U.S. Economic Comment

- Forecast update: avoiding recession, at least for now
- Monetary policy: sticky inflation prevents more forceful near-term cuts, while the outlook for rates remains highly uncertain

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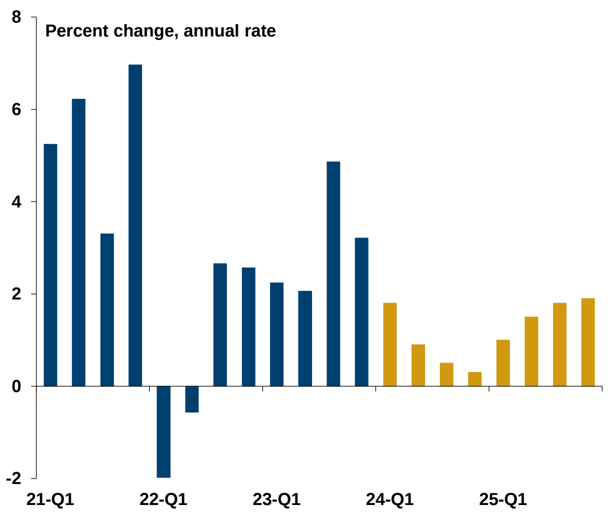
U.S. Economy: On Track in the Near-Term

While we had been waiting to revise our early-2024 economic forecast until some of the uncertainty surrounding the inflation and growth outlooks fades, we must now adjust our projections in response to the data; economic growth again appears resilient in Q1 and inflation is stirring after moderating in the back half of last year. We remain skeptical that the U.S. economy will achieve two-percent growth per year over the 2024-2026 horizon as indicated by the median estimates in the FOMC's latest Summary of Economic Projections (released March 20), considering Fed officials' collective determination to maintain a restrictive stance of monetary policy until they gain "greater confidence" that inflation is "moving sustainably back to two percent." That said, we also acknowledge that the current strength of both labor-market conditions and consumer demand suggest that the economy is unlikely to slip into recession beginning in Q2 as indicated by our previous call.

Economic activity undoubtedly will slow from its 2.5 percent growth rate in 2023 (Q4/Q4 growth of 3.1 percent) and sequentially by quarter from our Q1 tracking estimate of 1.8 percent (annual rate) as a restrictive policy setting continues to act as a drag on demand (chart, below left). Moreover, with "soft landings" the exception, not the rule, we view risks to the growth outlook as still tilted to the downside (chart, right). A favorable outcome for the economy is possible, but it will require timely adjustments to monetary policy (and a bit of luck) on the part of policymakers. That said, our revised projection shows GDP growth of approximately 2.0 percent in 2024, up from 1.6 percent in our January projection (Q4/Q4 growth of 0.9 percent versus 0.2 percent in the previous forecast). Additionally, we are expecting growth of 1.1 percent in 2025 (1.6 percent Q4/Q4; table, p. 5).

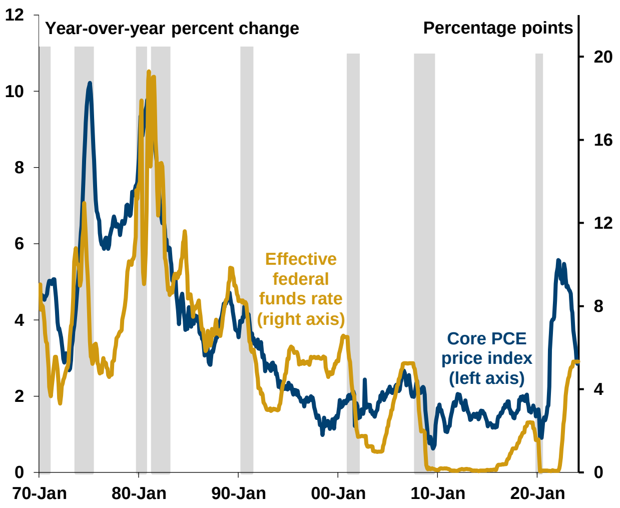
GDP Growth*



* The readings for 2024-Q1 to 2025-Q4 are forecasts.

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Core PCE Inflation vs. Effective FFR*



* Shaded areas indicate periods of recession in the United States.

Sources: Bureau of Economic Analysis, Federal Reserve Board, National Bureau of Economic Research via Haver Analytics

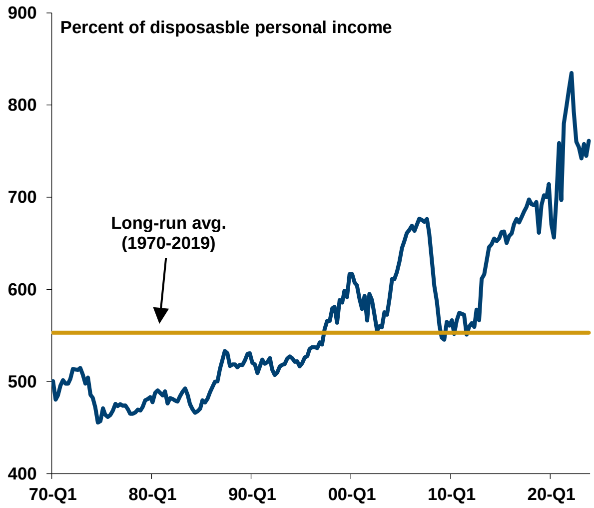
Favorable Areas

The U.S. economy faces headwinds, particularly from restrictive monetary policy, but resiliency in the consumer and business sectors could contribute to keeping the economy on track in the near term. Consumer spending increased 2.2 percent, annual rate, in 2023 (Q4/Q4 growth of 2.7 percent), supported by excess savings from pandemic-period stimulus, a firm labor market, and ample access to credit despite tight lending standards.

Similarly, non-residential fixed investment posted a solid performance (growth of 4.4 percent, annual rate, or Q4/Q4 growth of 4.2 percent). Much of the positive performance reflected ongoing strength in investment in structures (growth of 13.0 percent, annual rate, or Q4/Q4 growth of 16.0 percent), which was influenced heavily by incentives for investment spurred by the CHIPS Act. Momentum in these areas may fade over the balance of the year, but not likely by enough to spur a downturn in the broader economy.

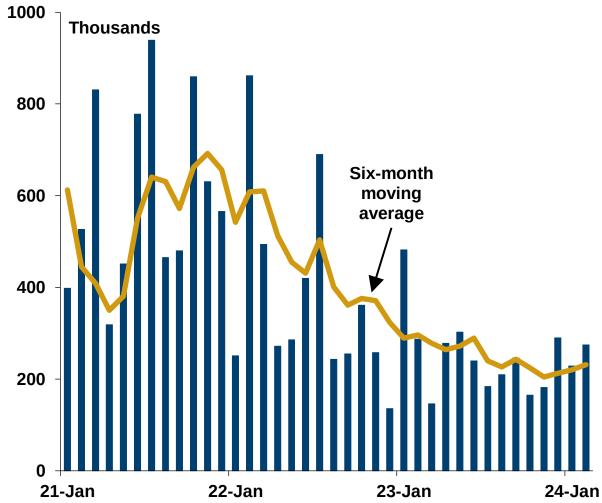
In terms of the durability of spending by the household sector, we doubt that that consumers will match last year's pace of activity. However, we highlight two ongoing pillars of consumer spending that support moderation rather than retreat as the baseline. First, the aggregate wealth position of the household sector remains firm, with net worth as a share of disposable income remaining well above the long-run average, even after moderating with a spend-down of pandemic-related stimulus (chart, below left). Additionally, average monthly job growth of 229,000 in the past 12 months, while off the robust pace earlier in the expansion, is ahead of the 2018-2019 average of 178,000 -- a performance indicative of a strong labor market prior to pandemic-related disruptions (chart, below right).

Household Net Worth*



** The long-run average ends in 2019-Q4 to avoid pandemic-related volatility.*
Source: Federal Reserve Board via Haver Analytics

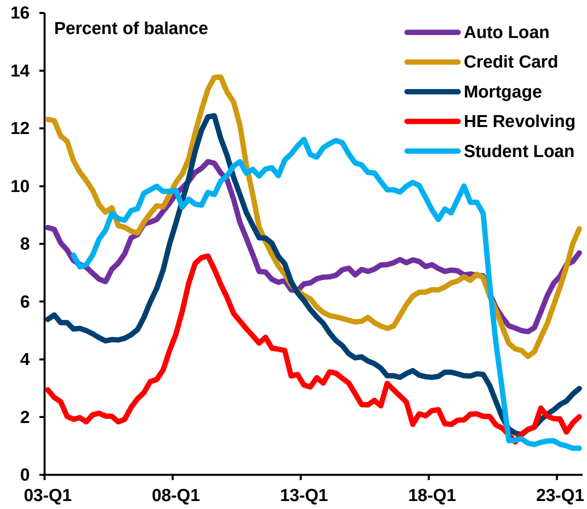
Change in Nonfarm Payrolls



Source: Bureau of Labor Statistics via Haver Analytics

Admittedly, these metrics are imperfect measures of consumers' propensity to spend. Aggregate household net worth is heavily influenced by stock prices (which have surged recently) and real estate values (which are also elevated), and wealth in these areas is not necessarily liquid and tends to accrue more heavily within a smaller subset of the population. Furthermore, we are moderately concerned about softening in the labor market beyond what is indicated by headline payrolls, particularly as layoff announcements have increased and the quits rate (indicative of an individual's willingness to leave a position for alternate employment) has fallen. Moreover, monitoring recent moves in delinquency rates, mostly for credit card and auto loans, may suggest budding stress for a subset of households (chart). That said, the data in total do not currently support whole retrenchment by consumers; rather, they point to positive, but somewhat slower, spending in the months ahead.

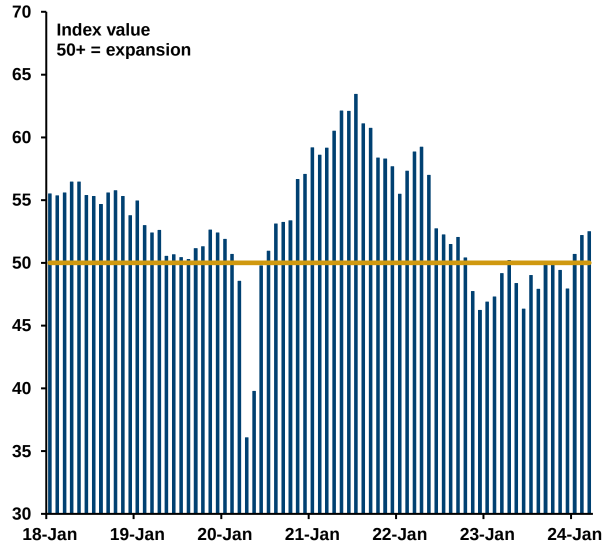
Transition into Delinquency by Loan Type*



** 30+ days, four-quarter moving sum. There is no data prior to 2004 for student loans due to uneven reporting.*
Source: Household Debt and Credit Report, Federal Reserve Bank of New York via Haver Analytics

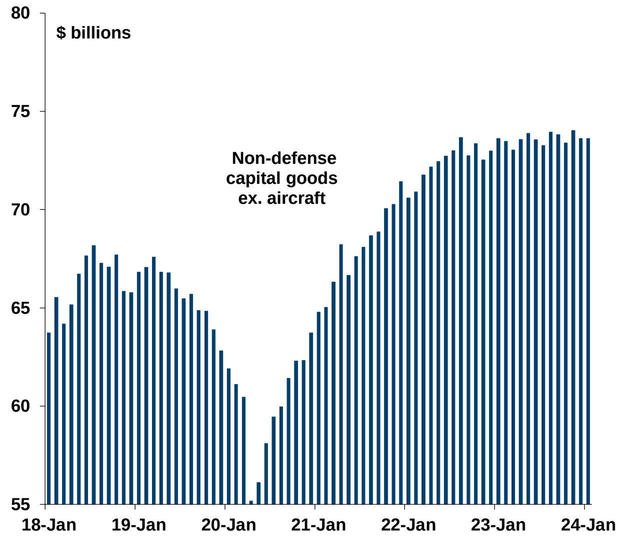
A similar story could unfold in the business sector. While the influence of the CHIPS Act is likely to spur additional investment in manufacturing facilities, it will be challenging to match the performance of the past few years (and therefore investment in structures could ease). However, we note with some encouragement that the S&P Global manufacturing PMI has registered a reading in growth territory for the third consecutive month after contracting in 13 of the previous 14 (chart, below left). The manufacturing sector is highly cyclical, and the turn could portend a pickup in business investment. Additionally, new orders for non-defense capital goods excluding aircraft have held up well despite high hurdle rates for new projects and a generally challenging environment for capital expenditures. If rates ease into the second half of 2024, activity could increase (chart, below right). Again, we are not calling for robust activity, nor does marked deterioration in business investment appear likely. Thus, although the outlook remains highly uncertain, recession risks appear to have diminished for now.

US PMI: Manufacturing



Source: S&P Global via Haver Analytics

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

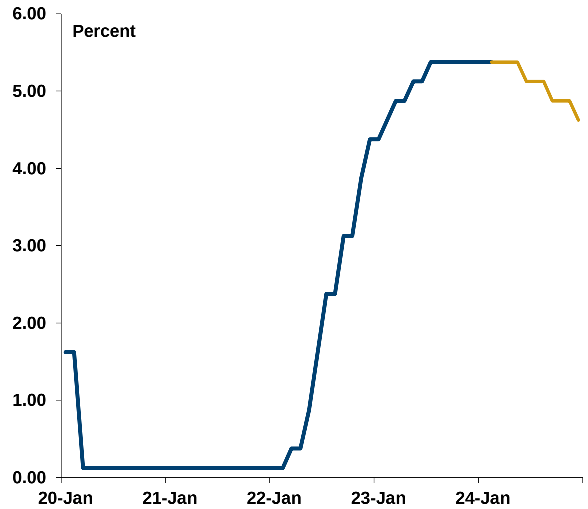
Risks from Monetary Policy

We have gained some confidence that the U.S. economy can avoid a near-term recession, while acknowledging ongoing risks from restrictive monetary policy and an uncertain path of rate cuts given stubborn inflation. In this regard, the latest dot plot from the Federal Open Market Committee reaffirmed the previous projection of three rate cuts in 2024 (median expectation of a 2024 year-end policy rate of 4.625 percent shown in the March Summary of Economic Projections), with the SEP medians for 2025 and 2026 now also indicating reductions of 75 basis points each (versus 100 and 75 previously). The acceleration in consumer inflation in early 2024, even if it is attributable to seasonality or one-off factors, also prompted us to move off our previous call and align with the Fed view of 75 basis points in easing in 2024, although we still look for a reduction of 100 basis points in the federal funds rate in 2025 (charts, next page). Some recalibration in monetary policy is expected to prevent it from becoming increasingly restrictive, but sticky inflation potentially precludes a more forceful response should economic activity slow beyond desired levels to moderate inflation.

Risks to the outlook on account of the current policy setting have been discussed heavily by Fed officials in recent months. Notably, language indicating a bias toward additional policy firming was dropped in the January FOMC statement, and officials since then have emphasized more two-sided risks to the economy: the danger of an early pivot to lower rates that allows inflation to reaccelerate must now be weighed against the prospect of keeping monetary policy too tight for longer than required and causing damage to the economy. In this regard, we found revealing a comment made by Chair Powell in his post-meeting press conference on Wednesday. Regarding the potential timing of rate cuts, he stated, "… the Committee wants to see more data that gives us higher confidence that inflation is moving down sustainably toward two percent. I also mentioned, and we don't see this in the data right now, but if there were a significant weakening in the data, particularly in the labor market, that could also be a reason for us to begin the process of reducing rates again." He went on to note that the labor market is on solid footing and that he was only offering a hypothetical scenario that would prompt earlier (and possibly more aggressive) rate cuts. Sharp deterioration in the labor market, or broader economy, is not the baseline expectation of Fed officials, but they're clearly attuned to potential risks. (For more information regarding Chair Powell's press conference, see: Powell, Jerome H. "Transcript of Chair Powell's Press Conference," Federal Reserve Board, March 20, 2024. https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20240320.pdf.)

Thus, we hesitate to put too much stock in the most recent dot plot showing only modest cuts over the next few years, and we acknowledge the need to remain flexible in our own views. Once rate cuts begin, they rarely proceed in a linear fashion and a more aggressive response is required to address some previously unexpected developments. Moreover, we would add that the upcoming unwind of quantitative tightening and its potential effects on short-term funding markets add another wrinkle to policymakers' ongoing task. With this in mind, we suspect that the adjustment in the federal funds rate will ultimately follow a path that deviates both from the expectations of Fed officials and from our own view. Putting a positive spin on a less orderly reduction in interest rates, we can expect associated easing in financial conditions to attenuate any unanticipated (and undesirable) slowing in the economy and potentially avoid recession.

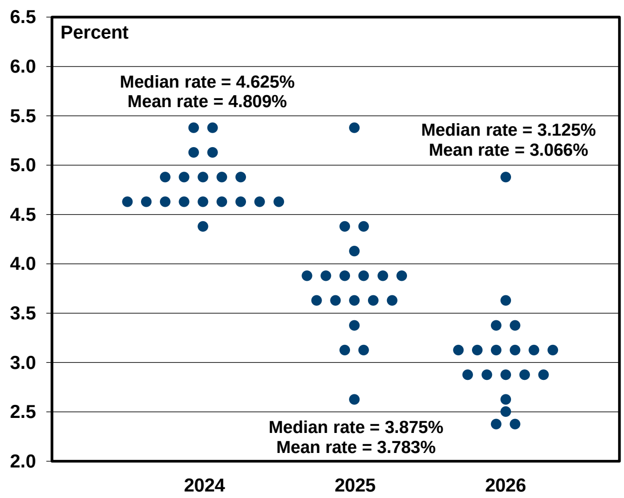
Federal Funds Target Rate*



** The gold line shows the forecasted path for the federal funds rate through year-end 2024.*

Sources: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

FOMC Rate View, March 2024*



** Each dot represents the expected federal funds rate of a Fed official at the end of the year.*

Source: Federal Open Market Committee, Summary of Economic Projections, March 2024

Note to readers:

After this week's edition, the next Weekly Economic Comment will be published on April 5, 2024.

U.S. Economic Outlook Table*

(Percent change annual rate, unless otherwise noted)

Item		2024 Q1	2024 Q2	2024 Q3	2024 Q4	2024 Q4/Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2025 Q4/Q4
1	Gross Domestic Product	1.8	0.9	0.5	0.3	0.9	1.0	1.5	1.8	1.9	1.6
2	Personal Consumption Expenditures	1.7	1.0	0.8	0.2	0.9	1.2	1.5	1.7	1.8	1.5
3	Business Fixed Investment	0.4	-0.9	-0.6	-0.1	-0.3	1.2	2.3	3.0	3.1	2.4
4	Residential Construction	8.5	2.5	-2.0	-2.5	1.5	-1.0	2.0	2.5	4.0	1.9
5	Change in Business Inventories *(Contribution to growth)*	0.0	0.2	0.0	0.2	--	0.1	0.1	0.1	0.1	--
6	Government Spending	1.6	1.6	1.3	1.1	1.4	0.7	0.7	0.8	0.6	0.7
7	Net Exports *(Contribution to growth)*	-0.1	-0.2	-0.1	-0.1	--	-0.1	-0.1	-0.1	-0.1	--
	Inflation and Unemployment										
8	Headline PCE Price Index *(Annual rate)*	2.9	2.6	2.3	2.3	2.5	2.2	2.1	2.0	2.0	2.1
9	Core PCE Price Index *(Annual rate)*	3.4	2.7	2.4	2.4	2.7	2.3	2.2	2.1	2.1	2.2
10	Unemployment Rate	3.9	4.1	4.2	4.3	--	4.2	4.2	4.1	4.0	--
	Interest Rates (End of Period)										
11	Federal Funds Target (midpoint)	5.38	5.13	4.88	4.63	--	4.38	4.13	3.88	3.63	--
12	2-year Treasury	4.60	4.10	3.85	3.75	--	3.50	3.20	3.05	2.95	--
13	10-year Treasury	4.20	3.70	3.55	3.50	--	3.50	3.45	3.40	3.35	--
14	30-year Fixed-Rate Mortgages	7.20	6.85	6.70	6.65	--	6.60	6.55	6.45	6.40	--

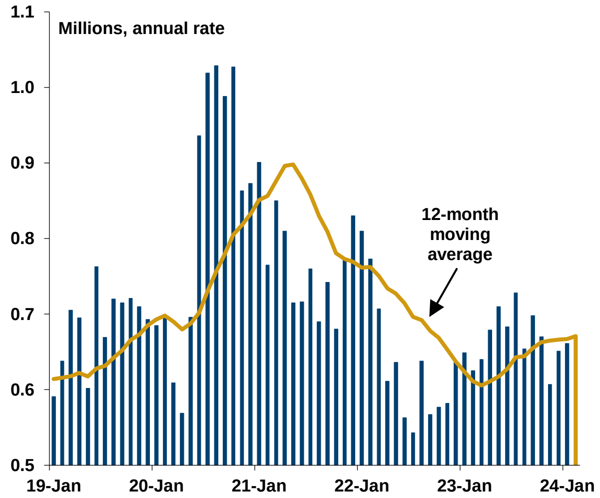
** Readings on the unemployment rate and interest rates are end-of-period figures.*
Source: Daiwa Capital Markets America

The Week Ahead

New Home Sales (February) (Monday)
Forecast: 0.670 Million (+1.4%)

A recent pickup in mortgage applications and increase in prospective buyer traffic suggest that new home sales could increase for the third consecutive month (chart, right). Although this market segment is significantly smaller than that for existing homes, a more favorable inventory situation may provide more favorable conditions for ongoing incremental improvement, particularly if mortgage rates tick lower in coming months.

New Home Sales*



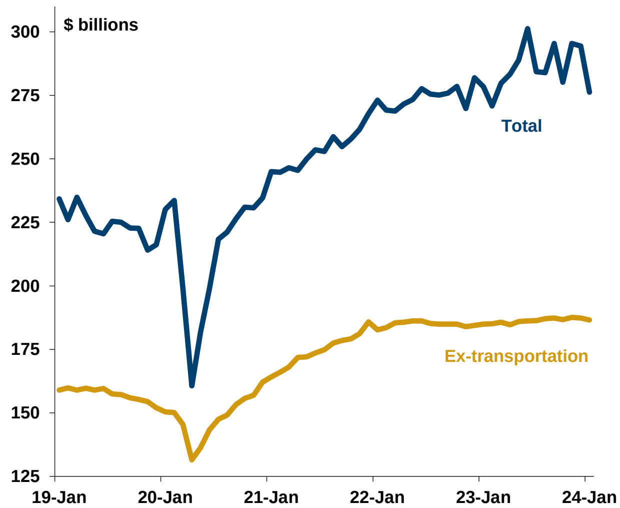
** The gold bar is a forecast for February 2024.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Durable Goods Orders (February) (Tuesday)
Forecast: 1.0% Total, 0.2% Ex. Transportation

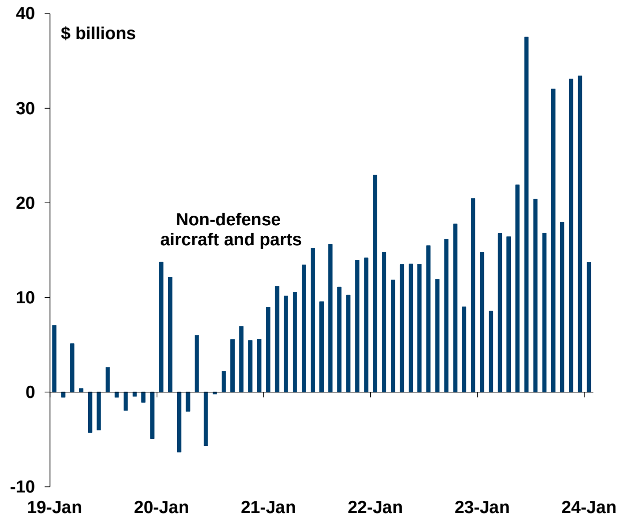
Headline durable goods orders have swung widely in recent months, including a plunge of 6.2 percent in January, with volatility in civilian aircraft orders playing a significant role in the performance (charts below). That said, bookings excluding transportation also have continued to struggle amid mixed demand, with declines in three of the past four months giving a downward tilt to a previously flat trend.

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

Consumer Confidence (March) (Tuesday)
Forecast: 106.0 (-0.7 Index Pt.)

Modest softening in labor market conditions suggested by slowing private-sector job growth and an uptick in layoff announcements, along with stirring in gasoline prices, raises the possibility of a second consecutive decline in the Conference Board's measure of consumer attitudes in March. Back-to-back months of easing recorded by the University of Michigan sentiment index after a jump in January also support the view that confidence has deteriorated after improving around the turn of the year.

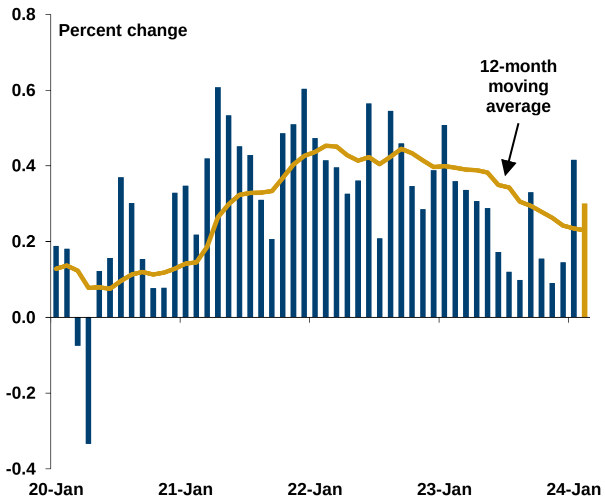
Revised GDP (23-Q4) (Thursday)
Forecast: 3.3% (+0.1 Pct. Pt. Revision)

Although the third estimate of quarterly GDP is generally close to the preliminary (second) estimate, additional data on business-related construction and consumer outlays for services suggest an upward revision to growth in the fourth quarter of 2023. We will be watching closely gross domestic income (GDI) released with the GDP report. This alternate measure of economic activity has significantly lagged the brisk performance in GDP in recent quarters, including reported growth of 1.9 percent (annual rate) for GDI in 23-Q3 versus 4.9 percent for GDP.

Personal Income, Consumption, Price Indexes (February) (Friday)
Forecast: 0.3% Income, 0.6% Consumption, 0.4% Headline Price Index, 0.3% Core Price Index

Although average hourly earnings rose only modestly in February, a rebound in hours worked after weather-related disruptions in January suggests a solid increase in the wages and salaries component of personal income. However, growth of transfer income could slow after a surge of 2.6 percent in January tied to the Social Security cost-of-living adjustment. On the spending side, strong vehicle sales imply firm spending on durable goods, although a modest advance in key areas of the retail sales report suggests a small increase in outlays for nondurable items. Spending on services has remained on a favorable trend into early 2024. Results for recent inflation indicators suggest brisk increases in the headline and core price indexes for personal consumption expenditures, although the core index could print at 0.3 percent versus 0.4 percent for the core CPI (chart, below left). Along with the expected firm increase, we anticipate the core price index to follow the broad contours of other recent observations (e.g. a firm year-over-year of increase of 3.3 percent for the “supercore” component in January, but a subdued reading on goods prices excluding food and energy; chart, below right).

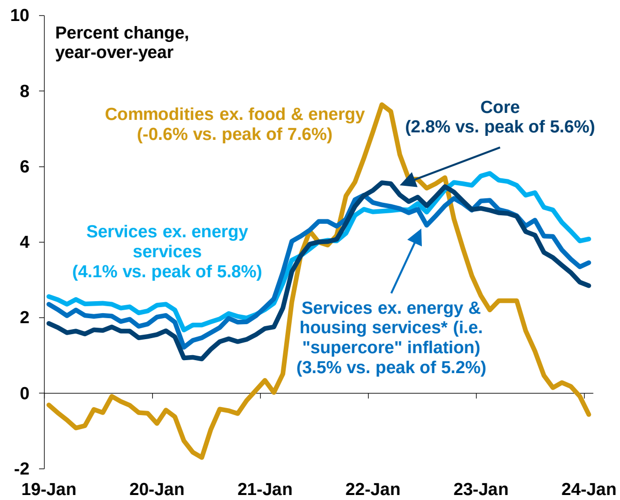
Core PCE Price Index*



** The gold bar is a forecast for February 2024.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Decomposition of Core PCE Price Index



Source: Bureau of Economic Analysis via Haver Analytics

International Trade in Goods (February) (Friday)
Forecast: -$89.5 Billion ($1.0 Billion Narrower Deficit)

While higher prices of petroleum products could support the values of both U.S. exports and imports of industrial supplies in February after declines in the prior month, imports of capital goods could ease after a surge of 4.2 percent in January to the top of the long-term range. That cooling, along with moderation in auto imports from a record high in January, raise the prospect of a narrowing in the U.S. trade deficit in goods.

Economic Indicators

March/April 2024

Monday	Tuesday	Wednesday	Thursday	Friday
18	19	20	21	22
NAHB HOUSING INDEX Jan 44 Feb 48 Mar 51	**HOUSING STARTS** Dec 1.566 million Jan 1.374 million Feb 1.521 million **TIC FLOWS** Long-Term Total Nov $99.7B $223.3B Dec $158.6B $137.4B Jan $36.1B -$8.8B **FOMC MEETING (FIRST DAY)**	**FOMC RATE DECISION**	**UNEMPLOYMENT CLAIMS** Initial Continuing (millions) Feb 24 0.213 1.794 Mar 2 0.210 1.803 Mar 9 0.212 1.807 Mar 16 0.210 N/A **CURRENT ACCOUNT** 23-Q2 -$215.0 bill. 23-Q3 -$196.4 bill. 23-Q4 -$194.8 bill. **PHILADELPHIA FED MFG BUSINESS OUTLOOK** Jan -10.6 Feb 5.2 Mar 3.2 **EXISTING HOME SALES** Dec 3.880 million Jan 4.000 million Feb 4.380 million **LEADING INDICATORS** Dec -0.2% Jan -0.4% Feb 0.1%	
25	26	27	28	29
CHICAGO FED NATIONAL ACTIVITY INDEX (8:30) Monthly 3-Mo. Avg. Dec 0.02 -0.14 Jan -0.30 -0.02 Feb -- -- **NEW HOME SALES (10:00)** Dec 0.651 million Jan 0.661 million **Feb 0.670 million**	**DURABLE GOODS ORDERS (8:30)** Dec -0.3% Jan -6.2% **Feb 1.0%** **FHFA HOME PRICE INDEX (9:00)** Nov 0.4% Dec 0.1% Jan -- **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** Nov 0.2% Dec 0.2% Jan -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** Jan 110.9 Feb 106.7 **Mar 106.0**		**UNEMP. CLAIMS (8:30)** **REVISED GDP (8:30)** GDP Chained Price 23-Q3 4.9% 3.3% 23-Q4(p) 3.2% 1.6% **23-Q4(r) 3.3% 1.6%** **MNI CHICAGO BUSINESS BAROMETER (9:45)** Index Prices Jan 46.0 63.9 Feb 44.0 64.7 Mar -- -- **REVISED CONSUMER SENTIMENT (10:00)** Jan 79.0 Feb 76.9 Mar(p) 76.5 **PENDING HOME SALES (10:00)** Dec 5.7% Jan -4.9% Feb --	***GOOD FRIDAY*** **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30)** Inc. Cons. Core Dec 0.3% 0.7% 0.1% Jan 1.0% 0.2% 0.4% **Feb 0.3% 0.6% 0.3%** **INTERNATIONAL TRADE IN GOODS (8:30)** Dec -$87.8 billion Jan -$90.5 billion **Feb -$89.5 billion** **ADVANCE INVENTORIES (8:30)** Wholesale Retail Dec 0.4% 0.6% Jan -0.3% 0.4% Feb -- --
1	2	3	4	5
ISM MFG. INDEX **CONSTRUCTION**	**FACTORY ORDERS** **JOLTS DATA** **VEHICLE SALES**	**ADP EMPLOYMENT** **ISM SERVICES INDEX**	**UNEMP. CLAIMS** **TRADE BALANCE**	**EMPLOYMENT REPORT** **CONSUMER CREDIT**
8	9	10	11	12
	NFIB SMALL BUSINESS OPTIMISM INDEX	**CPI** **WHOLESALE TRADE** **FOMC MINUTES** **FEDERAL BUDGET**	**UNEMP. CLAIMS** **PPI**	**IMPORT/EXPORT PRICES** **CONSUMER SENTIMENT**

Forecasts in bold. (p) = preliminary (2nd estimate of GDP), (r) = revised (3rd estimate of GDP)

Treasury Financing

March/April 2024

Monday	Tuesday	Wednesday	Thursday	Friday
18	19	20	21	22
AUCTION RESULTS: Rate Cover 13-week bills 5.245% 2.81 26-week bills 5.130% 2.76	**AUCTION RESULTS:** Rate Cover 52-week bills 4.810% 2.88 20-yr bonds 4.542% 2.79 42 day CMBs 5.280% 2.90 **ANNOUNCE:** $60 billion 17-week bills for auction on Mar 20 $85 billion 4-week bills for auction on Mar 21 $85 billion 8-week bills for auction on Mar 21 **SETTLE:** $60 billion 17-week bills $95 billion 4-week bills $90 billion 8-week bills	**AUCTION RESULTS:** Rate Cover 17-week bills 5.215% 2.73	**AUCTION RESULTS:** Rate Cover 4-week bills 5.270% 3.00 8-week bills 5.270% 2.93 10-yr TIPS 1.932% 2.35 **ANNOUNCE:** $143 billion 13-,26-week bills for auction on Mar 25 $66 billion 2-year notes for auction on Mar 25 $67 billion 5-year notes for auction on Mar 26 $43 billion 7-year notes for auction on Mar 27 $28 billion 2-year FRNs for auction on Mar 27 $70 billion 42-day CMBs for auction on Mar 26 **SETTLE:** $146 billion 13-,26-week bills $46 billion 52-week bills $75 billion 42-day CMBs	
25	26	27	28	29
AUCTION: $143 billion 13-,26-week bills $66 billion 2-year notes	**AUCTION:** $67 billion 5-year notes $70 billion 42-day CMBs **ANNOUNCE:** $60 billion* 17-week bills for auction on Mar 27 $85 billion* 4-week bills for auction on Mar 28 $85 billion* 8-week bills for auction on Mar 28 **SETTLE:** $60 billion 17-week bills $85 billion 4-week bills $85 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills $43 billion 7-year notes $28 billion 2-year FRNs	**AUCTION:** $85 billion* 4-week bills $85 billion* 8-week bills **ANNOUNCE:** $143 billion* 13-,26-week bills for auction on Apr 1 **SETTLE:** $143 billion 13-,26-week bills $16 billion 10-year TIPS $70 billion 42-day CMBs	***GOOD FRIDAY***
1	2	3	4	5
AUCTION: $143 billion* 13-,26-week bills **SETTLE:** $13 billion 20-year bonds $66 billion 2-year notes $67 billion 5-year notes $43 billion 7-year notes $28 billion 2-year FRNs	**ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 3 $85 billion* 4-week bills for auction on Apr 4 $85 billion* 8-week bills for auction on Apr 4 **SETTLE:** $60 billion* 17-week bills $85 billion* 4-week bills $85 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $85 billion* 4-week bills $85 billion* 8-week bills **ANNOUNCE:** $143 billion* 13-,26-week bills for auction on Apr 8 $58 billion* 3-year notes for auction on Apr 9 $39 billion* 10-year notes for auction on Apr 10 $22 billion* 30-year bonds for auction on Apr 11 **SETTLE:** $143 billion* 13-,26-week bills	
8	9	10	11	12
AUCTION: $143 billion* 13-,26-week bills	**AUCTION:** $58 billion* 3-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 10 $85 billion* 4-week bills for auction on Apr 11 $85 billion* 8-week bills for auction on Apr 11 **SETTLE:** $60 billion* 17-week bills $85 billion* 4-week bills $85 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $39 billion* 10-year notes	**AUCTION:** $85 billion* 4-week bills $85 billion* 8-week bills $22 billion* 30-year bonds **ANNOUNCE:** $143 billion* 13-,26-week bills for auction on Apr 15 $46 billion* 52-week bills for auction on Apr 16 $13 billion* 20-year bonds for auction on Apr 17 $23 billion* 5-year TIPS for auction on Apr 18 **SETTLE:** $143 billion* 13-,26-week bills	

*Estimate