

Three calls for the US

Our big call for the US next year is that we see a sharp slowdown in US activity and the subsequent rebound is likely to be slower than hoped. Thankfully, our second call, that inflation will hit 2% by next summer and stay there offers the Federal Reserve scope to cut rates earlier and more aggressively than the market expects, which is our third call



The US economy is set to experience slower, albeit still solid, growth in the fourth quarter with legacy household savings helping to maintain consumer spending

1 US experiences a sharp slowdown and slow recovery

After stellar third-quarter GDP growth of 5%, the US economy is set to experience slower, albeit still solid, growth in the fourth quarter with legacy household savings helping to maintain consumer spending. However, we are concerned that 2024 will be much weaker as stagnant real household incomes and tighter credit conditions weigh down and pandemic-era accrued excess savings are exhausted for many. Credit card delinquencies are on the rise while student loan repayments are only adding to the financial pressure on millions of households. Meanwhile, collapsing housing transactions, a general lack of affordability and plunging homebuilder sentiment suggest residential construction could weaken while softer durable goods orders point to a significant slowing in capital expenditure. With banks remaining wary, tight monetary and credit conditions mean the risk of recession is very real, especially with activity looking weak elsewhere in the world. The commercial real estate sector is also an area of vulnerability with the scope for significant loan losses potentially leading to a reignition of the problems seen in the small bank sector in early 2023. Financial sector stress would intensify and prolong a downturn in the real economy.

2 Inflation to hit 2% by the summer and stay there

Inflation has been showing encouraging signs of moderation and we think it will get to the 2% target in the second quarter of next year assuming gasoline prices stay at their current levels. Goods price inflation is close to zero, indicating supply chain issues have disappeared, but the Federal Reserve has been emphasising the super-core measures of service sector inflation that strip out food, energy and also housing costs. This is to get a better gauge of areas where the tight jobs market may keep inflation higher for longer. Fortunately, this too is responding well to tighter monetary policy with decent productivity growth and cooling wage growth helping to keep inflation pressures in check. Housing remains the main issue, but the Fed has clarity on its path given that it lags observed rents by 10-14 months. These rents are slowing sharply and mean that the housing components will help depress core inflation by around 1.5 percentage points over the next two to three quarters.

3 Fed to cut rates at every meeting from May onwards

The threat of recession, dampened inflation pressures and the prospect of a pronounced weakening of the labour market should open the door for the Federal Reserve to lower interest rates from May onwards towards more neutral levels. Even if inflation doesn't fall quite as quickly as we expect, the Fed's dual mandate of price stability and maximum employment should offer it the flexibility of responding swiftly to concerns about the path of the economy. We look for 150bp of rate cuts in 2024 with a further 100bp in early 2025, but the cuts could be more front loaded if financial stress returns amid likely increases in loan losses.

Author

James Knightley

Chief International Economist, US

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.

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.