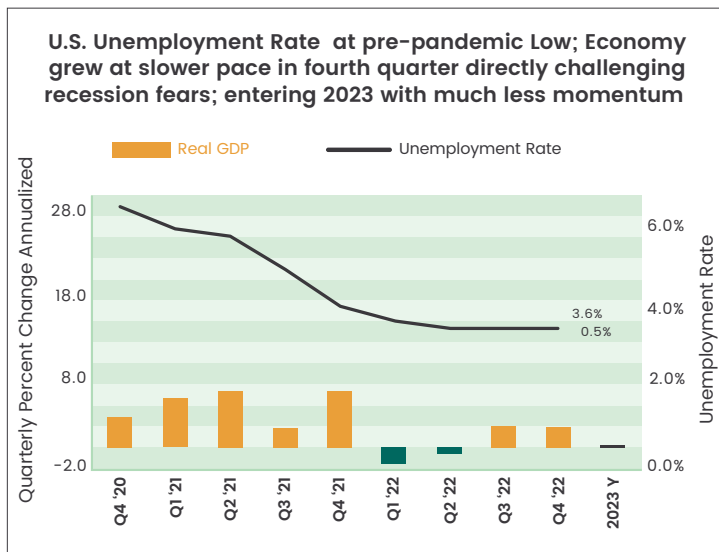




4th Quarter 2022 Economic Update

US Economy Growing but Slowing– Beleaguered by Inflation and High Interest Rates

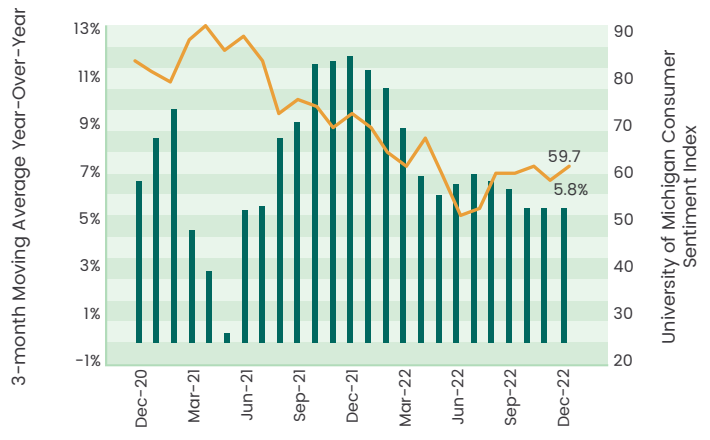
Economic conditions for the beginning of 2023 are like the conditions that prevailed during the fourth quarter of 2022. The economy is in a late business cycle expansion that includes ongoing inflation, slowing of production and a tightening of monetary and financial conditions. Business and consumers alike are caught on a cusp between the dangers of inflation and fears of a recession. – Robert Gunther



The U.S. economy grew by a 2.9% annual rate in the fourth quarter, expanding on the 3.2% growth in the third quarter. High inflation and rising interest rates were key forces that caused a loss in momentum. Consumer spending helped drive the fourth quarter gain along with inventories. Government purchases, net exports, and service-sector spending were bright spots in the fourth quarter, with the housing market providing a sizable drag on growth. Goods consumption rebounded somewhat, providing a positive contribution to real GDP growth for the first time in 2022.

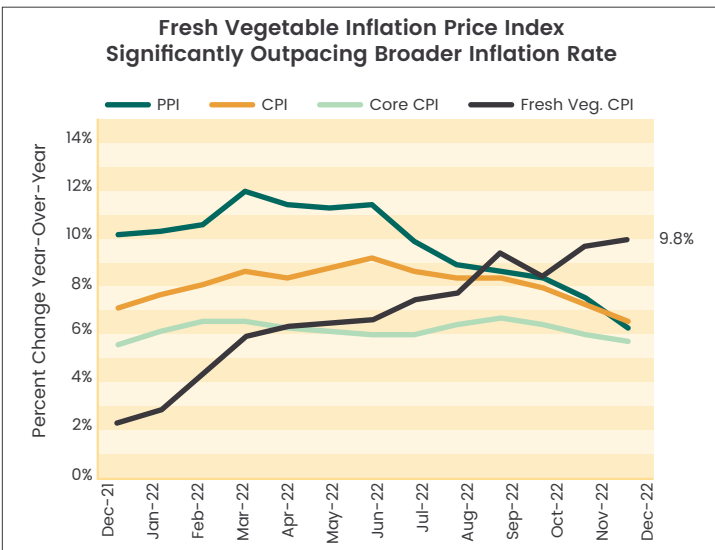
Inflation is easing but remains near multi-decade highs and well above the 2.1% average in the three years before the pandemic. Inflation as measured by the personal consumption expenditures price index, the Fed’s preferred inflation measure, eased in December, declining to its slowest annual pace in over a year to 5.0%. The core PCE index which excludes volatile food and energy prices rose 4.4% in December from a year earlier.

Pace of Fresh Fruit and Vegetable spending slowed as consumer sentiment remains at near historical low



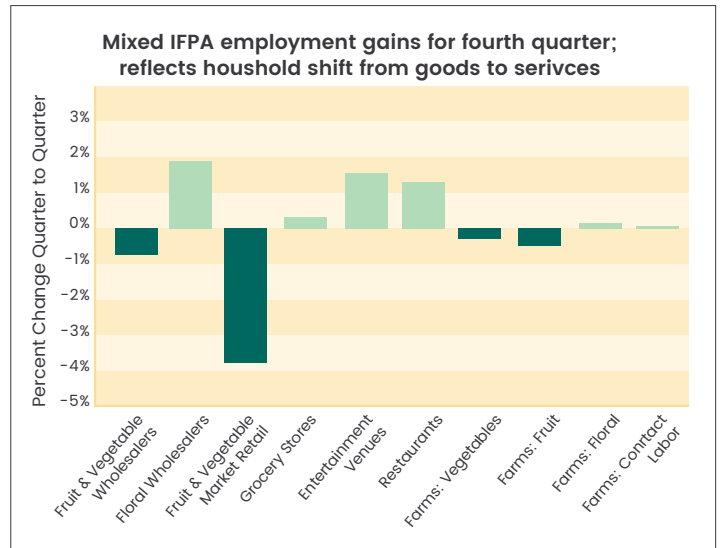
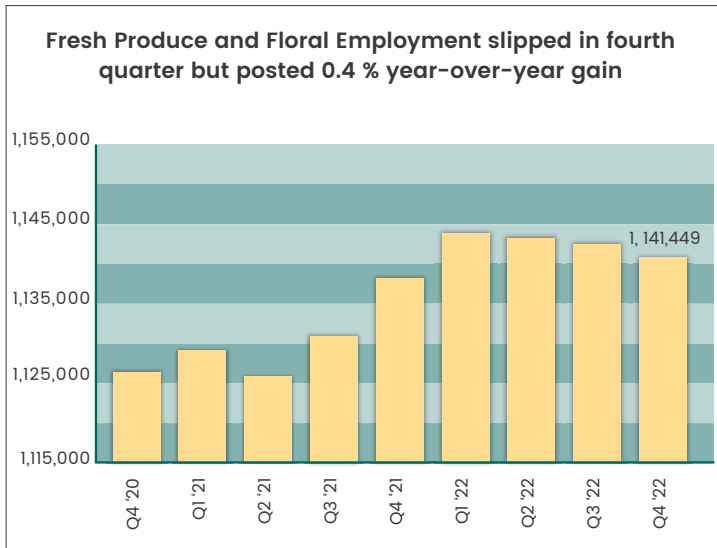
The Federal Reserve Bank of New York December 2022 Survey of Consumer Expectations shows that household inflation expectations continued to decline in the short term but were unchanged over the medium term. The current outlook for inflation one year ahead declined to 5.0% from 5.2% in November. The three-year-ahead inflation expectations was unchanged at 3.0%.

Fresh Vegetable Inflation Price Index Significantly Outpacing Broader Inflation Rate



The Fed’s efforts to take what Chairman Jerome Powell calls “forceful action” to fight inflation by tightening monetary policy has gone on for nearly a year and the Fed in December raised its benchmark interest rate another half a percentage point to a range between 4.25% and 4.50% - the highest level in 15 years. While monetary tightening hasn’t kept consumers from spending, it is having a more immediate impact on interest-sensitive sectors such as residential real estate and business structures. Home building declined at a 26.7% annual rate in the fourth quarter, the seventh consecutive quarterly drop.

While inflation is falling, it remains in the pipeline and is not going away. Even excluding the largest and most volatile price increases, core inflation is over 4% and the labor market is still strong. The labor market and the consumer will shape the outlook for the economy as we go into 2023 and both are more consequential than ever. Recent job and unemployment claim reports indicate that the labor market is holding up well. The economy added 223,000 jobs in December while unemployment fell to 3.5%, a 50-year low. New claims for unemployment insurance declined even further to only 186,000 for the week ending January 21st.



Under almost any scenario, the U.S. economy is set to have a difficult 2023 with the pace of growth slowing demonstrably. The BlueChip Economic Indicators panel of forecasters look for a meaningful slowdown with GDP just rising 0.5%. If the U.S. economy falls into a recession that would be unfortunate but it is not the end of economic growth in the future. Be that as it may, inflation is moderating and the consumer has not collapsed. The consumer has had uncanny staying power absorbing restrictive monetary policy. It is important not to be propitious, but it is also important not be convinced that a recession is inevitable.

