U.S. ECONOMIC RECAP
FOURTH 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 final 2024 *Beige Book* publication, which was released on December 4, 2024, highlighted:

- Economic activity rose slightly in most Districts;
- Three regions exhibited modest or moderate growth that offset flat or slightly declining activity in two others;
- Expectations for growth rose moderately across most regions and sectors;
- Business contacts expressed optimism that demand will rise in coming months;
- Consumer spending was generally stable; and
- Many consumer-oriented businesses across Districts noted further increases in price sensitivity among consumers, as well as several reports of increased sensitivity to quality.

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 in discerning the economic outlook.

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

"Consumer sentiment improved for the fifth consecutive month, rising about 3% to its highest reading in seven months. A surge in buying conditions for durables led Current Economic Conditions to soar more than 20%. Rather than a sign of strength, this rise in durables was primarily due to a perception that purchasing durables now would enable buyers to avoid future price increases. The expectations index continued the post-election re-calibration that began last month, climbing for Republicans and declining for Democrats in December. Independents were, as usual, in the middle between the two major parties, with readings close to the national average. This adjustment process is consistent with a response to actual underlying changes in expectations for the national economy, and not merely an expression of partisanship… As such, national measures of sentiment and expectations continue to reflect the collective economic experiences and observations of the American population as a whole."

CONSUMER PRICE INDEX (CPI)

The December 2024 Consumer Price Index (CPI) rose by 0.4% month-over-month. An EY CPI report states:

"While pundits will focus on the pickup in headline inflation, nothing in this report screams reaccelerating inflation. Instead, idiosyncratic price gains in gasoline and utility gas prices; slightly higher grocery prices; and a surge in airfare drove the headline figure. Core inflation dynamics remained subdued with modest gains across goods prices, moderating shelter cost inflation and easing insurance cost pressures. Still, the inflation mirage will push data-dependent Fed policymakers to justify a rate cut skip at the FOMC meeting later this month."

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MONETARY POLICY

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

In a December 2024 statement, the FOMC noted:

- Recent indicators suggest that economic activity has continued to expand at a solid pace;
- Labor market conditions have generally eased;
- Unemployment rate has moved up but remains low;
- Inflation has made progress toward the 2% goal, but remains somewhat elevated.

The FOMC seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. The Committee has gained greater confidence that inflation is moving sustainably toward that objective, so much so, that the FOMC lowered the target federal funds rate by 25 basis points.

INTEREST RATES (PRIME RATE)

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

As of December 31, 2024, the prime interest rate is 7.50%, 1.0 basis points lower than 3Q 2024. 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 fourth quarter of 2024. The S&P 500 rose 2.1% from Q3 to Q4 2024. DIJA followed, growing 214.07 points. NASDAQ closed Q4 leading the pack at 6.2% growth from Q3.

MARKET IMPLIED INFLATION

The Federal Reserve Bank of St. Louis posts nominal and inflation-indexed constant maturity treasuries. Taking the difference between nominal yield and inflation-indexed yields provides a market-based estimate for inflation compensation over each maturing period. Below are the December 2024 results:

	5-Year	7-Year	10-Year	20-Year	30-Year
Nominal Treasuries	4.44%	4.52%	4.60%	4.85%	4.78%
Treasury Inflation Protected Securities	-2.05%	-2.16%	-2.26%	-2.40%	-2.46%
Market implied Inflation	2.39%	2.16%	2.34%	2.45%	2.32%

FORECAST BASED ON ECONOMIC INDICATORS

In December 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 2024-2027 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 December 2024 *Summary of Economic Projections* includes the following highlights:

- Real GDP and the Federal Funds growth are expected to edge down from 2024 through 2027;
- PCE inflation is projected to bump up in 2025 to 2.5% then ease down to 2.0% through the long run;
- The unemployment rate is expected to remain around 4.2% to 4.3% from 2024 to 2027;
- Long-term real GDP growth is expected to average 1.8%;
- The median projections of Federal Reserve data suggest longer-run PCE inflation is expected to be approximately 2.0% to 3.0%, 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.

POTENTIAL EFFECTS OF CHANGE IN ADMINISTRATION

Several "big ticket" government policy items were expected to be impacted by the changing presidential administration in the first quarter of 2025. Key issues and speculation about possible changes include:

- The 2017 Tax Cuts and Job Acts (TCJA) is set to expire on December 31, 2025, and one of the top considerations is whether President Trump will extend the provisions. According to BNY Mellon economists, this legislation will likely be extended, creating a taxpayer-friendly environment where consumers and businesses are able to keep more of their earnings, as the TCJA provisions impact standard deductions, individual tax rates, child tax credits, qualified business income, and more.

- Tariffs, including broad levies on all imports into the United States, with excess tariffs on Chinese imports, were a common topic of discussion related to the change in administration. In theory, these taxes would raise revenue, but could also exacerbate the inflation issues consumers fear. The consequences of tariffs can be two-fold – adding pressure to buy within the United States can result in a stronger GDP and increased revenue to supplement any proposed tax cuts, but could also contract the lowering of inflation. Economists also fear retaliation from U.S. trading partners, similar to what occurred during Trump's first term, including a trade war with China.

- Immigration policies will continue to be a hot topic in 2025. If immigration policy becomes more strict, this could limit labor growth and economic expansion. PNC economists note, "One way an economy expands is through more workers, and with the U.S. birthrate falling for decades, foreign-born workers have been a key source of labor force growth. Fewer immigrants entering the labor force would mean slower long-run economic growth." Some industries could be hit harder by tighter immigration policy than others, but the full effect remains unknown.

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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 December 2024 unemployment rate (4.1%), as well as the number of unemployed persons (6.9 million), changed little from November 2024. The number of people not in the labor force who wanted a job remained at 5.5 million.

BLS data showed notable gains in several industries:

- Health Care
- Government
- Social Assistance

The Federal Reserve also reported flat or only slightly increased employment levels. Hiring was subdued as worker turnover remained low and few firms reported increased headcounts. Layoffs were also reportedly low. Employment levels are expected to remain steady or rise slightly over the next year.

Wage growth softened to a modest pace along with expectations for growth in coming months. Job growth and wage growth for entry-level positions and skilled trades were an exception, rising robustly with continued growth anticipated through next year.

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 49.3% in December 2024, marked 56 consecutive months of growth. A PMI reading above 42.5% indicates that the manufacturing economy is generally expanding, while an index below 42.5% denotes general contraction.

The Global Supply Chain Pressure Index (GSCPI), which gauges issues by integrating transportation cost data and manufacturing indicators, rose from -0.32 to -0.22 between November and December 2024. This increase marks the third month of negative GSCPI, but shows significant improvement from 2023 levels, moving towards a neutral position in the near future.

HOUSING & NONRESIDENTIAL CONSTRUCTION

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.

Key statistics for December 2024 include:

- The DMI was 19% higher than in December of 2023. The commercial segment was up 30% from year-ago levels, while the institutional segment was flat over the same period.
- The DMI includes 32 projects valued at $100 million or more with the two largest in Virginia. The institutional projects that entered planning in December 2024 were located in Ohio and Illinois.

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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 is involved in the process of valuing privately held companies for various purposes. Allison graduated from RMU's Honors Program with a BS/BA in Finance and Accounting in May 2024.