Economic Research

August 2023

Market Monitor – United States

US Economy Remained Resilient in Q2 2023

- US GDP growth accelerated to 2.4% SAAR in Q2 2023, driven by the improvements in business investment and a positive contribution from the change in inventories.
- Headline and core inflation eased in June with core remaining far higher than the policy target. The headline and core CPI rose by 3.0% and 4.8% year-on-year (YoY), respectively.
- The Fed raised the fed funds rate to 5.25%-5.50% at July's meeting and emphasized a data-dependent approach in determining its future move.

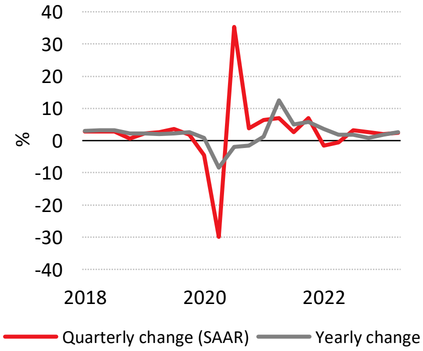
The US economy remained resilient in Q2 2023 driven by business investment and a change in inventories

The US economy registered a faster growth in Q2 2023, mainly attributable to the improvement in business investment and a positive contribution from the change in inventories. US GDP grew at a quarter-on-quarter annualized rate of 2.4% (SAAR) in Q2 2023, up from the 2.0% in Q1 2023. Personal consumption growth slowed to 1.6% SAAR in Q2 2023 from a 4.2% in previous quarter; fixed investment reversed from a -0.4% SAAR to 4.9% over the same horizon. Meanwhile, changes in inventories contributed 0.14 percentage points (ppts) to the headline growth in Q2 2023, compared to a subtraction of 2.14 ppts in the previous quarter. On a year-on-year (YoY) basis, US GDP expanded by 2.6% in Q2 2023, up from 1.8% in the previous quarter.

The US jobs market cooled further in July with mixed details. Nonfarm payroll added 187,000 in July, down from the monthly average of 270,000 in the first-half of 2023 and slightly below the market consensus of 200,000. The previous month figure was also downwardly revised by 24,000 to 185,000 in June. The unemployment rate edged down by 0.1 ppt from June to 3.5% in July, staying close to a multi-decade historical low. The YoY increase in the average hourly wage stayed at 4.4% in July, still above the level that is consistent with the Federal Reserve's (Fed) 2% inflation target.

Both the US headline and the core inflation eased in June but the latter stayed far higher than the policy target. The headline CPI dropped by 1.0 ppt from May to 3.0% YoY

US GDP



Source: Bloomberg

in June while core CPI also slowed by 0.5 ppts to 4.8% YoY over the same horizon mainly due to the cooling of core goods prices. Amid the resilient economy and job market, core services inflation and shelter cost also slowed but remained high in June with the former growing by 6.2% YoY and the latter increasing by 7.8% YoY. The easing inflationary trend and stable job market has helped boost consumer confidence with the University of Michigan Consumer Sentiment Index rebounding significantly from 64.4 in June to 71.6 in July, the highest level since October 2021.

The fed funds rate was raised to a 22-year high amid sticky core inflation

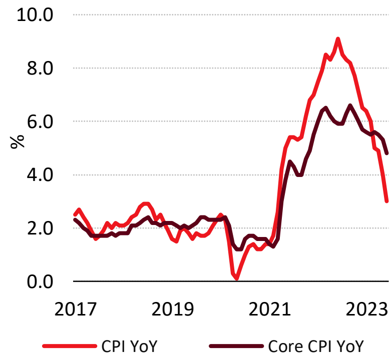
The Federal Open Market Committee (FOMC) voted unanimously to raise the federal funds rate target range by another 25 basis points (bps) to 5.25-5.50% at July's meeting, reaching a 22-year high. The forward guidance in its post-meeting statement was slightly adjusted with the description on economic growth upgraded from "modest" to "moderate". In the press conference, Federal Reserve Chairman Jerome Powell emphasized that the FOMC would take a data-dependent approach in determining if additional rate hikes would be appropriate. He mentioned that between the July and September meetings, there will be lots of data on economic activities including two CPI reports and one jobs report. It is believed that the Fed is likely to keep rates unchanged for the rest of 2023 unless inflation shows an unexpectedly sharp re-acceleration.

Looking ahead, the impact of prolonged high interest rates, restrictive monetary policy, and worries over fiscal sustainability, etc., could undermine the US economic outlook in 2H 2023. Fitch Ratings downgraded the US government's credit rating to AA+ from AAA. Apart from reflecting an "erosion of governance" stemming from the repeated debt-ceiling standoffs; the downgrade reflected the future expectations of a rising government deficit with an higher interest burden and weaker revenues. If the sentiment of financial markets abruptly deteriorates, the negative impact will weigh on consumer spending and business investment, potentially dragging on the US economic outlook.

US stocks rose amid better-than-expected quarterly earnings results

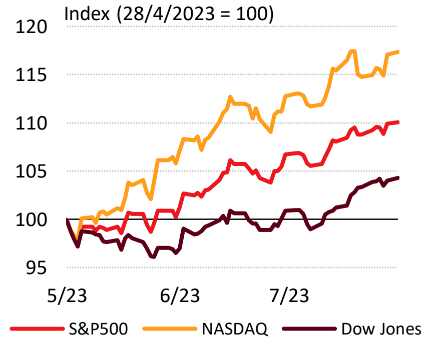
US equity indices rose in July as the quarterly earnings of most US companies beat market expectations. As of the end of July, the S&P 500 Index, Nasdaq and Dow Jones rose by 3.1%, 4.0% and 3.3% respectively, when compared to the end of June. As the Fed raised the fed funds rate at July's meeting, US treasury yields edged higher**.** As of the end of July, the 10-year treasury yield stood at 3.962%, about 12 bps higher than the level at the end of June. Nonetheless, the US dollar index declined by 1.0% to 101.86 over the same horizon, likely reflecting a lowered expectation of further rate hikes.

US Inflation



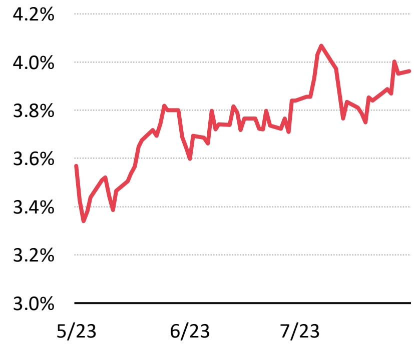
Source: Bloomberg

US Equity Indices



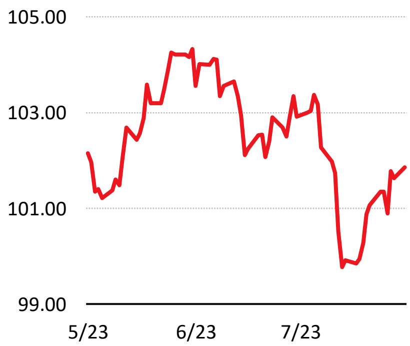
Source: Bloomberg, data as of 31/7/2023

US 10-year Treasury Yield



Source: Bloomberg, data as of 31/7/2023

Dollar Index



Source: Bloomberg, data as of 31/7/2023

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.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

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).