UNITED STATES

Towards rate cuts in 2024

The ISM Report on Business showed an improvement in non-manufacturing activity in the United States in November, with the corresponding index rising to 52.7 (+0.9pp). Conversely, the ISM Manufacturing index was stable (46.7), as the improvement in new orders was offset by a deterioration in production and employment. This result is consistent with our forecast of a slowdown in the US economy in Q4, with the GDP growth rate edging down to +0.4% q/q according to our forecast (versus +0.6% for the Atlanta Fed's GDPNow estimate, and +1.3% in Q3). However, the prospect of a recession is gradually receding, and we now expect a single quarter of contraction in 2024 (-0.3% q/q in Q2, with Q1 expected to be flat).

The improved outlook appeared to be having an impact on household sentiment. According to the Conference Board, consumer confidence reached 102.0 in November (+2.9pp), driven by an improvement in expectations (77.8, +5.1pp). In December, the University of Michigan survey also pointed to a jump in household sentiment (69.4, +8.1pp), supported by a better assessment of expectations (66.4, +9.6pp) and current conditions (74.0, +5.7pp).

The slowdown in inflation, as measured by the Consumer Price Index, continued in November but moderately so (+3.1% y/y, -0.1pp). Moreover, core inflation has slightly reaccelerated on a monthly basis (+0.3% m/m, +0.1pp, SA), stabilizing at +4.0% y/y. This development resulted from the momentum in non-housing core services (+4.8% y/y, +0.2pp). As for the labour market, it continues to show a certain resilience, with almost 200k jobs added to the non-farm payrolls, together with a slight increase in the participation rate (62.8%, +0.1pp) and a drop in the unemployment rate (3.7%, -0.2pp).

The last FOMC Meeting of 2023 has unanimously resulted in a target range that was held steady at 5.25% - 5.5%. The last Summary of Economic Projections expects the policy rate to decrease to 4.625% before the end of 2024 (versus 5.125% in previous projections), which corresponds to three 25bps cuts. Markets are forecasting the rate cuts to start as of the March 2024 FOMC Meeting and the Fed funds to get close to 4.0% by the end of 2024. This has contributed to a bond rally, leading the 10-Year Treasury yield to fall below 4.0% for the first time since July.

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United States: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
ISM Manufacturing	-0,3	-0,5	-0,5	-0,8	-0,6	-0,6	-0,8	-0,7	-0,5	-0,2	-0,7	-0,7
ISM Services	-0,2	1,2	1,2	0,3	0,5	0,1	0,9	0,6	1,1	0,9	0,4	0,6
ISM Services - Employment	-0,1	0,0	0,8	0,3	0,2	-0,2	0,6	0,1	0,9	0,7	0,0	0,1
ISM Manufaturing - Employment	0,1	0,1	-0,2	-0,5	0,0	0,2	-0,3	-1,0	-0,3	0,2	-0,6	-0,7
Consumer confidence (Univ. of Michigan)	-1,7	-1,3	-1,2	-1,5	-1,4	-1,8	-1,3	-0,8	-0,9	-1,1	-1,4	-1,5
Consumer confidence (Conf. Board)	0,7	0,5	0,4	0,5	0,5	0,4	0,7	0,8	0,6	0,5	0,3	0,4
Industrial production	0,0	0,2	0,0	-0,1	-0,1	-0,1	-0,2	-0,1	-0,2	-0,2	-0,4	-0,2
Building permits	0,3	0,1	0,4	0,3	0,3	0,4	0,3	0,3	0,5	0,4	0,4	
Retail Sales	0,2	0,5	0,1	-0,4	-0,5	-0,4	-0,5	-0,3	-0,3	-0,1	-0,4	-0,1
New Car registrations	0,0	0,4	0,1	0,6	0,7	1,1	1,0	1,5	0,6	0,8		
Nominal Real Personal Consumption	-0,2	0,1	0,1	-0,1	-0,1	-0,1	0,0	0,2	0,0	0,1	0,1	
Household purchasing power	-0,8	0,3	0,4	0,6	0,6	0,8	0,8	0,6	0,5	0,4	0,4	
PCE deflator	2,1	2,1	1,9	1,4	1,4	1,1	0,6	0,7	0,8	0,8	0,5	
Core PCE deflator	2,9	2,9	2,8	2,7	2,6	2,5	2,1	2,0	1,6	1,5	1,3	
CPI	2,1	2,0	1,8	1,3	1,2	0,8	0,3	0,4	0,6	0,6	0,3	0,3
Core CPI	3,1	2,9	2,8	2,8	2,7	2,5	2,1	2,0	1,7	1,5	1,4	1,3
Nonfarm Payrolls	0,8	0,9	0,7	0,6	0,6	0,6	0,5	0,5	0,4	0,4	0,3	0,3
Unemployment Rate	1,2	1,2	1,1	1,2	1,2	1,1	3,1	1,2	1,0	1,0	1,0	1,1

-3	-2	-1	0	1	2	3	

* 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)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
0,6	0,6	0,5	1,3	0,8	0,6	0,4	0,0	1,9	2,4	0,9	1,3

Source: Refinitiv, BNP Paribas

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