MARKET OUTLOOK
FALL 2022

SECURITY NATIONAL BANK
PRIVATE CLIENT SERVICES

Current Forecast

	2021	2022 Est	2023 Est	2024 Est
GDP Growth (1)	5.5%	0.0%	-0.1%	1.2%
Change in Consumer Prices (2)	7.1%	6.9%	4.0%	3.0%
Fed Funds Target Rate (3)	0.25%	3.75%	3.75%	3.50%
5-Year Treasury Yield (3)	1.26%	3.63%	3.75%	3.50%
10-Year Treasury Yield (3)	1.51%	3.50%	3.75%	3.50%
S&P 500 EPS	$206	$221	$226	$235

Security National Bank Private Client Services expects 4Q/4Q growth to slow to 0.0% in 2022 and 2023 as tighter financial conditions, inventory adjustments, and a smaller budget deficit impact the economy. Growth will remain below potential until mid-2024, and the economy may slip into a shallow recession late next year. We expect inflation will fall to 4.9% in 4Q2022 and 3.4% by 4Q2023. Other geopolitical events and sticky shelter costs are a risk of higher inflation. We expect the FRB to raise rates by 0.50% in September and November and 0.25% in December before pausing for an extended period.

Last Month's Rates and Total Returns

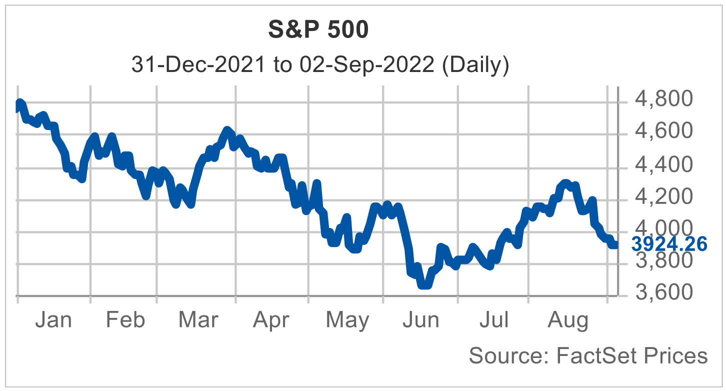
August 31, 2022	Value	One Month	Year to Date	1 Year
Fed Funds Target (Upper)	2.50%	-- bp	+225 bp	+225 bp
2-Year Treasury Yield	3.44%	+54 bp	+271 bp	+324 bp
5-Year Treasury Yield	3.28%	+58 bp	+202 bp	+251 bp
10-Year Treasury Yield	3.13%	+49 bp	+162 bp	+183 bp
S&P 30Yr Fixed – U.S. Avg.	5.48%	-2 bp	+232 bp	+247 bp
S&P SuperComposite 1500	903	-4.03%	-15.97%	-11.20%
S&P 500 Index	3,955	-4.08%	-16.14%	-11.23%
S&P Midcap 400	2,431	-3.10%	-13.58%	-10.37%
S&P SmallCap 600	1,184	-4.39%	-14.74%	-12.12%
S&P 500 Growth	2,595	-5.34%	-22.69%	-17.43%
S&P 500 Value	1,391	-2.84%	-8.84%	-4.51%
World ex-US, net *	244	-3.22%	-18.34%	-19.52%
Wilshire Liquid Alts	175	-0.78%	-4.86%	-5.13%
B.B. U.S. Aggregate	91	-2.83%	-10.75%	-11.52%
Crude Oil – WTI Near Term	$90	-9.2%	19.07%	30.73%
Commodity Index	122	0.09%	23.59%	27.72%
FT Wilshire Bitcoin	20,103	-16.42%	-58.07%	-57.47%
Gold – Near Term	$1,713	-2.84%	-6.28%	-5.63%

**= MSCI ACWI ex the U.S.*

Prepared by Damian Howard and John Gibb September 6, 2022

Security National Bank's Wealth Management Department authors a monthly economic forecast that provides our Investment Committee and the Bank's Funds Management Committee with background assumptions for use in investment decisions. We are pleased to share our economic outlook with you. Please be advised that our crystal ball is just as clouded as other prognosticators and that all forecasters have poor track records. This report will use FRB for Federal Reserve Bank and FOMC for Federal Open Market Committee. The FOMC is part of the FRB that meets eight times yearly to set monetary policy. The primary tool for monetary policy is the Federal Funds Rate (FFR). FFR is the rate set by the FOMC and is the rate banks borrow and lend their excess reserves to each other overnight. It sets a floor on short-term interest rates.

We will use the terms nominal and real. Nominal values are measured in terms of money, things counted in the real world. Retail sales, personal income, expenditures, and corporate earnings are usually reported in nominal dollars. Real values are adjusted for inflation, nominal less inflation. Real values enable comparisons that are not distorted by inflation. GDP numbers are usually reported as real growth.



We would like to point out that our projections are based on what we think monetary and fiscal policymakers *will* do, not what they *should* do.

The 17.5% rally from June 17 to August 16 may have been a bear market rally. On August 26, FRB Chairman Jerome Powell gave a speech in which he stressed that the "overarching goal" is to bring inflation back to its 2% target. He further stressed, "restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance." This speech took the hoped-for mid-2023 Fed pivot (interest rate cut) off the table. While we did subscribe to that notion, many bulls did.

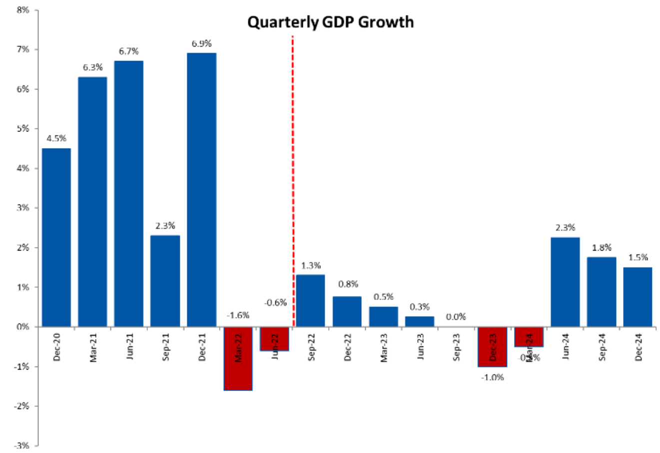
Whether the stock prices retest the lows or resume their rally is yet to be seen. A case can be made for either outcome. Those that follow technical analysis content that stocks will retest the recent lows. We do not expect confirmation until after the next FOMC meeting on September 21. By then, we will have received one more CPI report, September 13. We expect headline inflation to run at 0.1% and core inflation at 0.3%. This will mark two straight months of energy-driven disinflation. We forecast inflation to average 0.1% during the third quarter, driven by lower energy prices. The FRB's narrative will switch from last year's "inflation is transitory" to this year's "disinflation is transitory." This time, they are probably correct. We expect inflation to jump once energy prices stop falling and average 4.9% during the fourth quarter.

The Gross Domestic Product (GDP) report shows the economy contracting 1.6% in Q1 and 0.6% in 2Q22. This marked the second quarter in a row of negative real growth. Two-quarters of economic contraction usually signal an economic recession. We think the statistics are misleading. We expect one or both quarters' growth to be substantially upwardly revised. An alternative measure of economic growth, Gross Domestic Income (GDI), shows the economy grew 1.8% in Q1 and 1.4% in Q2. Theoretically, GDP and GDI should be equal since they measure the same thing, economic growth. A simple average of the two indicates the economy grew at less than 0.5% each quarter. We expect the final revised numbers will settle in that territory.

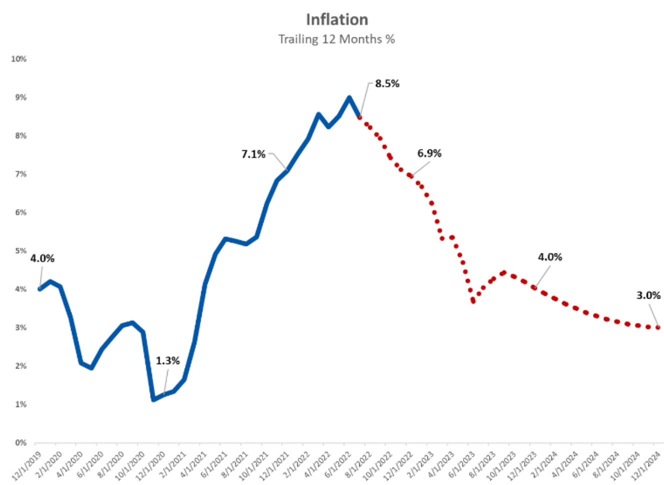
3Q22 economic growth should rebound to about 1.3%. The Atlanta FRB's GDPNow latest estimate is 2.4%, and FactSet consensus is currently 1.7%.

Market Outlook
Fall 2022

SECURITY NATIONAL BANK
PRIVATE CLIENT SERVICES



We expect the economy will limp along at less than 1% growth until the end of 2023. It usually takes a year before FRB tightening, and restrictive money supply growth impacts the economy. Economists believe the potential long-term growth of the economy is around 1.8%. Our forecast calls for nine consecutive quarters of below potential growth and then the stretch of below potential growth should be enough to lessen inflationary pressures.



We expect inflation to fall to 3.0% by early 2024. By then, the FOMC will reduce the FFR in early 2024. The Summer Outlook proposed that long-term inflation is unlikely to hit the FRB's 2% target. In the 25 years before the pandemic, the price of durable goods fell by 2% per year (38% cumulative). Durable goods deflation was steady and long-lived. The availability of ever-cheaper goods from abroad (China and other Asian countries) was a major contributor to the benign U.S. inflation environment. The price of non-durable goods was also suppressed by outsourcing production. Services inflation averaged 2.6%. Supply chains are shifting again - this time not to cut costs but to ensure availability. The West is decoupling from China. The era of ever-cheaper foreign goods is likely over. Inflation is unlikely to be as benign in the next 25 years as it has been in the 25 years before the pandemic.

We have included our forecast for the Fed Funds Rate (FFR). We expect the FOMC to raise interest rates by 0.50% in September and November. The FFR is expected to end the year at 3.75% after a final rate hike of 0.25% in December. We expect the FRB to remain on hold during 2023 as they monitor the path of inflation and employment.

We have also included market expectations based on Fed Funds futures. After Chairman Powell's Jackson Hole speech, investors have increased their projected September hike by 0.25% to 0.75%. Before the jobs report, the probability of a 0.75% or greater hike was 75%. The goldilocks jobs report lowered the probability to 56%. We expect a benign inflation report will lower it further.

Fed Funds Futures predict a 0.50% increase in November, followed by a final 0.25% in February. The futures market no longer predicts the FOMC will cut rates next year. Our expectations are not too dissimilar to the market.

Prepared by Damian Howard and John Gibb September 6, 2022

The 2-Year Treasury security has been a good guide to the path for the FFR. The 2-Year Treasury tends to peak slightly above and slightly before the FFR peak rate. The 2-Year Treasury is currently yielding 3.40%. We currently have a 3.75% FFR peak. If the 2-Year Treasury rate holds near this level, our peak FFR looks reasonable.

Unintended Consequences

The Biden Administration announced a student loan forgiveness program in late August. Part of the proposal caps the monthly payment to 5% of monthly income above 225% of the federal poverty level (about $30,000). If the loan balance is less than $12,000, the loan balance will be forgiven (tax-free) after ten years. If it is above $12,000, it is forgiven after 20 years of payment. We calculate a typical college undergraduate may have $20,000 of debt forgiven. Graduate students could have a significantly higher amount forgiven.

Meeting Date	Fed Funds Futures	SNB Forecast
Current	2.50%	
September 21	3.25%	3.00%
November 2	3.75%	3.50%
December 14	3.75%	3.75%
2023		
February 1	4.00%	3.75%
March 15	4.00%	3.75%
May 3	4.00%	3.75%
June 14	4.00%	3.75%
July 26	4.00%	3.75%
Data as of 8/04/22		
The upper end of the range		

We fear the program is too generous and gives students strong incentives to maximize borrowings. It encourages universities to compete for students on the quality of amenities versus providing cost-effective education. The program will likely accelerate higher education inflation while shifting substantial costs to taxpayers. It also sets the expectation of future debt forgiveness, further encouraging excessive debt accumulation.

If you have any questions or comments, please feel free to reach out to our Security National Bank Private Client Services team.

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Please see the obligatory disclosures at the bottom of each page and at the end of this report.

Since 1977, the Federal Reserve has operated under a mandate from Congress to "promote the goals of maximum employment, stable prices, and moderate long-term interest rates effectively" – what is now commonly referred to as the Fed's "dual mandate." For this reason, we always start our economic review with employment followed by inflation. We then review other factors that drive our economic outlook.

Employment

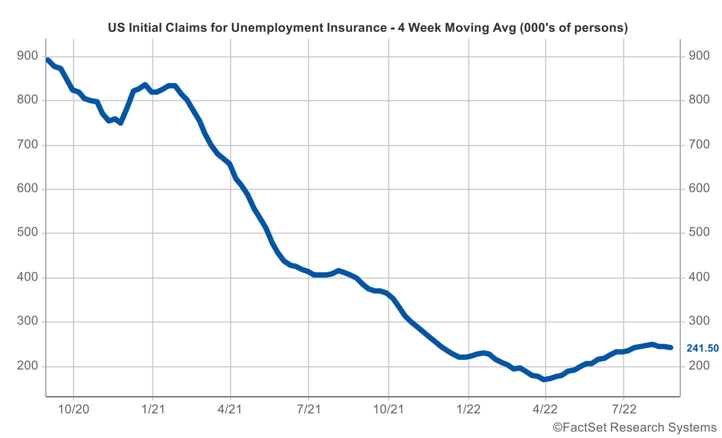
Employment is called a lagging indicator. This means that employment usually does not soften until after a recession begins. It takes a lot of money and effort to attract and retain employees, especially in this environment. Employers do not want to let staff go until falling revenue force them to cut cost. Declining revenues are usually not evident for a couple of months once the recession starts.

We begin our employment review by looking at the Jobs Openings and Labor Turnover Report.
(JOLTs) published by the Bureau of Labor Statistics (BLS). This gives us an idea of how big a cushion the economy has before employment is impacted. Companies will first cut open positions before actual employees.

The July JOLTs report indicated that open positions increased by 199,000 positions to 11.2 million. 6.9% of positions remain unfilled versus 6.8% the previous month. This number remains substantially above the trend before the pandemic (4.5%). The bulk of the decline was centered on retail trade (85,000), entertainment (53,000), and state and local government (52,000). The first two categories reflect the return of summer vacations. The final category relates primarily to restaffing schools.

The quit rate in the private sector held steady at 3.1%. This number averaged 2.6% before the pandemic. Employees generally do not quit their job unless they are confident in finding a better position. A high quit rate tends to lead to wage pressures, as employers raise wages to retain and attract needed staff. On the flip side, the private sector layoffs and discharges rate held steady at 1.0%. This rate was 1.5% before the pandemic. Despite recent press reports, mass layoffs have not yet made it to the monthly statistics.

There remains a substantial cushion of open positions. The FOMC is looking for the number of job openings and the quit rate to gradually decline. This will indicate that the labor market is cooling enough to reduce wage pressure, which is key to avoiding a wage/price inflation spiral.



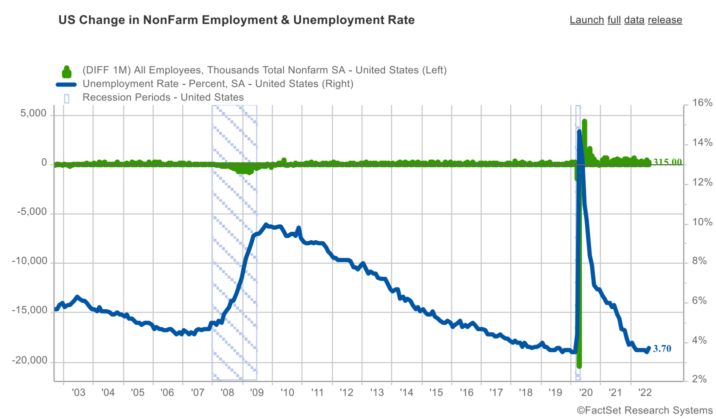
We also watch the initial weekly claims figure for clues on a weakening jobs market and a potential recession. In April, weekly claims reached a 50-year low of 168,000. As seen in the chart above, unemployment insurance claims steadily rose until June and have since leveled out. For the week ending August 26, initial jobless claims were 232,000, below the consensus forecast of 250,000, bringing the four-week average to 242,000. Weekly jobless claims signal that the labor market remains fundamentally healthy. Workers who lose their job have been able to quickly find work, as continuing claims remain quite low.

The BLS reported that the economy added 315,000 jobs in August versus the consensus estimate of 300,000 jobs added. The previous two months' payrolls were revised down by 107,000. The unemployment rate rose to 3.7% as the number of unemployed persons increased by 344,000, and the labor force increased by

786,000 persons. The participation rate rose by 0.3% to 62.4%. Hourly earnings rose 0.30%, slightly lower (better) than the consensus estimate of a 0.40% increase. We classify the jobs report as a "Goldilocks" report. It is neither too hot nor too cold. But just right.

The private sector added 308,000 jobs versus the consensus estimate of 295,000 private-sector jobs added. Job growth was widespread, with notable gains in professional and business services (up 68,000), health care (up 48,000), and retail trade (up 44,000). Manufacturing added 22,000 jobs.

The BLS reports statistics from two monthly surveys. The household survey measures labor force status, including unemployment, by demographic characteristics. The establishment survey measures non-farm employment, hours, and earnings by industry. There can be some differences in the numbers. The household survey puts the change in employment at a gain of 442,000 jobs, while the establishment puts the change in employment at a gain of 315,000. Monthly numbers can be volatile and are often revised but tend to converge over the long term.



The unemployment rate rose to 3.7% versus 3.5% the previous month. The number of officially unemployed persons increased by 344,000 to 6.0 million. The broader U-6 unemployment rate rose to 7.0% from 6.7% the previous month. There remain almost two job openings for every unemployed person. Before the pandemic, the unemployment rate was 3.5%, and the number of unemployed persons numbered 5.7 million.

The participation rate rose by 0.3% to 62.4%. The participation rate was 62.7% in February 2020. The employment-to-population ratio rose 0.1% to 60.1%. This number was 61.2% in February 2020. If the employment-to-population ratio were to return to the February 2020 level, the number of employed persons would increase to 161.7 million, and an additional 2.9 million jobs would be added for an increase of 1.8%. In essence, we are still short 2 to 3 million workers.

A recent study by Brookings Metro found that in January 2022, an estimated 1.6 million full-time workers could be out of work due to long COVID. In June, the Census Bureau estimated that 16 million working-aged Americans suffered from long COVID, and 2 to 4 million were out of work due to long COVID. It now appears that these missing workers are suffering from long COVID. It may take a while for adequate treatment to be developed to allow these workers to return full-time to the workplace. We do not expect the employment-to-population to improve much from current levels.

Last month's average hourly earnings (wages) rose by $0.10 per hour to $32.36, up 0.31%, less than the consensus estimate of 0.40%. Average hourly earnings are up $1.60 per hour, or 5.2% y/y, also below the consensus estimate of 5.3%. Over the last three months, average hourly earnings have grown at a 0.39% monthly pace or 4.8% annualized versus 5.1% last month. Wage growth deaccelerated last month. The FRB is looking for wage growth to decelerate.

The average workweek fell by 0.1 hours to 34.5 hours. Average weekly earnings increased by $5.19 or 0.47% from the previous month. Average weekly earnings are up $49.05 (4.6%) y/y. Average weekly earnings were $1,116 ($58,053 annualized) versus $1,067 ($55,503 annualized) last year.

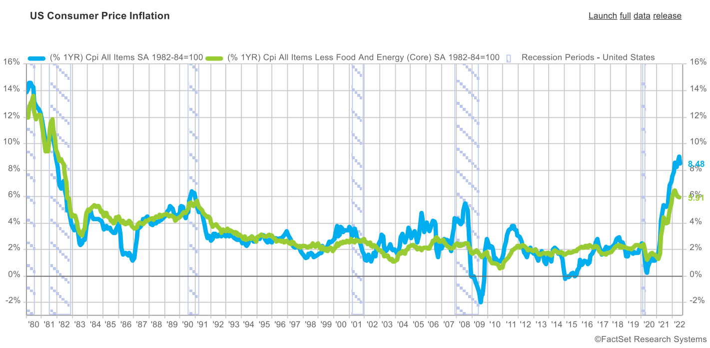
Before the pandemic, monthly job gains averaged 198,000. The three-month average jobs gain now 378,000, still significantly above the pre-pandemic level. Economists estimate monthly job gains need to average just 75,000 to 100,000 for the labor markets to be neutral. A neutral labor market has modest increases in wages and steady unemployment.

Nothing in this month's Jobs Report would prevent the FOMC from raising interest rates by 0.50% at its next meeting on September 21. If the CPI report on September 13 comes in hot, a 0.75% rate increase looks likely. The FOMC remains data-dependent.

Inflation

The U.S. Bureau of Labor Statistics will release the next Consumer Price Report on September 13, a week before the next FOMC meeting on September 21. The decision-making body should have sufficient evidence to gauge whether inflation is heading in the right direction by then. We expect August headline inflation to run at 0.1% and core inflation at 0.3%. This will mark two straight months of energy-driven disinflation.

The Consumer Price Index (CPI) fell 0.02%% in July. Core prices rose 0.3%. Consensus expectations were for a 0.2% m/m increase in headline and a 0.50% increase in core inflation. Consumer prices are up 8.5% y/y. This is down from the 9.0% reported in June. June's number was the highest reported in four decades. Over the last three months, inflation has run at a 9.5% annual rate and a 9.7% rate over the last six months.



Energy prices fell 4.5% in July, partially reversing the 7.5% advance the month before. The price of oil fell 7.3% in July and is currently trading at $86.27, with futures having WTI ending the year at $84.49, down 31% from its recent high of $122.11 on June 6. Energy prices may fall a further 255 in an economic downturn. Longer term, they are set to rise as supply growth has not kept pace with demand.

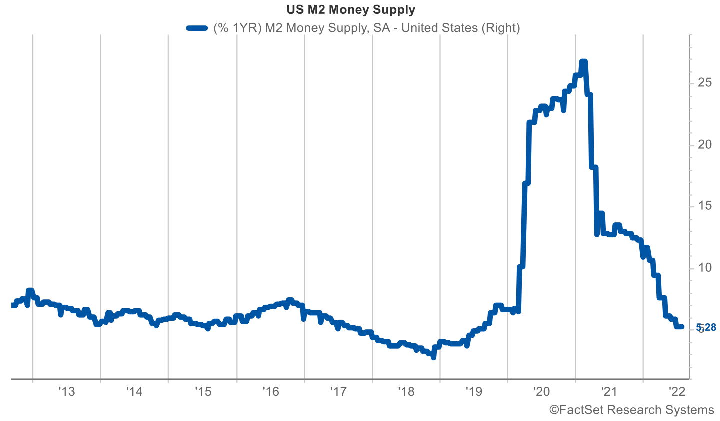
Food prices rose 1.1% in July, 1.0% in June, 1.2% in May, and 0.9% in April. Commodity grain prices remain high because of poor global weather conditions. Lower energy prices will help ease food costs as energy is a large input in the production, processing, and distribution of food. We forecast food prices will increase another 0.8% in August and end the year at a 0.6% m/m pace.

The core CPI rose 0.3% in July, 0.7% m/m in June, 0.6% in May, and 0.6% in April. Core prices should moderate slightly as consumption shifts from goods to services and overall demand softens due to the slowing economy. We expect airfare prices to soften as the price of jet fuel moderates. Two main drivers of core inflation are shelter and the price of new and used cars.

The price of new and used cars has been a major driver of core prices. Used car wholesale prices have eased by 5.0% in the last two and half months. It takes a while for wholesale prices to be reflected in CPI statistics. The price of used cars fell 0.4% in July. We look for moderation in future CPI reports. The price of new cars rose 0.8% in July, 0.5% in June, and 1.1% in April. New vehicle inflation will remain sticky until supply chain issues moderate. There is evidence that things are slowly getting better. The slow pace of improvement continues to surprise us.

Rent of shelter increased by 0.5% in July, 0.6% in June, 0.6% in May, and 0.5% in April, marking six straight months of 0.5%+ monthly shelter inflation. Rent of shelter is up 5.8% y/y. Last year, the y/y increase in shelter costs was only 2.9% y/y. According to Zillow Research, apartment rents for new apartments are up 0.6% m/m and 13.2% y/y in July. While extremely high, rental inflation may have peaked in February at 17.2% and is rapidly decelerating. High but rapidly decelerating inflation is also evident in the existing home prices. The S&P/Case-Shiller Home Price Index rose 0.4% in June, 1.2% in May, 1.7% in April, and 2.4% in March and February.

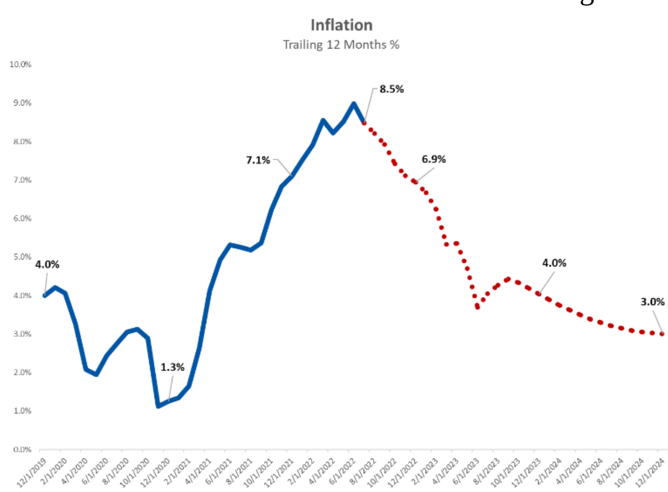
Due to the nature of data collection, shelter CPI lags current condition by six to nine months. We expect shelter CPI to remain high until year-end and then ease into 2023. Shelter rent is 32% of the overall CPI basket.



Much of today's inflation was caused by the rapid growth of the monetary supply in 2020 and early 2021, when growth peaked at over 25%. The money supply has risen just 1%. YTD and is up only 5.3% y/y. We look for M2 to grow less than 4% over the next several years as the FRB shrinks its bloated balance sheet. Slower money supply growth will eventually allow for stable long-term real economic growth.

Lower inflation expectations confirm slower money supply growth. Lower inflation expectations confirm slower money supply growth. As measured by the 5-Year Breakeven Inflation Rate, inflation expectations have improved from 3.59% on March 25 to the current 2.58%. The Breakeven Inflation Rate implies what market participants expect inflation to be in the next five years, on average. The 5-Year, 5-Year-Forward Inflation Expectations have also improved, falling from 2.67% on April 29 to 2.38% currently. This rate implies that market participants believe inflation will average 2.38% from 2027 thru 2032. 5-Year, 5-Year-Forward Inflation Expectations have risen about 0.25% over the last month. They are still a bit below our long-term inflation expectation. This remains a risk to our outlook.

The chart on the right shows our most recent inflation forecast. We forecast inflation will average 4.9% during the fourth quarter, down from 11.0% during the second quarter. By the fourth quarter of 2023, inflation will be down to 3.4% before returning to its long-term run rate of 3.0% in 2024. Our long-term inflation rate of 3.0% is above the 5-Year, 5-Year-Forward rate of 2.4% and the FRB's longer-run estimate of 2.3%. Previous Outlooks have outlined why we expect inflation to trend higher than FOMC projections.



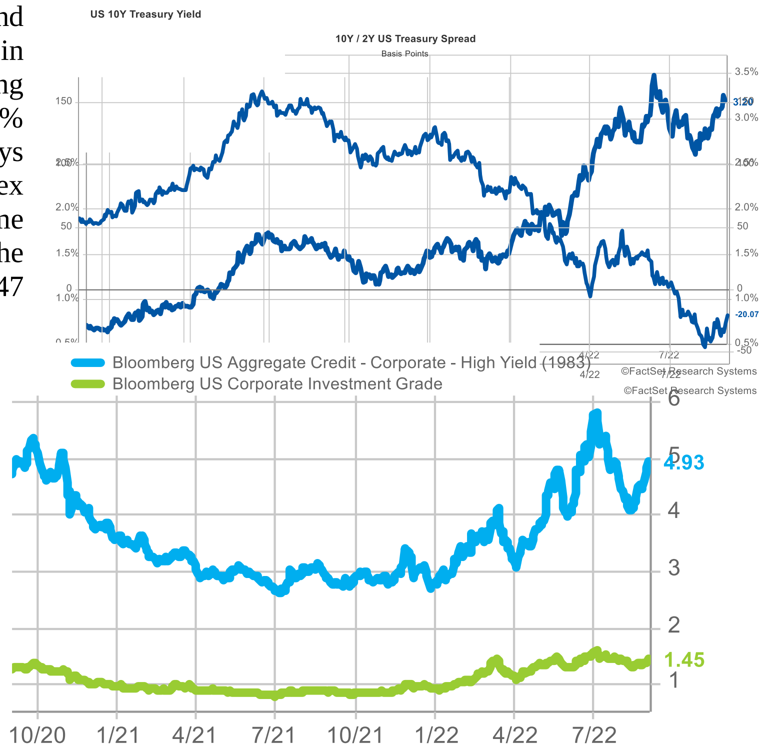
The FRB prefers the Personal Consumption Expenditure (PCE) as its measure of inflation. Due primarily to differences in how health care costs are allocated between employers and consumers, the PCE tends to run 0.30% below the CPI.

Credit Markets

During July, investors refocused their attention on still-strong economic data and continued FRB rhetoric suggesting the U.S. central bank remains committed to raising interest rates to fight inflation. Treasury yields rose sharply in August. The 10-yr UST rate rose 0.55% to 3.20%, just below the YTD peak in June. Fed Chair Powell noted his commitment to inflation fighting, noting that economic "pain" may result from tighter monetary policy (higher interest rates). Still, he believes this is the proper course of action compared with the Fed actions in the 1970s when the Fed stopped tightening prematurely, only to see inflation reaccelerate later. The yield curve remains inverted (short-term rates exceed longer-term rates) but less so after the rise in rates during the month. An inverted yield curve signifies that market participants are concerned about potential future growth and that the FOMC will likely maintain its resolve in hiking short-term interest rates to combat inflation.

After logging its best YTD monthly return in July, the Bloomberg US Aggregate Bond index declined again in August, falling by 2.83%. Prices sank by 3.02% and were offset by 0.19% of interest income - returns were negative for all major bond sectors.

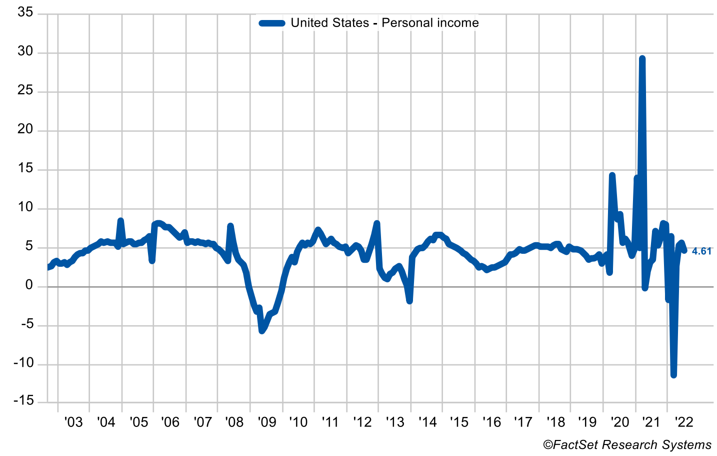
Initially, investment grade corporate bond spreads continued the contraction that began in early July, declining to 1.31% before widening in late August to close at 1.40%, still 0.04% tighter for the month. The Bloomberg Barclays (B.B.) U.S. Corporate Investment Grade index declined 2.93%, with 0.31% of income offsetting price depreciation of 3.24%. The index has an interest rate sensitivity of 7.47 years (effective duration).



The B.B. High Yield index, comprised of corporate bonds with below investment grade ratings, outperformed the broader bond indexes, falling by 2.30% in August. Spreads widened 0.15% in sympathy with declines in U.S. equities. The bond's higher coupons provided 0.46% of income for the month, offsetting price declines of 2.76%. Credit spreads ended the month at 4.84%. The index has a 4.13-year effective duration.

The Consumer Sector

Personal income rose by only 0.2% in July, beating the consensus expected 0.6%. Personal consumption rose 0.1%. The PCE Price Index (PCE Inflation) fell 0.1%, below the consensus expectation of a 0.1% increase.

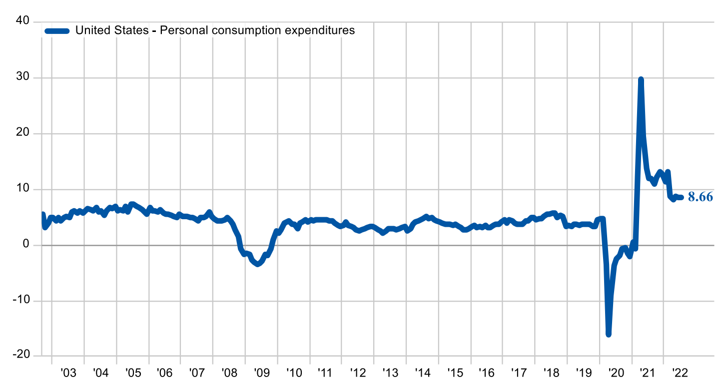


In July, Personal income rose 0.2% m/m and was up 4.7% y/y. Disposable personal income rose 0.2% m/m and was up 2.3% y/y. Government transfer payments fell0.1% m/m and were down 7.5% y/y. Personal income excluding government transfer payments rose 0.3% m/m and 7.7% y/y. Private sector wages and salaries were up 0.9% m/m and 11.2% y/y. Business owners' income fell 1.3% m/m was up 2.9% y/y. Investment income is up 0.2% m/m and 4.1% y/y.

PCE Inflation fell 0.1% m/m and is up 4.6% y/y both below consensus estimates. Real income rose 0.3% during the month and is down 3.8% y/y. Real disposable personal income per capita was up 0.2% m/m and down 4.3% y/y. Consumers caught a break on income and inflation in July.

Personal Consumption Expenditures			
	Nominal	Inflation	Real
Durable Goods	1.3%	-0.2%	1.5%
- Motor Vehicles and Parts	1.1%	0.3%	0.9%
Non-Durables	-1.0%	-0.5%	-0.5%
- Gas and Energy	-10.3%	-7.7%	-2.7%
Services	0.3%	0.1%	0.2%
- Housing	0.8%	0.6%	0.2%
- Airfares	-0.9%	-2.1%	1.5%
- Restaurants	0.1%	0.6%	-0.6%
- Hotels	0.6%	-2.2%	2.9%
Total	**0.1%**	**-0.1%**	**0.2%**
Data for July 2022 m/m			

Personal consumption expenditures (PCE) were up 0.1% for the month, down from a revised 1.0% the previous month. On a real basis, after subtracting out the impact of inflation, consumer expenditures were up 0.2% m/m up from flat the previous month.



Purchases of durable goods rose by 1.3% m/m, led by a 1.1% recovery in motor vehicles and parts. Auto and Truck sales are currently running at a depressed 13.8 million vehicle pace versus the normal pace of 17.5 million vehicles. Vehicle production continues to be plagued by supply chain issues. By all accounts, the demand is there. Automakers could sell cars if they could only build them. We expect the auto sector to provide a tailwind to durable goods as they finally solve their supply chain issues.

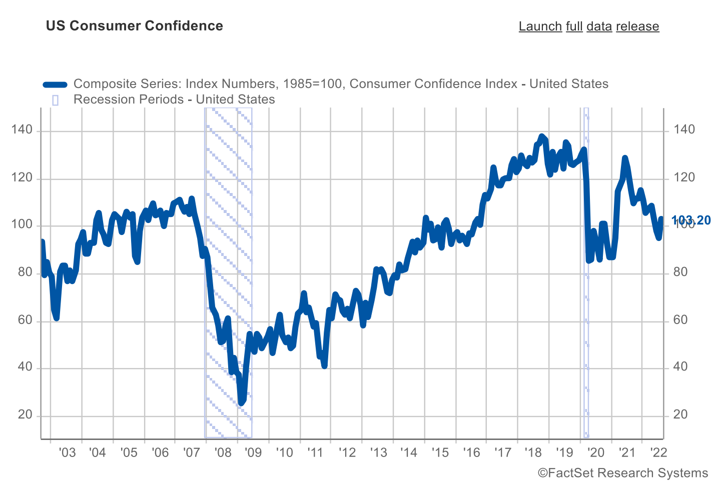
Purchases of non-durable goods fell by 1.0% m/m, led by a 10.1% decrease in gas and energy purchases. On a real basis, spending fell by 0.5%, led by a 2.7% drop in the amount of gas sold. High gas and energy prices have led to demand destruction. On a real basis, demand has fallen in three out of the last four months. Wholesale gasoline prices are down 45% from early-June levels. Lower gasoline and energy prices should lessen the burden on household finances.

Spending continues to shift from goods to services. Purchases of services rose 0.3% m/m, led by housing. Housing costs continue to be very sticky. On a real basis, housing cost, excluding inflation, rises about 0.1% per month. We expect housing inflation to remain high for a while. Utility costs increased due to hot weather. This will moderate as seasons progress.

We expect real goods spending to be negative for an extended period as spending shifts from goods back to services. This should alleviate pressure on stressed supply chains, allowing manufacturers to catch up with demand. The one exception to this is the auto sector. There remains significant pent-up demand. Auto sales should grow as the auto sector corrects its supply chain issues. Price increases will moderate.

Consumers saved 5.0% of disposable income during the month, even with last month. This is significantly less than the 7.4% savings rate that prevailed before the pandemic. It appears consumers have dipped into their savings to the tune of $38 billion in July and $214 billion YTD. We estimate that consumers continue to have $2.3 trillion in excess savings, or enough to fund 13.1% of annual purchases of goods and services. We look for the savings rate to fall a bit further as inflation continues to take a bite out of income and the economy weakens. We would not be surprised to see a negative savings rate.

Relying on savings or increased credit card balances is not sustainable, but consumers can live off their savings and charge away for a bit longer. There remain ample savings to be tapped if desired. Credit card balances are rising sharply but are still below pre-pandemic levels on a real and relative basis. The slowdown in consumption appears, in part, to be a visceral reaction to high inflation. Consumers may have the ability to continue spending, but they are quickly losing the desire to spend. This is evident in confidence surveys.



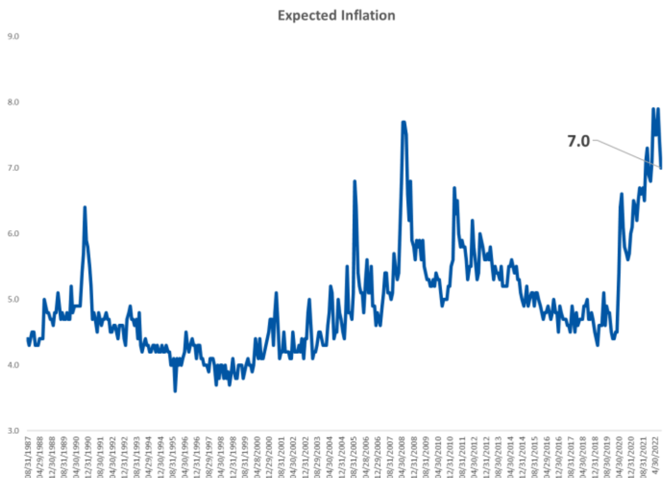
The Consumer Confidence Index, compiled by the Conference Board, rose 7.9 points to 103.2 from a downwardly revised 95.3. Consumers' perception of their present situation brightened. The present situation component rose 5.7 points to 1415.4. The forward-looking expectation component rose by 9.5 points to 75.1. The drop in inflation, particularly gas prices, significantly boosted consumer sentiment.

Consumers' perception of the labor market held steady. The current conditions net employment sub-index (plentiful - hard to get) fell slightly to 36.6 from 36.8 the previous month. Consumers' perception of employment conditions in six months improved as the net sub-index (more jobs – fewer jobs) rose to -1.9 from -6.0 the previous month. For most consumers, the labor market remains a source of comfort.

Respondent's perception of current business conditions improved as the net sub-index (good-bad) rose to -4.0 from -7.9 the previous month.

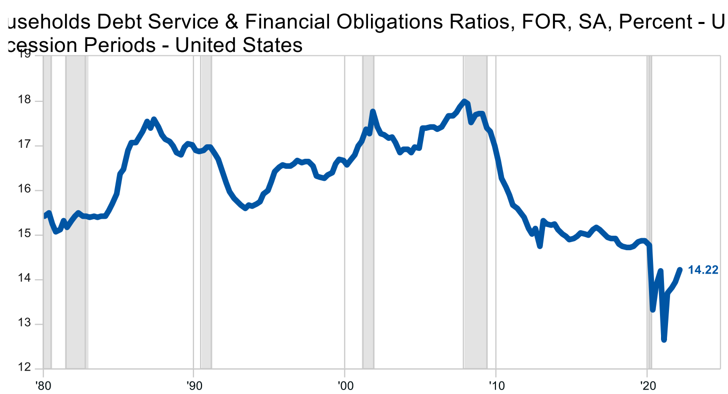
Consumers' perception of their household income in six months strengthened a bit. The net sub-index (an increase in income – a decrease in income) rose to 1.3 from -0.2 the previous month. Consumers have a better outlook on their financial condition than the economy. We attribute it to strong household balance sheets and confidence in their employment situation.

The Conference Board started asking consumers about inflation expectations in 1987. Consumers' expectations for inflation for the next twelve months improved considerably. Consumers forecast inflation will be 7.0% in twelve months versus the 7.4% reported last month and 7.9% in March. Inflation expectations drove the FOMC to raise rates at an accelerated pace. Expectations have fallen for two straight months. This may give the FOMC cover to slow rate hikes if it decides to do so.



Consumers' expectations of interest rates in twelve months remain elevated as the net sub-index (higher interest rates – lower interest rates) held steady at 61.0 versus 61.5 the previous. Consumers are aware of rising interest rates. The FRB's rate plan has been well telegraphed and understood by consumers.

Consumer balance sheets are in great shape. Please see the chart for the household debt service and financial obligations ratio (DSR). DSR is the ratio of total required household debt payments, rent, auto lease payments, homeowners' insurance, and property tax payments to total disposable personal income. Consumer finances have not been this strong in 40 years. Excess consumer leverage will not be the cause of the coming recession.



Consumer spending is slowing and shifting from goods to services. Inflation may have peaked, and consumers' inflation expectations are moving in the right direction. Labor markets remain strong, as do household balance sheets. If the next CPI report comes in as expected, the FOMC has enough coverage to reduce the pace of rate increases.

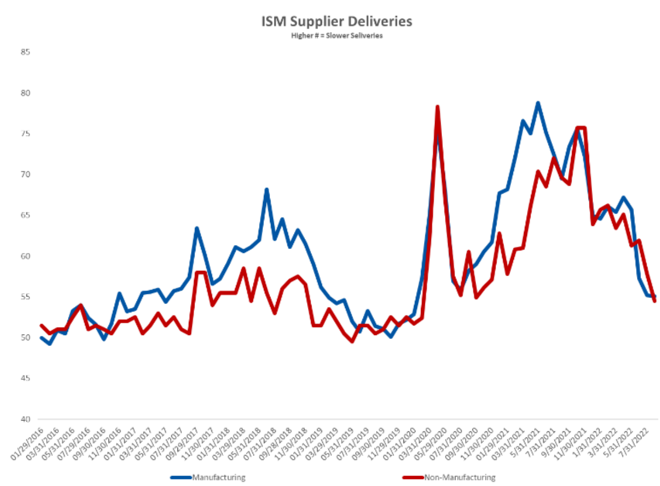
The Business Sector

The Institute for Supply Management (ISM) produces a monthly report on activity in the manufacturing and non-manufacturing (service) sectors. The reports are sentiment-driven and can be influenced by current events. Nonetheless, they do provide real-time clues to what is happening.

Non-Manufacturing Sector	Direction	Rate of Change
Business Activity / Production	Growing	Faster
New Orders	Growing	Faster
Backlog of Orders	Growing	Slower
Employment	Growing	From Contracting
Supplier Deliveries	Slowing	Slower
Customer Inventories		
Non-Manufacturing Sector	**Growing**	**Faster**
Industries Expanding	14	+1
Industries Contracting	2	-1

Both ISM reports point to a softening manufacturing sector with a strengthening service sector. We expect this trend to continue as consumption patterns shift from goods to services. The reports also point to slightly better supply chains and easing of pricing pressures.

August's non-manufacturing index was a positive surprise. The index rose 0.2 points to 56.7, better than the consensus expected 55.5. Activity in the services sector has grown for the twenty-seventh month in a row. Growth widened as 14 industries reported growth versus 13 the previous month. The service sector is expanding at a quicker pace.



The business activities/production component rose 1 point to 60.9. Eleven industries reported an increase in business activity for the month. Three industries reported a decrease in activity. Comments from respondents indicate supply chains are improving "Activity is up due to material receipts that have allowed us to schedule and work more projects than last month."

The new orders component rose 1.9 points to 61.8. Twelve industries reported an increase in orders. Only one industry reported a decrease in orders. Corporate order books are clearing a bit as supply chains normalize. The backlog of orders component fell by 4.4 points to 53.9. Six industries reported an increase in backlogs. Five industries reported a decrease in order backlogs.

The employment index rose by 1.1 points to 50.2, indicating that the pace of hiring quickened slightly. Eight industries reported an increase in employment. Seven industries reported a reduction in employment.

The supplier deliveries component is an inverse indicator. A higher number indicates increasing lead times and difficulty obtaining supplies. A reading above 50 percent indicates slower deliveries, while a reading below 50 percent indicates faster deliveries. The supplier deliveries component fell by 3.3 points to 54.5. Twelve industries reported slower deliveries. Three industries reported faster deliveries. The percentage of respondents reporting faster deliveries increased from 9.6% to 11.6%, indicating slowly improving conditions.

Prices paid for materials and services worsened at a slower pace. The price component fell by 0.8 points to 71.5, marking the fourth consecutive monthly improvement in the index. Seventeen industries reported higher costs. Only one industry reported lower costs. 8.1% of respondents reported lower prices versus 6.3% the previous month.

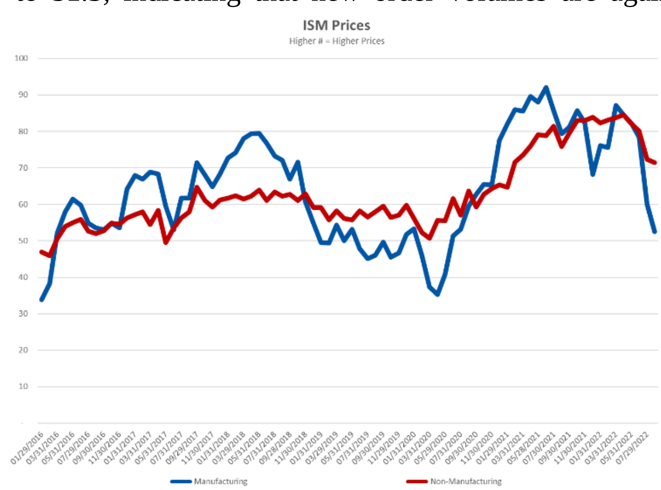
As a frame of reference, a reading above 50 indicates expansion; a reading below 50 indicates contraction. Readings approximating 50 indicate the same level of activity.

Manufacturing Sector	Direction	Rate of Change
Production	Growing	Slower
New Orders	Growing	From Contracting
Backlog of Orders	Growing	Faster
Employment	Growing	From Contracting
Supplier Deliveries	Slowing	Slower
Customer Inventories	Too Low	Faster
Manufacturing Sector	**Growing**	**Same**
Industries Expanding	10	-1
Industries Contracting	7	-

The manufacturing index held steady at 52.8, better than the consensus estimate of 52.0. The above-50 figure indicates the manufacturing sector has expanded for twenty-seven straight months. The two forward-looking measures (new orders and production) were mixed, indicating a steady industrial sector. Supplier deliveries improved, and inflation decelerated. The manufacturing index corresponds to a 1.4% GDP growth rate.

The production component fell 3.1 points to 50.4. This marks two consecutive months of decline. Comments from respondents indicate that staffing and supply bottlenecks are easing and that production should increase in September.

The new orders component rose by 3.3 points to 51.3, indicating that new order volumes are again expanding after two straight monthly declines. The order backlog subindex increased by 1.7 points to 53.0. Seven industries reported growth in order backlogs. Four industries reported lower backlogs.

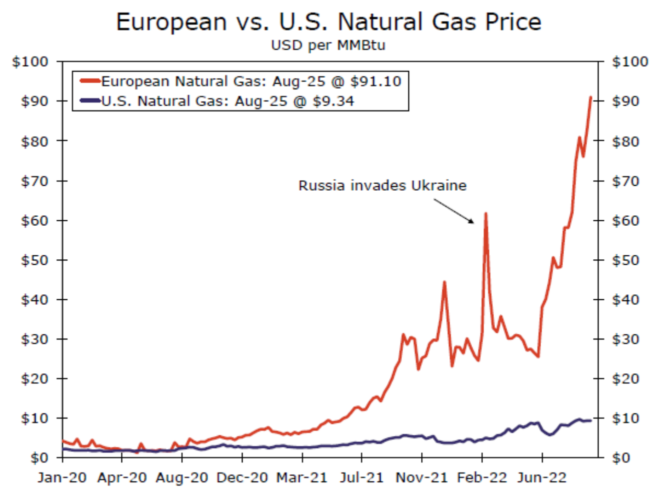


The employment component increased 4.3 points to 54.2, indicating expanding manufacturing employment. Nine industries reported employment growth. Six industries reported a decrease in employment. According to the ISM, "A larger share of comments (11 percent in August, up from 7 percent in July) noted greater hiring ease, and among respondents whose companies are hiring, 18 percent expressed difficulty in filling positions, down from 35 percent in July. Turnover rates eased, with 33 percent of comments citing backfill and retirement issues, a decrease from 39 percent in July."

Supplier deliveries to manufacturers worsened at a slower pace as the sub-index fell 0.1 points to 55.1. Nine of eighteen manufacturing industries reported slower deliveries. Four industries reported faster supplier deliveries.

The Prices Paid sub-index fell 7.5 points to 52.5, indicating raw material prices have increased for twenty-six consecutive months but at a much slower pace. The report shows significant moderation of inflation. 26.7% of respondents reported lower prices versus 21.5% last month. 31.7% of respondents reported higher prices versus 41.5% the previous month. Eight industries reported increased prices for raw materials. Seven industries reported lower prices for raw materials.

Inflation in the Eurozone reached 9.1% y/y in August versus 3.0% a year earlier. Inflation excluding energy was 5.8% y/y versus 1.7% a year ago. U.K. consumer prices rose 10.1% y/y in July, up from 2.0 % a year ago. Consumer prices excluding energy were up 6.6% y/y versus 3.0% a year ago. Business and consumer confidence numbers are depressed and continue to fall. The U.K. and the Eurozone are in a recession. The downturn is likely to be deep and long.



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Europe faces a significant energy crisis. Before the start of the Ukrainian war, Russia supplied the E.U. with 40% of its natural gas and 55% to Germany. In response to sanctions, Russia has reduced natural gas deliveries and, at times, totally suspended them. Germany was facing the prospect of shutting down its economy for the winter to have enough gas for winter heating. Oma faced a very cold winter.

While global energy prices spiked in response to war, European energy prices soared. European natural gas prices are ten times U.S. prices. This translates into a 500%+ increase in electricity prices in Germany. Very few economies can cope with such price increases. While high energy prices are painful in the U.S., we are essentially energy self-sufficient. High energy prices shift wealth from coastal consumers to energy-producing regions. In Europe, that wealth leaves the Eurozone.

Europe is scrambling to replace Russian natural gas supplies through increased production by Norway and increased CNG imports from the U.S. It now appears Oma may not freeze this winter. On September 3, Germany announced it had achieved 85% of its October gas storage goals. German industry cut its gas consumption by 21% through energy switching and reduced production. Europe may have enough natural gas if winter weather is normal to warm. If it is colder than normal, Europe's energy crisis will worsen. Europe faces several years of energy insecurity and economic turmoil. This is also likely to translate into political turmoil.

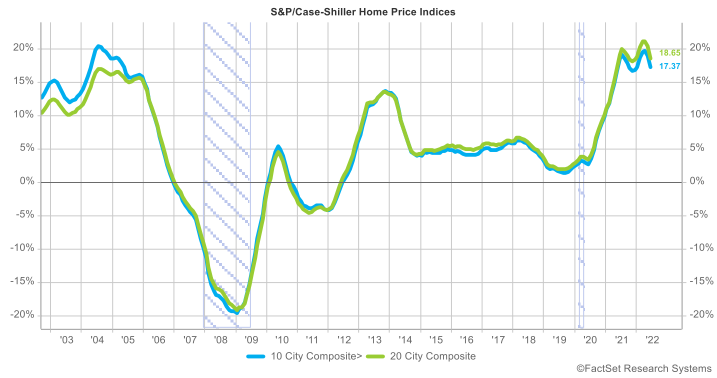
A European recession will impact the U.S. and American companies that sell to Europe. European governments, except Germany, already have high debt burdens. This limits their degrees of freedom to address this energy crisis. This will extend and deepen the downturn.

MARKET OUTLOOK
FALL 2022

SECURITY NATIONAL BANK
PRIVATE CLIENT SERVICES

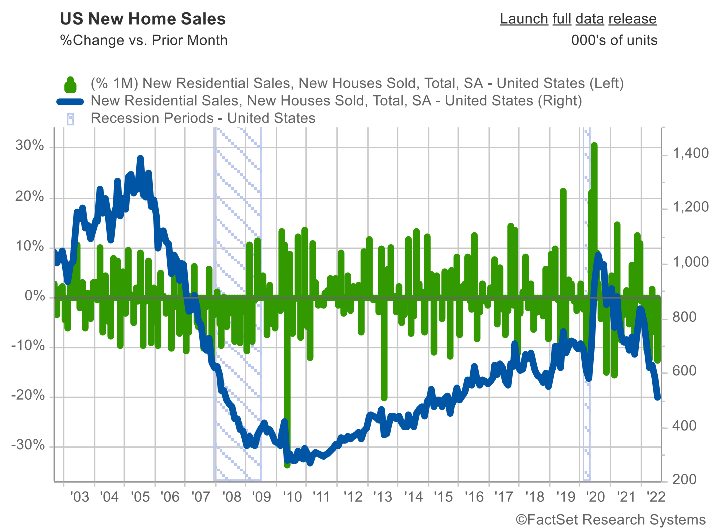
The Housing Sector

Sales of new homes declined faster than expected, dropping 12.6% in July to a 511,000 annual rate. Housing market experts expected new home sales would decline to a 575,000 annual rate. Sales are down 29.6% from a year ago. Curiously, after falling for two consecutive months, median sales prices rose 5.9% in July.



As noted previously in this write-up, affordability is the main issue causing the decline in new home sales. July experienced a slight reprieve in mortgage rates, but with new home sales prices rising and mortgage rates still elevated by nearly two full percentage points since the beginning of the year, monthly mortgage payments have increased substantially. Assuming a 20% down payment, the higher mortgage rates and home prices amount to a 30+% increase in monthly payments.

Meanwhile, developers continue to become increasingly cautious. Housing starts declined to the slowest pace in 17 months as builders continued to contemplate relatively high mortgage rates, lack of labor, and continuing supply-chain issues. Housing starts sank for both single-family construction (-10.1%) and multi-unit condos and apartments (-8.6%) in July.



Homebuilder sentiment deteriorated for an eighth consecutive month, declining to 49 in August. A reading below 50 suggests more builders view conditions as “poor” rather than “good” – the first time since May 2020, during the early stages of COVID.

Months’ supply (how long it would take to sell current inventory at today’s sales pace) is now up to 10.9. The rise over last month’s statistic is due to both more single-family homes being completed and rising cancellation rates on purchases. The process of generating more finish supply should help reign in future price gains and stabilize home sales.

The Case-Shiller 20-City, Home Price Index rose 0.4% in June and is up 17.1% versus a year ago. Prices appreciated the most in Miami, Tampa, and Charlotte, while prices declined month over month in the west coast cities of Seattle, San Francisco, and San Diego.

As for existing homes, sales declined again for a sixth consecutive month in July, posting the longest streak of declines since June 2013. Sales slowed to a 4.8 million annual rate, with sales slowing in all U.S. regions. Sales are down 19.7% from a year ago. Some of the slippage in both sales activity and median existing home prices (prices fell 2.4% in July) can be attributed to seasonality, as prices typically begin to fall near the end of the summer buying season. Price growth continues to moderate as the median price was now up 10.8% year/year from a peak of 25.2% in May 2021.

We welcome your comments and suggestions. Please feel free to contact any one of the investment team. Please see the obligatory disclosures listed below.

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