MORNING BRIEFING
January 3, 2023

Recession in 2023: 60/40 or 40/60?

Check out the accompanying chart collection.

Executive Summary: With last year thankfully behind us, we take stock of what could go both wrong and right for the economy in 2023. We're optimistic that 2023 will be better than 2022 for several reasons, but that's a contrarian viewpoint. We maintain our 60% subjective odds that the economy will achieve a soft landing in 2023 and 40% odds that it will land hard, with a broad-based recession and no bull market resuming for stocks. Much depends on what happens with Fed policy and inflation. ... Dr. Ed reviews "Causeway" (+).

YRI Weekly Webcast. This week, Dr. Ed's live Q&A webinar will be held on Tuesday at 11 a.m. EST. You will receive an email with the link to the webinar one hour before showtime. Replays of the weekly webcasts are available *here*.

2022: *Annus Horribilis*. Good riddance to 2022! For us at Yardeni Research, it was a tough year up to the very end. One of our main database vendors was attacked by ransomware hackers in mid-December. The vendor paid the ransom in bitcoin. The hackers responded with great customer service, providing a chat line to help restore the vendor's systems. Nevertheless, doing so required a couple of weeks of an all-hands-on-deck, round-the-clock effort. The automatic updating feature of our chart system was down for the last two weeks of 2022 but was functioning again just in time for us to write this first *Morning Briefing* of the new year.

Two weeks before Thanksgiving, I was hit with Covid for the first time. That's even though I had the two shots of the Pfizer vaccine and the booster shot. Perhaps they eased my symptoms. In any event, one week later, I tested negative. However, during the first week of December, I was hit by another virus, RSV (a common respiratory virus that usually causes mild, cold-like symptoms). That was followed by a case of pneumonia over the remainder of December. I hope that's it for a while.

Of course, 2022 was a much worse year for lots of other people around the world. It was certainly an *annus horribilis* for Ukrainians under attack by Russians. It was a deadly year for Russians who opposed the war with Ukraine started by President Vladimir Putin. Several Russian businessmen, bureaucrats, oligarchs, and journalists died of "Sudden Russian

Death Syndrome," reported the December 29 *issue* of The Atlantic. Many Russians who had dared to criticize the war fell to their deaths by either jumping or getting pushed out of windows of tall buildings.

Also, women continued to suffer under the misogynistic and stifling totalitarian rule of the Taliban in Afghanistan and the Mullahs in Iran. The authoritarian Chinese Communist Party (CCP), led by President-for-life Xi Jinping, imposed a senseless zero-Covid policy until widespread protests at the harshness of the government's lockdowns led to the total dismantling of the policy in recent weeks. Now the virus is spreading like wildfire because the population hasn't been properly vaccinated or allowed to achieve herd immunity. Deaths are soaring, especially among seniors, which may be the CCP's novel approach to dealing with the burden of a rapidly aging population attributable to the disastrous one-child policy that was imposed by the CCP between 1980 and 2015.

Xi's regime continues to threaten to invade Taiwan. On December 26, 71 Chinese military aircraft, including fighter jets and drones, entered the island's air defense identification zone, the largest reported incursion to date. On December 30, a Chinese military jet got so close to an American spy plane that the US pilot had to perform evasive maneuvers to avoid a collision while flying in international airspace over the South China Sea.

Here in the US, crime soared during 2022 in many urban areas because of more lenient bail standards. Illegal immigration also soared last year because the government failed to stop it, resulting in a deluge of people crossing into the US through the southern border. Article IV, Section 4 of the Constitution of the United States reads: "The United States shall guarantee to every State in this Union, a Republican Form of Government, and shall protect each of them against invasion; and on Application of the Legislature, or of the Executive (when the Legislature cannot convene) against domestic violence."

On December 29, President Joe Biden, while on vacation in St. Croix, signed a $1.7 trillion federal spending bill that avoids a partial government shutdown. It's unlikely that he or anyone else read the 4,100-page measure in its entirety. However, various summary compilations confirm that it is loaded with pork.

2023: What Could Go Wrong? Of course, investors are also saying "Good riddance to 2022!" But will 2023 be any better? Joe, Debbie, and I think so. But that seems to be a minority view currently.

We continue to assign a 60% subjective probability to a soft-landing scenario and the remaining 40% odds to a hard-landing one. So we acknowledge that a recession is a significant possibility. The consensus view among economists and strategists seems to be the reverse of ours, with 60% odds of a hard landing and 40% of a soft landing. Some of the most vocal of them, along with several prominent business executives and investors, have asserted that a recession is all but inevitable in 2023.

As we often observed last year, if a recession happens, it will be the most widely expected downturn ever. Indeed, there was some chatter during the first half of 2022 that the economy was already in a recession. It's possible that we might all talk ourselves into a recession.

Let's review what could go wrong in 2023, before doing the same for what could go right:

(1) *Imminent recession.* The Index of Leading Economic Indicators (LEI) peaked at a record high during February 2022 (*Fig. 1*). It is down 4.9% since then through November. Since 1962, the LEI's peaks accurately predicted the peaks in the Index of Coincident Economic Indicators with an average lead time of 12 months. That suggests that the next recession could start very soon, i.e., in March of this year.

The S&P 500 is one of the 10 components of the LEI. Since 1945, it has peaked on average by five months before the business cycle has peaked (*Fig. 2*). So a recession is overdue according to the S&P 500. The yield-curve spread between the 10-year US Treasury bond yield and the federal funds rate is also one of the LEI's components (*Fig. 3*). It turned negative (i.e., inverted) several months before the previous eight recessions.

As we have previously observed, we prefer the yield-curve spread between the 10-year and 2-year US Treasury notes. It has tended to invert near the tail end of monetary policy tightening cycles (*Fig. 4*). It has been inverted since July 8. In the past, the yield-curve inversions correctly anticipated financial crises that morphed into credit crunches and recessions. This time might be different if the credit system is more resilient than in the past and inflation moderates rapidly in 2023, as we anticipate.

(2) *Persistent inflation.* In recent months, the economic indicators have supported the "no-landing" scenario rather than either the hard-landing or soft-landing alternatives. Surprisingly resilient economic growth might cause inflation to persist at high levels rather than to moderate. If so, the Fed will have no choice but to hike the federal funds rate higher for longer. The narrowing path to a soft landing would no longer be an option for the Fed. Instead, Fed officials likely would conclude that the only way to bring inflation down is by

causing a recession. In this scenario, they might have to raise the federal funds rate much closer to the inflation rate (or even above it) until that does the job.

Upward pressure on inflation once again could result from supply-chain disruptions attributable to geopolitical developments. The latest wave of the pandemic in China could shut down production of key parts needed by manufacturers around the world. China's M-PMI and NM-PMI both fell further below 50.0 during December, to 47.0 and 41.6 (*Fig. 5*). The virus could spread even more rapidly during China's upcoming New Year holiday, which begins on January 22 and ends on February 5.

Energy prices soared in early 2022 but eased significantly as the year progressed (*Fig. 6*). They might fall further in 2023 if China's economy continues to be challenged by the pandemic. They could also rebound sharply once China's latest Covid wave peaks.

(3) *Fed accident.* Fed officials first recognized that they were way behind the inflation curve early last year. They spent the rest of the year scrambling to catch up to it. As a result, they raised the federal funds rate from 0.00%-0.25% at the start of 2022 to 4.25%-4.50% by the end of the year. It has been the most significant tightening of monetary policy since late 1979, when then-Fed Chair Paul Volcker had to deal with soaring inflation.

Fed officials often have observed that monetary policy operates with long and variable lags before impacting the economy. Yet they might continue to tighten aggressively if high inflation persists over the short term. The Fed's latest *projections* for the federal funds rate indicate a peak rate of 5.1% by the end of 2023. And Federal Reserve Chair Jerome Powell has suggested that the rate might have to go higher. During his December 14 *presser*, he said that "we're not at a sufficiently restrictive policy stance yet," mentioning the word "restrictive" 14 times.

The remaining question may be what pace of hiking will the Fed take to get to "sufficiently restrictive." Dictating the pace likely will be consumer prices for services excluding housing-related prices. Powell noted that "there's an expectation" that this inflation component "will not move down so quickly." He is concerned that these prices are being inflated by rising wages. As a result, Fed policy is aimed at reducing the demand for labor relative to its supply.

The yield curve seems to be saying "*no más*." The Fed already has tightened enough, raising the risks of a financial accident, credit crunch, and recession. Our interpretation of the inverted yield curve is that the Fed has done enough to bring inflation down further in coming months.

But it’s possible that the Fed might mistakenly overdo the tightening in an attempt to correct for its prior mistakes—i.e., having held monetary policy too easy for too long.

(4) *Shortage of M2.* Monetarists seem to be making a comeback, and they are sounding the alarm that the recent weakness in the M2 measure of money is confirming that monetary policy already is tight enough to cause a recession. We’ve addressed this issue in the past, and we still aren’t alarmed.

M2 peaked at a record high during March 2022 (*Fig. 7*). It is down 1.8% since then through November. We estimate that it is still about $2.0 trillion above its pre-pandemic trendline. At least half of that represents the excess saving accumulated by consumers during the pandemic. M2 has been closely tracking personal saving on a 12-month basis since the start of the pandemic (*Fig. 8*).

The rest of the above-trend surplus M2 holdings probably represents precautionary liquidity held by consumers and businesses, as evidenced by the $3.6 trillion increase in demand deposits to $5.2 trillion since February 2020 (just before the pandemic) through November 2022.

Demand deposits as a percent of M2 rose from 10.3% just before the pandemic to 24.1% in November, holding around its highest percentage since the summer of 1972 (*Fig. 9*). The economy remains awash in liquidity, with the ratio of M2 to nominal GDP (i.e., the reciprocal of M2 velocity) still near its recent record high, 84% during Q3-2022 (*Fig. 10*).

2023: What Could Go Right? Pessimism is easier to sell than optimism, especially following last year’s *annus horribilis*. Nevertheless, let’s review what could go right in 2023:

(1) *Transitory vs persistent inflation.* We acknowledge that there is only one narrow path by which the economy could avoid a recession. Therefore, there is only one narrow path by which a bull market in stocks could resume this year. Both paths require a moderation of inflation. We continue to expect that inflation will moderate to 3%-4% based on the headline PCED in 2023. The Fed’s December *Summary of Economic Projections* shows that the FOMC’s participants are aiming for 3.1% this year, 2.5% in 2024, and 2.1% in 2025. We think that’s doable without (much) additional tightening and without a recession.

The PCED inflation rate peaked at 7.0% during June 2022 (*Fig. 11*). It was down to 5.5%

during November. So it has peaked, but it remains high. A more definitive peak can be seen in the PCED for durable goods. It led inflation on the way up and is now doing so on the way down. It peaked at 10.5% during February and was down to only 2.7% during November of last year. Inflation in that component of the PCED has been relatively transitory.

We expect the same will be said about nondurable goods inflation in the PCED, which peaked at 13.2% during June 2022 but was still high at 8.1% during November. The more persistent source of inflationary pressure remains the PCED for services, which peaked at 5.5% during October 2022 and has yet to show signs of a definite peak, which might not occur until mid-2023 given the inertia in rent inflation.

The three-month annualized percent changes in these PCED components are also mostly lending support to the moderating inflation story. Here they are through November compared to their y/y readings for the core PCED (3.6%, 4.7%), durable goods (-3.8, 2.7), core nondurable goods (1.0, 3.8), and core services (5.7, 5.0) (*Fig. 12*).

(2) *Resilient consumers.* A recession forecast for 2023 requires that consumer spending weakens significantly. JPMorgan Chase CEO Jamie Dimon has claimed that excess savings boosted consumer spending in 2022. He expects excess savings to run out during the second half of this year, resulting in a consumer-led recession. That's a plausible scenario.

However, employment gains also have supported consumer spending and may continue to do so in 2023 given that labor shortages are likely to persist. More importantly, we expect that wages will be rising faster than prices in 2023, boosting consumers' purchasing power, as started occurring late last year (*Fig. 13*). That could put downward pressure on corporate profit margins, though we expect to see better growth in productivity this year than last year.

There was a "rolling recession" in consumer spending last year as consumers reduced their purchases of goods while increasing their spending on services (*Fig. 14*). That followed their buying binge on goods during the pandemic years of 2020 and 2021. Retailers had to lower their prices last year to reduce bloated inventories, contributing to the drop in goods inflation.

(3) *Mixed housing.* Many recession alarmists have observed that housing has almost always been the epicenter of economy-wide recessions and that it will be so once again. We disagree because some of the weakness in single-family housing construction is being

offset by strength in multi-family construction and spending on home improvements (*Fig. 15*). In other words, housing is also experiencing a rolling recession, not a broad-based one that leads the rest of the economy southward.

(4) *Solid capital spending.* The regional business surveys conducted by five of the 12 Fed district banks did show slowing capital spending activity last year through December (*Fig. 16*). But the averages of the current and future regional capital spending indexes remained solidly in positive territory. In a recession, corporate profits would fall, forcing companies to cut their costs by reducing headcount and capital outlays. In a rolling recession, that's less likely to happen on an economy-wide basis.

Furthermore, we continue to expect that companies will respond to chronic labor shortages by spending more on labor-saving capital equipment and technologies. In addition, the pandemic-induced onshoring of supply chains implies more capital spending, not less.

(5) *Full fiscal pipeline.* As noted above, the federal government will stay open and will continue to spend money. Lots of fiscal stimulus remains in the pipeline because of various spending bills passed under the Biden administration that will significantly boost outlays on infrastructure, semiconductor manufacturing plants, defense, and green projects. During the pandemic, the federal government dramatically boosted spending on income redistribution (*Fig. 17*). In 2023 and coming years, the federal, state, and local governments are on course to spend more on goods and services, boosting their contribution to real GDP (*Fig. 18*).

Movie. "Causeway" (+) is a slow-paced movie about Lynsey, a US soldier played by Jennifer Lawrence who struggles to adjust to life back home after suffering a traumatic brain injury while serving in Afghanistan. Lynsey befriends James, an auto mechanic played by Brian Tyree Henry. He also has experienced trauma in his life, because of an auto accident. Their friendship helps them to heal some of their wounds. Both actors provide heartfelt performances and will probably be nominated for acting awards.

Calendars

US: Tues: Construction Spending -0.4%; S&P Global M-PMI. **Wed:** ISM M-PMI & Price Index 48.5/42.5; Job Openings 10.0m; Motor Vehicle Sales; MBA Mortgage Applications. (Bloomberg estimates)

Global: **Tues:** Germany CPI -0.4%m/m/9.0%y/y; Germany Unemployment Change & Unemployment Rate 15k/5.6%; UK M-PMI 44.7. **Wed:** Eurozone, Germany, and France C-PMIs 48.8/48.9/48.0; Eurozone, Germany, France, Italy, and Spain C-PMIs 49.1/49.0/48.1/49.5/50.8; Germany Import Prices -1.6%m/m/18.0%y/y; France CPI; France Consumer Confidence 84; Spain Unemployment; China Caixin NM-PMI. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index edged down just 0.1% last week, but remained in a bear market at 20.8% below its record high on December 27, 2021. The US MSCI ranked 30th of the 48 global stock markets that we follow in a week when 27 of the 48 countries rose in US dollar terms. The AC World ex-US index was unchanged w/w, but ended the week still in a bear market at 21.8% below its June 15, 2021 record high. BIC and EMEA were the best regional performers with gains of 1.1%, followed by EM Asia (0.5%). EM Latin America (-3.0) was the worst performing region last week, followed by EM Eastern Europe (-0.1), EMU (0.0), and EAFE (0.0). Pakistan was the best-performing country last week with a gain of 5.9%, followed by Argentina (3.7), Thailand (3.7), and India (2.3). Among the 30 countries that underperformed the AC World ex-US MSCI last week, Morocco's 3.6% decline was the biggest, followed by those of Brazil (-3.0), Korea (-2.6), and Hungary (-2.4). Looking at 2022's performance, the US MSCI fell 20.8% and ranked 33/49, down from 4/49 in 2021 when the index rose 25.2%. The AC World ex-US fell 18.3% in 2022 as all regions fell and only two outperformed that index. EM Latin America was the best performer, albeit with a decline of 0.1%, followed by EAFE (-16.8). The regional laggards in 2022: EM Eastern Europe (-82.9), EMEA (-37.0), BIC (-23.4), EM Asia (-22.8), and EMU (-19.8). The best country performers in 2022: Turkey (83.9), Argentina (32.2), Jordan (19.2), Chile (15.1), and Peru (5.6). Apart from Russia—in which investors lost 100.0% of their investment as its MSCI index stopped pricing—here are the worst-performing countries for the year: Sri Lanka (-66.0), Pakistan (-40.9), Morocco (-34.1), Hungary (-33.7), and Taiwan (-32.2).

S&P 500/400/600 Performance (*link*): All three of these indexes moved slightly lower last week, but MidCap is the only index not in a bear market now. LargeCap fell 0.1% w/w, less than the 0.2% and 0.3% declines recorded for MidCap and SmallCap. LargeCap finished the week at 20.0% below its record high on January 3; MidCap is 16.5% below its record high on November 16, 2021; and SmallCap was 21.0% below its November 8, 2021 record high. Nine of the 33 LargeCap and SMidCap sectors moved higher for the week, down from

20 rising a week earlier. MidCap Communication Services was the best performer with an increase of 0.9%, followed by 0.7% gains for SmallCap Tech, MidCap Health Care, and LargeCap Financials. Among the worst performers, MidCap Energy and SmallCap Consumer Staples both fell 1.8% in the biggest declines for the week, followed by SmallCap Materials (-1.4) and MidCap Consumer Staples (-1.3). In terms of 2022's performance, LargeCap's 19.4% decline trailed those of MidCap (-14.5) and SmallCap (-17.4) as just three of the 33 sectors rose for the year. The top sector performers in 2022: LargeCap Energy (59.0), SmallCap Energy (45.3), MidCap Energy (33.7), LargeCap Utilities (-1.4), and MidCap Consumer Staples (-1.5). 2022's biggest laggards: LargeCap Communication Services (-40.4), LargeCap Consumer Discretionary (-37.6), SmallCap Communication Services (-35.5), SmallCap Real Estate (-32.4), and MidCap Real Estate (-29.4).

S&P 500 Sectors and Industries Performance (*link*): Two S&P 500 sectors rose last week, and three outperformed the composite index's 0.1% decline. That compares to a 0.2% decline for the S&P 500 a week earlier, when six sectors rose and eight outperformed the index. Financials was the best performer with a gain of 0.7%, followed by Energy (0.6%) and Communication Services (-0.1%). Materials was the worst performer, with a decline of 1.2%, followed by Consumer Staples (-0.9), Utilities (-0.6), Real Estate (-0.6), Consumer Discretionary (-0.3), Health Care (-0.2), Industrials (-0.2), and Tech (-0.2). The S&P 500 fell 19.4% in 2022 for its worst performance in 14 years as seven sectors outperformed the index and just one rose for the year. The best performers in 2022: Energy (59.0), Utilities (-1.4), Consumer Staples (-3.2), Health Care (-3.6), Industrials (-7.1), Financials (-12.4), and Materials (-14.1). 2022's worst performers: Communication Services (-40.4), Consumer Discretionary (-37.6), Tech (-28.9), and Real Estate (-28.4).

S&P 500 Technical Indicators (*link*): The S&P 500 weakened relative to its 50-day moving average (50-dma) last week and improved relative to its 200-day moving average (200-dma). The index moved was below its 50-dma for a third straight week and below its 200-dma for a fourth week after moving above the week before that for the first time in 34 weeks. It had been above its 200-dma for 81 straight weeks through early February. The S&P 500's 50-dma moved higher for a sixth straight week as the index dropped to 1.7% below its rising 50-dma from 1.3% below a week earlier. That compares to a recent 15-week low of 10.6% below at the end of September, a 23-month high of 8.7% above the index's rising 50-dma in early August, and a 27-month low of 11.1% below its falling 50-dma in mid-June. The index had been mostly trading above its 50-dma from late April 2020 to early April 2022; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index closed Friday at 3.8% below its falling 200-dma, up from 4.1% below a week. That's well above its 26-month low of 17.1% below its falling 200-dma in mid-June and down sharply from 10.8% above its rising 200-dma in November 2021. That also compares to 17.0% above in December 2020, which was the highest since November 2009 and up from the 26.6% below registered during the Great Virus Crisis on March 23, 2020—the lowest reading since March 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008. The 200-dma fell for a 34th straight week, but its pace of decline has slowed since October when it was falling at its fastest rate since July 2009.

S&P 500 Sectors Technical Indicators (*link*): Four of the 11 S&P 500 sectors are trading above their 50-dmas, down from six sectors above a week earlier as Materials and Real Estate moved back below in the latest week. The four sectors still trading above their 50-dma: Consumer Staples, Health Care, Industrials, and Utilities. Eight sectors now have a rising 50-dma, down from nine a week earlier, as Tech turned back down w/w. Communication Services and Consumer Discretionary are the only other sectors with a falling 50-dma. Looking at the more stable longer-term 200-dmas, these five sectors continue to trade above that measure: Consumer Staples, Energy, Financials, Health Care, and Industrials. For perspective, at the depths of the Great Virus Crisis in April 2020, Health Care was the only sector trading above its 200-dma. The 200-dma turned down w/w for Consumer Staples and Utilities, leaving Energy as the only sector with a rising 200-dma.

US Economic Indicators

Regional M-PMIs (*link*): Five Fed districts (New York, Philadelphia, Kansas City, Richmond, and Dallas) now have reported on manufacturing activity for December and indicate a contraction for the eighth successive month, deteriorating a bit to -10.4 after narrowing from -10.8 to -8.9 in November; it was at 15.1 in April. *Manufacturing* activity in the New York (to -11.2 from 4.5) region swung from positive to negative in December, while Richmond's (1.0 from -9.0) was at a basic standstill, eking out a positive reading for the first time in eight months. Meanwhile, manufacturing activity in the Philadelphia (-13.8 to -19.4) area declined at a slower pace, while both the Dallas (to -18.8 to -14.4) and Kansas City (-9.0 to -6.0) regions fell at a slightly faster pace than November—though the former fell at double the pace of the latter. *New orders* (-11.9 from -13.3) contracted for the seventh month, but the decline has been holding pretty steady, averaging -11.0 the past seven months. Billings in both the Philadelphia (-25.8 from -16.2) and Kansas City (-17.0 from -12.0) regions showed a deterioration in growth, while the Dallas (-9.2 from -20.9) and

Richmond (-4.0 from -14.0) areas showed a slowing in the rate of decline. The New York (-3.6 from -3.3) region continued to show only a slight decline. *Employment* (5.8 from 5.4) increased at steady pace, as factories in the Dallas (14.0 from 5.9) region showed hiring was nearly triple November's pace, while New York's (14.0 from 12.2) matched Dallas' pace though was little changed from its November pace; Philadelphia (-1.8 from 7.1) showed its first negative reading since the pandemic. Meanwhile, hirings in the Richmond (3.0 from -1.0) and Kansas City (0.0 from 3.0) areas were basically flat.

Regional Prices Paid & Received Measures (*link*): We have prices-paid and -received data for December for the five regions—New York, Philadelphia, Richmond, Dallas, and Kansas City. (Note: The New York, Philadelphia, Dallas, and Kansas City measures are diffusion indexes, while Richmond's measures are average annualized inflation rates—which we multiply by 10 for easier comparison to the other regional measures.) The *prices-paid* measure slowed to a two-year low of 40.9, easing steadily from 87.5 in April—which was little changed from the record high of 88.5 during November 2021. Kansas City's measure has been on a steep downtrend since its recent peak of 83.0 in April, slowing to a 28-month low of 13.0 in December, while Philadelphia's fell to a 27-month low of 26.4, slowing sharply from a cyclical high of 84.6 in April (which wasn't far from its record high of 91.1 in the 1970s). Since reaching a record-high 150.1 in May, Richmond's measure eased to 90.8 in December—the lowest since April 2021. Meanwhile, the prices-paid measure for New York held steady at 50.5 in December, up from its recent low of 39.6 in September but considerably below its record-high 86.4 in April, while Dallas' inched up to 23.7 after sliding from its record high of 83.3 in November 2021 to a 27-month low of 22.6 by November 2022. Turning to the *prices-received* measure, it eased to a 22-month low of 30.3 in December after a slight uptick in November to 38.8; it was at a record high of 60.6 in March. New York's prices-received measure slowed to 25.2 after accelerating from a 21-month low of 22.9 in October to 27.2 in November; it was at a record high of 56.1 in March. The Dallas region saw its measure slow to 12.5, the lowest since November 2020, down from October 2021's record-high 50.9, while the Philadelphia measure eased to 24.3 in December after a three-month rise from an 18-month low of 23.3 during August to 34.6 by November; it peaked at 62.9 during November 2021. Meanwhile, Kansas City's gauge slipped from 19.0 to 13.0—returning to October's 22-month low—down from a record high of 57.0 in April, while Richmond's fell to 76.3 after accelerating from 76.6 in September to 99.1 in November. It was at a record-high of record-high 103.1 in June.

Pending Home Sales (*link*): "Pending home sales recorded the second-lowest monthly reading in 20 years as interest rates, which climbed at one of the fastest paces on record this year, drastically cut into the number of contract signings to buy a home, said Lawrence

Yun, NAR's chief economist. He noted, "Falling home sales and construction have hurt broader economic activity." Looking at the residential component of real GDP, it contracted for the sixth straight quarter during Q3, plunging 27.1% (saar), following Q2's double-digit drop of 17.8%. *The Pending Home Sales Index* (which tracks sales when a contract is signed but the transaction has not yet closed) fell for the sixth successive month by 4.0% in November and 25.8% over the period to 73.9. *Regionally*, pending home sales fell in all four regions on both a monthly basis and yearly basis; here's the tally: West (-0.9% m/m & -45.7% y/y), South (-2.3 & -38.5), Midwest (-6.6 & -31.6), and Northeast (-7.9 & -34.9). Yun observed, "The Midwest region—with relatively affordable prices—has held up better, while the unaffordable West region suffered the largest decline in activity." According to Yun, the lag time between mortgage rates and home sales is approximately two months, noting "With mortgage rates falling throughout December, home-buying activity should inevitably rebound in the coming months and help economic growth."

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102