VIEWPOINT

Northmarq

Economic Commentary:

Year-End Reflections and Post-Election Impact

December 2024

December 2024

With the election behind us, attention is now focused on the impact of expected policies emanating from the new administration. While there is little, if any, certainty about pertinent details of the new policies, it will likely take time for any changes in immigration, trade or fiscal policies to impact the economy. The Fed has made it clear that they won't make any changes to monetary policy until they see what new administration policies are implemented so that they can assess their impact on the economy, inflation and the labor market. In the meantime, incoming data continue to indicate that the economy is growing, inflation is trending lower and the labor market is cooling.

Inflation & Productivity

Inflation readings for October were generally in line with expectations. The Consumer Price Index (CPI) was up 0.2% for the fourth month in a row, bringing the year-over-year figure to 2.6%, up from 2.4% in September due to base effects from last year. The Core CPI was up 0.3% for the third month in a row, bringing the year-over-year reading to 3.3%, equal to the previous month. Shelter costs continue to provide upward pressure on the CPI calculation; however, the November reading from Apartment List rental price data showed rents nationwide dropping 0.8% month-to-month and 0.6% year-over-year. These real time readings on rents will be working their way into the CPI calculation over the coming months.

The Fed's preferred measure of inflation, the Core Personal Consumption Expenditure index, Core PCE, increased 0.3% and is now at 2.8% year-over-year. The decline in year-over-year inflation pressures has paused, but the Fed feels that the trend is still moving in the direction of their 2.0% target.

The preliminary readings for labor productivity in third quarter 2024 were slightly less than expected but still increased at a healthy rate of 2.2% annualized. Strong productivity will help keep inflationary pressures in check and is, in part, a response to the tight labor markets of the last few years. As the labor markets cool, some easing in productivity growth can be expected.

GDP, Spending & Savings

The second revision of third quarter 2024 real GDP showed that corporate profits declined by $10.2 billion in the quarter, in contrast to an increase of $132.5 billion in second quarter 2024. On a year-over-year basis, corporate profits are +6.1%. Most of the quarterly decline in profits came from rest-of-the world profits and domestic financial corporations. Profits of domestic nonfinancial corporations did increase by $30.8 billion, but that was much less than the $108.8 billion seen in second quarter 2024. Profit margins moved slightly higher in third quarter 2024, helping to support business investment and hiring.

Real personal disposable income increased by 0.4% in October and +2.7% year-over-year. At the same time, real personal consumption expenditures only rose by 0.1% and +3.0% year-over-year. The relative increase in monthly income to spending enabled the savings rate to increase from 4.1% to 4.4% – the first increase in the savings rate since January.

Manufacturing

The ISM Manufacturing index for November came in stronger than expected at 48.4 but remains in a contractionary mode (readings below 50) for the eighth consecutive month and the 24th time out of the last 25 months. Only three out of 18 industries reported growth. The improvement during the month was led by inventories where manufacturers are looking to get ahead of supply-chain risks that may develop due to potential tariffs. Production showed only a minor increase, but New Orders recorded an eight-month high providing some hope for December.

The Labor Market

Labor slack is on the rise. November's Non-Farm Payroll report provided a bounce back from the weak October report that was affected by the impact of hurricanes and labor strikes. Nonetheless, the report was mixed. Non-farm payrolls increased by 227,000, and the previous two months were revised higher by 56,000 in total. The unemployment rate rose from 4.1% to 4.2%. The rise in the unemployment rate reflected a decline in the labor force of 193,000, a drop in the number of employed in the household survey of 355,000 and a rise in the number of unemployed of 162,000.

Permanent job losers rose to the highest level in three years, and the average duration of unemployment is 23.7 weeks, the highest since April 2022. The employment-to-population ratio fell to 59.8%, which is the lowest since February 2022. Average hourly earnings showed a 0.4% increase for the month, keeping the year-over-year rate at 4.0%. The Fed has become less focused on the labor market as a source of inflationary pressures but still welcomes further signs of slowing wage growth. As long as productivity can grow around 2.0%, the 4.0% yearly increase in earnings is in line with the inflation target of 2.0%.

The Challenger report on job cuts and hirings showed that for the year-to-date, companies have announced 722,566 job cuts – up 5.2% to the comparable period in 2023. It is the fourth highest November total since 2008. Cost cutting, along with market and economic conditions, were the leading reasons for job cutting plans. At the same time, hiring plans are down 2.0% year-to-date when compared to the same period in 2023. In short, the labor market is cooling, but not collapsing.

> *"The Fed has made it clear that they won't make any changes to monetary policy until they see what new administration policies are implemented so that they can assess their impact on the economy, inflation and the labor market."*
>
> **John Beuerlein**
> **Chief Economist, Pohlad Companies**

VIEWPOINT

Fed Funds Rate

The next meeting of the Federal Reserve's Open Market Committee (FOMC) is December 17-18. Markets are now pricing in an 88% chance that the Fed Funds rate will be cut another 0.25%, bringing the target range to 4.25% - 4.50%.

According to the minutes of their November 6-7 meeting, the upside risks to the inflation outlook were seen as "little changed," while downside risks to employment and growth were seen as having decreased somewhat. Members of the committee were clear that the pace of future interest rate reductions will be gradual as the Fed moves toward a more neutral stance for monetary policy. Rate cuts will be gradual because it is not clear what the neutral rate is.

The Fed has been raising its estimate of the neutral Fed Funds rate, and it is expected that it will move higher in December when it updates the quarterly Summary of Economic Projections (SEP). In the September SEP, the median estimate of the neutral rate was 2.875%. Expect the Fed to raise its estimate of the neutral rate to slightly above 3.0%.

Since the middle of September, markets have raised the expected level of the Fed Funds rate in December 2025 from 2.88% to 3.70%. The 10-year Treasury yield bottomed at 3.62% in September and is now 4.15% after having risen to 4.45% after the election. The outlook for the path of monetary policy in 2025 is becoming murkier because of potential policies by the new administration and the appropriate response by the Fed.

For more information please contact:

John Beuerlein | *Chief Economist, Pohlad Companies*

Lanie Beck | *Senior Director, Content and Marketing Research*
lbeck@northmarq.com | (918) 494-2690

Northmarq

3500 American Blvd W | Suite 500
Minneapolis, MN 55431
(952) 356-0100
www.northmarq.com