

Market Monitor – United States

Slow Progress in Growth and Core Inflation Cooling

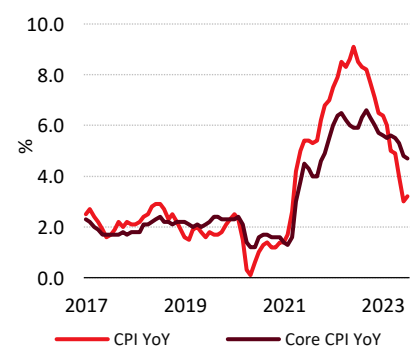


- The US job market showed further signs of cooling but remained solid when compared to pre-pandemic levels. Job openings declined to 8.8 million in July, while nonfarm payroll added 187,000 jobs in August.
- Headline inflation picked up slightly to 3.2% year-on-year (YoY) in July, mainly due to a smaller decline in energy prices, while core inflation edged down to 4.7% YoY.
- Fed Chairman Powell keeps the door open for future rate moves. He cautioned that stronger-than-expected growth could put further progress on inflation at risk. ,

The pace of cooling of the US economy remains slower than expected

The US economy remained resilient in Q2 2023, with GDP growth revised down by 0.3 percentage points (ppt) to annualized quarter-on-quarter (SAAR) growth of 2.1% in the second estimate. Personal consumption growth was upwardly revised by 0.1 ppt to 1.7% SAAR in Q2 2023 from the advanced estimate; fixed investment was downwardly revised to 3.9% from the 4.9% SAAR. The contribution from changes in private inventories was also revised to a drag of 0.09 ppt on GDP growth, compared to a 0.14 ppt boost in the advanced estimate. On a year-on-year (YoY) basis, US GDP expanded by 2.5% in Q2 2023.

The US jobs market showed further signs of cooling but remained solid compared to pre-pandemic levels. Job openings declined to 8.8 million in July from 9.2 million in June, the lowest level in over 2 years, but remain higher than the pre-pandemic level of around 7 million. Nonfarm payrolls added 187,000 in August, down from the monthly average of 242,000 in the first seven months of 2023. The previous month's figure was also revised lower by 30,000 to 157,000. The unemployment rate edged up to 3.8% in August from 3.5% in July as more people joined the labour force, and the labour participation rate rose by 0.2 ppt to 62.8%. Nevertheless, the YoY increase in the average hourly wage just edged down 0.1 ppt to 4.3% in August, still above the level that is consistent with the Federal Reserve's (Fed) 2% inflation target.

US Inflation


Source: Bloomberg

The base effect on energy prices could lead to some volatility in headline inflation, while overall disinflation is progressing on the right track. The headline CPI picked up 0.2 ppt to 3.2% YoY in July, mainly driven by a smaller decline in energy prices amid a lower base effect. Core inflation edged down from 4.8% YoY in June to 4.7% in July, led by the further moderation of goods inflation, in particular vehicle prices. However, services inflation stayed high, with core services and shelter costs registering 6.1% and 7.7% YoY growth in July, as the pace of cooling of both the US economy and its labour market remained slower than expected. The high inflation and tight monetary policy stance have further undermined consumer confidence. In August, the University of Michigan Consumer Sentiment Index fell to 69.5 from 71.6 in the previous month. The 1-year inflation expectations recovered to 3.5% in August, up from 3.4% in July, while the 5-year inflation expectations have stayed at 3.0% for three consecutive months.

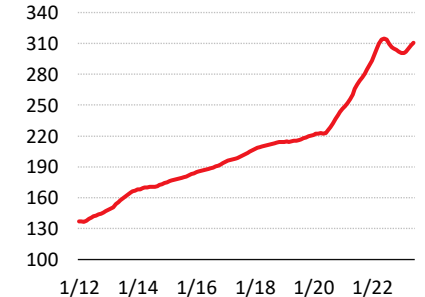
At the Jackson Hole Economic Symposium, Fed Chairman Powell acknowledged the easing trend of overall inflation, but he cautioned that stronger-than-expected growth could put further progress on inflation at risk. Even though the Fed expects labour market rebalancing to continue, any sign of stalling progress could still call for a monetary policy response. Fed Chair Powell further reiterated that they would decide their future rate move based on the totality of the data and proceed carefully. Despite the Fed continuing to keep its door open for future rate hikes, Fed funds futures are now pricing in over a 90% chance that the Fed will keep the rate unchanged at its September meeting.

Going forward, the US economy is expected to cool further ahead, with interest rates staying higher for longer. After Fitch downgraded the US Government, several regional US banks were downgraded by Moody's and S&P Global Ratings in August, as high interest rates may result in lower asset valuation and collateral quality, especially as remote working has already notably impacted their commercial real estate and related loan portfolio. Tighter credit standards and higher borrowing costs will further dent consumer and business sentiment. The average 30-year fixed mortgage rate has climbed to 7.23% for the week ending August 24th, the highest since 2001. Although US property prices stay resilient, with the S&P Case-Shiller 20-City House Price Index registering 5.5% growth in 1H 2023, the higher mortgage burden and easing job market will squeeze the purchasing power of home buyers, weighing on the property market, consumer spending, and overall economic outlook ahead.

Stocks edged lower on higher-for-longer rate expectations

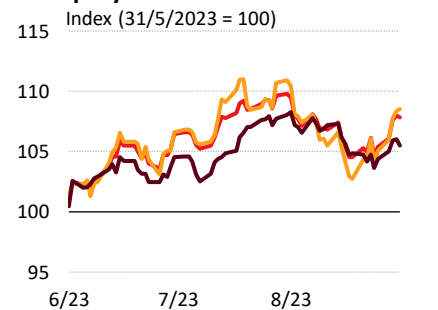
US equity indices dropped in August as market participants priced in higher-for-longer interest rates and reduced risk appetite. As of the end of August, the S&P 500, Nasdaq, and Dow Jones Industrial Average had dropped by 1.8%, 2.2%, and 2.4%, respectively, when compared to the end of July. As core inflation remains elevated, US treasury yields continue to edge higher. The 10-year treasury yield stood at 4.109% at the end of August, about 15 basis points higher than that in July. The US dollar index rose by 1.7% to 103.62 over the same horizon, also reflecting higher-for-longer rate expectations and heightened risk aversion.

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



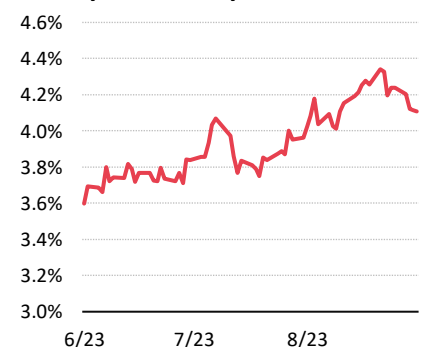
Source: Bloomberg

US Equity Indices



Source: Bloomberg, data as of 31/8/2023

US 10-year Treasury Yield



Source: Bloomberg, data as of 31/8/2023

Dollar Index



Source: Bloomberg, data as of 31/8/2023

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