Insight

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Credit Rating Agency

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Economic releases in US. In this publication we are covering the following major U.S. reports: the advanced GDP estimate for the third quarter (3Q24), the international trade balance and the personal income and consumer spending for September, and the employment situation for October. Also, we comment on the Federal Reserve's (Fed) monetary policy decision and the results from the presidential election.

The **advanced GDP figures for the third quarter (3Q24)** rose 2.8% on an annualized basis (q/q) in the third quarter of 2024 (3Q24), according to the Bureau of Economic Analysis (BEA). Two of the main drivers of GDP growth were federal government expenditures and consumer spending. When imports are taken out of the equation, aggregate demand increased by a more robust 3.0% as opposed to 2.0% in the second quarter of 2024.

As inflation continued to decline, **income and personal consumption figures** remained resilient at the end of the third quarter. Consumer expenditure increased by 0.36% in real terms month over month (m/m) and 1.43% annualized. Meanwhile, personal disposable income (IPD) increased 0.09% m/m and 1.35% in annualized terms; thus, the growth in consumer spending was substantially greater than the increase in personal income. On a less positive note, households' disposable savings dropped from 4.81% to 4.58%, marking the fifth consecutive month of decline.

Meanwhile, the headline personal consumption expenditure **(PCE) inflation** rose 0.18% m/m and the core PCE inflation climbed 0.25% m/m in September, in line with expectations. As a result, headline PCE inflation ticked down to 2.1% year-over-year (y/y) from the previous 2.3%, while core inflation remained unchanged at 2.7% y/y.

The United States' seasonally adjusted goods and services commercial deficit for September increased by $13.5 billion from the previous month to $84.4 billion. September's deficit is the worst since April 22 (-US$85.4 billion), with a total monthly change of 19.2%, the biggest monthly increase since April 23 (+20.6% m/m). With the exception of Mexico, the US's principal trading partners lost shares in the US import market while smaller nations made important gains

In the Employment report for October, the Establishment Survey indicated that only 12,000 positions were added, down from the previous 223,000. The figure was substantially lower than the consensus market estimate of a 100,000-job creation. The unemployment rate remained at 4.1% as labor force entrants declined by 220,000 (vs. +150,000 in August). Much of the October employment performance is attributed to the period of hurricanes (Helen and Milton) that affected the southeastern part of the country and the Boeing workers' strike.

The **Federal Reserve (Fed)** decided to cut the reference interest rate by 25 basis points (bps) and leave the range at 4.50% - 4.75%. On its monetary press conference, Federal Reserve Chair, Jerome Powell, mentioned the Committee remains attentive to the Feds dual mandate of achieving maximum employment and returning inflation to the 2.0% goal, however, he remarked these two forces have come into better balance over the past few months as the PCE inflation has moved much closer to the Fed's target rate and the labor market conditions remain solid (despite de the October numbers that were affected by strikes and hurricanes). In our view, the Fed will continue to gradually lower its interest rate benchmark in the following meetings.

Results from the presidential election. The United States presidential elections concluded last week with Donald Trump emerging as the victorious candidate securing a clear majority of the Electoral College to assume the presidency for a second term. With his victory, Mr. Trump will become the second-ever U.S. president to serve non-consecutive terms. Mr. Trump was able to secure his triumph by emerging victorious in most of the "swing states". Especially surprising was the fact that Mr. Trump emerged victorious in the nationwide popular with 51% vs. 47% for his Democrat rival. Mr. Trump should be able to quickly begin to take control his administration by the fact that the Republicans secured a working majority in the Sente which should facilitate the rapid approval of his cabinet and other nominations. The Republicans also apparently retained their small majority in the House of representatives.

In the presidential election, Mr. Trump did surprisingly well across a number of voting groups, especially young voters, while making major gains with Latinos. Presumably, the latter will strengthen his hand in moving aggressively on his antiimmigrant policy promises. His strength among younger voters bodes well for the longer-term duration of his emerging coalition assuming of course that his administration presides over economic growth which benefits his supporters. A policy challenge that he faces is reconciling the emerging populist working class component of his coalition with the traditional de-regulatory, lower tax, pro-business orientation of the Republican party. He needs the latter to generate the well-paid jobs that will satisfy the former. His high tariff policy appears framed to do just that although the inflationary implications of higher tariffs could lead to major policy disappointments.

Upcoming Figures

Economic reports	*Publication date*
USA	
Consumer Price Index (CPI) for October	November 13, 2024
Monthly U.S. federal budget for October	November 13, 2024
Retail sales for October	November 15, 2024
Industrial production for October	November 15, 2024
Personal income and outlays for November	November 26, 2024
Gross Domestic Product (GDP) (second estimate)	November 27, 2024
Canada	
Consumer Price Index (CPI) for November	November 19, 2024
Gross Domestic Product (GDP) for the 3Q24	November 29, 2024

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

3Q GDP (Advanced)

GDP rose 2.8% on an annualized basis (q/q) in the third quarter of 2024 (3Q24), according to the Bureau of Economic Analysis (BEA). This was less than the 3.1% consensus growth rate. Growth was also less than the prior quarter's 3.0% increase. Two of the main drivers of GDP growth were federal government expenditures and consumer spending. When imports are taken out of the equation, aggregate demand increased by a more robust 3.0% as opposed to 2.0% in the second quarter of 2024.

The U.S. expansion continued in 2024, according to the 3Q24 numbers. Data from 3Q24 shows that personal consumption expenditures, which make up roughly two-thirds of GDP, increased by 3.7% on a quarterly basis, outperforming the prior quarter by 2.8% on a quarterly basis. While services grew 2.6 q/q, the weakest rise in the previous five quarters, consumption of goods reached US$5.5 trillion, up 6.0% in the third quarter.

Real Gross Domestic Product and Related Measures

	Billions of USD (2017)					Annualized change			
	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-23	Mar-24	Jun-24	Sep-24
Gross Domestic Product (GDP)	**22,781**	**22,961**	**23,054**	**23,224**	**23,386**	**3.2%**	**1.6%**	**3.0%**	**2.8%**
Personal consumption expenditures	**15,647**	**15,781**	**15,857**	**15,967**	**16,112**	**3.5%**	**1.9%**	**2.8%**	**3.7%**
Goods	5,334	5,379	5,363	5,402	5,481	3.4%	-1.2%	3.0%	6.0%
Services	10,333	10,424	10,511	10,583	10,651	3.5%	3.4%	2.7%	2.6%
Gross private domestic investment	**4,237**	**4,245**	**4,283**	**4,369**	**4,373**	**0.7%**	**3.6%**	**8.3%**	**0.3%**
Fixed investment	4,129	4,165	4,231	4,256	4,270	3.5%	6.5%	2.3%	1.4%
Nonresidential	3,401	3,433	3,471	3,504	3,533	3.8%	4.5%	3.9%	3.3%
Structures	659	670	680	680	673	6.5%	6.2%	0.2%	-4.1%
Equipment	1,292	1,295	1,296	1,327	1,362	0.7%	0.3%	9.9%	11.1%
Intellectual property products	1,450	1,468	1,495	1,498	1,500	5.2%	7.5%	0.7%	0.6%
Residential	771	776	801	795	785	2.6%	13.7%	-2.8%	-5.2%
Change in private inventories	**67**	**45**	**18**	**72**	**60**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Net exports of goods and services*	**-939**	**-937**	**-977**	**-1,036**	**-1,077**	**-0.9%**	**18.4%**	**26.3%**	**17.0%**
Exports	2,522	2,560	2,572	2,578	2,634	6.2%	1.9%	1.0%	8.9%
Imports	3,460	3,496	3,549	3,614	3,711	4.2%	6.1%	7.6%	11.2%
Government consumption & investment	**3,836**	**3,871**	**3,888**	**3,917**	**3,966**	**3.6%**	**1.8%**	**3.0%**	**5.0%**
Federal	1,475	1,474	1,472	1,488	1,523	-0.4%	-0.4%	4.3%	9.7%
National defense	833	830	825	838	868	-1.3%	-2.5%	6.5%	14.8%
Nondefense	642	643	647	650	655	0.9%	2.6%	1.6%	3.2%
State and local	2,361	2,396	2,414	2,428	2,442	6.1%	3.1%	2.3%	2.3%
GDP less change in inventories	**22,714**	**22,916**	**23,036**	**23,152**	**23,326**	**3.6%**	**2.1%**	**2.0%**	**3.0%**
Aggregate Demand	**26,241**	**26,457**	**26,602**	**26,838**	**27,097**	**3.3%**	**2.2%**	**3.6%**	**3.9%**
LTM GDP	**22,493**	**22,671**	**22,834**	**23,005**	**23,156**	**2.9%**	**3.0%**	**3.1%**	**2.9%**
Deflator	**1.23**	**1.23**	**1.24**	**1.25**	**1.26**	**1.55%**	**3.03%**	**2.54%**	**1.80%**

Source: HR Ratings with data from the Bureau of Economic Analysis (BEA).
*A negative figure reduces GDP.
**Includes consumption & investment.

Government spending increased by 5.0% in the quarter led by Federal spending which advanced 9.7% q/q, driven by +14.9% q/q in national defense outlays (probably related to the need to replenish weapons stocks given the conflicts in the Middle East and Ukraine), the largest increase for a quarter. Federal government civilian spending increased at a more moderate but still strong 3.2% rate while state and local consumer and investment spending rose 2.9%.

In the meantime, private domestic investment grew by only 0.3% on a quarterly basis, the lowest since 1Q23 (-8.9% on a quarterly basis). The most important negative driver was a drop in residential investment (-5.2% q/q) and non-residential structure investment (-4.1% q/q); this indicates a significant slowdown from the prior quarter. On the other hand, software and equipment investments increased 11.1% on a quarterly basis, but this was not enough to drive the entire fixed investment for the quarter.

Finally, exports rose by 8.9% q/q, showing a strong increase in 3Q24. However, the increase in imports was stronger with +11.2% q/q, which expanded the overall trade deficit by US$41bn. Despite high interest rates, the U.S. GDP grew 2.9% over the past twelve months.

Personal income and spending for September

As inflation continued to decline, income and personal consumption figures remained resilient at the end of the third quarter. Consumer expenditure increased by 0.36% in real terms month-over-month (m/m) and 1.43% annualized. Meanwhile, personal disposable income (DPI) increased 0.09% m/m and 1.35% in annualized terms. On a less positive note, consumers are utilizing their savings to cover a significant portion of their expenditure as households' disposable savings rate dropped from 4.81% to 4.58%, marking the fifth consecutive month of decline. We would note the strong 4.19% annual increase in labor compensation while the 0.28% monthly rise is equivalent to a strong 3.4% on an annualized basis.

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

	Billions of USD (2017)							Change vs.*	
Monthly data	**mar.-24**	**Apr-24**	**May-24**	**Jun-24**	**Jul-24**	**Aug-24**	**Sep-24**	**Sep-23**	**Aug-24**
Labor Compensation	12,162	12,153	12,222	12,236	12,264	12,314	12,348	4.19%	0.28%
Income by business activity	1,607	1,619	1,625	1,628	1,632	1,631	1,621	0.15%	-0.62%
Rental Income	862	861	855	848	851	855	858	3.64%	0.33%
Interest	1,574	1,583	1,596	1,607	1,593	1,581	1,567	-1.15%	-0.86%
Dividends	1,603	1,606	1,613	1,609	1,604	1,586	1,589	-0.12%	0.16%
Income from Financial Assets	3,177	3,189	3,209	3,216	3,197	3,167	3,156	-0.63%	-0.35%
Income before transfers and taxes	**17,808**	**17,821**	**17,911**	**17,928**	**17,945**	**17,967**	**17,983**	**2.91%**	**0.09%**
Plus Gov't Personal Transf.	3,644	3,650	3,660	3,671	3,689	3,695	3,705	5.37%	0.27%
Less social security contributions	1,540	1,538	1,545	1,546	1,549	1,554	1,557	2.61%	0.21%
Personal Income	**19,913**	**19,934**	**20,026**	**20,052**	**20,085**	**20,108**	**20,131**	**3.38%**	**0.11%**
Less tax payments	2,427	2,434	2,454	2,463	2,475	2,488	2,495	5.21%	0.28%
Disposable Personal Income (DPI)	17,486	**17,500**	**17,571**	**17,589**	**17,610**	**17,620**	**17,636**	**3.13%**	**0.09%**
Less Personal Savings	915	927	917	909	864	848	807	8.09%	-4.82%
Less interest payments	442	444	448	451	450	450	449	-2.87%	-0.18%
Less Transfer Payments	221	221	222	222	222	222	222	1.60%	-0.03%
Personal Non-Expense Outflows	663	665	669	672	672	672	671	-1.44%	-0.13%
Personal Consumption Expenditure (PCE)	**15,908**	**15,907**	**15,985**	**16,007**	**16,074**	**16,100**	**16,158**	**3.09%**	**0.36%**
Personal Savings Rate**	**5.23%**	**5.30%**	**5.22%**	**5.17%**	**4.90%**	**4.81%**	**4.58%**	**0.21**	**-0.24**
Net taxes ***	322	321	340	339	335	347	348	-7.0%	0.10%
Total annual PCE inflation	2.81%	**2.72%**	**2.57%**	**2.44%**	**2.47%**	**2.27%**	**2.09%**	**-1.38**	**-0.18**
Annual Core PCE Inflation	2.98%	**2.89%**	**2.67%**	**2.63%**	**2.66%**	**2.72%**	**2.65%**	**-1.11**	**-0.07**

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 pts.

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

Disposable Personal Income increased by 3.1% in real terms in September on an annual basis, aligning with the 3.1% increase in personal expenditure. While the annual growth rate of disposable income has remained consistent at approximately 3.0% through 2024, expenditure spending has been steadily increasing as consumers acquire confidence in the resilience of economic activity and interest rates decrease. In detail, the expenditure on goods has risen significantly over the course of the year, in September consumption of goods grew 2.0% y/y, higher than the 1.9% y/y in the prior month, while services have maintained their strength and expanded at a 3.4% rate (vs. +3.5% in August).

In September, the core PCE inflation increased by 0.25% m/m, while the headline personal consumption expenditure (PCE) increased by 0.18% m/m, as anticipated. Consequently, headline PCE inflation decreased from 2.3% to 2.1% year-over-year (y/y), thereby bringing it closer to the Federal Reserve's inflation objective of 2.0%. It is worth noting that this is the lowest level since February 2021 (+1.9%). In the meantime, core inflation remained constant at 2.7% year-over-year, which is consistent with the levels that have been observed since May.

U.S. Trade Balance for September

The United States' seasonally adjusted goods and services deficit increased by $13.5 billion from the previous month to $84.4 billion. Due to a decrease in exports compared to imports, September's deficit is the worst since April 22 (-US$85.4 billion), with a total monthly change of 19.2%, the biggest monthly increase since April 23 (+20.6% m/m).

According to September data, goods exports declined 1.8% m/m, as a consequence of a decrease in oil goods (-7.9%) and non-oil goods (1.1%). This was caused by a decrease in capital goods (US$1.9bn), consumer goods (US$1.4bn) and the industrial supplies and materials (US$.14bn). On the other hand, imports increased by 3.0% monthly, as a result of the increase in non-oil goods. Consumer goods imports increased by US$4.0bn, capital goods rose US$2.8bn, while industrial supplies and automotive vehicles, parts, and engines increased US$2.2bn and US$1.2bn respectively. The surplus of services increased by 2.4% monthly, reaching US$24.6bn, the highest since May 24 (US$24.9bn).

Evolution of the U.S. trade balance

	Figures in billions of dollars				Monthly change			
	Jun-24	Jul-24	Aug-24	Sep-24	Jun-24	Jul-24	Aug-24	Sep-24
Total	**-73.0**	**-78.9**	**-70.8**	**-84.4**	**6.0%**	**8.1%**	**-10.3%**	**19.2%**
Goods	-97.5	-103.2	-94.8	-109.0	4.9%	5.9%	-8.1%	14.9%
Oil goods	3.4	3.1	4.5	3.0	-30%	-8%	43%	-33.2%
Non-oil goods	-99.9	-106.1	-98.7	-111.7	3.4%	6.2%	-6.9%	13.1%
Net adjustments	**-1.0**	**-0.3**	**-0.6**	**-0.3**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Services	**24.5**	**24.3**	**24.0**	**24.6**	**1.7%**	**-0.7%**	**-1.1%**	**2.4%**

Source: HR Ratings based on US Census Bureau and FRED data. Seasonally adjusted nominal figures. Due to seasonal adjustments and rounding, the sum of the accounts may vary from the totals.

Non-adjusted import trends for the US's top trading partners are displayed in the table below. With a 15.4% market share in September, Mexico is the top exporter to the US economy, which is higher than in prior years. China, on the other hand, rose to the second spot with 15.0% participation, while Canada dropped 130 basis points to 12.1% in September. The other partners still hold a 44.9% stake.

Monthly imports of goods from the U.S. by exporting country

	Sep-22	Sep-23	Sep-24	Annual change*	Participation					Change in bp.*
					Sep-20	Sep-21	Sep-22	Sep-23	Sep-24	
Mexico	39,507	39,543	44,155	11.7%	14.5%	13.1%	14.3%	15.1%	15.4%	29
Canada	36,048	35,019	34,633	-1.1%	11.9%	12.2%	13.1%	13.4%	12.1%	-130
China	49,248	40,282	43,074	6.9%	20.0%	19.4%	17.9%	15.4%	15.0%	-37
Germany	12,740	12,566	13,085	4.1%	5.2%	4.5%	4.6%	4.8%	4.6%	-24
Japan	11,515	12,700	11,600	-8.7%	4.8%	4.3%	4.2%	4.9%	4.1%	-81
South Korea	10,012	10,116	11,111	9.8%	2.8%	3.6%	3.6%	3.9%	3.9%	1
Others	116,406	111,080	128,573	15.7%	40.8%	42.9%	42.3%	42.5%	44.9%	241
Total USA	**275,476**	**261,306**	**286,232**	**9.54%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**n.a.**

Source: HR Ratings based on US Census Bureau data. Non-seasonally adjusted data in million dollars USD.

*Annual change.

U.S. Employment report for October

Due to the Boeing strike and hurricanes (Milton and Helen) in the Southeast, the October employment report showed the weakest pace of job growth in the previous 46 months. Non-farm payrolls rose by 12,000, which was less than the market consensus projection of 100,000. The number of jobs created for the previous two months was revised down by 31,000 in September and down by 81,000 in August.

October Payroll, Employment and Hourly Wage Report

	Oct-22	Oct-23	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
Total payrolls in the month (millions)	153.9	156.8	158.4	158.5	158.7	158.8	159.0	159.0
Net New Payrolls in month (thousands)	361.0	165.0	216.0	118.0	144.0	78.0	223.0	12.0
Net New Payrolls 3mma (thousands)	286.3	207.0	211.3	147.3	159.3	113.3	148.3	104.3
Annualized quarterly change in total payrolls	3.01%	1.63%	1.78%	1.47%	1.32%	1.07%	1.07%	0.93%
Annual quarterly change in total payrolls	3.88%	2.00%	1.77%	1.69%	1.63%	1.57%	1.52%	1.46%
Labor force (millions)	164.7	167.7	167.7	168.0	168.4	168.5	168.7	168.5
Jobs (millions)	158.7	161.3	161.1	161.2	161.3	161.4	161.9	161.5
Unemployed (millions)	6.0	6.4	6.6	6.8	7.2	7.1	6.8	7.0
Labor force entrants (thousands)	30.0	-174.0	-250.0	277.0	420.0	120.0	150.0	-220.0
Monthly unemployment rate	3.6%	3.8%	4.0%	4.1%	4.3%	4.2%	4.10%	4.10%
Labor participation rate	62.3%	62.7%	62.5%	62.6%	62.7%	62.7%	62.7%	62.6%
Quarterly average real hourly earnings*	33.46	33.75	33.86	33.93	34.02	34.10	34.15	34.22
Annualized quarterly change*	0.75%	-0.23%	-0.43%	0.52%	2.21%	2.83%	2.62%	2.30%
Quarterly annual change*	-2.66%	0.86%	0.64%	0.70%	0.75%	0.92%	1.12%	1.38%
Quarterly average weekly real wage*	1,157	1,160	1,163	1,164	1,166	1,169	1,170	1,174
Annualized quarterly change*	0.36%	-0.23%	-0.04%	0.52%	1.41%	2.04%	2.22%	2.70%
Quarterly annual change*	-3.13%	0.28%	0.54%	0.50%	0.45%	0.63%	0.83%	1.18%
Quarterly annualized inflation*	3.72%	4.01%	4.01%	2.82%	1.42%	0.87%	1.22%	1.80%
Quarterly annual inflation*	8.06%	3.55%	3.36%	3.19%	3.05%	2.83%	2.64%	2.50%

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.

In October, there were 52,000 new jobs in the health care industry and 40,000 new jobs in the government sector due in part to the expansion of state government (+18,000). Conversely, professional business services saw a 49,000 drop, but the industrial sector saw a 46,000 drop, primarily due to a 44,000 decline in transportation equipment. As a consequence, the labor force decreased by 220,000 vs. the gain of 150,000 observed in the previous month. Consequently, the participation rate remained at 62.6%, and the number of unemployed increases by 150,000, reaching 7 million in October. Meanwhile, the unemployment rate was 4.1% in October.

A slower rate of inflation has resulted in a 0.2% monthly increase in the average hourly wage for workers. Additionally, real hourly wages climbed 2.3% on an annualized quarterly basis, with an average of US$34.22 per hour in the quarter (compared to US$34.15 in the preceding month).

In order to obtain a more accurate assessment of the employment data, we will await the November results. However, the revisions of the previous months suggest that the job market is moderating, even when we disregard the temporary factors that influenced the employment report in October.

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