



2023 ECONOMIC FORECAST

INDIANAPOLIS BUSINESS JOURNAL

Presented by:



FIFTH THIRD BANK



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Reckoning or Recession

Tom Jalics, CFA

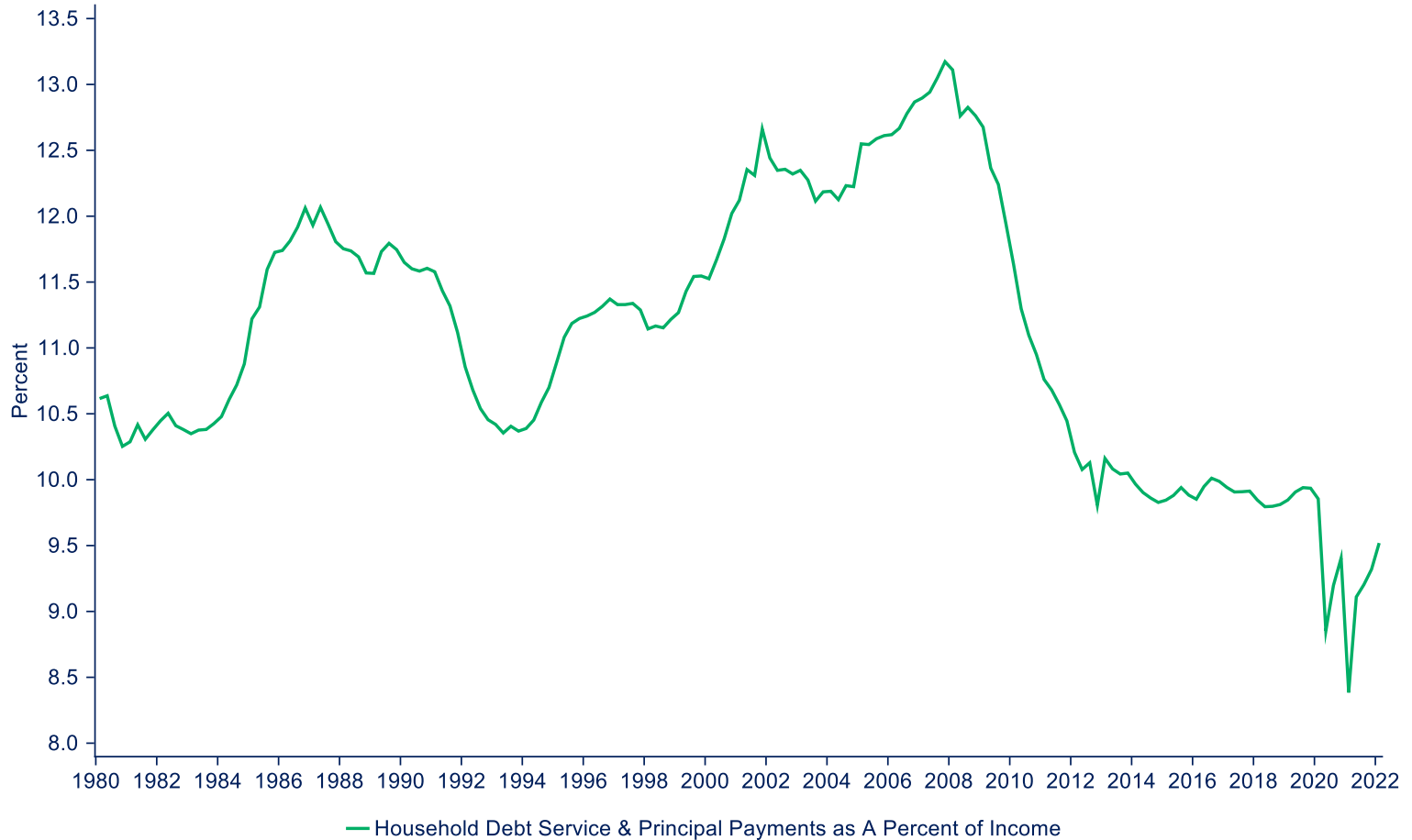
Director, Chief Market Strategist

Support for growth: consumer economy



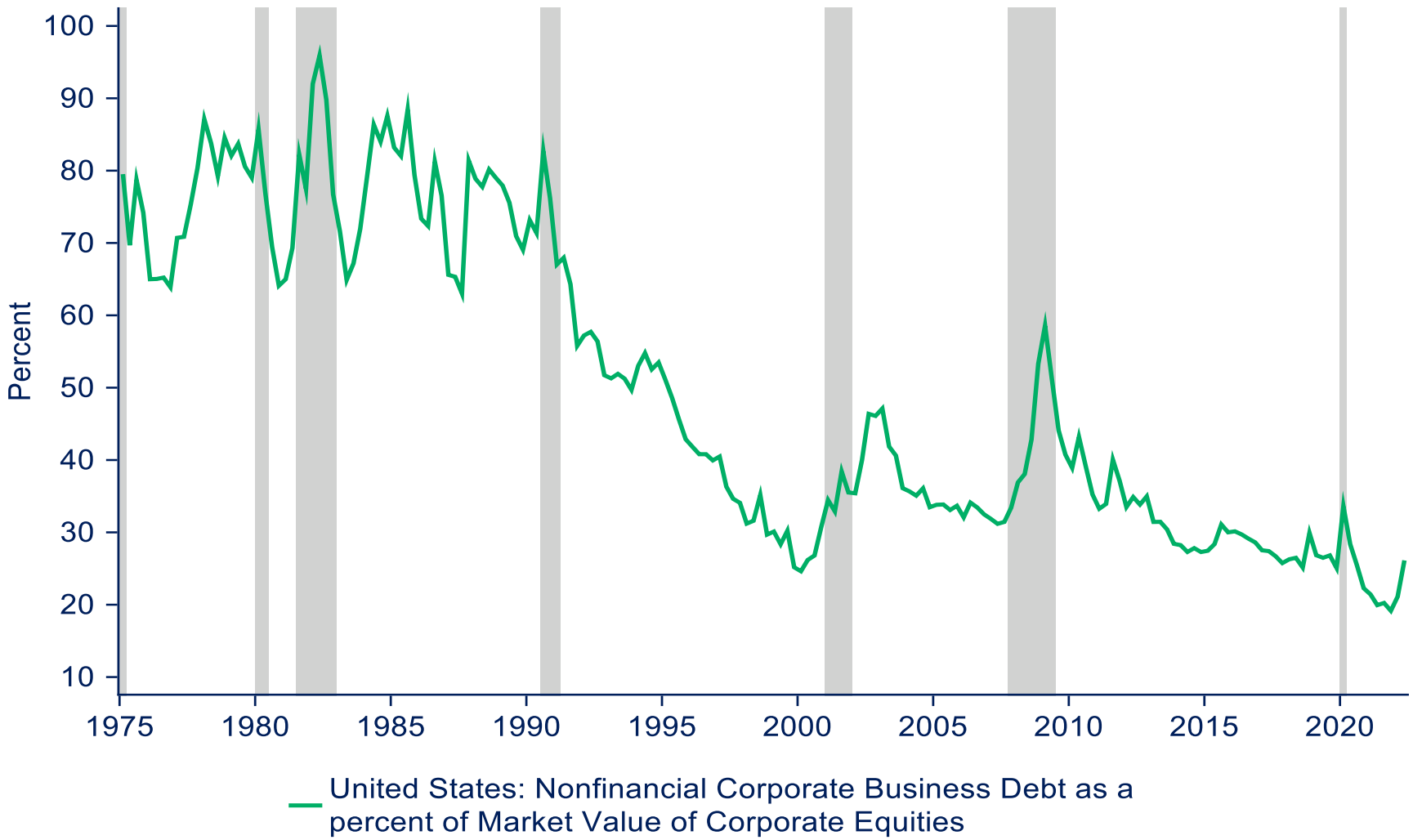
Source: Macrobond, BLS, as of 10/24/2022
Data from 1929-1947: annual unemployment rate, 14 years and over
Data from 1948 to current: monthly unemployment rate, 16 years and over

Consumer resiliency despite higher rates



Source: Macrobond, Fed, as of 10/24/2022

Corporate financial strength



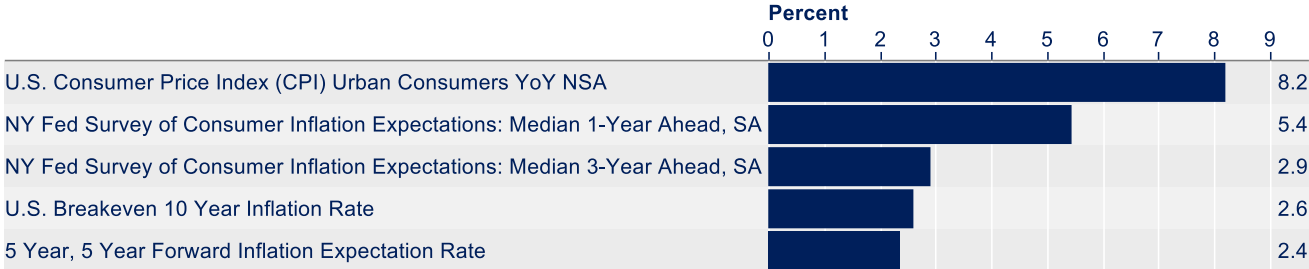
Source: Macrobond, Fed, as of 10/24/2022

Risk to growth: inflation is persistently high



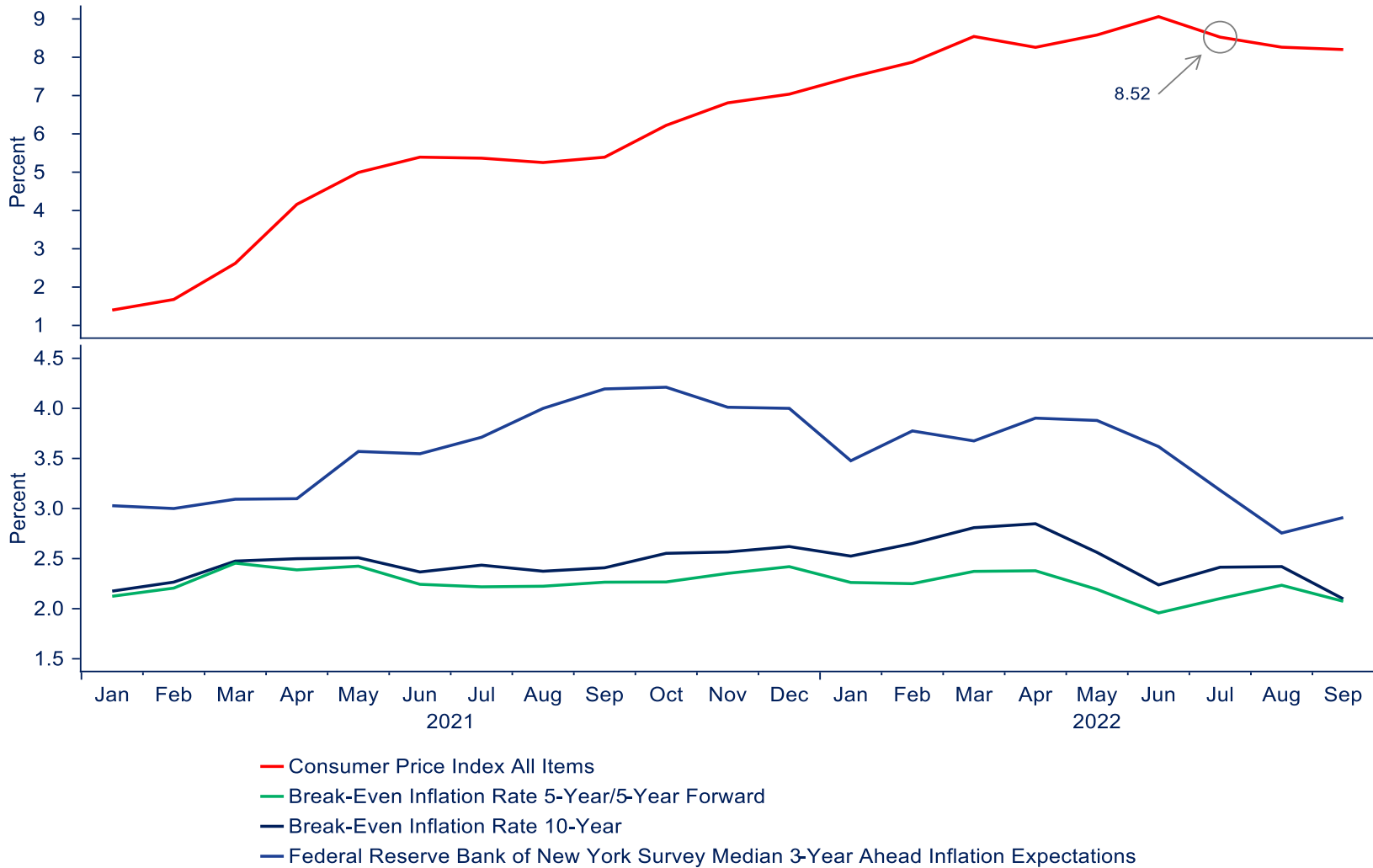
Source: Macrobond, Bloomberg, as of 10/24/2022

The risk of inflationary psychology



Source: Macrobond, Bloomberg, as of 10/24/2022

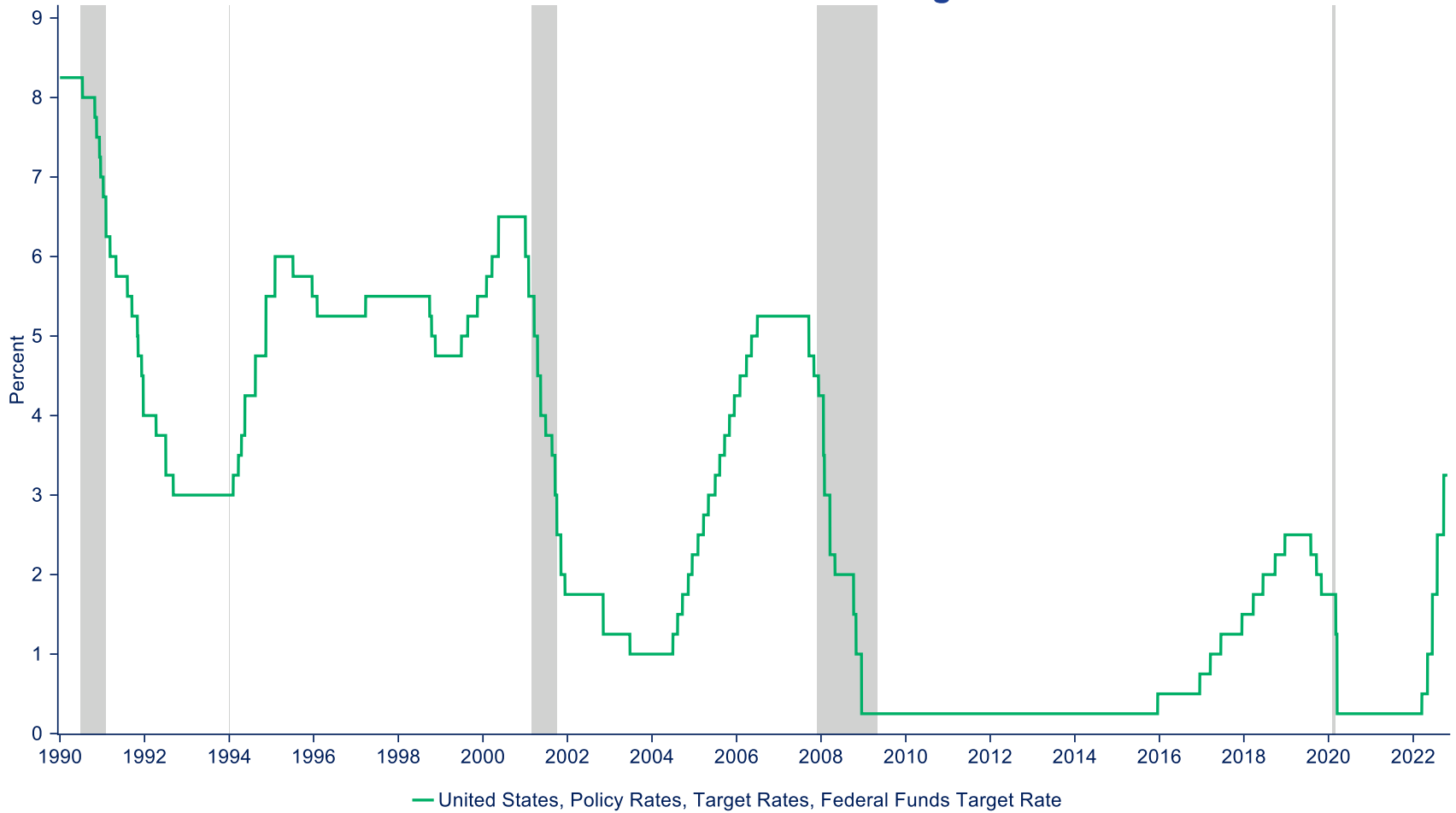
Inflation sticky but inflation expectations moderating



Source: Macrobond, Federal Reserve Bank of New York, BLS, Fed, as of 10/24/2022

Fed on the warpath

United States Federal Funds Target Rate



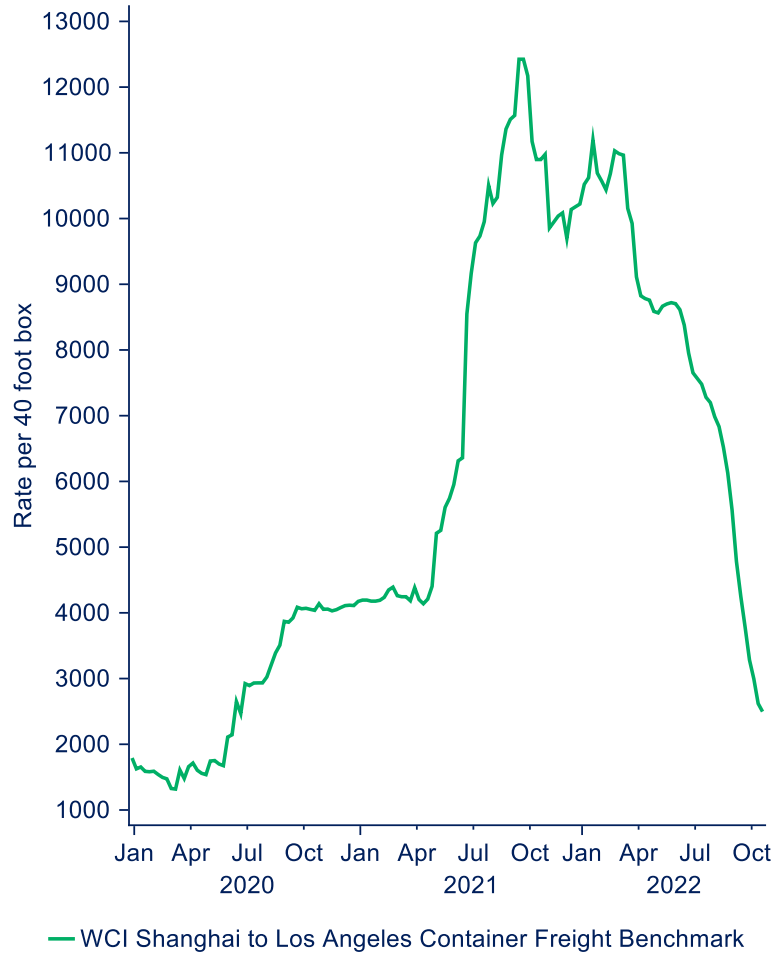
Source: Macrobond, Fed, as of 10/24/2022

Inflation outlook: supply chain stabilization

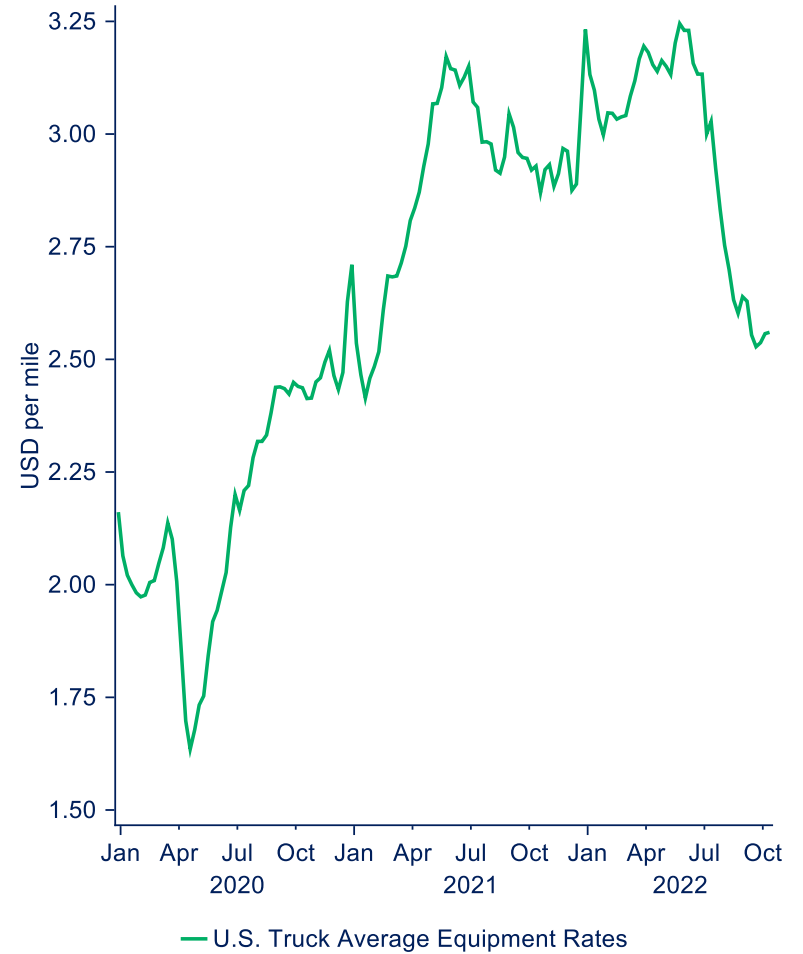


Source: Macrobond, Port of Los Angeles, as of 10/24/2022

Inflation outlook: supply chain stabilization



Source: Macrobond, Bloomberg, Cornerstone Macro Research as of 10/24/2022



Source: Macrobond, Bloomberg, Truckstop.com, Cornerstone Macro as of 10/24/2022

Retail inventory comments from the horse's mouth

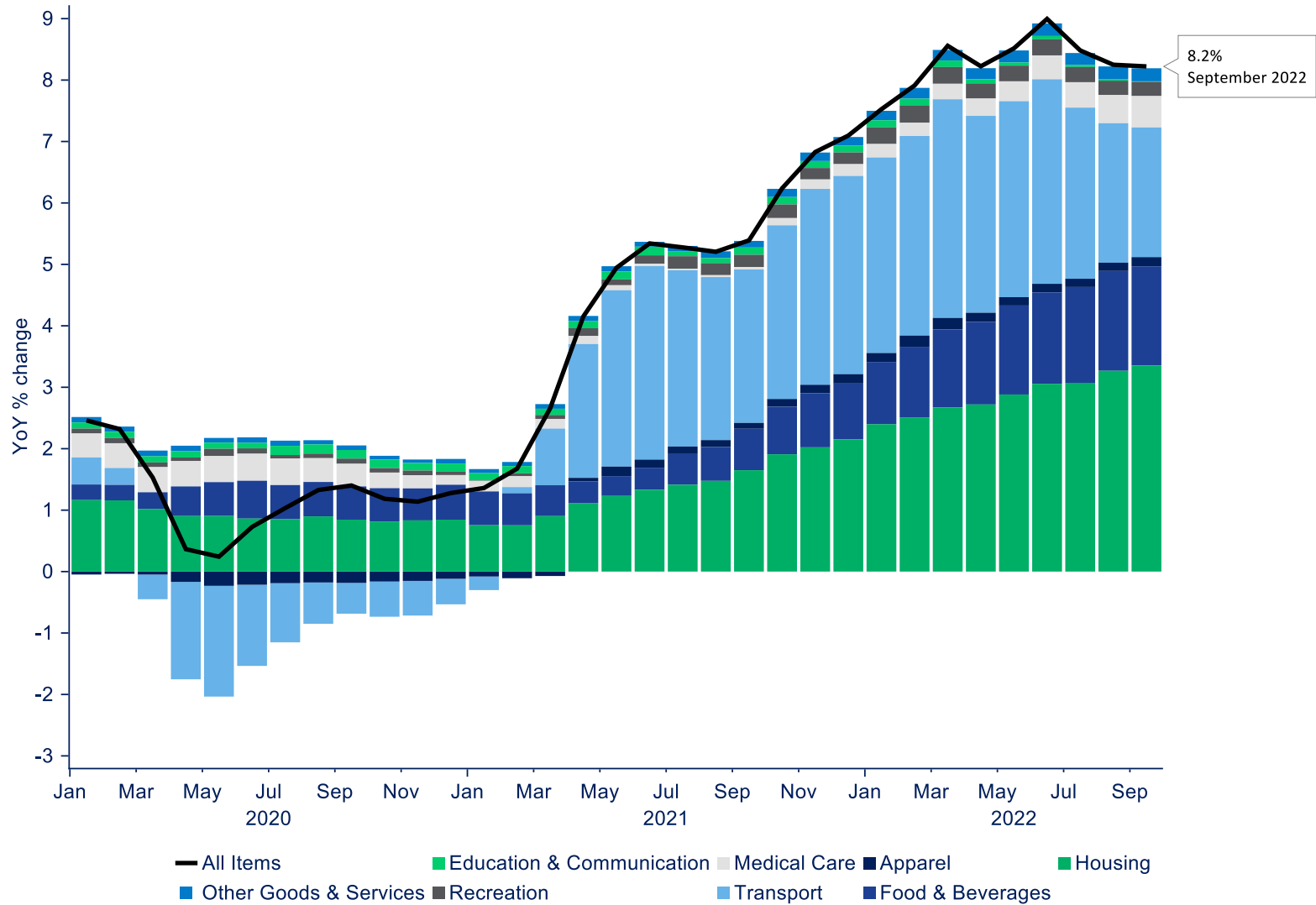
“Inventory Increased 20%...” – Brett Biggs
Walmart CFO on Q2
22 Earnings Call

“Our inventories were up 40% in the quarter. And I think if you just take that off the face of the balance sheet, that seems like a lot.” –Jill Timm
CFO Kohl's at Cowen's
6th Annual Future of the
Consumer

“...Q2 ending inventory up more than 26% or nearly \$2.5bn compared to a year-ago...” –John Mulligan
Target COO on
Q2 22 Earnings Call

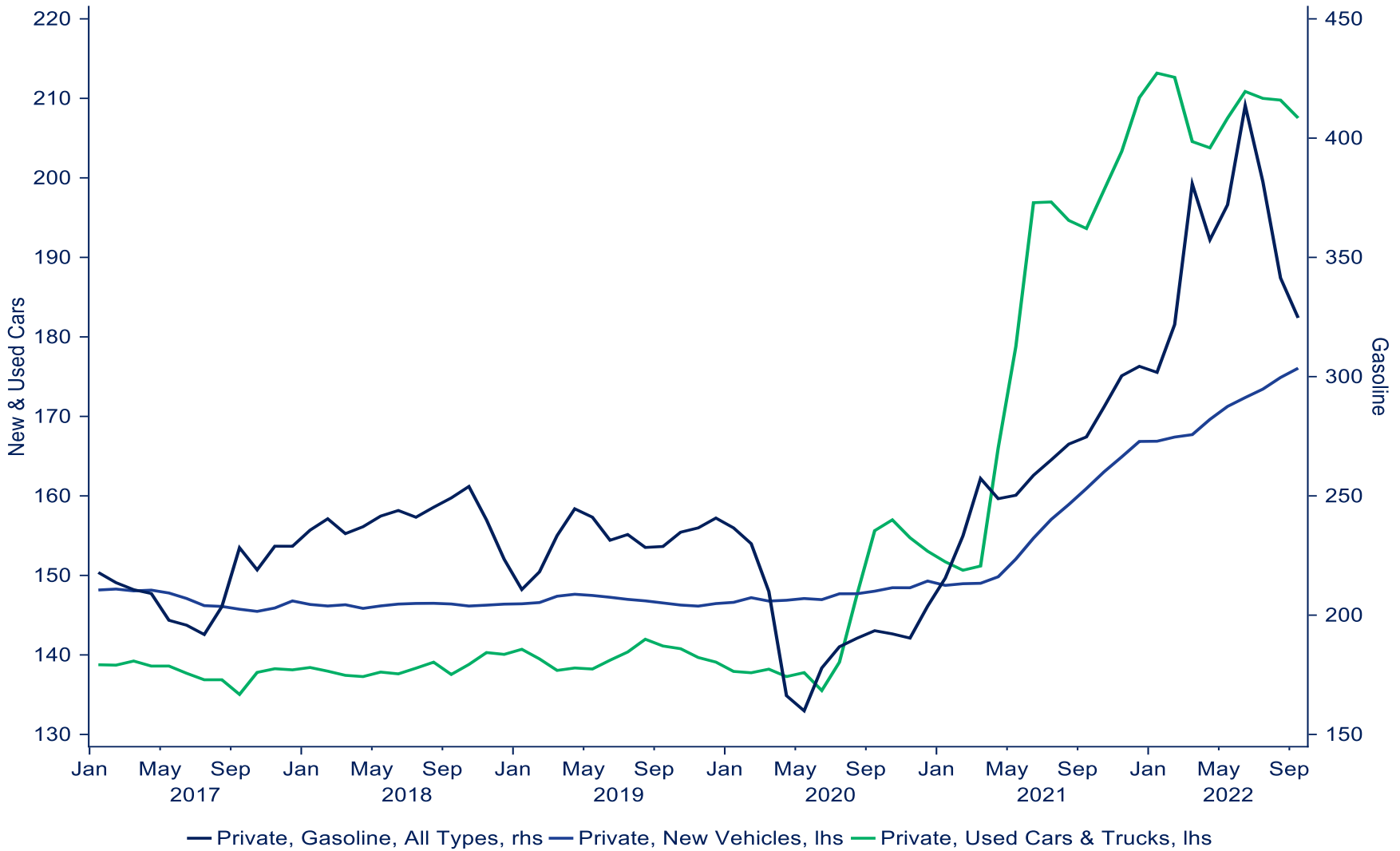
“Well, there is a lot more inventory in the Racks now than we had a year ago.” – Erik Nordstrom
CEO Evercore ISI
Consumer & Retail
Conference

Revisiting the problem - Contributions to CPI



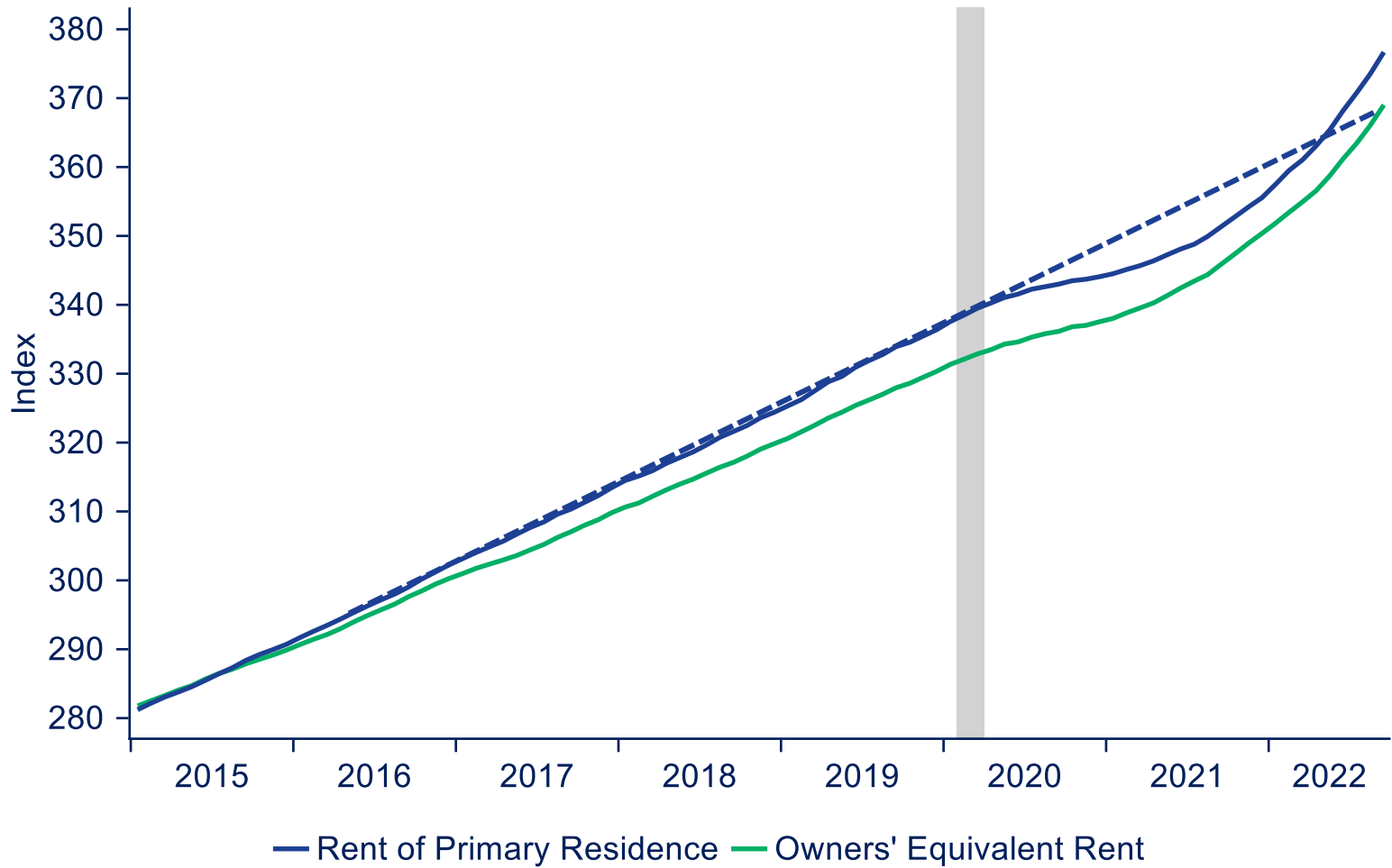
Source: Macrobond, BLS, as of 10/24/2022

Transportation – prices sticky



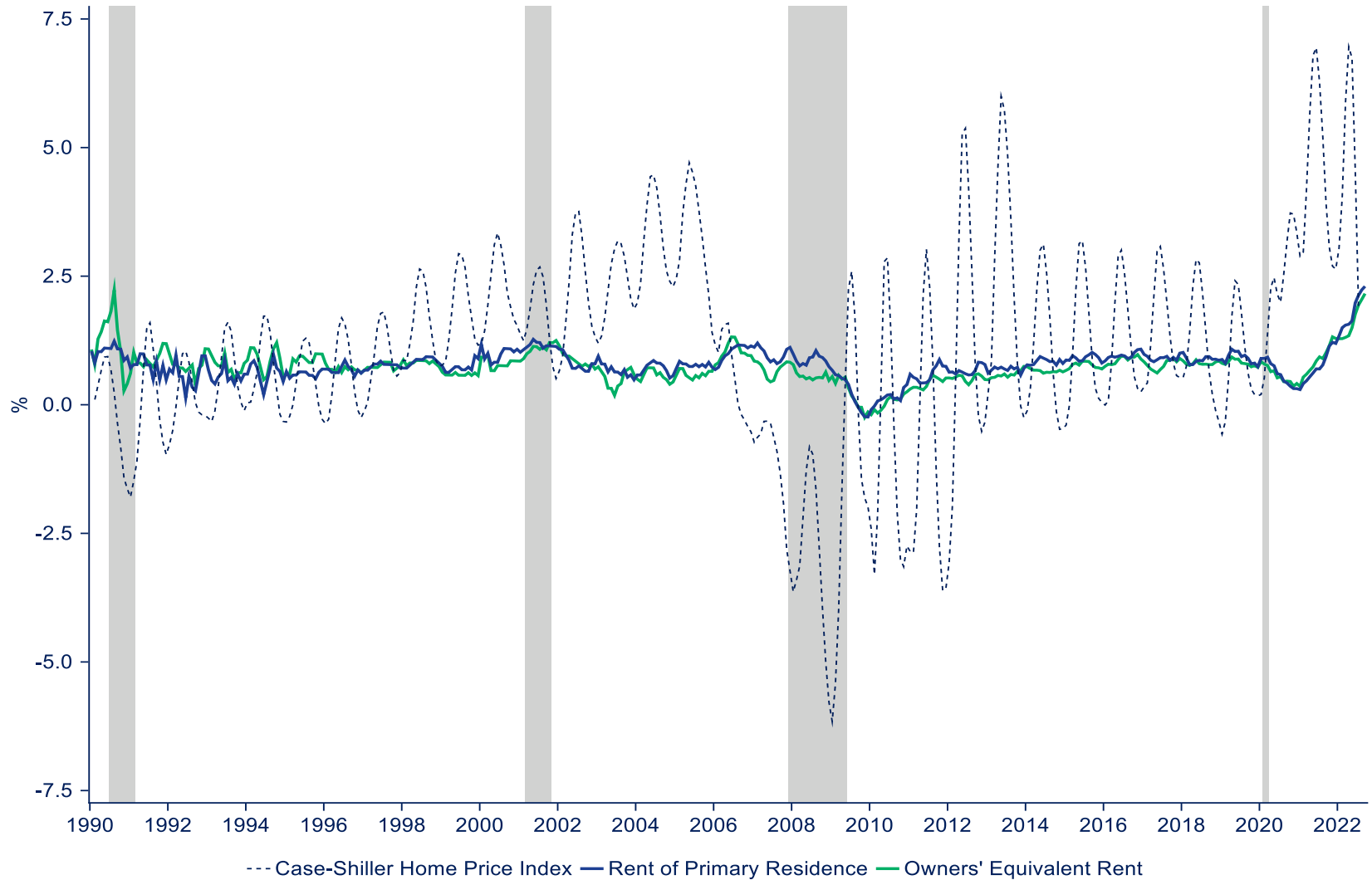
Source: Macrobond, BLS, as of 10/24/2022

Housing – rents playing catch up



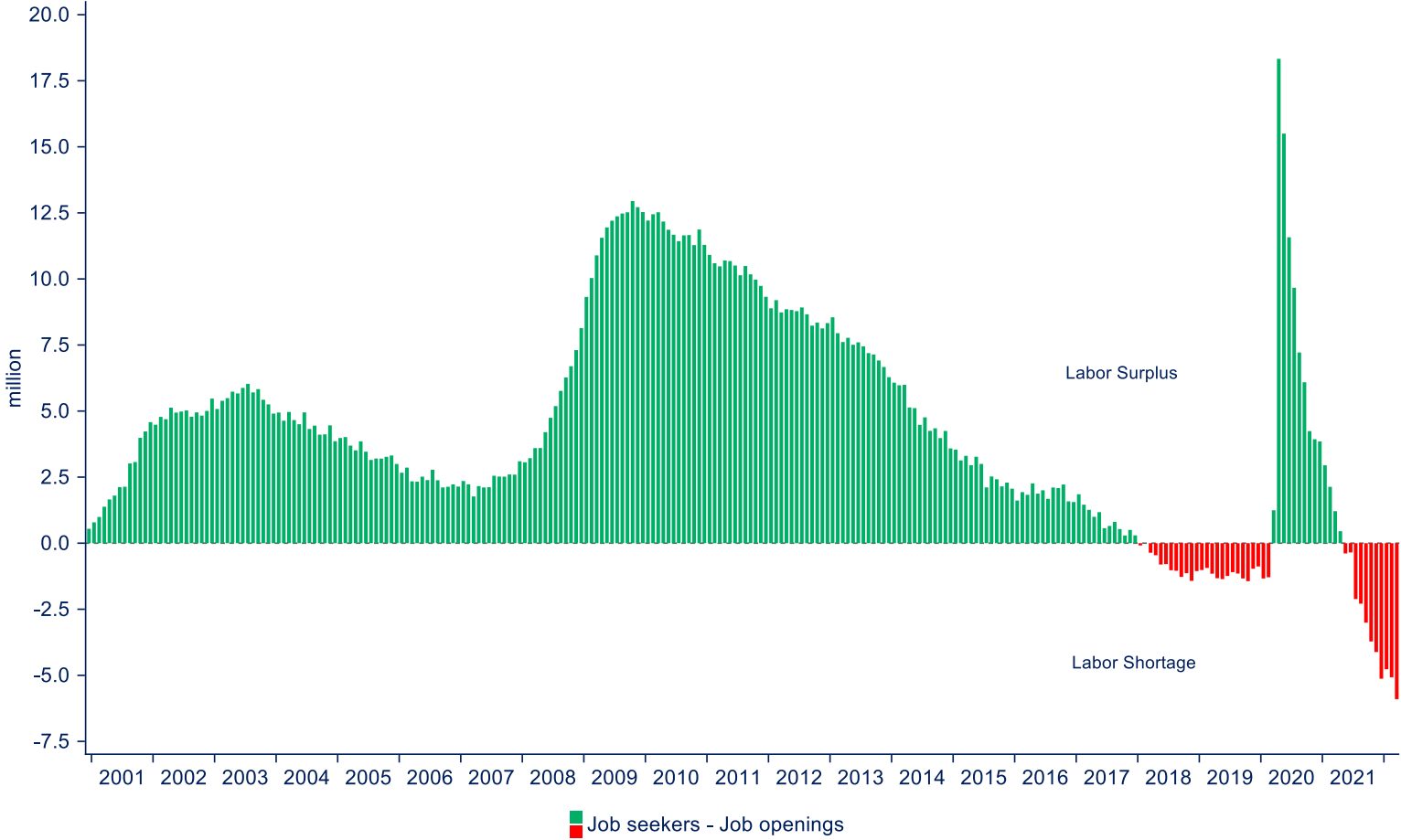
Source: Macrobond, BLS, as of 10/24/2022

Housing – rents lag home price appreciation



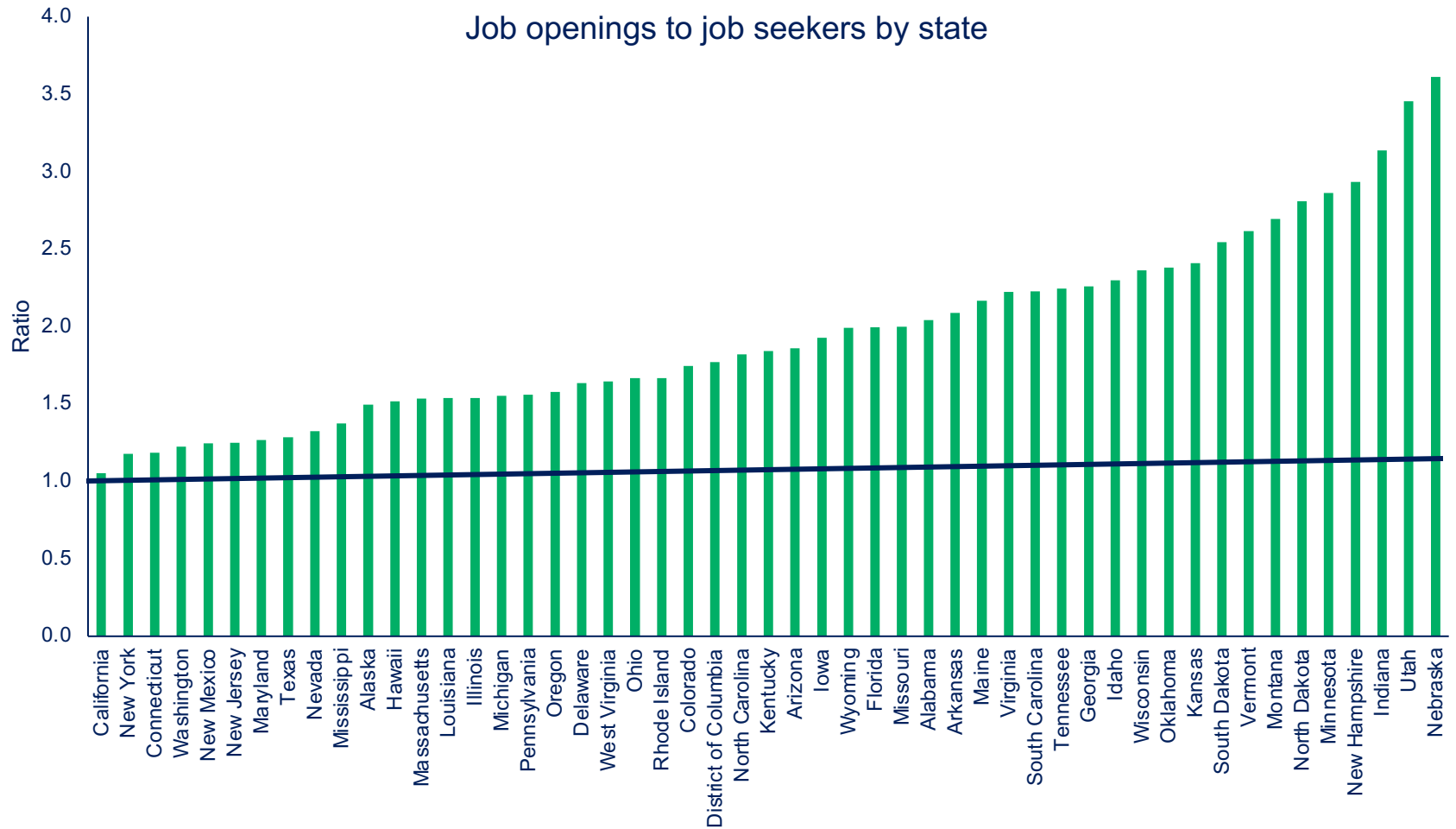
Source: Macrobond, BLS, SPDJI, as of 10/24/2022

A historic labor gap



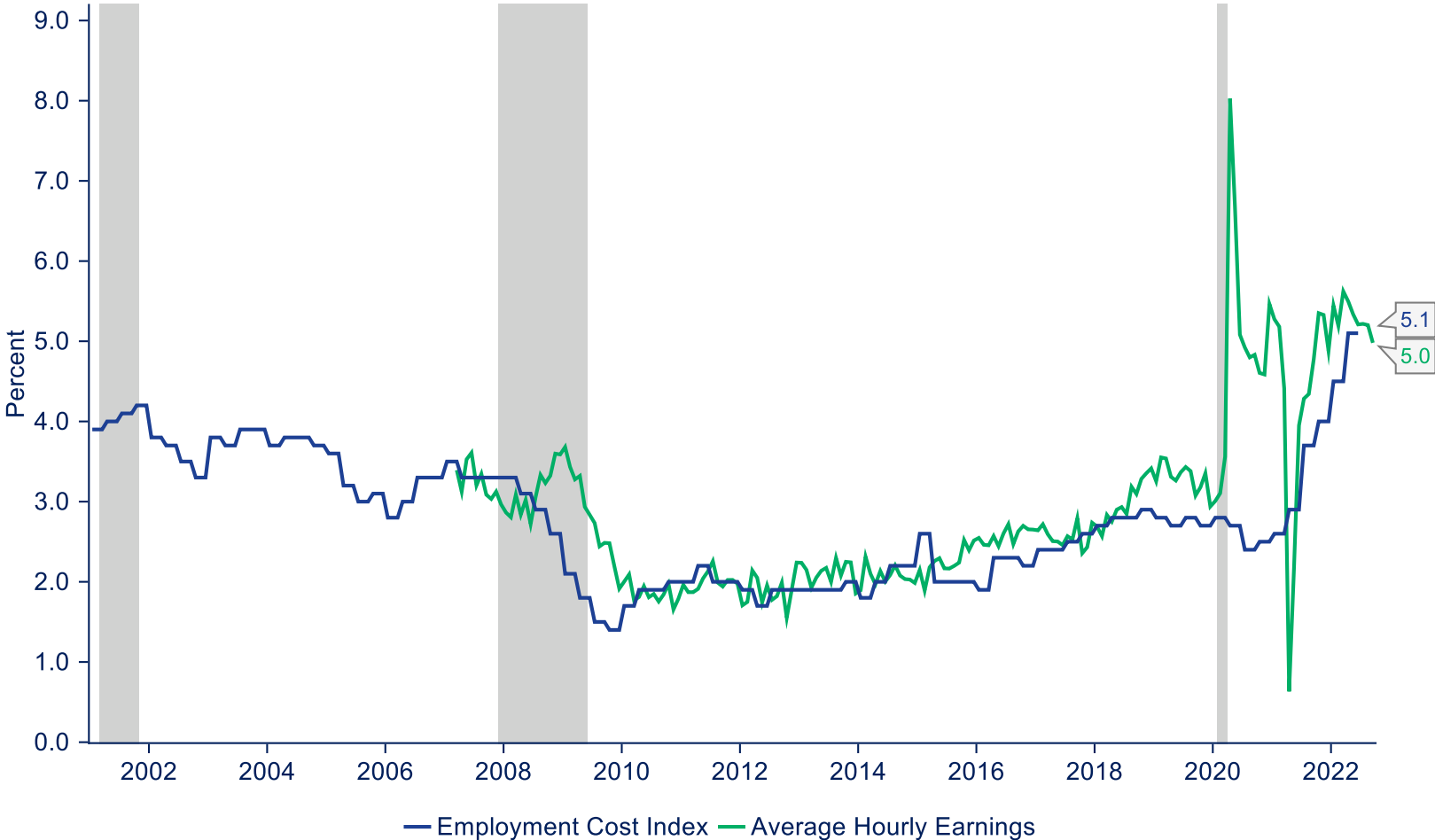
Source: Macrobond, BLS, as of 10/24/2022

No relief for employers



Source: Bureau of Labor Statistics, as of 1/31/22

Wage and compensation costs rising



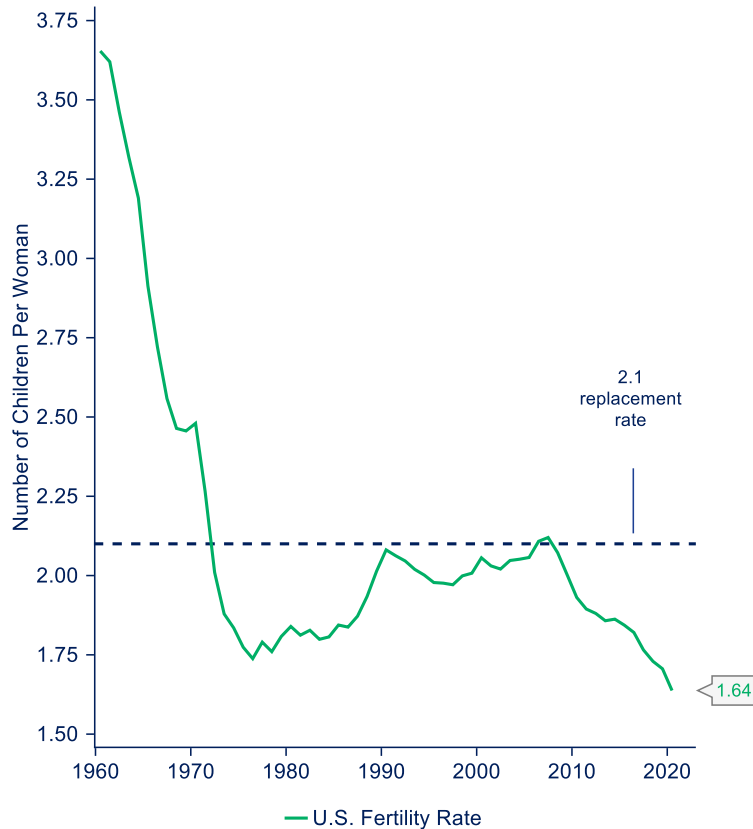
Source: Macrobond, Bloomberg BLS, as of 10/24/2022

Labor: the multi-decade challenge

Structural issues

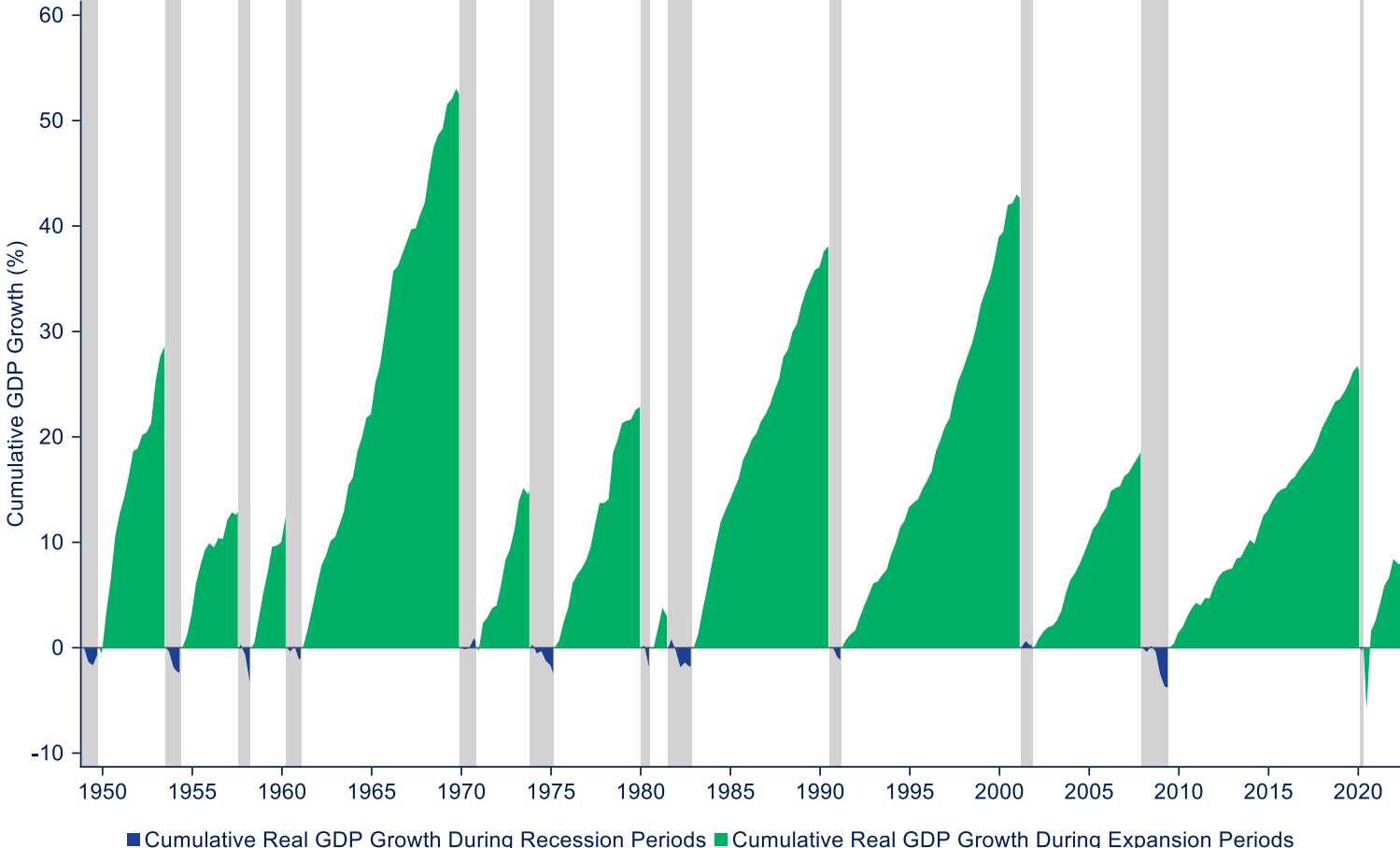
Employers can help themselves

- Eliminate unnecessary barriers
- Flexibility for working parents
- Pathways for older workers
- Establish non-traditional talent pipelines



Source: Macrobond, World Bank, as of 10/24/2022

The big question



Source: Macrobond, NBER, BEA, as of 3/31/2022

Appendix

The



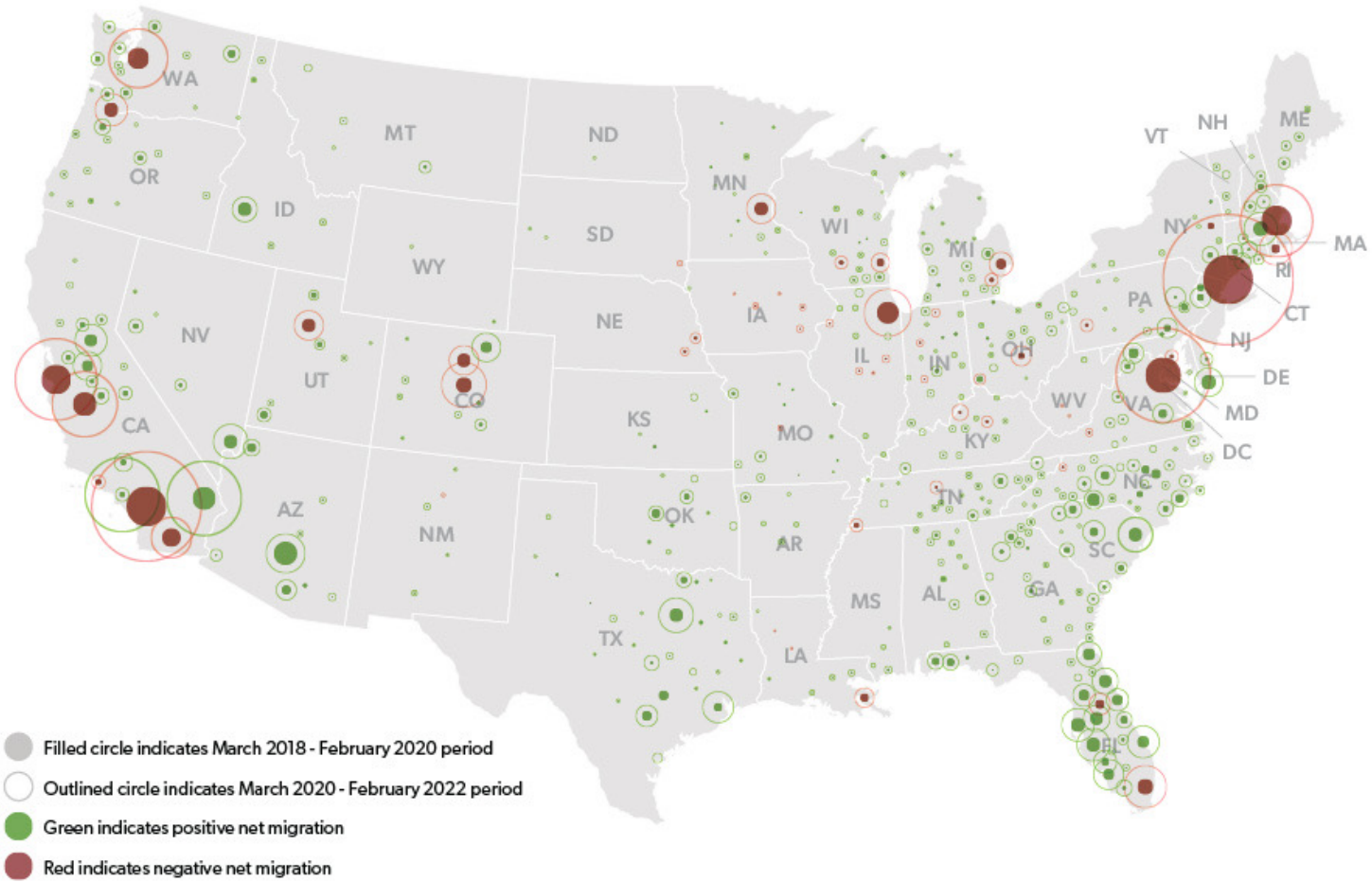
Expansion

Migration: regional workforce trends

Metro-level map of pre- and post-pandemic homebuyer net migration

The pandemic accelerated recent trends, leading to a threefold increase in net migration.

Metro areas experiencing net migration losses and gains are depicted by red and green, respectively.

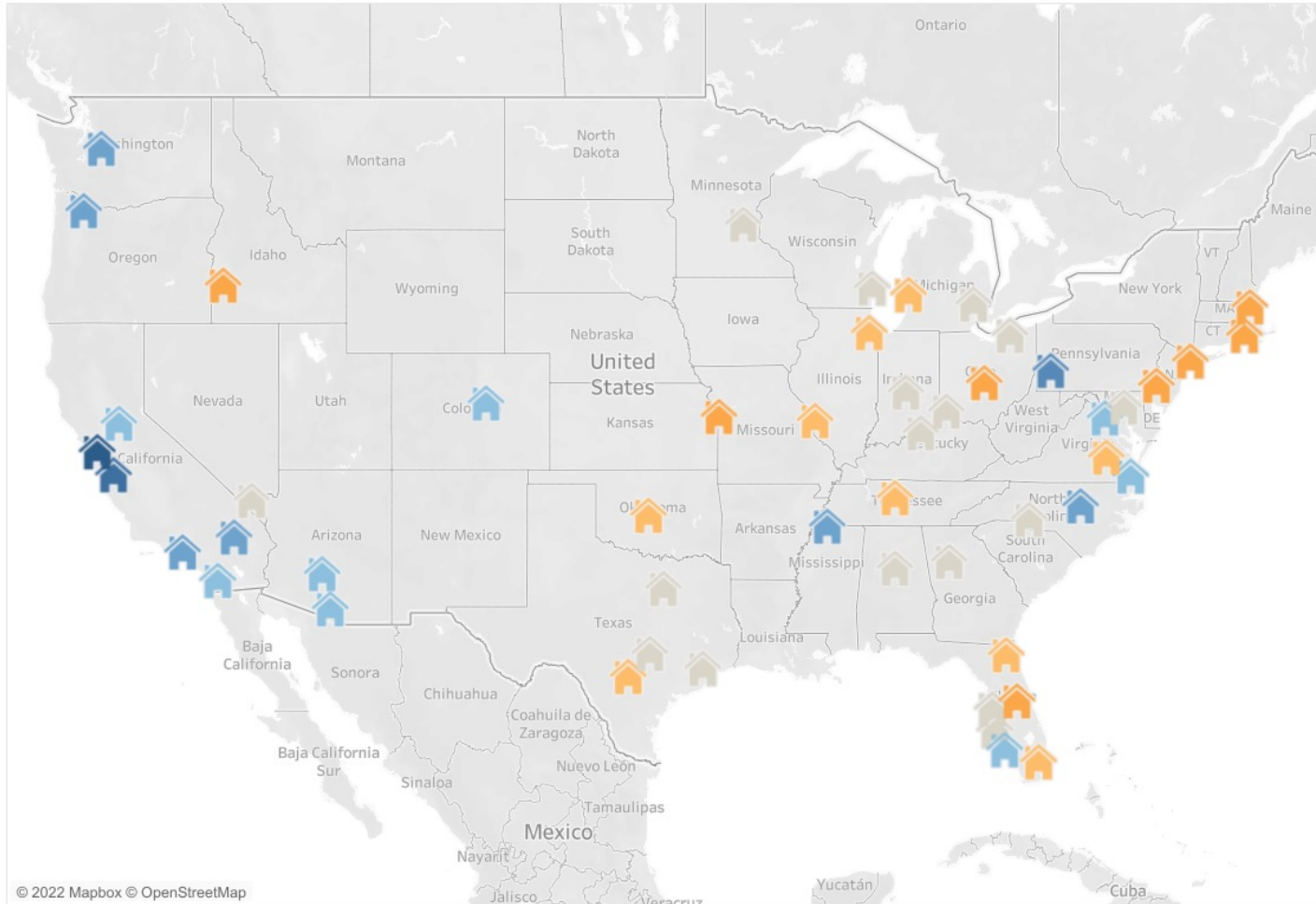
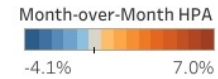


Source: Freddie Mac Loan Product Advisor®

Migration: regional workforce trends and housing

Home Price Appreciation (Month-Over-Month)

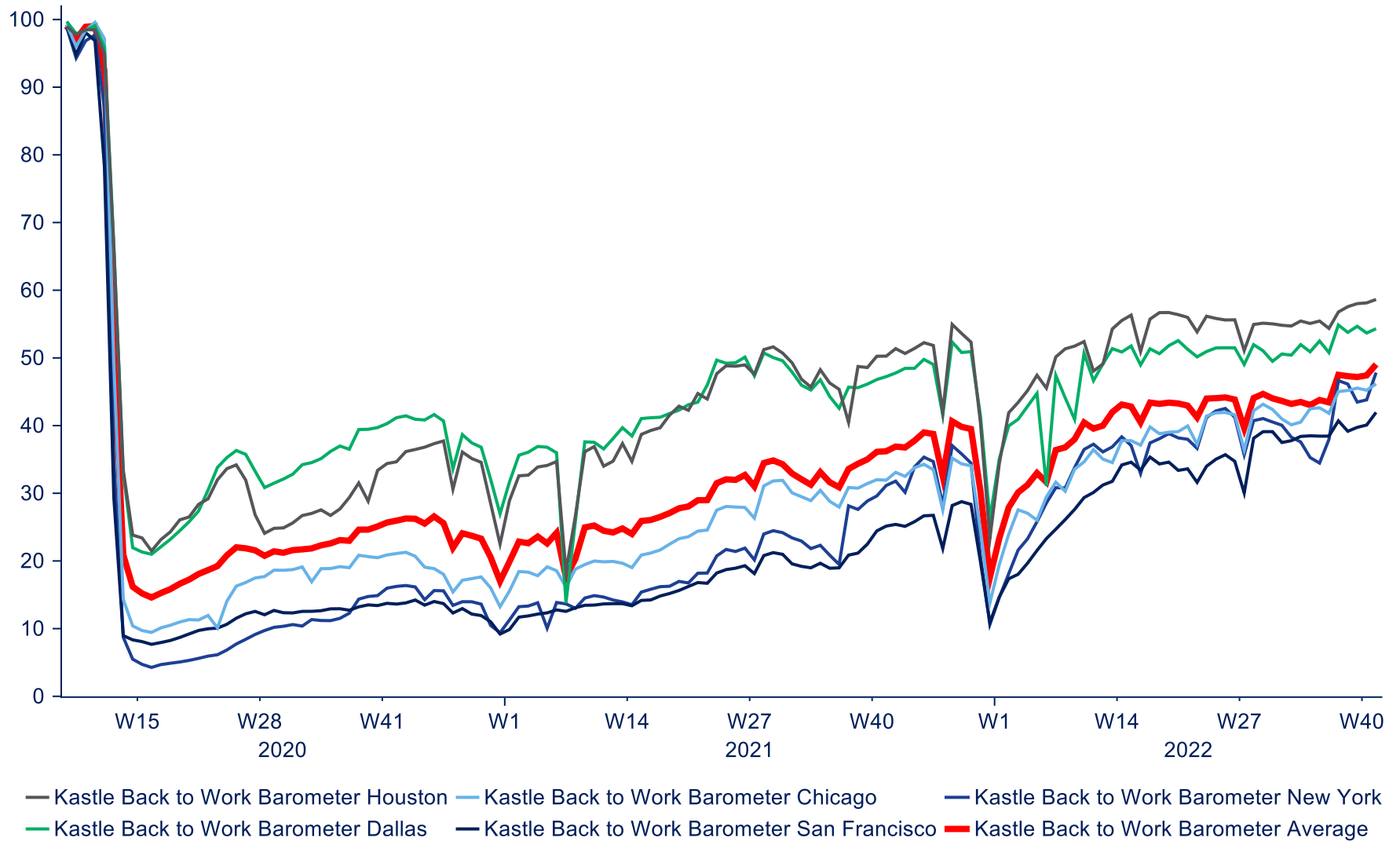
June 2022



Note: Data are for the largest 52 metros (by public records home sales 2012-2019)...

Source: AEI.org

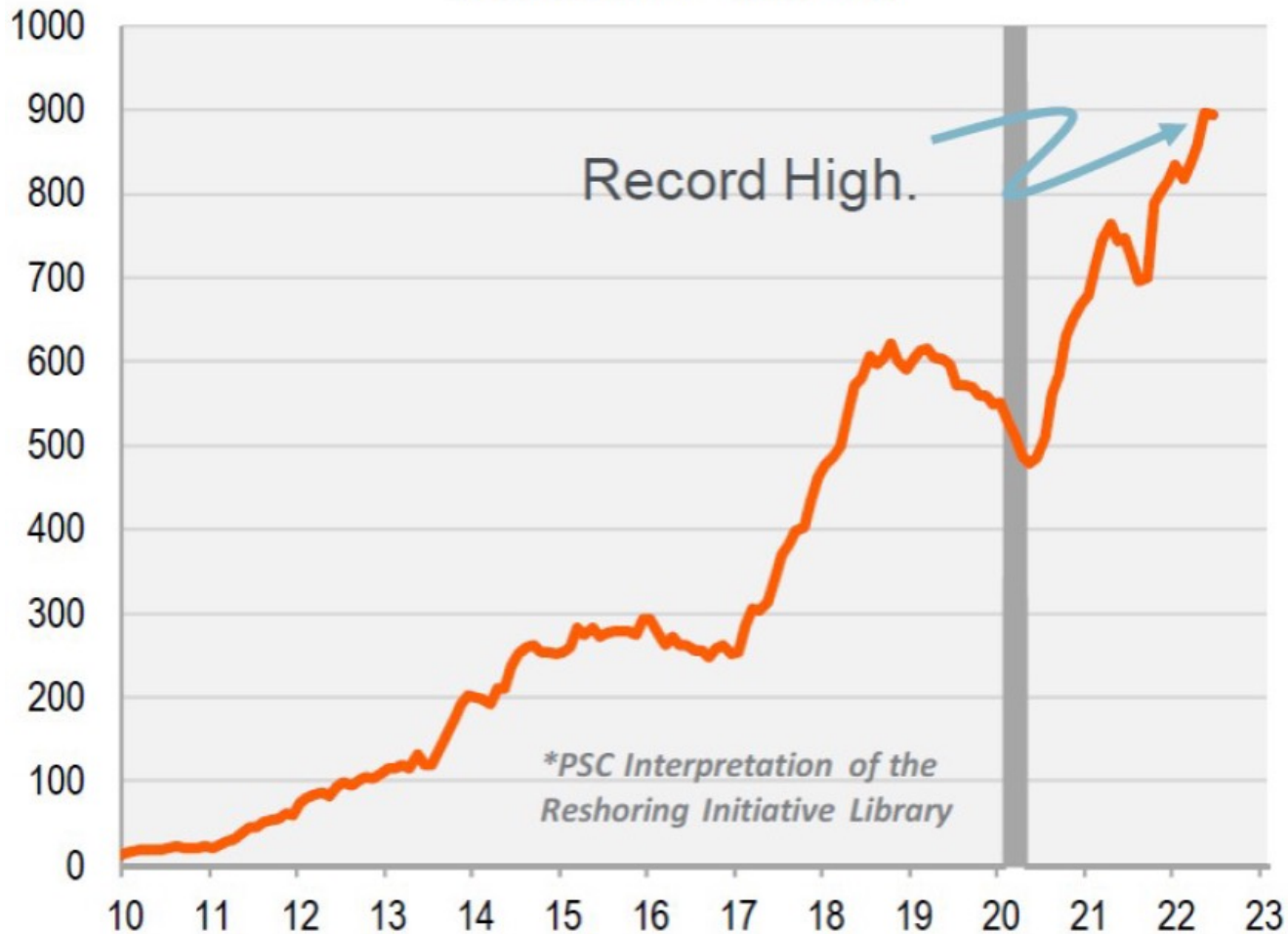
The workplace has changed



Source: Macrobond, Bloomberg BLS, as of 10/24/2022

Reshoring of US manufacturing

Cos Annoucement of Onshoring*
+Cos Annoucing of Expanding Production
12 Mo. Sum. Jun: 895



Source: Piper Sandler & Co

Definitions & Disclosures

U-3 Unemployment Rate is the total unemployed as a percentage of the civilian labor force. U-6 Unemployment Rate is the total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.

The U.S. Treasury Federal Budget Deficit or Surplus is reported in the monthly Treasury statement of Receipts and Outlays of the U.S. Government. This statement summarizes the financial activities of the Federal Government and off-budget federal entities conducted in accordance with the budget of the U.S. Government.

GDP (Gross Domestic Product) is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

The Federal Funds Rate (Fed funds) is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee (FOMC) as part of its monetary policy.

The Federal Reserve balance sheet tracks the aggregate assets and liabilities of the Federal Reserve.

Money market funds are mutual funds that invest in highly liquid, near-term instruments including cash and cash equivalents.

Capacity utilization tracks the extent to which the installed productive capacity of a country is being used in the production of goods and services.

The labor force participation rate is a measure of the economy's active workforce. It is the sum of all workers who are employed or actively seeking employment divided by the total noninstitutionalized, civilian working-age population.

Personal consumption, or consumer spending, tracks goods and services purchased by consumers. Core personal consumption expenditures measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

The Consumer Price Index is a measure of prices paid by consumers for a basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

The U.S. Existing Home Sales Median Price Index tracks the median price in all existing home sales. Total existing home sales include single-family homes, townhomes, condominiums and co-ops. All sales based on closings from Multiple Listing Services.

5-Year, 5-Year Forward Inflation Expectation Rate measures expected inflation (on average) over the five-year period that begins five years from today.

The fertility rate represents the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.

The Employment Cost Index (ECI) measures changes in employee compensation costs (or labor costs). These include both direct costs, such as wages, bonuses or in kind benefits, as well as indirect costs, such as social security contributions, training costs, medical benefits, taxes, etc.

Total Public Debt as a Percent of Gross Domestic Product (GDP) is calculated using Federal Government Debt: Total Public Debt and Gross Domestic Product.

CEO Confidence Index measures CEO confidence in the economy, one year from now. This concept tracks the general state of the economy as it relates to businesses.

Capital Goods New Orders Nondefense Ex Aircraft & Parts tracks the value of new orders received during the reference period. It is often used as a proxy for capital expenditures, or CapEx. Capital expenditure are funds used by a company to acquire, upgrade, and maintain physical assets.

The Personal Saving Rate is household disposable income less household consumption as a percent of household disposable income.

Definitions & Disclosures

Bitcoin is a decentralized, fully independent, digital or virtual currency also known as a cryptocurrency. No institution controls the Bitcoin network and it is not tied to a country as transactions can be performed cryptographically without the need for a central issuing authority. The entire network is maintained by individuals and organizations referred to as Bitcoin Miners who process and verify bitcoin transactions through a mathematical algorithm based on the cryptographic hash algorithm.

The BarCap U.S. Corporate HY YTW – 10-yr Treasury Spread is calculated by taking the Barclays Capital U.S. Corporate High Yield Yield-to-Worst minus the U.S. Generic Government 10-year Yield.

MSCI All Country World - The MSCI ACWI offers a modern, seamless and fully integrated approach to measuring the full equity opportunity set with no gaps or overlaps. MSCI ACWI represents the Modern Index Strategy and captures all sources of equity returns in 23 developed and 23 emerging markets.

S&P 500 - The Standard & Poor's 500 Stock Index is a composite of the 500 largest companies in the U.S. and it is often used as a measure of the overall U.S. stock market.

Russell 2500 - Russell 2500 Index is an index that measures the performance of the 2,500 smallest companies in the Russell 3000 Index. This index is constructed to provide a comprehensive and unbiased barometer for the small and mid-cap segment of the U.S. equity universe.

MSCI EAFE - MSCI EAFE Index is a market capitalization weighted index composed of companies representative of the 20 Developed Market countries in Europe, Australasian and the Far East. Net of taxes is calculated in U.S. dollars as dividend reinvested minus withholding taxes retained at the source for non-resident individuals who do not benefit from double taxation treaties.

MSCI EM - The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices. Net of taxes is calculated for Morgan Stanley Capital Int'l Equity Indices in U.S. dollars as dividend reinvested minus withholding taxes retained at the source for non-resident individuals who do not benefit from double taxation treaties.

Bloomberg Intermediate Government/Credit – The Bloomberg Barclays Intermediate Government/Credit index measures the performance of U.S. dollar-denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

U.S. Aggregate Bond Index – The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

Global Aggregate ex-USD – The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets excluding the United States. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers.

JP Morgan EMBI Global Diversified – The J.P.Morgan Emerging Markets Bond Index Global tracks total returns for traded external debt instruments in the emerging markets, including U.S. dollar-denominated Brady bonds, loans and Eurobonds with an outstanding face value of at least \$500 million.

US Corp High Yield – Barclays US Corporate High Yield Index represents the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded but, Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes corporate sectors. The corporate sectors are Industrial, Utility, and Finance, encompassing both US and non-US Corporations.

Bloomberg Global Inflation-Linked TIPS – The Bloomberg Barclays US Treasury Inflation-Protection Securities (TIPS) Index consists of inflation-protection securities issued by the U.S. Treasury. They must have at least one year until final maturity and at least \$250 million par amount outstanding.

MSCI U.S. REIT Index - The MSCI U.S. REIT Index is a free float-adjusted market capitalization index, aimed to reflect the performance of equity REIT investment opportunity set in the U.S.

S&P U.S. REIT – The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

S&P Global Infrastructure - The S&P Global Infrastructure Index tracks 75 companies from around the world chosen to represent the listed infrastructure industry and includes three distinct infrastructure clusters: energy, transportation, and utilities.

Bloomberg Commodity Index – The Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements.

Definitions & Disclosures

HFRX Global Hedge Fund Index – The HFRI Funds of Funds Composite Index is an equal-weighted index that includes over 650 constituent funds, both domestic and offshore funds. All assets are reported in USD, and performance is reported net of all fees on a monthly basis. Inclusion criteria is at least \$50 million AUM or have been actively trading for at least 12 months.

The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index. The index represents the universe of large capitalization stocks from which most active money managers typically select.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization.

The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The S&P 500 REITS sub industry indexes are comprised of equity Real Estate Investment Trusts (REITs). The parent index is the S&P 500 Index.

The S&P 500 Stock Index (SPX Index) is a composite of the 500 largest companies in the U.S. and it is often used as a measure of the overall U.S. stock market.

Retail sales, also referred to as retail trade, tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

The Job Openings and Labor Turnover Survey (JOLTS) job openings tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

The Boston Consulting Group (BCG) Global Manufacturing Cost-Competitiveness Index estimates shifts in direct costs for the world's 25 leading manufacturing exporting economies in four dimension: manufacturing wages, productivity, energy costs and currency exchange rates.

Purchasing Managers' Indexes (PMIs) are indicators of the economic health of the manufacturing and services sectors. PMIs are based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

The Russell 2500 Index (R2500 Index) is an index that measures the performance of the 2,500 smallest companies in the Russell 3000 Index. This index is constructed to provide a comprehensive and unbiased barometer for the small and mid-cap segment of the U.S. equity universe.

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Definitions & Disclosures

Nonfarm Payrolls measures the number of employees on business payrolls.

The Fed Trade Weighted Nominal Broad Dollar Index is a measure of the value of the United States dollar relative to other world currencies.

ICE BofA Merrill Lynch 91-Day Treasury Bill Index is an unmanaged index consisting of U.S. Treasury Bills maturing in 90 days.

Bloomberg Barclays Intermediate Gov/Cred Index tracks the performance of investment grade intermediate term U.S. government and corporate bonds with maturities between one and ten years.

MSCI All Country World Index (MXWD Index) offers a modern, seamless, and fully integrated approach to measuring the full equity opportunity set with no gaps or overlaps. MSCI ACWI represents the Modern Index Strategy and captures all sources of equity return in 23 developed and 26 emerging markets.

HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

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