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Economic releases in US. In this publication we discuss the US CPI inflation report for March, the advanced GDP estimation for the first quarter of 2024 (1Q24), US personal income and spending for March and the Employment report for April. Also, we comment on the Federal Reserve's (Fed) May policy meeting.

In general, these reports have sent somewhat contradictory signals to the markets, complicating forecasts for the next several months. Inflation has proven to be difficult to subdue while growth might not be as robust as the stubbornness of inflation might suggest. In particular, the employment report suggests a weakness that has given rise to expectations of an early rate cut, abruptly changing expectations of an initial rate cut not coming until nearer to year's end due to the stronger than expected inflation.

In March, the **Consumer Price Index (CPI)** experienced a consecutive acceleration for the third month, reaching its highest level over the previous six months. The annual headline inflation rate increased to 3.48% from the 3.17% recorded in February. Meanwhile, core inflation stopped the downward trajectory for the eleventh consecutive month, experiencing an acceleration to 3.80% from the preceding 3.76%.

Gross Domestic Product (GDP) grew by 1.6% on an annualized basis in the first quarter of 2024 (1Q24), which was less than the 2.5% annualized growth that economists had predicted. This growth rate was lower than the 3.4% growth rate in the previous quarter. According to data from the first quarter of 2024, the U.S. economy turned in its weakest performance since 2Q22. Despite the weaker growth, GDP deflator inflation rebounded to an annualized rate of 3.13% vs. a subdued 1.67% in 4Q24.

The **income and spending** report for March showed that household consumption in real terms rose a strong 0.51% vs. February which in turn showed a strong 0.48% advance vs. a weak January. The strength in spending stood in contrast to the modest growth of personal disposable income, which only increased by 0.18%, although this was its best performance in the preceding three months. The increase in consumer spending was partially financed by a decrease in the savings rate, reaching 3.22% compared to 3.57% in the previous month. The present savings rate is currently at its minimum level since October 2022. However, the report also showed a strong rebound in PCE inflation. For the quarter headline PCE inflation rose to 3.4% on an annualized basis vs. 4Q23 when it had increased at a more moderate 1.78% vs. 3Q23.



The **non-farm payrolls report** showed an increase of 175 thousand new jobs in April, below the 240 thousand estimated by the consensus; nevertheless, last month had a slight upward revision from 313 thousand previously reported to 315 thousand. According to the Establishment Survey, the U.S employment report for April revealed an 87,000 job increase. The unemployment rate climbed to 3.9% from previous 3.8%, while labor participation rate stood at 62.7%.

The **Federal Reserve (Fed) Committee** unsurprisingly chose to maintain the federal funds rate at its current level of 5.25% - 5.50%. Additionally, the Fedl continued to decrease its securities holdings, although at a slower rate. Jerome Powell, the chairman of the Fed's Board of Governors, recognized that there has been insufficient progress in inflation in recent months. He stated that therefore it would not be appropriate to lower the target range unless there is additional indication that inflation is heading towards the central bank's goal of 2.0%. As it is premature to determine whether the recent increase in PCE and CPI inflation is a transitory effect or the beginning of a new trend, we interpret the Fed's announcement as cautious but consistent with our expectations. However, Chairman Powell's assessment is that inflation will resume its downward trend sometime later this year, thereby maintaining the possibility for reductions in the interest rates.

Upcoming Figures

<i><u>Economic reports</u></i>	<i><u>Publication date</u></i>
USA	
Monthly Treasury Statement for April	May 10, 2024
CPI inflation for April	May 15, 2024
Retail sales for April	May 15, 2024
Industrial production report for April	May 16, 2024

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



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U.S. March CPI Inflation

As shown in the table below, the Consumer Price Index (CPI) increased by 0.38% on a monthly basis in March as a result of significant increases in the cost of energy, particularly gasoline, and higher service costs. The annual headline CPI rose to 3.5% from 3.2% in February, representing the third consecutive month of an upward trend. Inflation in the United States has proven to be more persistent than had been expected at the end of 2023, according to data from March. This persistence could result in a delay of the reductions in reference interest rates. After the CPI report, market consensus expectations for a rate reduction shifted; they now anticipate the first rate cut to occur at the September meeting, as opposed to June.

Versus the preceding month, core inflation showed a 0.36% increase, the same as the previous month. Prices for services rose across all categories, although a portion of these increases was offset by decreases in the cost of goods. The annual growth rate stalled at 3.8%. However, the three-month moving average (3MMA) for core inflation suggests that there is potential for an even larger pressures in the demand for services. Annualized inflation increased from 3.83% in February to 4.23% in March, the highest reading since June 2023, according to this metric.

In a press conference, Fed Chairman Jerome Powell reaffirmed his confidence that inflation will return to a disinflationary trajectory later on the year. This could occur once the economy begins to cool, as evidenced by the employment deceleration observed in April.

CPI Inflation Evolution

Inflation During:	February-24		March-24		Annualized 3MMA		
	Monthly	Annual	Monthly	Annual	Jan-24	Feb-24	Mar-24
Headline	0.44%	3.17%	0.38%	3.48%	2.39%	2.91%	3.81%
Core	0.36%	3.76%	0.36%	3.80%	3.61%	3.83%	4.23%
Services less Energy	0.58%	5.22%	0.67%	5.40%	4.92%	5.37%	6.64%
Services less Rent	0.61%	3.95%	0.84%	4.77%	5.60%	6.15%	7.36%
Rent of Shelter	0.42%	5.76%	0.50%	5.67%	5.47%	5.55%	6.02%
Non Durable Goods	0.45%	1.05%	0.11%	1.73%	-2.27%	-1.05%	0.12%
Durable Goods	-0.06%	-1.57%	-0.23%	-2.07%	-4.06%	-3.93%	-3.60%
Food	0.02%	2.24%	0.10%	2.24%	2.83%	2.78%	2.55%
Energy	2.26%	-1.74%	1.13%	2.13%	-11.57%	-7.13%	1.18%
Gasoline	3.8%	-3.95%	1.74%	1.27%	-27.36%	-20.72%	-7.85%

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



GDP 1Q24 (advanced estimate)

The Bureau of Economic Analysis (BEA) reported that Gross Domestic Product (GDP) grew by 1.6% on an annualized basis in the first quarter of 2024 (1Q24), which was less than the 2.5% annualized growth that economists had predicted. This growth rate was lower than the 3.4% advance in the previous quarter. Likewise, this growth has been the lowest in the last seven quarters, which reflects a slowdown in economic activity. The 1Q24 numbers exhibited advances in consumer spending but only in services while goods declined for the first time since 4Q22. According to data from the first quarter of 2024, the U.S. economy performed at its slowest pace since 2Q22. Excluding the effect of imports, aggregate demand advanced at a stronger 1.9%. While more robust than the 1.6% for overall GDP growth, this was the second consecutive quarterly decline having shown advances of 4.8% and 3.2% in 3Q23 and 4Q23.

Real Gross Domestic Product (GDP) and related measures

	Billions of USD (2017)					Annualized change			
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-23	Sep-23	Dec-23	Mar-24
Gross Domestic Product (GDP)	22,112	22,225	22,491	22,679	22,769	2.1%	4.9%	3.4%	1.6%
Personal consumption expenditures	15,313	15,344	15,461	15,587	15,684	0.8%	3.1%	3.3%	2.5%
Goods	5,341	5,347	5,411	5,451	5,445	0.5%	4.9%	3.0%	-0.4%
Services	9,999	10,023	10,079	10,164	10,264	1.0%	2.2%	3.4%	4.0%
Gross private domestic investment	3,964	4,014	4,111	4,119	4,151	5.2%	10.0%	0.7%	3.2%
Fixed investment	3,906	3,956	3,981	4,016	4,068	5.2%	2.6%	3.5%	5.3%
Nonresidential	3,215	3,273	3,285	3,315	3,339	7.4%	1.5%	3.8%	2.9%
Structures	597	619	636	653	652	16.1%	11.2%	10.9%	-0.1%
Equipment	1,236	1,260	1,246	1,242	1,249	7.7%	-4.4%	-1.1%	2.1%
Intellectual property products	1,385	1,394	1,400	1,415	1,434	2.7%	1.8%	4.3%	5.4%
Residential	731	727	739	744	769	-2.2%	6.7%	2.8%	13.9%
Change in private inventories	27	15	78	55	35	n.a.	n.a.	n.a.	n.a.
Net exports of goods and services*	-935	-928	-931	-919	-973	-2.9%	1.1%	-5.1%	26.0%
Exports	2,525	2,465	2,497	2,528	2,534	-9.3%	5.4%	5.0%	0.9%
Imports	3,461	3,393	3,428	3,447	3,507	-7.6%	4.2%	2.2%	7.2%
Government consumption & investment	3,759	3,790	3,843	3,887	3,899	3.3%	5.8%	4.6%	1.2%
Federal	1,463	1,467	1,492	1,501	1,500	1.1%	7.1%	2.4%	-0.2%
National defense	815	820	837	838	836	2.3%	8.4%	0.5%	-0.7%
Nondefense	647	647	656	663	664	-0.4%	5.6%	4.8%	0.3%
State and local	2,297	2,323	2,351	2,386	2,398	4.7%	5.0%	6.0%	2.0%
GDP less change in inventories	22,085	22,211	22,413	22,624	22,734	2.3%	3.7%	3.8%	1.9%
Aggregate Demand	25,573	25,618	25,919	26,126	26,276	0.7%	4.8%	3.2%	2.3%
LTM GDP	21,915	22,045	22,205	22,377	22,541	1.6%	1.9%	2.5%	2.9%
Deflator	1.21	1.22	1.23	1.23	1.24	1.68%	3.31%	1.67%	3.13%

Source: HR Ratings with data from the Bureau of Economic Analysis (BEA).

*A negative figure reduces GDP.

**Includes consumption & investment.

According to the table above, one of the factors driving the economy in the 1Q24 was fixed investment, which grew by 5.3% annually. Due to higher investments in equipment (+2.1% q/q) and intellectual property items (+5.4% q/q), the nonresidential increased by 2.9% q/q. However, residential investment rose by 13.9% in the first quarter of this year, indicating positive sentiment in the housing market. This is the third consecutive quarterly increase in the interest rate sensitive sector.



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Nevertheless, residential investment at US\$769bn in real 2017 dollars remains dramatically below the high of US\$915bn reported for 1Q21.

Consumer spending increased 2.5% in 1Q24, down from a 3.3% gain in the previous quarter. As we mentioned in our previous reports, savings rates are falling as sticky inflation puts greater pressure on the consumer. Spending on goods declined 0.4%, as a consequence of durable goods. Services spending increased 4.0%, its highest level since 3Q21. Meanwhile, exports decelerated to 0.9% q/q from 5.0% in 4Q23, as a result of a decrease in goods (+0.9% 1Q24 vs. 6.2% 4Q23), while imports rose 7.2% q/q, which increased the overall trade deficit. Finally, the government spending remains almost at the same level as the previous quarter.

Personal Income and Spending in March

The March data on consumer income and spending showed a consistent level of household expenditure. Household consumption experienced a significant increase of 0.51% compared to the previous month (+0.48%). The strength of expenditure stood in contrast to the modest growth of personal disposable income, which only increased by 0.18%, although it is its best performance in the preceding three months. Prior to accounting for taxes and personal transfers, the income experienced a modest increase of 0.24%. In March, the increase in consumption was partially financed by a decrease in the savings rate, reaching 3.22% compared to 3.57% in the previous month. The present savings rate is currently at its minimum level since October 2022, when it was documented at 3.03%.

Evolution of U.S. personal income and expenditure in real terms (constant USD)

Monthly data	Billions of USD (2017)							Change vs.*	
	sep.-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Mar-23	Feb-24
Labor Compensation	11,905	11,923	11,976	12,013	12,014	12,055	12,094	2.95%	0.32%
Income by business activity	1,548	1,550	1,555	1,549	1,545	1,547	1,547	1.51%	-0.01%
Rental Income	809	812	815	816	826	837	848	5.50%	1.25%
Interest	1,473	1,485	1,497	1,507	1,497	1,488	1,481	0.98%	-0.51%
Dividends	1,510	1,521	1,531	1,526	1,582	1,519	1,519	-1.77%	-0.03%
Income from Financial Assets	2,983	3,005	3,028	3,033	3,079	3,008	3,000	-0.43%	-0.27%
Income before transfers and taxes	17,247	17,290	17,373	17,411	17,464	17,447	17,488	2.35%	0.24%
Plus Gov't Personal Transf.	3,370	3,366	3,365	3,371	3,447	3,457	3,457	0.41%	0.00%
Less social security contributions	1,505	1,506	1,513	1,517	1,529	1,534	1,538	3.18%	0.30%
Personal Income	19,112	19,150	19,225	19,265	19,382	19,370	19,407	1.93%	0.19%
Less tax payments	2,296	2,303	2,314	2,319	2,435	2,439	2,446	5.92%	0.28%
Disposable Personal Income (DPI)	16,816	16,848	16,912	16,946	16,947	16,931	16,961	1.38%	0.18%
Less Personal Savings	653	672	684	660	703	604	547	-37.63%	-9.51%
Less interest payments	464	451	438	425	432	439	447	25.77%	1.68%
Less Transfer Payments	203	205	205	205	206	206	206	1.17%	-0.16%
Personal Non-Expense Outflows	668	656	644	630	638	645	652	16.82%	1.09%
Personal Consumption Expenditure (PCE)	15,496	15,520	15,584	15,656	15,606	15,682	15,762	3.05%	0.51%
Personal Savings Rate**	3.88%	3.99%	4.04%	3.90%	4.15%	3.57%	3.22%	-2.02	-0.34
Net taxes ***	430	443	461	464	517	516	527	47.6%	2.19%
Total annual PCE inflation	3.37%	2.94%	2.70%	2.62%	2.48%	2.50%	2.71%	-1.73	0.21
Annual Core PCE Inflation	3.59%	3.38%	3.18%	2.94%	2.94%	2.84%	2.82%	-1.96	-0.02

Source: HR Ratings with seasonally adjusted data from US BEA (in billion USD of 2017).

*Changes are with respect to the last reported month vs. the indicated month; **Personal savings rate changes are presented in percentage points.

***Social security (SS) contributions and income taxes less transfers.



On an annual basis, March personal income before taxes and transfers rose 2.35% in real terms, while disposable income experienced a growth of 1.38%. Meanwhile, there was a 3.05% rise in personal expenditure.

For its part, headline inflation, as measured by the Personal Consumption Expenditures (PCE) index, experienced a rise of 0.32% on a monthly basis, compared to the increase of 0.34% in February. Likewise, core PCE inflation increased to the same level on a monthly basis, vs. the 0.27% increase in February. When compared year over year, these metrics showed a higher level than the month before. The PCE inflation rate increased by 2.71% on an annual basis, despite a 2.82% increase in core prices. This suggests that inflationary pressures persist.

U.S. Employment Report for April

The Establishment Survey, non-farm payrolls experienced an increase of 175 thousand new jobs in April, which was lower than the consensus estimate of 240 thousand. While there was a slight upward revision from the 303 thousand previously reported to 315 thousand for the previous month, there was a substantial downward revision for the February data to 236 thousand vs. 270 in the March report. The data suggests that although hiring remained resilient, it did indicate a deceleration in the labor market as a whole.

On the other hand, the household survey, a total of 87,000 individuals entered the labor force. The unemployment rate moved to 3.9% from the previous 3.8%, while labor participation rate stood at 62.7%. Furthermore, we estimate that on an annualized basis real quarterly salaries decreased -0.84% in April (vs. January) vs. the 0.45% increase in March (vs. December). The modest rise in people entering the workforce, coupled with the drop in real wages, indicates that the economy is cooling off, in line with the results we observed in first-quarter GDP.

April Payroll, Employment and Hourly Wage Report

	Apr-22	Apr-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
Total payrolls in the month (millions)	151.6	155.5	157.0	157.3	157.6	157.8	158.1	158.3
Net New Payrolls in month (thousands)	272.0	278.0	182.0	290.0	256.0	236.0	315.0	175.0
Net New Payrolls 3mma (thousands)	542.7	237.0	197.7	212.3	242.7	260.7	269.0	242.0
Annualized quarterly change in total payrolls	4.45%	2.20%	1.59%	1.59%	1.68%	1.84%	1.98%	1.98%
Annual quarterly change in total payrolls	4.99%	2.61%	1.93%	1.90%	1.87%	1.84%	1.81%	1.81%
Labor force (millions)	163.9	166.7	168.1	167.5	167.3	167.4	167.9	168.0
Jobs (millions)	157.9	161.0	161.9	161.2	161.2	161.0	161.5	161.5
Unemployed (millions)	6.0	5.7	6.3	6.3	6.1	6.5	6.4	6.5
Labor force entrants (thousands)	-290.0	-12.0	404.0	-676.0	-175.0	150.0	469.0	87.0
Monthly unemployment rate	3.7%	3.4%	3.7%	3.7%	3.7%	3.9%	3.8%	3.9%
Labor participation rate	62.2%	62.6%	62.8%	62.5%	62.5%	62.5%	62.7%	62.7%
Quarterly average real hourly earnings*	33.78	33.59	33.79	33.85	33.90	33.90	33.88	33.83
Annualized quarterly change*	-3.84%	0.51%	0.00%	0.87%	1.79%	1.30%	0.45%	-0.84%
Quarterly annual change*	-2.40%	-0.58%	0.96%	1.00%	1.07%	1.05%	0.96%	0.72%
Quarterly average weekly real wage*	1,172	1,155	1,161	1,163	1,164	1,163	1,162	1,162
Annualized quarterly change*	-3.84%	-0.65%	0.00%	0.88%	1.40%	0.52%	-0.33%	-0.84%
Quarterly annual change*	-2.86%	-1.44%	0.38%	0.61%	0.58%	0.47%	0.37%	0.53%
Quarterly annualized inflation*	9.26%	3.83%	3.56%	2.73%	2.39%	2.91%	3.81%	4.46%
Quarterly annual inflation*	8.25%	5.28%	3.36%	3.24%	3.19%	3.20%	3.25%	3.35%

Source: HR Ratings with data from the US BLS & information retrieved from FRED, Federal Reserve Bank of St. Louis.

*Inflation based on Headline CPI. Data in average 2023 USD. Measures the real quarterly wage compared to the same quarter of the previous year and to the immediately preceding quarter annualized. Refers to all employees in the private sector.



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