

United States: Fears about growth

Uncertainty at its height. The ISM manufacturing index fell to 50.3 in February (-0.6 pp). The new orders index (48.8, -6.5 pp) and the employment index (50.3, -2.7 pp) both deteriorated sharply. The prices paid index (62.4) hit its highest level since June 2022. By contrast, the ISM non-manufacturing index improved (53.5, +0.7 pp). Finally, the upward trend in sentiment among small businesses confirmed its end, with another fall to 100.7 in February (-4.4 pts on the December peak), indicating a sharp rise in uncertainty (104, +18 pts in two months, the second highest figure in history).

Households worried about a rebound in inflation. Household sentiment deteriorated in February according to the Conference Board (98.3, -7.0 pts) and even more in March according to the University of Michigan (57.9, -6.8 pts), dragged down by worsening expectations (see chart). According to the University of Michigan survey, the jump in 1-year inflation expectations (+4.1%, +1.0 pp) was accompanied by a 30-year record for 5-year expectations (+3.5%, +0.3 pp).

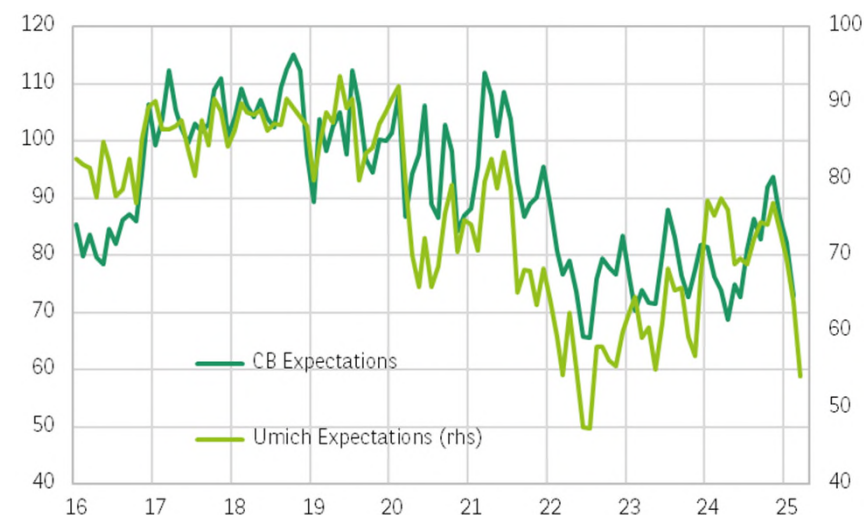
Labour market: ambivalent signals. Nonfarm payrolls growth continued, accelerating to +151k in February (+26k). Wage growth slowed to +0.3% m/m (-0.2 pp). However, the rise in the unemployment rate (4.1%, +0.1 pp) and the fall in the activity rate (62.4%, -0.2 pp) were disappointing.

Inflation is unlikely to prompt the Fed to cut rates. CPI headline and core inflation fell in February (to +2.8% and +3.1%, respectively, both -0.2 pp). There has not been enough progress for the FOMC meeting on 18-19 March to implement a target rate cut, currently standing at +4.25% - +4.5%.

Growth: a significant downside risk. While our growth forecast remains at +0.6% q/q in Q1, the risk of a sharp slowdown, or even a contraction, has turned clearer. In January, the fall in retail sales and personal spending created a downside risk for household consumption, which could stagnate. A negative contribution from foreign trade has been emerging quite clearly, with a sharp rise in imports of goods in January. The Atlanta Fed's GDPnow model accounts for these shocks by estimating a fall in GDP of -0.6% q/q.

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Weakening US households' expectations



Source: Conference Board, University of Michigan, BNP Paribas

GDP GROWTH (q/q) : observed, carry-over, forecast

Actual				Carry-over	GDPNow	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.4	0.7	0.8	0.6	1.0	-0.6	0.6	0.5	0.4	2.8	2.3	1.3

Source: Refinitiv, BNP Paribas