

January 29, 2024

- **Real GDP growth was 3.3% in the fourth quarter, better than expected. Growth in 2023 was 3.1%, up from 0.7% in 2022. All major components contributed to the increase in GDP, with a solid gain in consumer spending.**
- **Both the overall and core PCE inflation measures were at or below the FOMC's 2% objective in the fourth quarter as inflation slows.**
- **The strong fourth quarter sets the economy up for continued expansion in 2024, albeit with slower growth. Although slowing inflation supports a near-term fed funds rate cut, the FOMC remains concerned about growth that is running above the economy's potential.**

Real GDP increased 3.3% at an annualized rate in the fourth quarter of 2023, much better than expectations for growth of around 2%. Growth for all of 2023 on a Q4-to-Q4 basis was 3.1%, much better than the 0.7% in 2022, and well above the economy's long-run potential. Growth was broad-based in the fourth quarter, with all major components adding to growth. Real consumer spending increased 2.8% in the quarter, adding 1.9 percentage points to annualized real GDP growth. There were solid increases in consumer spending on both services and goods. Business fixed investment rose 1.9%, adding 0.3 percentage point to growth, with increases in all three major components—structures, equipment, and intellectual property. Housing increased 1.1%, although its contribution to growth was minimal. But considering that housing investment has now increased in two consecutive quarters, after nine straight quarterly declines, the worst of the drag from housing is over now that mortgage rates have peaked.

A shrinking trade deficit added 0.4 percentage point to real GDP growth in the fourth quarter, as exports rose more than imports (up 6% and 2%, respectively). Increased government spending added 0.6 percentage point to fourth quarter growth, with state and local governments accounting for about two-thirds of that, and the federal government one-third. Even inventories added a small 0.1 percentage point to growth in the fourth quarter. However, inventory levels are high and will be a drag on growth this year.

Inflation slowed last quarter even as the economy remained strong. The personal consumption expenditures price index increased 1.7% at an annualized rate, with the core PCE price index (excluding food and energy) up 2.0% for a second straight quarter, right at the Federal Reserve's inflation objective. However, on a year-over-year basis core PCE inflation was still elevated at 3.2%.

The U.S. economy is starting 2024 in a good place. Growth is set to slow this year as high interest rates remain a drag, consumers will need to slow their spending growth to increase their saving, government spending growth is set to slow after a surge in 2023, the global economy is soft, and inventories are likely too high. But the U.S. economy is likely to avoid recession in 2024 as the economic fundamentals are solid.

The strong GDP release complicates the task for the Federal Reserve. After raising interest rates aggressively in 2022 and most of 2023, the Fed was hoping that the economy would grow at a pace of somewhat below 2%, what FOMC participants think is consistent with 2% inflation over the long run. Instead, growth accelerated in 2023, to well above the economy's long-term potential. But at the same time inflation is slowing rapidly toward the FOMC's 2% objective. The Fed could see inflation moving toward this goal and decide to cut interest rates. But at the same time above-trend growth could reignite inflationary pressures in the economy. The FOMC is likely to take a wait-and-see approach and keep the fed funds rate, their key policy rate, in its current 5.25% to 5.50% range until it becomes clearer that growth is slowing. PNC expects the FOMC to start cutting the fed funds rate in mid-2024.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 1/31/24)	5.38-5.38	5.38	5.38%	We expect the FOMC to sit tight at their 1/31 meeting. We expect the first of three 25 bps rate cuts to start near mid-year through year-end 2024, followed by a bigger total funds rate decline in 2025.
Jan Consumer Confidence (1/30, Tuesday)	105.6-118.0	113.0	110.7 (Dec)	Up to 116.
Jan ADP Employment Survey (1/31, Wednesday)	115-170K	135K	164K (Dec)	Up 170K.
Q4 Employment Cost Index (1/31, Wednesday)	1.0-1.2%	1.0%	1.1% (Q3)	Up 1.0% and 4.0% Y/Y. This will be closely watched by Chair Powell and it would take a downside "surprise" to put a March rate cut on the table.
Q4 Nonfarm Productivity (Prelim) (2/1, Thursday)	1.2-3.0%	2.8%	5.2% (Q3)	Up 3.0%.
Q4 Unit Labor Costs (Prelim) (2/1, Thursday)	0.5-3.1%	1.3%	-1.2% (Q3)	Up 1.0%.
Initial Claims, Wk of 1/27/24 (2/1, Thursday)	205-220K	210K	214K (1/20/24)	Down to 212K.
Jan ISM (2/1, Thursday)	46.2-48.0	47.3	47.2 (Dec)	Up to 47.8.
Dec Construction Spending (2/1, Thursday)	0.2-0.7%	0.5%	0.4% (Nov)	Up 0.3%.
Jan Nonfarm Payrolls (2/2, Friday)	140-233K	175K	216K (Dec)	Up 215K.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Jan Private Nonfarm Payrolls (2/2, Friday)	115-225K	141K	164K (Dec)	Up 185K.
Jan Manufacturing Payrolls (2/2, Friday)	0K-7K	2K	6K (Dec)	Up 5,000.
Jan Unemployment Rate (2/2, Friday)	3.7-3.9%	3.8%	3.7% (Dec)	Unchanged at 3.7%.
Jan Average Hourly Earnings (2/2, Friday)	0.2-0.4%	0.3%	0.4% (Dec)	Up 0.3% and holding steady at 4.1% Y/Y.
Jan Hours Worked (2/2, Friday)	34.3-34.4hrs	34.3hrs	34.3hrs (Dec)	Unchanged at 34.3 hours.
Dec Factory Orders (2/2, Friday)	-0.4 to 0.5%	0.2%	2.6% (Nov)	Up 0.3%.
Jan U of Mich Consumer Sentiment (final) (2/2, Friday)	78.8-80.5	79.0	78.8 (prelim)	Up to 80.
Jan ISM-NMI (2/5, Monday)	51.1-52.4	51.7	50.4 (Dec)	Up to 52.2.
Dec Trade Balance (2/7, Wednesday)	-\$65.0 to -\$61.2	-\$62.3	-\$63.2B (Nov)	A narrowing to -\$62 billion.
Dec Consumer Credit (2/7, Wednesday)	\$8-\$20.0B	\$12.0B	\$23.8B (Nov)	Up \$18 billion.

Monthly Calendar of Economic Data: January/February 2024

Jan 30

CB Consumer Confidence			
	Total	Current	Expect
Nov	101.0	136.5	77.4
Dec	110.7	148.5	85.6
Jan			

Jan 31

Employment Cost Index			
	Total	W&S	Fringes
1Q'23	1.2	1.2	1.2
2Q'23	1.0	1.0	0.9
3Q'23	1.1	1.2	0.9
4Q'23			

Jan Chicago PMI
Jan ADP Employment Survey

Feb 1

Nonfarm Productivity & Costs (Q4 Prelim)		
	Productivity	Unit Labor Costs
Q1'23	-0.8	7.4
Q2'23	3.6	2.6
Q3'23	5.2	-1.2
Q4'23(p)		

Unemployment Claims (000)				
Sept	Oct	Nov	Dec	Jan
217	211	218	221	202
221	200	233	203	189
202	212	211	206	214
205	220	219	220	
209			203	

ISM Manufacturing Index	
Nov	46.7
Dec	47.4
Jan	

Construction Spending	
Oct	1.2%
Nov	0.4
Dec	

Autos			Light	
	Dom	For	Truck	Total
Nov	2.2	0.8	12.3	15.3
Dec	2.3	0.8	12.8	15.8
Jan				

Feb 2

	U. Rate	Jobs (000)
Nov	3.7	+173
Dec	3.7	+216
Jan		

Manufacturers'			
	Ship	Inv	Orders
Oct	-1.3	0.0	-3.4
Nov	0.5	0.1	2.6
Dec			

Jan U. Mich. Consumer Sentiment (final)

Feb 5

ISM Non-Mfg Index	
Nov	52.7
Dec	50.6
Jan	

Feb 7

Trade Balance (\$B)	
Oct	-\$64.5
Nov	-\$63.2
Dec	

Consumer Credit (\$B)	
Oct	5.8
Nov	\$23.8
Dec	

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