

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

Recent data indicate that the U.S. economy continued to demonstrate robust growth in the third quarter. Although official data will not be released until after this week's meeting of the Treasury Borrowing Advisory Committee, private-sector estimates suggest that GDP rose around 2.5 percent at an annual rate in the third quarter, reflecting persistently strong contributions from household consumption. Meanwhile, third-quarter labor market data significantly reduced concerns that job growth was slowing more quickly than economists would consider optimal. The unemployment rate edged back down to 4.1 percent, a level broadly thought to be consistent with roughly stable inflation.

Headline inflation, measured over the past 12 months, continued to edge lower in the third quarter. Core inflation remained somewhat elevated on a 12-month basis, as inflation for core services turned up with an acceleration in the prices for medical care services and motor vehicle insurance. On the other hand, monthly inflation for housing moderated by the end of the third quarter, and housing inflation over the past 12 months was the slowest since May 2022.

Although further moderation is needed before core inflation is consistent with the Federal Reserve's target, the data suggest that inflation is likely to sustainably return to the Fed's target without a recession: the economy appears to be on the path to a soft landing. At the same time, the Biden-Harris Administration continues to focus on its investments to expand the economy beyond this cycle. By expanding our nation's productive capacity—through significant investments in clean energy, manufacturing capacity, and infrastructure—we aim to build further resilience in the U.S. economy and ensure the modern supply-side expansion of the past few years continues in the long run.

REAL GROSS DOMESTIC PRODUCT (GDP)

Official data on real GDP growth in the third quarter will not be available until after this week's TBAC meeting. According to the most recent publicly available survey (the *Wall Street Journal* survey published October 13, 2024), the median forecast for third-quarter GDP is 2.5 percent at an annual rate—a strong pace of growth that is modestly above the 2.3 percent annualized pace in the first half of 2024. In the survey, estimates of forecasters at the 25th and 75th percentiles ranged from 2.1 percent to 2.8 percent. The Bureau of Economic Analysis will release its advance estimate of third-quarter GDP growth on Wednesday.

Given other data published for the third quarter already, personal consumption expenditures (PCE) are likely to be the primary driver of quarterly economic growth. Monthly real PCE has risen by 3.1 percent at an annual rate from June to August, and nominal retail sales data indicate strong household spending in September, providing further evidence of robust PCE growth in Q3.

LABOR MARKETS

Labor markets improved on balance over the third quarter, contrary to expectations for continued slowing of payroll growth. The average pace of job creation rose in the past three months, while the labor force participation rate (LFPR) for prime-age workers (ages 25-54) increased and the balance between labor demand and supply improved further (see Table 1 – Labor Market Indicators).

- Payroll job growth stepped up to an average of 186,000 jobs per month in the third quarter, higher than the second quarter average of 147,000 jobs per month. Private-sector firms accounted for over three-fourths of total hiring. Despite the pickup in job growth in the third quarter, hiring has eased over the past several years since the initial recovery from the pandemic: in 2021, payroll growth averaged over 603,000 per month, slowing to 377,000 in 2022, and 251,000 in 2023. This gradual cooling suggests that labor markets may be easing toward sustainable job growth and a stable unemployment rate.
- Although the unemployment rate held above 4 percent throughout the third quarter, it remained at a low level that is near estimates by the Congressional Budget Office of the non-cyclical unemployment rate—that is, the rate of unemployment arising from all sources except fluctuations in aggregate demand and which is consistent with stable inflation. In July, the unemployment rate rose to 4.3 percent, but it declined in both August and September, returning to 4.1 percent by September.

- Meanwhile, weekly unemployment insurance claims remained near historically low levels through the third quarter: the level of initial claims (or applications for benefits) was in line with pre-pandemic readings while the level of continuing claims (or approved and paid benefits) was only 4.6 percent above levels just before the pandemic's onset more than four years ago. Early in the fourth quarter, initial claims jumped to a one-year high, partly reflecting the labor market effects from Hurricane Helene. Although initial claims declined in the most recent reading, continuing claims remain elevated—particularly in hurricane-impacted states.
- Labor force participation improved in the third quarter for the working age population, as well as for key demographic groups. The overall LFPR stood at 62.7 percent of the population in July, August, and September—just above the second quarter's average of 62.6 percent. The improvement in the total LFPR was driven by an increase in participation by prime-age workers, whose LFPR rose 0.3 percentage points to 83.9 percent on average in the third quarter. Notably, the LFPR for prime-age workers reached 84.0 percent in July, the highest share of the population since 2001. In addition, the LFPR for those aged 55 or older rose to 38.5 percent on average in the third quarter.
- Despite stronger job creation and improved labor supply, other measures pointed to softer demand for labor in the third quarter. At the end of July, job openings had dropped to the lowest level since January 2021 before rebounding in August. As a share of available workers, job openings (or vacancies) declined to 1.13 openings per unemployed worker in August—below the pre-pandemic high of 1.24 and down from the record high of 2.03 in March 2022.

The combination of these trends, including a rising supply of labor and significant declines in job openings as well as vacancies per unemployed worker, has led to a healthier balance in labor markets, even amid solid job and wage growth.

INFLATION

Over the past two years, inflation has cooled significantly. After peaking in June 2022 at 9.1 percent, annual headline inflation as measured by the consumer price index (CPI) slowed to 2.4 percent by September 2024. This was the lowest twelve-month reading since February 2021. On a monthly basis, the average pace of inflation ticked up during the third quarter to 0.2 percent (or 2.1 percent at an annual rate, see Table 2 – Inflation Indicators).

- CPI inflation for energy goods and services remained negative in the third quarter; monthly prices dropped 0.9 percent on average, following an average decline of 1.0

percent per month in the second quarter. On the downside, perceptions of slowing global growth—and, with it, reduced demand for energy—kept prices largely in check. Early in the fourth quarter, heightened tensions in the Middle East temporarily renewed upward pressure on oil prices. Prices have since nearly returned to multi-year lows as risks to global oil supply have receded. In addition, the Organization of the Petroleum Exporting Countries and allies (OPEC+) plans to unwind production cuts, which has contributed to downward pressure on energy commodity prices.

- Monthly food inflation ticked up to 0.2 percent on average in the third quarter, returning to its pace in four of the past five quarters. Whereas consumers have watched the price of a gallon of gasoline drop significantly since mid-2022, price levels for groceries remain higher than they were before the pandemic even though food inflation has slowed and is now near historical rates.

Monthly core CPI inflation was also slightly higher in the third quarter, averaging 0.3 percent (3.1 percent at an annual rate) versus an average 0.2 percent per month in the second quarter (2.1 percent at an annual rate). The twelve-month core inflation rate in September was 3.3 percent, one-half the peak rate in the autumn of 2022.

- Core goods prices declined for the fifth consecutive quarter, dropping 0.1 percent on average in the third quarter—that same decline as in the second quarter. At the end of the quarter, however, core goods prices rose owing to higher prices for durable goods. Even so, core goods prices fell 1.0 percent over the year ending September 2024.
- Inflation for rent of housing services (rent of primary residence and owners' equivalent rent) was stable in the third quarter, matching the second quarter's average pace of 0.4 percent. Prices are now hovering at the bottom of the 0.4 percent to 0.5 percent range that has largely persisted—save for two months—since May 2023. On an annual basis, rent of housing inflation was 5.1 percent through September 2024, the slowest rate in 28 months.
- Inflation for non-housing core services was also an integral driver of core inflation in the third quarter, averaging 0.3 percent growth per month. The faster pace of core non-housing services inflation largely reflected an upturn in airfares, which switched from a modest drag on inflation in the second quarter to a moderate boost in the third quarter. Core non-housing services inflation also reflected somewhat stronger growth in prices for motor vehicle insurance and repairs.

Inflation as measured by the PCE price index has notable differences in weights and methodologies versus the CPI. Over the past 20 years, twelve-month CPI inflation has

exceeded PCE inflation by about 0.4 percentage points on average. Over the year through August 2024 (latest data available), the headline PCE price index was 2.2 percent, just 0.2 percentage points above the Federal Reserve's 2 percent inflation target.

HOUSING MARKETS

Housing market activity was mixed in the third quarter. While construction activity for single-family residences improved noticeably, activity in the multi-family sector softened over the quarter and total completion rates weakened further (see Table 3 – Housing Construction Indicators).

- Total building permits—a leading indicator of future home construction—declined on average in the third quarter. Although single-family permits rebounded from a second-quarter decline, permits for multi-family structures plunged 3.6 percent, continuing the downtrend observed in this sector since the latter half of 2022. As of September 2024, the level of multi-family permits was roughly one-half of the June 2022 peak.
- Total housing starts continued to rise modestly, in line with the second quarter's rebound, supported by a turn-around in single family starts. In the volatile multi-unit sector, the second quarter's surge gave way to a small decline in starts in the third quarter.
- The overall inventory of homes under construction fell again in the third quarter with declines in both the single-family and multi-family sectors. After rising strongly in the second quarter, total housing completions also turned negative.

Elevated home prices and high mortgage rates continued to weigh on existing home sales and inventories in the third quarter, but the impact on the new home market was minimal (see Table 4 – Home Sales & Inventories Indicators).

- Sales of total existing homes declined 0.5 percent on average throughout the third quarter, a slower pace of decline than in the second quarter. The inventory of homes for sale over the quarter edged up to 4.2 months of sales. This matched the pre-pandemic, five-year average of the inventory-to-sales ratio. Nonetheless, the number of existing home for sale was historically low during the third quarter, roughly 25 percent below typical inventories at this time of year in the three years before the pandemic. Reduced inventories likely reflect the lock-in effect of current homeowners with mortgage rates much lower than those available today.
- New home sales grew strongly in the third quarter, following two consecutive quarterly declines. Although the higher sales pace pushed the inventory-to-sales ratio down to an

average of 7.7 months in the third quarter, new home inventories are high due to robust construction activity in recent years. Indeed, the inventory of homes for sale in the third quarter was the highest since the spring of 2008.

Indicators for home price appreciation and rental inflation were mixed in the third quarter—although in all cases, rates of inflation were slower than those that prevailed at the end of last year. Home affordability remains an important challenge, in terms of both price levels and mortgage rates (see Table 5 – Shelter Price Indicators).

- Although the rise in the S&P/Case-Shiller’s national home price index slowed in July (last available data as of October 24) relative to the second quarter, the pace of house price appreciation in the FHFA purchase-only index rose. Price levels remain elevated, however, which has impacted affordability: the FHFA index was roughly 50 percent higher relative to December 2019, as was the S&P/Case-Shiller index. Mortgage rates have eased somewhat—the 30-year fixed rate mortgage was about 125 basis points below its level a year ago—but remains roughly 370 basis points higher than the historical lows seen in 2021.
- Data for rental inflation were also mixed over the third quarter. Average monthly growth in the CPI for rent of primary residence maintained an elevated pace, whereas the Zillow Observed Rent Index slowed by more than half. In addition, a relatively 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—showed a small acceleration in renters’ shelter costs in the third quarter. (This quarterly series better reflects prices renters would face if they changed housing units every quarter.) Contrary to the second quarter, however, all three of these measures are now running below the respective paces throughout 2023.

RISKS TO THE OUTLOOK

The balance of data thus far is suggestive of a soft landing. Recent economic growth has exceeded expectations, driven by persistently strong gains in private domestic final purchases. At the same time, labor markets have come into better balance with cooling labor demand and rising participation rates—even as inflation nears the Federal Reserve’s targets. However, a soft-landing outcome is far from certain, with multiple risks for the near-term outlook.

Labor market: Although aggregate labor market data suggests solid growth, some details warrant caution. For example, according to the Current Employer Survey, job growth over the past year has been concentrated in just four industries: education and health, government, leisure and hospitality, and construction. Aside from these industries, job growth is slower

than it was preceding the pandemic; in white collar industries—professional and business services, financial services, and information services—monthly job gains have averaged roughly one-fourth of their pre-pandemic average. This concentration of job growth could leave the economy less able to absorb a shock—particularly if it is in an industry driving aggregate job growth.

Household finances: In aggregate, households appear to be in a solid financial position, supported by wealth gains and rising real wages. Personal saving rates have trended up since June 2022; households are devoting similar shares of their income to debt service; and delinquency rates on conventional mortgages remain historically low. However, some data suggest that risks have increased for the household sector. Credit cards and automotive loans have seen rising transition rates from delinquent (30+ days past due) to seriously delinquent (90+ days past due), and delinquency rates have risen for FHA-insured mortgages—which are often held by households with lower credit scores. A downturn in labor markets or deterioration in economic conditions would be felt more heavily by lower-income households, who are least able to weather economic shifts.

A prolonged stock market downturn also presents a risk to the economic outlook. Middle-income and upper-income household consumption has been supported by significant wealth gains, primarily due to rising housing values and corporate equities. In the second quarter of 2024 (latest available data), household net worth stood at the highest share of disposable personal income after excluding the impact of pandemic-era financial support. A drop in stock markets or in housing values could cause these income groups to pull back on spending and exacerbate any other economic weaknesses.

Global inflation, geopolitical instability, and supply chains: Inflation has fallen substantially from the highs of mid-2022, but risks remain to the outlook. Continued strong demand growth without comparable supply expansion could push inflation above consensus forecasts, as could supply-chain disruptions from geopolitical events—such as Russia’s war in Ukraine and ongoing conflict in the Middle East. In addition, climate change raises the risk to the inflation outlook through rising shipping costs. For example, drought in Central America has reduced shipping traffic through the Panama Canal, increasing both transportation costs and the prices of goods. Alternatively, a faster-than-expected cooling in the labor market and in economic activity could bring inflation down faster—but with greater cost for American households.

CONCLUSION

The American economy remains strong, with a healthy labor market and easing inflation. Just a few years ago, economic forecasters did not expect that such a combination of persistently strong growth and moderating inflation was likely—or, among many cases, even possible. But over the past three years, the Biden-Harris Administration has made significant investments to reduce costs, boost economic potential, and make our economy more resilient to risks. The outperformance of the American economy thus far in 2024 shows these investments are paying off.

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TABLE 1 - LABOR MARKET INDICATORS

<i>Establishment Survey</i>	Average Monthly Change (thousands)		
	2024 Q2	2024 Q3	CY 2023
Total Payroll Employment	147	186	251
Private Sector	137	145	192
Government	10	40	59

<i>Household Survey</i>	Monthly Average		
	2024 Q2	2024 Q3	CY 2023
Unemployment Rate (% of Total Labor Force)	4.0	4.2	3.6
Labor Force Participation Rate (% Total Population)	62.6	62.7	62.6
Prime-Age (Ages 25 to 54)	83.6	83.9	83.3

<i>Job Openings and Labor Turnover Survey</i>	Monthly Average		
	2024 Q2	2024 Jul & Aug	CY 2023

Job Openings and Labor Turnover Survey	Monthly Average		
	2024 Q2	2024 Jul & Aug	CY 2023
Job Openings (Millions of Vacancies)	8.2	7.8	9.4
Vacancies per Unemployed Person	1.3	1.1	1.5

Sources. Bureau of Labor Statistics, *The Employment Situation - September 2024*; *Job Openings and Labor Turnover - August 2024*.

TABLE 2 - INFLATION INDICATORS

Inflation	Average Monthly Percent Change		12-Month Percent Change
	2024 Q2	2024 Q3	2023 Dec/Dec
Consumer Price Index (CPI)	0.1	0.2	3.4
Foods	0.1	0.2	2.7
Energy	-1.0	-0.9	-2.0
Core CPI (ex. Food and Energy)	0.2	0.3	3.9
Core Goods	-0.1	-0.1	0.2
Rent of Housing ²	0.4	0.4	6.4
Core Services ex. Rent of Housing ²	0.1	0.3	3.9
PCE Price Index³	0.1	0.1	2.7
Core PCE Price Index ³	0.2	0.1	3.0

Sources. Bureau of Labor Statistics, *Consumer Price Index - September 2024*. Bureau of Economic Analysis, *Personal Income and Outlays, August 2024*.

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

² Imputed from CPI Data.

³ PCE price indices average monthly percent changes for July and August. The PCE price indices for September will be released on Thursday, October 31.

TABLE 3 - HOUSING CONSTRUCTION INDICATORS

<i>New Residential Construction</i>	Average Monthly Percent Change		12-Month Percent Change
	2024 Q2	2024 Q3	2023 Dec/Dec
Building Permits, Total	-0.7	-0.7	9.3
Single-Family	-1.5	0.8	36.9
Housing Starts, Total	0.8	0.6	17.0
Single-Family	-1.9	1.5	22.6
Units Under Construction, Total (end of month)	-1.5	-1.9	-0.8
Single-Family	-1.5	-1.0	-10.3
Housing Completions, Total	5.0	-0.9	12.3
Single-Family	4.5	-2.3	3.4

Sources. Census Bureau, *Monthly New Residential Construction*, September 2024.

TABLE 4 - HOME SALES & INVENTORIES INDICATORS

<i>Homes Sales</i>	Average Monthly Percent Change		12-Month Percent Change
	2024 Q2	2024 Q3	CY 2023
Total Existing Homes	-2.6	-0.5	-5.8
New Single-Family Homes	-0.5	3.2	3.5

<i>Inventories for Sale</i>	Inventories of Homes Available at Monthly Sales Pace		
	2024 Q2	2024 Q3	CY 2023
Total Existing Homes	3.8	4.2	3.1
New Single-Family Homes	8.1	7.7	7.8

Sources. Census Bureau, *Monthly New Residential Sales, September 2024*. National Association of Realtors, *Existing-Home Sales*.

TABLE 5 - SHELTER PRICE INDICATORS

<i>Home Prices</i>	Annualized Percent Change		12-Month Percent Change
	2024 Q2	2024 Jul	2023 Dec/Dec
S&P Core Logic Case-Shiller National HPI ^{1,2}	3.0	2.2	5.7
FHFA Purchase-Only HPI ¹	1.4	1.6	6.9

<i>Rent Prices</i>	Annualized Percent Change		12-Month Percent Change
	2024 Q2	2024 Q3	2023 Dec/Dec
CPI Rent of Primary Residence ²	4.1	4.6	6.5
Zillow Observed Rent Index	7.0	2.8	3.4
Research Series:CPI New Tenant Rent ³	0.7	1.0	2.3

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 - September 2024*. Bureau of Labor Statistics, Price and Index Number Research, *New Tenant Rent Index*.

¹ Annualized monthly rate through August.

² 12-month percent change, not seasonally adjusted.

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