MAY 2023

ECONOMIC OUTLOOK

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The global economy continues to cool, but not quite as severely as it was expected to at the start of the new year. The stronger-than-expected growth in 2023 will come at the cost of weaker growth in 2024.

Labor markets remain extremely strong, despite the widely held view that recession is imminent. Both the U.S. and Europe are enjoying record low levels of unemployment. Employment remains strong even in markets where growth has turned negative. Germany for example just expected a second quarter of negative GDP growth in Q1. The country is likely in recession. But Germany also has one of the lowest unemployment rates in Europe at just 2.8%. Job openings remain strong as well. Job openings in the U.S. rose 358,000 in April to 10.1 million while layoffs eased during the month.

Strong labor markets and solid wage growth are likely to keep inflationary pressures stubbornly high. In the U.S., the personal consumption expenditures price (PCE) index, the Fed's preferred gauge of price increases, remains high. PCE excluding food and energy costs, rose 0.4% in April. Prices are up 4.7% over the last year, where they have hovered since December 2022. The euro area annual inflation rate was 7% in April, up from 6.9% in the prior month. This is down from 7.4% the previous year but still well above the ECB's target of 2%.

Last month I wrote, "Right now, the futures market suggests little chance of a rate increase at any of the five remaining meetings in 2023. In fact, the financial markets suggest a 99% chance of a rate cut by the end of the year, with the highest probability being a cumulative 75 basis point cut, starting in the third quarter and the end of the year. I am less sanguine than others. I believe there should be some expectation of at least one additional rate hike in 2023 and a lower probability of rate cuts later in the year."

In the last month the markets have caught up with my perspective. Today the futures markets are suggesting better than 50% probability of a rate hike in the June meeting. Higher rates will undoubtedly slow the economy further and likely push against further employment gains. Recent work by former Fed chair Ben Bernanke and former IMF chief economist Olivier Blanchard suggests unemployment might need to rise to 4.3% in order to cool inflation.

Confidence weakened over the last month. Consumer confidence fell sharply in the last month, erasing half of the gains since the all-time low levels of June 2022. Some of the weakness was likely the result of the uncertainty surrounding debt ceiling discussions. Business confidence has also been weak. Manufacturers report a subdued outlook in both the U.S. and Europe.

But behind the headline numbers, data provides a more subtle picture of confidence. For example, the share of consumers planning to buy vehicles over the next 6 months rose compared to last month. The share planning to buy major appliances including refrigerators, washing machines and televisions rose to a seven-month high in the last month. Household finances remain intact and declining price pressure is likely making a better time to make major purchases when compared with last year. Consumer spending rose in April after a few flat months. Business investment in the U.S. was solid in the last quarter and orders for durable goods rose sharply in April.

The monthly IPC sentiment reports point to a slowing environment, but still a growing environment. The number of firms reporting that orders are expanding is declining, but the majority of firms continue to report that orders are rising and they expect that to continue in the months ahead. At the same time, cost pressures continue to decline which is helping companies to satisfy those orders.

Leading economic indicators continue to suggest a high risk of recession this year, even if the timing continues to push later into the year.

0.8%

Consumer spending rose sharply in April, after near-flat readings in prior months.

1.4%

Orders for durables, excluding aircraft and defense, rose strongly in April. A sign businesses are still willing to spend.

-0.8%

M2 declined another 0.8% in April, the ninth consecutive monthly drop.

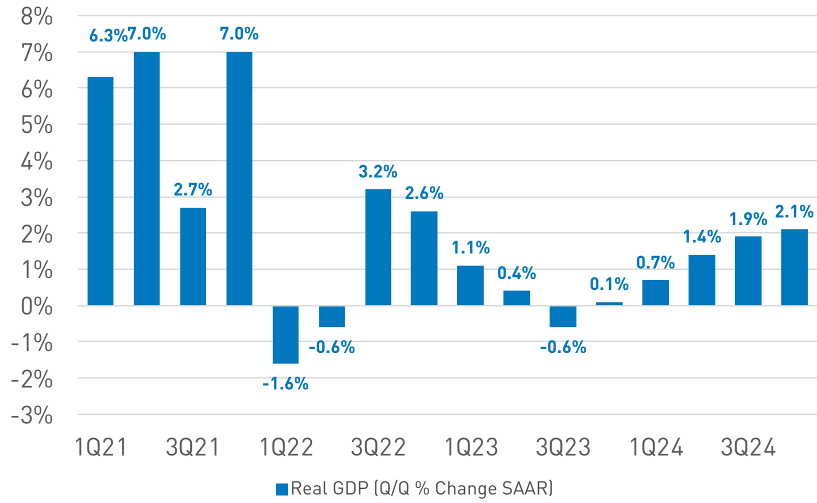
0.4%

Personal income rose 0.4% in April and is up 5.4% over the last year.

U.S. OUTLOOK

ECONOMIC GROWTH

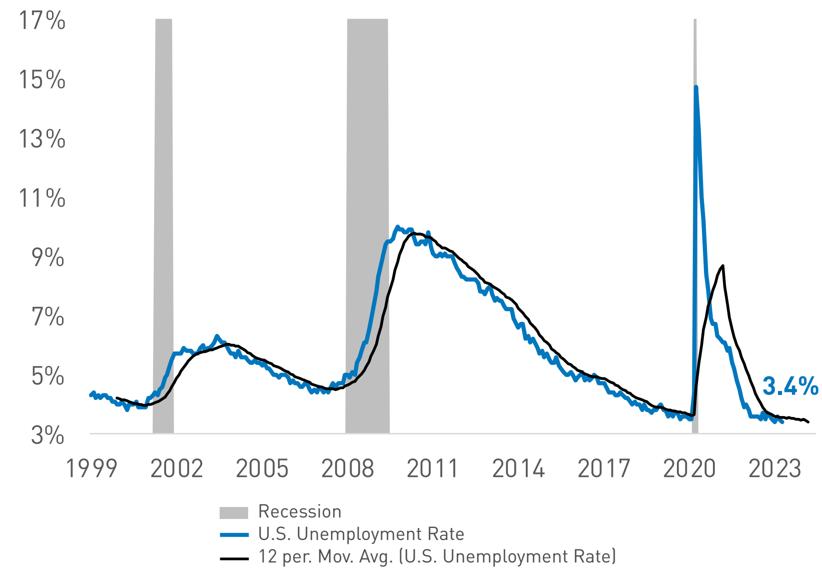
Real GDP growth for Q1 was revised higher by two-tenths of a percentage point to 1.3% annualized. Consumer spending remained the key driver of growth, increasing 3.8% during the quarter. Business investment was stronger than previously reported, rising 1.4% versus 0.7%. Net exports were revised down as was residential construction. "Core" GDP, which includes consumer spending, business investment, and home building, rose 3% (annualized) during the quarter. GDP inflation was also revised higher to 4.2% annual rate in Q1. Inflation remains stubbornly high.



	2023 ECONOMIC GROWTH (GDP % Change)	2024 ECONOMIC GROWTH (GDP % Change)	2023 EXCHANGE RATE (v. USD)	2024 EXCHANGE RATE (v. USD)
UNITED STATES	1.1%	0.7%	N/A	N/A
CANADA	0.8%	1.3%	1.32	1.28
MEXICO	1.5%	1.6%	19.20	20.00
EURO AREA	0.7%	1.2%	1.11	1.16
CHINA	5.6%	5.0%	6.77	6.51

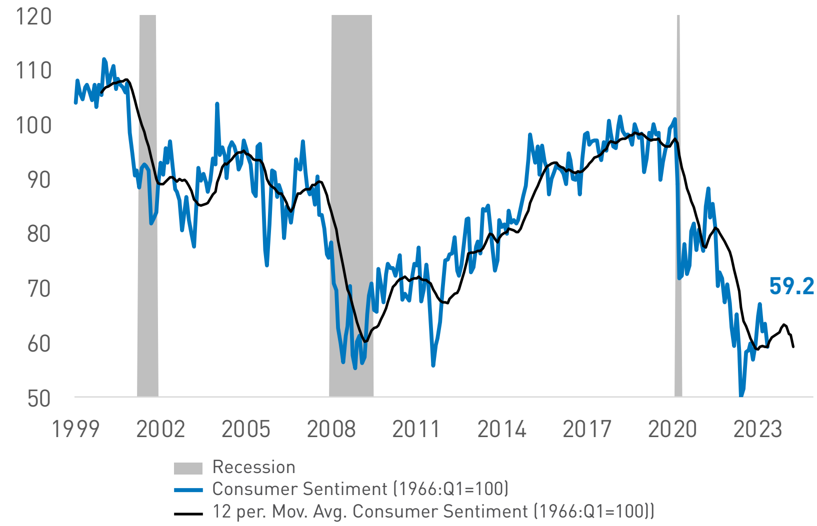
EMPLOYMENT

U.S. nonfarm payrolls increased 253,000 in April, stronger than anticipated. But prior months were revised down by 149,000 jobs. The net gain of 104,000 reveals a slowing labor market. Private sector payrolls rose 230,000 during the month. The largest increases were in education & health services (+77,000), professional & business services (+43,000, including temps), and leisure & hospitality (+31,000). Manufacturing rose 11,000 while government added 23,000 jobs. The unemployment rate declined to 3.4%, tying the lowest level since the early 1950s. Aggregate hours increased 0.2% in April and are up 2.1% from a year ago. Signs of a slowdown are likely to first show-up in hours worked.



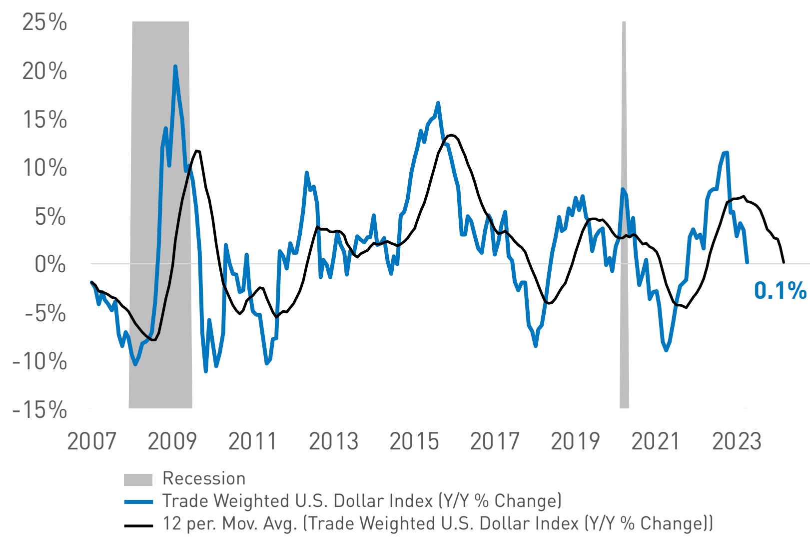
SENTIMENT

Consumer sentiment fell in May, declining nearly 7%. This fall erased half of gains recorded since the all-time historic low of last June. The debate over the debt ceiling likely contributed to some of this decline. The year-ahead economic outlook fell 17% in the last month, while long-run expectations fell 13%. While consumers are concerned about the economy, their expectations for their own income are little changed. Expectations to purchase motor vehicles and other big ticket items have improved in other surveys, which could help support the economy in the short-run.



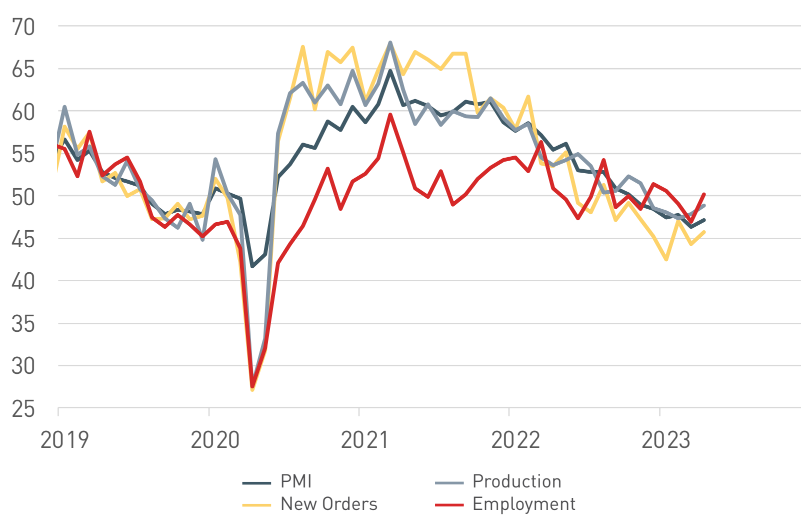
TRADE-WEIGHTED U.S. DOLLAR INDEX

The dollar rose over the last month, increasing 1.2% on a trade-weighted basis. This has been the strongest month for the dollar since September 2022. The dollar is flat over the last year but could see further increases in the coming weeks. The dollar was lifted higher by progress on the debt ceiling deal and increasing evidence that the Federal Reserve will raise interest rates further. Fed Funds futures pricing data suggests a 51% probability that the Federal Reserve will raise rates 25 basis points in June.



MANUFACTURERS' SENTIMENT (PMI)

U.S. manufacturing sentiment contracted for the fifth consecutive month in April. The manufacturing PMI rose 0.8 percentage points in the last month, but not enough to move back into expansionary territory. Likewise, the New Orders Index and the Production Index both rose in the last month, but both remain in contractionary territory. Companies are likely limiting production to better meet lower levels of demand. At the same time, manufacturers also reported a weaker Backlog of Orders Index, suggesting they are successfully working through residual backlog orders. The Employment Index edged back into expansionary territory, suggesting some firms are using a broader slowdown to hire workers in advance of a potential recovery.



U.S. END MARKETS FOR ELECTRONICS

U.S. industrial production rose 0.5% in April, though revisions to prior months erased the increase. The manufacturing sector rose a sharp 1% during the month.

AUTOMOTIVE PRODUCTS

Auto production jumped a strong 9.3% during April. Non-auto manufacturing rose 0.3%. Auto production is up 8.5% in the past year.

TRANSIT EQUIPMENT

Transit equipment production rose 3.6% during the month. The sector is up 6.4% over the last year.

INFORMATION PROCESSING & RELATED EQUIPMENT

Production in the information processing and related equipment sector rose 2.2% during the month. The sector is down 1.2% over the last year.

INDUSTRIAL & OTHER EQUIPMENT

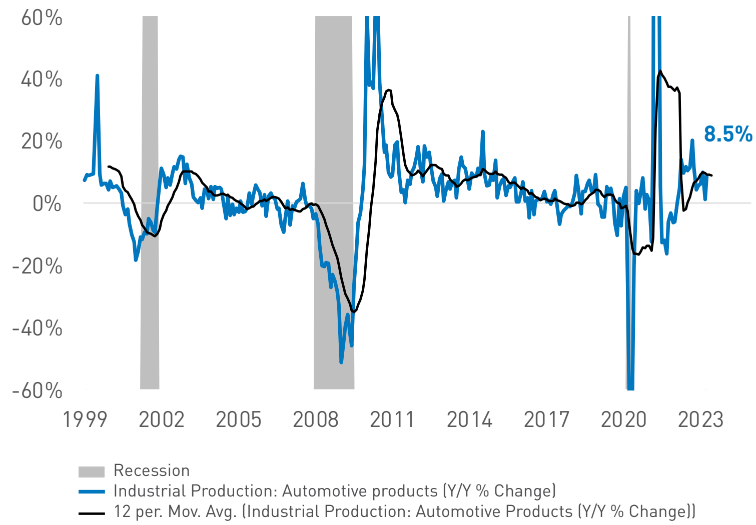
The industrial sector was flat last month. The sector is down 1.2% over the last year.

DEFENSE & SPACE EQUIPMENT

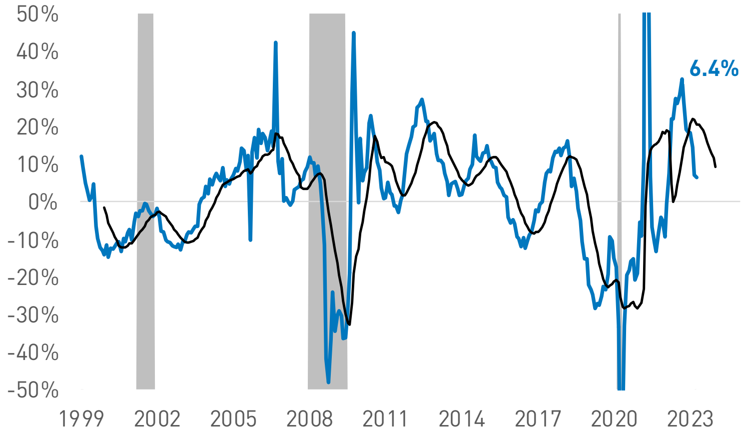
The defense and space equipment segment rose 1.1%. The sector is up 0.2% over the last year.

Manufacturing

Automotive Products

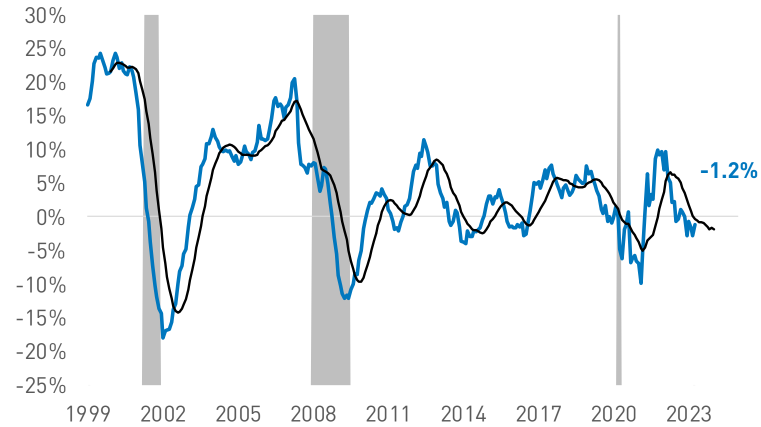


Business Transit Equipment (Y/Y % Change)



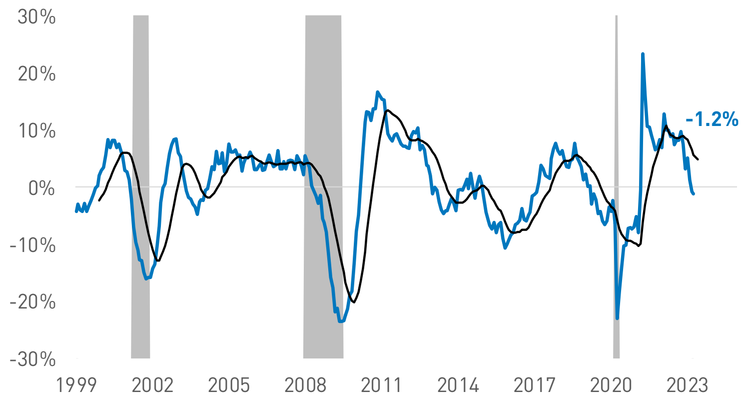
Recession
Industrial Production: Business Transit equipment (Y/Y % Change)
12 per. Mov. Avg. (Industrial Production: Business Transit equipment (Y/Y % Change))

Information Processing & Related Equipment (Y/Y % Change)



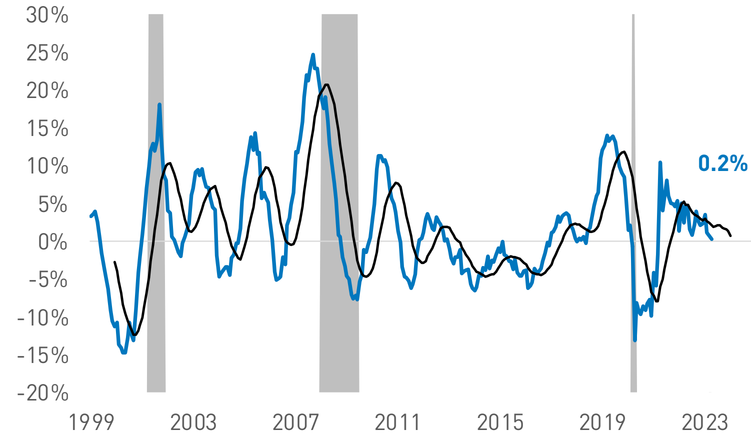
Recession
Industrial Production: Information processing and related equipment (Y/Y % Change)
12 per. Mov. Avg. (Industrial Production: Information processing and related equipment (Y/Y % Change))

Industrial & Other Equipment (Y/Y % Change)



Recession
Industrial Production: Industrial and other equipment (Y/Y % Change)
12 per. Mov. Avg. (Industrial Production: Industrial and other equipment (Y/Y % Change))

Defense & Space Equipment (Y/Y % Change)

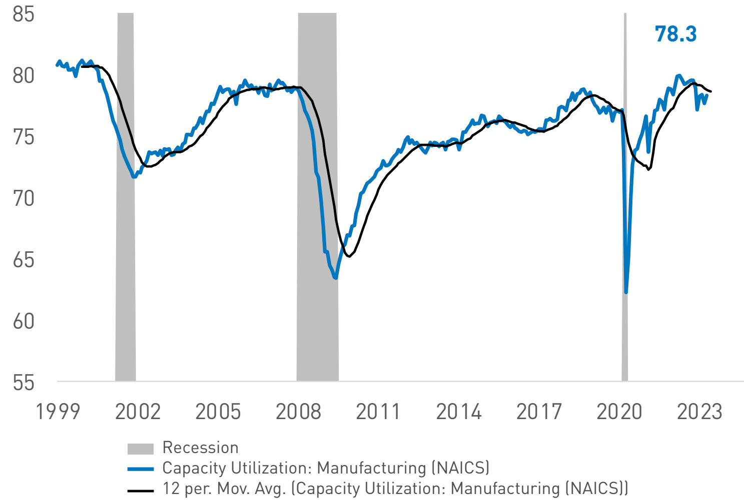


Recession
Industrial Production: Defense and space equipment (Y/Y % Change)
12 per. Mov. Avg. (Industrial Production: Defense and space equipment (Y/Y % Change))

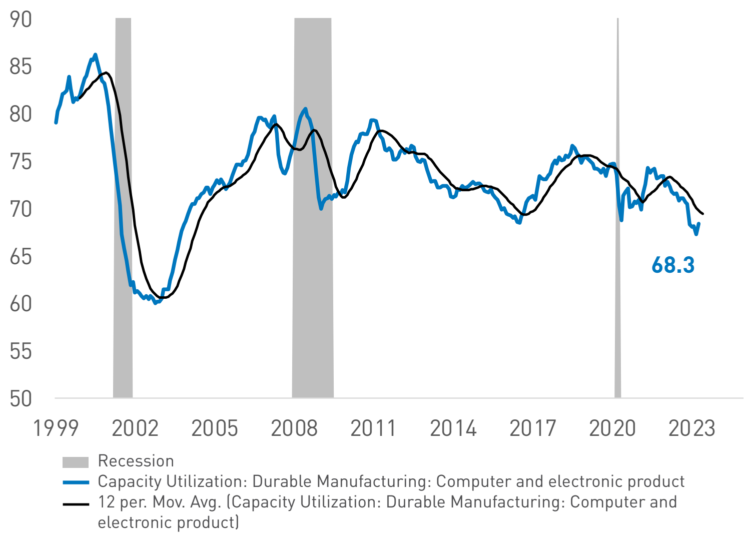
MANUFACTURING CAPACITY UTILIZATION

Overall capacity utilization rose to 79.7% in April from 79.4% in the prior month. Manufacturing capacity rose to 78.3% in March from 77.6%. Computer and electronic production capacity utilization rose 1.7% to 68.3%. Electrical equipment, appliances and components utilization fell 0.1% to 76.3%. Utilization in the auto sector rose by a strong 9.1% to 77.5%. Capacity utilization in the aerospace and miscellaneous transportation equipment sector declined to 66.7%.

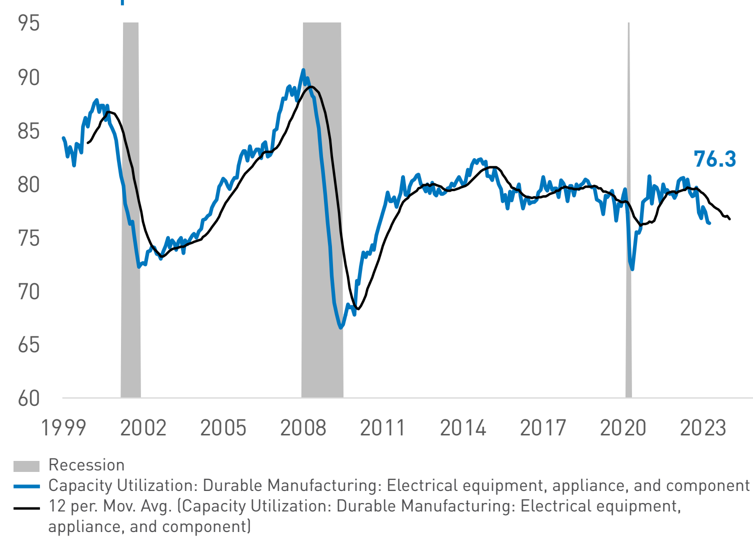
Manufacturing (NAICS)



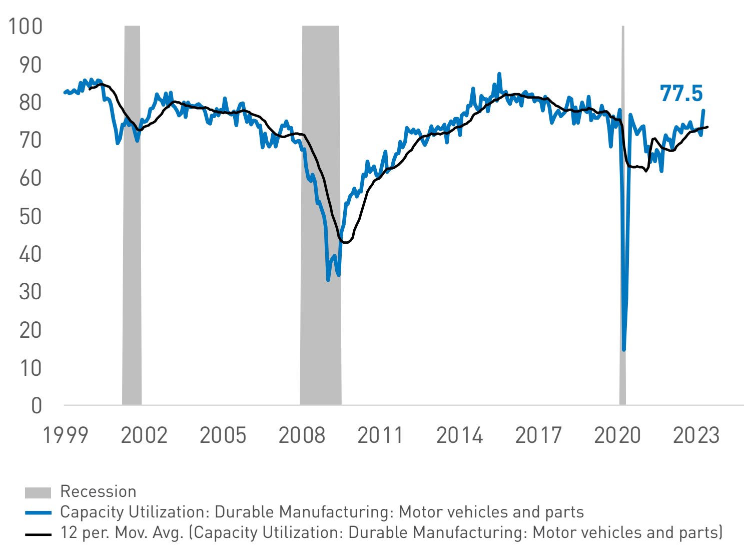
Computer & Electronic Product



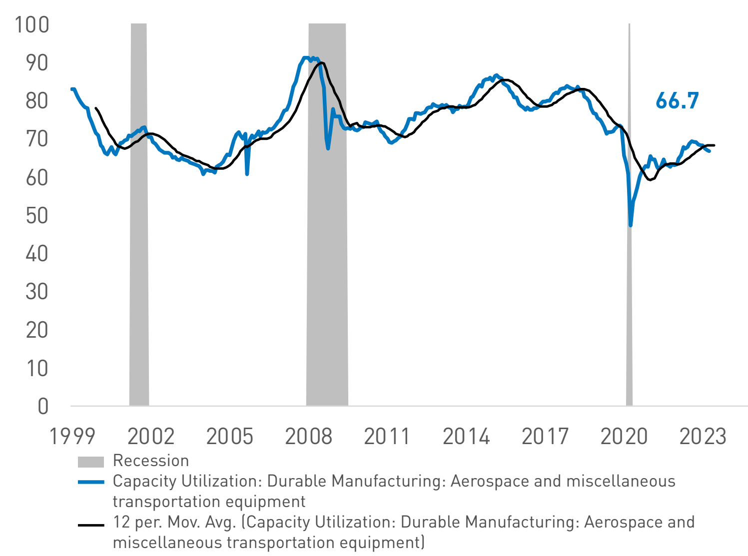
Electrical Equipment, Appliance, & Component



Motor Vehicles & Parts



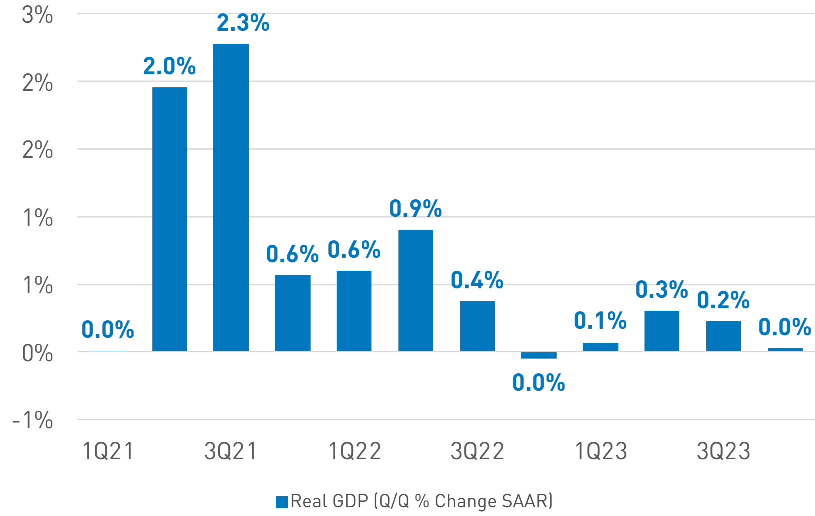
Aerospace & Miscellaneous Transportation Equipment



EUROPEAN OUTLOOK

ECONOMIC GROWTH

The European economy grew during the first quarter of the year, edging up 0.1% in the euro area and up 0.2% in the EU. EU growth was revised down one-tenth of a percentage point. The economy is up 1.3% in the Euro area and 1.2% in the EU compared to the first quarter of last year. Poland recorded the highest increase compared to last quarter, growing 3.9%. Portugal rose 1.6% and Cyprus is up 0.8%. Spain, Italy, and Latvia each grew 0.5%. The Netherlands fell 0.7%, Austria declined 0.3%, and Ireland fell 2.7%. Hungary, Lithuania, and Germany all regarded two consecutive quarters of negative GDP growth, an often used barometer that indicates recession. Germany, Lithuania, Hungary, and Czechia all report year-over-year contraction for the first quarter.

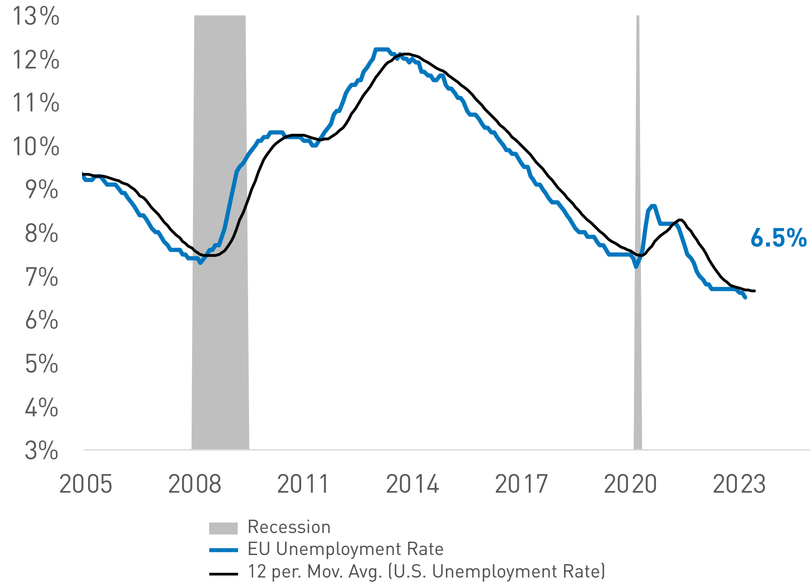


	Q/Q PERCENTAGE CHANGE				Y/Y PERCENTAGE CHANGE			
	2022Q2	2022Q2	2022Q4	2023Q1	2022Q2	2022Q3	2022Q4	2023Q1
EURO AREA	0.9%	0.4%	0.0%	0.1%	4.4%	2.5%	1.8%	1.3%
EU (27)	0.7%	0.4%	-0.1%	0.2%	4.4%	2.6%	1.7%	1.2%
GERMANY	-0.1%	0.5%	-0.5%	-0.3%	1.7%	1.4%	0.8%	-0.5%
FRANCE	0.5%	0.1%	0.0%	0.2%	4.2%	1.0%	0.4%	0.8%
ITALY	1.1%	0.4%	-0.1%	0.5%	5.1%	2.5%	1.4%	1.8%
SPAIN	2.5%	0.4%	0.4%	0.5%	7.7%	4.8%	2.9%	3.8%

	2023 ECONOMIC GROWTH (GDP % CHANGE)	2024 ECONOMIC GROWTH (GDP % CHANGE)
EURO AREA	0.7%	1.2%
GERMANY	0.2%	1.2%
FRANCE	0.5%	1.1%
NETHERLANDS	1.0%	1.2%

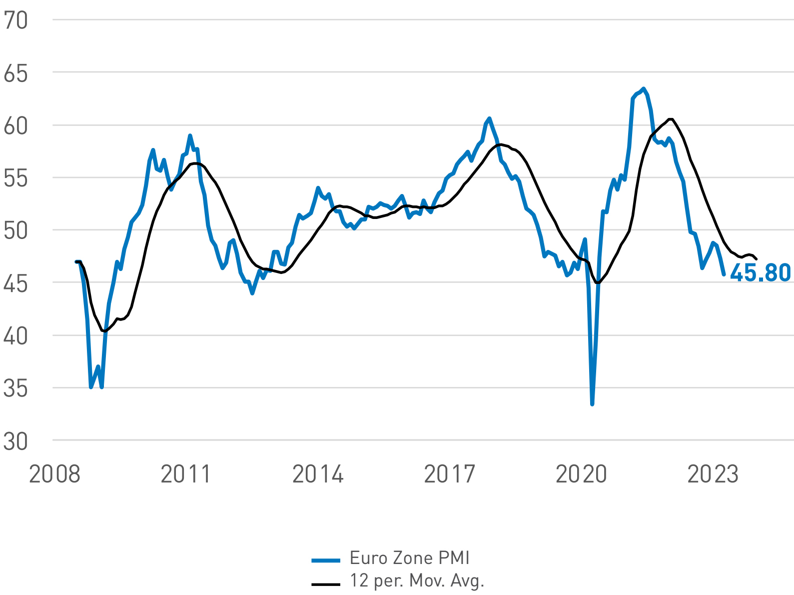
EMPLOYMENT

The unemployment rate for the euro area fell one-tenth of a percentage point to 6.5% in March and the EU unemployment rate held steady at 6%. Unemployment in Europe is at the lowest levels in 30 years. Czechia saw its unemployment rate increase to 2.6%, but remains the lowest in Europe. Poland and Germany follow at 2.8%. Germany's unemployment rate remains extremely low despite two consecutive quarters of negative growth. Tight labor markets might lead to pay increases which could set-up a difficult challenge for the ECB as it works to contain inflation.



MANUFACTURERS' SENTIMENT (PMI)

The eurozone manufacturing PMI fell to 45.8 in April. This is the 10th consecutive month the index has fallen below 50, separating contraction and expansion. The decline suggests the fastest deterioration in manufacturing conditions since May 2020. Manufacturing production levels also fell in April for the first time this year. New factory orders across the euro area fell at the strongest pace in four months. Driving production levels lower is weakening demand. New orders fell for the 12th consecutive month. The rate of decline is the fastest in four months. International demand also weakened during the month.



E.U. END MARKETS FOR ELECTRONICS

Manufacturing output fell in March, decreasing a sharp 5.9% from the prior month and 1.7% from the year-ago period.

COMPUTER, ELECTRONIC, & OPTICAL PRODUCTS

The electronics industry, which includes categories such as components, loaded boards, computers, communications equipment, and consumer electronics, fell 35.3% (month-on-month) in the last month. The sector is down 30.1% over the last year.

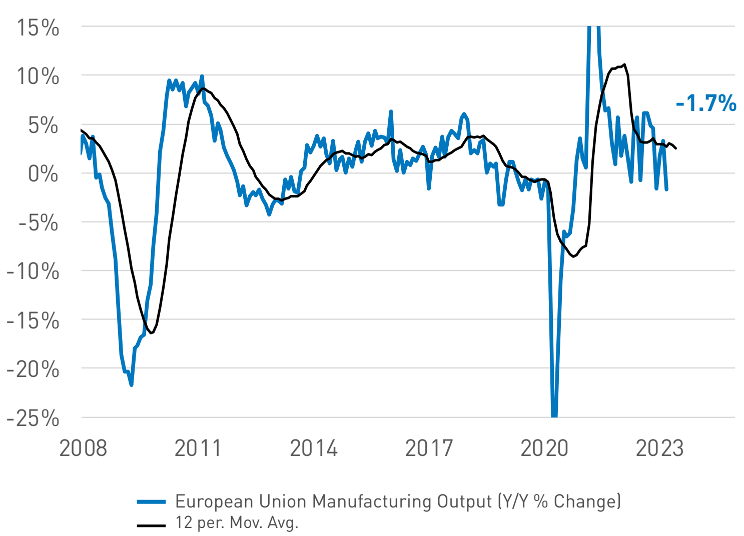
MOTOR VEHICLES

Motor vehicle manufacturing output declined 3.2% (month-on-month) during March. The sector is up 49.4% over the last year.

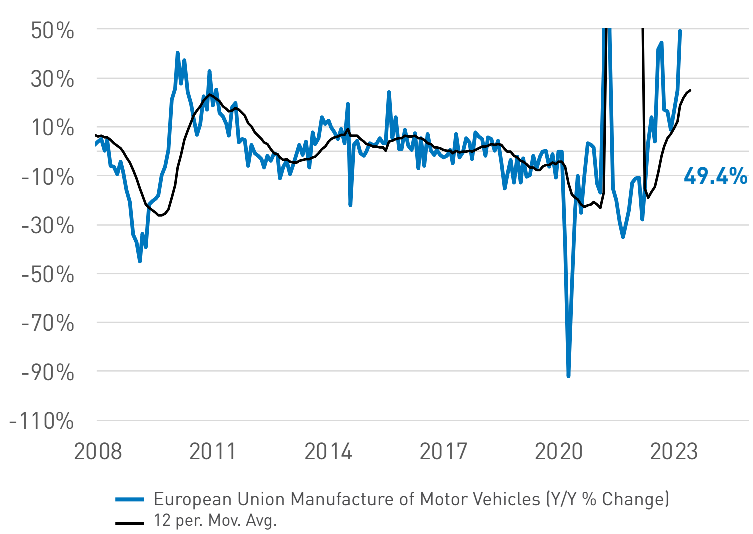
AIR & SPACECRAFT & RELATED MACHINERY

The air and spacecraft manufacturing sector rose 1.4% in February. The sector is up 13.1% over the last year.

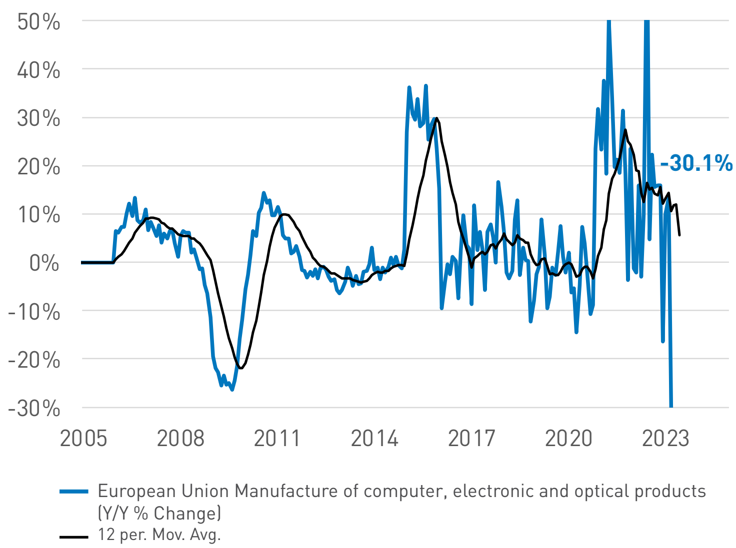
E.U. Manufacturing Output



E.U. Manufacture of Motor Vehicles



E.U. Manufacture of Computer, Electronic & Optical Products (Y/Y % Change)



E.U. Manufacture of Air & Spacecraft & Related Machinery (Y/Y % Change)