MACROECONOMIC SCENARIOS
UNITED STATES ECONOMIC SERVICE

MACRO ECONOMIC REPORT

APRIL 2024

experian

CONTENTS

TOP 5
MOST ACCURATE
FORECASTING
HOUSE
Rated in 2016 by the
Sunday Times

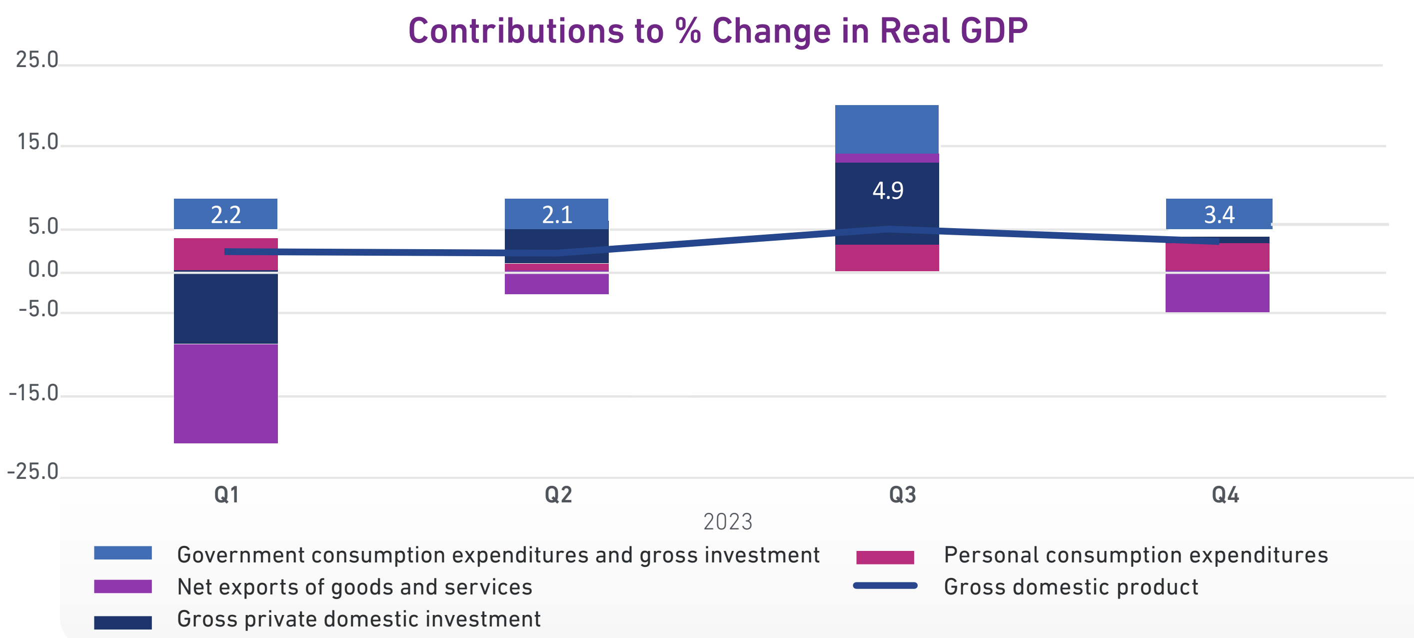
Latest developments

The US economy has shown signs of resilience, which is forecast to continue in 2024, as we expect GDP to grow by an average of 2.6% year-on-year in the first half of 2024, before slowing to 1.6% in the second half amidst continued challenges and persistent uncertainty. In the face of rising oil prices, labor market challenges in the form of strikes, an upcoming presidential election of historical importance, the resumption of student loan repayments and potentially fewer Federal Reserve (Fed) base rate cuts than previously expected, the resilience of the US economy will be put under pressure. However, with mostly positive economic data released so far this year and a rise in the Conference Board Leading Economic Index in February, it points to a more optimistic outlook for the US economy in the coming year.

All economic forecasts continue to be subject to greater than usual uncertainty and volatility.

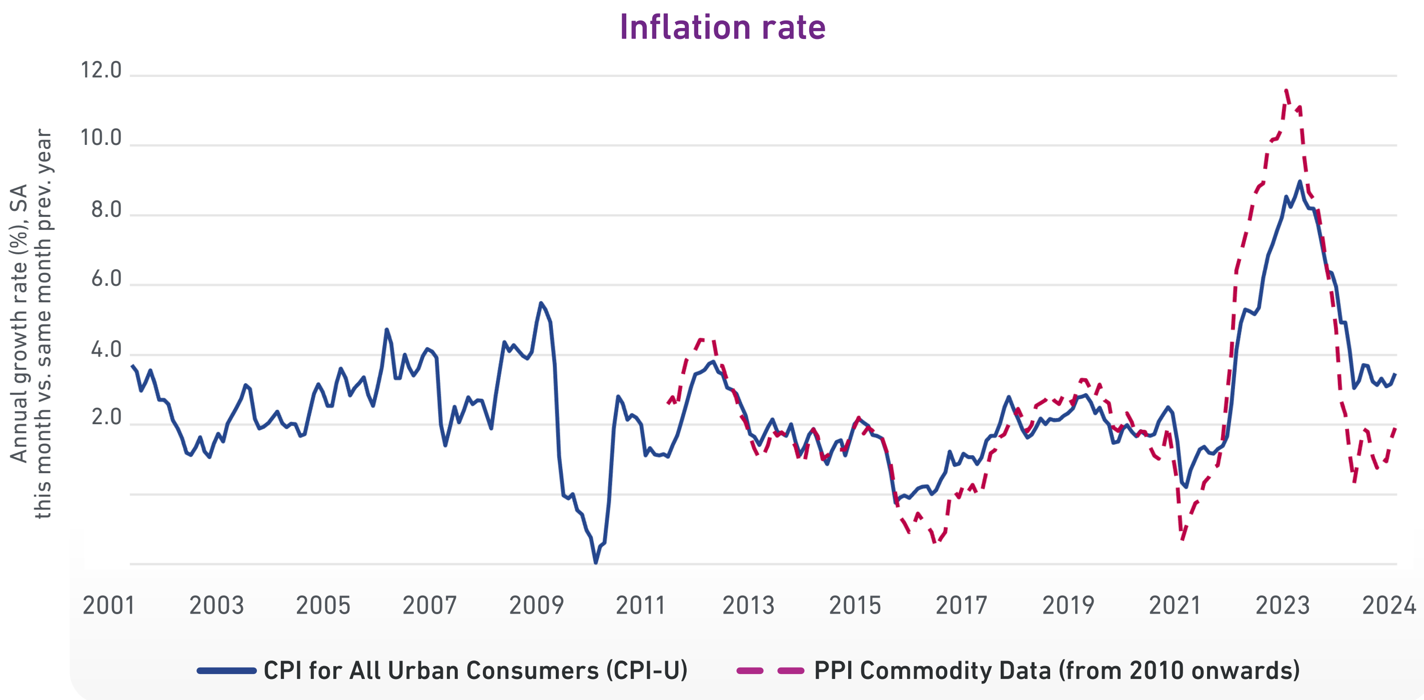
Recent Data and Trends

The US economy grew by 3.4% SAAR in the fourth quarter of 2023, following a 4.9% rise in the third quarter, showing encouraging signs of resilience. Taking a more in-depth look at the components, the growth seen in Q4 was primarily driven by an increase in consumer spending and government/federal spending. On the other hand, private domestic investment growth slowed in Q4 as continued high interest rates disincentivized firms from borrowing. Despite the continued above- target inflation and global geopolitical risks, we are expecting solid GDP growth in 2024.



Source: Bureau of Economic Analysis

Industrial production in the US rose by 0.1% in February 2024 on a month-on-month basis, up from the downwardly revised -0.5% seen in January due to weather improvements. Manufacturing output, which accounts for 78% of total production, rose by 0.8%. Among manufacturing industries, mining posted a sharp rebound with a 2.2% monthly jump in February after falling in January. Utilities output decreased by 7.5% due to the indexes for electric and natural gas dropping by 6.5% and 13%, respectively. Meanwhile, final products fell by 0.6%, mainly due to a drop in consumer goods.



Source: Bureau of Labor Statistics

Total retail sales in the US increased 0.7% month-over-month in March 2024, and were 4% higher than one year prior. Food & beverage stores grew by 0.5% on a monthly basis, while furniture & home stores posted -0.3%. Furthermore, sales at gasoline stations improved by 2.1% on February's figure.

The annual CPI inflation rate in the US rose to 3.5% in March 2024 from 3.2% in February, as oil prices increased to similar highs as seen in October 2023, feeding into energy prices which saw a 1.1pp increase compared to the previous month, led by gasoline and electricity rising by 1.7pp and 0.9pp, respectively. Furthermore, shelter prices increased to 5.7% as rental costs continue to rise.

Despite challenging economic conditions, **the labor market has remained tight, adding 303,000 to nonfarm payroll employment in March**. Meanwhile, the unemployment rate decreased from 3.9% to 3.8% in the same month. Long-term unemployment stayed relatively unchanged at 1.2 million people, 19.5% of all unemployed people.

The Consumer Sentiment Index, from the University of Michigan, for the US came in at 79.4 in March, hitting the highest reading since August 2021, amid improvements in how consumers view the trajectory of inflation, with expectations for inflation in the upcoming year dropping to 2.9%, from February's 3.0%.

The Fed opted to keep interests steady at a range of 5.25-5.50% in March, for a fifth consecutive meeting. Oil prices pose a significant headwind to the US economy, likely resulting in inflation remaining higher-for-longer, in the short term. This is due to OPEC+ restricting oil supply and increased demand from China resulting in elevated oil prices, and leading to a more cautious approach taken by the Fed in base rate reductions. Therefore, there is an increasing probability that interest rates stay high going into the second half of 2024, as policymakers hope for a soft-landing.

Scenario overview

The US economy has shown early signs of strength going into 2024. A resilient labor market and moderate GDP growth seems the most likely scenario for the year as a whole, as consumption strengthens due to increasing consumer sentiment, despite high interest rates. The latest economic activity indicators reveal a resilient picture. However, considerable downside risks remain, with potential signs of weakness in the labor market and potential for inflation to linger above target, as elevated oil prices feed into producer and consumer prices. In addition, increased geopolitical tensions are expected to continue posing considerable challenges to international trade and the global economy. On a positive note, supply chain disruptions have been minimal, and inflation is expected to continue to fall in 2024, while the labor market remains strong for the time being.

Economic activity indicators reveal that the economy is likely on course for a "soft-landing" as encouraging GDP figures see consumer sentiment rising in 2024. Industrial production grew moderately in February as the manufacturing industry rebounded. Sales of previously owned homes in the United States rose 9.5% month-over-month to a seasonally adjusted annualized rate of 4.38 million units in February, which marked the highest level since February 2023 and the second consecutive month of growth.

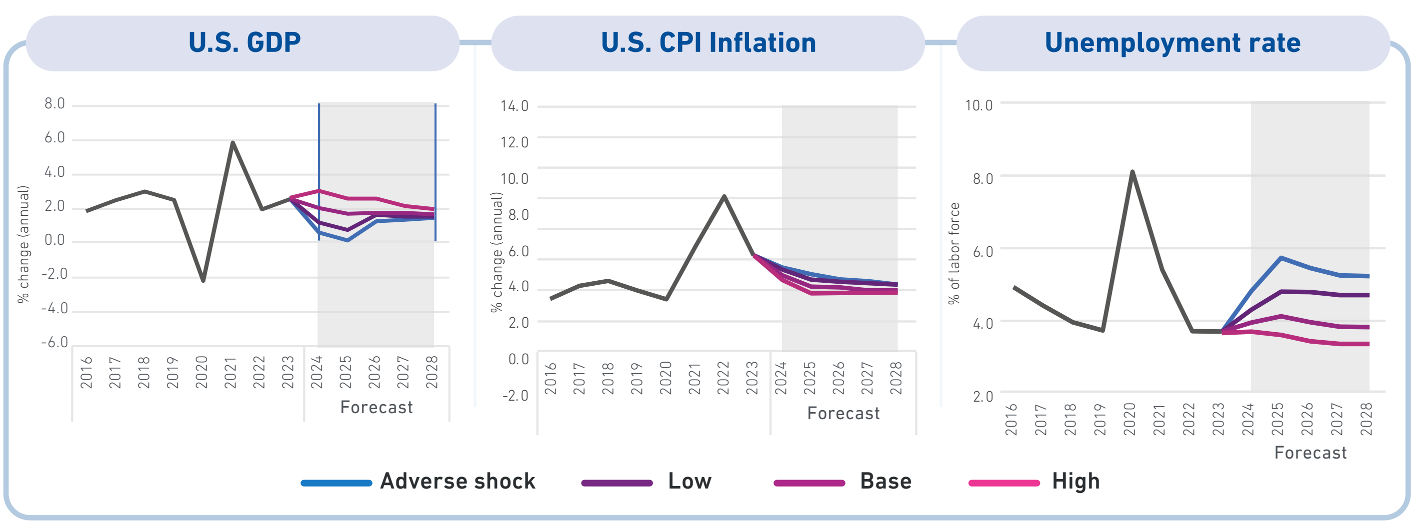
Personal income in the United States expanded by 0.3% month-over-month in February 2024, as reported by the Bureau of Economic Analysis. Notably, the monthly rise in overall personal income was primarily attributed to increased compensation and personal current transfer receipts, which were somewhat offset by a decline in personal income receipts on assets. Real disposable personal income (DPI), which factors in personal current taxes, conversely saw a monthly decline of -0.1%. The personal consumption expenditures (PCE) price index (a measure of inflation) increased by 0.3% on the month (a 2.5% increase on the year).

U.S. macroeconomic service

US consumer prices (on the CPI measure) rose by 0.4% from a month earlier in March 2024, driven by higher oil prices feeding into consumer energy costs. The annual core consumer price inflation rate, which excludes volatile items such as food and energy, was level at 3.8% in March 2024. The shelter index, accounting for over 60% of the total increase in all items less food and energy index, continued to run hot, rising 5.7% over the last year. Although inflation has been stickier than expected with a tight labor market putting upwards pressure on prices, we do not expect inflation to surge. **We forecast inflation to gradually slow over the next quarters as the market adjusts to elevated interest rates**, although headwinds from oil prices do pose a significant threat to slowing inflation.

The labor market has shown significant strength, experiencing a rise in payrolls and stable wage growth and unemployment. However, many firms locked in lower interest rate loans before the central banks tightening cycle, which gave some protection to the higher rates allowing them to keep workers. However, with Producer Price Inflation rising in March and the Fed announcing a more cautious approach to base rate cuts, we could start to see cracks appear in the labor market as the protection layer eases.

Base	The baseline scenario assumes that economic growth will slow towards the end of 2024, and we expect the real GDP annual growth rate to ease to 2% for 2024, down from 2.5% in 2023. The combination of stubborn core inflation, higher interest rates, tighter lending standards and increased uncertainty is projected to put pressure on economic activity and pose challenges to households and corporations. Consumer spending will be squeezed as savings accumulated during the pandemic are depleted, however strong confidence will partially offset this. We believe CPI inflation will continue to ease over the coming quarters but will remain above the Fed's target of 2% until early 2025. The labor market is expected to weaken despite showing resilience, with the unemployment rate edging up to 4% in 2024 as post-pandemic ultra tightness fades.
High	The underlying assumptions behind the optimistic scenario reflect that inflation will decline more drastically and will ease to around 2.6% in 2024. This scenario indicates that economic growth holds steady at 3% in 2024. A significant boost according to this scenario will be received from positive spill-overs from the global economy and a further easing in supply chain issues. The labor market will remain tight, and the unemployment rate will stay around the 3.7% mark in 2024 before gently coming back down.
Low	The low scenario assumes that inflation will prove stickier than expected, and that inflationary pressures will dwindle but at a slower rate than hoped, with a 3.2% rise in 2024. Economic activity will be muted, and GDP growth will ease to 1.4% in 2024, accelerating slightly to 0.7% in 2025. Despite a surge in job creation in late 2023 and continuing in 2024 Q1, businesses will feel pressure from high interest rates leading to downsizing their workforce and significantly reducing job openings and hiring. This underpins an unemployment rate of 4.2% in 2024 followed by a further increase to 4.7% in 2025.
Adverse shock	The adverse shock assumes the realization of several downside risks including the escalation of the conflict in Gaza, a more severe negative impact of high interest rates, and persistently high inflation. This scenario assumes a weaker economy with 0.5% growth in 2024. Inflation remains above 3% until 2025, due to a surge in oil prices and heightened supply chain disruptions as conflict in the middle east intensifies. This in turn will have adverse ramifications for spending and investments, though one should note increased energy independence from the US will somewhat protect it. Unemployment will increase to 4.8% in 2024, reflecting the difficulties of the corporate sector and significant cost reduction plans.



Our economic forecasting expertise

Experian's team of 20 economists is a leading provider of global, national, regional and local economic forecasts and analysis to the commercial and public sectors. Our foresight helps organizations predict the future of their markets, identify new business opportunities, quantify risk and make informed decisions.

Experian Market Intelligence Group

Would you like to understand how your credit portfolio compares to your peers and how it is likely to be impacted by changes in lending policy, market competition and the economy in the future? Our experts in economics, credit risk, construction, market analysis and portfolio benchmarking combine to provide an in-depth understanding of the market and economic context in which you manage your business both now and in the future.

How we can help you:

- An independent unbiased view of the market based upon quantitative analysis of data.
- Benchmark your portfolio against your peers, both now and forecast into the future
- Provide economic forecasts specific to your sector
- Develop accurate business case(s) for entry into new markets
- Assess future market risk and predict potential economic pressures – at a granular level
- Highlight future revenue opportunities
- Meet regulatory requirements for stress testing and loss forecasting

Experian – helping organizations understand the market, economy and future changes in household and business finances.

Contact us

Joseph Mayans
Director of U.S. Economics
Joseph.Mayans@experian.com

Authors

Mohammed Chaudhri
UK Chief Economist
Mohammed has over 10 years of experience of forecasting the UK economy and credit markets. Thanks to his forecasting, Consensus Economics ranked Experian as the most accurate UK forecaster in 2019. Alongside successfully leading the Market Intelligence team, Mohammed's remit includes account management of key clients, new product innovations and supporting marketing activities.

Louison Thepaut
Economist
Nathan holds a Master's degree in Applied Economics (Banking and Financial markets), from the University of Bath . Having joined the team in March 2023, Nathan has taken on responsibility for forecasting household affordability and credit markets.

James Ison
Managing Economist
James joined Experian in August 2013. He holds an Economics BSc (1st class honours) from the University of Sheffield, and an MPhil in Environmental Policy from the University of Cambridge. He leads in producing Experian's monthly UK macroeconomics forecast as well as IFRS9 UK scenarios.