

# QUEST Economic Update | November 2024



## US sees robust economic growth with some inflationary pressures persisting

This month's Consumer Price Index (CPI) inflation report provided an unwelcome surprise with prices increasing 2.6% since October of last year, compared with 2.4% year-over-year in September. The inflation report comes after the disappointing October jobs report, which showed that the economy added a mere 12,000 jobs in October, although many pointed to the hurricanes and striking workers in Washington State as a possible explanation.

Notwithstanding the October jobs report, robust economic growth continues with the economy growing by 2.8% (real, annualized) in the third quarter (Bureau of Economic Analysis) and, based on the Atlanta Fed's forecast, it is expected to grow 2.6% in the fourth quarter. In addition, the October unemployment rate remained at 4.1%, down from 4.2% in August and below the roughly 4.4%-4.5% that economists generally associate with full employment.

The strong economy appears to be paired with resilience in some of the inflation numbers. Core Personal Consumption Expenditures (PCE) inflation has been about 2.7% since May 2024, still above the Federal Reserve's 2% target. The robust economic growth and still elevated core inflation appears to have weighed on the market's expectations for another reduction in the Federal Reserve's target interest rate at its December meeting. As of November 27, markets place a roughly 60%-65% likelihood for an interest rate cut at the December meeting followed by reductions of only another 75 basis points over the next 12 months.

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 11/27/2024

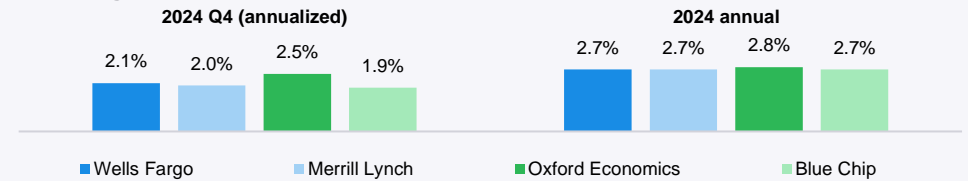
## OVERALL US ECONOMY

The US economy continues to grow above trend. The economy expanded by 2.8% during the third quarter (real, annualized) following 3.0% during the second quarter. The Atlanta Fed's GDPNow forecast sees GDP increasing by 2.6% during the fourth quarter of 2024 (as of November 19).

**Roughly 1.9% to 2.5% growth**  
expected for 2024 Q4 (annualized)

**Roughly 2.7% to 2.8% growth**  
expected for 2024

### US GDP growth forecast



## LABOR MARKETS

The unemployment rate was 4.1% in October and September, falling from 4.2% in August. In October, only 12,000 jobs were added, but the two hurricanes and strikes possibly affected those numbers. Job openings have generally fallen but remain above the number of unemployed. Overall, the data suggests labor markets are coming back into balance.

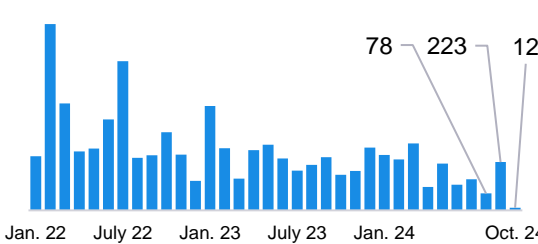
**377k job gain**  
on average in 2022

**251k job gain**  
on average in 2023

**170k job gain**  
on average in 2024

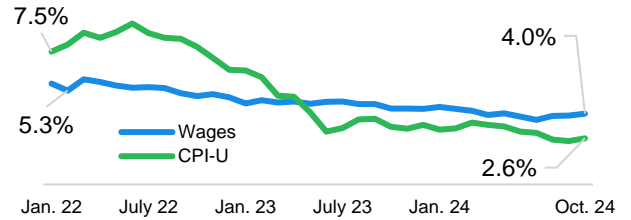
### Nonfarm payroll employment

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

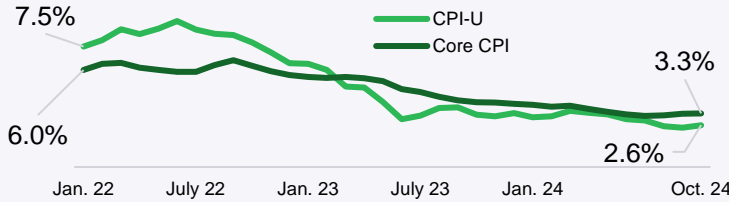


## INFLATION / INTEREST RATES

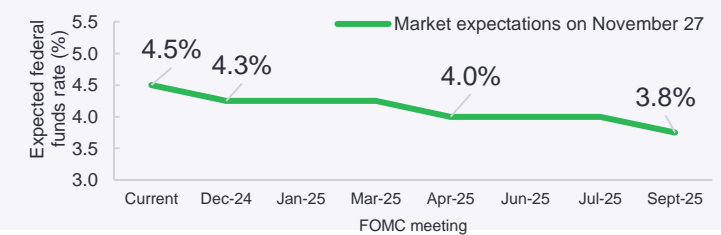
Inflation pressures have generally continued to abate. That said, the overall CPI ticked up slightly in October and core PCE price inflation has remained around 2.7% since May 2024, above the Federal Reserve's 2% target. Market expectations suggest the Federal Open Markets Committee (FOMC) will lower their target interest rate by 25 basis points at its December meeting.

### CPI-U and core CPI

Change from a year earlier, not seasonally adjusted

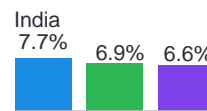
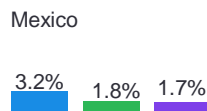
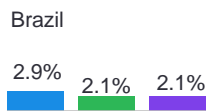
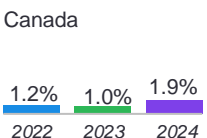
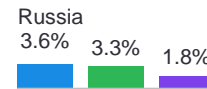
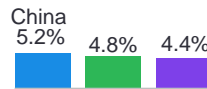
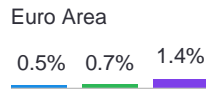
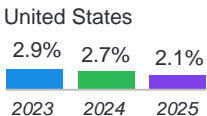


### Expected federal funds rate over 2023 and 2024



## GLOBAL GROWTH

Recent data has the inflation rate in many developed economies running below 3% (Euro Area, United Kingdom (UK), Japan). Forecasts generally suggest economic growth picking up in 2025 following softness in 2024. China's economy, however, is facing challenges with consensus forecasts seeing growth falling in 2025.



### Upcoming economic data releases

- ▶ Job openings for October, December 3
- ▶ Employment situation for November, December 6
- ▶ Consumer Price Index for September, December 11
- ▶ Interest rates, Federal Open Markets Committee (FOMC) meeting, December 17-18
- ▶ Q3 2024 GDP (third estimate), December 19

## Overall US economy

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The US economy continues to grow robustly and above trend. Labor markets are better in balance with evidence of some tightness, and inflation appears a bit sticky and a bit elevated. These factors appear to have shifted market expectations somewhat away from an aggressive schedule of interest rate reductions in the coming months and more in line with the Federal Reserve's projections for a more gradual descent in their target interest rate.

The US economy grew 3.0% and 2.8% in the second and third quarters, respectively. The Federal Reserve Bank of Atlanta projects growth of 2.6% for the fourth quarter. Rather than year-end slow growth, as was forecast by many just several months ago, growth remains well above the trend of roughly 2% growth.

## Labor market

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US labor markets are now in better balance. The September and October unemployment rate was 4.1%, down from 4.2% in August. The unemployment rate appears to have settled in a range below the roughly 4.4%-4.5% unemployment rate at which many economists view as consistent with full employment.

The US economy, however, added only 12,000 jobs in October, likely impacted by the hurricanes and strikes. Economists generally view the addition of 165,000 jobs per month as neutral, meaning neither adding or subtracting from the unemployment rate. Job gains were 223,000 in September and 78,000 in August, and averaged 188,000 during the first three quarters of 2024, 251,000 in 2023 and 377,000 in 2022.

## Inflation

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The October CPI inflation report provided an unwelcome surprise with prices increasing 2.6% since October of last year, compared with 2.4% year-over-year in September.

The monthly October CPI increased by 0.2%, the same as in September. The core CPI, which excludes the more volatile energy and food prices, rose by 3.3% (y/y) in October, the same as in September. The monthly core CPI rose by 0.3% in October, the same as in September.

The monthly change was driven primarily by shelter costs, which rose 0.4% in October and accounted for over half the increase. The Federal Reserve Bank of Cleveland's inflation nowcast forecasts the increase in the CPI for November at 2.7% (as of November 26).

The PCE price index, the preferred inflation measure of the Federal Reserve, increased by 0.2% in September. From its level 12 months earlier, the PCE price index increased by 2.1% in September. The

## Global growth

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The global economy is expected to grow faster in 2025 than 2024, with growth in the 2.7% to 3.3% range. Recent data from the Euro area, UK and Germany indicate that inflation is running below 3% and many central banks have begun reducing their policy rates to support economic growth.

Labor markets also appear strong with the unemployment rate at 4.1% in October and September and below what many economists view as the full employment rate of 4.4%-4.5%. However, October job gains were a mere 12,000, well below the roughly 165,000 level thought to leave the unemployment rate unchanged. The low level of job gains was attributed to the two hurricanes and the strikes.

On the inflation front, overall inflation, as measured by the CPI, ticked up in October and core PCE inflation has remained around 2.7% since May 2024, above the Federal Reserve's 2% target. The combination of these economic trends has caused market expectations to shift towards a more gradual decline in interest rate reductions.

Weekly jobless claims have been below pre-pandemic levels for the past month or so. Job openings have been generally falling since their high in early 2022 but remain above unemployment.

The labor force participation rate declined to 62.6% in October, near its pre-pandemic level. The underemployment rate, which averaged 8.7% from 2015 through 2019, was 7.7% in October. Average hourly earnings were up in October by 4.0% from a year ago, a pace above the 2.6% increase in the overall CPI for October (y/y).

core-PCE price index increased by 0.3% in September following its 0.1% increase in August. The core PCE price index has been increasing by around 2.7% since May 2024. The Federal Reserve Bank of Cleveland's inflation nowcast expects the core PCE to increase by 2.9% in November (as of November 26).

While considerable progress had been made on the inflation front, the uptick in the October CPI and the stickiness in the core inflation measures over the past half year have shifted market expectations from a rapid reduction in interest rates by the FOMC to more gradual reductions. Markets expect the FOMC to reduce its target rate by 25-basis points at its next meeting on December 17-18, with another 75 basis points in reductions over the following 12 months.

The Bank of Japan appears to be an outlier as it has raised its rate twice in 2024 to levels not seen in decades as the Japanese yen depreciated. China's economy continues to face headwinds with consensus forecasts suggesting economic growth falling somewhat in 2025.

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## Contacts

For more information, contact: [robert.carroll@ey.com](mailto:robert.carroll@ey.com)  
[andrew.phillips@ey.com](mailto:andrew.phillips@ey.com), [brandon.pizzola@ey.com](mailto:brandon.pizzola@ey.com)

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ED None

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