NC STATE UNIVERSITY

2024 - Issue 1

NC STATE ECONOMIST

Economic Outlook for 2024

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- Expecting slowing growth in 2024
- Mild to moderate recession possible, but not certain
- If the weather cooperates, it should be a decent year for NC agriculture
- Top risks are geopolitical disruptions, a consumer spending pullback, and commercial real estate refinancing difficulties

A Recap of 2023

The economy in 2023 was characterized by its exhibition of continued job growth, slowly slowing inflation, falling to flat real wages, consumers running out of the free pandemic money, and a manufacturing sector that declined all year, even in the face of national efforts to re-shore industrial production to the U.S. Overall, however, the economy in 2023 was much better than predicted by most economists as the much forecast post-covid-stimulus recession is still yet to materialize.

The agricultural economy in 2023 was not that different from the general economy: not too hot and not too cold. Commodity prices were generally flat to down. Farmers are finally starting to see some progress on input costs (thanks to oil price declines). Most crops saw decent yields thanks to pretty good weather. Overall, farmers managed to survive the pandemic, the pain from supply chain tangles and inflation during the "return to normal," and rapidly rising input prices with surprisingly little damage to the farm sector's financial condition. While many farmers did not enjoy great returns in 2022 or 2023, we have not seen a

rash of farm bankruptcies, and farm debt is well enough under control for farmers to weather a period of high interest rates like we are now experiencing.

Looking Forward to 2024

The labor market probably won't be strong in 2024 with job growth either continuing to slow or even reverse, but declining employment won't be the trigger for a recession if we have one. Too many companies will choose to hoard labor to protect against being short-staffed once the economy recovers (a lesson painfully learned in 2020 and 2021). Wage raises will normalize to low single digits. Average earnings will likely perform worse than the employment numbers as layoffs in high-paying sectors such as manufacturing, technology, and finance are offset with lower-paying jobs in the leisure and hospitality, education, and services sectors.

Consumer spending is the most likely cause of a recession if we get one. Bank balances have returned to normal for all but top income groups. For most of 2023, consumer spending was increasing by less than inflation, so while aggregate spending was up, consumers were going home with less stuff. I anticipate that consumer spending, particularly for goods, will weaken in 2024. People have felt inflation enough and are ready to stick with their pandemic-era durable goods purchases for a while. If consumer spending holds up it will be due to continued spending on "experiences" such as eating out, travel, and entertainment. However, my suspicion is that consumer spending will fall as people run out of their pandemic-era free money, see sky-high interest rates on their credit card balances, and decide the smart thing is to build up some savings for a coming recession.

Manufacturing will continue to be weak, having already been in a recession since the second quarter of 2022. This will leave health care, leisure and hospitality, and government as the sectors likely to be adding jobs in 2024. State and local governments have enough reserve funds to continue spending through 2024, and leisure and hospitality are still trying to replace all the workers they lost during the lockdowns so these two sectors will keep hiring. Unfortunately, those jobs are lower-paying, so the most likely source of good-paying jobs in 2024 will be health care. Whether healthcare employment can rise by enough to offset slowdowns in manufacturing, finance, and technology is the question upon which the 2024 labor market will rest.

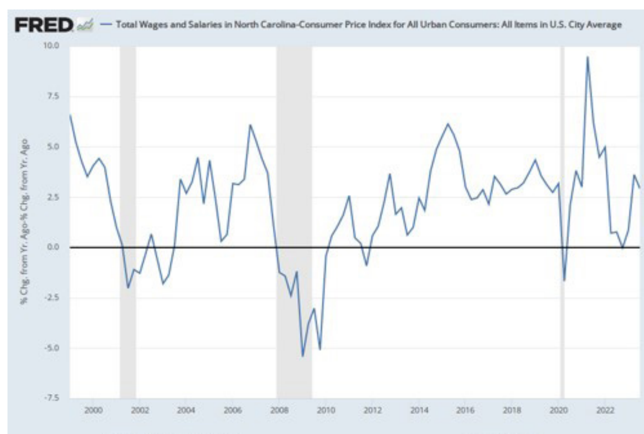
Interest rates will likely slowly fall through 2024, although not smoothly (they will bounce up and down along the way). This will help support the slowing economy by lowering borrowing costs and helping the housing and car markets return (at least partially) to normal. There are already some signs of both with listings of existing homes for sale beginning to rise in the last few weeks of 2023 and some car manufacturers returning to the practice of offering incentives to lure buyers back to the showrooms. I do not expect the Federal Reserve to cut its interest rates in the first half of 2024 unless it becomes clear that we are in recession. However, interest rates will slowly decline in the first half of 2024 in anticipation of slowing inflation and lower rates from the Federal Reserve. Then, the second half of 2024 should see the first few interest rate cuts by the Federal Reserve. While rates will remain significantly elevated relative to the past decade, the decline will still make debt payments more affordable for all businesses, households, and the largest borrower of all—the federal government. Lower interest rates may be enough to forestall some of the problems looming in commercial real estate loans where the combination of soon-to-come refinancings at higher interest rates, and lower occupancy rates due to a slow return of workers to offices, poses a large risk of financial woes that could even spark a recession if it makes it hard for regular businesses to obtain credit.

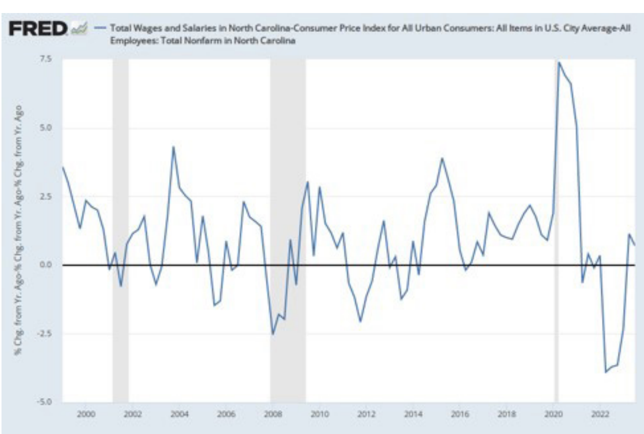
Outlook for North Carolina in 2024

North Carolina will likely do about the same or slightly worse than the nation in 2024, with the heavy doses of technology industry in the Triangle area and finance in Charlotte slowing the economy as those sectors are likely to continue belt-tightening. Supporting job growth will be North Carolina's strong performance in [attracting in-migration from other states](), aided by the low tax burden and affordable housing outside of the two major metro areas. Additionally, we may see job growth in smaller start-ups and young firms rather than gains from the tech giants, which could be good for innovation and economic growth. Strong infrastructure in the form of ports, airports, rail, and interstates, plus a favorable location between the deep south and the mid-Atlantic will also favor North Carolina for logistics, warehousing, and wholesaling sectors. These will remain growth industries, even if the retail sector falters, as big firms will continue to grow their logistics base, although perhaps at a slower pace.

In Figure 1 we can see that total wages and salaries earned in North Carolina (the best statistic for measuring regular pay from employment) rose strongly after the lockdown phase of the pandemic ended and has continued to grow quite rapidly (panel a). Then in panel (b), I adjust those earnings for inflation and we see that total wages and salaries in inflation-adjusted terms have grown more slowly, but have still risen continuously over the past three years. Finally, in panel (c), I also adjust for the number of jobs and then we clearly see that on a per-worker, inflation-adjusted basis, earnings have been falling for most of the past two years. This explains why surveys have been showing so many people think the economy is doing badly.

Figure 1. North Carolina Total Wages (a), Total Wages Adjusted for Inflation (b), and Total Wages Adjusted for Inflation and Growth in Jobs (c).





Taking this all into account, I expect the economy in 2024 to display growing weakness. Whether we officially enter a recession is difficult to predict and not very important. Whether or not the country experiences a recession, we are likely to face very slow growth, with numerous sectors of the economy displaying weakness and things overall supported mostly by healthcare, low-paying sectors, and businesses' reluctance to fire workers as quickly as they have done in past slowdowns.

Agriculture in 2024

With a little luck, 2024 could be a good year for North Carolina agriculture. With an anticipated El Niño weather pattern, North Carolina should see good temperatures and near-normal rainfall, while much of the Corn Belt could stay dry and Texas is expected to be wetter than normal. If farmers react to this forecast in their planting decisions, we could see more soybeans planted in the Midwest at the expense of corn acres and more cotton in Texas. The continued dry conditions in the Midwest could help prices for corn and soybeans.

In terms of acres planted, I don't expect any big shifts nationally or in North Carolina. Corn likely gains some acres from soybeans on relative prices (dampened by the opposite effect from El Niño), and cotton probably gains some ground thanks to larger plantings in Texas. Here in North Carolina, I expect to see little change in cotton, peanuts, sweet potato, and tobacco acres planted, with subtle shifts that may not be decided until just before planting season.

Concerning prices, I expect a little bit of favorable movement, but not a lot. Corn ($4.70-$5.00/bu), cotton ($0.75-$0.80 per pound), and peanuts ($550-$600/ton) should see prices somewhere near or slightly above current levels, while soybeans ($12.50-$13.00/bu) may see prices drift slightly downward. Exports are helping corn and soybeans, but corn prices will benefit relative to soybeans thanks to smaller stocks and the anticipated good soybean crop in Brazil. Cotton cannot seem to get upward progress on prices in the face of fairly high stocks and weak demand from China. Peanuts are also struggling to get prices more in line with increased production costs because weak demand for peanuts for uses other than in peanut butter is holding the market back. Tobacco had a rosier year in 2023 than in the last few years, and 2024 so far is looking like a repeat: not fantastic, but somewhat better than it has been and definitely profitable. Sweet potatoes have seen lower pricing, both due to overseas competition in the export market and some growers accepting lower offers from supermarket chains in the domestic market. The 2024 price outlook for sweet potatoes is uncertain, with more chance for price improvement than deterioration.

The livestock outlook is somewhat less rosy, with the industry still dealing with the effects of disease outbreaks in layers and hog production. Beef cattle numbers are still down, and thus price is expected to climb a bit more, perhaps to a range of $180-$195 per cwt. Hogs should see numbers rebound and price may still manage to tick up slightly, to a forecast range of $60-$65 per cwt. Further gains in pork prices are being stalled by weak demand from Asia. Broilers and turkeys are both expected to see reduced production, particularly in the first half of the year, which is not a great thing when prices are also forecast to drop slightly. Thus, we look for broiler prices from $1.20-$1.25 per lb and turkey to fetch $1.35-$1.45 per lb. Egg prices should rise at least early in the year due to the Highly Pathogenic Avian Influenza and its effect on flock size.

Growers are finally seeing some progress on the input cost side of their profit and loss statements.

In particular, oil prices are down significantly, meaning lower prices for diesel and fertilizer. In some cases, fertilizer prices are down 50% from their 2022 peak, with declines particularly steep in nitrogen. I expect to see continued improvement in fertilizer and chemical prices in 2024, albeit with smaller declines, thanks to the lower gas prices and weaker demand in Brazil due to drought conditions there. The bad news on the input cost side is labor. For producers that rely on H-2A labor the latest Adverse Effect Wage Rates (AEWRs) increase of $0.90 per hour to $15.81 will put a significant crimp in the profitability of labor-intensive commodities. I believe that worries about the new classification rules will prove overblown, but that does not remove the 6% increase in hourly pay imposed at a time when it is unlikely that any commodity will see its price go up anywhere near that amount.

Exports will be the key factor in many of these price forecasts as economic weakness overseas or disruptions in world or regional trade are important risks to the demand for many major North Carolina commodities (broilers, corn, cotton, pork, soybeans, sweet potatoes, and tobacco). Any deterioration in world agricultural trade is likely to translate into lower prices.

Taken in aggregate and given some reasonable weather, 2024 should be a decent year for North Carolina agriculture. We could see production costs come down a bit more and above average commodity prices for most of North Carolina's major commodities. Things look a bit better for crops than livestock, but, overall, it would be nice to have a pretty normal year in agriculture.

Summary

In summation, I expect the economy to muddle along in 2024, with either slower growth or an outright recession. I don't think any recession will be too severe since businesses are so reluctant to lay off workers, so whether or not there is a recession may not matter all that much as we are likely to see growth either be mildly positive or mildly negative. Inflation will continue a gradual decline back toward to Federal Reserve's 2% per year target and interest rates will fall a little along with inflation. That will ease credit conditions for businesses.

Agriculture is hoping to see some more returning to normal in 2024, with oil prices hopefully staying low and fertilizer and chemical prices continuing to fall back toward pre-2020 levels. If the weather cooperates and progress continues on production costs (outside of labor), producers in North Carolina should see a decent year for farm income.

Further Reading

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NC State Economist is a publication of the Department of Agricultural and Resource Economics
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