Office of the Comptroller of the Currency

U.S. ECONOMIC SNAPSHOT

May 2024

First quarter GDP growth is slowest since 2Q:2022

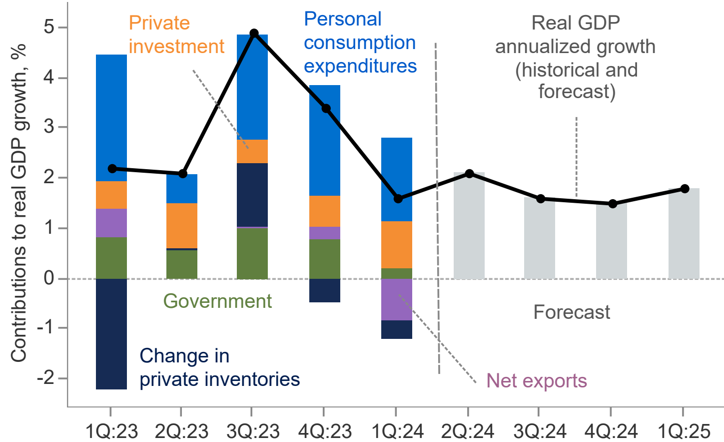
• **Real GDP grew at a modest annualized rate of 1.6 percent in 1Q:2024, down from 3.4 percent in the prior quarter.** But GDP excluding inventories and trade, a better indicator of aggregate demand, was up a solid 2.8 percent as consumer spending and business investment moderated slightly and housing investment gained momentum. Even so, activity is expected to slow further in coming quarters. Fiscal stimulus is fading. Job gains eased in April suggesting the economy may be nearing capacity. Most economists project a soft landing for the U.S. with real GDP growing between 1.5 percent and 1.8 percent over the next four quarters (Figure 1).

• **Strong productivity growth has helped keep labor costs in check.** Compensation grew 4.7 percent in 1Q from a year earlier, which is inconsistent with the Federal Reserve's 2 percent inflation target. But productivity rose a solid 2.9 percent over the past year. As a result, unit labor cost increased just 1.8 percent, a growth rate low enough to be compatible with the Federal Reserve's inflation target (Figure 2). But productivity can be choppy, making it unclear if solid gains will persist. A slower pace of compensation growth would better support a sustainable reduction in price pressures.

• **Inflation remains stubbornly high.** Rent of shelter and goods inflation continues to come down on an over-the-year basis. But services inflation excluding energy and housing has picked up (Figure 3). Prices of hospital services jumped 8 percent over the past year as previous cost increases are just now making their way to the consumer level. This is partly due to the multiyear contracts prevalent in the industry. The price of auto insurance has also surged. Vehicle prices increased sharply in 2021. But insurance costs have lagged as regulators take time to approve escalations. Inflation in other non-housing services is also a concern as it tends to be sticky and is closely linked to employee compensation.

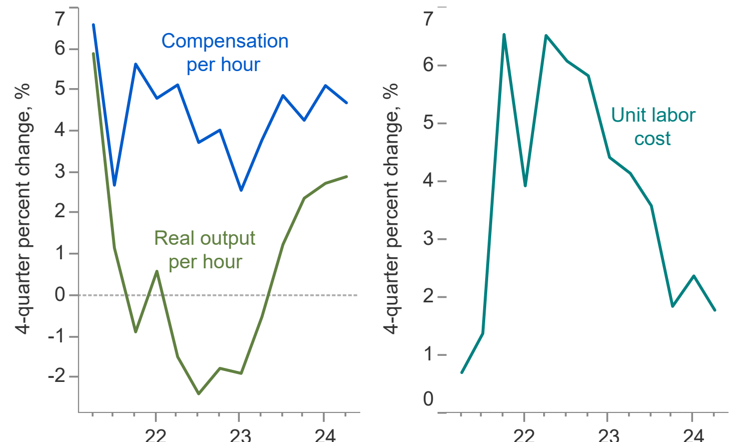
• **Bond futures markets have become increasingly pessimistic about the chances for multiple interest rate cuts this year (Figure 4).** In late 2023, markets predicted continued, solid progress on inflation. When those expectations failed to materialize in early 2024 the Federal Reserve suggested it might keep interest rates higher for longer. This prompted market participants to reduce the number of rate cuts they expect. Of course, the softer April jobs' report could renew the case for multiple rate cuts later this year.

Figure 1: Real GDP growth slowed sharply in 1Q but underlying demand remained strong



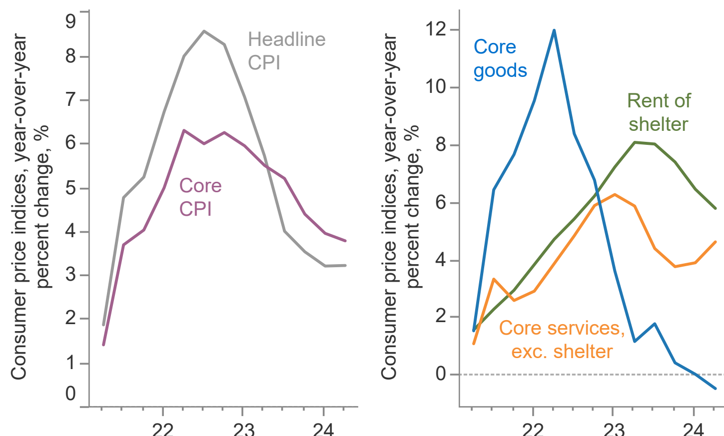
Sources: BEA (1Q:2024), Blue Chip Economic Indicators (May 2024)

Figure 2: Solid productivity growth has eased labor cost pressures but outlook remains uncertain



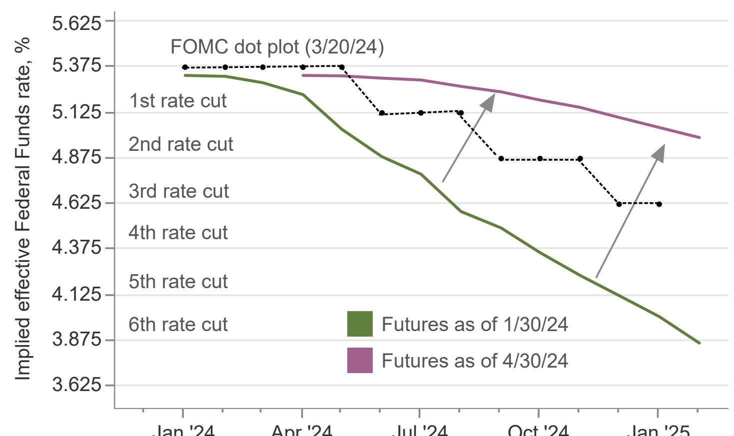
Source: BLS (1Q:2024)

Figure 3: Progress on inflation stalled in early 2024 and remains above the Federal Reserve's 2 percent target



Source: BLS (1Q:2024), core goods and services are less energy and food

Figure 4: Market participants became increasingly pessimistic about the chances for multiple rate cuts later this year



Sources: Federal Reserve Board (March 2024), Bloomberg (April 30, 2024)