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The US Economic Outlook: *Moving Beyond the Election and the Post-Pandemic Economy*

2024-2025 ECONOMIC OUTLOOK

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Mark Vitner, Chief Economist

After spending the past 30 years as managing director and senior economist at Wells Fargo's Corporate and Investment Bank, Mark Vitner founded Piedmont Crescent Capital this past year. At his new firm, Mark provides analysis of the macro economy to clients located throughout the country and writes a series of reports on the US economy, local economies, small business, and residential and commercial real estate. He also provides economic content for CAVU Securities, writing their monthly newsletter, The CAVU Compass.

Originally from Atlanta, Mark earned a BBA in economics from the University of Georgia, an MBA from the University of North Florida and completed further graduate work in economics at the University of Florida. Mark is a member of the National Association of Business Economics and completed the NABE Advanced Training in Economics Program at Carnegie Mellon University. He is also a member of NABE's inaugural Certified Business Economist (CBE) class.

Mark is active in the community, co-founding the Charlotte NABE chapter and serving as board chair for the Foundation for the Charlotte Jewish Community. Mark also chaired the Economic Advisory Council for the California Chamber of Commerce and currently serves on the Joint Advisory Board of Economists for the Commonwealth of Virginia. His commentary has been featured in The New York Times, The Wall Street Journal, Bloomberg, and many other publications. Mark also makes frequent guest appearances on CNBC and other major networks.

The Economic Outlook Depends Upon Your Place & Perspective

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The Economy Looks Surprising Strong

Despite concerns over inflation and the national debt, overall economic activity remained strong through the third quarter of 2024. Those that locked in low-rate financing—businesses, homeowners, and state and local governments—feel secure, while renters and new buyers feel insecure. Inflation affects households and businesses unevenly, a disparity reflected in consumer confidence and business surveys.

Inflation Fatigue Weighs on Consumers

Inflation peaked around the middle of 2022 and has fallen sharply since then. Most of the improvement came from a reversal in the sharp run-up in prices for used cars and energy products. Inflation is moderating elsewhere but the pace has slowed considerably. The price level for food, housing, and most services remains 25% or more above its pre-pandemic level, creating a sense of fatigue and malaise.

Housing Affordability Has Been Stretched

The Fed's rate cut hasn't boosted the housing market; mortgage rates have risen, deepening the "lock-in" effect as homeowners with sub-5% rates hold off on selling. This worsens the inventory shortage just as Millennials form families, driving prices higher. Renters are renewing leases more often, and housing costs remain steep for both renters and first-time buyers.

The Post Election Economy

Campaign promises heightened fears in the financial markets that both candidates would bring about larger budget deficits. We look for less dramatic changes in tax and spending policies. The big difference between the candidates is regulatory policy, which is something the Administration controls. The post-pandemic expansion is coming to an end, with most of the CARES Act stimulus already spent. The influx of funds from the IRA and CHIPS Acts is also tapering off, and the affordability migration is nearing its end, benefiting fewer markets.

Economic Growth Continues to Top Expectations

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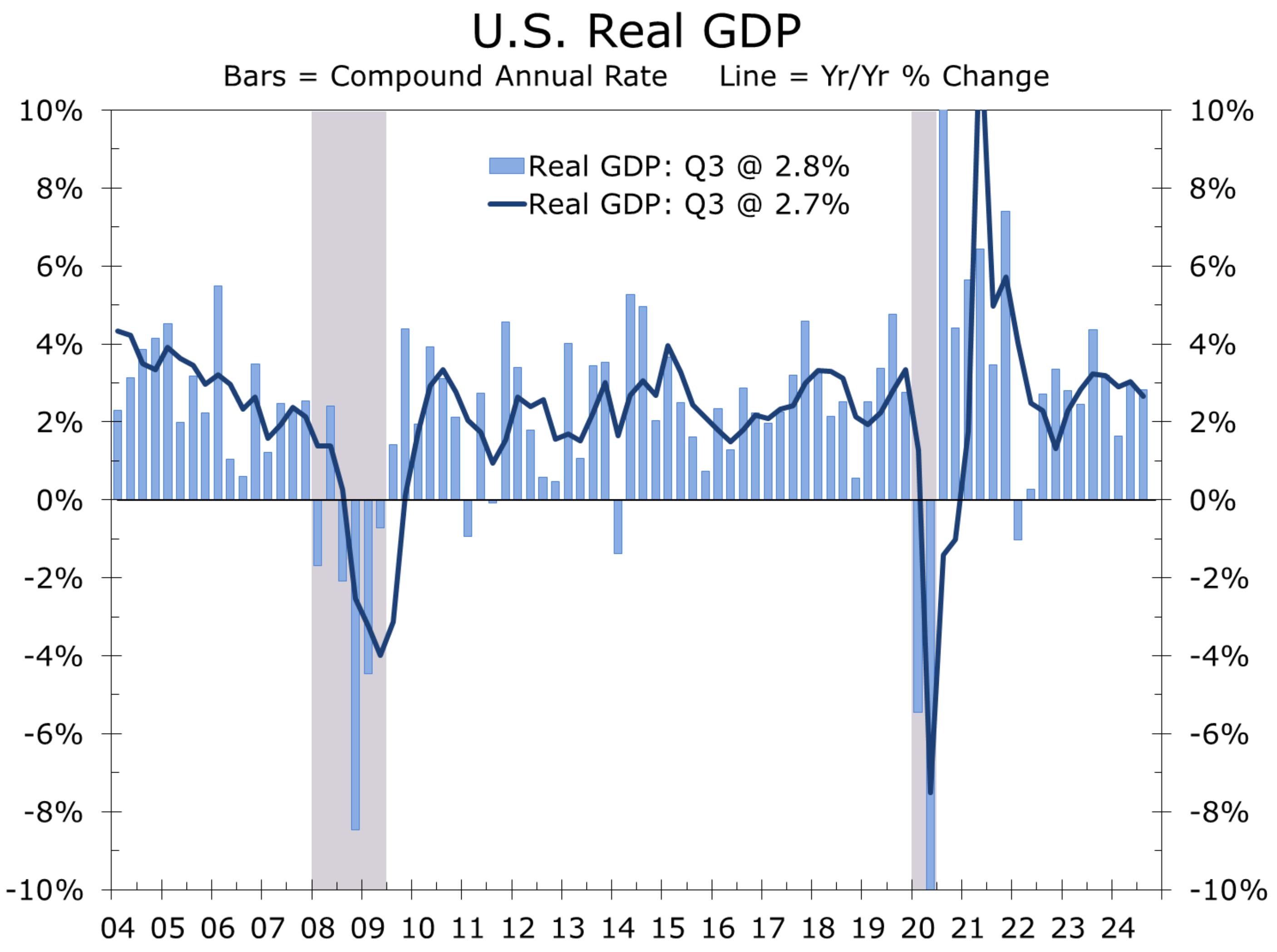
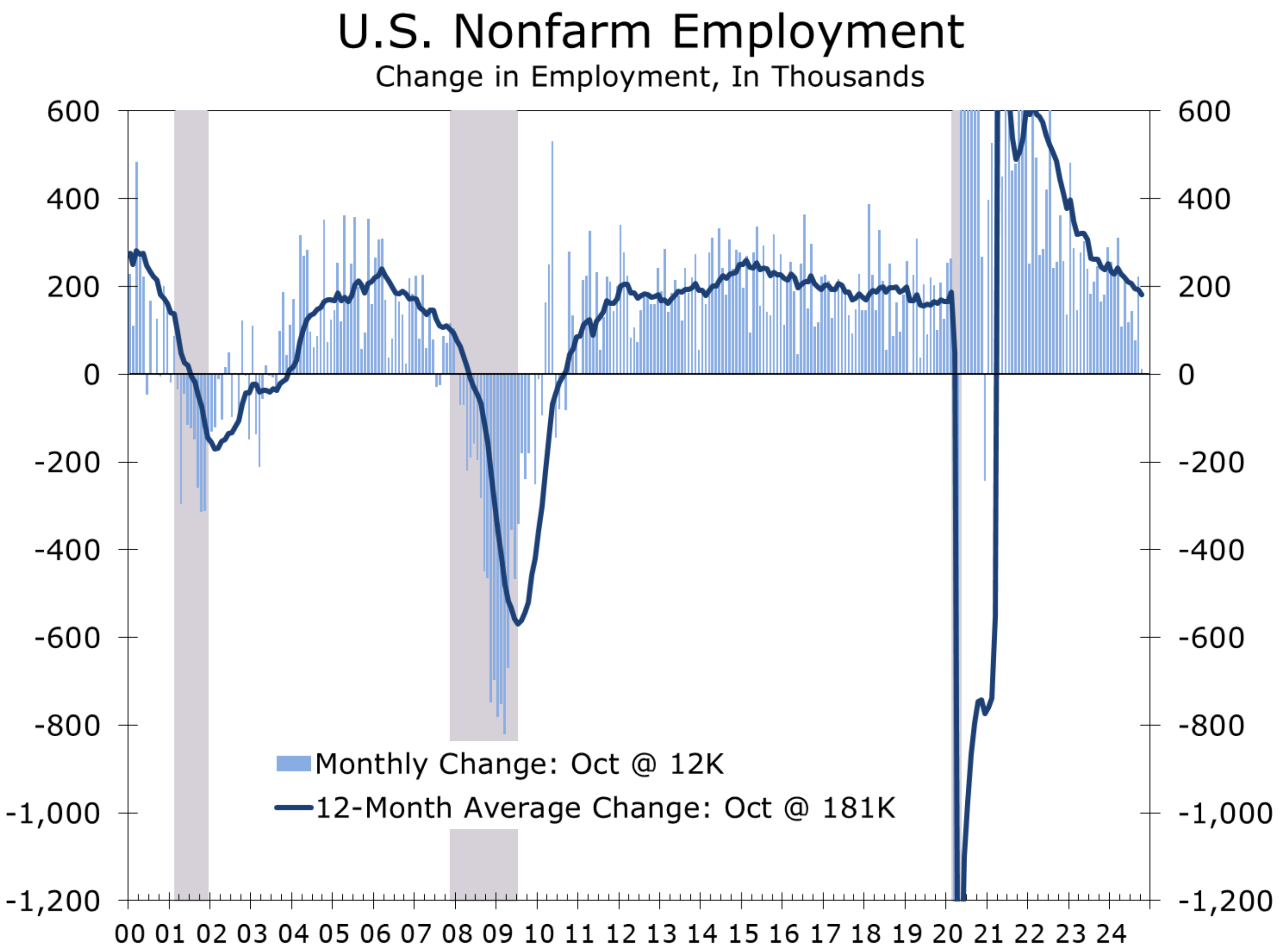
- Final demand remains surprisingly strong and is still getting a tailwind from prior stimulus.
- The annual revisions to the National Income Accounts showed surprisingly stronger growth.
- The upward revisions suggest less need for aggressive Fed rate cuts. They also imply higher productivity and a higher long-run "neutral" funds rate.



Source: Bureau of Economic Analysis

Hurricanes and the Boeing Strike Weighed on October Job Growth

- Hurricanes Helene and Martin likely subtracted about 100k jobs from October.
- Hiring remains concentrated in “hard to rehire sectors”, mostly construction, health care and government.
- Hours worked have been growing more slowly, suggesting we are adding more part-time jobs.



The Underlying Momentum Is Weaker Than The Headlines

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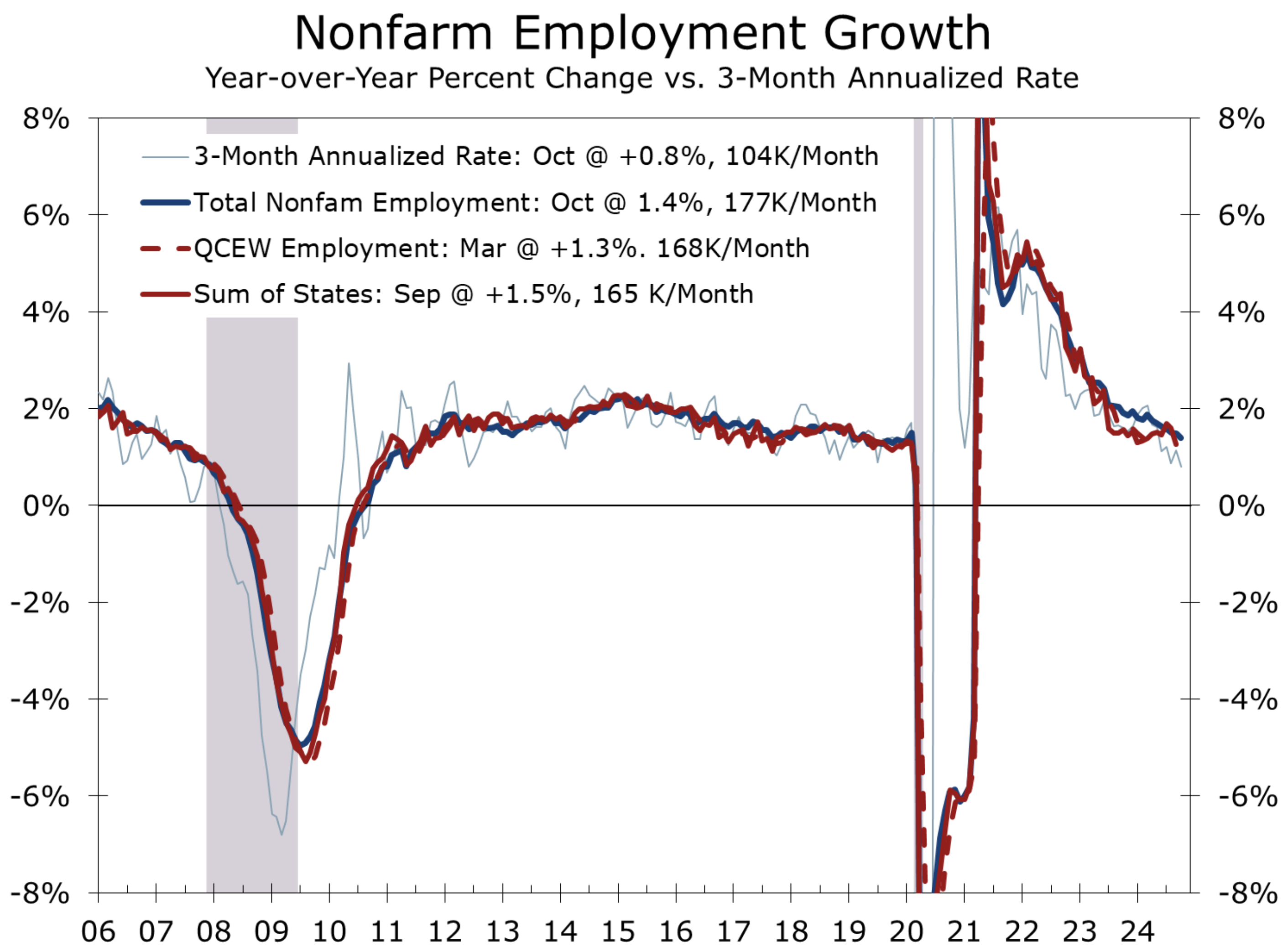
- The QCEW data suggest payrolls have been overstated by 818,000 jobs.
- The new data suggest employers are adding around 140,000/month.
- State employment data are tracking the QCEW series.
- The slowdown in hiring is pushing the unemployment rate higher.



Source: Bureau of Labor Statistics

Wage Gains Remain Inconsistent With The Fed's Objectives

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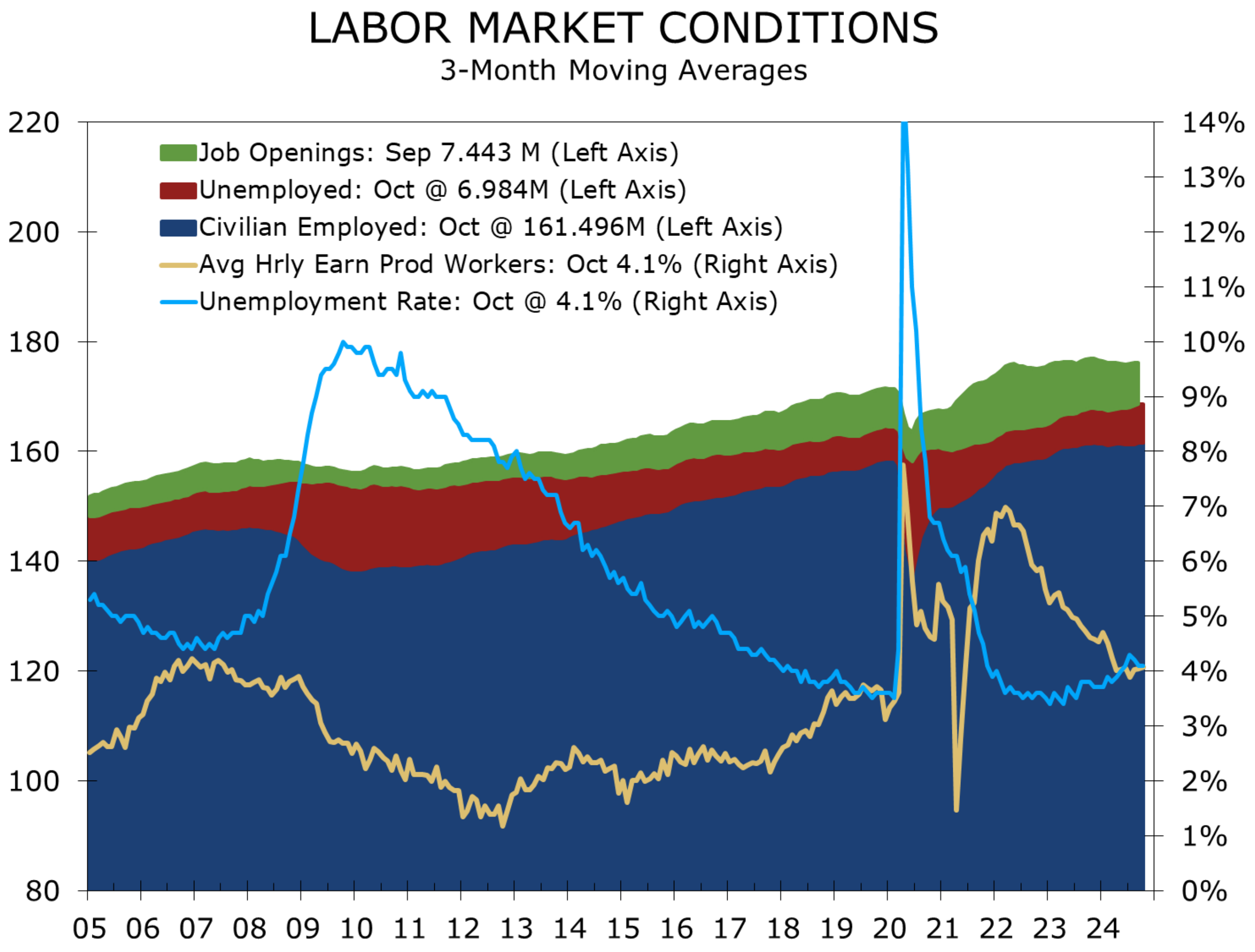
- The unemployment rate is edging higher and is now just 0.1 pp below the Fed's target.
- Job openings are now close to pre-pandemic levels and are likely overstated.
- Labor force growth remains sluggish overall and got an earlier boost from the immigration wave.



Source: Bureau of Labor Statistics

What Are The Leading Economic Indicators Telling Us?

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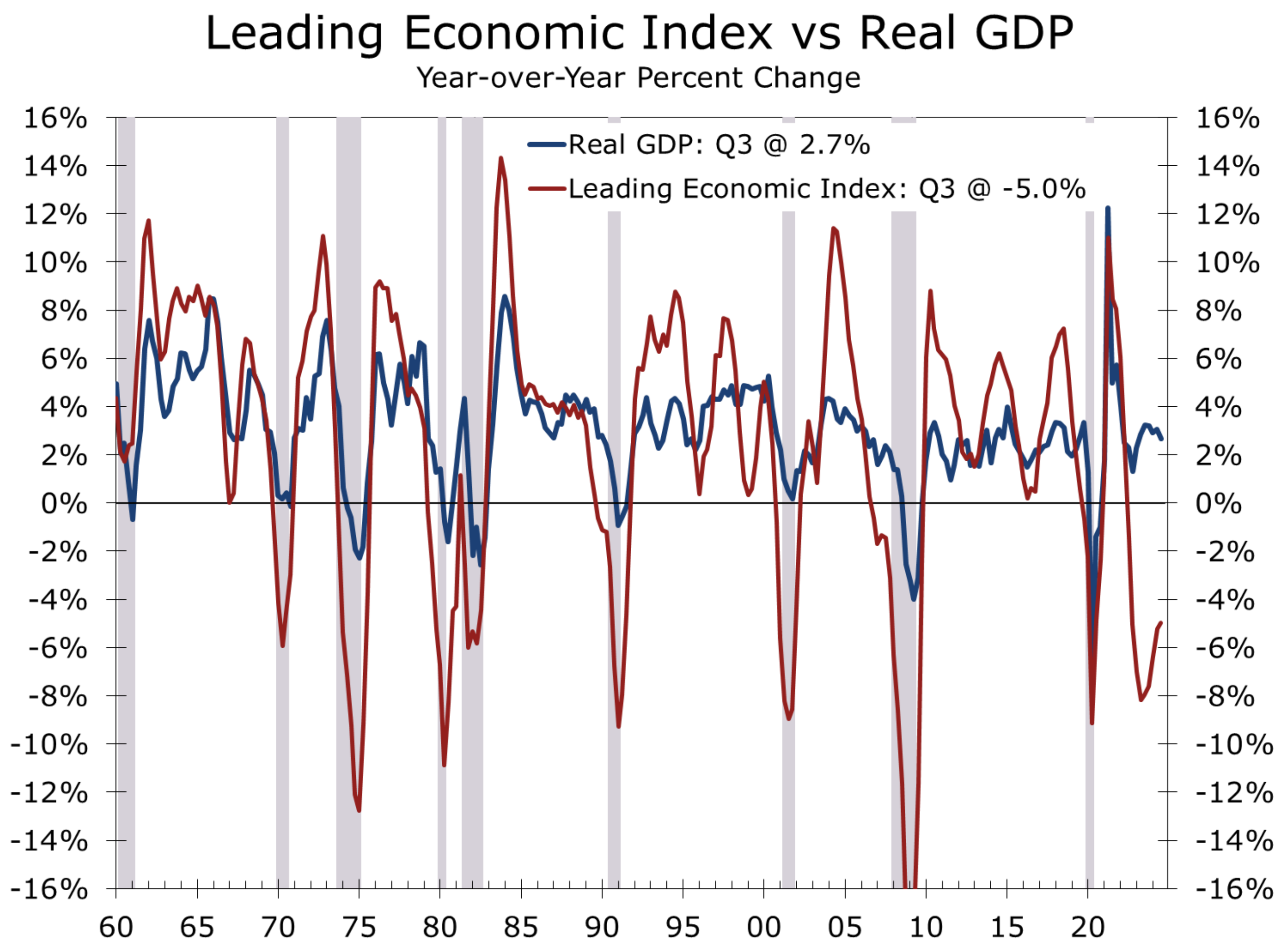
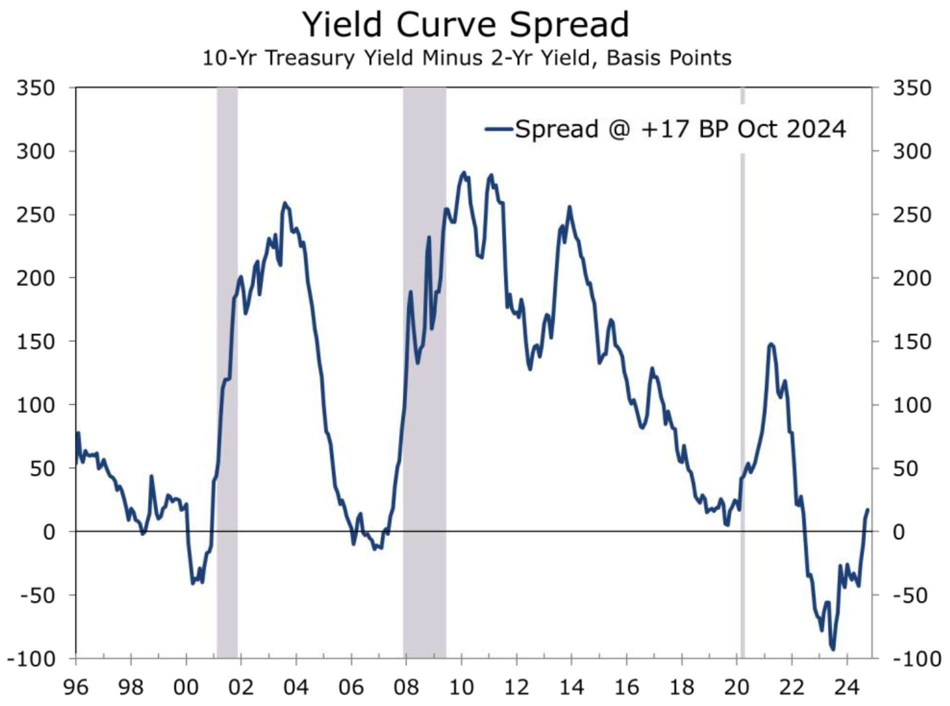
- The Leading Economic Index has reliably predicted past recessions.
- The index has been pulled sharply lower by normalizing supply chains and the winding down of the Fed's previous extraordinary easy monetary policy.
- Financial indicators are improving, which should boost the overall index.

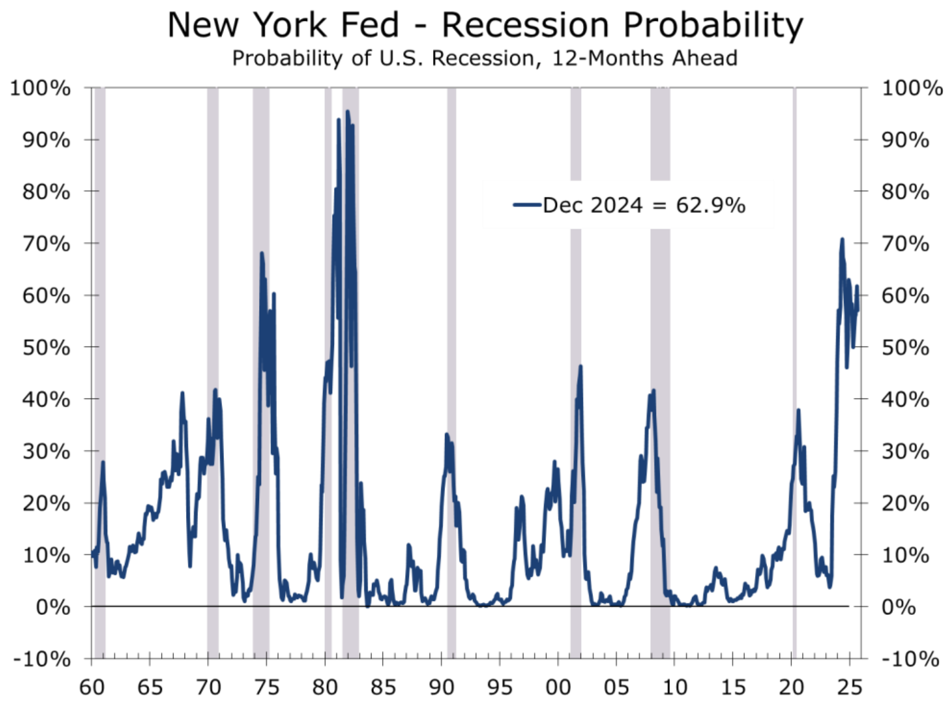


Source: The Conference Board & Bureau of Economic Analysis

The Yield Curve Has Steepened on Growth and Deficit Concerns

The Yield Curve has steepened since the Fed cut interest rates, as investors digest the prospect of lower rates in an economy operating near full employment and running persistent large budget deficits. The normalization of the Yield Curve has typically been a warning signal that a recession. The New York Fed Recession Probability Model puts the odds of a recession by at better than 51% through fall 2025.

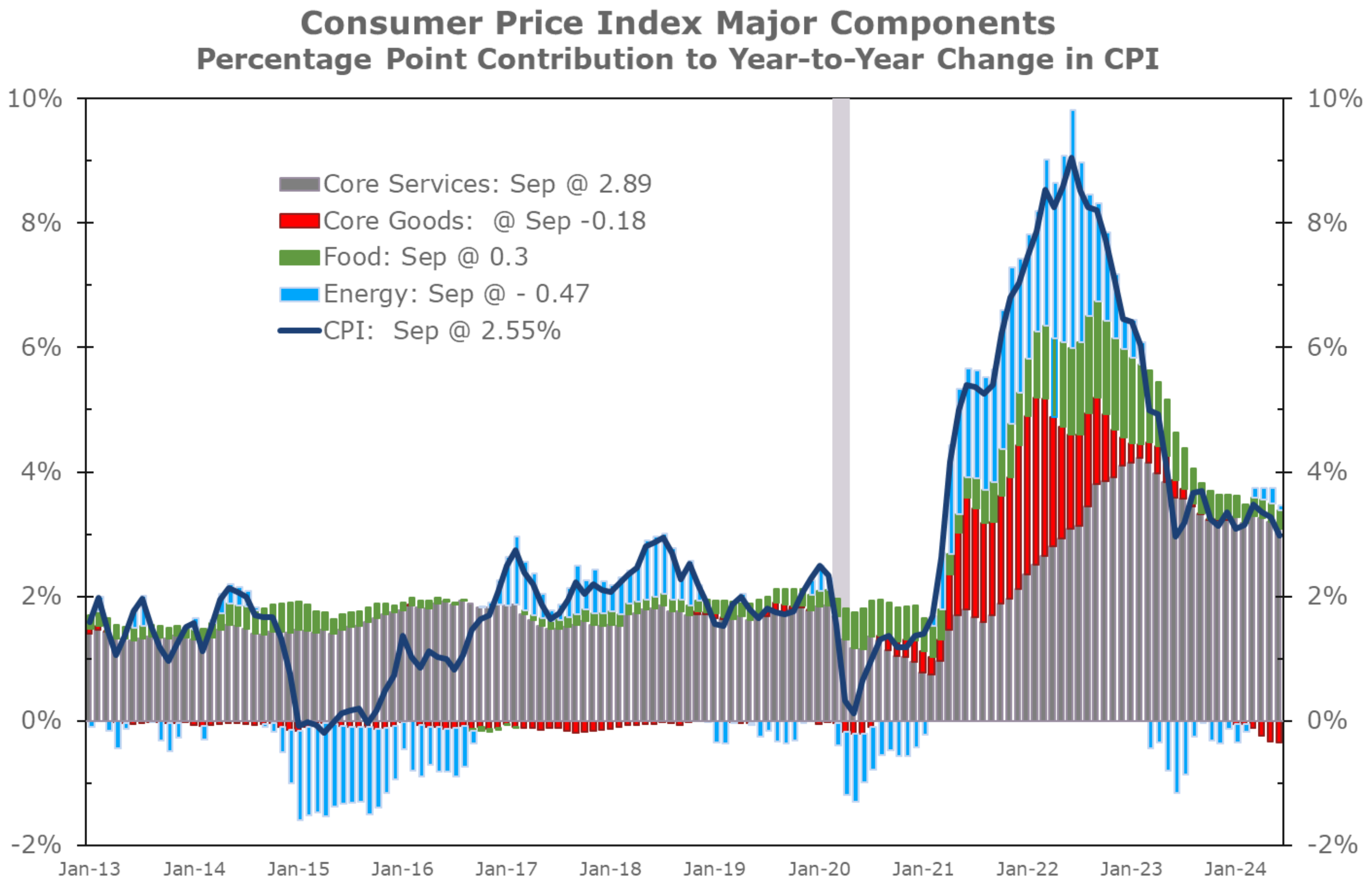




Source: Refinitiv, Federal Reserve Bank of New York

Inflation Has Rolled Over But Remains Persistent and High

- Headline inflation moderated after the middle of 2022, as gasoline prices declined and used car prices moderated.
- Core inflation remains persistent, however, particularly in the labor-intensive service sector.
- Residential rent and homeowners equiv. rent remain problematic and are not overstated.
- Health care, auto insurance, and entertainment remain other trouble spots.



Source: Bureau of Labor Statistics

The Fed May Not Have As Much Room to Ease

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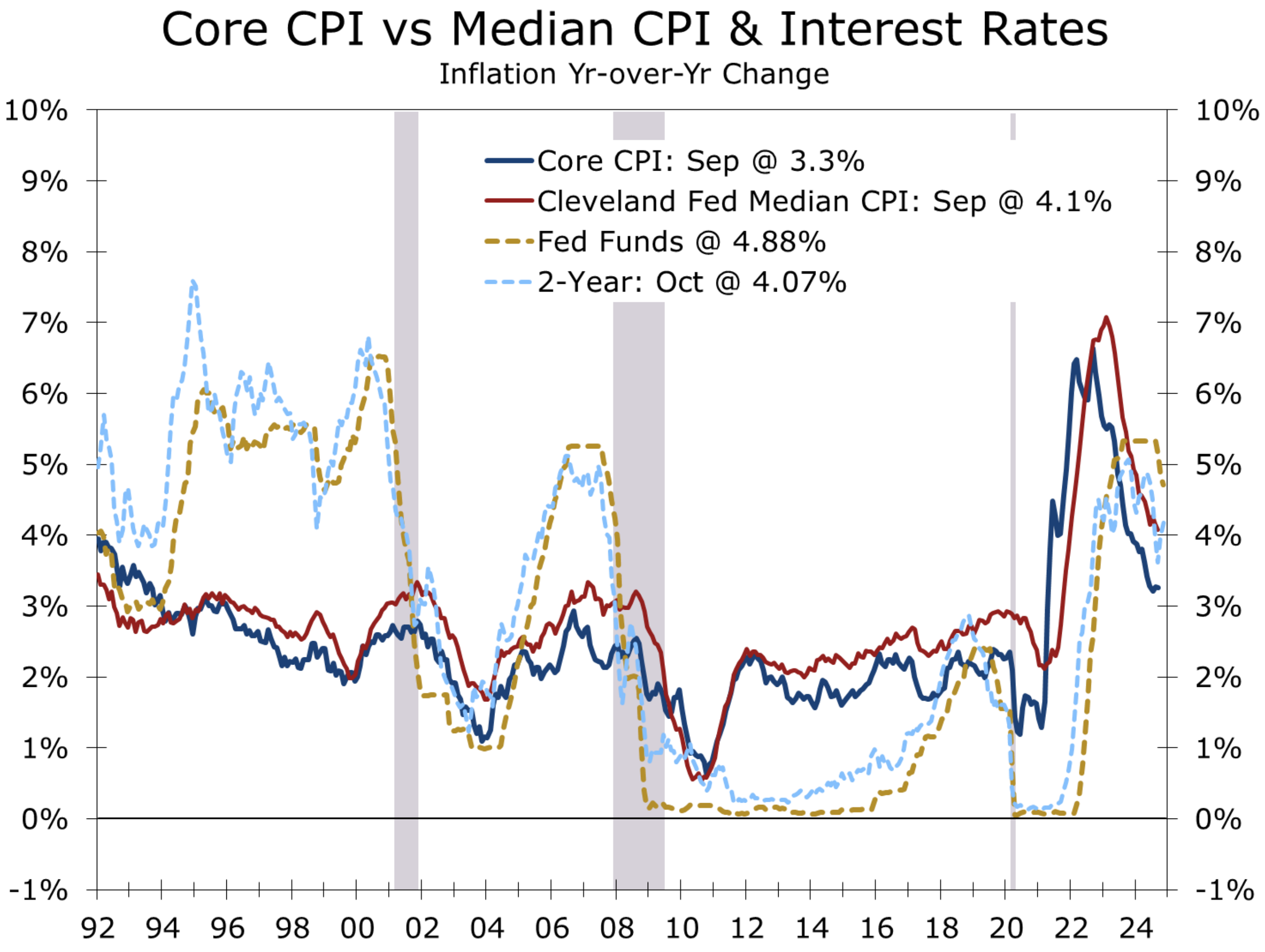
- The improvement in the CPI has been narrowly based and may make it more difficult to bring inflation back down to 2%.
- The Cleveland Fed's Median CPI closely tracks core services prices and has moderated much less.
- The financial markets are now expecting just 3 more quarter-point cuts in the federal funds rate.



Source: Bureau of Labor Statistics, Cleveland Fed & Federal Reserve Board

Long-Term Rates Will Likely Rise as the Fed Cuts the Funds Rate

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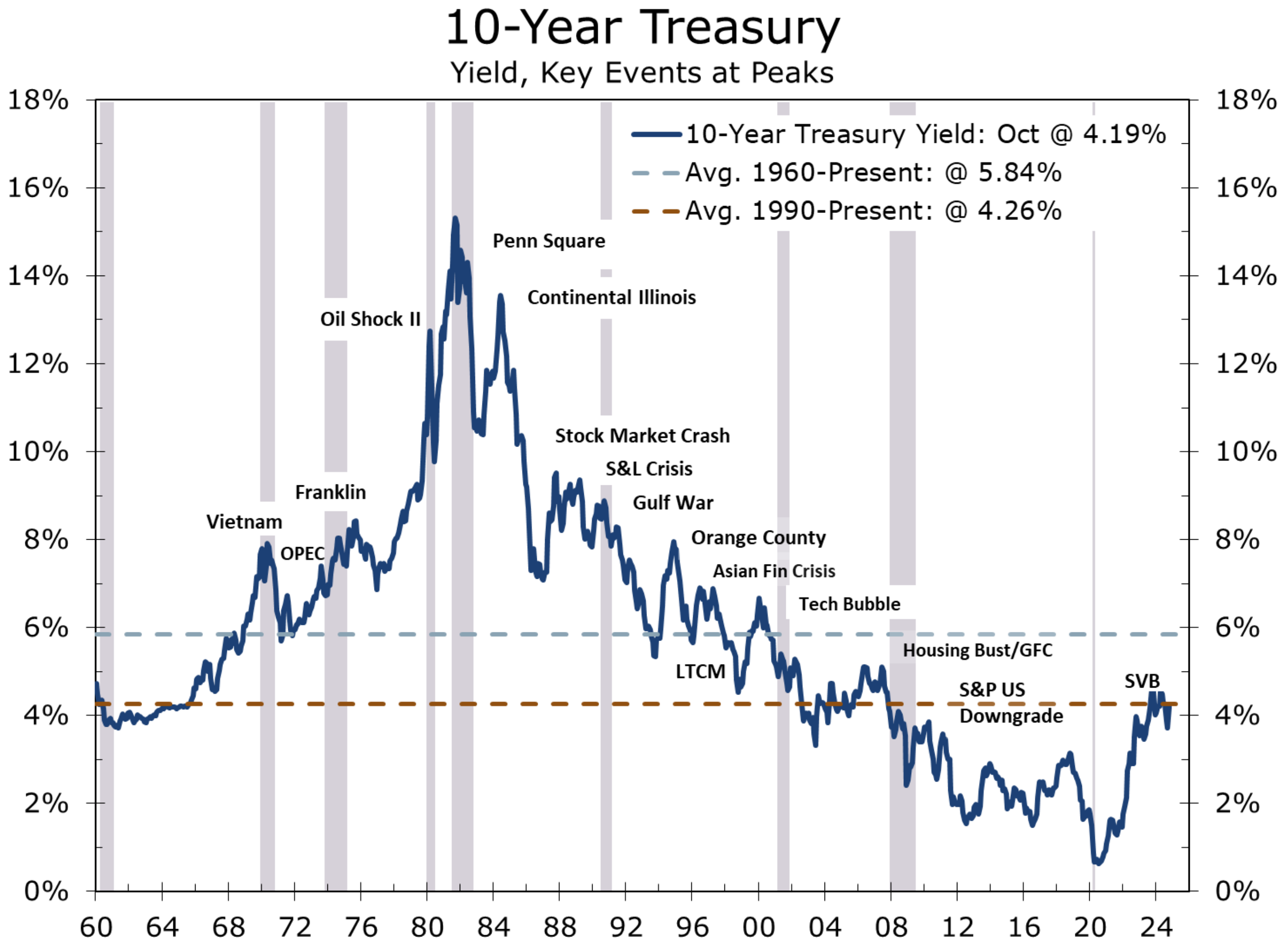
- Long-term rates have risen since the Fed cut the federal funds rate, likely signaling a return to a normal yield curve.
- The policy pivot toward supporting the labor market also raises inflation concerns.
- Budget deficits are likely to remain large regardless of who is elected.
- Mortgage rates are up to 6.80%. Home sales will slow.



Affordability Deteriorated Quickly Following the Pandemic

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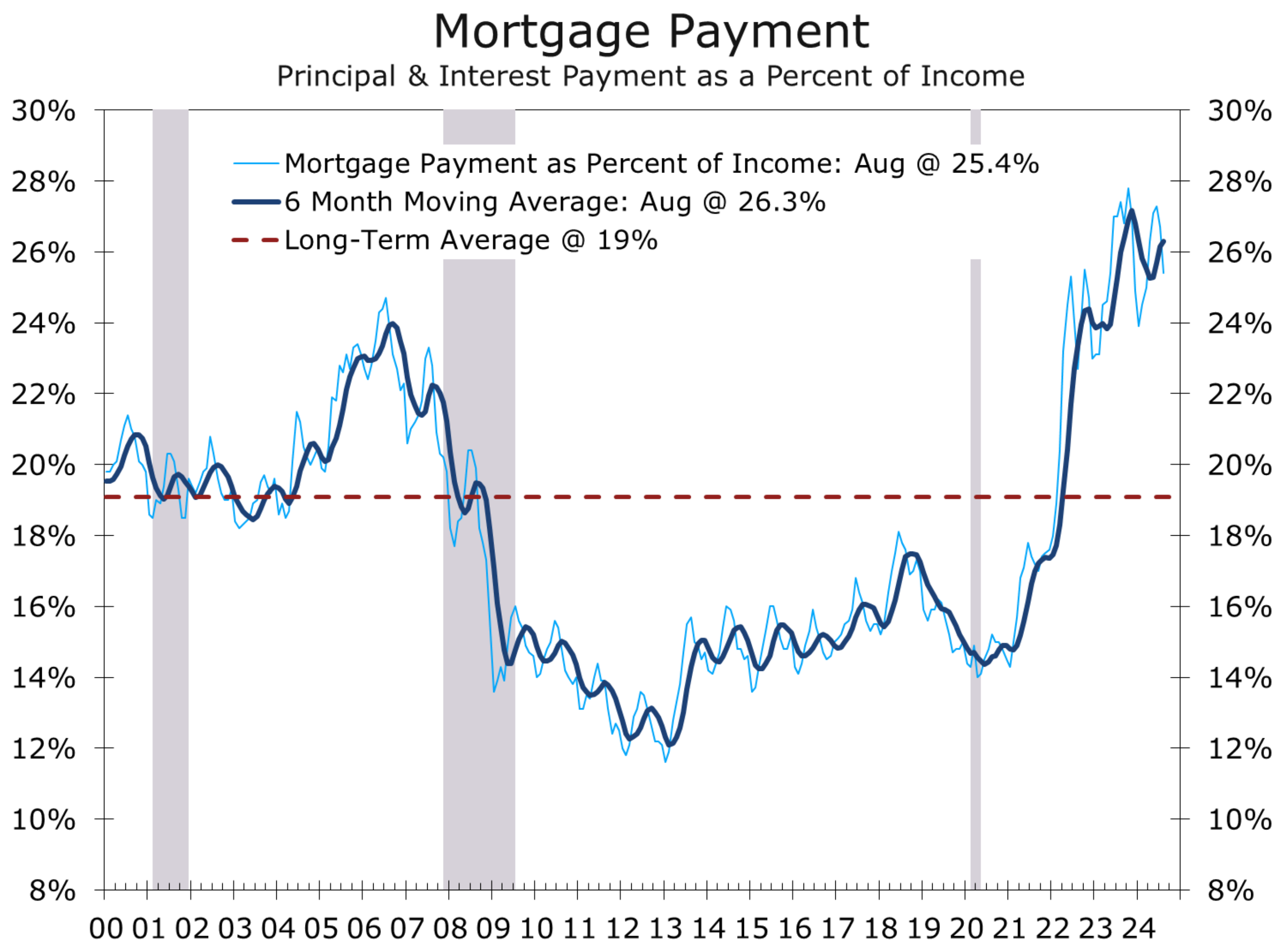
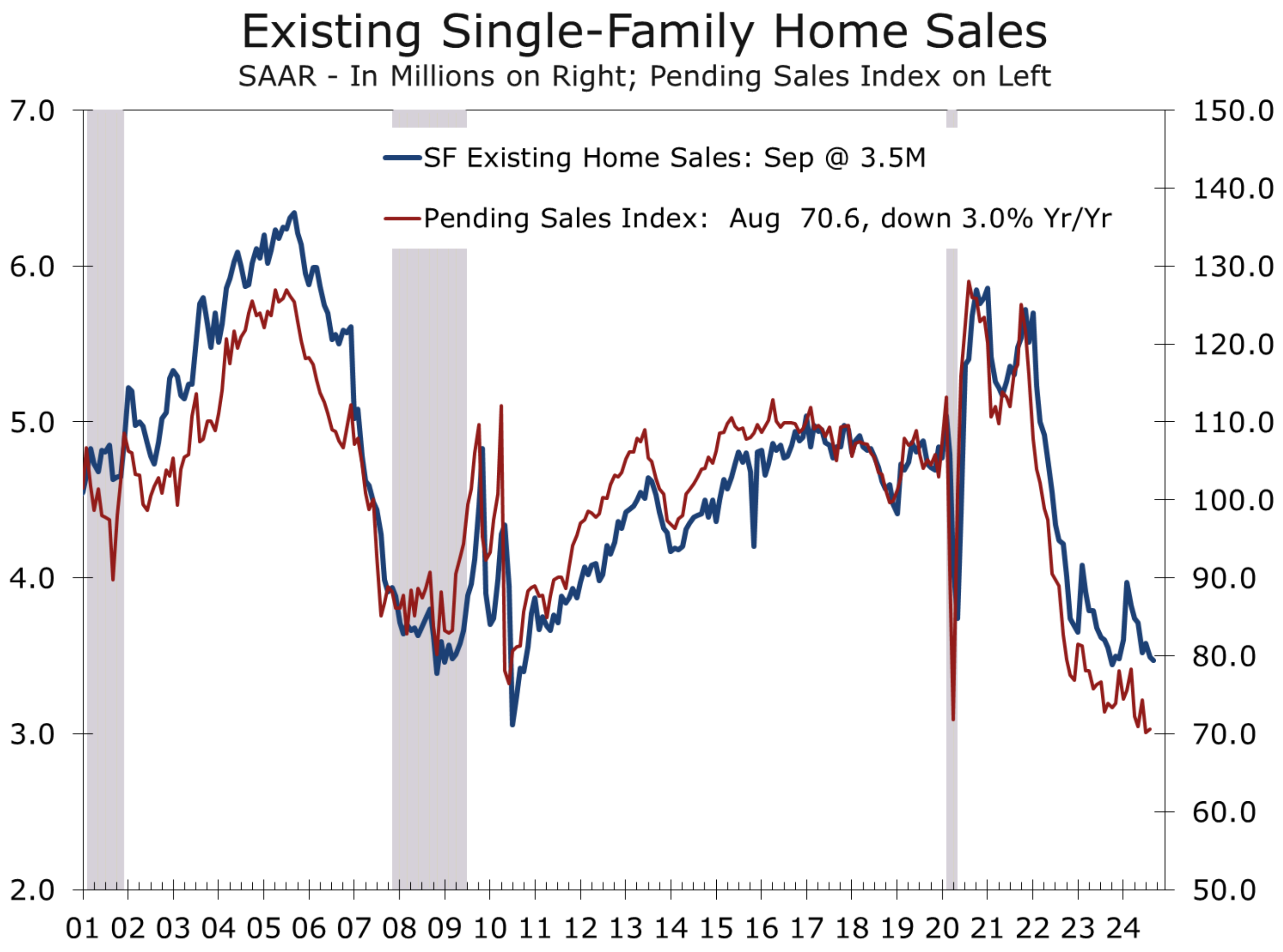
- Housing affordability remains stretched. Principal and interest payments are currently 25.4% of median family income. The norm is around 19%.
- At $2,152/Month, principal and interest payments now account for about the same share they did at the peak of the housing bubble.
- Low affordability is keeping prospective buyers in the rental market.



Source: National Association of Realtors

Existing Home Sales Still Look to be Headed Lower

- Lower short-term interest rates will help home builders but will provide less of a boost to existing home sales.
- First-time home buyers have been shifting to new homes due to the lack of inventory.
- We do not look for a meaningful bounce in home sales until spring 2025.



Source: National Association of Realtors

Higher Interest Rates Have Taken Longer to Slow the Economy

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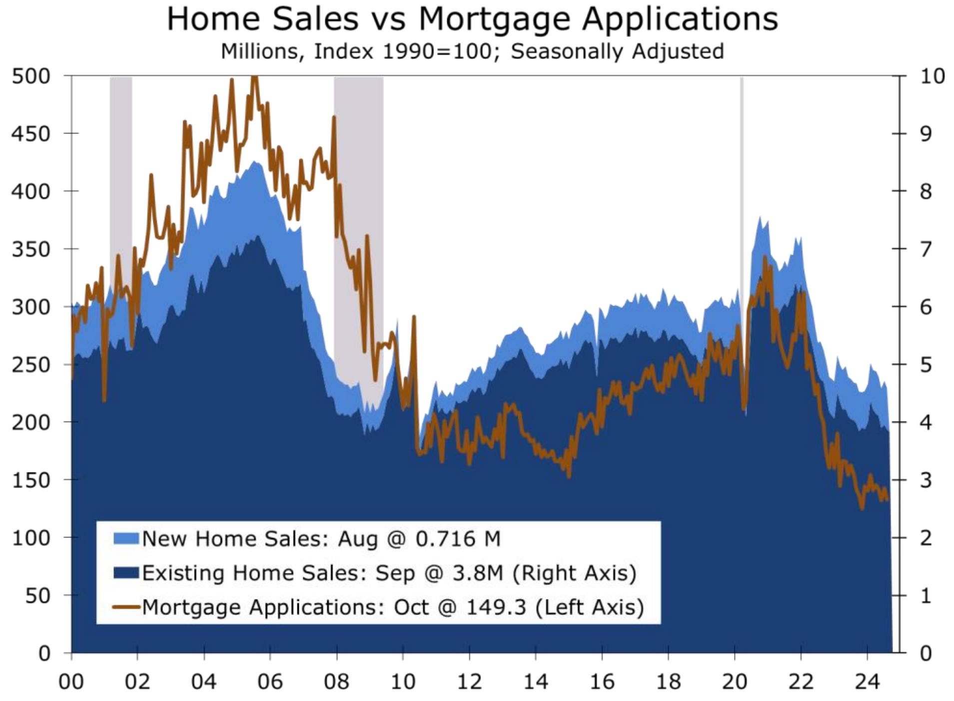
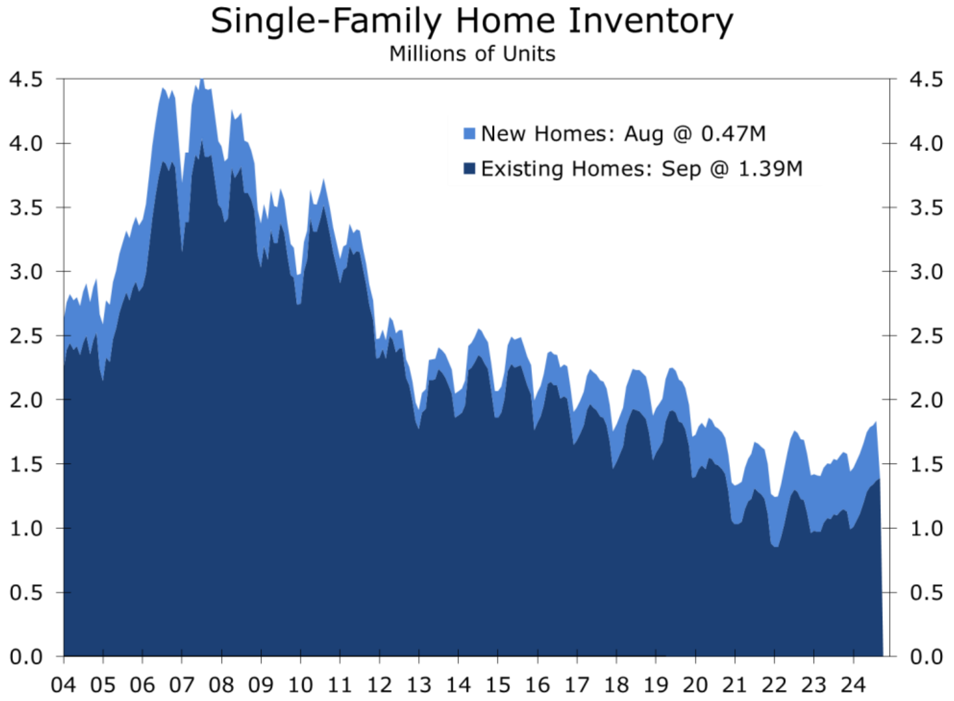
Higher mortgage rates have clearly taken a toll on home sales. The sudden wide swing in rates continues to drive the lock-in effect, further reducing supply and sending prices higher. Home builders are trying to fill the gap, but new home sales have risen have suffered too more recently and have not offset the slide in existing sales. Home builder confidence rose i.

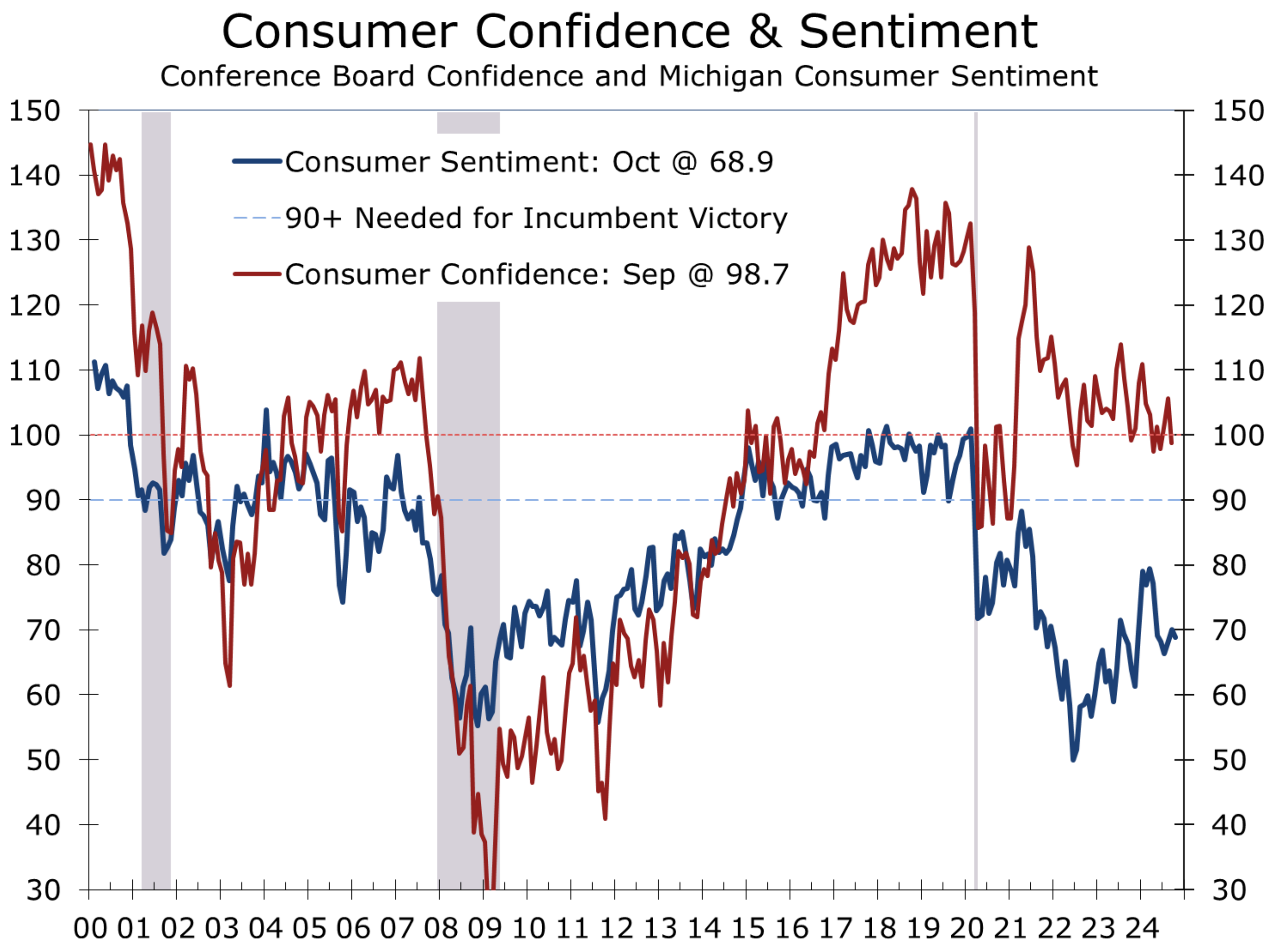




Source: Census Bureau, National Association of Realtors and Mortgage Bankers Association

Consumers Are Suffering From Inflation Fatigue

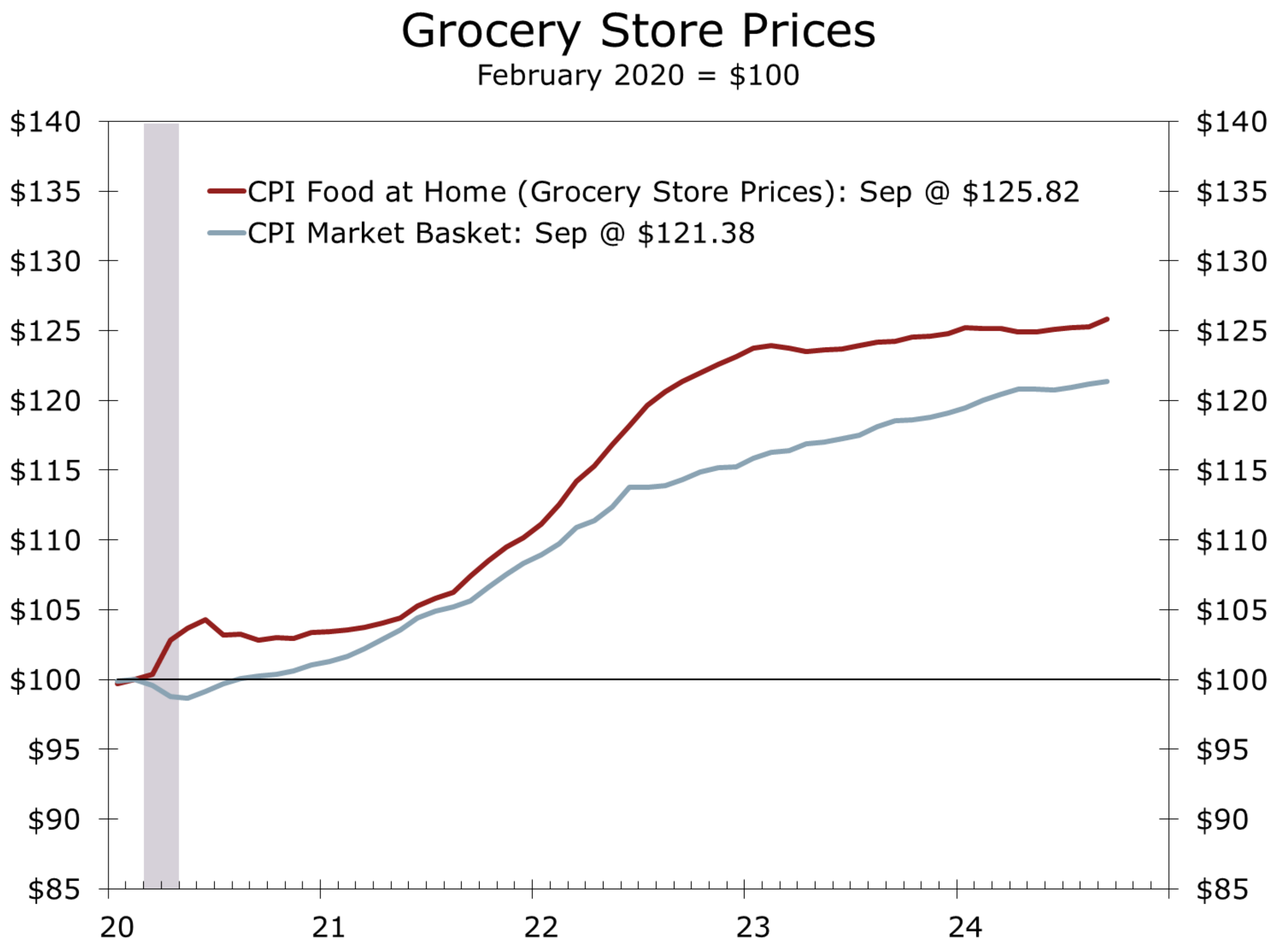
- With the economy at "full employment", consumers feel relatively upbeat about employment conditions.
- Higher prices, particularly for necessities, and moderating wage gains are weighing on consumer sentiment.
- Generally, Consumer Confidence needs to be above 100 and Sentiment above 90 for an incumbent President to be re-elected.



Source: The Conference Board, University of Michigan and Refinitiv

Consumers Are Suffering From Inflation Fatigue

- Grocery store prices spiked following the Pandemic and have risen more modestly this past year.
- Prices have not fallen, however. A basket of $100 worth of groceries in February 2020 would cost $125.82 today.
- Prices at restaurants rose a cumulative 30%, while the market basket is up 21.4%.



Source: The Conference Board

Economic Issues Will Likely Make for a Close Election

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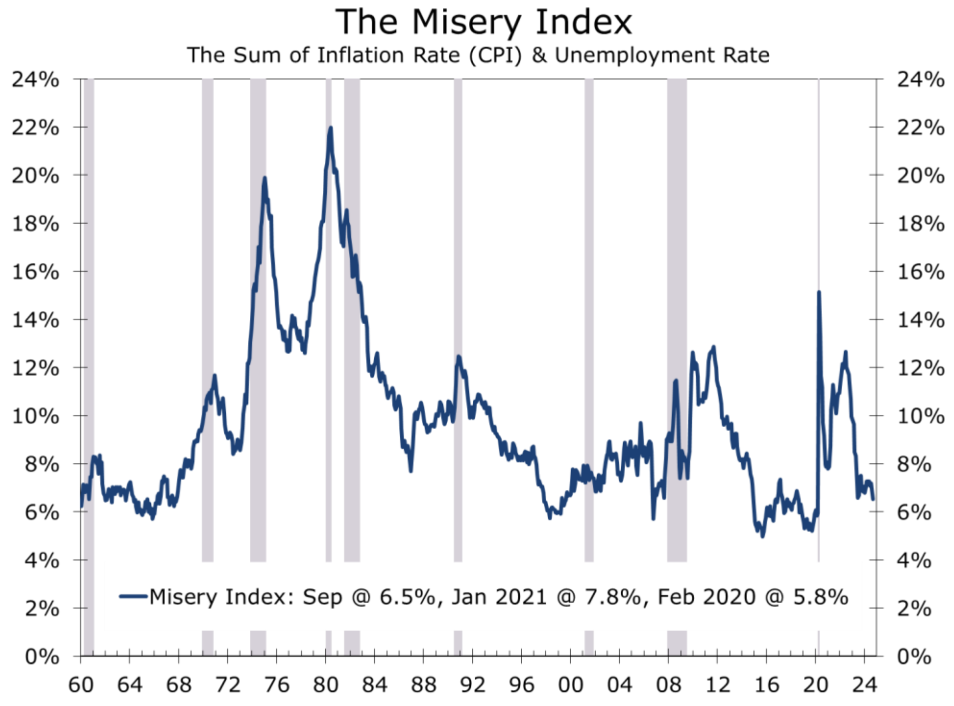
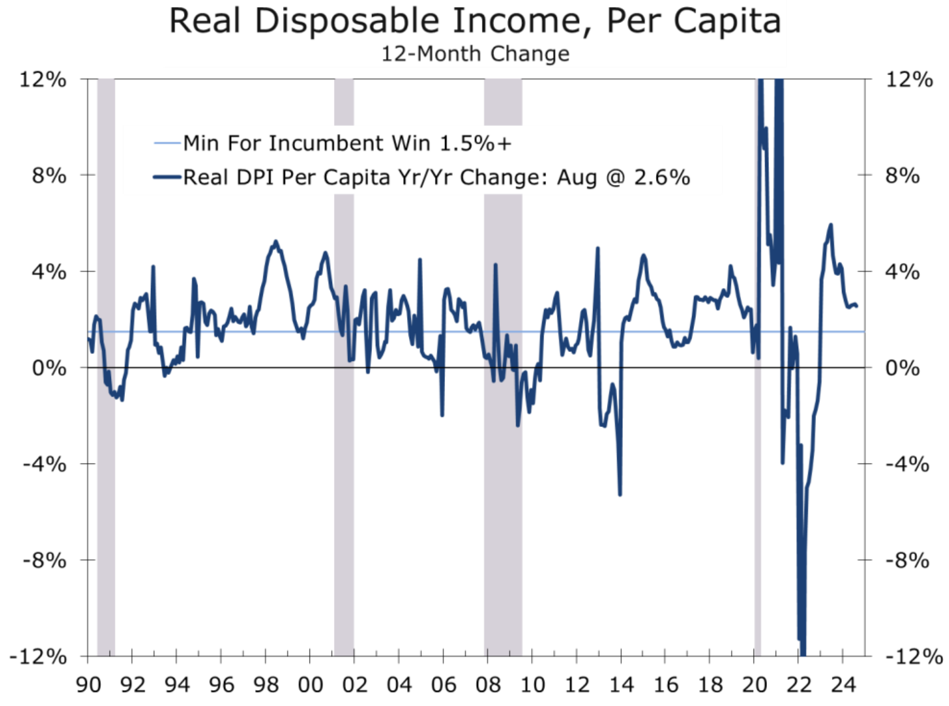
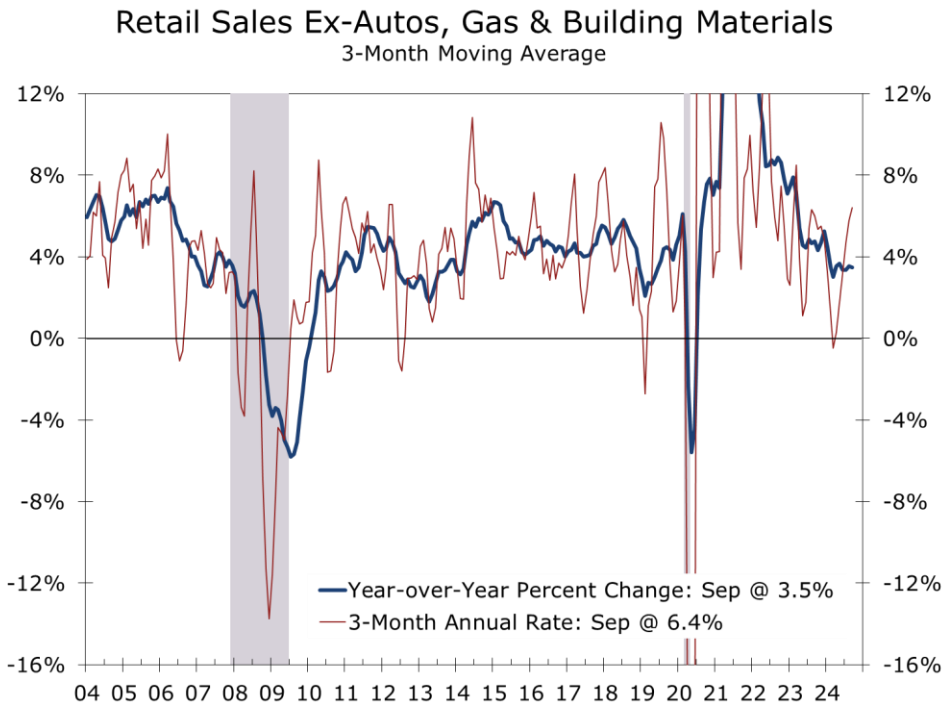
Past economic benchmarks suggest a close election. The Misery Index is 1.3 percentage points lower than when Biden took office but is <u>0.7 percentage points higher than it was prior to the pandemic</u>. The upward revisions to the National Income data show that real after-tax income growth is more than four times higher than it was report just one month ago. This is the largest revision that in my memory.

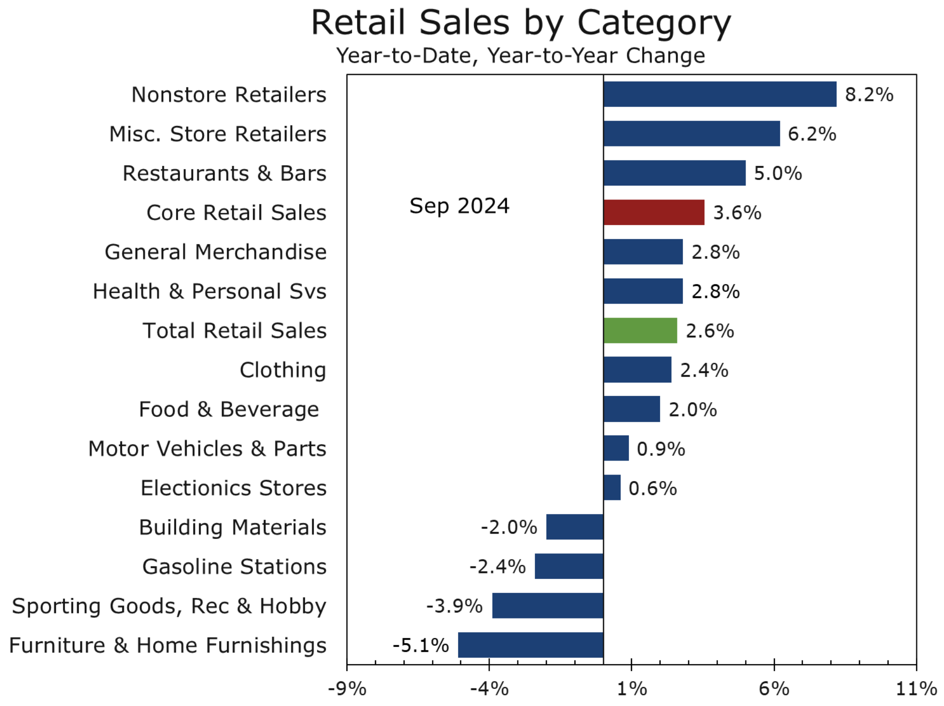




Middle and Lower Income Household Are Getting Squeezed

The cumulative impact from higher grocery prices, rents, and gasoline prices has left consumers with less discretionary income. Household have cut back on goods purchases and restaurant dining. Upper income households are more likely to be homeowners and spend a larger proportion of their income on services.





Source: Census Bureau

Commercial Real Estate Is Holding Up Better Than Expected

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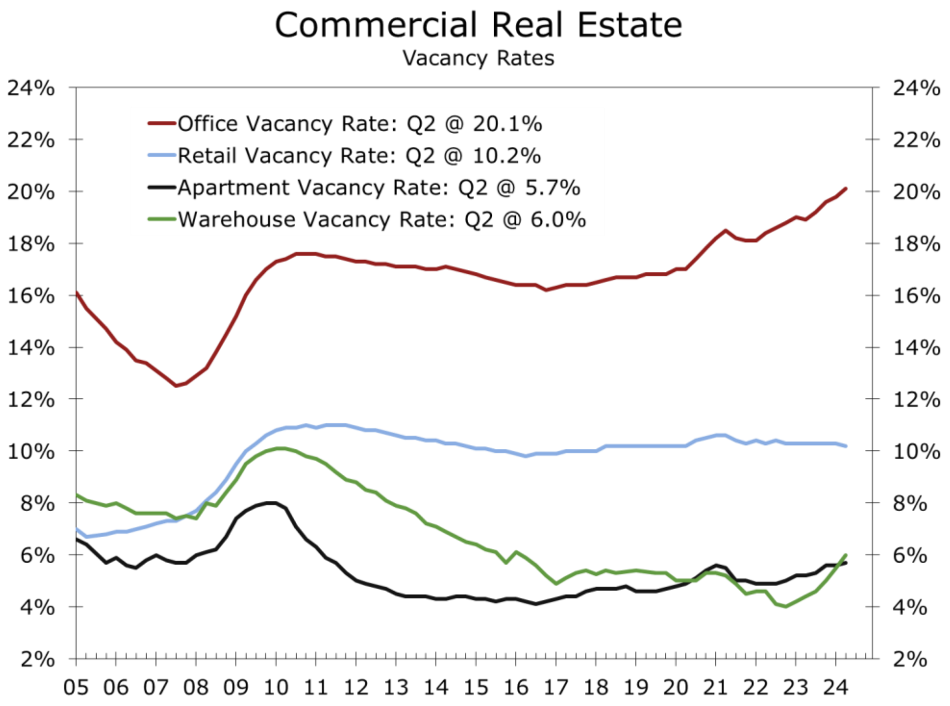
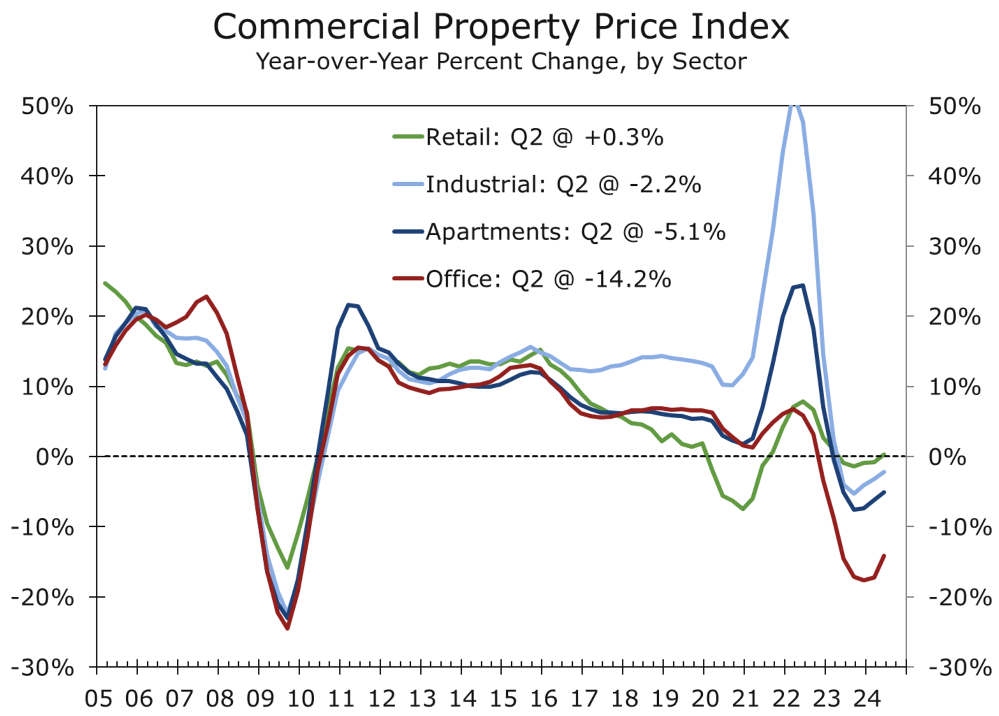
Commercial Real Estate appears to have weather the worst from the shift to remote work and higher interest rates. Most markets have seen a substantial return to the office in recent months. Property prices are beginning to rebound off last year's low and will likely firm further as interest rates decline.





Source: Refinitiv, Moody's REIS, CoStar, NCREIF, Piedmont Crescent Capital

Construction Spending Is Moderating As Stimulus Fades

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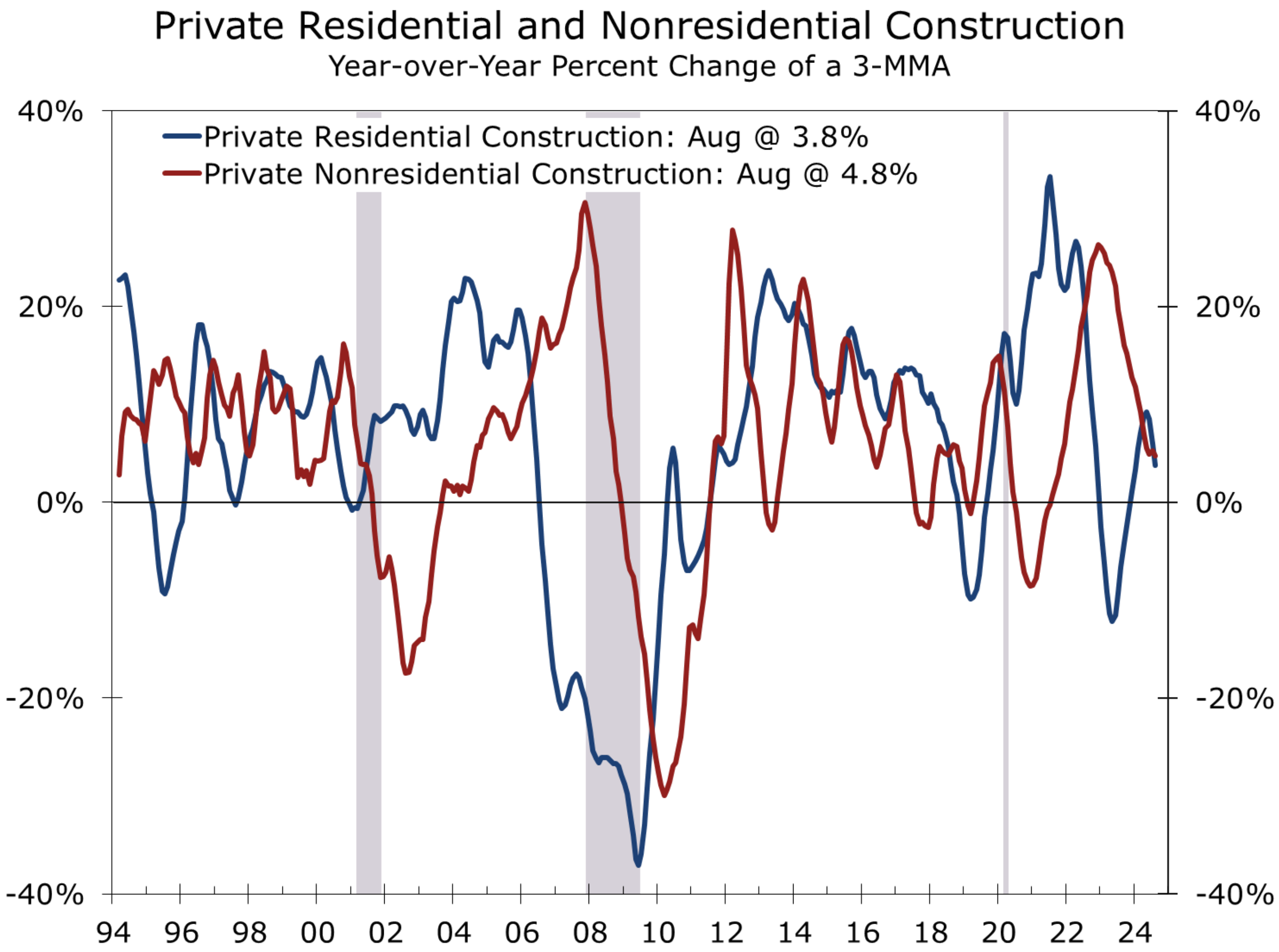
- The one-two punch from record low interest rates and record fiscal stimulus led to a post-pandemic building boom.
- The stimulus is now waning and EV plants and Chip plants are finishing or being postponed.
- The apartment boom is also losing steam, although there is a huge backlog of projects in the pipeline.



Source: Census Bureau

The South Dominates The List of Fastest Growing States

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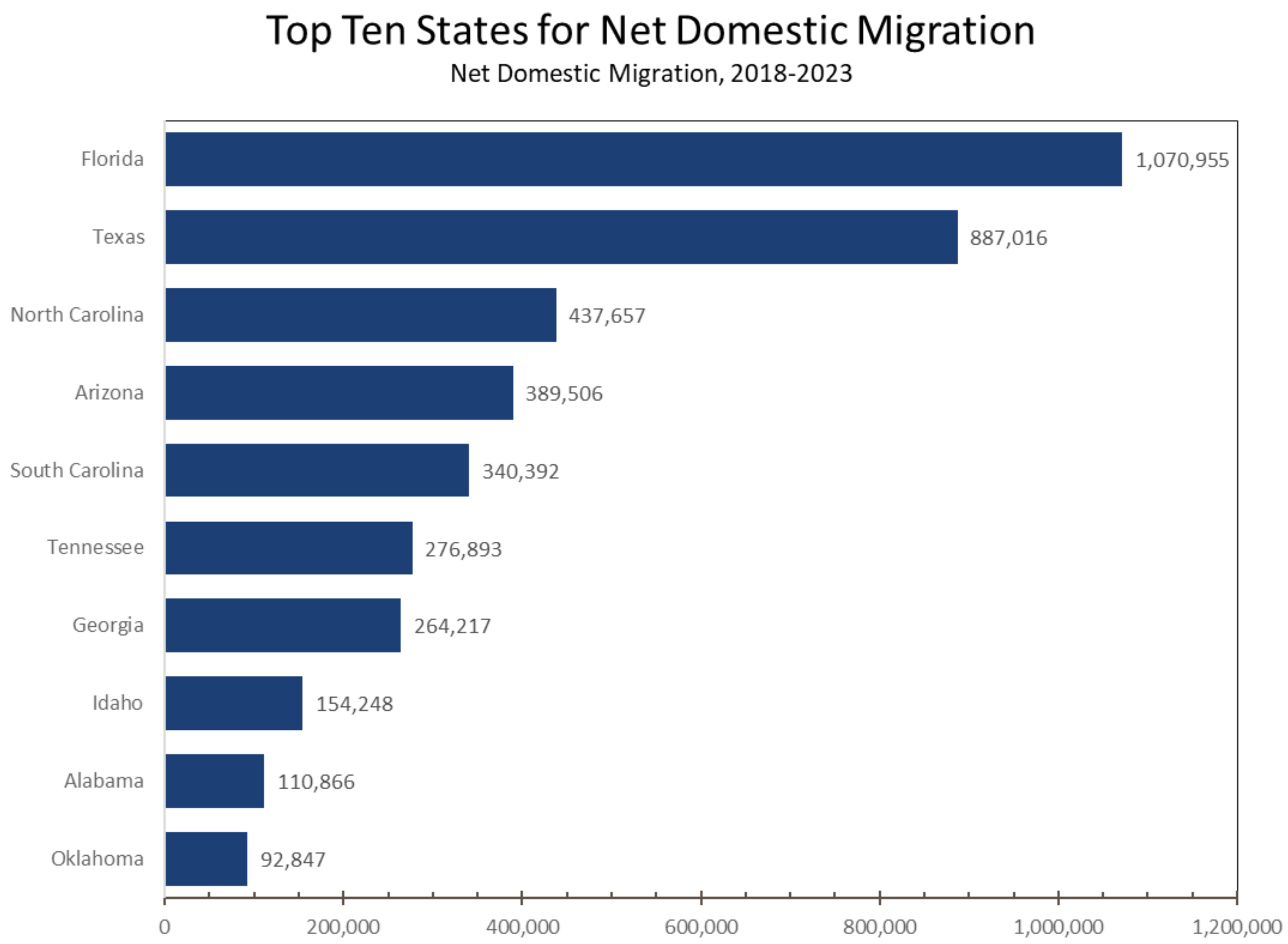
- Texas led the nation in overall population growth.
- Florida led the nation in net domestic migration, followed by Texas, the Carolinas, and Tennessee
- North Carolina posted the third largest net domestic migration gain this past year.
- The affordability migration is shifting toward less expensive areas in the South and Midwest.



Source: Census Bureau

Economic Outlook

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US Economic and Financial Outlook

(% change on previous period, annualized, except where noted)

	2023				2024				2025				2022	2023	2024	2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Actual	Forecast	Forecast	Forecast	Forecast
Output																	
Real GDP	2.8	2.5	4.4	3.2	1.6	3.0	2.8	2.1	1.8	1.9	2.1	2.3	2.1	2.5	3.0	2.1	2.3
Consumer Spending	4.9	1.0	2.5	3.5	1.9	2.8	3.7	2.4	1.8	2.0	2.4	2.4	2.8	1.8	2.9	2.5	2.4
Nonresidential Fixed Investment	5.3	9.9	1.1	3.8	4.5	3.9	3.3	2.2	1.6	2.2	2.6	3.4	3.8	4.9	3.3	2.3	3.7
Light Vehicle Sales	15.1	15.7	15.6	15.6	15.5	15.7	15.6	15.9	15.6	15.5	15.8	16.0	13.9	15.5	15.6	15.7	16.3
Industrial Production, Manufacturing	0.5	0.3	(0.4)	(1.4)	(0.9)	1.5	(0.2)	0.8	4.0	2.3	3.0	3.2	4.3	(0.6)	0.4	3.1	3.5
Unemployment Rate (Qtrly Avg)	3.5	3.6	3.7	3.7	3.8	4.0	4.2	4.2	4.3	4.4	4.3	4.3	3.7	3.6	4.1	4.3	4.2
Housing Market																	
Housing Starts (Units, thous)	1,369	1,455	1,380	1,481	1,407	1,340	1,326	1,340	1,360	1,380	1,400	1,430	1,557	1,430	1,353	1,420	1,480
New Home Sales	636	698	682	646	663	693	724	710	710	730	730	740	637	666	700	730	760
Existing Home Sales	4,317	4,187	4,020	3,880	4,200	4,050	3,893	4,050	4,150	4,250	4,250	4,320	5,030	4,150	4,130	4,243	4,650
S&P/Case-Shiller Natl Home Prices (Yr/Yr % Change)	2.3	(0.0)	2.6	5.2	6.4	5.9	4.2	4.3	4.4	4.5	4.4	4.3	14.8	2.5	5.2	4.4	4.2
Inflation (Year-to-Year % Change)																	
Consumer Price Index (CPI)	5.7	4.0	3.6	3.2	3.2	3.2	2.6	2.5	2.3	2.2	2.1	2.1	6.7	4.1	2.9	2.2	2.1
Core CPI	5.5	5.2	4.4	4.0	3.8	3.4	3.2	2.9	2.9	2.7	2.6	2.4	6.1	4.8	3.3	2.7	2.4
Personal Consumption Deflator	5.0	3.9	3.4	2.8	2.7	2.6	2.3	2.1	2.2	2.1	2.0	2.0	5.8	3.8	2.4	2.1	2.0
Core PCE Deflator	4.9	4.6	3.9	3.2	3.0	2.7	2.7	2.4	2.3	2.3	2.2	2.2	4.7	4.2	2.7	2.3	2.1
Employment Cost Index	4.9	4.5	4.4	4.2	4.2	4.1	3.9	4.0	4.0	3.9	3.8	3.8	4.9	4.5	4.0	3.9	3.7
Interest Rates (Quarter End and Ann Avg)																	
Fed Funds Target Range	4.75-5.00	5-5.25	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	4.75-5	4.25-4.50	3.75-4	3.5-3.75	3.5-3.75	3.5-3.75	2.75	5.03	5.13	3.88	4.00
10-Year Treasury Note	3.48	3.84	4.59	3.88	4.21	4.33	3.81	4.20	4.20	4.20	4.30	4.30	2.95	3.95	4.14	4.25	4.50
Conventional Mortgage Rate (Freddie Mac)	6.32	6.71	7.31	6.61	6.79	6.86	6.08	6.60	6.50	6.60	6.60	6.50	5.34	6.80	6.58	6.55	6.60

Piedmont Crescent Capital - November 5, 2024

Other Key Takeaways

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The election and transition period will likely see economic activity slow.

The financial markets have begun to price in a Trump presidency and republican sweep in the House and the Senate. Bond yields are rising on fears that federal spending will rise even more rapidly and tax cuts will be front-loaded. We do not believe we will see a huge policy shift with a GOP sweep and are not yet convinced that will be the outcome. We expect real GDP growth to slow to around a 2% pace over the next three quarters, which will allow the Fed to move forward with at least four more quarter point rage cuts.

Inflation will likely remain above the Fed's target, which will cause the Fed to slow their interest rate cuts.

Inflation has been confounding, as prices have remained high even as supply shortages have eased. The problem is excessive money growth and there is no easy or quick solution. Prices will continue to moderate but the costs of essentials (food, housing, transportation & health care) remain historically high, which is squeezing household budgets – particularly for middle- and lower-income households. Spending on discretionary goods remains sluggish, while higher-end households continue to spend on travel and leisure. Housing, particularly existing home sales and associated renovation spending, will be slow to recover.

Home buyers are increasingly looking to outlying areas to find affordable housing

Reduced housing turnover has created a persistent shortage of existing homes, driving prices higher. More first-time buyers are turning to new homes, often in distant suburbs, which will increase demand for light vehicles and spur commercial development. Meanwhile, the influx of new apartment supply is weighing on asking rents. Record low housing affordability is keeping tenants in place longer. Renewal rents are rising around 4%, maintaining pressure on shelter costs. Commercial real estate (CRE) is improving, helped by the return to office and lower interest rates.

The Economy Remains Well Positioned to Weather the Shift to What Comes Next

The economy is moving beyond the post-pandemic era. Growth is no longer being driven by pent up demand and stimulus driven spending. Capital spending still has a policy-driven tailwind but a lessoning one. With the economy essentially at full employment, growth will moderate. We see 2% growth going forward, which means the economy will remain vulnerable to exogenous shocks and unforeseen policy mistakes. We put the odds of recession at around 30%, twice the long-run norm.

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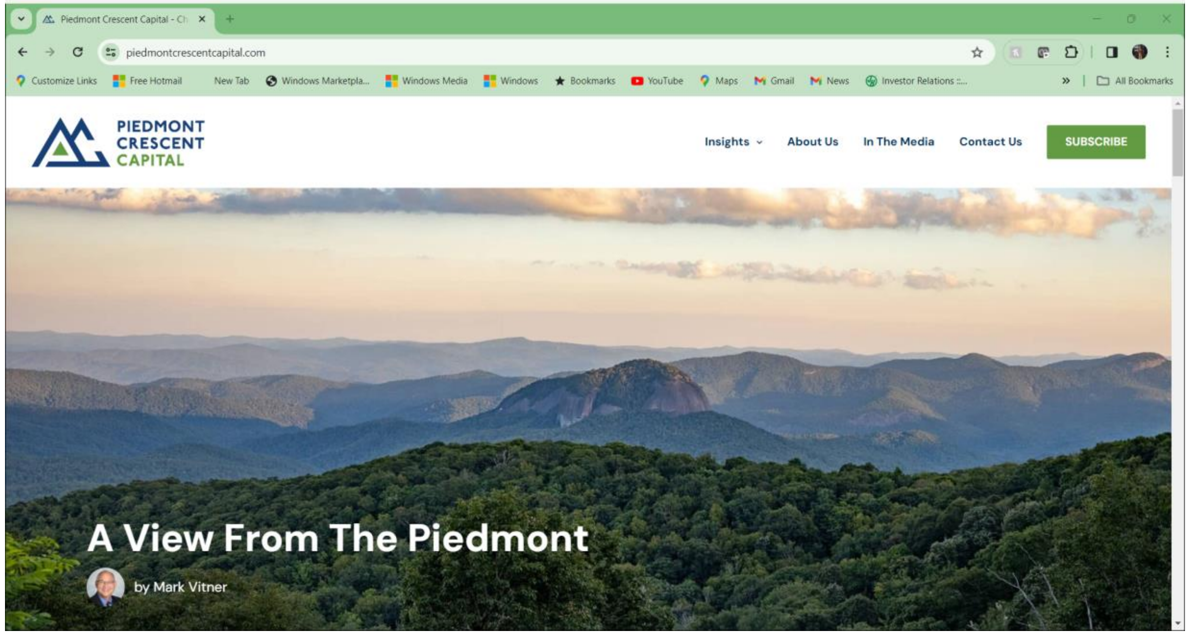

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