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COMMERCIAL REAL ESTATE SERVICES

# Q4 2022 ECONOMIC REPORTS

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## GDP GROWTH: TRENDING IN Q4 2022

GDP GROWTH
EMPLOYMENT
MONETARY POLICY
GLOBAL ECONOMY

The U.S. economy expanded at a solid annual rate of 2.9% in the fourth quarter of 2022, down from 3.2% at the end of Q3, according to the Commerce Department's Bureau of Economic Analysis. Fourth-quarter growth was more than expected and capped a year of economic slowing that reflects a return to a more normal pace of growth. Nevertheless, concern continues that growth may turn negative in 2023. The increase in real GDP was driven by gains in private inventory investment, consumer spending, federal government spending, state and local government spending and nonresidential fixed investment that were partly offset by decreases in residential fixed investment and exports. There was a decrease in imports, which are a subtraction in the calculation of GDP.

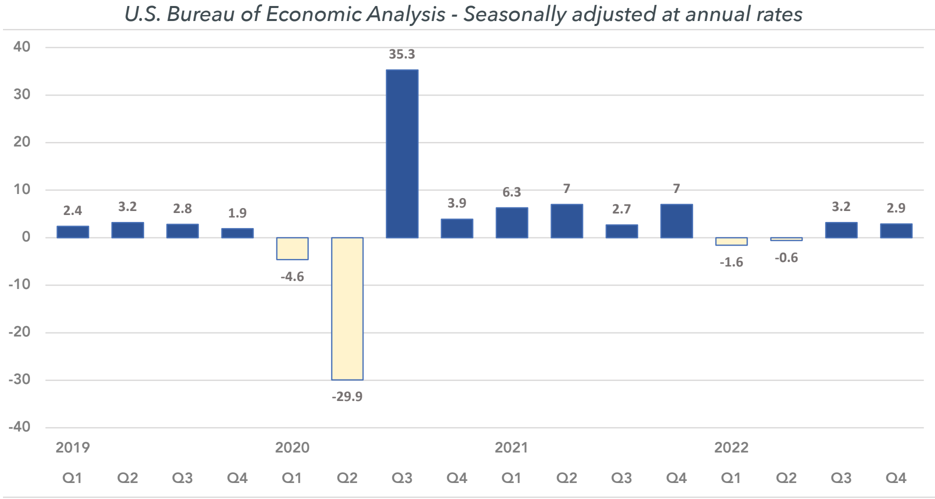
The growth in private inventory investment was led by manufacturing – mainly petroleum, coal products and chemicals – as well as mining, utilities and construction industries.

The increase in consumer spending reflected increases in both services and goods. Within services, growth was led by health care, housing, utilities and personal services.

Within goods, the leading contributor was motor vehicles and parts. There was growth in non-defense federal spending and increases in state and local government spending that chiefly were due to more

### *Real GDP: Percent Change from Prior Quarter*

*U.S. Bureau of Economic Analysis - Seasonally adjusted at annual rates*




*The fourth quarter capped a year of economic slowing that reflects a return to a more normal pace of growth.*

employee compensation. Within nonresidential fixed investment, an increase in intellectual property products was partly offset by a decrease in equipment.

Within residential fixed investment, the leading contributors to the decrease were new single-family construction and brokers' commissions. Within exports, the decrease in goods was partly offset by an increase in services, led by travel and transport. Within imports, the decrease primarily reflected a decrease in goods. Compared to the third quarter, Q4's deceleration in real GDP primarily reflected a downturn in exports and decelerations in nonresidential fixed investment, state and local government spending and consumer spending. Current-dollar GDP grew 6.5% at an annual rate, or $408.6 billion, in the fourth quarter to a level of $26.13 trillion. In the third quarter, GDP increased 7.7%, or $475.4 billion.

The price index for gross domestic purchases increased 3.2% in the fourth quarter, compared with an increase of 4.8% in Q3. The personal consumption expense price index increased 3.2%, down from 4.3% in Q3. Excluding food and energy prices, the PCE price index grew 3.9% in Q4, compared with a previous increase of 4.7%. Current-dollar personal income increased $311.0 billion in the fourth quarter, compared with $283.1 billion in Q3. Disposable personal income increased $297 billion, or 6.5% in Q4 compared to $242.4 billion, or 5.4 percent in Q3. Real disposable personal income increased 3.3%, compared with a 1% gain the prior quarter.Personal saving was $553 billion in the fourth quarter, compared with $508 billion in the third quarter. The personal saving rate—personal saving as a percentage of disposable personal income—was 2.9% in Q4 versus 2.7% in the third quarter.

## EMPLOYMENT: TRENDING IN Q4 2022

Job growth slowed in December but was better than expected with notable gains occurring in leisure and hospitality, health care, construction and social assistance.

Nonfarm payroll employment increased by 223,000 in December and the unemployment rate edged down to 3.5% where it has remained in a narrow range to 3.7% since March. The number of unemployed persons declined to 5.7 million in December. But the number of workers out of a job from three to six months has risen sharply since last spring. In December, 826,000 unemployed workers had been out of work for about three-and-a-half to six months, up from 526,000 in April.

Demand for labor lately has been weakening fastest in white-collar industries. Microsoft Corp., Goldman Sachs Group Inc. and Google parent Alphabet Inc. recently announced job cuts. Additionally, fewer temporary workers have been getting called up as employment through staffing firms has dropped every month since July. Many economists view the sector as a bellwether for future shifts in the labor market. There are 38.5% fewer job prospects in software development than there were a year ago, according to job search site Indeed.com. Media jobs were down 30.8% and banking and finance postings were off 25.6%.

GDP GROWTH
EMPLOYMENT
MONETARY POLICY
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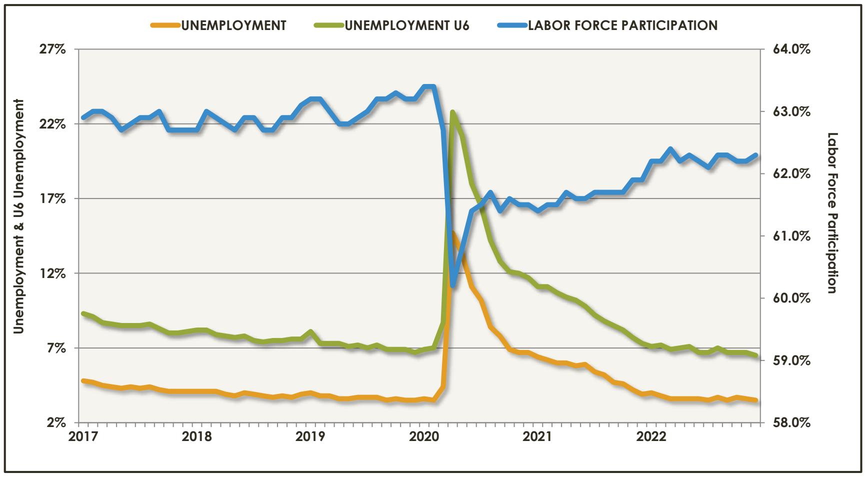
## United States Unemployment

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Among the major worker groups, the unemployment rate for Whites fell to 3% in December. The jobless rates for adult men was at 3.1% and 3.2% for women,10.4% among teenagers, 5.7% for Blacks, 2.4% for Asians and 4.1% for Hispanics. The number of long-term unemployed – those jobless for 27 weeks or more – declined by 146,000 to 1.1 million in December. This measure is down from 2.0 million a year earlier. The long-term unemployed accounted for 18.5% of all unemployed persons.

The employment-population ratio increased by 0.2 percentage point from November to 60.1%. The labor force participation rate was little changed at 62.3%. Both measures have shown little net change since early 2022. These measures are each 1.0 percentage point below their values in February 2020, prior to the pandemic.

The number of persons employed part time for economic reasons totaled 3.9 million, little changed in December. These individuals, who would have preferred full-time employment, were working part time because their hours had been reduced or they were unable to find full-time jobs.

Persons not in the labor force who currently want a job fell by 352,000 to 5.2 million in December, little different from its February 2020 level of 5.1 million. These individuals were not counted as unemployed because they were not actively looking for work during the four weeks preceding the survey or were unavailable to take a job. Among those not in the labor force who wanted a job, the number of persons marginally attached to the labor force declined by 231,000 to 1.3 million in December.

GDP GROWTH
EMPLOYMENT
MONETARY POLICY
GLOBAL ECONOMY

## MONETARY POLICY: TRENDING IN Q4 2022

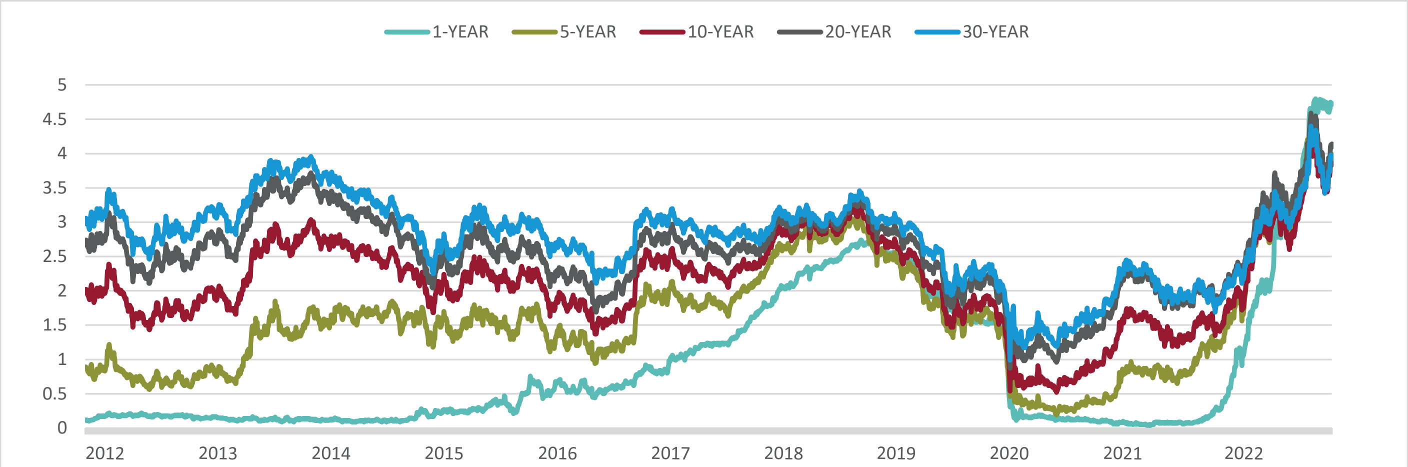
After raising interest rates seven times in 2022 to their highest level in 15 years, the Federal Reserve has signaled its nascent confidence that inflation will ease in 2023 enough for central bank policymakers to begin slowing rate hikes.

In December, the Fed increased the overnight borrowing rate a half point to between 4.25% and 4.5%. Several central bank officials said after the increase, which followed four three-quarter point jumps, that they saw rates rising to a peak between 5% and 5.25%, a sign that two more quarter-point hikes were likely.

The rate hike came after the Labor Department reported that the 12-month consumer price index dropped to 7.1% and the core rate, which excludes food and energy, was at 6%. Both indexes were at their lowest in a year. The personal consumption expenditure price index had fallen to 5%. The Fed's inflation goal is 2%.

Central bank officials said they believe that dialing back increases to the more traditional quarter percentage point will provide more time to assess the effects of previous increases and determine where to stop with greater accuracy.

## *Daily Treasury Yield Curve Rates (Decade Trend)*




Federal Reserve Chairman Jerome Powell said the inflation data that influenced the smaller December rate hike "show a welcome reduction in the monthly pace of price increases. But it will take substantially more evidence to have confidence that inflation is on a sustained downward path."

After inflation spiked to its highest level in more than 40 years, in 2022 the Fed reeled off a series of interest rate hikes – the most aggressive since the 1980s. Officials believe that raising interest rates helps take money out of the economy, thereby reducing demand and pulling down prices.

In public statements Powell has been consistent in his resolve to beat inflation even at the risk of putting the economy into recession, seen as likely in 2023 by many economists. But while Powell and the 11 other voting members of the Federal Open Market Committee have been unanimous in their policy statements, there is some division in the panel. James Bullard, president of the Federal Reserve Bank of St. Louis, said he would prefer a larger half-point rate hike at the February meeting because he doesn't think rates are high enough to beat inflation.

"You'd probably have to get over 5% to say with a straight face that we've got the right level. Why not go to where we're supposed to go. Why stall and not quite get to that level," he told The Wall Street Journal. There also are committee members who favor greater flexibility to see if inflation falls quicker than expected.

Raising interest rates in smaller increments "gives us the ability to absorb more data… and probably better land at a sufficiently restrictive level," said Fed Vice Chair Lael Brainard.

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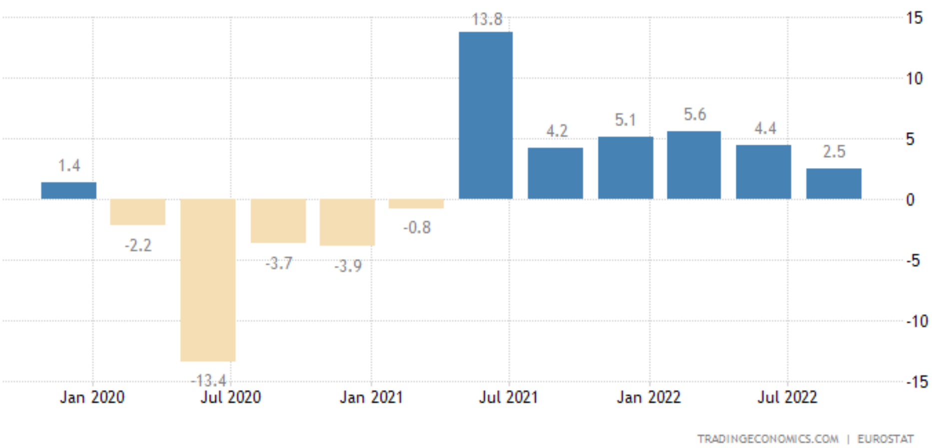
## GLOBAL ECONOMY: TRENDING IN Q4 2022

The worldwide economy continues to experience turbulence with challenges along a number of fronts. Inflation is the highest in decades and financial conditions are tightening in most regions. Russia's invasion of Ukraine and the lingering Covid pandemic all weigh on the outlook.

The International Monetary Fund forecasts that global growth will fall to 3.2% in 2022 and 2.7% in 2023 from 6% in 2021. Except for the global financial crisis and acute phase of the Covid pandemic this is the weakest growth profile since 2001 and reflects significant slowing for the largest economies, said the IMF in a Q4 report. In 2022, GDP contracted in the United States in the first half, the euro area contracted in the second half and China posted 3% growth, its second lowest annual rate since 1976.

But since China relaxed its extreme Covid lockdown policies in late 2022 following widespread national protests, President Xi Jinping's government is betting on 5% to 5.5% growth in 2023. But a surge in economic growth for China could give a fresh boost to inflation in Europe, which is raising concerns. "The change in the (Chinese) Covid policy will revive the economy. That is positive for the rest of the world, but there will be more inflationary pressure," said European Central Bank President Christine Lagarde.

## *European Union GDP Annual Growth Rate*




*"The change in the (Chinese) Covid policy will revive the economy. That is positive for the rest of the world, but there will be more inflationary pressure," said European Central Bank President, Christine Lagarde.*

Higher borrowing costs and the likelihood of more interest rate increases have been weighing on Europe's growth prospects. But reports show the economic disruption from Russia's war on Ukraine has been less than initially feared.

Otherwise, normalization of monetary and fiscal policies among developed nations that delivered support during the pandemic is cooling demand as policymakers aim to reduce inflation. And a growing share of economies are in a growth slowdown or contraction.

Among all the risks in the global outlook the overriding concern is global inflation, which the IMF forecasts to hit 8.8% in 2022 before declining to 6.5% in 2023 and 4.1% in 2024. Halting gas supplies by Russia and food and energy price shocks might cause inflation to persist. New global health scares also could stunt growth.

The IMF has expressed its firm support for the tightened monetary policies of central banks to bring inflation under control. "Warding off these risks starts with monetary policy staying the course to restore price stability. Front-loaded and aggressive monetary tightening is critical to avoid inflation de-anchoring as a result of households and businesses basing their wage and price expectations on their recent inflation experience," the IMF said in its latest report in October.

The fund also warned of the need to address growing government debt distress caused by lower growth and higher borrowing costs requires a meaningful improvement in debt resolution frameworks. The IMF also is advocating for policies to fast track green energy transition it says will yield long-term payoffs for energy security and the costs of ongoing climate change.

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