

Morning Market Tidbits

Today's answers to yesterday's questions

In focus

Two key questions that have dominated sentiment in 2024 are: (1) is the US economy re-accelerating? and (2) will inflation allow the Fed to begin an easing cycle later this year? On the first question, we think we have received enough information to conclude no, while this week will bring important clues to the second.

The US economy has displayed a tremendous amount of resilience in the face of tighter monetary policy, but we have discouraged investors from thinking the economy is re-accelerating. We see resilience as driven by a number of factors, including insensitivity to higher interest rates, the “catch-up” effect in employment, fiscal support, and strong household balance sheets.

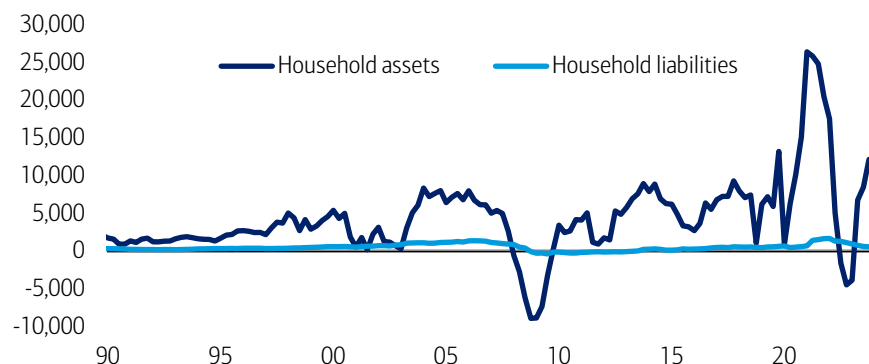
As we noted in our [US Economic Weekly: Household net worth surges](#), household balance sheets added \$4.8tn to household net worth in 4Q 23 (Exhibit 1), bringing the total increase to \$39tn (140% of GDP) since the pandemic. Whether through rising asset prices or excess saving, we find good reason to think household spending can keep the economy out of recession.

We read the February economic data in favor of moderation in economic activity, not re-acceleration. A number of data points have surprised to the downside, including the Chicago PMI (Purchasing Managers' Index), ISM (Institute for Supply Management) manufacturing, ISM services, factory orders, core durable goods orders, wholesale inventories, and the trade balance.

We are currently tracking 2.3% q/q saar for 1Q US GDP, and the average of the three main Federal Reserve trackers that we follow (Atlanta Fed, New York Fed, and St. Louis Fed trackers) is at 1.9%. This would be down from 3.2% annualized growth in the fourth quarter of last year and down even further from 4.9% in the third quarter.

Exhibit 1: Four-quarter change in household assets and liabilities, \$bn

Household assets rebounded sharply in 4Q 2023



Source: Federal Reserve, Haver Analytics, BofA Global Research

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Timestamp: 12 March 2024 08:00AM EDT

If there is one aspect of the economy that does point to re-acceleration risk, it is the employment picture. At an average gain of 265k over the past three months, growth in nonfarm payrolls is the highest it has been since last June. That said, growth in aggregate hours is about as slow as it has been during the post-pandemic recovery and the three-month annualized change in average hourly earnings for production and nonsupervisory employees dropped back to 4.0%, only modestly above rates consistent with the Fed's long-run inflation mandate. The labor market is healthy, but the evidence still points to moderating wage growth.

Which brings us to the second question. The January Consumer Price Index (CPI) report caused a lot of worry in the markets given the strong 0.4% m/m rise in core inflation (ex-food and energy) and the surprise 0.6% m/m increase in shelter inflation.

Could the disinflation process have ended? We think not. In this week's February CPI report, we expect a 0.4% increase at the headline and a 0.3% increase at the core, bringing their year-on-year changes to 3.1% and 3.7%, respectively. Importantly, the latter would be a two-tenths improvement over January and the slowest rate of growth since April 2021.

Overall, we think the activity and inflation data will help solidify views around an economy that is doing well, but not re-accelerating or generating significant overheating effects. In turn, this should keep us thinking June is a good time for the Fed to initiate a gradual cutting cycle in its policy rate.

Market Action

The Asian equity markets that we cover closed mixed overnight. Looking at individual markets, the Shanghai Composite and the Nikkei fell 0.4% and 0.1% respectively. On the flipside, the Indian Sensex, the Korean Kospi and the Hang Seng rose 0.2%, 0.8% and 3.1% respectively.

As of 7:00 am ET, aggregate European stocks are up 0.4% and S&P500 futures are up 0.3%. In the bond markets, US Bond are down 1bp to 4.08%, and German Bund yields are down 2bp to 2.25%. The dollar index is down \$0.03 to \$102.82. WTI crude oil prices are \$0.45 higher at \$78.38/bbl, and gold prices are at \$2176.55/oz.

Data preview

March 12th

CPI

Date	Time	Indicator	Period	BofA		
				Estimate	Consensus	Previous
3/12/24	6:00	NFIB Small Business Optimism	Feb	—	—	89.9
3/12/24	8:30	Consumer Price Index (CPI) (yoy)	Feb	3.1%	3.1%	3.1%
3/12/24	8:30	CPI Ex Food & Energy (yoy)	Feb	3.7%	3.7%	3.9%
3/12/24	8:30	Consumer Price Index (mom)	Feb	0.4%	0.4%	0.3%
3/12/24	8:30	CPI Ex Food & Energy (mom)	Feb	0.3%	0.3%	0.4%
3/12/24	14:00	Monthly Budget Statement	Feb	-\$335bn	—	-\$21.9bn

Source: BofA Global Research, Bloomberg

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CPI

The CPI report will likely confirm that inflation is on a downward trend, but services inflation remains sticky. We look for headline and core CPI to rise by 0.42% m/m and 0.31%, respectively. This would bring the y/y change for headline and core to 3.1% and 3.7%. The latter would be down two-tenths from January.

US GDP Tracking

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

1Q GDP tracking is down two-tenths to 2.3% q/q saar from our official forecast change to 2.5% q/q saar largely due to a wider than expected trade deficit in January along with downward revisions to January wholesale inventories

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
2/29/24	Alignment to official forecast change	2.5	2.5	1.5	2.5	5.0	3.0	3.0	3.5	3.0	1.5	-911.0	71.5
3/1/24	Construction Spending	2.4	2.2	1.5	2.3	4.7	3.0	3.0	3.6	3.0	1.5	-909.0	71.5
3/5/24	Factory Orders, Vehicle Sales	2.5	2.3	1.7	2.3	4.7	3.3	3.0	3.6	3.0	1.5	-909.0	70.2
3/6/24	Wholesale Inventories	2.4	2.3	1.7	2.3	4.7	3.3	3.0	3.6	3.0	1.5	-909.0	65.1
3/7/24	Trade Balance	2.3	2.3	1.7	2.3	4.7	3.3	3.0	3.6	2.8	2.7	-923.3	65.1
	GDP tracking	2.3	2.3	1.7	2.3	4.7	3.3	3.0	3.6	2.8	2.7	-923.3	65.1
	Contribution to GDP growth (pp)			1.1	0.1	0.1	0.2	0.2	0.6			-0.1	0.0
	BofA official GDP forecast	2.5	2.5	1.5	2.5	5.0	3.0	3.0	3.5	3.0	1.5	-911.0	71.5

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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Overseas data

UK

The labour market data came in slightly weaker than expected, with ex-bonus wages growing at 6.1% yoy. Employment fell 21k in the three months ending in January. Our Europe economists note that this is a modest downside surprise but overall picture is unchanged. The UK labour market is still tight, with high wage growth ahead of the Spring, when we will get more clarity on where wages are headed.



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