

MARKET SIGHT LINES



Positive Economic Results May Be Giving Way to a Slowdown Soon

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This week, we hosted a [client webinar](#) previewing the U.S. elections while also offering insights into the current state of the U.S. economy. The job market is cooling further, the consumer's feelings about the future have improved, but remain cautious, and the third quarter gross domestic product (GDP) was quite positive but fell short of expectations. In this Sight|Lines, we unpack these important economic data points and what they might mean for the direction of the economy and the markets.

THE TAKEAWAY: THE STRONG ECONOMY CONTINUED IN THE THIRD QUARTER, BUT WE SEE EARLY SIGNS OF A SLOWDOWN

In 2024, U.S. economic growth has been better than expected, but the job market has cooled some and consumers still worry about the future. In summary:

- Third quarter U.S. GDP was quite positive at an annualized rate of 2.8% but fell short of the consensus expectation of 2.9%.
- The Job Openings and Labor Turnover Survey (JOLTS) report shows the labor market is easing further, a potential sign of a slowdown looking forward.
- The ADP National Employment Report, an independent measure of the change in U.S. private employment derived from ADP client payroll data, shows private businesses added more workers than expected in October.
- However, the U.S. Bureau of Labor Statistics Non-Farm Payrolls Report also showed a likely weakening in the labor market.
- The Conference Board Consumer Confidence Index was better than expected but still shows the consumer has some caution about the future.
- Overall, economic and job market results were roughly in line with expectations, showing the strong economy continued in the third quarter, even as the job market cools and consumers remain worried about the future.
- This data gives the Federal Reserve (Fed) room to cut rates at a measured pace.

IN-DEPTH: THE STRONG ECONOMY CONTINUED IN THE THIRD QUARTER, BUT THE JOB MARKET COOLED FURTHER, AND CONSUMERS ARE WORRIED – SIGNS OF A POSSIBLE SLOWDOWN

While 2024 U.S. economic growth has been better than expected, consumers remain worried about the future, partly the results of a cooling job market. Going deeper:

- Third quarter U.S. GDP was quite positive:
 - The U.S. economy grew at an annualized rate of 2.8% in the advance reading, slightly below consensus expectations of 2.9%.
 - This strength can mostly be attributed to consumer spending and government spending.
 - Final sales to domestic purchasers, which excludes net exports and inventories, rose 3.5%, reflecting core strength in the domestic economy.
- The JOLTS report shows the labor market is easing further:
 - Job openings fell by 418,000 to 7.44 million, below the consensus expectation of 7.99 million.
 - This level represents a 3 ½ -year low and follows a downwardly revised level in August.
- The ADP Employment Report showed some unexpected strength in October:
 - Private businesses added 233,000 workers, well above the forecast of 115,000.
- Finally, the Non-Farm Payrolls Report also showed a likely weakening in the labor market:
 - The U.S. economy added 12,000 jobs in October, down from a downwardly revised 243,000 in September, impacted by hurricanes and strikes.
 - Unemployment remained unchanged at 4.1%.
- The Consumer Confidence Index was better than expected but signaled caution about the future:
 - The Present Situation Index rose to 138 in October, a positive move, but still much lower than the positive levels seen before the pandemic.
 - The Expectation Index also rose, reaching 89.1, still also well below the positive levels seen pre-pandemic but above the level of 80, a threshold that is a possible signal for recession.
- These results give the Fed room to cut rates at a more measured pace than market participants have been expecting.
 - After the last Fed meeting, fed funds futures were anticipating 0.75% more in rate cuts this year.
 - Given still strong economic and labor data, these futures now signal 0.50% in cuts this year.

CONCLUSION

The U.S. economy has performed better than first expected in 2024, including strong results in the third quarter. That said, the jobs market has cooled further, normalizing to a level before the pandemic. As we look forward, we note the consumer is worried about the future, but not necessarily to a level that yet signals a recession. This reinforces that this economic cycle continues, but we must continue to monitor for a slowdown.

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