Economic Commentary – October 2023

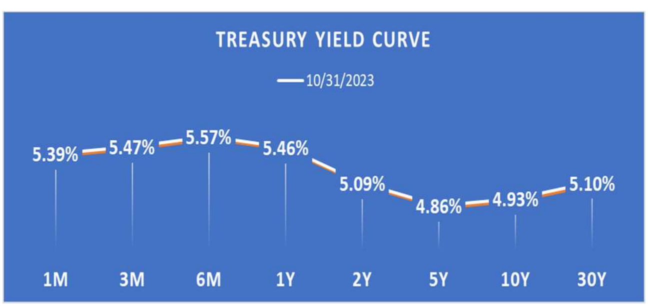
October 2023 will be principally hallmarked as a month with U.S. political disunity and geopolitical strife. Existing and operating in a world that is inarguably globally linked and intertwined, a combination of these events occurring concurrently has palpable ramifications and repercussions for not only geopolitical stability, but also macroeconomic conditions overall.

Faced with opposition from a minority flank within his own party, House Speaker Kevin McCarthy was ousted from the chief House of Representatives post on October 3. After three weeks of political wrangling amongst divided factions within the Republican majority, Congressman Mike Johnson of Louisiana was elected the new Speaker of the House on October 25. With a new Speaker in place, Congress regained its ability to draft and pass legislation to avert a potential government shutdown slated for November 18, in addition to providing direct aid to our nation's allies in thwarting threats from foreign adversaries.

Conflict broke out between Hamas and Israel as Hamas unleashed a surprise attack on Israel from the Gaza Strip. The Israel – Hamas war could have wide-ranging implications for the Middle East and increases geopolitical risks abroad.

On the last day of the month, the FOMC commenced day one of its 7th policy meeting of the calendar year. Widely expected by economists, investors, and the interest rate futures market, the FOMC will undertake the decision to hold its current federal funds target rate range steady at 5.25% - 5.50%. If predicted correctly, this would be the Fed's third hawkish pause of 2023, maintaining a restrictive policy stance as the central bank continues its quest to return inflation to its 2% policy objective. With a blowout third quarter GDP reading of 4.9%, a consumer population that has sustained its spending spree, and a labor market still tight by historical standards, one would judiciously expect the FOMC to remain obstinate in its "higher-for-longer" policy stance.

In the FOMC's pre-meeting blackout period communique, Chairman Powell and other Fed officials hinted that the recent rise in long-term bond yields may have done some monetary tightening in lieu of the Committee having to enact additional rate increases. By some measures, analysts have equated the recent surge in yields to as many as three 25 basis point rate hikes. Although Fed policymakers had penciled in one more rate hike in 2023 in September's Summary of Economic Projections, if financial conditions continue to tighten, the FOMC may not need to enact an additional rate hike at the conclusion of December's year-end meeting. However, by detailing the optionality for a potential rate hike in December, the FOMC has conveyed another possible maneuver in its reaction function to hamper above-trend economic growth, and ultimately suppress enduring inflationary pressures.



U.S. Treasury yield curve bear steepening continued in October with abridged inversions in key tenors.

2-year/10-year spread: -16 basis points
3-month/10-year spread: -54 basis points
2-year/5-year spread: -23 basis points
3-month/30-year spread: -37 basis points

U.S. Treasury Yield Curve Source: Bloomberg

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October 2023 Macroeconomic Highlights

Inflation, Expectations, and Consumer Sentiment[1]:
CPI: 3.7% year-over-year (0.4% month-over-month); ***Core CPI***: 4.1% year-over-year (0.3% month-over-month)
PCE: 3.4% year-over-year (0.4% month-over-month); ***Core PCE***: 3.7% year-over-year (0.3% month-over-month)
PPI: 2.2% year-over-year (0.5% month-over-month); ***Core PPI***: 2.7% year-over-year (0.3% month-over-month)
Core PPI less trade services: 2.8% year-over-year (0.2% month-over-month)
Inflation Expectations: 1-year horizon: 3.7%, 3-year horizon: 3.0%, and 5-year horizon: 2.8%
Consumer Sentiment: 63.8 vs. 67.9 in September; ***Current Conditions***: 70.6 vs. 71.1 in September
Consumer Expectations: 59.3 vs. 65.8 in September

Labor Market[2]: The U.S. economy added 336,000 nonfarm payrolls in September, vastly exceeding the 170,000 expected by economists surveyed by Bloomberg. Notable job gains occurred in leisure and hospitality (+96,000), government (+73,000), health care (+41,000), and professional, scientific, and technical services (+29,000).

- U-3 ***official*** unemployment rate: 3.8% vs. 3.7% expectation: Unchanged from August 2023.
- U-6 unemployment rate (marginalized, part-time workers for economic reasons): 7.0%.
- Labor force participation rate: 62.8% (unchanged); Employment-to-population ratio: 60.4% (unchanged).
- Average hourly earnings for private nonfarm payrolls rose 7 cents to $33.88 (+0.2% month-over-month, +4.2% year-over-year).
- Employment revisions: August 2023 lifted +40,000 to 227,000; July 2023 boosted +79,000 to 236,000.
- Employment Cost Index: 1.1% in the second quarter of 2023 vs. 1.0% in the first quarter of 2023.

Gross Domestic Product (GDP)[3]: According to the ***advance (initial)*** estimate, real GDP increased at annual rate of 4.9% in the third quarter of 2023 vs. 2.1% in the second quarter of 2023.

- *Third Quarter 2023:* GDP Price Index: +3.5%; PCE Price Index: +2.9%; Core PCE Price Index +2.4%.
- Real disposable personal income: -1.0% vs. +3.5% in the second quarter of 2023.
- Personal savings rate as a percentage of disposable income: 3.8% vs. 5.2% in the second quarter of 2023.

Housing Market[4]: Existing-home sales subsided 2.0% (month-over-month) from August to a seasonally adjusted annual rate of 3.96 million in September. Month-over-month sales in the West, Midwest, and South abated 5.3%, 4.1%, and 1.1%, respectively, while sales in the Northeast advanced 4.2%.

- Year-over-year sales slumped 15.4%, down from 4.68 million in September 2022.
- Total housing inventory registered 1.13 million units, +2.7% from August, but -8.1% from one year ago (1.23 million units). Unsold inventory sits at 3.4-month supply at the current sales pace.
- The median existing-home price for all housing types was $394,300, +2.8% from September 2022, as prices rose in all four major U.S. regions.
- Average commitment rate for a 30-year, conventional, fixed-rate mortgage: 7.79%.
- New Home Sales: 759,000 (+12.3% month-over-month).

[1]Source: Federal Reserve Bank of New York – Survey of Consumer Expectations, and University of Michigan Consumer Sentiment Index
[2]Source: Bureau of Labor Statistics
[3]Source: Bureau of Economic Analysis (BEA)
[4]Source: National Association of Realtors (NAR), U.S. Census Bureau, and The Department of Housing and Urban Development

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