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### Macroeconomic Update

# The Economic Cycle Is Reaching a Turning Point

Leading signals are flashing red as the debt ceiling takes center stage.

First quarter real gross domestic product (GDP) growth was solid, with GDP excluding inventory swings growing at 3.4 percent annualized. The details showed that growth was bolstered by a sizable contribution from private consumption, which bounced back after a weak fourth quarter. Solid economic momentum was corroborated by other data, with the April purchasing manager indexes registering their strongest readings in several months. The labor market continues to hold up, with payroll job gains averaging 284,000 this year and the unemployment rate staying low at 3.4 percent as of April.

Below the surface, however, concerning signals are mounting. Jobs in cyclically sensitive industries are now falling, the leading economic index is in recessionary territory, continuing jobless claims have risen by 40 percent, and surveys of hiring plans point to a further slowdown in jobs growth. And this is all before the impact of a looming bank credit crunch has fully been felt and had time to flow through to the economic data.

Beyond the headwinds brought about by banking sector stress, we see several fundamental reasons to expect an economic slowdown as many growth tailwinds are also fading: the backfilling of jobs is winding down as the labor shortage eases; a construction backlog is clearing which should lead to headcount reduction; the growth boost from warm winter weather is over; excess savings

are being drawn down, leading to rising reliance on borrowing to maintain consumption; and services consumption is back to trend. We still see a recession beginning in the second half of this year.

We do not expect the coming recession will be overly severe, as growth will likely be supported by housing bottoming as mortgage rates fall, auto production continuing to rise due to a multiyear backlog, and a better global growth picture aided by China's reopening. Encouraging news on inflation means the Fed is likely on hold for the next few months as it assesses the cumulative impact of its rate hikes. Finally, the needed labor market rebalancing has so far been painless—with job openings down, quits down, and the labor force participation rate up—signaling that the ultimate increase in unemployment needed may be smaller than it appeared to be one year ago.

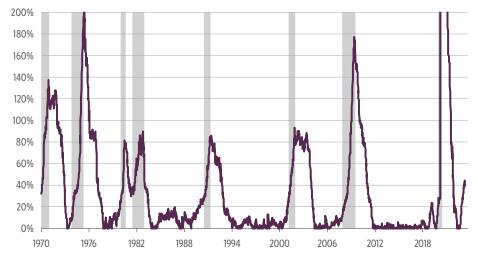
Markets are now turning their focus on the debt ceiling drama unfolding in Washington. While we don't expect the worst-case scenario, the ongoing uncertainty and posturing around the deadline will keep investors on edge with tail risk becoming more elevated as the date approaches. A resolution or kicking of the can would be met with positive market reaction.

By Brian Smedley, Maria Giraldo, and Matt Bush

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## Jobless Claims Remain at Low Levels But are Rising Quickly

Continuing Jobless Claims, Increase from Trailing Three-Year Low



Source: Guggenheim Investments, Bloomberg. Data as of 4.29.2023.

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