Soft Landing, Hard Landing or No Landing at All: The Outlook for the U.S. Economy

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April 24, 2023

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Overview

U.S. Economic Outlook

- Current State of the U.S. Economy
- Why it's Different This Time
- Possible Outcomes

Looking Back

- COVID-19 resulted in a full economy stop - incredibly rare
- Significant amount of uncertainty regarding the virus and its impact on the economy led to massive fiscal and monetary stimulus
- Supply chains were interrupted while consumers splurged on goods
- Economy emerged hot as consumers were flush with cash
- Labor shortages; early retiree, COIVD concerns, fiscal stimulus
- Inflation increased rapidly and the Federal Reserve was late in responding
- Federal Reserve was forced to significantly increase interest rates to slow down the economy and reduce inflation

Recession Headlines Galore

Brace for a 'crash landing' as the US economy barrels toward recession, top economist David Rosenberg warns

Theron Mohamed Mar 18, 2023, 5:30 AM

The downside risk to the stock market is the highest it's been in a year as earnings face pressure, Morgan Stanley's chief stock strategist says

Jennifer Sor Mar 27, 2023, 1:01 PM

CEO Survey: A Recession is the Biggest Worry in 2023

2023-01-12

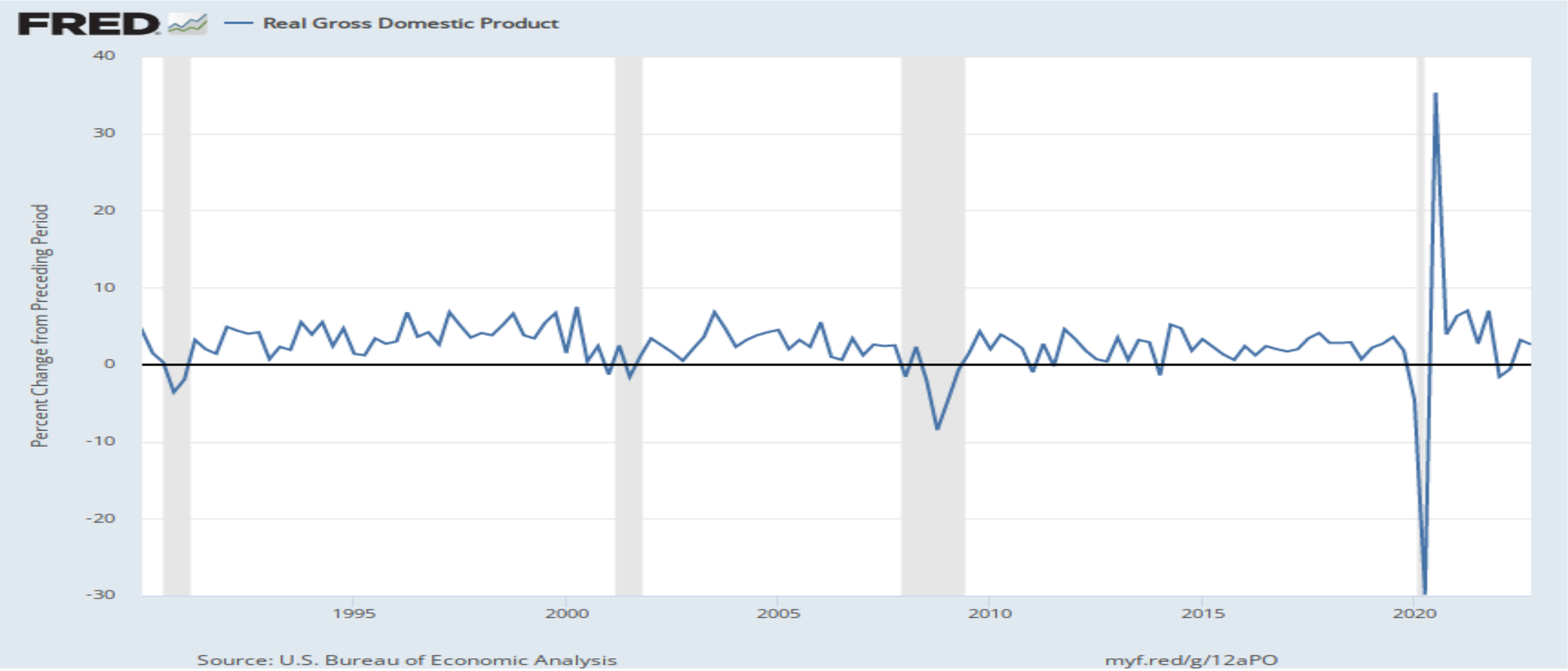
◆ WSJ NEWS EXCLUSIVE | THE OUTLOOK

Economists in WSJ Survey Still See Recession This Year Despite Easing Inflation

Forecasters put 61% probability of recession in next 12 months

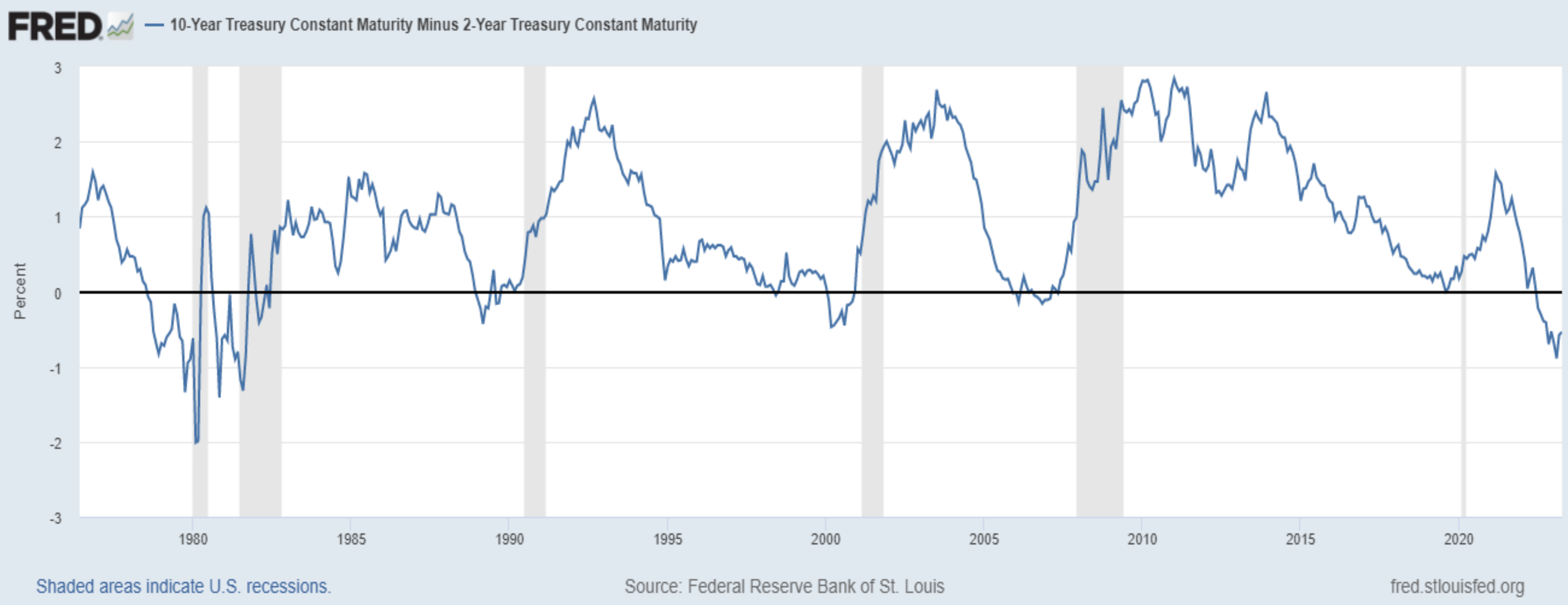
Year Over Year GDP

NBER defines a recession as “a significant decline in economic activity that is spread across the economy and that lasts for more than a few months”



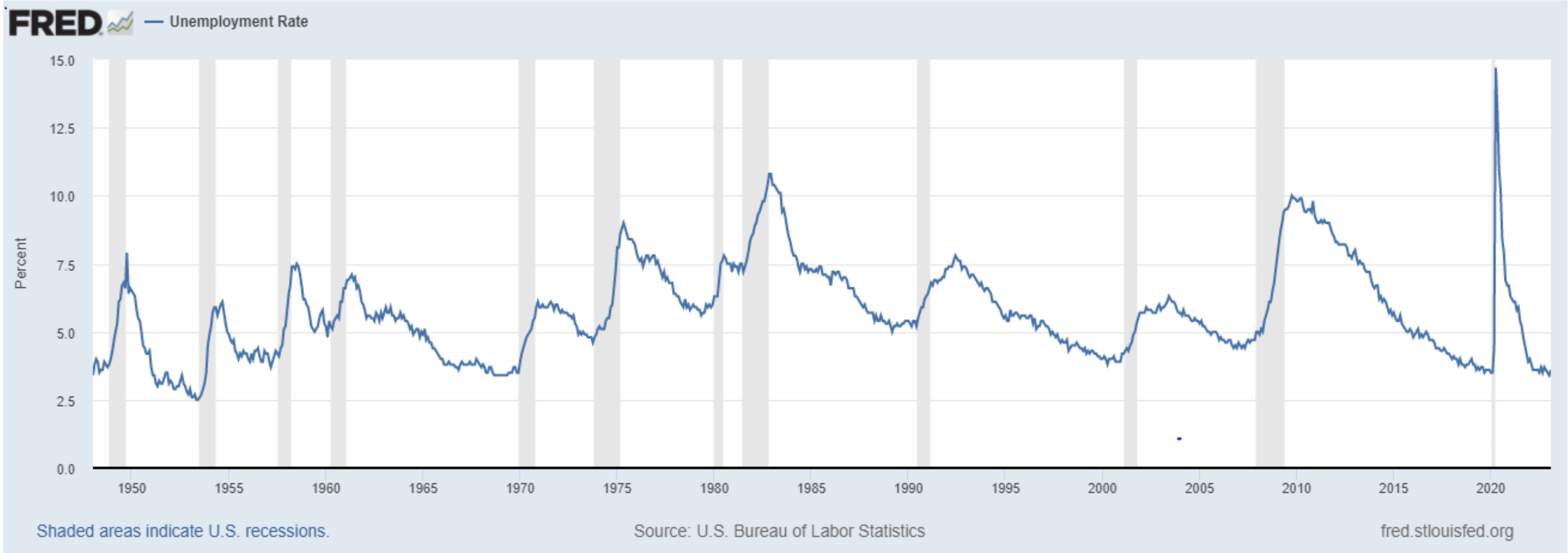
Yield Curve

An inverted yield curve has been ***an accurate predictor of U.S. recessions***



Unemployment Rate

During economic cycles, the unemployment rate typically ***bottoms before the start of a recession***



Core CPI

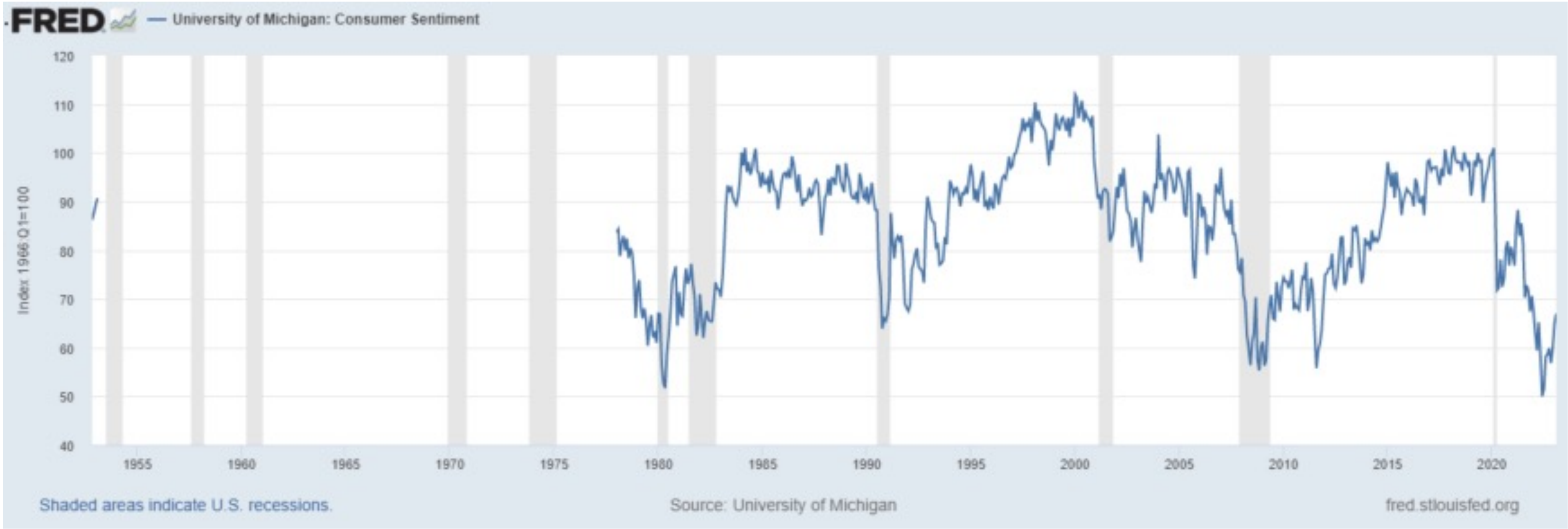
Consumer Price Index (CPI) ex-food and energy is a good indicator for underlying inflation

Savings Rate

Personal savings rate ***is below average*** *as inflation eats into consumers pocketbooks*

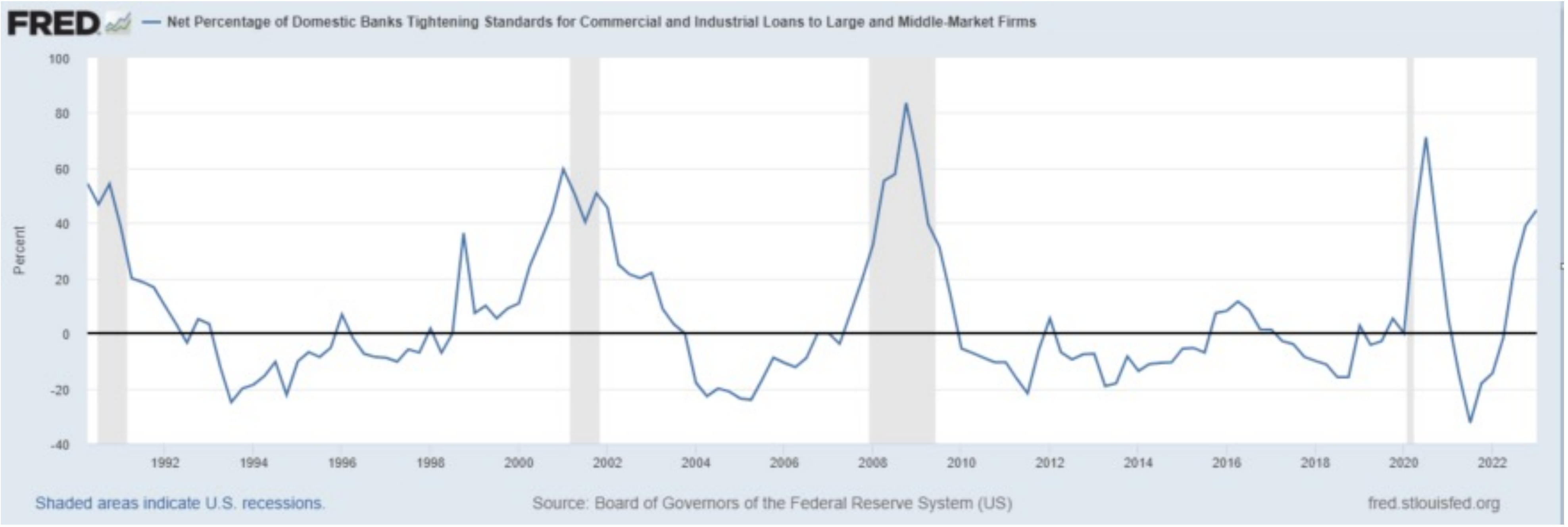
Consumer Confidence Waning

Understanding how consumers feel about their financial health and the healthy of the economy is an important indicator



Credit Tightening

*Banks are tightening their lending standards which will **negatively impact economic activity***



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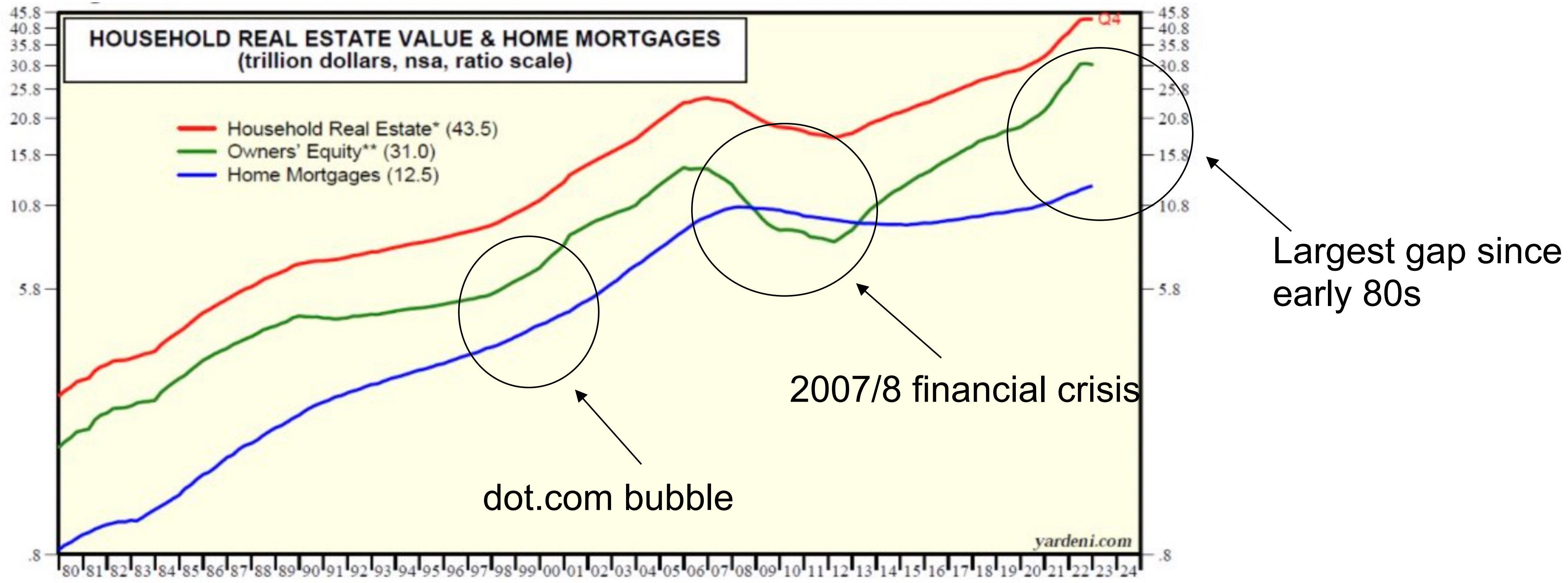
Equity Rich Households

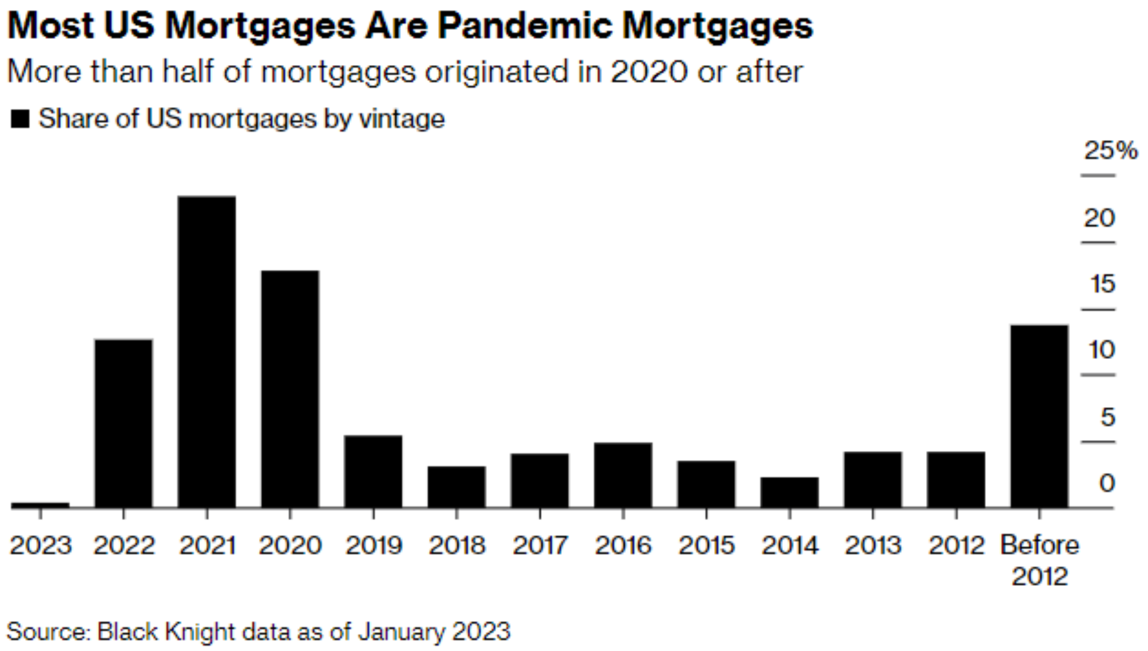
*Home equity levels are **at a multi-decade high**, providing support for consumer spending*

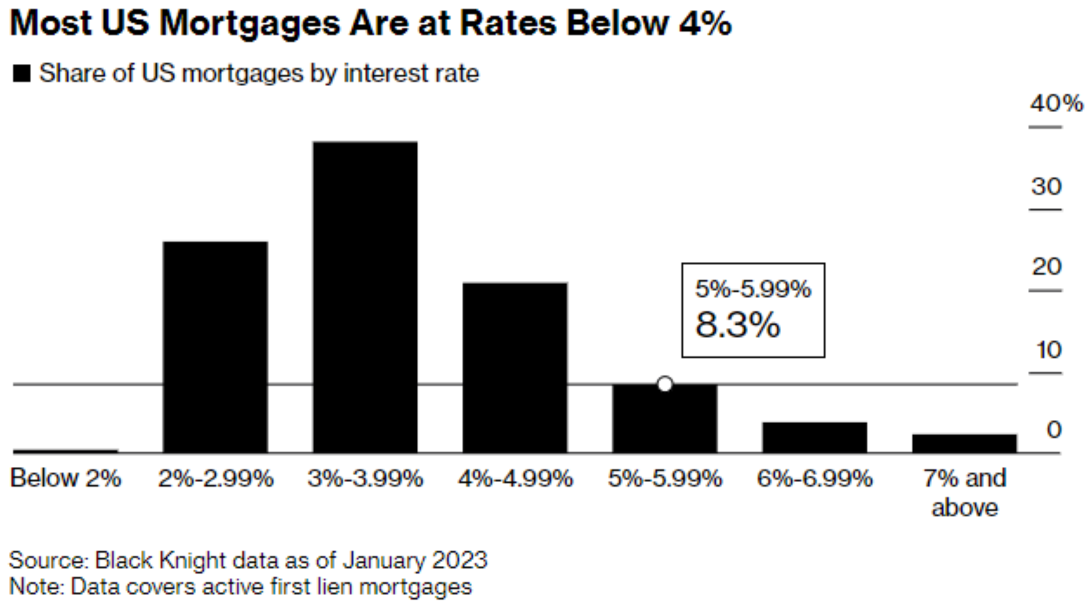


* Total market value of real estate held by households. All types of owner-occupied housing including farm houses and mobile homes, as well as second homes that are not rented, vacant homes for sale, and vacant land.
** Value of household real estate minus home mortgages.
Source: Federal Reserve Board Financial Accounts of the United States.

Locked in Low Mortgage Rates

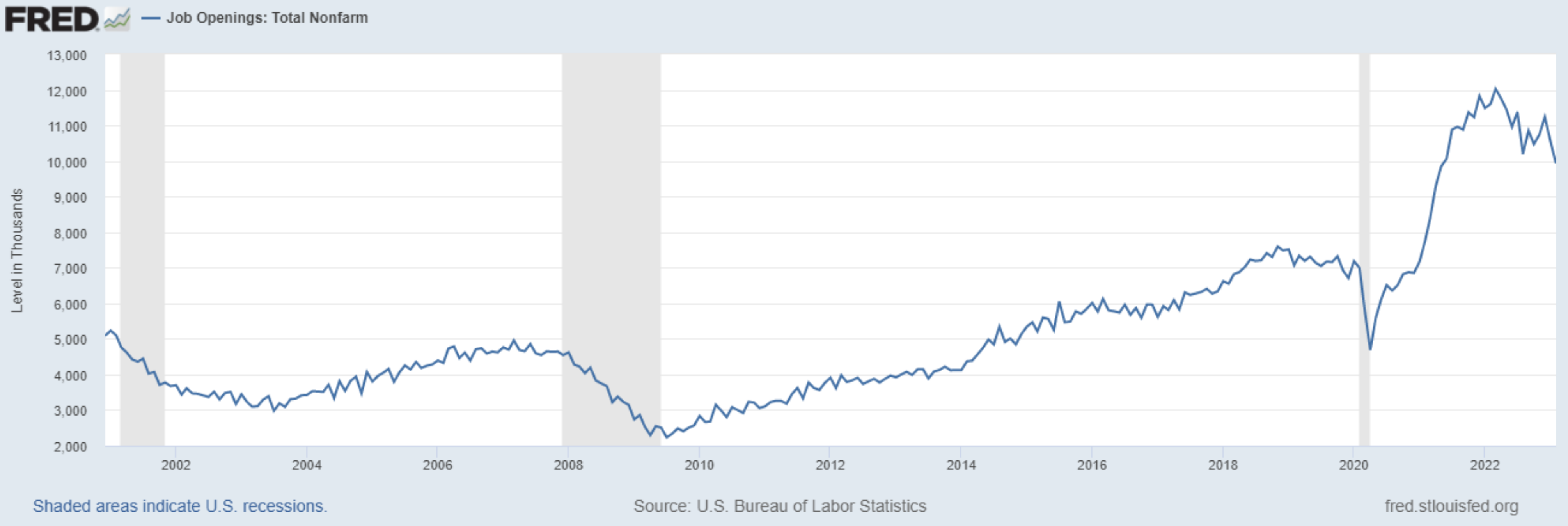
A large percent of consumers ***locked in their mortgages at levels well below current interest rates****, providing insulation from recent rates hikes*



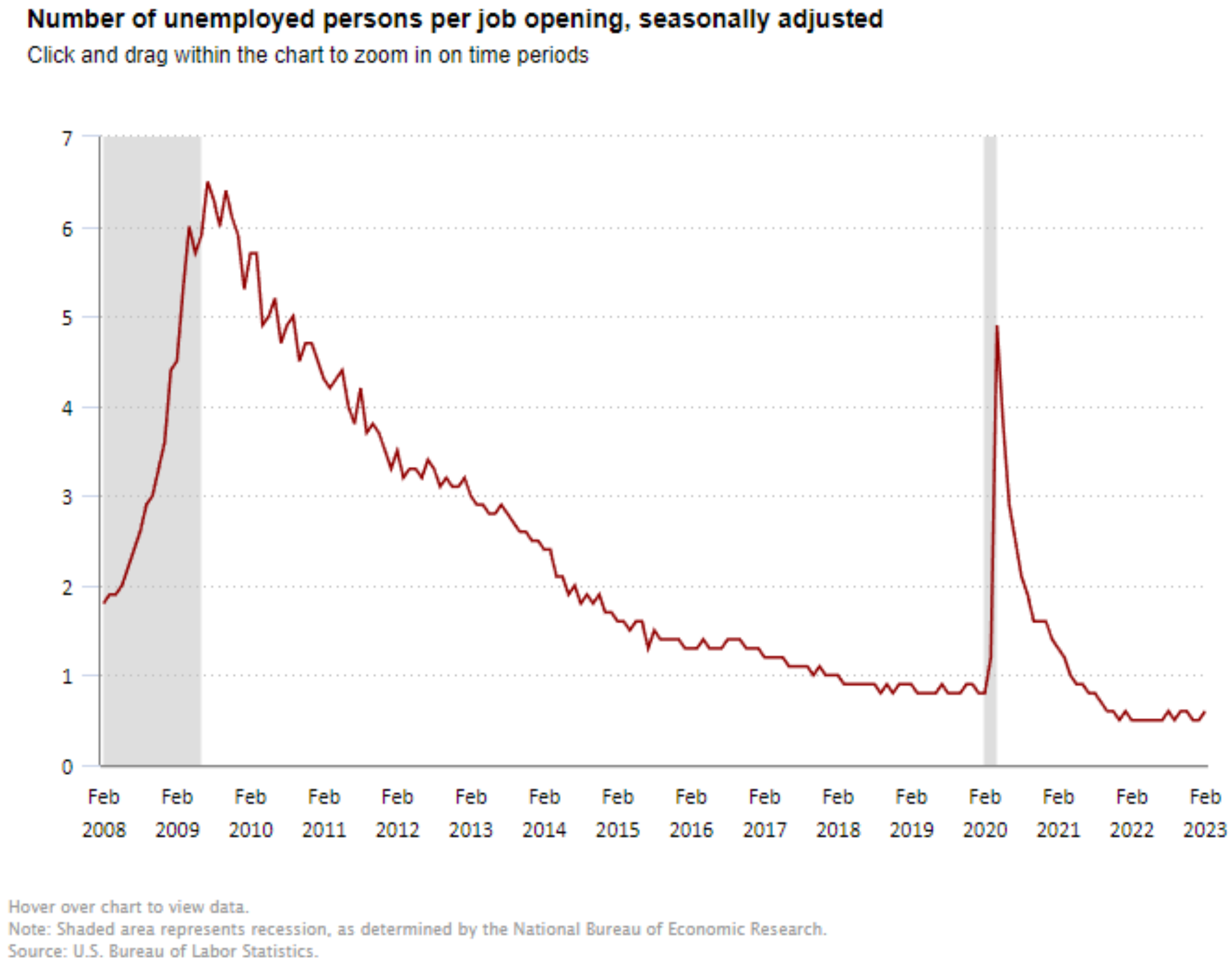


Job Openings

HELP WANTED! ***Employers can't find enough workers,*** *which gives workers the upper hand in salary negotiations*



Labor Supply Demand Imbalance

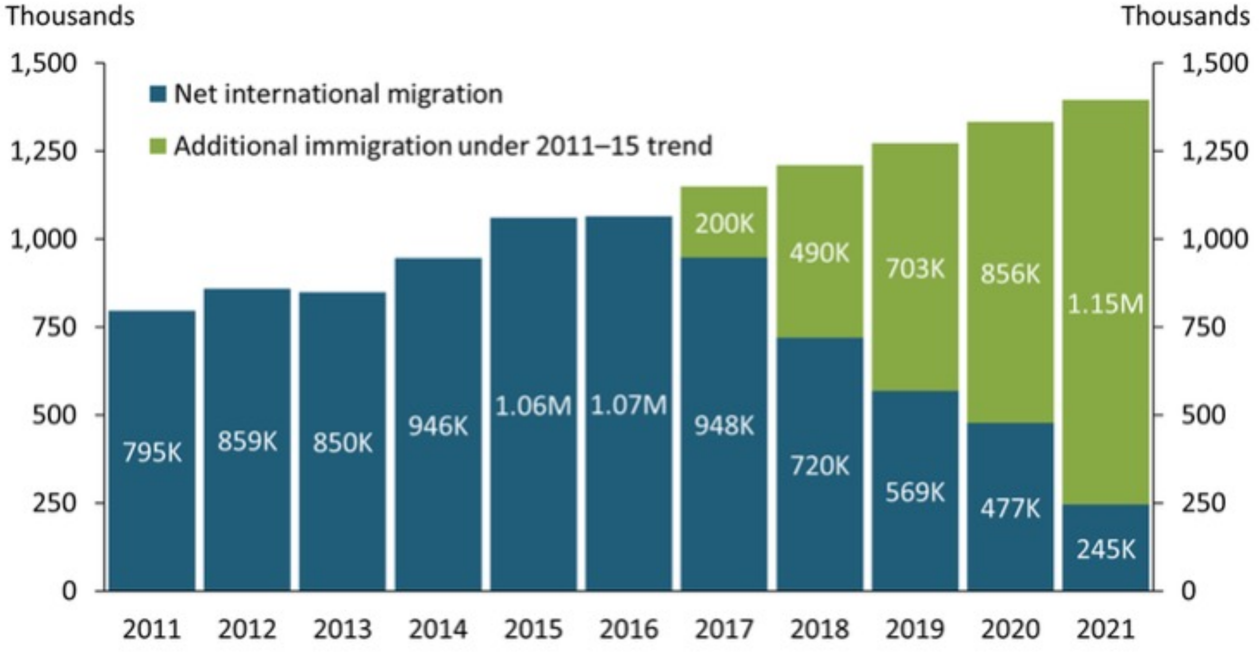


- In February 2023, there were **.6 unemployed people for ever one job opening**
- Said another way, there are **1.66 open jobs for every one person looking for a job**

Immigration in Decline

***Significant gap between actual immigration** and where we would have been based on 2011-2016 trends*

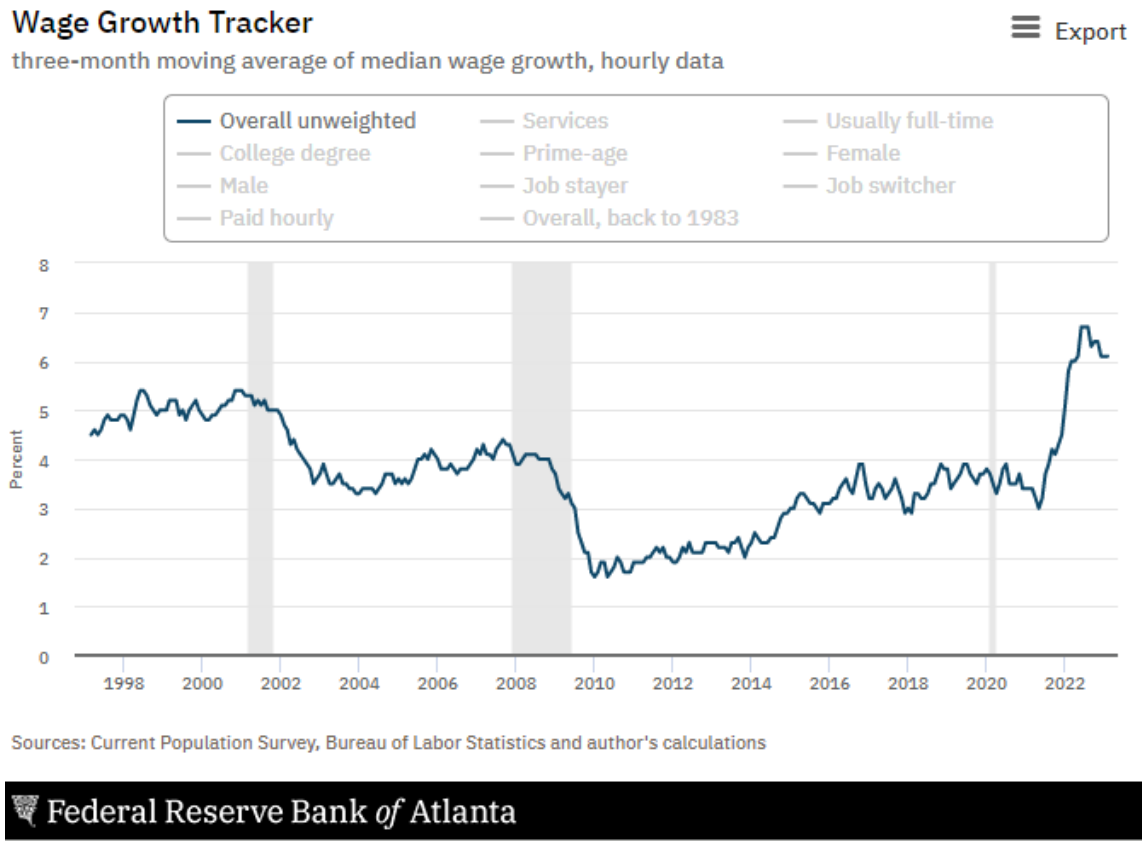
Chart 1: Tighter immigration policies and the COVID-19 pandemic reduced immigration to the United States from 2016 to 2021



Sources: U.S. Census Bureau and authors' calculations.

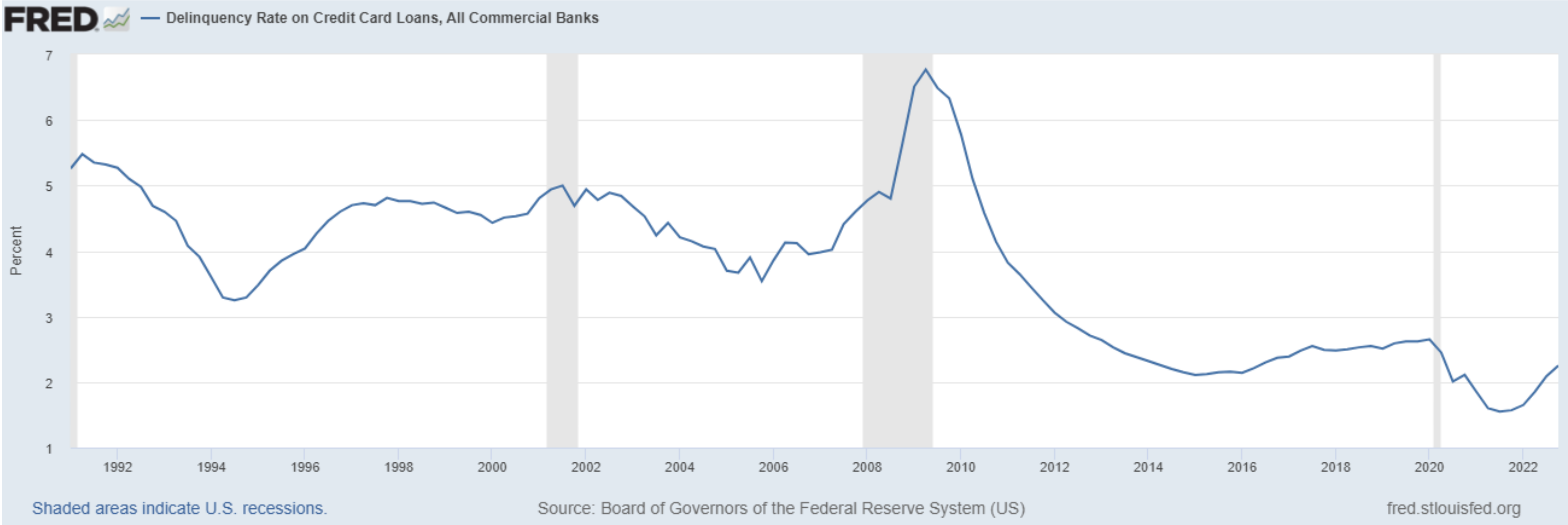
Wage Growth

Wage growth is still strong *which supports consumer spending, however its impact on corporate earnings and fed policy are important counter trends*



Consumer Credit

*Credit delinquencies are **well below their long-term averages***



Consumer Credit

***Consumers are well positioned** to service their household debt*

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Soft Landing

Soft Landing

- Federal Reserve slows the economy down and reduces inflation **while preventing the U.S. from entering a recession**
- Federal Reserve is **successful in raising interest rates**, and shrinking the money supply
- **Unemployment stays low** and consumer spending **remains healthy**
- Wage growth would need to continue its decline and the **labor supply/demand imbalance would need to stabilize**
- **No major disruption** to the flow of credit
- The Federal Reserve **does not “break something”**

Soft Landing

It's happened before, but….

Year	Federal Funds Rate		Duration	Unemployment	
	Start	End		Start	End
1964	3.4%	5.8%	2 years	5.1%	3.6%
1984	9.6%	11.6%	6 months	7.8%	7.5%
1993	3.0%	6.0%	16 months	6.5%	5.8%
2022	0.0%	4.8%	12 months	3.6%	3.5%*

*As of March 2023

Source: Seeking Alpha, BLS

Hard Landing

Hard Landing

- Federal Reserve **hikes interest rates so aggressively** to curb inflation that it **leads to a recession**
- **Asset prices would decline** - stock market would likely fall ~20% from where it is today
- The Federal Reserve would **likely "break something"**
- **Unemployment rate would rise**, consumer spending would fall and corporate margins would contract
- **Credit conditions would tighten** as banks lending requirements become more stringent
- Federal Reserve would be **forced to cut interest rates**
- States and the federal government would likely **increase fiscal stimulus**

Hard Landing

History is not on our side…

No Landing

No Landing

- **Economy is strong** and inflation remains sticky and persistent
- **Rates would stay high** for an extended period of time
- **Unemployment is relatively low**, and consumer spending is healthy
- Corporate earnings remain healthy with no major contraction
- With prices and interest rates staying higher for longer, **increased risk the recession is pushed out and made worse**

THANK YOU!