

# GFOAz

GOVERNMENT FINANCE OFFICERS  
ASSOCIATION OF ARIZONA

## Economic Update

August 2023

520.260.1574

**pfmam.com**

*PFM Asset Management LLC*

**NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE**

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# Agenda

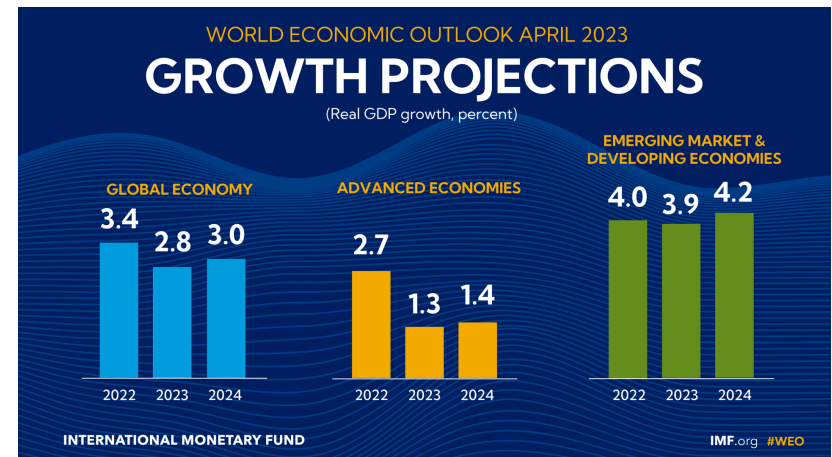
- 1. Global Economic Update**
- 2. U.S. Economic Update**
- 3. Arizona Economic Update**

# Global Economic Update



# Current Global Market Themes

- ▶ Headwinds to Global Growth
  - ▶ Continuing geopolitical conflicts
  - ▶ High inflation
  - ▶ Turbulence in the financial sector
- ▶ Global interest rates rise as Central Banks raise rates around the world
- ▶ Public debt as a ratio to GDP has soared and is expected to remain elevated



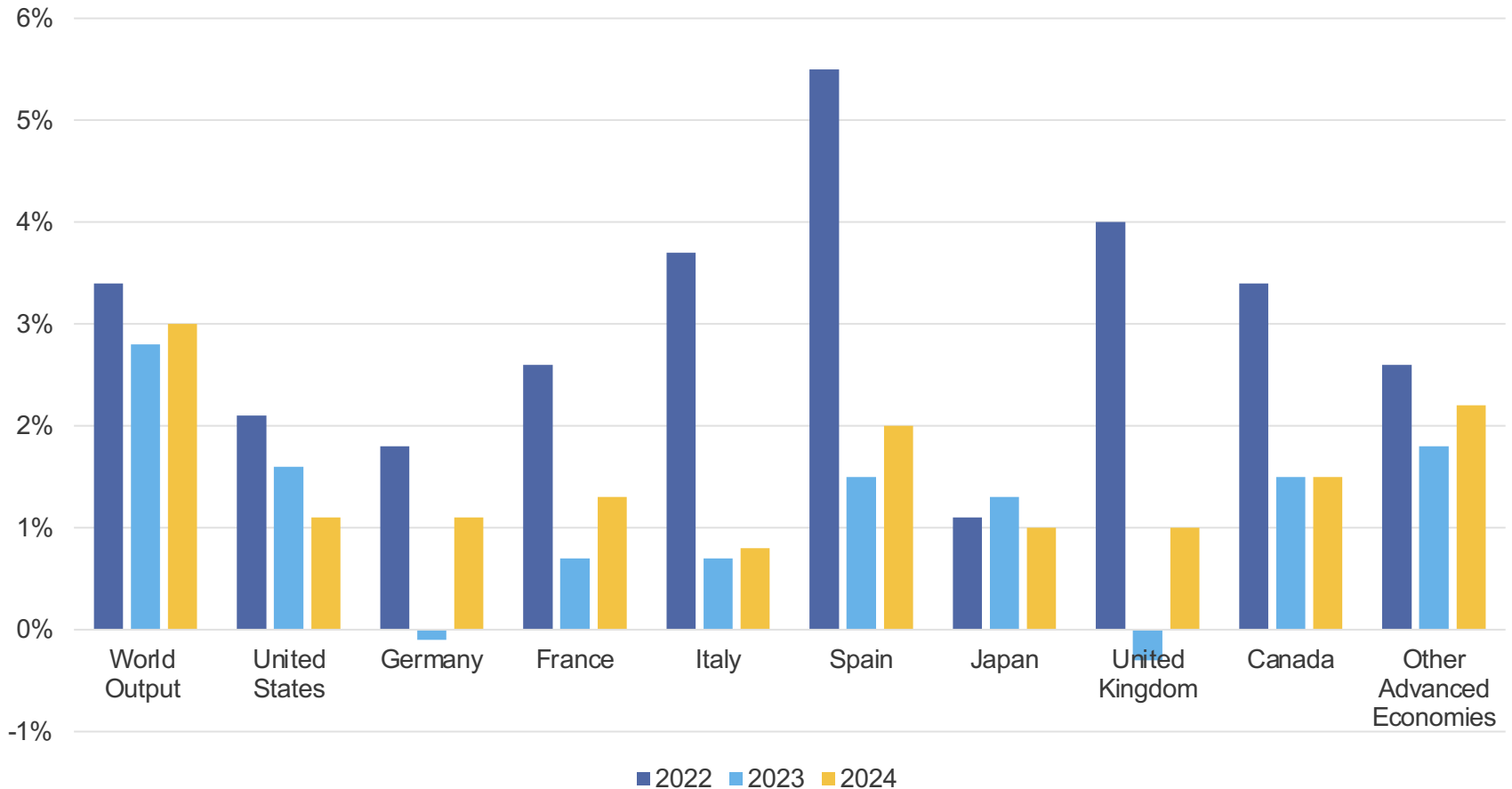
# Geopolitical Conflicts Persist Around the Globe



Source: Council on Foreign Relations, Global Conflict Tracker. As of June 15, 2023.

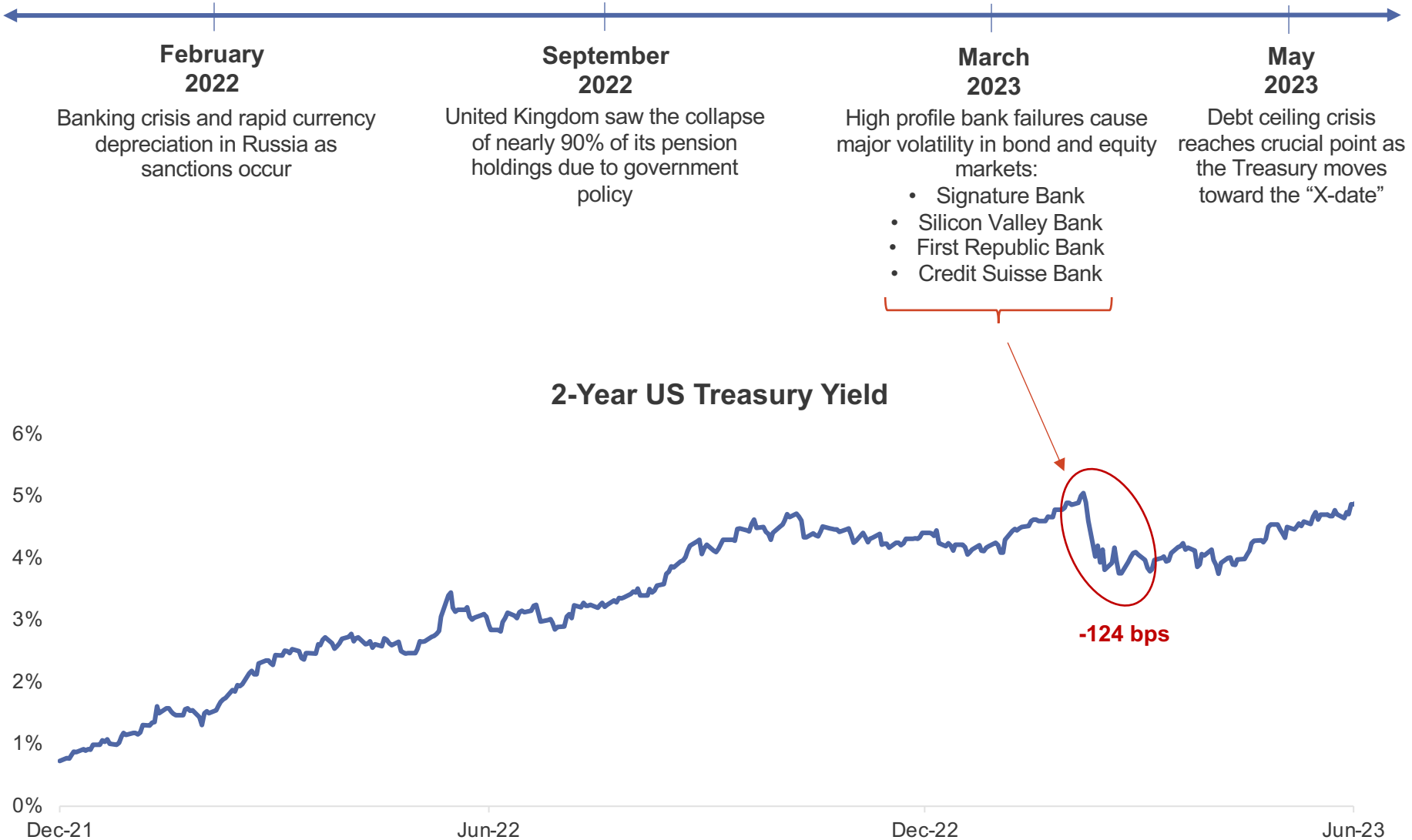
# Expectations for Slowed Growth

## World Economic Outlook



Source: International Monetary Fund, World Economic Outlook April 2023.

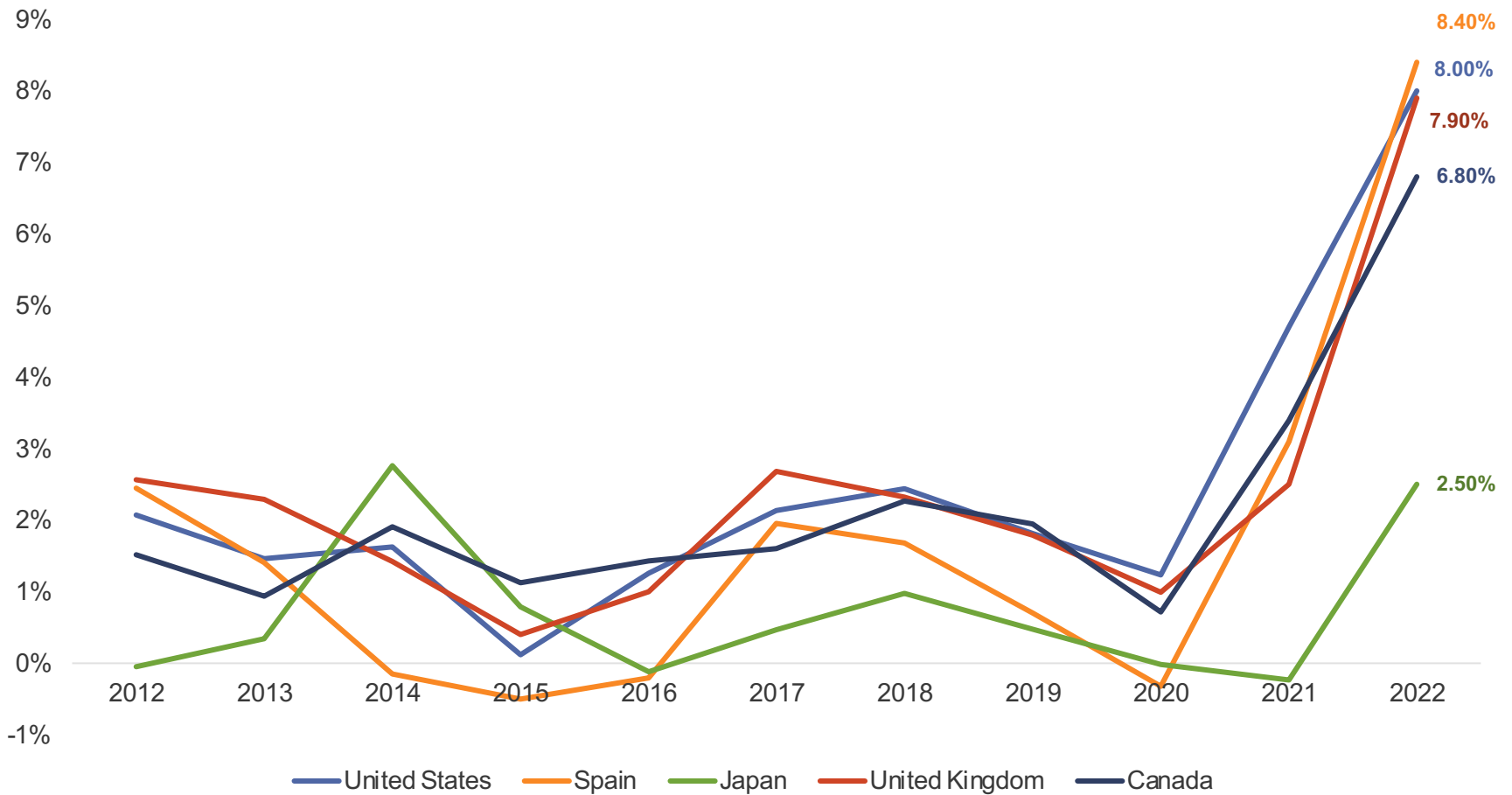
# Financial Sector Instability



Source: Center for Economic and Policy Research, “Financial Instability in 2022-2023”. Federal Reserve Economic Data.

# Inflation Reaches Multi-Decade Peaks in Many Countries

Annual Average CPI  
2012-2022

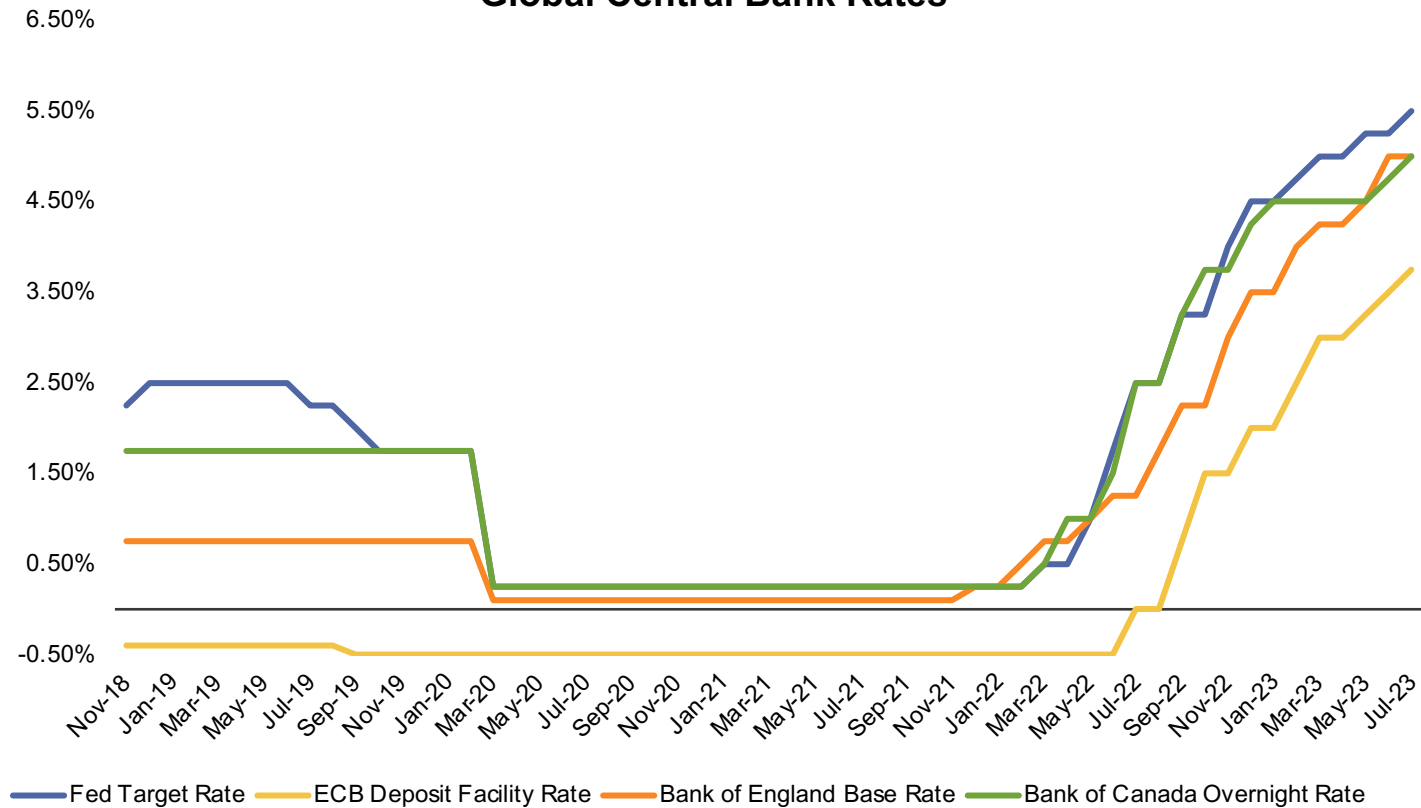


Source: The World Bank, Global Database of Inflation.



# Central Banks Continue to See Headwinds in the Future

## Global Central Bank Rates



Central Bank	Current Rate	Last Meeting	Change	Next Meeting
US	5.25%-5.50%	July 25	25 bps	Sept 20
UK	5.00%	June 22	25 bps	Aug 3
Canada	5.00%	July 12	25bps	Sept 6
Euro Region	3.75%	July 27	25bps	Sept 14

Source: Bloomberg, as of July 31, 2023

# Polling Question

**What has Italy done to combat food price increases?**

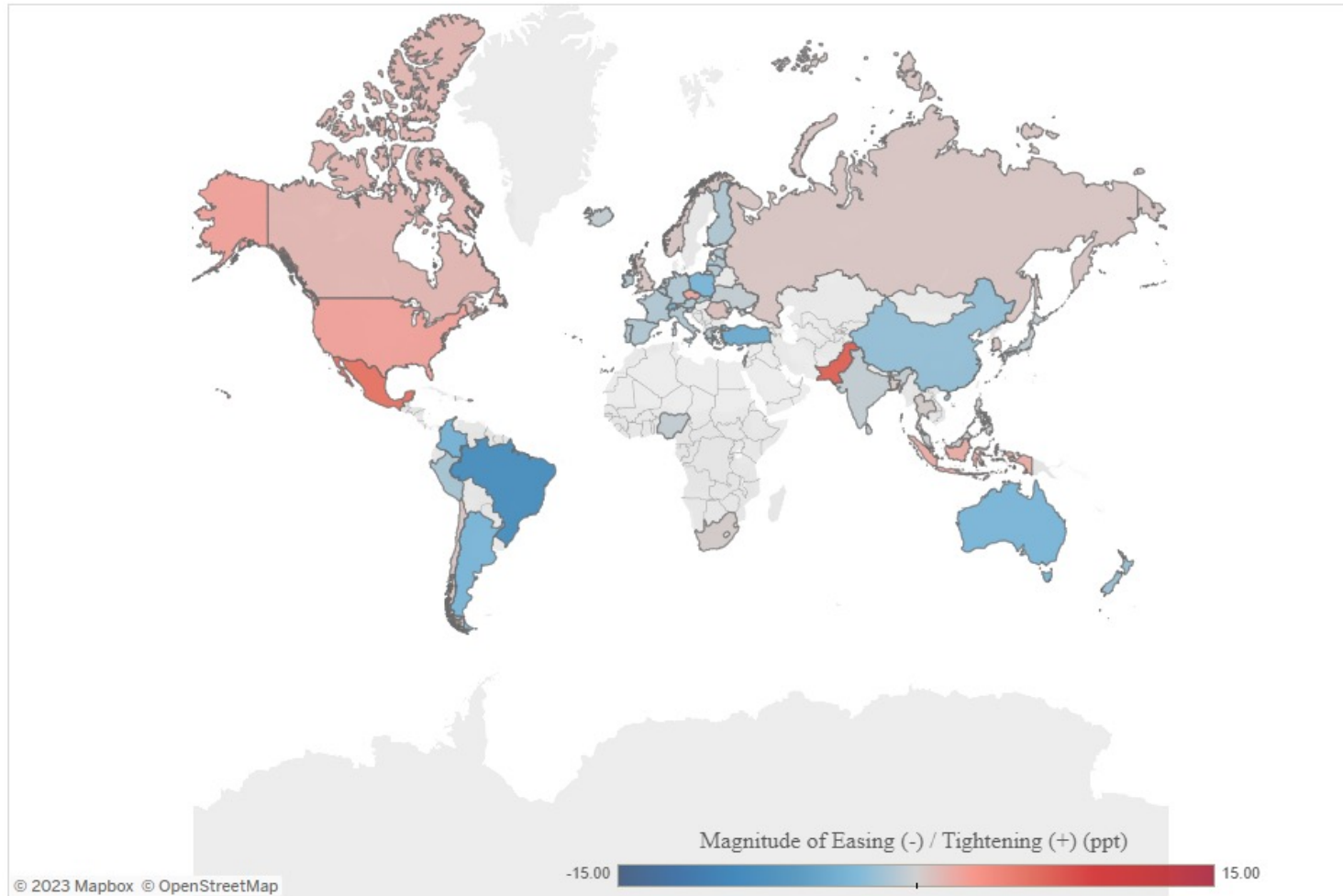
*A. Ration*

*B. Negotiate with suppliers*

*C. Cut taxes*

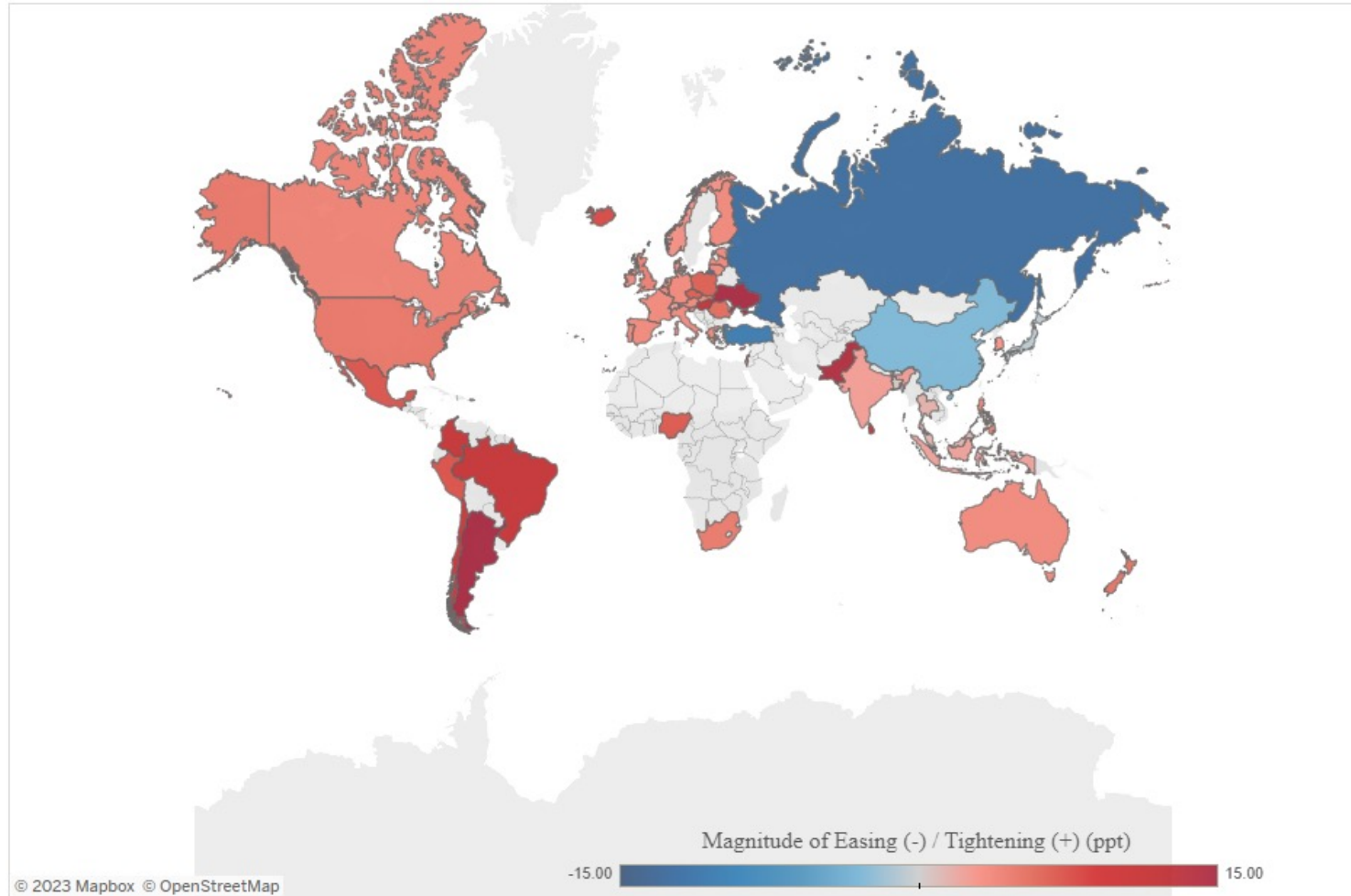


# May 2019: Monetary Policy Prior to the Pandemic



Source: Council on Foreign Relations, *Global Monetary Policy*.

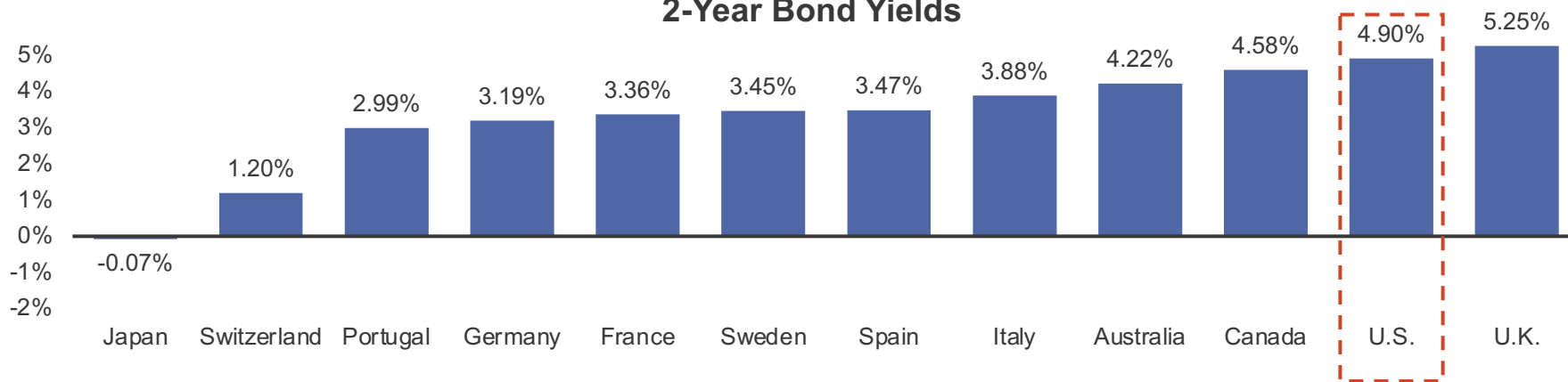
# May 2023: Significant Shifts to Tighter Monetary Policy Across the Globe



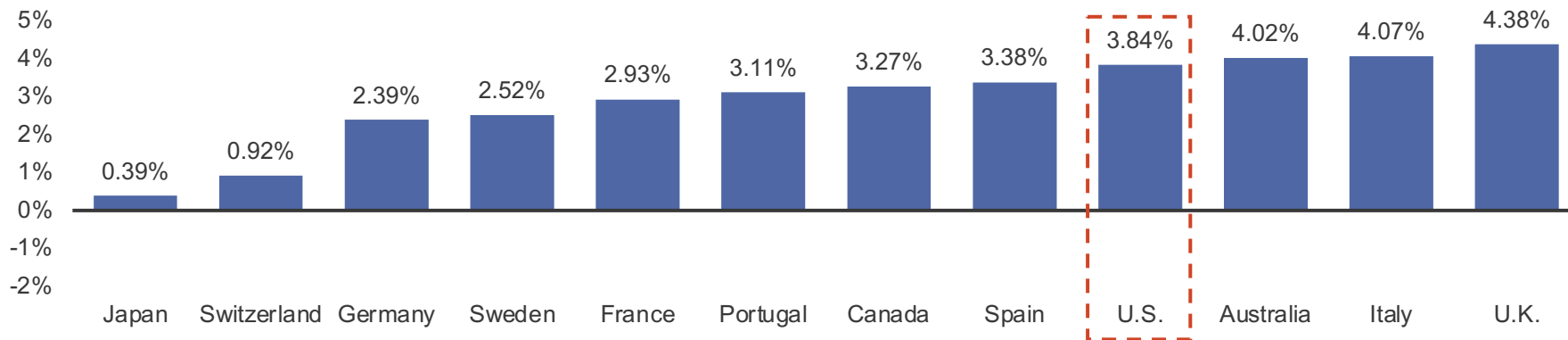
Source: Council on Foreign Relations, Global Monetary Policy.

# Global Interest Rate Environment

## 2-Year Bond Yields



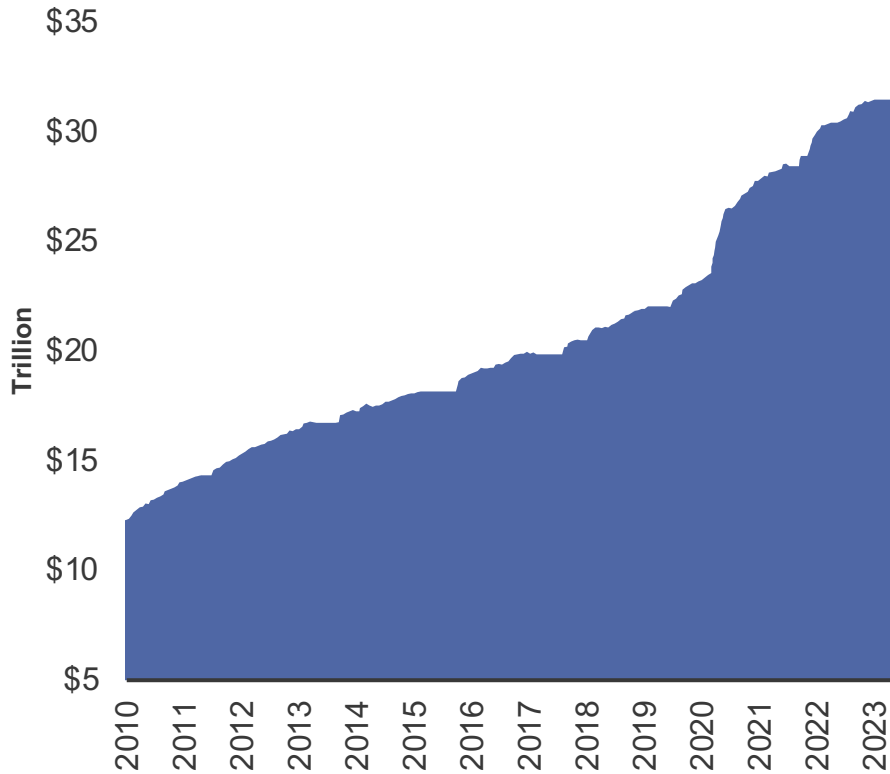
## 10-Year Bond Yields



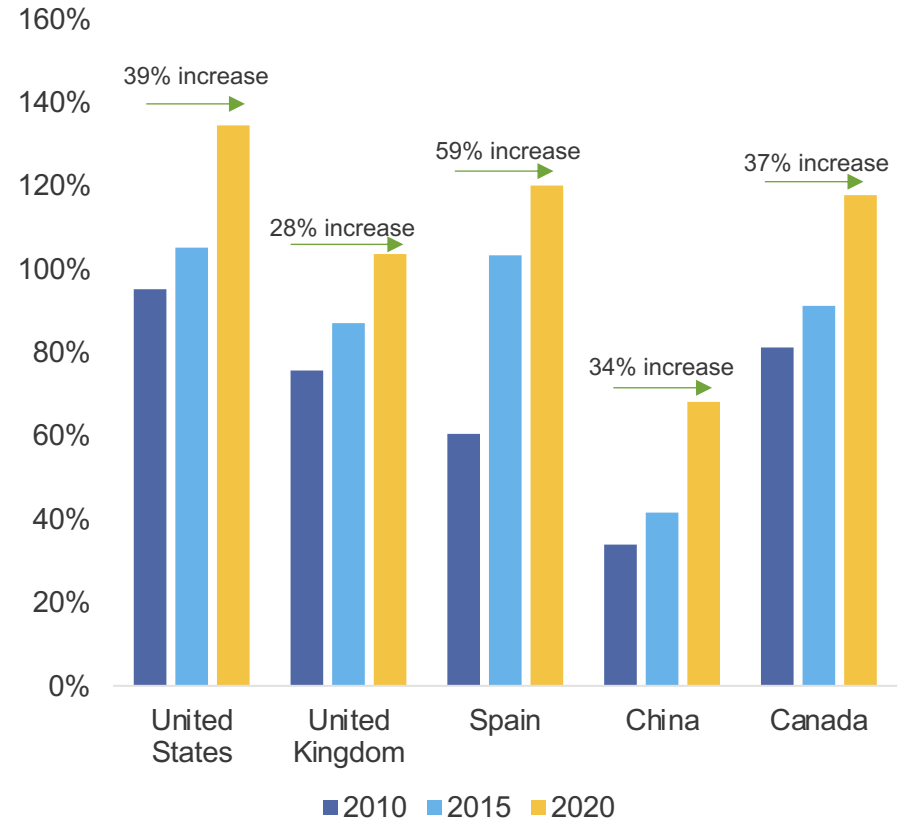
Source: Bloomberg, as of 06/30/2023.

# Growing Debt Poses Threat to Economic Growth

## U.S. Total Public Debt Outstanding



## Public Debt as Percentage of GDP



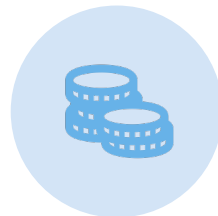
# U.S. Economic Update



# Current Domestic Market Themes



Persistently high inflation and Federal Reserve monetary policy dominate the narrative.



Consumer spending continues to drive economic activity in the U.S.



The labor market is extremely tight with unemployment near 50-year lows and job openings near record highs.



Short-term Treasury yields rose in dramatic fashion, steeply inverting the yield curve.



Short-duration fixed income securities provide unique investment opportunities.



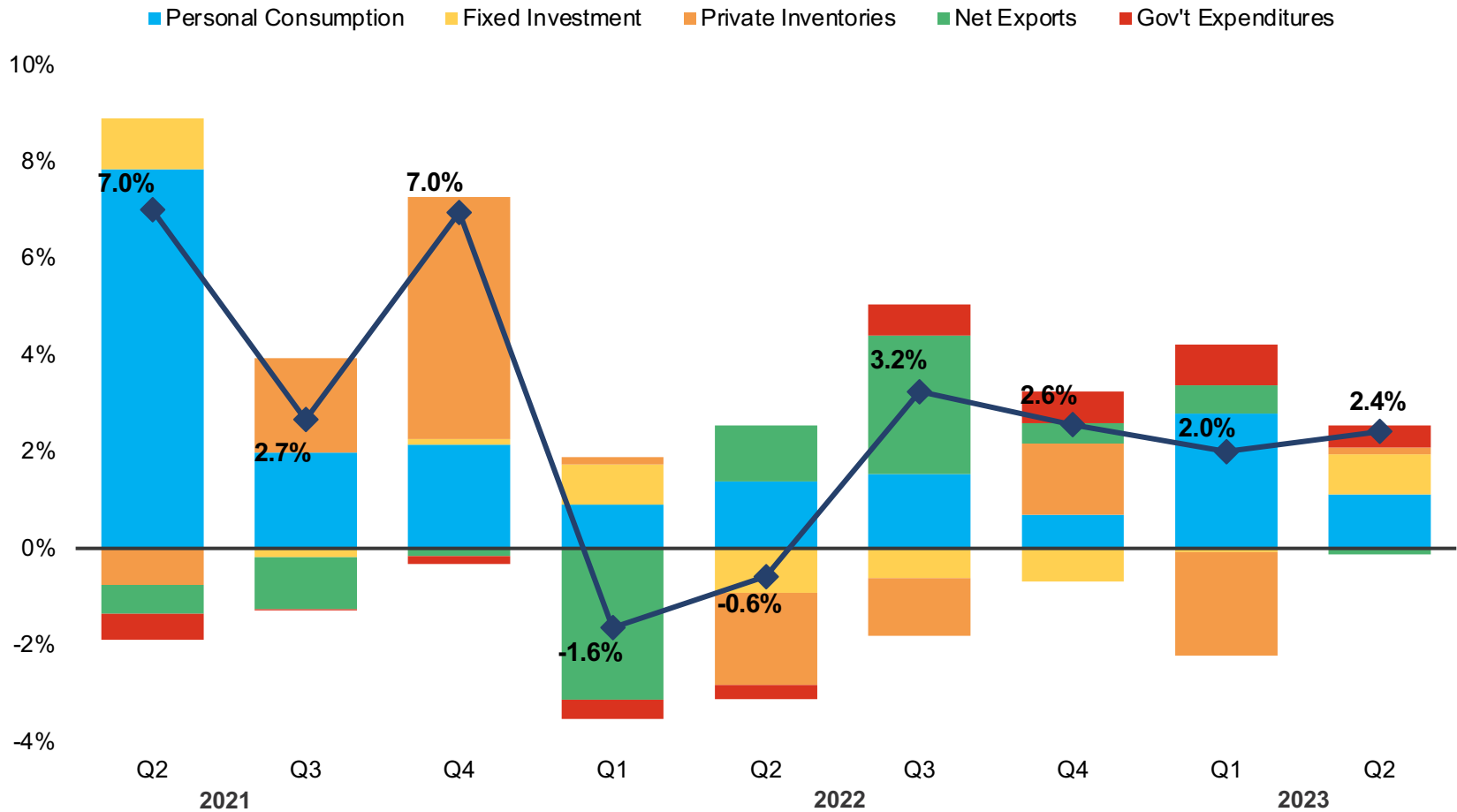
Coming off historically negative performance, equity markets are bouncing back.





# GDP Beat Estimates for Q2

## U.S. Real GDP Contributors and Detractors

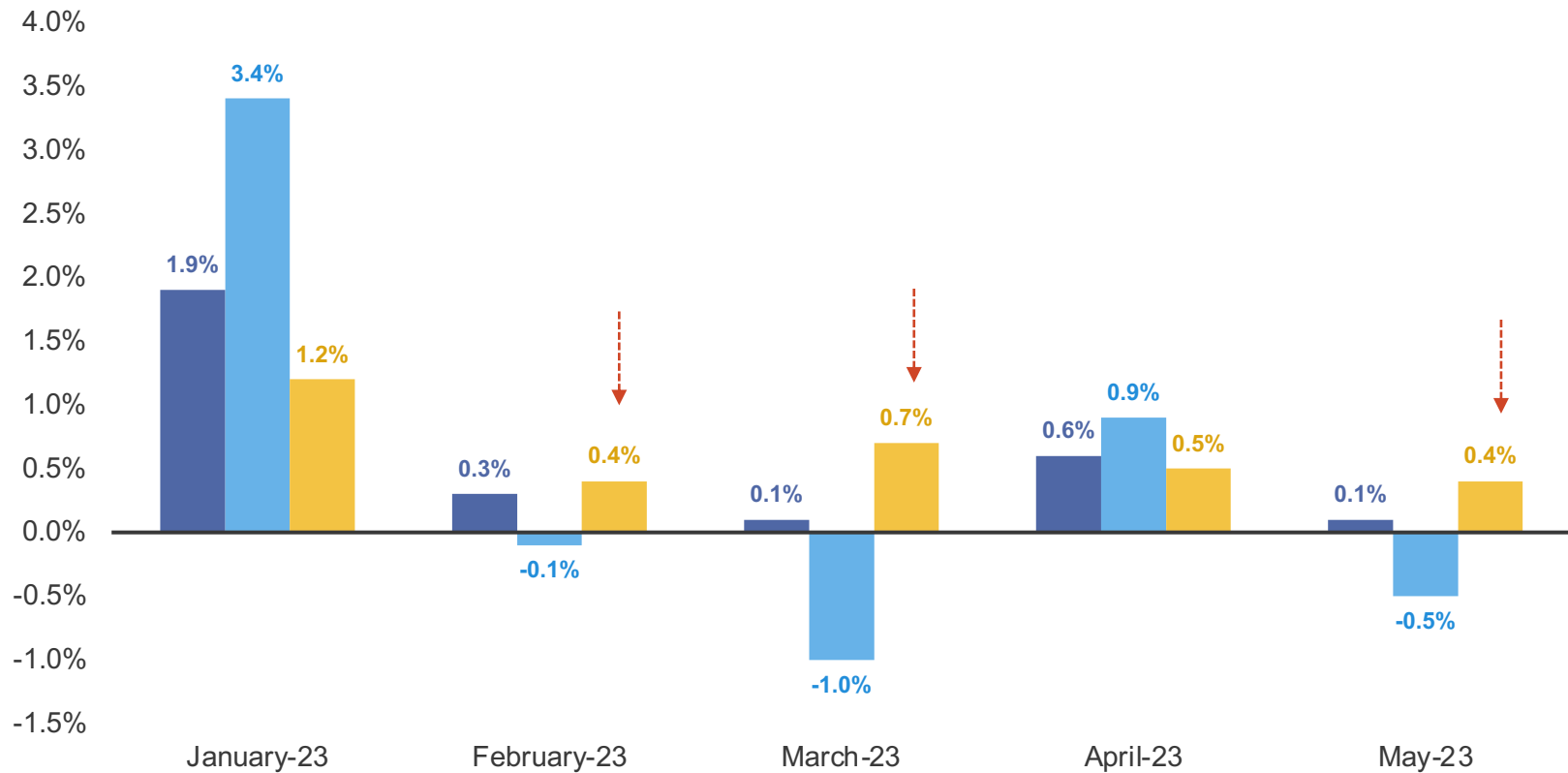


Source: Bloomberg, Bureau of Economic Analysis, as of June 2023.

# Consumers Have Been Spending More on Services

## Change in Consumer Spending Month-to-Month

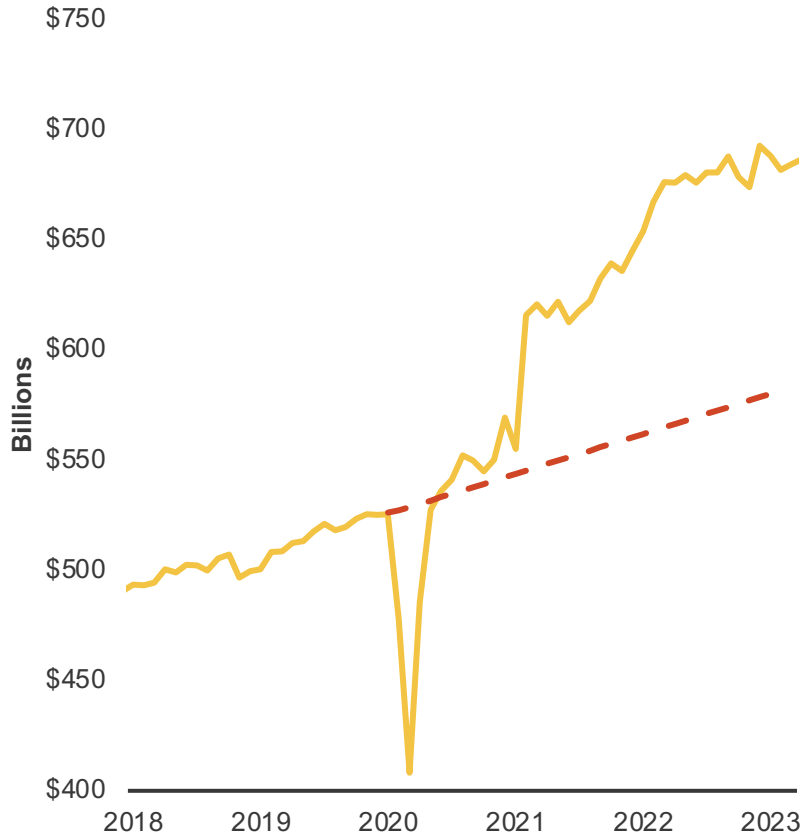
■ Consumer Spending ■ Goods ■ Services



Source: Bloomberg, Bureau of Economic Analysis as of May 2023.

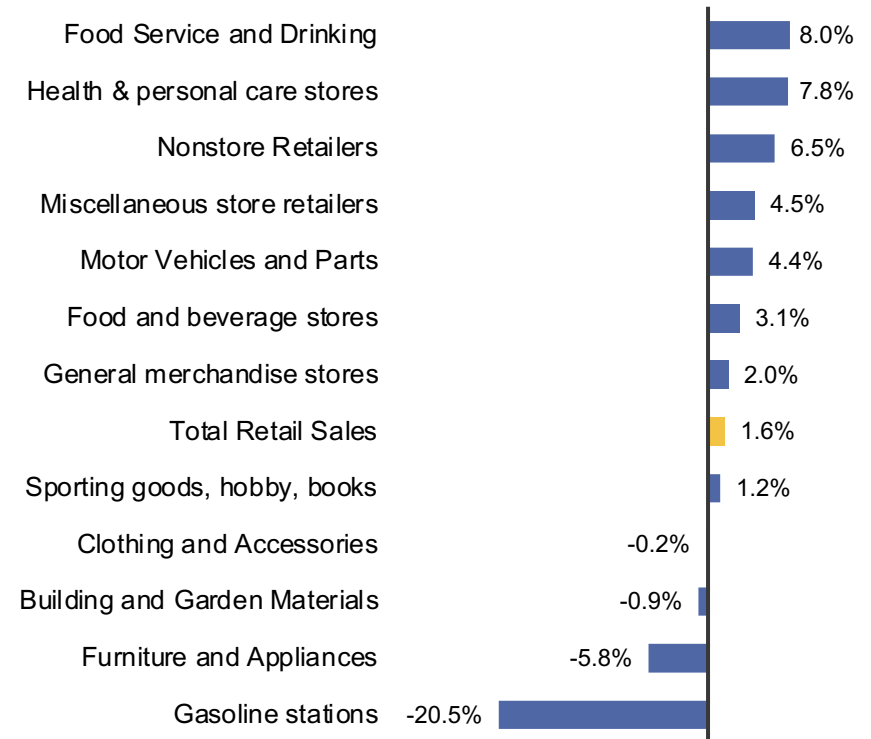
# Retail Sales Unexpectedly Rose in Sign of Consumer Resilience

## Retail Sales (Monthly)



## Retail Sales (Year over Year)

May 2023



Source: Bloomberg, as of May 2023.

# Polling Question

**What is the number one driver of GDP?**

- A. Import/Exports*
- B. Consumer Spending*
- C. Stock Market*

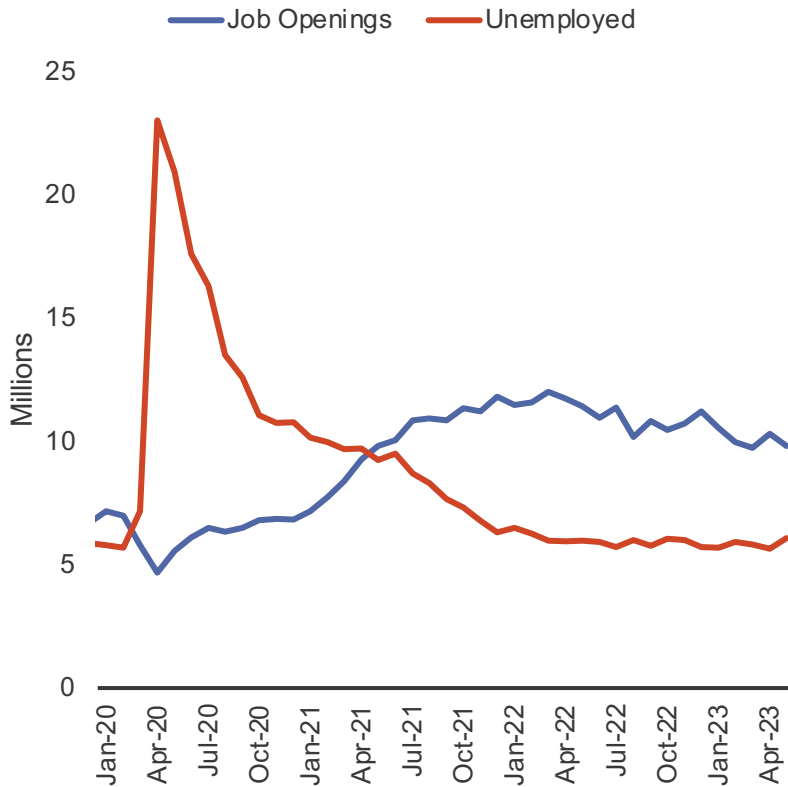


# FOMC Lifts Rates to 22-Year High

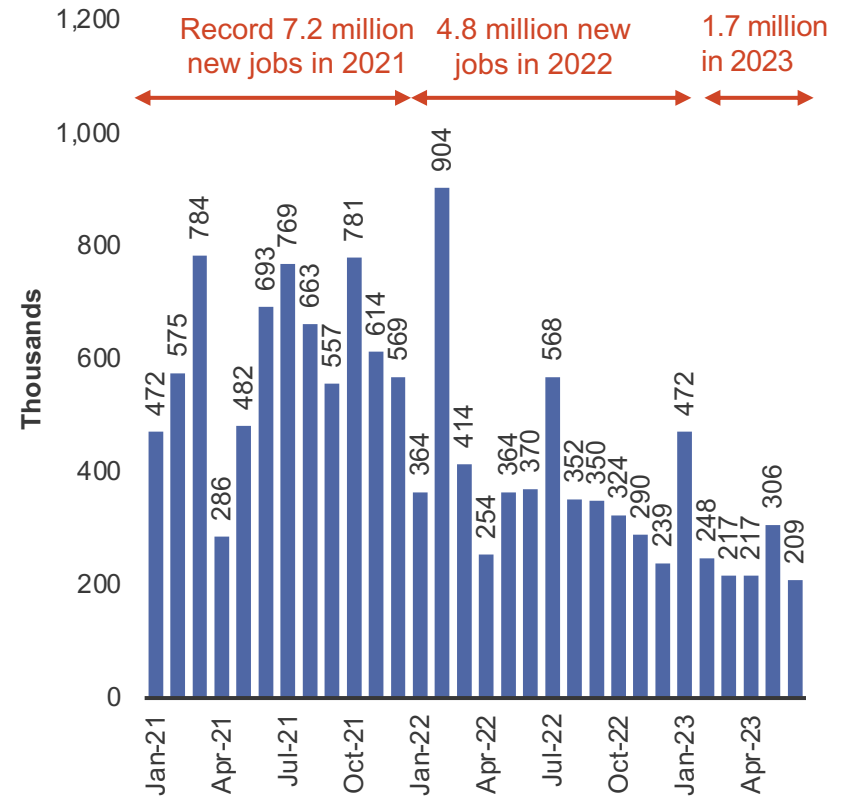
- ▶ The Committee decided to **raise** the target range for the federal funds rate to **5-1/4 to 5-1/2** percent. The Committee noted that recent indicators suggest that **economic activity** has been expanding at a **moderate** pace, job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.
- ▶ In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will **continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities**, as described in its previously announced plans.
- ▶ In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook
- ▶ The U.S. banking system is **sound** and **resilient**. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.

# Labor Market Supply Imbalance Continues

## Job Openings vs. Unemployed Workers



## Monthly Change In Nonfarm Payrolls

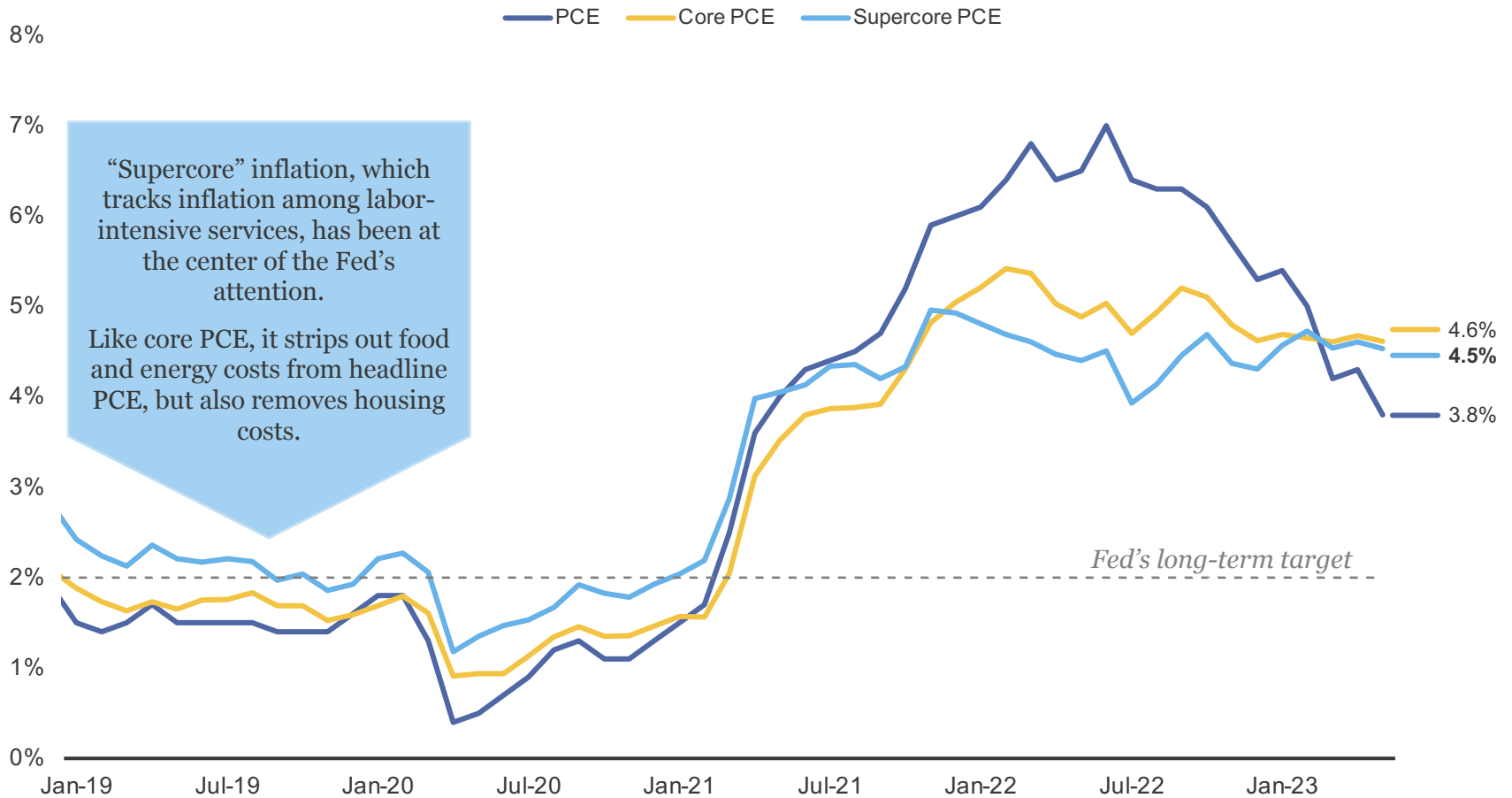


Source: Bloomberg, as of June 2023. Data is seasonally adjusted.

# Inflation Measures Remain Above Fed's Target

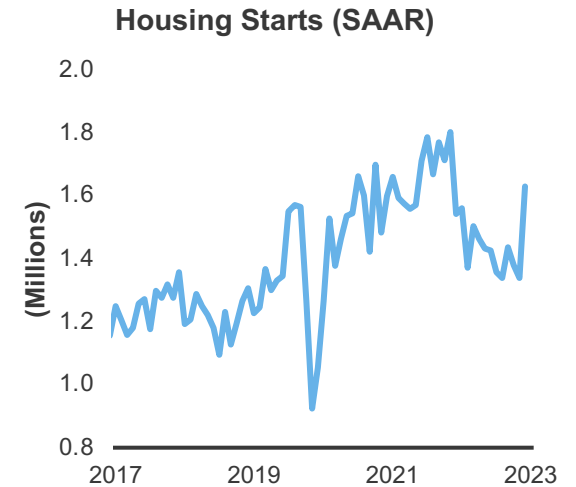
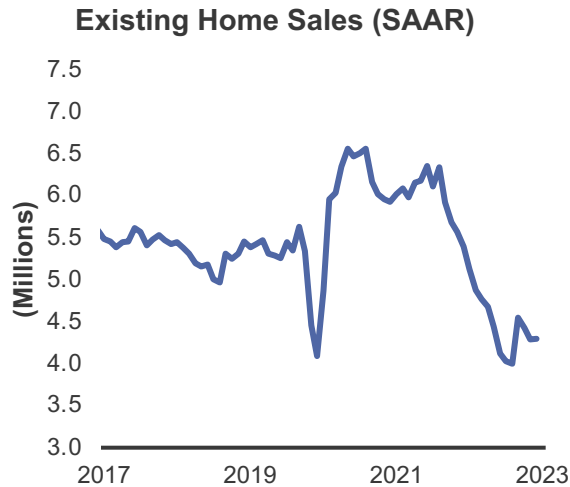
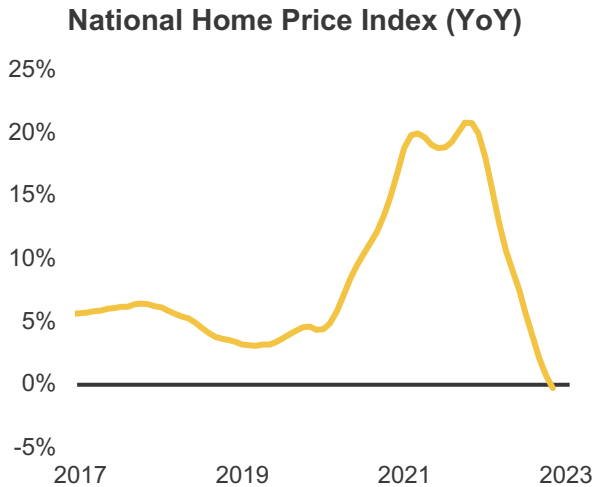
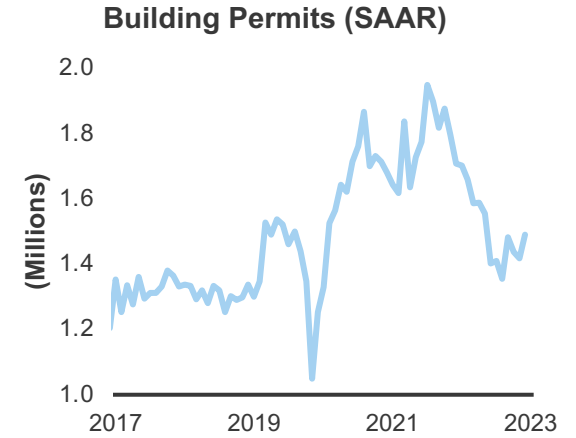
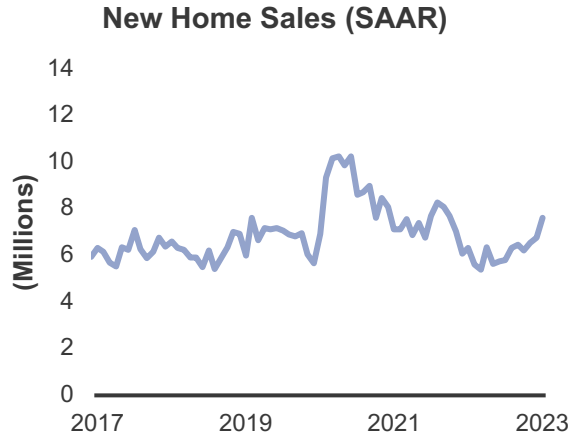
## The Fed's Key Inflation Rate

Personal Consumption Expenditure Price Index, Year-over-year



Source: Federal Reserve, Bloomberg, Bureau of Economic Analysis as of May 2023.

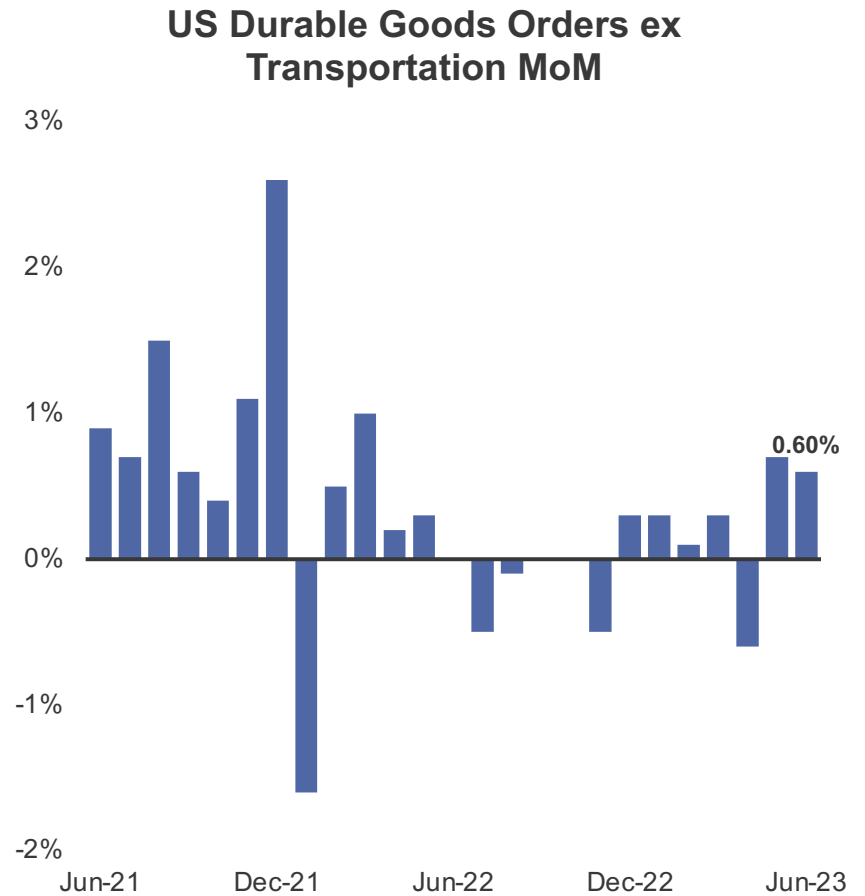
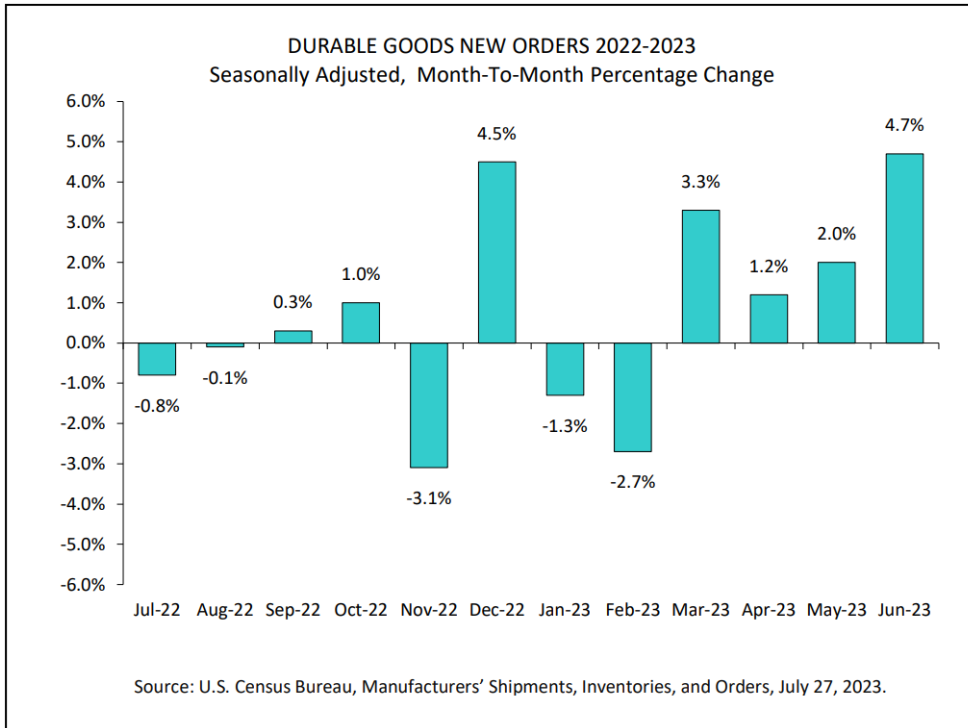
# Building Permits Trend Up in 2023



Source: Bloomberg, Freddie Mac Commitment Rates, S&P/Case-Shiller, National Association of REALTORS. Most recent SAAR data as of April 30, 2023; all other data as of May 31, 2023.



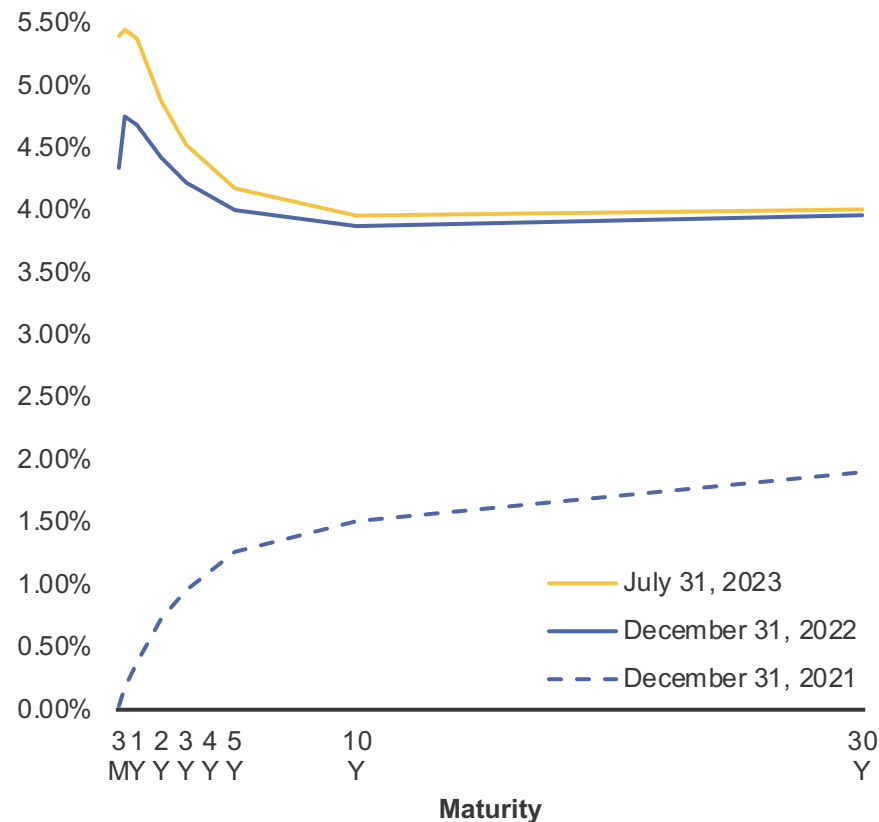
# Equipment Orders Rebounded Sharply in June



# Treasury Yield Curve Is Steeply Inverted

Tenor	07/31/2023	12/31/2022	12/31/21
3 month	5.40%	4.34%	0.03%
1 year	5.38%	4.69%	0.38%
2 year	4.88%	4.43%	0.73%
3 year	4.52%	4.22%	0.96%
5 year	4.18%	4.00%	1.26%
10 year	3.96%	3.87%	1.51%
30 year	4.00%	3.96%	1.90%

## U.S. Treasury Yield Curve

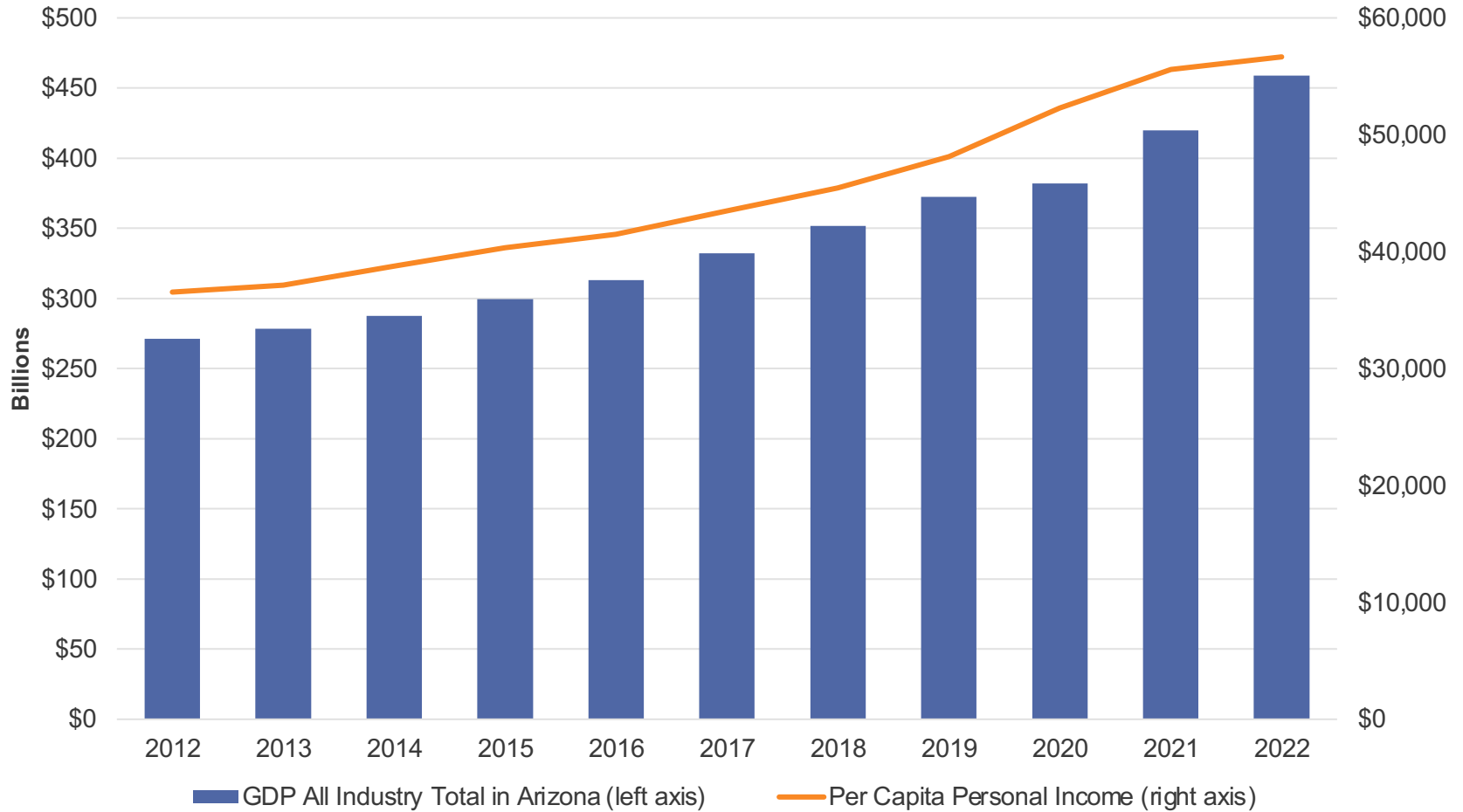


# Arizona Economic Update



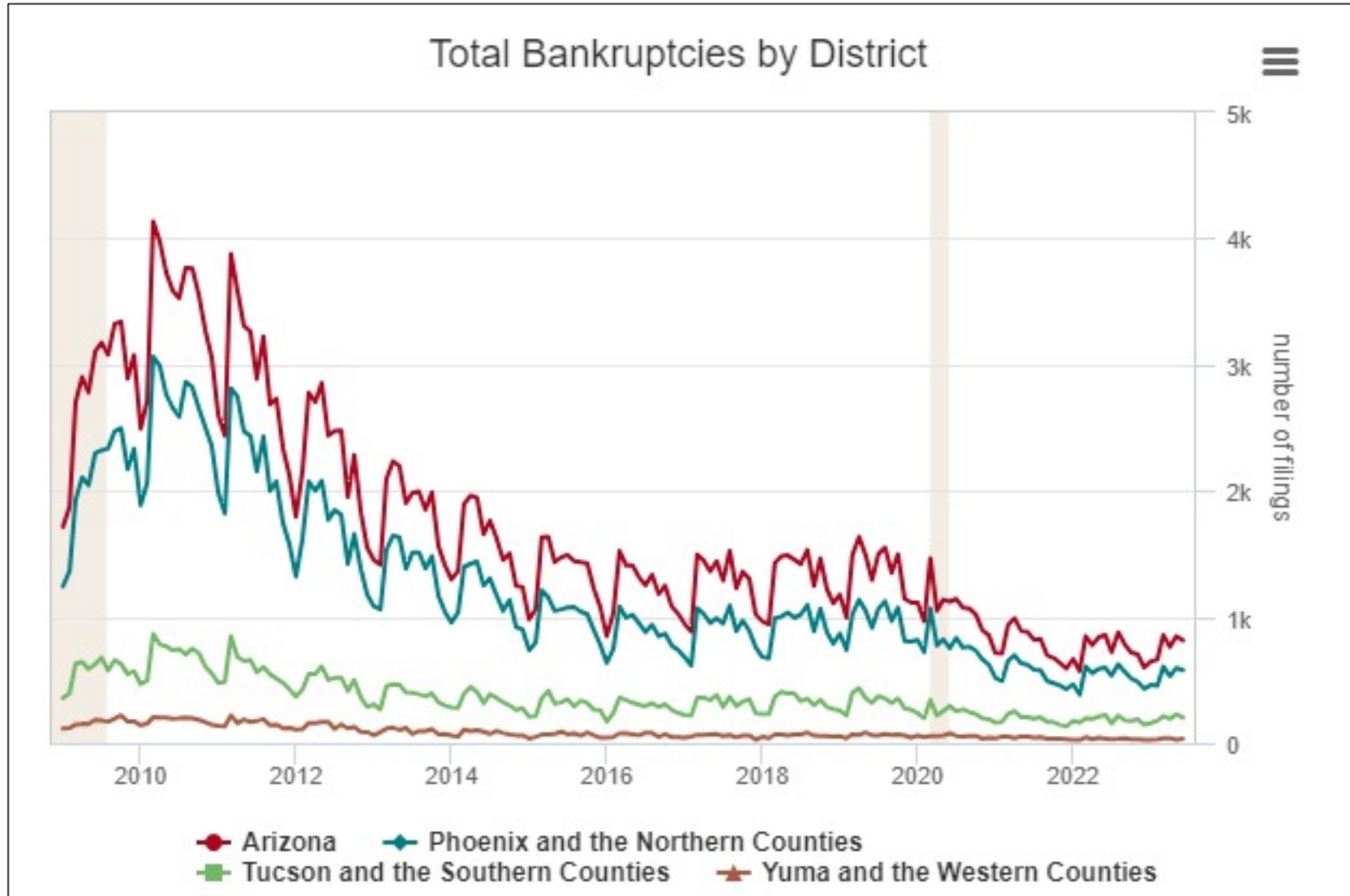
# Steady Economic Growth

## State of Arizona Gross State Product and Per Capita Income



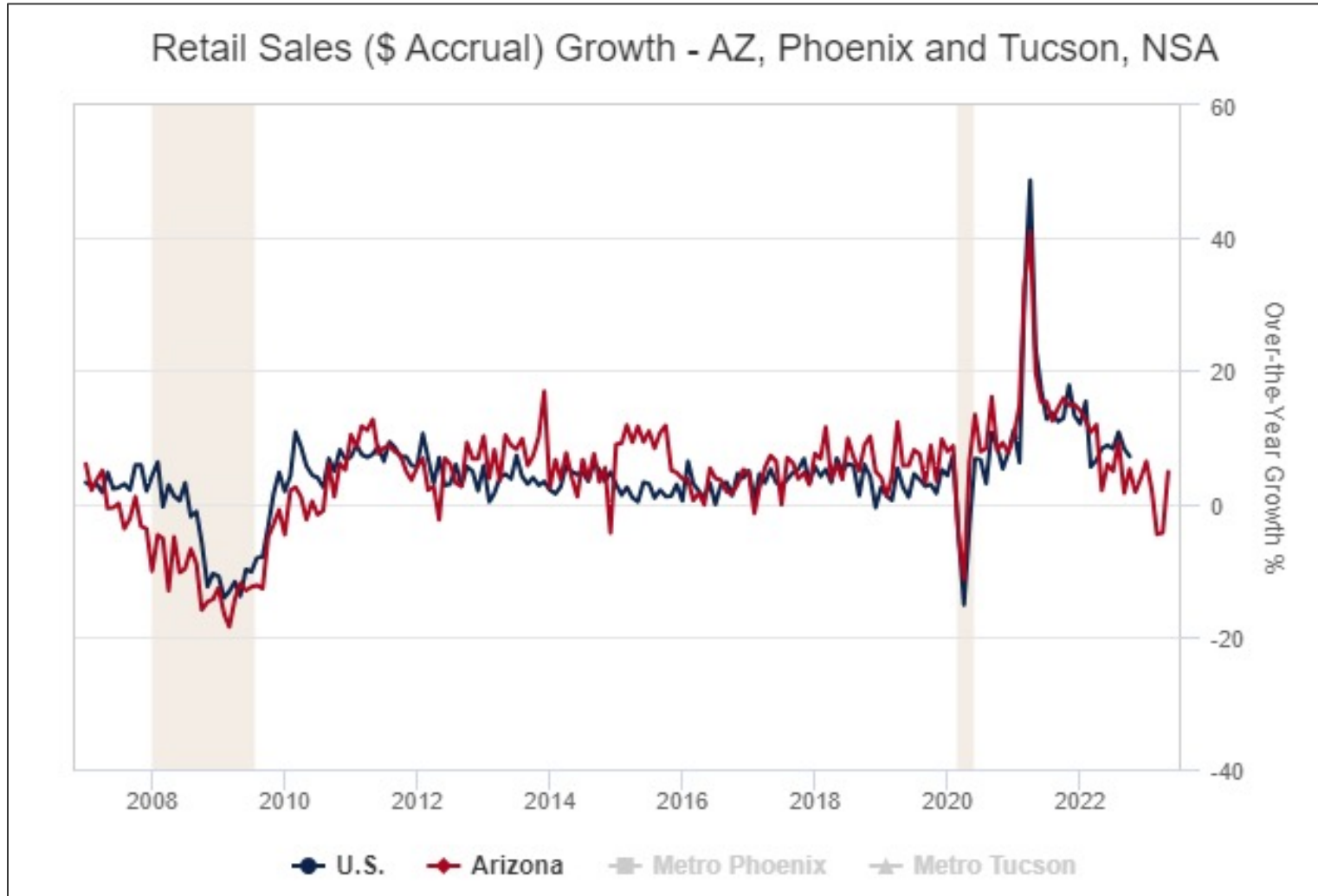
Source: Federal Reserve Economic Data, as of 12/31/2022.

# Arizona Bankruptcy Filings



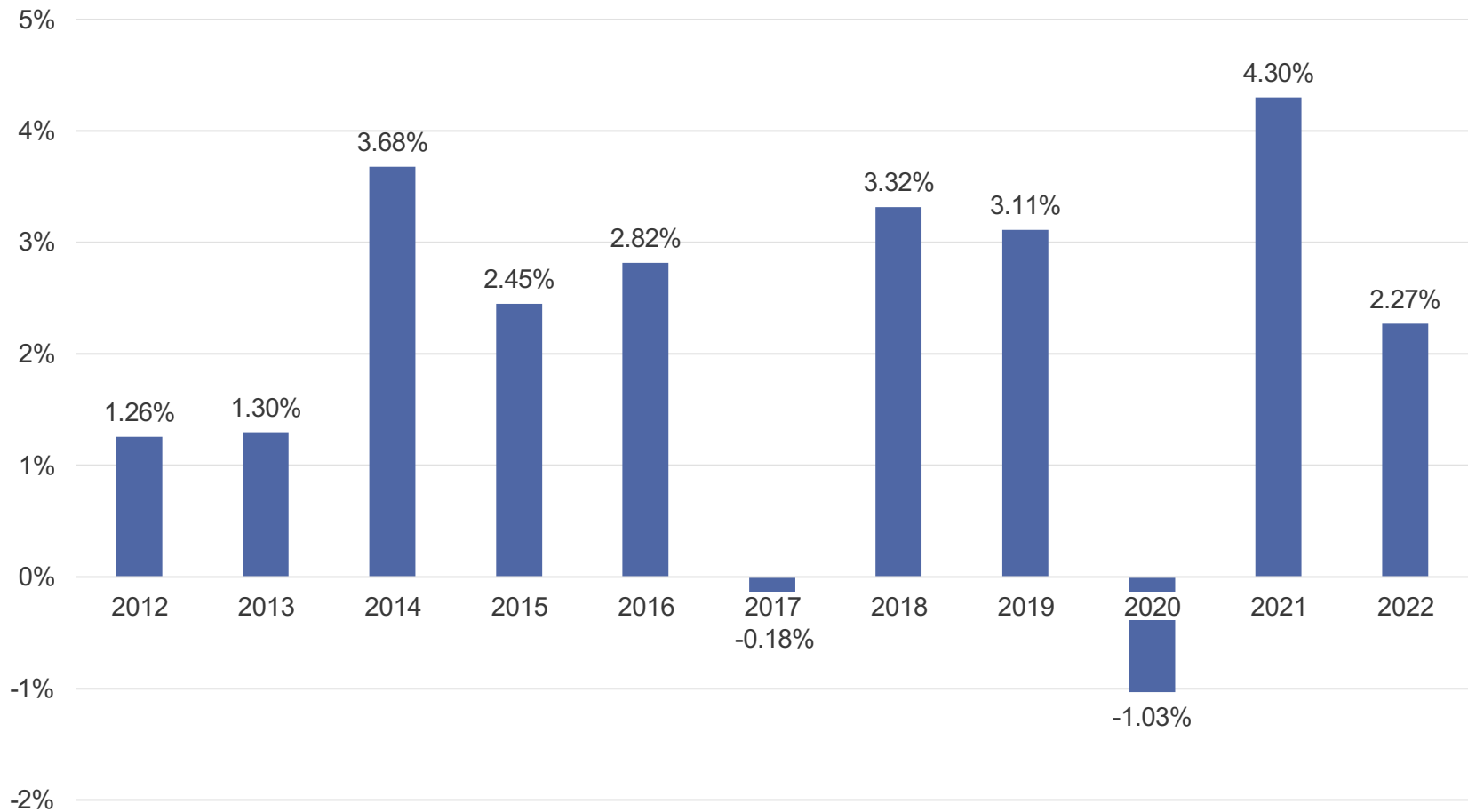
Source: Arizona's Economy, Economic and Business Research Center. Data as of 6/30/2023.

# Retail Sales in Arizona



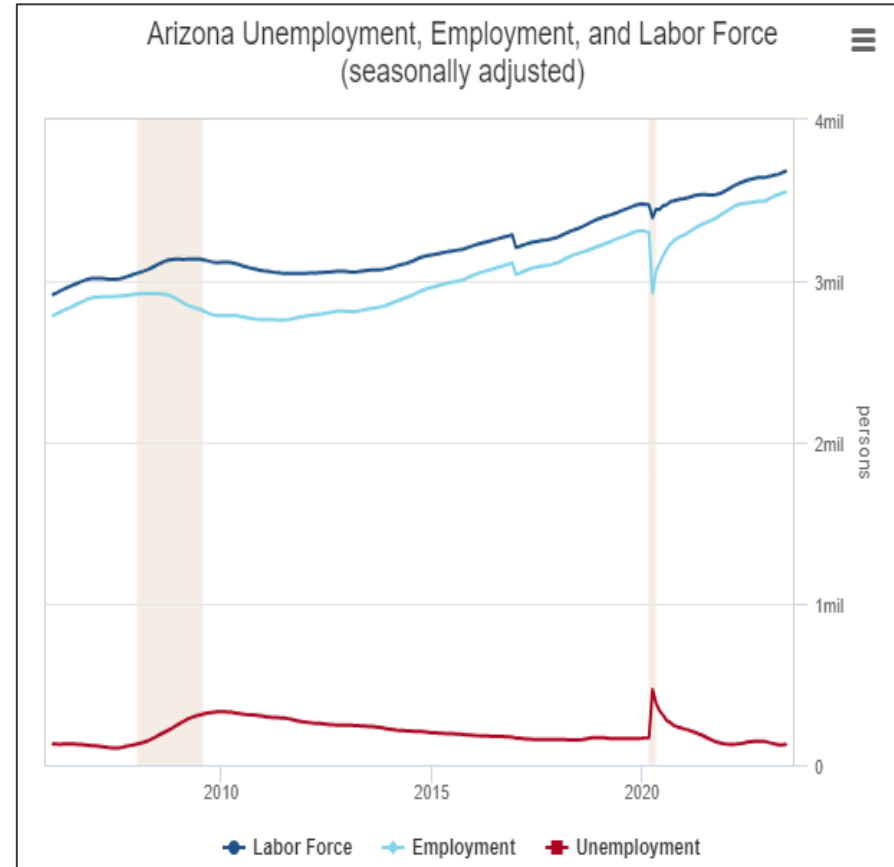
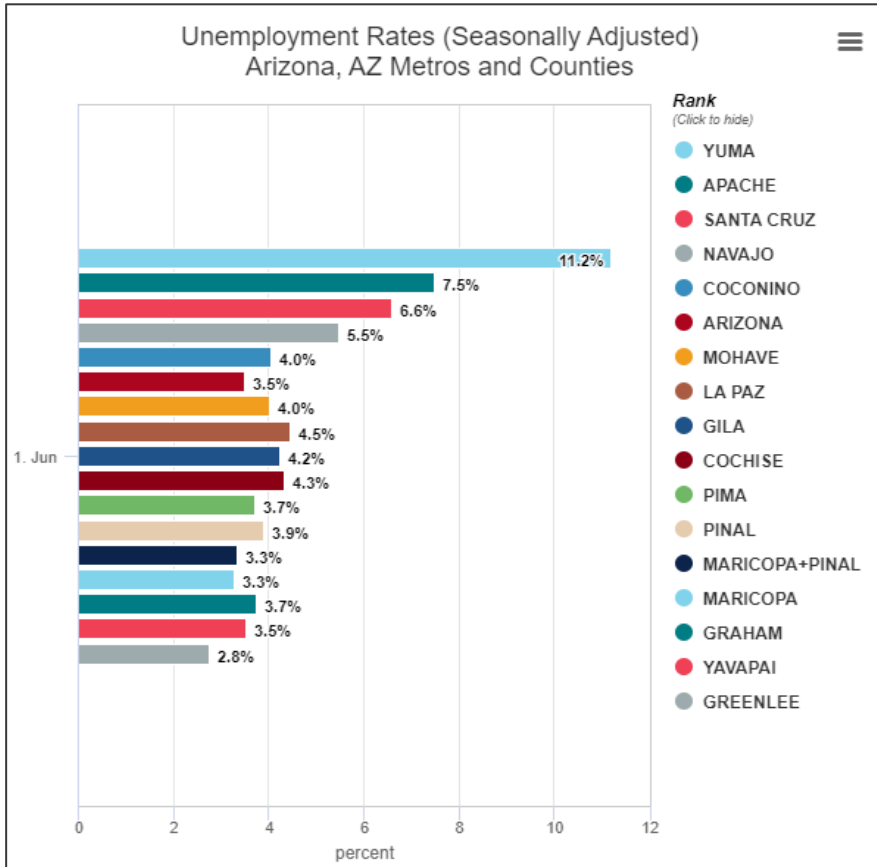
Source: Arizona's Economy, Economic and Business Research Center. Data as of 6/30/2023.

# Employment Bounces Back Post Pandemic



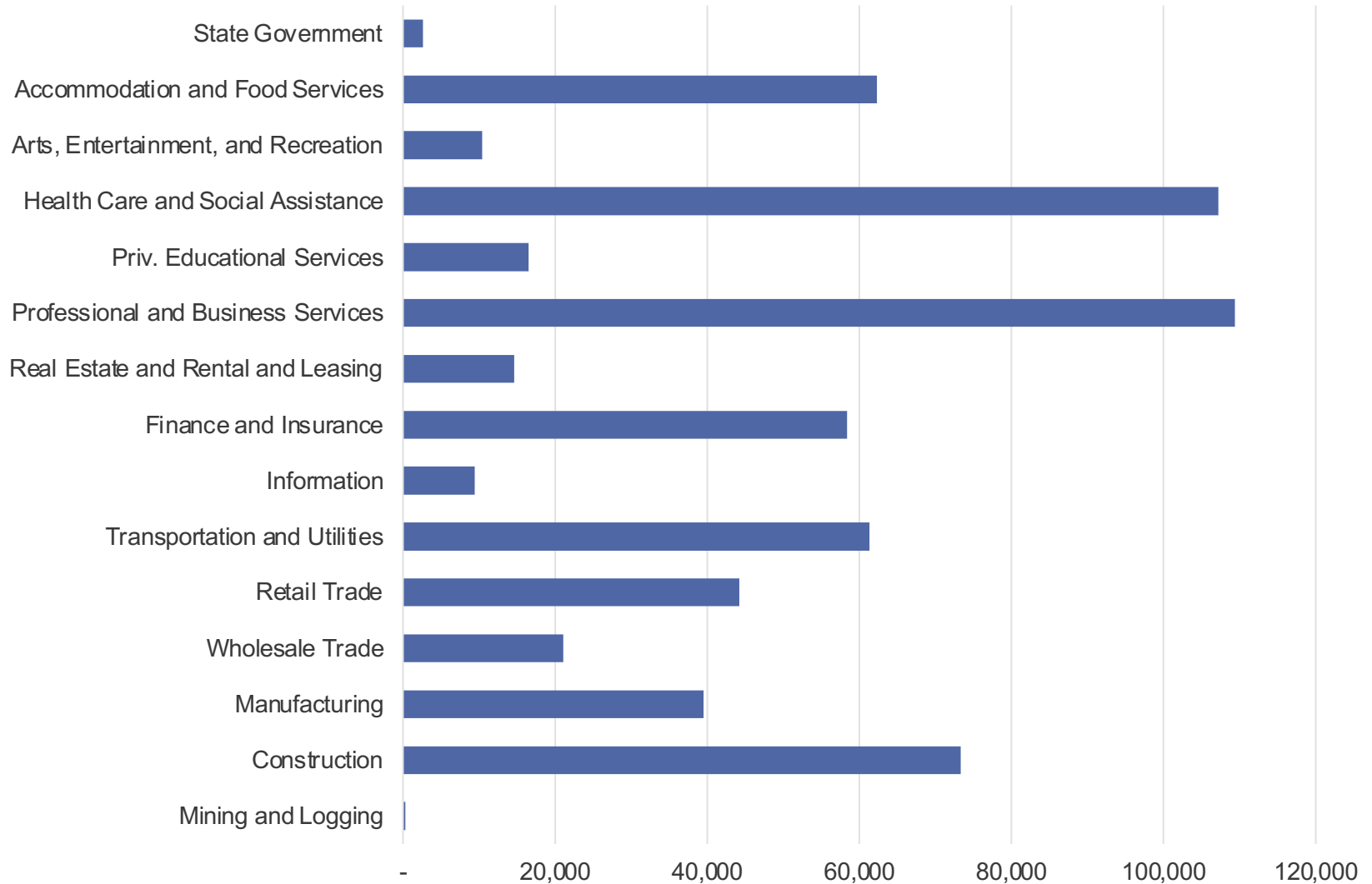
Source: U.S. Bureau of Labor Statistics, Arizona Employment. As of 12/31/2022.

# Arizona's Labor Force



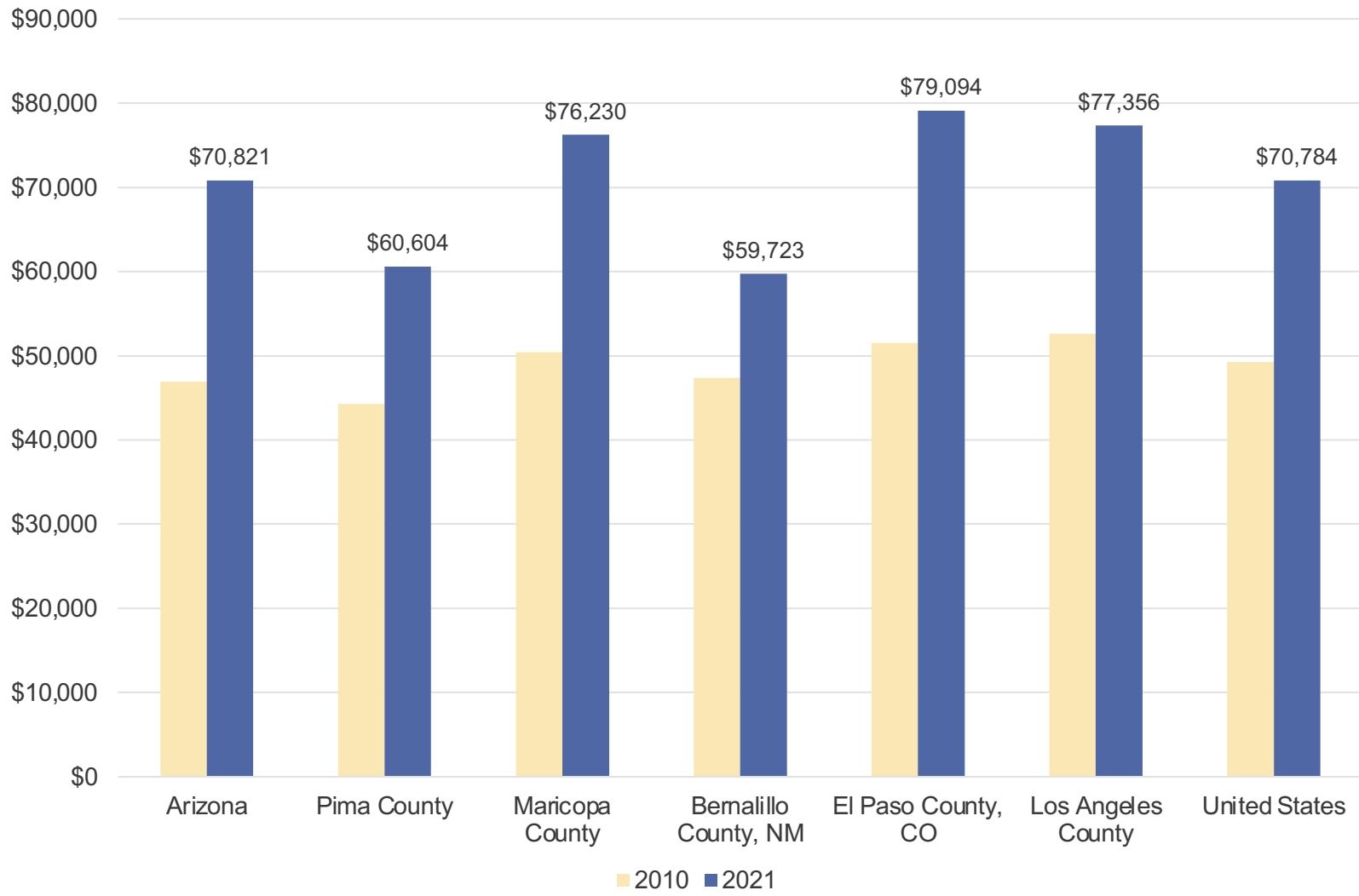


# Diversified Job Growth in Arizona over the Last Decade



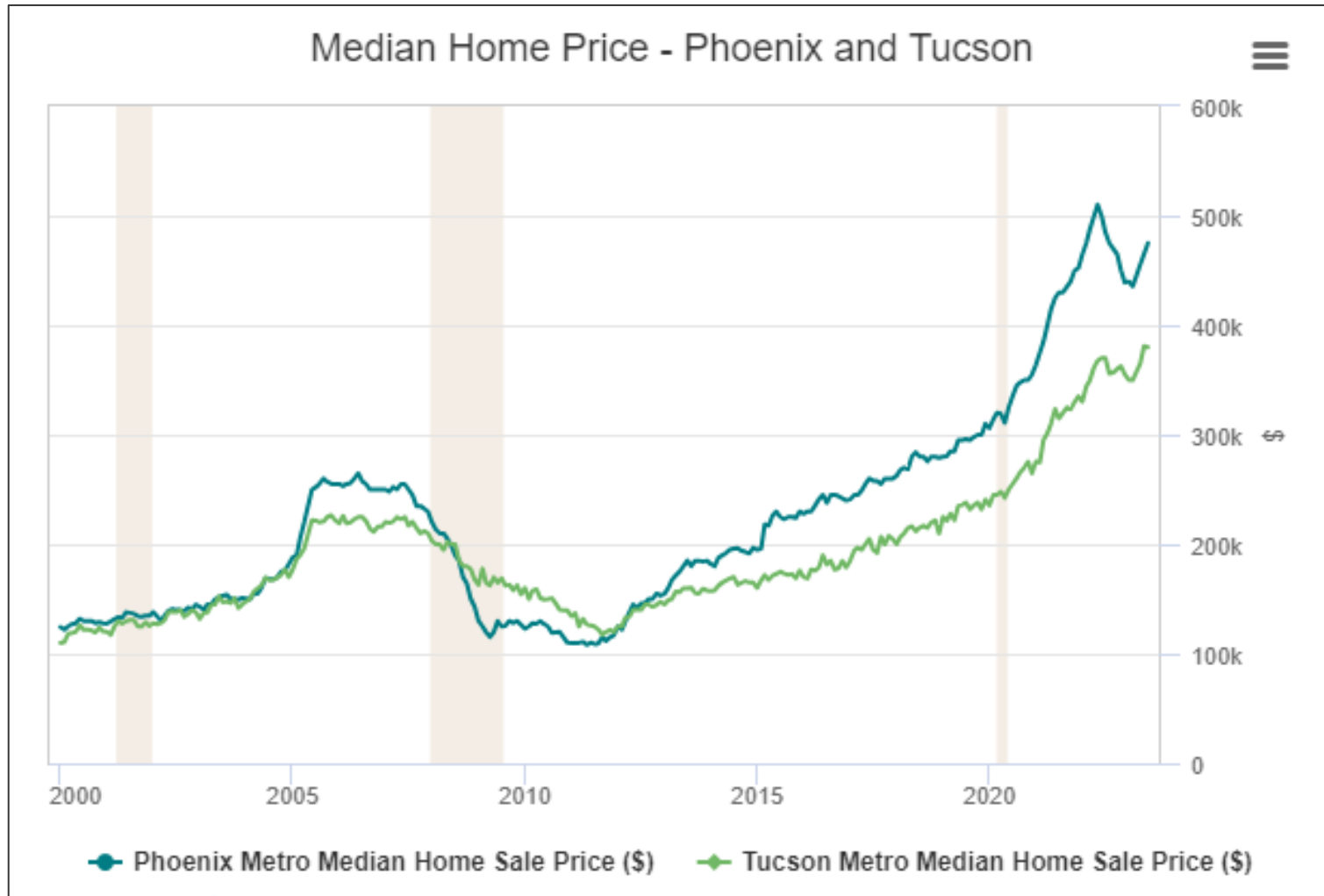
Source: Arizona's Economy, Economic and Business Research Center. Data as of 12/31/2022.

# Median Household Income – 2010 vs. 2021



Source: Federal Reserve Economic Data.

# Arizona Housing



# Arizona Outlook Summary

	Actual	Forecast		
	2022	2023	2024	2025
<b>Growth Rate</b>				
Nonfarm Jobs	4.2	2.2	1.5	2.3
Personal Income	3.3	5.9	5.9	6.3
Retail Plus Remote Sales	8.1	3.9	3.1	6.2
Population	1.7	1.5	1.2	1.3
<b>Level</b>				
Unemployment Rate	3.8	4	4.6	4.8
Housing Permits	60,994	32,886	44,888	44,898

# In Summary

- ▶ Heightened global inflation levels cause Central Banks around the world to raise rates rapidly. However, as we move into 2023 the world's largest economic blocs are coming to different conclusions as to the approach forward.
- ▶ Interest rates around the world are significantly elevated, with the United States leading the charge.
- ▶ The war in Ukraine and continuing global conflicts pose risks to global supply chains.
- ▶ U.S. inflation levels have plunged, and the economy is doing well, but underlying price increases remain stubbornly high. The labor market is extremely tight with unemployment at historic lows and job openings at historic highs.
- ▶ The Arizona economy is in solid shape, generating strong job growth and low unemployment. The outlook calls for growth to slow, but to outpace the nation.

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