

Inflation Rebounded in the First Quarter of 2024, Eroding Disposable Income; Homeowners and Affluent Americans Are Propelling Consumer Demand This Year

Inflation rebounded in the first quarter of 2024 after cooling in the second half of 2023. Prices of gasoline and diesel rose as OPEC+ producers extended supply cuts, Ukraine’s military attacked Russian refineries, and U.S. production leveled off near a record high. Prices of some agricultural products, including chicken and beef, rose as well. More concerning for the Fed, January and February saw notable increases in prices of non-energy services that change less frequently, like hospital services and car insurance. The inflationary momentum that built up over the last few years is taking a while to peter out. As a result, the U.S. economy’s key price indexes, including the CPI and PCE, moved sideways in early 2024 at levels above those consistent with the Fed’s inflation target.

Americans also saw their effective tax rates rise after the turn of the year as 2023’s increase in stock and home values translated into higher capital gains and property tax bills. The combination of hot monthly price increases and higher taxes slowed the growth of real disposable personal income—that is, incomes adjusted for taxes and the cost of living. The picture for household finances is mixed. The average household is doing quite well. Longtime homeowners who locked in mortgage payments years ago are insulated from recent years’ increases in shelter costs. Households with substantial wealth are benefitting from 2023’s double-digit increase in stock market values. Household net worth jumped 8.4% on the year in the fourth quarter of 2023. Homeowners and the affluent collectively account for well over half of consumer spending and are the dominant force behind its growth in early 2024.

Low and moderate income households, as well as middle-income renters, face substantial budget pressures from the high cost of living. These groups will likely see their standards of living hold roughly unchanged in 2024. But even so, they are in much better shape than during the early years of the recovery after the 2008-2009 recession. Today, most people who actively look for a job can find one. And many moderate income Americans secured big wage gains over the last few years as they switched into higher-paying industries and occupations, and as wage growth in the lower third of the income distribution outpaced the average. Additionally, some low-and-moderate income Americans are moving in with family or taking on roommates to balance household budgets. This is contributing to cooler demand in the rental market.

The Fed has been on guard for inflation staying sticky and will see early 2024’s inflation reports as disappointing, but unsurprising. At the same time, they are watching out for signs of a cooler job market. The Fed’s next move will probably be an interest rate cut in mid-2024, most likely at the June monetary policy decision. The Fed will likely announce plans to slow the run-off of its balance sheet at one of their next few decisions, too.

U.S. Economic Outlook, Summary

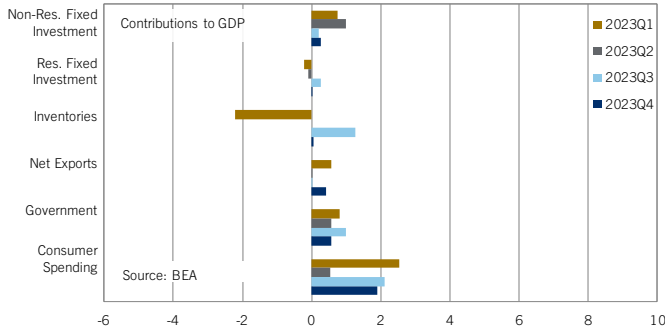
<i>a = actual f = forecast</i>	3Q'23a	4Q'23p	1Q'24f	2Q'24f	3Q'24f	4Q'24f	1Q'25f	2022a	2023p	2024f	2025f
Real GDP (Percent Change Annualized)	4.9	3.2	2.1	1.5	1.3	1.7	1.7	1.9	2.5	2.4	1.6
CPI (Percent Change Year-over-Year)	3.6	3.2	3.1	3.0	2.6	2.4	2.2	8.0	4.1	2.8	2.1
Payroll Jobs (Average Monthly Diff., Ths.)	222	206	251	206	190	206	190	412	245	213	196
Unemployment Rate (Percent)	3.7	3.7	3.8	3.9	4.0	4.1	4.1	3.6	3.6	3.9	4.1
Federal Funds Rate (Period Average)	5.26	5.33	5.37	5.28	5.03	4.78	4.33	1.68	5.02	5.12	3.62
10-Yr. Treasury Rate (Period Average)	4.15	4.44	3.95	3.72	3.59	3.32	3.26	2.95	3.96	3.65	3.30

a = actual p = preliminary f = forecast

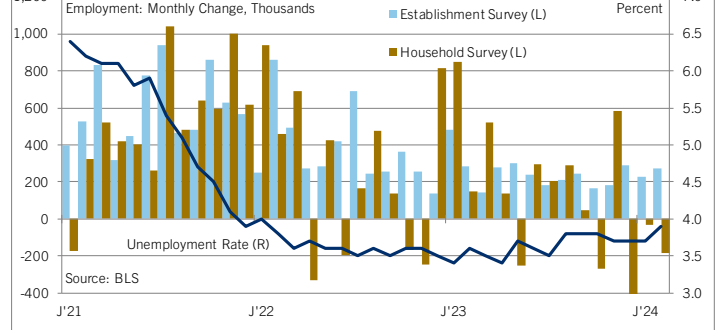
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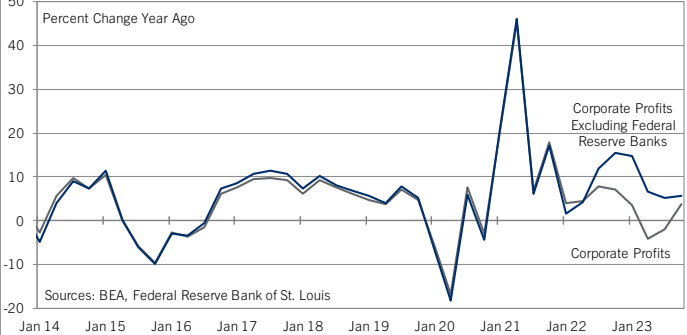
Consumers Propelled the Economy in 2023, Less Headwinds from Inventories Expected in 2024



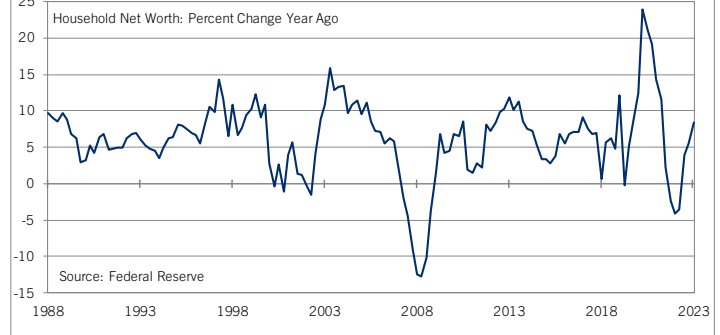
Employment Fell in Four of the Household Survey's Last Five Monthly Releases



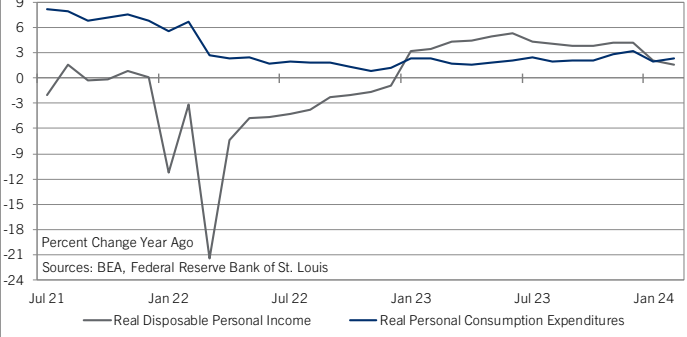
Corporate Profits' Growth Is Back to the Pre-Pandemic Pace, Losses in 2023 Were at the Fed



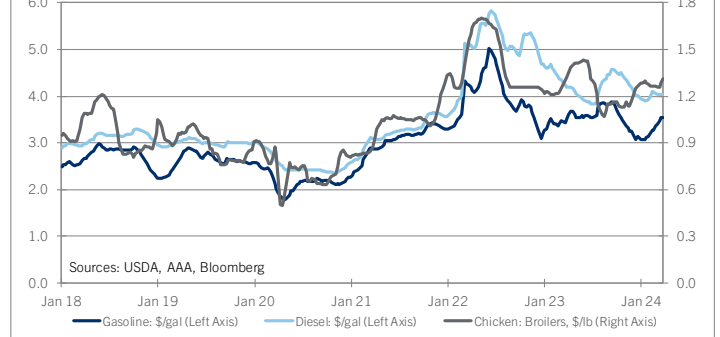
Household Wealth Is Growing Again, Supporting Spending by Affluent Americans



Consumer Spending Growth Downshifted in Early 2024, and Income Growth Slowed Even More



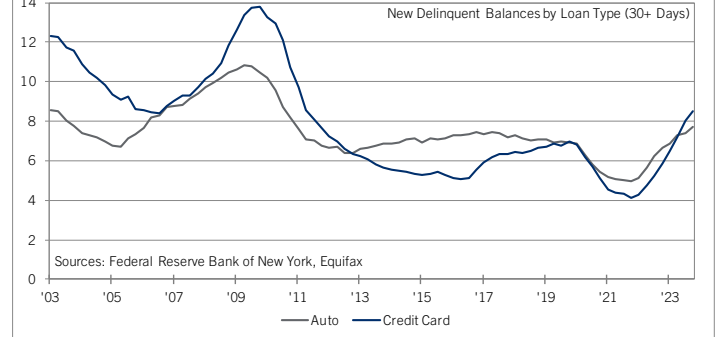
Prices of Energy Goods and Unprocessed Foodstuffs Rose in March



The Rental Vacancy Rate Is Back to Its Pre-Pandemic Level, Still Tight Vs. Historical Average



Rising Delinquencies Demonstrate Stress on Low- and-Moderate Income Americans' Finances



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	3Q'23a	4Q'23p	1Q'24f	2Q'24f	3Q'24f	4Q'24f	1Q'25f	2022a	2023p	2024f	2025f
Output											
Nominal GDP (Billions \$ Annualized Rate)	27,610	27,945	28,260	28,533	28,772	29,031	29,305	25,744	27,358	28,649	29,718
Percent Change Annualized	8.3	4.9	4.6	3.9	3.4	3.7	3.8	9.1	6.3	4.7	3.7
Real GDP (Chained 2017 Billions \$ Annual Rate)	22,491	22,669	22,788	22,875	22,949	23,043	23,139	21,822	22,374	22,914	23,286
Percent Change Annualized	4.9	3.2	2.1	1.5	1.3	1.7	1.7	1.9	2.5	2.4	1.6
Pers. Consumption Expenditures	15,461	15,575	15,706	15,771	15,811	15,862	15,916	15,091	15,423	15,787	15,998
Percent Change Annualized	3.1	3.0	3.4	1.7	1.0	1.3	1.4	2.5	2.2	2.4	1.3
Nonresidential Fixed Investment	3,285	3,304	3,317	3,335	3,350	3,368	3,388	3,132	3,269	3,343	3,416
Percent Change Annualized	1.4	2.4	1.6	2.2	1.9	2.2	2.3	5.2	4.4	2.3	2.2
Residential Investment	739	744	758	764	770	775	780	823	735	767	788
Percent Change Annualized	6.7	2.9	7.7	2.9	3.2	2.8	2.6	-9.0	-10.6	4.2	2.8
Change in Private Inventories	78	66	20	14	15	28	43	128	47	19	68
Net Exports	-931	-915	-925	-928	-928	-930	-935	-1,051	-927	-928	-942
Government Expenditures	3,843	3,883	3,900	3,910	3,919	3,929	3,936	3,670	3,819	3,915	3,946
Percent Change Annualized	5.8	4.2	1.8	1.0	1.0	1.0	0.7	-0.9	4.0	2.5	0.8
Industrial Prod. Index (2007=100)	103.2	102.7	102.3	102.5	102.9	103.3	103.8	102.6	102.8	102.7	104.5
Percent Change Annualized	1.6	-1.8	-1.6	0.5	1.5	1.8	1.8	3.4	0.2	-0.1	1.8
Capacity Utilization (Percent)	79.4	78.8	78.2	77.8	77.6	77.6	77.5	80.3	79.3	77.8	77.6
Prices											
CPI (1982-84=100)	306.0	308.1	310.5	312.6	314.1	315.5	317.2	292.6	304.7	313.2	319.7
Year-Over-Year Percent Change	3.6	3.2	3.1	3.0	2.6	2.4	2.2	8.0	4.1	2.8	2.1
PCE Price Index (2012=100)	120.8	121.4	122.4	123.2	123.8	124.4	125.1	116.0	120.4	123.4	126.0
Year-Over-Year Percent Change	3.3	2.8	2.6	2.6	2.5	2.5	2.2	6.5	3.7	2.5	2.1
GDP Price Index (2017=100)	122.8	123.3	124.0	124.8	125.4	126.0	126.7	118.0	122.3	125.1	127.7
Year-Over-Year Percent Change	3.2	2.6	2.3	2.5	2.1	2.2	2.2	7.1	3.6	2.3	2.1
PPI, Final Demand (Nov. 2009=100)	142.2	142.2	144.3	145.0	145.7	146.3	147.4	138.7	141.6	145.3	148.5
Year-Over-Year Percent Change	1.6	1.0	2.3	3.0	2.5	2.9	2.2	9.5	2.0	2.7	2.2
Crude Oil, WTI (\$/barrel)	\$82	\$79	\$77	\$81	\$82	\$82	\$82	\$95	\$78	\$81	\$82
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	222	206	251	206	190	206	190	412	245	213	196
Unemployment Rate (Percent)	3.7	3.7	3.8	3.9	4.0	4.1	4.1	3.6	3.6	3.9	4.1
Labor Force Participation Rate (%)	62.7	62.7	62.5	62.7	62.8	62.9	62.9	62.2	62.6	62.7	62.9
Average Weekly Hours	34.4	34.4	34.2	34.2	34.2	34.3	34.3	34.6	34.4	34.2	34.3
Personal Income											
Average Hourly Earnings (\$)	33.92	34.22	34.59	34.92	35.22	35.51	35.82	32.26	33.72	35.06	36.31
Percent Change Annualized	4.4	3.6	4.4	3.8	3.5	3.3	3.6	5.4	4.5	4.0	3.6
Real Disp. Income (2017 Billions \$ Annualized)	16,820	16,911	16,871	16,897	16,950	17,006	17,049	16,117	16,798	16,931	17,133
Percent Change Annualized	0.5	2.2	-0.9	0.6	1.3	1.3	1.0	-6.0	4.2	0.8	1.2
Personal Saving Rate (Percent)	4.3	4.0	3.9	4.3	4.6	5.0	5.5	3.3	4.5	4.5	6.1
Housing											
Housing Starts (Ths., Annual Rate)	1,371	1,485	1,454	1,461	1,472	1,481	1,491	1,551	1,423	1,467	1,502
Single-Family Housing Starts	967	1,055	1,063	1,073	1,082	1,089	1,097	1,004	946	1,077	1,106
Multifamily Housing Starts	403	430	391	388	390	392	394	547	476	390	395
Exst. SF Home Sales (Ths., Annual Rate)	3,590	3,473	3,797	3,875	3,906	3,933	3,960	4,533	3,674	3,878	4,006
New SF Home Sales (Ths., Annual Rate)	693	644	664	671	676	680	684	637	667	673	691
Case/Shiller One-Family HPI (1/2000=100)	309.0	313.6	316.2	319.2	321.3	323.3	325.2	298.5	305.7	320.0	328.1
Year/Year Percent Change	2.5	5.1	6.2	5.6	4.0	3.1	2.8	14.8	2.4	4.7	2.5
Consumer											
Retail & Food Service Sales (Monthly Avg, Bns)	699.8	703.7	700.7	706.9	708.1	710.0	714.1	672.4	695.3	706.5	719.0
Percent Change Annualized	6.9	2.3	-1.7	3.6	0.7	1.1	2.3	9.7	3.4	1.6	1.8
Consumer Confidence* (Conference Board)	109.0	102.7	108.5	112.8	113.1	111.8	112.6	104.5	105.4	111.6	114.0
Car and Light Truck Sales (Millions)	15.8	15.8	15.5	15.8	16.0	16.2	16.4	13.9	15.6	15.9	16.6
Financial Indicators (Period Average)											
Federal Funds Rate, % (Effective)	5.26	5.33	5.37	5.28	5.03	4.78	4.33	1.68	5.02	5.12	3.62
Prime Rate, %	8.43	8.50	8.54	8.45	8.20	7.95	7.50	4.85	8.19	8.29	6.79
1-Month BSBY, %	5.34	5.40	5.38	5.29	5.03	4.77	4.33	1.80	5.12	5.12	3.62
3-Month Term SOFR, %	5.37	5.38	5.20	5.07	4.86	4.52	4.07	2.18	5.16	4.91	3.46
1-Yr. Treasury Rate, %	5.39	5.22	4.73	4.49	4.27	3.83	3.44	2.79	5.08	4.33	2.91
5-Yr. Treasury Rate, %	4.31	4.42	3.90	3.63	3.46	3.24	3.07	3.00	4.06	3.56	2.95
10-Yr. Treasury Rate, %	4.15	4.44	3.95	3.72	3.59	3.32	3.26	2.95	3.96	3.65	3.30
30-Yr. Fixed Rate Mortgage, %	7.04	7.29	6.50	6.07	5.85	5.46	5.30	5.33	6.80	5.97	5.26
Corporate Profits After Tax (Billions \$ Annualized)	3,018	3,111	3,159	3,183	3,210	3,234	3,259	2,981	2,978	3,196	3,302
Percent Change Annualized	16.8	13.0	6.3	3.2	3.3	3.1	3.1	4.8	-0.1	7.3	3.3

a = actual p = preliminary f = forecast

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