



FEBRUARY 13· 2023

Your weekly commentary on the economy, markets, and other financial topics.

1

DIMINISHED DOLLARS

Housing prices are currently 61% above their housing bubble peak. In inflation-adjusted terms, however, prices are up a much more modest 12%, have been declining for six straight months, and are now 3.6% below their early 2022 peak. San Francisco is the first city with a nominal year-over-year price decline, albeit small at 1.6% (*source: Case-Shiller*).

2

MISSING MONEY

In 2020 and 2021, the combination of stimulus checks and reduced spending resulted in extra household savings of up to \$2.7 trillion. According to one study, 35% of that money has been spent, and by the end of 2023, 65% will be gone (*source: Moody's Analytics*).

3

PROBLEM PERCENTAGE

While the Fed repeatedly states they intend to keep the federal funds rate between 5.1% and 5.4% through 2023, financial markets refuse to believe them. Fed funds futures suggest there is less than a 2% chance the rate will be in that range on December 31, 2023, and a 55% chance of a rate of 4.5% or lower! If markets continue to disregard Fed signals and financial conditions ease, it may cause more tightening (*sources: CME Group and WSJ*).

4

TRADE TROUBLE

The U.S. trade deficit rose to a record \$948.1 billion in 2022, up 12.2% from the 2021 deficit of \$844.8 billion and 44.5% higher than the 2020 deficit of \$654 billion. In 2019, the trade deficit was \$560 billion and had been level since 2011. The deficit will likely shrink as imports decline with weakening consumer spending and business investment (*source: Census Bureau*).

5

CEO CONCERNS

In a recent survey, 98% of U.S. CEOs think there will be a recession in 2023, but they expect it to be short and shallow. Half of the CEOs expect growth to pick up by the end of 2023 or mid-2024. The top concerns were recession, inflation, and labor shortages (*source: Conference Board*).

6

REQUIRED REVISIONS

Monthly employment data is notorious for large retrospective monthly and annual revisions for two key reasons. First, response rates for the initial survey are at 17-year lows, but by the third attempt, response rates are unchanged from the past. Second, with more new firms established post-Covid, it takes time for the surveys to accurately include the new firms and the jobs they create (*source: Wells Fargo*).

7

WORK WHEREABOUTS

During the week of January 23, 2023, average office use was 50.4% of its pre-pandemic level, the first time it has exceeded 50% since the start of the pandemic. The office worker visit trough was 15% in spring 2020. The highest return-to-office rates were in Austin and Houston at above 60%, while the lowest was in San Jose at 41.1% (*source: Kastle Systems*).

8

REAL RAIL

January rail traffic was dismal. Total U.S. railroad carloads of bulk commodities like coal and agricultural products rose 2.2% Y-o-Y in January. 2022 was the worst January since record-keeping began in 1988. Moreover, January intermodal traffic, composed of manufactured goods transported in highway-capable containers, was down 8.1% Y-o-Y and at its lowest January level since 2013. The decline results as firms reduce inventories and consumer spending on goods contracts (*source: Association of American Railroads*).

9

CIGARETTE CONTRACTIONS

The number of cigarettes sold to U.S. wholesalers and retailers peaked at 637 billion in 1981. In 2021, that number was 190 billion, a drop of 70%, but that still resulted in almost \$110 billion in sales. The number of cigarettes sold in 2022 is expected to fall another 8%, to 175 billion, or 525 cigarettes per person (*source: Federal Trade Commission and Commerce Department*).

10

CONTINUOUS CRUDE

Proved reserves of U.S. crude oil and condensate increased to 44.4 billion barrels in 2021, up 16.2% from 2020 and close to the 2019 peak of 47.1 billion. As recently as 2008, reserves were just 19.1 billion, the lowest level since 1940 when they were 19 billion (*source: Energy Information Association*).

11

POWERFUL PASSPORT

Japan has the world's most powerful passport for the fifth consecutive year, allowing visa-free travel to 193 of 227 destinations, or 85% of the world. The U.S. passport is tied for 17th along with Belgium, Czechia, New Zealand, Norway, and Switzerland at 186 countries (*source: Henley & Partners*).

12

SINO SLOWDOWN

Per Chinese reports, GDP grew just 3% in 2022, the slowest growth rate since 1.6% in 1976, except for Covid-influenced 2020, when growth was 2.2%. The Chinese Communist Party, assuming their zero-Covid policy would be a success and global demand for their exports would be strong, predicted 5.5% growth. In the fourth quarter of 2022, GDP growth was zero (*source: Chinese National Bureau of Statistics*).

13

PROFITABLE PRODUCTION

Volkswagen, one of the world's largest automakers, earns an operating margin of 8%. Mercedes Benz is more profitable, with a margin of 12%, the same as Tesla. However, Ferrari's operating margin is 25%, close to the 27% margin recorded by French luxury goods maker LVMH Moet Hennessy Louis Vuitton (*source: Bloomberg*).

14

BUGATTI BUCKS

The Fun Finale: Bugatti sold its last purely gas-powered supercar, a one-of-a-kind Bugatti Chiron Profilee, which goes 0 to 60 in 2.3 seconds, at a Paris auction on February 1, 2023, for \$10.7 million including fees. The proceeds went to charity, likely increasing the sale price (*source: Sotheby's*).