



Soft Landing vs. mild or modest Recession?

Our Fed funds interest rate forecast can be labeled as moderately bullish for the next 9 months. This means rates can go up a little bit more. If a November rise is in the cards, we doubt it. First sign of a slowing economy care in sight. The labor market is getting softer. As mentioned previously, household savings dropped post pandemic by aprox. 80% , leaving them with less cash to splurge. UAW strike points to higher car prices and consequently lesser sales figures. Commercial real estate is in trouble and more to come. Oil seems to come off its high. Well, the list is long.

The S&P Global US Manufacturing PMI was revised higher to 49.8 in September 2023, surpassing the preliminary estimate of 48.9 and exceeding August's final reading of 47.9. It was the eleventh consecutive month that the manufacturing sector remained in contraction as 50% separates contraction from expansion. Output increased at a marginal pace that was nonetheless the fastest since May. In contrast, job creation remained moderate, and new orders continued to decline for the fifth consecutive month, reflecting the impact of high interest rates and inflation on consumer demand.

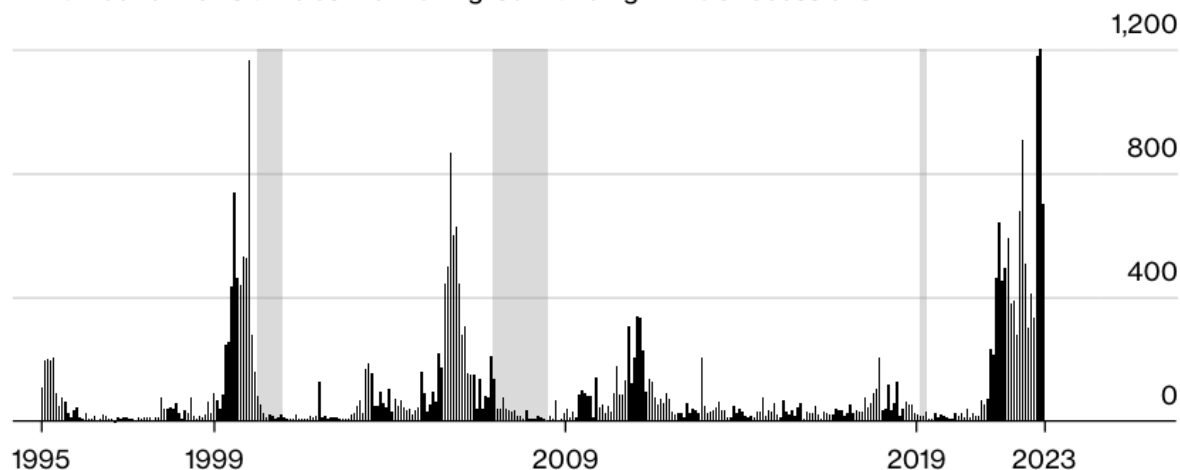
September inflation forecast is in the higher 3% i.e. the double-digit rises on the recent past in Fed funds seem to start having effect in taming it.

And last but not least: “Monetary policy,” Milton Friedman famously said, “operates with long and variable lags.”

Soft Landing Hopes and Hard Landing Realities

Optimism tends to peak before a downturn hits

■ Number of news articles mentioning 'soft landing' ■ US recessions



Source: Data compiled from news sources tracked by Bloomberg



Why do economists find it so difficult to anticipate recessions? One reason is simply the way forecasting works. It typically assumes that what happens next in the economy will be some kind of extension of what's already happened — a linear process, in the jargon. But recessions are non-linear events.

The other mis-conception about being optimistic as to a soft-landing is the argument of a positive equity market, PMI that seems to be bottoming out and housing as well (we do not think so at these rates).

The trouble is, those are the areas that have **the shortest lag time from rate hikes to real-world impact**.

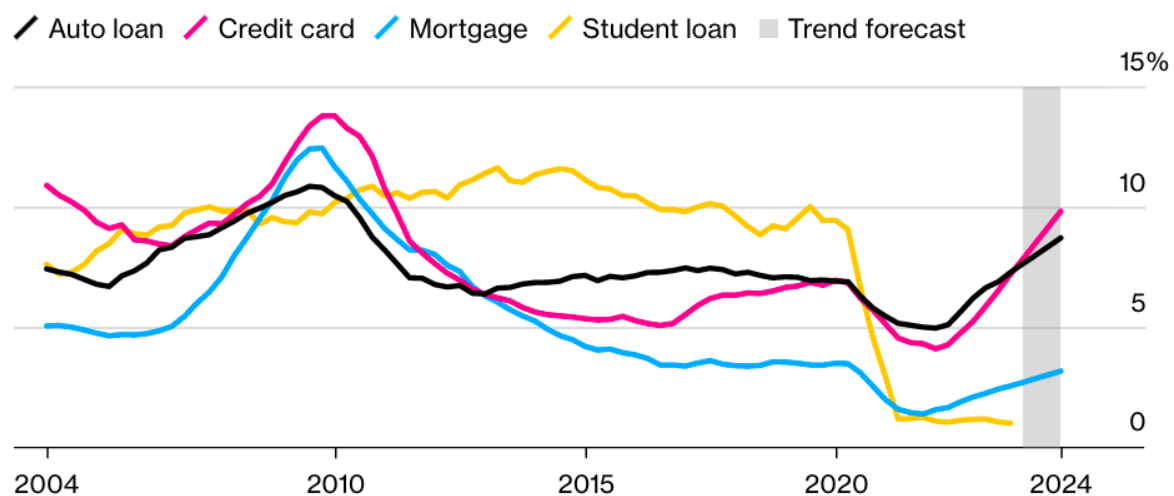
What matters for making the recession call — above all the labor market — **lags are longer, typically 18 to 24 months**. That means the full effect of the Fed's hikes — 525 basis points since early 2022 — won't be felt until the end of this year or early 2024.

As mentioned, recessions are hard to anticipate. The National Bureau of Economic Research, determines typically only several months after the recession actually began. But the NBER's slump-dating committee identifies six indicators that weigh heavily in the decision (that we are in a recession), including measures of income, employment, consumer spending and factory output.

One signal for harder times to come is delinquency . Credit-card delinquency rates have surged, notably among younger Americans, and parts of the auto-loan market are turning bad too.

Delinquency Rates Are Low, But They've Begun to Climb

Share of loan balances that are 30+ days overdue



Source: New York Fed Consumer Credit Panel/Equifax



And to top the cake with cherries, there is the rest of the world that could drag the US down. The second-biggest economy, China, is mired in a real-estate crisis. In the euro area, lending is contracting at a faster pace than in the nadir of the sovereign debt crisis — a sign that already-stagnant growth is set to move lower.

Brace!

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