BEA 東亞銀行

Economic Research

December 2022

Market Monitor – United States

Inflationary Pressure Eases Somewhat but Remains Elevated

Moderate growth momentum intact in Q3 2022

The US GDP annualized quarter-on-quarter (QoQ) growth was revised up by 0.3 percentage points (ppt) from the first estimate to 2.9% in Q3 2022, driven by the 0.3, 0.9 and 1.4 ppt upward revision for consumer spending, exports and non-residential investment respectively. The positive annualized QoQ growth in Q3 has put an end to the two consecutive quarters of contraction in 1H 2022, pointing to a moderate growth momentum amid the backdrop of rising prices, interest rates and uncertainties.

Elevated inflationary pressure eased somewhat in October

On the inflation front, US CPI is still hovering at an elevated level despite somewhat easing. The headline consumer price index (CPI) decelerated from a year-on-year (YoY) growth of 8.2% in September to 7.7% in October. The core CPI, which excludes food and energy prices, edged down from 6.6% YoY in September to 6.3% in October, driven by smaller increases in several core prices like medical services and used cars, etc. With the increase in rental cost over the past couple of years, shelter cost accelerating to 6.9% YoY growth in October from 6.6% in September and is expected to stay high ahead. Together with solid wage growth and labour market, core inflationary pressure could remain firm at least in the near term, indicating the Federal Reserve (Fed)'s monetary tightening is still a work in progress.

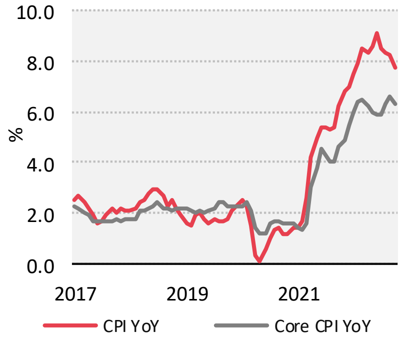
The solid US jobs market showed signs of moderation, but the pace of wage growth remains stronger-than-expected. The unemployment rate stayed at 3.7% in November, with the number of newly added nonfarm payrolls slowing to 263,000, and the three-month average moderating to 272,000 between September and November, down from 374,000 in the previous three-month period. However, the YoY increase in average hourly earnings was stronger-than-expected at 5.1% in November, up from the 4.9% in October, indicating the wage and overall price pressure could stay high for a while. Nonetheless, several large corporations in the technology sector like Meta, Amazon and Twitter have announced layoff plans in November, pointing to some deterioration in the

Both headline and core inflation edged lower in October, but shelter cost further rose during the month.

The Fed's minutes hinted that officials favour a slower pace of rate hike at upcoming meetings.

The S&P Case-Shiller Home Price Index recorded another MoM drop and slower YoY growth amid rising rates.

US Inflation



Source: Bloomberg

employment outlook ahead. Against this backdrop, consumer confidence stays at a depressed level, with the University of Michigan's Consumer Sentiment Index dropping to 56.8 in November from 59.9 in October after four consecutive months of slight improvement.

Smaller rate hike ahead but have yet a completed task

According to the latest Fed's minutes and speech from Federal Open Market Committee (FOMC) officials, they are in favour of a smaller rate hike soon, given an early sign of easing inflationary pressure and the impact of the cumulative 375 basis points (bps) rate hike taking time to feedthrough. It is expected that the FOMC will raise the fed funds rate by 50 bps to 4.25%-4.50% at its December meeting, down from 75 bps during its November meeting. With inflation and wage pressure remaining higher than its 2% policy target, the Fed officials mentioned that the benchmark interest rate could rise to a level "somewhat higher than they had previously expected." The median terminal rate from its summary of economic projections (SEP) is likely to be revised higher from its September projection. It is expected that there will be at least two more rate hikes in Q1 2023 before the Fed keeps its fed funds rate on hold at a restrictive level of around 5.00%. The Fed Chairman Jerome Powell has signalled in late November that monetary policy is likely to stay restrictive for some time until real signs of progress emerge on inflation.

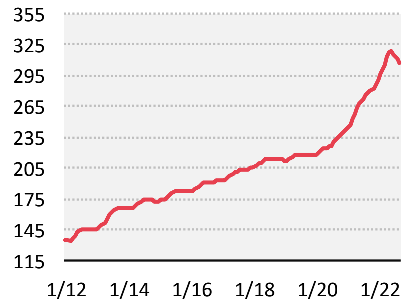
The impact of tighter monetary conditions has begun to squeeze the property market. In September, the S&P Case-Shiller 20-city Composite Home Price Index registered a month-on-month (MoM) drop of 1.2%, after a 1.3% MoM drop in August. The YoY increase of the home price index eased by 2.6 ppt from the previous month to 10.4% in September. Going forward, the negative wealth effect, higher inflation and interest rate as well as a softening labour market imply a growing downside risk and gloomier economic outlook for 2023.

Equity market extends rally, treasury yields edge lower and dollar weakens

Amid expectations of a slower pace of US monetary policy tightening, rationalization of pandemic control policy and relaxing financial support to quality developers in China, the US equity markets extended its rally in November. As of the 30th of November, the Dow Jones Industrial Average, S&P 500 and Nasdaq increased by 5.7%, 5.4% and 4.4% in November respectively. Meanwhile, the benchmark 10-year treasury yield declined and closed at 3.607% as of the 30th of November, about 44 basis points lower than that of the end of October.

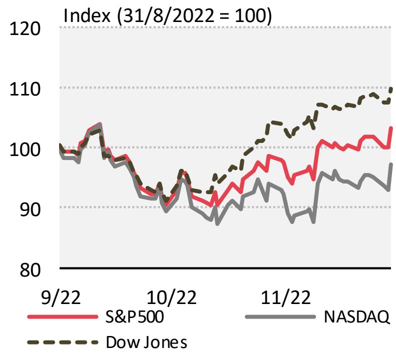
Moreover, the US dollar weakened with markets pricing in a slower pace of rate hike, improving financial market sentiment and equity market performance. As of 30th November, the dollar index stood at 105.95, about 5.0% lower than what it was at the end of October.

S&P/Case-Shiller 20-City Composite Home Price Index



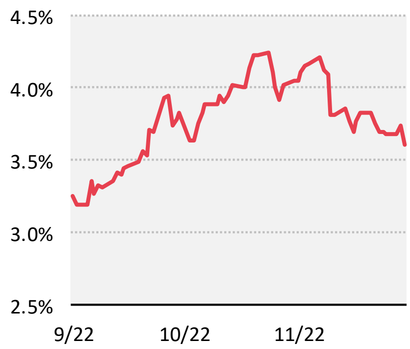
Source: Bloomberg

US Equity Indices



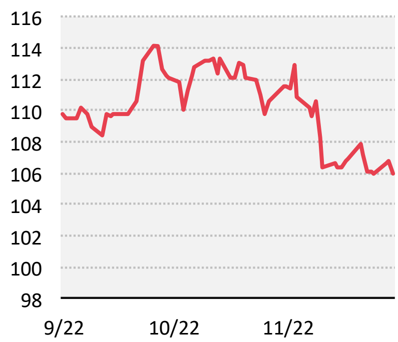
Source: Bloomberg, data as of 30/11/2022

US 10-year Treasury Yield



Source: Bloomberg, data as of 30/11/2022

Dollar Index



Source: Bloomberg, data as of 30/11/2022

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