Economic Research

October 2022

Market Monitor – United States

Long Trajectory Ahead for Inflation

Inflationary pressure stayed elevated in August, with core inflation edging higher

US inflation has been hovering at an elevated level, though the headline consumer price index (CPI) eased somewhat from a year-on-year (YoY) growth of 8.5% in July to 8.3% in August. The core CPI, which excludes food and energy prices, edged up to 6.3% YoY in August. This was driven by a 6.2% rise in shelter costs and a faster increase in major consumer price categories amid continued improvements in jobs and the property market. The rise in shelter costs was the largest since August 1990. Other than a few minor rebounds, consumer confidence remained subdued amid the elevated inflationary pressure. The University of Michigan Consumer Sentiment Index rose to 58.6 in September, up from 58.2 in August, while the one-year inflation expectation fell to 4.7% in September, down by 0.1 percentage point (ppt) from August. The five-year inflation expectation also edged down by 0.2 ppts from August to 2.7% in September.

The US jobs market remains strong, with the unemployment rate declining 0.2 ppts to 3.5% in September. The number of newly added nonfarm payrolls slowed to 263,000, while the July figure was revised up by 11,000 to 537,000 and the August figure was unrevised at 315,000. In the first nine months of 2022, the monthly increase of nonfarm payrolls averaged 420,000, somewhat lower than the average of 562,000 in 2021. Meanwhile, average hourly earnings edged down to a still robust 5% growth in September. The relatively solid wage growth could translate into stronger pricing pressure ahead.

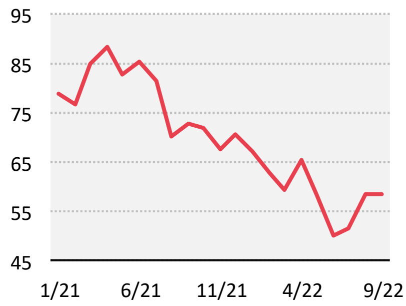
In its September meeting, the Federal Open Market Committee (FOMC) raised the fed funds rate target range by 75 bps, as expected, to 3.00%-3.25%. The FOMC updated the summary of economic projections to deliver a pessimistic outlook for growth, unemployment, and inflation. GDP growth is projected to be 0.2% in 2022 and 1.2% in 2023, down 1.5 ppts and 0.5 ppts from the projection in June. Federal Reserve (Fed) chairman Jerome Powell said that the current focus is on restraining demand. He

Inflation eased slightly in August amid slowing growth of energy prices

Labour market remains tight, with 263,000 jobs added to nonfarm payrolls and the unemployment rate declined to 3.5% in September

Fed raised the fed funds rate target range by 75 bps to 3%-3.25% at its September meeting

University of Michigan Consumer Sentiment Index



Source: Bloomberg, data as of 30/9/2022

acknowledged that restoring price stability while achieving a relatively modest increase in unemployment and a soft landing would be very challenging. He stressed that a failure to bring inflation down to target will only mean far greater pain later on. The Fed's overarching focus is to bring inflation back down to 2% until the job is done. This implies that the Fed will continue with rate hikes for at least the next several policy meetings, until there are clearer indications of a softening labour market and slowing inflation. The target range for the fed funds rate is expected to be 4.25%-4.50% by the end of 2022, and 4.75%-5.00% by the end of 2023.

Given the market expectation that the Fed will keep monetary policy stance tight for a period of time, the US economy may slow further to below trend, resulting in higher volatility in the financial markets. US household net worth fell by US$6.1 trillion quarter on quarter in Q2 2022 to US$143.8 trillion. In addition, the YoY increase in the S&P Case-Shiller 20-City Composite Home Price Index slowed further in July, down another 2.6 ppts from the previous month to 16.1%. With interest rates increasing rapidly, it is expected that the growth in US property prices will continue to slow down or even decline in some cities. Coupled with volatile financial asset prices, the net worth of US households will continue to be under pressure in the next few quarters, adding to uncertainty for US consumers and the country's economic performance. A Bloomberg survey taken in September showed US economic growth is expected to be around 1.6% in 2022 and 0.9% in 2023, unrevised and revised 0.2 ppts lower from the previous survey respectively. The World Bank said that the world may be edging toward a global recession as central banks simultaneously hike interest rates to combat inflation. The US, China, and the eurozone economies are likely to experience a sharp slowdown ahead, possibly dragging the global economy into a recession. The expectation for economic growth in 2023 is likely to have dropped further by the time of the October survey.

Equity market corrections continue amid higher bond yields and a stronger dollar

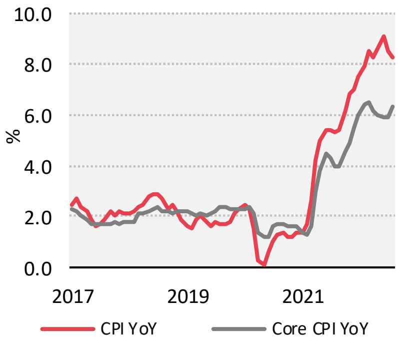
Markets expect the Fed to raise the fed funds rate again at its upcoming meetings, leading to a stronger US dollar and the rising risk of a global recession. The US equity markets have recorded significant declines. As of 30th September, the S&P 500 Index, the Nasdaq, and the Dow Jones Industrial Average declined by 9.3%, 10.5% and 8.8% respectively, compared to figures at the end of August.

In the bond market, the benchmark 10-year treasury yield surged as investors expect the fed funds rate to rise further in the months ahead. As of 30th September, the 10-year treasury yield stood at 3.832%, 64 basis points higher than at the end of August.

In the foreign exchange market, the US dollar strengthened alongside higher treasury yields, with the dollar index once rising above 114, the highest level since mid-May 2002. As of 30th September, the dollar index stood at 112.12, about 3.1% higher than at the end of August.

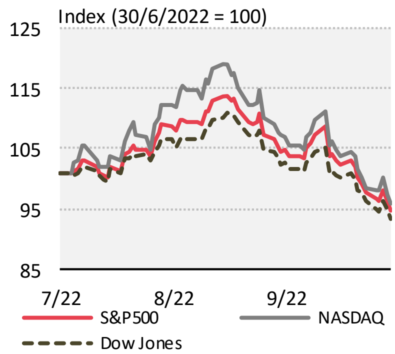
Going forward, the US financial markets are expected to see higher volatility in response to the Fed's aggressive stance to combat inflation and due to uncertainty related to geopolitical tensions.

US Inflation



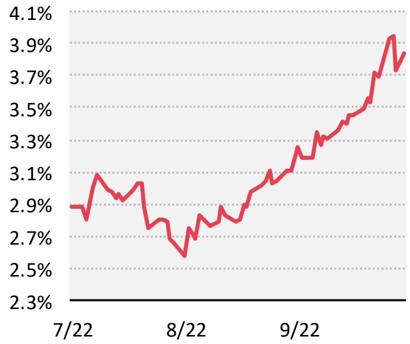
Source: Bloomberg, data as of 20/9/2022

US Equity Indices



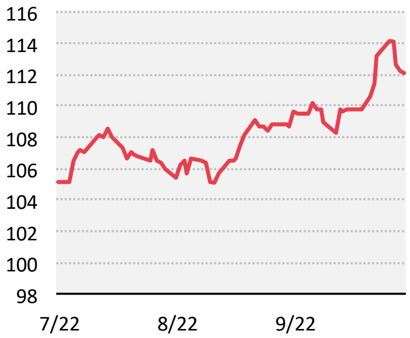
Source: Bloomberg, data as of 30/9/2022

US 10-year Treasury Yield



Source: Bloomberg, data as of 30/9/2022

Dollar Index



Source: Bloomberg, data as of 30/9/2022

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material , and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html.
For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).