

A slowdown lies ahead

According to the initial estimate by the BEA (Bureau of Economic Analysis), the United States economy gathered significant pace in Q3, with GDP growth up +1.2% q/q (+0.7pp). This advance, the largest in seven quarters, was driven by strong household consumption (+1.0% q/q), alongside with a significant contribution of stocks (adding +0.3pp to the rate of growth). Conversely, non-residential investment stalled, following two buoyant quarters, under the combined impact of the monetary tightening and the fading of the impulse priorly provided by the IRA and the CHIPS Act.

Following the very positive Q3 print, the US economy is seemingly heading towards a marked slowdown in Q4, as GDP growth should stand at +0.4% q/q according to our forecast (compared to +0.5% according to the Atlanta Fed's GDPnow). According to the ISM survey in October, business climate has deteriorated in the manufacturing industry, with the index dropping to 46.7 (-2.3pp), amid a sharp decline in New Orders (45.5, -3.7pp). The non-manufacturing index also pointed to a slowdown, dipping to 51.8 (-1.8pp), with respondents reporting weakening dynamics in the business activity sub-index (54.1, -4.7pp).

The consumer price index was stable in October (+0.0% m/m, SA), leading to a striking drop in the annual rate of change (+3.2% y/y, -0.5pp). The underlying inflation also decreased, although less markedly, and reached +4.0% y/y (-0.1pp). The latter's breakdown confirmed the disinflation in non-energy goods, which stagnated over 1 year. Housing services inflation slowed down (+6.7% y/y, -0.4pp), but still accounted for most of the increase in Core CPI.

The less favorable labour market situation appeared more clearly into view, as evidenced by a significant deceleration in non-farm payrolls in October (+150k). This tempered the relative importance of the September's surprising uptick (+297k, -39k revision) and prolonged the downtrend for 2023 (+243k on a 12-month rolling average, vs +408k in January). In addition, the unemployment rate increased (3.9%, +0.1pp), while the participation rate receded (62.7%, -0.1pp).

These developments strengthen the scenario whereby the rate-hikes cycle has ended. In this respect, the Federal Funds Target Range was maintained at 5.25% - 5.5% at the last FOMC Meeting, together with a continuing quantitative tightening. Nevertheless, Governor Jerome Powell is still reluctant to declare the end of the cycle and reiterated the possibility of further rate hikes, while describing recent readings as "favourable" and the current stance of the monetary policy as "restrictive".

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United States: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
ISM Manufacturing	-0.2	-0.3	-0.5	-0.5	-0.8	-0.6	-0.6	-0.8	-0.7	-0.5	-0.2	-0.7
ISM Services	1.3	-0.2	1.2	1.2	0.3	0.5	0.1	0.9	0.6	1.1	0.9	0.4
ISM Services - Employment	0.1	-0.1	0.0	0.8	0.3	0.2	-0.2	0.6	0.1	0.9	0.7	0.0
ISM Manufacturing - Employment	-0.2	0.1	0.1	-0.2	-0.5	0.0	0.2	-0.3	-1.0	-0.3	0.2	-0.6
Consumer confidence (Univ. of Michigan)	-2.0	-1.8	-1.3	-1.2	-1.6	-1.4	-1.8	-1.4	-0.8	-0.9	-1.1	-1.4
Consumer confidence (Conf. Board)	0.4	0.7	0.5	0.4	0.5	0.5	0.4	0.7	0.9	0.6	0.5	0.4
Industrial production	0.2	0.0	0.2	0.0	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2	-0.3
Building permits	0.2	0.3	0.1	0.4	0.3	0.4	0.3	0.3	0.3	0.5	0.4	0.4
Retail Sales	0.3	0.2	0.5	0.1	-0.4	-0.5	-0.4	-0.5	-0.3	-0.3	-0.1	-0.3
New Car registrations	0.6	0.0	0.4	0.1	0.6	0.7	1.1	1.0	1.5	0.6	0.8	
Nominal Real Personal Consumption	-0.4	-0.2	0.1	0.1	-0.1	-0.1	-0.1	0.0	0.2	0.1	0.1	
Household purchasing power	-1.0	-0.8	0.3	0.4	0.6	0.6	0.8	0.9	0.5	0.4	0.3	
PCE deflator	2.5	2.1	2.1	1.9	1.5	1.4	1.1	0.6	0.8	0.8	0.8	
Core PCE deflator	3.2	2.9	2.9	2.8	2.7	2.6	2.5	2.1	2.1	1.6	1.5	
CPI	2.4	2.1	2.0	1.8	1.3	1.2	0.8	0.3	0.4	0.6	0.6	0.3
Core CPI	3.4	3.1	2.9	2.8	2.9	2.7	2.5	2.1	2.0	1.7	1.5	1.4
Nonfarm Payrolls	0.9	0.8	0.9	0.7	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.3
Unemployment Rate	1.2	1.2	1.3	1.2	1.2	1.2	1.1	1.1	1.2	1.0	1.0	1.0

* 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
0.6	0.6	0.5	1.2	0.8	0.6	0.4	-0.3	1.9	2.4	0.8

Source: Refinitiv, BNP Paribas