

More signs of easing in the labour market

The United States has observed an improvement in the business climate in August, which should postpone the risk of recession for a few more months. The ISM Manufacturing rose by 1.2 pp and reached 47.6. However, the index has been well in contraction territory since November 2022, the longest period since the GFC. The renewed decline in the "New Orders" sub-component (46.8) and the fact that no sub-component stands above the 50 threshold hint that the progress remains weak and insufficient to impulse a swift and sustainable return into the expansion zone. The ISM Non-Manufacturing climbed to 54.5 (+1.8 pp), an improvement broad-based across all of the main sub-components, with a notable jump in 'Employment' (54.7, +4.0pp).

The Conference Board index of household sentiment went the other way and dipped to 106.7 (-7.9 pts). This fall is driven by the deterioration in the consumers' assessment of current conditions (144.8, -8.2 pts) and their expectations for the coming six months (-7.8 pts, to 80.2). The strong divergence between these two assessments is considered as a recessionary signal.

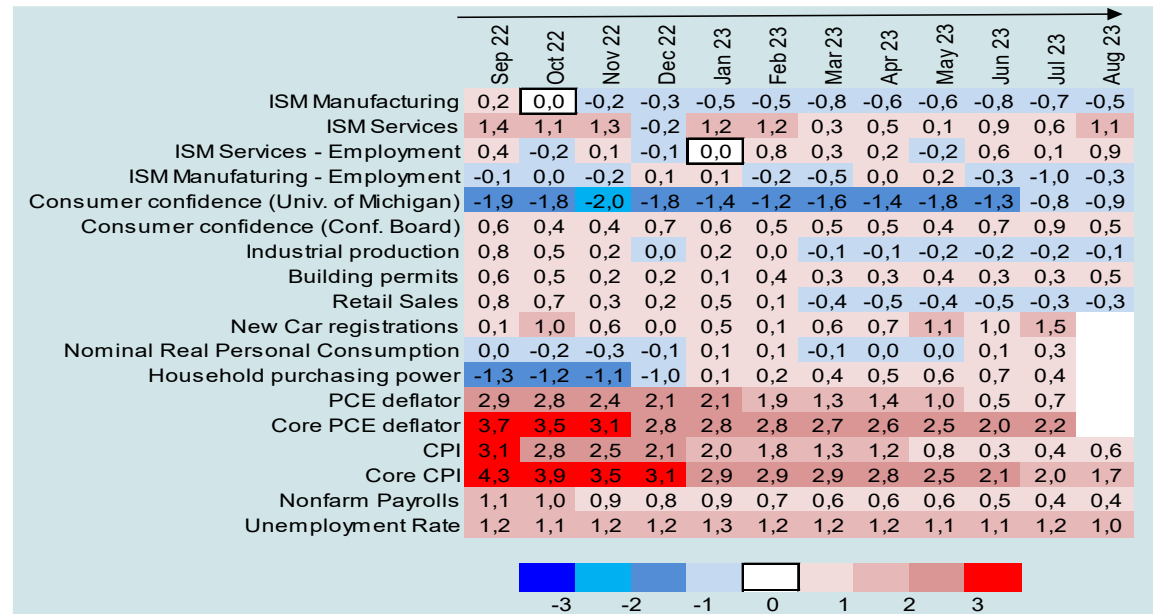
The labour market continued to show signs of softness. In August, non-farm job creations amounted to 187k, which was admittedly an improvement from June (+105k) and July (+157k), but also a sharp slowdown comparing with the average of the three prior months (+241k between February and May 2023, +150k between June and August). The unemployment rate edged up to 3.8% (+0.3 pp) amid a rebound in the participation rate (62.8%, the highest level since February 2020), thus strengthening the idea that a rebalancing of the labour market was in progress, enabled by higher supply.

Inflation was rather disappointing in August, up 0.4 pp to +3.7% y/y, due to a surge in gasoline prices (+10.6% m/m). The Core CPI (on a seasonally adjusted basis) has kept falling however, by 0.4 pp to +4.3%. The Fed decided to keep unchanged its policy rates as the outcome of the September meeting and reached the terminal rate according to our baseline scenario, but risks are tilted to the upside and the median Committee member sees another +25 bps before the end of 2023. The US 10-Year yield rose to a 16-year record high (around 4.40%).

The Atlanta Fed's nowcast estimates a high +1.5% q/q growth in Q3 (from a downward revised +1.1% q/q in Q2), supported by private consumption and residential investment as the latter benefits from the constrained supply of existing homes. Our own forecast is less bullish (+0.7% q/q).

Anis Bensaidani (completed on 20 September 2023)

United States: economic indicators monthly changes



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)		
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q3 2023	Q4 2023	2022 (observed)	2023	2024
0,8	0,6	0,5	0,5	1,7	1,4	0,7	0,1	2,1	2,1	0,3

Source: Refinitiv, BNP Paribas



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