

Where the U.S. economy stands in Q2 2023



OVERALL CYCLE

Growth slowing

Real GDP growth picked up in Q2, led by stronger business investment. Consumer spending moderated, but to a still solid pace. Residential investment showed signs of stabilization. Inflation fell, even as the labor market remained tight.



POSITIVES

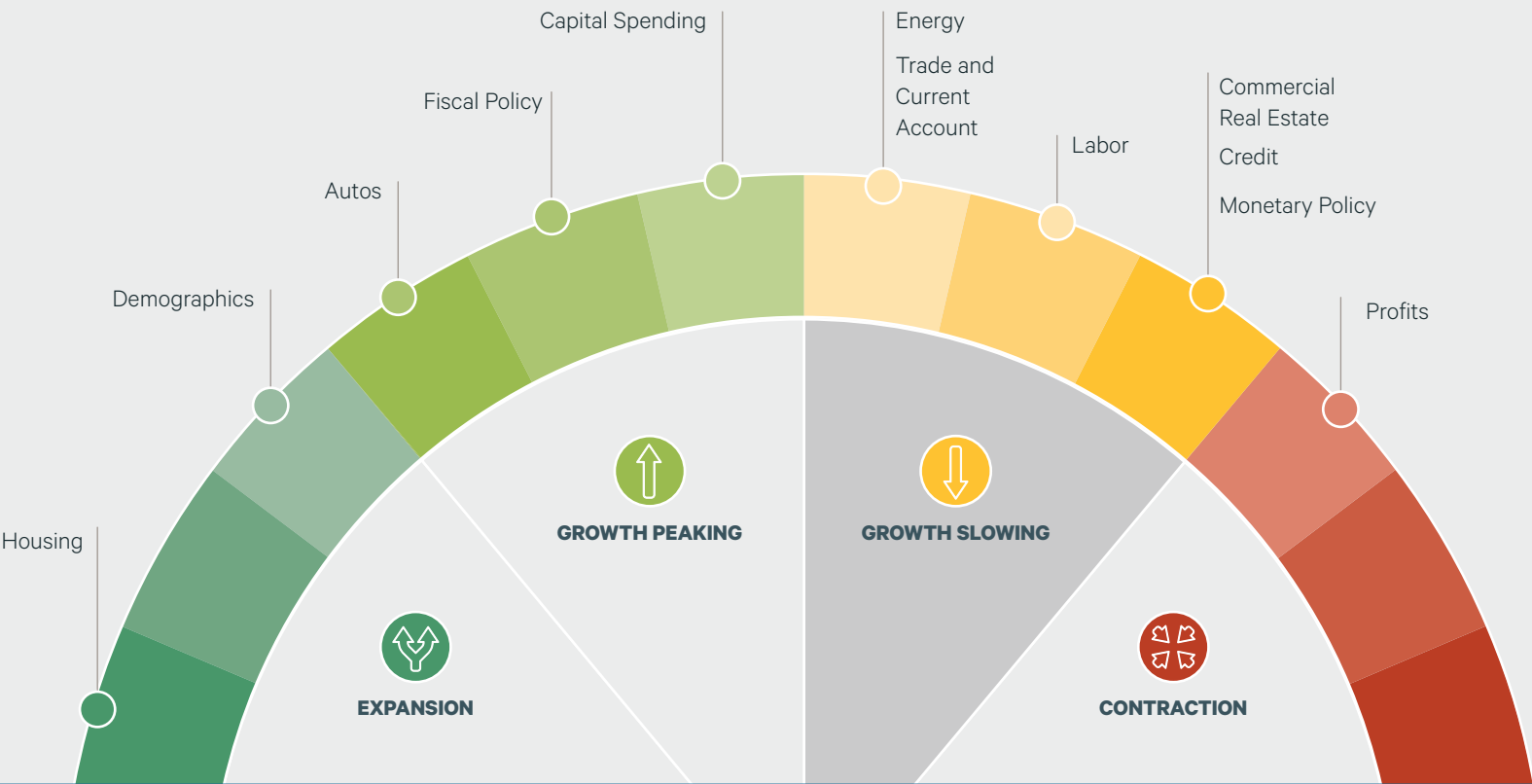
- Capex benefitting from investments in transportation and factories.
- Payrolls growing. Unemployment rate near cycle low.
- Falling inflation, real income growth, and excess savings support consumer sentiment and spending.



NEGATIVES





- Fed still hiking rates, raising the cost of credit.
- Tighter bank lending standards reducing credit availability.
- Slower global growth and inventory overhang weighing on demand and profits.

The four phases of the economic cycle and the current status of 12 economic sub-cycles



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Status and description of sub-cycles

Status	Sub-cycle	Relation to Overall Cycle	Latest trend
	Housing	Pro-cyclical/Leading	Housing starts and permits both picked up in Q2. Improving builder sentiment points to further gains. But high mortgage rates and renewed growth in home prices keep housing affordability low and home sales subdued.
	Demographics	Pro-cyclical/Lagging	Millennials are entering their prime working and spending years, driving up the MY ratio. The longer-term trend provides support for economic growth in the next 10-15 years.
	Autos	Pro-cyclical/Coincident	Vehicle production and unit sales both picked up in Q2. The demand for vehicles is supported by continued job and wage growth, although tighter lending standards and higher financing costs remain headwinds.
	Fiscal policy	Counter-cyclical/Leading	The government budget deficit widened in Q2. Both federal and S&L government spending picked up.
	Capital spending	Pro-cyclical/Coincident	Capex jumped in Q2, led by a rebound in equipment spending and manufacturing structures. Capex is benefitting from government incentives and stimulus, including IIJA, IRA, and CHIPS and Science Act.
	Energy	Pro-cyclical/Coincident	Oil production fell slightly in Q2, while natural gas output firmed. But rig counts continued to fall.
	Trade and current account	Pro-cyclical/Lagging	A relatively strong U.S. dollar and weak foreign demand weighed on export growth. Imports also fell. The trade deficit was little changed.
	Labor	Pro-cyclical/Coincident-to-Lagging	Payrolls growth moderated. Jobless claims and the unemployment rate remained low, indicating continued robust labor demand and tight labor market conditions. Compensation growth eased modestly but to a still elevated rate.
	Credit	Counter-cyclical/Leading	Banks tightened further their lending standards, but impact on the economy has been limited so far. Credit spreads narrowed and mostly fell below their historical means.
	Commercial real estate	Pro-cyclical/Leading	Investment returns continued to decline in Q2 across most property sectors, led by Office.
	Monetary policy	Pro-cyclical/Coincident	The Fed raised rates in Q2, albeit at a slower pace than earlier in the cycle, and maintained a tightening bias. The rate hiking cycle is not yet over. The Fed proceeded with its tapering schedule in Q2.
	Profits	Pro-cyclical/Leading	Earnings are on track for another y/y decline in Q2, although they are performing better than expected. Margins have peaked in this cycle.