

US Economic Weekly

Kicked cans, strategic strikes and ripping rates

Key takeaways

- Several factors are clouding the US economic outlook for the coming months. We still see risks of a shutdown in November.
- The UAW strike has caused less pain than expected so far, but that could change.
- Rapid tightening of financial conditions poses risks to residential and business investment.

Shutdown: averted or just delayed?

When it comes to the near-term US economic outlook, uncertainty is the name of the game. Let's start with the funding of the federal government. Congress averted a shutdown last weekend, passing a continuing resolution through November 17. Unfortunately, while kicking the can down the road, the House stubbed its toe. The bipartisan agreement cost House Speaker McCarthy his job. This means that the business of electing a new speaker – which by all accounts will be very challenging – is likely to keep the House distracted from working on appropriations bills in coming days.

What does this mean for our forecasts? We assume for now that the government will remain funded. But we think risks of a shutdown on November 17 are significant, and any potential shutdown could be protracted. This is because any bill coming out of the House would likely need the support of the far-right Republicans who ousted McCarthy. But it would also have to get through the Democrat-controlled Senate and be signed by President Biden. That is a fine needle to thread. For now we remind readers that a shutdown would subtract about 0.1pp per week from GDP growth because of the decline in hours worked. This drag would get mechanically paid back in the following quarter.

UAW strikes: so far, so small

Our initial estimate of the impact of the UAW (United Auto Workers) strike was a 10-15bp drag on GDP growth per week, based on the premise that all 150k union members who work at the big three car companies would go on strike. However, the impact of the strike has been much smaller so far, because the UAW has chosen to start small and gradually ramp up the number of workers on strike. In the initial wave, only 13k workers went on strike. That number has since increased to 25k. Our auto analysts estimate that the impact on production has been roughly proportionate. This means, for example, that the GDP headwind from the 25k workers on strike has been only around one-sixth of what we initially estimated.

Therefore, the impact of the strike on 3Q GDP should be negligible. What about 4Q? While we originally considered only one dimension of uncertainty – the length of the strike – we now have to consider another: the speed at which it ramps up. This makes forecasting more difficult. We think a reasonable base case is that the strike lasts four-to-six more weeks and takes 0.2-0.3pp off 4Q GDP. But one confounding factor is that these “strategic strikes” are less of a drain on UAW's ~\$825mn strike fund. This gives the union greater leverage because it has the capacity to draw out the strike for longer.

06 October 2023

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CPI = Consumer Price Index

PPI = Producer Price Index

FOMC: Federal Open Market
CommitteeSAAR = Seasonally Adjusted
Annualized Rate

UAW = United Auto Workers

SEP = Summary of Economic
Projections

QT = Quantitative Tightening

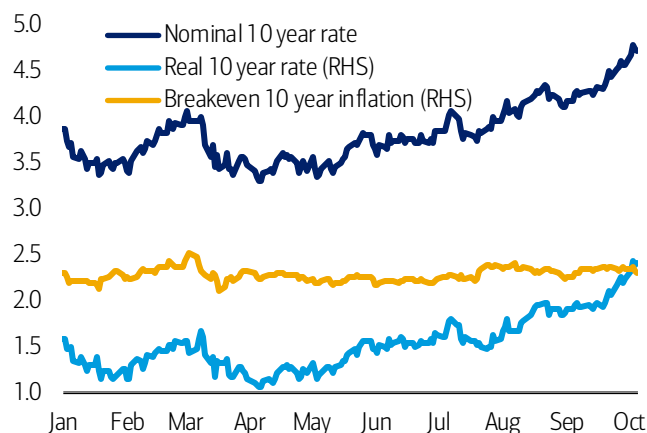
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Timestamp: 06 October 2023 04:30AM EDT

Exhibit 1: 10 year Nominal, real rate and breakeven inflation (%)

Since end-August, the 10-year yield has moved almost 60bp, with essentially the entire move in real rates

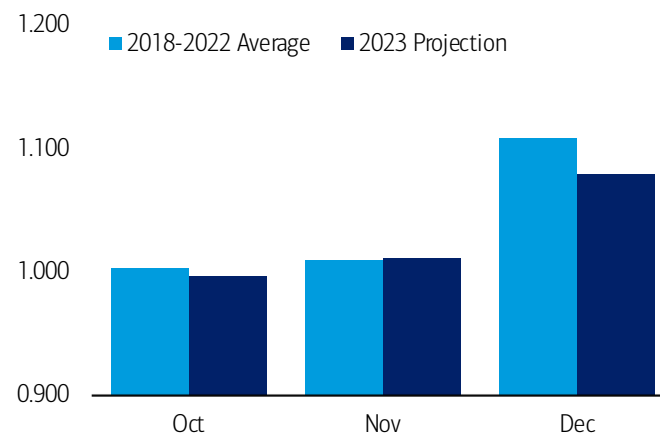


Source: Bloomberg

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Exhibit 2: Headline retail sales seasonal factors (%)

The Census Bureau is projecting a more favorable seasonal adjustment for retail sales in December 2023 than in prior Decembers



Source: Haver Analytics, Census Bureau

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A real drag

A third potential disruption to the economy in the coming months is the rapid tightening of financial conditions over the last few weeks. Since end-August, the 10-year yield has moved almost 60bp, with essentially the entire move in real rates (Exhibit 1). If financial tightening proves persistent, we would probably see its impact most clearly in residential and business investment. Residential investment is on track in 3Q 2023 for its first quarterly increase since 1Q 2021. However, the surge in mortgage rates increases risks of a double dip. Meanwhile, as we have noted ad nauseum, business investment has surged this year on the back of fiscal policy. While fiscal support remains in place, we think it is unlikely that business investment can continue to grow at its recent robust pace in an environment of much higher interest rates.

Other concerns: consumer handoff and student loans

A conspicuous omission from the concerns listed above is the consumer. We remain relatively sanguine on consumer spending in the near term, given a resilient labor market and healthy balance sheets. Nonetheless, there are (likely one-off) downside risks to consumer spending in 4Q. The first is the handoff from 3Q. We are tracking 3.5% spending growth in 3Q in q/q saar terms, but much of the strength was front-loaded into July. Therefore, the hand-off to 4Q spending is weak, raising the risks of weak spending growth in the quarter. On the flip side, the Census Bureau is projecting a more favorable seasonal adjustment for retail sales in December 2023 than in prior Decembers (Exhibit 2). This is likely because seasonal factors have caught up to the more front-loaded nature of holiday spending in recent years. If the actual seasonal factors are close to the projected ones, spending in 4Q would get a bump up.

The other concern is the resumption of student loan repayments. Our base case is that the resulting drag will be worth around 0.3pp on consumer spending growth or 0.2pp of GDP growth on a q/q saar basis. However, the impact would be larger if a meaningful share of consumers i) did not adjust spending in anticipation of the restart, and ii) do not take advantage of the on-ramp. We think both of these conditions are unlikely to be simultaneously met, but even if they are, we would basically see a level-shift down in spending and little to no drag to spending growth from 1Q 2024 onwards.

Bottom line: risks to 4Q are to the downside

The bottom line is that the risks to our forecast of 1.5% 4Q GDP growth (q/q saar) are skewed to the downside. But until we get more clarity on the above factors, the magnitude of this downside risk will likely remain an open question.

US GDP Tracking

3Q up to 3.7% q/q saar from 2.8% q/q saar

Higher than expected real personal consumption expenditure (PCE) in August and upward revisions to July pushed up our PCE tracking estimate.

August advance goods trade deficit surprisingly narrowed against expectations of a widening. This increased our net exports tracking estimate. Wholesale inventories in August came in line with expectations but retail inventories surprised to the upside thereby increasing our 3Q inventory accumulation estimate.

In construction spending, upward revisions to June and July state and local construction spending and higher than expected residential spending were offset by slightly lower than expected spending in some non-residential components. This increased our government and residential estimates and decreased our structures tracking.

September vehicle sales came in slightly higher than expected and increased our PCE and equipment tracking estimate.

Given the smaller than anticipated impact of the UAW strike, we increased our inventory estimate to slightly offset what we took off since the strike began.

Overall, the data flow since our last weekly pushed up our 3Q US GDP tracking estimate from 2.8% to 3.7% q/q saar. Next week, August wholesale inventories, September CPI and PPI will affect our GDP tracking.

Exhibit 3: BofA US GDP tracking estimate (% q/q saar)

Our 3Q US GDP tracker got pushed up to 3.7% q/q saar largely on the back of higher than expected real PCE in August and upward revisions to July and unexpected narrowing in the August advance goods trade deficit

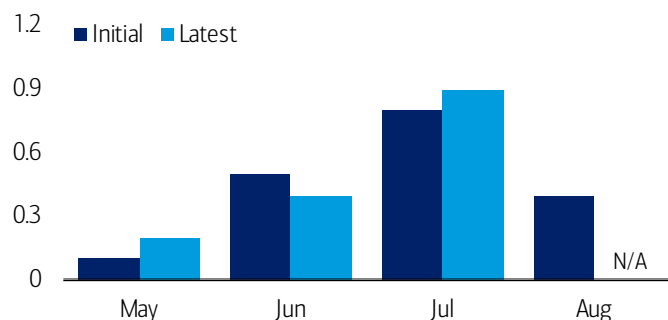
Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
9/28/23	2Q GDP Third Estimate	2.8	2.7	2.6	2.4	7.6	8.1	4.3	0.0	7.1	3.9	-918.3	19.4
9/29/23	Personal Income & Outlays	3.3	3.2	3.4	2.4	7.6	8.1	4.3	0.0	7.1	3.9	-918.3	19.4
9/29/23	Advance Goods Trade Balance	3.6	3.2	3.4	2.4	7.6	8.1	4.3	0.0	8.3	2.5	-899.8	19.4
9/29/23	Wholesale and Retail Inventories	3.7	3.2	3.4	2.4	7.6	8.1	4.3	0.0	8.3	2.5	-899.8	20.5
9/29/23	UAW Strike Add Factor (negative)	3.6	3.2	3.4	2.4	7.6	8.1	4.3	0.0	8.3	2.5	-899.8	20.0
10/2/23	Construction Spending	3.6	3.2	3.4	2.8	5.5	8.1	4.3	0.1	8.3	2.5	-899.8	20.0
10/4/23	Vehicle Sales, Factory Orders	3.6	3.3	3.5	2.8	5.5	8.5	4.3	0.1	8.3	2.5	-899.8	17.3
10/5/23	Trade Balance	3.6	3.3	3.5	2.8	5.5	8.5	4.3	0.1	8.4	2.6	-899.6	17.3
10/5/23	UAW Strike Add Factor (positive)	3.7	3.3	3.5	2.8	5.5	8.5	4.3	0.1	8.4	2.6	-899.6	17.8
	GDP tracking	3.7	3.3	3.5	2.8	5.5	8.5	4.3	0.1	8.4	2.6	-899.6	17.8
	Contribution to GDP growth (pp)			2.3	0.1	0.2	0.4	0.2	0.0			0.6	-0.2
	BofA official GDP forecast	2.0	2.0	2.0	2.5	5.0	6.0	4.0	0.5	3.0	3.5	-937.0	9.0

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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Exhibit 4: Personal Spending (nominal, m/m % change)

Personal spending was revised upwards for July

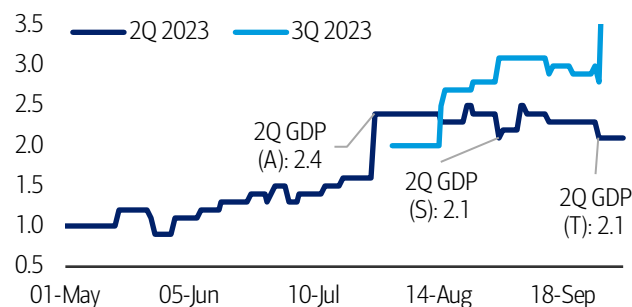


Source: Bloomberg

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Exhibit 5: 3Q and 2Q GDP tracking evolution (% q/q, SAAR)

3Q US GDP tracking got pushed up to 3.7% q/q saar from 2.8% since our last weekly publication



Source: BofA Global Research

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Data in the past week

Data in the past week (Oct 2-6)

Last week's focus was on ISM Manufacturing and Services, Factory Orders, Construction Spending

Date	Time	Indicator	Period	Actual	Consensus	Previous
10/02/23	9:45	S&P Global US manufacturing PMI	Sep F	49.8	48.9	48.9
10/02/23	10:00	Construction Spending (mom)	Aug	0.5%	0.5%	0.9%
10/02/23	10:00	ISM Manufacturing	Sep	49.0	47.9	47.6
10/03/23	10:00	JOLTS Job Openings	Aug	9610k	8815k	8920k
10/03/23	All day	Total Vehicle Sales	Sep	15.7M	15.4M	15.0M
10/04/23	7:00	MBA Mortgage Applications	Sep 29	-6.0%	—	-1.3%
10/04/23	8:15	ADP Employment	Sep	89k	150k	180k
10/04/23	9:45	S&P Global US services PMI	Sep F	50.1	50.2	50.2
10/04/23	10:00	Factory Orders	Aug	1.2%	0.3%	-2.1%
10/04/23	10:00	ISM Services	Sep	53.6	53.5	54.5
10/05/23	8:30	Initial Jobless Claims	Sep 30	207k	210k	205k
10/05/23	8:30	Trade Balance	Aug	-\$58.3b	-\$59.8b	-\$64.7b
10/06/23	8:30	Change in Nonfarm Payrolls	Sep	NR	170k	187k
10/06/23	8:30	Private Payrolls	Sep	NR	158k	179k
10/06/23	8:30	Unemployment Rate	Sep	NR	3.7%	3.8%
10/06/23	8:30	Average Hourly Earnings mom	Sep	NR	0.3%	0.2%
10/06/23	8:30	Average Weekly Hours	Sep	NR	34.4	34.4
10/06/23	15:00	Consumer Credit	Aug	NR	\$11.7b	\$10.4b

Source: Bloomberg, BofA Global Research

NR: Not Released

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Core views

Growth

- We expect a soft landing for the US economy, where growth falls below trend in 2024, but remains positive throughout our forecast horizon. We forecast US GDP growth of 2.0% (4Q/4Q) this year, 0.7% in 2024, and 1.8% in 2025. This is about 0.5pp and 0.7pp higher in 2023 and 2024 than we assumed previously.

Inflation

- We now have PCE inflation falling to 2.2% y/y in 2H 2025, about two quarters later than in our prior mild recession baseline. Our expectations for the four-quarter change in core PCE inflation is 3.8% in 2023, 2.8% in 2024, and 2.2% in 2025.

Federal Reserve

- After the September pause, in a close call, we continue to expect one additional 25bp rate hike in November for a terminal target range of 5.50-5.75%. We expect the first rate cut in June 2024 and quarterly 25bp reductions in the policy rate for a total of 75bp of rate cuts in 2024 and 100bp of cuts in 2025.

Data in the week ahead

Data in the week ahead (Oct 9 – Oct 13)

Next week the focus will be on the September CPI, PPI and FOMC Minutes

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
10/10/23	6:00	NFIB Small Business Optimism	Sep	—	—	91.3
10/10/23	10:00	Wholesale Inventories	Aug F	—	—	-0.1%
10/11/23	7:00	MBA Mortgage Applications	Oct 6	—	—	-6.0%
10/11/23	8:30	Producer Price Index (mom)	Sep	0.2%	0.3%	0.7%
10/11/23	8:30	PPI Ex Food & Energy (mom)	Sep	0.3%	0.2%	0.2%
10/11/23	8:30	PPI Ex Food, Energy, Trade (mom)	Sep	0.3%	0.2%	0.3%
10/11/23	14:00	FOMC Meeting Minutes	Sep			
10/12/23	8:30	Initial Jobless Claims	Oct 07	210k	—	207k
10/12/23	8:30	Consumer Price Index (yoy)	Sep	3.6%	3.6%	3.7%
10/12/23	8:30	CPI Ex Food & Energy (yoy)	Sep	4.1%	4.1%	4.3%
10/12/23	8:30	Consumer Price Index (mom)	Sep	0.3%	0.3%	0.6%
10/12/23	8:30	CPI Ex Food & Energy (mom)	Sep	0.2%	0.3%	0.3%
10/12/23	14:00	Monthly Budget Statement	Sep	-\$160.0bn	—	\$89.3bn
10/13/23	8:30	Import Price Index (mom)	Sep	0.8%	0.6%	0.5%
10/13/23	8:30	Import Price Index ex Petroleum (mom)	Sep	-0.1%	—	0.0%
10/13/23	10:00	U. of Michigan Sentiment	Oct P	67.5	67.5	68.1

Source: Bloomberg, BofA Global Research

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Monday, Oct 9

Columbus Day Holiday

Tuesday, Oct 10

Data in the week ahead

NFIB Small Business Optimism

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
10/10/23	6:00	NFIB Small Business Optimism	Sep	—	—	91.3
10/10/23	10:00	Wholesale Inventories	Aug F	—	—	-0.1%

Source: Bloomberg, BofA Global Research

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Wednesday, Oct 11

Data in the week ahead

PPI, FOMC Meeting Minutes

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
10/11/23	7:00	MBA Mortgage Applications	Oct 6	—	—	-6.0%
10/11/23	8:30	Producer Price Index (mom)	Sep	0.2%	0.3%	0.7%
10/11/23	8:30	PPI Ex Food & Energy (mom)	Sep	0.3%	0.2%	0.2%
10/11/23	8:30	PPI Ex Food, Energy, Trade (mom)	Sep	0.3%	0.2%	0.3%
10/11/23	14:00	FOMC Meeting Minutes	Sep			

Source: Bloomberg, BofA Global Research

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Producer Price Index (PPI)

Headline PPI likely rose by 0.2% m/m in September, which would be a moderation from August but roughly in line with the trailing three month average. Should our forecast prove correct, it would result in the y/y rate ticking down a tenth to 1.5% y/y. Excluding food and energy, we look for core PPI to advance by 0.3% m/m and core-core PPI (excluding food, energy and trade services) to also increase by 0.3%.

FOMC Meeting Minutes

The biggest surprise of the September FOMC meeting was the evolution of the Summary of Economic Projections (SEP). The dot plot was hawkish, but the Fed's economic forecasts were remarkably sanguine. There was almost no change to the inflation path despite significant upward revisions to growth, which now barely falls below trend, and downward revisions to the unemployment rate. We view this as a "no landing" forecast.



We will be interested in commentary around the economic outlook in the September minutes. What are the factors that have made the Fed more optimistic about avoiding not just a recession but even a significant economic slowdown? And how much agreement was there on the committee about these factors?

We will also be focused on any commentary around the level of neutral rates. Several participants raised their longer run rate forecasts, even though the longer run median did not change. And the 2026 median dot was above the longer run median, even though the economic forecasts for 2026 were in line with the longer run forecasts. In our view, all of this suggests that the FOMC is gradually coming around to the view that the neutral rate has risen, at least modestly.

Thursday, Oct 12

Data in the week ahead

Jobless claims, CPI, Monthly Budget Statement

Date	Time	Indicator	Period	BofA	Consensus	Previous
				Estimate		
10/12/23	8:30	Initial Jobless Claims	Oct 07	210k	—	207k
10/12/23	8:30	Consumer Price Index (yoy)	Sep	3.6%	3.6%	3.7%
10/12/23	8:30	CPI Ex Food & Energy (yoy)	Sep	4.1%	4.1%	4.3%
10/12/23	8:30	Consumer Price Index (mom)	Sep	0.3%	0.3%	0.6%
10/12/23	8:30	CPI Ex Food & Energy (mom)	Sep	0.2%	0.3%	0.3%
10/12/23	14:00	Monthly Budget Statement	Sep	-\$160.0bn	—	\$89.3bn

Source: Bloomberg, BofA Global Research

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Jobless claims

Initial jobless claims likely increased to 210k in the week ending October 7 after rising by 2k to 207k in the previous week, around the lowest level since January. The four-week moving average of initial claims edged down to 209k, the lowest since February. NSA claims declined to the lowest in a year to 173k. Meanwhile, continuing claims were also little changed in the week through Sept. 23. Overall, the labor market continues to look pretty resilient as far as layoffs are concerned. While the pace of hiring is slowing down but firms have largely avoided layoffs. But there might be some upside risks in the coming weeks due to the UAW strike (only for indirectly affected but non striking workers who are eligible for unemployment benefits).

Consumer Price Index (CPI)

We expect a relatively firm September Consumer Price Index (CPI) report. Headline CPI should increase 0.3% m/m (0.25% unrounded) resulting in the y/y rate ticking down a tenth to 3.6%. This would result in a headline NSA index print of 307.342. Meanwhile, we look for core inflation to round down to 0.2% m/m (0.24% unrounded) and for the y/y rate to fall two-tenths to 4.1%. In terms of the noncore components, we expect energy prices to record a more modest increase of 0.4% m/m in September after a 5.6% jump in August. Within core, we expect core goods prices to fall by 0.3% m/m owing largely to a 2% drop in used car prices. While we expect core goods prices to fall, core services should increase by 0.4% m/m owing in large part to a 0.4% m/m increase in shelter inflation. Should the print come in as we expect or a little stronger, it would strengthen the case for the Fed to follow through with one more hike in November.

Monthly Budget Statement

We forecast that the US Treasury ran a deficit of \$160bn in September, compared to a surplus of \$89bn in August. The cash balance in the Treasury General Account (TGA) increased by about \$115bn in September, although net issuance of marketable securities was around \$275bn. If our forecast is correct, the deficit for FY2023 would come in at \$1,684bn.

Friday, Oct 13

Data in the week ahead

Import Price Index, U. Of Michigan Sentiment

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
10/13/23	8:30	Import Price Index (mom)	Sep	0.8%	0.6%	0.5%
10/13/23	8:30	Import Price Index ex Petroleum (mom)	Sep	-0.1%	—	0.0%
10/13/23	10:00	U. of Michigan Sentiment	Oct P	67.5	67.5	68.1

Source: Bloomberg, BofA Global Research

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Import Price Index

Import prices likely rose by 0.8% m/m in September due in large part to higher petroleum prices as crude oil prices moved higher on the back of supply side factors. Excluding petroleum, we look for import prices to fall by 0.1% m/m. Overall, we think the report should be good news for further readings in core goods prices. However, there could be some upside risks to headline inflation from increases in both energy and food.

U. Of Michigan Sentiment

We expect the University of Michigan consumer sentiment to moderate to 67.5 in October's preliminary reading from 68.1 as of end September. Sentiment had recently ticked lower with consumers still uncertain about the economic outlook. The good news is that the government shutdown was avoided and long run inflation expectations cooled to 2.8% in September from 3.0% previously. Nevertheless, consumers are still concerned about their personal finances and although sentiment has improved compared to last year, there is still much room for recovery.



Upcoming policy speakers

Upcoming policy speakers

Key speaking engagements and news events*

Monday, Oct 9		
08:00	Fed's Barr (voter) speaks at American Bankers' Association Conference	
09:00	Fed's Logan (voter) speaks on US outlook, monetary policy	
12:50	Fed's Jefferson (voter) speaks at NABE conference	
Tuesday Oct 10		
09:00	Fed's Perli speaks at NABE	
09:30	Fed's Bostic speaks on economic outlook	
13:00	Fed's Waller (voter) speaks at monetary policy conference	
15:00	Fed's Kashkari (voter) participates in town hall	
18:00	Fed's Daly speaks at Chicago Council on Global Affairs	
Wednesday, Oct 11		
04:15	Fed's Bowman (voter) speaks in Morocco	
12:15	Fed's Bostic speaks to the Metro Atlanta Chamber	
14:00	FOMC Meeting Minutes	
16:30	Fed's Collins speaks at Wellesley College	
Thursday, Oct 12		
13:00	Fed's Bostic delivers welcoming remarks	
Friday, Oct 13		
09:00	Fed's Harker (voter) speaks on 2023 US economic outlook	

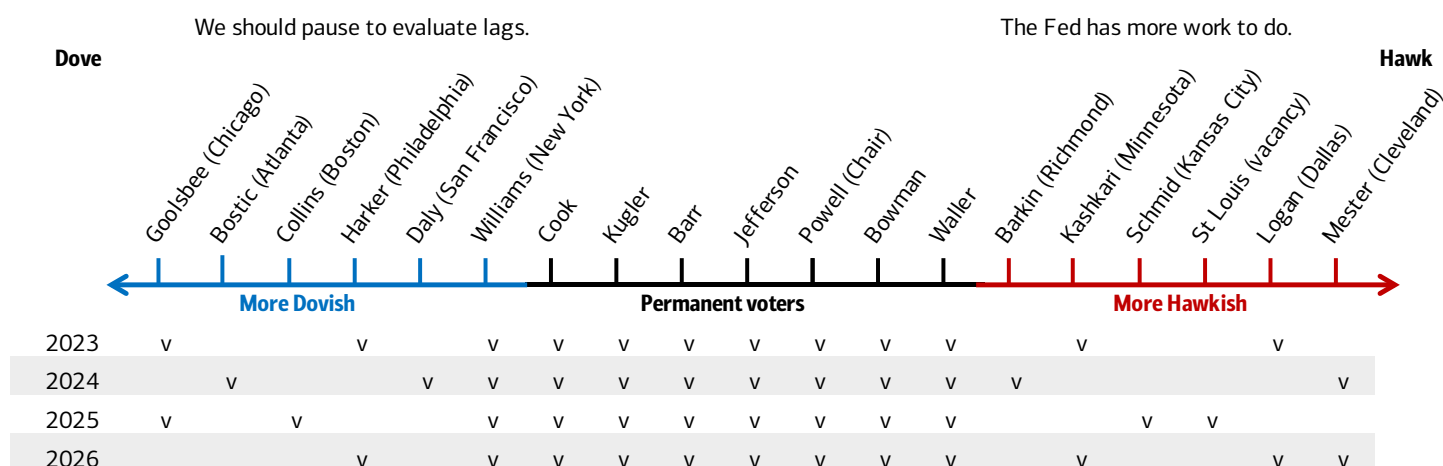
Source: Bloomberg,

Note: All listed times are Eastern times. Dates and times are subject to change.

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Exhibit 6: BofA US Economics Dove-Hawk chart

More turnover is coming to the Federal Open Market Committee



Note: "v" denotes voting member. We prefer to group Board Governors together since they traditionally vote in line with the views of the Chair. St Louis Fed President Bullard resigned effective August 14, 2023.

Source: Federal Reserve Board, BofA Global Research

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Economic forecast summary

Exhibit 7: BofA US economic outlook

We continue to expect a soft landing for the US economy

	1Q 23	2Q 23	3Q 23	4Q 23	1Q 24	2Q 24	3Q 24	4Q 24	1Q 25	2Q 25	3Q 25	4Q 25	2022	2023	2024	2025
Real Economic Activity, % SAAR																
Real GDP	2.2	2.1	2.0	1.5	1.0	0.5	0.5	1.0	1.5	1.5	2.0	2.0	1.9	2.1	1.1	1.3
% Change, Year Ago	1.7	2.4	2.2	2.0	1.6	1.3	0.9	0.7	0.9	1.1	1.5	1.8				
Final Sales	4.6	2.1	2.0	1.5	1.0	0.5	0.5	1.0	1.5	1.5	1.5	1.5	1.3	2.6	1.2	1.2
Domestic Demand	3.8	2.0	2.0	1.5	1.5	1.0	0.5	1.0	1.5	1.5	2.0	2.0	1.7	2.0	1.3	1.4
Consumer Spending	3.8	0.8	2.0	1.5	1.0	0.5	0.5	1.0	1.5	1.5	2.0	2.0	2.5	2.0	1.0	1.3
Residential Investment	-5.3	-2.2	2.5	2.0	1.5	1.0	0.5	1.0	1.5	1.5	2.0	2.0	-9.0	-11.1	1.2	1.2
Nonresidential Investment	5.7	7.4	5.0	4.0	3.5	2.5	2.0	2.5	2.0	2.5	3.0	3.0	5.2	5.0	3.6	2.4
Structures	30.3	16.1	5.0	4.0	3.0	1.0	0.5	1.0	1.0	1.0	1.5	1.5	-2.1	11.9	3.3	1.0
Equipment	-4.1	7.7	6.0	5.0	4.0	3.5	2.0	2.5	1.0	1.0	1.5	1.5	5.2	1.4	4.2	1.6
Intellectual Property	3.8	2.7	4.0	3.5	3.0	3.0	3.0	3.5	4.0	5.0	5.0	5.0	9.1	4.7	3.2	4.0
Government	4.8	3.3	0.5	0.5	0.5	0.5	0.5	1.0	1.0	1.0	1.0	1.0	-0.9	3.1	0.6	0.8
Exports	6.8	-9.3	3.0	2.0	1.5	1.0	1.0	2.0	3.0	3.0	3.5	3.5	7.0	2.1	0.9	2.5
Imports	1.3	-7.6	3.5	3.0	2.5	2.0	1.5	3.0	4.0	4.5	5.0	5.0	8.6	-1.8	1.8	3.7
Net Exports (Bil 12\$)	-935	-928	-937	-949	-962	-973	-981	-996	-1013	-1034	-1057	-1079	-1051	-937	-978	-1046
Contribution to growth (ppts)	0.6	0.0	-0.1	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3	-0.5	0.5	-0.1	-0.2
Inventory Accumulation (Bil 12\$)	27.2	14.9	9.0	6.5	3.5	-6.5	-7.5	-5.5	8.0	21.5	41.5	61.5	128.1	14.4	-4.0	33.1
Contribution to growth (ppts)	-2.2	0.0	-0.1	0.0	-0.1	-0.2	0.0	0.0	0.2	0.2	0.3	0.3	0.6	-0.5	-0.1	0.2
Nominal GDP (Bil \$, SAAR)	26814	27063	27421	27755	28040	28237	28438	28670	28949	29207	29498	29797	25744	27263	28346	29363
% SAAR	6.2	3.8	5.4	5.0	4.2	2.8	2.9	3.3	3.9	3.6	4.0	4.1	9.1	5.9	4.0	3.6
Key Indicators																
Fed Funds Rate (midpoint, % EOP)	4.875	5.125	5.375	5.625	5.625	5.375	5.125	4.875	4.625	4.375	4.125	3.875	4.375	5.625	4.875	3.875
Industrial Production (% SAAR)	-0.3	0.0	2.5	2.0	1.5	1.0	0.5	0.5	1.5	1.5	1.5	1.5	3.4	0.4	1.4	1.1
Capacity Utilization (%)	79.5	79.3	79.5	79.5	80.0	80.0	80.0	80.5	80.5	80.5	81.0	81.0	80.3	79.5	80.1	80.7
Nonfarm Payrolls (Avg mom ch, 000s)	312	201	176	100	75	75	50	50	75	100	125	125	399	197	63	106
Civilian Unemployment Rate (%)	3.5	3.5	3.6	3.8	3.9	4.0	4.1	4.2	4.3	4.3	4.3	4.2	3.6	3.6	4.0	4.3
Civilian Participation Rate (%)	62.5	62.6	62.7	62.8	62.8	62.8	62.9	62.9	62.8	62.8	62.8	62.8	62.2	62.6	62.9	62.8
Productivity (% SAAR)	-1.2	3.5	1.0	1.0	1.0	0.5	1.0	1.0	1.5	1.0	1.5	1.0	-1.7	1.1	0.9	1.3
Personal Saving Rate (%)	4.3	4.4	4.3	4.3	4.4	4.7	5.0	5.1	5.2	5.3	5.4	5.5	3.5	4.3	4.8	5.3
Light Vehicle Sales (Millions SAAR)	15.0	15.7	15.6	15.9	16.1	16.2	16.3	16.5	16.8	17.1	17.4	17.9	13.8	15.6	16.3	17.3
Housing Starts (Thous. SAAR)	1385	1450	1325	1220	1245	1270	1300	1325	1335	1365	1375	1390	1551	1345	1285	1366
Current Account (% of GDP)													-3.7	-3.6	-3.4	-3.3
US Budget Balance (\$bn, Fiscal Year)													-1375	-1450	-1500	-1650
Inflation																
GDP Price Index (% SAAR)	3.9	1.7	3.3	3.4	3.1	2.3	2.4	2.3	2.4	2.1	2.0	2.1	7.1	3.7	2.8	2.2
% Change, Year Ago	5.3	3.5	3.2	3.1	2.9	3.1	2.8	2.5	2.3	2.3	2.2	2.1				
PCE Chain Prices (% SAAR)	4.2	2.5	3.5	3.7	3.5	2.4	2.3	2.2	2.4	1.9	1.7	1.9	6.5	4.0	3.0	2.1
% Change, Year Ago	5.0	3.9	3.6	3.5	3.3	3.3	3.0	2.6	2.3	2.2	2.1	2.0				
Core PCE Chain Prices (% SAAR)	5.0	3.7	3.2	3.3	3.3	2.7	2.6	2.7	2.6	2.2	2.0	2.0	5.2	4.3	3.1	2.4
% Change, Year Ago	4.8	4.6	4.1	3.8	3.3	3.1	3.0	2.8	2.6	2.5	2.3	2.2				
CPI, Consumer Prices (% SAAR)	3.8	2.7	3.4	3.8	3.7	2.6	2.4	1.9	2.2	2.0	2.1	2.8	8.0	4.2	3.1	2.2
% Change, Year Ago	5.8	4.0	3.5	3.4	3.4	3.4	3.1	2.6	2.3	2.1	2.0	2.3				
CPI ex Food & Energy (% SAAR)	5.0	4.7	2.7	3.3	3.4	3.2	2.9	2.7	2.6	2.5	2.5	2.4	6.1	4.8	3.2	2.7
% Change, Year Ago	5.6	5.2	4.4	3.9	3.5	3.2	3.2	3.1	2.9	2.7	2.6	2.5				

Source: BofA Global Research

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Rates and dollar forecast

Table 1: Rates and dollar forecast

We expect the Fed to hike by another 25bp in November in a close call and start cutting in 2Q 2024

	Spot	23-Jun	23-Sep	23-Dec	24-Mar	24-Jun	24-Sep	24-Dec	25-Mar	25-Jun	25-Sep	25-Dec
Interest rates												
Fed Funds	5.33	5.00-5.25	5.25-5.50	5.50-5.75	5.50-5.75	5.25-5.50	5.00-5.25	4.75-5.00	4.50-4.75	4.25-4.50	4.00-4.25	3.75-4.00
Fed Effective Rate	5.33	5.13	5.38	5.63	5.63	5.38	5.13	4.88	4.63	4.38	4.13	3.88
2-Year T-Note	5.02	4.00	5.00	4.75	4.55	4.35	4.20	4.00	-	-	-	3.25
5-Year T-Note	4.69	3.60	4.35	4.30	4.10	4.05	3.95	3.75	-	-	-	3.40
10-Year T-Note	4.72	3.50	4.10	4.00	3.80	3.75	3.65	3.50	-	-	-	3.50
30-Year T-Bond	4.89	3.70	4.25	4.20	4.00	3.95	3.85	3.70	-	-	-	3.70
Dollar												
EUR-USD	1.05	1.06	1.08	1.05	1.07	1.10	1.15	1.15	1.16	1.17	1.18	1.20
USD-JPY	148	149.37	147	153	155	150	146	142	140	138	136	136
USD-CAD	1.37	1.36	1.33	1.32	1.32	1.30	1.28	1.26	1.26	1.26	1.26	1.26
AUD-USD	0.64	0.64	0.63	0.64	0.66	0.68	0.71	0.71	0.71	0.71	0.71	0.71
NZD-USD	0.60	0.60	0.59	0.59	0.60	0.62	0.64	0.64	0.64	0.64	0.64	0.64
GBP-USD	1.22	1.22	1.27	1.24	1.26	1.29	1.35	1.35	1.36	1.38	1.39	1.41
USD-CHF	0.91	0.92	0.91	0.93	0.93	0.90	0.87	0.87	0.88	0.87	0.89	0.88
USD-SEK	11.01	10.91	11.11	11.14	10.65	10.18	9.57	9.30	9.14	8.97	8.73	8.50
USD-NOK	10.96	10.70	10.46	10.48	10.09	9.73	9.13	8.96	8.79	8.63	8.47	8.25
USD-CNY	7.30	7.30	7.40	7.20	7.10	7.00	6.80	6.70	6.60	6.50	6.40	6.30
USD-MXN	18.27	17.42	17.20	18.00	18.30	19.00	19.30	19.50	19.80	20.00	20.30	20.50

Source: BofA Global Research

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Rolling calendar of business indicators

Key economic data over the next three weeks

Next week the focus will be on the September CPI, PPI and FOMC Minutes

Monday	Tuesday	Wednesday	Thursday	Friday
Oct 9	Oct 10	Oct 11	Oct 12	Oct 13
Columbus Day	6:00 am: NFIB Small Bus. Optimism – Sep 10:00 am: Wholesale Inventories – Aug	7:00 am: MBA Mortgage Applications – week ending 10/06/2023 8:30 am: Producer Price Index – Sep 2:00 pm: FOMC Minutes	8:30 am: Initial Jobless Claims – week ending 10/07/2023 8:30 am: Consumer Price Index – Sep 2:00 pm: Monthly Budget Statement – Sep	8:30 am: Import Price Index – Sep 10:00 am: U. of Mich Sentiment – Oct (P)
Oct 16	Oct 17	Oct 18	Oct 19	Oct 20
8:30 am: Empire Manufacturing – Oct	8:30 am: Advance Retail Sales – Sep 9:15 am: Industrial Production – Sep 10:00 am: Business Inventories – Aug 10:00 am: NAHB Housing Index – Oct	7:00 am: MBA Mortgage Applications – week ending 10/13/2023 8:30 am: Housing Starts & Permits – Sep 2:00 pm: Fed's Beige Book	8:30 am: Initial Jobless Claims – week ending 10/14/2023 8:30 am: Philly Fed – Oct 10:00 am: Existing Home Sales – Sep	
Oct 23	Oct 24	Oct 25	Oct 26	Oct 27
	9:45 am: S&P Global US Manufacturing and Services PMI – Oct P	7:00 am: MBA Mortgage Applications – week ending 10/20/2023 10:00 am: New Home Sales – Sep	8:30 am: Initial Jobless Claims – week ending 10/21/2023 8:30 am: GDP - 3Q (A) 8:30 am: Advance Goods Trade Balance – Sep 8:30 am: Durable Goods Orders – Sep (P) 10:00 am: Pending Home Sales – Sep	8:30 am: Personal Income & Outlays – Sep 10:00 am: U. of Mich Sentiment – Oct (F)

*Projections- subject to revision as additional data become available. P - preliminary reading, S - second reading, T - third reading, F - final reading

Source: Bloomberg

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CPI Forecast table

Exhibit 8: CPI monthly forecast table

We expect CPI inflation to moderate over the course of our forecast horizon given our expectations for restrictive monetary policy and a soft landing

	Non-seasonally Adjusted						Seasonally Adjusted									
	Headline CPI			Energy			Headline CPI					Core CPI				
	Level	m/m	y/y	Level	m/m	y/y	Level	m/m	y/y	q/q saar	y/y (quarterly)	Level	m/m	y/y	q/q saar	y/y (quarterly)
2022: Jan	281.15	0.8	7.5	260.65	1.7	27.0	282.60	0.6	7.6			286.79	0.6	6.1		
2022: Feb	283.72	0.9	7.9	267.77	2.7	25.6	284.61	0.7	8.0			288.15	0.5	6.4		
2022: Mar	287.50	1.3	8.5	298.25	11.4	32.0	287.47	1.0	8.5	9.2	8.0	289.05	0.3	6.5	6.7	6.3
2022: Apr	289.11	0.6	8.3	298.47	0.1	30.3	288.61	0.4	8.2			290.41	0.5	6.1		
2022: May	292.30	1.1	8.6	316.76	6.1	34.6	291.27	0.9	8.5			292.25	0.6	6.0		
2022: Jun	296.31	1.4	9.1	340.92	7.6	41.6	294.73	1.2	8.9	9.7	8.6	294.02	0.6	5.9	6.0	6.0
2022: Jul	296.28	0.0	8.5	325.41	-4.5	32.9	294.63	0.0	8.4			294.93	0.3	5.9		
2022: Aug	296.17	0.0	8.3	305.37	-6.2	23.8	295.32	0.2	8.2			296.64	0.6	6.3		
2022: Sep	296.81	0.2	8.2	297.34	-2.6	19.8	296.54	0.4	8.2	5.5	8.3	298.34	0.6	6.6	6.2	6.3
2022: Oct	298.01	0.4	7.7	300.36	1.0	17.6	297.99	0.5	7.8			299.33	0.3	6.3		
2022: Nov	297.71	-0.1	7.1	292.95	-2.5	13.1	298.60	0.2	7.1			300.26	0.3	6.0		
2022: Dec	296.80	-0.3	6.5	274.94	-6.1	7.3	298.99	0.1	6.4	4.2	7.1	301.46	0.4	5.7	5.1	6.0
2023: Jan	299.17	0.8	6.4	283.33	3.1	8.7	300.54	0.5	6.3			302.70	0.4	5.5		
2023: Feb	300.84	0.6	6.0	281.67	-0.6	5.2	301.65	0.4	6.0			304.07	0.5	5.5		
2023: Mar	301.84	0.3	5.0	279.08	-0.9	-6.4	301.81	0.1	5.0	3.8	5.8	305.24	0.4	5.6	5.0	5.6
2023: Apr	303.36	0.5	4.9	283.35	1.5	-5.1	302.92	0.4	5.0			306.49	0.4	5.5		
2023: May	304.13	0.3	4.0	279.82	-1.2	-11.7	303.29	0.1	4.1			307.82	0.4	5.3		
2023: Jun	305.11	0.3	3.0	283.85	1.4	-16.7	303.84	0.2	3.1	2.7	4.1	308.31	0.2	4.9	4.7	5.2
2023: Jul	305.69	0.2	3.2	284.83	0.3	-12.5	304.35	0.2	3.3			308.80	0.2	4.7		
2023: Aug	307.03	0.4	3.7	294.33	3.3	-3.6	306.27	0.6	3.7			309.66	0.3	4.4		
2023: Sep	307.34	0.1	3.5	293.08	-0.4	-1.4	307.03	0.2	3.5	3.4	3.5	310.41	0.2	4.0	2.7	4.4
2023: Oct	307.38	0.0	3.1	284.30	-3.0	-5.3	307.31	0.1	3.1			311.25	0.3	4.0		
2023: Nov	306.81	-0.2	3.1	275.39	-3.1	-6.0	307.63	0.1	3.0			312.14	0.3	4.0		
2023: Dec	306.95	0.0	3.4	275.04	-0.1	0.0	309.04	0.5	3.4	2.8	3.2	313.02	0.3	3.8	3.3	3.9
2024: Jan	308.50	0.5	3.1	278.76	1.4	-1.6	309.91	0.3	3.1			313.89	0.3	3.7		
2024: Feb	309.85	0.4	3.0	279.38	0.2	-0.8	310.67	0.2	3.0			314.75	0.3	3.5		
2024: Mar	311.46	0.5	3.2	287.27	2.8	2.9	311.48	0.3	3.2	3.5	3.1	315.62	0.3	3.4	3.4	3.5
2024: Apr	312.66	0.4	3.1	290.85	1.2	2.6	312.19	0.2	3.1			316.45	0.3	3.2		
2024: May	313.47	0.3	3.1	294.40	1.2	5.2	312.58	0.1	3.1			317.24	0.3	3.1		
2024: Jun	314.99	0.5	3.2	301.84	2.5	6.3	313.61	0.3	3.2	2.7	3.1	318.04	0.3	3.2	3.2	3.2
2024: Jul	315.36	0.1	3.2	297.28	-1.5	4.4	313.91	0.1	3.1			318.83	0.2	3.2		
2024: Aug	315.78	0.1	2.9	297.34	0.0	1.0	314.95	0.3	2.8			319.54	0.2	3.2		
2024: Sep	315.54	-0.1	2.7	290.80	-2.2	-0.8	315.22	0.1	2.7	2.4	2.9	320.27	0.2	3.2	2.9	3.2
2024: Oct	315.64	0.0	2.7	285.76	-1.7	0.5	315.57	0.1	2.7			320.96	0.2	3.1		
2024: Nov	315.16	-0.2	2.7	281.30	-1.6	2.1	316.02	0.1	2.7			321.66	0.2	3.1		
2024: Dec	314.81	-0.1	2.6	277.92	-1.2	1.0	317.01	0.3	2.6	1.9	2.7	322.36	0.2	3.0	2.7	3.1

Source: Bureau of Labor Statistics, BofA Global Research

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