UNITED STATES

THE FED IS IN WAITING MODE

In the first quarter, the median economic projections of the FOMC members maintain the scenario of three rate cuts for 2024. "Wait" is now the Federal Reserve's watchword: wait for the data, wait for more data, wait for the full effects of tightening, and wait for evidence that inflation is definitely on the way to 2% to become more substantial. In this respect, the first quarter of 2024 was disappointing. On the other side of the balance of risks, economic activity is still buoyant and does not need the timetable to be accelerated. Thus, the event of a delayed and smaller decrease in the policy rate has gained credibility, and we are now forecasting two rate cuts in 2024, bringing the Fed Funds rate to 4.75-5.00% at the end of the year.

Economic growth in the United States is expected to slow down marginally during the first quarter of 2024, standing at +0.7% q/q, according to our estimate. The ISM manufacturing index returned to expansionary territory in March 2024, standing at 50.3 (+2.5 pp), a significant print marking an end to a long period of 16 months in negative territory, historically a signal of a recession. However, this potential recessionary trend does not seem to have spread to the rest of the economy for the time being. Whether the upturn in this ISM manufacturing index is here to stay will be examined carefully in future publications. The latest revision to Q4 2023 GDP confirmed the quarterly growth rate of +0.8% q/q, but showed more dynamic household consumption and non-residential investment than initially estimated , contrasting with downward revisions on inventories and external trade. The robustness of its economy at the end of 2023 allows the country to benefit from a carry-over effect (+1.5 pp). This should contribute to an acceleration in annual average GDP growth in 2024, which we expect to stand at +2.8%, up from +2.5% in 2023.

Consumer sentiment recovered quite significantly in December 2023 and January 2024, helped by positive surprises provided by economic growth and, in particular, inflation (+3.2% y/y in Q4). This recovery was clear in both the Conference Board survey (110.9 in January 2024, compared to 99.1 in October 2023) and the University of Michigan survey (79.0 in January 2024, compared to 61.3 in November 2023). However, this improvement has since given way to a stagnation in the Michigan index (79.4 in March) and a deterioration in the Conference Board index (104.7) during Q1 2024, with the results mirroring the disappointing inflation figures (see below). Conversely, the sentiment among business leaders, as measured by the Conference Board survey, is on the upswing after hitting its lowest level in Q4 2022 since the major financial crisis (with the index standing at 29, compared to 24 in Q4 2008). The index stood at 53 in the first quarter of 2024, with balanced results for its sub-components (assessment of current conditions and expectations, sectoral and overall level). This paves the way for increased non-residential investment (which is already holding up well against monetary tightening) in 2024, as financial conditions are expected to be eased gradually.

MONITORING THE DISINFLATION TRAJECTORY

The second FOMC meeting of 2024 ended with the target rate being kept at +5.25 - +5.5% for the fourth consecutive meeting since the most recent hike in July 2023 (+25 bp). Most importantly, the dot plots were stable for 2024, with three rate cuts still planned, totalling -75 bp. This has happened despite upward revisions to median GDP growth projections (+2.1%, compared to +1.4% in December's projections) and core PCE inflation (+2.6%, compared to +2.4% previously) for 2024. However, inflation, as measured by the CPI, still stood at +3.2% y/y in February 2024, having accelerated again month-on-month in January (+0.3% m/m, +0.1 pp) and February (+0.4% m/m), while core inflation remained at +3.9% y/y, which was above consensus expectations (+3.7%). Nevertheless, these elements seem to have been implicitly factored into the median projections, based on the change in expectations for 2025 (three rate cuts compared to four previously) and the distribution of 2024 projections.

GROWTH & INFLATION

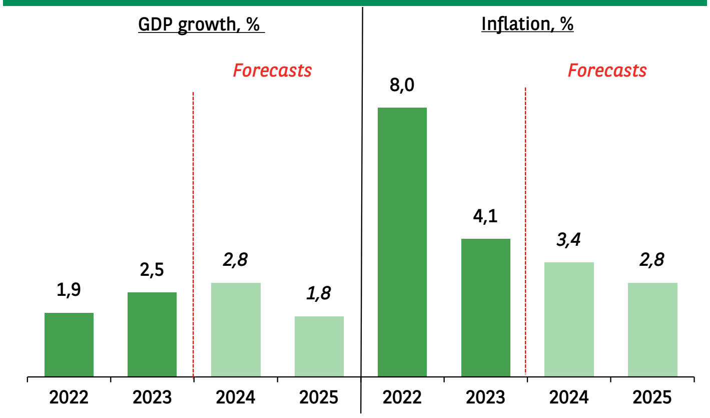

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

Therefore, although the median projection is stable, it would simply take one more member to expect two cuts for the 2024 dot plot to translate upwards, which could be interpreted as a sign of an onset of latent pessimism.

Meanwhile, Chair Powell called for a balanced assessment, and even for people to take a step back from the latest figures, indicating that, in his view, they did not "materially change the overall picture", namely of "inflation moving down toward 2% on a sometimes bumpy path". March data was also disappointing, with a +0.4% monthly increase in both the CPI and the Core CPI, bringing the yearly growth to respectively +3.5% and +3.8% amid a strong non-shelter services inflation. As a consequence, the implied rates, as of 10th April 2024, suggest that the markets are now pricing only 1 to 2 rate cut(s) this year, contrasting with the 6 to 7 cuts they were anticipating at the beginning of 2024. We are now forecasting that the Federal Reserve will undertake two rate cuts, in July and December.

Given how close the first rate cut, in July, according to our central scenario, is to the presidential election, and, given the cumulative and delayed effects of monetary policy decisions, this will no doubt spark debate, despite Jerome Powell's strictly refusing to bring a political dimension into the operations of his institution, which he intends to keep independent and non-partisan. Finally, in the world of politics, it is now clear that the presidential election will be between the incumbent president, Joseph Biden (Democrats), and his predecessor, Donald J. Trump (Republicans), unless something unexpected occurs preventing this.

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