National Economic Outlook

June 2024

Fed Signals Rate Cuts Later This Year as Expansion Continues in Mid-2024

- As expected, the Federal Open Market Committee kept the federal funds rate unchanged in its policy statement on June 12, in a range between 5.25% and 5.50%. After rapidly cutting the fed funds rate to essentially zero in the aftermath of the pandemic, the FOMC increased the fed funds rate to its current level from early 2022 to mid-2023. This FOMC meeting included the release of the Summary of Economic Projections (SEP), or "dot plot." According to the dot plot, four FOMC participants expect no cut in the fed funds rate this year, seven expect one 25 basis-point cut, and eight expect a cumulative 50 basis-point cut this year (presumably two 25 basis-point cuts). This is a change from the previous dot plot, on March 20, when the committee was about evenly divided between three or more cuts (10 participants) and two or fewer cuts (9 participants). The June 12 SEP had the median fed funds rate at 4.1% at the end of 2025, up from 3.9% in the March SEP, suggesting four 25 basis-point rate cuts next year. In his post-meeting press conference, Federal Reserve Chair Jerome Powell noted that fifteen of the FOMC participants were clustered around one or two rate cuts this year, indicating that the FOMC does expect to cut the fed funds rate in 2024.

- The U.S. economy added 272,000 jobs in May, according to a survey of employers from the Bureau of Labor Statistics. There was a combined downward revision to employment in March and April of 15,000. Over the past three months the U.S. economy has added an average of 250,000 jobs per month, the same pace as in all of 2023. After 27 straight months of being below 4%, the unemployment rate increased slightly in May to 4.0%, from 3.9% in April and 3.8% in March. The labor force participation rate, the share of adults in the labor force, fell to 62.5% in May from 62.7% in April. The labor force participation rate has been consistently below the pre-pandemic 63%+ rate, contributing to the ongoing tight labor market. Average hourly earnings rose 0.4% in May from April, after a 0.2% increase in April. On a year-ago basis average hourly earnings were up 4.1% in May, an acceleration from 3.9% growth in April. This pace of wage growth is somewhat higher than is consistent with the Fed's 2% inflation target.

- Real GDP increased 1.4% at an annualized rate in the first quarter of 2024, according to the third estimate from the Bureau of Economic Analysis. Growth was reported at 1.6% in the advance estimate, and 1.3% in the second estimate. (The third estimate was released after PNC prepared its June forecast.) Real GDP growth slowed from a 3.4% increase in the fourth quarter of 2023 and 4.9% in the third quarter. Economic growth in the first quarter came from solid gains in consumer spending, business fixed investment, investment in housing, and government. Trade and inventories were drags on growth in the first quarter. Real final sales of domestic product—GDP minus the change in inventories, which measures demand for U.S.-produced goods and services—rose 1.8% annualized in the first quarter.

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Baseline U.S. Economic Outlook, Summary Table*

	4Q'23a	1Q'24p	2Q'24f	3Q'24f	4Q'24f	1Q'25f	2023a	2024f	2025f	2026f
Output										
Real GDP (*Chained 2017 Billions $*)	22679	22750	22866	22959	23039	23130	22377	22903	23298	23789
Percent Change Annualized	**3.4**	**1.3**	**2.1**	**1.6**	**1.4**	**1.6**	**2.5**	**2.4**	**1.7**	**2.1**
CPI (*1982-84 = 100*)	308.1	311.0	313.8	316.4	318.8	321	304.7	315.0	324.2	332.2
Percent Change Annualized	**2.7**	**3.8**	**3.7**	**3.3**	**3.1**	**2.8**	**4.1**	**3.4**	**2.9**	**2.5**
Labor Markets										
Payroll Jobs (*Millions*)	157.1	157.8	158.4	158.7	159.0	159.2	156.1	158.5	159.6	160.7
Percent Change Annualized	**1.6**	**2.0**	**1.4**	**0.8**	**0.6**	**0.6**	**2.3**	**1.5**	**0.7**	**0.7**
Unemployment Rate (*Percent*)	3.7	3.8	3.9	4.0	4.1	4.2	3.6	4.0	4.3	4.0
Interest Rates (Percent)										
Federal Funds	5.33	5.33	5.33	5.33	5.17	4.85	**5.02**	**5.29**	**4.47**	**4.13**
10-Year Treasury Note	4.43	4.15	4.53	4.49	4.38	4.29	**3.95**	**4.39**	**4.18**	**4.08**

a = actual f = forecast p = preliminary **Please see the Expanded Table for more forecast series.*

After Accelerating in Early 2024, Inflation Set to Slow Through the Rest of This Year

The U.S. economy has continued to grow solidly in mid-2024, and the labor market is historically strong. But high inflation remains a significant problem. Inflation has slowed since peaking in 2022, but remains well above the Federal Reserve's 2% objective. And after significant progress in reducing inflation last year, that progress stalled in the first part of 2024. But recent inflation data have been better and inflation should ease through the rest of 2024 and into 2025.

Inflation is when prices are rising broadly in the economy. Although goods inflation is usually at top of mind—prices of physical items like food, gasoline, and cars—U.S. consumers spend more on services—like healthcare, housing, education, and entertainment—than they do on goods, and thus services are more important for total inflation. At any time in the economy some prices are increasing and some are falling, but if most prices are increasing then there is inflation.

Inflation was a significant problem in the U.S. in the 1970s and early 1980s, including multiple years when inflation was greater than 10%. But in the late 1970s and early 1980s the Federal Reserve got serious about inflation and raised interest rates dramatically; for example, the average 30-year fixed mortgage rate peaked at above 18% in 1981. This very tight monetary policy led to two recessions in 1980 and 1981 (the "double-dip" recession), the second of which was quite severe, with the unemployment rate increasing to above 10% in 1983. But with significantly softer demand businesses were unable to pass through big price increases to their customers, leading to an era of low inflation that persisted up to the pandemic.

When the pandemic hit in 2020 prices fell initially. But as the economy reopened consumers ramped up their purchases, supported by stimulus aid and extremely low interest rates. This led to the highest inflation since the 1980s. Inflation as measured using the personal consumption expenditures (PCE) price index peaked at above 7% in mid-2022, the highest inflation in more than 40 years. In 2021 and 2022 higher goods prices were behind the acceleration in inflation, as strong consumer demand and supply-chain disruptions allowed for price increases. But goods inflation has slowed over the last couple of years as goods demand has leveled off and supply-chain problems have eased. In 2023 and 2024 it is services that are leading inflation. Housing inflation is running at well above its pre-pandemic pace, and strong wage growth is pushing prices higher in labor-intensive industries like healthcare, education, and travel and tourism.

Inflation has slowed over the past couple of years. As measured using the core PCE price index—the Federal Reserve's preferred inflation measure, which excludes volatile food and energy prices—inflation is down to 2.6% in May, from a peak of 5.5% in September 2022. While this is a significant improvement, inflation is still running above the central bank's 2% objective. But inflation is set to move lower through the rest of 2024 and into 2025, and should be close to 2% by this time next year.

A few factors will push inflation lower in the near term. First, housing inflation is set to slow significantly this year. According to the Bureau of Labor Statistics, new rents were down 4% in the first quarter of this year from one year earlier. A boom in construction of apartments in 2021 and 2022 led to a big increase in supply, putting downward pressure on rents. But because most tenants sign year-long leases, it takes time for these lower rents to work their way into the PCE price index; this should show up in lower housing inflation later this year. Given the way the cost of homeownership is measured in the inflation data, this slowdown in rent growth should also translate into lower inflation for owner-occupied housing.

The other major factor that will slow inflation in the near term is the softening labor market. The unemployment rate rose to 4.0% in May, still historically low, but the first time the rate has been this high since January 2022. Job growth is slowing and wage growth, although stronger than it was prior to the pandemic, has eased significantly over the past couple of years. Job and wage growth will soften further in the near term, leading to lower inflation in labor-intensive service industries.

PNC expects real GDP growth of around 2% this year on a fourth quarter to fourth quarter basis, down from 3% in 2023, as high interest rates remain a drag on housing, business investment, and consumer spending on big-ticket items. But the still-strong labor market and generally solid consumer fundamentals will help the U.S. economy avoid a near-term recession. With slower job growth the unemployment rate will increase slightly into 2025, peaking at around 4.3% in the middle of next year. Slowing inflation and an easing labor market will lead the Federal Open Market Committee to cut the federal funds rate two times at the end of this year, bring the rate down to 4.75% to 5.00% by the end of 2024, with additional rate cuts next year. These rate cuts will support continued economic growth in 2025.

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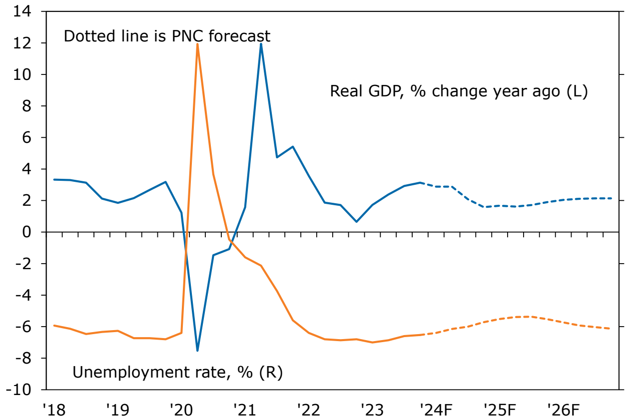
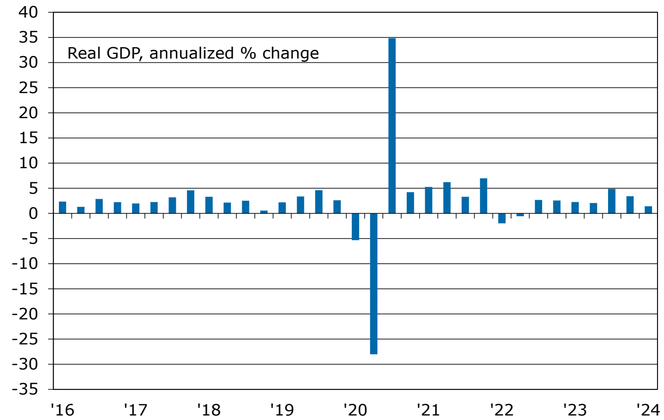
Slower But Still-Solid Growth in 2024



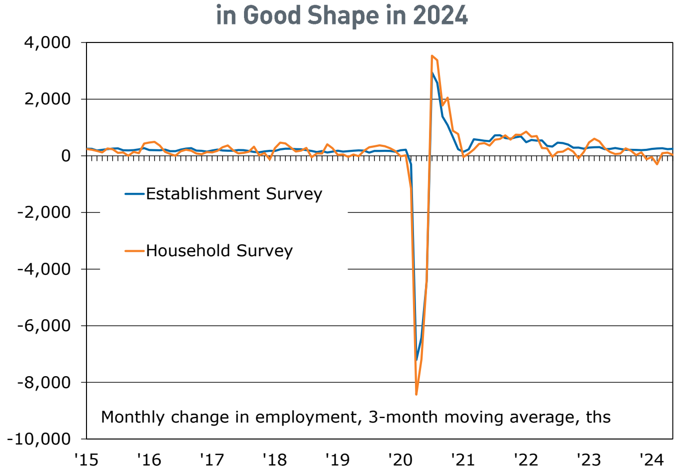
Source: BEA, BLS, PNC

Economy Continuing to Expand in 2024



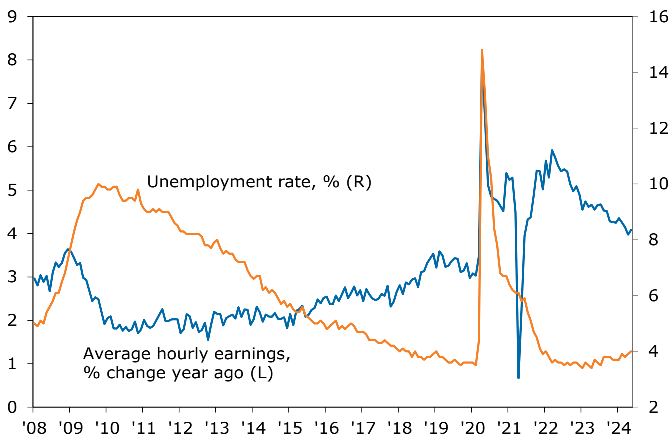
Source: BEA

Labor Market Remains in Good Shape in 2024



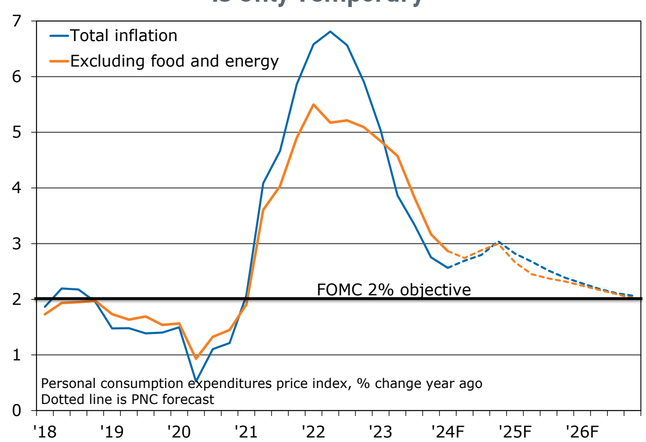
Source: BLS

Unemployment Rate Up to 4% in May, First Time It Has Been That High Since Early 2022



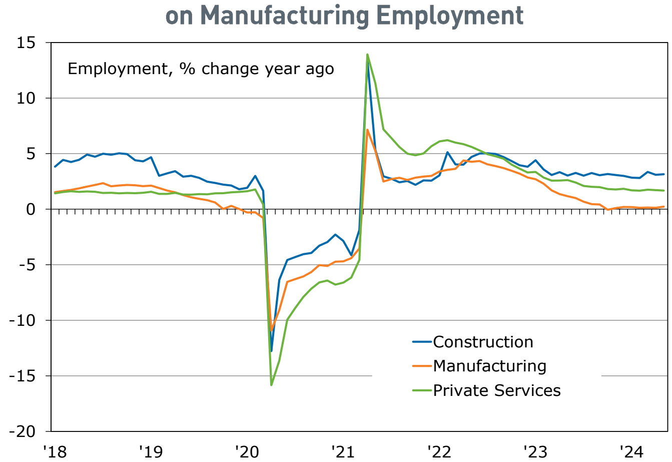
Source: BLS

Reacceleration in Inflation Is Only Temporary



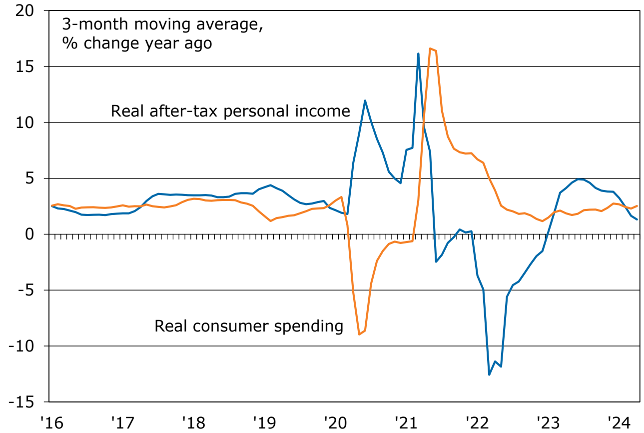
Source: BEA, PNC

High Interest Rates Are Weighing on Manufacturing Employment



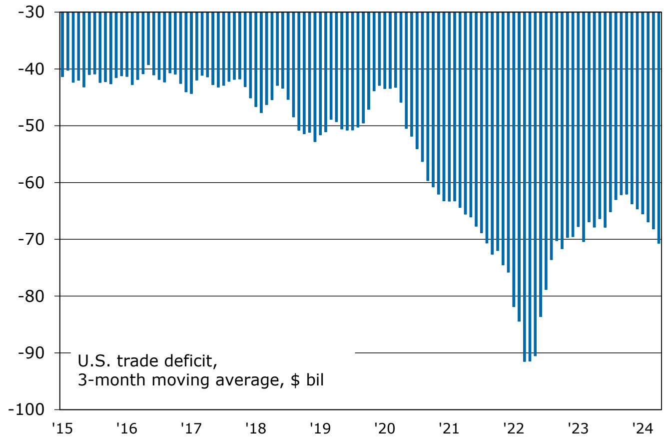
Source: BLS

Saving Rate Is Falling as Consumer Spending Growth Leads Income Growth



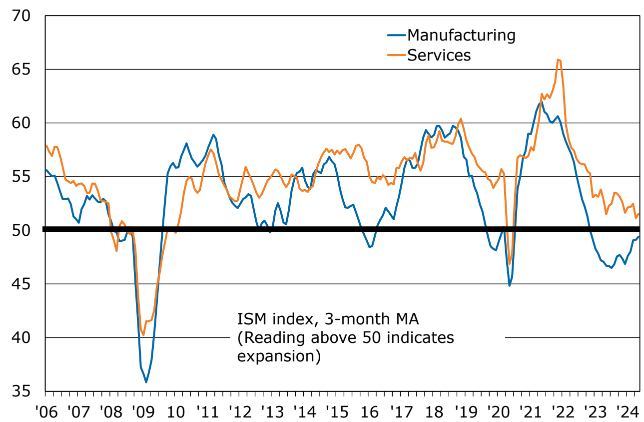
Source: BEA

Trade Deficit Is Rising in 2024 After Narrowing Last Year



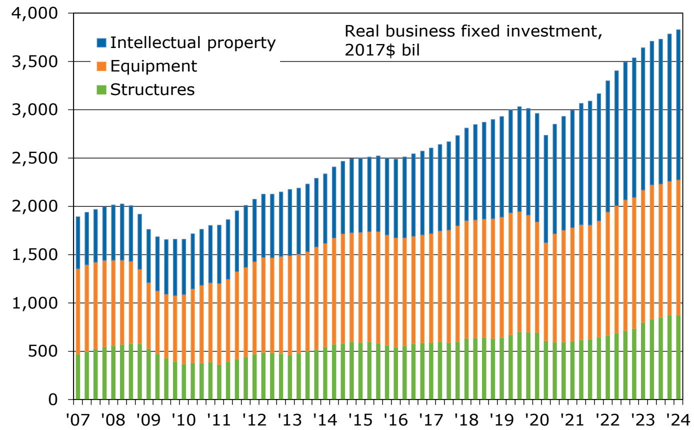
Source: BEA

Services Growth Continues to Ease, But Worst of Manufacturing Slowdown Appears Over



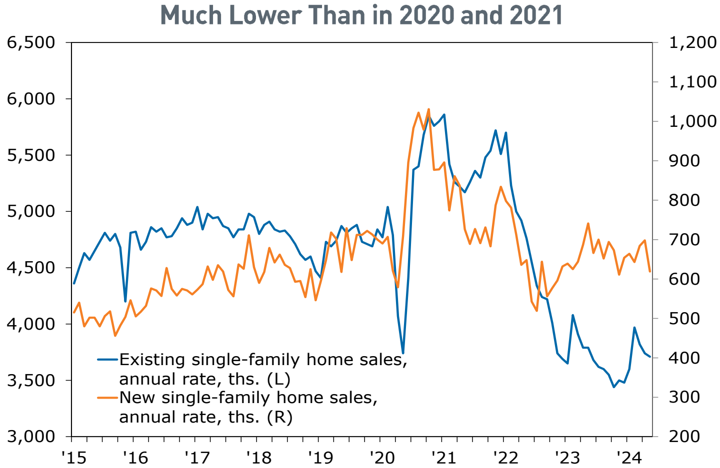
Source: ISM

Business Fixed Investment Continues to Increase, Even With High Interest Rates



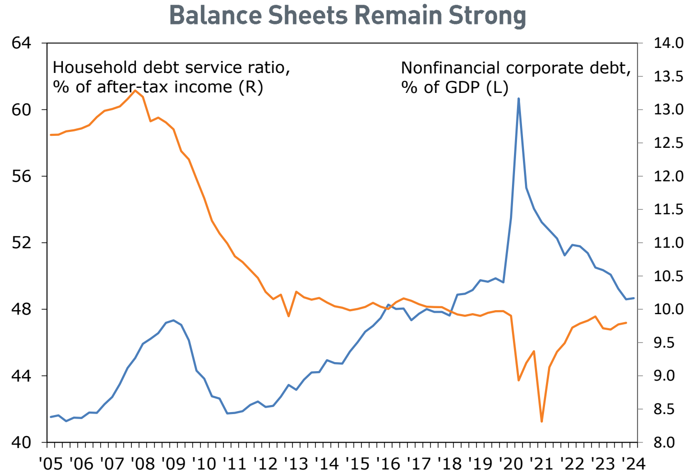
Source: BEA

Home Sales Are Up from Late 2023, But Much Lower Than in 2020 and 2021



Source: NAR, Census Bureau

Household and Business Balance Sheets Remain Strong



Source: Federal Reserve

Baseline U.S. Economic Outlook, Expanded Table, June 2024

	4Q'23a	1Q'24p	2Q'24f	3Q'24f	4Q'24f	1Q'25f	2023a	2024f	2025f	2026f
Output										
Nominal GDP (*Billions $*)	27957	28284	28591	28883	29154	29433	27361	28728	29887	31103
Percent Change Annualized	**5.1**	**4.8**	**4.4**	**4.1**	**3.8**	**3.9**	**6.3**	**5.0**	**4.0**	**4.1**
Real GDP (*Chained 2017 Billions $*)	22679	22750	22866	22959	23039	23130	22377	22903	23298	23789
Percent Change Annualized	**3.4**	**1.3**	**2.1**	**1.6**	**1.4**	**1.6**	**2.5**	**2.4**	**1.7**	**2.1**
Pers. Consumption Expenditures	15587	15664	15745	15815	15871	15934	15426	15774	16043	16351
Percent Change Annualized	**3.3**	**2.0**	**2.1**	**1.8**	**1.4**	**1.6**	**2.2**	**2.3**	**1.7**	**1.9**
Nonresidential Fixed Investment	3315	3342	3365	3379	3392	3406	3272	3369	3444	3569
Percent Change Annualized	**3.7**	**3.3**	**2.8**	**1.7**	**1.5**	**1.8**	**4.5**	**3.0**	**2.2**	**3.7**
Residential Investment	744	771	775	779	785	794	735	778	813	860
Percent Change Annualized	**2.8**	**15.4**	**2.0**	**2.0**	**3.0**	**5.0**	**-10.6**	**5.8**	**4.6**	**5.7**
Change in Private Inventories	55	28	45	62	71	73	44	51	74	66
Net Exports	-919	-975	-994	-1015	-1029	-1037	-928	-1004	-1048	-1070
Government Expenditures	3887	3900	3909	3919	3929	3938	3820	3914	3953	3992
Percent Change Annualized	**4.6**	**1.3**	**1.0**	**1.0**	**1.0**	**1.0**	**4.1**	**2.5**	**1.0**	**1.0**
Industrial Prod. Index (*2012 = 100*)	102.7	102.2	102.8	103.1	103.5	104.0	102.8	102.9	104.9	107.4
Percent Change Annualized	**-1.9**	**-1.8**	**2.0**	**1.4**	**1.6**	**1.8**	**0.2**	**0.1**	**1.9**	**2.4**
Capacity Utilization (*Percent*)	78.8	78.2	78.5	78.8	79.2	79.5	79.3	78.7	79.8	80.3
Prices										
CPI (*1982-84 = 100*)	308.1	311.0	313.8	316.4	318.8	321	304.7	315.0	324.2	332.2
Percent Change Annualized	**2.7**	**3.8**	**3.7**	**3.3**	**3.1**	**2.8**	**4.1**	**3.4**	**2.9**	**2.5**
Core CPI Index (1982-84 = 100)	312.3	315.6	318.6	321.2	323.5	326	308.4	319.7	328.8	336.9
Percent Change Annualized	**3.4**	**4.2**	**3.9**	**3.2**	**2.9**	**2.7**	**4.8**	**3.7**	**2.9**	**2.5**
PCE Price Index (*2017 = 100*)	121.4	122.4	123.3	124.2	125.0	125.8	120.4	123.7	126.9	129.7
Percent Change Annualized	**1.8**	**3.4**	**3.0**	**3.0**	**2.8**	**2.5**	**3.7**	**2.8**	**2.6**	**2.2**
Core PCE Price Index (*2017 = 100*)	120.1	121.3	122.2	123.0	123.7	124.5	119.1	122.5	125.5	128.2
Percent Change Annualized	**2.0**	**3.7**	**3.2**	**2.6**	**2.5**	**2.4**	**4.1**	**2.9**	**2.5**	**2.1**
GDP Price Index (*2017 = 100*)	123.3	124.2	125.0	125.8	126.5	127.3	122.3	125.4	128.3	130.7
Percent Change Annualized	**1.7**	**3.1**	**2.6**	**2.5**	**2.4**	**2.3**	**3.6**	**2.6**	**2.3**	**1.9**
Crude Oil, WTI (*$/Barrel*)	78.5	76.9	78.7	75.0	79.0	83.0	77.6	77.4	85.6	90.6
Labor Markets										
Payroll Jobs (*Millions*)	157.1	157.8	158.4	158.7	159.0	159.2	156.1	158.5	159.6	160.7
Percent Change Annualized	**1.6**	**2.0**	**1.4**	**0.8**	**0.6**	**0.6**	**2.3**	**1.5**	**0.7**	**0.7**
Unemployment Rate (*Percent*)	3.7	3.8	3.9	4.0	4.1	4.2	3.6	4.0	4.3	4.0
Average Weekly Hours, Prod. Works.	33.8	33.7	33.7	33.7	33.6	33.6	33.8	33.7	33.6	33.6
Personal Income										
Average Hourly Earnings (*$*)	29.4	29.7	30.0	30.3	30.5	30.8	28.9	30.1	31.1	32.1
Percent Change Annualized	**4.3**	**4.1**	**3.9**	**3.6**	**3.5**	**3.3**	**5.0**	**4.1**	**3.4**	**3.1**
Real Disp. Income (*2017 Billions $*)	16902	16946	17054	17138	17232	17314	16795	17093	17440	17814
Percent Change Annualized	**2.0**	**1.1**	**2.6**	**2.0**	**2.2**	**1.9**	**4.2**	**1.8**	**2.0**	**2.1**
Housing										
Housing Starts (*Ths., Ann. Rate*)	1485	1415	1401	1394	1436	1500	1423	1411	1568	1659
Ext. Home Sales (*Ths., Ann Rate*)	3880	4190	3939	4160	4432	4766	4101	4180	5216	5758
New SF Home Sales (*Ths., Ann Rate*)	644	667	640	652	674	698	667	658	725	766
Case/Shiller HPI (*Jan. 2000 = 100*)	313.6	317.0	317.0	317.0	317.0	317.0	313.6	317.0	319.3	322.5
Percent Change Year Ago	**5.2**	**6.4**	**4.8**	**2.7**	**1.1**	**0.0**	**5.2**	**1.1**	**0.7**	**1.0**
Consumer										
Auto Sales (*Millions*)	15.7	15.4	15.7	15.6	15.4	15.2	15.5	15.5	15.1	15.1
Consumer Credit (*Billions $*)	5019	5059	5075	5092	5115	5175	5019	5115	5362	5667
Percent Change Year Ago	**2.6**	**2.3**	**1.8**	**2.1**	**1.9**	**2.3**	**2.6**	**1.9**	**4.8**	**5.7**
Interest Rates (Percent)										
Prime Rate	8.50	8.50	8.50	8.50	8.32	7.97	**8.19**	**8.45**	**7.60**	**7.25**
Federal Funds	5.33	5.33	5.33	5.33	5.17	4.85	**5.02**	**5.29**	**4.47**	**4.13**
3-Month Treasury Bill	5.42	5.37	5.39	5.23	4.84	4.56	**5.16**	**5.21**	**4.21**	**3.95**
10-Year Treasury Note	4.43	4.15	4.53	4.49	4.38	4.29	**3.95**	**4.39**	**4.18**	**4.08**
30-Year Fixed Mortgage	7.20	6.75	7.03	6.92	6.72	6.52	**6.78**	**6.86**	**6.23**	**5.97**

a = actual   f = forecast   p = preliminary