

Article | 30 November 2023

UNITED STATES

# A cooling US economy points to swifter rate cuts

Today's economic reports provide further evidence of moderating growth, easing inflation pressures and a cooling jobs market. This should only confirm market expectations that the next Federal Reserve policy move is going to be an interest rate cut



## Jobs market is cooling, not collapsing

We have had quite a lot of US data today, starting with initial jobless claims, which rose to 218k last week, from an upwardly revised 211k (initially reported as 209k). Continuing claims surged though to 1927k up from 1841k. There have been questions over seasonal adjustment issues and data volatility, but the trend is certainly towards higher continuing claims while initial claims remain low. Essentially, the message is that firms are reluctant to fire workers, but they are less inclined to hire new workers. i.e. more evidence of a cooling, but not collapsing, labour market. This was also the message within yesterday's Federal Reserve Beige Book, which reported that "most Districts reported flat to modest increases in overall employment".

## Continuing jobless claims (millions)

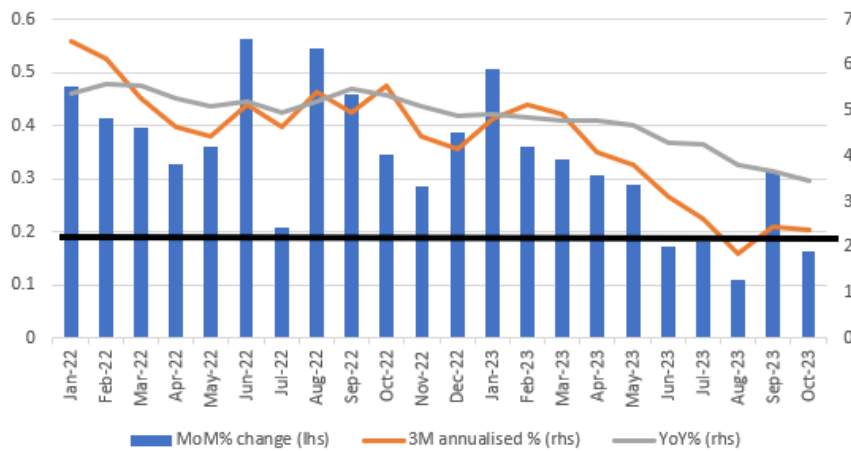


Source: Macrobond, ING

## Inflation pressures are moderating more broadly

Meanwhile, the October personal income and spending report shows incomes rose 0.2% month-on-month, with spending in nominal and real terms also up 0.2% on the month. The Core PCE deflator also rose 0.2% MoM (0.163% to 3dp), which means the annual rate of core inflation slowed to 3.5% from 3.7%, as expected. The chart below shows the core inflation rate under different metrics, but the key story is that the MoM change in the core deflator is back below the black line, which if repeated consistently over time, is what would get us back to the 2% year-on-year target. Importantly, the so-called supercore measure – core services ex housing – slowed to 0.148% MoM having risen by 0.447% in September. This is important because it reflects more inflation pressures in sectors that are more exposed to any labour market tightness – something the Fed hawks are keeping a close eye on, so this should ease those concerns.

## Core PCE deflator MoM, 3M annualised and YoY% change

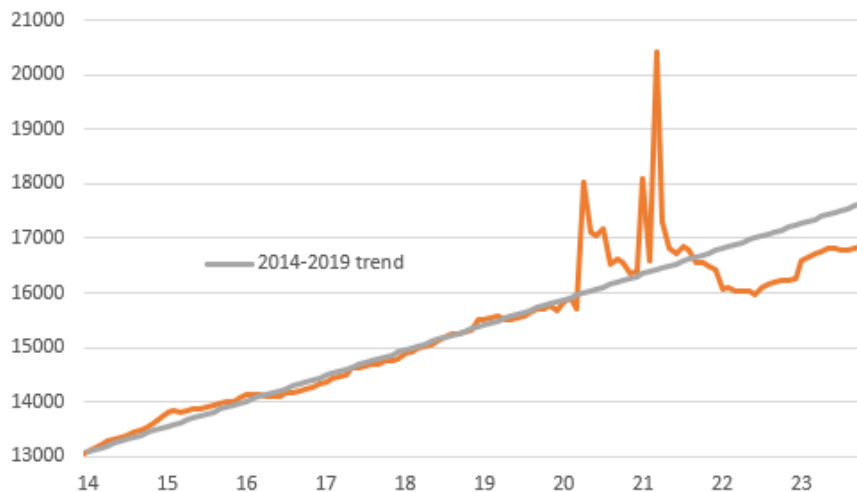


Source: Macrobond, ING

## Spending is holding up, but the outlook is deteriorating

In terms of the activity side, the 0.2% MoM rise in real spending suggests we are on track for 2% annualised GDP growth in the fourth quarter. However, the weakness in real household disposable incomes, seen in the chart below, remains a key concern for growth in the early part of 2024. The data suggests stagnant real household incomes over quite some time now. So far, this has been offset by the running down of savings and the use of debt to fuel spending growth. However, tighter credit conditions and high borrowing costs are likely to weigh heavily on the flow of credit to the household sector while there is growing evidence of pandemic-era accrued excess savings being exhausted for an increasing number of people. Credit card delinquencies are on the rise while student loan repayments are only adding to the financial pressure on millions of households.

## Real Household Disposable Income versus pre pandemic trend (\$bn)



Source: Macrobond, ING

As such, we have modest growth and cooling inflation and a cooling labour market - exactly what the Fed wants to see. This should confirm no need for any further Fed policy tightening, but the outlook is looking less and less favourable - note a majority of Federal Reserve districts report flat to lower activity in yesterday's Beige Book - and we expect rate cuts from the Fed from the second quarter onwards. We are currently forecasting 150bp of rate cuts in 2024 with a further 100bp in early 2025.

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

## **THINK economic and financial analysis**

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).