BEA 東亞銀行

Economic Research

November 2022

Market Monitor – United States

Rapid Tightening Continues amid High Inflation

US economy rebounds in Q3 2022, driven by resilient consumer spending and exports strength

In Q3 2022, US GDP expanded at an annualised rate of 2.6% quarter on quarter (QoQ), following a 0.6% decline in Q2. The rebound in Q3 was mainly attributable to smaller trade deficits, as exports rose by an annualised 14.4% QoQ, driven by higher US petroleum exports as the Russia-Ukraine war continued to disrupt energy supplies in Europe. Meanwhile, consumer spending remained resilient but saw slower growth, registering an annualised QoQ growth of 1.4% in Q3 2022, down from the 2% growth in the previous quarter. Given that the Federal Reserve (Fed) is further tightening its monetary policy stance, sectors such as housing, which are especially sensitive to interest rates, have taken a blow, with residential investment recording a 26.4% annualised QoQ drop in Q3, after a 17.8% drop in the previous quarter. Overall investment also registered an annualised QoQ drop of 8.5% in Q3, after a 14.1% drop in Q2.

Fed raises fed funds rate by another 75 bps as core inflation rises further

US inflation is hovering at an elevated level, despite the headline consumer price index (CPI) having edged lower from a year-on-year (YoY) growth of 8.3% in August to 8.2% in September. The core CPI, which excludes food and energy prices, strengthened to 6.6% YoY in September, mainly driven by a 6.6% rise in shelter costs and a faster increase in other core prices, particularly for services, amid solid growth in jobs and the property market. The rise in shelter costs was the largest since August 1982, and is expected to accelerate somewhat going forward, given the delayed translation from actual rent rises into the CPI's shelter component. Despite a modest ongoing rebound, consumer confidence is still subdued amid the expectation of higher inflation and rising interest costs. The University of Michigan's Consumer Sentiment Index rose to 59.9 in October, up from 58.6 in September, while the expectation for one-year inflation rose to 5.0% in October, up by 0.3 percentage points from September. The expectation for five-year inflation also edged up by 0.2 percentage points from September to 2.9% in October.

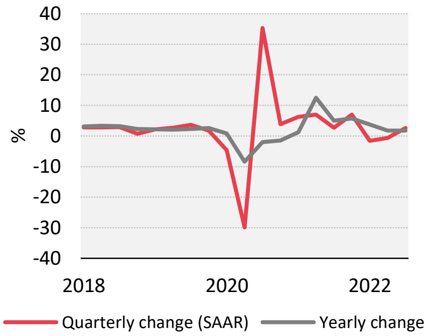
The solid US jobs market showed initial sign of moderation, with the unemployment rate

US economy expands at an annualised rate of 2.6% QoQ in Q3 2022, driven by resilient consumer spending and exports strength.

Headline inflation edges lower in September, but core inflation increases due to rising prices for shelter and other core items.

The solid US jobs market showed initial sign of moderation, with 261,000 jobs added to nonfarm payrolls in October and the unemployment rate slightly edging up from a five-decade low.

US GDP



Source: Bloomberg, data as of 28/10/2022 slightly edging higher from its five-decade low to 3.7% in October. The number of newly added nonfarm payrolls slowed to 261,000, while the September figures were revised up by 52,000 to 315,000. In the first ten months of 2022, the monthly increase of nonfarm payrolls averaged 407,000, lower than the average of 562,000 in 2021. Meanwhile, average hourly earnings still saw a solid yearly growth of 4.7% in October, down from the 5% seen in September.

In its November meeting, the Federal Open Market Committee (FOMC) raised the fed funds rate target range by 75 bps, as expected, to 3.75%-4%. In the press conference, Chairman Powell expressed the view that the FOMC may raise rates higher than signalled at its September meeting, due to the strong labour market and inflation reports since that meeting. Despite hinting at a possibly higher terminal rate, Mr. Powell acknowledged that a decision to slow the speed of rate hikes from 75 bps per meeting pace could come as soon as the next policy meeting (December 2022) or the one after that (February 2023). Mr. Powell also said it is premature to discuss a pause, and the decision about moderating the pace of rate hikes is less important to the question of how long and how high to raise rates. The target range for the fed funds rate is expected to be at least 4.25%-4.50% by the end of 2022, and 4.75%-5.00% by the end of 2023.

A Bloomberg survey taken in October shows the markets expect the US economy to grow by around 1.7% in 2022 and 0.5% in 2023. While the growth rate for 2022 was 0.1 percentage point (ppt) higher than in September's survey, the growth for 2023 was down by 0.4 ppts. The IMF's latest World Economic Outlook Report in October projected that global economic growth will slow to 2.7% in 2023, down 0.2 ppts from the projection in July, while US economic growth will slow 1.0%, unchanged from July. The gloomier global outlook coupled with continuous monetary tightening could imply higher downside risks for US growth in 2023.

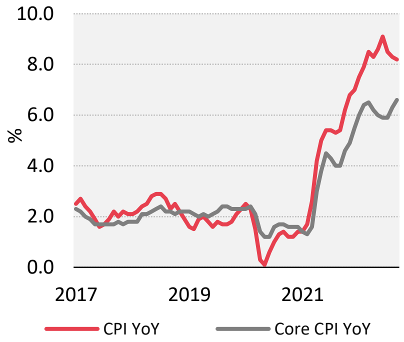
Equity market rebounds, while treasury yields edge higher and dollar weakens

As major US corporates posted better than expected quarterly earnings for Q3 2022, US equity markets recovered in October after a sell-off in the previous month. As of 31st October, the S&P 500 Index had risen by 8.0% and the Nasdaq by 3.9%, compared to the end of September. Meanwhile, the Dow Jones Industrial Average surged by 14.0%.

In the bond market, the benchmark 10-year treasury yield edged higher, as investors expect the Fed to tighten policy further in the months ahead. The 10-year treasury yield closed at 4.244% at one point, the highest level since 16th June 2008, before retreating to 4.05% by 31st October, about 22 basis points higher than at the end of September.

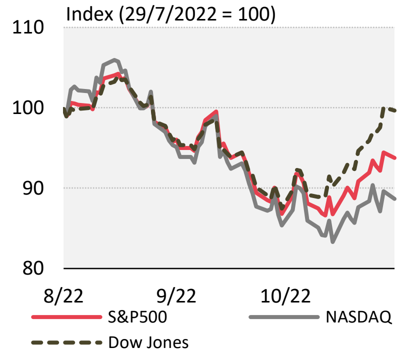
In the foreign exchange market, the US dollar weakened slightly as financial market sentiment improved somewhat and the equity markets rebounded. As of 31st October, the dollar index stood at 111.527, about 0.5% lower than at the end of September.

US Inflation



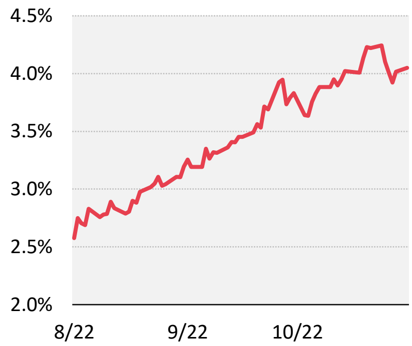
Source: Bloomberg, data as of 14/10/2022

US Equity Indices



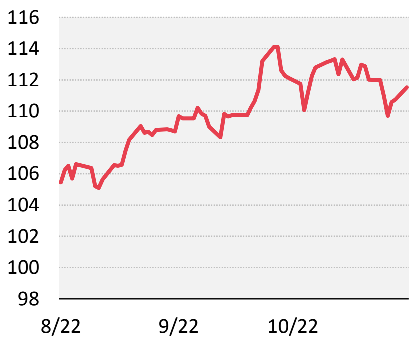
Source: Bloomberg, data as of 31/10/2022

US 10-year Treasury Yield



Source: Bloomberg, data as of 31/10/2022

Dollar Index



Source: Bloomberg, data as of 31/10/2022

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