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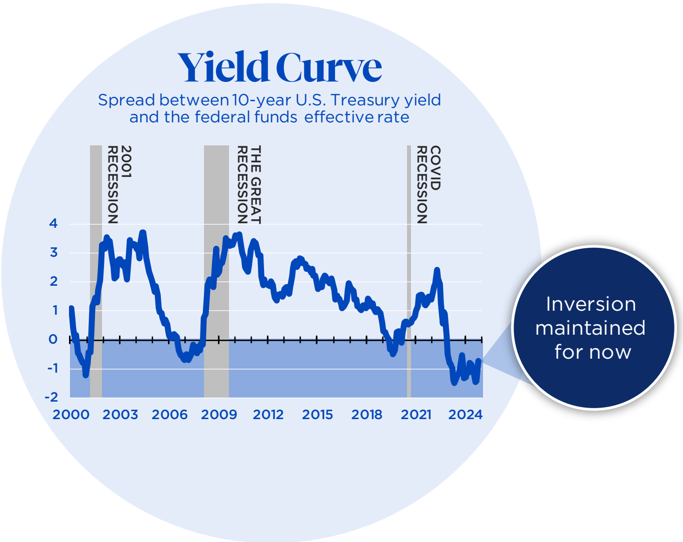
Economic & Financial Markets Monthly Review | November 2024

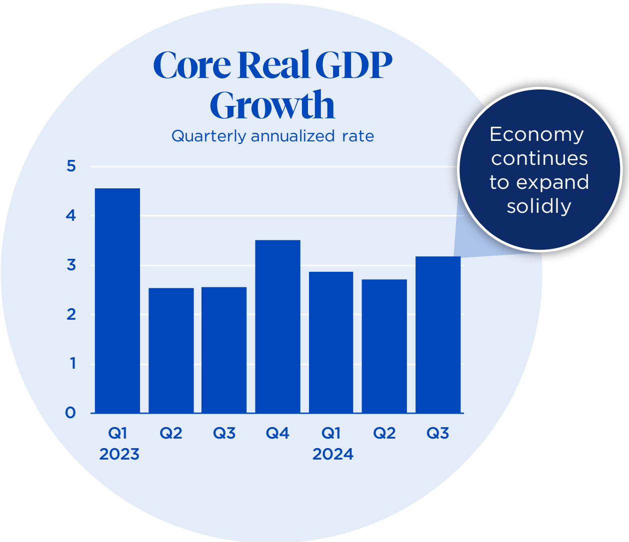
Economic resilience shines through again

Economic Overview

Where is the economy now?

The economy continues to power along as it finished the third quarter on a strong note, and solid activity should remain through the final months of 2024. Looking ahead to 2025, we look for consumer spending to lose some of its ebullience as employment and wage gains moderate and households are less willing to tap personal savings or credit. Following a smaller rate cut in November, we expect the Fed to ease again in December to support economic momentum into the new year.





Where we are this month

What does this mean

Solid momentum into final months of 2024

Economic growth is expected to be solid at around 2.0 percent in the fourth quarter, but consumer activity could downshift in early 2025.

- The prospects of an economic soft landing in 2025 still look good as interest rate cuts from the Fed should ease cost pressures on businesses to support continued hiring.
- There are downside risks for consumer activity in the year ahead, especially if the labor market cools off more than expected. While slower growth is projected for 2025, the odds of a mild recession remain lower but non-zero.

Yield curve steepens again

A sharp rise in long-term rates tightened the spread between the 10-year Treasury rate and the fed funds rate further over October.

- The Treasury yield curve has now normalized from the 1-year up through the 30-year Treasury rate. With the Fed expected to pursue successive rate cuts at upcoming FOMC meetings, the fed funds to 10-year spread should dis-invert by mid-2025, fully normalizing the entire Treasury rate curve.
- While the yield curve has historically disinverted ahead of most downturns, the next recession is more likely to be delayed by a soft landing.

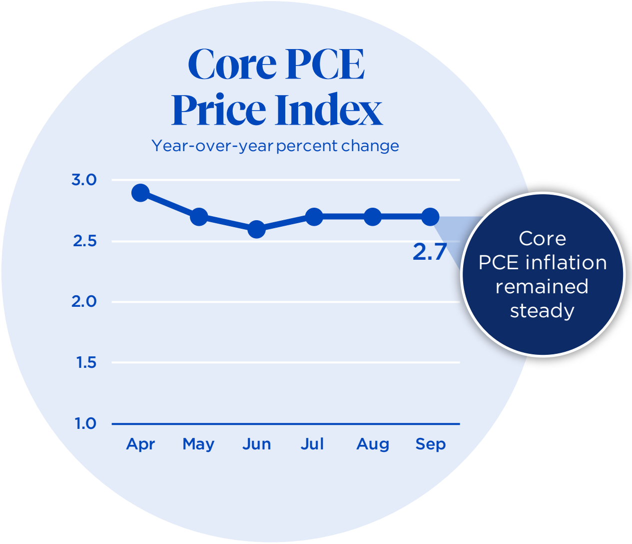
No slowdown in core growth

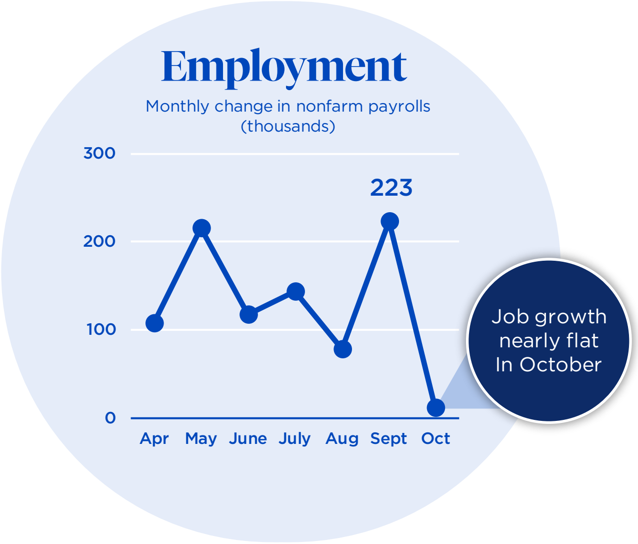
Real GDP growth expanded at an annualized pace of 2.8 percent in the third quarter as consumer spending led the way once again.

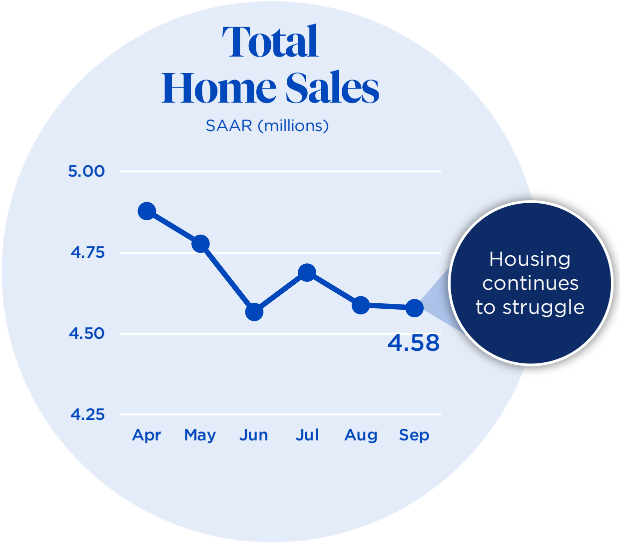
- Final sales to private domestic producers or core GDP growth (focused on consumer and business activity) increased by a strong 3.1 percent, a slight uptick from the first half of the year. This extended a strong streak for the core parts of the economy.
- The economy's reliance on consumer spending to maintain continued expansion may be a risk to future growth should labor market conditions deteriorate in the months ahead.

Fed continues rate cuts amid fuzzy employment data

Job gains slumped sharply in October, but the data was substantially skewed by hurricanes and strike activity. The wider trend indicates a softening employment picture and a narrow concentration of job gains in non-cyclical sectors of the economy such as government and leisure and hospitality. The Fed cut rates again at the November FOMC meeting and signaled that the easing cycle should continue, but the timing and pace of future rate cuts will be highly dependent on incoming inflation and labor market data.







Where we are this month

What does this mean

Core PCE inflation remains elevated

The headline PCE inflation rate slowed to 2.1 percent in September, but the core rate — the Fed's preferred inflation measure — held steady at a more elevated 2.7 percent.

- The monthly advance in headline and core PCE inflation was modestly faster than expected in September. Health care and transportation services led September price gains.
- Disinflation in core inflation has paused as the year-on-year rate is mostly unchanged over the last five months — a sign of lingering inflationary pressures. More encouragingly, the three-month annualized gain in core PCE was a relatively low 2.4 percent.

Job growth limited by storms and strike

Due to temporary disruptions, nonfarm payrolls climbed by only 12,000 in October but there were also substantial downward revisions to the prior two months.

- Job growth in October fell to its slowest pace since the pandemic lockdowns. But hurricanes Helene and Milton and the Boeing worker strike likely subtracted roughly 100,000 from the headline job gain number. Fed officials will have to look past these disruptions to get a clearer picture of labor market health.
- The unemployment rate held steady at a low 4.1 percent, while annual wage growth remained buoyant, climbing to 4.0 percent.

Home sales near cycle low

The annualized rate for total home sales in September was a low 4.58 million units as the housing market continued to be stifled by high mortgage rates.

- New home sales remain solid, but the existing side of the market remains depressed by reduced demand from potential buyers and low listings — both in response to elevated mortgage rates.
- The 30-year fixed mortgage rate is expected to fall below 6 percent by the end of next year, which should help to bring life back to a moribund housing market. But sales activity in the near-term is expected to remain very subdued.

Positive fundamentals keep investors upbeat

Resilient economic growth, the Fed's inclination to lower interest rates, and the outcome of the 2024 election are keeping investors' spirits high. We expect more of the same through year end as solid GDP growth, encouraging earnings results and Fed rate cuts bolster risk assets. After a 25-basis point (bp) rate cut this month, we think the Fed will lower interest rates again in December and implement another 75 bps worth of easing next year.

Where we are this month

What does this mean

Stocks hit record levels

Stocks extended their gains through October, with the S&P 500 touching a new all-time high. Investors shook off anxieties about the U.S. election, geopolitics, and idiosyncratic shocks from weather and labor strikes.

- Equities are maintaining their vigor as the economic data and third quarter earnings results depict a strong environment. While there is the potential for some volatility, the economic and corporate backdrop should support equities into 2025.
- Valuations remain lofty despite prevailing uncertainties. And in a continuous sign of underlying vulnerabilities, the gains are still concentrated in a select number of stocks.

Interest rates jump

The positive economic backdrop put upward pressure on interest rates with 10- and 2-year Treasury yields increasing in October. The yield curve became less inverted as the 10-year yield rose faster than the 2-year yield.

- Short-term Treasury yields have unwound part of summer decline on a scaling back of expected rate cuts over the next year. The 2-year Treasury yield climbed about 50 basis points (bps) last month.
- We forecast 25 bps of Fed easing in December and another 75 bps of rate cuts in 2025. The federal government's heavy Treasury issuance lends upside risk to long-term interest rates.

Fear gauges flag some concern

Investors may appear confident on the surface, but traditional measures of anxiety in the equity, bond market, and foreign exchange markets have been increasing in recent months.

- The VIX – known as the "fear gauge" and a key measure of sentiment in the equity market — is well above its recent levels. Furthermore, bond market volatility has also increased, and the price of gold — a safe harbor asset — is marching higher.
- Investors grapple with a host of downside risks that include signs that certain consumer and business segments are overextended as well as domestic policy and geopolitical uncertainties.

Outlook

Government's boost to growth likely to continue in 2025

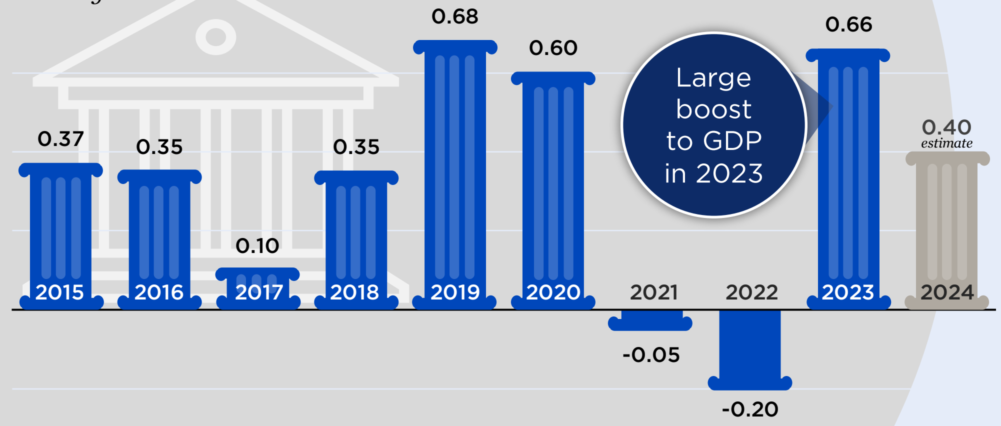
While consumer activity has been the driving force behind the continued economic expansion, government outlays have also played a contributing role. Federal spending added 0.6 percentage points to real GDP growth in the third quarter stemming from a further boost from local and state government expenditures. This represents an ongoing strong disbursement of fiscal stimulus tied to 2021's infrastructure bill and 2022's Inflation Reduction and CHIPS Acts.

Looking forward, the Congressional Budget Office projects record levels of federal spending in 2025. Costs for mandatory spending, like Social Security and Medicare, continue to increase, while fiscal stimulus payments are scheduled to roll out for several more years. This suggests a continued solid boost to economic growth over 2025 and beyond.

Increased federal government spending also implies elevated levels of Treasury debt issuance in coming years, one factor why long-term interest rates should remain elevated over the outlook.

Contribution of government spending to GDP growth

Percentage Points



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Data as of November 2024

	2023 ACTUAL	2024 ESTIMATE	2025 FORECAST	2026	2027
REAL GDP	2.9%	2.7%	1.9%	1.9%	1.8%
UNEMPLOYMENT RATE	3.6%	4.1%	4.5%	4.2%	4.2%
INFLATION [1] (CPI)	3.2%	2.5%	2.4%	1.9%	2.0%
TOTAL HOME SALES	4.75	4.72	4.96	5.88	6.16
S&P/CASE-SHILLER HOME PRICE INDEX	5.5%	4.6%	3.2%	3.2%	3.0%
LIGHT VEHICLE SALES	15.5	15.6	15.6	16.2	16.5
FEDERAL FUNDS RATE [2]	5.25%	4.25%	3.50%	2.75%	2.75%
5-YEAR TREASURY NOTE [2]	3.84%	4.25%	3.85%	3.40%	3.40%
10-YEAR TREASURY NOTE [2]	3.88%	4.40%	4.00%	3.80%	3.80%
30-YEAR FIXED-RATE MORTGAGE [2]	6.61%	6.70%	5.80%	5.00%	5.00%
MONEY MARKET FUNDS	5.09%	4.90%	3.72%	2.97%	2.78%

Slower growth in first half of 2025

After ending 2024 on a solid pace, economic growth is projected to downshift in early 2025 as consumers hit the brakes on spending. But we expect growth to pick up by the end of 2025 with Fed easing reigniting hiring and investment by businesses.

Additional rate cuts through mid-2025

We expect several more quarter-point rate cuts by June 2025 to lower the fed funds rate to the 3.75-4.00 percent range. The Fed could be less aggressive with rate cuts thereafter as it assesses the pace of inflation and any impacts from prospective federal policy changes.

[1] *Percent change Q4-to-Q4*
[2] *Year end*

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Sources

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	Business Cycle	*Nationwide Economics*
	Yield Curve	*Bloomberg; National Bureau of Economic Research*
	Core real GDP growth	*Bureau of Economic Analysis*
2 |	**Economic Review**	
	Core PCE inflation	*Bureau of Labor Statistics*
	Nonfarm payroll gains	*Bureau of Labor Statistics*
	Total home sales	*Census Bureau; National Association of Realtors*
3 |	**Financial Markets Review**	
	S&P 500	*Standard & Poor's*
	10-year Treasury yield	*Federal Reserve Board*
	Volatility and Fear Gauges	*Bloomberg*
4 |	**Outlook**	
	Government spending contribution to GDP growth	*Bureau of Economic Analysis; Nationwide Economics*
	Latest Forecast	*Nationwide Economics*

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