

An aerial photograph of a city, likely New York City, showing a complex network of roads, buildings, and green spaces. A large, semi-transparent red geometric shape, consisting of several overlapping triangles, is overlaid on the right side of the image. The Fitch Ratings logo is positioned in the upper left corner.

FitchRatings

2024 U.S. Economic Outlook

Below Trend Growth, Lower Inflation

Eric Kim & Olu Sonola

February 2024

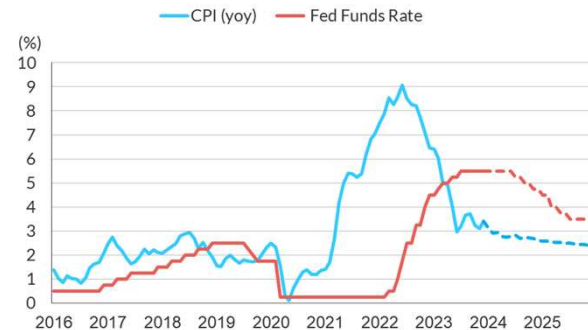
Notable Economic Slowdown Expected in 2024

- Solid economic growth in 2023
- Higher interest rates and slowdown in bank credit will weigh on growth in 2024
 - Labor market and wage growth expected to continue cooling
 - Consumer spending expected to slow, modestly higher debt service
 - Business investment is expected to contract as corporate profit slowdown intensifies

Forecast Summary (%)	Avg				
	2018-22	2022	2023	2024F	2025F
GDP Growth	2.2	1.9	2.5	1.2	1.4
Consumption	2.6	2.5	2.2	1.3	1.1
Investment	2.8	1.3	-1.2	-1.4	2.2
Inflation (end of period)	3.6	6.5	3.4	2.6	2.4
Unemployment Rate (annual)	4.9	3.6	3.6	4.6	4.8
Interest Rate (end of period)	1.40	4.50	5.50	4.75	3.50

Source: Fitch Ratings, Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve

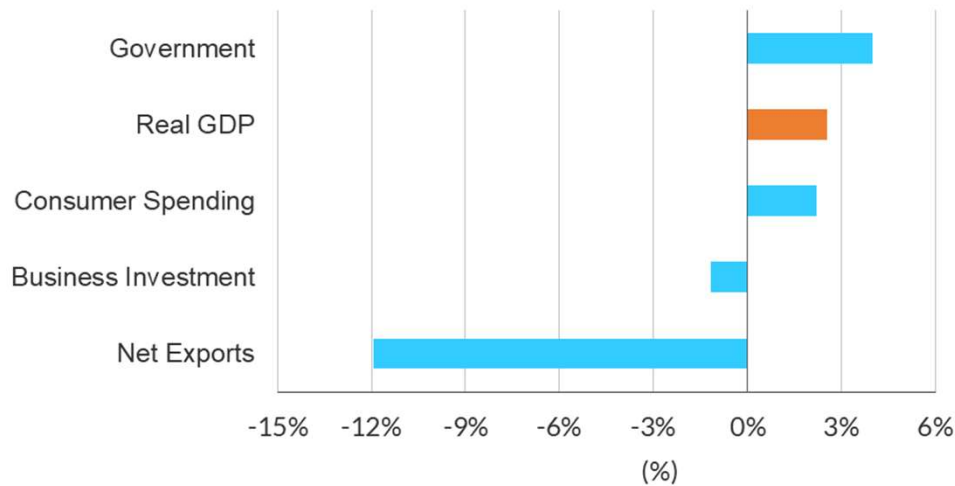
U.S. CPI Inflation and Interest Rate Forecast



Source: Fitch Ratings, Bureau of Labor Statistics, Federal Reserve

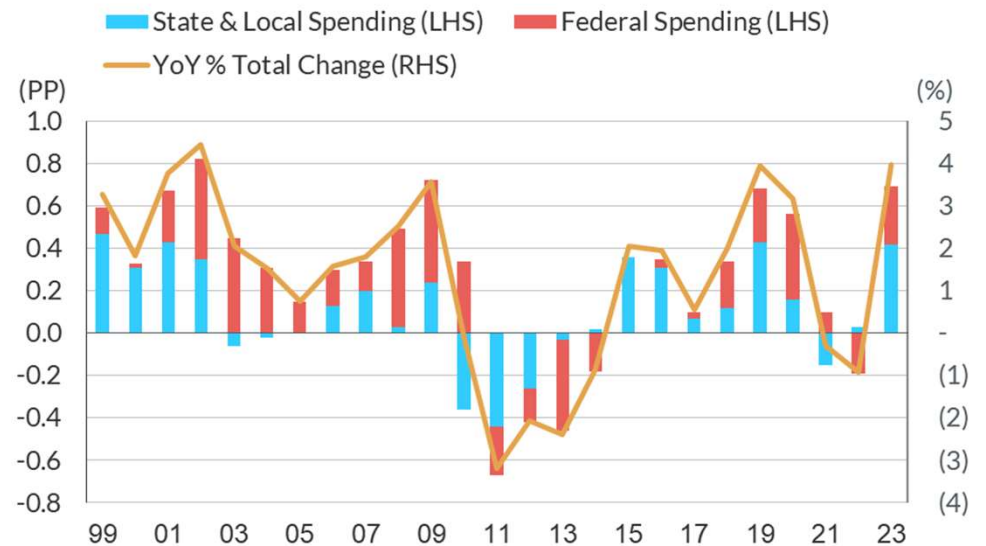
Expansionary Fiscal Policy Provided Additional Boost To Economic Growth in 2023

U.S. GDP Components
YoY % Change: 2023 vs 2022



Source: Fitch Ratings, Bureau of Labor Statistics

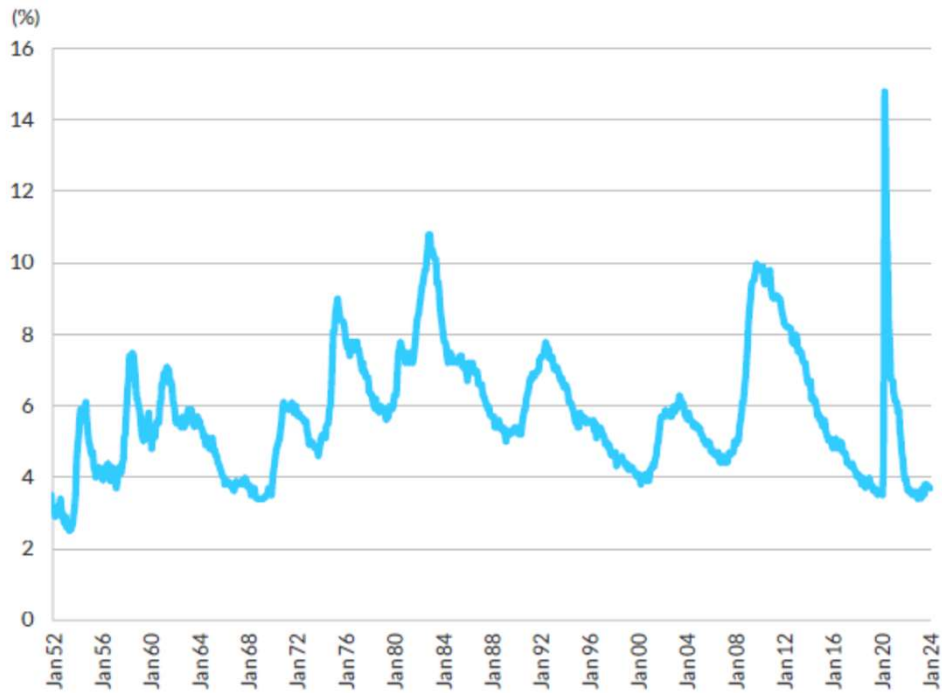
Contribution to U.S. Real GDP Growth



Source: Fitch Ratings, Bureau of Economic Statistics

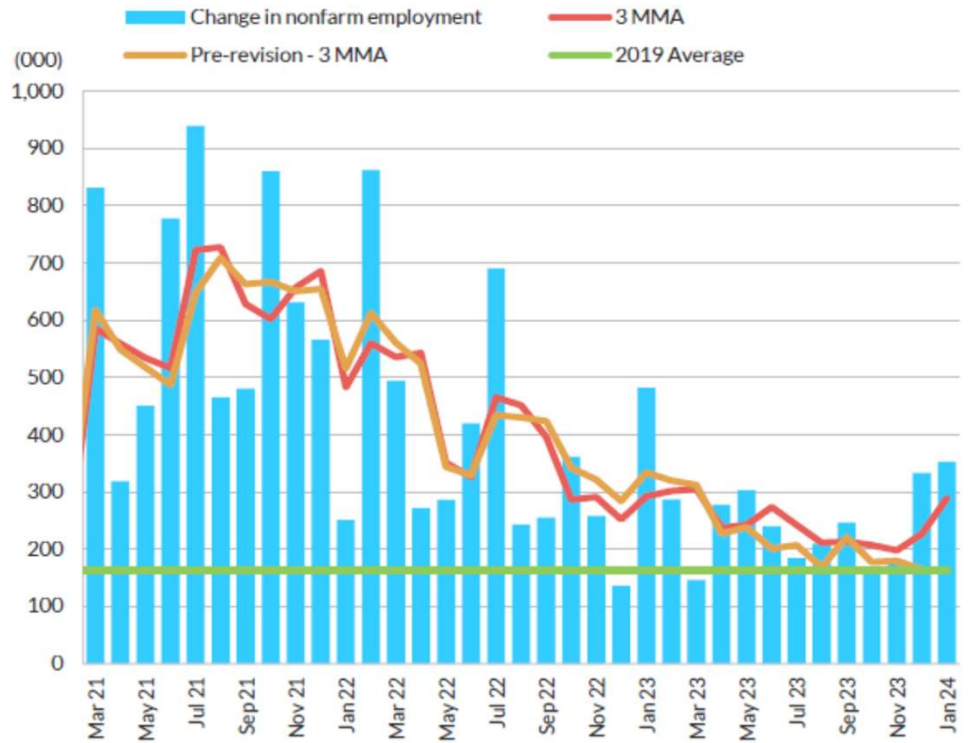
U.S. Labor Market Conditions Remain Strong, Expected to Moderate Further

U.S. Unemployment Rate



Source: Fitch Ratings, Bureau of Labor Statistics

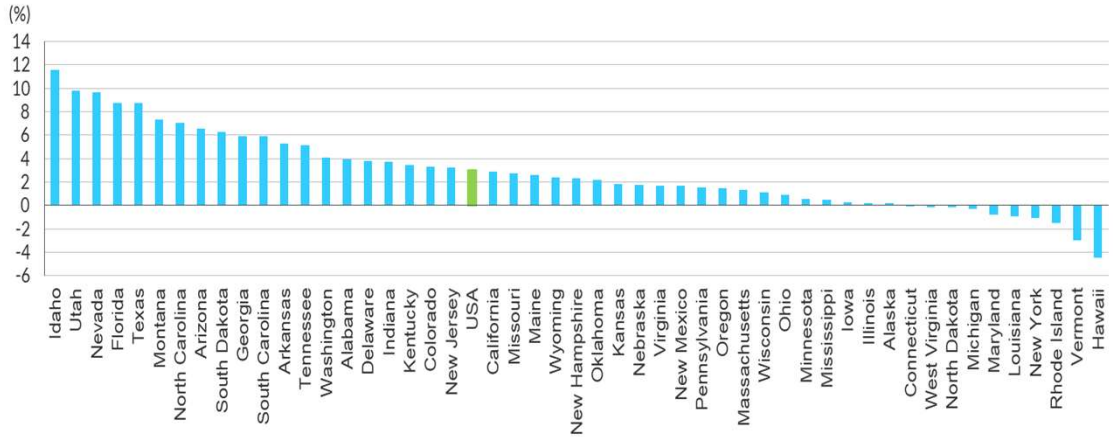
U.S. Change in Nonfarm Payroll



Source: Fitch Ratings, Bureau of Labor Statistics

10 States Still Below Pre-Pandemic Payroll Level

U.S. States Payroll Growth:
% Change (February 2020 to December 2023)



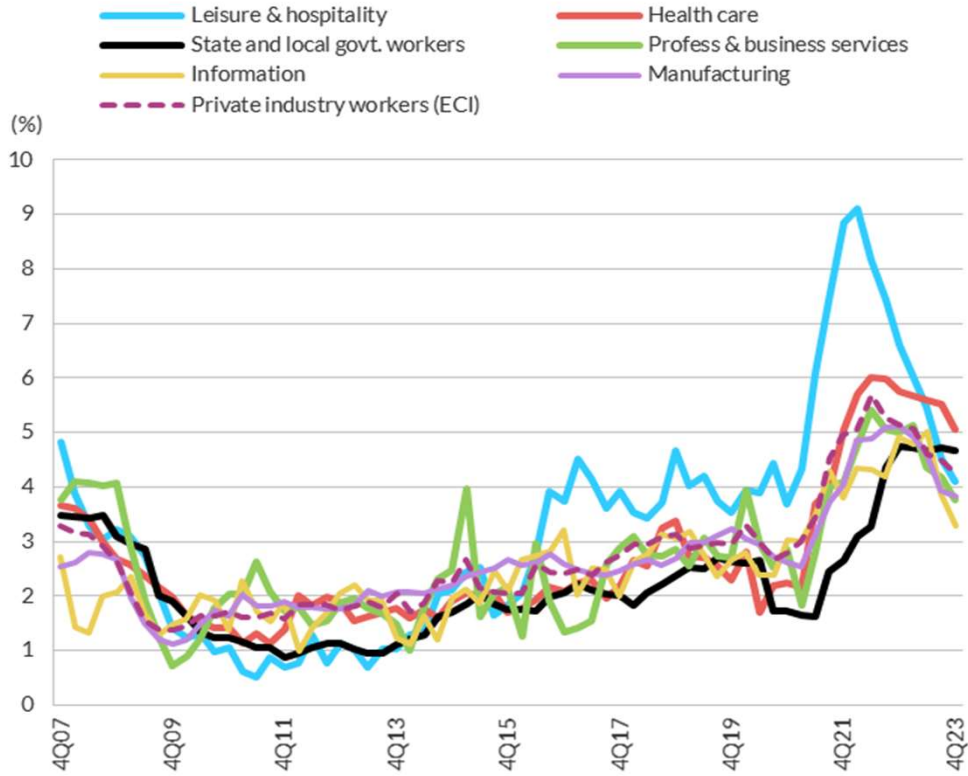
Source: Fitch Ratings, Bureau of Labor Statistics

U.S. States: Real GDP & Payroll
(% Change Since the Onset of the Pandemic)



Pace of Wage Growth Expected to Decelerate Further

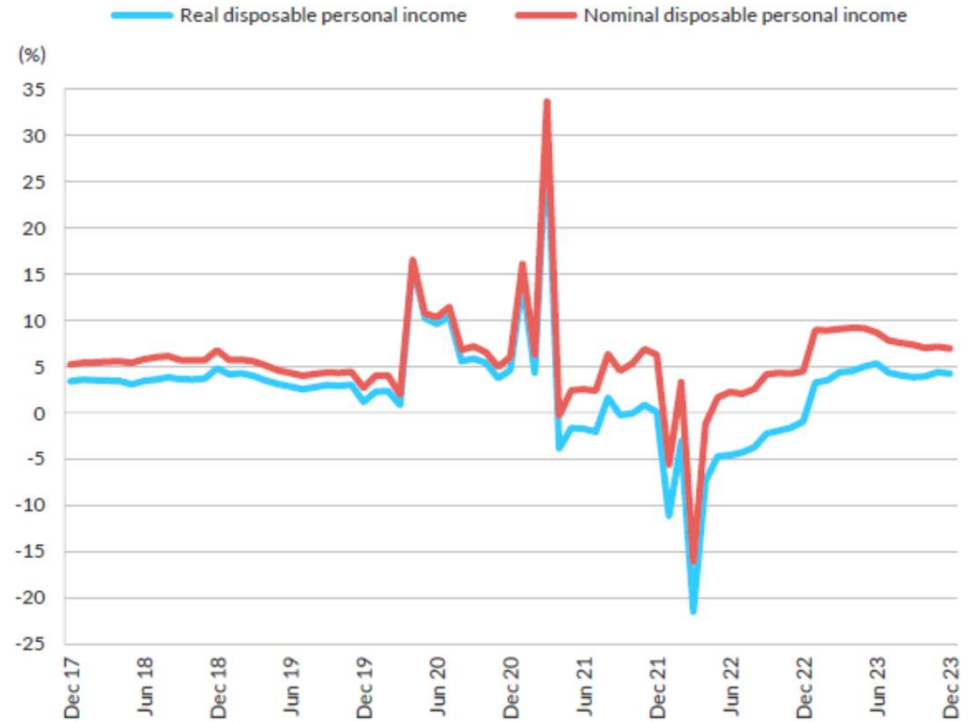
U.S. Wage Growth: Select Industries



Source: Fitch Ratings, Bureau of Labor Statistics

U.S. Disposable Income – Real and Nominal

YoY % Change

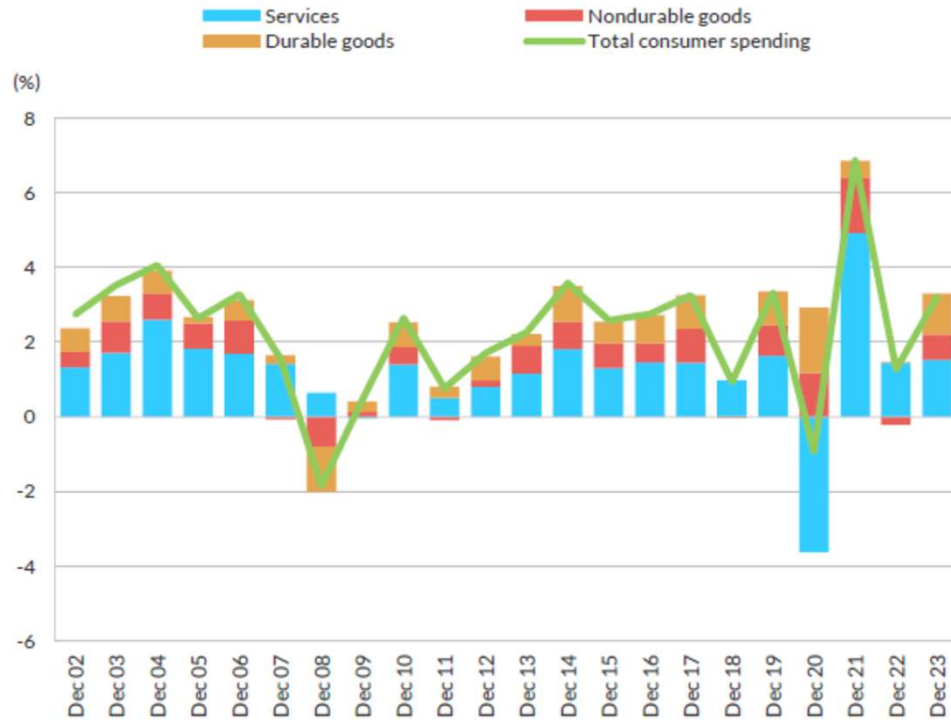


Source: Fitch Ratings, Bureau of Economic Analysis

Durable Goods Spending Provides Surprising Boost to Spending

U.S. Real Consumer Spending

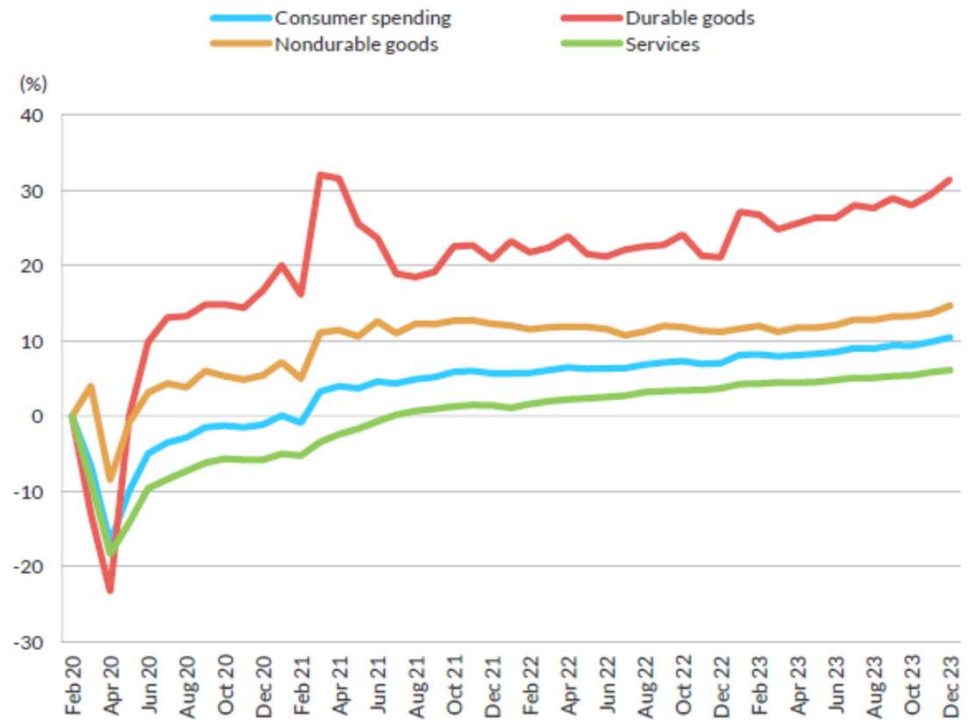
YoY % change, each period indicates last 12 months



Source: Fitch Ratings, Federal Reserve

U.S. Consumer Spending (Real)

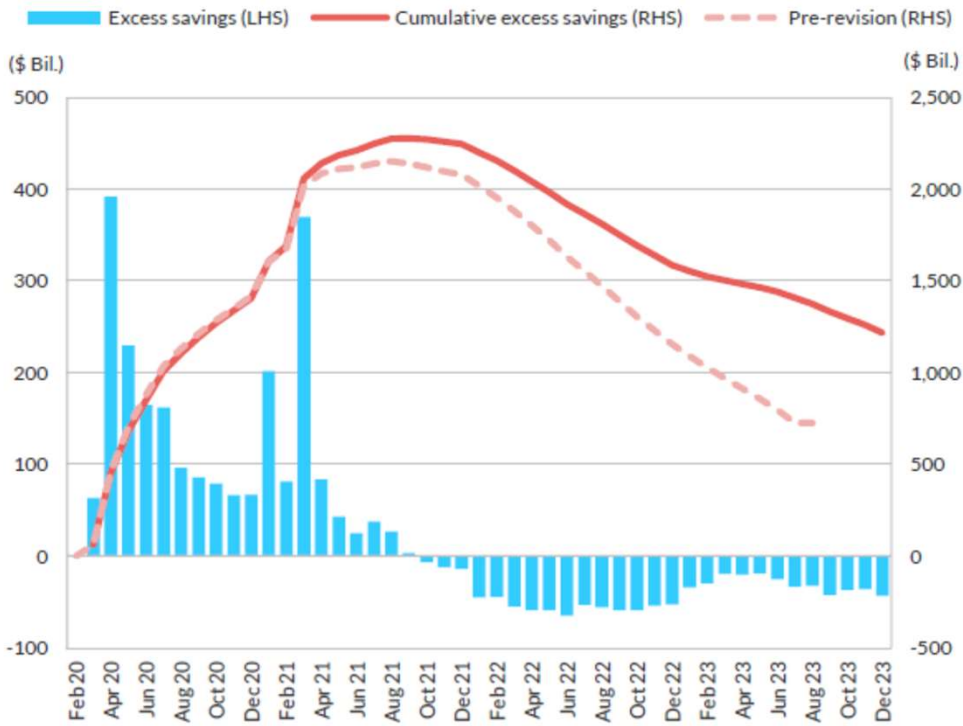
Change since February 2020



Source Fitch Ratings, Bureau of Economic Analysis

Pandemic Excess Savings Should Continue to Support Spending

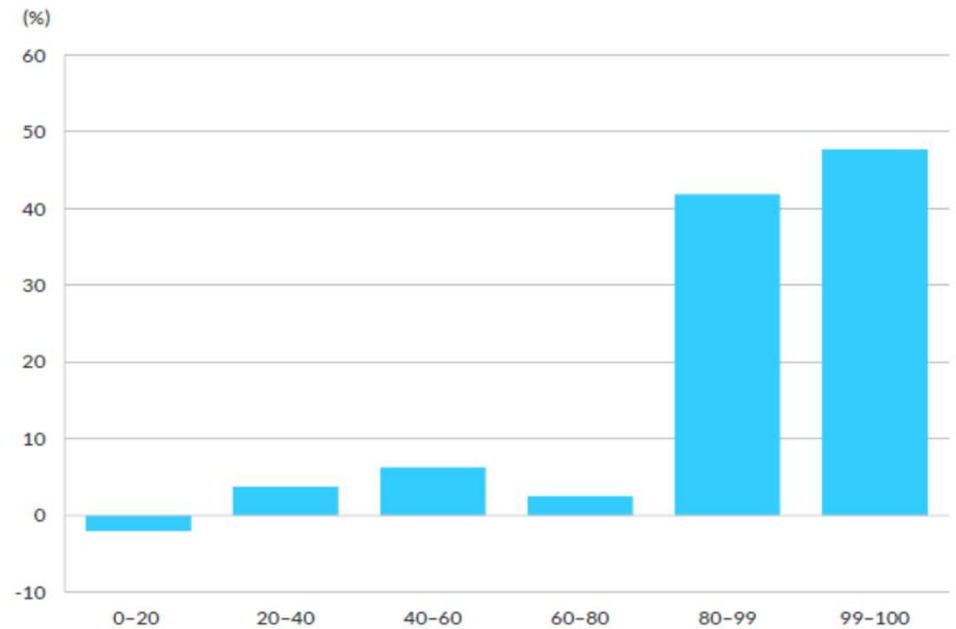
U.S. Households: Excess Savings Since March 2020



Source: Fitch Ratings, Bureau of Economic Analysis

U.S. Consumer Deposits by Income Percentile

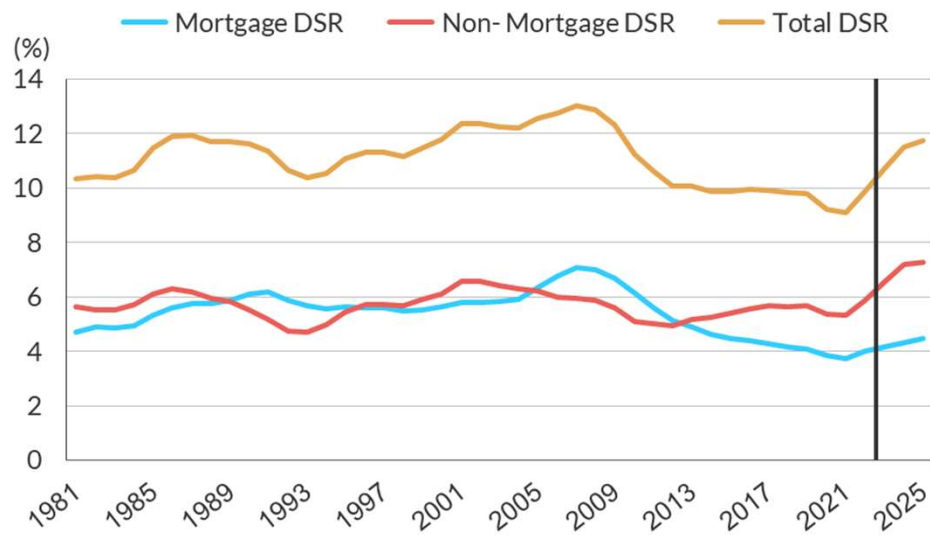
Share of cumulative change (1Q20 and 3Q23)



Source: Fitch Ratings, Federal Reserve

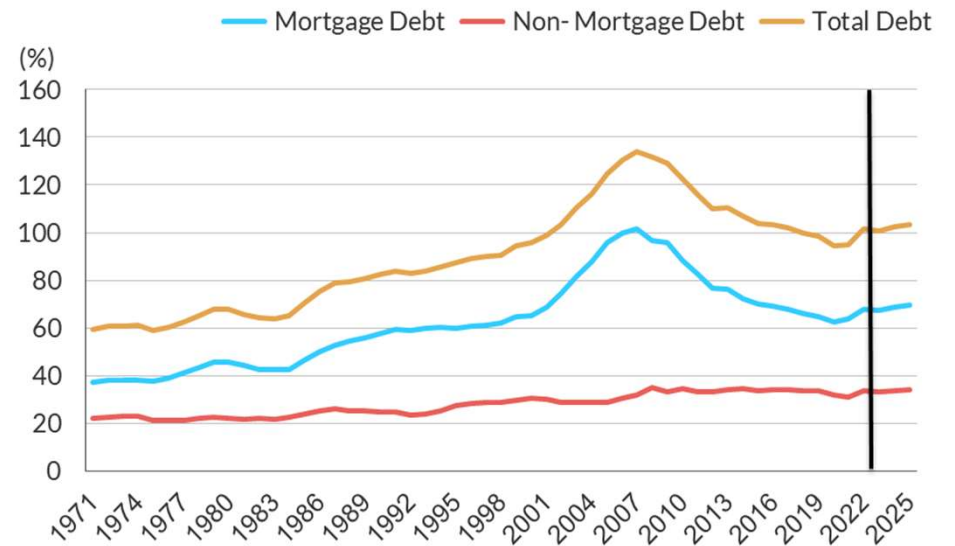
U.S. Consumer Debt Service and Debt Burden Expected to Increase

U.S. Household Debt Service Ratio



Source: Fitch Ratings, Federal Reserve

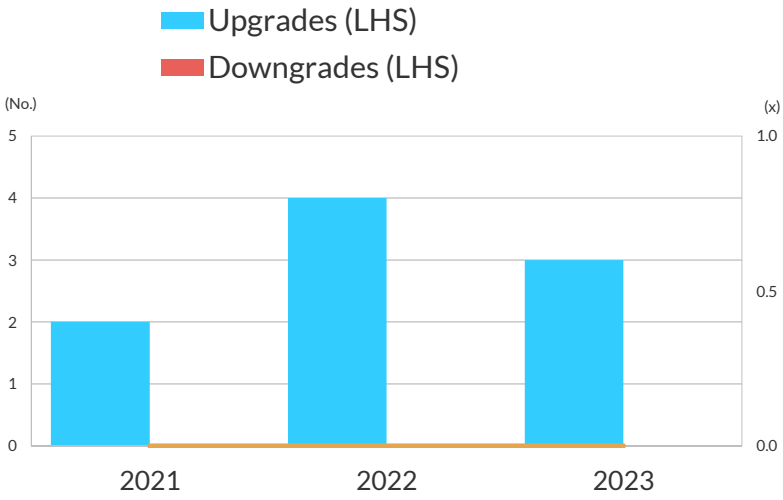
U.S. Household Sector Debt Burden (Debt to Income Ratio)



Source: Fitch Ratings, Federal Reserve

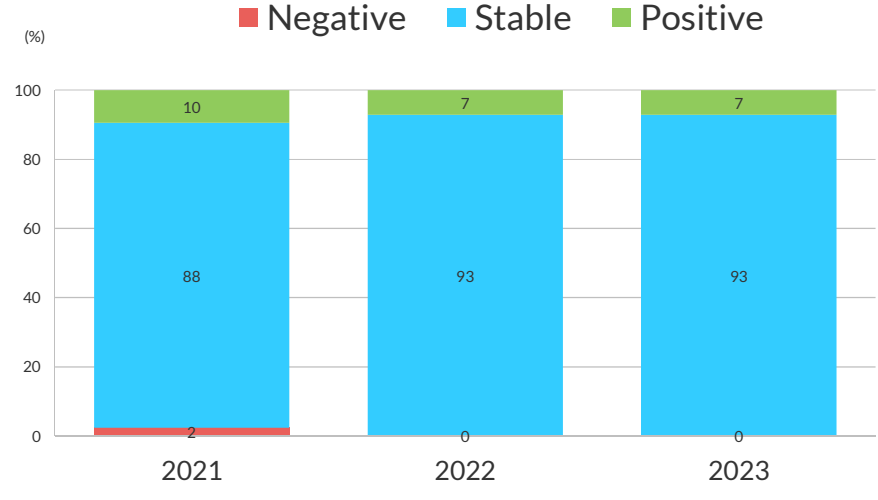
State Credit Outlook

State IDR – Rating Changes



Source: Fitch Ratings

State IDR – Rating Outlooks

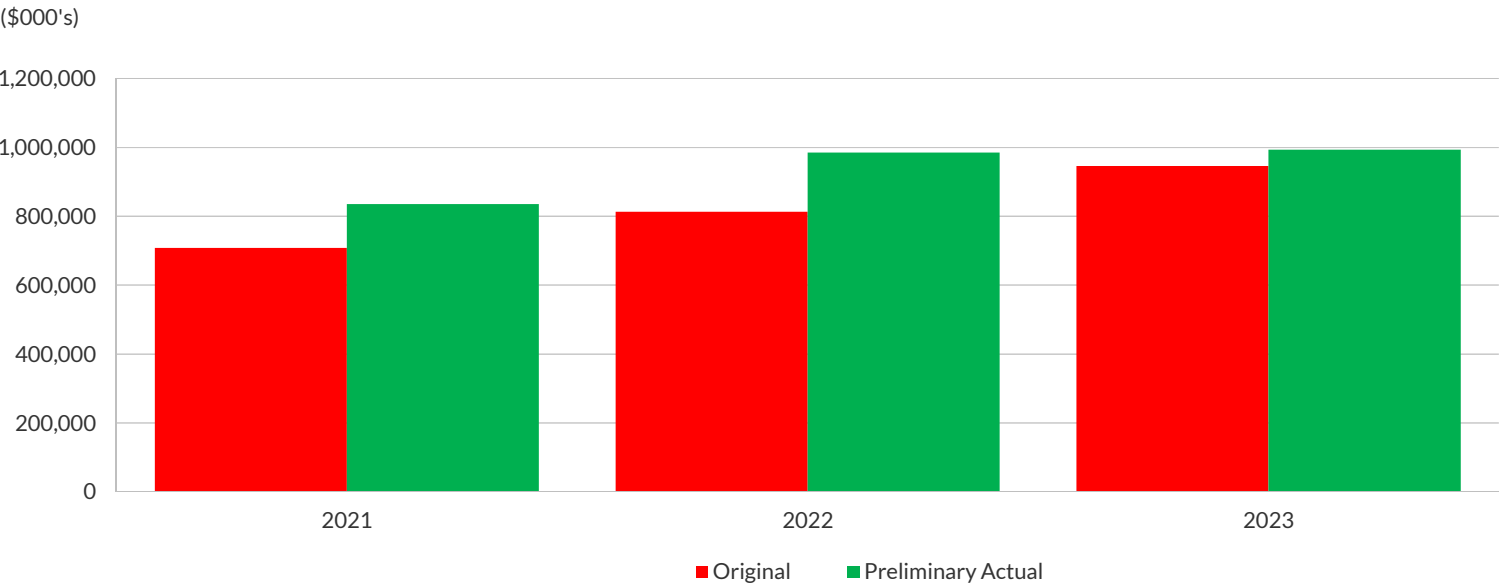


Source: Fitch Ratings

State Credit Outlook

States' Pandemic-Era Revenue Surpluses

Personal Income Tax, Sales Tax, Corporate Income Tax, By Fiscal Year



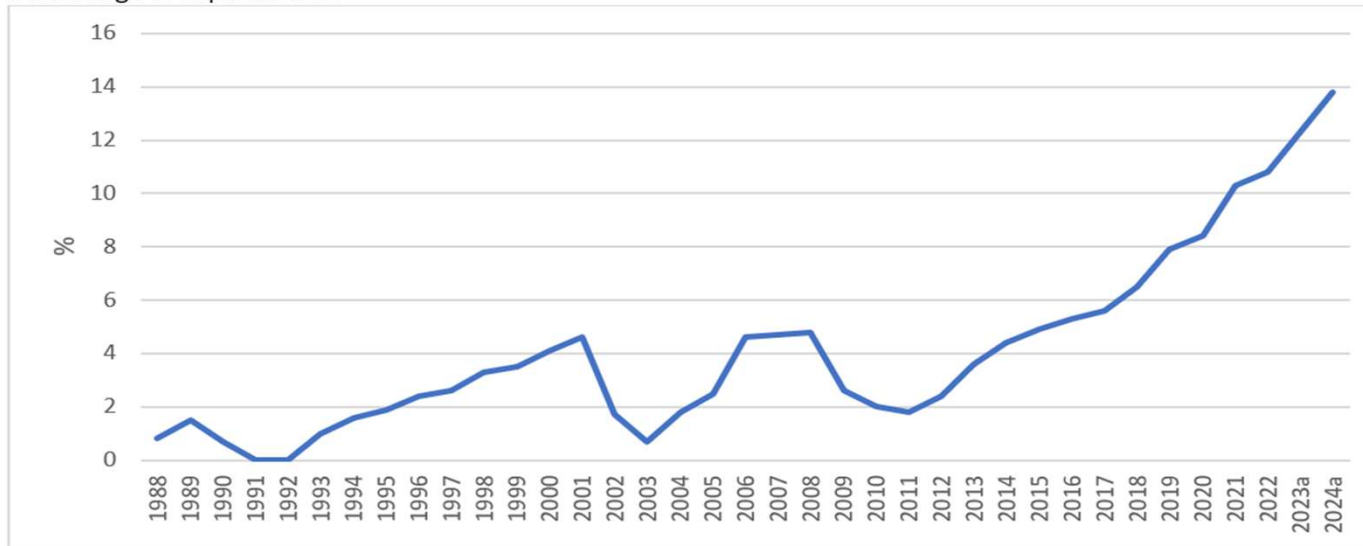
Source: Fitch Ratings; National Association of State Budget Officers

State Credit Outlook

What did states do with all of this money?

-\$90B increase in rainy day fund balances

State Median Rainy-Day Fund Balance
Percentage of Expenditures



^a Figures for fiscal 2023 are preliminary; figures for fiscal 2024 are projected based on states' enacted budgets. Figures for fiscal 2024 exclude Georgia and Wisconsin.

Source: Fitch Ratings, National Association of State Budget Officers

State Credit Outlook

What did states do with all of this money?

-\$30B in supplemental pension contributions

-\$89B in pay-go capital spending above the 5-year pre-pandemic average

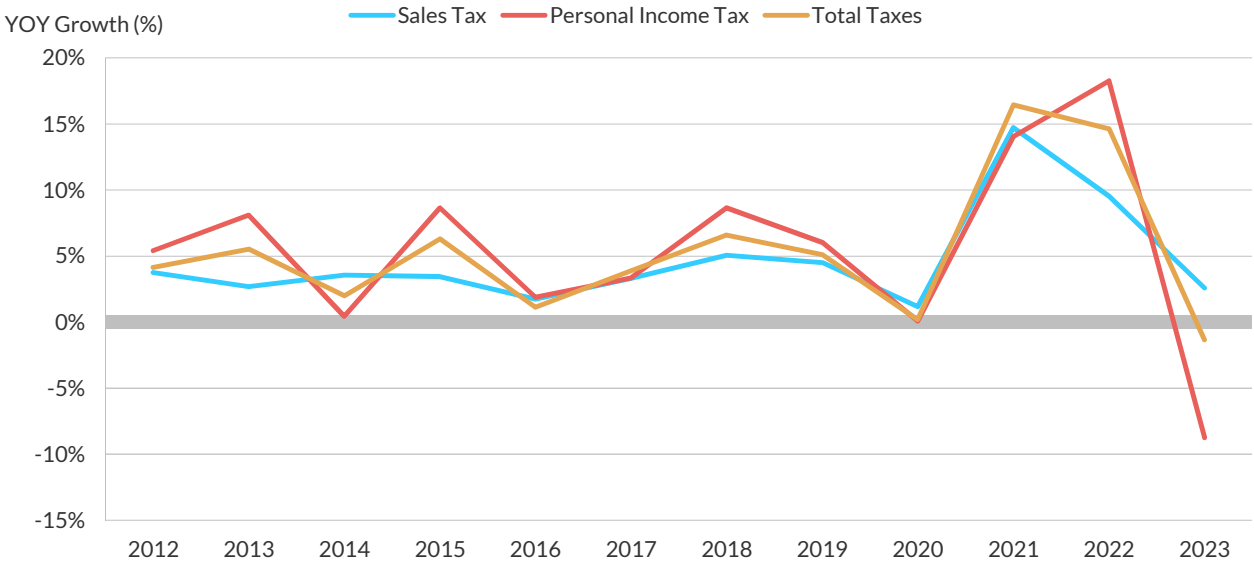
What about tax cuts?

-\$34B in tax cuts, with more to come – recurring cuts generally not reliant on prior year surpluses

State Credit Outlook

State Tax Revenue Growth Reversing ...

Median YOY Growth - 12 Month Rolling Total as of November

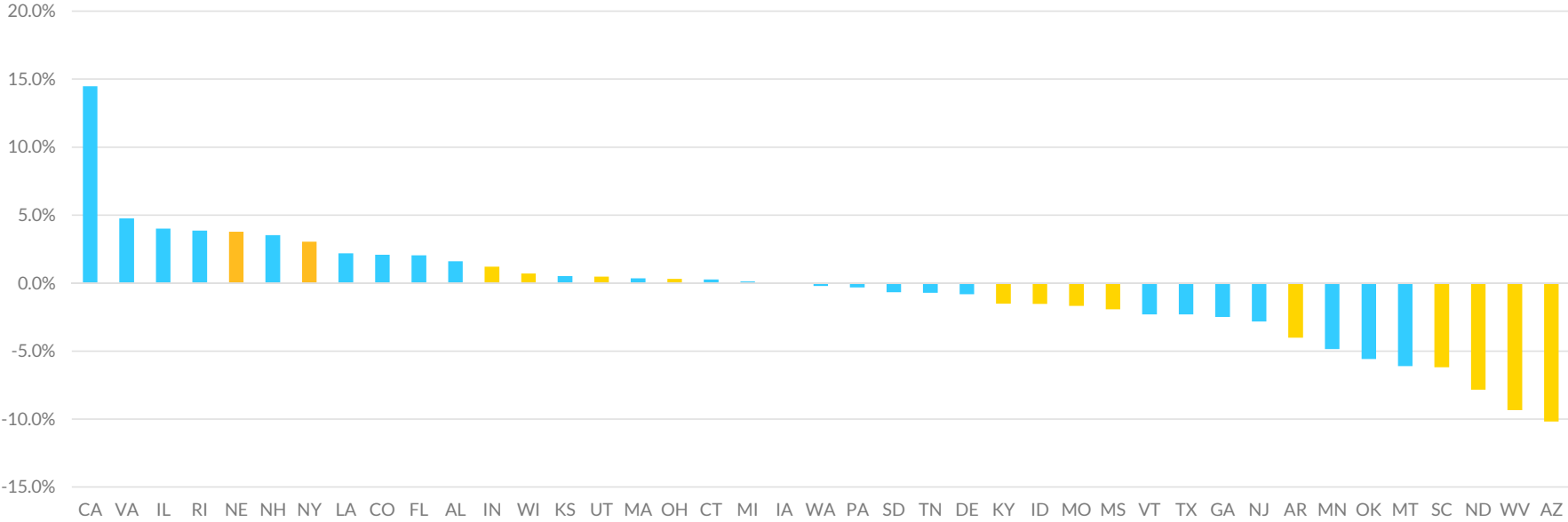


Source: Urban Institute - Tax Policy Center; Fitch Ratings.

State Credit Outlook

State Tax Revenue Weakened in the Second Half of 2023

YOY growth in total state taxes Jul - Dec 2023
 States with PIT rate cuts in 2023 indicated in gold

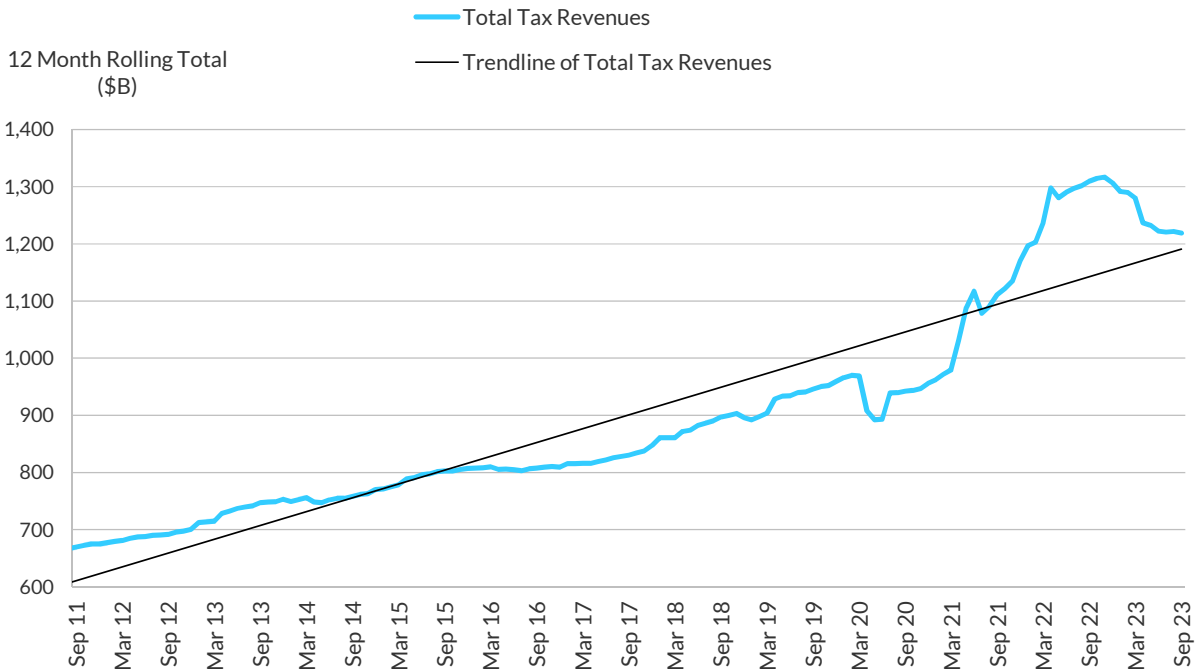


Note: Includes states that have reported December 2023 revenue. In 2023, California's tax filing deadline was extended from April to November, inflating collections in the July-December 2023 period. Data for Georgia adjusts for the gas tax suspension in 2022, as reported by the state. Data for Kentucky and Nebraska exclude pass-through entity tax payments in 2023 which will be offset in subsequent years. Data for Idaho represents general fund revenue prior to distributions.
 Source: Fitch Ratings analysis of monthly state revenue reports

State Credit Outlook

... But Likely Just Reverting to Trend

12 Month Rolling Total of State Tax Revenues



Source: Urban Institute - Tax Policy Center; Fitch Ratings.

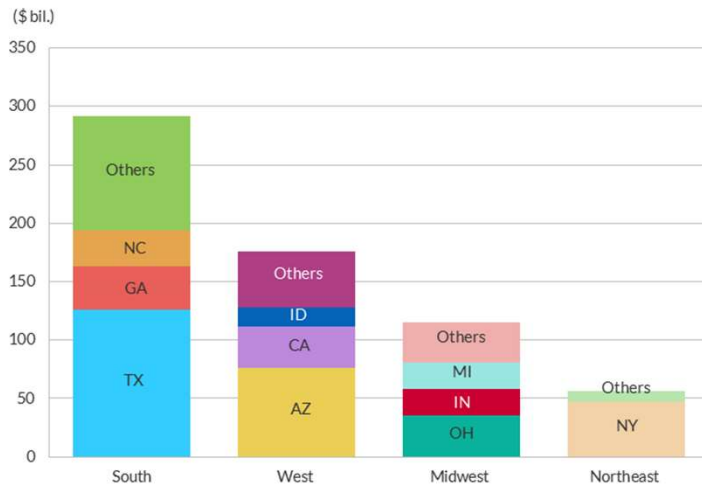
State Credit Outlook

What to watch in 2024?

- A deep and prolonged recession could lead governments toward credit negative budget choices such as sustained pension funding deferrals or payment delays.
- Persistent labor and wage inflation putting pressure on expenditure bases to fiscally challenging levels.
- Unexpectedly sharp housing market deterioration.
- Unexpectedly deep revenue declines and resulting budget challenges for those states that are implementing significant tax policy changes enacted in recent years.

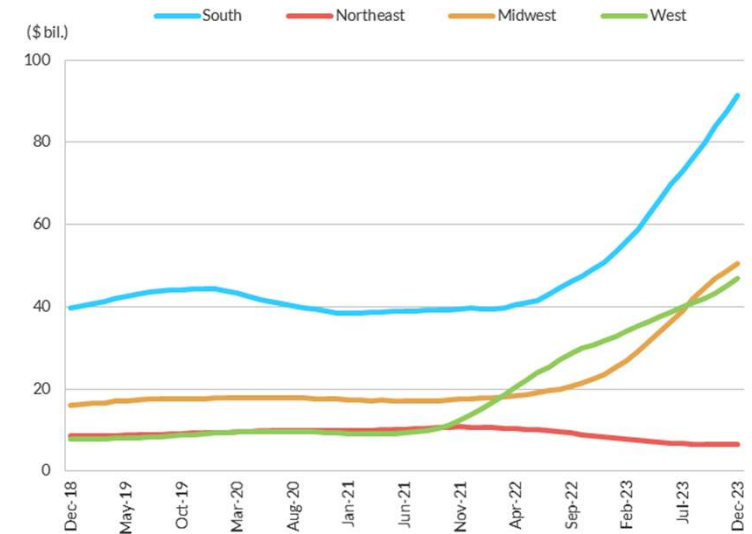
“Bidenomics” is Catalyzing Private Sector Investments in Many States

Announced Investments per CHIPS Act & IRA
By region



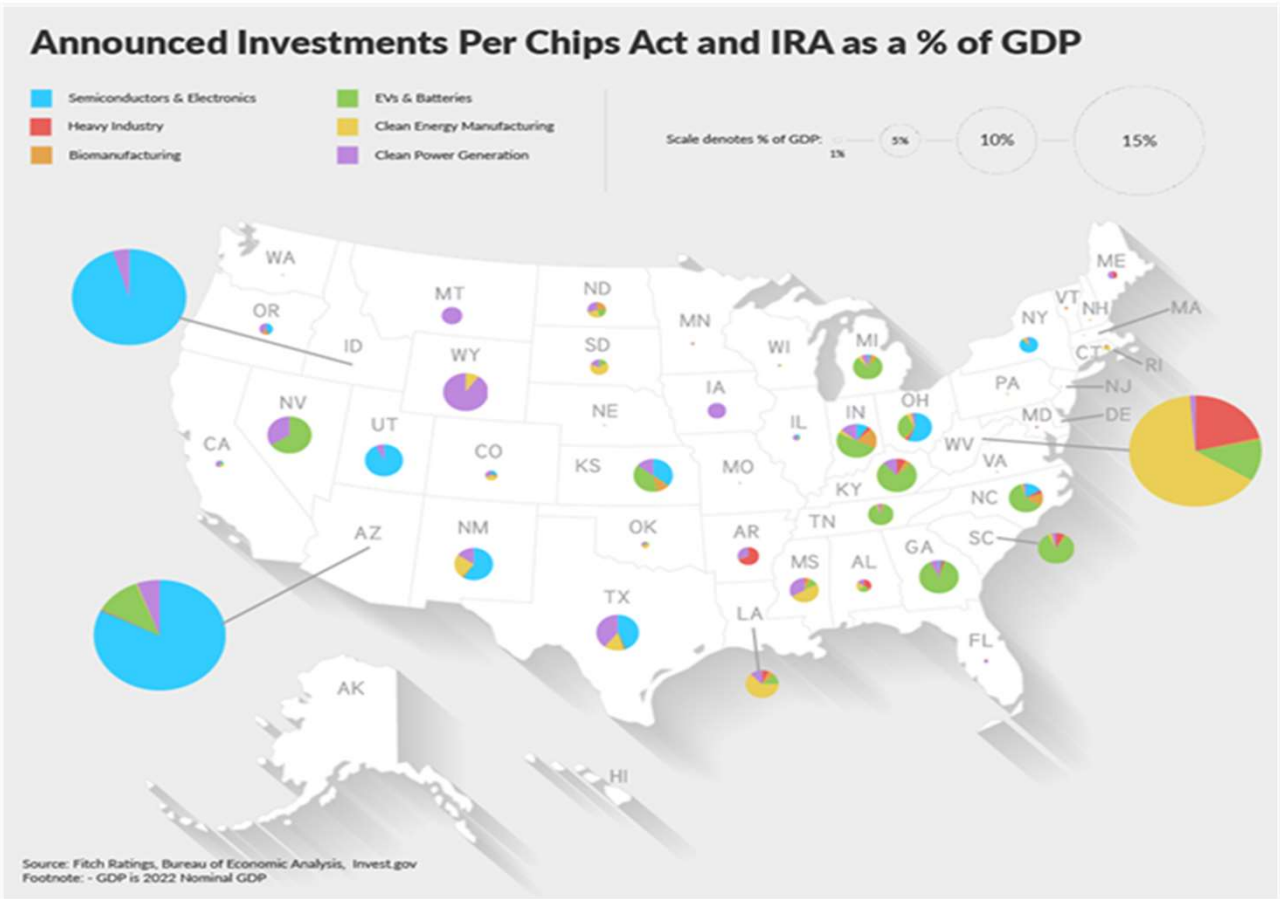
Source: FitchRatings, Invest.gov

U.S. Private Manufacturing Construction: Spending by Region

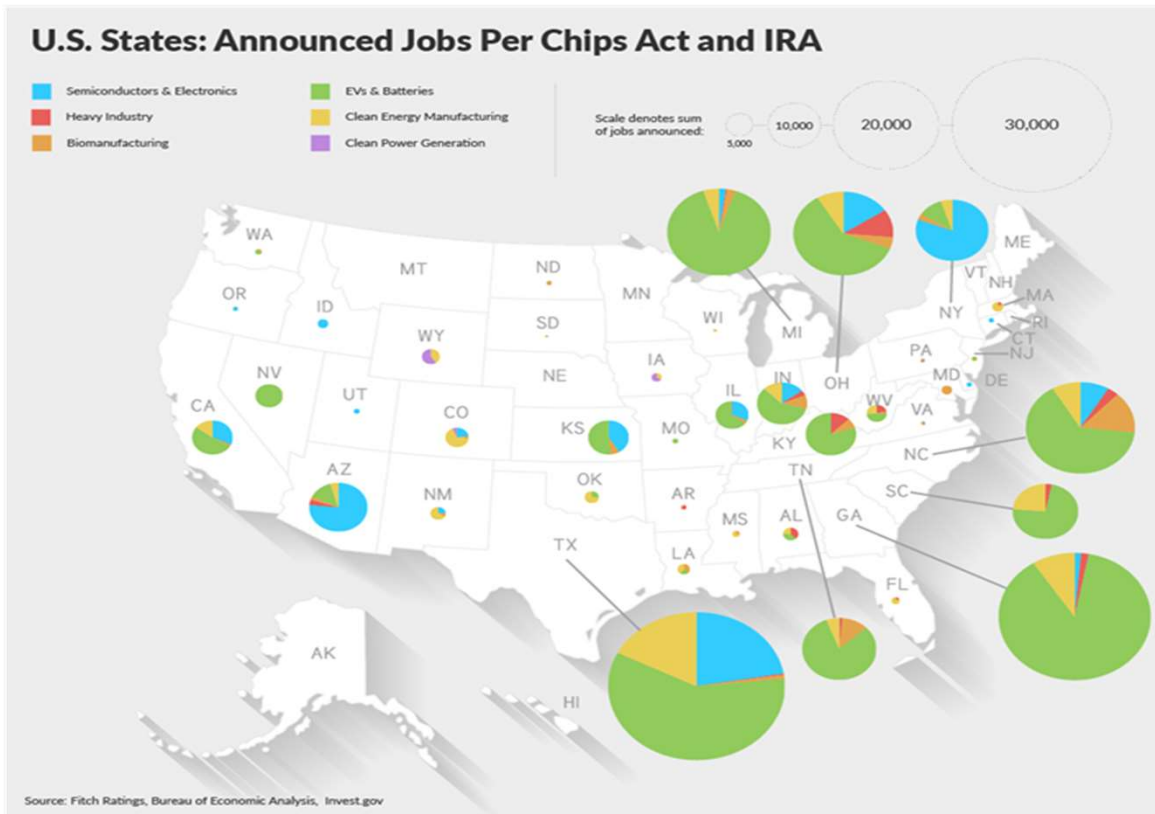


Source: FitchRatings, U.S. Census Bureau

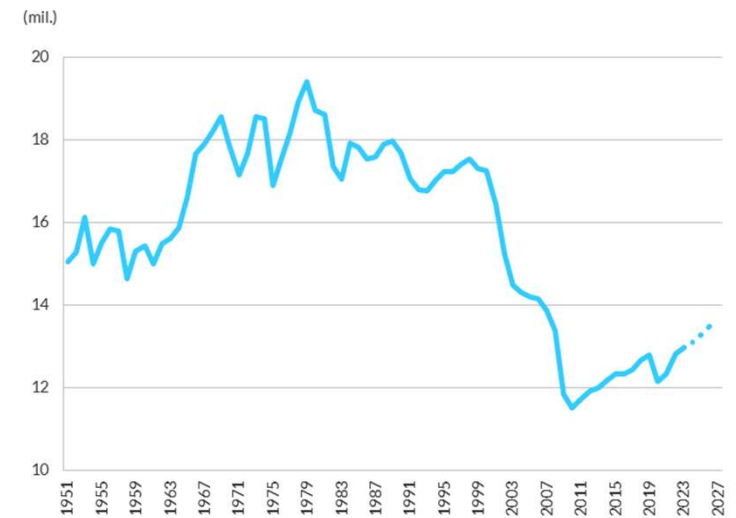
Announced Investments are Consequential Relative to GDP



Announced Jobs are Notable, but Will Not Change the Macro Landscape

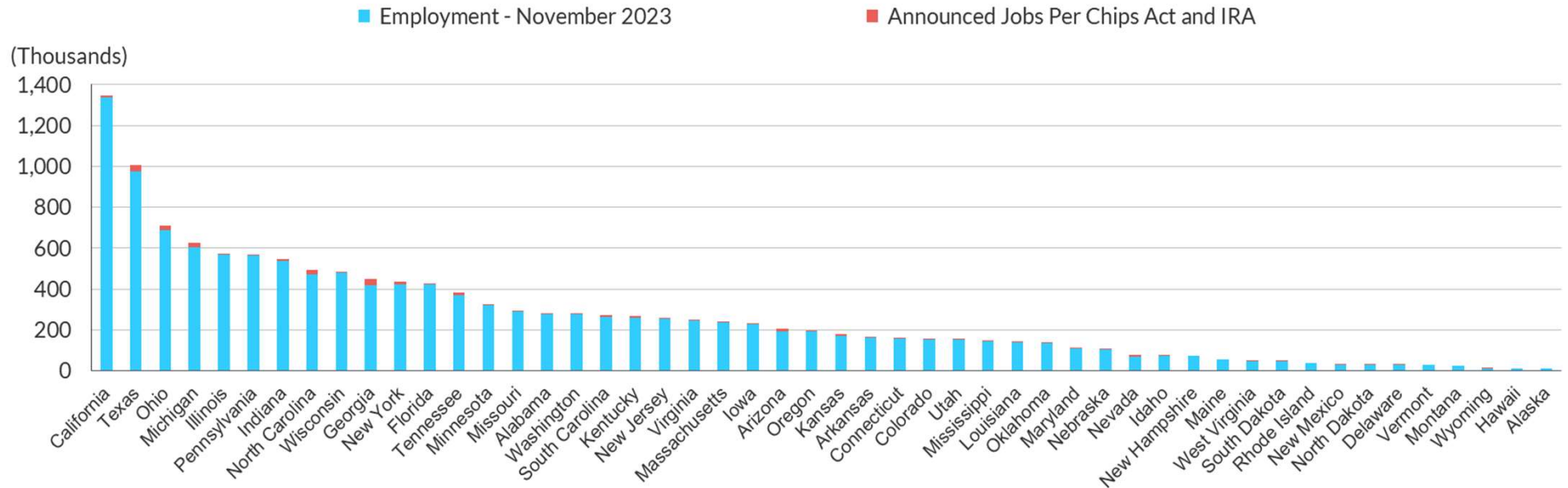


U.S. Manufacturing Employment



Will Not Significantly Change the State Level Landscape

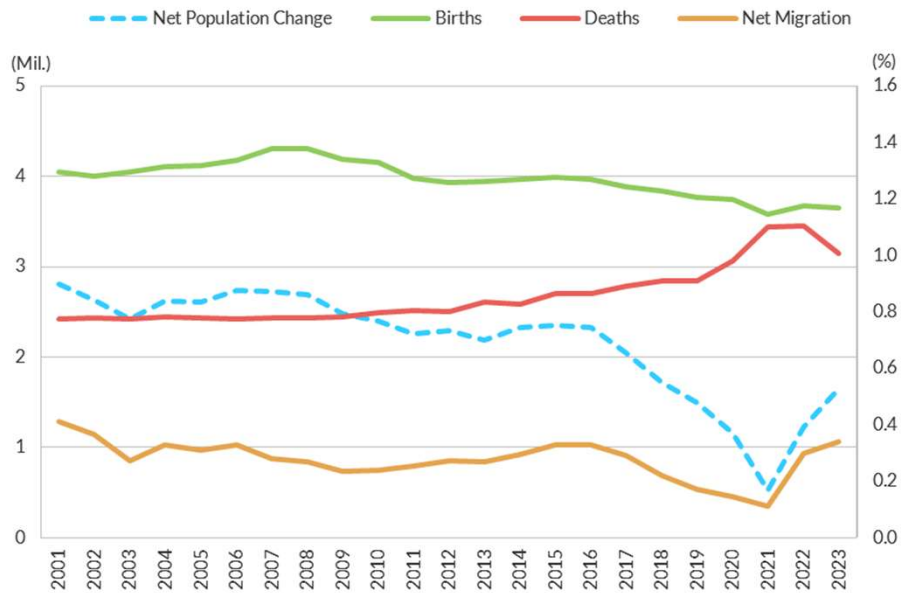
U.S. States: Manufacturing Employment



Source: Fitch Ratings, Bureau of Labor Statistics, Invest.gov

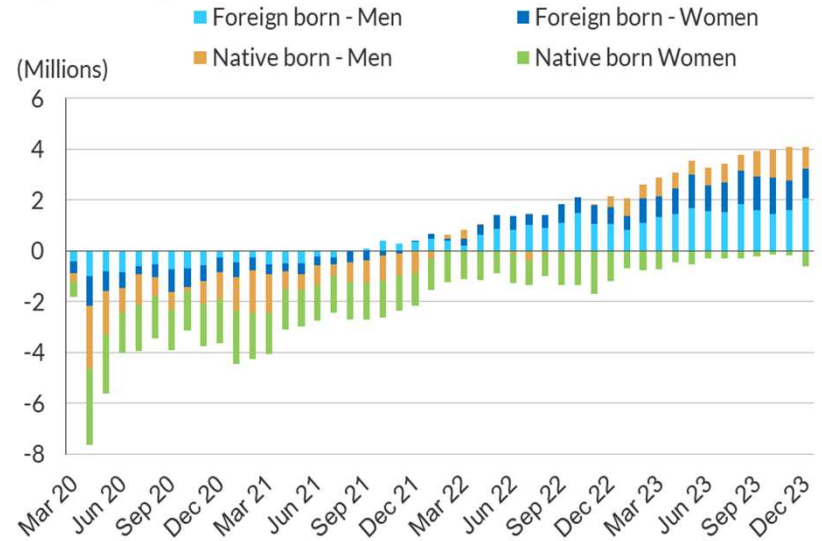
Population Growth Bouncing Back from COVID Lows

U.S. Population Change and the Components of Change



Source: Fitch Ratings, U.S. Census Bureau

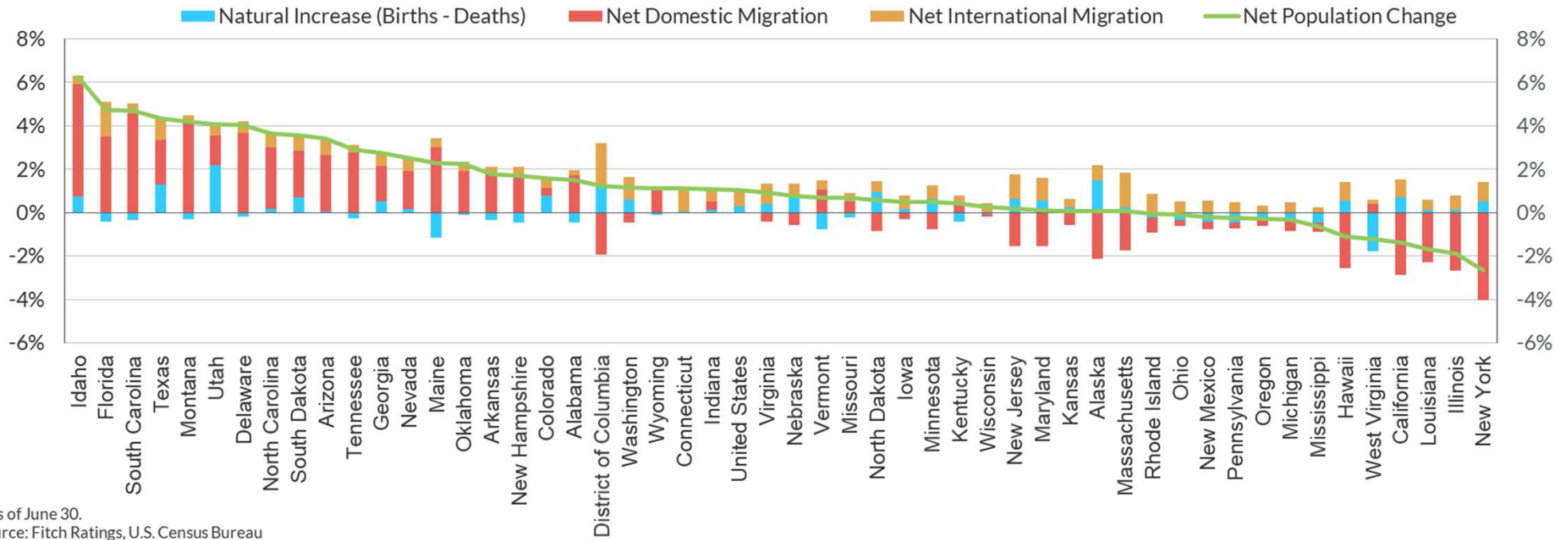
U.S. Labor Force: Change Since February 2020
By Nativity and Sex



Source: Fitch Ratings, Bureau of Labor Statistics

Population Changes Across States Are Moderating From Pandemic Distortions

U.S. States: Cumulative Population Change and the Components of Change (2020-2023)^a



^a As of June 30.
Source: Fitch Ratings, U.S. Census Bureau

Speakers – Q&A



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