



The Daily Dish

Recession Watch

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The news is filled with a spate of [stories](#) about how the U.S. economy will dodge a recession. This is a marked change from the consensus last fall that the Federal Reserve would be unable to engineer a soft landing, but rather would trigger a downturn in its pursuit of the return to the 2 percent inflation target.

The recent change in sentiment hinges on two components. First, that the economy is stronger than anticipated, or even strengthening. Second, that inflation is coming down more quickly than expected.

At least to my eye, the data don't support this scenario. With regard to progress on inflation, the Fed's preferred price measure is the core personal consumption expenditures price index based on market transactions (no imputed price data). This market-based core PCE was rising at 4.9 percent year-over-year in April 2022. After three quarters of Fed tightening it stood at 4.8 percent in December 2022. That's not a ton of progress.

Regarding the strength of the economy, I think there is reason for caution on this front as well. In every postwar recession *except* the most recent, business spending has led the downturn, with household spending following a quarter or two later. The chart, below, shows the key business spending – non-residential fixed investment, which consists of non-residential structures, equipment, and intellectual property products. While the latter continues to grow solidly, investment in structures was negative in 2022 and equipment investment has fallen in two of the past three quarters.

The best single leading indicator of business investment is new orders for non-defense capital goods, excluding the volatile aircraft orders. As shown in the graph (right scale), these orders have been flat over the 2nd half of this past year. That's not signaling a downturn, but its not evidence of a robust capital expenditures boom.

The Fed may very well engineer a soft landing, and we should all hope it does. But there is nothing about the recent data that would change the existing odds significantly.

Core Capital Goods Orders and Non-Residential Fixed Investment



