BEA 東亞銀行

Economic Research

November 2021

Market Monitor – United States

Elevated Inflation Weighs On Economic Outlook

US economy sees decelerated growth in Q3 2021 amid supply chain bottlenecks and surge in infections

Spread of virus continues to weigh on rising nonfarm payroll hires in September.

Inflation accelerates again, chiefly due to higher food prices and housing costs.

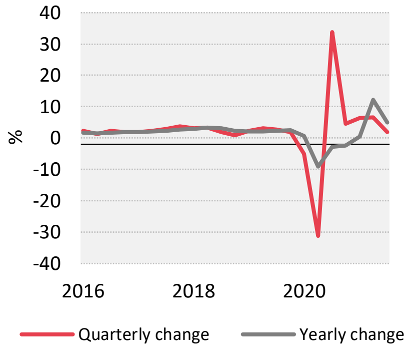
Stock market rallies as companies report strong earnings growth in Q3 2021.

An advanced estimate of US GDP pointed to a 2% annualised quarter-on-quarter growth in Q3 2021, chiefly reflecting the slower growth in consumption as a result of supply chain bottlenecks and surge in confirmed Covid-19 cases. The 7.9% annualized gain in consumer spending on services was offset by the 9.2% drop in spending on goods, resulting in only a 1.6% growth in consumption during the quarter, compared to a 12% growth in previous quarter.

The US labour market saw slower jobs growth for two consecutive months. Nonfarm payrolls added only 194,000 jobs in September, down from an upward revision of 366,000 job gains in the previous month. The slower gains were mainly attributable to a 144,200 drop in the local government education sector, which partly offset the jobs gains in the private sector amidst another wave of Covid-19 infections. At the same time, the unemployment rate further declined to an 18-month low of 4.8% during the month, down from 5.2% in the previous month, as more people left the labour force.

US inflation edged up again in September to 5.4%, compared to 5.3% in the previous month, with higher food prices and housing costs. Higher house prices are also feeding into the rental market. In the meantime, core CPI stayed high at 4%. Looking ahead, supply chain bottlenecks will keep an upward pressure on prices. In a Wall Street Journal survey of economists, around half cited supply chain bottlenecks as the biggest threat to the US economy over the next 12 to 18 months, compared with nearly one fifth pointing to labour shortages, while only 8.2% indicated Covid-19.

US GDP



Source: Bloomberg, data as of 1/11/2021

Shortages of consumer staples as a result of supply-chain bottlenecks and persisting inflationary pressure have also had an adverse impact on consumer sentiment. Although US retail sales continued to record 0.7% monthly growth in September, with consumers continuing to receive their monthly distribution of child tax credit and wages continuing to rise, consumer confidence remains subdued. The final reading of the University of Michigan's consumer sentiment index edged down to 71.7 in October from 72.8 in the previous month.

At the policy meeting in early November, the Federal Reserve (Fed) decided to keep the fed funds rate target at 0% to 0.25% and announced to begin to scale back its asset purchase programme in mid-November. Monthly purchases of treasury securities will be reduced by USD10 billion and that of agency mortgage-backed securities (MBS) will be reduced by USD5 billion. With the pace of reduction in asset purchase announced, the process of tapering off is expected to be complete by June next year. In the meantime, Jerome Powell, Fed chair, reiterated that the economic bar for raising rates was far higher than that for tapering.

Going forward, the US economic recovery is showing apparent signs of cooling. The OECD has lowered the US growth outlook from 6.9% to 6% this year, while the IMF slashed the growth outlook by one percentage point to 6%. Although the monthly distribution of child tax credit until December this year will provide some support to domestic consumption, persistent inflation stemming from rising oil prices and the distortion of global supply chains due to the pandemic may have an adverse impact consumers' real income. Moreover, the expectation of rising government debt to support another large-scale spending bill and upcoming policy normalisation by the Fed may push up benchmark government bond yields and hence financing costs. Consumer demand and business confidence may be undermined in the longer run, partly offsetting the boost from the proposed infrastructure and social spending bills.

Benchmark stock indices rally with strong quarterly earnings

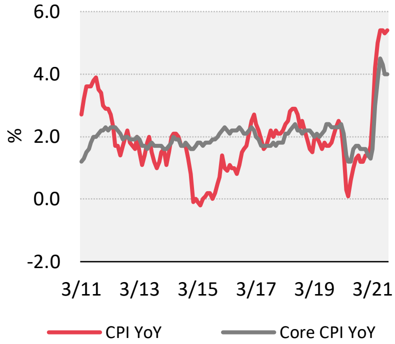
The US equity market saw solid gains in October, as companies posted stellar earnings results in the Q3 earnings season, with over 80% of S&P 500 companies reporting earnings so far having beaten analyst expectations. As of 29th October, the S&P 500 Index had risen by 6.9% from the level at the end of September, while the Nasdaq and Dow Jones registered 7.3% and 5.8% gains, respectively, over the same horizon.

US dollar sees little change despite higher Treasury yields

As investors' risk appetite improves amid a stock market rally and US corporate earnings exceeded analyst expectations, the US dollar has softened slightly. As of 29th October, the dollar index stood at 94.123, about 0.1% lower than the level at the end of September. In the meantime, Treasury yields are edging higher as inflation data reinforces expectations that the Fed will start reducing asset purchases soon. As of 29th October, the 10-year Treasury yield stood at 1.555%, about 7 basis points higher than at the end of September.

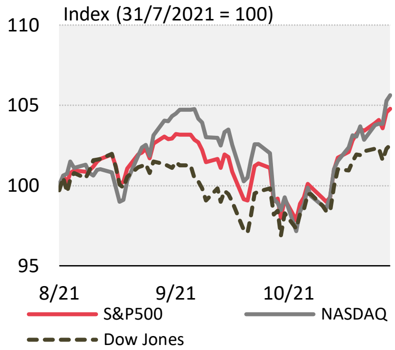
Looking ahead, supply chain bottlenecks may extend into at least early 2022, and inflation pressure may persist for a longer period. If investors start to factor in faster interest rate normalisation by the Fed, the US dollar may strengthen again and Treasury yields rise higher. Elevated equity market valuations may face further challenges amid a growing expectation of higher interest rates.

US Inflation



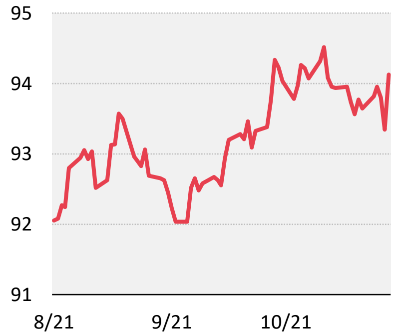
Source: Bloomberg, data as of 18/10/2021

US Equity Indices



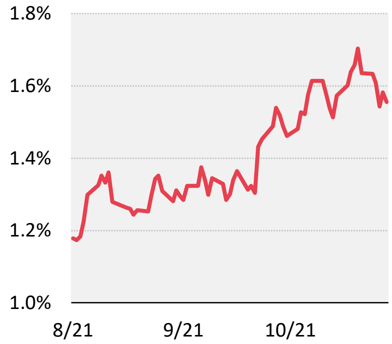
Source: Bloomberg, data as of 31/10/2021

Dollar index



Source: Bloomberg, data as of 31/10/2021

US 10-year Treasury Yield



Source: Bloomberg, data as of 31/10/2021

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