

1/23/23, 12:50 PM

Last Year Was Rough. Here's What Could Come Next.



COSTAR INSIGHT

Last Year Was Rough. Here's What Could Come Next.

View Our Latest US Economic Update

By Christine Cooper
Costar Analytics

January 18, 2023 | 9:43 AM

Pandemic-related supply constraints and stimulus-fueled demand collided to produce the fastest inflation in decades last year, forcing the Federal Reserve to raise its overnight lending rate in a bid to bring down demand and prices.

What's in store for the economy this year? We look to three stories that are likely to unfold in 2023:

First, with inflation still elevated, the Fed seems on track to keep interest rates higher for longer, resolving to wait until inflation is "sustainably" on its way to the group's 2% target.

Second, higher borrowing costs are likely to weaken business activity further, with both factories and the services sector already contracting at the end of last year. This weakness should put expansion plans and hiring on hold. Fewer hires could depress household incomes, reining in consumer spending that accounts for more than two-thirds of the economy.

Finally, with both businesses and consumers pulling back, the economy is likely to fall into recession. The duration and severity of the downturn, once it arrives, remain to be seen.