Nationwide Economics

Monthly Economic Dashboard

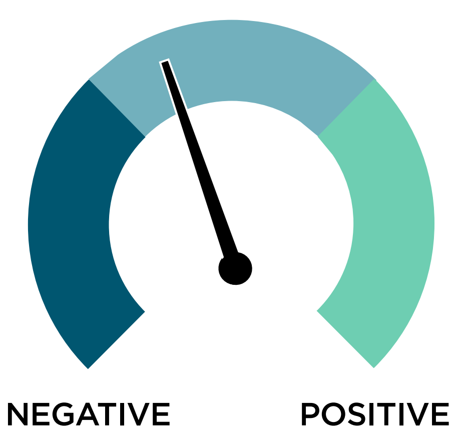
February 2024

Strong start to 2024 pushes Fed easing farther into the year

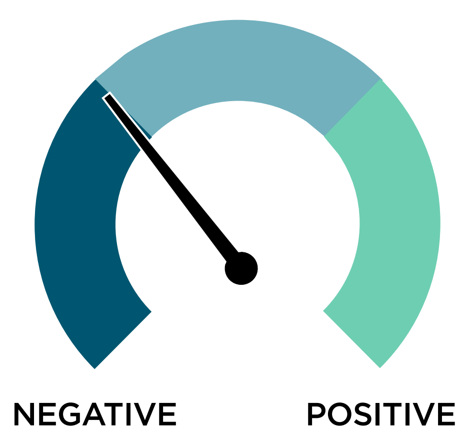
The recent reacceleration in activity shows that the economy is not in danger of slipping into a recession soon, but restrictive monetary policy, tight bank lending conditions, and rising consumer debt still point to much weaker conditions ahead. Even with low unemployment and solid gains in real personal income, households pulled back on spending in January, a warning sign that the consumer sector is flagging. This slowdown should become even more pronounced if hiring activity slows in coming months. Inflation for services and housing remains elevated and sticky, likely delaying rate cuts from the Fed and keeping borrowing costs for consumers and businesses elevated over 2024.

- Job gains were strong in January and upward revisions to prior months indicate that hiring has strengthened. Additionally, wage gains remained robust, as workers in many sectors still retain sizable bargaining power in the labor market.
- Retail sales contracted in January, likely a response to depleted household savings and rising credit card debt and delinquencies. Still, there remain solid tailwinds for near-term spending from the strength of the labor market.
- The Fed's pivot to policy easing should be delayed until May at the earliest, with inflationary pressure for services remaining buoyant at the start of 2024. Despite the increased prospects of higher for longer rates, solid earnings helped to push the S&P 500 index to a record high in February.

Current Scorecard



Future Scorecard



Full scorecards ▶

Nationwide Economics — Monthly Economic Dashboard

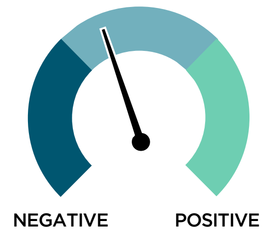
Current Scorecard – February 2024

Data through February 23, 2024

OVERALL

3-MONTH TREND

Rather than cooling off, the labor market heated up over the past several months, with unemployment still at a low level, wages climbing rapidly, and job growth posting a 12-month high. The only sign of weakness was the nearly one-hour reduction in the average workweek. Despite the supportive labor indicators, consumer spending had a post-holiday hangover in January, perhaps finally pinched by low household savings and rising credit card debt. But inflation was also hotter in January, a setback after cooler readings over the second half of 2023. The hot start to 2024 for hiring and prices could push back the start of the Fed's first rate cut and reduce total easing this year.



EMPLOYMENT

3-MONTH TREND

NEGATIVE — POSITIVE

The job market was still hot in January and upward revisions to the prior two months further highlighted the strength in hiring. The unemployment rate held steady at 3.7 percent and wage growth and annual wage growth climbed to a four-month high at 4.5 percent. This suggests that tight labor conditions extended into early 2024.

	Current	Previous	Year ago
Employment growth – Jan	353,000	333,000	482,000
Unemployment rate – Jan	3.7%	3.7%	3.4%

FINANCIAL

3-MONTH TREND

NEGATIVE — POSITIVE

The rally in equity markets extended through mid-February as the S&P 500 index hit 5,000 for the first time on the back of solid Q4 earnings. With Fed easing expectations pushed out to at least May, the 10-year Treasury yield spiked by nearly 50 bps over February, crossing 4.30 percent for the first time since early December. Credit spreads remained relatively tight despite the uptick in rate volatility.

	Current	Previous	Year ago
Yield spread – Feb	-0.68 pp	-0.67 pp	-1.22 pp
BAA Credit spread – Feb	1.57 pp	1.62 pp	1.96 pp
CBOE market volatility – Feb	14.48	14.02	19.53
S&P 500 stock index – Feb	5,002	4,983	4,118

CONSUMER

3-MONTH TREND

NEGATIVE — POSITIVE

After months of driving down the personal saving rate and driving up credit card debt, consumers took a break from their rapid pace of spending in January. Home sales, although up in January, remain subdued as purchases continue to be constrained by a shortage of existing homes for sale and poor affordability due to elevated mortgage rates and rising prices.

	Current	Previous	Year ago
Retail sales – Jan	-0.8%	0.4%	3.8%
Light vehicles sales – Jan	15.0 M	16.1 M	15.1 M
Total home sales – Jan	4.66 M	4.53 M	4.72 M
Consumer sentiment – Feb	79.6	79.0	66.9

BUSINESS

3-MONTH TREND

NEGATIVE — POSITIVE

The ISM manufacturing index, which remained in contraction for a 15th straight month, edged up in January to its highest reading since 2022. Services also climbed from its near-contractionary reading to more solid expansionary footing. The NFIB Small Business Optimism Index remained sluggish as business owners report lower earnings trends and remain pessimistic about forward economy prospects.

	Current	Previous	Year ago
ISM Manufacturing – Jan	49.1	47.1	47.4
ISM Services – Jan	53.4	50.5	54.7
NFIB small business optimism – Jan	89.9	91.9	90.3

INFLATION

3-MONTH TREND

LOWER — HIGHER

Headline and core CPI both climbed faster than expectations as services inflation accelerated up in January — boosted by rapidly climbing prices in residential rent, medical care, and transportation. At 3.9 percent, annual core inflation remains nearly twice the Fed's two percent goal, and the Fed's favored supercore measure (core services less housing) climbed to an eight-month high of 4.5 percent.

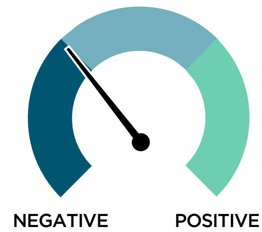
	Current	Previous	Year ago
Consumer price index (CPI) – Jan	0.3%	0.2%	0.5%
Core CPI – Jan	0.4%	0.3%	0.4%

Future Scorecard – February 2024

Nationwide

OVERALL

Despite solid economic momentum at the start of the year, signs of underlying weakness are bubbling under the surface. Wages are still buoyant, but elevated interest rates and growing consumer debt are clear downside risks for spending in coming months. Profits for businesses are being squeezed by rising costs and tighter bank credit, factors which typically drive a sharp weakening of hiring — adding to concerns about consumer activity. Monetary policy should also remain restrictive with a delayed shift to policy easing by the Fed, keeping the forecast focused on a mild recession.



THE ECONOMY

A soft landing in 2024 has growing credibility, but 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 current strength for labor demand and spending. But there remain downside risks if the pause in disinflation lingers well into 2024 and the Fed keeps monetary policy restrictive for an extended period.

	2023	2024F	2025F	2026F
Real GDP growth	2.5%	2.0%	1.2%	1.7%

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.

	2023	2024F	2025F	2026F
Total home sales	4.77 M	4.40 M	5.30 M	5.95 M
Light vehicle sales	15.5 M	15.1 M	16.0 M	16.5 M

JOB MARKET

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

	2023	2024F	2025F	2026F
Average job growth	255,000	100,000	120,000	180,000
Unemployment rate	3.6%	4.3%	4.5%	4.1%

INTEREST RATES

There are risks that monetary policy could remain restrictive for an extended period in response to lingering inflation concerns. In the near term, the start of Fed easing should be delayed until mid-2024 and the Fed is likely to be more cautious than usual with rate cuts into 2025. As a result, the yield curve should remain inverted over 2024 with long-term rates declining modestly as the Fed eases.

	2023	2024F	2025F	2026F
Federal funds rate	5.25%	4.00%	3.00%	2.50%
10-year Treasury note	3.88%	4.00%	3.45%	3.25%

INFLATION

Overall and core CPI inflation are expected to cool gradually from here but should persist 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).

	2023	2024F	2025F	2026F
Consumer Price Index (CPI)	3.2%	2.8%	2.4%	2.1%
Core CPI	4.0%	3.0%	2.5%	2.1%

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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