MACRO STRATEGY

Economic Monthly

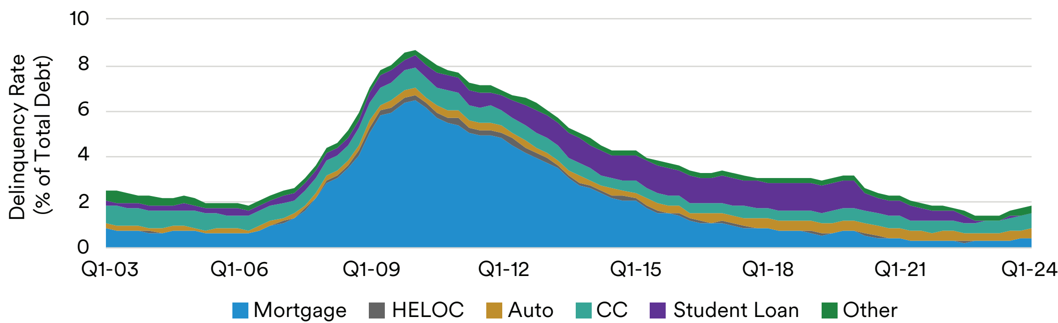
Strength or Softness?

June 17, 2024

Consumers have still not run out of runway. Despite having burned through the famous "excess savings" from pandemic-era stimulus, and despite a softer labor market, we continue to see consumers willing and able to spend. As we elaborate below, continued credit availability, investment spending and the labor market provide enough space for households to maintain their spending habits for the next several months.

Higher Credit Card Delinquencies, but Other Loan Types Healthy

Chart 1 | Credit Cards Are a Growing Portion of Delinquencies



Source: FRBNY, Macrobond, MIM, as of June 2024

Credit card loan delinquencies have risen dramatically over the last two years, and their delinquency rate has reached levels not seen since the 2000s[1]. While that may appear alarming for those monitoring the health of consumer spending, these higher delinquency rates may not matter very much—the Federal Reserve Bank of New York's Consumer Credit Panel shows that credit cards make up only 6% of outstanding debt.

Meanwhile, mortgages make up 70% of outstanding debt, and while their delinquency rate has also increased, it remains at historic lows. Auto and student loans, each making up 9% of outstanding debt, also appear benign. Auto loans' delinquency rates held relatively stable throughout the pandemic, and student loan delinquencies have fallen to less than 1%.[1]

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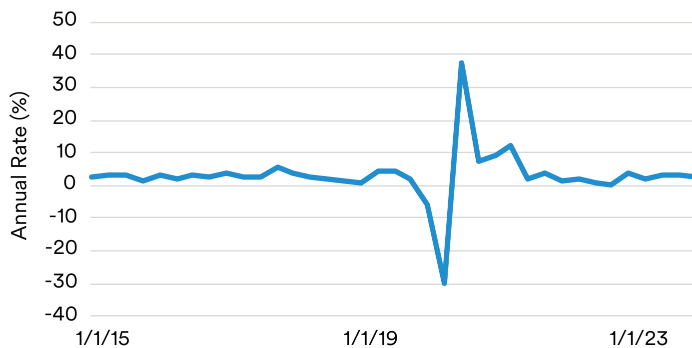
The chart on page one shows the delinquency rates of different loan types as a percentage of all outstanding debt. Even though delinquency rates have gone up, they remain at low levels over recent history. Despite pockets of stress in certain consumer groups (e.g., those more reliant on credit cards), other higher-income consumers are getting a wealth effect from elevated equity and housing prices and can continue to spend, potentially stabilizing GDP throughout 2024.

Weaker GDP, but Stronger PDFP

The second estimate of 2024 Q1 GDP was revised downward to a 1.3% annual rate, much less impressive than last year's strong growth. However, much of that decline was due to an inventory effect and changes in government spending.

Private domestic final purchases (PDFP), a more stable measure of output reflecting domestic fixed business investment, residential investment and domestic personal consumption, have actually strengthened relative to 2022. PDFP measures the private sector's ability to drive growth. Most recently in 2024 Q1, real PDFP came in at a healthy 2.7%.

Chart 2 | PDFP Growth Remains Healthy



Source: BEA, Macrobond, MIM, as of June 2024

None of the three components of PDFP show any signs of slowing down meaningfully.

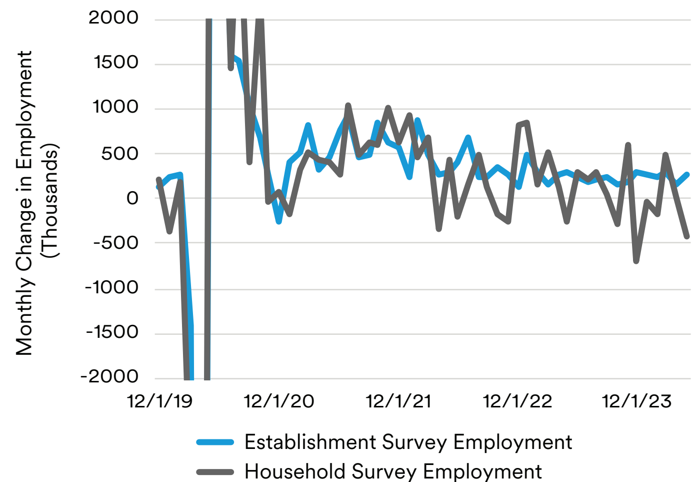
Residential investment declined through 2022 and the first half of 2023 but increased at an almost record 15.4%[2] rate in Q1. Given the supply-constrained housing market, we expect residential investment to continue to grow. Business fixed investment also remains robust, coming in at 3.3%[2] in Q1. We believe increased government spending via industrial policy and infrastructure bills like the Inflation Reduction Act will keep investment spending growing for the near future as significant sums of funding remain to be distributed.

Finally, the third part of PDFP, personal consumption spending, did slow down mildly to 2.0%[2] in Q1. However, the growth rate is still high, and any slowdown seems to have been more than offset by investment. If businesses continue to invest, and the labor market remains tight, then consumption expenditures, and therefore GDP, should remain stable throughout 2024.

Stronger Payrolls, but Higher Unemployment

The unemployment rate reached 4% in May for the first time since January 2022. At the same time, the Establishment Survey showed a non-farm payroll increase of 272,000 employees. The truth is likely somewhere in between.

Chart 3 | Household Payrolls Weaker, but Establishment Payrolls Stronger



Source: BLS, Macrobond, MIM, as of June 2024

The unemployment rate increase was strongly concentrated among teenagers, perhaps looking for summer jobs (some southern high schools finish the school year in May). One-third (or 49k out of the 157k increase in unemployed persons) was in the 16–19-year-old demographic. The teenage demographic group has a higher unemployment rate of over 12%.[3]

However, the unemployment rate excluding that group remains a tight 3.4% and has in fact declined by 40 basis points (bps) since the beginning of the year. The labor market is still working for these large demographic groups responsible for the bulk of consumption, and demand for labor, especially skilled labor, remains. These pockets of strength should allow consumers to keep spending through 2024.

U.S. Outlook Summary

We expect growth in 2024 to be softer than in 2023 but remain healthy. First-quarter GDP, although lower than expectations, showed strong residential investment and weaker, but still healthy, consumption, especially in services. We expect corporate investment to be healthy in 2024, backed by strong profit margins and a growth outlook less clouded by recession.

Residential investment has improved since the beginning of the year, with residential investment increasing over 15%[2] in Q1 2024 after contributing negatively to GDP in 2023.

The government sector, while pulling back vis-à-vis 2023, is still expected to contribute quite a bit to growth as industrial policies at the federal level and continued tax revenue growth at the local level induce spending.

We expect the Fed to cut rates by a total of 75 bps by year end, although if it is not able to cut by July due to persistent inflation, this could decrease to 50 bps. We have revised our inflation forecast for 2024 from 2.8% to 3.1%, given higher recent inflation data, but do not expect a further escalation in inflation.

MIM Forecast

U.S.	2023*	2024	2025
GDP	2.5	2.0	2.0
CPI	3.2	3.1	2.8
10 Year	3.88	4.50	4.20
Policy rates (upper bound)	5.50	4.75	4.00
Unemployment	3.7	4.4	4.3

Note: GDP is annual average growth rate, CPI is Q4 year/year, 10 year is year-end, policy rate is the upper bound year-end rate. Our core PCE forecast for 2024 is 2.5%.
*Denotes actual data; the rest are forecasts.
Source: BEA, BLS, U.S. Treasury, Federal Reserve, Bloomberg, MetLife Investment Management. As of June 2024.

Risks to the Outlook

Although we remain optimistic, we recognize a number of factors that keep us cautious. Credit card delinquency rates have risen quite sharply over the last few months; lending standards remain relatively tight; and unemployment is rising for some segments of the population, while businesses have continued difficulties filling skilled labor positions.

Furthermore, persistent inflation has reemerged as a risk. Inflation—while unlikely to return to 2022 levels—has been decelerating more slowly than in the last half of 2023. Fed officials doubt that inflation will return to 2% before 2026, and recent data make it harder to return to below 3% in 2024. Stubborn or rising inflation would alter the Fed's rate cut path and potentially economic growth.

Endnotes

1. FRBNY
2. BEA
3. BLS

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