Of Rates and Recessions (Second of a Series)

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The Lead Left's exclusive Lead Left webinar, *"Of Rates and Recessions: What's Ahead for the Economy,"* aired yesterday with over 400 attendees. We will dedicate space next week summarizing the views of our three expert economists. In the meantime, let's position that conversation with a review of the state of our economic affairs as it stands today.

As our *Quote of the Week* highlights, there's a sense some headwinds are slowing price rises. And select input costs such as crude oil, freight rates and wheat (per Lincoln International's recent valuation deck) are down significantly from their peaks earlier in the year.

But CPI numbers remain stubbornly high. In part that's due to housing, food, and medical costs, with the first driven by rents and mortgage rates, and the second by production bottlenecks and demand. (Healthcare cost increases, in a switch, are actually lower than inflation for the first time in forty years.)

As our *Chart of the Week* shows, while the price of core goods has been dropping since January, services are eating up those savings. To make matters worse for the Fed, the economy continues to gain momentum. Corporate earnings remain strong with Lockheed Martin, Goldman Sachs and United Airlines reporting solid results this week.

On the labor front wages are rising with worker shortages commonplace. Productivity is down, thanks to a "lack of slack," as one banker friend put it. Unemployment, as we reported last week, is down to 3.5%. More worrisome, as you'll hear from our experts, is employment. Workforce levels are near-record lows, with Covid having pushed many to the sidelines.

In the meantime the Fed is playing catch-up having raised rates by 300 bps since March. A likely additional 125 bps are in the hopper by year-end.

As the rate vs. price battle moves at a quickened pace, some analysts worry that the Fed is looking at inflation data in the rear-view mirror. Distinguishing between lagging indicators (such as CPI) and leading ones (gold, other commodities, and used car prices) has become a high-stakes game like no time in recent memory.

Risk of an overshoot, according to some camps, could lead to rate hikes passing inflation indicators on the way down next year. If that happens, turning the battleship *U.S.S. Economy* around will take months, leading to greater likelihood of a hard landing.

Attention is also being paid to economic elements that can be affected by higher interest rates, and those that can't. As many have noted, the Fed can impact the demand side, but not supply.

So stay tuned to this space as next week we wrap up our look at the economy with a summary of our panelists' timely views on rates, recessions, and other major market movers.