

Sevens Report Alpha Webinar – The Seven Most Important Economic Indicators to Watch in 2023

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Why Is Economic Data Suddenly So Important?

The December median Fed Funds dots was 5.125%

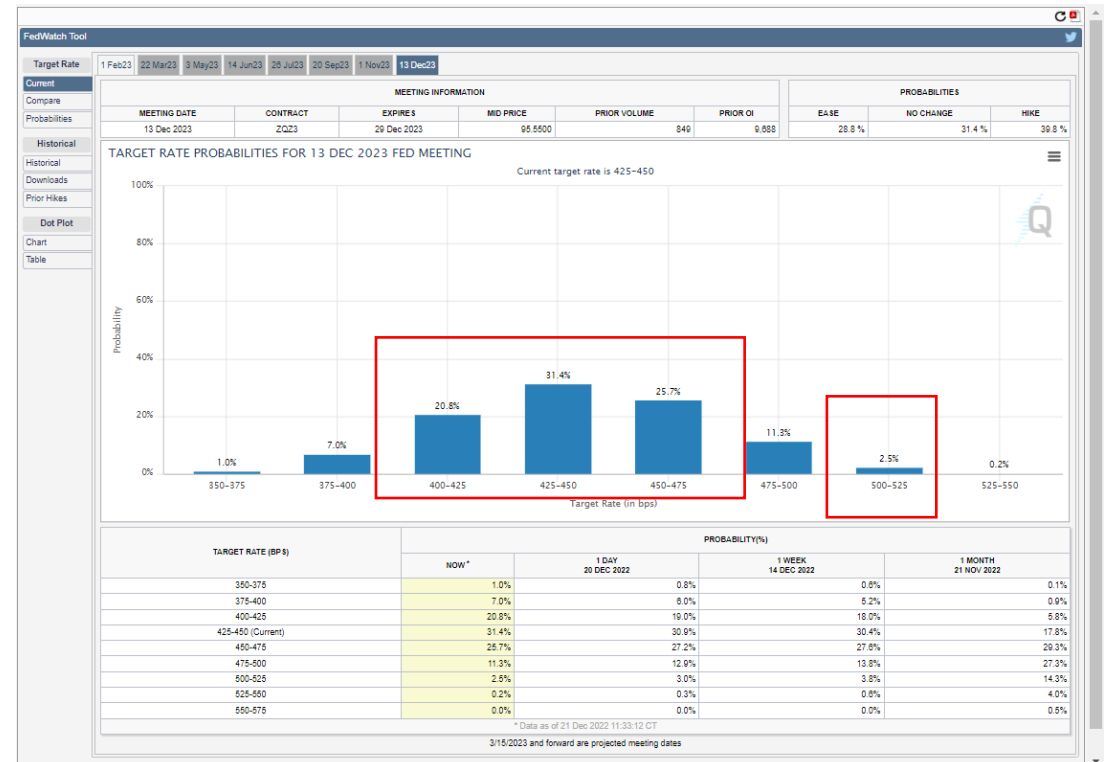
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2022

Variable	Median ¹					Central Tendency ²					Range ³				
	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run
Change in real GDP	0.5	0.5	1.6	1.8	1.8	0.4-0.5	0.4-1.0	1.3-2.0	1.6-2.0	1.7-2.0	0.2-0.5	-0.5-1.0	0.5-2.4	1.4-2.3	1.6-2.5
September projection	0.2	1.2	1.7	1.8	1.8	0.1-0.3	0.5-1.5	1.4-2.0	1.6-2.0	1.7-2.0	0.0-0.5	-0.3-1.9	1.0-2.6	1.4-2.4	1.6-2.2
Unemployment rate	3.7	4.6	4.6	4.5	4.0	3.7	4.4-4.7	4.3-4.8	4.0-4.7	3.8-4.3	3.7-3.9	4.0-5.3	4.0-5.0	3.8-4.8	3.5-4.8
September projection	3.8	4.4	4.4	4.3	4.0	3.8-3.9	4.1-4.5	4.0-4.6	4.0-4.5	3.8-4.3	3.7-4.0	3.7-5.0	3.7-4.7	3.7-4.6	3.5-4.5
PCE inflation	5.6	3.1	2.5	2.1	2.0	5.6-5.8	2.9-3.5	2.3-2.7	2.0-2.2	2.0	5.5-5.9	2.6-4.1	2.2-3.5	2.0-3.0	2.0
September projection	5.4	2.8	2.3	2.0	2.0	5.3-5.7	2.6-3.5	2.1-2.6	2.0-2.2	2.0	5.0-6.2	2.4-4.1	2.0-3.0	2.0-2.5	2.0
Core PCE inflation ⁴	4.8	3.5	2.5	2.1		4.7-4.8	3.2-3.7	2.3-2.7	2.0-2.2		4.6-5.0	3.0-3.8	2.2-3.0	2.0-3.0	
September projection	4.5	3.1	2.3	2.1		4.4-4.6	3.0-3.4	2.2-2.5	2.0-2.2		4.3-4.8	2.8-3.5	2.0-2.8	2.0-2.5	
Memo: Projected appropriate policy path															
Federal funds rate	4.4	5.1	4.1	3.1	2.5	4.4	5.1-5.4	3.9-4.9	2.6-3.9	2.3-2.5	4.4	4.9-5.6	3.1-5.6	2.4-5.6	2.3-3.3
September projection	4.4	4.6	3.9	2.9	2.5	4.1-4.4	4.4-4.9	3.4-4.4	2.4-3.4	2.3-2.5	3.9-4.6	3.9-4.9	2.6-4.6	2.4-4.6	2.3-3.0

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The September projections were made in conjunction with the meeting of the Federal Open Market Committee on September 20-21, 2022. One participant did not submit longer-run projections for the change in real GDP, the unemployment rate, or the federal funds rate in conjunction with the September 20-21, 2022, meeting, and one participant did not submit such projections in conjunction with the December 13-14, 2022, meeting.

- For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.
- The central tendency excludes the three highest and three lowest projections for each variable in each year.
- The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
- Longer-run projections for core PCE inflation are not collected.

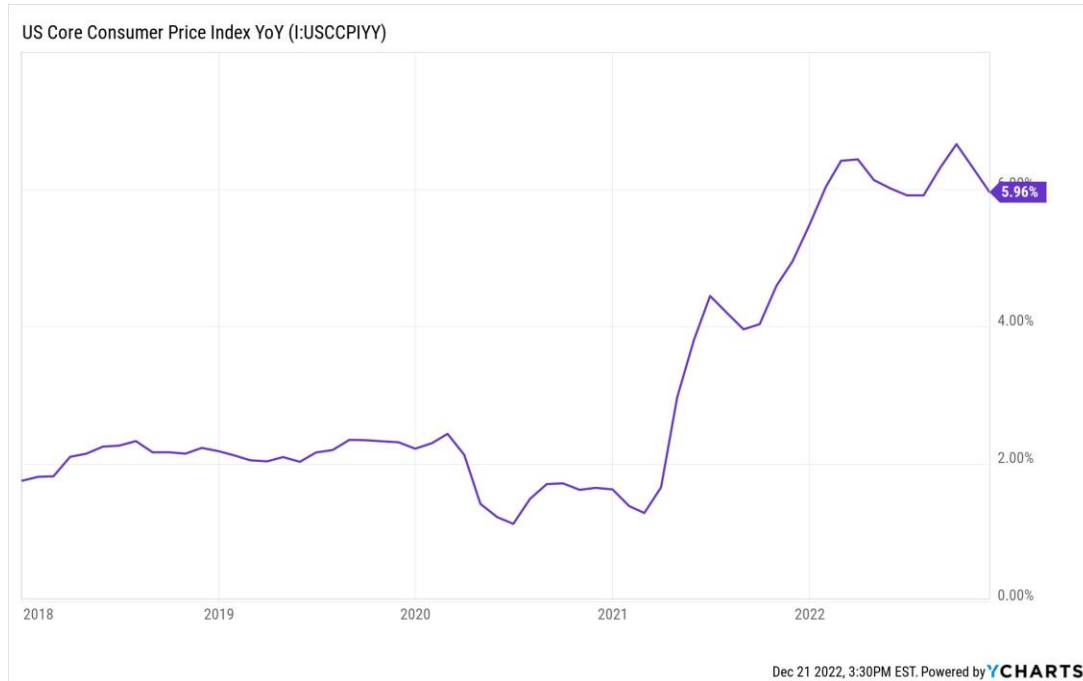
Fed Fund futures are pricing in less than a 3% change markets end 2023 with a 5.1% Fed Funds rate.



Why Is Economic Data Suddenly So Important?

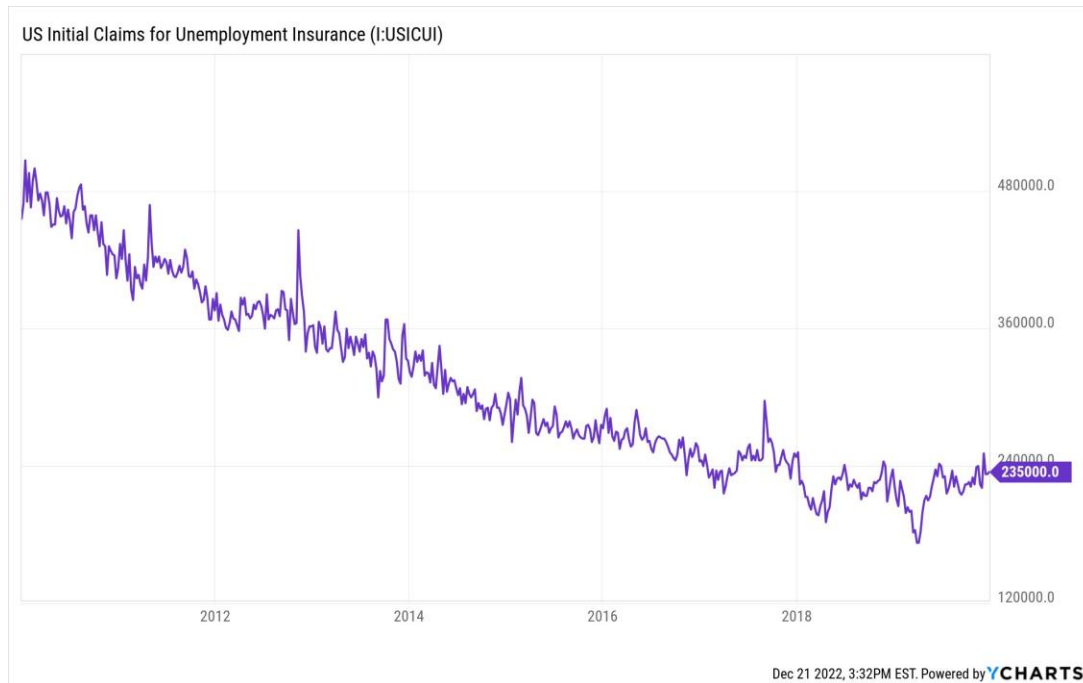
- Why this matters:
 - The Fed has told us it expects Fed Funds to end 2023 at 5.125%.
 - The bond market is pricing in a 3% chance of that happening!
 - That means the markets expect inflation data and economic data to roll over hard.
 - For that event to be positive for stocks, inflation must fall faster than growth data, which will allow a Fed Pivot sooner than expected.
 - For that event to be negative for stocks, growth falls faster than inflation and we get stagflation. At that point, a Fed pivot won't occur, and even if it did, the macroeconomic damage will already have been done.
 - So, the key for us is to understand whether inflation or growth is falling faster, and these seven indicators will help us determine that as early as possible.

Important Economic Indicator #1: Core CPI



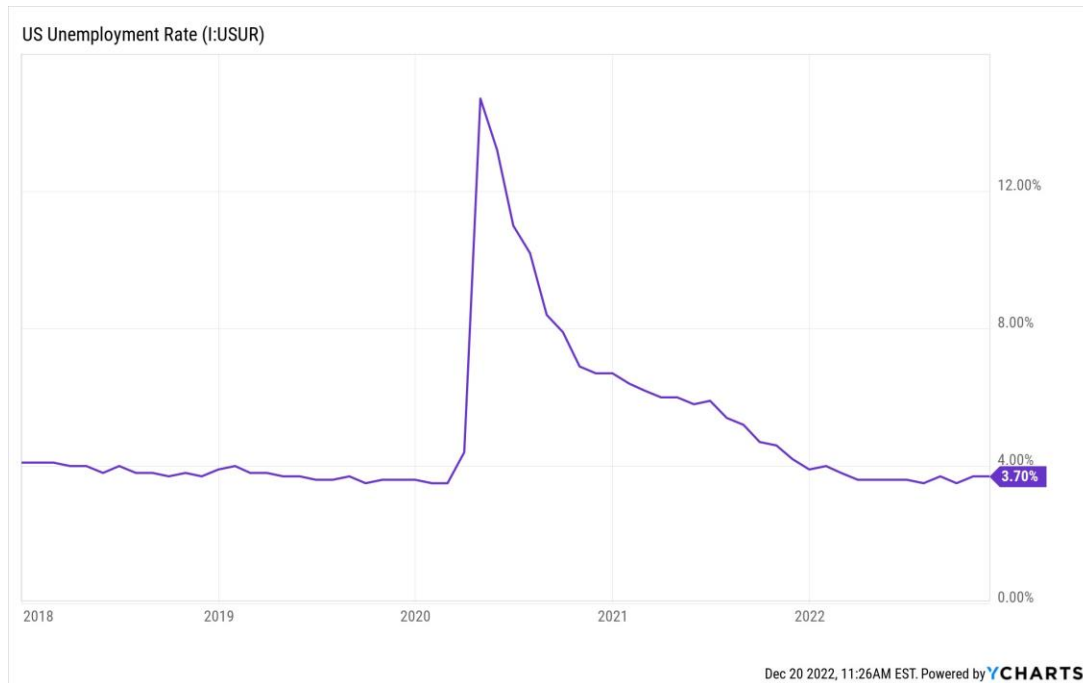
- Why it's important:
 - Fed Chair Powell has very clearly told markets that the Fed needs to see more progress on services inflation to back off rate hikes.
 - Core CPI targets service inflation more than the headline inflation, as commodity price declines impact the headline.
 - As we start 2023, services inflation is the key.
- Key Level to Watch < 5.0%.
 - A drop below that level will signal services inflation is easing and should help make the Fed less hawkish.
- Next release date: 1/12/2023

Important Economic Indicator #2: Jobless Claims



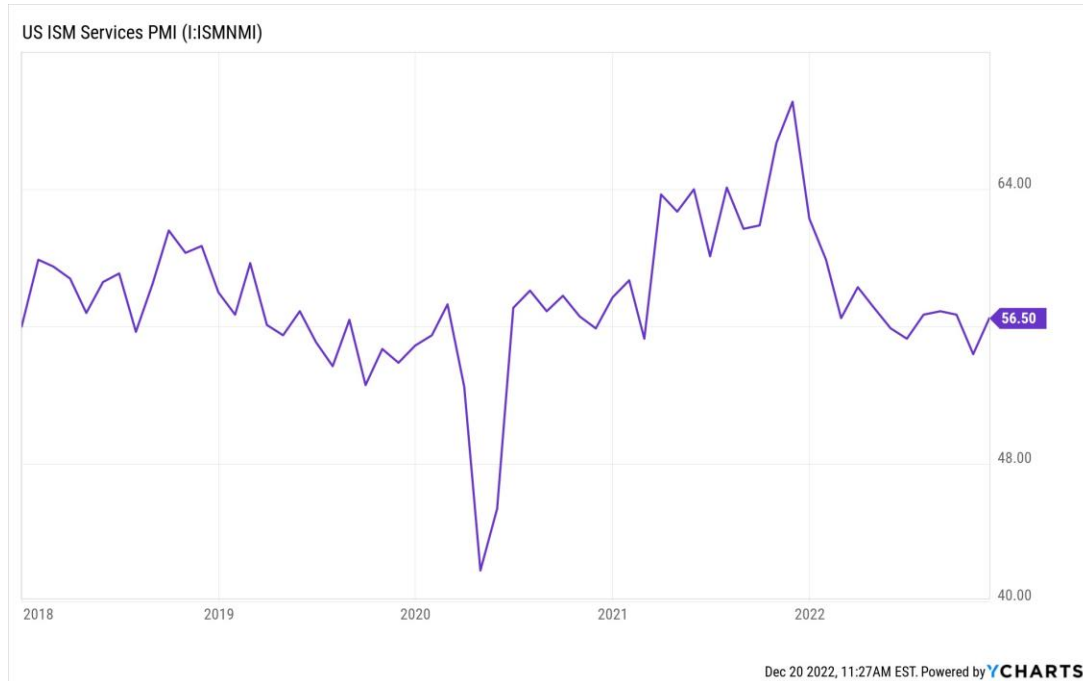
- Why it's important:
 - The Fed believes (rightly) that service inflation won't ease until the labor market deteriorates and people start losing their jobs (and reducing spending).
 - Weekly jobless claims is a "noisy" report but it's the most timely measure of the labor market we have.
- Key Level to Watch > 300k.
 - Claims need to move above 300k to signal deterioration in the labor market that could result in a reduction in spending.
- Next Release Date: 12/29/2023

Important Economic Indicator #3: Unemployment Rate



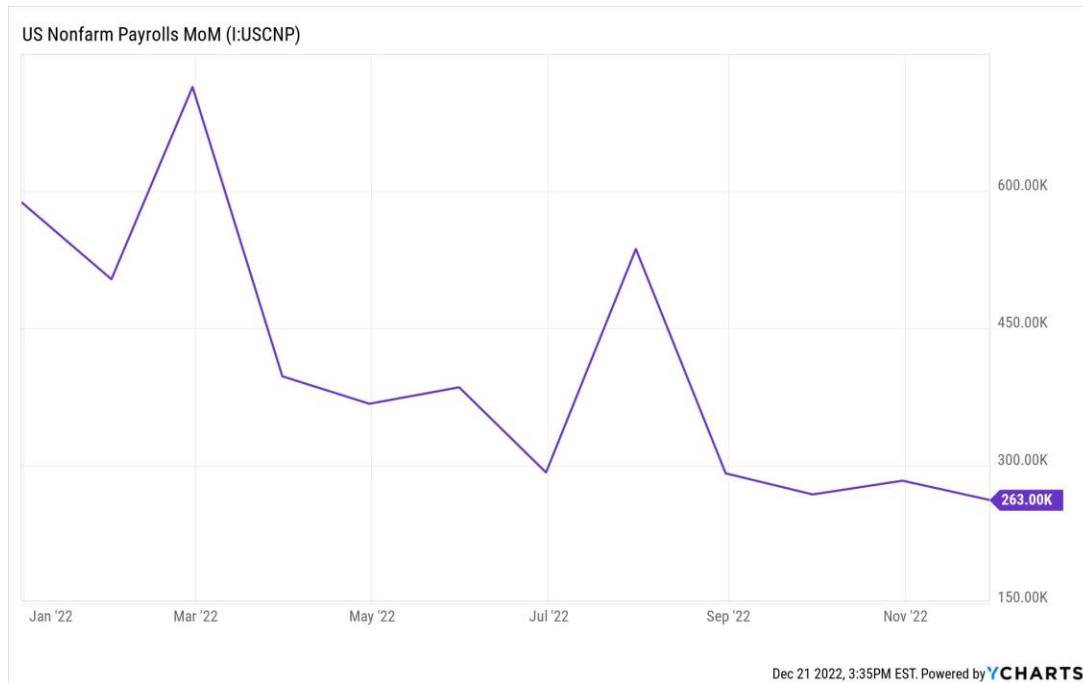
- Why it's important:
 - This gives us a more comprehensive view of the labor market that will directly impact consumer spending and services inflation.
 - If unemployment rises materially, people will stop spending and that will reduce service inflation.
- Key Level to Watch > 4.0%, > 4.5%.
 - 4% unemployment is still low, but once it crosses that threshold it'll be key to see how quickly it moves towards 4.5%. That will give us insight into how quickly the labor market is deteriorating.
- Next Release Date: 1/6/2023

Important Economic Indicator #4: Service Sector PMI



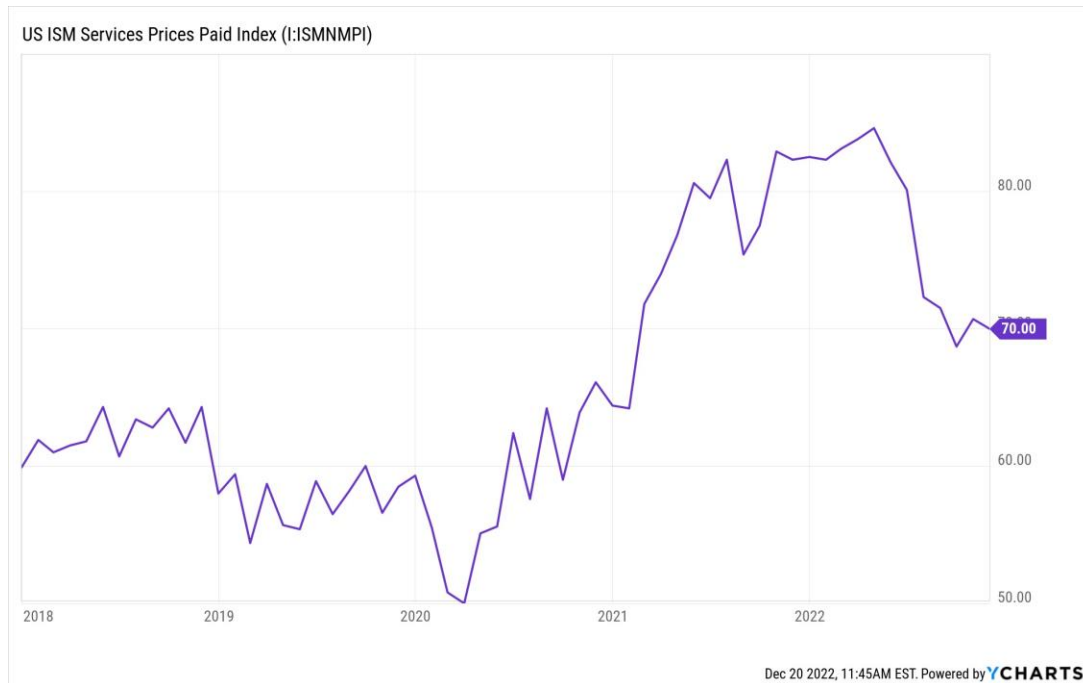
- Why it's important:
 - The service sector of the economy is the biggest, and strongest, part of the U.S. economy.
 - It needs to moderate to ease service inflation.
 - But, it can't quickly collapse either, because for stocks to rally inflation must fall more quickly than growth. If the opposite occurs, that's stagflation.
- Key Level to Watch < 50.
 - The ISM Services PMI hasn't been under 50 in a non-pandemic setting in years. If it falls quickly below that level, it's a sign economic growth is quickly fading.
- Next Release Date: 1/5/2023

Important Economic Indicator #5: Monthly Job Adds



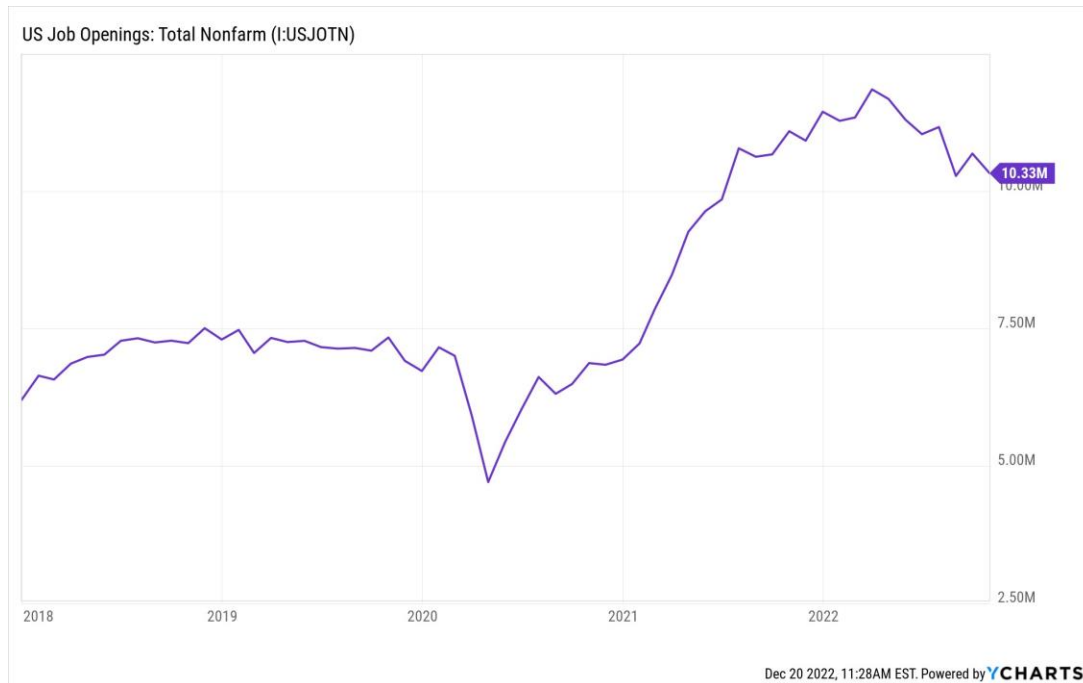
- Why it's important:
 - The monthly job adds need to essentially stagnate (so not much more than 0) or turn negative for a few months to convince the Fed that service inflation is going to decline.
- Key Level to Watch < 100k.
 - A drop below 100k job adds for a few months would be a clear sign the labor market is deteriorating.
- Next Release Date: 1/6/2023

Important Economic Indicator #6: Service Sector Price Index



- Why it's important:
 - This is the best “pure” read on service sector prices that we have in economic data.
 - But, the reading isn't actually hard pricing data, it's survey responses and that's why it doesn't carry as much weight as Core CPI in determining service price inflation.
- Key Level to Watch < 60.00.
- Next Release Date: 1/5/2023

Important Economic Indicator #7: JOLTS



- Why it's important:
 - Job openings spiked following the economic recovery and, in some ways, it's been the "poster child" of labor market tightness.
 - JOLTS data is messy (it wasn't a majorly followed economic report until lately) but the bottom line it needs to decline to reflect deterioration in the labor market.
- Key Level to Watch < 8 million.
- Next Release Date: 1/4/2023

Economic Indicator Cheat Sheet

Economic Indicator	Key Level To Watch	Next Release Date
Core CPI	< 5.0%	1/12/2023
Jobless Claims	> 300k	12/29/2023
Unemployment Rate	> 4.0%, > 4.5%	1/06/2023
Service Sector PMI	< 50.00	1/05/2023
Monthly Job Adds	< 100k	1/06/2023
Service Sector Price Index	< 60.00	1/05/2023
JOLTS	< 8 Million	1/04/2023