UBS

US Economics Weekly

The Fed's next move

Economics

Americas

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Economic comment: The Fed's next move

Despite likely seeing a SLOOS reporting tightening lending standards, we expect FOMC participants to raise rates by 25 bps at their May meeting. We expect that to be the last rate hike of this cycle, though we would not discount some risk of another hike in June. In the post-meeting press conference we expect Chair Powell to note explicitly that after the May rate hike, the next move would more likely be a hike than a cut. We recap the language used in the statement at the end of the 1990s hiking cycle, and the end of the 2000s cycle inside. Both statements left the door open for more rate hikes even though the next move in both cases were cuts, and deep cutting cycles. Next page.

A negative payroll print approaching?

Our baseline economic projection has labor market contraction starting this summer, and empirical models are starting to sound warning signs. Inside we update a model of leading indicators now incorporating the March employment report, and the warning signs look worrying for the outlook for employment. See page 4.

The week ahead: solid Q1 GDP, but soft stepping off point for Q2

We expect real GDP expanded 1.9% in Q1, with the January rebound in spending driving a strong print for consumption that unwinds the Q4 weakness. In the real consumer spending data Friday, we expect a second month of declines. We expect the ECI rose a just-shy of consensus 1.0% over the three months of the first quarter. Core PCE prices likely rose 0.31% in March, leaving core PCE inflation stuck at 4.6%. FOMC participants enter the quiet period, while official Washington looks set to continue to talk about the debt ceiling. See page 15.

Inflation monthly: rents finally slow

The latest inflation monthly (link here) published on Wednesday updated our near term and longer run inflation projections. Overall the general contour is little changed. We expect core PCE prices in March to show a 31 bp increase in next Friday's release of the March data and the 12-month change to remain at 4.6%. For the April CPI we are currently projecting a 48 bp headline CPI increase and 42 bp core CPI increase, with strength in gasoline and used vehicle prices. These would see the 12-month inflation rate rising from 5.0% to 5.1% for the headline CPI and remaining at 5.6% for the core CPI. We expect inflation to ease in May through July as the pass-through of a surge in wholesale used vehicle prices abates, seasonal factors push down the seasonally-adjusted monthly price changes, and base effects drop 12-month headline inflation. A detailed forecast spreadsheet is available here.

The week in review

FOMC participants sounded like they were on track to raise rates at the May meeting, even though they continue to note the potential for unexpected credit tightening. Some participants indicated one more rate hike would suffice, while FRB of St. Louis President James Bullard argued for two more rate hikes rather than one, but overall participants sound data dependent. In the data this week, single family housing starts and permits rose in March, while existing home sales fell. Manufacturing surveys were mixed: The Empire State measure jumped in April, like last year, the S&P measure also rose while the Philadelphia Fed measure declined to recession-like levels. Continuing claims continued to move higher. The Fed's Beige Book noted lending standards tightening, perhaps a preview of the next Senior Loan Officer Opinion Survey. See page 6.

Economic comment: the Fed's next move

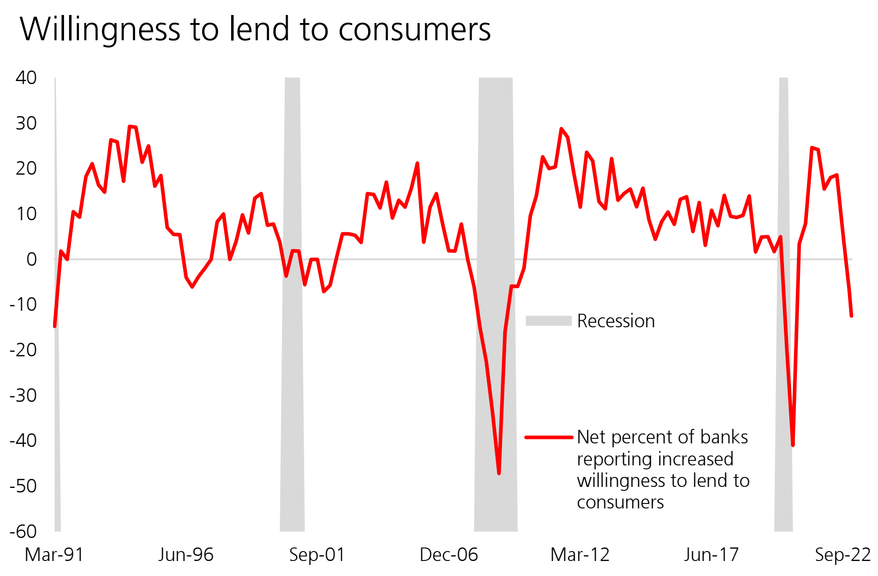
The Federal Reserve's Beige Book released this week reported anecdotes of credit tightening. Some analysts mapped that into the Senior Loan Officer Opinion Survey (SLOOS), the results of which Federal Reserve officials will review and then discuss at the next FOMC meeting, on May 2 and 3. The survey results are typically released to the public on the following Monday. One important thing to keep in mind, which we discussed in our economic comment two weeks ago, is that lending standards were already tightening, and relatively sharply, in the last SLOOS, prior to the banking events of mid-March. As Figure 1 shows, some of the series were at 1991 recession levels. The tightening was across a number of categories. We do not know if the next SLOOS the FOMC sees will be much worse than that or not. The Beige Book noted lending standards becoming more stringent, so a SLOOS showing tightening seems likely, but how much more than last time remains to be seen.

The Beige Book noted tightening in lending standards, so it is reasonable to expect the Senior Loan Officer Opinion Survey to reflect tightening in lending standards in the next release, but the reported lending standards were already tightening quite a bit.

Against that backdrop of another round of reports of further credit tightening, we expect the FOMC to raise rates by 25 bps, bringing the target range to 5.0% to 5.25%, and in line with the median assumption for the 2023 year-end funds rate assumption shown in the FOMC's Summary of Economic Projections released at the last meeting in March. We expect that to be the last rate hike of the hiking cycle, and many FOMC participants we suspect expect that to be sufficiently restrictive to restore price stability. But of course, should economic growth and inflation prove to be higher than expected, the FOMC may end up raising rates further.

The FOMC will have that SLOOS information at the May FOMC meeting, but despite the concerns over credit tightening, we expect a 25 bp rate hike.

Figure 1: Bank lending standards were already tightening



Source: Federal Reserve, Haver, UBS

The last SLOOS displayed meaningful tightening of lending standards, how much worse that might get, if at all, is difficult to map from the Beige Book comments this week.

We had added the June hike to our projections following the January employment report and inflation data, and then took the June hike out of our projection in mid-March. We don't anticipate having to add it back, but admit there are some odds of another hike, and some participants likely think another hike will be needed. FRB of St. Louis President James Bullard made that case again this week, even though other participants seem ok with only one more rate hike in May.

The communications will retain the bias to fight inflation

The communications at the May meeting will describe any additional tightening after that as dependent upon the data. While the official FOMC statement may not note an explicit bias (it may) we would expect Chair Powell to describe a tightening bias after the May rate hike, looking ahead to the June and July FOMC meetings. We expect at some point in his post-meeting press conference to say, in his estimation, that the next move by the FOMC would more likely be a hike than a cut. We expect the statement guidance to rework the second paragraph and instead of saying "some additional policy firming may be appropriate" to something closer to the "extent and timing" language of 2006.

Even if May turns out to be the last rate hike, and even if FOMC participants expect it to be the last rate hike, we would expect a tightening bias to remain part of their communications.

In some version of that, we would expect the official statement to note that the extent and timing of any additional policy firming would depend on the incoming data and its implications for the outlook for both inflation and economic growth. But that wording, noting the consideration whether or not to tighten further, would display where the FOMC's bias rests.

We expect Chair Powell to say that the next move is more likely a hike than a cut...even if the next move eventually turns out to be a cut.

After the May rate hike, we expect a heightened data dependence to then ensue. One important thing to note, when FOMCs stop raising rates, they do not know that the next move is going to be a cut. Below we note the statement language in 2000 and 2006, where not only was the FOMC's next move a cut, the cutting cycles were over 500 bps (more if one adjusts for the zero lower bound).

In 2006 the statement announced the last rate hike and considered additional rate hikes, even though the next move was a cut.

"*Although the moderation in the growth of aggregate demand should help to limit inflation pressures over time, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information. In any event, the Committee will respond to changes in economic prospects as needed to support the attainment of its objectives.*" FOMC statement, June 29, 2006

In both the statement above and statement below the FOMC's concerns over too high inflation are apparent, and are expressed as the dominant concern. That seems very likely to be the case at the May and June meetings this year too.

In 2000 the statement announced the last hike, but noted the risks tilted toward inflation proving to be too high.

"*Against the background of its long-term goals of price stability and sustainable economic growth and of the information already available, the Committee believes the risks are weighted mainly toward conditions that may generate heightened inflation pressures in the foreseeable future.*"- FOMC statement, May 16, 2000

In the statement below, the FOMC did not turn around and cut to provide outright accommodation to address economic weakness, but this was the last hike before the mid-cycle adjustment of three 25 bp rate cuts were delivered to remove some of the restrictiveness.

"*The Federal Reserve Board today approved an increase in the discount rate from 4 3/4 percent to 5 1/4 percent, effective immediately. In a related move, the Federal Open Market Committee agreed that this increase should be reflected fully in interest rates in the reserve markets. Despite tentative signs of some moderation in growth, economic activity has continued to advance at a substantial pace, while resource utilization has risen further. In these circumstances, the Federal Reserve views these actions as necessary to keep inflation contained, and thereby foster sustainable economic growth.*" - FOMC statement, February 1, 1995

Again, the economy appeared strong, and the FOMC was worried about inflation. In each of the three cases the FOMC raised rates and in each of the three the next move was a cut.

Further out

Overall we think the FOMC will be data dependent. As Chair Powell has said more than once this year, if inflation falls faster than they expect, or the economy weakens more than they expect, they would take that into account in setting monetary policy. But we also admit, data dependence goes both ways… the potential for higher rates and lower rates… it depends on the data.

In sum, we expect the FOMC raises rates by 25 bps at the May meeting, and while we see some risk of a rate hike in June, our base case is that the May rate hike is the last of this hiking cycle. The FOMC will not say that in the statement, and we expect them to maintain a tightening bias, which they probably articulate all the way into the first cut. Many participants will hold on to the rates need to stay 'higher for longer' rhetoric. In the end, however, we expect policy to be set based upon the data, not yesterday's rhetoric. The policy view should rest on what one thinks the data will do, not language that could expire, such as shown in the FOMC statements above.

We expect the labor market to weaken noticeably this summer, and by the September FOMC meeting expect the three-month annualized pace of core PCE prices to be below 2%. With inflation falling faster than the FOMC expects, we would expect them to avoid allowing the nominal funds rate to be getting increasingly restrictive in real terms in the face of a weaker than expected labor market, and turn toward rate cuts starting at the September FOMC meeting.

Is a negative payroll print nearing?

Aggregate hours worked in the private sector declined in February and declined again in March. Last week we walked through why we estimate the labor market has come back into alignment over the course of the last year. We also note that for all the talk of labor hoarding, filings of initial claims for unemployment insurance over the last four weeks have run higher than all of 2019 and most of 2018. Layoff announcements have been running above the post-GFC pace. Clearly some employers are laying off.

We still expect the labor market carves out a peak this summer, consistent with the hard landing baseline we put in place when we changed the projection from soft landing early last November.

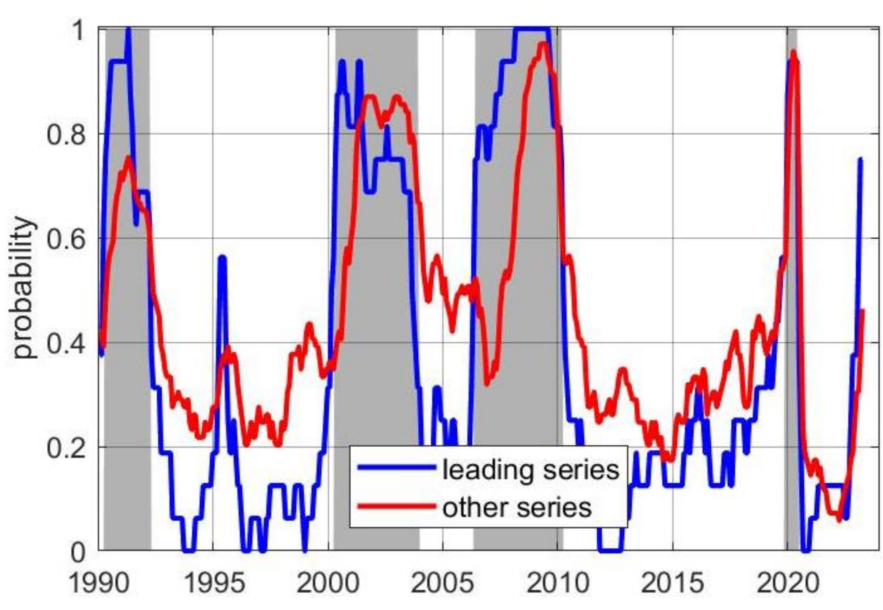
In our economic baseline, we assume the labor market carves out a peak this summer, and we pencilled in the July employment report as the time we expect the first negative payroll print. We'll see. However, our empirical models are moving that way. In the recent compendium (on page 17 at this link) , a leading indicator model developed by UBS's Pierre Lafourcade noted that a rising share were in contraction (defined as having passed a cyclical peak), and the same for a broader set of employment indicators that reflect labor market conditions.

"*Historically, once roughly 50% of all series contract, payrolls go negative (which is intuitive), but it's the leading indicator bucket that tells you when that is likely to happen (it shoots up from 40% to 80% of series contracting in just a few months). The upshot is that while private non-farm employment is still growing, an increasing share of the underlying dynamics is turning sour*," he wrote in the compendium in late March.

We updated that following the March employment report, where aggregate hours fell again, and the diffusion index only recovered to 60; the leading indicators that have passed a cyclical peak climbed further in the model (Figure below). The leading series is up to 75% (12 out of the 16 leading subcomponents have passed a peak), The 'other' series (70 out of the total of 86) now have 46% in contraction.

Figure 2: Rising share of leading employment indicators seem to be rolling over

Three quarters of the leading indicators (subcomponents) have passed a peak.



Source: BLS, DoL, Haver, UBS. Grey bands show periods of total employment contraction.

In the next chart, we note the historical experience, looking at the last three recession not caused by a global pandemic (which hopefully is what we have in mind in our hard landing projection). For more details see our presentation slides available here. What we do in the next figure below is take the first print data, or data at initial release that has not been smoothed by a benchmark revision and the process of wedging level revisions linearly. We also adjust for the decennial census, but even if we add that back, the basic point remains. Nonfarm payroll employment gains can flip from quite strong to negative in a matter of months.

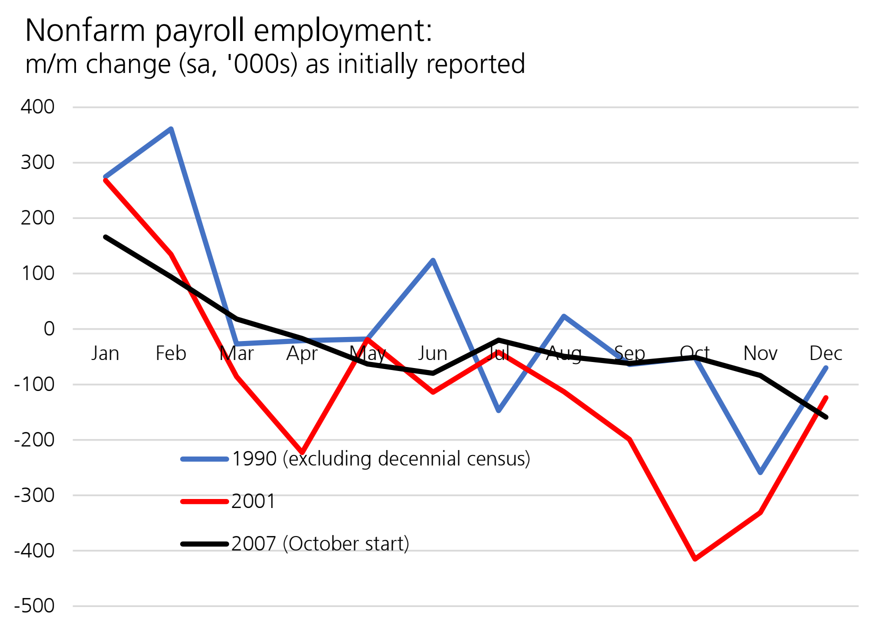
The historical experience suggests the potential of going from strong to weak job gains pretty quickly.

In the near term, we expect a contour more like 2006 and 2012 where 300K gains in NFP in the winter months turn to sub-100K gains in the spring months of April, May and

June, before we see the totality of the slowdown we project spill into the labor market. We expect declines in NFP as a base case starting in the July report released in early August, something we think signals to the FOMC that they had potentially overtightened, and turns them toward considering taking out some of the restrictiveness with rate cuts starting at the September FOMC meeting. Of course our timing could be off, but the models and history indicate there could be two-sided risks around our expected timing for the negative payroll print… it could be later than we think, but it could be sooner.

Figure 3: In the last three recessions, employment turned quickly negative

Headed into the last three recessions, in the real time data, employment gains went from strong to negative in a matter of only a few months.

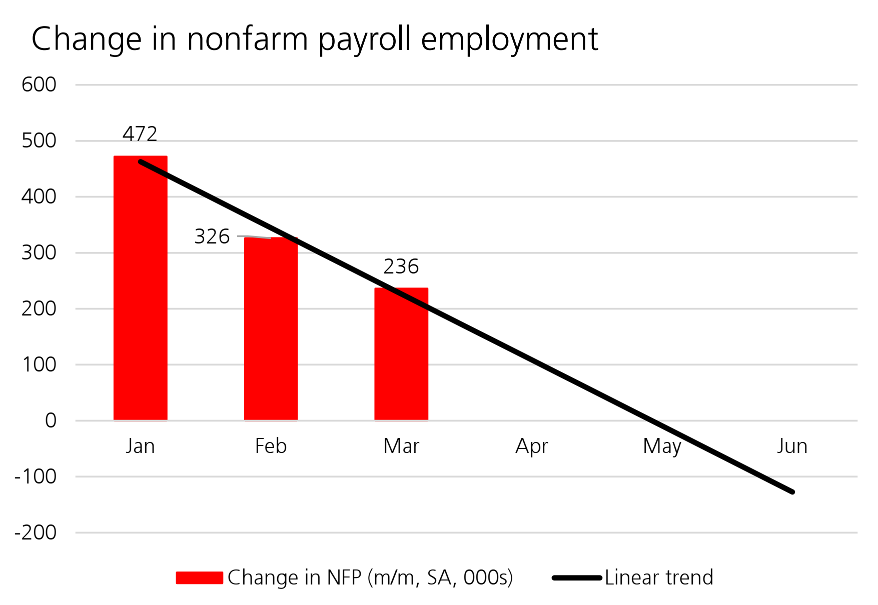


Source: BLS, Haver, UBS

Now in the below chart, we have some fun. We often talk about how non-linear recessions can be. However, at the current pace of year-to-date deceleration, even linear deceleration looks ominous. Take that with a grain of salt, however. It's the modelling shown above worth watching as the months unfold to see if our projection for coming labor market contraction remains on track.

Figure 4: Trend in YTD NFP deceleration

Take the graph below with a grain of salt. The point is that everyone says recessions are non-linear. But tongue in cheek, year-to-date the linear trend does not look great. We will see what unfolds in the coming months and coming employment report.



Source: BLS, Haver, UBS

The week in review:

Fed speak and the Beige Book

FOMC participants continued to head toward a 25 bp rate hike in May

FOMC participants this week continued to sound headed toward a 25 bp rate hike at the May meeting. They enter the so-called quiet period later tonight. Some caution remained in their comments over the potential for unforeseen credit tightening, even though the broad message was that the macroprudential tools were doing their job and the banking system remained safe.

"Some additional policy firming may be appropriate"

FRB of New York President Williams this week followed up earlier comments that assuming a 25 bp rate increase in May was a "reasonable" base case by again hewing to the message that came out of the March FOMC meeting. At that time all but one participant assumed not only a March rate hike, but that at least one more would be needed. Williams reiterated the statement language, saying "*some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time.*" He added that "*we are committed to attaining—and maintaining—a sufficiently restrictive policy stance to achieve our 2 percent longer-run goal.*" He touted the safety and soundness of the banking system.

Data dependency

FRB of Cleveland President Mester said this week that she believes monetary policy "*will need to move somewhat further into restrictive territory, with the funds rate moving above 5% and the real funds rate staying in positive territory for some time.*" She remains highly data dependent: "*We are much closer to the end of the tightening journey than the beginning, and how much further tightening is needed will depend on economic and financial developments and progress on our monetary policy goals.*"

How much tightening in credit?

Both in her prepared remarks and in an interview with Yahoo Finance later Thursday, she highlighted the potential for incrementally more credit tightening, which would work in the same direction as rate hikes, and potentially substitute for them. *"Even before the stresses in the banking industry in March, banks were already beginning to tighten their credit standards*," she said. "*The question now going forward is 'Will stresses in the banking industry, those stresses in March, lead banks to move faster to tighten their credit standards?'"*

Prudence

"This would work in the same direction as tighter monetary policy," she said, echoing Chair Powell's comments from the March press conference. *"So we will need to continue to assess the magnitude and duration of these effects on credit conditions to help us calibrate the appropriate path of monetary policy going forward. This is the prudent thing to do."*

Inflation remains much too high and the labor market strong

FRB of Dallas President Logan, and Governor Bowman, yesterday noted inflation remains much too high. FRB of Atlanta President Bostic said this week his baseline was for one more rate hike this year, and then to go on hold. In line with that, FRB of Philadelphia President Harker said "*I think we're close to where we need to be.*" Last week, in contrast, FRB of St. Louis President Bullard argued he thought there should be more than one more rate hike. Again this week, he kept the tough talk on inflation and said that "*the labor market just seems very, very strong.*"

Beige Book: stalled activity, a slower labor market, some moderation in inflation

The Beige Book collated a lot of information on credit and on activity that likely is informing their thinking. "*Overall economic activity was little changed in recent weeks*," and "*expectations for future growth were mostly unchanged as well.*" The report reflected data collected on or before April 10. The prior survey ended February 27 and was slightly more upbeat, indicating a "slight increase" in activity.

"Lending volumes and loan demand generally declined…."

There was clear focus on credit conditions: "*Lending volumes and loan demand generally declined across consumer and business loan types. Several Districts noted that banks tightened lending standards amid increased uncertainty and concerns about liquidity.*" The prior Beige Book, even though it preceded the bank turmoil, gave a fairly similar summary: *"loan demand declined, credit standards tightened, and delinquency rates edged up."* And the January Beige Book, which like this one coincided with the Fed's Senior Loan Officer Survey, said "*Most bankers reported that residential mortgage demand remained weak, and some said higher borrowing costs had begun to dampen commercial lending.*" The Senior Loan Officer Survey will likely be reported on May 8, the Monday after the FOMC meeting.

Credit is extending earlier tightening—but with how much effect?

Fed officials have generally taken a cautious attitude in assessing credit strains (patience and prudence?). This Beige Book may have substantiated their caution but did not appear to indicate substantial shifts—activity little changed, and credit extending earlier tightening.

This Beige Book also suggested some moderation in labor demand and in inflation. For labor, a "*slower pace of growth than in recent Beige Book reports.*" And for prices, "*Overall price levels rose moderately during this reporting period, though the rate of price increases appeared to be slowing.*"

Steadying housing data, divergent manufacturing measures

Empire State manufacturing index surged—we suspect bad seasonal factors. Phila. Fed measure remained weak.

Manufacturing surveys weakened broadly in March. April measures were less conclusive. The Empire State measure rebounded to +10.8 from -24.6 (UBSe -15.0, consensus -18.0), but its rebound looks exaggerated. The Philadelphia Fed measure fell further, to -31.3 in April from -23.2 (UBSe -18.0, consensus -19.3). The S&P (Markit) PMI , which alone had strengthened in March, strengthened further in April rising to 50.4 from 49.2.

We suspect seasonal adjustment difficulties distorted the Empire State index. It also bounced above its surrounding pace in April 2022 (to +24.6 from -11.8) and April 2021 (to +26.3 from +17.4), months in which the ISM did not show similar strength. This April's rise probably was an echo within seasonal adjustment of the 57-point decline in April 2020 to a record-low -78.2.

Details of the Philadelphia Fed survey were not as weak as the headline, but they remained weak enough to be consistent with manufacturing recession. An ISM-equivalent Philadelphia Fed measure, which combines the details of the report, rose to 43.4 from 40.1. The new orders index, at -22.7, rose from -28.2. The shipments index rose to -7.3 from -25.4, and the employment index rose to -0.2 from -10.3. Delivery times fell at about the same pace as in March, while inventories fell more quickly.

Existing home sales fell but were still up from their low

Existing home sales fell 2.4% (UBSe -2.2%, consensus -1.8%) to a 4.44 million unit annual rate in March, and February was revised down to 4.55 million from 4.58 million. Existing home sales had appeared to outrun the rise in the pending home sales index in recent months. (The PHSI reflects initial signings of sales contracts; the existing home sales data reflect closings.) The downward revision and the new February and March data unwind some of that discrepancy—but existing home sales still show signs of stabilization that are consistent with the pattern in mortgage applications and in other measures of housing activity.

Starts and permits fell in March, but single-family activity picked up

Housing starts fell 0.8% to a 1.420 million unit annual rate, and permits fell 8.8% to a 1.413 million unit pace in March. However, single-family activity was a good deal stronger than we expected. Starts rose 2.7% to 861K — we expected decline toward the recent pace of permits after a winter in which activity was helped by unusual warmth. There was little sign of that, and permits also rose 4.1% to 818K. Single-family activity has stabilized over the past several months—albeit with starts down 28% from a year ago. Multifamily starts and permits have been characteristically volatile, moving sideways on net. Permits falling in March to the low end of their range of the past year and a half; starts slipped a little and were in the middle of that range.

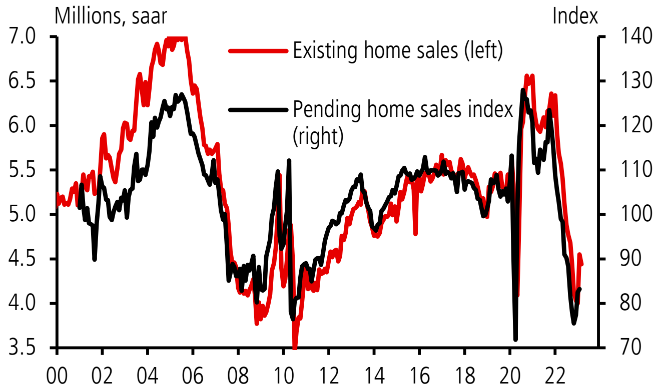
Builder confidence is improving but remains depressed

The housing market index of builder confidence rose a point to 45 in April, in line with consensus and our forecast. Assessments of present and future sales each improved; buyer traffic did not. The index has trended up from the start of the year but remains at a low level. Homebuilding—while still weak—is not weakening at the record pace it was in the second half of 2022. Lower mortgage rates also have probably helped confidence.

Jobless claims rose

Initial claims increased 5K to 245K in the week ended April 15, above our expectations (UBSe 233K, consensus 240K). The four-week average remained at 240K, higher than any point in 2019 and almost all of 2018. It has increased 40K since the end of January and 4K since a month ago. In the latest week, headline claims were probably temporarily boosted by the school break in NY, where new claims rose 5K after seasonal adjustment. Continuing claims increased 61K to 1865K in the week ended April 8, above our expectation (UBSe 1817k, consensus 1825K). Continuing claims have been rising since last September, suggesting slower reemployment rates.

Figure 5: Existing home sales (contract closings) have outrun the signal from the pending home sales index (initial signings)

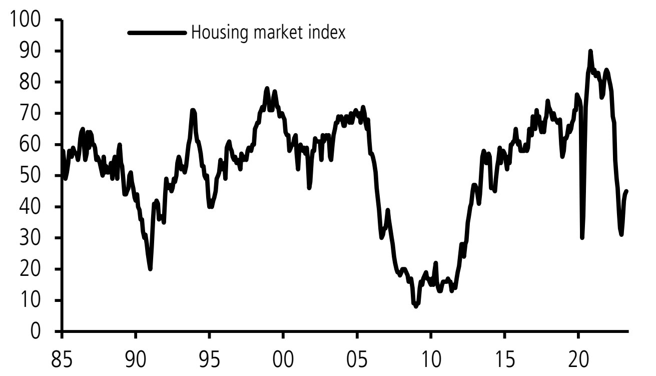


Source: National Association of Realtors, UBS

Figure 6: Inventories of existing homes for sale have risen from their lows but remain low

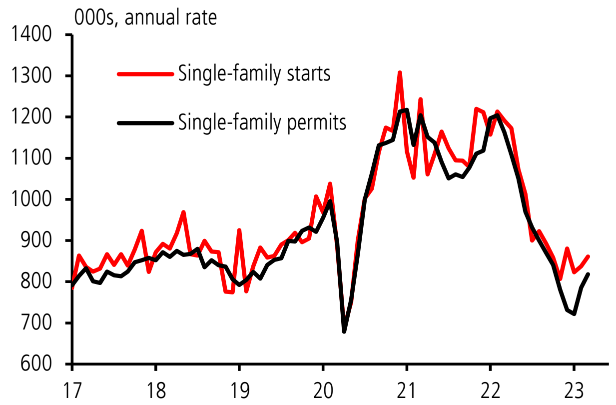
Source: Census Bureau, National Association of Realtors, UBS

Figure 7: Homebuilder confidence has risen since the start of the year but remains depressed



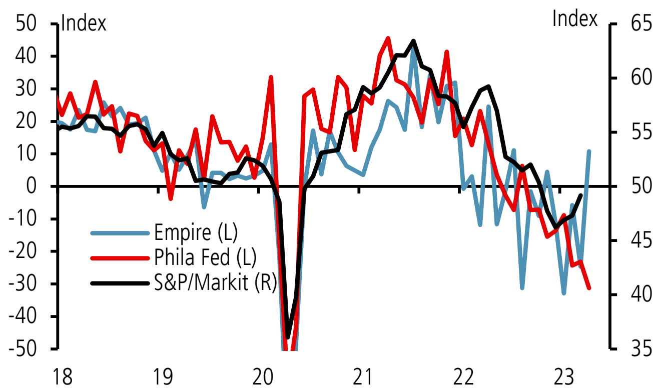
Source: National Association of Homebuilders, UBS

Figure 8: Single-family activity stopped falling this winter



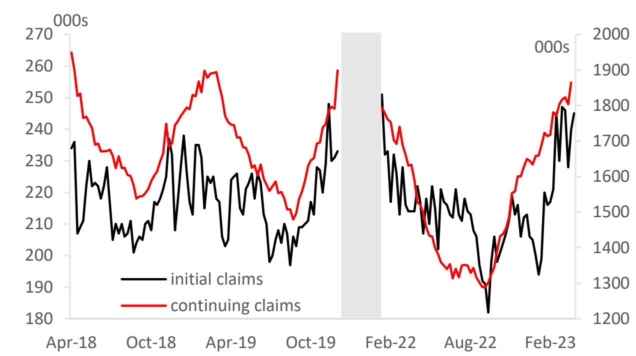
Source: Census Bureau, UBS

Figure 9: The Empire State factory measure rebounded; the Philadelphia Fed measure deteriorated



Source: Federal Reserve System, ISM, UBS

Figure 10: Continuing claims have been rising rapidly for six months. New claims rose between September and early March and have moved sideways since then.



Source: DoL, UBS

From our US inflation monthly: Rents finally slow

The March rent slowdown was broad-based, but more will be needed

Owners' equivalent rent (OER), the largest single CPI component, slowed solidly in March. The swing in the pace of rent from one month to the next was the largest since 2003. The slowdown was also broad-based with the share of locations seeing accelerating rents tied for the second lowest in the past 5 years. The March step down in rents was very welcome news, and a further slowing in rents, along with slowing in other items, will be needed to get inflation back close to the Fed's 2% inflation target.

With the slowdown in rents trimmed mean and weighted median CPI measures eased notably this month even as overall core inflation stayed elevated amid strong price increases for travel-related services and prices of used vehicles that fell less than in recent months.

March core PCE +31bp; April CPI increases likely will be strong

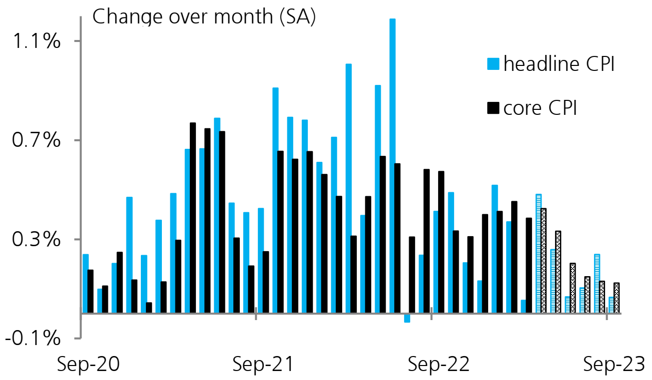
We expect core PCE prices in March to show a 31bp increase in next Friday's release of the March data and the 12-month change to remain at 4.6%. For the April CPI we are currently projecting a 48bp headline CPI increase and 42bp core CPI increase as gasoline and used vehicle prices increase strongly. These would see the 12-month inflation rate rising from 5.0% to 5.1% for the headline CPI and remaining at 5.6% for the core CPI. Inflation is likely to ease in May through July as the pass-through of a surge in wholesale used vehicle prices abates, seasonal factors push down the seasonally-adjusted monthly price change, and base effects drop 12-month headline inflation. A detailed forecast spreadsheet is available on our website.

2023 core PCE inflation forecast remains below consensus at 2¾%

Our forecast for 2023 as a whole, as well as forecasts for 2024 and 2025, are little changed this month. We continue to project 2¾% core PCE inflation this year (on a Q4/Q4 basis) and for inflation to drop below the FOMC's 2% target in 2024 amid rising unemployment. Our forecasts remain well below consensus this year and next year.

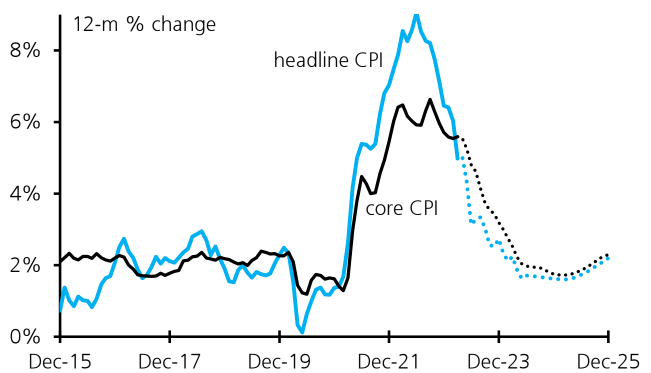
For more detail, please see our US Inflation Monthly

Figure 11: We expect the core CPI to increase about 42bp in April



Source: BLS, UBS estimates

Figure 12: 12-month headline CPI inflation dropped 1pp in March and should see big drops again in May and June, but not April



Source: BLS, UBS estimates

Fed's balance sheet: tax flows

Tax payments moved roughly $180 billion out of reserves and into the Treasury General Account (TGA) in the week ending April 19, leaving the cash balance at $265 billion. It is still relatively early in the tax season, as more payments will be processed in the coming weeks and a deferred deadline for California residents will add to that, to understand what this means for the ability of the Treasury to clear June and/or July payments.

Borrowing at the discount window and BTFP rose for the first time since March.

The combined lending at the discount window and the Bank Term Funding Program rose in the latest week by $4 billion to $144 billion That's down from the $165 billion in the week ending March 15, but the increase undoes the sense of slow progress.

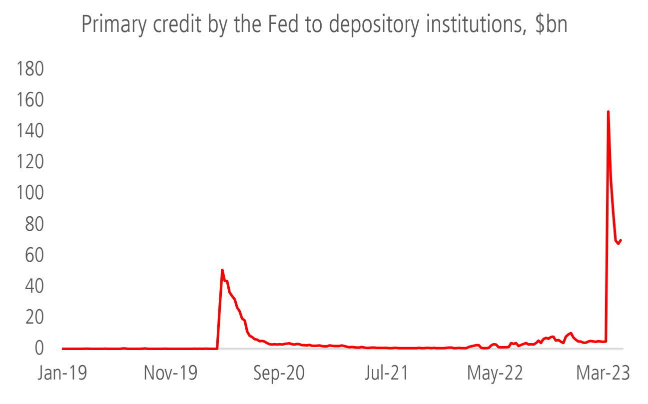
Balance sheet runoff saw the SOMA shrink $17 billion, and there was somewhat less use of the overnight RRP, declining by $9 billion. The FIMA repo facility that allows foreign central banks to access dollar funding saw usage decline again, down to $20 billion from the $60 billion peak in the week ending March 22.

Figure 13: The Fed's balance sheet fell $21 bn in the latest week

Fed balance sheet, $bn	3/15/2023	3/22/2023	3/29/2023	4/5/2023	4/12/2023	4/19/2023	Change 4/19/2023
Factors supplying reserve funds	8,689	8,784	8,756	8,682	8,665	8,643	-21
US Treasuries	5,329	5,329	5,329	5,280	5,281	5,265	-16
MBS	2,609	2,605	2,594	2,594	2,594	2,593	-1
Repurchase agreements	0	60	55	40	30	20	-10
Primary credit (discount window)	153	110	88	70	68	70	2
Bank term funding program	12	54	64	79	72	74	2
Other credit extensions	143	180	180	175	173	173	0
Other	444	446	444	444	447	449	1
Factors absorbing reserve funds	8,689	8,784	8,756	8,682	8,665	8,643	-21
Currency in circulation	2,311	2,319	2,324	2,324	2,324	2,323	-1
Reverse repurchase agreements	2,423	2,650	2,633	2,599	2,677	2,666	-10
Foreign official & international accounts	367	370	368	356	373	372	-1
Others	2,056	2,280	2,265	2,243	2,304	2,295	-9
TGA	278	200	163	141	87	265	179
Reserves	3,444	3,370	3,402	3,381	3,348	3,165	-183
Other	234	245	235	236	230	224	-6

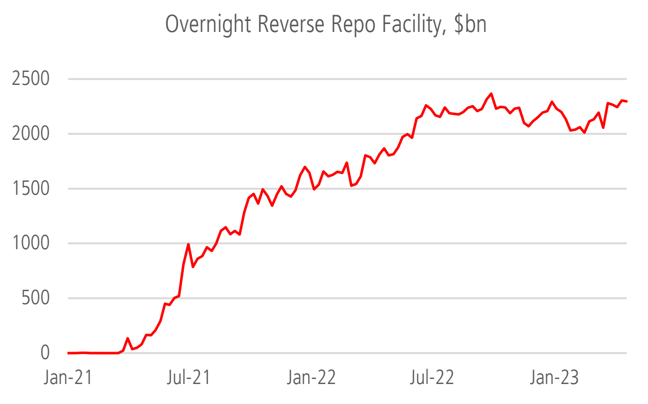
Source: Federal Reserve Board, UBS

Figure 14: Discount window borrowing at $70 bn



Source: Federal Reserve Board, UBS

Figure 15: ON RRP usage declined $9bn in the latest week



Source: Federal Reserve Board, UBS

Monitoring bank deposits and lending

Bank lending slowed last November but has not slowed significantly in aggregate since mid March

Bank lending has held up in the wake of the early-March bank strains. After adjusting for the FDIC's receivership of small bank assets, small and large banks' loans and leases were each 0.3% above early March levels. That said, lending did slow sharply last November and has not reaccelerated. Through November, domestically chartered bank loans and leases had risen 11%y/y. Since then, they have increased at about half that pace.

Bank lending did not contract as much in March as the Fed's published figures suggest because the FDIC took on some small bank assets

In the table below, we adjust the figures for the FDIC's receivership of some assets. The published data are on the left; the adjusted data on the right. The adjustments: domestically chartered commercial banks divested $87 bn in assets to nonbank institutions -- $27 bn in securities and $60 bn in loans—in the week ending March 22, 2023. They divested $87 bn in assets, all securities, in the week ending March 29. The adjusted figures show that bank lending did not contract as much in mid March as the Fed's published figures suggest.

Small bank consumer loans have increased over the past month. Business loans and leases have fallen by about the same amount as was transferred to the FDIC.

That said, the H.8 does not offer much clarity on the composition of that lending. At small banks, C&I and commercial real estate loans and leases have together fallen by $48 billion, or 1.8%, since early March—but the decline may be the transfers to the FDIC. Consumer nonmortgage loans—both revolving and nonrevolving—have increased. Residential loans have been little changed. At large banks, C&I loans have slipped 0.8% over the past month and commercial real estate loans have slipped 0.8% over the past month; other types of lending have risen.

Deposits data do not suggest an obvious reallocation toward large banks

Deposits data do not suggest an obvious reallocation toward large banks. Large bank deposits have continued to trend down although they rose in the latest week. Small bank deposits fell sharply in those first two weeks of March as small banks were acquired by larger banks, but they have risen in each of the last two weeks—a 0.5% rise in total.

Figure 16: Commercial banks balance sheet (H.8), adjusted for FDIC assumption of some assets

Fed's H.8 $bn	3/8/2023	3/15/2023	3/22/2023	3/29/2023	4/5/2023
Total assets	19738	20164	19994	19880	19892
Securities	5226	5204	5133	4995	5026
Loans and leases	11072	11125	11069	11028	11045
Change w/w	*9*	*54*	*-56*	*-41*	*16*
Small banks	4510	4536	4497	4462	4465
Change w/w	*4*	*25*	*-38*	*-35*	*3*
Large banks	6562	6590	6572	6566	6579
Change w/w	*5*	*28*	*-18*	*-6*	*13*
Memo:					
Total deposits	16250	16121	15990	15952	15997
Change w/w	*-87*	*-129*	*-130*	*-38*	*45*
Small banks	5577	5381	5340	5342	5365
Change w/w	*-10*	*-196*	*-40*	*2*	*24*
Large banks	10673	10740	10650	10610	10631
Change w/w	*-76*	*67*	*-90*	*-40*	*21*

Adjusted $bn	3/8/2023	3/15/2023	3/22/2023	3/29/2023	4/5/2023
Total assets	19564	19990	19907	19880	19892
Adjustments	-174	-174	-87		
Securities	5112	5090	5046	4995	5026
Adjustments	-114	-114	-87		
Loans and leases	11012	11065	11069	11028	11045
Change w/w	*9*	*54*	*4*	*-41*	*16*
Adjustments	-60	-60			
Small banks	4450	4476	4497	4462	4465
Change w/w	*-56*	*25*	*22*	*-35*	*3*
Adjustments	-60	-60			
Large banks	6562	6590	6572	6566	6579
Change w/w	*5*	*28*	*-18*	*-6*	*13*
Adjustments	0	0			

Source: Federal Reserve, Haver, UBS

Tax refunds and payments: slower than 2022

Refunds low relative to last year.

Refunds are running below last year's and prepandemic pace, almost at the end of the season for tax refunds. They totalled $224 billion through the first 75 business day of the year (April 19) compared to $240 billion in the same period last year. February and March are usually the months with the largest refund payments, but sizeable payments are also made in April. Last April's refunds were unusually high, but we do not expect that to repeat this year. This year's slowdown in remittances can weigh on consumer spending.

The average refund remains below the 2022 level.

The average refund remains below the 2022 level ($2,942 compared to $3,256 in 2022 according to the last IRS report), and several factors that boosted refunds last year are not repeated. First, the expansion of the Child Tax Credit in 2021 generated higher refunds in 2022. Second, IRS processing delays pushed refunds later in the tax season. In prepandemic years, refunds averaged $80 billion in March; last year they were abnormally high, at $109 billion following the weak February. This year they were $84 billion in March.

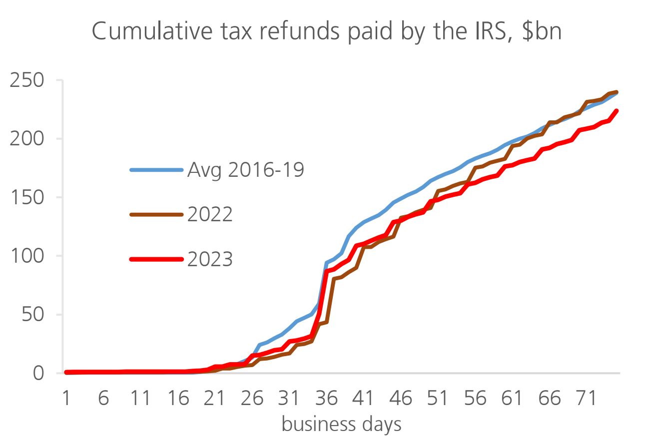
For tax payments, the deadline was April 18 in most states, and sizeable payments are made to the IRS through the first week of May. The last available data in time for this publication is April 19, so it is still early in the tax season to assess this year's tax revenues. The total amount paid will matter for consumption, and for the overall ability of the Treasury to pay its debts. Therefore, the X date could arrive sooner rather than later. We currently expect the X date to be around July, but depending on how the tax season evolves, the date could be as early as June.

Additionally, disaster-areas in California, in particular Los Angeles, San Francisco, and San Diego, got an extension for individual and business tax payments, and the deadline is now October 16. That could delay payments considerably, and is an additional risk for the debt ceiling debate. Somewhat less concerning, areas in Alabama and Georgia got the same extension.

Tax payments are running lower this year than in 2022, but it is still early in the tax season. Most of the payments happen through the first week of May.

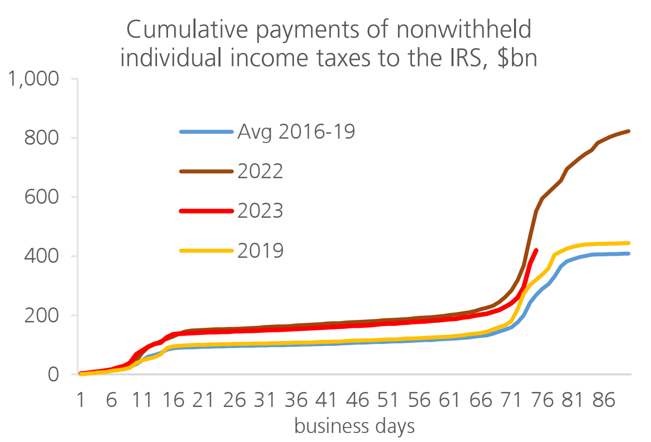
Tax payments have been running lower than 2022. However, as mentioned above, it is still early in the tax season to make any inferences. Nonwithheld individual income tax payments are about 24% below the 2022 levels through April 19. Considering corporate tax payments too, total payments are about 19% lower than in 2022. In April last year, through the 19th, total tax payments were about $438 billion, compared to $319 billion this year.

Figure 17: 2023 refunds are lower than 2022



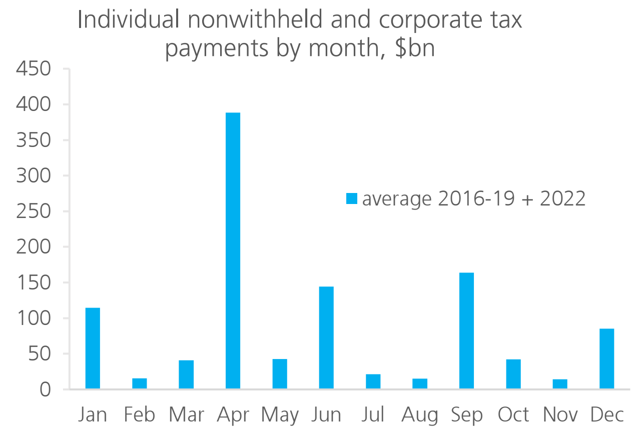
Source: US Treasury, UBS. Note: Data goes through the first 75 business days. Last data point for 2023 corresponds to April 19.

Figure 18: Individual nonwithheld tax payments are 24% below 2022 so far



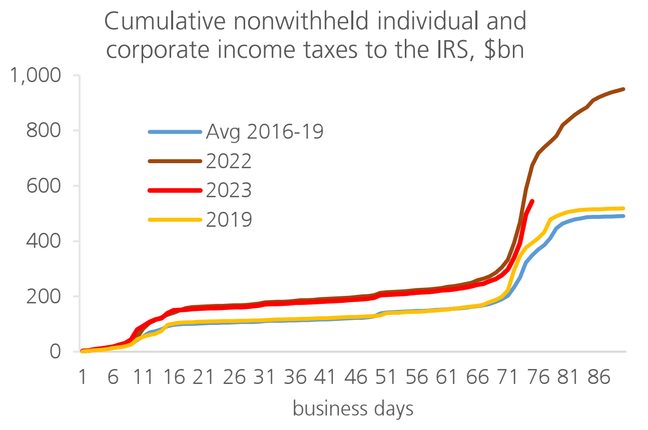
Source: US Treasury, UBS. Note:Last data point for 2023 is April 19. For other years, data goes through the 90th business day (about the first week of May).

Figure 19: Most taxes are paid between April and the first week of May



Source: US Treasury, UBS.

Figure 20: Cumulative total tax payments are about 19% lower than in 2022, so far



Source: US Treasury, UBS. Note: Last data point for 2023 is April 19. For other years, data goes through the 90th business day (about the first week of May).

Economic Forecast

Figure 21: GDP, employment, inflation, and interest rates

April 21, 2023	2022				2023				2024				2022	2023	2024	2025
	Q/Q % ch, ar												Q4/Q4 % ch			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	**-1.6**	**-0.6**	**3.2**	**2.6**	**1.9**	**-0.9**	**-1.8**	**-1.4**	**0.0**	**2.2**	**2.5**	**2.6**	**0.9**	**-0.6**	**1.8**	**2.9**
Personal consumption exp	1.3	2.0	2.3	1.0	4.4	-0.1	-0.5	-0.4	-0.1	0.9	1.3	1.5	1.7	0.8	0.9	1.7
Goods	-0.1	-2.6	-0.4	-0.1	7.4	-2.4	-3.5	-2.8	-1.5	0.5	0.9	1.4	-0.8	-0.4	0.3	1.4
Services	2.1	4.6	3.7	1.6	2.9	1.2	1.0	0.8	0.6	1.1	1.5	1.5	3.0	1.5	1.2	1.9
Business fixed investment	7.9	0.1	6.2	4.0	2.5	-0.8	-5.1	-3.9	2.7	4.2	4.9	5.0	4.5	-1.9	4.2	5.9
Structures	-4.3	-12.7	-3.6	15.8	5.0	-3.1	-7.0	-3.3	-0.2	1.1	1.5	2.0	-1.8	-2.2	1.1	4.0
Equipment	11.4	-2.0	10.6	-3.5	-0.5	-3.9	-11.2	-11.0	0.6	3.0	4.5	4.5	3.9	-6.8	3.1	5.5
Intellectual property products	10.8	8.9	6.8	6.2	4.1	3.6	2.0	2.5	5.9	6.7	6.8	6.9	8.2	3.0	6.6	7.0
Residential	-3.1	-17.8	-27.1	-25.1	0.5	-12.5	-11.0	-8.2	1.8	6.9	4.7	4.0	-18.8	-7.9	4.3	11.3
Government purchases	-2.3	-1.6	3.7	3.8	2.8	1.3	1.3	1.6	1.6	1.6	1.6	1.6	0.9	1.7	1.6	1.6
Net exports (contrib, pct pt)	-3.3	1.2	2.9	0.4	0.0	0.3	0.7	0.6	-0.1	-0.1	-0.1	-0.1	0.3	0.4	-0.1	-0.1
Exports	-4.6	13.8	14.6	-3.7	6.0	-0.5	-0.5	2.5	0.5	1.1	1.4	1.7	4.6	1.8	1.2	2.2
Imports	18.4	2.2	-7.3	-5.5	4.7	-2.5	-5.5	-2.5	1.0	1.6	1.9	2.2	1.5	-1.5	1.7	2.2
Inventory contribution (pct pts)	0.2	-1.9	-1.2	1.5	-1.9	-0.7	-1.3	-1.2	-0.5	0.6	0.6	0.6	-0.4	-1.3	0.3	0.3
Memo: Private domestic final purchases	2.0	0.6	1.1	0.0	3.9	-0.8	-1.7	-1.3	0.4	1.6	2.0	2.1	0.9	0.0	1.5	2.8
Labor market																
Payrolls (monthly pace, 000s)	561	329	423	284	345	95	-43	-192	-175	-42	17	48	399	51	-38	173
Civilian unemployment rate (%)	3.8	3.6	3.5	3.6	3.5	3.4	3.7	4.2	4.7	5.1	5.3	5.4	3.6	4.2	5.4	4.8
Labor force participation rate (%)	62.3	62.2	62.2	62.2	62.5	62.4	62.4	62.4	62.4	62.3	62.3	62.3	62.2	62.4	62.3	62.2
Inflation																
CPI-U	9.2	9.7	5.5	4.2	3.9	3.7	2.1	1.4	2.3	1.4	1.4	1.3	7.1	2.8	1.6	2.1
Core CPI-U	6.7	6.0	6.2	5.1	5.0	4.6	2.4	2.0	2.4	1.8	1.5	1.4	6.0	3.5	1.8	2.2
PCE Chain Price Index	7.5	7.3	4.3	3.7	4.1	2.7	1.6	1.0	1.9	1.3	1.3	1.2	5.7	2.3	1.4	1.8
Core PCE Chain Price Index	5.6	4.7	4.7	4.4	4.7	3.2	1.7	1.4	2.0	1.6	1.4	1.3	4.8	2.7	1.6	1.9
Incomes																
Average hourly earnings	5.6	4.7	4.7	4.6	3.8	3.3	2.7	2.2	2.0	2.1	2.3	2.4	4.9	3.0	2.2	2.8
Employment cost index	5.8	5.4	5.1	4.0	4.0	3.6	3.1	2.9	2.7	2.6	2.6	2.6	5.1	3.4	2.6	2.7
Real disposable income	-10.6	-2.3	1.0	5.0	7.8	0.3	0.5	-0.9	1.0	1.1	2.6	2.1	-1.4	1.8	1.7	3.4
Saving rate (%)	4.3	3.2	3.2	4.0	4.6	4.7	4.7	4.6	4.9	4.9	5.2	5.3	4.0	4.6	5.3	6.7
Other indicators																
Housing starts (mil, a.r.)	1.72	1.65	1.45	1.40	1.22	1.20	1.14	1.17	1.20	1.20	1.21	1.21	1.40	1.17	1.21	1.38
Nonfarm business productivity	-6.1	-3.8	1.2	1.7	-0.5	-0.9	-1.7	0.1	1.8	3.3	2.3	1.8	-1.8	-0.8	2.3	1.3
Federal budget balance ($ bil, FY)													-1375	-1285	-1332	-1369
Federal funds rate (top of range, %)	0.50	1.75	3.25	4.50	5.00	5.25	5.00	4.25	3.25	2.00	1.25	1.25	4.50	4.25	1.25	1.75

Q4 2022 is actual data, Q1 23 onward are UBS forecasts. Source: Commerce Dep't, Federal Reserve, Bureau of Labor Statistics, Treasury Department, & UBS

The Week Ahead: debt ceiling debate

Next week House Republicans will try to move their 320-page bill that would raise the debt ceiling by $1.5 trillion, or until March 2024, whichever comes first, in a vote late next week, according to press reports. While the bill seems to have no chance of Senate passage, the House vote (or lack thereof) might reveal the degree of unity among House Republicans as the X date draws closer.

The two sides appear to have little common ground amidst the rhetoric over raising the debt ceiling.

FOMC participants enter the quiet period this weekend, but next week's data calendar is full. We expect the data will be good enough to support the case for a 25 bp rate hike at the May meeting. We expect real GDP expanded a fine 1.9% in Q1, though that point estimate will depend upon the durable goods and other advance data reported earlier in the week. We expect the ECI rose 1.0% in Q1, a touch shy of consensus. And, we expect real spending fell in March.

Q1 GDP should look good, and the ECI should have ~4.0%-ish growth.

Figure 22: The week ahead

Date	Release	Time (ET)	Consensus	UBS Est.	Previous
Mon, Apr 24	Dallas Fed manufacturing survey (Apr)	10:30 AM			-15.7
Tue, Apr 25	FHFA home prices (Feb)	9:00 AM			0.2%
	S&P/CS home prices (Feb)	9:00 AM	-0.4%		-0.4%
	Conference Board confidence (Apr)	10:00 AM	104.1	103.5	104.2
	New home sales (Mar)	10:00 AM	630k	650k	640k
	Richmond Fed manufacturing survey (Apr)	10:00 AM			-5
Wed, Apr 26	Durable goods (Mar)	8:30 AM	0.7%	1.0%	-1.0%
	Ex transport (Mar)	8:30 AM	-0.2%	-0.1%	-0.1%
	Nondefense capital goods ex aircraft (Mar)	8:30 AM	0.2%	-0.1%	-0.1%
	Shipments of nondef. capital goods ex aircraft (Mar)	8:30 AM		-0.1%	-0.1%
	Merchandise trade balance (Mar)	8:30 AM	-$89.8B	-$90.5B	-$92.0B
	Retail inventories ex auto (Mar)	8:30 AM		0.3%	0.3%
	Wholesale inventories (Mar)	8:30 AM		0.3%	0.1%
Thu, Apr 27	GDP (Q1, adv est)	8:30 AM	2.0%	1.9%	2.6%
	Real consumption (Q1, adv est)	8:30 AM		4.3%	1.0%
	Core PCE prices (Q1, adv est)	8:30 AM	4.7%	4.7%	4.4%
	Jobless claims (Apr 22)	8:30 AM	250k	247k	245k
	Continuing jobless claims (Apr 15)	8:30 AM		1875k	1865k
	Pending Home Sales Index (Mar)	10:00 AM	1.0%	-1.0%	0.8%
	KC Fed manufacturing survey (Apr)	11:00 AM			0
Fri, Apr 28	Personal income (Mar)	8:30 AM	0.2%	0.0%	0.3%
	Personal spending (Mar)	8:30 AM	-0.1%	0.0%	0.2%
	PCE prices (Mar)	8:30 AM	0.1%	0.11%	0.26%
	Core PCE prices (Mar)	8:30 AM	0.3%	0.31%	0.30%
	Employment Cost Index (Q1)	8:30 AM	1.1%	1.0%	1.0%
	Chicago PMI (Apr)	9:45 AM	43.5	43.5	43.8
	Univ. of Michigan sentiment (Apr, final)	10:00 AM	63.5	63.5	63.5
	Agricultural prices (Mar)	3:00 PM			
	Strike report (Apr)				

Source: Bloomberg, UBS

Data in the week ahead:

Monday, April 24

Manufacturing Surveys (Apr 24-28)

The NY Fed manufacturing index surged, but we suspect seasonal adjustment flaws as it also surged in each of the last two Aprils. The Philadelphia Fed index was much weaker.

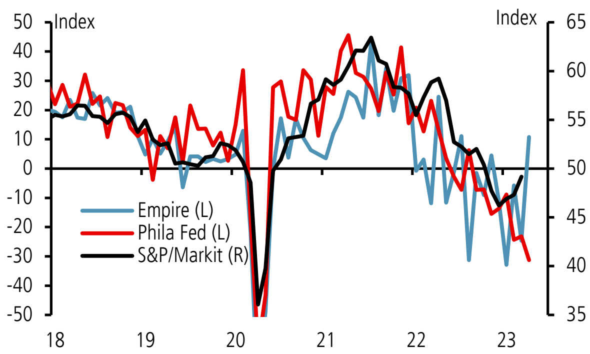
Figure 23: Manufacturing surveys

	History			
	Jan	Feb	Mar	Apr
N.Y. Fed (Empire State) (Apr 17)				
Current activity index	-32.9	-5.8	-24.6	10.8
ISM-equivalent	45.5	48.3	44.5	54.9
Philadelphia Fed (Apr 20)				
Current activity index	-8.9	-24.3	-23.2	-31.3
ISM-equivalent	49.2	48.6	39.4	42.2
S&P/Markit PMI (Apr 21)	46.9	47.3	49.2	

	History			Apr forecast	
	Jan	Feb	Mar	Market	UBS
Dallas Fed (Apr 24)	-8.4	-13.5	-15.7		
Richmond Fed (Apr 25)	-11	-16	-5		
Kansas City Fed (Apr 27)	-1	0	0		
Chicago PMI (Apr 28)	44.3	43.6	43.8	43.5	43.5

Source: Federal Reserve Banks of Kansas City, New York, Philadelphia, Copyright © 2022, S&P Global™. All rights reserved. Bloomberg, UBS estimates

Figure 24: The NY Fed manufacturing index surged. The Philadelphia Fed measure was much weaker.



Source: Federal Reserve System, Copyright © 2022, UBS, S&P Global™. All rights reserved.

Tuesday, April 25

Home Price Indexes (Feb), 9:00 AM

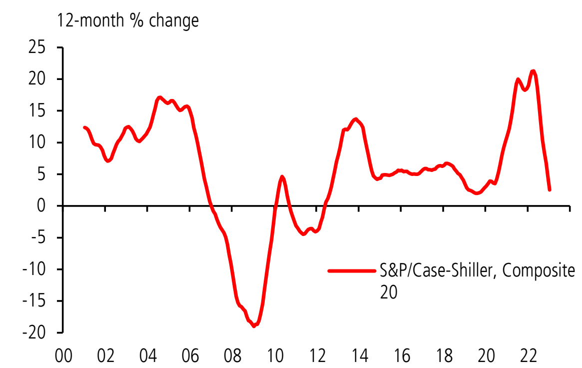
The S&P/Case Shiller composite 20 home price index has fallen in each of the last seven months. In January, it was 4.7% below its June 2022 peak, but still up 2.5% over the past twelve months.

Figure 25: S&P/Case-Shiller Home Price Index

	Dec 2020	Dec 2021	Dec 2022	Nov	Dec	Jan
S&P/Case-Shiller, Composite 20						
m/m % chg, SA				-0.5	-0.5	-0.4
12-mo % chg	10.2	18.5	4.6	6.8	4.6	2.5

Source: Standard & Poor's, UBS

Figure 26: House price appreciation has slowed faster than during the housing crisis



Source: Standard & Poor's, Federal Housing Finance Agency, UBS

Figure 27: Housing affordability has fallen to its lows since the mid 1980s, from high levels a year ago

Source: National Association of Realtors, UBS. February observation is UBS estimate

New Home Sales (Mar), 10:00 AM

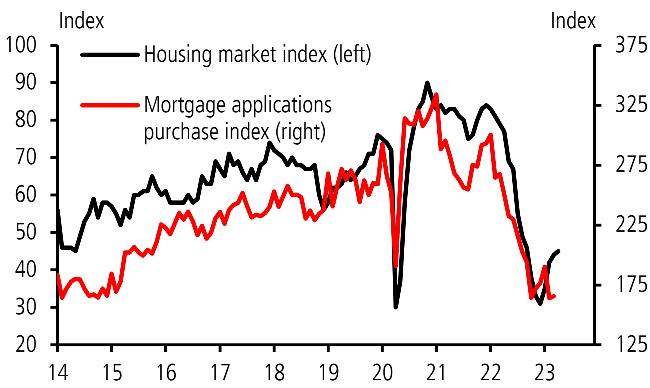
Housing starts and permits, existing home sales, and new home sales have risen from their late-2022 lows. Lower mortgage rates probably have helped. New home sales have also benefited from increased inventory. During the peak demand of the pandemic, unusually high shares of buyers were buying homes either not started or still under construction. But completions remained strong throughout last year, and the upturn in new home sales has coincided with an increased inventory of completed homes for sale (see figure).

Figure 28: New home sales

			History			Mar forecast	
	2021	2022	Dec	Jan	Feb	Market	UBS
Levels (000s, a.r.)	769	641	622	633	640	630	650
%m/m			6.9	1.8	1.1		1.6
%y/y	-7.4	-16.8	-25.9	-23.8	-19.0		-8.1
Months' supply	5.5	8.4	8.7	8.3	8.2		
Median price (%y/y)	18	16	14.6	-0.9	2.5		

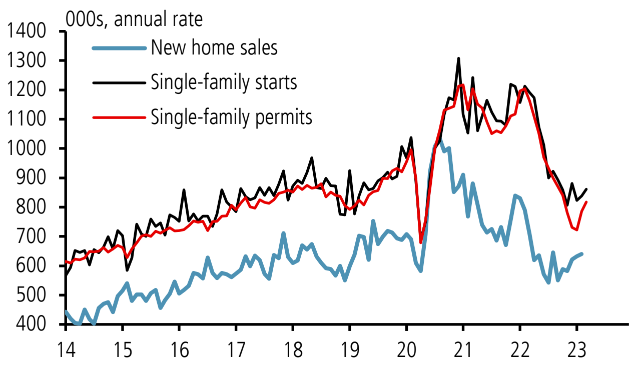
Source: Census Bureau, Bloomberg, UBS estimates

Figure 29: Builder confidence has risen this year. Mortgage applications for home purchases have moved choppily sideways.



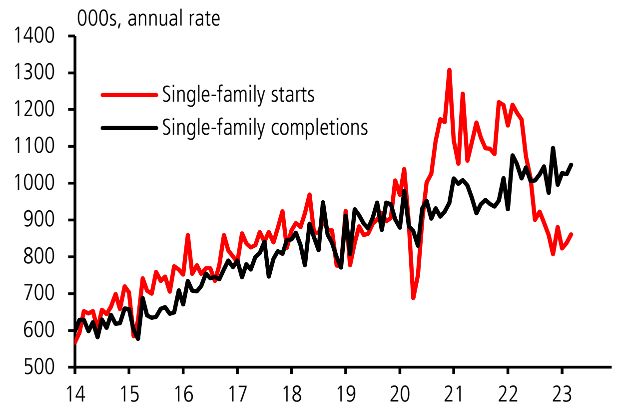
Source: Mortgage Bankers' Assoc, NAHB, UBS

Figure 30: Single-family starts and permits have leveled out in recent months



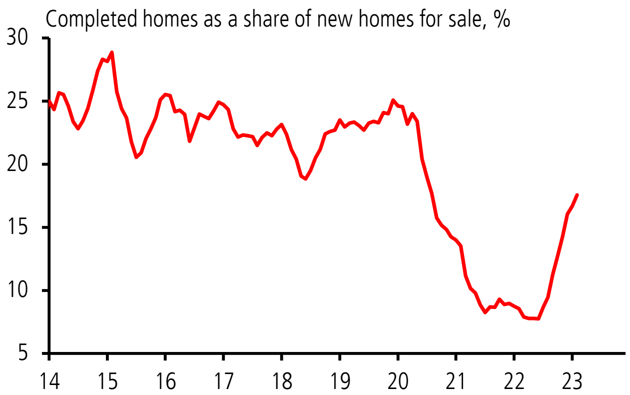
Source: Census Bureau, UBS

Figure 31: Completions remain high despite the plunge in housing starts



Source: Census Bureau, UBS

Figure 32: Completed homes are rising as a share of new homes for sale



Source: Census Bureau, UBS

Conference Board Consumer Confidence (Apr), 10:00 AM

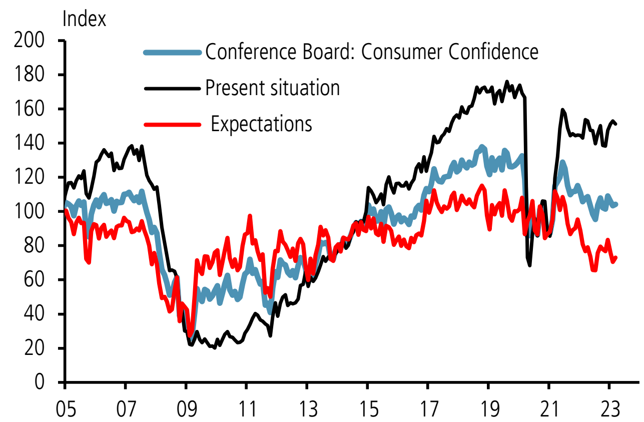
The Conference Board confidence index has been moving sideways over the past year. Levels are below prepandemic peaks but still relatively healthy, unlike the University of Michigan measure, which has been bouncing off of record lows. The strong labor market has supported the Conference Board index. However, we expect deterioration in April: the labor market is softening. Even in an improved University of Michigan survey for early April, labor market elements were softer.

Figure 33: The Conference Board survey

	History					Apr forecast	
	2021	2022	Jan	Feb	Mar	Market	UBS
Index	112.7	104.5	106.0	103.4	104.2	104.1	103.5
Present situation	135.4	145.7	151.1	153.0	151.1		
Expectations	97.6	77.0	76.0	70.4	73.0		
Availability of jobs (net %)	31.4	38.7	37.0	40.7	38.8		
% reporting "plentiful"	45.4	50.5	48.1	51.2	49.1		
% reporting "hard to get"	14.0	11.8	11.1	10.5	10.3		

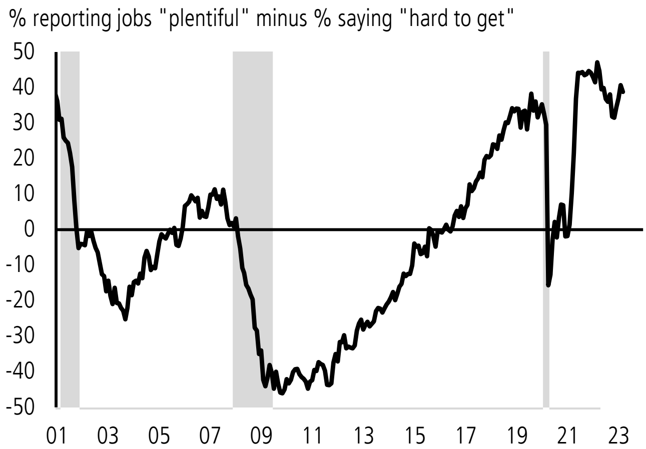
Source: Conference Board, Bloomberg, UBS estimates

Figure 34: There has been some improvement in confidence since last June



Source: Conference Board, UBS

Figure 35: We expect labor market assessments to soften



Source: Conference Board, UBS

Wednesday, April 26

Durable Goods (Mar), 8:30 AM

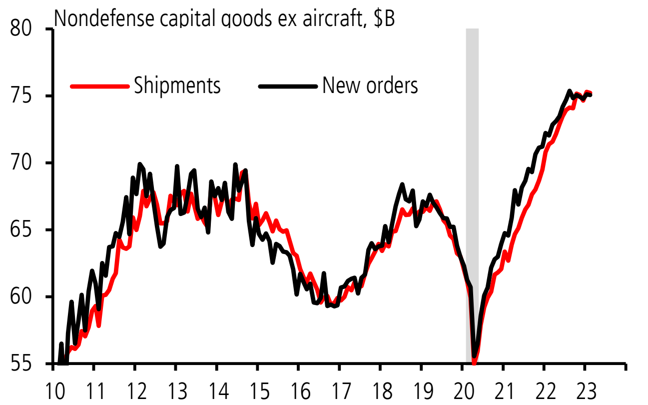
Durables orders probably rose, but not broadly, helped by a rebound in aircraft orders. However, we expect further weakness in durables shipments after declines so far this year. Core capital goods shipments have looked somewhat better, but with orders running below shipments, we expect declines.

Figure 36: Orders, shipments, and inventories of durable goods

	12-month % ch					m/m % change			Mar forecast	
	Dec 2019	Dec 2020	Dec 2021	Dec 2022	Feb 2023	Dec	Jan	Feb	Market	UBS
Total durable orders	-9.7	7.5	10.8	11.2	2.2	5.1	-5.0	-1.0	0.7	1.0
Ex transportation	-4.4	4.3	10.1	1.8	1.6	-0.4	0.4	-0.1	-0.2	-0.1
Ex defense	-12.5	11.1	11.2	10.4	2.1	5.6	-5.5	-0.5		
Ex civilian air & defense	-6.0	5.1	7.5	4.7	3.9	0.0	0.3	-0.2		
Hi-tech	-2.6	2.5	4.2	2.2	3.8	-0.7	0.2	0.1		
Nondef. capital goods	-27.3	29.0	22.0	23.3	-1.8	17.6	-16.2	-1.4		1.4
Core (ex aircraft)	-4.3	1.6	11.3	5.0	4.2	-0.2	0.5	-0.1	0.2	-0.1
Total manufacturing shipments	-4.1	-1.7	10.7	7.0	4.4	-0.6	0.3	-0.5		
Total durable shipments	-6.6	2.3	8.5	8.4	5.5	0.4	-0.4	-0.6		0.0
Nondef. capital goods	-9.5	-2.0	11.5	12.7	7.0	0.1	-1.7	-0.7		0.0
Core (ex aircraft)	-5.1	-1.5	12.0	7.4	5.4	-0.6	0.9	-0.1		-0.1
Hi-tech	-1.5	1.8	3.5	7.1	4.5	-0.2	0.1	0.1		
Total manufacturing inventories	4.7	-1.8	9.0	6.4	4.6	0.4	-0.1	-0.1		
Durable inventories	5.9	-1.2	9.0	5.8	4.7	0.7	-0.2	0.2		
Inventory-to-sales ratio	1.88	1.82	1.82	1.78	1.80	1.78	1.78	1.80		
Hi-tech	1.83	1.84	1.85	1.80	1.79	1.80	1.79	1.79		

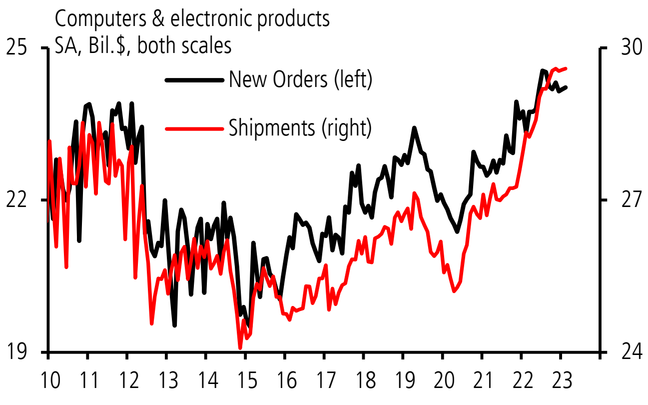
Source: Census Bureau, Bloomberg, UBS estimates

Figure 37: Orders are no longer running above shipments



Source: Census Bureau, UBS

Figure 38: Orders for computers and electronic products have weakened

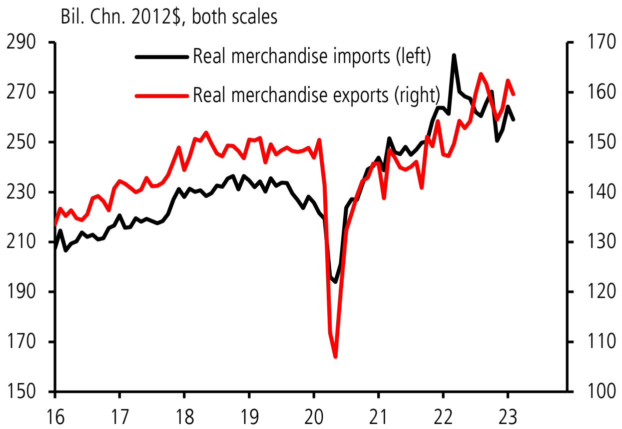


Source: Census Bureau, UBS

Merchandise Trade Deficit (Mar), 8:30 AM

We project a slight narrowing in the trade deficit led by energy exports. But the deficit in goods likely remains within the range of the past six months.

Figure 39: Real imports and exports of goods have moved (choppily) sideways over the past two quarters



Source: Census Bureau, UBS

Figure 40: Merchandise trade

	Last year		$B					m/m %chg				UBSe
	Jan'22	Feb'22	Oct'22	Nov'22	Dec'22	Jan'23	Feb'23	Nov'22	Dec'22	Jan'23	Feb'23	Mar'23
Balance	**-106.8**	**-105.3**	**-98.1**	**-82.1**	**-89.9**	**-91.3**	**-92.0**					**-90.5**
Exports of Goods	**155.6**	**159.1**	**173.9**	**169.7**	**166.3**	**174.5**	**167.8**	**-2.4**	**-2.0**	**4.9**	**-3.8**	**-0.3**
Foods, Feeds and Beverages	14.0	14.7	14.0	13.5	14.2	14.8	14.8	-3.8	5.2	4.2	0.4	-1.6
Industrial Supplies and Materials	58.3	59.8	69.7	66.0	63.0	63.5	60.9	-5.2	-4.6	0.8	-4.1	-2.1
Capital Goods, except Automotive	46.3	46.0	49.6	48.3	48.5	50.3	49.1	-2.5	0.3	3.8	-2.5	1.2
Automotive Vehicles, Parts and Engines	12.4	12.2	13.7	13.9	14.5	15.6	13.8	1.9	3.7	8.2	-11.9	1.1
Consumer Goods, except Automotive	19.0	20.4	19.5	21.0	19.3	23.3	22.0	7.5	-8.1	21.2	-5.8	0.6
Other Merchandise	5.8	5.9	7.4	6.9	6.9	6.9	7.2	-6.8	-0.3	-0.6	5.6	1.2
Imports of Goods	**262.4**	**264.4**	**272.0**	**251.8**	**256.2**	**265.7**	**259.8**	**-7.4**	**1.7**	**3.7**	**-2.2**	**-0.8**
Foods, Feeds and Beverages	17.0	16.8	17.6	16.7	16.7	17.5	16.9	-5.5	0.0	5.1	-3.4	-0.6
Industrial Supplies and Materials	62.3	65.3	65.8	62.4	59.4	59.6	59.3	-5.2	-4.8	0.3	-0.5	-2.8
Capital Goods, except Automotive	68.9	70.2	74.4	71.5	71.4	72.8	73.5	-4.0	-0.1	2.0	1.0	-0.2
Automotive Vehicles, Parts and Engines	32.5	29.7	35.5	32.3	35.2	38.3	35.4	-9.1	8.9	8.9	-7.6	0.0
Consumer Goods, except Automotive	71.7	71.8	67.8	59.0	63.1	67.2	63.5	-12.9	6.9	6.5	-5.5	-0.2
Other Merchandise	10.1	10.6	10.7	9.9	10.4	10.3	11.1	-7.9	5.3	-1.0	7.8	0.1
Memo:												
International trade balance (goods&services)	-87.4	-87.3	-77.2	-60.6	-67.2	-68.7	-70.5					-68.3
Real goods balance (2012$bn)	-116.2	-114.2	-112.4	-96.1	-98.2	-101.8	-104.6					-102.8
Exports	147.6	147.2	157.8	154.5	156.7	162.4	155.6	-2.1	1.4	3.6	-4.1	1.1
Imports	263.7	261.4	270.2	250.6	254.9	264.2	260.2	-7.3	1.7	3.6	-1.5	0.0

Source: Census Bureau, UBS

Wholesale & Retail Inventories (Mar), 8:30 AM

Inventories are on track to drag significantly on Q1 GDP—we expect they subtracted almost two points from growth—reversing the positive contribution of Q4.

Figure 41: Wholesale & retail inventories

	History						
m/m % ch	Sep	Oct	Nov	Dec	Jan	Feb	UBS est: Mar
Wholesale inventories	0.4	0.6	0.8	0.0	-0.6	0.1	0.3
Retail inventories	0.0	-0.4	0.0	0.4	0.0	0.7	
Retail inventories ex auto	-0.9	-0.6	-0.4	0.0	-0.1	0.3	0.3

Source: Census Bureau, UBS

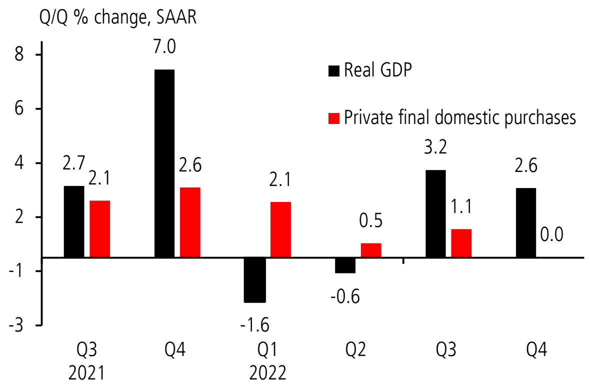
Thursday, April 27

GDP (Q1, adv est), 8:30 AM

Q1 GDP is likely to look solid, with private final domestic purchases rising at a 3.9% q/q annual rate. However, business fixed investment probably slowed further. And the strength in consumption follows softness in Q4. More positively, after three quarters of rapid decline in residential investment, it probably stabilized in Q1. Activity has been helped by some stabilization in mortgage rates and somewhat lower prices, and the warm winter probably supported home building.

We forecast headline PCE prices rose at a 4.1% annual rate, with their four-quarter change slowing to 4.8% from 5.7% a quarter earlier and 6.4% a year earlier. Core PCE prices probably rose at a 4.7% annual rate. We expect the four-quarter change slowed to 4.66% from 4.8% in Q4 and from a peak of 5.3% in Q1 2022.

Figure 42: Private domestic spending (consumption plus investment) slowed sharply in 2022 and was unchanged in Q4



Source: BEA, UBS

Figure 43: GDP, prices, and income

	4-quarter % ch				Quarterly % ch, a.r.				Q1'23 adv forecast	
	Q1'22	Q2'22	Q3'22	Q4'22	Q1'22	Q2'22	Q3'22	Q4'22	Market	UBSe
Real GDP	3.7	1.8	1.9	0.9	-1.6	-0.6	3.2	2.6	2.0	1.9
Personal consumption exp	4.8	2.4	2.2	1.7	1.3	2.0	2.3	1.0		4.3
Goods	1.3	-2.1	-0.2	-0.8	-0.1	-2.6	-0.4	-0.1		7.2
Services	6.7	4.8	3.5	3.0	2.1	4.6	3.7	1.6		2.9
Business fixed investment	4.8	2.4	3.8	4.5	7.9	0.1	6.2	4.0		2.5
Structures	-6.6	-9.2	-8.4	-1.8	-4.4	-12.7	-3.6	15.7		5.0
Equipment	6.0	2.0	5.2	3.9	11.4	-2.1	10.6	-3.5		-0.5
Intellectual property products	9.7	8.8	8.6	8.2	10.8	8.9	6.8	6.2		4.1
Residential	-3.7	-7.2	-12.9	-18.8	-3.1	-17.8	-27.1	-25.1		0.5
Inventory contrib (pp)	0.2	-1.9	-1.2	1.5	0.2	-1.9	-1.2	1.5		-1.9
Net exports contrib (pp)	-3.1	1.2	2.9	0.4	-3.1	1.2	2.9	0.4		0.0
Exports	5.2	7.3	11.3	4.6	-4.6	13.8	14.6	-3.7		
Imports	12.7	11.2	7.4	1.5	18.4	2.3	-7.3	-5.5		
Government purchases	-1.6	-1.3	-0.3	0.9	-2.3	-1.6	3.7	3.8		2.8
Nominal GDP	10.9	9.6	9.2	7.3	6.6	8.5	7.7	6.6		6.0
GDP price index	6.9	7.6	7.1	6.4	8.3	9.0	4.4	3.9	3.7	4.0
PCE price index	6.4	6.6	6.3	5.7	7.5	7.3	4.3	3.7		4.1
Core PCE	5.3	5.0	4.9	4.8	5.6	4.7	4.7	4.4	4.7	4.7
Income										
Real GDI	3.8	2.8	2.3	0.4	0.8	-0.8	2.8	-1.1		
Real disposable personal income	-12.8	-5.6	-3.8	-1.4	-10.6	-2.3	3.2	5.0		7.8
Saving rate	4.3	3.2	3.2	4.0	4.3	3.2	3.2	4.0		4.7
Pre-tax adjusted corp. profits (not annualized)	10.9	7.7	5.5	2.6	0.1	4.6	0.0	-2.0		

Source: BEA, UBS

Unemployment Insurance Claims (Apr 22), 8:30 AM

We expect initial claims to increase 2K to 247K in the week ending April 22, but note that these are volatile weeks for the claims data as school vacations can shift claims with the floating holidays. Overall, initial claims have increased 51K on net since the end of January.

We expect continuing claims to increase 10K to 1875K in the week of April 15, to the highest level since 2021, and maintaining their upward trend.

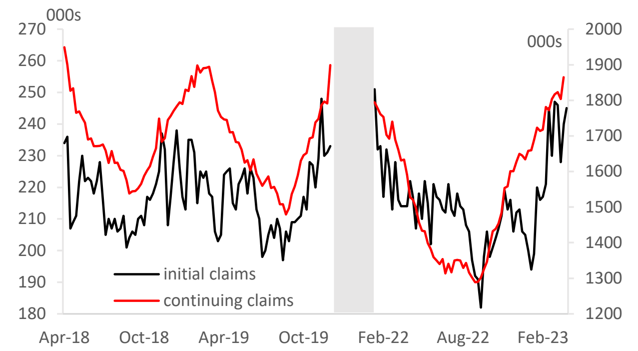
Note that we continue to show alternative seasonal factors in our regular write ups in order to abstract from the seasonal adjustment difficulties surrounding the pandemic. We have been adjusting claims using seasonal factors from 2016-2017, years with similar calendar set-ups to 2022 and 2023, excluding the floating holidays. The earlier seasonals should be less affected by the pandemic period, and offer a useful alternative in order to avoid taking the published seasonal factors as some sort of absolute truth. Initial claims have been rising since the start of the year, and continuing claims have been showing an uptrend since September 2022.

Figure 44: Regular state claims

	Initial Claims		Continuing Claims	
000s, SA	Wkly	4-wk avg	Wkly	%
Mar-18*	247	236	1817	1.3
Mar-25	246	242	1823	1.3
Apr-1	228	238	1804	1.2
Apr-8	240	240	1865	1.3
Apr-15*	245	240		
Apr-22 UBSe	247	240	1875	
Market	250			

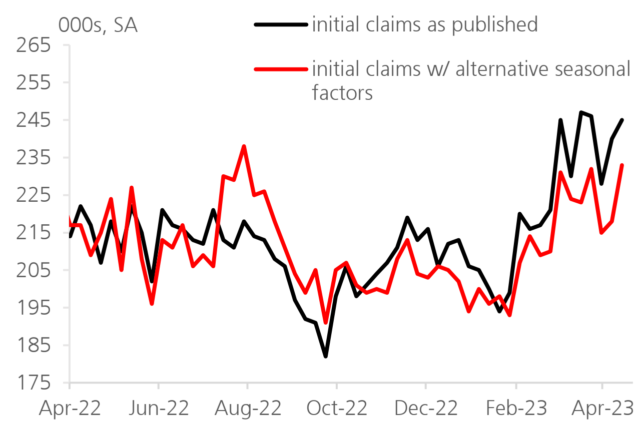
Source: DoL, UBS estimates *Sample week

Figure 45: Claims running above 2018 and 2019 averages



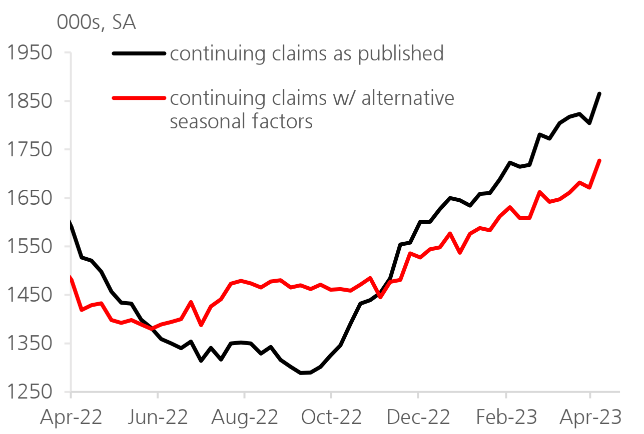
Source: DoL, UBS

Figure 46: Initial claims with alternate seasonal factors



Source: DoL, UBS

Figure 47: Continuing claims w/ alternate seasonal factors



Source: DoL, UBS

Pending Home Sales Index (Mar), 10:00 AM

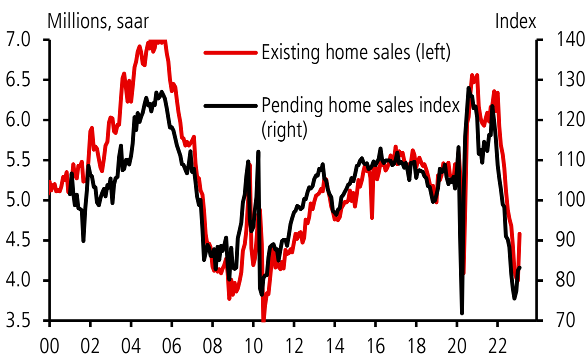
There have been signs of stabilization in housing, with starts and new home sales up from their lows along with the noticeable rise in the pending home sales index (PHSI) over the past three months. However, we expect renewed weakness in the PHSI in March, consistent with the pattern we see in mortgage applications for home purchases.

Figure 48: Pending Home Sales Index

			History			Mar forecast	
	2021	2022	Dec	Jan	Feb	Market	UBS
Pending home sales index							
%m/m			1.1	8.1	0.8	1.0	-1.0
% y/y	5.2	-20.7	-33.9	-24.1	-21.1		-19.8
Northeast, % m/m			2.9	7.6	0.7		
Midwest, % m/m			-5.8	5.1	6.5		
South, % m/m			5.8	10.1	-2.4		
West, % m/m			-0.9	9.6	0.4		

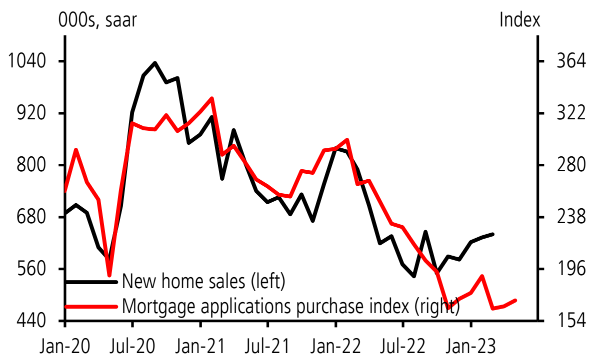
Source: National Association of Realtors, Bloomberg, UBS estimates

Figure 49: Existing home sales have risen from their lows but remain depressed



Source: National Association of Realtors, UBS

Figure 50: Mortgage applications for home purchases weakened in March and remained low at the beginning of April



Source: Mortgage Bankers' Association, Census Bureau, UBS

Friday, April 28

Income and Spending, PCE inflation (Mar), 10:00 AM

Labor income probably was held back by the fall in the workweek in March. Total personal income probably stalled as emergency SNAP benefits ended. We calculate the end of the pandemic SNAP benefits subtracts $50 billion, or 0.2 percentage point, from personal income in March. The extra SNAP benefits are mostly phased out through the end of this year and will be an ongoing drag on personal incomes.

We expect core PCE prices in March to show a 31bp increase in March and the 12-month change to remain at 4.6%. Headline prices probably rose 11bp month-on-month.

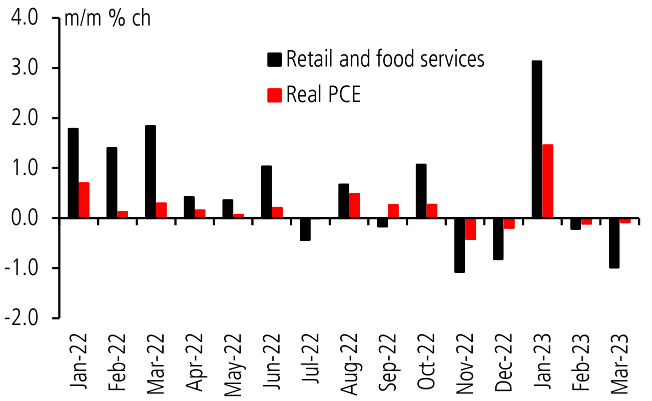
Real consumer spending probably fell 0.1% in March, a second straight decline after the January rebound.

Figure 51: Income and spending

	12-m % change				m/m % change			Mar forecast	
	Dec 2020	Dec 2021	Dec 2022	Feb 2023	Dec	Jan	Feb	Market	UBS
Income	5.1	7.1	5.7	6.2	0.3	0.6	0.3	0.2	0.0
Disposable income	4.8	5.6	4.5	8.4	0.4	2.0	0.5		0.0
Consumption	-0.8	13.4	7.3	7.6	0.0	2.0	0.2	-0.1	0.0
Real disposable income	3.5	-0.3	-0.8	3.3	0.2	1.5	0.2		-0.1
Real consumption	-2.0	7.0	1.9	2.5	-0.2	1.5	-0.1	0.0	-0.1
Savings rate (%)	13.8	7.5	4.4	4.6	4.4	4.4	4.6		
PCE prices	1.3	6.0	5.3	5.0	0.20	0.57	0.26	0.1	0.11
Core (ex food & energy)	1.5	5.0	4.6	4.6	0.37	0.52	0.30	0.3	0.31
Market based	1.3	4.5	4.9	4.7	0.4	0.5	0.4		

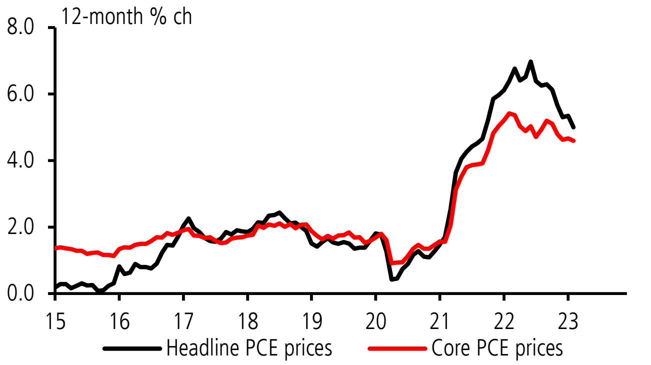
Source: BEA, Bloomberg, UBS estimates

Figure 52: Real consumer spending probably fell for a second straight month



Source: Census Bureau, BEA, UBS

Figure 53: Core PCE inflation has likely peaked but is decelerating only very gradually



Source: BEA, UBS

Employment Cost Index (Q1), 8:30 AM

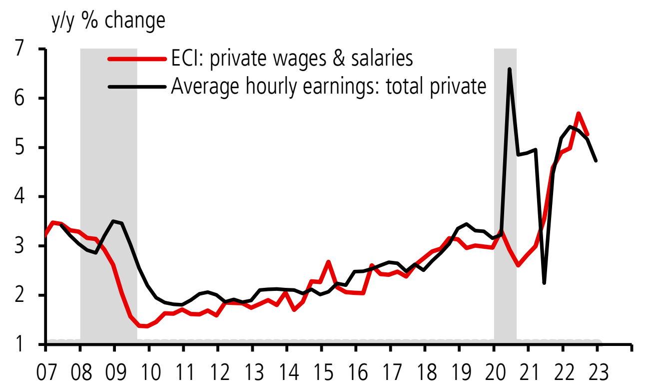
We expect the ECI expanded 1.0% over the three months of the first quarter, in line with the Q4 pace, and a smidge slower than consensus expects. Note that the historical seasonal factors will be revised with this release. We also expect wages and salaries rose 1.0% in Q1. The Q1 index changes would rise 3.9% at an annual rate for the headline ECI and 4.2% at an annual rate for wages and salaries. While the ECI is widely watched by the Fed, we doubt it is the deciding factor in the May rate hike decision.

Figure 54: Employment Cost Index

	12-Mo % change			%q/q, sa			23Q1 forecast	
	22Q2	22Q3	22Q4	22Q2	22Q3	22Q4	Market	UBS
Total ECI (%q/q, sa)	5.1	5.0	5.1	1.3	1.2	1.0	1.1	1.0
Wages and salaries	5.3	5.1	5.1	1.4	1.3	1.0		1.0
Private	5.7	5.2	5.1	1.6	1.2	1.0		
Construction	4.4	4.7	4.8	1.7	1.0	1.2		
Manufacturing	4.9	5.2	5.1	1.2	1.3	1.0		
Trade, transport, util.	6.6	5.9	4.9	1.7	0.8	0.9		
Retail trade	7.8	7.3	5.5	1.8	1.3	0.8		
Information	4.3	4.2	4.9	0.6	1.2	1.6		
Financial activities	4.6	2.3	5.0	2.4	0.7	1.4		
Prof. & bus. service	5.4	5.1	5.0	1.7	1.1	0.8		
Edu. & health service	5.7	5.7	5.6	1.3	1.4	1.4		
Leisure & hospitality	8.2	7.5	6.6	1.8	1.8	0.9		
Benefits	4.8	4.9	4.9	1.2	1.0	0.8		0.8
Private health insur.	4.6	4.9	4.7					

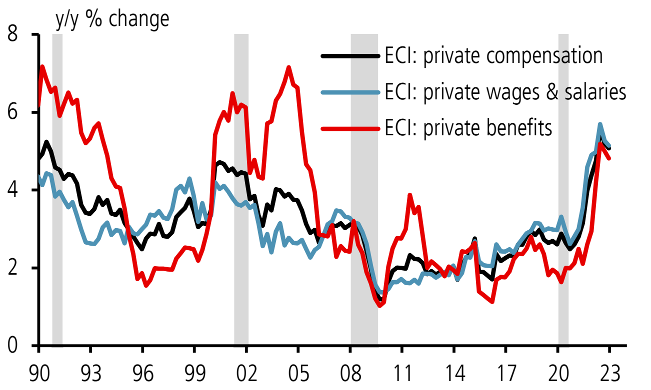
Source: Bureau of Labor Statistics, Bloomberg, UBS estimates

Figure 55: The ECI is adjusted for compositional shifts in employment; average hourly earnings are not. Both suggest some easing of elevated wage pressure.



Source: BLS, UBS

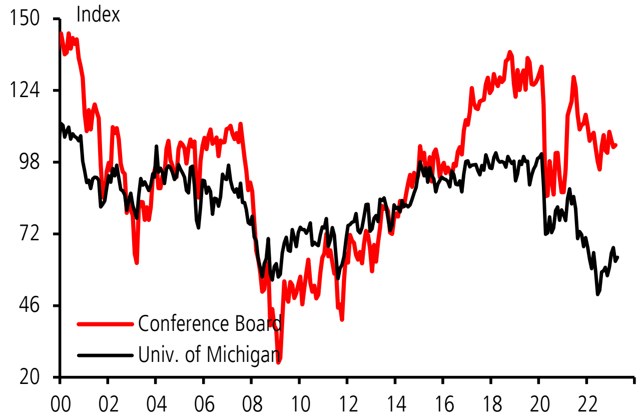
Figure 56: Rapid increases in compensation over the past year



Source: BLS, UBS

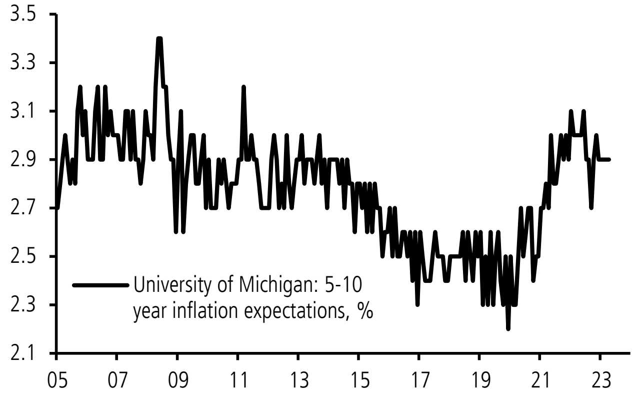
Univ. of Michigan Consumer Sentiment (Apr, final), 10:00 AM

Figure 57: University of Michigan and Conference Board headline measures



Source: University of Michigan, Conference Board, UBS

Figure 58: Long-term inflation expectations are movindg sideways at 2.9%, a little below recent highs and still contained



Source: University of Michigan, UBS

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