July 2022
Economic Overview

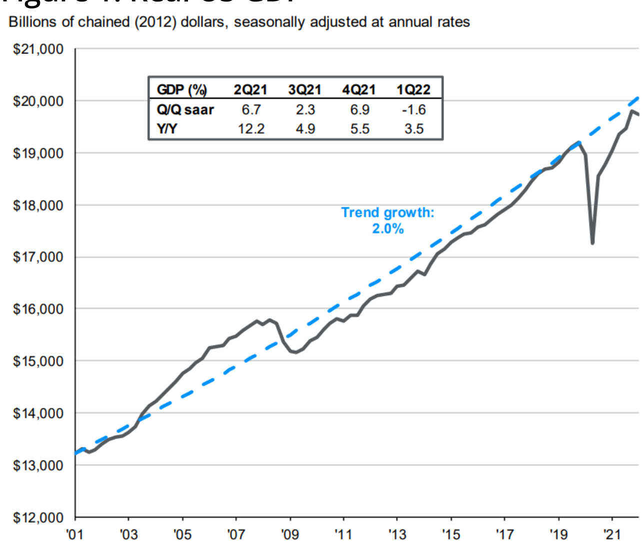
GDP Returns to Trend, Surging Inflation, Open Jobs, and Consumer Confidence Wanes
By Richard Frankel

Summary:

- GDP had recovered from the COVID pandemic. However, current indicators – consumer confidence, surging interest rates, hiring slowdowns – may presage a recession.
- Watch out for high inflation and its effects on a generation that has never experienced rising prices.
- Employees are quitting at higher rates amid stagnant wages relative to inflation, and work environments that do not meet their needs (i.e., desire to continue to work remotely). At the same time, hiring plans are being curtailed.
- Consumers' confidence is waning.

GDP Returns to Pre-Pandemic Trend

Figure 1. Real US GDP



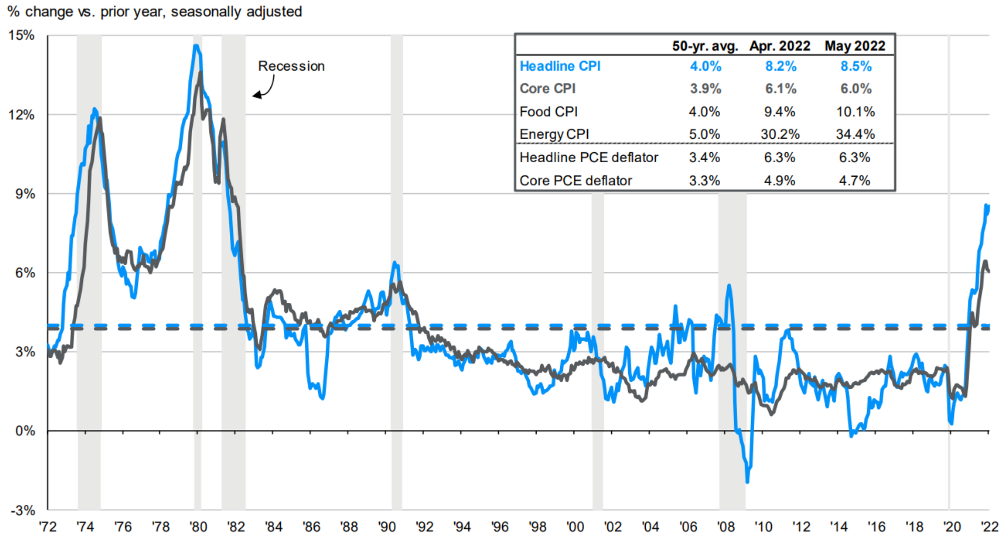
GDP (%)	2Q21	3Q21	4Q21	1Q22
Q/Q saar	6.7	2.3	6.9	-1.6
Y/Y	12.2	4.9	5.5	3.5

Source: JPM Guide to Markets 3Q2022

Figure 1 above shows US GDP over the past 20 years. US GDP appears to have finally recovered from the COVID-19 pandemic's effect on it, returning to its previous growth trend. This is good news for the US economy. It demonstrates that the economy is resilient and can bounce back, even if it takes a while. It should be noted, however, that GDP contracted in the first quarter and that rising rates and the negative effects of surging inflation on consumer spending could lead to a recession.

Watch Out for High Inflation

Figure 2. CPI and Core CPI



Source: JPM Guide To Markets 3Q2022

Figure 2 above shows US CPI and core CPI. The US consumer price index has skyrocketed over the past year, and the chart shows the devastating impact inflation is currently having on consumers and the cost of their goods. Currently, the CPI is higher than it was during the financial crisis of 2007, reaching a 40 year high in June of 9.1%. It is highly likely the Fed will take action against the extreme inflation we are currently facing, which may plunge the economy into a recession.

Figure 3. 12-Month Adjusted % Change, CPI, Selected Categories, Not Seasonally Adjusted

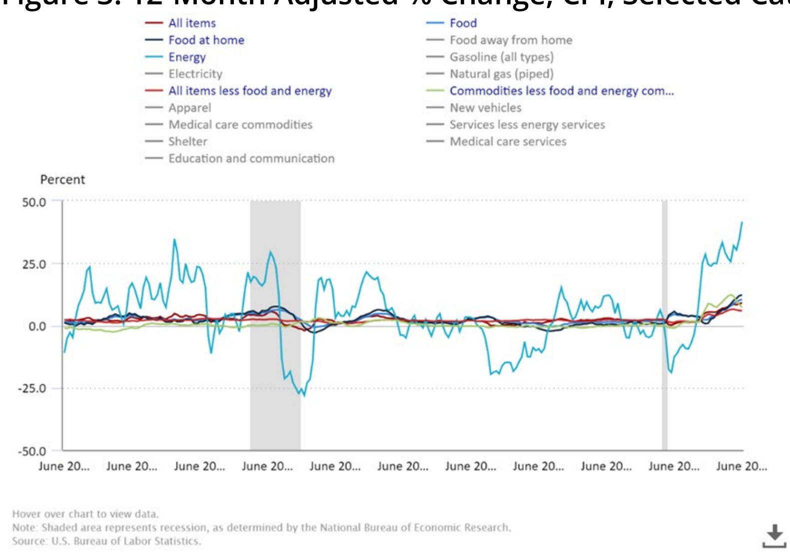
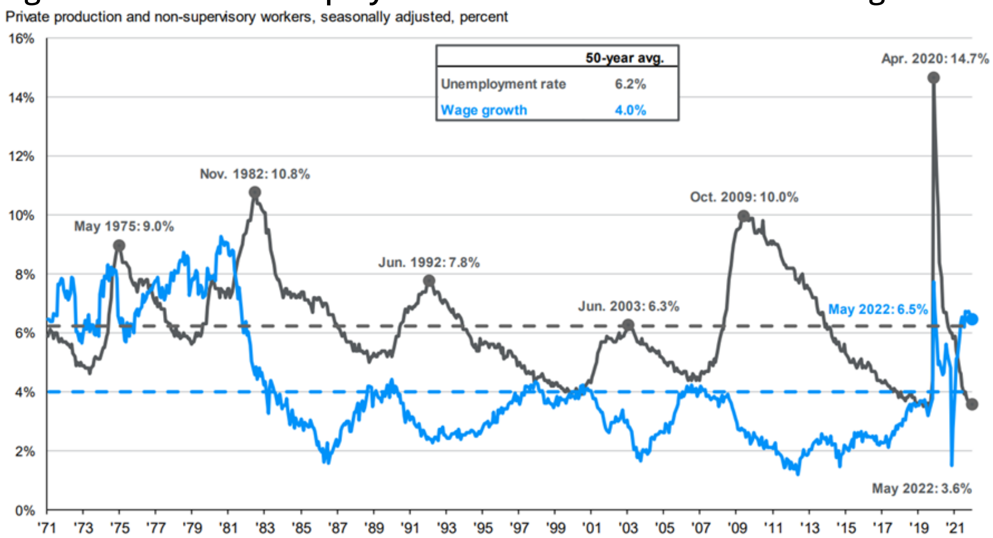


Figure 3 above shows multiple important economic sectors' CPIs over the past year. The CPI of many different sectors rose over the past year, but none more so than the energy sector. Fossil fuel prices have skyrocketed over the past year by over 40%, while other sectors remained closer to 8% of the headline CPI. Over the past 12 months, energy CPI has also shown great volatility due to supply chain shortages caused by the war in Ukraine, strained diplomatic relations with China, curtailment of US exploration and drilling, and COVID-19.

What's Going on With Employment?

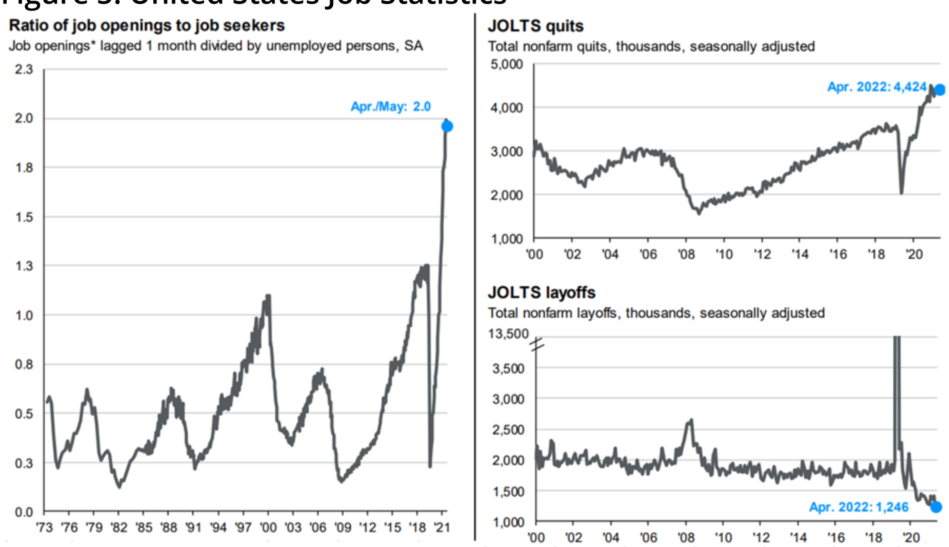
Figure 4. Civilian Unemployment Rate and Year-Over-Year Wage Growth



Source: JPM Guide To Markets 3Q2022

Figure 4 above shows civilian unemployment rate and year-over-year wage growth. The unemployment rate is down to pre-pandemic levels, while wage growth is up, which is a good thing in the face of the inflation we are currently experiencing. Like GDP growth, the unemployment rate has now returned to its pre-pandemic level. However, while wages have only risen 4%, the headline CPI increase is 9.1%, meaning wages are not keeping up with inflation. The fact that wages are increasing is a good sign that they will hopefully continue to increase accelerating the post-pandemic return of US workers to the work force.

Figure 5. United States Job Statistics

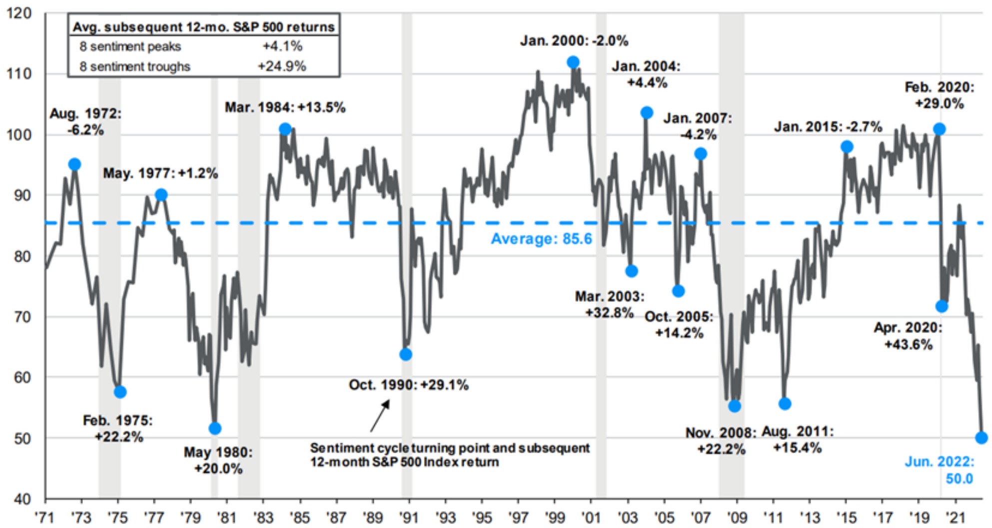


Source: JPM Guide To Markets 3Q2022

Figure 5 above shows the ratio of job openings to job seekers in the US, how many people are currently quitting their jobs, and how many layoffs are currently occurring. One thing to highlight about today's employment market is that while layoffs are at a 22-year low, people quitting their jobs are currently at a 22-year high. This may be because employees feel they are not being paid enough due to inflation's effects and are searching for other jobs that pay better. This may change with tech and financial services companies curtailing hiring plans. Further, there is currently a ratio of 2:1 jobseeker to jobs, meaning there are double the jobs available than there are jobseekers. People currently have the choice to leave their jobs and look for new ones because of this, although the new ones may not necessarily pay better. All of this may reverse if recession ensues.

Consumer Confidence in The Market Lower than it has Been in the Last 40 Years

Figure 6. Consumer Sentiment Index and Subsequent 12-Month S&P 500 Returns



Source: JPM Guide To Markets 3Q2022

Figure 6 above shows consumer confidence in the US over the past 50 years. We are currently at a low in this metric that has not been seen since the recession of 1980. Consumers have quickly lost confidence, which may precede slower investment and spending – a key economic growth driver. Consumer confidence is likely waning due to the state of the world (Ukraine, political gridlock, surging gasoline prices, and high inflation. With supply chains still constrained by war, political discord, the lingering effects of the pandemic, and money not being worth as much as it used to be, people are less confident. This key metric that points toward the possibility of a recession in the near future.

Things to watch out for:

- Supply chain issues continue as a result of the war in Ukraine, strained diplomatic relations with China, and COVID-19.
- Possible fall in unemployment? As job openings and wages increase, we will likely see fewer people quitting their jobs, and more people filling the open roles in our economy.
- Interest rates are likely to continue to rise as inflation rates continue to skyrocket if the Fed does not take action against them.
- The likelihood of a recession has increased.

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