

WEEKLY ANALYSIS

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THE FEDERAL RESERVE CAN AVOID A « HARD LANDING »

Temporary GDP growth in Q3. Leading indicators point to a slowdown. Consumption is at risk. New inflation regime. The Fed must adjust its action. The dollar is losing momentum. A "risk on" mode is setting in.

Key points



- Temporary exit from recession expected in Q3
- « Hard landing » still possible in the US
- Leading indicators fall back
- Consumers dip into their reserves
- The Fed can avoid a « hard landing » and deflation
- Inflation slow to show encouraging signs
- The worst is certainly over in the interest rate market
- Will the dollar soon be losing momentum?
- A « risk on » mode is timidly setting in

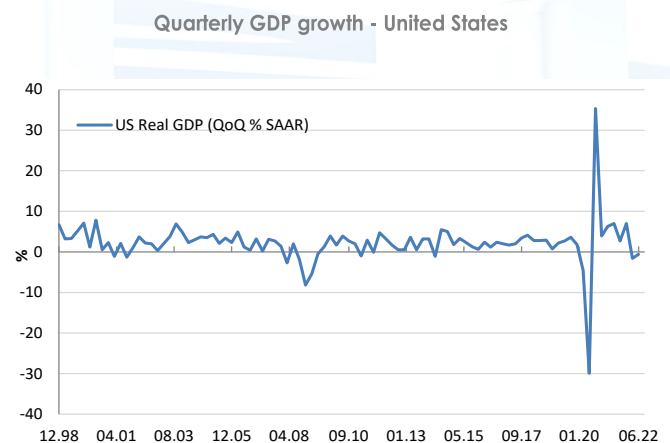
Federal Reserve's perspective, but jobless claims are rising at the very same time as total business job openings fall. The contraction of the economy in Q2, however, logically paved the way for an expectation of continued economic weakness in Q3. The tense inflationary context reducing the purchasing power of households and threatening consumption, the main component of US GDP, and the rise in interest rates were negative factors. But while the economy is certainly in a slowdown phase and is expected to remain fragile, the economic data does not yet resemble that of a sustained recession. A soft landing of the economy is therefore not excluded.

In this still relatively uncertain context, which has not yet been marked by the latest spike in interest rates, we estimated a few months ago that the US economy could already record further positive GDP growth in the third quarter, of around 1.5%. Now, our growth expectations for Q3 have been revised down slightly, despite the Atlanta Fed's GDPNow leading indicator pointing to +2.8% annualized growth in Q3. The third quarter could well be followed by a new contraction at the end of the year, if consumption continues its downward trend and if the negative signals observed in the labor market and the real estate market continue. The main « soft landing » scenario can still occur and be supported by the still positive view of the central bank's labor market.

Temporary exit from recession expected in Q3

After a Q1 and Q2 contraction of -1.6% and then -0.9%, the US economy virtually entered a technical recession on June 30, to the relative surprise of all observers who were expecting positive real GDP growth. Nevertheless, current forecasts for Q3 favor a fairly clear recovery in economic activity, estimated on average at +2% GDP growth at the end of September. While the risks of a recession are clearly widely discussed by forecasters, they seem to have been pushed back to 2023. The undoubtedly temporary recovery in economic activity has been taken into account by investors, who, after having relaxed their attention a little, have quickly raised their expectations for bond yields, which are now at their highest.

Recent economic statistics are not so clear, however, regarding the evolution of the economy during the third quarter that has just ended. The lack of growth in September retail sales (0%) shows that the US consumer is finally being hit by inflation and declining purchasing power. The manufacturing PMI is holding up (52), but the services PMI (49.3) and the overall index (49.5) are both below the 50 growth threshold. The labor market still looks strong from the



Sources: Bloomberg, BBGI Group SA