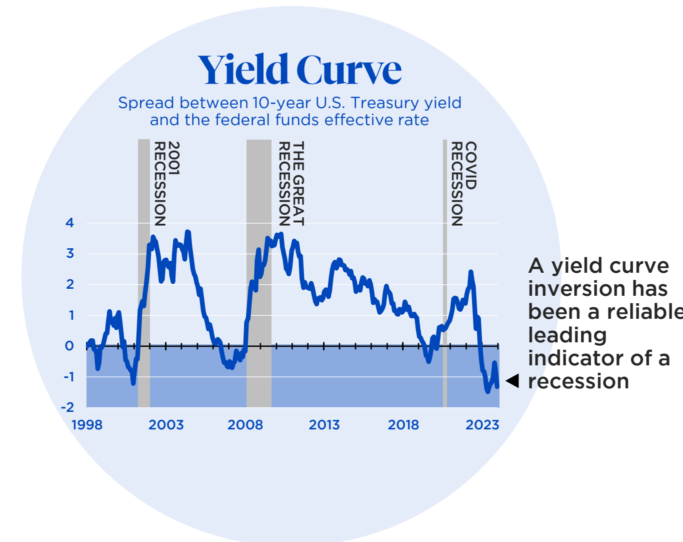
Economic & Financial Markets Monthly Review | January 2024

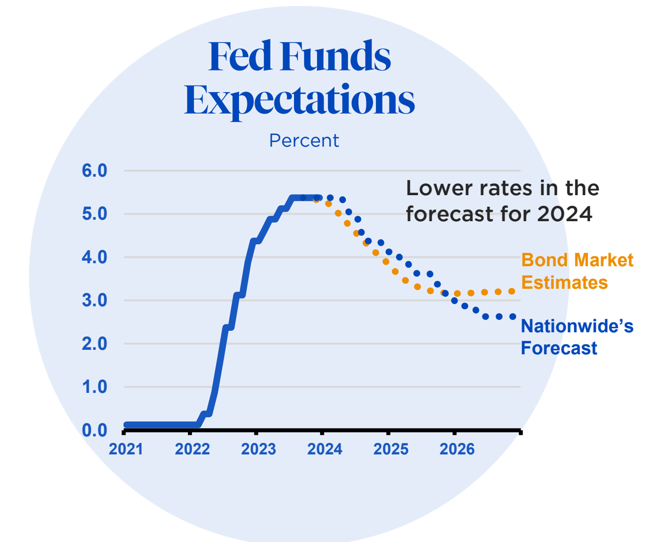
Solid economic push carries into 2024

Economic Overview

Where is the economy now?

The solid momentum for hiring and consumer spending at the end of 2023 should carry into early 2024, pushing off recession fears until farther into the year. This could cause some inflation trends (especially higher costs for housing and services) to linger longer, supporting our call of a later and more modest shift to policy easing from the Fed.





Where we are this month

Mild recession still the base case

Growth in early 2024 might look similar to 2023, but we expect job gains in cyclical sectors and overall spending to weaken sharply by mid-year.

Yield curve inversion deepens again

The 10-year to fed funds rate spread inversion widened further through year-end 2023 with long-term interest rates falling to five-month lows.

Fed easing likely delayed

Due to persistent concerns about services inflation, we don't see the Fed lowering interest rates until the May FOMC meeting at the earliest.

What does this mean

- The slowdown in activity has been more protracted than expected, increasing the odds of a soft landing for the economy. But a mild recession still appears more likely in 2024.
- Any projected recession this year should be modest with limited job losses and business closures — especially compared to the severe impacts over the past two downturns.

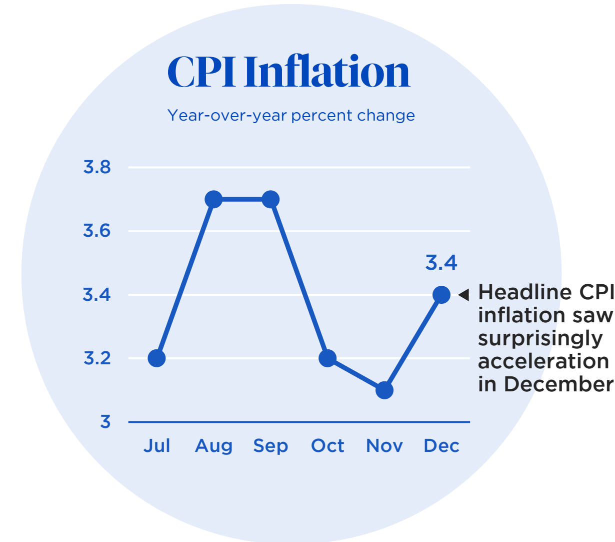
- The yield curve has been inverted for more than a year, in line with the typical lag period prior to the start of each recession over the past 50+ years.
- Other Treasury spreads (including the 2-year Treasury vs. the 10-year) have narrowed as the bond market anticipates the Fed to lower short-term rates over 2024.

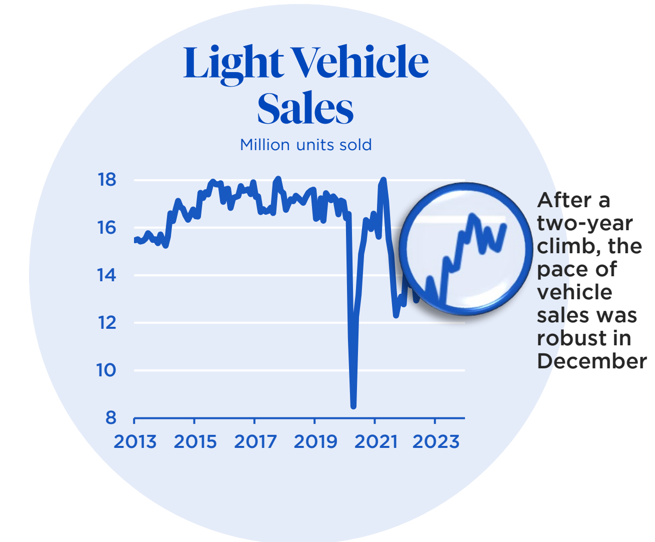
- Fed funds futures lean towards an initial rate cut in March which could lead to some volatility for financial markets if policy easing is delayed.
- Both our rate forecast and bond market expectations show more modest easing than usual from the Fed over the second half of 2024, with the federal funds rate still near 4.0 percent at year end.

Economic Review

U.S. economic machine still running as new year begins

December marked another month of solid job growth and fast wage growth, which should be enough to maintain a healthy level of consumer activity in early 2024. Easier financial conditions also supported activity as evidenced by the jump in light vehicle sales during December. Unfortunately, rising wages come with the downside of a more protracted slowing in inflation, keeping pressure on the Fed to hold monetary policy at a restrictive level for an extended period.





Where we are this month

Labor demand still solid at the end of 2023

Nonfarm payrolls grew by 216,000 in December as labor demand (especially within non-cyclical sectors) continued to be buoyant.

Inflation climbs to three-month high

Year-on-year CPI inflation picked up in December to 3.4 percent, while the core rate edged down to 3.9 percent.

Auto market closes year on high note

Light vehicle sales rode to a five-month high in December at an annual rate of 15.8 million units — led by the light trucks and SUVs category.

What does this mean

- The combination of a still solid number of jobs added and fast wage growth should support incomes and spending activity in early 2024 — helping to push off recession concerns until later in the year.
- Although headline job creation was strong in December, downward revisions to the prior two months brought the three-month moving average down to 165,000 — the lowest of the year and evidence of a gradual downtrend in hiring.

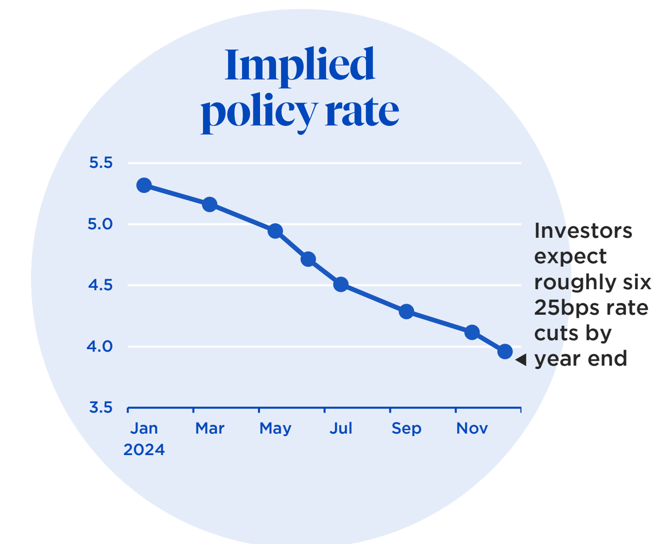
- Headline CPI inflation was boosted by a strong gain in utility costs, and buoyant growth in shelter continued to push up overall services costs. Even when excluding rents, core services inflation remained far faster than trend.
- December's hotter CPI data should temper expectations of an early spring rate cut from the Fed. We maintain our view that the Fed will wait until at least May to lower the policy rate.

- As the supply of semiconductor chips has improved, new sales have trended higher in the past two years since hitting a cycle low in 2021 and arrived at a solid level at the close of 2023.
- Demand for vehicles is likely to be tested in 2024 due to high loan rates and expected slower income gains. Sales should increase in 2025 as borrowing rates fall and economic growth begins to pick up.

Financial Market Review

Investors cheer as the Fed signals no more rate hikes

The S&P 500 rallied in December as Fed policymakers signaled no more rate hikes and investors gained more optimism that the U.S. economy could achieve a soft landing. Interest rates ended 2023 on the downtrend as the bond market priced in a sooner start to Fed easing. We think the Fed will wait until at least until May to begin cutting rates. The balance of risks and looser financial conditions argue in favor of Fed policymakers taking a gradual, data-dependent approach.



Where we are this month

Equities end 2023 at highs

The S&P 500 rose 5.0 percent in December, marking a jubilant finish to a volatile 2023 that began with pervasive recession fears but ended with the economy still on firm ground.

Interest rates fall further

The 10-year Treasury yield plummeted to an average of about 4.0 percent in December, falling back to levels last seen over the summer.

Investors are anticipating Fed rate cuts

Following the downward movement in the Fed's interest rate forecasts and Chair Powell's post-meeting press conference, market participants now expect rate cuts to start as early as March.

What does this mean

Equities

- Persistently solid economic data, falling interest rates, cooling inflation, and signs from the Fed that additional rate hikes are unlikely sparked a strong equity rally. Communication services was the only sector of the S&P 500 that didn't participate in the December rise.
- Market valuation metrics rose last month and stocks became even more expensive as investors gained confidence in the soft-landing narrative.

Interest rates

- The downward move in the 2-year Treasury note yield, which is sensitive to Fed policy, was reinforced in the wake of the December FOMC meeting as Chair Powell indicated that the central bank's next move would likely be to loosen policy.
- Comments from other Fed officials, while trying to deliver a balanced message, also suggest rate cuts are coming later this year.

Fed rate cuts

- Fed officials see the economy moving toward a healthier alignment and thus don't think that tighter policy will be necessary. However, policy should stay restrictive for the time being and risks imply later cuts than investors currently expect.
- Looser financial conditions in recent weeks may delay the first rate cut as this could help the economy and inflation to re-accelerate.

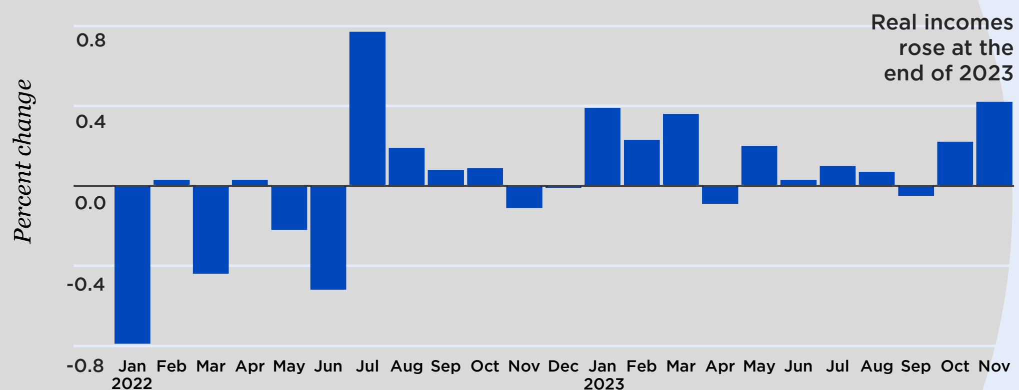
Outlook

Fading inflation should boost spending power

Excess pandemic savings and outsized income gains enabled consumers to boost spending over 2022 and 2023 even as prices for many good and services rose rapidly. While the pace of wage increases has moderated, household incomes are still rising and inflation has declined meaningfully. As a result, real incomes (adjusted for inflation) rose over much of 2023, helping to underpin sturdy consumer spending.

Looking ahead, declining inflation will offer support to real income growth, but we forecast a marked slowing in employment gains. As such, growth in household incomes should falter, leading to a pullback in consumer spending. Given these expectations, we still expect a mild recession by mid-year. However, if strength in hiring is maintained, buoyant real income gains would power solid consumer spending in the year ahead. In this upside scenario to our baseline, the Fed could be able to achieve the coveted soft-landing.

Monthly real personal income growth



Podcast
2024 Economic and Financial Market Outlook
PLAY

24 min

FIND **NATIONWIDE MARKET INSIGHTS** ON YOUR FAVORITE PODCAST PLATFORM TO HEAR MORE

Latest Forecast

Data as of January 2024

	2022	2023	2024	2025	2026
	ACTUAL	ESTIMATE	FORECAST		
REAL GDP	2.1%	2.5%	1.2%	1.3%	1.6%
UNEMPLOYMENT RATE	3.6%	3.6%[a]	4.4%	4.4%	4.1%
INFLATION [1] (CPI)	7.1%	3.2%[a]	2.8%	2.4%	2.1%
TOTAL HOME SALES	5.67	4.77	4.60	5.30	5.95
S&P/CASE-SHILLER HOME PRICE INDEX	5.8%	5.6%	2.0%	3.4%	3.2%
LIGHT VEHICLE SALES	13.8	15.5[a]	15.1	16.0	16.5
FEDERAL FUNDS RATE [2]	4.25%	5.25%[a]	4.00%	3.00%	2.50%
5-YEAR TREASURY NOTE [2]	3.99%	3.84%[a]	3.75%	3.00%	2.90%
10-YEAR TREASURY NOTE [2]	3.88%	3.88%[a]	4.00%	3.45%	3.25%
30-YEAR FIXED-RATE MORTGAGE [2]	6.42%	6.61%[a]	6.30%	5.10%	4.60%
MONEY MARKET FUNDS	2.27%	5.09%[a]	4.59%	3.40%	2.59%

[1] Percent change Q4-to-Q4
[2] Year-end
[a] Actual

Cooler hiring expected for 2024

Although the labor market carries solid momentum into 2024, more firms are cutting expenses in response to high interest rates and tighter credit. Job losses should be limited compared to prior recessions, but the unemployment rate is expected to climb to around 4.8 percent by year-end 2024.

Elevated long-term rates should persist

Fed policy easing could be delayed until mid-year, with only modest rate cuts projected for later this year. This, and heavy debt issuance from the Treasury, should keep yields elevated over 2024 with the 10-year Treasury rate still around 4.0 percent at year-end.

Contributors

Kathy Bostjancic
SVP & Chief Economist

Ben Ayers, MS
Senior Economist

Oren Klachkin
AVP, Financial Market Economist

Daniel Vielhaber, MA
Economist

Ashleigh Leonard
Economics Specialist

Brian Kirk
Communications Consultant

Sources

Page	Section / Item	Source
Page 1	**Where is the economy now?**	
	Business Cycle	*Nationwide Economics*
	Yield Curve	*Bloomberg; National Bureau of Economic Research*
	Fed funds forecasts	*Nationwide Economics; CME Group*
2	**Economic Review**	
	Nonfarm payroll gains	*Bureau of Labor Statistics*
	Consumer Price Index	*Bureau of Labor Statistics*
	Light vehicle sales	*Bureau of Economic Analysis*
3	**Financial Markets Review**	
	S&P 500	*Standard & Poor's*
	10-year Treasury yield	*Federal Reserve Board*
	Implied policy rate	*Bloomberg*
4	**Outlook**	
	Real income growth	*Bureau of Economic Analysis*
	Latest Forecast	*Nationwide Economics*

The information in this report is provided by Nationwide Economics and is general in nature and not intended as investment or economic advice, or a recommendation to buy or sell any security or adopt any investment strategy. Additionally, it does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person.

The economic and market forecasts reflect our opinion as of the date of this report and are subject to change without notice. These forecasts show a broad range of possible outcomes. Because they are subject to high levels of uncertainty, they may not reflect actual performance. We obtained certain information from sources deemed reliable, but we do not guarantee its accuracy, completeness or fairness. Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company. ©2024 Nationwide

NFM-11356AO.3