Macroeconomic Update

Recent Data Reduces (But Does Not Remove) Downside Risks

Outlook for a soft landing improves.

While recent economic data releases have bolstered the case for a soft landing of the U.S. economy, mixed readings on the labor market and elevated policy uncertainty cloud the 2025 outlook. The new administration will pursue initiatives to boost growth, but those could come at some cost. The ability to meaningfully expand the fiscal impulse seems unlikely, even with a united government.

Recent revisions to income data have been positive and eased concerns about the durability of the U.S. expansion. Higher income in the annual revision to gross domestic income (GDI) helped assuage concerns that a low saving rate would cause consumers to pull back on spending. The reported saving rate rose from a concerning 2.9 percent to a more normal 4.8 percent, meaning that consumption—the main engine of economic growth—has a longer runway than previously indicated.

Recent labor market data have also showed a gradual cooling, but more abrupt labor market weakness remains a risk to our outlook. While the strong September employment report suggested some stabilization, payroll growth in October was weighed down by the effects of hurricanes and strikes, and the unemployment rate ticked higher, again suggesting an ongoing cooling. With so much noise impacting October payrolls, it is reassuring to see alternative measures holding up, with jobless claims reversing after a hurricane-related jump and surveys suggesting slightly better hiring conditions.

The Federal Open Market Committee's decision in September to begin the easing cycle with a 50 basis point rate cut demonstrated its responsiveness to a shifting balance of risks. Markets are likely to continue to price in further rate cuts following the 25 basis point cut in November and commentary suggesting a continued path toward neutral. With inflation remaining near mandate-consistent levels and downside risks to the growth outlook somewhat elevated, we continue to see the case for a gradual pace of rate cuts.

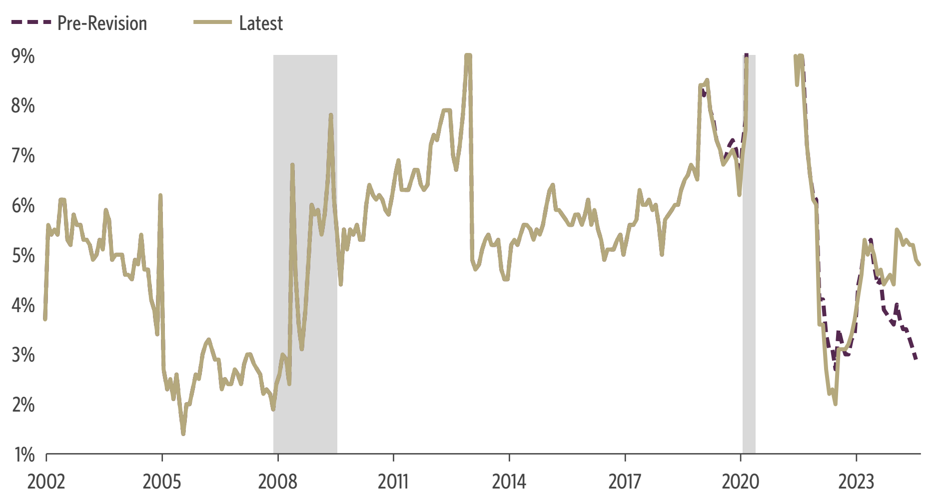
The outlook for 2025 is uncertain given potential shifts in policy after the election and geopolitical risks. A continued moderation in immigration points to a slowdown in U.S. economic growth, and uncertainty about the path of trade policy could be an additional headwind. However, the potential for further tax cuts, continued appreciation in financial assets, and a potential boost to business sentiment after the election are tailwinds. Fundamentals point to a further easing in inflation, but tariffs could lead to price shifts that interrupt that trend. On balance, the Fed will likely continue to recalibrate policy toward a neutral setting next year, which we estimate at 3.25–3.5 percent.

By Matt Bush and Maria Giraldo

Higher income in the GDI revision helped assuage concerns that a low saving rate would cause consumers to pull back on spending. The reported saving rate rose from a concerning 2.9 percent to a more normal 4.8 percent, meaning that consumption—the main engine of economic growth—has a longer runway than previously indicated.

Concerningly Low Saving Rate Revised Up on Higher Income

Personal Saving, % of Disposable Income



Source: Guggenheim Investments, Haver Analytics. Data as of 8.31.2024. Gray shaded areas represent recession.