

Weekly Update of U.S. Economy

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Economy Set to Slow Down

Economy Not Recessionary But Slowing

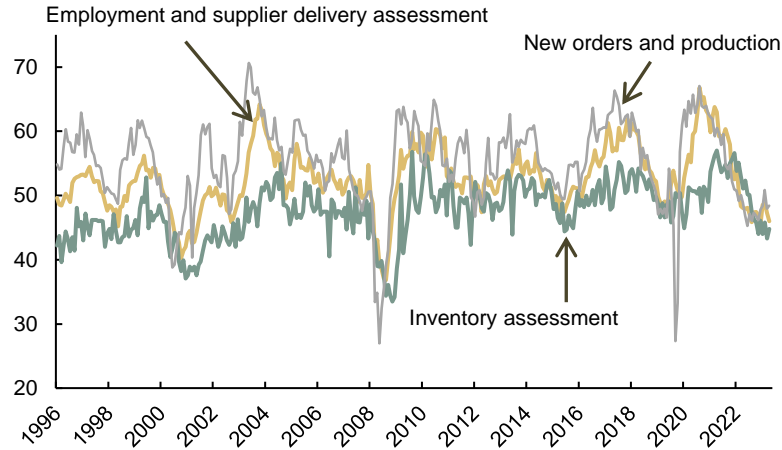
- The U.S. economy has so far avoided a major slowdown. The wealth effect and the high resilience shown against the effects of high interest rates in the private sector are helping to maintain positive growth.
- The GDP growth rate for the July-September period of this year has been revised upward to an annual rate of 5.2% compared to the previous quarter. Of its components, personal consumption has been revised downward slightly, but it is still growing at a high annual rate of 3.6%.
- Holiday season spending is likely to grow 1%-2% faster than inflation. While personal consumption has been growing for a long time—although it is somewhat lacking in strength—there has been no noticeable downturn in consumption.
- However, given the slow recovery in consumer confidence and the slowing pace of the job market recovery, it is difficult to be optimistic about next year's personal consumption. In particular, it is important to note that adjustments are beginning to take place in the labor market.
- The October unemployment rate was 3.9%, up 0.5 percentage points from April's record low of 3.4%. While it is possible to interpret this as still being within the process of normalization from excessively tight labor conditions, almost the same development has been seen in the early stages of past economic recessions.
- A closer look at labor indicators reveals that the number of people quitting their jobs has begun to decline in many industries. Unemployment tends to start rising slightly before a recession begins, while job separation tends to remain at a generally high level even in the early stages of a recession. Thus, during the economic downturn that began in April 2001, the labor market turnover remained rapid, and the number of job departures was high. Even during the economic downturn that began in January 2008, the number of people leaving jobs remained roughly the same just before the recession.

Noticeable Decline in Number of Workers Quitting Their Jobs

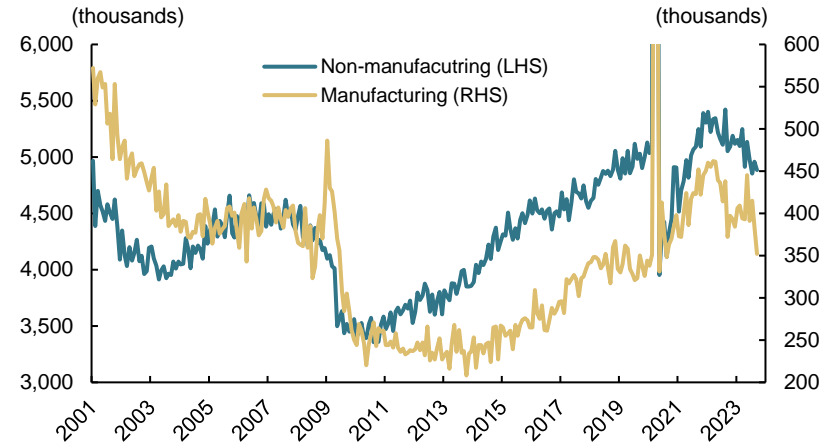
- The reasons behind the decrease in the number of people leaving their jobs are: (1) workers are satisfied with their current working conditions and have little motivation to change jobs, (2) people want to change to a job with better conditions but there are few opportunities to do so, and (3) the situation in which workers prefer to secure their current jobs against a backdrop of heightened uncertainty.
- Given the sharp rise in inflation in recent years and the heated wage negotiations between labor and management, the possibility of (1) is low. In other words, the most applicable option is (2), (3), or a combination thereof.
- The number of job openings has been declining since peaking in April of last year. Currently, the number of job openings remains significantly higher than its peak during past economic expansions. In reality, there are many cases where companies continue to recruit, but are unable to fill positions because of mismatches, such as the ones between the skills that companies seek and those of job applicants.
- In addition, some reports indicate that people are becoming conscious of securing their current jobs against the backdrop of (3) increasing uncertainty about the future. Corporate managers measure turnover through layoffs and new hires based on the assumption that there will be a natural outflow of human resources, but recently the natural outflow has been decreasing, which means that opportunities for turnover are being reduced. If workers with high unit wages remain in a particular post for a long time, the pace of employment adjustment will become greater when future demand declines.
- If these trends continue, next year's economic performance will need to be viewed more carefully. Inflation indicators have been steadily slowing down. Thus, inflation is likely to reach the 2% level in the second half of next year. Although an early rate cut is unlikely, the Federal Reserve could begin to set the stage for a rate cut early next year.

Economy Set to Slow Down (continued)

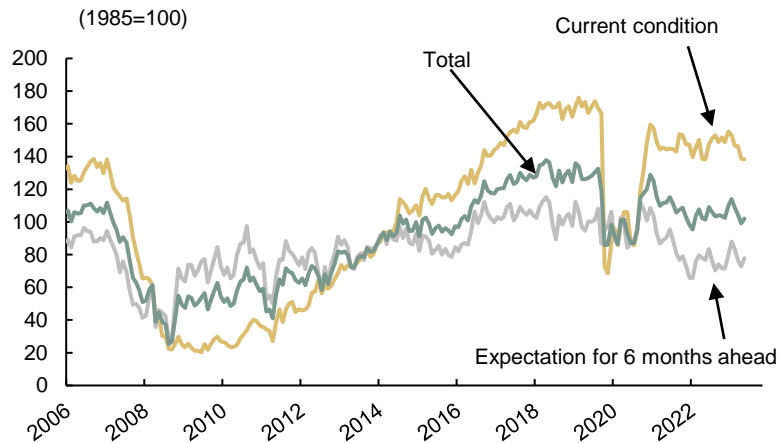
The ISM manufacturing combined indices remain at a low level. The momentum of production and new orders, which lead the industry's cycle, is weak.



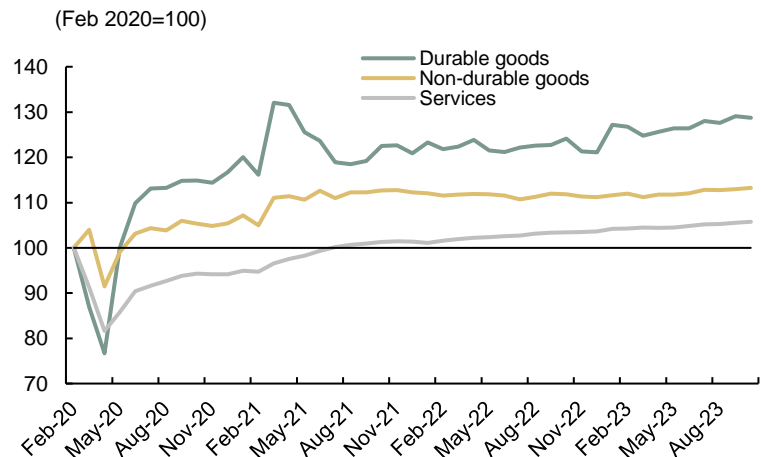
The number of people voluntarily separating from their jobs is already clearly on the decline after the peak reached in early 2022.



Consumer confidence has been stagnant.



Consumption has generally been good so far, but it is likely to stall if employment adjustments occur too quickly.



Sources: The Institute for Supply Management, Bureau of Labor Statistics, Conference Board, Bureau of Economic Analysis

SMBC Economy and Rates Forecast

		2023			2024				2025				2022	2023	2024	2025
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
U.S.	Real GDP (saar)	2.1	5.2	1.2	-0.5	1.0	1.2	1.7	1.7	1.8	2.0	2.2	2.1	2.4	1.3	1.7
	Inflation rate (YoY)	4.6	4.0	3.6	3.0	2.7	2.6	2.5	2.5	2.4	2.3	2.3	5.2	4.3	2.7	2.4
	Jobless rate	3.6	3.7	4.0	4.2	4.4	4.4	4.5	4.5	4.4	4.3	4.2	3.7	3.7	4.4	4.4
Euro area	Real GDP (qoq)	0.2	-0.1	0.1	0.2	0.3	0.3	0.4	0.3	0.3	0.3	0.3	3.4	0.5	0.7	1.3
	Inflation rate (YoY)	6.2	4.9	3.2	3.4	3.3	3.2	2.8	2.6	2.4	2.2	2.0	8.4	5.6	3.2	2.3
	Jobless rate	6.5	6.5	6.6	6.7	6.8	6.8	6.8	6.9	6.9	6.9	6.9	6.7	6.6	6.8	6.9
Japan	Real GDP (saar)	4.5	-2.1	1.1	0.9	0.9	1.1	1.1	0.9	0.8	0.8	0.7	1.0	1.7	0.8	0.9
	Inflation rate (YoY)	3.2	2.9	2.5	2.5	2.7	2.7	2.4	2.1	2.1	2.0	2.0	2.3	3.0	2.6	2.1
	Jobless rate	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.4	2.6	2.4	2.3	2.3
China	Real GDP (YoY)	6.3	4.9	5.2	4.7	5.5	5.4	5.5	4.9	4.9	4.9	5.0	3.0	5.2	5.3	4.9
	Inflation rate (YoY)	0.2	0.0	0.0	1.1	1.5	1.8	2.0	2.1	2.0	1.9	1.8	1.7	0.5	1.6	2.0
	Jobless rate	5.2	5.2	5.1	5.1	5.0	5.0	5.0	4.9	4.9	5.0	5.0	5.1	5.2	5.0	5.0

Rates		2023	2024				2025				2023	2024	2025
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
U.S.	FF target range	5.25 ~	5.25 ~	5.00 ~	5.00 ~	4.75 ~	4.75 ~	4.75 ~	4.50 ~	4.50 ~	5.25 ~	4.75 ~	4.50 ~
	2yr UST	5.50	5.50	5.25	5.25	5.00	5.00	5.00	4.75	4.75	5.50	5.00	4.75
	10yr UST	5.00	5.00	4.75	4.75	4.75	4.75	4.75	4.50	4.50	5.00	4.75	4.50
	10yr UST	4.20	4.00	3.90	4.00	4.00	4.00	4.20	4.20	4.30	4.20	4.00	4.30
Germany	ECB refi rate	4.50	4.50	4.50	4.25	4.00	3.75	3.50	3.25	3.25	4.50	4.00	3.25
	ECB depo rate	4.00	4.00	4.00	3.75	3.50	3.25	3.00	2.75	2.75	4.00	3.50	2.75
	2yr Schatz	3.00	2.80	2.60	2.40	2.30	2.20	2.10	2.00	2.00	3.00	2.30	2.00
	10yr Bunds	2.50	2.30	2.30	2.30	2.20	2.20	2.20	2.10	2.10	2.50	2.20	2.10
Japan	Policy rate	-0.10	-0.10	0.10	0.10	0.10	0.10	0.30	0.50	0.80	-0.10	0.10	0.80
	2yr JGB	0.15	0.20	0.30	0.30	0.30	0.40	0.50	0.70	0.80	0.15	0.30	0.80
	10yr JGB	0.95	1.00	1.00	1.00	1.00	1.00	1.10	1.20	1.20	0.95	1.00	1.20
China	Policy rate	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
	2yr gov bond	2.37	2.43	2.51	2.57	2.60	2.64	2.67	2.69	2.75	2.37	2.60	2.75
	10yr gov bond	2.72	2.78	2.83	2.87	2.90	2.94	2.99	3.04	3.10	2.72	2.90	3.10

Source: SMBC

SMBC FX Forecast

		2023	2024				2025				2023	2024	2025
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
USD/JPY	Range	138.00 ~ 152.00	133.00 ~ 147.00	126.00 ~ 140.00	128.00 ~ 142.00	128.00 ~ 130.00	128.00 ~ 142.00	126.00 ~ 140.00	126.00 ~ 140.00	123.00 ~ 137.00	113.47 ~ 151.95	127.23 ~ 152.00	123.00 ~ 142.00
		End of period	145.00	140.00	133.00	135.00	135.00	135.00	133.00	133.00	130.00	145.00	135.00
EUR/USD	Range	1.0100 ~ 1.1100	1.0000 ~ 1.1000	1.0100 ~ 1.1100	1.0100 ~ 1.1100	1.0200 ~ 1.1200	1.0200 ~ 1.1200	1.0200 ~ 1.1200	1.0300 ~ 1.1300	1.0300 ~ 1.1300	1.0448 ~ 1.1276	1.0100 ~ 1.1200	1.0200 ~ 1.1300
		End of period	1.0500	1.0400	1.0500	1.0600	1.0700	1.0700	1.0800	1.0800	1.0900	1.0700	1.0700
USD/CAD	Range	1.3110 ~ 1.3875	1.2800 ~ 1.3900	1.2600 ~ 1.3700	1.2500 ~ 1.3600	1.2400 ~ 1.3500	1.2300 ~ 1.3400	1.2200 ~ 1.3300	1.2200 ~ 1.3300	1.2200 ~ 1.3300	1.3110 ~ 1.3875	1.2400 ~ 1.3900	1.2200 ~ 1.3400
		End of period	1.3400	1.3300	1.3200	1.3100	1.3000	1.2900	1.2800	1.2800	1.2800	1.3400	1.3000
CAD/JPY	Range	107.83 ~ 110.85	99.00 ~ 112.00	94.00 ~ 107.00	96.00 ~ 109.00	97.00 ~ 110.00	98.00 ~ 111.00	97.00 ~ 110.00	97.00 ~ 110.00	95.00 ~ 108.00	95.13 ~ 110.86	94.00 ~ 112.00	95.00 ~ 111.00
		End of period	108.75	105.30	100.80	103.00	104.00	105.00	104.00	104.00	101.60	108.75	104.00
EUR/JPY	Range	152.00 ~ 166.00	145.00 ~ 159.00	138.00 ~ 152.00	136.00 ~ 150.00	137.00 ~ 151.00	137.00 ~ 151.00	136.00 ~ 150.00	135.00 ~ 149.00	134.00 ~ 148.00	137.39 ~ 166.00	136.00 ~ 159.00	134.00 ~ 151.00
		End of period	155.15	149.80	140.98	143.10	144.45	144.45	143.64	143.64	141.70	155.15	144.45
Oil price (WTI futures)		80.50	83.00	81.50	80.50	82.50	82.00	80.00	81.50	82.00	98.74	81.88	81.38

Source: SMBC