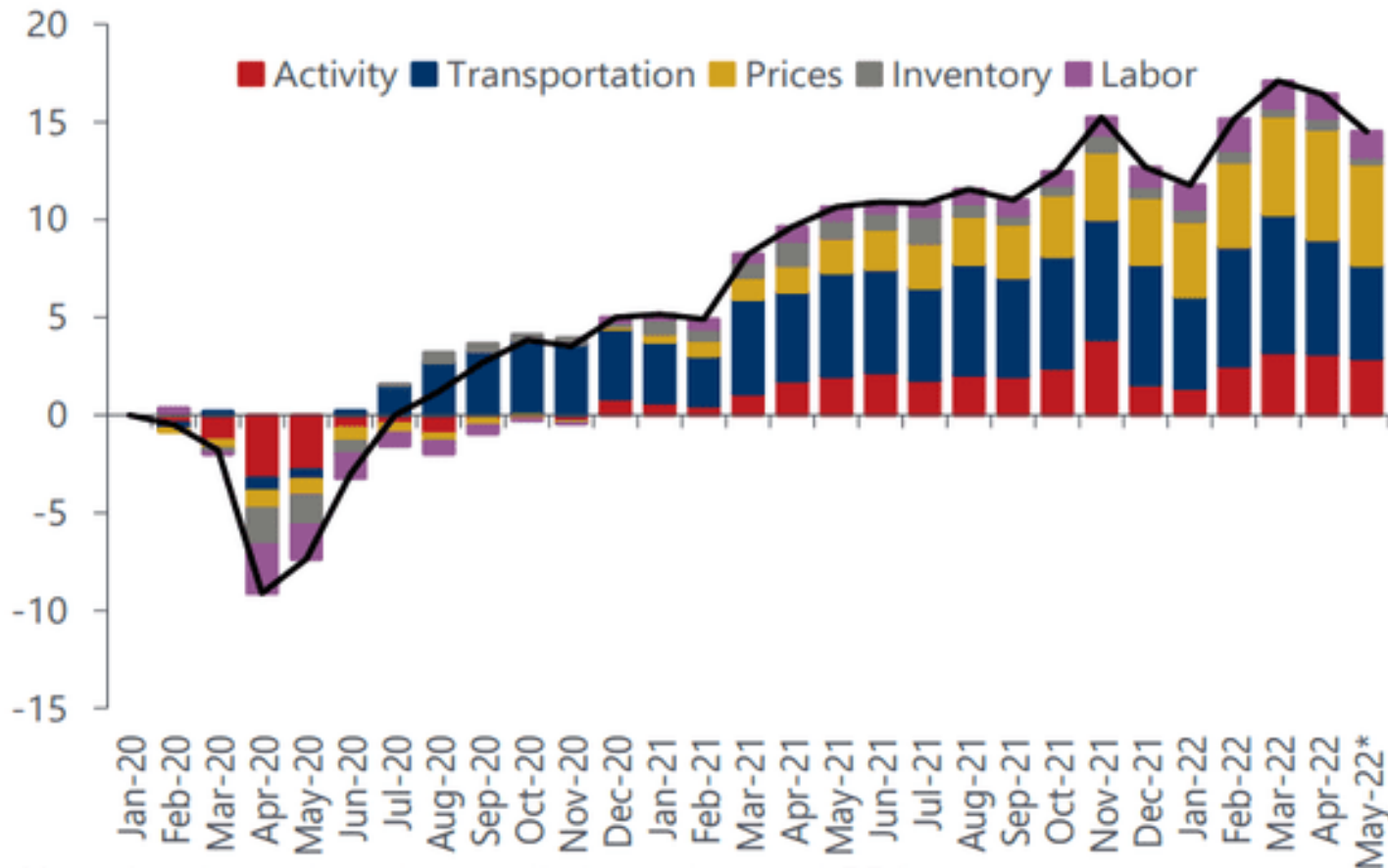
The Daily Shot

10-Jun-2022

@SoberLook

## US: Supply chain stress tracker

Index; > 0 = rising stress

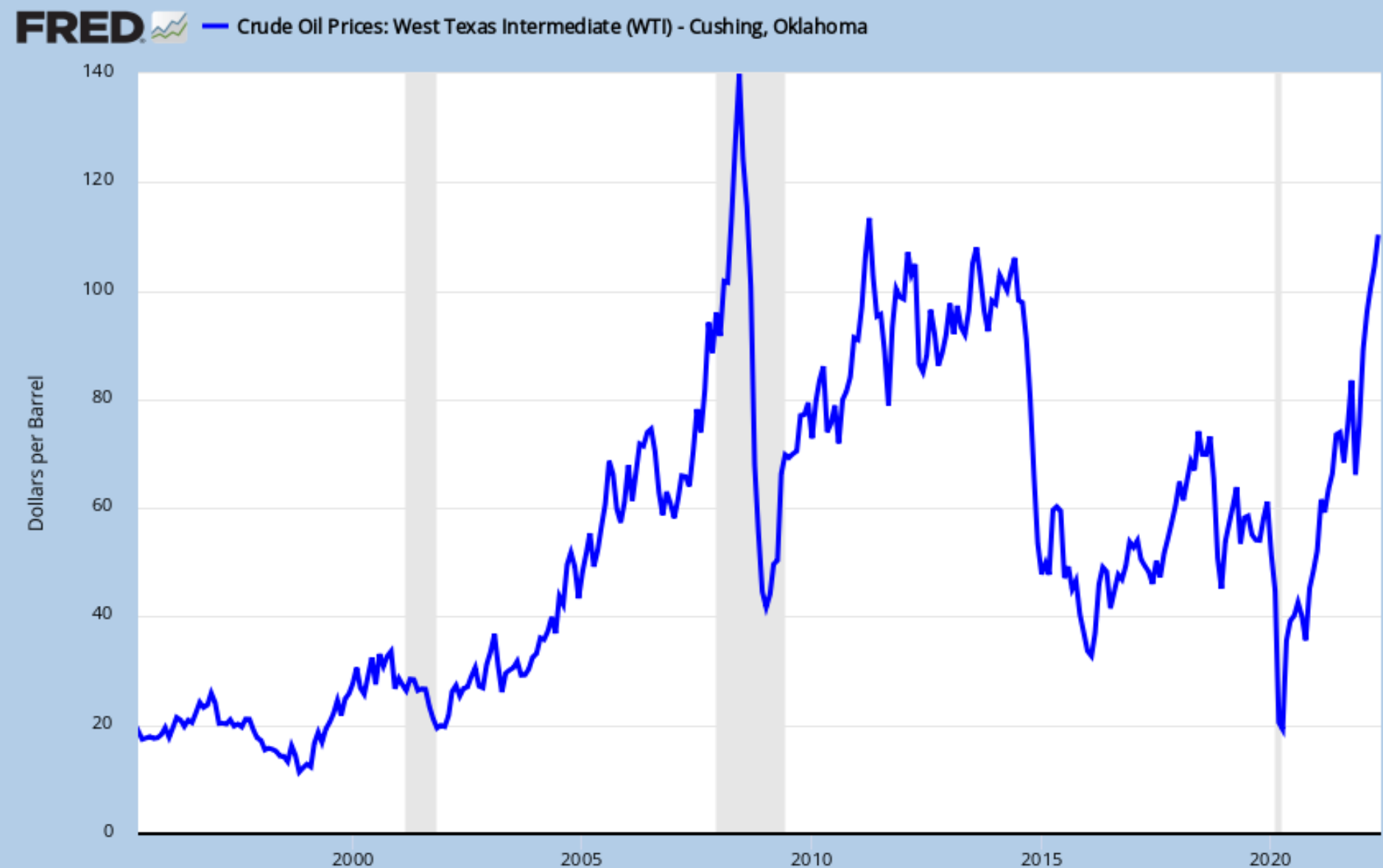


Note: \* estimate based on preliminary data and OE forecasts

Source: Oxford Economics/Haver Analytics

# Oil Prices Surge

This tells us global economic activity is picking up and supply is constrained

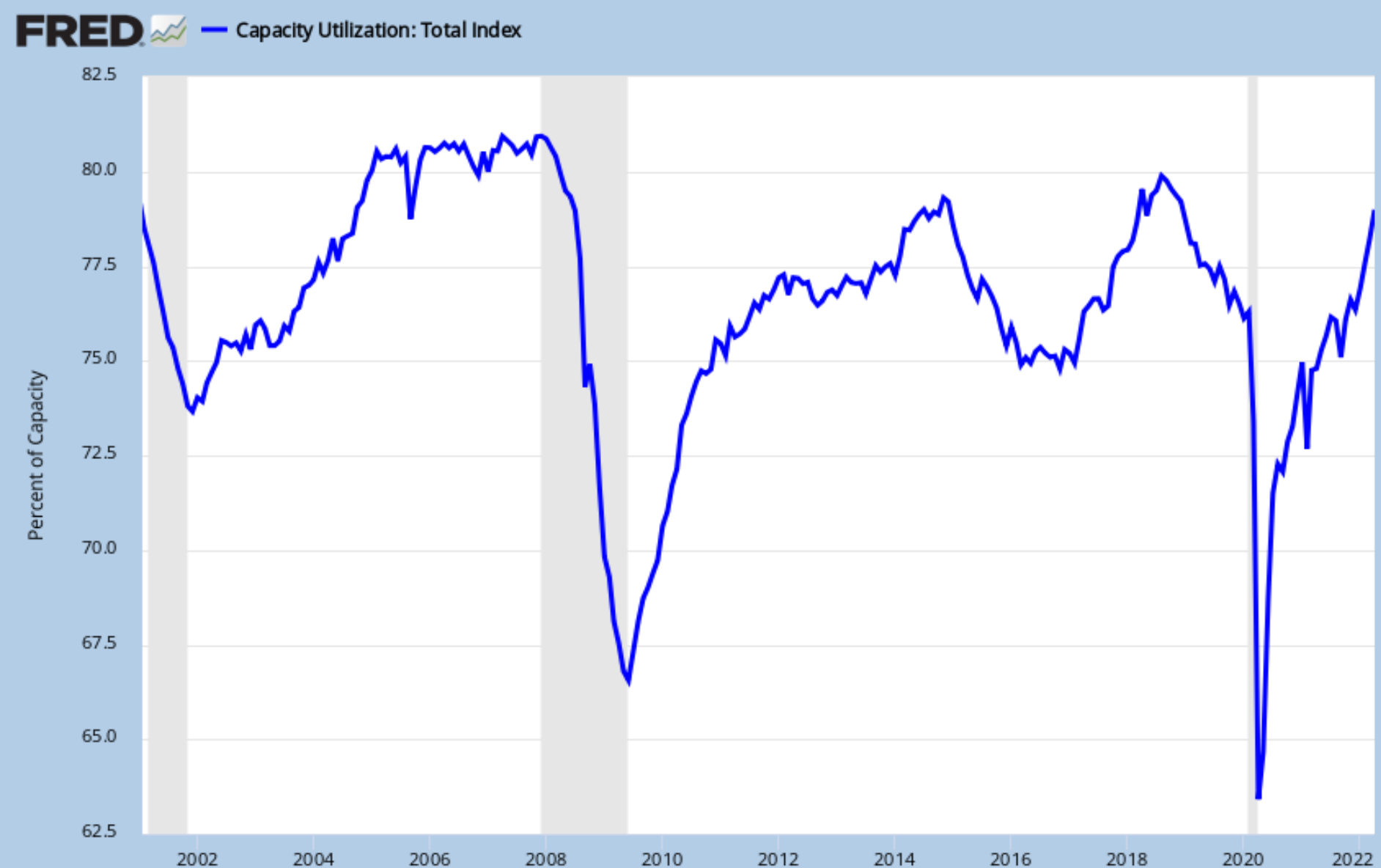


Source: U.S. Energy Information Administration

[myf.red/g/Q3wd](https://myf.red/g/Q3wd)

# Capacity Utilization Rates Recover

Close to its pre-Covid peak level




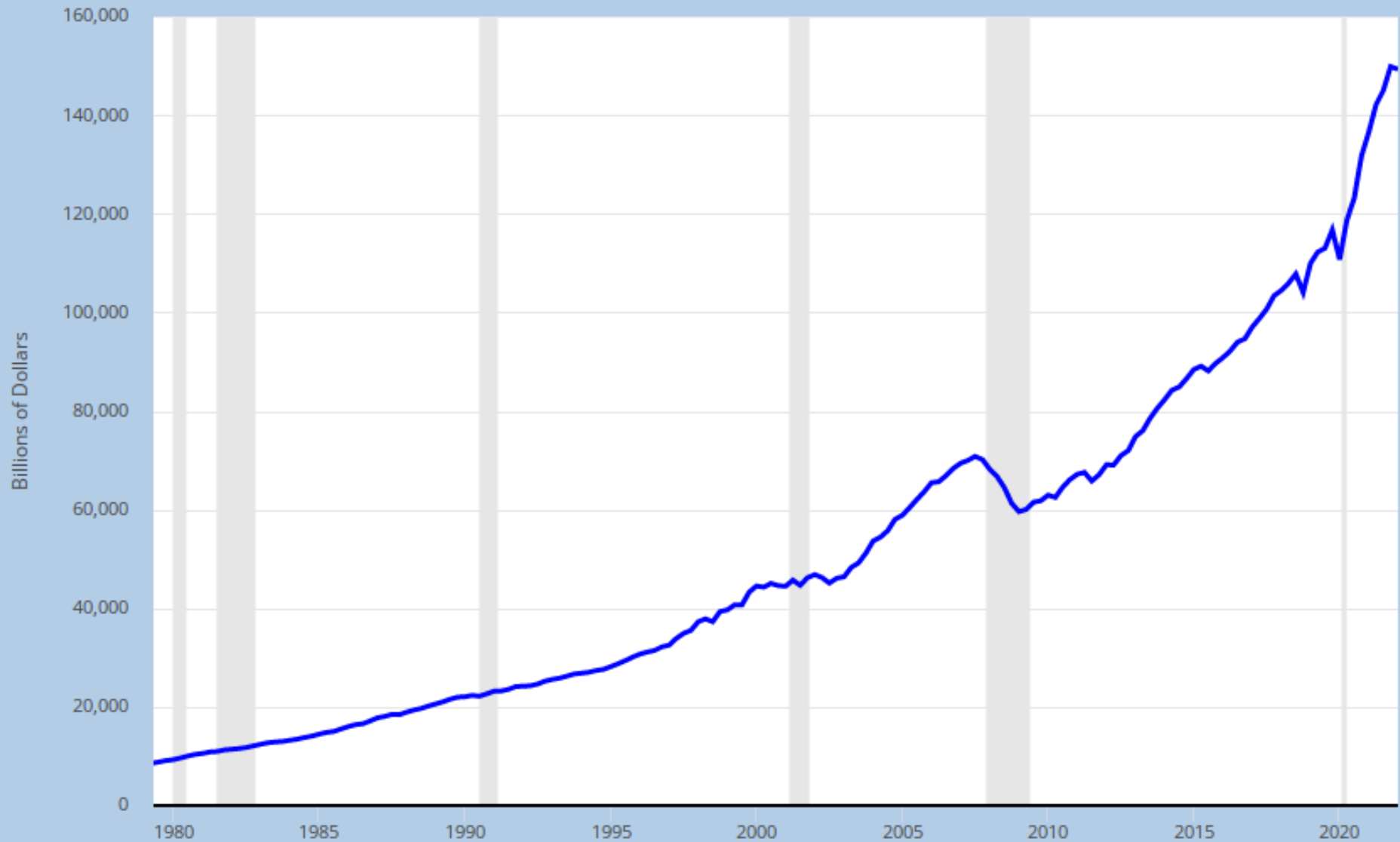
Source: Board of Governors of the Federal Reserve System (US)

[myf.red/g/PxhX](https://myf.red/g/PxhX)

# Household Balance Sheets Recover Quickly

Trillions in net worth recovered; at a new record level

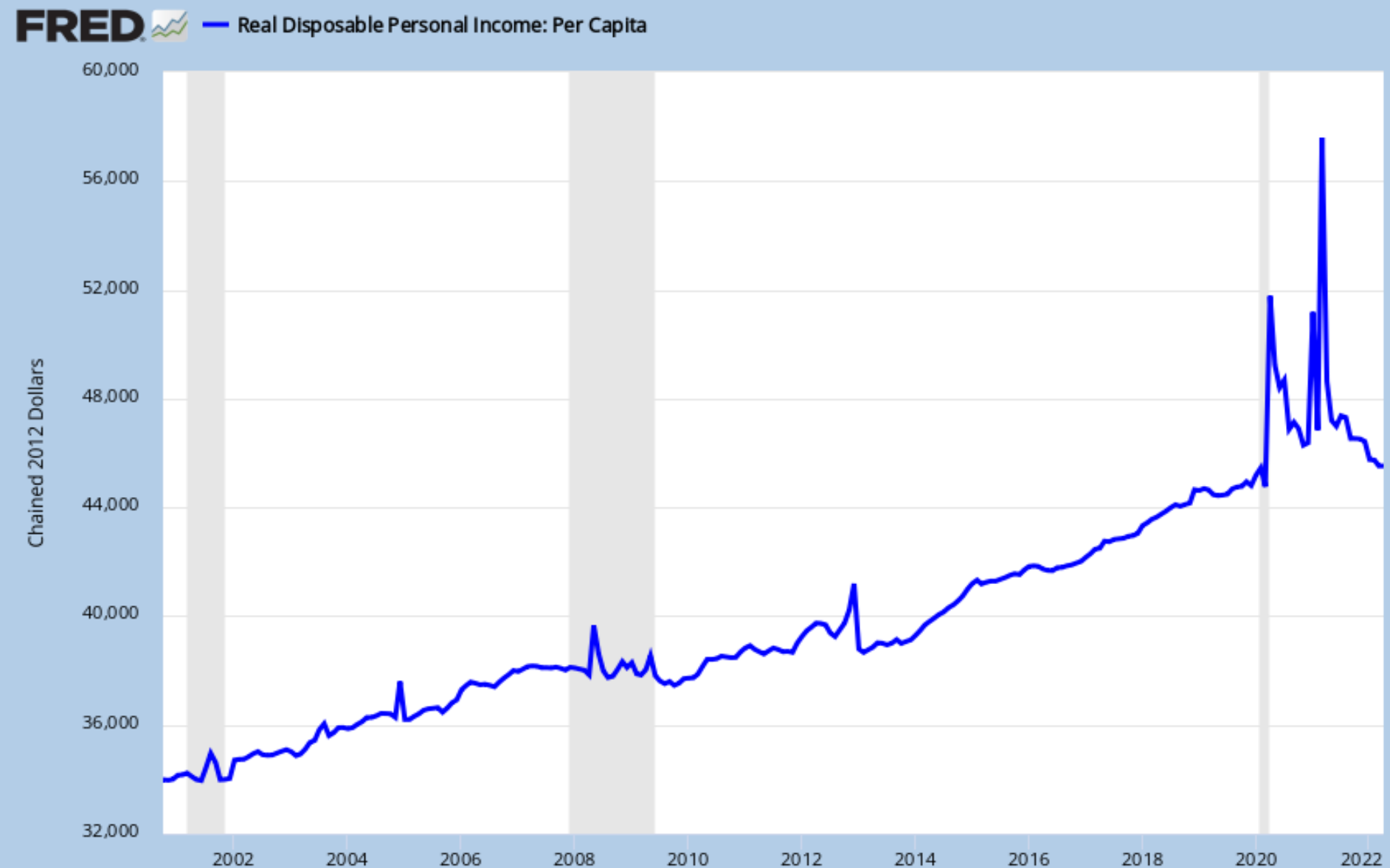
**FRED**  — Households and Nonprofit Organizations; Net Worth, Level





# Real Per Capita Disposable Income

It is now down almost \$2,000 from its recent peak



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

[myf.red/g/PWvF](https://myf.red/g/PWvF)

# Fiscal Policy Was Very Stimulative

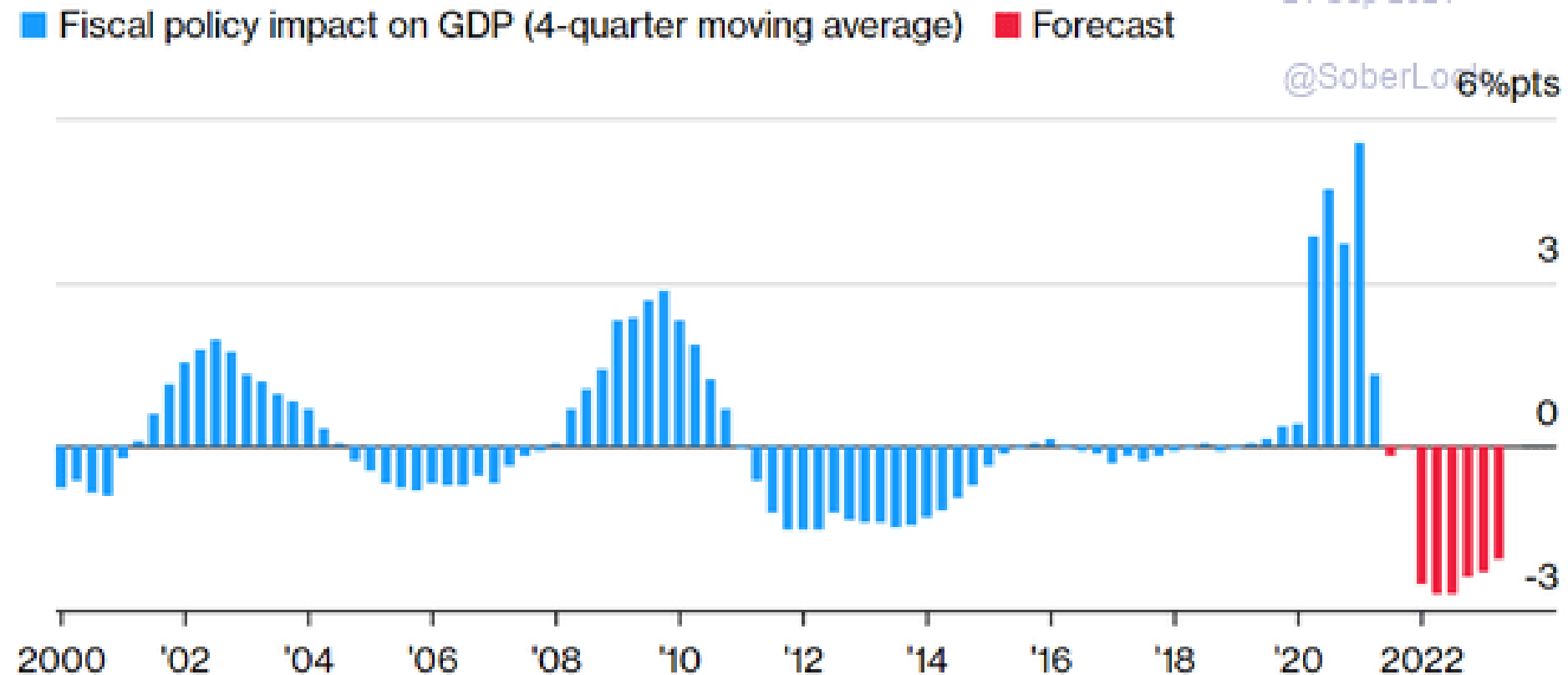
We are no longer enjoying fiscal stimulus

## Becoming a Drag

The U.S. government spent historic sums to support the economy in the pandemic. Its withdrawal will create an unusually big fiscal cliff

Posted on  
The Daily Shot  
21-Sep-2021

@SoberLook 6%pts



Source: Hutchins Center on Fiscal and Monetary Policy, Brookings Institution  
Note: Figures include budgets of federal, state and local governments.

# Fed Rate Hikes and Recessions

They generally travel together

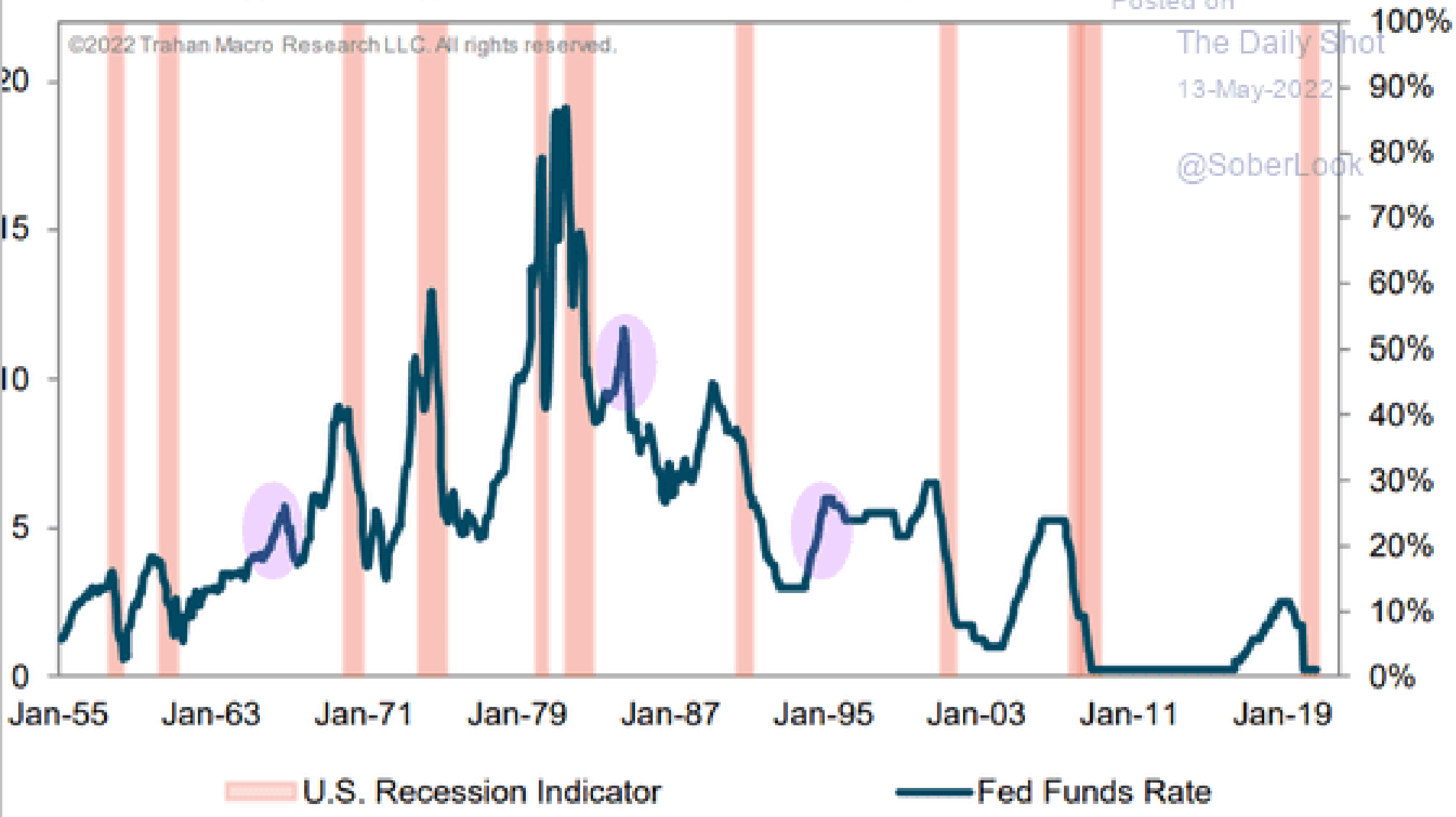
## Fed Tightening Has Preceded Every U.S. Recession

Posted on

The Daily Shot

13-May-2022

@SoberLook



# Fed Rate Hikes and Recessions

They generally travel together

## Fed hiking cycles and recessions

Start of hiking cycle	Start of recession	Gap from start of hiking (# months)
Aug-58	Apr-60	20
Nov-67	Dec-69	25
Mar-72	Nov-73	20
Dec-76	Jan-80	37
Aug-80	Jul-81	11
Mar-83	Jul-90	87
Jan-87	Jul-90	42
Feb-94	Mar-01	85
Jun-99	Mar-01	20
Jun-04	Dec-07	41
Dec-16	Feb-20	38
Average in hard landings		27
Median in hard landings		23

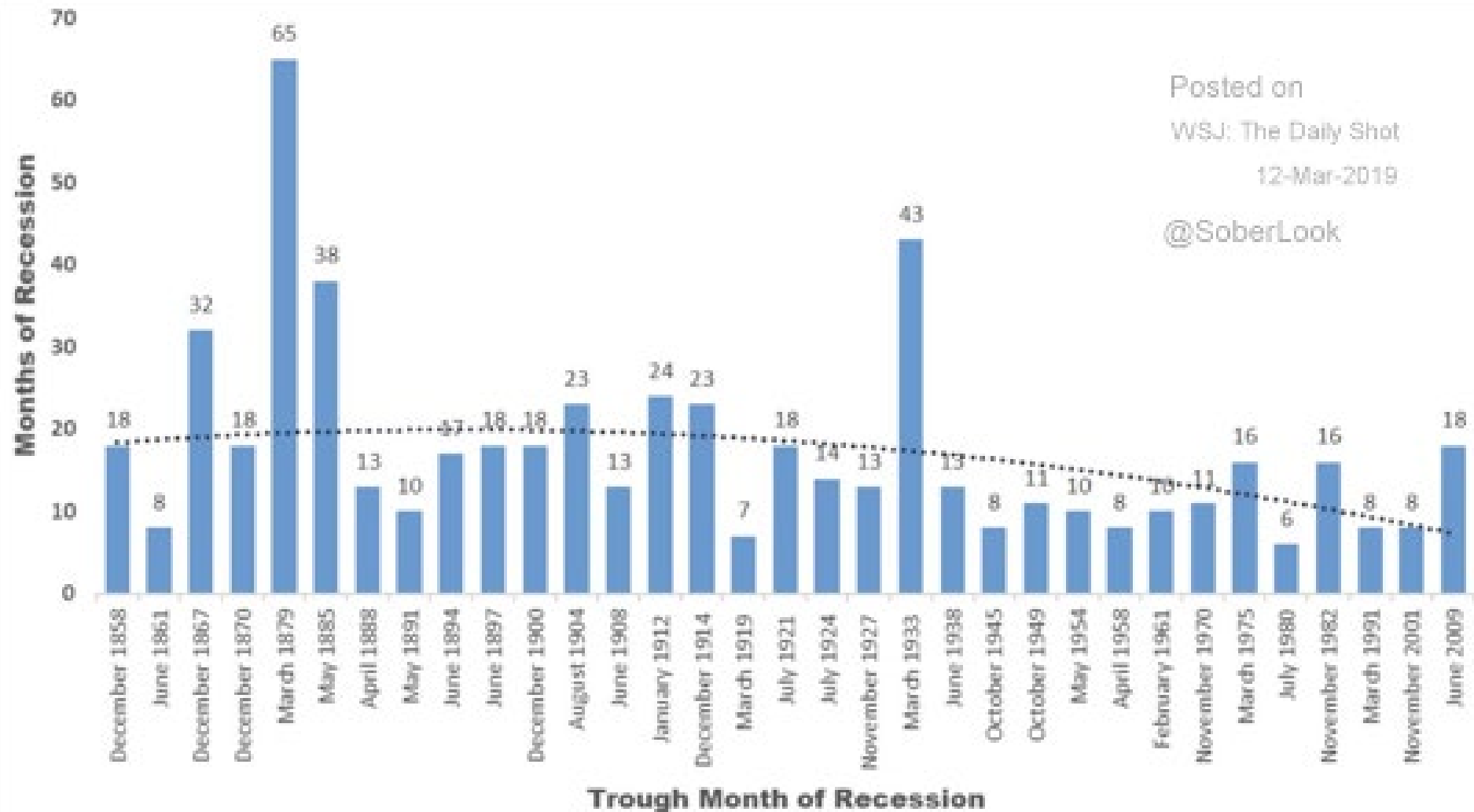
Shortest gap was 11 months

Typical gap was 2 years

\* Shaded episodes are soft landing cycles that avoided a recession

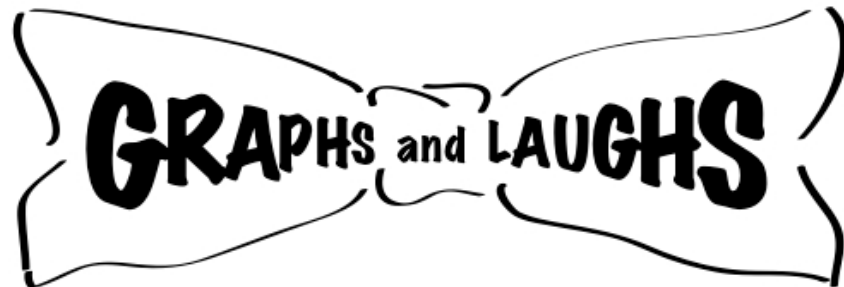
# Duration of All Recorded US Recessions

Since the Depression they tend to be shorter



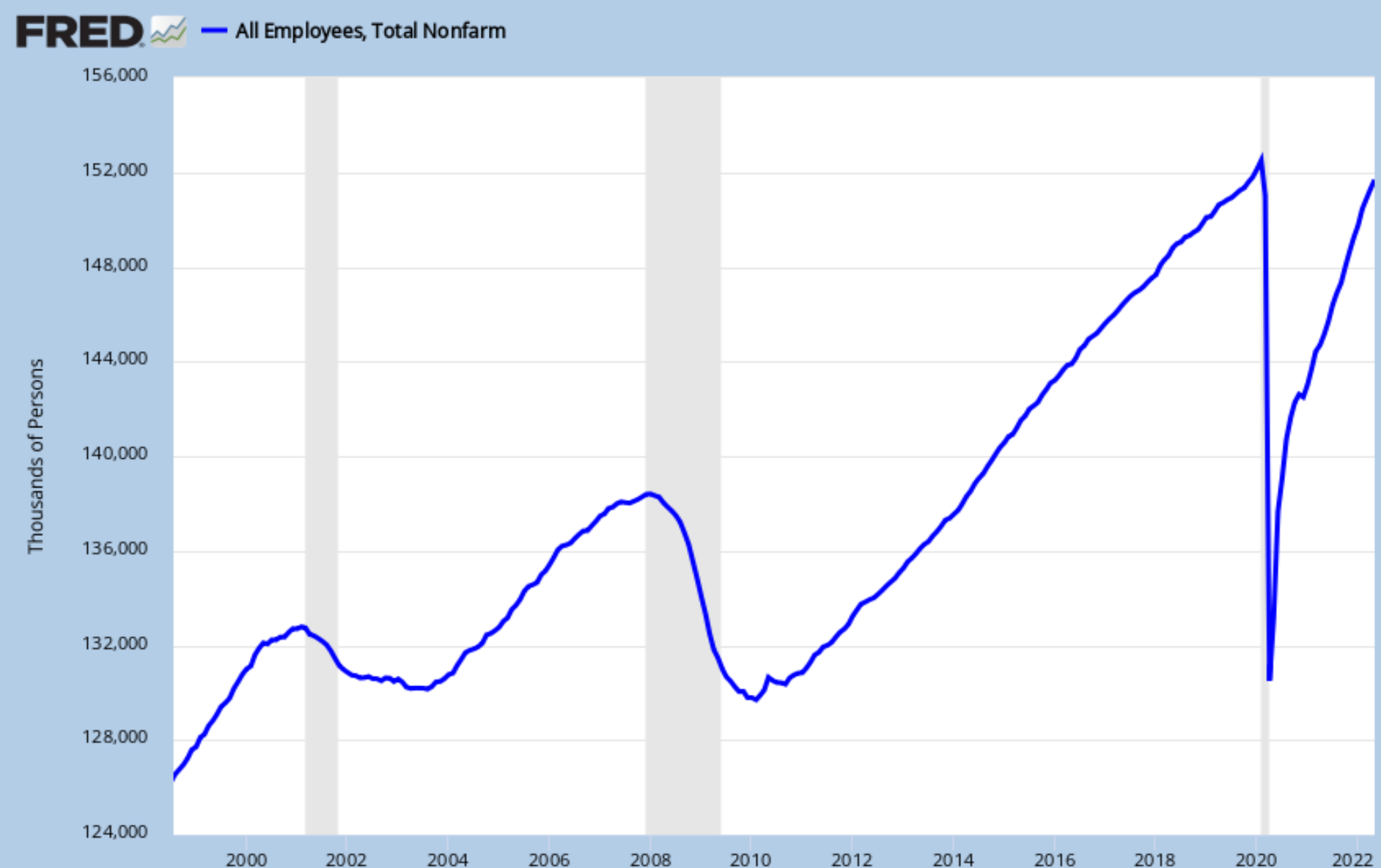
# Labor Markets:

They Were Tight and  
They are Again



# Historical Employment Levels

Employment is now down by just 800,000



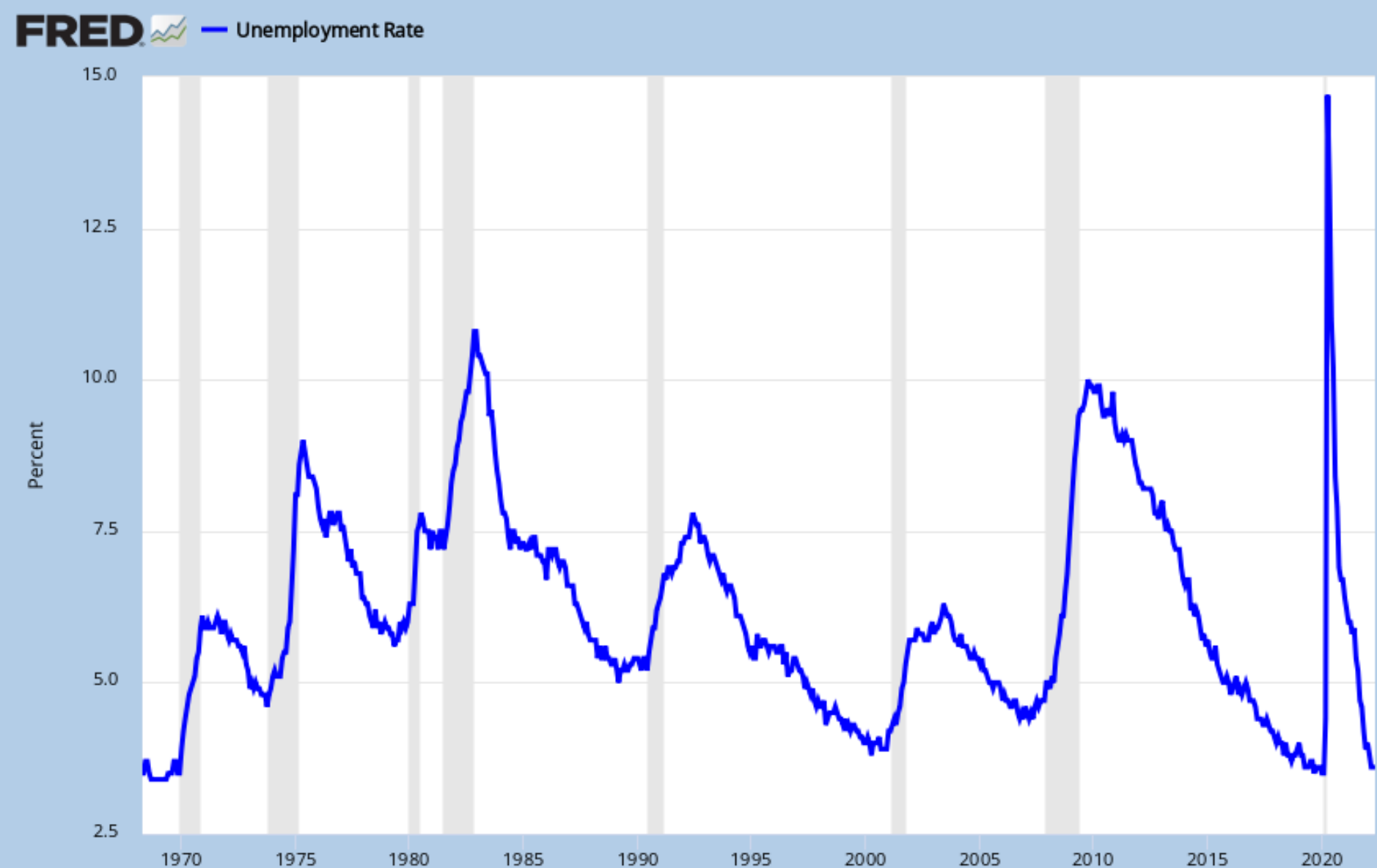
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

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# The Unemployment Rate is Way Down

The decline has been spectacular



*Shaded areas indicate U.S. recessions.*

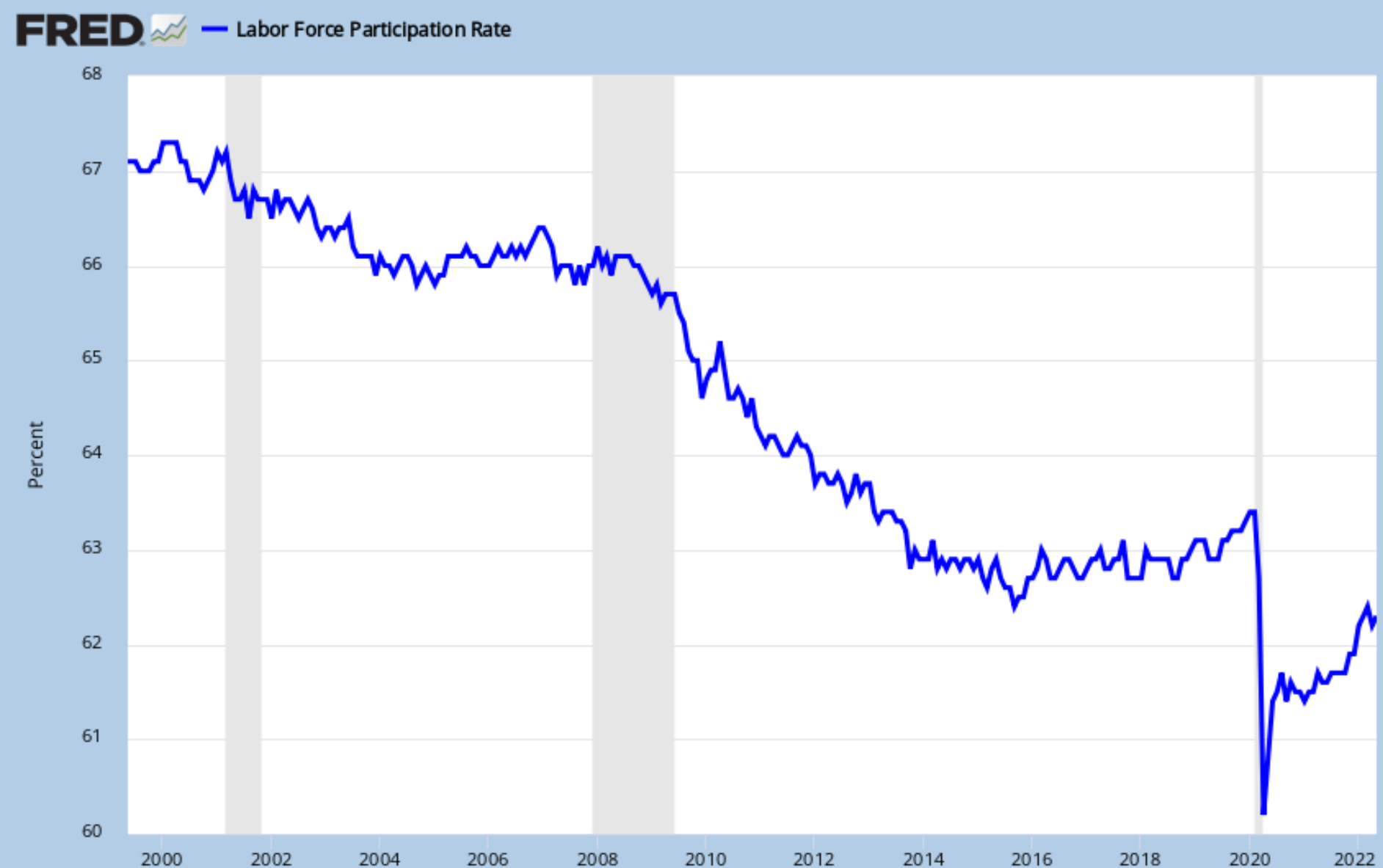
Source: U.S. Bureau of Labor Statistics

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# The Labor Force Participation Rate

It is now steadily Improving



*Shaded areas indicate U.S. recessions.*

Source: U.S. Bureau of Labor Statistics

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# Retirements Jump and Decline

These persons are returning to the labor force

## Retired population falls as the labor market heats up

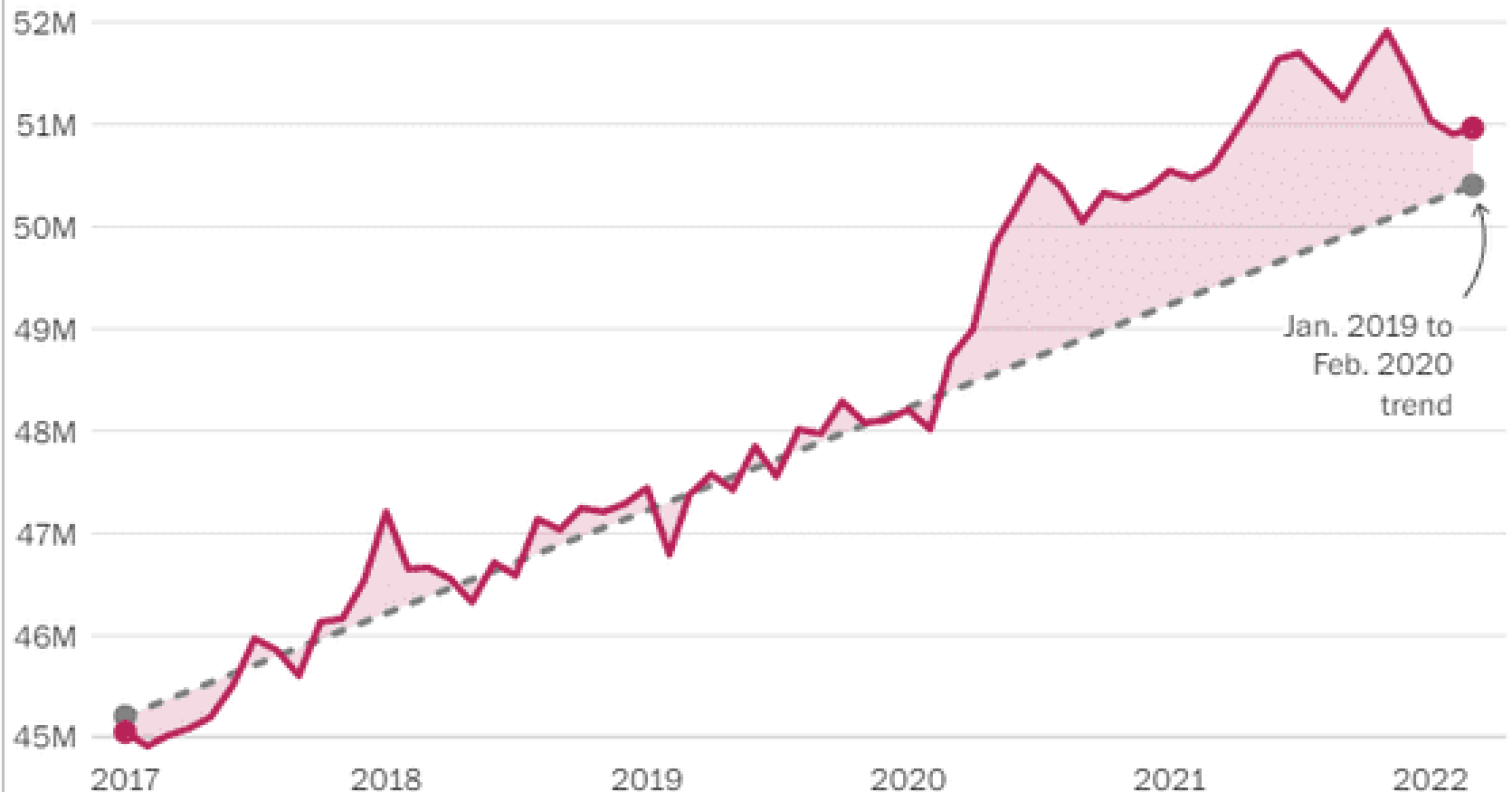
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27-May-2022

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U.S. retired population



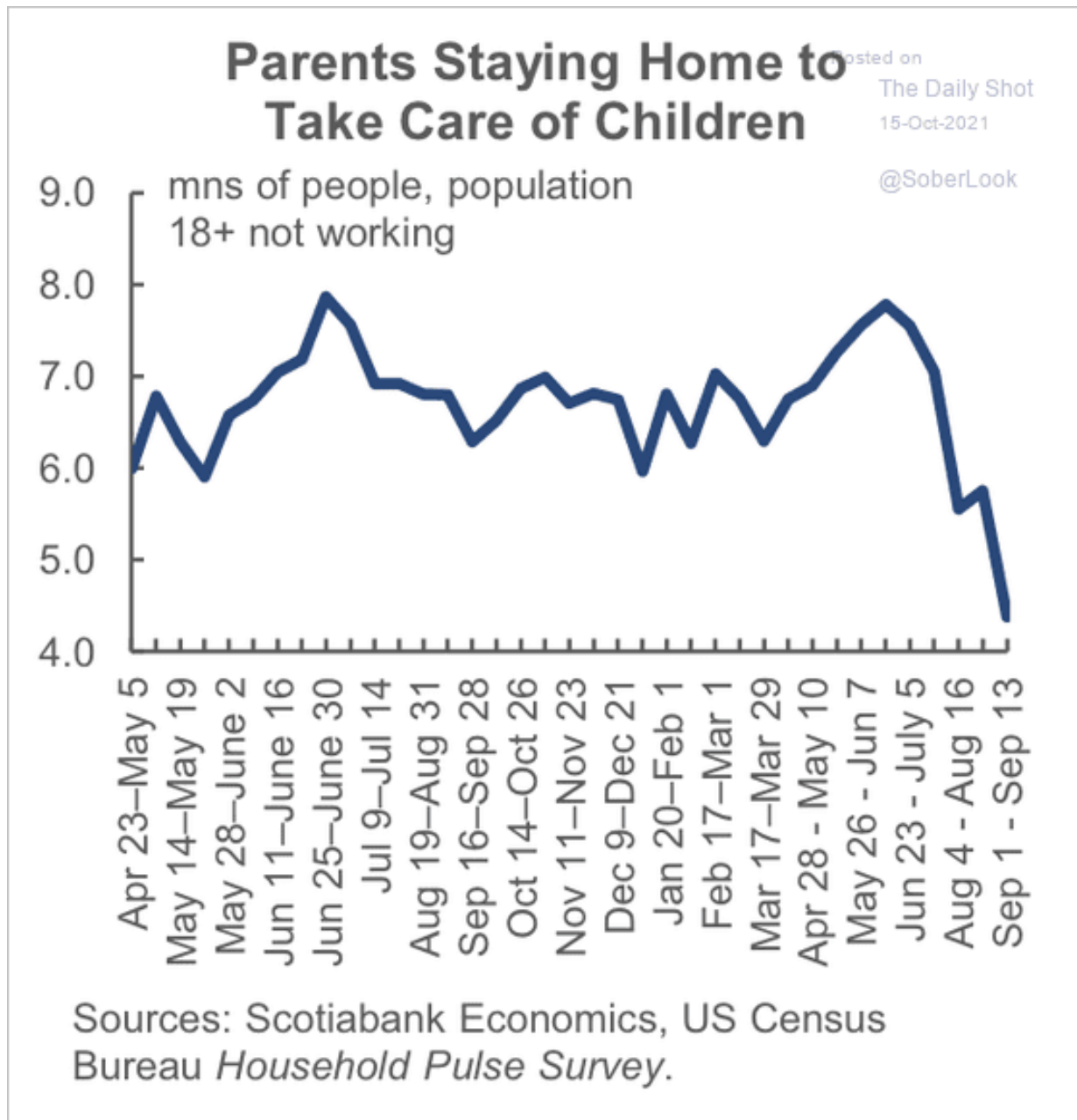
Jan. 2019 to  
Feb. 2020  
trend

Source: Bureau of Labor Statistics survey data harmonized by the Economic Policy Institute

THE WASHINGTON POST

# Why Are Persons Not Working?

In-person schooling helps



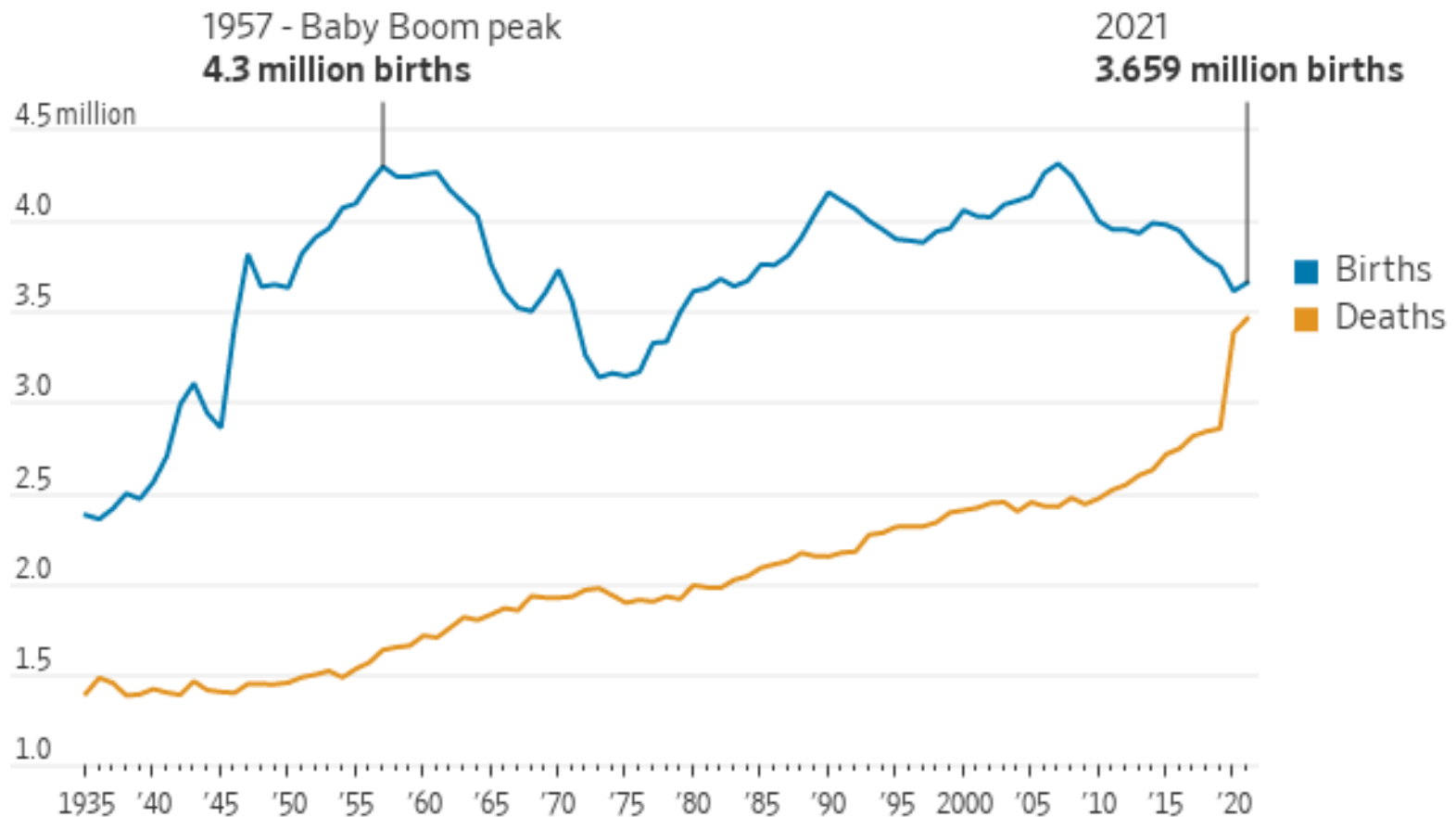
# Births and Deaths in the USA 1935 - Present

Covid has been a disaster

## Margin Narrows

The gap between U.S. births and deaths in 2021 narrowed to about 198,000 as births increased 1.3% and deaths remained elevated in the second year of the Covid-19 pandemic.

## U.S. births, deaths by year

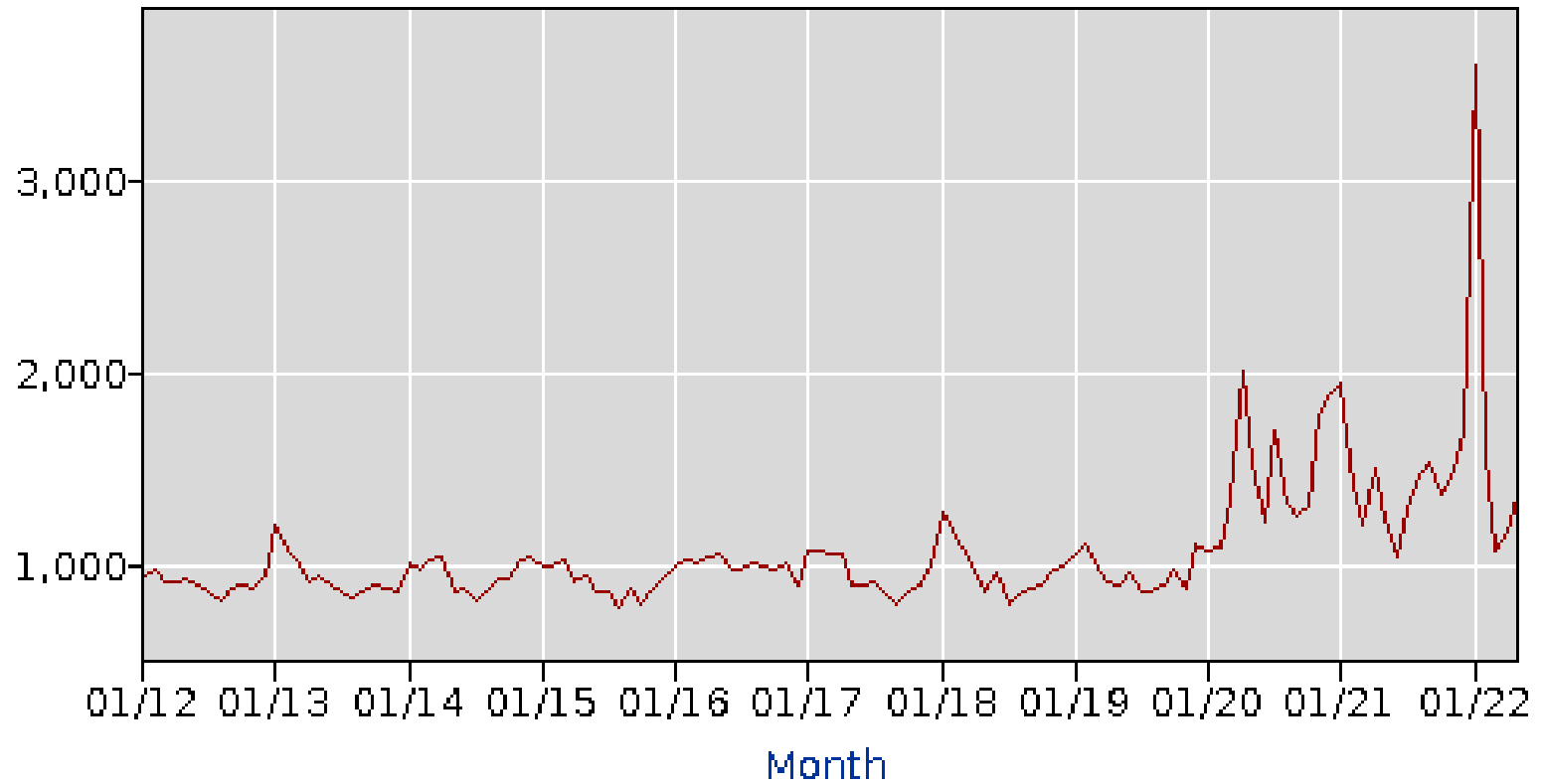


Note: 2021 data is provisional.

Source: Centers for Disease Control and Prevention

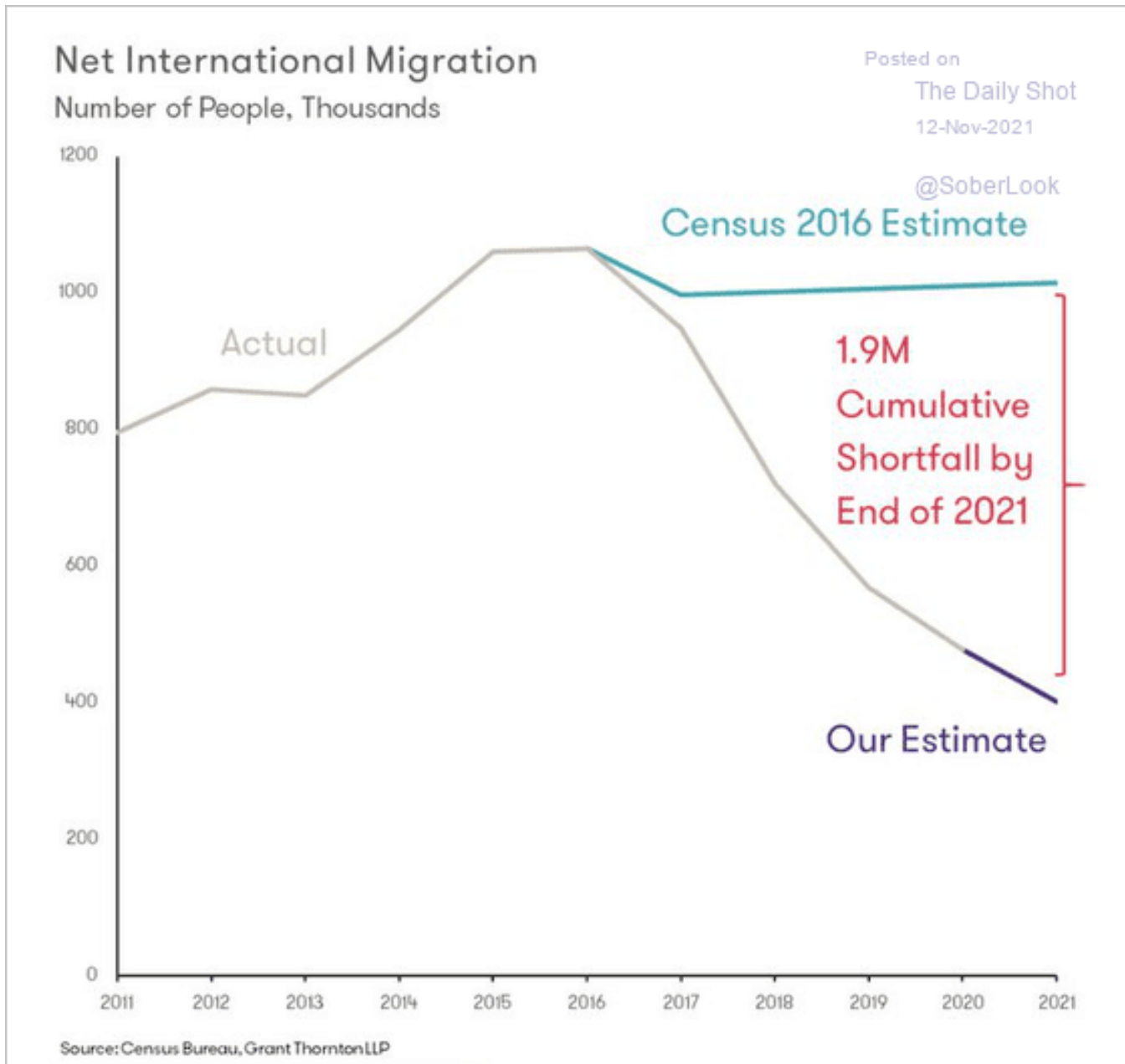
# Covid Keeps Fewer Persons Away

Employed but not working own illness



# Immigration Has Dramatically Fallen

If it rises it will help soften the labor shortage



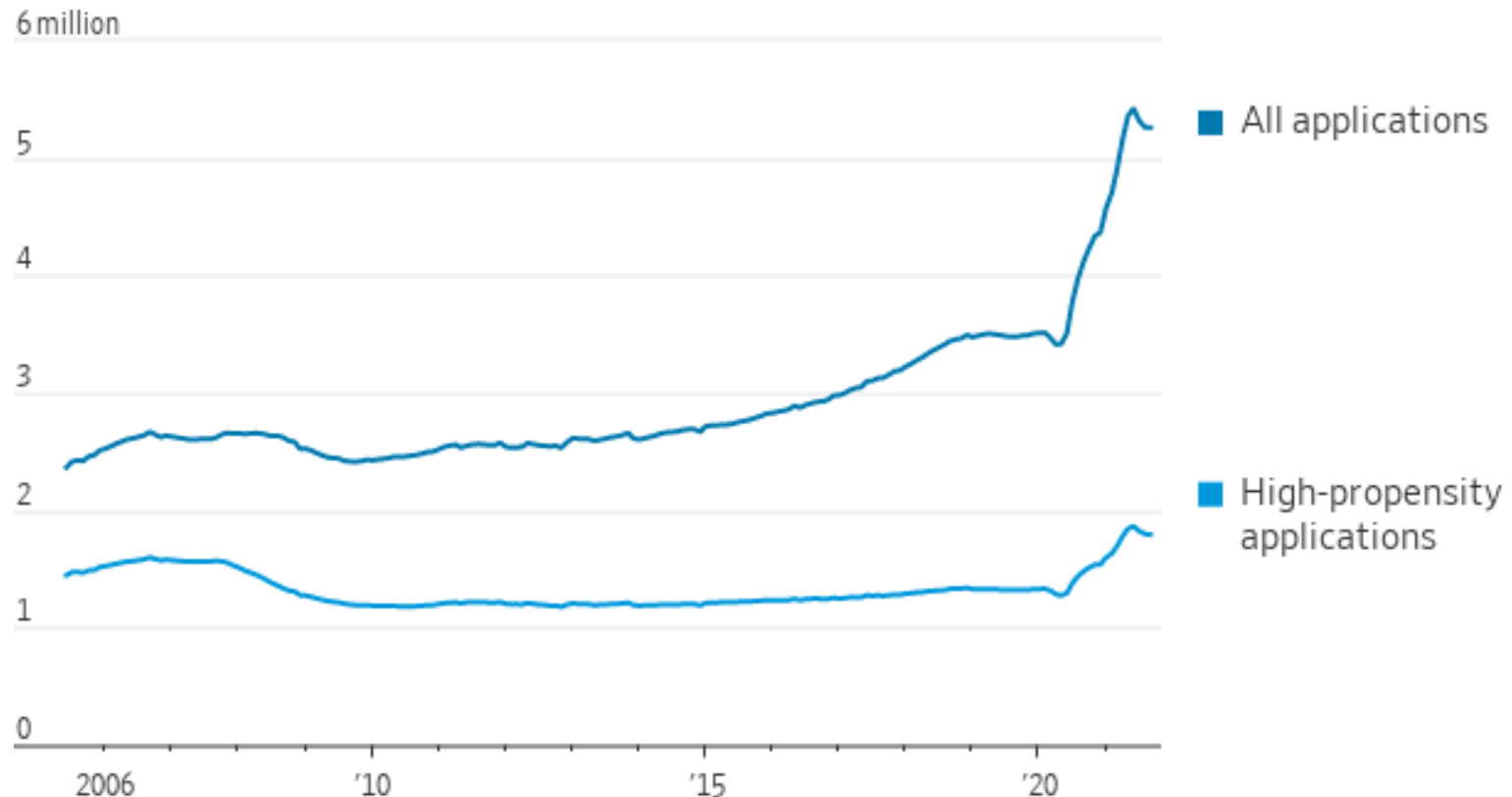
# New Firm Creation

It is booming

## Start Me Up

Applications to form businesses surged as coronavirus lockdowns lifted, though data suggest more interest in tiny startups rather than operations with a high propensity for hiring workers and paying wages.

### U.S. business applications for tax IDs, 12-month rolling sum

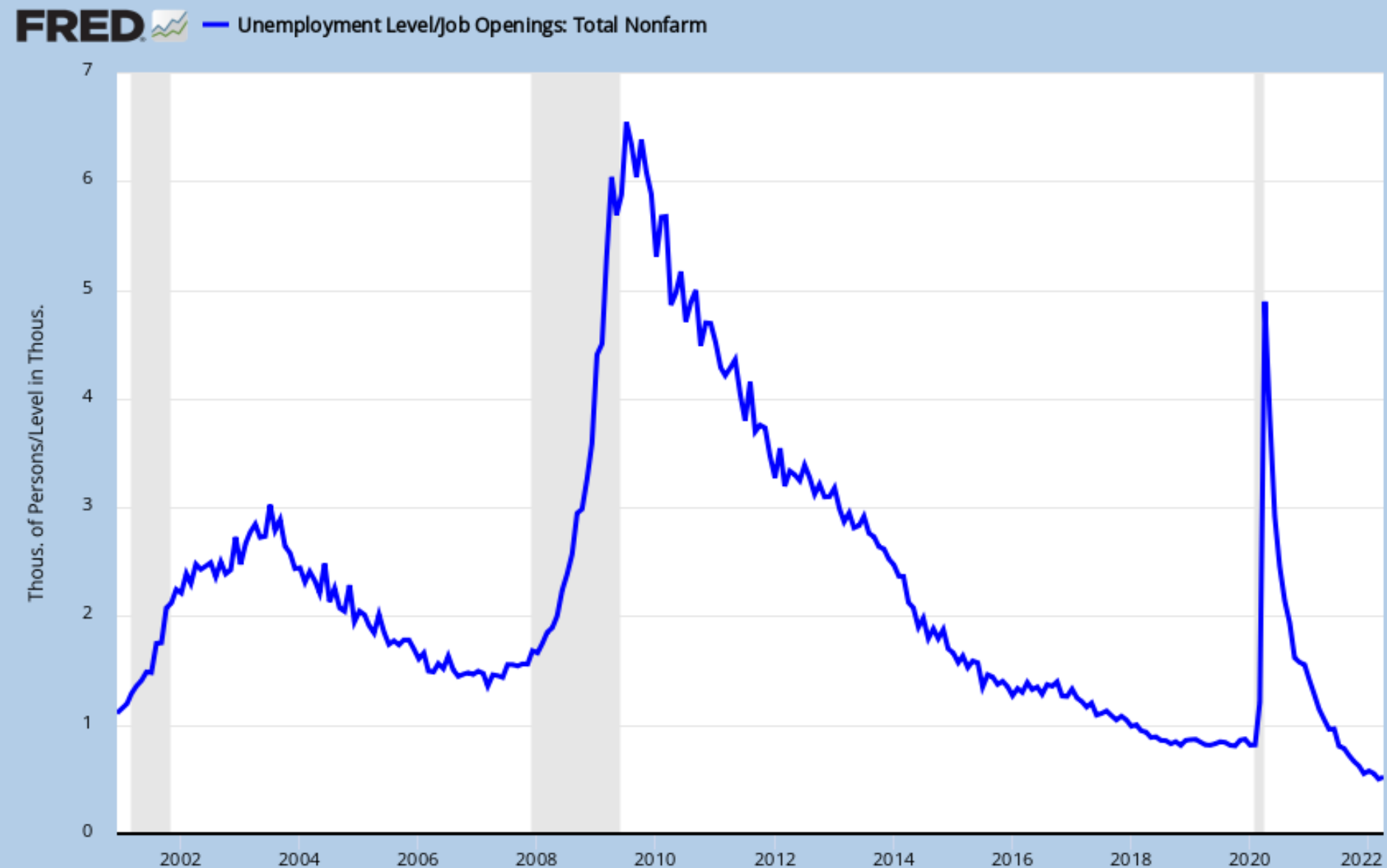


Note: Seasonally adjusted

Source: Census Bureau

# Labor Market Are Profoundly Tight

There are 0.52 unemployed persons/job, or 1.9 jobs/person



Shaded areas indicate U.S. recessions.

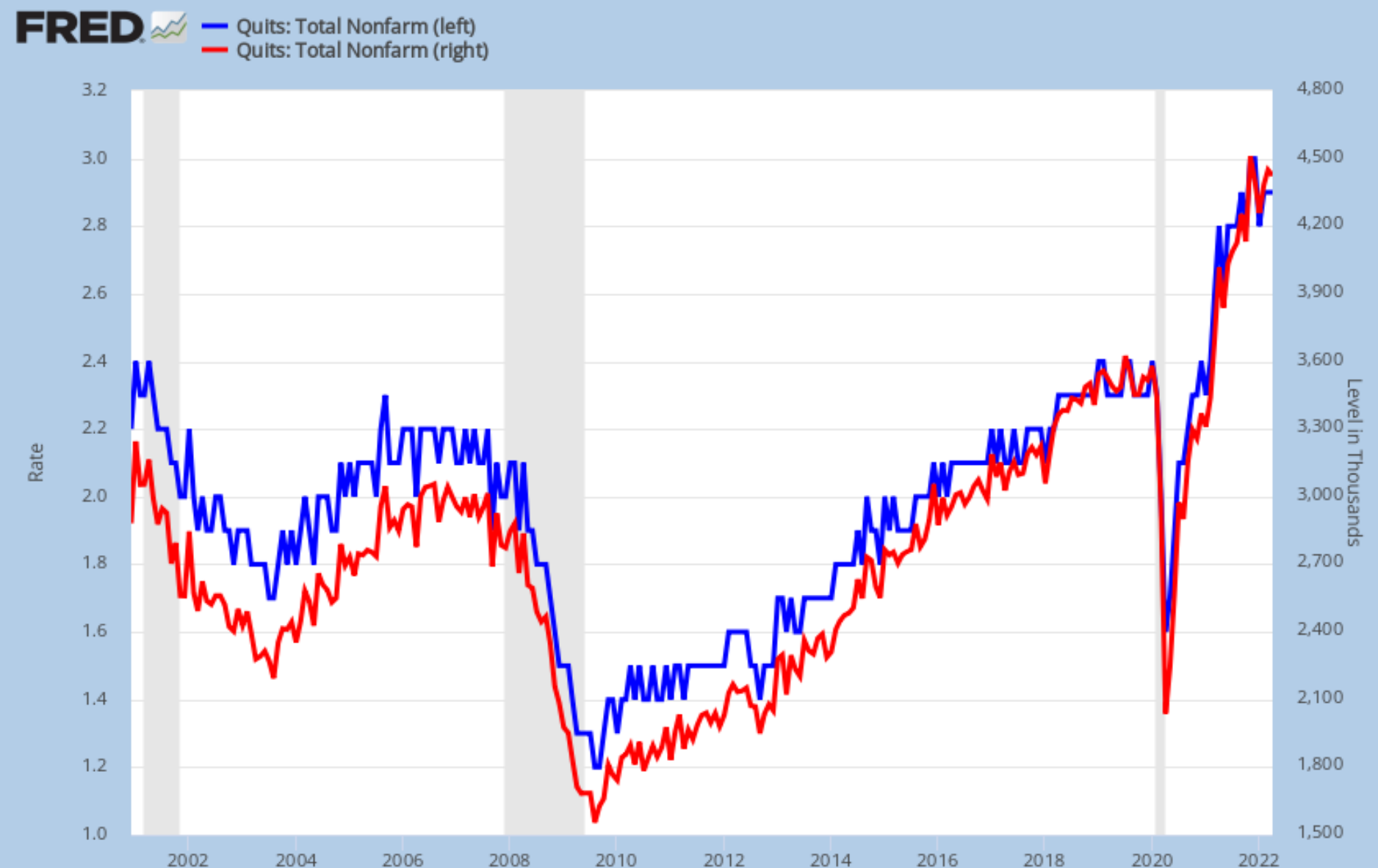
Source: U.S. Bureau of Labor Statistics

[myf.red/g/Q3ul](https://myf.red/g/Q3ul)



# Quit Rates Have Skyrocketed

Workers are quitting in droves, this suggests large wage gains



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

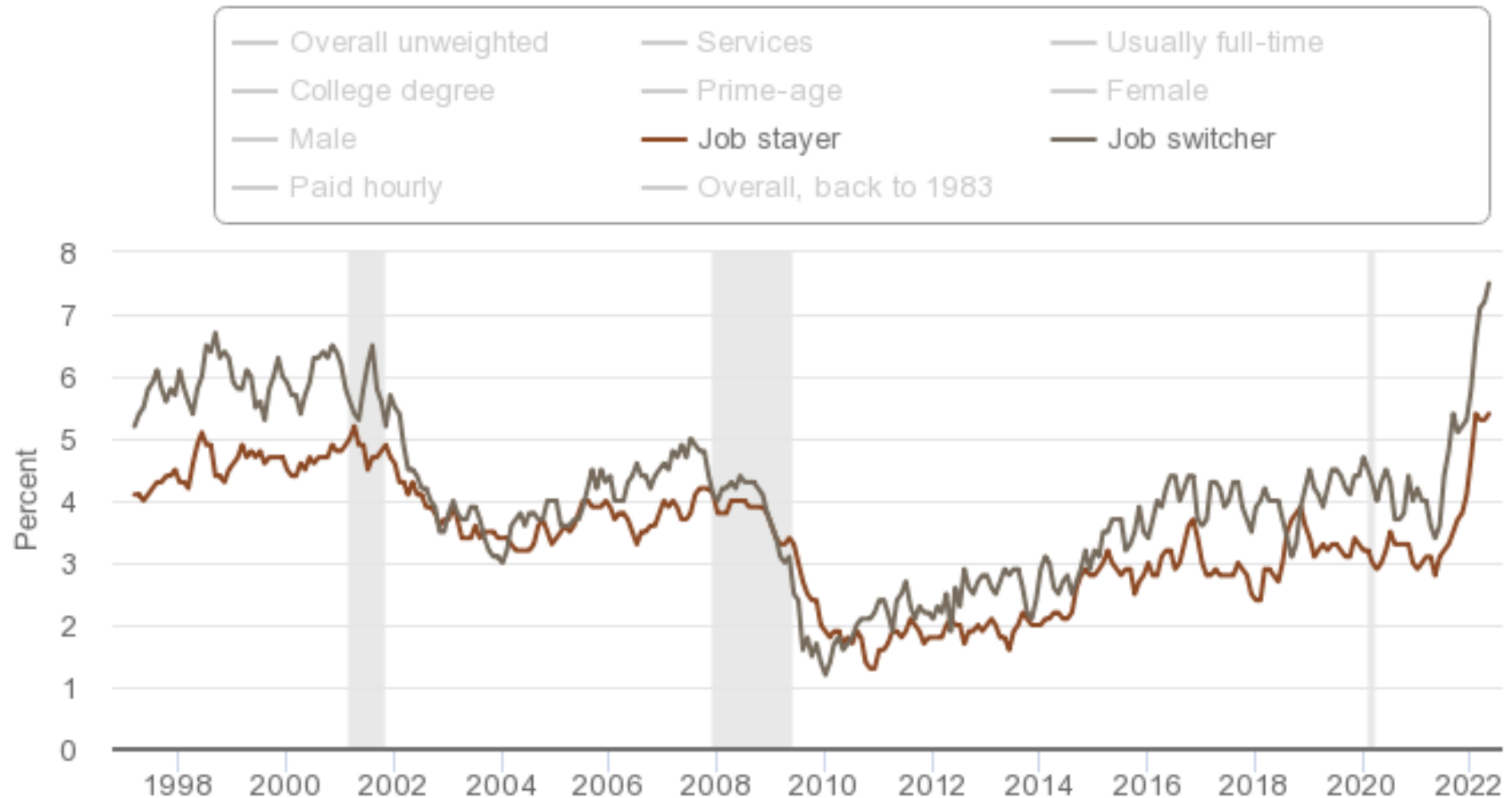
[myf.red/g/Q3ue](https://myf.red/g/Q3ue)

# Wage Growth Gap is Very Large

Of those continuously full-time employed

## Wage Growth Tracker

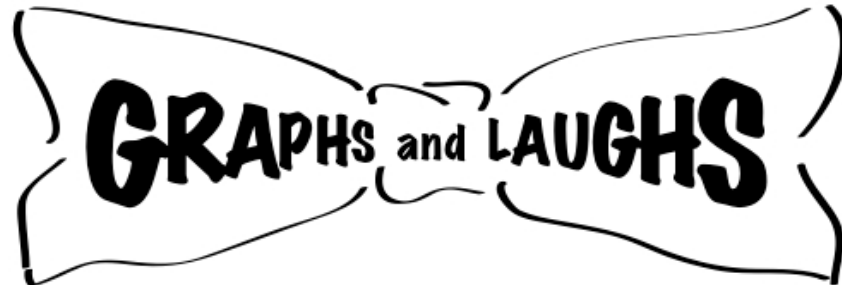
three-month moving average of median wage growth, hourly data



Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations

# Inflation?

# It's Here!



**INFLATION? WHAT INFLATION?**

THE ATLAS SOCIETY

**A PACK OF GROUND BEEF IS THE  
SAME PRICE AS LAST MONTH**

# CPI: Inflationary Pressures are Powerful

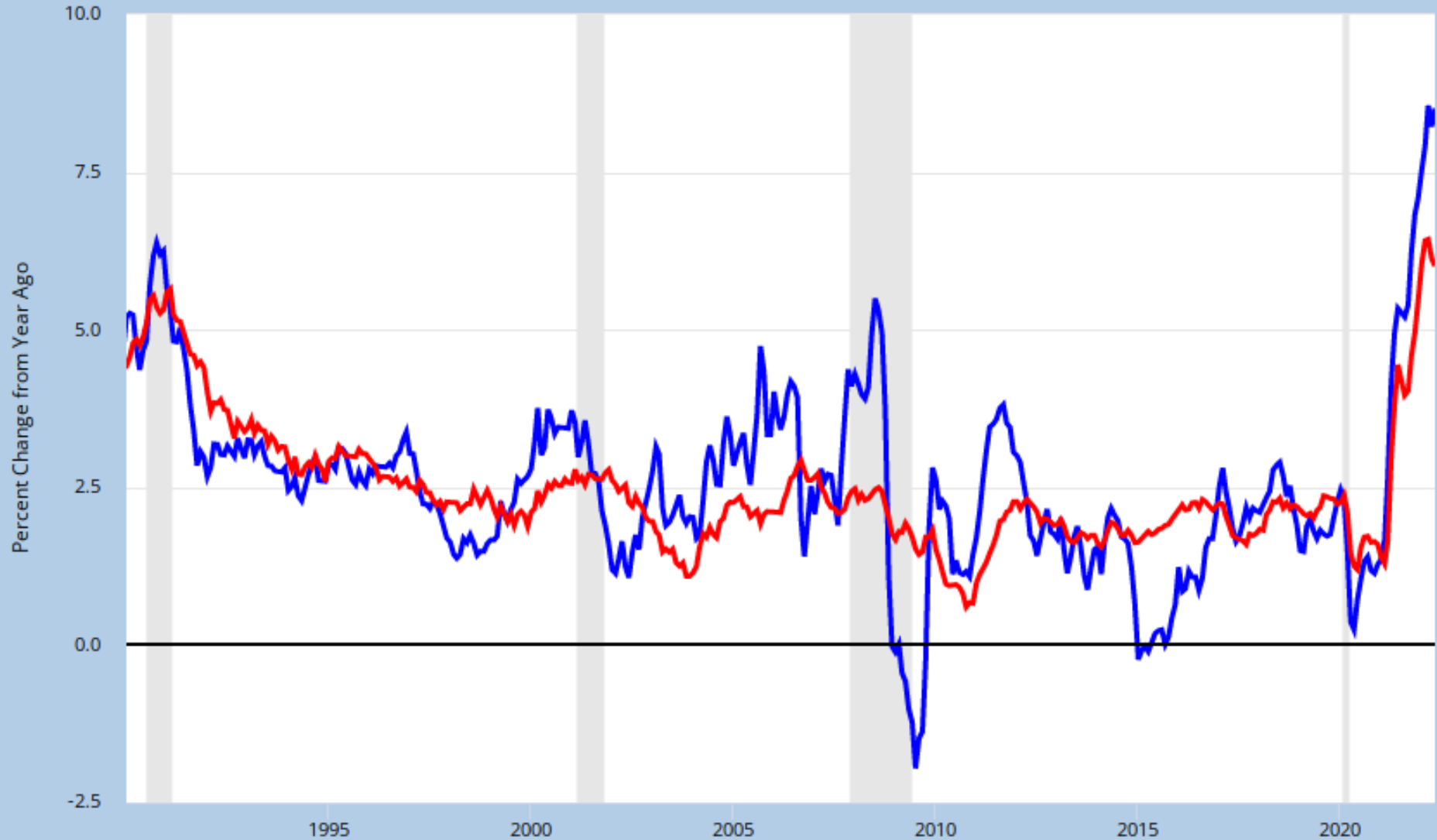
Watch the core numbers closely

**FRED**



— Consumer Price Index for All Urban Consumers: All Items in U.S. City Average

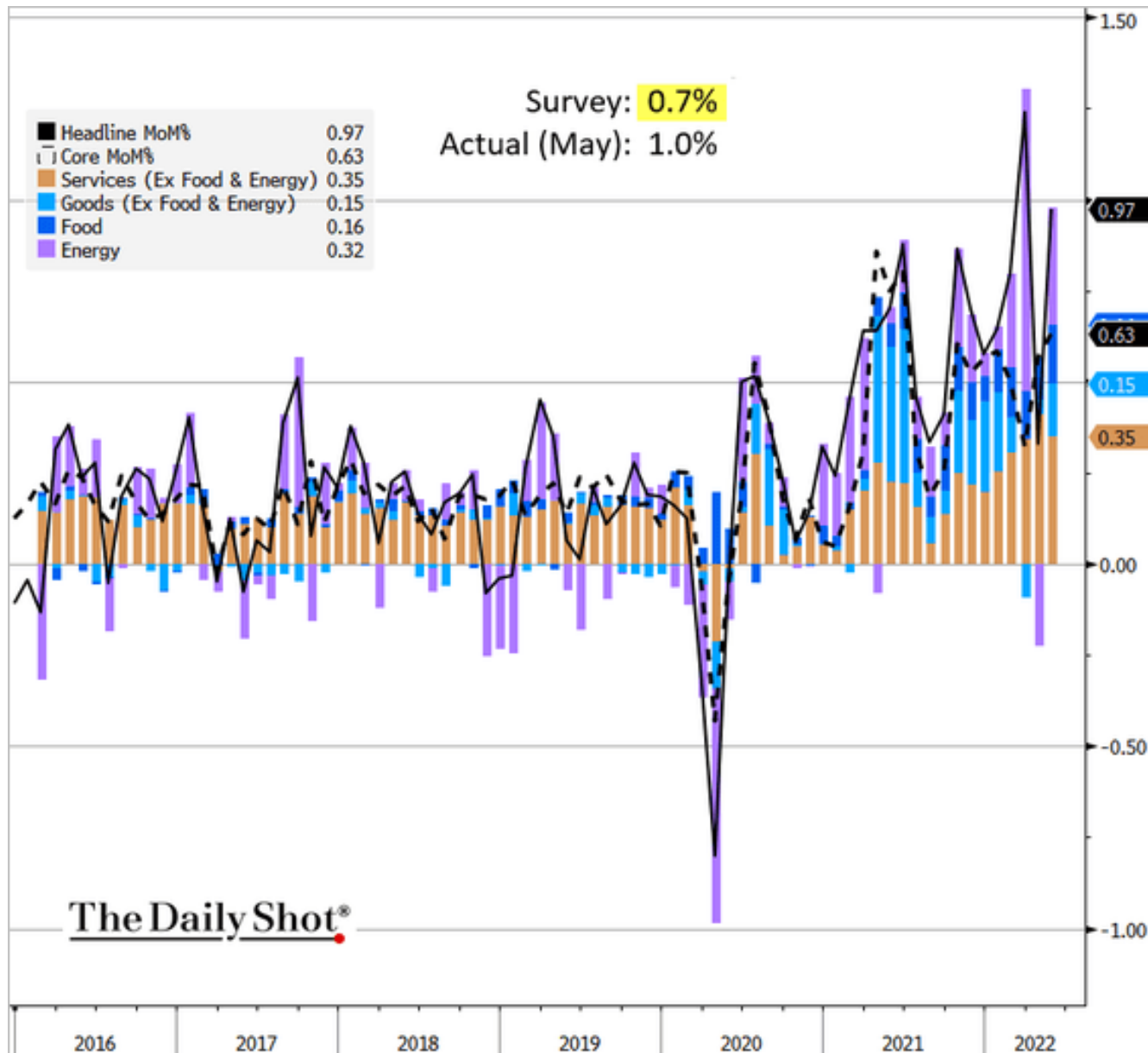
— Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average





# Contributions to CPI

Energy and services are what is driving it



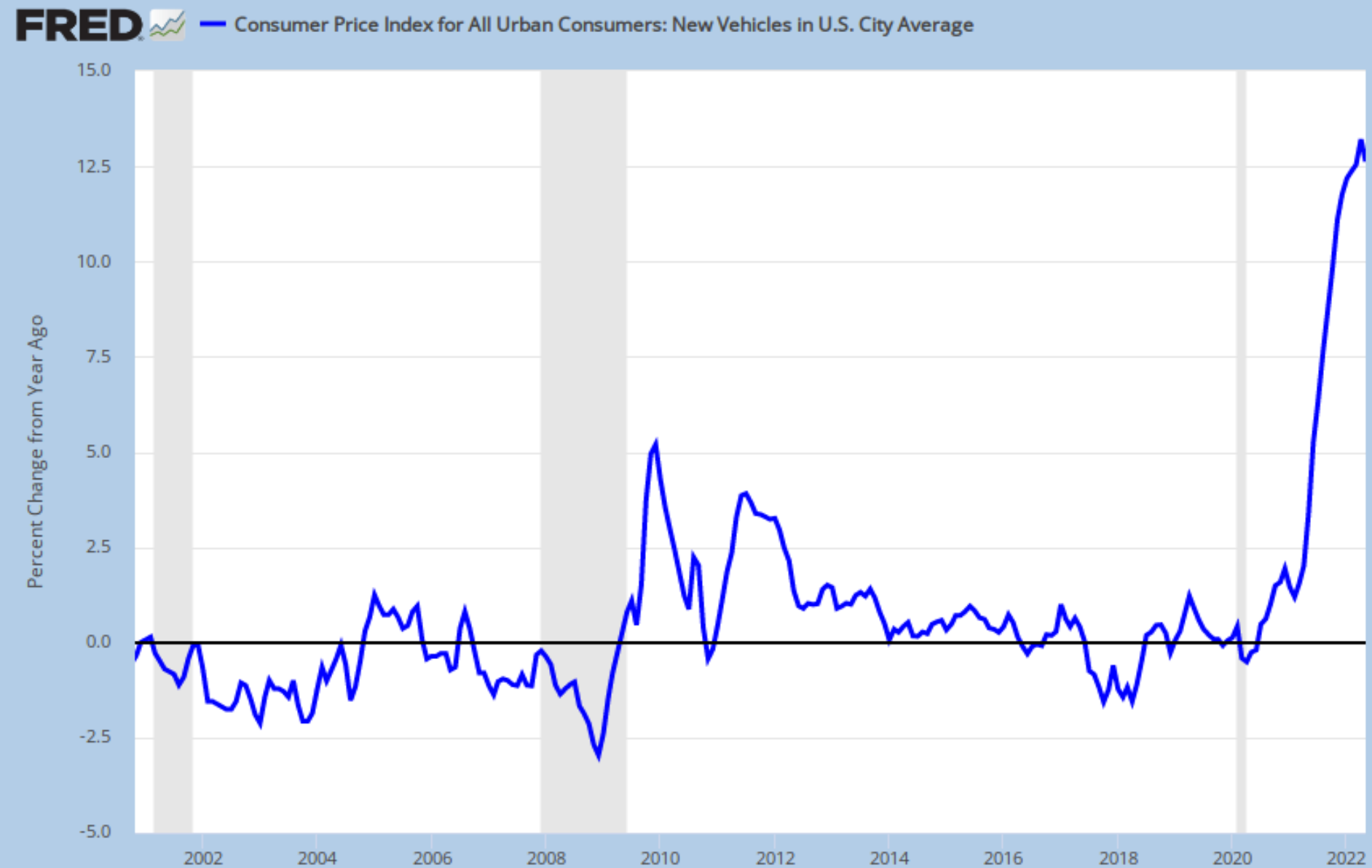
Source: BLS, DATA ECAN\_USCPI<GO>

CPI OHNG Index (US CPI Urban Consumers MoM SA) U.S. CPI MoM SA Monthly 31DEC2015-12JUN2022

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# New Auto Prices Are Way Up

Inventories are very low



Source: U.S. Bureau of Labor Statistics

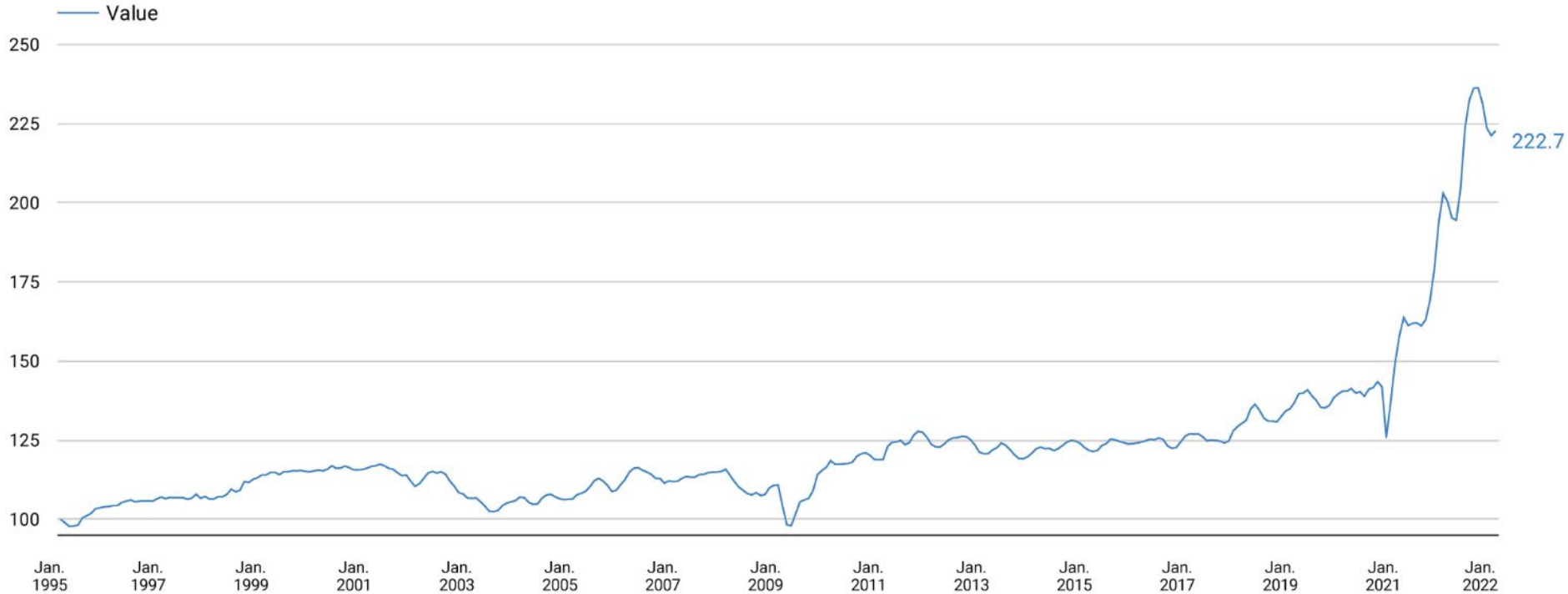
[myf.red/g/QpYv](https://myf.red/g/QpYv)

# Used Cars Prices Have Peaked

New car production will improve

## MANHEIM USED VEHICLE VALUE INDEX

May 2022



Cox  
AUTOMOTIVE™



Manheim



# Federal Reserve Behavior

Most likely scenario

- Fed funds is currently 0.875%
- 6/30/22: 1.375% 10-yr Treasury @ 2.90%
- 12/31/22: 2.625% 10-yr Treasury @ 2.95%
- 12/31/23: 3.125% 10-yr Treasury @ 3.00%

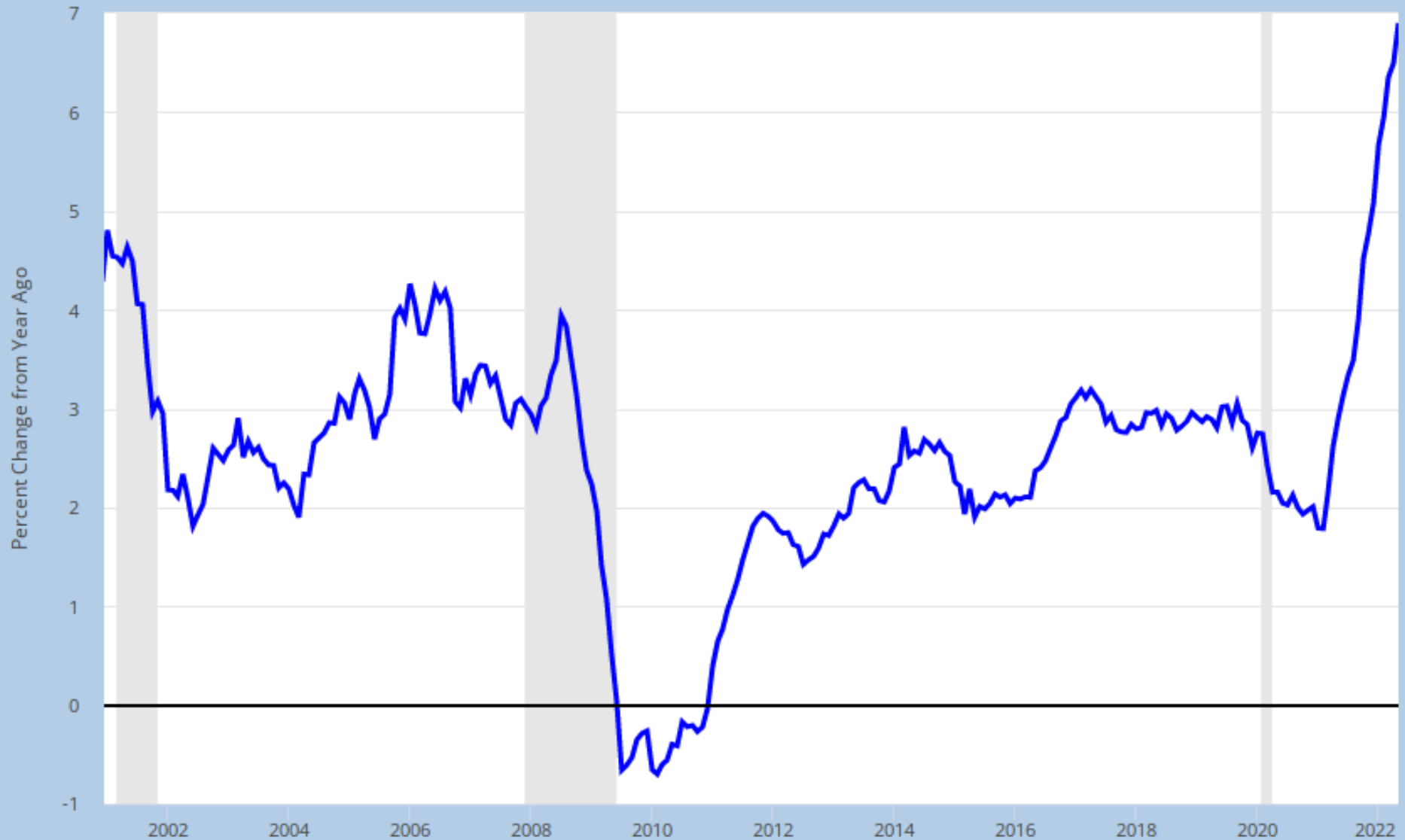
# Housing Inflation is On the Rise

Had been growing at 3% or less but is now 7%

**FRED**



— Consumer Price Index for All Urban Consumers: Housing in U.S. City Average

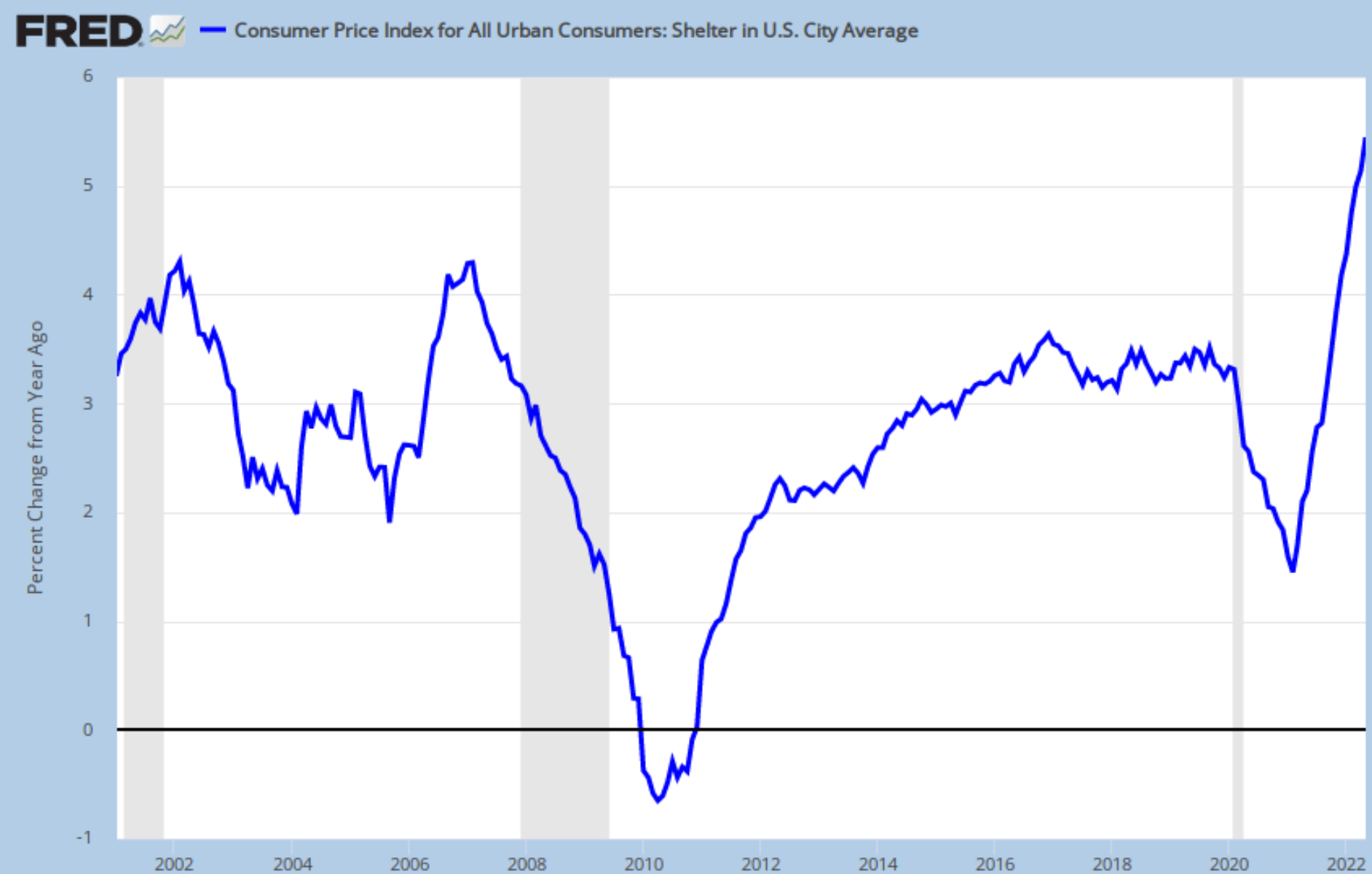


Source: U.S. Bureau of Labor Statistics

[myf.red/g/QpX3](https://myf.red/g/QpX3)

# Increase in Shelter Cost Growth is Now Rising

Was at 3.25% for years but is now 5.4% and rising



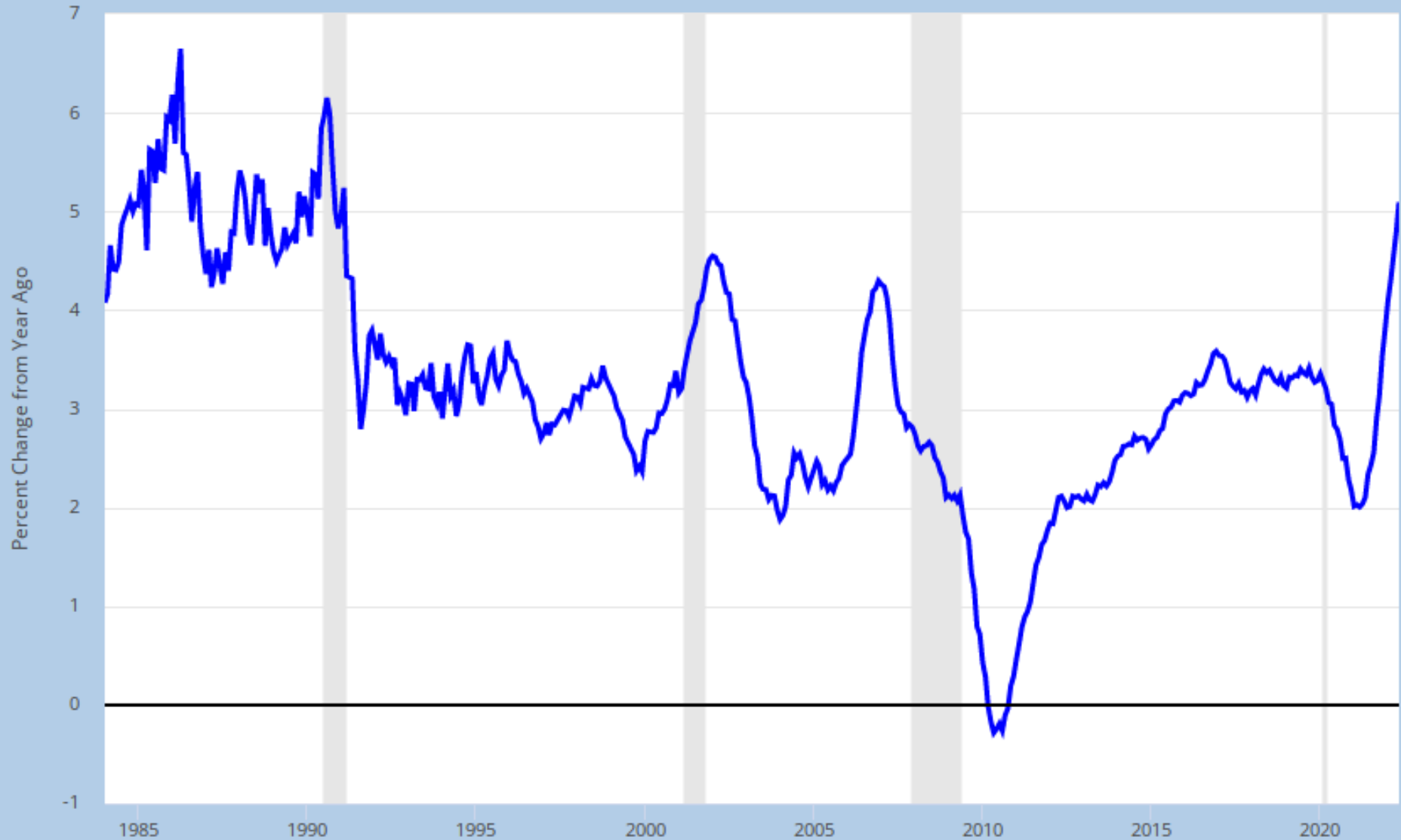
# SF Rentals Are Rapidly Rising

This is 5.1% and is feeding into inflation

**FRED**



— Consumer Price Index for All Urban Consumers: Owners' Equivalent Rent of Residences in U.S. City Average



Source: U.S. Bureau of Labor Statistics

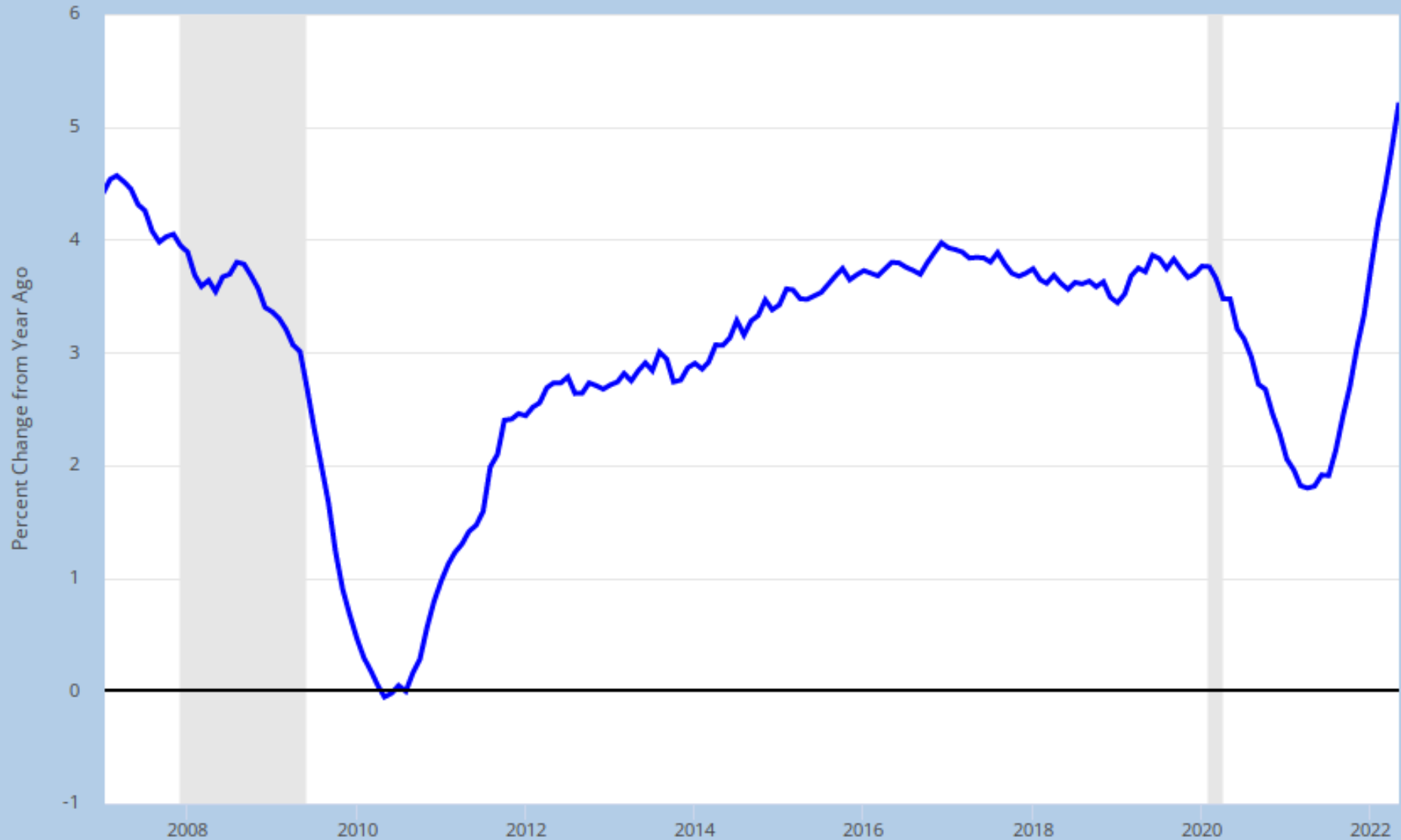
[myf.red/g/QpXs](https://myf.red/g/QpXs)

# Rent Growth Is Very Strong

Was rise faster than wages! Y-o-Y price increase is 5.2%

**FRED** 

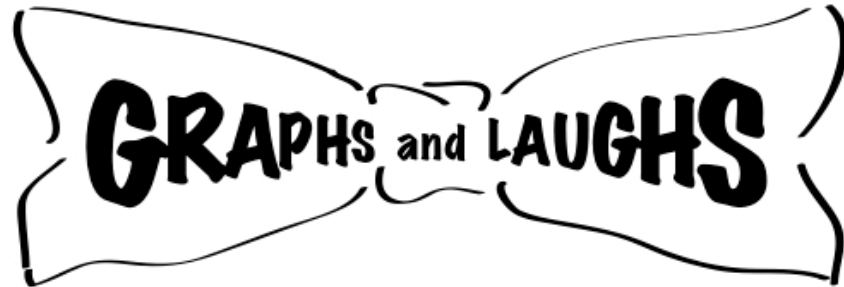
— Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average



Source: U.S. Bureau of Labor Statistics

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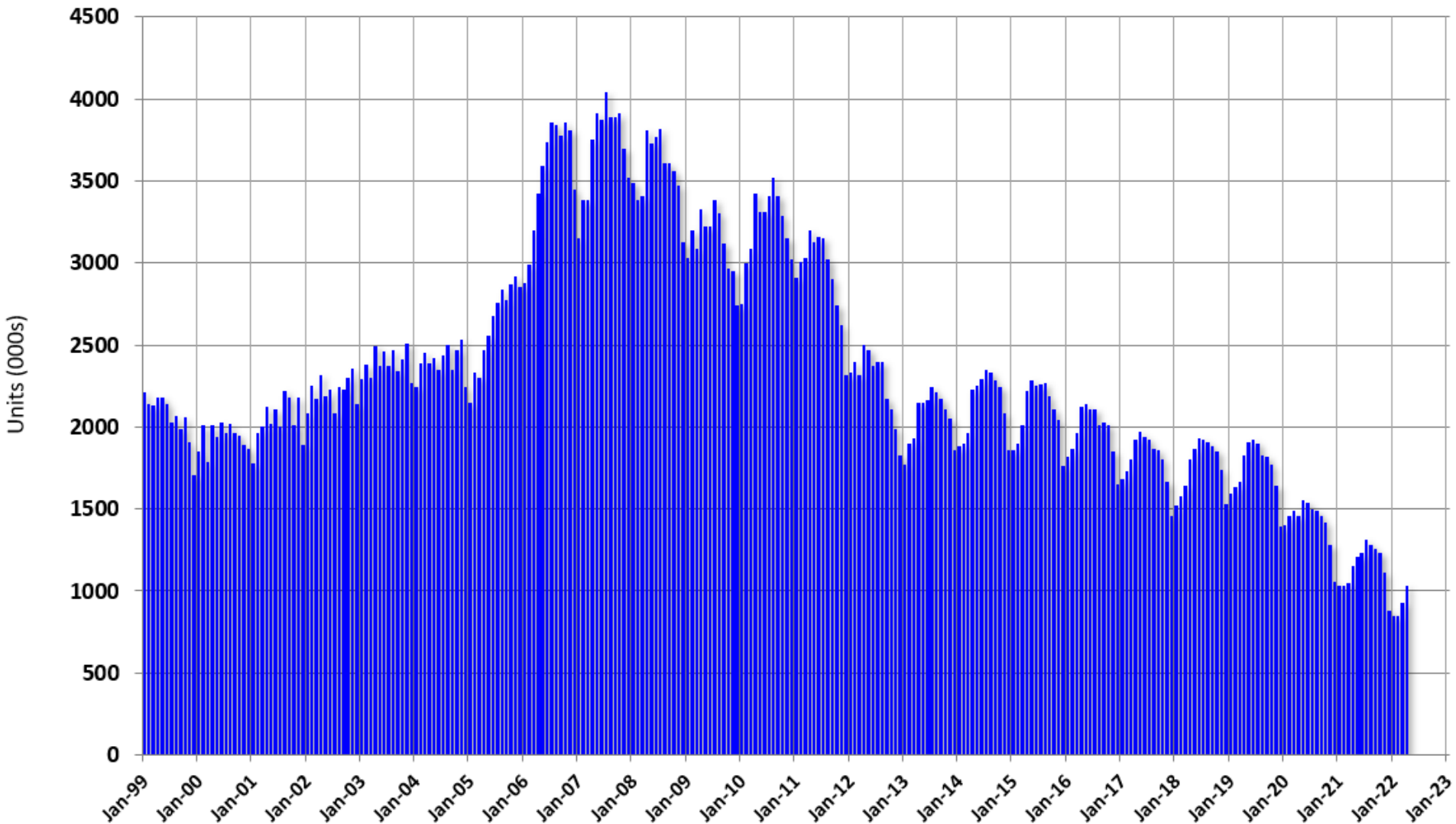
# How About Housing?



# Inventory is Now Rising

## How much it increases is the big question

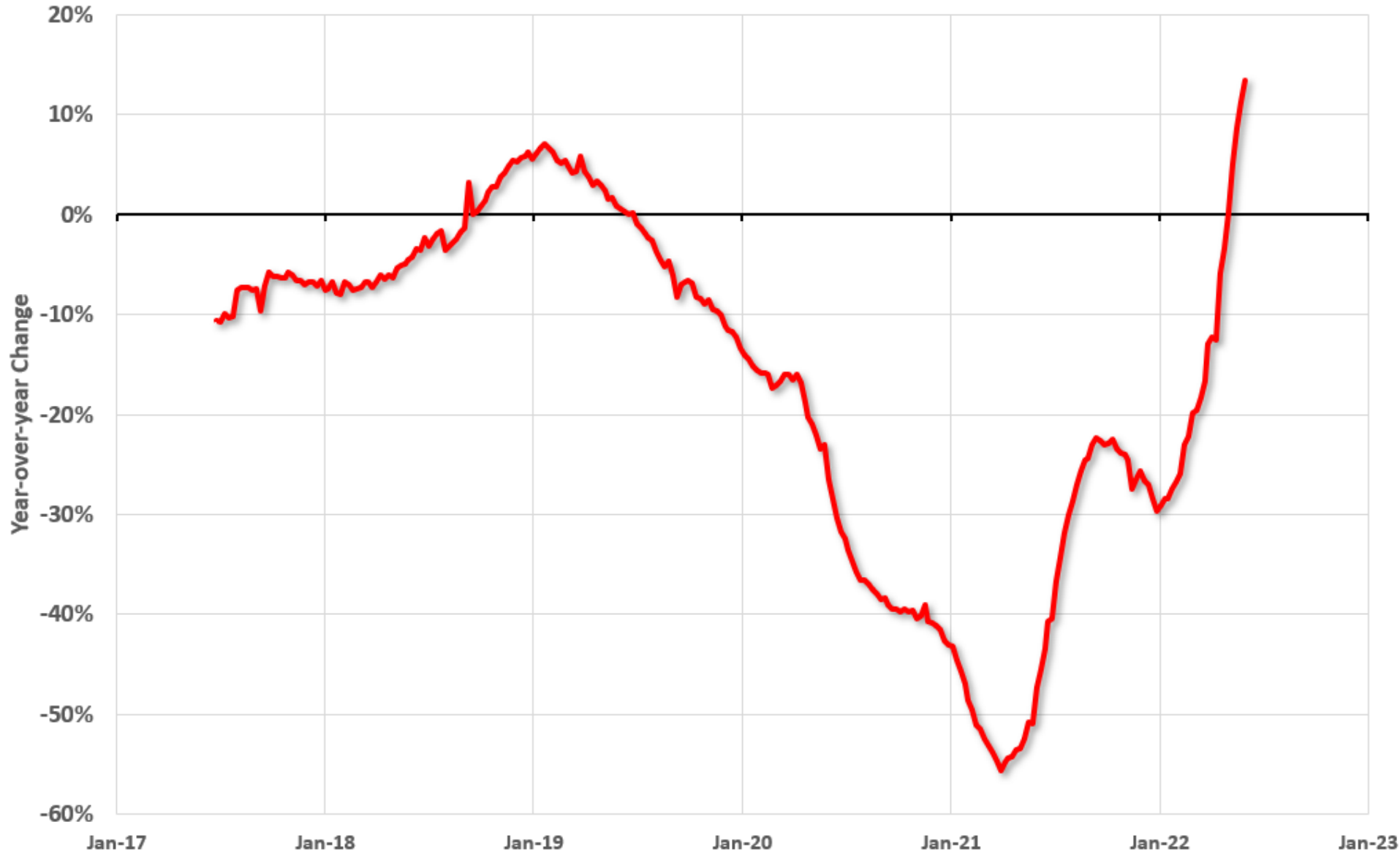
Existing Home Inventory



# Inventory is Finally Growing

Inventory is rising for the first time in years

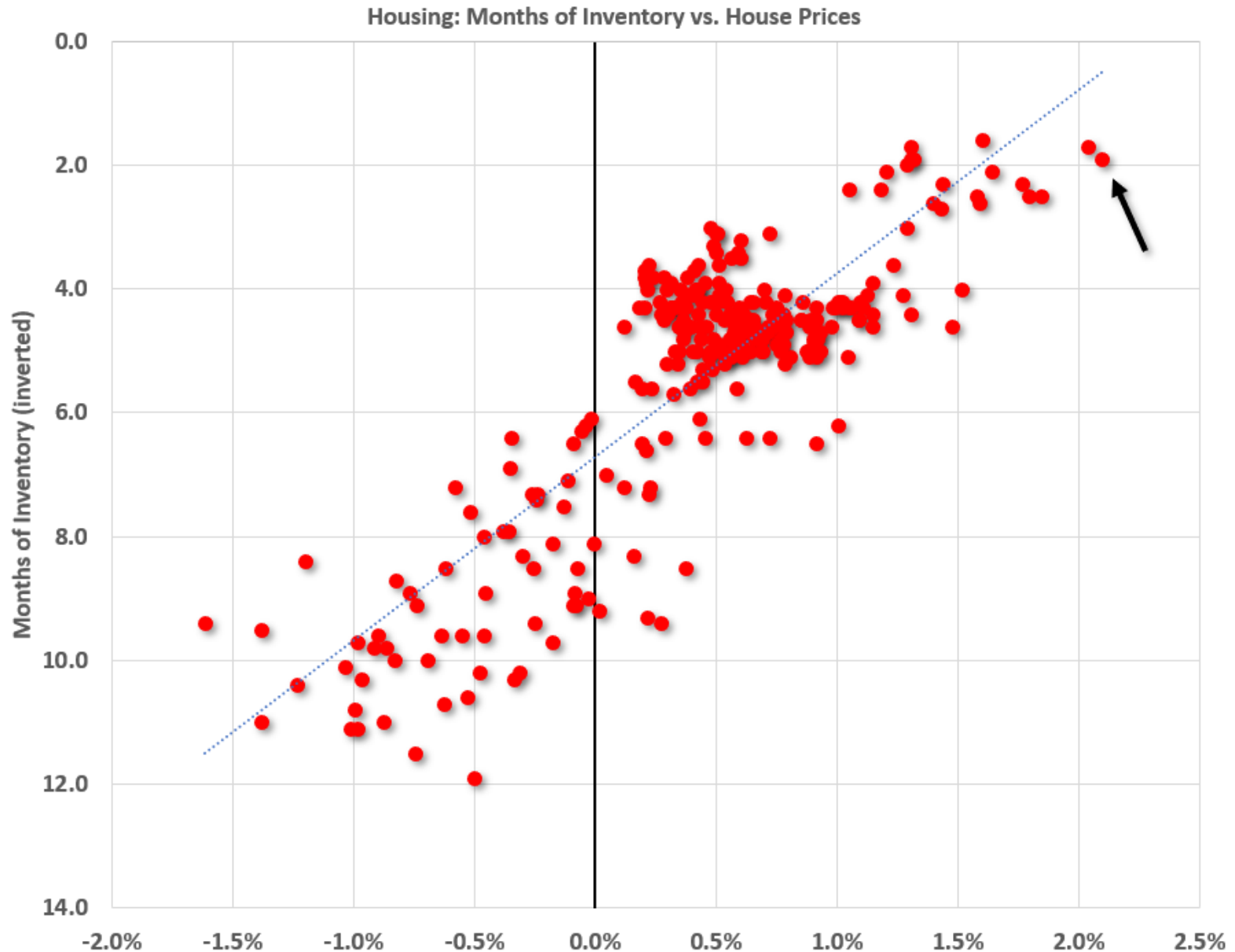
Weekly Active Listings, Year-over-year Change (Source: Realtor.com)





# Existing Inventory is So Low!

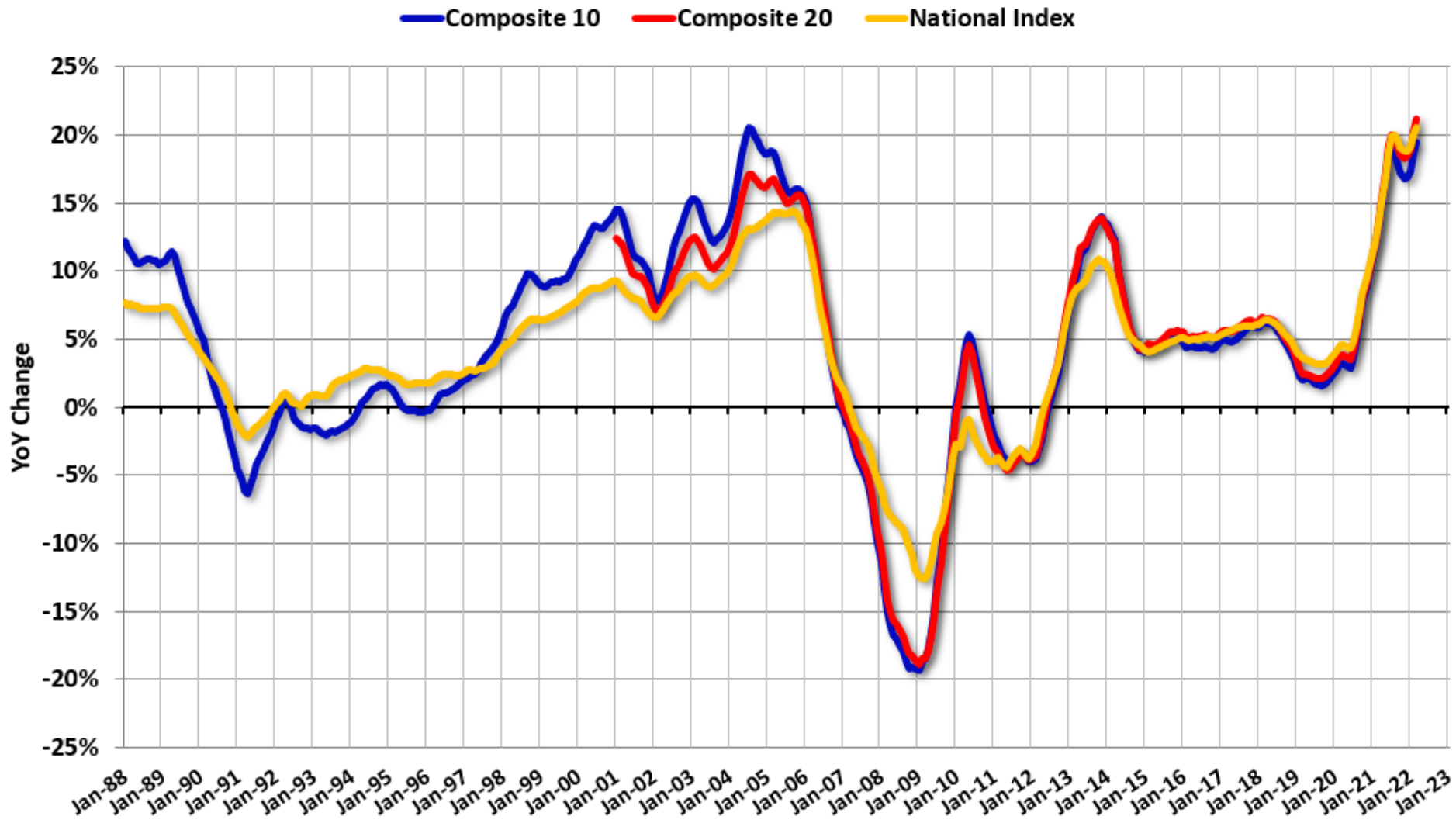
That is why home prices are rising so fast



# Price Growth Will Slow

Prices in '90 and '00 didn't collapse. Y-o-Y prices are up 19.5%, 21.2% or 20.68%

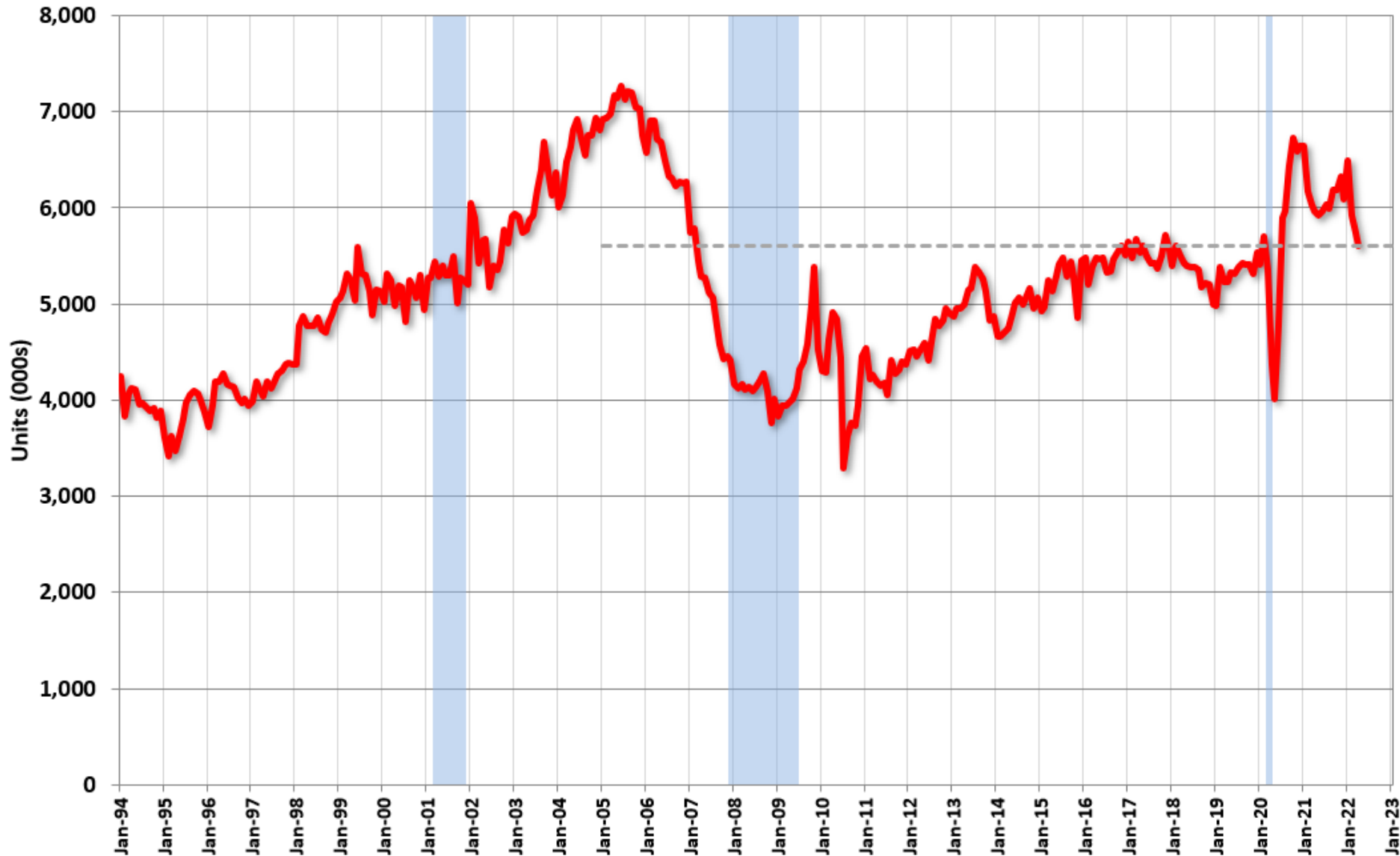
Case-Shiller National and Composite Indices SA, Year-over-year Change



# Existing Home Sales Are Softening

Late 2020 and early 2021 was Peak House

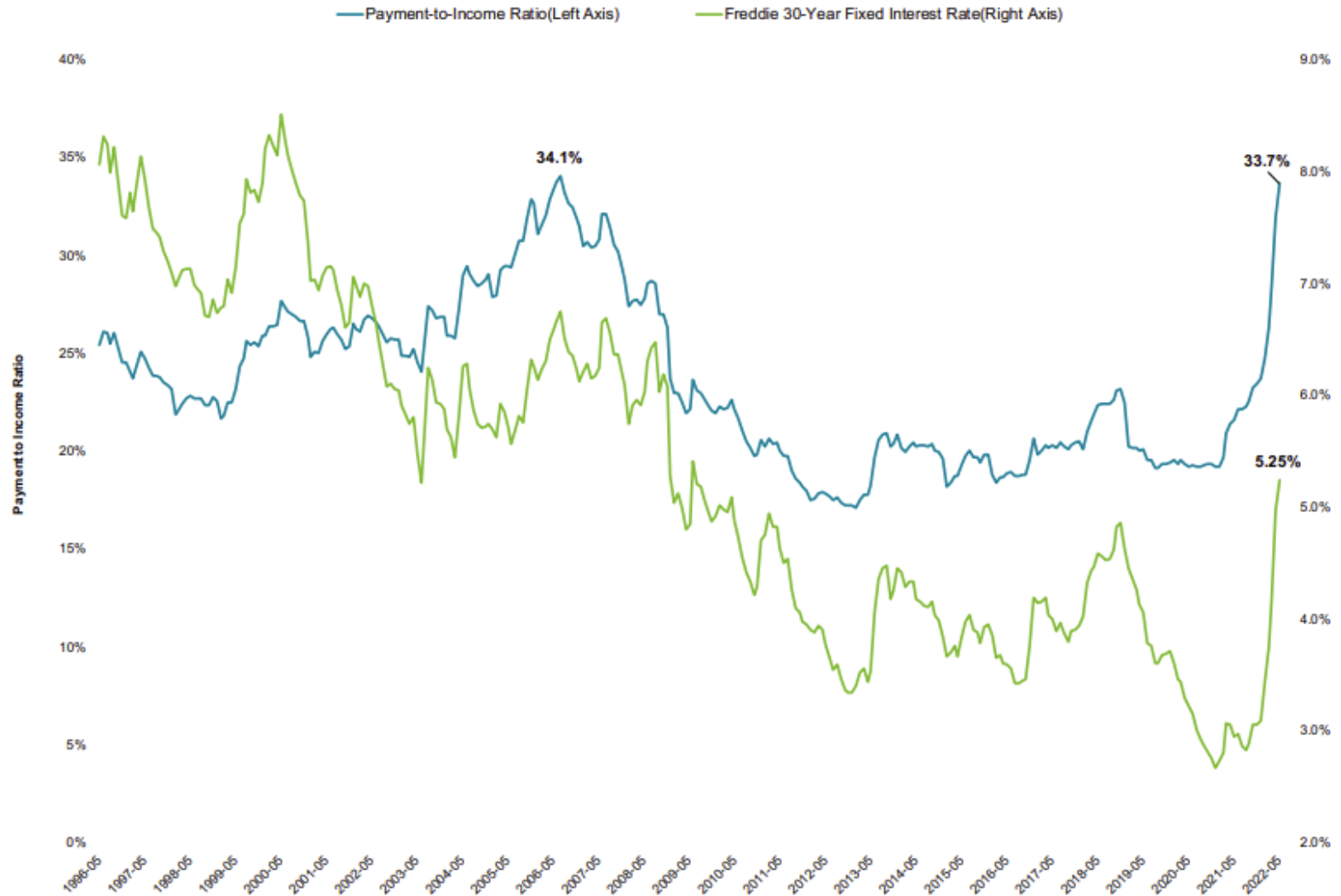
Existing Home Sales (SAAR)



# House Payment to Income Ratio

It is getting quite high

## NATIONAL PAYMENT TO INCOME RATIO\*

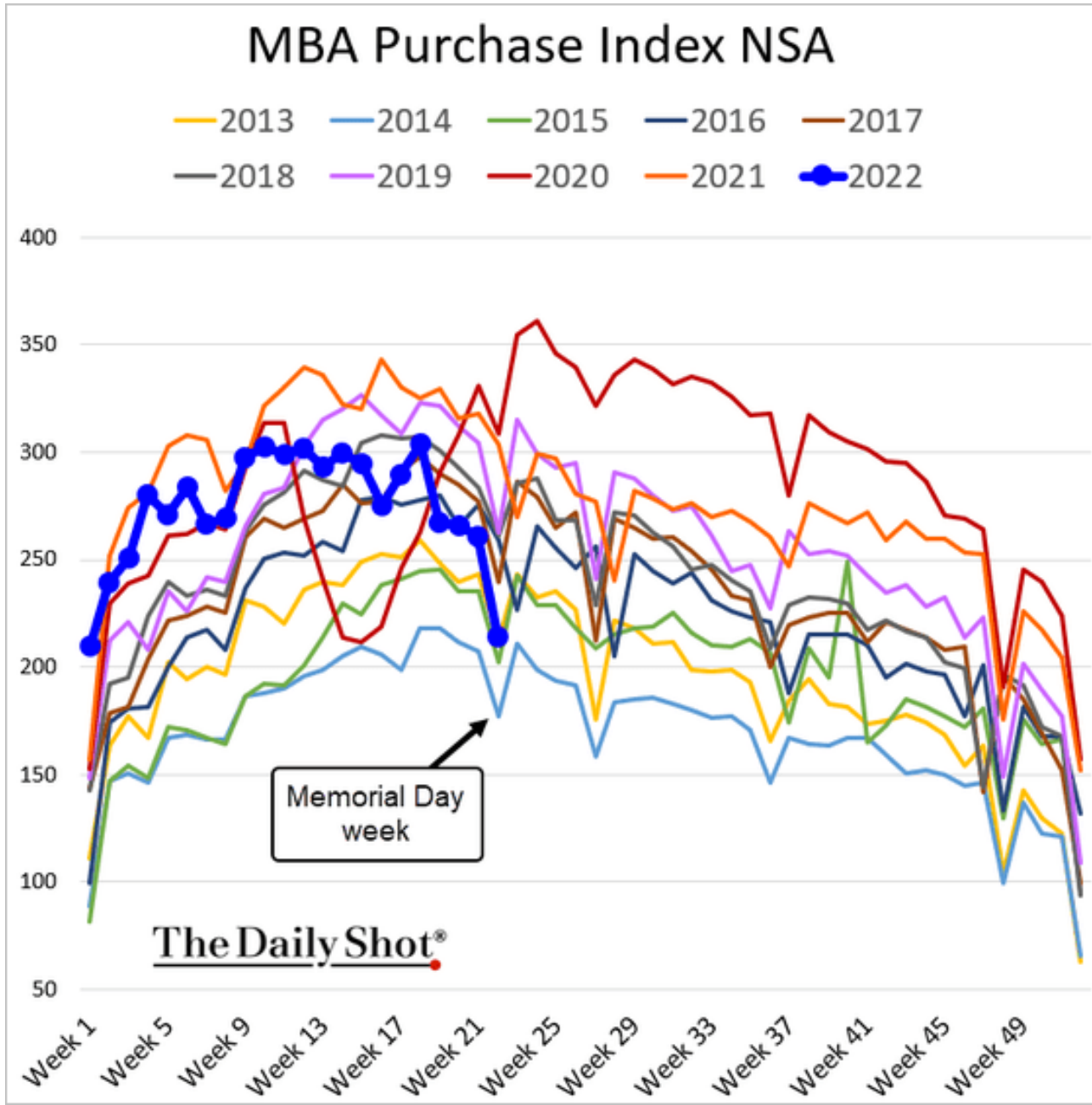


Source: Black Knight HPI, FHLMC PMMS, Moody's

\*The National Payment to Income Ratio is the share of median income needed to make the monthly principal and interest payment on the purchase of the average-priced home using a 20% down 30-year fixed rate mortgage at the prevailing interest rate

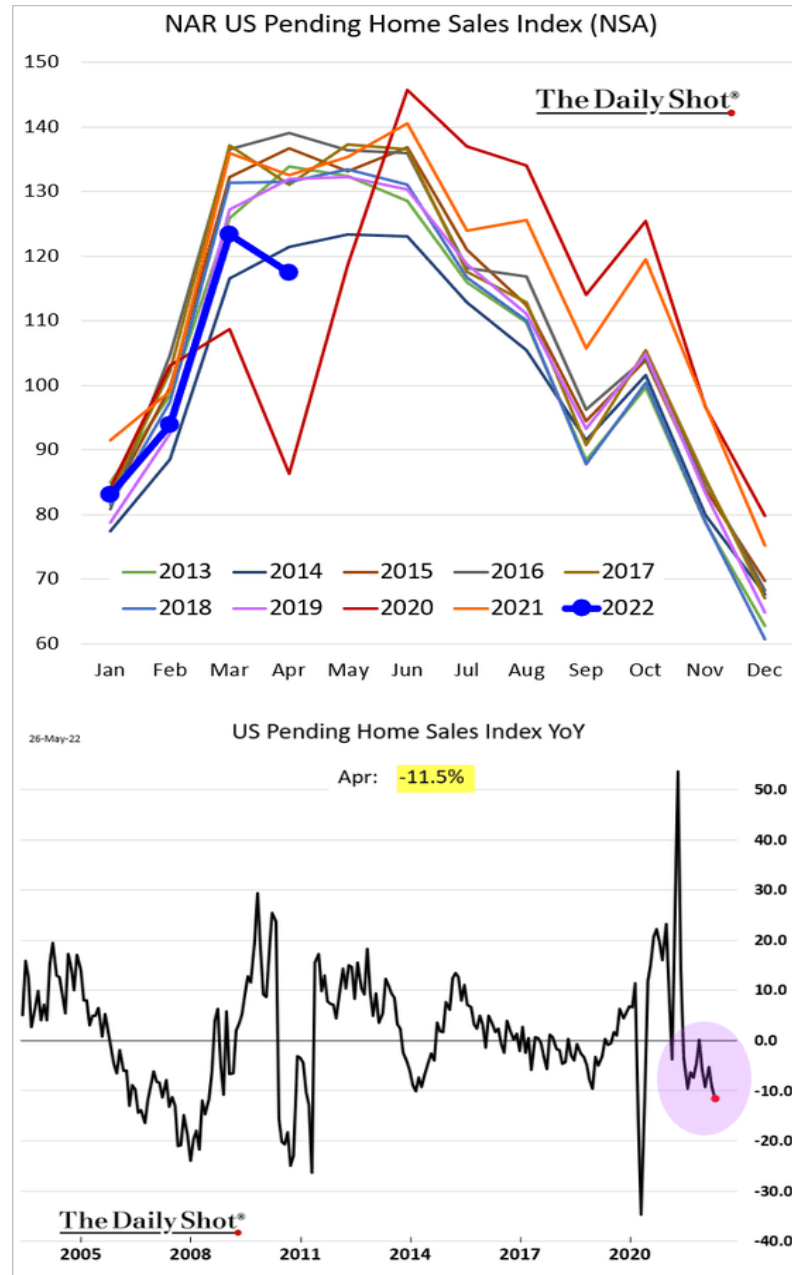
# Mortgage Purchase Applications

Purchase volume is softening. Time for HELOCs and ARMs




# Pending Home Sales are Softening

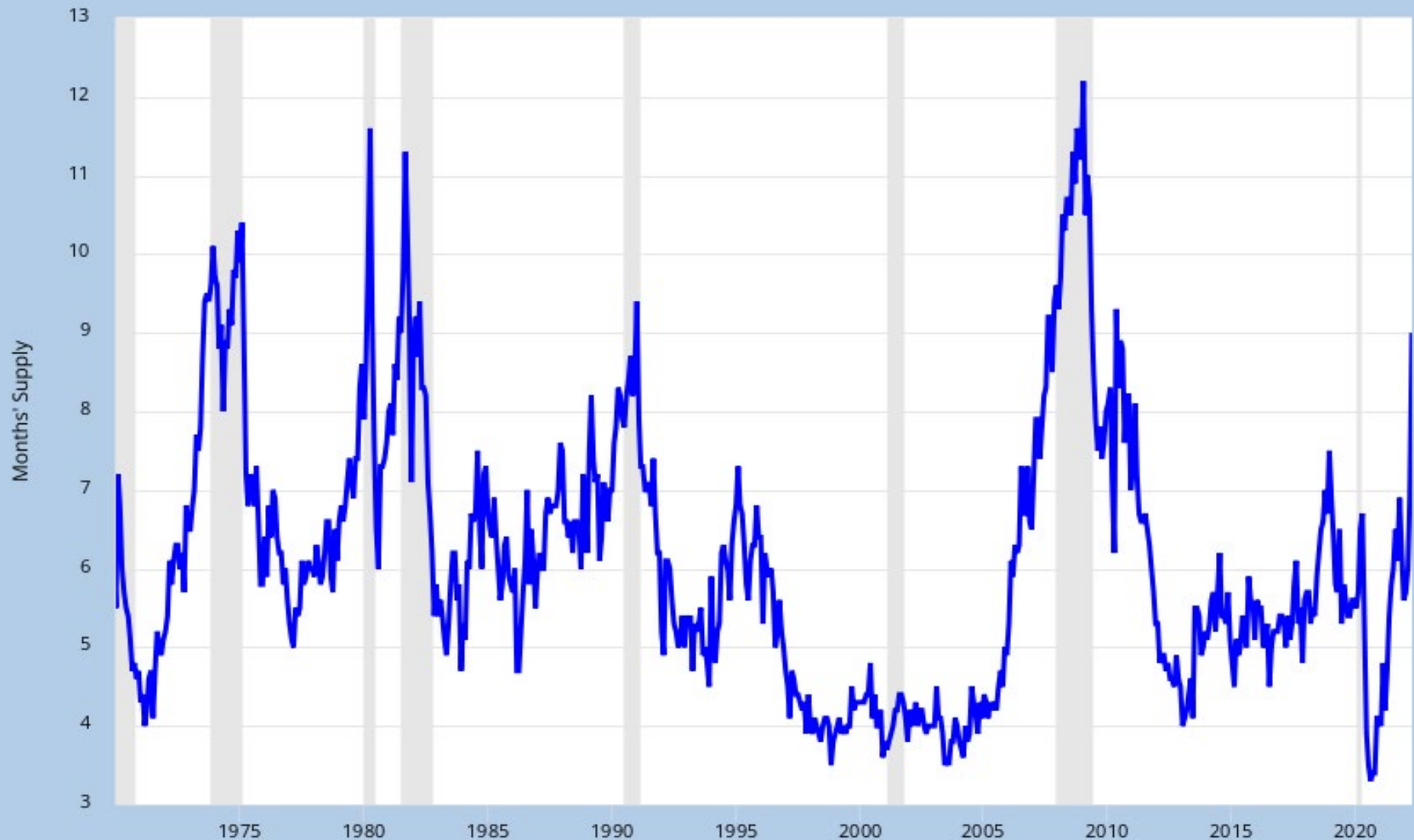
Low inventories and high prices hurt. High rates are too much



# Inventory of New Homes is Very High

Six months supply is healthy. It's now 9

**FRED**  — Monthly Supply of Houses in the United States



*Shaded areas indicate U.S. recessions.*

Sources: Census; HUD

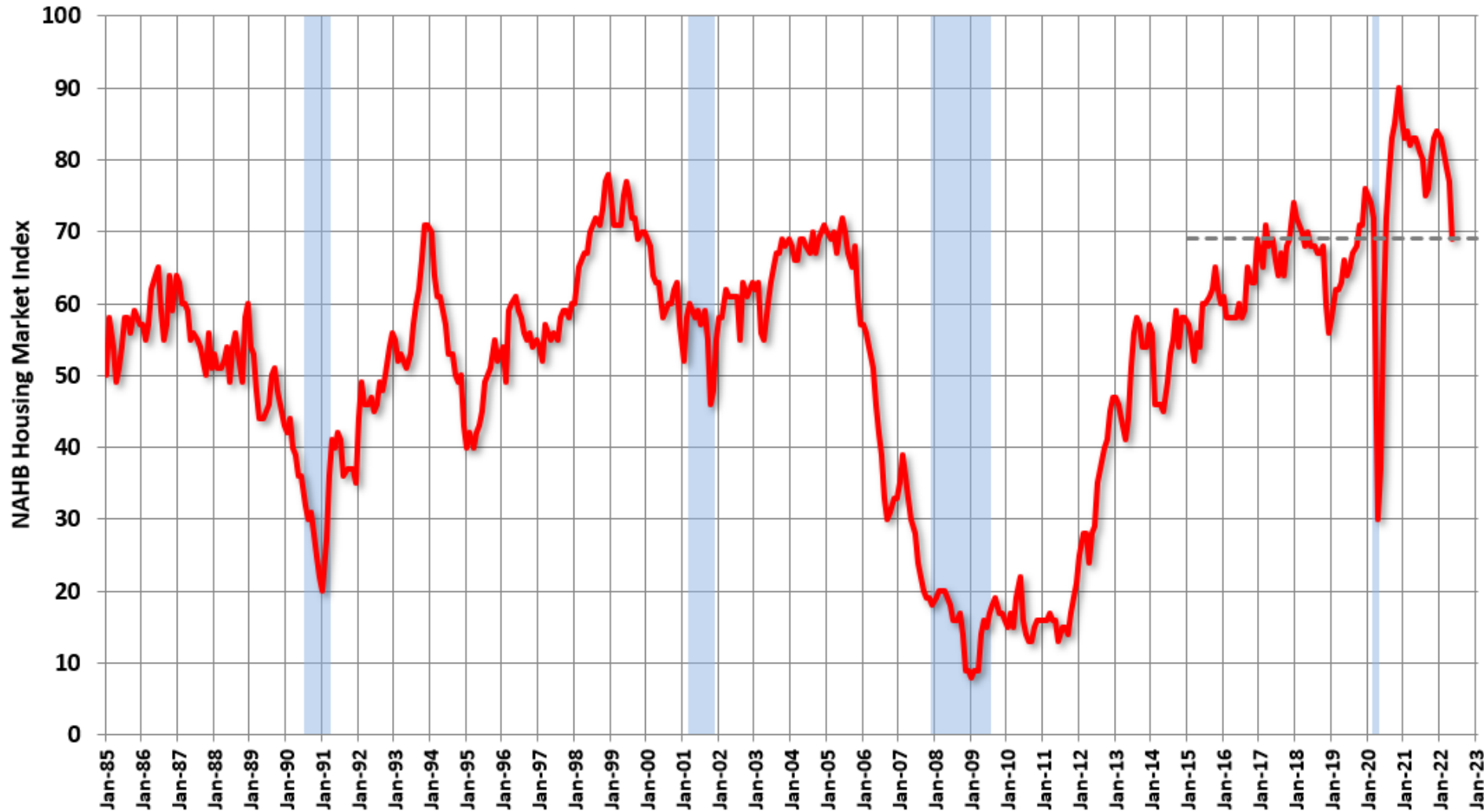
[myf.red/g/PNic](https://myf.red/g/PNic)

# Home Builder Sentiment Sinks

Higher lumber prices, higher rates and supply chain issues are unhelpful

NAHB Housing Market Index

Recession HMI Current





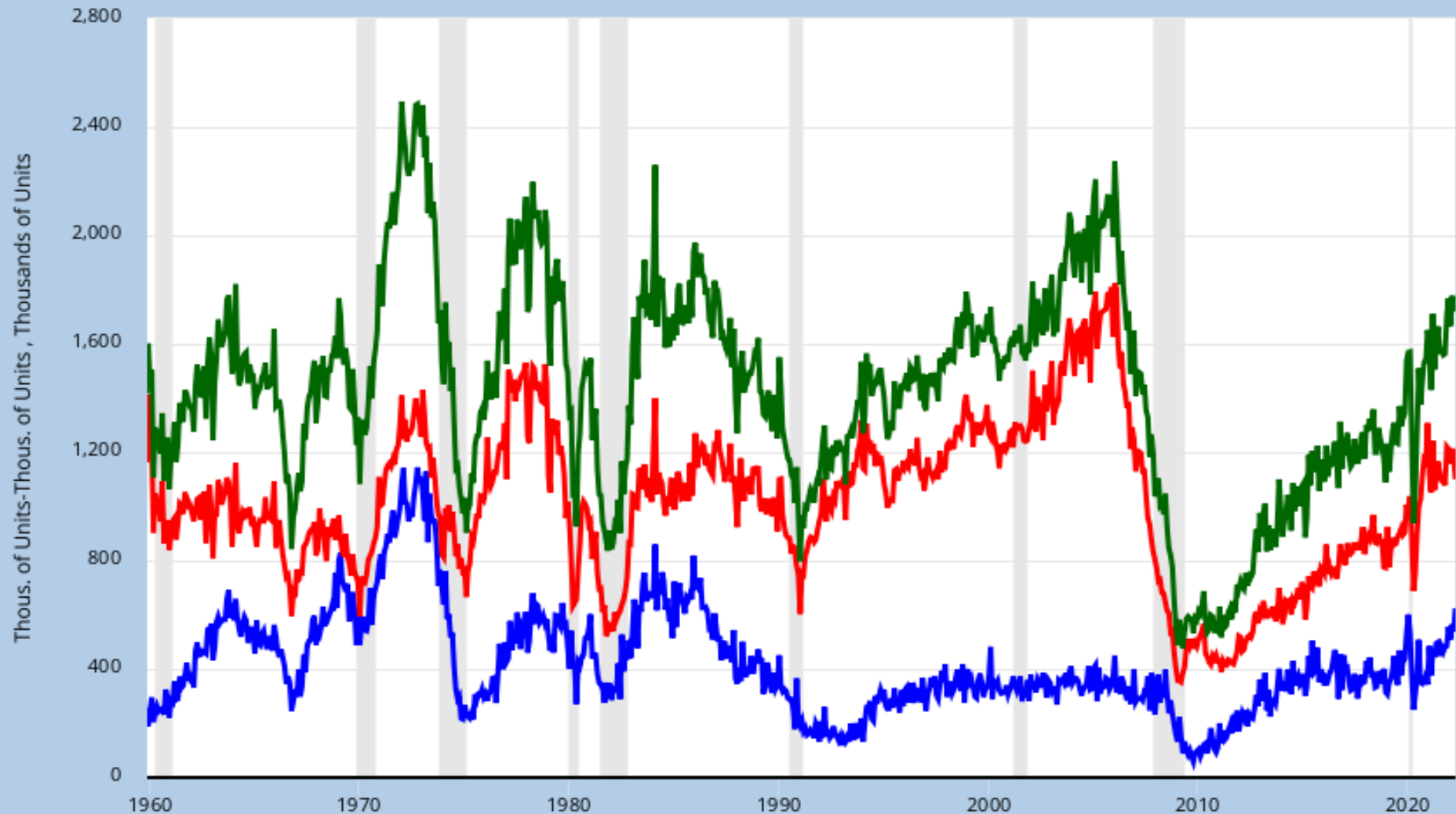
# Single-Family and Multifamily Starts – A nice recovery

SF starts have turned around quickly but have topped out

**FRED**



- New Privately-Owned Housing Units Started: Total Units-New Privately-Owned Housing Units Started: Single-Family Units
- New Privately-Owned Housing Units Started: Single-Family Units
- New Privately-Owned Housing Units Started: Total Units



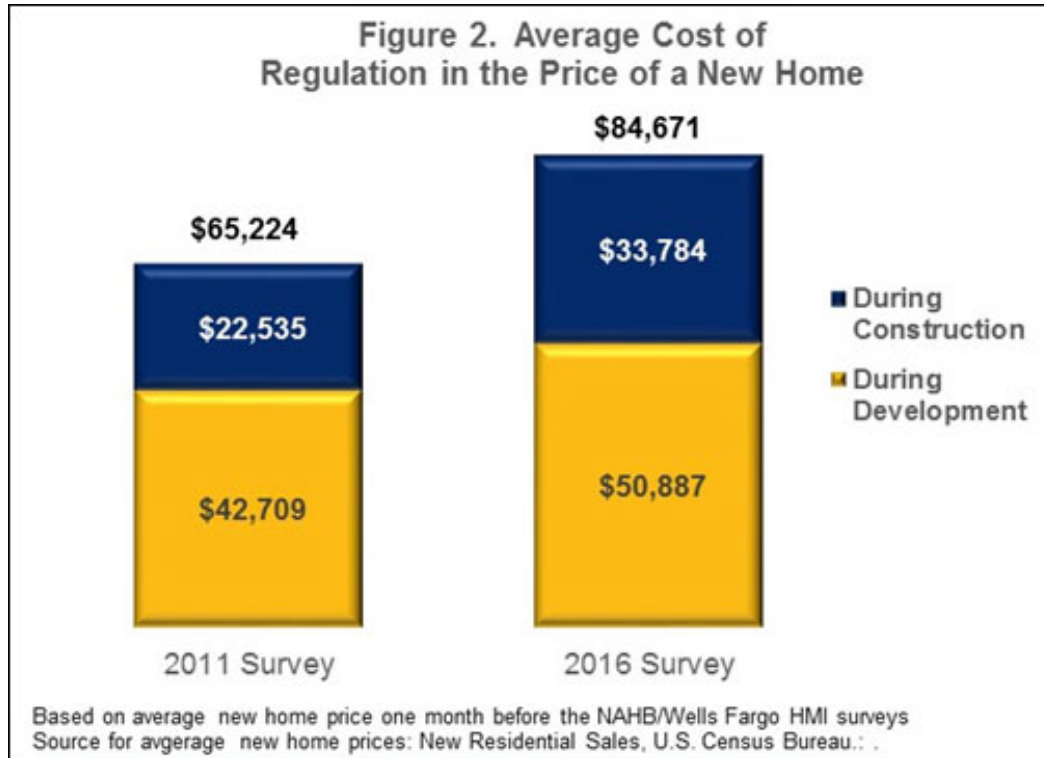
*Shaded areas indicate U.S. recessions.*

Sources: Census; HUD

[myf.red/g/PyRo](https://myf.red/g/PyRo)

# New Home Prices Are Too High Due to Regulation

It keeps rising



**In the 2021 Survey, the average cost of regulation rose to \$93,870, or 23.8% of the new home price**

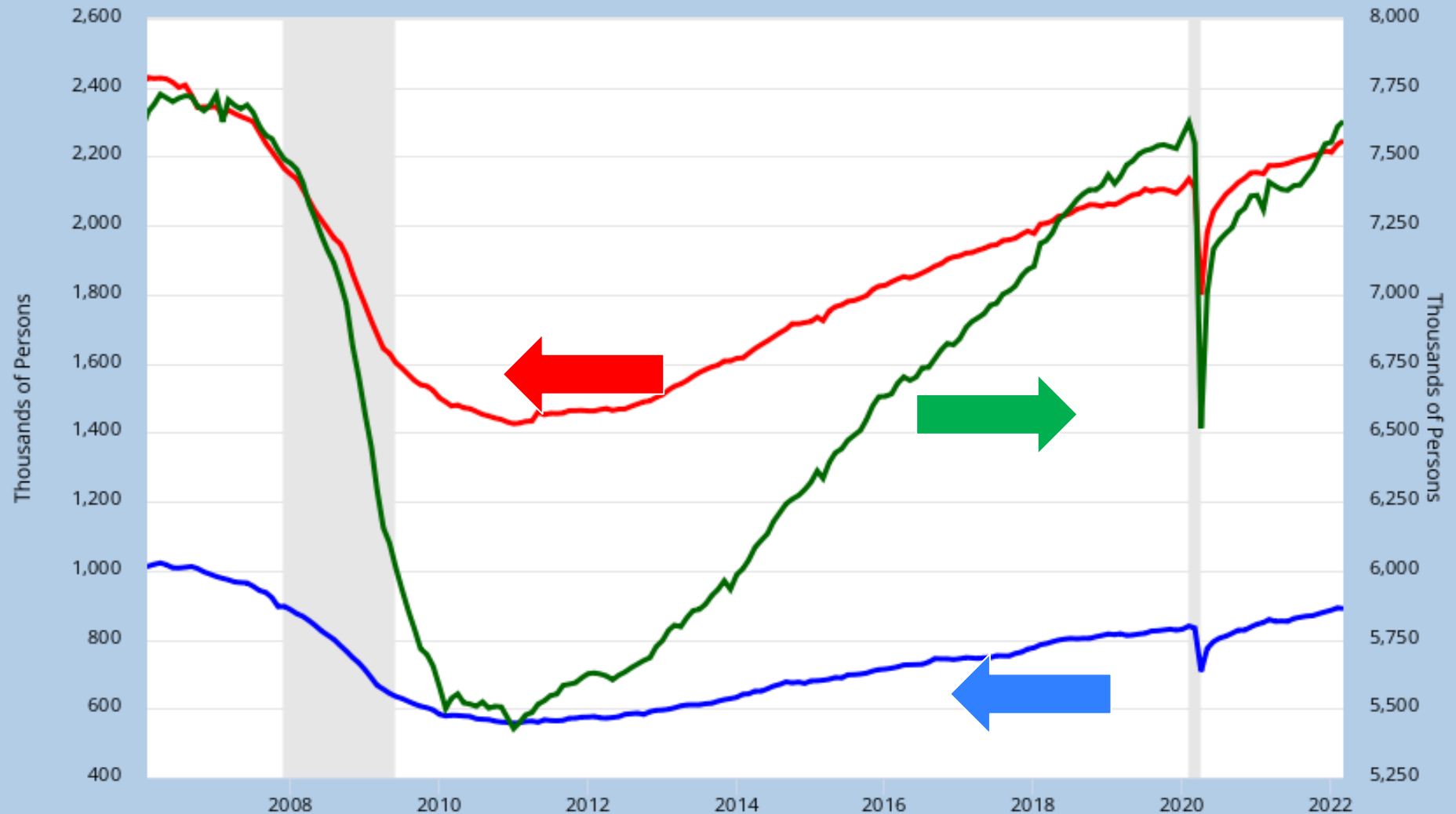
# Construction Employment: Residential & Otherwise

Total construction employment rebounds surprisingly well

FRED



- All Employees, Residential Building (left)
- All Employees, Residential Specialty Trade Contractors (left)
- All Employees, Construction (right)



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

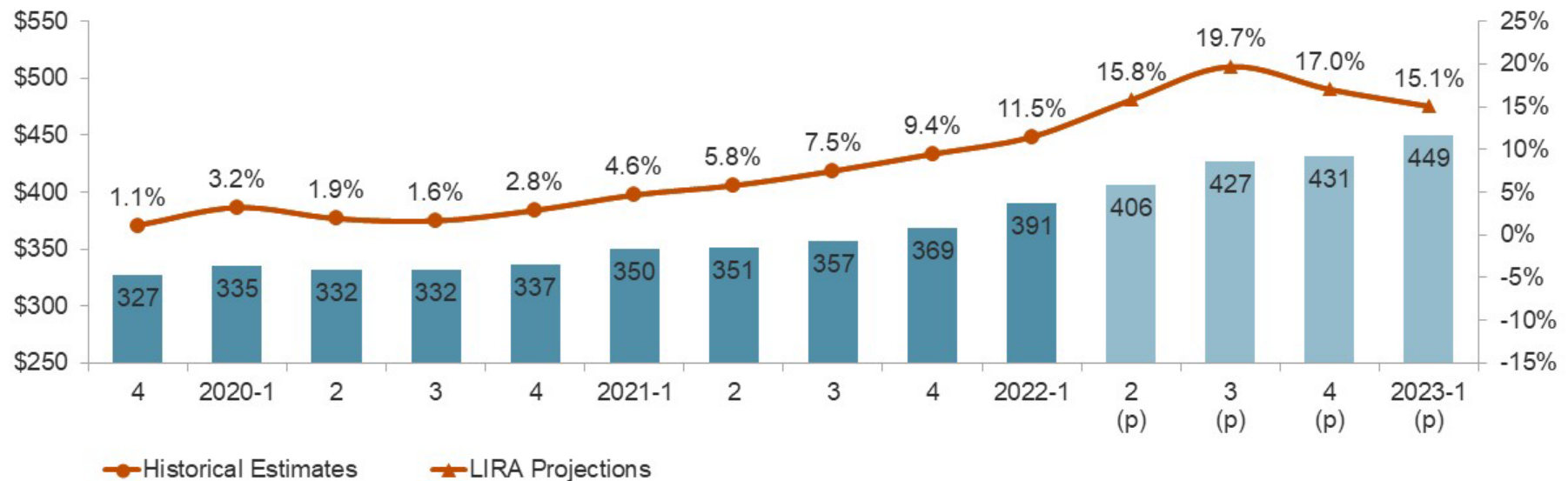
[myf.red/g/O6wW](https://myf.red/g/O6wW)

# Housing Improvements & Repairs Are Fine

## Home prices rise boosting home equity aided by solid existing sales

### Leading Indicator of Remodeling Activity – First Quarter 2022

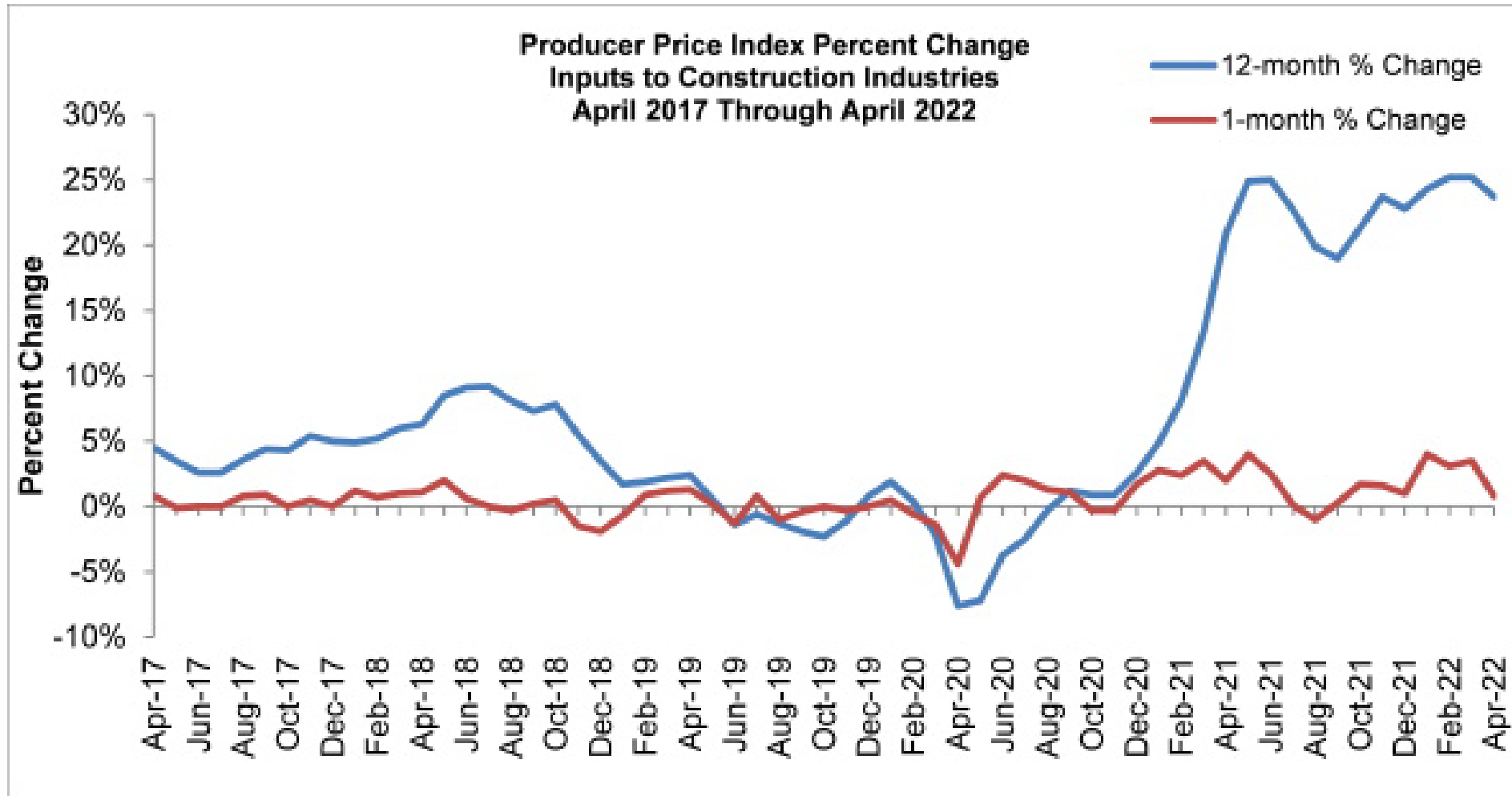
Homeowner Improvements & Repairs  
Four-Quarter Moving Totals  
Billions



Notes: Improvements include remodels, replacements, additions, and structural alterations that increase the value of homes. Routine maintenance and repairs preserve the current quality of homes. Historical estimates since 2019 are produced using the LIRA model until American Housing Survey benchmark data become available.

# Construction Costs Dramatically Rise

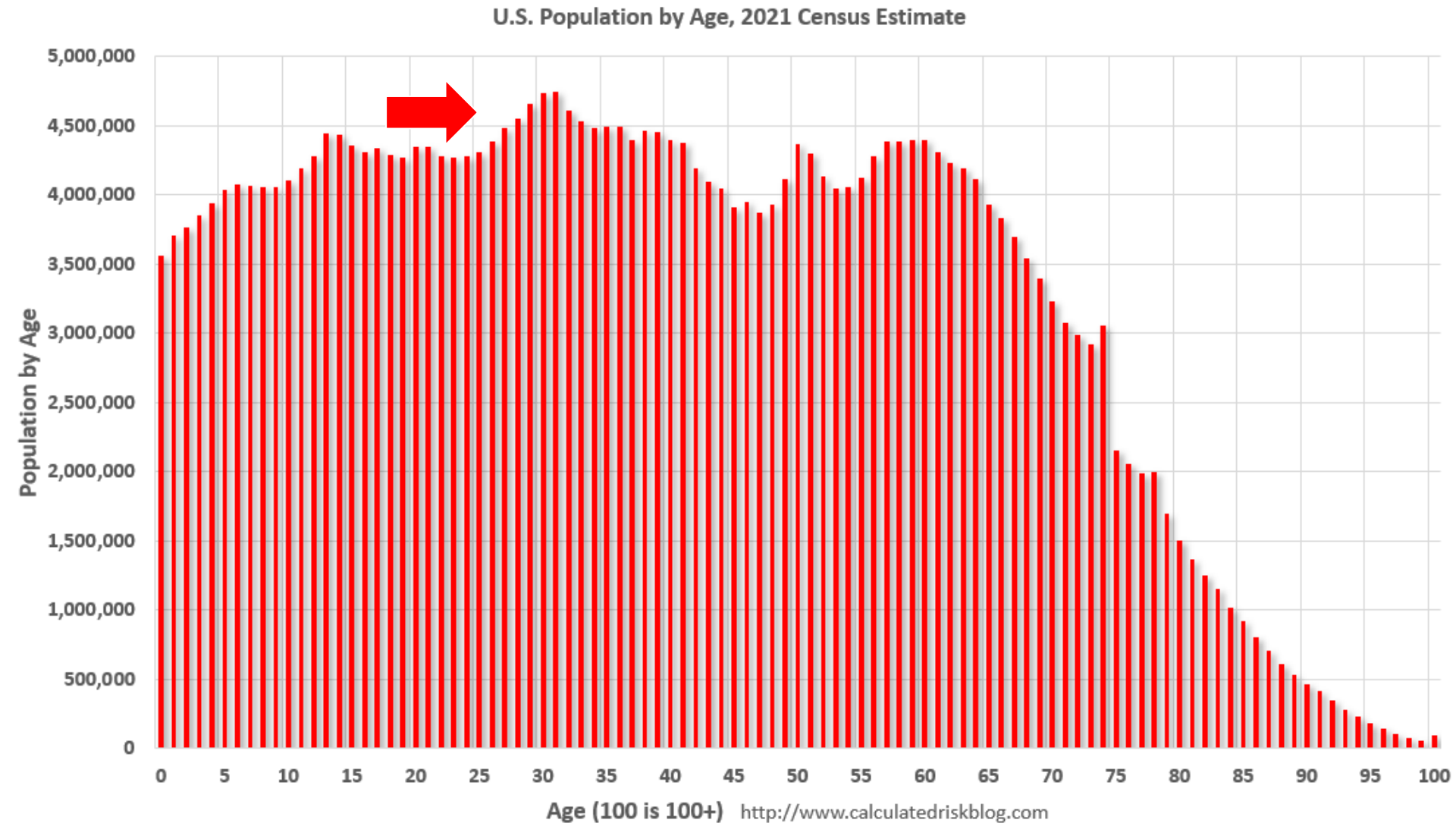
The increases began in early 2021



Source: U.S. Bureau of Labor Statistics


# Millennials Will Keep This Issue Front and Center

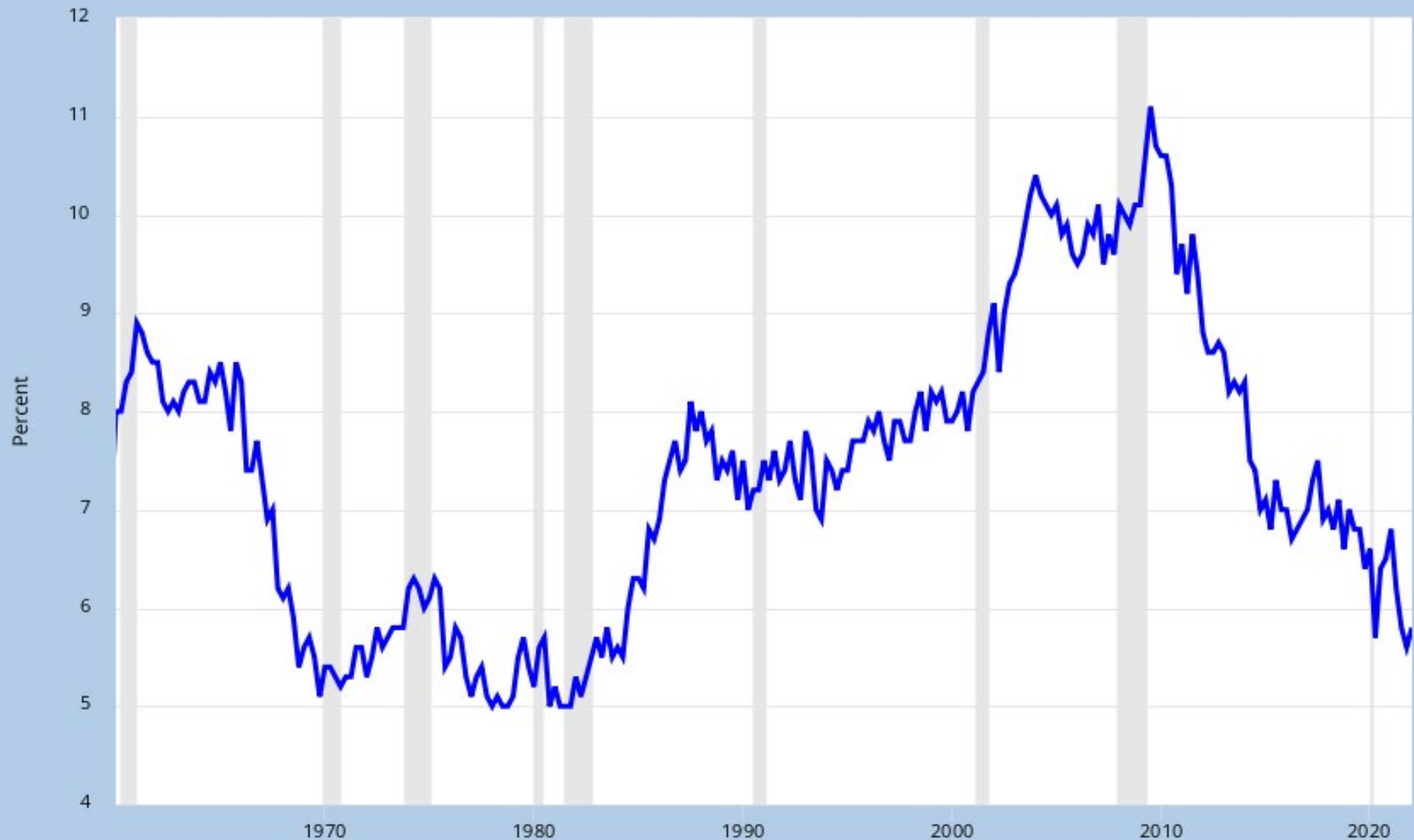
## Beginning to approach Peak Millennial. Chase them, move-up buyers and Boomers



# Apartment Vacancy Rates

## Rental vacancy rates are at 40-year lows

**FRED**  — Rental Vacancy Rate in the United States



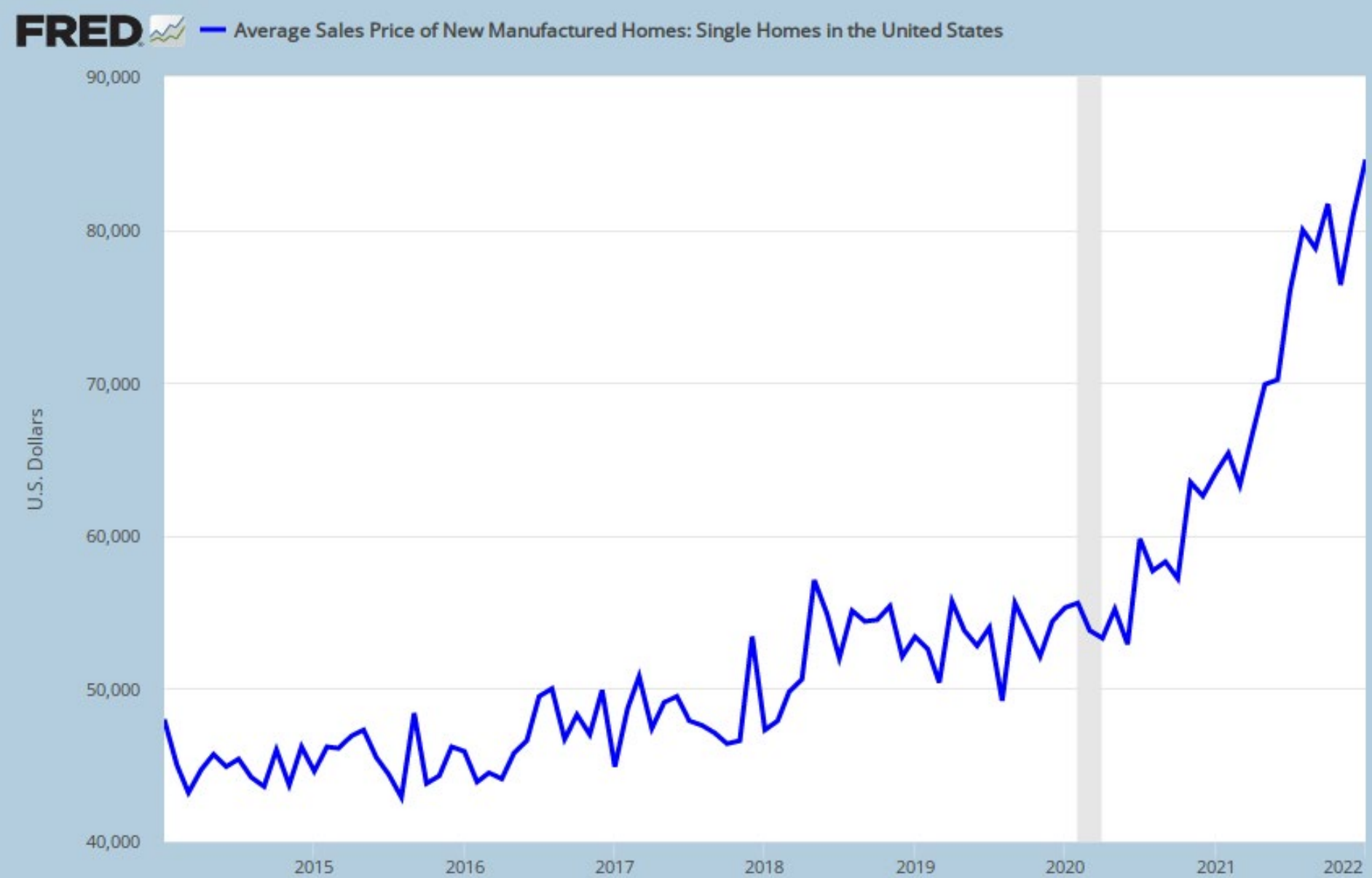
*Shaded areas indicate U.S. recessions.*

Source: U.S. Census Bureau

[myf.red/g/OBfH](https://myf.red/g/OBfH)

# Mobile Home Prices are Surging

Is this because home prices are out of reach? Supply-chain issues?



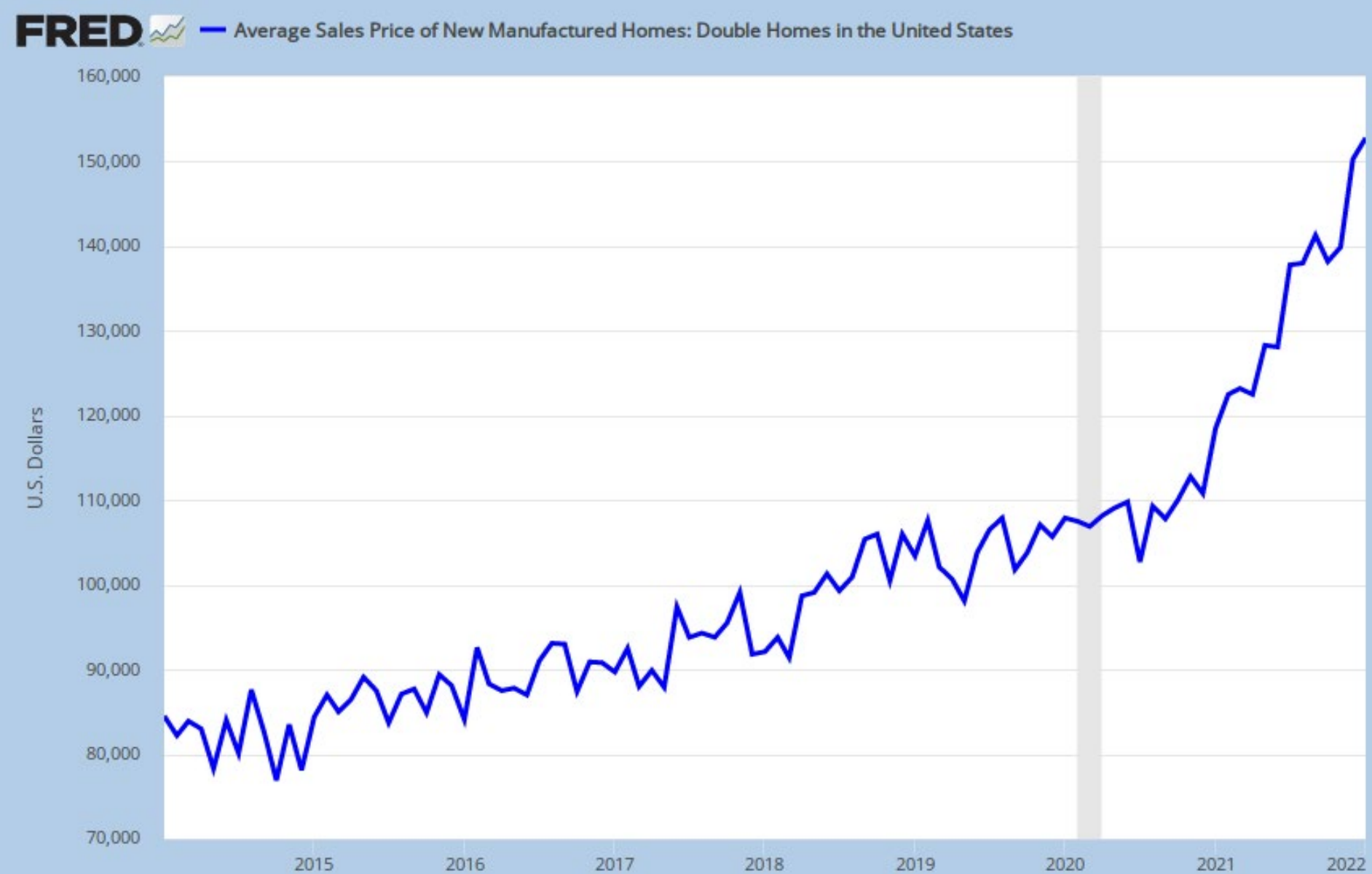
Source: U.S. Census Bureau

[myf.red/g/QpXQ](https://myf.red/g/QpXQ)



# Double-Wide Mobile Home Prices are Surging

Is this because home prices are out of reach? Supply-chain issues?



Source: U.S. Census Bureau

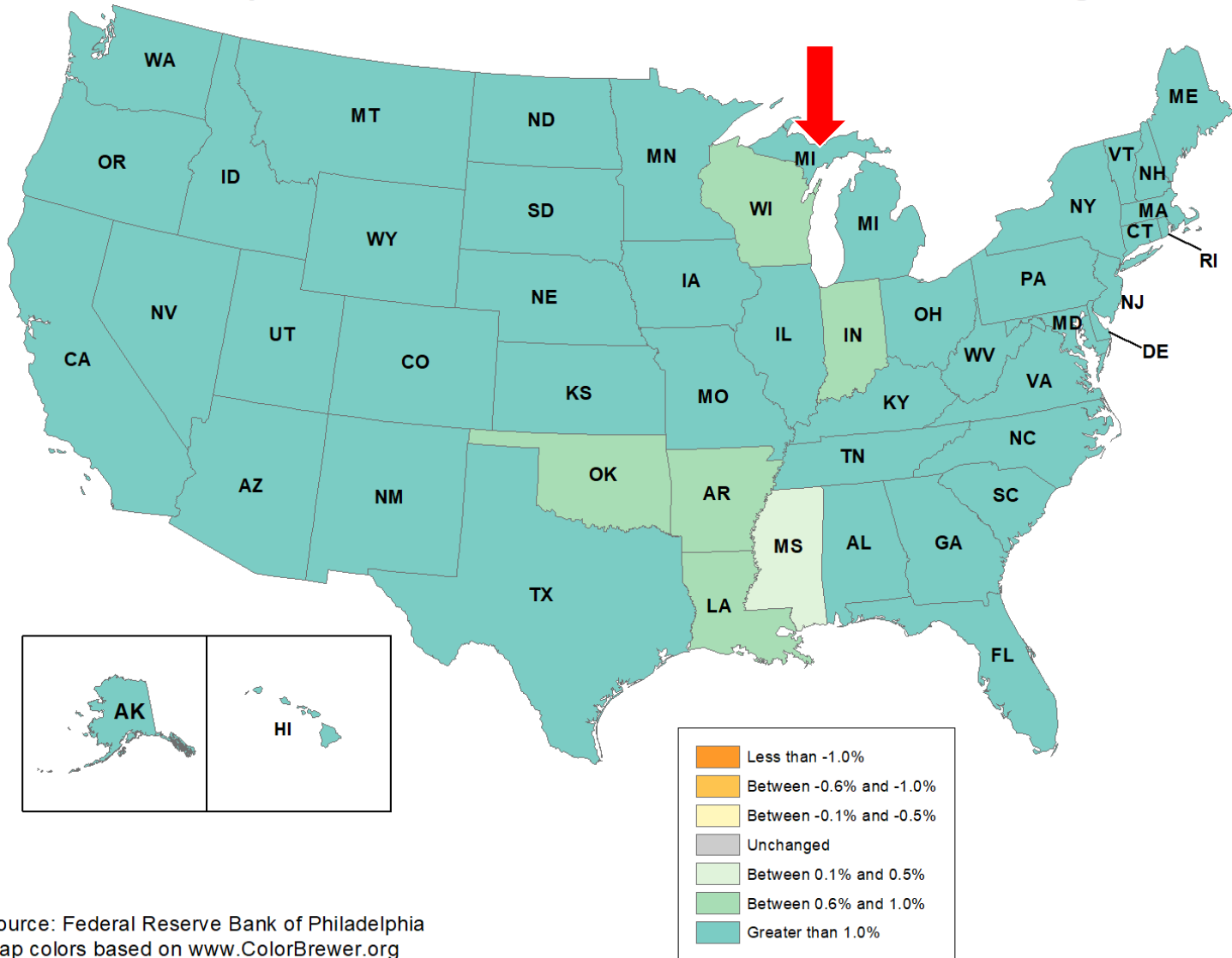
[myf.red/g/QpXX](https://myf.red/g/QpXX)

**What About  
Things Here?**

# Things Are Definitely Improving

Growth is strong just about everywhere

April 2022 State Coincident Indexes: Three-Month Change



Source: Federal Reserve Bank of Philadelphia  
Map colors based on [www.ColorBrewer.org](http://www.ColorBrewer.org)

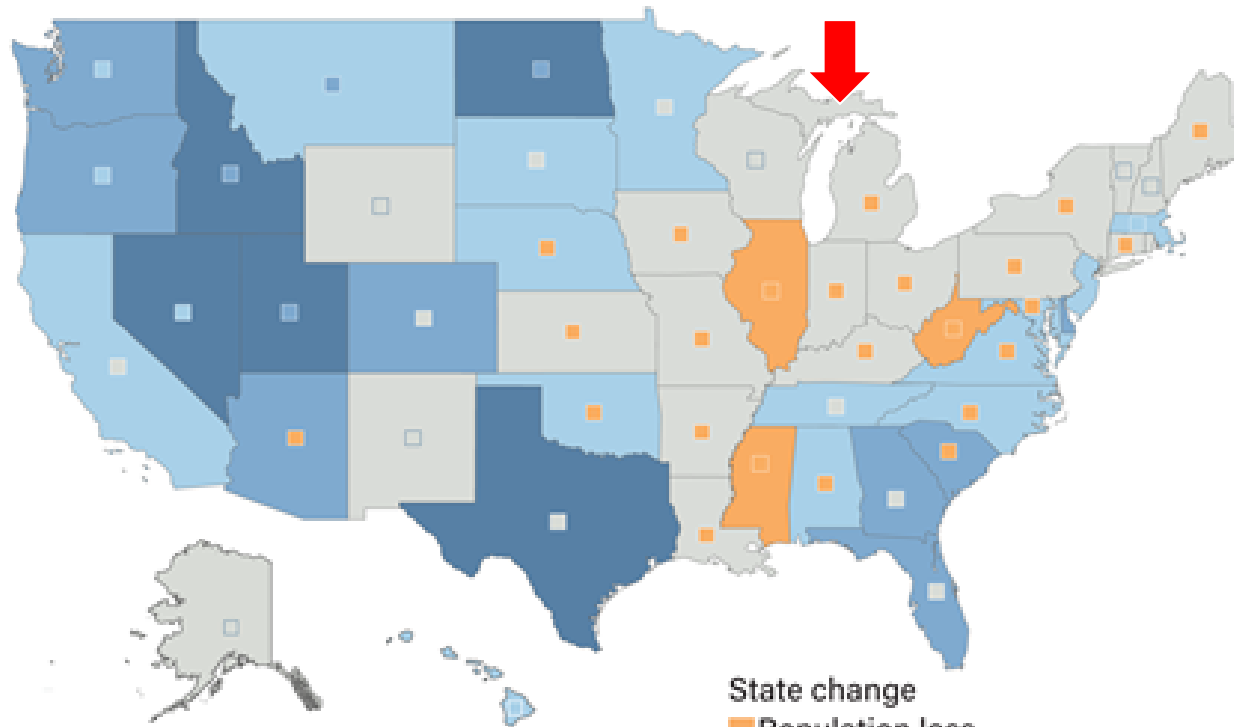
# Population Growth by State: 2010-2020

Best in Texas and the intermountain west.

Percent change in U.S. State and nonmetro population, 2010-20



Economic Research Service  
U.S. DEPARTMENT OF AGRICULTURE



Nonmetro change

Inset boxes indicate population change using the legend to the right for the nonmetro portions of States

State change

Population loss

0.0 to 4.9 percent

5.0 to 9.9 percent

10.0 to 14.9 percent

15.0 percent or more

Notes: Average growth for the United States as a whole for 2010-20 was 7.4 percent. New Jersey, Delaware, Rhode Island, and Washington DC have no nonmetro portions.

Source: USDA, Economic Research Service using data from the U.S. Department of Commerce, Bureau of the Census.

# KEY TAKEAWAYS

- 1) 2022 will be an OK year
- 2) The Fed will keep raising rates
- 3) The US Should create 3.5 million jobs
- 4) Inflation is now peaking
- 5) Spending on services will rise
- 6) Inflation, unemployment, and inventory

# ANY QUESTIONS?

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