THORBERG
COLLECTORATE

ECONOMIC OUTLOOK AND COMMENTARY 2024
HOW HARD IS A SOFT LANDING?

Russell Evans, Ph. D.

President, Regional Economic Advisers

Partner and Chief Economist, Thorberg Collectorate

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ELEMENTS OF A SOFT LANDING

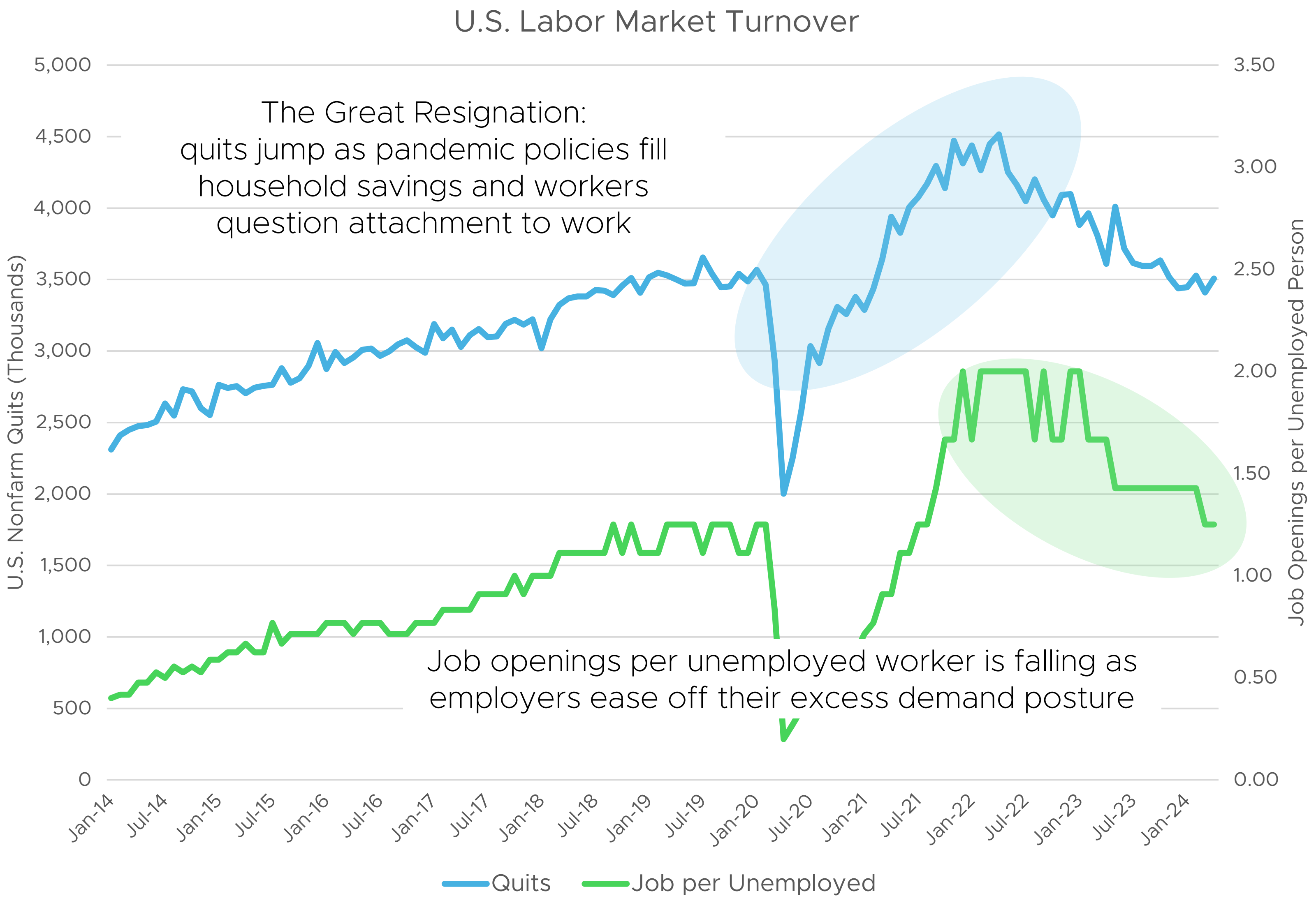
A soft landing must be hard enough to

- Stress household balance sheets to the point of bending without breaking in order to rein in excess demand without crashing consumer spending
- Create enough need to encourage full labor participation without causing discouragement from a lack of employment opportunities

Without being so hard that it

- Causes a recession

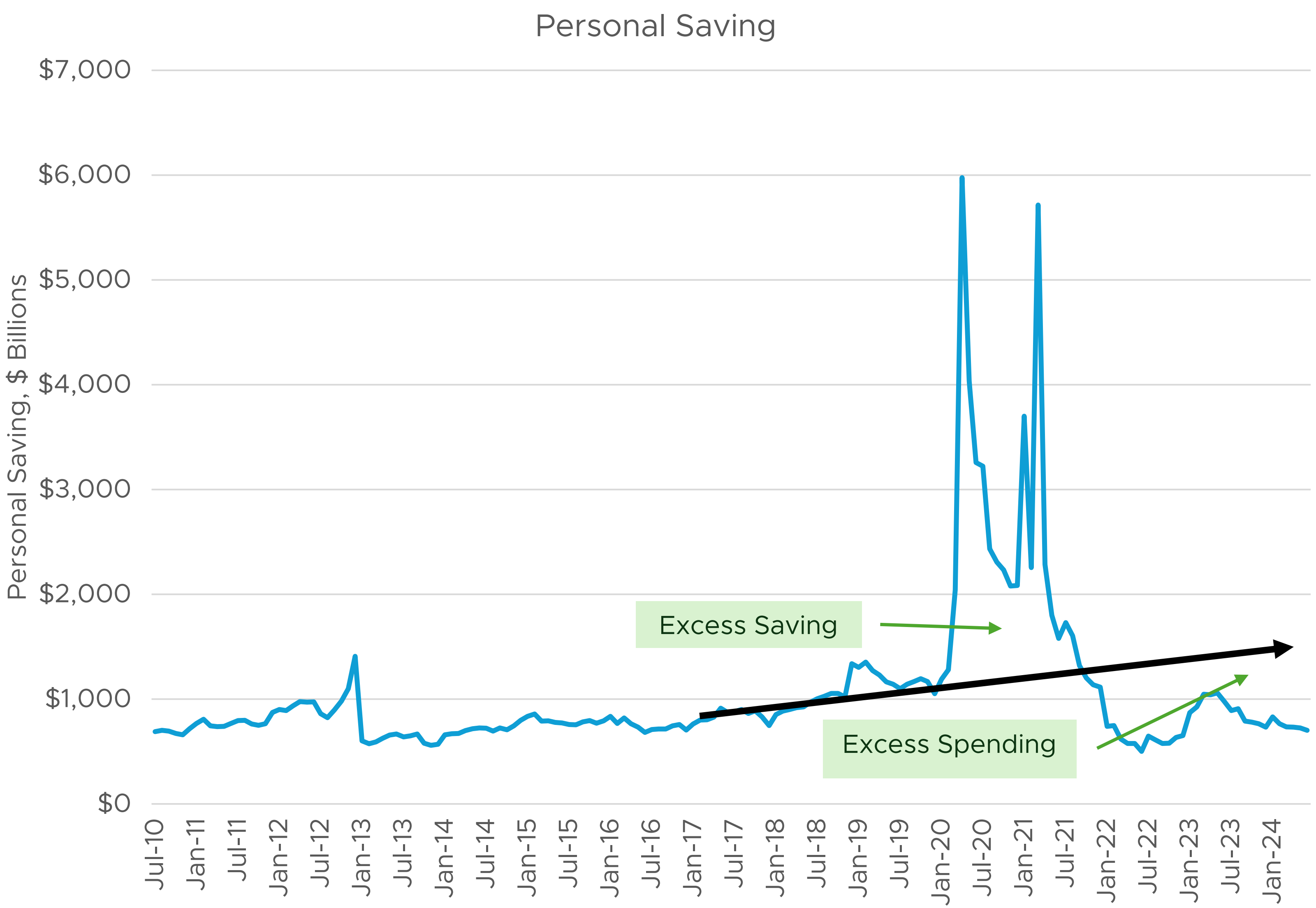
- The lowest quartile of wage earners kept up with inflation through the post-pandemic economy
- But the highest wage earners did not
- Real wage growth is modest with both groups at 1.5% to 2.0%



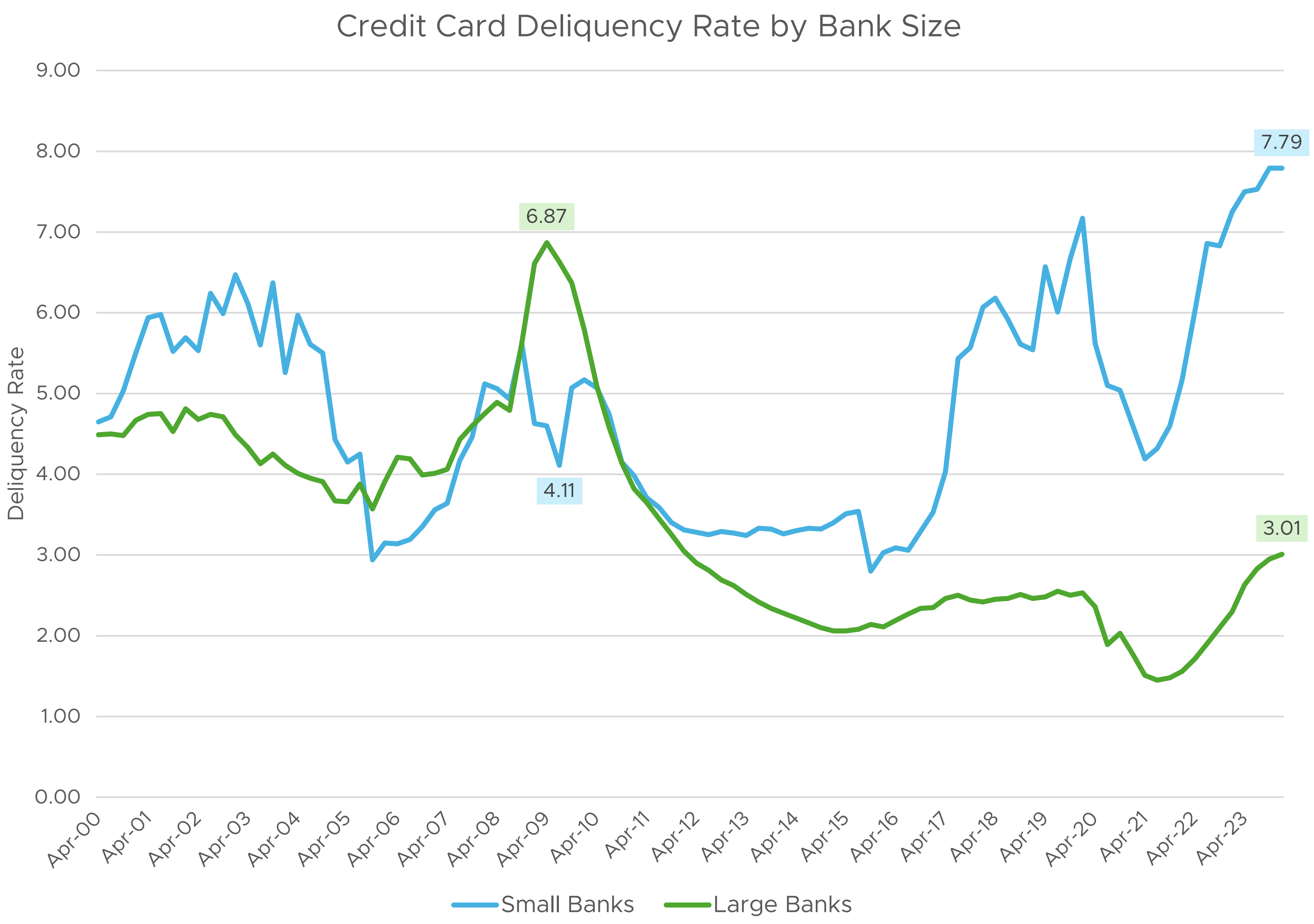
- The labor market is cooling slowly even as the pace of monthly job creation exceeds the break-even pace

- The Great Resignation is behind us as the pace of job quits is falling sharply

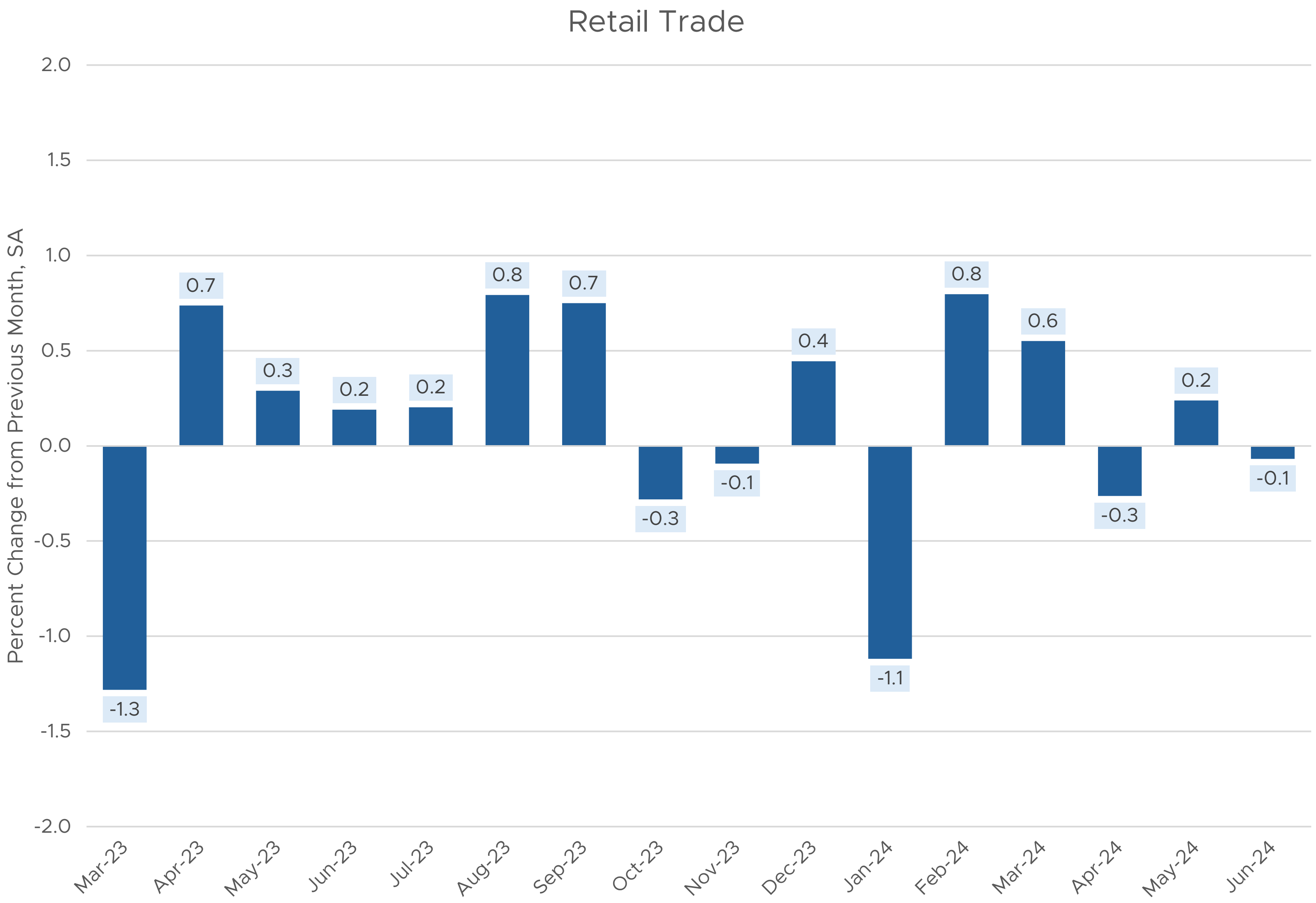
- The excess demand for workers is easing as the number of posted job openings per unemployed worker falls to 1.5



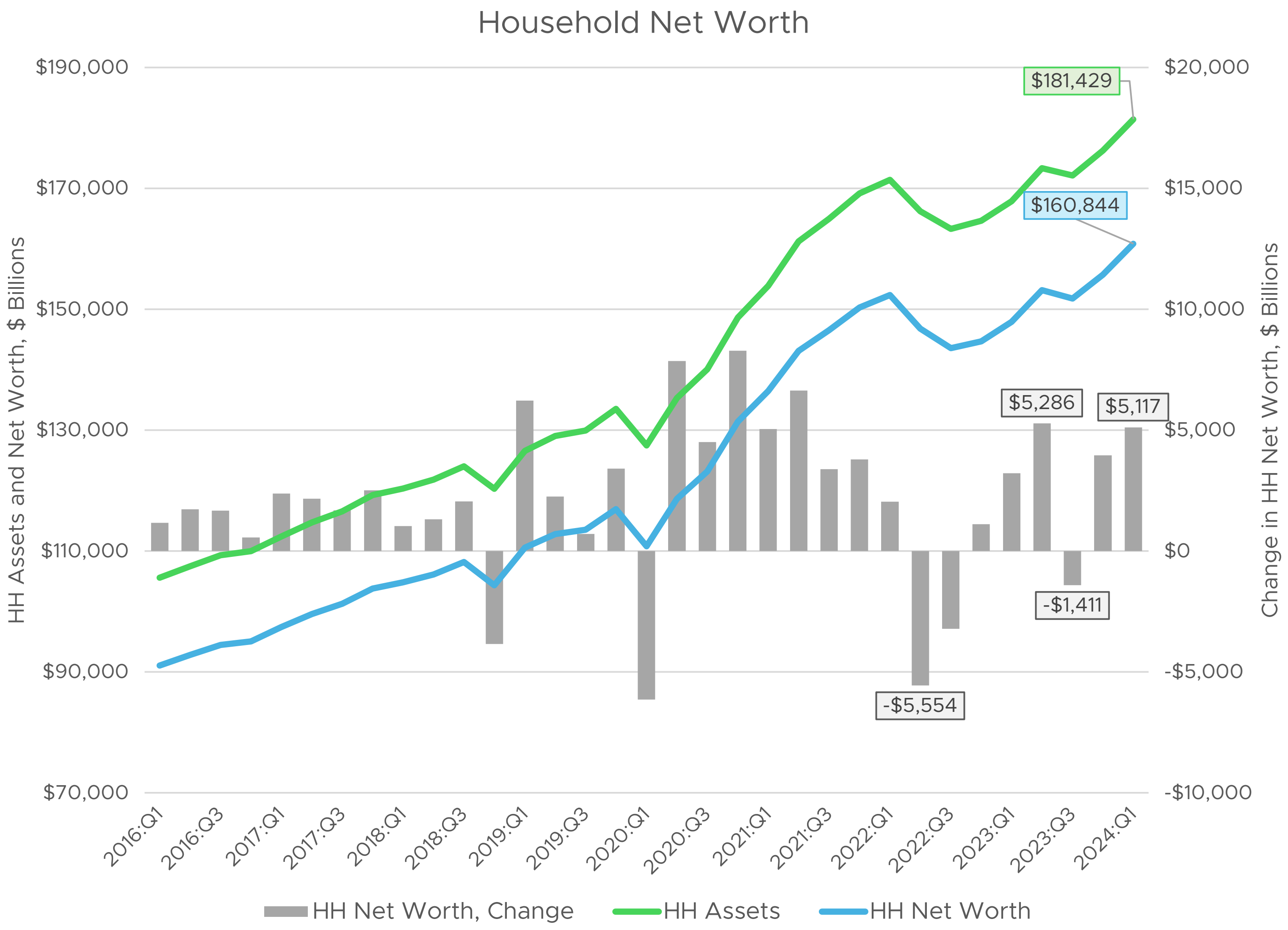
- Health policies intended to curb the pace of the spread of the pandemic imposed economic losses
- So economic stimulus programs were implemented to offset these losses
- Economic programs were probably bigger than needed and resulted in a period of exaggerated excess saving



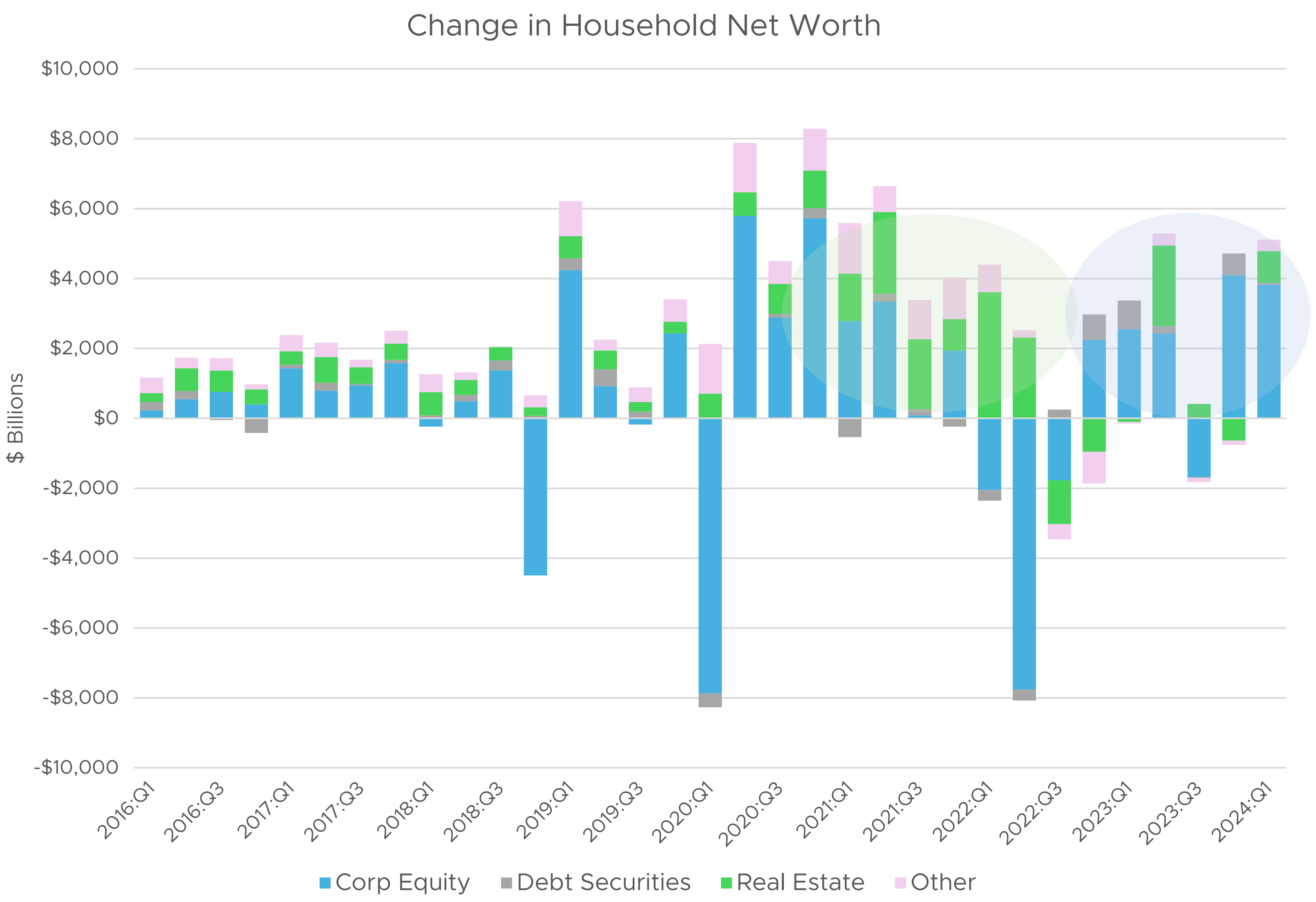
- Credit Card delinquency varies significantly by bank size
- Delinquent accounts represent 3.01% of all accounts at the largest 100 banks by asset size but
- 7.79% of all accounts at all other banks



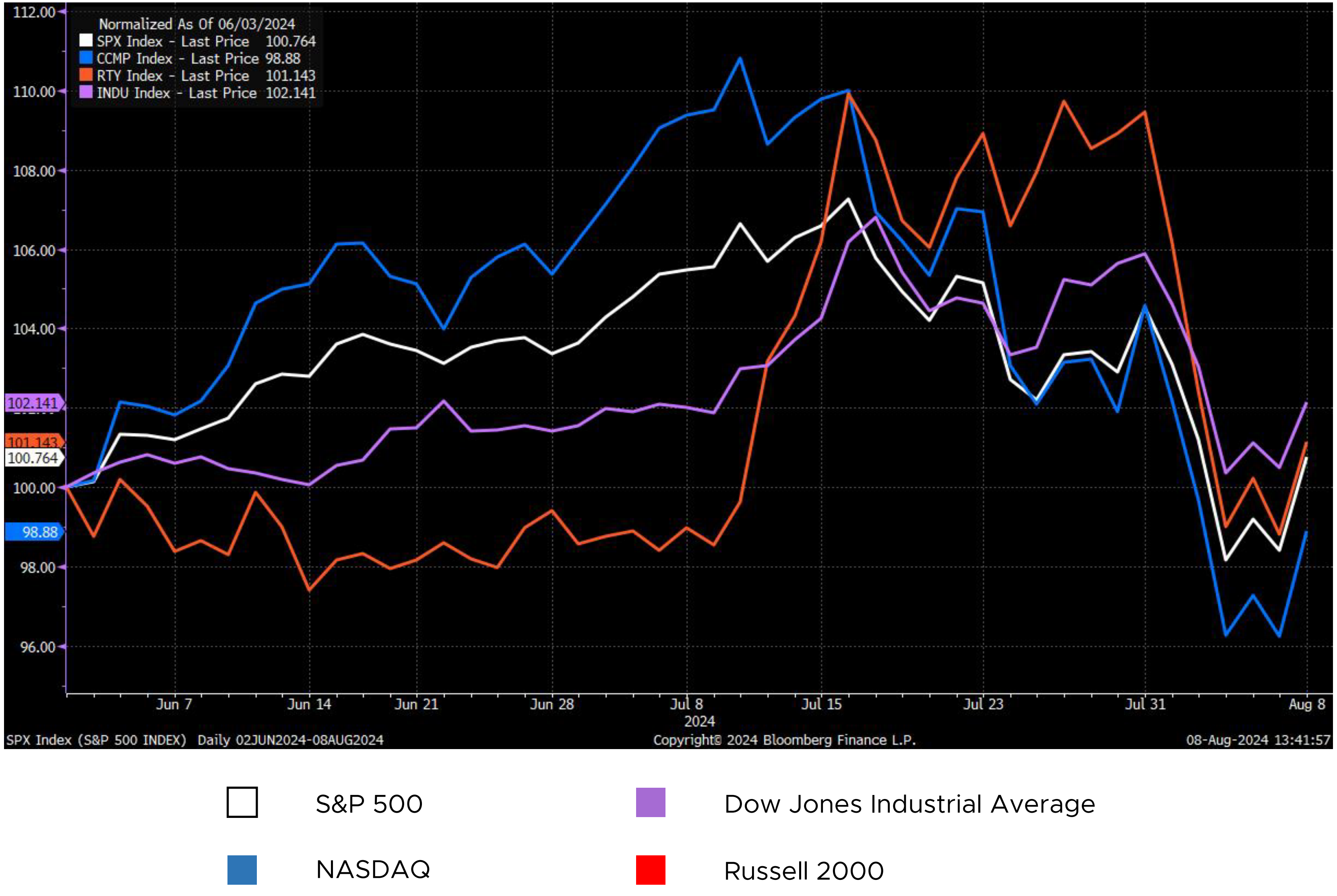
- Growth of U.S. retail and food service sales has slowed to pre-pandemic levels
- Facing higher interest rates (the cost of current consumption) and without policy induced savings, it is unclear if households can sustain spending habits
- Slower consumer spending is already apparent in many state and municipal sales tax collections



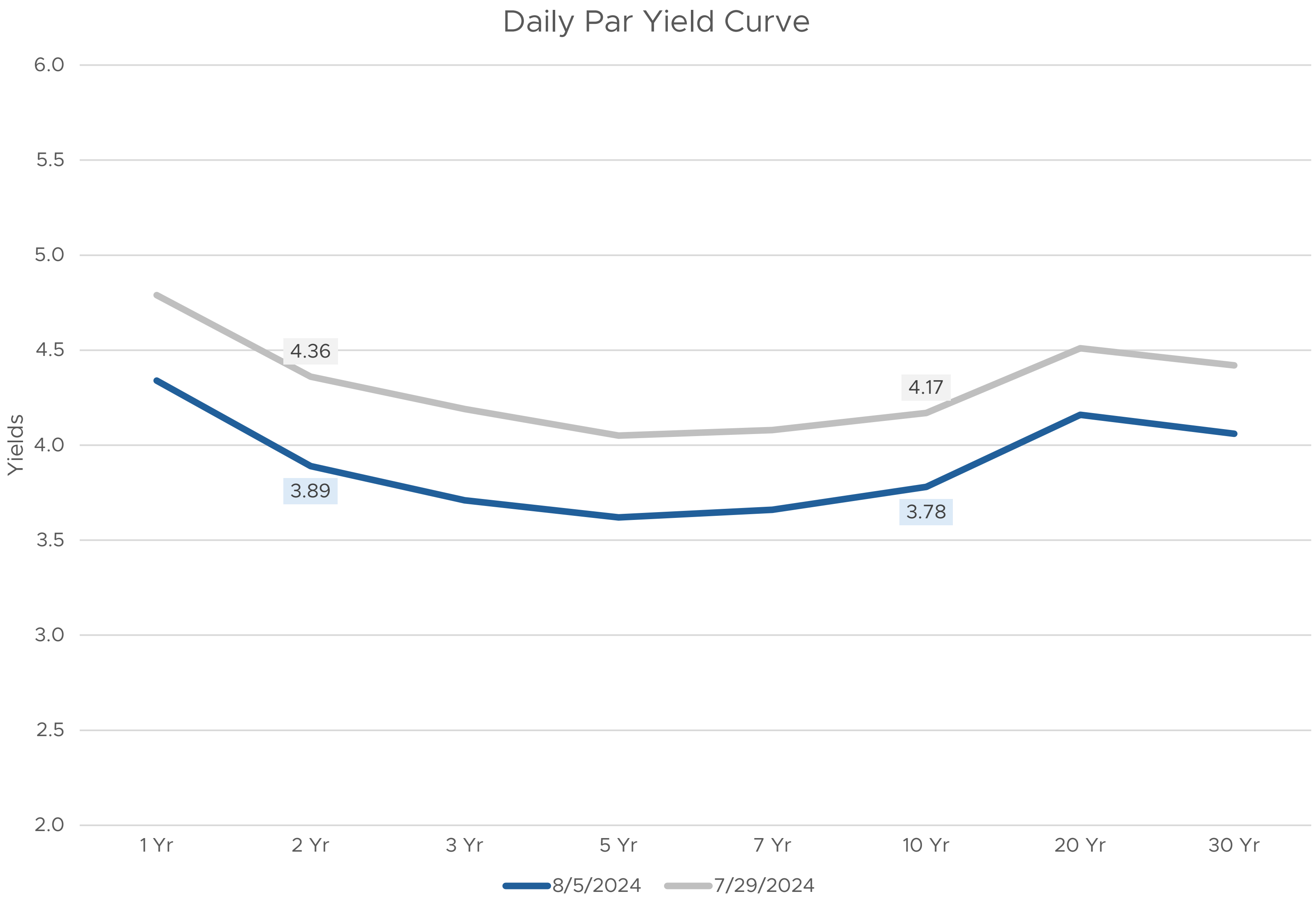
- Household net worth surged in the period immediately following the pandemic
- Household balance sheets hold $181.4T in assets in 2024 Q1 with a net worth of $160.8T
- Balance sheets gave a false recession signal in early 2022 and again in fall of 2023



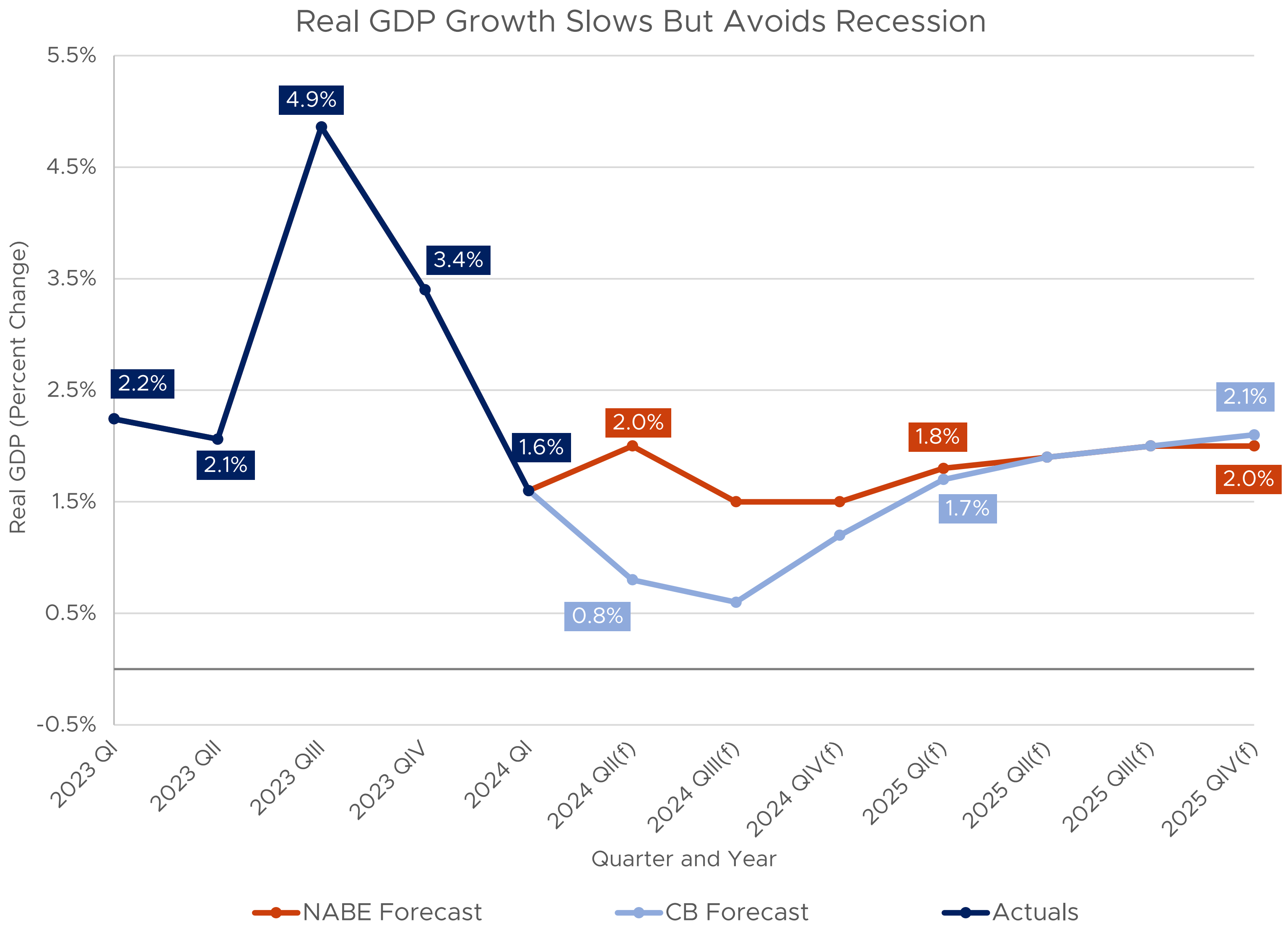
- Initially real estate appreciation drove gains in household net worth
- But household net worth gains have been led by corporate equity for the last six quarters
- Household balance sheets are stressed and <u>exposed to any policy or structural shock to these drivers of net worth</u>



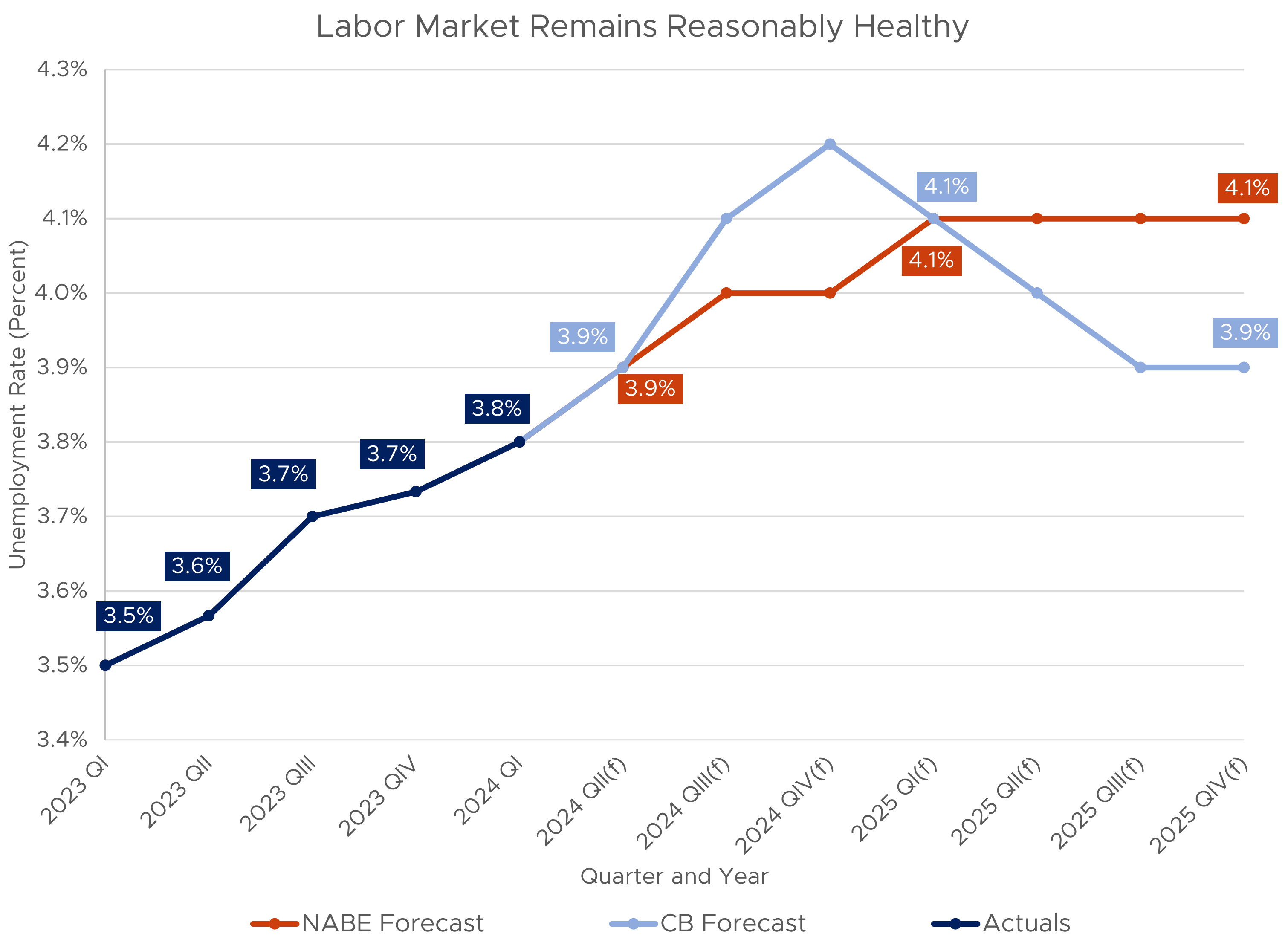
- A soft July jobs report prompted markets to reconsider whether capital markets and economic realities were misaligned
- The immediate concern seems to have yielded to an expectation that the Fed will cut rates more aggressively and strengthen the economic reality in support of equity market strength
- This expectation may be correct, but only if inflation data give policymakers the latitude to do so



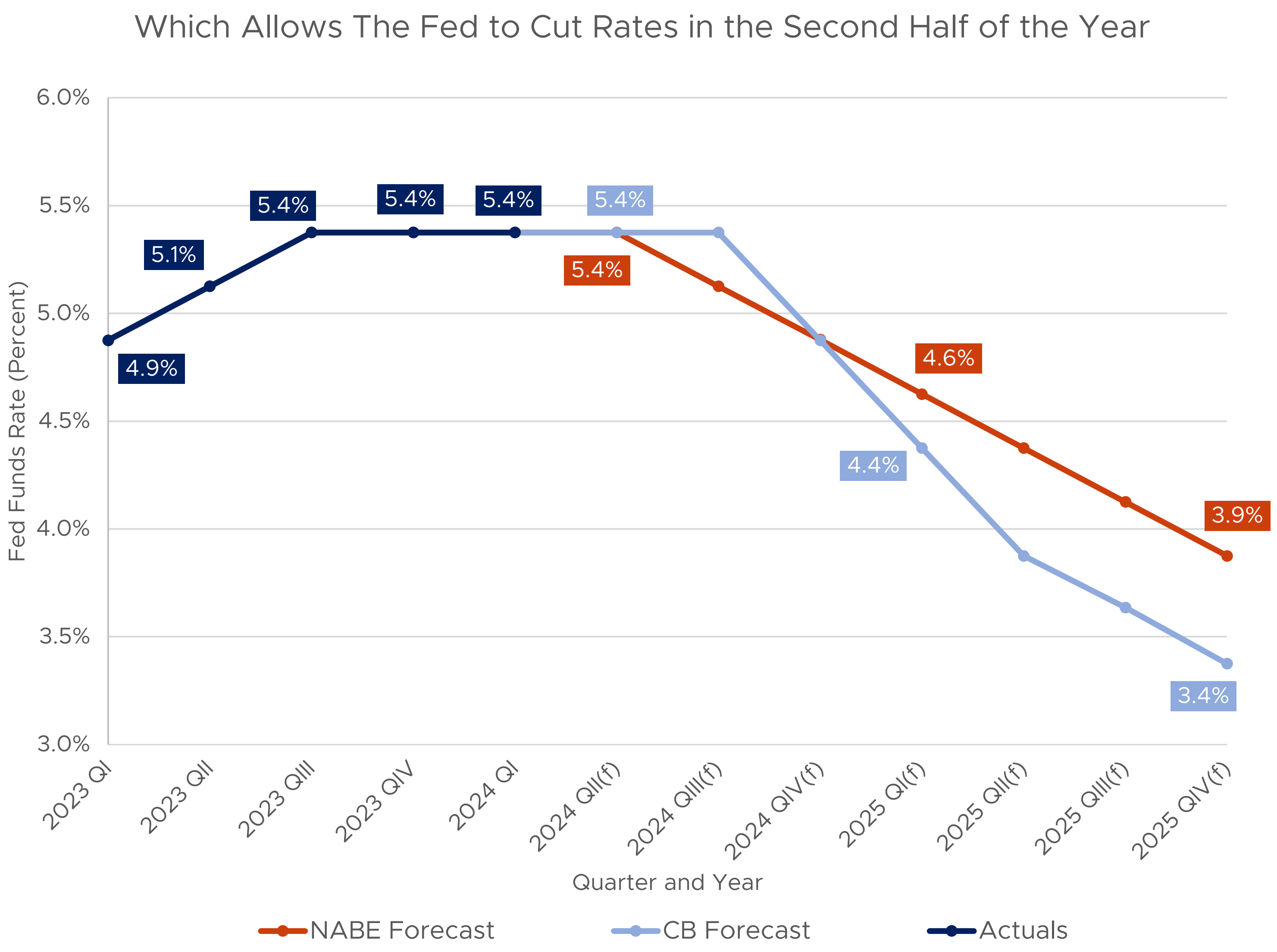
- The resulting flight to safety has shifted the yield curve down across all durations but
- The curve is un-inverting at the short end which is the historical signal of the onset of a recession
- The macro data is softening, and revisions of previously published data are generally to the downside, but it's too early to declare a start to a U.S. recession
- Not too early to be a little worried though!



- Growth is expected to slow to about half the rate of 2023
- The Conference Board has a short and shallow recession in their base case (Q2 and Q3); note that they recently walked back this recession prediction
- The case for a soft landing is increasing, but expect a prolonged landing with economic distortions in areas like commercial real estate, the housing market, and household balance sheets to be a bumpy fix



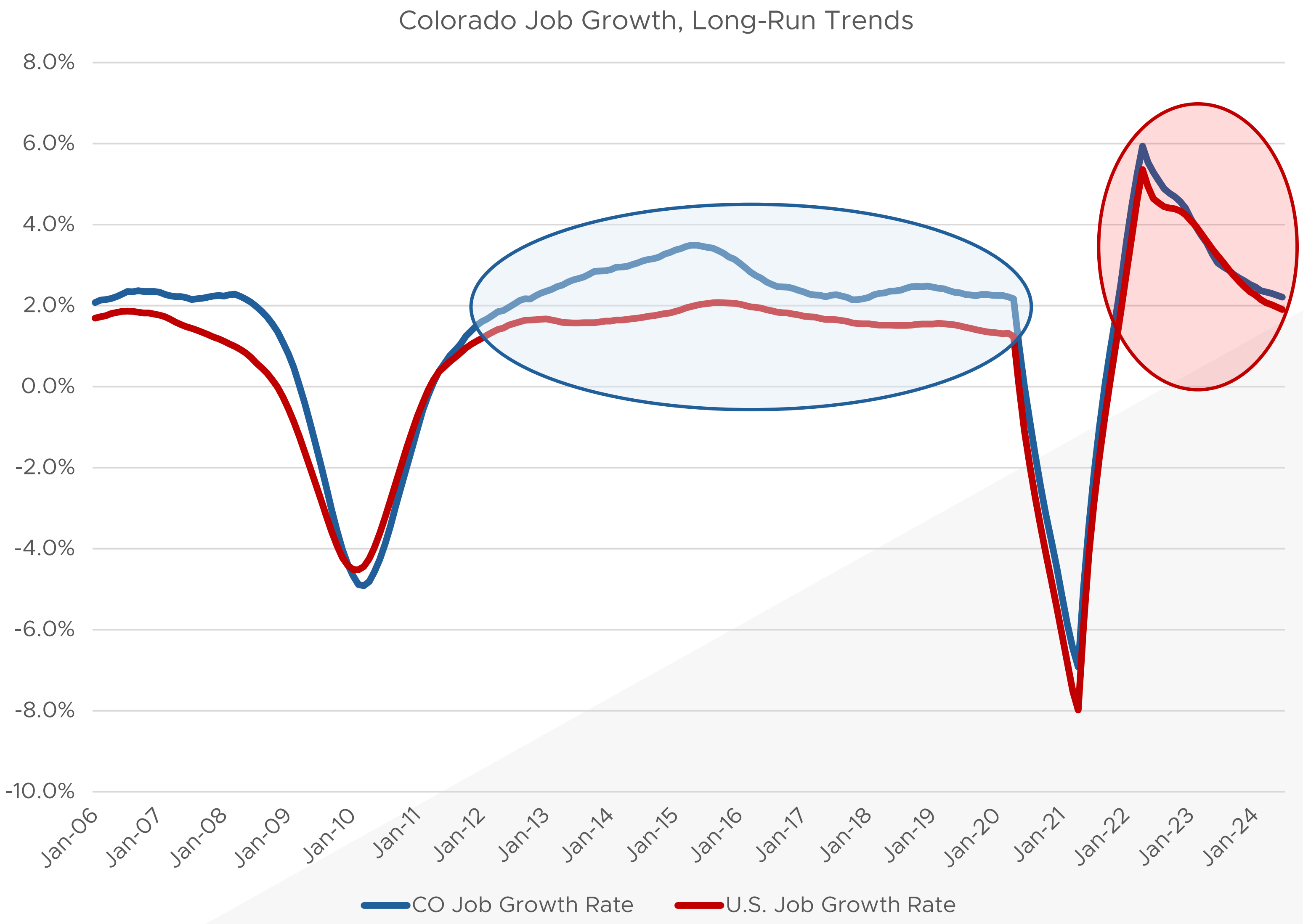
- In 2023, labor market tightening took the form of reducing excess demand for labor
- In 2024, we expect labor market tightening to take the form of modest job destruction, slowing job gains, with the unemployment rate moving towards 4.5%
- August jobs report showed 114,000 jobs added in July, unemployment rising to 4.3%, and May and June job gains revised lower by -29,000 jobs



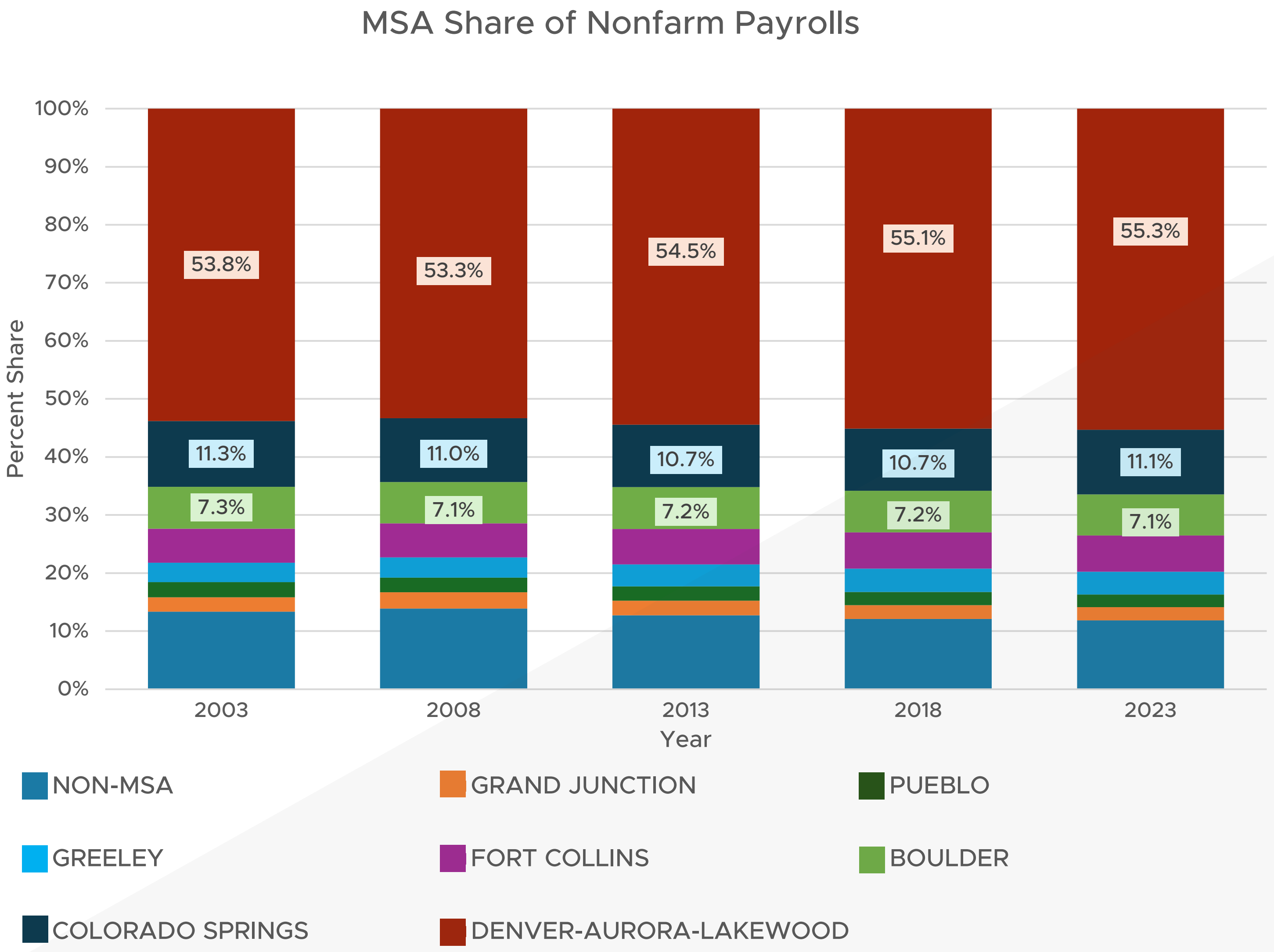
- Rate cuts in 2024…
  - Recent data have been strong enough to discourage any immediate rate cuts
  - But inflation has eased enough to almost be convincingly on a sustainable path to the 2% target
  - And Fed officials sound increasingly like they want to cut
  - Expect 75 bps to 100 bps of cuts to end the year with the path through 2026 to come into focus a bit
  - The unanswered question is will this Fed move down a gradual path or more quickly to a policy shift

FROM U.S. TO REGIONAL ECONOMIC OUTLOOK

- We are still, and in some cases just now, feeling the lagged effects of policy; a soft landing may yet be a little bumpy and may not feel soft to everyone
- If households have largely spent through their excess savings, the public sector has not; the effects of government spending and capital projects will be felt for several more years
- Household balance sheets are stressed, and the consumer will need a mix of policy relief and a strong labor market to maintain spending
- The pandemic exposed the risks of a just-in-time and globally distributed supply chain strategy; expect a persistent trend of reshoring and with a manufacturing resurgence to follow
- The forces of geography will continue to favor regions south and west across the U.S.

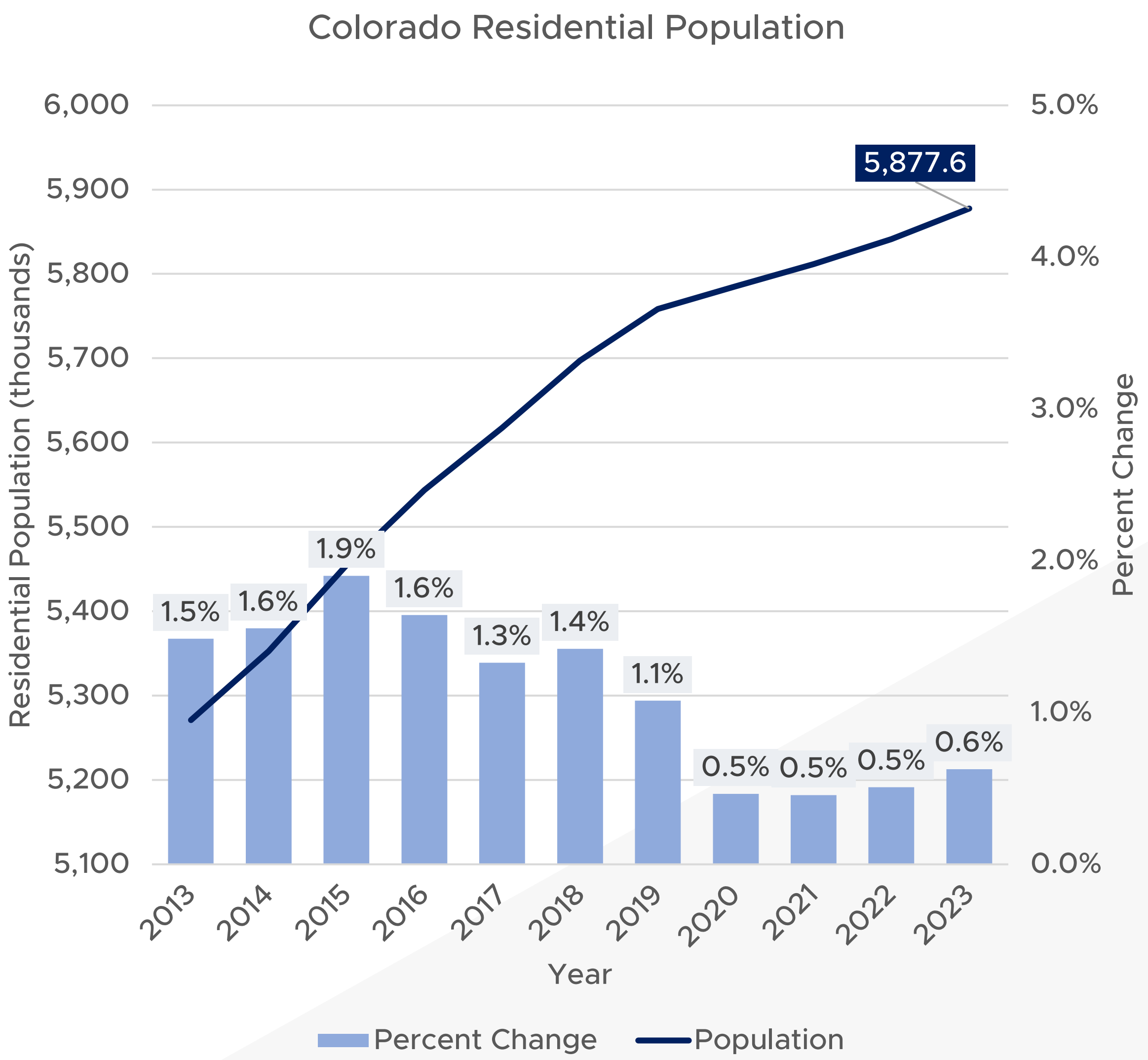


- Throughout the previous decade Colorado job growth consistently and significantly outpaced U.S. job growth
- Coming out of the pandemic U.S. job growth has matched Colorado job growth
- Colorado will have much different decade of relative performance through the 2020's

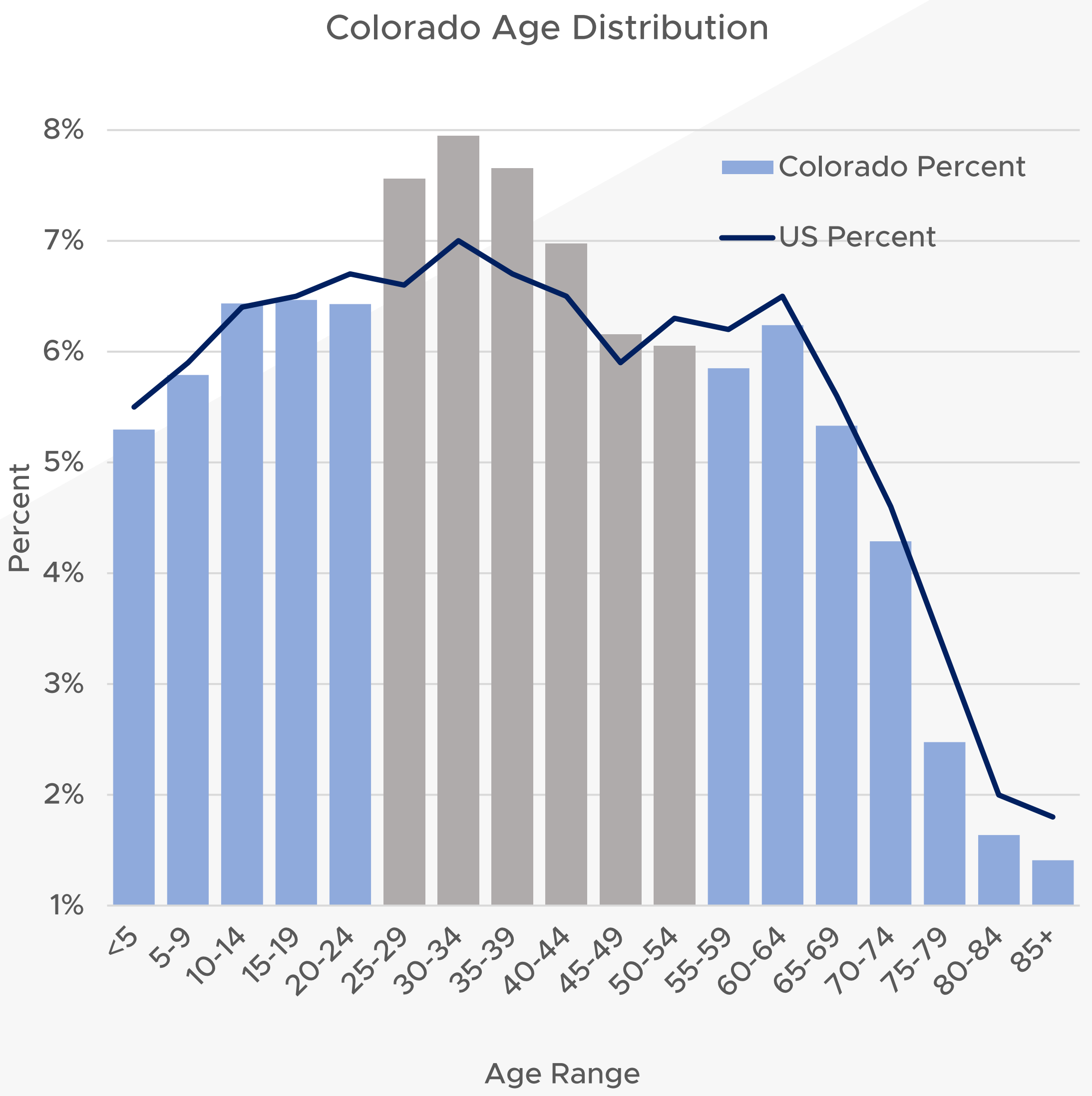


COLORADO MSA	10-yr Change
NON-MSA	-1.31%
BOULDER	-0.32%
PUEBLO	-0.32%
COLORADO SPRINGS	-0.14%
GRAND JUNCTION	-0.01%
DENVER-AURORA-LAKEWOOD	0.58%
FORT COLLINS	0.71%
GREELEY	0.80%

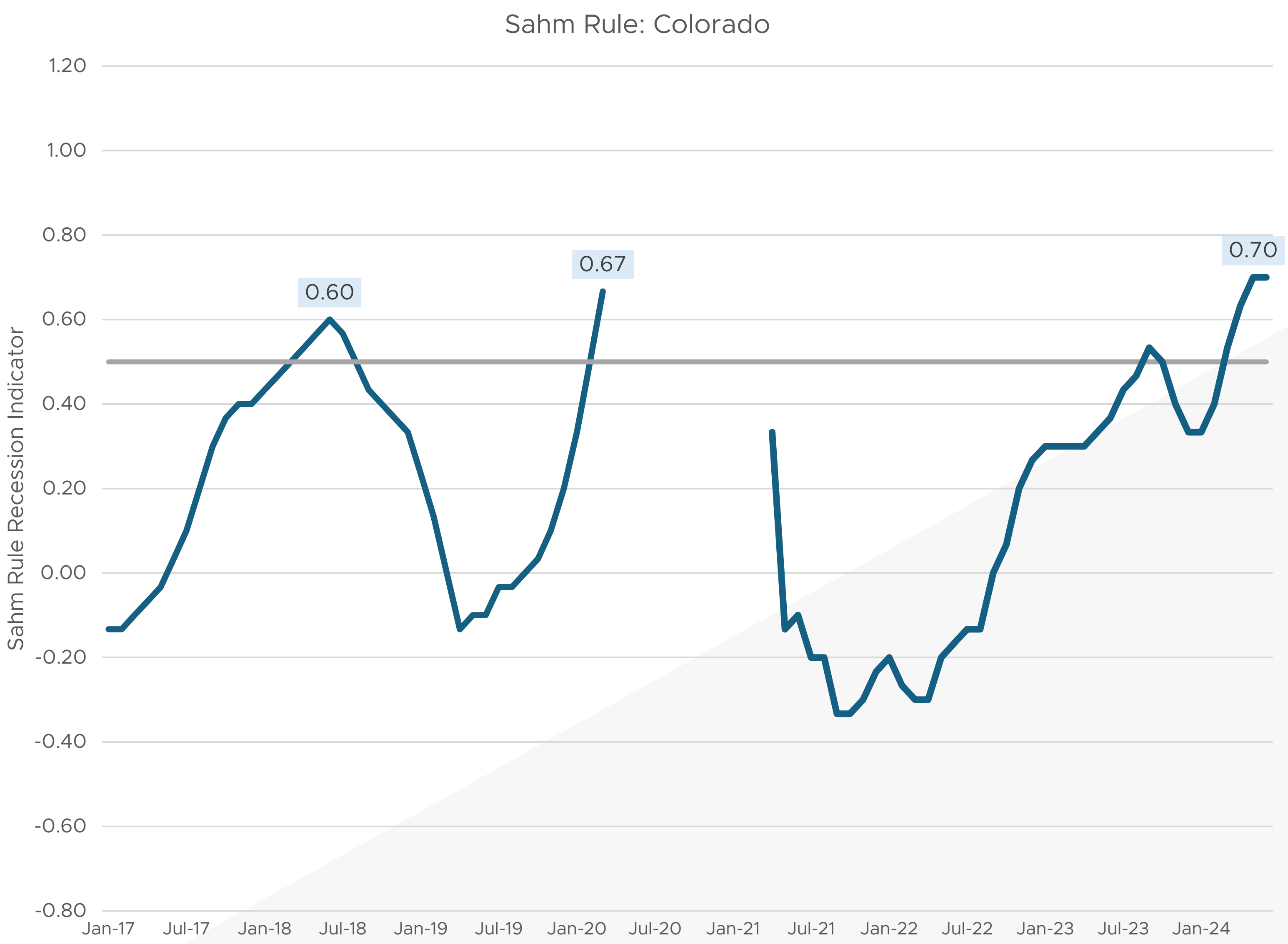
- The Colorado labor market has concentrated nearly 88% of jobs in metro areas
- As a mature market, many areas are near equilibrium shares of nonfarm payrolls with a slow transition from non-MSA areas to front range emerging MSA’s



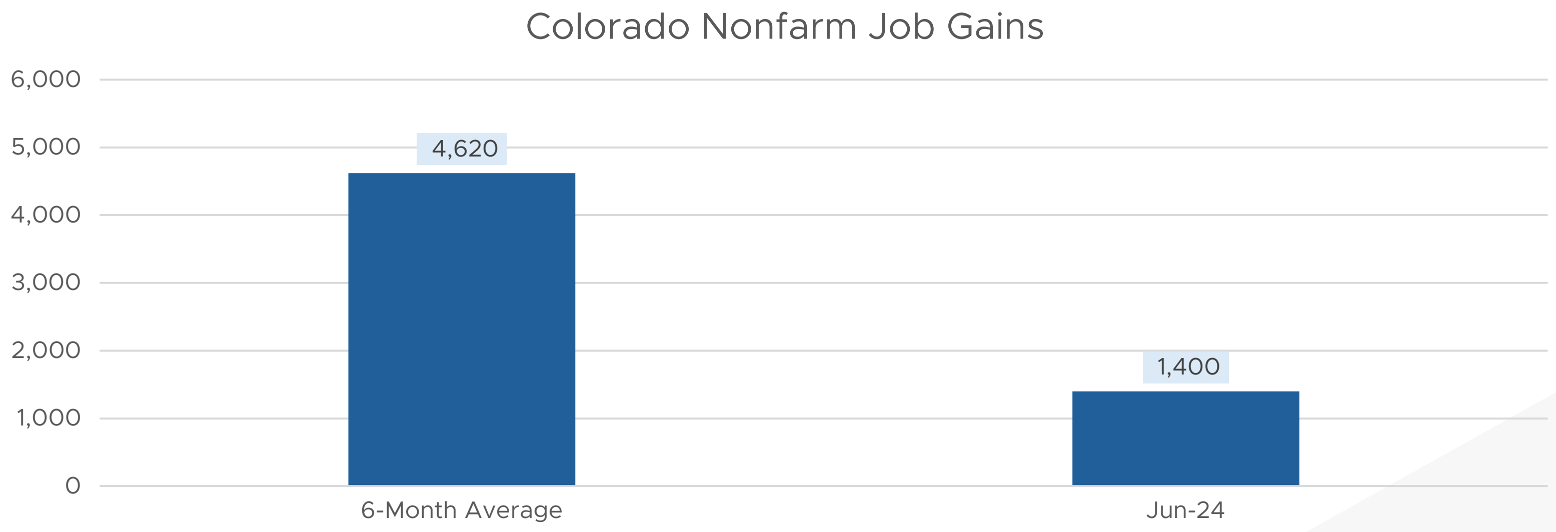
Colorado Residential Population
6,000
5,900
5,800
5,700
5,600
5,500
5,400
5,300
5,200
5,100
Residential Population (thousands)
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
Percent Change
5,877.6
1.5%
1.6%
1.9%
1.6%
1.3%
1.4%
1.1%
0.5%
0.5%
0.5%
0.6%
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Year
Percent Change
Population

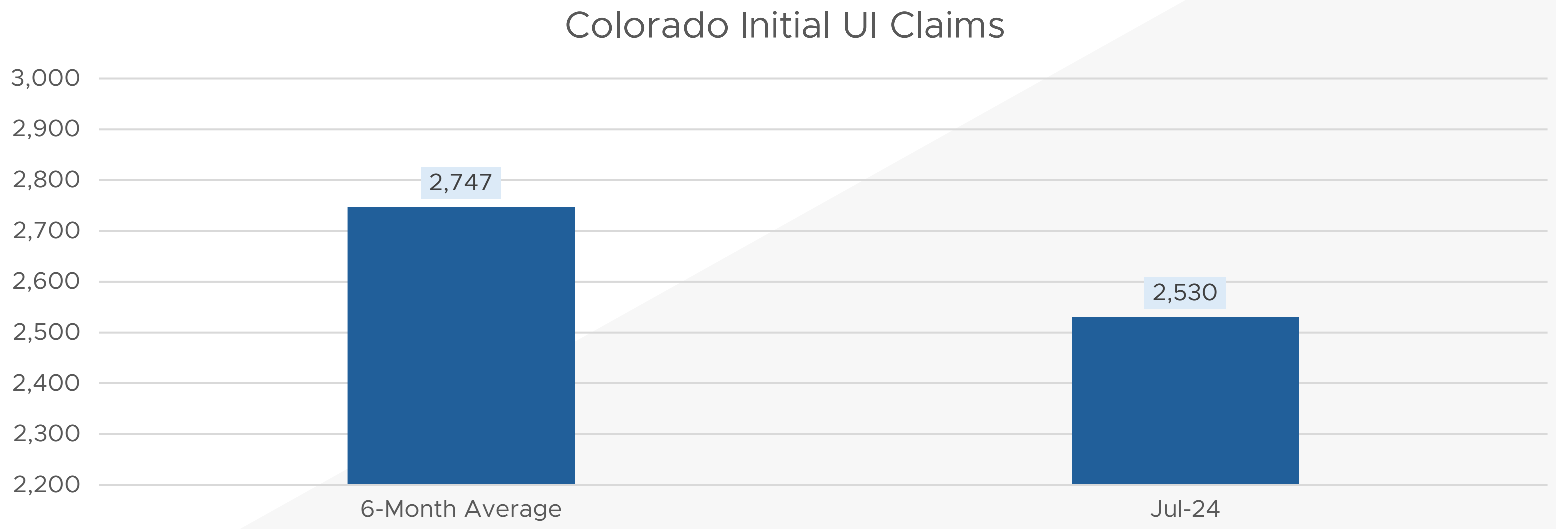


Colorado Age Distribution
8%
7%
6%
5%
4%
3%
2%
1%
Percent
Colorado Percent
US Percent
<5
5-9
10-14
15-19
20-24
25-29
30-34
35-39
40-44
45-49
50-54
55-59
60-64
65-69
70-74
75-79
80-84
85+
Age Range

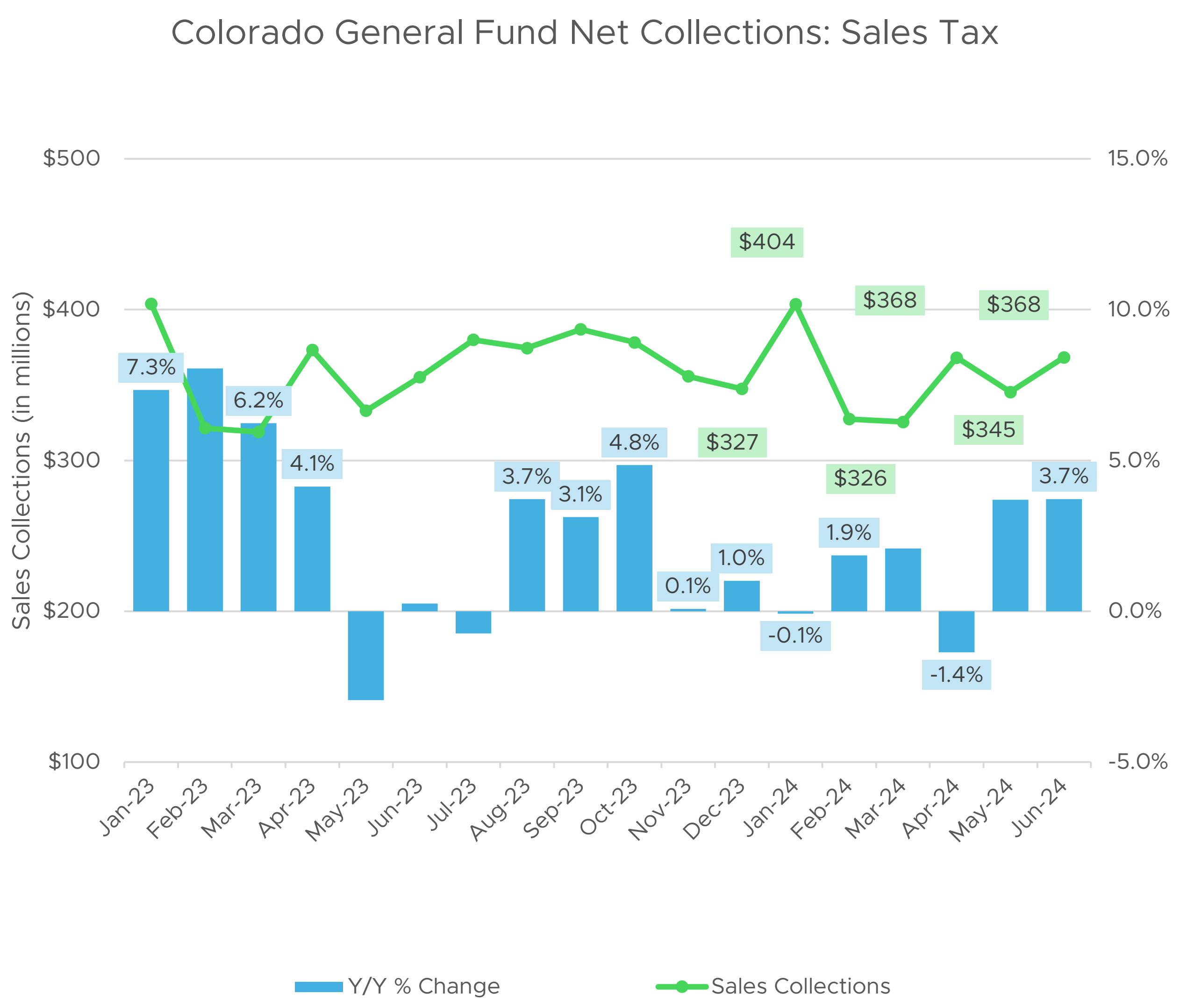


- The Sahm Rule was triggered in the U.S. labor market with the August jobs report
- The Sahm Rule compares the current 3-month average unemployment rate to the low of the previous 12 months; if it is greater than 50bps higher the economy is likely in a recession
- The Sahm Rule can be applied to state economies and the recessionary breach happened in Colorado this spring
- *Stop Applying My Recession Rule to State Data: Claudia Sahm;* Bloomberg Opinion 3/27/2024





- The Colorado labor market is cooling with much slower job gains in 2024
- But initial jobless claims and the lack of widespread job losses do not suggest a statewide recession is underway
- It does suggest that any economic buffer to future distress is quickly eroding



- Signs of a slowing Colorado consumer are reflected in state general fund collections from sales tax
- Sales tax growth passes through distinct phases: growth in excess of inflation, growth at inflation, and growth below inflation

KEY QUESTIONS

- How soft will our soft landing be?
    - I expect some bumps along the way and can't rule out an end-of-the-year recession if consumer spending breaks. The economy is not in a recession currently but is teetering with little support to offset any negative shock. Will 75bps of cuts to end the year be enough support?

- Will the Colorado economy be able to withstand any bumpiness along the way?
    - Not completely. Residual strength will push back against any U.S. slowdown, but evidence of a slowing state economy is already emerging.

- What does the long-run outlook suggest for Colorado?
    - Forces of geography are moving people, firm headquarters, and economic activity south and west. But lately trends have been more south than west. Colorado may struggle to re-create the economic growth of the previous decade (contact your local economist!).

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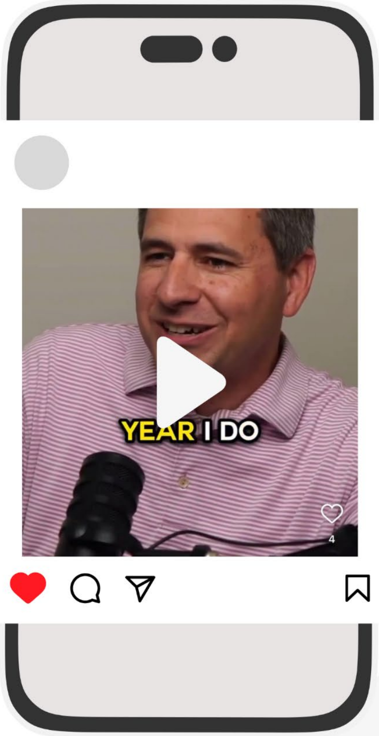

@drrussellevans

Russell Evans

@russell_evans

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