

# Morning Market Tidbits

## The economy is cooling

### In focus

In our latest [US Economic Weekly](#), we highlight how the outsized gains in December retail sales were more noise than news on account of changes in seasonal adjustment factors that overwhelmed any actual change in spending. We look for a reversal of December's strength in January. Consumer spending may be healthy, but it is not surging or slumping, and we do not think that the report says much about the Fed's ability to cut rates beginning in March, as we expect. Furthermore, we look for another month of subdued PCE inflation in December, with headline and core rising by only 0.2%. Finally, in the advance estimate of 4Q US GDP, we expect the BEA to report that the economy grew by 1.5% q/q saar (Exhibit 1).

In our latest [Global Economic Weekly](#), we examine how the dynamic of the US economy contrasts with still anemic growth in the Euro area. Interestingly, economic activity in the Euro area remains subpar, and the market is also pricing more aggressive easing than the ECB is willing to validate. Meanwhile, China delivered 5.2% growth in 2023, in line with consensus, but sequential growth softened, and the property market remains weak, so more monetary and fiscal support should be under way.

#### Exhibit 1: We forecast that the economy grew by 1.5% q/q saar in 4Q 2023

Slower consumer spending and a drag from inventory accumulation likely weighed on growth in 4Q

	3Q23 actual		4Q23 forecast	
	% qoq saar	contrib, pp	% qoq saar	contrib, pp
Real GDP	4.9		1.5	
Consumer Spending	3.1	2.1	2.0	1.5
Residential Investment	6.7	0.3	1.0	0.0
Nonresidential Investment	1.5	0.2	3.0	0.4
Structures	11.2	0.3	3.5	0.1
Equipment	-4.4	-0.2	2.5	0.1
Intellectual Property	1.8	0.1	2.5	0.1
Government	5.8	1.0	2.0	0.4
Net Trade		0.0		0.1
Inventory Accumulation		1.3		-0.9

Source: BEA, Haver Analytics, BofA Global Research. contrib = contribution.

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### Market action

The Asian equity markets that we cover closed mixed overnight. Looking at individual markets, we note that the Shanghai Composite, the Hang Seng, and the Korean Kospi were down 2.7%, 2.3%, and 0.3%, respectively. On the flip side, the Nikkei rose 1.6%, while the Indian Sensex was closed.

As of 7:00 am ET, aggregate European stocks are up 0.5%, and S&P 500 futures are up 0.3%. In the bond markets, 10-year Treasury yields are down 3bp to 4.09%, and German Bund yields are down 5bp to 2.29%. The dollar index is down \$0.06 to \$103.23. WTI crude oil prices are \$0.33 higher at \$73.74/barrel, and gold prices are at \$2026.22/ounce.

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BEA: Bureau of Economic Analysis

ECB: European Central Bank

GDP: Gross Domestic Product

PCE: personal consumption expenditure

pp: percentage point

saar: seasonally adjusted annual rate

WTI: West Texas Intermediate

## Data Review

### University of Michigan consumer sentiment

Consumer sentiment continued to improve, surging to 78.8 in January from 69.7 previously. This marked the highest level since July 2021. Looking at the details, we note that both the current and future expectations indexes picked up noticeably, with consumers feeling more confident than before about the economic outlook. Strength in financial markets should have also boosted sentiment this month. Furthermore, there was good news on the inflation side, with both 1-year and 5- to 10-year inflation expectations ticking lower, coming in at 2.9% and 2.8%, respectively. The data supports our view that the Fed will begin cutting in March.

### Existing home sales

December existing home sales fell 1% m/m to 3.78M saar, ending the year at 4.1M (-19.3% y/y), the lowest level since 1995. All four regions continued to show weakness on the month, once again highlighting the tight existing homes market. Nevertheless, we expect lower mortgage rates to help ease the supply side and provide more options to potential buyers in the coming quarters.

## US GDP Tracking

### Exhibit 2: BofA US GDP tracking estimate (% q/q saar)

Our 4Q GDP tracking estimate is up two-tenths to 1.5% q/q saar, largely due to higher-than-expected December retail sales, housing starts and permits, and import prices

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CPI (level)
1/11/24	CPI	1.3	2.0	1.9	-0.2	3.3	2.8	2.5	2.3	2.2	2.2	-935.5	26.5
1/12/24	PPI	1.3	2.0	1.9	-0.2	<b>3.6</b>	2.8	2.5	2.3	2.2	2.2	-935.5	<b>27.0</b>
1/17/24	Retail Sales	<b>1.4</b>	<b>2.1</b>	<b>2.0</b>	<b>0.2</b>	3.6	2.8	2.5	2.3	2.2	2.2	-935.5	27.0
1/17/24	Industrial Production, Business Inventories	<b>1.3</b>	2.1	2.0	0.2	<b>3.5</b>	<b>2.5</b>	2.5	2.3	2.2	2.2	-935.5	<b>26.3</b>
1/17/24	Import and Export Prices	<b>1.4</b>	2.1	2.0	0.2	3.5	2.5	2.5	2.3	<b>2.4</b>	<b>1.8</b>	<b>-930.8</b>	26.3
1/18/24	Housing Starts and Permits	<b>1.5</b>	2.1	2.0	<b>0.6</b>	3.5	2.5	2.5	2.3	2.4	1.8	-930.8	26.3
	GDP tracking	1.5	2.1	2.0	0.6	3.5	2.5	2.5	2.3	2.4	1.8	-930.8	26.3
	Contribution to GDP growth (pp)				1.3	0.1	0.1	0.1	0.4			0.0	-0.7
	BofA official GDP forecast	1.5	2.5	2.0	1.0	3.5	2.5	2.5	2.0	2.5	2.0	-929.0	29.5

**Source:** BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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