

# QUEST Economic Update | April 2024



## US economy continues resilient 2024 start with strong growth, slowing inflation, and a soft landing

Last year ended with roaring economic growth and progress on inflation, but now, economic growth has slowed and inflation remains stubbornly above target. Even with the disappointing data, the labor market continues to impress with low unemployment and real wage growth. With the Federal Open Market Committee (FOMC) likely to hold rates steady at its next several meetings, it appears the economic expansion will continue albeit perhaps with somewhat weaker growth.

In the first quarter, gross domestic product (GDP) expanded at a 1.6% seasonally adjusted annual rate and the consumer price index (CPI) for March was 3.5% over the past 12 months. The Personal Consumption Expenditures (PCE) price index progress toward the Federal Reserve's 2% target reversed in March as it increased to 2.7% from a year ago.

Even with underwhelming economic growth and persistent inflation, the unemployment rate was 3.8% in March and has remained below 4% since January 2022. Average wages also outpaced inflation and increased by 4.1% in March. With such mixed economic data, the FOMC will likely keep its target interest rate steady and allow the economy to glide to a soft landing during the spring.

Ernst & Young LLP's Quantitative Economics and Statistics (QUEST) group's Economic Update summarizes the latest US economic trends and significant global developments.

Current as of 04/30/2024

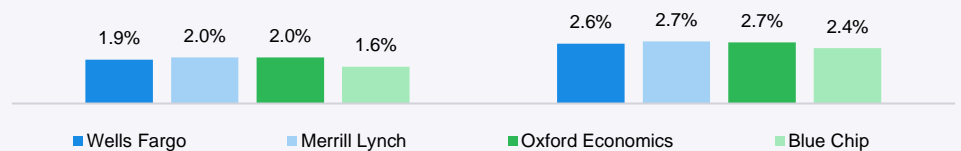
## OVERALL US ECONOMY

The economy appears poised to achieve a soft landing with moderate growth. Real annualized GDP increased by 1.6% during the first quarter of 2024. Nevertheless, the Atlanta Fed's GDPNow forecast sees it increasing by 3.9% during the second quarter of 2024 (as of April 26).

**Roughly 1.6% to 2.0%** growth expected for 2024 Q2 (annualized)

**Roughly 2.4% to 2.7%** growth expected for 2024

**US GDP growth forecast**  
2024 Q2 (annualized)



## LABOR MARKETS

With the March unemployment rate falling to 3.8% from 3.9% in February and March job gains of 303,000, labor markets remain tight. Job openings have generally fallen but remain above the number of unemployed, and weekly unemployment insurance claims remain near historic lows.

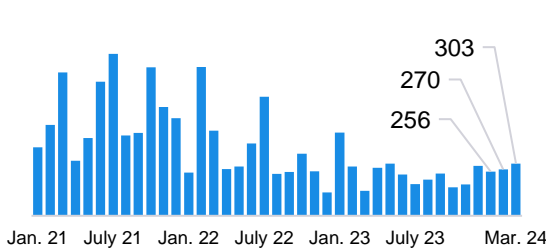
**377k** job gain on average in 2022

**266k** job gain on average in 2023

**276k** job gain on average in 2024

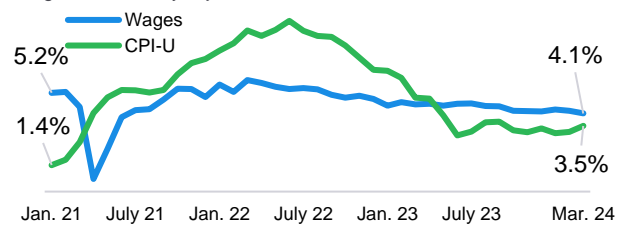
### Nonfarm payroll employment

Month-over-month change (in thousands), seasonally adjusted



### Hourly wages and CPI-U

Change from a year earlier, CPI - not seasonally adjusted, Wages - seasonally adjusted

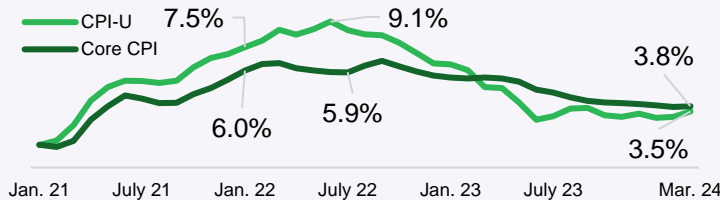


## INFLATION / INTEREST RATES

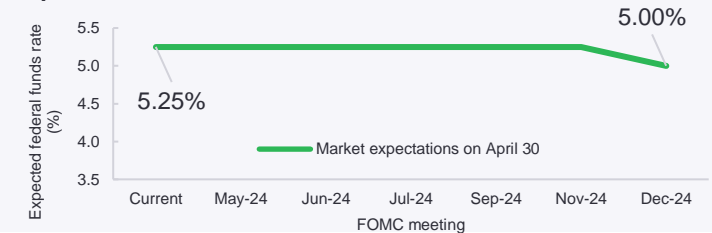
Overall inflation remains elevated. In March, the overall and core CPI rose by 3.5% and 3.8%, respectively. The overall and core PCE price index, the inflation measure the Federal Reserve more closely watches when setting monetary policy, rose by 2.7% and 2.8%, respectively, in March. Market expectations suggest that the Federal Reserve will not begin to lower its target interest rate until at least Fall 2024.

### CPI-U and core CPI

Change from a year earlier, not seasonally adjusted

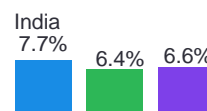
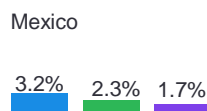
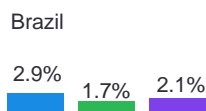
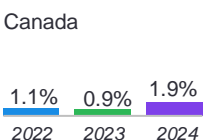
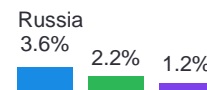
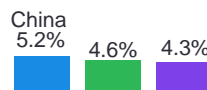
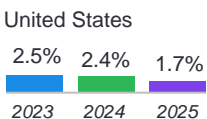


### Expected federal funds rate over 2023 and 2024



## GLOBAL GROWTH

Forecasts, while generally still suggesting slowing global economic growth in 2024, have improved over the past few months. China's economy, however, is facing challenges seen by weak consumer demand and high debt levels, especially in its real estate sector, as well as possible deflation.



### Upcoming economic data releases

- ▶ Interest rates, Federal Open Markets Committee (FOMC) meeting, April 30 – May 1
- ▶ Job openings for March, May 1
- ▶ Employment situation for April, May 3
- ▶ Consumer Price Index for April, May 15
- ▶ Q1 2024 GDP (second estimate), May 30
- ▶ Personal Consumption Expenditure Price Index for April, May 31

## Overall US economy

The US economy showed its first signs of slowing in 2024 with first quarter GDP growing at a tepid 1.6% seasonally adjusted annual rate. This tepid growth coupled with progress on inflation stalling signaled that slower expansion could be on the horizon. The overall CPI increased by 3.5% in March (y/y) and the core CPI, which excludes the more volatile energy and food components, increased by 3.8%. The PCE price index reversed its decline in March with the overall index increasing 2.7% and the core index increasing 2.8%. Both are still above the Federal Reserve's 2% target.

There are still signs of resilience. The unemployment rate decreased in March to 3.8% from 3.9% in February, and the economy created 303,000 jobs. During the first quarter of 2024, the economy added over 276,000 jobs per month. Weekly unemployment claims remain low and average wages increased by 4.1% in March. Additionally, retail sales

### Labor market

US labor markets remain tight. The March unemployment rate decreased to 3.8%, 0.1 percentage point below the 3.9% in February. Although the unemployment rate is above historic lows, it is still well below the roughly 4.5% rate at which most economists view the economy's resources to be fully employed.

The economy added 303,000 jobs in March, up from the 270,000 jobs added in February. First quarter job gains averaged 276,000, while they averaged 251,000 in 2023 and 377,000 in 2022. Weekly UI claims remain below pre-pandemic levels. Job openings have been generally falling since their high in early 2022 but remain well above unemployment.

### Inflation

Inflationary pressures appeared to have stalled their gradual year and half decline and settled around 3%, which is still above the Federal Reserve's 2% target. The recent stickiness on inflation likely played into the Federal Reserve's decision to keep interest rates the same at the past five FOMC meetings and will likely be a factor at this upcoming meeting. In addition, the Federal Reserve has signaled that it may hold interest rates higher for longer, with rates not being lowered until Fall 2024.

The overall CPI rose by 3.5% (y/y) in March, following its 3.2% increase in February and 3.1% increase in January. The monthly March CPI increased by 0.4%, after a 0.4% increase in February and 0.3% increase in January. The core CPI rose by 3.8% (y/y) in March, same as its rate in February. The monthly core CPI rose by 0.4% in March, the same as the increase in January and February. Shelter prices rose 5.4% in March. Shelter and gasoline prices were responsible for over half of the CPI increase. The Federal Reserve Bank of Cleveland's inflation nowcast forecasts the April CPI to

### Global growth

The global economy is expected to slow during 2024, with growth in the 1.5% to 2.5% range. Although forecasts of recession have been dissipating, Germany, Japan, and the United Kingdom all narrowly avoided two quarters of shrinking GDP, which would have signaled they were in a recession. After the Bank of Japan raised its central bank interest rate for the first time in 17 years, it also intervened in foreign exchange markets to prop up the yen.

grew by 0.7% in March and February's retail sales grew by a revised 0.9% growth.

The robust labor market and retail spending coupled with inflation still running above target are likely major factors contributing to the market's expectations that the FOMC will decide to keep its target interest rate the same for the sixth time at its May meeting. Markets expect that the FOMC will keep rates "higher for longer" and may not begin to lower interest rates until Fall 2024.

This could be the beginning of the often alluded to soft landing in 2024 and forecasts suggest economic growth close to trend, the unemployment rate settling just above 4%, and inflation continuing to abate.

The labor force participation rate increased to 62.7% in March, 0.2 percentage point above the rate in February and January. The March underemployment rate, which averaged 8.7% from 2015 through 2019, remained at 7.3% the same as February. Average hourly earnings were up in March by 4.1% from a year ago, a pace above the 3.5% increase in the overall CPI for March (y/y) and the 3.8% increase in the core CPI.

The continued tightness of labor markets has pushed forecasters to project the unemployment rate will settle between 3.8% to 4.2% in 2024, lower than previously expected.

increase by 3.5% (as of April 30).

The PCE price index, the preferred inflation measure of the Federal Reserve, increased by 0.3% in March, same as its increase in February and below its 0.4% decrease in January. From its level 12 months earlier, the PCE price index increased by 2.7% in March and by 2.5% in February. The core-PCE price index increased by 0.3% in March, same as its increase in February, and by 2.8% over the past 12 months, same as its increase reported in February. The Cleveland Fed's inflation nowcast expects the core PCE to increase by 3.1% in April (as of April 30), suggesting that inflation could remain above the Federal Reserve's 2% target.

The fed futures market expects the FOMC to leave interest rates unchanged at its meeting in May. The market expects the FOMC to not begin to lower rates until Fall 2024.

Although China showed significant strength coming out of its COVID lockdown early last year, its economy now appears to be experiencing headwinds due to difficulties in its real estate sector, high debt levels, and weaker than expected consumer demand, as well as possibly deflation. Its central bank has indicated it may engage in more monetary easing to support the economy.

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