

United States: Could the tide be turning?

In the first quarter of 2023, US growth was +0.3% q/q. This is well below expectations: the figure is half the GDPNow estimate of the Federal Reserve Bank of Atlanta and our forecast (0.6%). Growth appears then not to be so impervious to the inflationary shock and the monetary tightening implemented to cope with it.

The growth breakdown allows us to put the weakness of the figure into perspective (this is mainly due to the very negative contribution of changes in inventories). Besides, signs of the expected recession are still limited and even absent in the labour market. Concern is nonetheless growing. For the moment, however, Q2 growth prospects remain positive: moderately so according to our forecast (+0.2% q/q), more clearly according to the GDPNow estimate (+0.7% q/q).

Soft data signal for the month of April was quite positive, with three of the four main analysed surveys recovering slightly: the manufacturing ISM index (+0.8 points, at 47.1), the non-manufacturing ISM index (+0.7 points, at 51.9, after its fall of almost 4 points in March), and the University of Michigan survey on household confidence (+1.5 points, at 63.5, which is still a very low level). The Conference Board's household confidence survey stands out with a significant decline (-2.7 points, to 101.3), which brings the index back to its November 2022 level and thus wipes out the recovery in the first months of 2023. And the University of Michigan survey also fell sharply in May, according to the preliminary estimate.

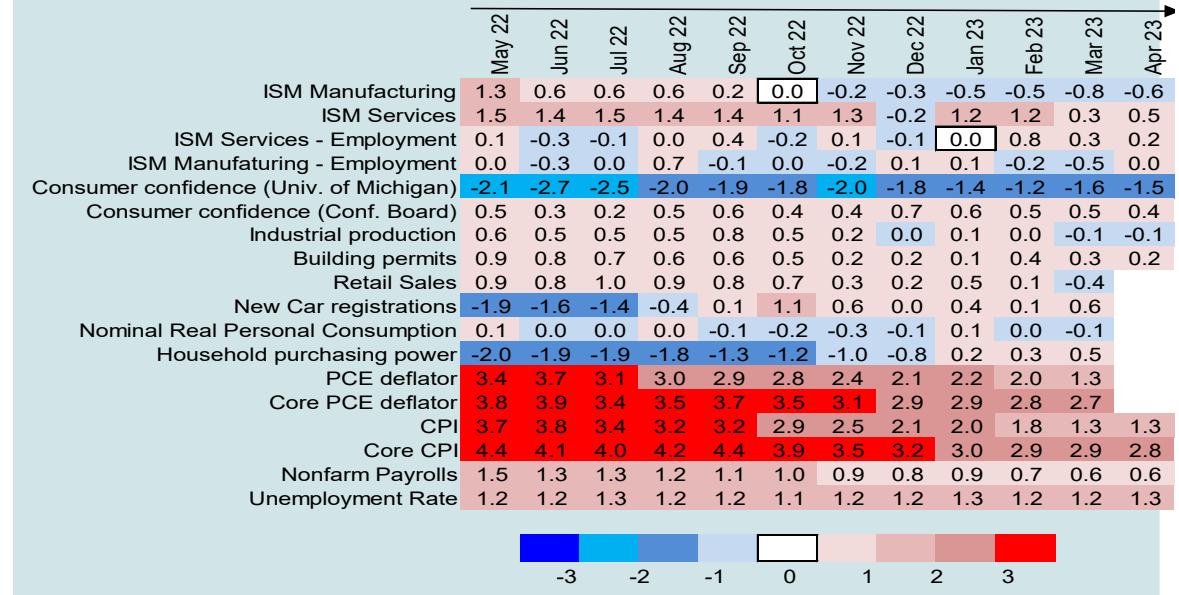
The signal from the Conference Board's composite leading economic indicator also remained very negative: 13th consecutive fall in April; a significant decline of 0.7% m/m on average; a fall of almost 9% year-on-year over 6 months (annualized rate), just as significant; a widespread decline with a diffusion index of only 20. And the resurgence of large-scale business failures is a new issue to monitor¹.

On the inflation front, the situation seems to be starting to improve more convincingly. Headline inflation (CPI measure) again fell slightly in April (-0.1 points, to 4.9% y/y), returning to its lowest level since May 2021. Core inflation also fell (-0.1 points, to 5.5%), thanks to a sharper deceleration in service prices, an encouraging development. Although inflation remains high, it does seem to be heading down. So, in our view, the Fed can consider that its job is done in terms of rate hikes. The May FOMC minutes, however, point to split views on the issue.

Hélène Baudchon (completed on 26/05/2023)

¹ US credit squeeze triggers rise in corporate bankruptcies | Financial Times (ft.com), 05/26/2023.

United States: economic indicators monthly changes



The indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

| Actual | | | | Carry-over | GDPNow | Forecast | | Annual forecasts (y/y) | | |
|---------|---------|---------|---------|------------|---------|----------|---------|------------------------|------|------|
| Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q4 2022 | Q2 2023 | Q2 2023 | Q3 2023 | 2022 (observed) | 2023 | 2024 |
| -0.1 | 0.8 | 0.6 | 0.3 | 1.2 | 0.7 | 0.2 | -0.4 | 2.1 | 1.4 | -0.1 |

Source: Refinitiv, BNP Paribas

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