



# U.S. 2022 ECONOMIC OUTLOOK: LACKLUSTER GROWTH, INFLATION AND RISING RATES

September 2022

# U.S. Economy: Slowdown, inflation and future expectations



## US Economic Growth

- Economy growth between 1% & 1.5% in 2H'22
- 45% Probability of Recession over next 12 months
- Hiring remains strong but should moderate
- Inflation and rising interest rates as Fed attempts to restore price stability
- Policy normalization at central bank to quicken and include balance sheet runoff



## US Growth Picture: Risks around slower growth

- Q2'22: US Growth -0.6%
- Q3'22: RSM Forecast 1.5%
- Q4'22: RSM Forecast 1.1%
- 2022 1.5%, 2023 1.1%, 2024 1.8%



## US Inflation Outlook: Risk around stubborn inflation

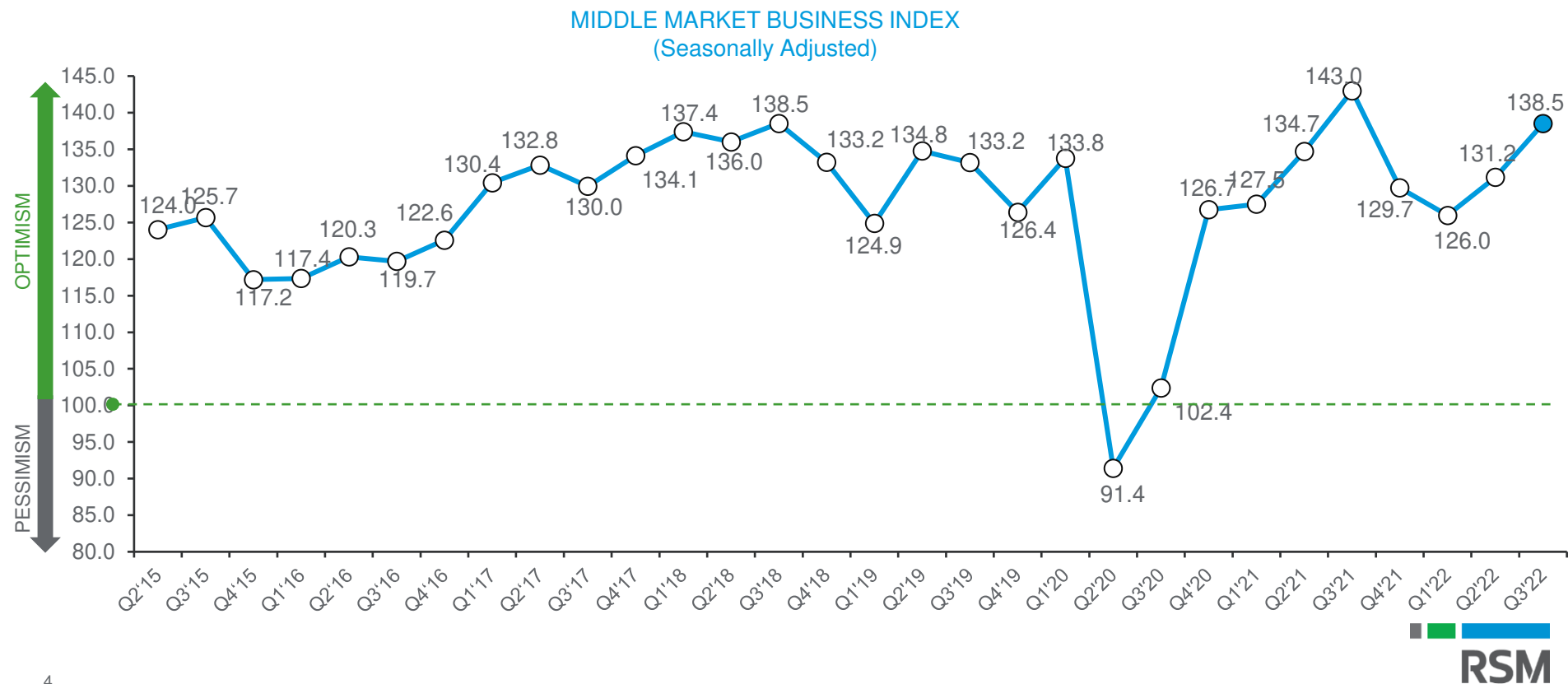
- Q3'22: RSM CPI Y/Y Forecast 8.6 Core PCE Y/Y 4.9 %
- Q4'22: RSM CPI Y/Y Forecast 7.7%, Core PCE Y/Y 4.7%
- 2023: RSM CPI Y/Y Forecast 4.0%, Core PCE Y/Y 3.0%

# RSM US Forecast

							<i>Probability of Recession: 45%</i>		
	2020	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	2023	2024
Real GDP	-3.4	5.7	-1.6	-0.9	1.4	1.0	1.5	1.1	2.0
Consumer Spending	-3.8	7.9	3.1	2.8	1.5	1.3	1.7	1.5	1.7
Private Investment	-5.5	9.8	-2.7	-1.4	-0.2	0.8	2.0	1.7	3.1
Industrial Production	-0.8	-7.2	3.6	4.6	3.9	2.5	4.2	2.3	2.9
Consumer Price Index (Y/Y%)	1.2	4.7	8.0	6.5	8.6	7.7	8.3	3.9	2.7
Personal Consumption Expenditure Deflator (Y/Y%)	1.2	3.9	6.3	6.1	6.2	5.5	5.5	4.0	2.5
Core PCE (Y/Y%)	1.4	3.5	5.1	4.7	4.9	4.5	4.5	3.0	2.6
10-Year Yield	0.9	1.5	2.3	3.2	3.3	3.2	3.3	3.1	3.0
Policy Rate	0.25	0.25	0.50	0.75	3.25	4.0	4.0	4.0	4.0
Unemployment	8.1	5.4	3.8	3.6	3.6	3.8	3.8	4.7	4.6

Source:

# The RSM US Middle Market Business Index: Economic Activity and Sentiment Remain Strong



# RSM MMBI: Passing Through Price Increases

## PRICE RECEIVE FOR ALL GOODS/SERVICES – CURRENT

“Thinking about the prices that your organization **received** for all of its goods and services this quarter versus last quarter, how would you describe the current general level of prices **received**? Would you say prices **received** by your organization, on average, have . . .”

Base: All Council Members Except Nonprofits (n=388)

	Total																		
	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
<b>Non-Seasonally Adjusted:</b>																			
<b>Bottom 2</b>	<b>9</b>	<b>9</b>	<b>8</b>	<b>10</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>11</b>	<b>8</b>	<b>31↑</b>	<b>22↓</b>	<b>16↓</b>	<b>17</b>	<b>23↑</b>	<b>10↓</b>	<b>11</b>	<b>18↑</b>	<b>15</b>	<b>7↓</b>
Decreased substantially	<.5	<.5	1	2	1	2	1	2	1	5	4	3	5	7	3↓	1	2	1	1
Decreased somewhat	8	9	7	8	8	8	9	9	7	27↑	18↓	13↓	13	16	8↓	10	16↑	14	6↓
Remained unchanged	47	44	47	48	49	49	48	49	49	48	54↑	43↓	40	36	30	32	26	25	22
<b>Top 2</b>	<b>45</b>	<b>46</b>	<b>45</b>	<b>42</b>	<b>41</b>	<b>42</b>	<b>42</b>	<b>40</b>	<b>43</b>	<b>21↓</b>	<b>24</b>	<b>42↑</b>	<b>43</b>	<b>42</b>	<b>59↑</b>	<b>57</b>	<b>56</b>	<b>60</b>	<b>71↑</b>
Increased somewhat	41	41	40	37	38	38	40	36	36	17↓	19	35↑	33	35	49↑	48	45	47	61↑
Increased substantially	4	6	5	6	3	3	3	4	7	4	5	6	10	6	10	9	10	13	10
<b>Seasonally Adjusted:</b>																			
<b>Bottom 2</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>10</b>	<b>9</b>	<b>7</b>	<b>9</b>	<b>11</b>	<b>8</b>	<b>28↑</b>	<b>21</b>	<b>17↓</b>	<b>16</b>	<b>19</b>	<b>10↓</b>	<b>12</b>	<b>17</b>	<b>10↓</b>	<b>7</b>
<b>Top 2</b>	<b>44</b>	<b>48</b>	<b>47</b>	<b>43</b>	<b>41</b>	<b>44</b>	<b>44</b>	<b>40</b>	<b>43</b>	<b>25↓</b>	<b>25</b>	<b>41↑</b>	<b>42</b>	<b>47</b>	<b>60↑</b>	<b>56</b>	<b>55</b>	<b>66↑</b>	<b>71↑</b>

# RSM MMBI: Passing Through Price Increases

## PRICE RECEIVE FOR ALL GOODS/SERVICES – OVER NEXT SIX MONTHS

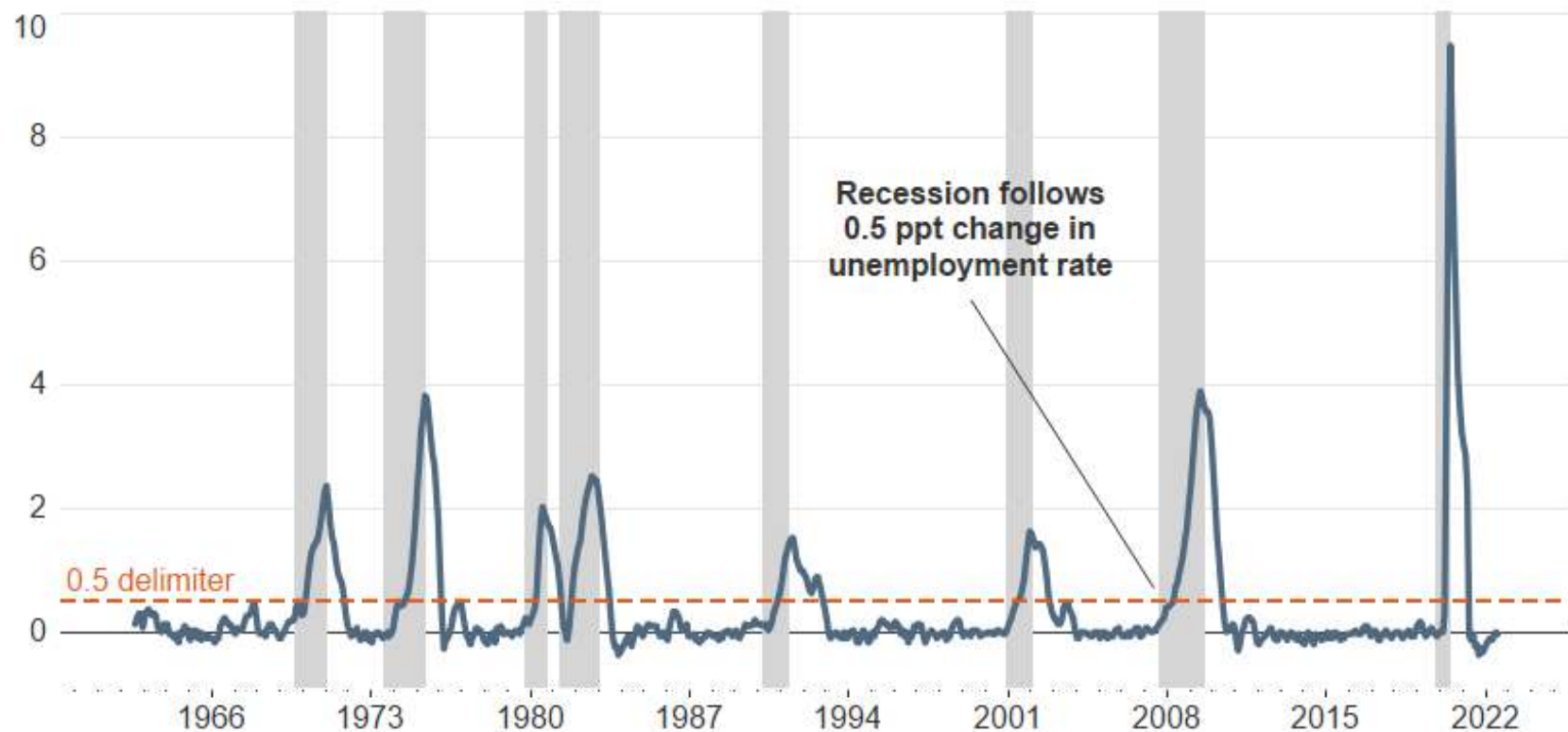
“What are your expectations regarding the general level of prices that your organization **will receive** for all goods and services over the next six months? Would you say the prices **received** by your organization, on average, will . . .”

Base: All Council Members Except Nonprofits (n=389)

	Total																			
	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	
Non-Seasonally Adjusted:																				
Bottom 2	6	8	8	7	8	7	7	10	8	28↑	15↓	13	9	5	6	3	8↑	3↓	5	
Decrease substantially	<.5	<.5	1	1	<.5	<.5	1	1	<.5	5	3	1	2	1	1	<.5	2↑	1	1	
Decrease somewhat	5	7	7	6	8	7	6	9	8	24↑	12↓	11	8	4	5	3	6	3	4	
Remain unchanged	41	38	38	31	39↑	44	43	37	35	43↑	46	38↓	27↓	28	29	28	22	24	21	
Top 2	54	54	54	61	53↓	49	50	53	57	29↓	39↑	49↑	64↑	67	65	68	70	73	74	
Increase somewhat	49	47	48	55	49	43	45	49	48	23↓	31↑	39↑	48↑	50	51	53	53	53	60	
Increase substantially	5	7	7	7	4	6	5	4	9↑	6	8	10	15↑	17	14	15	17	19	14	
Seasonally Adjusted:																				
Bottom 2	4	7	6	7	7	6	5	9	7	27↑	13↓	12	8	4↓	4	4	6	3↓	3	
Top 2	53	57	58	60	52↓	52	54	52	56	31↓	43↑	48	62↑	70↑	69	66	69	75	78	

	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17
	%	%	%	%	%	%	%	%	%	%	%

## Real-time Sahm Rule U.S. recession indicator



Source: Federal Reserve, NBER, RSM US

## Measures of labor market tightness

Calculated using z-score based on mean and standard deviation from 2001 to 2019

■ Unemployment rate (prime-age) ■ Unemployed per job opening  
■ Unemployment rate (U-3) ■ Reverse quit rate



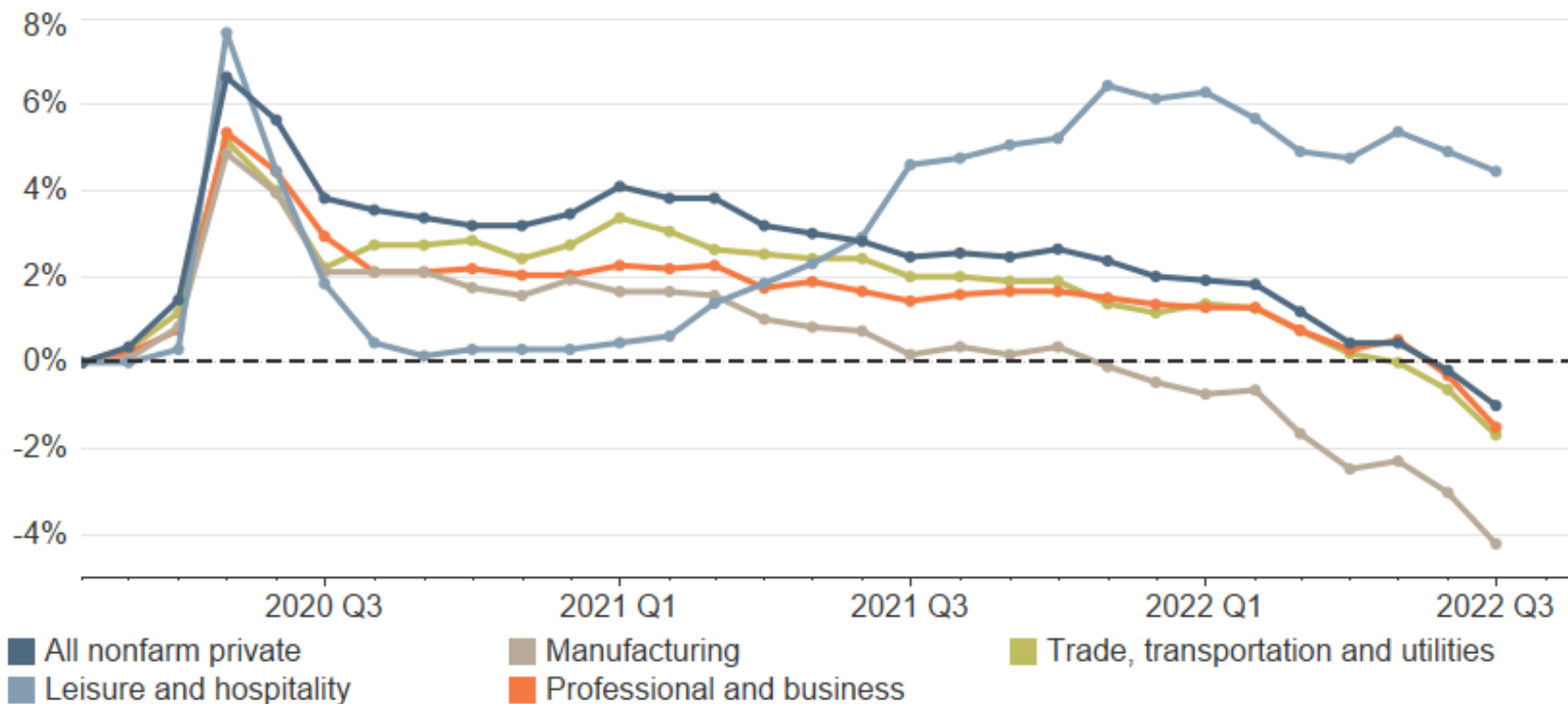
Note: Values below 0 indicate more tightness than neutral. The reverse quit rate is calculated as 1 minus the quit rate.

Source: BLS, RSM US



## Real hourly wage: % change since Jan. 2020

Adjusted for inflation and seasonal effect

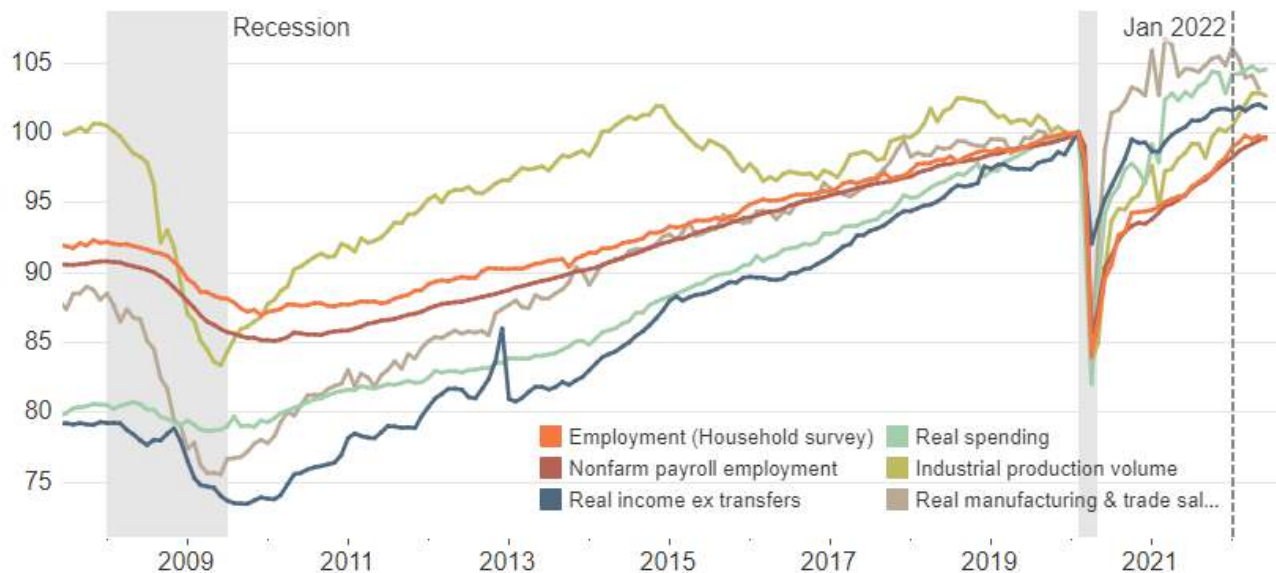


Source: BLS, RSM US

# But we were not in a recession in H1

## NBER recession key indicators

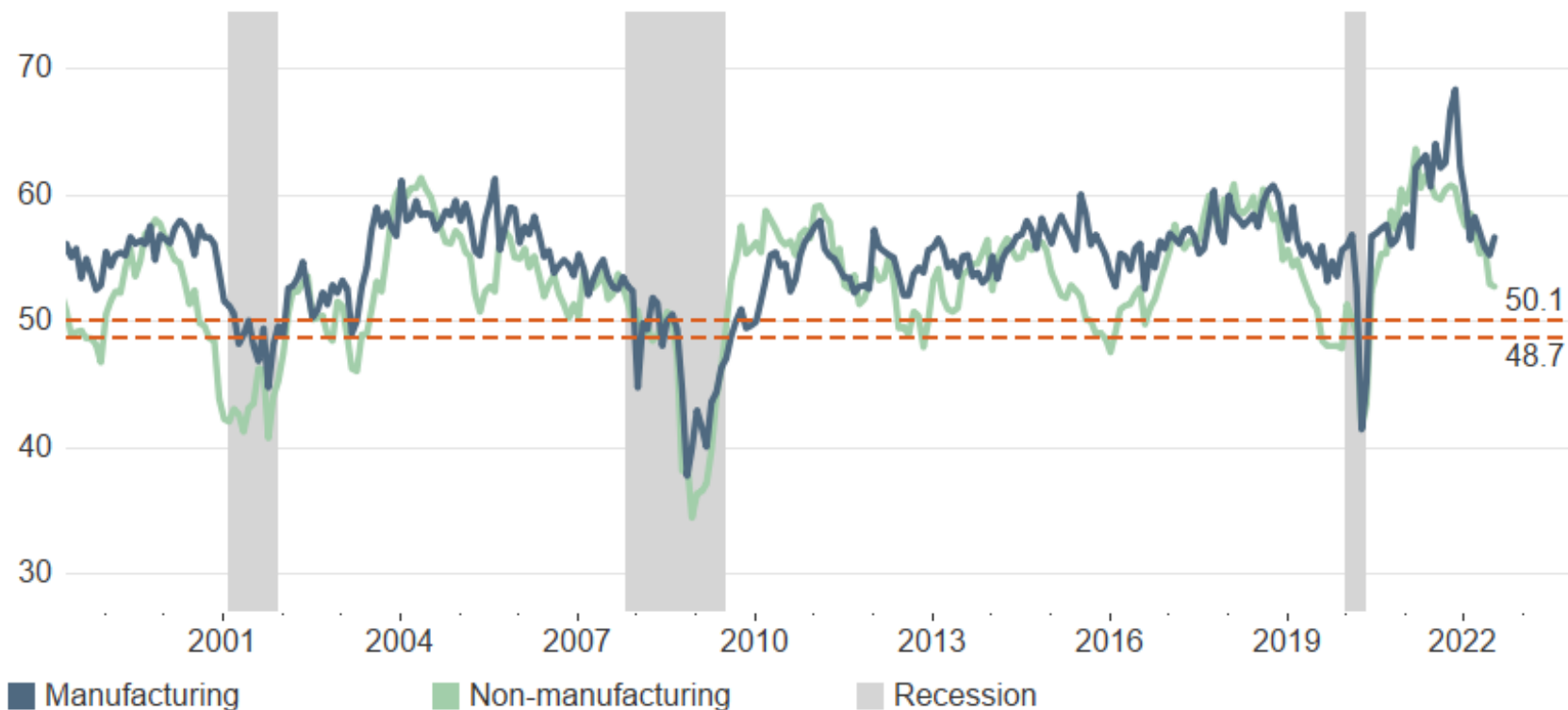
Normalized with Feb 2020 = 100



Source: Bureau of Economic Analysis, NBER, RSM US

## ISM U.S. indices and recessions

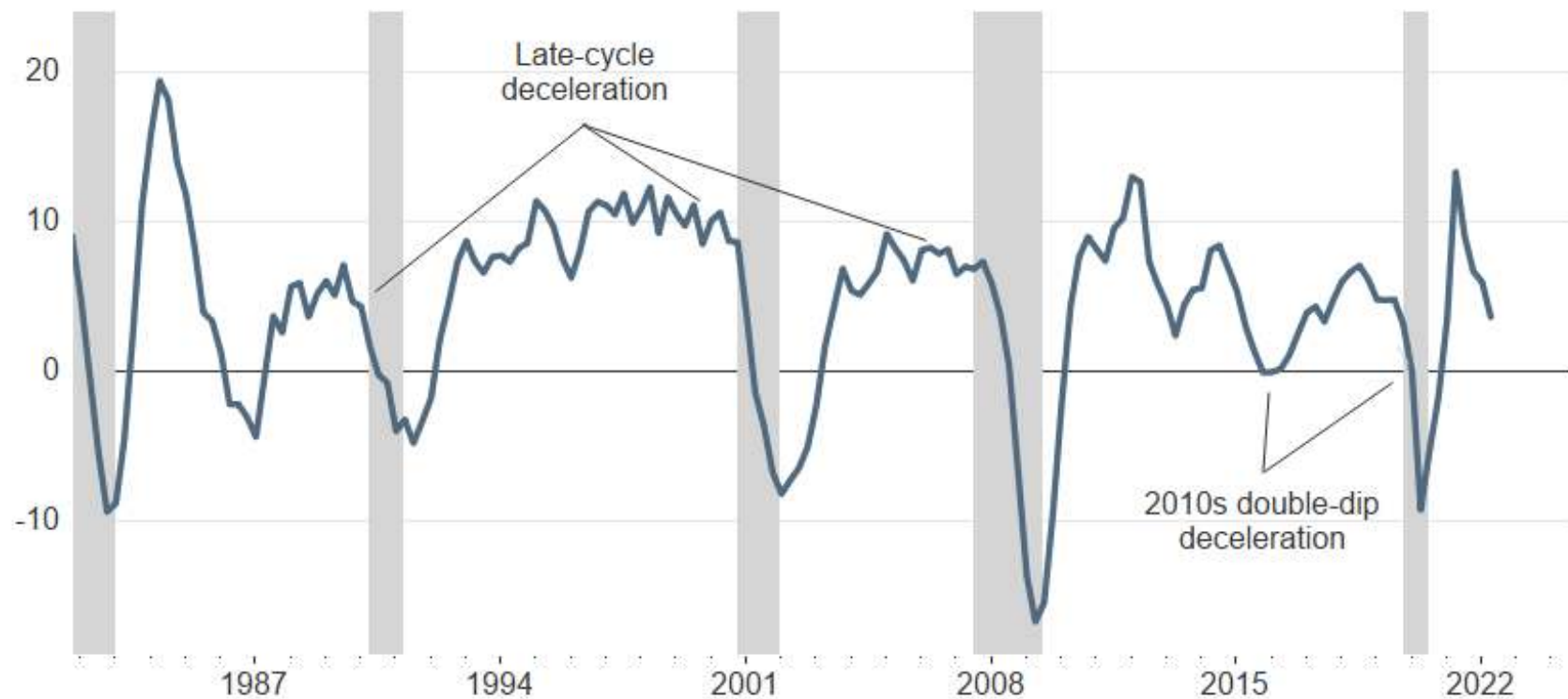
Manufacturing index above 48.7 and non-manufacturing index above 50.1 indicate overall expansions



Source: ISM, NBER, RSM US

# Nonresidential investment growth at the end of business cycles

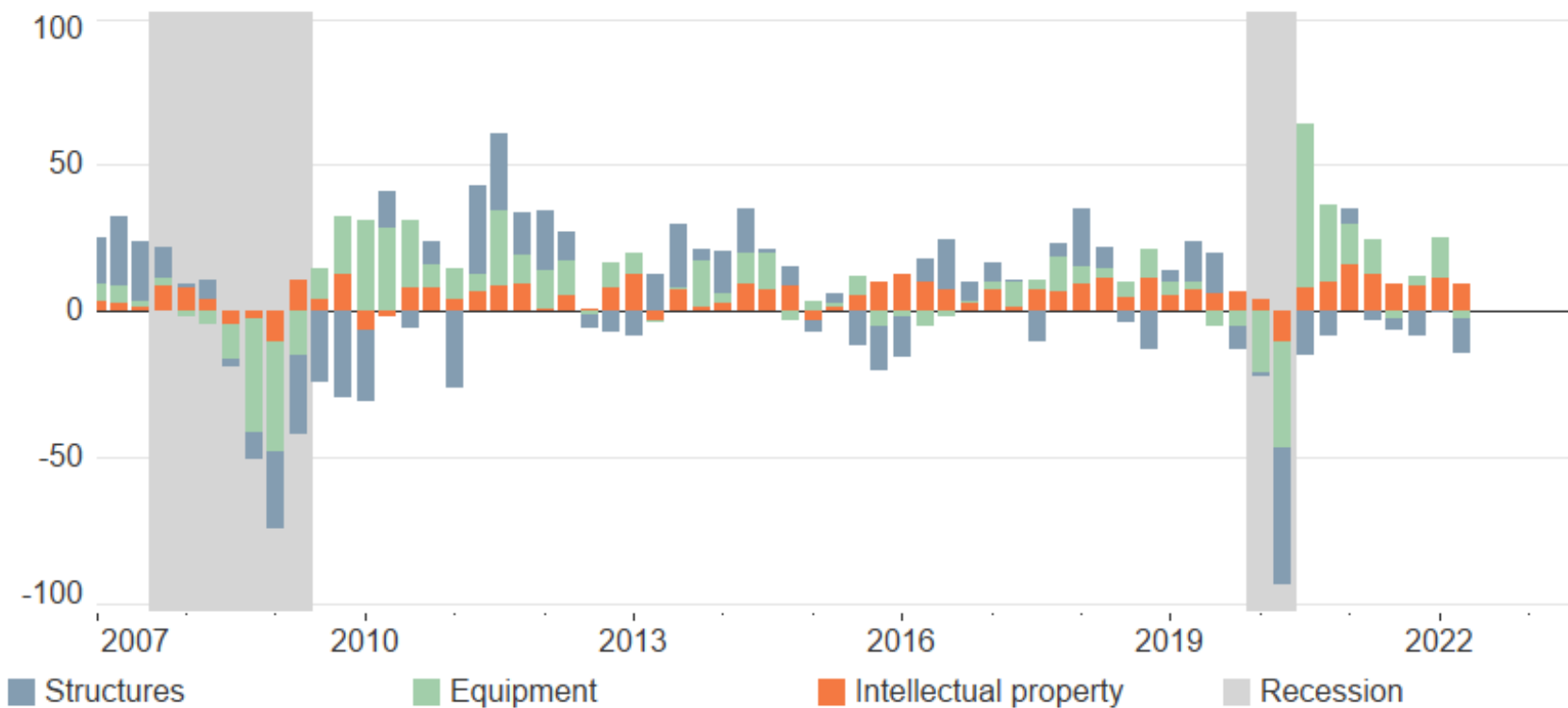
Quarter-over-quarter %, 1-year average annualized



Source: BEA, NBER, RSM US

# Business investment in IP, equipment and structures

GDP national accounts of non-residential investment



Source: BEA, NBER, RSM US

# Industrial production and real GDP growth

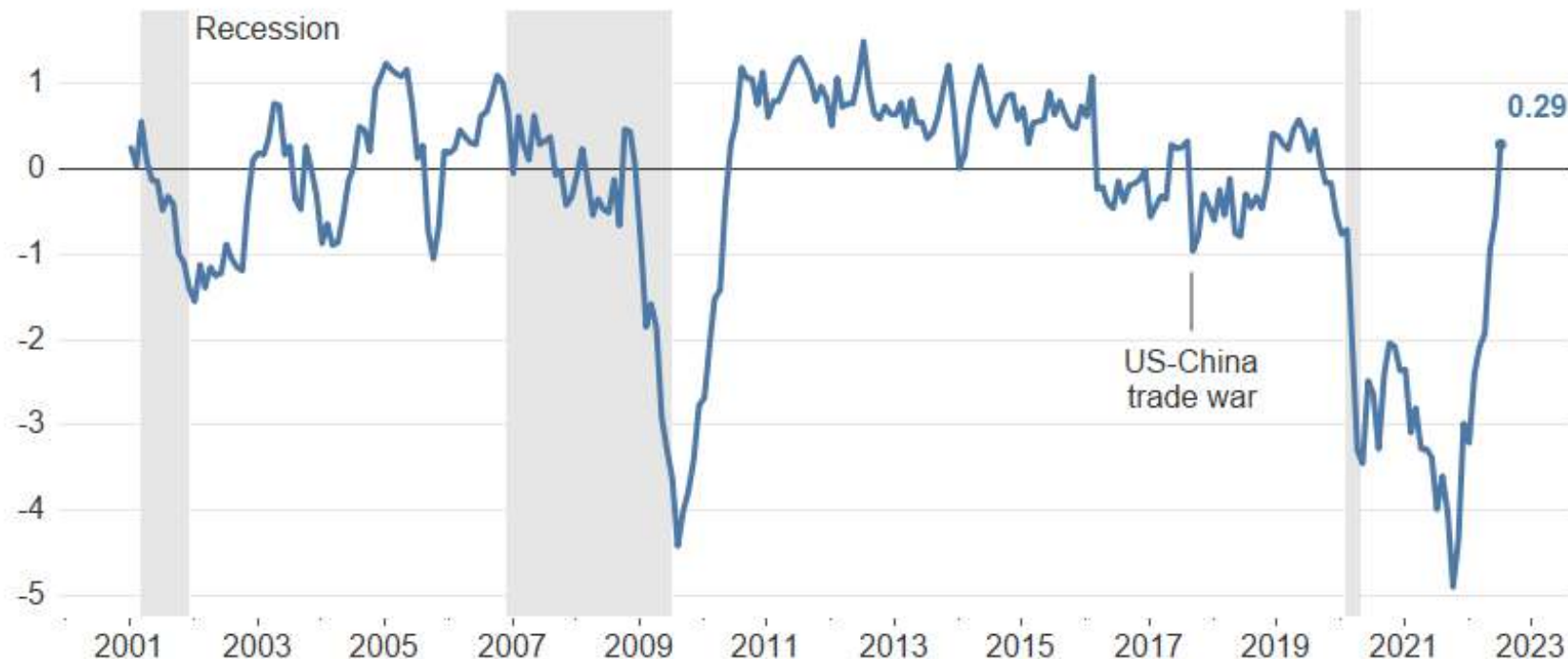
Year-over-year % change



Source: Federal Reserve, BEA, NBER, RSM US

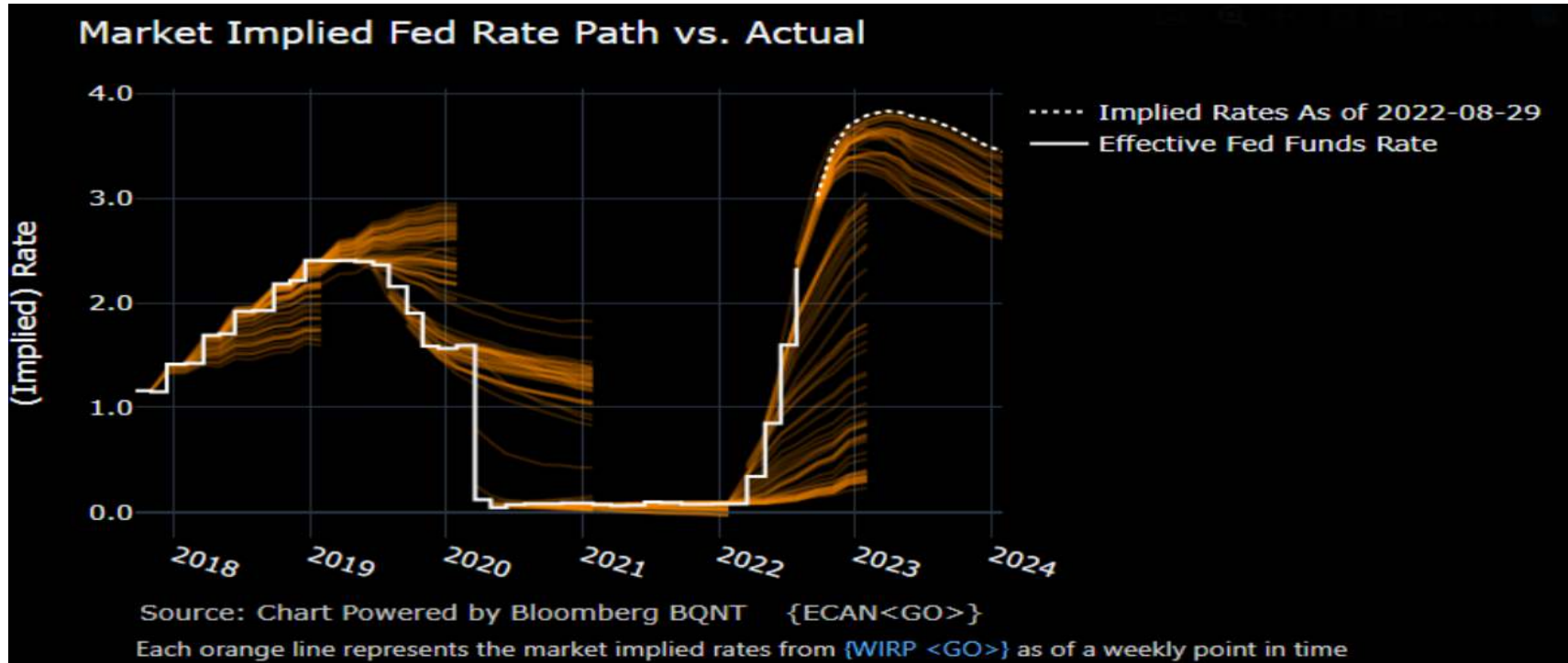
# RSM US Supply Chain Index

Z-score based on mean and standard deviation from 2001 to 2019



Note: An index value of zero is defined as a normal level of supply chain efficiency. Positive values of the index suggest adequate levels; negative levels suggest deficiencies. Source: Various government & private organizations, Bloomberg, RSM US

# Federal Funds Policy Rate: Lift and Hold

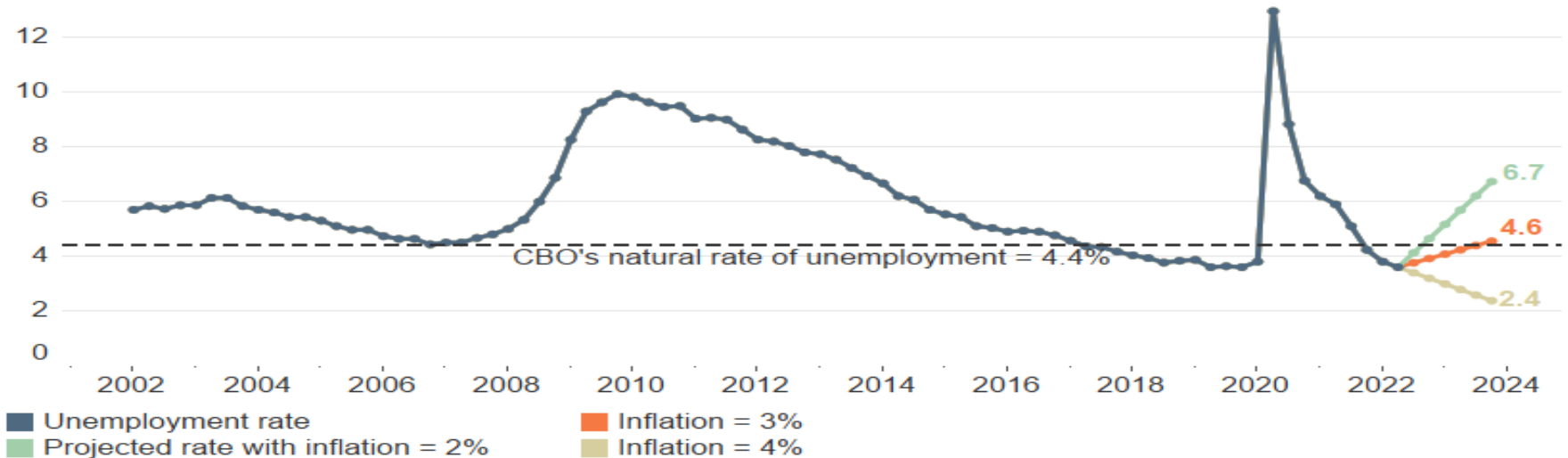




# The Cost of Price Stability

## Unemployment rate projections based on PCE price index

In percentage, quarterly



Source: BLS, RSM US

Source:

# The Cost of Price Stability

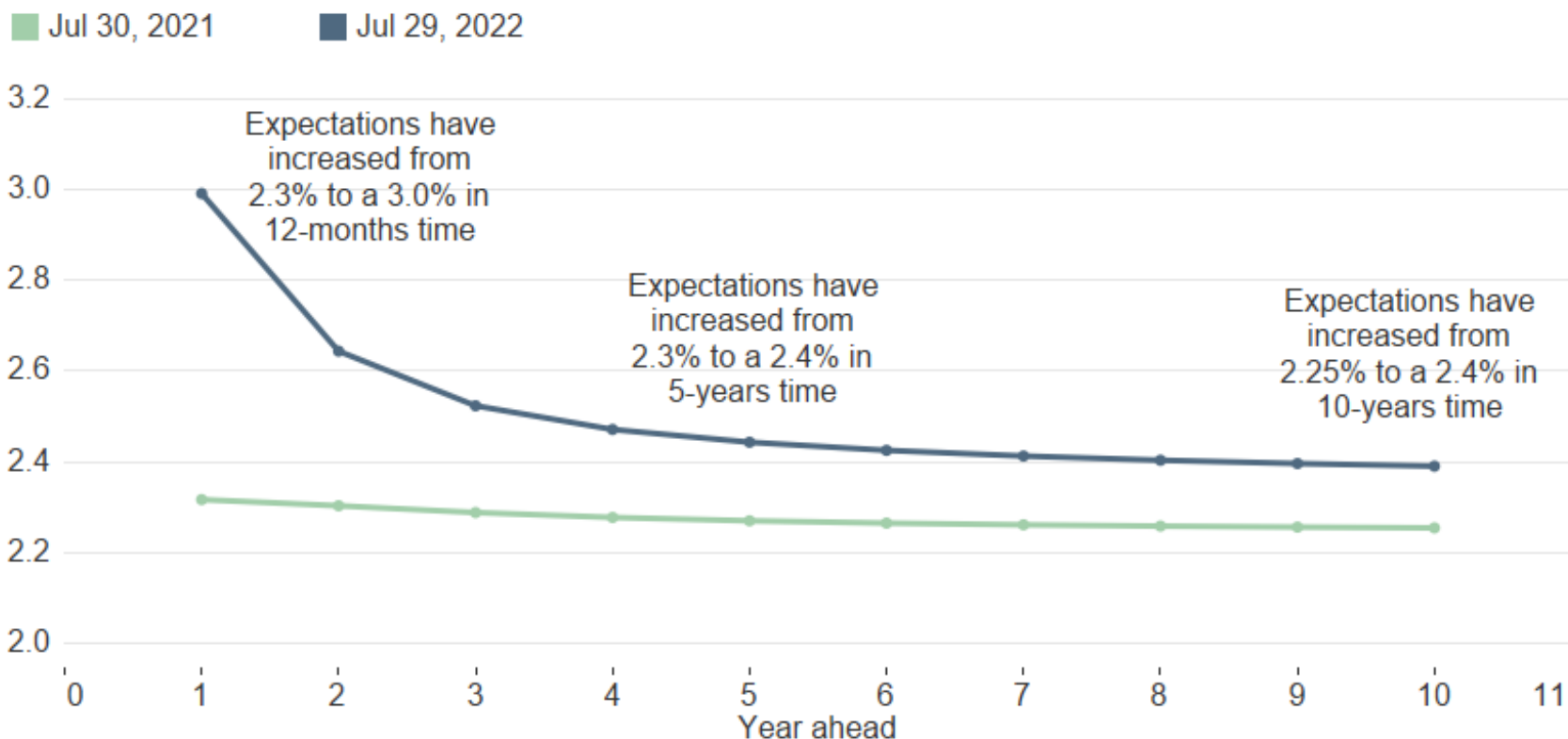
	PCE target	Projected unemployment rate	Job losses (Millions)
High	4%	2.4%	-1.9
Base case	3%	4.6%	1.7
Low	2%	6.7%	5.3

	CPI target	Projected unemployment rate	Job losses (Millions)
High	4%	4.1%	0.9
Base case	3%	5.6%	3.5
Low	2%	7.1%	6.0

# Inflation expectations during the recovery from the pandemic

Aruoba Term Structure of Inflation Expectations (ATSIX) for 1-10 years ahead

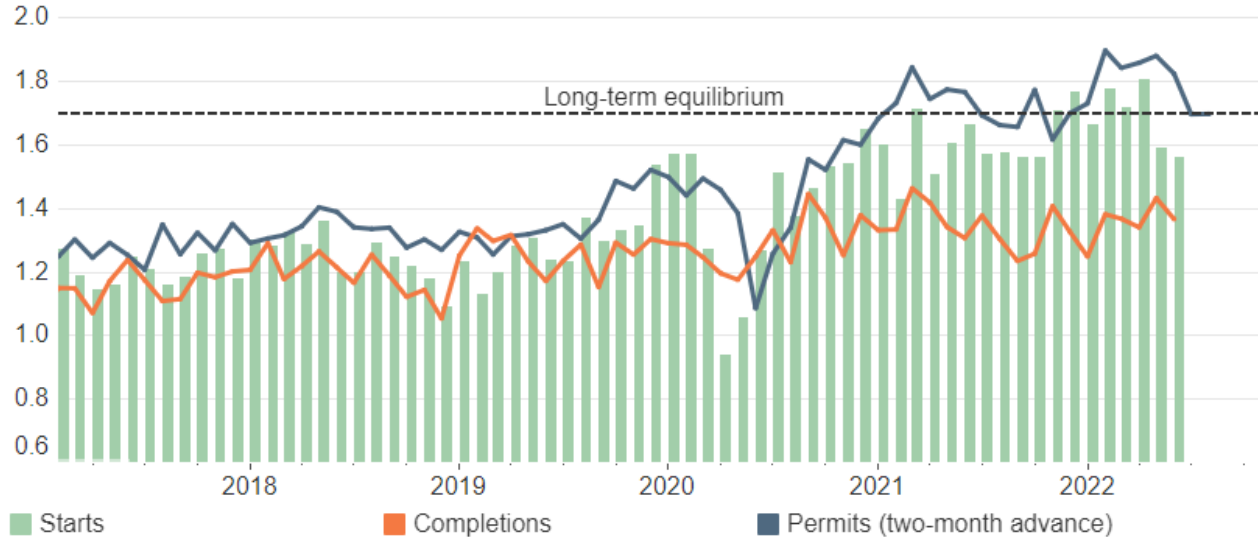


Source: Federal Reserve Bank of Philadelphia, RSM US

# U.S. Housing: The slump continues as housing deficit grows

## U.S. housing starts and permits, monthly

Millions, seasonally adjusted annual rate



Source: Census Bureau, RSM US

# Growth of U.S. real income excluding transfers

Year-over-year % change



Source: Bloomberg, BEA, NBER, RSM US

# U.S. Economy: Slowdown, inflation and future expectations



## US Growth Picture: Risks to the Outlook

- U.S. economy activity (jobs & spending) has slowed, inflation spreading out into services & housing
- Supply chain stress improving but remains well below neutral. China a major issue
- Geopolitical risks and energy costs: Expecting relief in 2H'22 due to sharp decline in oil prices
- Margin compression and rising operating costs



## Interest Rate Outlook

- Flattening yield curve with the 10-year yield rising to 3.25% by end of 2022
- Pandemic era policies over. Policy rate moves into restrictive terrain in Q3'22.
- Rate hike of 75 bps in September.
- Financial conditions imply drag on risk appetite and overall economic activity



## Inflation and Risk to the Economic Outlook

- Commodity prices continue to drop due to recession fear and jumbo rate hikes
- Inflation remains sticky, while top line all item inflation will fall markedly due to energy prices volatility.
- Wage pressures easing but do not expect major decline
- Watch cost of shelter and owners equivalent rent for longer term inflation problems

# U.S. Economy: Slowdown, inflation and future expectations



## US Economy: Growth, Employment and Inflation

- Unemployment increases to 3.8% by end of 2022
- Over \$2 trillion in excess savings compared to pre-pandemic levels
- Housing market cools off to pre-pandemic level: residential starts moderate and likely fall due to sharp fall in demand



## 2022 Policy Outlook

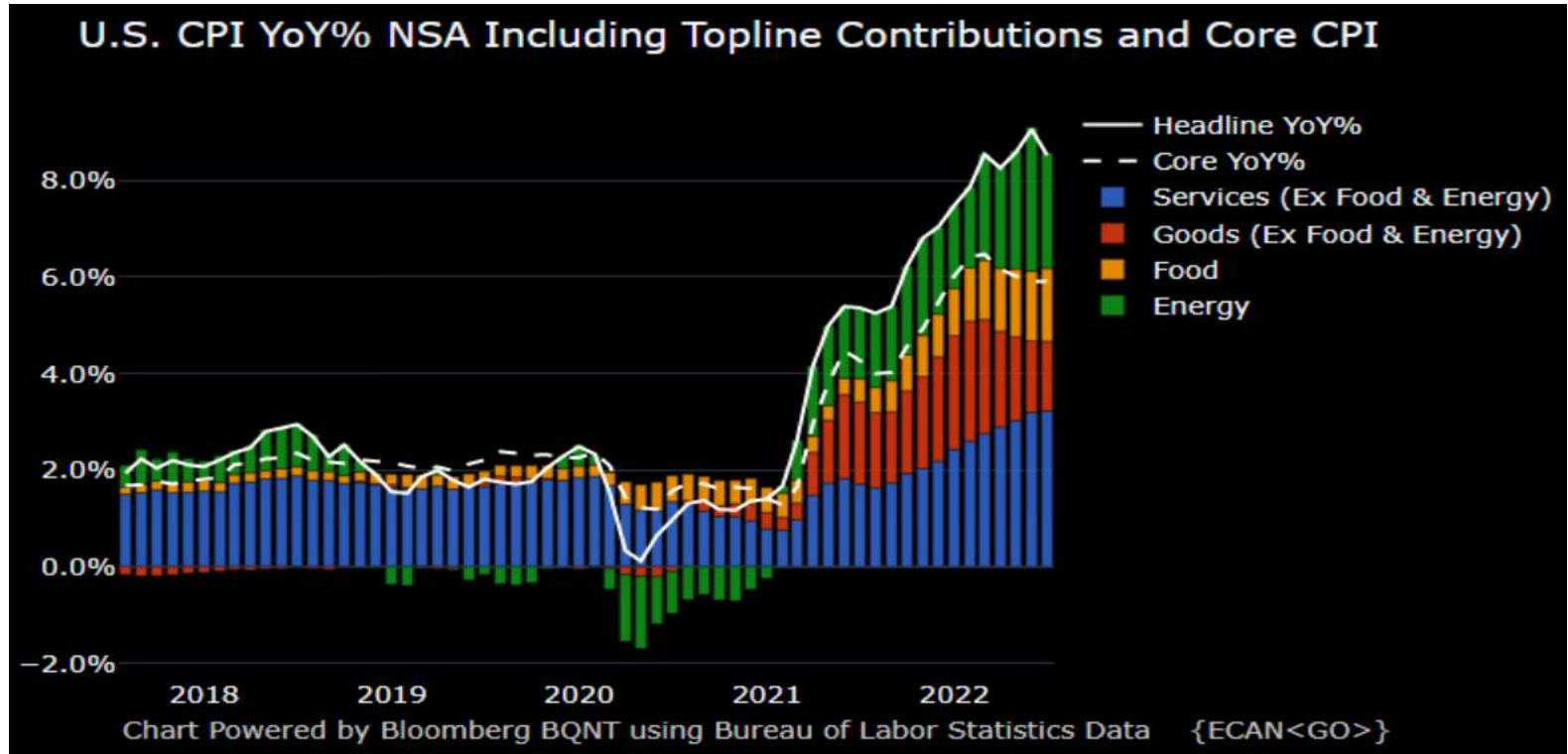
- Inflation Reduction Act no real boost to economic outlook this year.
- Price stability is the paramount policy goal. Draw down of Fed balance sheet to boost rates
- \$1.25 trillion infrastructure investment plan implemented, slated to add \$16 billion in investment in 2022



## Labor Market

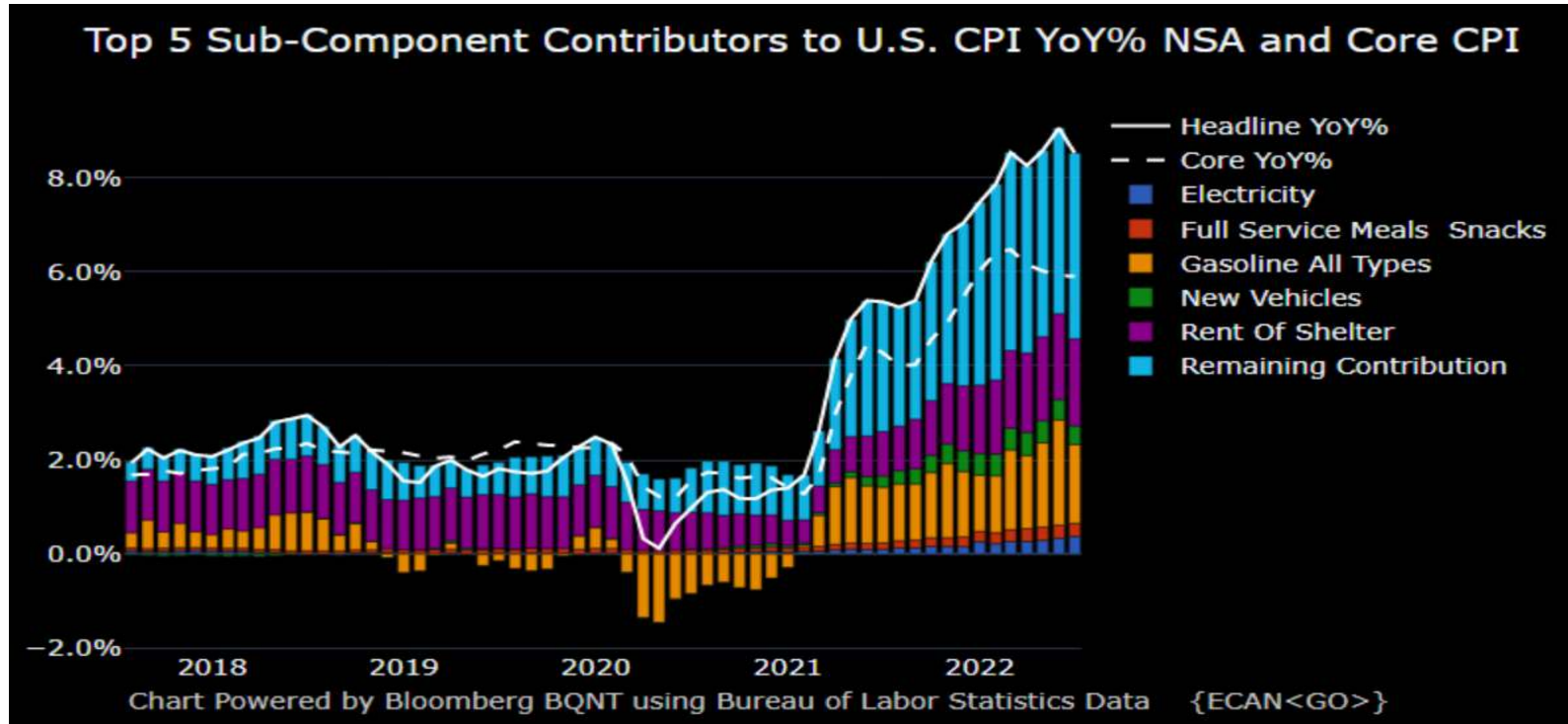
- Early retirees not coming back as expected, significant demographic challenges lay ahead
- Tight labor market to result in accelerated integration of technology to meet demand
- Unsustainable labor demand masking problem with labor market: hiring more than needed
- Labor market reverses course: more layoffs, less hiring but might take a while to reach concerning level

# Consumer Price Index: Contributions to Inflation

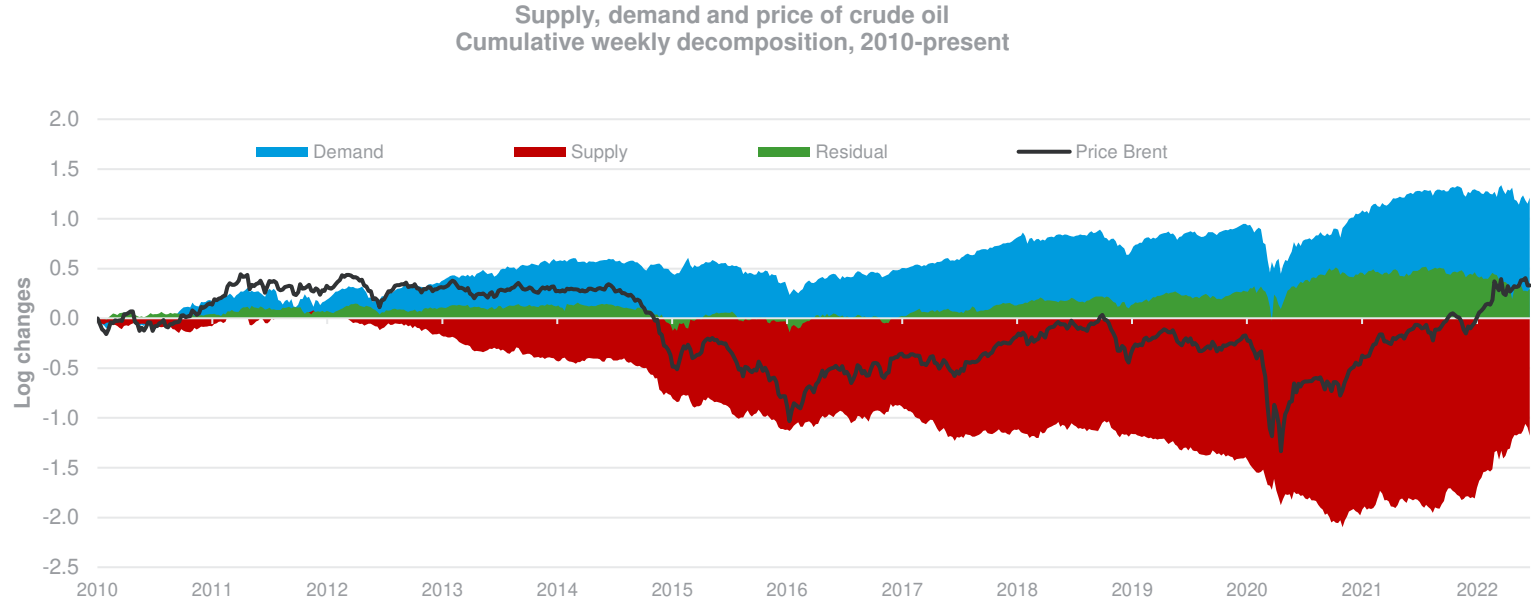




# Consumer Price Index: Contributions to Inflation



# Global Oil Supply: Tight Supply



Source: Federal Reserve Bank of New York; RSM US

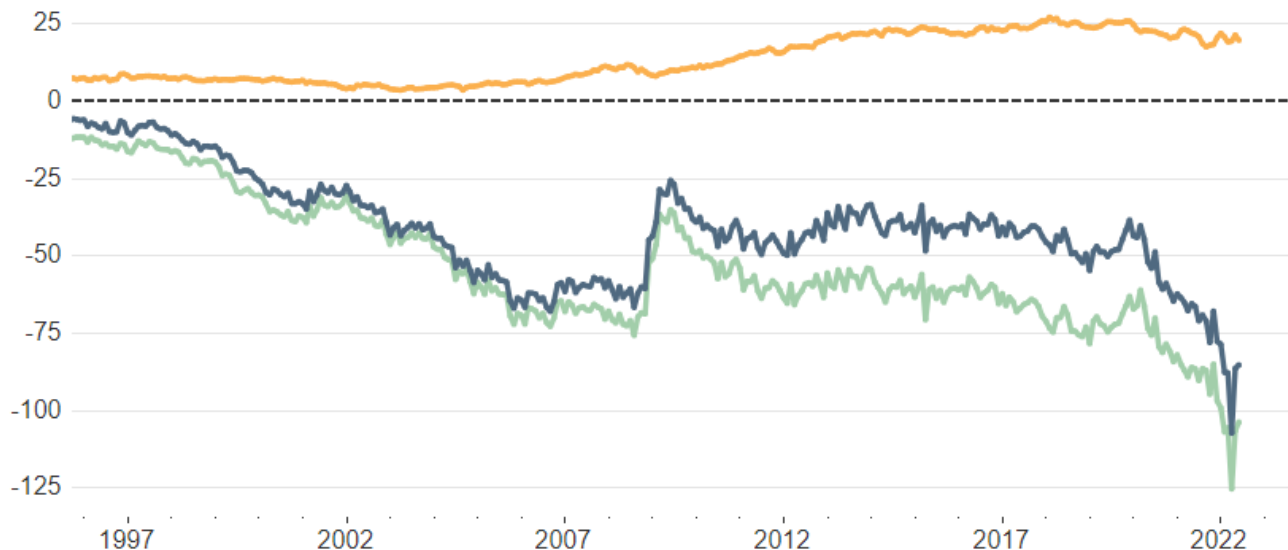
Source:

# U.S. Trade: Sharp improvement but won't last due to strong \$

## U.S. trade balance, monthly

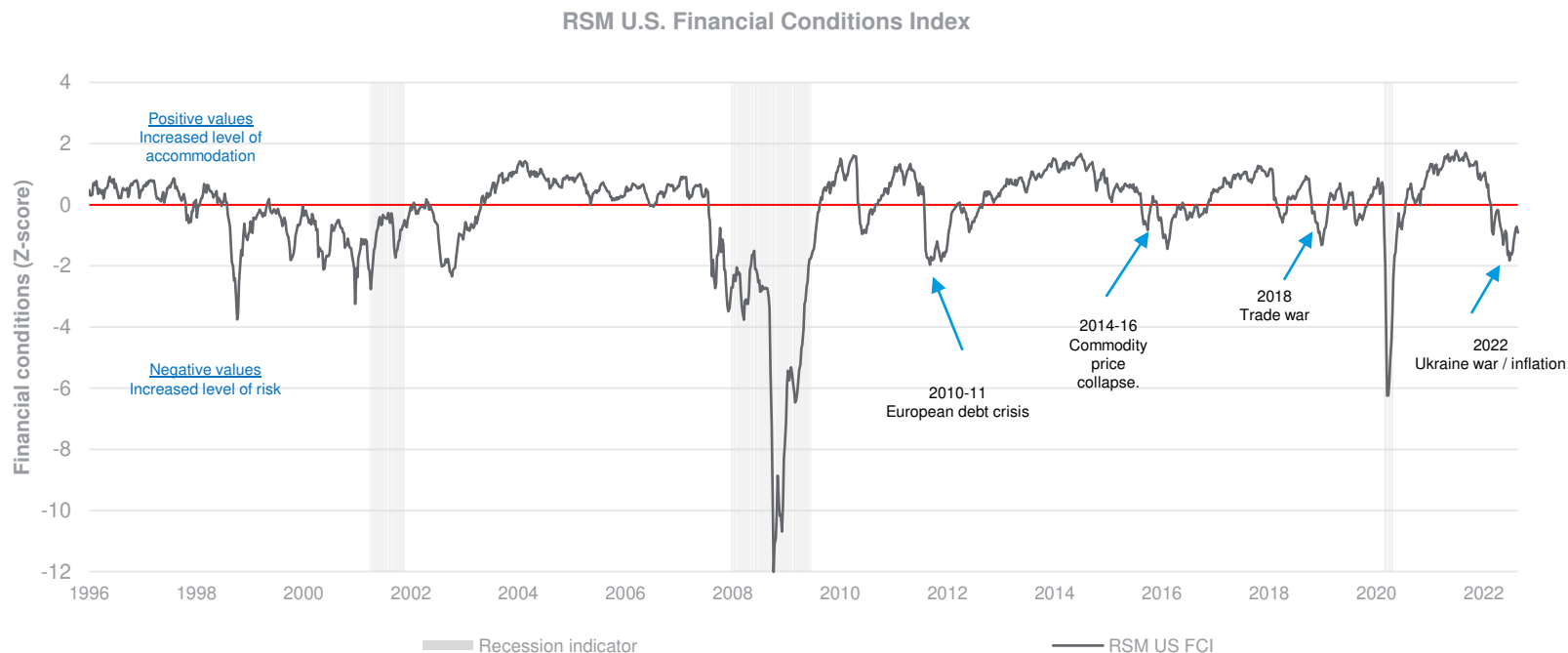
Billions \$ and seasonally adjusted

■ Total ■ Goods ■ Services



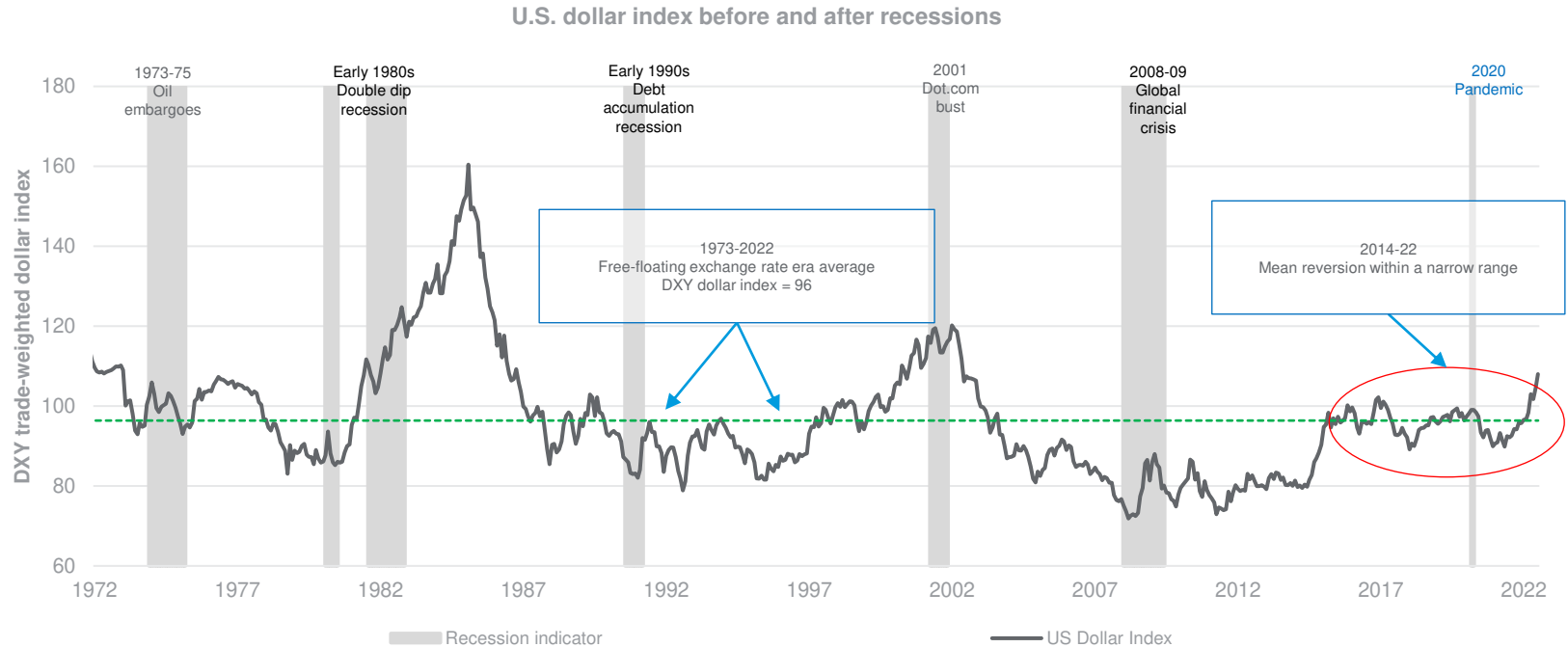
Source: U.S. Census Bureau, RSM US

# US Financial Conditions: Tight Due to Fed Policy



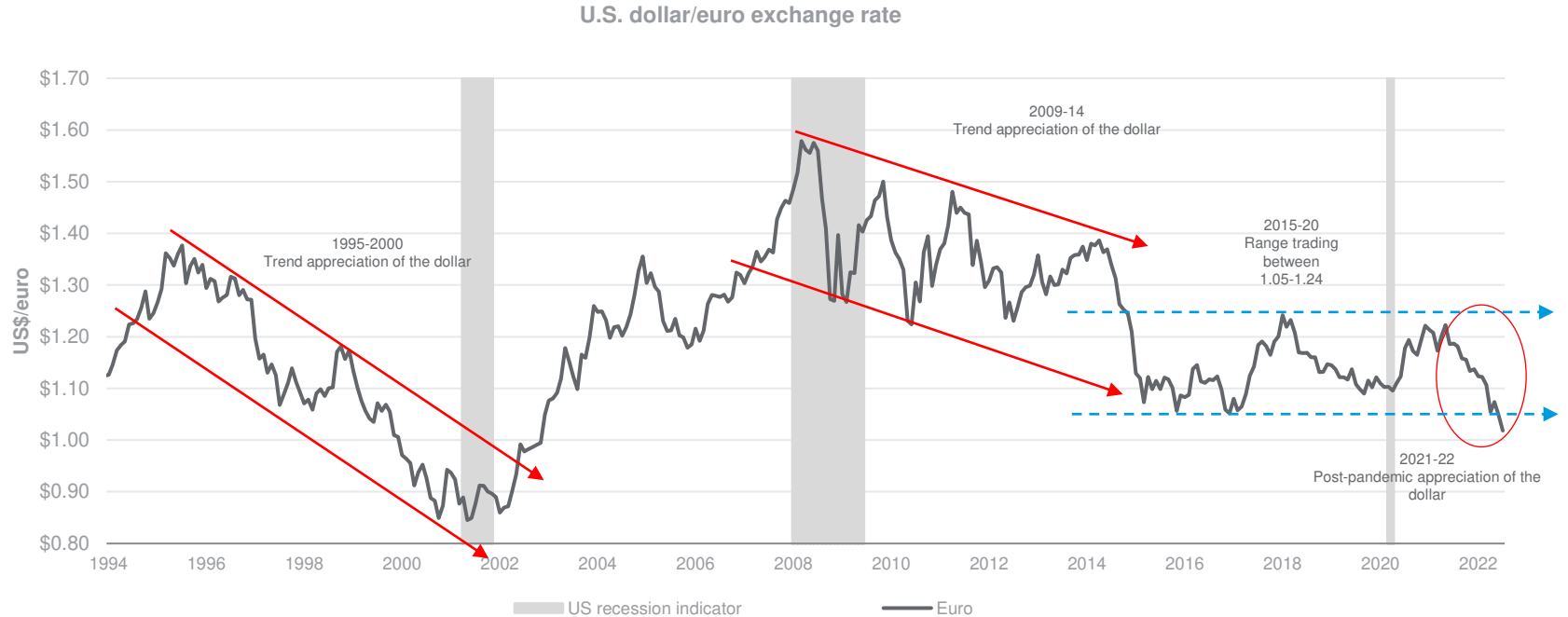
Source: Bloomberg; RSM US calculations

# U.S. Dollar Strength on Back of Global Rate Differentials



Source: BLS; NBER; Bloomberg; RSM US

# U.S. Dollar Strength on Back of Global Rate Differentials



Source: Bloomberg; RSM US

# U.S. Employment Outlook: Expecting Slower Pace of Hiring



## State of Play

- Unemployment at 3.5%, likely to increase to 3.8% by end of 2022
- Deceleration to average of 150K per month in 2H'22
- Service sector driving the increases
- Participation rate remaining below pre-pandemic
- Structural transformation



## Demographic transition

- Exit of the boomers
- Labor growth fading
  - 1945-2005 1% per annum, below 0.5% now
- No relief via immigration channel on horizon
- More technology to be deployed to substitute for lack of labor

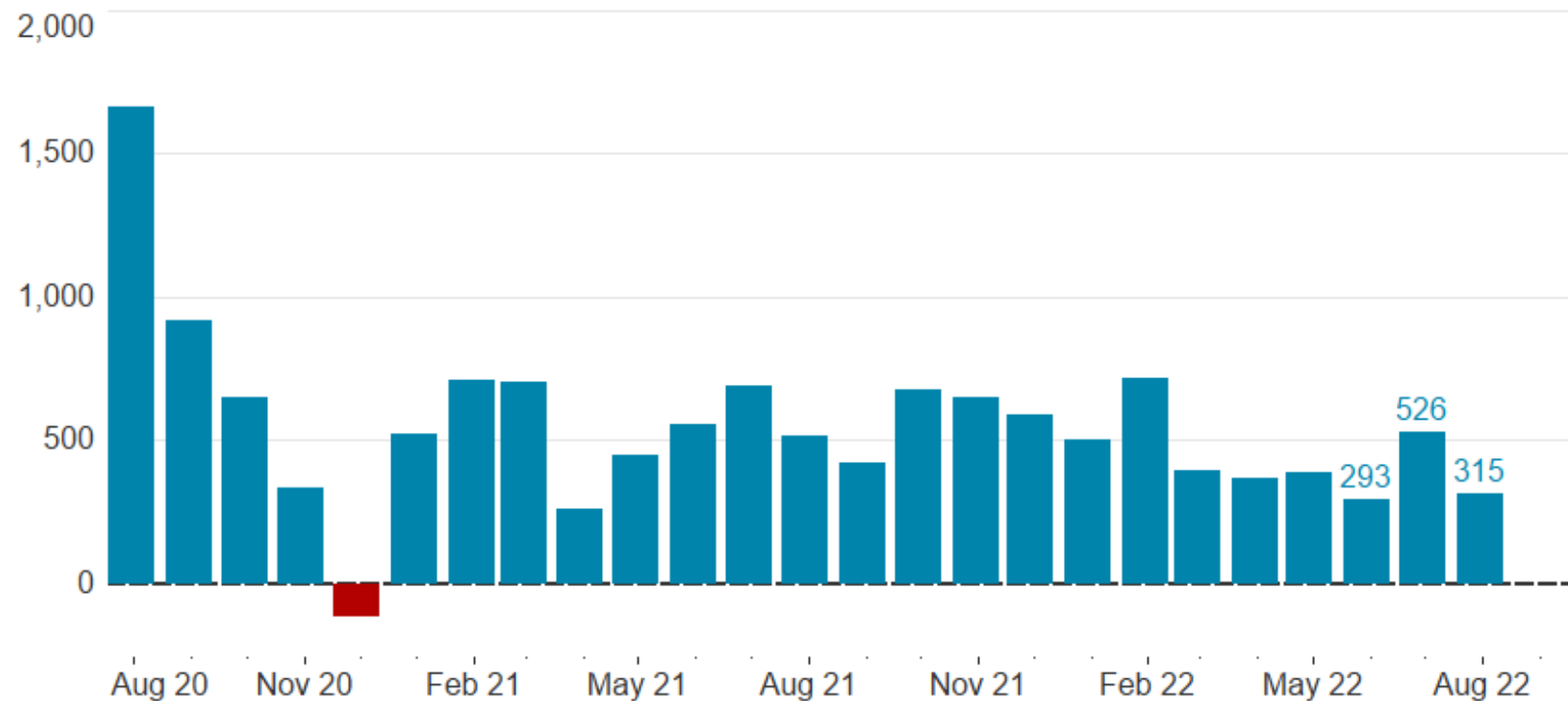


## Wages

- Nominal wage gains easing
- Falling real wages due to inflation
- Competition at a premium
- Wage revolution in lower two quintiles

## Change in nonfarm payrolls

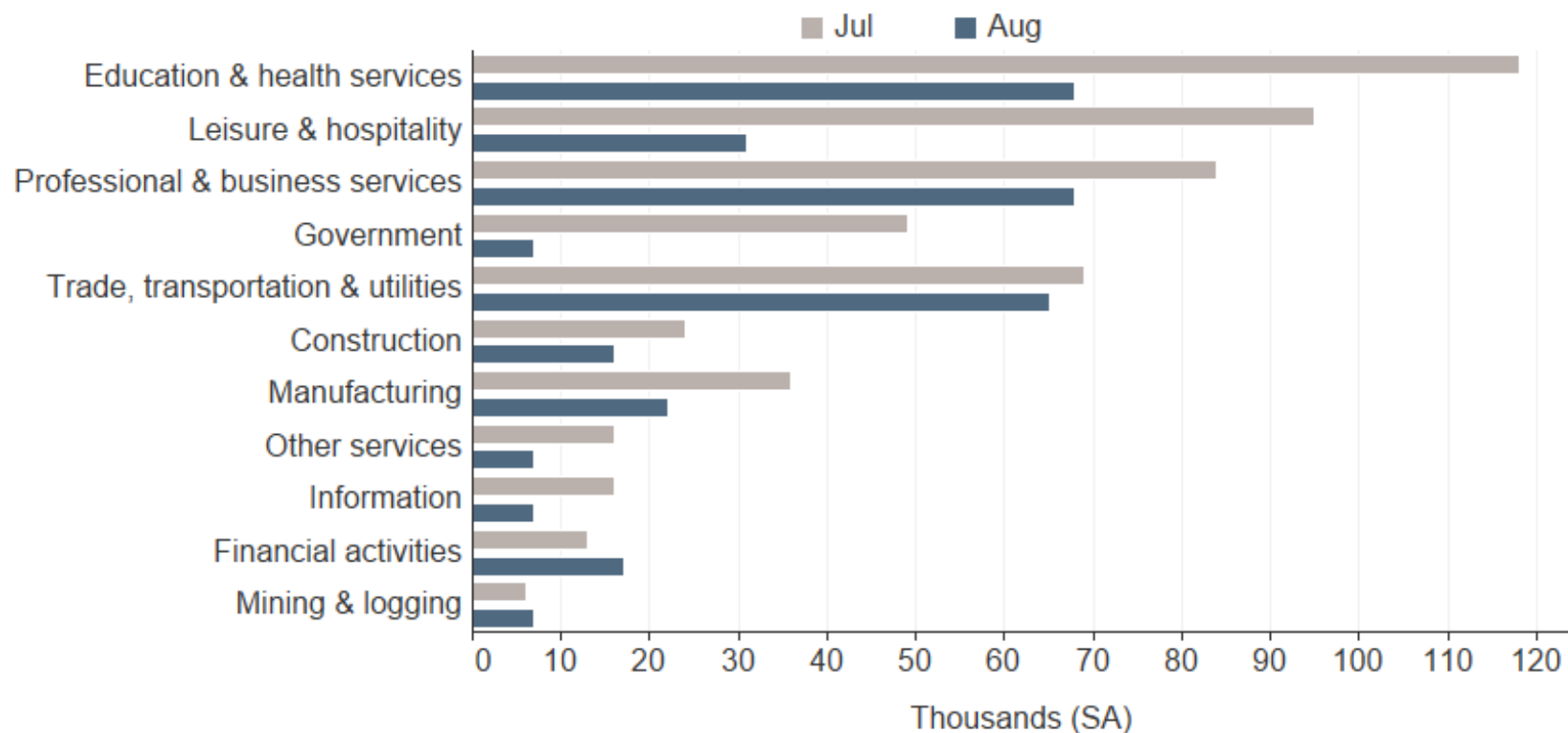
Monthly job gains, in thousands



Source: Bloomberg, BLS, RSM US



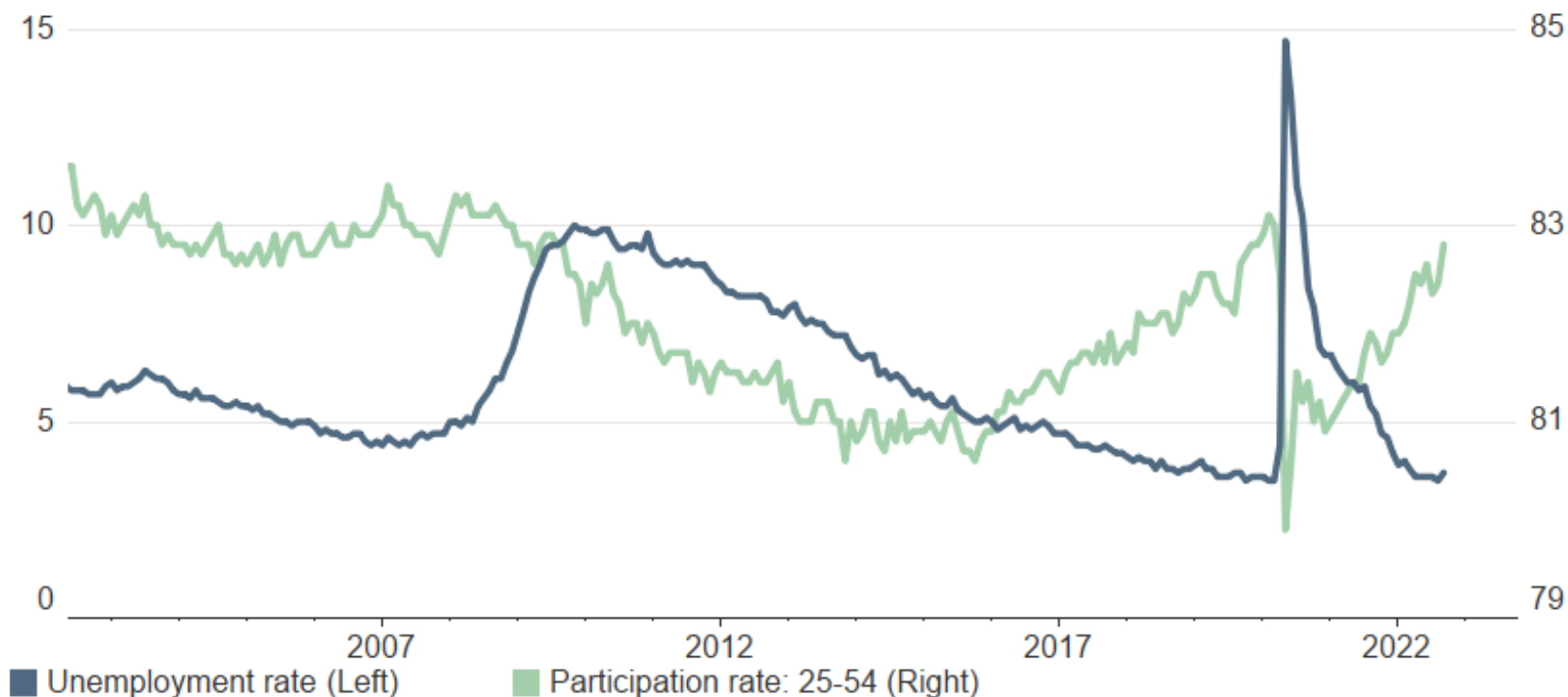
## Net monthly change in nonfarm payrolls by sector



Note: Other services include Repair and maintenance, Personal and laundry services, and Membership associations and organizations  
Source: BLS, RSM US

## Unemployment and participation rates for prime-age labor (25-54)

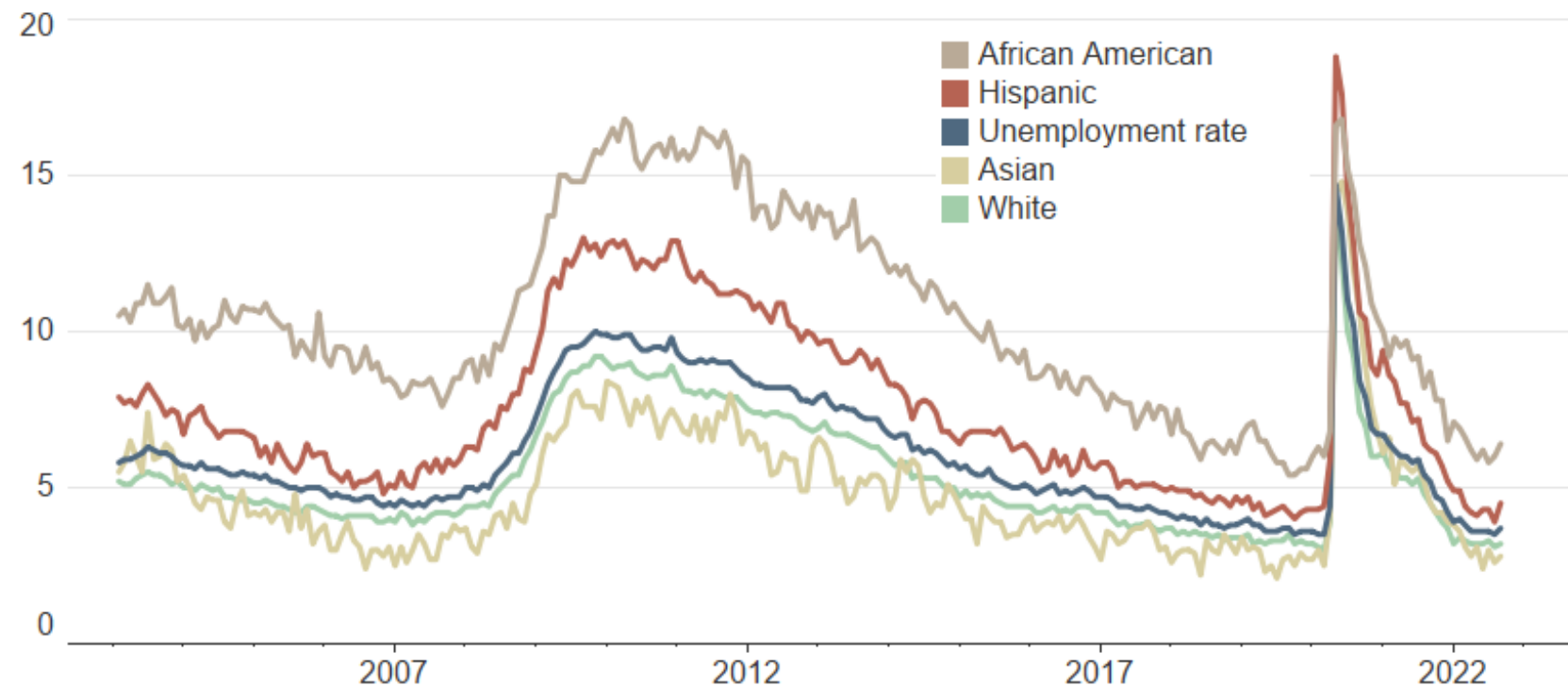
Monthly percentage and seasonally adjusted



Source: BLS, RSM US

# Unemployment rates across demographics

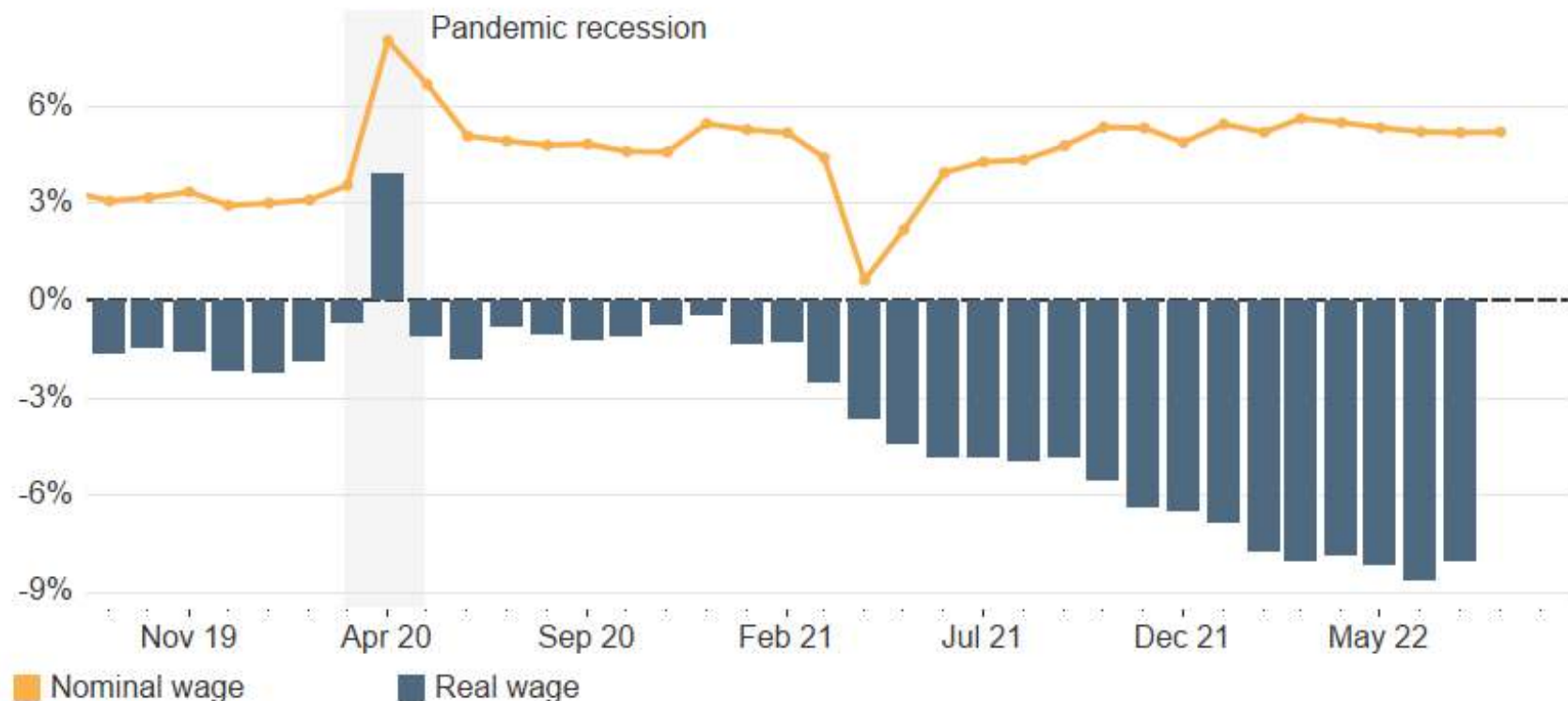
In percentage and seasonally adjusted



Source: BLS, RSM US

# Average hourly wage rate

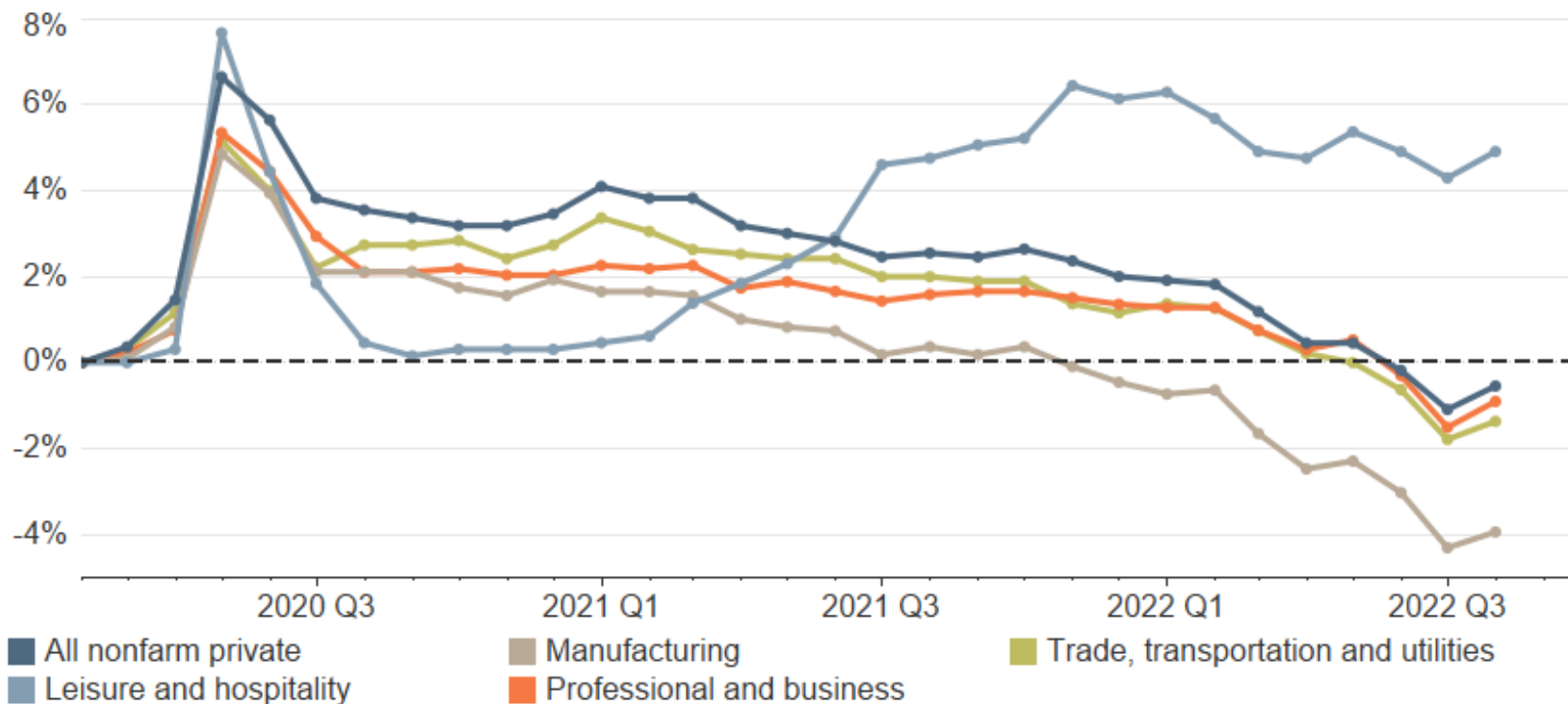
% year-over-year change



Source: BLS, RSM US

## Real hourly wage: % change since Jan. 2020

Adjusted for inflation and seasonal effect



Source: BLS, RSM US