2023 U.S. Economic Outlook and How it will Impact Credit Unions

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The latest economic and market data show a road to recovery, with slow growth in Quarter 1 through Quarter 2 of 2023. The U.S. economy is poised for a comeback next year, albeit rather slowly.

2023 Inflation and Interest Rate Predictions

Inflation slowed to 7.7% year over year (YoY), a good sign for 2023. Right now, next year's inflation rate is forecasted at 4%. The supply side of the economy is working out issues in the supply chain, leading to a slowdown in inflation. The inflation rate will likely be high in Q1 and Q2 of 2023 but taper down as demand cools and supply ramps up.

Interest rates rose by 3.75 percentage points this year and are predicted to increase by 0.5 to 0.75 percentage point at the next meeting of the Federal Open Market Committee on December 14th.

The committee meets again in February 2023, at which time I expect them to raise rates by another 0.5 percentage points. The goal is to get interest rates to 5%.

2023 Consumer Price Index (CPI) and Real Gross Domestic Product (GDP) Predictions

The CPI has been falling after reaching a high of 9% YoY this summer. As of October 2022, the CPI was 7.7%. Now, the biggest concern is heading into a wage-price spiral, where firms give raises between 5% and 7%. They then need to raise prices to cover the raises. This quickly becomes a recurring cycle.

Barring a wage price feedback loop, I expect the CPI to continue lowering. Key commodity prices for copper, aluminum, steel and oil have been falling since their peaks last summer.

Current forecasts suggest real GDP growth will be 0% next year. Higher interest rates cool down consumers' borrowing and spending, pushing down GDP growth. The natural cycle of spending will begin to cool down, as consumers focus on paying down debt.

2023 Mortgage Rate Prediction

U.S. mortgage rates for a 30-year fixed rate sits at 7.6% today, up dramatically from a low of 2.6% in December 2020. Thankfully, with the 30 basis point drop in the 10-year treasury interest rate last week, mortgage rates fell slightly. The expectation is that mortgage rates will hover around 6% in 2023, if not lower.

2023 Recession Prediction

If there is a recession in 2023, it's predicted to hit in Q2 or Q3. There will likely be a bounce back by Q4 of 2023.

Any imbalance right now is in part due to the housing shortage. There's very little inventory for those looking to buy, so nobody wants to sell. The combination of very few new home builds and active listings of existing homes is hurting the housing market. I don't expect a home price crash like 2008, because the government enacted rules and regulations for mortgage loan originations to scrutinize the borrowers' ability to repay the loan.

Additionally, the $1 trillion infrastructure bill passed by Congress will offset any private sector recession because the public sector spending will kick in to keep it a mild recession.

Impact on Credit Unions

The biggest concern for credit unions is a liquidity shortage, meaning deposit growth is weaker while loan growth is strong. Credit union loan growth is setting record amounts this year (17-18%).

Credit unions had to lend out more money for each loan but weren't receiving deposits to balance this out. Credit unions need deposit dollars to make loans, and so far, they're not seeing any deposit growth.

Supporting Credit Union Members in 2023

Low-income members are under financial stress, so it might be hard for them to afford necessities. Those members are hit hard by overdraft fees. In response, many credit unions are reducing fees or getting rid of fees altogether.

Credit unions can also help members by allowing them to open accounts with no minimum balance. A lot of unbanked individuals just don't have $500 to meet the minimum required balance. Low fees and no minimum balance will help low-income individuals create accounts, start saving and manage their money.

The U.S. economy is forecasted to make a steady comeback in 2023, with overall positive predictions across all fronts. Expect the Fed to continue raising interest rates in the early half of 2023. Remember, a mild recession is likely to materialize in mid-2023, so keep your individual balance sheets in check.

CORP-5271555.1-1122-1224