Market Monitor – United States

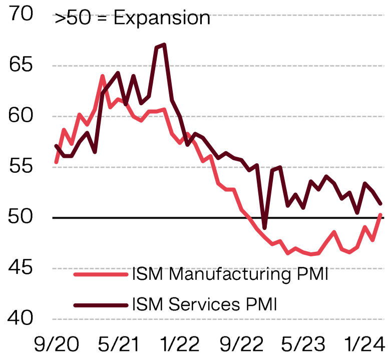
US economy looks set to grow steadily in Q1 2024

- The manufacturing sector expanded in March after posting contractions for 16 straight months.
- Inflation moderated in February, but its underlying pressure persists.
- The Fed maintained its projections of three rate cuts in 2024, with an upgraded growth outlook.

The US economy continued to expand at a relatively solid pace

The manufacturing sector returned to expansion territory in March. The ISM manufacturing PMI rebounded from 47.8 in February to 50.3 in March, marking the first expansion after 16 months of contraction. While the report raised inflation concerns as the prices sub-index picked up by 3.3 percentage points (ppts) to 55.8, the production and new orders sub-indices went up by 6.2 ppts to 54.6 and 2.2 ppts to 51.4, respectively. This reflects a positive environment for the US manufacturing sector. On the services sector sentiment, the ISM Services PMI index softened to 51.4 in March from 52.6 in February, missing the consensus of 52.7. Among its components, the price sub-index retreated notably from 58.6 in February to 53.4 in March, marking the lowest reading since April 2020. This could be an encouraging sign for a potential moderation of services cost.

ISM Manufacturing / Services PMI



Source: Bloomberg

Consumer spending has expanded steadily. Real personal consumption increased by 0.4% month-on-month (MoM) in February, up from a 0.2% drop in January. Services spending was particularly strong, rising by 0.6% MoM in real terms. Consumer spending should continue to support solid economic growth in Q1 2024. That said, real personal disposable income was down by 0.1% MoM in February after being flat in January. And the saving rate fell to 3.6% in February. With slower income growth and shrinking savings, US consumer spending is likely to gradually cool towards the year-end.

Economic Research

April 2024

Inflation has moderated, but its underlying pressure persists. In February, both personal consumption expenditures (PCE) headline and core inflation recorded a mild growth of 0.3% MoM, down from 0.4% and 0.5% in January, respectively. While goods inflation went up by 0.5% MoM in February from a 0.2% drop in January, services inflation softened from 0.6% to 0.3%. On a year-on-year (YoY) basis, the PCE headline and core inflation held at 2.5% and 2.8% in February, still above the Fed's 2% policy target. Regarding the inflation outlook, several factors continued to pose uncertainty for the near-term disinflation progress, such as strong services spending, a rebound in a wide range of commodity prices, a tight labour market and potential supply chain disruptions from geopolitical tensions.

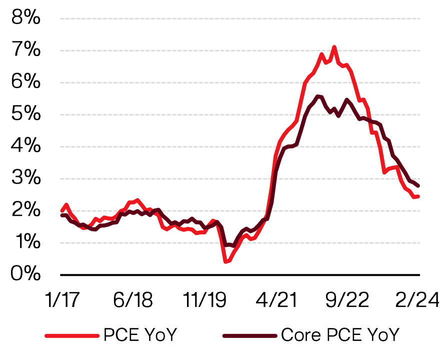
The Fed took a dovish hold by maintaining its projections of three rate cuts in 2024. During the March meeting, FOMC members decided to keep the fed funds rate unchanged, in line with market expectations. Meanwhile, there were some noteworthy signals in the "Summary of Economic Projections" (SEP). Firstly, FOMC members kept the 2024 median projection for the fed funds rate unchanged at 4.5-4.75% from the December meeting, which indicated a cumulative rate cut of 75 basis points in 2024. Secondly, the growth outlook was upgraded, with the median projections for GDP growth in 2024, 2025, and 2026 revised up by 0.7, 0.2, and 0.1 ppts to 2.1%, 2.0%, and 2.0%, respectively. Thirdly, the median projection for core PCE inflation in 2024 was slightly adjusted upward from 2.4% to 2.6%, while those for 2025 and 2026 were unchanged at 2.2% and 2.0%, respectively. This reflected that FOMC members continued to anticipate a gradual inflation slowdown towards the 2% policy target ahead. Furthermore, the Fed hinted that the pace of its quantitative tightening is likely to be slowed from the May meeting onwards to maintain sufficient liquidity in the financial system.

US Labour market remained tight. Since the start of 2024, job growth in the US has been strong. Total nonfarm payrolls increased by 303,000 in March, far higher than market consensus of 200,000. The data reflected that the US resilient economic strength is set to sustain in the near term. Labour supply also improved, raising by 0.2 ppts to 62.7% in March. Thus, the unemployment rate edged down mildly by 0.1 ppts to 3.8% in March. Regarding wage growth, average hourly earnings increased by 0.3% MoM in March, with the YoY growth down by 0.2 ppts to 4.1%. This indicated a continuation of moderating wage pressure, which was probably driven by a better balance of labour demand and supply dynamics. Overall, the labour market strength means that the Fed has time to access the data before they gain enough confidence that inflation is moving sustainably down toward 2%.

US dollar inched higher amid a divergent monetary policy outlook

Key equity indices reached their record highs again. In March, the S&P 500, Nasdaq, and Dow Jones Industrial Average (DJIA) reached their record highs again, rising 3.1%, 1.8%, and 2.1%, respectively. Meanwhile, US 10-year Treasury yields edged lower by around 5 bps MoM to 4.20% by the end of March. In foreign exchange markets, the surprise rate cut by the Swiss National Bank in March triggered a boost to the US dollar, as market participants re-assessed that other major central banks might take a stronger easing bias than the Fed due to US economic strength. In March, the US dollar index went by 0.3% MoM to 104.487.

US PCE Inflation

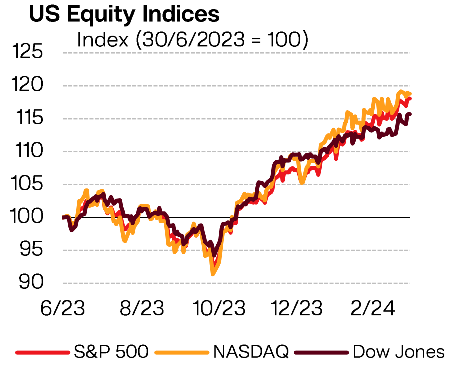


Source: Bloomberg, data as of 31/03/2024

US 10-year Treasury Yield

Source: Bloomberg, data as of 31/03/2024

US Equity Indices



Source: Bloomberg, data as of 31/03/2024

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