WEEKLY ANALYSIS

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THE FED SHOULD LOWER ITS RATES IN MARCH 2024

Economic slowdown rather than recession. Inflation will reach the +2% target in Q2 2024. The Fed will have to cut rates. Continued readjustment of yield curves. The dollar under pressure. Positive outlook for equities.

Key points

- Significant slowdown after an exceptional 3rd quarter
- Declining momentum raises fears of recession
- Leading indicators do not point to recession
- Relative resilience of the job market
- The Federal Reserve will have to cut rates
- Inflation to reach +2% target in Q2 2024
- Major readjustment of yield curves
- Dollar suffers as expectations adjust
- Positive outlook for equity markets

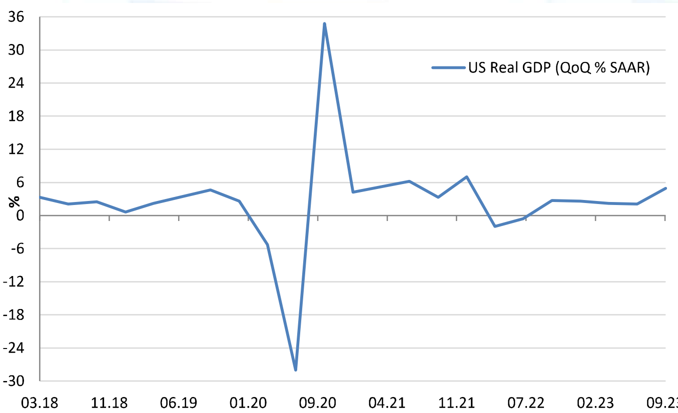
Slowdown likely after an exceptional Q3

Despite a final revision of Q3 GDP indicating slightly weaker growth than initially published (+5.2%), growth of +4.9% remains one of the most remarkable in recent years. The slowdown that had been expected for many months has still not materialized, despite an exceptionally intense monetary tightening cycle and a general acceleration in the rise in interest rates and financing costs for all economic agents. The resilience of the US economy has been remarkable so far. Personal consumption, which had slipped sharply in Q2, rising by just +0.8%, has now recovered strongly. The +3.1% increase is indeed very surprising given the specific context of the quarter, marked by a sharp rebound in interest rates. Growth in household spending seems to have been stronger in the durable (+6.7%) and non-durable (+3.9%) goods segments than in services (+2.2%). There was also a marked increase in private capital expenditure (+10%). The contribution of public spending was also very significant, with an increase of +5.8% higher than in previous quarters. Personal consumption expenditure was unaffected by the easing of tensions in the labor market, and instead benefited from the steady decline in inflation. As in previous quarters, the U.S. economy continues to surprise observers, and may yet deliver further surprises in the months ahead.

However, growth forecasts for the final quarter are now significantly weaker, although this does not mean that negative growth is on the cards. The Atlanta Fed's GDPnow indicator still suggests a positive development of +2.7%, slightly higher than that of the New York Fed, which seems less optimistic (+2.2%). In both cases, the US economy is still judged to be particularly resilient as the year draws to a close by these various models. The risk of recession has thus diminished since June, when it peaked at 65%. They are now estimated at 50% for the next twelve months, against a backdrop of persistently restrictive monetary conditions.

For our part, we believe that rising interest rates are finally having a clearer impact on the economy, and on household consumption in particular. As a result, 4th-quarter GDP is likely to be significantly less robust, with growth probably below +1%. For 2023 as a whole, GDP growth should be +2.4%, but the slowdown is on the horizon and should finally materialize during the winter.

Quarterly GDP growth — United States



Sources: Bloomberg, BBGI Group SA