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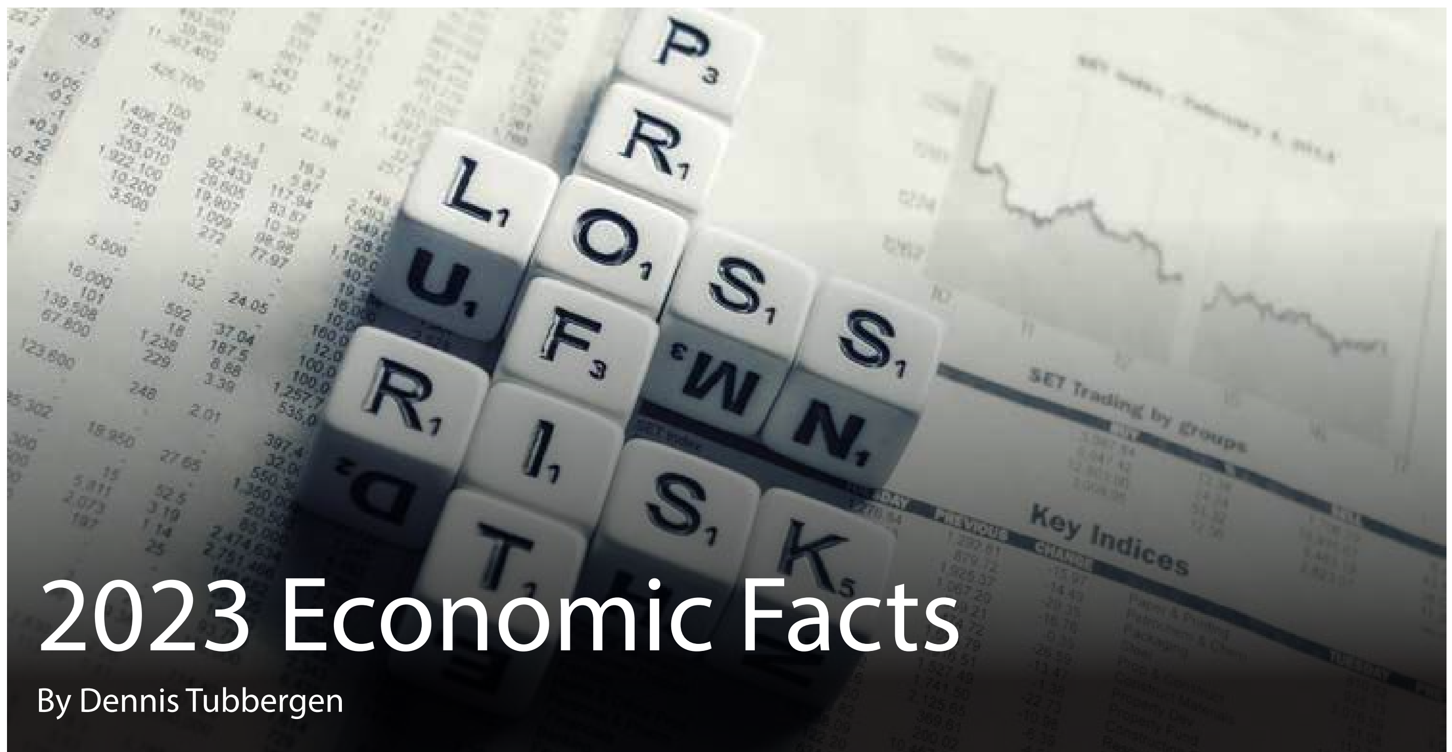
THE "YOU MAY NOT KNOW REPORT"™

A PUBLICATION OF RETIREMENT LIFESTYLE ADVOCATES



2023 Economic Facts

By Dennis Tubbergen

2022 saw the first two quarters of the year experience economic contraction, meeting the technical definition of a recession even though many in the ruling class suggested that the long-held definition of a recession no longer applied.

As we enter 2023, it seems that the first two quarters of 2022 may have been a preview of coming attractions. The economic data at this point in time is simply ugly which likely means a more severe recession likely beginning this year.

At the end of this inaugural 2023 issue of the "You May Not Know Report". I'll discuss what this might mean for you and what you might consider doing about it.

But first, let's get to the abundance of data.

Housing Is On the Ropes

Throughout 2022, I suggested that the decline in stocks was likely to be followed by a decline in real estate. That forecast decline has probably arrived. This[1] from CNBC (emphasis added):

> ***Sales of existing homes fell 7.7% in November compared with October****, according to the National Association of Realtors.*
>
> *The seasonally adjusted annualized pace was 4.09 million units. That is weaker than the 4.17 million units housing analysts had predicted, and it was a much deeper fall than usual monthly declines.*
>
> ***Sales were down 35.4% year over year, marking the tenth straight month of declines.*** *That was the weakest pace since November 2010, with the exception of May 2020, when sales fell sharply, albeit briefly, during the early days of the Covid pandemic. In November 2010, the nation was mired in the great recession as well as a foreclosure crisis.*
>
> *These counts are based on closings, so the contracts were likely signed in September and October, when mortgage rates last peaked before coming down slightly last month. Rates are now about one percentage point lower than they were at the end of October, but still a little more than twice what they were at the start of this year.*

And this[2] from Zero Hedge:

> *Following yesterday's dismal housing starts and building permits prints (which followed an ugly homebuilder sentiment signal), analysts expected US existing home sales to tumble 5.2% MoM in November. In fact, things were worse with a 7.7% MoM plunge (the biggest drop since Feb 22 and the 10th straight monthly decline).* ***This is the biggest YoY drop since Lehman and the longest streak of sales declines since 1999...***

Source: Bloomberg

Absent the COVID-Lockdown collapse, this is the lowest existing home sales SAAR since Nov 2010 at 4.09mm...

Not surprisingly, homebuilders are becoming increasingly pessimistic. This[3] from CNBC:

Homebuilders were less confident about their business in December, but they are starting to see potential green shoots.

Builder sentiment in the single-family housing market dropped 2 points to 31 in December on the National Association of Home Builders/ Wells Fargo Housing Market Index. Anything below 50 is considered negative.

This is the 12th straight month of declines and the lowest reading since mid-2012, with the exception of a very brief drop at the start of the Covid pandemic. The index stood at 84 in December of last year.

"The silver lining in this HMI report is that it is the smallest drop in the index in the past six months, indicating that we are possibly nearing the bottom of the cycle for builder sentiment," said the NAHB's chief economist, Robert Dietz. "Mortgage rates are down from above 7% in recent weeks to about 6.3% today, and for the first time since April, builders registered an increase in future sales expectations."

The NAHB continues to blame high mortgage rates, which despite the recent drop are still about twice what they were a year ago. That has caused affordability to plummet.

"In this high inflation, high mortgage rate environment, builders are struggling to keep housing affordable for home buyers," said NAHB Chairman Jerry Konter, a builder and developer from Savannah, Georgia. "Our latest survey shows 62% of builders are using incentives to bolster sales, including providing mortgage rate buy-downs, paying points for buyers and offering price reductions."

But Konter noted that with construction costs up more than 30% since the beginning of this year, builders are still having a hard time cutting prices. Roughly 35% of builders reduced homes prices in December, down from 36% in November. The average price reduction was 8%, up from 5% to 6% earlier in the year.

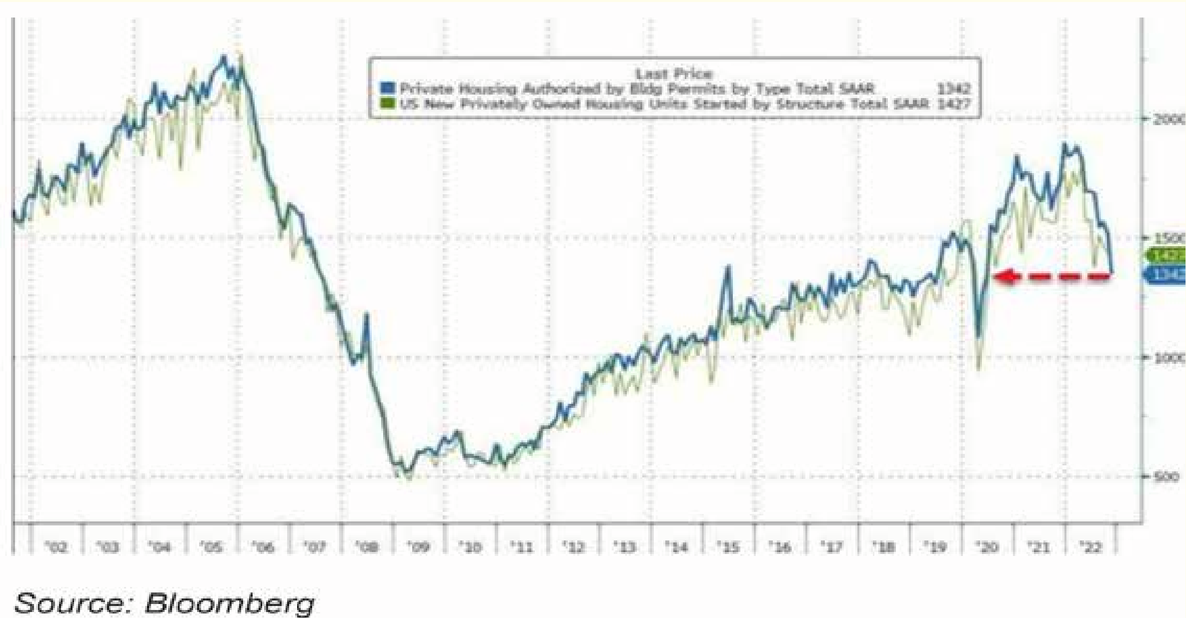
Higher interest rates mean higher payments for the same home and continued inflation coupled with the fact that more than 60% of Americans are now living paycheck to paycheck will have to mean even more severe headwinds for the real estate market.

Inflation is hurting the housing market in another way too as noted above. The cost to build a home is up more than 30% since the first of the year. That means a $400,000 home at the beginning of 2022 is now a $520,000 home.

Homebuilders are playing defense. Building permits are down dramatically as well. This[3] from "Zero Hedge":

> *After the* ***dismal homebuilder sentiment data earlier in the week,*** *it is no surprise that analysts expected a drop in both housing starts and building permits for November (the latest data) and they were right. While Housing Starts fell 0.5% MoM (better than the 1.8% drop expected) - as incentives dominated inventory liquidation, forward-looking building permits collapsed 11.2% MoM (vs -2.1% exp). That is the* ***biggest MoM drop since the peak of the COVID lockdowns...***

This leaves the total number of housing starts (SAAR) at the lowest since June 2020 for permits...



Manufacturing is Severely Contracting

Two key measures of manufacturing are both now negative as we enter the New Year. This[4] from "MarketWatch":

Two regional gauges of manufacturing activity indicated weakness in December, according to data released Thursday.

The Philadelphia Fed manufacturing index improved to a reading of negative 13.8 in December from negative 19.4 in the prior month. Economists had expected a reading of negative 12 according to a Wall Street Journal survey of economists.

The Empire State Index, meanwhile, declined sharply to a reading of negative 11.2 in December from 4.5 in the prior month, the New York Fed said. Economists had expected a reading of negative 0.5, according to the Wall Street Journal.

Any reading below zero indicates deteriorating conditions.

Retail Sales Decline in November More Than Anytime in 2022

"The Wall Street Journal" reported that retail sales declined as well as auto sales. This[5] from the article published on December 15, 2022:

U.S. retail spending and manufacturing weakened in November, signs of a slowing economy as the Federal Reserve continues its battle against high inflation.

November retail sales fell 0.6% from the prior month for the biggest decline this year, the Commerce Department said Thursday. Budget-conscious shoppers pulled back sharply on holiday-related purchases, home projects and autos. Manufacturing output declined 0.6%, the first drop since June, the Fed said in a separate report.

The Fed on Wednesday raised its benchmark interest rate 0.5 percentage point to a 15-year high and signaled plans to continue lifting rates through the spring. Fed officials have increased rates at the fastest pace since the 1980s to cool the economy and bring down inflation, which is running near a 40-year high.

"Most households are acting strategically, planning for a road ahead that may be more difficult to traverse, with higher interest rates, the housing slump, and ongoing inflation—and the very real possibility of a recession," said Craig Johnson, president of the retail consulting firm Customer Growth Partners.

Layoffs Are Coming

With a weakening economy comes job losses. As this issue of the "You May Not Know Report" goes to print, there are reports of even more layoffs. These layoffs are outside the tech sector which has already seen meaningful layoffs. This[6] from "Semafor":

Goldman Sachs plans to layoff as many as 4,000 employees as it struggles to meet profitability targets and retreats from it gamble on Main Street banking, people familiar with the matter said.

Managers across the firm have been asked to identify low performers for what could be a cut of up to 8% to its workforce early next year, the people said, with some cautioning that no final list has been drawn up.

Many other companies have announced layoffs as well7. Jet engine manufacturer Pratt & Whitney is laying off 900 workers, Morgan Stanley is axing 1600 employees, GLINTS (human resources) is laying off 18% of its workforce, Sensei Biotherapeutics is eliminating 40% of its workforce, Door Dash is laying off 1200 workers, Reverse Mortgage Funding is eliminating 80% of its workforce, United Furniture Networks is getting rid of 2700 employees and Hewlett Packard is axing 6000 workers.

There are many other companies announcing layoffs, this is only a sampling.

Michael Snyder reports that job cuts in November compared to a year ago in November of 2021, were up 417%! This8 from his article:

We knew that economic conditions were deteriorating, but this is getting ridiculous. According to Challenger, Gray & Christmas, the number of layoffs in November was 127 percent higher than it was in October. That isn't just a trend, that is an avalanche. And compared to the same month in 2021, the number of layoffs in November was 417 percent higher. Please take a moment and let that figure sink in. A 417 percent increase is a colossal shift. Essentially, these numbers are telling us that a giant tsunami of U.S. layoffs has now begun, and I believe that things will get even worse in 2023 and beyond. Our leaders have pursued policies that have been extremely destructive to the U.S. economy, and many of us have been warning that a day of reckoning would arrive. Well, it appears that a day of reckoning for America's workers is now here, and the months ahead are not going to be pretty.

There is no way to spin these numbers to make them look good. Major layoff announcements are popping up in the news every single day, and what we have witnessed over the past several weeks is nothing short of staggering…

Snyder also points out that FedEx got rid of drivers prior to the holiday season. I don't think that has ever happened historically.

The American Public and Most Economists See a Recession on the Horizon

"The Wall Street Journal" conducted a survey of American consumers and found that about 2/3rd of Americans are expecting the economy to worsen in 2023. This[9] from the article:

A majority of voters think the economy will be in worse shape in 2023 than it is now and roughly two-thirds say the nation's economic trajectory is headed in the wrong direction, the latest Wall Street Journal poll shows.

The survey, conducted Dec. 3-7, suggests a recent burst of positive economic news—moderating gas prices and a slowing pace of inflation—haven't altered the way many feel about the risk of a recession, something many economists have forecast as likely.

"I just think we are headed toward a recession and it could be a pretty big one," said Republican poll participant David Rennie, a 61-year-old retired executive with the Boy Scouts of America who lives in Shelton, Conn. "Interest rates are skyrocketing and that's going to take us down."

A "Bloomberg" survey[10] of economists found that about the same percentage of economists are forecasting a recession in 2023. This[10] from "Yahoo Finance":

Economists say there is a 7-in-10 likelihood that the US economy will sink into a recession next year, slashing demand forecasts and trimming inflation projections in the wake of massive interest-rate hikes by the Federal Reserve.

The probability of a downturn in 2023 climbed from 65% odds in November and is more than double what it was six months ago, according to the latest Bloomberg monthly survey of economists. The poll was conducted Dec. 12-16, with 38 economists responding about the chance of a recession.

The median estimates see gross domestic product averaging a paltry 0.3% next year, including an annualized 0.7% decline in the second quarter and flat readings in the first and third quarters. Consumer spending, which accounts for about two-thirds of GDP, is projected to barely grow in the middle half of the year.

"The US economy is facing big headwinds from surging interest rates, high inflation, the end of fiscal stimulus, and weak export markets abroad," said Bill Adams, chief economist at Comerica Bank. "Businesses have turned cautious about adding to inventories and hiring, and will likely delay construction and other capex plans with credit more expensive and order books shrinking."

Inflation Continues to Wreak Havoc with Food Prices

Despite claims from some politicians that inflation is weakening, food prices continue to rise and are putting the squeeze on many American households. Here is just one example – the price of lettuce in California[11]:

> *Don't look now — the price of lettuce is soaring across the Bay Area.*
>
> *It's $5.99 for a head of romaine at Country Sun Natural Foods in Palo Alto. Nearly $10 for little gem lettuce at Draeger's Market in Los Altos. And a whopping $10.99 for iceberg at Piedmont Grocery in Oakland.*
>
> *Nationwide, the average cost of a head of romaine is currently just $2.50, according to federal data. But that's still a 47% jump from October. Produce prices can vary widely across regions and even individual stores due to a range of factors, including local seasonal growing trends and the contracts grocers can negotiate with farmers and suppliers.*

While that seems extreme, the price of vegetables from October to November increased an eye-popping 38% and that's according to data from the Bureau of Labor Statistics.

This[12] from Michael Snyder:

> *The mainstream media is trying really hard to convince all of us that inflation will soon no longer be a problem, but meanwhile food prices continue to soar to absolutely absurd levels. In fact, we just learned that vegetable prices increased by a whopping 38 percent in November. When I originally saw that number, I thought that it must represent the change from 12 months ago. But that is not the case. According to the Bureau of Labor Statistics, vegetable prices jumped 38.1 percent from October to November, and they are up a total of 80.6 percent over the past 12 months…*

This statistic can be verified at the website of the Bureau of Labor Statistics.

Nearly 2 out of 3 American Households Living Paycheck to Paycheck

It's not surprising that inflation is taking a toll on American households. According to a CNBC article[13], 63% of American families are now living from one paycheck to the next:

As rising prices continue to weigh on households, more families are feeling stretched too thin.

As of November, 63% of Americans were living paycheck to paycheck, according to a monthly LendingClub report — up from 60% the previous month and near the 64% historic high hit in March.

Even high-income earners are under pressure, LendingClub found. Of those earning more than six figures, 47% reported living paycheck to paycheck, a jump from the previous month's 43%.

"Americans are cash-strapped and their everyday spending continues to outpace their income, which is impacting their ability to save and plan," said Anuj Nayar, LendingClub's financial health officer.

Although consumer prices rose less than expected in November, persistent inflation has caused real wages to decline.

Real average hourly earnings are down 1.9% from a year earlier, according to the latest reading from the U.S. Bureau of Labor Statistics.

This leaves many Americans in a bind as inflation and higher prices force more people to dip into their cash reserves or lean on credit just when interest rates rise at the fastest pace in decades.

Already, credit card balances are surging, up 15% in the most recent quarter, the largest annual jump in more than 20 years.

At the same time, credit card rates are now more than 19%, on average — an all-time high — and still rising.

The American economy is more than 70% dependent on consumer spending for its health. This has to be bad news as we enter 2023.

What This May Mean or You

As we discussed in the December "You May Not Know Report"™, stock valuations are still high historically speaking. A recession likely means more downside for stocks.

Rising interest rates, should they continue, will mean more losses for bonds.

If you are not yet using the Revenue Sourcing™ planning strategy to manage your nest egg, now is a good time to consider it.

January 2023 Special Report

Two Possible Outcomes

This month only, we are making available a free report titled, "Two Possible Outcomes".

To request your complimentary copy this month only, return one of the postage-paid reply cards included with this month's newsletter. You'll notice that we've included three reply cards with this month's newsletter; we've done that so you can request a copy of this report for anyone you know that might find this information helpful.

In this month's special report, we will discuss Federal Reserve policy and how the Fed's policies will lead to one of two investment outcomes.

The report discusses how to prepare for each potential outcome and what the future investment environment will look like in each outcome.

The report also provides specific strategies for each outcome for your consideration.

This report is available only during the month of January.

Time Deposit Rates

At the time of publication, these rates were valid:

1-Year	1.80%
2-Year	4.30%
5-Year	5.35%

Call the office for details at

1-866-921-3613

Resources to Help You Stay Informed

All these resources are available at the Retirement Lifestyle Advocates website: **www.RetirementLifestyleAdvocates.com**.

As previously mentioned in this month's "You May Not Know Report"™, the weekly "Portfolio Watch" newsletter is available on the Retirement Lifestyle Advocates website. Each week, I give you an update as to where we are economically speaking and in the financial markets and where we are going based on my analysis.

The weekly "Headline Roundup" webinar. Replays are available on the website. "Headline Roundup" happens every Monday live at Noon Eastern Time. To get an invite to the live event, give the office a call at **1-866-921-3613**.

The weekly "RLA Radio" show and podcast.

We also have the RLA app available. All these resources are also available on the app.

You can download the YOURRLA app for free by visiting the app store (either Google or Apple) and searching under YOURRLA.

If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is answered 8 to 5 Monday through Thursday and 8 to Noon on Friday.

Sources

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