US Economic Weekly

Is the US economy re-accelerating?

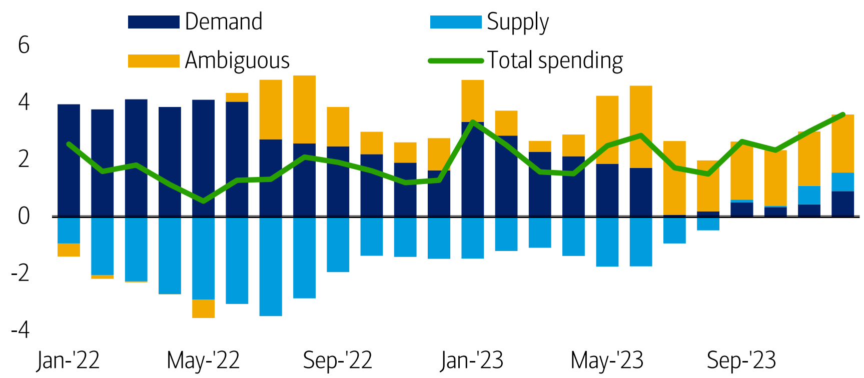
Weekly viewpoint

After blockbuster growth in 2H 2023, a crucial question for the outlook is whether economic momentum has carried into the new year. The January data have generally been positive, pointing to upside risks to our growth forecasts. What does this mean for inflation? From a bottom-up perspective, housing disinflation and used car deflation should keep a lid on inflation in coming months. From a top-down perspective, there seems to be broad agreement on the FOMC that supply expansion has aided disinflation. The question is whether demand is slowing or accelerating under the hood. Our analysis suggests that demand has been slowing. If this continues, it would be easier to cut rates.

Data preview

We expect a soft January retail sales report. We forecast a 0.3% drop in the ex-autos component and a 0.2% increase in the core control group. Unfavorable seasonal adjustments are likely to weigh on the reported spending data: this is payback for favorable seasonals in December. Moreover, widespread winter storms disrupted retail spending in January. Sifting out the noise, however, the consumer looks healthy, with upside risks to spending from accelerating real wages.

Exhibit 1: Supply and demand drivers of real spending growth (% 6m annualized)
Recent strong spending growth has been mostly due to supply expansion



Source: BofA Global Research, BEA, Haver, Federal Reserve Bank of San Francisco

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09 February 2024

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PCE: Personal Consumption Expenditures

CPI: Consumer Price Index

GDP: Gross Domestic Product

BTFP: Bank Term Funding Program

Is the US economy re-accelerating?

- After blockbuster growth in 2H 2023, the January data flow generally points to continued economic momentum in January.
- The inflation outlook is mixed: we see downside risks to housing and used cars in coming months, but upside risks to growth could mean slower disinflation.
- Our analysis suggests that most of the recent strength in consumer spending has been due to supply expansion.

Has economic momentum carried over into the new year?

January job growth: seasonal disturbance

After 4Q 2023 GDP growth came in well above expectations at 3.3% q/q saar, investors have been watching the January data to see if the economy will keep growing above trend in the new year. First up, nonfarm payrolls surged by 353k in January. Payrolls typically shrink by at least 1.5% (i.e., 2.4mn based on current levels) on a raw basis in the month of January due to seasonal layoffs. But in recent years, the magnitude of the seasonal downshift has diminished (Exhibit 2). This could be related to the changes in consumer spending patterns and, more recently, labor hoarding. The question is whether seasonal factors have caught up to this trend. If not, seasonally adjusted January payroll growth would be unduly strong, and not representative of underlying economic trends.

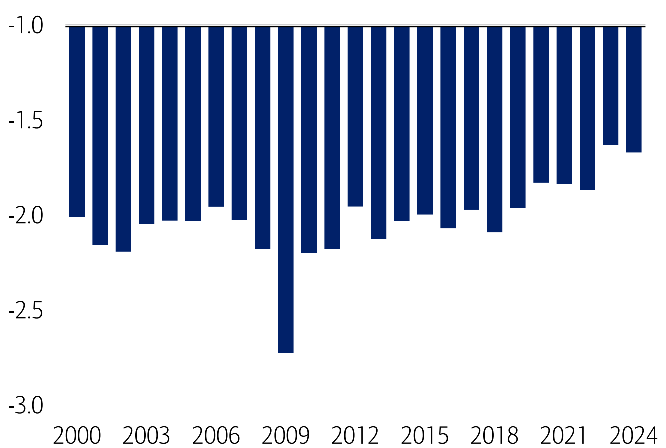
Other January data: choppy, but generally positive

Average hourly earnings rose by 0.6% m/m in January, although the index of weekly payrolls (essentially jobs x hours x wages) only increased by 0.2% because of a sharp drop in hours. Still, upward revisions to jobs and wages in prior months mean the index is up 5.2% annualized over the last three months.

We forecast a soft January retail sales report, with the ex-autos component contracting by 0.3% m/m and the core control group rising 0.2%. Weak January retail spending is likely to weigh on 1Q GDP. But the good news is that we attribute this expected weakness to unfavorable seasonal adjustments and winter weather disruptions, rather than deteriorating consumer fundamentals.

In terms of the other January data, the manufacturing ISM jumped to its highest level since January, although it remains in contractionary territory. Consumer sentiment increased to a two-and-a-half year high, and the Conference Board's CEO Confidence Survey moved into expansionary territory for the first time in two years (Exhibit 3).

Exhibit 2: Nonfarm payroll growth in the month of Jan (% m/m NSA)
The seasonal downshift in payrolls in January has reduced in recent years



Source: Bureau of Labor Statistics (BLS)

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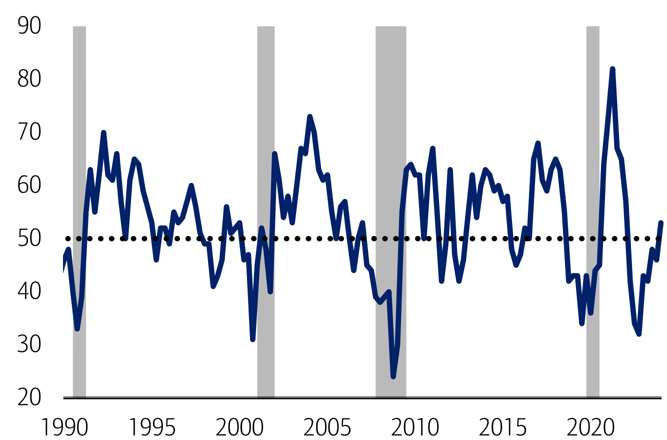
Exhibit 3: Conference Board CEO Confidence Index (50+ = positive)
CEO confidence turned positive for the first time in two years



Source: Conference Board

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Bottom line: activity is slowing... slowly

The January activity data point to upside risks to our 1Q GDP growth forecast of 1.0%. Although a repeat of the 4%-plus growth from 2H 2023 seems unlikely, as growth stays at or above trend there is a risk that inflation could re-accelerate or at least get stuck significantly above the Fed's 2 percent target.

Fed implications

Uncertainty about the last mile on inflation

Core PCE inflation is down to 2.9% y/y and is below 2% on a three- and six-month basis. Favorable base effects should lower the y/y rate by at least a few tenths in the next few months. But can we get all the way down to 2%? Some spot rental inflation indicators are pointing to a sharp drop in housing inflation in coming months, which could get core PCE inflation back to 2% before year-end (Exhibit 4; see US Viewpoint: Rent inflation to moderate but regional differences persist). Another leg of used car deflation, which appears to be in the pipeline based on wholesale price data, should also help.

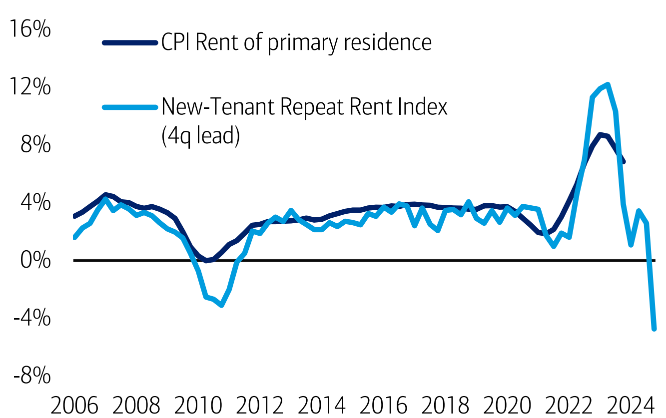
On the flip side, however, the prices paid index of the January services ISM spiked to its highest level since last February. This points to upside risks to ex-housing services inflation (Exhibit 5), although we would caution against reading too much into a single data point, especially when it is not clear how much of the reported increase in costs will be passed on the consumers vs. absorbed in margins.

Boiling the outlook down to Econ 101

The FOMC appears to be split between those who think the Fed does not necessarily need to cut in March because the economy is holding up well, and those who think it would be a mistake to cut in March because the economy is at risk of overheating. Our assessment is that Chair Powell and possibly Governor Waller are in the first camp.

We think both groups agree that expansion in aggregate supply has aided disinflation and supported growth. But they seem to disagree on demand. Implicit to the first view is the idea that demand is probably slowing, but its impact on growth has been swamped by supply. The second group is concerned that demand is accelerating or is at risk of doing so. Therefore, if supply conditions were to stop improving, inflation could stall or even re-accelerate. Our analysis supports the first point of view. We find that demand-driven consumer spending growth is slowing, while supply has gone from a significant headwind to a moderate tailwind (Exhibit 1). This is why we remain comfortable with our June rate cut forecast despite growing upside risks to economic activity.

Exhibit 4: CPI rent inflation vs. New-Tenant Repeat Rent Index (%y/y)
Researchers at the Cleveland Fed have found that the New Tenant Repeat Rent Index leads CPI rent inflation by four quarters



Source: BLS, Federal Reserve Bank of Cleveland

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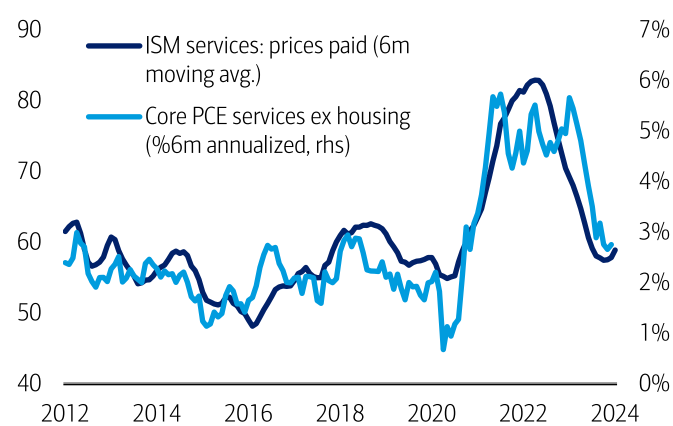
Exhibit 5: ISM services prices paid vs core PCE services ex housing
The spike in ISM services prices paid in Jan could point to a pickup in services inflation



Source: ISM, Bureau of Economic Analysis (BEA), Haver

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US GDP Tracking

4Q GDP tracking down one-tenth to 3.4% q/q saar

January payrolls came in higher than expected along with upward revisions to the past two months. The payrolls of residential remodelers and state-and-local employment were both stronger than expected. This led to an increase in our residential investment and government tracking estimate for 4Q.

Core capital goods orders and shipments, which feed into our GDP tracking printed a tenth lower than the December preliminary report. This led to a small decline in our equipment tracking estimate. Also, manufacturing inventories came in lower than expected through December, reducing our 4Q inventory accumulation tracking. The increase in the trade December trade deficit was in line with our expectations and the advance goods trade balance print, leading to a small decline in our net exports estimate. Wholesale inventories in December came in lower than expected, thereby reducing our inventory tracking estimate.

Overall, this pushed down our 4Q US GDP tracking from 3.5% q/q saar as of our last weekly publication to 3.4% q/q saar. Next week, we will start 1Q GDP tracking with the January advance retail sales print. Also, December business inventories, January import price index, industrial production, housing starts and permits and producers price index will impact 4Q and 1Q GDP tracking.

Exhibit 6: BofA US GDP tracking estimate (% q/q saar)

4Q US GDP tracking is down one-tenth to 3.4% q/q saar largely due to lower-than-expected wholesale inventories in December

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
2/1/24	Construction Spending	**3.5**	**3.0**	2.8	**1.5**	**5.8**	1.0	2.1	**4.1**	6.3	1.9	-908.2	82.7
2/2/24	Payrolls	3.5	3.0	2.8	**1.9**	5.8	1.0	2.1	4.1	6.3	1.9	-908.2	82.7
2/2/24	Factory Orders	3.5	3.0	2.8	1.9	5.8	**0.9**	2.1	4.1	6.3	1.9	-908.2	**80.7**
2/7/24	Trade Balance	3.5	3.0	2.8	1.9	5.8	0.9	2.1	4.1	**6.7**	**2.4**	**-910.0**	80.7
2/8/24	Wholesale Inventories	**3.4**	3.0	2.8	1.9	5.8	0.9	2.1	4.1	6.7	2.4	-910.0	**76.7**
	GDP tracking	3.4	3.0	2.8	1.9	5.8	0.9	2.1	4.1	6.7	2.4	-910.0	76.7
	Contribution to GDP growth (pp)			1.9	0.1	0.2	0.0	0.1	0.7			0.4	0.0
	BofA official GDP forecast	1.5	2.5	2.0	1.0	3.5	2.5	2.5	2.0	2.5	2.0	-929.0	29.5

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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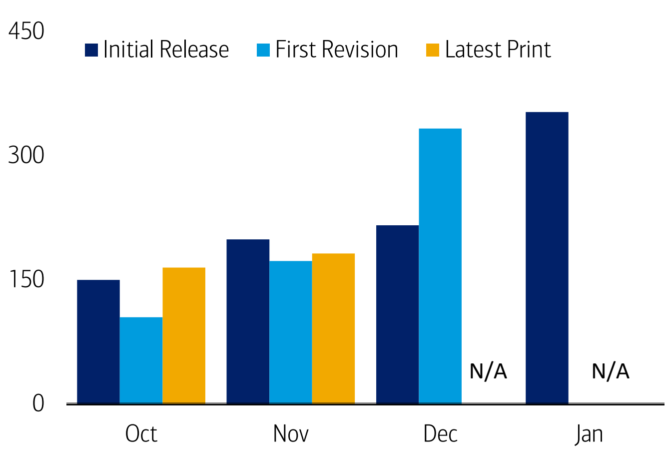
Exhibit 7: Nonfarm Payrolls (monthly change, SA, in thousands)

January payrolls came in higher than expected along with upward revisions to the past two months



Source: Bloomberg

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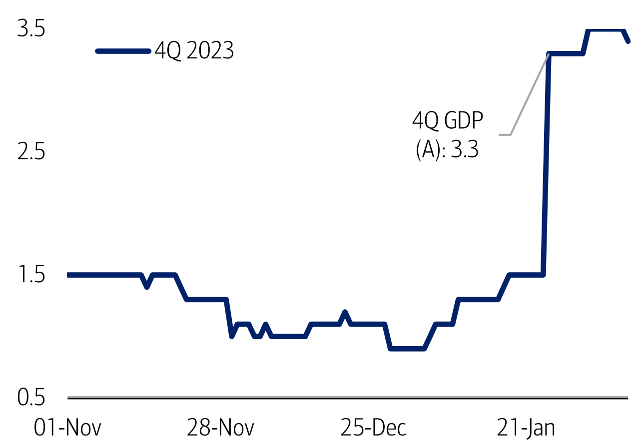
Exhibit 8: GDP tracking evolution (% q/q, SAAR)

4Q GDP tracking is down one-tenth to 3.4% q/q saar



Source: BofA Global Research

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Data in the past week

February 5th – February 9th
This week the focus was on ISM Services, SLOOS, CPI Revisions

Date	Time	Indicator	Period	Actual	Consensus	Previous
2/05/24	9:45	S&P Global US services PMI	Jan F	52.5	52.9	52.9
2/05/24	10:00	ISM Services	Jan	53.4	52.0	50.5
2/05/24	14:00	SLOOS results	—	—	—	—
2/07/24	7:00	MBA Mortgage Applications	Feb 2	3.7%	—	-7.2%
2/07/24	8:30	Trade Balance	Dec	-$62.2bn	-$62.0b	-$61.9b
2/07/24	15:00	Consumer Credit	Dec	$1.6b	$16.0b	$23.5b
2/08/24	8:30	Initial Jobless Claims	Feb 03	218k	220k	227k
2/08/24	10:00	Wholesale Inventories	Dec F	0.7%	0.3%	-0.1%
2/09/2024	—	CPI Revisions	—	—	—	—

Source: Bloomberg, BofA Global Research

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Data in the week ahead

February 12th – February 16th
This week the focus is on CPI, retail sales, and PPI

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
2/12/24	14:00	Monthly Budget Statement	Jan	-$40bn	—	-$129.4bn
2/13/24	6:00	NFIB Small Business Optimism	Jan	—	—	91.9
2/13/24	8:30	Consumer Price Index (yoy)	Jan	—	2.9%	3.4%
2/13/24	8:30	CPI Ex Food & Energy (yoy)	Jan	—	3.7%	3.9%
2/13/24	8:30	Consumer Price Index (mom)	Jan	—	0.2%	0.3%
2/13/24	8:30	CPI Ex Food & Energy (mom)	Jan	—	0.3%	0.3%
2/14/24	7:00	MBA Mortgage Applications	Feb 9	—	—	3.7%
2/15/24	8:30	Initial Jobless Claims	Feb 10	212k	—	218k
2/15/24	8:30	Empire Manufacturing	Feb	-20.0	-10.0	-43.7
2/15/24	8:30	Import Price Index (mom)	Jan	0.4%	-0.1%	0.0%
2/15/24	8:30	Import Price Index ex Petroleum (mom)	Jan	0.1%	—	0.0%
2/15/24	8:30	Advance Retail Sales	Jan	-0.6%	-0.1%	0.6%
2/15/24	8:30	Retail Sales Less Autos	Jan	-0.3%	0.1%	0.4%
2/15/24	8:30	Retail Sales Less Autos and Gas	Jan	-0.2%	0.3%	0.6%
2/15/24	8:30	Core Control	Jan	0.2%	0.2%	0.8%
2/15/24	9:15	Industrial Production	Jan	0.1%	0.4%	0.1%
2/15/24	9:15	Manufacturing Production	Jan	0.0%	—	0.1%
2/15/24	9:15	Capacity Utilization	Jan	78.6%	79.0%	78.6%
2/15/24	10:00	Business Inventories	Dec	—	0.4%	-0.1%
2/15/24	10:00	NAHB Housing Market Index	Feb	46	—	44
2/15/24	16:00	Net Long-term TIC Flows	Dec	—	—	$126.1bn
2/16/24	8:30	Housing Starts	Jan	1490k	1470k	1460k
2/16/24	8:30	Building Permits	Jan	1520k	1515k	1493k
2/16/24	8:30	Producer Price Index (mom)	Jan	0.0%	0.1%	-0.1%
2/16/24	8:30	PPI Ex Food & Energy (mom)	Jan	0.2%	0.1%	0.0%
2/16/24	8:30	PPI Ex Food, Energy, Trade (mom)	Jan	0.1%	—	0.2%
2/16/24	10:00	U. of Michigan Sentiment	Feb P	80.0	79.0	79.0

Source: BofA Global Research, Bloomberg

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Federal Reserve Speakers

Exhibit 9: Upcoming policy speakers
Key speaking engagements and news events*

Date	Time	Speaker
Feb 12	12:00	Fed's Barkin (voter) Speaks at Atlanta Economics Club Event
Feb 12	13:00	Fed's Kashkari Moderates Economic Club of Minnesota Discussion
Feb 14	9:30	Fed's Goolsbee Speaks in Q&A
Feb 14	16:00	Fed's Barr (voter) Speaks at NABE Conference
Feb 15	19:00	Fed's Bostic (voter) Speaks on Outlook, Policy
Feb 16	12:10	Fed's Daly (voter) Speaks at NABE Conference

Source: Bloomberg

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Exhibit 10: Summary of Fed speak in the previous week
Below is a summary of key quotes from Fed speakers over the past weeks

Speaker	Date	Quote
Barkin (Richmond)	8-Feb	"Given robust demand and a historically strong labor market, we have time to build that confidence before we begin the process of toggling rates down."
Kugler (Governor)	7-Feb	"If progress on disinflation stalls, it may be appropriate to hold the target range steady at its current level for longer to ensure continued progress on our dual mandate."
Collins (Boston)	7-Feb	"It will likely become appropriate to begin easing policy restraint later this year."
Mester (Cleveland)	6-Feb	"It would be a mistake to move rates down too soon or too quickly without sufficient evidence that inflation was on a sustainable and timely path back to 2%."
Harker (Philadelphia)	6-Feb	"Now certainly we haven't touched down, and we're going to have to keep our seatbelts on, but with inflation continuing to fall back to our 2% target, with employment remaining strong, and with consumer sentiment looking up, the runway at our destination is in sight."
Powell (Chair)	4-Feb	"The prudent thing to do is to, is to just give it some time and see that the data continue to confirm that inflation is moving down to 2% in a sustainable way."
Waller (Governor)	16-Jan	"As long as inflation doesn't rebound and stay elevated, I believe the FOMC will be able to lower the target range for the federal funds rate this year." "When the time is right to begin lowering rates, I believe it can and should be lowered methodically and carefully."

Source: Bloomberg

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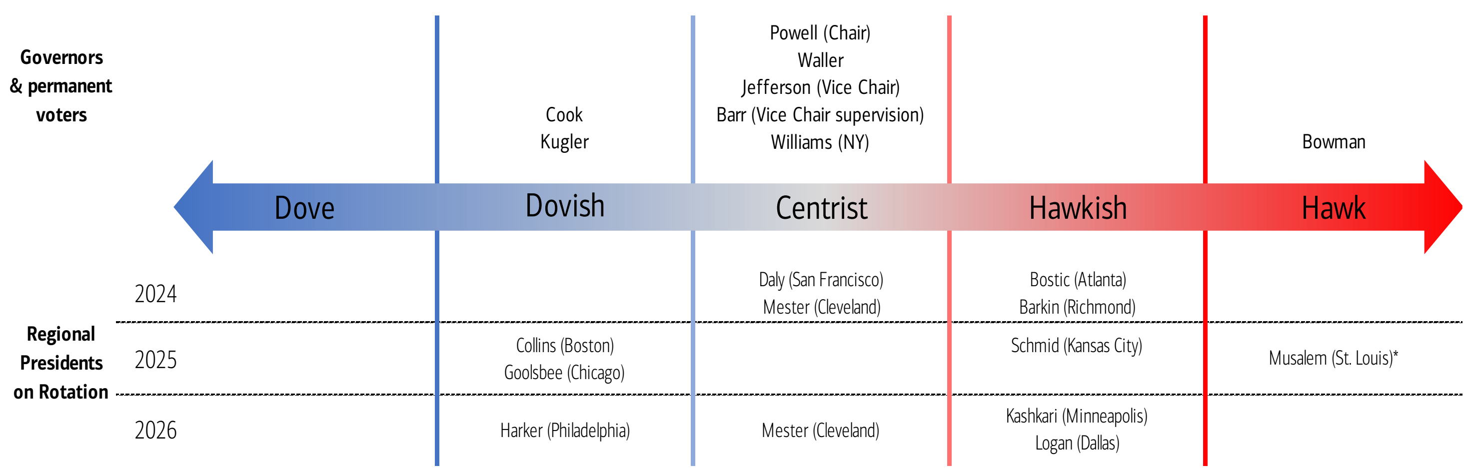
Exhibit 11: BofA US Economics Dove-Hawk chart
This year the regional presidents voting on the FOMC (Federal Open Market Committee) will be Daly, Mester, Bostic and Barkin



Source: BofA Global Research

*Musalem was recently announced as President of the St. Louis Fed. We have yet to hear him comment on monetary policy. Therefore, this is a preliminary placement.

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Federal Reserve Balance Sheet

The balance sheet fell by $55.2bn in the past four weeks

The Fed continues to let up to $60bn of maturing Treasury securities roll off its balance sheet each month, while also reducing holdings of agency mortgage-backed securities by up to $35bn. In the week ending February 7, the Fed's balance sheet increased by $2.0bn (H.4.1 Exhibit 12). In the past four weeks, the balance sheet has shrunk by $55.2bn. Balance sheet runoff continues to reduce take-up in the overnight reverse repo facility (ON RRP), which has fallen by $151.0bn over the past four weeks.

Lending through the BTFP decreased by $0.4bn to $164.9bn. That BTFP balances declined as of February 7 is a positive sign in light of recent troubles at New York Community Bancorp. The Fed officially announced the BTFP will end on March 11, in line with our expectations (see BTFP to expire on schedule) and raised the rate for new BTFP loans which will now be equal to the interest rate on reserve balances at the time of the new loan.

Exhibit 12: The balance sheet of the Federal Reserve ($bn, Wednesday, end of period values)
Factors affecting reserve balances of depository institutions (H.4.1 Table 1)

$bn, Wednesday, end of period values	07 Feb	7-day chg	4 week chg	Chg since June 1, 2022
Supplying reserve funds (Federal Reserve assets)				
Reserve Bank credit outstanding	7595.1	2.0	-55.2	-1283.5
Securities held outright	7112.1	-0.1	-73.5	-1368.5
US Treasuries	4692.6	-0.1	-58.9	-1078.2
Federal Agency	2.3	0.0	0.0	0.0
Mortgage-backed securities	2417.2	0.0	-14.6	-290.3
Unamortized premiums on securities held outright	275.6	-0.5	-2.6	-61.6
Unamortized discounts on securities held outright	-25.5	0.0	0.2	-1.0
Repurchase agreements	0.0	0.0	0.0	0.0
Foreign official (FIMA repo facility)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Loans	170.5	-1.2	17.8	149.8
of which:				
Discount window (primary and secondary credit)	2.3	-0.9	0.2	1.5
Paycheck protection program (PPPLF)	3.3	0.0	-0.1	-16.5
Bank Term Funding Program (BTFP)	164.9	-0.4	17.7	164.9
Other credit extensions	0.0	0.0	0.0	0.0
Other factors supplying reserve funds	62.5	3.9	2.9	-2.3
Total factors supplying reserve funds	7682.1	1.9	-55.4	-1282.3
Absorbing reserve funds (Federal Reserve liabilities)				
Currency in circulation	2327.4	0.4	-13.1	47.4
Reverse repo agreements	890.2	-87.4	-151.0	-1340.4
Foreign official accounts	337.1	-25.1	-24.1	71.6
Others	553.1	-62.3	-126.9	-1412.0
Treasury cash holdings	0.4	0.0	0.0	0.3
Other deposits with Federal Reserve Banks	993.4	-57.2	100.5	-35.0
of which:				
Treasury General Account	821.6	-43.9	93.7	41.0
Treasury contributions to credit facilities	7.4	0.0	0.0	-10.5
Other Federal Reserve liabilities and capital	-92.5	2.0	-10.2	-142.5
Factors absorbing reserves, other than reserves	4126.4	-142.2	-73.8	-1480.6
Reserve balances with Federal Reserve banks	3555.7	144.0	18.4	198.3

Source: Federal Reserve, Haver Analytics, BofA Global Research. Note: Quantitative tightening began on June 1, 2022.

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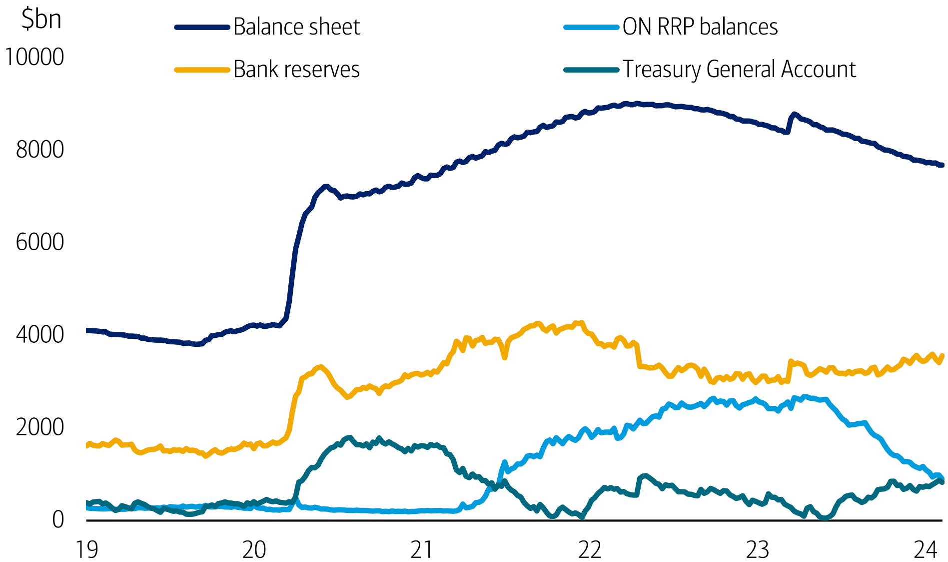
Exhibit 13: The balance sheet, ON RRP balances, bank reserves, and Treasury General Account ($bn)
Nearly all the drain in liquidity from balance sheet runoff has shown up in lower ON RRP balances while bank reserves have been largely stable



Source: Federal Reserve, Haver Analytics, BofA Global Research

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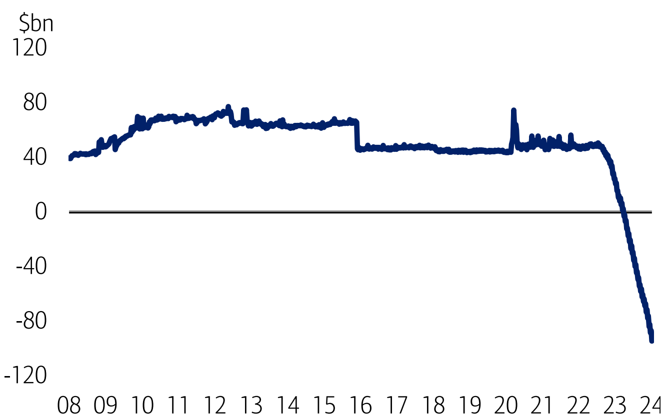
Losses on the Fed's balance sheet: The Fed continues to pay more in interest on reserves than it earns on its securities holdings. Earnings that are retained to cover this loss are booked as a negative liability on the balance sheet under "interest on Federal Reserve Notes due to the US Treasury" in the line item "other Federal Reserve liabilities and capital". The cumulative value of the shortfall in earnings (the "deferred asset") is $92.5bn.

Exhibit 14: Other Federal Reserve Liabilities and Capital ($bn)
Federal Reserve losses are mounting



Source: Federal Reserve, Haver Analytics, BofA Global Research

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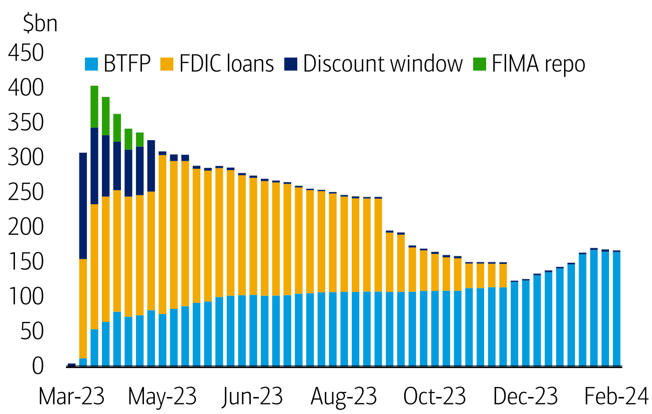
Exhibit 15: Federal Reserve Emergency Lending Facilities ($bn)
Lending through the BTFP saw its first decline since late Nov



Source: Federal Reserve, Haver Analytics, BofA Global Research

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Core views

Growth: Soft landing

- After the higher-than-expected 4Q advance GDP print, we continue to expect a soft landing for the US economy. Earlier, we had marked up our forecast for growth in private consumption while maintaining a slowdown in non-consumer related components like residential investment, nonresidential investment, and government spending. We continue to expect growth in real US GDP of 1.2% 4Q/4Q in 2024, up 0.6pp, and 2.0% in 2025 (See report: Sticking the landing).

Inflation: Moving in the right direction, but sticky

- PCE inflation falls to 2.0% y/y in 3Q25. Core PCE will now likely fall below 3% y/y by 1Q24. But the road to 2% will likely be slower due to sticky core services ex-housing inflation. We expect core PCE to fall to a slightly above target 2.4% y/y by 4Q24.

Federal Reserve policy rates: Need for "greater confidence" to start easing

- At the January FOMC meeting press conference, Chair Powell significantly raised the bar for a March cut by saying, "I don't think it is likely that the committee will reach a level of confidence by the time of the March meeting". He also said that the Fed has confidence in the outlook but needs "greater confidence" before it starts normalizing its policy stance. We now look for the rate cut cycle to begin in June and expect 25bp rate cuts in June, September, and December This would mean 75bp of rate cuts this year and we retain our view of 100bp of rate cuts in 2025 (See report: US Watch: January FOMC: March is no longer the base case).

Federal Reserve balance sheet: May start of taper

- After the January FOMC meeting, we push out the timing of our expected QT (Quantitative Tightening) slowdown announcement from the March FOMC meeting to the May FOMC meeting. In addition to altering the timing of tapering, we also adjust the path of QT slowdown. We no longer expect a $15b/m taper in the US Treasury redemption cap at each FOMC meeting. Instead, we now expect a reduction in the Treasury redemption cap from $60b/m to $30b/m and for this to remain open-ended. Our view is that it can remain at this level until end '24. (See report: US Watch: January FOMC: March is no longer the base case).

Structurally higher US interest rates? Think again.

- Our estimate of the neutral real policy rate is hovering around 40bp. During the decade following the global financial crisis, our estimate of the real neutral rate was negative or close to zero. If the post-pandemic surge in participation proves short lived and productivity does not accelerate, then any rise in the neutral rate of interest in the US economy is likely to be modest at best and could prove temporary. This would mean the zero lower bound remains a constraint on monetary policy and the terminal rate in any easing cycle could be lower than we expect (See report: Structurally higher US interest rates? Think again).

Labor markets: The virtuous cycle continues

- The post-pandemic surge in labor force participation has led to a surge in total hours, and supported growth in disposable income, helping to keep consumer spending elevated despite higher interest rates. We think this has some further room to run in 2024 but foresee the participation rate drifting down toward its underlying demographic trend in 2025 and beyond (See report: Structurally higher US interest rates? Think again).

Fiscal policy: Caution: drag ahead

- Fiscal policy bills and other idiosyncratic factors contributed to resiliency of the economy in 2023. However, the impulse to growth should turn negative in 2024. Fiscal sustainability is an ongoing concern that could be exacerbated by higher interest rates (See report: Fiscal impulse: running out of steam).

Economic forecast summary

Exhibit 16: BofA US economic outlook
We continue to expect a soft landing for the US economy

	1Q 23	2Q 23	3Q 23	4Q 23	1Q 24	2Q 24	3Q 24	4Q 24	1Q 25	2Q 25	3Q 25	4Q 25	2022	2023	2024	2025
Real Economic Activity, % SAAR																
Real GDP	2.2	2.1	4.9	3.3	1.0	1.0	1.5	1.5	2.0	2.0	2.0	2.0	1.9	2.5	2.1	1.8
% Change, Year Ago	1.7	2.4	2.9	3.1	2.8	2.5	1.7	1.2	1.5	1.7	1.9	2.0				
Final Sales	4.6	2.1	3.6	3.2	1.5	1.0	1.5	1.5	2.0	2.0	1.5	1.5	1.3	2.9	2.0	1.6
Domestic Demand	3.8	2.0	3.5	2.8	1.5	1.0	1.5	1.5	2.0	2.0	2.0	2.0	1.7	2.2	1.9	1.7
Consumer Spending	3.8	0.8	3.1	2.8	1.5	1.5	1.5	1.5	2.0	2.0	2.0	2.0	2.5	2.2	1.9	1.8
Residential Investment	-5.3	-2.2	6.7	1.2	-0.5	-0.5	1.5	2.0	2.5	2.5	2.5	2.5	-9.0	-10.7	1.0	2.2
Nonresidential Investment	5.7	7.4	1.5	1.9	1.0	1.0	2.0	2.0	2.0	2.0	2.0	2.0	5.2	4.4	1.8	2.0
Structures	30.3	16.1	11.2	3.7	-1.0	-1.0	1.0	1.0	1.5	1.5	2.0	2.0	-2.1	12.7	2.6	1.4
Equipment	-4.1	7.7	-4.4	2.7	1.0	1.0	1.5	1.5	2.0	2.0	2.0	2.0	5.2	-0.1	0.8	1.9
Intellectual Property	3.8	2.7	1.8	2.7	2.0	2.0	2.0	2.5	2.5	2.5	3.0	3.0	9.1	4.3	2.2	2.5
Government	4.8	3.3	5.8	3.3	1.0	0.5	0.5	1.0	1.0	1.0	1.0	1.0	-0.9	4.0	2.0	0.8
Exports	6.8	-9.3	5.4	2.7	1.0	1.0	1.5	1.5	2.0	2.0	2.5	2.5	7.0	2.7	2.0	1.8
Imports	1.3	-7.6	4.2	1.8	1.5	1.5	1.5	1.5	2.0	2.0	2.0	2.0	8.6	-1.7	1.2	1.7
Net Exports (Bil 12$)	-935	-928	-931	-908	-912	-917	-919	-922	-926	-930	-933	-936	-1051	-926	-917	-931
Contribution to growth (ppts)	0.6	0.0	0.0	0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	0.5	0.1	0.0
Inventory Accumulation (Bil 12$)	27.2	14.9	77.8	82.7	67.5	60.5	57.5	64.5	73.5	82.5	97.5	112.5	128.1	50.7	62.7	91.7
Contribution to growth (ppts)	-2.2	0.0	1.3	0.1	-0.3	-0.1	-0.1	0.1	0.2	0.1	0.2	0.2	0.6	-0.4	0.1	0.1
Nominal GDP (Bil $, SAAR)	26814	27063	27610	27939	28168	28408	28701	28975	29306	29621	29929	30245	25744	27356	28563	29775
% SAAR	6.2	3.8	8.4	4.9	3.3	3.5	4.2	3.9	4.7	4.4	4.2	4.3	9.1	6.3	4.4	4.2
Key Indicators																
Fed Funds Rate (midpoint, % EOP)	4.875	5.125	5.375	5.375	5.375	5.125	4.875	4.625	4.375	4.125	3.875	3.625	4.375	5.375	4.625	3.625
Industrial Production (% SAAR)	-0.3	0.8	1.7	-2.9	0.0	0.5	0.0	0.5	1.0	1.5	1.5	1.5	3.4	0.2	-0.2	0.8
Capacity Utilization (%)	79.5	79.4	79.5	78.6	78.5	78.5	78.5	78.5	79.0	79.0	79.0	79.5	80.3	79.3	78.6	79.1
Nonfarm Payrolls (Avg mom ch, 000s)	305	274	213	227	176	75	75	100	100	125	125	150	377	255	107	125
Civilian Unemployment Rate (%)	3.5	3.6	3.7	3.8	3.8	4.0	4.1	4.2	4.2	4.2	4.1	4.1	3.6	3.6	4.0	4.2
Civilian Participation Rate (%)	62.5	62.6	62.7	62.6	62.6	62.7	62.7	62.7	62.6	62.6	62.6	62.6	62.2	62.6	62.6	62.6
Productivity (% SAAR)	-0.8	3.5	5.0	3.0	0.0	1.0	1.5	1.5	1.5	1.5	1.0	1.0	-1.9	2.7	1.0	1.3
Personal Saving Rate (%)	4.8	5.1	4.2	4.0	4.4	4.6	4.7	4.9	5.1	5.2	5.4	5.6	3.5	4.5	4.7	5.3
Light Vehicle Sales (Millions SAAR)	15.0	15.8	15.7	15.7	15.1	15.2	15.4	15.5	15.8	16.1	16.4	16.8	13.8	15.5	15.3	16.3
Housing Starts (Thous. SAAR)	1385	1450	1370	1455	1450	1440	1505	1555	1555	1575	1585	1595	1551	1415	1490	1580
Current Account (% of GDP)													-3.7	-3.6	-3.4	-3.3
US Budget Balance ($bn, Fiscal Year)													-1375	-1695	-1800	-1900
Inflation																
GDP Price Index (% SAAR)	3.9	1.7	3.3	1.5	2.3	2.4	2.6	2.3	2.6	2.3	2.2	2.2	7.1	3.6	2.3	2.4
% Change, Year Ago	5.3	3.5	3.2	2.6	2.2	2.4	2.2	2.4	2.5	2.5	2.4	2.3				
PCE Chain Prices (% SAAR)	4.2	2.5	2.6	1.7	2.0	2.3	2.3	2.0	2.4	2.0	1.8	1.9	6.5	3.7	2.1	2.1
% Change, Year Ago	5.0	3.9	3.3	2.7	2.2	2.1	2.0	2.1	2.2	2.2	2.0	2.0				
Core PCE Chain Prices (% SAAR)	5.0	3.7	2.0	2.0	2.5	2.5	2.5	2.3	2.5	2.2	2.0	2.0	5.2	4.1	2.4	2.3
% Change, Year Ago	4.8	4.6	3.8	3.2	2.5	2.2	2.3	2.4	2.4	2.4	2.2	2.2				
CPI, Consumer Prices (% SAAR)	3.8	2.7	3.6	2.8	2.3	2.5	2.5	2.0	2.5	2.0	2.7	2.4	8.0	4.1	2.6	2.3
% Change, Year Ago	5.8	4.0	3.6	3.2	2.8	2.8	2.5	2.3	2.4	2.3	2.3	2.4				
CPI ex Food & Energy (% SAAR)	5.0	4.7	2.8	3.4	3.3	3.1	2.9	2.7	2.6	2.6	2.5	2.4	6.1	4.8	3.2	2.7
% Change, Year Ago	5.6	5.2	4.4	4.0	3.6	3.1	3.2	3.0	2.8	2.7	2.6	2.5				

Source: BofA Global Research

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Rates and dollar forecast

Table 1: Rates and dollar forecast

We think the Fed is done hiking and will start cutting in June

	Spot	24-Mar	24-Jun	24-Sep	24-Dec	25-Mar	25-Jun	25-Sep	25-Dec
Interest rates									
Fed Funds	5.33	5.25-5.50	5.00-5.25	4.75-5.00	4.50-4.75	4.25-4.50	4.00-4.25	3.75-4.00	3.50-3.75
Fed Effective Rate	5.33	5.38	5.13	4.88	4.63	4.38	4.13	3.88	3.63
2-Year T-Note	4.45	4.75	4.50	4.25	4.00	-	-	-	3.75
5-Year T-Note	4.12	4.50	4.40	4.25	4.15	-	-	-	4.00
10-Year T-Note	4.15	4.40	4.30	4.25	4.25	-	-	-	4.25
30-Year T-Bond	4.35	4.70	4.65	4.65	4.75	-	-	-	4.75
Dollar									
EUR-USD	1.08	1.07	1.10	1.15	1.15	1.16	1.17	1.18	1.20
USD-JPY	149	145	143	142	142	140	138	136	136
USD-CAD	1.35	1.35	1.34	1.32	1.30	1.30	1.30	1.30	1.30
AUD-USD	0.65	0.66	0.68	0.71	0.71	0.71	0.71	0.71	0.71
NZD-USD	0.61	0.60	0.62	0.63	0.63	0.63	0.63	0.63	0.63
GBP-USD	1.26	1.23	1.26	1.31	1.31	1.33	1.34	1.37	1.40
USD-CHF	0.87	0.90	0.87	0.84	0.84	0.84	0.84	0.84	0.83
USD-SEK	10.48	10.93	10.36	9.74	9.65	9.57	9.40	9.24	9.00
USD-NOK	10.62	10.84	10.27	9.57	9.48	9.40	9.23	9.07	8.83
USD-CNY	7.20	7.45	7.40	7.10	6.90	6.90	6.80	6.80	6.70
USD-MXN	17.15	17.80	17.90	18.30	18.50	18.70	18.90	19.10	19.50

Source: BofA Global Research

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Rolling calendar of business indicators

Key economic data over the next three weeks

Next week the focus will be on CPI, retail sales, and PPI

Monday	Tuesday	Wednesday	Thursday	Friday
Feb 12	**Feb 13**	**Feb 14**	**Feb 15**	**Feb 16**
2:00 pm: Monthly Budget Statement - Jan	6:00 am: NFIB Small Bus. Optimism – Jan 8:30 am: Consumer Price Index – Jan	7:00 am: MBA Mortgage Applications – week ending 2/9/2024	8:30 am: Initial Jobless Claims – week ending 2/10/2024 8:30 am: Advance Retail Sales – Jan 8:30 am: Import Price Index – Jan 8:30 am: Empire Manufacturing – Feb 8:30 am: Philly Fed – Feb 9:15 am: Industrial Production – Jan 10:00 am: NAHB Housing Index – Feb 10:00 am: Business Inventories - - Dec	8:30 am: Housing Starts & Permits – Jan 8:30 am: Producer Price Index – Jan 10:00 am: U. of Mich Sentiment – Feb (P)
Feb 19	**Feb 20**	**Feb 21**	**Feb 22**	**Feb 23**
President's Day		7:00 am: MBA Mortgage Applications – week ending 2/16/2024 2:00 pm: FOMC Minutes	8:30 am: Initial Jobless Claims – week ending 2/17/2024 9:45 am: S&P Global US Manufacturing and Services PMI – Feb (P) 10:00 am: Existing Home Sales – Jan	
Feb 26	**Feb 27**	**Feb 28**	**Feb 29**	**Mar 1**
10:00 am: New Home Sales –Jan	8:30 am: Durable Goods Orders – Jan (P) 9:00 am: S&P CoreLogic CS HPI – Dec 10:00 am: Conference Board Confidence – Feb	7:00 am: MBA Mortgage Applications – week ending 2/23/2024 8:30 am: GDP - 4Q (S) 8:30 am: Advance Goods Trade Balance – Jan	8:30 am: Initial Jobless Claims – week ending 2/24/2024 8:30 am: Personal Income & Outlays – Jan 9:45 am: Chicago PMI – Feb 10:00 am: Pending Home Sales - Jan	9:45 am: S&P Global US Manufacturing PMI – Feb F 10:00 am: Construction Spending – Jan 10:00 am: U. of Mich Sentiment – Feb (F) 10:00 am: ISM manufacturing – Feb All Day: Wards Auto Sales - Feb

*Projections- subject to revision as additional data become available. P - preliminary reading , S - second reading, T - third reading, F - final reading

Source: Bloomberg

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CPI Forecast table

Exhibit 17: CPI monthly forecast table

We expect CPI inflation to moderate over the course of our forecast horizon given our expectations for restrictive monetary policy and a soft landing

	Non-seasonally Adjusted						Seasonally Adjusted									
	Headline CPI			Energy			Headline CPI					Core CPI				
	Level	m/m	y/y	Level	m/m	y/y	Level	m/m	y/y	q/q saar	y/y (quarterly)	Level	m/m	y/y	q/q saar	y/y (quarterly)
2022: Jan	281.15	0.8	7.5	260.65	1.7	27.0	282.60	0.6	7.6			286.79	0.6	6.1		
2022: Feb	283.72	0.9	7.9	267.77	2.7	25.6	284.61	0.7	8.0			288.15	0.5	6.4		
2022: Mar	287.50	1.3	8.5	298.25	11.4	32.0	287.47	1.0	8.5	9.2	8.0	289.05	0.3	6.5	6.7	6.3
2022: Apr	289.11	0.6	8.3	298.47	0.1	30.3	288.61	0.4	8.2			290.41	0.5	6.1		
2022: May	292.30	1.1	8.6	316.76	6.1	34.6	291.27	0.9	8.5			292.25	0.6	6.0		
2022: Jun	296.31	1.4	9.1	340.92	7.6	41.6	294.73	1.2	8.9	9.7	8.6	294.02	0.6	5.9	6.0	6.0
2022: Jul	296.28	0.0	8.5	325.41	-4.5	32.9	294.63	0.0	8.4			294.93	0.3	5.9		
2022: Aug	296.17	0.0	8.3	305.37	-6.2	23.8	295.32	0.2	8.2			296.64	0.6	6.3		
2022: Sep	296.81	0.2	8.2	297.34	-2.6	19.8	296.54	0.4	8.2	5.5	8.3	298.34	0.6	6.6	6.2	6.3
2022: Oct	298.01	0.4	7.7	300.36	1.0	17.6	297.99	0.5	7.8			299.33	0.3	6.3		
2022: Nov	297.71	-0.1	7.1	292.95	-2.5	13.1	298.60	0.2	7.1			300.26	0.3	6.0		
2022: Dec	296.80	-0.3	6.5	274.94	-6.1	7.3	298.99	0.1	6.4	4.2	7.1	301.46	0.4	5.7	5.1	6.0
2023: Jan	299.17	0.8	6.4	283.33	3.1	8.7	300.54	0.5	6.3			302.70	0.4	5.5		
2023: Feb	300.84	0.6	6.0	281.67	-0.6	5.2	301.65	0.4	6.0			304.07	0.5	5.5		
2023: Mar	301.84	0.3	5.0	279.08	-0.9	-6.4	301.81	0.1	5.0	3.8	5.8	305.24	0.4	5.6	5.0	5.6
2023: Apr	303.36	0.5	4.9	283.35	1.5	-5.1	302.92	0.4	5.0			306.49	0.4	5.5		
2023: May	304.13	0.3	4.0	279.82	-1.2	-11.7	303.29	0.1	4.1			307.82	0.4	5.3		
2023: Jun	305.11	0.3	3.0	283.85	1.4	-16.7	303.84	0.2	3.1	2.7	4.1	308.31	0.2	4.9	4.7	5.2
2023: Jul	305.69	0.2	3.2	284.83	0.3	-12.5	304.35	0.2	3.3			308.80	0.2	4.7		
2023: Aug	307.03	0.4	3.7	294.33	3.3	-3.6	306.27	0.6	3.7			309.66	0.3	4.4		
2023: Sep	307.79	0.2	3.7	296.00	0.6	-0.5	307.48	0.4	3.7	3.6	3.6	310.66	0.3	4.1	2.8	4.4
2023: Oct	307.67	0.0	3.2	286.75	-3.1	-4.5	307.62	0.0	3.2			311.37	0.2	4.0		
2023: Nov	307.05	-0.2	3.1	277.03	-3.4	-5.4	307.92	0.1	3.1			312.25	0.3	4.0		
2023: Dec	306.75	-0.1	3.4	269.38	-2.8	-2.0	308.85	0.3	3.3	2.8	3.2	313.22	0.3	3.9	3.4	4.0
2024: Jan	307.87	0.4	2.9	268.52	-0.3	-5.2	309.22	0.1	2.9			313.99	0.2	3.7		
2024: Feb	309.06	0.4	2.7	267.82	-0.3	-4.9	309.83	0.2	2.7			314.79	0.3	3.5		
2024: Mar	310.59	0.5	2.9	274.57	2.5	-1.6	310.55	0.2	2.9	2.3	2.8	315.63	0.3	3.4	3.3	3.6
2024: Apr	311.77	0.4	2.8	278.32	1.4	-1.8	311.25	0.2	2.8			316.42	0.2	3.2		
2024: May	312.56	0.3	2.8	281.49	1.1	0.6	311.62	0.1	2.7			317.21	0.2	3.0		
2024: Jun	314.02	0.5	2.9	288.03	2.3	1.5	312.59	0.3	2.9	2.5	2.8	318.00	0.2	3.1	3.1	3.1
2024: Jul	314.47	0.1	2.9	284.59	-1.2	-0.1	312.97	0.1	2.8			318.79	0.2	3.2		
2024: Aug	314.89	0.1	2.6	284.69	0.0	-3.3	314.01	0.3	2.5			319.52	0.2	3.2		
2024: Sep	314.70	-0.1	2.2	278.78	-2.1	-5.8	314.32	0.1	2.2	2.5	2.5	320.24	0.2	3.1	2.9	3.2
2024: Oct	314.73	0.0	2.3	273.26	-2.0	-4.7	314.61	0.1	2.3			320.94	0.2	3.1		
2024: Nov	314.39	-0.1	2.4	270.73	-0.9	-2.3	315.21	0.2	2.4			321.65	0.2	3.0		
2024: Dec	313.97	-0.1	2.4	266.38	-1.6	-1.1	316.12	0.3	2.4	2.0	2.3	322.35	0.2	2.9	2.7	3.0
2025: Jan	315.32	0.4	2.4	269.38	1.1	0.3	316.71	0.2	2.4			323.05	0.2	2.9		
2025: Feb	316.45	0.4	2.4	269.03	-0.1	0.5	317.24	0.2	2.4			323.74	0.2	2.8		
2025: Mar	317.83	0.4	2.3	275.37	2.4	0.3	317.76	0.2	2.3	2.5	2.4	324.44	0.2	2.8	2.6	2.8
2025: Apr	318.88	0.3	2.3	278.71	1.2	0.1	318.33	0.2	2.3			325.12	0.2	2.7		
2025: May	319.59	0.2	2.2	282.25	1.3	0.3	318.61	0.1	2.2			325.80	0.2	2.7		
2025: Jun	321.08	0.5	2.2	290.22	2.8	0.8	319.59	0.3	2.2	2.0	2.3	326.48	0.2	2.7	2.6	2.7
2025: Jul	321.58	0.2	2.3	289.13	-0.4	1.6	320.02	0.1	2.3			327.15	0.2	2.6		
2025: Aug	322.20	0.2	2.3	292.47	1.2	2.7	321.29	0.4	2.3			327.82	0.2	2.6		
2025: Sep	322.13	0.0	2.4	289.00	-1.2	3.7	321.74	0.1	2.4	2.7	2.3	328.49	0.2	2.6	2.5	2.6
2025: Oct	322.24	0.0	2.4	285.17	-1.3	4.4	322.12	0.1	2.4			329.15	0.2	2.6		
2025: Nov	321.99	-0.1	2.4	284.56	-0.2	5.1	322.84	0.2	2.4			329.81	0.2	2.5		
2025: Dec	321.64	-0.1	2.4	281.51	-1.1	5.7	323.85	0.3	2.4	2.4	2.4	330.47	0.2	2.5	2.4	2.5

Source: Bureau of Labor Statistics, BofA Global Research

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Disclosures

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