UNITED STATES

EXCEEDING EXPECTATIONS

The possibility of a US recession triggered by monetary tightening is looking less and less likely given the resilience of an economy that continued to grow by 0.8% q/q in Q4 2023 and by 2.5% on average over the year. Our central scenario is now that of a marked slowdown albeit without an economic recession in H1 2024. The Federal Reserve can now look forward to a soft landing and consider rate cuts in 2024 – a year in which political events will take centre stage.

US economic growth showed surprising strength in H2 2023, initially accelerating to +1.2% q/q in Q3, compared to +0.7% in Q2, representing the largest quarterly increase for almost two years. Although the fourth quarter was less dynamic, growth nevertheless remained very positive at +0.8% q/q according to the first estimate, taking annual average growth to +2.5% in 2023. A deceleration to 2% is expected in 2024. However, while the delayed negative effects of monetary tightening should contribute to a significant decline in growth over the short term, they would not cause a recession or a decline in GDP. Our central scenario now expects a growth rate of +0.4% t/t in Q1 and +0.1% in Q2-2024.

Private investment recovered somewhat in 2023, recording four quarters of growth, after having contracted sharply in the course of 2022 under the impact of interest rate hikes. However, this aggregate result masks the significant difference between residential investment, which was naturally impacted despite two positive quarters at the end of the year, and non-residential investment, which continued to grow by an annual average of +4.4% in 2023 after +5.2% in 2022. Household consumption, on the other hand, proved resilient, emerging as the main driver of growth in Q4, rising by +0.7% q/q. However, household consumption is likely to end up being more visibly affected by the cumulative and delayed negative impact of monetary tightening, despite the expected continuation of the disinflationary trend. This would come about through a combination of pressure on household incomes resulting from a rise in the unemployment rate reaching 3.7% in December 2023 and higher interest charges.

FROM MONETARY ADJUSTMENT TO EASING?

The most recent monetary policy meeting in 2023 resulted in the Federal Reserve maintaining its interest rate target. This target has been stable at between 5.25% - 5.5% since July 2023, in line with our scenario. However, the median projections of the Committee members point to rate cuts in 2024, with the key rate at 4.625% at the end of this year compared to 5.375% in previous projections, whereas we see this rate at 4.0% and anticipate a first cut of 25 bps in May. For the Federal Open Market Committee (FOMC) members, the degree of monetary policy tightening therefore seems sufficient, and the disinflation process sufficiently advanced, to consider lowering the key rate in 2024. Inflation, as measured by the consumer price index, stood at +3.2% y/y in Q4 2023, compared with +7.1% a year earlier. We expect inflation to reach +2.6% y/y in the final quarter of 2024.

Nevertheless, the Fed refuses to declare “mission accomplished”. Firstly, the extent of the fall in core inflation is more uncertain, particularly given the resilience of inflation in non-energy services excluding housing at +4.6% y/y in Q4 2023. As a result, the first rate cuts will consist of adjusting the policy rates to keep them stable in real terms in a context of falling inflation, rather than a desire to ease monetary policy. Indeed, the Federal Reserve knows that it needs to be cautious in managing what it hopes will be a soft landing for the economy, hence the continued reference to the possibility of future interest rate hikes, if necessary, in the statement following the last meeting. It should also be noted that this less restrictive approach to nominal rates should lead to an easing of financial conditions.

GROWTH & INFLATION

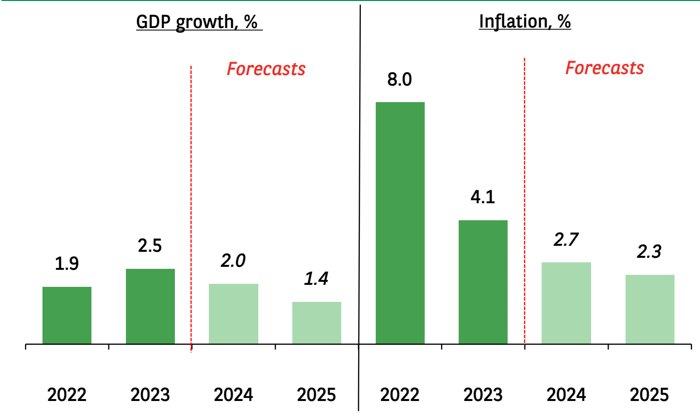

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

POLITICS TAKES PRECEDENCE OVER ECONOMICS IN 2024

Political issues will take centre stage over the course of the year, with the presidential election on 5 November firmly in the spotlight. At present, it is likely that the two candidates from the previous election in 2020, incumbent President Joe Biden (D) and his predecessor Donald Trump (R), will face each other again, a scenario not seen since 1968, even though it is being widely disapproved by most Americans according to opinion polls.

For the time being, the outcome of the election remains unpredictable. However, it should be stressed that the future President’s room for manoeuvre, particularly in terms of economic policy, will depend on the composition of the Congress that emerges from the elections. In this respect, the main issues will be fiscal policy (if Donald Trump is elected with a Republican majority, the 2017 tax cuts are likely to be continued - or extended), the appointment of Jerome Powell’s successor at the head of the Federal Reserve, and changes in US policies on customs tariffs (status quo with Biden, amplification with Trump). Continued efforts to combat global warming will also depend largely on the political affiliation of the future president.

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