

The U.S. is headed to a period of “stagflation” or a shallow recession. A combination of factors creates a challenging economic environment through at least the first half of 2023. Among these factors are:

- ❖ A sharp increase in fiscal spending to combat COVID-related impacts from the second half of 2020 to early 2022 has ignited inflationary pressures.
- ❖ The large fiscal deficits were “funded” by easy monetary policy from the FED until the first half of 2022, with the monetary base expanding rapidly.
- ❖ Supply chain issues due to COVID pandemic and the war in Ukraine among other factors have also restricted the ability of supply to meet growing demand.

In essence, demand expanded noticeably while the supply increase to meet demand was not enough to maintain a stable price level. The result was a noticeable upturn in the average level of prices (inflation) in spite of slow growth of economic activity.

Federal Reserve (FED) policy turned more restrictive in the second quarter of the year by first tapering bond purchases and in June by sharply increasing the FED funds rate. The FED policy change means a period of low-economic growth while inflationary pressures will decline, but only **after** a noticeable lag. The risk is growing due to FED tightening.

- ❖ In conclusion, the combination of FED tightening with supply chain bottlenecks means a period of slow growth while inflation remains uncomfortably high (“stagflation”). This is the scenario likely through at least the first half of 2023. The tables below highlight the expected evolution of the U.S. and South Florida economic activities through the first quarter of 2023.

U.S. Economic Performance – First Quarter
(% Change from Preceding Period at Annual Rates)

Indicators	Q1-2019	Q1-2020	Q1-2021	Q1-2022	Q1-2023 ^F
Gross Domestic Product (GDP)	2.4	-5.1	6.3	-1.5	1.0
Personal Income	3.6	3.1	54.7	-6.7	0.5
Consumer Price Index (CPI)	1.6	2.1	1.9	8.0	7.0
GDP Deflator	1.2	1.3	4.3	8.1	6.5
Producer Price Index (PPI)	2.0	1.1	3.0	11.0	9.0
Payroll Employment	1.5	1.1	-5.4	4.7	1.5
Unemployment Rate	4.1	4.1	6.5	4.1	5.0

Sources: Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS) and Forecast (F) by the Washington Economics Group.

South Florida Economic Performance – First Quarter
(% Change from Preceding Period at Annual Rates)

Indicators	Q1-2019	Q1-2020	Q1-2021	Q1-2022	Q1-2023 ^F
Payroll Employment, of which:	1.9	1.3	-5.7	6.0	2.0
<i>Retail Trade</i>	-1.0	-1.3	-5.0	4.7	4.0
<i>Financial Activities</i>	3.2	2.0	-0.2	5.0	4.5
<i>Professional & Business Services</i>	1.5	1.6	-0.2	6.2	5.0
<i>Leisure & Hospitality</i>	2.0	1.0	-21.0	17.0	10.0
Exports (\$ Millions*)	\$60,717	\$50,988	\$64,816	\$23,584	---
Imports (\$Millions*)	\$49,150	\$45,685	\$55,395	\$20,142	---
Trade Balance (\$ Millions*)	\$11,567	\$5,303	\$9,421	\$3,442	---

Sources: Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), Enterprise Florida, Inc. (EFI) and Forecast (F) by the Washington Economics Group.

About the Washington Economics Group® (WEG®)

Founded in 1993 in the City of Coral Gables, WEG is a boutique economic consulting firm specializing in comprehensive economic solutions for businesses. WEG engages a limited number of clients each year in order to ensure the best client experience within premier areas of specialization, and possesses expertise in the economies of Florida, the U.S., Latin America as well as the global economy and emerging markets.