Economic Research

October 2024

Market Monitor – United States

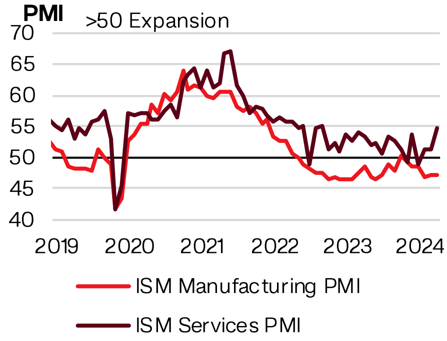
The Fed started its rate cut cycle in September

- The services sector expanded at its fastest rate since February 2023.
- The Fed cut rates significantly by 50 basis points.
- PCE inflation continued to soften, closing in on the Fed's 2% target.

The US services sector remained resilient

Surveys on large businesses pointed to a continued economic recovery. The Institute for Supply Management (ISM) Services PMI increased to 54.9 in September from 51.5 in August, reaching the highest level in over a year. This uptick was driven by faster growth in the business activity sub-index, which surged by 6.6 percentage points (ppts) to 59.9, and the new orders sub-index, which increased by 6.4 ppts to 59.4. Meanwhile, the ISM Manufacturing PMI remained flat at 47.2 in September, staying in contractionary territory. Despite the decline in manufacturing activities, the resilient services sector suggests that US economic growth remained solid in Q3. Besides, nominal consumer spending went up by 0.2% month-on-month (MoM) in August. Although this was a slower pace compared to July's 0.5% MoM, it still pointed to solid spending throughout Q3.

ISM Manufacturing and Services PMI



Source: Bloomberg, data as of 04/10/2023

Consumer confidence and small business sentiment remained subdued. The US Conference Board's consumer confidence index fell from 105.6 in August to 98.7 in September amid rising concerns about the labour market. The University of Michigan consumer sentiment index increased from 67.9 in August to 70.1 in September but remained below the pre-pandemic levels. The National Federation of Independent Business Small Business Optimism Index decreased to 91.2 in August. Although inflation has cooled over the past few months, many consumers and small businesses still express concern about the future path of inflation, the economy, and the labour market. The approaching presidential election also introduces additional political uncertainties.

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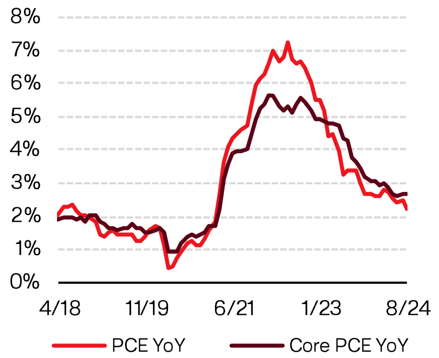
Personal consumption expenditures (PCE) inflation continued to soften, approaching the Fed's target. Headline PCE inflation cooled to 2.2% year-on-year (YoY) in August, from 2.5% in July. However, core PCE inflation (which excludes food and energy) rose by 2.7% YoY, up from July's 2.6% rise. On a MoM basis, both headline and core PCE inflation rose by 0.1% in August, both down from 0.2% in July. The softening of headline PCE inflation was largely due to declining energy prices, which dropped by 5.0% YoY (-0.8% MoM), while services prices rose 3.7% YoY (0.2% MoM). Overall, this is a positive sign for inflation as it moves closer to the Fed's target. Although core PCE inflation edged up on a YoY basis, the deceleration in MoM growth should alleviate the fears of resurging inflation.

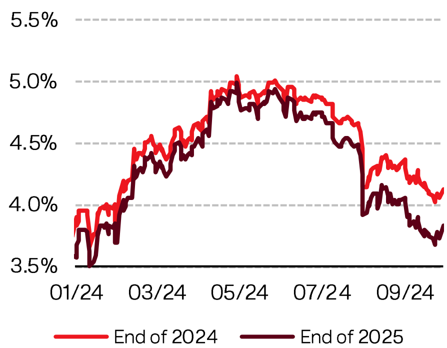
US PCE Inflation



Source: Bloomberg, data as of 30/09/2024

The Fed began its rate cut cycle. At its September meeting, the FOMC voted to lower the federal funds rate by 50 basis points (bps) to 4.75-5.00%, the first rate cut since March 2020. The FOMC also released its quarterly "Summary of Economic Projections" (SEP), where the dot plot indicated another 50 bps in cuts to 4.25-4.50% by the end of 2024, another 100 bps in cuts to 3.25-3.50% by 2025 and another 50 bps to 2.75-3.00% by 2026. The median forecast for the long-run neutral rate was bumped up to 2.875% from June's forecast of 2.750%. The median projections for other economic variables remained roughly the same, except for the unemployment rate, which was raised to 4.4% for 2024, up from 4.0% in June's SEP. Fed Chairman Jerome Powell stated that the FOMC "has gained greater confidence that inflation is moving sustainably toward 2%" and cited a slowdown in the labour market as a major reason for the large rate cut. This required the Fed to focus on its dual mandate by remaining more cautious of developments in the labour market in tandem with inflation.

US Rate Expectations

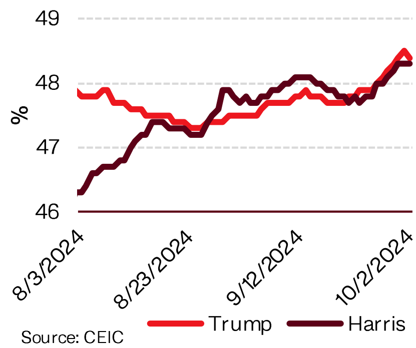


Source: Bloomberg

The US labour market proved resilient. September's jobs report beat market expectations, with nonfarm payrolls rising by 254,000 in September, which came alongside August's job gains being upwardly revised to 159,000. Furthermore, the unemployment rate fell to 4.1% in September from 4.2% in August, while the labour force participation rate remained steady at 62.7%. In terms of wage growth, average hourly earnings increased by 4.0% YoY and 0.4% MoM in September, compared to 3.9% and 0.5% in August. This strong report should eliminate fears of a recession and allow the US economy to achieve a soft landing.

Former President Donald Trump and Vice President Kamala Harris held their first presidential debate. The debate occurred on 10 September 2024, where both candidates discussed key issues such as the economy, foreign policy, immigration, abortion, and so on. Recent polls suggested that the election will be closely contested, especially in battleground states such as Pennsylvania, North Carolina, and Michigan, which are likely to determine the election outcome. The race now enters its final month before the election day on 5 November. In addition to the presidential election, significant seats are up for election in Congress, where the results will also have a profound impact on legislative direction.

Trump - Harris RealClearPolitics Polling in Battleground States



Source: CEIC

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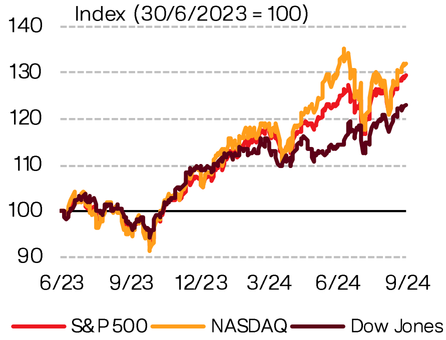
Major US equity indices rose moderately in September

Major US equity indices posted gains in September. The S&P 500, Dow Jones, and Nasdaq all rose, by 2.0%, 2.7% and 1.8% MoM, respectively, in September. Equity markets responded positively to the Fed's September rate cut, with the S&P 500 and Dow Jones reaching all-time highs. 10-year US treasury yields fell 1.22 basis points to 3.782%, while the US dollar index fell 0.9% MoM to 100.779 in September.

US Equity Indices



Source: Bloomberg, data as of 30/09/2024

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