

# U.S. ECONOMIC RECAP

## SECOND QUARTER 2024

### CURRENT ECONOMIC CONDITIONS COMMENTARY

The Federal Reserve publishes a report (known as the *Beige Book*) eight times per year that summarizes current economic conditions throughout the 12 U.S. Federal Reserve Districts. The most recent *Beige Book publication*, which was released on May 29, 2024, noted:

- Economic activity continued to expand from early April to mid-May; however, conditions varied across industries
- Most Districts reported slight or modest growth, while two noted no change in activity
- Most industries experienced flat to slightly upward growth, which is most notable in retail, travel and tourism, non-financial services, and nonprofits and community organizations
- Tight credit standards and high interest rates continued to constrain lending growth
- Housing demand rose modestly, and single-family construction increased, though rising rates were reported to be impacting sales activity
- Overall outlooks grew somewhat more pessimistic amid reports of rising uncertainty and greater downside risks

The outlook for overall activity remained positive in most Districts with wage growth returning to pre-pandemic historical averages or normalizing toward those rates.



### CONSUMER CONFIDENCE – THE BACKBONE OF THE U.S. ECONOMY

Consumers influence the U.S. economy immensely through their spending and savings decisions. As such, measures of consumer confidence may provide valuable information to discern the economic outlook.

In the University of Michigan's *June 2024 Survey of Consumers*, Chief Economist, Joanne Hsu opined:

*“Consumer sentiment was little changed in June; this month's reading was a statistically insignificant 3.5 index points below May and within the margin of error. Sentiment is currently about 31% above the trough seen in June 2022 amid the escalation in inflation. Assessment of personal finances dipped, due to modestly rising concerns over high prices as well as weakening incomes. Overall, consumers perceive few changes from May.”*

*Year-ahead inflation expectations were unchanged this month at 3.3%, above the 2.3-3.0% range seen in the two years prior to the pandemic. Long-run inflation expectations inched up from 3.0% last month to 3.1% this month; the June reading should be interpreted as essentially unchanged from May. Long-run inflation expectations have been remarkably stable over the last three years but remain elevated.”*

The Consumer Price Index (CPI) reading for June 2024 fell by 0.1%, which was the first monthly decline since May 2020. According to JP Morgan's *June 2024 CPI Report*, continued moderation in inflation provides some relief to consumers. *“As long as wages continue to rise at a fast pace than inflation, consumer spending will likely still provide a positive contribution to economic growth in the second quarter.”*

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### MONETARY POLICY

Determined by the Federal Reserve's Federal Open Market Committee (FOMC).

In a statement issued in June 2024, the FOMC noted:

- Recent indicators suggest that economic activity has continued to expand at a solid pace
- Job gains have remained strong
- Unemployment rate has remained low
- Inflation eased over the past year but remains high
- In recent months, there has been modest further progress towards the FOMC's inflation objective

The FOMC seeks to achieve maximum employment and inflation at the rate of 2% over the longer run and judges that the risks to achieving these goals have moved toward better balance over the past year. Despite this progress, the economic outlook is still uncertain, and the FOMC remains highly attentive to inflation risks.



### INTEREST RATES (PRIME RATE)

The prime rate is often used as a base rate to price short-term business loans

As of June 30, 2024, the prime interest rate is 8.50%. The prime rate is posted by a majority of the top 25 (by assets in domestic offices) insured U.S. chartered commercial banks. The Federal Reserve does not control the prime rate, but many banks base their prime rates partly on the target level of the federal funds rate.



### PUBLIC MARKETS

In public markets, asset prices fluctuate with changes in future expectations

Financial markets were expanding in the second quarter of 2024. The S&P 500 rose 4.3% from Q1 to Q2 2024, and has increased 15.3% compared to Q2 2023. The NASDAQ led the market with an 8.5% gain in Q2 2024.

## FORECAST BASED ON ECONOMIC INDICATORS

In June 2024, members of the FOMC submitted projections of the most likely outcomes for real gross domestic product (GDP) growth, the unemployment rate, and inflation for each year from 2024-2026 and over the longer run. These projections were based on information available at the time, assessment of appropriate monetary policy, and assumptions about other factors likely to affect economic outcomes.

The FOMC's June 2024 Summary of Economic Projections includes the following highlights:

- Real GDP growth is expected to shrink, starting in 2024 and continuing through 2026
- Personal Consumption Expenditures (PCE) inflation and the federal funds rate are expected to decline from 2024-2026, while the unemployment rate is expected to remain flat between 4.0-4.2% in the same period
- In the long term, the economy is forecasted to experience minimum growth and a decrease in inflation
- Long-term real GDP growth for the next 10 years is expected to average 1.8%, representing moderate growth
- Median projections of Federal Reserve data suggest longer-run PCE inflation is expected to be approximately 2.0%, consistent with the FOMC's inflation target

The FOMC will continue to monitor these metrics as they could directly affect the Committee's decision making related to maintaining a 2% inflation rate.

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### CURRENT EMPLOYMENT CONDITIONS – ALL INDUSTRIES

The U.S. labor market, a key indicator of the strength of the economy, remains in a healthy state, but is showing signs of slowing. The FOMC will keep an eye on these trends to review economic conditions.

The Bureau of Labor Statistics (BLS) reported that the June 2024 unemployment rate (4.1%), as well as the number of unemployed persons (6.8 million), changed little from May 2024. The number of people not in the labor force who wanted a job declined by 438,000 to 5.2 million in June 2024.

Notable gains occurred in several industries, including: government, healthcare, construction, and social assistance. Employment in professional and business services changed little in June and has remained steady over the year. Retail trade jobs fell slightly after trending up earlier in 2024. There was little change in employment over the month in other major industries.

The May 2024 Beige Book reported modest employment growth in eight Districts, and unchanged jobless rates in the remaining four Districts. Contacts noted better labor availability, with remaining shortages in select industries. Multiple Districts noted that employee turnover has decreased, and employers' bargaining power has increased.

Hiring plans were mixed, with some Districts expecting a continuation of modest job gains, while others noted pull-back in hiring expectations amid weaker business demand and reluctance due to the uncertain economic environment. Nearly all Districts reported robust wage growth, reaching pre-pandemic historical averages or was normalizing towards those rates.



### INDUSTRIAL PRODUCTION & MANUFACTURING

The Institute for Supply Management's (ISM) Purchasing Managers Index (PMI) can be used as an indication as to whether the manufacturing sector of the economy is expanding or contracting. A PMI of 48.5% in June 2024, marked the 50th consecutive month of growth. A PMI reading above 42.5% indicates that the manufacturing economy is generally expanding, while an index below 42.5% indicates it is generally contracting.

The Global Supply Chain Pressure Index (GSCPI), which gauges issues by integrating transportation cost data and manufacturing indicators, rose from -0.5 in May to -0.03 in June 2024. This improved GSCPI indicates a relaxation of the global supply chain.



### HOUSING & NONRESIDENTIAL CONSTRUCTION

In a recent Economic Spotlight, Freddie Mac notes that mortgage loans are looking promising. Interest rates for mortgages have begun to ease, which is a very positive sign as residential real estate is a huge economic player.

The Dodge Momentum Index (DMI) is issued monthly by Dodge Data & Analytics to measure the initial report for nonresidential building projects in planning, which have been shown to lead non-residential construction spending by a full year. The DMI for June 2024 was up 10.4% compared to May 2024, and was 7% higher than it was in June 2023. The commercial segment rose 25% from year-ago levels, while the institutional segment was down 25% over the same period. The June 2024 DMI includes 38 projects valued at \$100 million or more with the largest in Virginia, Texas, New York and California.



#### Meet the Author: Allison Ezbiarsky

Allison recently graduated from Robert Morris University with a BS/BA in Finance and Accounting. As an Analyst with GYF's Business Valuation & Litigation Support Services team, Allison performs risk identification, financial statement analysis, economic and industry research, and financial modeling. She also helps to value privately held companies for various purposes.