



# The US economy continues to expand at an above-trend rate

## November 12, 2024 | Economic Update

[VIEW FULL PDF](#)

Aside from some unexpected weakness in last month's job report, the US economy continues to expand at an above-trend rate, gradually closing in on the economic soft-landing Federal Reserve officials have sought. Recent indicators show GDP rose at a robust annual rate of 2.8% in the third quarter, just short of the 3.0% second quarter pace. The principal driver of the economy, consumer spending, which amounts to about 70% of GDP, has remained resilient, and investment in equipment has strengthened in recent months. In contrast, housing and other interest rate sensitive sectors of the economy continue to lag despite recent Fed rate cuts. Overall, improving supply conditions have supported the strong performance of the US economy over the past year. Inflation-adjusted weekly earnings are increasing again. Households' expectations of future inflation have cooled sharply. And at the same time, the Fed's preferred inflation gauge, the Personal Consumption Expenditures index (PCE), increased just 2.1% over the past year through September, just a hair above the central bank's 2% target.

Despite the rosy picture these and other metrics paint, alternative data and surveys show the US economy in a less favorable light, accounting for why the average American has a negative view of conditions and probably voted for change in the recent elections. For example, employment growth has been concentrated in government and government adjacent industries such as healthcare, implying that most private sector workers, particularly those in manufacturing industries where there have been layoffs amid recession-like conditions, have not benefited from the tight labor market and may be worried about their continued employment prospects. As for inflation and wages, what matters most to consumers are the levels, not the reported rate of change. While prices are now rising more slowly, consumers still must contend with the huge legacy increases of 2021 and 2022. And an important fact that emerged during the election was that inflation-adjusted median weekly earnings rose nearly 7% between January 2017 and December 2020 — Trump's first term — and fell 0.5% across Biden's four years in office.

### Jobs

Payroll job gains have slowed from earlier in the year, averaging 104,000 per month over the past three months. Nonfarm payrolls increased just 12,000 in October, well below the consensus expected 100,000. Civilian employment, an alternative measure of jobs that includes small business startups, dropped 368,000. The civilian employment survey showed 512,000 workers missed work due to weather, an unusually high number for the month. Interestingly, the unemployment rate held steady at an historically low 4.1% rate as the labor force declined by 220,000 jobs. A broader measure of unemployment that includes discouraged workers and those holding part-time jobs for economic reasons was also unchanged at 7.7%. Looking ahead, there are good reasons to believe job growth will rebound this month as the

impact of hurricanes Helene and Milton and the Boeing strike roll off and holiday season hiring kicks in. Elsewhere, average hourly earnings increased 0.4% for the month, slightly higher than the estimate, though the 4% 12-month gain met expectations, and the average work week held steady at 34.3 hours. The unemployment rate is notably higher than it was a year ago but has edged down over the past three months and remained low at 4.1% in October. Nominal wage growth has eased over the past year, and the jobs-to-workers gap has narrowed, falling to the lowest level since 2021. So overall, a broad set of indicators suggests conditions in the labor market are now less tight than just before the pandemic in 2019 and that the labor market is not likely to be the source of significant inflationary pressures.

## The Fed

The Federal Reserve's decision last week to reduce its reference rate by an additional quarter percentage point to a 4.5% - 4.75% range reflects officials' growing confidence that with the recent recalibration of its policy stance, the central bank remains on track to return inflation to their 2% target, believing rates are still high enough, even with the latest cuts, to damp economic activity. Interestingly, since the Fed first cut short-term rates by 50 basis points in September, longer-dated US treasury bond yields have risen notably, by over 60 basis points, increasing the cost to take out a new mortgage or an auto loan where rates are determined by market conditions. Yields have increased in part because stronger economic data has led investors to diminish the odds of a recession which could have triggered larger rate cuts. In addition, the rise in rates may also reflect the growing concerns of some investors that higher than expected deficits or inflation in a second Trump term are in the cards. Either way, the bond market has generated a counter intuitive but not unprecedented result: Borrowing costs have risen after the Fed cut rates. The average 30-year fixed rate mortgage has jumped since mid-September to 6.8% this week from 6.1%. Over the same period, investors in interest rate futures markets have steadily reduced their expectations over how much the Fed will cut rates over the next year. They now see the Fed cutting rates to about 3.6% by 2026, up from an estimated trough in rates of 2.8% in September.

***In our view, there was nothing in the third quarter GDP report that should change the current more accommodative direction of Fed policy as its 4.5% - 4.75% reference rate range remains restrictive, 100 basis points above what is believed by some economists to be the 3.5% neutral interest rate. What remains in doubt is the pace of future rate cuts which will be data dependent. The Fed is aware that reducing policy restraint too quickly could hinder progress on inflation. At the same time, reducing policy restraint too slowly could unduly weaken economic activity and employment.***

## Inflation

Inflation continues to work its way lower, toward the Fed's 2% target. PCE prices rose 0.2% in September and are up 2.1% in the past year compared to a 3.4% gain in the year ending in September 2023. "Core" prices, which exclude volatile food and energy categories, rose 0.3% in September and are up 2.7% versus a year ago, a notable improvement from the 3.7% rise for the twelve months ending September 2023. The slowing in the pace of inflation in the past year reflects the tightening of monetary policy in 2023-24. But while year-ago comparisons have clearly improved, it's important to note that the pace of inflation in September still represents prices rising more rapidly than a 2.0% annualized rate. While the Fed believes they have room to continue cutting rates in the months ahead, the battle to tame inflation is not over, and risks remain that an overly aggressive series of cuts could bring with it an undesirable pickup in the M2 measure of money, and with it a return of inflation pressures.

## Personal Income and Consumption

Personal income rose a solid 0.3% in September and is now up 5.5% in the past year. Private sector wages and salaries led the way, up 0.4% for the month and up 6.4% in the past twelve months. Unfortunately, government activity remained very strong so pay rose 0.5% in September and is up an unsustainable 6.7% in the past year, hovering near the largest twelve-month increase in decades. After adjusting for inflation, “real” consumption rose 0.4% in September and is up a healthy 3.1% from a year ago.

## Forward-looking Economic Indicators

***Forward-looking economic indicators we monitor are signaling mixed business conditions ahead but no downturn in sight.***

**ISM Manufacturing Index** declined to 46.5 in October, lagging the consensus expected 47.6. (Levels higher than 50 signal expansion; levels below 50 signal contraction.) The major measures of activity were mixed last month. The new orders index increased to 47.1 from 46.1, while the production index declined to 46.2 from 49.8. The employment index rose to 44.4 from 43.9 in September while the supplier deliveries index declined to 52.0 from 52.2. The prices paid index rose to 54.8 in October from 48.3 in September. This was yet another very weak report on the US manufacturing sector for October as the activity and employment indices fell while inflation increased. Just five major manufacturing industries reported growth while eleven reported contractions. In the last two years, manufacturing activity, which accounts for about 11% of GDP, has contracted in all but one month. Demand and production remained weak. The indices for new orders and production are firmly in contraction and have remained so since June. While inventories are in good shape, having been worked down to the lowest levels in years, political and economic uncertainties abound and there has been no upturn in new orders which remain in contraction.

**ISM Non-Manufacturing Index**, which accounts for about 70% of GDP, showed activity in the service sector in October accelerated as the ISM Service Index increased to 56.0, the fastest pace in over two years. (Levels higher than 50 signal expansion; levels below signal contraction.) The rise in activity was broad-based with fourteen of the major industries reporting growth and two showing contraction. The rise in the overall index reflects higher readings for the employment and supplier indices, which rose by four or more percentage points. The employment index rose to 53.0, the highest reading in more than a year. Strong services continue to underpin the expansion.

**US Consumer Sentiment** climbed to a seven-month high in early November according to a University of Michigan survey which advanced to 73, exceeding all but one estimate. The expectations index surged to 78.5, the highest level since mid-2021. The upbeat picture also reflected respondent’s forecasts for slower inflation where prices are expected to rise 2.6% over the next year, the lowest forecast since 2020.

**Initial Jobless Claims** rose to 221,000 in the week ended November 2 from an upward revised 218,000 the previous week. The four-week moving average of claims, a high frequency gauge of employment conditions, fell by 9,750 after declining 1,750 the previous week, as the effects of two hurricanes and a strike at Boeing work their way out of the data. Steady claims data imply little change in still-strong labor market conditions.

**Front Barnett Proprietary [Economic Model](#)**, designed to signal a change in the direction of the US economy six to nine months in advance of an inflection point, rose further in September, signaling expansion ahead.

## **Equity Investment Policy**

There has been no change in equity investment policy. Portfolios under our supervision remain fully invested within their policy guidelines, participating in the equity market's strong performance this year.

As long-term investors, looking beyond ever-present near-term economic uncertainties and the volatility to be expected around the time of hotly contested national elections, client's accounts are well-diversified, balanced between domestic large cap core *growth* and *value* investments, tilted slightly toward *growth* which is our long-term bias. Our investment platform also includes small cap domestic equities as well as modest allocations to international developed and emerging market investments. Recall that Front Barnett blends core, high quality, large cap *growth* and *value* investments in portfolios we manage, positioning them to grow over the course of market cycles during which the broader market may favor either the *growth* or *value* style for a time, potentially smoothing returns over the longer term.

The case for owning equities is strong. The economy remains on solid footing and is fundamentally sound. The US banking system is extremely well reserved and is expected to benefit from a more favorable regulatory environment under the incoming administration. The society is awash with liquidity. Consumer's balance sheets remain strong with estimates of excess savings above \$500 billion. Despite weakness in interest rate sensitive and cyclical manufacturing industries, as well as in small cap companies, the US economy has continued to grow at an above-trend rate, driven by resilient consumer, underpinned by stimulative fiscal policies. Third quarter earnings reporting season is winding down with overall results ahead of expectations. At last count, with more than 85% of S&P500 companies having reported, earnings are roughly 8% higher than they were a year ago and revenues about 5% above year ago levels. The prospect of further monetary policy easing in the months ahead increases the odds of a soft landing for the US economy where broadening economic growth is expected next year.

The likelihood the next leg of the current expansion will be broader-based should cause a sustainable shift in investor's preferences away from the handful of high-priced mega cap AI-related stocks that have dominated the market in 2023. The beneficiaries of this shift will be a broader range of cyclical and interest rate sensitive stocks whose performance has lagged this year-to-date. The broadening trade that began in June stalled as investors began to focus on the election. We expect it to resume now that the election is behind us and investors refocus on 2025.

As to stock market valuation, the recent run up in the stock market in the wake of the election results, shows the cap weighted S&P500 index to be richly valued near 23x forward earnings, at its highest reading since 2021. Top tech stock valuations are even more stretched. The S&P500 Equal Weight index, which treats the returns of lesser capitalized stocks the same as those of their larger cohorts, is by no means cheap but is more reasonably priced at about 18x earnings leaving room for a further broad market rerating.

***In summary, with interest rates headed lower and the elections behind us, we are entering a new investment cycle driven by broadly accelerating profits which will drive a shift in stock market money flows toward statistically cheaper cyclical and interest rate sensitive stocks. Lower interest rates in the US will weaken the dollar boosting the attractiveness of***

***international shares, including emerging market stocks. Long dormant “animal spirits” will rise spurring returns for many long-ignored high-quality companies with sound fundamentals. High quality mega cap tech stocks, performance leaders in the last cycle, may lag for a while but should perform well over the long-term so long as they deliver the earnings for which they are priced. That said, over the near term, with the stock market richly valued, the 5% to 10% sentiment-driven correction we have not had for a while, would temper speculation, and come as no surprise to us.***

## **Fixed Income Investment Policy**

The 2.5+ year target duration for laddered corporate bond portfolios under our supervision remains unchanged. Benchmark 10-year US Treasury bond yields bottomed on September 18 and have since rebounded about 60 basis points to 4.40% largely reflecting investor concerns over growing deficits, for which neither presidential candidate proposed a solution, and the increasing likelihood, given the strong US economy, earlier forecasts for Fed rate cuts would prove excessive. The bond market appears to be bracing for higher growth and inflation, a very favorable environment for risk assets. We view the recent backup in rates as presenting an opportunity to fill out portfolio ladders.

\* \* \* \*

MBF

This communication may contain privileged and/or confidential information. Nothing contained herein constitutes an offer to sell or a solicitation of an offer to buy an interest in any Mesirow or Front Barnett investment vehicle. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. The views and opinions expressed are not necessarily those of Mesirow and may differ from the views and opinions of other departments or divisions of Mesirow and its affiliates. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations.

Front Barnett is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report. The information contained in this report does not constitute investment advice or an offer to buy or sell securities from any Mesirow entity to the reader and should not be relied upon to evaluate any potential transaction. This material may contain “forward-looking” information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. Past performance does not predict or guarantee future results. Investing involves risk; principal loss is possible.

Indexes are unmanaged, do not include fees or expenses and are not available for direct investment. Definitions: Personal Consumption Expenditures Index (PCE): A measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

Conference Board’s Confidence Index: The Consumer Confidence Survey® reflects prevailing business conditions

and likely developments for the months ahead. ISM Manufacturing Index: The ISM manufacturing index or purchasing managers' index is considered a key indicator of the state of the US economy. It indicates the level of demand for products by measuring the amount of ordering activity at the nation's factories. ISM Non-Manufacturing Index: The Institute of Supply Management (ISM) Non-Manufacturing Index is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives. S&P 500 Index: The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the US. S&P 500 Growth Index: The S&P 500 Growth Index is a stock index administered by Standard & Poor's-Dow Jones Indices. As its name suggests, the purpose of the index is to serve as a proxy for growth companies included in the S&P 500. S&P 500 Value Index: The S&P 500 Pure Value Index refers to a score-weighted index developed by Standard and Poor's (S&P). The index uses what it calls a "style-attractiveness-weighting scheme" and only consists of stocks within the S&P 500 Index that exhibit strong value characteristics.

Front Barnett is a division of the Wealth Management business of Mesirow Financial Investment Management, Inc. ("MFIM"). Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow and Front Barnett name and logo are registered service marks of Mesirow Financial Holdings, Inc. © 2024, Mesirow Financial Holdings, Inc. All rights reserved. Any opinions expressed are subject to change without notice. Past performance is not indicative of future results. Advisory Fees are described in Front Barnett's Form ADV Part 2A. Advisory services offered through Mesirow Financial Investment Management, Inc., an SEC-registered investment advisor.

Front Barnett is a division of the Wealth Management business of Mesirow Financial Investment Management, Inc. ("MFIM"). MFIM is an SEC-registered investment advisor. Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow and Front Barnett name and logo are registered service marks of Mesirow Financial Holdings, Inc. © 2026, Mesirow Financial Holdings, Inc. All rights reserved. Any opinions expressed are subject to change without notice. Past performance is not indicative of future results. Advisory Fees are described in Front Barnett's Form ADV Part 2A.