Nationwide Economics

Monthly Economic Dashboard

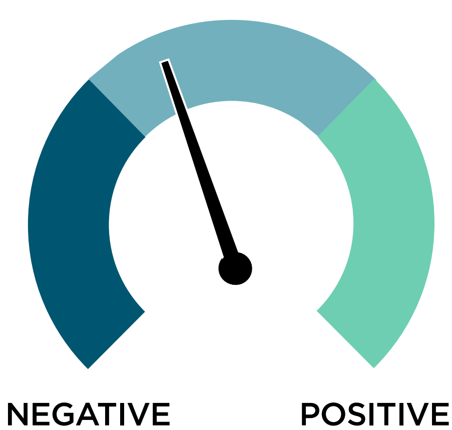
January 2024

Solid economic momentum to start 2024 but headwinds remain

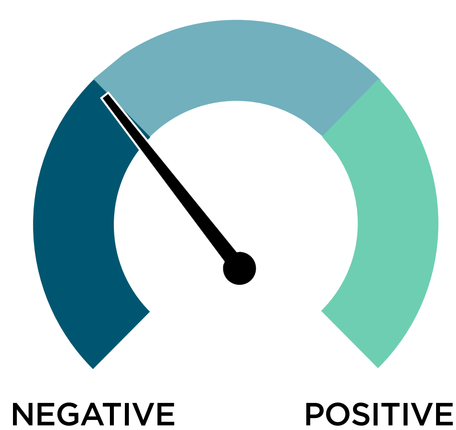
Economic activity was solid through the end of 2023 thanks to buoyant job and income gains which allowed consumers to keep spending. But hiring trends are expected to slow in the new year which should take the wind out of consumers' sails. Although the current momentum in the economy should continue to delay recessionary conditions, restrictive monetary policy and tight credit conditions still suggest that the economy could descend into a mild recession by mid-2024. With inflation for services and housing elevated and sticky, the Fed likely waits until at least May to cut interest rates, keeping borrowing costs for consumers and businesses elevated and limiting growth opportunities.

- Slack is slowly building in the labor market as hiring slowed substantially within cyclically sensitive sectors of the economy in the second half of 2023 . But total job and wage gains remained sturdy in December, a likely boost to consumer activity early in 2024.
- Retail sales were solid at the end of 2023 as strong wages and ebullient equity market gains continue to drive spending activity. Still, household savings built up during the pandemic are depleted while credit card debt and delinquencies are climbing, signs that more consumers probably cut back in the new year.
- We don't see a policy pivot to easing from the Fed until mid-2024, with lingering inflationary pressures staying the Fed's hand longer than financial markets predict. Financial conditions eased further over the past month while equity markets surged to record highs in January as confidence grows that the Fed can avoid a recession this year.

Current Scorecard



Future Scorecard



Full scorecards ▶

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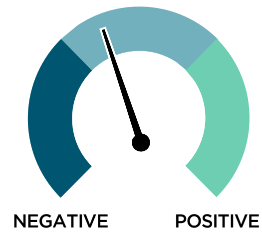
Current Scorecard – January 2024

Data through January 26, 2024

OVERALL

3-MONTH TREND

Job and wage gains moderated over the course of 2023 but ended the year strong enough to continue bolstering household incomes. Consumers also tapped credit more freely, turbocharging spending at the end of the year and setting up a solid hand-off to early 2024. Business sector readings were more sluggish — with manufacturing stuck in contraction and services nearing it — as high interest rates and elevated labor costs weigh on bottom-line profits. Core inflation remains elevated, but the pace is still on an overall downward trend. This likely positions the Fed for a May or June rate cut. The rally in equity markets continued as the S&P 500 hit a record high in January.



EMPLOYMENT

3-MONTH TREND

Job growth climbed to a three-month high in December and continues to be more resilient than expected. That said, hiring is steadily slowing in cyclical-sensitive sectors. Reflecting the still-tight labor market, the unemployment rate fell of 3.7 percent and annual wage growth rose to 4.1 percent in December.

	Current	Previous	Year ago
Employment growth – Dec	216,000	173,000	239,000
Unemployment rate – Dec	3.7%	3.7%	3.5%

FINANCIAL

3-MONTH TREND

After a strong run up in December, equity markets continued to rise in the new year, hitting a record high in mid-January as confidence in a soft landing for the economy increased. The 10-year Treasury rate, following a sharp decline to end 2023, climbed above 4.0 percent again in January. But the yield curve remains deeply inverted to indicate high recession odds over 2024.

	Current	Previous	Year ago
Yield spread – Jan	-0.67 pp	-0.95 pp	-1.22 pp
BAA Credit spread – Jan	1.62 pp	1.64 pp	1.96 pp
CBOE market volatility – Jan	14.02	12.33	19.91
S&P 500 stock index – Jan	4,781	4,682	3,948

CONSUMER

3-MONTH TREND

Rising incomes and increased reliance on credit buoyed consumer throughout the holiday season. Additionally, consumer sentiment surged in the first half of January as easing inflation and new highs in the equity market boosted respondents outlook for future growth. On the downside, the housing market remains stifled by elevated mortgage rates — existing home sales in December were the lowest since August 2010.

	Current	Previous	Year ago
Retail sales – Dec	0.6%	0.4%	-1.0%
Light vehicles sales – Dec	15.8 M	15.3 M	13.6 M
Total home sales – Dec	4.44 M	4.44 M	4.67 M
Consumer sentiment – Jan	78.8	69.7	64.9

BUSINESS

3-MONTH TREND

The ISM manufacturing index remained in contraction for the 14th straight month, while the services index fell to a 12-month low — narrowly in expansion territory. The NFIB Small Business Optimism Index climbed to a 15-month high but was still weak overall. Business owners report reduced pricing power in the market and remain pessimistic about the economy this year.

	Current	Previous	Year ago
ISM Manufacturing – Dec	47.4	46.7	48.4
ISM Services – Dec	50.6	52.7	49.2
NFIB small business optimism – Dec	91.9	90.6	89.8

INFLATION

3-MONTH TREND

Headline and core CPI posted gains of 0.3 percent in December. As a result, annual CPI inflation sped up to 3.4 percent. The Fed's favored supercore (core services less housing) rate ran at a hot 4.3 percent on a six-month annualized basis, suggesting inflationary pressures for services were still quite strong at the end of 2023.

	Current	Previous	Year ago
Consumer price index (CPI) – Dec	0.3%	0.1%	0.1%
Core CPI – Dec	0.3%	0.3%	0.4%

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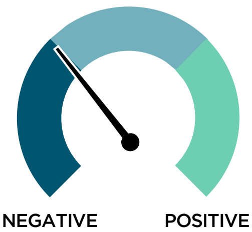
Future Scorecard – January 2024

OVERALL

While the economy still carries solid momentum into 2024, signs of weakness continue to build under the surface as restrictive monetary policy and tight credit conditions impact decisions by consumers and businesses. We expect hiring in many sectors to slow sharply by mid-year with more firms looking to cut expenses, resulting in a dimmer outlook for spending and an expected brief and mild recession. As services inflation is expected to remain sticky, interest rates should remain higher for longer with a delayed shift to policy easing by the Fed — reinforcing our belief that a recession remains more likely than a soft landing this year.



THE ECONOMY

The chances that the Fed can pull off a soft landing in 2024 have increased but key leading indicators still suggest that a recession over the next 6-12 months is more likely. A prospective downturn should be mild and short given the lingering strength for hiring and spending. But there remain downside risks if inflation does not cool further and the Fed is forced to make monetary policy even more restrictive.

	2022	2023F	2024F	2025F
Real GDP growth	2.1%	2.5%	1.2%	1.3%

CONSUMER

High mortgage rates and low supply of homes for sale should depress housing activity over much of 2024. But falling rates later in the year should boost demand for housing in 2025 and beyond. Pent-up consumer demand for new autos should keep sales solid in 2024, but weaker incomes and elevated financing rates should limit some purchases with a rebound projected for 2025.

	2022	2023	2024F	2025F
Total home sales	5.67 M	4.77 M	4.60 M	5.30 M
Light vehicle sales	13.8 M	15.5 M	15.1 M	16.0 M

JOB MARKET

After starting the year on solid footing, labor demand (especially within cyclically sensitive sectors) should weaken considerably by mid-2024 in response to cost pressures for businesses. However, cumulative layoffs should be much lighter than over previous downturns with the unemployment rate likely peaking just below 5.0 percent peak in late 2024 — far lower than a typical recession.

	2022	2023	2024F	2025F
Average job growth	399,000	225,000	40,000	150,000
Unemployment rate	3.6%	3.6%	4.4%	4.4%

INTEREST RATES

Although the Fed should be done hiking rates, monetary policy could remain restrictive for an extended period in response to lingering inflation concerns. The first rate cut is not expected to occur until mid-2024 and the Fed should lower rates far slower than usual for an easing cycle. As a result, the yield curve should remain inverted into late 2024 with a modest decline in long-term rates as the Fed eases.

	2022	2023	2024F	2025F
Federal funds rate	4.25%	5.25%	4.00%	3.00%
10-year Treasury note	3.88%	3.88%	4.00%	3.45%

INFLATION

Overall and core CPI inflation are expected to cool gradually from here but should remain above the Fed's target range through 2024 due to lingering services inflation pressures. Consumer inflation could finally return to trend in 2025, but there remain upside risks to costs (including energy prices and high residential rent inflation).

	2022	2023	2024F	2025F
Consumer Price Index (CPI)	7.1%	3.2%	2.8%	2.4%
Core CPI	6.0%	4.0%	3.0%	2.5%

Glossary

F	Forecast
BAA Credit Spread	Spread between 10-year treasury note and BAA-rated corporate bond rates
CBOE	Chicago Board Options Exchange
CPI	Consumer Price Index
FOMC	Federal Open Market Committee.
ISM	Institute for Supply Management
NFIB	National Federation of Independent Business
Yield Spread	Spread between the 1-year and 10-year Treasury note rates

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