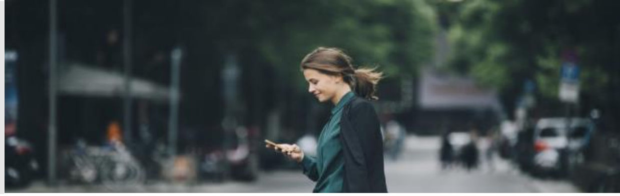
WEEKLY UPDATE

United States: A soft landing of the job market in sight



One of the characteristics of the post-Covid recovery in the United States is the tight labour market, with strong growth in job creation and significant wage increases. This strong momentum has contributed to the rise in inflationary pressures, leading the Federal Reserve (Fed) to sharply increase its key rates. Since the beginning of the year, the dynamics of the labour market have slowed, which should allow growth to moderate, but also to bring inflation down towards its 2% target. This scenario should allow the Fed to start its rate cut cycle in September.

A labour market that is rebalancing. One of the main characteristics of the post-Covid economic recovery is the very good performance of the labour market. Indeed, while the unemployment rate very quickly returned to its pre-crisis level, job creations showed significant increases and the number job openings was at high levels. The combination of these elements has resulted in a tight labour market (**Chart 1**), with *a supply of jobs* exceeding the *demand of jobs*, and thus in strong wage pressures and upward pressure on inflation. It is mainly this "imbalance" that has led the Fed to raise its key rate from 0.25% in 2022 to 5.5% in 2023. However, since the beginning of the year, the labour market has shown a reduction in these imbalances. On the one hand, the unemployment rate, which was at a historically low of 3.4% in 2023, increased to 3.9% in May, close to its equilibrium level according to the Fed. On the other hand, the number of positions to be filled has also decreased significantly compared to its peak in 2022 and has almost returned to its pre-Covid crisis level. Finally, wage growth has also moderated and is gradually converging towards its 2019 level (**Chart 2**).

Economic activity is moderating. The reduction in labour market tensions has resulted in a slowdown in the economy from a very high level. While GDP growth was at a pace of 3.5% at the end of 2023, it seems to be stabilising below 2% in H1 24, close to the pre-Covid growth rate. This slowdown reflects the moderation in the consumption of goods and in government spending. However, household consumption of services and non-residential private investment remain resilient, reflecting the sound economic agents' balance sheets and investment projects related to artificial intelligence and the IRA**.**

A rate cut cycle that would start in September. While the Fed is expected to maintain the Fed funds rate range at 5.25%-5.50% at the July 31 meeting, we continue to believe that it will start its rate cut cycle at the September 18 meeting. The reduction of labour market imbalances, and thus the continued moderation of inflation toward the 2% target, should give the Fed room to begin to reduce the restrictive nature of its policy as part of its dual objectives of controlling inflation and full employment. This scenario, of moderation in activity and inflation as well as the prospect of rate cuts, remains consistent with our strategic position, namely overweight US equity markets and constructive on bond markets.

Chart 1. Gap between employed population plus job offerings to labor force

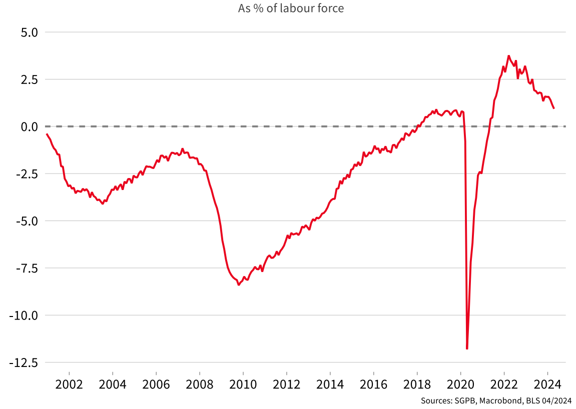
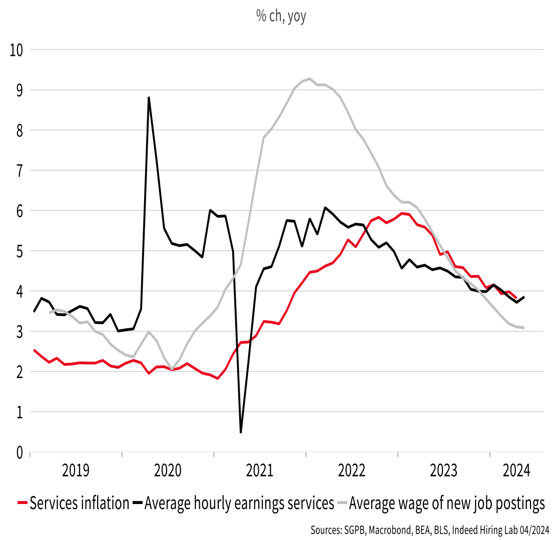


Chart 2. Nominal wages and inflation



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Our Macro Comments

Events of the week

Bank credit in the euro area remained weak in May, illustrating once again the restrictive side of the ECB's monetary policy. Year-on-year, bank credit growth remained close to 0% in May. We expect the start of the ECB's rate cut cycle to support bank lending in the coming quarters. In France, bank credit is still showing very moderate growth, with an increase of 0.7% in May. Household credit is still constrained by high interest rates and tighter lending conditions.

The PCE index, the Fed's preferred inflation indicator, shows that the disinflation momentum continues. Indeed, headline and core inflation rose to 2.6% in May, approaching the Fed's comfort level. Moderation in house prices and continued deflation in property prices continue to help inflation converge towards the 2% target. The monthly household report also confirms the good performance of household consumption as well as their real disposable income, with an increase of 2.4% and 1.2% respectively over one year in May.

The week in data

Country	Data	Actual	Last	Forecast
Germany	GfK Consumer Confidence JUL	-21,8	-21,0	-18,9
Germany	Unemployment Rate JUN	6,00%	5,90%	5,90%
Spain	Harmonised Inflation Rate YoY Prel JUN	3,50%	3,80%	3,40%
United States	Personal Spending MoM MAY	0,20%	0,10%	0,30%
United States	PCE Price Index YoY MAY	2,60%	2,70%	2,60%
United States	Core PCE Price Index YoY MAY	2,60%	2,80%	2,60%
France	Harmonised Inflation Rate YoY Prel JUN	2,50%	2,60%	2,50%
Italy	Harmonised Inflation Rate YoY Prel JUN	0,90%	0,80%	0,90%
Euro Area	Loans to Households YoY MAY	0,30%	0,20%	0,30%

Source : Macrobond, the 28th June 2024

Colors in 'Actual' column represent the difference with previsions.

Key events next week

Monday	
China	Caixin Manufacturing PMI JUN
Germany	Inflation Rate JUN
United States	ISM Manufacturing PMI JUN
Tuesday	
Euro Area	Inflation Rate JUN
Euro Area	Unemployment Rate MAY
Wednesday	
United States	ISM Services PMI JUN
Thursday	
Switzerland	Inflation Rate JUN
United Kingdom	UK General Election
Friday	
Germany	Industrial Production MAY
France	Industrial Production MAY
Euro Area	Retail Sales MAY
United States	Non Farm Payrolls JUN
United States	Unemployment Rate JUN
United States	Average Hourly Earnings

Market Performances

Interbank rates

%	26/06/2024	28/05/2024	28/03/2024	01/01/2024	28/06/2023
United States SOFR	5,335	5,32	5,32	5,34	5,07
Euro area €ster	3,661	3,91	3,90	3,88	3,40
United Kingdom SONIA	5,200	5,20	5,19	5,19	4,93
Switzerland SARON	1,206	1,45	1,46	1,70	1,71
Japan TONAR	0,077	0,08	0,08	-0,04	-0,08

Equity markets indices

27/06/2024 vs	-1w	-1m	-3m	01/01/2024	-1y
World	0,36	1,693	3,273	12,72	23,46
United States	0,37	2,911	3,660	13,98	27,32
Euro area	-0,30	-3,210	-0,972	8,70	15,34
France	-1,33	-6,375	-5,603	1,92	6,35
Germany	1,01	-2,007	-0,605	8,01	13,53
United Kingdom	-0,65	-0,877	3,598	7,53	14,77
Japan	2,57	0,974	1,501	19,14	25,88
Emerging (USD)	-0,15	1,262	6,392	10,92	17,60
China (USD)	-1,91	-5,612	7,062	4,35	-1,43
India (USD)	1,46	5,408	11,878	17,42	40,99
Latin America (USD)	0,27	-8,450	-12,244	-15,38	-5,93

Sovereing rates 10 years

%	27/06/2024	28/05/2024	28/03/2024	01/01/2024	28/06/2023
United States Treasuries	4,29	4,54	4,20	3,88	3,71
France OAT	3,23	3,06	2,82	2,55	2,84
Germany Bund	2,45	2,58	2,29	2,02	2,30
Italy BTP	4,03	3,89	3,70	3,70	3,90
Spain Bonos	3,36	3,34	3,15	2,98	3,29
Switzerland	0,59	0,77	0,64	0,66	0,88
United Kingdom Gilts	4,16	4,26	3,92	3,60	4,31
Japan JGB	1,04	1,01	0,74	0,62	0,40

Foreign exchange rates

	27/06/2024	28/05/2024	28/03/2024	01/01/2024	28/06/2023
EUR/USD	1,07	1,08	1,08	1,11	1,09
GBP/USD	1,27	1,28	1,26	1,27	1,26
EUR/CHF	0,96	0,99	0,97	0,93	0,98
USD/JPY	160,60	156,85	151,33	141,03	144,53
USD/CNY	7,27	7,25	7,23	7,08	7,25

Credit & emerging markets

%	27/06/2024	28/05/2024	28/03/2024	01/01/2024	28/06/2023
United States IG	5,43	5,59	5,30	5,06	5,43
United States HY	7,92	7,99	7,66	7,59	8,56
Europe IG	3,98	4,07	3,84	3,72	4,60
Europe HY	6,69	6,58	6,57	6,80	8,05
Emerging markets (FX)	6,86	6,95	6,76	6,77	7,24

Commodity prices

	27/06/2024	28/05/2024	28/03/2024	01/01/2024	28/06/2023
Brent, USD/BL	85	84	87	77	74
Copper, USD/Metric t.	9 423	10 331	8 729	8 476	8 268
Gold, USD/Troy o.	2 328	2 361	2 231	2 063	1 907
Silver, USD/Troy o.	29	32	25	24	23
Palladium, USD/Troy o.	939	971	1 017	1 136	1 225
Platinium, USD/Troy o.	1 005	1 049	907	1 000	910

Source: Bloomberg, on 28 June 2024, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change. Equities; total return in local cu rrency. Government bonds = 10 year returns. Figures are rounded..

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