Goldman Sachs | Economics Research

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US Economics Analyst

10 Growth Risks for 2024 and Why We Worry Less (Mericle / Abecasis)

- We expect much stronger GDP growth in 2024 than consensus and see a much lower risk of recession. What are other forecasters worried about that we aren't? This *Analyst* looks at 10 risks for 2024 that are often highlighted by other forecasters and explains why we worry less.
- *Risk 1: A consumer slowdown* looks unlikely because real income should grow about 3% and household balance sheets are strong. Current spending patterns do not appear unsustainable and the saving rate does not look puzzlingly low at a time when household wealth is very high.
- *Risk 2: Rising consumer delinquency and default rates* mostly reflect normalization from very low levels in recent years, higher interest rates, and riskier lending, not poor household finances.
- *Risk 3: A sharper deterioration in the labor market* is unlikely with job openings still high and the layoff rate still very low. While a few recent data points have been weaker, more statistically reliable signals such as trend payroll growth and our composite job growth tracker remain strong.
- *Risk 4: The narrow breadth of job growth* is not indicative of either a mismatch problem or weak labor demand in most sectors—job openings are high in nearly all sectors—and it should normalize as hiring rebounds in industries that are particularly sensitive to financial conditions.
- *Risk 5: Rising corporate bankruptcies* look less ominous and indeed quite low when compared to pre-pandemic levels. More broadly, the business sector remains on a solid financial footing.
- *Risk 6: The corporate debt maturity wall* will raise corporate interest expense with a longer delay than usual, but the resulting hit to capital spending and hiring is likely to be quite modest.
- *Risk 7: Commercial real estate* broadly is not a problem, office specifically is. But office loans account for only 2-3% of banks' loan portfolios, small enough for banks to manage the hit.
- *Risk 8: A bank credit crunch* was a valid concern last spring, but the banking stress has not been as serious as feared, non-bank lenders cut back on lending by less, small businesses have not reported a severe lack of access to credit, and financial conditions have now eased meaningfully.

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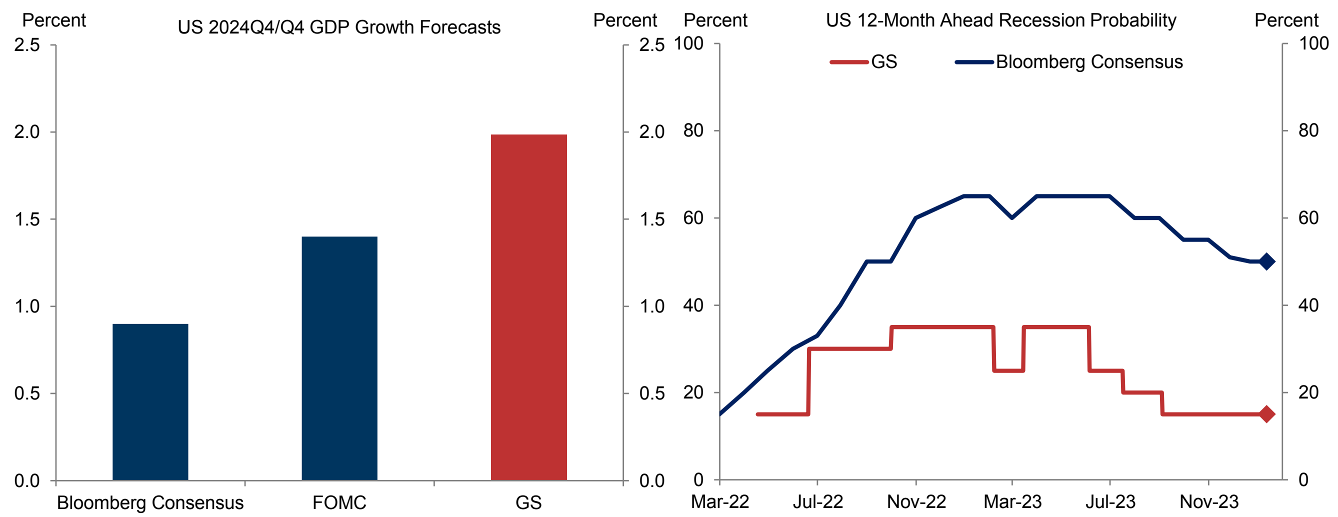
- *Risk 9: Something finally "breaking" due to higher interest rates* is unlikely at this point because the peak growth hit from higher rates and tighter financial conditions is well behind us. Moreover, with inflation lower, the FOMC is at liberty to cut the funds rate more aggressively if necessary.
- *Risk 10: Fading fiscal support* is less real than it appears—the federal deficit widened last year for reasons that were not very stimulative, and the fiscal impulse to GDP is likely to remain roughly steady this year, with a bit of downside risk from potential automatic spending cuts.

10 Growth Risks for 2024 and Why We Worry Less

We expect much stronger GDP growth in 2024 than consensus and see a much lower risk of recession (Exhibit 1). What are other forecasters worried about that we aren't? This week's *Analyst* looks at 10 risks for 2024 that are often highlighted by other forecasters and explains why we worry less.

Exhibit 1: We Are Well Above Consensus on 2024 GDP Growth and Well Below on Recession Risk



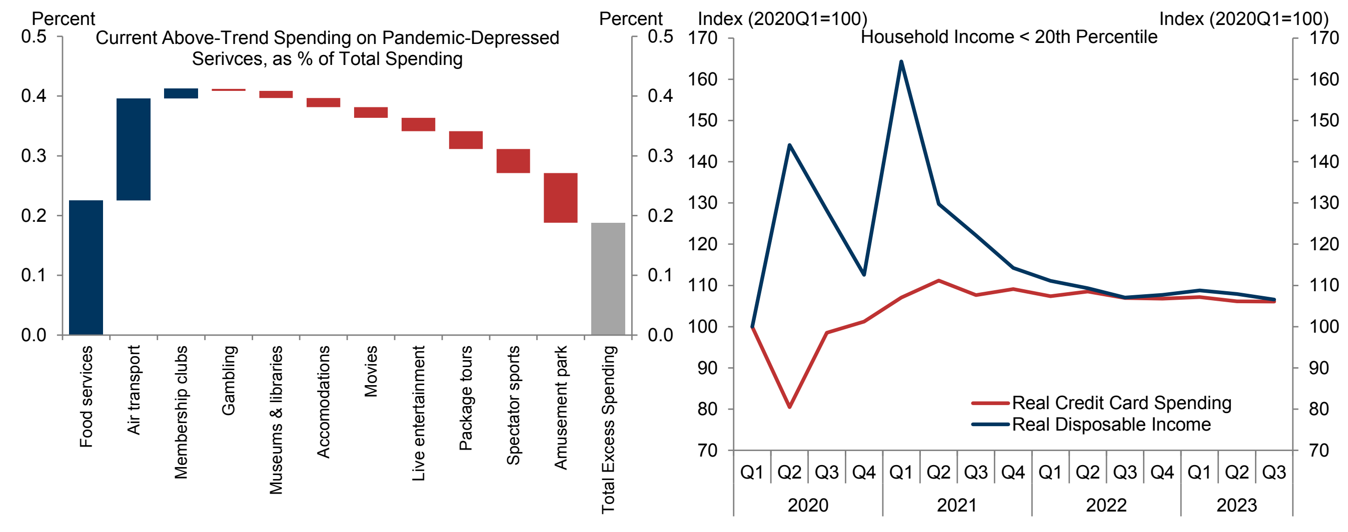
Source: Bloomberg, Goldman Sachs Global Investment Research

Risk 1: A consumer slowdown if unsustainable spending ends, the saving rate rises from a low level, or households run out of excess savings

We expect 2% consumption growth in 2024 because real wage growth should remain positive as nominal wage growth and inflation come down in parallel, hiring should remain healthy with job openings still plentiful, and labor income should therefore grow around 2% and translate roughly dollar-for-dollar to consumer spending. Total real income should rise about 3% thanks to an additional boost from interest income, though that should lift spending by less, and wealth effects should turn positive.

Skeptics highlight three risks. First, isn't the current pace of consumption unsustainable, either because it reflects the release of pent-up pandemic demand or because low-income families that benefitted from pandemic stimulus are spending more than they can afford? We see few signs of this. Spending on air travel has surged, but that is not true of most services that consumers avoided during the pandemic (Exhibit 2, left). And while spending by low-income households whose incomes were boosted most by pandemic stimulus initially rose above trend, it normalized a while ago (Exhibit 2, right).

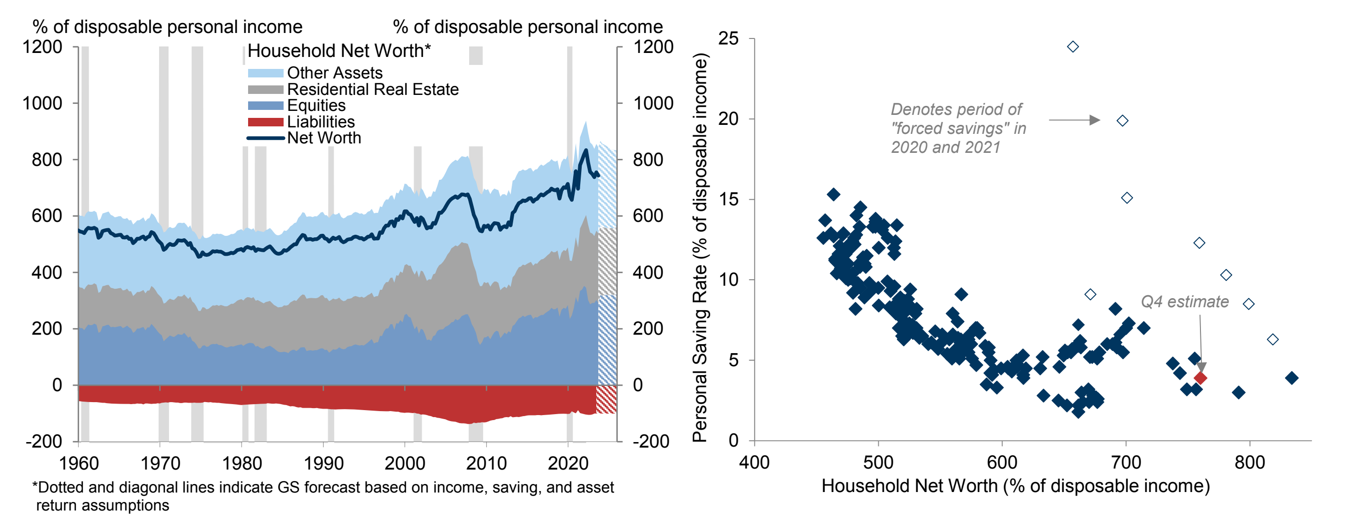
Exhibit 2: We See Few Remaining Signs of Unsustainable Spending, Either on Services for Which There Was Pent-up Pandemic Demand or by Low-Income Families That Benefitted from Pandemic Stimulus



Source: Department of Commerce, Opportunity Insights, Goldman Sachs Global Investment Research

Second, isn't the saving rate historically low and likely to mean revert higher? It is low, but this is to be expected with household wealth near an all-time high (Exhibit 2) and the risk of job loss very low. As a result, we make only a modest allowance for a 1pp rise in the saving rate in 2024.

Exhibit 3: With Household Wealth Near an All-Time High, It Is Unsurprising That the Saving Rate Is Low



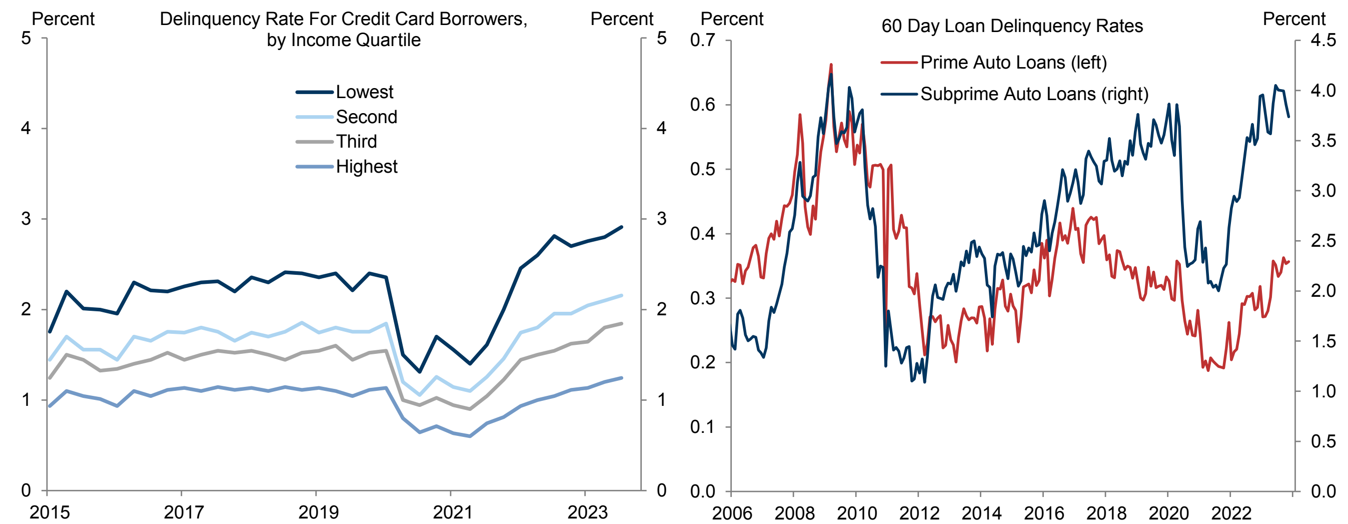
Source: Federal Reserve, Department of Commerce, Goldman Sachs Global Investment Research

Third, won't consumption fall when households exhaust their last dollar of excess savings? We think this exaggerates their importance. Excess savings mattered most for supporting spending by low-income families who usually lack appreciable savings when high inflation caused real income to fall in 2022. But the lowest-income families' liquid financial assets normalized and real income started rising a while ago. At this point, the remaining pandemic savings are best viewed as a tiny addition to the total wealth of middle- and upper-income households, to be spent gradually over time like other forms of wealth.

Risk 2: Rising consumer delinquency and default rates

Consumer delinquency and default rates have risen significantly, especially on credit cards and subprime auto loans (Exhibit 4). At first glance this looks like a sign that household finances have weakened.

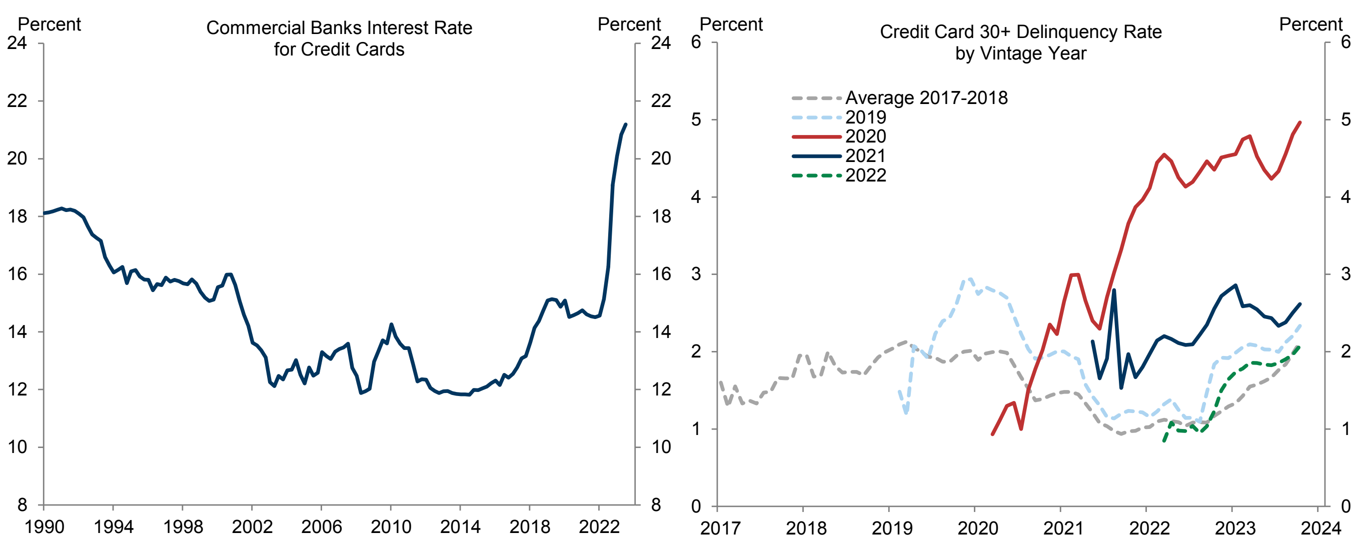
Exhibit 4: Delinquency and Default Rates Have Risen, Though the Increase Is Largely a Normalization from Very Low Rates Early in the Pandemic When Income Was Elevated and Spending Needs Were Low



Source: Federal Reserve, Goldman Sachs Global Investment Research

But most of the increase is simply normalization from very low delinquency rates early in the pandemic, when fiscal stimulus lifted household income and spending needs were lower, leaving more money to pay bills. The rest appears to be mainly due to much higher interest rates and car prices, which substantially raised monthly payments, or riskier lending that is most clearly visible in high delinquency rates on credit card loan vintages from early in the pandemic, when fiscal support temporarily appeared to boost borrowers' creditworthiness (Exhibit 5).

Exhibit 5: Factors Other Than Household Financial Weakness, Such as Higher Interest Rates or Riskier Lending, Also Account for Some of the Increase in Consumer Delinquency and Default Rates



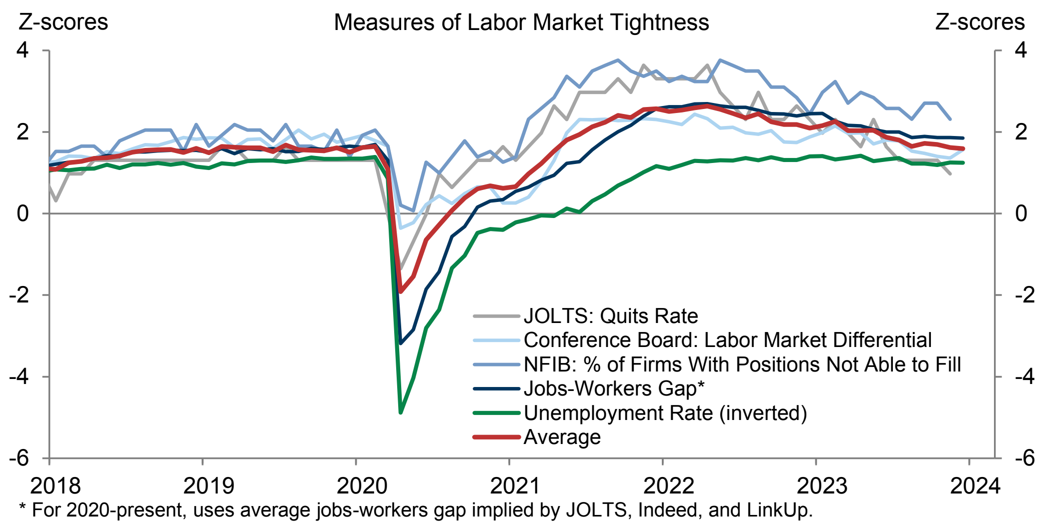
Source: Federal Reserve, Goldman Sachs Global Investment Research

Reassuringly, the recent rise in delinquency rates does not appear to have been caused mainly by unsustainable spending, weak household finances, or labor market distress—after all, the layoff rate is still very low. The main exception is low-income households who have suddenly had to restart student loan payments, but the impact on consumer spending looks modest and is reflected in our forecasts.

Risk 3: A sharper deterioration in the labor market

The labor market has returned to roughly its pre-pandemic state and appears to have stabilized, a successful reversal of the overheated conditions of 2022 (Exhibit 6).

Exhibit 6: Labor Market Tightness Appears to Be Stabilizing After a Successful Reversal of Overheating

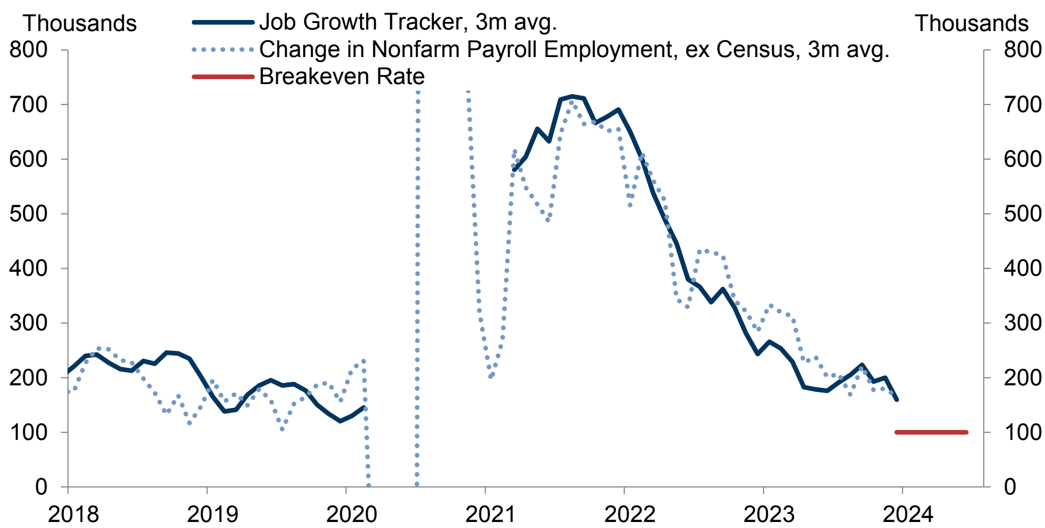


Source: Department of Labor, National Federation of Independent Businesses, The Conference Board, Goldman Sachs Global Investment Research

Pessimists point to scattered signs of weakness—weaker employment growth measured by the household survey, a sharp drop in the ISM non-manufacturing survey's employment component, a decline in the hiring rate, or the narrow breadth of job growth (discussed below). But payroll growth provides a much better signal than the noisier household survey measure of employment growth, and we put more emphasis on broader measures like our job growth tracker that incorporate a range of labor market data (Exhibit 7). Both imply that job growth is still running far above the breakeven rate.

Absent some shock, the high starting level of job openings and the very low layoff rate suggest that 2024 should see continued steady job gains and a low unemployment rate.

Exhibit 7: Despite Scattered Signs of Weakness in Some Labor Market Indicators, Our Composite Job Growth Tracker Is Running at Double the Breakeven Rate Needed to Stabilize the Unemployment Rate

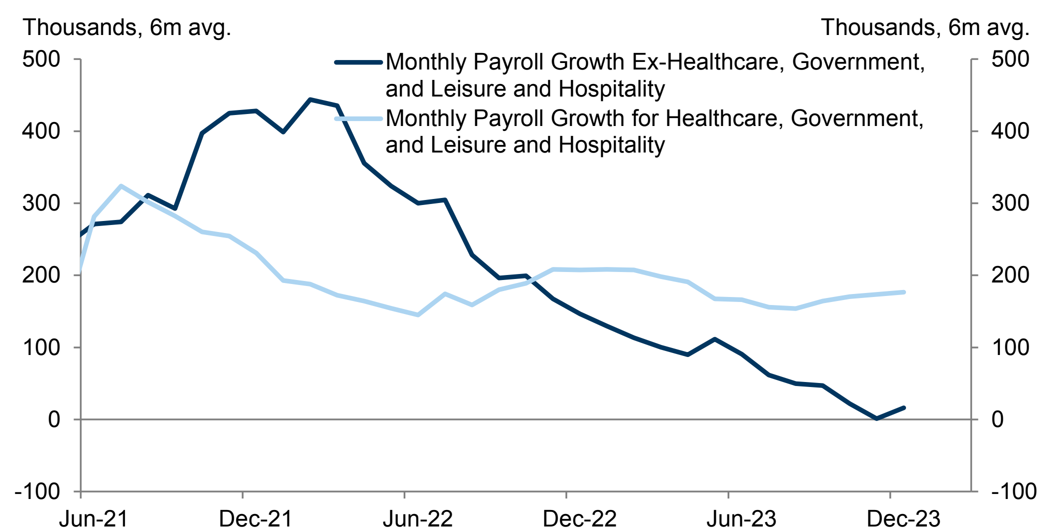


Source: Department of Labor, Goldman Sachs Global Investment Research

Risk 4: The narrow breadth of job growth

Job growth has been dominated by healthcare, government, and leisure and hospitality recently (Exhibit 8), raising concerns about excessive cooling of labor demand or a jobs-workers mismatch problem.

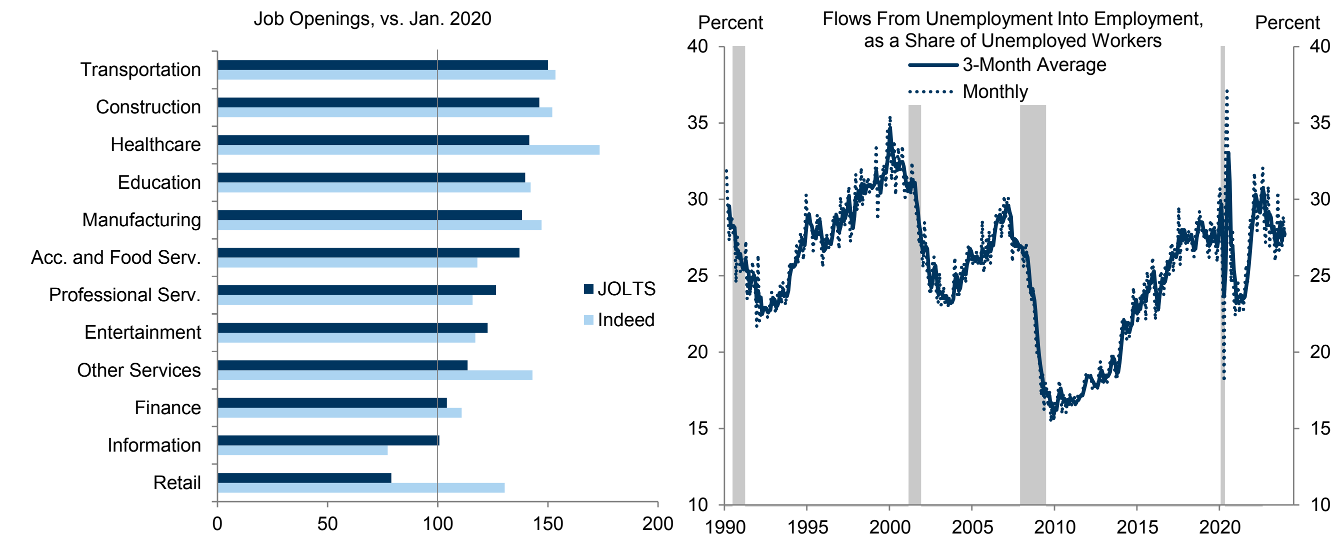
Exhibit 8: Job Growth Has Been Dominated by a Few Industries Recently, Raising Concerns About Excessive Cooling of Labor Demand or a Jobs-Workers Mismatch Problem



Source: Department of Labor, Goldman Sachs Global Investment Research

We are less concerned for several reasons. First, job opportunities are high in nearly every industry, and unemployed workers are findings jobs at an elevated rate (Exhibit 9). Second, the three industries that have dominated hiring are not small—they account for 40% of employment—and industries accounting for 70% of total employment have continued to add jobs on net. Third, these three industries were badly understaffed and dominated job growth in part because they raised relative compensation, not because openings elsewhere were illusory. Fourth, catch-up hiring has further to go, especially in health care. Fifth, job growth fell mainly in industries that are the most sensitive to tighter financial conditions, which have recently eased significantly. And sixth, some industries that reduced headcount as demand normalized from elevated pandemic levels appear likely to restart hiring soon.

Exhibit 9: Job Openings Are High in Nearly Every Industry, and Unemployed Workers Have Found Jobs at an Elevated Rate

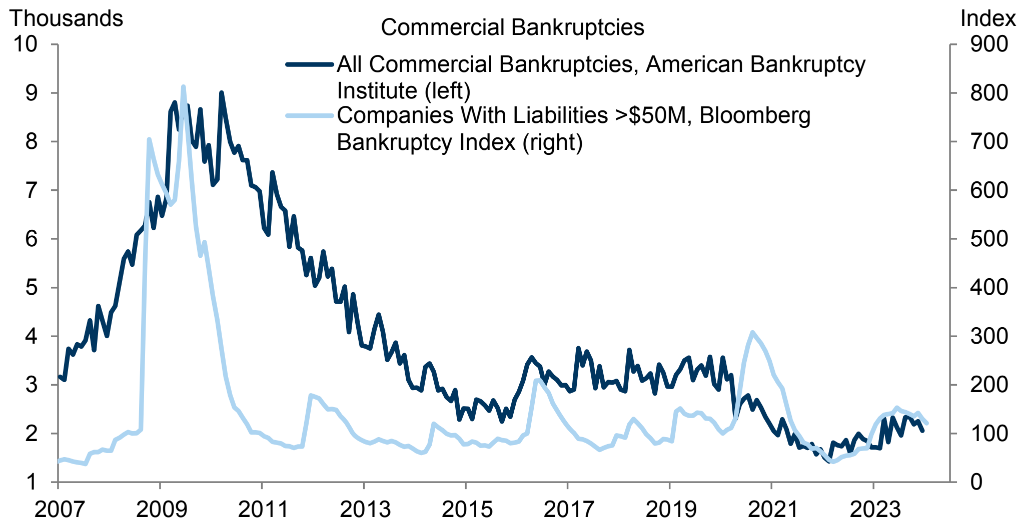


Source: Department of Labor, Indeed, Goldman Sachs Global Investment Research

Risk 5: Rising corporate bankruptcies

Media reports sometimes highlight the rise in commercial bankruptcies since 2022, but zoom out a bit and it looks far less ominous—the current level is still well below the pre-pandemic level. While large company bankruptcies are somewhat higher, they have only returned to their 2019 levels (Exhibit 10).

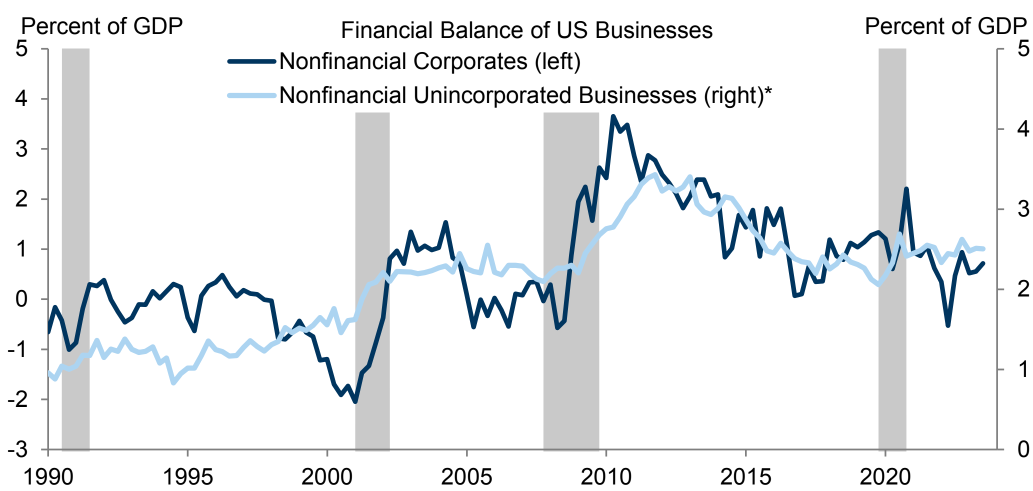
Exhibit 10: Commercial Bankruptcies Haver Risen but Remain Below Pre-Pandemic Levels



Source: American Bankruptcy Institute, Bloomberg, Goldman Sachs Global Investment Research

More broadly, both large and small business are on solid financial footing. The corporate and unincorporated business sectors' financial balances—the difference between their total income and total spending—are both around pre-pandemic levels, and there is no sign of the large private sector financial deficits that preceded the 2001 and 2008 recessions (Exhibit 11). While companies that took on more leverage are under some pressure from higher interest rates, our credit strategists expect default rates for both high yield and leveraged loan issuers to decline over the next year.

Exhibit 11: Businesses Are on Solid Financial Footing



* Adjusted for passthrough of small business earnings to the households that own them.
Note: NBER recessions shaded. Data exclude credit unions, real estate, and other financials.

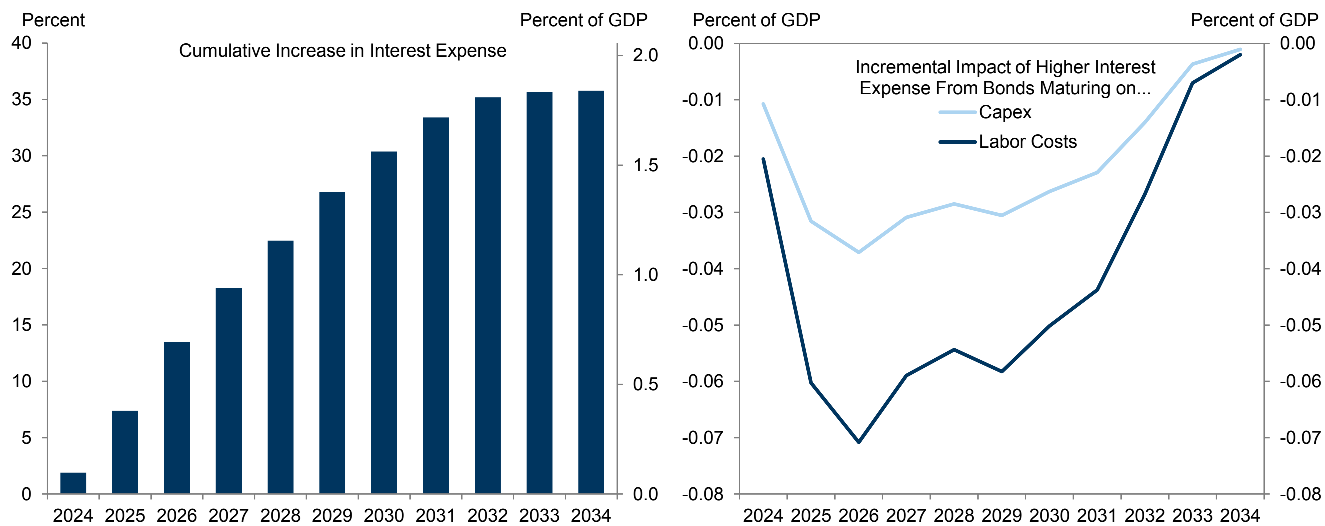
Source: Department of Commerce, Federal Reserve, Goldman Sachs Global Investment Research

Risk 6: The corporate debt maturity wall

Companies issued a large amount of debt and extended the average maturity of their debt early in the pandemic before the Fed started hiking, and this has delayed the transmission of higher market interest rates to corporate interest expense. If interest rates remain high, companies will need to devote a greater share of their revenue to cover rising interest expense as they refinance (Exhibit 12, left).

But the impact on the economy should be modest. We estimate that higher corporate interest expense will reduce capex growth by 0.1pp in 2024 and 0.25pp in 2025 and hiring by 5k jobs a month in 2024 and 10k jobs a month in 2025 (Exhibit 12, right). The effect is small in part because the increase in interest expense should only be moderate and in part because increases in interest expense have only modest effects on capital investment and hiring. The effect on the small business sector should be even smaller because small businesses have more variable-rate debt and have already felt much of the impact.

Exhibit 12: Business Interest Expense Will Increase in Coming Years as Companies Refinance at Higher Rates, But We Estimate That This Will Generate Only a Modest Drag on Capex and Hiring



Source: Goldman Sachs Global Investment Research

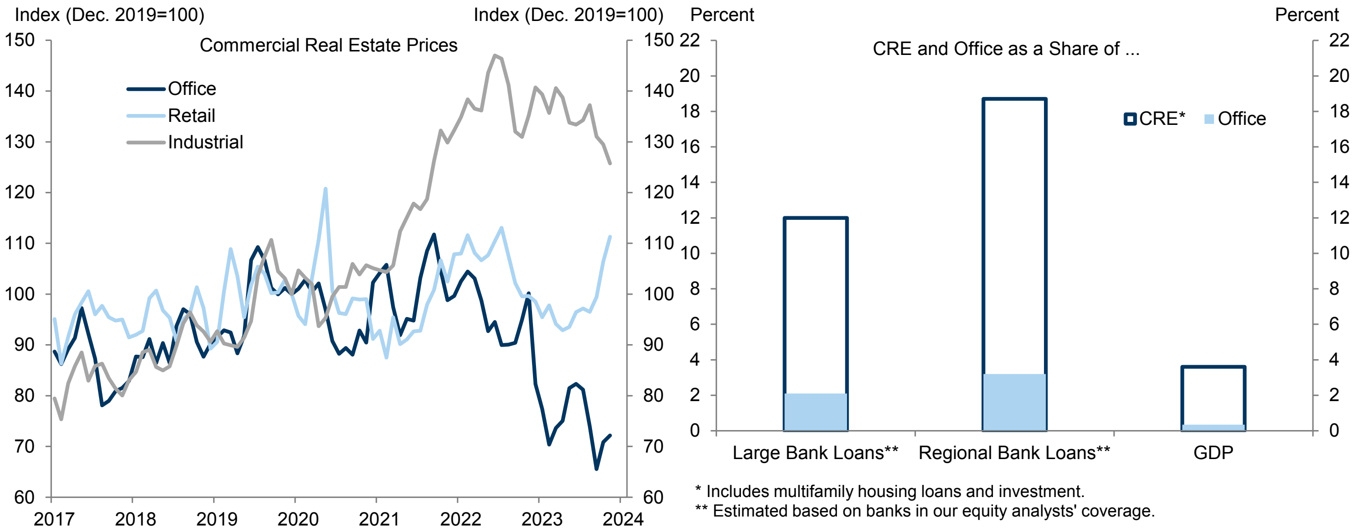
Risk 7: Commercial real estate

The rise in remote work has likely made many office buildings financially unviable and raised concerns about banks' ability to absorb losses on their commercial real estate (CRE) portfolios. But the problem is office specifically, not CRE broadly—office prices are 25-30% below pre-pandemic levels while prices for other types of CRE are at or above pre-pandemic levels (Exhibit 13, left)—and office loans account for only 2-3% of banks' loan portfolios (Exhibit 13, right).

As a result, banks should be able to manage the headwind from lower office values. Indeed, the Fed's 2023 stress test found that the banks subject to these tests would have enough capital to weather even an extreme scenario where CRE prices declined 40% and the unemployment rate rose to 10%. Smaller banks are more exposed to CRE than larger banks, but a recent analysis by the St. Louis Fed found that these banks should also have enough capital to cover large declines in CRE prices. Moreover, their CRE loans are likely more concentrated in smaller cities where office occupancy rates have declined by less.

While office investment is likely to decline meaningfully, it accounts for just 0.35% of US GDP.

Exhibit 13: Stress in the Commercial Real Estate Sector Has Been Limited to Offices, Which Make Up a Small Share of Bank Loans and Economic Activity



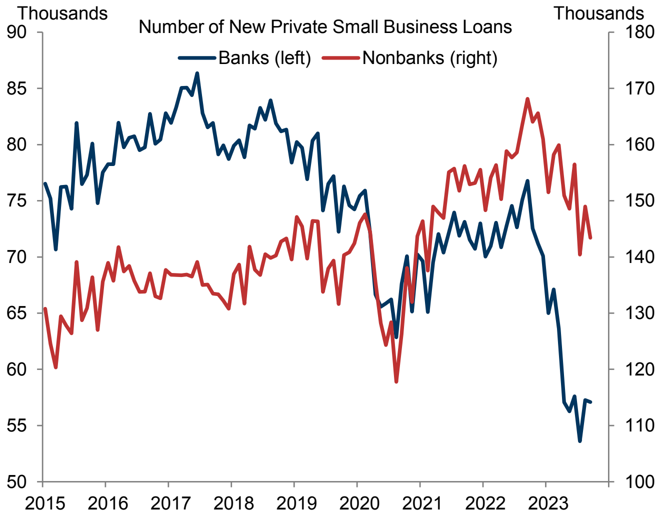
Source: MSCI Real Assets, Department of Commerce, Goldman Sachs Global Investment Research

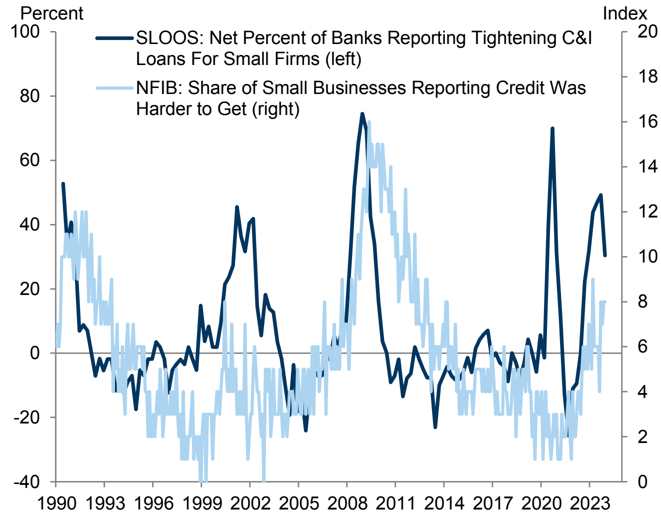
Risk 8: A bank credit crunch

We are increasingly confident that the risk of a serious credit crunch sparked by the regional bank crisis last spring has been avoided and the economy is through the worst of the credit tightening, for two reasons. First, the stress on the banking system has not been as severe as feared and banks have not pulled back on lending to an unusual extent. Deposit outflows have remained modest, deposit betas are only somewhat higher than the historical average at this point in the hiking cycle, and banks have been able to raise interest rates on loans enough to stabilize net interest margins at normal levels.

Second, nonbank lenders cut back on new lending to businesses by only half as much as banks (Exhibit 14, left) and filled lending gaps in areas where regional banks played a larger role, softening the impact on credit availability. This helps to explain why small businesses have not reported a lack of access to credit in surveys even though banks reported a large tightening in lending standards (Exhibit 14, right).

Exhibit 14: Nonbanks Cut Back on Lending By Only Half As Much as Banks, Which Helps to Explain Why Small Businesses Have Not Reported a Lack of Access to Credit Despite Tighter Bank Lending Standards



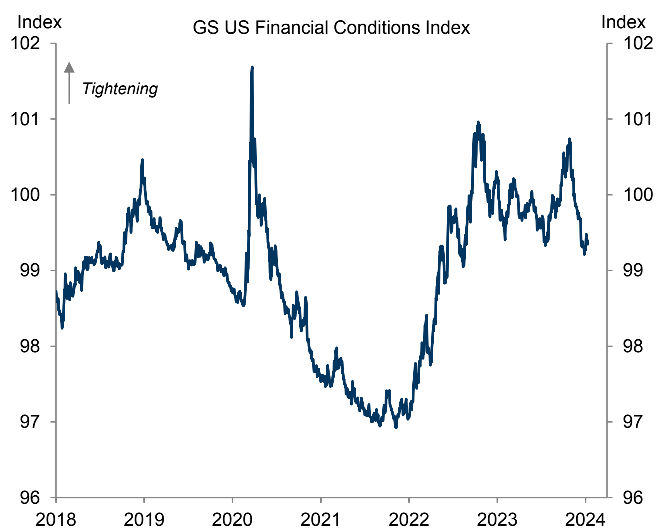


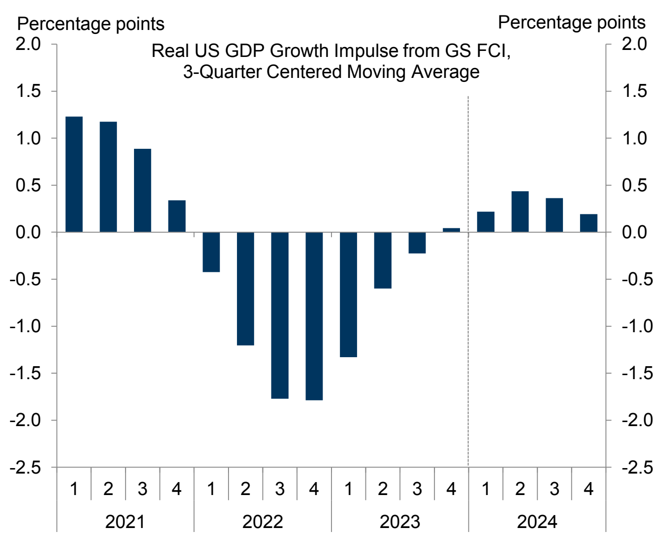
Source: Accutrend, Federal Reserve, National Federation of Independent Businesses, Goldman Sachs Global Investment Research

Risk 9: Something finally "breaking" under higher interest rates if the Fed cuts too late

We have long argued that the lags from monetary policy tightening to GDP growth are shorter than market participants often assume. We showed that this view is actually not an outlier but rather is consistent with the conclusions of top-tier academic and central bank macro models. At this point, our financial conditions index growth impulse model implies that the hit from higher rates is fully behind us and in fact turning into a modest boost to growth this year (Exhibit 15). And even if higher rates were to cause larger problems than we expect going forward, now that the inflation scare is behind us the FOMC is at liberty to cut the funds rate substantially and has plenty of room to do so.

Exhibit 15: Our Estimate of the Impulse to GDP Growth from Changes in Financial Conditions Turns Modestly Positive in 2024





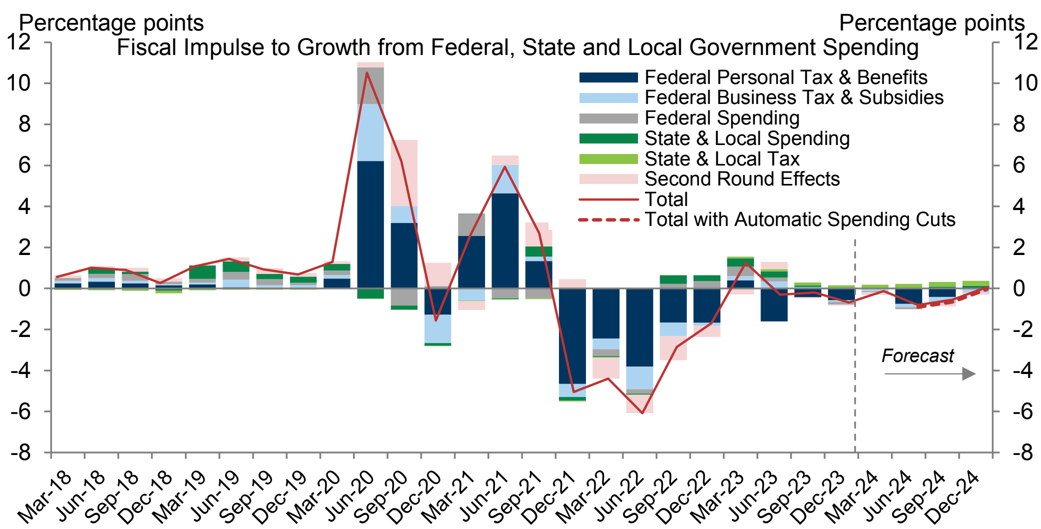
Source: Goldman Sachs Global Investment Research

Risk 10: Fading fiscal support after a large widening of the federal deficit in 2023

Some market participants argue that the US economy withstood the hit from higher rates last year only thanks to a boost from the large widening of the federal deficit, which will not be repeated this year.

But the widening of the deficit was caused largely by lower capital gains realizations, a delay in California tax payments, and higher interest expense, and had a limited impact on spending. We estimate that the total fiscal impulse to GDP growth was modestly negative in 2023 and will look similar in 2024, with a bit of downside risk from potential automatic spending cuts that will take effect in May if Congress avoids government shutdowns by passing temporary extensions instead of full-year spending bills (Exhibit 16).

Exhibit 16: We Estimate That the Fiscal Impulse to GDP Growth Was Modestly Negative in 2023, Despite the Large Increase in the Deficit, and Should Remain Roughly Steady in 2024



Source: Goldman Sachs Global Investment Research

The US does face longer-term fiscal challenges, but it is unlikely that concerns about debt sustainability will lead to significant deficit reduction anytime soon because of congressional gridlock, a lack of political attention to deficit reduction, and the upcoming 2024 election.

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The US Economic and Financial Outlook

THE US ECONOMIC AND FINANCIAL OUTLOOK

(% change on previous period, annualized, except where noted)

	2022	2023 (f)	2024 (f)	2025 (f)	2026 (f)	2027 (f)	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
OUTPUT AND SPENDING														
Real GDP	**1.9**	2.4	2.3	1.9	1.9	2.0	**2.2**	**2.1**	**4.9**	1.5	2.2	1.9	1.9	1.9
Real GDP (annual=Q4/Q4, quarterly=yoy)	**0.7**	2.7	2.0	1.9	1.9	2.0	**1.7**	**2.4**	**2.9**	2.7	2.7	2.6	1.9	2.0
Consumer Expenditures	**2.5**	2.2	2.1	1.9	1.9	2.0	**3.8**	**0.8**	**3.1**	2.4	2.2	1.9	1.9	1.9
Residential Fixed Investment	**-9.0**	-11.2	0.2	2.8	3.2	2.4	**-5.3**	**-2.2**	**6.7**	-7.3	0.0	3.0	2.0	2.0
Business Fixed Investment	**5.2**	4.5	2.6	2.7	3.7	3.6	**5.7**	**7.4**	**1.5**	3.6	2.8	2.1	0.8	1.1
Structures	**-2.1**	12.8	3.2	0.1	3.2	3.0	**30.3**	**16.1**	**11.2**	5.2	4.0	0.8	-6.0	-6.0
Equipment	**5.2**	0.0	2.0	3.0	3.5	3.2	**-4.1**	**7.7**	**-4.4**	3.8	2.0	2.0	2.5	2.8
Intellectual Property Products	**9.1**	4.4	2.8	3.9	4.3	4.5	**3.8**	**2.7**	**1.8**	2.5	2.8	3.0	3.5	4.0
Federal Government	**-2.8**	4.2	1.5	0.0	0.0	0.0	**5.2**	**1.1**	**7.1**	2.0	0.6	0.0	0.0	0.0
State & Local Government	**0.2**	3.8	1.6	0.9	1.0	1.0	**4.6**	**4.7**	**5.0**	2.9	0.0	0.1	0.9	0.9
Net Exports ($bn, '17)	**-1,051**	-929	-901	-897	-902	-889	**-935**	**-928**	**-931**	-922	-909	-904	-896	-894
Inventory Investment ($bn, '17)	**128**	38	53	60	60	60	**27**	**15**	**78**	32	50	50	50	60
Industrial Production, Mfg.	**2.7**	-0.4	2.0	3.2	3.4	3.4	**-0.3**	**0.4**	**-0.3**	1.5	2.6	2.7	2.8	3.1
HOUSING MARKET														
Housing Starts (units, thous)	**1,551**	1,391	1,335	1,430	1,515	1,535	**1,385**	**1,450**	**1,371**	1,358	1,335	1,325	1,325	1,355
New Home Sales (units, thous)	**637**	678	723	771	781	858	**638**	**691**	**694**	690	708	708	728	747
Existing Home Sales (units, thous)	**5,081**	4,092	3,834	4,240	4,369	5,001	**4,327**	**4,250**	**4,020**	3,770	3,737	3,793	3,860	3,949
Case-Shiller Home Prices (%yoy)*	**7.5**	3.5	0.6	3.8	4.9	4.9	**2.3**	**-0.2**	2.5	3.5	3.1	1.6	0.2	0.6
INFLATION (% ch, yr/yr)														
Consumer Price Index (CPI)**	**6.4**	3.3	2.4	2.5	2.2	2.2	**5.8**	**4.1**	**3.6**	3.2	3.0	2.8	2.5	2.4
Core CPI **	**5.7**	3.9	2.8	2.4	2.3	2.3	**5.6**	**5.2**	**4.4**	4.0	3.7	3.1	3.1	2.9
Core PCE** †	**4.9**	2.9	2.2	2.1	2.0	2.0	**4.8**	**4.6**	3.8	3.2	2.6	2.2	2.2	2.1
LABOR MARKET														
Unemployment Rate (%)^	**3.5**	3.7	3.6	3.6	3.5	3.5	**3.5**	**3.6**	**3.8**	**3.7**	3.6	3.6	3.6	3.6
U6 Underemployment Rate (%)^	**6.5**	7.1	6.7	6.8	6.7	6.6	**6.7**	**6.9**	**7.0**	**7.1**	6.7	6.7	6.7	6.7
Payrolls (thous, monthly rate)	**399**	225	117	75	75	75	**312**	**201**	**221**	**165**	143	125	100	100
Employment-Population Ratio (%)^	**60**	60.1	60.1	59.9	59.8	59.6	**60.4**	**60.3**	**60.4**	**60.1**	60.3	60.2	60.2	60.1
Labor Force Participation Rate (%)^	**62**	62.5	62.3	62.1	61.9	61.7	**62.6**	**62.6**	**62.8**	**62.5**	62.6	62.5	62.4	62.3
Average Hourly Earnings (%yoy)	**5.3**	4.3	3.8	3.3	3.3	3.3	**4.5**	**4.3**	**4.2**	**4.1**	4.0	3.9	3.6	3.5
GOVERNMENT FINANCE														
Federal Budget (FY, $bn)	**-1,375**	**-1,700**	-1,700	-1,900	-1,900	-2,050	--	--	--	--	--	--	--	--
FINANCIAL INDICATORS														
FF Target Range (Bottom-Top, %)^	**4.25-4.5**	5.25-5.5	4-4.25	3.25-3.5	3.25-3.5	3.25-3.5	**4.75-5**	**5-5.25**	**5.25-5.5**	**5.25-5.5**	5-5.25	4.5-4.75	4.25-4.5	4-4.25
10-Year Treasury Note^	**3.88**	3.88	4.00	4.00	4.00	4.00	**3.48**	**3.81**	**4.59**	**3.88**	3.85	3.75	3.85	4.00
Euro (€/$)^	**1.07**	1.11	1.12	1.15	1.15	1.15	**1.09**	**1.09**	**1.06**	**1.11**	1.09	1.09	1.11	1.12
Yen ($/¥)^	**132**	141	140	130	125	120	**133**	**144**	**149**	**141**	145	143	141	140

* Weighted average of metro-level HPIs for 381 metro cities where the weights are dollar values of housing stock reported in the American Community Survey. Annual numbers are Q4/Q4.
** Annual inflation numbers are December year-on-year values. Quarterly values are Q4/Q4.
† PCE = Personal consumption expenditures. ^ Denotes end of period.
Note: Published figures in bold.
Source: Goldman Sachs Global Investment Research.

Source: Goldman Sachs Global Investment Research

Disclosure Appendix

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We, Jan Hatzius, Alec Phillips, David Mericle, Spencer Hill, CFA, Ronnie Walker, Manuel Abecasis, Tim Krupa, Elsie Peng and Jessica Rindels, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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