Another Analyst Drops US Recession Forecast

But the new inflation numbers could mean no interest rate cut until after the first quarter.

By Erik Sherman

Fitch Ratings Chief Economist Brian Coulton has joined the growing number of experts and sources that no longer expect a recession to happen in 2024, as Reuters reported. In a Wednesday seminar, he attributed the change in projection to signs of strength in the economy.

The December report from the National Association for Business Economics said that three-quarters of its panelists saw the recession risk as less than 50%.

The Federal Reserve's Federal Open Markets Committee minutes had contained mentions of recession possibilities last year until the release of the September meeting's minutes. Since then, there has been no appearance of the word, according to a GlobeSt.com examination.

The annualized increase in gross domestic product during the third quarter was a robust 4.9%, as reported by the U.S. Bureau of Economic Analysis. Consumer spending has continued to be relatively brisk, and it represents 68% of GDP.

Economist and former Fed staffer Claudia Sahm wrote that Americans are also better off financially and inflation is trending downward. "Wage growth is strong, averaging around 5%," she said. "That's down a good bit from its peak in 2022 when businesses were scrambling to hire workers, but well above the pre-pandemic pace. And the gains are even bigger at the bottom. That's important. Higher wages are how we will get past the higher prices, and we are making real progress there.

However, the latest inflation numbers showed an uptick. December inflation was up 0.3% month over month and 3.4% over the previous year. Shelter numbers contributed more than half of the increase. It doesn't make sense to give overly heavy thought to a single month's numbers, though if they did show a slowdown of inflation reduction over the January and February reports, that could be seen by the Fed as a bad sign and a need to keep interest rates where they are for longer.

But then, shelter costs are a lagged metric as they depend on previously signed leases and don't necessarily represent the current costs. "In other words, we already know that shelter inflation is going to continue to decline based on historical data, which means there is some 'baked in' future decline in inflation that is nearly inevitable," Xander Snyder, senior commercial real estate economist at First American Commercial Real Estate, said in an emailed note.

In related news, Fitch also noted in the webinar that it expects continued elevated U.S. deficits and fiscal policy and election implications to be important for the country's sovereign debt rating. There does seem to be a brewing deal between the House and Senate on a spending plan, which would be seen as a positive sign by rating agencies.