Office of the Comptroller of the Currency

U.S. ECONOMIC SNAPSHOT

February 2024

Economic growth surprised to the upside in 2023

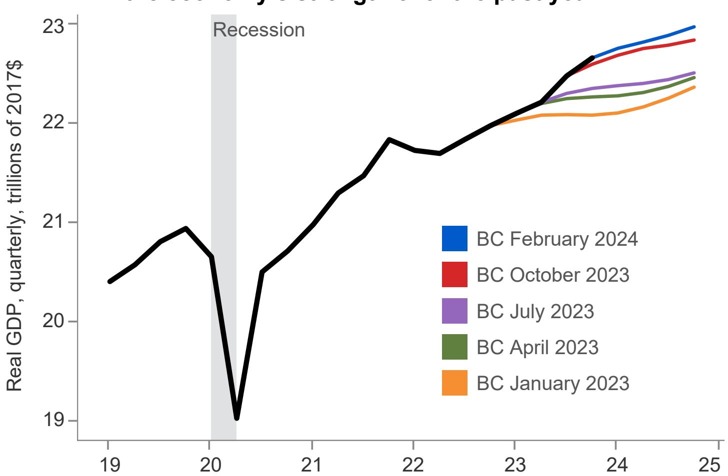
- **Real GDP growth slowed to a 3.3 percent annual pace in 4Q, far less of a pullback than expected.** The resilient economy outperformed forecasts in 2023 (Figure 1). Consumers supported by a still tight labor market and record wealth continued to buoy activity. Government spending propped up by pandemic and infrastructure money also supported growth. But the pace of expansion in 2023 was above its long-term average and may not be sustainable. Despite the strong 4Q, growth is expected to cool this year, although there is a lot of uncertainty surrounding the outlook.

- **Interest-sensitive household sectors have held up better than in earlier tightening cycles, helping the economy beat expectations (Figure 2).** These are key channels through which tighter monetary policy restrains the economy. Housing starts rebounded in 4Q due to a scarcity of existing homes for sale. Many Americans refinanced their mortgages during the pandemic and locked in low rates, making them reluctant to sell. A shortage of semiconductors held down vehicle sales after COVID, resulting in pent-up demand and stronger than expected sales last year.

- **The share of household debt that adjusts with market rates has fallen and is at its lowest in decades (Figure 3).** This has cushioned the economy from higher borrowing costs. Interest expense as a share of nonfinancial corporate profits has also trended downward. This helped to support a solid 4.1 percent gain in capital spending over the past year despite higher rates.

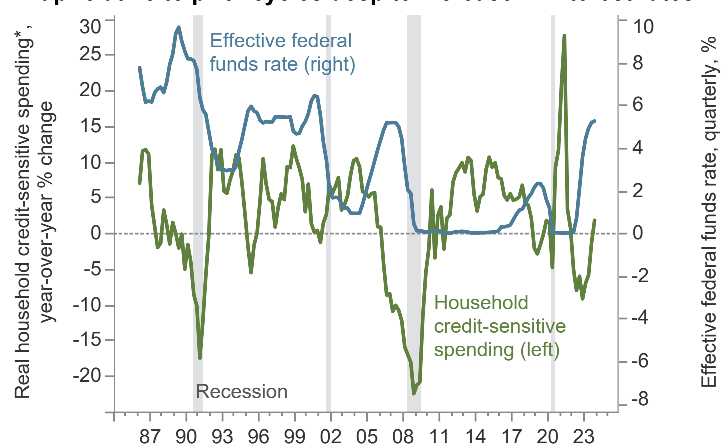
- **The economy is running close to its potential (Figure 4).** Experts place long-term, noninflationary, potential growth at slightly above 2 percent per year. If growth continued at its current 3.3 percent pace, then inflationary pressures would likely increase. This could prompt the Federal Reserve to hold interest rates higher for longer, increasing the likelihood of recession. Long-term limits on growth are determined by increases in population (and thus the labor force) and advances in productivity. Birth rates and immigration are somewhat predictable. But trends in productivity are largely determined by scientific and engineering progress, which are especially difficult to foresee. This is another reason that timing a possible slowdown has proven challenging for forecasters.

Figure 1: Forecasters have consistently underestimated the economy's strength over the past year



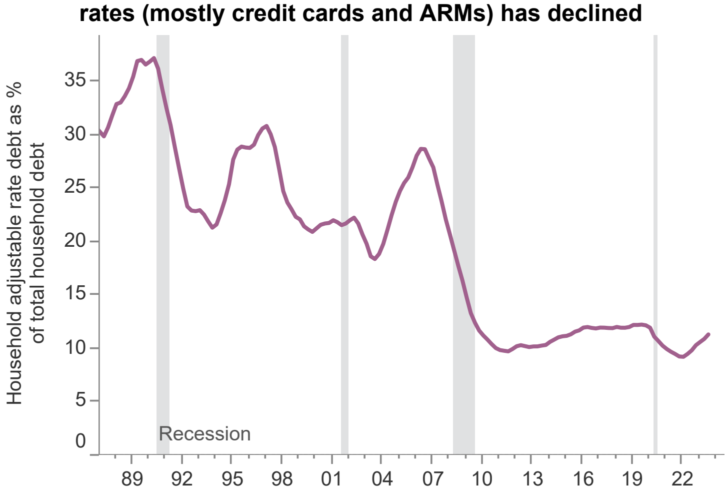
Sources: BEA (4Q:2023), Blue Chip Economic Indicators (February 2024)

Figure 2: Interest-sensitive household sectors have held up relative to prior cycles despite increase in interest rates



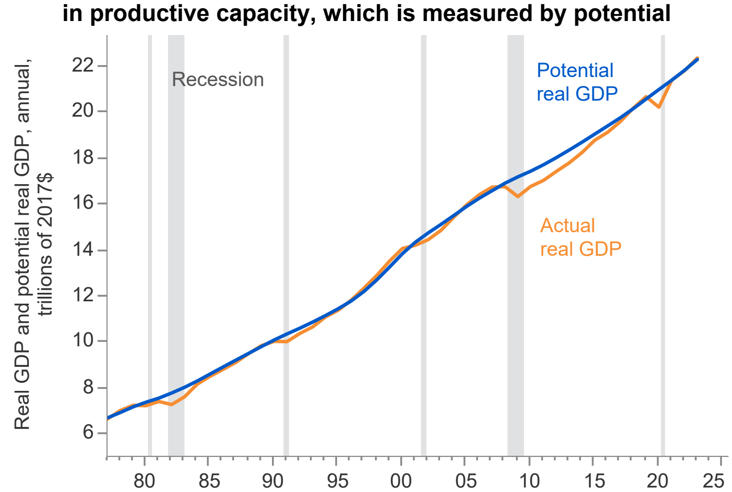
Source: BEA (3Q:2023)
* Residential investment, motor vehicles, and household furnishings & equipment

Figure 3: The share of household debt with adjustable rates (mostly credit cards and ARMs) has declined



Source: Moody's Analytics (3Q:2023)

Figure 4: Long-term growth in real GDP is capped by increases in productive capacity, which is measured by potential



Sources: BEA (4Q:2023), CBO (February 2024)