OLD NORTH STATE TRUST

1250 REVOLUTION MILL DRIVE
SUITE 152
GREENSBORO, NC 27405

# THE ECONOMY AT A GLANCE

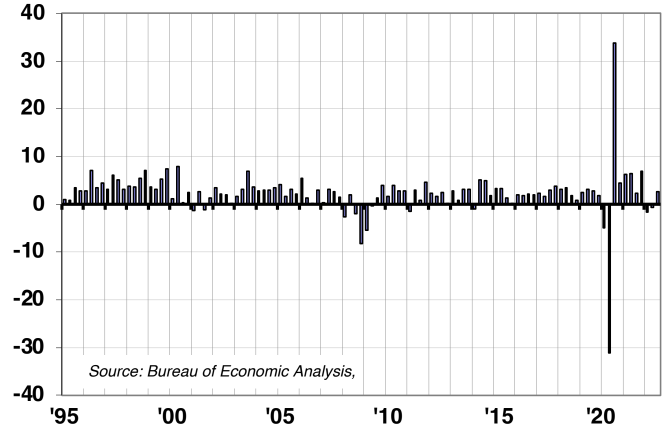
## ECONOMIC HIGHLIGHTS

November 7, 2022
Vol. 89, No. 160

### GDP POSITIVE IN 3Q AFTER TWO DOWN QUARTERS

U.S. GDP expanded in the third quarter at an annualized rate of 2.6%, according to the "advance" estimate released by the Bureau of Economic Analysis. The reading reverses two consecutive quarters of contracting GDP. Pockets of strength in the third quarter included personal consumption expenditures on services; investment into equipment and intellectual property products; net exports; and government spending. Segments of the economy that struggled included PCE-durable goods; PCE-nondurable goods; residential investment; and investment in structures. In our view, the report indicates that the economy can avoid a recession as long as interest rates don't go too much higher.

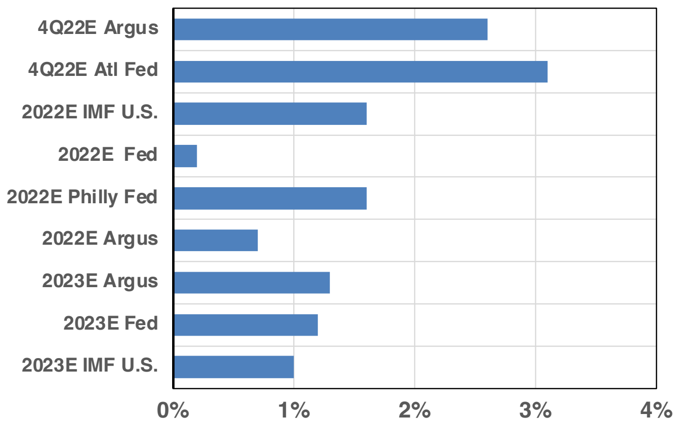
REAL GDP (% GROWTH/QTR)




### MODEST UPTICK IN OUTLOOK

Based on our review of the latest economic fundamentals, our forecast for GDP growth in 2022 is now 0.7%, up from our prior forecast of negative 0.2%. In 2023, we look for a negative reading in the first quarter followed by improvement as the year progresses. Our 2023 GDP estimate is now 1.3%. The Fed is combating inflation with aggressive interest-rate hikes. Our concern is that the central bank is raising rates too quickly and will send the U.S. economy into recession in 2023. If that occurs, we would expect to see the unemployment rate head back toward 6.0% over the next few quarters. Our estimates are generally in the range of other forecasters.

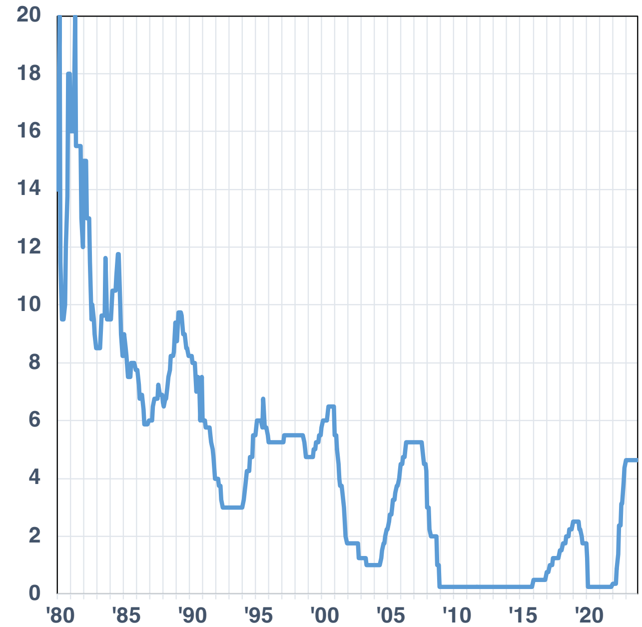
GDP ESTIMATES



## ONCE AGAIN, 75 BASIS POINTS

As expected, the Federal Reserve raised the federal funds rate by 75 basis points (for the fourth time in a row) to 3.75%-4.00%. In its announcement, the Fed said that "on-going increases in the target range will be appropriate" and that it was "strongly committed" to returning inflation to its 2% target. In his post-announcement press conference, Fed Chairman Powell doubled down on the bank's hawkish stance, saying that it was "very premature" to talk about pausing rate hikes. We remain concerned that the Fed is disregarding its other mandate (full employment) as it fights high prices. Already, the rate hikes in 2022 have brought growth in the housing market to a standstill. Will the consumer sector be next? Our forecasts call for one more big rate hike this year (50 basis points in December) and a 25-basis-point increase in 2024. Anything more could send the unemployment rate back toward 6.0%.

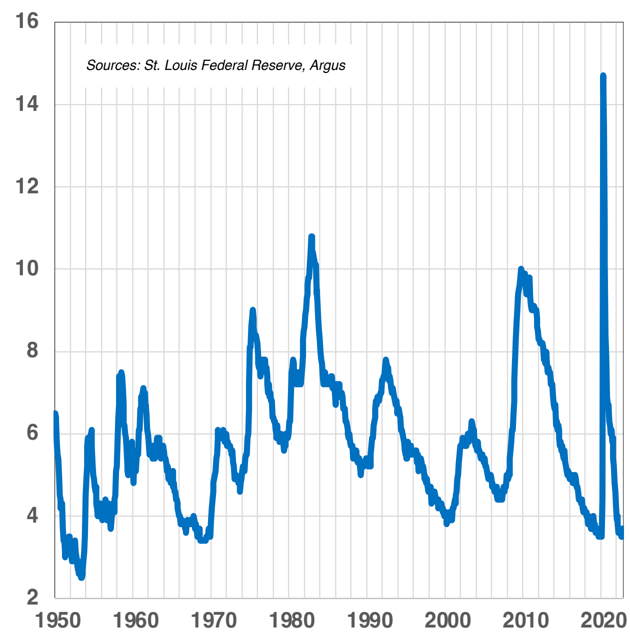
**FEDERAL FUNDS TARGET RATE & FORECASTS (%)**




## 261,000 NEW JOBS IN OCTOBER

The U.S. economy generated a solid 261,000 new jobs in October, ahead of consensus expectations and above our forecast of 200,000. The unemployment rate ticked higher to 3.7%. Average hourly earnings increased 12 cents from the prior month and 4.7% from the prior year, down from 5.0% growth in September. Revisions for August and September added 29,000 jobs. In October, employment gains occurred in leisure and hospitality, professional and business services, healthcare, manufacturing, and social assistance. The retail and construction industries were relatively steady in terms of employment. The growth in payrolls, though down from a revised 315,000 in September, suggests that the consumer sector is likely to remain on a growth track for the next quarter or two -- despite the impact of Fed rate hikes, the Russian invasion of Ukraine, and high prices at the gas pump (and almost everywhere else).

**U.S. UNEMPLOYMENT RATE (%)**

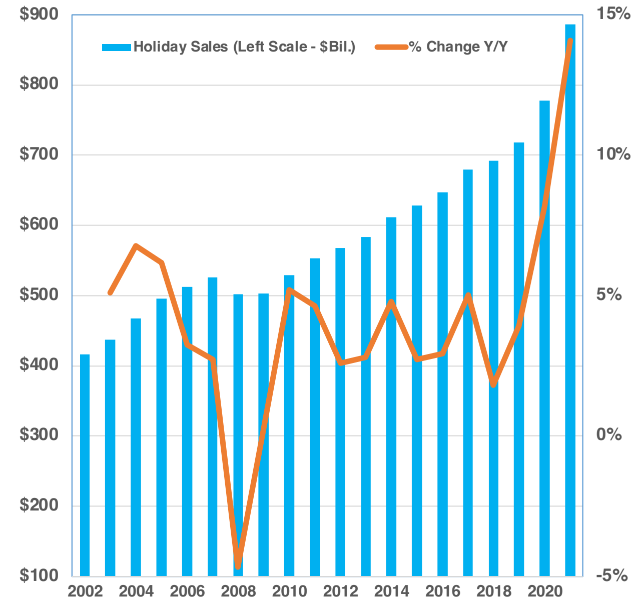


# FINANCIAL MARKET HIGHLIGHTS

## HOLIDAY SHOPPING OUTLOOK

The fourth quarter is the most important period of the year for the retail industry, and stores can record as much as 30%-45% of their annual sales during the holiday season. Sales typically grow from the prior year, and the average annual sales gain over the past 20 years has been 4%. The high was 14% (in the pandemic recovery year of 2021) and the low was negative 5% (as the economy entered the Great Recession in 2008). This year, Argus Senior Consumer Analyst Christopher Graja, CFA, expects a higher-than-average sales increase of 5%, based largely on continued low unemployment. There are three key categories in Chris's forecast: grocery stores, general merchandise, and e-commerce, where he expects growth of 7%, 4%, and 5%, respectively. The forecasts exclude gasoline, restaurants, and car dealers. Mastercard also provides forecasts -- and it expects in-store sales to grow 7.9% this holiday season. That is faster than its forecast of 4.2% growth in e-commerce sales. According to MasterCard, in-store sales should also benefit from the return of "door-buster" deals.

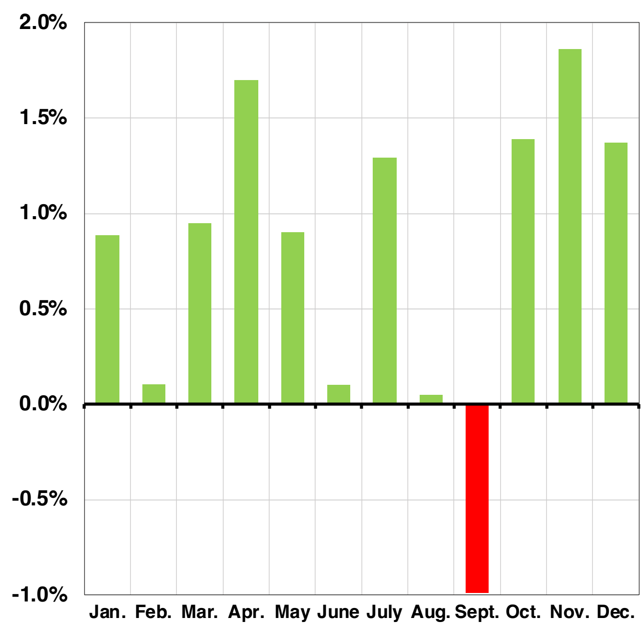
HOLIDAY SHOPPING TRENDS




## INVESTORS LIKE NOVEMBER

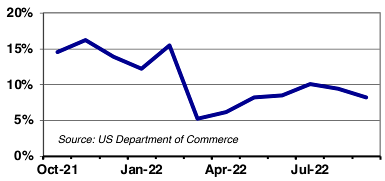
The U.S. stock market tends to rise, as a profitable October demonstrated. This long-term upward trajectory has its foundation in the country's democratic political system and its market-based capitalist economy. In theory, the stock market efficiently allocates the nation's capital to generate solid investment returns. Theory typically turns into reality in November, which since 1980 has been the best month for equity performance, with an average 1.9% gain, ahead of April (up 1.7%), December (up 1.4%), October (up 1.4%), and July (up 1.3%). November's batting average is high as well: stocks rise during the month 71% of the time. The best Novembers have been 1980 (up 10.2%), 2001 (up 7.5%), 1996 (up 7.3%), 1985 (up 6.5%), and 1998 (up 5.9%). There have been some clunkers: 2000 (down 8%), 2008 (down 7.5%), and 1987 (down 5.9%). Last year, the S&P 500 declined 0.8% for the month. November usually starts at a fast pace, as some companies are still reporting 3Q earnings and nonfarm payrolls are reported. This year, midterm elections and the Federal Reserve will play a role.

AVERAGE MONTHLY STOCK-MARKET APPRECIATION

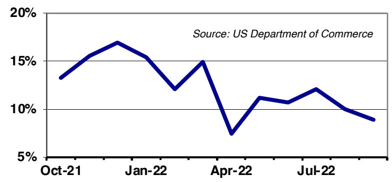


# ECONOMIC TRADING CALENDAR

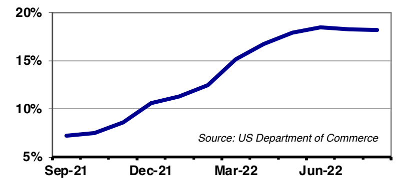
Release: **Retail Sales**
Date: 11/16/2022
Month: October
Previous Report: 8.2%
Argus Estimate: 7.5%
Street Estimate: NA



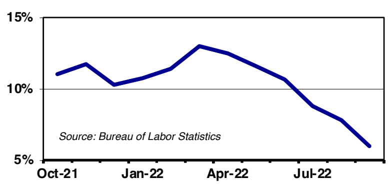

Release: **Retail Sales; ex-autos**
Date: 11/16/2022
Month: October
Previous Report: 8.9%
Argus Estimate: 8.0%
Street Estimate: NA



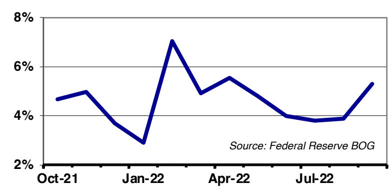

Release: **Business Inventories**
Date: 11/16/2022
Month: September
Previous Report: 18.2%
Argus Estimate: 15.0%
Street Estimate: NA



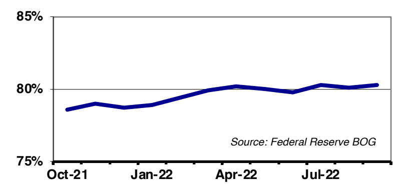

Release: **Import Price Index**
Date: 11/16/2022
Month: October
Previous Report: 6.0%
Argus Estimate: 5.5%
Street Estimate: NA



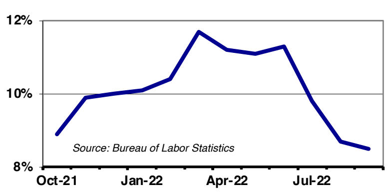

Release: **Industrial Production**
Date: 11/16/2022
Month: October
Previous Report: 5.3%
Argus Estimate: 4.0%
Street Estimate: NA



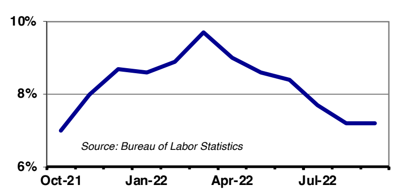

Release: **Capacity Utilization**
Date: 11/16/2022
Month: October
Previous Report: 80.3%
Argus Estimate: 80.0%
Street Estimate: 80.4%



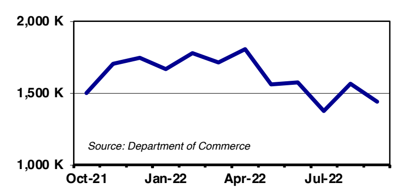

Release: **PPI Final Demand**
Date: 11/15/2022
Month: October
Previous Report: 8.5%
Argus Estimate: 8.2%
Street Estimate: 8.4%




Release: **PPI ex-Food & Energy**
Date: 11/15/2022
Month: October
Previous Report: 7.2%
Argus Estimate: 6.8%
Street Estimate: NA



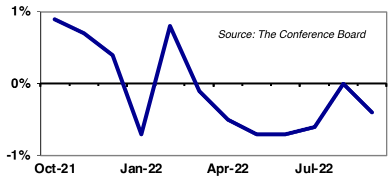

Release: **Housing Starts**
Date: 11/17/2022
Month: October
Previous Report: 1,439 K
Argus Estimate: 1,400 K
Street Estimate: 1,425 K



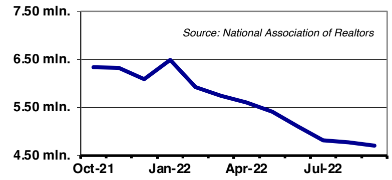

*Previous Week's Releases and Next Week's Releases on next page.*

# ECONOMIC TRADING CALENDAR

Release: **Leading Index**
Date: 11/18/2022
Month: October
Previous Report: -0.4%
Argus Estimate: -0.4%
Street Estimate: -0.4%




Release: **Existing Home Sales**
Date: 11/18/2022
Month: October
Previous Report: 4.71 mln.
Argus Estimate: 4.50 mln.
Street Estimate: 4.38 mln.




## Previous Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|---|---|---|---|---|---|---|
| 10-Nov | Consumer Price Index | October | 8.2% | 8.0% | 8.0% | NA |
| | CPI ex-Food & Energy | October | 6.6% | 6.4% | 6.5% | NA |
| 11-Nov | U. of Michigan Sentiment | November | 59.9 | 59.0 | 60.0 | **NA** |

## Next Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|---|---|---|---|---|---|---|
| 23-Nov | Durable Goods Orders | October | 11.6% | NA | NA | NA |
| | New Home Sales | October | 603 K | NA | NA | NA |