Economic Research

January 2025

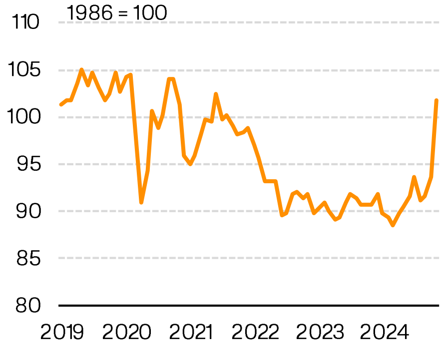
Market Monitor – United States

The Fed signalled fewer rate cuts going forward

- US consumer spending remained solid in November 2024.
- Inflation slowed in November. And growth in labour costs softened in Q3.
- The Fed cut interest rates by 25 basis points in December.

Consumer spending remained solid in November

Spending momentum persisted in November 2024. US consumers continued to spend at a robust pace. US private consumption expenditure (PCE) rose by 0.4% month-on-month (MoM) in November 2024, following October's 0.3% growth, suggesting that solid spending momentum carried on in Q4. Personal income moderated, growing by 0.3% MoM in November after a marked rise of 0.7% in October. At the same time, the booming US stock market and a resurgence of housing prices created wealth gains for US households. Along with the support of a strong labour market, December's spending data should indicate a steady uptrend, contributing to a continuation of above-trend growth for the economy as a whole in Q4.



Source: CEIC

Rising credit card delinquency rates warrant closer attention. While household financial positions remain generally sound, certain consumer groups are showing signs of increasing financial stress. Delinquency rates on credit cards hit 3.23% in Q3 2024, up steadily from their low of 1.54% in Q3 2021. Moreover, personal savings rates dipped slightly in November 2024 to 4.4% from 4.5% in October, and came in below the 12-month average of 4.8%. This decline reflected that lower-income households were relying on debts to cover their daily expenses, leaving them more vulnerable to potential economic slowdowns in the future.

Surveys indicated a remarkable pickup in business confidence. Both small businesses and large corporations witnessed a surge in confidence, likely boosted by the hopes of more favourable tax and regulatory policies under

Trump's second presidency. The National Federation of Independent Business optimism index, a sentiment survey for small business owners, jumped 8 points to 101.7 in November 2024, while the Business Roundtable CEO Economic Outlook Index for Q4 2024, a survey that measures expectations of CEOs of major US companies, rose 12 points to 91. Both indices were above their historical averages. This reflected broad-based and notable improvements among the US private sector, which would support investment to recover further ahead.

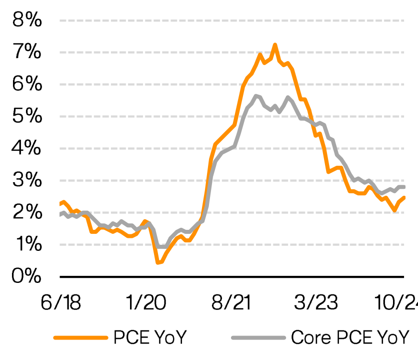
Consumer sentiment remained at low levels. The University of Michigan consumer sentiment index inched up to 74.0 in December 2024 from 71.8 in November, marking the fifth consecutive month of increases; however, it still hovered around low levels. Meanwhile, the Conference Board consumer confidence index dipped to 104.7 in December 2024 from 112.8 in November. These readings can be explained by differing views towards future economic policies, as consumers could be more worried about the impacts of tariffs on the cost of living. And the recent moderation in the labour market could temper expectations of employment prospects.

Inflation showed signs of moderating

PCE inflation in November 2024 came in lower than expected. Headline PCE inflation rose 2.4% YoY in November 2024, a slight increase from 2.3% in October, while core PCE inflation rose by 2.8% YoY in November, the same pace as in October. However, on a month-on-month (MoM) basis, headline and core PCE inflation rose by just 0.1% in November, after rising by 0.2% and 0.3%, respectively, in October. Services prices softened slightly, rising by 3.8% YoY in November compared to 3.9% in October, and by 0.2% MoM compared to 0.4%. The report offered some sense of optimism after months of stalling disinflation progress. Besides, US labour costs softened, with growth in unit labour costs for Q3 2024 revised down to a 0.8% annualised rate from the previously reported 1.9% pace. Going forward, inflation trends are still subject to significant uncertainties, given the likely shift in policies after Trump returns to the White House.

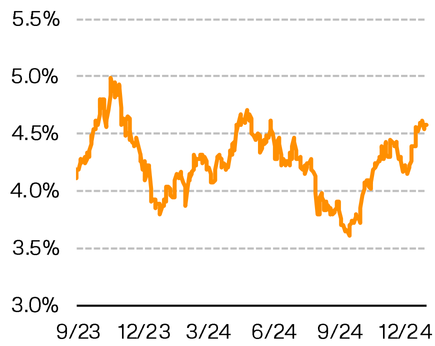
The Fed cut rates for the third consecutive meeting but took a hawkish tilt in forward guidance. At the December 2024 meeting, the Fed cut rates by 25 basis points (bps), with the federal funds rate down to a range of 4.25-4.50%, marking a total of 100 bps in rate cuts in 2024. However, the Fed turned hawkish in its future pace of easing, signalling a more gradual and cautious approach going forward. The Fed's latest Summary of Economic Projections (SEP) hinted at only two rate cuts in 2025, down from four cuts previously marked in September's projections. In addition, the median longer-run neutral rate was revised up to 3.0% in December 2024, from 2.875% in September. Regarding its economic assessment, the Fed's officials expected inflationary pressures to persist, with the 2% target likely to only be met in 2026. Taken together, the Fed delivered a message that inflation remained a concern when calibrating monetary policy and the pace of future rate cuts would be slower after having lowered rates by 100 bps from the peak level of 5.25-5.50%.

US PCE Inflation



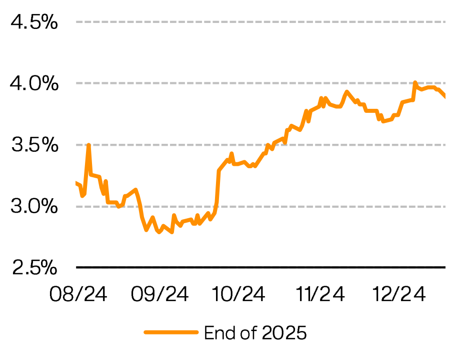
Source: Bloomberg, data as of 31/12/2024

US 10-year Treasury Yield



Source: Bloomberg, data as of 31/12/2024

US Rate Expectations

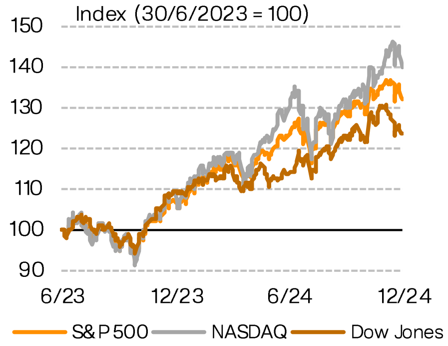


Source: Bloomberg

Major US equity indices struggled in December

Major US equity indices faltered in December 2024. After having one of their best months of the year in November 2024, the S&P 500 and the Dow Jones declined by 2.5% and 5.3%, respectively, in December, while the Nasdaq rose by a meagre 0.5%. Despite this, US equity indices had strong annual performances, with the S&P 500, the Nasdaq, and the Dow Jones up by 23.3%, 28.6%, and 12.9% in 2024, respectively. This was led by the continued growth of the US economy, interest rate cuts by the Fed, and upcoming prospects of tax cuts and deregulation under Trump's second presidency. Bond yields rose, with 10-year treasury yields rising to 4.572% in December 2024, in the face of a hawkish Fed and an expected rise of inflationary impacts from Trump's policies. Meanwhile, the US dollar index rose by 2.6% to 108.487 in December 2024.

US Equity Indices



Source: Bloomberg, data as of 31/12/2024

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