Will the US get hit with a recession in 2024?

The US economy is walking a fine line, and just about anything could push it into a recession or save it with a soft landing. For much of the last year, recession fears have been building against a sharp rise in interest rates and market uncertainty.

Time Period	Duration (Months)	Total Change in EFFR (Percentage Points)
Mar 1988 - May 1989	14	+3.23
Feb 1994 - Feb 1995	12	+2.67
Jun 1999 - May 2000	11	+1.51
Jun 2004 - Jun 2006	24	+3.96
Dec 2015 - Dec 2018	36	+2.03
Mar 2022 - May 2023*	14	+4.88

Source: Federal Reserve Bank of New York

Only recently has there been a shift in sentiment. Given the resilience of the U.S. economy, a growing number of investors are seeing an increasing likelihood of a soft landing—where the Federal Reserve raises interest rates to combat inflation without triggering a recession. However, many still remain cautious.

The probability of a recession in 2024

Here's what key players are projecting for the economy:

Forecaster	Estimated U.S. Recession Probability (Next 12 Months)
Federal Reserve Staff	0%
Yield Curve*	61%
Economists	48%
Consumers	69%
Goldman Sachs	15%
Bank of America	35-40%
CEOs**	84%

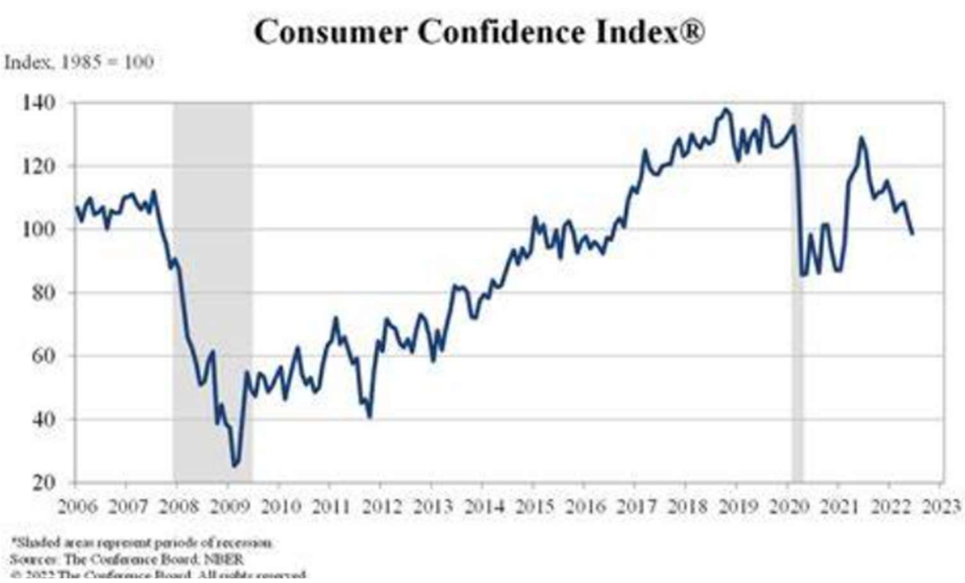
*Source: Federal Reserve Bank of New York, Wolters Kluwer, The Conference Board, Goldman Sachs Investment Research, Bank of America. Data based on surveys and projections conducted August-September. *Based on a New York Fed model estimating recession probabilities using 10-year minus 3-month Treasury yield spreads, based on data from 1959-2009. **Conference Board Q3 CEO survey probability of a recession over the next 12-18 months.*

In July, the Federal Reserve staff announced that they were no longer forecasting a recession in 2024, marking a sharp departure from earlier projections.

While the Fed staff continue to share a brighter outlook, the yield curve spread between 10-year and 3-month Treasury rates suggests there is a 61% change of a recession in the 12 months ahead. Historically, the yield curve has been a reliable predictor of recessions, based on a New York Fed model which uses data from 1959-2009.

Meanwhile, a survey of economists by Wolters Kluwer shows that they're split, with 48% calling for a recession over the next 12 months.

Across Main Street, consumers share a more cautious sentiment, with over 69% saying that a recession is likely in the next year, based on a Conference Board survey.



Yet corners of America's high-ranking executives (the so called C-Suite) have grown more positive. Goldman Sachs recently dropped its recession forecast to a 15% likelihood while Bank of America gives it a 35-40% odds. On the other hand, 84% of CEOs are preparing for a recession in the next 12-18 months, a drop from 92% seen in the second quarter of 2023.

Bull case vs. Bear case signals

Among the key factors investors are closely watching center around the impact of higher interest rates on the economy.

For the bull case, higher rates appear as though they haven't significantly impacted consumer spending yet, although spending has slowed on non-essential items. Retail sales continue to be solid, and earnings across Home Depot, Walmart, Lowe's, and other major retailers show resilience. Where the main changes are occurring are with consumers purchasing more affordable options.

However, consumers are relying increasingly on borrowing for spending.

For the bear case scenario, household debt has hit record highs of $17 trillion in March, rising 19% year-over-year. Higher rates have led these borrowing costs to jump, likely affecting household budgets. Meanwhile, corporate defaults have accelerated in 2023, and are projected to keep rising:

Year of Filing	Bankruptcy Filings as of July	Annual Total
2023	402	N/A
2022	205	373
2021	256	408
2020	407	639
2019	334	590
2018	317	518
2017	305	520
2016	354	576
2015	292	525

Source: Federal Reserve Bank of New York

Overall, there are mixed signals across the wider economy, and it's unclear if the country will experience or avoid a recession in 2024. Quantifying the full effects of higher interest rates on consumers and businesses remains an open question.

Unfortunately, there are more things pushing in the direction of the former instead of the latter.

Looking at several factors — including employment, consumer spending, measures of income, and factory output — we could hint at a "better-than-even chance" that a recession will be called sometime in 2024

First, the student-loan payment restart on October 1 is expected to drain about $8 billion a month from consumers. The impact on spending will be enormous. Gas prices are soaring, with oil prices at their highest level of 2023. There are signs that the cost of gas could ease next year, but that would only be after it gets worse. Insurance premiums are spiking across healthcare, home insurance, and autos, hitting Americans deeper in their wallets. And US personal savings have plummeted after surging during the pandemic. According to data from the San Francisco Fed, these excess savings could run out this quarter. And then there are the maybes: the United Auto Workers strike and a potential government shutdown. As the strike drags on, the impact will be huge, with the loss of wages for auto workers and the potential to drive up inflation and the costs of monthly car payments.

And while the government has avoided a shutdown for now, the ousting of former House Speaker Kevin McCarthy feels like a bad omen for the next showdown coming in mid-November. The immediate impact of a shutdown would be volatility in the stock market and millions of government workers going without pay. It'll get more worrisome if it drags on like the most recent shutdown, which lasted 35 days.

Marcello Tedeschi, November 11, 2023