



A soft landing: the case for and against

Risks have shifted, but a recession remains our central case

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Does a soft landing now look more likely in the US?

Markets appear more hopeful of the US economy pulling off a soft landing this year. China’s reopening could support global growth, the US labour market is cooling down, and inflation looks likely to fall further. Is a soft landing now likely? We remain sceptical.

Further slowing from here looks highly likely

Some further slowing looks highly probable as the long and variable lags of monetary policy work themselves out. Equally, a soft landing is likely to require the Fed to soften its stance on inflation. That seems unlikely as long as the labour market remains tight.

We continue to expect a US recession this year

We remain comfortable with our sub-consensus forecasts for US GDP growth. But we also sense a disconnect between interest rate futures and risk assets. A recession could be required for the Fed to ease this year, but equities and credit don’t reflect that risk.

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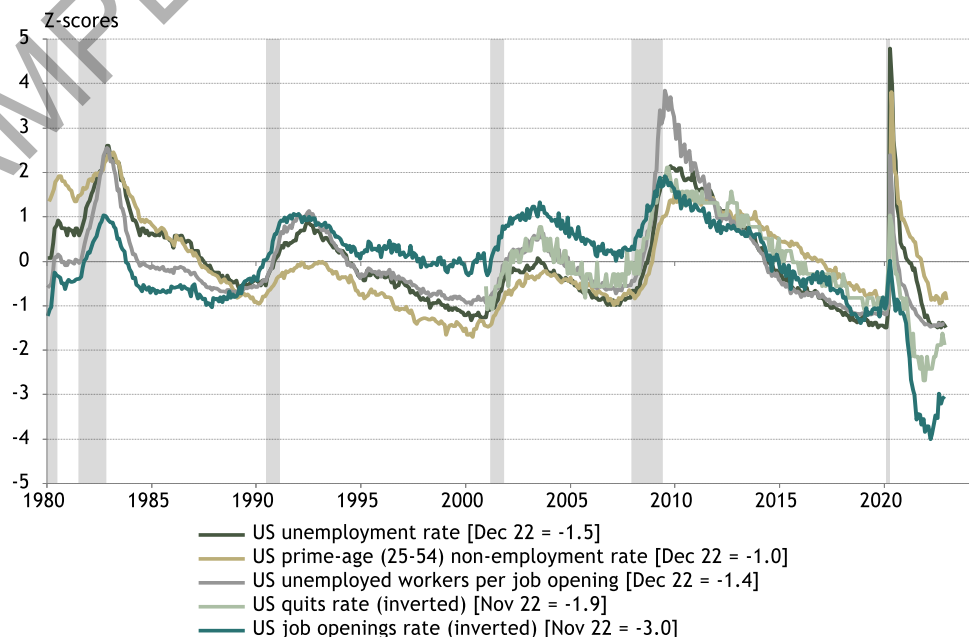
‘The ECB goes all-in: hawkish shift risks unintended consequences’, Economics Weekly, 10th January 2023

‘2023 Outlook - it’s complicated’, Economics Weekly, 22nd November 2022

‘The Alternative Year Ahead’, Economics Weekly, 20th December 2022

‘Tracing the long and variable lags’, Economics Weekly, 15th November 2022

Key chart: Five different measures of US labour market slack



Source: ASR Ltd. / Refinitiv Datastream