# Weekly Analysis

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# THE FED ENVISAGES KEY RATES AT 3.25% IN 2025

GDP growth still solid. A slightly more moderate 2nd half? Easing tensions in the job market. Monetary easing cycle finally underway. Six cuts expected to benefit dollar-denominated assets by 2025.

## Key points

- GDP growth still looks solid
- Will the 2nd half really be weaker?
- Leading service indicators remain favorable
- Job market tensions ease
- The Federal Reserve corrects its June inaction
- Inflation to fall below +2% in Q1 2025
- Attractive outlook for USD bonds
- Policy theoretically unfavorable to the USD
- Overall positive environment for equities

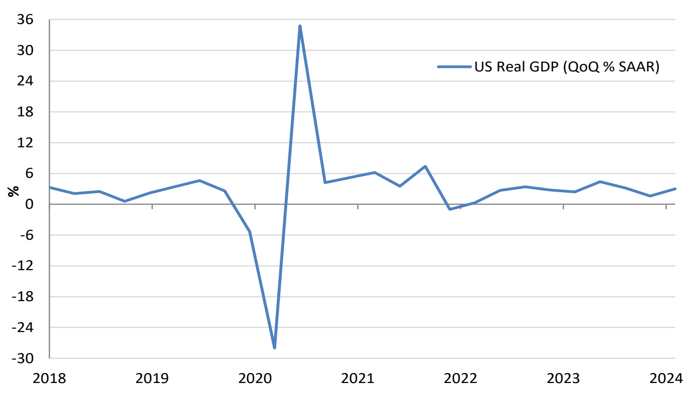
### GDP growth still looks solid

The publication of Q2 US GDP suggested another particularly strong quarter, largely supported by a recovery in household consumption. The published growth rate of +3% annualized testifies to a clear upturn compared with Q1 2024, which had been rather buoyed by capital goods investment and personal consumption, albeit weaker than at the end of 2023. Momentum is similar to that of the 4th quarter, when growth was +3.4%. At the end of June, consumption was strong, up +2.8%. In terms of contribution to the +3% rise in GDP, we find consumption with a contribution of +1.9% and changes linked to inventories (+1.05%). Fixed investment expenditure (+0.42%) and public spending (+0.52%) also contributed positively. Only net exports (-0.9%) pulled GDP down. The U.S. economy continues on a rather solid growth path ahead of the summer, in an environment less marked by inflationary risks, but with a core DCM component up by +2.8% and a price index of +2.5% at the end of June.

As the 3rd quarter of 2024 draws to a close, growth estimates for the period just ended are still fairly robust. According to the latest Bloomberg survey of 75 economists, GDP is estimated to have grown by +2%, albeit significantly less than the Atlanta Fed's flash GDP measured by the GDPNow index, which is once again above +3%.

Against this backdrop, at the end of September, the Federal Reserve finally initiated a new cycle of rate easing with a relatively unexpected -0.5% cut, since most observers were expecting a -0.25% rate cut instead. Having estimated at the end of 2023 that the Fed would make up to six rate cuts in 2024, investors had largely revised their expectations and were waiting patiently for a reversal in the monetary policy cycle. Economic statistics from the job market still looked solid until mid-quarter, and pushed back the deadline for this change of stance. But the sharp fall in job creation in August to a recent low of 99,000 was certainly a trigger for the central bank's decision. A slightly lower level of personal household income, sluggish consumption and stagnating orders for durable goods are just some of the new trends suggesting a slowdown underway for Q3. But the overall picture of the US economy's health remains very difficult to grasp, as other factors continue to point towards robust momentum.

Quarterly GDP growth-United States




*Sources: Bloomberg, BBGI Group SA*