BEA 東亞銀行

Economic Research

December 2023

Market Monitor – United States

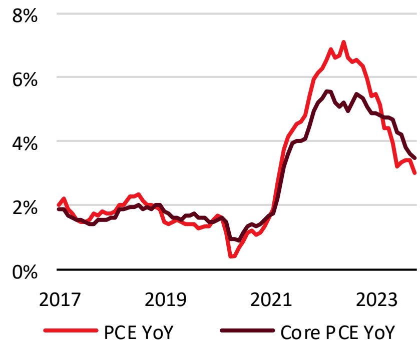
More signs of an economic slowdown emerged

- US inflation cooled further, with a broad-based slowdown.
- Surveys pointed to a moderating outlook with mixed performance across sectors.
- The US dollar and treasury yields came down notably, driven by rising expectations that the Fed is done raising rates.

CPI cooled further and labour market strength softened

US inflation cooled further, with a broad-based slowdown. The US consumer price index (CPI) rose at a slower pace, with headline CPI inflation at 3.2% year-on-year (YoY) in October, down from 3.7% in September. On a month-on-month (MoM) basis, headline CPI inflation was flat, down from 0.4% in September. Stripping out food and energy items, core CPI was up by 4.0% YoY and 0.2% MoM. Both headline and core CPI inflation readings were lower than market expectations. Meanwhile, a slowdown was also seen in PCE inflation, the Fed's preferred inflation measure. Headline and core PCE inflation eased to 3% YoY and 3.5% in October, down from 3.4% and 3.7%, respectively. The MoM growth for PCE inflation was also moderate, at 0% for headline and 0.2% for core. Among the PCE basket, goods prices fell by 0.3% MoM, and service prices grew slower at 0.2%. This reflected a broad-based slowdown in prices. Looking ahead, a restrictive monetary environment and softer economic growth are set to ease inflationary pressure, leading to further moderation in inflation readings.

US PCE Inflation

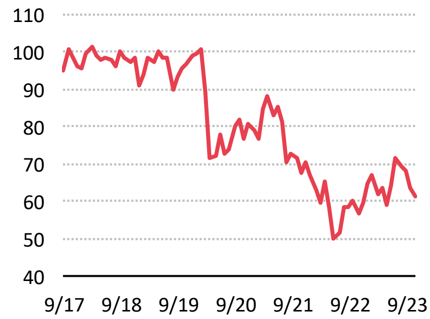


Source: Bloomberg, data as of 30/11/2023

The labour market's strength continued to soften. US continuing jobless claims have been on an uptrend in recent weeks. In the week that ended 18 November, continuing jobless claims, a proxy for the number of people receiving unemployment benefits, reached 1.93 million, the highest level since December 2021. At the same time, the four-week moving average of initial jobless claims stayed flat at 220,000. Moreover, job opening data showed a continued cooling in labour market, with vacancies dropping sharply from 9.6 million in September to 8.7 million in October, the lowest level since March 2021. Other data, such as quit rates and layoffs, remained steady. As a whole, these statistics showed that the tightness in the labour market began to ease, with a better balance between demand and supply. This should help reduce wage pressure, another welcoming sign for the Fed.

Surveys pointed to a moderating outlook with mixed performance across sectors. The ISM manufacturing PMI was unchanged at 46.7 in November, while the ISM services PMI climbed from 51.8 in October to 52.7 in November. This reflected that the manufacturing sector continued to take a downturn and that the services sector kept steadily expanding. Besides, consumer confidence remained weak. The University of Michigan's consumer sentiment index dipped from 63.8 in October to 61.3 in November, the third decline in a row. The Conference Board's consumer confidence remained low at 102 in November, despite an uptick from a downwardly revised 99.1 in October. Even with cooling inflation, these surveys found that consumers remained concerned about elevated prices and high interest rates. In October, the growth of private consumer expenditure slowed to 0.2% MoM, down sharply from 0.7% in September. Going forward, a further moderation in consumer spending is expected.

University of Michigan Consumer Sentiment Index

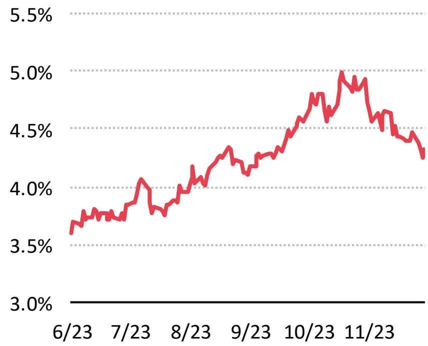


Source: Bloomberg, data as of 30/11/2023

Economic growth is set to moderate notably in Q4 2023

The Fed's forward guidance turned less hawkish. At the November meeting, the FOMC decided to keep the fed funds rate unchanged at 5.25-5.50%. And the November meeting minutes stated that all participants agreed to "proceed carefully" in discussing the policy outlook, suggesting a cautious stance on further tightening. Recently, several Fed officials, including Chairman Powell, delivered their views, which generally saw the current monetary stance as sufficiently restrictive to bring down inflation, while most shared little about the prospects of rate cuts in 2024. As of early December, financial markets are expecting the Fed's rate cuts to start in March 2024. On balance, recent easing in inflation, a softening labour market, and the Fed's less hawkish signal reinforced that the Fed is done raising rates. That said, with persistently high inflationary pressure from the accumulative rise in wages, we expect that the progress in slowing inflation is likely to be bumpy and that the Fed is likely to start moderately cutting rates in Q3 2024.

US 10-year Treasury Yield



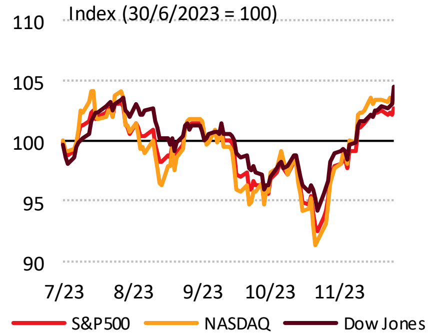
Source: Bloomberg, data as of 30/11/2023

The drag from monetary tightening will continue to emerge. After surprisingly strong GDP growth in Q3 2023, the US economy has continued to lose momentum. Particularly, the impacts of rising borrowing costs keep surfacing with mounting pressure on the economy. In Q3 2023, the delinquency rate of US consumer loans surged to 2.53%, the highest level since Q1 2013. It suggested that more consumers are struggling to repay their debts. Indicators for corporate investment are also weakening. For instance, new orders for core capital goods, a proxy for business investment, declined by 0.3% MoM in October, following a 0.2% MoM drop in September. Overall, the US economy is expected to moderate, notably in Q4 2023.

Stocks rebound swiftly with declining bond yields

US equity indices rallied in November, buoyed by a less hawkish Fed. In November, the S&P 500, Nasdaq, and Dow Jones Industrial Average went up by 8.9%, 10.7%, and 8.8%, respectively, approaching their respective historical peaks seen in late 2021 or early 2022. The 10-year treasury yield went down notably by 60.5 basis points MoM to 4.33% by the end of November. The massive drop in treasury yields reflected increasing expectations that the US Fed has reached its peak in the current rate hike cycle. Besides, the US dollar weakened amid risk-on sentiment, with the US dollar index closing at around 103.497 at the end of November, down by 3.0% MoM.

US Equity Indices



Source: Bloomberg, data as of 30/11/2023

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