CCM’s 2023 Mid-Year Economic Outlook

It is hard to believe that we are halfway through 2023, and despite inflation levels that remain more than double their pre-pandemic levels, the resiliency of the U.S. consumer surprised investors, many of whom had entered the quarter believing that the first quarter banking crisis would contribute to an economic slowdown. The U.S. economy has so far avoided what many experts assumed to be inevitable for 2023: a recession. CCM’s 2023 mid-year economic outlook takes a look at how key critical economic indicators have fared thus far in 2023 and what remains for investors as they continue to face potentially challenging environments.

Economic Growth

Although economic growth did show signs of slowing during the second quarter, it remained strong despite tighter lending standards and increased banking regulations on the horizon. The Federal Reserve (Fed) remained steadfast in its efforts to bring inflation down to its 2% target, once again raising the federal funds rate in May, the 10th consecutive move since March 2022. In June, the Fed decided to pause increases, leaving interest rates unchanged but noting its intent to raise rates should inflation, specifically services inflation, and personal consumption expenditures continue to run at a higher level.

Bottom line: Inflation is trending in the right direction but could still be sticky at levels higher than the Fed’s 2% target. While the U.S. has avoided a recession so far in 2023, it is possible a mild one could begin in the fourth quarter.

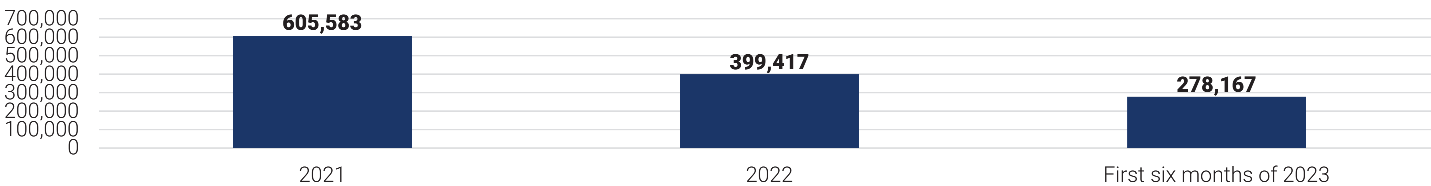
Employment

The strength of the U.S. economy has been primarily driven by the resiliency of the U.S. labor market. Total nonfarm payroll employment increased by 209,000 in June, and the unemployment rate changed little at 3.6%, the U.S. Bureau of Labor Statistics reported in early July. Employment continued to trend up in government, healthcare, social assistance, and construction.[1] While the pace of job growth remains strong, we did see the rate of growth slow for the first six months of 2023.

Bottom line: Employment remains a key focus of the Fed as it determines monetary policy. With the pace of job growth tapering yet remaining strong, the Fed’s next moves will reflect the tricky balance between its two competing mandates—to move inflation lower while also maximizing employment.

The Pace of Job Growth Remains Strong, But is Tapering

Average monthly change in non-farm payrolls



Source: U.S. Bureau of Labor Statistics:

Corporate Earnings

While corporate earnings data paints a positive picture, risks remain in the system, and investors should be watching them closely. Risks include a slowing economy, declining consumption, and declining future earnings expectations. Additionally, investors should pay attention to the effects of higher vacancy rates in commercial real estate and the additional burden of refinancing during a period of higher interest rates and higher bank regulations.

Bottom line: The bank collapses that occurred in March should send a strong reminder to investors about how a company’s business model and its management team’s ability to navigate risks impacting revenues, profits, and overall financial strength remain key drivers of its stock and bond performance. While clues of the U.S. economy's direction remain tough to assess, U.S. corporate earnings expectations give insight on company growth and profitability in addition to the economy as a whole.

[1] https://www.bls.gov/news.release/pdf/empsit.pdf