U.S. Economic Comment

- Forecast update: continued solid growth in 2025; slow retreat in inflation; heightened policy uncertainty on account of incoming Trump administration

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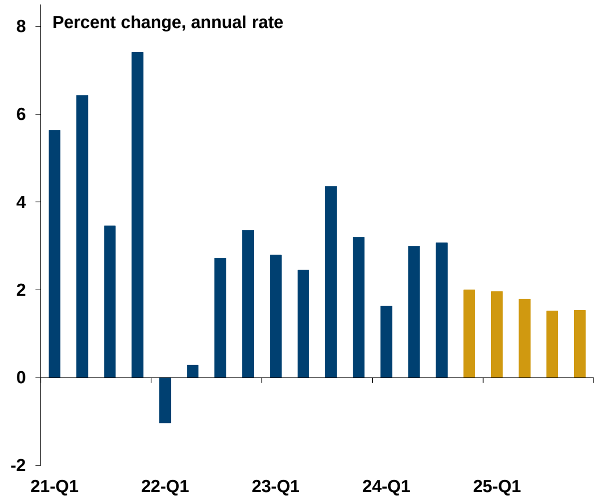
Forecast Update

As Fed Chair Jay Powell noted in his latest press briefing, "The economy is strong overall and has made significant progress toward our goals over the past two years." That is, economic activity has proven resilient to restrictive monetary policy, while aggregate supply and demand have come into better balance and inflation has slowed. With respect to growth, a strong domestic economy has contributed to average annualized growth of 2.6 percent per quarter in 2024 thus far, including an upwardly revised pace of 3.1 percent in Q3, and Q4 activity tracking in the area of 2.0 percent suggests GDP is on track to grow at a 2.4 percent Q4/Q4 pace this year. With solid underlying momentum in the economy, augmented by easing financial conditions and potential pro-growth policies from the incoming Trump administration possibly providing additional tailwinds to growth, we look for the expansion to remain on track in 2025. We expect growth to total 1.7 percent (Q4/Q4) next year, a bit below this year's pace but still close to potential (chart; table, p. 5).

GDP Growth*



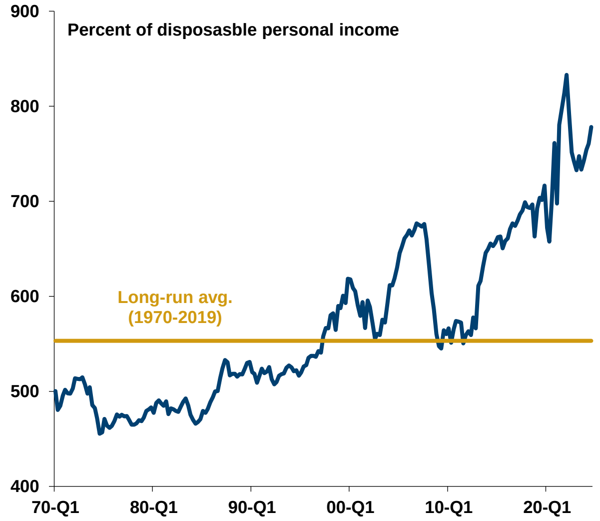
** The gold bars are forecasts for 2024-Q4 through 2025-Q4.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Key Areas of Growth

Consumer spending has been the most consistent source of growth in the current expansion – "resilient" in the words of Chair Powell – and it is likely to remain so next year. Two key determinants of consumer spending, the labor market and the household balance sheet, are solid. With respect to the labor market, the unemployment rate has increased by 0.5 percentage point in 2024 thus far to 4.2 percent as of November, but the latest reading is in line with Fed officials' longer-run estimates. Moreover, average monthly job growth in the first 11 months of the year of 180,000 is ahead of the 166,000 average in 2019 – a period consistently cited by Fed officials as emblematic of a healthy labor market. Regarding the household balance sheet, net worth remains elevated from a long-term view (chart, right). Additionally, debt relative to income remains manageable, with many homeowners locked into low-rate mortgages and credit card usage not surging to troubling levels (charts, next page). Beyond solid underlying fundamentals, the incoming Trump administration, bolstered by Republican control of Congress, is likely to reauthorize individual provisions of the 2017 Tax Cuts and Jobs Act and thereby avert a potential pullback by consumers in anticipation of higher tax rates.

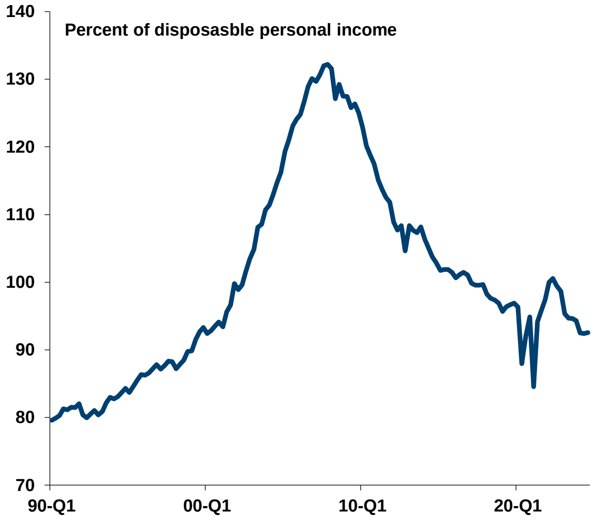
Household Net Worth*



** Household net worth as a share of disposable personal income.*

Sources: Bureau of Economic Analysis and Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

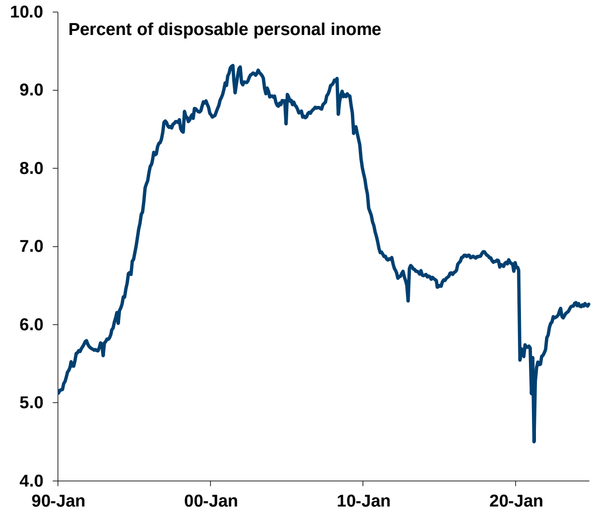
Household Debt Ratio*



** Household debt as a share of disposable personal income. Debt includes: mortgage loans, consumer credit, and "other" loan debt.*

Sources: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

Revolving Consumer Debt Ratio*

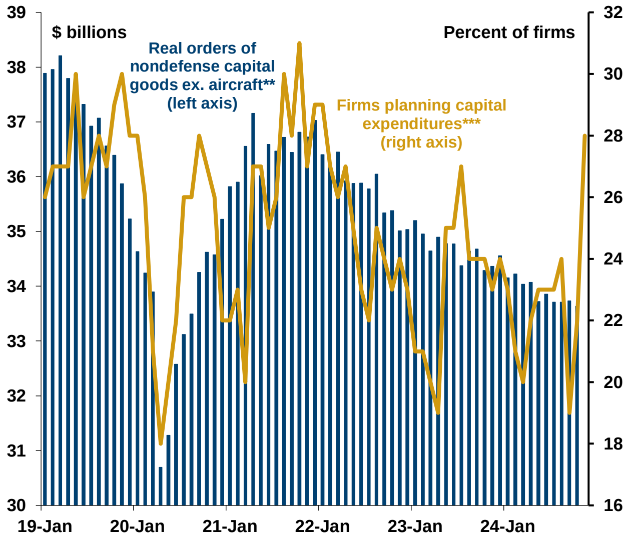


** Revolving consumer credit outstanding as a share of disposable personal income.*

Sources: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

Business fixed investment is another area that appears on track and could surprise to the upside in 2025, with Chair Powel again noting in his latest post-FOMC remarks that "investment in equipment and intangibles has strengthened." In that regard, equipment spending in the GDP accounts registered growth of 10.8 percent in Q3 after nearly a double-digit jump in the preceding quarter. Results thus far in Q4 are less impressive, but plans for capital expenditures have stirred in response to the Trump win which could ultimately translate to a pickup in orders and ultimately investment (chart, below left). Business investment in new structures has leveled off after a burst associated with manufacturing facilities construction tied to incentives from the Inflation Reduction and CHIPS Acts, but the ongoing trend of onshoring and nearshoring critical supply chains could support this area in the years ahead (chart, below right).

Durable Goods Orders & Cap-Ex Plans*



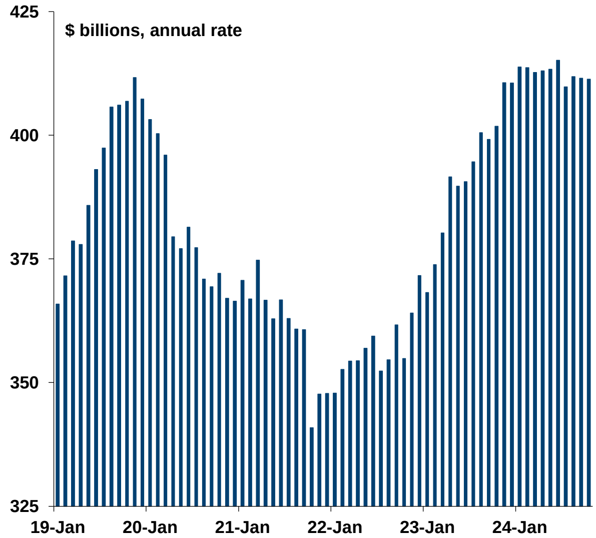
** Data for durable goods orders only available through October 2024 whereas data for cap-ex plans goes out to November 2024.*

*** Nominal orders of nondefense capital goods excluding aircraft adjusted by the Final Demand Private Capital Equipment component of the PPI.*

**** Next 3 to 6 months*

Sources: Bureau of Labor Statistics, National Federation of Independent Business, U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Real Private Nonresidential Construction*



** Nominal value of business-related construction deflated by the Final Demand Construction for Private Capital Investment component of the PPI.*

Sources: Bureau of Labor Statistics, U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

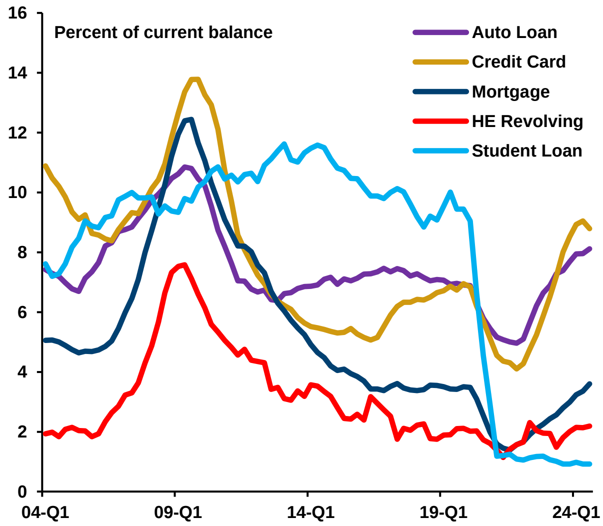
Current Risks to the Outlook

While underlying fundamentals remain positive, and certain policies of the Trump administration (renewal of expiring tax cuts, deregulation) are likely to be pro-growth, other priorities could generate significant uncertainty. Namely, the President-elect's fixation with tariffs has the potential to snarl the flow of cross-border goods and services, alienate allies, and escalate a tit-for-tat trade war that could contribute to a resurgence of domestic inflation. Beyond tariff policy, a program of deporting migrants could derail comprehensive immigration reform and distract from longer-term demographic challenges that will at some point act as a constraint on economic growth. Additionally, failure to meaningfully address deficit spending and ever-increasing government debt also stands out as a potential risk, threatening the longer-term budgetary health of the US and possibly contributing to higher interest rates on debt service.

Beyond uncertainty surrounding the incoming Trump administration, we remain mindful of developments abroad. Faltering economic performances in the economies of major trading partners could reverberate back to the United States through the international trade channel. Additionally, tensions between Russia and Ukraine remain far from resolved and conflict in the Middle East may be intensifying – which at any time could disrupt global energy markets.

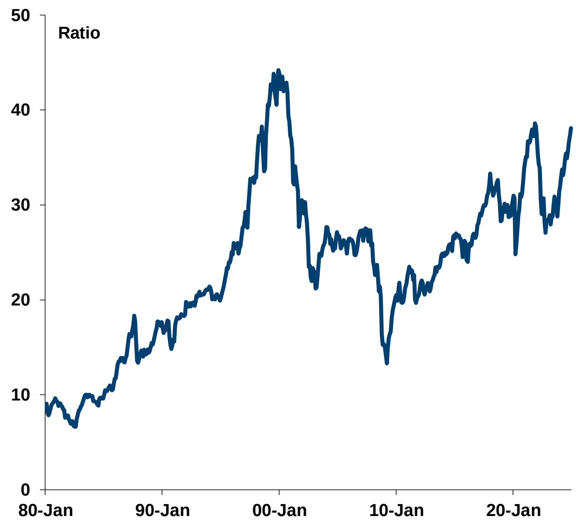
Circling back to domestic concerns, where we assign lower probabilities of potential for disruption, we will be watching consumers and the financial markets for signs of stress. As noted earlier, we view the consumer sector as on solid footing. However, at least a subset of consumers is still struggling after the recent sustained bout of inflation, particularly after the surge in prices of household essentials (groceries and energy services such as electricity, for example). Relatedly, delinquency rates have stirred as some households have fallen behind on payments (chart, below left). That said, shifts in delinquencies, in our view, are not yet problematic, although they should be monitored closely. Domestic financial markets also hold the potential to be a flash point. Equity valuations are elevated from a longer-term perspective (chart, below right), and both the fixed income and equity markets could be in search of new equilibriums with the FOMC signaling a slowing pace of rate cuts from previously restrictive monetary policy. In regard to the monetary policy front, balance sheet reduction (i.e. quantitative tightening) is ongoing as the FOMC seeks to transition from an "abundant reserves" to "ample reserves" regime (which we view as reserves in the vicinity of 10 percent of nominal GDP). We have yet to see significant evidence of stress in short-term funding markets, but a recent upward drift in money market rates, along with a technical adjustment to the overnight repurchase rate at this week's FOMC meeting, suggest that disruptive pressure could emerge if the supply of bank reserves falls too far. Other possible flash points include devalued commercial real estate loans and longer duration Treasury securities residing on bank balance sheets, although regulatory assessments thus far have been relatively sanguine.

Transition to Delinquency by Loan Type*



** New delinquent balances, 30+ days past due*
Source: Quarterly Report on Household Debt and Credit, Federal Reserve Bank of New York

Long-Term P/E (CAPE) Ratio*



** The 10-year average of stock prices (S&P 500) relative to a 10-year average of earnings, both adjusted for inflation.*
Sources: Robert Shiller via Haver Analytics; Daiwa Capital Markets America

Inflation

Despite a favorable monthly reading today on the Fed's preferred inflation gauge (both the headline and core price indexes for personal consumption expenditures rose 0.1 percent in November), annual growth was still tracking above the 2 percent target (the headline measure rose 2.4 percent year-over-year, while the core index advanced a brisk 2.8 percent). The latest results represent significant improvement vis-à-vis the cycle high increases of 7.2 percent for headline inflation in June 2022 and 5.6 percent for the core in February of that year, but progress has stalled recently despite the latest modest increases – particularly with respect to core service inflation (both housing and non-housing services). In light of this stalling, Fed officials marked higher estimates of inflation in coming years, with the latest Summary of Economic Projections (SEP) 2025 median for both headline and core increasing to 2.5 percent from 2.1 and 2.2 percent, respectively, as of September. Moreover, inflation is now expected to return to target in 2027 rather than 2026.

While not fully incorporated into the current Fed projections, a new regime of tariffs by the Trump administration could further complicate the inflation fight and potentially contribute to resurgent price pressure in mid-to-late 2025. Our projection incorporates a stirring in goods inflation in the back-half of 2025 on account of new levies, although we emphasize the preliminary nature of the exercise. That is, there is a high degree of uncertainty surrounding the actual implementation of such policies. President-elect Trump may be discussing tariffs simply as a negotiating tactic, or he may be intent on pursuing an aggressive program. With that said, what is ultimately enacted may differ greatly from what has been discussed. Thus, we highlight three points that give us hope that we may later revise lower our inflation estimates for 2025: first, previous tariffs in 2016 were relatively limited in scope and did not contribute meaningfully to import prices (or ultimately consumer inflation); additionally, foreign firms may adjust prices of goods to remain price-competitive; moreover, retailers may absorb a portion of price increases in margins to preserve buyer traffic. Time will tell on this front.

Monetary Policy

When questioned on Wednesday, Chair Powell indicated that monetary policy had moved beyond the "recalibration" phase, likely captured in the first 100 basis points in cuts since September – a meaningful move toward neutral, though one contingent on further improvement on the inflation front. On the point, the FOMC statement continued to indicate that risks to both the employment and inflation sides of the dual mandate were roughly in balance, although comments by the Fed Chair appeared to express more concern about upside risks to inflation rather than downside risks to labor market activity: "But as for additional cuts, we're going to be looking for further progress on inflation…" Thus, a median expectation of 50 basis points in easing in 2025 versus 100 in the prior SEP (year-end Committee median of 3.875 percent) and a 2026 median of 3.375 percent (versus 2.875 percent previously).

We share a similar outlook given concern about inflation – currently towards residual price pressure in services and potential stirring in core goods prices via tariff-related effects – and offer a somewhat more granular view in the timing of additional near-term cuts. Given comments by Fed officials today, including Mary Daly of the San Francisco Fed who argued that she was "comfortable" anticipating two cuts next year, we look for a pause in January before incremental improvement on inflation allows reductions in March and June (aligned with new SEPs). However, as previously discussed, the initiation of some tariff program could cause a pickup in core goods inflation in the back half of 2025 into 2026. The price-level shift, if a one-off event, could push the FOMC to the sidelines until mid-to-late 2026. With that said, recent developments illustrate that the outlook remains highly uncertain and contingent on the evolution of the data.

Note to readers:

The next U.S. economic comment will be published on January 10, 2025. We wish you a happy holiday season and a healthy New Year!

Economic Outlook*

(Percent change annual rate, unless otherwise noted)

		2024					2025				
Item		**Q1**	**Q2**	**Q3**	**Q4**	**Q4/Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q4/Q4**
1	Gross Domestic Product	1.6	3.0	3.1	2.0	2.4	2.0	1.8	1.5	1.5	1.7
2	Personal Consumption Expenditures	1.9	2.8	3.7	2.9	2.8	2.5	2.2	1.5	1.8	2.0
3	Business Fixed Investment	4.5	3.9	4.0	-2.0	2.6	1.8	2.5	3.0	2.9	2.6
4	Residential Construction	13.7	-2.8	-4.3	7.0	3.1	-3.0	-4.5	-3.0	-2.5	-3.3
5	Change in Business Inventories *(Contribution to growth)*	-0.5	1.1	-0.2	-0.3	--	0.1	0.2	0.3	0.0	--
6	Government Spending	1.8	3.1	5.1	1.1	2.8	0.7	0.7	0.8	1.0	0.8
7	Net Exports *(Contribution to growth)*	-0.6	-0.9	-0.4	0.1	--	-0.1	-0.2	-0.3	-0.2	--
	Inflation and Unemployment										
8	Core PCE Price Index *(Annual rate)*	3.7	2.8	2.2	2.5	2.8	2.7	2.6	2.8	2.7	2.7
9	Unemployment Rate	3.8	4.0	4.2	4.3	--	4.3	4.4	4.5	4.5	--
	Interest Rates (End of Period)										
10	Federal Funds Target (midpoint)	5.38	5.38	4.88	4.38	--	4.13	3.88	3.88	3.88	--
11	2-year Treasury	4.59	4.71	3.66	4.25	--	4.00	3.90	3.85	3.85	--
12	10-year Treasury	4.20	4.36	3.81	4.50	--	4.25	4.15	4.10	4.15	--
13	30-year Fixed-Rate Mortgages	6.79	6.86	6.08	7.35	--	6.90	6.75	6.60	6.50	--

** Readings on the unemployment rate and interest rates are end-of-period figures. GDP and inflation data for 24-Q4 through 25-Q4 are forecasts.*
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Board, Freddie Mac via Haver Analytics; Daiwa Capital Markets America

The Week Ahead

Consumer Confidence (December) (Monday)
Forecast: 114.0 (+2.1%)

A solid labor market, an ongoing moderation in gasoline prices, and a high probability of reauthorization of personal tax cuts associated with the 2017 Tax Cuts and Jobs Act by the incoming Trump administration could provide a boost to consumer moods in late 2024. That is to say, the Conference Board's measure of consumer confidence appears poised to post its third consecutive increase in December. The expected reading would be in the upper end of those in the current expansion, although it would lag observations prior to the onset of the pandemic (chart).

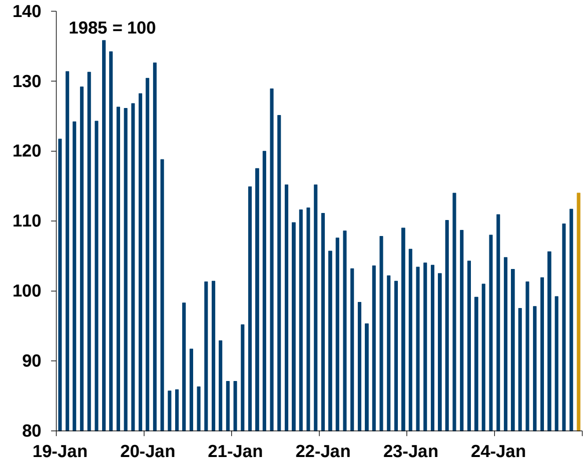
Durable Goods Orders (November) (Tuesday)
Forecast: -0.3% Total, +0.5% Ex. Transportation

New aircraft bookings reported by Boeing were solid for the second consecutive month, though they trailed those in October, which could contribute to ongoing volatility in the civilian aircraft component and pull total durable goods orders lower. Bookings excluding transportation have tilted higher in 2024 thus far, although the performance has been fairly unimpressive (+0.9 percent year-to-date; chart).

New Home Sales (November) (Tuesday)
Forecast: 0.675 Million (+10.7%)

Pickups in buyer traffic and mortgage applications suggest that new home sales could increase in November after a swoon of 17.3 percent in the prior month – a reading that was heavily influenced by hurricane-related weather effects in the South. If the projection is realized, new home sales would return to the previous range (which should be viewed as favorable relative to the sluggish performance in sales of existing homes; chart).

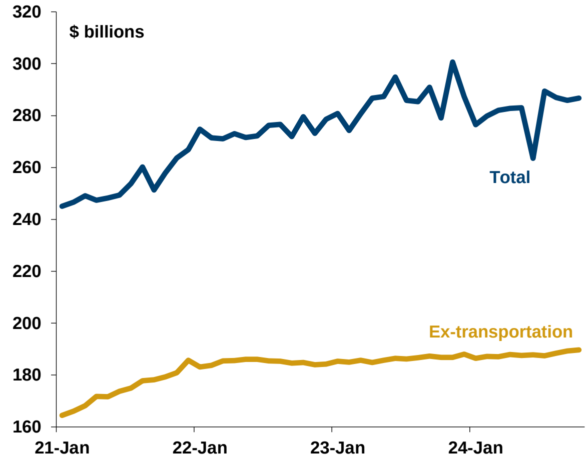
Consumer Confidence*



** The gold bar is a forecast for December 2024.*

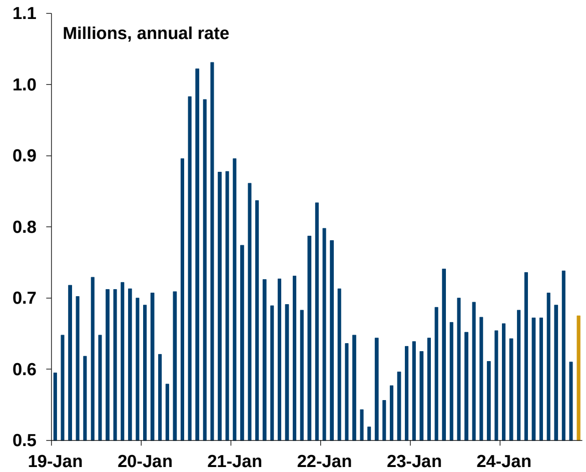
Sources: The Conference Board via Haver Analytics; Daiwa Capital Markets America

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

New Home Sales*



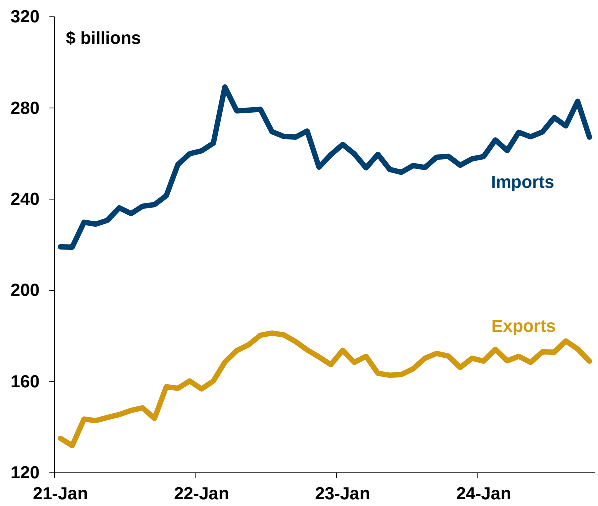
** The gold bar is a forecast for November 2024.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

International Trade in Goods (November) (Friday)
Forecast: -$101.5 Billion ($3.2 Billion Wider Deficit)

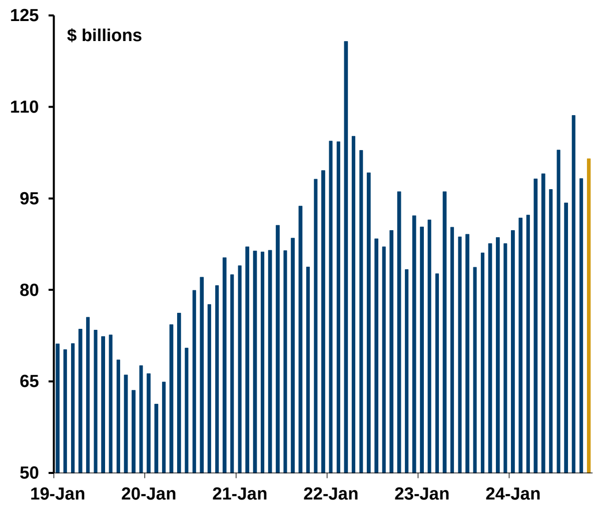
The brief port shutdown in the fall likely introduced noise to the already-volatile goods trade flows, which, all else equal, are often subject to wide month-to-month swings. Imports fell in October after a previous rush to get goods in ahead of the anticipated strike (-3.5 percent to $267.5 billion in October from the average of $276.9 billion in Q3). However, the sharp correction opens the door to a pickup in November as trade flows continue to normalize. Exports, on the other hand, have bounced around on an essentially sideways trend as a firm foreign exchange value of the dollar and sluggish demand in the economies of several key trading partners have constrained shipments abroad (chart, below left). Thus, the expected increase in imports and ongoing tepid performance in exports suggest a widening in the goods trade deficit (chart, below right).

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Trade Deficit in Goods*



** The gold bar is a forecast for November 2024.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Economic Indicators

December 2024 / January 2025

Monday	Tuesday	Wednesday	Thursday	Friday
16	17	18	19	20
EMPIRE MFG Oct -11.9 Nov 31.2 Dec 0.2	**RETAIL SALES** Total / Ex.Autos Sep 0.9% 1.0% Oct 0.5% 0.2% Nov 0.7% 0.2% **IP & CAP-U** IP / Cap.Util. Sep -0.5% 77.4% Oct -0.4% 77.0% Nov -0.1% 76.8% **NAHB HOUSING INDEX** Oct 43 Nov 46 Dec 46 **BUSINESS INVENTORIES** Inventories / Sales Aug 0.3% -0.2% Sep 0.0% 0.3% Oct 0.1% 0.0% **FOMC MEETING (FIRST DAY)**	**HOUSING STARTS** Sep 1.355 million Oct 1.312 million Nov 1.289 million **CURRENT ACCOUNT** 24-Q1 -$241.0 bill. 24-Q2 -$275.0 bill. 24-Q3 -$310.9 bill. **FOMC RATE DECISION**	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Nov 23 0.215 1.871 Nov 30 0.225 1.879 Dec 7 0.242 1.874 Dec 14 0.220 N/A **GDP** GDP / Chained Price 24-Q2 3.0% 2.5% 24-Q3(p) 2.8% 1.9% 24-Q3(r) 3.1% 1.9% **PHILADELPHIA FED MFG BUSINESS OUTLOOK** Oct 10.3 Nov -5.5 Dec -16.4 **EXISTING HOME SALES** Sep 3.830 million Oct 3.960 million Nov 4.150 million **LEADING INDICATORS** Sep -0.4% Oct -0.4% Nov 0.3% **TIC FLOWS** Long-Term / Total Aug $108.7B $76.2B Sep $216.1B $398.9B Oct $152.3B $203.6B	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. / Cons. / Core Sep 0.4% 0.7% 0.3% Oct 0.7% 0.3% 0.3% Nov 0.3% 0.4% 0.1% **REVISED CONSUMER SENTIMENT** Nov 71.8 Dec(p) 74.0 Dec(r) 74.0
23	24	25	26	27
CHICAGO FED NATIONAL ACTIVITY INDEX (8:30) Monthly / 3-Mo. Avg. Sep -0.27 -0.21 Oct -0.40 -0.24 Nov -- -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** Oct 109.6 Nov 111.7 **Dec 114.0**	**DURABLE GOODS ORDERS (8:30)** Sep -0.4% Oct 0.3% **Nov -0.3%** **NEW HOME SALES (10:00)** Sep 0.738 million Oct 0.610 million **Nov 0.675 million**	***CHRISTMAS***	**UNEMP. CLAIMS (8:30)**	**INTERNATIONAL TRADE IN GOODS (8:30)** Sep -$108.6 billion Oct -$98.3 billion **Nov -$101.5 billion** **ADVANCE INVENTORIES (8:30)** Wholesale / Retail Sep -0.2% 0.7% Oct 0.2% 0.2% Nov -- --
30	31	1	2	3
MNI CHICAGO BUSINESS BAROMETER **PENDING HOME SALES**	**FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX**	***NEW YEAR'S DAY***	**UNEMP. CLAIMS** **CONSTRUCTION**	**ISM MFG. INDEX** **VEHICLE SALES**
6	7	8	9	10
FACTORY ORDERS	**TRADE BALANCE** **ISM SERVICES INDEX** **JOLTS DATA**	**ADP EMPLOYMENT** **FOMC MINUTES** **CONSUMER CREDIT**	**UNEMP. CLAIMS** **WHOLESALE TRADE**	**EMPLOYMENT REPORT** **CONSUMER SENTIMENT**

Forecasts in bold. (p) = preliminary (2nd estimate of GDP), (r) = revised (3rd estimate of GDP)

Treasury Financing

December 2024 / January 2025

Monday	Tuesday	Wednesday	Thursday	Friday
16	17	18	19	20
AUCTION RESULTS: Rate / Cover 13-week bills 4.250% 2.62 26-week bills 4.160% 3.29 **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION RESULTS:** Rate / Cover 20-yr bonds 4.686% 2.50 42-day CMBs 4.270% 2.59 **ANNOUNCE:** $64 billion 17-week bills for auction on Dec 18 $80 billion 4-week bills for auction on Dec 19 $75 billion 8-week bills for auction on Dec 19 **SETTLE:** $64 billion 17-week bills $80 billion 4-week bills $75 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 4.220% 2.97	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.230% 2.93 8-week bills 4.230% 2.98 5-yr TIPS 2.121% 2.10 **ANNOUNCE:** $153 billion 13-,26-week bills for auction on Dec 23 $48 billion 52-week bills for auction on Dec 23 $69 billion 2-year notes for auction on Dec 23 $70 billion 5-year notes for auction on Dec 24 $44 billion 7-year notes for auction on Dec 26 $28 billion 2-year FRNs for auction on Dec 24 $65 billion 42-day CMBs for auction on Dec 23 **SETTLE:** $153 billion 13-,26-week bills $65 billion 42-day CMBs	
23	24	25	26	27
AUCTION: $153 billion 13-,26-week bills $48 billion 52-week bills $69 billion 2-year notes $65 billion 42-day CMBs	**AUCTION:** $70 billion 5-year notes $28 billion 2-year FRNs **ANNOUNCE:** $64 billion* 17-week bills for auction on Dec 26 $80 billion* 4-week bills for auction on Dec 26 $75 billion* 8-week bills for auction on Dec 26 **SETTLE:** $64 billion 17-week bills $80 billion 4-week bills $75 billion 8-week bills	***CHRISTMAS***	**AUCTION:** $64 billion* 17-week bills $80 billion* 4-week bills $75 billion* 8-week bills $44 billion 7-year notes **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Dec 30 **SETTLE:** $153 billion 13-,26-week bills $48 billion 52-week bills $65 billion 42-day CMBs	**SETTLE:** $28 billion 2-year FRNs
30	31	1	2	3
AUCTION: $153 billion* 13-,26-week bills	**ANNOUNCE:** $64 billion* 17-week bills for auction on Jan 2 $80 billion* 4-week bills for auction on Jan 2 $75 billion* 8-week bills for auction on Jan 2 **SETTLE:** $64 billion* 17-week bills $80 billion* 4-week bills $75 billion* 8-week bills $13 billion 20-year bonds $22 billion 5-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes	***NEW YEAR'S DAY***	**AUCTION:** $64 billion* 17-week bills $80 billion* 4-week bills $75 billion* 8-week bills **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Jan 6 $58 billion* 3-year notes for auction on Jan 7 $39 billion* 10-year notes for auction on Jan 8 $22 billion* 30-year bonds for auction on Jan 9 **SETTLE:** $153 billion* 13-,26-week bills	
6	7	8	9	10
AUCTION: $153 billion* 13-,26-week bills	**AUCTION:** $58 billion* 3-year notes **ANNOUNCE:** $64 billion* 17-week bills for auction on Jan 8 $80 billion* 4-week bills for auction on Jan 9 $75 billion* 8-week bills for auction on Jan 9 **SETTLE:** $64 billion* 17-week bills $80 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $64 billion* 17-week bills $39 billion* 10-year notes	**AUCTION:** $80 billion* 4-week bills $75 billion* 8-week bills $22 billion* 30-year bonds **ANNOUNCE:** $153 billion* 13-,26-week bills for auction on Jan 13 **SETTLE:** $153 billion* 13-,26-week bills	

**Estimate*