



The US economy is on its final descent to a soft landing

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After [defying recession](#) fears this year, the US economy is forecast by Goldman Sachs Research to easily beat consensus expectations again [in 2024](#).

US GDP is projected to expand 2.1% in 2024 on a full-year basis, compared with 1% for the consensus of economist forecasts surveyed by Bloomberg. Goldman Sachs Research reaffirms its [longstanding view](#) that the probability of a [US recession](#) is much lower than commonly appreciated — at just 15% over the next 12 months.

"It was fair to wonder last year whether labor market overheating and an at times unsettling high inflation mindset could be reversed painlessly," David Mericle, Goldman Sachs Research chief US economist, writes in the team's report titled [2024 US Economic Outlook: Final Descent](#). "But these problems now look largely

Bloomberg, Goldman Sachs Investment Research, Forecasts as of Nov. 8, 2023

How did US inflation fall without a spike in unemployment?

At the start of 2023, Goldman Sachs Research argued that the key risk was not recession, as most forecasters thought, but rather that the economy would re-accelerate amid still-high inflation. In that case, the team assumed that the Federal Reserve would simply hike rates more aggressively to subdue demand growth so that supply could continue to catch up. But that didn't happen. In the spring, banking stress heightened concern about raising rates too much, and by the summer it became clear that strong GDP growth wasn't keeping the labor market from continuing to rebalance or wage growth and inflation from continuing to fall, according to Goldman Sachs Research.

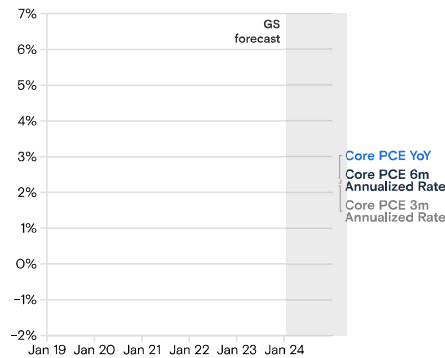
How has the US managed to have both strong growth and progress in bringing down inflation this year? Our economists note that labor supply has more than recovered. Transitory influences on wages and prices have faded or reversed. And high prices have cured themselves by, for example, incentivizing massive construction of rental housing.

A bit more surprisingly, labor demand has been contained even as final demand for goods and services accelerated and recession fears faded. The [Beveridge curve](#), which is a way of showing the relationship between unemployment and job openings, may help explain why. "Extremely tight labor markets create a feedback loop between workers quitting and employers pre-emptively posting more job openings," Mericle writes. This interplay "can heat up quickly but can cool down quickly too," Mericle writes.

before the pandemic. This means further below-potential growth is no longer needed.

Core US inflation is on track to fall further in 2024

Core PCE inflation and GS forecast



Source: Goldman Sachs Research, Department of Commerce



With inflation falling and the job market buoyant, Goldman Sachs Research forecasts that the Fed will keep rates steady until a rate cut in the last quarter of 2024. Our economists expect that policy decision to be followed by a 25-basis-point cut per quarter until the fed funds rate reaches 3.5-3.75% (compared with 5.25-5.5% now) in the second quarter of 2026.

Why the US economy is expected to beat consensus expectations

The main reason the world's largest economy accelerated from 2022 to 2023 is that the impact of fiscal tightening and central bank rates hikes on GDP growth diminished sharply, according to Goldman Sachs Research. Our economists expect in 2024 a similarly modest drag on growth — a bit from tightening in both fiscal and financial conditions.

- Consumer spending is expected to be strong. Real disposable income is forecast to grow nearly 3% next year amid slowing but solid job gains, roughly 1% real wage growth, and a large increase in household interest income. Income growth will be

and financing conditions are expected to be more difficult, especially for commercial real estate. At the same time, investment in [artificial intelligence](#) is rising and recessionary fears are fading, which could make business leaders more confident. All told, business investment is expected to grow 1.75% in 2024.

- Existing home sales are expected to be very weak next year as [mortgage rates remain high](#). Residential investment is predicted to end the year roughly flat. Low affordability but very tight supply should generate modest home price growth of about 1% in 2024.
- Federal government spending is forecast to be roughly flat, while state and local spending increases 0.5%. [A government shutdown](#) would shift growth between quarters.
- US imports have eased from an elevated level (fueled by pandemic stimulus), but US exports remain depressed. Goldman Sachs Research predicts a recovery in foreign economic growth next year will boost demand for US exports. That's expected to narrow the trade deficit enough in 2024 to contribute 0.2 percentage points to GDP expansion.

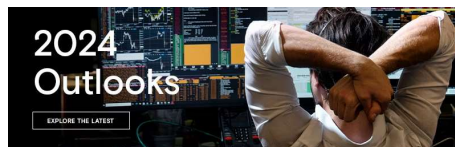


Bloomberg Consensus GS

Source: Bloomberg, Goldman Sachs Research
Forecasts as of Nov. 8, 2023



With GDP growth near the economy’s potential growth rate, conditions for the labor market are forecast to be roughly stable in 2024. Our economists put the current trend pace of job growth at around 175,000 per month, and they expect it to slow to 100,000 in the second half of 2024. The unemployment rate will likely hover in the mid-to-high 3s next year because the layoff rate remains low and job openings remain even higher than in 2019 — one of the best labor markets in US history — in nearly every industry.



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The Japanese equity market is forecast by Goldman Sachs Research to rally again in 2024, boosted by solid global economic growth and stock market reform.

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