



The Conference Board Economic Forecast for the US Economy

Updated 13 December 2023

After several years of pandemic-induced turbulence the US economy appears to be coming in for a landing at last. Inflation is moderating, interest rates are elevated but stable, labor market conditions are cooling, and consumer spending appears to be decelerating. The question remains, however, what kind of landing awaits?

In recent months the prospects for a soft landing have risen, but we continue to believe that bumps await the economy in early 2024. We forecast two quarters of negative growth that will be broadly felt across the economy. The contraction will be limited in depth and duration, but we expect the National Bureau of Economic Research (NBER) to formerly classify it as a recession at some point in the future.*

Our 2024 US economic outlook is associated with numerous factors, including elevated inflation, high interest rates, dissipating pandemic savings, rising consumer debt, and the resumption of mandatory student loan repayments. While we forecast that real GDP will grow by 2.4% in 2023, we expect it to slow to 0.9% in 2024. However, following this downturn the US economy should begin to normalize. We forecast 2025 GDP growth to come in near potential at 1.7%.

US consumer spending has held up remarkably well this year despite elevated inflation and higher interest rates. However, this trend cannot hold, in our view. Real disposable personal income growth has struggled to grow, pandemic savings are dwindling, and household debt is rising. Additionally, new student loan repayment requirements are

beginning to weigh on consumers. Thus, we forecast that overall consumer spending growth will slow towards yearend and then contract in Q1 2024 and Q2 2024. As inflation and interest rates abate later in 2024, we expect consumption to begin to expand once more.

Meanwhile, following strong growth in Q2 2023, business investment growth slowed materially in Q3 2023 as interest rate increases made financing activities more expensive. We expect this trend to intensify over the next several quarters as the Fed resists calls to cut rates until mid-2024. Residential investment, which had been contracting since 2021, began to grow again in Q3 2023. Persistent demand for homes and a dearth of supply was the driver. We don't expect residential investment growth to improve until interest rates begin to come down, but pent-up demand is likely to spur growth thereafter.

Government spending was a positive growth driver in 2023 due to federal non-defense spending associated with infrastructure investment legislation passed in 2021 and 2022. However, growth is likely to slow in 2024 and 2025 as infrastructure spend out stabilizes. Furthermore, political volatility surrounding fiscal policy, debt, and outlays could impact government spending over the next few years.

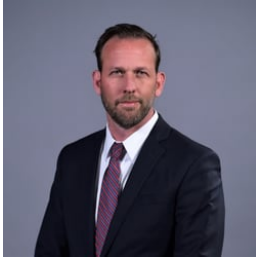
On inflation, we expect to see progress over the coming quarters, but the path will probably be bumpy. Concerns about energy market disruptions due to the outbreak of war in the Middle East have moderated and oil prices have fallen. Meanwhile, price pressures emanating from dwellings and services continue to moderate, albeit slowly. We expect year-over-year inflation readings to remain at about 3 percent at 2023 yearend and that the Fed's 2 percent target will not be achieved until the end of 2024.

Labor market tightness has been remarkably persistent in 2023, but recent data show some moderation. While this should continue over the coming quarters, we do not expect labor markets to unravel (as was the case in previous recessions). The tightness largely reflects a shrinking labor force as Baby Boomers retire. Indeed, this persistence should prevent overall economic growth from slipping too deeply into contractionary territory and facilitate a rebound next year.

Looking into late 2024 and 2025, we expect the volatility that dominated the US economy over the pandemic period to diminish. In the 2025, we forecast that overall growth will return to more stable pre-pandemic rates, inflation will hover at around 2 percent, and the Fed will lower rates to just below 3%. However, due to an aging labor force we expect tightness in the labor market to remain an ongoing challenge for the foreseeable future.

* There is no fixed timing rule for the NBER to call a recession. Determinations have taken between 4 and 21 months previously.

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