WEEKLY ANALYSIS

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END OF SUMMER CONSOLIDATION IN US MARKETS ?

Economic slowdown rather than recession. Inflation falls in services. Long-lasting FED pause. Downward adjustments to yield curves. Weak dollar. Positive outlook for bonds and equities.

Key points

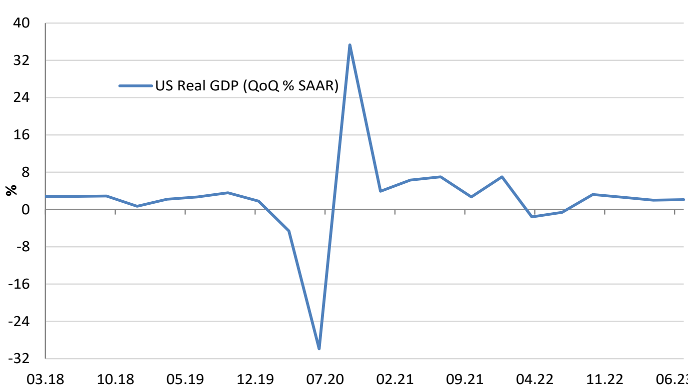
- Economic growth may be slowing more than it seems
- Slowdown looms for year-end
- Leading indicators suggest a soft landing
- Job market still highly uncertain
- The Federal Reserve will mark a lasting pause
- Inflation now also falling in services
- Excessive tension on yield curves
- The dollar temporarily benefits from rising rates
- Positive outlook for equity markets

Economic growth may be slowing more than it seems

The 2nd quarter GDP figure, revised from +2.4% to +2.1%, nevertheless suggested a resilience in US economic activity that surprised many observers, who had been predicting a recession in 2023 for several quarters. Real annualized growth in Q2 was therefore similar to Q1. Personal consumption slipped sharply in Q2, rising by just +0.8% after a strong Q1 (+4.2%), which was its biggest increase in the last twenty-four months. The GDP revision was affected by weaker investment, while consumption was revised slightly upwards. A still robust, albeit easing, labor market is supporting personal consumption spending, and should continue to drive positive GDP growth in Q3. Companies are moderating their enthusiasm for hiring new staff, allowing the market to ease somewhat. Job creation figures are weakening, but jobless claims are not rising massively. On the corporate side, the reduction in inventories should be a positive factor in assessing the outlook for industrial production over the coming months. It should also be noted that the +3.9% rise in investment in capital goods is regaining some strength after the -0.4% decline of the previous quarter. The -10.6% fall in exports was considerably stronger than the -7% contraction in imports. As for government spending, growth slowed from +5% to +3.3%. As in the previous quarter, the US economy continues to surprise observers in a positive way, 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 strong tightening of monetary conditions over the past eighteen months, have yet to materialize. The spectre of a hard landing also seems clearly to be fading, and growth forecasts are now tending to push back the risk of negative economic growth further into 2024.

Consensus now seems to be forecasting Q3 GDP growth of +1.8%, before activity eases to +0.4% at the end of the year. Q3 GDP growth could prove even stronger, however, and exceed consensus expectations if the Atlanta Fed's GDPNow indicator, currently at +4.8%, proves correct. But this summer strength could also be short-lived, as measures other than GDP are already pointing to a slowdown in activity at the end of the summer.

Quarterly GDP growth - United States



Sources: Bloomberg, BBGI Group SA