Macro Economic Overview – June 2024

Mixed data sent equity and bond markets into uncertainty, as economic expansion appears to be cooling, yet inflation remains a burden for consumers nationwide. The labor market also seems to be cooling, as the unemployment rate ticked up to 4%, up from 3.9%, the first time in over 2 years that the rate has reached 4%.

Inflation, as measured by the consumer-price index (CPI) rose 3.4% in April from a year earlier. Closely followed by the Fed, core prices which exclude volatile food and energy items, rose 3.6%. Gross domestic product (GDP) rose 1.3% annualized in the first three months of the year, below estimated projections of 1.6%. Bureau of Economic Analysis (BEA) figures also showed that the economy's primary growth indicator, consumer expenditures, advanced 2.0%, somewhat less than expected.

An employment index released each month by the Conference Board, is starting to signal a slowdown in the labor market. The Conference Board Employment Trends Index (ETI) fell in April, indicating that employers are hiring less and laying more workers off. Even though companies continue to seek qualified employees and keep certain workers, the level of layoffs is slowly rising at the same time, resulting in what is known as labor hoarding. Economists view a cooling labor market as an indicator of a slowdown in consumer expenditures and economic activity.

Consumers are borrowing more in order to keep spending and to keep up with higher prices. The increase in consumer loan balances is a multifaceted issue driven by higher borrowing costs, inflation, depletion of savings, changes in consumer behavior, economic conditions, and lender requirements. These factors collectively contribute to the rising levels of consumer debt from auto loans to credits cards and lines of credit.

The most recent retail data from the country's largest retail chains are finding consumer frugality a concern as consumers become more sensitive to how much they're spending and on what they're buying. Continued elevated interest rates are keeping consumers from larger big ticket purchases such as cars and appliances.

Federal Reserve Bank of New York President John Williams said he expects inflation to resume moderating in the second half of this year, while Michelle Bowman, a Fed Governor, suggested that if progress on inflation stalls or reverses, the Fed might need to consider increasing rates further. Conflicting messages from various Fed members in May drew market confusion, as the direction of interest rates became more ambiguous. The Federal Reserve, which is composed of 12 district presidents and 7 governors, each representing different parts of the country, yet offer varying opinions on economic conditions.

The IRS has provided temporary relief from penalties for missed RMDs from inherited IRAs for the years 2020 through 2024, but beneficiaries should prepare for compliance with the final regulations starting in 2025.

The most recent findings from the Federal Reserve's Beige Book, released on May 29, 2024, indicate that the U.S. economy has been expanding at a modest rate since early April of this year. The Beige Book, which is a formal survey conducted and released by the Federal Reserve each month, identifies key attributes of the economy and current conditions.

Sources: Federal Reserve, IRS, Labor Dept., BEA, Conference Board