Economy Statement by Eric Van Nostrand, performing duties of Assistant Secretary for Economic Policy for the Treasury Borrowing Advisory Committee

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INTRODUCTION

Over the past three months, incoming U.S. economic data continue to show robust growth in the labor market, household consumption, and business investment, even as inflation remains well below its peak. Although headline GDP growth slowed more than expected in the first quarter, underlying demand from households and businesses remained remarkably strong. Moreover, the pace of job growth picked up in early 2024, prime-age labor supply improved, and the unemployment rate continued to remain low. It is likely that the health of the labor market is buttressing private demand and, with it, economic growth in 2024.

Inflation has been slower to come down than expected after the rapid decline observed in 2023. Although headline inflation is down nearly two-thirds from its peak in 2022, it remains too high for American families, and the effects of elevated prices compared with the pre-pandemic era may be weighing on consumer sentiment. Continued progress is needed to bring core inflation to a level consistent with the Federal Reserve's target while allowing our economy to continue to grow. The Biden Administration remains committed to helping this effort over the long term by expanding our economy's productive capacity through significant investments in clean energy, manufacturing capacity, and infrastructure.

REAL GROSS DOMESTIC PRODUCT (GDP)

Real GDP growth slowed to 1.6 percent in the first quarter of 2024, following strong advances in the second half of 2023. The slower growth rate was largely attributable to drag from net exports and the change in private inventories, whereas private domestic final demand (PDFP) maintained a solid pace of growth, attesting to underlying momentum in the domestic economy (see Table 1 – Real Gross Domestic Product).

PDFP—composed of personal consumption expenditures (PCE), business fixed investment (BFI), and residential investment—captures the most stable and persistent components of economic growth. Although PCE and BFI growth slowed somewhat in the first quarter, stronger residential investment bolstered real PDFP growth. All told, PDFP added 2.6 percentage points to topline real GDP growth, only modestly less than the fourth quarter's 2.8 percentage point contribution.

- Personal consumption of goods and services slowed in the first quarter but still made the largest contribution to GDP growth of any component. Purchases of goods declined outright—shaving 0.1 percentage points from GDP growth—while the contribution from PCE of services strengthened to 1.8 percentage points.
- BFI grew at a solid, if somewhat slower pace, in the first quarter. Investment in real equipment and intellectual property products strengthened while spending on business structures stalled. Notably, investment in manufacturing structures persisted for the eleventh consecutive quarter, but factory investment growth in early 2024 was offset by less investment in other sectors' structures.
- Residential investment, the final component of PDFP, accelerated sharply to a double-digit pace, marking the third consecutive quarter of growth since early 2021. Construction of single-family residences contributed to residential investment, as did other structures (including brokers' commissions)—partly reflecting the upturn in housing sales throughout the first quarter.

Of the remaining main components of GDP, government spending and investment made a positive contribution to economic growth in the first quarter, owing to the state and local sector. By contrast, net exports and inventory changes subtracted from growth, accounting for over one-half of the slowdown in GDP growth in the first quarter relative to the fourth quarter of 2023. The drag posed by the change in private inventories, which can exhibit wide swings from quarter to quarter, was only slightly smaller than that posed in the final quarter of 2023. Meanwhile, the trade deficit widened by $55 billion, as the pace of import growth more than tripled. Net exports, which subtracted 0.9 percentage points from real GDP growth in the first quarter, was the single largest factor in slowing economic growth.

LABOR MARKETS

During this year's first quarter, the average pace of payroll job creation accelerated, while indicators in the household employment survey—such as the unemployment rate and the labor force participation rate (LFPR)—held close to their 2023 fourth quarter averages. Even so, there was further progress in correcting imbalances between labor supply and demand (see Table 2 – Labor Market Indicators).

- After slowing to 212,000 jobs per month in the final quarter of 2023, the average pace of payroll job creation accelerated to 276,000 per month in this year's first quarter. Recent analysis suggests that above-trend immigration—which was postponed during the pandemic—has increased the breakeven pace of job growth needed to sustainably maintain a stable unemployment rate with population growth. Current estimates are above 200,000 jobs, roughly double the estimated breakeven pace before the pandemic.
- The unemployment rate ticked up 0.1 percentage points over the first quarter to 3.8 percent in March; a broader measure, which captures underemployment of the workforce, rose 0.2 percentage points to 7.3 percent that month. Despite the modest increases, both rates remain relatively low by historical standards. As of the latest releases for mid-April, the level of initial unemployment claims has increased by about 12 percent from the end of December, while continuing unemployment claims have drifted up by less than 3 percent. Nonetheless, recent readings are still in line with those in February 2020, just before the start of the COVID-19 pandemic in the United States.
- The overall labor force participation rate ticked down on average over the first quarter—though the LFPR for prime-age (ages 25-54) workers edged higher with increased participation by women. Labor demand, as measured by job openings (or vacancies) fell modestly during the first quarter through February, continuing the downward trend seen since March 2022. The ratio of job vacancies to unemployed workers has gradually declined since the spring of 2022; as of February, there were 1.36 job openings per unemployed worker—significantly down from the high of 2.03 vacancies but still marginally above the pre-pandemic high of 1.24 vacancies. The combination of improving supply (via above-trend immigration) and declining job openings attests to an ongoing rebalancing of labor supply and demand, but the vacancies ratio suggests further adjustment may be needed.

INFLATION

Headline inflation picked up during the first quarter of 2024 but, by March, was still about 60 percent below the peak in June 2022 on a year-over-year basis. As measured by the consumer price index (CPI), the average monthly rate of inflation during the first quarter was 0.4 percent (or 4.6 percent at an annual rate), up from an average 0.2 percent per month (1.9 percent annualized) during the fourth quarter of 2023 (see Table 3 – Inflation and Wage Growth Indicators).

- Energy price inflation turned positive in the first quarter, rising 0.8 percent per month on average, after declining steadily throughout the fourth quarter. Since January, energy prices have been bolstered by geopolitical tensions, repeated extensions of OPEC+ production cuts, and the expectation that an improving global macroeconomic outlook will boost oil demand.
- Average monthly food inflation remained stable in the first quarter at 0.2 percent, matching the average pace in the third and fourth quarters of 2023. In short, food price inflation appears to have stabilized near rates observed prior to the pandemic.

Meanwhile, core inflation accelerated in the first quarter to 0.4 percent on average per month (4.5 percent at an annual rate), up from 0.3 percent per month (3.2 percent annualized) in the latter half of last year. Even so, twelve-month core inflation in March was down by more than 40 percent from its peak in the autumn of 2022.

- Core goods prices decreased for the third consecutive quarter, but the pace of deflation stabilized at 0.1 percent on average in the first quarter of 2024. On a year-over-year basis, however, core goods prices were down 0.7 percent in March 2024, the steepest decline since June 2020.
- Inflation for rent of housing services (primary rent and owners' equivalent rent) ticked up in the first quarter but remained in the 0.4 percent to 0.5 percent range observed since May 2023.
- For non-housing core services, inflation accelerated significantly in the first quarter, largely reflecting higher prices for medical care services and motor vehicle insurance, among other components. Price growth of automotive insurance alone accounted for nearly 60 percent of non-housing core services inflation.

Inflation as measured by the PCE price index has notable differences in weights and methodologies. Historically, twelve-month CPI inflation has exceeded PCE inflation by about 0.4 percentage points on average. In the first quarter, however, the wedge increased to 0.7 percentage points. The excess wedge was more than explained by differences between the two inflation measures in the weight assigned to owners' equivalent rent (OER). The CPI weighs OER more heavily, and persistently strong growth in OER since the autumn of 2021 has accounted for a significant portion of the excess wedge between the CPI and PCE measures of inflation.

HOUSING MARKETS

Housing markets remained tight in the first quarter with high home prices, limited supply, and elevated mortgage rates. In addition, new residential construction weakened in the first quarter, but a few other measures of housing activity suggested an upturn.

Growth rates of various aspects of new residential construction declined outright in the first quarter, following moderate growth in the fourth quarter of 2023 (see Table 4 – Housing Construction).

- Total building permits—which precede future home construction—declined on average throughout the first quarter, as growth in both the single-family and multi-family permits turned negative. The decrease in the multi-family sector extended a downtrend that began in the latter half of 2022.
- Total housing starts also turned negative in the first quarter on average, partly reflecting a double-digit decline in the volatile multi-unit sector. Single-family starts also fell, but more modestly.
- The inventory of homes under construction fell modestly at the end of the first quarter, reflecting the transition of multifamily units from being under construction into the completed status. Single-family home completions, meanwhile, declined substantially on average over the quarter.

Both existing and new home sales increased over the first quarter and, on balance, outpaced the increase in homes available for sale. As a result, housing markets remained tight, and the inventory-to-sales ratio for existing homes declined further from an already-depressed level (see Table 5 – Home Sales & Inventories).

- Sales of total existing homes turned positive after three consecutive quarters of decline but still were down 3.7 percent over the year through March 2024. Although the inventory of homes for sale rose by 12 percent from the end of 2023, the faster pace of sales eroded the inventory of existing homes for sale over the quarter to an average of 3.0 months of sales. In the five years before the pandemic, the average inventory-to-sales ratio was 4.2 months.

- New home sales rebounded in the first quarter after the last quarter of 2023 interrupted a 5-quarter growth trend. Despite the resumption of sales growth, the inventory-to-sales ratio for new homes increased slightly to an average of 8.4 months, remaining well above the pre-pandemic (2015-2019) average of 5.6 months.

Shelter price developments in the first quarter were mixed but, on balance, indicated still-elevated growth in home purchase prices and rental inflation (see Table 6 – Shelter Prices).

- The S&P/Case-Shiller's national home price index accelerated in January (last available data as of April 29), while the pace of house price growth in the FHFA purchase-only index turned negative, after slowing considerably in the fourth quarter. Despite the divergence in growth rates, price levels remained elevated.
- For renters, the CPI for rent of primary residence slowed at the margin in the first quarter, but the pace remained rapid. After turning negative in the fourth quarter, listing services data on rental inflation accelerated sharply, a trend which the rent CPI may eventually reflect—though the timing and magnitude of passthrough to the primary rent CPI is uncertain. By contrast, a new research series created by the Bureau of Labor Statistics—which has been shown to lead the CPI for primary rent by about a year—suggests an upcoming slowdown in renters' shelter costs. This quarterly series better reflects prices renters would face if they changed housing units every quarter; it grew by just 0.4 percent over the year ending in the first quarter.

RISKS TO THE OUTLOOK

Even with substantial economic growth and a strong labor market, inflation has fallen considerably from its mid-2022 peak, though it remains above the Federal Reserve's target. We expect continued, gradual disinflation over the next year accompanied by continued economic growth and a gradually easing labor market. However, there are risks to this outlook on both sides.

Geopolitical risks or persistently strong demand growth without comparable supply expansion could push inflation above consensus forecasts. Russia's war in Ukraine continues to add uncertainty to the medium-term outlook. In addition, the ongoing conflict in the Middle East, drought conditions at the Panama Canal, and the collapse of the Francis Scott Key Bridge in Baltimore create further concerns of supply chain disruptions and could renew upward pressures on energy and goods prices. Fortunately, major impacts to the U.S. economy have not materialized to date, but these remain important risks to monitor.

Although we expect price pressures from housing and other core services to continue to gradually ease, core services inflation remains elevated, and there is a risk of persistent inflation and associated financial distress. Rent of housing inflation remains well above historical norms and continues to set a high floor for core inflation. Although year-over-year growth rates for rents on new leasing agreements suggest future easing, the timing of passthrough to further disinflation for rent of housing is uncertain.

A significant cooling in the labor market could bring inflation down faster—but with greater cost for American workers. Strong consumption in 2023 supported the economy, fueled by real income growth and a reduced saving rate. Households have drawn down much of their excess savings from the pandemic period, but household net worth as a share of disposable personal income remains high relative to historical levels. A healthy labor market continues to support consumption, but saving rates remain historically low and suggest recent consumption growth may be unsustainable. A slowdown in consumption could cool the labor market quickly, which could again reduce consumption and further slow the economy in 2024.

On the other hand, additional supply-side improvements could support continued strong economic growth without price pressures. Strong labor supply and productivity growth both contributed to the robust economic performance in 2023, and more expansion of the supply-side of the economy could allow for faster monetary policy easing in 2024.

CONCLUSION

The American economy remains strong, with a healthy labor market and inflation well below the 2022 peak. Going forward, investments in expanding our economy's productive capacity in ways that benefit all Americans—what Secretary Yellen has called "modern supply-side economics"—will help to continue to grow the economy in ways that avoid significant price pressures. The Administration remains committed to helping foster continued improvements such as those we saw in 2023.

TABLE 1 - REAL GROSS DOMESTIC PRODUCT

Contribution to GDP Growth (percentage points)

	Contribution to GDP Growth (percentage points)		
	2023 Q4	**2024 Q1**	**2023 Q4/Q4**
Real GDP Growth (Δ%, annual rate)	**3.4**	**1.6**	**3.1**
Private Domestic Final Purchases	**2.8**	**2.6**	**2.5**
Personal Consumption Expenditures	2.2	1.7	1.9
Business Fixed Investment	0.5	0.4	0.6
Residential Investment	0.1	0.5	0.0
Total Government Purchases	**0.8**	**0.2**	**0.8**
Net Exports (billions of real (2017) dollars)	**0.3**	**-0.9**	**0.2**
Change in Private Inventories (billions (2017) dollars)	**-0.5**	**-0.4**	**-0.4**

Source. Bureau of Economic Analysis, *Gross Domestic Product (Advance Estimate), First Quarter 2024.*

TABLE 2 - LABOR MARKETS

Average Monthly Change (thousands)

Establishment Survey	Average Monthly Change (thousands)		
Establishment Survey	2023 Q4	2024 Q1	CY 2023
Total Payroll Employment	**212**	**276**	**251**
Private Sector	155	212	192
Government	58	65	59

	Monthly Average		
Household Survey	2023 Q4	2024 Q1	CY 2023
Unemployment Rate (% of Total Labor Force)	**3.7**	**3.8**	**3.6**
Labor Force Participation Rate (% Total Population)	**62.7**	**62.6**	**62.6**
Prime-Age (Ages 25 to 54)	83.3	83.4	83.3

	Monthly Average		
Job Openings and Labor Turnover Survey	2023 Q4	2024 Jan & Feb	CY 2023
Job Openings (Millions of Vacancies)	**9.0**	**8.8**	**9.4**
Vacancies per Unemployed Person	1.4	1.4	1.5

Sources. Bureau of Labor Statistics, *The Employment Situation - March 2023*; *Job Openings and Labor Turnover - February 2023.*

TABLE 3 - INFLATION

	Average Monthly Percent Change		12-Month Percent Change
Inflation	**2023 Q4**	**2024 Q1**	**2023 Dec/Dec**
Consumer Price Index (CPI)	**0.2**	**0.4**	**3.4**
Foods	0.2	0.2	2.7
Energy	-1.3	0.8	-2.0
Core CPI (ex. Food and Energy)	**0.3**	**0.4**	**3.9**
Core Goods	-0.1	-0.1	0.2
Rent of Shelter[2]	0.4	0.5	6.4
Core Services ex. Rent of Shelter[2]	0.3	0.7	3.9
PCE Price Index	**0.0**	**0.4**	**2.6**
Core PCE Price Index	0.1	0.4	2.9

Sources. Bureau of Labor Statistics, *Consumer Price Index - March 2023.* Bureau of Economic Analysis, *Personal Income and Outlays, March 2023*.

1 For CPI, 12-month growth is not seasonally adjusted.

2 Imputed from CPI Data.

TABLE 4 - HOUSING CONSTRUCTION

	Average Monthly Percent Change	12-Month Percent Change

New Residential Construction	Average Monthly Percent Change		12-Month Percent Change
New Residential Construction	2023 Q4	2024 Q1	2023 Dec/Dec
Building Permits, Total	0.5	-0.6	6.0
Single-Family	1.2	-0.5	33.6
Housing Starts, Total	4.9	-5.5	15.4
Single-Family	3.3	-1.3	20.0
Units Under Completion, Total (end of month)	0.0	-0.7	-0.9
Single-Family	0.3	0.6	-10.6
Housing Completions, Total	1.8	-1.5	10.6
Single-Family	1.1	-2.5	2.6

Sources. Census Bureau, *Monthly New Residential Construction, March 2023*.

TABLE 5 - HOME SALES & INVENTORIES

	Average Monthly Percent Change		12-Month Percent Change
Homes Sales	2023 Q4	2024 Q1	CY 2023
Total Existing Homes	-0.8	2.6	-5.8

	Average Monthly Percent Change		**12-Month Percent Change**
Homes Sales	**2023 Q4**	**2024 Q1**	**CY 2023**
New Single-Family Homes	-2.1	1.9	2.8

	Inventories of Homes Available at Monthly Sales Pace		
Inventories for Sale	**2023 Q4**	**2024 Q1**	**CY 2023**
Total Existing Homes	3.4	3.0	3.1
New Single-Family Homes	8.3	8.4	7.8

Sources. Census Bureau, *Monthly New Residential Sales, March 2023.* National Association of Realtors, *Existing-Home Sales*.

TABLE 6 - SHELTER PRICES

	Annualized Percent Change		**12-Month Percent Change**
Home Prices	**2023 Q4**	**2024 Jan**	**2023 Dec/Dec**
S&P Core Logic Case-Shiller National HPI[1,2]	4.0	4.4	5.6
FHFA Purchase-Only HPI[1]	3.2	-0.9	6.7

Rent Prices	**2023 Q4**	**2024 Q1**	**2023 Dec/Dec**
CPI Rent of Primary Residence[2]	5.4	5.0	6.5
Zillow Observed Rent Index	-2.1	4.4	3.4

Rent Prices	2023 Q4	2024 Q1	2023 Dec/Dec
Research Series: CPI New Tenant Rent[3]	0.9	0.4	0.9

Sources. Standard & Poor's, *S&P CoreLogic Case-Shiller Home Price Indices.* Federal Housing Financing Agency, *Home Price Index (HPI) Monthly Report*. Zillow, *Housing Data*. Bureau of Labor Statistics, *Consumer Price Index - March 2023*. Bureau of Labor Statistics, Price and Index Number Research, *New Tenant Rent Index*.

1 Annualized monthly rate through January. S&P and FHFA house price indices will be published on April 30.

2 12-month percent change, not seasonally adjusted.

3 Not seasonally adjusted. Quarterly growth rates are 4-quarter percent changes.