# UNITED STATES



## POWELL'S LEGACY

**On 18 September, the Federal Reserve (Fed) decided to lower its target range to +4.75% - +5.0% (-50 bps), initiating an easing of rates that looks set to continue during upcoming FOMC meetings. The direction of the movement is driven by the simultaneous slowdowns in the labour market and inflation. The scale of this movement aims to maintain a dynamic economy and falls within a broad and unprecedented interpretation of its dual mandate. Our baseline scenario suggests that disinflation will continue during the projection period with no recession in the meantime. At the same time, the United States is heading towards an even more significant presidential election than usual.**

US growth accelerated in Q2 2024, with GDP growth of +0.7% q/q (+0.3pp compared to Q1), mainly driven by household consumption (0.5pp). At the same time, residential investment fell (-0.5% q/q), bringing three consecutive quarters of improving figures to an end. It is the only GDP component which is still (in volume terms) below its pre-COVID level. The Atlanta Fed's GDPnow indicates that growth has remained at +0.7% q/q in Q3. However, following Q3, we are expecting it to slow down to +0.4% - +0.5% in the coming quarters. In addition, we are forecasting an average annual growth rate of +2.6% in 2024 (+0.1 pp y/y), which is above the long-term estimates (+1.8%, according to the Fed).

Retail Sales Control Group data in July and August suggest that Q3 should confirm that growth in consumption has been continuing throughout the monetary tightening, in contrast to residential investment, i.e. the other interest-sensitive GDP component. However, the start of rates easing (see below) does not mean that all constraints on households are relaxing. In particular, the increase in rates has so far most notably resulted in a dramatic fall in mortgage applications, which is why the increase in the average rate on outstanding mortgages was small between Q4 2021 (3.9%) and Q1 2024 (4.1%). The delayed effects of the monetary tightening are expected to continue to be seen through the credit channel as mortgages are renewed, while the average 30-year rate is not expected to fall below 5.5% by 2026 (a significantly higher level than prior to the COVID-19 pandemic). Conversely, income continuing to catch up on inflation is expected to contribute a positive effect, while average real disposable income rose in 2023 (+4.0% y/y) for the first time since 2019 and the developments in average hourly wages and inflation in 2024, to date, point to further gains this year.

GROWTH AND INFLATION

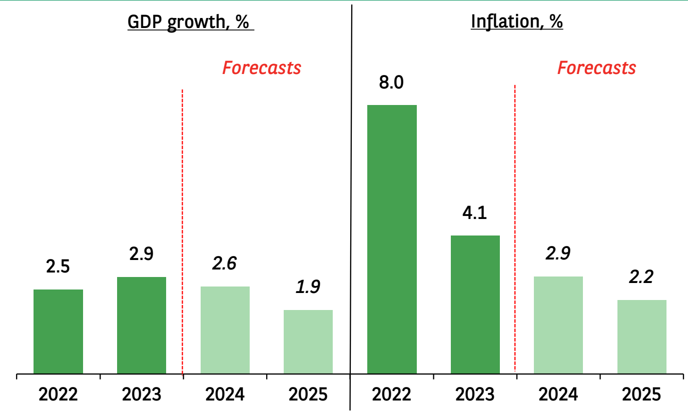


CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

## PROTECTING THE SOFT LANDING

The September FOMC meeting resulted in the target range being lowered by 50 bps to +4.75% - +5.0%. The start of the easing cycle is due to the combined slowdown in inflation and the labour market, which is leading to more balanced risks around the dual mandate. Inflation (measured by the CPI) stood at +2.6% y/y (momentum of +0.9%) in August 2024, with an underlying index standing at +3.3% y/y (+1.9%). The Fed feels increasingly confident about inflation returning to its 2% target. The "unmistakable" labour market cooling, in the words of Jerome Powell, can be seen in particular in the nonfarm payroll growth slowdown (annual monthly average of +210k in September 2024, compared to +601k in Q1 2022, i.e. at the start of monetary tightening) and in the falling vacancy/unemployed persons ratio (1.1, compared to 1.9).

The decision to recalibrate monetary policy with the explicit objective of maintaining a dynamic economy (in other words, an economy where there are no substantial fears of an imminent sharp slowdown) is unprecedented. Indeed, the continued disinflation trajectory with no GDP contraction has remained the central scenario for forecasters, with no flying start to the monetary easing cycle, which traditionally only occurs during periods of severe contraction (September 2007 and March 2020). If the soft landing really was to materialise this year and next year, Jerome Powell, who congratulated the Fed for "restoring the balance between aggregate supply and demand, easing inflationary pressures and ensuring that inflation expectations remain well anchored", would become associated with a rare soft landing occurrence in American economic history. Its unorthodox new approach to upholding the dual mandate could also be a textbook case for conducting monetary policy in the post-pandemic era. However, the factors behind disinflation, including the effective role of monetary tightening, will continue to fuel academic debate.

## THE 2024 PRESIDENTIAL ELECTION: WHAT ROLE WILL THE ECONOMY PLAY?

The 2024 presidential election will be contested between former President Donald Trump (Republican) and outgoing Vice-President Kamala Harris (Democrat). Despite social issues dominating debates, economic issues are still critical. Therefore, the main economic issues of the election include, in particular, the federal government's budgetary trajectory, while the elected president will have to appoint the successor to Jerome Powell as the Chair of the Fed in 2026. Finally, the perception of the incumbent administration's economic record will also play a role in the result, as the election is being held against the backdrop of a mismatch between public sentiment and the country's macroeconomic performance. In August 2024, 41% of Americans cited an economic issue when asked about "the major issue facing the nation", compared to 9% when Joe Biden took office. While polling puts Harris ahead of Trump nationally, winning in key battleground states (Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania and Wisconsin) will be decisive.

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