Economic Research

February 2024

Market Monitor – United States

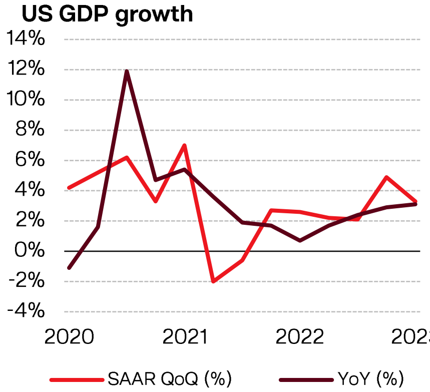
Strong gains in payrolls push back rate cut bets

- The US economy recorded solid growth in Q4 2023, thanks to robust private consumption demand. Yet, growth momentum is set to slow notably in 2024.
- Core PCE inflation softened further to 2.9% YoY in December 2023, but price gains for certain service categories remained sticky.
- Strong gains in payrolls in January 2024 pushed back bets for an imminent cut. The Fed is excepted to start cutting rates around mid-2024.

Solid growth in Q4 2023 is not likely to sustain in 2024

The US economy grew solidly in Q4 2023, buoyed by robust consumption demand. The US real GDP growth moderated from a seasonally adjusted annual rate (SAAR) of 4.9% in Q3 2023 to 3.3% in Q4 2023, above the market consensus of 2.0%. During the quarter, personal spending continued to grow noticeably, up by 2.8% SAAR in Q4 2023, contributing 1.9 percentage points (ppts) of the headline GDP growth. This reflected the support from low unemployment and elevated wage growth. Meanwhile, net exports added a larger contribution of 0.43 ppts in Q4 2023, as exports rose faster than imports. The slowdown in headline GDP growth was mainly due to lower inventory accumulation in Q4 2023. Non-residential investment remained steady at 1.9% SAAR (up from 1.4% in Q3) and residential investment slowed to 1.1% (down from 6.7%). Government spending increased by 3.3% SAAR in Q4 2023 (down from 5.8%). For the full year of 2023, the US real GDP increased by 2.5%, accelerated from a 1.9% expansion in 2022. Even amid a tight monetary environment, the US economy continues to prove resilient and outpace most other advanced economies. However, faced with multiple headwinds including notable monetary tightening, dwindling personal savings and rising geopolitical tensions, it is unlikely that the US strong growth performance seen in 2023 will be sustained moving forward.

US GDP growth



Source: Bloomberg

The labour market remained fairly tight. Job gains stayed strong in recent months. Total nonfarm payrolls increased by 353,000 in January 2024, markedly higher than market consensus of 180,000. Meanwhile, total nonfarm payrolls for October to December 2023 were revised up by 186,000. The unemployment rate remained stable at 3.7% in January. On wage growth, average hourly earnings increased by 0.6% month-on-month (MoM) and 4.5% year-on-year (YoY) in January, respectively. But it was partly boosted by a shorter average workweek amid bad weather conditions. The Job Openings and Labour Turnover Survey also showed a gradual uptick in job openings from its recent trough of 8.85 million in October to 9.03 million in December 2023. On balance, all these figures suggested that the US labour market remained fairly tight.

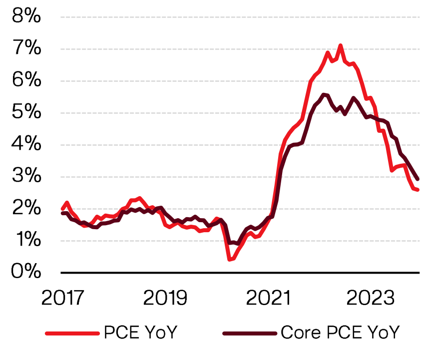
PCE inflation moderated mildly. The US Personal Consumption Expenditures (PCE) inflation, the Fed's preferred inflation gauge, was unchanged at 2.6% YoY in December 2023. Core PCE inflation eased to 2.9% YoY in December 2023, down from 3.2% in November, marking the lowest inflation since April 2021, and slightly lower than market consensus of 3.0%. The MoM growth for core PCE inflation remained mild at 0.2% in December 2023. Using the one-month annualised rate, core PCE inflation was around 2.1%, which was fairly close to the Fed's policy target of 2.0%, though it still too early to declare the core PCE has sustainably returned to the policy target. Looking ahead, the pace of US disinflation and its monetary policy implications will be closely watched by the market participants ahead.

The Fed signalled a rate cut in March unlikely but maintained an easing bias. At the January meeting, FOMC members decided to keep the federal funds rate unchanged at 5.25-5.50%. In the post-meeting statement, "additional policy firming" was replaced with a more flexible description, which paved the way for future easing. It also stated that "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%". Fed Chairman Jerome Powell further added that the Fed is unlikely to cut rates at the March meeting, and we expect that the first policy rate cut would likely come around mid-2024.

Key equity benchmarks hit record high

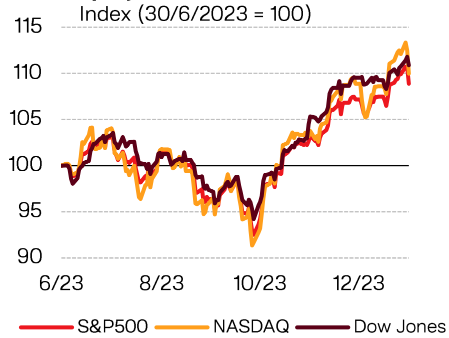
Strong economic performance sent stocks higher. In January 2024, the S&P 500, Nasdaq, and Dow Jones Industrial Average (DJIA) went up by 1.6%, 1.0%, and 1.2%, respectively, with S&P 500 and DJIA hitting their record highs during the month, in part buoyed by strong quarterly earnings and positive outlook guidance. The 10-year treasury yield was up by 3.3 bps MoM to 3.91% by the end of January 2023, partly because the Fed and strong US economic performance pushed back rate cut expectations, driving the US dollar index to 103.274 at the end of January 2024, up by 1.9% MoM.

US PCE Inflation



Source: Bloomberg, data as of 31/01/2024

US Equity Indices



Source: Bloomberg, data as of 31/01/2024

US 10-year Treasury Yield

Source: Bloomberg, data as of 01/02/2024

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