CAPITAL ECONOMICS

INDEPENDENT ANALYSIS, FORECASTS
AND CONSULTANCY

US Chart Pack

Paul Ashworth, Chief US Economist
Andrew Hunter, Deputy Chief US Economist
Olivia Cross, North America Economist

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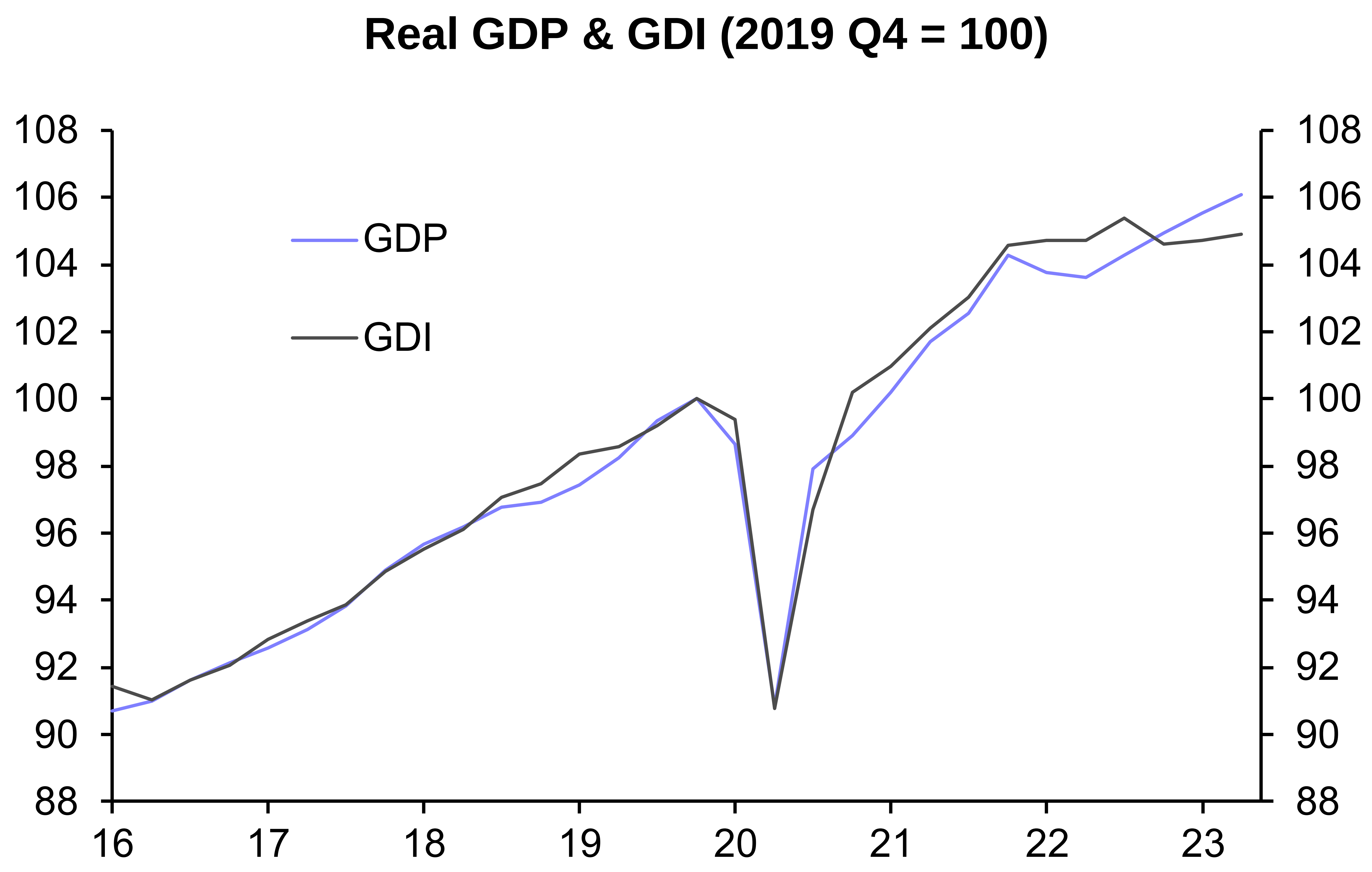
US Chart Pack

Our View: The renewed surge in long-term Treasury yields illustrates that the full impact of Fed tightening is still feeding through, and we continue to expect economic growth to slow sharply over the coming quarters. With core inflation still looking on course to return to the Fed's 2% target by the second half of next year, we continue to expect the Fed to cut rates much more aggressively than markets are pricing in.

- **Activity**: Third-quarter GDP growth was close to 3% annualised, but headwinds are mounting in the fourth quarter.
- **Labour Market**: Despite resilient payroll growth, wage growth still looks set to slow to pre-pandemic rates soon.
- **Inflation**: The remaining strength of core inflation is concentrated in the shelter component, but we expect shelter inflation to slow sharply from here.
- **Policy**: Surging long-term Treasury yields could make it less likely that the Fed will hike its policy rate any further.
- **Forecasts**: We still expect rates to be cut more rapidly than markets expect next year, as the economy weakens and inflation returns to target.

To see all our analysis on the US economy and details of our forecasts, visit our US landing page.

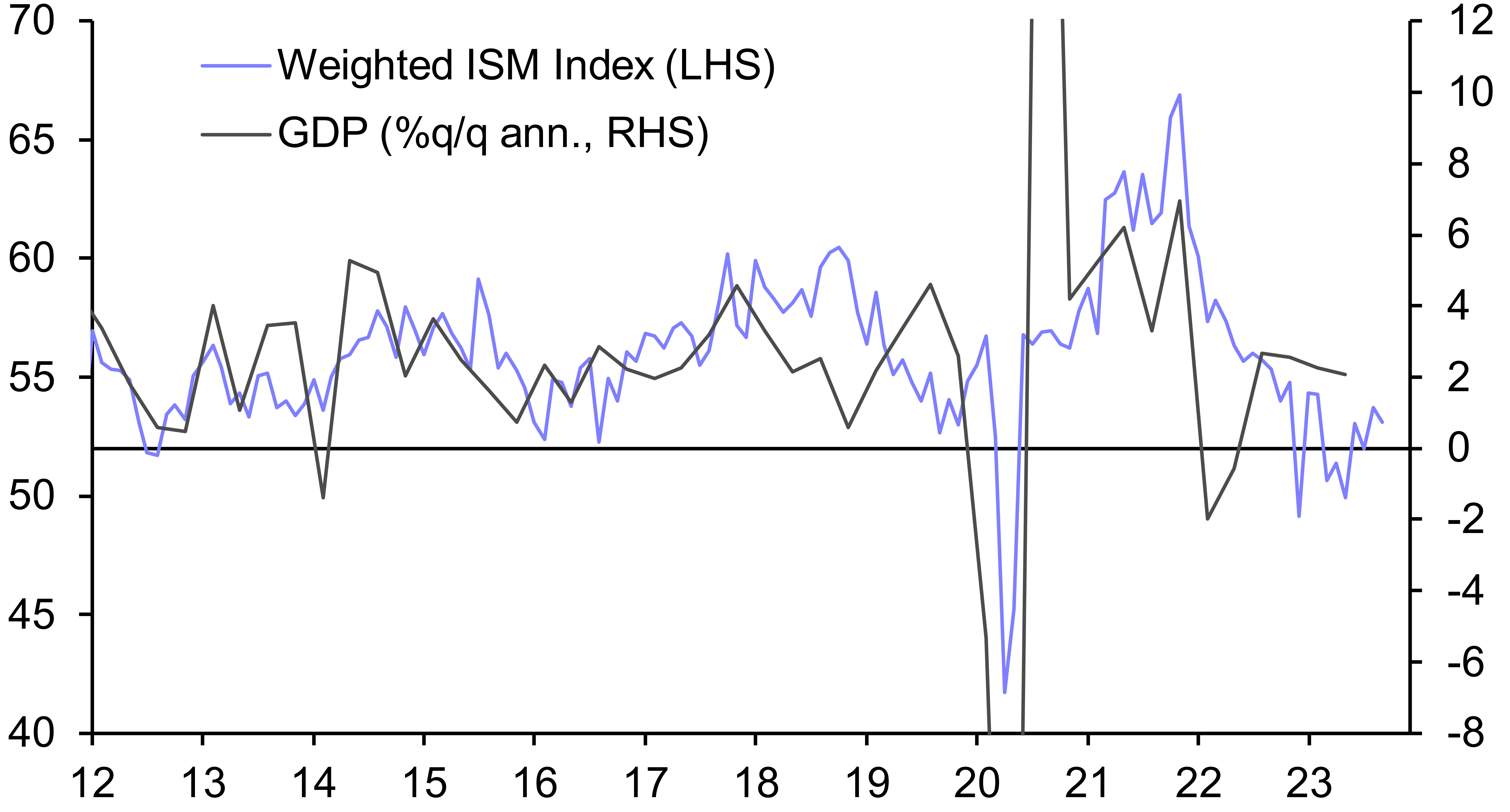
Comprehensive revisions to the GDP data changed little of substance, with the discrepancy between GDP and GDI only partly resolved.



Source: Refinitiv

GDP growth looks to have accelerated to around 3% annualised in the third quarter, although the surveys suggest that acceleration won't continue.

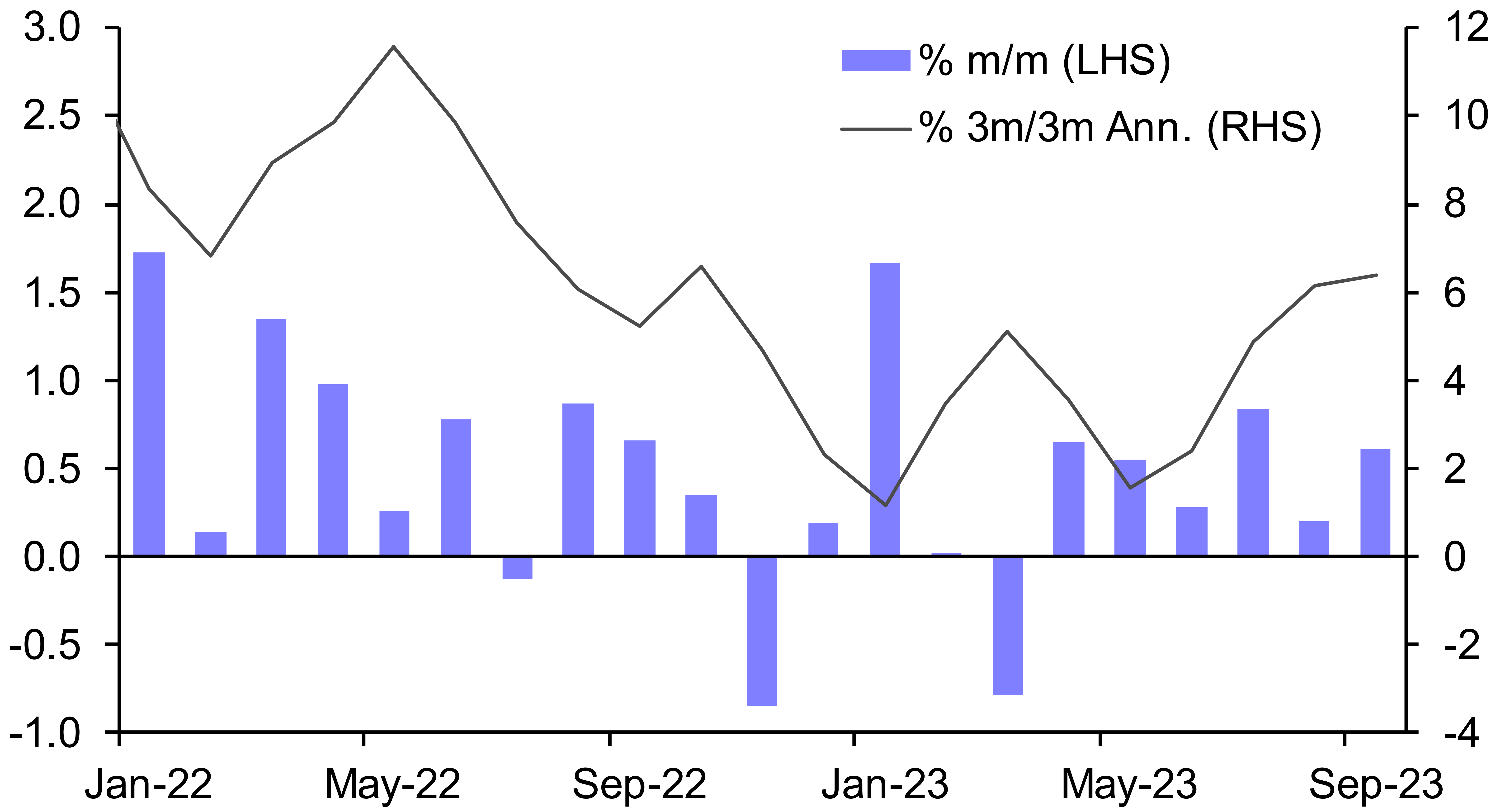
Real GDP & ISM Activity Surveys



Source: Refinitiv

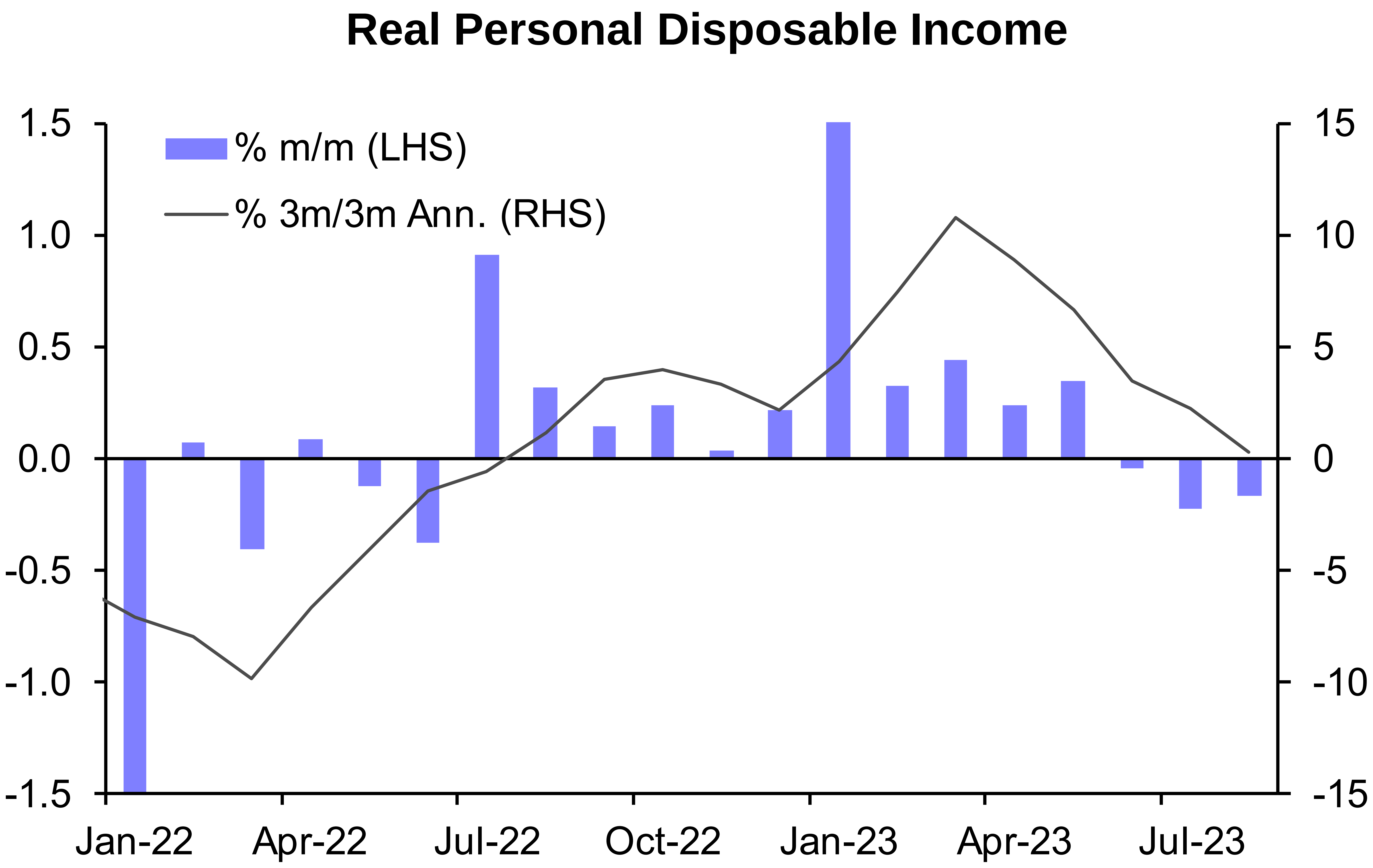
The resilience of consumption has continued, with the big rise in retail sales in September giving a positive handover to the fourth quarter.

Retail Sales (Exc. Autos, Gas., Building Mats. & Food Serv.)



Source: Refinitiv

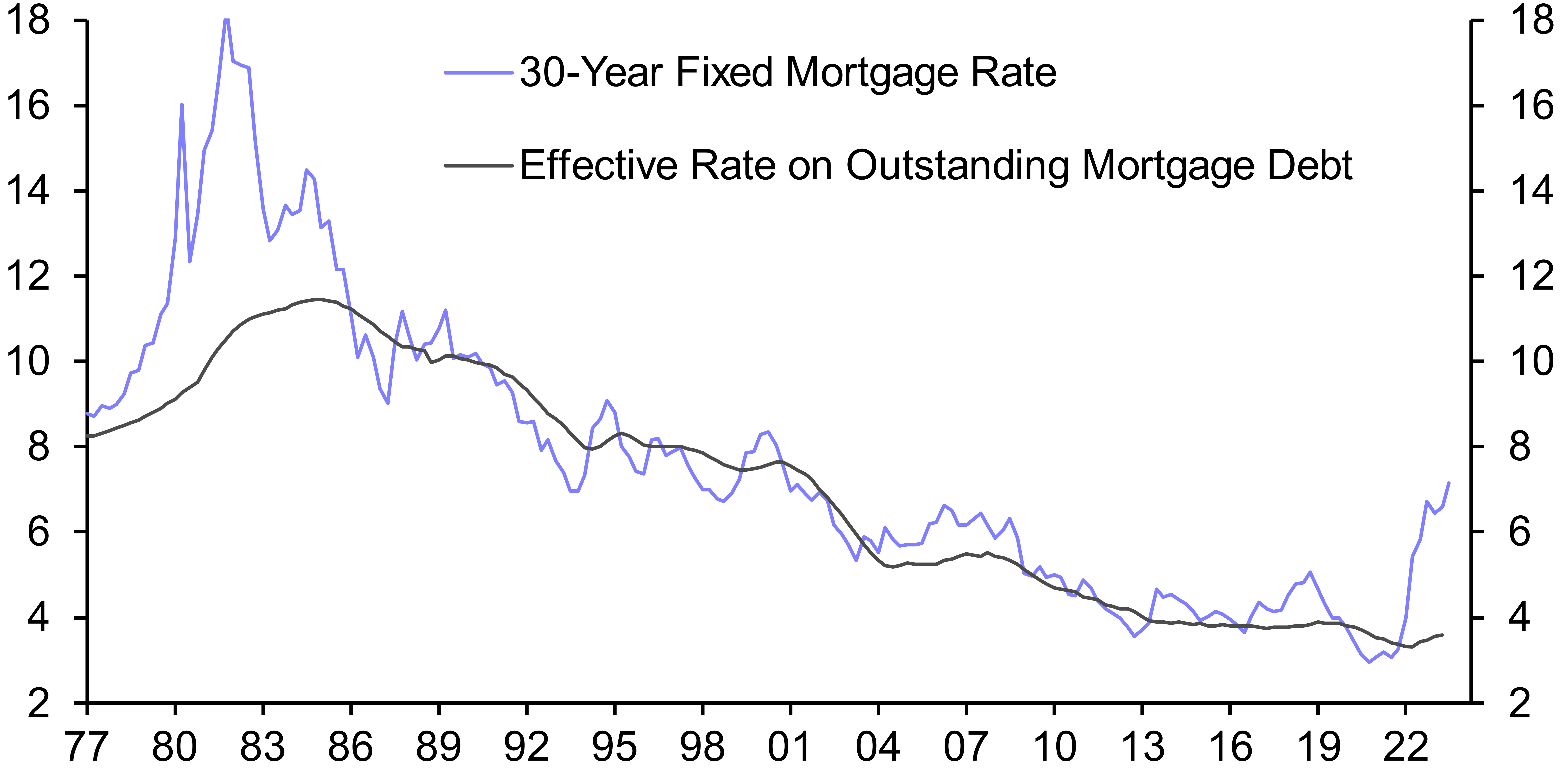
The sharp slowdown in real income growth suggests that strength may not last for long, however, particularly with the saving rate still low.



Source: Refinitiv

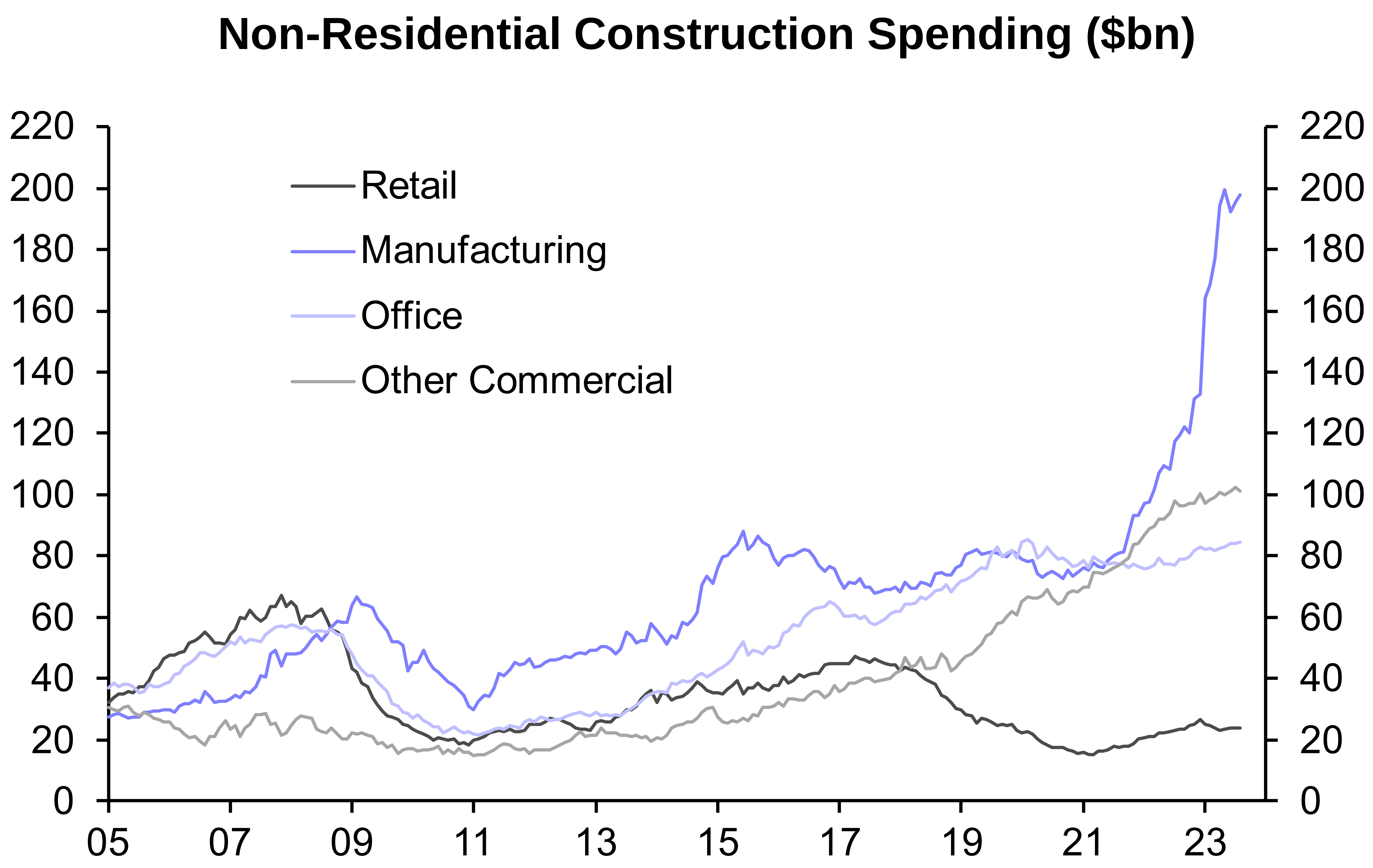
Higher fixed-rate debt has sheltered households from higher interest rates, but that also means that future rate *cuts* may provide less support.

New and Existing Mortgage Rates (%)



Sources: Refinitiv, Capital Economics

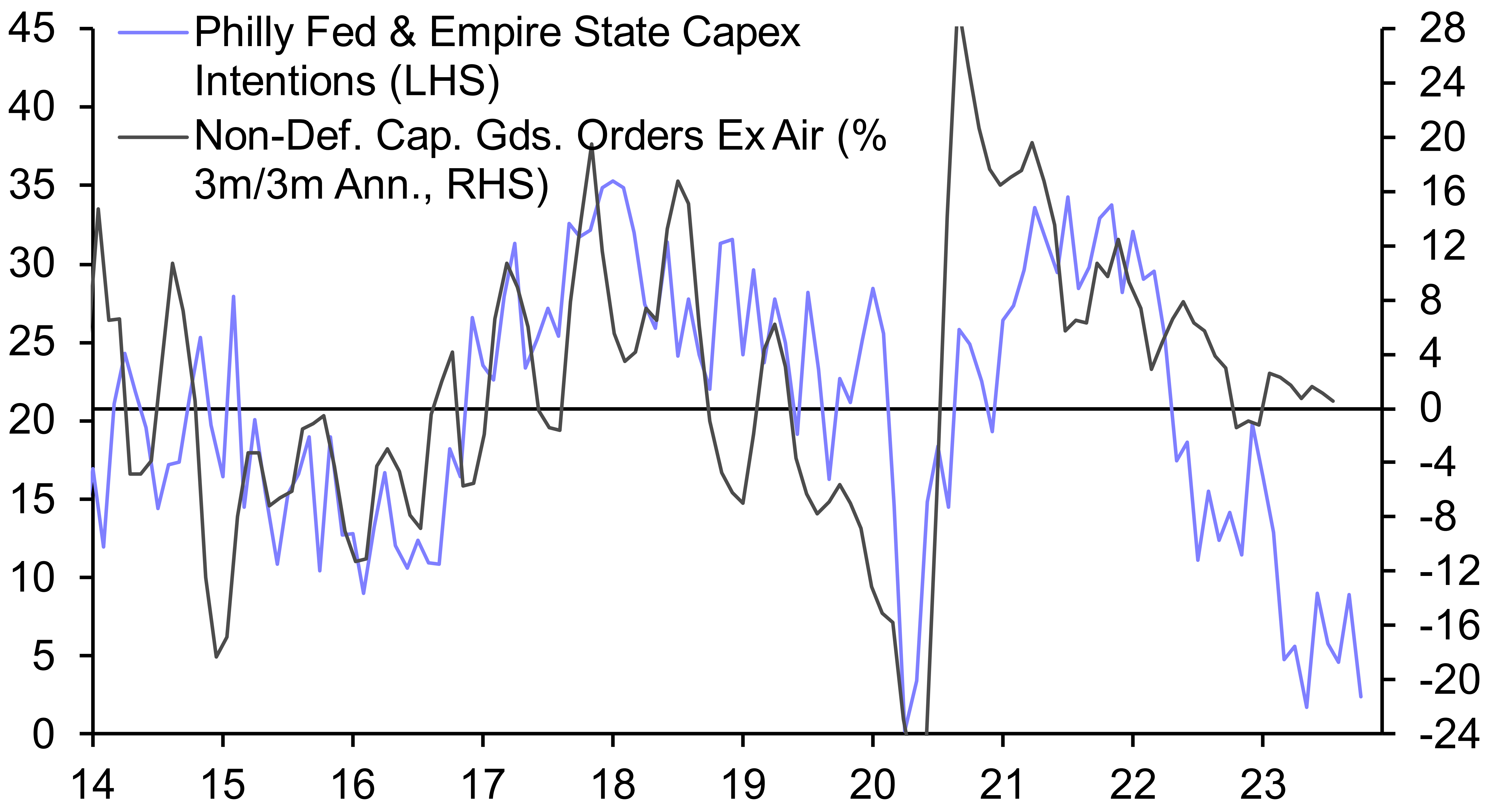
The boom in manufacturing structures investment appears to have faded.



Source: Refinitiv

The deterioration in surveys of capex intentions points to renewed weakness in equipment investment soon.

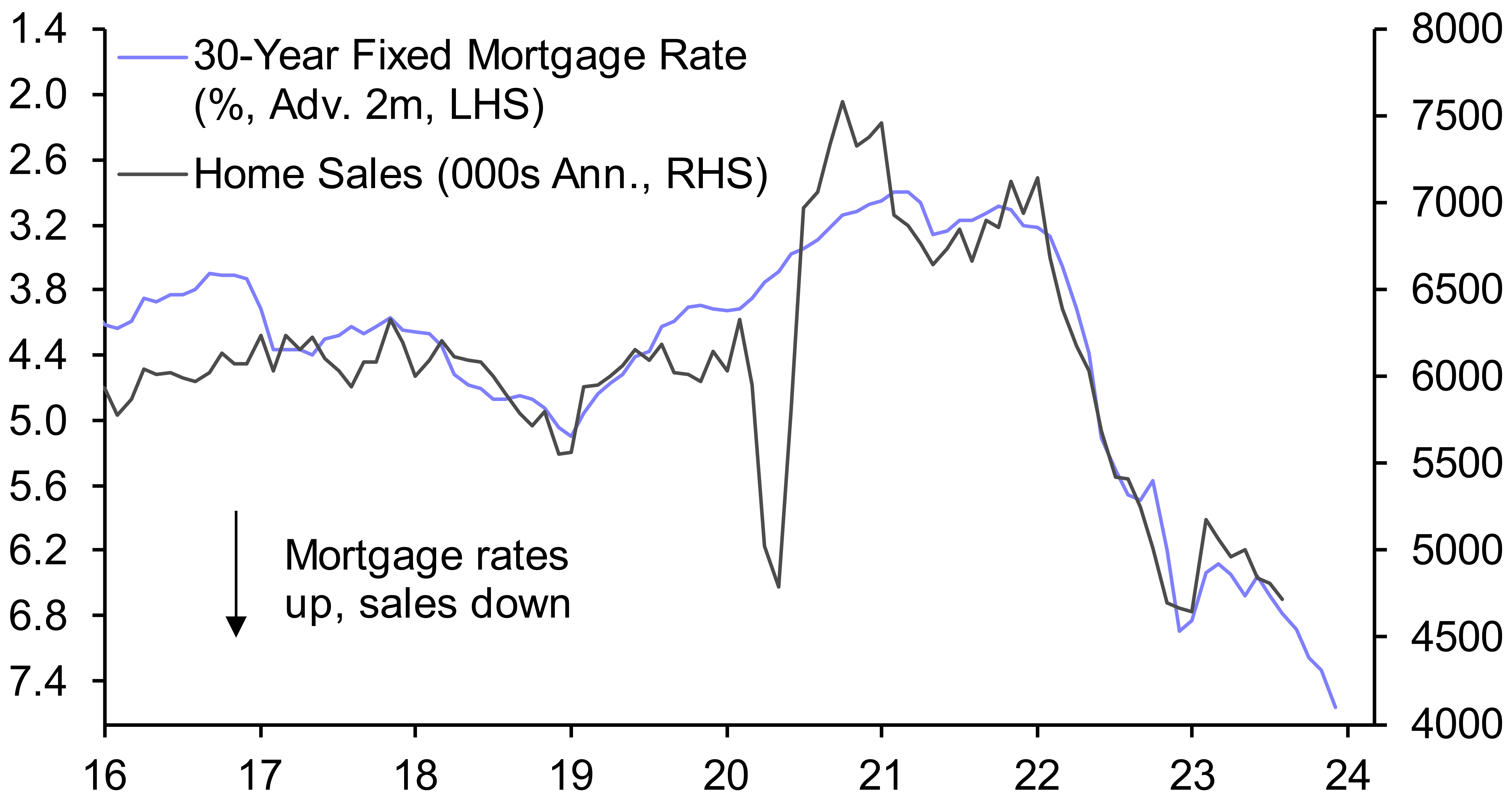
Core Capital Goods Orders & Investment Intentions Surveys)



Source: Refinitiv

The latest surge in mortgage rates suggests housing activity will weaken.

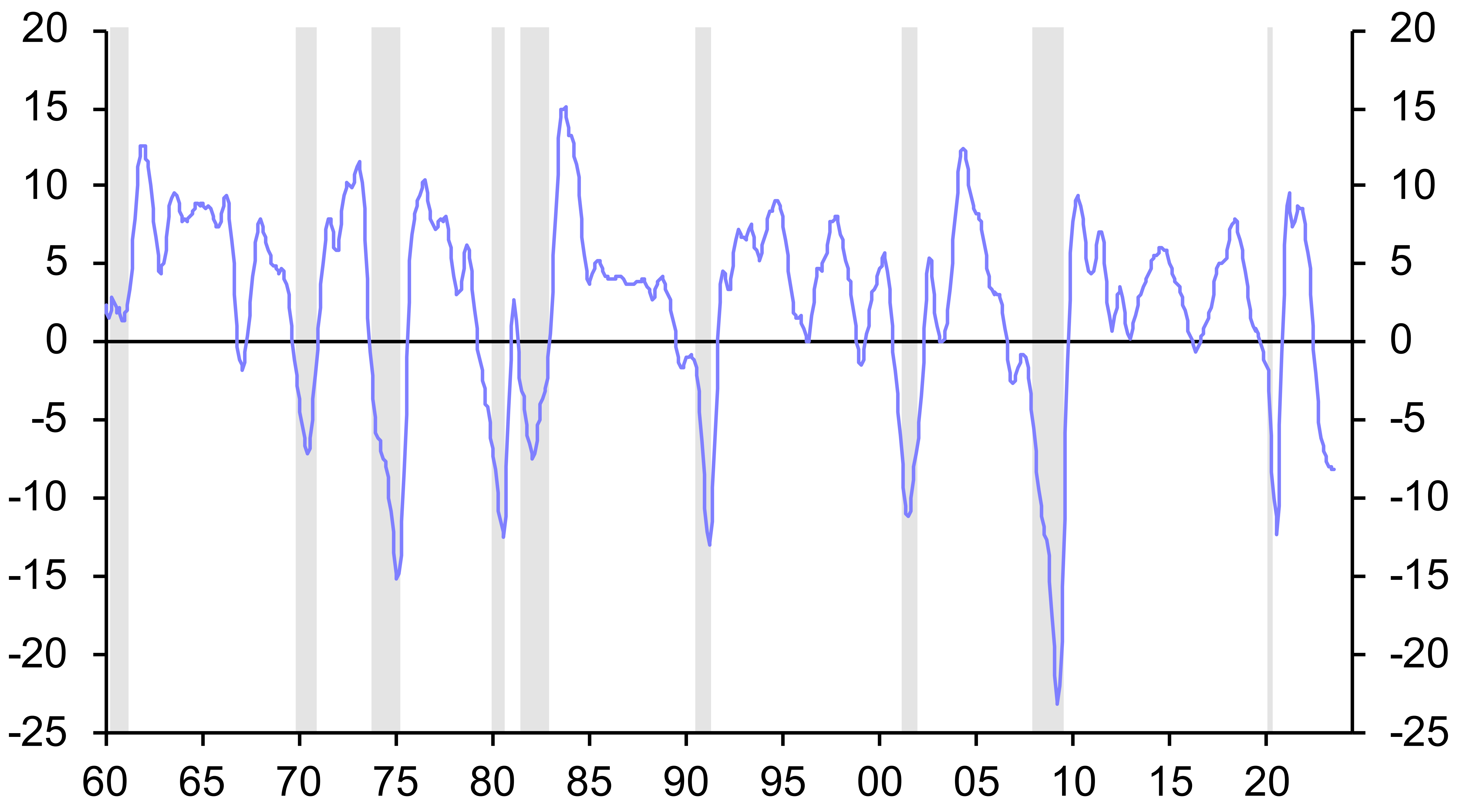
Mortgage Rates & Home Sales



Source: Refinitiv

The usual warning indicators of recession continue to flash red.

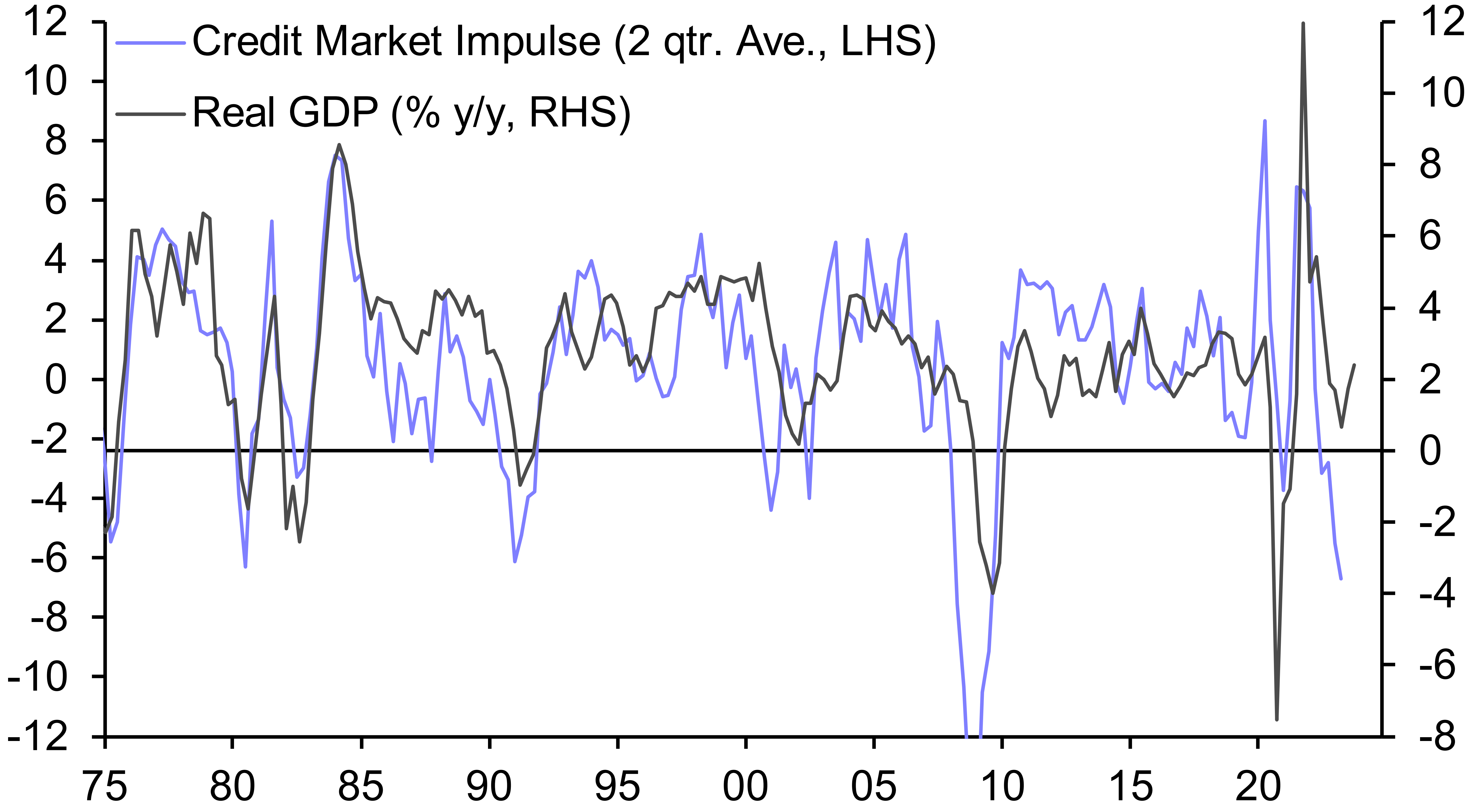
Conference Board Leading Economic Index (%6m Ann., Shaded bars = Recessions)



Source: Refinitiv

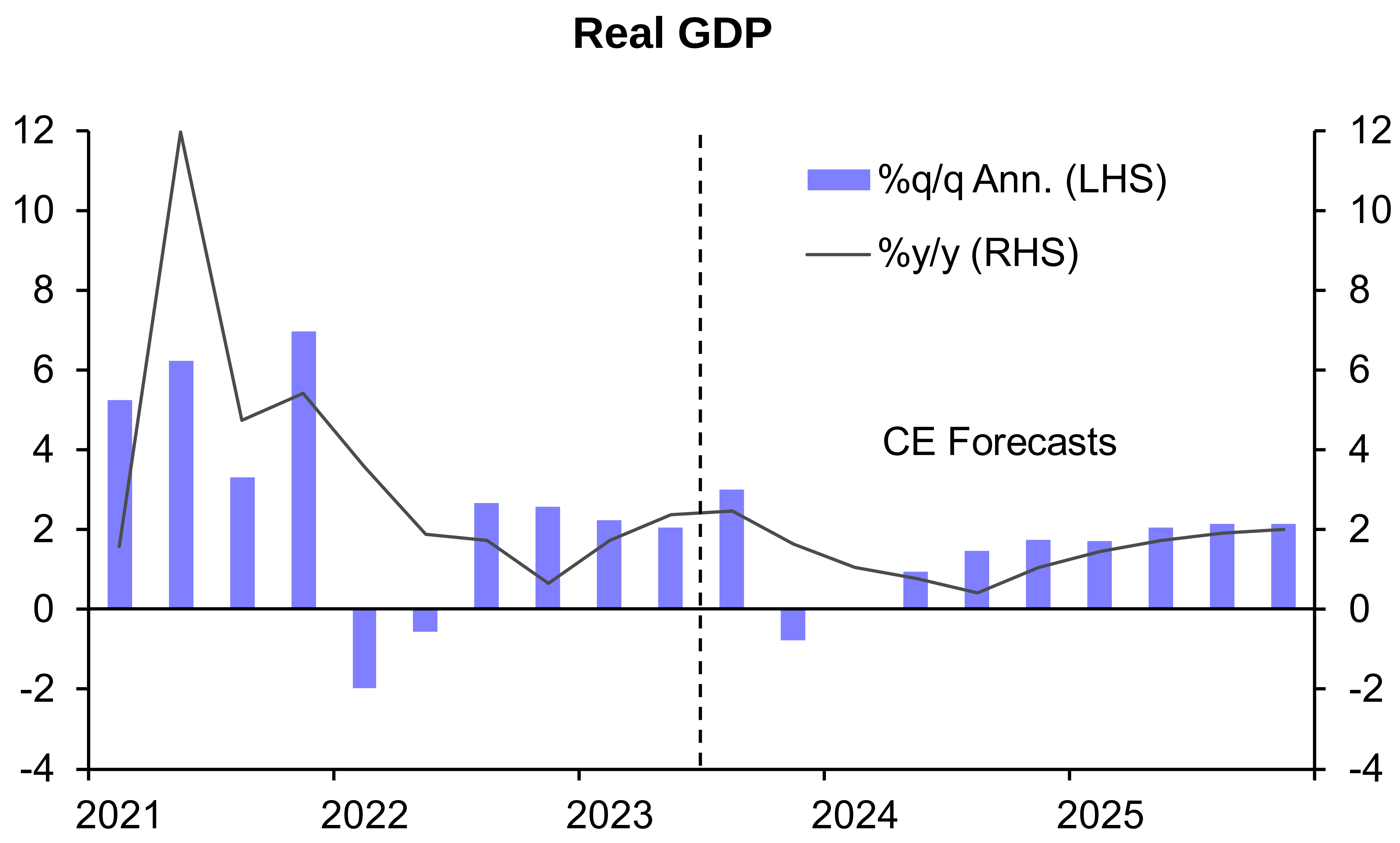
The sharp slowdown in private-sector credit growth is also consistent with negative GDP growth.

Credit Market Impulse & GDP



Source: Refinitiv

We still think the economy is likely to fall into a mild recession in the coming quarters – or at the very least to experience a period of well below-trend growth.

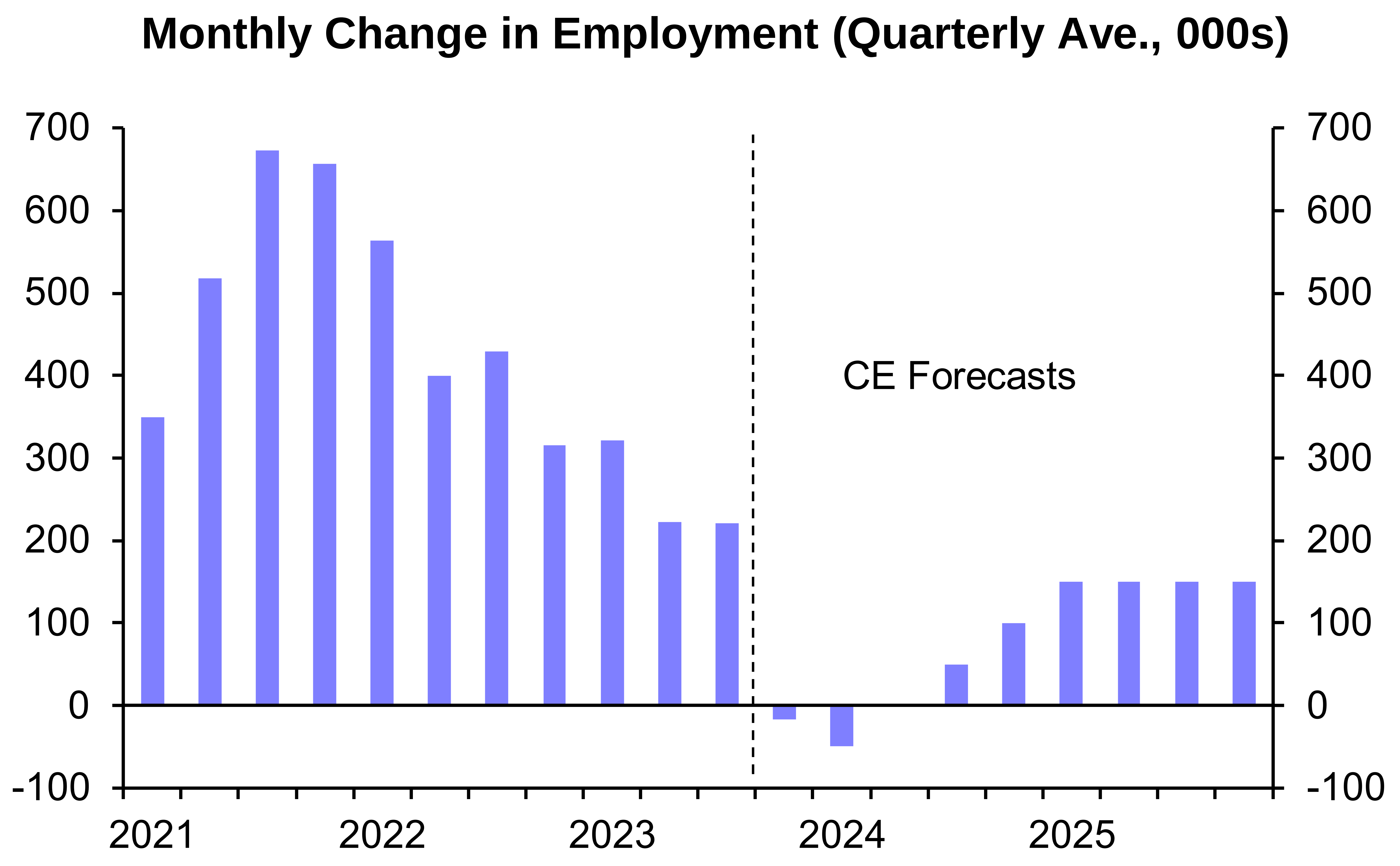


Sources: Refinitiv, Capital Economics

Even with residential investment stabilising, weakness in consumption and business investment is likely to weigh on GDP growth.

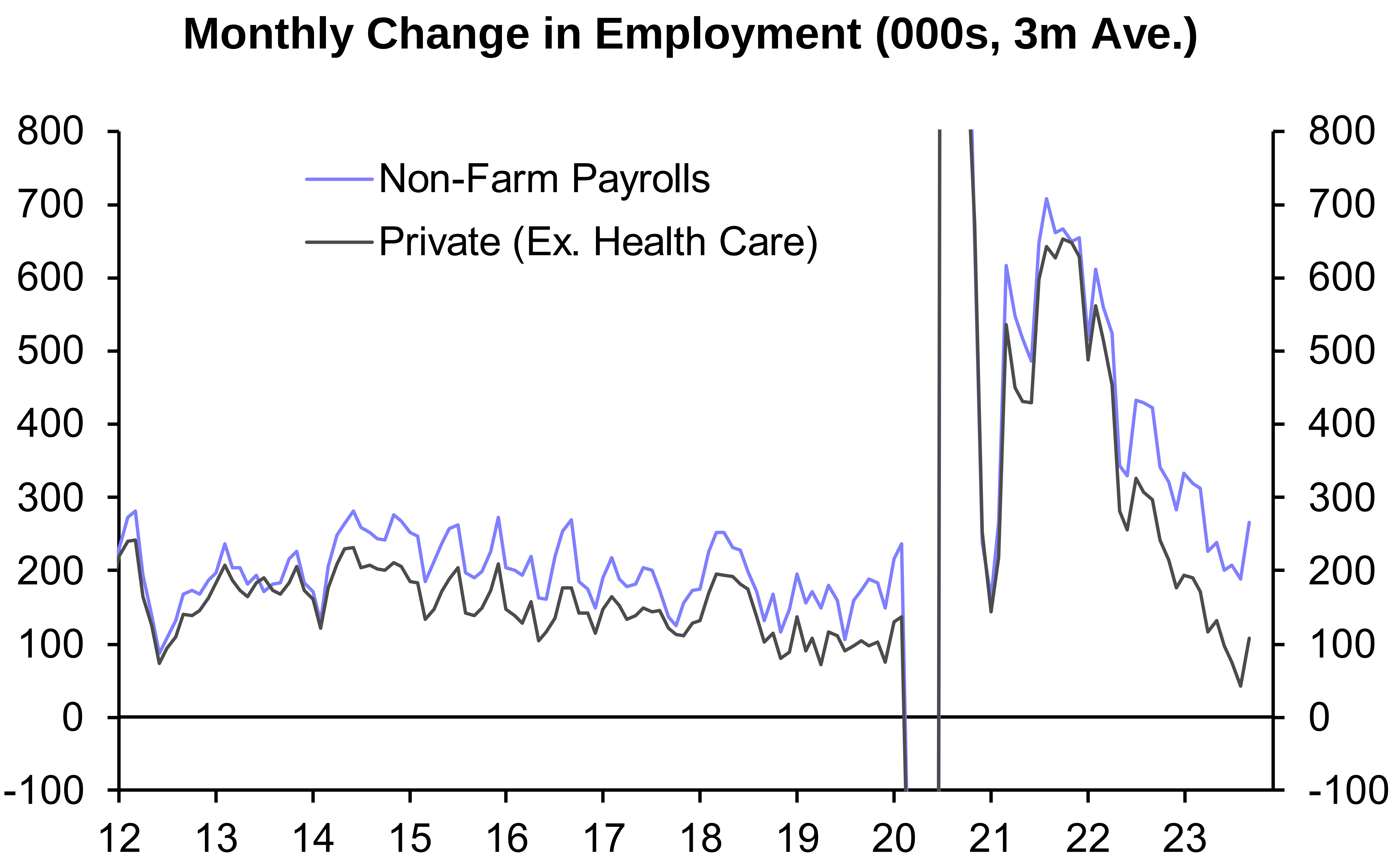
	GDP Forecasts (%y/y)			
	2022	2023	2024	2025
GDP	1.9	2.1	0.8	1.8
Consumption	2.5	2.2	1.1	1.6
Business Investment	5.2	3.8	1.4	3.3
Residential Investment	-9.0	-10.1	-1.0	2.1
Government Expenditure	-0.9	3.	0.6	0.9
Exports	7.0	2.8	2.0	2.3
Imports	8.6	-2.5	0.7	2.5

We expect employment growth to slow more markedly soon.



Sources: Refinitiv, Capital Economics

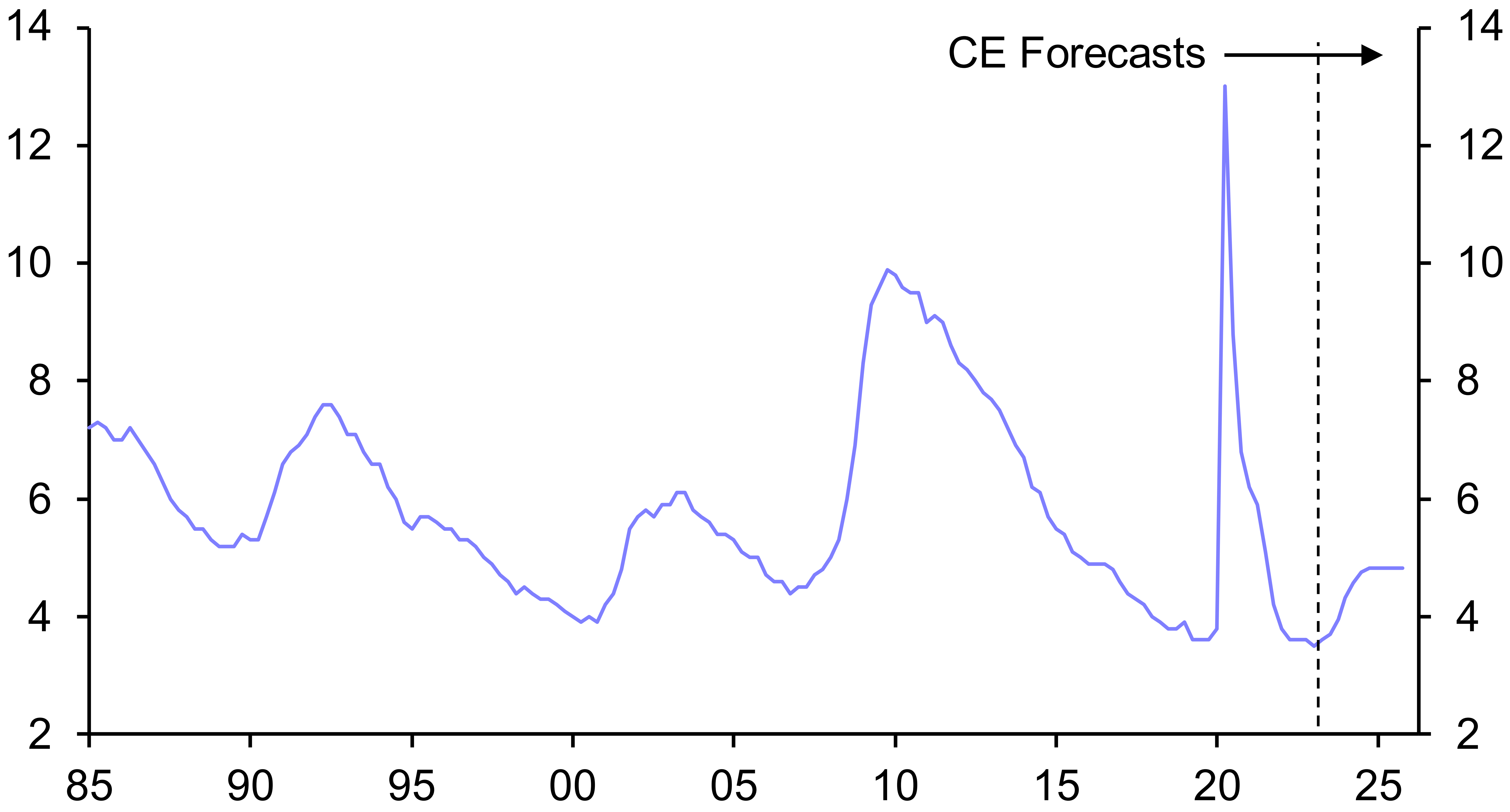
Government and healthcare hiring are still supporting payroll growth, although growth in more cyclical sectors also rebounded in September.



Source: Refinitiv

The recent rise in the unemployment rate was sustained in September, however, and we expect it to trend higher over the next 18 months.

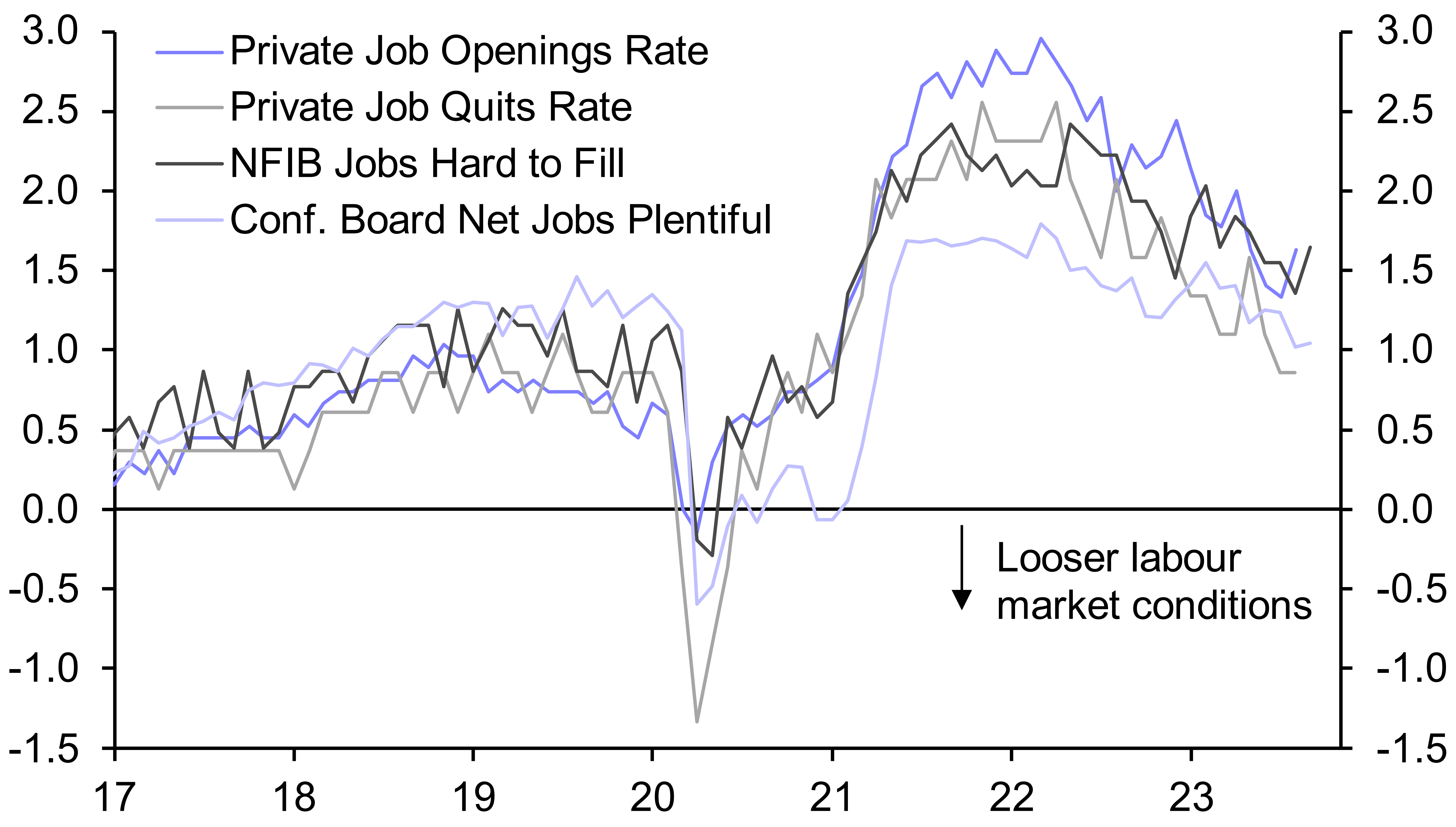
Unemployment Rate (%)



Sources: Refinitiv, Capital Economics

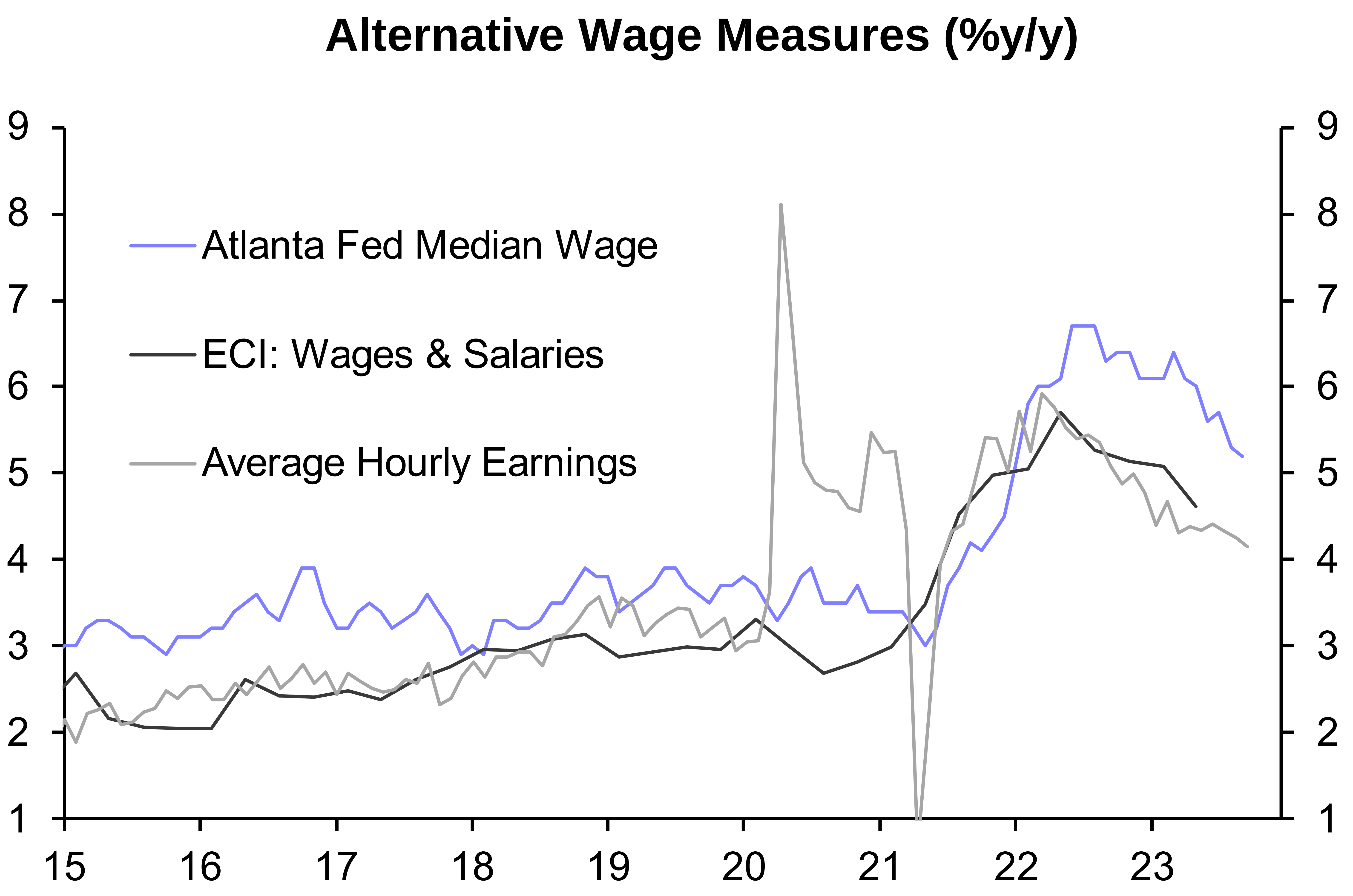
The earlier easing in other measures of slack has faltered slightly, but there is still a clear trend towards normalisation.

Indicators of Labour Market Slack (Standardised)



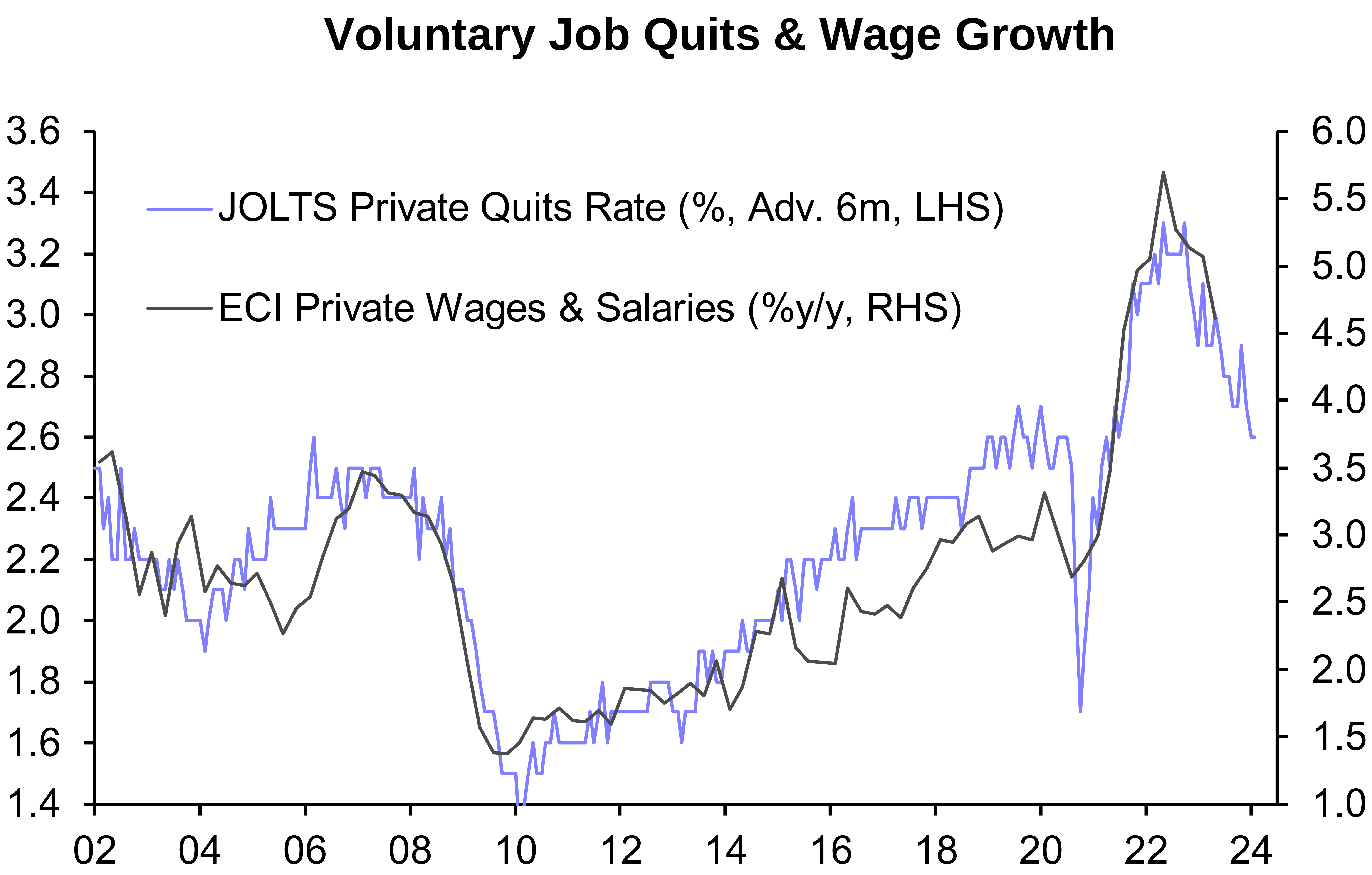
Sources: Refinitiv, Capital Economics

Despite resilient payroll growth, wage growth has continued to ease.



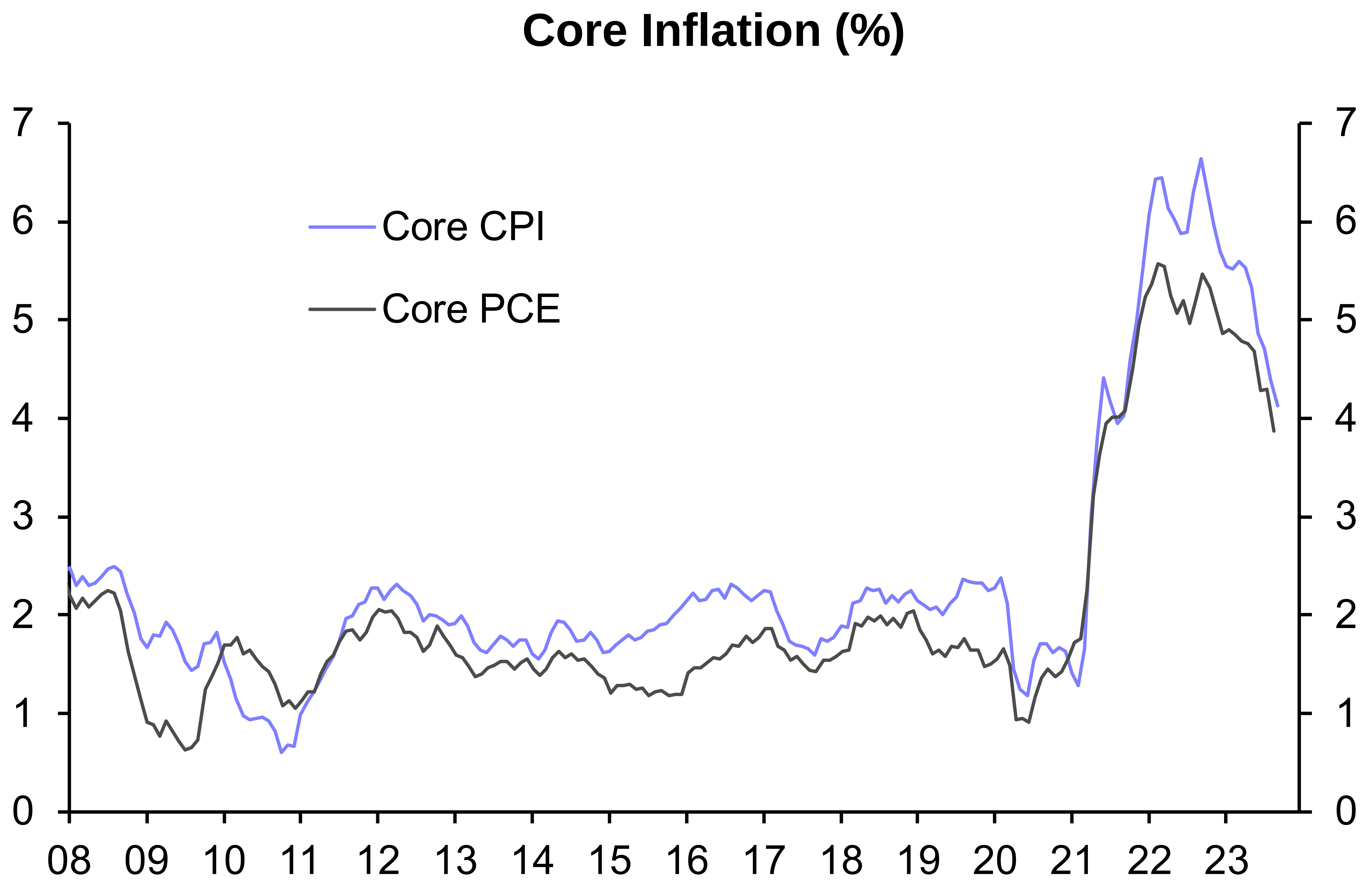
Source: Refinitiv

The decline in job quits points to a continued slowdown.



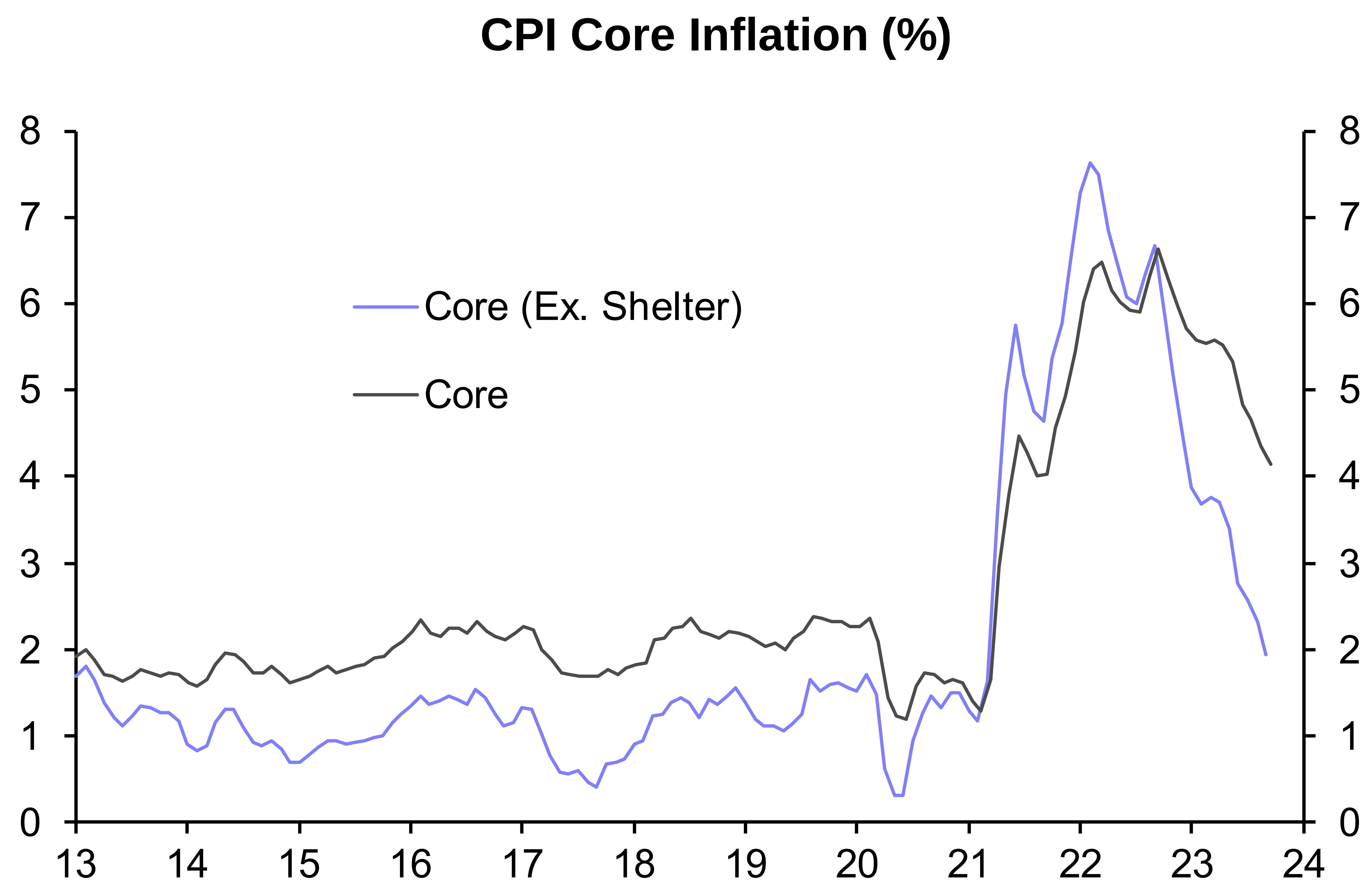
Source: Refinitiv

Core inflation remains elevated but has continued falling sharply.



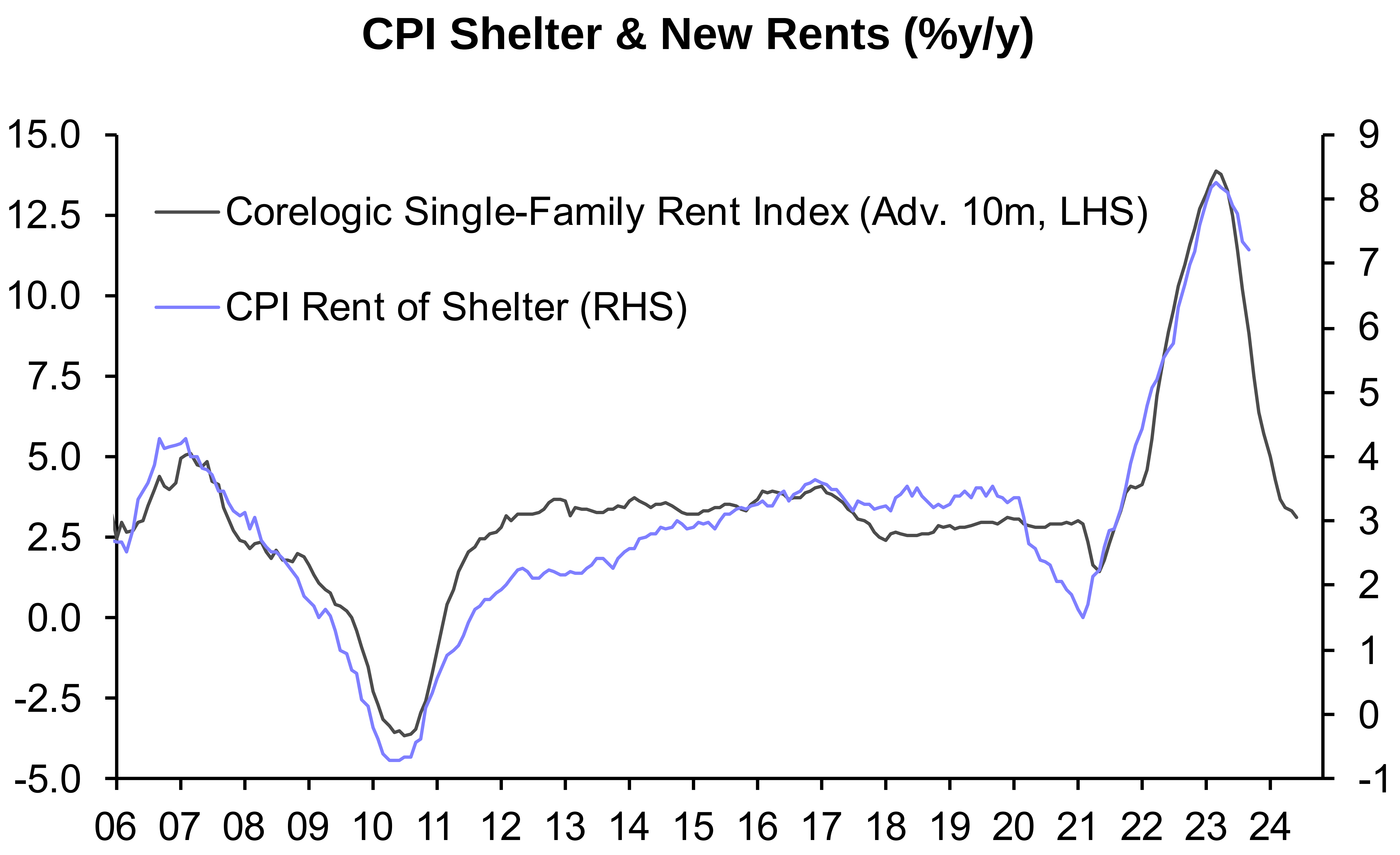
Source: Refinitiv

Excluding shelter, core CPI inflation has already fallen to 2%.



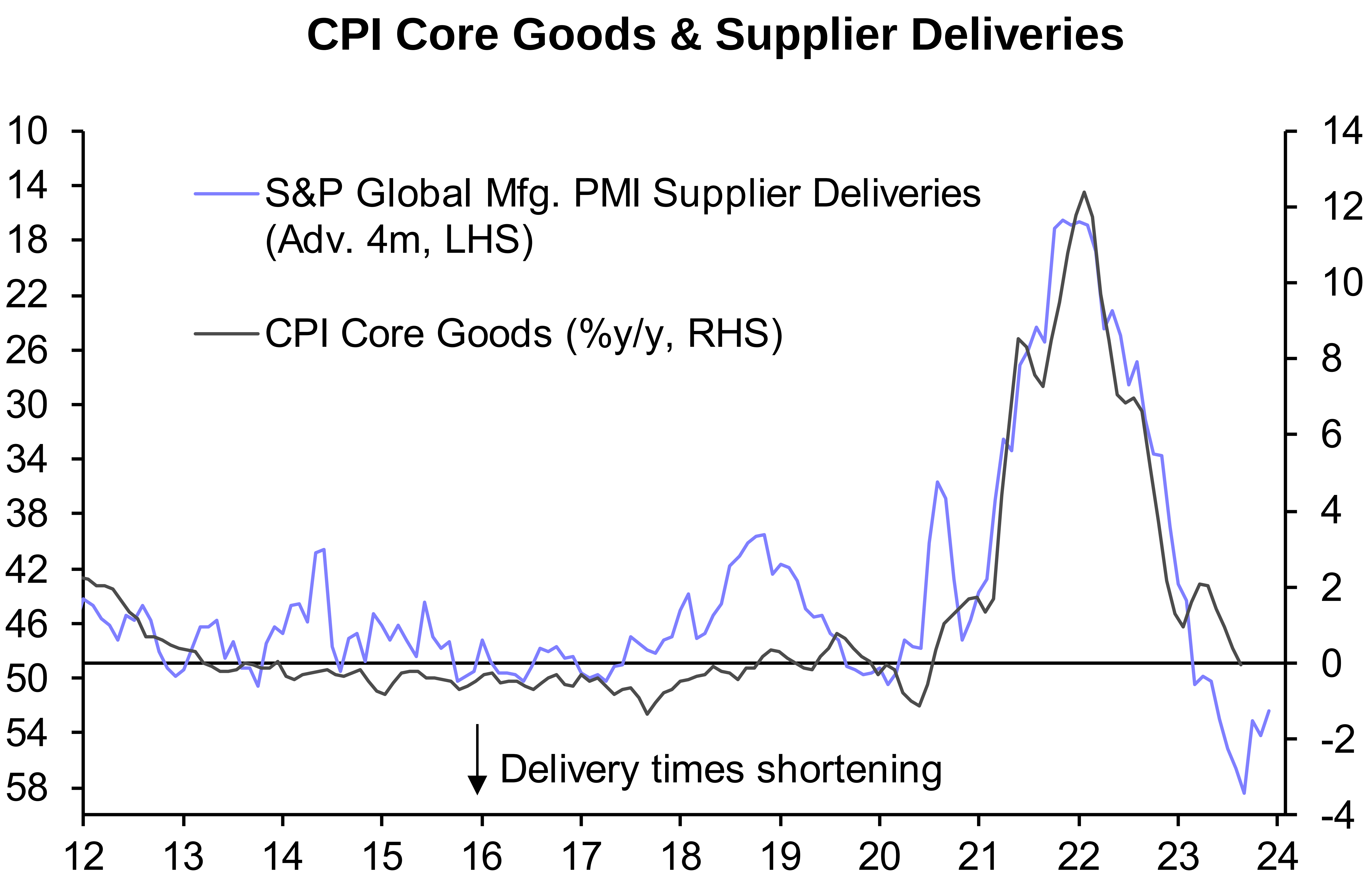
Source: Refinitiv

The stronger monthly gain in shelter prices in September looks to be a blip, with shelter inflation still likely to slow sharply from here.



Sources: Refinitiv, CoreLogic

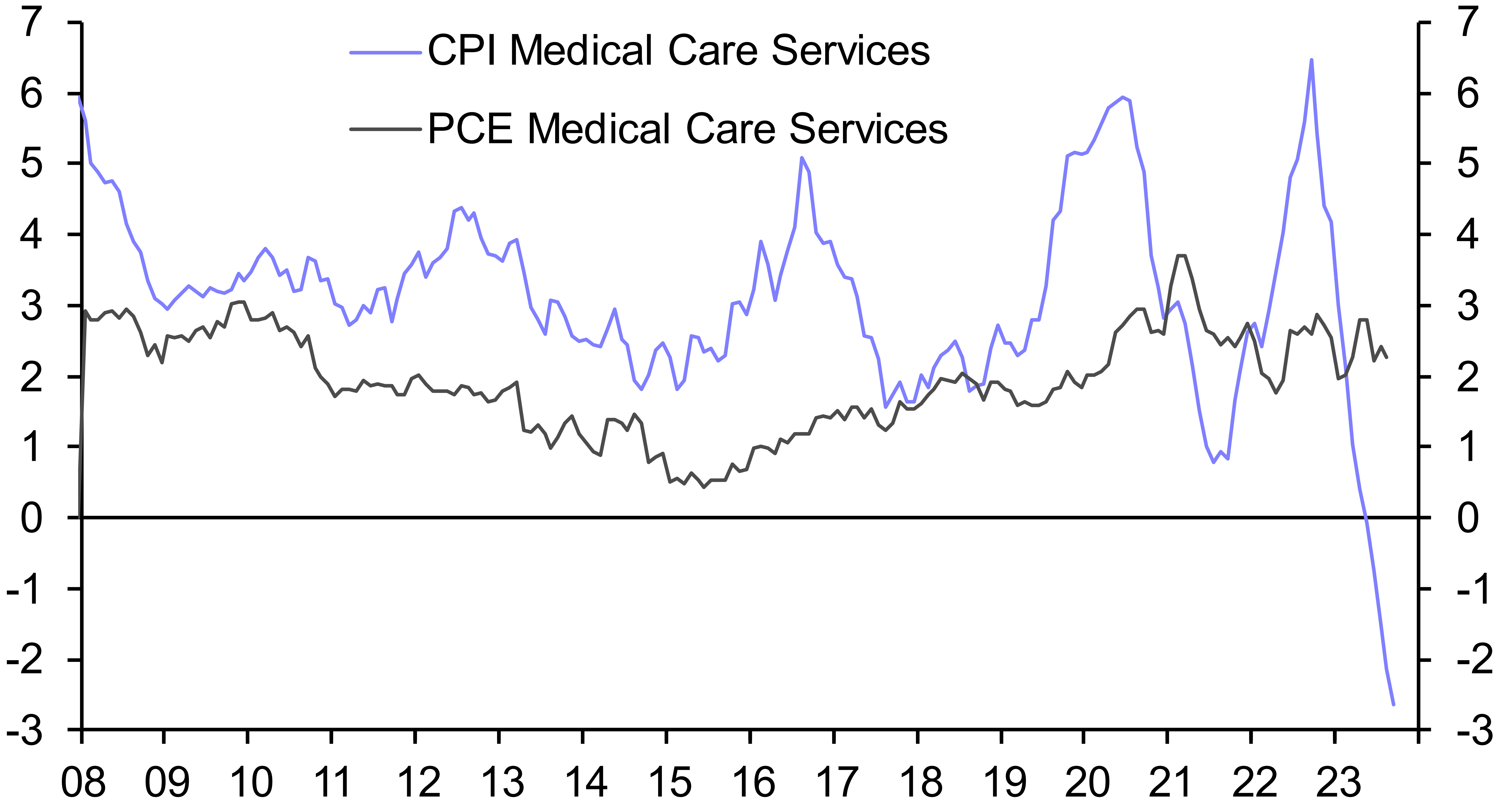
Core goods inflation may not fall much further, but there is no sign of a rebound.



Sources: Refinitiv, S&P Global

CPI medical services inflation will rebound from October as new data are incorporated, but the PPI data suggest the PCE measure remains stable.

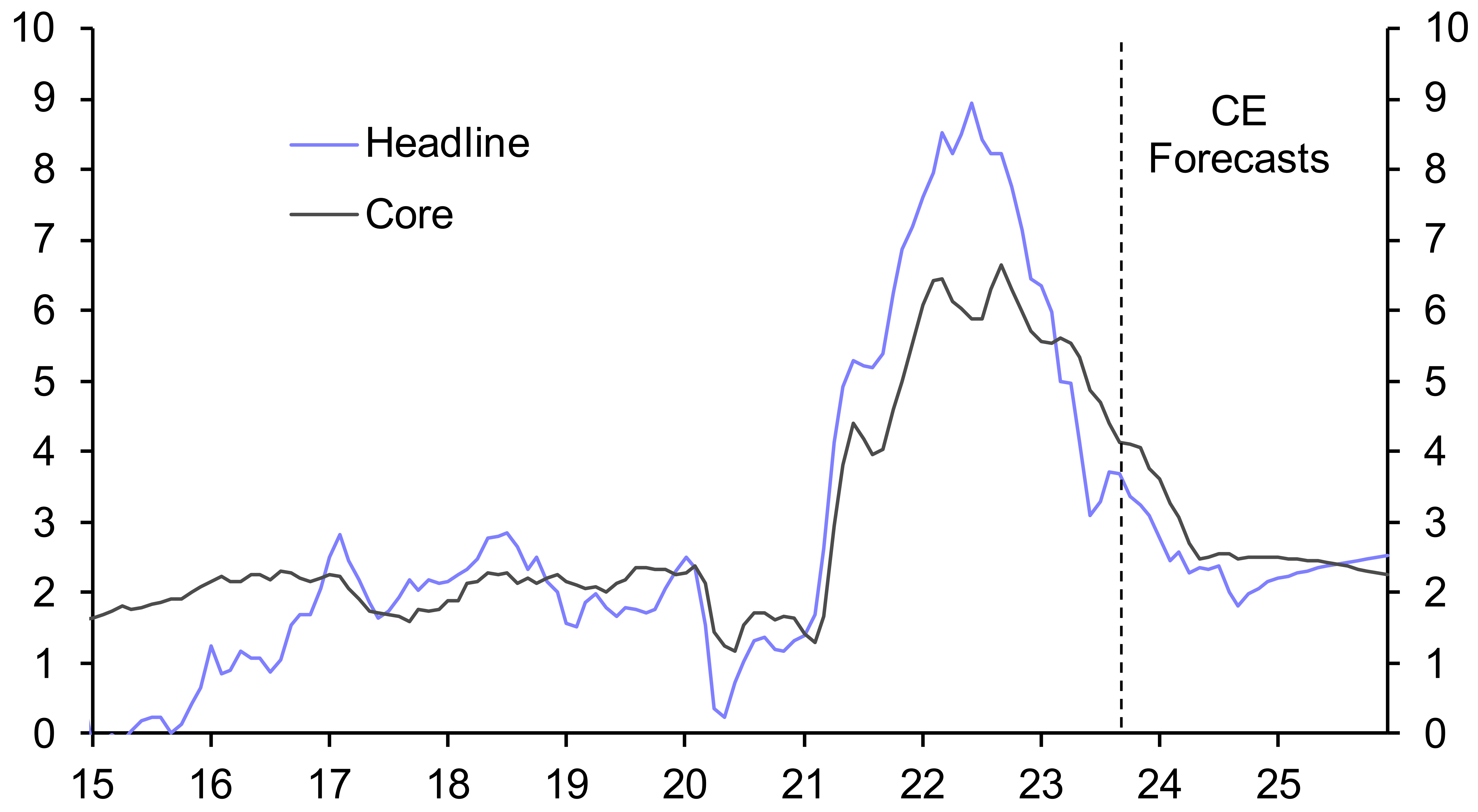
Medical Care Services Inflation (%)



Source: Refinitiv

We expect the downward trend in core inflation to continue, with the core CPI rate likely to be close to 2% by mid-2024.

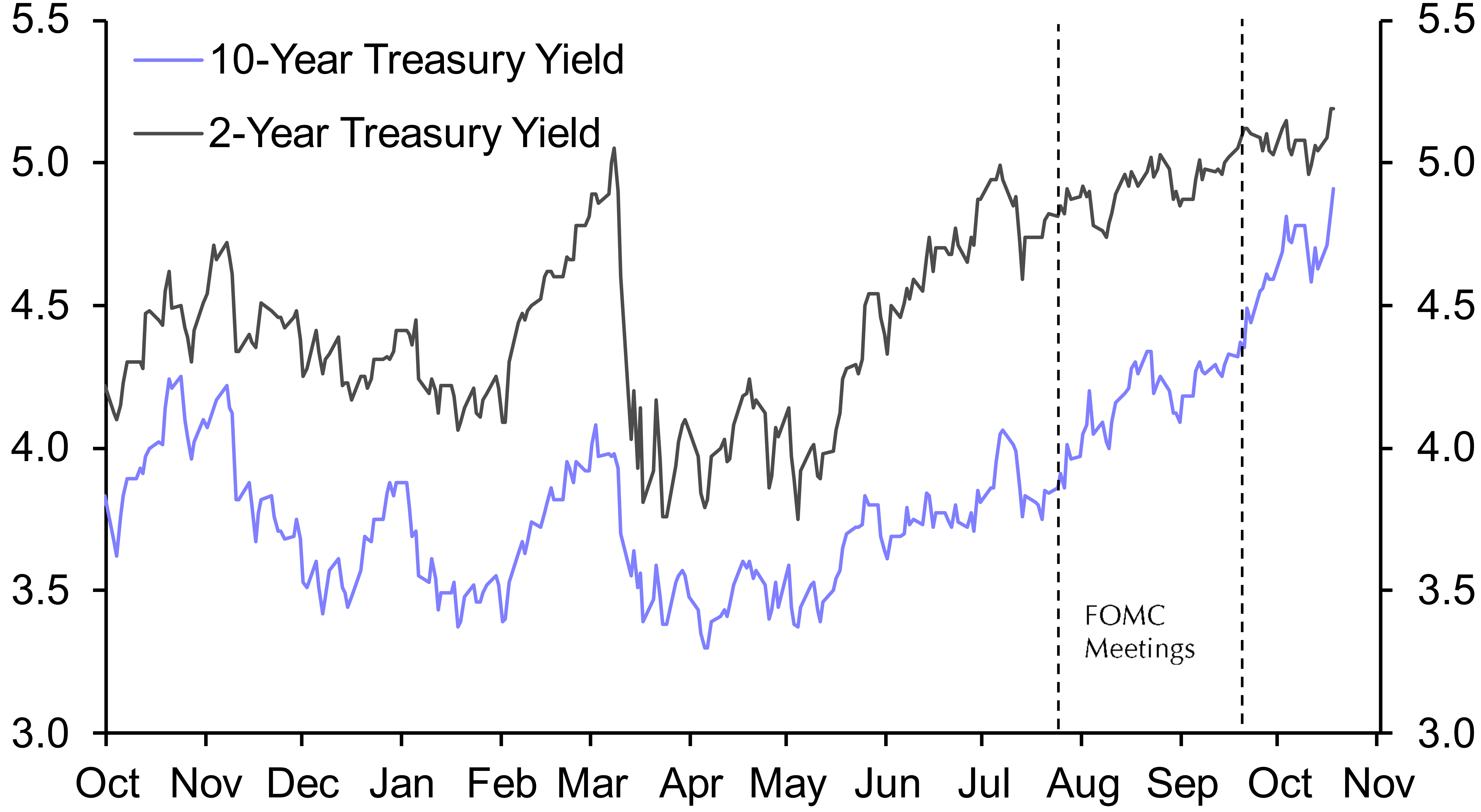
CPI Core Inflation (%)



Sources: Refinitiv, Capital Economics

The recent surge in long-term Treasury yields appears to be convincing Fed officials that there is less need for further policy rate hikes.

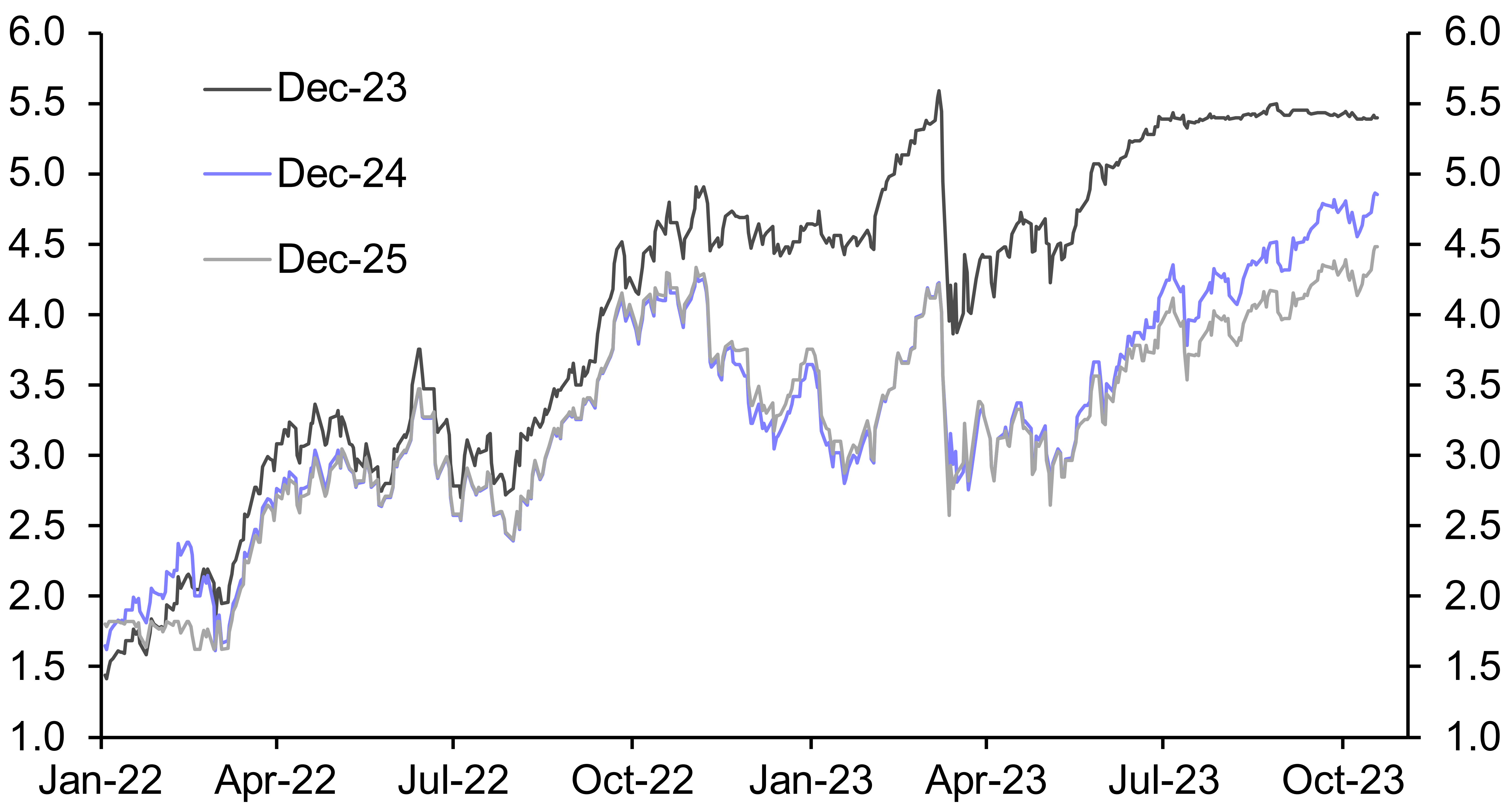
Treasury Yields (%)



Source: Refinitiv

That said, resilient activity growth has seen markets continue to revise up their rate projections for the next couple of years.

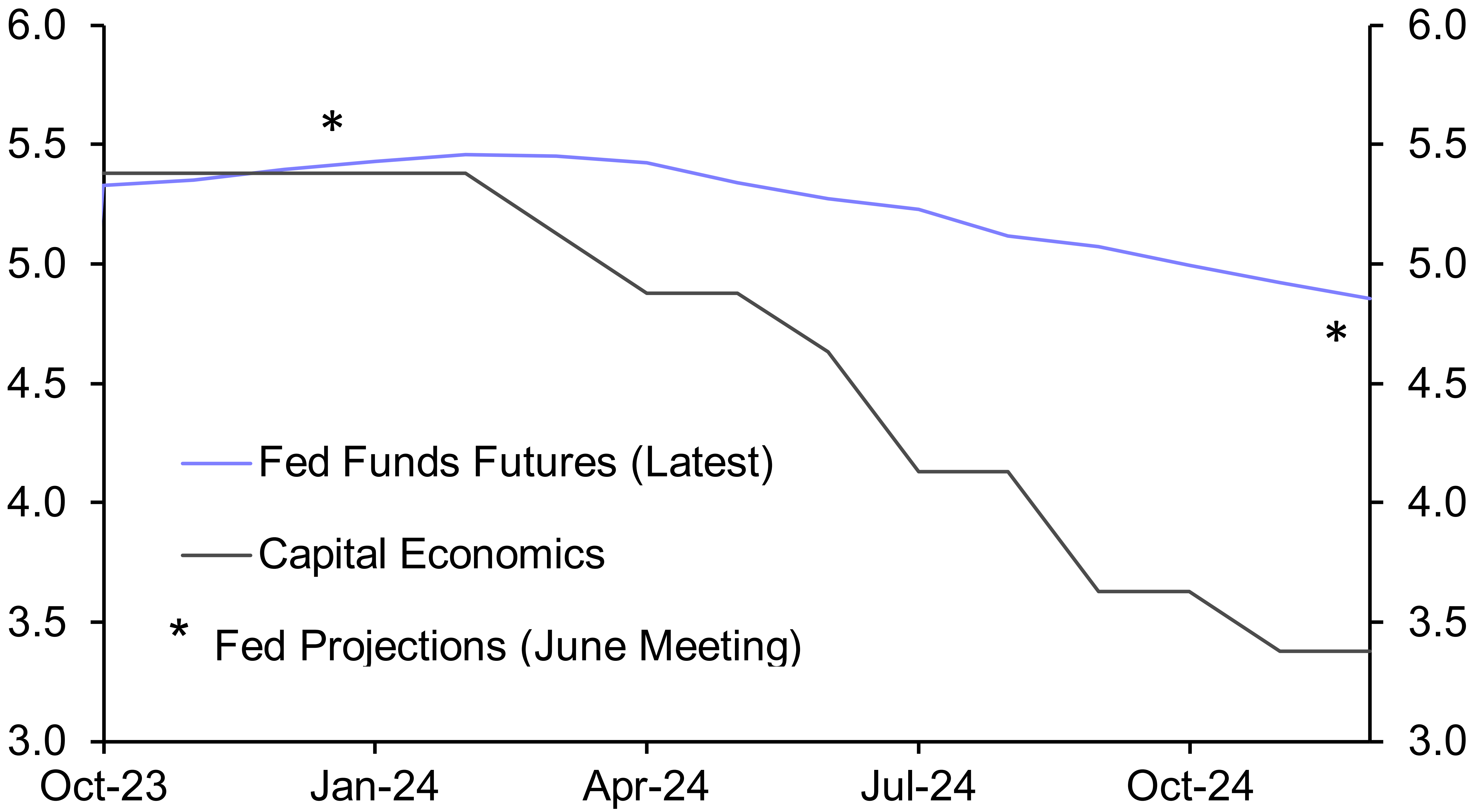
Fed Funds Rate Expectations (%)



Source: Refinitiv

We continue to think falling inflation and weaker growth will convince the Fed to cut more aggressively than markets are pricing in.

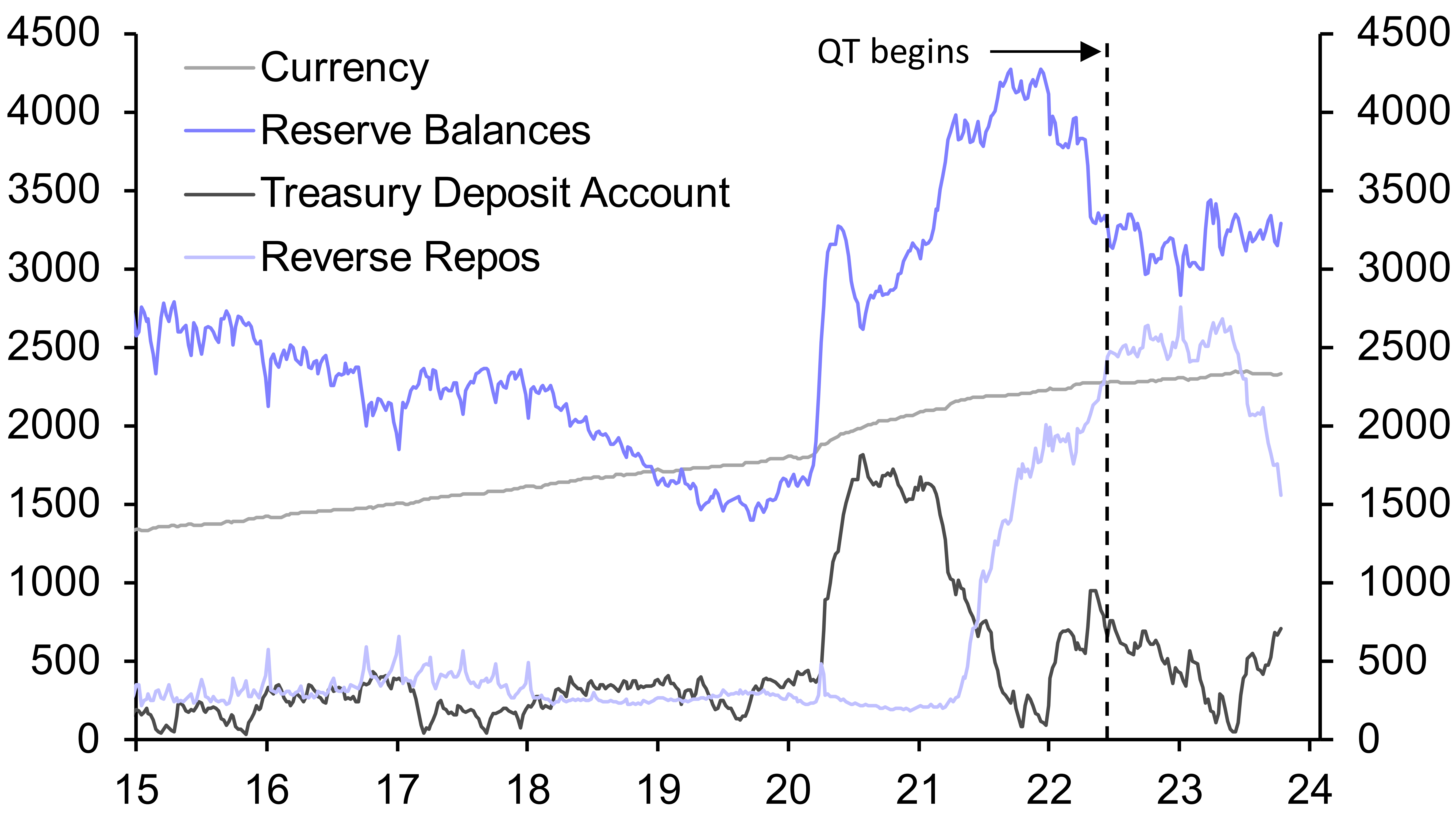
Fed Funds Rate Expectations (%)



Sources: Refinitiv, Capital Economics, Federal Reserve

Outflows from the Fed's RRP facility mean that QT hasn't yet put downward pressure on reserves. But we still suspect QT will end when rates are cut next year.

Selected Fed Liabilities ($bn)



Sources: Refinitiv, Capital Economics, Federal Reserve

	Key Macro Forecasts			
	2022	**2023**	**2024**	**2025**
GDP (%y/y)	1.9	2.1	0.8	1.8
Unemployment Rate (%)	3.6	3.7	4.6	4.8
Consumer Prices (%y/y)	8.0	4.1	2.2	2.4
Core Consumer Prices (%y/y)	6.1	4.7	2.6	2.4
Fed Funds Target Rate (%)	4.38	5.38	3.38	3.13

Europe – London
Capital Economics Ltd
5th Floor, 100 Victoria Street
Cardinal Place
London
SW1E 5JL

Telephone: +44 (0)20 7823 5000

Subscription enquiries: sales@capitaleconomics.com

Commissioned Projects:
commissionedprojects@capitaleconomics.com

General enquiries: business@capitaleconomics.com

North America – Toronto
Capital Economics (N.A.) Ltd
77 Bloor Street West, Suite 600
Toronto
M5S 1M2

Telephone: +1 416 413 0428

E-mail: business.na@capitaleconomics.com

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North America – New York
Capital Economics (USA) Inc
C/O Capital Economics (N.A.) Ltd
77 Bloor Street West, Suite 600
Toronto
M5S 1M2

Telephone: +1 416 413 0428

E-mail: business.us@capitaleconomics.com

Capital Economics (USA) Inc. is registered in the State of Delaware, 1209 Orange Street, Wilmington, New Castle, Delaware 19801, Registration No. 150368300

Asia – Singapore
Capital Economics (Asia) Pte. Ltd
Income At Raffles
#26-03, 16 Collyer Quay
Singapore 049318

Telephone: +65 6595 5190

E-mail: businessasia@capitaleconomics.com

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