US Economic Weekly

The engine that could

01 March 2024

Economics
United States

Michael Gapen
US Economist
BofAS
+1 646 855 3270
michael.gapen@bofa.com

Aditya Bhave
US Economist
BofAS
+1 646 855 9929
aditya.bhave@bofa.com

Stephen Juneau
US Economist
BofAS
+1 202 442 7429
stephen.juneau@bofa.com

Shruti Mishra
US and Global Economist
BofAS
+1 646 855 1040
smishra44@bofa.com

Jeseo Park
US Economist
BofAS
+1 646 855 8688
jeseo.park@bofa.com

US Economics
BofAS

See Team Page for List of Analysts

Weekly viewpoint: The engine that could

We revise our outlook in the direction of faster growth, lower unemployment, and slightly firmer inflation. Improvement in supply-side factors, especially the labor force rebound, should allow US economic momentum to continue without overheating. We make no changes to our fed funds rate path. Our inflation outlook, while slightly firmer, should still be enough to convince the Fed to begin a gradual cutting cycle in June.

Congress kicks the can down the road again

As expected, Congress is on track to pass another continuing resolution to avert a shutdown. As of this writing, the House has passed a stopgap funding bill that extends the deadlines to March 8 and March 22. However, Congress cannot kick the can down the road forever. A 1% across the board cut would kick in on April 30 if no spending deal is reached. (See: US Economic Viewpoint: Another fiscal frenzy)

Week Ahead

Next week, the focus will be on the February employment report (Mar 8). It should confirm the labor market remains on strong footing. Employment likely increased by 215k, and the unemployment rate should remain at 3.7%. Chair Powell's semiannual testimony to Congress (Mar 6 and 7) highlights another busy week of Fed speak. We expect him to reiterate that the Fed needs more confidence on inflation to cut rates.

Exhibit 1: Summary of forecast changes
Compared to our previous forecasts, we expect stronger growth this year and slower growth next

	2024	2025
GDP (4Q/4Q)		
New	2.1	1.7
Old	1.2	2.0
Unemployment rate (4Q)		
New	3.9	4.1
Old	4.2	4.1
Headline PCE inflation (4Q/4Q)		
New	2.5	2
Old	2.3	2.0
Core PCE inflation (4Q/4Q)		
New	2.6	2.3
Old	2.5	2.2
Fed funds rate (midpoint, end of period)		
New	4.625	3.625
Old	4.625	3.625

Source: BofA Global research

BofA GLOBAL RESEARCH

IP: Industrial Production

CPI: Consumer Price Index

PPI: Producer Price Index

GDP: Gross Domestic Product

PCE: Personal Consumption Expenditure

FOMC: Federal Open Market Committee

The engine that could

- We forecast faster growth in 2024 (2.1% 4Q/4Q) and slower growth in 2025 (1.7%).
- We expect the unemployment rate to peak at 4.1% in 4Q 2025, compared to 4.2% in 4Q 2024 previously.
- We still expect the Fed to start a gradual cutting cycle in June, cutting the funds rate by 75bp this year and 100bp next year, for a target range of 3.5-3.75% at end-2025.

This is an abbreviated version of our recent forecast change. For more details, see: US Economic Viewpoint: US outlook: Supply-side resilience

The rundown

We have made revisions in our economic outlook, anticipating faster growth, lower unemployment, and slightly firmer inflation (Exhibit 2). Rather than growth slipping below potential this year and rebounding next year, we front-load growth into 2024. This is supported by improvement in supply-side factors, especially the labor force rebound. We maintain our view that any slowing in the US economy is likely to come mainly from non-consumer components. We just assume they moderate more slowly than we previously assumed.

1. **Growth frontloaded in 2024.** We now expect real GDP growth of 2.5% saar in 1Q 2024 and 2.0% saar growth in the remaining three quarters of the year, for a 4Q/4Q change of 2.1%. The latter is 0.9pp higher than we had previously. Growth slows to 1.7% in 2025.
2. **More employment.** With stronger final sales, we have nudged up our outlook for employment, with private payrolls rising 150k per month in 2024, versus 107k per month previously. In 2025, we expect monthly growth in employment of 100k, down from 125k previously.
3. **Lower - and later - peak unemployment**. Alongside our expectation for a stable participation rate of 62.6-62.7% across the forecast horizon and assumptions about population growth, we now have the peak unemployment rate at 4.1% in 4Q 2025. Previously our peak unemployment rate was 4.2% reached in 4Q 24 through 2Q 25.
4. **Slightly firmer inflation.** Finally, based on recent incoming data on inflation which points to somewhat more stickiness in services inflation than we had expected, we now look for 4Q/4Q core PCE inflation to fall to 2.6% and 2.3% in 2024 and 2025.

Exhibit 2: Summary of forecast changes

Compared to our previous forecasts, we expect stronger growth this year and slower growth next year

	2024	2025
GDP (4Q/4Q)		
New	2.1	1.7
Old	1.2	2.0
Unemployment rate (4Q)		
New	3.9	4.1
Old	4.2	4.1
Headline PCE inflation (4Q/4Q)		
New	2.5	2
Old	2.3	2.0
Core PCE inflation (4Q/4Q)		
New	2.6	2.3
Old	2.5	2.2
Fed funds rate (midpoint, end of period)		
New	4.625	3.625
Old	4.625	3.625

Source: BofA Global research

BofA GLOBAL RESEARCH

Exhibit 3: The labor force now exceeds the pre-pandemic forecast of the Congressional Budget Office

The labor force exceeds the CBO's pre-pandemic forecast by 677,000

Source: CBO, Census Bureau, Haver Analytics, BofA Global Research

BofA GLOBAL RESEARCH

5. **No change in monetary policy.** We still expect the Fed to start a gradual cutting cycle in June, cutting the funds rate by 75bp this year and 100bp next year, for a target range of 3.5-3.75% at end-2025. Tapering of runoff should begin in May, with quantitative tightening (QT) ceasing at year-end.

The rebound in labor supply allows momentum to persist

The major factor behind our upward revision to 2024 growth is the rebound in the labor force, supported by stronger participation rates and a rapid increase in net migration. The civilian labor force, at 167.8mn in 4Q 2023, is 677,000 above what the CBO (Congressional Budget Office) projected for the end-2023 labor force in their January 2020 outlook (Exhibit 3). The rebound in net international migration over the las two years has been a key driver of growth in the labor force.

This surge in labor supply has allowed strong labor demand to persist without overheating the economy. Labor demand should cool relative to last year, but the strong hiring in the laggard industries should persist. That is, we expect job growth to remain elevated owing to strong hiring in leisure and hospitality, and education and healthcare which will support consumption.

Progress on the inflation front

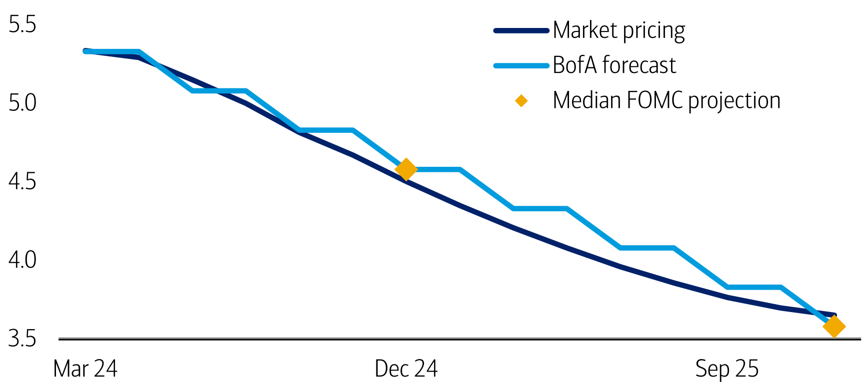
Stronger growth this year is only likely to cause modest upward pressure on inflation. We now expect headline and core PCE inflation to fall to 2.6% 4Q/4Q in 2024 and 2.3% in 2025. Both figures are one-tenth higher than in our prior outlook. The reason we do not expect more upward pressure on inflation is because we believe trend growth has increased temporarily. We estimate that the rebound in the labor force and, in turn, total hours worked, has increased trend growth from 1.7% pre-COVID to around 2.2% presently. Therefore, the economy is not overheating in our revised forecast.

The Fed can still ease

Given our expectation for disinflation to continue, albeit more gradually, we maintain our outlook for Federal Reserve policy. We still expect the Fed to cut rates by 75bp this year— 25bp in June, September, and December— and a 100bp next. This would leave the policy rate at 3.625% by year end 2025.

Better economic activity will allow the Fed to be patient in adjusting its policy stance. That said, further declines in inflation are enough for the Fed to embark on a gradual and modest cutting cycle beginning in June. The market has also come around to this view (Exhibit 4).

Exhibit 4: BofA and market pricing of Fed cuts
Markets expect 75bp rate cuts this year from June, in line with our forecast.



Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

US GDP Tracking

1Q GDP tracking at 2.5%, 4Q second estimate at 3.2%

4Q US GDP was revised down a tenth to 3.2% q/q saar, in line with our expectations. A downward revision to the contribution from inventory accumulation was partially offset by stronger personal consumption, and increased state and local government spending.

This week, we align our 1Q GDP tracking with to our official forecast of 2.5% q/q saar. We still expect consumption growth to slow due to the negative impact from seasonal factors and extreme weather in January. But we have made upward revisions to the non-consumer sectors of the economy.

Going forward, incoming data will start moving our 1Q GDP tracking estimate from its current position at 2.5% q/q saar. Next week, factory orders, wholesale inventories, trade balance, and employment could affect our 1Q and 4Q GDP tracking estimates.

Exhibit 5: BofA US GDP tracking estimate (% q/q saar)

1Q GDP tracking was aligned with our official forecast change to 2.5% q/q saar largely due to the upward revisions to the non-consumer sectors of the economy

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
2/22/24	Existing Home Sales	0.9	1.1	1.3	**-1.1**	-1.6	0.8	2.0	*1.0*	*0.2*	*1.4*	*-924.6*	*73.6*
2/22/24	Methodological Assumptions	**1.0**	**1.2**	**1.5**	-1.1	-1.6	0.8	2.0	*1.0*	*0.2*	*1.4*	*-924.6*	*73.6*
2/26/24	New Home Sales	**1.1**	**1.3**	1.5	**0.7**	-1.6	0.8	2.0	*1.0*	*0.2*	*1.4*	*-924.6*	*73.6*
2/27/24	Durable Goods Orders	**1.2**	**1.4**	1.5	0.7	-1.6	**1.3**	2.0	*1.0*	*0.2*	*1.4*	*-924.6*	**68.7**
2/29/24	Alignment to official forecast change	**2.5**	**2.5**	1.5	**2.5**	**5.0**	**3.0**	**3.0**	***3.5***	***3.0***	***1.5***	***-911.0***	**71.5**
	GDP tracking	2.5	2.5	1.5	2.5	5.0	3.0	3.0	3.5	3.0	1.5	-911.0	71.5
	Contribution to GDP growth (pp)			1.1	0.1	0.2	0.2	0.2	*0.6*			0.1	0.1
	BofA official GDP forecast	2.5	2.5	1.5	2.5	5.0	3.0	3.0	3.5	3.0	1.5	-911.0	71.5

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.

BofA GLOBAL RESEARCH

Exhibit 6: Summary of forecast changes for 1Q (% q/q saar)

Compared to our previous forecasts, we expect stronger growth in 1Q due to upward revisions to the non-consumer sectors

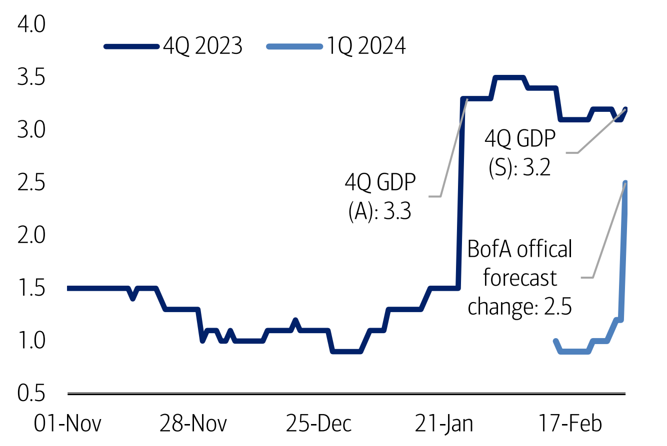
	1Q 2024
GDP	
New	2.5
Old	1.0
Consumer Spending	
New	1.5
Old	1.5
Residential Investment	
New	2.5
Old	-0.5
Nonresidential Investment	
New	3.5
Old	1.0

Source: BofA Global research

BofA GLOBAL RESEARCH

Exhibit 7: GDP tracking evolution (% q/q, SAAR)

1Q GDP tracking was aligned with our official forecast change to 2.5% q/q saar; 4Q GDP second estimate came in at 3.2% q/q saar



Source: BofA Global Research

BofA GLOBAL RESEARCH

Data in the past week

February 26 – March 01

This week the focus was on Personal Income & Outlays, GDP 4Q (S)

Date	Time	Indicator	Period	Actual	Consensus	Previous
2/26/24	10:00	New Home Sales	Jan	661k	684k	651k
2/27/24	8:30	Durable Goods Orders	Jan P	-6.1%	-5.0%	-0.3%
2/27/24	8:30	Durables Ex Transportation	Jan P	-0.3%	0.2%	-0.1%
2/27/24	8:30	Core Capital Goods Orders	Jan P	0.1%	0.1%	-0.6%
2/27/24	8:30	Core Capital Goods Shipments	Jan P	0.8%	0.1%	0.1%
2/27/24	9:00	Case-Shiller HPI (yoy)	Dec	5.5%	—	5.0%
2/27/24	10:00	Consumer Confidence	Feb	106.7	115.0	110.9
2/28/24	7:00	MBA Mortgage Applications	Feb 23	-5.6%	—	-10.6%
2/28/24	8:30	Wholesale Inventories	Jan P	-0.1%	0.2%	0.4%
2/28/24	8:30	GDP (qoq saar)	4Q S	3.2%	3.3%	3.3%
2/28/24	8:30	Personal consumption (qoq saar)	4Q S	3.0%	2.7%	2.8%
2/28/24	8:30	GDP Price Index (qoq saar)	4Q S	1.6%	1.5%	1.5%
2/28/24	8:30	Core PCE (qoq saar)	4Q S	2.1%	2.0%	2.0%
2/28/24	8:30	Advance Goods Trade Balance	Jan	-$90.2bn	-$88.5bn	-$87.9b
2/29/24	8:30	Initial Jobless Claims	Feb 24	215k	210k	202k
2/29/24	8:30	Personal Income	Jan	1.0%	0.4%	0.3%
2/29/24	8:30	Personal Spending	Jan	0.2%	0.2%	0.7%
2/29/24	8:30	PCE Headline Prices (mom)	Jan	0.3%	0.3%	0.1%
2/29/24	8:30	PCE Headline Prices (yoy)	Jan	2.4%	2.4%	2.6%
2/29/24	8:30	PCE Core Prices (mom)	Jan	0.4%	0.4%	0.1%
2/29/24	8:30	PCE Core Prices (yoy)	Jan	2.8%	2.8%	2.9%
2/29/24	8:30	Personal saving rate	Jan	3.8%	—	3.7%
2/29/24	9:45	Chicago Purchasing Managers	Feb	44.0	48.0	46.0
2/29/24	10:00	Pending Home Sales	Jan	-6.8%	-4.4%	5.7%
3/01/24	10:00	U. of Michigan Sentiment	Feb F	NR	79.6	79.6
3/01/24	10:00	Construction Spending (mom)	Jan	NR	0.2%	0.9%
3/01/24	10:00	ISM Manufacturing	Feb	NR	49.5	49.1
3/01/24	All day	Total Vehicle Sales	Feb	NR	15.4M	15.0M

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Data in the week ahead

March 04 - 08

Next week the focus will be on the Employment Report and ISM Services

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
3/05/24	9:45	S&P Global US services PMI	Feb F	—	51.4	51.3
3/05/24	10:00	Factory Orders	Jan	—	-2.7%	0.2%
3/05/24	10:00	ISM Services	Feb	53.0	52.9	53.4
3/06/24	7:00	MBA Mortgage Applications	Mar 1	—	—	-5.6%
3/06/24	8:15	ADP Employment	Feb	—	150k	107k
3/06/24	10:00	Wholesale Inventories	Jan F	—	—	-0.1%
3/06/24	10:00	JOLTS Job Openings	Jan	—	—	9026k
3/07/24	8:30	Initial Jobless Claims	Mar 02	220k	—	215k
3/07/24	8:30	Nonfarm Productivity	4Q F	3.1%	3.1%	3.2%
3/07/24	8:30	Unit Labor Costs	4Q F	0.6%	0.7%	0.5%
3/07/24	8:30	Trade Balance	Jan	-$64.2bn	-$62.5b	-$62.2b
3/07/24	15:00	Consumer Credit	Jan	—	$10.0b	$1.6b
3/08/24	8:30	Change in Nonfarm Payrolls	Feb	215k	193k	353k
3/08/24	8:30	Private Payrolls	Feb	185k	150k	317k
3/08/24	8:30	Unemployment Rate	Feb	3.7%	3.7%	3.7%
3/08/24	8:30	Average Hourly Earnings mom	Feb	0.3%	0.3%	0.6%
3/08/24	8:30	Average Weekly Hours	Feb	34.3	34.3	34.1
3/08/24	8:30	Labor force participation rate	Feb	62.6%	—	62.5%

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Federal Reserve Speakers

Exhibit 8: Upcoming policy speakers
Key speaking engagements and news events*

Date	Time	Speaker
Mar 04	11:00	Fed's Harker remarks on economic impact of higher education
Mar 05	12:00	Fed's Barr (voter) speaks on panel about CRA modernization
Mar 06	**10:00**	**Chair Powell testifies before Congress**
Mar 06	12:00	Fed's Daly (voter) to give keynote address
Mar 06	14:00	Federal Reserve Beige Book release
Mar 06	16:15	Fed's Kashkari speaks at WSJ event
Mar 07	10:00	**Chair Powell testifies before Congress**
Mar 07	11:30	Fed's Mester (voter) speaks on economic outlook
Mar 08	07:00	Fed's Williams (voter) participates in moderated discussion

Source: Bloomberg

BofA GLOBAL RESEARCH

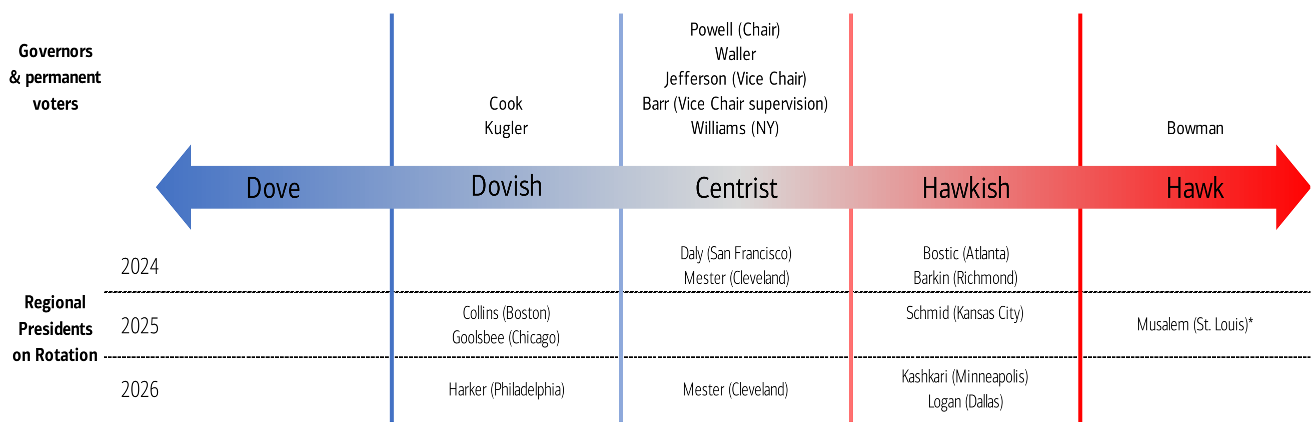
Exhibit 9: Summary of Fed speak in the previous week
Below is a summary of key quotes from Fed speakers over the past weeks

Speaker	Date	Quote
Daly (San Francisco)	29-Feb	"It would be appropriate as inflation comes down to bring the nominal rate of interest down to make sure we're not holding on even tighter.";"We want to avoid holding on all the way to 2%, putting policy very tight and then cause an unnecessary downturn."
Collins (Boston)	28-Feb	"It will likely become appropriate to begin easing policy later this year."
Bowman (Governor)	27-Feb	"Should the incoming data continue to indicate that inflation is moving sustainably toward our 2%, it will eventually become appropriate to gradually lower our policy rate to prevent monetary policy from becoming overly restrictive.";"In my view, we are not yet at that point."
Schmid (Kansas)	26-Feb	"I believe that the best course of action is to be patient, continue to watch how the economy responds to the policy tightening that has occurred, and wait for convincing evidence that the inflation fight has been won."
Williams (New York)	23-Feb	"At some point, I think it will be appropriate to pull back on restrictive monetary policy, likely later this year.";"But it's really about reading that data and looking for consistent signs that inflation is not only coming down but is moving towards that 2% longer-run goal."
Waller (Governor)	22-Feb	Urged Patience on Rate Cuts After Jump in Prices
Kashkari (Minneapolis)	22-Feb	"We Still Have Some Work to Do" on Inflation.
Harker (Philadelphia)	22-Feb	"I believe that we may be in the position to see the rate decrease this year.";"But I would caution anyone from looking for it right now and right away. We have time to get this right, as we must."
Cook (Governor)	22-Feb	"I would like to have greater confidence that inflation is converging to 2% before beginning to cut the policy rate."
Jefferson (Vice Chair)	22-Feb	"We always need to keep in mind the danger of easing too much in response to improvements in the inflation picture." "Excessive easing can lead to a stalling or reversal in progress in restoring price stability

Source: Bloomberg

BofA GLOBAL RESEARCH

Exhibit 10: BofA US Economics Dove-Hawk chart
This year the regional presidents voting on the FOMC (Federal Open Market Committee) will be Daly, Mester, Bostic, Barkin, and Williams



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.

BofA GLOBAL RESEARCH

Federal Reserve Balance Sheet

The balance sheet fell by $62.0bn 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 27, the Fed's balance sheet decreased by $14.4bn (H.4.1 Exhibit 11). In the past four weeks, the balance sheet has shrunk by $62.0bn. Balance sheet runoff continues to reduce take-up in the overnight reverse repo facility (ON RRP), which has fallen by $68.8bn over the past four weeks.

Regional bank stress remains contained. Lending through the BTFP decreased by $0.8bn to $163.5bn. That BTFP balances declined as of February 21 is a positive sign considering 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.

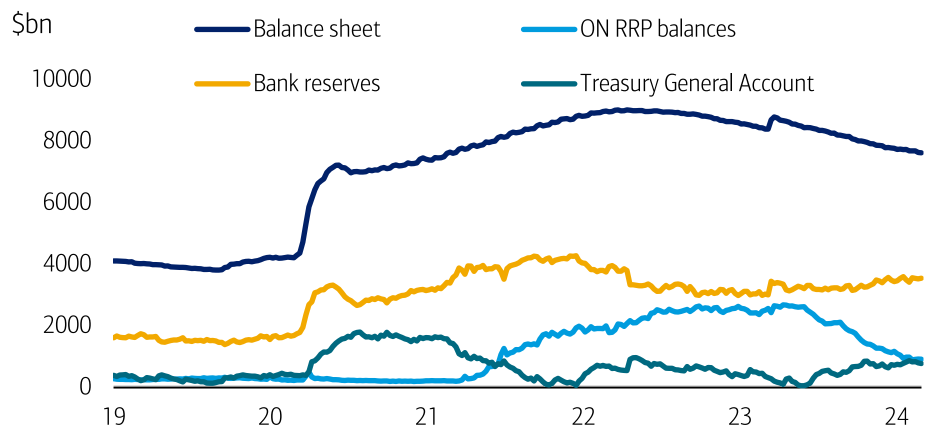
Exhibit 11: The balance sheet of the Federal Reserve ($bn, Wednesday, end of period values)
Factors affecting reserve balances of depository institutions (H.4.1 Table 1)

$bn, Wednesday, end of period values	28 Feb	7-day chg	4 week chg	Chg since June 1, 2022
Supplying reserve funds (Federal Reserve assets)				
Reserve Bank credit outstanding	7531.1	-14.4	-62.0	-1347.5
Securities held outright	7066.8	-11.1	-45.4	-1413.7
US Treasuries	4661.3	-0.2	-31.5	-1109.5
Federal Agency	2.3	0.0	0.0	0.0
Mortgage-backed securities	2403.2	-11.0	-13.9	-304.2
Unamortized premiums on securities held outright	273.6	-0.8	-2.5	-63.5
Unamortized discounts on securities held outright	-25.7	-0.1	-0.2	-1.2
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	168.8	-1.1	-3.0	148.1
of which:				
Discount window (primary and secondary credit)	2.1	-0.3	-1.1	1.2
Paycheck protection program (PPPLF)	3.2	0.0	-0.1	-16.6
Bank Term Funding Program (BTFP)	163.5	-0.8	-1.8	163.5
Other credit extensions	0.0	0.0	0.0	0.0
Other factors supplying reserve funds	47.6	-1.2	-10.9	-17.1
Total factors supplying reserve funds	7618.1	-14.3	-62.1	-1346.3
Absorbing reserve funds (Federal Reserve liabilities)				
Currency in circulation	2333.1	2.3	6.1	53.1
Reverse repo agreements	908.8	-5.8	-68.8	-1321.7
Foreign official accounts	338.9	-0.8	-23.3	73.4
Others	569.9	-5.0	-45.5	-1395.2
Treasury cash holdings	0.5	0.0	0.1	0.4
Other deposits with Federal Reserve Banks	930.1	-22.6	-120.5	-98.3
of which:				
Treasury General Account	767.7	-21.1	-97.8	-12.9
Treasury contributions to credit facilities	7.4	0.0	0.0	-10.5
Other Federal Reserve liabilities and capital	-102.8	-6.1	-8.3	-152.8
Factors absorbing reserves, other than reserves	4077.1	-32.2	-191.4	-1529.9
Reserve balances with Federal Reserve banks	3541.0	17.9	129.3	183.6

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

BofA GLOBAL RESEARCH

Exhibit 12: 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

BofA GLOBAL RESEARCH

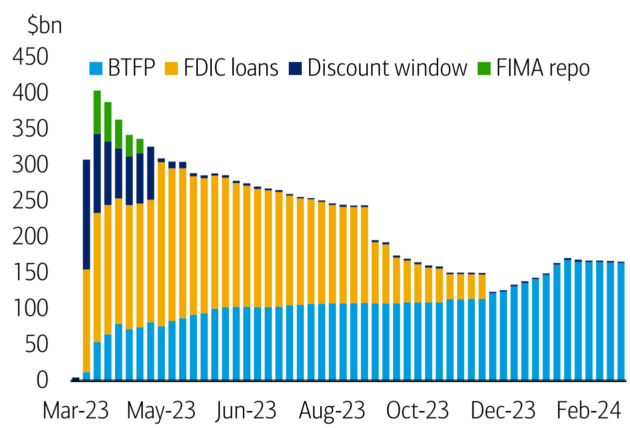
Losses on the Fed's balance sheet. The Fed continues to pay more in interest on reserves than it earns on its securities holdings. Earnings that are retained to cover this loss are booked as a negative liability on the balance sheet under "interest on Federal Reserve Notes due to the US Treasury" in the line item "other Federal Reserve liabilities and capital". The cumulative value of the shortfall in earnings (the "deferred asset") is $102.8bn.

Exhibit 13: Other Federal Reserve Liabilities and Capital ($bn)
Federal Reserve losses are mounting

Source: Federal Reserve, Haver Analytics, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 14: Federal Reserve Emergency Lending Facilities ($bn)
Lending through the BTFP has declined recently



Source: Federal Reserve, Haver Analytics, BofA Global Research

BofA GLOBAL RESEARCH

BAC card spending heat map

Exhibit 15: Aggregated daily card spending growth per household (HH) by major category, Feb 18 - 24 (year-over-year (y/y) % change of the 7-day moving average of spending levels)
Total card spending per HH was up 0.4% y/y in the week ending Feb 24

	2/24	2/23	2/22	2/21	2/20	2/19	2/18
Total card spending	0.4%	-0.1%	0.2%	-0.3%	-0.1%	0.0%	0.0%
Retail ex auto	-0.6%	-1.2%	-1.0%	-1.4%	-1.2%	0.2%	-0.7%
Airlines	-1.3%	-0.7%	-1.0%	-1.9%	-1.9%	-1.4%	-1.9%
Lodging	-4.7%	-4.3%	-3.5%	-3.5%	-1.8%	1.7%	-1.5%
Entertainment	-2.6%	-4.0%	-6.9%	-9.1%	-9.8%	-7.4%	-6.4%
Restaurants & bars	-0.1%	-0.7%	-0.7%	-1.3%	-0.7%	1.4%	1.6%
Transit	6.1%	4.9%	5.1%	3.7%	3.0%	1.4%	2.1%
Gas	-3.3%	-4.5%	-4.2%	-4.5%	-4.4%	-4.3%	-4.0%
Clothing	-6.1%	-5.9%	-5.1%	-5.4%	-5.5%	-3.6%	-4.4%
Furniture	-13.5%	-12.6%	-11.6%	-12.0%	-11.0%	-5.2%	-8.7%
Department store	-4.2%	-5.0%	-4.4%	-4.7%	-4.8%	-3.1%	-4.0%
Home improvement	-7.1%	-9.0%	-9.2%	-11.0%	-11.4%	-10.1%	-9.2%
Online electronics	-5.6%	-6.4%	-6.8%	-7.7%	-8.5%	-8.7%	-8.3%
Grocery	1.6%	1.3%	1.9%	1.9%	2.3%	3.8%	0.4%
General Merchandise	0.1%	-0.6%	-0.3%	-1.3%	-1.3%	0.6%	-0.6%
Total B&M retail	-1.8%	-2.6%	-2.3%	-2.8%	-2.6%	-0.6%	-1.6%
Total online retail	2.5%	2.3%	2.4%	2.1%	2.4%	2.0%	1.3%
Total card debit	0.8%	0.4%	0.9%	0.1%	0.2%	0.5%	0.4%
Total card credit	-0.2%	-0.6%	-0.8%	-0.8%	-0.5%	-0.7%	-0.6%

Source: BAC internal data. Note: The 1-yr % change shows the change between the current date at the head of the table column and its comparable date a year ago. Total card spending includes total BAC card activity, which captures retail sales and services that are paid with cards. Does not include ACH payments. B&M (Brick & Mortar) retail means retail purchases at the store. Online electronics and total online retail correspond to purchases in which the card was not present. These are largely online purchases but could include purchases made over the phone. Y/y growth in General Merchandise spending jumped in late Dec 2023. This was because of a change in Merchant Category Codes (MCC) for a significant portion of transactions from a major retail merchant. We have adjusted for the recategorization for the daily data from Feb 4 onwards.

BofA GLOBAL RESEARCH

See the report, BofA on USA: Weekly spending update through Feb 24, for methodology, limitations, and disclaimers related to BAC card data.

Core views

Growth: Frontloaded into 2024 on the back of supply side resilience

- We revised our US outlook in the direction of faster growth in 2024 and slower growth in 2025. Stronger growth this year should be supported by improvement in supply-side factors, particularly the labor force rebound. We expect real GDP growth of 2.5% saar growth in 1Q 2024 and 2.0% saar growth in the remaining three quarters of the year, for a 4Q/4Q change of 2.1%. The latter is 0.9pp higher than we had previously. Growth slows to 1.7% in 2025 (See report: US Economic Viewpoint: US outlook: Supply-side resilience).

Inflation: Moving in the right direction, but slightly firmer inflation

- Disinflation should continue this year but at a more gradual pace owing to sticky services inflation. We now expect headline and core PCE inflation to fall to 2.6% 4Q/4Q in 2024 and 2.3% in 2025. Both figures are one-tenth higher than in our prior outlook (See report: US Economic Viewpoint: US outlook: Supply-side resilience).

Inflation: Confidence to cut depends on underlying inflation

- Underlying inflation is the rate of inflation that should prevail when the economy is functioning normally, with output equal to potential and unemployment equal to the natural rate. We form estimates of underlying inflation using data on actual prices and inflation expectations. We find underlying PCE inflation fell to 2.8% at end-2023 and trends support a first rate cut in June. A more forward-looking Fed might put more weight on low inflation expectations and cut sooner, but this Fed is data dependent and wants to avoid backtracking after it starts (See report: US Economic Viewpoint: What lies beneath: underlying inflation and the confidence to cut).

Inflation: Rent inflation to moderate but regional differences persist

- Overall inflation has made significant progress towards the Fed's 2% target, but rent inflation has remained sticky. We think differences in supply and demand across regions help explain sticky-high rent inflation. That said, rent inflation should cool gradually this year helping to pull overall inflation lower. (See the report: US Viewpoint: Rent inflation to moderate but regional differences persist).

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

- The Fed is seeking “greater confidence” on inflation before it starts normalizing its policy stance. We expect progress on inflation in coming months will give the Fed enough confidence to begin a gradual cutting cycle in June. We expect the Fed to reduce rates by 75bp this year and 100bp next. Our upgrade to the growth outlook do not alter our monetary policy outlook. (See report: US Watch: January FOMC: March is no longer the base case).

Federal Reserve balance sheet: May start of taper

- We expect the Fed to adjust its pace of Balance sheet runoff at its May meeting. 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 through year end if not later. (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: More employment and lower and later peak unemployment

- We think strong employment growth in laggard industries can persist this year leading us to revise higher our job growth forecast. We now expect payrolls to increase by an average of 150k per month in 2024, versus 107k previously. Job growth should then slow to an average of 100k in 2025. We also expect the participation rate to be rangebound at 62.6-62.7% across our forecast horizon. As a result, we see a slightly lower path for the unemployment rate. We now have the peak unemployment rate at 4.1% in 4Q 2025. Previously our peak unemployment rate was 4.2% reached in 4Q 24 through 2Q 25 (See report: US Economic Viewpoint: US outlook: Supply-side resilience).

Inventories: Ongoing normalization, but there is room for upside

- Inventory accumulation surprised to the upside in the second half of last year, raising talk of another restocking cycle. In our view, inventories are likely well aligned with final sales and we do not expect wide swings. But strong consumer demand, the Red Sea conflict uncertainty & autos tailwind could support further inventory accumulation (See report: US Economic Viewpoint: Inventories have normalized, but there is room for upside).

Fiscal policy: Caution: drag ahead

- Federal fiscal policy bills and other idiosyncratic factors contributed to resiliency of the economy in 2023. The CHIPS act and IRA continues to help crowd-in private investment. This year, the primary deficit is likely to decline suggesting that the Federal fiscal impulse should be less of a tailwind. (See report: Fiscal impulse: running out of steam).

Economic forecast summary

Exhibit 16: BofA US economic outlook

We revised our US outlook in the direction of faster growth in 2024 supported by improvement in supply side factors and slower growth in 2025

	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	3.2	2.5	2.0	2.0	2.0	2.0	2.0	1.5	1.5	1.9	2.5	2.7	1.9
% Change, Year Ago	1.7	2.4	2.9	3.1	3.2	3.1	2.4	2.1	2.0	2.0	1.9	1.7				
Final Sales	4.6	2.1	3.6	3.5	2.5	2.0	2.0	2.0	2.0	2.0	1.0	1.0	1.3	2.9	2.6	1.8
Domestic Demand	3.8	2.0	3.5	3.1	2.5	2.0	2.0	2.0	2.0	2.0	1.5	1.5	1.7	2.2	2.5	1.8
Consumer Spending	3.8	0.8	3.1	3.0	1.5	2.0	2.0	2.0	2.0	2.0	1.5	1.5	2.5	2.2	2.1	1.8
Residential Investment	-5.3	-2.2	6.7	2.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	-9.0	-10.6	2.7	2.4
Nonresidential Investment	5.7	7.4	1.5	2.4	3.5	2.5	2.0	2.0	2.0	2.0	1.5	1.5	5.2	4.4	2.8	1.9
Structures	30.3	16.1	11.2	7.6	5.0	3.0	2.0	2.0	1.5	1.5	1.5	1.5	-2.1	13.0	5.9	1.6
Equipment	-4.1	7.7	-4.4	-1.7	3.0	2.0	2.0	2.0	1.5	1.5	1.0	1.0	5.2	-0.3	1.0	1.5
Intellectual Property	3.8	2.7	1.8	3.3	3.0	3.0	2.5	2.5	2.5	2.0	2.0	2.0	9.1	4.4	2.7	2.3
Government	4.8	3.3	5.8	4.2	3.5	3.0	2.0	2.0	1.0	1.0	1.0	1.0	-0.9	4.0	3.5	1.4
Exports	6.8	-9.3	5.4	6.4	3.0	3.0	3.0	3.0	2.0	2.0	2.0	2.0	7.0	2.7	3.0	2.3
Imports	1.3	-7.6	4.2	2.7	1.5	2.0	2.0	2.0	2.0	2.0	1.5	1.5	8.6	-1.6	1.8	2.0
Net Exports (Bil 12$)	-935	-928	-931	-915	-911	-912	-911	-912	-917	-921	-924	-927	-1051	-927	-911	-922
Contribution to growth (ppts)	0.6	0.0	0.0	0.3	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	-0.5	0.5	0.1	0.0
Inventory Accumulation (Bil 12$)	27.2	14.9	77.8	66.3	71.5	64.5	61.5	68.5	77.5	86.5	101.5	116.5	128.1	46.6	66.3	95.3
Contribution to growth (ppts)	-2.2	0.0	1.3	-0.3	0.1	-0.1	-0.1	0.1	0.2	0.2	0.2	0.2	0.6	-0.4	0.1	0.1
Nominal GDP (Bil $, SAAR)	26814	27063	27610	27945	28316	28646	28970	29272	29600	29926	30212	30498	25744	27358	28801	30059
% SAAR	6.2	3.8	8.4	4.9	5.4	4.8	4.6	4.2	4.6	4.5	3.9	3.8	9.1	6.3	5.3	4.4
Key Indicators																
Fed Funds Rate (midpoint, % EOP)	4.875	5.125	5.375	5.375	5.375	5.125	4.875	4.625	4.375	4.125	3.875	3.625	4.375	5.375	4.625	3.625
Industrial Production (% SAAR)	-0.3	0.8	1.7	-2.9	0.5	1.0	0.0	0.5	1.0	1.5	1.5	1.5	3.4	0.2	0.2	0.9
Capacity Utilization (%)	79.5	79.4	79.5	78.6	78.5	78.5	78.5	79.0	79.0	79.0	79.5	79.5	80.3	79.3	78.7	79.2
Nonfarm Payrolls (Avg mom ch, 000s)	305	274	213	227	175	150	125	125	100	100	100	100	377	255	144	100
Civilian Unemployment Rate (%)	3.5	3.6	3.7	3.8	3.8	3.8	3.9	3.9	4.0	4.0	4.0	4.1	3.6	3.6	3.9	4.0
Civilian Participation Rate (%)	62.5	62.6	62.7	62.6	62.6	62.7	62.7	62.7	62.6	62.6	62.6	62.6	62.2	62.6	62.6	62.6
Productivity (% SAAR)	-0.8	3.5	5.0	3.0	0.0	1.0	1.5	1.5	1.5	1.5	1.0	1.0	-1.9	2.7	1.0	1.3
Personal Saving Rate (%)	4.8	5.1	4.2	4.0	4.4	4.6	4.7	4.9	5.1	5.2	5.4	5.6	3.5	4.5	4.7	5.3
Light Vehicle Sales (Millions SAAR)	15.0	15.8	15.7	15.7	15.1	15.2	15.4	15.5	15.8	16.1	16.4	16.8	13.8	15.5	15.3	16.3
Housing Starts (Thous. SAAR)	1385	1450	1370	1485	1340	1335	1400	1450	1450	1465	1480	1490	1551	1425	1380	1470
Current Account (% of GDP)													-3.7	-3.6	-3.4	-3.3
US Budget Balance ($bn, Fiscal Year)													-1375	-1695	-1750	-1800
Inflation																
GDP Price Index (% SAAR)	3.9	1.7	3.3	1.6	2.8	2.7	2.5	2.2	2.5	2.4	2.3	2.3	7.1	3.6	2.5	2.4
% Change, Year Ago	5.3	3.5	3.2	2.6	2.4	2.6	2.4	2.6	2.5	2.4	2.4	2.4				
PCE Chain Prices (% SAAR)	4.2	2.5	2.6	1.8	2.8	2.7	2.1	1.8	2.3	2.2	2.0	2.0	6.5	3.7	2.4	2.1
% Change, Year Ago	5.0	3.9	3.3	2.8	2.4	2.5	2.3	2.3	2.2	2.1	2.1	2.1				
Core PCE Chain Prices (% SAAR)	5.0	3.7	2.0	2.1	3.1	2.6	2.4	2.2	2.3	2.3	2.3	2.2	5.2	4.1	2.6	2.3
% Change, Year Ago	4.8	4.6	3.8	3.2	2.7	2.5	2.6	2.6	2.4	2.3	2.3	2.3				
CPI, Consumer Prices (% SAAR)	3.8	2.7	3.4	2.7	3.8	3.5	2.4	1.9	2.6	2.5	2.6	2.4	8.0	4.1	3.2	2.5
% Change, Year Ago	5.8	4.0	3.6	3.2	3.2	3.4	3.1	2.9	2.6	2.4	2.4	2.5				
CPI ex Food & Energy (% SAAR)	5.0	4.7	3.0	3.4	4.0	3.3	3.0	2.8	2.7	2.6	2.6	2.5	6.2	4.8	3.5	2.8
% Change, Year Ago	5.6	5.2	4.4	4.0	3.7	3.4	3.4	3.3	3.0	2.8	2.7	2.6				

Source: BofA Global Research

BofA GLOBAL RESEARCH

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	4.64	4.75	4.50	4.25	4.00	-	-	-	3.75
5-Year T-Note	4.26	4.50	4.40	4.25	4.15	-	-	-	4.00
10-Year T-Note	4.25	4.40	4.30	4.25	4.25	-	-	-	4.25
30-Year T-Bond	4.38	4.70	4.65	4.65	4.75	-	-	-	4.75
Dollar									
EUR-USD	1.08	1.07	1.10	1.12	1.15	1.16	1.17	1.18	1.20
USD-JPY	150	145	143	142	142	140	138	136	136
USD-CAD	1.36	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	0.61	0.62	0.63	0.63	0.63	0.63	0.63	0.63
GBP-USD	1.26	1.26	1.31	1.33	1.37	1.36	1.38	1.39	1.41
USD-CHF	0.88	0.90	0.87	0.87	0.84	0.84	0.85	0.85	0.83
USD-SEK	10.37	10.65	10.36	10.00	9.65	9.57	9.40	9.24	9.00
USD-NOK	10.62	10.65	10.27	9.82	9.48	9.40	9.23	9.07	8.83
USD-CNY	7.19	7.45	7.40	7.10	6.90	6.90	6.80	6.80	6.70
USD-MXN	17.05	17.80	18.00	18.30	18.50	18.70	18.90	19.10	19.50

Source: BofA Global Research

BofA GLOBAL RESEARCH

Rolling calendar of business indicators

Key economic data over the next three weeks

Next week the focus will be on the Employment Report and ISM services

Monday	Tuesday	Wednesday	Thursday	Friday
Mar 4	**Mar 5**	**Mar 6**	**Mar 7**	**Mar 8**
	9:45 am: S&P Global US Services PMI – Feb F 10:00 am: Factory orders – Jan 10:00 am: ISM services– Feb	7:00 am: MBA Mortgage Applications – week ending 03/01/2024 8:15 am: ADP Employment – Feb 10:00 am: Wholesale Inventories – Jan F 2:00 pm: Fed's Beige Book	8:30 am: Initial Jobless Claims – week ending 03/02/2024 8:30 am: Trade Balance – Jan 8:30 am: Productivity & Costs - 4Q (F)	8:30 am: Employment Report – Feb
Mar 11	**Mar 12**	**Mar 13**	**Mar 14**	**Mar 15**
	6:00 am: NFIB Small Bus. Optimism – Feb 8:30 am: Consumer Price Index – Feb 2:00 pm: Monthly Budget Statement - Feb	7:00 am: MBA Mortgage Applications – week ending 03/08/2024	8:30 am: Initial Jobless Claims – week ending 03/09/2024 8:30 am: Advance Retail Sales – Feb 8:30 am: Producer Price Index – Feb 10:00 am: Business Inventories - - Jan	8:30 am: Import Price Index – Feb 8:30 am: Empire Manufacturing – Mar 9:15 am: Industrial Production – Feb 10:00 am: U. of Mich Sentiment – Mar (P)
Mar 18	**Mar 19**	**Mar 20**	**Mar 21**	**Mar 22**
10:00 am: NAHB Housing Index – Mar	8:30 am: Housing Starts & Permits – Feb	7:00 am: MBA Mortgage Applications – week ending 03/15/2024 **2:00 pm: FOMC Rates Decision**	8:30 am: Initial Jobless Claims – week ending 03/16/2024 8:30 am: Philly Fed – Mar 9:45 am: S&P Global US Manufacturing and Services PMI – Mar (P)	

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

Source: Bloomberg

BofA GLOBAL RESEARCH

CPI and PCE Forecast tables

Exhibit 17: CPI monthly forecast table

We expect CPI inflation to moderate over the course of our forecast horizon

	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	282.39	0.6	7.6			286.81	0.6	6.1		
2022: Feb	283.72	0.9	7.9	267.77	2.7	25.6	284.54	0.8	7.9			288.29	0.5	6.5		
2022: Mar	287.50	1.3	8.5	298.25	11.4	32.0	287.55	1.1	8.5	9.1	8.0	289.04	0.3	6.5	6.7	6.3
2022: Apr	289.11	0.6	8.3	298.47	0.1	30.3	288.76	0.4	8.3			290.52	0.5	6.2		
2022: May	292.30	1.1	8.6	316.76	6.1	34.6	291.36	0.9	8.5			292.07	0.5	6.0		
2022: Jun	296.31	1.4	9.1	340.92	7.6	41.6	295.00	1.2	9.0	10.0	8.6	293.97	0.7	5.9	5.9	6.0
2022: Jul	296.28	0.0	8.5	325.41	-4.5	32.9	294.98	0.0	8.4			295.06	0.4	5.9		
2022: Aug	296.17	0.0	8.3	305.37	-6.2	23.8	295.21	0.1	8.2			296.57	0.5	6.3		
2022: Sep	296.81	0.2	8.2	297.34	-2.6	19.8	296.34	0.4	8.2	5.3	8.3	298.28	0.6	6.6	6.2	6.3
2022: Oct	298.01	0.4	7.7	300.36	1.0	17.6	297.86	0.5	7.8			299.35	0.4	6.3		
2022: Nov	297.71	-0.1	7.1	292.95	-2.5	13.1	298.65	0.3	7.1			300.29	0.3	6.0		
2022: Dec	296.80	-0.3	6.5	274.94	-6.1	7.3	298.81	0.1	6.4	4.0	7.1	301.42	0.4	5.7	5.1	6.0
2023: Jan	299.17	0.8	6.4	283.33	3.1	8.7	300.36	0.5	6.4			302.71	0.4	5.5		
2023: Feb	300.84	0.6	6.0	281.67	-0.6	5.2	301.51	0.4	6.0			304.12	0.5	5.5		
2023: Mar	301.84	0.3	5.0	279.08	-0.9	-6.4	301.74	0.1	4.9	3.8	5.7	305.11	0.3	5.6	4.9	5.5
2023: Apr	303.36	0.5	4.9	283.35	1.5	-5.1	303.03	0.4	4.9			306.54	0.5	5.5		
2023: May	304.13	0.3	4.0	279.82	-1.2	-11.7	303.37	0.1	4.1			307.65	0.4	5.3		
2023: Jun	305.11	0.3	3.0	283.85	1.4	-16.7	304.00	0.2	3.1	3.0	4.0	308.25	0.2	4.9	4.7	5.2
2023: Jul	305.69	0.2	3.2	284.83	0.3	-12.5	304.63	0.2	3.3			308.95	0.2	4.7		
2023: Aug	307.03	0.4	3.7	294.33	3.3	-3.6	306.19	0.5	3.7			309.66	0.2	4.4		
2023: Sep	307.79	0.2	3.7	296.00	0.6	-0.5	307.29	0.4	3.7	3.4	3.6	310.64	0.3	4.1	3.0	4.4
2023: Oct	307.67	0.0	3.2	286.75	-3.1	-4.5	307.53	0.1	3.2			311.39	0.2	4.0		
2023: Nov	307.05	-0.2	3.1	277.03	-3.4	-5.4	308.02	0.2	3.1			312.35	0.3	4.0		
2023: Dec	306.75	-0.1	3.4	269.38	-2.8	-2.0	308.74	0.2	3.3	2.7	3.2	313.21	0.3	3.9	3.4	4.0
2024: Jan	308.42	0.5	3.1	270.42	0.4	-4.6	309.69	0.3	3.1			314.44	0.4	3.9		
2024: Feb	310.29	0.6	3.1	276.41	2.2	-1.9	311.01	0.4	3.2			315.39	0.3	3.7		
2024: Mar	312.20	0.6	3.4	285.22	3.2	2.2	312.19	0.4	3.5	3.8	3.2	316.32	0.3	3.7	4.0	3.7
2024: Apr	313.35	0.4	3.3	289.33	1.4	2.1	312.96	0.2	3.3			317.13	0.3	3.5		
2024: May	314.39	0.3	3.4	292.68	1.2	4.6	313.49	0.2	3.3			317.95	0.3	3.3		
2024: Jun	315.79	0.4	3.5	299.51	2.3	5.5	314.53	0.3	3.5	3.5	3.4	318.77	0.3	3.4	3.3	3.4
2024: Jul	316.11	0.1	3.4	295.57	-1.3	3.8	314.92	0.1	3.4			319.59	0.3	3.4		
2024: Aug	316.70	0.2	3.2	295.45	0.0	0.4	315.78	0.3	3.1			320.34	0.2	3.4		
2024: Sep	316.51	-0.1	2.8	288.65	-2.3	-2.5	316.00	0.1	2.8	2.4	3.1	321.08	0.2	3.4	3.0	3.4
2024: Oct	316.50	0.0	2.9	282.55	-2.1	-1.5	316.30	0.1	2.9			321.81	0.2	3.3		
2024: Nov	316.15	-0.1	3.0	279.56	-1.1	0.9	317.08	0.2	2.9			322.54	0.2	3.3		
2024: Dec	315.81	-0.1	3.0	274.84	-1.7	2.0	317.88	0.3	3.0	1.9	2.9	323.27	0.2	3.2	2.8	3.3
2025: Jan	317.16	0.4	2.8	277.96	1.1	2.8	318.39	0.2	2.8			323.98	0.2	3.0		
2025: Feb	318.31	0.4	2.6	277.99	0.0	0.6	319.04	0.2	2.6			324.70	0.2	3.0		
2025: Mar	319.89	0.5	2.5	285.20	2.6	0.0	319.85	0.3	2.5	2.6	2.6	325.41	0.2	2.9	2.7	3.0
2025: Apr	320.85	0.3	2.4	288.78	1.3	-0.2	320.44	0.2	2.4			326.12	0.2	2.8		
2025: May	321.77	0.3	2.3	292.26	1.2	-0.1	320.84	0.1	2.3			326.82	0.2	2.8		
2025: Jun	323.16	0.4	2.3	300.56	2.8	0.4	321.87	0.3	2.3	2.5	2.4	327.52	0.2	2.7	2.6	2.8
2025: Jul	323.52	0.1	2.3	299.37	-0.4	1.3	322.28	0.1	2.3			328.21	0.2	2.7		
2025: Aug	324.30	0.2	2.4	302.90	1.2	2.5	323.33	0.3	2.4			328.90	0.2	2.7		
2025: Sep	324.25	0.0	2.4	299.26	-1.2	3.7	323.70	0.1	2.4	2.6	2.4	329.59	0.2	2.6	2.6	2.7
2025: Oct	324.35	0.0	2.5	295.62	-1.2	4.6	324.13	0.1	2.5			330.27	0.2	2.6		
2025: Nov	324.09	-0.1	2.5	294.92	-0.2	5.5	325.04	0.3	2.5			330.95	0.2	2.6		
2025: Dec	323.83	-0.1	2.5	291.87	-1.0	6.2	325.92	0.3	2.5	2.4	2.5	331.63	0.2	2.6	2.5	2.6

Source: Bureau of Labor Statistics, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 18: PCE inflation monthly forecast table (Seasonally adjusted)
We expect PCE inflation to moderate over the course of our forecast horizon

	%y/y				% m/m			
	Headline	Core	Core goods	Core services	Headline	Core	Core goods	Core services
2022: Jan	6.30%	5.37%	6.92%	4.80%	0.52%	0.47%	0.94%	0.30%
2022: Feb	6.55%	5.57%	7.64%	4.82%	0.59%	0.41%	0.51%	0.38%
2022: Mar	6.89%	5.55%	7.46%	4.84%	0.84%	0.39%	0.00%	0.54%
2022: Apr	6.62%	5.25%	6.32%	4.87%	0.30%	0.33%	0.12%	0.40%
2022: May	6.69%	5.07%	5.68%	4.86%	0.57%	0.36%	0.36%	0.36%
2022: Jun	7.12%	5.19%	5.66%	5.02%	0.91%	0.56%	0.62%	0.54%
2022: Jul	6.62%	4.96%	5.43%	4.79%	0.01%	0.21%	0.05%	0.26%
2022: Aug	6.52%	5.21%	5.55%	5.09%	0.33%	0.54%	0.61%	0.52%
2022: Sep	6.56%	5.47%	5.71%	5.39%	0.36%	0.46%	0.19%	0.55%
2022: Oct	6.35%	5.33%	4.62%	5.59%	0.45%	0.35%	-0.10%	0.51%
2022: Nov	5.93%	5.09%	3.84%	5.55%	0.22%	0.28%	-0.24%	0.47%
2022: Dec	5.44%	4.87%	3.11%	5.51%	0.21%	0.39%	-0.01%	0.53%
2023: Jan	5.48%	4.90%	2.59%	5.75%	0.56%	0.51%	0.44%	0.53%
2023: Feb	5.19%	4.84%	2.20%	5.82%	0.32%	0.36%	0.13%	0.44%
2023: Mar	4.44%	4.78%	2.45%	5.64%	0.12%	0.34%	0.24%	0.37%
2023: Apr	4.45%	4.76%	2.45%	5.61%	0.30%	0.31%	0.13%	0.37%
2023: May	3.96%	4.69%	2.45%	5.51%	0.11%	0.29%	0.36%	0.26%
2023: Jun	3.20%	4.28%	1.66%	5.24%	0.17%	0.17%	-0.15%	0.29%
2023: Jul	3.31%	4.19%	1.11%	5.31%	0.13%	0.12%	-0.48%	0.33%
2023: Aug	3.35%	3.73%	0.47%	4.92%	0.36%	0.10%	-0.03%	0.14%
2023: Sep	3.37%	3.59%	0.15%	4.85%	0.38%	0.33%	-0.12%	0.49%
2023: Oct	2.95%	3.39%	0.28%	4.52%	0.04%	0.15%	0.03%	0.20%
2023: Nov	2.71%	3.19%	0.18%	4.29%	-0.01%	0.09%	-0.34%	0.24%
2023: Dec	2.62%	2.94%	-0.08%	4.04%	0.12%	0.14%	-0.28%	0.29%
2024: Jan	2.40%	2.85%	-0.57%	4.08%	0.34%	0.42%	-0.05%	0.58%
2024: Feb	2.53%	2.68%	-0.88%	4.02%	0.33%	0.25%	-0.07%	0.37%
2024: Mar	2.43%	2.59%	-1.19%	4.01%	0.30%	0.25%	-0.06%	0.35%
2024: Apr	2.33%	2.48%	-1.36%	3.92%	0.20%	0.20%	-0.05%	0.29%
2024: May	2.23%	2.39%	-1.76%	3.95%	0.16%	0.20%	-0.05%	0.29%
2024: Jun	2.26%	2.43%	-1.65%	3.95%	0.25%	0.20%	-0.05%	0.29%
2024: Jul	2.36%	2.51%	-1.17%	3.89%	0.13%	0.20%	0.00%	0.28%
2024: Aug	2.46%	2.61%	-1.14%	4.02%	0.22%	0.20%	0.00%	0.26%
2024: Sep	2.33%	2.48%	-1.02%	3.79%	0.11%	0.20%	0.00%	0.26%
2024: Oct	2.35%	2.50%	-1.05%	3.83%	0.11%	0.18%	0.00%	0.24%
2024: Nov	2.45%	2.59%	-0.71%	3.82%	0.19%	0.18%	0.00%	0.24%
2024: Dec	2.50%	2.62%	-0.43%	3.77%	0.20%	0.18%	0.00%	0.24%
2025: Jan	2.29%	2.40%	-0.36%	3.44%	0.17%	0.20%	0.02%	0.26%
2025: Feb	2.30%	2.40%	-0.15%	3.32%	0.19%	0.20%	0.02%	0.26%
2025: Mar	2.26%	2.35%	-0.07%	3.22%	0.22%	0.20%	0.02%	0.26%
2025: Apr	2.25%	2.34%	0.00%	3.18%	0.18%	0.19%	0.02%	0.25%
2025: May	2.24%	2.33%	0.07%	3.14%	0.14%	0.19%	0.02%	0.25%
2025: Jun	2.23%	2.32%	0.13%	3.10%	0.25%	0.19%	0.02%	0.25%
2025: Jul	2.21%	2.30%	0.15%	3.07%	0.15%	0.19%	0.02%	0.25%
2025: Aug	2.21%	2.29%	0.17%	3.05%	0.26%	0.19%	0.02%	0.25%
2025: Sep	2.20%	2.29%	0.19%	3.04%	0.14%	0.19%	0.02%	0.25%
2025: Oct	2.20%	2.28%	0.21%	3.02%	0.14%	0.17%	0.02%	0.23%
2025: Nov	2.19%	2.28%	0.23%	3.01%	0.22%	0.17%	0.02%	0.23%
2025: Dec	2.19%	2.27%	0.25%	3.00%	0.21%	0.17%	0.02%	0.23%

Source: BEA, BofA Global Research

BofA GLOBAL RESEARCH

Disclosures

Important Disclosures

BofA Global Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank's sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.

Other Important Disclosures

Prices are indicative and for information purposes only. Except as otherwise stated in the report, for any recommendation in relation to an equity security, the price referenced is the publicly traded price of the security as of close of business on the day prior to the date of the report or, if the report is published during intraday trading, the price referenced is indicative of the traded price as of the date and time of the report and in relation to a debt security (including equity preferred and CDS), prices are indicative as of the date and time of the report and are from various sources including BofA Securities trading desks.
The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

Recipients who are not institutional investors or market professionals should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.
Officers of BofAS or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.
Individuals identified as economists do not function as research analysts under U.S. law and reports prepared by them are not research reports under applicable U.S. rules and regulations.
Macroeconomic analysis is considered investment research for purposes of distribution in the U.K. under the rules of the Financial Conduct Authority.
Refer to BofA Global Research policies relating to conflicts of interest.
"BofA Securities" includes BofA Securities, Inc. ("BofAS") and its affiliates. Investors should contact their BofA Securities representative or Merrill Global Wealth Management financial advisor if they have questions concerning this report or concerning the appropriateness of any investment idea described herein for such investor. "BofA Securities" is a global brand for BofA Global Research.
Information relating to Non-US affiliates of BofA Securities and Distribution of Affiliate Research Reports:
BofAS and/or Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") may in the future distribute, information of the following non-US affiliates in the US (short name: legal name, regulator): Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd., regulated by The Financial Service Board; MLI (UK): Merrill Lynch International, regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); BofASE (France): BofA Securities Europe SA is authorized by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers (AMF). BofA Securities Europe SA ("BofASE") with registered address at 51, rue La Boétie, 75008 Paris is registered under no 842 602 690 RCS Paris. In accordance with the provisions of French Code Monétaire et Financier (Monetary and Financial Code), BofASE is an établissement de crédit et d'investissement (credit and investment institution) that is authorised and supervised by the European Central Bank and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers. BofASE's share capital can be found at www.bofaml.com/BofASEdisclaimer; BofA Europe (Milan): Bank of America Europe Designated Activity Company, Milan Branch, regulated by the Bank of Italy, the European Central Bank (ECB) and the Central Bank of Ireland (CBI); BofA Europe (Frankfurt): Bank of America Europe Designated Activity Company, Frankfurt Branch regulated by BaFin, the ECB and the CBI; BofA Europe (Madrid): Bank of America Europe Designated Activity Company, Sucursal en España, regulated by the Bank of Spain, the ECB and the CBI; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited, regulated by the Australian Securities and Investments Commission; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited, regulated by the Hong Kong Securities and Futures Commission (HKSFC); Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd, regulated by the Monetary Authority of Singapore (MAS); Merrill Lynch (Canada): Merrill Lynch Canada Inc, regulated by the Canadian Investment Regulatory Organization; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa, regulated by the Comisión Nacional Bancaria y de Valores; Merrill Lynch (Argentina): Merrill Lynch Argentina SA, regulated by Comisión Nacional de Valores; BofAS Japan: BofA Securities Japan Co., Ltd., regulated by the Financial Services Agency; Merrill Lynch (Seoul): Merrill Lynch International, LLC Seoul Branch, regulated by the Financial Supervisory Service; Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd., regulated by the Securities and Futures Bureau; BofAS India: BofA Securities India Limited, regulated by the Securities and Exchange Board of India (SEBI); Merrill Lynch (Israel): Merrill Lynch Israel Limited, regulated by Israel Securities Authority; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch), regulated by the Dubai Financial Services Authority (DFSA); Merrill Lynch (Brazil): Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários, regulated by Comissão de Valores Mobiliários; Merrill Lynch KSA Company: Merrill Lynch Kingdom of Saudi Arabia Company, regulated by the Capital Market Authority.
This information: has been approved for publication and is distributed in the United Kingdom (UK) to professional clients and eligible counterparties (as each is defined in the rules of the FCA and the PRA) by MLI (UK), which is authorized by the PRA and regulated by the FCA and the PRA - details about the extent of our regulation by the FCA and PRA are available from us on request; has been approved for publication and is distributed in the European Economic Area (EEA) by BofASE (France), which is authorized by the ACPR and regulated by the ACPR and the AMF; has been considered and distributed in Japan by BofAS Japan, a registered securities dealer under the Financial Instruments and Exchange Act in Japan, or its permitted affiliates; is issued and distributed in Hong Kong by Merrill Lynch (Hong Kong) which is regulated by HKSFC; is issued and distributed in Taiwan by Merrill Lynch (Taiwan); is issued and distributed in India by BofAS India; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch (Singapore) (Company Registration No 198602883D). Merrill Lynch (Singapore) is regulated by MAS. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this information in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of Bank of America N.A., Australia Branch, neither MLEA nor any of its affiliates involved in preparing this information is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this information in Brazil and its local distribution is by Merrill Lynch (Brazil) in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the DFSA. Information prepared and issued by Merrill Lynch (DIFC) is done so in accordance with the requirements of the DFSA conduct of business rules. BofA Europe (Frankfurt) distributes this information in Germany and is regulated by BaFin, the ECB and the CBI. BofA Securities entities, including BofA Europe and BofASE (France), may outsource/delegate the marketing and/or provision of certain research services or aspects of research services to other branches or members of the BofA Securities group. You may be contacted by a different BofA Securities entity acting for and on behalf of your service provider where permitted by applicable law. This does not change your service provider. Please refer to the Electronic Communications Disclaimers for further information.
This information has been prepared and issued by BofAS and/or one or more of its non-US affiliates. The author(s) of this information may not be licensed to carry on regulated activities in your jurisdiction and, if not licensed, do not hold themselves out as being able to do so. BofAS and/or MLPF&S is the distributor of this information in the US and accepts full responsibility for information distributed to BofAS and/or MLPF&S clients in the US by its non-US affiliates. Any US person receiving this information and wishing to effect any transaction in any security discussed herein should do so through BofAS and/or MLPF&S and not such foreign affiliates. Hong Kong recipients of this information should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities or any other matters arising from, or in connection with, this information. Singapore recipients of this information should contact Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this information. For clients that are not accredited investors, expert investors or institutional investors Merrill Lynch (Singapore) Pte Ltd accepts full responsibility for the contents of this information distributed to such clients in Singapore.
General Investment Related Disclosures:
Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Securities.
This document provides general information only, and has been prepared for, and is intended for general distribution to, BofA Securities clients. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options,

futures, warrants, and contracts for differences). This document is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of, and is not directed to, any specific person(s). This document and its content do not constitute, and should not be considered to constitute, investment advice for purposes of ERISA, the US tax code, the Investment Advisers Act or otherwise. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Securities and other financial instruments referred to herein, or recommended, offered or sold by BofA Securities, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. Digital assets are extremely speculative, volatile and are largely unregulated. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

BofA Securities is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments effectively assume currency risk.

BofAS or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. BofAS or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Securities, through business units other than BofA Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented herein. Such ideas or recommendations may reflect different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Securities is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this information.

In the event that the recipient received this information pursuant to a contract between the recipient and BofAS for the provision of research services for a separate fee, and in connection therewith BofAS may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom BofAS has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by BofAS). If such recipient uses the services of BofAS in connection with the sale or purchase of a security referred to herein, BofAS may act as principal for its own account or as agent for another person. BofAS is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

Copyright and General Information:

Materials prepared by BofA Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Securities, including investment banking personnel. BofA Securities has established information barriers between BofA Global Research and certain business groups. As a result, BofA Securities does not disclose certain client relationships with, or compensation received from, such issuers. To the extent this material discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this material. BofA Global Research personnel's knowledge of legal proceedings in which any BofA Securities entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving issuers mentioned in this material is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Securities in connection with the legal proceedings or matters relevant to such proceedings.

This information has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of BofAS any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Securities and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This information may contain links to third-party websites. BofA Securities is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this information and is not incorporated by reference. The inclusion of a link does not imply any endorsement by or any affiliation with BofA Securities. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Securities is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

All opinions, projections and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice. Prices also are subject to change without notice. BofA Securities is under no obligation to update this information and BofA Securities ability to publish information on the subject issuer(s) in the future is subject to applicable quiet periods. You should therefore assume that BofA Securities will not update any fact, circumstance or opinion contained herein.

Certain outstanding reports or investment opinions relating to securities, financial instruments and/or issuers may no longer be current. Always refer to the most recent research report relating to an issuer prior to making an investment decision.

In some cases, an issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BofAS or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Securities nor any officer or employee of BofA Securities accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this information.

Research Analysts

Aditya Bhave
US Economist
BofAS
aditya.bhave@bofa.com

Michael Gapen
US Economist
BofAS
michael.gapen@bofa.com

Stephen Juneau
US Economist
BofAS
stephen.juneau@bofa.com

Shruti Mishra
US and Global Economist
BofAS
smishra44@bofa.com

Jeseo Park
US Economist
BofAS
jeseo.park@bofa.com