Insight

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Economic releases in US. In this publication we are covering major U.S. reports issued during the first half of May, we comment on CPI inflation, Federal government finances, retail sales, and industrial production data for April.

The CBO released federal government financial data through April. The Federal deficit for the seven months of the 2024 fiscal year through April reached US$858 billion (bn), 7.4% lower than observed for the equivalent period for FY23. Outlays were reduced by shifts of some payments to September. On a trailing twelve-months basis (LTM), we estimate that the deficit has reached US$2.0 trillion or roughly 7.0% of GDP as of April. For its part, the public debt reached 98.6% of GDP.

The **Consumer Price Index (CPI)** decreased from 3.48% to 3.36% in April, and the core inflation rate declined to 3.62% from its previous level of 3.80%, representing its most favorable reading in the last three years. The data from April suggests that the acceleration in inflation recorded in the preceding two months was a temporary bump from the overall progress towards the Fed's inflation target of 2.0%.

With monthly seasonally adjusted figures, **April's retail sales** remained unchanged at 0.02%, as sales at gas stations, food and beverages and food services offset weakness in vehicles, online sales, and other categories. Excluding motor vehicles and auto parts, retail sales grew 0.2% (vs. +0.9% in March). April's report could signal some caution on the consumer side after strong spending (+0.6% and +0.7%) in the two prior months.

The Federal Reserve's industrial production index Industrial production for April was largely unchanged from the previous month. Furthermore, the previously reported 0.4% increase in March was revised downward to a much weaker 0.1% increase. The data went against the consensus of analysts who had predicted that industrial production would increase for a third straight month. On a quarterly basis, the three-month average U.S. industrial production index increased as a modest 1.1% annualized rate.

Economic releases in Canada. Seasonally adjusted annual inflation in March measured by the Consumer Price Index (CPI) accelerated slightly to 2.90% year-over-year (y/y) in March, following two consecutive readings of 2.84%. One of the primary drivers of the overall increase in March was gasoline, which rose 4.53% (y/y) largely as a rebound from the sharp drop a year earlier (-13.8% y/y March 2023), following a 0.83% y/y increase in February. All items inflation excluding gasoline moderated to 2.89% from the previous 2.91%. However, annual services inflation remained pressured rising to 4.47% y/y in March from

4.20% in the February reading. Transportation inflation, another services component, accelerated to 3.01% y/y from 1.25% in February, while shelter continues to contribute to the overall index's gain with a substantial 6.5% y/y advance. On the other hand, goods inflation continues to ease. Goods inflation decelerated for the third consecutive month (+1.05% y/y) and recorded its lowest change since February 2021. On a monthly basis, the overall inflation with seasonally adjusted data grew 0.63% (vs. +0.32% in February), marking its third consecutive rise.

The March numbers reflect the irregular convergence of inflation towards 2.0%, even as it has stayed below the 3.0% upper limit of the Central Bank's inflation range for the third consecutive month. For its part, the Bank of Canada (BoC) mentioned in its latest interest rate announcement that the Governing Council will be looking for evidence that the downward trend of inflation is sustained and meanwhile it maintained its target for the overnight rate at 5.0% for the seventh consecutive month.

In April, there was a significant rise in employment of 90.4k, above the expected market gain of 20.0k. The April reading was a significant improvement compared to the previous month's loss of 2.2k workers. The total number of posts added was the highest since January 2023, when 124.3k jobs were added. In detail, the private sector added 50.0k jobs, while gains in the public sector were 26.0k, followed by 14.4k for the self-employed. Meanwhile, 107.5k new workers joined the workforce, reflecting the month's increase of 111.8k working-age persons. The unemployment rate stood at 6.1% for the second consecutive month. Participation rate rose 0.1% to 65.4% in April.

Upcoming Figures

Economic reports	***Publication date***
USA	
GDP 1Q24 (second estimate)	May 30, 2024
Personal Income and Outlays for April	May 31, 2024
Canada	
Consumer Price Index (CPI) for April	May 21, 2024
GDP 1Q24	May 31, 2024

Source: HR Ratings with information from the BEA, FRED, Fed, statcan and the BoC.

Public Finance Report for April

According to data from the Congressional Budget Office (CBO), the Federal deficit for the seven months of the 2024 fiscal year through April reached US$858 billion (bn), 7.4% lower than that observed for the same month a year earlier. Outlays were reduced by shifts of some payments to September. The CBO estimates that deficit reached reach US$929bn excluding calendar shifts. The unadjusted numbers shows that the primary deficit, which excludes interest expense, was lower in the first seven months reaching US$326bn vs. US$553bn in FY23. Nonetheless, as a consequence of the 42.2% increase in the cost of interest, the overall deficit reached US$858bn.

Total revenue climbed by 10.4% over the same period last year, as the table below illustrates. A portion of that increase is attributable to the fact that certain taxpayers in designated federal disaster areas for FY23 had several of their 2023 tax deadlines postponed until FY24. The Payroll Tax increased by 6.5%, but the Individual Income Tax increased by 11.6% or US$279 billion.

On the other hand, total outlays rose 5.8% to reach US$3.8trillion. Spending for Social Security benefits rose US$68bn, reaching US$833bn, because of increases in the average benefit payment and the number of beneficiaries. Medicare outlays increased US$46bn (8.9%). Spending by the Department of Defense was US$36bn greater than the same period of FY23. Looking further into the fiscal year, the CBO's forecast suggest that size of the deficit for the full year will be larger than FY23, as a consequence of the additional costs for outstanding student loans and smaller revenue collections than CBO anticipated.

Cumulative Fiscal Year Revenues and Outlays

	In Billions of USD					Annualized Change since:			
	Apr-20	Apr-21	Apr-22	Apr-23	Apr-24	Apr-23	Apr-22	Apr-21	Apr-20
Total Revenue	**1,843**	**2,142**	**2,986**	**2,686**	**2,965**	**10.4%**	**-0.4%**	**11.4%**	**12.6%**
Individual Income Tax	840	1,021	1,718	1,409	1,572	11.6%	-4.3%	15.5%	17.0%
Payroll Tax	758	783	847	921	981	6.5%	7.6%	7.8%	6.7%
Corporate Tax	88	177	216	223	284	27.4%	14.7%	17.0%	34.0%
Other Revenue	157	160	205	133	128	-3.8%	-21.0%	-7.2%	-5.0%
Total Outlays	**3,324**	**4,075**	**3,346**	**3,613**	**3,823**	**5.8%**	**6.9%**	**-2.1%**	**3.6%**
Social Security	627	651	692	765	833	8.9%	9.7%	8.6%	7.4%
Medicare	481	436	442	425	463	8.9%	2.3%	2.0%	-0.9%
Medicaid & Other Health	253	296	334	359	355	-1.1%	3.1%	6.2%	8.8%
National Defense	403	430	419	440	475	8.0%	6.5%	3.4%	4.2%
Other Primary Outlays	1,322	2,049	1,192	1,250	1,165	-6.8%	-1.1%	-17.2%	-3.1%
Primary Outlays	**3,086**	**3,862**	**3,079**	**3,239**	**3,291**	**1.6%**	**3.4%**	**-5.2%**	1.6%
Net Interest	238	213	267	374	532	42.2%	41.2%	35.7%	22.3%
Primary Deficit	**-1,243**	**-1,720**	**-93**	**-553**	**-326**	**-41.0%**	**87.2%**	**-42.6%**	**-28.4%**
Total Deficit	**-1,481**	**-1,933**	**-360**	**-927**	**-858**	**-7.4%**	**54.4%**	**-23.7%**	**-12.8%**
Public Debt	19,054	22,056	23,847	24,605	27,481	11.7%	15.2%	7.6%	9.6%
Public Debt to GDP	88.4%	101.1%	97.8%	93.5%	98.6%	n.a.	n.a.	n.a.	n.a.
Primary Deficit to GDP (LTM)	-7.00%	-14.76%	-3.02%	-3.50%	-3.92%	n.a.	n.a.	n.a.	n.a.
Net Interest to GDP (LTM)	1.98%	1.66%	1.91%	2.44%	3.12%	n.a.	n.a.	n.a.	n.a.
Total Deficit to GDP (LTM)	-8.98%	-16.42%	-4.93%	-5.94%	-7.04%	n.a.	n.a.	n.a.	n.a.
Nominal GDP (LTM)	21,545	21,823	24,387	26,316	27,858	5.86%	6.88%	8.48%	6.64%
CPI	258.2	264.0	284.8	301.1	311.0	3.29%	4.49%	5.62%	4.76%

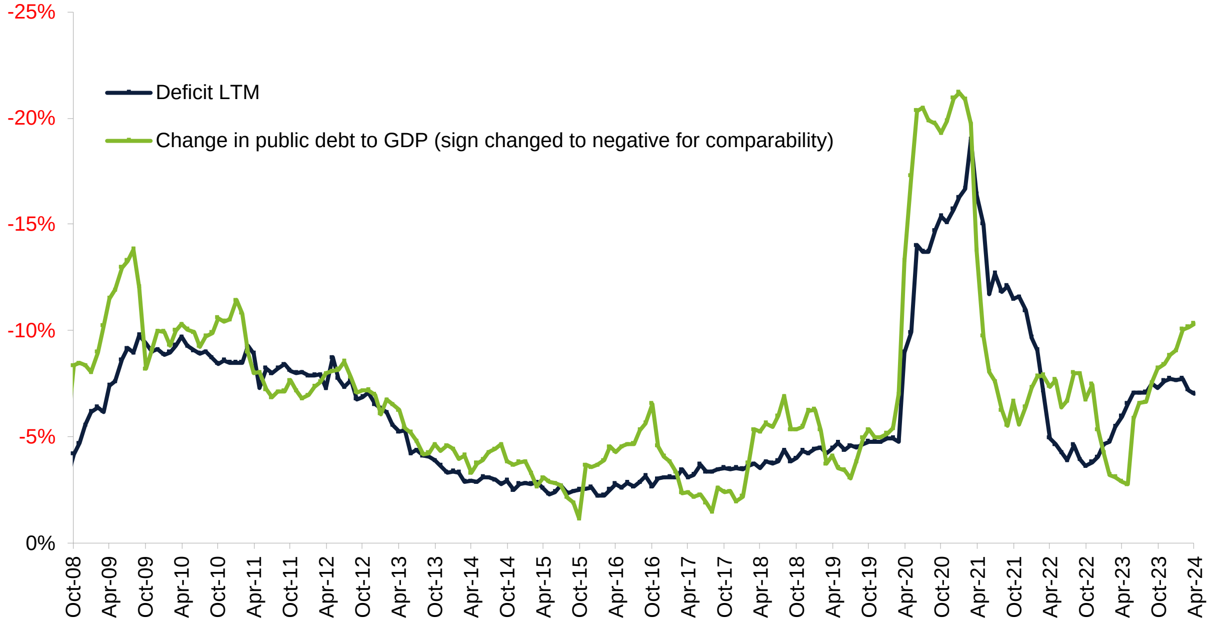
Source HR Ratings with budget information from the CBO, GDP data from the BEA and CPI data from the BLS. Debt information from the US Treasury.

The LTM data show a downward adjustment in costs for FY22 and an upward adjustment in FY23 to reflect non-cash increases and decreases in costs by the Biden administration related to university debt forgiveness policies.

On a trailing twelve-months basis (LTM), we estimate that the deficit has reached US$2.0 trillion or roughly 7.0% of GDP as of April. For its part, the public debt reached 98.6% of GDP. On an LTM basis, HR Ratings estimates that the total receipts represent 16.9% of GDP while Outlays reached 24.0% of GDP.

The relationship between the evolution of public debt during the last few years in proportion to GDP and the fiscal deficit as a percentage of GDP is depicted in the graph below. Despite this, the public debt has grown faster than the deficit over the past two years, rising by 10.3% in April 2024 compared to 2.9% during the same month in FY23. The differences in the changes in the debt is largely due to the earlier cap on the public debt that caused the Treasury to take extraordinary measures to fund the deficit.

Deficit and Change in Public Debt as Percentage of GDP (LTM)



Source: HR Ratings with information from the CBO and BEA for GDP. The deficits for FY22 and FY23 adjust for the effects of changes to the student loan program which led to an increase in spending in September 2022 and a reduciton ni outlays for August 2023. Excluding these non-cash adjustments the FY22 deficit is much smaller than formally recorded while the FY23 deficit is much larger.

U.S. April CPI Inflation

As shown in the table below, monthly inflation slowed to 0.31% in April from 0.38% in March. By components, the core inflation decreased from 0.36% to 0.29%. and was the smallest reading in the last four months. Within the date, the pricing of services experienced a deceleration in rent (+0.39% in April vs. +0.50% in March), medical care (+0.45% in April vs. +0.49% in March), and transportation (-0.02% in April vs. +1.74% in March). On the goods side, durable goods also edged lower in April (-0.53%) from the previous month (-0.23%), while non-durable goods accelerated to 0.57% from the previous 0.11%. On the non-core inflation side, food also moderated from 0.10% in March to 0.02% in April, while energy goods climbed by the same amount as the previous month (+1.1%). However, gasoline specifically increased by 2.78%, compared to the prior increase of 1.74%.

Annual headline CPI rose at a 3.36% pace, down from the 3.48% in March. Core inflation also moderated to 3.62% from the previous 3.80% increase, representing its most favorable reading in the last three years. The data from April suggest that the increase in pace recorded in the preceding two months was a temporary bump from the overall progress towards the Fed's inflation target of 2.0%. During a news conference, Jerome Powell, the chair of the Federal Reserve, expressed his confidence that inflation will return to the disinflationary trend observed last year. However, he emphasized that this process will not be without challenges.

The main driver contributing to the lower core Consumer Price Index (CPI) on a yearly basis was the decline in prices of goods. The prices of durable goods decreased by 3.2% y/y (compared to a decrease of 2.1% prior), while the prices of non-durable items marginally increased to 1.8% (compared to a rise of 1.7% prior), but still remains below 2.0%. However, the cost of shelter is still exerting pressure on the whole index, with an increase of 5.6%. Excluding rent, non-rent services increased even further to 4.9% (compared to +4.8% in March). However, month-to-month inflation was lower at 0.31% in April vs. 0.38% in March. The pricing of services has demonstrated greater resilience than expected, mostly because Americans' propensity to spend more on dining out, concerts, accommodation, and similar activities. Perhaps, once the economy and the labor market begin to show further evidence of cooling-off, the services component will begin to ease more rapidly.

CPI Inflation Evolution

Inflation During:	March-24		April-24		Annualized 3MMA		
	Monthly	Annual	Monthly	Annual	Feb-24	Mar-24	Apr-24
Headline	**0.38%**	**3.48%**	**0.31%**	**3.36%**	**2.91%**	**3.81%**	**4.41%**
Core	**0.36%**	**3.80%**	**0.29%**	**3.62%**	**3.83%**	**4.23%**	**4.27%**
Services less Energy	0.67%	5.40%	0.40%	5.35%	5.37%	6.64%	7.05%
Services less Rent	0.84%	4.77%	0.22%	4.87%	6.15%	7.36%	7.50%
Rent of Shelter	0.50%	5.67%	0.39%	5.57%	5.55%	6.02%	5.81%
Non Durable Goods	0.11%	1.73%	0.57%	1.80%	-1.05%	0.12%	2.35%
Durable Goods	-0.23%	-2.07%	-0.53%	-3.17%	-3.93%	-3.60%	-3.23%
Food	0.10%	2.24%	0.02%	2.23%	2.78%	2.55%	1.70%
Energy	1.13%	2.13%	1.12%	2.53%	-7.13%	1.18%	11.33%
Gasoline	1.7%	1.27%	2.78%	1.24%	-20.72%	-7.85%	14.27%

Fuente: HR Ratings with seasonally adjusted inforamtiom from the U.S. Bureau of Labor Statistics, retreived from FRED.

Retail sales for April

The month-to-month seasonally adjusted retail sales numbers showed a deceleration in consumer spending. Retail sales remained unchanged at 0.02%, falling below market expectations of a 0.4% increase, as sales at gas stations (+3.1%), food and beverages (+0.8%) and food services (+0.22%) offset weakness in vehicles (-0.8%), online sales (-1.2%), and other categories as shown in the table below. Excluding motor vehicles and auto parts, retail sales grew 0.2%, compared to the 0.9% gain in the previous month.

Despite retail sales falling short of forecasts in April and revised numbers showing a slightly smaller increase vs. the preceding month (+0.6% instead of +0.7%), it is premature to assume that consumers are beginning to make a sustained reduction in their spending or increasing it at a much lower level. The 3-month moving average (3MMA) indicates that retail sales experienced a consistent growth of 2.97% compared to the same period last year (as opposed to a 2.0% increase in March). When compared to the preceding quarter using annualized numbers, retail sales saw a 2.14% gain (vs. a -0.52% decrease in March).

U.S. retail sales in billion USD

Sales Category	Billions of USD Mar-24	Billions of USD Apr-24	Monthly change Mar-24	Monthly change Apr-24	3 Months Mov. Avg. April 24 vs. April 23	3 Months Mov. Avg. Prev. Quarter Annualized
Food and beverages	82	83	0.52%	0.76%	1.2%	2.1%
Food Services	94	94	-0.13%	0.22%	5.9%	-2.2%
Gasoline Stations	55	56	2.07%	3.10%	0.0%	13.5%
Motor Vehicles and Parts Dealers	133	132	-0.25%	-0.76%	2.2%	1.7%
Other Sales	341	340	1.03%	-0.40%	3.4%	1.8%
Total Retail and Food Services	**705**	**705**	**0.65%**	**0.02%**	**2.97%**	**2.14%**

Source: HR Ratings with data from the U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis.

Industrial Production for April

In April, the output of US factories did not change from the previous month. The 0.1% increase in March's Federal Reserve industrial production index was revised from a 0.4% increase. The data went against the consensus of analysts who predicted that industrial production would increase for a third straight month. The table below illustrates April's reductions in the majority of sectors. Two months of increases in manufacturing production are reversed as output fell 0.3% month over month. The fall in motor vehicles and parts (-2.0%), machinery (-0.4%), electrical equipment, appliances, and components (-1.9%), and other factors caused the durable goods index to decline by 0.5% m/m. Given the strong economic ties between the two nations, this may have an impact on the number of industrial exports from the Mexican market. Nondurable manufacturing also fell by 0.1% m/m.

Due to lower levels of oil and coal extraction and production, mining output decreased by 0.6% m/m, resulting in two months of contractions. The overall drop in the mining index was the result of a negative performance by petroleum and coal products (-4.4%).In contrast, utilities experienced a 2.8% m/m gain as a result of greater than anticipated demand for natural gas (+1.1%) and electricity (+3.1%). As the table below illustrates, on a quarterly basis, the three-month average U.S, industrial production increases 1.1% at an annualized rate, supported by an increase in manufacturing (+2.4% q/q) and mining (+1.0% q/q).

Evolution of the U.S. Industrial Production

Sector	Annual Change Monthly	Annual Change Quarterly	Shorter term change[1] m/m	Shorter term change[1] q/q
Manufacturing	**-0.5%**	**0.0%**	**-0.3%**	**2.4%**
Durable	-0.6%	0.5%	-0.5%	1.3%
Motor vehicles and parts	0.0%	5.8%	-2.0%	15.3%
Nondurable	-0.5%	-0.5%	-0.1%	3.5%
Mining	**-1.3%**	**0.0%**	**-0.6%**	**1.0%**
Utilities	**2.3%**	**0.3%**	**2.8%**	**-6.7%**
Total	**-0.4%**	**-0.1%**	**0.0%**	**1.1%**

Source: HR Ratings based on US Census Bureau and FRED data. Seasonally adjusted data.

[1] Month ove month and Quarter over immediately prior quarter annualized.

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