

SEG U.S. Macro Report

Q4 2024

Outline

- I. Summary & Outlook
- II. Economy
- III. Financial Conditions
- IV. Consumer
- V. Labor
- VI. Inflation
- VII. Monetary Policy
- VIII. Fiscal Policy

SUMMARY & OUTLOOK

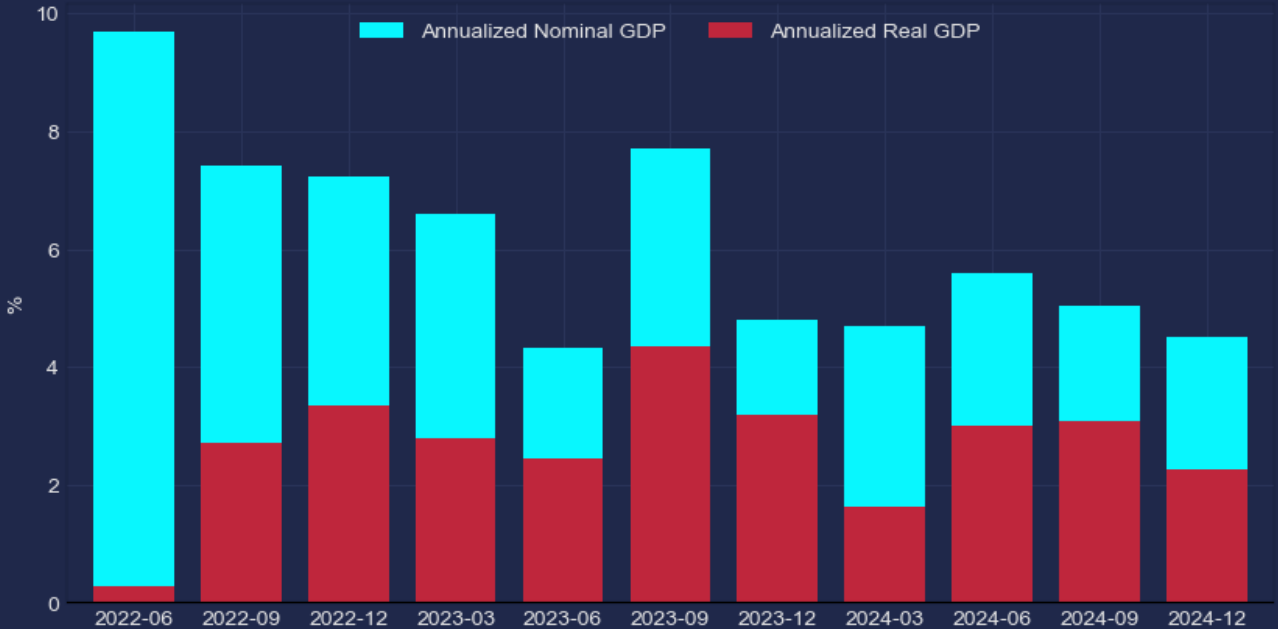
In the fourth quarter of 2024, the US economy was shaped by significant events, including the presidential election, which initially boosted stock markets with expectations of market-friendly policies like deregulation and tax cuts. However, this optimism was tempered when the Federal Reserve, in December, revised its monetary policy to a more cautious stance, cutting rates twice by 0.25% each to a range of 4.25%-4.50% but reducing expectations for further rate cuts in 2025 from four to two. This shift influenced market dynamics, leading to a steepening of the US Treasury yield curve as short-term rates fell and long-term rates rose, with the spread between 2-year and 10-year notes widening to 0.33 percentage points. Economic growth was robust, with real GDP increasing by 3.1% in Q3. However, inflation became a concern again as CPI and PPI rose, driven by shelter and goods prices. The labor market cooled slightly but maintained a low unemployment rate with fluctuating jobless claims.

Given the new administration policy focus, we are optimistic about the long term. However, we expect a lot of short-term pain and potential policy mishaps. The incoming administration's policies will have varied impacts, but there are five core economic themes:

1. **Tariffs:** Tariffs might increase inflation, reduce economic efficiency, and disrupt global supply chains, but they can also help reduce the deficit (higher government revenue), negotiate better trading terms for the country, and incentivize firms to produce goods locally. Currently, average US tariffs are lower than those imposed on US exports by the EU and China.
2. **Deregulation:** Simplifying regulatory frameworks can streamline processes, reduce costs, and enhance productivity in many industries, making the US a desirable location for firms and innovation. It also reduces firms' ability to engage in regulatory capture.
3. **Tax cuts:** Lower income taxes could stimulate growth, raise inflation, and hurt the deficit. However, tariff revenue could offset income tax cuts.
4. **Lower immigration** might lead to lower growth. Given the US's aging population, lower immigration can hurt programs such as Social Security. However, lower immigration makes local labor more competitive and allows US citizens to earn higher wages. This reset could also enable the country to redesign its dysfunctional immigration policy.
5. **Government efficiency:** The Department of Government Efficiency (DOGE), led by Elon Musk, will end on July 4, 2026. The temporary department's primary goal is to align government operations with the efficiency standards of the private sector, aiming to shrink government size and decrease the federal fiscal deficit, all while improving service delivery to the public.

Overall, we expect a lot of economic volatility. It appears that the current administration will attempt to implement lighter but similar reforms imposed by Javier Milei's government in Argentina. If done poorly, these reforms can create havoc, but if done well, they could be highly beneficial.

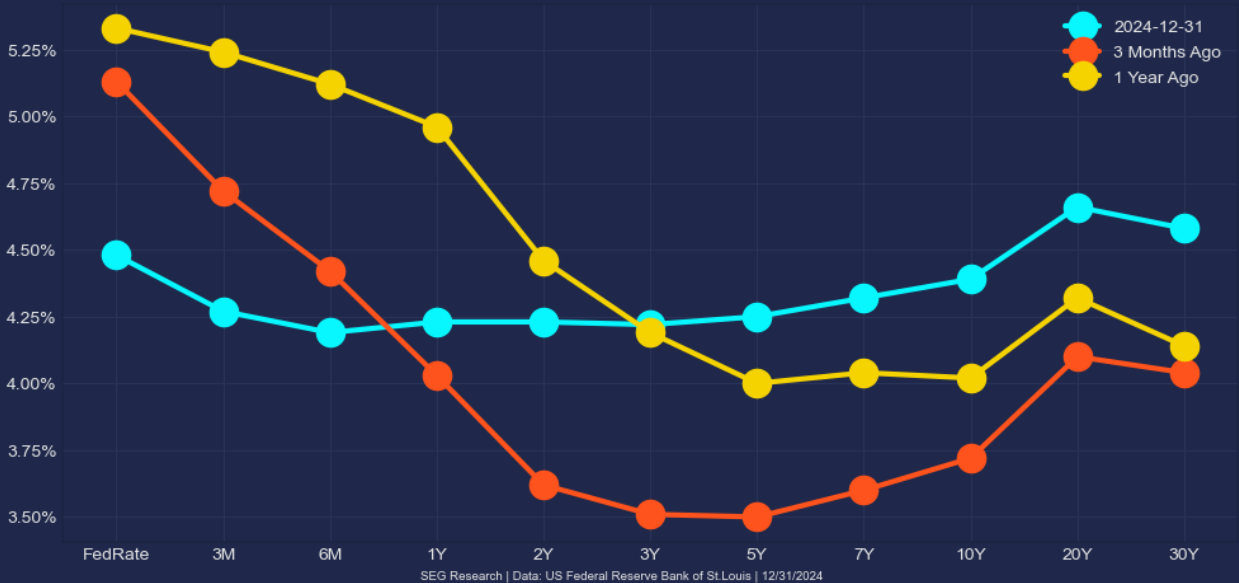
US GDP Growth remains robust.



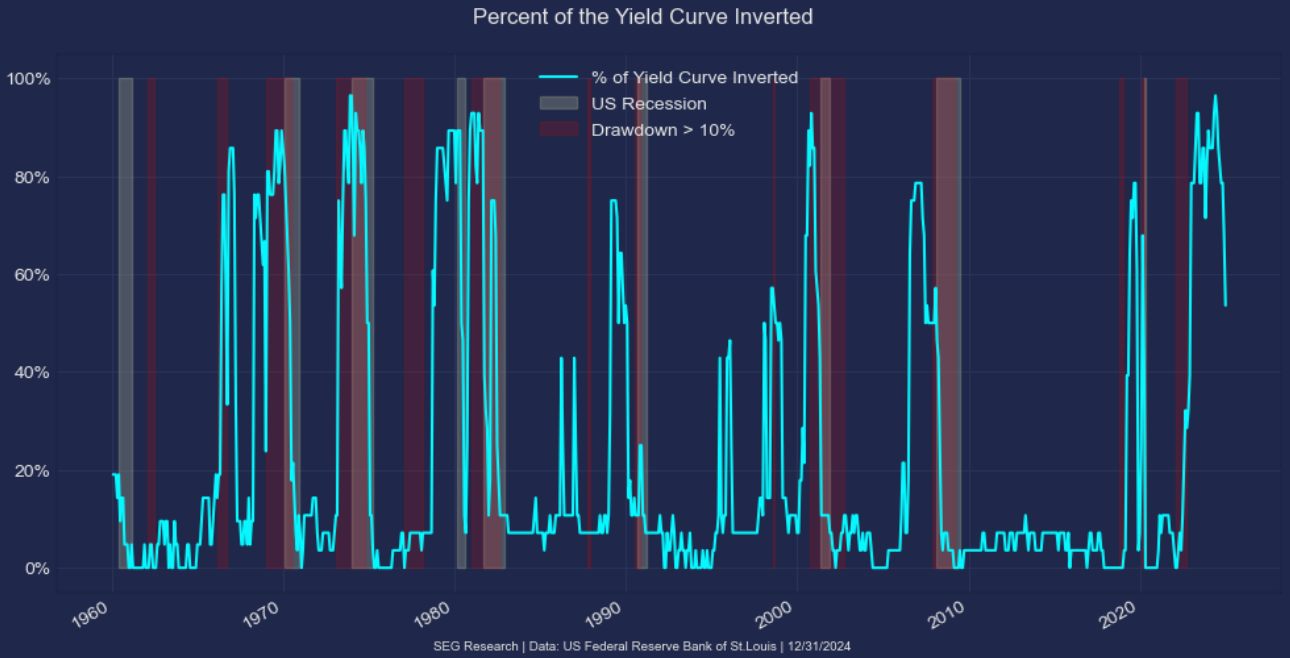
	2022-06	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09	2024-12
Nominal GDP (%)	9.7	7.42	7.23	6.59	4.33	7.7	4.79	4.7	5.6	5.03	4.51
Real GDP (%)	0.28	2.72	3.35	2.8	2.45	4.36	3.19	1.63	2.99	3.07	2.25

The US Treasury Yield Curve un-inverted. Unexpectedly, long-term rates rose despite the rate cuts.

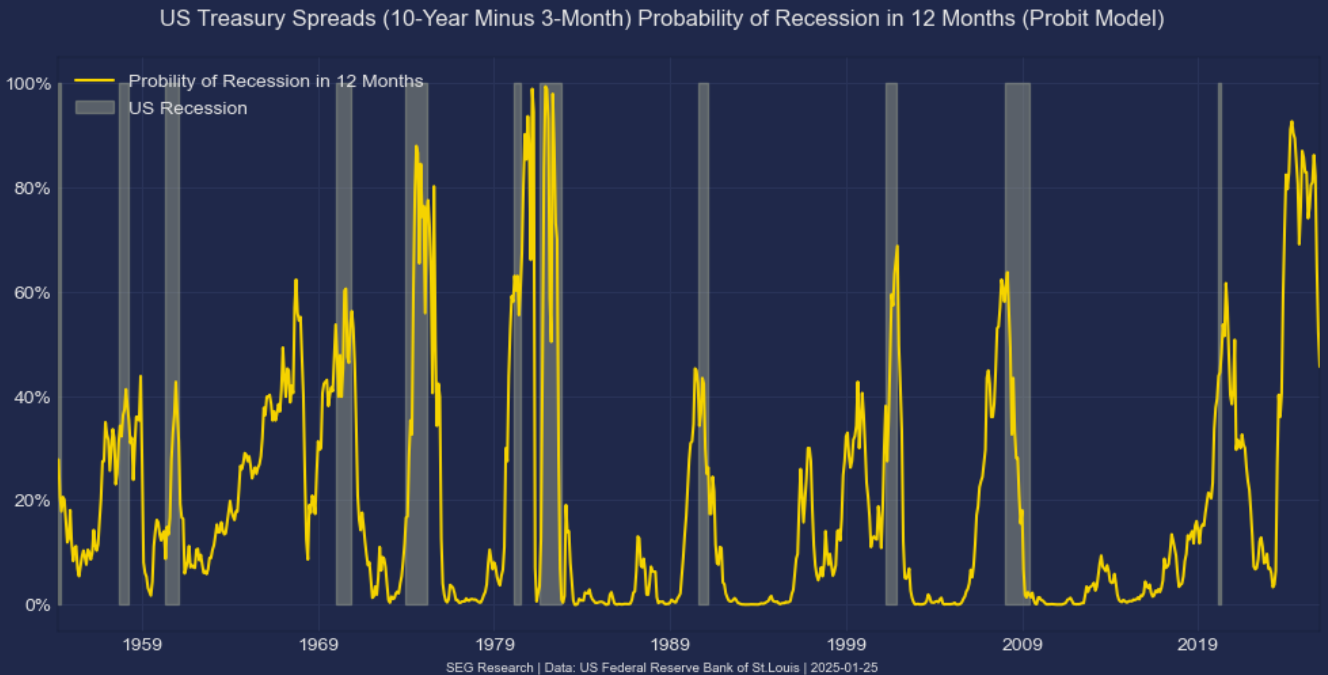
U.S. Treasury Yield Curve



The yield curve un-inverting does not mean we have avoided a recession. The 1990 and 2007 recession began as the yield began un-inverting.

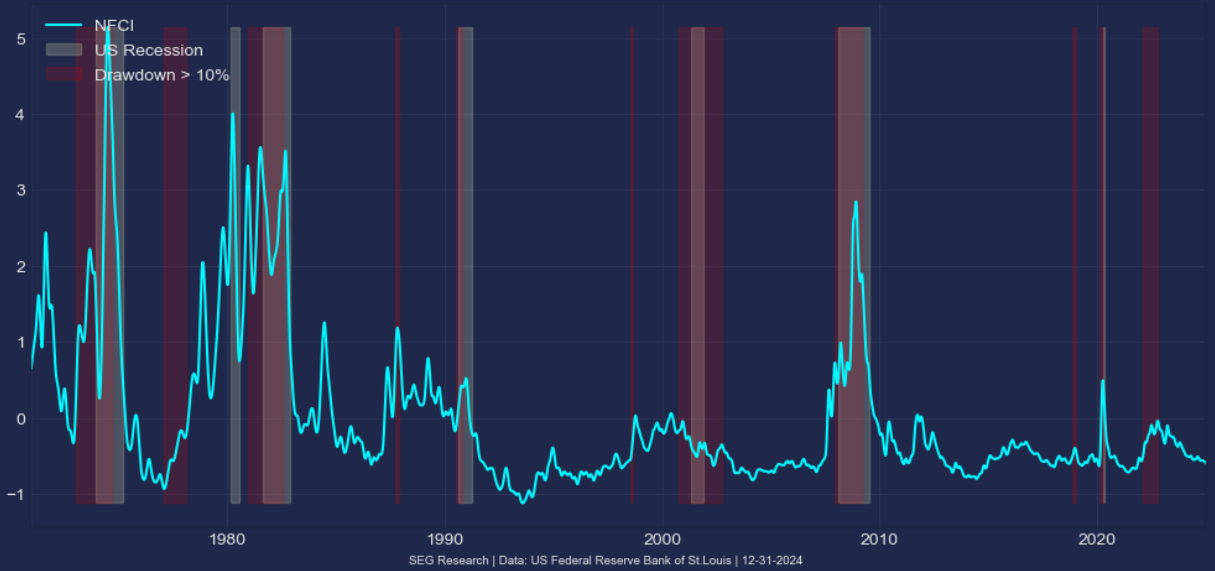


However, the yield curve probit model shows an elevated but lower recession probability.



Financial conditions are very loose.

Chicago Fed National Financial Conditions Index



Additional financial stress remains very low and declining.

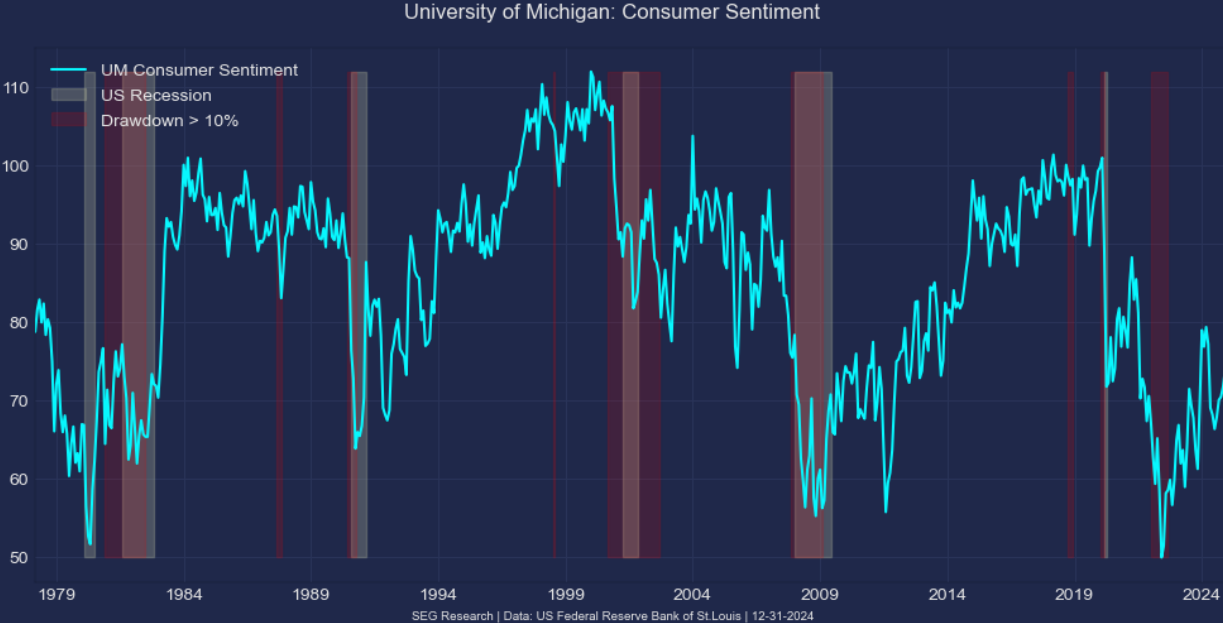
Kansas City Financial Stress Index



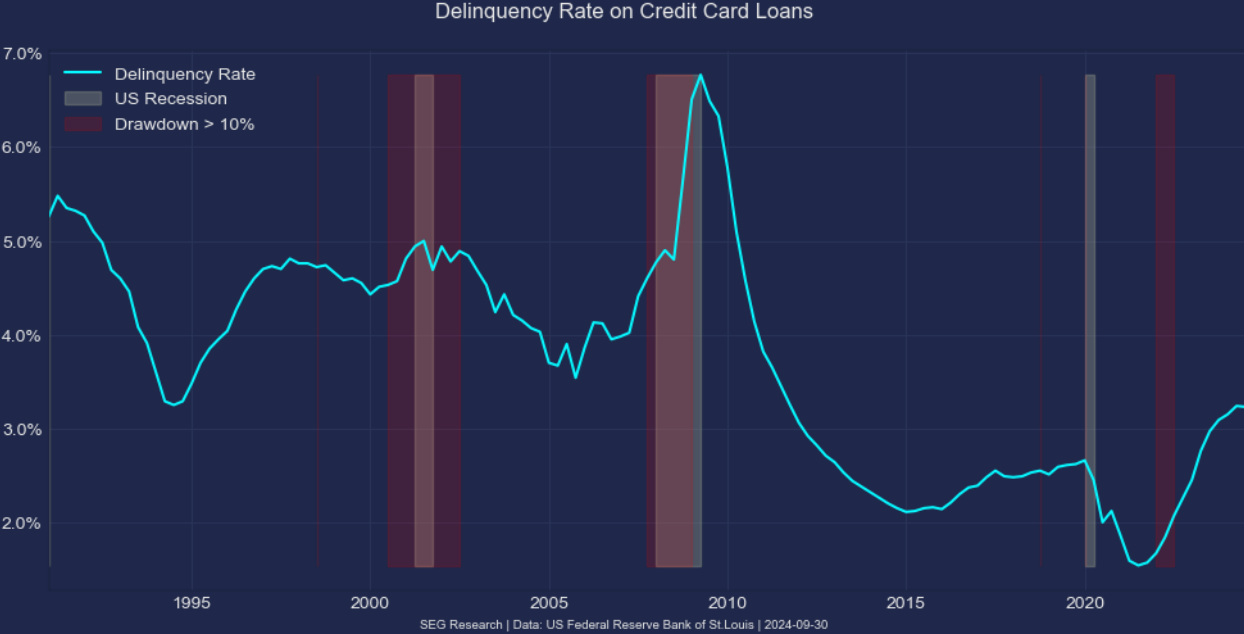
St. Louis Fed Financial Stress Index



Consumer sentiment is improving but remains low on historical standards.

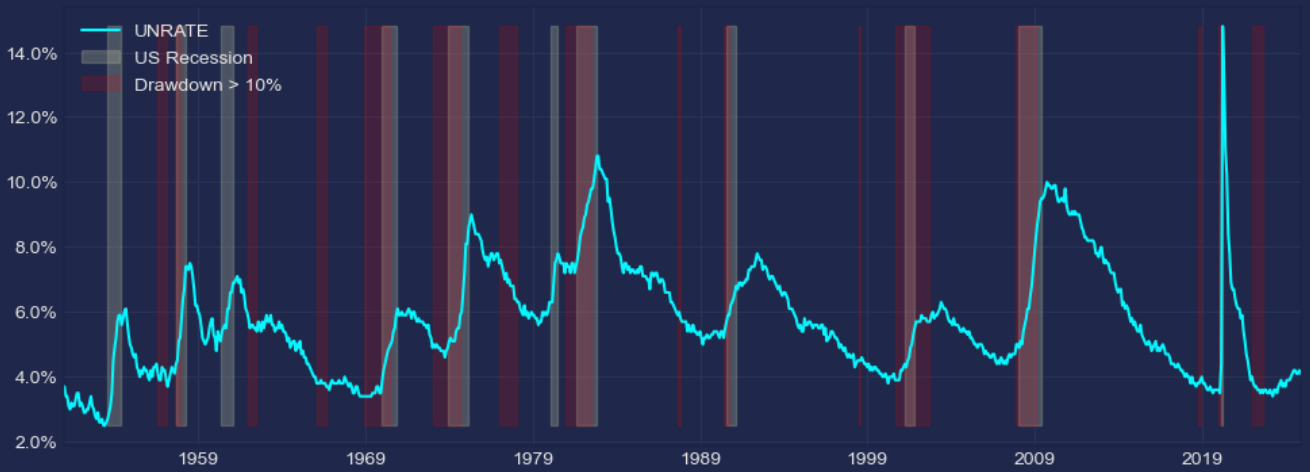


Delinquency rates on credit card loans are rising but remain low.



The US unemployment rate has ticked up higher but remains low.

US Unemployment Rate

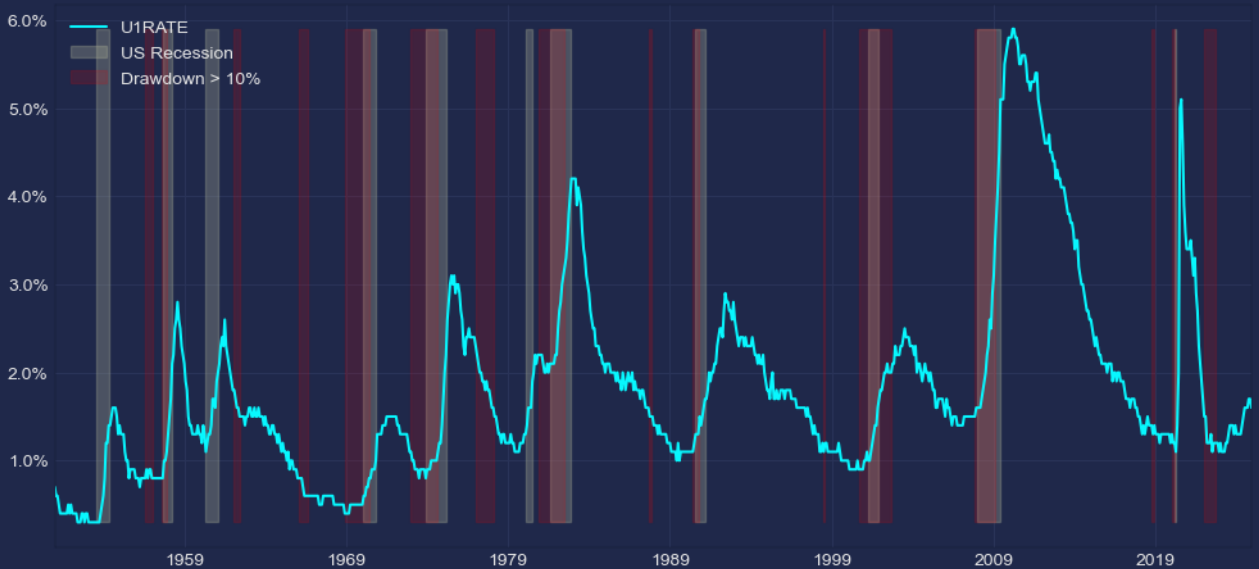


	2024-01	2024-02	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12
US Unemployment Rate (%)	3.7	3.9	3.9	3.9	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

However, the long-term unemployment rate has moved up meaningfully.

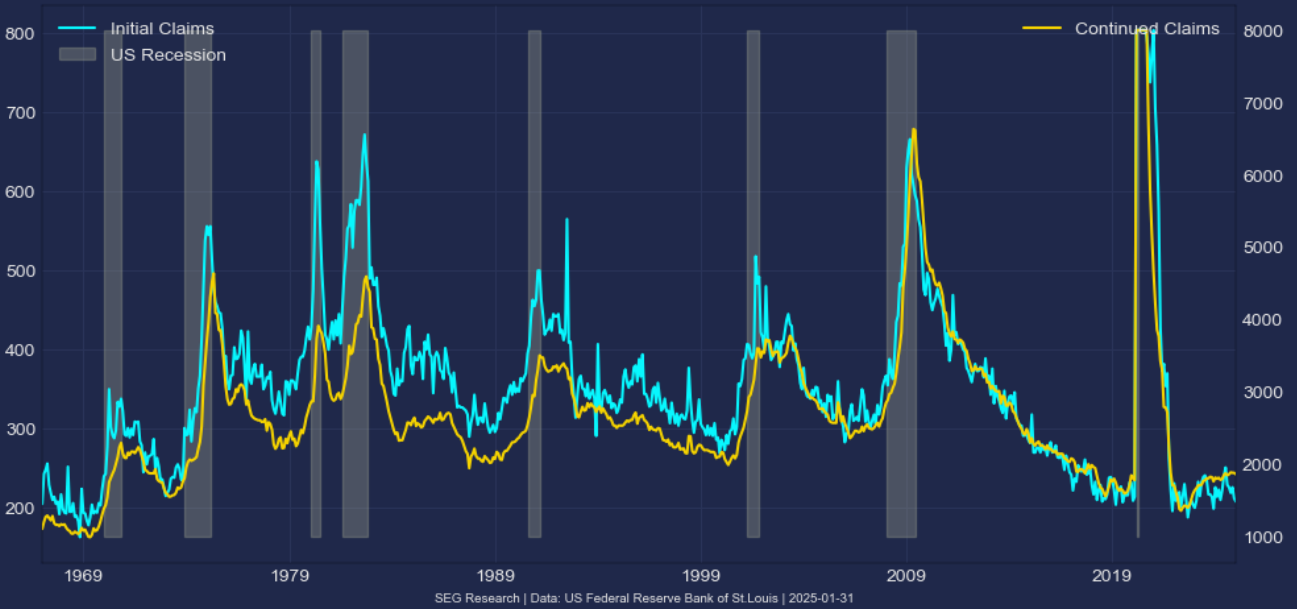
Percent of Civilian Labor Force Unemployed 15 Weeks and over (U1)



SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

Initial and continued unemployment claims remain low but continued claims are rising.

Unemployment Insurance Initial & Continued Claims (in Thousands)

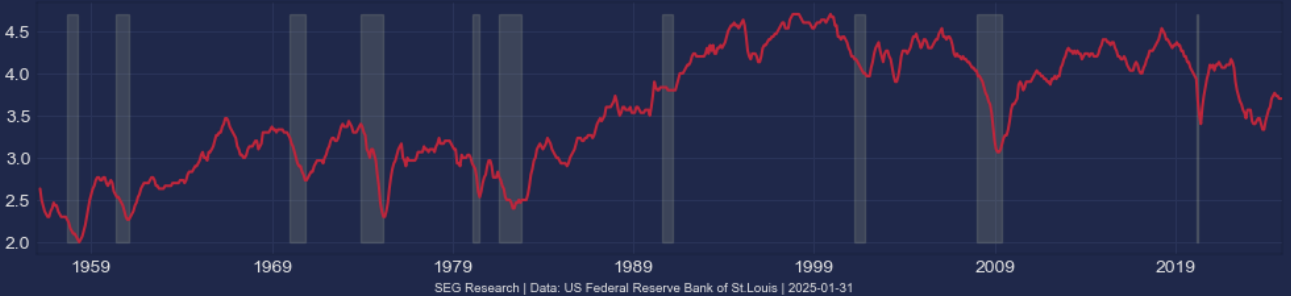


Overtime hours have also declined, particularly for durable goods manufacturers.

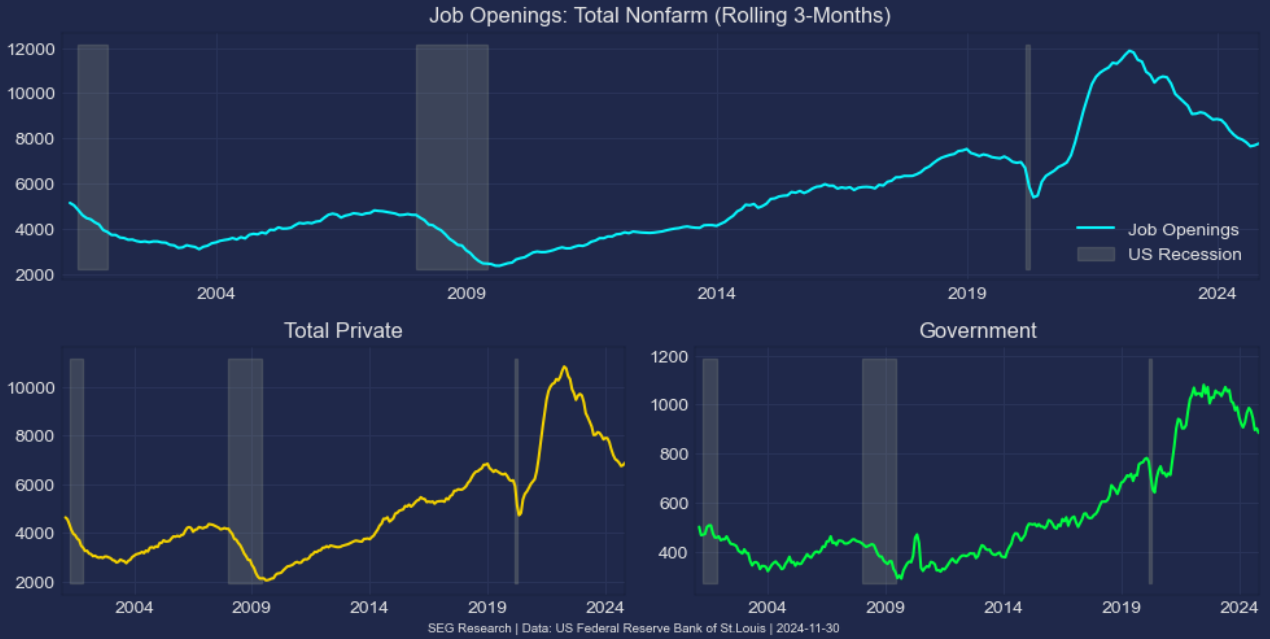
Hours: Overtime Durable Goods



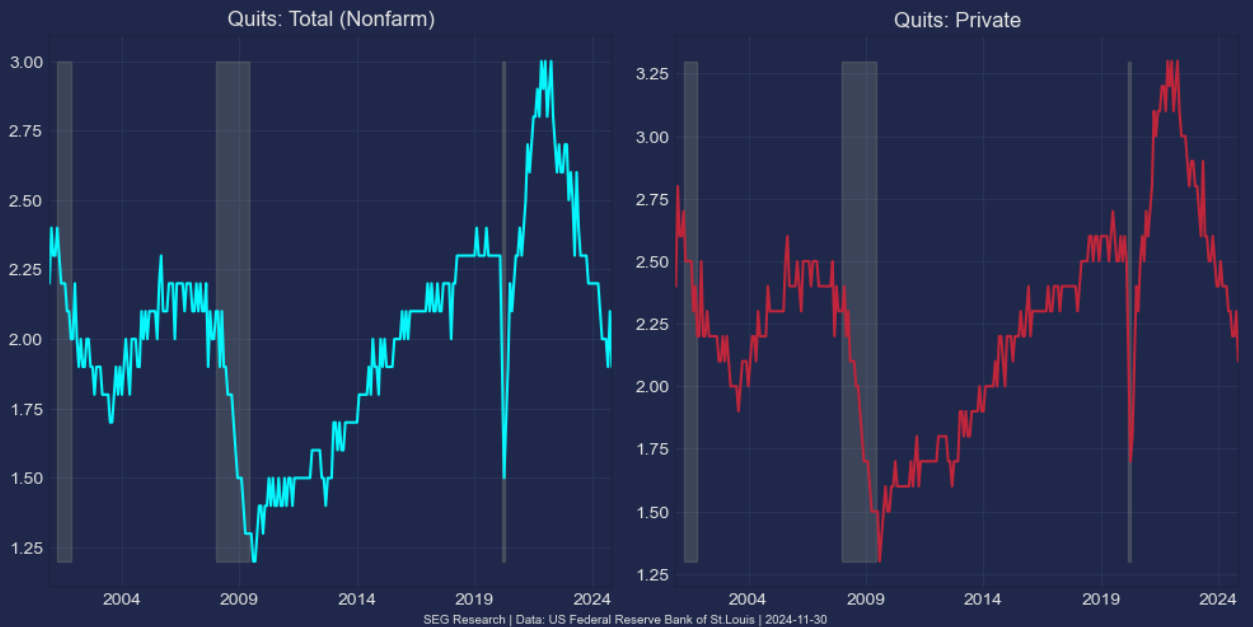
Hours: Overtime Non-Durable Goods



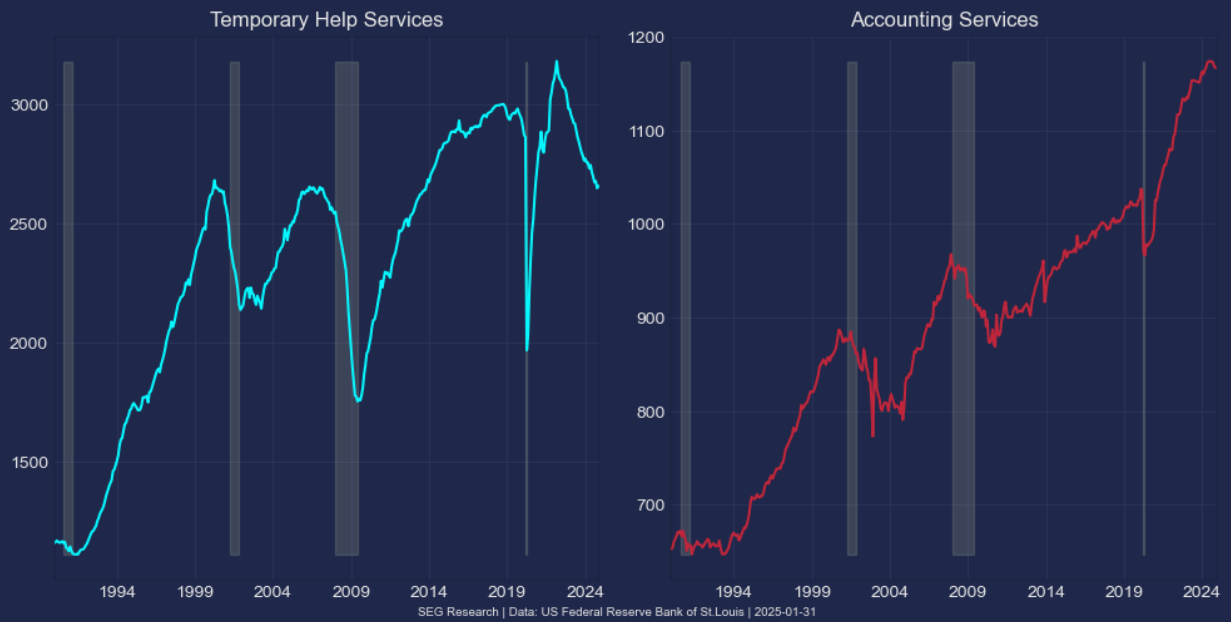
Job openings in the private sector have been declining fast for some time, and we are now seeing declines in government jobs. The new Department of Government Efficiency will likely accelerate the decline in government jobs.



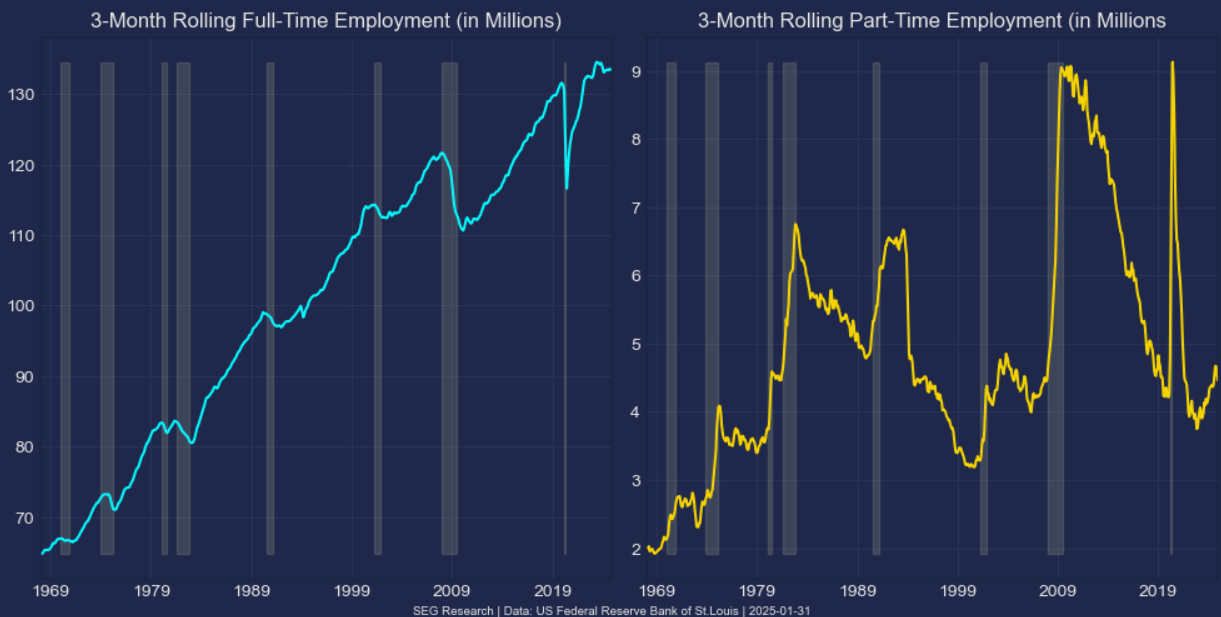
Job quits have also dropped below prior high.



Economically sensitive sectors such as temporary help employment have declined. Employment in accounting services also appears to have peaked.

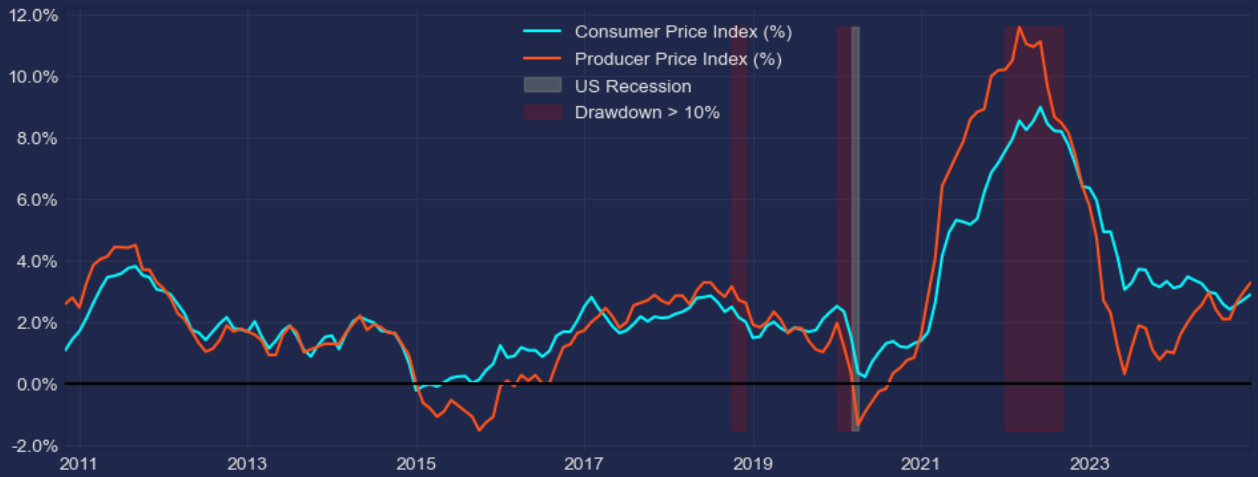


Furthermore, part-time employment typically does not rise in a strong labor market.



Inflation remains above the historical 2% target and rose during the last quarter of 2024.

Consumer Price & Producer Price Indices

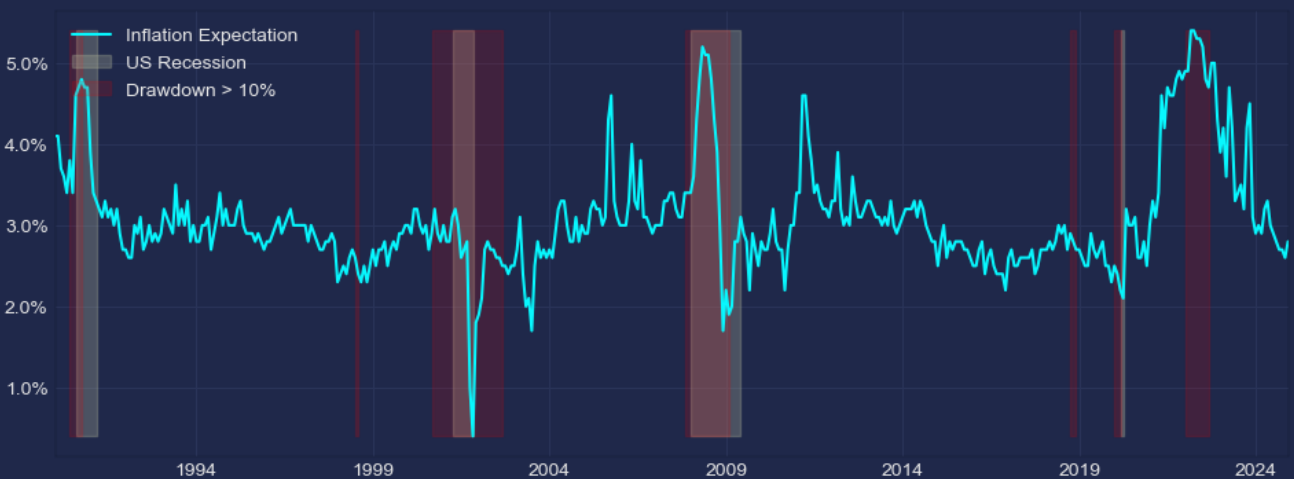


	2024-01	2024-02	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12
Consumer Price Index (%)	3.11	3.17	3.48	3.36	3.25	2.98	2.92	2.59	2.41	2.58	2.73	2.9
Producer Price Index (%)	0.99	1.61	1.99	2.33	2.55	2.96	2.41	2.09	2.1	2.66	2.99	3.29

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

However, consumer expectations of inflation have declined.

University of Michigan: Inflation Expectation



	2024-01	2024-02	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12
Inflation Expectations (%)	2.9	3.0	2.9	3.2	3.3	3.0	2.9	2.8	2.7	2.7	2.6	2.8

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

Commodity prices have stabilized.

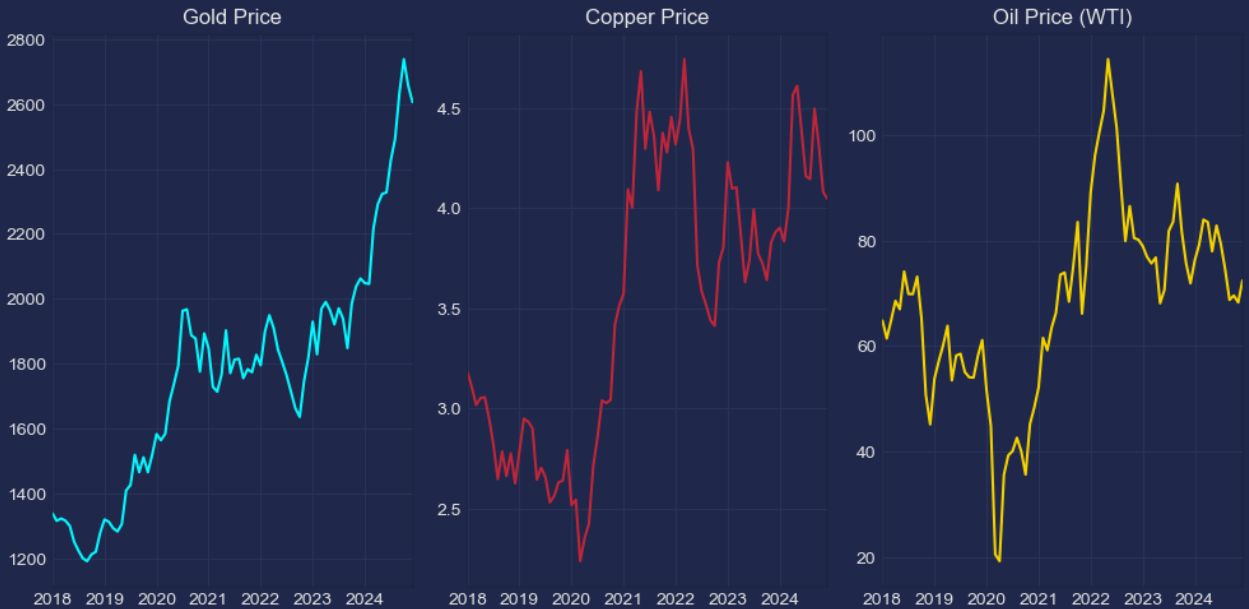
IMF Global Price Index of All Commodities



	2024-01	2024-02	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12
1-Year Percent Change (%)	-12.77	-9.12	-3.1	-0.21	7.36	8.22	5.21	1.8	-4.24	-0.84	0.64	4.35

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

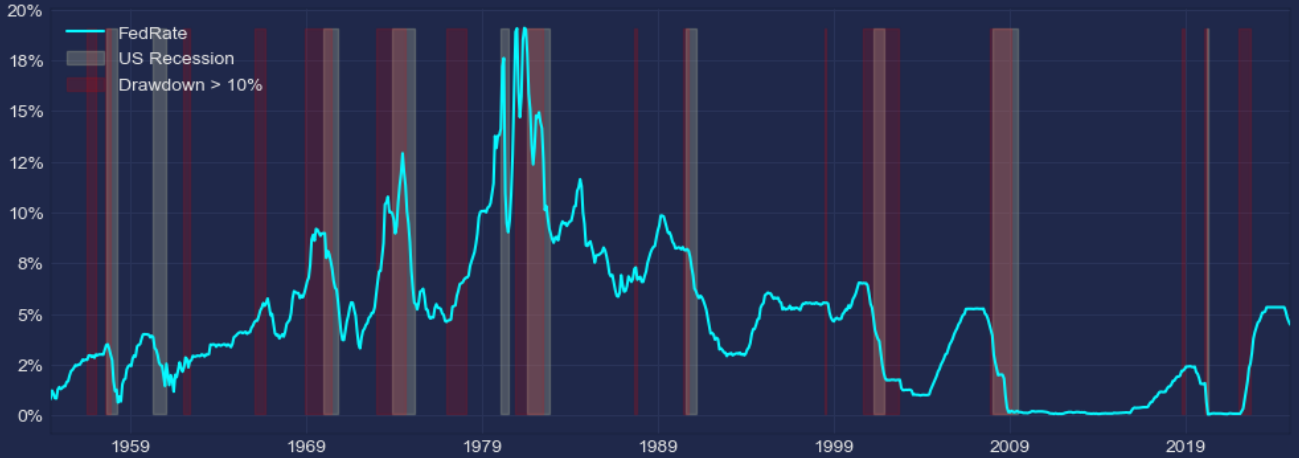
Gold prices have continued their ascent while economically sensitive commodities like copper and oil have faltered.



SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

After two rate cuts, the US Federal Reserve appears to halt additional interest rate cuts.

U.S. Federal Reserve Fund Rate

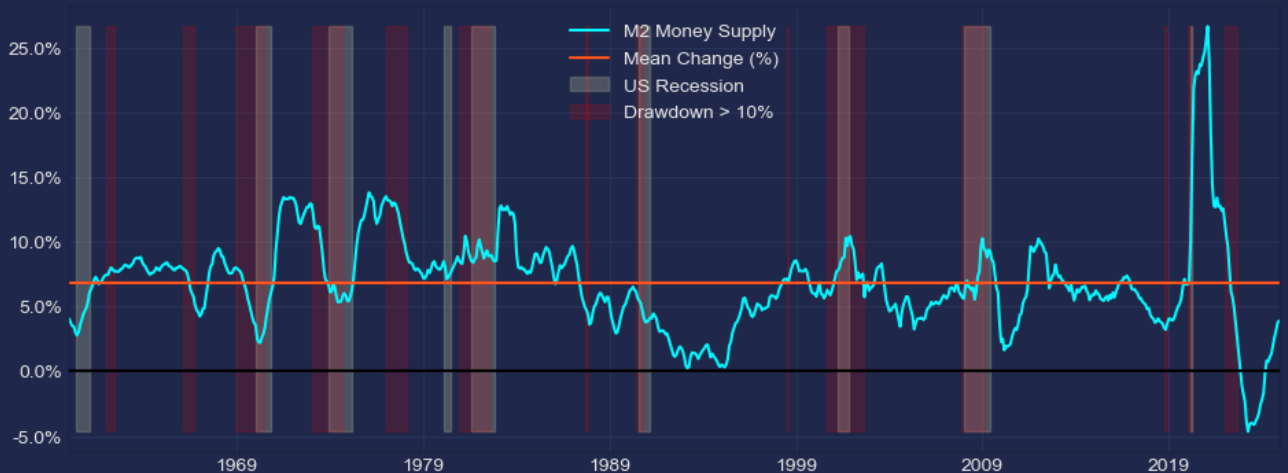


	2024-01	2024-02	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12
Fed Fund Rate (%)	5.33	5.33	5.33	5.33	5.33	5.33	5.33	5.33	5.13	4.83	4.64	4.48

SEG Research | Data: US Federal Reserve Bank of St.Louis | 12/31/2024

Money supply growth has turned positive, but it is not high by any standards.

M2 Money Supply

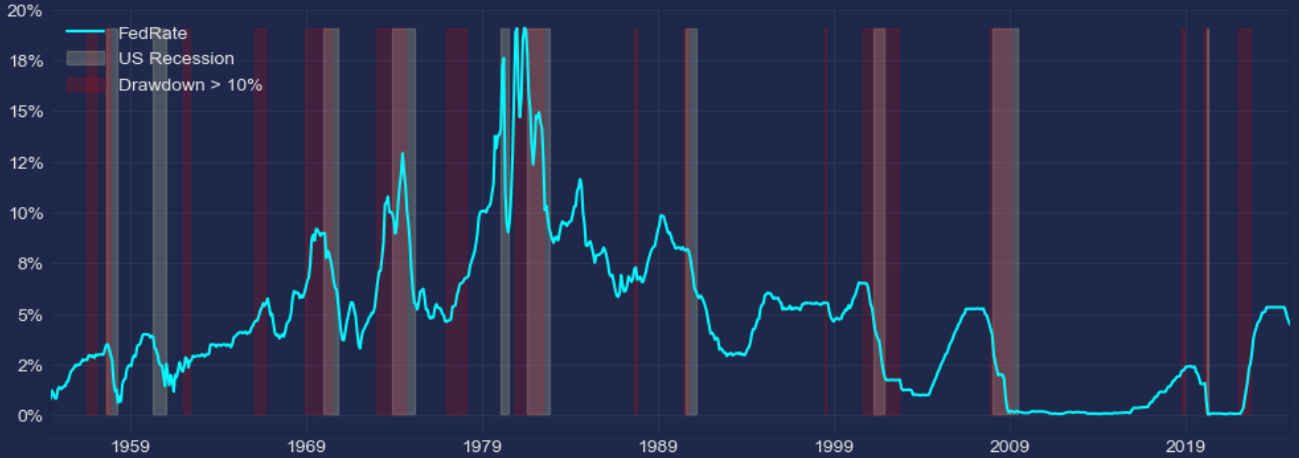


	2024-01	2024-02	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12
1-Year Percent Change (%)	-2.18	-1.68	-0.03	0.82	0.74	1.11	1.33	1.96	2.62	3.15	3.74	3.9

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

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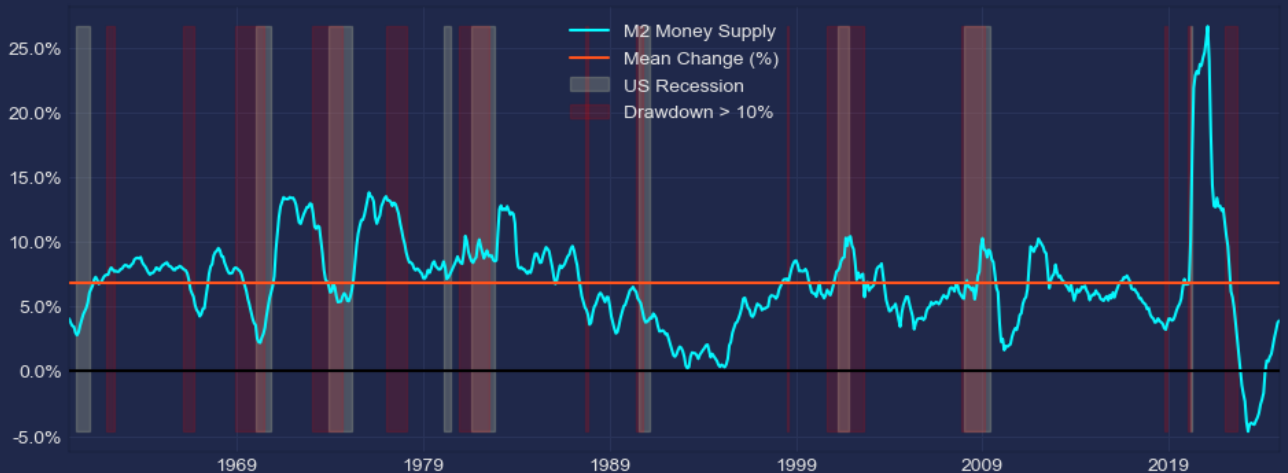


	2024-01	2024-02	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12
Fed Fund Rate (%)	5.33	5.33	5.33	5.33	5.33	5.33	5.33	5.33	5.13	4.83	4.64	4.48

SEG Research | Data: US Federal Reserve Bank of St.Louis | 12/31/2024

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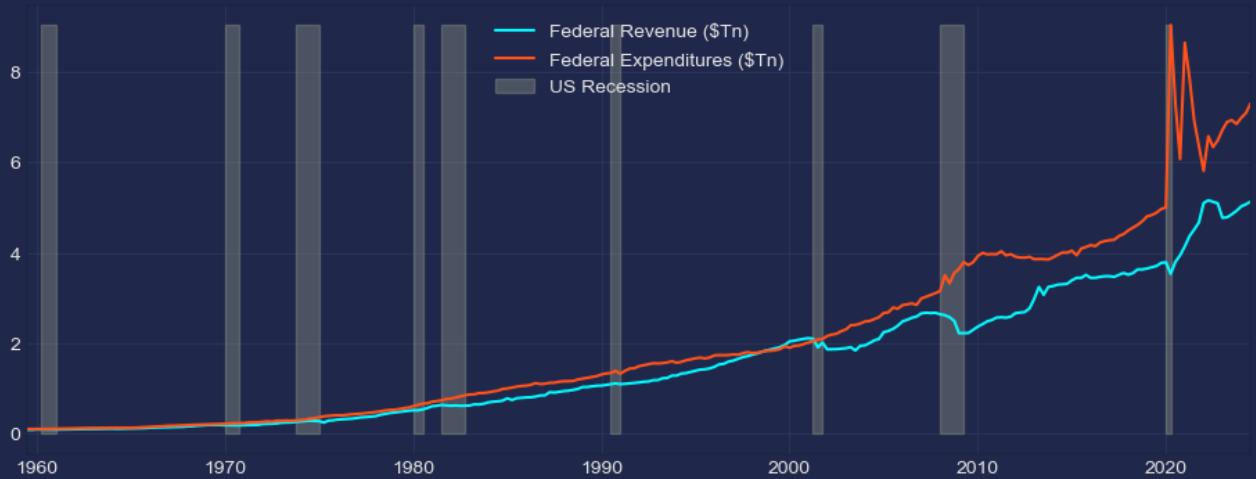


	2024-01	2024-02	2024-03	2024-04	2024-05	2024-06	2024-07	2024-08	2024-09	2024-10	2024-11	2024-12
1-Year Percent Change (%)	-2.18	-1.68	-0.03	0.82	0.74	1.11	1.33	1.96	2.62	3.15	3.74	3.9

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31

Federal spending has been out of control. The Department of Government Efficiency's target of \$2 trillion in spending cuts will bring expenditures in line with revenue. However, that is quite an uphill battle.

Federal Revenue vs Expenditures (in Trillions)

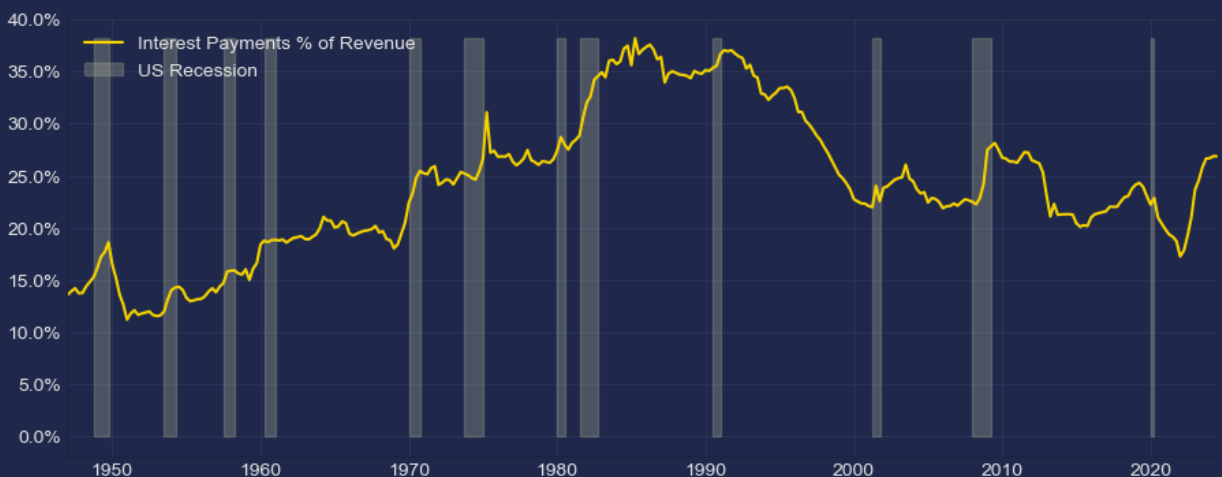


	2021-12	2022-03	2022-06	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09
Federal Revenue (\$Tn)	4.67	5.1	5.16	5.13	5.09	4.77	4.79	4.85	4.93	5.03	5.07	5.13
Federal Expenditures (\$Tn)	6.37	5.81	6.58	6.34	6.49	6.72	6.9	6.93	6.85	6.99	7.09	7.31

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-09-30

Interest expense on federal debt is climbing as older debt is refinanced at higher rates.

Interest Payments % of Federal Revenue

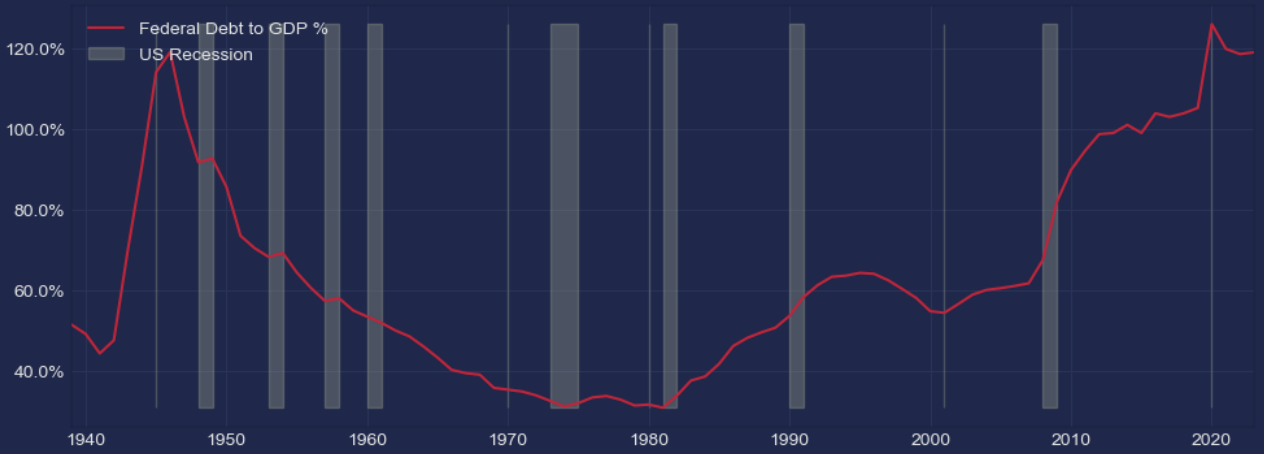


	2021-12	2022-03	2022-06	2022-09	2022-12	2023-03	2023-06	2023-09	2023-12	2024-03	2024-06	2024-09
Interest Payments % of Revenue	18.73	17.27	17.81	19.25	20.98	23.64	24.53	25.8	26.63	26.67	26.87	26.84

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-09-30

The federal debt has not been this high since World War II.

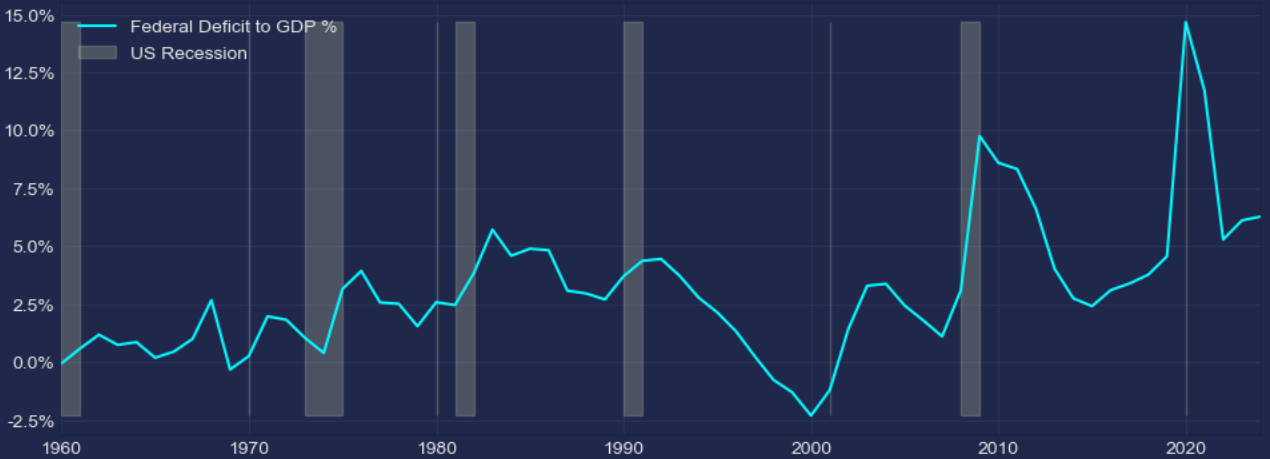
Federal Debt to GDP (%)



	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	2020-12	2021-12	2022-12	2023-12
Federal Debt to GDP %	98.75	99.04	101.06	99.04	103.91	103.03	103.9	105.24	125.98	119.87	118.58	119.0

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2023-12-31

Federal Deficit to GDP (%)



	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	2020-12	2021-12	2022-12	2023-12	2024-12
Federal Deficit to GDP %	4.03	2.75	2.42	3.11	3.39	3.77	4.57	14.67	11.72	5.29	6.12	6.28

SEG Research | Data: US Federal Reserve Bank of St.Louis | 2024-12-31