

# Economic Outlook

Fed Tightening Will Cause Mild Near-Term Recession

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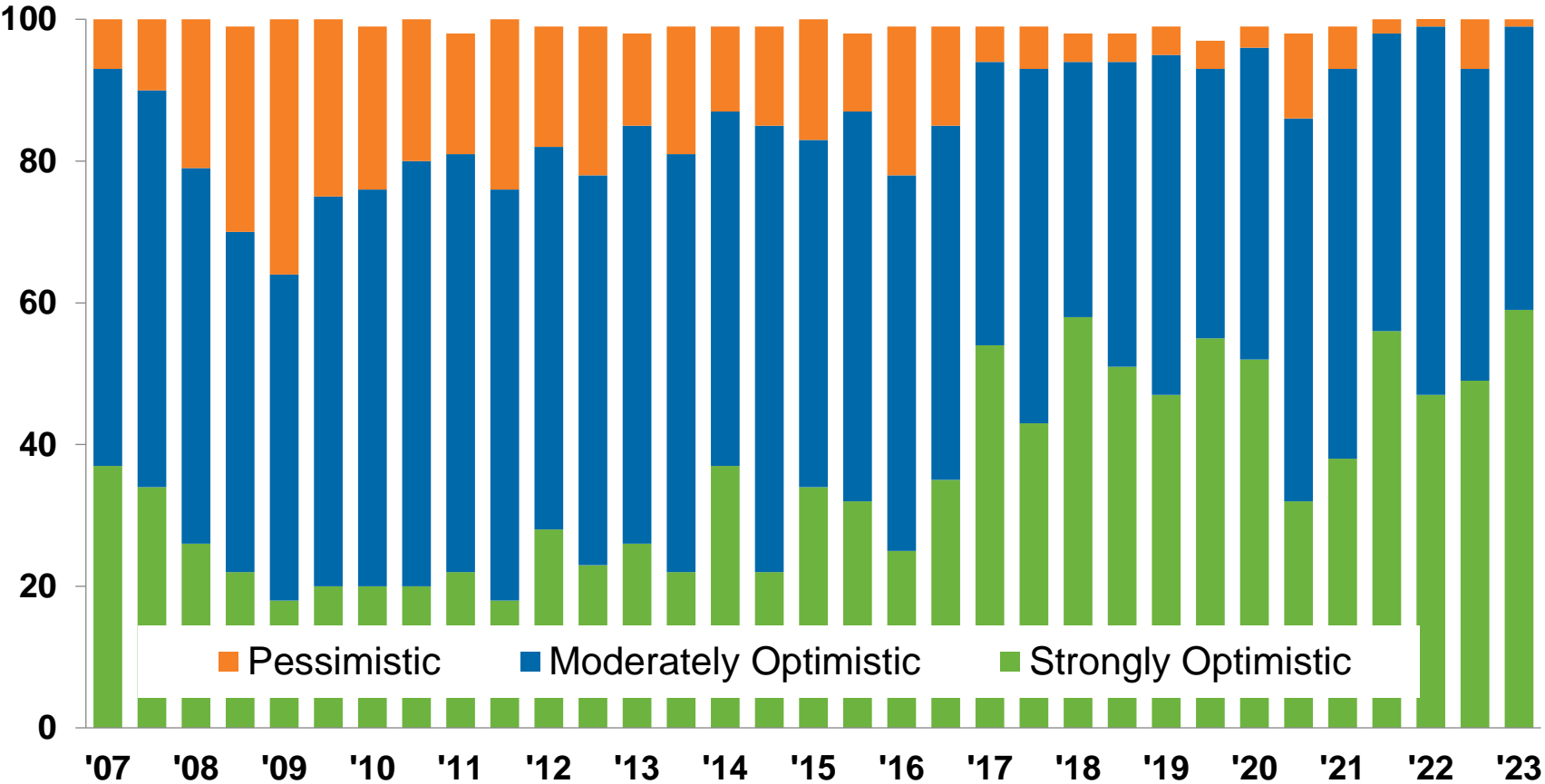
July 27, 2023



# Small Businesses Are Feeling Optimistic...



Expectations for own company's prospects, next 6 months, %

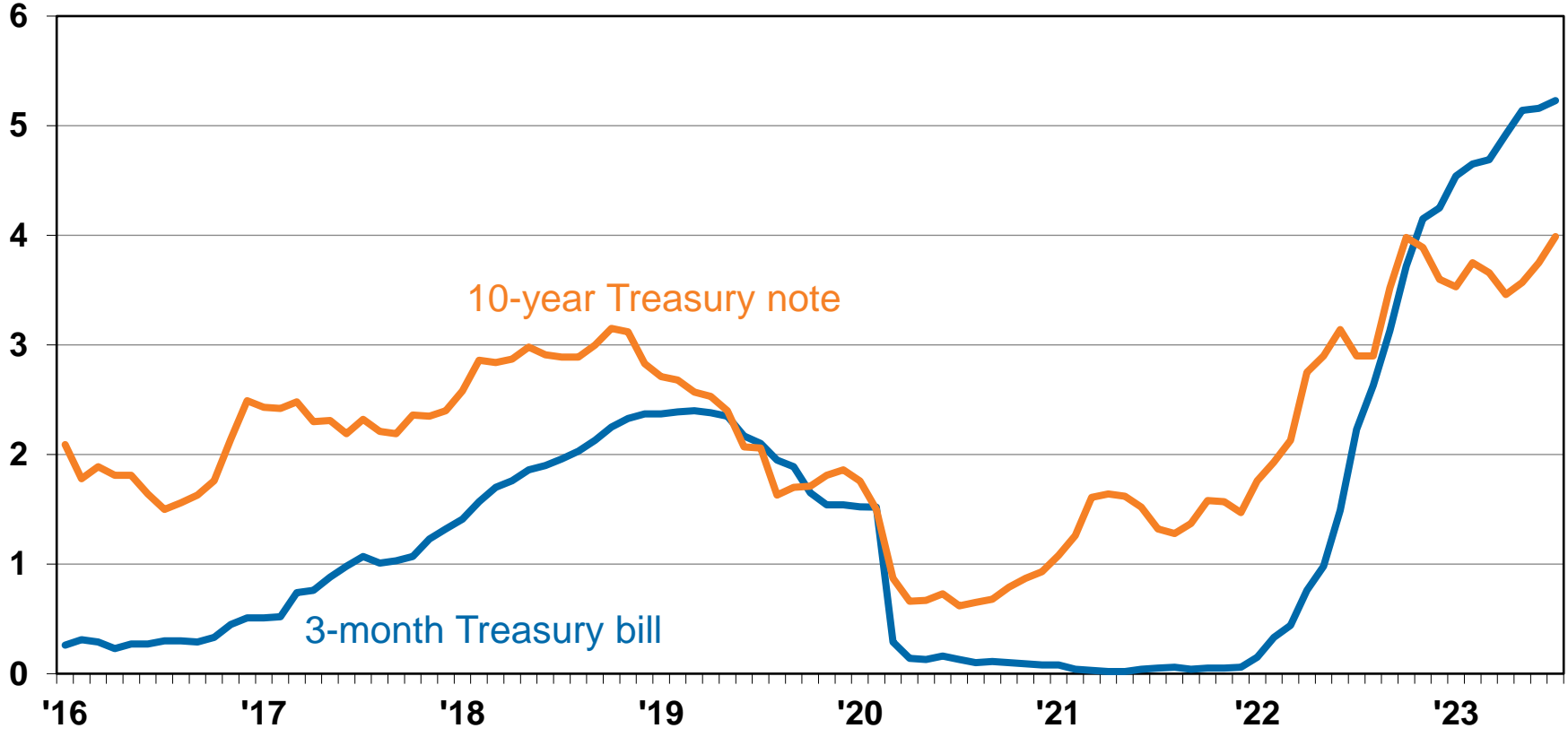


Source: PNC

# ...But Interest Rates Have Increased Across the Board...

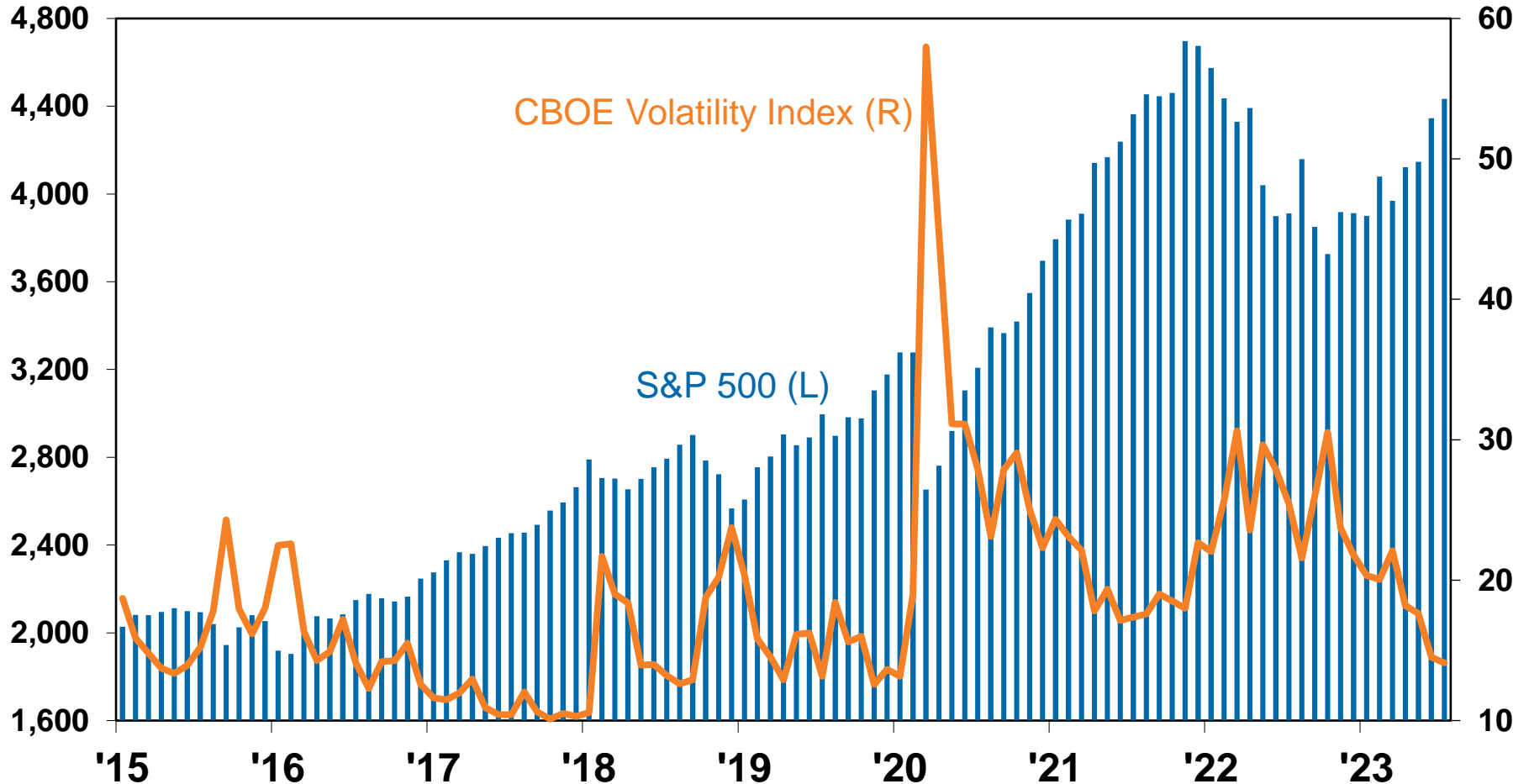


Yield, %



Source: Federal Reserve Board

# ...And Investors Have Retrenched

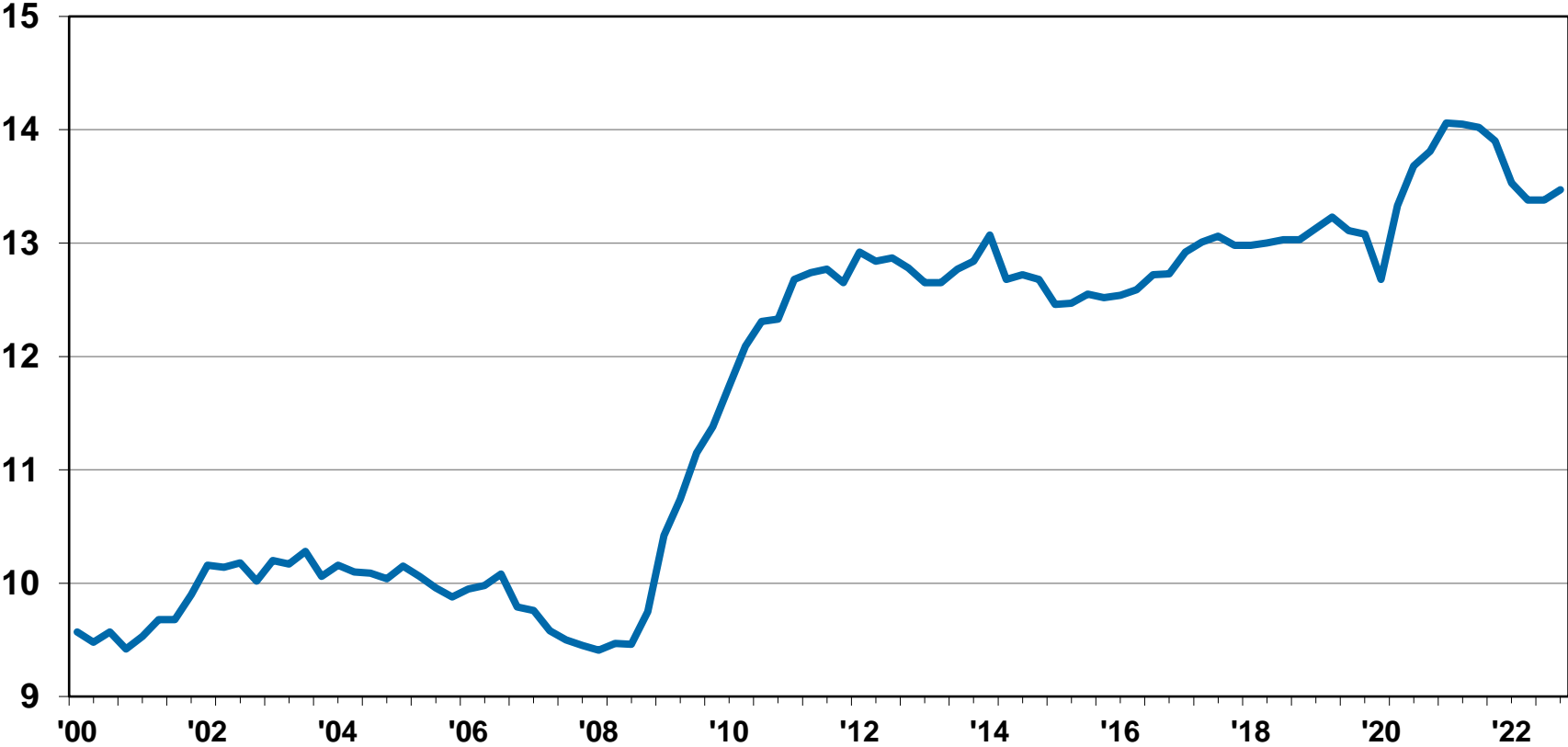


Source: S&P; CBOE

# Banking System As a Whole Is Well-Capitalized...



Tier 1 risk-based capital ratio, %

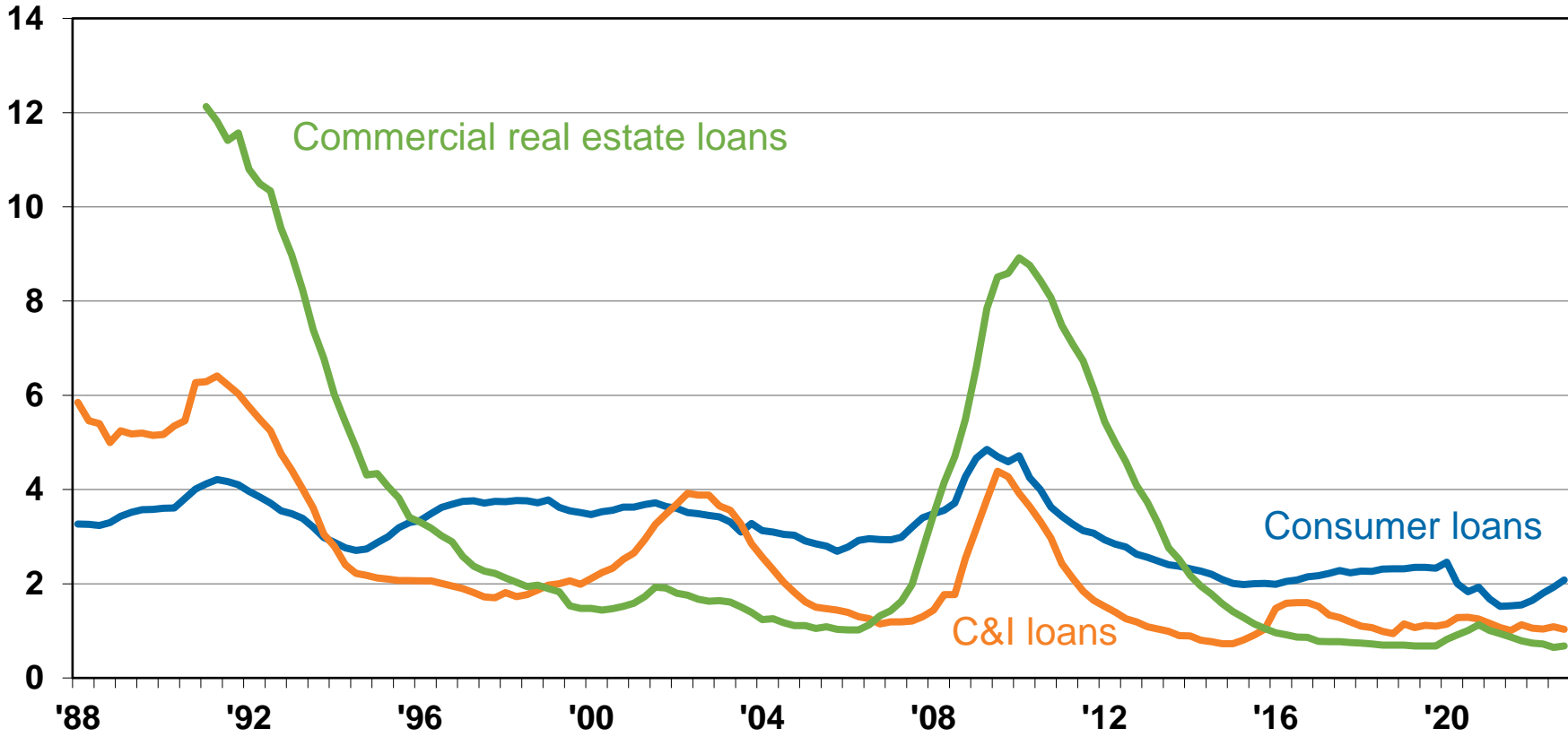


Source: FDIC

# ...Credit Quality Is in Great Shape...



Delinquency rate, %

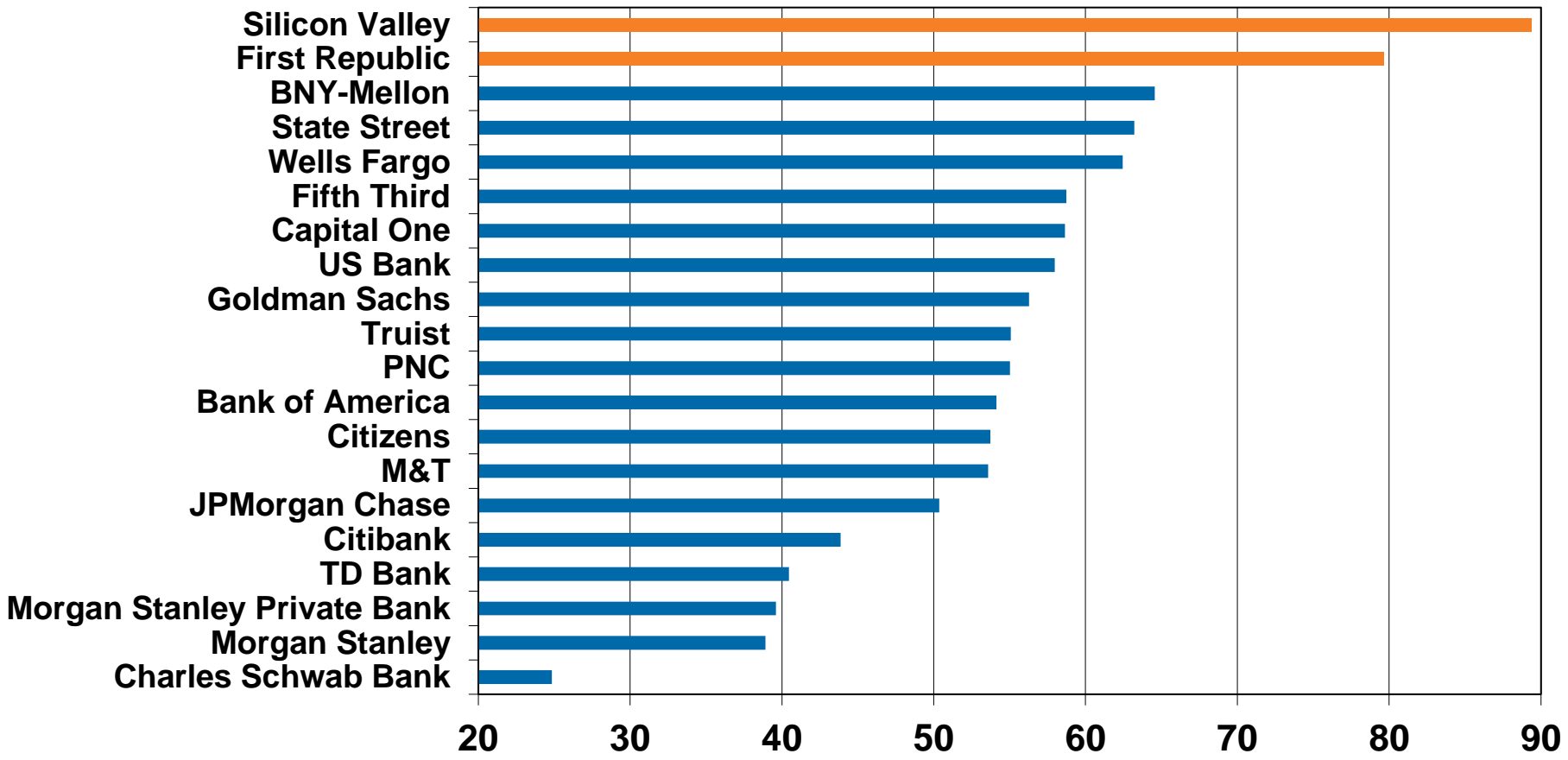


Source: Federal Reserve Board

# ...And Risks Appear Isolated

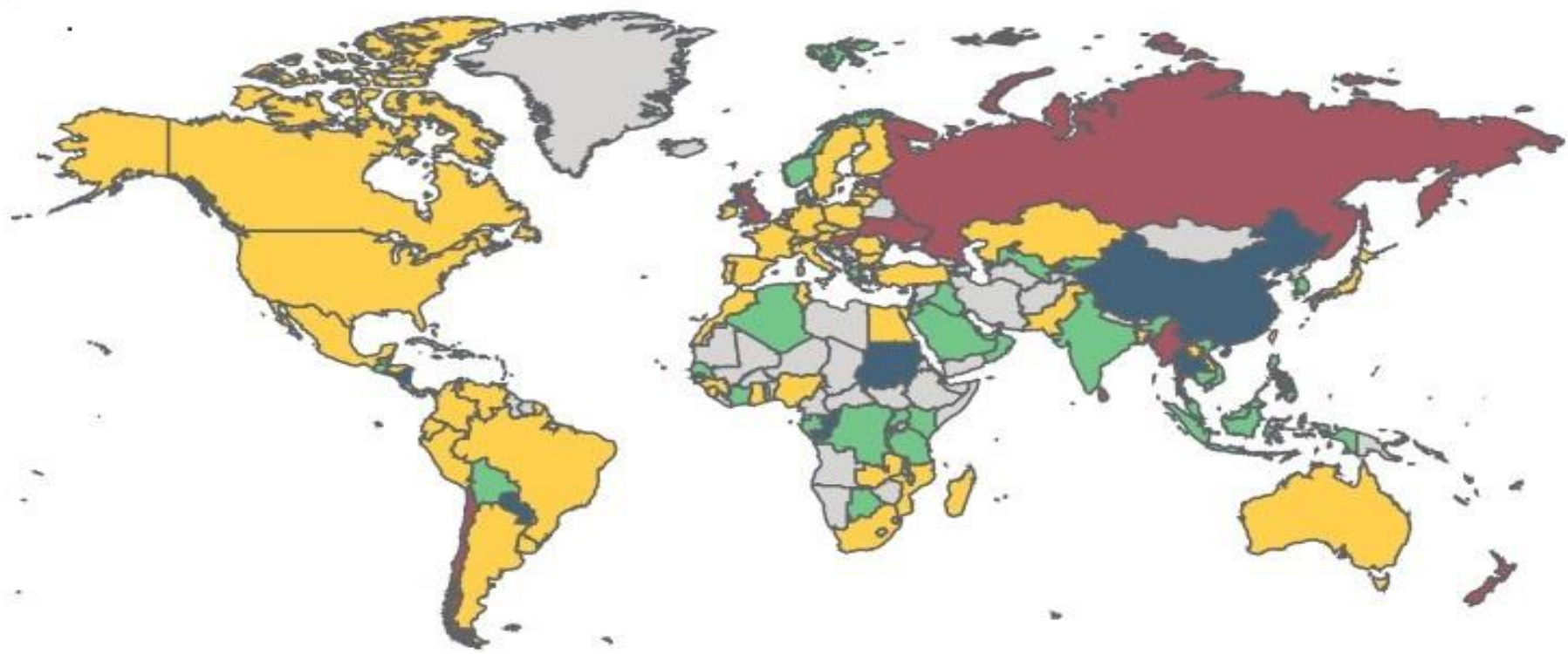


% of deposits that are uninsured, 20 largest commercial banks, 2022Q4



Source: FDIC

# The Global Economy Is in Trouble



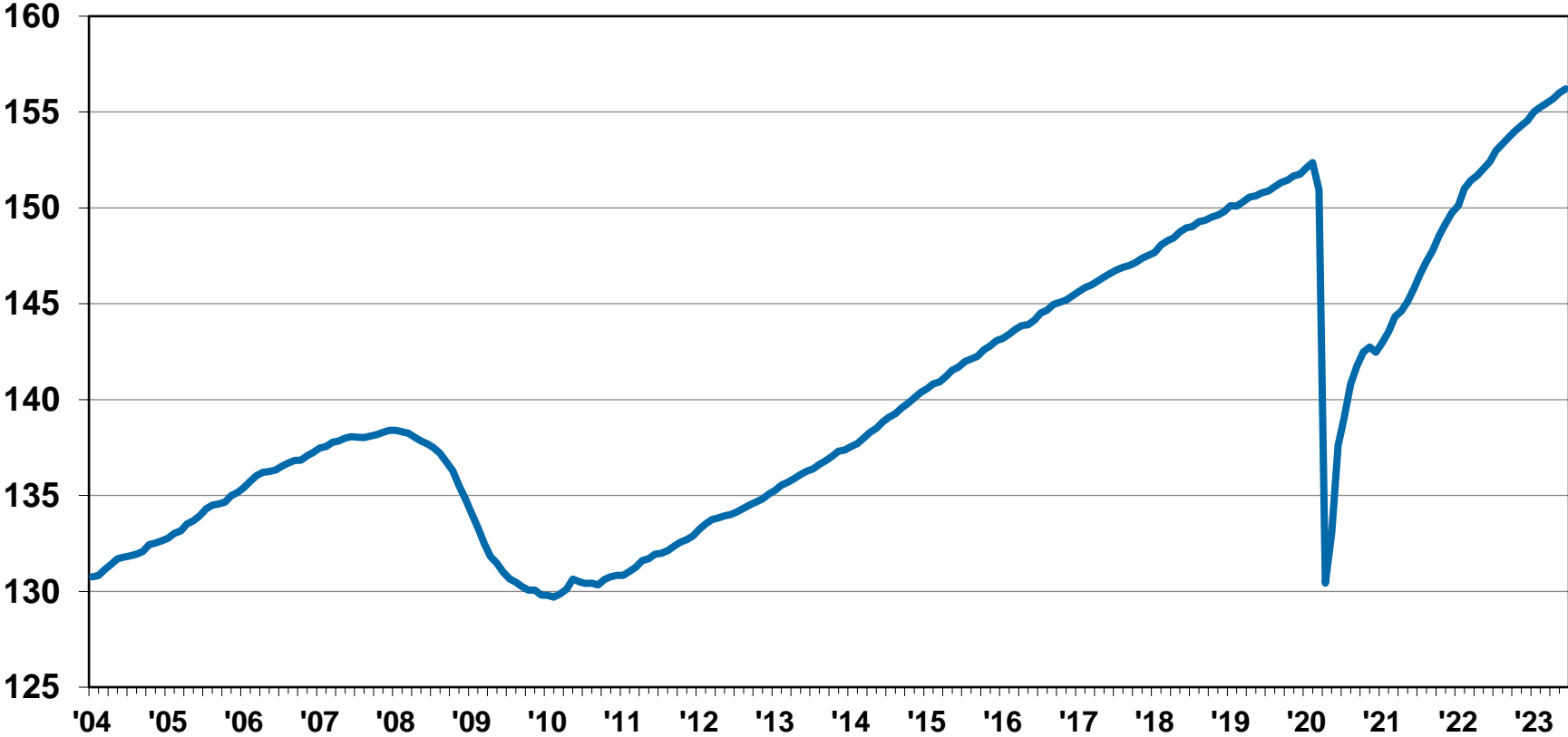
Source: Moody's Analytics



# Employment Has Fully Recovered From the Pandemic



Establishment employment, mil

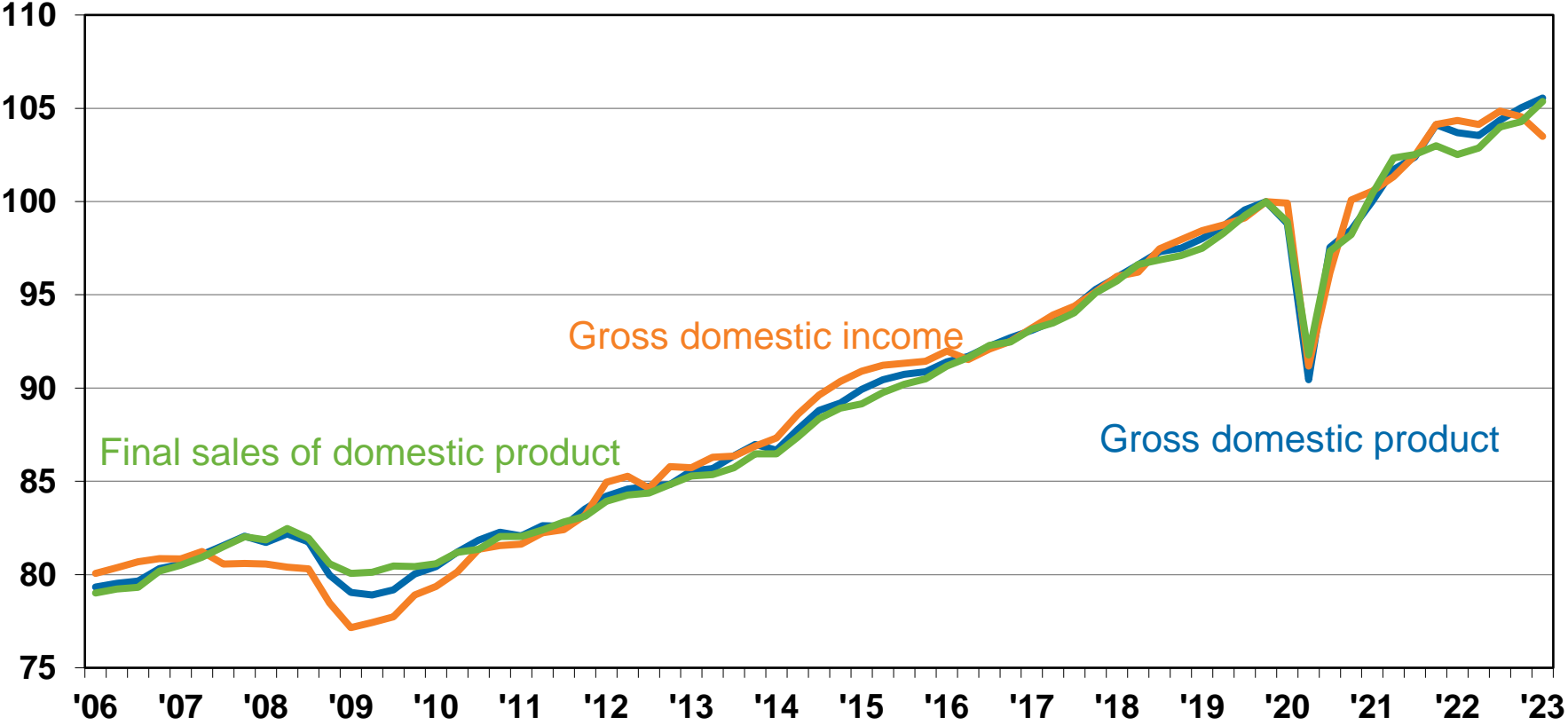


Source: BLS

# Economic Activity Now Above Pre-Pandemic Peak...



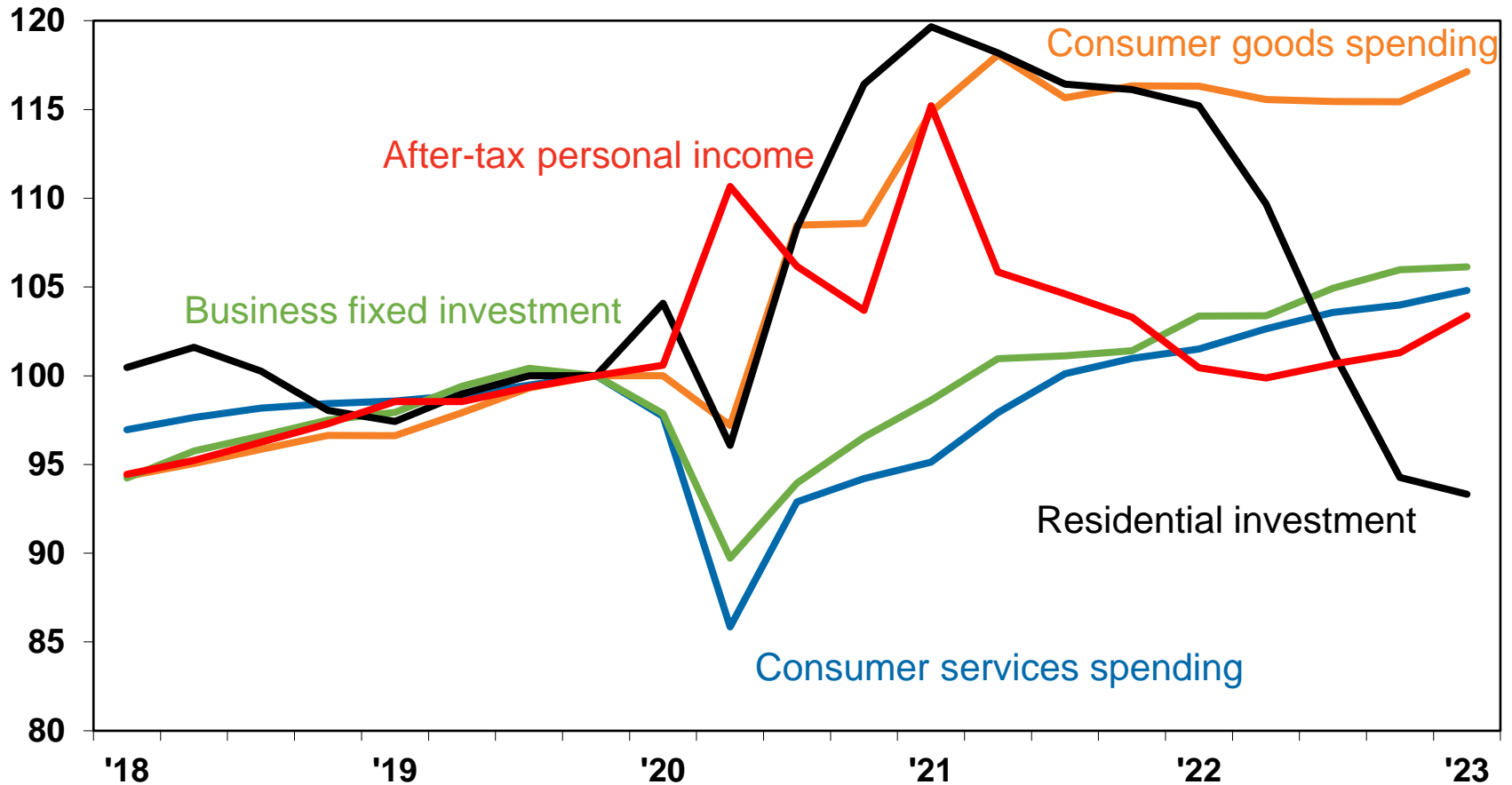
Real, index, 2019Q4=100



Source: BEA

# ...But That Obscures Big Shifts in Activity

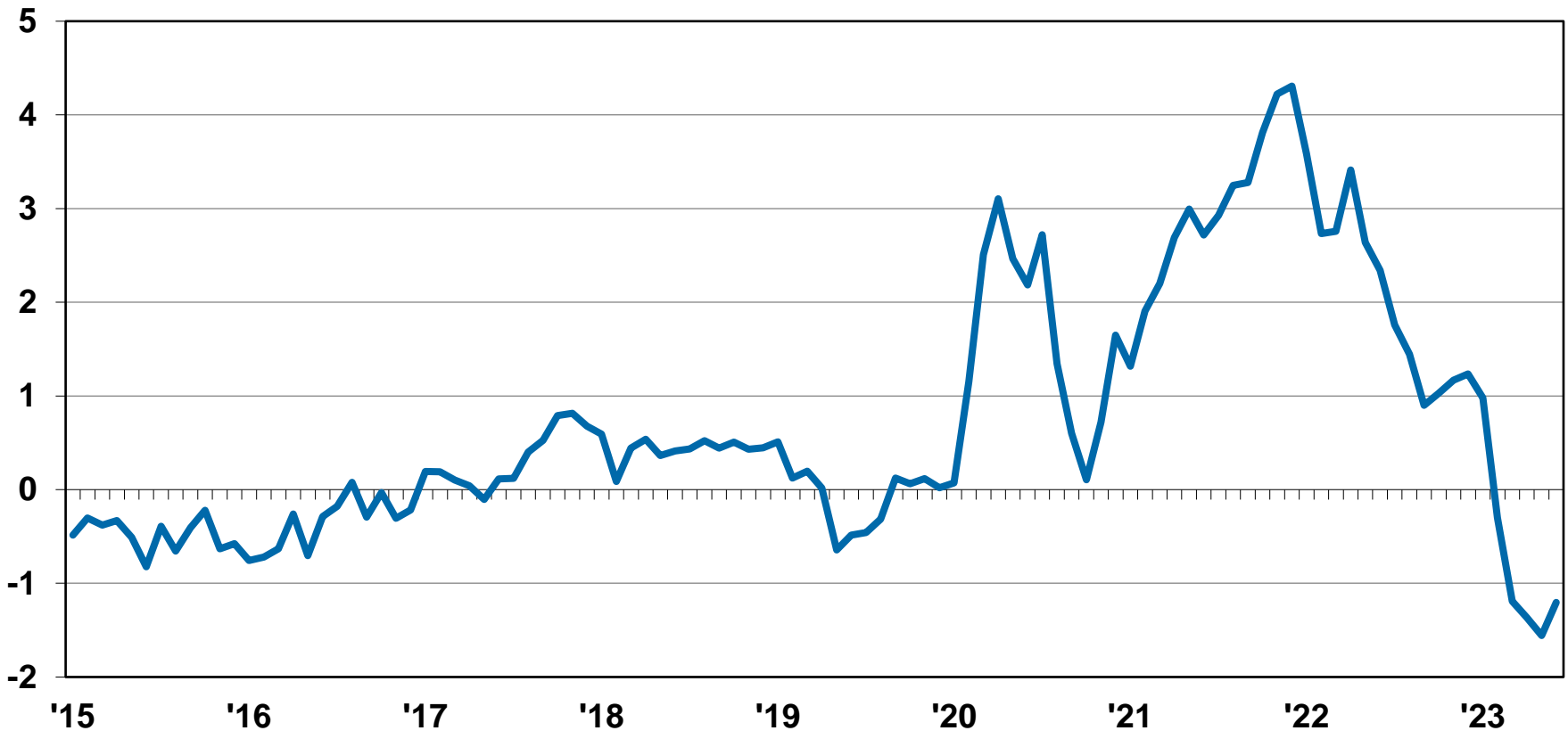
Real, index, 2019Q4=100



# Global Supply Chain Pressures Are Now Below Average



Global Supply Chain Pressure Index, standard deviations from average value

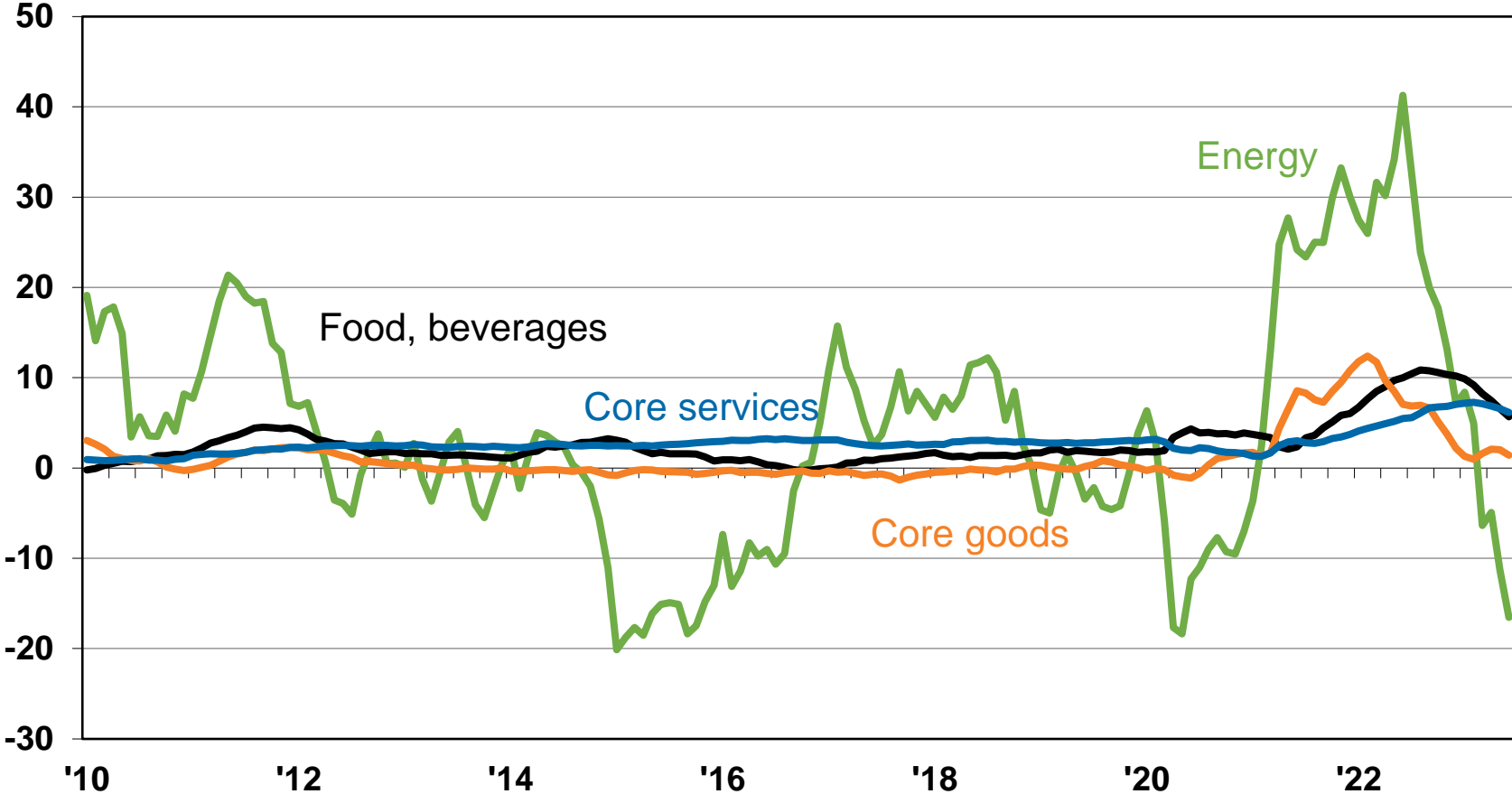


Source: New York Fed

# Acceleration in Core Services Inflation Is a Big Concern



Consumer price index, % change year ago

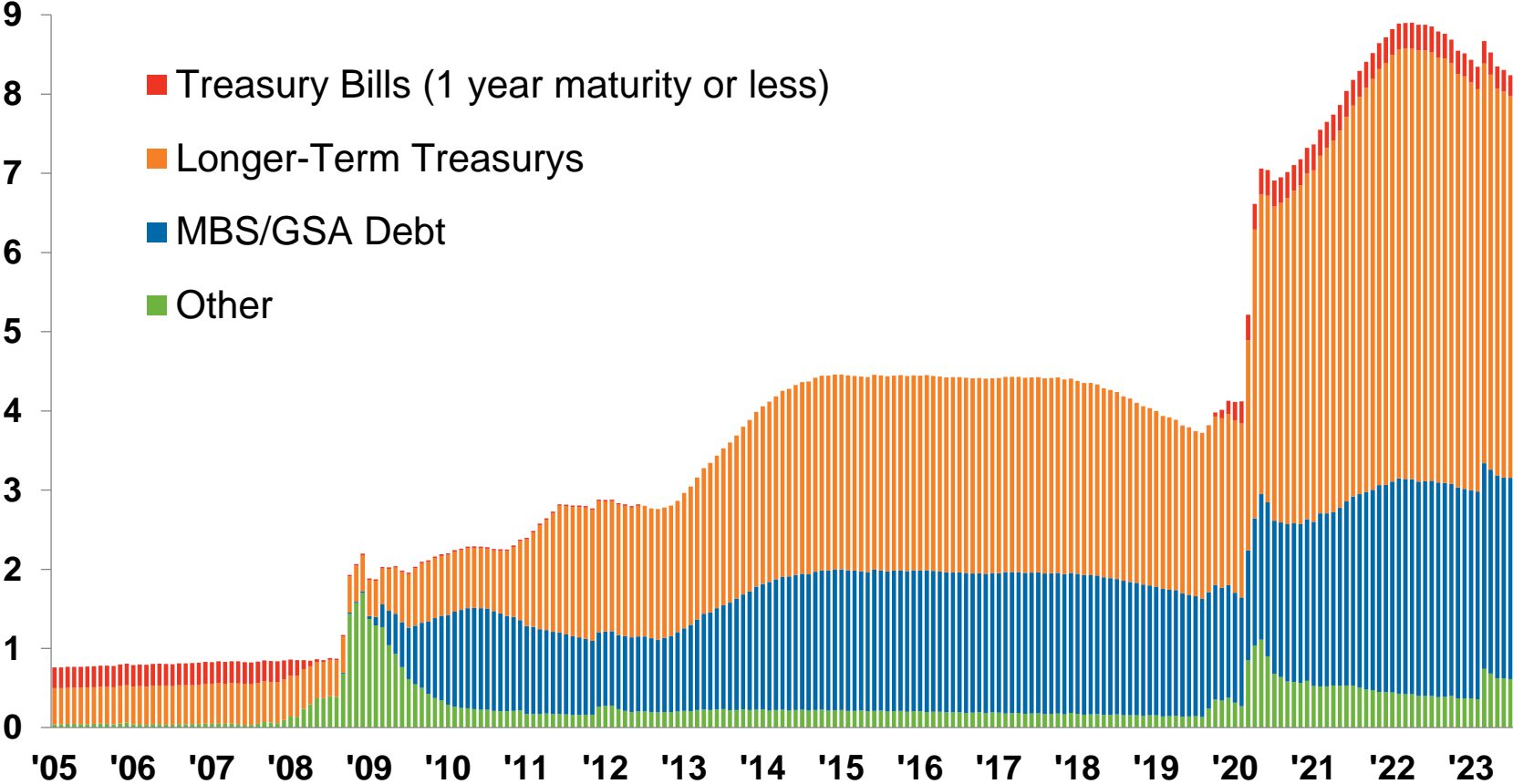


Source: BLS

# Fed Balance Sheet Grew in March With Banking Crisis, But Is Falling Again

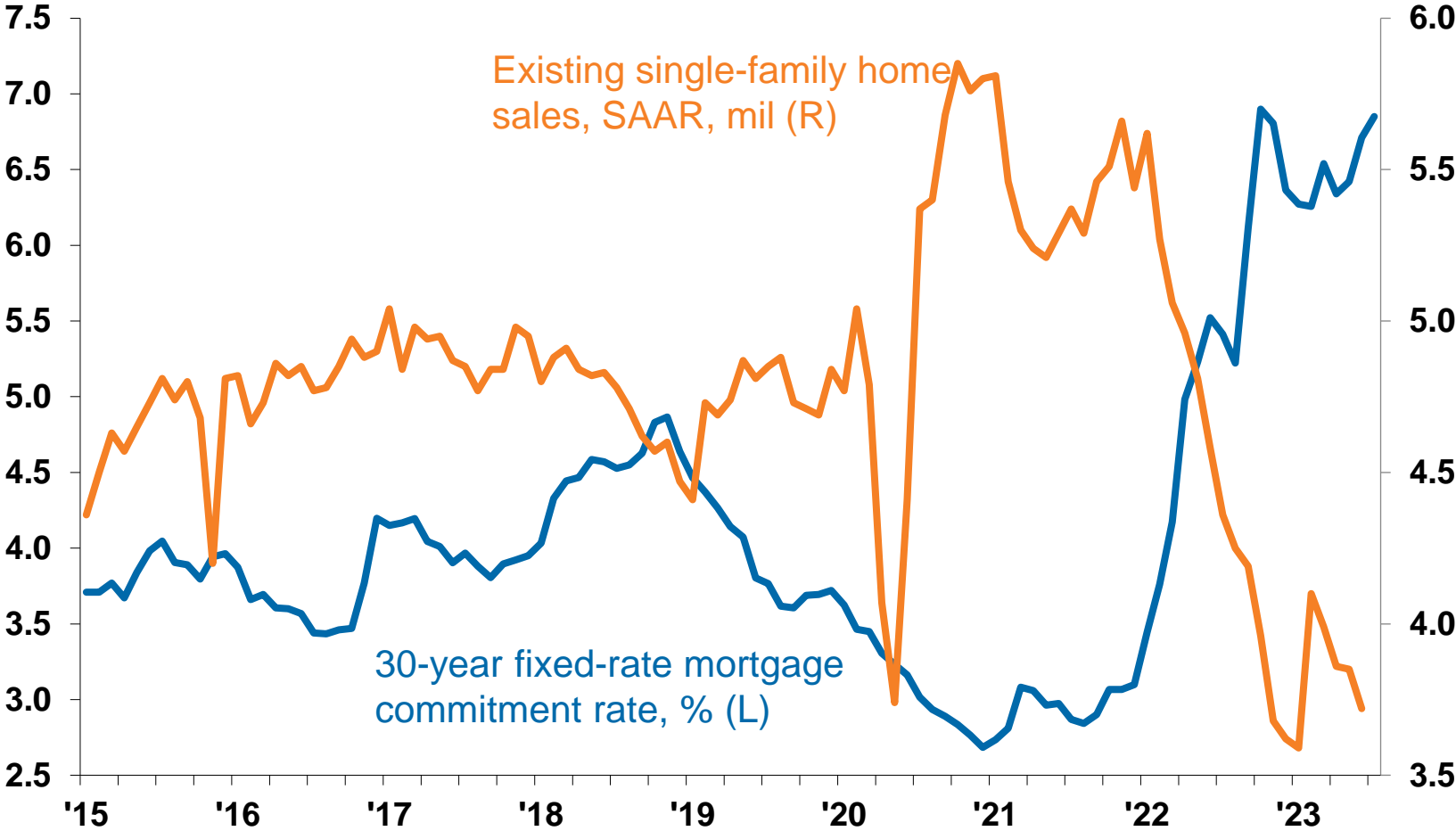


Federal Reserve assets, \$ tril



Source: Federal Reserve Board

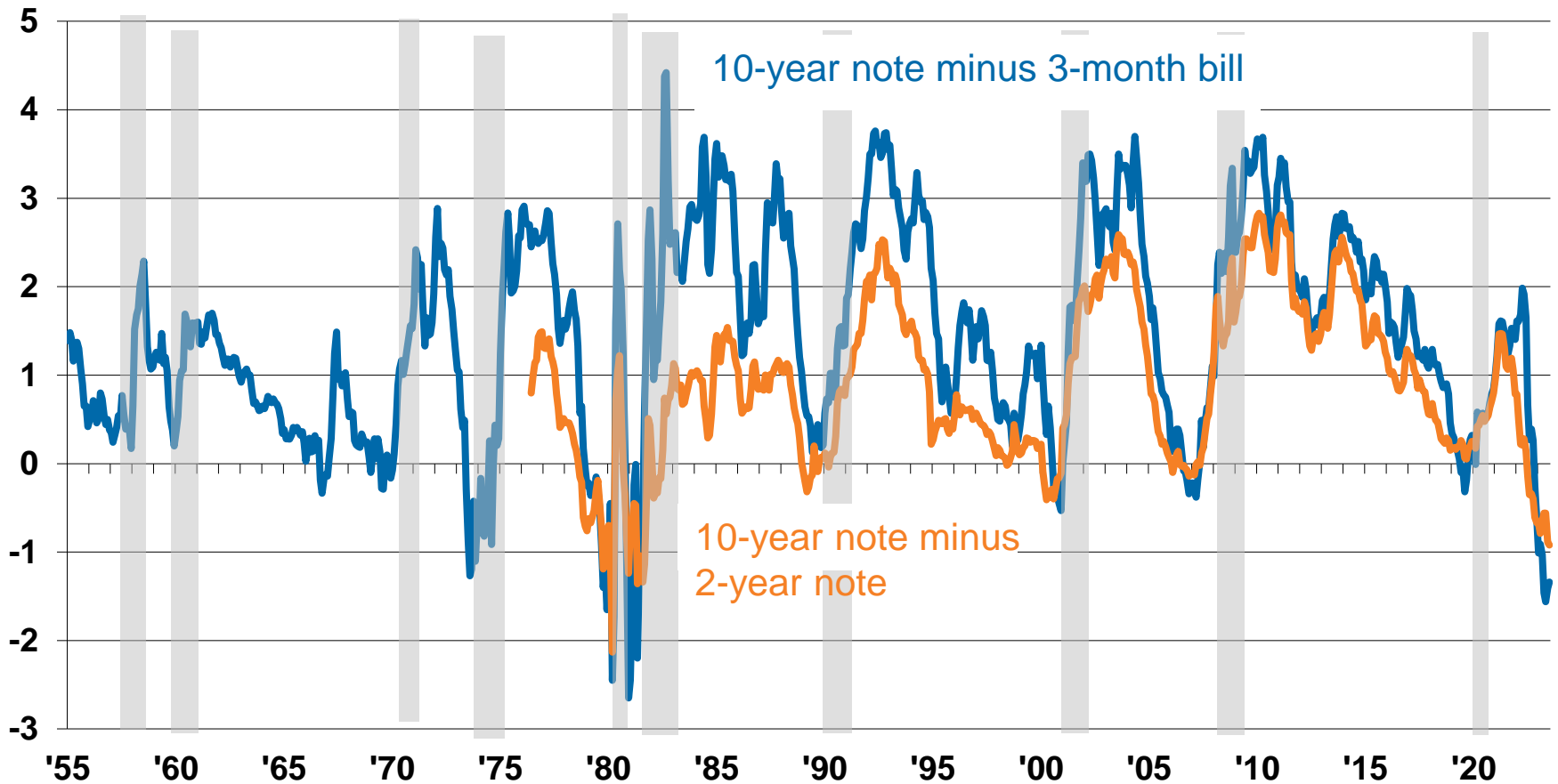
# Big Jump in Mortgage Rates Is Weighing on the Housing Market



Sources: Freddie Mac, National Association of Realtors

# Yield Curve Remains Deeply Inverted

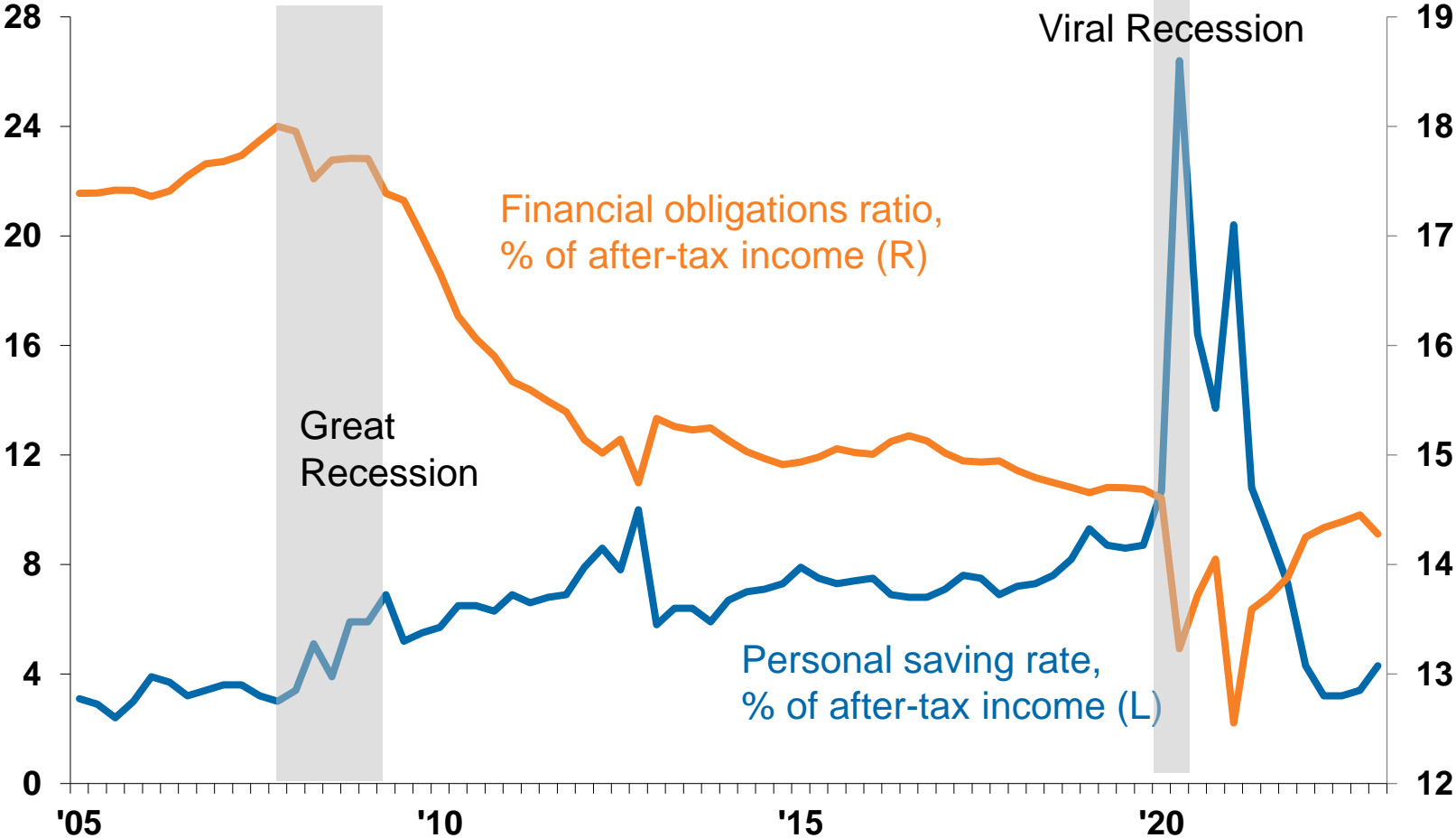
Yield spread, percentage points



Sources: Federal Reserve Board, NBER



# Accumulated Savings and Great Balance Sheets Will Limit Hit to Consumer Spending

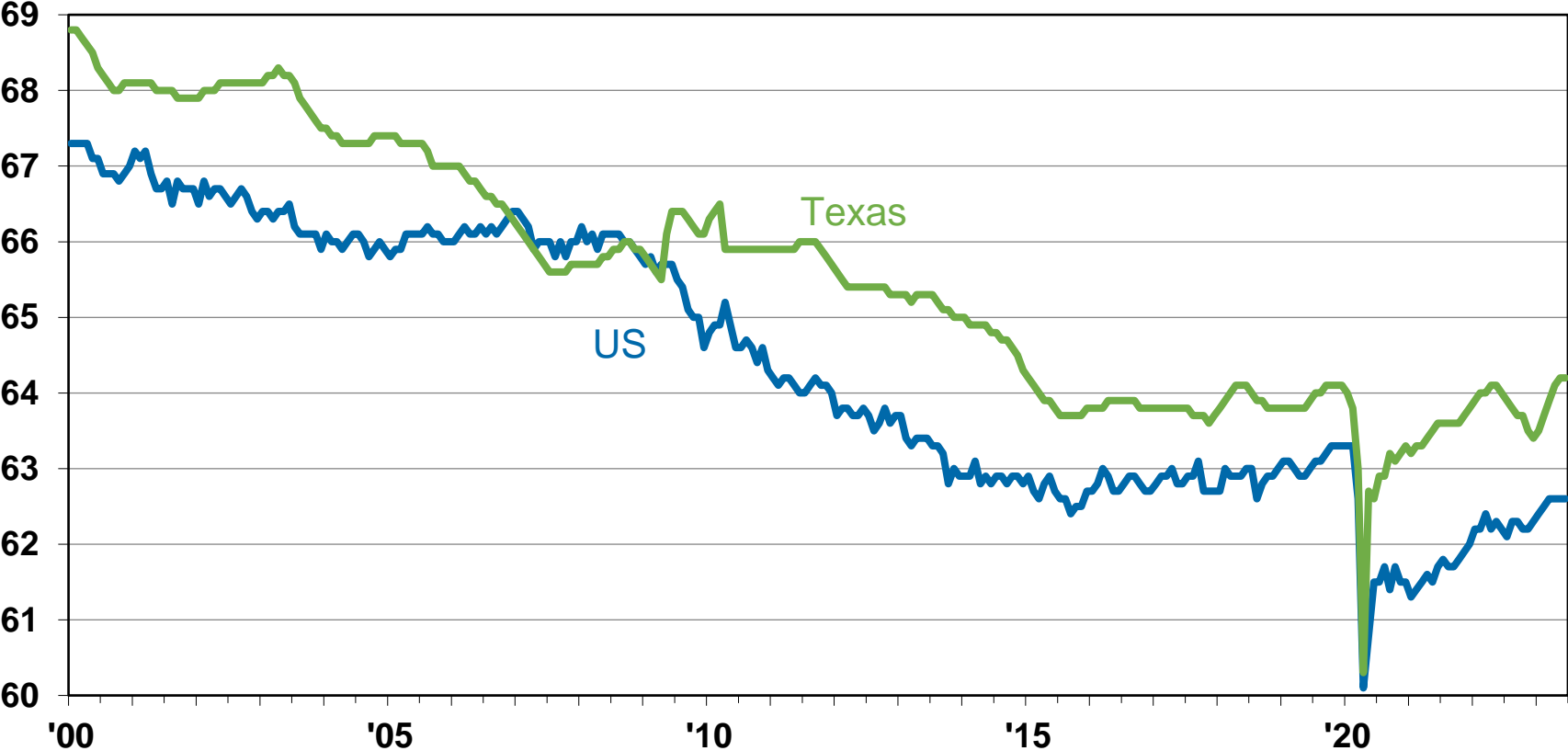


Sources: BEA; Federal Reserve Board

# Structurally Tighter Labor Market Post-Pandemic



Labor force participation rate, %

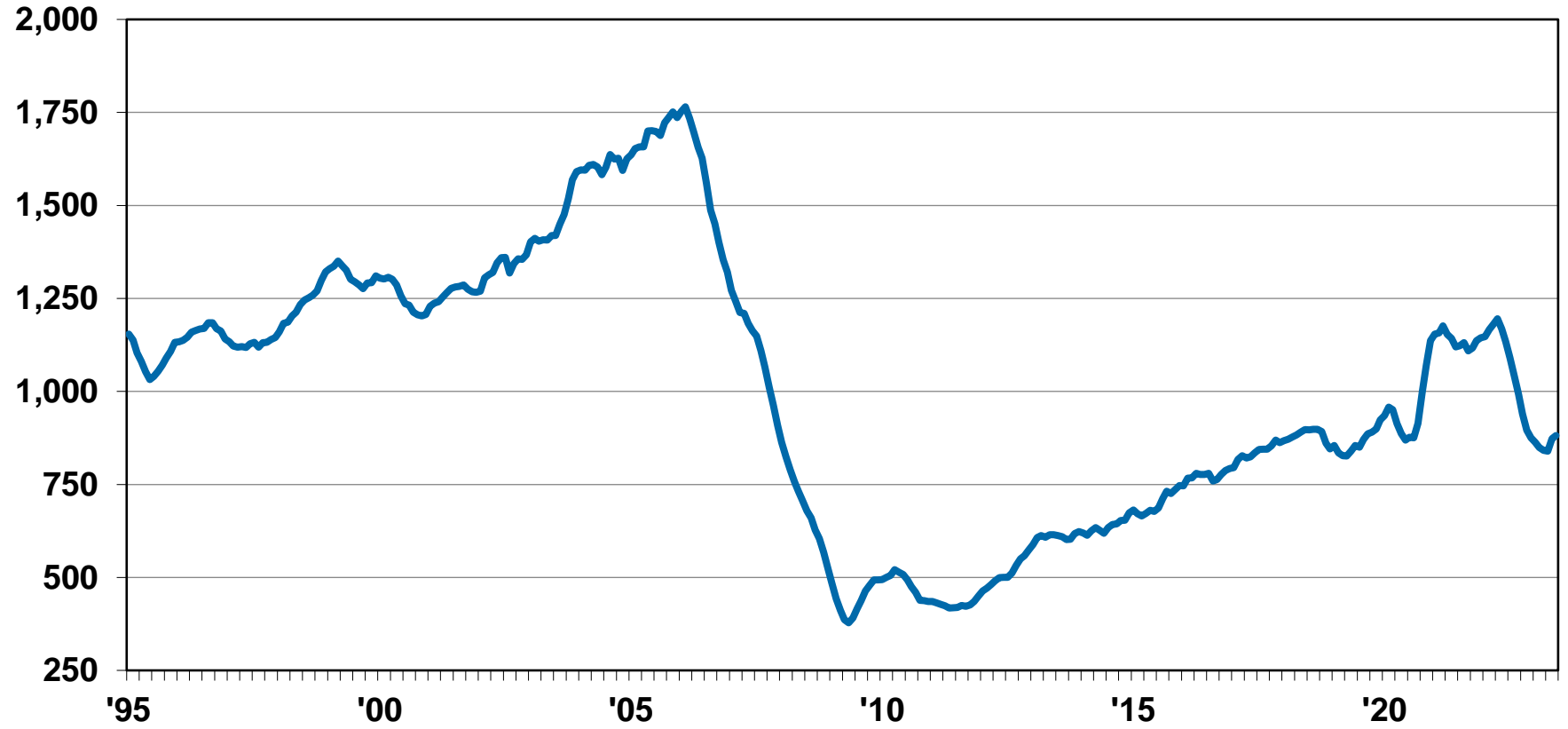


Source: BLS

# The Housing Market Has Been Undersupplied for Years

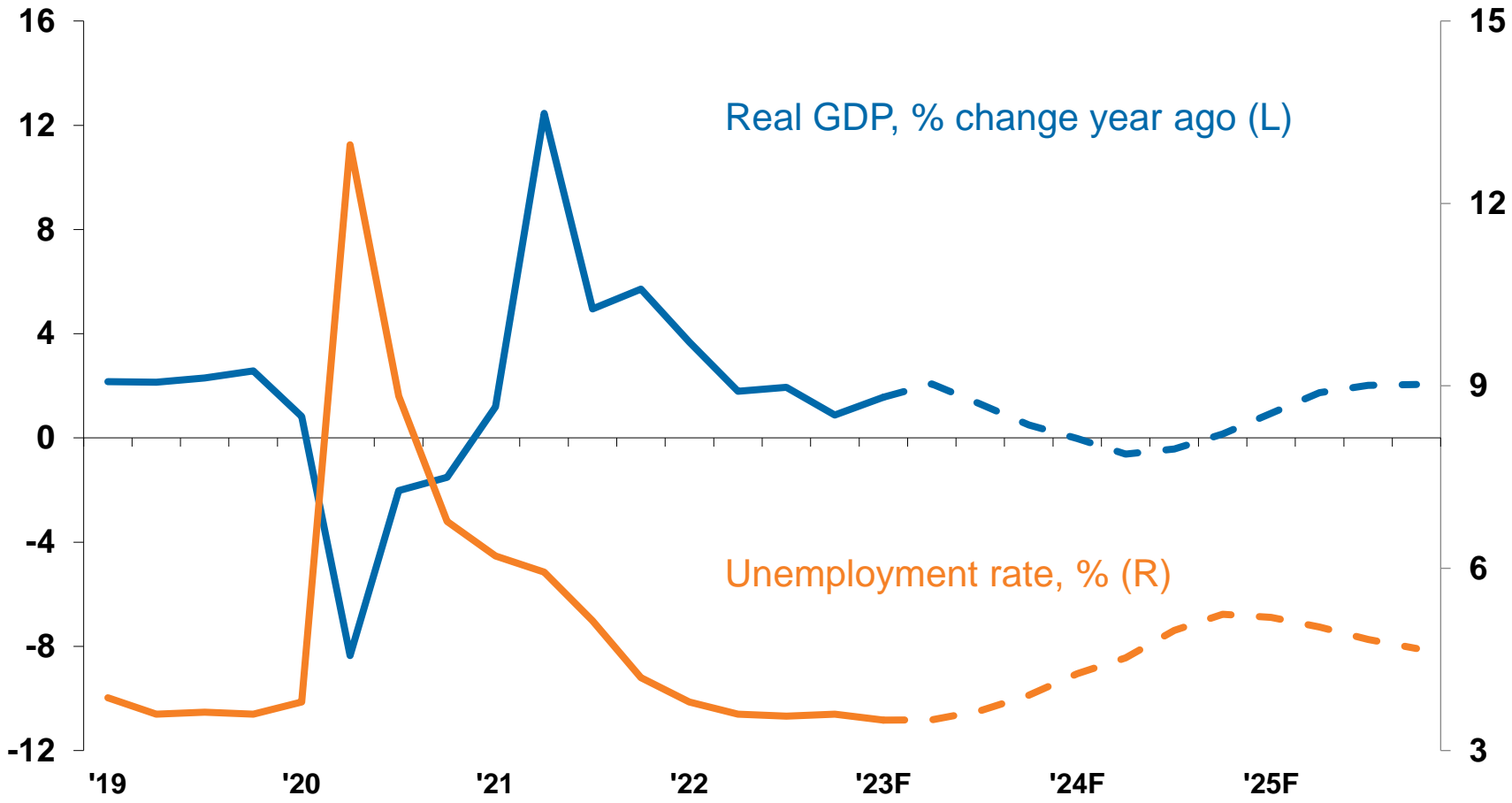


Single-family housing starts, seasonally-adjusted annualized rate, 6-month moving average, the



Source: Census Bureau

# Most Likely Outcome Is Mild Recession in Late 2023 or Early 2024

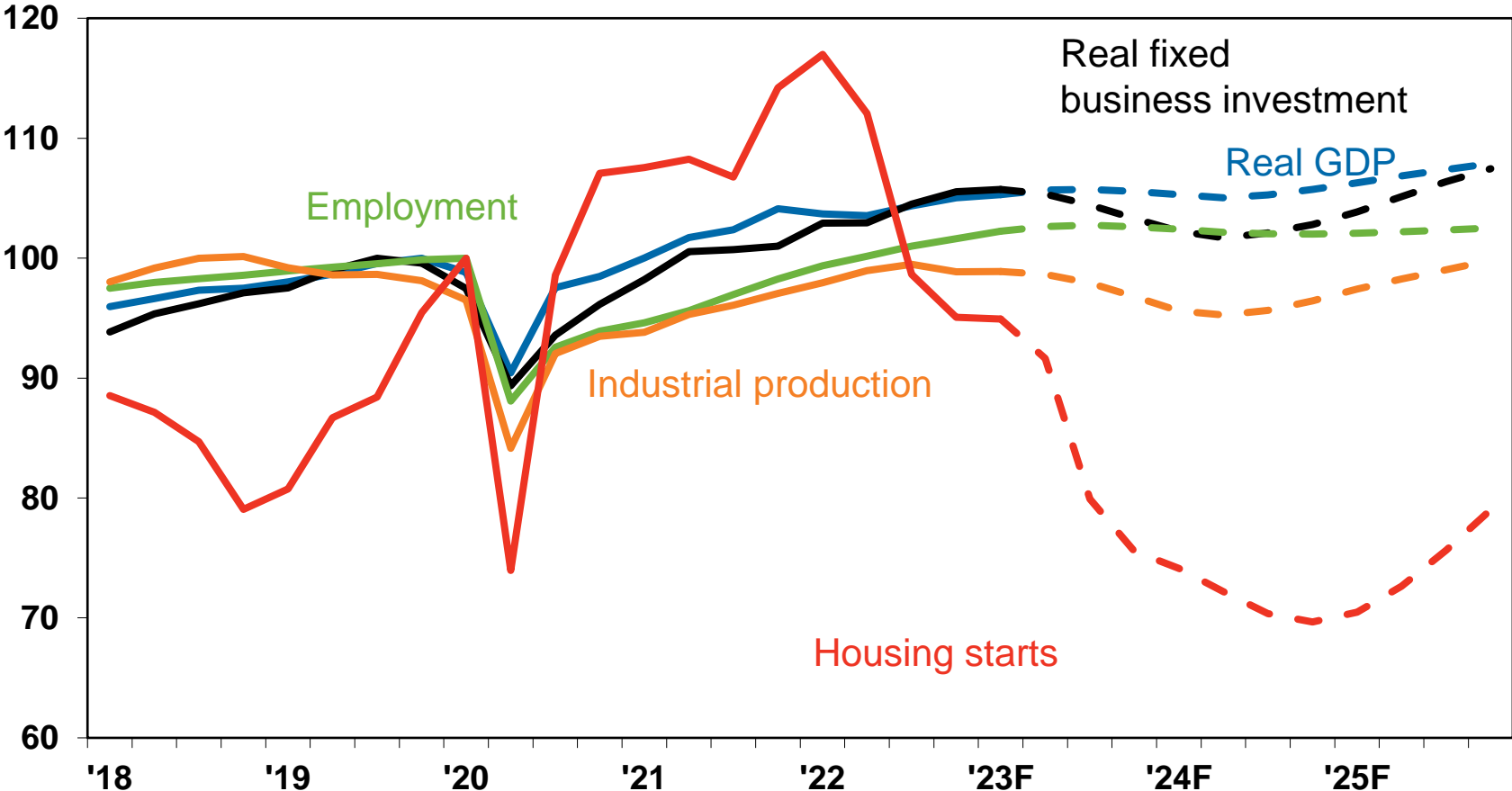


Sources: BEA, BLS, PNC

# Housing, Business Investment Will Lead the Recession



Index, pre-recession peak=100

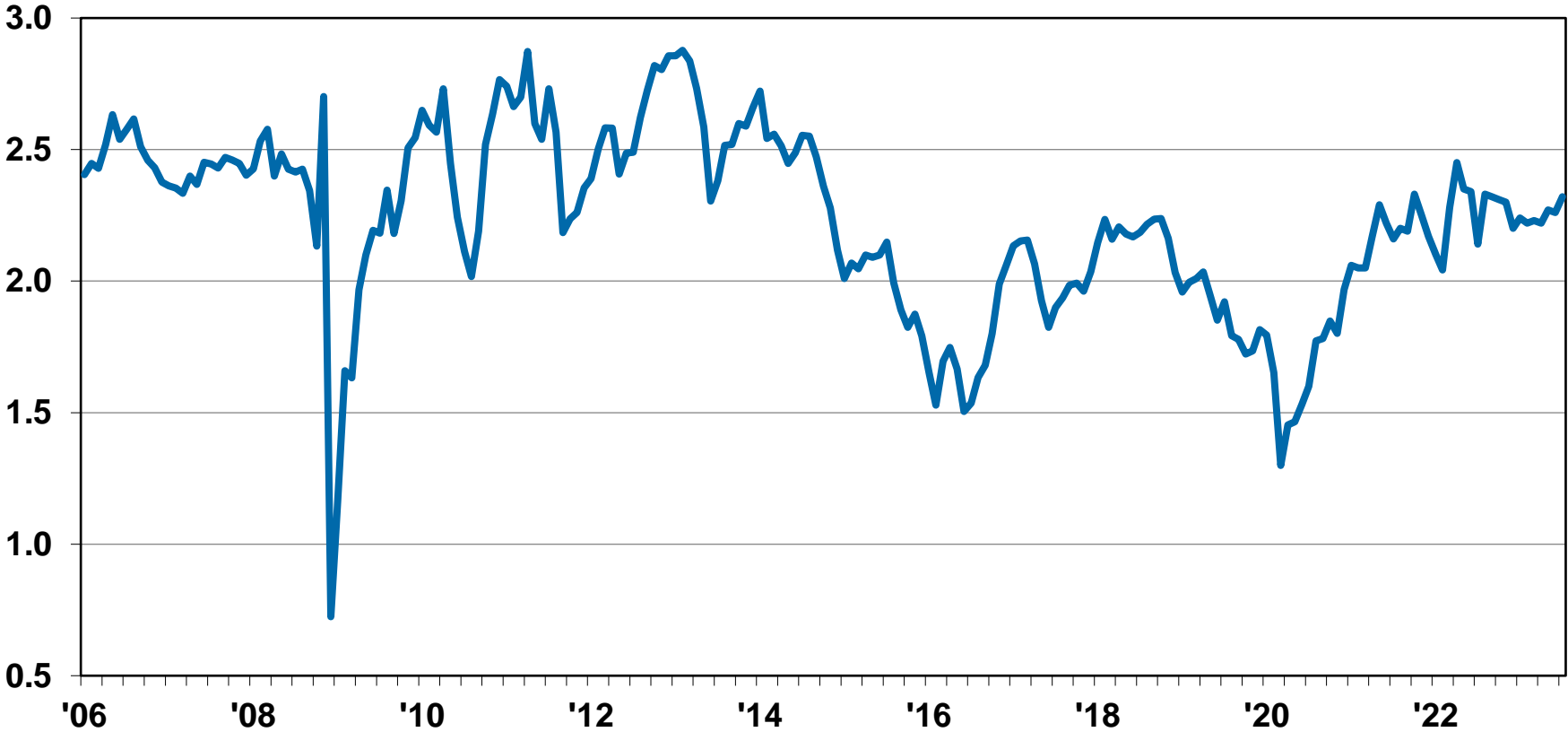


Sources: BEA; BLS; Federal Reserve Board; Census Bureau; PNC

# Inflation Will Settle Down



5-year, 5-year forward inflation expectations, %



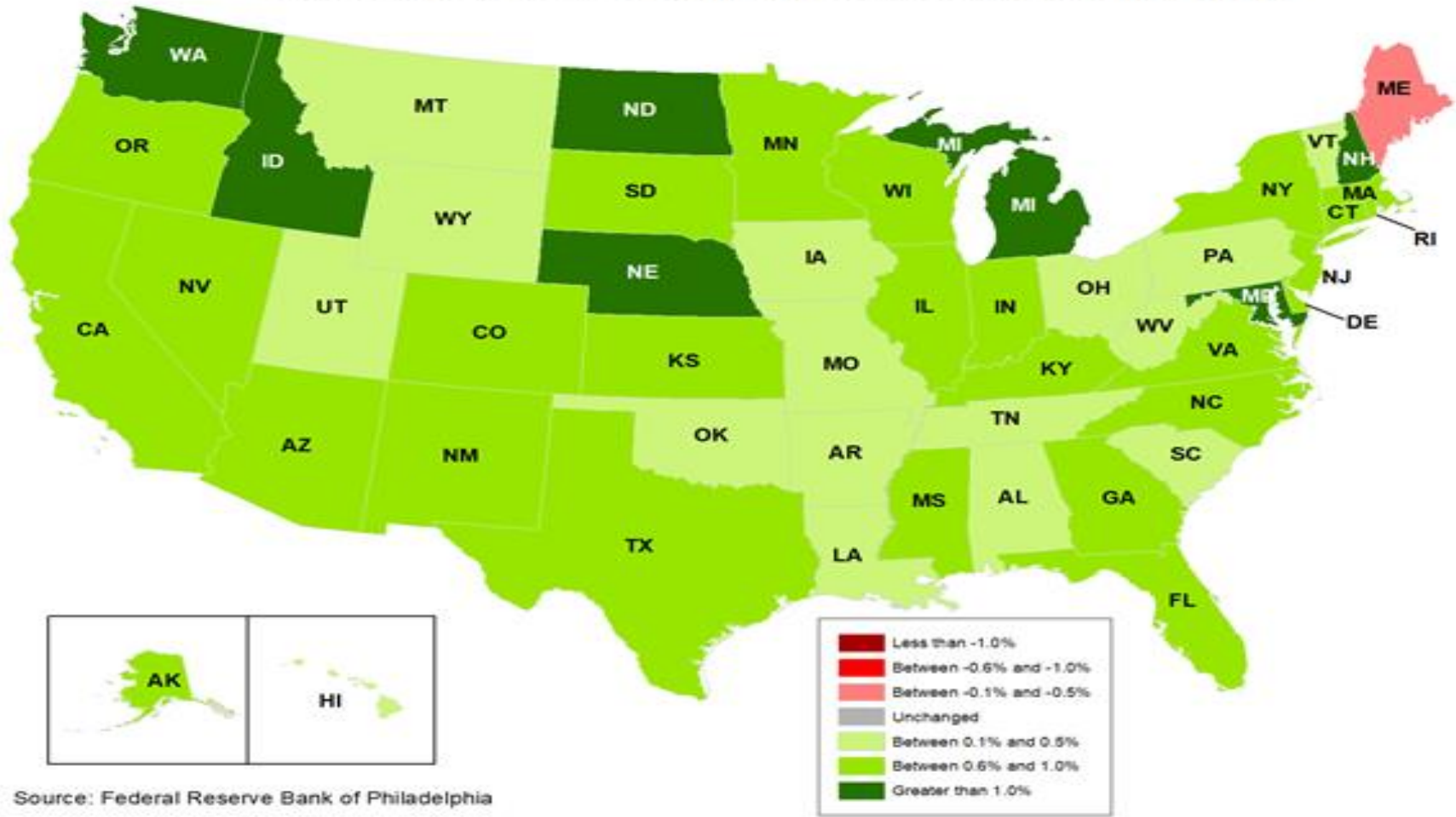
Source: Federal Reserve Board

- Very steep recession in 2020
- Not in recession now
- Fed will do what's necessary
- Structural shifts
  - Retail, supply chains, commercial real estate
- Structural changes to the labor market

- Recession not inevitable
- Financial stresses
- What happens with inflation
- Russia/Ukraine
- Path of pandemic
- Longer-run growth
- Housing market
- AI



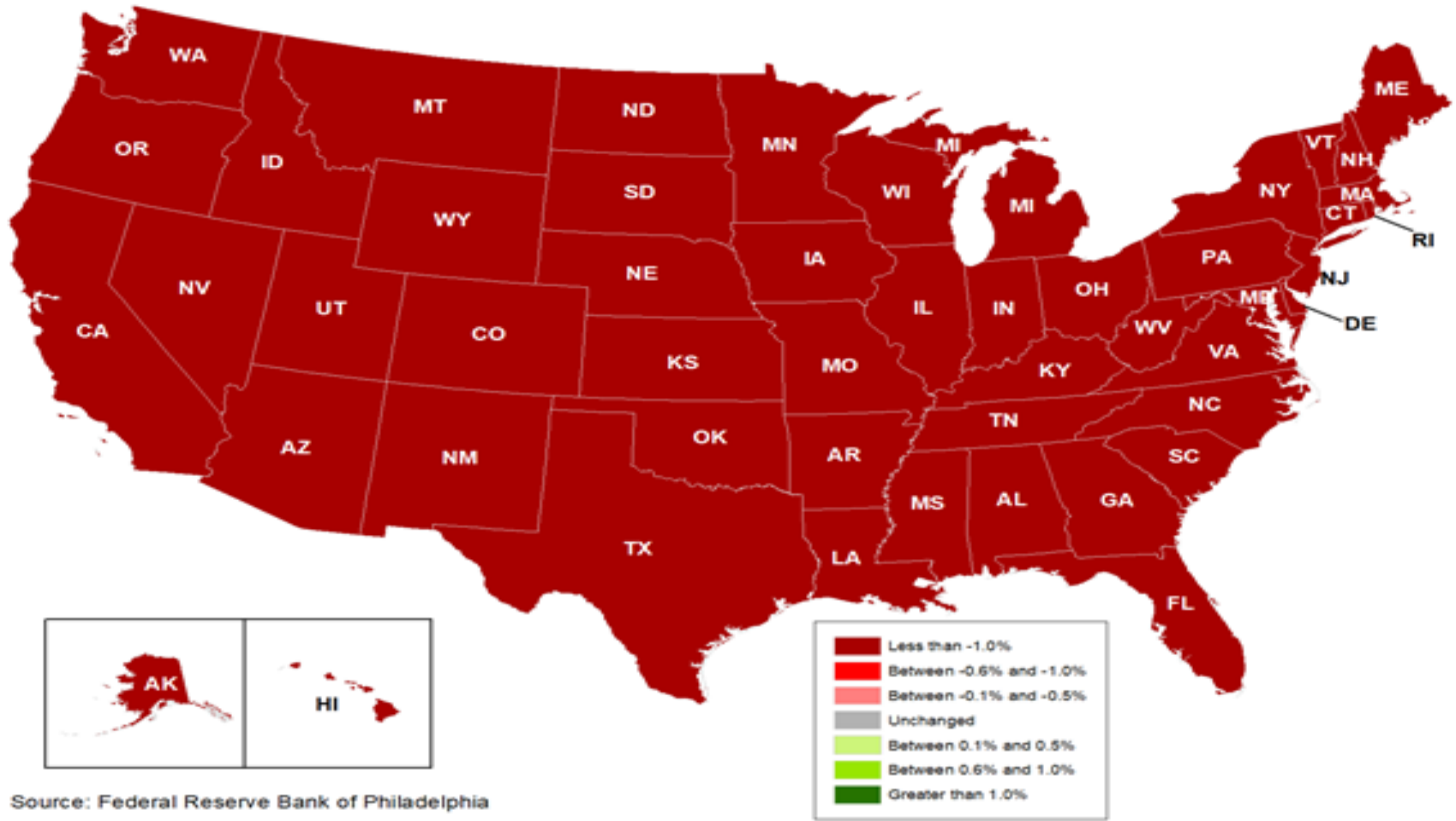
### February 2020 State Coincident Indexes: Three-Month Change



Source: Federal Reserve Bank of Philadelphia

# ...And Then Things Were Bad All Over...

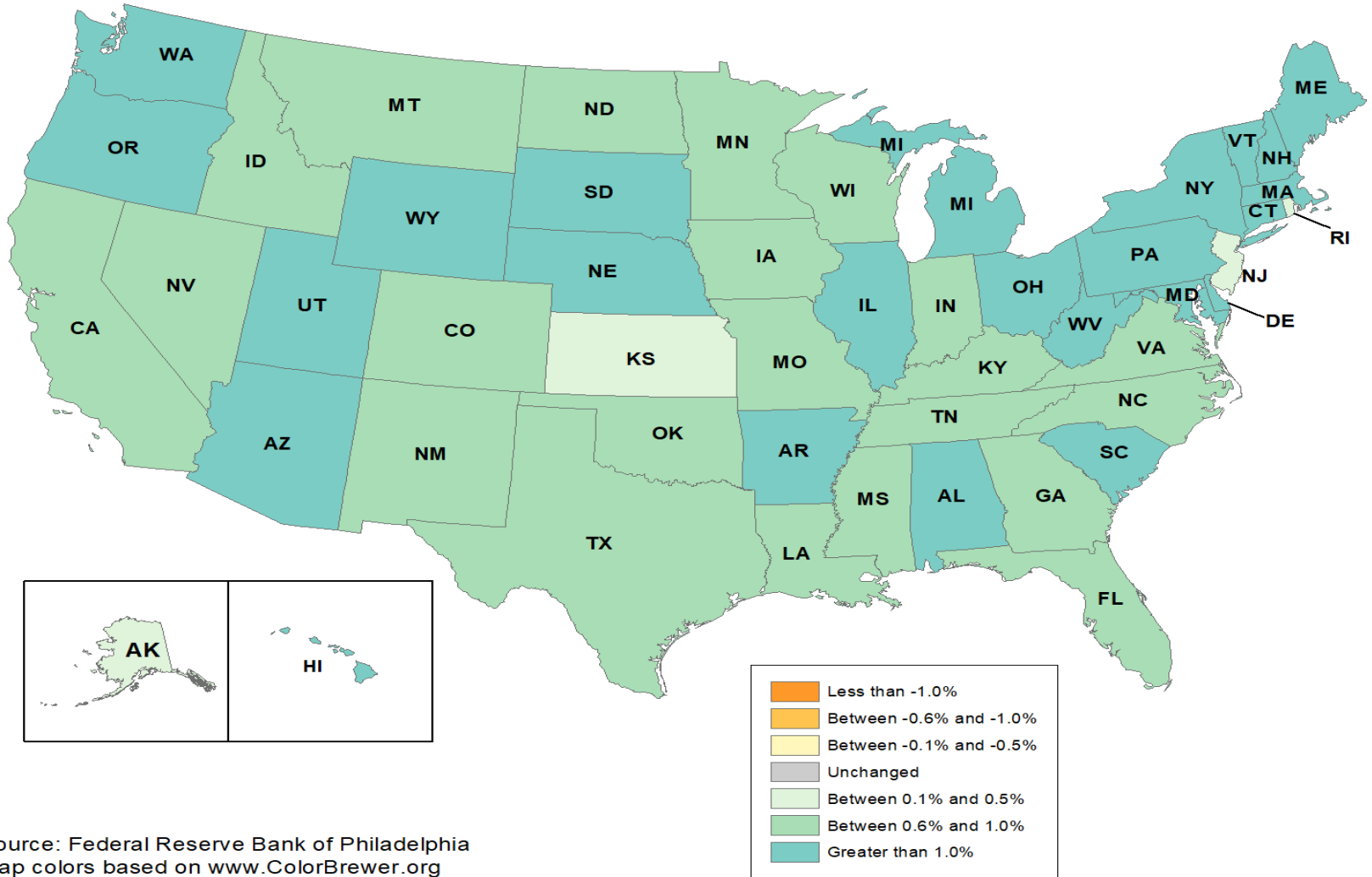
### May 2020 State Coincident Indexes: Three-Month Change



Source: Federal Reserve Bank of Philadelphia

# ...But Expansion in Most of the Country Now

## May 2023 State Coincident Indexes: Three-Month Change

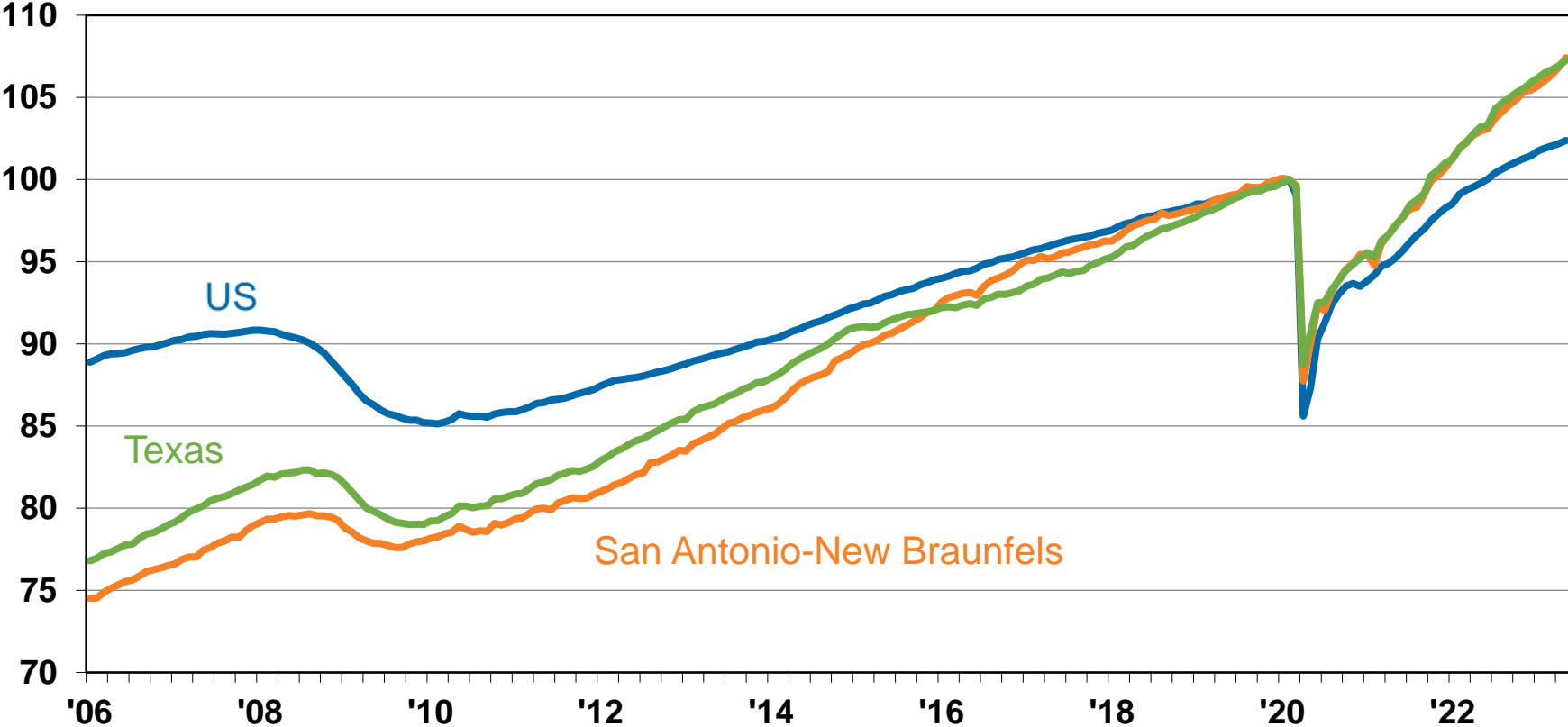


Source: Federal Reserve Bank of Philadelphia  
Map colors based on [www.ColorBrewer.org](http://www.ColorBrewer.org)

# San Antonio Job Growth Is Outpacing the Nation's



Employment, index, Feb. 2020=100

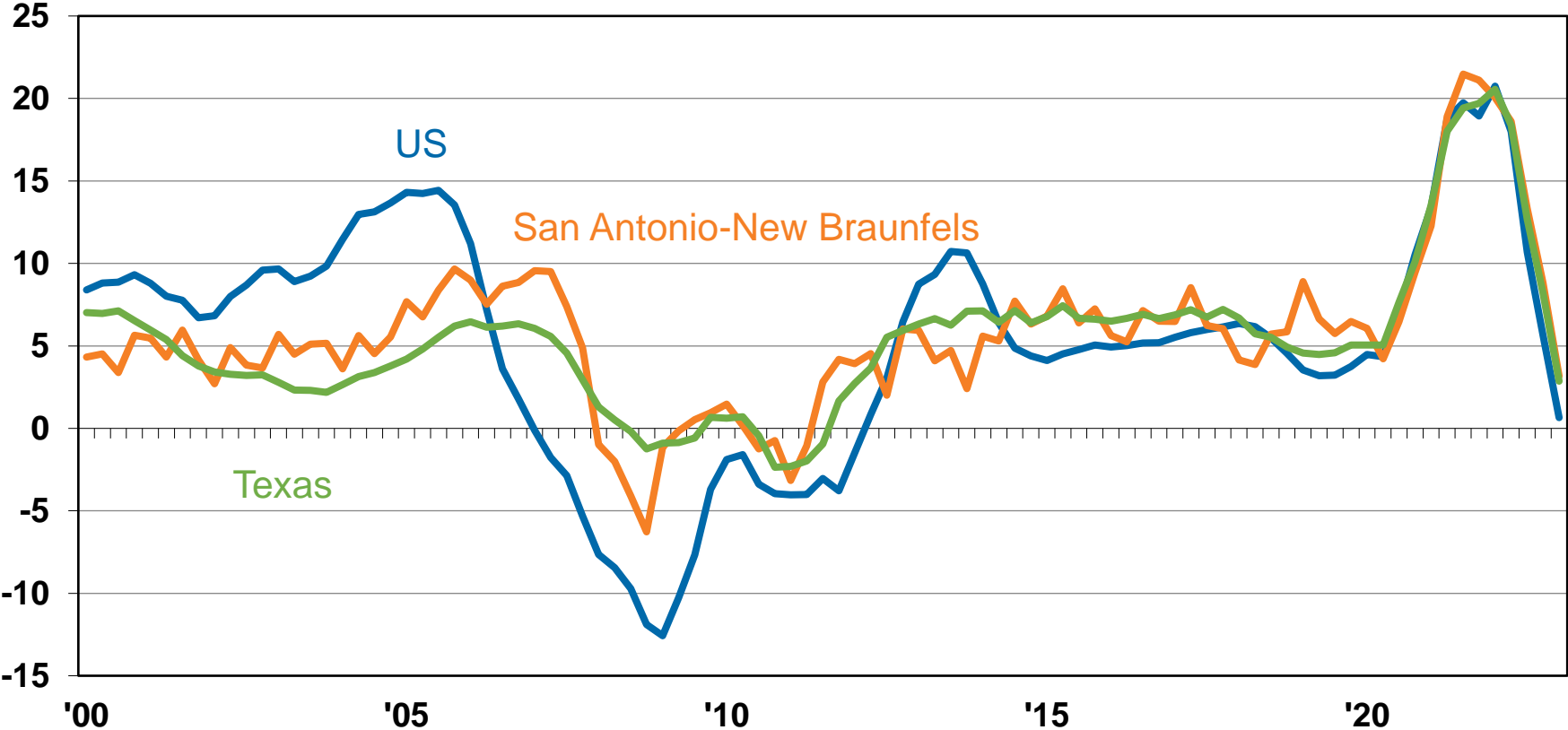


Source: Bureau of Labor Statistics

# Modest Local House Price Declines So Far, With More to Come



Single-family home price index, % change year ago

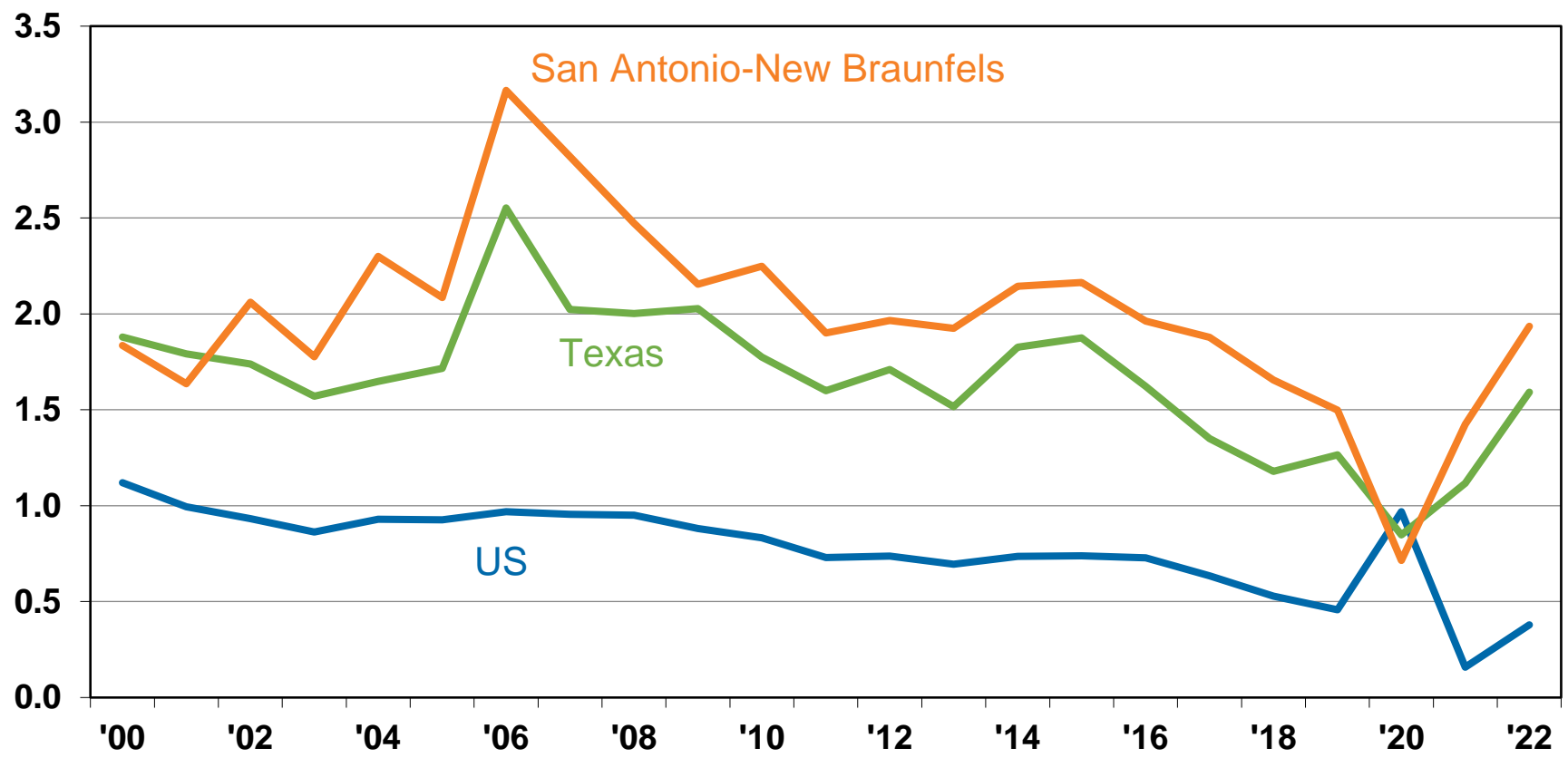


Source: CoreLogic

# Very Strong Population Growth a Big Long-Run Advantage



Population, % change



Source: Census Bureau

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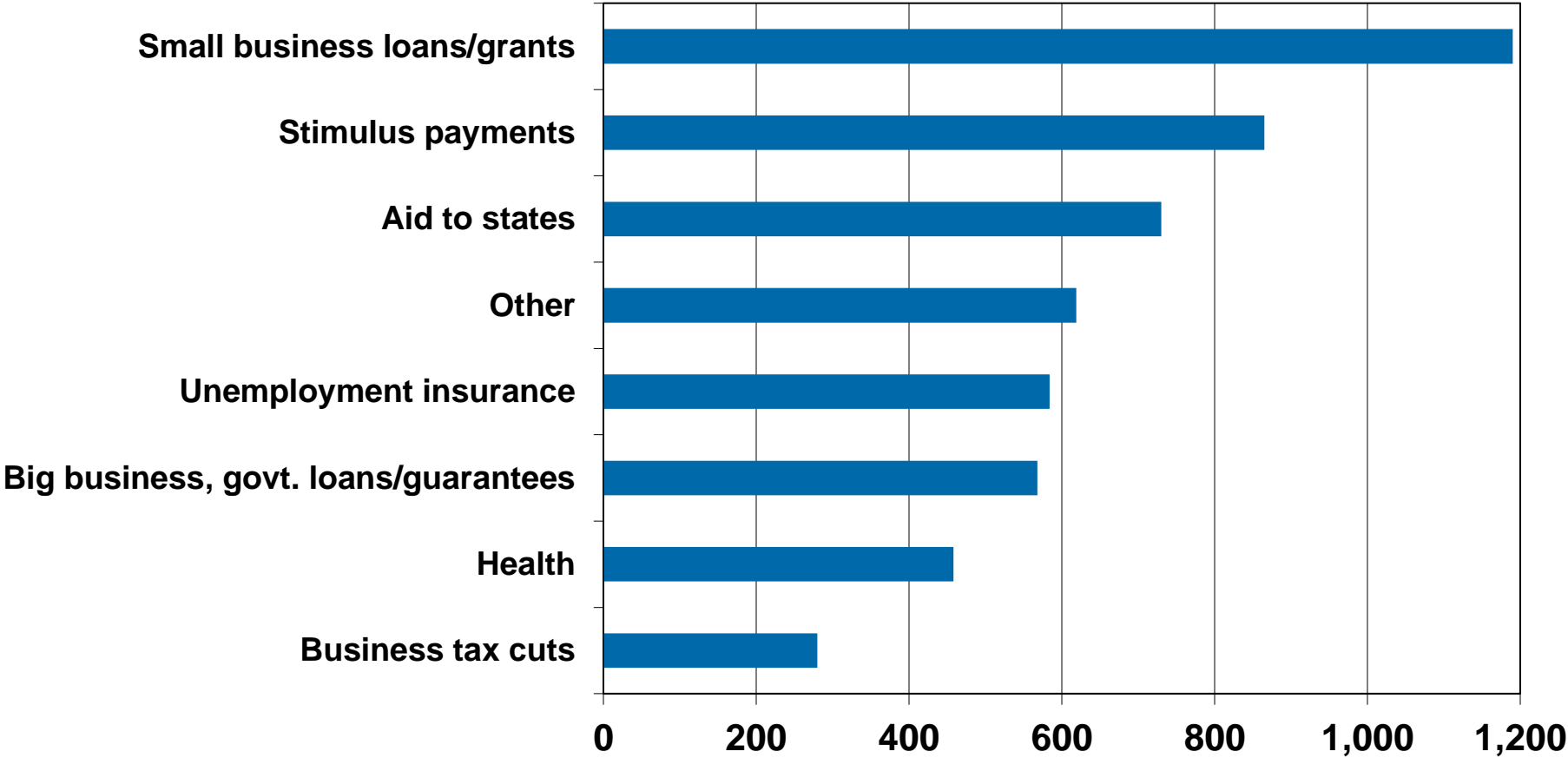
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# Stimulus of About One-Quarter of GDP

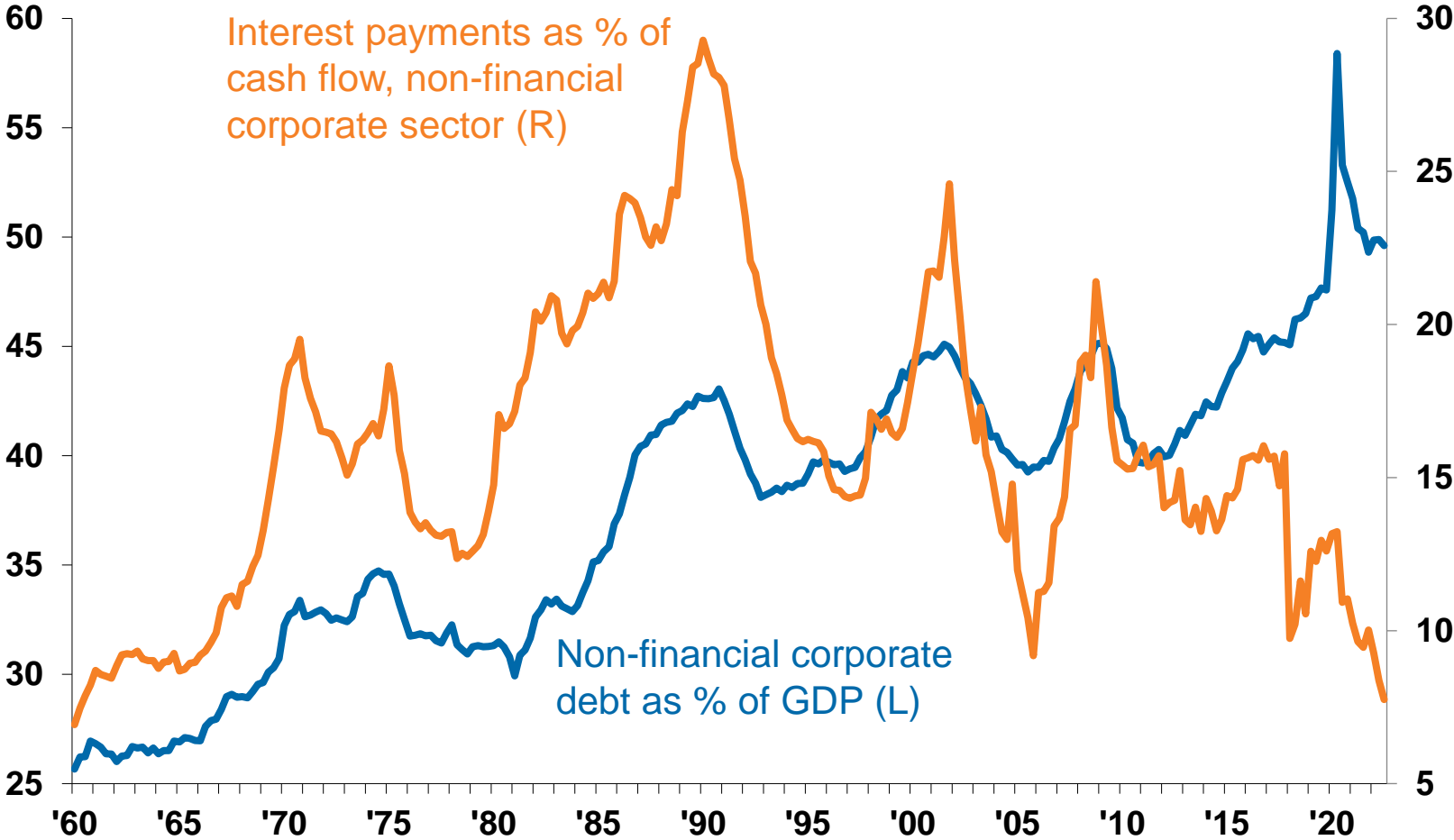


CARES, Paycheck Protection Program and Health Care Enhancement, Consolidated Appropriations Plan, and American Rescue Plan Acts, spending, \$ bil



Sources: CBO, Moody's Analytics, PNC

# Business Debt Is High, But Manageable

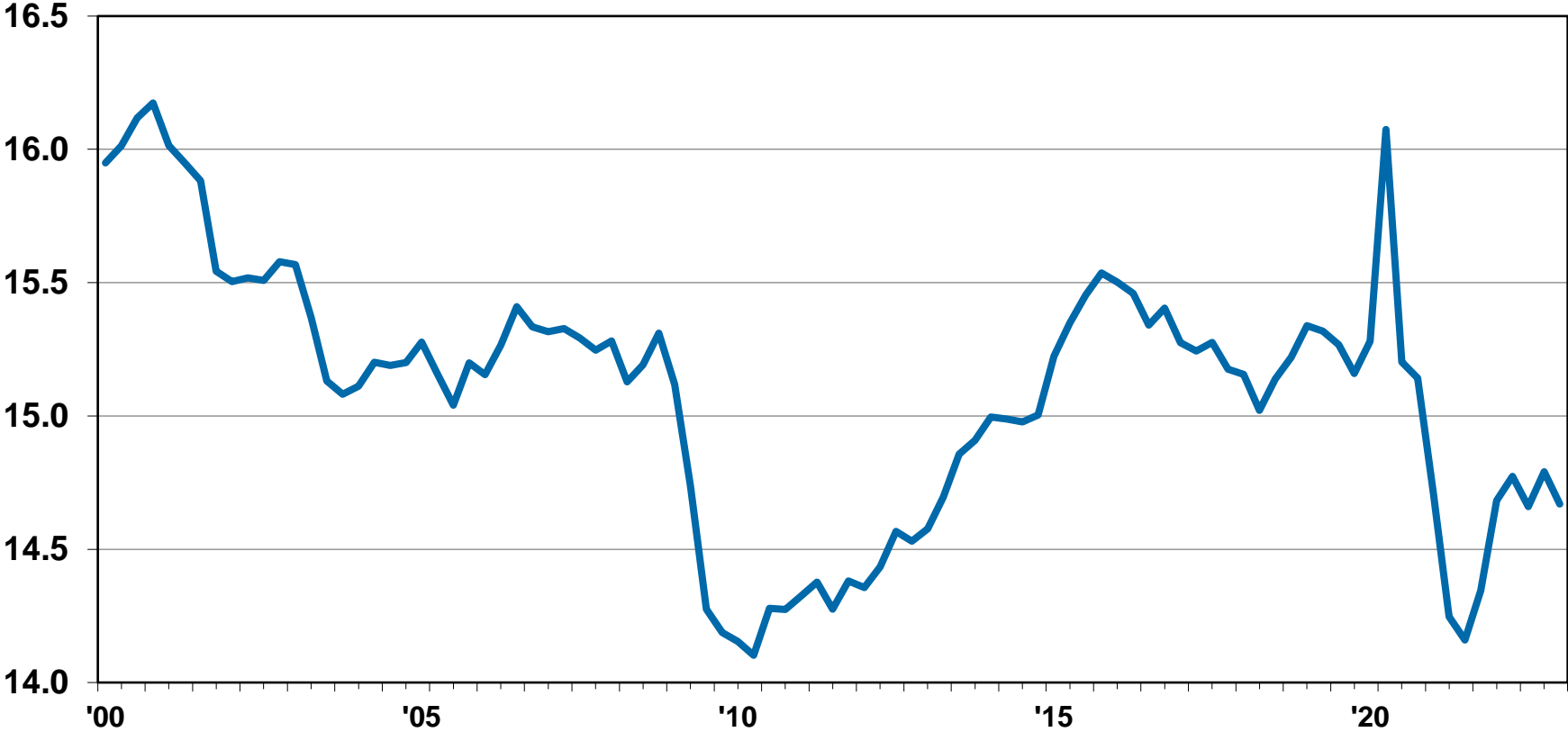


Source: BEA; Federal Reserve Board

# Low Inventories Will Support Near-Term Growth



Inventories as % of final sales of domestic product, real

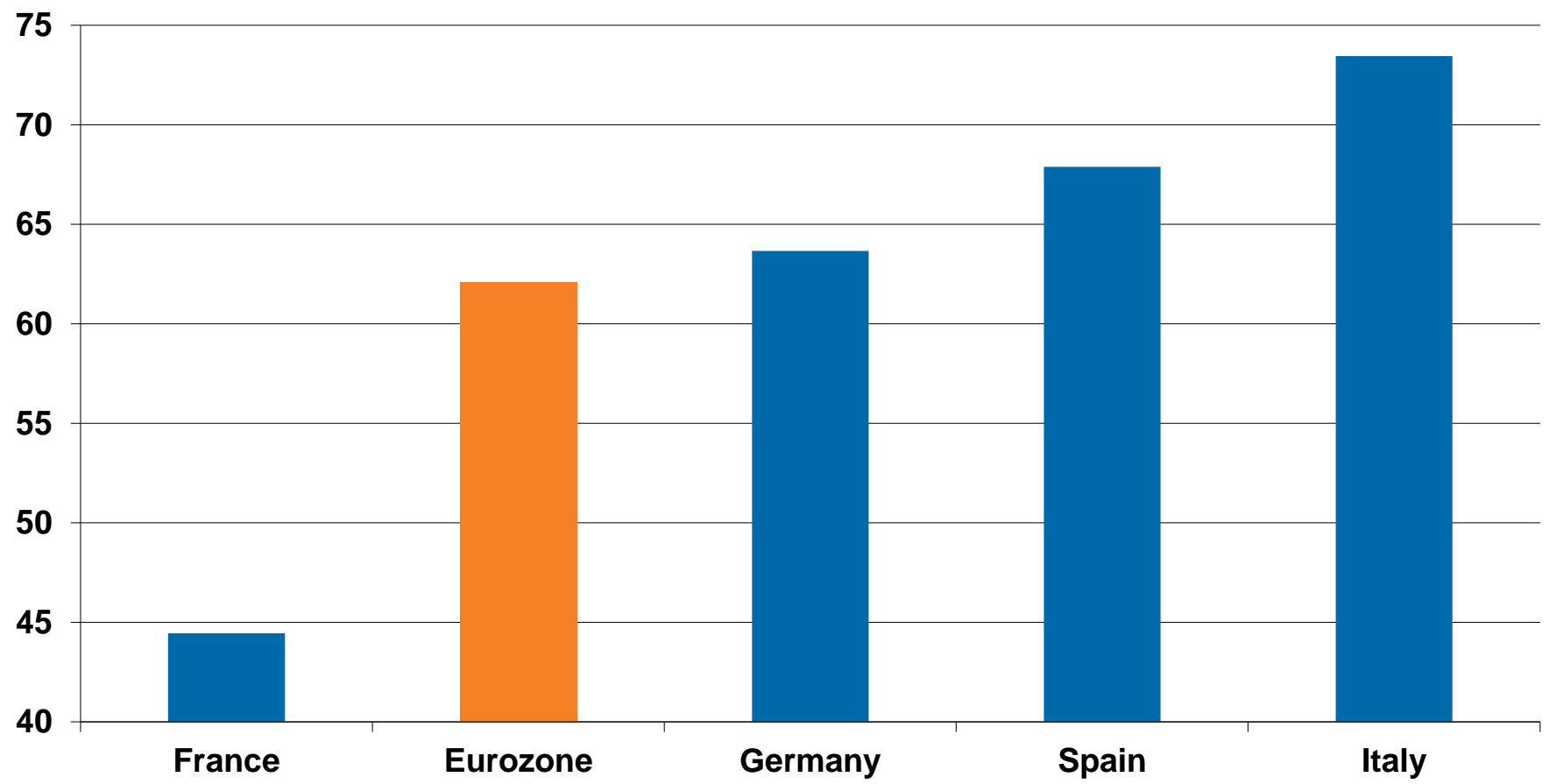


Source: BEA

# The Eurozone Is Heavily Dependent on Imported Energy...



Energy imports dependency, %

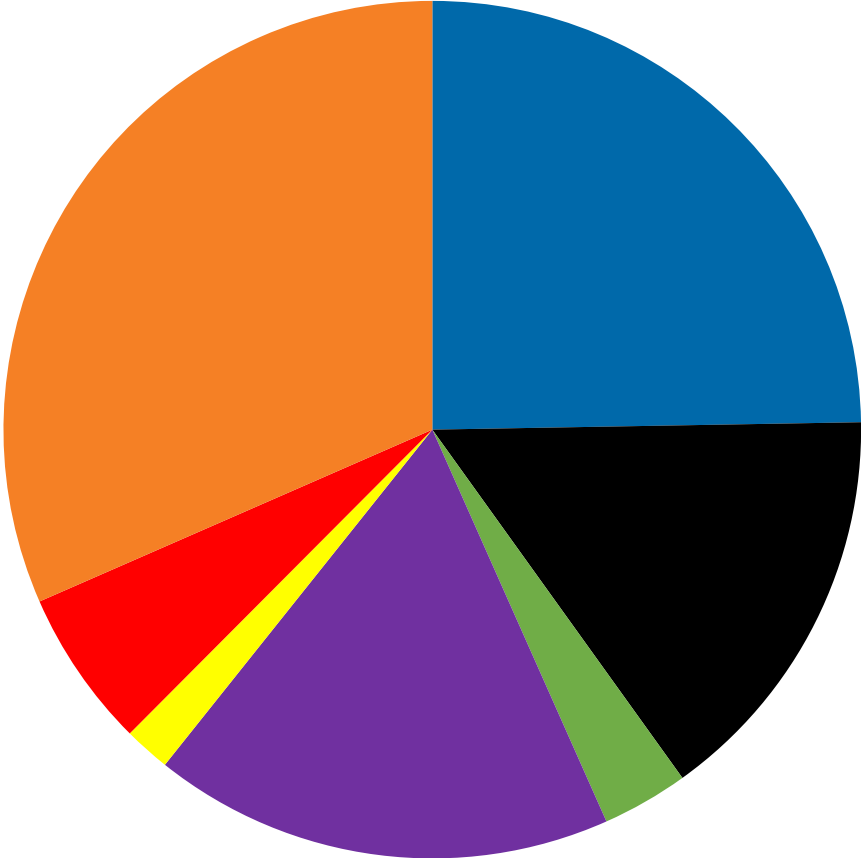


Source: Eurostat

# ...And Is a Big Part of the Global Economy

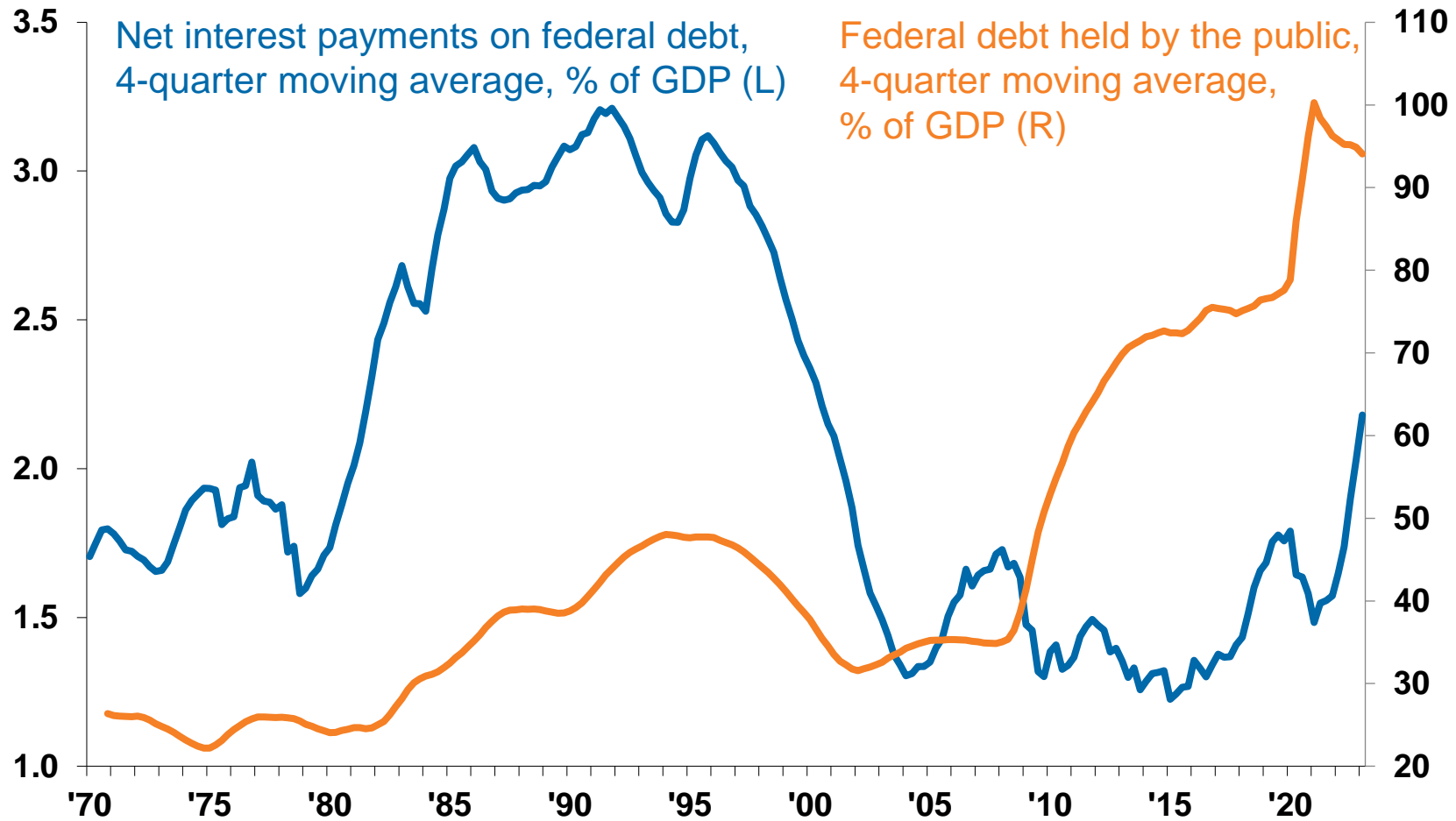
Share of global GDP, 2020

- United States (24.7%)
- Euro Area (15.4%)
- UK (3.3%)
- China (17.4%)
- Russia (1.8%)
- Japan (6.0%)
- Rest of World (37.5%)



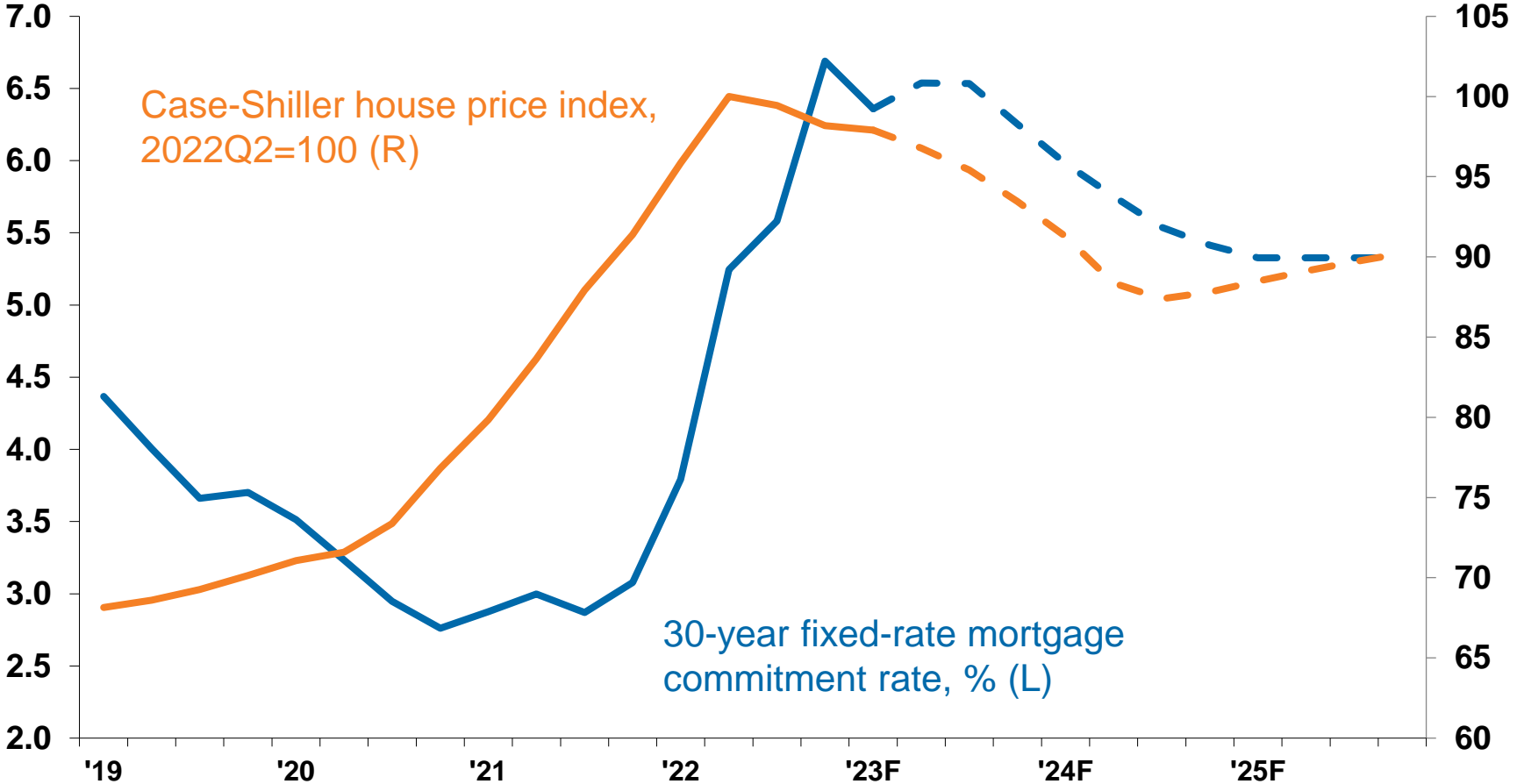
Source: World Bank

# Two Ways of Thinking About Federal Debt; One Is a Lot More Sanguine Than the Other



Sources: Treasury Department, BEA

# House Prices Set to Fall 15%



Sources: Freddie Mac, S&P CoreLogic, PNC