BEA 東亞銀行

Economic Research

June 2024

Market Monitor – United States

Economic Momentum Moderated

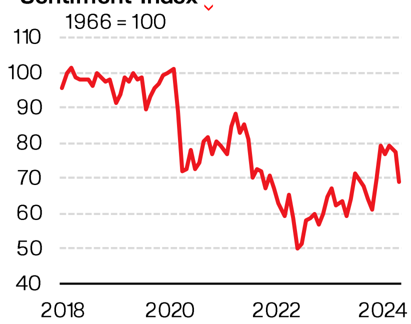
- US growth momentum moderated as consumer spending dropped in April with mixed business sentiment.
- Inflation softened, but more disinflation progress is still needed.
- Major US equity indices rebounded in May.

Q1 GDP growth was revised lower and consumer spending eased

Consumer spending begins to normalise toward its growth trend. The second estimate of US real GDP growth for Q1 2024 was downwardly revised to a seasonally adjusted annual rate (SAAR) of 1.3% from 1.6% in the first estimate. The adjustments can be attributed to lower growth in real personal consumption expenditure (PCE), which was revised to 2.0% SAAR from 2.5% due to a larger contraction in durable goods spending than previously estimated, with it being revised down to -4.1% from -1.2%. Furthermore, monthly real PCE contracted by 0.1% month-on-month (MoM) in April after expanding by 0.4% in March, indicating some slowdown in early Q2 2024. Meanwhile, real disposable income dipped by 0.1% MoM in April, with the personal saving rate remaining low at 3.6%. A slower growth in income and shrinking savings indicate that the drivers fuelling the robust expansion in PCE over the previous quarters look set to normalise, potentially leading to a gradual moderation of the US economy ahead.

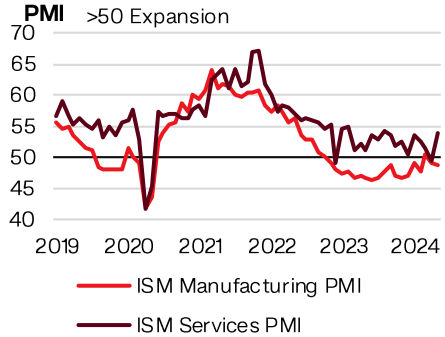
Surveys largely pointed to a divergent outlook. The ISM manufacturing PMI dropped to 48.7 in May from 49.2 in April, the second consecutive month of contraction after a brief expansion in March. However, the ISM services PMI rose to 53.8 in May from 49.4 in April, indicating that the services sector is expanding, and remains a main growth driver. Small-business optimism also hovered at low levels, with the National Federation of Independent Business's sentiment index

University of Michigan Consumer Sentiment Index



Source: Bloomberg

ISM Manufacturing and Services PMI



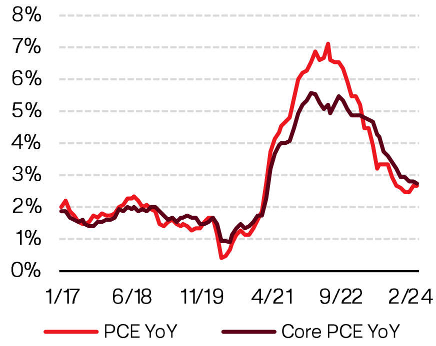
Source: Bloomberg, data as of 06/06/2023 at 89.7 in May, well below its 10-year average of 98.1. Furthermore, the University of Michigan's consumer sentiment index registered at 69.1 in May, down notably from 77.2 in April. The report cited rising unemployment, slower income growth and high interest rates as concerns expressed by consumers. Meanwhile, the Conference Board's consumer confidence index improved from 97.5 in April to 102.0 in May after declining for three consecutive months. And its expectations index was still at subdued levels, indicating that consumers remained anxious about the future.

PCE inflation slowed, but more disinflation progress is still needed. In April, headline PCE inflation rose by 0.3% MoM, the same as in March. Core PCE inflation, which excludes food and energy prices, rose by 0.2% MoM, slightly milder than a 0.3% rise in March. On an annual basis, both headline and core PCE inflation in April rose at the same pace as in March by 2.7% and 2.8%, respectively. April's inflation readings were in line with expectations, presenting a positive development in slowing inflation. That said, given the unexpected acceleration of price gains in Q1 2024, more data on easing inflation pressures would be needed to give sufficient confidence for its return towards the 2% inflation target sustainably. Separately, the JOLTS data showed job openings dropped by 296,000 in April to 8.06 million, bringing it to the lowest level since February 2021 but remaining higher than the pre-pandemic level. This showed a moderate easing sign for its relatively tight labour market. Looking ahead, the Fed could shed some light on its view on the disinflation progress and interest rate outlook during the upcoming FOMC meeting in mid-June.

Major US equity indices rebounded

All three key US equity indices posted gains in May. The S&P 500, Nasdaq, and Dow Jones Industrial Average (DJIA) rose by 4.8%, 6.9%, and 2.3% MoM in May, respectively. All three indices also hit their all-time highs during the month, with the S&P 500 and Nasdaq reversing April's losses. The rally was largely propelled by the surge in Nvidia, which rose notably after releasing robust earnings. Besides, the US 10-year Treasury yield dropped by 1.8 basis points MoM to 4.68% by the end of May, while the US dollar index declined by 1.46% MoM to 106.671.

US PCE Inflation

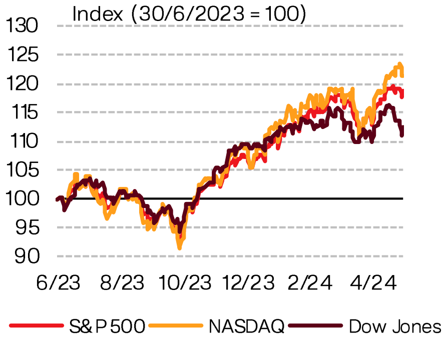


Source: Bloomberg, data as of 31/05/2024

US 10-year Treasury Yield

Source: Bloomberg, data as of 31/05/2024

US Equity Indices



Source: Bloomberg, data as of 31/05/2024

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