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Members of the MDP Class of 2022-2023 from Andy Davies, 12/9/22

As year-end approaches, here is summary of economic conditions and 2023 forecast.

Perhaps review it, make notes, and share/discuss with your CEO or CFO or other senior officer as part of your Pre-Work assignment for Session 5!?!?

Politico Nightly **December 1, 2022**

"Mixed Messages" By Ben White

MIXED MESSAGES — We received some good and not so good news in the heaping pile of economic data dumped out by the federal government today.

In the spirit of the holiday season, let's start with the good: Inflation is finally relenting. A little. It's at least no longer running out of control. And the downward trend is pretty consistent.

It's no longer risky to say that inflation has finally peaked because it pretty clearly did so in June . All the Federal Reserve's super sized rate hikes since March appear to be finally working, at least a bit. And consumers are still spending in spite of higher interest rates, keeping any potential Fed-induced recession off stage for now.

Now for the not so good: Inflation is still way too high. Consumers are keeping up their spending by quickly drawing down savings built up during Covid and increasingly turning to credit cards to keep up with expenses.

And we are likely to get a November jobs number on Friday that confirms other signals that the red-hot jobs market is finally slowing down. (More on that in a moment.) But first, let's dig into the inflation side of the story.

The Personal Consumption Expenditure price index (PCE), the Fed's Holy Grail of inflation measures, ticked down to a 6 percent pace in October over the same time last year, down from 6.3 in October.

That's good news and will likely allow the Fed to implement only a half-point rate hike at its meeting this month, rather than the hefty 0.75 point hikes at the last four meetings. **If inflation keeps trending lower,** the central bank could move to a quarter point hike in January and perhaps pause after that. Fed Chair Jerome Powell essentially telegraphed this approach at a **speech at the Brookings Institution today** .

But hold off the champagne-soaked yacht parties. Six percent inflation is still *three times* the Fed's preferred rate. So Powell stressed that much more work remains. And even if the Fed does manage to stop rate hikes early next year, it may feel compelled to keep them high for an extended period of time to get inflation where they want it.

In addition, the Fed has had relatively limited success bringing down wage inflation in a tight labor market. Higher wages are generally a good thing, but not so much when they feed into companies passing those costs along in the form of higher prices.

The problem here is that there are just nowhere close to enough people in the labor market right now to fill open jobs, putting sustained pressure on wages.

On the consumer front, U.S. households kept the cash flowing in October with personal spending up 0.8 percent .

But a lot of that money is coming from savings, not better earnings. Because annualized wage gains of 5 percent are just now managing to match or slightly exceed the pace of core inflation.

After soaring during Covid, the personal-savings rate — what consumers have left over after monthly expenses — is down to the lowest level since 2008 and credit card debt is rising again. There is still around $1 trillion in excess savings lying around, but most of it is held by upper-income households.

And then, a day later, on 12/2, we received the jobs report for November...

The New York Times

BREAKING NEWS

Hiring in the U.S. continued to exceed expectations in November as employers added 263,000 jobs and wages jumped.

Friday, December 2, 2022 8:40 AM ET

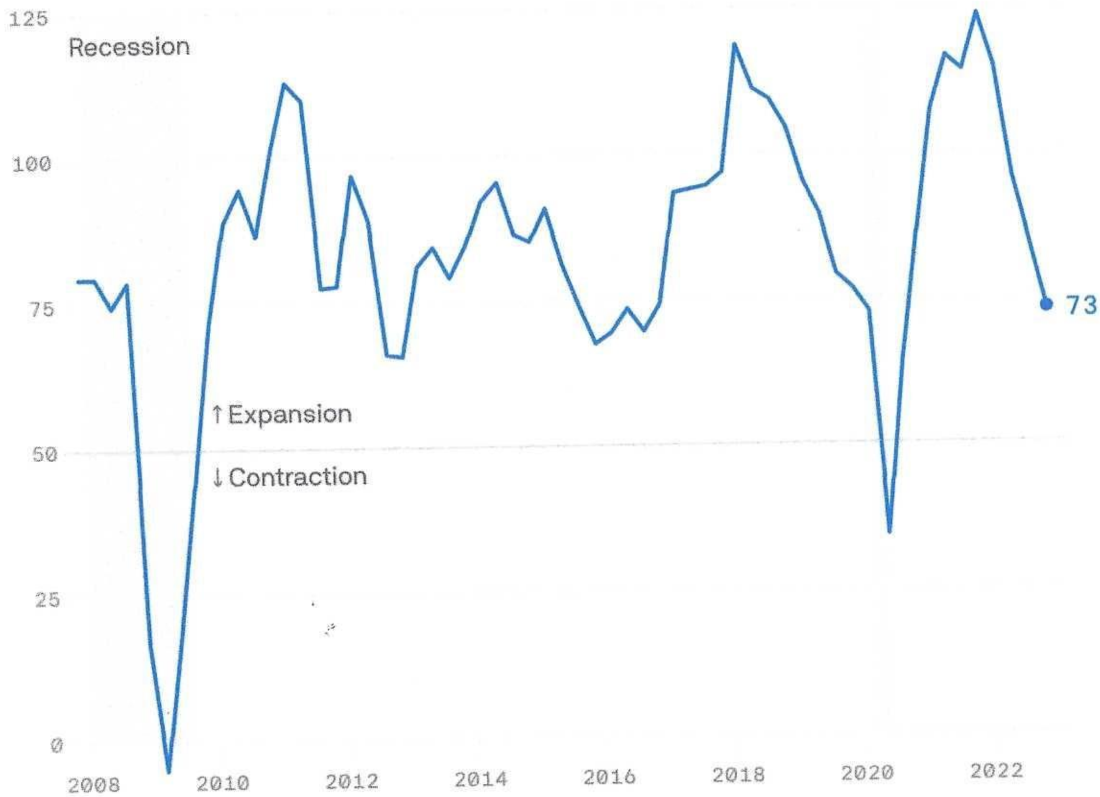
The labor market has been surprisingly resilient in the face of successive interest rate increases by the Fed over the past year. The unemployment rate was steady at 3.7 percent.

From: ***AXIOS WHAT'S NEXT*** **December 5, 2022**

CEO optimism fading

Business Roundtable CEO Economic Outlook Index

Quarterly; Q4 2007 to Q4 2022



Data: Business Roundtable. Chart: Axios Visuals

The chief executives of America's biggest companies have downgraded their view of the economy — though not to recessionary gloom, *Axios' Courtenay Brown and Neil Irwin report.*

- **Why it matters**: CEO plans for hiring and capital spending are more consistent with a slowdown than outright contraction.

🧮 **By the numbers:** The new Business Roundtable CEO Economic Outlook, shared first with Axios, declined 11 points — continuing the steady slide that's happened every quarter this year.

- **When 142 CEOs** of major U.S. companies were surveyed in late November, they reported relatively healthy plans for sales growth, hiring and capital spending.
- **But those expectations** had notably cooled from last year's nosebleed levels. 40% of CEOs expect to increase employment at their firms within the next six months. This time last year, 77% planned to do so.

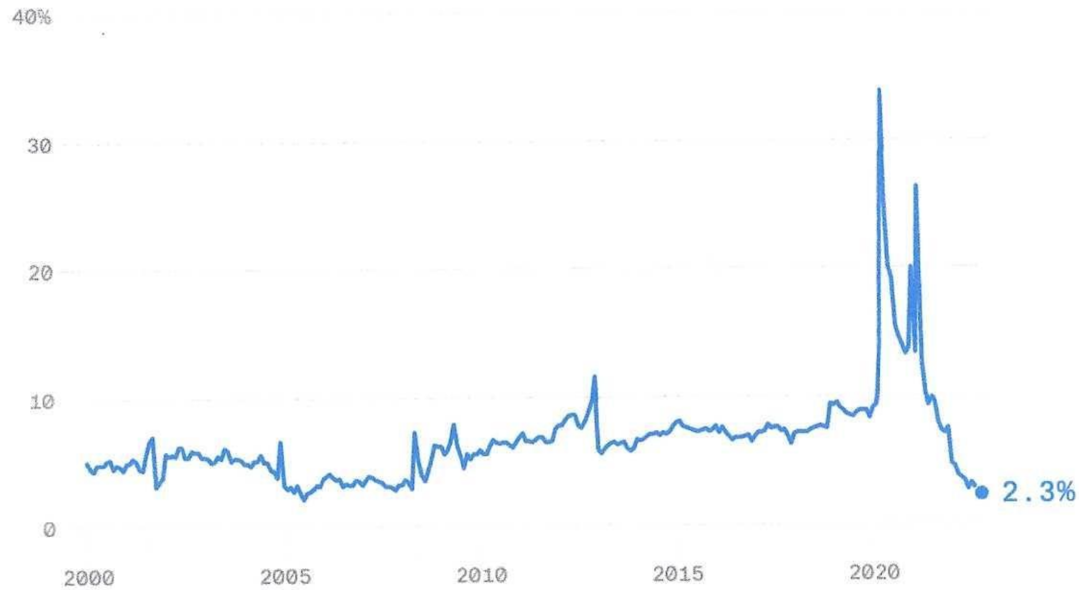
GM CEO Mary Barra, who chairs the Business Roundtable, said: "With continued supply chain challenges and inflation uncertainty, many CEOs remain cautious about domestic plans and expectations for the next six months."

From: ***AXIOS WHAT'S NEXT*** **December 5, 2022**

"Savings Shortfall"

Personal after-tax saving rate in the U.S.

Monthly; January 2000 to October 2022



Data: Bureau of Economic Analysis via FRED; Chart: Axios Visuals

Americans are spending most of what they're earning these days, *Axios' Emily Peck reports.*

- The savings rate in October was the lowest since 2005 — and the second-lowest on record, according to new Commerce Department data.

Why it matters: Thanks to higher prices and a return to "normal" life that has folks traveling and going out again, Americans are spending more and saving less.

- And for now, many are sitting on a lot of savings — so they don't need to sock as much money away.

Zoom out: A lot of folks built up a big cash cushion over the past couple of years — note the big spike in the chart above — but with inflation trending higher than wage increases, at some point, something's got to give.