

## **Economic Outlook:**

*Rate Cuts Delayed as Federal Reserve Awaits Further Inflation Improvement*

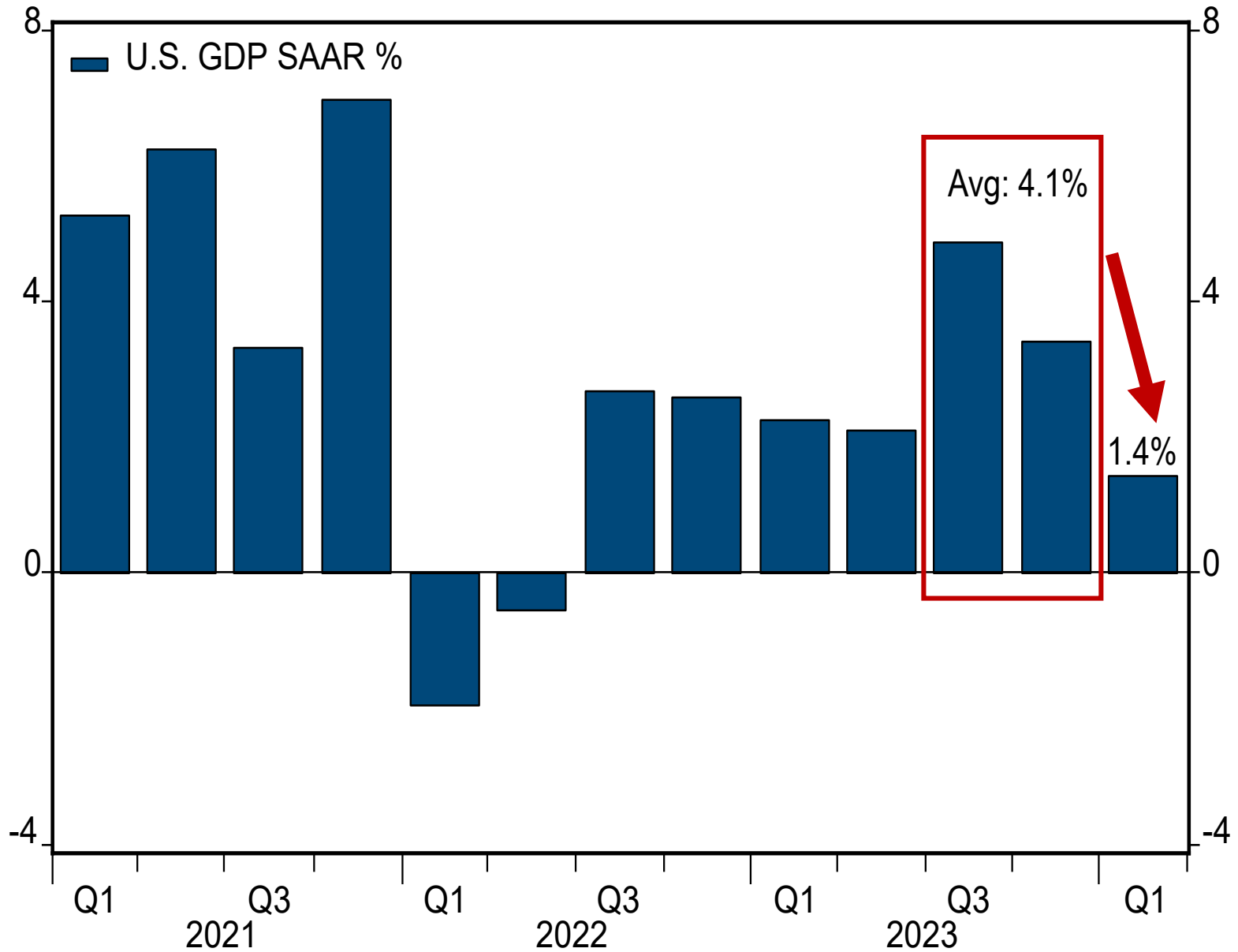
*July 2024*



# STIFEL

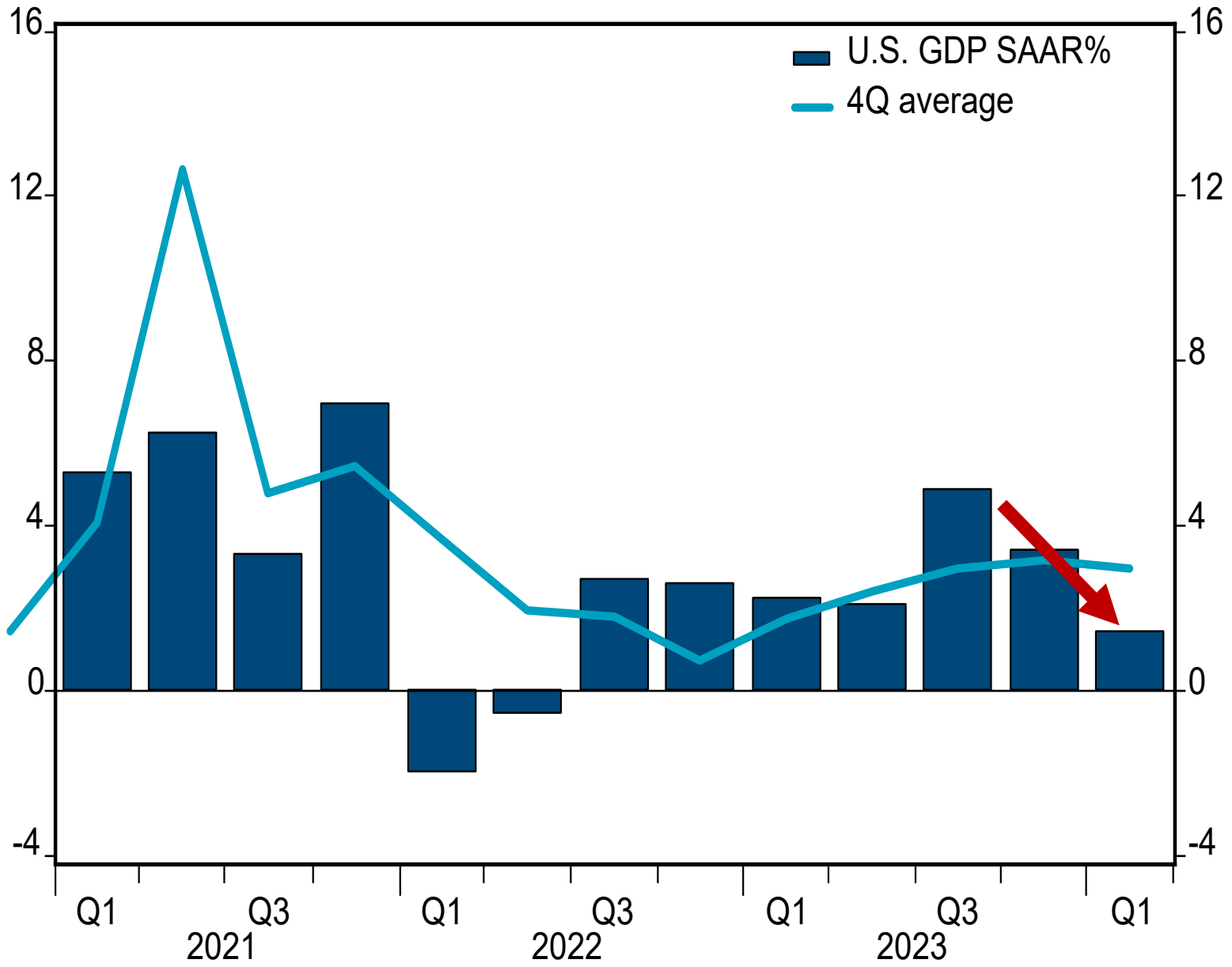
**Lindsey M. Piegza, Ph.D.**  
Chief Economist

# GDP Rises 1.4% in Q1



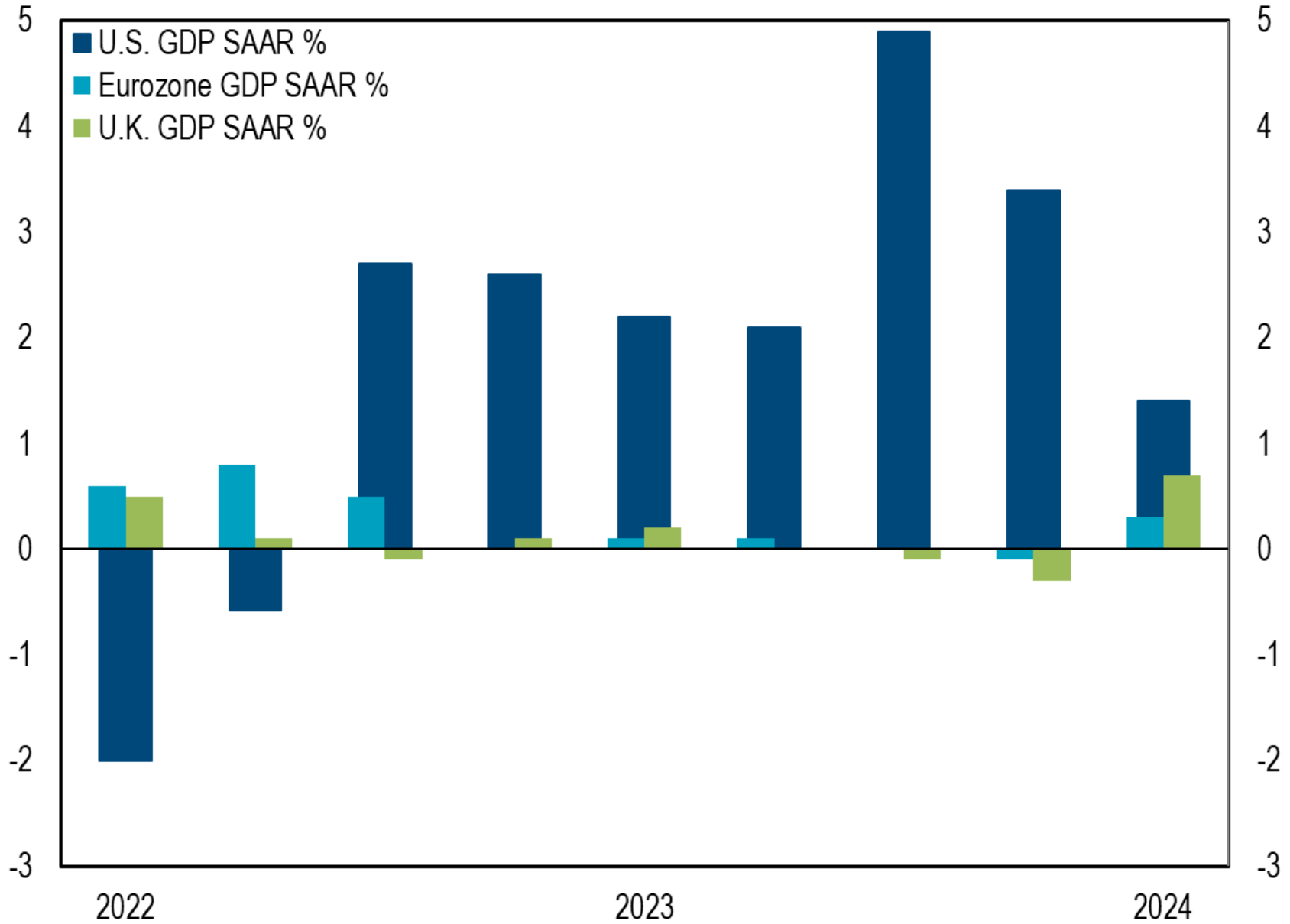
Source: Bureau of Economic Analysis/Haver Analytics

## GDP Remains Positive for Third Consecutive Year



Source: Bureau of Economic Analysis/Haver Analytics

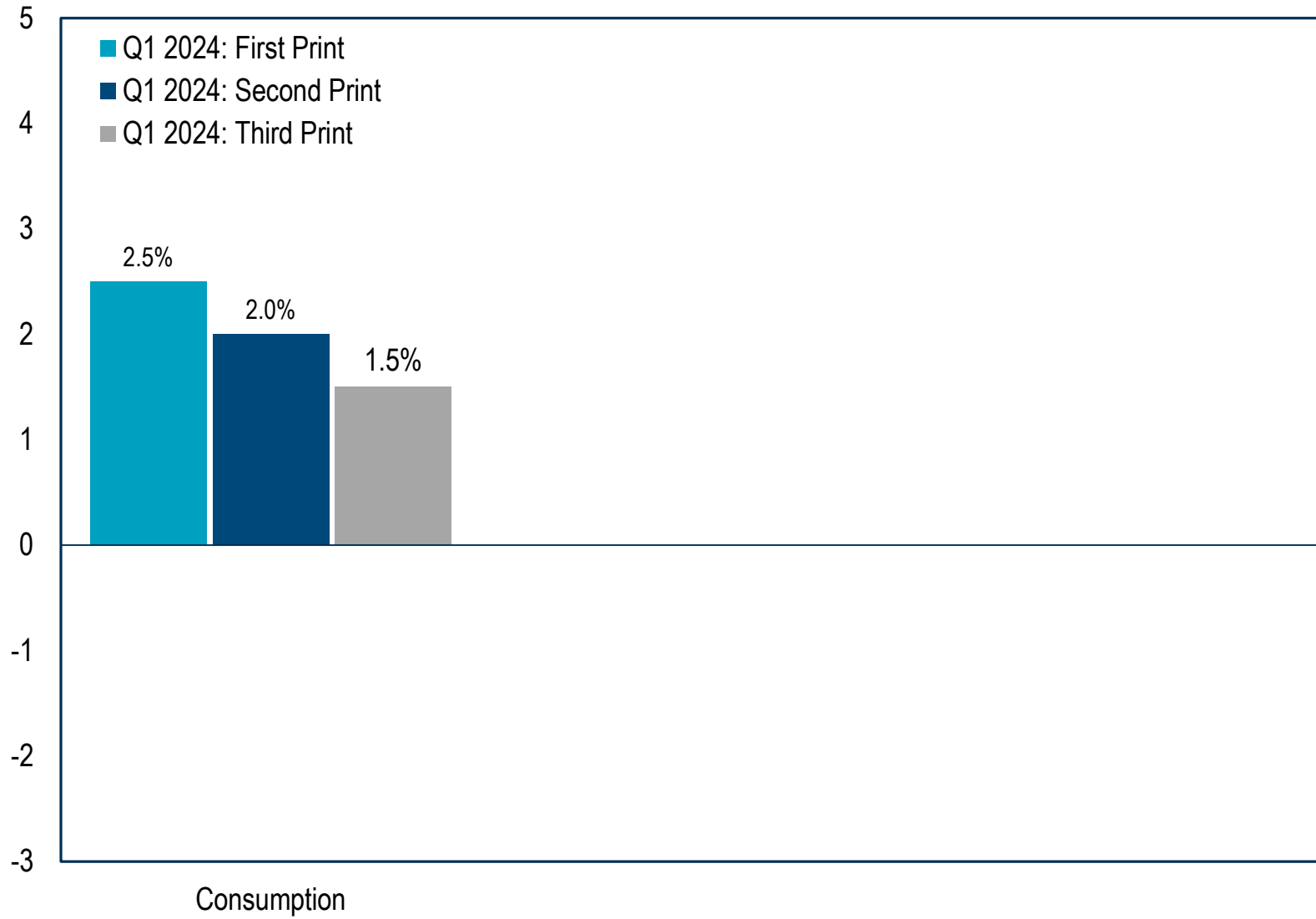
## Domestic Growth Recovers More Meaningfully than Developed Counterparts Abroad



Source: Bureau of Economic Analysis/Bloomberg

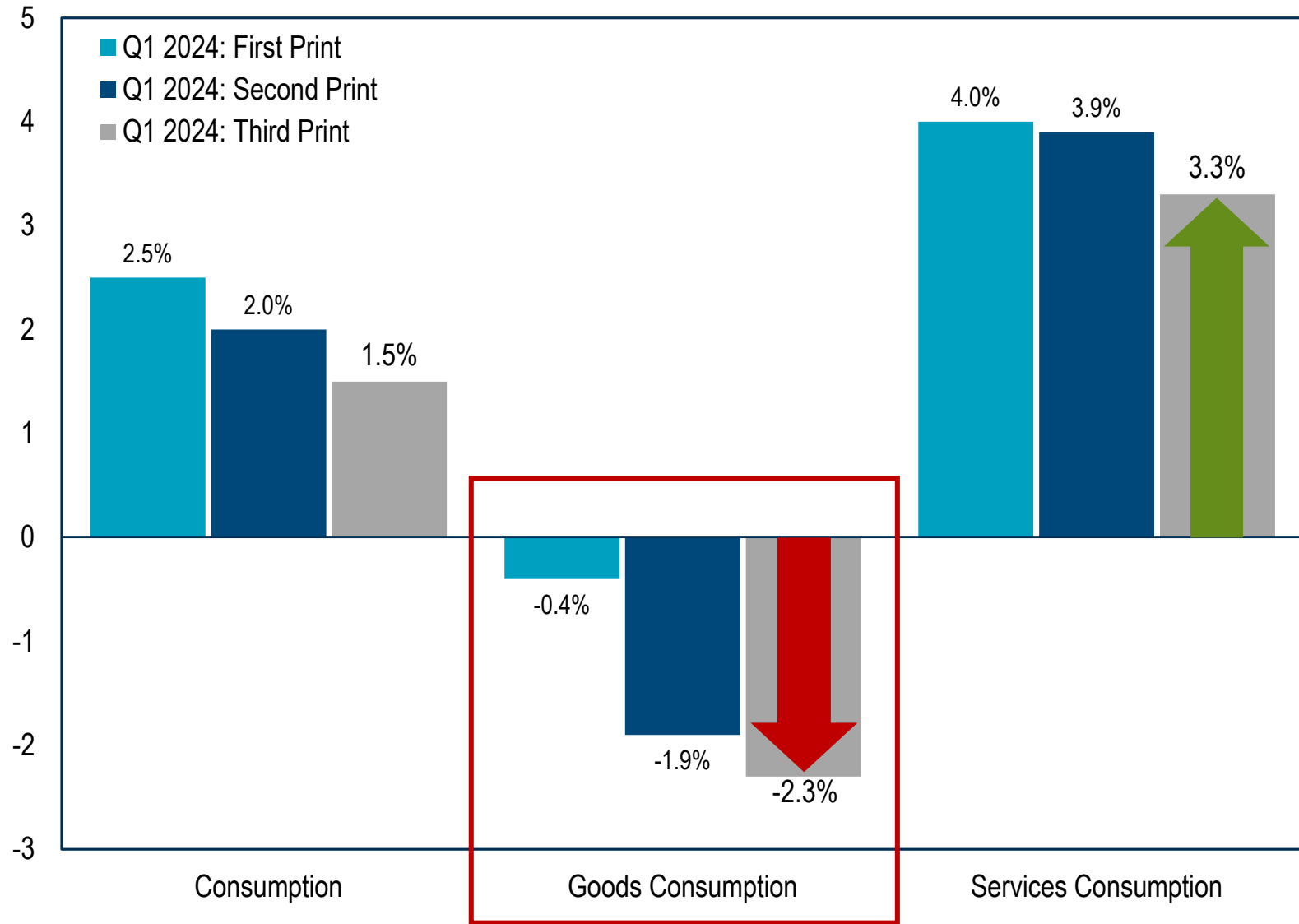
## Consumption Moves Lower in Q1

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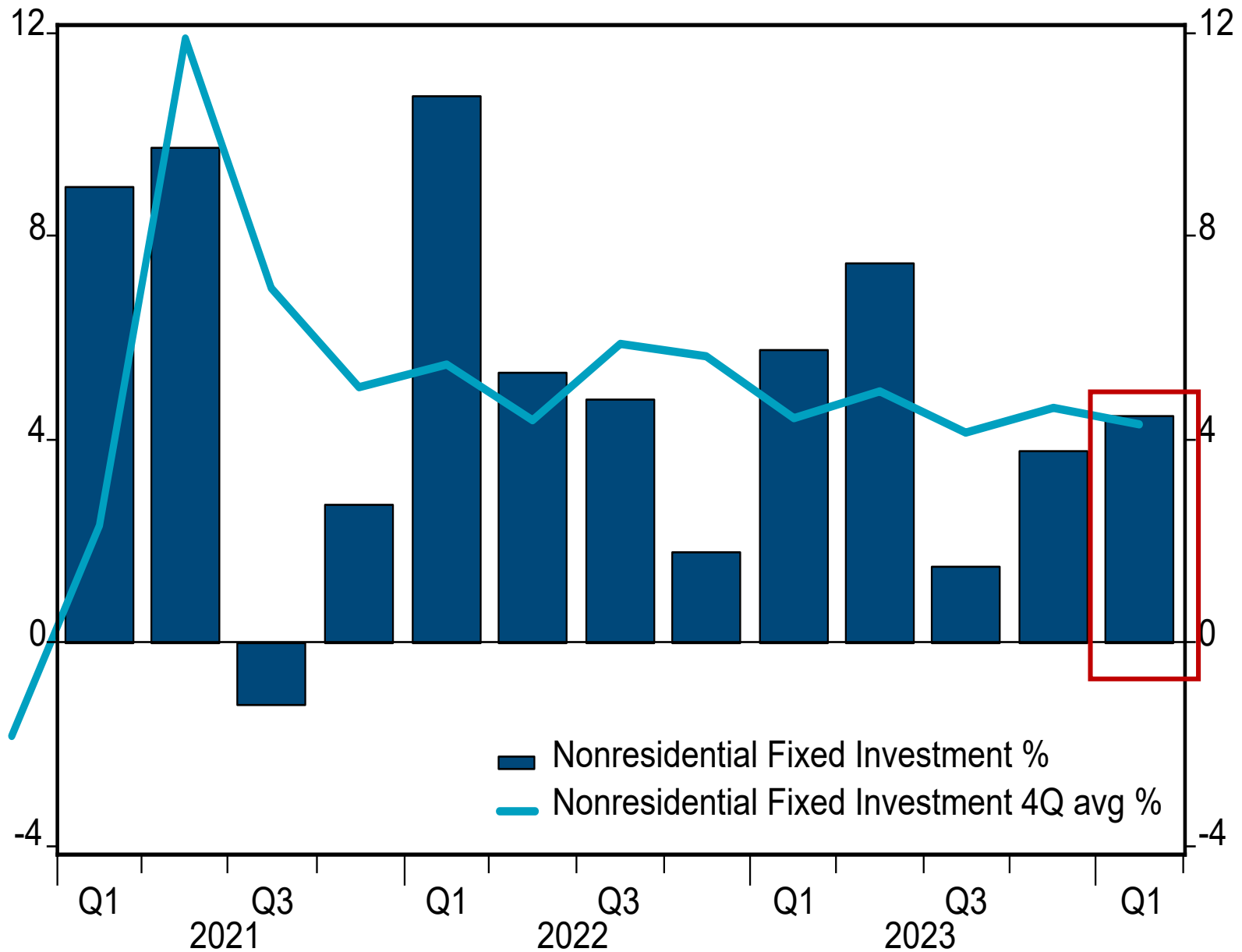
Source: Bureau of Economic Analysis/Haver Analytics

## Consumption Moves Lower in Q1 Due to a Decline in Goods Consumption



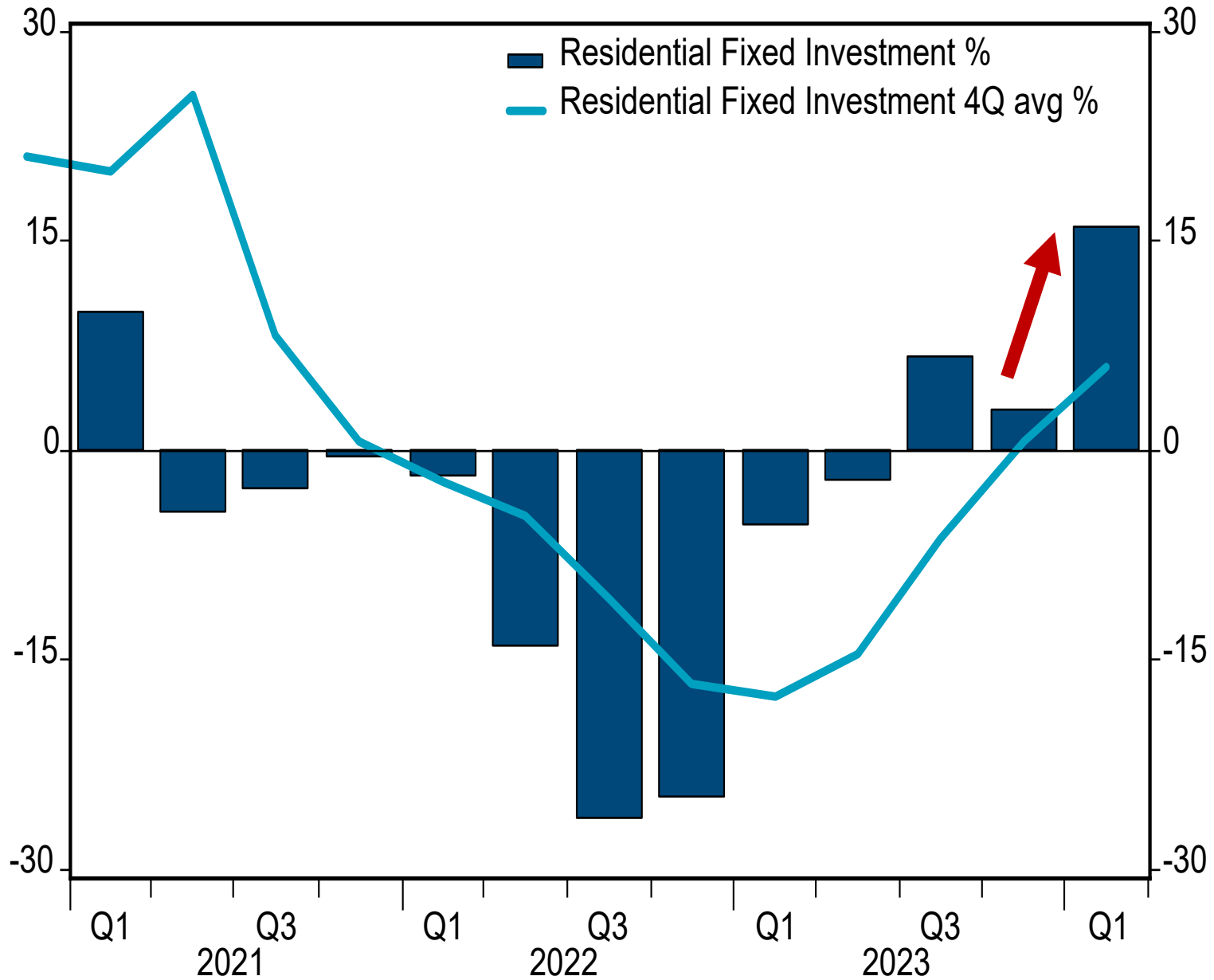
Source: Bureau of Economic Analysis/Haver Analytics

# Rise in Business Investment



Source: Bureau of Economic Analysis/Haver Analytics

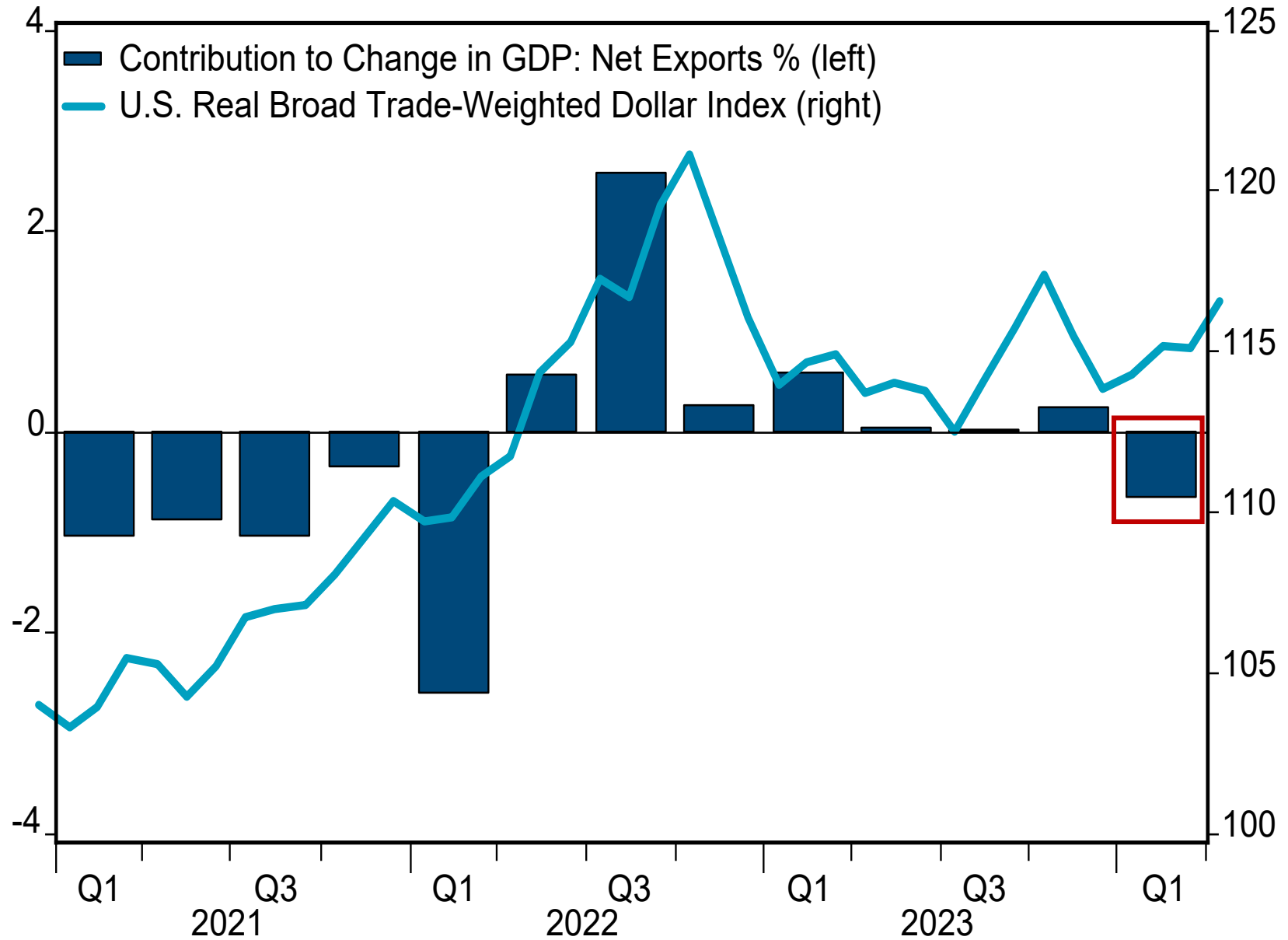
# Jump in Residential Investment



Source: Bureau of Economic Analysis/Haver Analytics

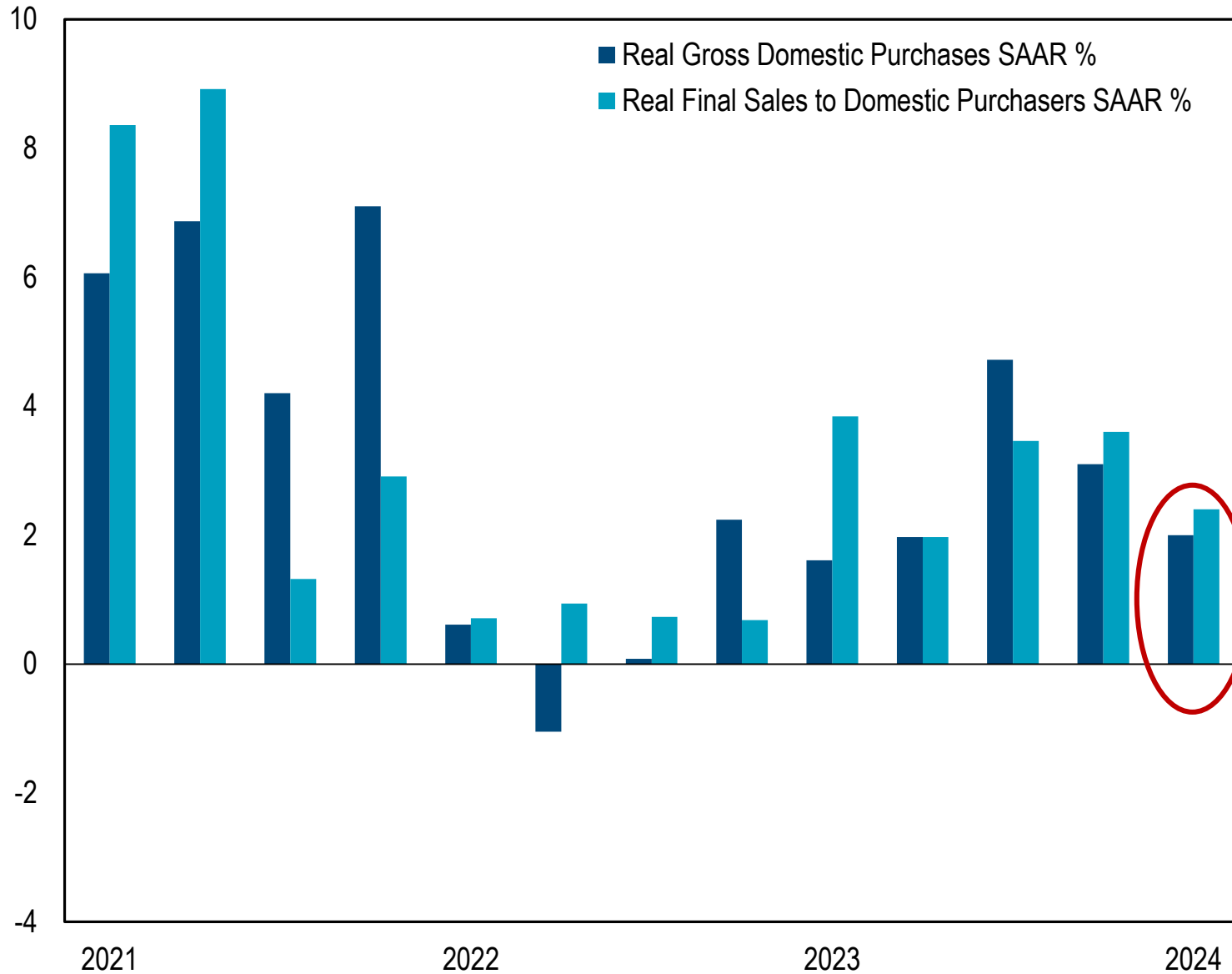


## Net Exports: Net Drag on U.S. GDP



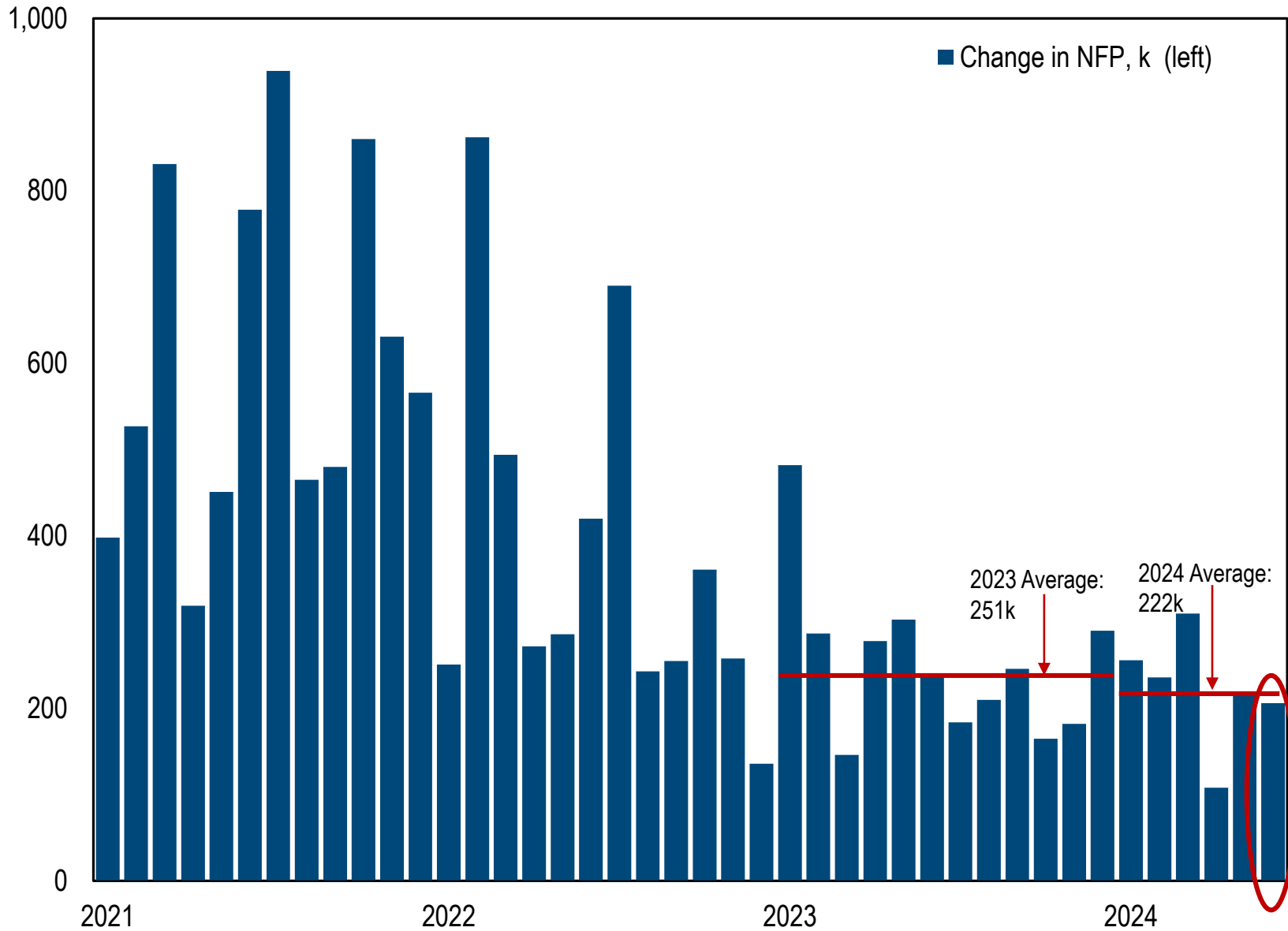
Sources: BEA, FRB/Haver

## GDP More Robust Ex. Trade and Inventories



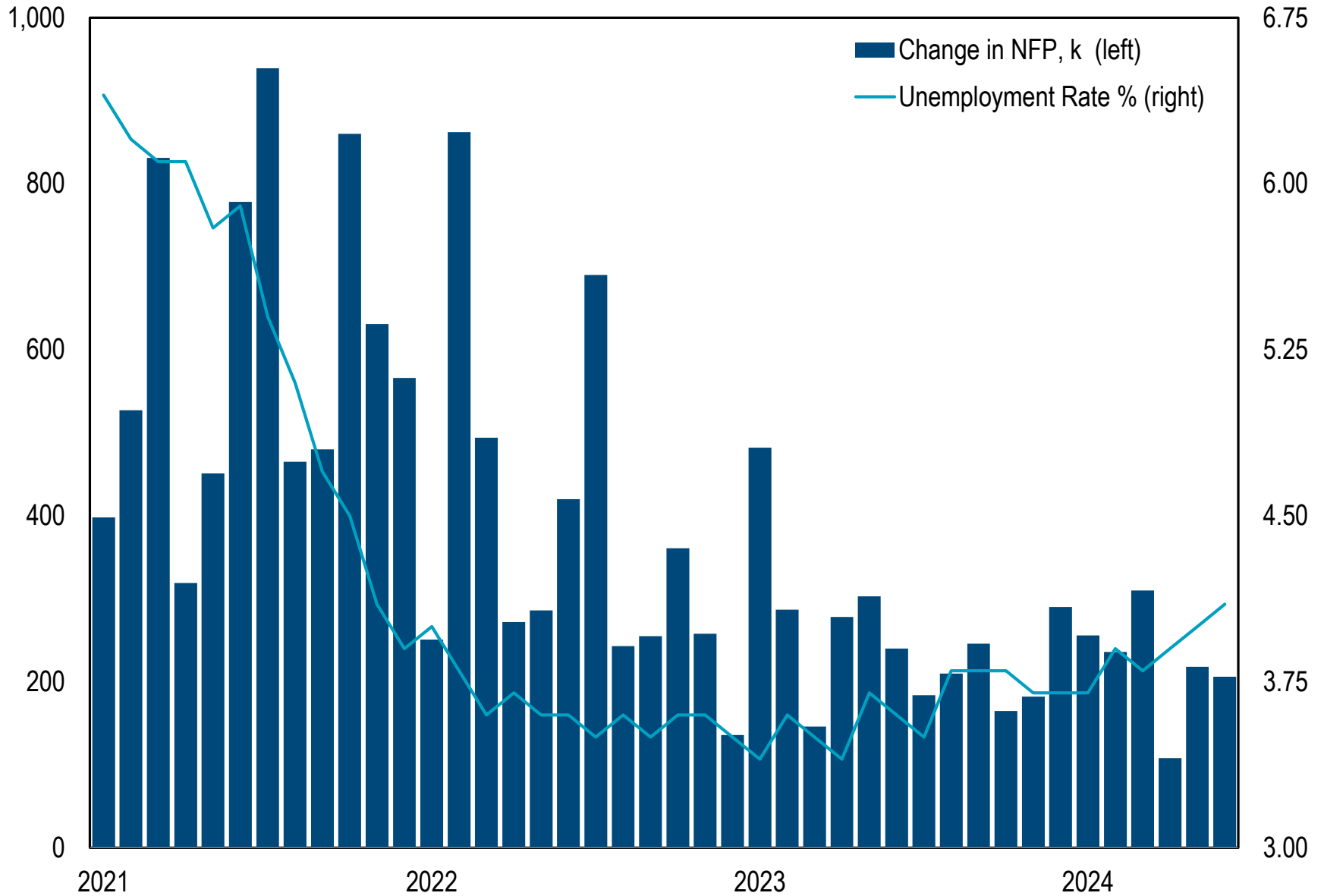
Source: Bureau of Economic Analysis/Haver Analytics

# 206,000 Rise in Payrolls



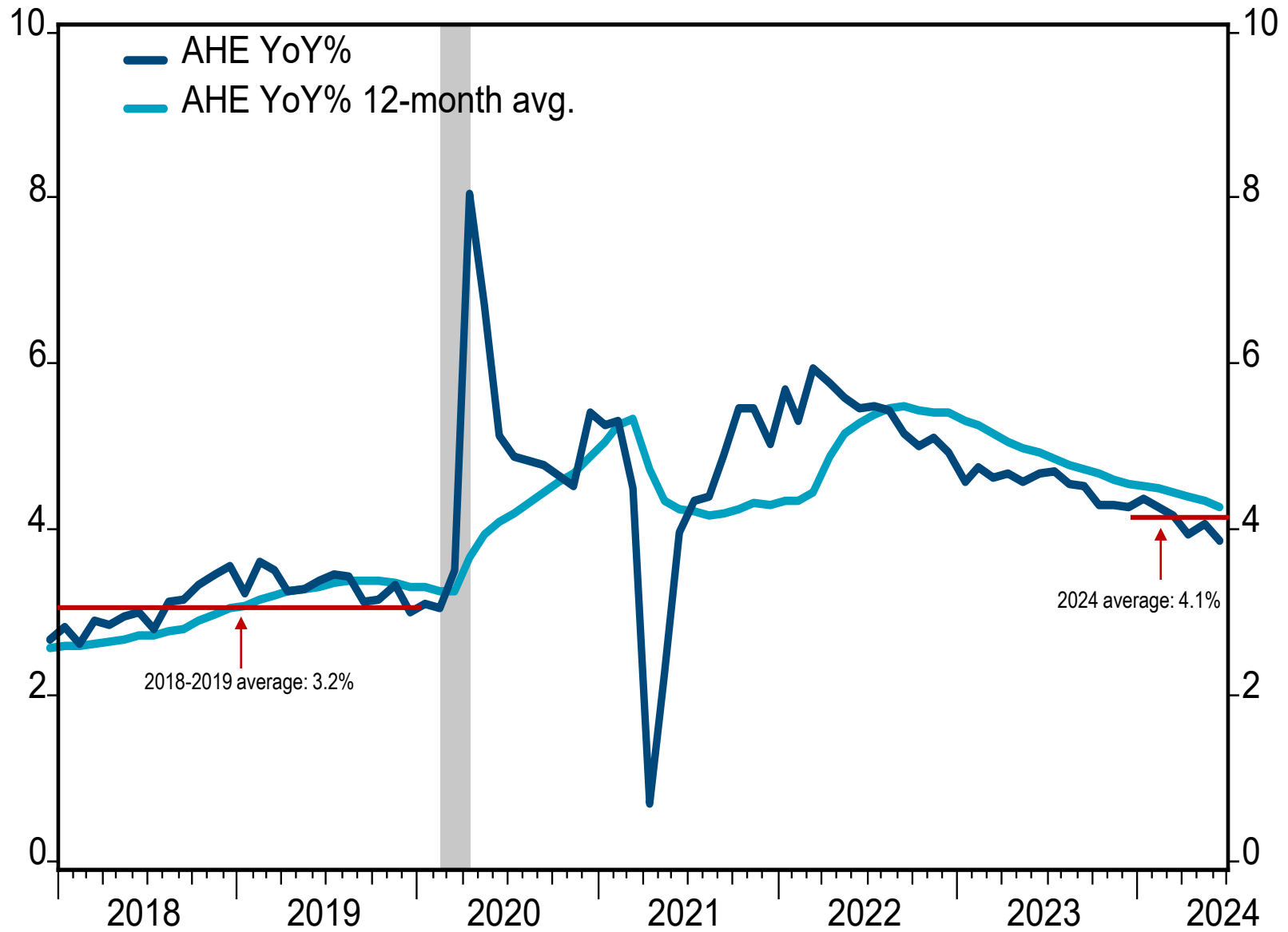
Source: Bureau of Labor Statistics/Haver Analytics

## 206,000 Rise in Payrolls, 4.1% Unemployment Rate



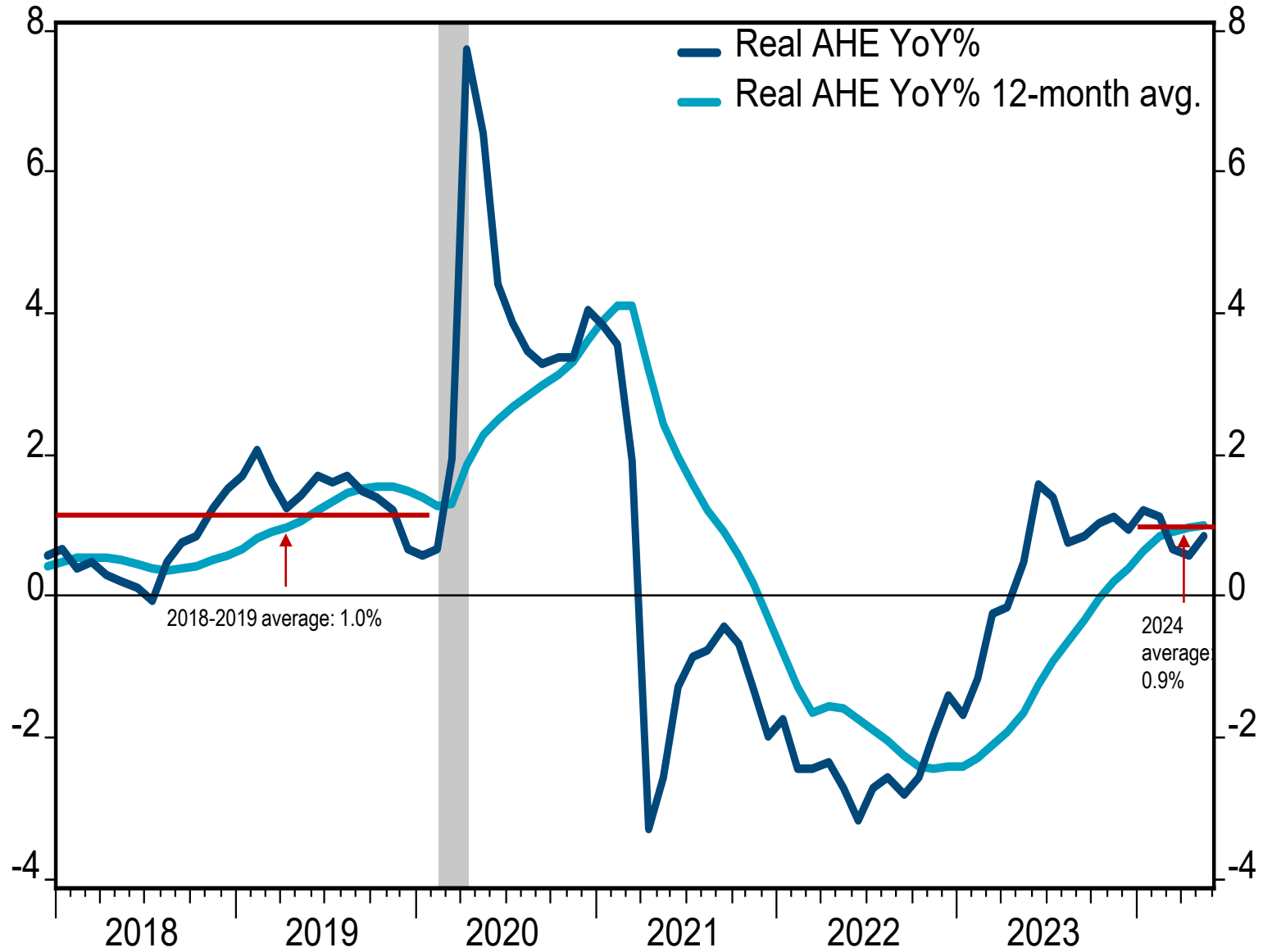
Source: Bureau of Labor Statistics/Haver Analytics

# Earnings Remain Elevated



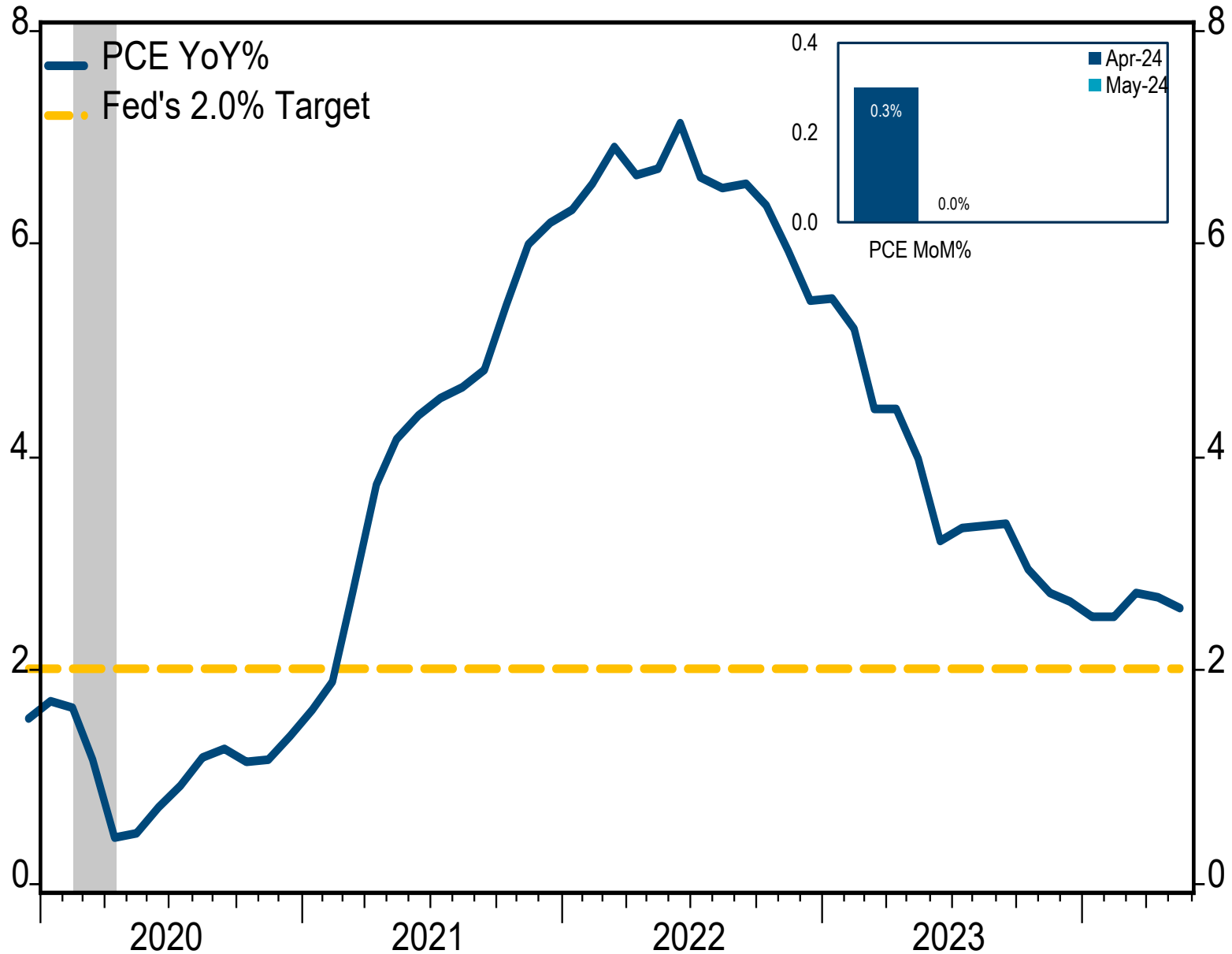
Source: Bureau of Labor Statistics/Haver Analytics

## Real Earnings on Par with Pre-Pandemic Average

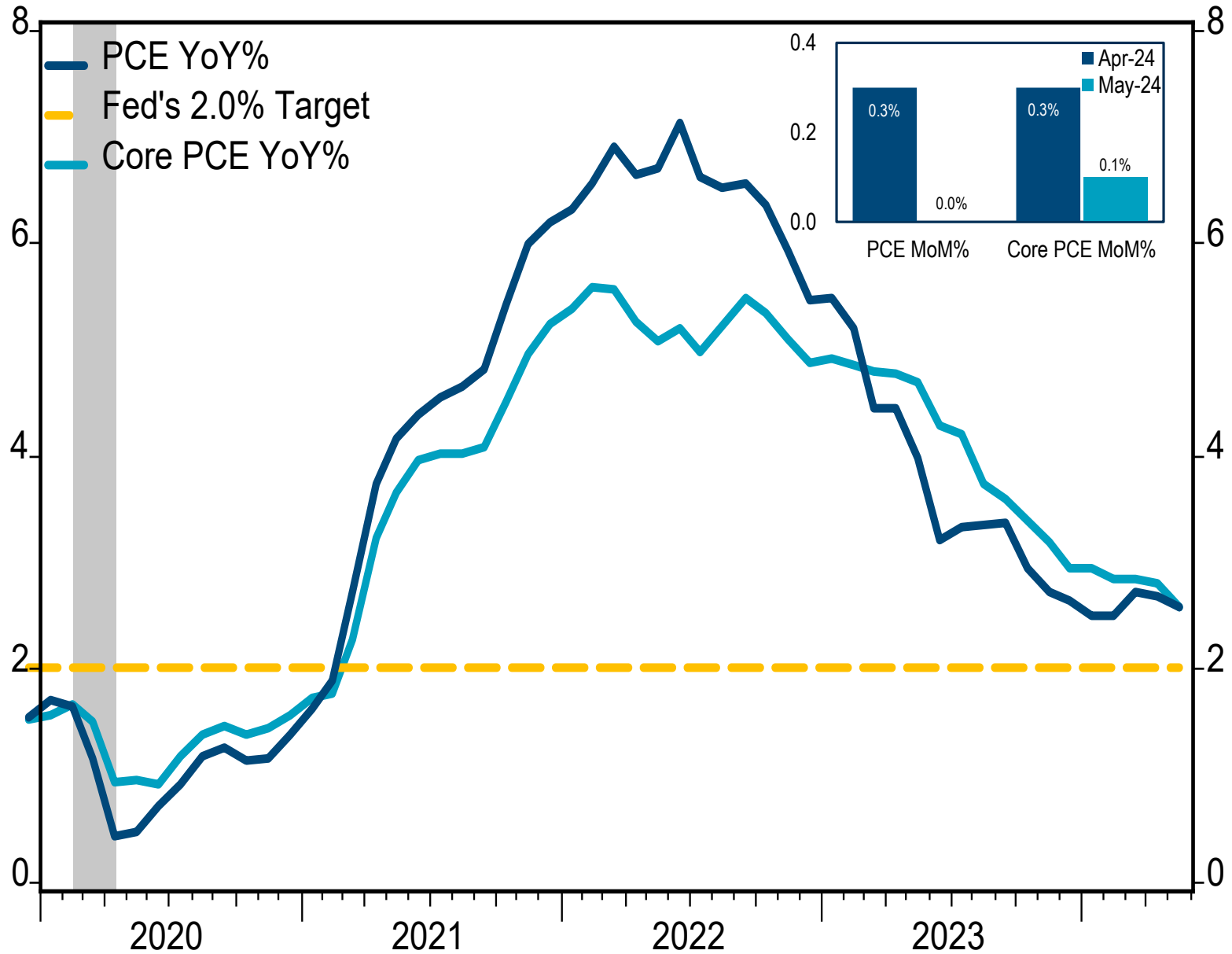


Source: Bureau of Labor Statistics/Haver Analytics

# Cooling in Headline Personal Consumption Expenditures (PCE)



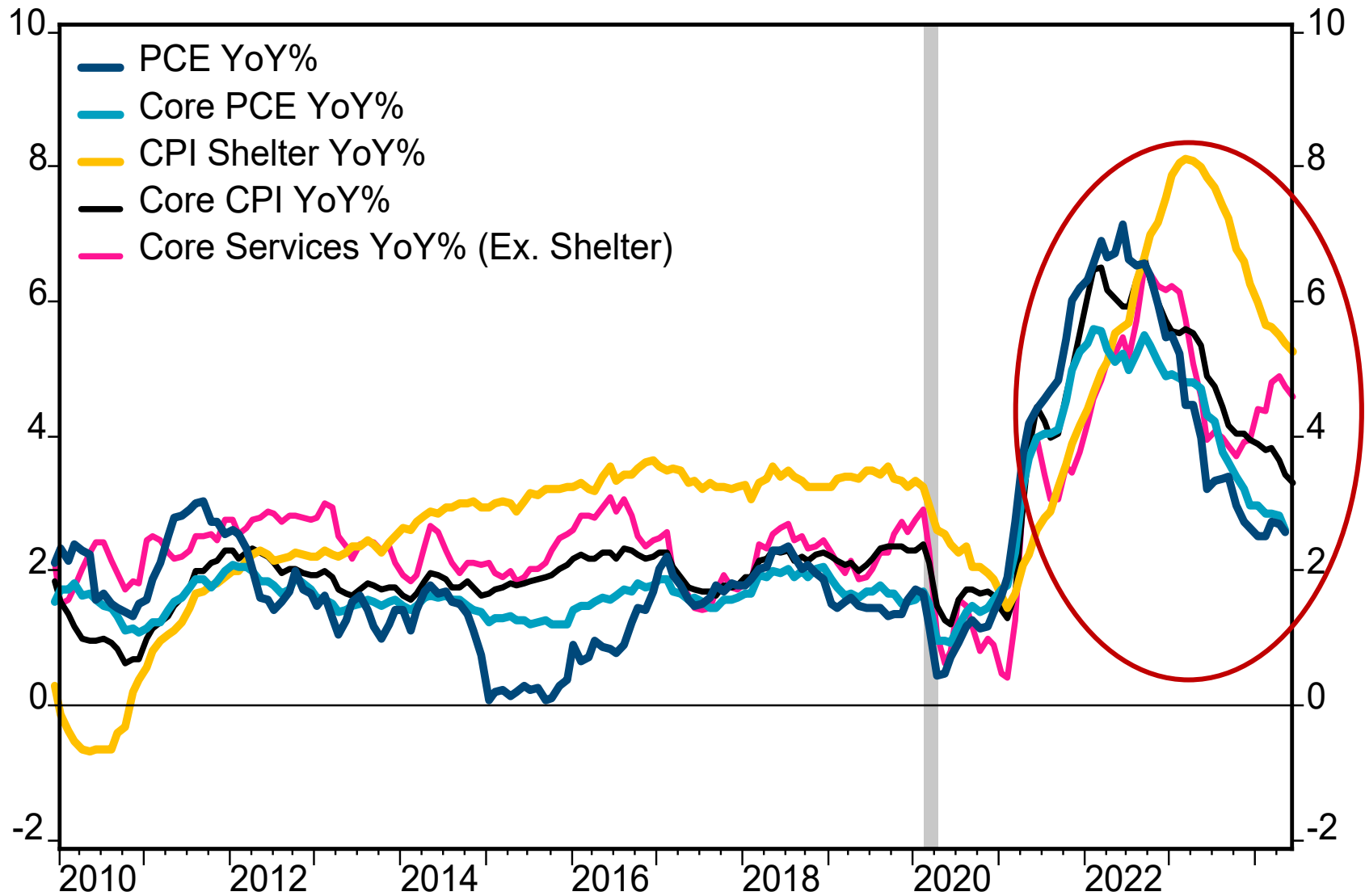
# Cooling in Headline PCE and Core



Source: Bureau of Economic Analysis/Haver Analytics



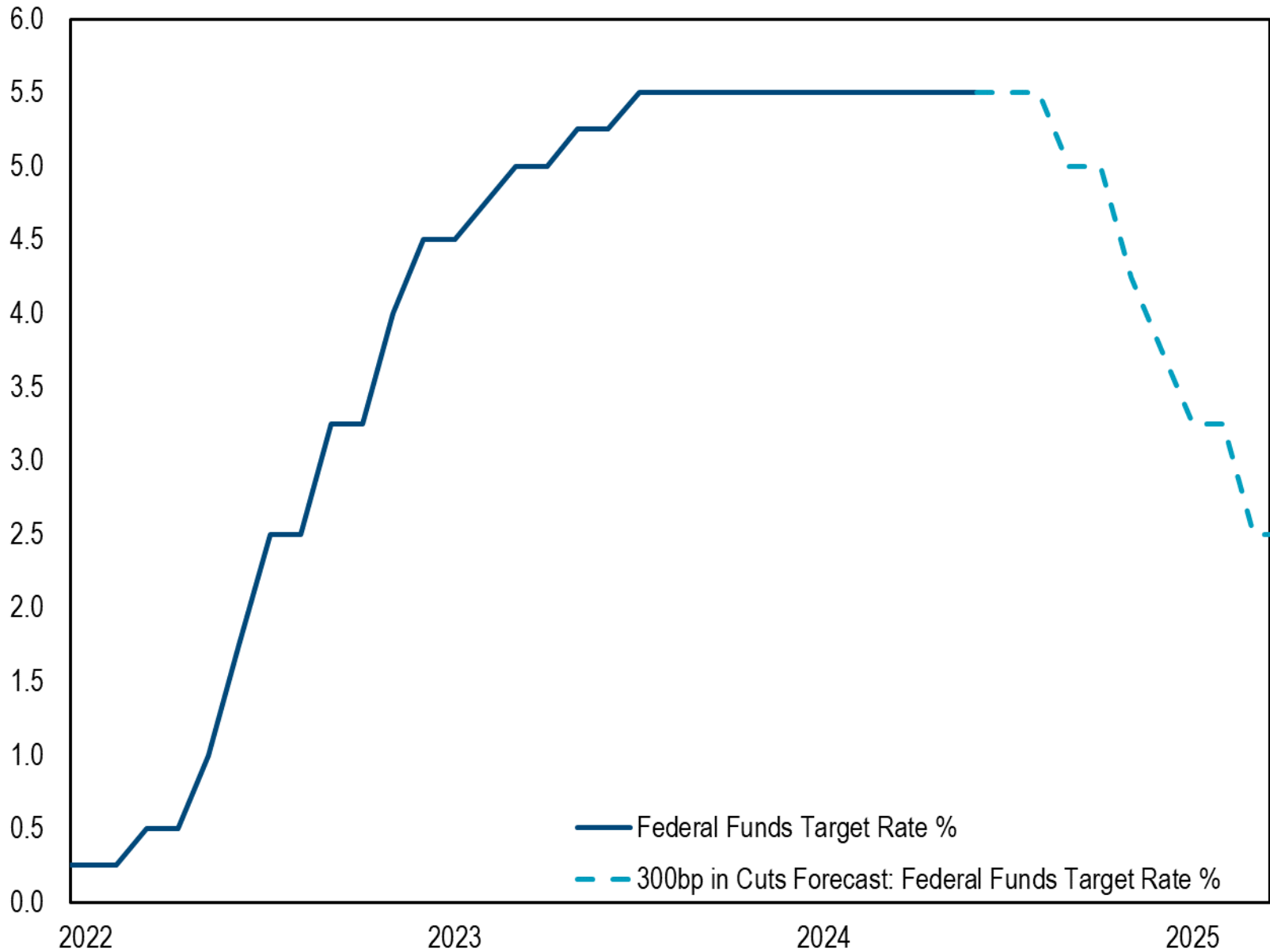
## Inflation Still Nominally Elevated



Source: Bureau of Labor Statistics/Haver Analytics: BEA, BLS, BLS/H

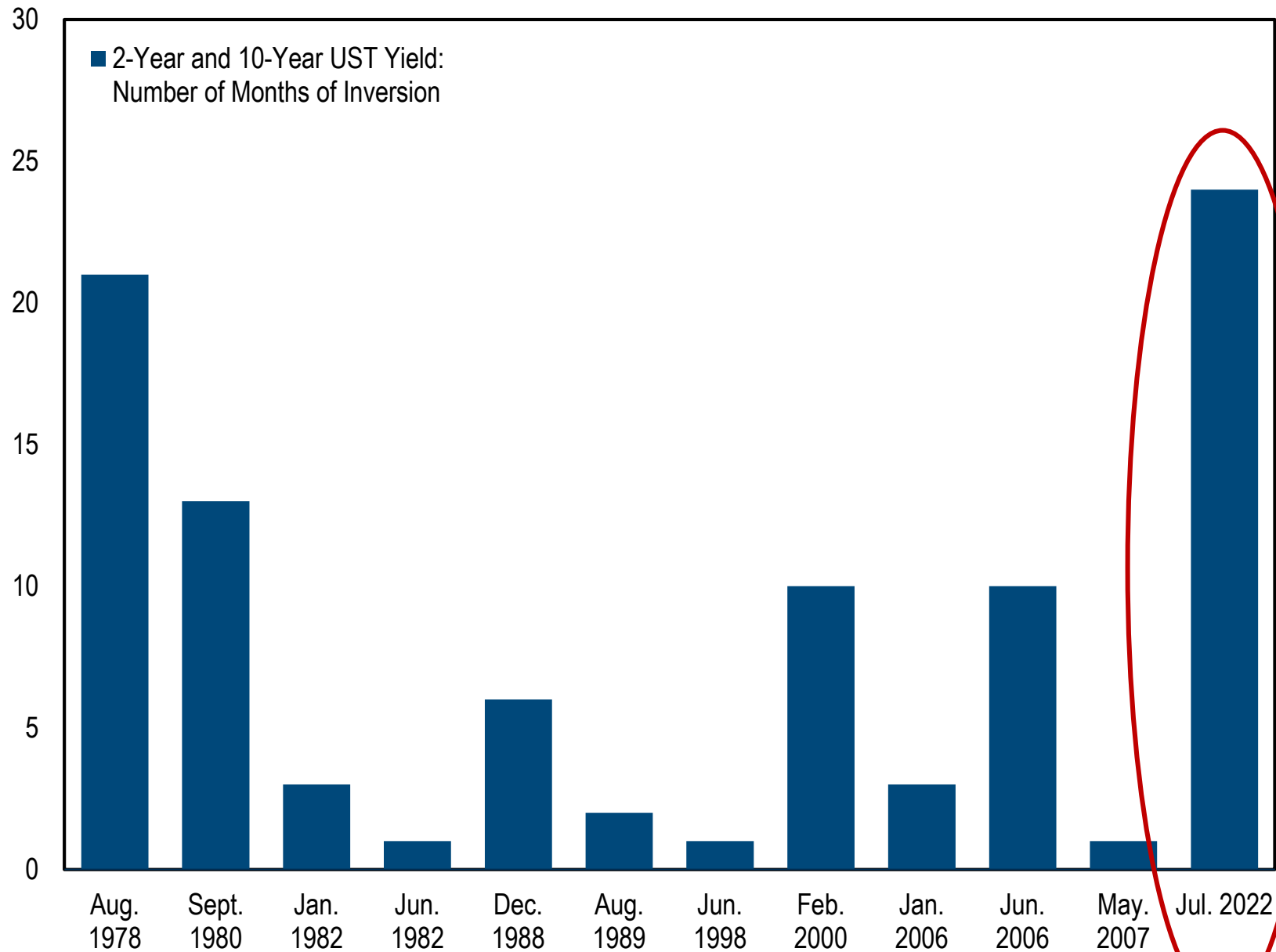
CPI = Consumer Price Index

## Scenario of 300 Basis Points (bps) in Rate Cuts



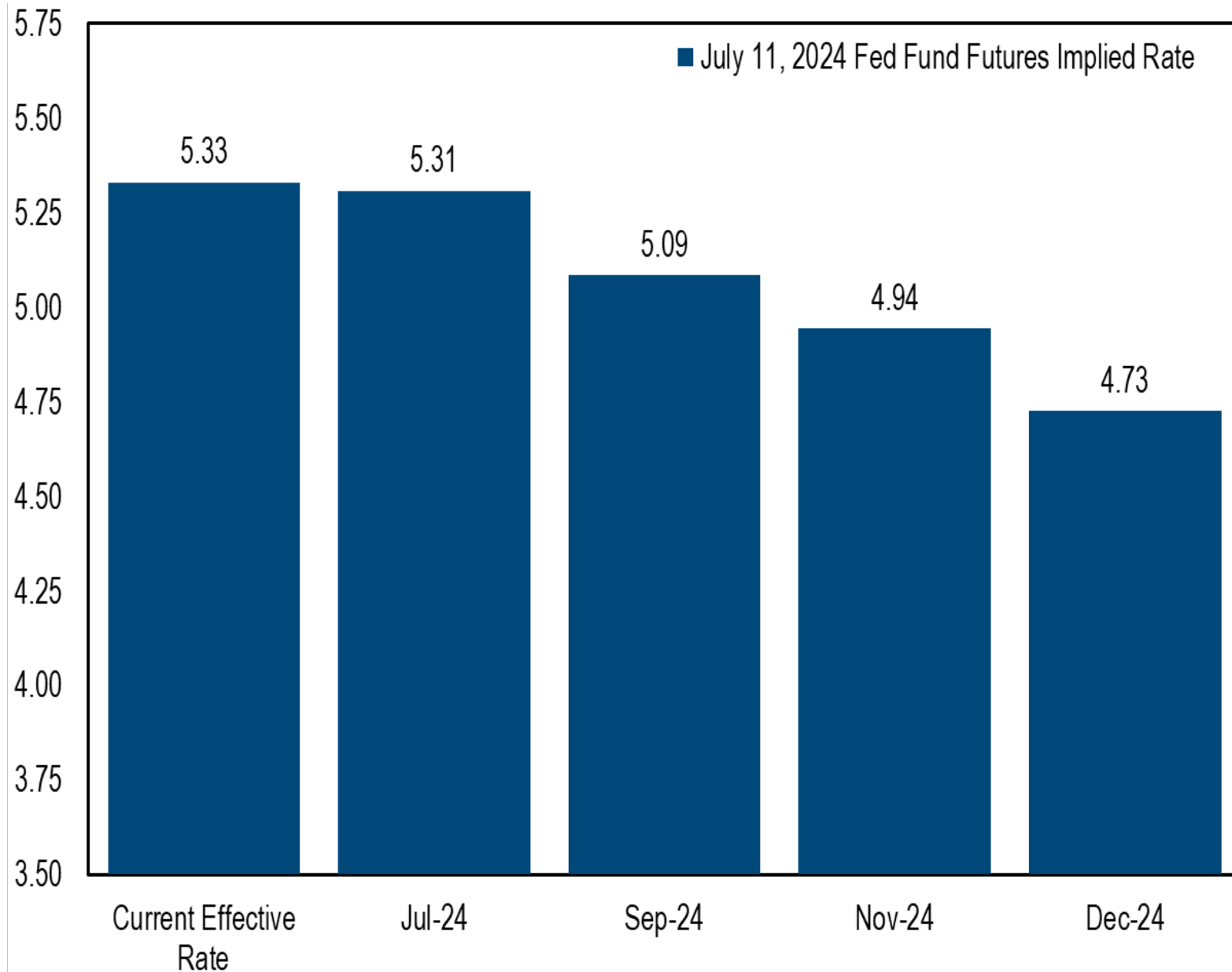
Source: Bureau of Economic Analysis/Federal Reserve

## Cycles and Duration of Curve Inversions



Source: FRED

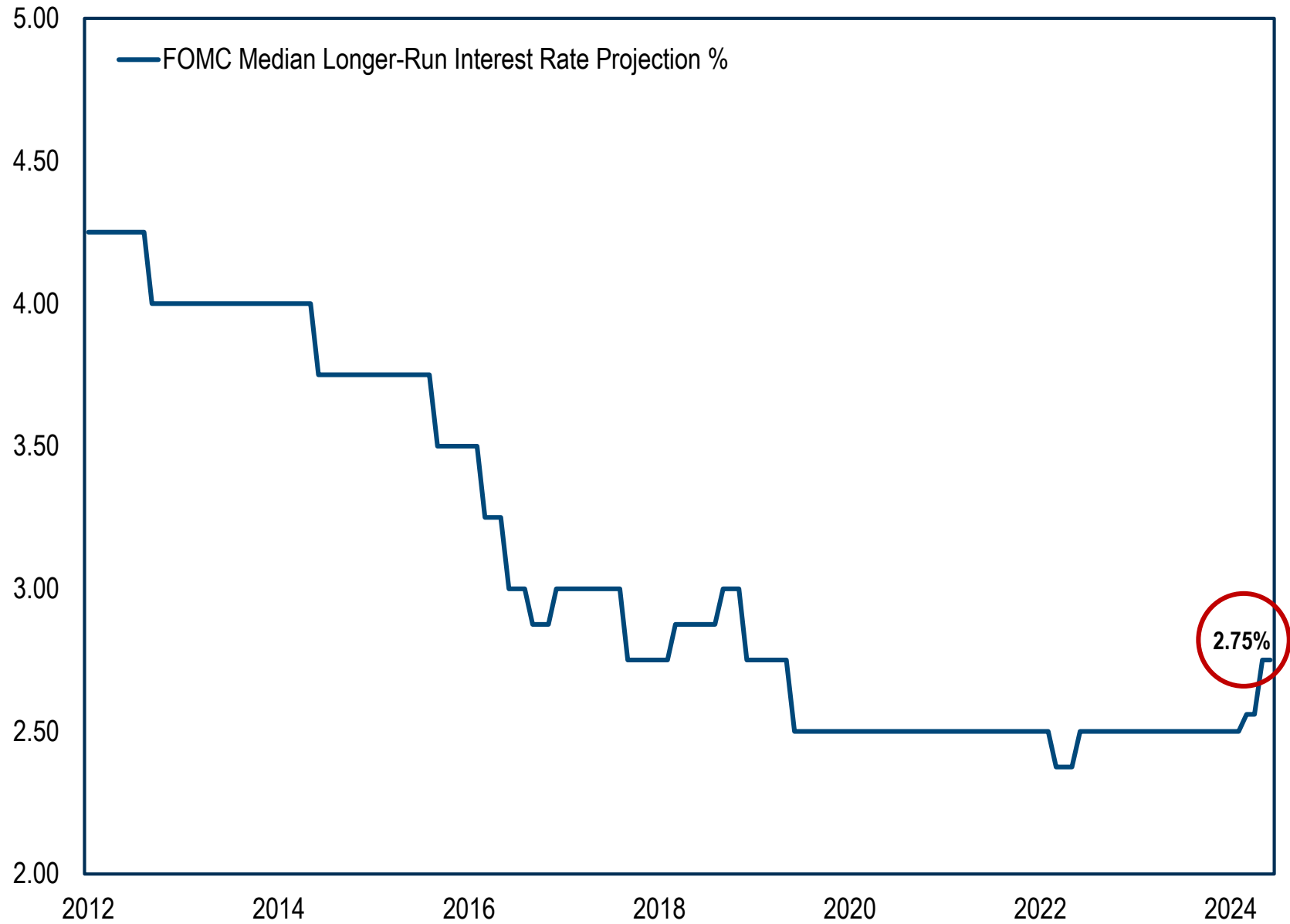
## Two Rate Cuts Priced in by End of the Year



Source: Bloomberg

- The neutral rate, also known as  $r^*$ , may be higher than previously indicated.
- It is the level of policy that neither stimulates nor slows underlying growth.
- Helps guide policy decisions in terms of how aggressively to adjust rates higher or lower throughout a rate cycle.

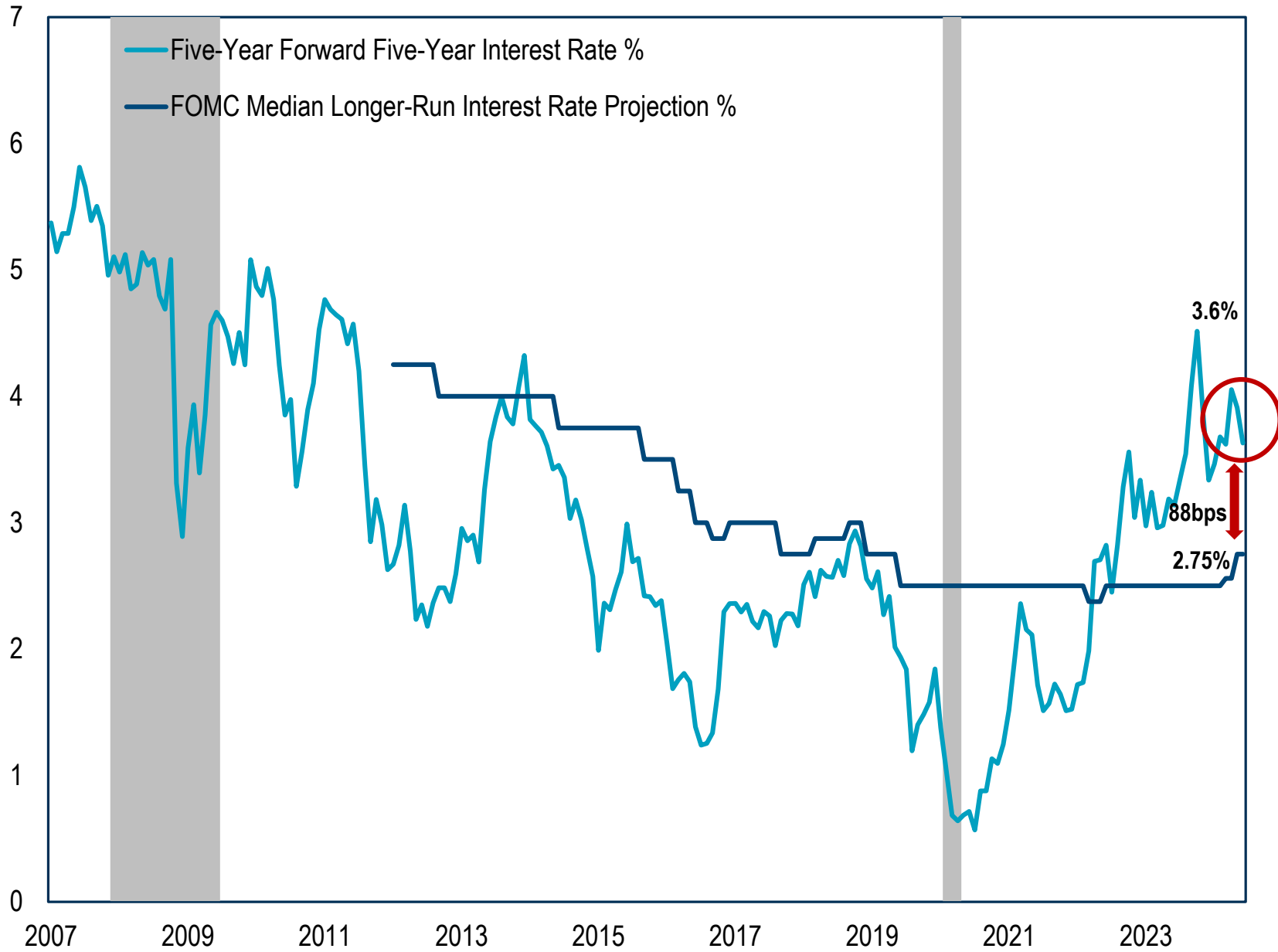
# Federal Reserve (Fed) Neutral Rate Projections



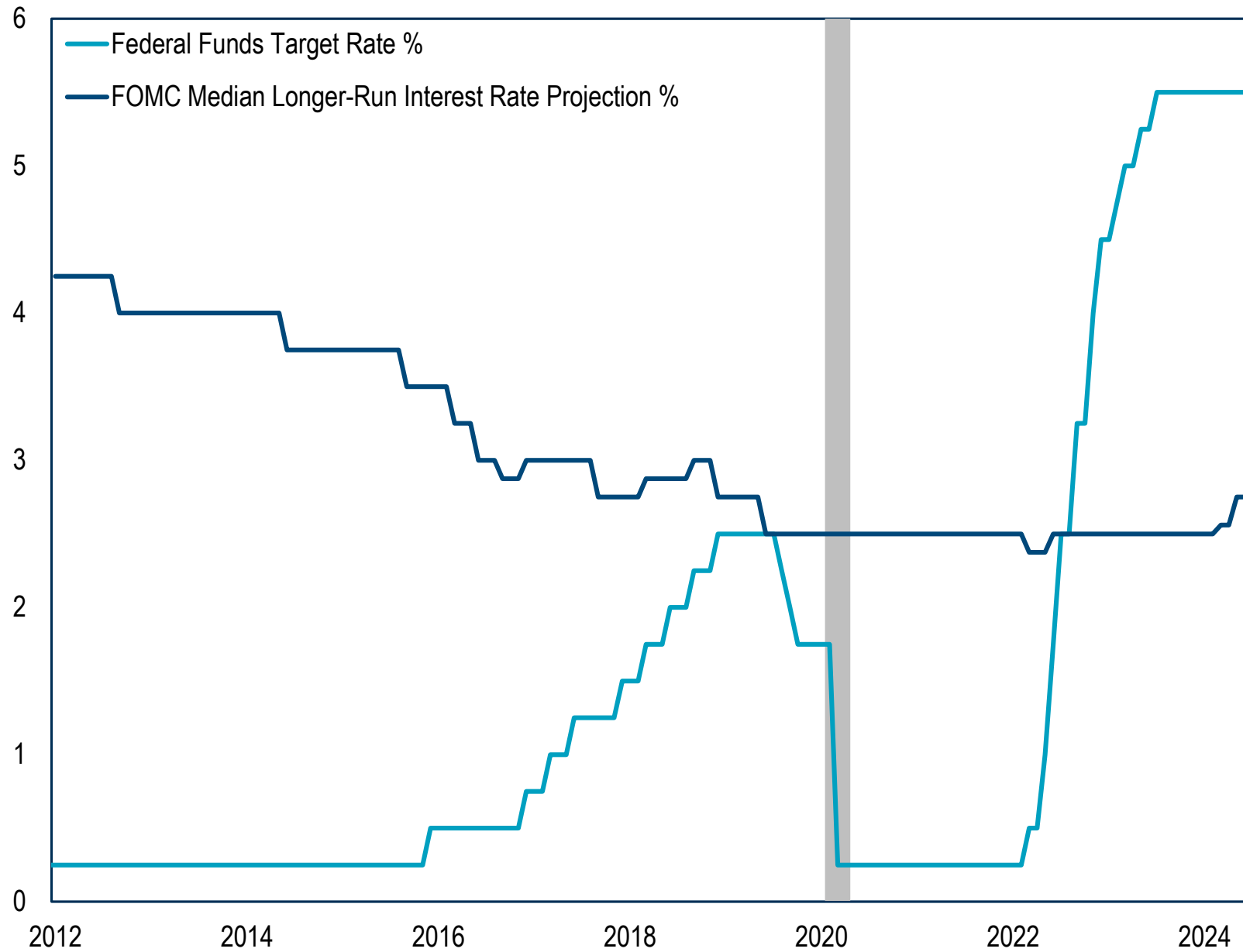
Source: Bloomberg

FOMC = Federal Open Market Committee

# Market's Neutral Rate Higher than Fed's

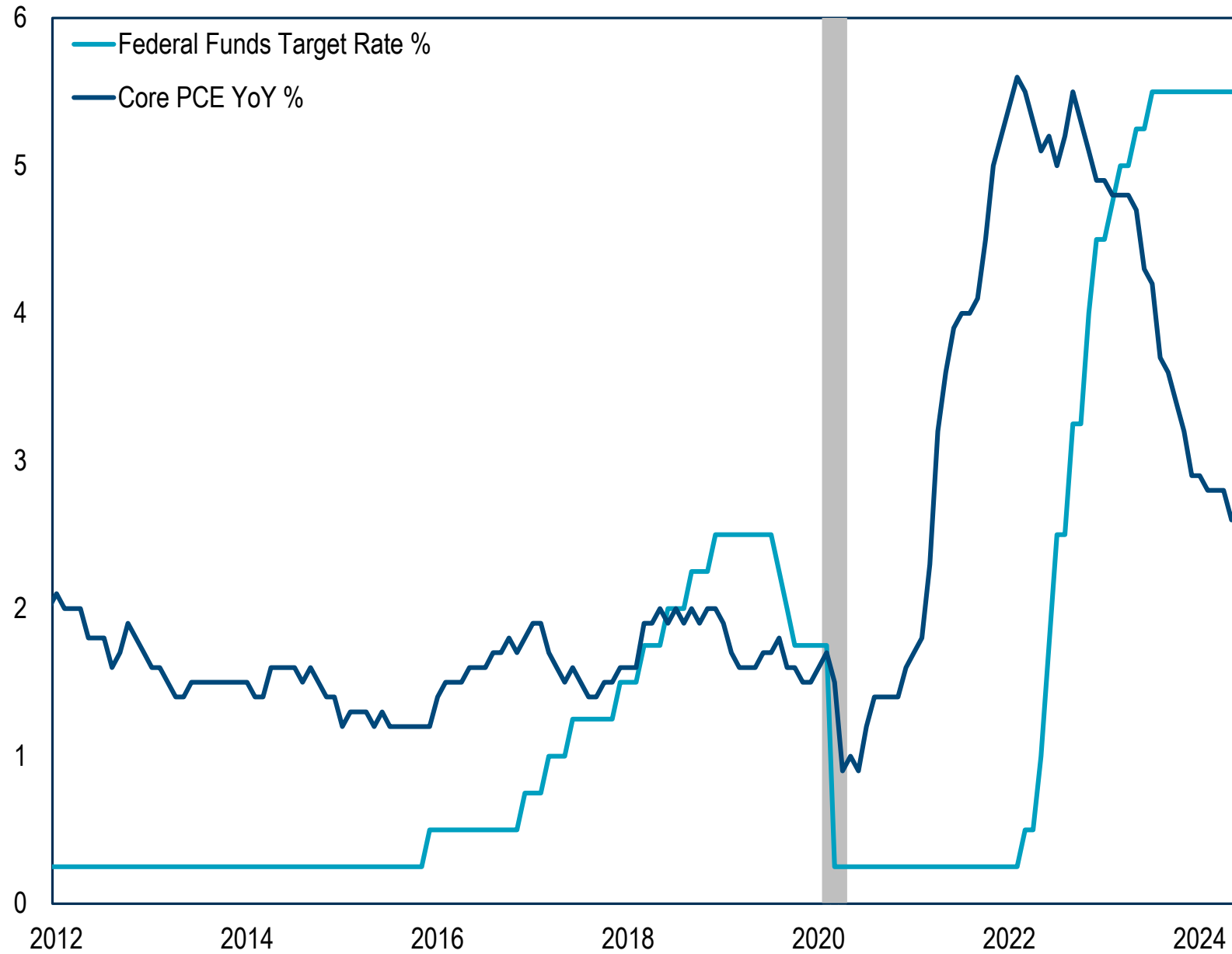


## Higher Neutral Rate Creates a Floor for Longer-Term Rates





## Higher Neutral Rate Calls into Question Fed's Terminal Rate Decision



## Neutral Rate Could be Relatively Higher

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*“I will argue that the Federal Open Market Committee has tightened policy significantly...But I will also observe that the housing market is proving more resilient to that tight policy...Given that housing is a key channel through which monetary policy affects the economy, its resilience **raises questions about whether policymakers and the market are misperceiving neutral...The uncertainty about where neutral is today creates a challenge for policymakers.**”*

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Minneapolis Fed President Neel Kashkari, Online Essay

May 7, 2024

## Powell Says Policy is “*About Right*”

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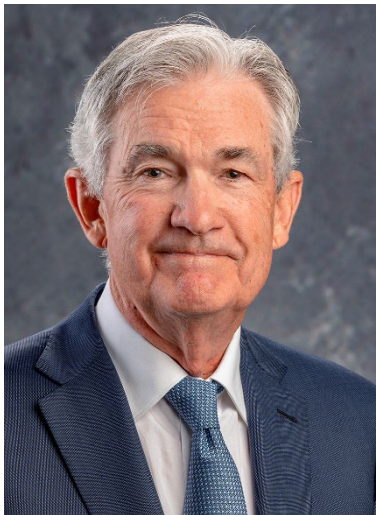


*“I will argue that the Federal Open Market Committee (FOMC) has tightened policy significantly...But I will also observe that the housing market is proving more resilient to that tight policy...Given that housing is a key channel through which monetary policy affects the economy, its resilience **raises questions about whether policymakers and the market are misperceiving neutral...The uncertainty about where neutral is today creates a challenge for policymakers.**”*

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Minneapolis Fed President Neel Kashkari, Online Essay

May 7, 2024



*“...we’re asking, “Is our policy stance about right?” And I think we think, **Yes, it’s about right.**” **We’re prepared to adjust that as appropriate,** but we think—we think we’re getting the things that we would want to get, broadly speaking. And that’s why we’ve been at this policy rate now for almost a year.”*

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Federal Reserve Chairman Jerome Powell, FOMC Press Conference

June 12, 2024

# **1. Inflation is easing, but there is still a long way to go**

# Timeline for Achieving Price Stability is Still Years Away

June 12 Summary of Economic Projections												
Variable	Median				Central Tendency				Range			
	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run
Change in real GDP	2.1	2.0	2.0	1.8	1.9-2.3	1.8-2.2	1.8-2.1	1.7-2.0	1.4-2.7	1.5-2.5	1.7-2.5	1.6-2.5
March projection	2.1	2.0	2.0	1.8	2.0-2.4	1.9-2.3	1.8-2.1	1.7-2.0	1.3-2.7	1.7-2.5	1.7-2.5	1.6-2.5
Unemployment rate	4.0	4.2	4.1	4.2	4.0-4.1	3.9-4.2	3.9-4.3	3.8-4.3	3.8-4.4	3.8-4.3	3.8-4.3	3.5-4.5
March projection	4.0	4.1	4.0	4.1	3.9-4.1	3.9-4.2	3.9-4.3	3.8-4.3	3.8-4.5	3.7-4.3	3.7-4.3	3.5-4.3
PCE inflation	2.6	2.3	2.0	2.0	2.5-2.9	2.2-2.4	2.0-2.1	2.0	2.5-3.0	2.2-2.5	2.0-2.3	2.0
March projection	2.4	2.2	2.0	2.0	2.3-2.7	2.1-2.2	2.0-2.1	2.0	2.2-2.9	2.0-2.5	2.0-2.3	2.0
Core PCE inflation	2.8	2.3	2.0		2.8-3.0	2.3-2.4	2.0-2.1		2.7-3.2	2.2-2.6	2.0-2.3	
March projection	2.6	2.2	2.0		2.5-2.8	2.1-2.3	2.0-2.1		2.4-3.0	2.0-2.6	2.0-2.3	
Memo: Projected appropriate policy path												
Federal funds rate	5.1	4.1	3.1	2.8	4.9-5.4	3.9-4.4	2.9-3.6	2.5-3.5	4.9-5.4	2.9-5.4	2.4-4.9	2.4-3.8
March projection	4.6	3.9	3.1	2.6	4.6-5.1	3.4-4.1	2.6-3.4	2.5-3.1	4.4-5.4	2.6-5.4	2.4-4.9	2.4-3.8

Source: Federal Reserve

1. Inflation is easing, but there is still a long way to go
2. **Solid labor market conditions call into question restrictive nature of policy**

## GDP and Unemployment Forecast Unchanged for This Year

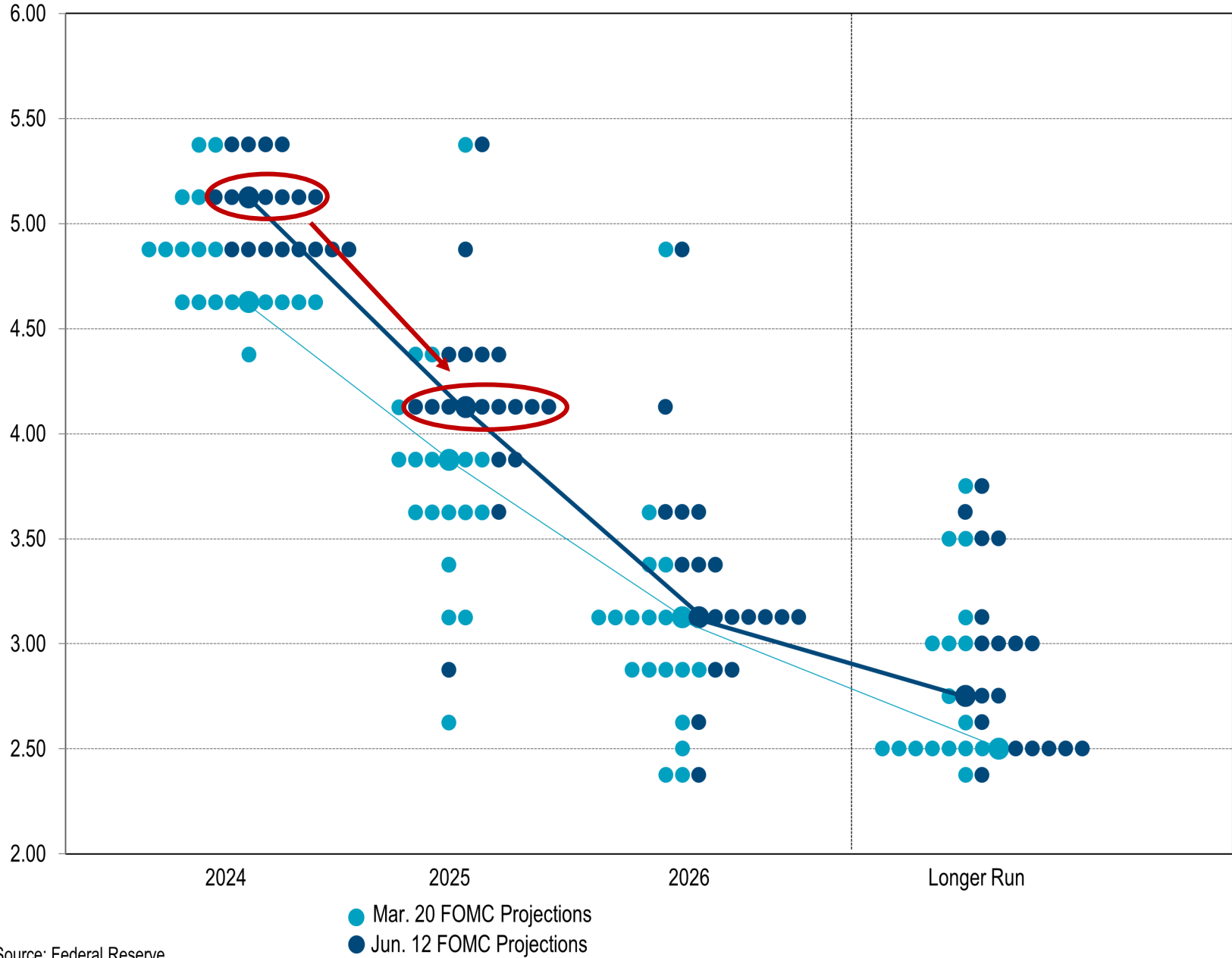
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Source: Federal Reserve

1. Inflation is easing, but there is still a long way to go
2. Solid labor market conditions call into question restrictive nature of policy
- 3. The Fed will expectedly remain on hold for longer than expected**



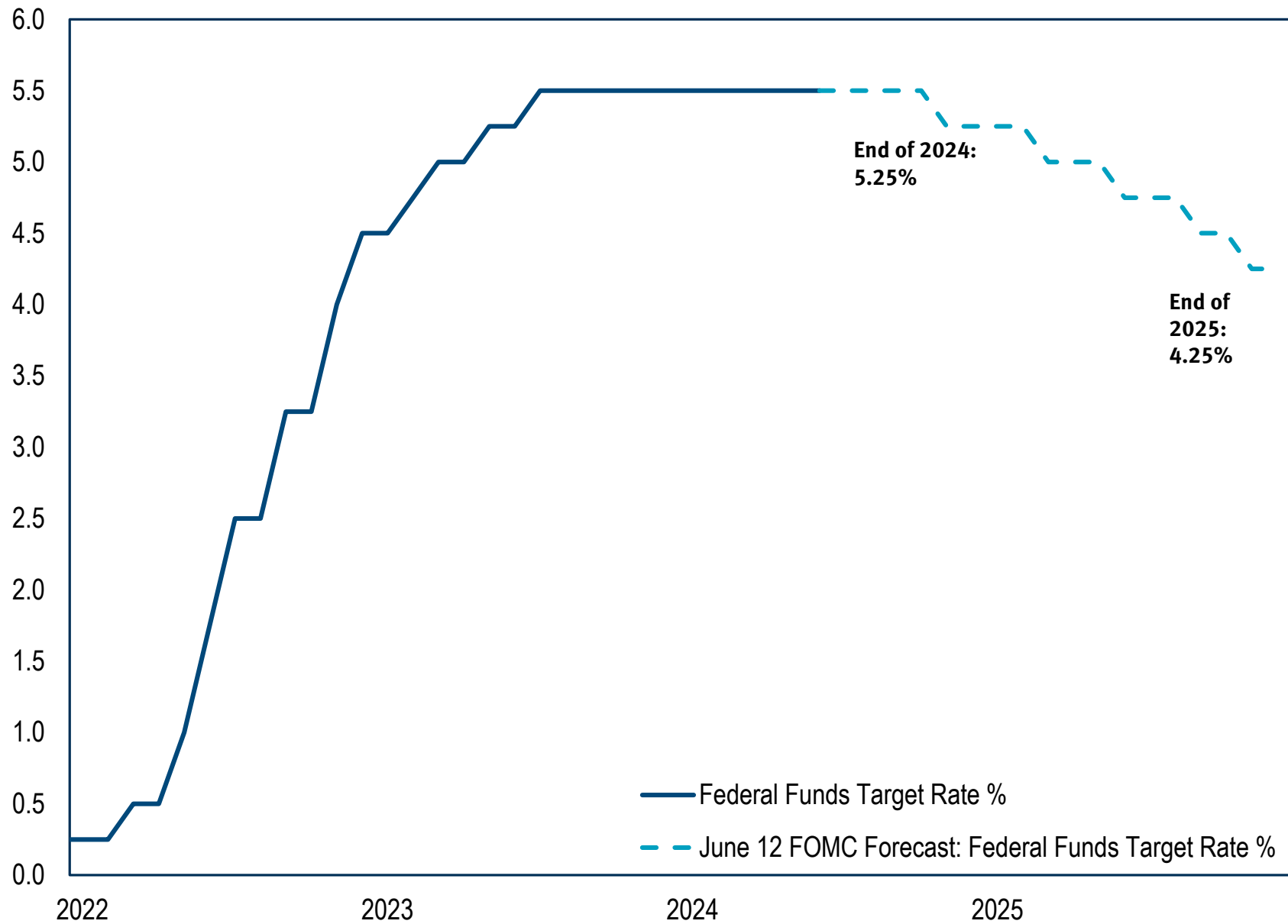
# Dot Plot Signals Less Rate Cuts This Year



Source: Federal Reserve

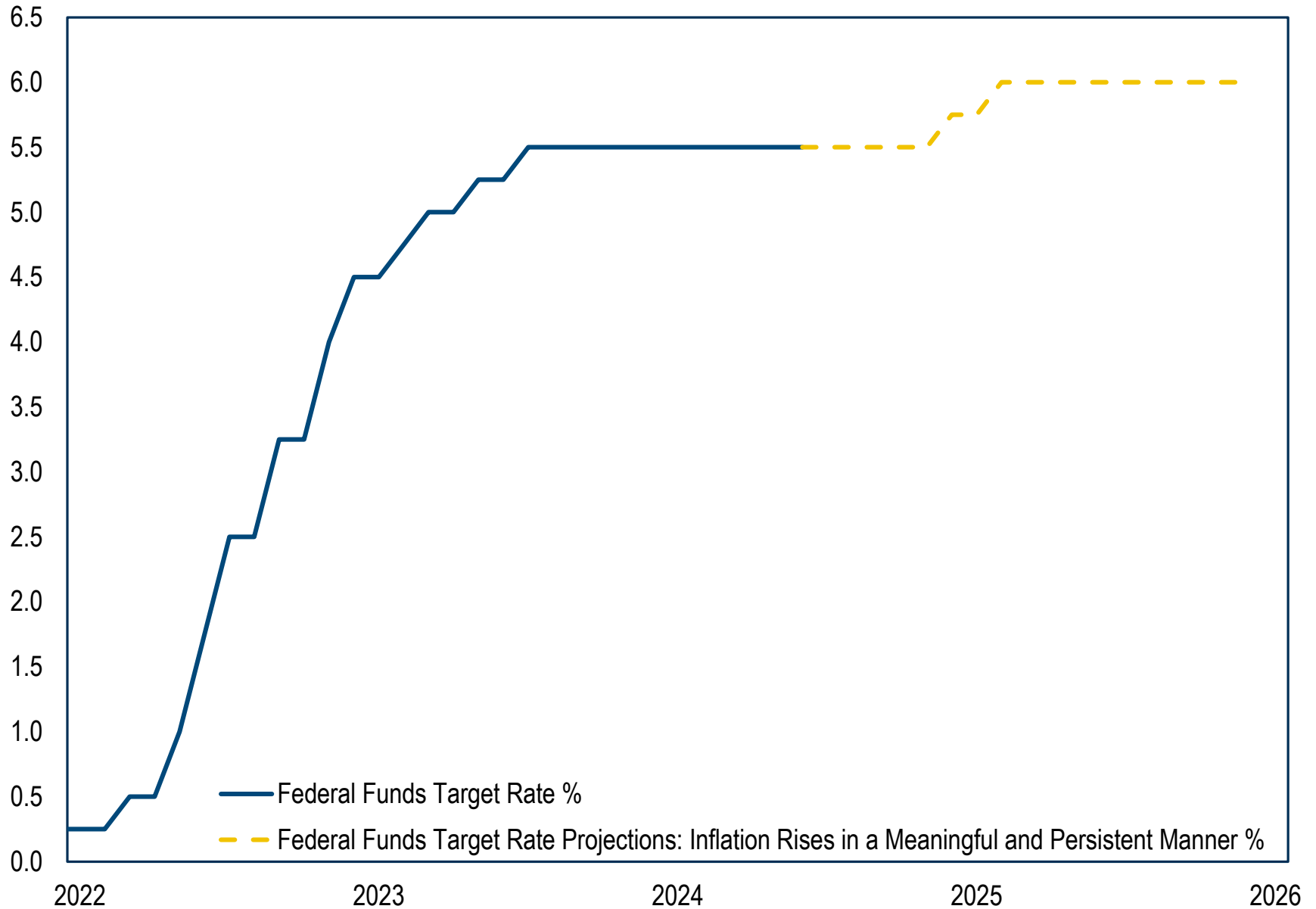
1. Inflation is easing, but there is still a long way to go
2. Solid labor market conditions call into question restrictive nature of policy
3. The Fed will expectedly remain on hold for longer than expected
4. **Interest rates are heading lower, eventually**

## Federal Reserve's Forecast: Federal Funds Target Rate



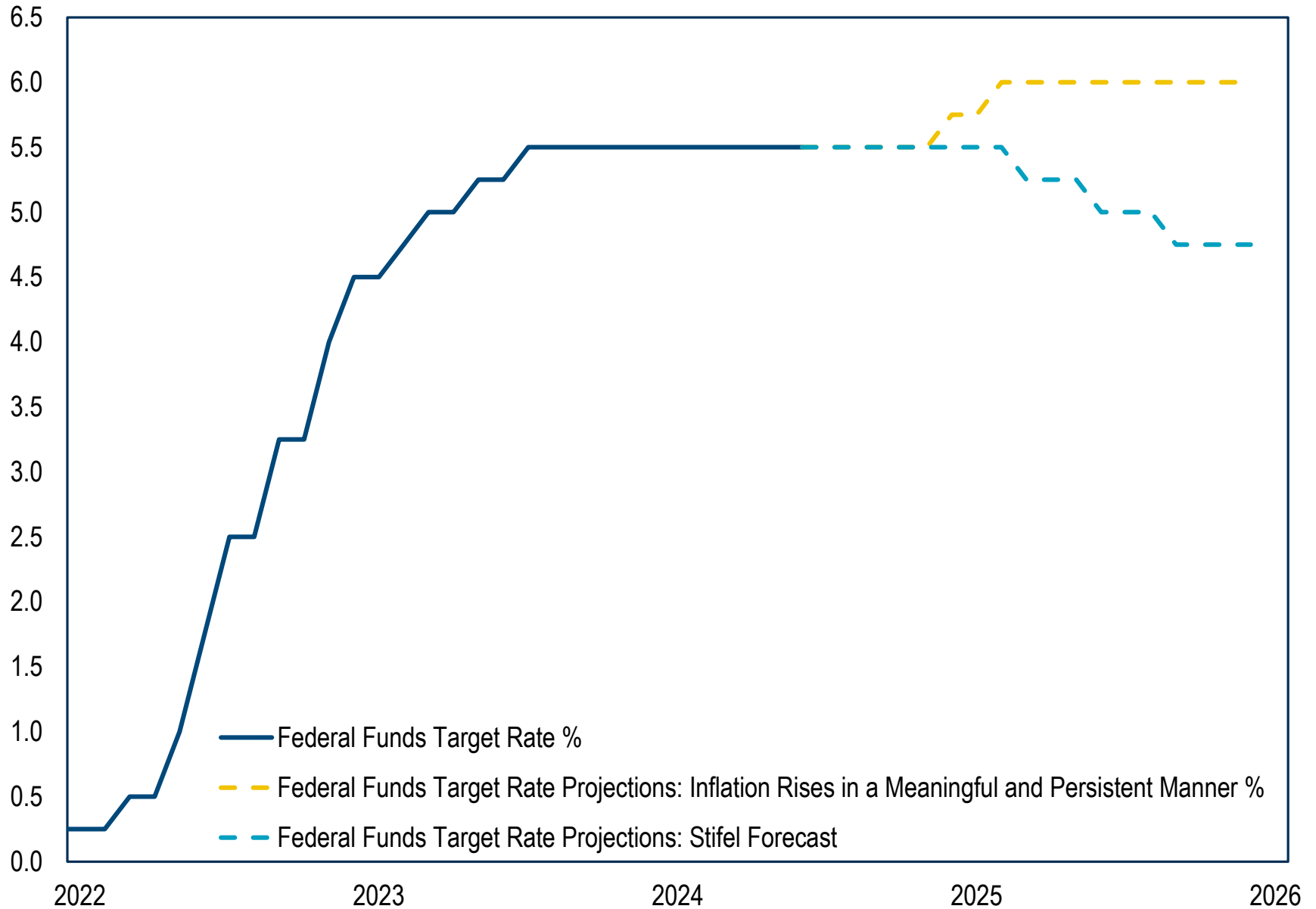
Source: Bureau of Economic Analysis/Federal

## If Inflation Fails to Improve or Pushes Higher, Fed May be Forced to Adjust Policy



Source: Bureau of Economic Analysis/Federal Reserve

## Base Case: “Eventual” Policy Easing Likely a 2025 Event



Source: Bureau of Economic Analysis/Federal Reserve

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# Q&A



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