<u>**Economic Advisor Council Quarterly Report – Q2 2024**</u>

Council Consensus: Soft Landing Remains Likely, Recession Risk Persists

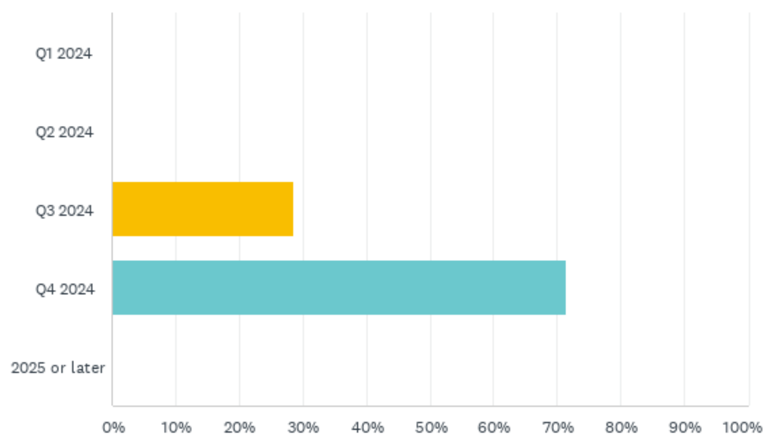
Executive Summary

The Ohio Chamber of Commerce's Economic Advisor Council maintains a cautiously optimistic outlook for the U.S. economy, with a consensus that the Federal Reserve's tightening cycle is complete and a "soft landing" remains the most probable outcome. However, recession risk persists, with economic growth expected to be moderate in 2024 and inflation showing signs of being more persistent than previously anticipated. Ohio's economy mirrors national trends, with specific challenges and opportunities in key sectors such as manufacturing and technology.

Federal Reserve Policy:

- **End of Tightening Cycle:** The council unanimously agrees that the Federal Reserve has completed its tightening cycle.
- **Peak Federal Funds Rate:** Members generally agree on a peak federal funds rate between 5.25% and 5.5%, aligning with the current level.
- **Timing of First Rate Cut:** There is a slight divergence in views, with the majority anticipating the first cut in Q4 2024. Some respondents noted the Fed's need to see sustained disinflation before easing policy, as one respondent stated: "The Fed will need to see a period of offsetting disinflation to feel confident that inflation is again trending toward its target."

Q6 When will the first federal funds rate cut occur?



U.S. Economic Outlook:

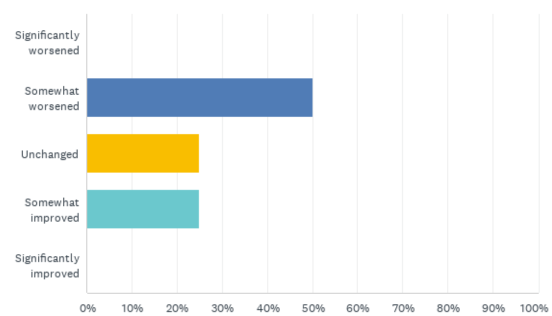
- **Soft Landing vs. Recession:** While most members believe a "soft landing" is likely, concerns about a recession persist. The probability of a recession in the next 12 months is estimated between 20% and 60%. One respondent expressed optimism: "Lots of professional forecasters are still optimistic for this scenario, recent financial market behavior implies that most believe it is going to happen."

- **GDP Growth:** Council members project moderate growth for 2024, with estimates ranging from 1.0% to 2.5%. Factors influencing this outlook include "higher for longer" interest rates, fiscal stimulus, and potential volatility due to the upcoming election and geopolitical events.
- **Inflation:** The consensus is that inflation will continue to decline but at a slower pace than previously anticipated. One respondent noted the challenge of persistent inflation: "Inflation data in the coming months will be key."

Ohio Economic Outlook:

- **GDP Growth:** Projections for Ohio's real GDP growth range from 1.0% to 3.0%, with some members expressing concern about the state's ability to attract and retain skilled workers.
- **Unemployment Rate:** Estimates for Ohio's average unemployment rate in 2024 range from 3.5% to 4.0%, reflecting a potential slight increase due to higher interest rates and economic uncertainty.
- **Ohio-Specific Factors:** Respondents highlighted the importance of manufacturing, workforce development, and competition with neighboring states for federal investment and emerging industries.

Q16 How has your outlook changed over the past 3 months on the Real Ohio GDP growth in 2024?



Additional Considerations:

- **Technology and Innovation:** Several respondents emphasized the need for Ohio to adapt to technological advancements, particularly in manufacturing and the finance sector. One respondent noted: "Ohio also is specialized in the finance and insurance sector in terms of employment/output which is highly vulnerable to near-term disruption by advancements in generative AI and business process automation."
- **Workforce Development:** The council identified workforce challenges as a critical issue, particularly given demographic trends and the changing nature of work.

Conclusion:

The Council will continue to monitor economic data and trends closely, providing updated guidance as the landscape evolves. While the outlook remains cautiously optimistic, risks and uncertainties persist, highlighting the importance of proactive policy making and strategic investments in workforce development and key industries.

Economic Advisor Council Survey Responses – Q2 2024

Q2) Please explain your reasoning for your position on Fed tightening.

- "Comments by Chairman Powell after March FOMC related to expected easing of quantitative tightening 'soon.'"
- "The trend in inflation is still coming down despite a few bumps in the road, and Fed Chair Jerome Powell remarked at the post meeting presser that it is 'unlikely that the next policy rate move will be a hike'. Still, the Fed will need to see a period of offsetting disinflation to feel confident that inflation is again trending toward its target."
- "Inflation is declining toward the Federal Reserve's 2% goal, although stubbornly slow."
- "After the May 1st meeting of the FOMC, Chair Powell basically stated that the tightening cycle is over, and the market reacted appropriately. The Fed still has the option to return to tightening if the economic data warrants such action, but with the most recent NFP number (+175k v. expectations of 240k) and an increase in the unemployment rate from 3.8% to 3.9%, expectations are shifting towards easing. Inflation data in the coming months will be key."
- "Yes. The Fed seems to be cautious about interest reductions. The inflation still seems to be high, an election is coming up, and geopolitical risks are still out there even though they are handled well so far. It thinks monetary policy is already restrictive, so that persistent inflation should eventually come down."
- "Inflation has come down significantly; now they're playing the waiting game."

Q3) What will the peak federal funds rate target be in the current tightening cycle? Please explain your reasoning.

- Council Consensus: Most members agreed that the peak federal funds rate is the current level, between 5.25% and 5.5%.
- Individual Perspective: One member projected a slightly lower peak rate of 4.6% in 2024, based on prior forecasts from Fed officials.

Q6) Please explain your reasoning for your position on when the Fed rate cut will occur.

- "Comments after March meeting on FOMC waiting for more encouraging inflation data to come out before it cuts rates"
- "The Fed will need to see a period of offsetting disinflation to feel confident that inflation is again trending toward its target. Mostly, it is shelter that has been keeping monthly increases in inflation on the high side. However, as the list of contributors has grown to include components like auto insurance and healthcare, it becomes harder to look past them. For that reason, the Fed will need to see a sustained period of disinflation before it announces its first rate cut."

- "Inflation is slow to come down. Federal Reserve will be reluctant to cut rates too soon, fearing an uptick in inflation, and will be hesitant to appear as playing politics by having a first rate cut before the November election as "
- "It is essentially what the Fed has told us. June and July are most likely off the table because there won't be enough data, there's no meeting in August and the September meeting is 44 days before the Presidential election. The Fed is focused on maintaining independence from the political world so unless the data overwhelmingly indicates a rate cut, I'd assume it is pushed to the fourth quarter."
- "After the election, FED will be in a much better position to lower the interest rates."
- "inflation data don't support a cut yet, but Fed wants to signal the end of tightening, and the election gets in the way, so I think after the election"
- "PCE inflation remains stubbornly high, but not too far from the Fed target. Growth coming in a bit below expectations."

Q9) Please explain your reasoning for your position on the prospect of the US economy having a "soft landing".

- "Lots of professional forecasters still optimistic for this scenario, recent financial market behavior implies that most believe it is going to happen"
- "The U.S. labor market continues to churn out new jobs and the unemployment rate has held below 4% for more than two years. The preliminary estimate of first-quarter GDP was weak, but underlying details indicate consumers are still in reasonably good shape. Against this backdrop, policymakers can afford to sit on their hands until inflation is unambiguously cooling. However this "higher for longer" rate adds downside risk."
- "Economy does show signs of slowing but some portion of consumers remain resilient."
- "Despite the drop-off and slight disappointment in the Non-Farm Payroll for April, the labor market remains strong with an unemployment level of 3.9%. Anecdotally, the consumer is still spending; restaurants are crowded, airlines are preparing for a record summer of travel and people are still spending. Barring some unforeseen circumstance (which usually is what creates the hiccups in the economy), expectations are for continued stability in the economy."
- "Given the economy of the world, the U.S. has been doing relatively well. Inflation seems to be under control though a little bit high, and the labor market seems to be doing okay."
- "unprecedented fiscal stimulus should keep things growing"
- "So far, so good. As long as the Fed nails the rate decrease, it's likely."

Q11) What probability do you attach to a U.S. Recession in Next 12 Months? (Please provide a percentage and your reasoning.)

- "60% - could be on high end, March 2024 smoothed recession probability from FRED was less than 1% but at same time monthly projected recession probabilities as high as 75% in 2024 based on NY Fed's yield curve-based estimates. Lots of potential factors could introduce volatility in terms of global conflicts, climate - key question is timing."

- "30%. I am feeling a bit more cautious now that inflation has been stickier than I thought at the beginning of the year. The risk of stagflation has been popping up more amongst analysts and the geopolitical climate is fraught with risks."
- "40%"
- "25%. The definition of a recession has continually changed. Previously, it had been viewed as two quarters of negative GDP growth and that occurred in 2020 (Q1 and Q2) and 2022 (Q1 and Q2) with no official pronouncement of a recession from the National Bureau of Economic Research (NBER). The NBER is the final word on the indication of a recession and they have the luxury of waiting, looking back and saying, 'Yes, there was a recession six months ago and it lasted four months,' with the invaluable benefit of examining past economic data before making a determination."
- "Highly unlikely; possible due to the geopolitical risks."
- "20%: unprecedented fiscal stimulus should keep things growing"
- "35%"

Q13) What will the 10-year US Treasury yield at the end of 2024? (Please provide a percentage and your reasoning.)

- "Likely something around 4.5% given various projections, but I'm not in tune with macro yield curve drivers well enough for that to be a good prediction"
- "See above comments on the Fed Funds Rate."
- "4.25%. Lower than the current rate as the economy is slowing and at least one rate cut is likely later this year."
- "There are too many variables that can impact the future path of rates to make a projection. As the saying goes, there are many things that can happen in the future and one of them will."
- "4%. The risks will be less and a possible FED interest rate reduction"
- "4.5% with one cut by Fed by end of year"
- "4.1%"

Q14) Please provide your estimate of Real Ohio GDP Growth for 2024. (Please provide a percentage and your reasoning.)

- "1.0-2.2% - lots of spread in various forecasts driven by unknowns in timing of rate cuts, persistent inflation, rising debt from consumers and national debt, ability to bring new state revenue+employment generating projects online, etc. Agree with Ohio OBM assessment of 'stable yet fragile.'"
- "~2.5% Due to higher for longer rates, contributions from consumer spending and fixed investment will likely diminish a bit, but that could be offset by increased contributions from trade and government spending. Growth will likely be more volatile quarter to quarter this year than previously forecast, although overall growth is little changed if a tad lower because of the slower start to the year, sticky inflation, and downside risks due to the election and geopolitical events that may affect the price of energy."
- "NA"
- "1%. similar to 2023 but slightly lower"

- "3.0%. unprecedented fiscal stimulus kicks in and Fed becomes less restrictive"
- "1.9%; no good knowledge base here, this is the forecast from S&P Global Market Intelligence"

Q16) What is your current forecast for Ohio's Average U-3 Unemployment Rate in 2024? (Please provide a percentage and your reasoning.)

- Council Consensus: Most members who responded to this question expect a slight increase in Ohio's unemployment rate in 2024, with estimates ranging from 3.5% to 4.0%.
- Key Considerations: Factors influencing these predictions included the potential impact of "higher for longer" interest rates and uncertainty surrounding the presidential election.

Q18) What is your outlook on Ohio-specific economic factors that are distinct from the national picture? (Examples: key industries, policy, upcoming projects)

- "Major economic driver for near future is competition with neighboring Midwest states for major federal innovation and workforce investment initiatives and emerging industries related to manufacturing infrastructure and talent base such as next gen vehicle + supply chain manufacturing (e.g. batteries), semiconductor production, etc. - mixed results thus far in terms of 'winning' the competitive position post-Intel project announcement. Ohio also is specialized in the finance and insurance sector in terms of employment/output which is highly vulnerable to near-term disruption by advancements in generative AI and business process automation. Major efforts in reskilling the incumbent workforce and alignment for new worker skills are necessary, and don't necessarily see the same urgency in investment and messaging as neighboring states which may be a recipe for them closing the gap in terms of the current competitive advantage the state has."
- "It depends on the metro. Columbus should fare better than Cleveland and Cincinnati due to lower reliance on manufacturing and higher exposure to government and education (which are less rate sensitive). The lower cost of living in many areas should support consumer spending if job growth holds up, and world class medical facilities will benefit Cleveland. Overall however, Ohio should fare 'middle of the road' compared to other states. We don't have mass in-migration such as the Mountain West and certain Sun-Belt states, but we also have a lower cost of doing business than many coastal states which should help maintain economic growth slightly below the national average. "
- "Ohio manufacturing and finance, insurance and real estate industries slowed below national average since 2021:04. Continued problems in Ohio labor markets - below national average or declining growth in working age population and a labor force participation rate below pre-pandemic levels."
- "GDP growth requires adding people and/or increasing each person’s productivity. Ohio’s GDP may continue to lag that of the broader us because the cities that serve as the primary engines for economic growth (Columbus, Cleveland, and Cincinnati) are capacity constrained from a housing standpoint. If Ohio loses its cost advantage from a housing standpoint, then the prospects for above-average GDP growth become quite

bleak unless the state can pivot towards attracting and retaining higher income individuals. The state could eliminate taxes on all forms of retirement income to attract and retain higher-income retirees that are leaving (with their money) to live in Florida and Texas. Progress on international air travel options would improve my long-term economic outlet. This would require the political will to pick one centrally located airport (i.e. Columbus) and construct a single world-class international air terminal with full US Customs & Immigration clearance facilities. This would directly and efficiently connect Ohio businesses to international markets… and it would make Ohio a hub rather than a collection of minor spokes that are competing (with each other) for travelers in a very unproductive manner."

- "Compared to other States, Ohio is doing relatively better. The economy is also in transition to a more diverse economy. If the U.S. keeps handling the geopolitical risks well, I expect Ohio to keep this trend. For the long run, I strongly recommend a policy promoting human capital accumulation and a workforce capable of doing high tech jobs. Small and innovative firms should be subsidized. The firms should be encouraged to partner with Ohio Universities to innovate."
- "improvement in manufacturing counterbalanced by worsening of opioid crisis"

Q19) Additional Considerations (Optional): Is there anything else you feel is important for the council to consider in our updated economic forecast?

- "Major ongoing layoffs and contraction in national life sciences and biotech sectors are disrupting activity in other states - is there anything that Ohio can/should do to strengthen its own position amidst the changes? Manufacturing workforce challenges are persisting in the state, with demographic cliff looming - can current + planned initiatives do enough to mitigate the transition? Monitor activity in generative AI companies in 2024 - litmus test year for how long they can sustain the rate of improvement/disruption in the current tech before hitting limitations to growth, what leading indicators are we seeing for industry more widely adopting tools based on refinement/lessons learned from early adopters."
- "1. Lower trending rate of students attending college? 2. How will AI transform manufacturing, finance and tech in the coming years? 3. What will be the likely effects of the results of the election?"
- "Possibility exists for significant financial market distress later this year due to: 1. interest rates remaining higher for longer than the market anticipated at the end 2023; 2. higher interest rates continue to have a negative impact on the banking sector; and, 3. Presidential election."