

Recession or No Recession? That is the Question

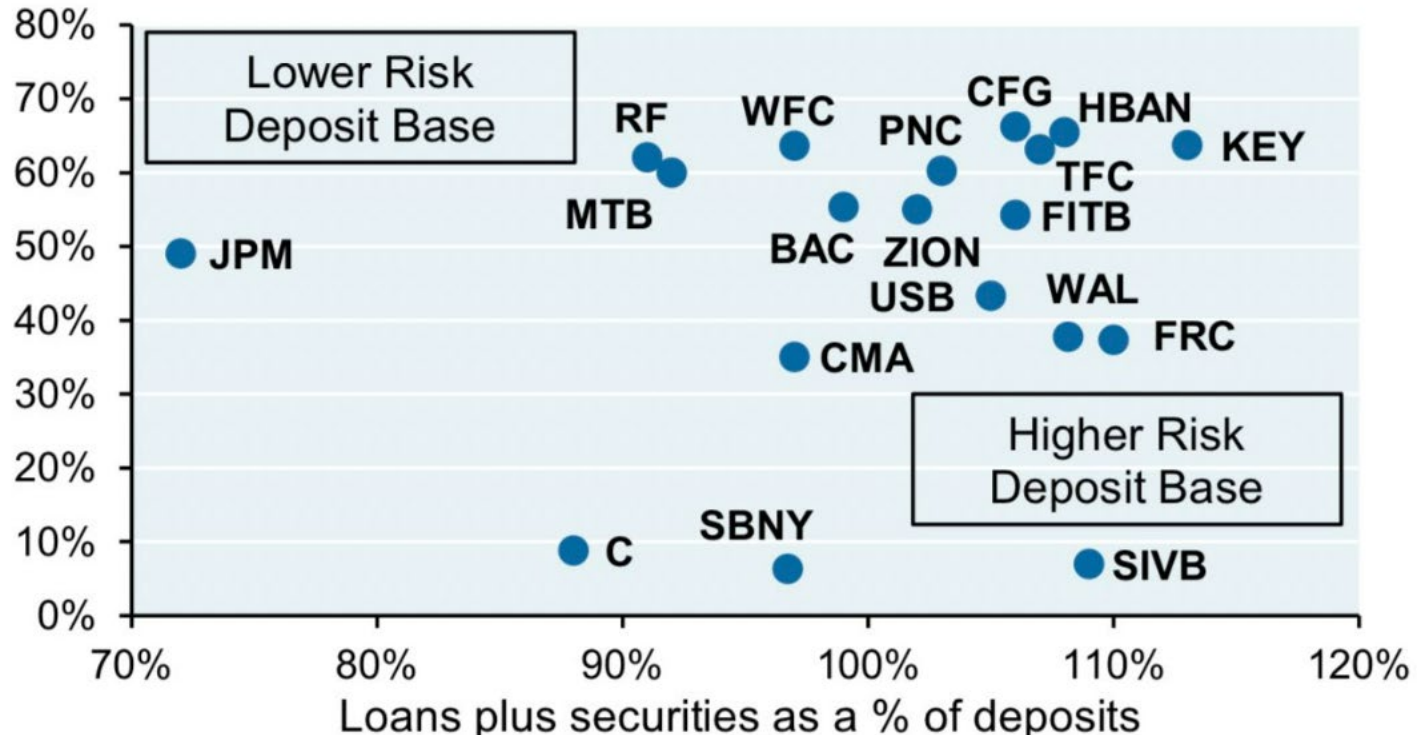
The UCLA Anderson Forecast Team

March 14, 2023

But first... Silicon Valley Bank

US bank loan-to-deposit ratios

Estimated retail deposit share of total deposits



Source: JPMAM. Securities include Hold to Maturity and Available for Sale categories. Q3 2022.

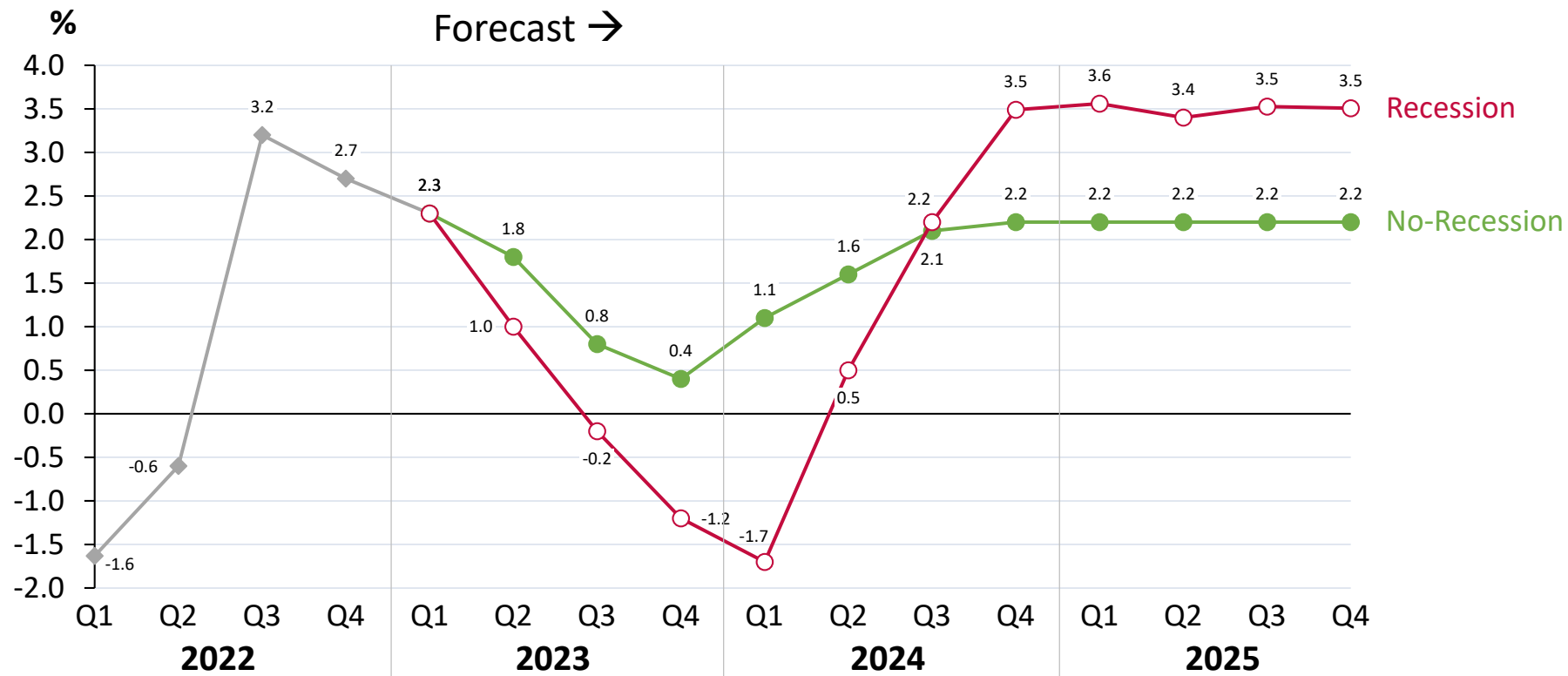
Federal Reserve Policy Uncertainty = Forecast Uncertainty

In light of the cumulative tightening of monetary policy and the lags with which monetary policy affects economic activity and inflation, the Committee slowed the pace of interest rate increases over its past two meetings. We will continue to make our decisions meeting by meeting, taking into account the totality of incoming data and their implications for the outlook for economic activity and inflation...The latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated. If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes.

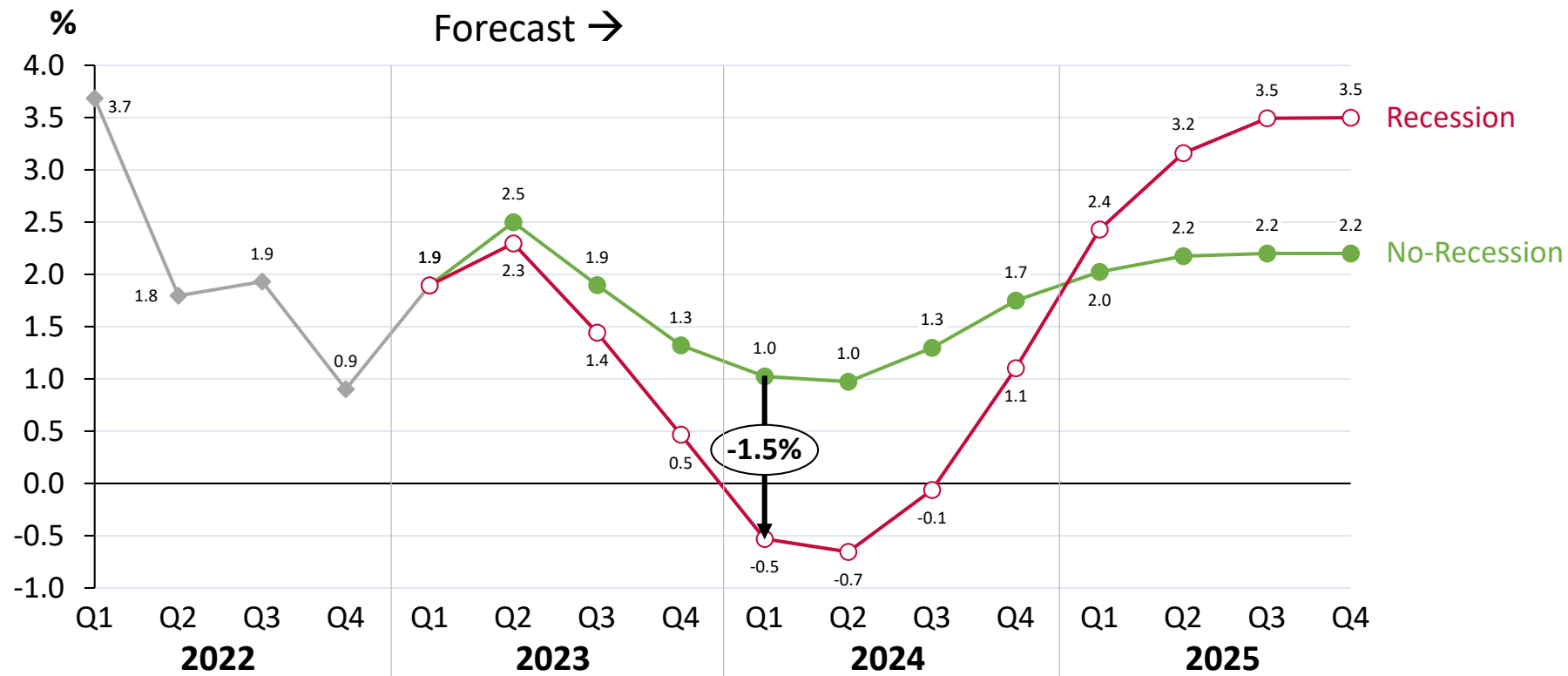
The Two Scenarios

Scenario:	Recession	No Recession
Federal Funds Rate	5.75-6.0%	5.0-5.25%
Economic growth	Contraction in 23Q3, 23Q4, and 24Q1 (deepest), then growth	Slowdown but no contraction in 23Q3, 23Q4, or 24Q1
Peak unemployment rate	4.7% (mild recession)	Eases up to 3.8%
Peak 30Y fixed mortgage rates	7.5%	6.8%
Housing starts	1.2M in '23	1.4M in '23
Autos	15.1M in '23	16.8M in '23
Inflation	Stickier, requires recession to come down	Eases down more quickly on its own
Defense spending	Up	Up
Infrastructure spending	Up	Up
Government shutdown	Not modeled	Not modeled
WTI oil prices	\$65 pb by '24	\$75 pb by '24

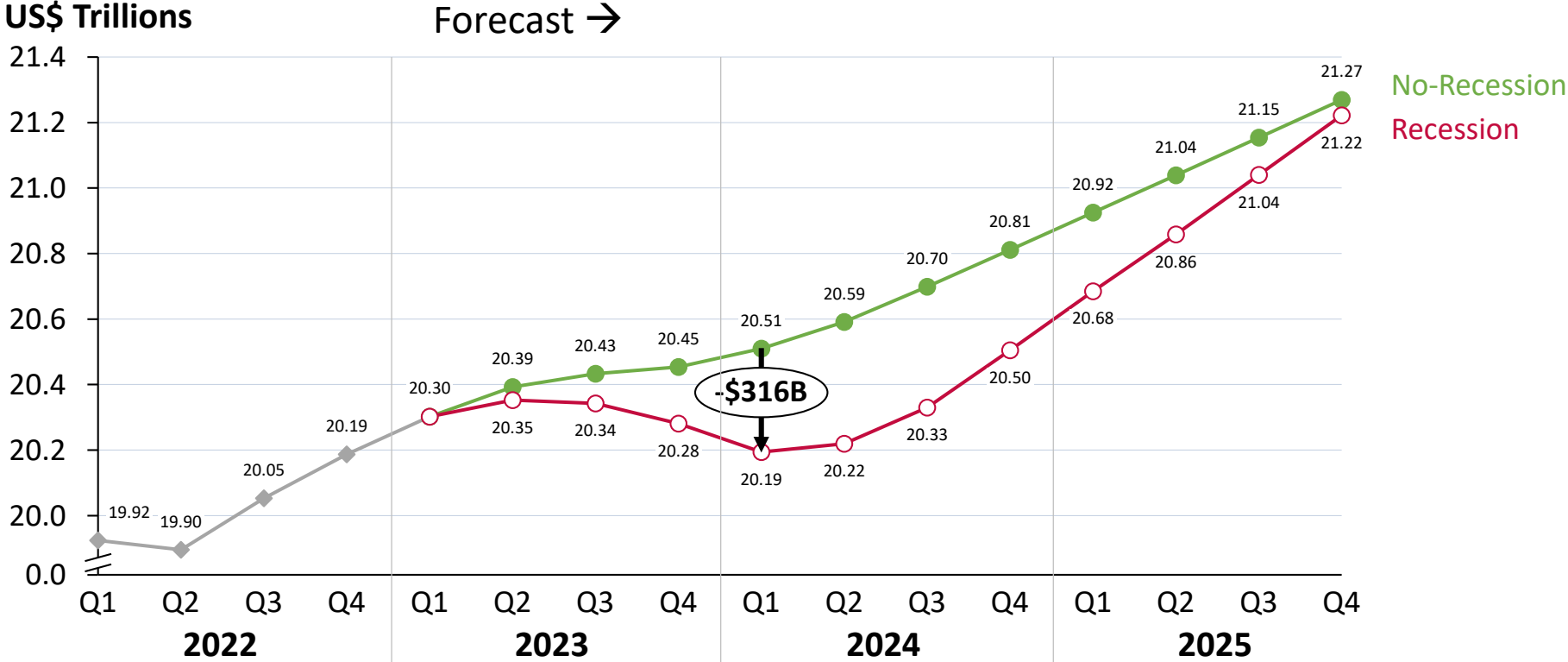
Quarterly Real GDP Growth, Annual Rates



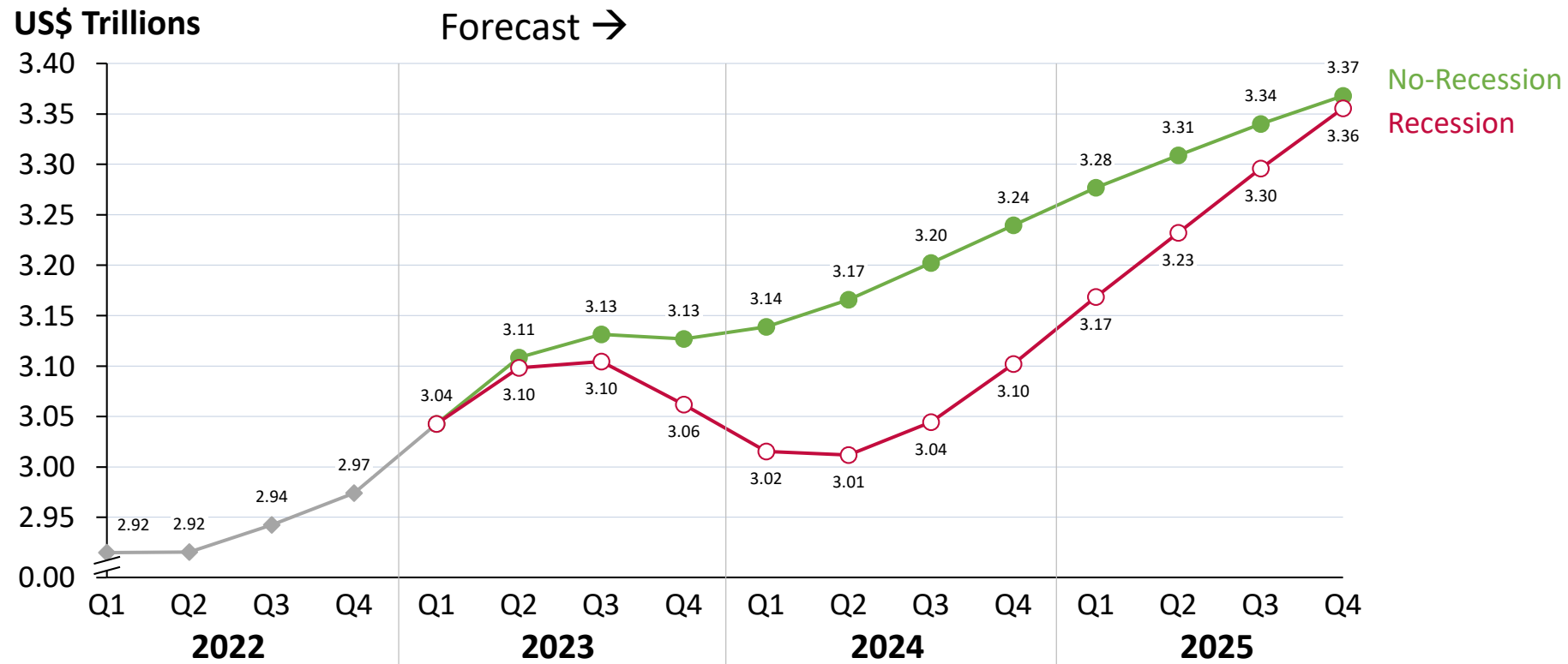
Quarterly Real GDP Growth, Year-Over-Year



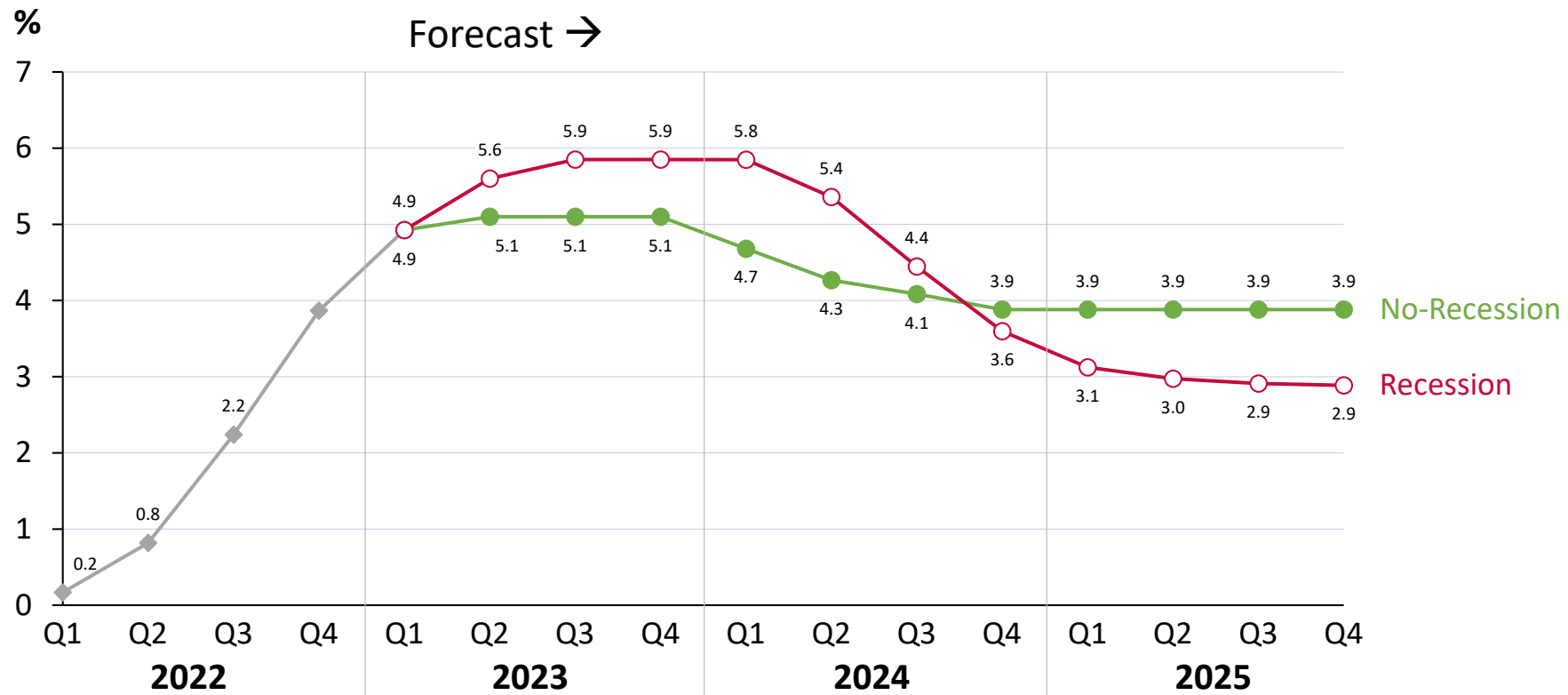
Real GDP Levels, US\$ Trillions, Chained 2012 Prices



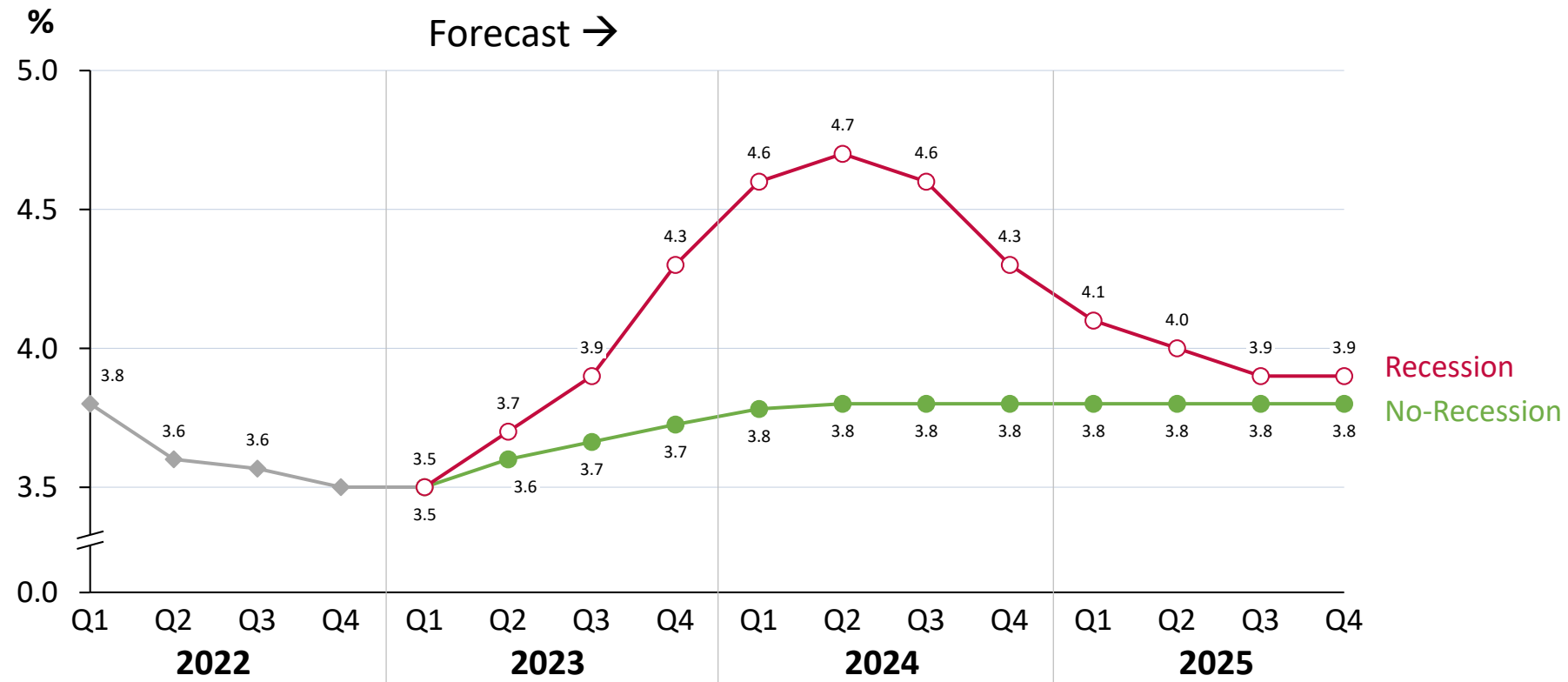
Real Business Fixed Investment, US\$ Trillions, Chained 2012 Prices



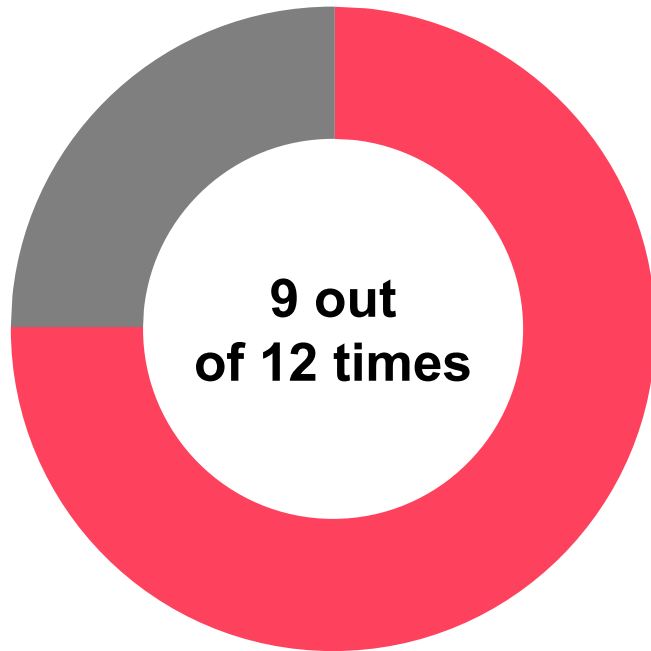
Federal Funds Target Rate



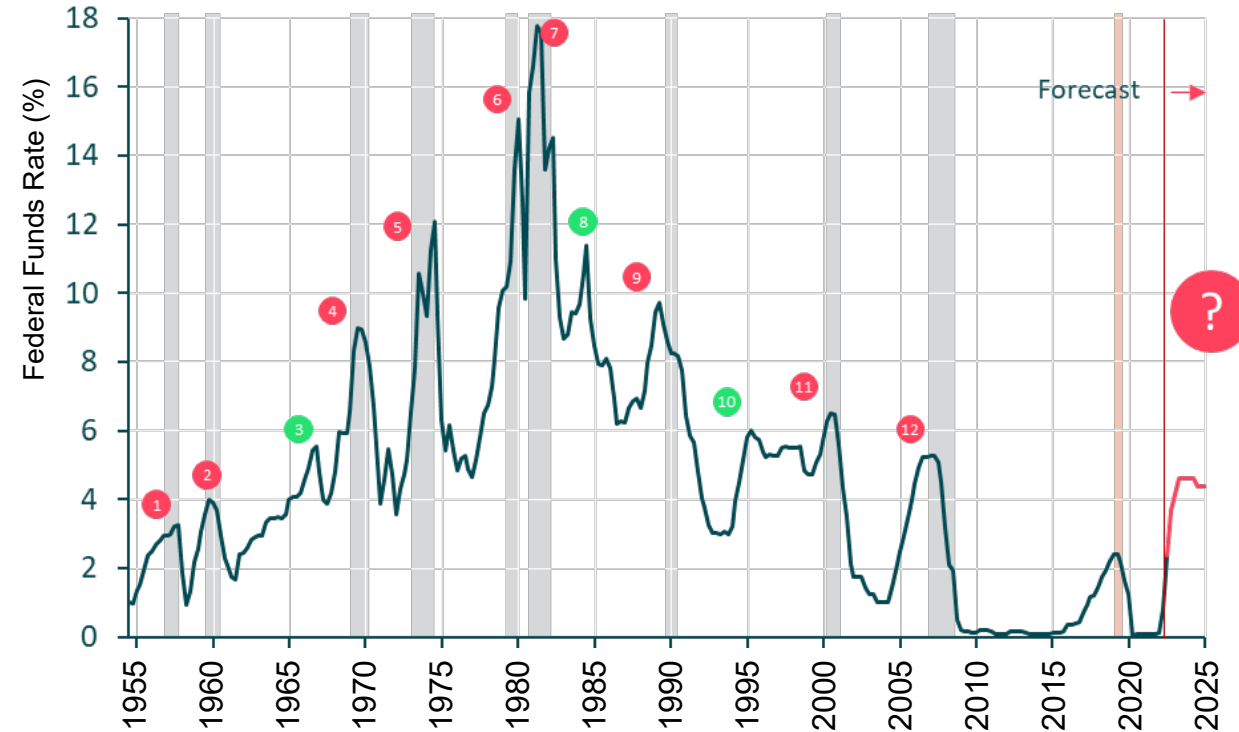
Unemployment Rate



The Fed is increasing rates to combat high inflation

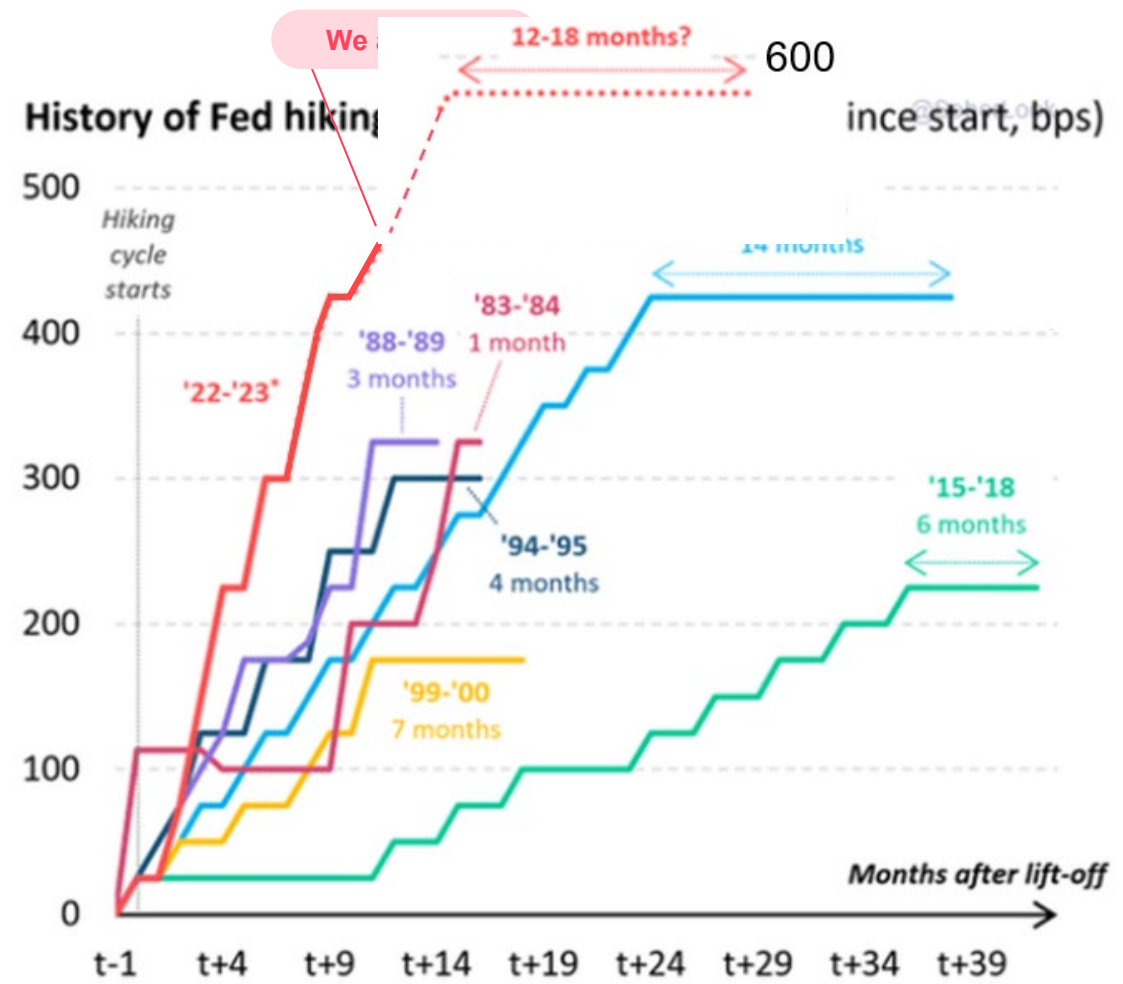


Federal Reserve tightening cycles almost always end in recessions



- Higher interest rates followed by recession
- Higher interest rates not followed by recession
- Recession

Will this time be different?

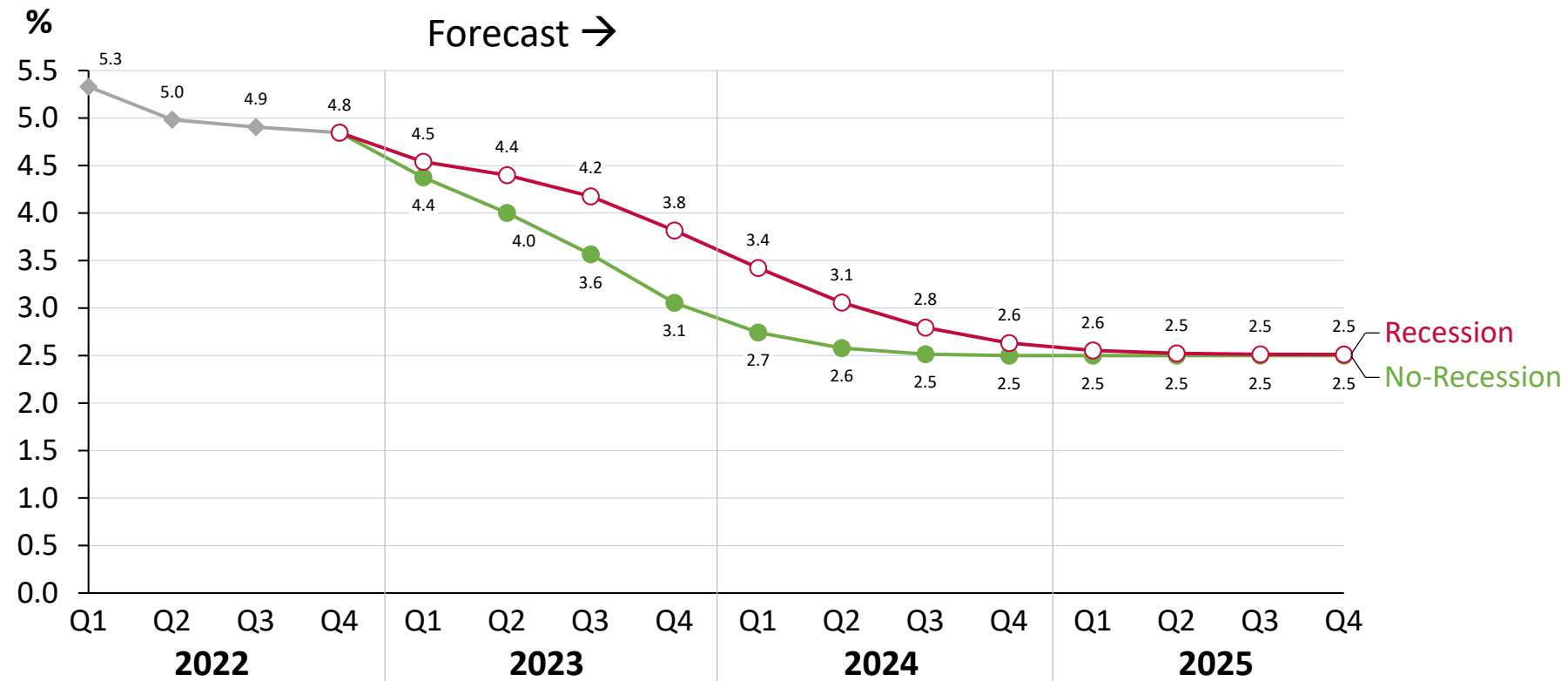


*Dotted line based on dots in Sep '22 FOMC projections; **Hiking cycle path stops just before the Fed starts cutting rates and the months indicate time that the terminal rate is held constant
 Source: Bloomberg, Vanda

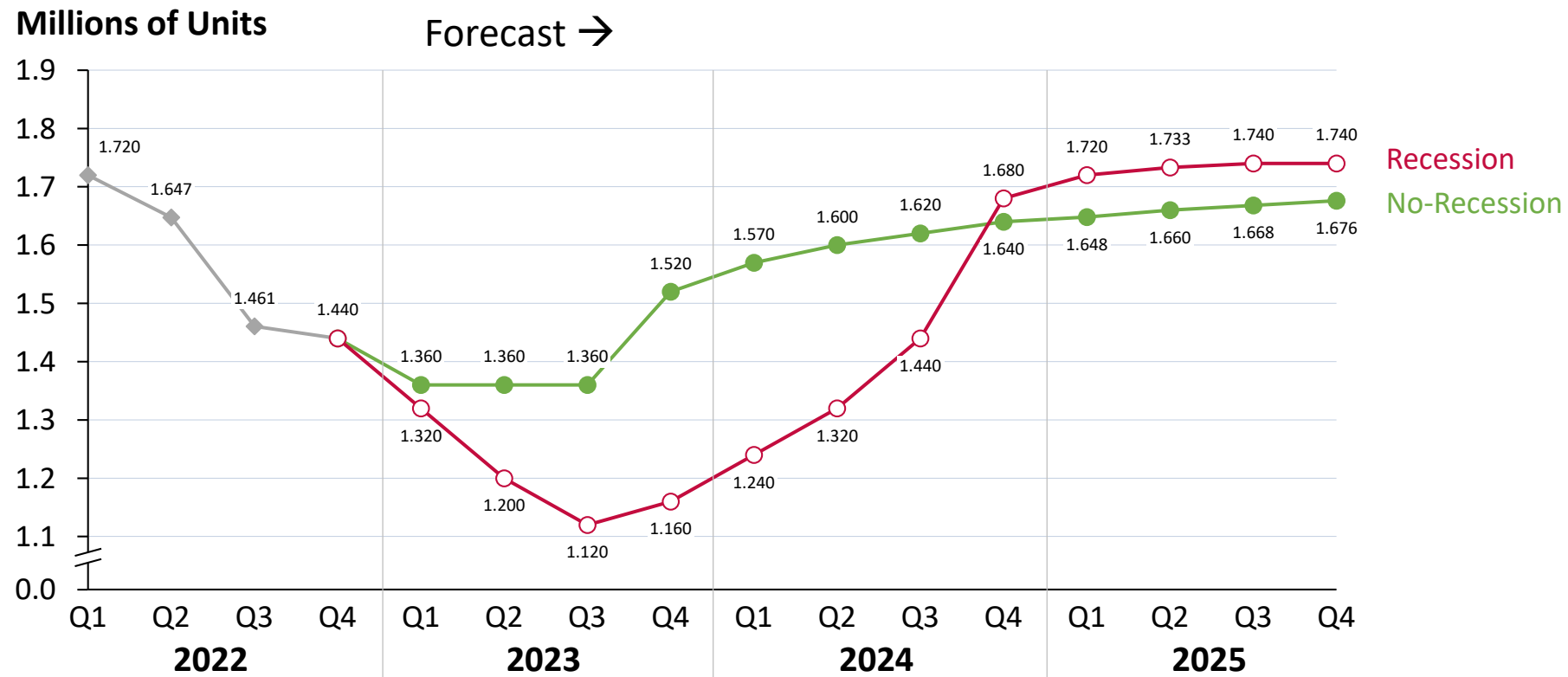


Not only is this the most aggressive hiking cycle since '83, the Fed is likely to keep rates higher for longer

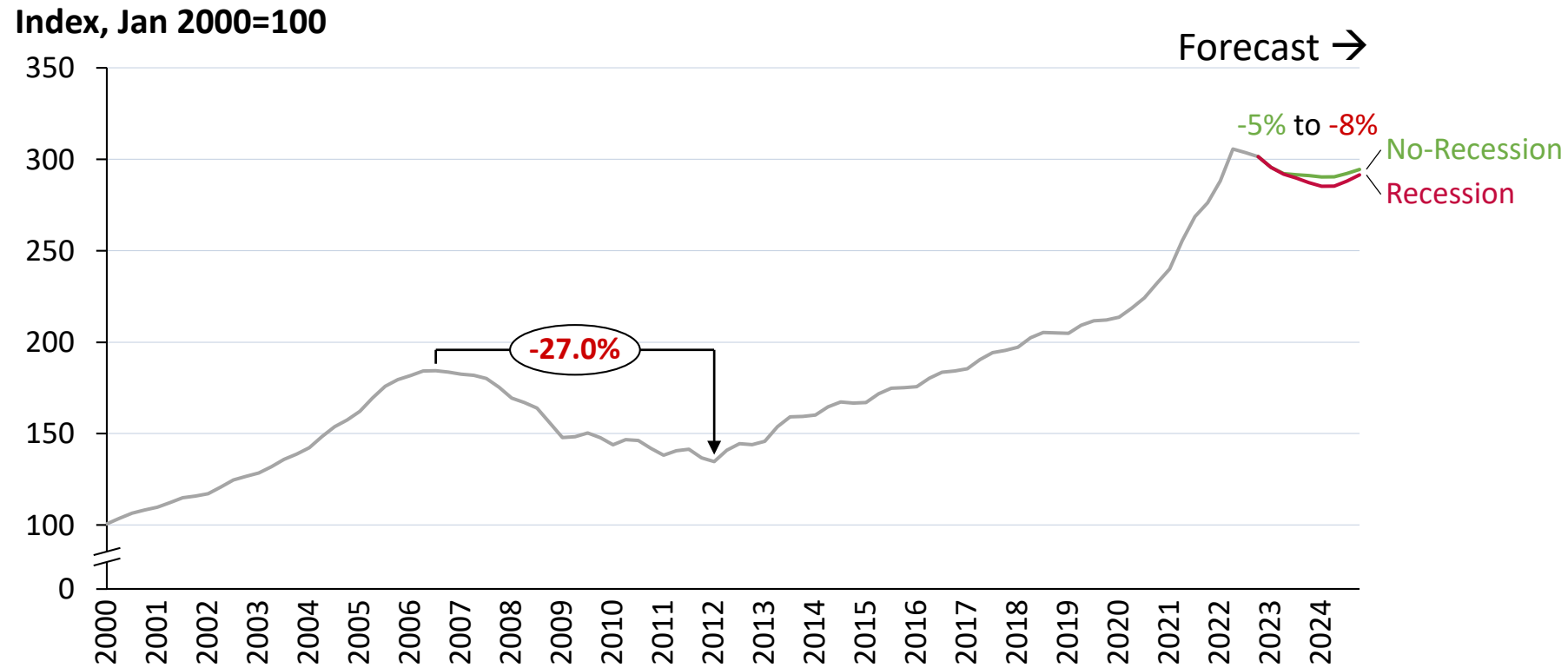
Core PCE Inflation, % YOY



Housing Starts, Millions of Units SAAR



Case Shiller Home Price Index



Recession scenario represents a comparatively mild and short recession

