



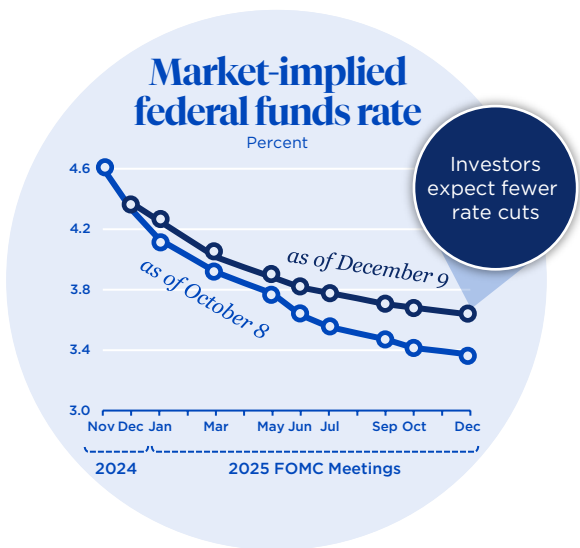
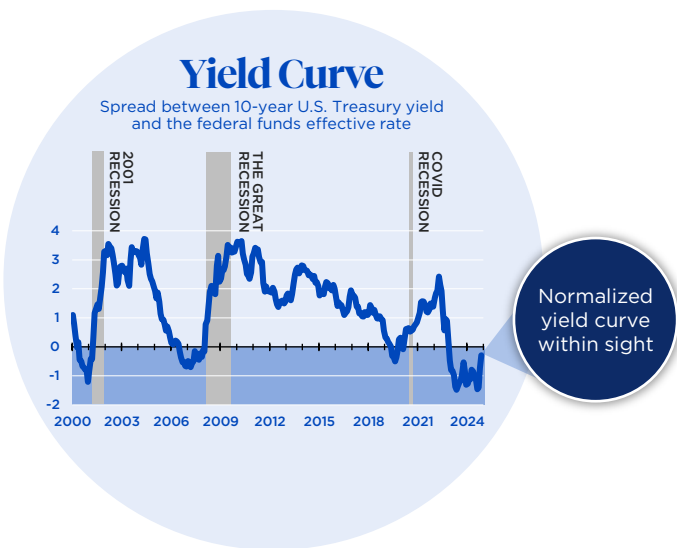
Economic & Financial Markets Monthly Review | December 2024

Plenty of holiday cheer from the economy



Where is the economy now?

There should be a solid hand off from 2024 to 2025 for the economy as tailwinds from the labor market and consumer spending remain sturdy. Still, the new year should bring a slightly slower pace of growth amid expected cooler hiring trends, while policy uncertainties hang over the outlook. After another anticipated rate cut on December 18, the Fed could pause its easing cycle in January to assess the strength of the labor market and prospective policy changes from the incoming Trump Administration.



Where we
are this
month

What does
this mean

Steady expansion for the economy

Solid momentum in economic activity is poised to carry into early 2025 as job and wage gains remain strong enough to support further consumer spending.

- Modest interest rate cuts from the Fed should ease cost pressures on businesses, helping to support continued growth despite elevated uncertainty around policy changes in the new year.
- There is downside risk for growth in 2025, especially if the labor market and consumer spending cool off more than expected. But there is also upside potential which should help to push off any lingering recession concerns.

Yield curve steady for now

The steepening of the yield curve paused over the past month with long-term rates receding after climbing higher from mid-September through mid-November.

- The 1-year and 10-year Treasury yields were roughly equal again in early December. With the Fed expected to pursue a few additional rate cuts over the next six months, the entire Treasury rate curve should normalize by mid-2025.
- While the yield curve has historically disinverted ahead of most downturns, this recession signal has been misleading in the current cycle given recession concerns are likely delayed for some time.

Rate expectations shift again

In the face of strong economic growth and price pressures, financial markets have steadily pared back their expectations for Fed easing over 2025.

- Fed fund futures now signal 75 basis points of rate cuts over 2025, down from the 125 bps anticipated in September. This is in line with our outlook as Fed officials are likely to take a more cautious approach to the easing cycle in the year ahead.
- Fewer rate cuts would mean higher loan rates for autos and homes, delaying the expected recovery in sales activity for these areas while also providing less boost to economic activity in the second half of 2025.

Consumers continue to drive growth

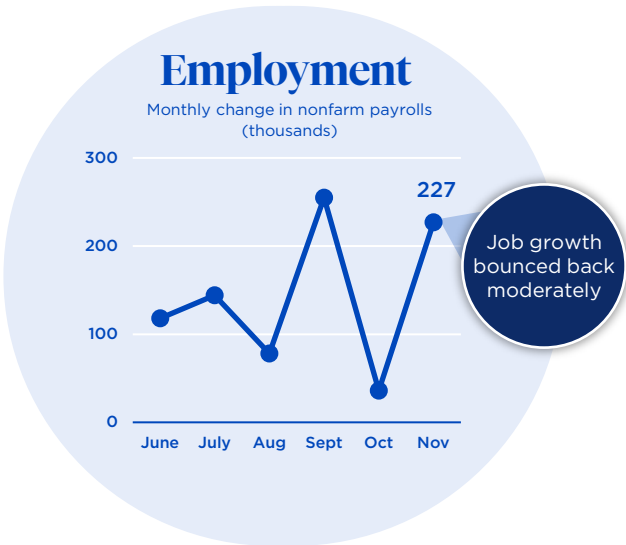
Job gains in November rebounded only moderately from the paltry increase recorded in October, which was restrained by the impact from two hurricanes and the Boeing strike. Further, the rise in employment continues to be narrowly focused in mostly non-cyclical sectors. Still, wage growth remains buoyant amid low unemployment and continues to fuel consumer spending. Cooler, but not cold, employment growth should be maintained as we head into 2025.



CPI inflation rises again

The headline CPI inflation rate climbed for a second straight month to 2.7 percent in November, while the core rate again held steady at 3.3 percent.

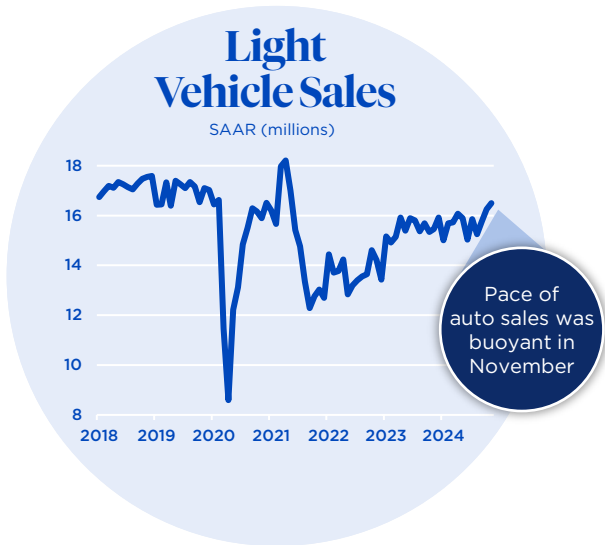
- Headline and core CPI posted a firm 0.3 percent as core goods prices moved higher. Used car prices popped for a second straight month, in part due to a jump in demand from the hurricanes in October. Importantly, however, the gain in services prices was softer due to a slower rise in residential rental and motor vehicle insurance costs.
- The three-month annualized rates for overall and core inflation climbed to 3.0 and 3.7 percent, respectively; both have risen for four straight months.



Hiring bounces back, but trend is sluggish

Nonfarm payrolls climbed by 227,000 — only a moderate rebound after October's weak gain — while the unemployment rate ticked up to 4.2 percent.

- The rebound in job growth was on the soft side in November, following the hurricane and strike-depressed reading in October. When averaging the last two months together, payrolls advanced only a sluggish 132,000 per month.
- The unemployment rate ticked up but remained low at 4.2 percent, while annual wage growth remained buoyant, climbing to 4.0 percent after another monthly gain of 0.4 percent.



Momentum picks up for auto sales

The annualized rate of light vehicle sales climbed in November to 16.5 million units — the fastest pace since May 2021. Sales were boosted by higher discounts aimed at clearing elevated inventories.

- Auto sales, which were strong in November, are helping to keep consumer spending data solid. Outside of autos, consumers have begun to display more bargain-shopping behavior as job gains have moderated and consumer prices remain high.
- Despite the year-end run-up in auto sales, we expect sales to take a step back in 2025 due to subdued job growth and still-high borrowing rates. A more-lasting recovery should coincide with lower rates later in the year.

Where we
are this
month

What does
this mean

Investor optimism reaches a new fever pitch

Risks assets are on track to cap a stellar year. The stock market continues to make new all-time highs and corporate bond spreads remain extremely tight in the wake of the election and amid favorable earnings, spending and hiring trends. While the Fed may cut rates more slowly in 2025, it maintains a bias toward easing. There is some risk of turbulence stemming from prospective new policies from the incoming Trump Administration, but we expect the economy to maintain healthy momentum and an additional 75 basis points of Fed rate cuts in 2025.



An ebullient year for stocks

The election outcome has buoyed investment sentiment and has encouraged brighter outlooks for 2025, lifting stocks to new all-time highs by the end of the month. Ebullient optimism has extended into early December.

- This year has been outstanding for equities, with the S&P 500 up about 27 percent year-to-date. In addition to favorable views of the election's implications, solid third-quarter earnings results, solid economic trends, and the Fed's desire to loosen monetary policy have supported valuations.
- Investors expect more gains in 2025, casting aside domestic and global uncertainties, namely a contentious global geopolitical environment.



Lower interest rates

After jumping in the wake of the 2024 election, interest rates settled down and ended November slightly lower than where they started the month. Interest rates remain elevated, largely a testament to the economy's resilience.

- Short-term Treasury yields have reversed course in recent weeks as the Fed suggests a slower easing cycle in 2025. The 2-year Treasury yield fell a marginal 3 basis points (bps) over the course of November.
- After an anticipated 25 bps Fed rate cut in December, we expect 75 bps of easing in 2025. There is a risk that policy loosening will materialize more gradually than we expect. The federal government's debt burden lends upside risk to long-term interest rates.



A surge in trade policy uncertainty

While other measures of uncertainty remain muted, a proxy for trade policy uncertainty has surged to its highest reading on record and well beyond levels seen in the first Trump administration.

- Investors and businesses are unclear how much the incoming administration will change trade policy. Importantly, it is encouraging for the economy that other uncertainty measures haven't risen in tandem.
- Trade policy will likely dominate investors' and business executives' minds in 2025. The incoming administration looks intent to use tariffs as a tool to try to reorient trade flows and boost the U.S. economy's domestic manufacturing sector.

Where we
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Outlook

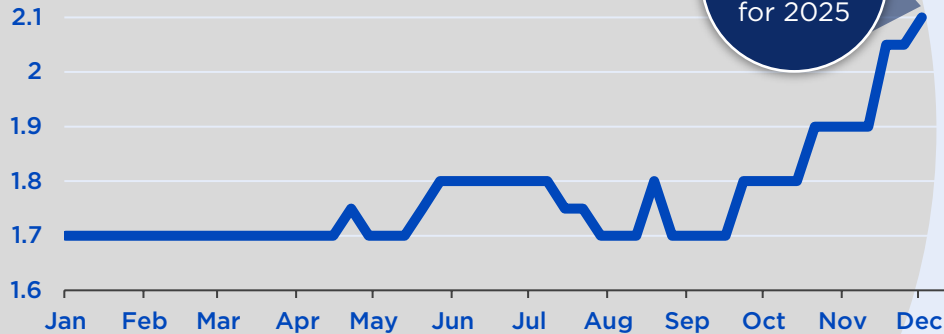
Rising confidence for solid growth in 2025

While the economy has been consistently stronger than expected in 2024, growth expectations for 2025 were subdued for much of the year. That has changed recently as concerns for a steep retrenchment in employment and consumer spending in late 2024 have not materialized. With sturdy growth projected for the fourth quarter and momentum likely to carry into 2025, estimates for real GDP growth next year have climbed above 2.0 percent.

Importantly, though, consensus expectations show the economy downshifting from the rapid pace of growth posted in 2023 and 2024. We forecast that reduced spending by consumers and businesses will place GDP growth slightly below trend for much of the year. And there remains high uncertainty regarding the forward policy paths from the Federal Reserve and the federal government. That said, risks to the outlook appear to be more balanced heading into 2025, and the odds of a recession have dwindled substantially.

Consensus real GDP growth estimate for 2025

Percent



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Data as of December 2024

	2023 ACTUAL	2024 ESTIMATE	2025 FORECAST	2026 FORECAST	2027 FORECAST
REAL GDP	2.9%	2.8%	2.1%	2.0%	1.8%
UNEMPLOYMENT RATE	3.6%	4.1%	4.5%	4.2%	4.2%
INFLATION ¹ (CPI)	3.2%	2.5%	2.4%	1.9%	2.0%
TOTAL HOME SALES	4.75	4.70	4.91	5.83	6.16
S&P/CASE-SHILLER HOME PRICE INDEX	5.5%	4.2%	3.2%	3.2%	3.0%
LIGHT VEHICLE SALES	15.5	15.7	15.7	16.2	16.5
FEDERAL FUNDS RATE ²	5.25%	4.25%	3.50%	2.75%	2.75%
5-YEAR TREASURY NOTE ²	3.84%	4.05%	3.85%	3.40%	3.40%
10-YEAR TREASURY NOTE ²	3.88%	4.15%	4.00%	3.80%	3.80%
30-YEAR FIXED-RATE MORTGAGE ²	6.61%	6.60%	5.80%	5.00%	5.00%
MONEY MARKET FUNDS	5.09%	4.96%	3.72%	2.97%	2.78%

Labor market to remain solid in 2025

While job gains are projected to slow in early 2025, unemployment should only rise to about 4.5 percent — still a relatively low level. Lower interest rates should cause hiring by businesses to pick up later in 2025 to support consumer spending.

Modest decline in long-term rates

Despite the Fed's continued easing, long-term yields will be boosted by lingering inflation and rising concerns about the outlook for the fiscal deficit and debt. This should keep the 10-year Treasury rate above 4.0 percent over 2025, with the yield curve fully normalizing in the first half of the year.

¹ Percent change Q4-to-Q4

² Year end

Contributors

- Kathy Bostjancic**
SVP & Chief Economist

Ben Ayers, MS
AVP, Senior Economist

Oren Klachkin
AVP, Financial Market Economist

Daniel Vielhaber, MA
Economist

Ashleigh Leonard
Economics Specialist

Brian Kirk
Communications Consultant

Sources

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	Business Cycle	<i>Nationwide Economics</i>
	Yield Curve	<i>Bloomberg; National Bureau of Economic Research</i>
2	Economic Review	
	Core PCE inflation	<i>Bureau of Labor Statistics</i>
	Nonfarm payroll gains	<i>Bureau of Labor Statistics</i>
3	Financial Markets Review	
	S&P 500	<i>Standard & Poor's</i>
	10-year Treasury yield	<i>Federal Reserve Board</i>
4	Outlook	
	Trade Policy Uncertainty Index	<i>PolicyUncertainty.com, Matteo Iacoviello, Haver, Nationwide Economics</i>
	Real GDP estimate for 2025	<i>Bloomberg</i>
	Latest Forecast	<i>Nationwide Economics</i>



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