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# The U.S. Economy In the Second Half of 2024 & Beyond

## 2024 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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## An Economy Divided

Perspectives on the economy vary considerably depending upon you place and circumstances. Businesses, homeowners and state and local governments that locked in low-rate financing are feeling flush, while renters and those trying to start a business or buy a home, or finance a purchase are feeling challenged. Inflation is impacting household and businesses differently. The gap is reflected in consumer confidence and business surveys.

## Inflation is Proving More Resilient

Inflation peaked around the middle of 2022 and fell sharply through most of last year. Most of the improvement came from a reversal in the sharp run-up in prices for used cars and energy products. Inflation is still moderating but the pace has slowed considerably. Core services prices remain a major challenge. Core goods prices are now declining, reflecting reduced consumer spending and a concerted export push by China.

## Housing Affordability Has Been Stretched

Existing homeowners have locked in low housing costs. Many homeowners either own their homes outright or locked in rates below 4%, and few are looking to sell their current homes – effectively locking in low housing costs. The lack of inventory comes as Millennials are forming families, which has driven home prices higher. Renters are increasingly renewing their leases. Renters and first-time buyers remain cost burdened.

## Sluggish Real Income Growth is Restraining Consumer Spending

Job growth is not as strong as it appears. Hiring is being driven by efforts to restaff lower paying occupations decimated by the pandemic. Real per capita after-tax income is growing very slowly, reflecting the cumulative impact of higher interest rates and slowing wage growth. Middle income and lower income consumers are impacted the most.

# Economic Growth Slowed in the First Quarter

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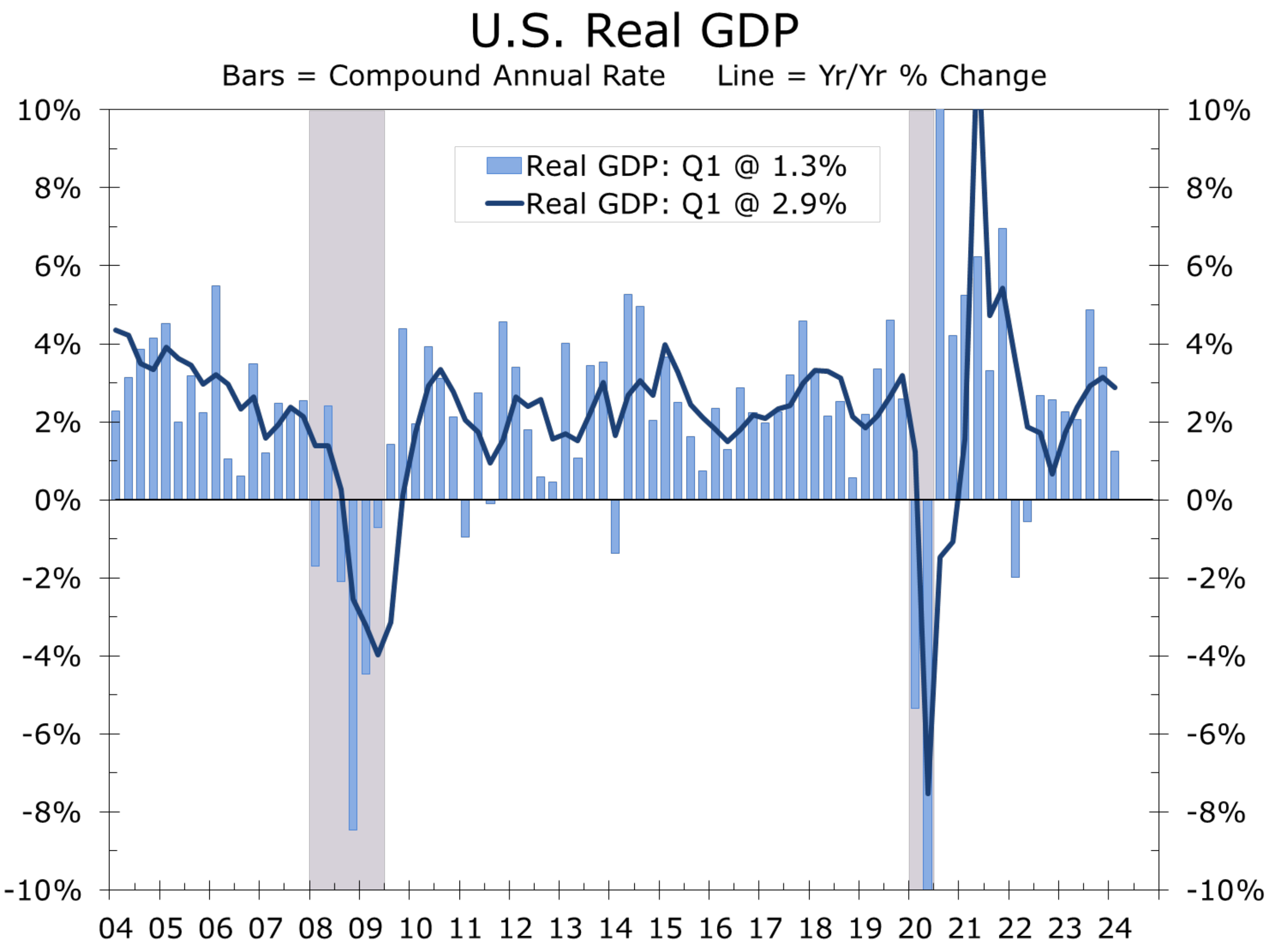
- Real GDP slowed substantially during the first quarter, despite strong job growth.
- Most of the slowdown was due to widening in the trade deficit and slowdown in inventory building.
- Real final sales to private domestic purchases rose at a 3.1% annual rate, close to the pace of the prior two quarters.




Source: Bureau of Economic Analysis

# Job Growth Has Easily Topped Expectations So Far This Year

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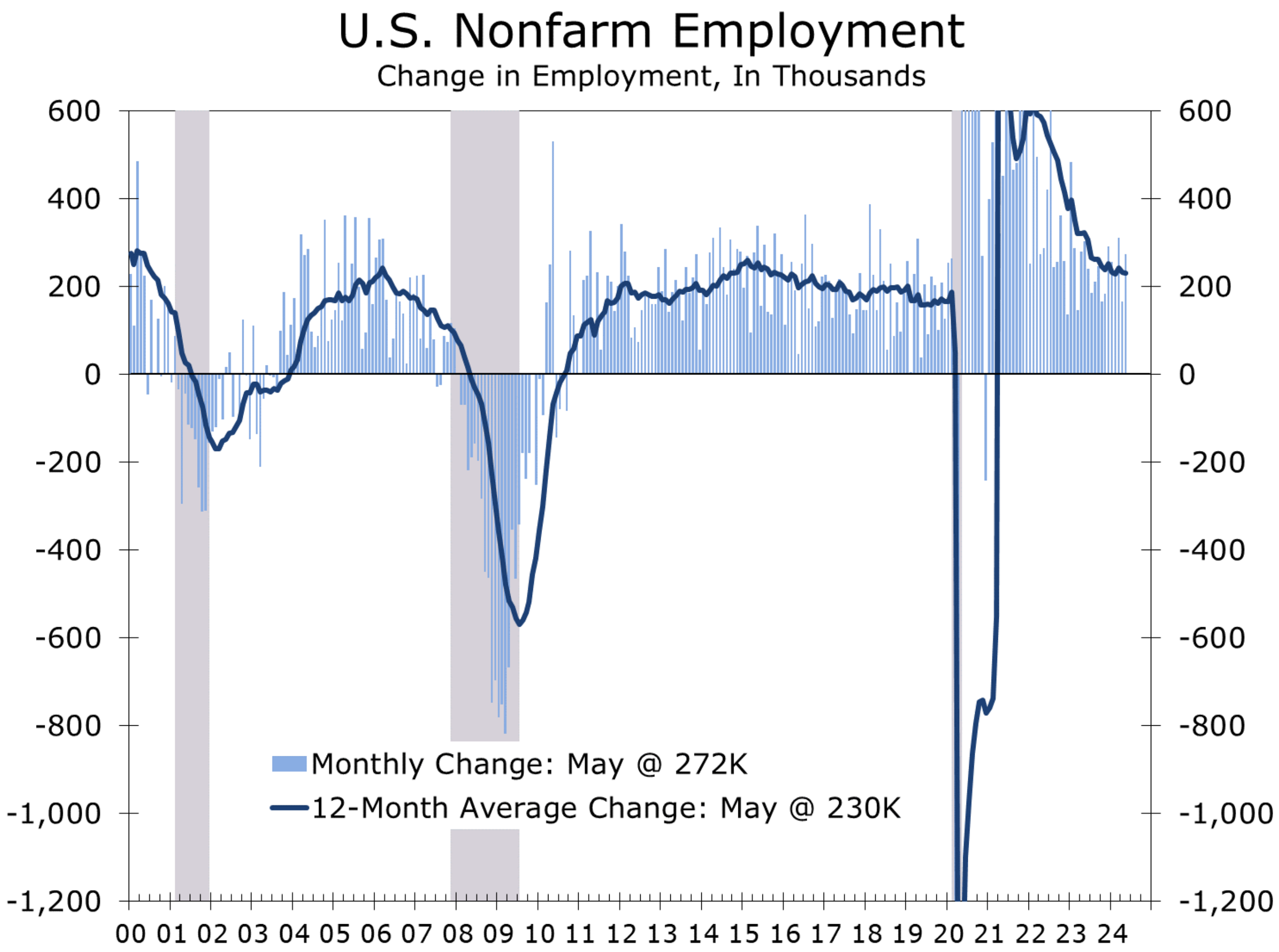
- Employers are adding jobs at a historically strong pace.
- Hiring remains broad based but continues to be concentrated in hard to rehire sectors, most notably health care, leisure and hospitality and government.
- Survey responses have fallen since the pandemic.




Source: Bureau of Labor Statistics

# Job Growth Is Likely A Touch Softer Than Has Been Reported

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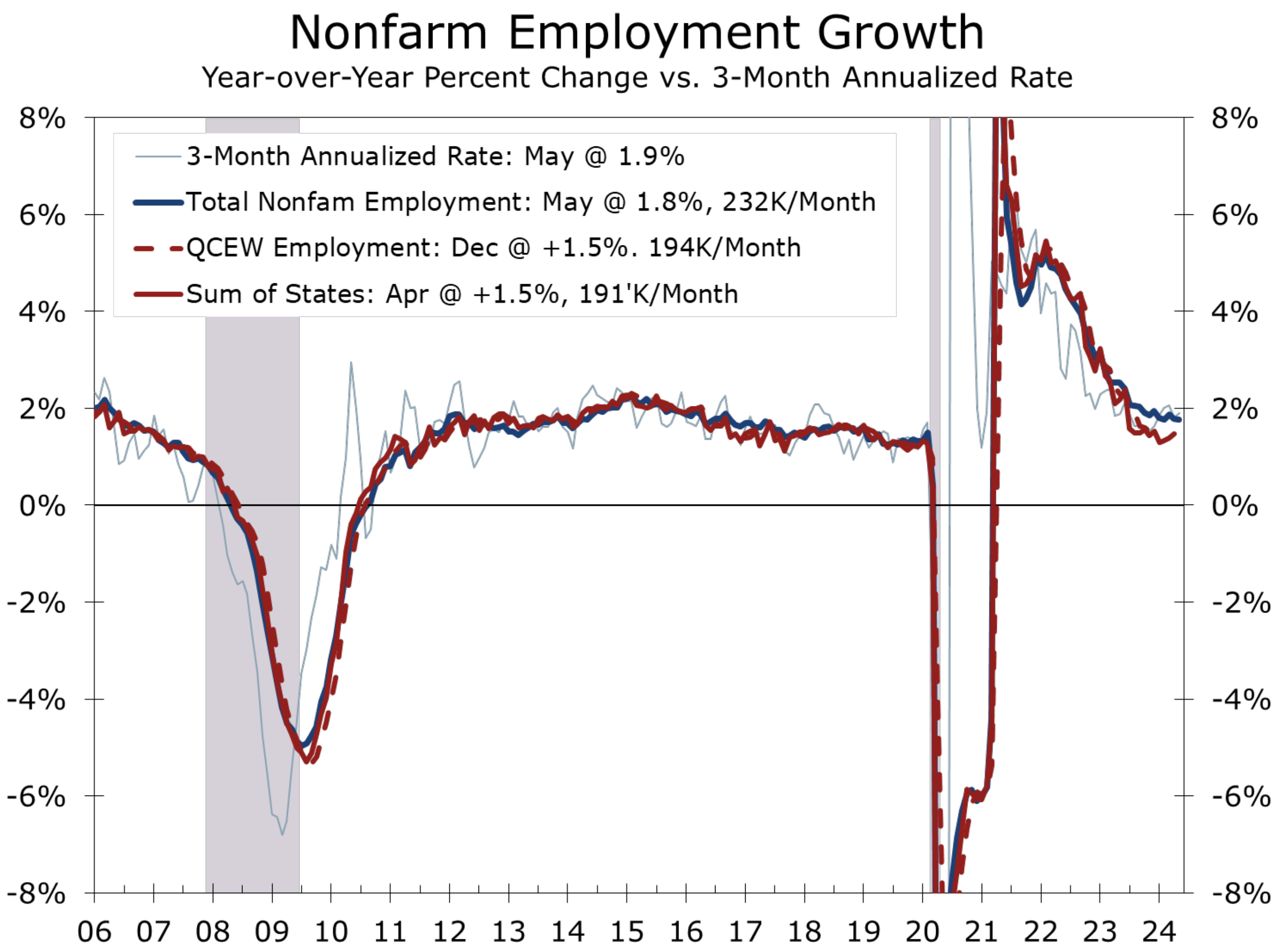
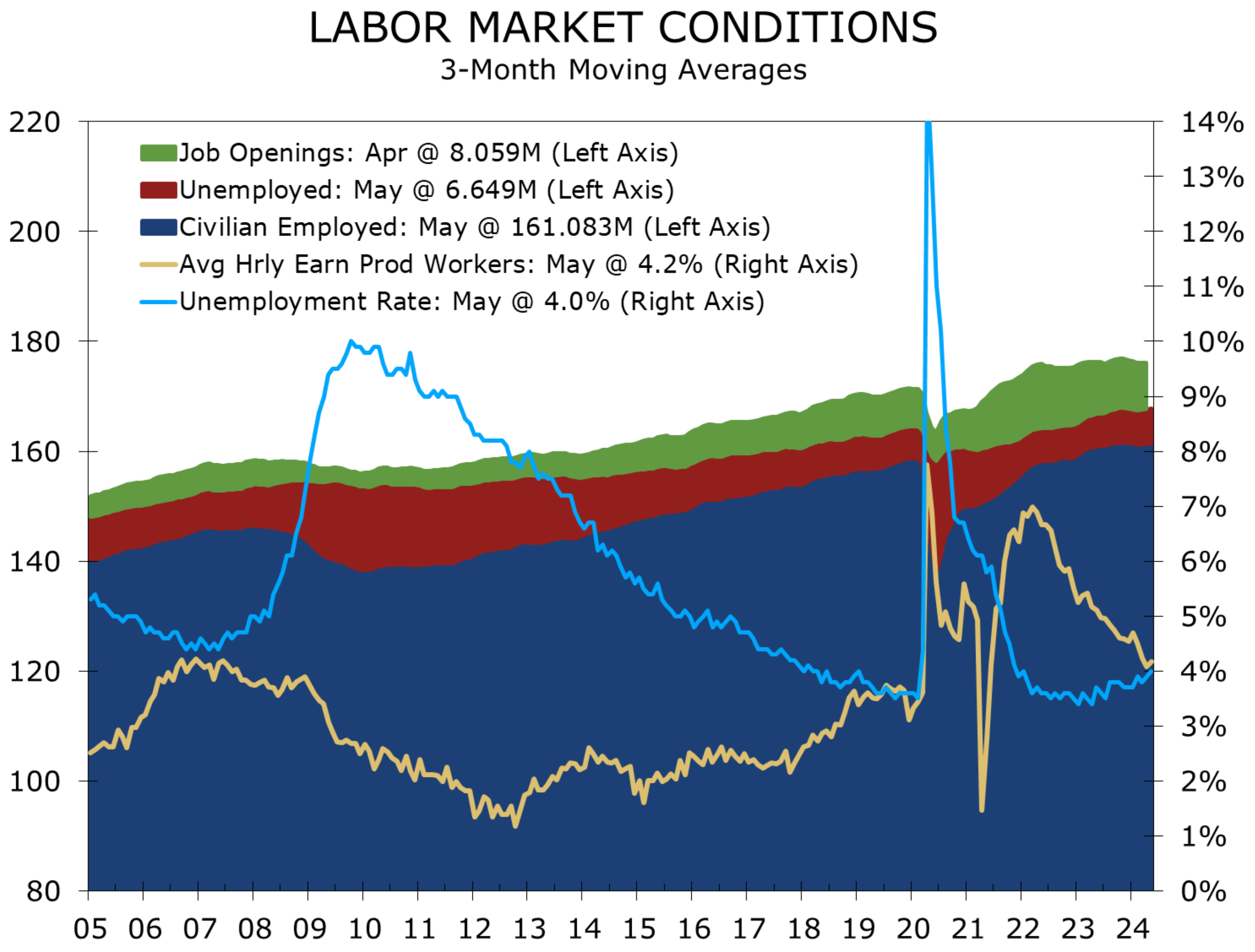
- We suspect nonfarm payrolls are being overstated by about 480K jobs.
- Data from the QCEW survey point to *slower* job growth at the start of this year.
- We look for job growth to slow to around a 160K pace by summer 2024.
- State employment data are tracking the QCEW series.




Source: Bureau of Labor Statistics

# Unemployment Remains Low But Is Trending Higher

- The labor market is gradually moving back into balance.
- The unemployment rate is edging higher but remains within the Fed's long-run target.
- Job openings have fallen to pre-pandemic levels.
- Labor force growth remains sluggish but might now be augmented by stronger immigration.




Source: Bureau of Labor Statistics

# The Leading Economic Index Is Pointing Toward Recession

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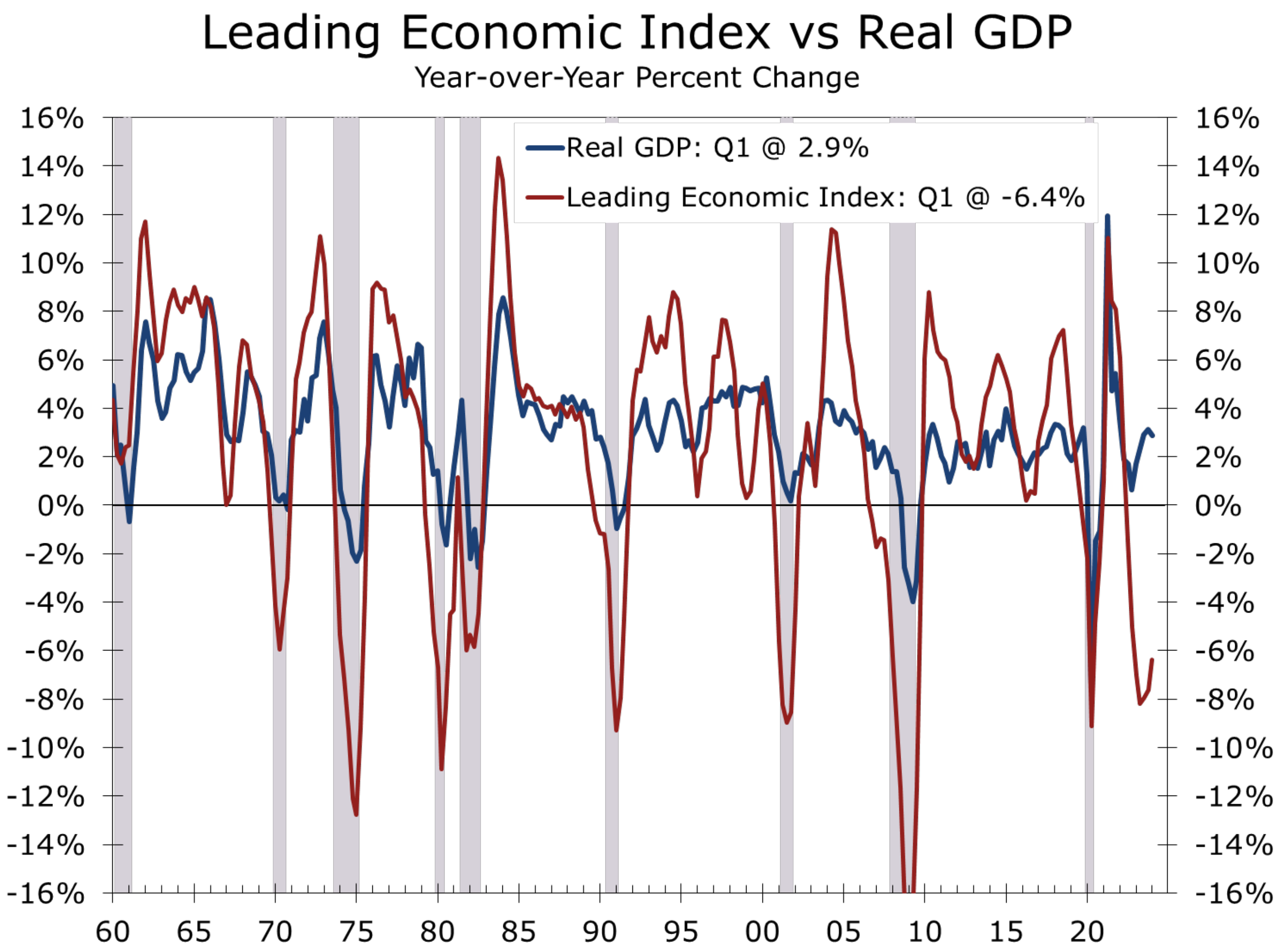
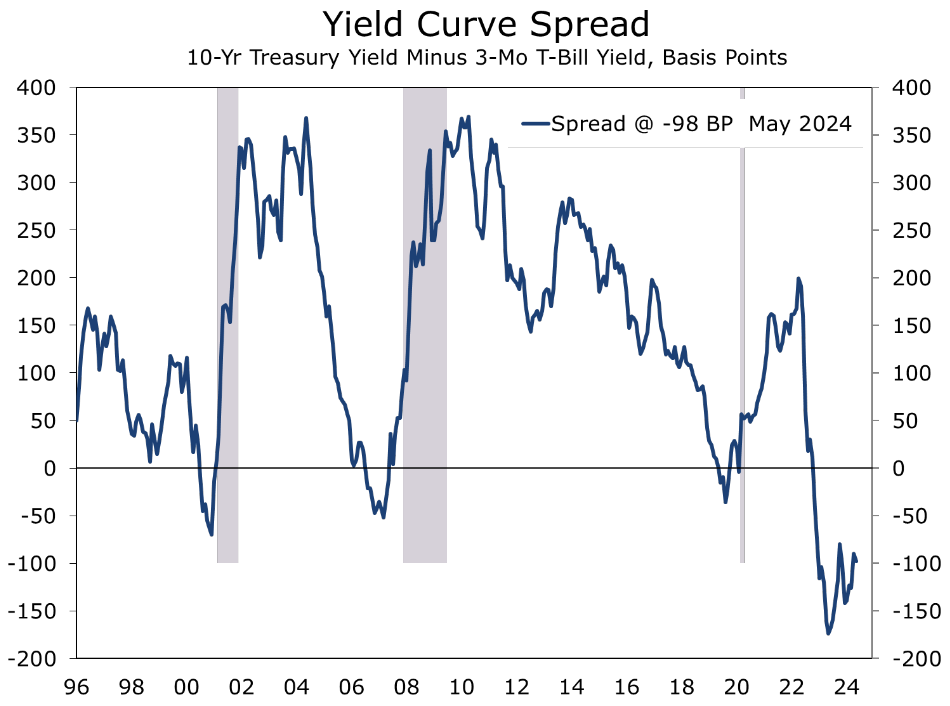
- The Leading Economic Index has reliably predicted past recessions.
- The index has been pulled sharply lower by normalizing supply chains and the winding down of the Fed's previous extraordinary easy monetary policy.
- The LEI has risen just once in the past two years.

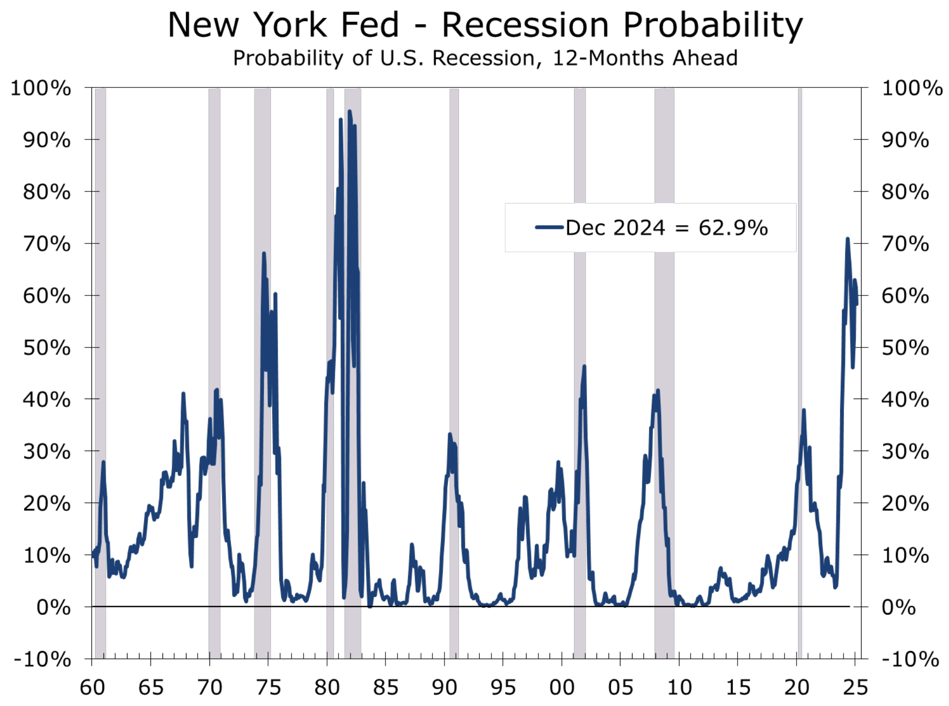



Source: The Conference Board & Bureau of Economic Analysis

# The Yield Curve Looks Ominous - A Trend Will Continue Until it Stops

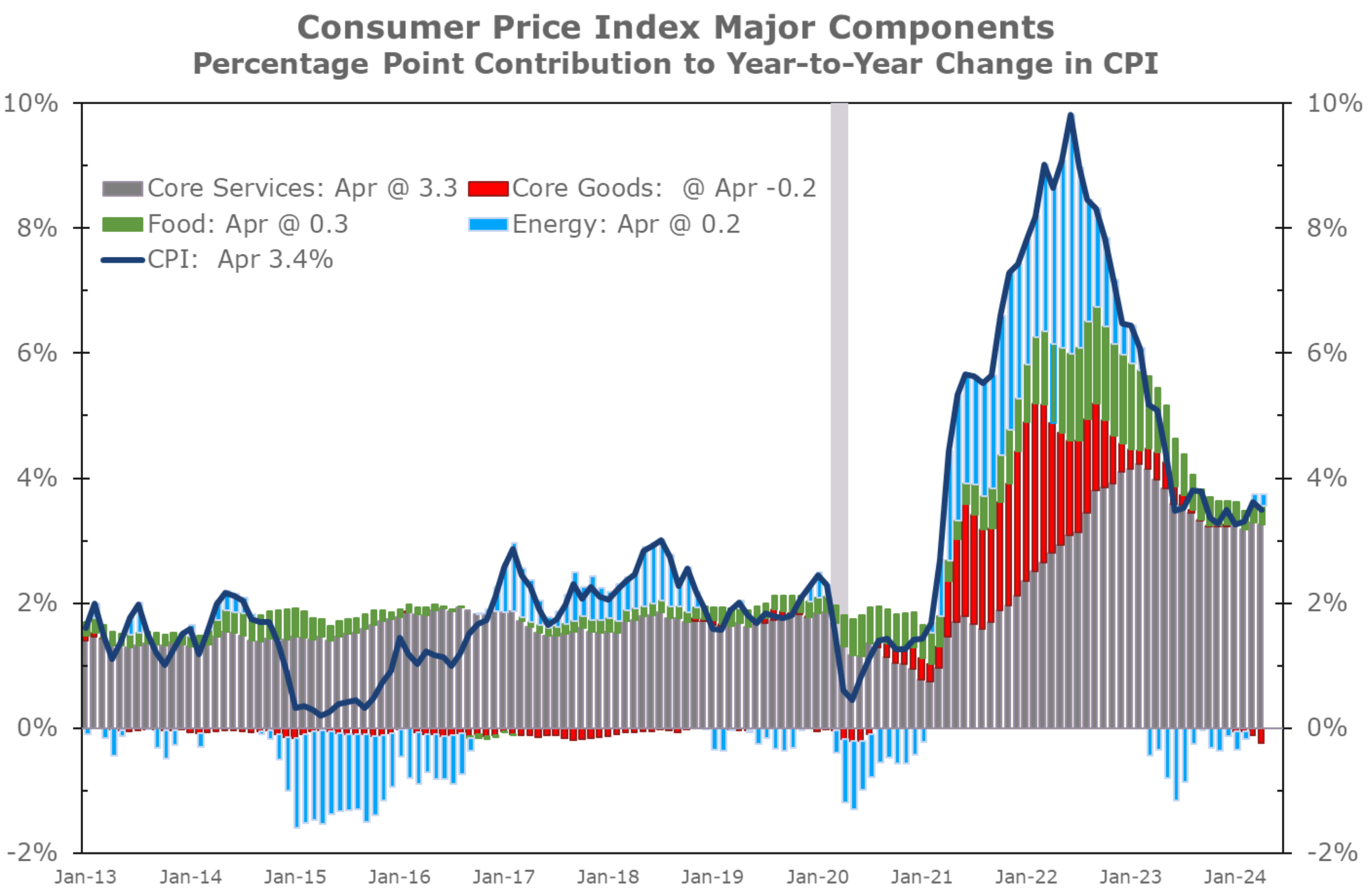
The yield curve has been inverted longer than any time since the early 1980s. The Fed has never achieved a soft landing when it has had to bring inflation down from the highs reached in 2022 or push unemployment marginally higher from the lows reached in this cycle. The New York Fed Recession Probability Model puts the odds of a recession by mid-2024 at 70% and at 51% in early 2025.



# Inflation Has Rolled Over But Remains Persistent and High

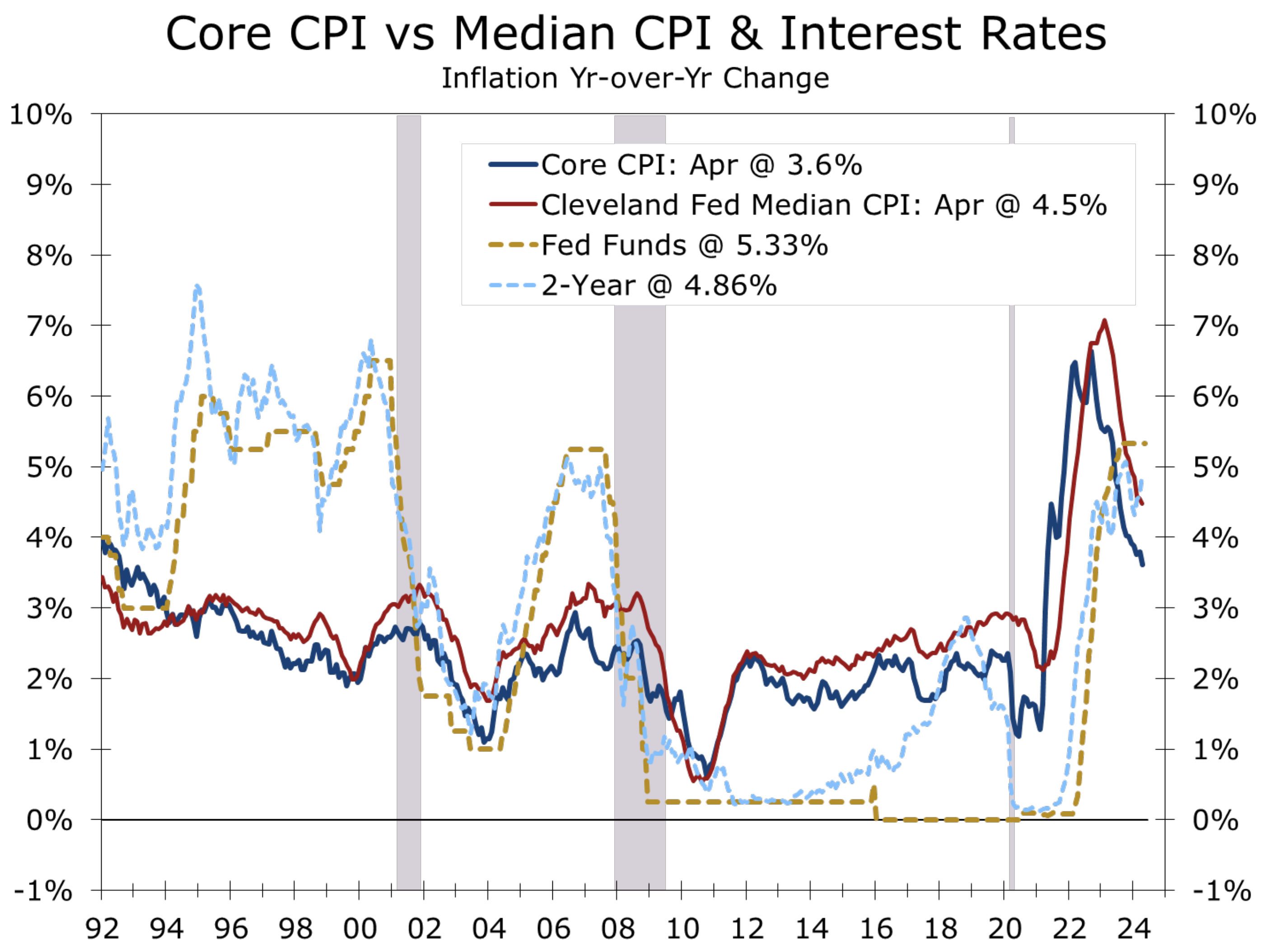
- Headline inflation moderated after since the middle of 2022, as gasoline prices declined and used car prices moderated.
- Core inflation remains persistent, however, particularly in the labor-intensive service sector.
- Residential rent and homeowners equiv. rent remain problematic.
- Health care, auto insurance, and entertainment are other hot spots.




Source: Bureau of Labor Statistics

# Inflation Has Not Eased as Much as the Headlines Suggest

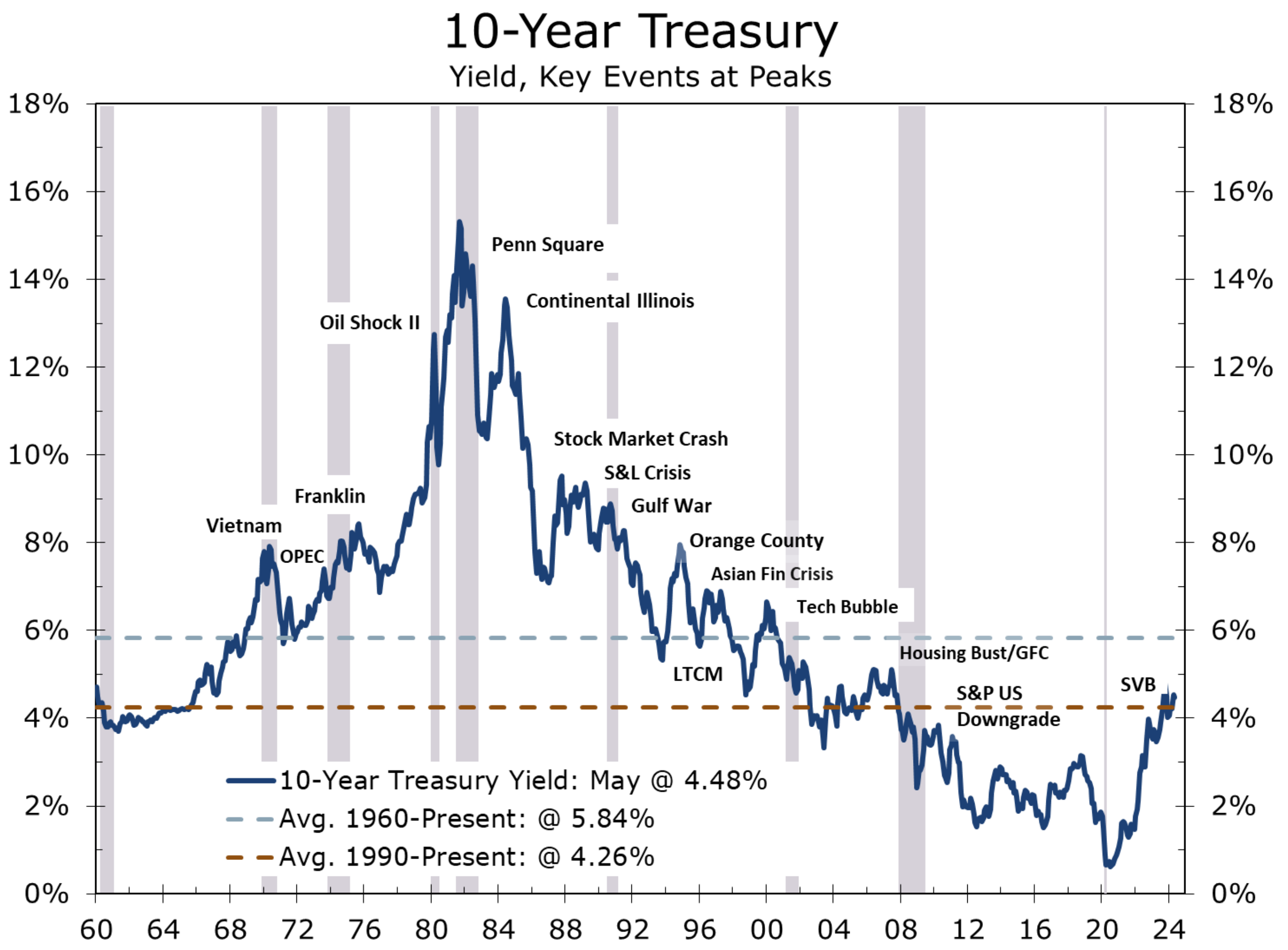
- A sharp reversal in used car prices and other prices that spiked during the pandemic has exaggerated the recent improvement in the core CPI.
- A better measure is the Cleveland Fed's Median CPI, which closely tracks core services prices, which are only slowly moderating.
- The implication is the Fed will likely ease more slowly.




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

# Concerns About Higher Inflation Are Pulling Interest Rates Higher

- Long-term rates have firmed since the March CPI report.
- The 10-Yr Treasury remains historically low and is now slightly above the average for the past 30+ years.
- Mortgage Rates are usually 170 bp above the 10-Yr Treasury Yield but the spread is currently 250 bp.




South: Federal Reserve Board

# Affordability Deteriorated Quickly Following the Pandemic

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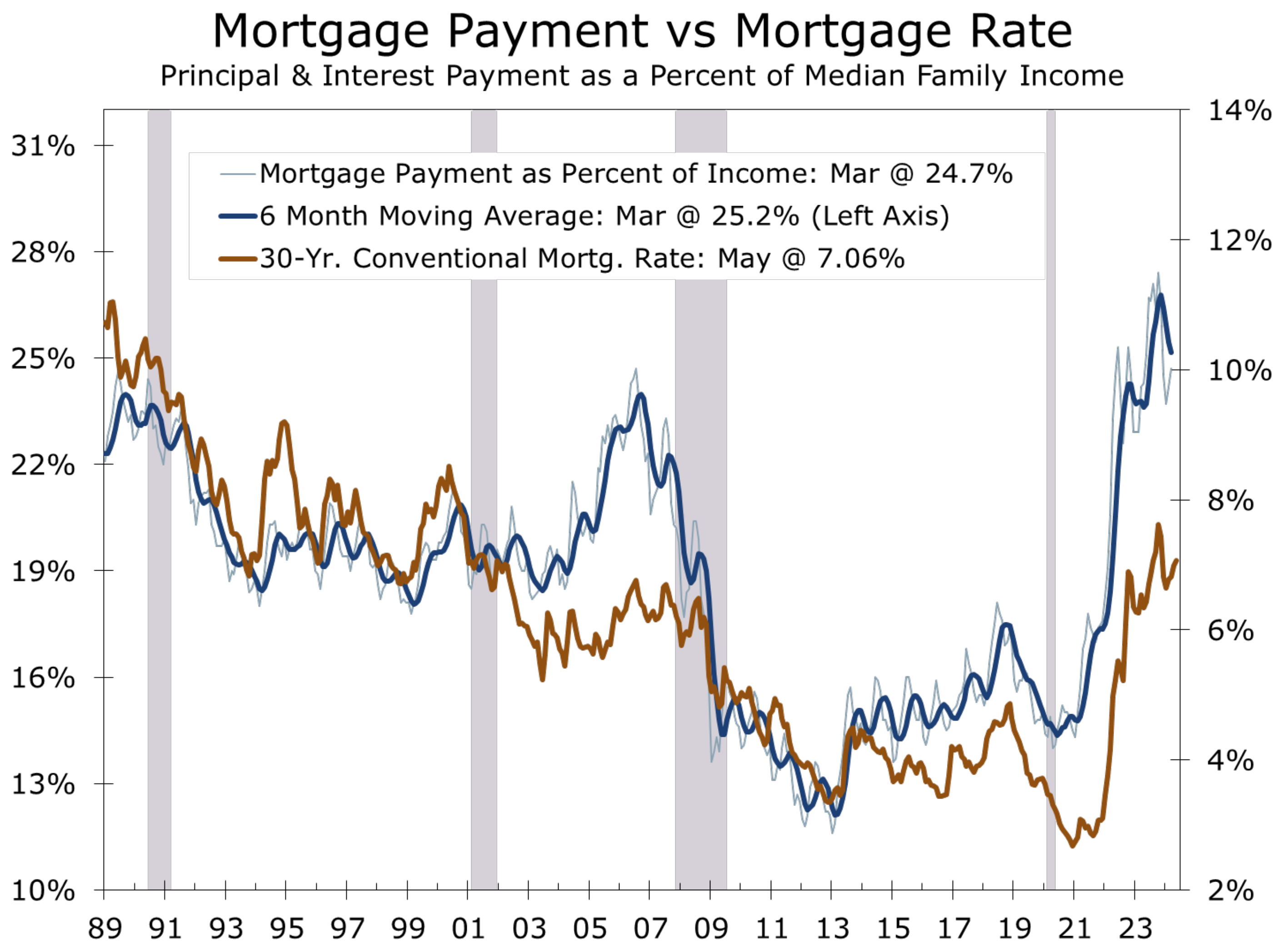
- Housing affordability remains stretched. Principal and interest payments rose to 24.7% of median family income. The norm is around 19%.
- At $2,093/Month, principal and interest payments now account for about the same share that it did at the peak of the housing bubble.
- Low affordability is keeping prospective buyers in the rental market.




Source: National Association of Realtors

# Higher Interest Rates Have Taken Longer to Slow the Economy

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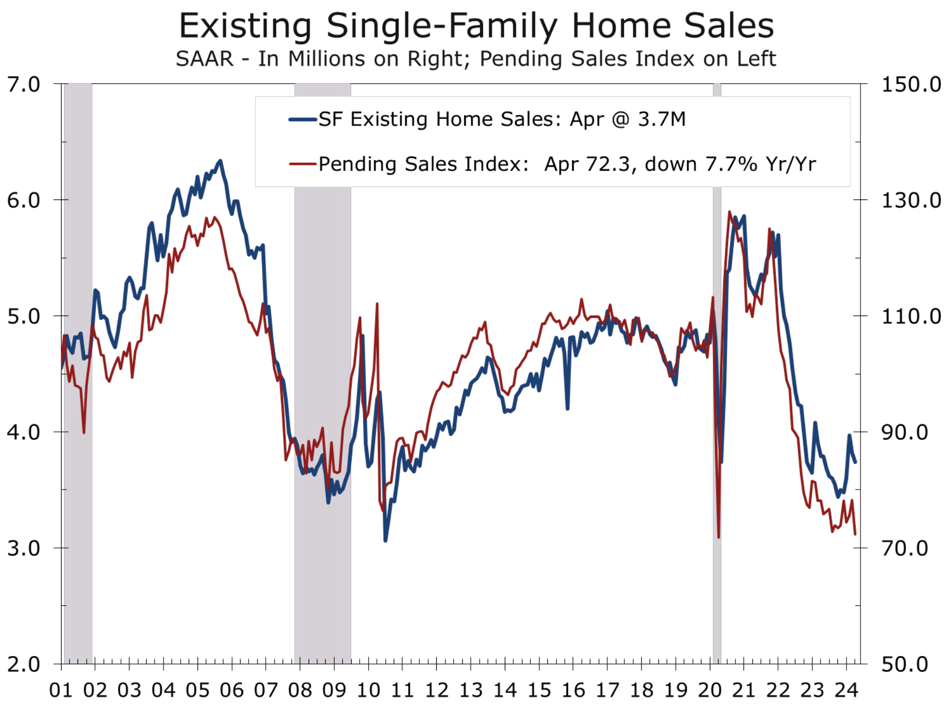
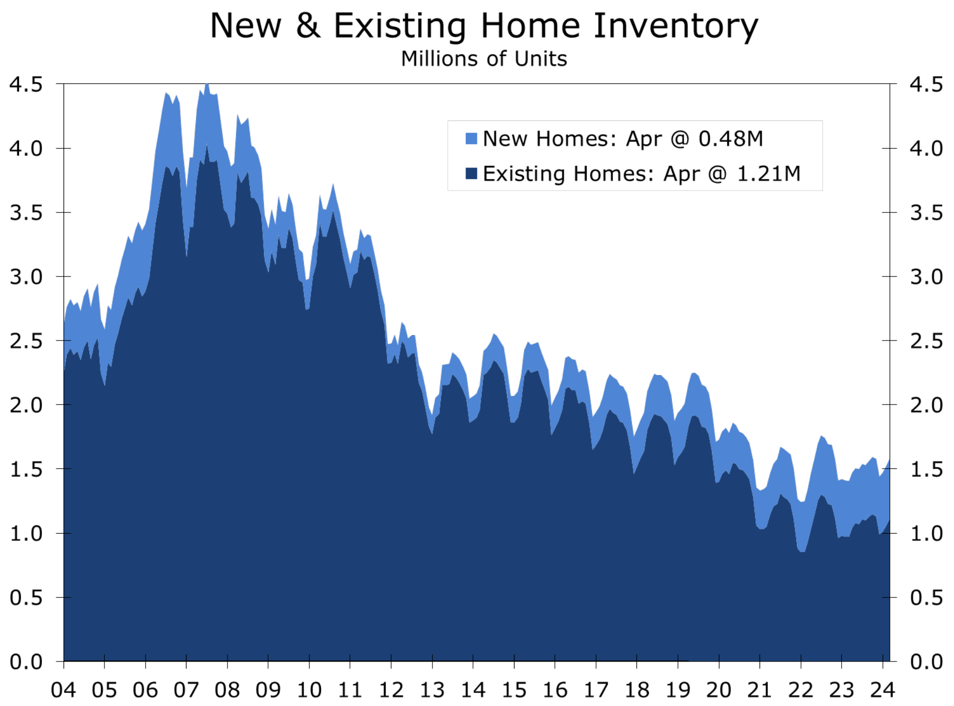
Higher mortgage rates have clearly taken a toll on existing home sales, pulling sales back down to the lows hits during the Global Financial Crisis. Higher rates have also discouraged homeowners from putting their homes on the market and lean inventories have pushed home prices higher. Home builders are trying to fill the gap, but new home sales have risen only modestly compared to the drop in existing sales.




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

# Higher Prices Continue to Weigh on Consumer Sentiment

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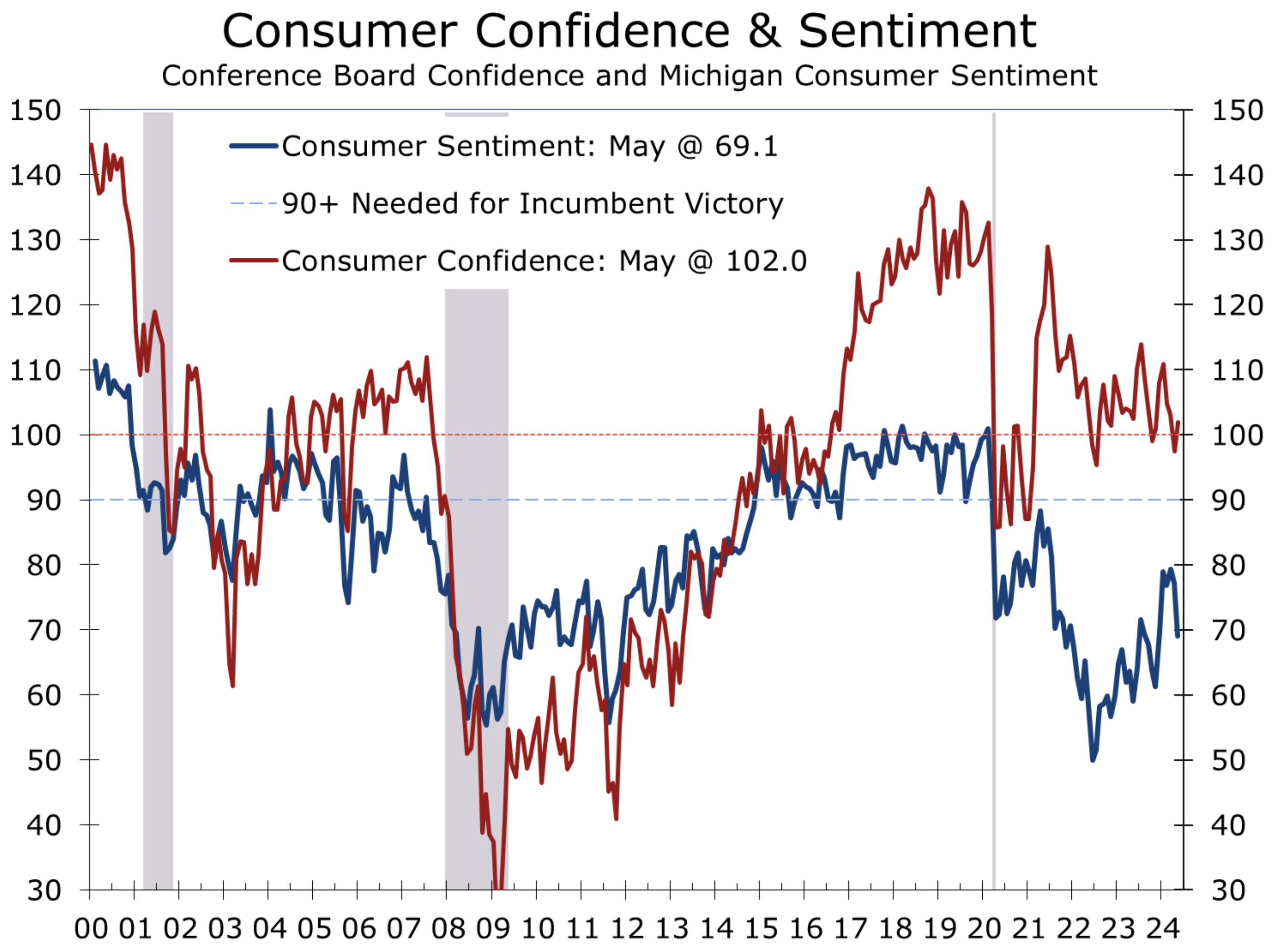
- With the economy at "full employment", consumers feel relatively upbeat about employment conditions.
- Higher prices, particularly for necessities, and moderating wage gains are weighing on consumer sentiment.
- Generally, Consumer Confidence needs to be above 100 and Sentiment above 90 for an incumbent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




Source: The Conference Board, University of Michigan and Refinitiv

# Are Consumers Really This Downbeat on the Economy

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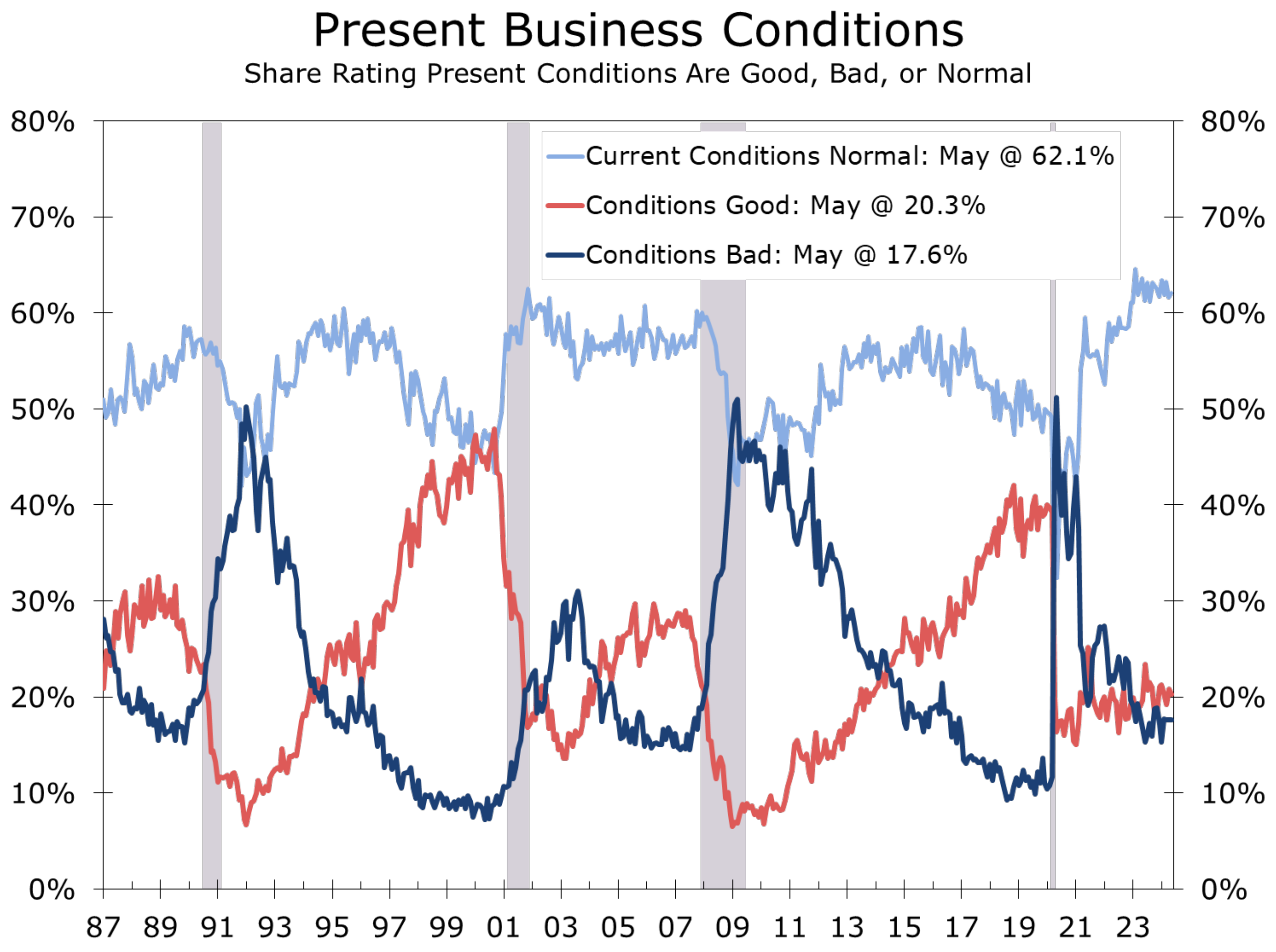
- Recent consumers surveys have found 56% of consumers feel the economy is currently in recession.
- Pundits have speculated that bias is behind the depressed findings
- The drop in confidence largely results from fewer people rating conditions as either good or bad and a rise in the share rating conditions as normal.




Source: The Conference Board

# Economic Issues Will Likely Make for a Close Election

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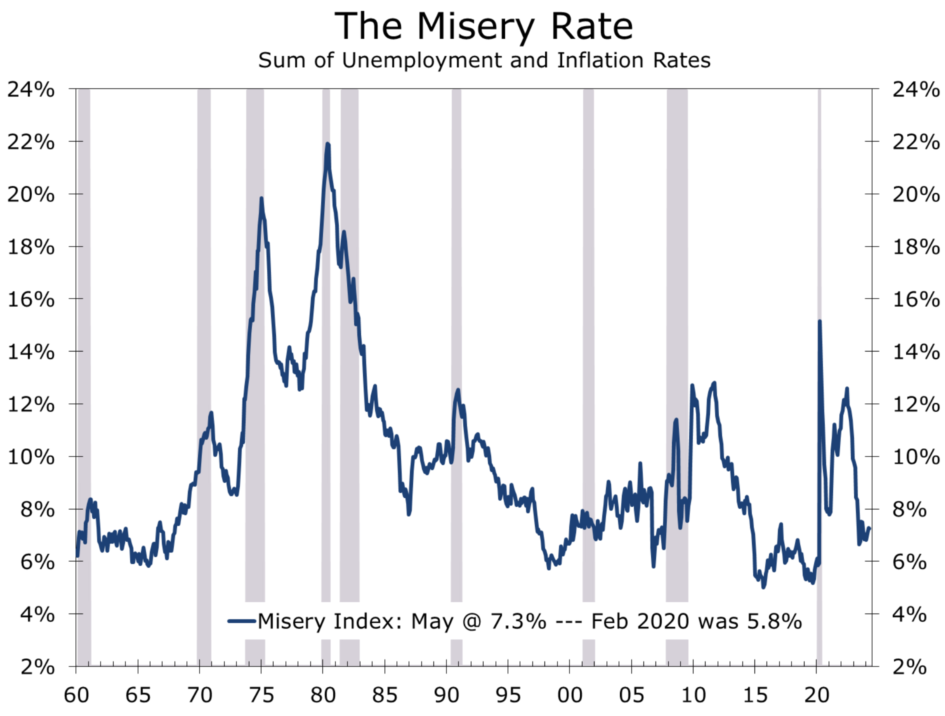
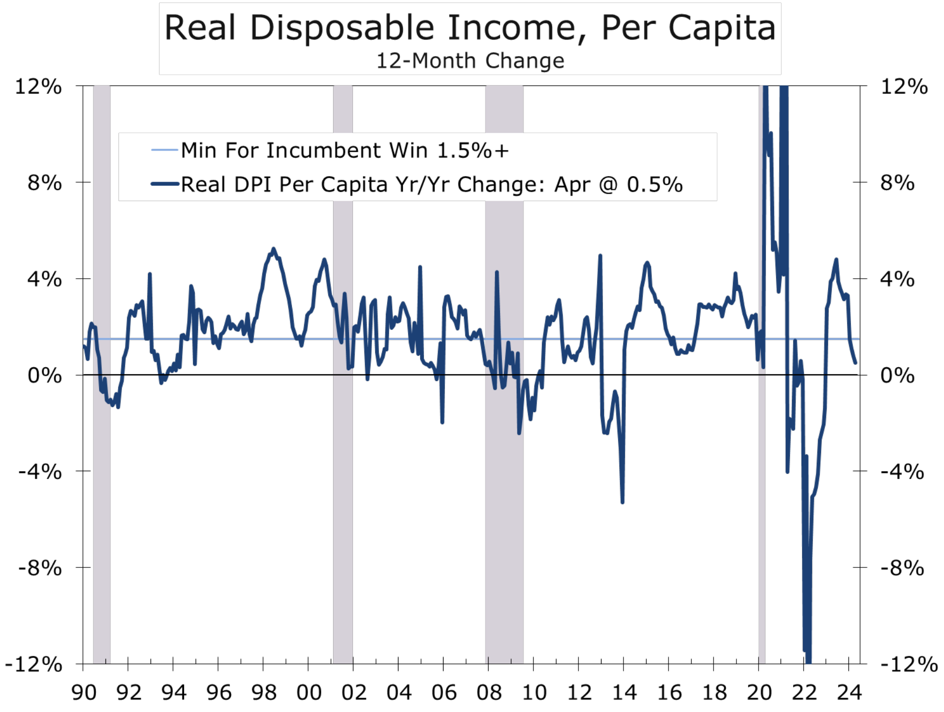
Past economic benchmarks suggest a close election. The Misery Index is half a percentage point lower than when Biden took office but is <u>1.5 percentage points higher than it was prior to the pandemic</u>. Real after-tax income growth has slowed substantially this year and pandemic savings have largely been depleted. Higher prices for food, energy, housing and insurance are leaving consumers with less discretionary income.

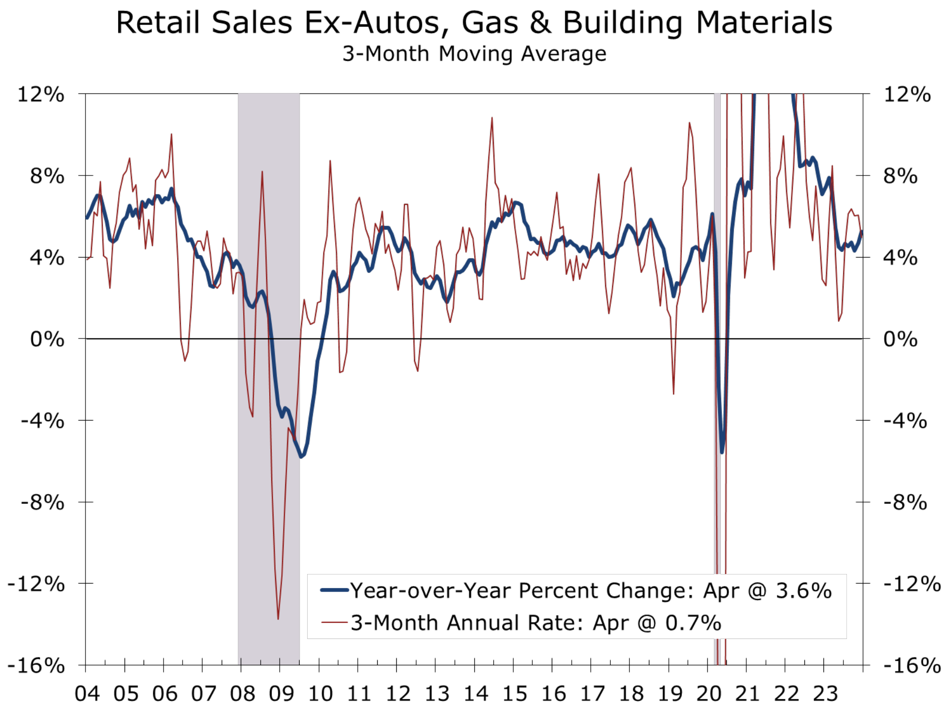


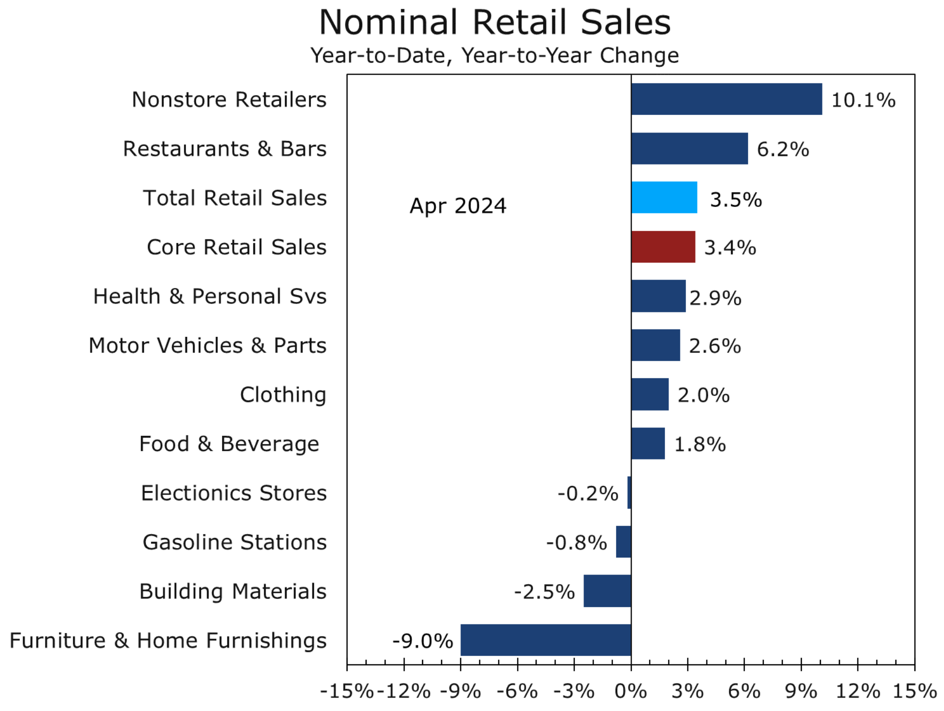




Source: Bureau of Labor Statistics and Bureau of Economic Analysis

# 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

# The South Dominates The List of Fastest Growing States

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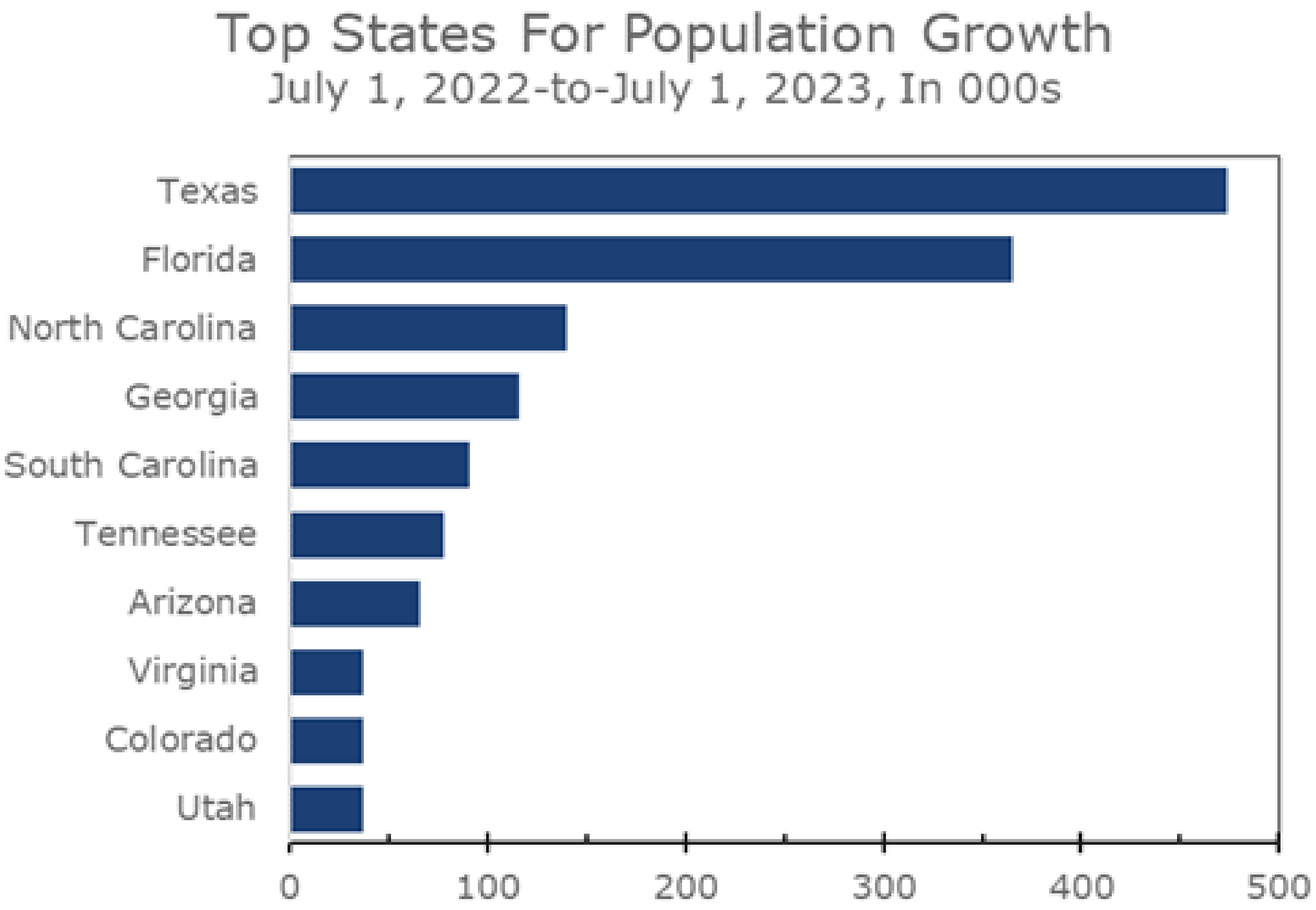
- Texas led the nation on an overall basis.
- Florida led the nation in net domestic migration, followed by Texas, the Carolinas, and Tennessee
- North Carolina posted the third largest population gain this past year.
- Net in-migration from other states accounted for the bulk of the increase, with most newcomers arriving from the Northeast and South.




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 | 2.2 | 2.1 | 4.9 | 3.4 | 1.3 | 2.7 | 2.2 | 2.1 | 1.8 | 2.0 | 2.2 | 2.3 | 2.1 | 2.5 | 2.7 | 2.1 | 2.3 |
| Consumer Spending | 3.8 | 0.8 | 3.1 | 3.3 | 2.0 | 2.2 | 2.1 | 2.0 | 1.8 | 2.0 | 2.4 | 2.4 | 2.8 | 1.8 | 2.6 | 2.0 | 2.4 |
| Nonresidential Fixed Investment | 5.7 | 7.4 | 1.4 | 3.7 | 3.3 | 2.8 | 2.3 | 2.1 | 1.6 | 2.0 | 2.6 | 3.4 | 3.8 | 4.9 | 2.8 | 2.0 | 3.1 |
| Light Vehicle Sales | 15.0 | 15.8 | 15.7 | 15.7 | 15.3 | 15.9 | 15.8 | 15.8 | 15.8 | 15.9 | 16.0 | 16.2 | 13.9 | 15.5 | 15.7 | 15.8 | 16.3 |
| Industrial Production, Manufacturing | -0.4 | 1.1 | (0.6) | (1.1) | (0.2) | 2.2 | 1.6 | 1.8 | 2.0 | 2.3 | 3.0 | 3.2 | 4.3 | (0.6) | 1.3 | 1.9 | 3.2 |
| Unemployment Rate (Qtrly Avg) | 3.5 | 3.6 | 3.7 | 3.7 | 3.8 | 3.9 | 4.0 | 4.0 | 4.1 | 4.1 | 4.1 | 4.1 | 3.7 | 3.6 | 3.9 | 4.1 | 4.0 |
| **Housing Market** | | | | | | | | | | | | | | | | | |
| Housing Starts (Units, thous) | 1,369 | 1,455 | 1,380 | 1,481 | 1,403 | 1,420 | 1,440 | 1,420 | 1,420 | 1,440 | 1,460 | 1,480 | 1,557 | 1,430 | 1,440 | 1,450 | 1,520 |
| New Home Sales | 636 | 698 | 682 | 646 | 653 | 660 | 680 | 690 | 690 | 710 | 720 | 730 | 637 | 666 | 720 | 740 | 770 |
| Existing Home Sales | 4,317 | 4,187 | 4,020 | 3,880 | 4,200 | 4,150 | 4,200 | 4,240 | 4,300 | 4,350 | 4,400 | 4,450 | 5,030 | 4,150 | 4,320 | 4,670 | 4,980 |
| S&P/Case-Shiller Natl Home Prices (Yr/Yr % Change) | 2.2 | (0.1) | 2.5 | 5.1 | 6.4 | 4.9 | 3.8 | 3.3 | 3.2 | 3.4 | 3.8 | 4.0 | 14.8 | 2.4 | 4.6 | 3.6 | 4.0 |
| **Inflation** (Year-to-Year % Change) | | | | | | | | | | | | | | | | | |
| Consumer Price Index (CPI) | 5.7 | 4.0 | 3.6 | 3.2 | 3.2 | 3.4 | 3.2 | 3.1 | 2.8 | 2.6 | 2.5 | 2.4 | 6.7 | 4.1 | 3.2 | 2.6 | 2.3 |
| Core CPI | 5.5 | 5.2 | 4.4 | 4.0 | 3.8 | 3.6 | 3.5 | 3.4 | 3.1 | 2.9 | 2.7 | 2.6 | 6.1 | 4.8 | 3.6 | 2.8 | 2.4 |
| Personal Consumption Deflator | 5.0 | 3.9 | 3.3 | 2.8 | 2.5 | 2.7 | 2.8 | 2.8 | 2.7 | 2.6 | 2.5 | 2.4 | 5.8 | 3.7 | 2.7 | 2.6 | 2.2 |
| Core PCE Deflator | 4.8 | 4.6 | 3.8 | 3.2 | 2.8 | 2.7 | 2.8 | 2.7 | 2.6 | 2.5 | 2.4 | 2.3 | 4.7 | 4.1 | 2.8 | 2.5 | 2.1 |
| Employment Cost Index | 4.9 | 4.5 | 4.4 | 4.2 | 4.2 | 4.1 | 3.9 | 4.0 | 4.0 | 3.8 | 3.7 | 3.7 | 4.9 | 4.5 | 4.0 | 3.8 | 3.5 |
| **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 | 5-5.25 | 4.75-5 | 4.5-4.75 | 4.25-4.5 | 4.25-4.5 | 4.25-4.5 | 2.75 | 5.03 | 5.19 | 4.44 | 4.25 |
| 10-Year Treasury Note | 3.48 | 3.84 | 4.59 | 3.88 | 4.20 | 4.35 | 4.40 | 4.40 | 4.30 | 4.30 | 4.35 | 4.40 | 2.95 | 3.95 | 4.35 | 4.35 | 4.40 |
| Conventional Mortgage Rate (Freddie Mac) | 6.32 | 6.71 | 7.31 | 6.61 | 6.79 | 7.20 | 6.80 | 6.70 | 6.50 | 6.50 | 6.50 | 6.50 | 5.34 | 6.80 | 6.87 | 6.50 | 6.30 |

Piedmont Crescent Capital - Updated June 4, 2024

# Other Key Takeaways

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| | |
|---|---|
| We are at an extremely unusual juncture in the Business Cycle | The economy about three years past the pandemic and the recession looks more like a short exogenous shock (earthquake or hurricane). The federal government provided extraordinary stimulus that fueled a strong recovery but also drove inflation sharply higher. While some traditional measures still show the risk of recession is high, a downturn seems less likely. There is still enormous fiscal stimulus in the pipeline and innovation (AI & GLP-1s), as well as increased immigration, are boosting potential economic growth. We look for growth to slow ahead of the election, as consumers and businesses postpone major purchases. |
| 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 | Sharply reduced housing turnover has led to a persistent shortage of existing homes, which has pushed home prices higher. A growing proportion of first-time buyers are now purchasing new homes, which are increasingly being built in distant suburbs and will ultimately drive demand for light vehicles and boost commercial development. The apartment market will see a wave of new supply, which will suppress rents and keep tenants in apartments for longer. Renewals are still rising around 4%, however, which will keep pressure on shelter cost. CRE values are likely to fall from 'inflated' levels hit when rates were near zero. |
| Consumer Spending | Consumer spending continues to be weighted more heavily toward services, specifically travel and entertainment and health care and wellness. Spending on goods has struggled this year, as groceries, transportation, and housing have crowed out less essential purchases. The slowdown in home sales is also weighing on sales of furniture, household appliances and home furnishings. We expect home sales to improve modestly in the second half of this year and look for more substantial improvement once mortgage rates fall to around 6.50% in 2025. |

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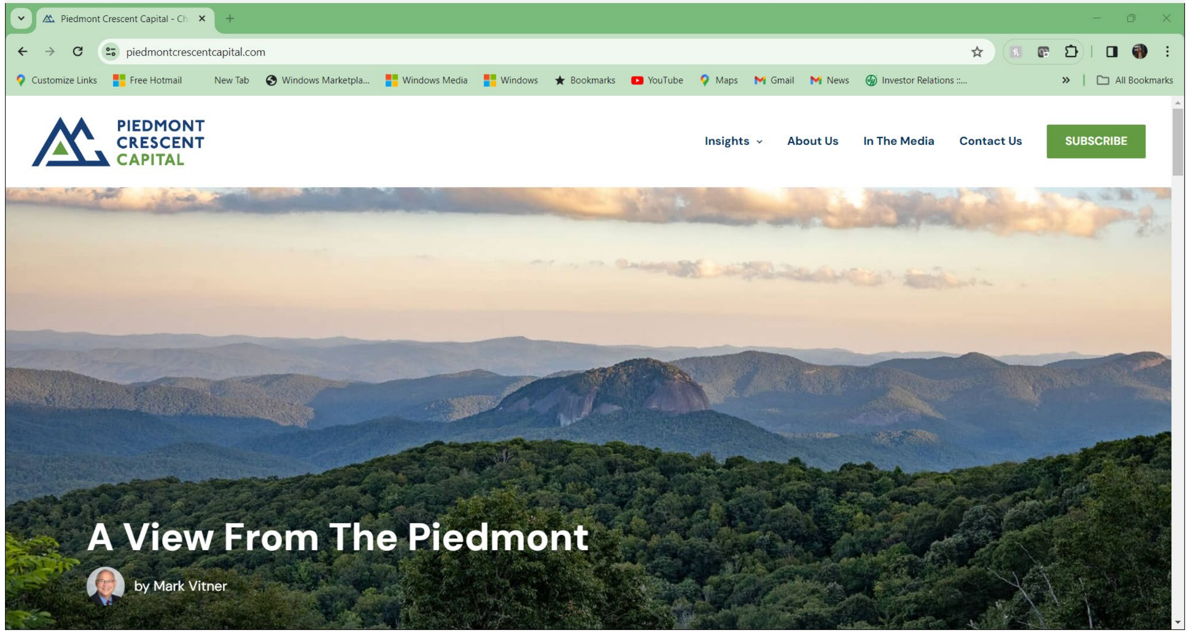


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