



Navigating Cross Currents: U.S. Economic Outlook & Impacts

First American colleagues recently reflected on the state of the U.S. economy and discussed potential impacts—utilizing research and insights from [City National Rochdale](#), [RBC Economics](#), and a presentation given by Gerard Cassidy, Managing Director at RBC Capital Markets. Explore key takeaways from our discussion:

Mixed Signals in the U.S. Economy

The overall economic outlook reveals a complex web of cross currents. Key factors affecting the U.S. economy include small business challenges, consumer spending patterns, and the wealth impact on overall economic health. Small business optimism is waning due to inflation, economic uncertainty, and banking turmoil. However, new business formation remains a positive factor. A recent decline in overall household wealth and home equity could impact consumer spending, a crucial driver of economic growth.

Inflation and Wage Growth Dynamics

Current inflation levels in the U.S. remain exceptionally high, primarily driven by wage growth. Although labor demand is softening, there is continued pressure on wages—which are up by 4.4% year-over-year.¹

The Fed may need to implement further interest rate hikes to cool the economy and get inflation closer to its 2% target. It is important to note that despite nominal wage

growth, high inflation can lower real wages, which can influence consumer sentiment and spending habits.

Housing Market Trends and Manufacturing Implications

The housing market has experienced recent challenges attributed to high mortgage rates. However, positive demographic trends and demand from millennials provide a favorable backdrop. While existing home sales have been volatile, it is largely dependent on geography. Arizona, for example, is experiencing high levels of construction and housing activity, but that is not the case in other parts of the country. Meanwhile, the manufacturing sector is displaying signs of improvement and potential growth in 2023, with important metrics like capacity utilization rate and train load indexes indicating positive trajectory.

Financial Health of Corporations

Corporations, for the most part, are exhibiting positive financial health with manageable debt service and strong balance sheets. However, the commercial real estate market, particularly with office buildings, faces challenges due to evolving business strategies, downsizing, and increased remote work arrangements. Although bankruptcies have seen an uptick, they remain significantly lower than during the 2008-2009 financial crisis.²

Recession Indicators and Yield Curve Considerations

Inverted yield curves, historically associated with impending recessions, raise concerns about the future economic landscape. The long-standing trend of disinflation and lower interest rates might be disrupted, indicating a potential shift from previous norms. The next three to six months will be crucial, as the bond market suggests a possible recession on the horizon.³

The current outlook for the U.S. economy is characterized by mixed signals, with various factors influencing its trajectory. While challenges such as inflation, housing market fluctuations, and geopolitical factors pose risks, government spending might contribute to a soft landing for the economy.

To effectively navigate these cross currents, it is crucial to monitor economic indicators, policy decisions, and market dynamics to make informed decisions for the future.

Sources:

¹ [RBC Economics & Thought Leadership, Economic Update, May 2023](#)

² [Cassidy, Gerard, The Outlook for the U.S. Economy in 2023, Presented at First American's Mid-Year Meeting, May 2023](#)

³ [City National Rochdale, May 2023 Market Update, Webinar Slide 18](#)

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