



# Economic Update

Mutual Savings Association  
Advisory Committee

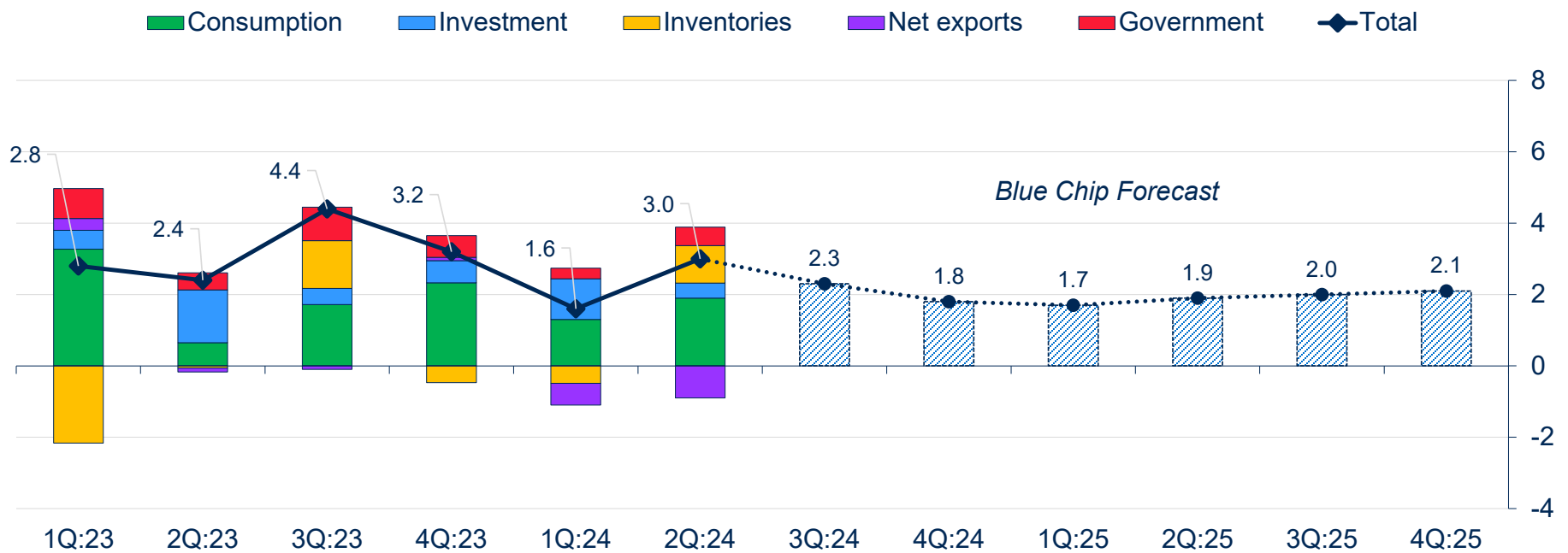


Daniel Grantham, Senior Financial Economist  
October 22, 2024



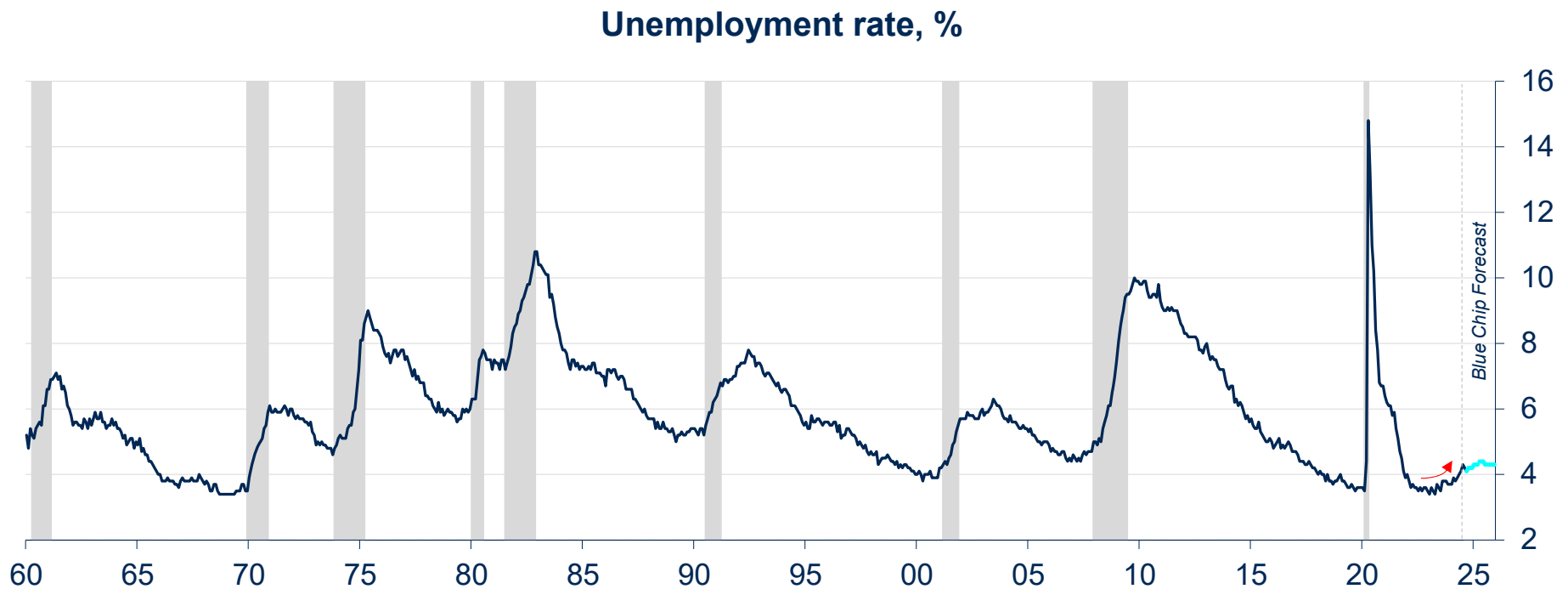
# GDP growth remains robust but expected to moderate

Contributions to real GDP, by component, %



Source: Bureau of Economic Analysis (data through Jun 2024, "third" estimate); Blue Chip (Oct 2024).

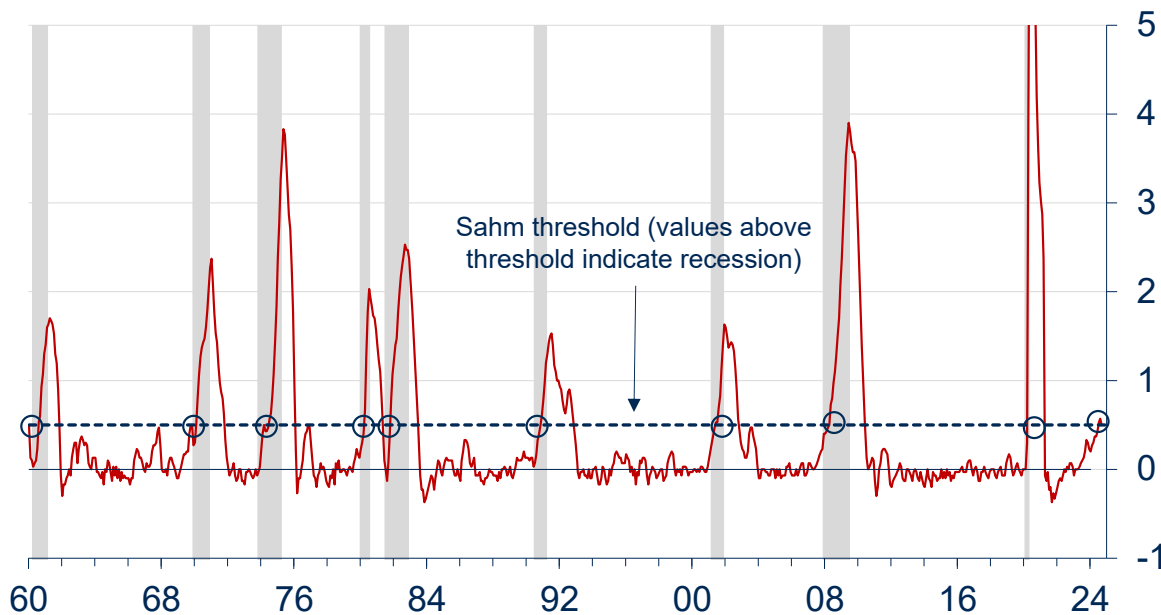
# Unemployment rate rises from generational lows



Source: Bureau of Labor Statistics (data through Sep 2024); Blue Chip (Oct 2024).

# Popular recession indicator, the Sahm rule, flashes warning

Sahm rule, 3mo avg unemployment rate less prior year's low, percentage points

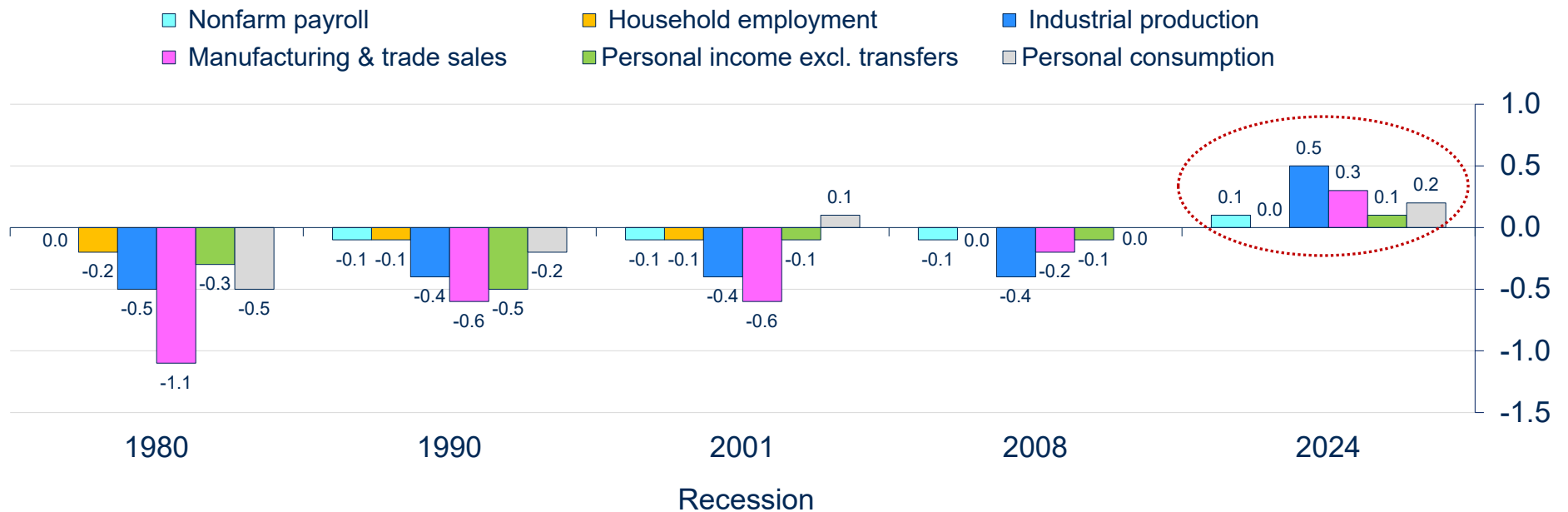


- Sahm rule identifies the *start* of a recession using changes in the total unemployment rate.
- Rule identifies an empirical regularity, not an economic law.
- Rule's creator says it is "likely overstating the labor market's weakening due to unusual shifts in labor supply caused by the pandemic and immigration."

Source: Haver Analytics (data through Sep 2024).

# Other common recession indicators report economic growth

## Recession indicators before Sahm-rule triggered, average change over four months, %

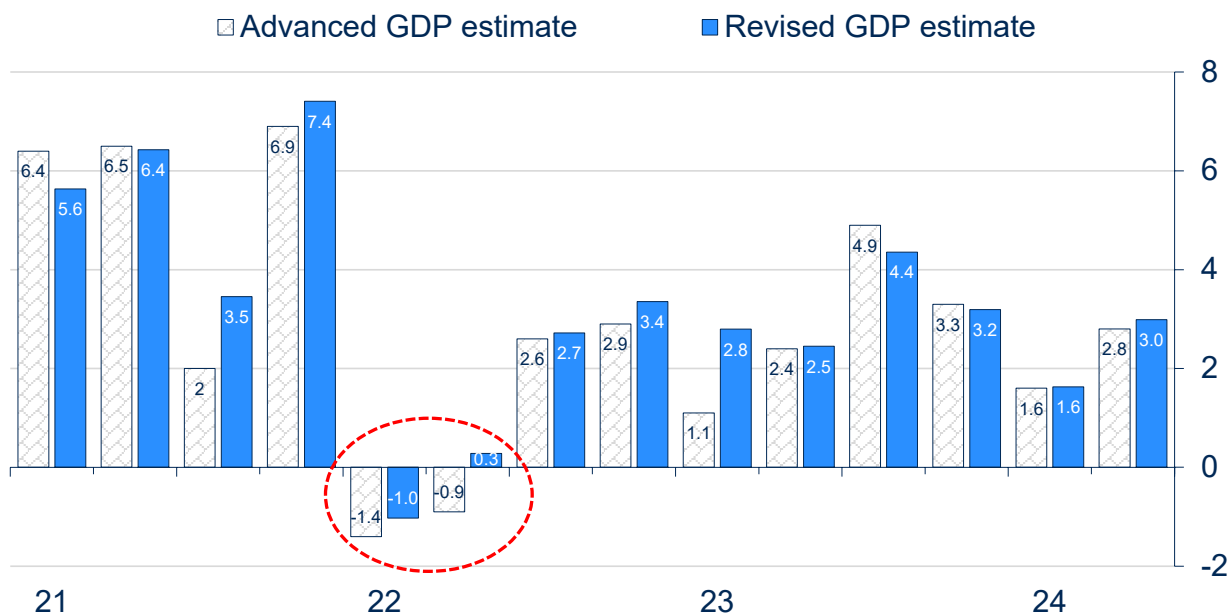


Source: Federal Reserve Board (July 2024); BEA (July 2024); BLS (July 2024).

Note: Based on a WSJ analysis where the month-over-month percent change of the four prior months leading to, and including, the month the Sahm-rule was triggered. The National Bureau of Economic Research, or NBER, is a private, non-profit, non-partisan organization dedicated to conducting economic research and designated as the official U.S. recession arbiter. According to NBER, a recession is a significant decline in economic activity that is spread across the economy and lasts more than a few months. The six-monthly indicators generally used by NBER are presented above.

# Data revisions complicate real-time policy making

## Real quarterly GDP growth, %

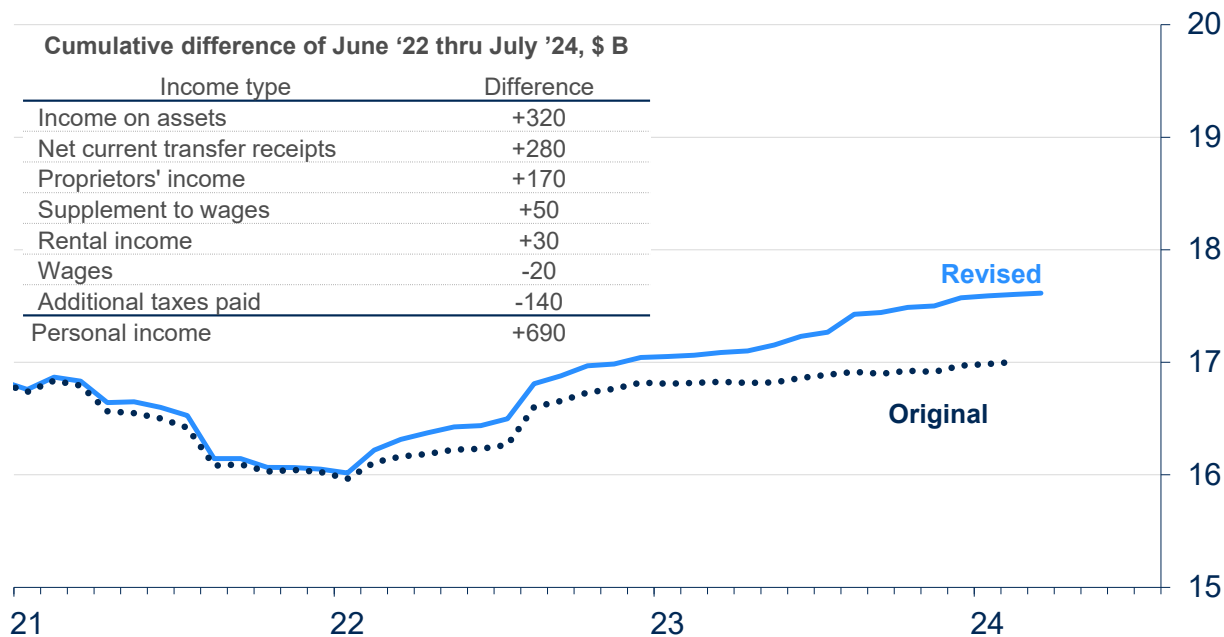


- The advanced GDP estimate is available the first month after the prior quarter's end. However, only two months of economic activity are captured. GDP estimates are revised as additional data become available.
- Revised quarterly GDP growth averaged 3.3% since 1Q21, 30 bps higher than the advanced GDP estimates, adding 1.3% to real GDP.

Source: Bureau of Economic Analysis (data through 2Q 2024); original GDP estimates are the advanced figures published within one month of the prior quarter's end.

# Real personal disposable income revised upwards by \$690 B

## Real personal disposable income, SAAR, in trillions

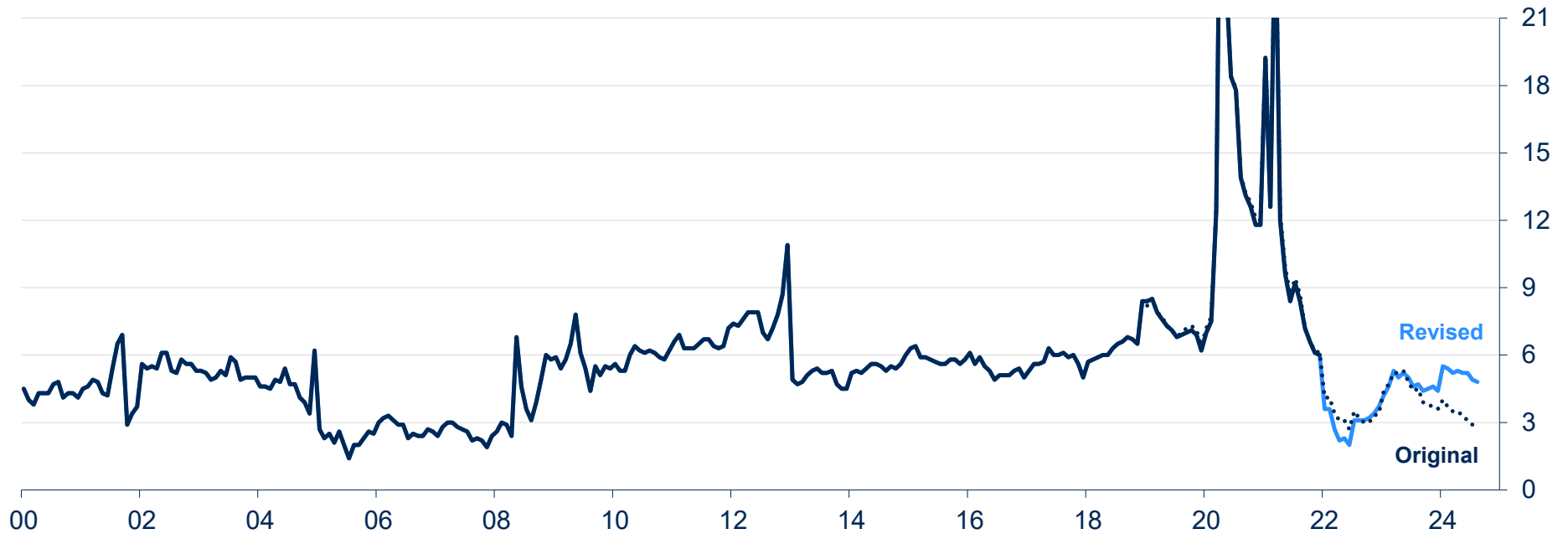


- The annual update of the National Economic revised estimates for the first quarter of 2019 through the first quarter of 2024.
- Additional real personal disposable income came from income on assets, net transfer receipts, and proprietors' income.
- Additional cumulative \$690 B in personal disposable income is equivalent to two weeks of personal outlays.

Source: Bureau of Economic Analysis (data through Aug 2024).

# Personal savings rate revised from 2.9% to 4.8%

## Real personal savings rate, %

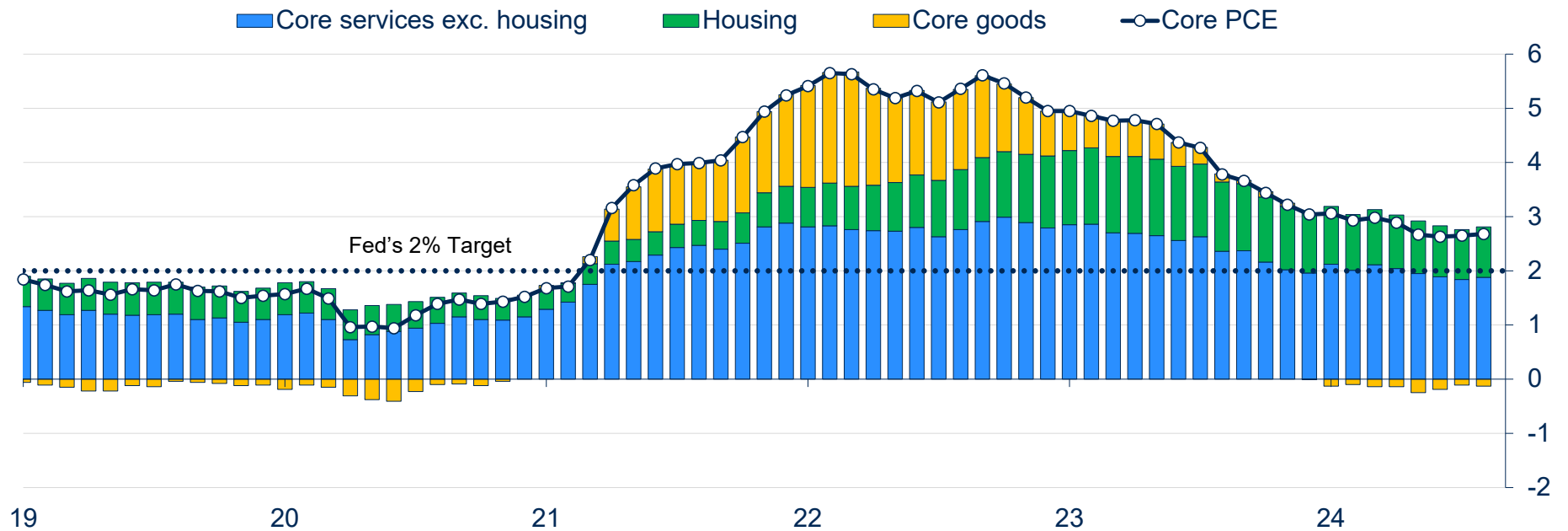


Source: Bureau of Economic Analysis (data through Aug 2024).



# Fed's preferred inflation measure remains above target

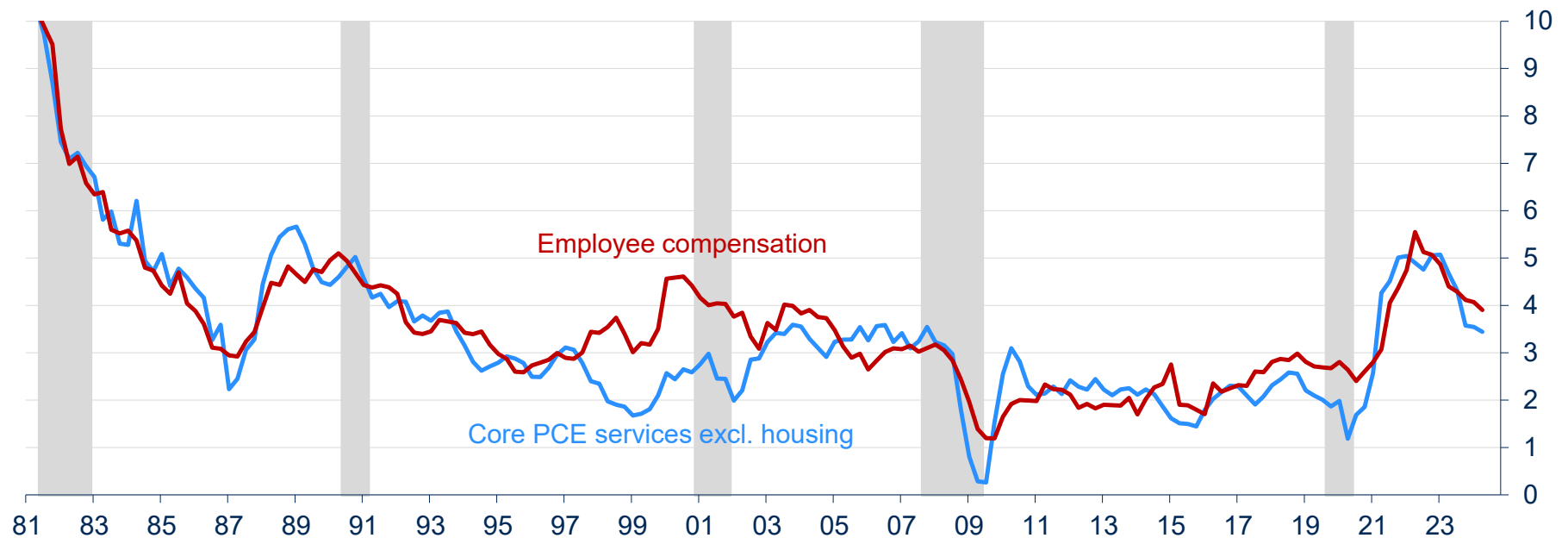
## Contribution to annual core PCE inflation, %



Source: Bureau of Economic Analysis and FRB San Francisco staff calculations (Aug 2024).  
Note: Core inflation excludes energy and food. Core PCE is the Federal Reserve's preferred measure of inflation.

# Growth in core services (excl. housing) remains a concern

Year-over-year percent change, %

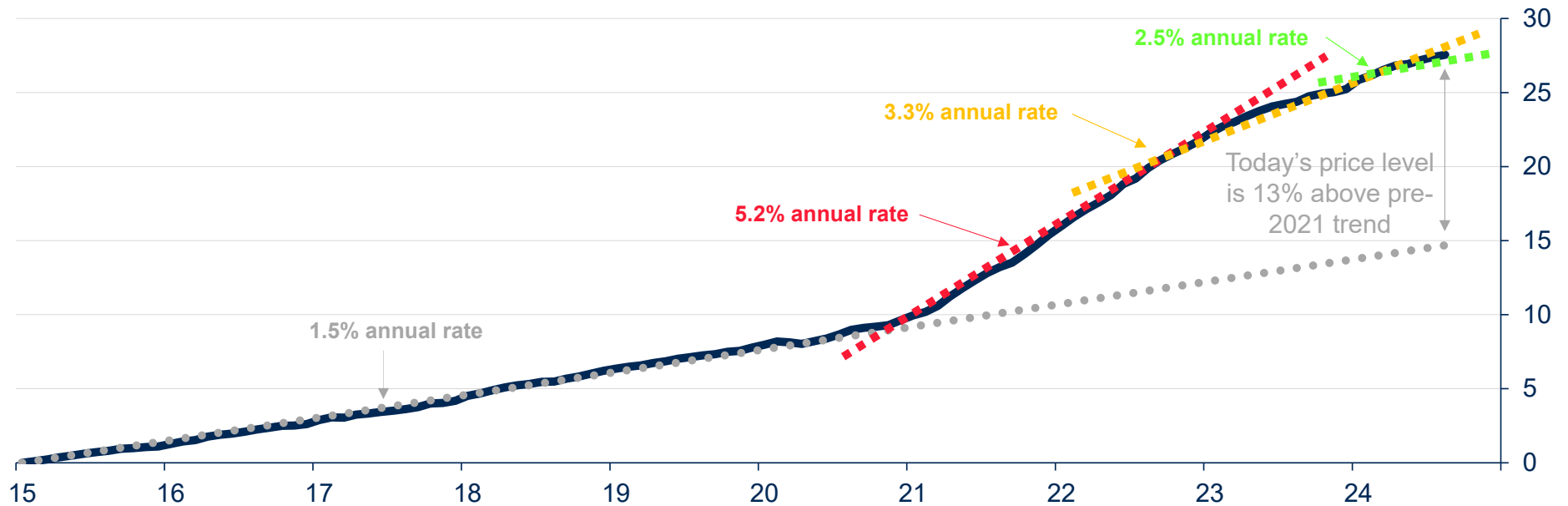


Source: Bureau of Economic Analysis and Moody's Analytics (data through 2Q 2024).

Note: Core PCE services excluding housing makes up 56% of Core PCE. Employee Compensation is for private employees.

# Price growth has slowed, but levels remain high

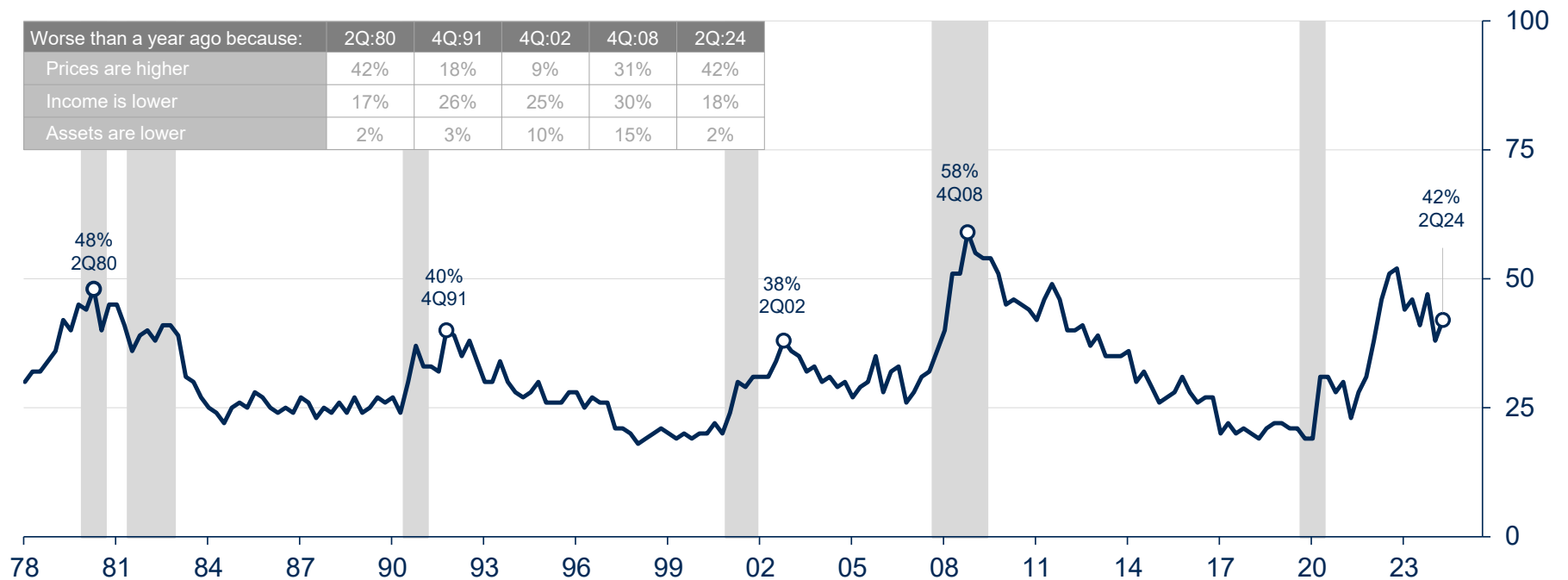
Percent change since Jan 2015 of Core PCE, %



Source: Bureau of Economic Analysis (data through Aug 2024); EBC calculations.

# Higher price levels contribute to households' negative outlook

Share of households reporting their financial situation is worse than a year ago, %

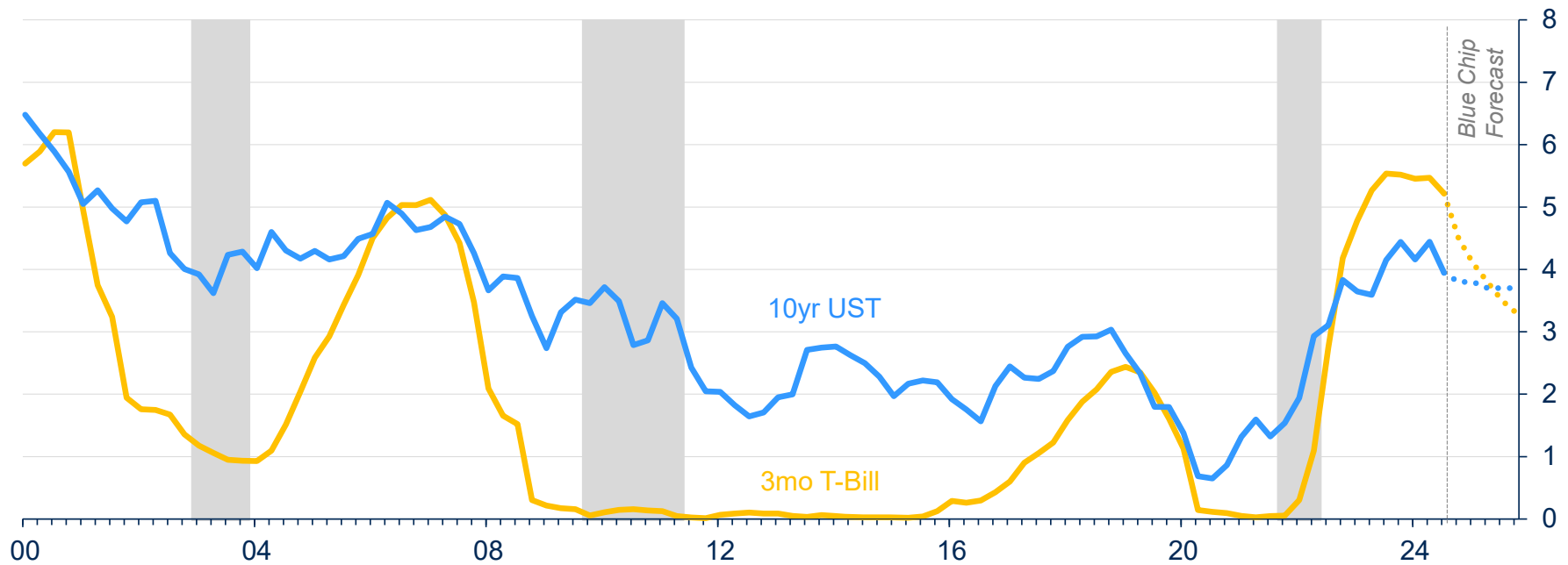


Source: University of Michigan (2Q:2024).

Note: Response to why current financial situation is worse than prior year. Totals may exceed 100% as multiple answers are allowed.

# Consensus calls for yield curve inversion to narrow

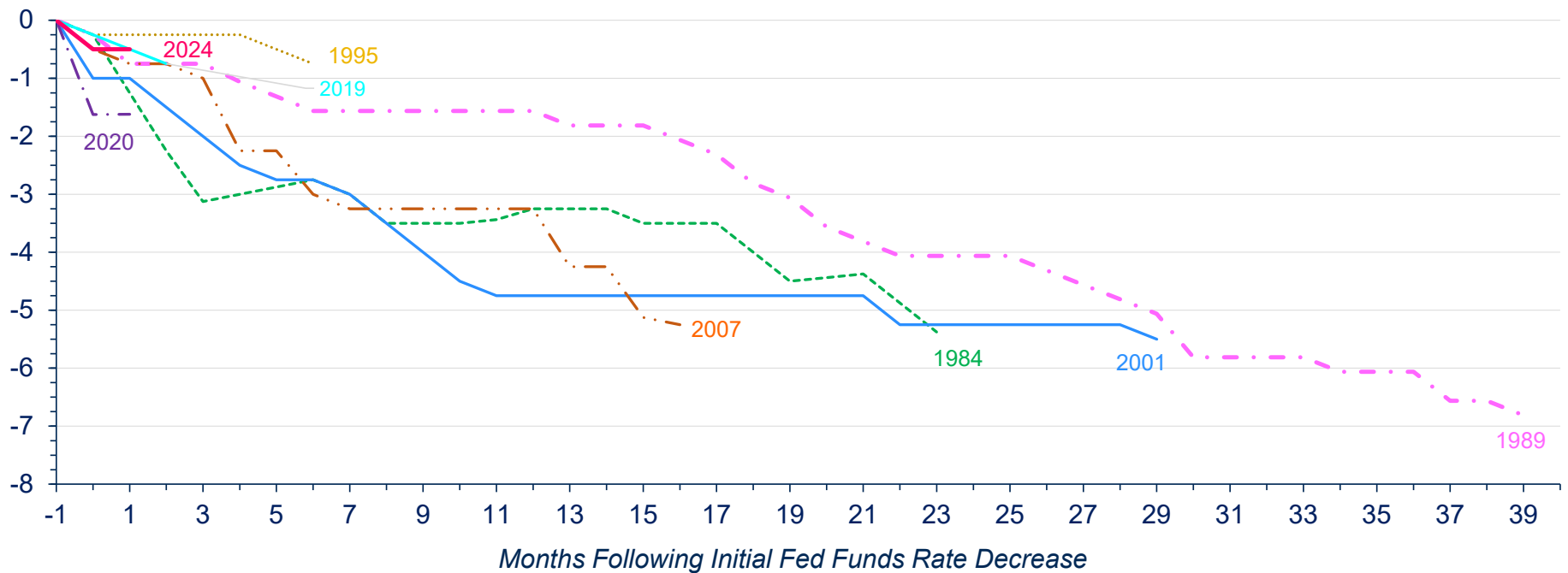
Quarterly average interest rates, %



Source: Federal Reserve Board (data through 3Q:24); Blue Chip (Oct 2024).

# Pace and magnitude of Fed cuts vary by easing cycle

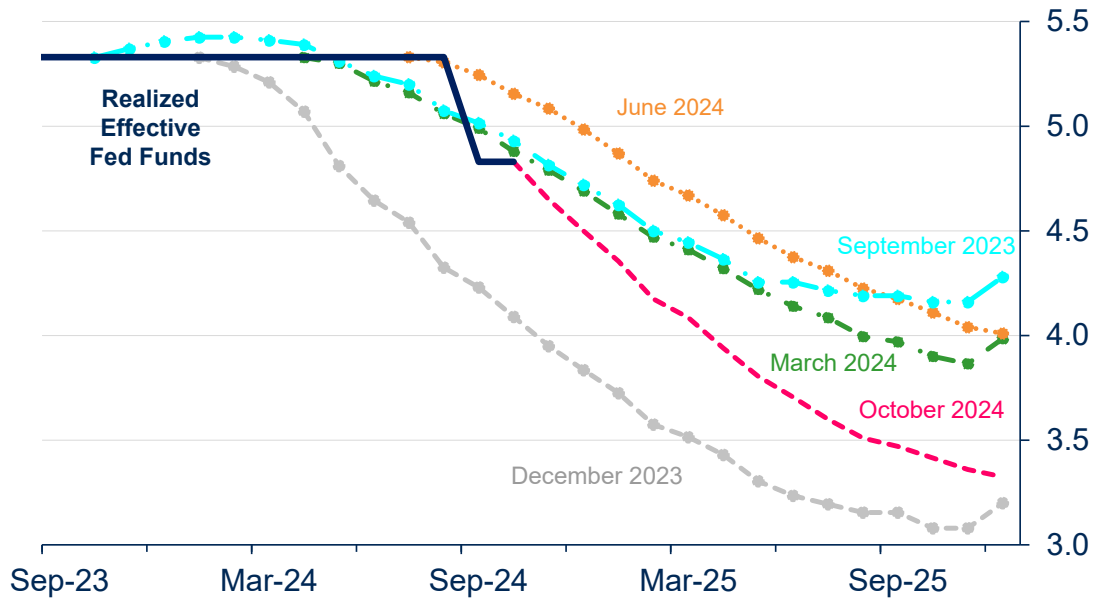
Cumulative Change in Fed Funds Rate During Easing Cycle, %



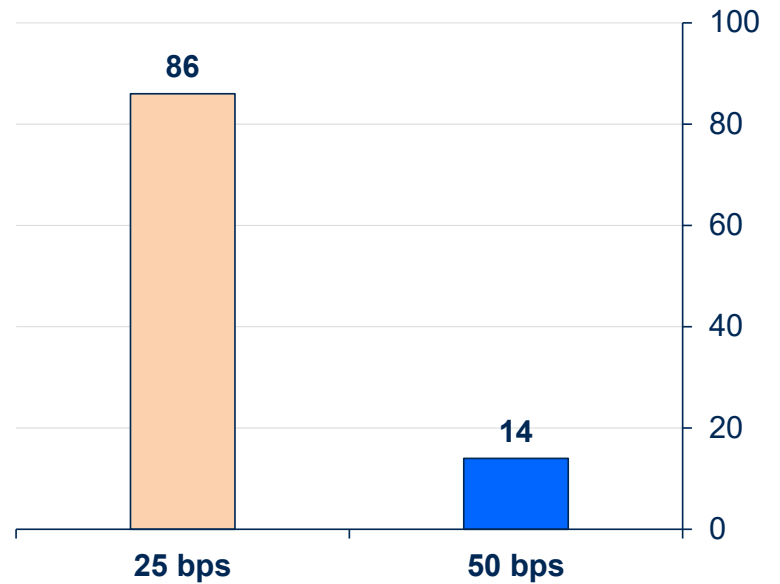
Source: Federal Reserve Board; Haver Analytics. OCC E&PA Calculations. Intermeeting 25 basis point cut in 1998 due to the failure of Long-Term Capital Management (LTCM) excluded.

# Futures market pricing an aggressive easing cycle

Futures implied Federal Funds rate, %



How much will the first FOMC rate cut be in September? BC Respondents, %

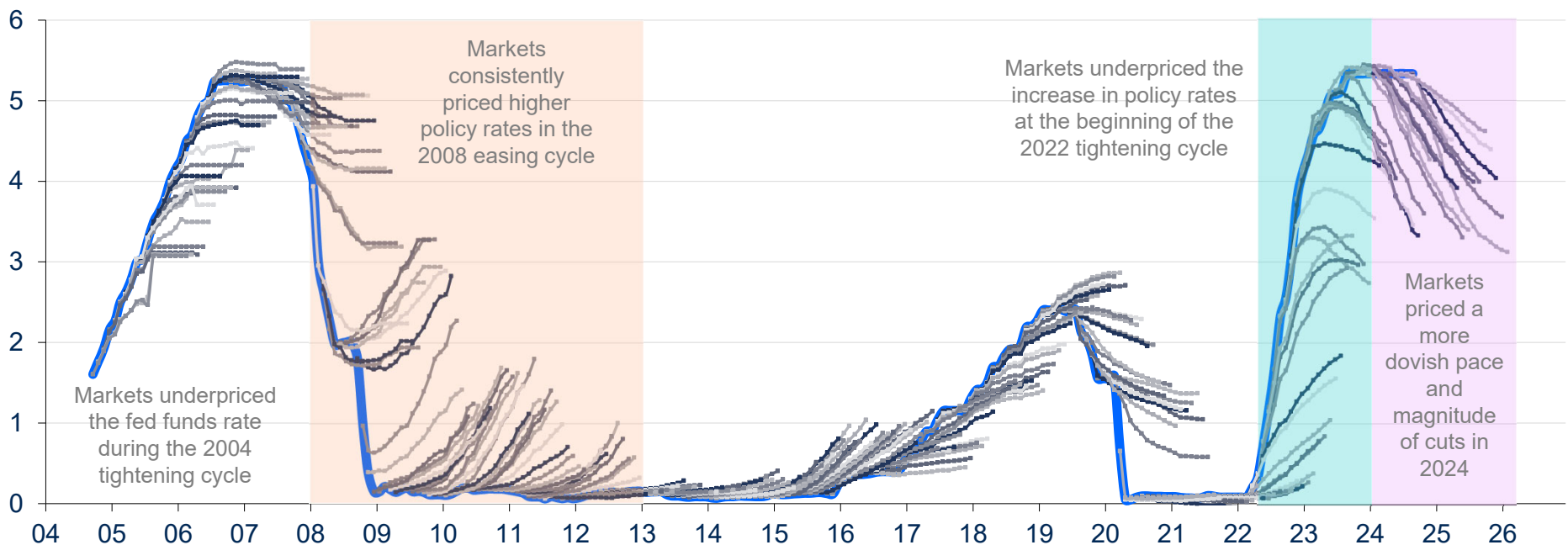


Source: Chicago Board of Trade (October 16, 2024); Bloomberg; Blue Chip Consensus (September 2024)

Note: 30-day Fed Funds Futures expiring on future horizons; 100% of forecasters surveyed by Blue Chip Consensus expected the FOMC to cut interest rate at their September 18, 2024, meeting

# But the futures market is an unreliable predictor of rate policy

## Implied Federal Funds Rate from spot and futures prices, 18-month, %



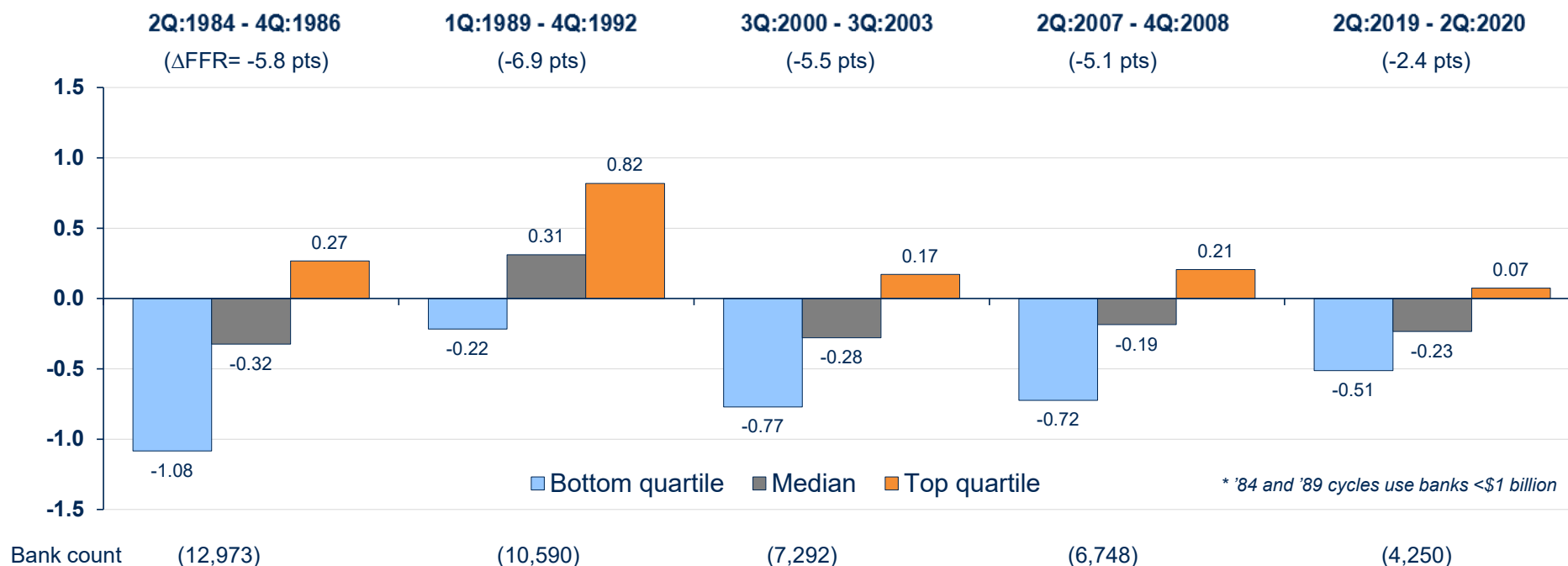
Source: Chicago Board of Trade; Bloomberg (End of Month, August 2024); E&PA Calculations

Note: 30-day Fed Funds Futures Curves by historical spot date; up to 18-month maturity shown for each curve (shown in grey); Spot front month (FF1) pricing is shown in blue.



# Community bank NIMs usually decline after Fed rate cuts

**FDIC-insured commercial banks, <\$10 billion\***  
**Change in NIM by downward rate cycle**

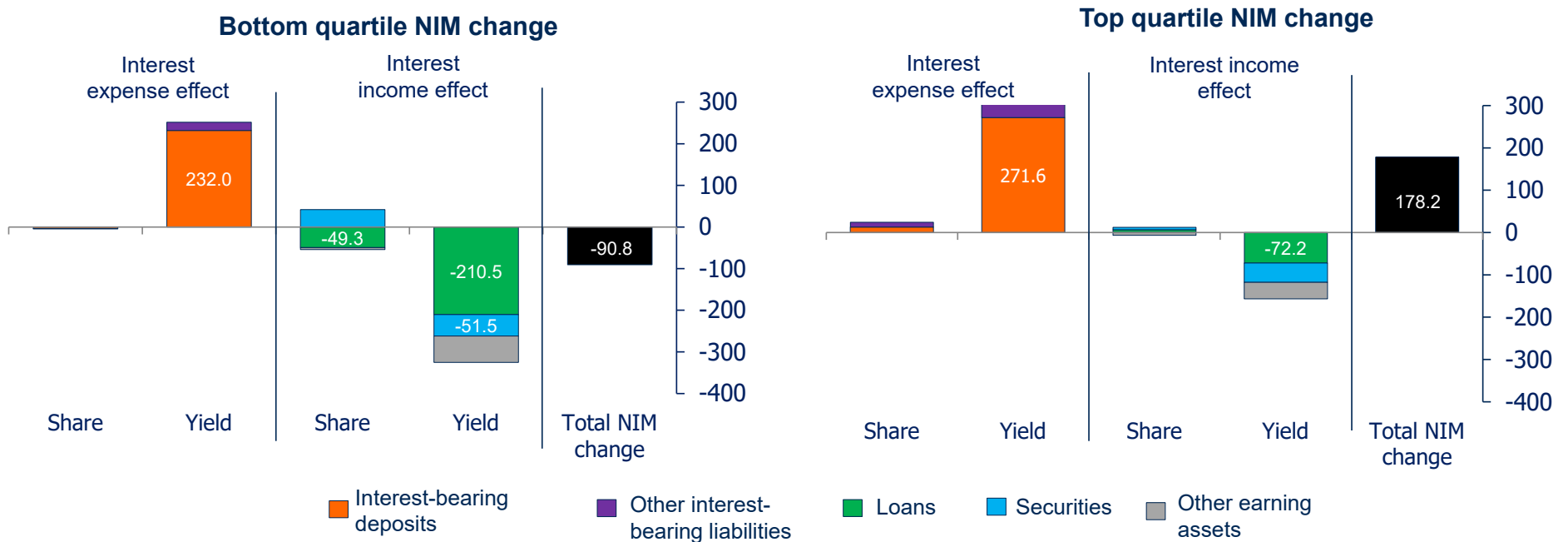


Source: Call Reports from OCC Integrated Banking Information System

Notes: Data are merger adjusted for institutions in continuous operation within each cycle and exclude specialists.

# In '90 cycle, top quartile had advantages in assets & liabilities

**FDIC-insured commercial banks, assets <\$1 billion**  
**NIM change decomposition, 1Q:89 – 4Q:92, change in basis points**

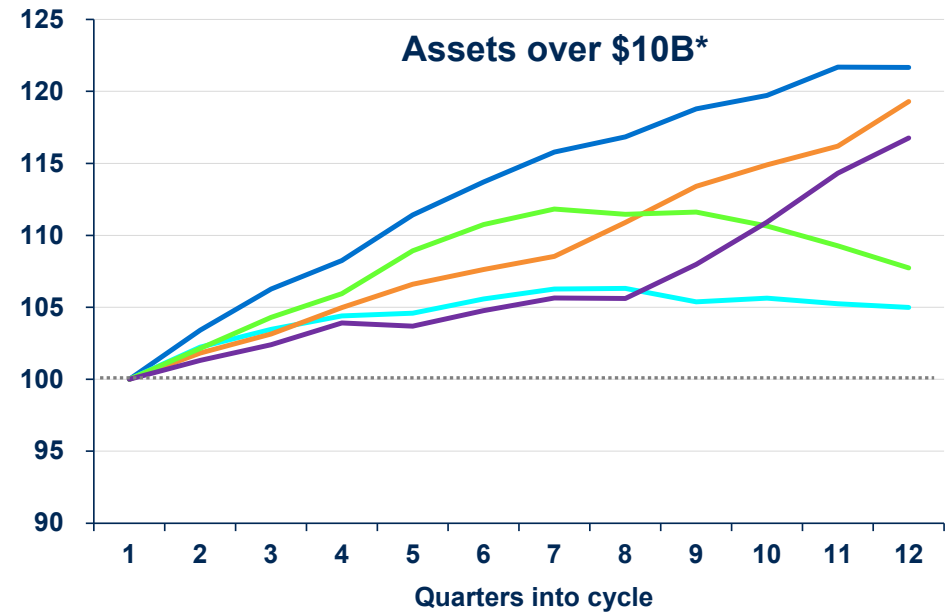
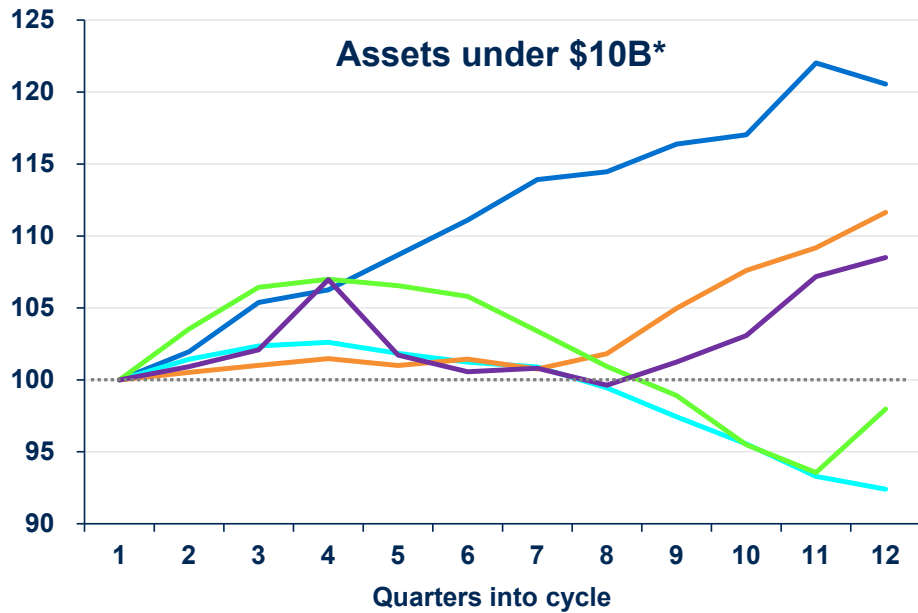


Source: Call Reports from OCC Integrated Banking Information System

Notes: Data are quarterly and merger adjusted for institutions in continuous operation from 1Q:1989 to 4Q:1992, presented as a weighted average.

# Community banks usually grow loan book during easing cycles

## FDIC-insured depositories Total loans, indexed to start of cycle



— 2Q:84 – 4Q:86    — 1Q:89 – 4Q:92    — 3Q:00 – 3Q:03    — 2Q:07 – 4Q:08    — 2Q:19 – 2Q:20

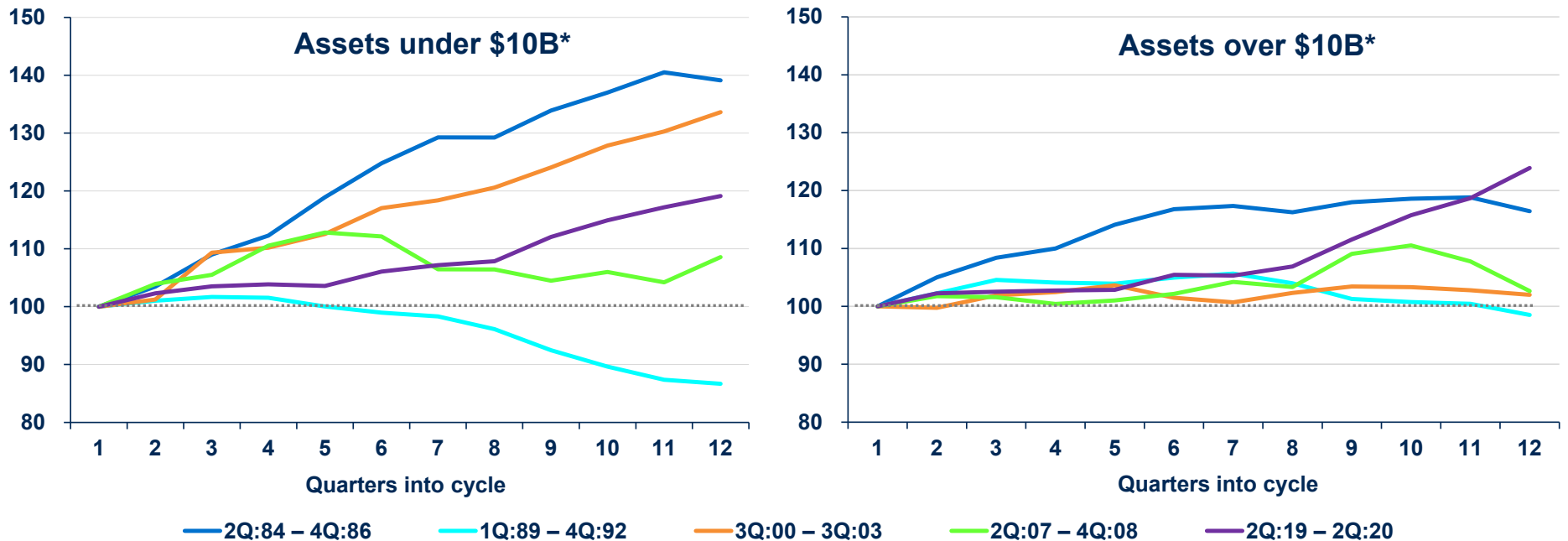
Source: Call Reports from OCC Integrated Banking Information System

Notes: Data are merger adjusted for institutions in continuous operation within each cycle. Total loans exclude PPP loans.

\*For periods 2Q:84 - 4Q:86 and 1Q:89 - 4Q:86, the asset threshold is \$1 billion rather than \$10 billion.

# Other consumer loans (e.g. cards) usually expand as Fed cuts

**FDIC-insured depositories**  
**Other consumer loans, indexed to start of cycle**



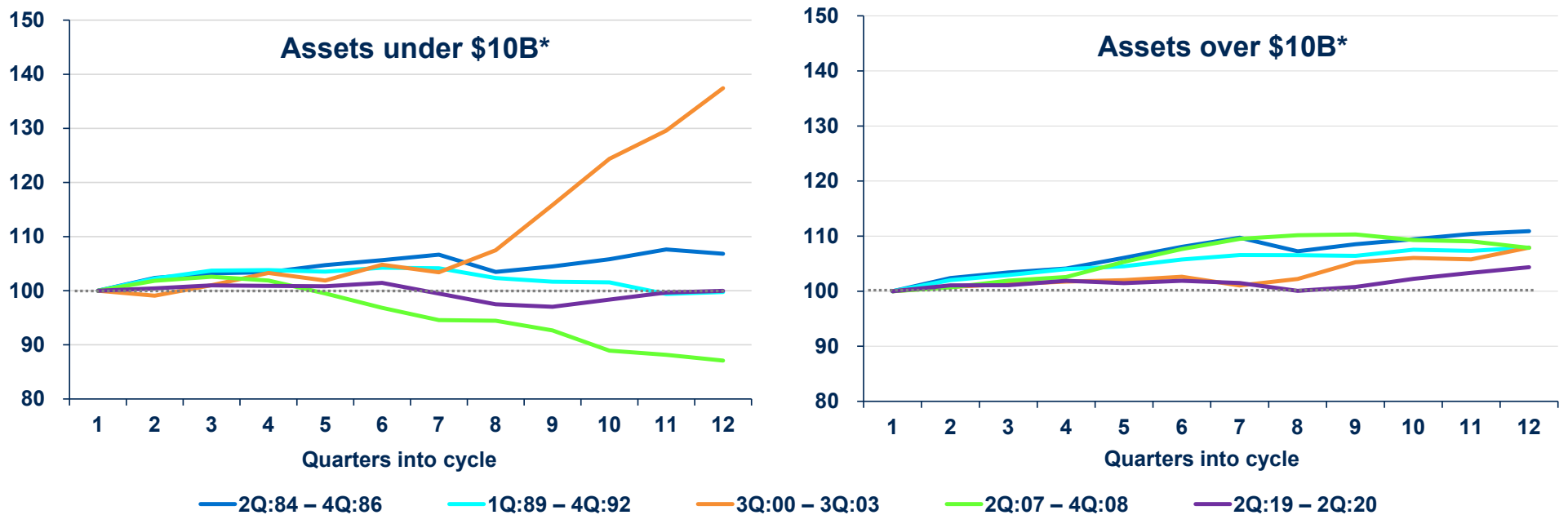
Source: Call Reports from OCC Integrated Banking Information System

Notes: Data are merger adjusted for institutions in continuous operation within each cycle. 'Other' consumer loans are total consumer loans less credit cards loans

\*For periods 2Q:84 - 4Q:86 and 1Q:89 - 4Q:86, the asset threshold is \$1 billion rather than \$10 billion

# Community bank RESRE growth stable through easing cycles

## FDIC-insured depositories Residential real estate loans, indexed to start of cycle



Source: Call Reports from OCC Integrated Banking Information System  
 Notes: Data are merger adjusted for institutions in continuous operation within each cycle.  
 \*For periods 2Q:84 - 4Q:86 and 1Q:89 - 4Q:86, the asset threshold is \$1 billion rather than \$10 billion

# Takeaways

- Economic growth remains resilient but expected to moderate
- Labor market moves closer to balance; unemployment rate remains low
- Fed begins rate cuts which generally compress bank net interest margins