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Q4 2023 ECONOMIC REPORTS

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GDP GROWTH: TRENDING IN Q4 2023

The nation's gross domestic product expanded at a 3.3% annual rate in the fourth quarter. The quarterly output exceeded the Wall Street consensus estimate of a 2% gain. It also capped a year in which the U.S. skirted a recession that many forecasters thought was inevitable. GDP grew at a 4.9% pace in the third quarter.

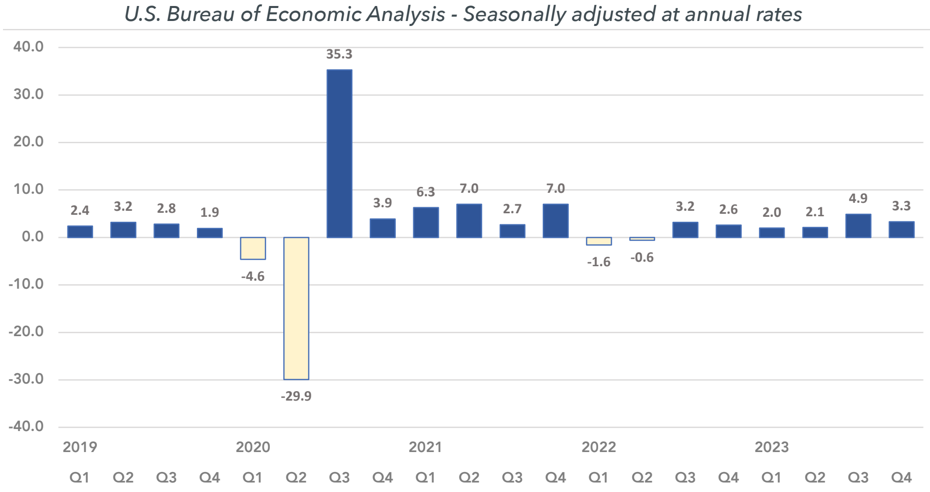
The U.S. economy for all of 2023 accelerated at a 2.5% annualized pace, well ahead of forecasts at the beginning of the year and more than the 1.9% GDP increase for 2022.

The 2023 increase primarily reflected increases in consumer spending, nonresidential fixed investment, state and local government spending, exports and federal government spending. The gains were partly offset by decreases in residential fixed investment and inventory investment. Imports decreased.

There also was progress on inflation. Core prices for personal consumption expenditures, which the Federal Reserve prefers as a longer-term measure for inflation, rose 2% for the period. On an annual basis, the PCE price index rose 2.7%, down from 5.9% a year ago. The core figure excluding food and energy posted a 3.2% annual increase annually, compared with 5.1% in Q4 2022.

Real GDP: Percent Change from Prior Quarter

U.S. Bureau of Economic Analysis - Seasonally adjusted at annual rates



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The consumer price index, also known as the headline rate, which includes food and energy prices, was 1.7%. As had been the case throughout the year, a strong pace of consumer spending helped drive the expansion. Personal consumption expenditures increased 2.8% for the quarter, down just slightly from the previous period. State and local government spending also contributed, up 3.7%, along with a 2.5% increase in federal government expenditures. Gross private domestic investment rose 2.1%, another positive factor for the quarter.

Most economists were certain the U.S. would enter at least a shallow recession in 2023 as the Fed remained committed to raising rates aggressively to cool down the economy and choke off inflation. The Fed itself had predicted a mild contraction due to banking industry stress last March. But in their last meeting of the year, central bankers signaled that that conditions had improved so that three rate cuts were planned for 2024. The first reduction won't likely occur before May.

Current-dollar personal income increased $224.8 billion in the fourth quarter, compared with an increase of $196.2 billion in the third quarter. The increase primarily reflected increases in compensation, personal income receipts on assets, and proprietors' income that were partly offset by a decrease in personal current transfer receipts (table 8).

Disposable personal income increased $211.7 billion, or 4.2%, in the fourth quarter, compared with an increase of $143.5 billion, or 2.9%, in the third quarter. Real disposable personal income increased 2.5%, compared with a Q3 increase of 0.3%. Personal savings totaled $818.9 billion in the fourth quarter, compared with $851.2 billion in the third quarter. The personal saving rate—personal saving as a percentage of disposable personal income—was 4% percent in the fourth quarter, compared with 4.2% in the third quarter.

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EMPLOYMENT: TRENDING IN Q4 2023

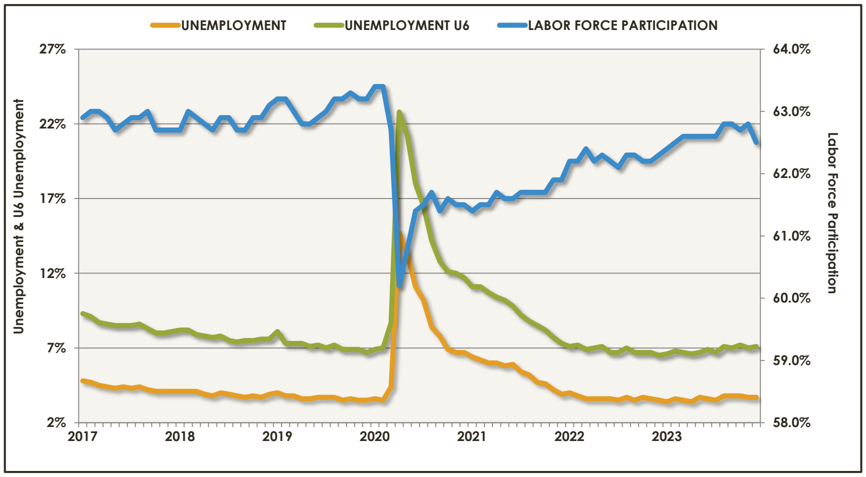
A stronger than expected December jobs report pushed total U.S. employment growth for 2023 to nearly 2.7 million, one of the best years of the last decade. The unemployment rate held steady at 3.7% and the average unemployment rate for the year, 3.6%, matches 2022's reading as the lowest since 1969.

Although hiring has slowed in recent months, layoffs remain near record lows. The durability of both hiring and wage gains is significant in view of the Federal Reserve's aggressive series of interest rate hikes aimed at slowing the economy to bring inflation under control. "It's a labor market that showed substantial resilience while cooling to levels that were much more acceptable from the Fed's perspective," said Matthew Luzzetti, chief U.S. economist at Deutsche Bank. "It was about as good of an outcome for the labor market as you could have hoped for in 2023."

Hiring was revised down in October to 105,000 new jobs and for November to 173,000 positions. But the average monthly gain in 2023 was 225,000 jobs. This was less than the 399,000 monthly average for 2022's 4.8 million job total but more than the average gains in the years prior to the pandemic.

Wages rose a healthy 4.1% last month from a year earlier and the unemployment rate in December held at 3.7%. The jobless rate began 2023 at 3.4%, matching lows not seen since the late 1960s, and remains low despite inching higher late last year.

United States Unemployment



'It was about as good of an outcome for the labor market as you could have hoped for in 2023' – Matthew Luzzetti, chief U.S. economist at Deutsche Bank.

Government, health care and leisure and hospitality led the month's job gains. Government jobs gained 52,000 last month. On average, government added 56,000 jobs per month in 2023, more than double the average monthly gain of 23,000 in 2022. The economy added 38,000 jobs in the health care space. Job growth in health care averaged 55,000 per month in 2023, compared with the average monthly gain of 46,000 in 2022.

Employment in social assistance rose by 21,000 in December, while construction jobs added 17,000. Transportation and warehousing lost jobs. Leisure and hospitality added 40,000 jobs, about the same number as the prior month. The industry added an average of 39,000 jobs per month in 2023, less than half the average gain of 88,000 jobs a month in 2022. Employment in this sector is about 1% below its pre-pandemic February 2020 level. Employment in manufacturing, retail trade and professional and business services also added jobs. Wage growth ticked up slightly last month. Average hourly earnings, an important measure for inflation, rose 0.4% to $34.27. Over the past 12 months, average hourly earnings increased by 4.1%. There are signs of cooling. Employers added a combined 71,000 fewer jobs in October and November than previously estimated. Other data showed open positions fell at the end of 2023 compared with the start, and workers are quitting their jobs at a lower rate than before the pandemic began.

Economic activity at service-industry businesses decelerated in December, as employment contracted sharply. The number of unemployed Americans who want a job climbed to 5.7 million in December and was up by 514,000 overall in 2023.

MONETARY POLICY: TRENDING IN Q4 2023

There was some holiday cheer in financial quarters at year end as the Federal Reserve appeared nearly to have tamed inflation while signaling that three rate reductions would be coming in 2024. But officials were quick to caution markets not to expect any rate cutting soon.

In comments a week after the Fed's Dec. 13 decision to hold rates steady in its range of 5.25% to 5.5%, Fed Chairman Jerome Powell said the recent decline in inflation without an increase in unemployment was unexpected. Powell also volunteered that this year's decline in inflation meant officials could be watchful not to leave rates too high for too long.

After raising the policy rate by 5.25 percentage points since March 2022 – in one of the Fed's fastest and biggest rate hike campaigns – it has now held the rate steady since July as inflation inches closer to its 2% target rate, from a high of more than 9% in 2022.

Powell's less restrictive tone on the heels of the central bank's Federal Open Market Committee's decision to leave rates unchanged was welcomed by markets, said Sarah Stillpass, a JP Morgan global investment strategist, who noted that Fed officials were quick to downplay the likelihood of a cut before the third quarter.

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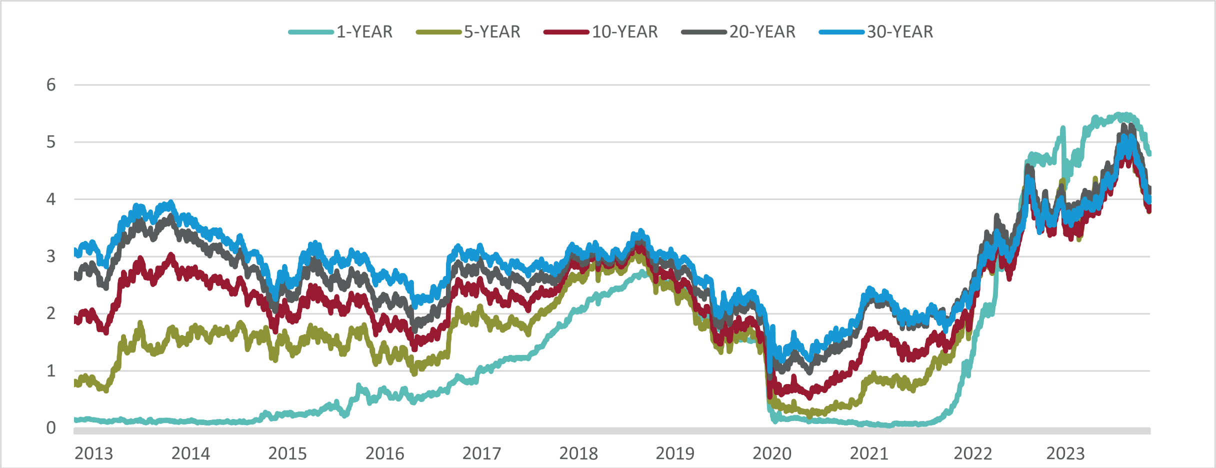
Daily Treasury Yield Curve Rates (Decade Trend)



While the Fed's move to maintain the status quo was largely expected, Stillpass said "the dovish commentary was not."

"FOMC projections now call for 75 basis points of rate cuts in 2024 as the Fed sent a clear signal that the hiking cycle is likely over and a soft landing could be on the horizon. The Fed also adjusted their 2024 inflation outlook from 2.6% to 2.4%," Stillpass said.

In the Fed's median "Summary of Economic Projections," released Dec. 13, the federal funds rate is shown falling three-quarters of a percentage point to 4.6% by the end of 2024 and to 3.6% – indicating four quarter-point cuts – by 2025. No Fed officials see rates higher by the end of next year. In its statement, the Fed said that after its long tightening campaign to battle decades-high inflation, U.S. economic growth has slowed and "inflation has eased over the past year but remains elevated."

"We believe that our policy rate is likely at or near its peak for this tightening cycle. The economy has surprised forecasters in many ways since the pandemic and ongoing progress," Powell said, adding that Federal Open Market Committee members did not want to take further hikes "off the table."

"There's little basis for thinking the economy is in a recession now," Powell said, though "there's always a real possibility there will be recession in the next year." Powell said that there is a strong chance the economy could cool in a way that allowed inflation to abate without the kind of large job losses typically associated with high inflation and tightening cycles. "So far, that's what we're seeing. That's what many forecasters on and off the committee are seeing," he said. But "it's too early to declare victory."

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GLOBAL ECONOMY: TRENDING IN Q4 2023

The slow, uneven global economic recovery from the pandemic and Russia's invasion of Ukraine has been threatened with severe disruption from the deadly Oct 7th attack on civilians in Israel launched from Gaza by paramilitary wings of Hamas, a Palestinian group seeking destruction of Israel.

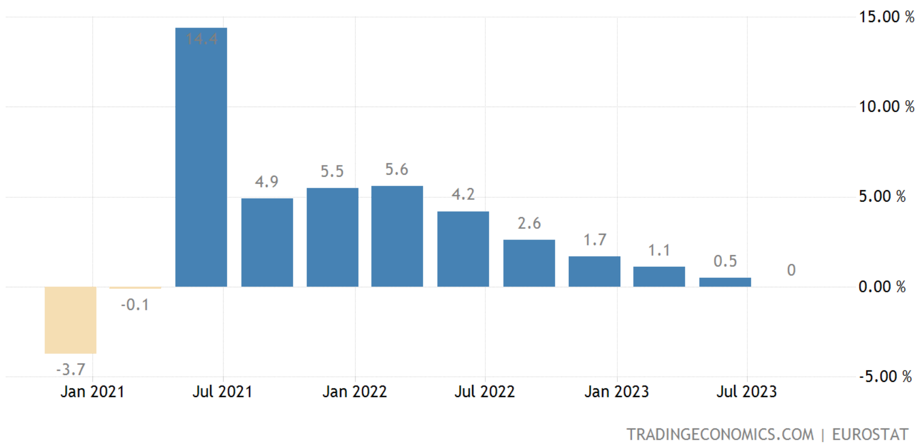
Diplomats have been working to keep Israel's armed response to the slaughter of Jewish civilians and hostage-taking from spiraling into a wider conflict. But subsequent missile attacks on Israel by Hezbollah from southern Lebanon and drone attacks on western shipping by Islamist rebels supported by Iran, keep the region on high alert.

"We are very much concerned," Ayhan Kose, deputy chief economist at the World Bank Group, said in a recent interview. "There's the war in eastern Europe and now a conflict in the Middle East. These are basically the energy supply hubs of the global economy."

Before the assault in Israel, the International Monetary Fund said that because of the economic resilience earlier this year, a reopening rebound and progress in reducing inflation from last year's peak, there was room for optimism.

At the close of 2023 economic activity was falling short of pre-pandemic levels, especially in developing economies, and there are widening divergences among regions. According to the IMF, several forces are holding back the recovery. Some reflect the long-term consequences of the pandemic, the war in Ukraine, and increasing geoeconomic fragmentation.

European Union GDP Annual Growth Rate



'Nowadays, the number-one global risk are these geopolitical tensions' – Ayhan Kose, deputy chief economist at the World Bank Group

Other forces affecting the global economy include the effects of monetary policy tightening on reduce inflation, withdrawal of fiscal support amid high debt, and extreme weather events. "Most of the time you worry about financial stress because of high interest rates and debt levels. Nowadays, the number-one global risk are these geopolitical tensions," Kose said.

The International Monetary Fund forecasts global growth to slow from 3% in 2023 to 2.9% in 2024. For advanced economies, growth was down from 2.4% in 2022 to 1.5% in 2023. It is projected to hit 1.4% in 2024 amid a stronger-than-expected United States economy and weaker-than-expected growth in the Euro markets. Global inflation is forecast to decline from 6.9% in 2023 to 5.8% in 2024.

Prior to the recent Middle East conflict, the outlook had been relatively balanced due to resolution of the U.S. debt ceiling standoff. The likelihood of a hard landing has receded, but the balance of risks to global growth remains tilted to the downside. China's property sector crisis could deepen, with global spillovers, particularly for commodity exporters.

There is little margin for error on the policy front. The consensus view among economists is that central banks need to restore price stability while using policy tools to relieve potential financial stress when needed. This while being mindful that keeping rates elevated could weigh on economies more significantly, turning mild recessions into deeper ones.

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