Macro Economic Overview / Sept 2024

There is a growing concern that the Fed may not have been as responsive as it should have in responding to slowing economic data numbers, prompting some economists and analysts to increase the possibility of an economic slowdown or recession. Economic indicators released in August are starting to illustrate a slowing economy as consumers pull back and employers scale back on hiring.

The U.S. dollar is expected to decline versus other major currencies as rates start to decline, altering the financial dynamics of emerging markets, which can boost investor flows to emerging markets. A weakening dollar can also bring about indirect inflationary pressures as imported products and goods become more expensive for U.S. consumers. Concurrently, U.S exports become more competitive overseas as a weaker dollar makes exports less expensive.

China's economic slowdown is reducing demand for commodities worldwide which is deflationary and representative of slowing global demand for goods and products. The price of various commodities including copper, aluminum and lumber, which are indicative of economic conditions, have fallen over the past few months. China is a significant buyer of these commodities.

Federal Reserve Chair Jerome Powell indicated that the Fed is intent on starting to reduce interest rates in September, as a result of diminishing inflation and a weakening labor market. A slowing hiring rate along with an increasing unemployment rate have prompted the Fed to commence its rate reduction strategy with the possibly of a greater than expected initial rate reduction. Some economists and analysts are questioning whether the Fed is reducing rates due to lessening inflation or a slowing economic environment.

Federal debt as a percentage of Gross Domestic Product (GDP) is expected to exceed the record set 80 years ago as additional debt is issued and economic expansion slows. It is projected that government debt held by the public will rise above 100% of GDP by 2025.

The hiring rate by employers has now fallen to the point that of the 1.32 million people who have entered the labor market over the past year, only 57,000 have been able to obtain a job, resulting in 96% of those entering the workforce not having found a job. Companies have been reducing job openings and hiring, adding to a languished labor market.

Contrary to a generalized belief, corporate income tax receipts have actually been increasing. Federal taxes paid by U.S. corporations have increased over the past three presidential administrations. Corporate tax receipts have increased to over $409 billion in 2023, up from $311 billion in 2016.

The anticipation of lower rates in September as the Federal Reserve initiates its rate reduction strategy, has already begun to indirectly lower interest rates on some auto loans and mortgages. The average rate on a 30 year conforming mortgage fell to 6.35% at the end of August, down from 7.79% in October 2023. Analysts expect rates to fall further once the Fed commences the reduction of the Fed Funds Rate.

Sources: FreddieMac, Federal Reserve, Dept. of Labor