# Economic Update

March 6, 2024

## Beige Book Reports Slight Growth in Early 2024, With Expectations for Continued Growth and Slowing Inflation; Powell Testimony Points to Rate Cuts Starting in the Second Quarter

- **The economy expanded "slightly" in early 2024, according to the latest Beige Book, with consumer spending down a bit.**
- **The labor market eased modestly, but remained tight.**
- **Businesses reported more price sensitivity among their customers.**
- **Conditions improved in eight of the 12 districts, were flat in three others, and were down in one.**
- **Fed Chair Powell, in his congressional testimony today, reiterated that the FOMC is not ready to cut the fed funds rate in March, but does expect to cut the rate later this year.**
- **PNC expects continued economic expansion in 2024, with a handful of fed funds rate cuts starting in the second quarter.**

The economy expanded "slightly" in January and February, according to the latest Beige Book from the Federal Reserve. The outlook for the economy was generally positive, with respondents expecting stronger demand and better access to credit over the next year.

Consumer spending declined modestly, with greater consumer price sensitivity. Leisure travel was mixed, with air travel up, but reduced demand for restaurants and hotels due to higher prices. Manufacturing activity was flat, with continued improvement in supply chains.

Lower mortgage rates supported a modest improvement in homebuying demand, but low inventories remained a constraint. Commercial real estate demand remained weak, particularly in the office segment.

Loan demand was flat to down slightly, and credit quality remained solid.

Most districts reported slight to modest job growth in early 2024, with a further easing in the labor market. Businesses reported an improvement in the availability of workers, although it remained difficult to fill highly-skilled positions. Wages increased, but at a slower pace.

Price pressures continued at the beginning of the year, but were generally moderating. Businesses reported greater difficulty in passing along higher costs to their customers. Input costs were broadly lower in manufacturing and construction.

Eight of the 12 districts reported slight to modest growth in early 2024: Boston, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco. Conditions were flat in three districts: New York, Atlanta, and Kansas City. The Philadelphia district was the only one to report a contraction.


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In his semiannual testimony before the House Financial Services Committee today, Federal Reserve Chair Jerome Powell reaffirmed the outlooks for the U.S. economy and monetary policy that came out after the Federal Open Market Committee's latest meeting, on January 31. Powell noted that inflation remains well above the central bank's 2% objective but is continuing to ease, with the unemployment rate still very low. Powell reiterated the Fed's commitment to bringing inflation back to 2%.

Powell said that the fed funds rate (currently in a range between 5.25% and 5.50%) is likely at its peak in the current cycle. He also noted that the fed funds rate at its current level is weighing on economic growth. He said that cutting the fed funds rate too soon risked sparking a return to higher inflation, while cutting too late risked contributing to a potential recession. He said that it would likely be appropriate to cut the fed funds rate "at some point this year." He also said the FOMC does not need inflation to return to 2% to cut the fed funds rate, although Powell would like to have "greater confidence that inflation is moving sustainably toward 2%" before cutting rates.

In the Q&A portion Powell once again indicated that the FOMC is unlikely to cut the fed funds rate at its next meeting, on March 20, saying he wanted to "see a bit more data" first. But rate cuts after that, including at the FOMC's subsequent meeting in early May, apparently remain on the table.

The Beige Book and Powell's testimony, taken together, lay out the near-term path for the U.S. economy and the fed funds rate. Right now the economy is in solid shape, with good growth and slowing, albeit elevated, inflation. The economic expansion should continue throughout 2024 and inflation should further ease toward 2%. PNC does not expect a recession in the near term giving solid fundamentals, particularly the very good labor market.

PNC expects the FOMC to cut the fed funds rate by 25 basis points at its meeting in May, with two additional rate cuts in June and July. This would bring the fed funds rate to a range of 4.50% to 4.75% in the second half of 2024. Lower interest rates, in turn, will support continued economic growth into 2025.

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