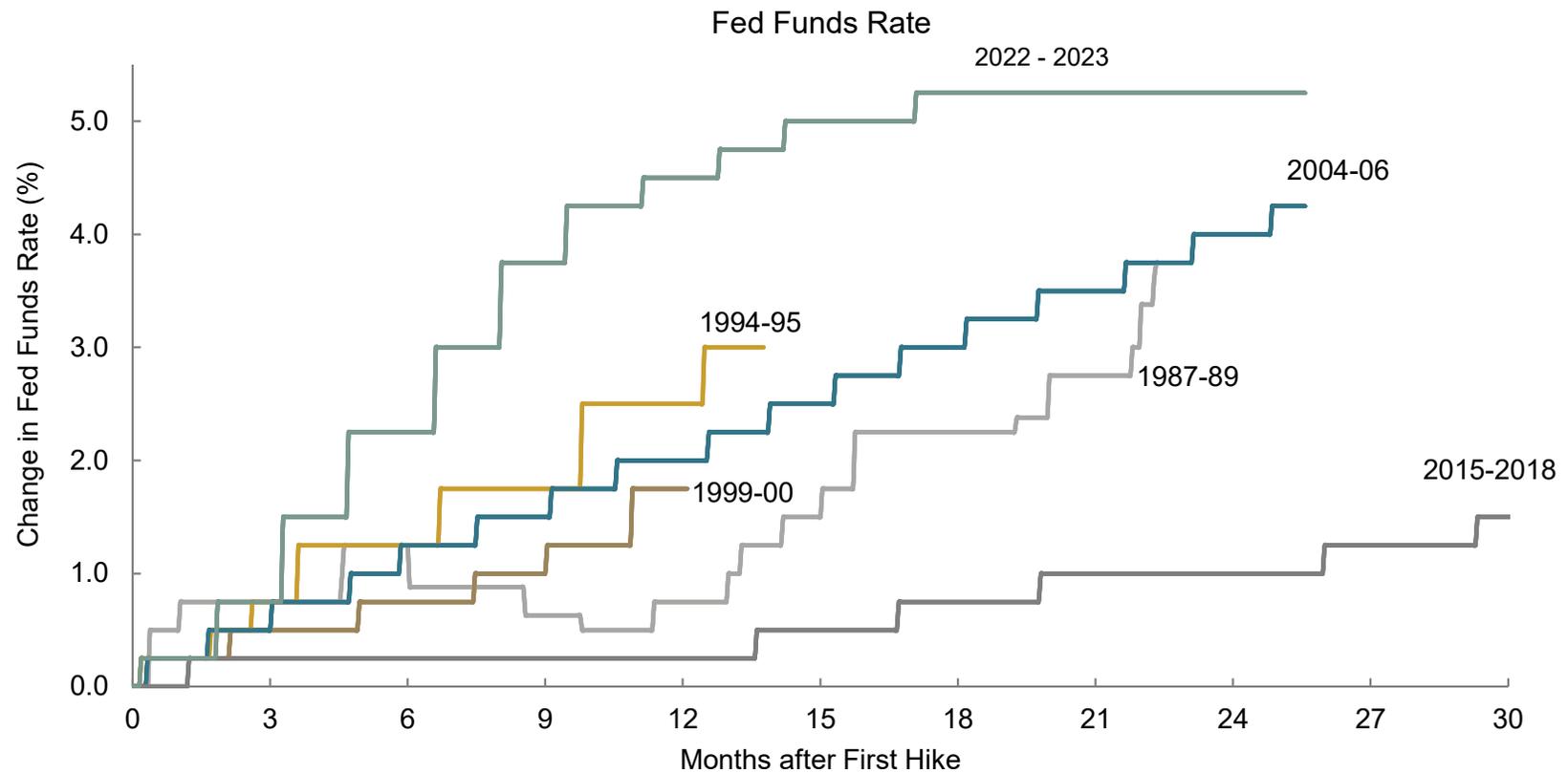


Does No Landing Mean Hard Landing?

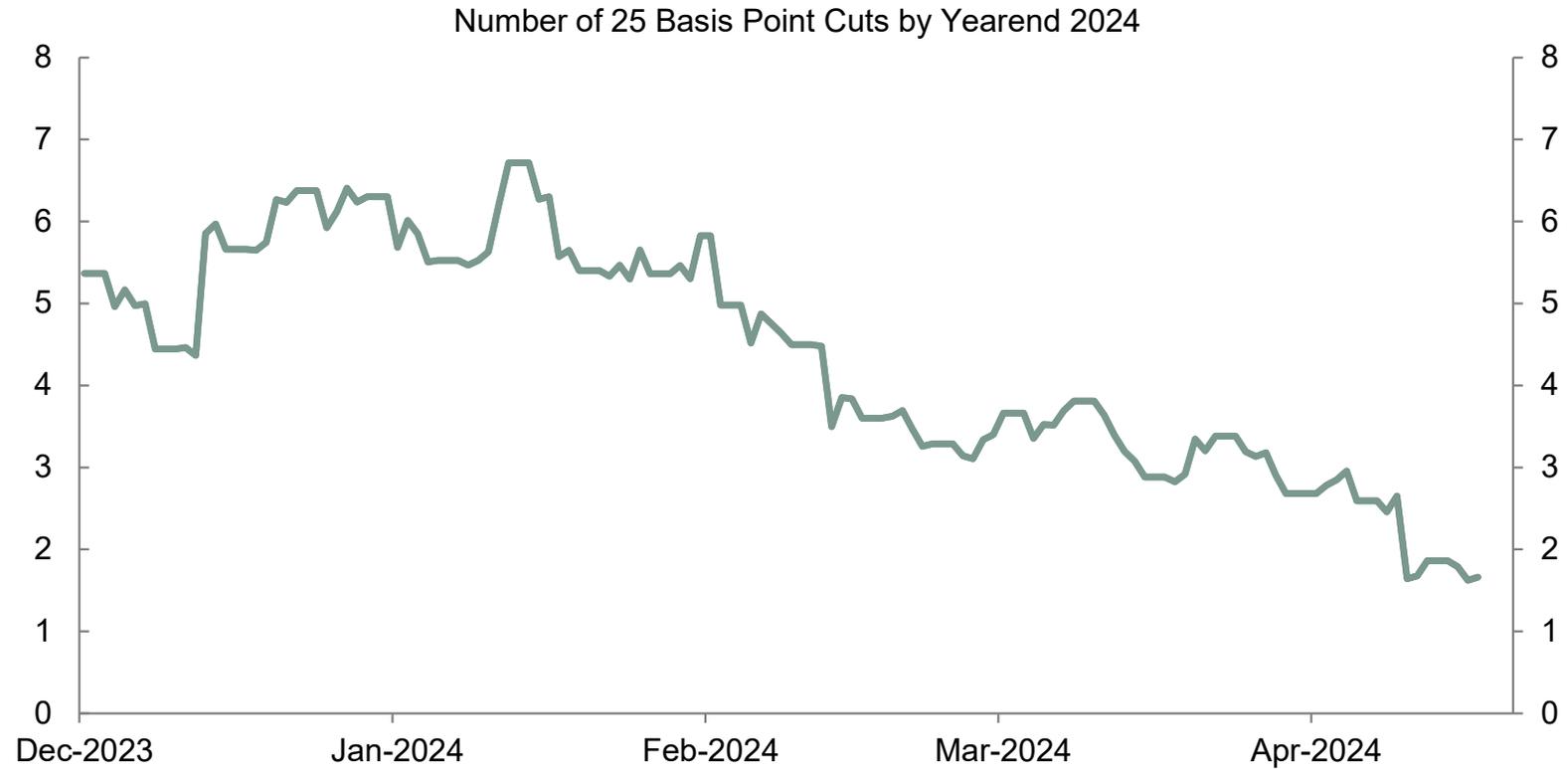
Joseph A. LaVorgna
Chief US Economist
SMBC Nikko

(212)-893-1528
Joseph.Lavorgna@smbcnikko-si.com
April 22, 2024

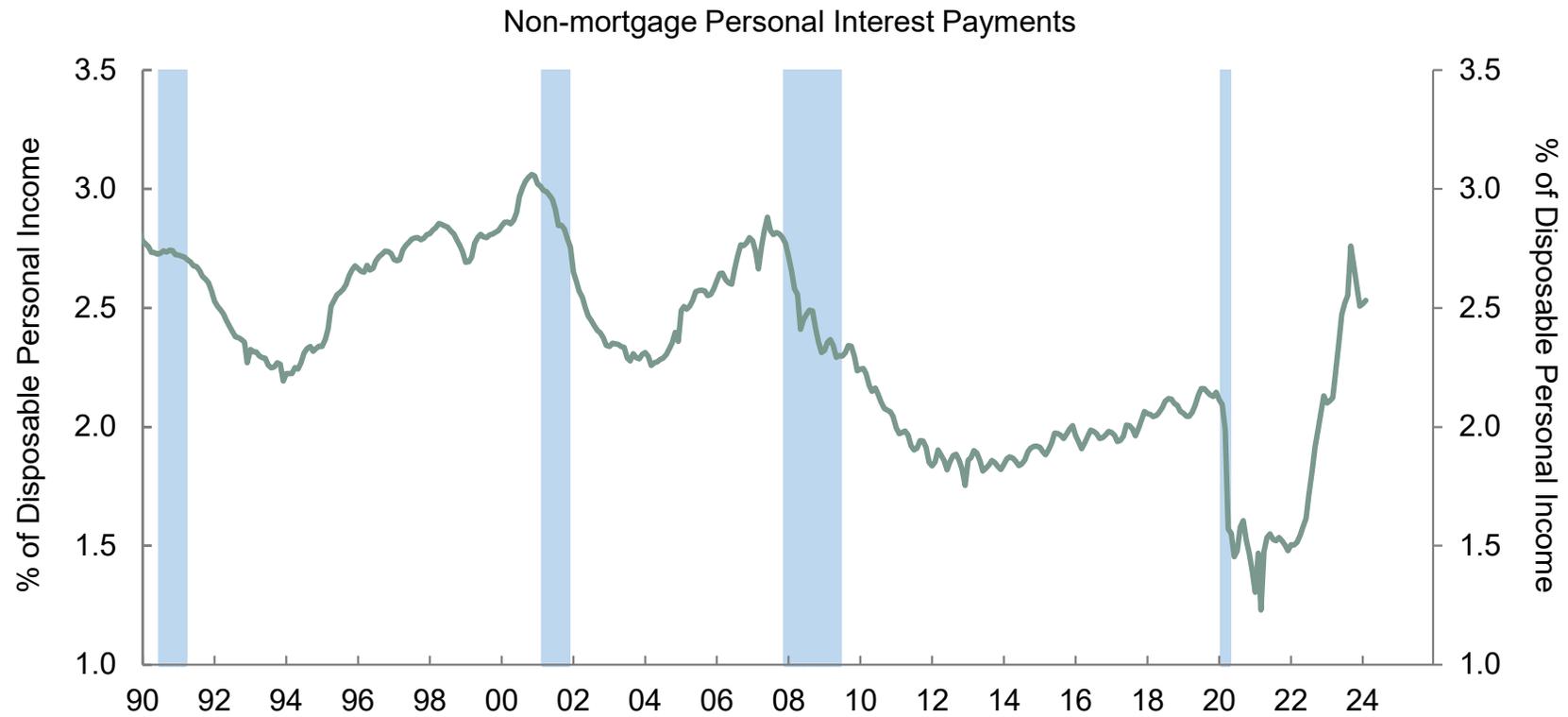
Record Rise in Fed Funds



Declining Rate Cut Hopes

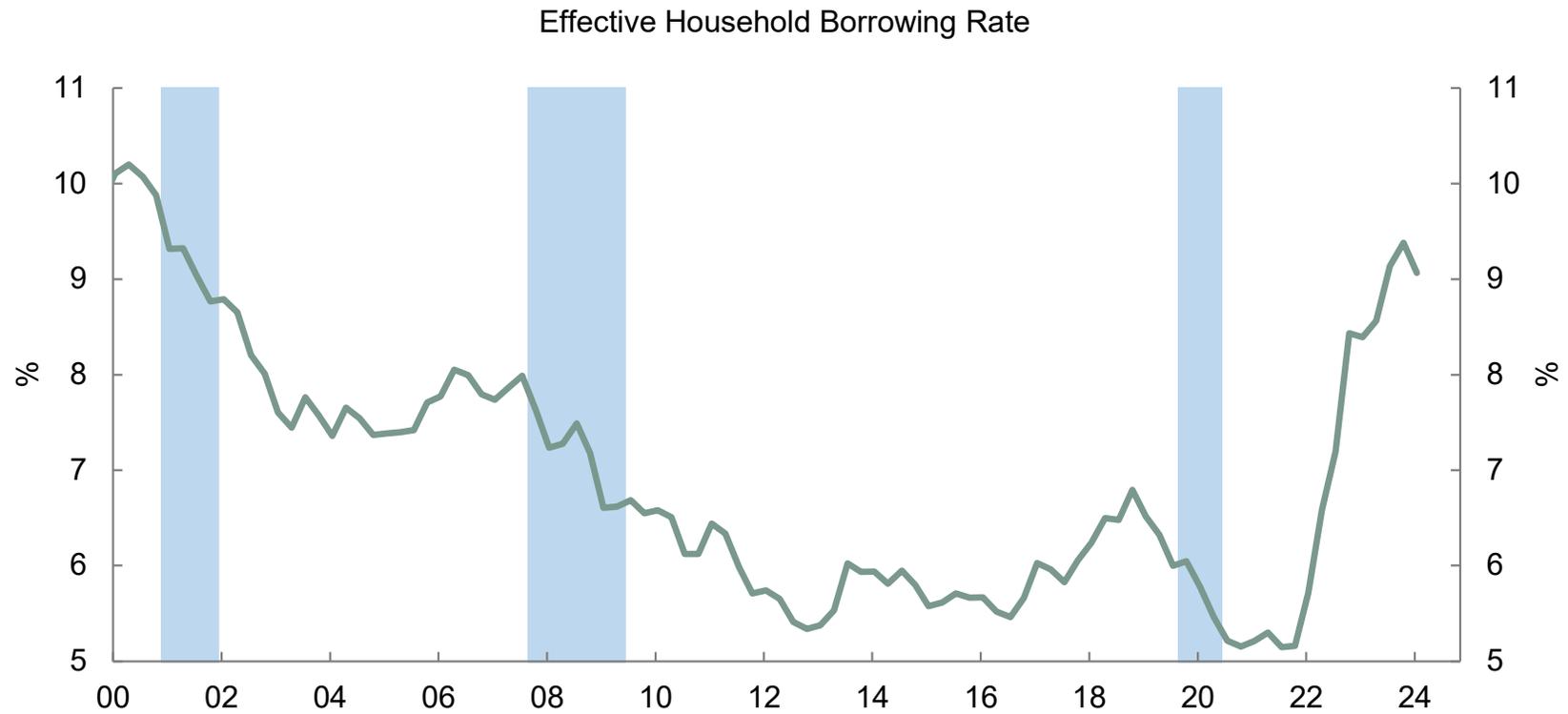


Pinched Consumers



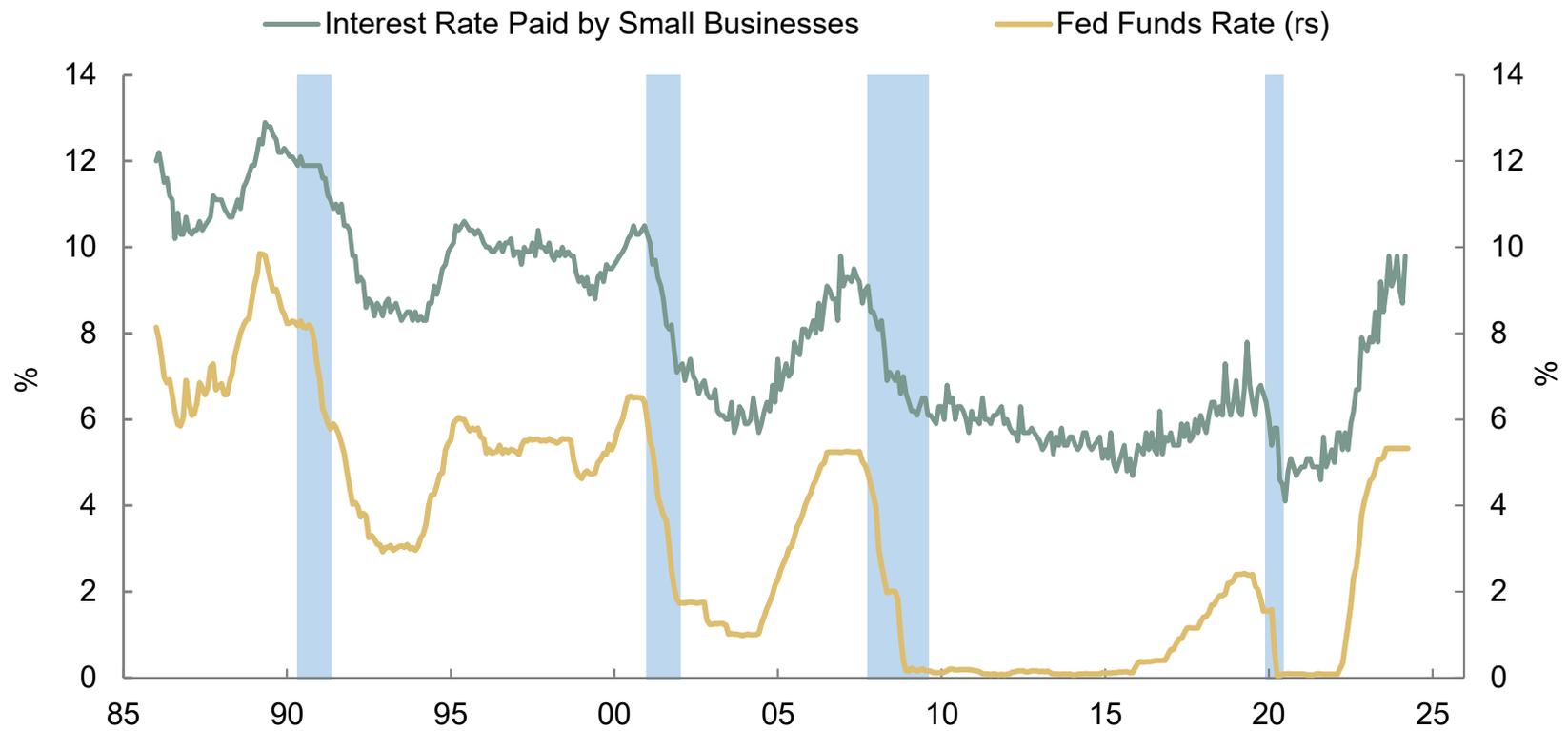
Source: BEA, Haver, SMBC Nikko

Soaring Borrowing Costs



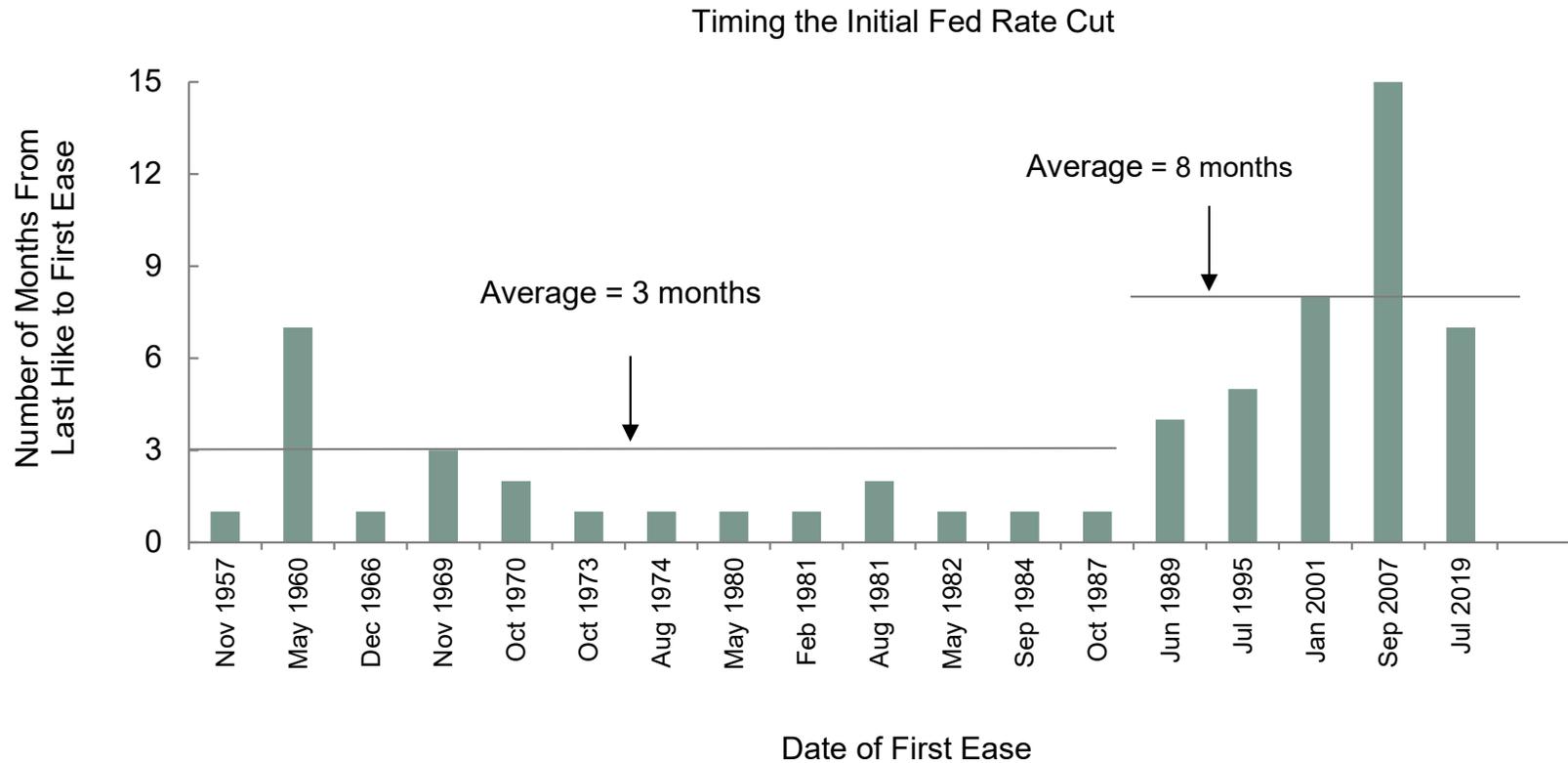
Source: FRBNY, Freddie Mac, FRB, Haver, SMBC Nikko

Feeling the Impact

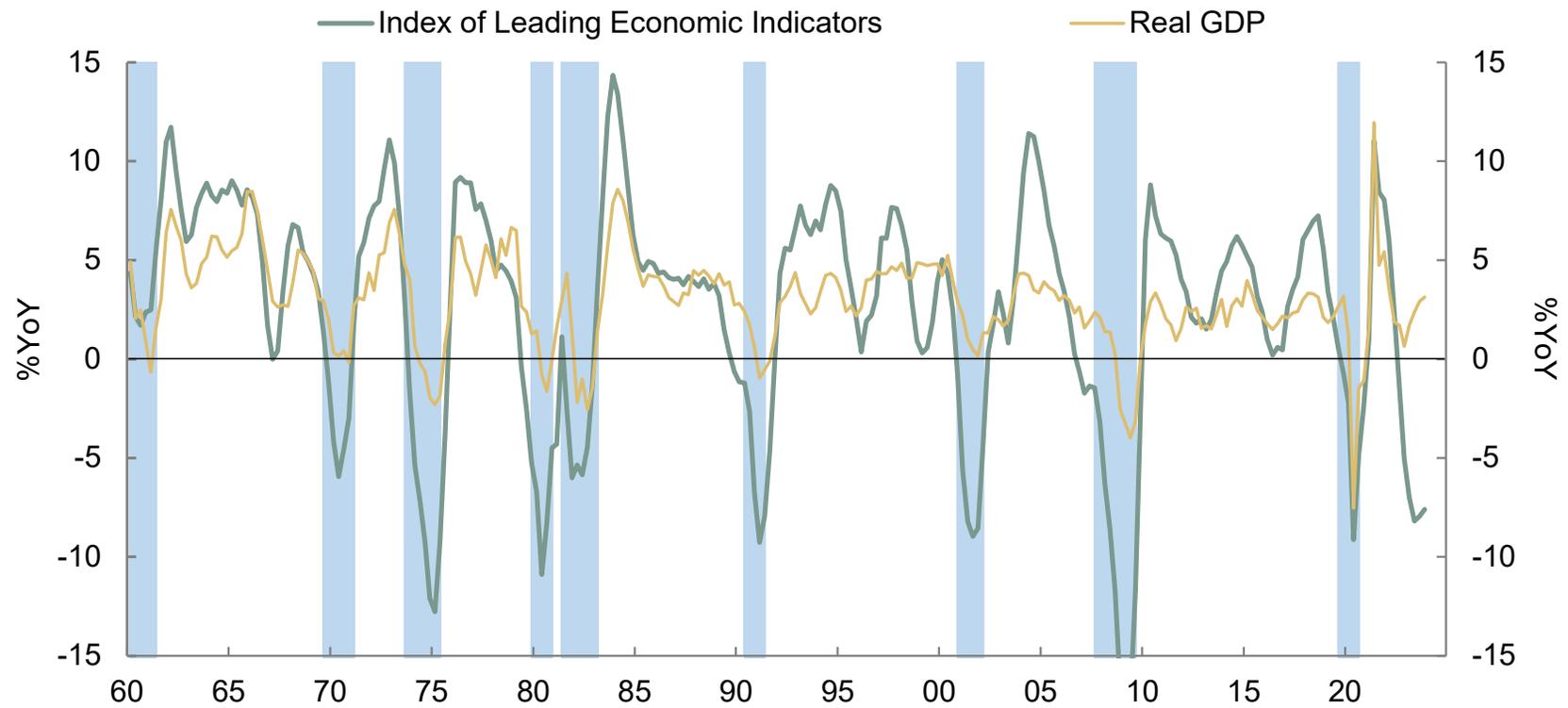


Source: NFIB, Federal Reserve, Haver, SMBC Nikko

Timing The Pivot

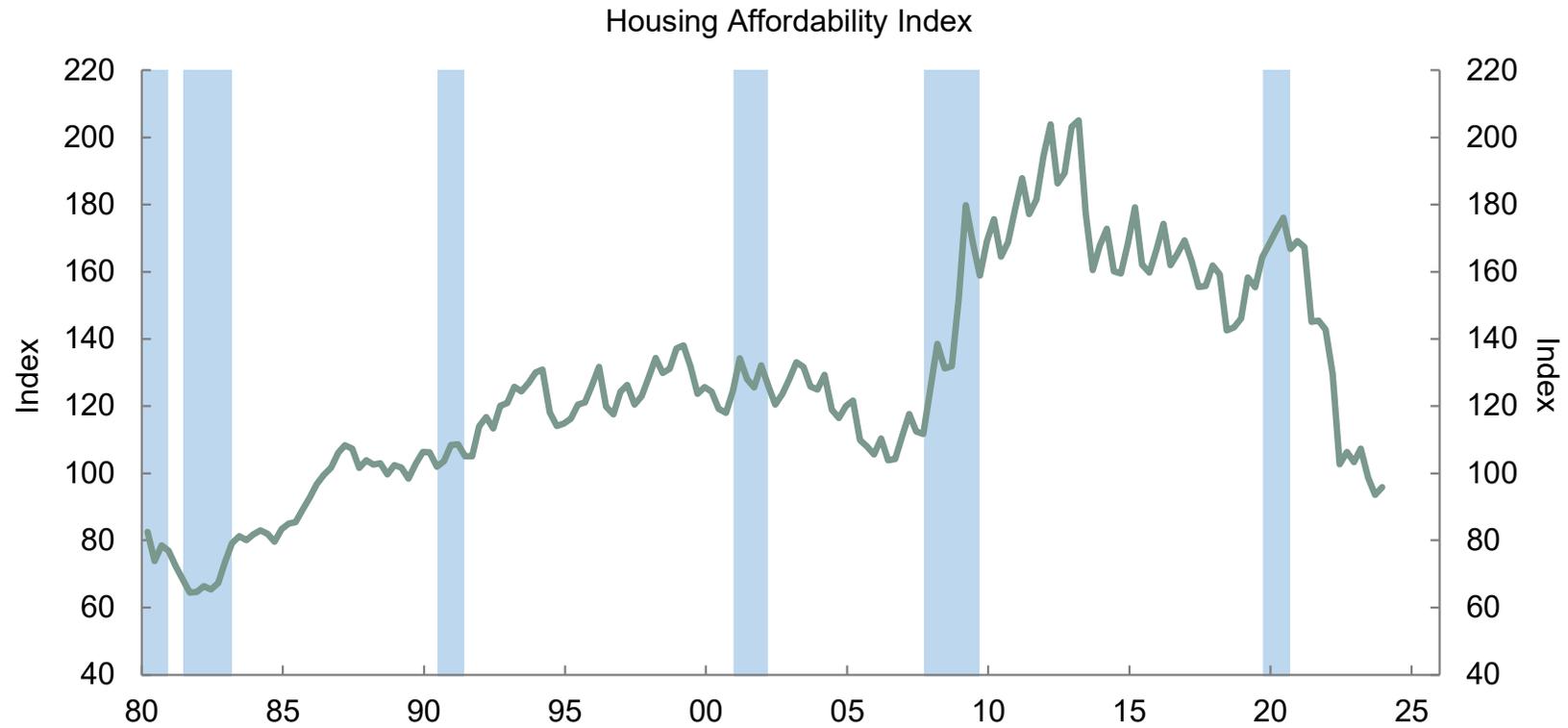


Still Negative

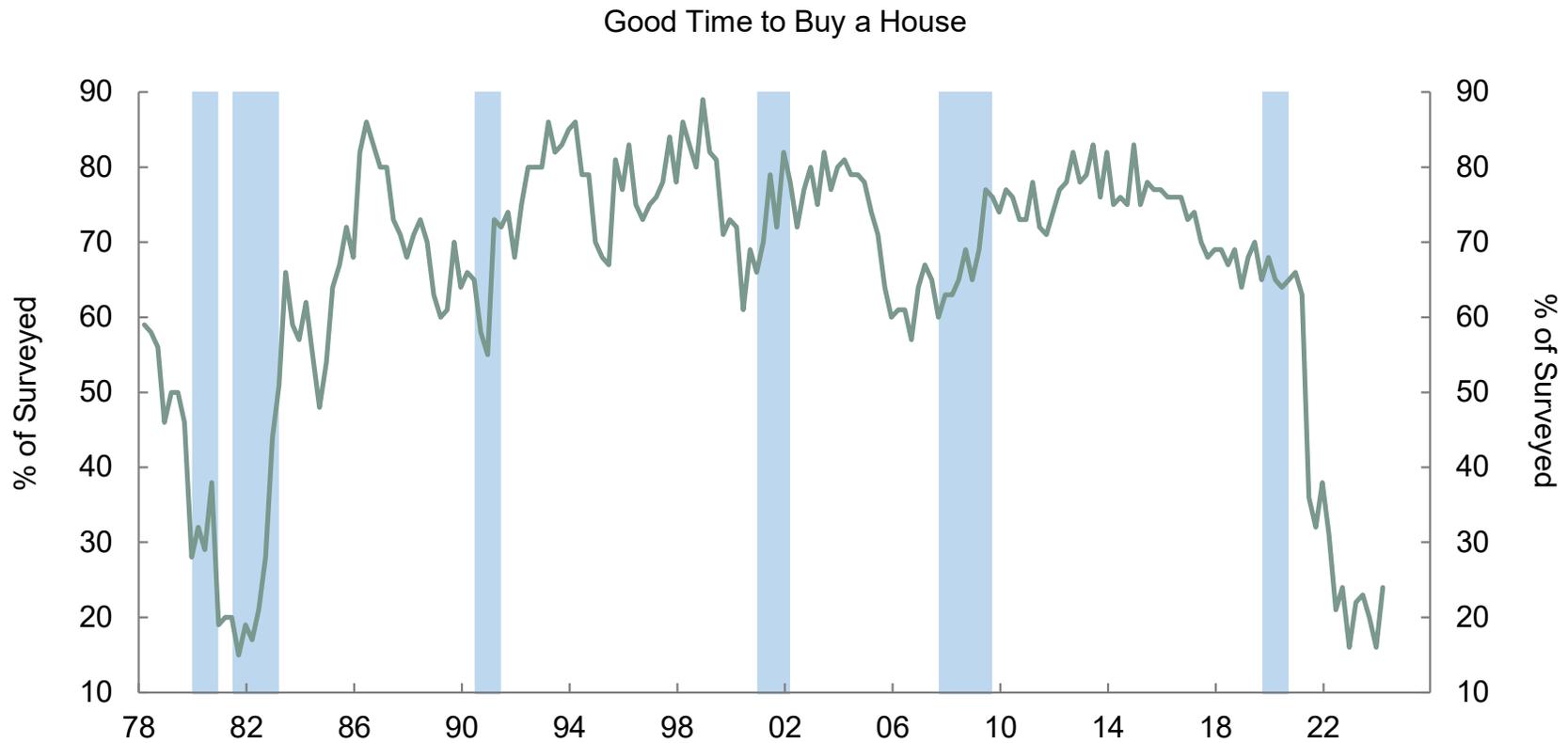


Source: Conference Board, BEA, Haver, SMBC Nikko

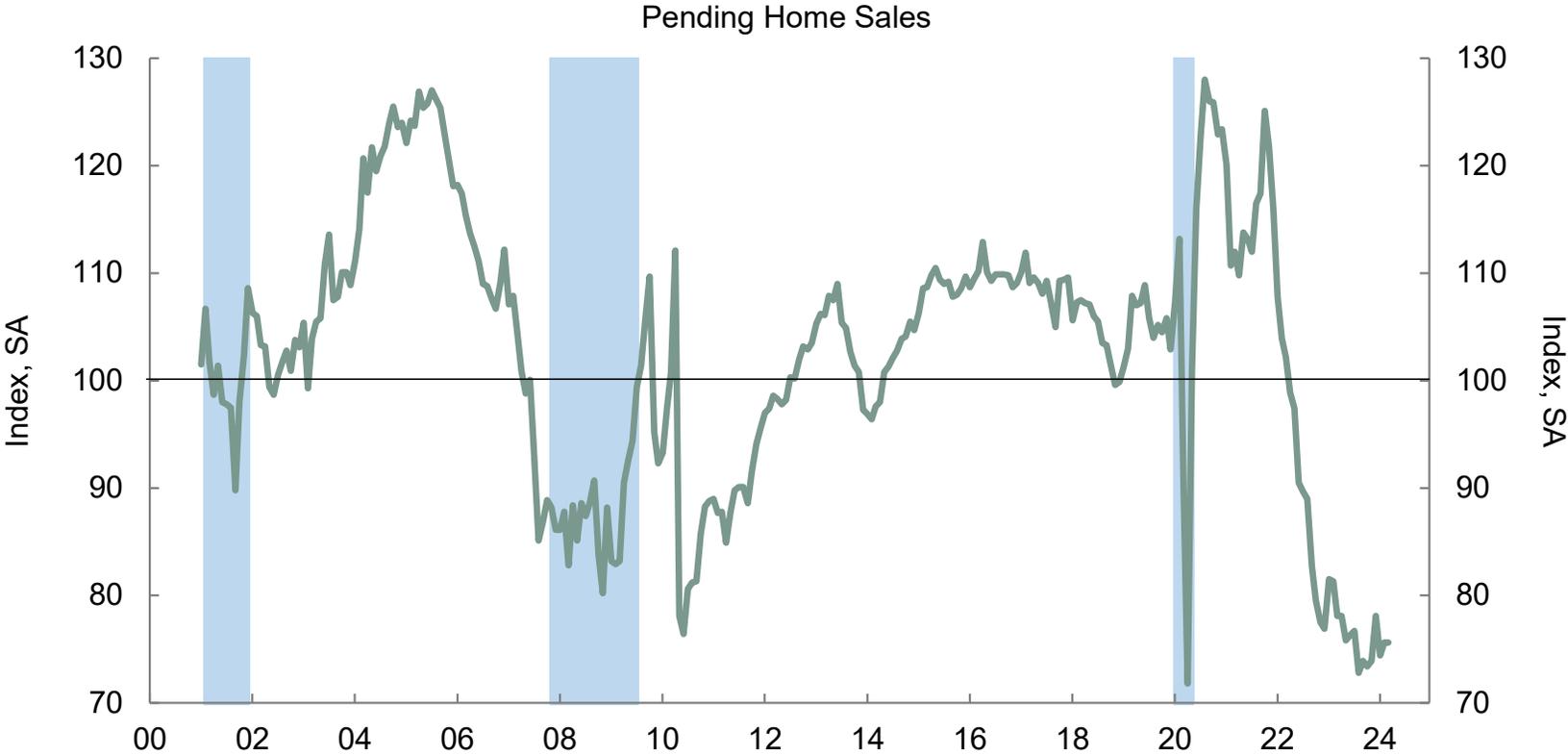
Near a Multi-decade Low



Sitting on the Sidelines



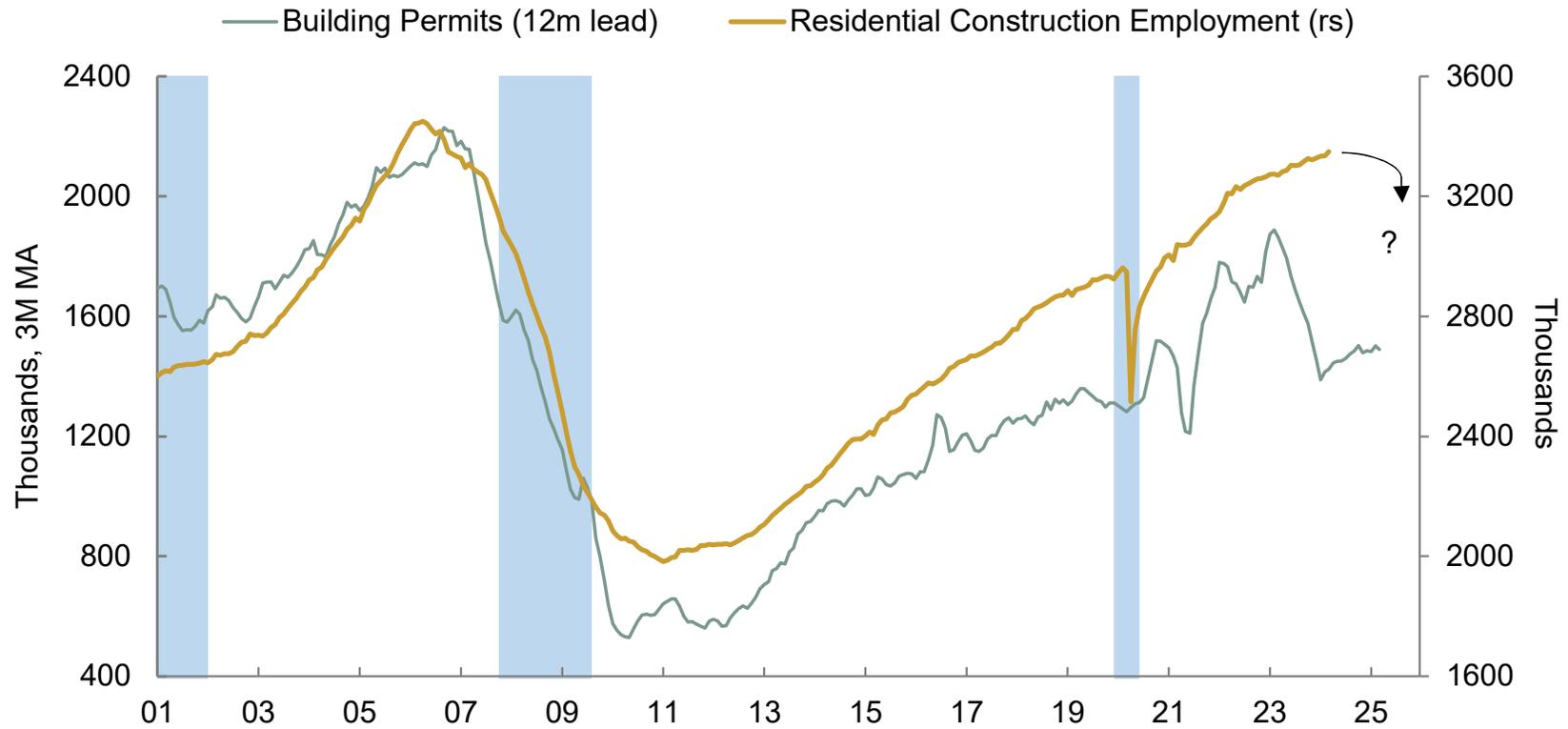
A Frozen Market



Source: NAR, Haver, SMBC Nikko

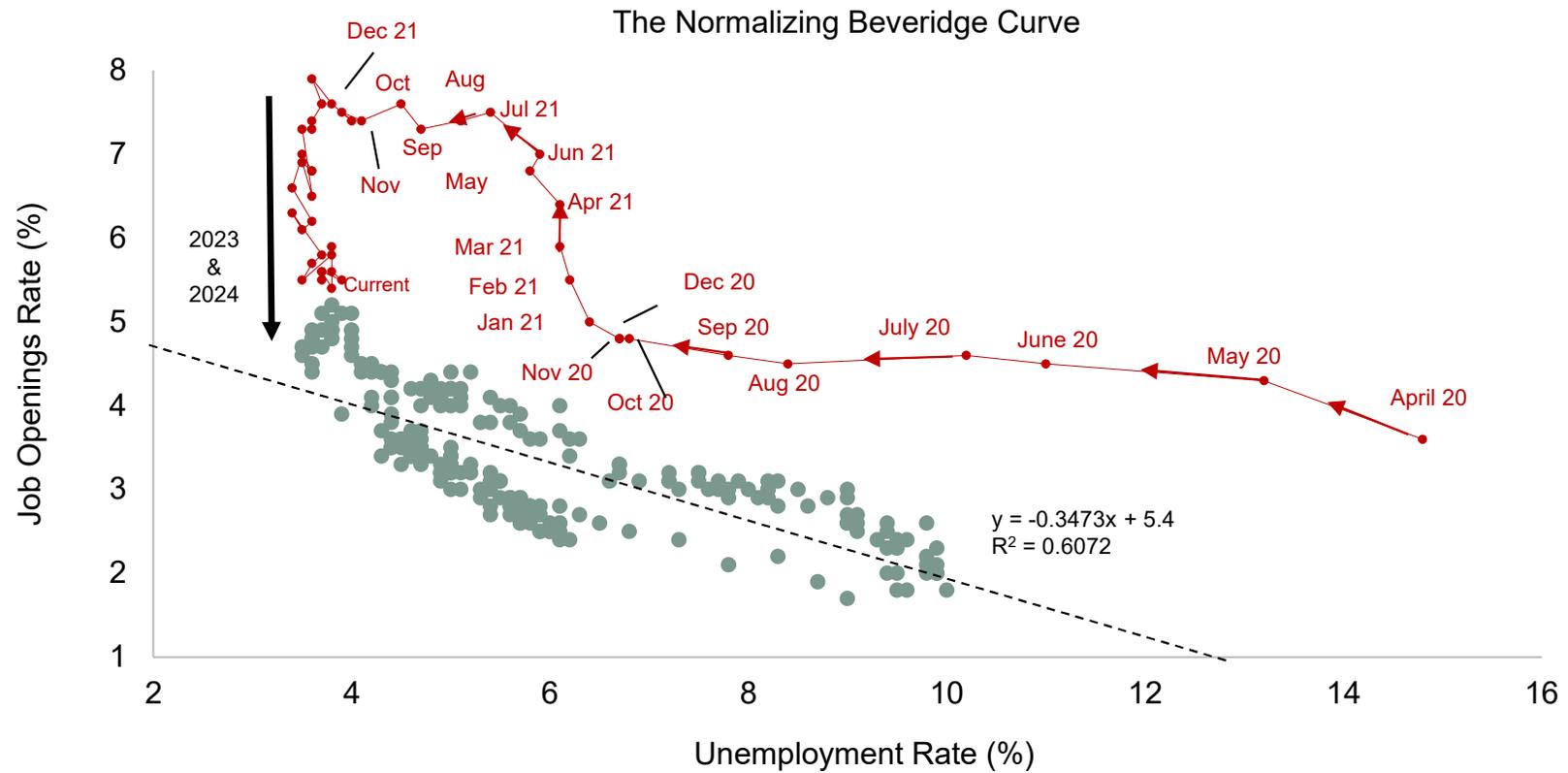


Is This Time Different?



Source: Census, BLS, Haver, SMBC Nikko

Labor Market Normalizing

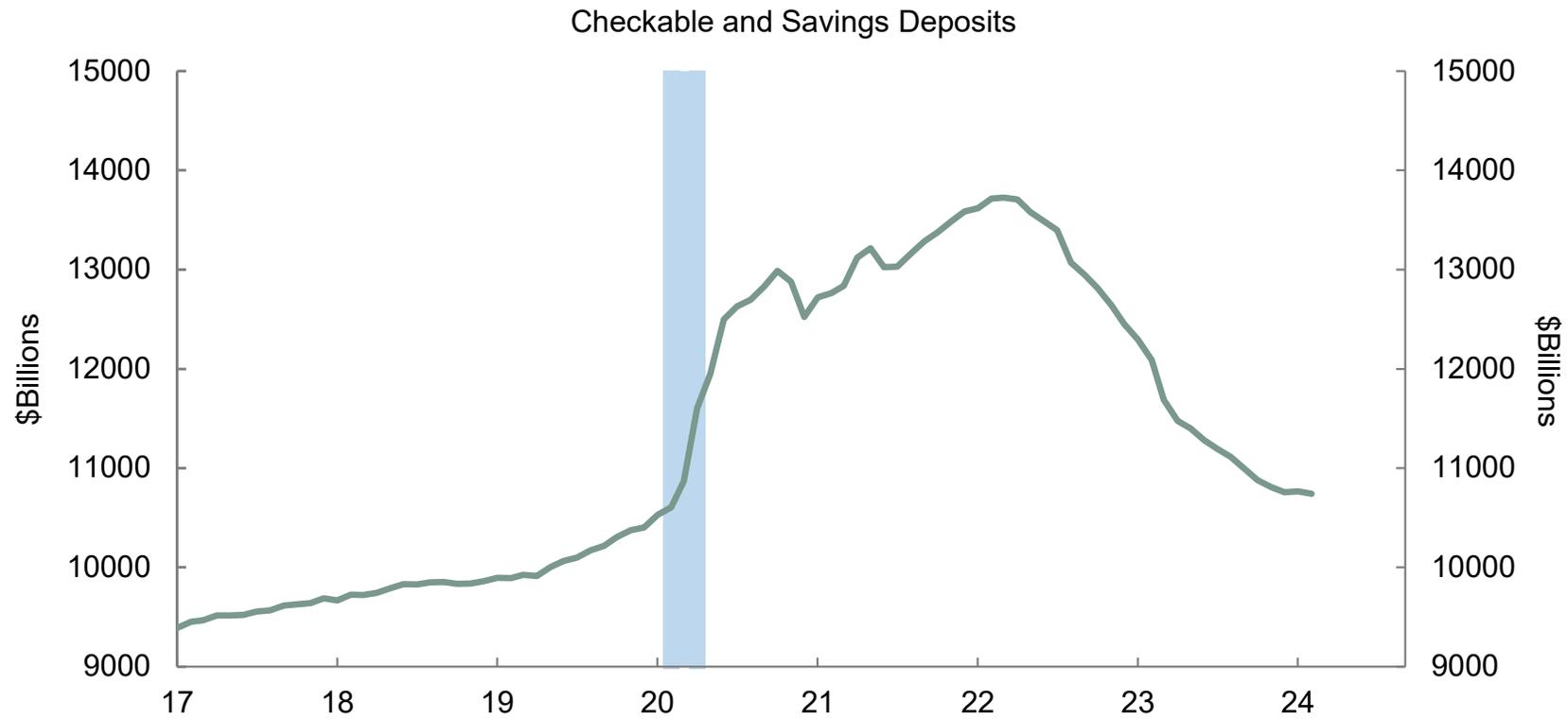


Longer from Start to Finish

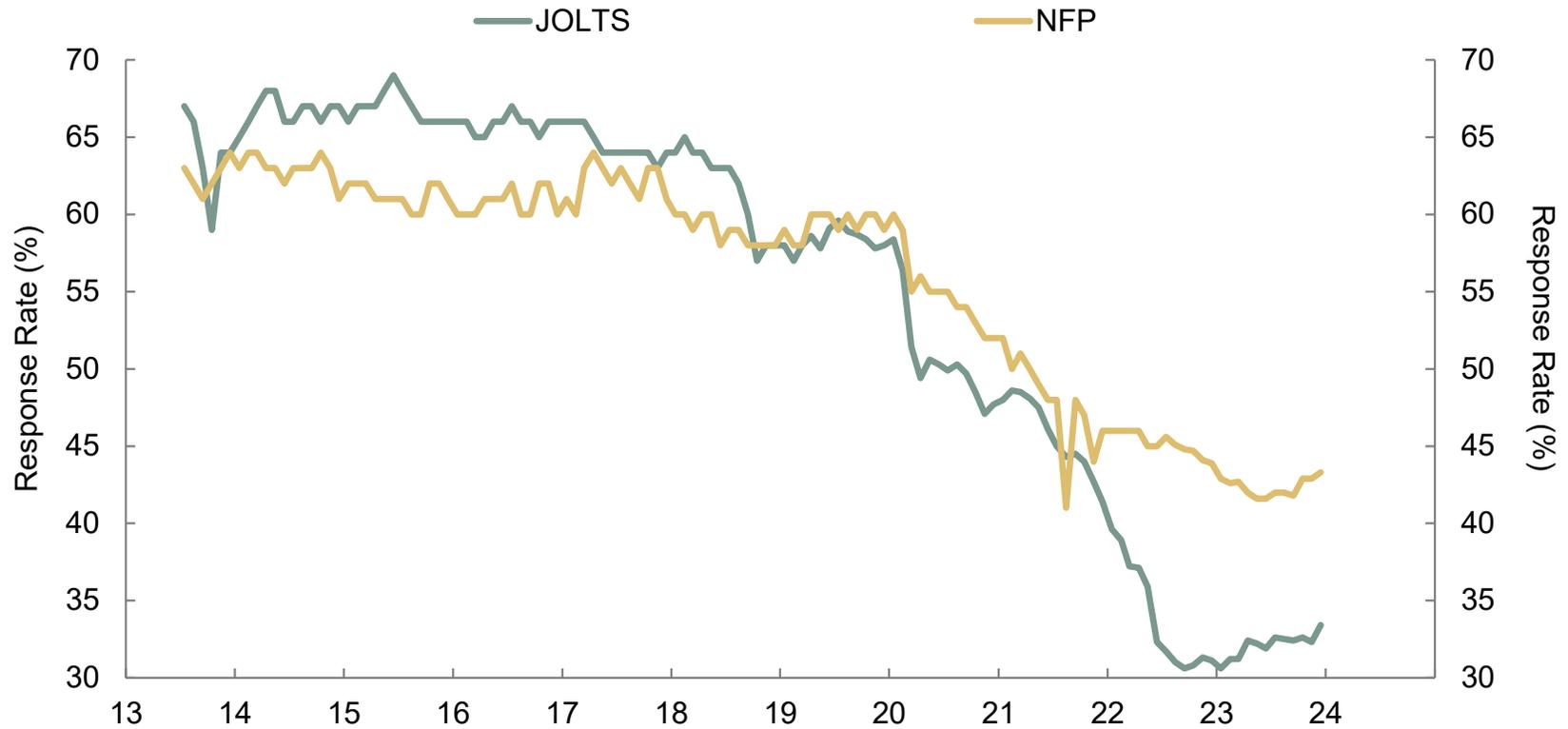
Average Length of Time from Start to Completion: 1-Unit Buildings



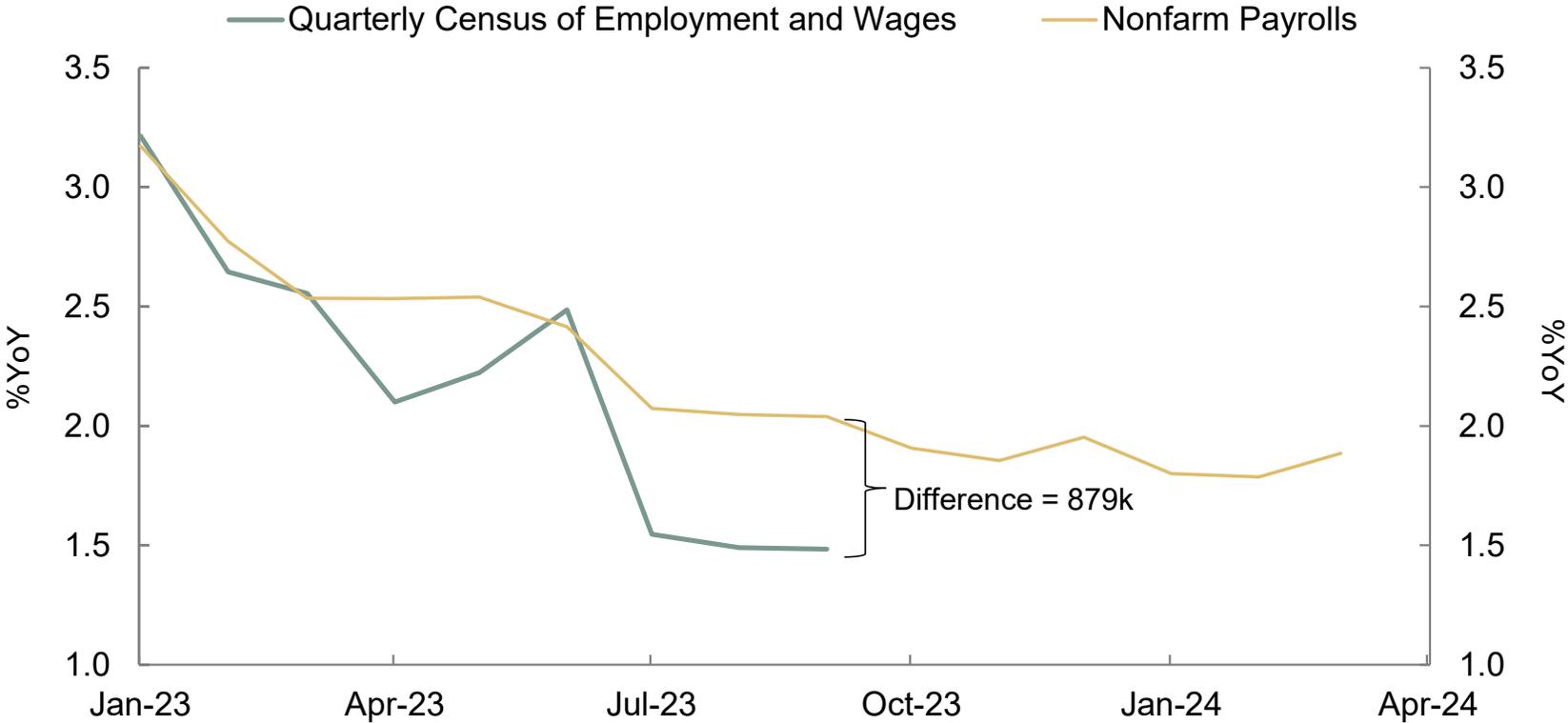
Depleted Savings



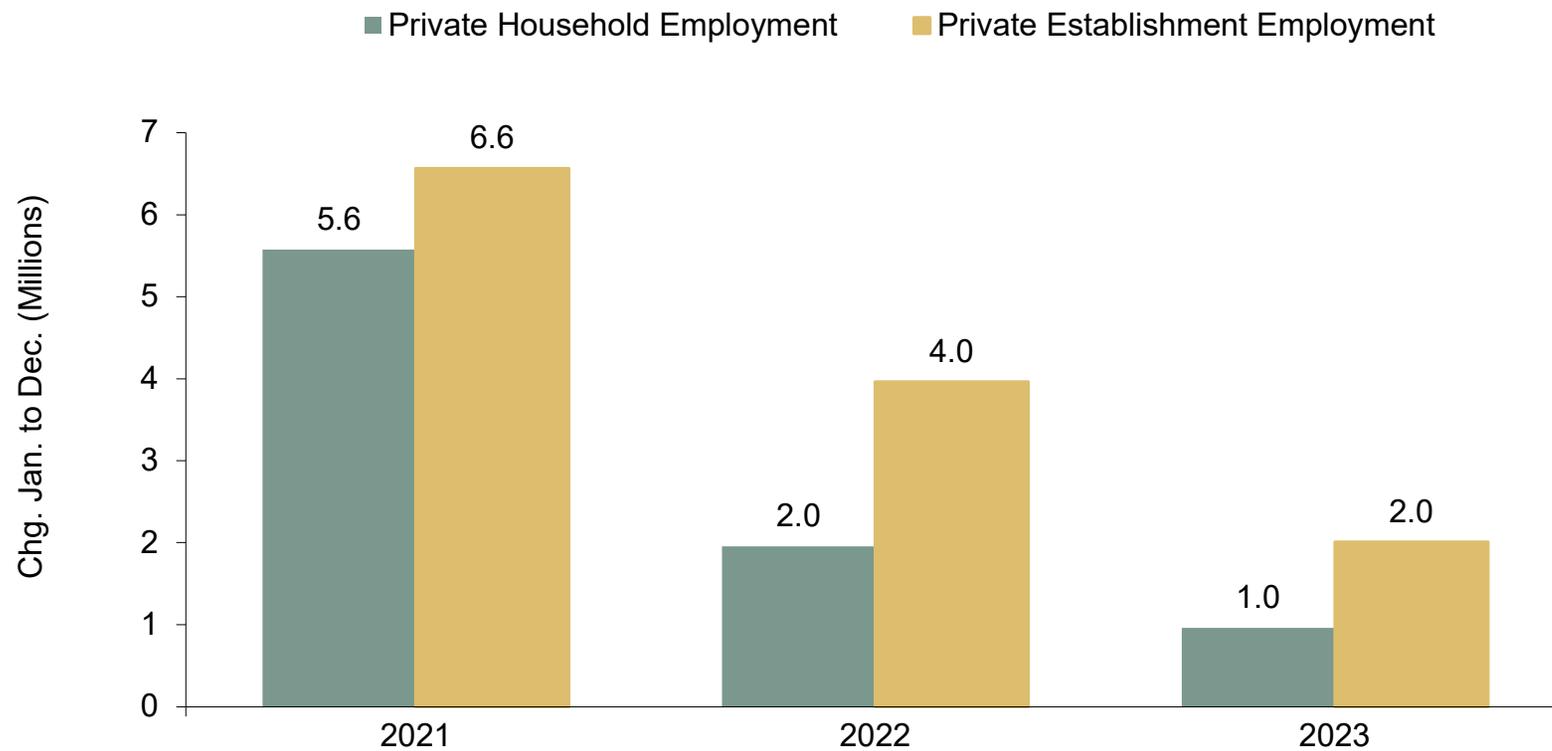
Plunging Response Rates



Jobs Growing Less than Taxes



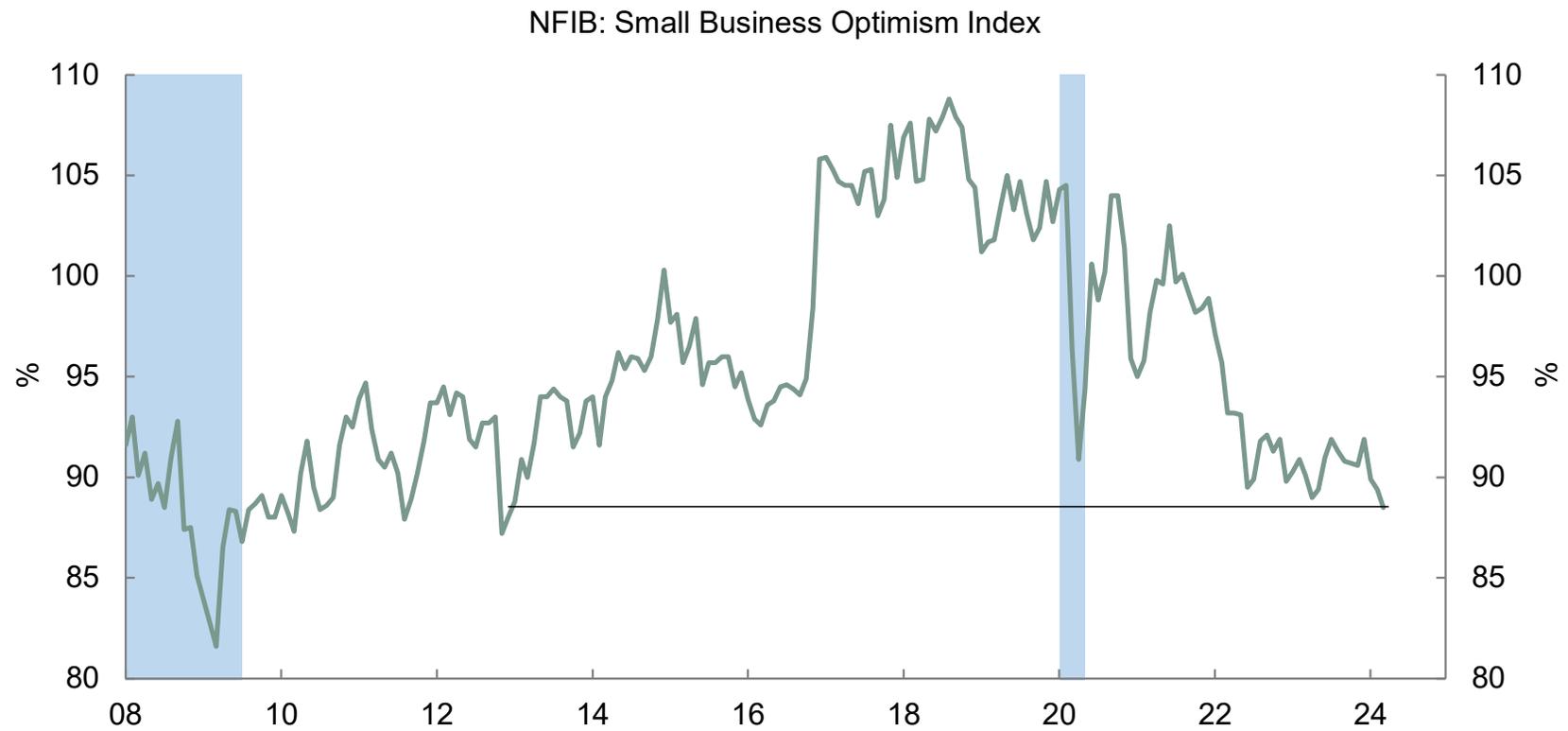
Household Survey Weaker



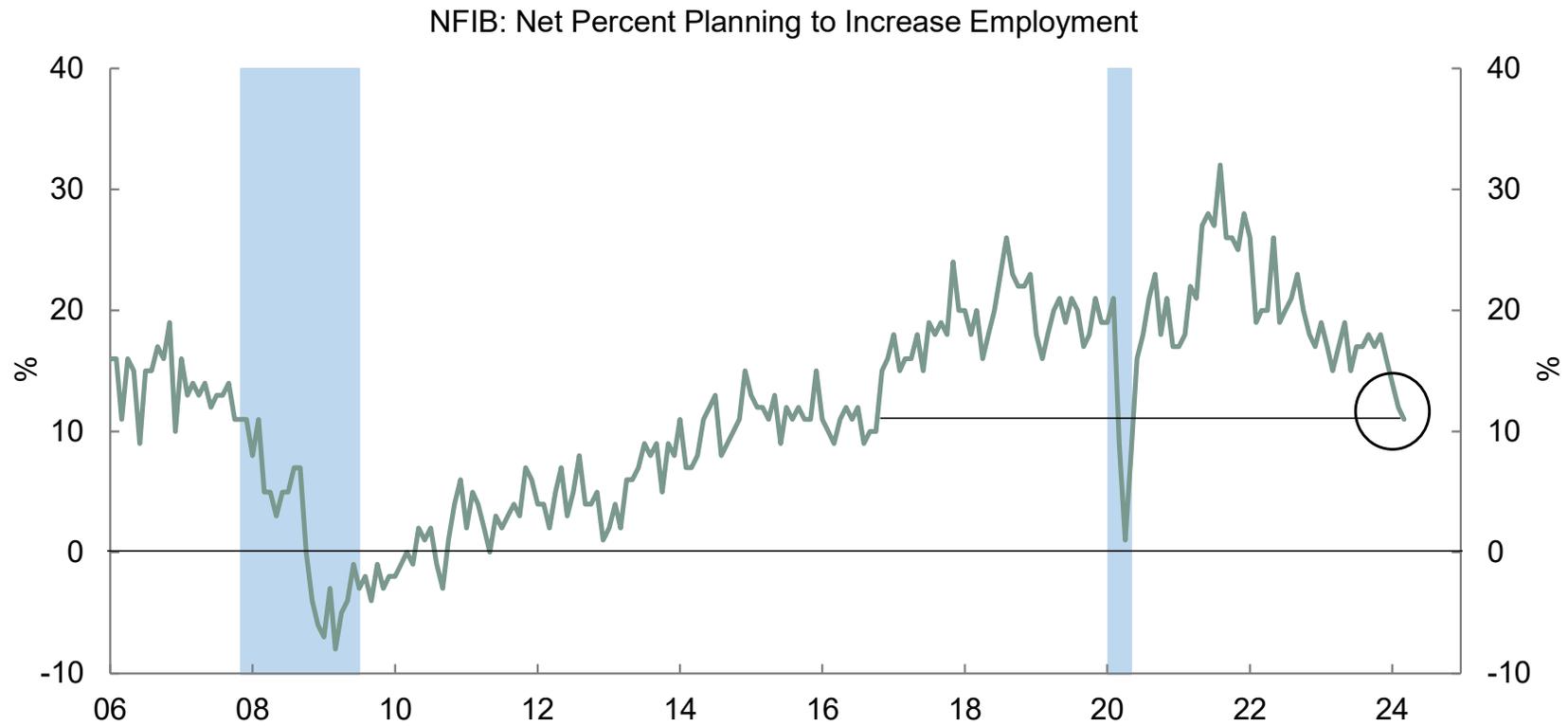
Jobs Declining



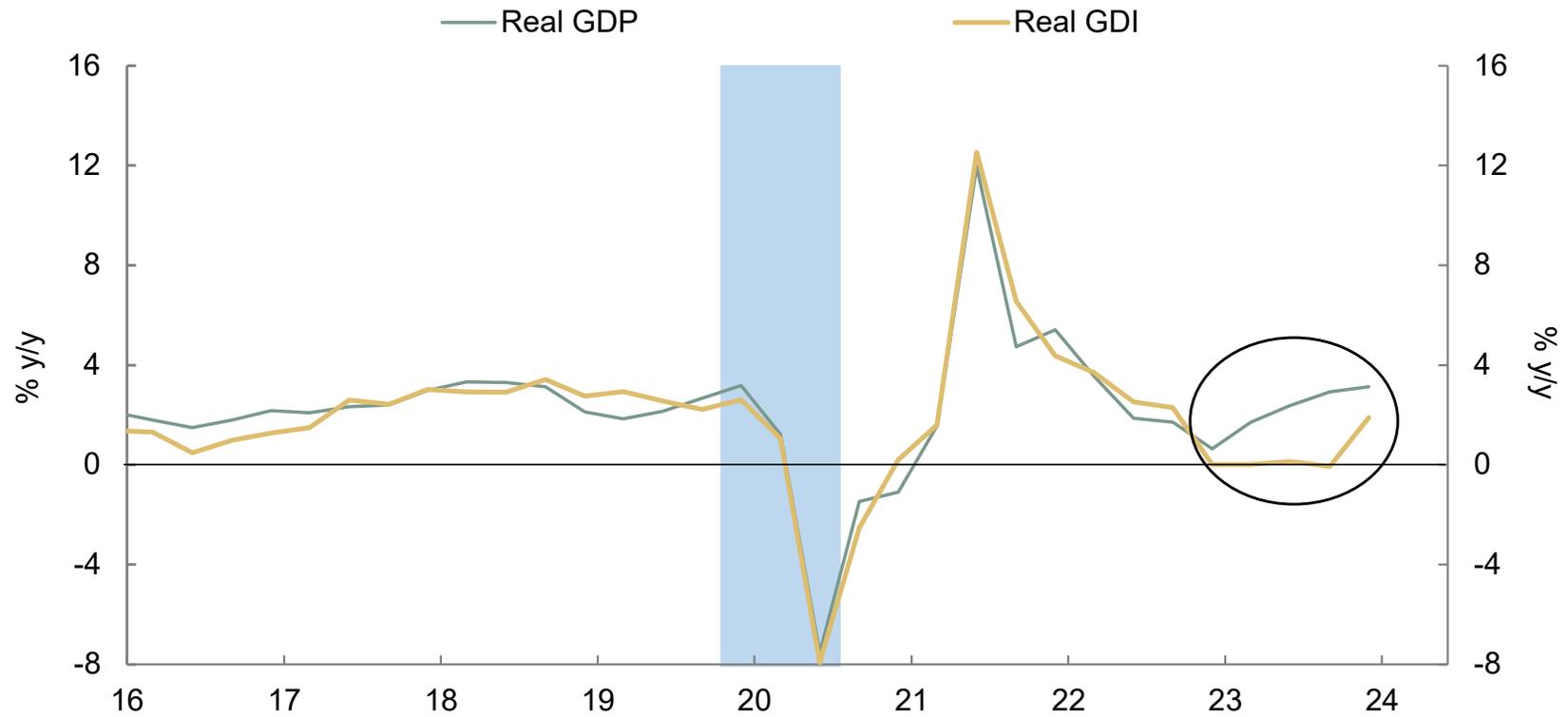
Small Business Blues



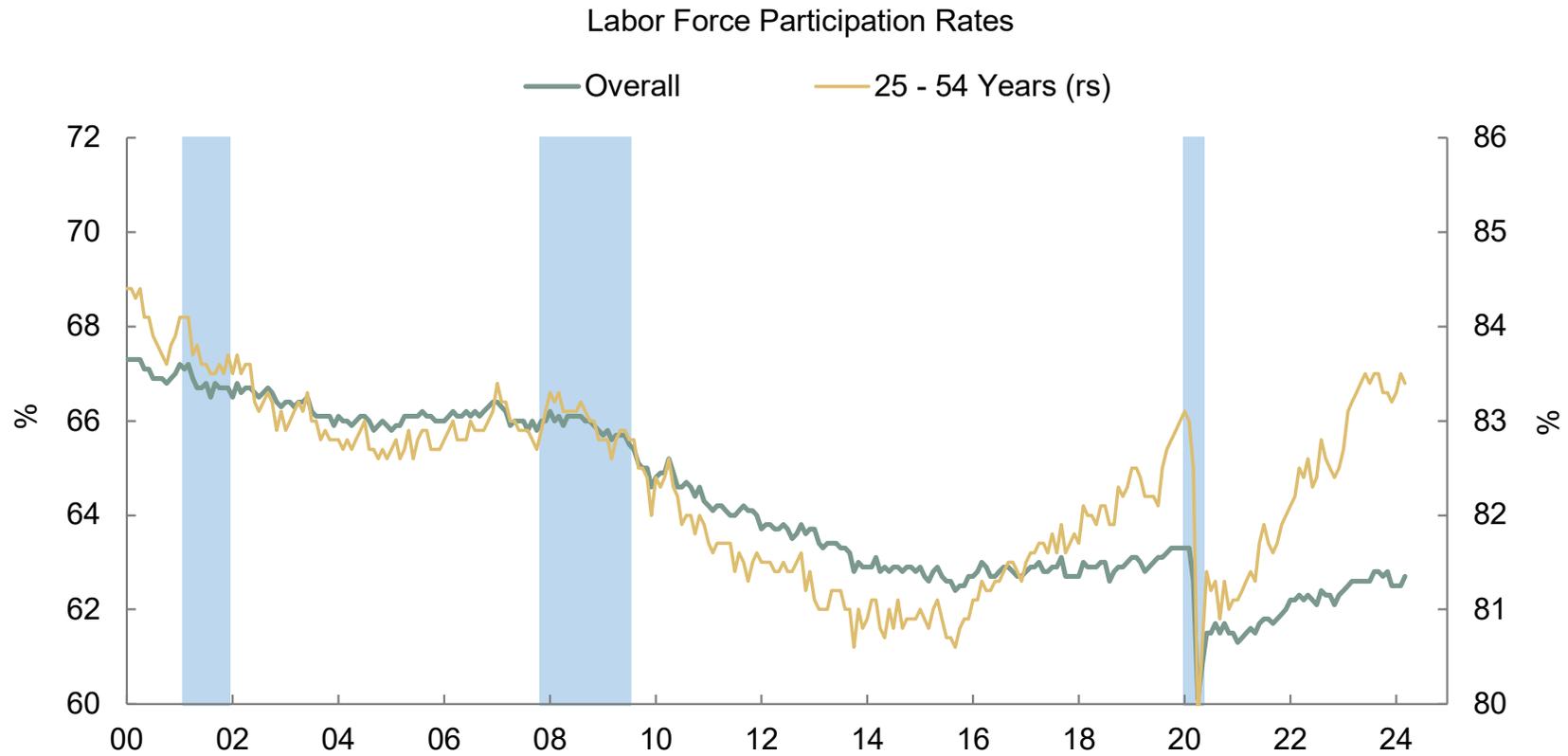
Dimming Job Prospects



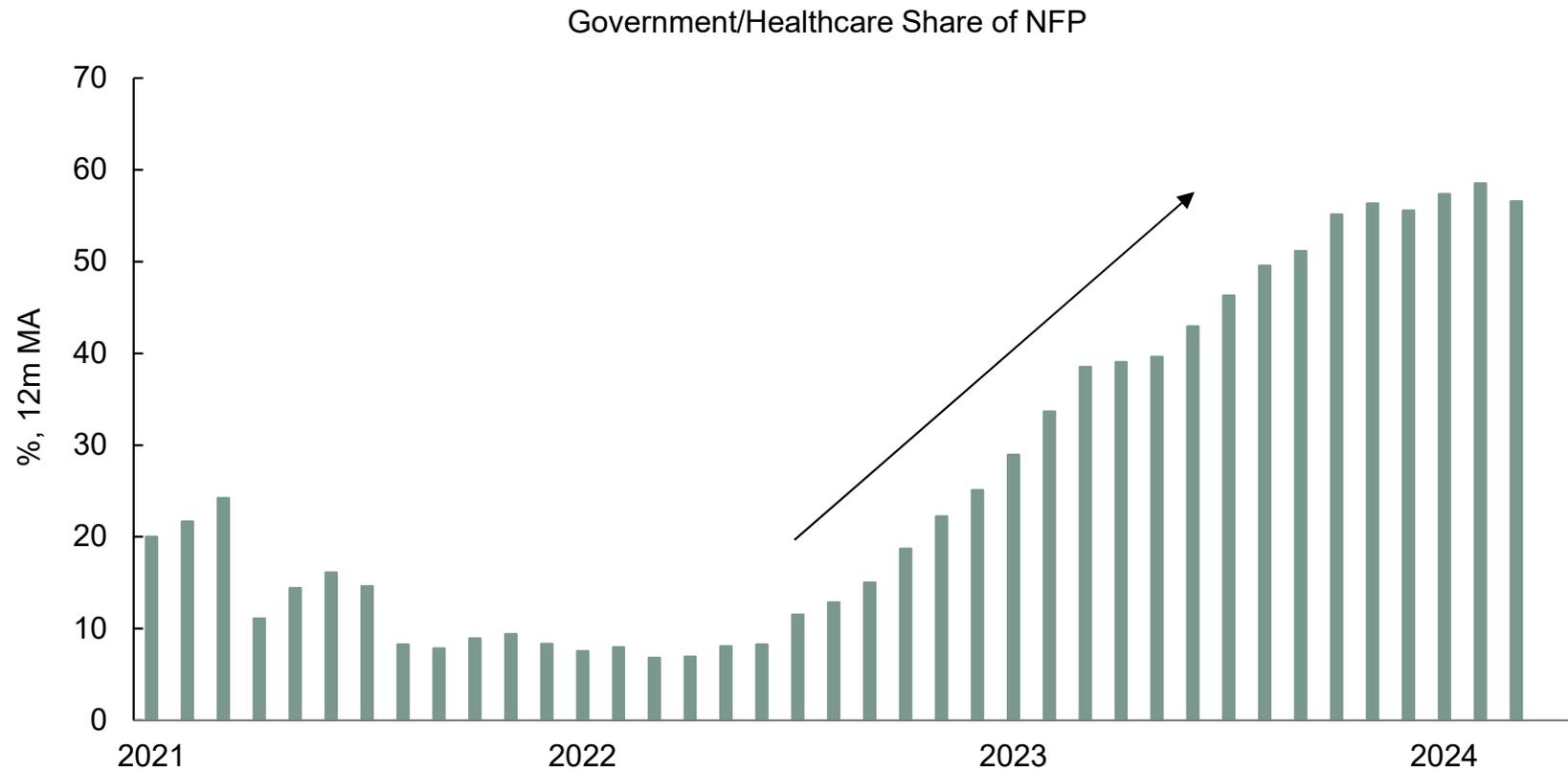
Gap Closing Due to Profits



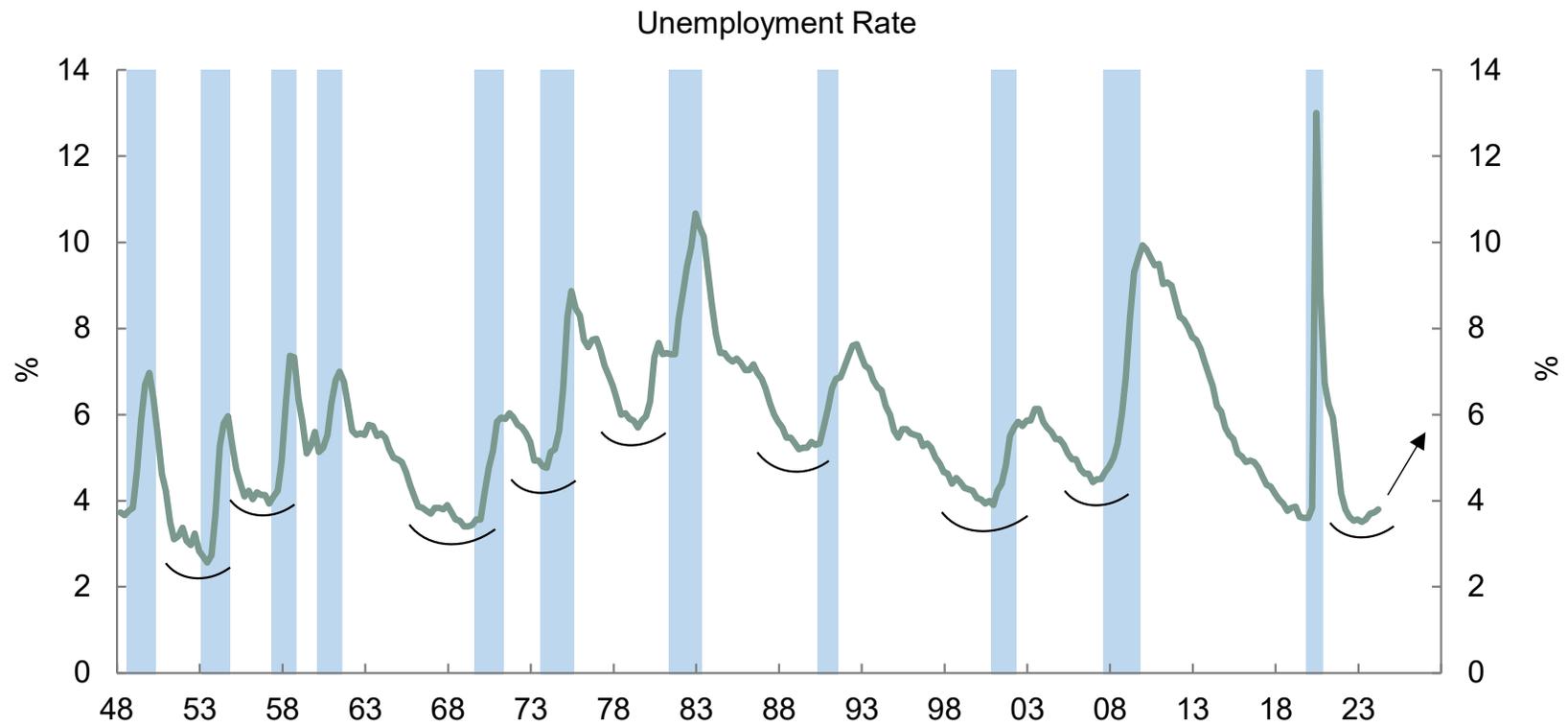
Limited Upside



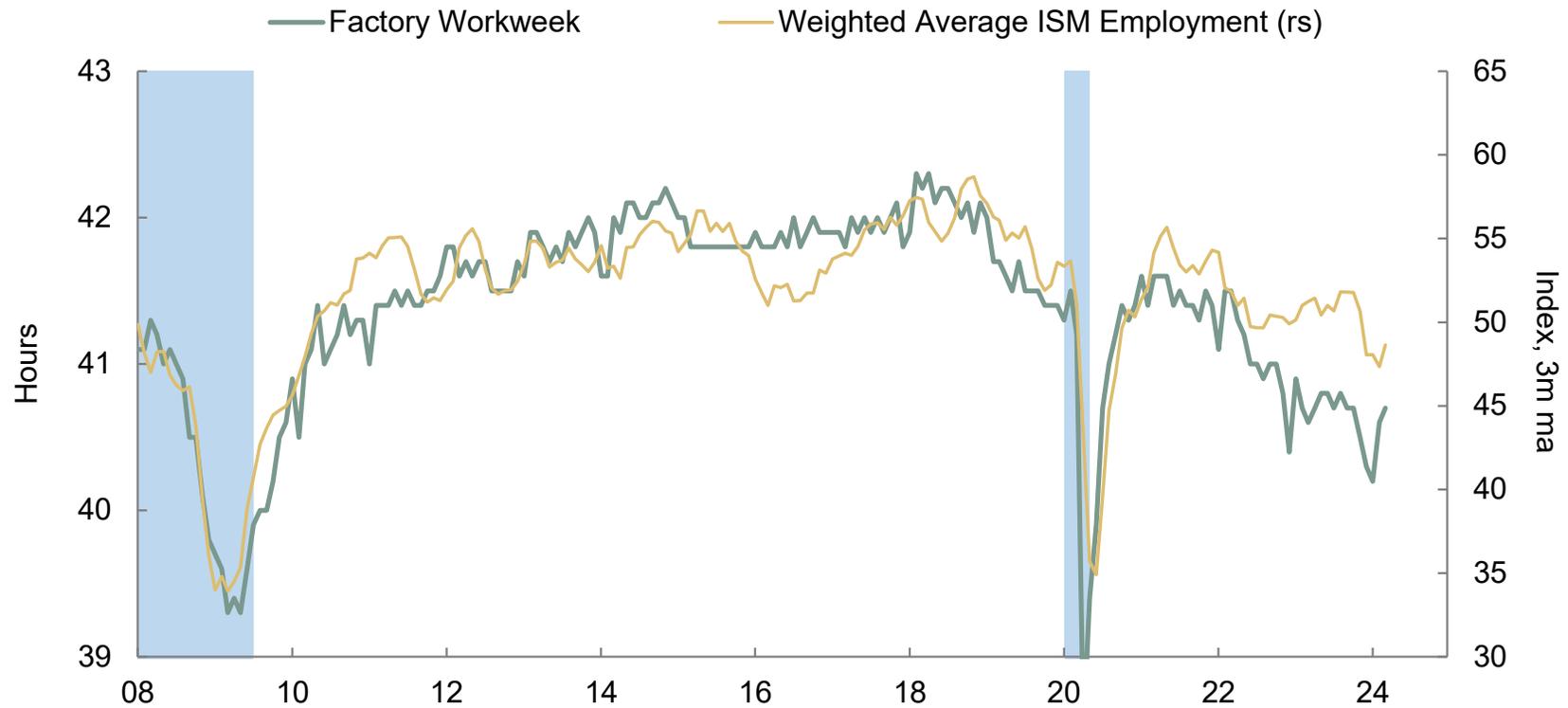
Government-related Strength



Inflection Point?

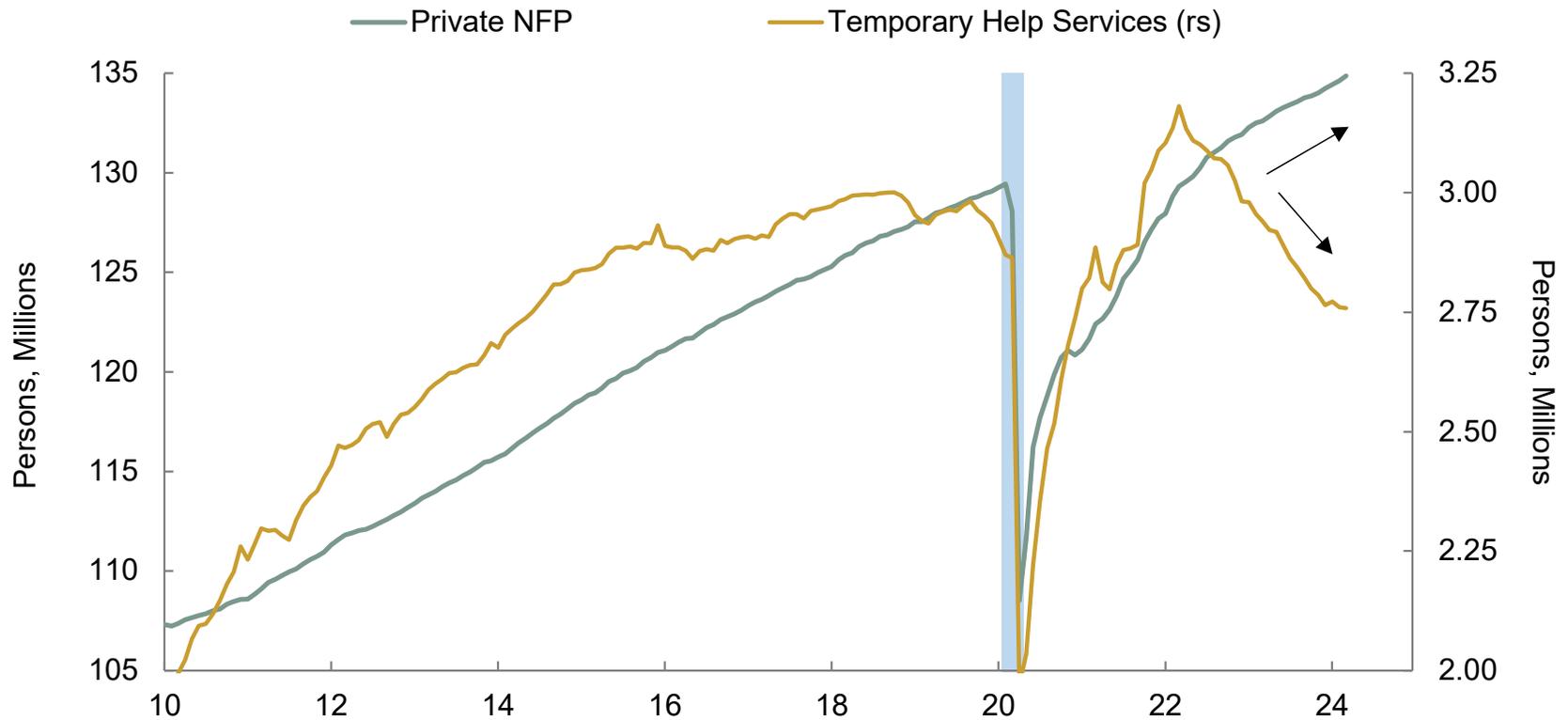


Leading Indicators Still Slowing



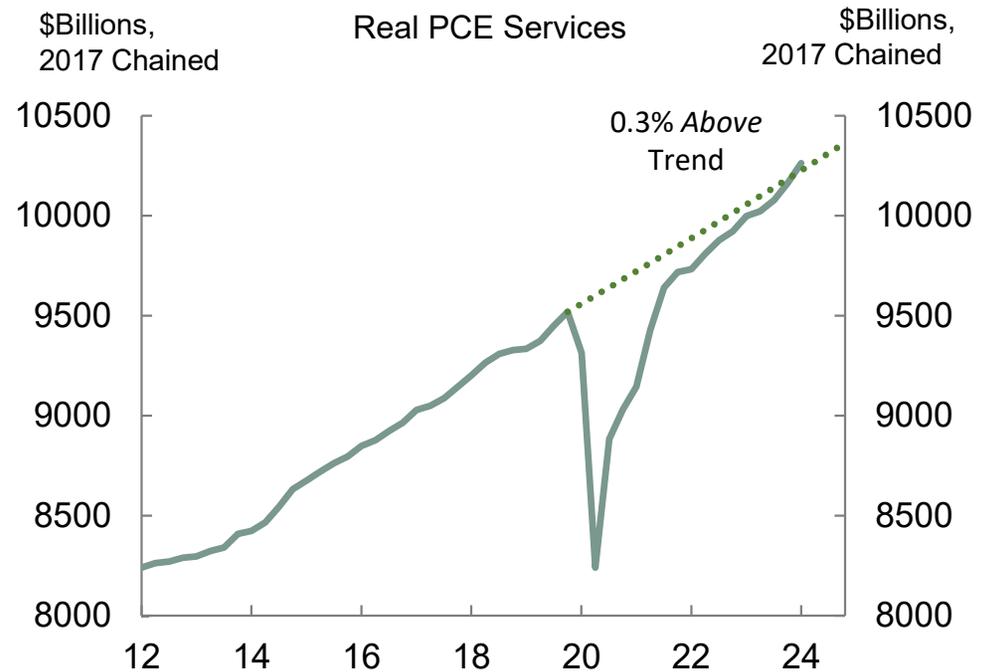
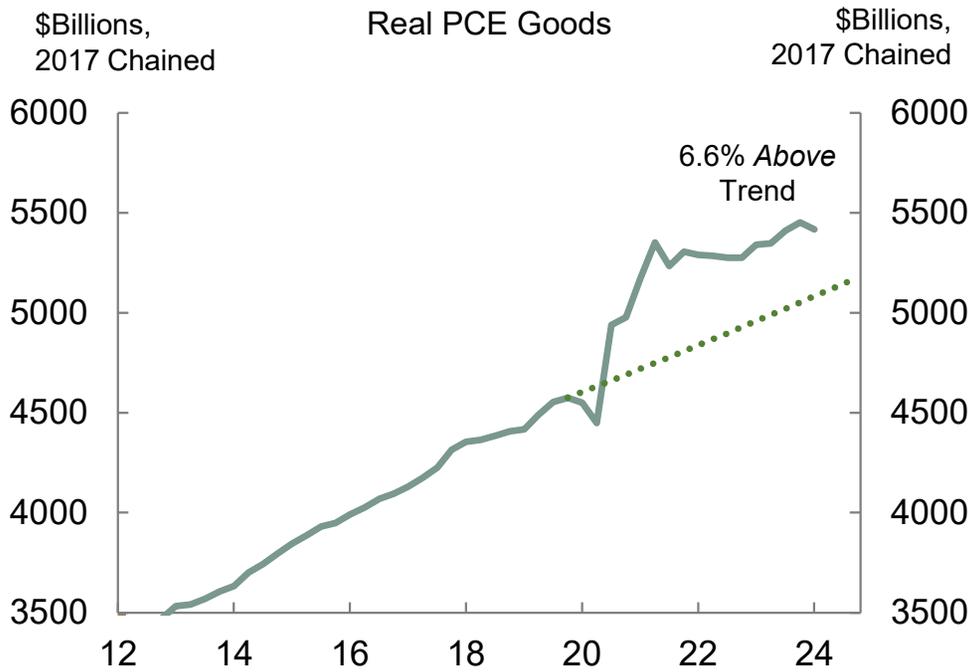
Source: BLS, ISM, Haver, SMBC Nikko

Labor Demand on the Wane



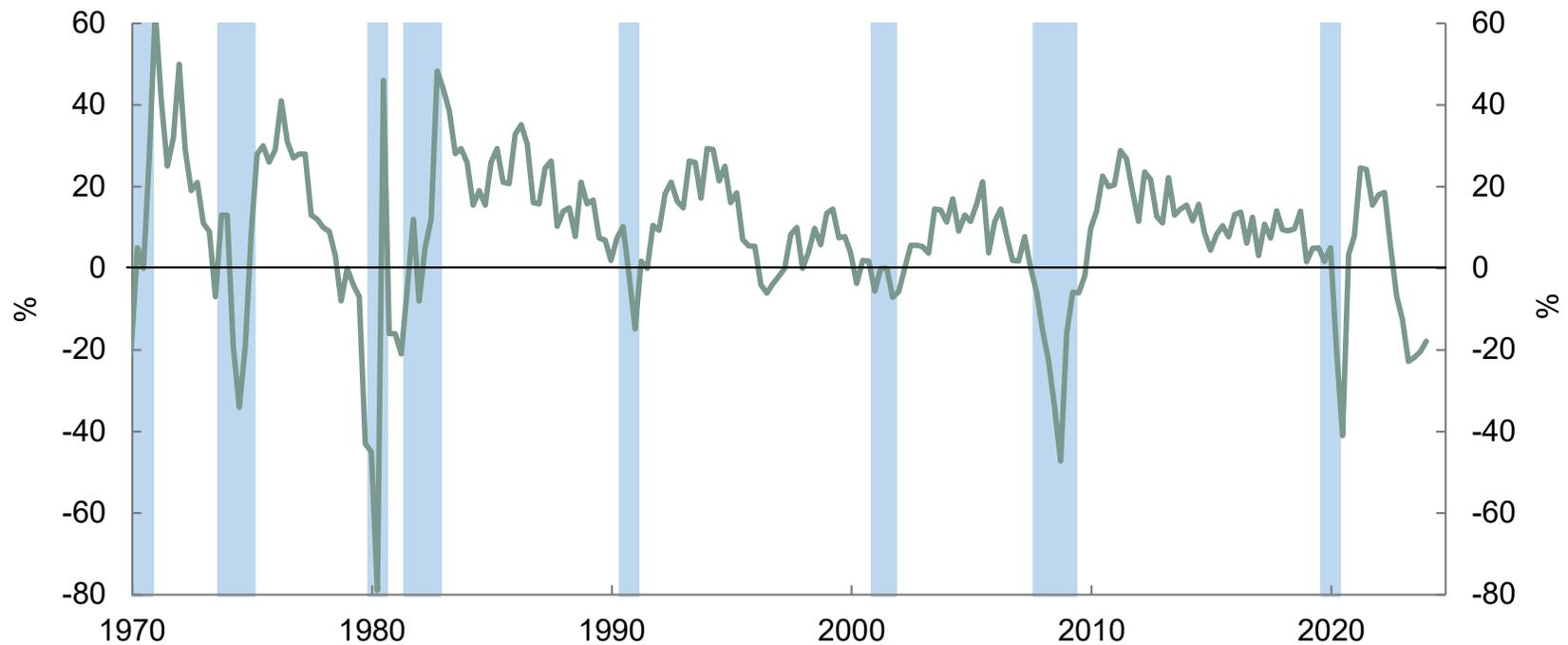
Source: BLS, Haver, SMBC Nikko

A Return to Trend?

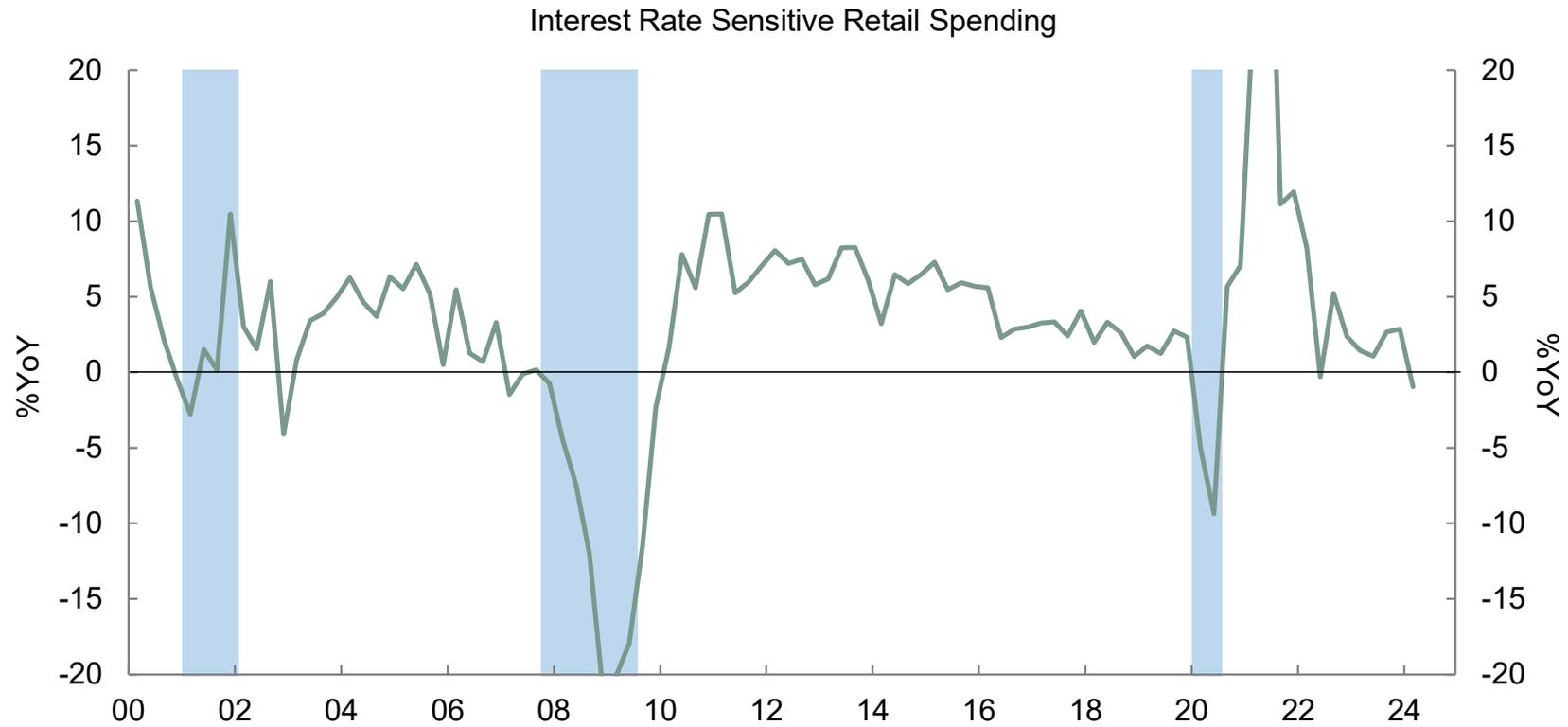


Standards Remain Recessionary

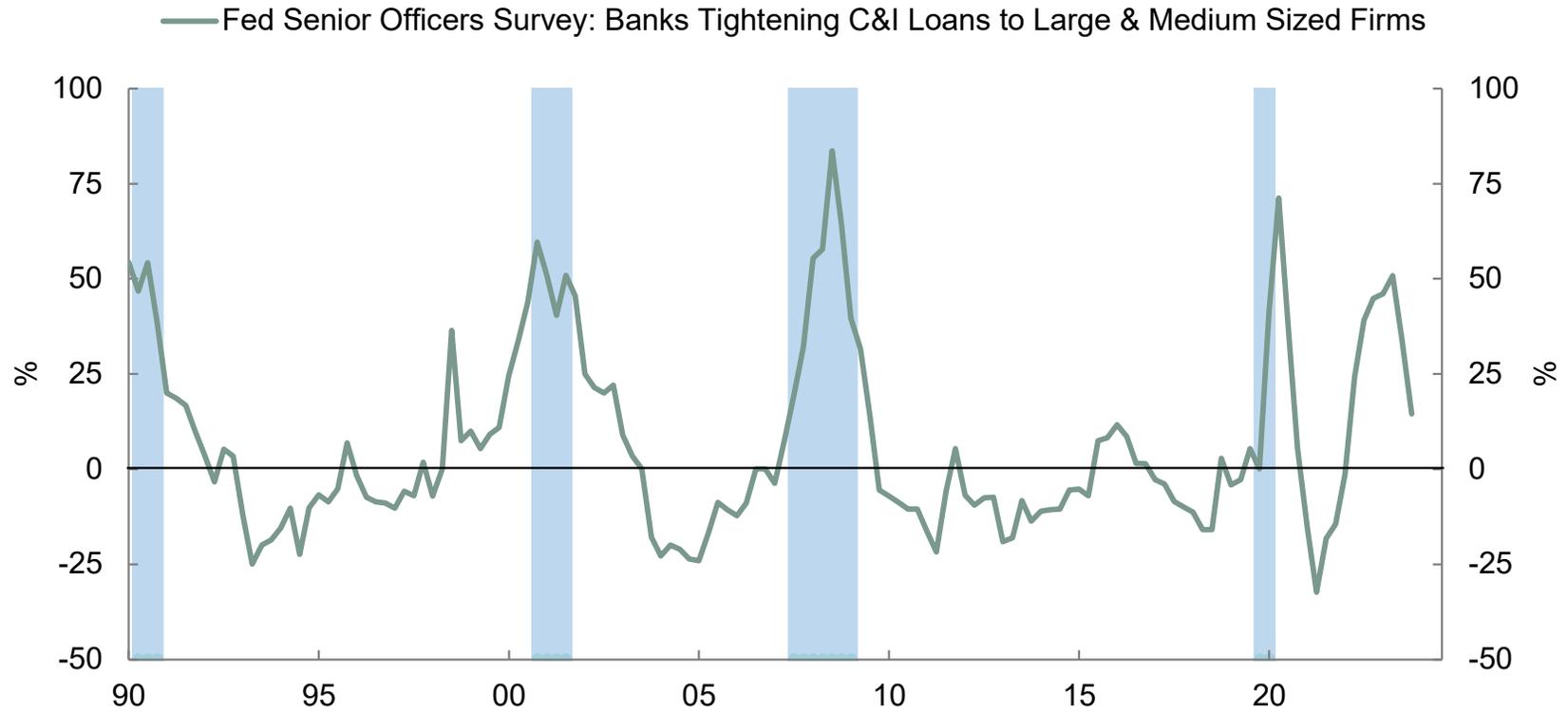
FRB Sr Officers Survey: Banks Willingness to Lend to Consumers



Bucking Headline Retail Sales

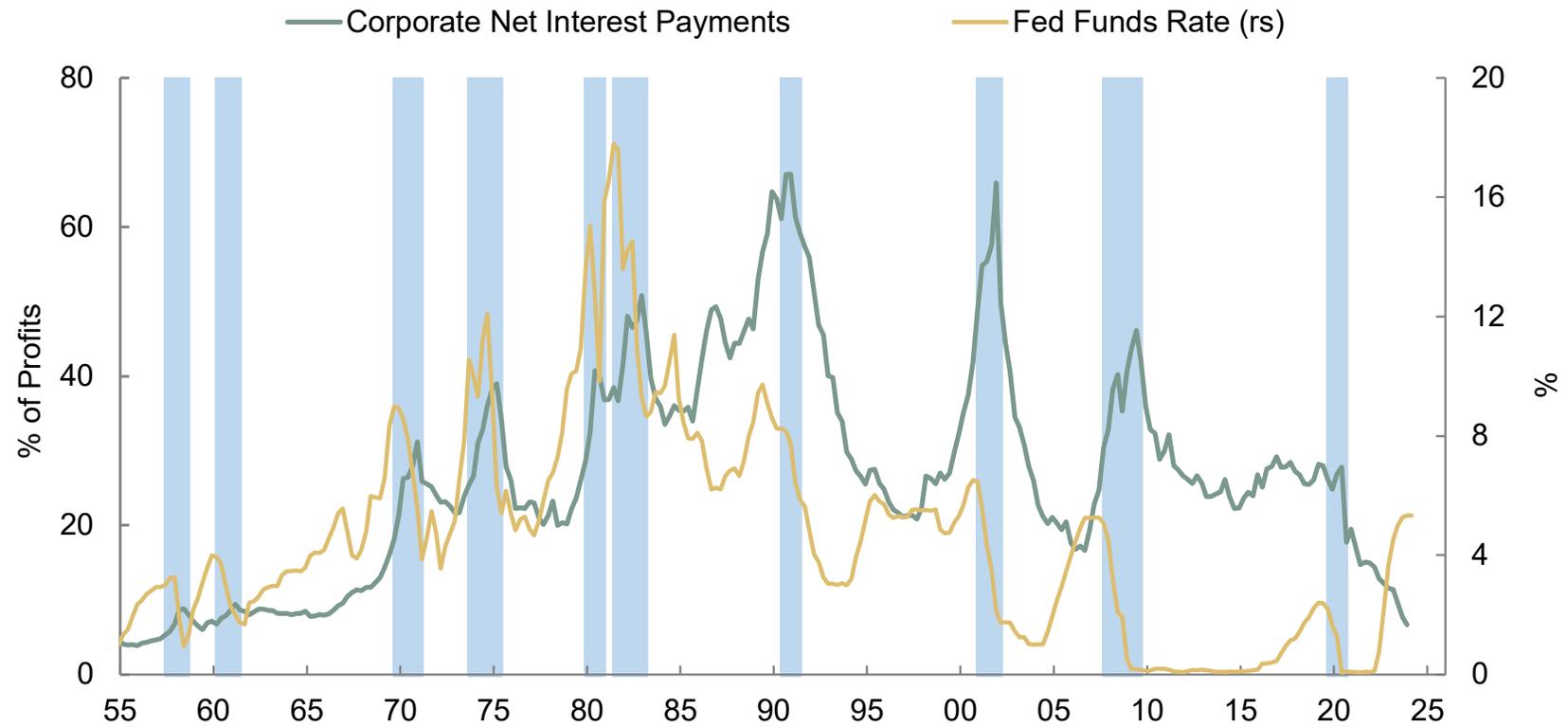


Credit Conditions Easing



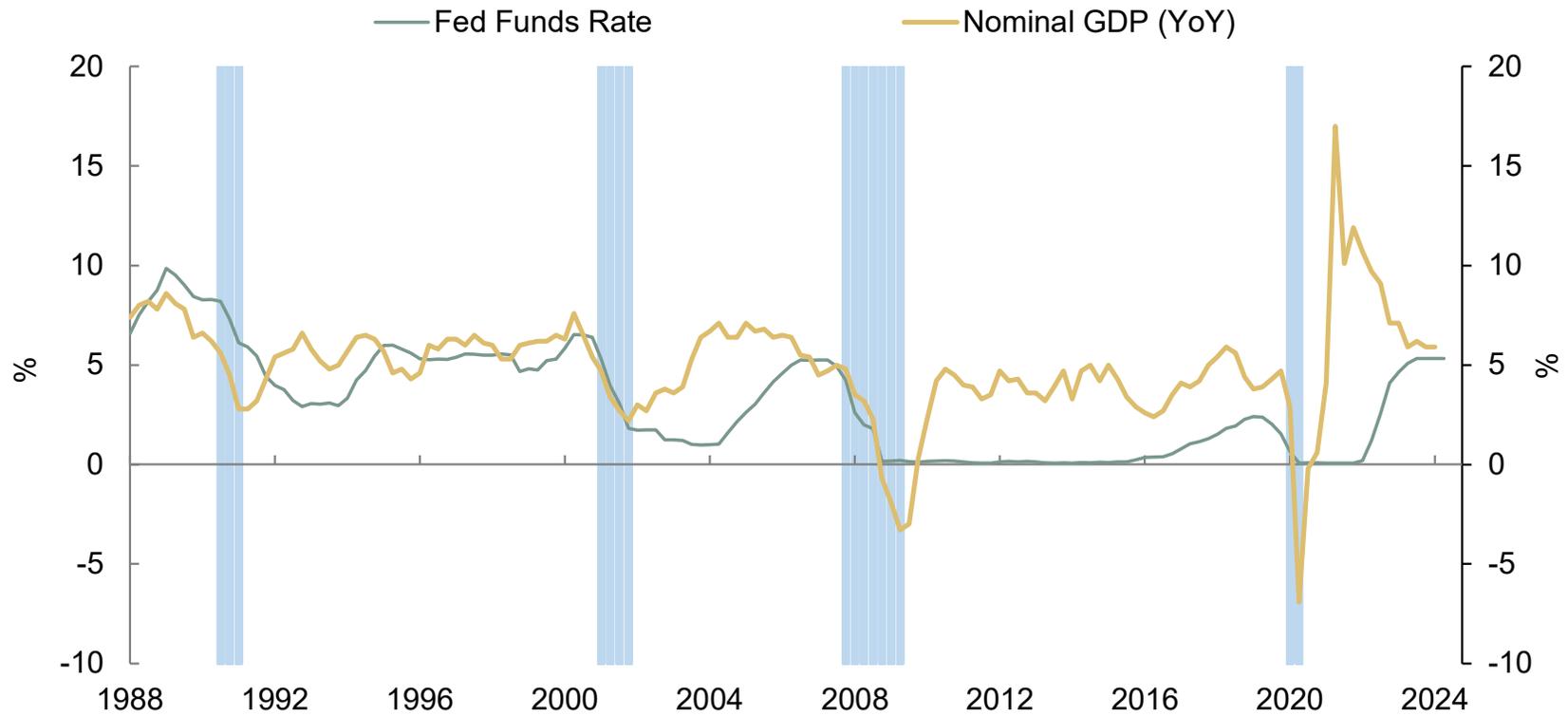
Source: Federal Reserve, Haver, SMBC Nikko

Low Rates Locked in During Pandemic



Source: BEA, Federal Reserve, Haver, SMBC Nikko

Not Yet Restrictive

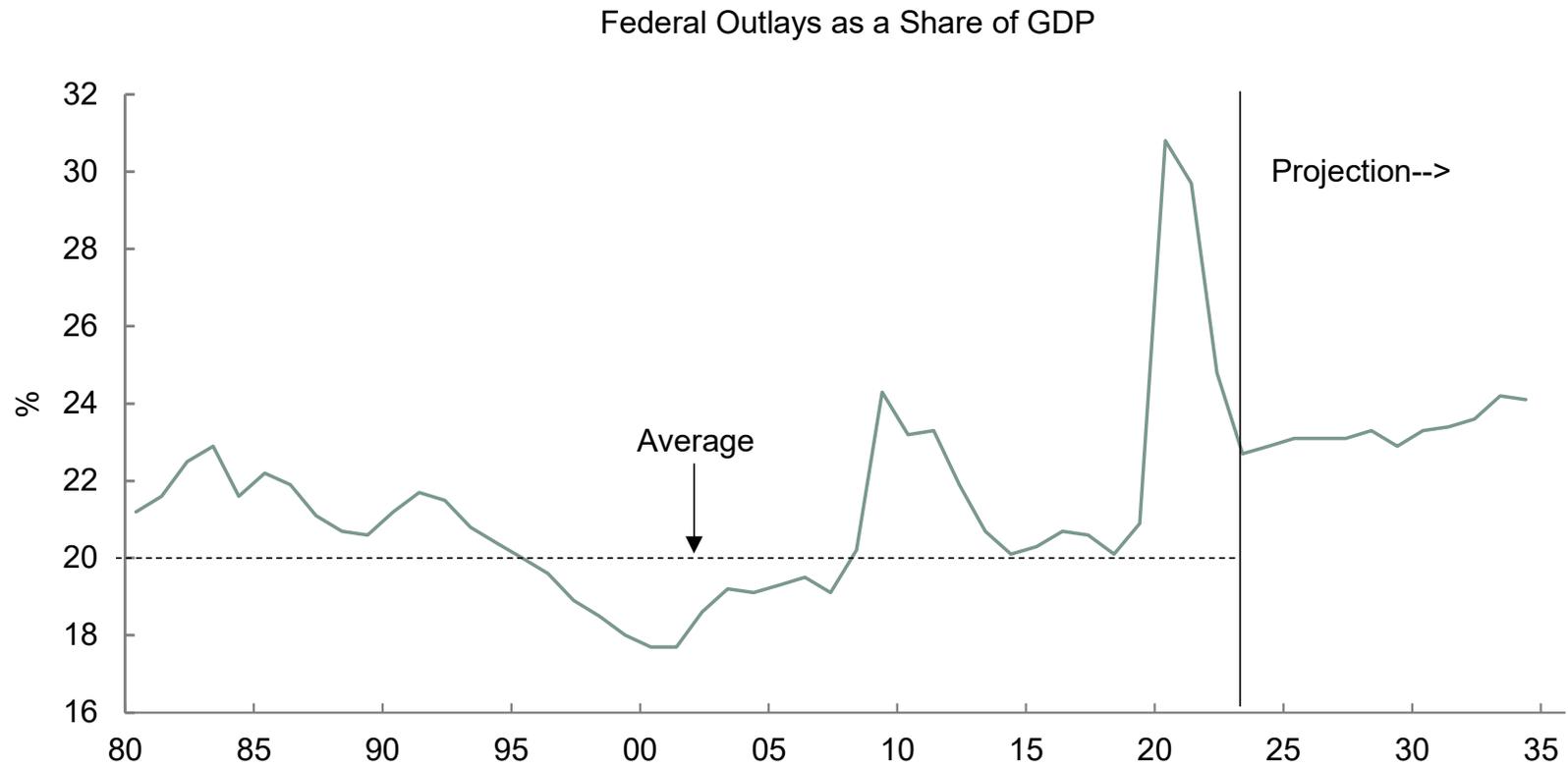


Source: BEA, Federal Reserve, Haver, SMBC Nikko

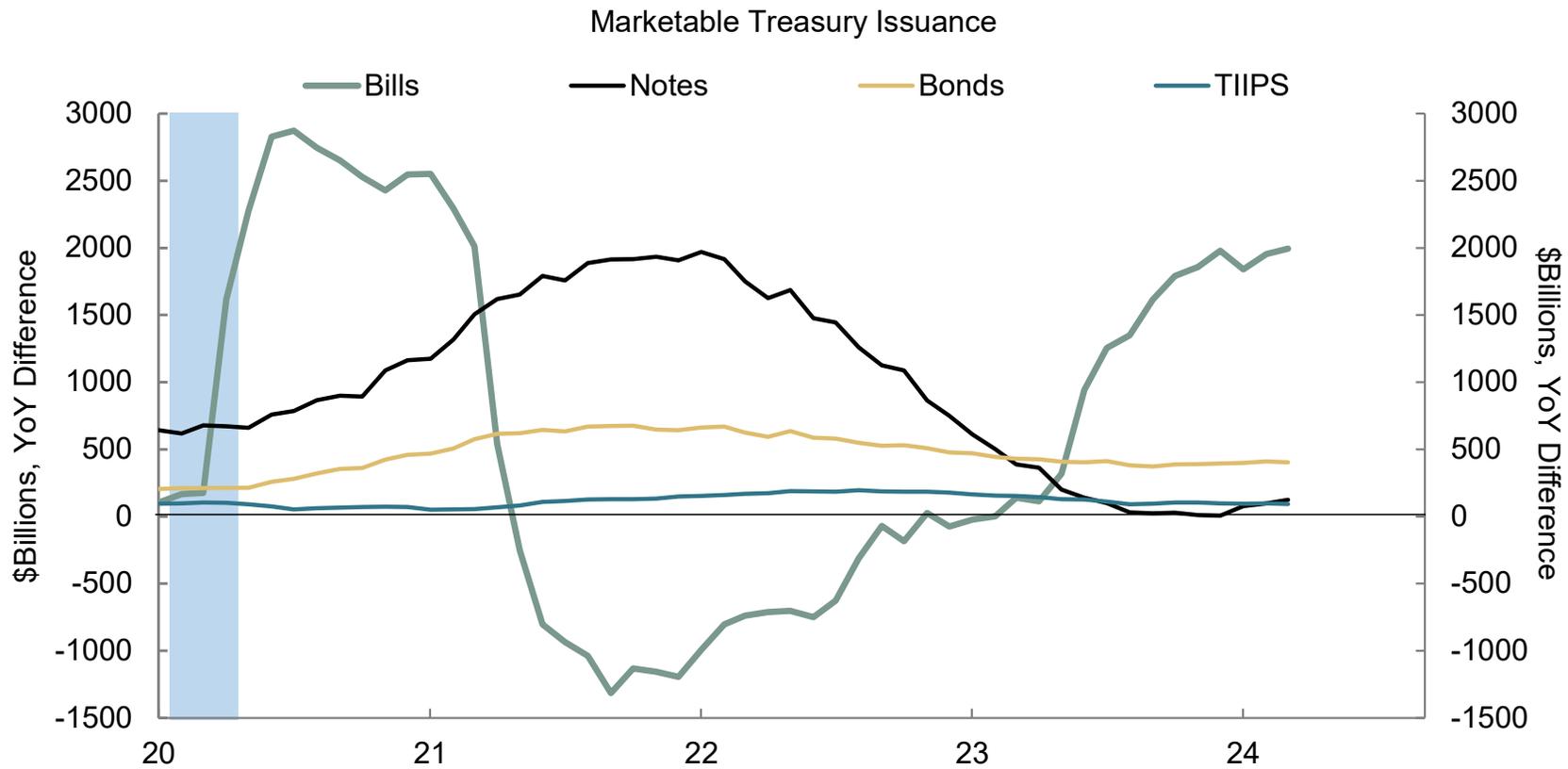
CBO Long-Term Forecasts

Percentage of GDP						
	Average, 1994–2023	Actual, 2023	2024	2034	2044	2054
Revenues	17.2	16.5	17.5	17.9	18.4	18.8
Individual income taxes	8.0	8.1	8.8	9.5	9.9	10.3
Payroll taxes	6.1	6.0	5.9	5.9	5.9	5.8
Corporate income taxes	1.7	1.6	2.0	1.3	1.4	1.4
Other	1.4	0.8	0.8	1.2	1.2	1.3
Outlays	21.0	22.7	23.1	24.1	25.7	27.3
Mandatory	12.1	13.9	13.9	15.1	15.8	16.2
Social Security	4.5	5.0	5.2	5.9	5.8	5.9
Major health care programs	4.3	5.8	5.6	6.7	7.8	8.3
Medicare	2.6	3.1	3.2	4.2	5.1	5.4
Medicaid, CHIP, and premium tax credits and related spending	1.7	2.7	2.4	2.5	2.7	2.8
Other mandatory	3.3	3.1	3.1	2.5	2.3	2.0
Discretionary	7.0	6.4	6.2	5.1	4.9	4.9
Net interest	1.8	2.4	3.1	3.9	5.0	6.3
Total deficit (-)	-3.8	-6.2	-5.6	-6.1	-7.3	-8.5
Primary deficit (-)	-2.0	-3.8	-2.5	-2.2	-2.4	-2.2
Debt held by the public at the end of each period	58	97	99	116	139	166

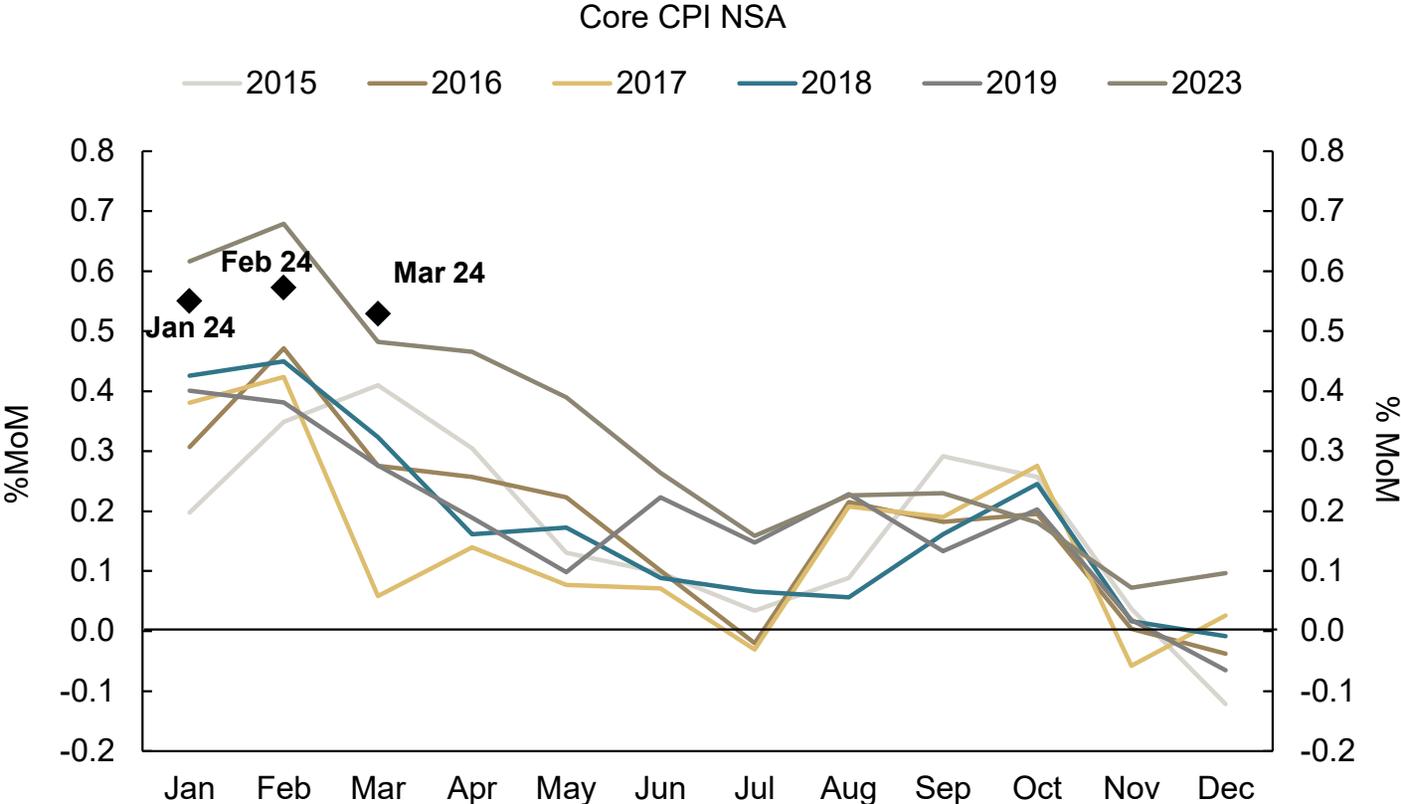
Excessive Spending



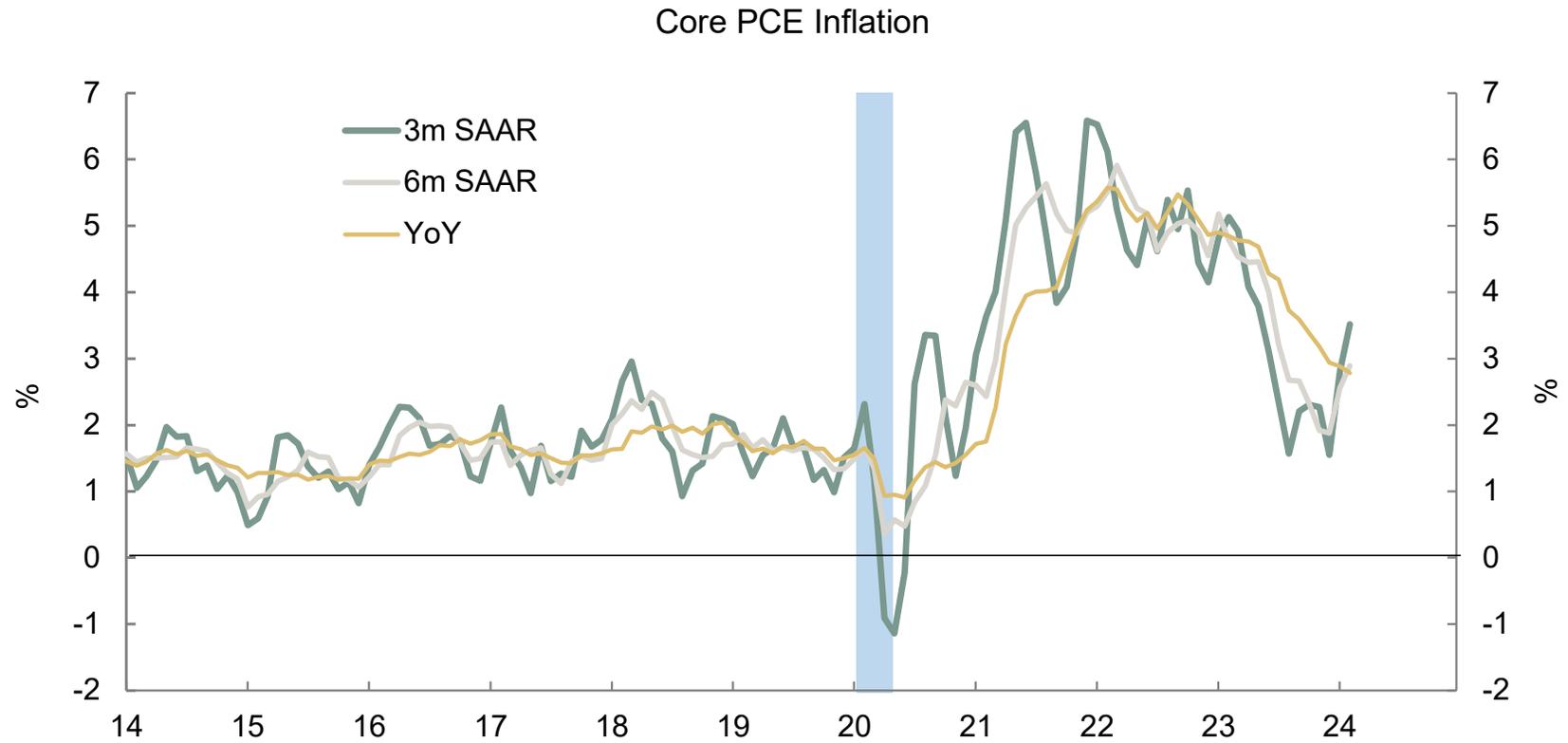
Frontend Financing



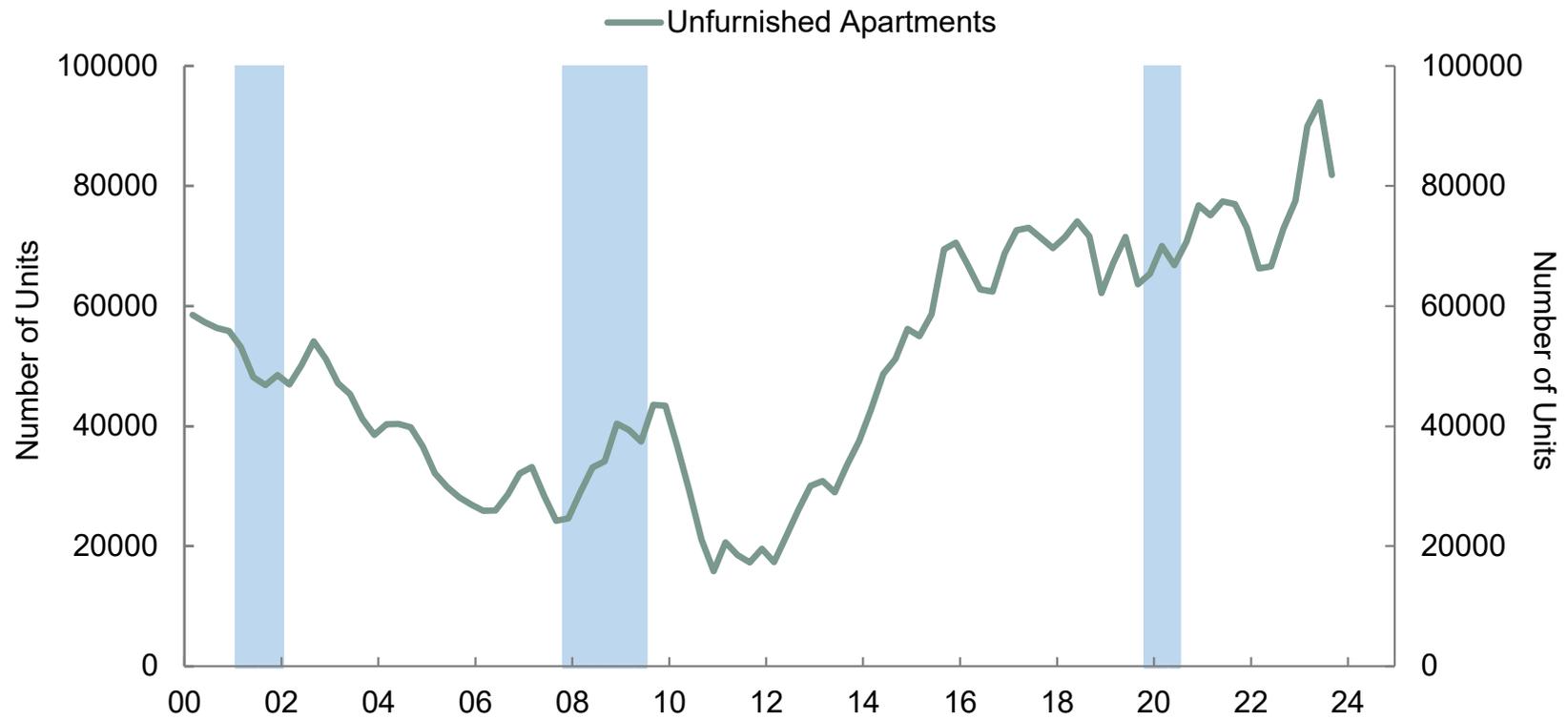
Another Upward Surprise



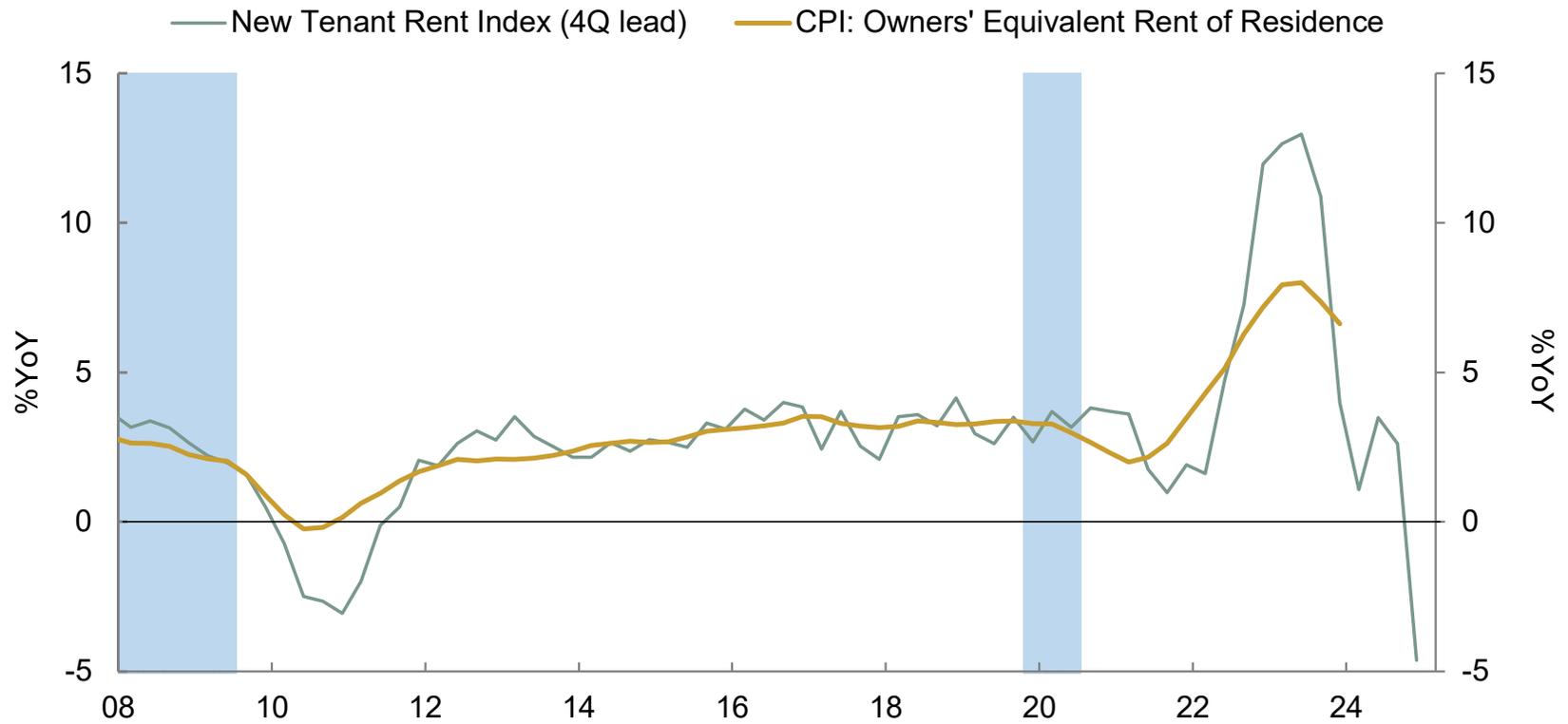
Moving in the Wrong Direction



Excess Supply



Inflation to Deflation?

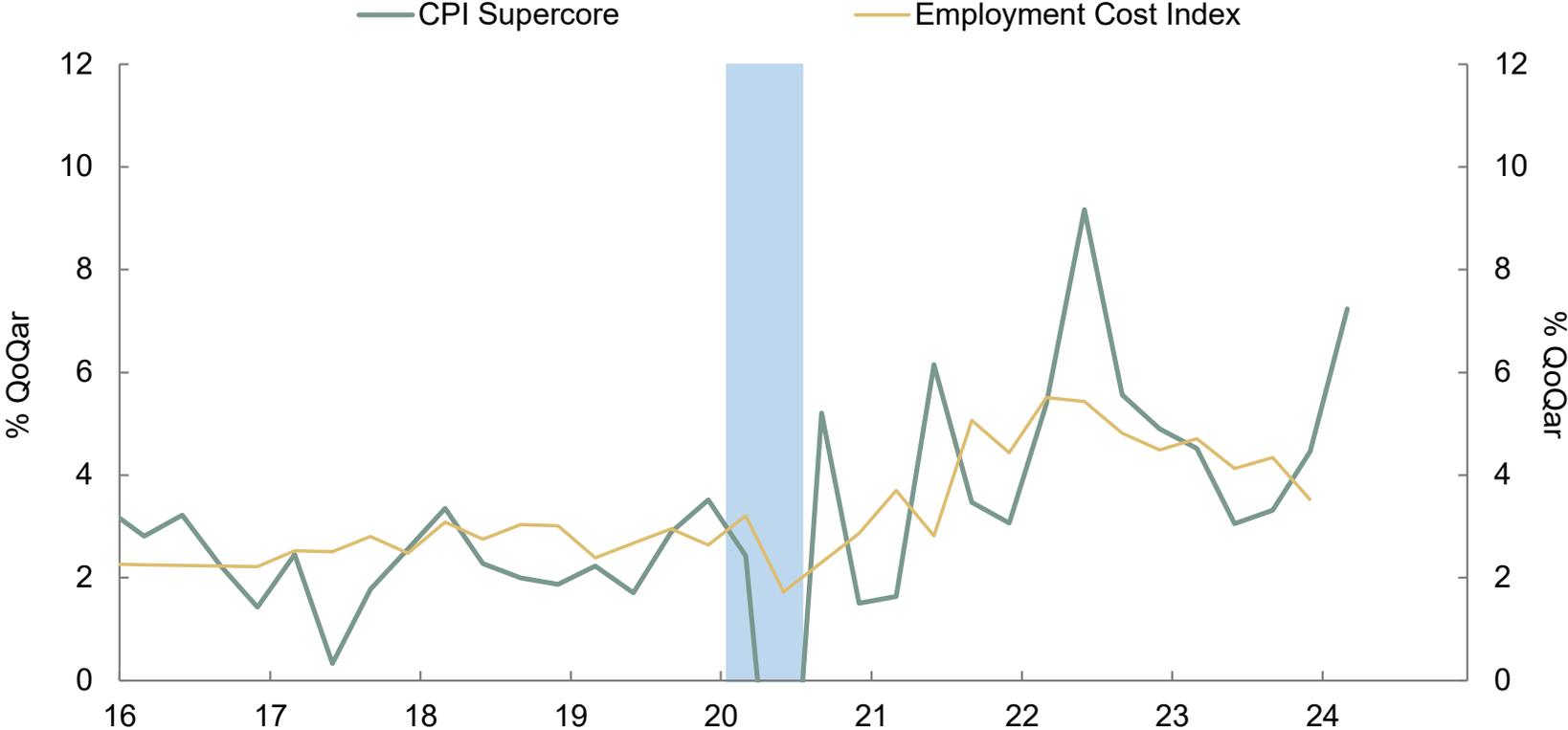


Source: BLS, Haver, SMBC Nikko

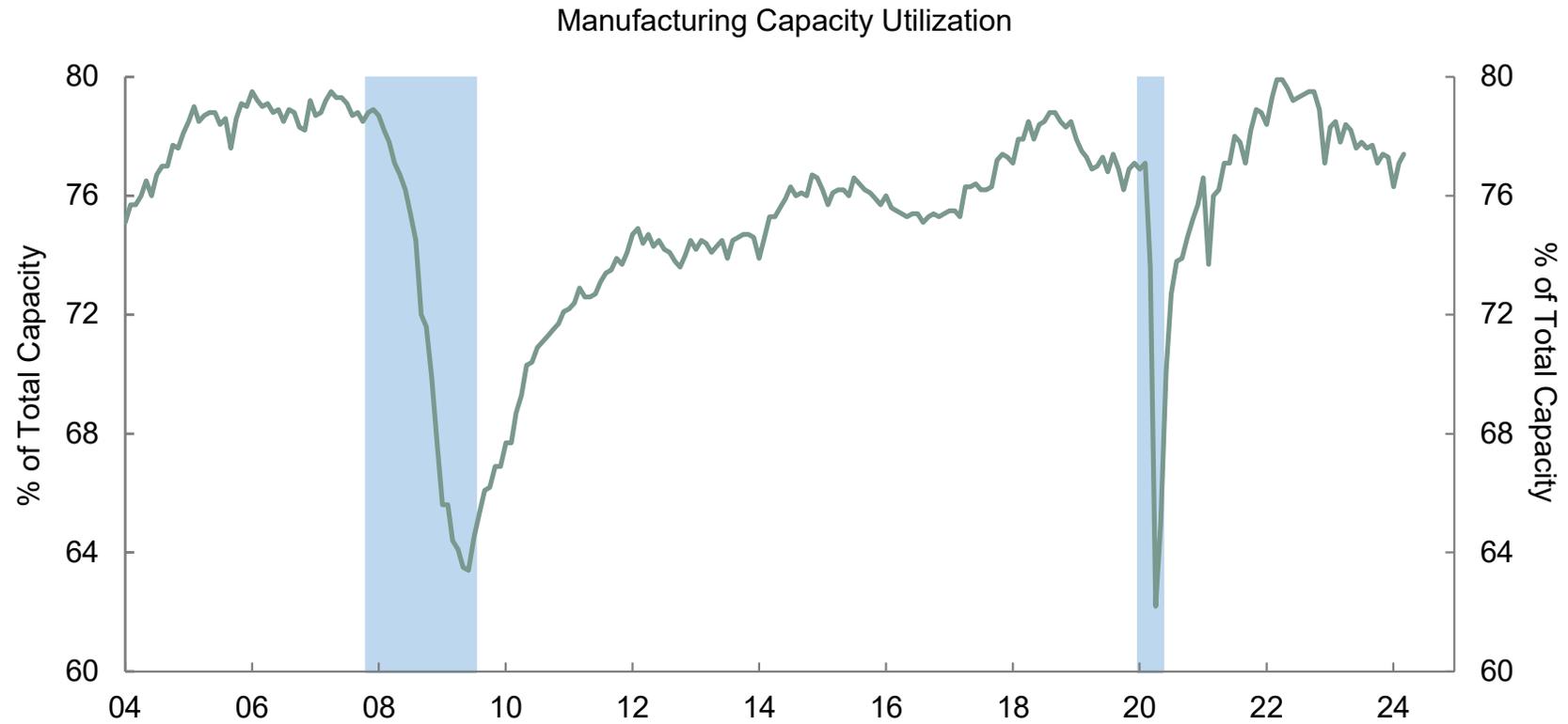
Survey Says...Lower Rents



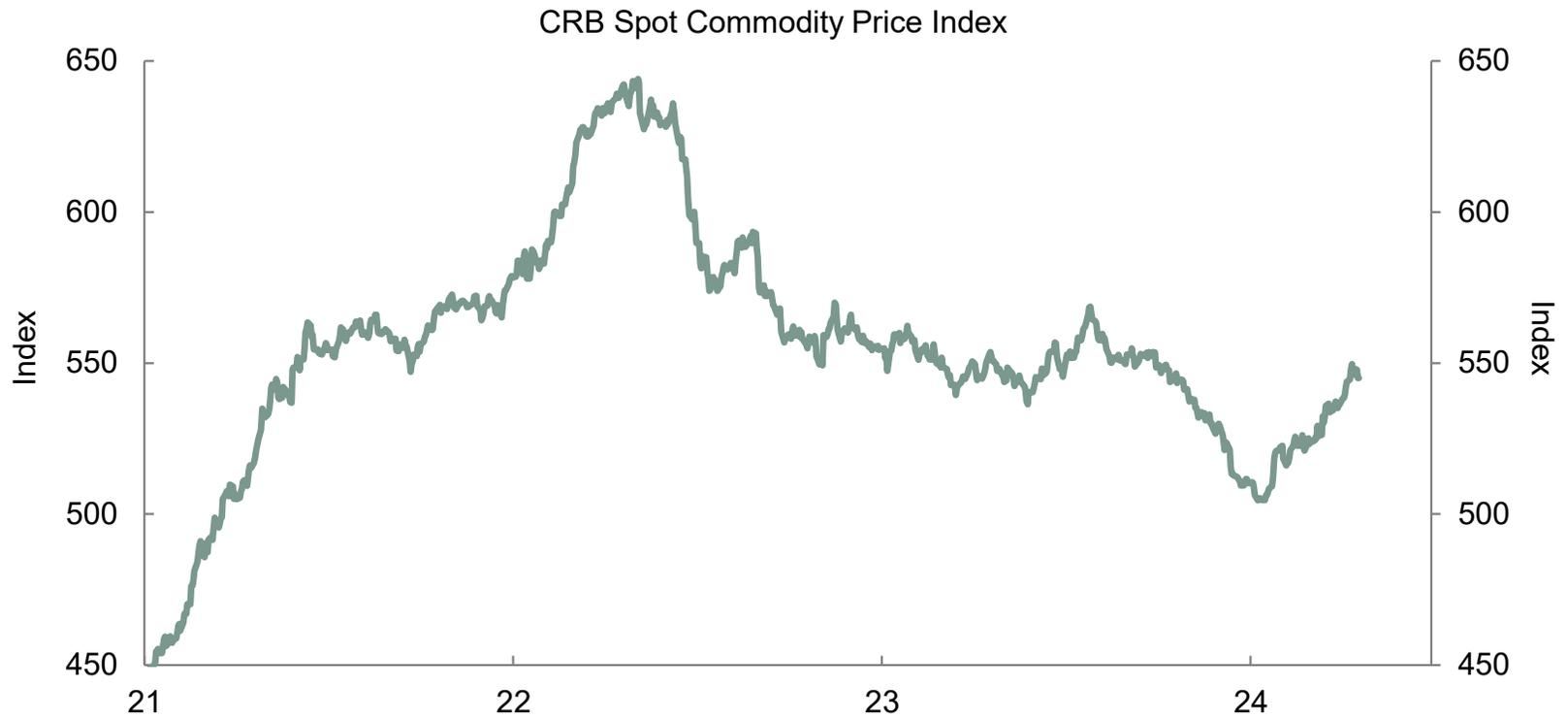
Wrong Way!



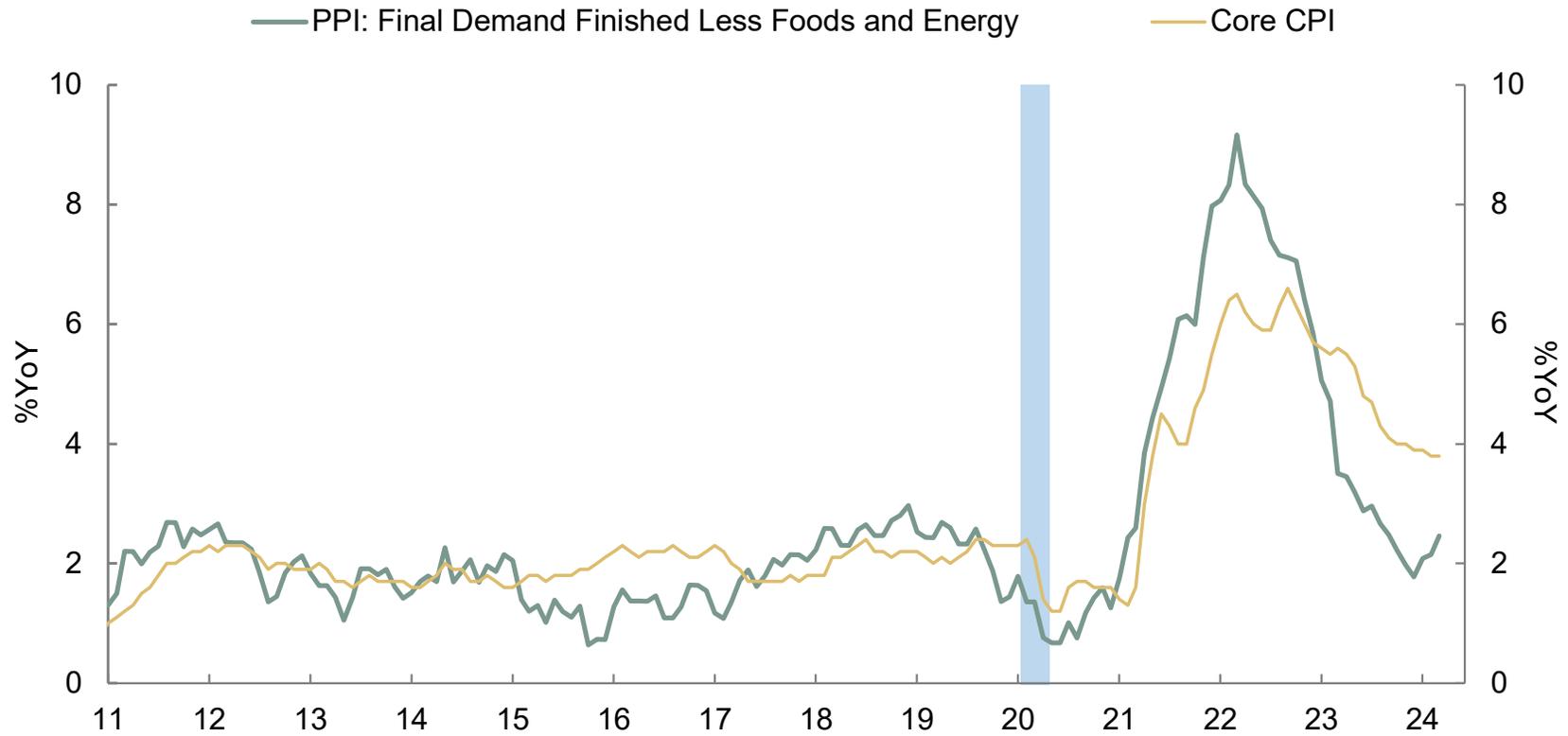
Factory Sector Slack



On the Rebound

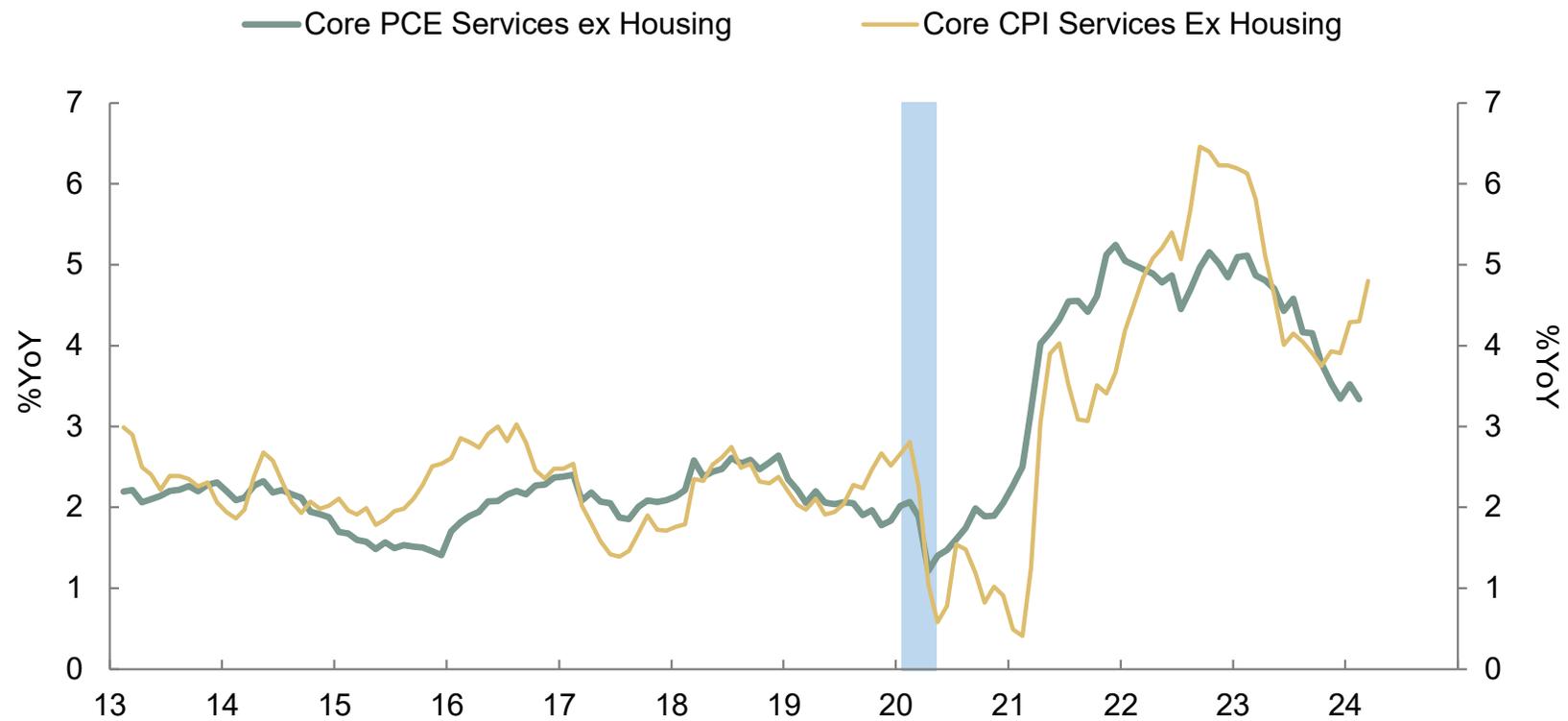


Sticky Prices



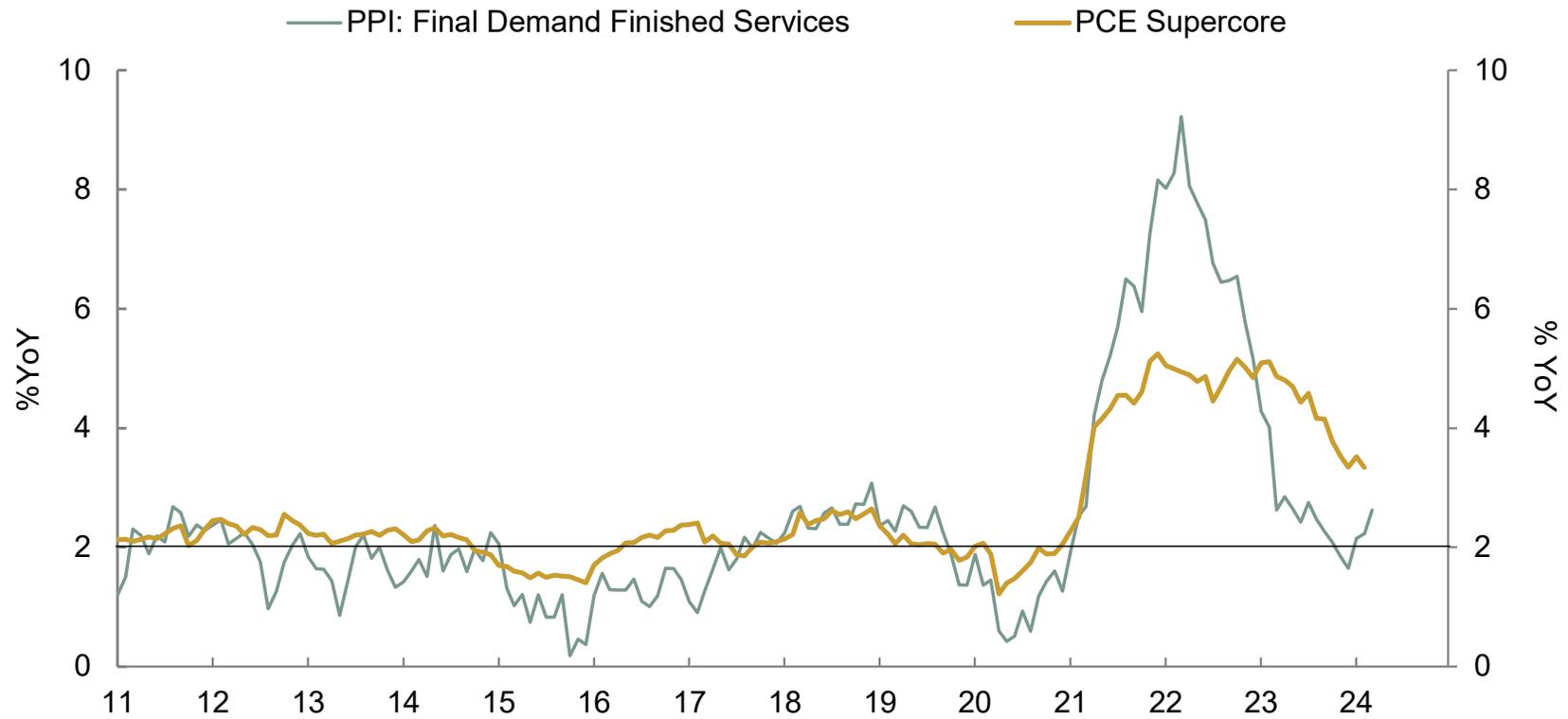
Source: BLS, Haver, SMBC Nikko

Powell's Favorite Measure



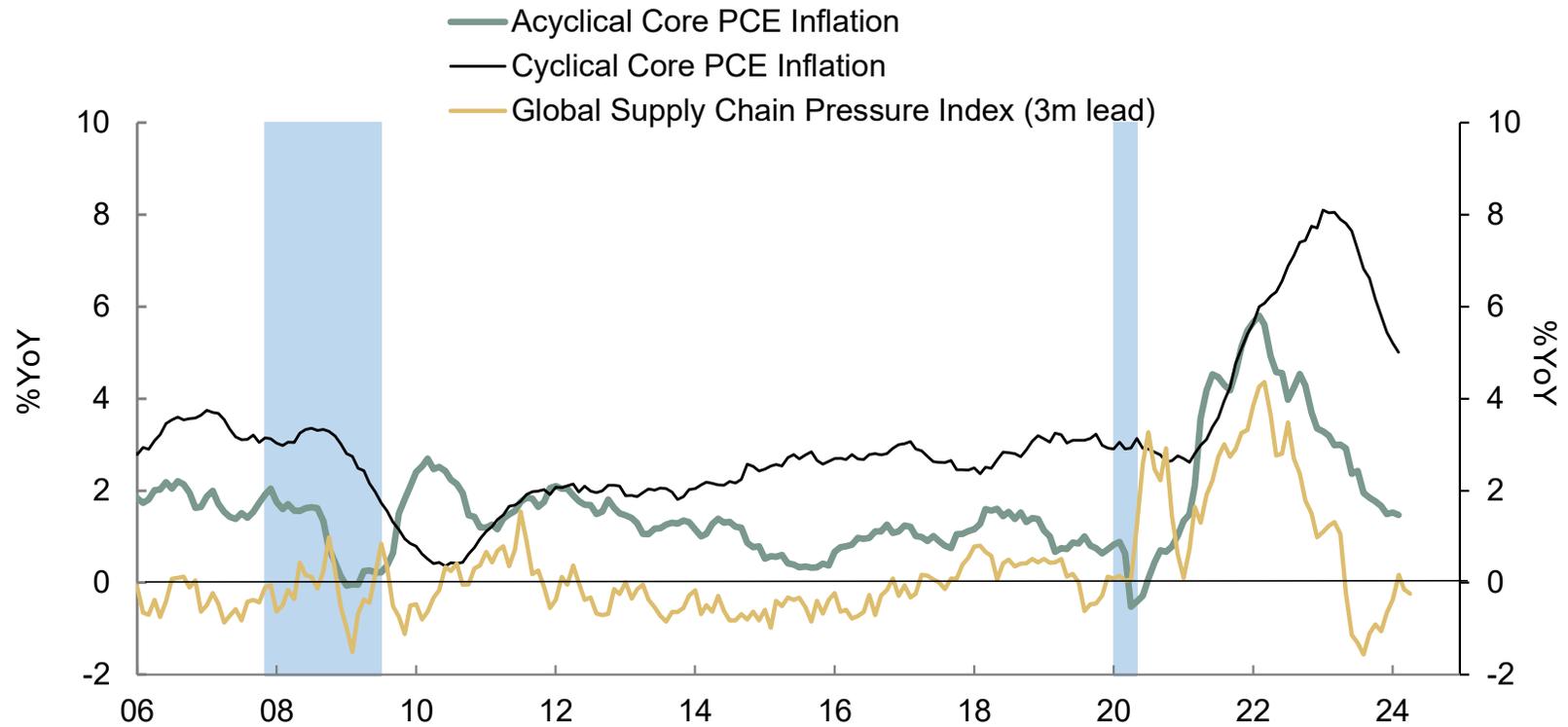
Source: BEA, BLS, Haver, SMBC Nikko

Rolling Over



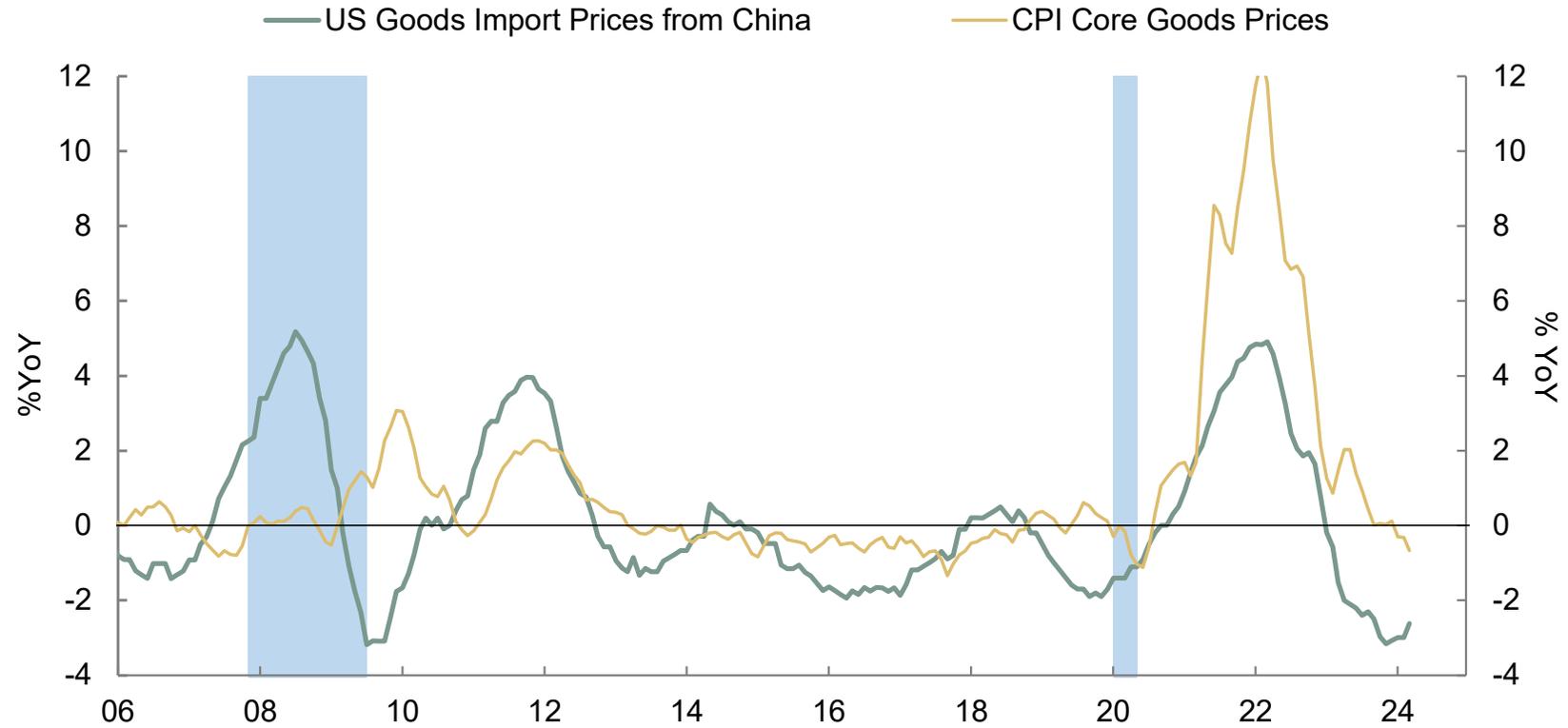
Source: BLS, BEA, Haver, SMBC Nikko

Bottlenecks and Supply Constraints



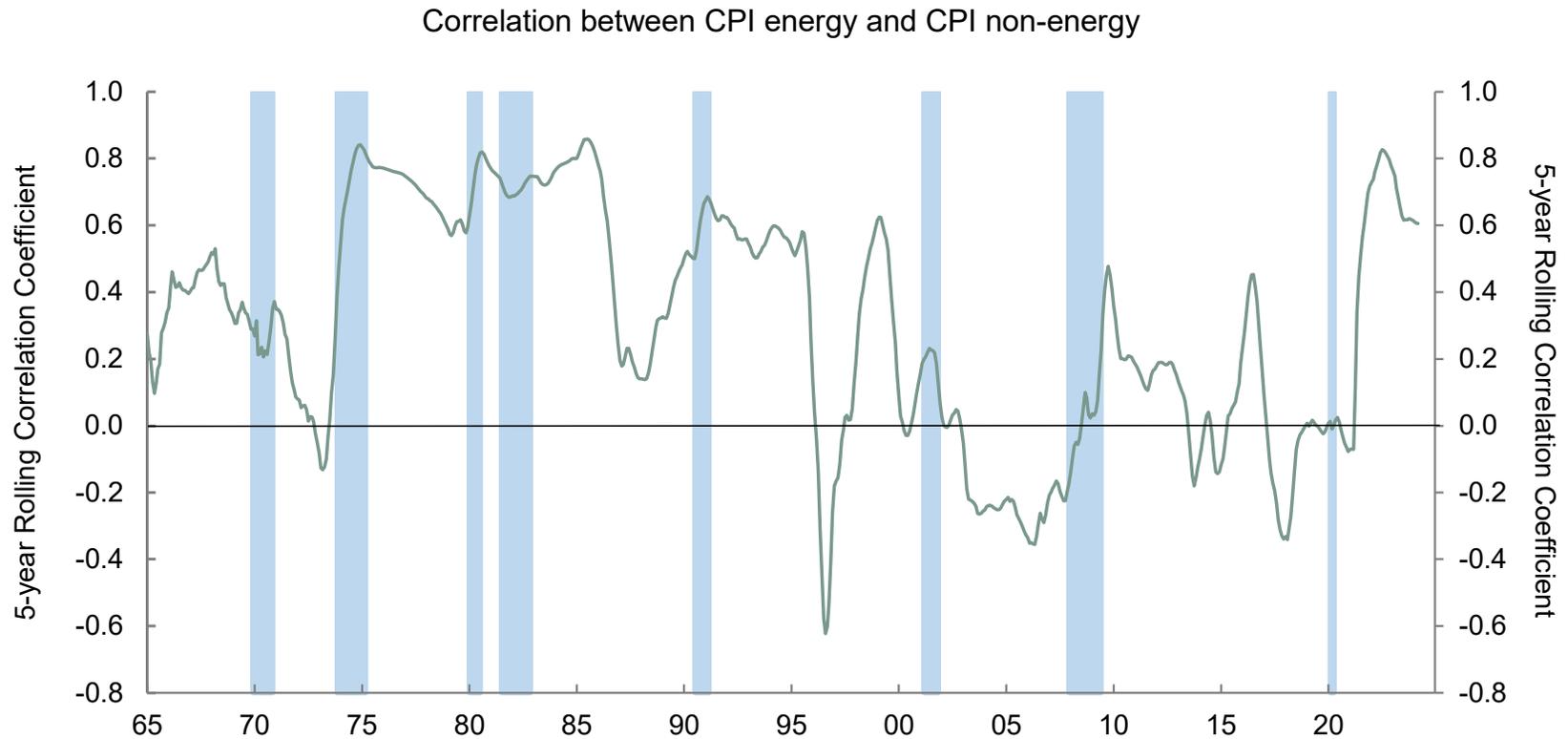
Source: SF Fed, NY Fed, Haver, SMBC Nikko

Importing Deflation

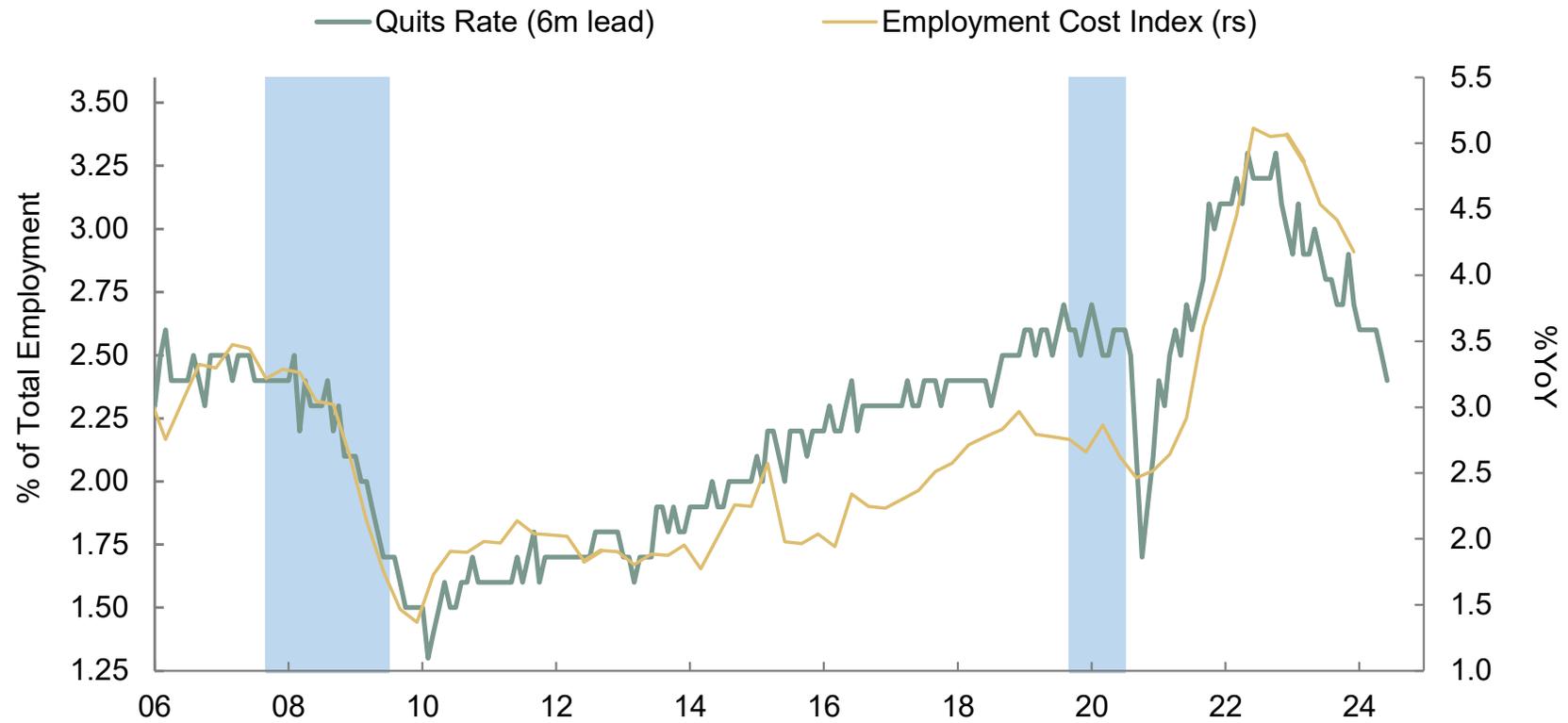


Source: BLS, Haver, SMBC Nikko

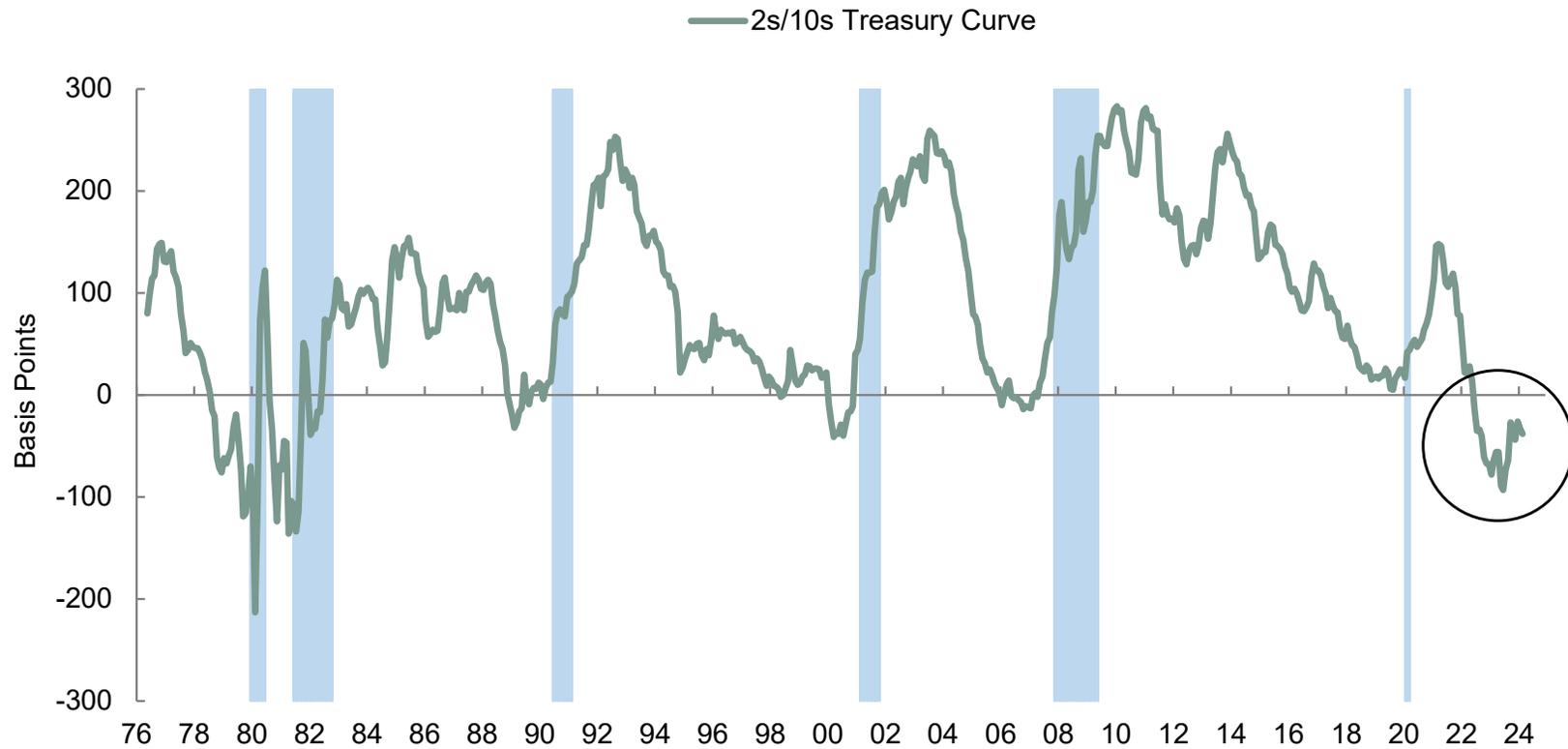
1970s Style Pass-Thru



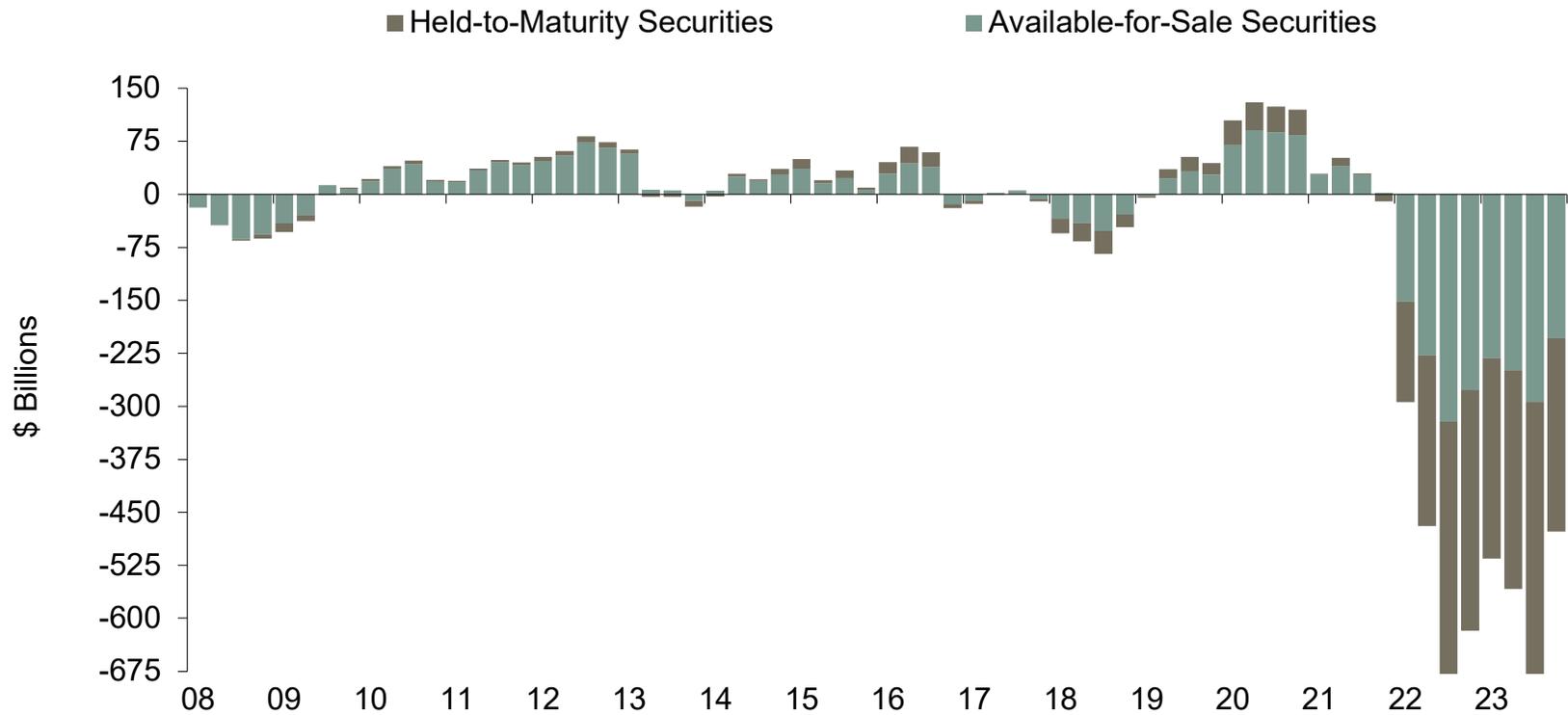
Dissipating Wage Pressure



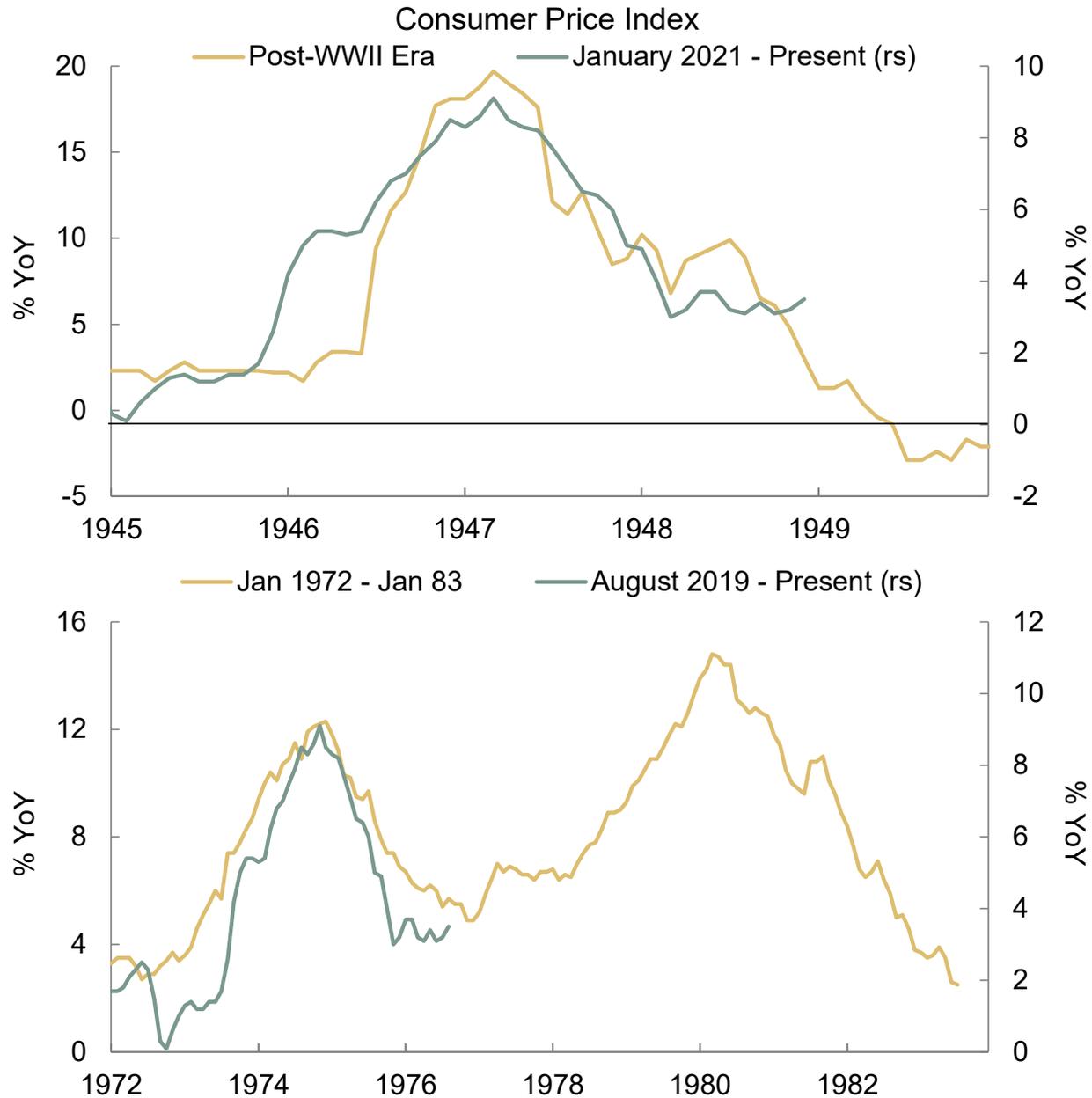
Record Long Curve Inversion



Massive Commercial Bank Balance Sheet Losses

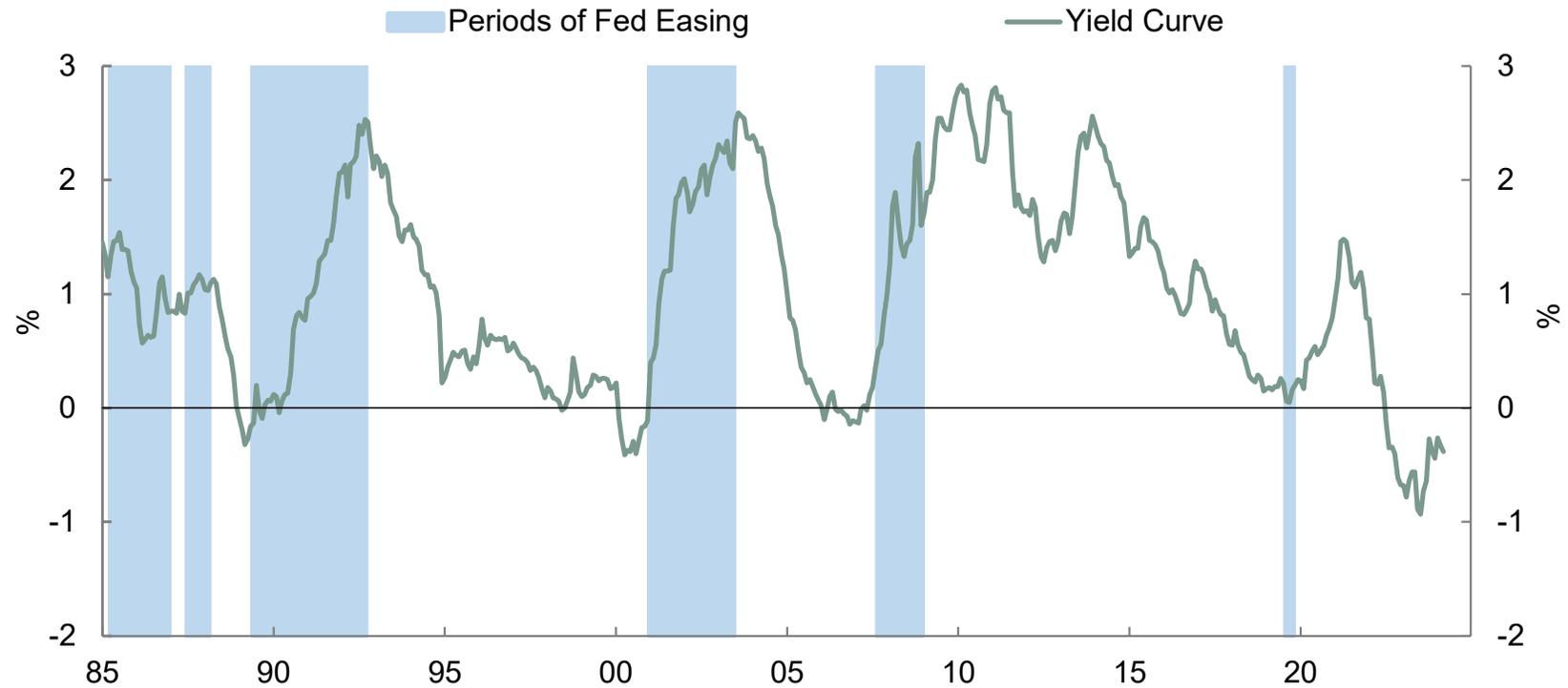


What Is The Proper Inflation Analog?



Source: BLS, Haver, SMBC Nikko

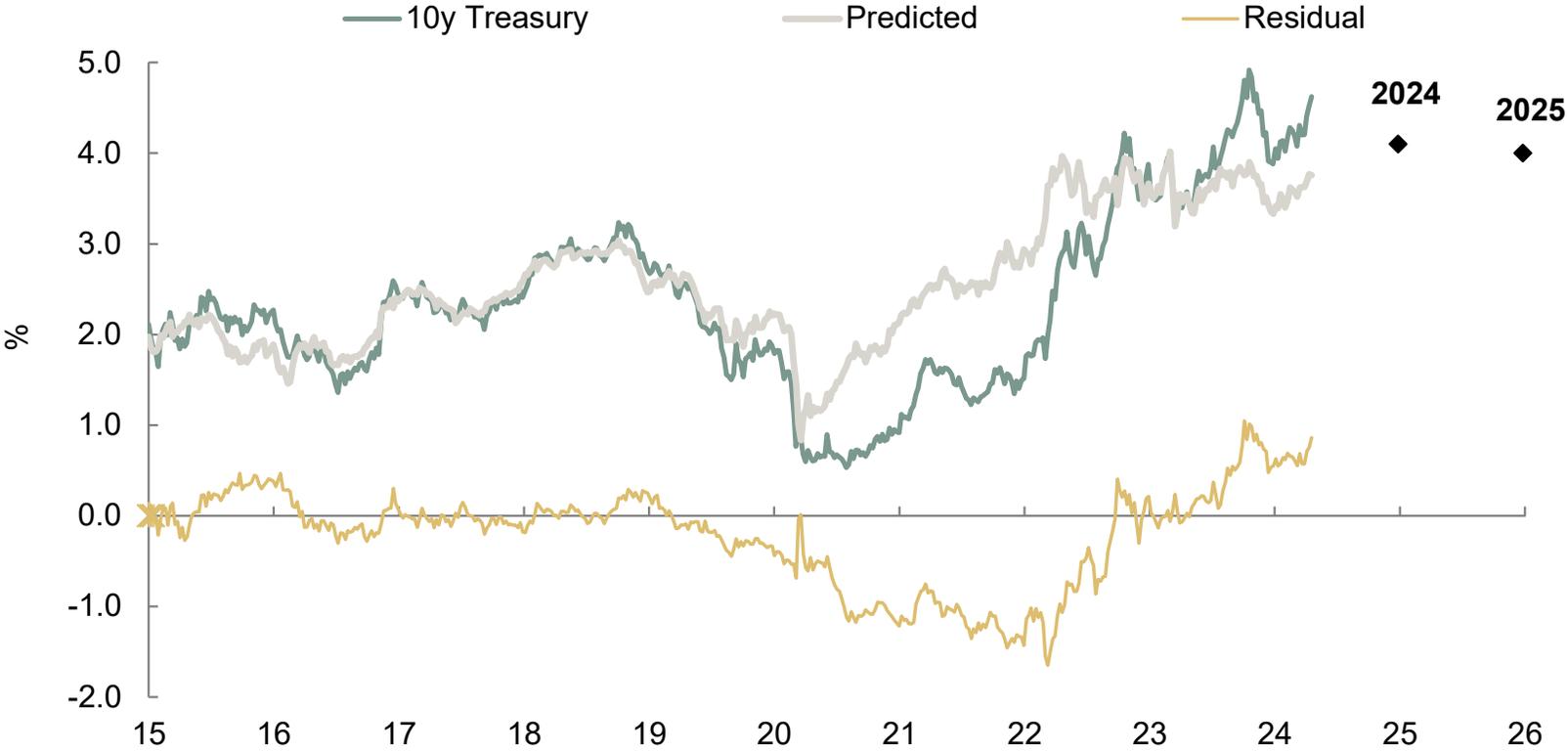
Curve Normalization



Ongoing Inversion Expected*

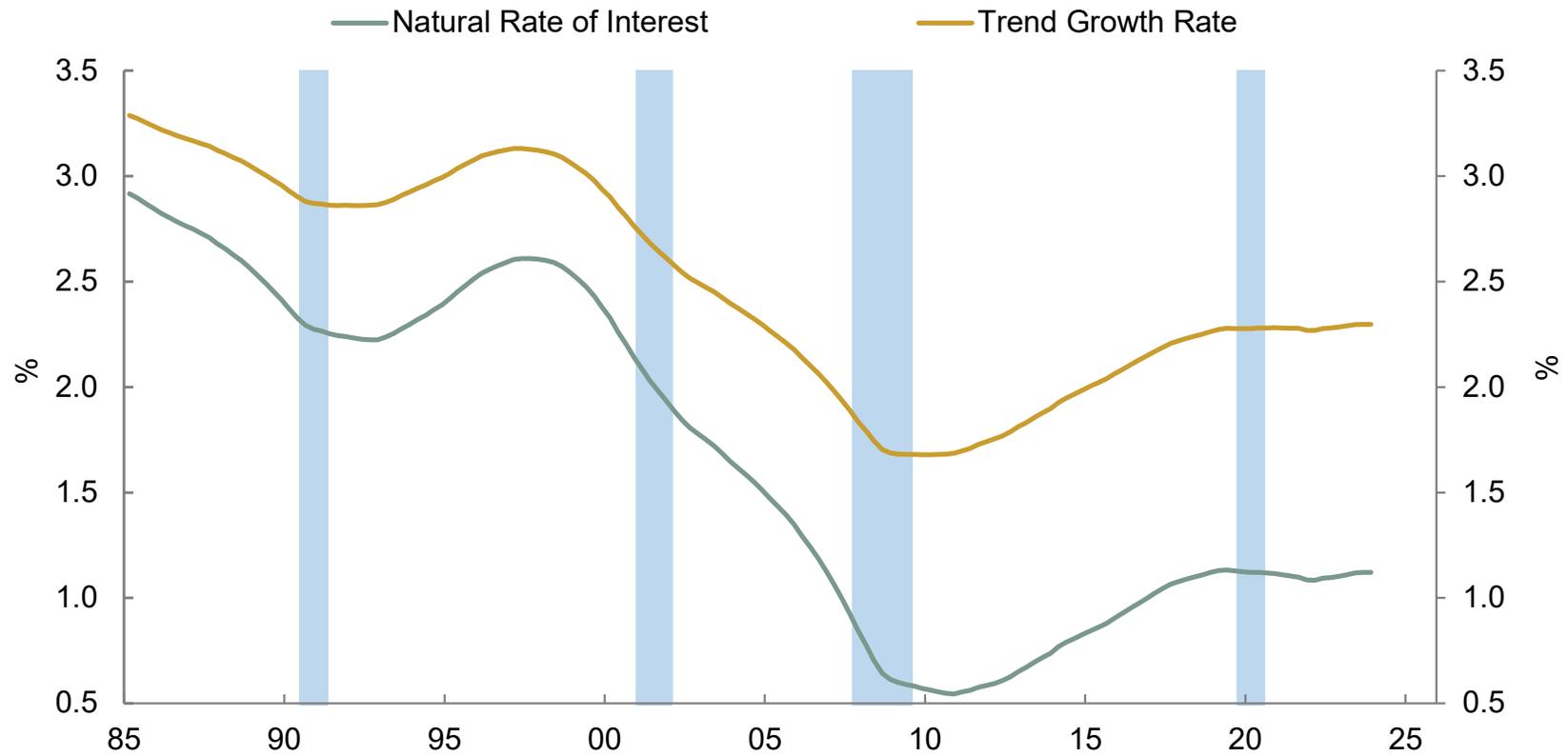


Yearend Rate Projections



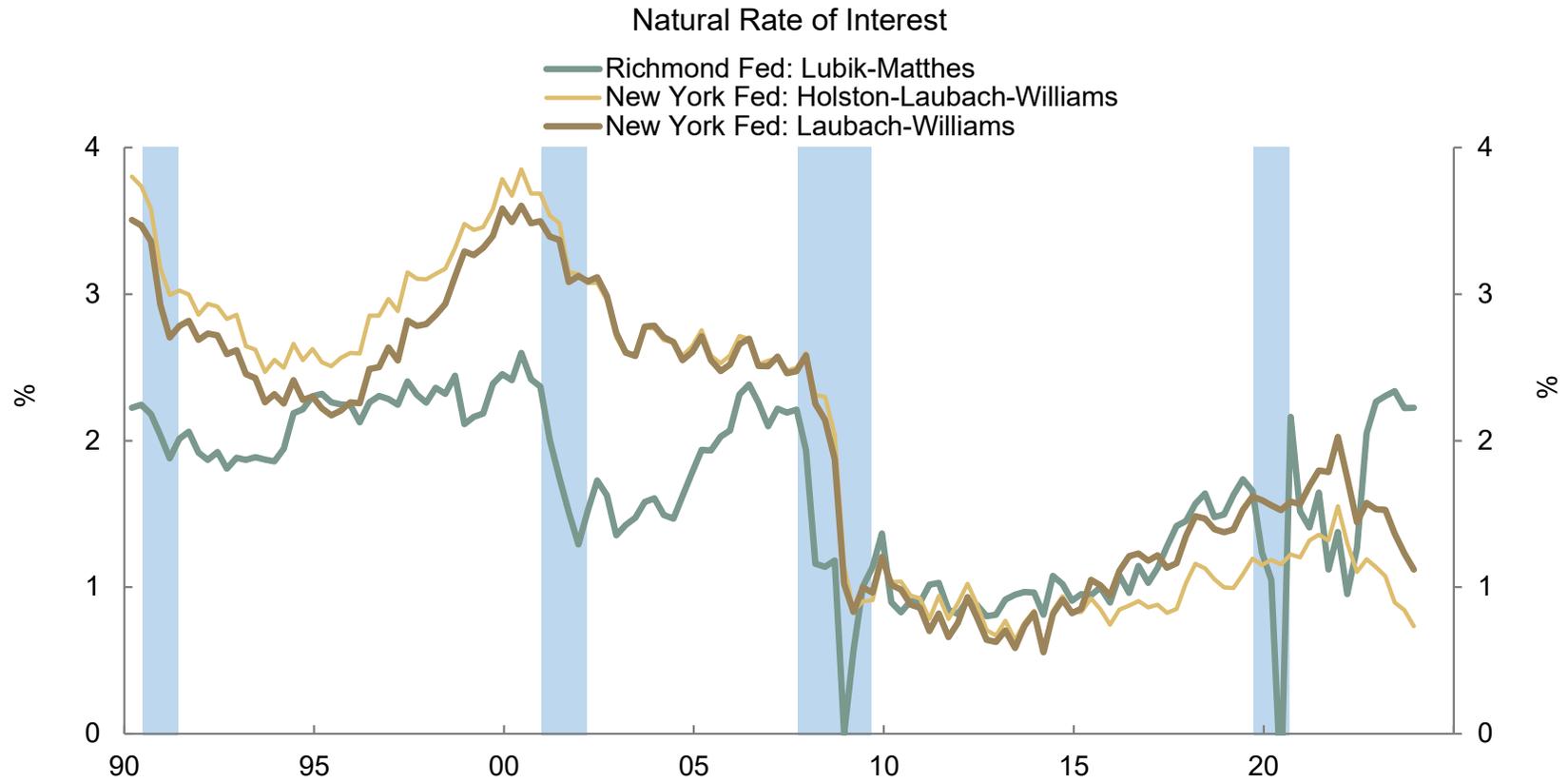
Source: Bloomberg, SMBC Nikko

R-star and Trend GDP

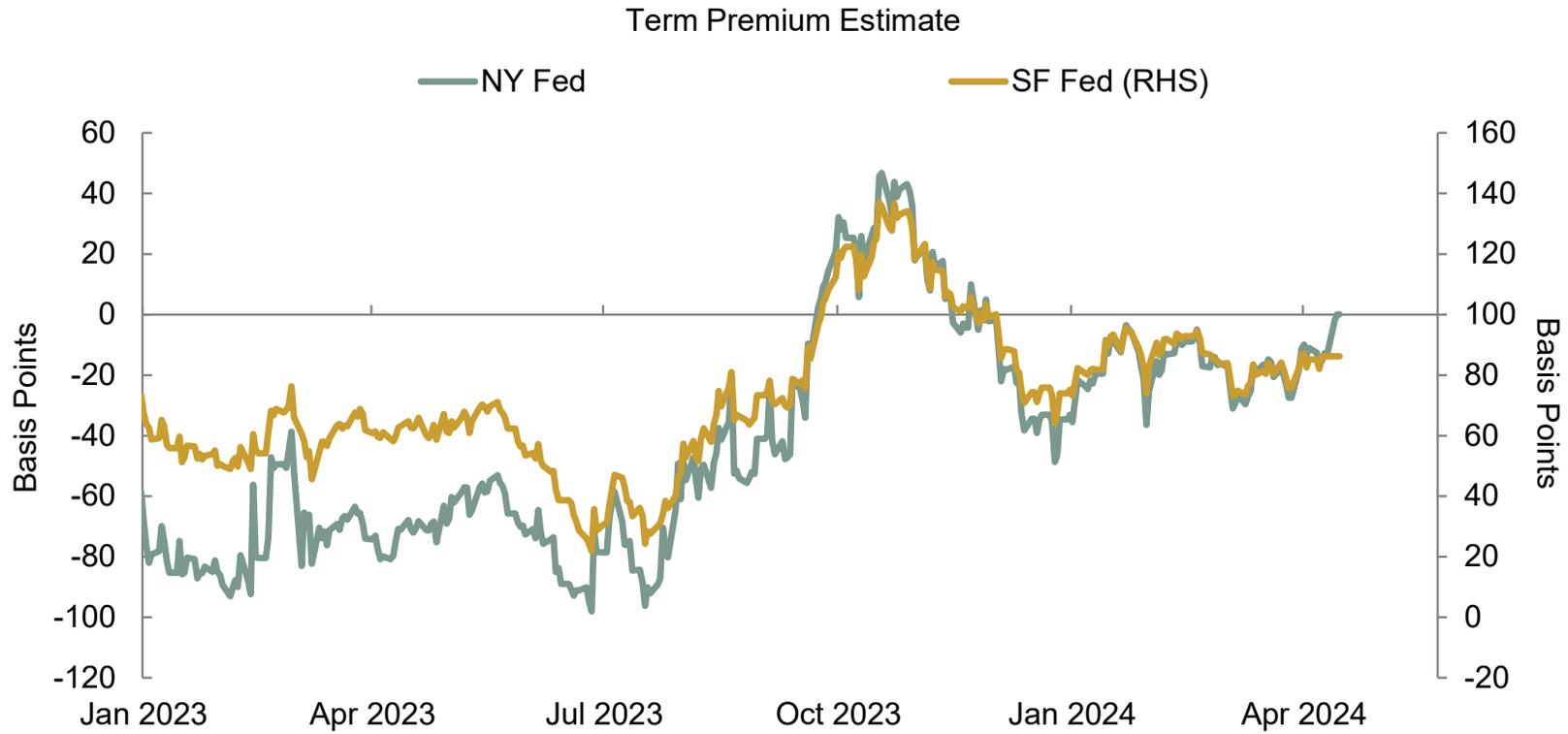


Source: FRBNY, Haver, SMBC Nikko

Where is Neutral?



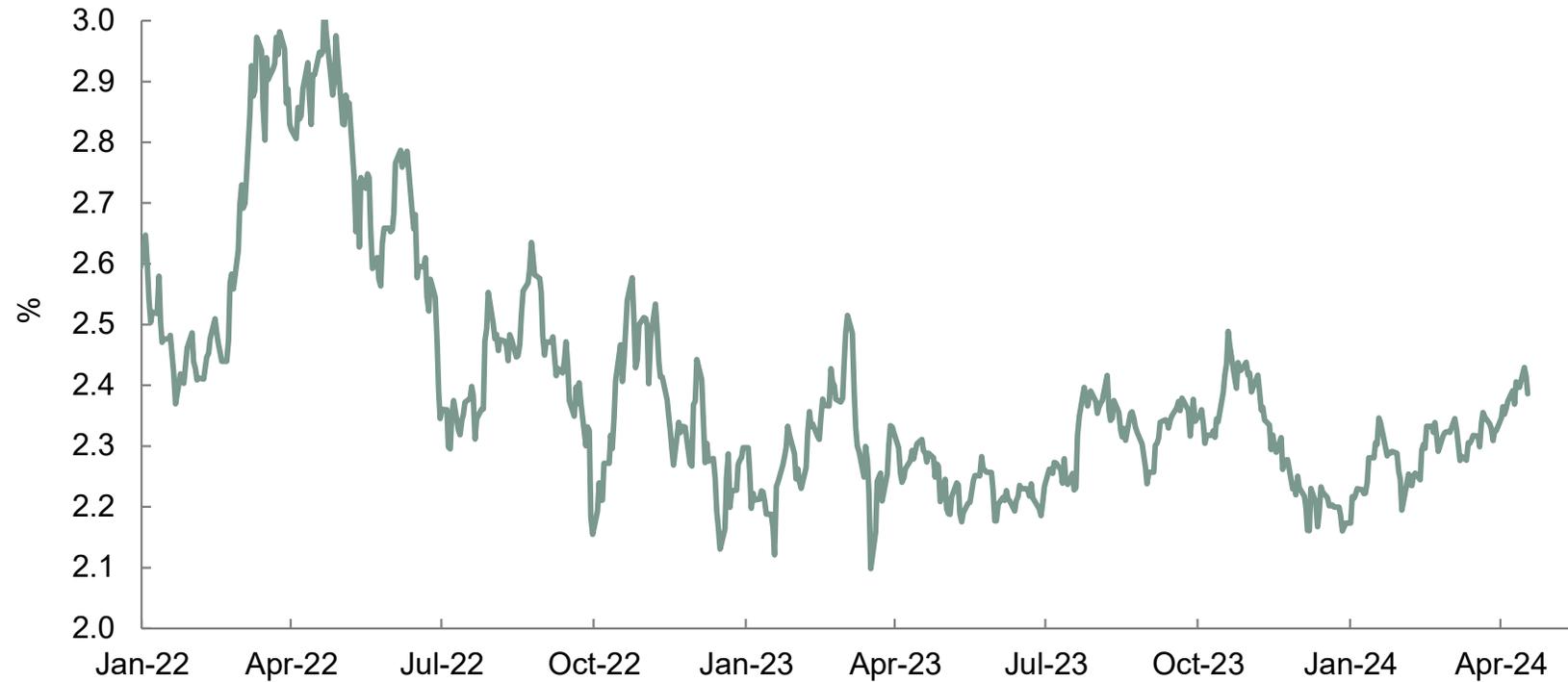
Whither Term Premium?



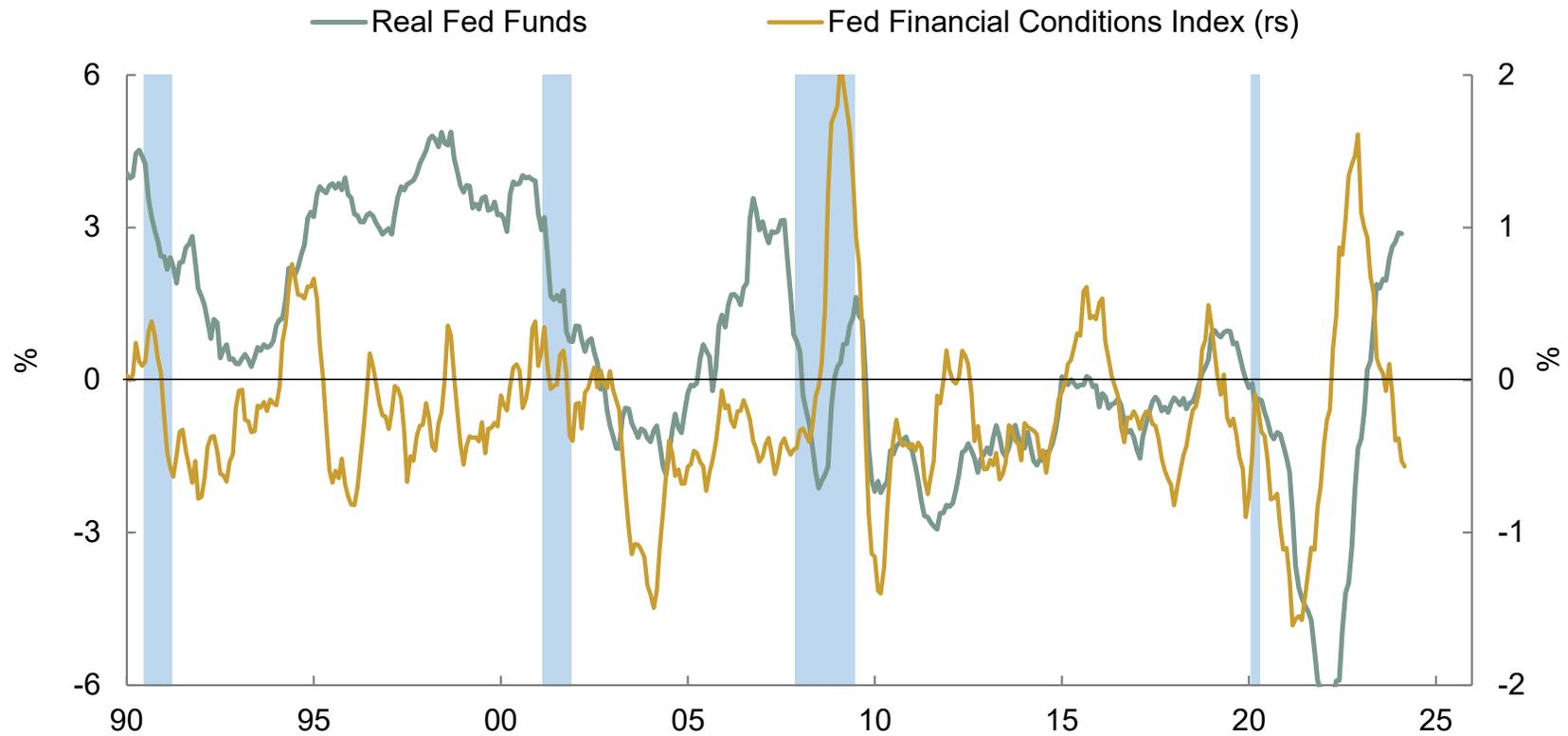
Source: Bloomberg, FRBNY, FRBSF, Haver, SMBC Nikko

Rising Inflation Expectations

10y Inflation Breakeven Rate

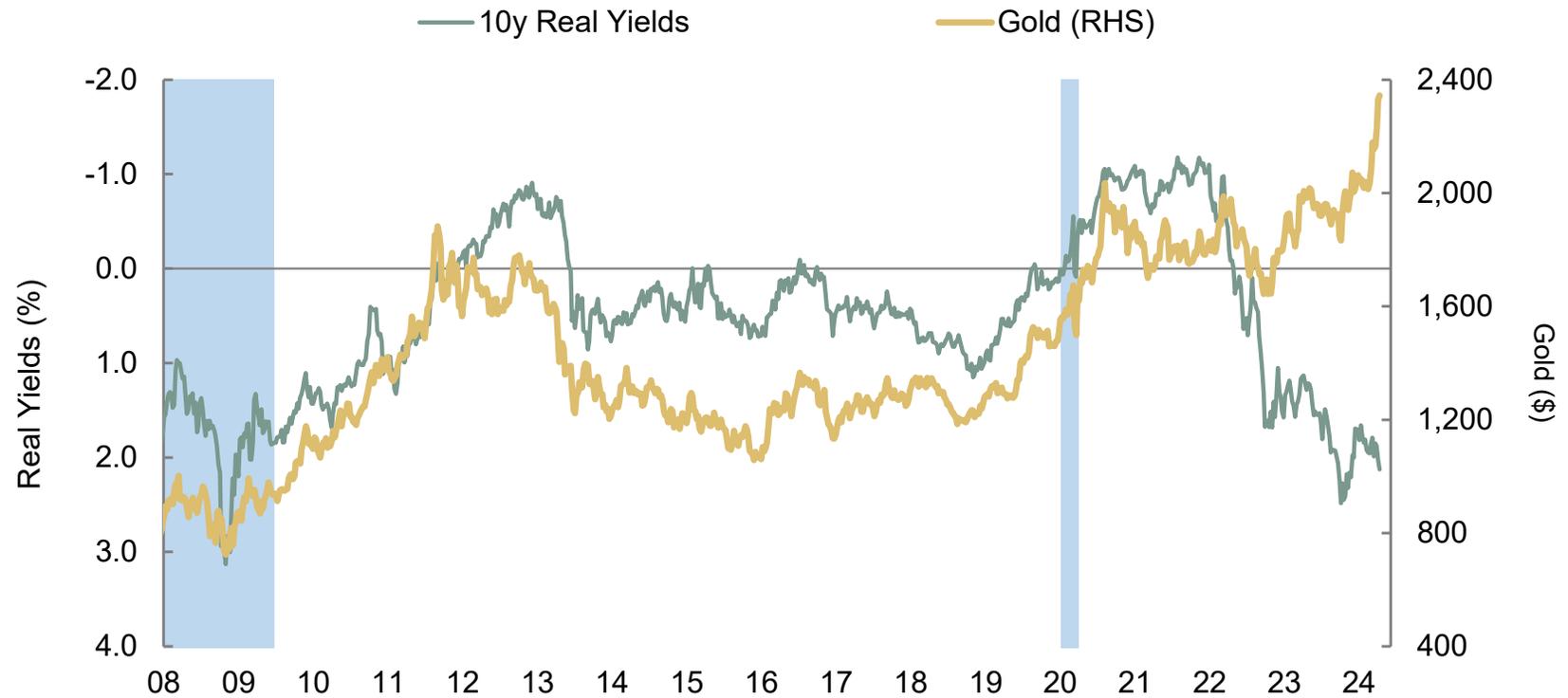


Restrictive Fed Funds, Easy Financial Conditions



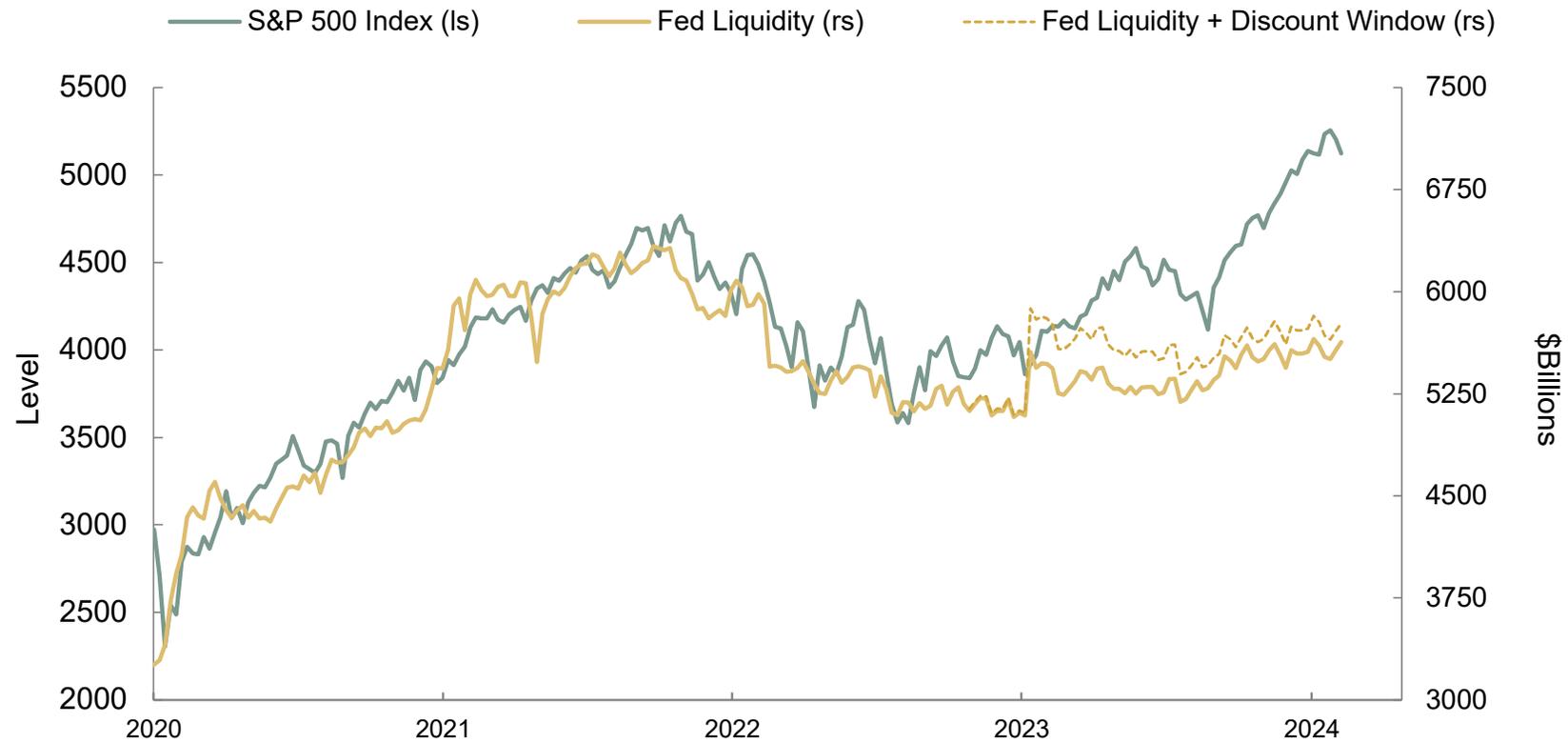
Source: Federal Reserve, BLS, Haver, SMBC Nikko

Gold Up, Real Yields Up – What Gives?



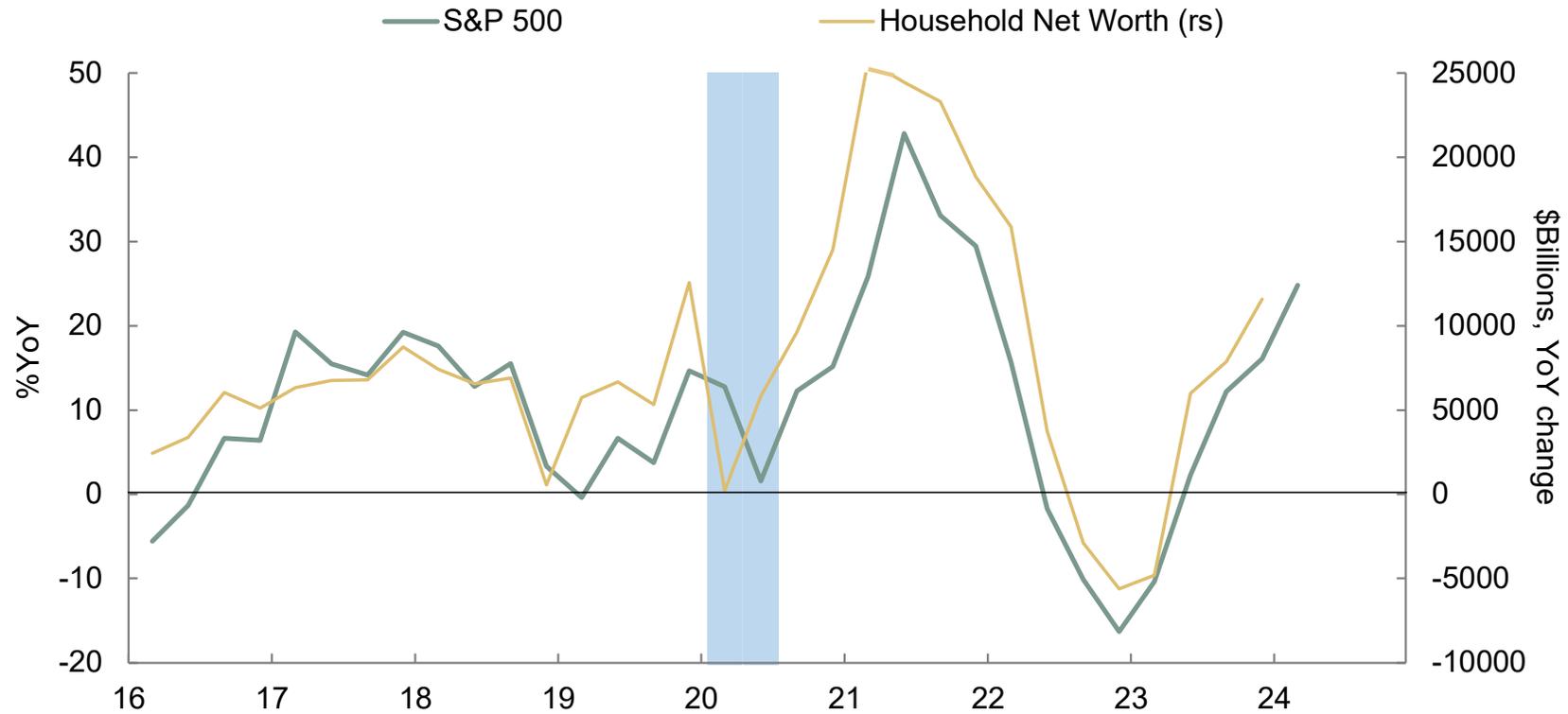
Source: Bloomberg, FRB, Haver, SMBC Nikko

Stock Gains Outstripping Liquidity



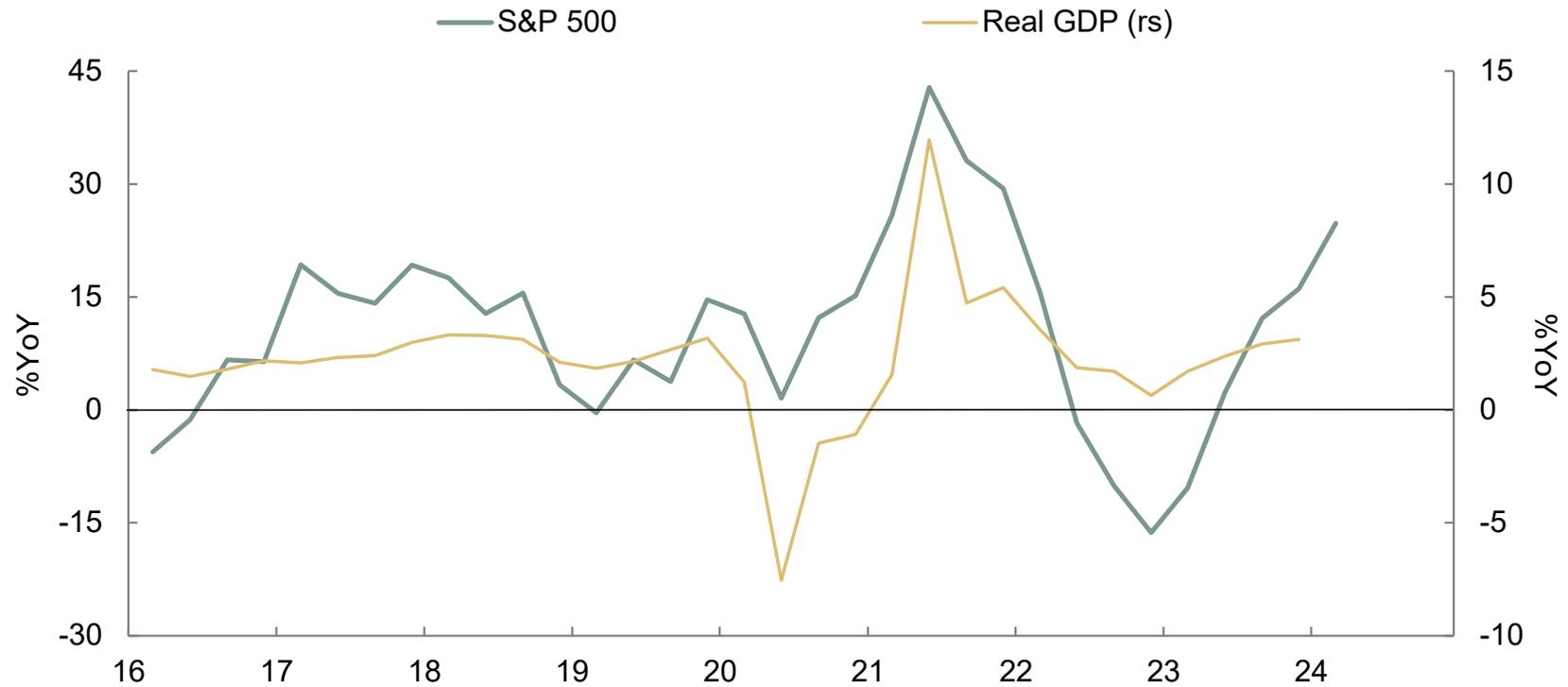
Source: S&P, FRB, Haver, SMBC Nikko

Big Gains in Household Net Worth



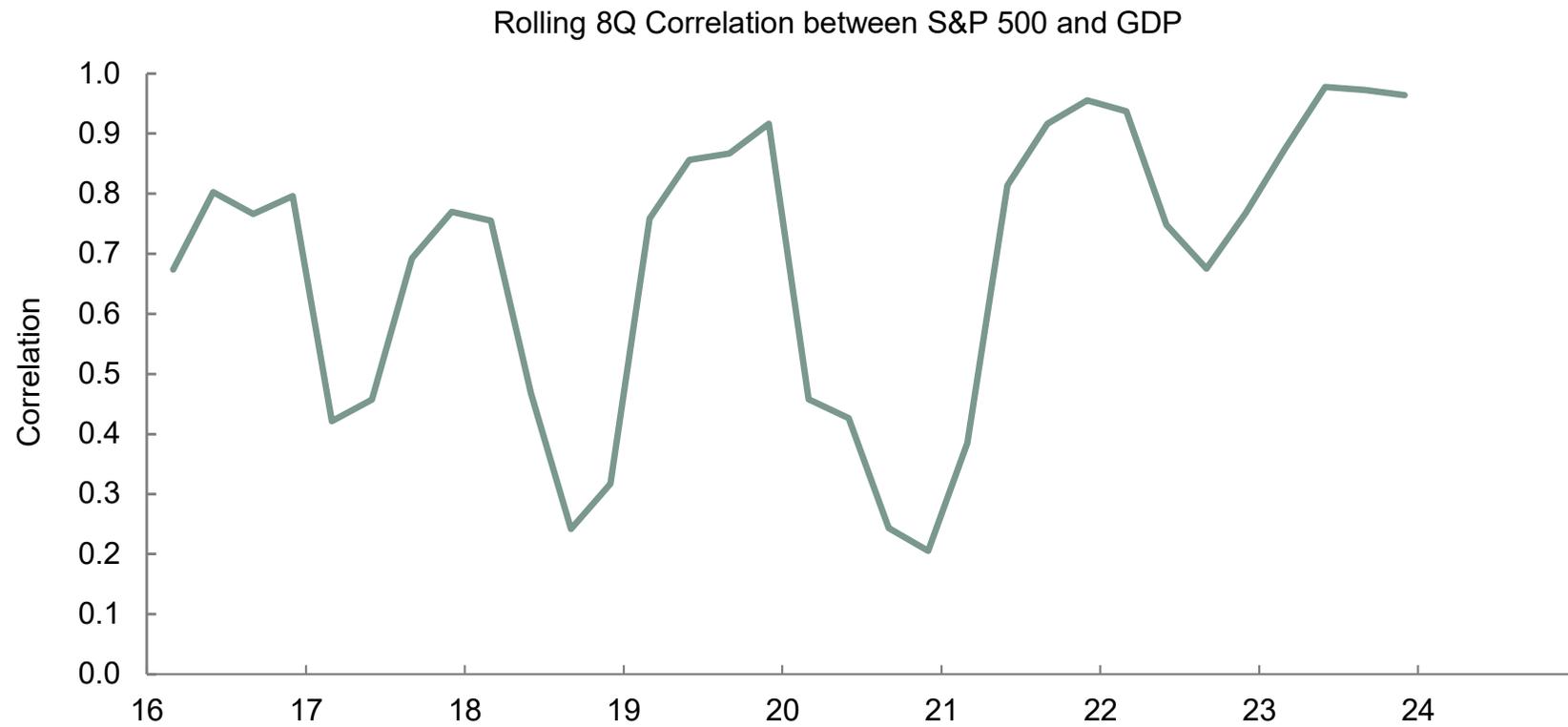
Source: S&P, Federal Reserve, Haver, SMBC Nikko

Fellow Travelers

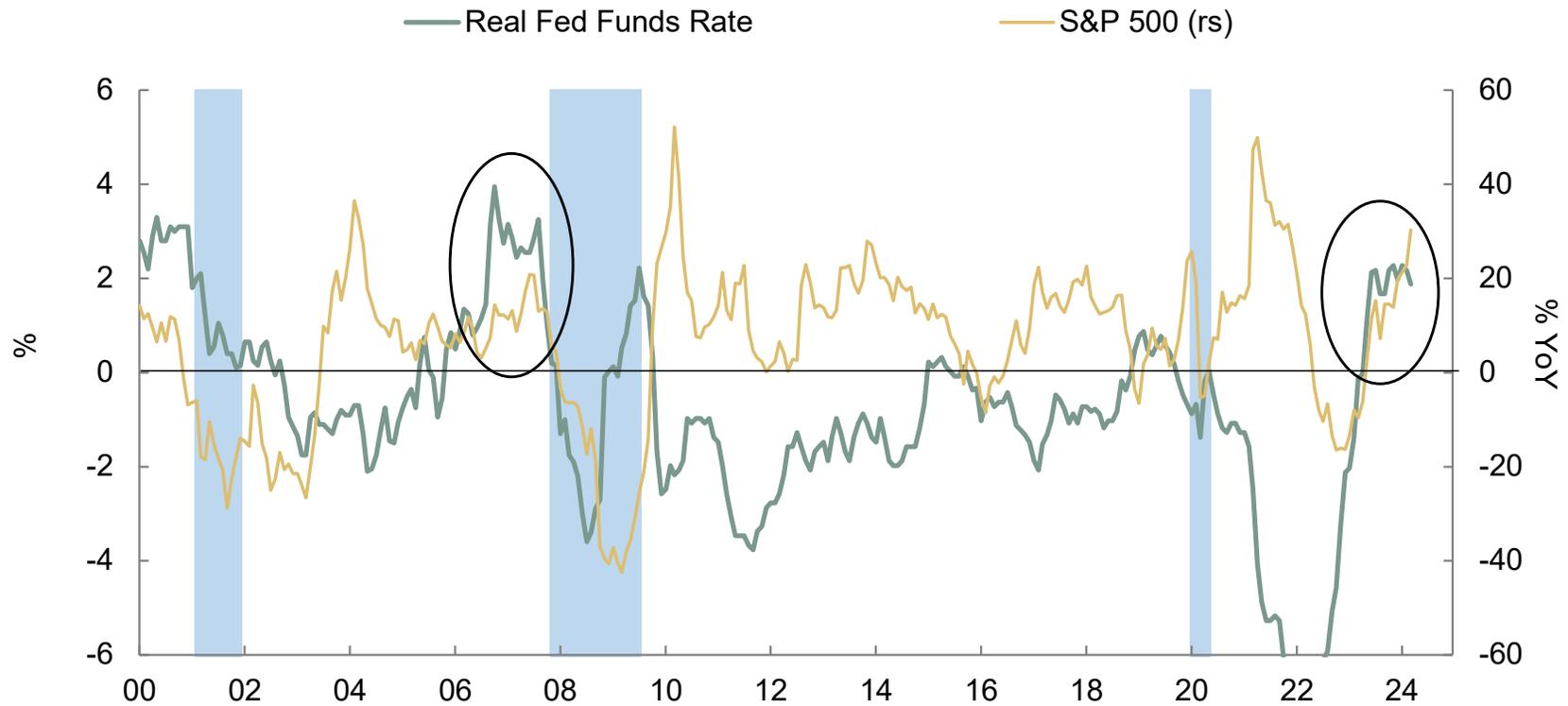


Source: S&P, Federal Reserve, Haver, SMBC Nikko

Moving One for One

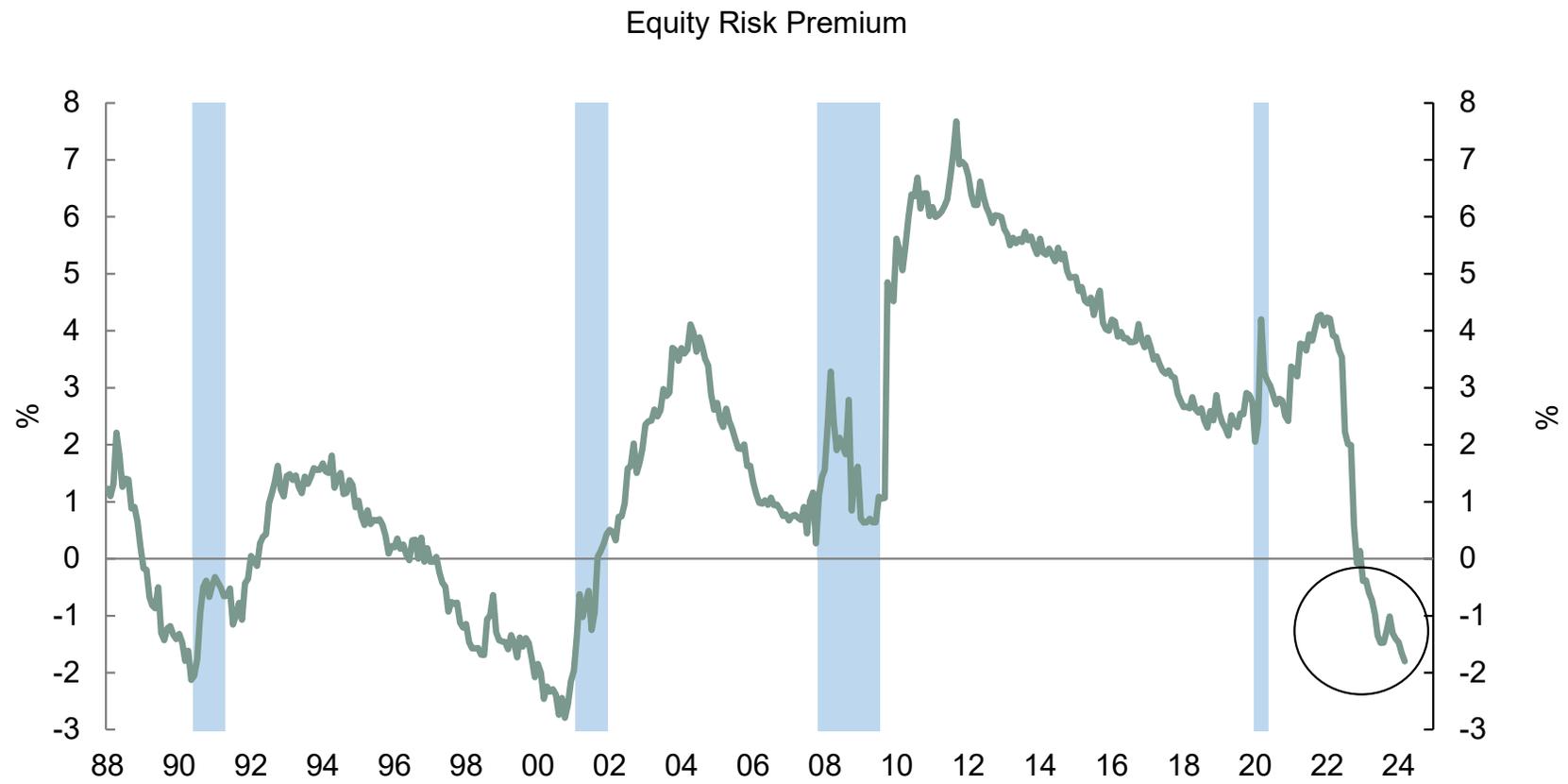


Similar to Last Business Cycle

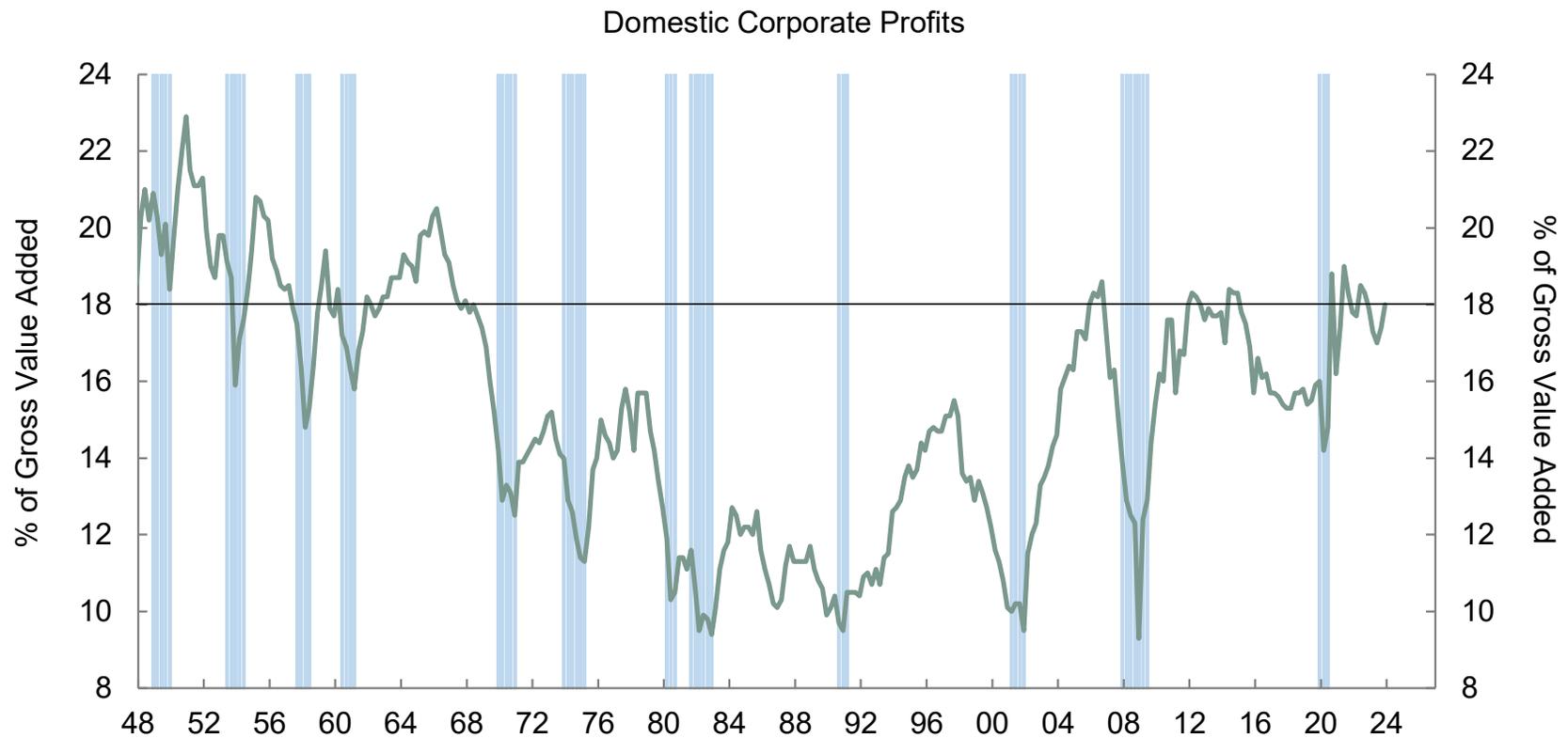


Source: BLS, Federal Reserve, S&P, Haver, SMBC Nikko

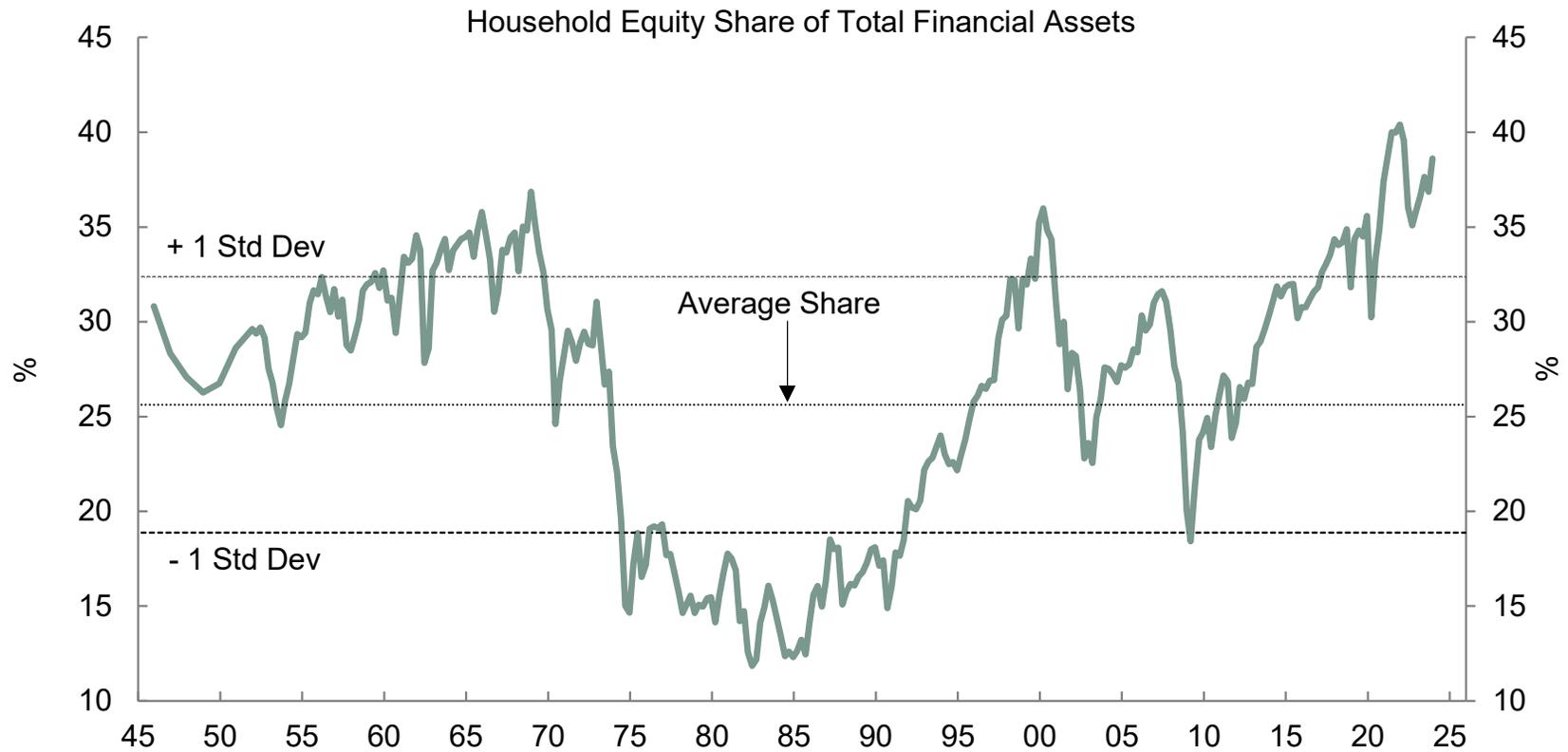
Deeply Negative



Elevated Profit Margins



Near Record Exposure



Biography: Joseph A. LaVorgna



Managing Director

Chief Economist

SMBC Nikko Securities America, Inc.

*277 Park Avenue
New York, NY 10017*

Office: +1-212-893-1528

[*joseph.lavorgna@smbcnikko-si.com*](mailto:joseph.lavorgna@smbcnikko-si.com)

Joseph (Joe) Lavorgna is a Managing Director and Chief Economist for SMBC Nikko Securities America, Inc. Joe joined the firm in September 2022 and is based in New York. Joe has spent more than 25 years in the financial services industry.

He was previously the Chief Economist for the Americas at Natixis. While there, Joe took a one-year leave of absence to serve at the White House, where he was Special Assistant to the President, and Chief Economist of the National Economic Council.

Prior to Natixis, Joe spent 20 years with Deutsche Bank Securities in the Global Markets Division, where he was considered one of the leading Wall Street economists. His team was perennially ranked in the prestigious *Institutional Investor All-Star Fixed Income Survey*.

Joe is also a Senior Fellow at the America First Policy Institute, a Washington, D.C.-based think tank. He holds a Bachelor of Arts degree in economics from Vassar College and did graduate work at New York University.

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