

By Richard Frankel

## Overview:

- CPI and Core CPI: in line with the 50-year average.
- GDP: in line with trend growth of 2%
- Consumer Confidence: currently modestly optimistic.
- Overall: Headed for a period of slow economic growth.

**Figure 1. CPI and Core CPI – JP Morgan Guide to the Markets 1Q24**

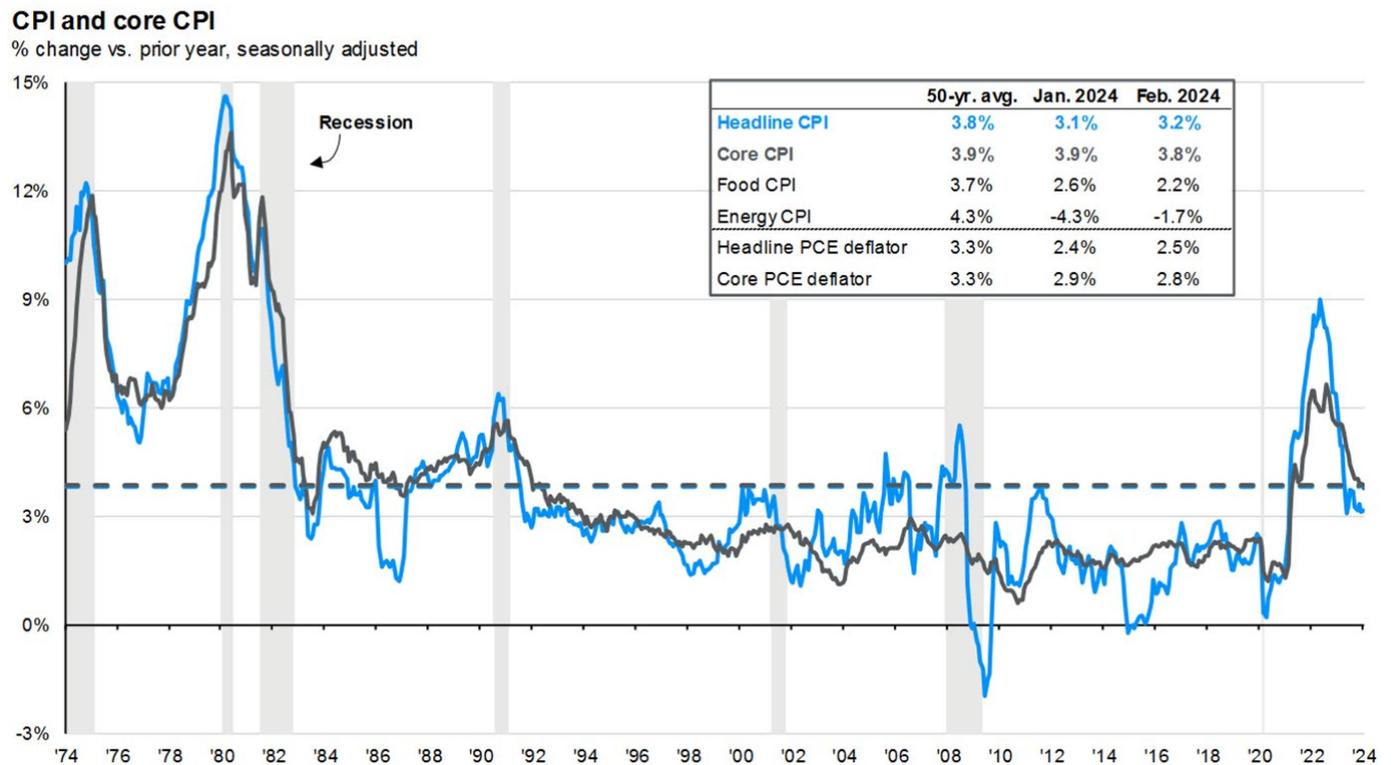


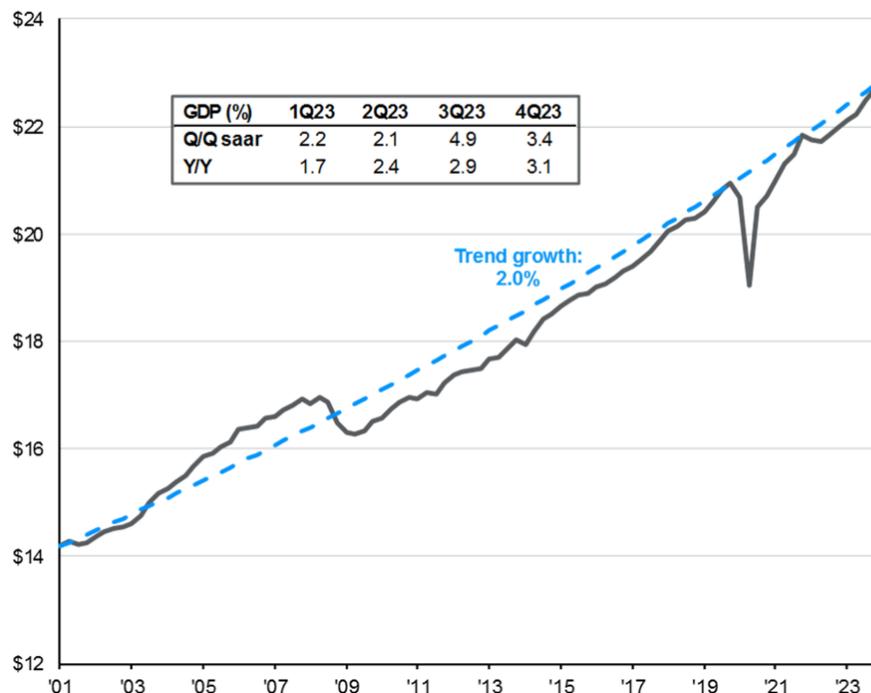
Figure 1, above, shows the United States' consumer price index's percent change from year to year from January 1974 through February 2024. Core CPI has been falling for the past year, reflecting the retreat in US consumer price inflation from last year's 9% peak. It ticked up from its recent lows and is currently sitting at 3.2%, which is below the 50-year average but higher than the Fed's 2% target. Although inflation has retreated since the turbulence of the pandemic, it remains above the Fed's target and is likely to remain higher for longer.



**Figure 2. GDP and its Components – JP Morgan Guide to the Markets 1Q24**

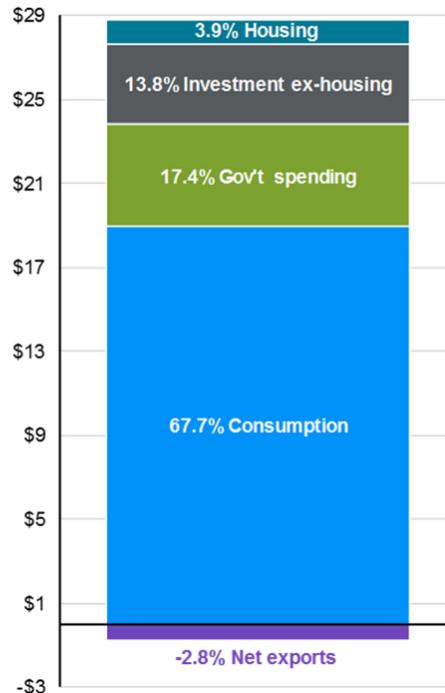
**Real GDP**

Trillions of chained (2017) dollars, seasonally adjusted at annual rates



**Components of GDP**

4Q23 nominal GDP, USD trillions



One of the most important factors when measuring an economy’s health is its real gross domestic product. Figure 2 shows the United States’ real GDP growth over the past 22 years. In 2023, US GDP growth approached its goal of 2.0% growth, but never quite made it there, even though we did see isolated growth of 4.9% in the third quarter of 2023. Now in 2024, we have seen a stabilization of GDP growth at the trend line, meaning the US economy has fully recovered from the pandemic in terms of GDP. In the fourth quarter of 2023, real GDP was comprised of 3.9% housing, 13.8% investment ex-housing, 17.4% government spending, 67.7% consumption, and -2.8% net exports.



Figure 3. Consumer Confidence in the Stock Market – JP Morgan Guide to the Markets 1Q24

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Consumer sentiment is a measure of how consumers feel about the economy; consumer sentiment index readings below 75 are considered moderately pessimistic, while readings above 125 are considered moderately optimistic. Currently, at the consumer sentiment level of 79.4, suggesting consumers are mildly optimistic. This number is currently rising somewhat erratically. This signals that US consumers are gaining confidence – albeit not in a “straight line”. Consumer confidence levels have fully recovered since the pandemic.



Figure 4. World GDP Outlook – International Monetary Fund

(Real GDP, annual percent change)	PROJECTIONS		
	2023	2024	2025
<b>World Output</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>
<b>Advanced Economies</b>	<b>1.6</b>	<b>1.7</b>	<b>1.8</b>
United States	2.5	2.7	1.9
Euro Area	0.4	0.8	1.5
Germany	-0.3	0.2	1.3
France	0.9	0.7	1.4
Italy	0.9	0.7	0.7
Spain	2.5	1.9	2.1
Japan	1.9	0.9	1.0
United Kingdom	0.1	0.5	1.5
Canada	1.1	1.2	2.3
Other Advanced Economies	1.8	2.0	2.4
<b>Emerging Market and Developing Economies</b>	<b>4.3</b>	<b>4.2</b>	<b>4.2</b>
Emerging and Developing Asia	5.6	5.2	4.9
China	5.2	4.6	4.1
India	7.8	6.8	6.5
Emerging and Developing Europe	3.2	3.1	2.8
Russia	3.6	3.2	1.8
Latin America and the Caribbean	2.3	2.0	2.5
Brazil	2.9	2.2	2.1
Mexico	3.2	2.4	1.4
Middle East and Central Asia	2.0	2.8	4.2
Saudi Arabia	-0.8	2.6	6.0
Sub-Saharan Africa	3.4	3.8	4.0
Nigeria	2.9	3.3	3.0
South Africa	0.6	0.9	1.2
<b>Memorandum</b>			
Emerging Market and Middle-Income Economies	4.4	4.1	4.1
Low-Income Developing Countries	4.0	4.7	5.2

Figure 4, above, shows the IMF’s world economic outlook forecasted through 2024 via the lens of GDP growth. Our focus is on how the United States compares to the rest of the world when it comes to GDP growth. In 2023, the US outperformed the average advanced economy’s GDP growth of 1.7% by 1.0%, showing 2.7% growth in this projection. This means that the United States is outperforming most other advanced economies. However, this growth is not projected to continue at its current pace in 2025.

In 2025, the US is projected to reach only 1.9% real GDP growth, well below its growth in 2023 and slightly below the trend goal of 2.0% real GDP growth. The US is still projected to outperform other advanced economies by 0.1%, meaning this will likely be a period of slow growth globally as well.



**Figure 5. US Economic Outlook – The Conference Board**

	2022				2023				2024				2025				2021*	2022*	2023*	2024	2025
	I Q*	II Q*	III Q*	IV Q*	I Q*	II Q*	III Q*	IV Q*	I Q	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q					
Real GDP	-2.0	-0.6	2.7	2.6	2.2	2.1	4.9	3.4	2.3	0.6	0.5	1.2	1.7	1.9	2.0	2.1	5.8	1.9	2.5	2.2	1.5
Real GDP (YoY)	3.6	1.9	1.7	0.7	1.7	2.4	2.9	3.1	3.1	2.8	1.7	1.2	1.0	1.3	1.7	1.9	5.8	1.9	2.5	2.2	1.5
Real disposable income	-9.8	-1.4	3.6	2.2	10.8	3.3	0.5	2.0	1.1	0.7	0.5	1.0	1.5	1.8	1.9	2.0	3.2	-6.0	4.2	1.2	1.4
Real consumer spending	0.0	2.0	1.6	1.2	3.8	0.8	3.1	3.3	2.3	1.0	0.3	0.9	1.5	1.7	1.8	1.9	8.4	2.5	2.2	1.9	1.3
Residential investment	-1.9	-14.1	-26.5	-24.9	-5.3	-2.2	6.7	2.8	7.0	4.0	1.0	2.0	2.5	3.5	4.0	4.0	10.7	-9.0	-10.6	3.9	2.8
Nonresidential investment	10.7	5.3	4.7	1.7	5.7	7.4	1.5	3.8	3.3	0.7	0.9	2.0	2.7	3.0	3.6	3.8	5.9	5.2	4.5	2.5	2.5
Inventory change (bln chn '17\$)	197.0	93.0	71.0	152.0	27.0	15.0	78.0	55.0	40.0	5.0	5.0	5.0	0.0	0.0	0.0	0.0	13.0	128.0	44.0	14.0	0.0
Total gov't spending	-2.9	-1.9	2.9	5.3	4.8	3.3	5.8	4.6	2.6	2.6	2.5	2.4	2.4	2.4	2.3	2.3	-0.3	-0.9	4.1	3.4	2.4
Exports	-4.6	10.6	16.2	-3.5	6.8	-9.3	5.4	5.0	3.0	1.0	0.5	2.0	2.5	3.0	3.0	3.0	6.3	7.0	2.6	2.1	2.3
Imports	14.7	4.1	-4.8	-4.3	1.3	-7.6	4.2	2.2	3.5	1.5	2.0	2.5	3.0	3.5	4.0	4.0	14.5	8.6	-1.7	2.0	3.0
Unemployment rate (%)	3.8	3.6	3.5	3.6	3.5	3.6	3.7	3.7	3.8	3.9	4.1	4.2	4.1	4.0	3.9	3.9	5.4	3.6	3.6	4.0	4.0
Labor Force Participation Rate (%)	62.2	62.2	62.3	62.2	62.5	62.6	62.7	62.7	62.5	62.6	62.5	62.4	62.3	62.3	62.3	62.4	61.7	62.2	62.6	62.5	62.3
PCE Inflation (%Y/Y)	6.6	6.8	6.6	5.9	5.0	3.9	3.3	2.8	2.5	2.4	2.1	2.0	2.0	2.0	2.0	2.0	4.2	6.5	3.7	2.2	2.0
Core PCE Inflation (%Y/Y)	5.5	5.2	5.2	5.1	4.8	4.6	3.8	3.2	2.8	2.4	2.3	2.2	2.0	2.0	2.0	2.0	3.6	5.2	4.1	2.4	2.0
Fed Funds (% Midpoint, Period End)	0.375	1.625	3.125	4.375	4.875	5.125	5.375	5.375	5.375	5.125	4.875	4.375	4.125	3.875	3.625	3.375	0.125	4.375	5.375	4.375	3.375

Figure 5, above, shows an array of economic factors from the first quarter of 2022 forecasted by The Conference Board through 2025. The chart shows a quarter-by-quarter forecast for real GDP, real GDP (YoY), real disposable income, residential income, nonresidential income, inventory change, total government spending, exports, imports, unemployment rate, labor force participation, personal consumption expenditures (PCE) inflation, core PCE inflation, and Federal fund expenditure.

Our focus will be on real GDP, unemployment rate, and inflation. US real GDP is projected to have a rough year in 2024, not stabilizing and rising above its 2.0% goal until 2025. Unemployment is projected to remain stable, around 4.0%, through 2024 and 2025. PCE Inflation is set to fall to 2.0% and remain there through 2025.



Figure 6. US Economic Outlook – S&P Global Ratings

S&P Global Ratings' U.S. economic forecast (summary)									
March 2024									
	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f
(Annual average % chg)									
Real GDP	2.5	(2.2)	5.8	1.9	2.5	2.5	1.5	1.7	1.9
Change from Feb (ppt.)						0.1	0.0	0.1	0.1
Real GDP (Q4/Q4)	3.2	(1.1)	5.4	0.7	3.1	1.8	1.5	1.7	2.1
Change from Feb (ppt.)						0.2	0.0	0.1	0.2
Consumer spending	2.0	(2.5)	8.4	2.5	2.2	2.3	1.9	2.0	2.3
Equipment investment	1.1	(10.1)	6.4	5.2	(0.1)	1.6	4.9	3.8	3.6
Nonresidential structures investment	2.5	(9.5)	(3.2)	(2.1)	11.7	4.8	0.9	1.3	0.1
Residential investment	(1.0)	7.2	10.7	(9.0)	(10.7)	3.0	2.1	2.2	2.3
Core CPI	2.2	1.7	3.6	6.2	4.8	3.4	2.5	2.2	2.3
Core CPI (Q4/Q4)	2.3	1.6	5.0	6.0	4.0	3.1	2.3	2.2	2.2
(Annual average levels)									
Unemployment rate (%)	3.68	8.11	5.35	3.63	3.62	3.90	4.17	4.24	3.94
Housing starts (mil.)	1.29	1.40	1.61	1.55	1.42	1.38	1.39	1.39	1.42
Light vehicle sales (mil.)	17.0	14.5	15.0	13.8	15.5	15.5	15.6	15.8	16.0
10-year Treasury (%)	2.1	0.9	1.4	3.0	4.0	4.0	3.5	3.3	3.4
Federal funds rate (%)	2.2	0.4	0.1	1.7	5.0	5.1	3.7	2.9	2.9
Federal funds rate (%) (Q4)	1.6	0.1	0.1	3.7	5.3	4.7	3.3	2.9	2.9

Note: All percentages are annual averages, unless otherwise noted. Core CPI is consumer price index excluding energy and food components. f--forecast. Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The Federal Reserve, S&P Global Market Intelligence Global Link Model, and S&P Global Ratings Economics' forecasts.

Figure 6, above, shows the economic forecast through 2027 from the S&P Global Ratings group. This forecast includes Real GDP, the components of real GDP, CPI, unemployment, treasury yields, and federal fund rates. Real GDP is expected to be stable over the next few years, ranging from 1.5% to 2.5% growth. CPI is expected to fall over the next few years to a level of around 2%. Unemployment is expected to remain stable at around 4%. 10-year treasury notes are expected to yield between 3.3% and 4.0%. Federal funds rates are expected to fall from around 4.9% to around 2.9%.

### Conclusion:

- Forecasts are positive for the US economy.
- CPI and Core CPI: in line with the 50-year average.
- GDP: in line with trend growth of 2%.
- Consumer Confidence: currently modestly optimistic.
- Overall: Headed for a period of slow economic growth.



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