

# 2024 & beyond: A US perspective

Will it be economic stagnation or the advent of  
productivity-driven abundance?

McKinsey Macro & Markets  
Powered by McKinsey Value Intelligence Platform

January 2024



# US macro in eight numbers

Market sentiment is leaning towards a soft landing in 2024

## 4.9%

**Real GDP growth in Q3** (annualized q-o-q growth) driven by consumption while investments remain subdued

## +23.6%

Increase in the **level of private sector wages** vs. December 2019. Wages do not fall

## +3.6T

**Additional cash** put in the bank by US consumers from 2019Q4 to 2023Q3

## >6%

**Fed funds rate** risk if Fed struggles to slow momentum in the labor market and inflation

## 4.0%

**November 2023 Core CPI growth** was driven by service inflation; goods inflation close to zero

## +2.4M

**Excess job openings** in November with historical low unemployment rate of 3.8% in September

## +19%

**Rise in consumer confidence** since we passed peak inflation but still 29% below long-term average

## -1.7%

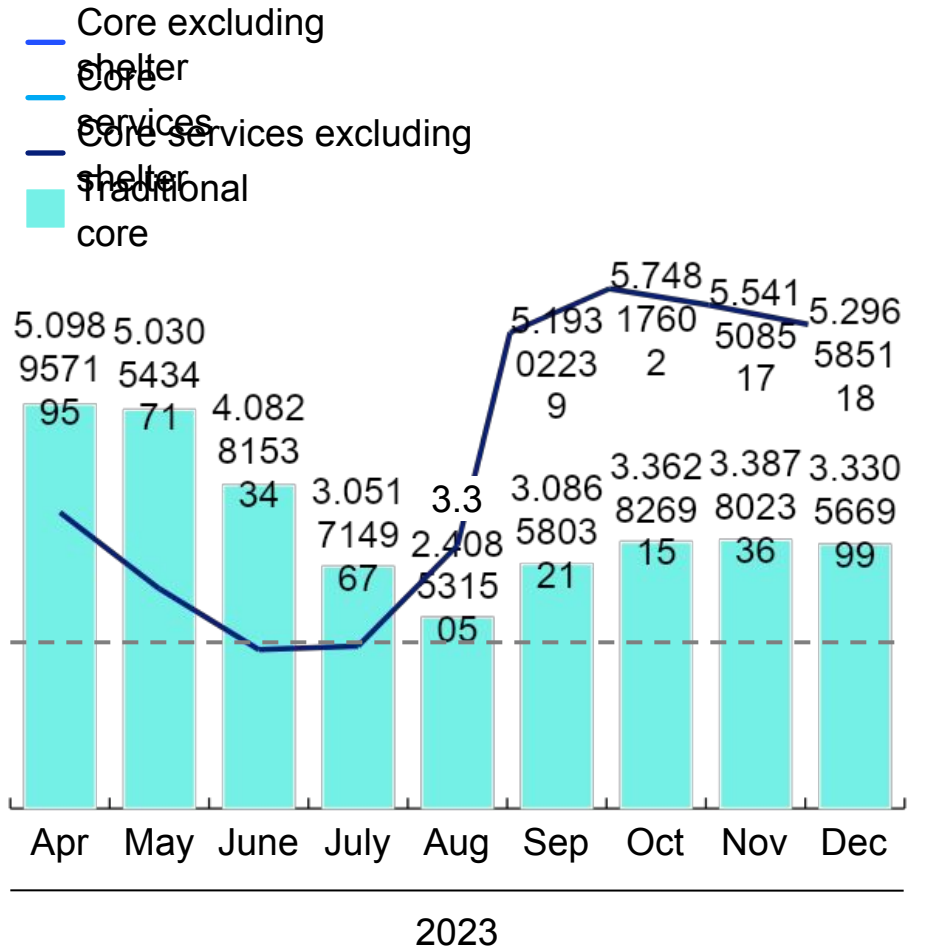
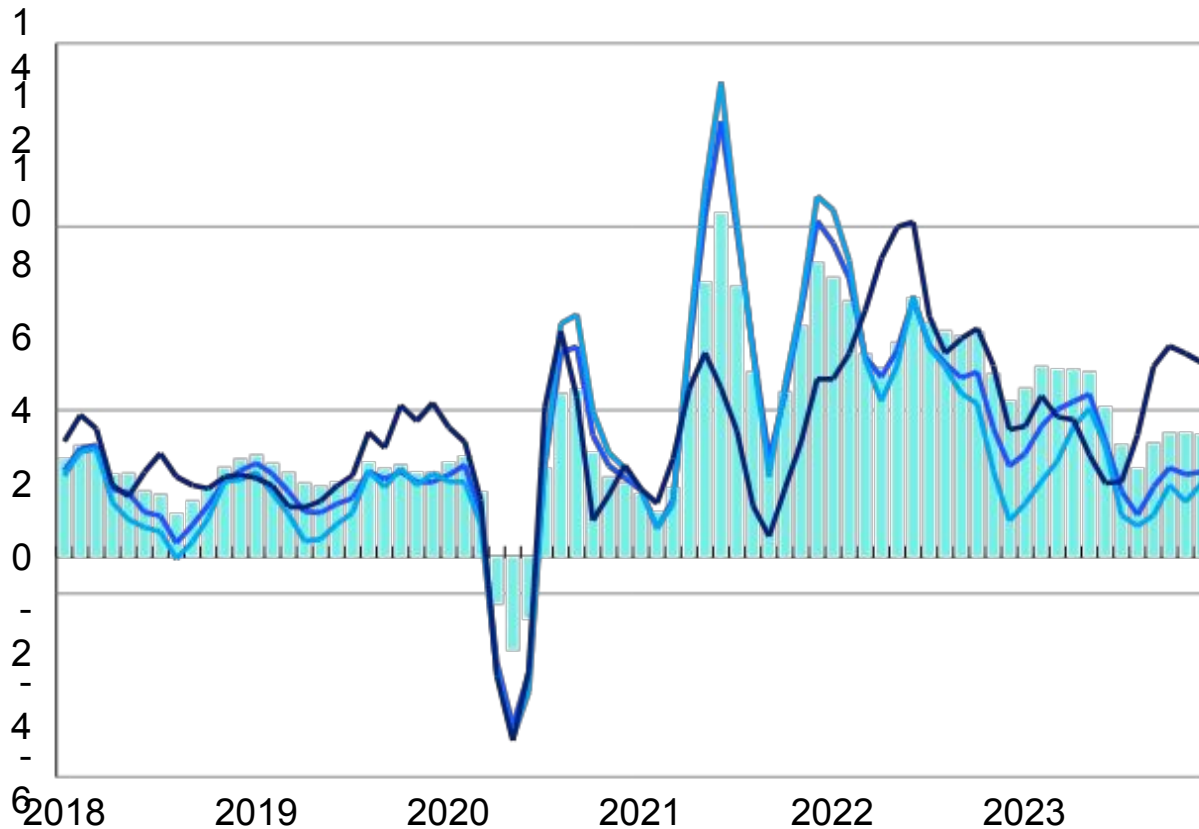
**2024-25 downside GDP growth** in scenario with near-term and long-term headwinds

# Inflation momentum persists: November core unchanged vs. October

Robust consumer spending on services supported by strong wage gains buoying core services inflation

## Change in Core CPI

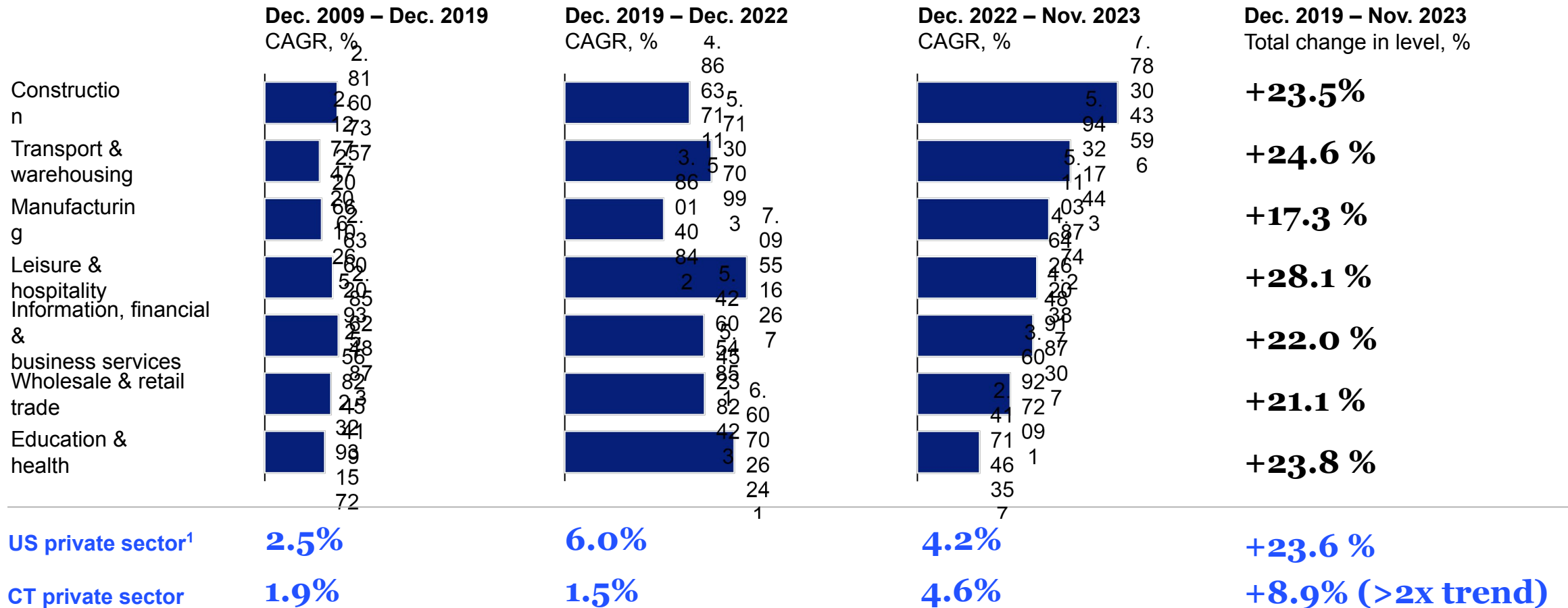
3-month annualized percent change, through November 2023



# US wage growth continuing to outpace historical norms

The level of average weekly earnings is 2x+ higher than pre-COVID growth rates

## Average weekly earnings

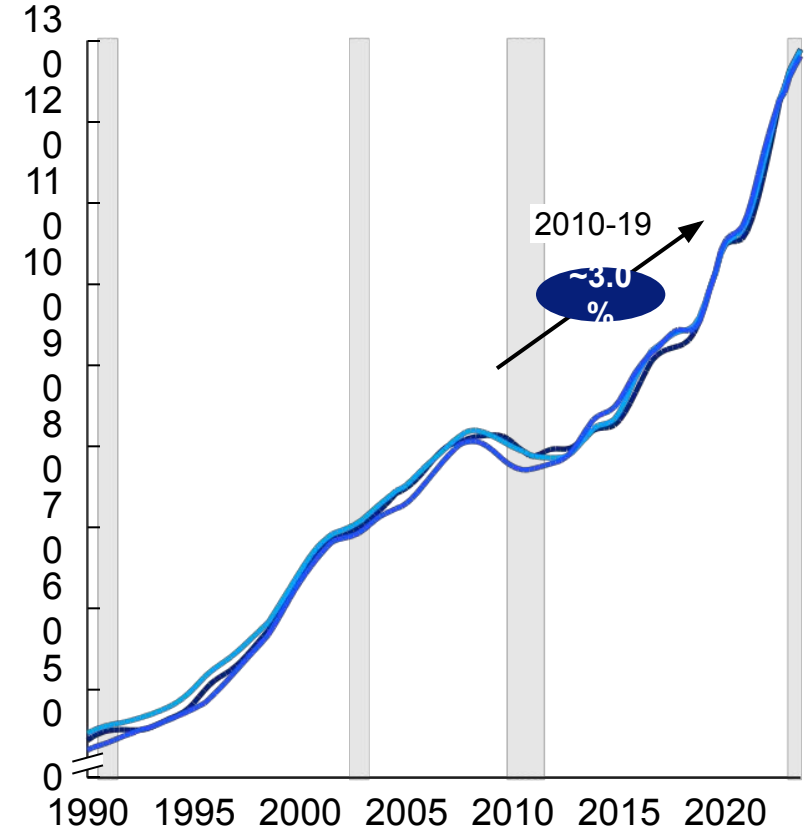


1. Private sector workers, all industries; sector detail for Mining & Logging, Utilities, and Other Services, not shown

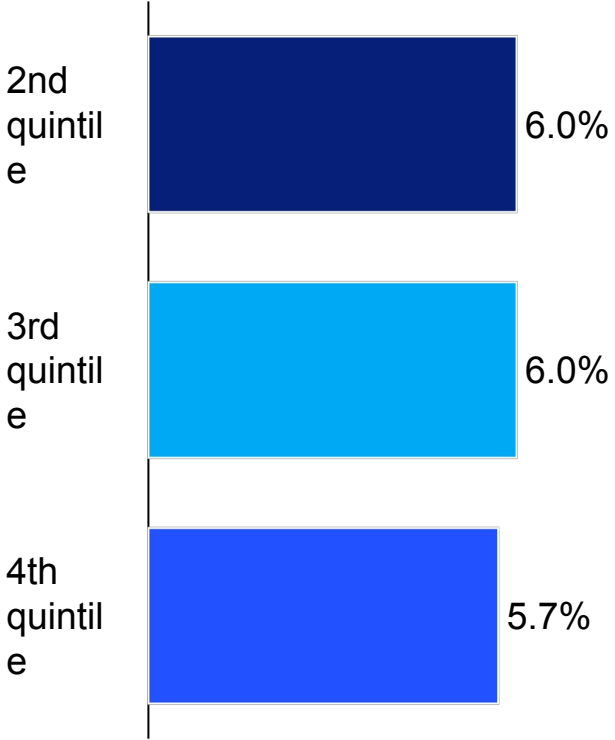
# The middle 60% of households have seen robust income increases

Middle 60% account for ~52% of total US consumer spending just over the ~47% accounted for by the top 20%

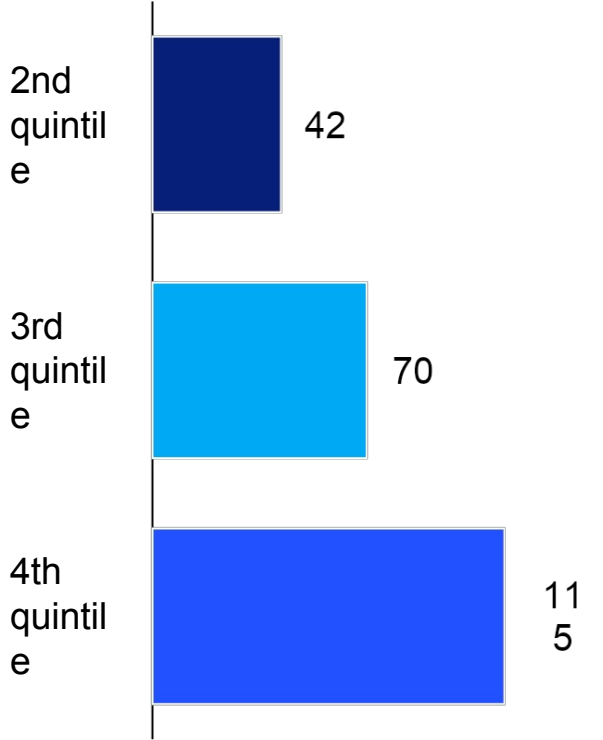
**Household income by income quintile**  
Index 2019=100, CAGR, through 2023 Q3



**Household income growth, CAGR, %, 2020Q1-2023Q2**



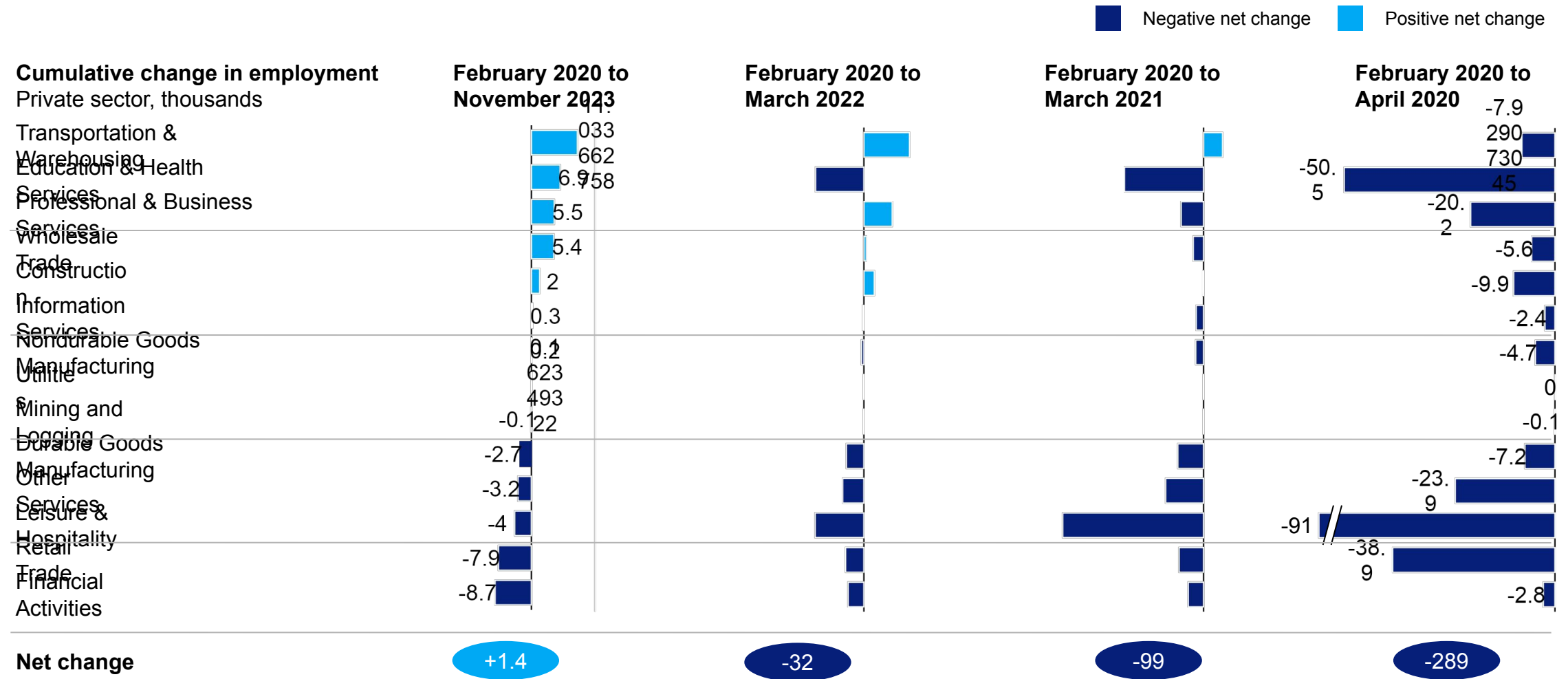
**Average household income, 2022**  
\$ Thousand



Source: Federal Reserve Board, Bureau of Economic Analysis, NBER, McKinsey analysis

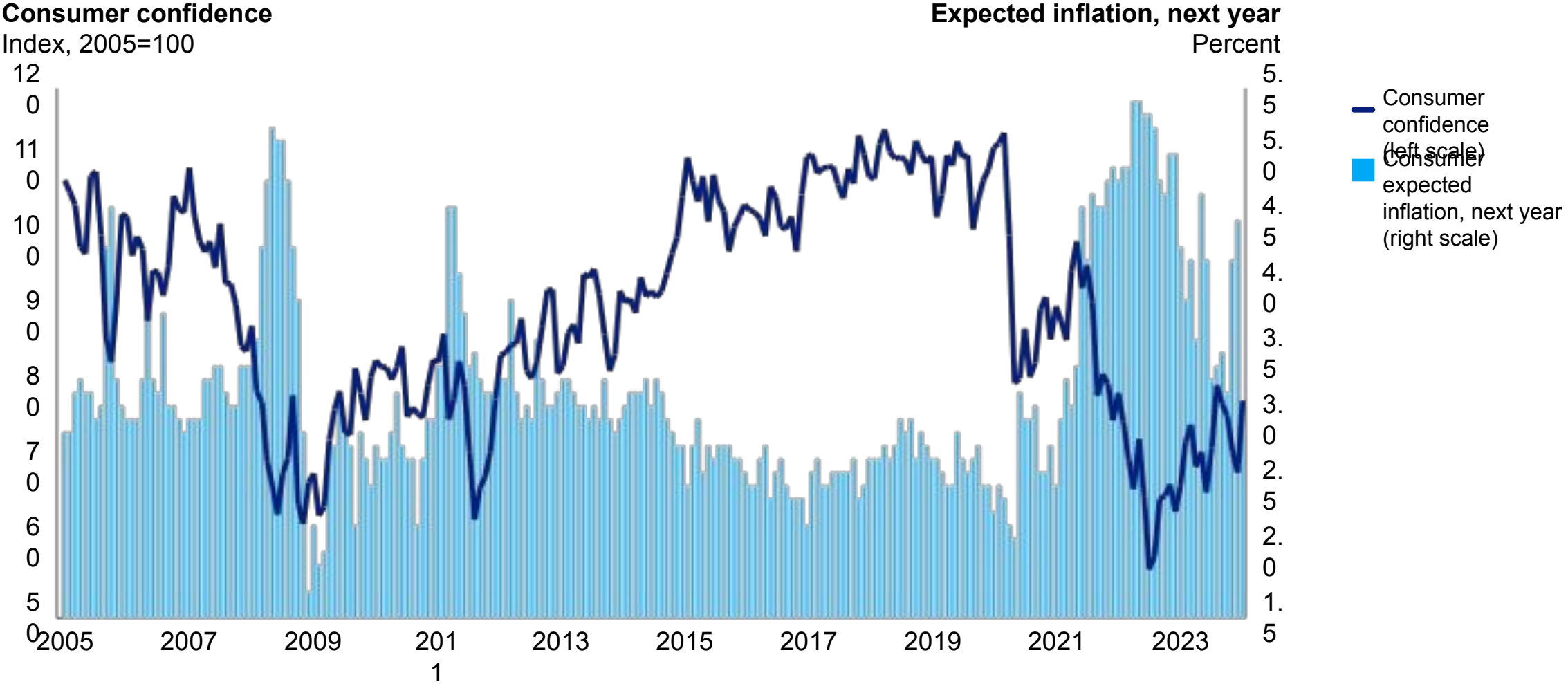
# The CT labor market has come-back from the pandemic shock with a different distribution of jobs

Performance across sectors varies with Transportation and Warehousing gaining the most



# Consumer remain in a 'bad mood' even with inflation well-off highs

Data through December 2023



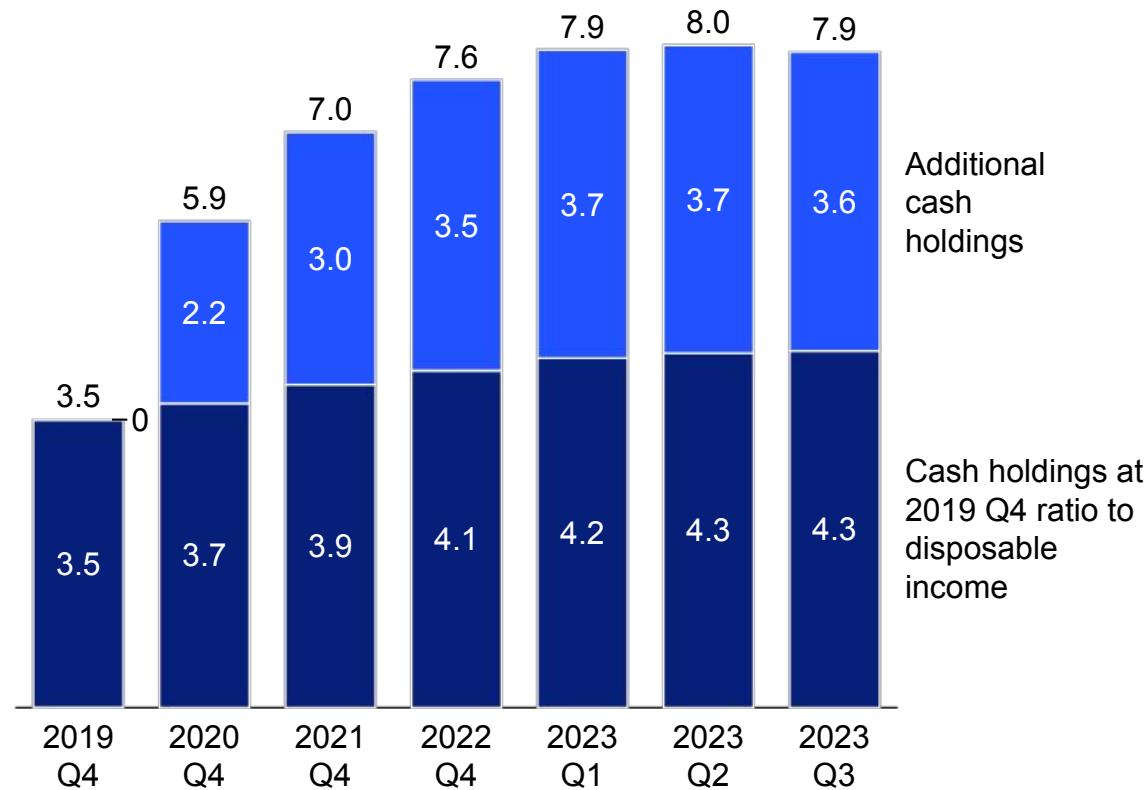
Source: University of Michigan; McKinsey analysis

# Cash holdings by households remain at unprecedented level

Household cash equivalents include checkable deposits, currency, and money market shares

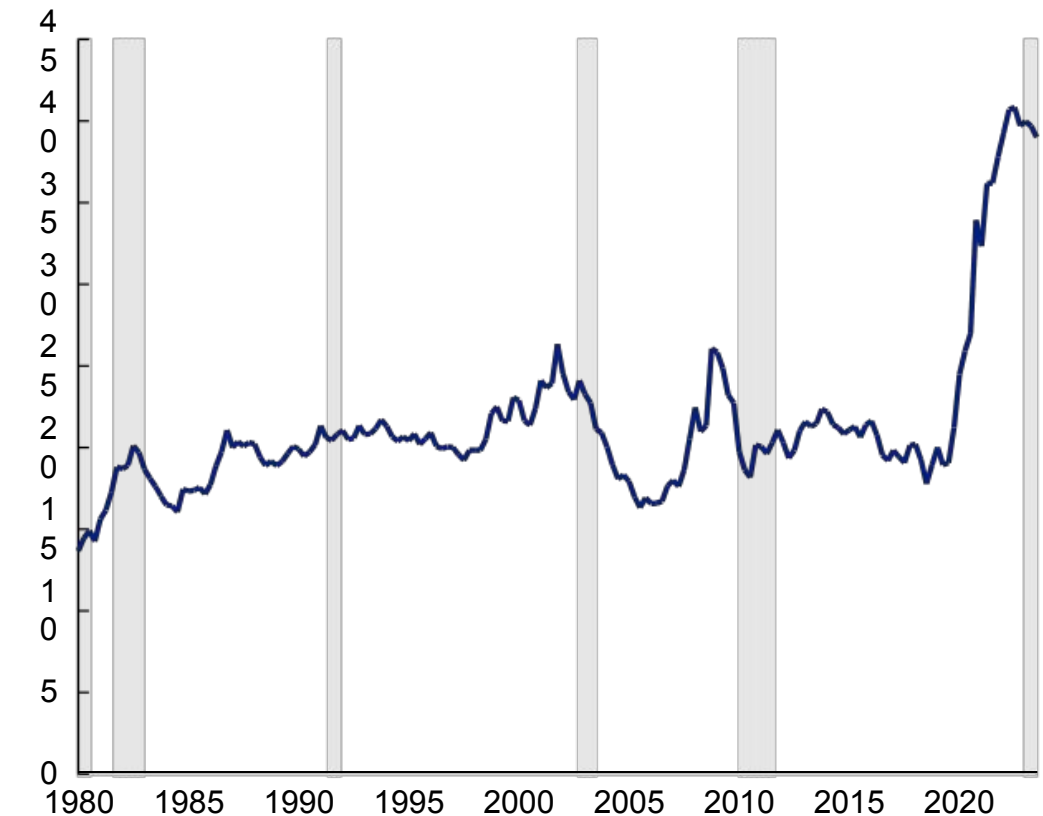
## Holdings of cash equivalents

\$ Trillion, through 2023Q3



## Holdings of cash equivalents

% of disposable income, through 2023Q2



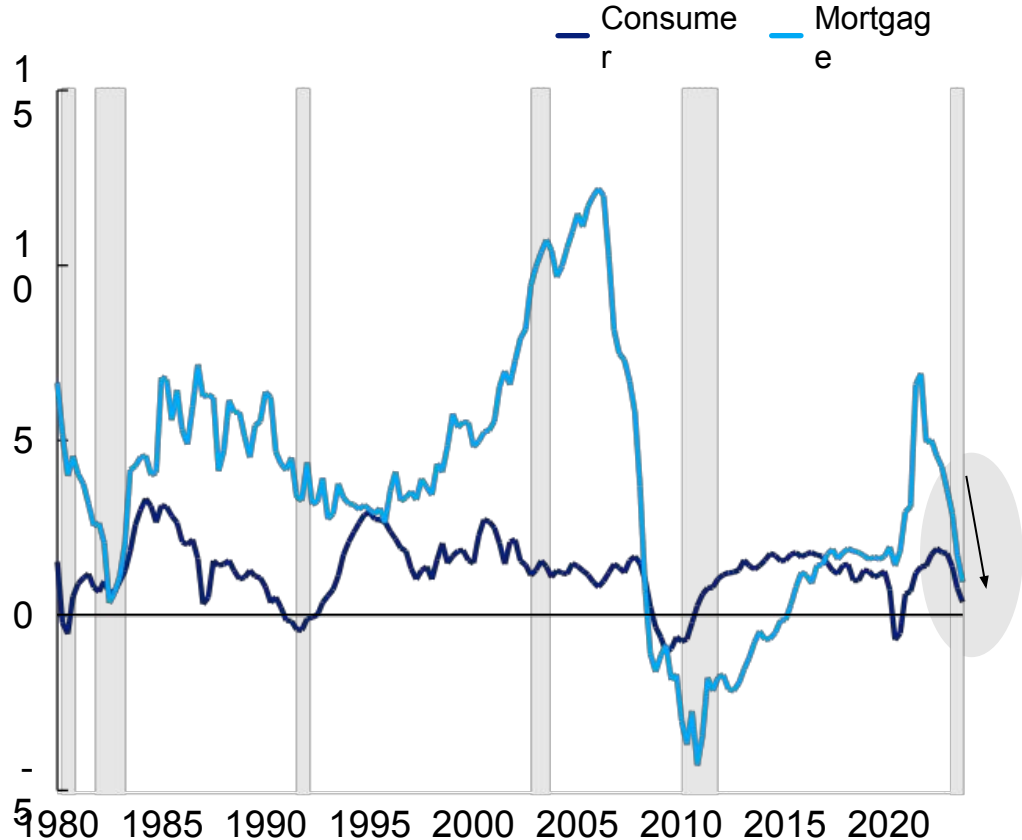


# Net new borrowing by households has come down to pre-COVID levels, and leverage ratios remain modest

Consumer started cutting back on new credit in October 2023, 7-months after the initial rate increase in March 2022

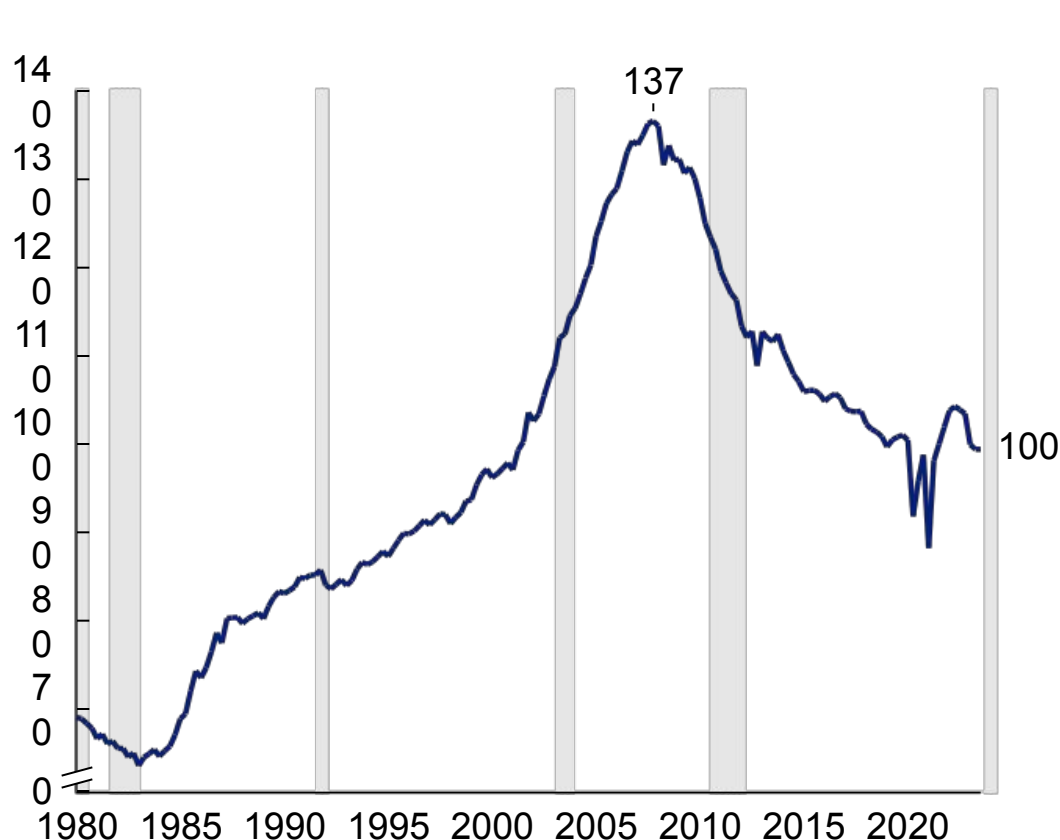
## Net new borrowing

% of disposable income, through 2023 Q3



## Household total liabilities

% of disposable income, through 2023 Q3



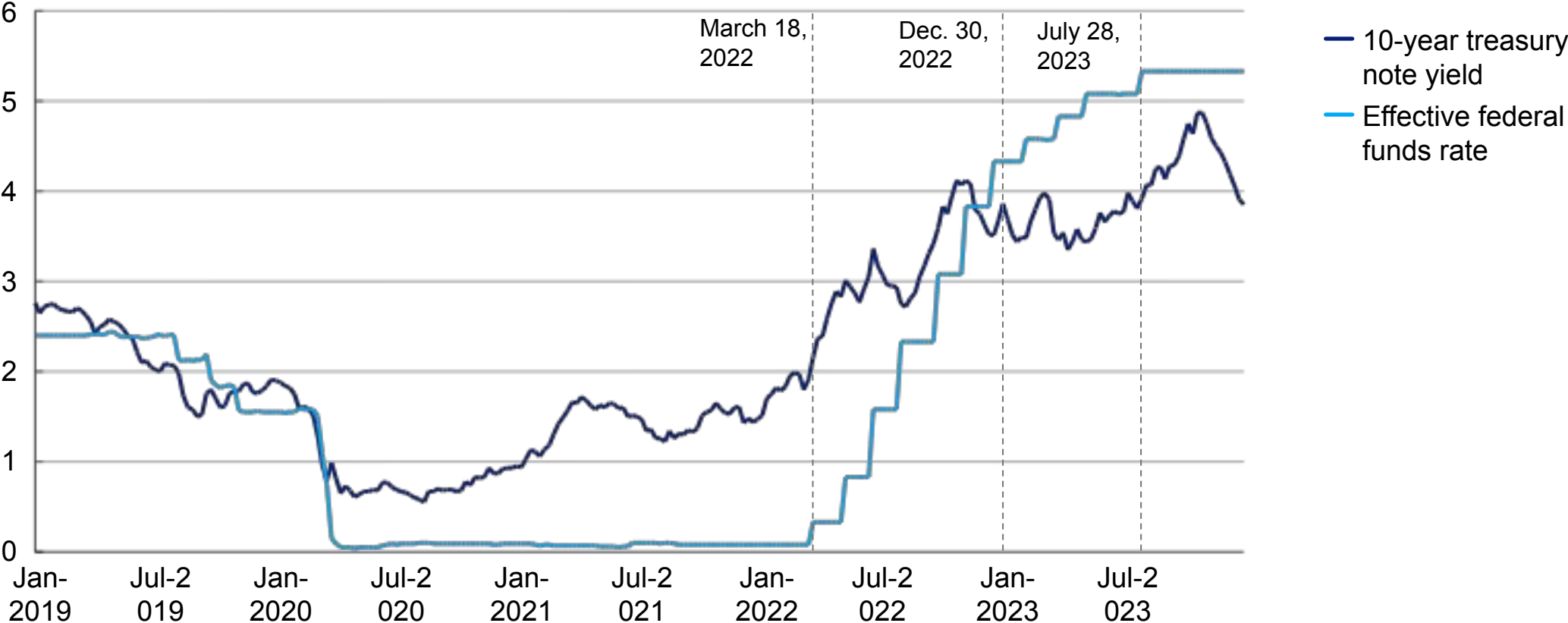
Source: Bureau of Economic Analysis, Federal Reserve Board, McKinsey analysis

# The bumpy ride of the 10-year Treasury Note

Financial conditions continue to be tight

## 10-year yield and the effective federal funds rate

Percent, weekly through December 29<sup>th</sup>



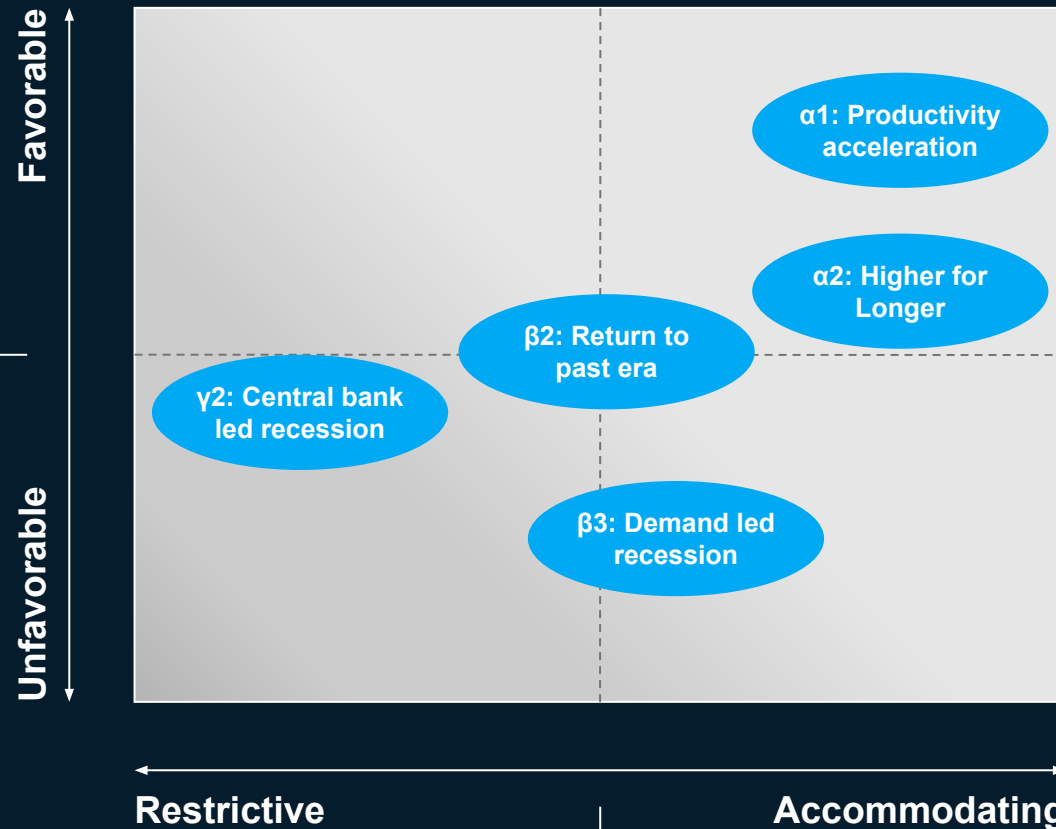
# McKinsey Macro & Markets Scenarios

December 2023

## Structural forces

The forces that promote or constrain sustainable growth and shared prosperity, and are beyond the direct control of policy

- Macro uncertainty
- Geopolitical uncertainty and global institutions
- Technological change
- Energy systems
- Demographics



## Policy choices

The fiscal, monetary and regulatory policy choices that create the local conditions for prosperity within the global economic environment

- Government spending and taxes
- Business regulations & legal frameworks
- Interest rates and financial conditions

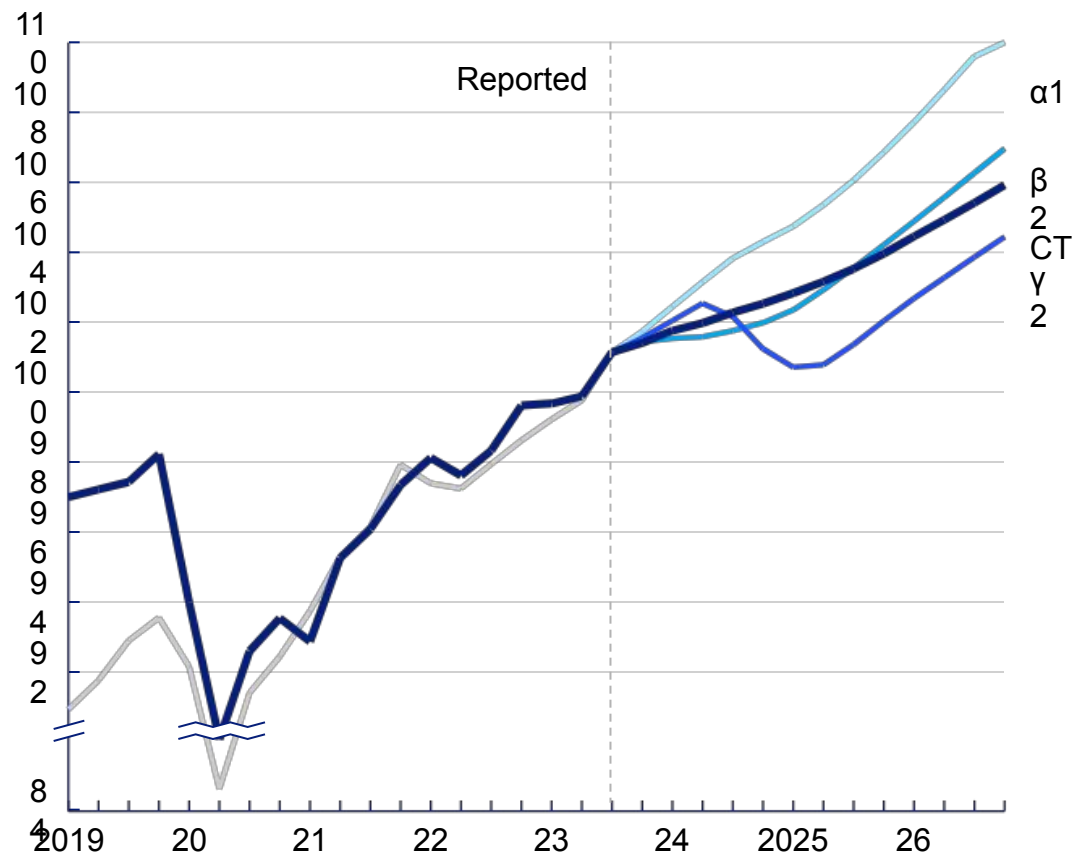


# US-CT GDP Growth

McKinsey Macro & Markets Scenarios, December 2023

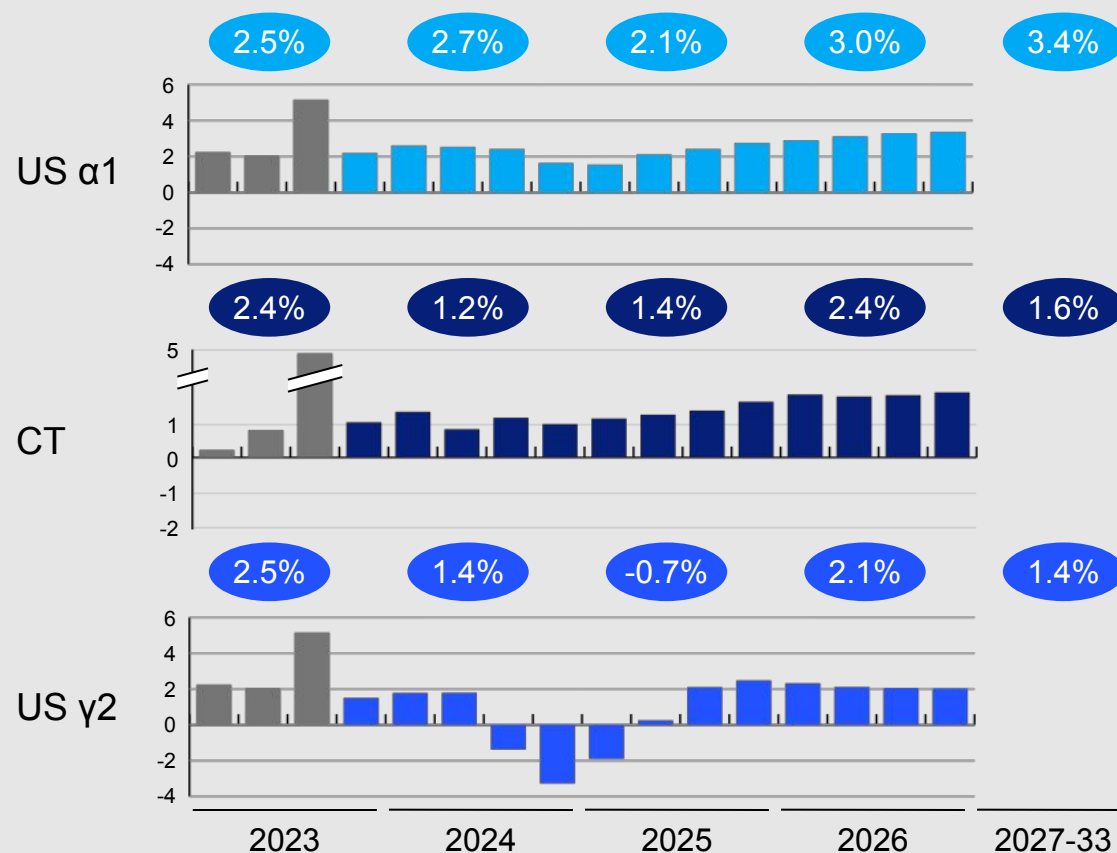
## Real GDP

Indexed, 2023 Q3=100



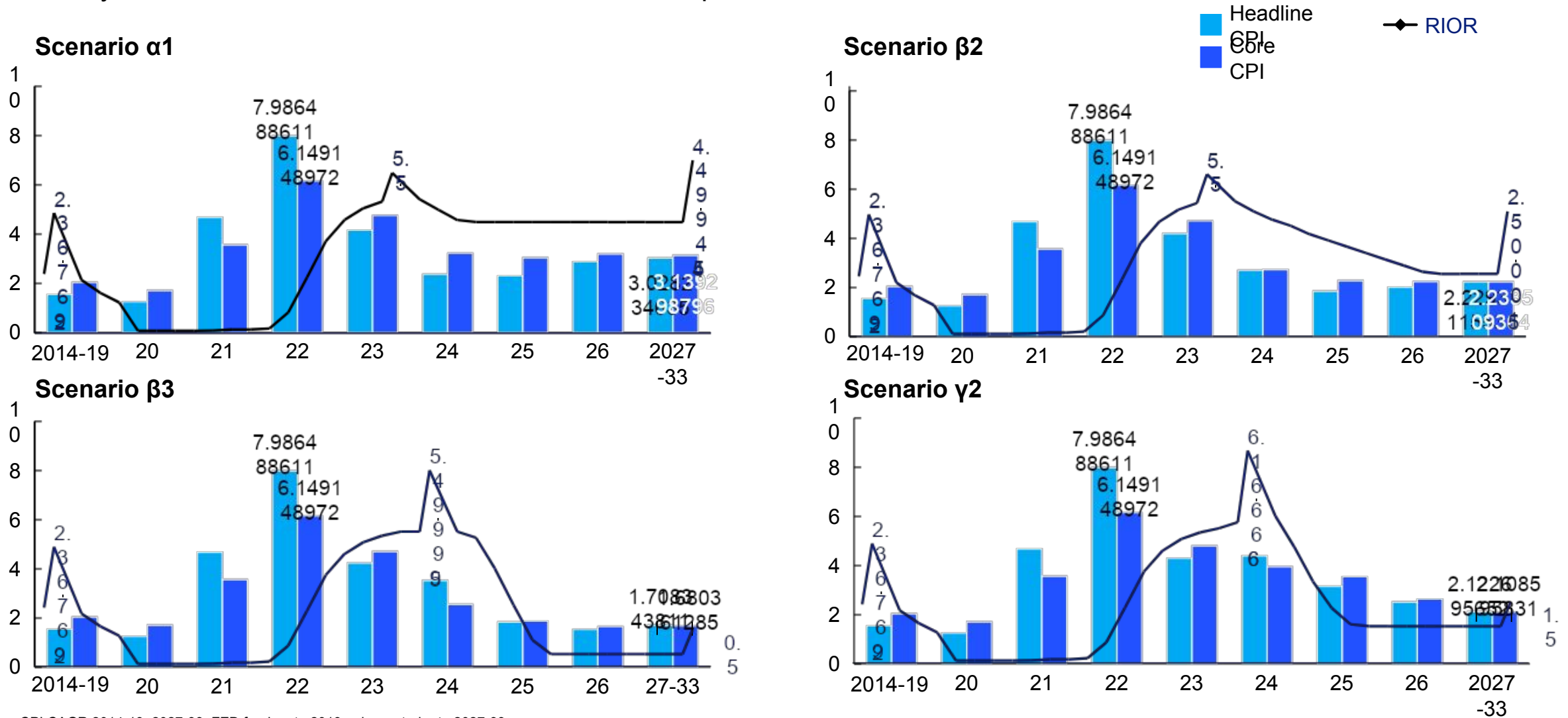
## Real GDP

Annualized percent change and CAGR



# US Inflation and interest rates

McKinsey Macro & Markets Scenarios, December 2023, percent<sup>1</sup>



1. CPI CAGR 2014-19, 2027-33; FED funds rate 2019 only, neutral rate 2027-33

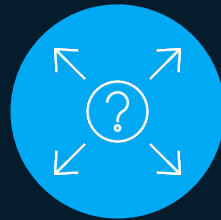
# What matters most?

Principles to navigate the mercurial global environment



**Embrace the 'harsh reality'**

You just can't know what the outcome will be and that is OK; Figure out your risk appetite



**Capitalize on the uncertainty**

Seize the competitive advantage with the same intensity and focus that you act on risks



**Realize much of what you do will not change**

Ensure your organization understands the 3-5 decisions that really matter

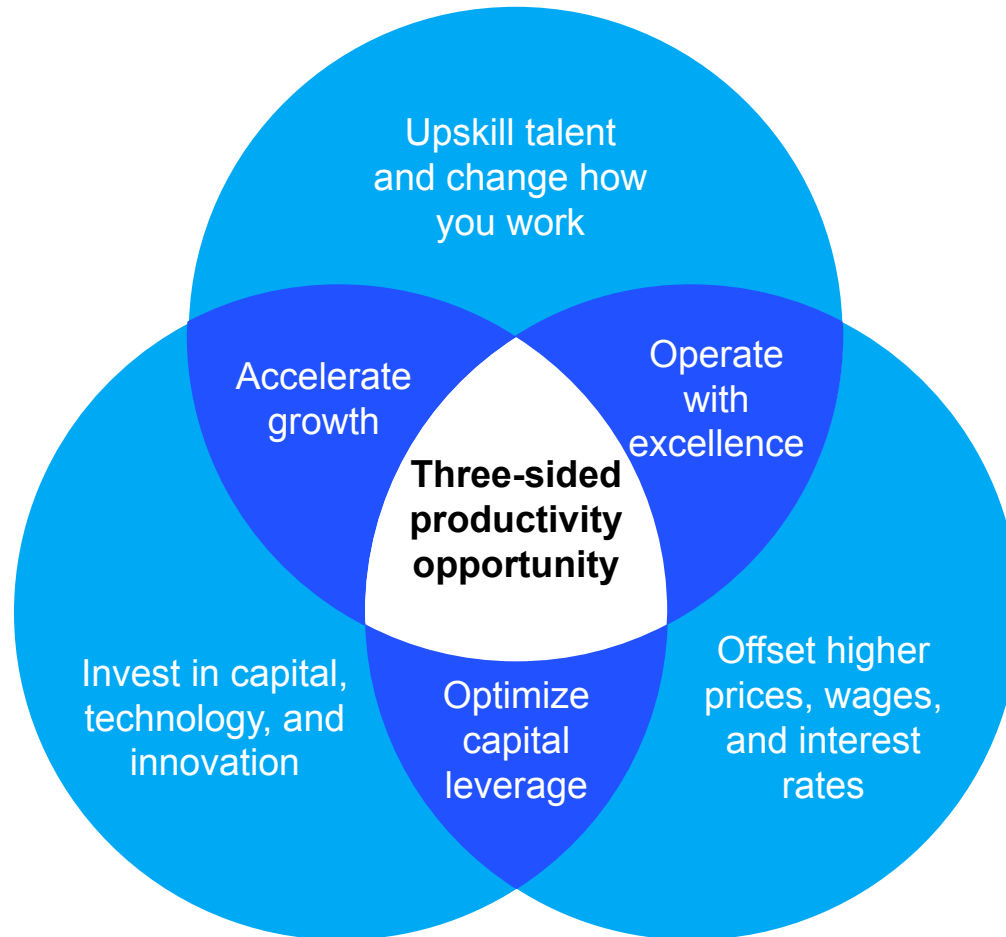


**Unlock productivity for performance and prosperity**

Focus on the 3-sided productivity opportunity that must be executed in tandem for success

# Seize the three-sided productivity opportunity.

Productivity is driven by total value added: the earnings you retain and distribute to shareholders, the compensation you pay to employees, and the capital inputs you apply



## Operate with excellence

Adapt culture and managerial practices to direct resources to the highest-value initiatives.

## Optimize capital leverage

Balance costs of talent, physical assets, and technology to multiply the impact of front-line production.

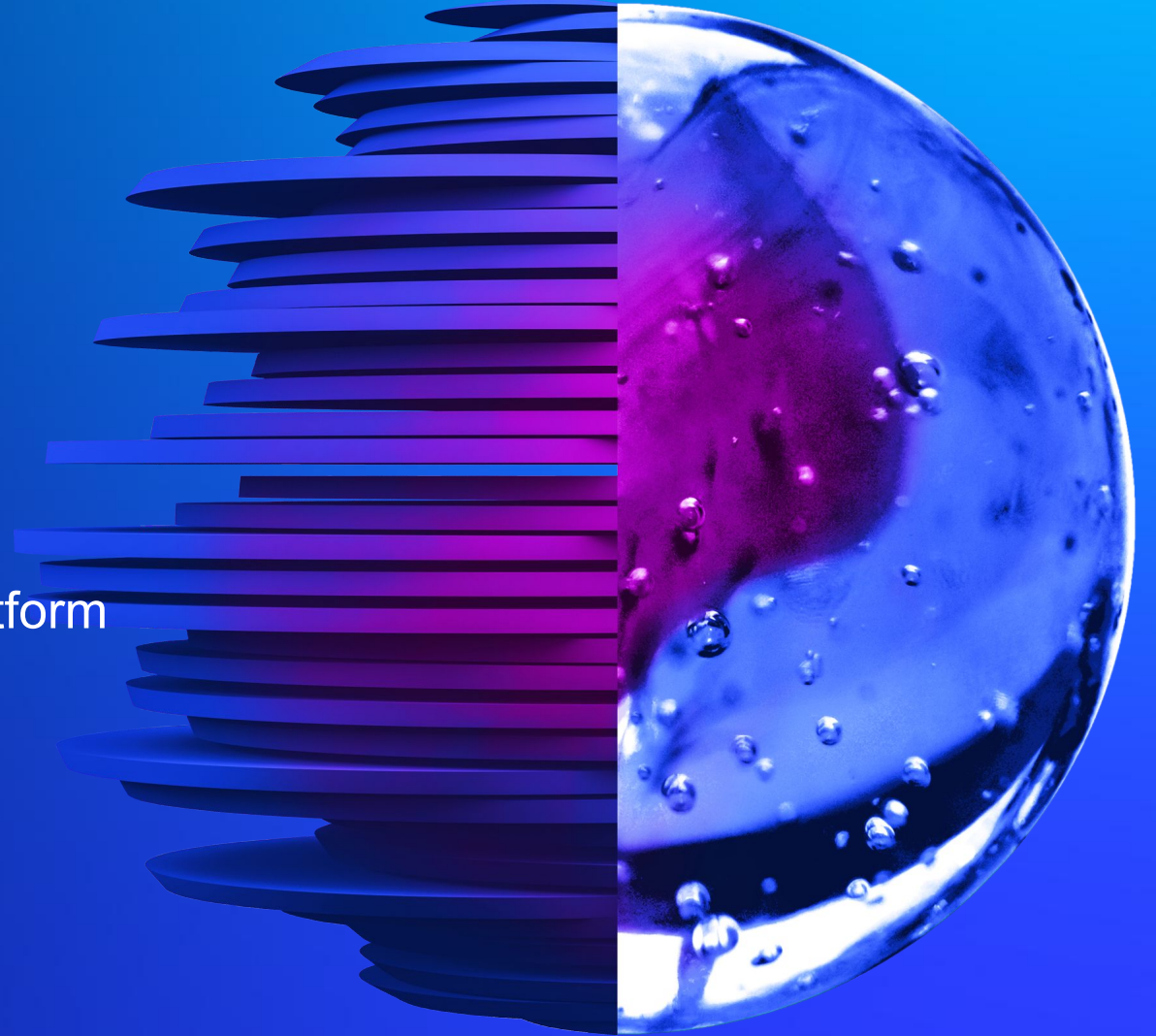
## Accelerate growth

Raise revenues by enhancing the benefits of current offerings and providing new and innovative customer experiences.

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