

Consumer Spending To Rise Modestly In The 2023 Holiday Season; U.S. Economy Should Feel More Normal In 2024 As The Job Market And Inflation Cool

Consumers are in decent shape heading into the holiday season. Most people who want jobs have them, and Americans are confident about their job prospects in 2024. High prices are still a source of frustration, but income growth has outpaced inflation since May, bolstering spending power. While homebuying affordability is abysmal, high mortgage rates and home prices have little effect on the two-thirds of households who already own their homes. Consumer spending will likely rise 2% in the 2023 holiday shopping season, reflecting higher volumes of purchases against flat prices. Consumers are finally seeing deals at retailers: Used car prices were down 7% on the year in the October CPI report, TVs down 9%, computers and peripherals down 6%, and smartphones down 12%.

New car prices rose 1.9% on the year in the October CPI report. Auto inventories likely fell in October as the UAW strike held back production, but should quickly rebound. Fundamentals will be mixed for car sales next year. Supporting sales, the labor market is solid, wages are growing, and the overhang of unmet demand built up over the last few years will support foot traffic. To the downside, car loan rates are up by more than 1.5 percentage points over the last year, and high prices are persuading some consumers to keep repairing older vehicles they normally would trade in. Meanwhile, carmakers are releasing more new models, especially new EVs, and need them to sell to recoup investments in new technologies. On balance, this backdrop suggests solid growth of unit sales in 2024, but also more incentives and pressure on profit margins.

The economy will face ongoing headwinds from high interest rates next year, but also will benefit from the recent decline of gasoline prices, which fell to the lowest since January in November despite the Israel-Hamas war. Higher home equity and capital gains from the stock market will support spending by affluent households. House prices will likely rise modestly next year, with tight listings of existing homes supporting construction and sales of more single-family units. A lot of rental supply will come to market, too, slowing increases of new residential leases.

The economy is starting to meet the Fed’s pre-conditions for a pivot to less restrictive interest rates. Inflation is moderating, wage growth is trending lower, and a small margin of slack is opening in the job market. The Fed is likely to hold short-term interest rates steady at the next few decisions, then reduce the funds target a quarter percentage point at the June decision. The Fed will likely cut short-term rates another half percentage point in the second half of 2024, and slow the pace of their balance sheet reductions, too. Long-term rates will likely come down even more on expectations of rate cuts in 2025. However, the deficit poses ongoing upside risk to long-term rates.

U.S. Economic Outlook, Summary

<i>a = actual f = forecast</i>	1Q'23a	2Q'23a	3Q'23p	4Q'23f	1Q'24f	2Q'24f	3Q'24f	2022a	2023f	2024f	2025f
Real GDP (Percent Change Annualized)	2.2	2.1	4.9	0.7	0.5	1.0	1.3	1.9	2.4	1.4	1.5
CPI (Percent Change Year-over-Year)	5.8	4.1	3.6	3.1	2.8	2.6	2.2	8.0	4.1	2.5	2.0
Payroll Jobs (Average Monthly Diff., Ths.)	322	222	203	129	90	80	100	427	219	99	97
Unemployment Rate (Percent)	3.5	3.6	3.7	3.9	4.1	4.2	4.2	3.6	3.7	4.2	4.3
Federal Funds Rate (Period Average)	4.52	5.07	5.26	5.38	5.38	5.33	5.08	1.68	5.04	5.16	3.67
10-Yr. Treasury Rate (Period Average)	3.65	3.59	4.15	4.74	4.51	4.21	4.00	2.95	4.03	4.10	3.46

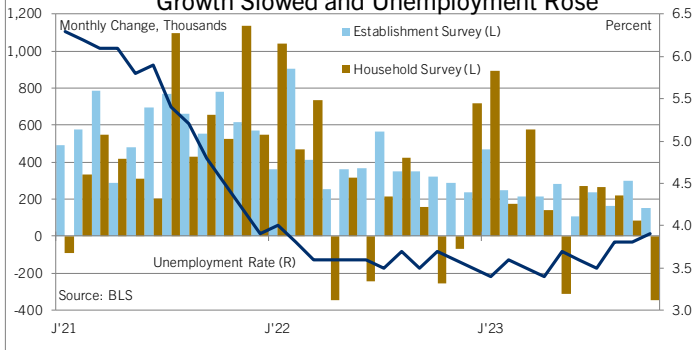
a = actual p = preliminary f = forecast

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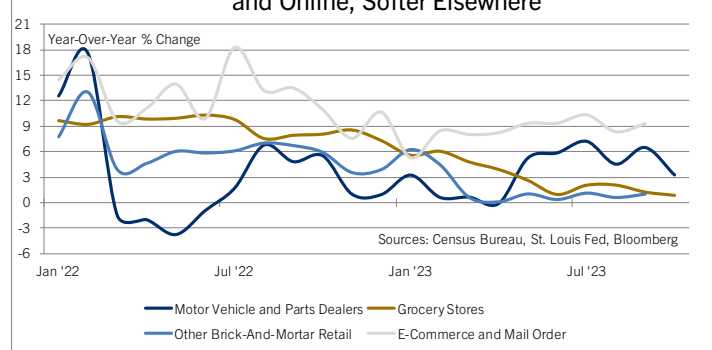
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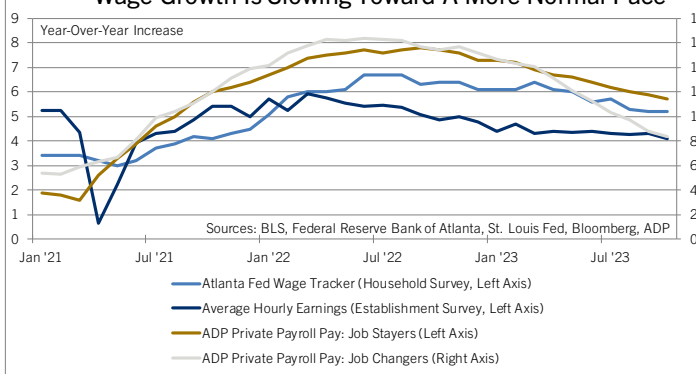
The Labor Market Softened in October as Payroll Growth Slowed and Unemployment Rose



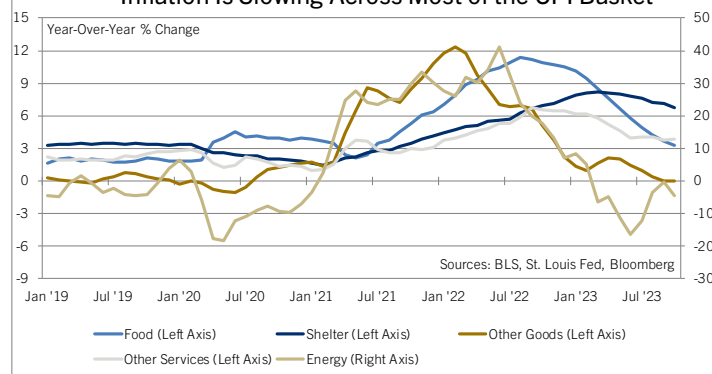
Consumer Spending Growth Is Strong at Car Dealers and Online, Softer Elsewhere



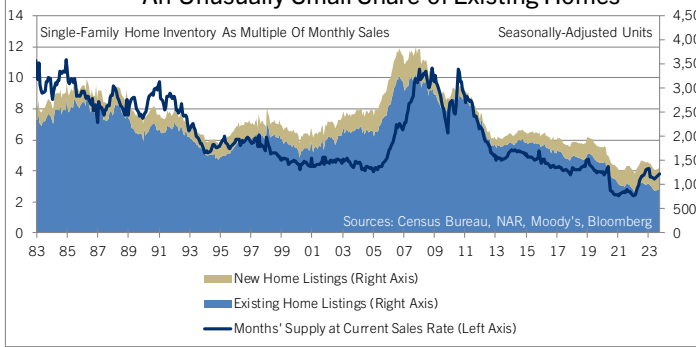
Wage Growth Is Slowing Toward A More Normal Pace



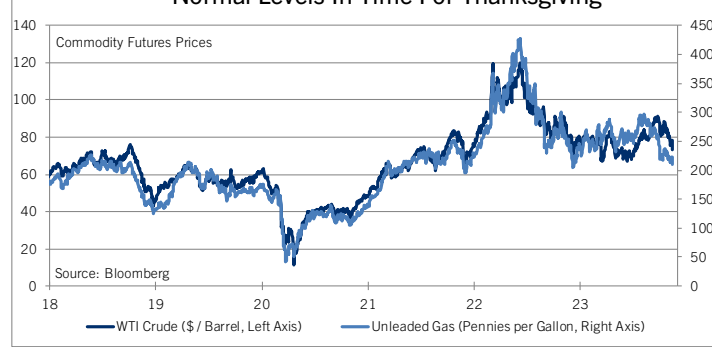
Inflation Is Slowing Across Most of the CPI Basket



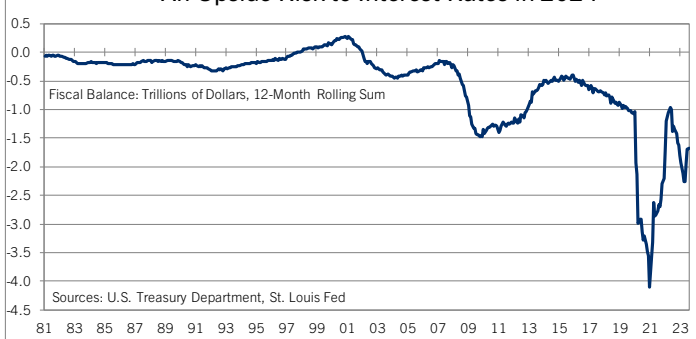
House Listings Are Back to Normal Levels, But With An Unusually Small Share of Existing Homes



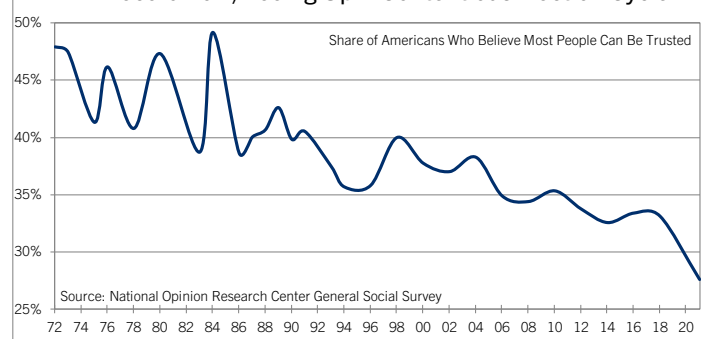
Oil And Gasoline Prices Are Back to Pre-Pandemic Normal Levels In Time For Thanksgiving



The Deficit Is Shrinking But Still Exceptionally Large, An Upside Risk to Interest Rates in 2024



Americans' Trust In Our Fellow Citizens Reaches A Record Low, Teeing Up A Contentious Election Cycle



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	1Q'23a	2Q'23a	3Q'23p	4Q'23f	1Q'24f	2Q'24f	3Q'24f	2022a	2023f	2024f	2025f
Output											
Nominal GDP (Billions \$ Annualized Rate)	26,814	27,063	27,624	27,834	28,021	28,233	28,463	25,744	27,333	28,358	29,324
Percent Change Annualized	6.3	3.8	8.5	3.1	2.7	3.1	3.3	9.1	6.2	3.7	3.4
Real GDP (Chained 2017 Billions \$ Annual Rate)	22,112	22,225	22,492	22,530	22,559	22,615	22,687	21,822	22,340	22,659	22,993
Percent Change Annualized	2.2	2.1	4.9	0.7	0.5	1.0	1.3	1.9	2.4	1.4	1.5
Pers. Consumption Expenditures	15,313	15,344	15,494	15,521	15,532	15,568	15,611	15,091	15,418	15,594	15,803
Percent Change Annualized	3.8	0.8	4.0	0.7	0.3	0.9	1.1	2.5	2.2	1.1	1.3
Nonresidential Fixed Investment	3,214	3,273	3,272	3,289	3,296	3,307	3,322	3,132	3,262	3,317	3,384
Percent Change Annualized	5.7	7.4	-0.1	2.1	0.9	1.4	1.8	5.2	4.2	1.7	2.0
Residential Investment	731	727	734	727	729	731	735	823	730	734	745
Percent Change Annualized	-5.3	-2.2	3.9	-3.8	0.9	1.5	2.0	-9.0	-11.3	0.5	1.6
Change in Private Inventories	27	15	81	57	42	30	26	128	45	30	38
Net Exports	-935	-928	-938	-933	-927	-926	-923	-1,051	-933	-924	-926
Government Expenditures	3,759	3,790	3,833	3,854	3,872	3,889	3,901	3,670	3,809	3,893	3,933
Percent Change Annualized	4.8	3.3	4.6	2.2	1.9	1.8	1.3	-0.9	3.8	2.2	1.0
Industrial Prod. Index (2007=100)	102.6	102.8	103.4	104.0	104.0	103.8	103.8	102.6	103.2	103.9	104.2
Percent Change Annualized	-0.3	0.7	2.5	2.3	-0.1	-0.5	0.0	3.4	0.6	0.7	0.3
Capacity Utilization (Percent)	79.6	79.4	79.6	79.7	79.4	78.9	78.5	80.3	79.6	78.8	77.4
Prices											
CPI (1982-84=100)	301.3	303.4	306.0	307.9	309.8	311.3	312.9	292.6	304.7	312.1	318.5
Year-Over-Year Percent Change	5.8	4.1	3.6	3.1	2.8	2.6	2.2	8.0	4.1	2.5	2.0
PCE Price Index (2012=100)	119.3	120.0	120.9	121.6	122.4	123.1	123.7	116.0	120.5	123.4	125.9
Year-Over-Year Percent Change	5.0	3.9	3.4	3.0	2.6	2.5	2.3	6.5	3.8	2.4	2.1
GDP Price Index (2017=100)	121.3	121.8	122.8	123.6	124.2	124.9	125.5	118.0	122.4	125.2	127.6
Year-Over-Year Percent Change	5.3	3.5	3.2	2.9	2.5	2.5	2.2	7.1	3.7	2.3	1.9
PPI, Final Demand (Nov. 2009=100)	141.1	140.7	142.4	143.0	143.8	144.6	145.3	138.7	141.8	144.9	147.6
Year-Over-Year Percent Change	4.4	1.3	1.8	1.5	1.9	2.7	2.1	9.5	2.2	2.2	1.9
Crude Oil, WTI (\$/barrel)	\$76	\$74	\$82	\$85	\$88	\$89	\$90	\$95	\$79	\$89	\$90
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	322	222	203	129	90	80	100	427	219	99	97
Unemployment Rate (Percent)	3.5	3.6	3.7	3.9	4.1	4.2	4.2	3.6	3.7	4.2	4.3
Labor Force Participation Rate (%)	62.5	62.6	62.7	62.9	63.0	63.0	63.0	62.2	62.7	63.0	63.1
Average Weekly Hours	34.5	34.4	34.4	34.3	34.2	34.2	34.3	34.6	34.4	34.3	34.2
Personal Income											
Average Hourly Earnings (\$)	33.11	33.46	33.83	34.12	34.37	34.61	34.84	32.25	33.63	34.72	35.80
Percent Change Annualized	3.9	4.3	4.4	3.5	3.0	2.8	2.6	5.3	4.3	3.2	3.1
Real Disp. Income (2017 Billions \$ Annualized)	16,663	16,808	16,767	16,834	16,916	16,990	17,070	16,117	16,768	17,036	17,482
Percent Change Annualized	10.8	3.5	-1.0	1.6	2.0	1.8	1.9	-6.0	4.0	1.6	2.6
Personal Saving Rate (Percent)	4.8	5.1	3.8	4.5	5.2	5.5	5.8	3.3	4.6	5.6	6.5
Housing											
Housing Starts (Ths., Annual Rate)	1,385	1,450	1,359	1,354	1,352	1,355	1,362	1,551	1,387	1,360	1,394
Exst. SF Home Sales (Ths., Annual Rate)	3,893	3,810	3,593	3,606	3,626	3,651	3,678	4,530	3,726	3,666	3,710
New SF Home Sales (Ths., Annual Rate)	638	691	724	750	756	761	767	637	700	765	791
Case/Shiller One-Family HPI (1/2000=100)	297.7	302.5	304.5	306.6	308.5	310.2	312.0	298.5	302.8	311.0	317.8
Year/Year Percent Change	2.3	-0.2	1.0	2.8	3.6	2.6	2.4	14.8	1.4	2.7	2.2
Consumer											
Consumer Confidence® (Conference Board)	104.5	105.4	109.0	104.7	104.0	104.0	104.0	104.5	105.9	104.1	105.8
Car and Light Truck Sales (Millions)	15.2	15.9	15.8	15.5	15.8	16.1	16.3	13.9	15.6	16.2	16.5
Retail & Food Service Sales (Monthly Avg, Bns)	687.4	688.1	699.7	700.9	701.3	703.3	705.7	672.6	694.0	704.9	717.7
Percent Change Annualized	4.5	0.4	6.9	0.7	0.2	1.1	1.4	9.7	3.2	1.6	1.8
Financial Indicators (Period Average)											
Federal Funds Rate, % (Effective)	4.52	5.07	5.26	5.38	5.38	5.33	5.08	1.68	5.04	5.16	3.67
Prime Rate, %	7.69	8.16	8.43	8.55	8.55	8.50	8.25	4.85	8.21	8.33	6.84
1-Month BSBY, %	4.58	5.16	5.34	5.39	5.39	5.35	5.09	1.80	5.12	5.17	3.69
3-Month Term SOFR, %	4.78	5.13	5.37	5.38	5.31	5.21	5.00	2.18	5.16	5.04	3.57
1-Yr. Treasury Rate, %	4.77	4.94	5.39	5.34	5.07	4.78	4.51	2.79	5.11	4.60	3.05
5-Yr. Treasury Rate, %	3.80	3.69	4.31	4.72	4.44	4.11	3.86	3.00	4.13	3.98	3.05
10-Yr. Treasury Rate, %	3.65	3.59	4.15	4.74	4.51	4.21	4.00	2.95	4.03	4.10	3.46
30-Yr. Fixed Rate Mortgage, %	6.36	6.49	7.04	7.68	7.31	6.76	6.45	5.33	6.89	6.63	5.63
Corporate Profits After Tax (Billions \$ Annualized)	2,850	2,881	2,903	2,974	3,001	3,020	3,045	2,981	2,940	3,058	3,173
Percent Change Annualized	-20.0	4.4	3.1	10.1	3.8	2.6	3.3	4.8	-1.4	4.0	3.8

a = actual p = preliminary f = forecast

November 17, 2023

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