The Artisan Advisor

4th Quarter 2022

Economic activity was about flat or up slightly since the previous report, down from the modest average pace of growth in the prior reporting period. Five Districts reported slight or modest gains in activity, and the rest experienced either no change or slight-to-modest declines. Interest rates and inflation continued to weigh on activity, and many contacts expressed greater uncertainty or increased pessimism concerning the outlook. Nonauto consumer spending was mixed but, on balance, eked out slight gains. Inflation pushed low-to-moderate income consumers to substitute increasingly to lower-priced goods. Travel and tourism contacts, by contrast, reported moderate gains in activity, as restaurants and high-end hospitality venues enjoyed robust demand. Auto sales declined slightly on average, but sales increased significantly in a few Districts in response to higher inventories. Manufacturing activity was mixed across Districts but up slightly on average. Demand for nonfinancial services was flat overall but softened in some Districts. Higher interest rates further dented home sales, which declined at a moderate pace overall but fell steeply in some Districts; apartment leasing started to slow, as well. Residential construction slid further at a modest pace, while nonresidential construction was mixed but down slightly on average. Commercial leasing weakened slightly, and office vacancies edged up. Bank lending saw modest further declines amid increasingly weak demand and tightening credit standards. Agricultural conditions were flat or up a bit, and energy sector activity increased slightly on balance.

The Federal Reserve Beige Book, November 30, 2022

What to Expect in the Year Ahead

American Bankers' Catherine Leffert in her research report, "Brace for the short, prepare for the long: Financial institutions calibrate priorities for 2023," analyzed survey results from people across finance sectors to identify trends in financial services professionals might consider as they develop strategies for 2023. Leffert's results indicated the following: 1) The outlook on a speedy recovery from the pandemic recession is a bit bleak. More than half of respondents say they don't expect recovery until 2024, and more than 80% don't think it will happen until at least the second half of 2023. Close to 10% of respondents, primarily from the banks, think the economy has already recovered. Payment firms and credit unions are least optimistic for a swift recovery. Last year, companies were a bit more hopeful about recovery. When polled in 2021, 47% of respondents were planning on recovery in 2022. 2) Customer behavior is top of mind. More than half of respondents say changing customer demands are a major priority as they lay out strategies for the next few years. Companies are also making moves to boost their IT teams and customer experience capabilities, especially with new products, customized experiences and mobile apps. Increasing demand for digital services has accelerated the financial industry's adoption of higher tech for customer-facing products. 3) The midterm elections didn't deliver the "red wave" that many people were expecting, as Republicans took the House and Democrats took the Senate. Most respondents, who were surveyed before the elections, aren't overly concerned about the ramifications on their businesses. Most think there will be either no impact or a positive impact. 4) Environmental, social and governance (ESG) issues are still highly relevant, but respondents are putting slightly less emphasis on them compared with last year. Only 15% of respondents say they don't pay attention to ESG, a majority of whom worked at companies with less than $10 billion in assets. 5) Companies are still committed to major technology spending, though slightly less than last year. Top strategies include cloud conversion and data and analytics. About 70% of respondents plan to increase tech spending in 2023, a 15% drop from the previous year. There's also a correlation between respondents who expect to increase tech spending and those who think inflation will cool in 2023. This past year, many fintechs sputtered as the economy tightened and inflation hit consumers, and 6) Folks had robust expectations for 2022 mergers and acquisition activity, following a banner period of M&A. The past year ended with tepid M&A, and respondents have similarly downbeat views for 2023.

Leffert, Catherine. "Brace for the short, prepare for the long: Financial institutions calibrate priorities for 2023." Retrieved December 27, 2022, from http:www.americanbanker.com/research-report/brace-for-the-short-prepare-for the long-financial-institutions

Rate Watch

(12/27/22)

10-Yr. Treasury: 3.849%

7-Yr. Treasury: 3.932%

5-Yr. Treasury: 3.943%

U.S Prime Rate: 7.5%

Interest Rate Commentary

The Fed will deliver more interest rate hikes next year even as the economy slips towards a possible recession, Fed Chair Jerome Powell said on December 14th. Recent signs of slowing inflation have not brought any confidence yet that the fight has been won, Powell told reporters after the Fed's policy-setting committee raised its overnight rate by half a percentage point and projected it would continue rising to above 5% in 2023. Those rises in borrowing costs would come despite an economy that the Fed projected will run at near stall speed through next year, with annual growth rate of 0.5% and unemployment rate at nearly a full percentage point higher by the end of 2023.

Schneider, Howard, Saphir, Ann, and Derby, Michael. " Fed's Powell says inflation battle not won, more rate hikes coming."http:www.reuters.com/us/fed December 14, 2022

Did You Know?

- Michael Boettcher, CPA, (mboettcher@artisan-advisors.com) recently joined Artisan Advisors as a managing director and will specialize in strategic consulting, risk management, and organizational efficiency. Michael has more than 35 years of banking experience.
- Artisan Advisors can provide your organization interim executive support, assist with the identification and description of required executive skill sets, and participate in the interview process. Contact Jim Adkins (jadkins@artisan-advisors.com).
- Liquidity will continue to be a focus of the regulators. Make sure you liquidity position is sound. Contact Jeff Voss at jvoss@artisan-advisors.com
- Do you engage in strategic marketing? Your marketing effort should support your strategic plan. For assistance, contact Cynthia Rohde crohde@artisan-advisors.com.

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