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WEEKLY ANALYSIS

M. Alain Freymond—Associé & CIO

FLATTENING OF THE USD YIELD CURVE

Moderate economic slowdown. CPI at 3% in sight. Labour market eases. End of monetary tightening cycle. Sharpest drop in short-term rates. Dollar declines. Broader participation of equities in the upside.

Points clés

- US economic momentum remains solid
- Moderate slowdown in Q2 (+1.2%)
- Leading indicators point to a slowdown
- Significant easing in the job market
- The Federal Reserve should give itself time
- Inflation declines, though some components adjust only slowly
- Volatility persists on yield curves
- Dollar likely to weaken in 2nd half
- Positive surprises for company profits

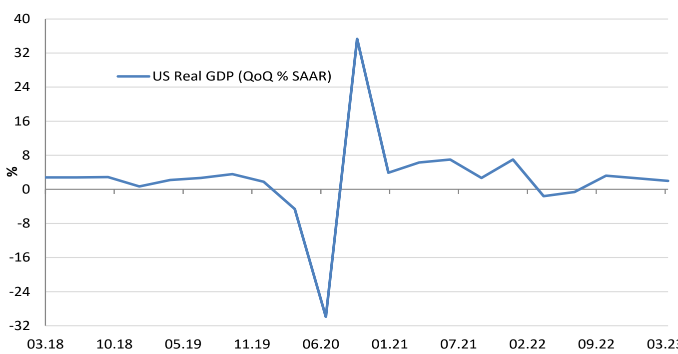
US economic momentum remains solid

The revised GDP figures for Q1 2023 underline the still relatively solid economic momentum in the United States. Revised GDP growth is +2% annualized, following a more favorable revision of exports and private consumption. Household consumption finally recorded a +4.2% increase, its strongest rise in twenty-four months, thanks to positive adjustments in the services segment, supported by a still solid labor market, despite weaker wage trends. Export growth of +7.8% also contributed significantly to the quarter's result. Conversely, the decline in government spending weighed on the performance of the US economy for the second consecutive quarter. The real estate sector continued to struggle, posting its eighth quarterly decline, while capital goods investment contracted for the second consecutive quarter. The start of the year has thus proved more robust than expected by the consensus, which was still counting on GDP growth of just +1.3% instead of the +2% forecast. As in the previous quarter, the US economy continues to surprise observers, and may yet deliver further surprises in the months ahead.

The risks of recession, so often evoked in recent months in response to the central bank's severe tightening of monetary conditions over the last year or so, have yet to materialize. The spectre of a hard landing also clearly seems to be fading, and growth forecasts are now tending to push back the probability of negative economic growth to the third or even fourth quarter of 2023. Recent statistics published in May and June have been rather better than expected, supporting expectations of a further positive development in US gross domestic product in the second quarter.

The relatively favourable situation of US households also comes as a surprise in the context of tighter credit conditions and more difficult access to credit. It will undoubtedly contribute to further growth in household spending, although this will probably be significantly weaker in Q2. In particular, it is underpinned by a wealth effect that is undoubtedly more positive than many observers imagined. US household wealth grew by $3 trillion in Q1, or +2.1% over the period, to reach a global valuation of $148 trillion, according to estimates published by the Federal Reserve. Second-quarter performance will also depend on continued positive trends in exports, investment and government spending.

Quarterly GDP growth - United States



Sources: Bloomberg, BBGI Group SA