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

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

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)

Source: Fitch Ratings, Bureau of Labor Statistics
Pace of Wage Growth Expected to Decelerate Further

U.S. Wage Growth: Select Industries
- Leisure & hospitality
- State and local govt. workers
- Information
- Health care
- Profess & business services
- Manufacturing
- Private Industry workers (ECI)

U.S. Disposable Income — Real and Nominal
- Real disposable personal income
- Nominal disposable personal income

Source: Fitch Ratings, Bureau of Labor Statistics
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

U.S. Consumer Spending (Real)
Change since February 2020

Source: Fitch Ratings, Federal Reserve
Source: Fitch Ratings, Bureau of Economic Analysis
Pandemic Excess Savings Should Continue to Support Spending
U.S. Consumer Debt Service and Debt Burden Expected to Increase

U.S. Household Debt Service Ratio

- Mortgage DSR
- Non-Mortgage DSR
- Total DSR

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

- Mortgage Debt
- Non-Mortgage Debt
- Total Debt

Source: Fitch Ratings, Federal Reserve
## State Credit Outlook

### State IDR — Rating Changes

- **Upgrades (LHS):**
  - 2021: 2
  - 2022: 88
  - 2023: 93

- **Downgrades (LHS):**
  - 2021: 7
  - 2022: 7
  - 2023: 7

**Source:** Fitch Ratings

### State IDR — Rating Outlooks

- **Negative:**
  - 2021: 2
  - 2022: 0
  - 2023: 0

- **Stable:**
  - 2021: 88
  - 2022: 93
  - 2023: 93

- **Positive:**
  - 2021: 10
  - 2022: 7
  - 2023: 7

**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

*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
Will Not Significantly Change the State Level Landscape

U.S. States: Manufacturing Employment

- Employment - November 2023
- Announced Jobs Per Chips Act and IRA

Population Growth Bouncing Back from COVID Lows

**U.S. Population Change and the Components of Change**

- Net Population Change
- Births
- Deaths
- Net Migration

**U.S. Labor Force: Change Since February 2020**

By Nativity and Sex

- Foreign born - Men
- Foreign born - Women
- Native born - Men
- Native born Women

Source: Fitch Ratings, U.S. Census Bureau

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)*

<table>
<thead>
<tr>
<th>Natural Increase (Births - Deaths)</th>
<th>Net Domestic Migration</th>
<th>Net International Migration</th>
<th>Net Population Change</th>
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<tr>
<td>Idaho</td>
<td>South Carolina</td>
<td>Texas</td>
<td>Montana</td>
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<tr>
<td>Delaware</td>
<td>Arizona</td>
<td>Colorado</td>
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<td>North Carolina</td>
<td>South Dakota</td>
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<td>New York</td>
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* As of June 30.
Source: Fitch Ratings, U.S. Census Bureau
Speakers – Q&A

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