UNITED STATES

One last quarter of growth before a recession?

According to the Federal Reserve Bank of Atlanta's GDPNow estimate, US growth stands at +0.5% q/q in Q2 2023, a figure slightly higher than our forecast (+0.4% q/q) and slightly better than Q1 (+0.3% q/q). As Q1 growth was largely driven downwards by the negative contribution of inventories (-0.5 pp), we can expect a more favourable development in Q2. Although a further decline in residential investment is hardly in doubt (it would be the 9th in a row), the resistance of household consumption and non residential investment will be closely scrutinised. In particular, it will be interesting to see whether investment in structures record a new quarter of strong growth, such as in Q4 2022 (+4% q/q) and Q1 2023 (+3% q/q), a renewed dynamism attributed to the Inflation Reduction Act.

Could this dynamism be enough to prevent the US from falling into recession from Q3 2023 under the effect of monetary tightening? The question arises, but this is not our central scenario. It is true that, for the time being, the cyclical situation is continuing to challenge the recession signal of the Conference Board's composite leading indicator, however significant it is (down almost 9% - 6-month change annualised rate - , diffusion index of only 20). However, the still gradual deterioration of the labour market continues to put this recession signal clearly into perspective.

In terms of the business climate, the manufacturing ISM survey deteriorated little in May (-0.2 points, to 46.9), but the index has been low and below the 50 threshold since November 2022. In the services sector, the ISM survey lost almost 2 points and reached its lowest level since the first months of Covid-19, at 50.3[1]. In May, the two consumer confidence surveys, Conference Board and University of Michigan surveys fell quite sharply. Though, the latter rebounded in June, thereby erasing its fall.

May's inflation figures were encouraging, with a significant drop in headline inflation (-0.9 points, at 4% y/y) and a non-negligible fall in core inflation (-0.2 points, at 5.3% y/y). Headline inflation has thus returned to a low since April 2021 and the start of its major surge. Against this backdrop, the Federal Reserve opted for a status quo on rates at the FOMC meeting on 13-14 June, interrupting a series of ten consecutive hikes, which began in March 2022 and totalled 500 bps. However, this status quo will not mark the end of the cycle given the still high level of inflation and the resilience, at this stage, of the economic situation: we expect a final 25 bp increase in July, bringing the Fed funds range to 5.25-5.50%.

Hélène Baudchon (completed on 21 June 2023)

1 Apart from the brief incursion below the 50 mark in December 2022, at 49.2..

United States: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
ISM Manufacturing	0.6	0.6	0.6	0.2	0.0	-0.2	-0.3	-0.5	-0.5	-0.8	-0.6	-0.6
ISM Services	1.4	1.5	1.4	1.4	1.1	1.3	-0.2	1.2	1.2	0.3	0.5	0.1
ISM Services - Employment	-0.3	-0.1	0.0	0.4	-0.2	0.1	-0.1	0.0	0.8	0.3	0.2	-0.2
ISM Manufaturing - Employment	-0.3	0.0	0.7	-0.1	0.0	-0.2	0.1	0.1	-0.2	-0.5	0.0	0.2
Consumer confidence (Univ. of Michigan)	-2.7	-2.5	-2.0	-1.9	-1.8	-2.0	-1.8	-1.4	-1.2	-1.6	-1.4	-1.8
Consumer confidence (Conf. Board)	0.3	0.2	0.5	0.6	0.4	0.4	0.7	0.6	0.5	0.5	0.5	0.4
Industrial production	0.5	0.5	0.5	0.8	0.5	0.2	0.0	0.2	0.0	-0.1	-0.1	-0.1
Building permits	0.8	0.7	0.6	0.6	0.5	0.2	0.2	0.1	0.4	0.3	0.2	0.4
Retail Sales	0.8	1.0	0.9	0.8	0.7	0.3	0.2	0.5	0.1	-0.4	-0.6	-0.5
New Car registrations	-1.6	-1.4	-0.4	0.1	1.1	0.6	0.0	0.5	0.1	0.6	0.7	
Nominal Real Personal Consumption	0.0	0.0	0.0	-0.1	-0.2	-0.3	-0.1	0.1	0.0	-0.1	0.0	
Household purchasing power	-1.9	-1.9	-1.8	-1.3	-1.2	-1.1	-1.0	0.1	0.1	0.3	0.3	
PCE deflator	3.6	3.1	3.0	2.9	2.8	2.4	2.1	2.2	1.9	1.3	1.5	
Core PCE deflator	3.9	3.4	3.5	3.7	3.5	3.1	2.8	2.9	2.8	2.7	2.7	
CPI	3.8	3.4	3.2	3.2	2.9	2.5	2.1	2.0	1.8	1.3	1.3	0.8
Core CPI	4.1	4.0	4.2	4.4	3.9	3.5	3.2	2.9	2.9	2.9	2.8	2.6
Nonfarm Payrolls	1.3	1.3	1.2	1.1	1.0	0.9	0.8	0.9	0.7	0.7	0.7	0.7
Unemployment Rate	1.2	1.3	1.2	1.2	1.1	1.2	1.2	1.3	1.2	1.2	1.2	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)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
-0.1	0.8	0.6	0.3	1.2	0.5	0.4	-0.1	2.1	1.3	-0.1

Source: Refinitiv, BNP Paribas