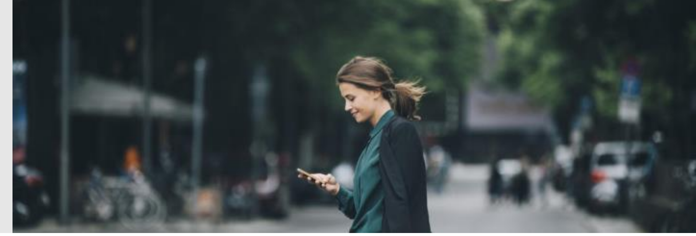
WEEKLY UPDATE

United States: Federal Reserve wrestling an atypical economy



The US economy is still being disrupted and distorted by the unprecedented nature of the Covid crisis.
The United States bounced back sharply from Covid, helped by a highly expansionist mix of monetary and fiscal policy. Generous fiscal support packages boosted household income and this has had two consequences that continue to be felt today: a significant increase in household savings (around 12% of GDP) and a focus of household demand on goods, particularly durable goods. Another big post-Covid disruption is the destabilisation of the American jobs market. Unlike in Europe, US companies shed workers wholesale during the pandemic and then rushed to rehire them once it was over. This has also had two consequences, whose effects are still at work: some households, particularly people nearing retirement, did not return to the labour market, and those who did came looking for wage rises.

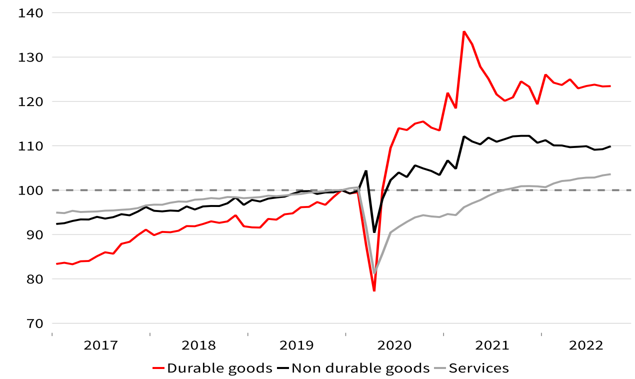
Slowdown in prospect, partly caused by the switch in economic policy.
The economy is starting to slow down from its post-Covid surge. Consensus forecasts put growth at just 0.4% in 2023 after 2% in 2022. The tail-off is being driven by a number of factors, including high inflation eroding spending power for families and, most notably, tighter monetary policies which are weighing on households and companies alike and will eventually depress the labour market. Consumption should drop substantially as a result. That said, there is still a large reservoir of savings out there and the labour market is only tightening slowly, which makes the speed of adjustment uncertain. On the corporate side, the severe tightening of financing conditions is likely to rein in investment, but the unusually healthy state of company balance sheets means that here, too, the scale and speed of the adjustment is hard to call.

The Federal Reserve faces structural changes in its policy transmission channels.
For some months the Fed has been embarked on a sharp tightening of monetary policy amid still high levels of inflation. Since the start of the year the Fed has hiked its policy rates by 400 basis points and markets expect a further 100 bp tightening in coming months. As we said, it is uncertain how quickly households and companies will alter their behaviour in response, and this is making the Fed's job considerably trickier. Besides these uncertainties, the Fed also needs to wrestle with the unusual nature of this economic cycle. Structural changes have modified the investment habits of households (in the residential real estate market) and companies and this could make central bank actions less effective than in previous cycles. Households have less debt and, crucially, little exposure to variable rates, which means they are better able to tolerate higher interest rates. Real estate investment is also lower as a share of GDP than in previous crises and there has been no phase of over-investment by corporates.

For further information, see our Strategy Focus.

Households focused their demand on the consumption of goods

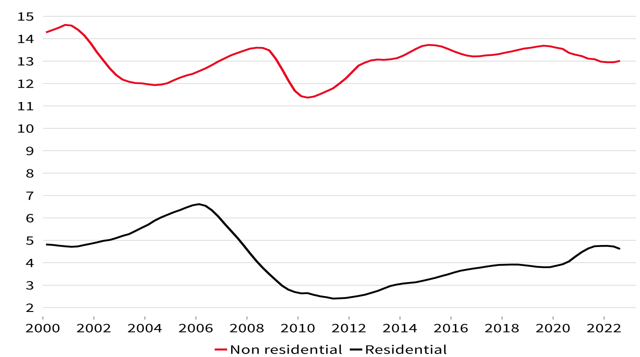
USA: Households consumption (base 100 = 12/2019)



Sources : SGPB, Macrobond, BEA Q3 2022, 25/11/2022

Lower household and business investment moderates the transmission of the monetary tightening

USA: Investment rate (as % of GDP)



Sources : SGPB, Macrobond, BEA Q3 2022, 25/11/2022

SOCIETE GENERALE
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OUR MACRO COMMENTS

Events of the week

November's SMIs confirmed the contraction in activity in the euro area, with the composite index falling below the 50-point threshold to 47.8 points. The Bloomberg consensus expects GDP to fall by 0.4% on a quarterly basis in Q4 2022. For 2023, the latest OECD estimates predict a 0.5% growth in the Monetary Union in 2023.

The minutes of the last Federal Reserve meeting suggested that a majority of its members were in favour of slowing the rate of increase. This would imply a rate increase of 50 basis points at the December meeting. On the other hand, recent comments from these same members suggest that if the amplitude of rate hikes should weaken, the cycle of monetary tightening could extend over time. Finally, the minutes of the European Central Bank were also perceived as accommodating, causing European rates to fall.

Figures of the week

	Actual	Forecast	Previous
Durable goods orders (MoM variation, October)	1% ↑	0.4%	0.4%
Consumer sentiment Index (November)	56.8 ↑	55	54.7
S&P manufacturing PMI Index (November)	47.3 ↑	46	46.4
S&P services PMI Index (November)	48.6 →	48	48.6
Producer Price Index (MoM variation, October)	-4.2% ↓	0.9%	2.3%
Business climate (November)	86.3 ↑	85	84.3
Consumer confidence (December)	-40.2 ↑	-39.6	-41.9
S&P manufacturing PMI Index(November)	46.2 →	45.8	46.2
S&P services PMI Index(November)	48.8 →	48	48.8

The week ahead

Tuesday
Business climate (November)
Inflation (November)
Wednesday
Manufacturing & non-manufacturing PMI (November)
Inflation (November)
Margins, national accounts (Q3), job openings (October)
Thursday
Retail sales (October)
ISM PMI indices (November), PCE price Index (October)
Friday
Unemployment, Non-farm payrolls (November)
Producer Price Index (October)

Sources : Macrobond, 25 November 2022.

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	1,41	1,40	-0,08	-0,59	-0,57
USD SOFR O/N	3,80	3,81	2,27	0,05	0,05
JPY TONAR O/N	-0,07	-0,07	-0,03	-0,02	-0,04
GBP SONIA O/N	2,93	2,93	1,69	0,19	0,05
CHF O/N	0,75	0,74	0,10	-0,71	-0,74

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,37	2,48	1,98	0,20	0,15
10Y Bund	1,99	2,10	1,32	-0,21	-0,25
10Y BTP	3,78	3,92	3,67	1,17	1,08
10Y JGB	0,24	0,24	0,22	0,07	0,08
10Y Bonos	2,88	3,01	2,56	0,56	0,53
10Y Swiss	1,01	1,08	0,77	-0,13	-0,12
10Y Gilt	2,99	3,14	2,68	1,02	1,01
10Y USTnote	3,71	3,67	3,11	1,52	1,64

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2,81	2,95	2,21	0,33	0,27
EUR Corporate Baa	4,27	4,39	3,38	0,66	0,62
GBP Corporate Baa	4,10	4,15	3,80	1,52	1,38
USD Corporate Aaa	4,45	4,52	4,02	2,13	2,24
USD Corporate Baa	5,64	5,69	5,04	2,60	2,66
USD EM aggregate	7,81	7,79	6,96	4,33	4,53

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	84,36	-8,9%	-17,0%	6,7%	2,6%
Or, USD/oz	1 749	-1,4%	-0,1%	-4,3%	-2,2%
Copper, USD/metric ton	7 995	-4,1%	-0,3%	-17,4%	-18,3%
Platinium, USD/oz	997	-2,3%	12,8%	3,1%	1,3%
Palladium, USD/oz	1 883	-10,2%	-5,4%	-4,8%	0,3%
Silver, USD/oz	21,27	-3,1%	11,9%	-7,9%	-9,5%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,03	-0,8%	3,9%	-8,8%	-7,9%
EUR/CHF	0,98	-0,3%	1,4%	-5,6%	-6,7%
USD/GBP	0,83	-1,5%	-2,1%	12,2%	10,5%
USD/JPY	139,73	0,3%	2,2%	21,3%	21,0%
USD/BRL	5,39	0,8%	5,5%	-3,3%	-3,8%
USD/CNY	7,16	1,1%	4,4%	12,7%	12,0%
USD/RUB	60,58	0,3%	0,1%	-19,2%	-19,2%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 074	1,7%	2,6%	-7,4%	-5,6%
Eurostoxx 50	3 946	1,6%	7,6%	-8,2%	-7,7%
Dax 40	14 428	1,4%	9,1%	-9,2%	-9,1%
CAC 40	6 679	1,1%	4,6%	-6,6%	-5,2%
FTSE 100	7 465	1,6%	-0,1%	1,1%	2,5%
SMI	11 094	1,4%	0,7%	-13,8%	-10,5%
SP500	4 027	1,7%	-2,7%	-15,5%	-14,3%
TOPIX	1 995	1,6%	1,4%	0,1%	-1,2%
iBovespa	108 841	-1,3%	-3,6%	3,8%	4,1%
Hang Seng	17 524	-4,0%	-9,1%	-25,1%	-29,0%
Sensex 30	61 511	-0,8%	4,1%	5,6%	5,4%
CSI 300	3 774	-1,6%	-7,6%	-23,6%	-23,3%

Source: Bloomberg, on 25 November 2022.
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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