

Weekly Update of U.S. Economy

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Reconfirming the Current Policy Rate at Its Peak

The Economy Appears Set for Q4 Growth

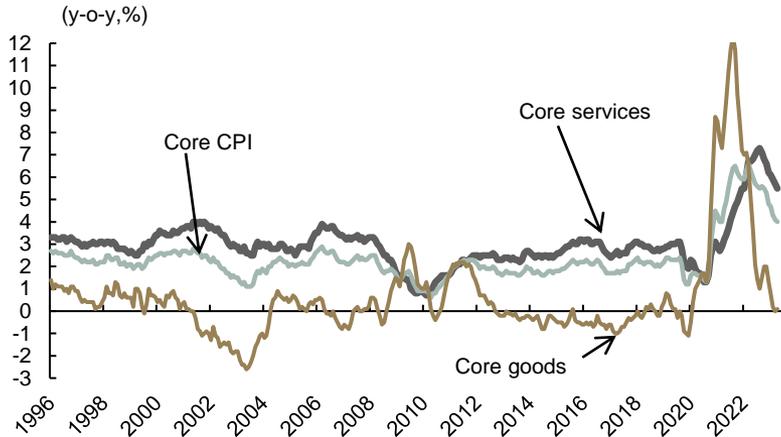
- The U.S. economy appears to have avoided an economic downturn given the real GDP recorded a high annual growth rate of 4.9% in the July-September period.
- October retail sales declined slightly for the first time in seven months, but when items with large fluctuations are excluded and inflation fluctuations are subtracted, household consumption of goods is still on a steady increasing trend. There were concerns about the impact of the resumption of student loan interest and principal repayments, but as of October there has been no noticeable impact.
- Industrial production in October also showed weakness, decreasing by 0.6% from the previous month. The impact of the strike at major automakers, which lasted from mid-September to the end of October, was a direct hit. The labor unions and the major automakers have reached a tentative agreement on a new labor contract, but as of this week it was still being ratified by workers at major plants. Therefore, production in the automobile industry will not return to normal until after December. However, excluding the impact of this automobile strike, industrial production will remain almost flat.
- The rise in market interest rates is clearly reflected in the contraction in machinery and equipment investment and in the decline in building starts in the apartment subsector. In particular, the decline in building starts for apartment is due to an increase in both interest and non-interest costs for operating companies, which is holding back new investment.
- In other words, other demand items have remained firm so far. According to forecasts released by the National Retail Federation, sales during this year's holiday season are likely to increase by only about 4% compared to last year. The growth rate is estimated to be about the same as the inflation rate at that time, and there is no sign of any improvement in sales.

Nothing Has Been Changed So Far

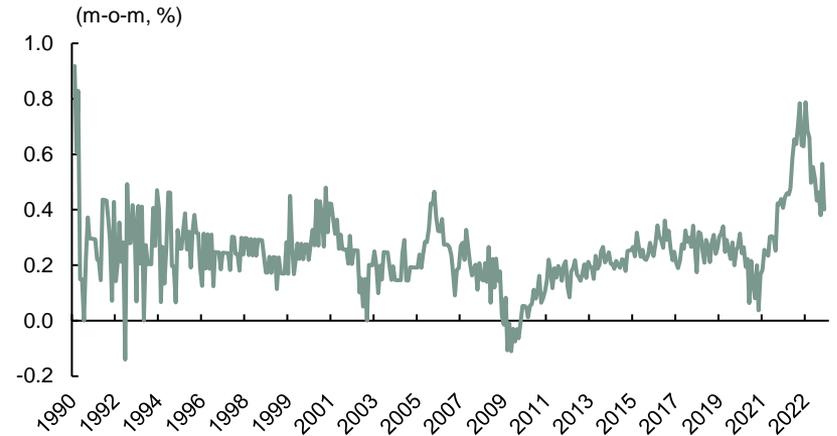
- However, with the momentum of service consumption increasing noticeably, it seems likely that a significant decline in personal consumption will be avoided in the end.
- The economy being more resilient than expected is probably good news for the current administration. On the other hand, the Biden administration, which is suffering from low approval ratings mainly due to its foreign policy failures, created a conciliatory mood toward resuming dialogue with China at this week's U.S.-China summit.
- Despite this result, export and investment regulations to China regarding economic security remain strict. China, whose economic growth momentum has declined, likely wants to have these regulations eased and to foster a resurgence of foreign investment, but the U.S. has shown an unwillingness to compromise. This is because they are confident that the semiconductor export restrictions imposed last year are actually working.
- Both countries agreed to resume inter-military dialogue, which is important for world peace, but there is no guarantee that any concrete action will be taken on this front. Also, no changes have been made to regulations on exports and investment to China, which are directly linked to economic benefits. The prospective situation thus appears as a continuation of the status quo.
- This week, the House and Senate passed a new continuing resolution with a deadline of February 2024. However, this is a minimum stopgap measure that glosses over opposing opinions from both political parties, and there remains no prospect of enactment of the current budget for this fiscal year (October 2023 to September 2024). In other words, the period of heightened confusion over securing public finances has simply been extended until next year, and the situation has not improved in any way.
- Unless there is a major change in the market environment, the nation's economic stability will remain unchanged until the end of the year, and the Federal Reserve's monetary policy is also expected to remain unchanged until the end of the year. If there is any change, it will be from next year onwards.

Reconfirming the Current Policy Rate at Its Peak (continued)

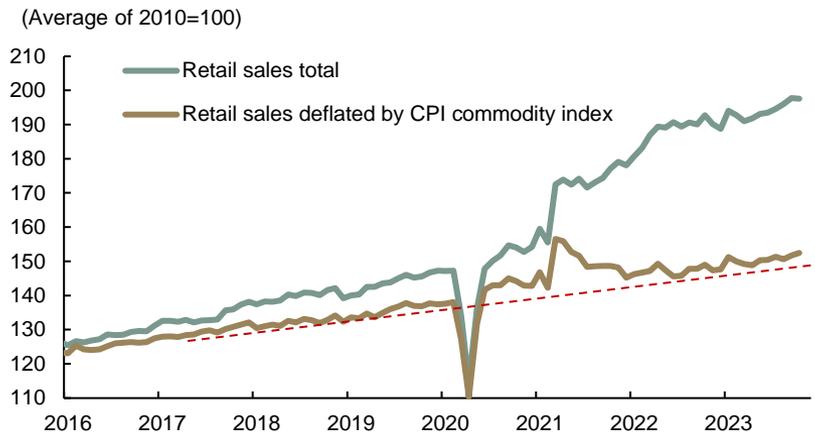
The October core CPI (ex food and energy) slowed its pace of yearly growth to 4.0% after it peaked out at 6.6% in September 2022.



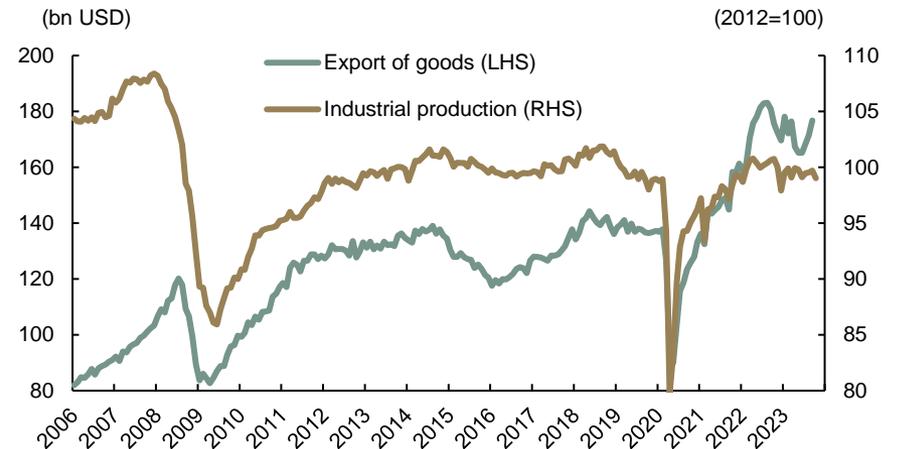
The owners' equivalent rent index, which accounts for one-fourth of overall CPI items, continued to increase at a faster pace than during the pre-pandemic period.



Retail sales fell marginally in October. Meanwhile, retail sales in real terms continued to grow at a steady pace.



October industrial production fell 0.6% from the previous month, largely due to the large-scale strike at major automakers.



Sources: Bureau of Labor Statistics, U.S. Census Bureau, Federal Reserve Board

SMBC Economy and Rates Forecast

		2022			2023				2024				2021	2022	2023	2024
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
U.S.	Real GDP (saar)	-0.6	2.7	2.6	2.2	2.1	4.9	1.2	0.6	1.0	1.2	1.7	5.9	2.1	2.4	1.2
	Inflation rate (YoY)	5.2	5.2	5.1	4.8	4.6	3.9	3.6	3.0	2.7	2.6	2.5	3.6	5.2	4.2	2.7
	Jobless rate	3.6	3.6	3.6	3.5	3.6	3.7	3.9	4.2	4.4	4.4	4.5	5.4	3.7	3.7	4.4
Euro area	Real GDP (qoq)	0.8	0.3	-0.1	0.1	0.1	0.0	0.1	0.2	0.3	0.3	0.4	5.6	3.4	0.5	0.8
	Inflation rate (YoY)	8.0	9.3	10.0	8.0	6.2	5.1	3.2	3.3	3.2	3.0	2.8	2.6	8.4	5.6	3.1
	Jobless rate	6.7	6.7	6.7	6.6	6.4	6.5	6.6	6.7	6.8	6.8	6.8	7.7	6.7	6.5	6.8
Japan	Real GDP (saar)	5.6	-1.2	0.2	3.2	4.8	0.9	0.8	0.9	0.9	1.1	0.1	2.2	1.0	1.5	1.0
	Inflation rate (YoY)	2.1	2.7	3.8	3.5	3.2	2.9	2.5	2.9	2.8	2.5	2.1	-0.2	2.3	3.0	2.6
	Jobless rate	2.6	2.5	2.5	2.6	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.8	2.6	2.4	2.3
China	Real GDP (YoY)	0.4	3.9	2.9	4.5	6.3	4.4	4.8	3.7	4.1	4.6	5.0	8.4	3.0	5.0	4.4
	Inflation rate (YoY)	2.2	2.8	1.8	1.3	0.2	0.0	0.6	1.1	1.5	1.8	2.0	0.8	1.7	0.5	1.6
	Jobless rate	5.8	5.4	5.6	5.5	5.2	5.3	5.2	5.1	5.0	5.0	5.0	5.1	5.1	5.3	5.0

Rates		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
U.S.	FF target range	4.25	4.75	5.00	5.25	5.25	5.25	5.00	5.00	4.75	4.25	5.25	4.75
		~	~	~	~	~	~	~	~	~	~	~	~
	2yr UST	4.50	5.00	5.25	5.50	5.50	5.50	5.25	5.25	5.00	4.50	5.50	5.00
	10yr UST	3.87	3.47	3.84	4.57	4.20	4.00	3.90	4.00	4.00	3.87	4.20	4.00
Germany	ECB refi rate	2.50	3.50	4.00	4.50	4.50	4.50	4.50	4.25	4.00	2.50	4.50	4.00
	ECB depo rate	2.00	3.00	3.50	4.00	4.00	4.00	4.00	3.75	3.50	2.00	4.00	3.50
	2yr Schatz	2.50	2.68	3.20	3.20	3.00	2.80	2.60	2.40	2.30	2.50	3.00	2.30
	10yr Bunds	2.20	2.29	2.39	2.84	2.50	2.30	2.20	2.10	2.10	2.20	2.50	2.10
Japan	IOER	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.10	-0.10	-0.10	0.10
	2yr JGB	0.04	-0.06	-0.07	0.05	0.15	0.20	0.30	0.30	0.30	0.04	0.15	0.30
	10yr JGB	0.42	0.35	0.40	0.77	0.75	0.80	0.90	0.90	0.90	0.42	0.75	0.90
China	Policy rate	2.75	2.75	2.65	2.50	2.50	2.50	2.50	2.50	2.50	2.75	2.50	2.50
	2yr gov bond	2.39	2.41	2.11	2.26	2.27	2.32	2.37	2.47	2.52	2.39	2.27	2.52
	10yr gov bond	2.83	2.85	2.64	2.67	2.62	2.67	2.72	2.77	2.82	2.83	2.62	2.82

Source: SMBC

SMBC FX Forecast

		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
USD/JPY	Range	130.58	127.23	130.64	137.25	138.00	133.00	126.00	128.00	128.00	113.47	127.23	126.00
		~ 151.95	~ 137.91	~ 145.07	~ 149.71	~ 152.00	~ 147.00	~ 140.00	~ 142.00	~ 130.00	~ 151.95	~ 152.00	~ 147.00
	End of period	133.00	132.86	144.31	149.37	145.00	140.00	133.00	135.00	135.00	131.12	145.00	135.00
EUR/USD	Range	0.9633	1.0484	1.0635	1.0488	1.0100	1.0000	1.0100	1.0100	1.0200	0.9536	1.0100	1.0000
		~ 1.0735	~ 1.1033	~ 1.1095	~ 1.1276	~ 1.1100	~ 1.1000	~ 1.1100	~ 1.1100	~ 1.1200	~ 1.1495	~ 1.1276	~ 1.1200
	End of period	1.0705	1.0839	1.0909	1.0573	1.0500	1.0400	1.0500	1.0600	1.0600	1.0705	1.0500	1.0600
USD/CAD	Range	1.3275	1.3291	1.3151	1.3110	1.3000	1.3000	1.3000	1.2800	1.2700	1.2477	1.3000	1.2700
		~ 1.3885	~ 1.3832	~ 1.3642	~ 1.3685	~ 1.4200	~ 1.4200	~ 1.4200	~ 1.4000	~ 1.3800	~ 1.3885	~ 1.4200	~ 1.4200
	End of period	1.3554	1.3516	1.3242	1.3577	1.3600	1.3500	1.3500	1.3400	1.3300	1.3554	1.3600	1.3300
CAD/JPY	Range	96.76	95.13	97.54	105.02	100.00	99.00	92.00	94.00	94.00	89.77	95.13	92.00
		~ 109.11	~ 100.59	~ 109.21	~ 110.86	~ 115.00	~ 113.00	~ 104.00	~ 107.00	~ 107.00	~ 110.06	~ 115.00	~ 113.00
	End of period	96.76	98.28	109.04	110.01	106.60	103.70	98.50	100.75	101.50	96.76	106.60	101.50
EUR/JPY	Range	138.81	138.19	143.12	151.42	148.00	141.00	135.00	135.00	136.00	124.40	137.39	135.00
		~ 148.40	~ 145.67	~ 157.92	~ 159.76	~ 162.00	~ 155.00	~ 149.00	~ 149.00	~ 150.00	~ 148.40	~ 162.00	~ 155.00
	End of period	140.41	144.01	157.43	157.93	152.25	145.60	139.65	143.10	143.10	140.41	152.25	143.10
Oil price (WTI futures)		82.64	75.99	73.67	82.23	89.50	85.50	79.50	79.50	80.00	98.74	80.35	81.38

Source: SMBC