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For Public Finance, a Year for Stability and Cautious Optimism.

As inflation and interest rates ease, 2024 will be a perfect time for overdue multiyear strategic planning and keeping up with breakthrough information technologies.

For state and local government financiers, the good news for 2024 is that most financial functions will be more predictable. Budget projections will be easier and more reliable, at least for the calendar year, as the economy continues settling fairly smoothly to a slower pace with inflation easing and interest rates drifting down with it.

Of course, a slowing economy can be expected to be accompanied by softening tax revenues, and that has been reported in some states already. Nonetheless — and absent the usual unforeseeables like new wars, oil shocks and pandemics — public finance is returning to something resembling business as usual. With a few exceptions, the “New Normal” is becoming the “Old Normal,” at least for budgeting, collective bargaining, pension funding, tax rates and debt issuance.

Wall Street has come to a growing consensus that the economy is gliding to a “soft landing,” with the only question being how long this can last. Inflation likely won’t drop in 2024 to the Federal Reserve’s target of 2 percent, so while interest rates will likely drift somewhat lower, don’t look for anything near the unusually minuscule levels that prevailed before and during the COVID-19 pandemic. Borrowers will still pay and investors will still earn a positive real rate of return on debt instruments. Mirroring that overall economic glide path, upward pressures on salaries are likely to ease. But labor markets nationally will remain tight by historical standards, making it an ongoing public-sector challenge to hire personnel amid tight budgets.

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