

January 3, 2023 – Economic Commentary

The new year begins with China fully opening for business after dropping zero-Covid policies, Europe flush with energy reserves and the US economy growing at an approximate 3.5% pace. Nevertheless, anxious questions about all three critical regions remain. China's ability to control the disease outbreaks that have followed its policy change is limited, and the resulting impact on factory output could constrain economic growth for months to come. Europe may have avoided its worst fears regarding energy availability (thanks to a warmer-than-usual winter). However, the near-term cost of actions in response to the Ukrainian War is still high and a challenge to economic expansion. In the United States, the robust growth numbers being seen in the fourth quarter are almost certainly a result of swelling wholesale and retail inventories, as opposed to a massive wave of holiday spending. Imports notably declined sharply in November as consumer spending growth slowed and the inevitable decumulation of inventories will be a serious drag on GDP in the first quarter of 2023. The most important economic numbers in these next few weeks will come from labor markets, starting with the US December employment numbers at the end of this week; labor force growth, wages, and job creation (or lack thereof) will have much to say about the prospects for inflation and interest rates in important markets globally.

Data to Watch:

1. US Institute for Supply Management (ISM) purchasing managers survey for December, released Wednesday, January 4
2. Federal Open Market Committee (FOMC) minutes from the last meeting of 2022, released Wednesday, January 4
3. US Non Farm Payrolls, Unemployment and Labor Force Participation Rate for December, released Friday, January 6

Suggested Reading:

[China Increases Trade in Asia as U.S. Pushes Towards Decoupling](#)

[Robust Job and Wage Growth Showed Signs of Cooling in Late 2022](#)

[Third of World Economy to Hit Recession in 2023, IMF head warns](#)

[Wave of Job-Switching has Employers on a Training Treadmill](#)

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