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 SUITE 152  
 GREENSBORO, NC 27405

# OLD NORTH STATE TRUST

## THE ECONOMY AT A GLANCE

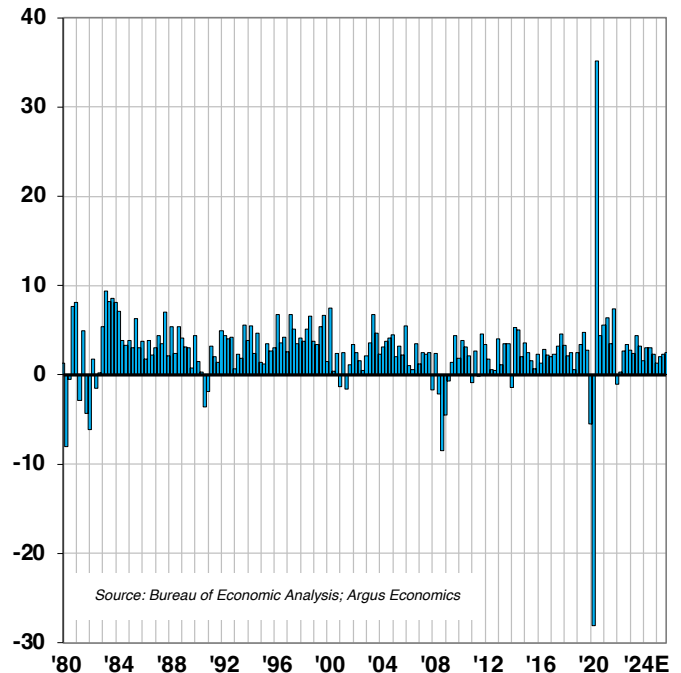
### ECONOMIC HIGHLIGHTS

October 21, 2024  
 Vol. 91, No. 151

#### RAISING 3Q GDP GROWTH FORECAST

We are raising our third-quarter 2024 forecast for GDP growth to 3.0% from 1.6%. The most-significant changes to our model are increases in our estimates for the big services category and increases to investments in equipment and intellectual property. We still expect 3Q core PCE inflation of 2.2%. Our research points to a U.S. economy that is healthy and growing. Recent positive surprises came from the Fed's 50-basis-point rate cut; the ISM Services Index, which helps in forecasting about 45% of GDP; and September nonfarm payrolls. GDP growth of 3% in 2Q also dispels lingering recession fears. We are raising our 4Q24 GDP growth estimate to 2.3% from 1.7% and our full-year 2024 GDP estimate to 2.5% from 1.9%. These do not include adjustments for hurricanes. We still expect 2% growth in 2025. Four indicators support our assessment of the economy. The Federal Reserve Bank of Atlanta's GDP Nowcast recently was estimating 3Q growth of 3.2%. The New York Fed's Staff Nowcast for 3Q was 3.1%, and the 4Q Nowcast was 2.8%. The Weekly Economic Index tracked by the Dallas Fed was 2.04%, suggesting 3Q GDP will be 2.04% higher than a year ago. Finally, the Chicago Fed National Activity Index recently rose to 0.12 from -0.42. The three-month moving average was little changed at -0.17. The related Diffusion Index decreased to -0.23 in August from -0.11 in July. These readings suggest the economy is growing slightly below average, but not contracting.

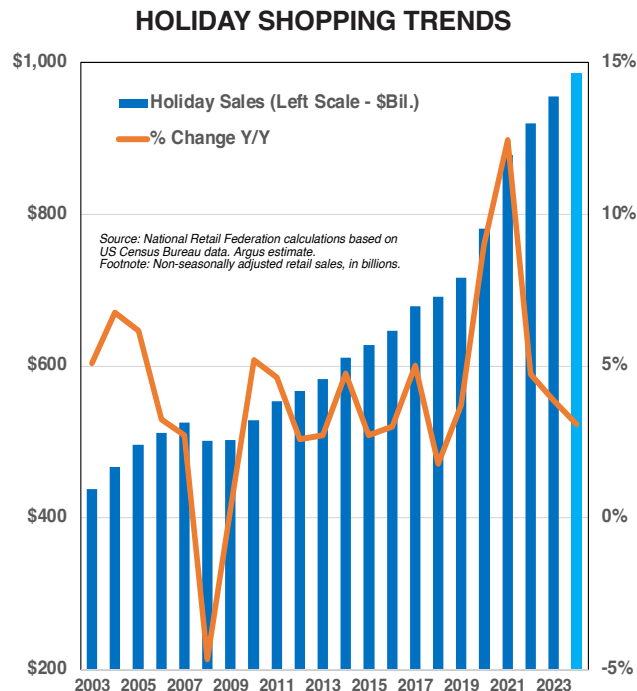
GDP TRENDS & OUTLOOK (% CHANGE)



## ECONOMIC HIGHLIGHTS (CONTINUED)

### CHECKING OUR LIST: HOLIDAY SALES MAY RISE 3%

We expect holiday retail sales to rise about 3% this year to almost \$1 trillion. Our experience is that when U.S. consumers are employed, they go out of their way to make the season special. We believe the Fed's 50-basis-point rate cut last month, unemployment's downtick to 4.1%, and the potential for 3% GDP growth in 3Q are catalysts to make the season bright. The average annual sales gain during the past 20 holidays has been 4%, with a 3.8% increase last year and a high of 12% in the pandemic-recovery year of 2021. The only decline, of 4.7%, came as the economy entered a deep recession in 2008. We calculate holiday sales the same way the National Retail Federation (NRF) does, based on the year-over-year change in the Commerce Department's Retail Sales data for the combined months of November and December. Like the NRF, we exclude sales at gas stations, car dealers, and restaurants -- and focus on core retail. There are three categories that represent two-thirds of holiday-season sales and drive our forecast: grocery stores, general merchandise stores, and e-commerce. Our forecasts for those categories are +2%, +3%, and +6.5%, respectively. Why is our forecast slightly below the historical average in a strong economy? Retail sales have a heavy weighting in non-durable goods, which has not been a blockbuster category, declining 0.8% in the 1Q GDP report and rising only 1.7% in the 2Q report. As well, a lot of the strength in both GDP and consumer spending has been in services, which also aren't a major factor in retail sales. Finally, GDP has had a big boost from investments, including AI, which aren't a factor in retail sales. Within our sales forecast, e-commerce is the biggest category, representing 30% of holiday sales. While e-commerce could grow faster than our 6.5% estimate, it has a tough comparison in an already big category. What would it take for holiday sales to grow 4%? Nine percent growth in e-commerce might do it, but that's a high hurdle.

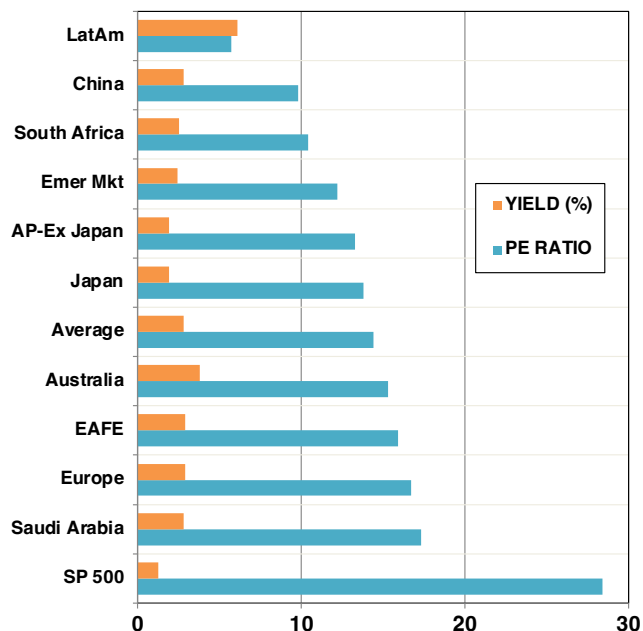


# FINANCIAL MARKET HIGHLIGHTS

## GLOBAL STOCKS PRICED AT DISCOUNT TO U.S. STOCKS

As worldwide markets are challenged by higher interest rates, conflict in the Middle East, and the battle between Russia and Ukraine, one thing has not changed: U.S. stocks are more expensive than global stocks. And with the large run-up in stock prices in late 2023 and the first half of 2024, U.S. stocks are even more expensive. The trailing P/E ratio on the S&P 500 is 28, above the global average of 14. The current dividend yield for the S&P 500 is 1.2%, versus the global average of 2.8% and Asian, Australian and Latin American yields of 3%-6%. The foreign region that does not completely fit the pattern is the Middle East. The average P/E on a Saudi Arabian stock is a relatively high 17. This can be attributed to high oil prices. One reason investors generally are willing to pay a higher price for North American securities is the transparency of the U.S. financial system as well as the liquidity of U.S. markets. What's more, global returns can be volatile across individual countries, given currency, security, political, and geopolitical risks. Even so, we recommend that growth investors have approximately 5%-10% of their equity allocations in international stocks to take advantage of the value.

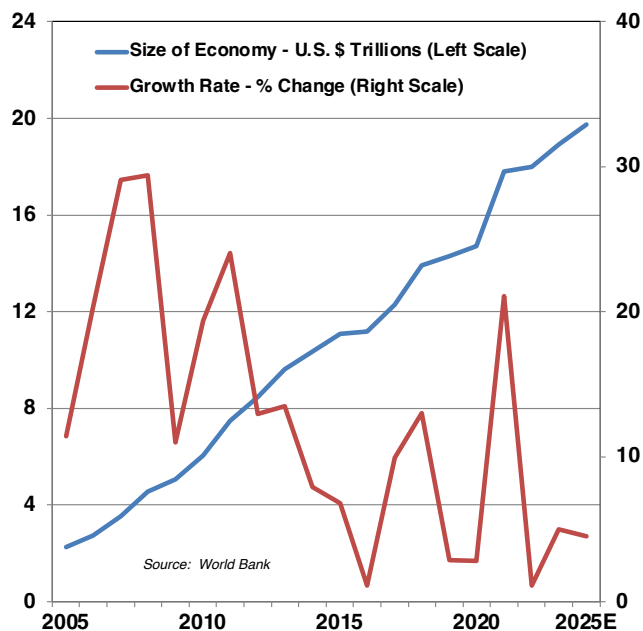
GLOBAL EQUITY VALUATION METRICS



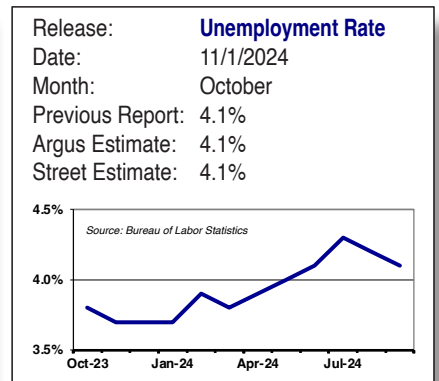
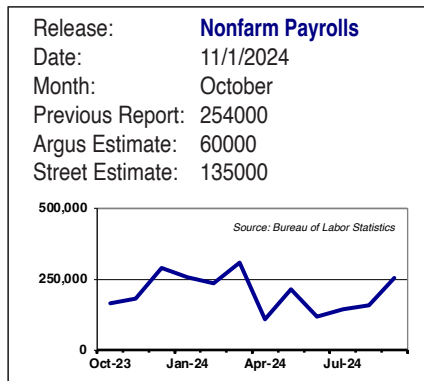
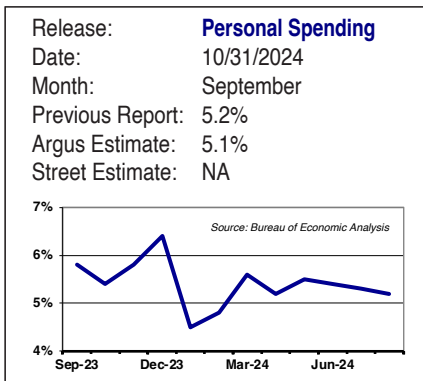
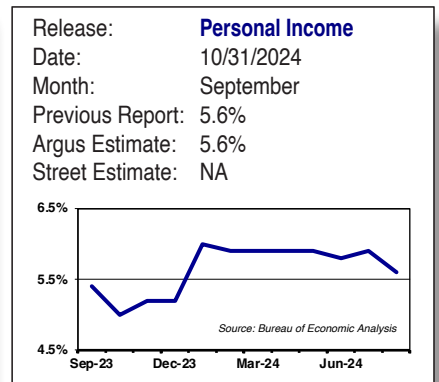
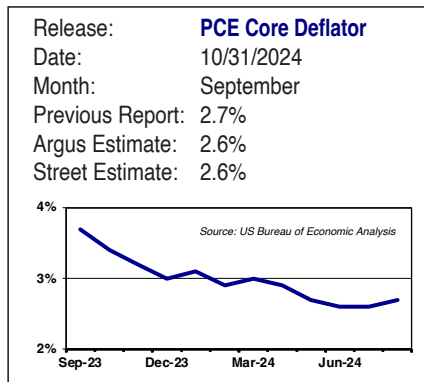
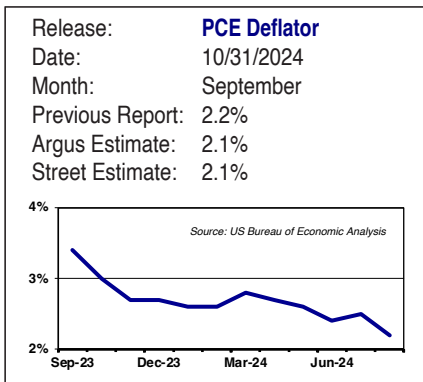
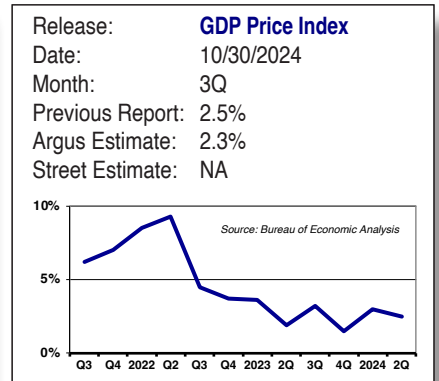
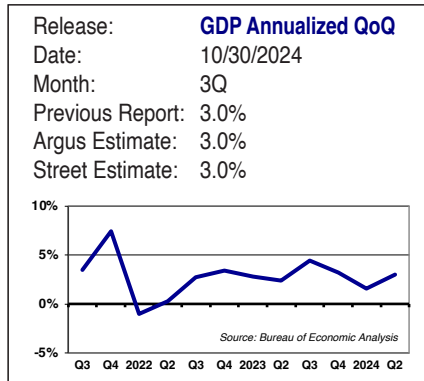
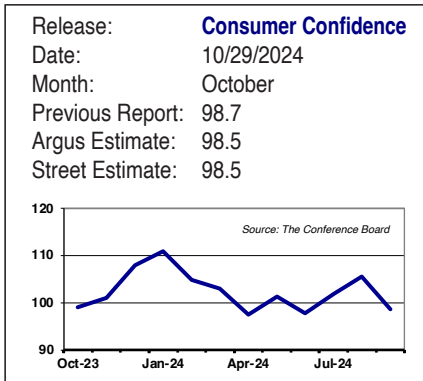
## CAN CHINA RALLY LAST?

Does the recent rally in Chinese stocks have legs? Economic trends in China bear watching and will go a long way toward supporting stock-market momentum. China is an \$18 trillion economy and represents just below 20% of the global economy. Thus, China is a critical contributor to overall global economic growth. In fact, 4% growth in the Chinese economy today adds more to global output than 10% growth 10 years ago, when China was growing faster but was smaller. The latest rally in the Chinese stock market was kicked off by a series of events. The People's Bank of China cut interest rates, eased reserve requirements for banks, and reduced the cost of existing mortgages. It also unleashed schemes to provide more capital for institutional investors to buy stocks and for corporations to buy back their own shares. It did not rule out launching a sovereign wealth fund devoted to purchasing local shares. And there may be more stimulus to come. What is unknown at this point is the scale of the investments. To ensure a pronounced period of recovery and growth, spending plans should account for 3%-4% of total GDP over the next two years, in our opinion. That's a price tag of \$600-\$700 billion.

CHINESE ECONOMIC TRENDS

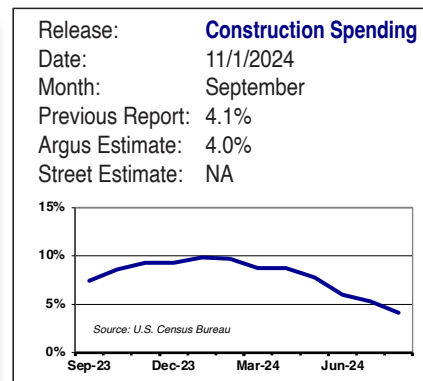
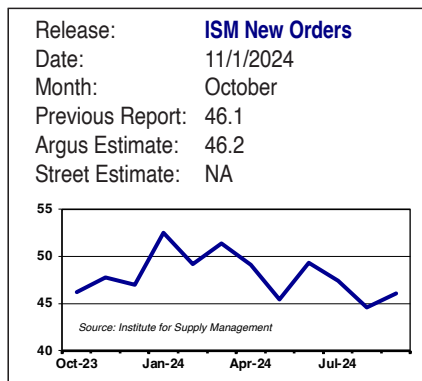
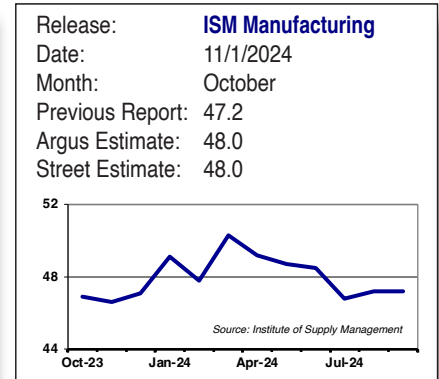
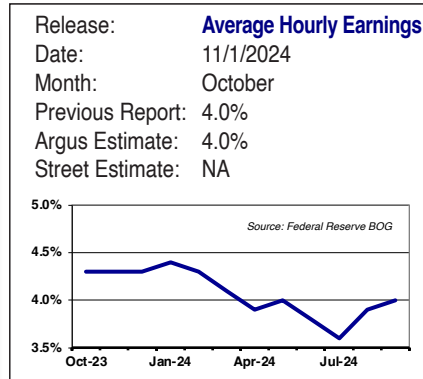
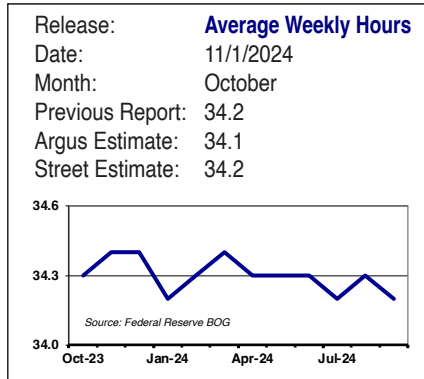


# ECONOMIC TRADING CHARTS & CALENDAR



*Previous Week's Releases and Next Week's Releases on next page.*

# ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)



## Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Oct	Leading Index	September	-0.3%	-0.1%	-0.3%	-0.5%
23-Oct	Existing Home Sales	September	3.86 Mln.	3.92 Mln.	3.85 Mln.	NA
24-Oct	New Home Sales	September	716 K	720 K	716 K	NA
25-Oct	Durable Goods Orders	September	-0.5%	-4.5%	NA	NA

## Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
4-Nov	Factory Orders	September	0.9%	NA	NA	NA
5-Nov	ISM Services Index	October	54.9	NA	NA	NA
	Trade Balance	September	-\$70.4 Bil.	NA	NA	NA
7-Nov	Nonfarm Productivith	3Q	2.5%	NA	NA	NA
	Unit Labor Costs	3Q	0.4%	NA	NA	NA
	Wholesale Inventories	September	0.6%	NA	NA	NA
	Total Vehicle Sales	October	15.8 mln.	NA	NA	NA
8-Nov	U. of Michigan Sentiment	October	68.9	NA	NA	NA

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