United States: The Fed can take it slow

The US economy ended 2024 with its real GDP growing +0.6% q/q in Q4, a solid figure, though slightly down on the previous quarter (-0.2 pp). Household consumption (+1.0% q/q, +0.1 pp) was once again the main growth driver. The government also contributed positively, in contrast to private fixed investment (-0.1% q/q), despite the growth in residential investment and intellectual property products. These figures brought the average annual growth rate to +2.7%, significantly above the long-term estimate levels (+1.8%), and resulted in a +1.0pp positive carryover for 2025.

The ISM Manufacturing index stood out in January, standing at 50.9 (+1.7 pp), i.e. above the threshold of 50 (marking the boundary between contraction and expansion territory) for the first time since October 2022. The "new orders", "output" and "employment" sub-components were all above this threshold.

The wave of corporate optimism following the presidential election has not abated, as the NFIB index ended 2024 at 105.1 (+3.4 pp) – its highest level since October 2018. This figure has taken it above its long-term average (98) for a second month in a row, after 34 months below this level.

Conversely, consumer confidence faltered lately. The Conference Board index posted a second month of decline in January, from 109.5 to 104.1, mainly due to a poorer assessment of the present situation. In addition, there are clearly rising job-related fears, as illustrated through the reduction in the labour differential between respondents who find jobs “abundant” and those who find them “hard to get”.

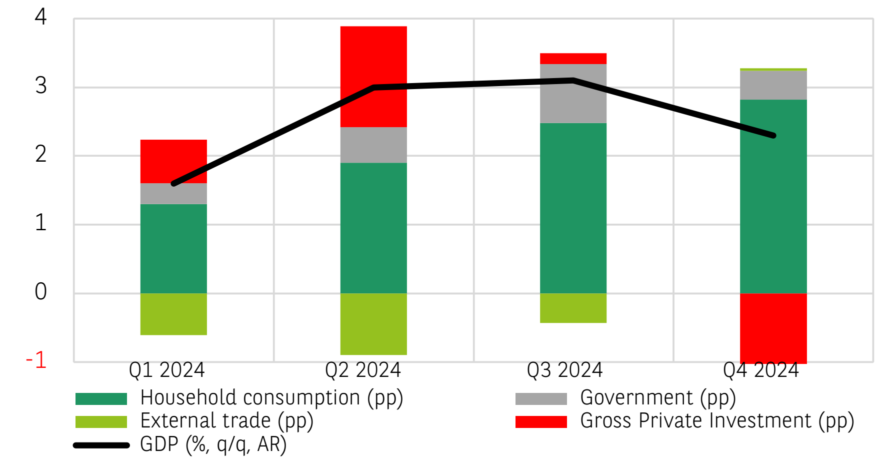
Headline inflation, measured by the CPI, rose in December (+0.2 pp to 2.9% y/y, its highest level since July). The sharp monthly increase in energy prices (+4.6% m/m; SA) is also noteworthy. By contrast, core inflation delivered a positive surprise, falling slightly to +3.2% y/y (-0.1 pp from the previous month and on the consensus).

January’s Employment situation extended the narrative of a strong labour market. Admittedly, nonfarm payrolls slowed to +143k (-163k, consensus: +175k). However, the two prior months were revised upward, for a cumulative +100k. Moreover, the downward revisions for the whole 2024 appeared less important than anticipated, with a +166k yearly average, against +186k previously. A notable development was observed in terms of wage growth, with average hourly earnings posting their highest monthly rise (+0.5%, +0.2pp) since January 2024. Finally, the unemployment rate lowered to 4.0% (-0.1pp), while the participation rate improved to 62.6% (+0.1pp).

At its meeting on 28-29 January, the FOMC decided to keep its target rate at 4.25% - 4.5%. This decision puts the monetary easing cycle initiated last September on hold, following the rate cuts seen at the end of each of the last three meetings (100 bp cumulatively). The Fed is now adopting a wait-and-see approach, not forecasting any further cuts without “real progress on inflation” or the labour market “weaken[ing] unexpectedly". This approach extends to the economic policies of the new Trump administration, with Powell stating that the committee was waiting for the policies adopted to be articulated before assessing what their implications will be.

Anis Bensaidani, article completed on 7 February 2025

Consumption-driven Growth



Source: BEA, BNP Paribas

GDP growth

Actual				Carry-over	GDPNow	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.4	0.7	0.8	0.6	1.0	0.7	0.6	0.5	0.4	2.8	2.3	1.3

Source: Refinitiv, BNP Paribas