

Comments on U.S. and New York State Economy and Financial Markets

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February 28, 2024

Introductory Comment

We currently anticipate the following:

- The U.S. economy expanded 2.5% in 2023 and will expand 2.0% in 2024, and 1.5% in 2025.
- Consumer spending expanded by 2.2% (2023) and will expand by 1.4% (2024) and 1.3% (2025).
- Nonfarm payroll employment expanded by a monthly average of 246,000 (2023) and will expand by 132,000 (2024) and 241,000 (2025).
- The unemployment rate averaged 3.6% (2023) and will average 3.9% (2024) and 3.7% (2025).
- The consumer price index increased by, on average, 4.1% (2023) and will increase by, on average, 2.5% (2024) and 2.6% (2025).¹
- The Federal Reserve will reduce its target for the federal funds rate two times in 2024 and two times in 2025 from 5.375% to 4.375%.²
- Short-term interest rates (91-day U.S. Treasury bill) averaged 5.08% (2023) and will average 4.39% (2024) and 3.74% (2025).
- Longer-term interest rates (10-year U.S. Treasury note) averaged 3.94% in 2023 and will average 3.98% in 2024 and 3.50% in 2025.
- Stock prices (S&P 500) averaged 4285 in 2023 and will average 4782 in 2024 and 5048 in 2025.
- The New York State economy expanded by .8% (2023) and will expand by 1.9% (2024), and by 1.7% (2025). New York State employment increased by 1.9%-3.1% (2023) and will increase by -.1%-0.9% (2024), and by .2%-1.3% (2025). We estimate NYS employment gains of 180,900-283,100 (2023), -11,400-87,700 (2024), and +19,700-125,900 (2025).³

Updates

Since 1890 there have been 25 bear markets and all 25 have been followed by economic contractions which have been followed by inflation-interest rate declines.

The current bear market began on January 4th, 2022, and arguably ended on October 13th, 2022. The 2022 bear market has NOT been followed by a contraction in the economy.⁴

¹ Annual average/annual average

² March 25 basis points, May 25 basis points, June 25 basis points, September 25 basis points.

³ Estimates derived from CES and QCEW methodologies of Bureau of Labor Statistics.

⁴ Real Gross Domestic Product has expanded for six successive quarters from Q3 2022 through Q4 2023. The Index of Coincident Economic Indicators has expanded for fourteen successive quarters from Q2 2020 through Q4 2023.

The absence of a recession or contraction has made this an exceptionally different economic cycle. Some have argued that technically, since real Gross Domestic Product declined for Q1 2022 and Q2 2022, the U.S. economy receded in those two quarters.

The bear market has been followed (as is ordinarily the case) by a decline in inflation and longer-term interest rates. Inflation peaked in June 2022 (9.1%) and longer-term interest rates peaked on October 19, 2023 (5.0%).

The decline in inflation and the decline in short-term interest rates and the decline in longer-term interest rates have yet to end. (Close, but most likely not ended yet.)

Overview

Identifying the turning points in stock market-economic-interest rate cycles remains critical for all forecasters and policymakers.

There are two important steps to the HJA methodology for understanding cycles. First, HJ Economics identifies important trends in financial market variables. HJ Economics research concludes that the financial markets perform in specific ways at the beginning, middle, and end of a stock market-economic-interest rate cycle. Hence, identifying important trends in financial market variables makes it possible to identify where we are in the stock market-economic-interest rate cycle.

Second, HJ Economics identifies the trends in important monetary and economic variables. The purpose of the second step is to determine if the performance of the financial markets is rational. Is the performance of the financial markets consistent with a rational forecast for the economy, earnings, inflation, and interest rates? More specifically, is the performance of the financial markets justified?

On balance financial market performance has been positive for Q4 2022 to Q4 2023 (October 13th, 2022-February 2, 2024).

- Stock prices have risen 42.0%.
- More volatile ("bull market") stock market sectors (basis materials, technology, consumer discretionary) have outperformed less volatile ("bear market") stock market sectors (consumer staples, utilities, healthcare).
- Growth equities (lower dividend yield, higher price-earnings ratios) have outperformed value equities (higher dividend yield, lower price-earnings ratios).
- More recently small capitalization equities have outperformed large and mid-capitalization equities.
- Spreads (differences) between the yield on AAA-rated investment grade fixed income securities and yield on 10-year U.S. Treasury securities have narrowed. Spreads (differences) between the yield on BAA-rated investment grade fixed income securities and yield on 10-year U.S. Treasury securities have narrowed. Spreads (differences) between the yield on below investment grade fixed income securities and yield on 10-year U.S. Treasury securities

have narrowed. Investors have become more optimistic that the financial conditions of issuers of fixed income securities will improve.

Forecast Details:

We include two sets of tables. The first set summarizes the Hugh Johnson Economics forecast for the U.S. economy. The second set summarizes the Hugh Johnson Economics forecast for the New York State economy.

Forecast for U.S. Economy, Employment, Inflation, Interest Rates, and Stock Prices

Variable	Actual	Actual	Forecast	Forecast	Forecast
	2021	2022	2023	2024	2025
Real GDP	5.8%	1.9%	2.5%	2.0%	1.5%
Consumption	8.4%	2.5%	2.2%	1.4%	1.3%
Investment	8.7%	4.8%	-1.2%	2.3%	2.2%
Exports	6.3%	7.0%	2.7%	1.2%	0.7%
Imports	14.5%	8.6%	-1.7%	0.5%	1.4%
Government	-0.3%	-0.9%	4.0%	3.3%	2.3%
Federal	1.4%	-2.8%	4.2%	3.2%	2.4%
State	-1.3%	0.2%	3.8%	3.4%	2.3%
Personal Income	9.1%	2.0%	5.2%	4.4%	4.6%
Wages & Salaries	9.0%	7.8%	6.4%	5.7%	6.0%
Corporate Profits (ptw)	22.6%	9.8%	0.1%	3.2%	3.7%
Productivity					
Employment	2.9%	4.3%	2.3%	1.3%	1.5%
Unemployment Rate	5.4%	3.6%	3.6%	3.9%	3.7%
CPI-Urban	4.7%	8.0%	4.1%	2.5%	2.6%
S&P 500 Stock Price	32.6%	-3.9%	4.5%	14.3%	5.1%
Treasury Bill Rate (3-Month)	0.0%	2.5%	5.1%	4.8%	3.8%
Treasury Note Rate (10-Year)	1.5%	3.3%	3.9%	4.0%	3.5%

Forecast for New York State Economy, Employment, and Inflation

Variable	Actual	Actual	Forecast	Forecast	Forecast
	2021	2022	2023	2024	2025
Gross State Product (chained 2012 \$)	4.5%	2.3%	0.8%	1.9%	1.7%
Employment (CES)	2.8%	5.1%	1.9%	0.1%	0.7%
Unemployment Rate	7.0	4.3	4.1	4.5	4.3
Personal Income	7.3%	-1.6%	4.7%	3.4%	3.5%
Total Wages (calendar year basis)	8.7%	7.1%	5.6%	5.2%	5.6%
Supplement	4.6%	1.8%	3.2%	2.3%	2.6%
Variable Compensation					
New York Area CPI (1)	3.6%	6.4%	3.5%	2.7%	2.3%
Source: Bureau of Labor Statistics, Bureau of Economic Analysis ; Hugh Johnson Economics					

Forecasts for U.S. Economy, Employment, and Inflation

We include a table summarizing the consensus forecast and the Hugh Johnson Economics forecasts for the U.S. economy. The consensus and HJ Economics forecast that the U.S. economy will slow in Q1, Q2, and Q3.

February 2024 Forecast		
Quarter	Consensus-Real GDP	HJ Economics-Real GDP
2023-Q1	2.2%	2.2%
2023-Q2	2.1%	2.1%
2023-Q3	4.9%	4.9%
2023-Q4	3.3%	3.3%
2024-Q1	1.0%	1.2%
2024-Q2	0.5%	0.8%
2024-Q3	1.0%	0.8%
2024-Q4	1.5%	1.4%
2025-Q1	1.8%	1.6%
2025-Q2	1.9%	1.8%
2025-Q3	9.0%	2.0%
2025-Q4	NA	2.0%
2022	1.9%	1.9%
2023	2.4%	2.5%
2024	1.5%	2.0%
2025	1.6%	1.5%

Source: Bloomberg Economics; HJ Economics

The consensus and HJ Economics forecasts that consumer spending will slow in Q1, Q2, and Q3 2024 and 2025.

February 2024 Forecast		
Quarter	Consensus-Consumer Spending	HJ Economics-Consumer Spending
2023-Q1	3.8%	3.8%
2023-Q2	0.8%	0.8%
2023-Q3	3.1%	3.1%
2023-Q4	2.8%	2.8%
2024-Q1	1.4%	0.9%
2024-Q2	0.7%	0.5%
2024-Q3	1.0%	0.6%
2024-Q4	1.2%	1.2%
2025-Q1	1.6%	1.4%
2025-Q2	1.8%	1.6%
2025-Q3	1.8%	1.8%
2025-Q4	NA	1.8%
2022	2.5%	2.5%
2023	2.2%	2.2%
2024	1.5%	1.4%
2025	1.3%	1.3%

Source: Bloomberg Economics; HJ Economics

HJ Economics estimates that nonfarm payroll employment (NFP) will increase on average by 132,000 per month in 2024 and 241,000 in 2025 versus 255,000 in 2023. The consensus estimates that nonfarm payroll employment will increase by 95,000 in 2024 and 116,000 in 2025.

February 2024 Forecast		
Quarter	Consensus-NFP	HJ Economics-NFP
2023-Q1	300	300
2023-Q2	251	251
2023-Q3	222	222
2023-Q4	132	210
2024-Q1	110	151
2024-Q2	68	99
2024-Q3	70	100
2024-Q4	76	179
2025-Q1	89	206
2025-Q2	100	233
2025-Q3	106	261
2025-Q4	NA	262
2022	412	412
2023	226	246
2024	81	132
2025	NA	241

Source: Bloomberg Economics; HJ Economics

HJ Economics anticipates that consumer inflation will increase 2.5% in 2024 and 2.6% in 2025 after increasing 4.1% in 2023.⁵ In addition, HJ Economics anticipates that the Personal Consumption Price Index will increase 2.2% in 2024 and 2.3% in 2025 after increasing 3.7% in 2023. HJ Economics anticipates that the Core Personal Consumption Price Index will increase 2.5% in 2024 and 2.5% in 2025 after increasing 4.1% in 2023.

HJ Economics anticipates that the Personal Consumption Price Index will average 1.9% in Q3 2024.

February 2024 Forecast		
Quarter	Consensus-CPI	HJ Economics CPI
2023-Q1	5.8%	5.8%
2023-Q2	4.0%	4.0%
2023-Q3	3.5%	3.5%
2023-Q4	3.3%	3.2%
2024-Q1	2.9%	2.9%
2024-Q2	2.8%	2.4%
2024-Q3	2.6%	2.2%
2024-Q4	2.5%	2.6%
2025-Q1	2.3%	2.5%
2025-Q2	2.3%	2.5%
2025-Q3	2.3%	2.6%
2025-Q4	NA	2.7%
2022	8.0%	8.0%
2023	4.1%	4.1%
2024	2.7%	2.5%
2025	2.3%	2.6%

Source: Bloomberg Economics; HJ Economics

⁵ Q4/Q4

Forecasts for Federal Reserve Policy, Interest Rates, and Stock Prices

The consensus and Hugh Johnson Economics forecast that the Federal Reserve will reduce interest rates further in 2024 and 2025. Specifically, HJ Economics anticipates that the Federal Reserve will reduce interest rates from 5.375% to 5.125% (May-June) and 4.875% (July-September). In addition, HJ Economics anticipates that the Federal Reserve will reduce interest rates from 4.875% to 4.625% and 4.375% in 2025.

February 2024 Forecast		
Quarter	Consensus Fed Funds Rate	HJ Economics Fed Funds Rate..
2023-Q1	4.875	4.875
2023-Q2	5.125	5.125
2023-Q3	5.375	5.375
2023-Q4	5.375	5.375
2024-Q1	5.375	5.375
2024-Q2	5.125	5.125
2024-Q3	4.625	4.875
2024-Q4	4.375	4.875
2025-Q1	3.875	4.625
2025-Q2	3.625	4.375
2025-Q3	3.375	4.375
2025-Q4	3.125	4.375
2022	2.594	2.594
2023	5.188	5.188
2024	4.875	5.063
2025	3.500	4.438

Source: Bloomberg Economics; HJ Economics

The interest rate reductions forecasted by HJ Economics imply that longer-term interest rates, as measured by the yield of 10-year U.S. Treasury notes, will decline toward 3.80% in 2024 and 3.40% in 2025. The yield is currently 4.17%.

February 2024 Forecast		
Quarter	Consensus 10-Year	HJ Economics 10-Year
2023-Q1	3.47	3.47
2023-Q2	3.83	3.83
2023-Q3	3.80	4.58
2023-Q4	4.50	3.88
2024-Q1	4.05	4.07
2024-Q2	3.90	4.10
2024-Q3	3.80	3.90
2024-Q4	3.75	3.83
2025-Q1	3.70	3.64
2025-Q2	3.60	3.46
2025-Q3	3.60	3.47
2025-Q4	3.50	3.43
2022	3.31	3.31
2023	3.90	3.94
2024	3.88	3.98
2025	3.60	3.50

Source: Bloomberg Economics; HJ Economics

The Federal Reserve has reduced its holdings of financial market instruments from \$8.911 trillion (Q4 2021) to \$6.731 trillion (Q3 2023). We anticipate they will continue reducing holdings of U.S. Treasuries and mortgage-backed securities through 2024.

If the economy slows as forecast and inflation rates continue to decline as forecast, Federal Reserve policy is likely to reduce interest rates. If the Federal Reserve reduces interest rates as forecast, we anticipate that equity prices will improve in 2024 and 2025.

HJ Economics Forecast for S&P 500					
Quarter	S&P 500 Operating Earnings	Y/Y%	10-Year UST	S&P 500	Year/Year
2023-Q1	\$219.87	2.2%	3.47	4003	-10.4%
2023-Q2	\$216.54	-1.6%	3.83	4204	2.3%
2023-Q3	\$218.93	-1.6%	4.58	4458	12.2%
2023-Q4	\$222.71	0.5%	3.88	4473	16.1%
2024-Q1	\$224.67	2.2%	4.07	4592	14.7%
2024-Q2	\$229.73	6.1%	4.10	4768	13.4%
2024-Q3	\$234.67	7.2%	3.90	4881	9.5%
2024-Q4	\$242.57	8.9%	3.83	4888	9.3%
2025-Q1	\$250.73	11.6%	3.64	4878	6.2%
2025-Q2	\$258.90	12.7%	3.46	5000	4.9%
2025-Q3	\$267.06	13.8%	3.47	5121	4.9%
2025-Q4	\$275.22	13.5%	3.43	5198	6.3%

Sources: HJ Economics; Refinitiv Proprietary Research

(Fixed income and equity returns are expected to be modest. HJ Economics forecasts that the S&P 500 total return will be 10.8% for 2024 and 7.8% for 2025. We estimate that the dividend yield will average 1.5% for 2024 and 2025.⁶

New York State Economy

We anticipate that the New York State economy will expand 1.9% in 2024 and 1.7% in 2025 after expanding .8% in 2023.

Gross State Product (2021-2025)					
State	2021	2022	2023	2024	2025
US	5.8%	1.9%	2.5%	2.0%	1.6%
Connecticut	4.0%	2.9%	2.1%	2.0%	1.5%
Maine	5.1%	2.2%	1.8%	1.9%	1.5%
Massachusetts	6.4%	2.1%	1.6%	2.2%	1.6%
New Hampshire	8.1%	0.3%	1.5%	2.6%	1.5%
NY	4.5%	2.3%	0.8%	1.9%	1.7%
Rhode Island	4.5%	2.3%	1.6%	1.5%	1.0%
Vermont	4.8%	2.2%	1.6%	2.1%	1.6%
New England	5.7%	2.2%	1.8%	2.1%	1.5%

Bureau of Economic Analysis

⁶ The S&P 500 at 5026.61 is currently 9.5% overvalued or 9.5% above the level forecast for Q1 2024.

We anticipate that New York State employment will increase by .1% in 2024 and .7% in 2025, and after increasing 1.9% in 2023. We anticipate that New York State will add 12,900 jobs in 2024 and 69,980 jobs in 2025 after adding 180,900 jobs in 2023.

Nonfarm Payroll Employment (2021-2025) (CES)					
State	2021	2022	2023	2024	2025
US	2.9%	4.3%	2.3%	1.3%	1.5%
Connecticut	2.9%	3.1%	1.4%	0.8%	1.3%
Maine	4.1%	2.5%	1.4%	1.2%	1.4%
Massachusetts	3.9%	4.1%	2.5%	1.3%	1.2%
New Hampshire	3.7%	3.6%	2.1%	0.6%	1.4%
NY	2.8%	5.1%	1.9%	0.1%	0.7%
Rhode Island	4.0%	3.4%	0.1%	0.2%	0.1%
Vermont	2.7%	3.0%	1.2%	-0.6%	0.0%
Bureau of Labor Statistics					

The HJ Economics forecast for New York State real Gross Domestic Product, employment, personal income, and wages implies the following outcomes for total tax collections and personal income tax collections for the 2022-23, 2023-24, and 2024-25 fiscal years.

Fiscal Year	Total Tax Collections (mln)	PIT (mln)
Fiscal Year 2022-23	\$144,144	\$58,776
Fiscal Year 2023-24	\$144,021	\$53,073
Fiscal Year 2024-25	\$152,669	\$54,047

Sources: New York State Ways and Means, HJ Economics

HJ Economics forecasts the following outcomes for employment growth rates and increases/declines in payroll employment for 2024 and 2025 for each of seventeen New York State metropolitan statistical areas. We have provided two tables. The first table shows the growth rates for those metropolitan statistical areas ordinarily referred to as “upstate” and the second table shows the growth rates for those metropolitan statistical areas ordinarily referred to as “downstate.”

Employment %				
MSA	2023	2024	2025	2024-2025
statewide	1.9%	0.2%	0.7%	0.9%
Kingston	1.3%	0.8%	1.2%	2.0%
WatertownFortDrum	0.8%	1.2%	0.7%	1.9%
Ithaca	1.5%	0.8%	0.9%	1.6%
Albany	2.3%	0.5%	0.9%	1.3%
Syracuse	2.1%	0.4%	0.9%	1.3%
Buffalo	1.7%	-0.3%	0.3%	0.1%
Elmira	0.0%	-0.2%	0.0%	-0.2%
GlensFalls	1.9%	-0.5%	0.1%	-0.3%
Rochester	1.0%	-0.6%	0.1%	-0.5%
UticaRome	0.8%	-0.9%	-0.3%	-1.1%
Binghamton	0.7%	-1.2%	-0.4%	-1.6%

Source: Bureau of Labor Statistics; HJ Economics

Employment %				
MSA	2023	2024	2025	2024-2025
NewYorkJerseyCityWhitePlains	2.5%	1.0%	3.3%	2.7%
DutchessPutnam	-0.1%	1.9%	0.8%	2.7%
NewYorkCity	3.1%	0.7%	1.3%	2.0%
OrangeRocklandWestchester	1.2%	0.4%	1.2%	1.6%
NewYorkJerseyCityWhitePlains	2.5%	0.3%	0.9%	1.2%
New YorkNewarkJersey City	2.3%	0.2%	0.8%	1.0%
NassauSuffolk	1.1%	0.0%	0.8%	0.8%
Source: Bureau of Labor Statistics; HJ Economics				

Note: All forecasts are made on the basis of statistics software provided by Forecast Pro. The statistical analysis is believed to be sound and consistent with standard practices of statistics.

We also show the increase or decrease in payroll employment for each statistical area. Readers should accept these numbers as statistical estimates at best.

Employment (Increases/declines) (000)				
MSA	2023	2024	2025	2024-2025
statewide	181.742	15.971	69.983	85.953
Albany	10.517	2.272	4.060	6.332
Binghamton	0.708	-1.128	-0.395	-1.523
Buffalo	9.367	-1.518	1.860	0.342
DutchessPutnam	-0.083	2.629	1.180	3.809
Elmira	-0.017	-0.068	0.012	-0.056
GlensFalls	1.000	-0.263	0.077	-0.186
Ithaca	0.908	0.482	0.555	1.037
Kingston	0.767	0.473	0.722	1.196
NassauSuffolk	14.483	-0.168	11.135	10.968
NewYorkJerseyCityWhitePlains	181.142	20.820	65.705	86.525
New YorkNewarkJersey City	222.108	19.149	78.090	97.239
Rochester	5.050	-2.965	0.445	-2.520
Syracuse	6.608	1.236	2.843	4.078
UticaRome	0.933	-1.041	-0.313	-1.353
WatertownFortDrum	0.325	0.472	0.305	0.778
NewYorkCity	140.425	31.881	60.892	92.773
OrangeRocklandWestchester	8.350	2.853	8.537	11.390
Source: Bureau of Labor Statistics; HJ Economics				