US Economic Outlook:
Keeping a Volatile Expansion on Track

May 2024

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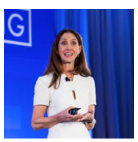

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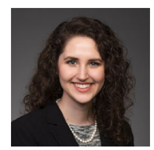

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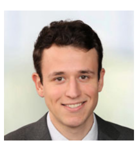

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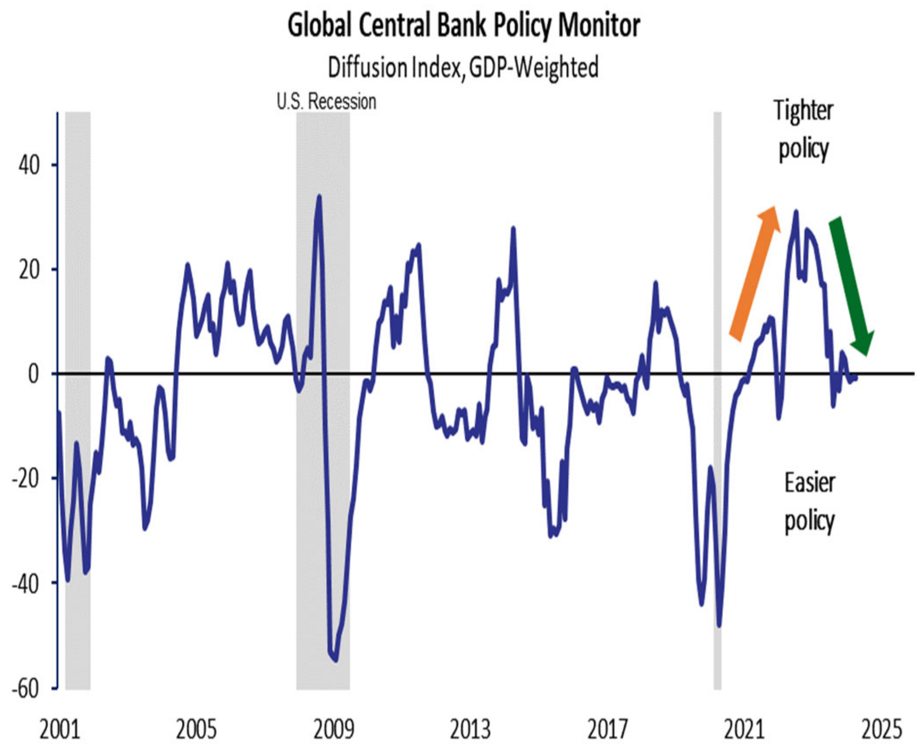
MACROPOLICY PERSPECTIVES

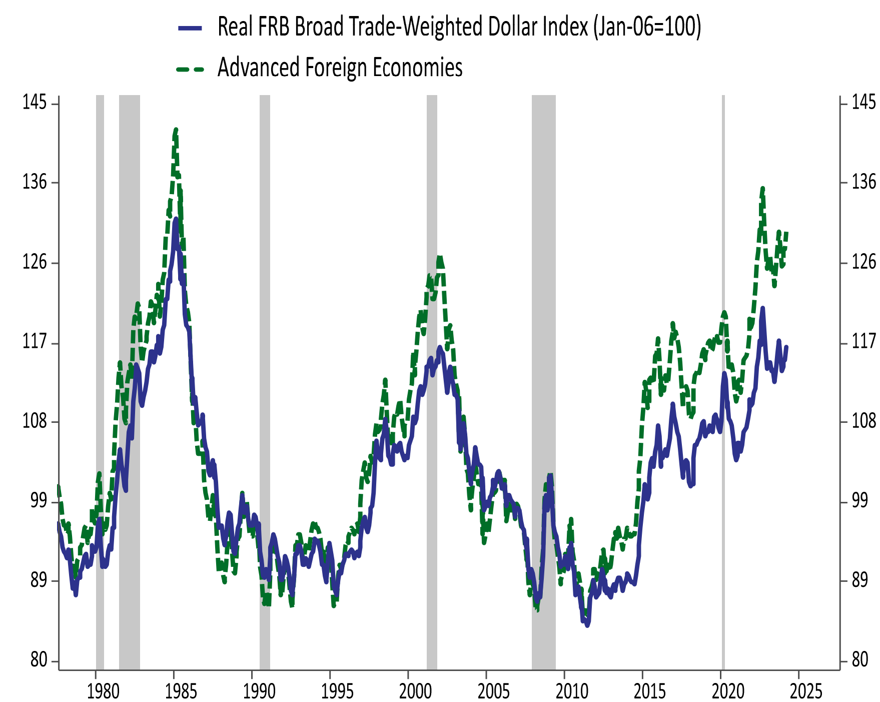
Outlook Themes

- We forecast GDP growth of 2.1% in 2024, an unemployment rate that drifts up to 4.0% and core PCE inflation that slows to the Fed's 2.0% mandate by Q3 2024, earlier than the Fed's latest projections.
- We do not expect a recession in part because the Fed has space to ease policy and plans to do so before material weakening in the labor market. We expect 25bp rates cut in September and December.
- Risks of a recession from monetary policy lags or a geopolitical shock remain elevated at 25-30% but the economy also has tailwinds that lead us to expect the soft landing to continue:
    - A better productivity trend
    - Supportive fiscal policy (federal + state and local)
    - Labor hoarding & immigration bring resiliency
    - Cooling inflation boosts purchasing power
    - Strong balance sheets
    - The Fed has policy space to respond to emerging risks

Global central banks holding steady for now



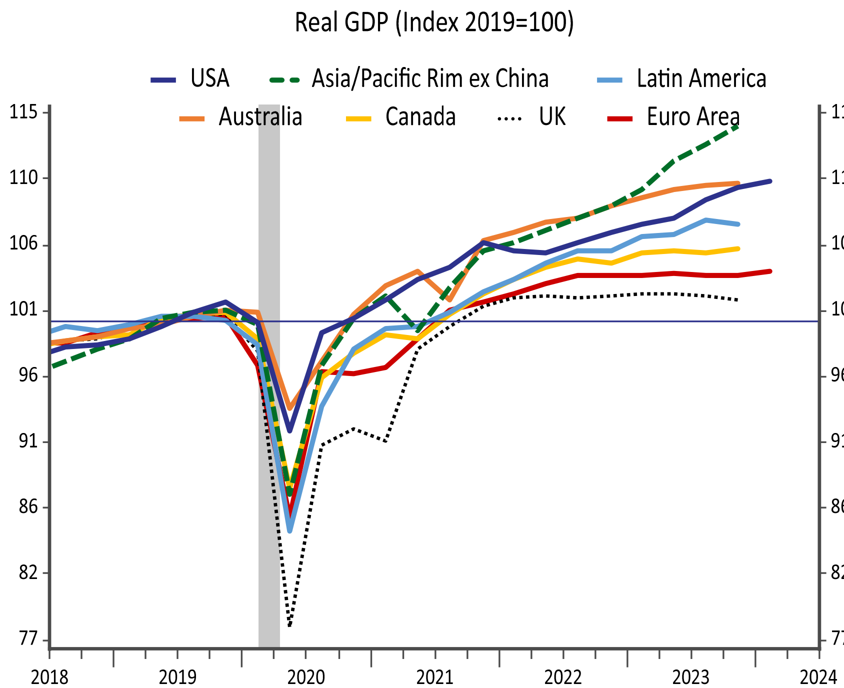
Diffusion Index: % CB reporting increases less % CB reporting decreases, 3mma
Source: MacroPolicy Perspectives/OECD/National Central Banks/Haver Analytics



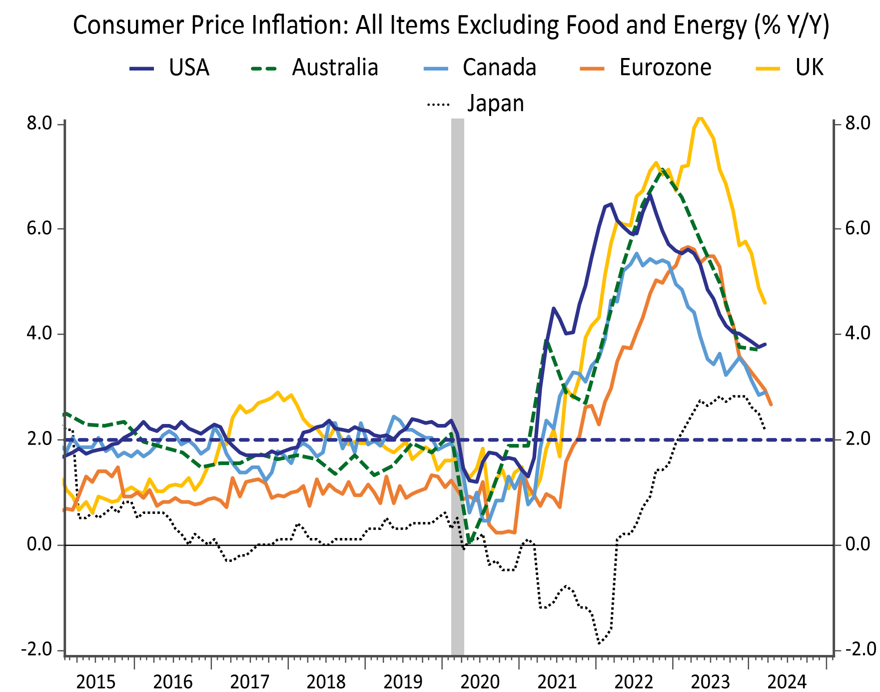
Source: FRB/Haver/MacroPolicy Perspectives LLC

US growth outperformance means patient Fed, strong dollar

The US economy continues to outperform, global inflation cooling



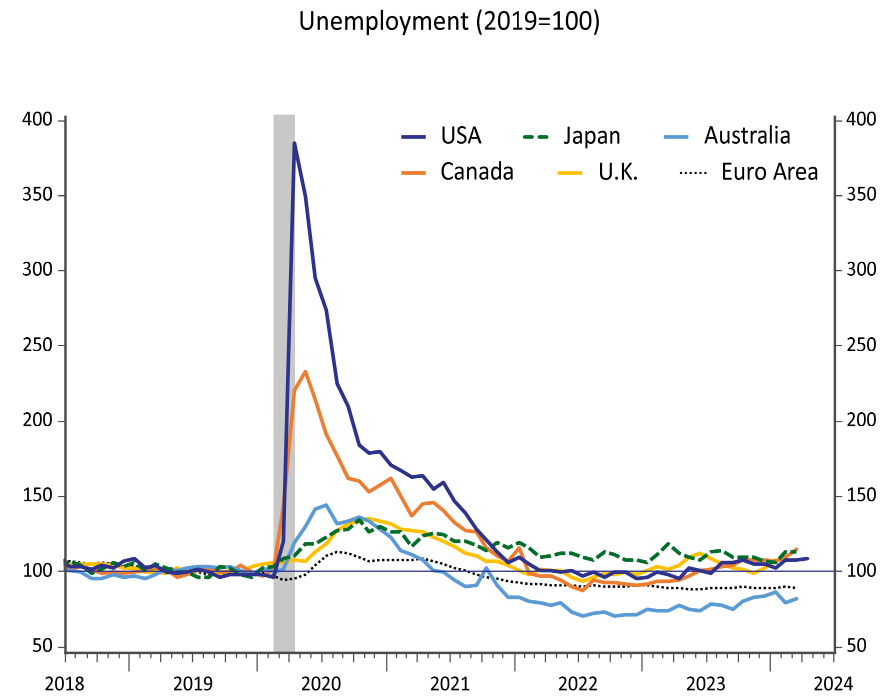
Sources: BEA, HAVER, ABS, StatCan, ONS, EUROSTAT/Haver/Macropolicy Perspectives LLC



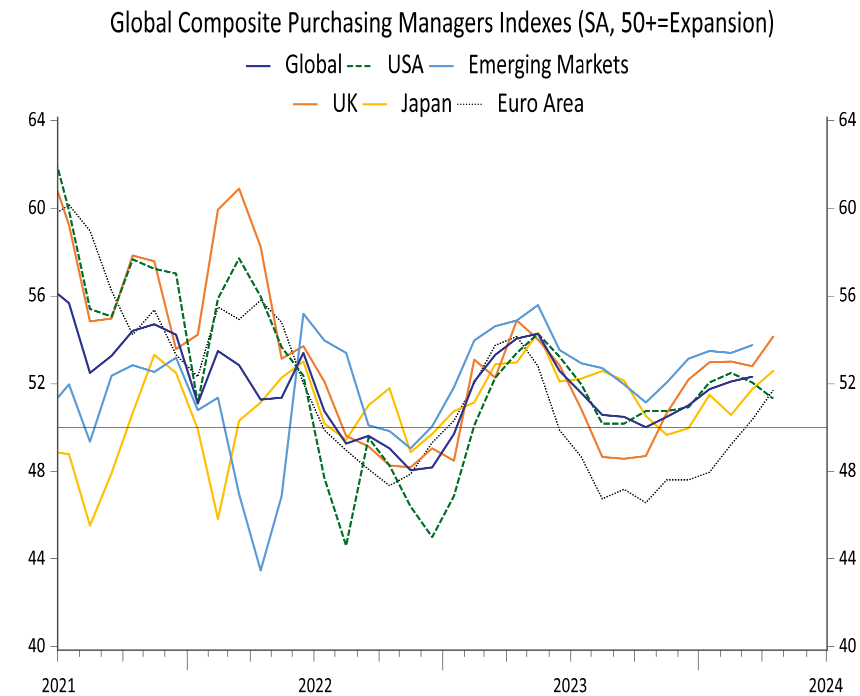
Sources: BLS, ABS, StatCan, Eurostat, ESTAT/H, MIC/Haver/Macropolicy Perspectives LLC

Recoveries have been solid on balance, yet inflation progress did not stall globally in Q1

Resilient labor markets and stabilizing global growth early in 2024



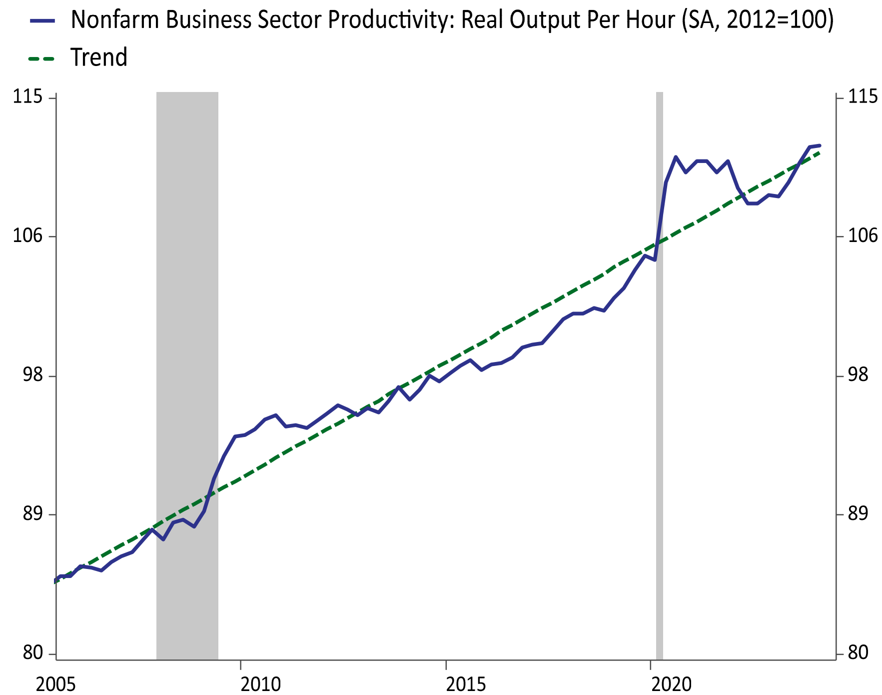
Sources: BLS, MHLW, ABS, StatCan, ONS, EUROSTAT/Haver/Macropolicy Perspectives LLC



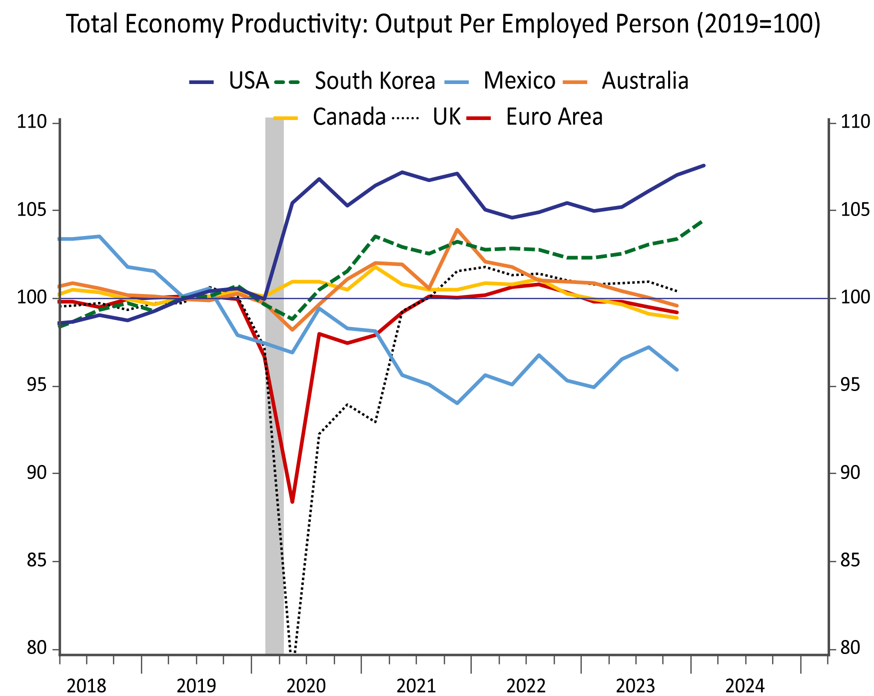
Sources: JPM/SPG, SPG, CIPS/SPG/Haver/Macropolicy Perspectives LLC

Global PMIs have picked up and Europe has been outperforming dismal expectations while US data are tracking some moderation in growth in H1

A strong productivity recovery has fueled US outperformance



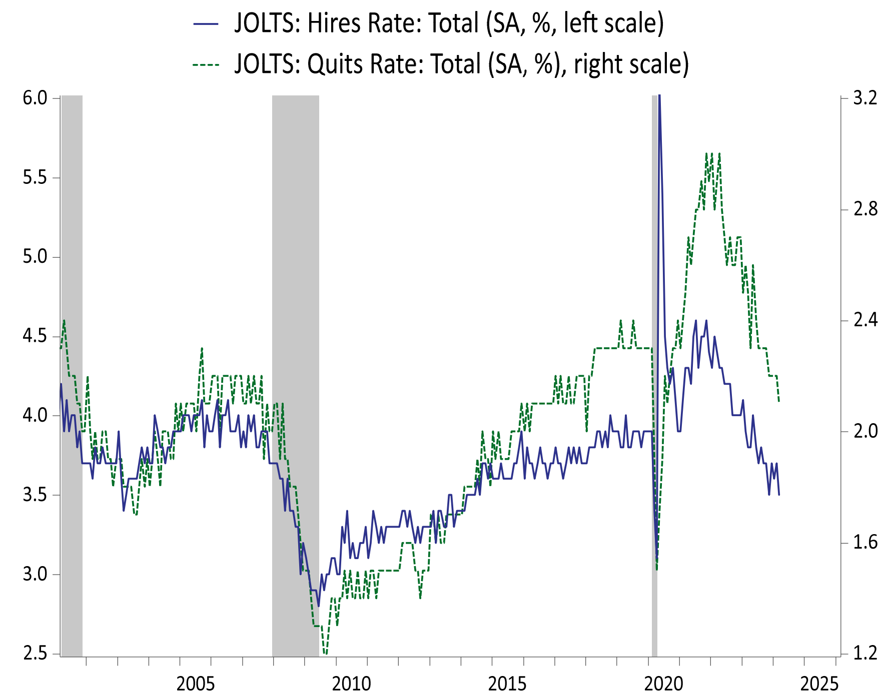
Source: BLS/Haver/MacroPolicy Perspectives LLC



Sources: BEABLS/H, NSO/BK/H, INEGI/H, ABS/H, StaCan/H, ONS/H, ES/H/Haver/Macropolicy Perspectives LLC

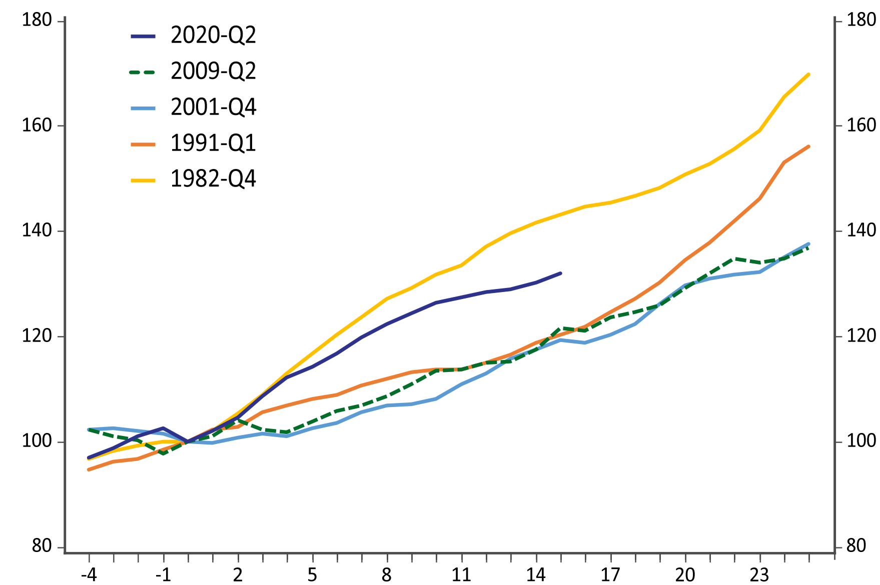
US productivity has been on a better trend than the last cycle on balance

Productivity's multiple drivers suggest reasons for optimism



Source: BLS/Haver/MacroPolicy Perspectives LLC

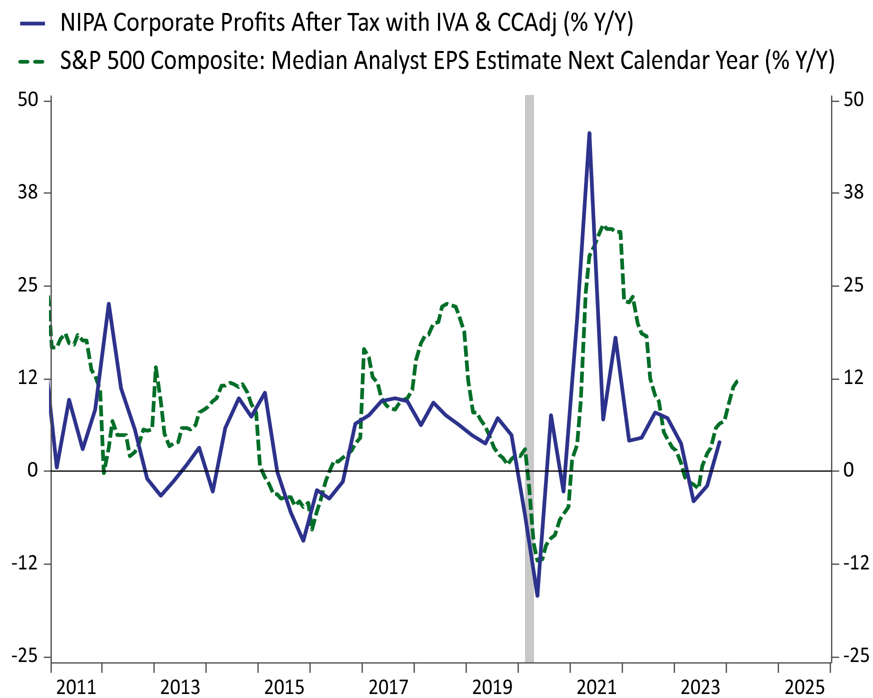
Real Investment in Intellectual Property by Cycle



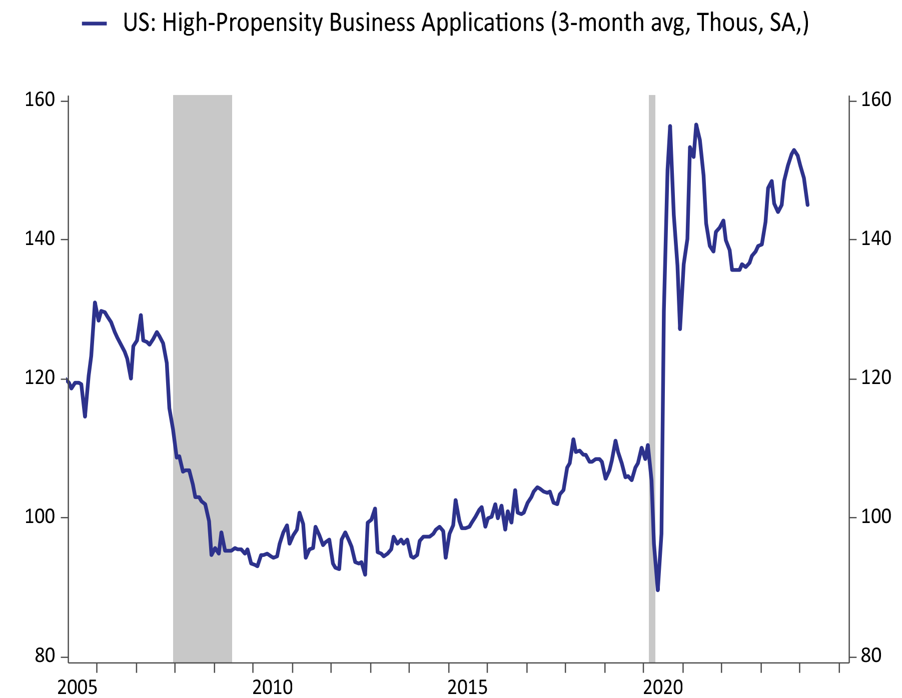
Source: BEA/Haver/Macropolicy Perspectives LLC

A hot labor market led to better matches/efficiency and incentivized investment even as new waves of technology with business applications are proliferating

Business dynamism looks healthy at the start of the year



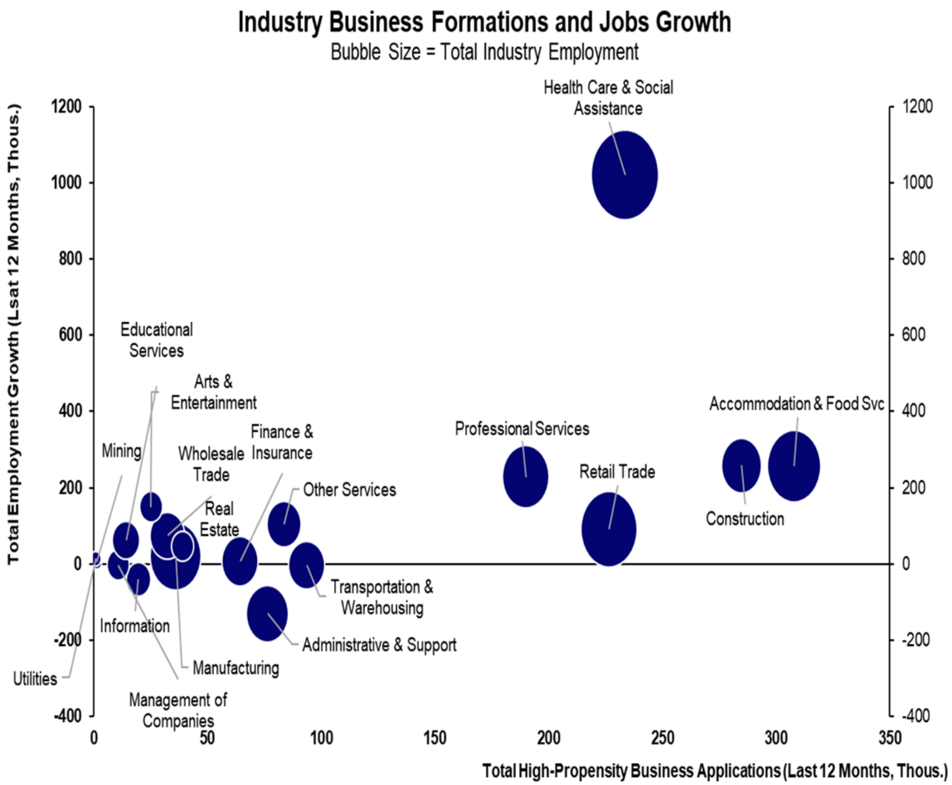
Sources: BEA, S&P/Haver/MacroPolicy Perspectives LLC

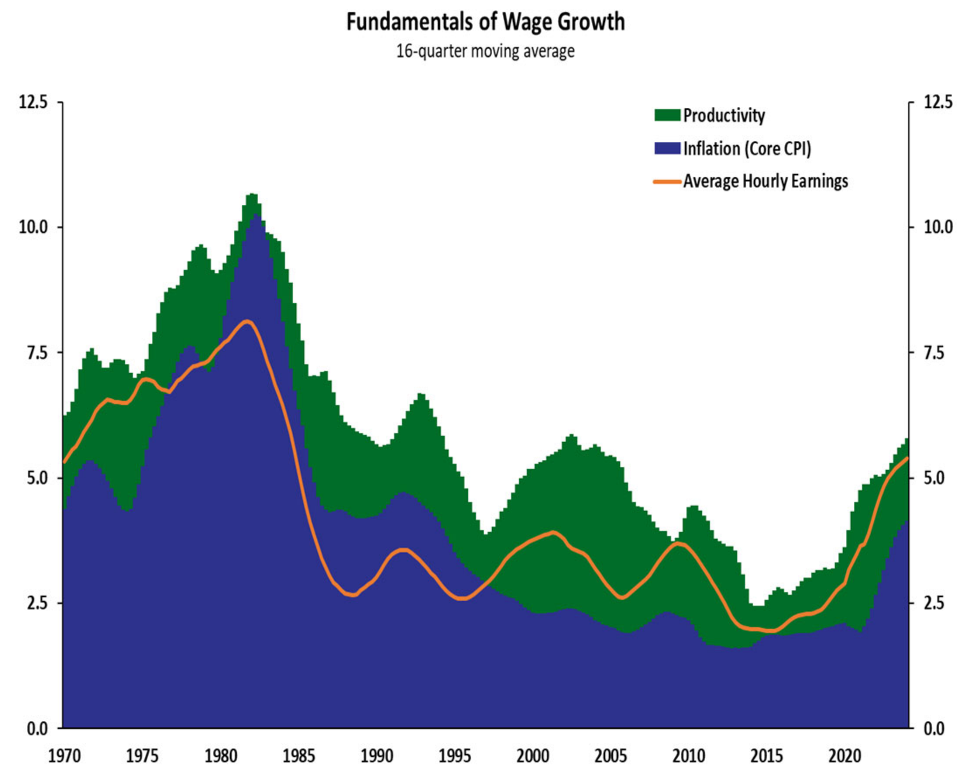


Source: CENSUS/Haver/MacroPolicy Perspectives LLC

Corporations are guiding to solid earnings growth in 2024 and new business formation remains high

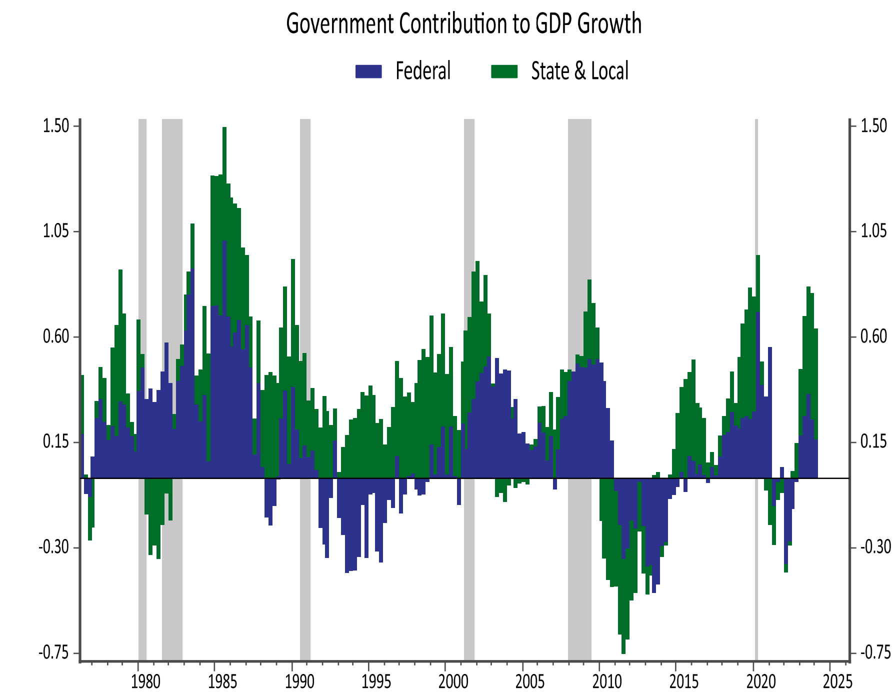
Business dynamism and strong recovery yielding benefits for workers



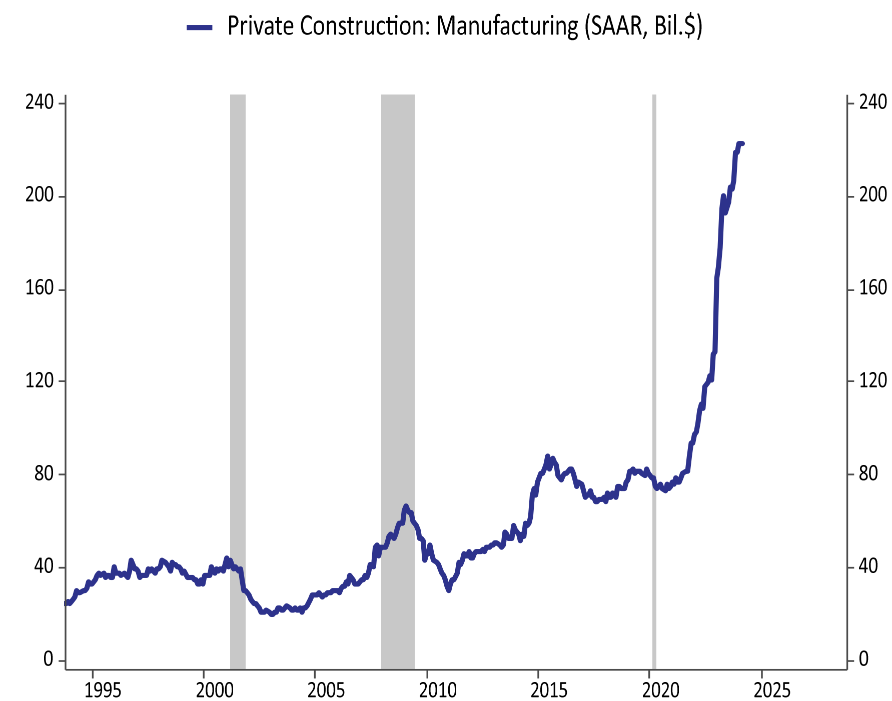


Dynamic sectors are adding jobs, workers are closer to keeping pace with productivity and inflation this cycle

Government boosting growth directly & indirectly



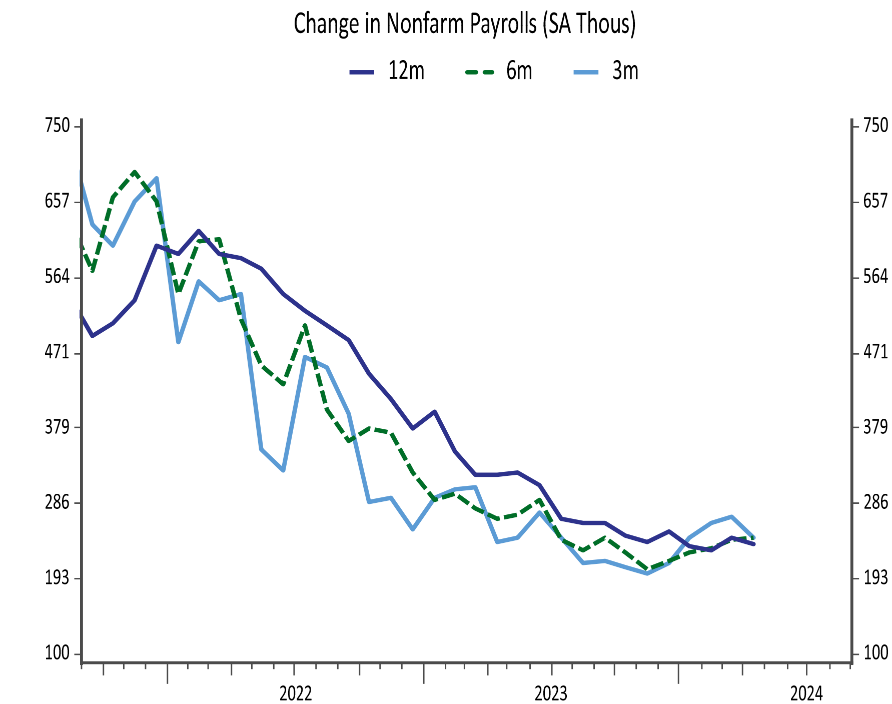
Source: BEA/Haver/Macropolicy Perspectives LLC



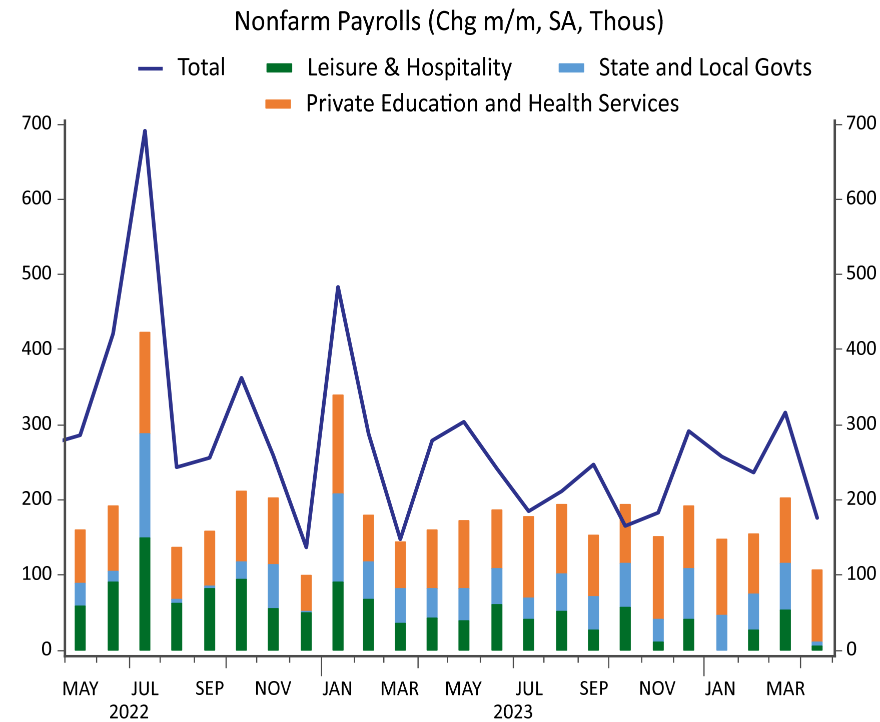
Source: CENSUS/Haver/MacroPolicy Perspectives LLC

Government has become a contributor to growth again with an added boost to private investment

Labor demand has moderated and narrowed but is still solid



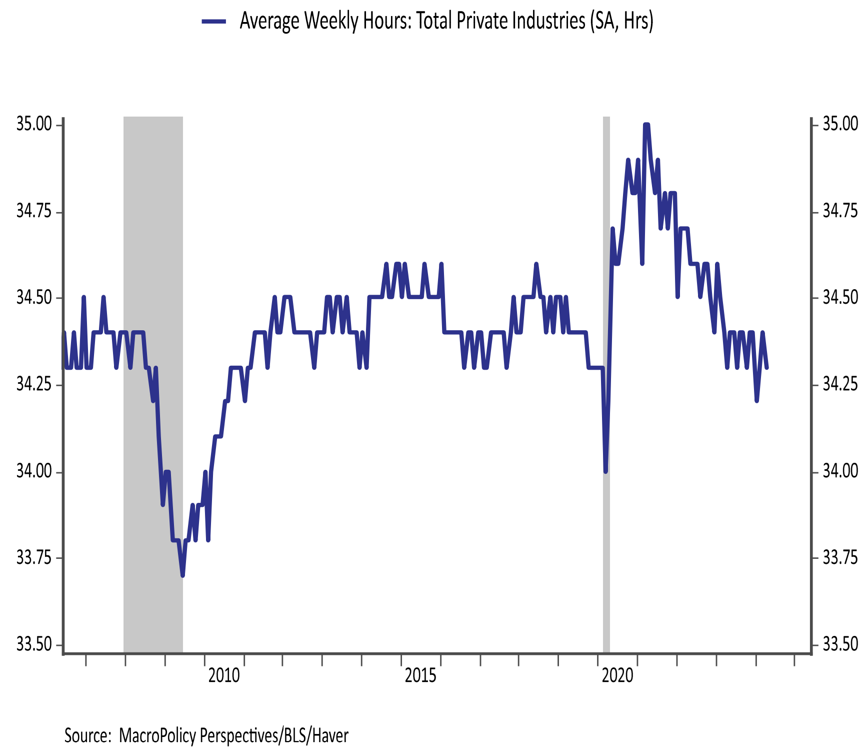
Source: BLS/Haver/Macropolicy Perspectives LLC

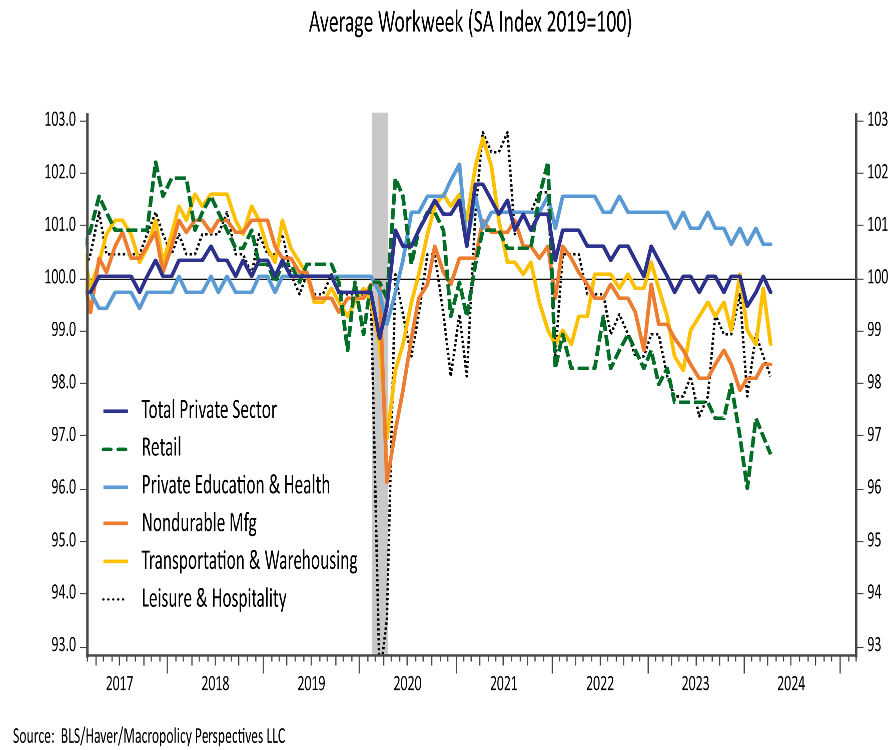


Source: BLS/Haver/Macropolicy Perspectives LLC

A focus on payrolls over aggregate hours misses the degree of cooling in labor demand

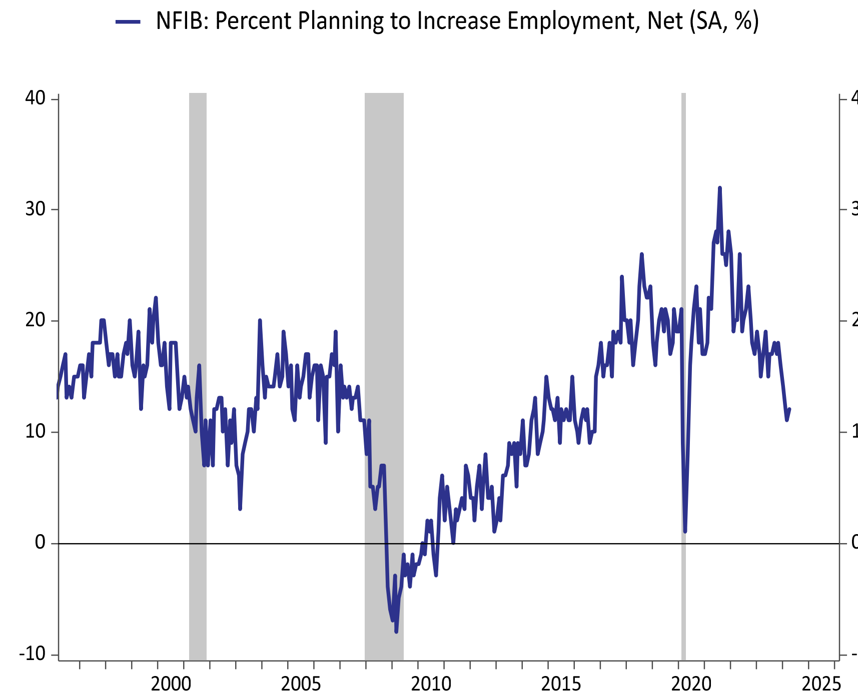
Employers are cutting hours over people



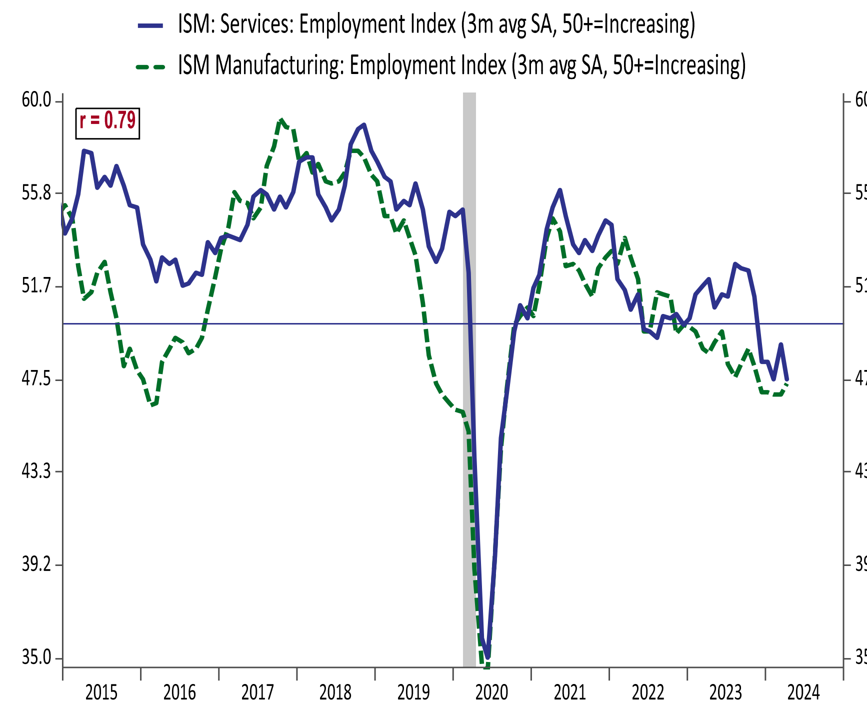


Sectors hit by slower demand have opted to cut workweeks over layoffs

Surveys are signaling slower labor demand ahead



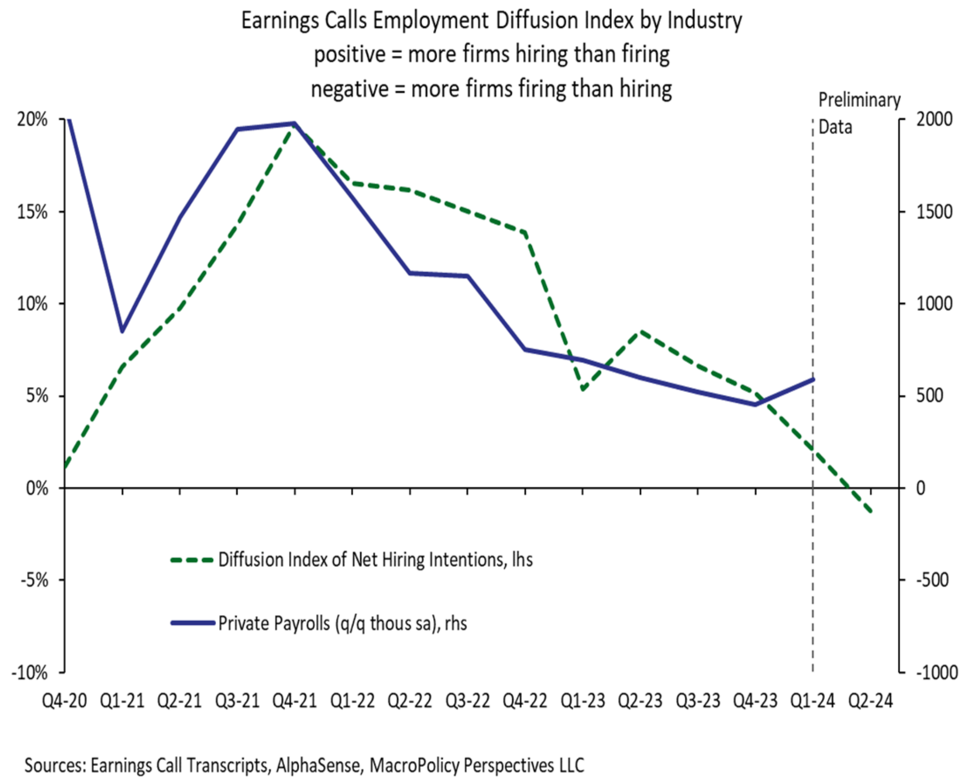
Source: NFIB/Haver/MacroPolicy Perspectives LLC



Source: ISM/Haver/MacroPolicy Perspectives LLC

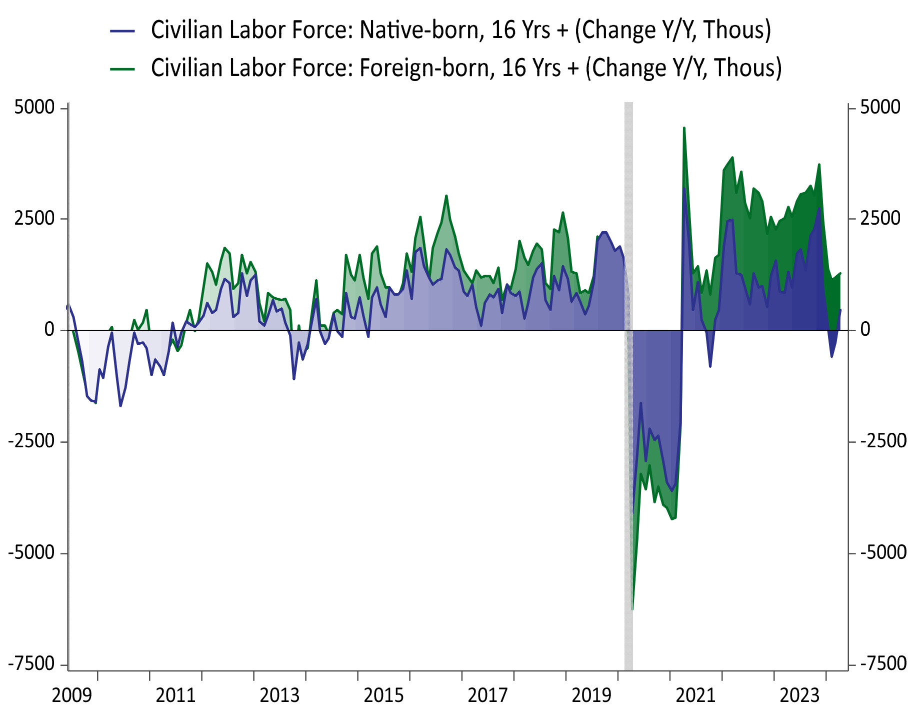
Surveys may not line up well with sectors driving hiring but are indicating cooling demand

Earnings reports in Q2 confirm reduced hiring plans for 2024

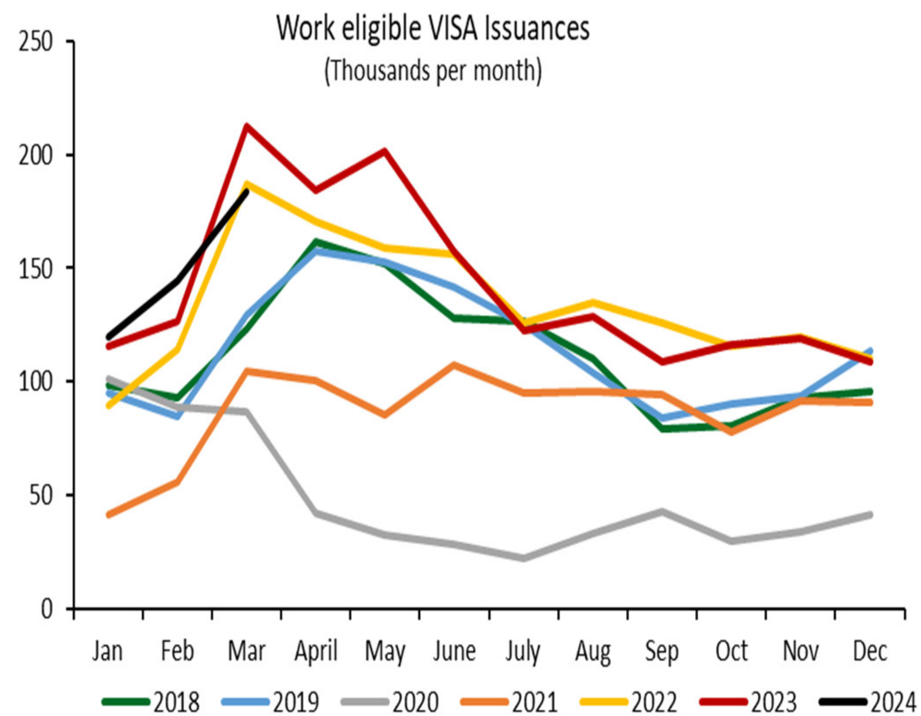


Scraping reports of public companies has proven a useful leading indicator of labor market trends

Labor supply surged boosted by participation and immigration



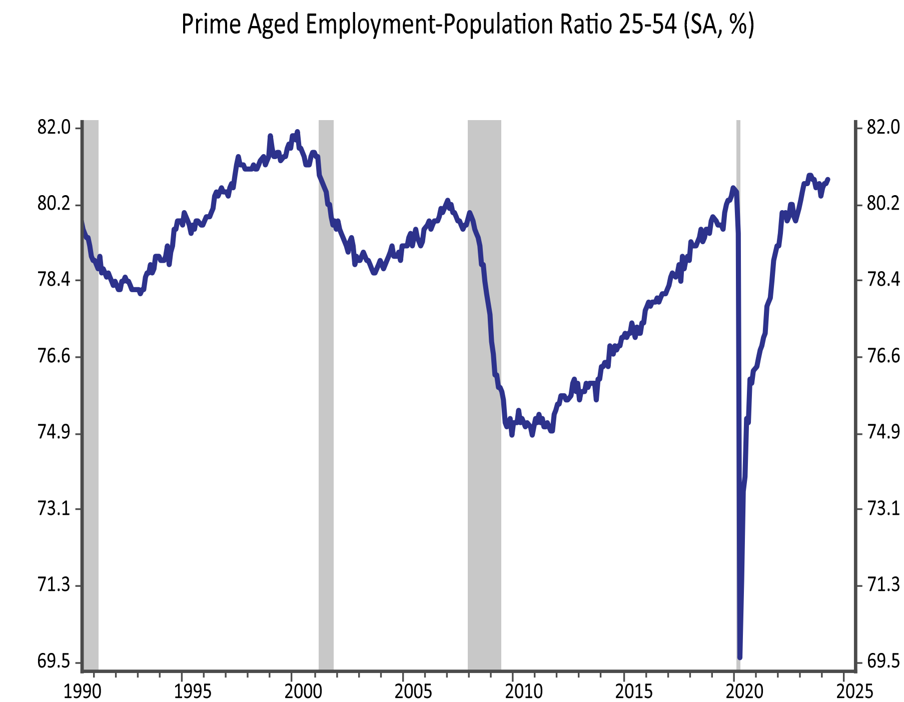
Source: BLS/Haver/MacroPolicy Perspectives LLC



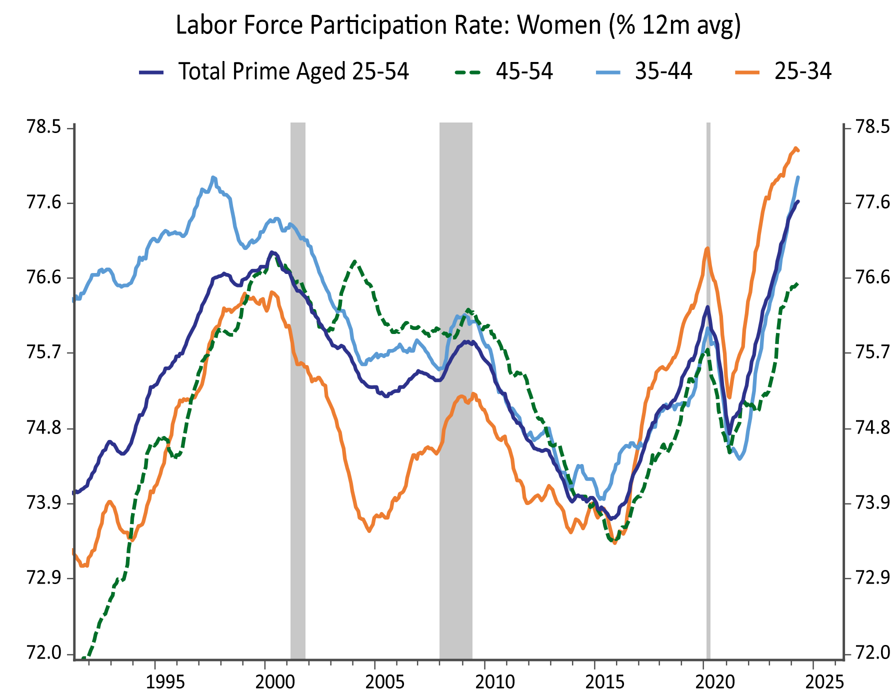
Source: U.S. State Dept., Refugee Processing Center, MacroPolicy Perspectives LLC

The flow of immigrants continues at a pace higher than pre-pandemic

Labor force engagement recovered quickly led by women



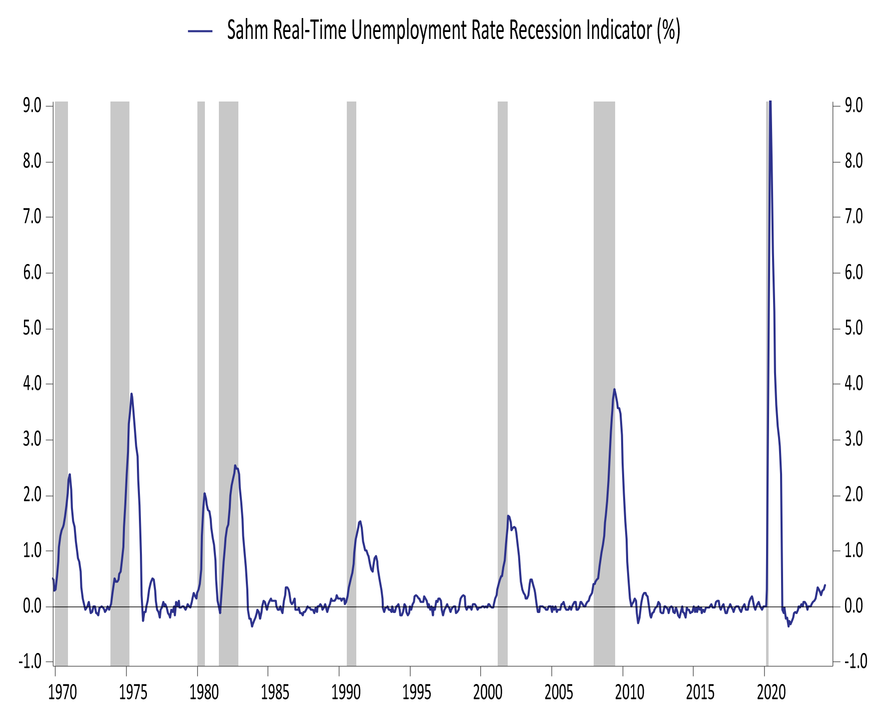
Source: BLS/Haver/Macropolicy Perspectives LLC



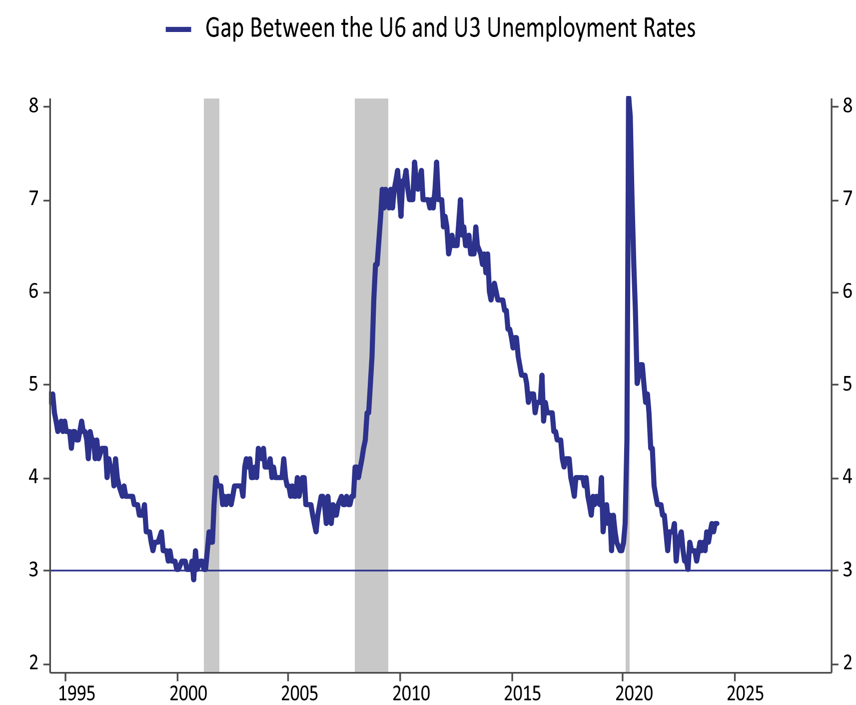
Source: BLS/Haver/Macropolicy Perspectives LLC

Work from home/hybrid arrangements may boost women's labor force attachment

Sahm Rule creeping up but not signaling recession



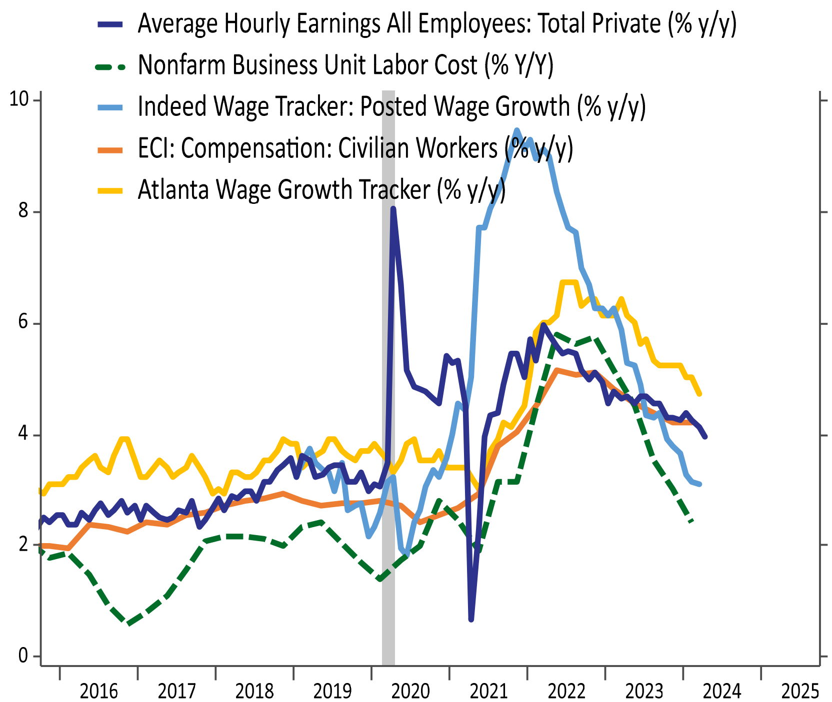
Source: HAVER/Haver/MacroPolicy Perspectives LLC



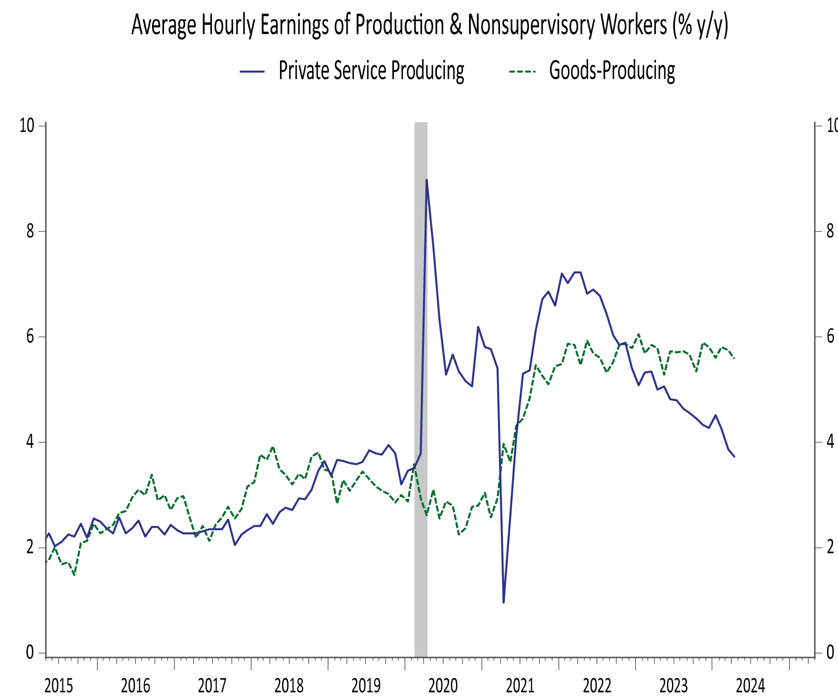
Source: Haver/MacroPolicy Perspectives LLC

Underemployment indicators rising though job gains remain solid and unemployment rate low

Wage growth is moderating decisively



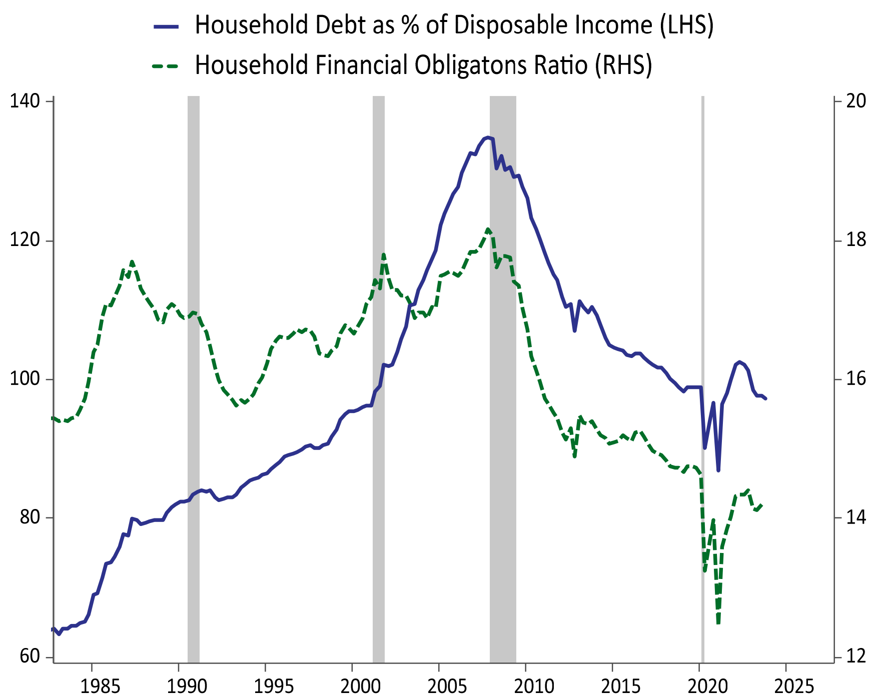
Sources: BLS, INDEED, FRBATL/Haver/MacroPolicy Perspectives LLC



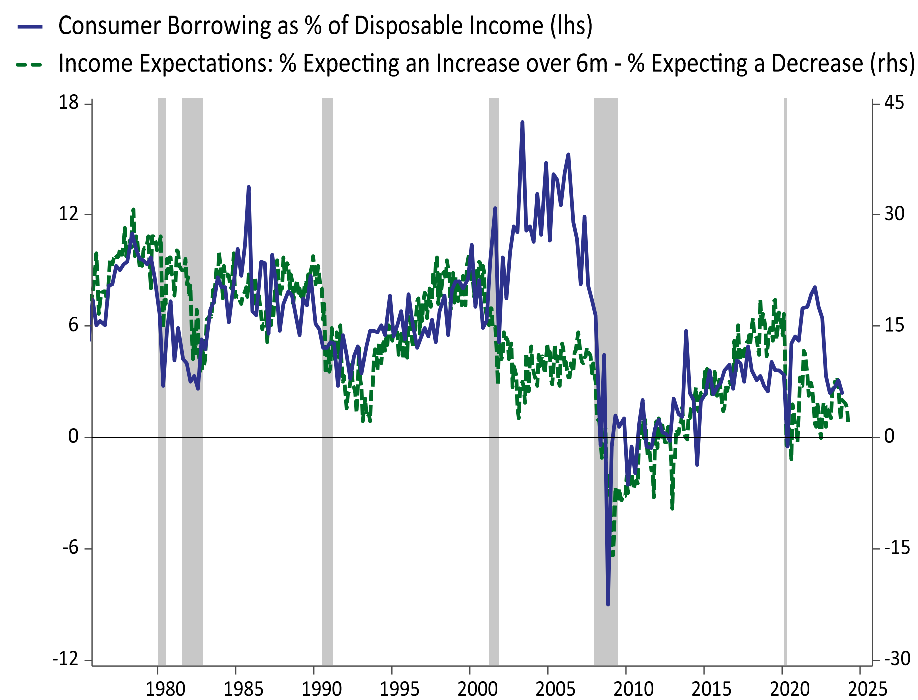
Source: BLS/Haver/Macropolicy Perspectives LLC

Wage growth is stickiest where inflation has come down most and vice versa

Households maintain caution with debt



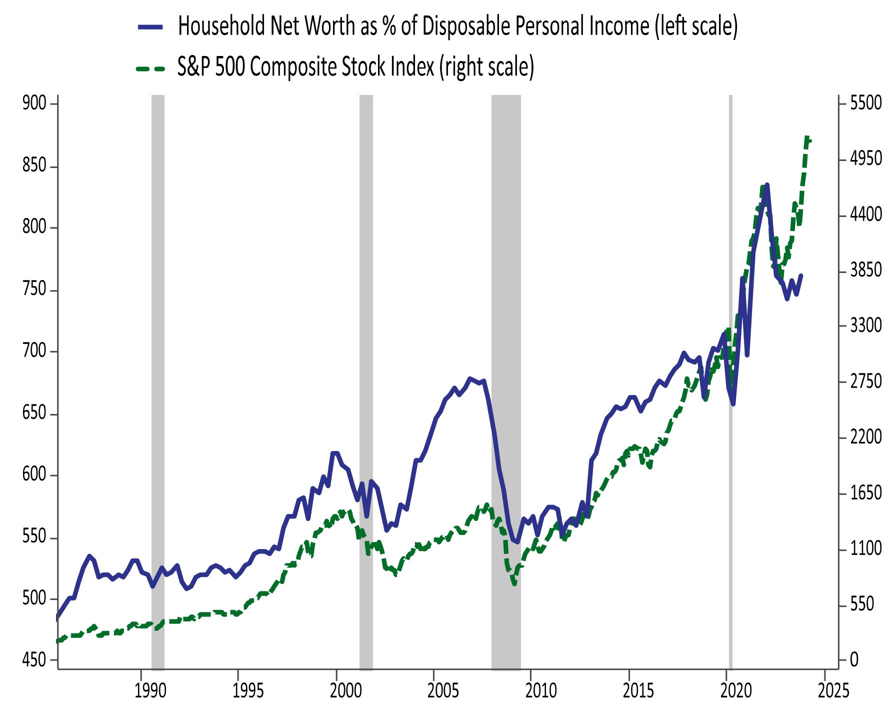
Source: FRB/Haver/MacroPolicy Perspectives LLC



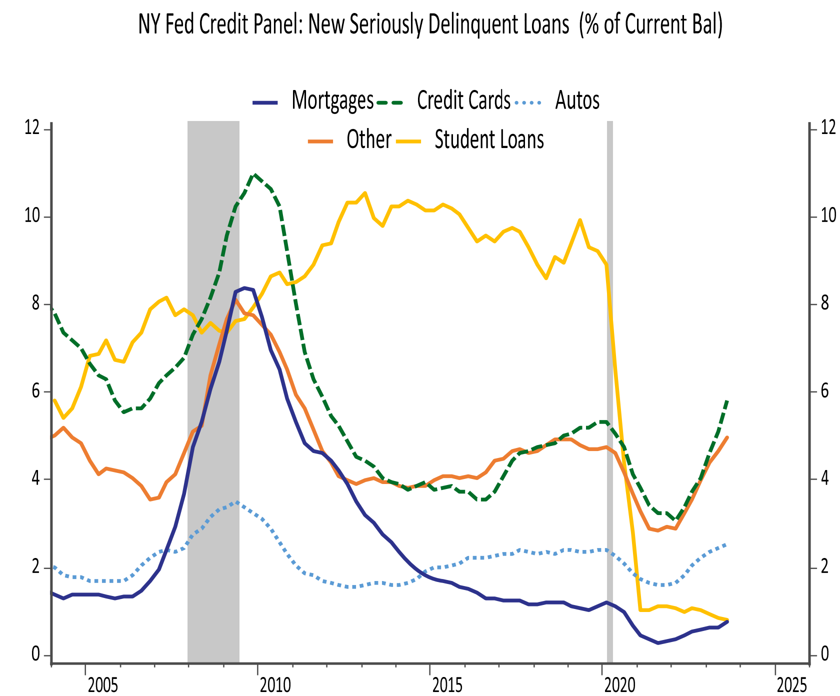
Source: Haver/MacroPolicy Perspectives LLC

Households remain cautious with debt & have been shielded from high rates through fixed rate loans

Net worth is a tailwind though there are pockets of growing distress



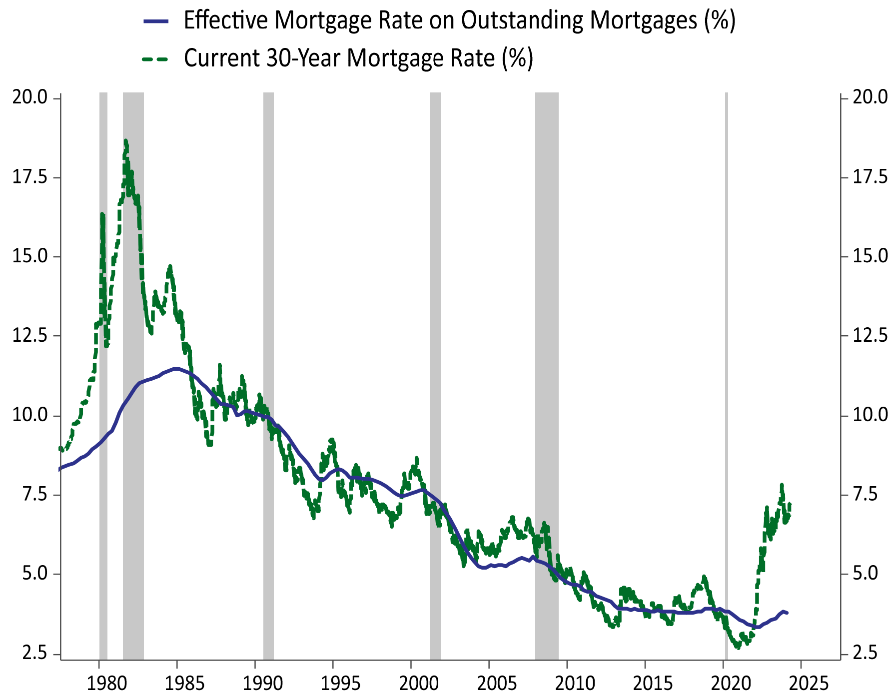
Sources: FRB, S&P/Haver/MacroPolicy Perspectives LLC



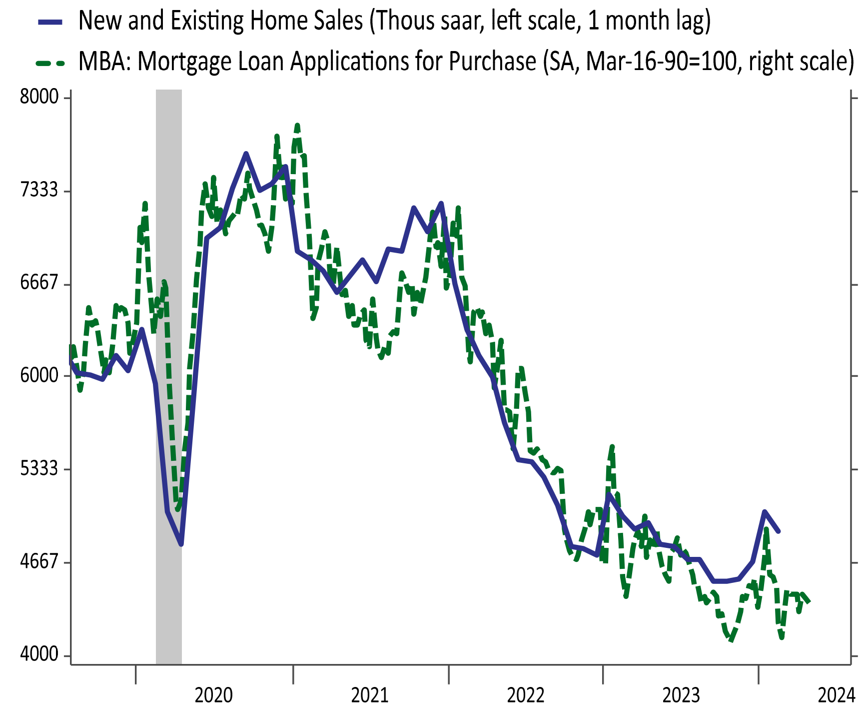
Source: FRBNY Consumer Credit Panel/Equifax/Haver Analytics

A cyclical rise in delinquencies on the back of higher rates comes despite low unemployment

Housing is stuck reflecting mortgage lock



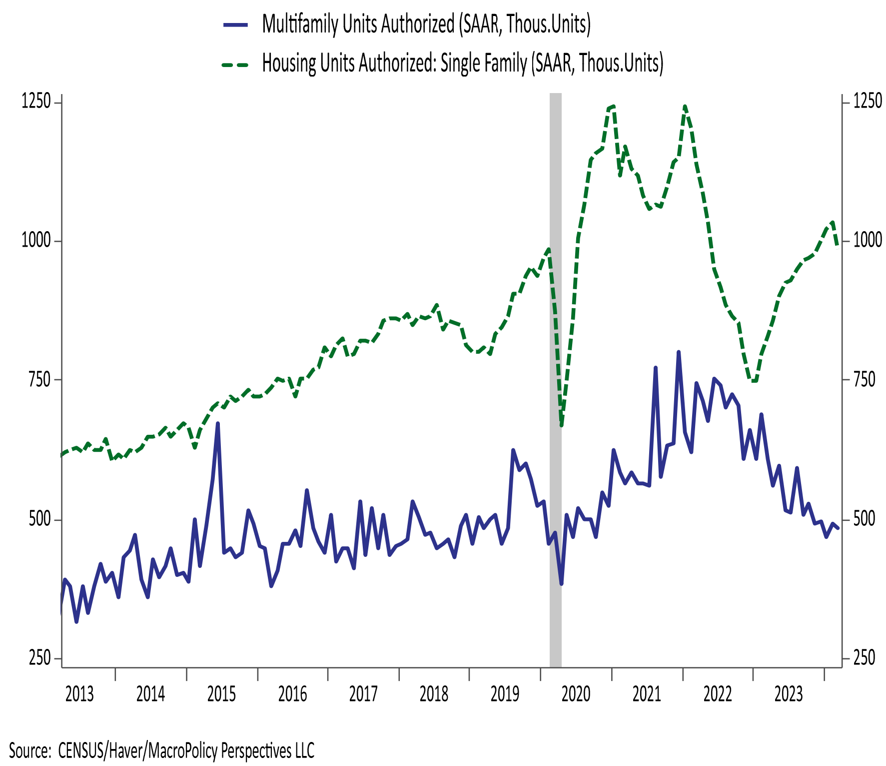
Sources: BEA, FHLMC/Haver/MacroPolicy Perspectives LLC

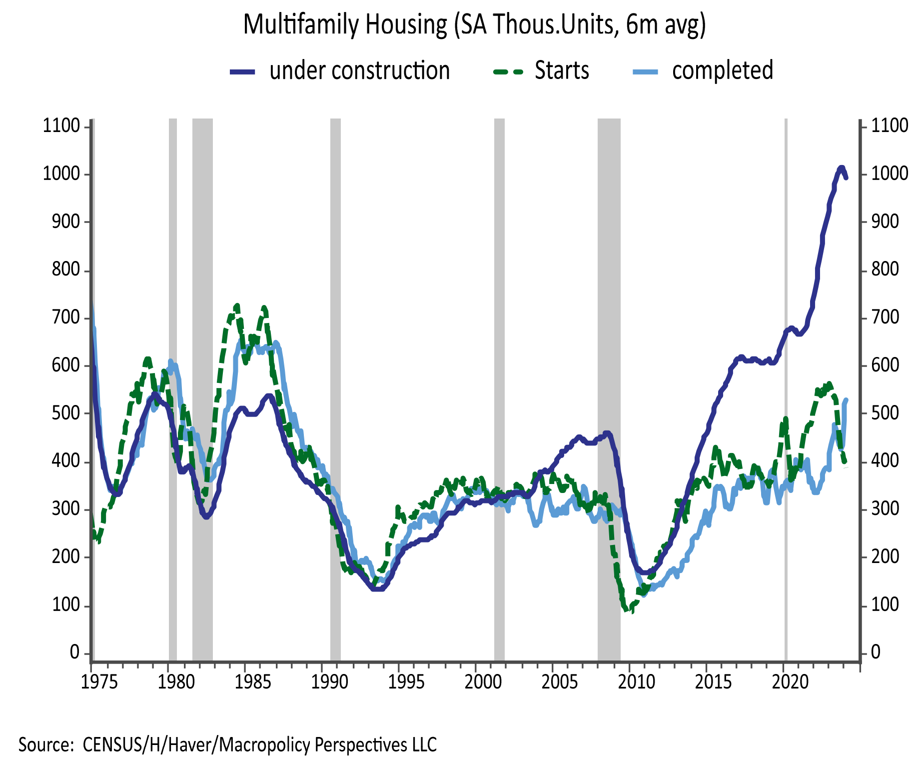


Source: MBA/Haver/MacroPolicy Perspectives LLC

Consumers avoided moving as they wait for lower rates, but rising supply reflects that some can’t wait

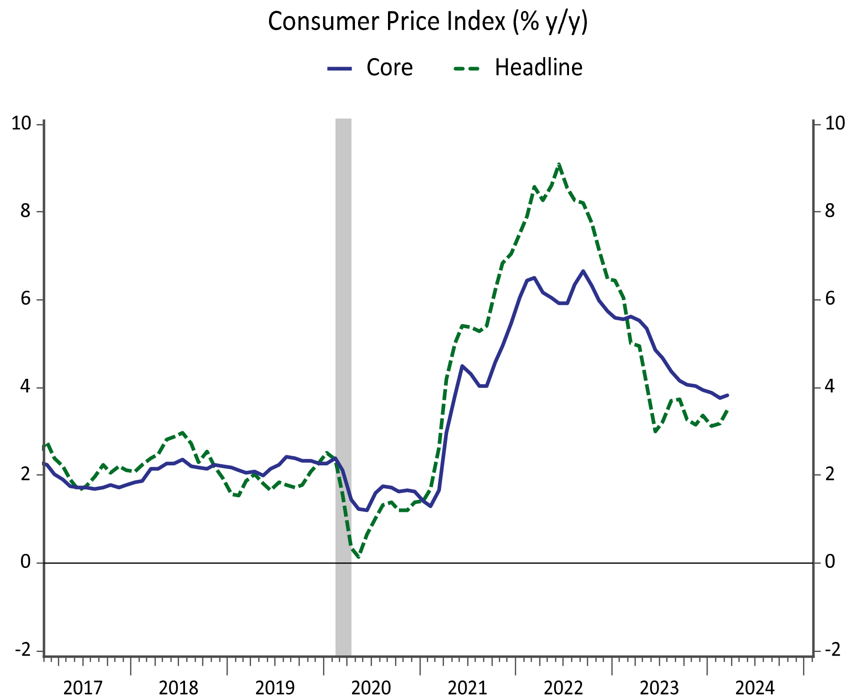
Cross currents in single and multifamily construction



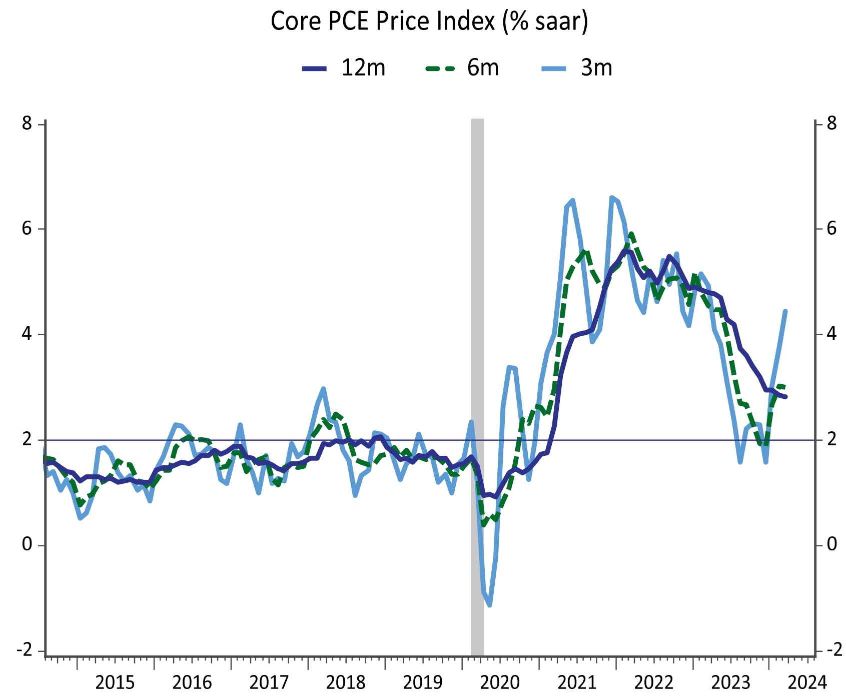


Household formation boosts single family construction while multifamily faces a supply glut

Inflation is on bumpy but moderating path



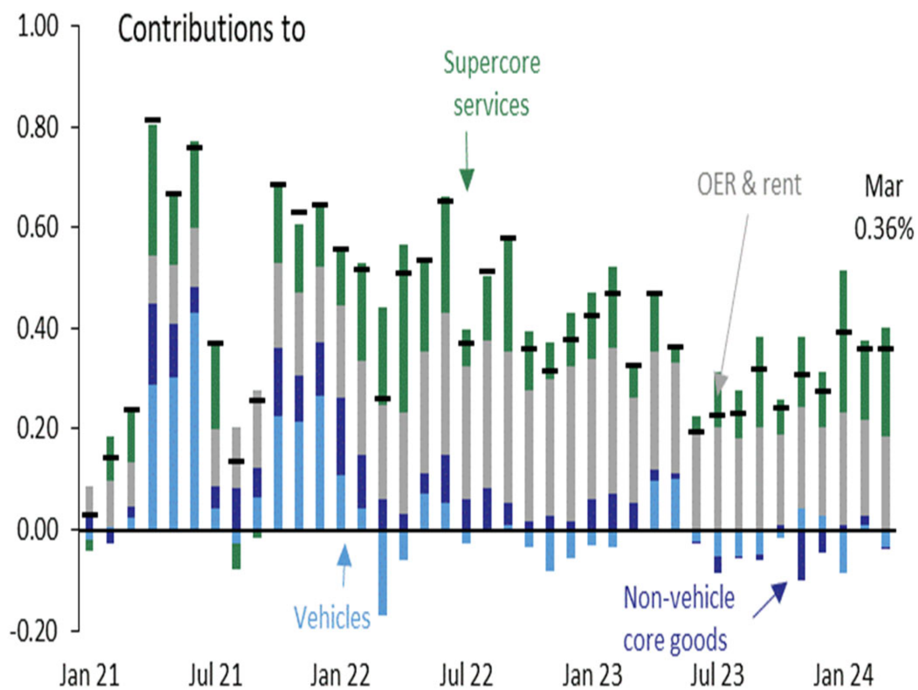
Source: BLS/Haver/Macropolicy Perspectives LLC

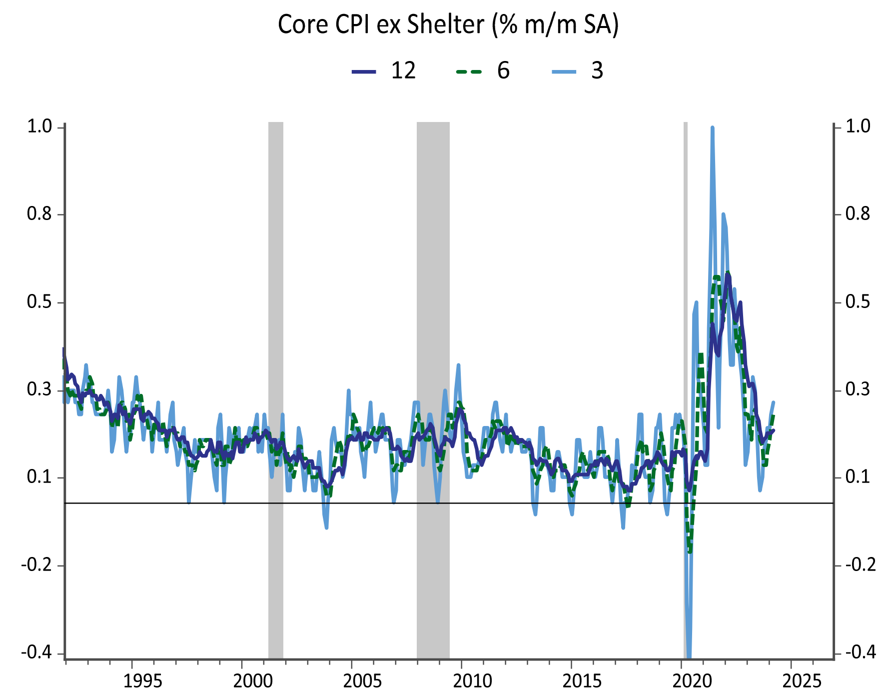


Source: BEA/Haver/Macropolicy Perspectives LLC

Bumps on the road keep central bankers patient on rate cuts

Core inflation jumped early in 2024 but dynamics still broadly improving

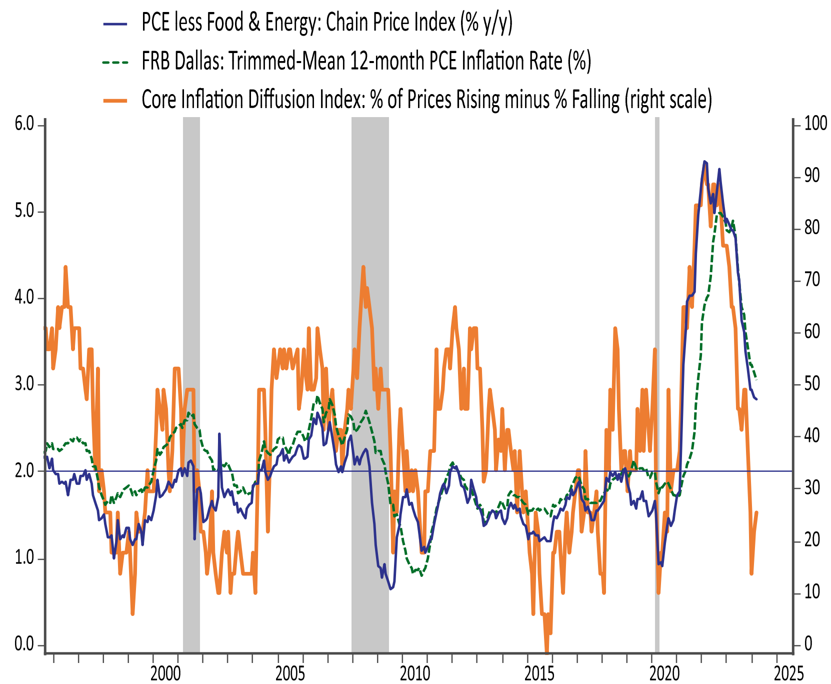




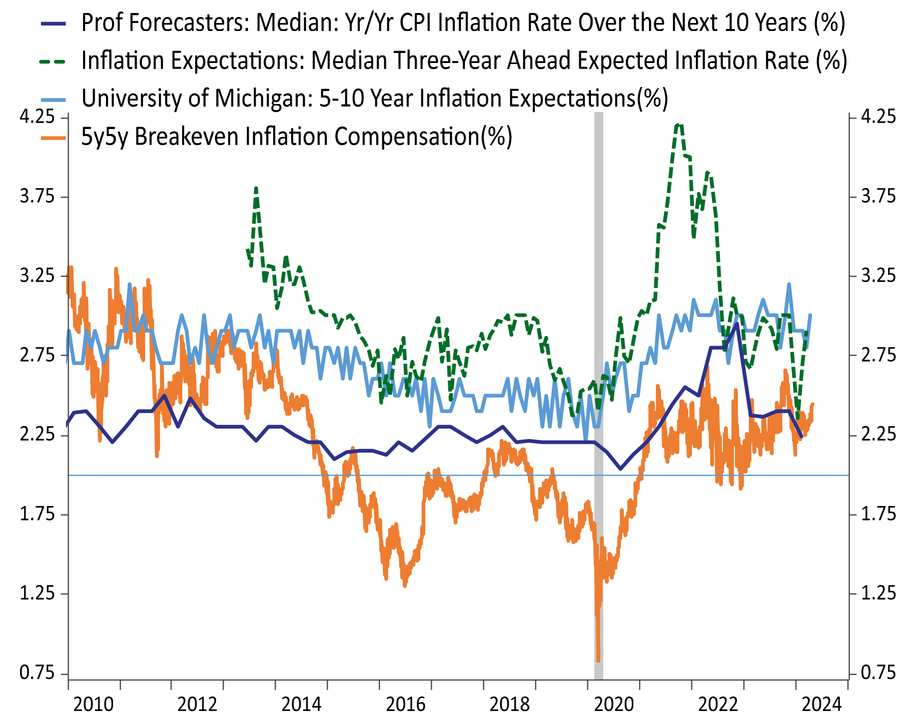
Source: BLS/Haver/Macropolicy Perspectives LLC

Relative prices still shifting and settling after the pandemic disruption but flexibility has returned

Price dynamics and expectations have exited the pandemic shock



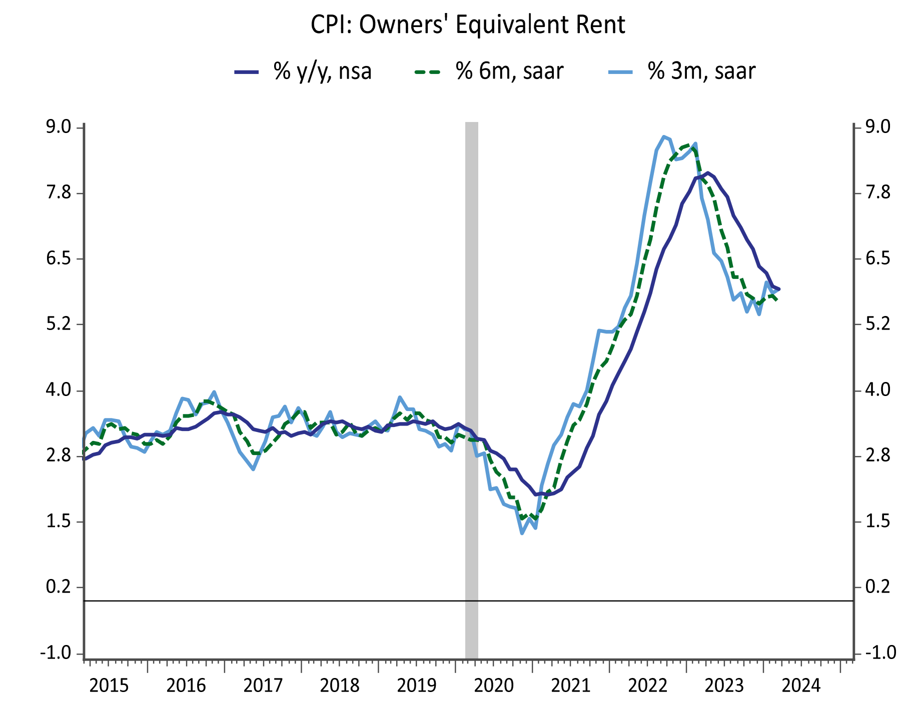
Sources: MacroPolicy Perspectives/BEA, FRBDAL, FRBSF/Haver



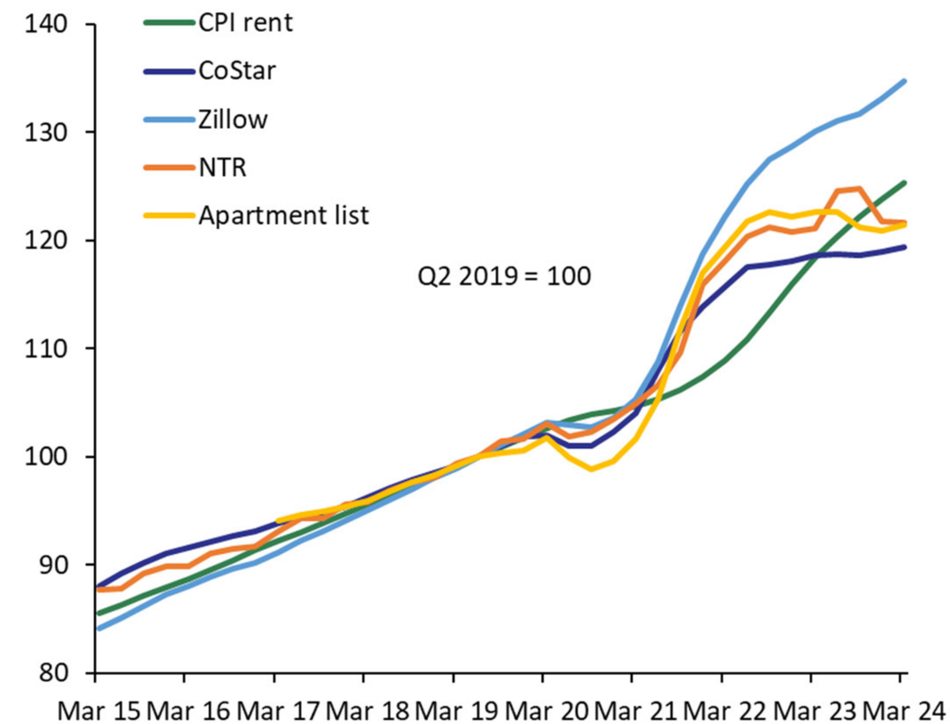
Sources: FRBPHI, FRBNY, UMICH, FRB/Haver/MacroPolicy Perspectives LLC

Diffusion index shows prices rising/falling across sectors and measures of expectations remain anchored

Housing inflation expected to moderate further

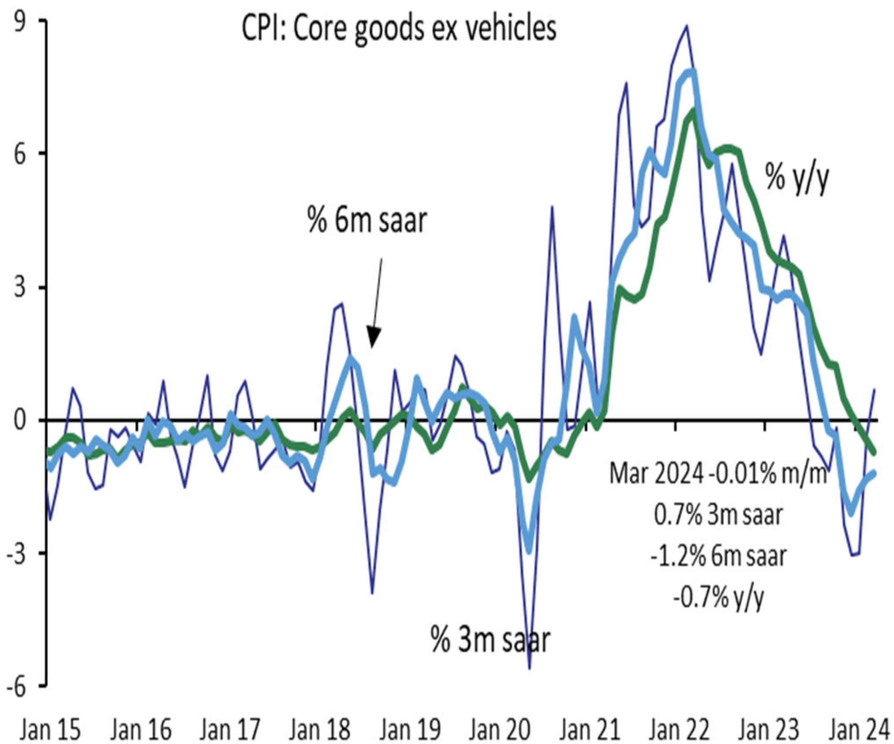


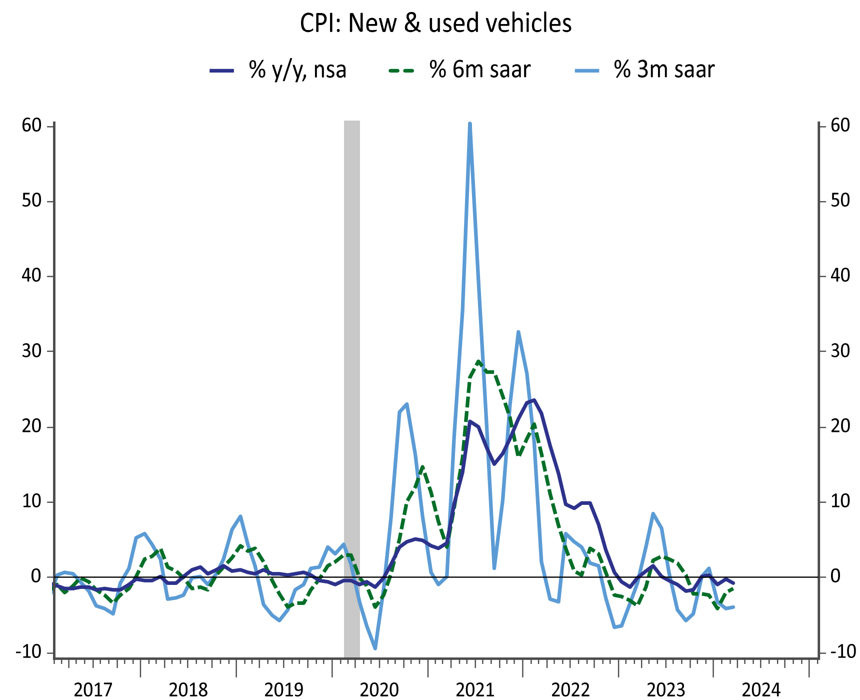
Source: BLS/Haver/Macropolicy Perspectives LLC



Housing inflation got stuck in H2 2023 but leading indicators still point to notable slowing in 2024

Goods prices have returned to deflation





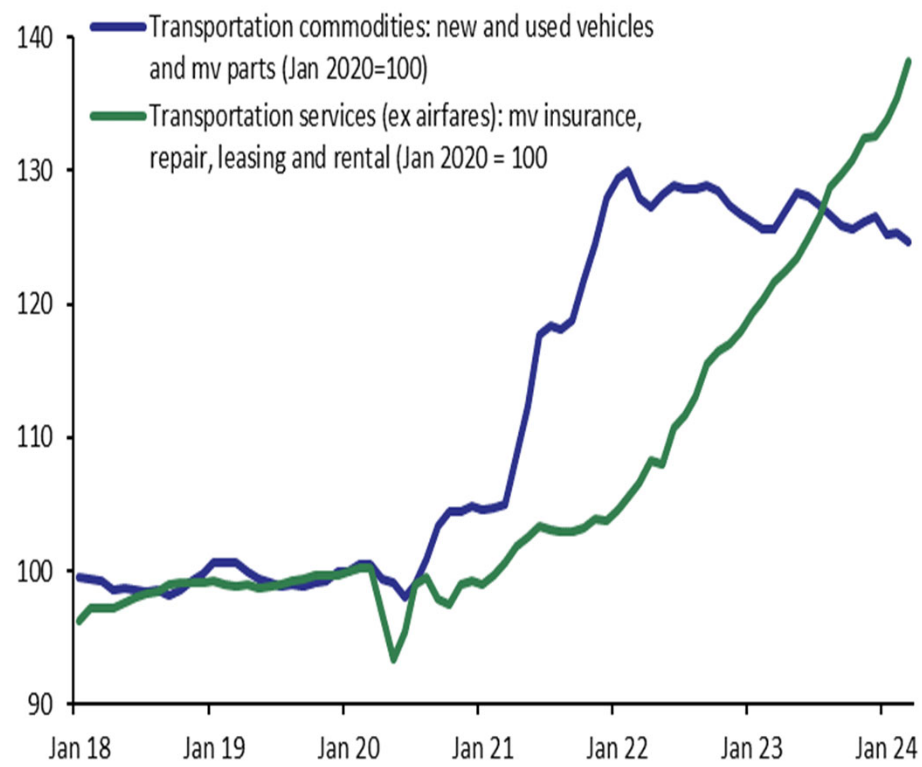
Source: BLS/Haver/Macropolicy Perspectives LLC

We expect a year below pre-pandemic trends on improving inventories, return to price sensitivity

Cars drove a lot of CPI supercore services inflation

Contributions to % 6mma of core services CPI ex housing ("supercore")

	Aug 23	Feb 24	Diff
Core services ex housing rents (% 6mma)	**0.23**	**0.48**	**0.25**
Contributions			
Medical care services	-0.04	0.09	0.13
Vehicle related services	0.23	0.17	-0.05
Recreation services	0.04	0.06	0.02
Communication services	-0.01	0.02	0.03
Education services	0.02	0.02	0.00
Household related services	0.04	0.05	0.01
Travel related services (airfares & hotels)	-0.07	0.05	0.12
Other personal services	0.03	0.02	-0.02

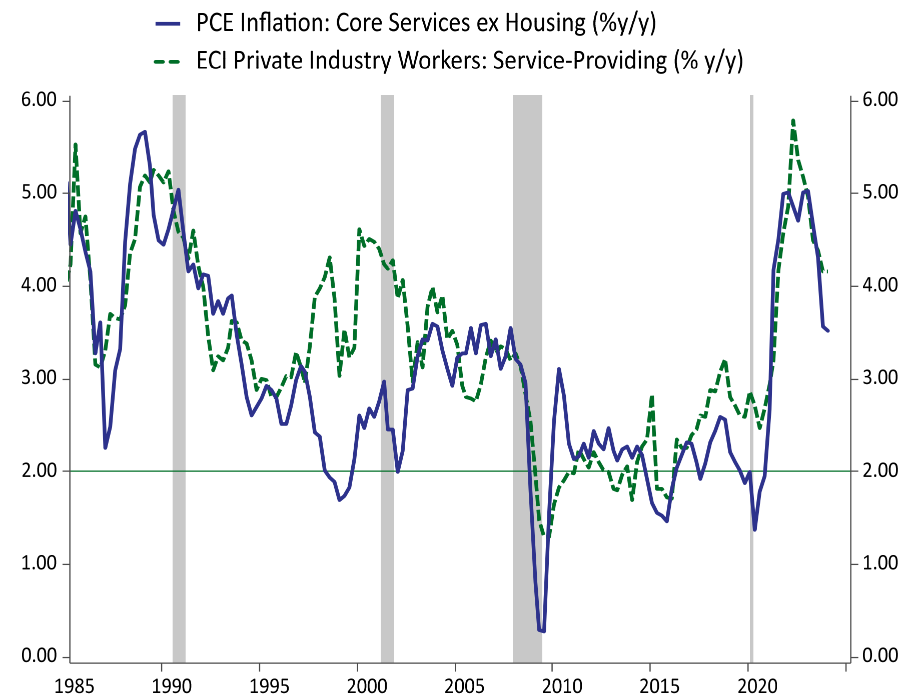


Car rental, insurance, leasing followed surging car/parts prices, but insurance continues to rise

Supercore PCE has different drivers than CPI

Contributions to % 6mma of supercore PCE inflation

	Feb 20	Jan 23	Mar 24
Supercore PCE (% 6mma)	**0.18**	**0.46**	**0.31**
Contributions			
Medical care services (incl. insurance)	0.07	0.06	0.10
Vehicle related services (incl. insurance)	0.01	0.05	0.02
Recreation services	0.02	0.04	0.03
Communication services	0.00	0.01	0.00
Education services	0.01	0.01	0.01
Household related services	0.00	0.01	0.01
Travel related services (airfares & hotels)	0.02	0.03	0.01
Other services	0.06	0.26	0.13

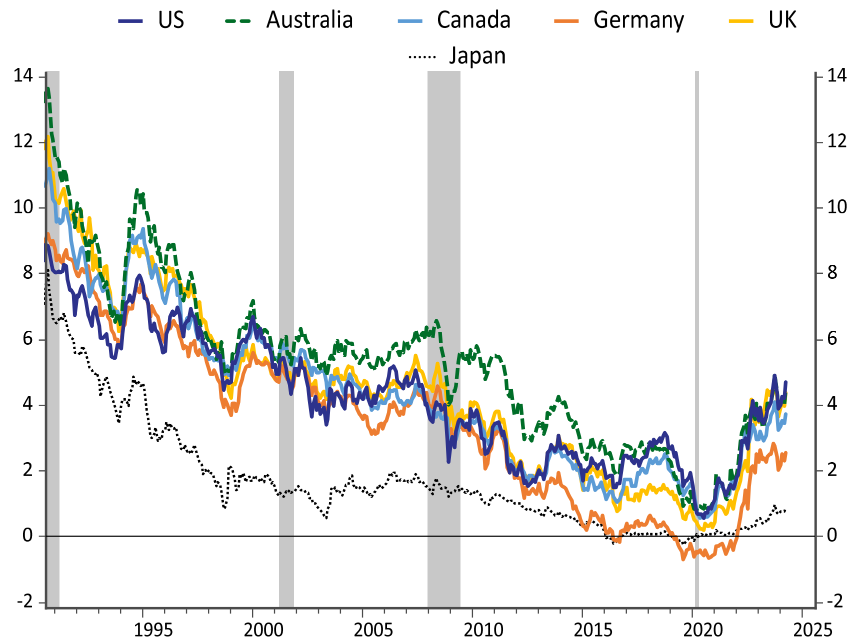


Sources: BEA, BLS/Haver/MacroPolicy Perspectives LLC

The leading relationship tp wage growth in other services is far from reliable

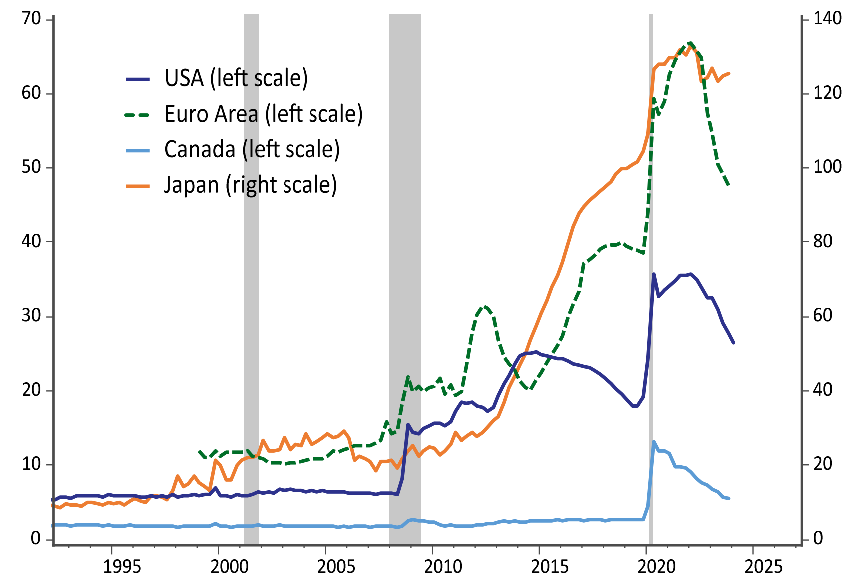
Global bond yields higher with QT and government deficits

Yields on 10-Year Government Bonds (%)



Sources: TREASURY, RBA, BoC, Bbk, BoE, MoFJ/Haver/Macropolicy Perspectives LLC

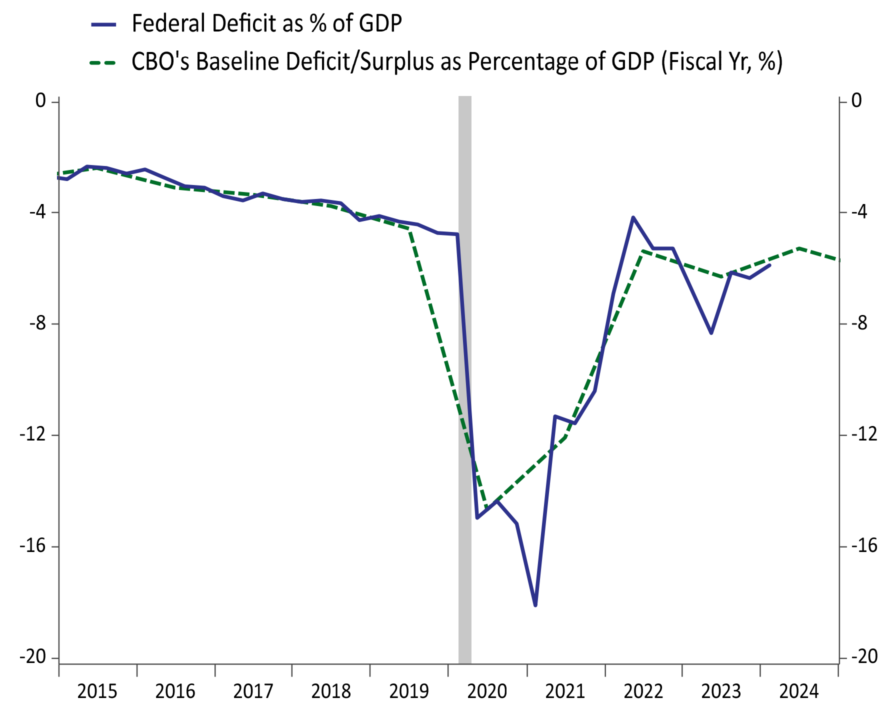
Central Bank Assets as a % of GDP (%)



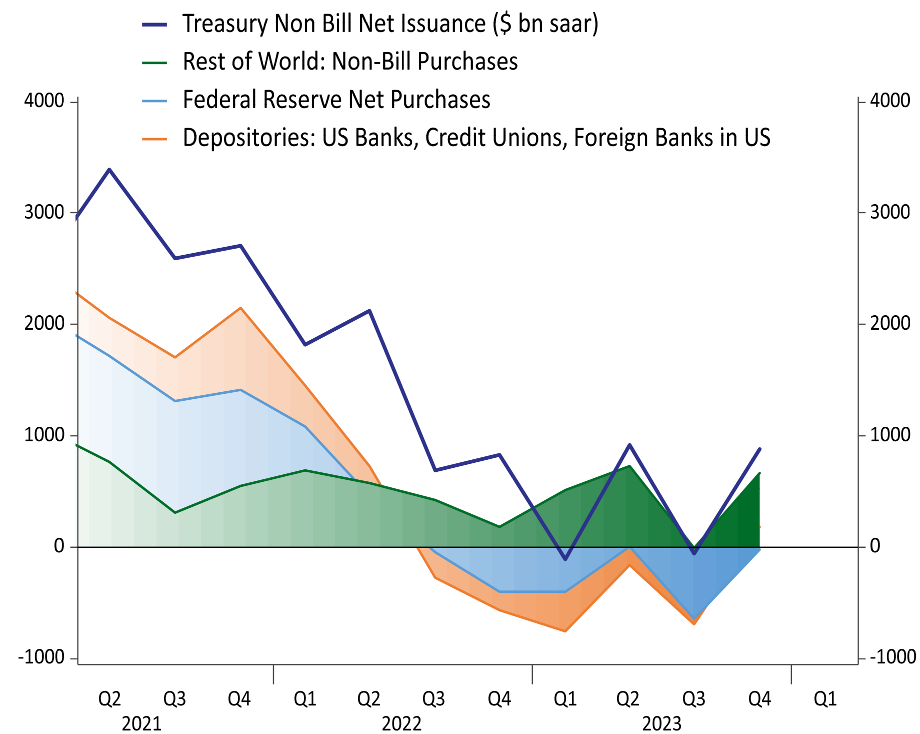
Sources: FRBBEA/H, ECB/H, StaCan/H, CAOBOJ/H/Haver

Bond yields remain higher and central banks continue reducing their balance sheets

Rising Rates & Volatility Reflect Changing Supply & Demand Dynamics



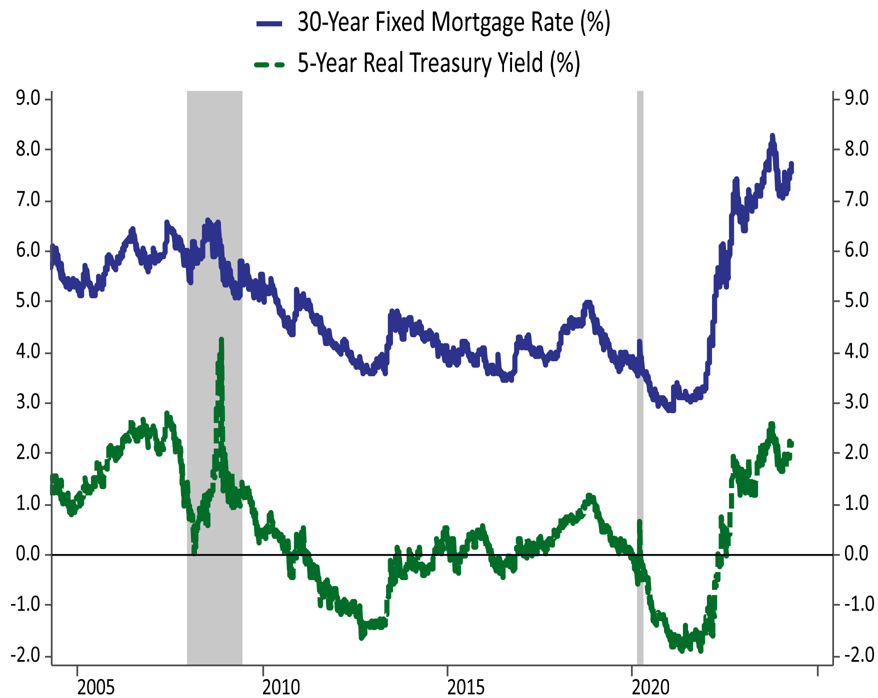
Source: CBO/Haver/MacroPolicy Perspectives LLC



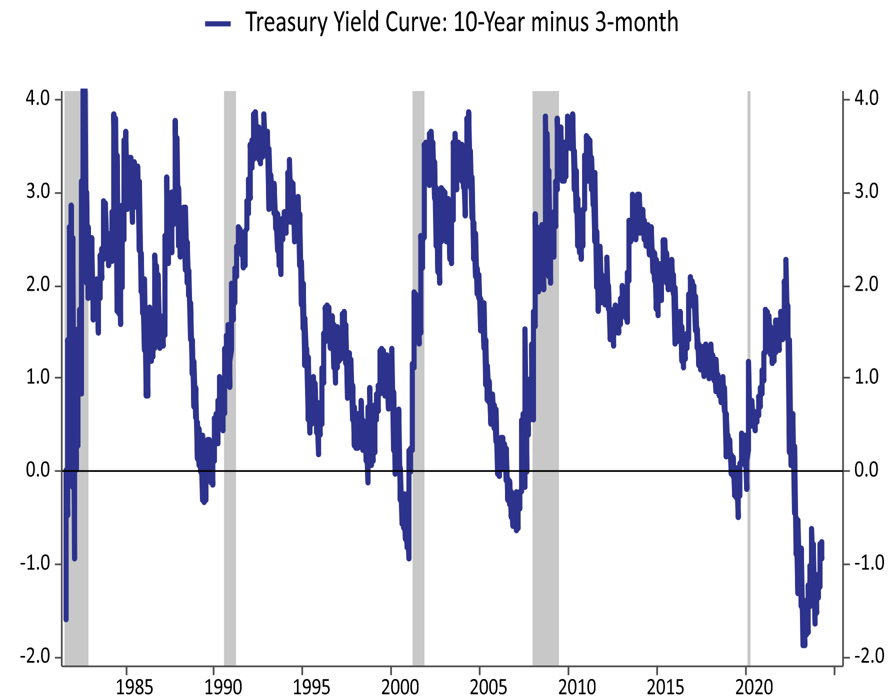
Source: FRB/Haver/MacroPolicy Perspectives LLC

More price sensitive buyers absorbing elevated bond supply

Money is expensive



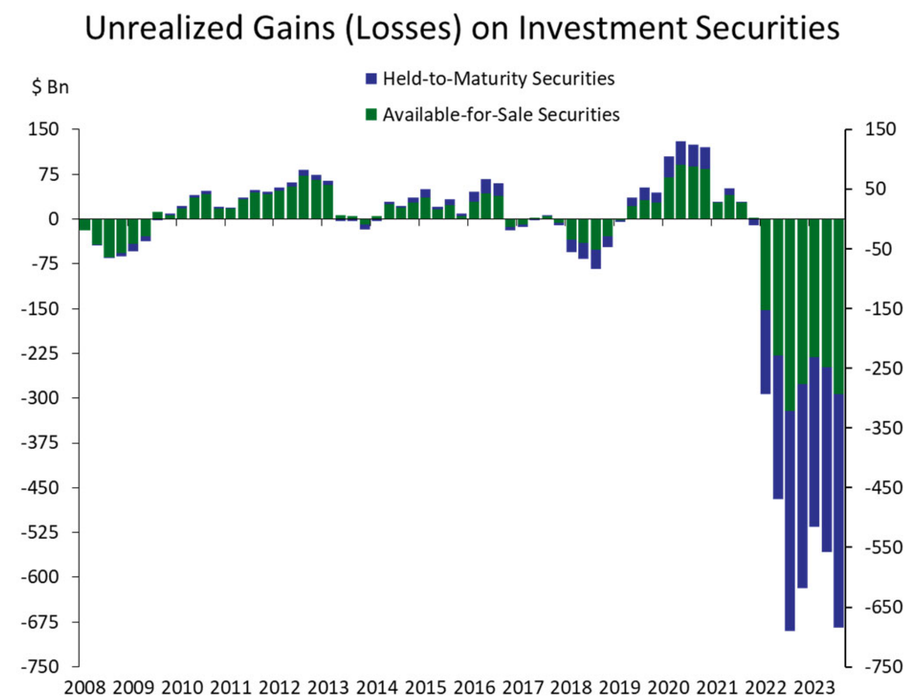
Sources: WSJ, FRB/Haver/MacroPolicy Perspectives LLC



Source: Haver/MacroPolicy Perspectives LLC

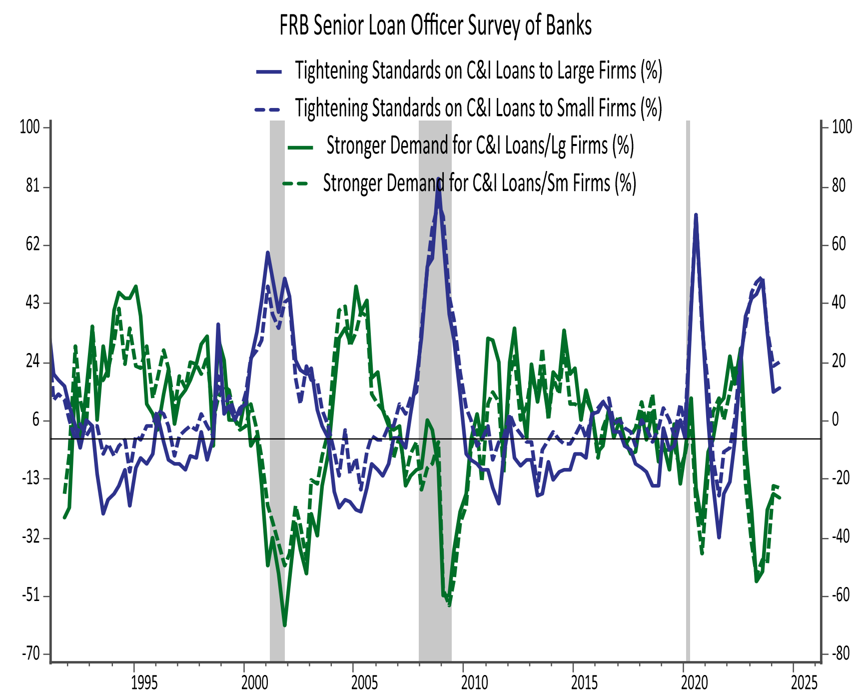
Real yields are high and the yield curve remains inverted muting the credit channel

The banking system is still under pressure



Source: FDIC.

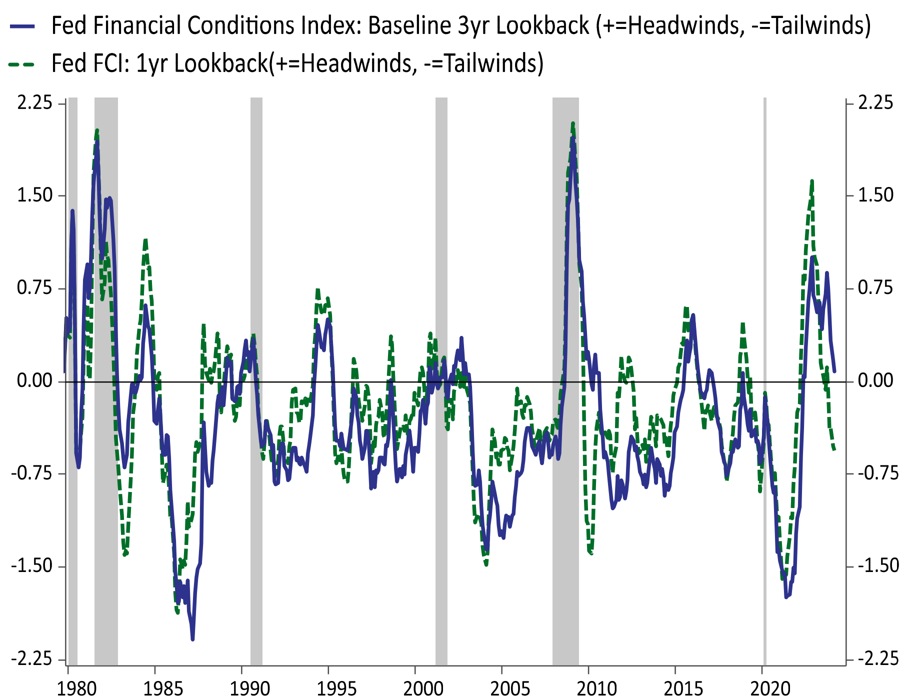
Note: Insured Call Report filers only. Unrealized losses on securities solely reflect the difference between the market value as of quarter end and the book value of non-equity securities.



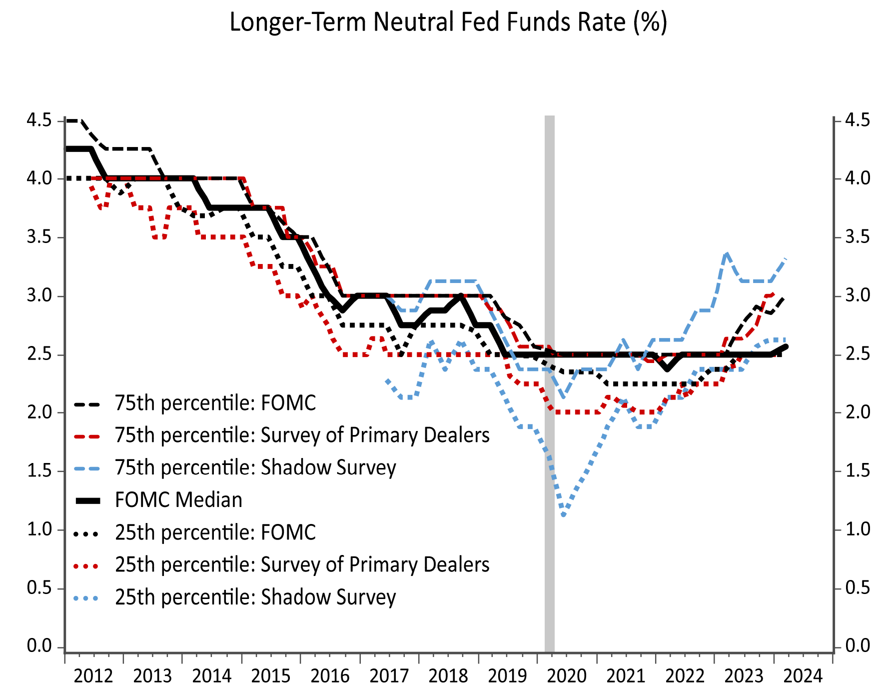
Source: FRB/Haver/Macropolicy Perspectives LLC

There have been no new bank failures but credit standards are tightening, demand falling

Gauging the restrictiveness of monetary policy is challenging



Source: FRB/Haver/MacroPolicy Perspectives LLC



Sources: FRB/H, FRBNY, MPP/Haver/Macropolicy Perspectives LLC

Productivity boosting growth & the stock market and r* estimates drifting higher but lags still coming through

Conclusions

- We expect continued resilience though we will likely remain in a volatile, uncertain environment.
- Neutral rates may be somewhat higher this cycle (though not 5.5%!)
    - We are not in a deleveraging cycle, so macro policy has been more effective, the economy more resilient
    - State and local governments are in good fiscal shape and a series of federal bills ensure a stream of investments and a positive acyclical fiscal impulse
    - Higher productivity means neutral rates can be somewhat higher

- Downside risks come from lags in monetary policy, a global economy that lacks a growth engine and escalating geopolitical frictions that will likely intensify ahead of the US presidential election

- Domestic downside risks could come if firms end labor hoarding and seek to maintain margins with layoffs