

Morning Market Tidbits

Fed: a closer call for June

In focus

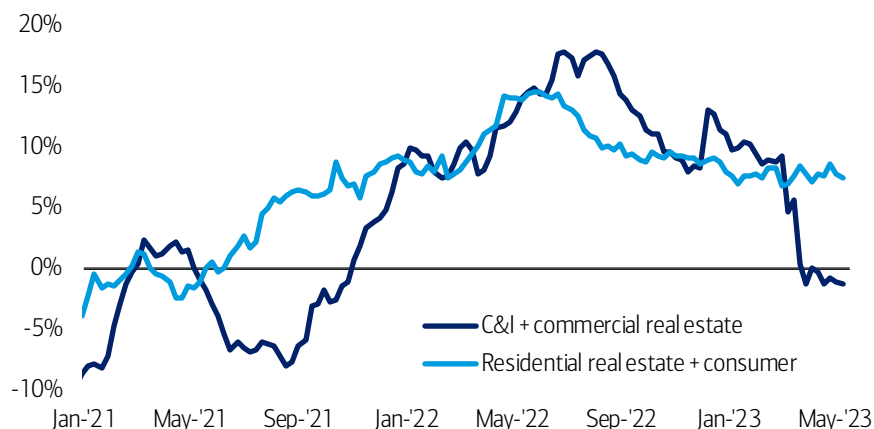
In our latest [US Economic Weekly](#), we argued that we still expected the Fed to keep policy rates unchanged at its June meeting, but it is a close call. We saw three conditions for a Fed hike. 1) strong data, 2) a debt ceiling increase, and 3) subdued regional bank stress. Inflation is too sticky for the Fed to commit to an extended pause. So, even if the Fed skips June, it will keep July in play.

Arguably, we have checked all these conditions with President Biden and Speaker Kevin McCarthy reaching a deal in principle to lift the debt-ceiling on Saturday (see: [US Viewpoint: Debt limit: Diminished tail risk 30 May 2023](#)). Therefore, we continue to see a strong likelihood that the Fed's next move will be a hike. Currently, we maintain our expectation for the Fed to leave rates unchanged at its June meeting, as we felt Chair Powell's comments on May 19 tilted towards skipping a move in June. However, it is a very close call.

In our latest Global Economic Weekly, we discuss the event Brookings recently hosted with the promising title "The Fed: Lessons Learned from the last three years". The near term take-away is that the Fed may have more work to do to get inflation under control. The long-term take-away is the Fed is likely to reverse a number of aspects of its framework in 2025. *(Continued on the next page)*

Exhibit 1: Loans at small and large banks, by category (13-week annualized growth rate)

Loans to business have slowed, but loans to consumers have not



Source: Federal Reserve Board

BofA GLOBAL RESEARCH

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Economics
United States

Ethan S. Harris
Global Economist
BofAS
+1 646 855 3755
ethan.harris@bofa.com

Shruti Mishra
US and Global Economist
BofAS
+1 646 855 1040
smishra44@bofa.com

US Economics
BofAS

See Team Page for List of Analysts

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Timestamp: 30 May 2023 07:59AM EDT

Market action

The Asian equity markets that we cover closed positive overnight. Looking at individual markets, the Shanghai Composite added 0.1%, the Hang Seng and Indian Sensex rose 0.2% each, while the Nikkei and the Korean Kospi were up 0.3% and 1.0% respectively.

As of 7:00 am ET, aggregate European stocks are down 0.1% and S&P500 futures are up 0.5%. In the bond markets, German Bund yields are down 5bp to 2.43%. WTI crude oil prices are down \$0.89 to \$71.78/bbl, and gold prices are at \$1955.49/oz.

Data preview

Data in the week ahead

Case-shiller HPI, Consumer confidence

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
5/30/23	9:00	Case-Shiller HPI (yoy)	Mar	1.5%	—	2.1%
5/30/23	10:00	Consumer Confidence	May	99.0	99.8	101.3

Source: Bloomberg

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Case-shiller HPI

S&P CoreLogic Case-Shiller national home price index likely grew 1.5% y/y in March, cooling further from the 2.1% y/y growth seen in February. Home price growth has been slowing over the past several months owing to the drop in sales over the past year. Low inventory in the existing homes market has limited the downside for home prices, and pushed buyers towards new homes where builders are offering more attractive rates than banks. The housing market is in the process of adjusting to a new equilibrium and we believe that the sector has neared a bottom, and anticipate some further cooling of housing prices until then.

Conference Board Consumer confidence

We expect the May consumer confidence index to tick lower to 99.0 from 101.3 previously. In April, confidence declined as consumers' concerns over the economic outlook worsened. Fears of weaker labor market conditions, a recession, and uncertainty around the latest debt ceiling debate should have pushed confidence lower in May.

Data review

Personal Income and Outlays

The personal income and outlays report signaled stronger than expected consumption and inflation. Indeed, nominal personal spending rose by 0.8% m/m, well above expectations for a 0.5% m/m print, and both headline and core inflation advanced by 0.4% m/m versus expectations for a 0.3% m/m print. The data suggest the consumer remained resilient in 2Q after weak months in February and March. Solid income growth of 0.4% m/m and a drawdown of excess savings continue to provide support for consumption. Meanwhile, inflation remains too high for the Fed's comfort as core PCE inflation has largely been moving sideways. (See: [US Watch: April data download: Capex and spending data offset by surge in imports 26 May 2023](#))

Advance Goods Trade Balance

The April advance goods trade deficit surprisingly widened to \$96.8bn from a revised \$82.7bn in March. This was higher than consensus and our expectations of a widening to \$86.0bn. The surprise reflected a 1.8% m/m increase in imports and a 5.5% plunge in exports. In our view, the rise in imports is indicative of resilient domestic demand while the drop in exports could reflect a weaker global outlook.

Durable Goods Orders

Durable goods orders also were stronger than expected. Headline orders rose by 1.1% m/m on strong transportation orders. That said, orders ex transportation edged down by 0.2% m/m despite core capital goods orders rising by 1.4% m/m. Importantly, core capital goods shipments also increased by a better than expected 0.5% m/m and the

jump in core capital goods orders suggest we may see further increases in the near-term.

Overseas data

Spain

May harmonized inflation came in at 2.9% yoy, below expectations at 3.3%. The national core CPI print came in at 6.1%, below expectations at 6.4%. Our Europe economists note that the national core print includes processed food (the Euro area core print does not) and that probably drove the large drop, but this print is still consistent with a moderate drop in the usual core inflation measure.



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Research Analysts

Ethan S. Harris
Global Economist
BofAS
ethan.harris@bofa.com

Michael Gapen
US Economist
BofAS
michael.gapen@bofa.com

Aditya Bhawe
US and Global Economist
BofAS
aditya.bhawe@bofa.com

Stephen Juneau
US Economist
BofAS
stephen.juneau@bofa.com

Jeseo Park
US and Global Economist
BofAS
jeseo.park@bofa.com

US Economics