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U.S. Economic Outlook, November 2023

The Northern Trust Economics team shares its outlook for U.S. growth, employment, interest rates and inflation.

The past year has brought repeated and positive economic surprises. Expectations of a recession were overstated, and mass layoffs did not emerge as some anticipated. These reports were welcome, but always received with some trepidation: we wondered how long the good times could last. Slower activity felt inevitable.

As we move through autumn, data points on the American economy have turned more challenging. Manufacturing is contracting, interest costs are rising rapidly and job creation is slowing. None of these are signs of imminent peril, but they do suggest a return to a slower, steadier state of activity.

The resilience of the domestic economy should not be underestimated. Employers, workers and investors have weathered tremendous uncertainty and performed well through the past three years. A moderate slowdown may feel uncomfortable, but will also bring about further disinflation and set the stage for rate cuts next year. The transition from hot to cool can feel jarring, but a cooldown doesn't always portend a deep freeze.

Key Economic Indicators

	2023				2024				Q4 to Q4 change			Annual change		
	23:1a	23:2a	23:3a	23:4f	24:1f	24:2f	24:3f	24:4f	2022a	2023f	2024f	2022a	2023f	2024f
Real Gross Domestic Product (% change, SAAR)	2.0	2.1	4.9	0.8	0.9	1.1	1.3	1.5	0.9	2.3	1.2	2.1	2.3	1.4
Consumer Price Index (% change, annualized)	3.8	2.7	3.6	3.2	2.8	2.5	2.3	2.2	7.1	3.4	2.4	8.0	4.2	2.9
Civilian Unemployment Rate (%, average)	3.5	3.6	3.7	4.0	4.1	4.2	4.1	4.0				3.6*	3.7*	4.1*
Federal Funds Rate	4.52	4.99	5.26	5.38	5.38	5.38	5.13	4.63				1.69*	5.04*	5.13*
2-yr. Treasury Note	4.34	4.26	4.92	5.10	5.00	4.70	4.30	3.90				2.98*	4.65*	4.48*
10-yr. Treasury Note	3.65	3.60	4.15	4.85	4.80	4.70	4.50	4.30				2.96*	4.06*	4.58*

a=actual
f=forecast
*=annual average

Influences on the Forecast

- At its November 1 meeting, the Federal Open Market Committee held the Fed Funds Rate steady and made no other changes to monetary policy. Chair Jerome Powell emphasized that deliberations were focused solely on whether more rate hikes are ahead, but markets interpreted the message as saying the hiking cycle is complete. So long as inflation does not reignite, we expect no further rate increases, but no cuts until the second half of 2024.
  - Powell also received a bevy of questions about how the FOMC was considering the run-up in longer-term interest rates. The committee welcomed tighter financial conditions to help tame inflation but needed confidence that higher rates would persist. The U.S. 10-year Treasury yield then fell by 40 basis points as markets digested softer data and a less hawkish Fed; the tightening may not be so persistent.
- Gross domestic product grew at a startling annualized rate of 4.9% in the third quarter, with strength across consumer and government spending as well as inventory restocking.
  - The current quarter will almost certainly be slower. Labor disruptions and the resumption of student loan payments will slow consumer spending, while the surge of higher interest rates may curtail investment. Inventory accumulation is difficult to forecast but unlikely to provide the same boost again. However, even a fourth quarter of zero growth would make a full year gain of 2.3%, not a bad pace by any means.
- Employment in October was the first soft report in recent memory. 150,000 jobs were created, but 101,000 were removed from prior months. Growth in the labor force pushed the unemployment rate up to 3.9%. The level is still low, but higher readings could trigger the Sahm Rule, an indicator of the onset of a recession. One

weak report is not necessarily the start of a trend, but it likely ended the Fed's consideration of a December hike.

- Average hourly earnings grew 4.1% over the past twelve months, the slowest gain in over two years. Tamer wages will help to keep services inflation contained.
- The Job Openings and Labor Turnover Survey (JOLTS) for September showed a second consecutive increase in job openings, along with steady rates of hiring, quits and layoffs. Demand for workers remains high, but the peak of turnover is in the past.

- Progress against inflation has been limited in recent months. The headline consumer price index held steady at 3.7% year over year in September, while the core measure (excluding food and energy) improved two-tenths to 4.1%. The deflator on core personal consumption expenditures measured 3.7%, far in excess of the Fed's 2% target, with the details showing a discouraging set of price increases in the past month.
- The Federal Reserve's Senior Loan Officer Opinion Survey for the fourth quarter showed a modest turning. A majority of banks continue to report that they are tightening their lending standards and witnessing lower demand for loans, but not to the high extent seen in the wake of the spring banking stress.
- The House of Representatives has selected a new leader and returned to regular order. Now, the hard work of determining a fiscal year 2024 budget can begin. Concrete plans to **restore fiscal balance** have not been announced. A shutdown looms on November 17; agreeing a full budget by then will be difficult, but another continuing resolution is possible.

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