US Economic Weekly

The Fed opened the door to a faster pace, the data must push them through

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Economics
United States

US Economics
BofAS

Michael Gapen
US Economist
BofAS
+1 646 855 3270
michael.gapen@bofa.com

Aditya Bhave
US Economist
BofAS
+1 646 855 9929
aditya.bhave@bofa.com

Stephen Juneau
US Economist
BofAS
+1 202 442 7429
stephen.juneau@bofa.com

Shruti Mishra
US and Global Economist
BofAS
+1 646 855 1040
smishra44@bofa.com

Jeseo Park
US Economist
BofAS
+1 646 855 8688
jeseo.park@bofa.com

See Team Page for List of Analysts

Key takeaways

- In a surprise to us, the Fed sent a strong signal about its willingness to return to a faster pace of rate hikes.
- A return to larger rate hikes is still data dependent. Data may now have to underperform expectations to get a smaller hike.
- While it may be tempting to conclude incoming data says the US is impervious to higher rates, we caution against this view.

The Fed chose to pre-position markets

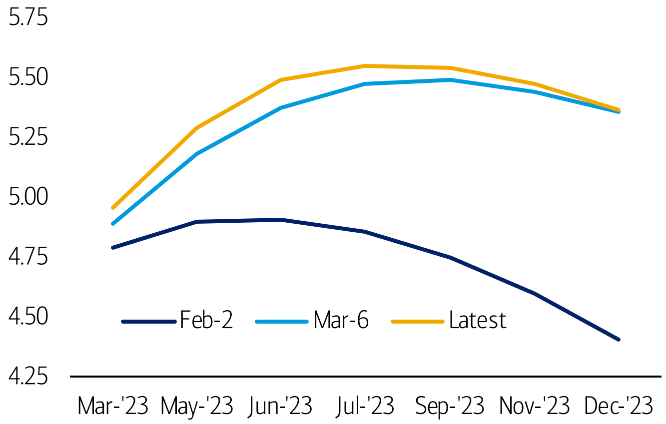
We must admit we were taken by surprise this week by the willingness of the Fed to open the door to a return to a faster pace of rate hikes at Chair Powell's testimony during the semiannual Monetary Policy Report to Congress. In our view, Fed communication had already taken on board the signal from revisions to prior employment and inflation data, which pointed to more resilience and less disinflation, respectively, than the as-reported data implied. Financial markets listened, too, given how much the expected path for the federal funds rate rose between the conclusion of the February FOMC meeting and March 6 (Exhibit 1). Markets had already begun to price in a meaningful probability of a larger 50bp rate hike in March. With JOLTS, February payrolls, CPI, PPI and retail sales all arriving before the Fed meets on March 21-22, we expected a firm message from the Fed, but not much of a signal about whether the Fed was prepared to lift its policy rate by 50bp only one meeting after slowing to 25bp.

In the event, Powell's prepared remarks moved from "how high" back in the direction of "how fast." At the February FOMC meeting, the message was about "determining the extent of future increases in the target range". This week, Powell's prepared remarks said, "if the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes." Of course, the Fed cannot revert to a faster pace without also opening the door to an even higher terminal rate. In this regard, Powell emphasized that the latest round of data "suggests that the ultimate level of interest rates is likely to be much higher than previously anticipated." Following Powell's testimony, financial markets priced in an even greater likelihood of a 50bp hike in March – with about 80% probability – and a higher terminal rate (Exhibit 1).

While a faster pace of rate hikes is still conditional on the "totality of the data", we see the Fed's shift in tone as lowering the bar for how strong the incoming data need to be to justify a larger rate increase in March. Whereas we had previously suggested February employment needed to exceed expectations by a wide margin, we think something closer to our forecast – 230k, 3.4% U-3 unemployment rate, and 0.4% m/m increase in average hourly earnings – could be enough. We still expect a 25bp rate hike in March, but we acknowledge the burden has shifted in the direction of needing weaker economic data to justify moving more slowly.

Exhibit 1: Expected federal funds path from federal funds futures prices (%)

The implied path for the federal funds rate rose substantially prior to Chair Powell's testimony for the Monetary Policy Report to the Congress



Source: Bloomberg, BofA Global Research

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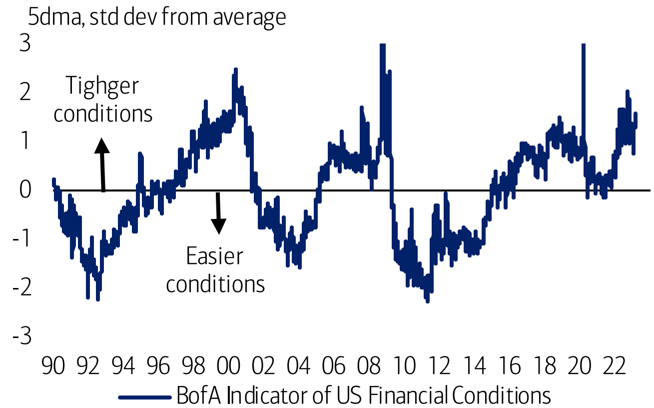
Exhibit 2: BofA Indicator of US Financial Conditions (5dma, standard deviations above or below period average)

At 1.6 standard deviations above normal, financial conditions have tightened, but remain below prior cycle peaks



Note: The BofA Indicator of US Financial Conditions is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. The BofA Indicator of US Financial Conditions was not created to act as a benchmark. Source: BofA Global Research

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February CPI inflation forecast: Still firm core

In our February CPI Inflation preview, we look for a modest decline in energy services to limit the increase in headline CPI inflation to 0.38% m/m, leading to a decline in the year-on-year rate to 6.1% from 6.4% previously. However, we look for core CPI inflation to rise by 0.42% m/m, similar to the 0.41% rise in January. If so, the year-on-year rate of increase in core CPI would fall by only one-tenth to 5.5%. We expect core goods to rise by 0.1% m/m due, in part, to less disinflation from durables categories like used cars (BofA: -0.5% m/m; January: -1.9%) and new cars (BofA: 0.2%; January: 0.2%). We look for core services to rise by 0.54% m/m on strength in shelter and non-shelter components. Altogether, our forecast would imply inflationary pressures are diminishing only slowly, potentially increasing the pressure on the Fed to move more forcefully.

The Fed is not impotent

While it may be tempting to conclude that resilience in the data means the US economy is impervious to higher policy rates from the Fed, we strongly caution against this view. Based on the evolution of our BofA Indicator of US Financial Conditions, policy actions taken by the Fed have led to tighter financial conditions (Exhibit 2). As the Fed moved to tighten its policy stance in early 2022, our indicator of financial conditions rose to 1.8 standard deviations above normal in October around the time of the UK gilt market dislocation. At present, our indicator stands at 1.6 standard deviations above normal. This degree of tightening in financial conditions has been sufficient to moderate economic activity in interest rate sensitive sectors like housing, equipment, and structures spending, but it has yet to reverse labor market imbalances or alter consumer spending intentions, likely on account of excess saving and pent-up demand for labor. That said, at 1.6 standard deviations, our indicator is above what slowed the US economy in 2018, but somewhat below prior cycle peaks. In our view, if the Fed is committed to its goals and willing to tighten policy further, then financial conditions are likely to respond accordingly. Finding the appropriate policy rate may be difficult, but that is very different than thinking Fed actions are of little consequence.

US GDP Tracking

1Q US GDP tracking down to 0.7% q/q saar

Core capital goods orders and shipments were largely unchanged from the preliminary reading at 0.8% m/m and 1.1%, respectively. However, other data increased our tracking estimate for equipment spending for 1Q by one tenth. In addition, manufacturing inventories came in at 0.1% m/m in January along with a 0.1% m/m decrease in durable goods inventories. This modestly increased our inventory tracking estimate for 1Q. Wholesale inventories in January came in at -0.4% m/m, leading to a decline in our inventory tracking estimate in 1Q.

The trade deficit in January widened to $68.3bn, the widest deficit in the last three months. Exports increased by 3.4% m/m while imports went up by 3.0%. This increased our tracking estimate for both exports and imports, while reducing our estimate for net exports in 1Q. On net, since the last weekly publication, this pushed down our 1Q US GDP tracking estimate from 0.9% q/q saar to 0.7% q/q saar.

Looking ahead to next week, CPI, Retail Sales, PPI, Industrial Production and Housing Starts & Permits in February and business inventories in January will affect 1Q tracking.

Exhibit 3: BofA US GDP tracking estimate

We are tracking 0.7% q/q saar for 1Q GDP **largely due to the widening of the trade deficit**

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
3/2/23	Vehicle Sales	**0.9**	**1.3**	**1.9**	-11.7	1.1	**0.0**	6.0	0.5	18.0	9.7	-1218.7	84.1
3/6/23	Durable Goods Orders	0.9	1.3	1.9	-11.7	1.1	**0.1**	6.0	0.5	18.0	9.7	-1218.7	**84.8**
3/7/23	Wholesale Inventories	**0.8**	1.3	1.9	-11.7	1.1	0.1	6.0	0.5	18.0	9.7	-1218.7	**82.1**
3/8/23	Trade Balance	**0.7**	1.3	1.9	-11.7	1.1	0.1	6.0	0.5	**18.5**	**11.0**	**-1229.2**	82.1
	GDP tracking	**0.7**	**1.3**	**1.9**	**-11.7**	**1.1**	**0.1**	**6.0**	**0.5**	**18.5**	**11.0**	**-1229.2**	**82.1**
	Contribution to GDP growth (pp)			1.3	-0.5	0.0	0.0	0.3	0.1			0.5	-1.2
	BofA official GDP forecast	**1.0**	**1.0**	**1.5**	**-11.0**	**-3.5**	**-3.0**	**6.0**	***0.5***	**1.0**	**-4.0**	**-1193.0**	**108.5**

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 has implications for tracking estimates.

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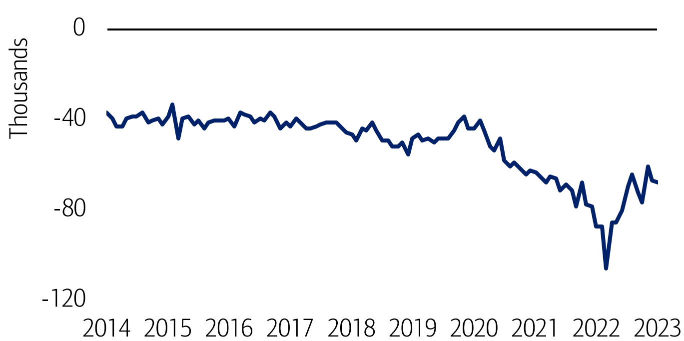
Exhibit 4: Trade balance of goods and services (SA, $bn)

The trade deficit widened from a revised $67.2bn in December to $68.3bn in January



Source: Census Bureau, Haver Analytics

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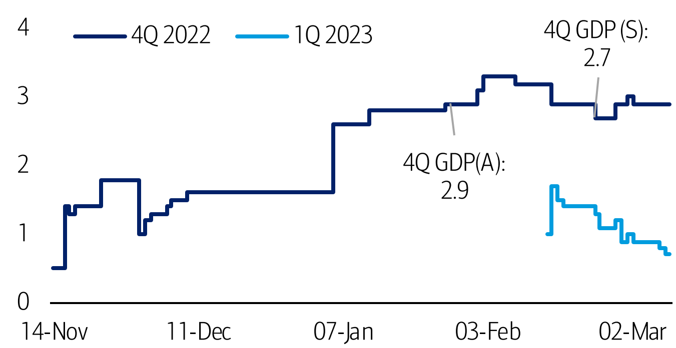
Exhibit 5: 1Q and 4Q GDP tracking evolution (% q/q, SAAR)

Our 1Q GDP tracking estimate is currently at 0.7% q/q saar



Source: BofA Global Research

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Data in the past week

Data in the past week

Employment data, trade balance, monthly budget statement

Date	Time	Indicator	Period	Actual	Consensus	Previous
3/06/23	10:00	Durable Goods Orders	Jan F	-4.5%	-4.5%	-4.5%
3/06/23	10:00	Durables Ex Transportation	Jan F	0.8%	0.7%	0.7%
3/06/23	10:00	Core Capital Goods Orders	Jan F	0.8%	—	0.8%
3/06/23	10:00	Core Capital Goods Shipments	Jan F	1.1%	—	1.1%
3/06/23	10:00	Factory Orders	Jan	-1.6%	-1.8%	1.7%
3/07/23	10:00	Wholesale Inventories	Jan F	-0.4%	-0.4%	-0.4%
3/07/23	15:00	Consumer Credit	Jan	$14.8bn	$25.0b	$10.7b
3/08/23	7:00	MBA Mortgage Applications	Mar 3	7.4%	—	-5.9%
3/08/23	8:15	ADP Employment	Feb	242k	200k	119k
3/08/23	8:30	Trade Balance	Jan	-$68.3bn	-$68.7bn	-$67.2bn
3/08/23	10:00	JOLTS Job Openings	Jan	10824k	10546k	11234k
3/08/23	14:00	Fed's Beige Book	Feb	—	—	—
3/09/23	8:30	Initial Jobless Claims	Mar 4	211k	195k	190k
3/10/23	8:30	Change in Nonfarm Payrolls	Feb	NR	225k	517k
3/10/23	8:30	Private Payrolls	Feb	NR	215k	443k
3/10/23	8:30	Unemployment Rate	Feb	NR	3.4%	3.4%
3/10/23	8:30	Average Hourly Earnings mom	Feb	NR	0.3%	0.3%
3/10/23	8:30	Average Weekly Hours	Feb	NR	34.6	34.7
3/10/23	14:00	Monthly Budget Statement	Feb	NR	-$256.0bn	-$38.8bn

Source: Bloomberg, Note: NR = Not Released

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Core views

Growth

- GDP growth slowed down to 0.9% in 2022 (4Q/4Q) and we expect it to further decline to -0.4% 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 next year. Headline PCE grew at 5.7% in 2022 (4Q/4Q) and is expected to grow at 3.0% in 2023, while core grew at 4.8% and is expected to come in at 2.9% in 2023. Our forecast still puts inflation broadly in line with the Fed's 2% mandate by 2024 end.

Federal Reserve

- We still expect 25bp hikes in March, May and June, for a terminal of 5.25-5.5%. But we acknowledge the burden has shifted in the direction of needing weaker economic data to justify moving more slowly. We maintain the first rate cut in March 2024.

Data in the week ahead

Data in the week ahead (Mar 13th – Mar 17th)
CPI, Retail Sales, PPI, Industrial Production and Housing Starts & Permits

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
3/14/23	6:00	NFIB Small Business Optimism	Feb	—	—	90.3
3/14/23	8:30	Consumer Price Index (yoy)	Feb	6.1%	6.0%	6.4%
3/14/23	8:30	CPI Ex Food & Energy (yoy)	Feb	5.5%	5.5%	5.6%
3/14/23	8:30	Consumer Price Index (mom)	Feb	0.4%	0.4%	0.5%
3/14/23	8:30	CPI Ex Food & Energy (mom)	Feb	0.4%	0.4%	0.4%
3/15/23	7:00	MBA Mortgage Applications	Mar 10	—	—	7.4%
3/15/23	8:30	Producer Price Index (mom)	Feb	0.3%	0.3%	0.7%
3/15/23	8:30	PPI Ex Food & Energy (mom)	Feb	0.4%	0.4%	0.5%
3/15/23	8:30	PPI Ex Food, Energy, Trade (mom)	Feb	0.3%	0.3%	0.6%
3/15/23	8:30	Empire Manufacturing	Mar	-10	-7.7	-5.8
3/15/23	8:30	Advance Retail Sales	Feb	-0.4%	0.2%	3.0%
3/15/23	8:30	Retail Sales Less Autos	Feb	-0.1%	0.1%	2.3%
3/15/23	8:30	Retail Sales Less Autos and Gas	Feb	-0.3%	—	2.6%
3/15/23	8:30	Core Control	Feb	-0.5%	-0.3%	1.7%
3/15/23	10:00	Business Inventories	Jan	—	0.0%	0.3%
3/15/23	10:00	NAHB Housing Market Index	Mar	40	41	42
3/15/23	16:00	Net Long-term TIC Flows	Jan	—	—	$152.8bn
3/16/23	8:30	Initial Jobless Claims	Mar 11	216k	—	211k
3/16/23	8:30	Housing Starts	Feb	1300k	1310k	1309k
3/16/23	8:30	Building Permits	Feb	1350k	1350k	1339k
3/16/23	8:30	Import Price Index (mom)	Feb	0.2%	-0.2%	-0.2%
3/16/23	8:30	Import Price Index ex Petroleum (mom)	Feb	0.3%	—	0.2%
3/16/23	8:30	Philadelphia Fed Business Outlook	Mar	-15.0	-14.8	-24.3
3/17/23	9:15	Industrial Production	Feb	0.4%	0.5%	0.0%
3/17/23	9:15	Manufacturing Production	Feb	0.1%	—	1.0%
3/17/23	9:15	Capacity Utilization	Feb	78.5%	78.5%	78.3%
3/17/23	10:00	U. of Michigan Sentiment	Mar P	66.5	67.0	67.0
3/17/23	10:00	Leading Indicators	Feb	—	-0.2%	-0.3%

Source: Bloomberg, Bofa Global Research

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Monday, Mar 13

No important data releases today

Tuesday, Mar 14

Data in the week ahead
CPI

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
3/14/23	6:00	NFIB Small Business Optimism	Feb	—	—	90.3
3/14/23	8:30	Consumer Price Index (yoy)	Feb	6.1%	6.0%	6.4%
3/14/23	8:30	CPI Ex Food & Energy (yoy)	Feb	5.5%	5.5%	5.6%
3/14/23	8:30	Consumer Price Index (mom)	Feb	0.4%	0.4%	0.5%
3/14/23	8:30	CPI Ex Food & Energy (mom)	Feb	0.4%	0.4%	0.4%

Source: Bloomberg, Bofa Global Research

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CPI

For the February Consumer price index (CPI) report, we forecast headline to increase by 0.4% m/m (0.38% m/m unrounded), which should result in the y/y rate falling from 6.4% to 6.1%. Additionally, it would lead the headline not seasonally adjusted (NSA) index to rise from 299.170 to 300.893. Meanwhile, core CPI likely rose by 0.4% (0.42% unrounded), little changed from the January print. If our forecast proves correct, core CPI should tick down from 5.6% y/y to 5.5%. We believe risks around our core CPI forecast are biased to the upside given the recent gains in the Manheim used vehicle index. Therefore, we do not think a 0.5% print is out of the question. (See: CPI Inflation Watch: February CPI Inflation preview: A sticky problem)

Wednesday Mar 15

Data in the week ahead

PPI, Empire Manufacturing, Retail Sales, NAHB Housing Market Index

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
3/15/23	7:00	MBA Mortgage Applications	Mar 10	—	—	7.4%
3/15/23	8:30	Producer Price Index (mom)	Feb	0.3%	0.3%	0.7%
3/15/23	8:30	PPI Ex Food & Energy (mom)	Feb	0.4%	0.4%	0.5%
3/15/23	8:30	PPI Ex Food, Energy, Trade (mom)	Feb	0.3%	0.3%	0.6%
3/15/23	8:30	Empire Manufacturing	Mar	-10	-7.7	-5.8
3/15/23	8:30	Advance Retail Sales	Feb	-0.4%	0.2%	3.0%
3/15/23	8:30	Retail Sales Less Autos	Feb	-0.1%	0.1%	2.3%
3/15/23	8:30	Retail Sales Less Autos and Gas	Feb	-0.3%	—	2.6%
3/15/23	8:30	Core Control	Feb	-0.5%	-0.3%	1.7%
3/15/23	10:00	Business Inventories	Jan	—	0.0%	0.3%
3/15/23	10:00	NAHB Housing Market Index	Mar	40	41	42
3/15/23	16:00	Net Long-term TIC Flows	Jan	—	—	$152.8bn

Source: Bloomberg, Bofa Global Research

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PPI

We forecast headline PPI increased by 0.3% m/m in February, which would be a deceleration from 0.7% m/m in January owing in part to our expectation for energy prices to decline. Excluding food and energy, we look for PPI to rise by 0.4% m/m, roughly in line with the average over the last three months but above the 6-month average as input cost pressure remains an issue for businesses. In particular, we expect goods related costs to ease but services related costs to remain sticky. Last, we expect PPI excluding food, energy and trade services rose by 0.3% m/m after January's 0.6% m/m increase.

Empire Manufacturing

The Empire State manufacturing index will likely print at -10.0 in the March reading, which would be a decline from the -5.8 reading in February. We continue to expect the index to show weak manufacturing activity in the region as demand for goods rotates backs towards services and higher interest rates deter goods purchases.

Retail Sales

Based on the aggregated BAC card data, we forecast a 0.4% drop in headline retail sales in February. The large decline in new auto sales in February, after the surge in January, should weigh on the headline figure. We think the ex-auto component will be down 0.1%. The card data point to weakness in clothing and furniture spending growth, which appears to be payback for large increases in January. Meanwhile, gas spending was among the stronger components. Therefore we expect larger declines in the ex-autos & gas (-0.3%) and core control (-0.5%) components. Note that the card data show that services spending significantly outperformed goods spending in February, suggesting that the continued consumer rotation back to services was another headwind to retail spending.

NAHB Housing Market Index

We expect the March NAHB homebuilder index to tick lower to 40 from 42 previously. Last month, the index increased by 7 pts, the biggest amount in a decade. Builders had become more optimistic as affordability seemed to gradually improve. However, we are cautious of some headwinds this month as weekly mortgage rates have been slowly picking back up since early February. Additionally, mortgage applications fell 7.9% m/m in February. The heated housing market has been showing some signs of rebalancing as of lately, but there is significant room for improvement as any number below 50 is still considered negative homebuilder sentiment.

Thursday Mar 16

Data in the week ahead

Initial jobless claims, Housing Starts & Permits, Import Price Index

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
3/16/23	8:30	Initial Jobless Claims	Mar 11	216k	—	211k
3/16/23	8:30	Housing Starts	Feb	1300k	1310k	1309k
3/16/23	8:30	Building Permits	Feb	1350k	1350k	1339k
3/16/23	8:30	Import Price Index (mom)	Feb	0.2%	-0.2%	-0.2%
3/16/23	8:30	Import Price Index ex Petroleum (mom)	Feb	0.3%	—	0.2%
3/16/23	8:30	Philadelphia Fed Business Outlook	Mar	-15.0	-14.8	-24.3

Source: Bloomberg, Bofa Global Research

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Initial jobless claims

We forecast initial jobless claims increased to 216k in the week ending March 11 after the surprisingly big increase to 211k in the previous week. While some factors like bad weather in California, state teachers claims in New York and a shorter week due to President's Day suggest the increase in the previous week was a one-off, the trend has been increasing. Continuing claims posted a big increase to 1718k from a revised down 1649k, with the 4 week moving average increasing to 1679k from 1670k. This might be indicative of the layoffs in the technology sector (including people coming off severance) but would still leave claims at historically low levels, and continue to underscore the tightness of the labor market and how much work the Fed still has to do to cool labor demand.

Housing Starts and Permits

Housing starts likely fell to 1.30mn saar in February from 1.31mn saar previously. Housing starts continued to decline for five consecutive months as of January as the housing market has started to show some signs of tightening with ongoing high construction costs and mortgage rates having challenged affordability. As mortgage rates cool further ,we expect some recovery of the housing sector ahead. Meanwhile, we forecast February building permits to come in at 1.35mn saar.

Import Price Index

We forecast headline import prices rose by 0.2% m/m in February, its first increase in eight months. The increase should reflect a 0.3% m/m increase in nonpetroleum import prices and a smaller decline in import prices than previous months.

Philly Fed Business Outlook

We forecast the Philadelphia Fed manufacturing index improved from February but remained in negative territory at -15. This would mark the seventh consecutive reading below zero, which has only occurred a total of nine times in the series history back to May 1968. Of those nine times, six instances have occurred during a recession. We continue to see signs that manufacturing activity is slowing as demand rebalances towards services and the effects of higher interest rates take hold.

Friday Mar 17

Data in the week ahead

Industrial Production, U. Of Michigan Sentiment

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
3/17/23	9:15	Industrial Production	Feb	0.4%	0.5%	0.0%
3/17/23	9:15	Manufacturing Production	Feb	0.1%	—	1.0%
3/17/23	9:15	Capacity Utilization	Feb	78.5%	78.5%	78.3%
3/17/23	10:00	U. of Michigan Sentiment	Mar P	66.5	67.0	67.0
3/17/23	10:00	Leading Indicators	Feb	—	-0.2%	-0.3%

Source: Bloomberg, Bofa Global Research

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Industrial Production

For the February industrial production report, we forecast a 0.4% m/m increase in headline industrial production, which should result in the capacity utilization rate increasing to 78.5% from 78.4%. At the industry level, we expect the headline increase to be driven by solid growth in both mining and utilities production. Mining production should post another strong increase after a 2% m/m gain in January, given strong crude oil production growth. Meanwhile, we look for strong growth in utilities production due to mean-reversion after production fell by 9.9% m/m in January. Last, we expect manufacturing production increased by 0.1% m/m in February, decelerating from the 0.9% m/m increase in January.

U. Of Michigan Sentiment

We expect the University of Michigan consumer sentiment to mildly cool to 66.5 in March's preliminary reading from 67.0 previously. Consumer sentiment has recently been recovering on the base of more optimistic economic outlook, but we see potential downside risks ahead with concerns that the Fed may hike interest rates more than previously expected, triggering more fears of a recession.

Upcoming policy speakers

Upcoming policy speakers
Key speaking engagements and news events*

Monday, Mar 13
Fed Blackout Period
Tuesday, Mar 14
Fed Blackout Period
Wednesday, Mar 15
Fed Blackout Period
Thursday, Mar 16
Fed Blackout Period
Friday, Mar 17
Fed Blackout Period

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 0.4% 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	2.7	1.0	0.5	-1.0	-2.0	-0.5	1.0	1.5	1.5	5.9	2.1	1.0	-0.1
% Change, Year Ago	1.8	1.9	0.9	1.6	1.8	0.8	-0.4	-0.7	-0.6	0.0	0.9				
Final Sales	1.4	4.5	1.2	1.5	1.0	-0.5	-1.5	0.0	1.0	1.5	1.5	5.7	1.3	1.3	0.2
Domestic Demand	0.2	1.5	0.7	1.0	0.5	-1.0	-1.5	0.0	1.5	2.0	2.0	6.7	1.7	0.4	0.2
Consumer Spending	2.0	2.3	1.4	1.5	1.0	-1.0	-1.5	-0.5	1.0	1.5	1.5	8.3	2.8	1.0	0.0
Residential Investment	-17.8	-27.1	-25.9	-11.0	-10.0	-5.0	-5.0	3.0	3.0	2.0	2.0	10.7	-10.7	-15.6	-0.6
Nonresidential Investment	0.1	6.2	3.3	0.5	0.0	-1.0	-2.0	0.0	3.0	4.0	4.0	6.4	3.8	1.2	0.7
Structures	-12.7	-3.6	8.5	-3.5	-3.5	-4.0	-4.0	-1.0	2.0	3.0	3.0	-6.4	-6.9	-2.1	-0.8
Equipment	-2.1	10.6	-3.2	-3.0	-3.0	-4.0	-4.5	-1.0	2.0	3.0	3.0	10.3	4.3	-1.6	-0.9
Intellectual Property	8.9	6.8	7.4	6.0	5.0	3.0	1.5	1.0	4.0	5.0	5.0	9.7	8.9	5.7	2.9
Government	-1.6	3.7	3.6	0.5	0.5	0.0	0.5	1.0	1.0	1.0	1.0	0.6	-0.6	1.3	0.8
Exports	13.8	14.6	-1.6	1.0	-1.0	-1.0	-2.5	2.0	4.0	4.0	4.0	6.1	7.2	2.0	1.3
Imports	2.3	-7.3	-4.2	-4.0	-4.5	-4.5	-3.0	2.0	6.0	7.0	7.0	14.1	8.2	-4.2	1.4
Net Exports (Bil 12$)	-1431	-1269	-1238	-1193	-1156	-1120	-1108	-1114	-1142	-1181	-1220	-1233	-1357	-1144	-1164
Contribution to growth (ppts)	1.2	2.9	0.5	0.7	0.5	0.5	0.1	-0.1	-0.4	-0.5	-0.5	-1.3	-0.4	0.8	-0.1
Inventory Accumulation (Bil 12$)	110.2	38.7	136.3	108.5	86.5	56.5	21.5	1.5	7.5	19.5	31.5	-19.4	124.9	68.1	14.8
Contribution to growth (ppts)	-1.9	-1.2	1.5	-0.5	-0.4	-0.6	-0.7	-0.4	0.1	0.2	0.2	0.2	0.7	-0.3	-0.3
Nominal GDP (Bil $, SAAR)	25249	25724	26145	26484	26829	27008	27101	27312	27633	27993	28336	23315	25464	26856	27818
% SAAR	8.5	7.7	6.7	5.3	5.3	2.7	1.4	3.2	4.8	5.3	5.0	10.7	9.2	5.5	3.6
Key Indicators															
Industrial Production (% SAAR)	5.0	1.3	-2.4	-2.0	-2.0	-3.5	-1.5	2.0	2.0	1.5	1.5	4.9	3.8	-1.5	0.3
Capacity Utilization (%)	80.0	79.9	79.2	78.5	78.0	78.0	77.5	78.0	78.0	78.0	78.5	77.4	79.6	78.0	78.1
Nonfarm Payrolls (Avg mom ch, 000s)	329	423	291	305	110	-75	-175	-100	75	100	100	606	401	41	44
Civilian Unemployment Rate (%)	3.6	3.5	3.6	3.4	3.3	3.6	4.1	4.6	4.7	4.6	4.6	5.4	3.6	3.6	4.6
Civilian Participation Rate (%)	62.2	62.2	62.2	62.4	62.4	62.4	62.4	62.5	62.5	62.4	62.4	61.7	62.2	62.4	62.4
Productivity (% SAAR)	-3.8	1.0	1.5	-2.0	-1.0	-0.5	-1.0	0.0	1.0	1.5	1.5	2.2	-1.7	-1.1	1.0
Personal Savings Rate (%)	3.2	2.7	2.9	3.6	3.6	3.9	4.5	4.7	4.8	4.7	4.6	11.8	3.2	3.9	4.7
Light Vehicle Sales (Millions SAAR)	13.3	13.4	14.3	15.2	14.6	14.4	13.9	14.0	15.3	16.3	16.8	14.9	13.8	14.5	15.6
Housing Starts (Thous. SAAR)	1647	1450	1405	1320	1300	1290	1280	1290	1325	1355	1370	1605	1556	1298	1335
Current Account (% of GDP)												-3.6	-4.1	-3.5	-3.4
US Budget Balance ($bn, Fiscal Year)												-2776	-1375	-1100	-1100
Inflation															
GDP Price Index (% SAAR)	9.0	4.4	3.9	4.3	4.8	3.7	3.3	3.7	3.6	3.8	3.4	4.5	7.0	4.5	3.7
% Change, Year Ago	7.6	7.1	6.4	5.4	4.3	4.2	4.0	3.9	3.6	3.6	3.6				
PCE Chain Prices (% SAAR)	7.3	4.3	3.7	3.9	3.5	2.6	1.8	2.1	2.1	2.3	1.8	4.0	6.2	3.6	2.2
% Change, Year Ago	6.6	6.3	5.7	4.7	3.7	3.3	3.0	2.5	2.1	2.1	2.1				
Core PCE Chain Prices (% SAAR)	4.7	4.7	4.3	4.1	3.5	2.5	1.7	2.0	2.1	2.2	1.9	3.5	5.0	3.7	2.1
% Change, Year Ago	5.0	4.9	4.8	4.3	4.0	3.5	2.9	2.4	2.0	2.0	2.0				
CPI, Consumer Prices (% SAAR)	9.7	5.5	4.2	4.0	4.0	2.8	2.3	2.3	2.4	2.6	1.9	4.7	8.0	4.3	2.5
% Change, Year Ago	8.6	8.3	7.1	5.8	4.4	3.7	3.3	2.9	2.5	2.4	2.3				
CPI ex Food & Energy (% SAAR)	6.0	6.2	5.1	4.8	3.9	2.7	2.1	2.3	2.4	2.5	2.2	3.6	6.1	4.5	2.4
% Change, Year Ago	6.0	6.3	6.0	5.5	5.0	4.1	3.3	2.7	2.4	2.3	2.3				

Source: BofA Global Research

Rates and dollar forecast

Table 2: Rates and dollar forecast

We expect the Fed to hike rates to a terminal rate of 5.25-5.50% by 2Q of this year and start cutting in 1Q 2024.

	Spot	23-Mar	23-Jun	23-Sep	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec
Interest rates									
Fed Funds	4.57	4.75-5.00	5.25-5.50	5.25-5.50	5.25-5.50	5.00-5.25	4.50-4.75	4.00-4.25	3.50-3.75
Fed Effective Rate	4.57	4.88	5.38	5.38	5.38	5.13	4.63	4.13	3.63
2-Year T-Note	4.94	4.85	4.50	4.15	3.75	-	-	-	3.00
5-Year T-Note	4.23	4.35	4.05	3.80	3.50	-	-	-	3.15
10-Year T-Note	3.92	4.00	3.75	3.50	3.25	-	-	-	3.25
30-Year T-Bond	3.86	4.10	3.85	3.65	3.40	-	-	-	3.50
Dollar									
EUR-USD	1.06	1.05	1.05	1.07	1.10	1.10	1.10	1.15	1.15
USD-JPY	136	133	138	142	140	136	132	125	125
USD-CAD	1.38	1.32	1.28	1.25	1.25	1.25	1.25	1.25	1.25
AUD-USD	0.66	0.69	0.70	0.72	0.74	0.76	0.76	0.76	0.76
NZD-USD	0.61	0.63	0.63	0.64	0.66	0.67	0.67	0.67	0.67
GBP-USD	1.19	1.18	1.18	1.19	1.21	1.21	1.21	1.26	1.26
USD-CHF	0.94	0.93	0.93	0.92	0.89	0.90	0.90	0.87	0.87
USD-SEK	10.72	10.76	10.86	10.47	9.85	9.73	9.64	9.13	8.96
USD-NOK	10.65	10.67	10.29	9.91	9.36	9.27	9.18	8.78	8.52
USD-CNY	6.97	6.70	6.60	6.80	6.90	6.80	6.70	6.50	6.40
USD-MXN	18.08	19.40	19.60	19.80	20.20	20.50	20.80	21.20	21.50

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 CPI, Retail Sales, PPI, Industrial Production and Housing Starts & Permits

Monday	Tuesday	Wednesday	Thursday	Friday
Mar 13	**Mar 14**	**Mar 15**	**Mar 16**	**Mar 17**
	6:00 am: NFIB Small Bus. Optimism - Feb 8:30 am: Consumer Price Index – Feb	7:00 am: MBA Mortgage Applications – week ending 03/10/2023 8:30 am: Advance Retail Sales – Feb 8:30 am: Producer Price Index – Feb 8:30 am: Empire Manufacturing – Mar 10:00 am: Business Inventories – Jan 10:00 am: NAHB Housing Index – Mar	8:30 am: Initial Jobless Claims – week ending 03/05/2023 8:30 am: Import Price Index – Feb 8:30 am: Housing Starts & Permits – Feb 8:30 am: Philly Fed – Mar	9:15 am: Industrial Production – Feb 10:00 am: U. of Mich Sentiment – Mar (P)
Mar 20	**Mar 21**	**Mar 22**	**Mar 23**	**Mar 24**
	10:00 am: Existing Home Sales – Feb	7:00 am: MBA Mortgage Applications – week ending 03/17/2023 **2:00 pm: FOMC Rates Decision**	8:30 am: Initial Jobless Claims – week ending 03/18/2023 10:00 am: New Home Sales –Feb	8:30 am: Durable Goods Orders – Feb (P) 9:45 am: S&P Global US Manufacturing and Services PMI – Mar (P)
Mar 27	**Mar 28**	**Mar 29**	**Mar 30**	**Mar 31**
10:30 am: Dallas Fed Manufacturing Activity – Mar	8:30 am: Advance Goods Trade Balance – Feb 9:00 am: S&P CoreLogic CS HPI – Jan 10:00 am: Conference Board Confidence – Mar	7:00 am: MBA Mortgage Applications – week ending 03/24/2023 10:00 am: Pending Home Sales - Feb	8:30 am: Initial Jobless Claims – week ending 03/25/2023 8:30 am: GDP - 4Q (T)	8:30 am: Personal Income & Outlays – Feb 9:45 am: Chicago PMI – Mar 10:00 am: U. of Mich Sentiment – Mar (F)

*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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Research Analysts

US Economics

Michael Gapen
US Economist
BofAS
+1 646 855 3270
michael.gapen@bofa.com

Aditya Bhave
US and Global Economist
BofAS
+1 646 855 9929
aditya.bhave@bofa.com

Stephen Juneau
US Economist
BofAS
+1 646 855 7254
stephen.juneau@bofa.com

Shruti Mishra
US and Global Economist
BofAS
+1 646 855 1040
smishra44@bofa.com

Jeseo Park
US and Global Economist
BofAS
+1 646 855 8688
jeseo.park@bofa.com