

THE ECONOMY AT A GLANCE

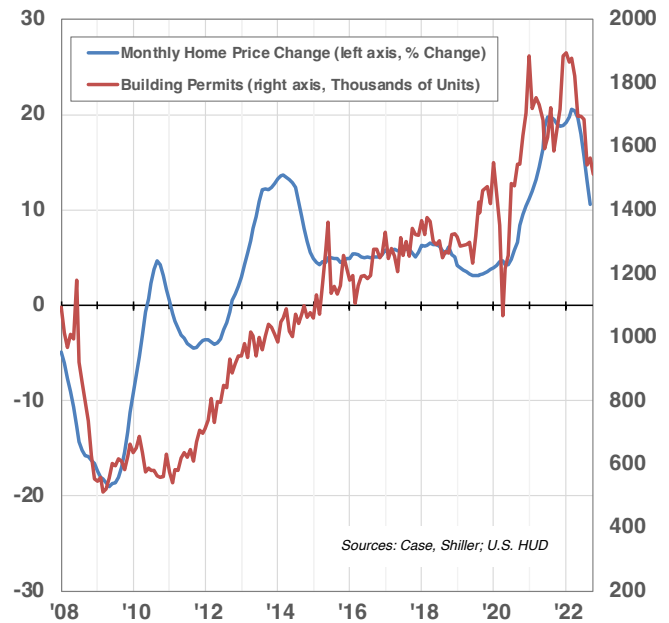
ECONOMIC HIGHLIGHTS

January 2, 2023
Vol. 90, No. 3

HIGHER RATES DOOM HOUSING SECTOR GROWTH

The housing industry was an important contributor to the U.S. economic recovery from the pandemic, but high prices and high interest rates have recently cooled the market. The National Association of Realtors reported that existing home sales in October 2022 totaled 4.4 million at a seasonally adjusted annual rate, down 32% from the beginning of the year. The Commerce Department reported that new one-family homes were selling at a 632,000/year pace in October -- down from 831,000/year in January. Meanwhile, a leading indicator for the industry, housing permits, has turned lower as well. According to the Census Bureau, permits were being authorized in October at a 1.5 million annual rate, down from 1.9 million in March. Housing prices are finally starting to cool. The S&P/Case-Shiller National Home Price Index for September 2022 showed that the average price has risen "only" 10% year-over-year -- and is down 3% from the peak in June. The high prices and high mortgage rates (the average rate on a 30-year fixed-rate mortgage was recently 6.33%) have boosted housing inventories. According to the U.S. Census Bureau, there currently is an 8.9-month supply of existing homes for sale (the typical range is 4.5-7.5 months). Until pricing pressures ease further, we do not believe that the housing sector will be supportive of U.S. economic growth.

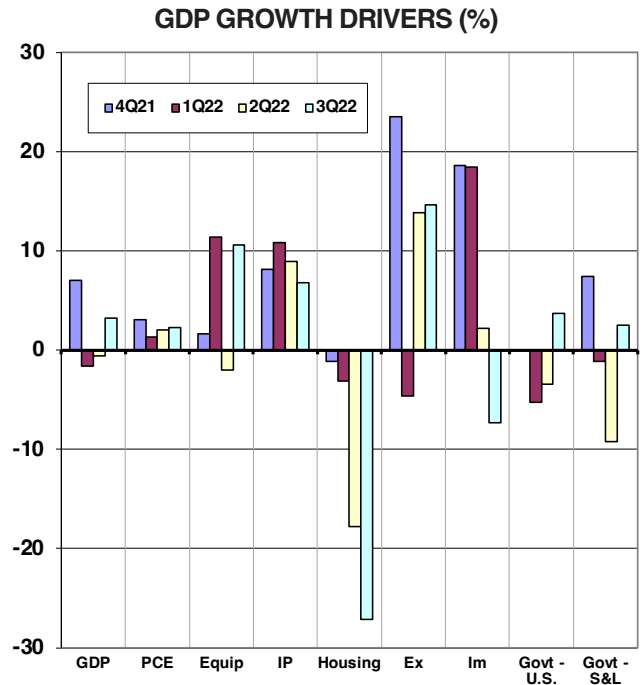
HOUSING MARKET TRENDS



ECONOMIC HIGHLIGHTS (CONTINUED)

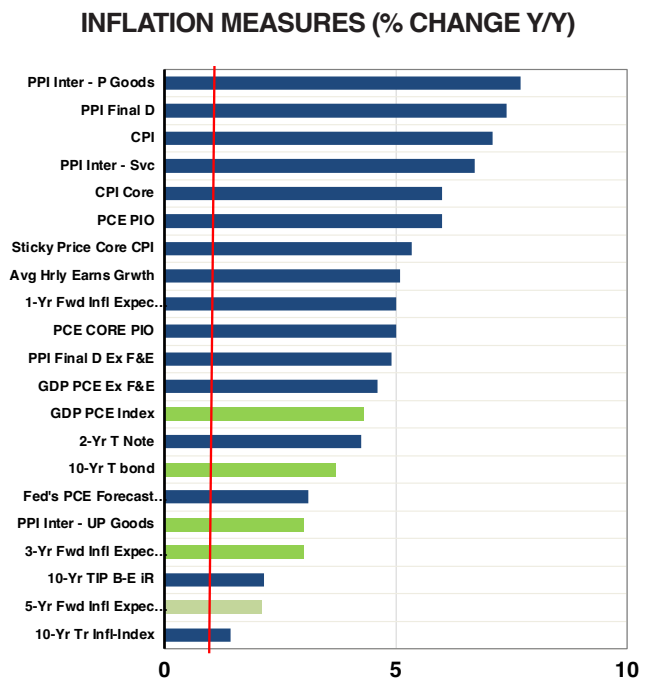
FINAL 3Q GDP READING: 3.2%

The U.S. Bureau of Economic Analysis announced that its third estimate of 3Q22 GDP growth was 3.2%. As is typically the case, the report indicated areas of strength and weakness in the economy. On the positive side, the consumer appears to be in good shape, with personal consumption expenditures expanding at a 2.3% pace, driven by spending on services. Companies continue to invest in R&D projects and software, and investments into intellectual property advanced at a 6.8% rate. Exports -- led by energy exports to Europe -- rose at a 14.6% clip. On the negative side, residential investment declined 27%; consumer spending on durable goods fell 0.8%; and consumer spending on nondurable goods was flat. The GDP report also includes an inflation measure, the PCE price index. This index, excluding food and energy, rose at a 4.7% pace, well ahead of the Federal Reserve's inflation target of 2.0%. While the economy is still expanding as companies generate new jobs, the U.S. GDP growth trajectory is likely to turn negative in 2023 as the Fed continues to raise interest rates. We can already see the impact of the early Fed rate hikes on the residential sector.



INFLATION NEWS

We track 21 inflation measures on a monthly basis. On average, they indicate that prices are rising at a 4.7% year-over-year rate, down from 5.2% last month and 8.7% six months ago. Focusing on core inflation, our reading is 4.0%, down slightly from 4.2% last month. We note some movement among our components. Producer prices appear to be cooling off, with substantial declines in PPI intermediate prices for processed and unprocessed goods. The rate of wage increases also is slowing. Looking ahead, investors expect the Federal Reserve's rate hikes to ultimately tame inflation, with the three-year forward expectation rate now down to 3.0% and the five-year forward expectation rate at 2.1%.

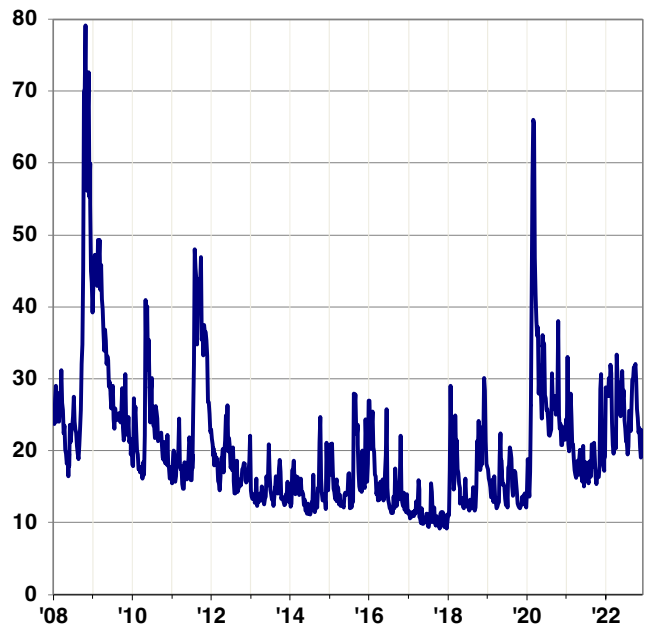


FINANCIAL MARKET HIGHLIGHTS

VIX HEADS HIGHER AS STOCKS TURN DOWN

The equity markets remain choppy, as investors prepare for a possible recession in 2023. The S&P 500 recently fell in the wake of news from the Federal Reserve that it doesn't plan to lower rates until 2024. The VIX volatility index is a gauge of investor fear, and it remains elevated in the 20s. That's above the 10-year historical average of 18. In short, the stock market remains a risky place. What are investors concerned about now? Issues include still high inflation and a Federal Reserve that remains on course toward higher rates for a long time. Meanwhile, Europe is bracing for a cold winter as Vladimir Putin uses his country's oil stocks as a weapon in his push into Ukraine. As well, the U.S. economy teeters on recession. Given the widespread risks in the marketplace, we think that investors should continue to focus on well-managed companies with clear growth objectives and clean balance sheets.

VOLATILITY INDEX (WEEKLY CLOSE)



LEADING INFLATION INDICATOR GOLD TRENDING LOWER

When global economic and geopolitical conditions become unpredictable and inflationary threats emerge, investors often flock to gold. For most of the past decade, in which economic growth was slow and inflation tame, gold traded in a tight range of \$1,150-\$1,350 per ounce. In 2020, though, as the pandemic began and the U.S. government responded with trillions of dollars in fiscal spending, the spot price for an ounce of gold jumped through the \$2,000 level -- up 67% in a little over a year. A year later, inflation soared. Now the trend appears to be unwinding. As the Federal Reserve has raised short-term rates aggressively to slow the economy and bring inflation under control, gold has started to drift lower, with recent prices down 7% from their 2022 highs. Looking ahead, we think that gold will continue its descent along with falling inflation rates. Our forecast trading range for gold in 2023 is \$1,600-\$1,950, and our average forecast for the year is \$1,750. This compares to average gold prices of \$1,800 in 2022; \$1,806 in 2021; \$1,781 in 2020; \$1,400 in 2019; \$1,265 in 2018; \$1,277 in 2017; \$1,258 in 2016; and \$1,155 in 2015. In all, we think that falling prices for gold and other commodities such as oil point toward a lower inflation environment in 2023.

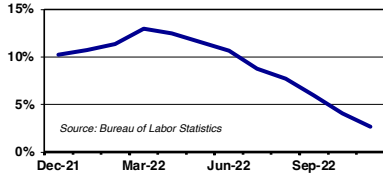
GOLD PRICES (\$/OZ)



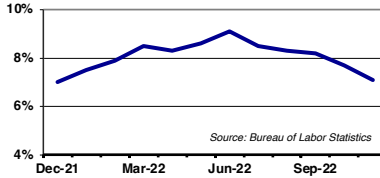
Sources: COMEX, STL Fed

ECONOMIC TRADING CALENDAR

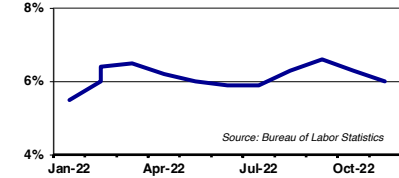
Release: **Import Price Index**
 Date: 1/13/2023
 Month: December
 Previous Report: 2.7%
 Argus Estimate: 2.5%
 Street Estimate: NA



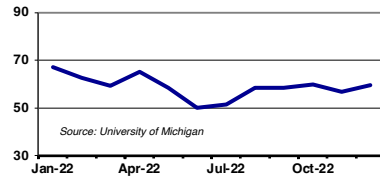
Release: **Consumer Price Index**
 Date: 1/12/2023
 Month: December
 Previous Report: 7.1%
 Argus Estimate: 6.8%
 Street Estimate: 6.7%



Release: **CPI ex-Food & Energy**
 Date: 1/12/2023
 Month: December
 Previous Report: 6.0%
 Argus Estimate: 5.7%
 Street Estimate: 5.6%



Release: **U. of Michigan Sentiment**
 Date: 1/13/2023
 Month: January
 Previous Report: 59.7
 Argus Estimate: 60.0
 Street Estimate: NA



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
3-Jan	Construction Spending	December	9.2%	7.5%	NA	NA
4-Jan	ISM Manufacturing	December	49.0	48.5	48.5	NA
	ISM New Orders	December	47.2	47.0	47.5	NA
	Total Vehicle Sales	December	14.14 Mil.	14.40 Mil.	13.90 Mil.	NA
5-Jan	Trade Balance	November	-\$78.2 Bil.	-\$79.0 Bil.	-\$76.8 Bil.	NA
6-Jan	ISM Services Index	December	56.5	57.0	55.0	NA
	Factory Orders	November	11.1%	10.0%	NA	NA
	Nonfarm Payrolls	December	263 K	220 K	200 K	NA
	Average Weekly Hours	December	34.4	34.4	34.4	NA
	Average Hourly Earnings	December	5.1%	5.0%	5.0%	NA
	Unemployment Rate	December	3.7%	3.7%	3.7%	NA

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Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
18-Jan	Retail Sales	December	6.5%	NA	NA	NA
	Retail Sales ex-autos	December	7.7%	NA	NA	NA
	Business Inventories	November	16.5%	NA	NA	NA
	Industrial Production	December	2.5%	NA	NA	NA
	Capacity Utilization	December	79.7%	NA	NA	NA
	PPI Final Demand	December	7.4%	NA	NA	NA
	PPI ex-Food & Energy	December	6.2%	NA	NA	NA
19-Jan	Housing Starts	December	1427 K	NA	NA	NA
20-Jan	Existing Home Sales	December	4.06 Mil.	NA	NA	NA

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