Economic Research

May 2024

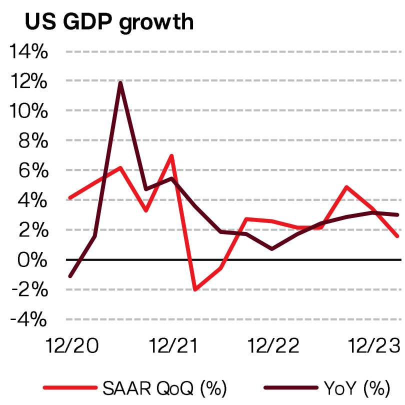
Market Monitor – United States

The US economy moderated with inflation remaining sticky

- US headline economic growth moderated in Q1 2024, while underlying demand stayed firm.
- Disinflation stalled again in March, causing the Fed to delay its rate cut timeline and hold rates higher for longer.
- Major US equity indices fell notably in April amid lower rate cut expectations.

The US economy moderated, while inflation unexpectedly picked up

The US economy grew slower than expected. The US real GDP growth softened to a seasonally adjusted annual rate (SAAR) of 1.6% in Q1 2024, down from 3.4% in Q4 2023, below the consensus forecast of 2.4%. The underperformance was largely due to faster growth in imports than exports and a decrease in private inventory investment, while underlying demand stayed firm. On a year-on-year (YoY) basis, US real GDP growth remained steady, growing by 3.0% YoY in Q1 2024 after expanding by 3.1% in the previous quarter.



Source: Bloomberg

Among the major components of GDP, private consumption expenditure (PCE) was up 2.5% SAAR and contributed 1.68 percentage points (ppts) to the headline GDP growth in Q1 2024. Solid consumer spending was bolstered by services activities, particularly in health care, financial, and insurance services. Non-residential investment and residential investment rose by 2.9% SAAR and 13.9% in Q1 2024, respectively. Net exports were negative given a wider trade deficit and subtracted 0.86 ppts from headline GDP growth in Q1 2024, while inventory change dragged another 0.35 ppts. Overall government spending grew by 1.2% SAAR in Q1 2024, while the federal part of government spending declined, for the first time in over 2 years. Looking ahead, US economic momentum is expected to moderate further due to tight monetary conditions and the persistence of inflationary pressure, which will likely slow the momentum in consumer spending amid a shrinking saving ratio.

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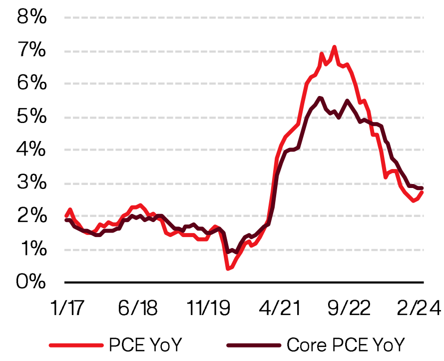
Disinflation stalled again in March. The US headline and core PCE inflation both rose by 0.3% month-on-month (MoM) in March, at the same pace as in February. On a YoY basis, headline PCE inflation rose 2.7% in March, a slight acceleration from 2.5% in February, while core PCE inflation rose 2.8% in March, the same as in February. During the quarter, core PCE inflation increased by 3.7% SAAR in Q1 2024, up from 2.0% in Q4 2023. Specifically, services inflation remained sticky, with faster price gains in housing and utilities, transportation and financial services. Since early 2024, disinflation progress has stalled, sparking worries that inflation will take longer to reach the Fed's 2% policy target, thus reducing the room for monetary easing.

US PCE Inflation



Source: Bloomberg, data as of 30/04/2024

The Fed remains data dependent and has opted for a "higher for longer" monetary stance. At its May meeting, the FOMC decided to hold the federal funds rate unchanged at 5.25-5.50%. Fed Chairman Jerome Powell highlighted a lack of further progress in bringing inflation toward the Fed's 2% target, hinting that the recent inflation readings have led the Fed to hold rates at a higher level for longer than previously expected. However, Fed Chairman Powell stated that he did not believe the Fed's next move would be a rate hike and believes the current policy is restrictive enough. Meanwhile, the Fed announced it would slow the pace of its quantitative tightening (QT) by lowering the monthly reduction cap of treasuries from USD 60 billion to USD 25 billion. The move will start from 1 June and aim to allow the Fed's balance sheet to shrink more gradually, enabling a smoother transition for money markets.

US 10-year Treasury Yield

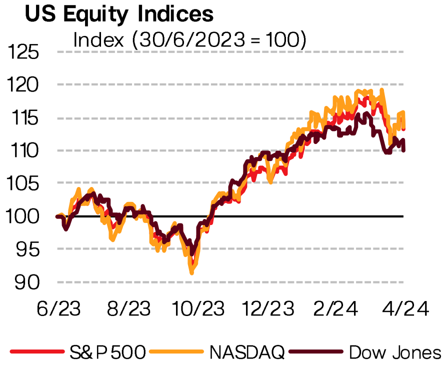
Source: Bloomberg, data as of 30/04/2024

The US labour market expanded at a moderating pace in April. Total nonfarm payroll employment increased by 175,000 in April, down noticeably from the 315,000 spike in March, with job gains seen across multiple sectors. Meanwhile, the labour force participation rate remained steady at 62.7%, whereas the unemployment rate inched higher to 3.9% in April from 3.8% in March. In terms of wage growth, average hourly earnings increased by 0.2% MoM and 3.9% YoY in April, slightly slower than in March. Overall, the report reduced the fears of an overheating labour market, but job growth remained strong as compared to the pre-pandemic trend, suggesting that further progress to move towards a better labour supply and demand balance is still needed to ease the wage-driven inflationary pressure.

Major US equity indices fell notably in April

All three key US equity indices fell MoM in April. The S&P 500, Nasdaq, and Dow Jones Industrial Average (DJIA) all had their worst monthly performance since the start of 2024, falling by 4.2%, 4.4%, and 5.0% MoM in April, respectively. The declines were largely due to the upside surprise of US inflation data in March, which triggered a pullback in rate cut expectations for 2024. The US 10-year Treasury yields rose by 4.8 basis points MoM to 4.68% by the end of April. Meanwhile, the US dollar index increased by 1.7% MoM to 106.221 by the end of April.

US Equity Indices



Source: Bloomberg, data as of 30/04/2024

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