ECONOMIC PULSE

UNITED STATES: STRONGER GROWTH AND A LESS FRIENDLY FED

The latest US economic data can be viewed in two ways. The optimistic approach would be to welcome strong Q4 2021 growth (6.7% annualised) and the fact that the economy is now almost no remaining Covid after-effects, since output has already moved back to its pre-pandemic trajectory[1]. The second and more cautious approach would be to point out that investment has moved sideways and that growth would have been much weaker (1.6% annualised) without the exceptional contribution of inventories. Given the upturn in foreign trade – with US exports and imports ending the year on a very strong note – the jump in inventories is not bad news per se. It shows that supply-chain problems, even if they have not been totally resolved, are at least less pressing, a view that is confirmed by purchasing manager surveys.

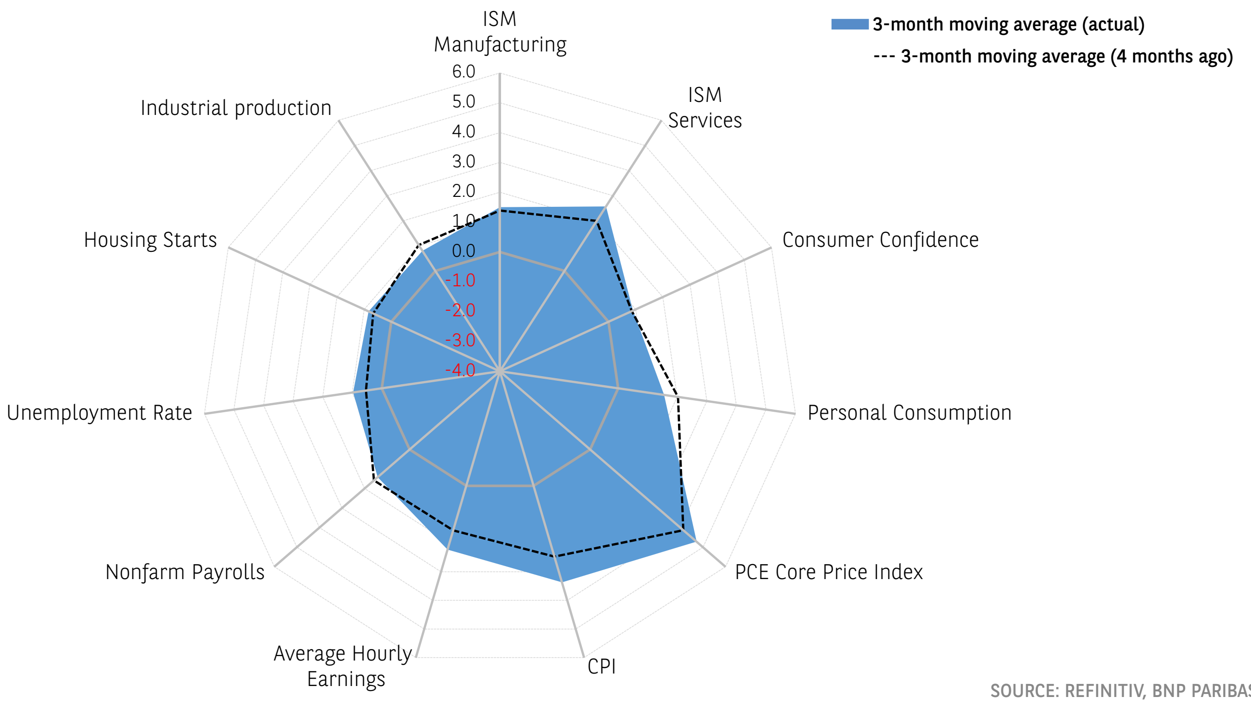
However, inventories have been built up so much that it will take time for them to be absorbed by final demand, and this could drag down production statistics in early 2022. Consumer spending is also less well supported than before. Although it has now been abandoned, the “whatever it takes” approach has shown its limitations by spurring a jump in inflation (7% in December), which is now eating into real incomes. Wealth effects are also fading now that share prices have fallen, with the S&P 500 down 9% since the start of the year and the Nasdaq down 15%[2]. Finally, Covid-19 has not stopped killing Americans, and death figures have risen significantly in the last three weeks.

However, the Federal Reserve now regards taming inflation as a priority, and will not hesitate to tighten its monetary policy. We are likely to see an initial quarter-point or perhaps half-point hike in the Fed funds target in March, as the Federal Open Market Committee practically admitted in its 26 January meeting[3].

Jean-Luc Proutat

1. In the fourth quarter of 2021, the gap between actual published GDP and the figure obtained by applying a 2% annual growth rate to the Q4 2019 figure had shrunk to almost zero (-0.9%).
2. As of the close of business on 27/01/2022
3. *“With inflation well above 2 percent and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate.”* FOMC, 26/01/2022.

QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into ‘z-scores’ (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.