US Economic Weekly

Lying in wait

26 May 2023
Economics
United States

US Economics
BofAS

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Key takeaways

- We still expect the Fed to keep policy rates unchanged at its June meeting, but it is a close call.
- We see three conditions for a Fed hike. 1) strong data, 2) a debt ceiling increase, and 3) subdued regional bank stress.
- Inflation is too sticky for the Fed to commit to an extended pause. Even if the Fed skips June, it will keep July in play.

FOMC minutes: cautious but a bit stale

The May FOMC minutes, released earlier this week, indicated that policymakers were cautious about the Fed's next step at the time of the meeting (May 2-3). "Several" participants noted that further tightening "may not be necessary", while only "some" participants said that additional hikes "would likely be warranted at future meetings" because progress towards the Fed's 2% inflation target has been too slow.

In our view, however, the minutes are a bit stale because the May meeting took place before the April employment and CPI reports were released. While both reports had some encouraging details, neither clearly pointed to a slowdown in inflation. And in the three weeks since the May Fed meeting, the news on regional bank stress and associated credit tightening risks has, on balance, been encouraging. Our base case remains that the Fed will not hike in June but will retain a bias to hike going forward. But it is a close call. As of this writing, markets are pricing about half of a hike in June and a full hike by the July meeting (Exhibit 1). We think there are three necessary conditions for the Fed to hike in June or July.

1. Strong employment and inflation data

The data so far support further tightening. Inflation is running at more than double the 2% target rate and the unemployment rate is lower than every FOMC participant's estimate of the longer-run rate. We will get one more jobs report (on June 2) and one more CPI print (June 13) before the June decision. And another one of each before the July meeting. Roughly, we think 200k+ growth in nonfarm payrolls, a steady or falling unemployment rate and core CPI of around 0.4% m/m would push the needle towards additional tightening. We are forecasting a 200k increase in payrolls and a flat u-rate (3.4%) in next week's May jobs report. That would keep the June decision in balance. Of course, the details of the reports and data revisions will also matter.

2. A deal to raise the debt ceiling

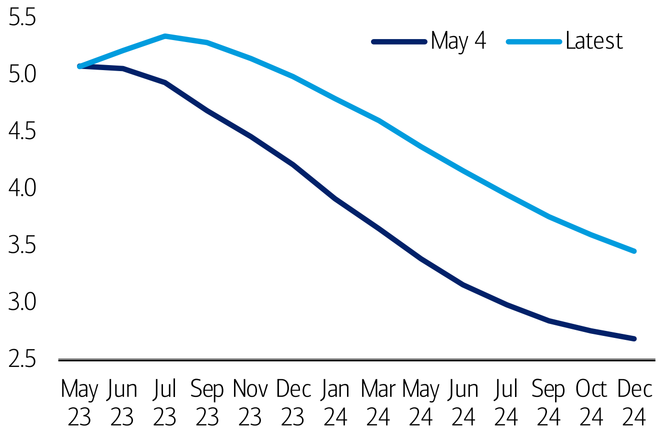
The main reason for the Fed to stay on hold is uncertainty about the debt ceiling and credit tightening. The latest news flow suggests that President Biden and House Speaker McCarthy's negotiators are close to reaching a deal to raise the debt ceiling. In the absence of a deal, the Fed would almost certainly remain on hold for the sake of prudent risk management. See here for our view on the Fed's response if we cross the X-date: Federal Reserve Watch: Debt limit standoff: The Fed cannot solve every problem.

FOMC: Federal Open Market Committee

CPI: Consumer Price Index

m/m: month over month

Exhibit 1: Market pricing of the fed funds rate (%)
Market pricing has shifted significantly since the May meeting. We are now pricing a full hike by July and a much less aggressive cutting cycle



Source: Bloomberg, Tullett Prebon

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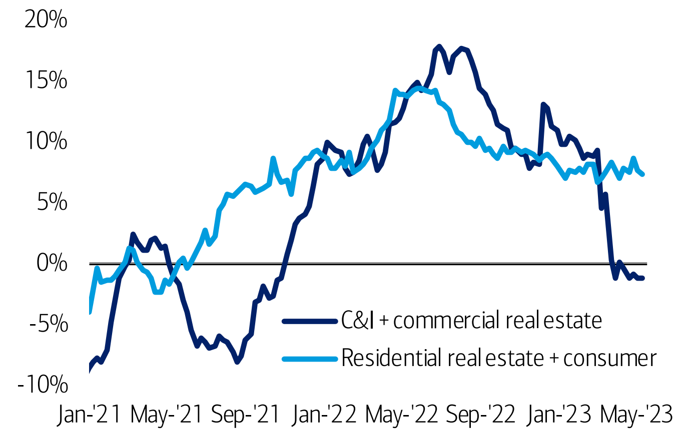
Exhibit 2: Loans at small and large banks, by category (13-week annualized growth rate)
Loans to business have slowed, but loans to consumers have not



Source: Federal Reserve Board

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3. Subdued regional bank stress

Regional bank stress and credit tightening risks remain top-of-mind for the Fed and were discussed at length in the May minutes. The minutes state that credit quality has "deteriorated somewhat" for business and households with poorer credit, and that mid-sized banks tightened commercial and industrial (C&I) loan standards more than others, partially because of "a deterioration in their current or expected liquidity position".

Even if the economic data remain strong and the debt ceiling is raised, uncertainty about the size and timing of a potential credit squeeze could keep the Fed on hold in June. Loan growth has slowed significantly for C&I and commercial real estate loans, but has held up for residential real estate and consumer loans so far (Exhibit 2). The Fed might want to see more data on credit provision before committing to another hike. In addition to another six weeks of bank balance sheet data (Table H.8), the Fed will have the results of the next Senior Loan Officer Opinion Survey in hand at the July meeting. This is perhaps the best justification for a hold-then-hike scenario.

Wall(er) of worry

Recent Fed commentary points to a range of opinions around the June policy decision. St. Louis Fed President Bullard and Dallas Fed President Logan seem to favor a June hike, while Boston Fed President Collins and Chicago Fed President Goolsbee seem to lean towards a pause. Chair Powell was non-committal in his latest remarks, but in our view his comments were slightly dovish.

Meanwhile, Governor Waller argued for a hike in June or a hold with a bias to hike going forward. Waller said it was a close call between these two options, but he argued against a third option: committing to an extended pause with the expectation that the lagged effects of monetary tightening would weigh on growth and inflation. His main concern was the lack of progress on inflation. In his discussion of inflation, Waller went beyond Chair Powell's focus on services inflation ex housing, and the upside risks to this component from the hot labor market. He also mentioned that rental disinflation might not last as long as expected given the nascent rebound in the housing market. And although we are seeing disinflation in core goods (ex used cars), we are not getting the deflation that we anticipated given how far price levels have surged above trend.

Our views on inflation and the implications for Fed policy align closely with Governor Waller's. We put significant weight on his view because he has arguably been the most reliable forecaster of Fed policy in this cycle. Even if the Fed stays on hold in June, the data support an increasingly strong bias to hike going forward.

US GDP Tracking

1Q US GDP up two-tenths to 1.3%, 2Q down to 1.1%

New home sales in April came in slightly above our expectations but along with downward revisions to March data. This reduced our estimate for residential investment during 1Q and left it unchanged in 2Q.

The second estimate of 1Q GDP, meanwhile, was revised higher to 1.3% q/q saar from 1.1% q/q saar previously. Looking at the details, the revisions came mainly from upward revisions to government spending, inventory accumulation, household spending on services, equipment, and intellectual property investment. Meanwhile, there were downward revisions to goods consumption, structures investment, net exports and residential spending. The drag from inventories in 1Q reduced from -2.3ppt to -2.1ppt in the second release. This reduced our tracking estimate for inventory accumulation in 2Q. (For more details, see: US Watch: Second estimate 1Q US GDP: Less drag from inventories, stronger gov't spending 25 May 2023)

Overall, this week's data pushed up 1Q US GDP from 1.1% q/q saar to 1.3% q/q saar after the BEA release and pushed down our 2Q GDP tracking estimate by a tenth to 1.1% q/q saar. Looking ahead to next week, April construction spending and May employment report will affect 1Q and 2Q tracking.

Exhibit 3: BofA US GDP tracking estimate

Our 2Q US GDP tracking estimate got pushed down a tenth to 1.1% q/q saar, largely due to the smaller drag from inventories in the second print of 1Q GDP

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
5/15/23	Official Forecast	1.0	0.5	1.0	-5.0	-3.5	-4.0	3.5	0.5	-1.0	-4.5	-1198.5	0.5
5/16/23	Retail Sales, Industrial Production	**1.2**	**0.9**	**1.6**	**-5.8**	**-3.6**	**-3.4**	3.5	0.5	-1.0	-4.5	-1198.5	**23.7**
5/17/23	Housing Starts and Permits	1.2	0.9	1.6	-5.8	-3.6	-3.4	3.5	0.5	-1.0	-4.5	-1198.5	23.7
5/18/23	Existing Home Sales	1.2	**0.8**	1.6	**-7.4**	-3.6	-3.4	3.5	0.5	-1.0	-4.5	-1198.5	23.7
5/23/23	New Home Sales	1.2	0.8	1.6	-7.4	-3.6	-3.4	3.5	0.5	-1.0	-4.5	-1198.5	23.7
5/25/23	1Q US GDP (second release)	**1.1**	0.8	1.6	-7.4	-3.6	-3.4	3.5	0.5	-1.0	-4.5	**-1205.30**	**20.70**
	GDP tracking	1.1	0.8	1.6	-7.4	-3.6	-3.4	3.5	0.5	-1.0	-4.5	-1205.3	20.7
	Contribution to GDP growth (pp)			1.1	-0.3	-0.1	-0.2	0.2	0.1			0.6	-0.3
	BofA official GDP forecast	1.0	0.5	1.0	-5.0	-3.5	-4.0	3.5	0.5	-1.0	-4.5	-1198.5	0.5

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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Exhibit 4: ISM manufacturing (mfg) index tracker

Regional surveys released point to a slight decline in activity relative to April

	Date	Print	m/m ch	ISM tracking
ISM Manufacturing Index (Apr)	1-May	47.1		
Empire ISM adj.	15-May	43.5	-11.4	46.8
Phil. ISM adj.	17-May	46.4	4.2	46.9
Richmond Fed*	23-May	-15.0	-5.0	46.4
KC ISM adj.	25-May	51.1	2.8	46.5
Dallas ISM adj.	30-May			
Chicago ISM adj	31-May			
ISM Manufacturing tracker (May)	**1-Jun**			**46.5**

Source: Haver Anaytics, BofA Global research

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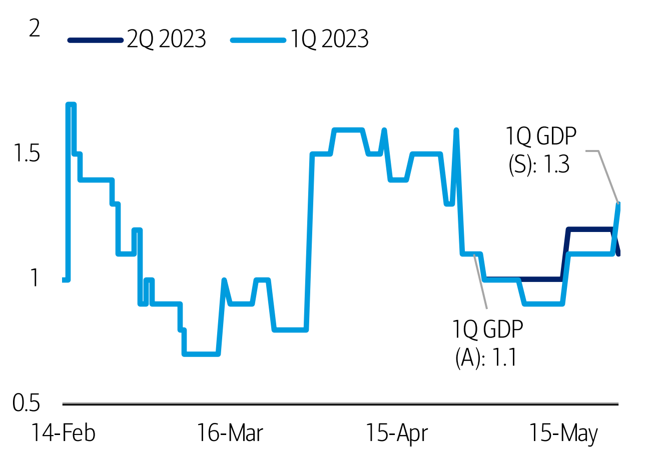
Exhibit 5: 1Q GDP tracking evolution (% q/q, SAAR)

1Q US GDP got revised up two-tenths to 1.3% q/q saar in the second release; our 2Q US GDP tracking got pushed down a tenth to 1.1% q/q saar



Source: BofA Global Research

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Data in the past week

Data in the past week (May 22nd – May 26th)

This past week's focus was on Personal Income and Outlays, GDP 1Q (S), FOMC minutes

Date	Time	Indicator	Period	Actual	Consensus	Previous
5/23/23	9:45	S&P Global US manufacturing PMI	May P	48.5	50.0	50.2
5/23/23	9:45	S&P Global US services PMI	May P	555.1	52.5	53.6
5/23/23	10:00	New Home Sales	Apr	683k	665k	656k
5/24/23	7:00	MBA Mortgage Applications	May 19	-4.6%	—	-5.7%
5/24/23	**14:00**	**FOMC Minutes**	May 2			
5/25/23	8:30	Initial Jobless Claims	May 20	229k	245k	225k
5/25/23	8:30	GDP (qoq saar)	1Q S	1.3%	1.1%	1.1%
5/25/23	8:30	Personal consumption (qoq saar)	1Q S	3.8%	3.7%	3.7%
5/25/23	8:30	GDP Price Index (qoq saar)	1Q S	4.2%	4.0%	4.0%
5/25/23	8:30	Core PCE (qoq saar)	1Q S	5.0%	4.9%	4.9%
5/25/23	10:00	Pending Home Sales	Apr	0.0%	1.0%	-5.2%
5/26/23	8:30	Wholesale Inventories	Apr P	—	—	0.0%
5/26/23	8:30	Personal Income	Apr	NR	0.4%	0.3%
5/26/23	8:30	Personal Spending	Apr	NR	0.5%	0.0%
5/26/23	8:30	PCE Headline Prices (mom)	Apr	NR	0.3%	0.1%
5/26/23	8:30	PCE Headline Prices (yoy)	Apr	NR	4.3%	4.2%
5/26/23	8:30	PCE Core Prices (mom)	Apr	NR	0.3%	0.3%
5/26/23	8:30	PCE Core Prices (yoy)	Apr	NR	4.6%	4.6%
5/26/23	8:30	Personal saving rate	Apr	NR	—	5.1%
5/26/23	8:30	Durable Goods Orders	Apr P	NR	-1.0%	3.2%
5/26/23	8:30	Durables Ex Transportation	Apr P	NR	-0.1%	0.2%
5/26/23	8:30	Core Capital Goods Orders	Apr P	NR	-0.1%	-0.6%
5/26/23	8:30	Core Capital Goods Shipments	Apr P	NR	-0.1%	-0.5%
5/26/23	8:30	Advance Goods Trade Balance	Apr	NR	-$85.9bn	-$84.6b
5/26/23	10:00	U. of Michigan Sentiment	May F	NR	58.0	57.7

Source: Bloomberg, BofA Global Research
NR: Not Released

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Core views

Growth

- GDP growth slowed down to 0.9% in 2022 (4Q/4Q) and we now expect it to decline further to -0.2% in 2023 (4Q/4Q) as the lagged effects of tighter monetary policy and financial conditions cool the economy before recovering by 4Q 2024.

Inflation

- A mild recession this year and ongoing goods deflation should lead to disinflation this year. Headline PCE grew at 5.7% in 2022 (4Q/4Q) and is expected to grow at 2.9% in 2023, while core grew at 4.8% and is expected to come in at 3.3% in 2023. Our forecast still puts inflation broadly in line with the Fed's 2% mandate by 2024 end.

Federal Reserve

- As expected, the Fed lifted its policy rate by 25bp to 5.0-5.25% and signaled it is likely done hiking rates this cycle. That said, additional hikes cannot be ruled out yet and the Fed retains upward bias in its policy rate guidance.

Data in the week ahead

Data in the week ahead (May 30th - June 2nd)
This week, the focus is on the employment data, productivity, and home prices

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
5/30/23	9:00	Case-Shiller HPI (yoy)	Mar	1.5%	—	2.1%
5/30/23	10:00	Consumer Confidence	May	99.0	99.8	101.3
5/31/23	7:00	MBA Mortgage Applications	May 26	—	—	-4.6%
5/31/23	9:45	Chicago Purchasing Managers	May	47.5	47.5	48.6
5/31/23	10:00	JOLTS Job Openings	Apr	—	—	9590k
6/01/23	8:30	Initial Jobless Claims	May 27	234k	—	229k
6/01/23	8:30	Nonfarm Productivity	1Q F	-2.5%	-2.7%	-2.7%
6/01/23	8:30	Unit Labor Costs	1Q F	6.1%	6.3%	6.3%
6/01/23	9:45	S&P Global US manufacturing PMI	May F	—	—	48.5
6/01/23	10:00	Construction Spending (mom)	Apr	0.2%	0.2%	0.3%
6/01/23	10:00	ISM Manufacturing	May	46.5	47.0	47.1
6/01/23	8:15	ADP Employment	May	—	160k	296k
6/01/23	All day	Total Vehicle Sales	May	—	15.3M	15.9M
6/02/23	8:30	Change in Nonfarm Payrolls	May	200k	180k	253k
6/02/23	8:30	Private Payrolls	May	180k	158k	230k
6/02/23	8:30	Unemployment Rate	May	3.4%	3.5%	3.4%
6/02/23	8:30	Average Hourly Earnings mom	May	0.3%	0.3%	0.5%
6/02/23	8:30	Average Weekly Hours	May	34.4	34.4	34.4

Source: Bloomberg

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Monday, May 29

Memorial Day Holiday

Tuesday, May 30

Data in the week ahead
Case-shiller HPI, Consumer confidence

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
5/30/23	9:00	Case-Shiller HPI (yoy)	Mar	1.5%	—	2.1%
5/30/23	10:00	Consumer Confidence	May	99.0	99.8	101.3

Source: Bloomberg

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Case-shiller HPI

S&P CoreLogic Case-Shiller national home price index likely grew 1.5% y/y in March, cooling further from the 2.1% y/y growth seen in February. Home price growth has been slowing over the past several months owing to the drop in sales over the past year. Low inventory in the existing homes market has limited the downside for home prices, and pushed buyers towards new homes where builders are offering more attractive rates than banks. The housing market is in the process of adjusting to a new equilibrium and we believe that the sector has neared a bottom, and anticipate some further cooling of housing prices until then.

Conference Board Consumer confidence

We expect the May consumer confidence index to tick lower to 99.0 from 101.3 previously. In April, confidence declined as consumers' concerns over the economic outlook worsened. Fears of weaker labor market conditions, a recession, and uncertainty around the latest debt ceiling debate should have pushed confidence lower in May.

Wednesday, May 31

Data in the week ahead

Chicago Purchasing Managers Index

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
5/31/23	7:00	MBA Mortgage Applications	May 26	—	—	-4.6%
5/31/23	9:45	Chicago Purchasing Managers	May	47.5	47.5	48.6
5/31/23	10:00	JOLTS Job Openings	Apr	—	—	9590k

Source: Bloomberg

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Chicago Purchasing Managers Index

For the May Chicago PMI, we forecast a 47.5 print. This would be a partial reversal of the 4.8pt increase to 48.6 in April. It would also mark the ninth consecutive print below 50.

Thursday, June 1

Data in the week ahead

Initial Jobless Claims, Nonfarm Productivity, Construction Spending, Total Vehicle Sales

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
6/01/23	8:30	Initial Jobless Claims	May 27	234k	—	229k
6/01/23	8:30	Nonfarm Productivity	1Q F	-2.5%	-2.7%	-2.7%
6/01/23	8:30	Unit Labor Costs	1Q F	6.1%	6.3%	6.3%
6/01/23	10:00	Construction Spending (mom)	Apr	0.2%	0.2%	0.3%
6/01/23	10:00	ISM Manufacturing	May	46.5	47.0	47.1
6/01/23	8:15	ADP Employment	May	—	160k	296k
6/01/23	All day	Total Vehicle Sales	May	—	15.3M	15.9M

Source: Bloomberg

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Initial jobless claims

We expect initial jobless claims increased to 234k in the week ending May 27 after last week's 4k increase to 229k. The two weeks before that were revised down by a total of 50k as Massachusetts downwardly revised claims for the last three weeks after discovering fraudulent filings. Claims in Massachusetts were revised further back, but it was not incorporated in the headline claims number as far as we can tell. Going forward, we expect the layoffs (post severance as well as recent ones) in the technology and finance sectors to show up in the data but downside risks from the potential discovery of fraudulent filings in other states still remain for this volatile print.

Productivity and unit labor costs

In the second and final 1Q print for productivity and unit labor costs, we look for productivity to be revised up to a decline of 2.5% q/q saar from -2.7% initially. The upward revision reflects the two-tenth upward revision to output. Meanwhile, unit labor costs will likely get revised down to 6.1% from 6.3%.

Construction Spending

Construction spending likely increased 0.2% m/m in April, after a 0.3% increase in March. Residential construction spending will likely continue the decline due to the ongoing retrenchment of the housing sector. Rising rates and declining sales have contributed to a sharp drop in residential construction. But the decline is likely to be smaller as housing starts have increased in two of the last three months. Last month, non-residential construction spending rose 0.7% m/m, slowing down from the 1.5% rise in January. We expect this trend to continue due to a cut back in investment by both firms and government, in the backdrop of an investment slowdown in the economy.

ISM manufacturing

We forecast ISM manufacturing declined to 46.5 in May, from 47.1 previously. We take signal from our ISM manufacturing tracker which aggregates the regional manufacturing indices released to date. Currently the measure stands at 46.5 though we are still waiting on a couple more regions to publish. Therefore, it could still move ahead of the ISM release. However, we do feel that a decline is likely this month especially after the S&P Global US manufacturing PMI dropped by 1.7pts in its preliminary May reading.

Friday, June 2

Data in the week ahead
Employment report

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
6/02/23	8:30	Change in Nonfarm Payrolls	May	200k	180k	253k
6/02/23	8:30	Private Payrolls	May	180k	158k	230k
6/02/23	8:30	Unemployment Rate	May	3.4%	3.5%	3.4%
6/02/23	8:30	Average Hourly Earnings mom	May	0.3%	0.3%	0.5%
6/02/23	8:30	Average Weekly Hours	May	34.4	34.4	34.4

Source: Bloomberg

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Employment report

For the May employment report, we forecast a 200k increase in nonfarm payrolls (NFP), which would be a downshift from the addition of 253k jobs in April. Still it would leave payroll growth well above levels needed to offset the pace of natural growth in the labor force, thereby putting downward pressure on the unemployment rate in an already tight labor market. Of our forecasted increase of 200k, we expect private and public payrolls to account for 180k and 20k respectively.

The main reason that we look for another strong headline NFP print in May is mainly due to the ongoing strength of the claims data, which had been plagued by issues with fraud in Massachusetts. That said, Massachusetts recently revised their initial jobless claims data downward to account for the rise in fraud. Adjusting the overall claims data to account for all of these revisions, we find that initial jobless claims remained low during the May survey week and were little changed relative to the April survey week. In other words, the claims data continue to signal high retention rates.

Additionally, continuing claims, which we suspect were not severely affected by the rise in fraudulent initial claims were lower in the May survey week than the April survey week. Since continuing claims are a measure of unemployment, the decline relative to April suggests that hiring picked up or some unemployment insurance recipients exhausted their benefits. We suspect it's the former.

Meanwhile, we look for average hourly earnings to rise by 0.3% m/m, which would leave the y/y rate unchanged at 4.4%. While average hourly earnings growth accelerated to 0.5% m/m in April, we think it will revert towards a softer trend in May. This mainly reflects further signs that job openings are declining resulting in a slightly better balance between labor demand and labor supply. While we only have the official job openings measure through March, total job postings according to Indeed edged down further in the first few weeks of May, which should translate into less upward pressure on wages.

On the household survey side, we look for the participation rate to hold at 62.6% for a third consecutive month. The participation rate is now at or close to levels that would be consistent with the demographics of the US economy. Additionally the number of people marginally attached to the labor force is right around levels seen prior to the pandemic. Therefore, we do not see much further upside to the participation rate. Given this and our forecast for a 200k gain in payroll employment, we expect the unemployment rate to remain at 3.4%.

Upcoming policy speakers

Upcoming policy speakers
No key speaking engagements and news events*

Monday, May 29		
Tuesday May 30		
	13:00	*Fed's Barkin Speaks on Monetary Policy, Outlook*
Wednesday, May 31		
	8:50	*Collins, Bowman (voter) Give Opening Remarks at Fed Listens Event*
	12:20	*Fed's Collins Gives Closing Remarks at Fed Listens Event*
	12:30	*Fed's Harker (voter) Speaks on Macroeconomic, Monetary Conditions*
	14:00	*Federal Reserve Releases Beige Book*
Thursday, June 1		
	13:00	*Fed's Harker (voter) Speaks on Economic Outlook*
Friday, June 2		

Source: Bloomberg,
Note: All listed times are Eastern times. Dates and times are subject to change.
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Economic forecast summary

Table 1: US economic outlook

We forecast growth to fall by 0.2% 4q/4q in 2023 before recovering in 2024

	2Q 22	3Q 22	4Q 22	1Q 23	2Q 23	3Q 23	4Q 23	1Q 24	2Q 24	3Q 24	4Q 24	2021	2022	2023	2024
Real Economic Activity, % SAAR															
Real GDP	-0.6	3.2	2.6	1.3	1.0	-1.0	-2.0	-0.5	1.0	1.5	1.5	5.9	2.1	1.1	-0.1
% Change, Year Ago	1.8	1.9	0.9	1.6	2.0	1.0	-0.2	-0.6	-0.6	0.0	0.9				
Final Sales	1.4	4.5	1.1	3.4	1.0	-0.5	-1.5	0.0	1.0	1.5	1.5	5.7	1.3	1.7	0.2
Domestic Demand	0.2	1.5	0.7	3.4	0.5	-1.0	-1.5	0.0	1.5	2.0	2.0	6.7	1.7	1.0	0.2
Consumer Spending	2.0	2.3	1.0	3.8	1.0	-1.0	-1.5	-0.5	1.0	1.5	1.5	8.3	2.7	1.5	0.0
Residential Investment	-17.8	-27.1	-25.1	-5.4	-5.0	-4.5	-4.0	3.0	3.0	2.0	2.0	10.7	-10.6	-13.1	0.0
Nonresidential Investment	0.1	6.2	4.0	1.4	-1.0	-1.5	-2.5	0.0	3.0	4.0	4.0	6.4	3.9	1.3	0.5
Structures	-12.7	-3.6	15.7	11.0	-3.5	-4.0	-4.0	-1.0	2.0	3.0	3.0	-6.4	-6.6	2.6	-0.8
Equipment	-2.1	10.6	-3.5	-7.0	-4.0	-5.0	-6.0	-1.0	2.0	3.0	3.0	10.3	4.3	-3.1	-1.4
Intellectual Property	8.9	6.8	6.2	5.2	3.5	3.0	1.5	1.0	4.0	5.0	5.0	9.7	8.8	5.0	2.8
Government	-1.6	3.7	3.8	5.2	0.5	0.0	0.5	1.0	1.0	1.0	1.0	0.6	-0.6	2.5	0.8
Exports	13.8	14.6	-3.7	5.2	-1.0	-1.0	-2.5	2.0	4.0	4.0	4.0	6.1	7.1	2.6	1.3
Imports	2.3	-7.3	-5.5	4.0	-4.5	-4.5	-3.0	2.0	6.0	7.0	7.0	14.1	8.1	-2.5	1.4
Net Exports (Bil 12$)	-1431	-1269	-1239	-1244	-1206	-1169	-1157	-1163	-1192	-1231	-1271	-1233	-1357	-1194	-1214
Contribution to growth (ppts)	1.2	2.9	0.4	0.0	0.5	0.5	0.1	-0.1	-0.4	-0.5	-0.5	-1.3	-0.4	0.7	-0.1
Inventory Accumulation (Bil 12$)	110.2	38.7	136.5	6.9	9.0	-21.0	-60.0	-80.0	-74.0	-62.0	-50.0	-19.4	125.0	-16.4	-66.6
Contribution to growth (ppts)	-1.9	-1.2	1.5	-2.1	0.0	-0.6	-0.7	-0.4	0.1	0.2	0.2	0.2	0.7	-0.7	-0.2
Nominal GDP (Bil $, SAAR)	25249	25724	26138	26486	26793	26940	26995	27170	27457	27788	28104	23315	25463	26803	27630
% SAAR	8.5	7.7	6.6	5.5	4.7	2.2	0.8	2.6	4.3	4.9	4.6	10.7	9.2	5.3	3.1
Key Indicators															
Industrial Production (% SAAR)	4.1	2.1	-2.5	-0.5	1.5	-2.5	-1.5	2.0	2.0	1.5	1.5	4.4	3.4	-0.3	0.6
Capacity Utilization (%)	80.6	80.7	79.9	79.5	79.5	79.5	79.0	79.5	79.5	80.0	80.0	77.5	80.3	79.4	79.7
Nonfarm Payrolls (Avg mom ch, 000s)	329	423	284	345	130	-75	-175	-100	75	100	100	606	399	56	44
Civilian Unemployment Rate (%)	3.6	3.5	3.6	3.5	3.5	3.8	4.3	4.8	4.8	4.8	4.8	5.4	3.6	3.8	4.8
Civilian Participation Rate (%)	62.2	62.2	62.2	62.5	62.7	62.7	62.7	62.7	62.7	62.7	62.7	61.7	62.2	62.7	62.7
Productivity (% SAAR)	-3.7	1.2	1.6	-2.7	-1.0	-0.5	-1.0	0.0	1.0	1.5	1.5	2.2	-1.7	-1.3	1.0
Personal Saving Rate (%)	3.2	3.2	4.0	4.8	4.9	5.3	6.0	6.3	6.4	6.4	6.5	12.0	3.7	5.3	6.4
Light Vehicle Sales (Millions SAAR)	13.3	13.4	14.3	15.2	16.3	16.5	15.9	16.1	17.6	18.7	19.3	14.9	13.8	16.0	17.9
Housing Starts (Thous. SAAR)	1636	1446	1405	1382	1385	1375	1365	1375	1415	1445	1455	1606	1551	1377	1423
Current Account (% of GDP)												-3.6	-3.7	-3.2	-3.2
US Budget Balance ($bn, Fiscal Year)												-2776	-1375	-1350	-1450
Inflation															
GDP Price Index (% SAAR)	9.0	4.4	3.9	4.0	3.6	3.2	2.9	3.1	3.2	3.4	3.1	4.5	7.0	4.1	3.2
% Change, Year Ago	7.6	7.1	6.4	5.3	4.0	3.7	3.5	3.2	3.1	3.1	3.2				
PCE Chain Prices (% SAAR)	7.3	4.3	3.7	4.2	3.0	2.4	1.8	2.1	2.0	2.4	2.0	4.0	6.3	3.7	2.2
% Change, Year Ago	6.6	6.3	5.7	4.9	3.8	3.3	2.9	2.4	2.1	2.1	2.2				
Core PCE Chain Prices (% SAAR)	4.7	4.7	4.4	4.9	3.8	2.7	1.7	1.9	2.1	2.5	2.1	3.5	5.0	4.1	2.2
% Change, Year Ago	5.0	4.9	4.8	4.7	4.5	4.0	3.3	2.5	2.1	2.0	2.2				
CPI, Consumer Prices (% SAAR)	9.7	5.5	4.2	3.8	3.0	2.3	2.3	2.8	2.2	2.4	2.1	4.7	8.0	4.0	2.5
% Change, Year Ago	8.6	8.3	7.1	5.8	4.1	3.3	2.9	2.6	2.4	2.4	2.4				
CPI ex Food & Energy (% SAAR)	6.0	6.2	5.1	5.0	4.7	2.9	2.1	2.5	2.5	2.5	2.4	3.6	6.1	4.7	2.6
% Change, Year Ago	6.0	6.3	6.0	5.6	5.2	4.4	3.6	3.0	2.5	2.4	2.5				

Source: BofA Global Research

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Rates and dollar forecast

Table 2: Rates and dollar forecast

We expect the Fed to pause at the terminal rate of 5.00-5.25% this year and start cutting in 1Q 2024.

	Spot	23-Jun	23-Sep	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
Interest rates								
Fed Funds	5.08	5.00-5.25	5.00-5.25	5.00-5.25	4.75-5.00	4.25-4.50	3.75-4.00	3.25-3.50
Fed Effective Rate	5.08	5.13	5.13	5.13	4.88	4.38	3.88	3.38
2-Year T-Note	4.53	4.00	3.75	3.50	3.25	3.00	-	2.75
5-Year T-Note	3.91	3.60	3.45	3.40	3.25	3.10	-	3.00
10-Year T-Note	3.82	3.50	3.35	3.25	3.25	3.25	-	3.25
30-Year T-Bond	4.00	3.70	3.55	3.40	3.40	3.45	-	3.50
Dollar								
EUR-USD	1.07	1.05	1.07	1.10	1.10	1.10	1.15	1.15
USD-JPY	140	138	143	140	135	132	125	125
USD-CAD	1.36	1.34	1.30	1.28	1.25	1.25	1.25	1.25
AUD-USD	0.65	0.68	0.72	0.74	0.76	0.76	0.76	0.76
NZD-USD	0.61	0.62	0.64	0.66	0.67	0.67	0.67	0.67
GBP-USD	1.23	1.18	1.19	1.21	1.21	1.21	1.26	1.26
USD-CHF	0.91	0.93	0.92	0.89	0.90	0.90	0.87	0.87
USD-SEK	10.82	10.86	10.75	10.00	9.73	9.64	9.13	8.96
USD-NOK	11.05	10.67	10.19	9.64	9.45	9.45	8.87	8.70
USD-CNY	7.08	7.00	6.90	6.75	6.60	6.50	6.50	6.40
USD-MXN	17.85	18.50	19.00	19.50	19.90	20.30	20.60	21.00

Source: BofA Global Research

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Rolling calendar of business indicators

Key economic data over the next three weeks

Next week the focus will be on the employment report, construction spending, and auto sales

Monday	Tuesday	Wednesday	Thursday	Friday
May 29	**May 30**	**May 31**	**Jun 1**	**Jun 2**
Memorial Day	9:00 am: S&P CoreLogic CS HPI – Mar 10:00 am: Conference Board Confidence – May	7:00 am: MBA Mortgage Applications – week ending 05/26/2023 9:45 am: Chicago PMI – May 10:00 am: JOLTS Job Openings - Apr 2:00 pm: Fed's Beige Book	8:15 am: ADP Employment – May 8:30 am: Initial Jobless Claims – week ending 05/27/2023 8:30 am: Productivity & Costs - 1Q (F) 9:45 am: S&P Global US Manufacturing PMI – May (F) 10:00 am: ISM manufacturing – May 10:00 am: Construction Spending – Apr All Day: Wards Auto Sales - May	8:30 am: Employment Report – May
Jun 5	**Jun 6**	**Jun 7**	**Jun 8**	**Jun 9**
9:45 am: S&P Global US Services PMI – May (F) 10:00 am: Factory orders – Apr 10:00 am: ISM services– Mar 10:00 am: Durable Goods Orders – Apr F		7:00 am: MBA Mortgage Applications – week ending 06/02/2023 8:30 am: Trade Balance – Apr	8:30 am: Initial Jobless Claims – week ending 06/03/2023 10:00 am: Wholesale Inventories – Apr	
Jun 12	**Jun 13**	**Jun 14**	**Jun 15**	**Jun 16**
2:00 pm: Monthly Budget Statement - May	6:00 am: NFIB Small Bus. Optimism – May 8:30 am: Consumer Price Index – May	7:00 am: MBA Mortgage Applications – week ending 06/09/2023 8:30 am: Producer Price Index – May 2:00 pm: FOMC Rates Decision	8:30 am: Initial Jobless Claims – week ending 06/10/2023 8:30 am: Advance Retail Sales – May 8:30 am: Import Price Index – May 8:30 am: Empire Manufacturing – Jun 8:30 am: Philly Fed – Jun 9:15 am: Industrial Production – May 10:00 am: Business Inventories – Apr	10:00 am: U. of Mich Sentiment – Jun (P)

*Projections- subject to revision as additional data become available. P - preliminary reading , S - second reading, T - third reading, F - final reading

Source: Bloomberg

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