

Economic Update



JULY 14, 2023

1. INFLATION

- The consumer price index (CPI) rose by 0.2% month-over-month and 3.0% year-over-year through June, according to the latest numbers from the Bureau of Labor Statistics. June's monthly pace was a slightly uptick from May, but inflation continued to trend down on an annual basis.
- Shelter remains the largest contributor to month-over-month price increases, accounting for roughly 70% of the increase. Food prices rose 0.1% in June, 10 basis points below the previous month's rate—this was mostly driven by the 'food away from home' index, which rose 0.4% in June, while food at home saw no change. Energy prices rose 0.6% in June but have fallen -16.7% over the past 12 months.
- Excluding food and energy, core inflation also rose 0.2% in June, but was the smallest 1-month increase in core prices since the summer of 2021. Since core-inflation is more consequential in central bank policymaking, the core-CPI's two-year low represents a significant milestone.

2. CONSUMER INFLATION EXPECTATIONS

- Inflation expectations by US consumers for the next 12 months fell for the third consecutive month in June to 3.8%, its lowest since April 2021, according to the New York Fed.
- Consumer inflation expectations have gradually fallen from a June 2022 high of 6.8%, and June's downtick follows a year-ahead expectation of 4.1% in May.
- Expected price changes for gas declined 40 basis points to 4.7%. Expected price changes for food fell 10 basis points to 5.3%.
- Several other sub-components saw a modest rise in year-ahead expected price changes. For college education, inflation expectations rose 1.2 percentage points to 8.3%, expected price changes for medical services rose by 10 basis points to 9.3%, and expected price changes for rent rose 30 basis points to 9.4%. Similarly, home price growth expectations rose for the fifth consecutive month to 2.9%, its highest reading since July of 2022.
- The median three-year-ahead inflation expectation remained unchanged at 3% but rose for the five-year horizon, jumping 30 basis points to 3%, its highest reading since March 2022.

3. FOMC MEETING MINUTES

- According to the most recent meeting minutes from the FOMC's June meeting, most officials expect further tightening in the future, but anticipate a slower pace of rate increases compared to the past year.
- Last month, concerns by several officials over the outlook for economic growth led to the decision to hold rates steady—its first non-hike decision since February of 2022. While those officials were concerned, many remained committed to future hikes if necessary. In their words, the decision to pause was to allow more time to evaluate progress toward the Fed's goals of maximum employment and price stability.

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- Despite the unanimous decision not to raise rates, the minutes revealed the disagreement among members, with several advocating for higher rates due to elevated inflation, while others emphasized the need to pause and observe the effects of a year-plus of tightening.
- Additionally, while the pause was a unanimous decision, participants on average project at least one additional hike this year, with a majority anticipating two or more.

4. JUNE JOBS REPORT

- The US added 209,000 new jobs in June while the unemployment rate ticked down slightly to 3.7%, according to the Bureau of Labor Statistics.
- Job growth continues to hold firm despite fears about higher interest rates, slowing spending and investment, and layoffs across many industries. Employment continues to trend positively in key sectors, with the largest increases seen in government (+60,000), health care (+41,000), social assistance (+18,000), and construction (+23,000).
- Payroll growth has certainly slowed in 2023, averaging 270,000 new jobs per month over the first half of the year compared to a pace of 399,000 per month in 2022. Still, despite post-COVID era inflation, and an aggressive monetary tightening cycle that has been used to combat it, the unemployment rate sits just 30 basis points above its March 2020 level.

5. JOLTS

- Job openings decreased to 9.8 million on the last business day in May, 496,000 positions below the April rate, according to the latest Job Openings and Labor Turnover Survey (JOLTS) by the Bureau of Labor Statistics. Declines were concentrated in sectors like health care, finance, and other services.
- Hires remained steady at 6.2 million, with notable increases in the durable goods manufacturing sectors.
- Total separations, which includes quits, layoffs, and discharges, were little changed in May at 5.9 million. Meanwhile, quits increased to 4.0 million. Layoffs and discharges remained stable at 1.6 million. There was a notable increase in layoffs and discharges in the retail trade sector, which climbed by +87,000.

6. NFIB BUSINESS OPTIMISM INDEX

- Small business optimism reached a seven-month high of 91 in June according to the latest data from the National Federation of Independent Businesses. The reading beat market expectations of 89.9.
- 24% of owners report that inflation remained their single most important issue in operating their business, down just one point from May. Nonetheless, only a net 29% of business owners reported higher selling prices compared to the previous month, the smallest proportion since March 2021.
- Further, fewer owners are viewing the near future pessimistically. According to the report, the percentage

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of firms expecting worst business conditions over the next six months, which moved from a net -50 to a net -40. There were also fewer firms reporting difficulty filling job openings.

7. HOUSECANARY MARKET PULSE

- Closed prices continue to climb despite the apparent peak in list prices, according to the latest Market Pulse report from HouseCanary. Price cuts have fallen well below their peak in 2022, and year-over-year growth is positive through June 2023.
- However, net new listings remain significantly down this year. In June, 264,032 net new listings were placed on the market according to HouseCanary's data, which amounts to a 35.5% decrease compared to June 2022. Over the last 52 weeks, roughly 2.52 million new listings have been placed on market, representing a 26.7% fall compared to the 52 weeks before.
- According to the report's analysts, market watchers should expect activity to remain at relatively low level through Q3 2023 as the Fed appears poised to continue rate increase through the end of the year.

8. HOME AFFORDABILITY

- The median-priced single-family home/condo became less affordable during the second quarter of 2023 compared to historical averages, according to the latest US Home Affordability Report from ATTOM.
- This continues a pattern dating back to early 2022, with the most recent report showing that affordability has worsened in the face of recent jumps in home prices. According to ATTOM, the common debt-to-income ratio that is considered "affordable" is 28%. The latest reading showed that the average homeowner would need to contribute 33% of their wages to major homeownership expenses.
- The Q2 2023 level is the highest since 2007 and remains significantly above the 25% that was registered just after mortgage rates took off in early 2022.

9. FORECLOSURE ACTIVITY

- Foreclosure filings are up 13% during the first six months of 2023 compared to the same period last year, according to the latest Foreclosure Activity Report from ATTOM.
- There were roughly 186,000 foreclosure filings between January and June, which in addition to the double-digit uptick over the first half of 2022, is 185% above the same period in 2021, gradually approaching pre-pandemic levels.
- The greatest increases in foreclosure activity by state, compared to one year ago, were Maryland (+100%), Oregon (+99%), Alaska (+65%), West Virginia (+83%), and Arkansas (+72%). However, the highest total foreclosure rates by state are in Illinois (0.25% of units with a filing), New Jersey (0.24%) and Maryland (0.23%).

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10. LOGISTICS MANAGERS' INDEX

- The Logistics Managers' Index (LMI), a diffusion index where above 50 signals expansion in transportation and warehousing activity and below 50 is a contraction, fell for a fifth consecutive month to a record low of 45.6 in June.
- The fall represents a contraction in the logistics sector, which is primarily driven by falling inventories, according to the report. Inventories fell in June to their second-lowest reading on record, while inventory costs also fell.
- Declining inventories are predictably impacting the supply of warehouse space, with warehouse capacity climbing over the month. However, demand doesn't appear to be falling, with both warehouse utilization and warehouse prices increasing.
- Transportation utilization also rose slightly in June, while transportation prices fell, but at a slower rate than in recent months.
- Respondents appear optimistic about the chances of a turnaround in the next month, with the average forecast predicting an expansion rate of 55.4% over the next year.

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SUMMARY OF SOURCES

- (1) <https://www.bls.gov/news.release/cpi.nr0.htm>
- (2) <https://www.newyorkfed.org/microeconomics/sce#/>
- (3) <https://www.federalreserve.gov/monetarypolicy/fomcminutes20230614.htm>
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- (6) <https://www.nfib.com/content/press-release/economy/small-businesses-raising-prices-falls-to-lowest-level-since-march-2021/>
- (7) <https://www.housecanary.com/wp-content/uploads/2023/07/Market-Pulse-Report-57.pdf>
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