12 March 2024

Macro Monthly

Economics
GLOBAL

Interest rate cuts delayed

- With inflation no longer surprising on the downside…
- …and labour market resilience likely to support consumer demand…
- …markets now expect rates to be cut later (and by less) in 2024

Markets remain focused on the timing of central bank rate cuts, as central banks focus on the latest inflation data to see when they believe they can start to trim rates.

Proceeding with caution

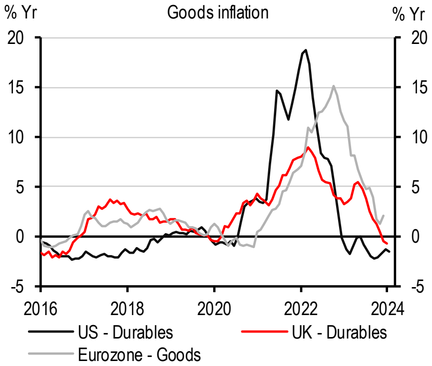
Resilient data is delaying rate cuts

For many central bankers, the data since the start of 2024 have left them in a bind. Inflation in January, notably in the US, **was slightly higher than expectations**, and with growth holding up and some positive signals emerging in real wage growth and activity surveys like the PMIs, policymakers could be forgiven for proceeding with caution.

Inflation is moderating but services inflation is stickier

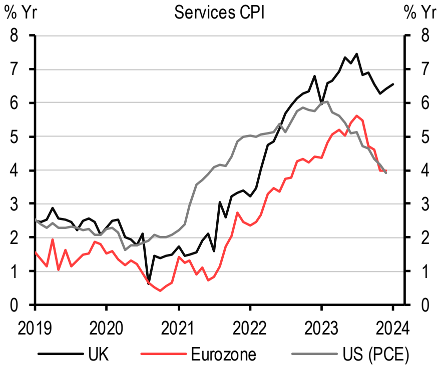
The **risks to both growth and inflation are balanced** – with concerns about higher rates leading to more stress for some firms and households being offset by recoveries in global manufacturing and still-robust consumer demand in much of the world. Food and energy prices still pose downside risks to inflation in the near term, but **services inflation may remain sticky** amid strong demand from consumers (see Charts 1 and 2).

1. Goods inflation has proven to be somewhat transitory…



Source: Refinitiv Datastream

2. …but services inflation has been much stickier



Source: Refinitiv Datastream

The challenges are greater still in some emerging markets which are seeing domestic macroeconomic conditions that warrant rate cuts, but they are **likely to await signals from the Federal Reserve** before acting to mitigate capital outflows and safeguard currencies.

HSBC

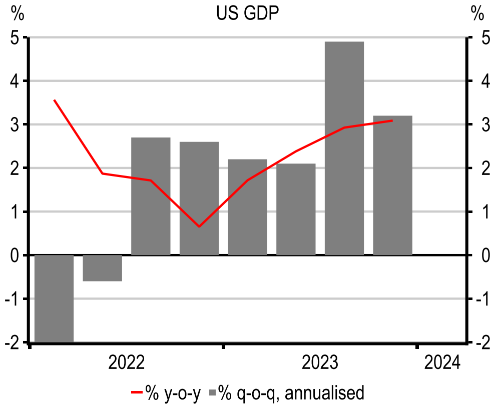
Interest rate outlook

We look at some of the key data on an economy-by-economy basis that will **determine the likely timing and pace of any rate cuts** from central banks.

We expect the Federal Reserve to cut in June…

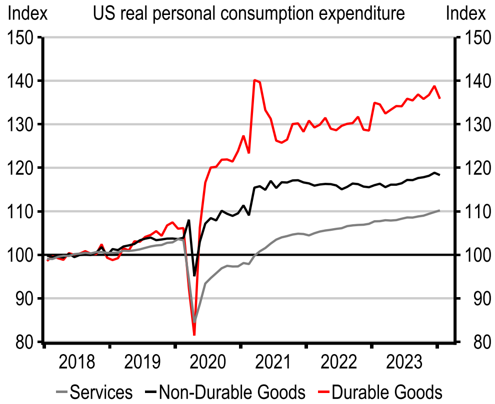
In the US, Q4 GDP exceeded expectations and Q1 looks set to be a similarly strong story based on the latest Atlanta Federal Reserve GDPNow print. With January's core Personal Consumption Expenditures inflation data picking up, the path to achieving the 2% target may not be so easy, particularly with the labour market data remaining strong. **We still expect the first Federal Reserve rate cut in June.**

3. GDP growth was strong in H2 2023…



Source: Macrobond

4. …supported by robust consumption



Source: Macrobond

…along with the European Central Bank

In Europe, activity has been weaker. The UK ended 2023 on a technical recession and eurozone growth was non-existent through the year. But there are signs it is past the trough in activity: PMIs have picked up, labour markets remain firm, and positive real wage growth is poised to support consumption going forwards. Inflation continues to edge lower but we expect services inflation to stay sticky amid high wage growth and stronger demand. **We look for the European Central Bank to start its cutting cycle in June and the Bank of England in August.**

Asia's central banks await a shift by the Federal Reserve

In Asia, most central banks are seeing improving growth and lower inflation but **await a shift by the Federal Reserve** while in mainland China ongoing stimulus measures for the property market may also see a recovery in 2024 **led by a recovery in consumer spending**.

Tough choices

Globally central banks face tough choices on when to start easing – and with growth holding up and inflationary pressures lingering, **the likely timing is moving later**.

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
26 Feb	Japan	CPI (year)	Jan	2.2%	1.9%	2.6%	↑
28 Feb	US	Real GDP (quarter, annualised)	Q4	3.2%	3.3%	3.3%	↓
1 Mar	Eurozone	HICP (year)	Feb	2.6%	2.5%	2.8%	↑
1 Mar	US	ISM manufacturing (index)	Feb	47.8	49.5	49.1	↓
5 Mar	Mainland China	Caixin services PMI (index)	Feb	52.5	52.9	52.7	↓
5 Mar	US	ISM services (index)	Feb	52.6	53.0	53.4	↓
7 Mar	Mainland China	Exports (year)	Feb	7.1%	1.9%	2.3%	↑
8 Mar	Eurozone	GDP (year)	Q4	0.1%	0.1%	0.1%	→
8 Mar	US	Non-farm payrolls (000s)	Feb	275	200	229	↑

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Key upcoming events

Date	Market	Release	Period
14 Mar	US	Retail sales	Feb
17 Mar	Mainland China	Retail sales	Feb
19 Mar	Mainland China	People's Bank of China interest rate announcement	-
20 Mar	UK	CPI	Feb
20 Mar	US	Federal Reserve interest rate announcement	-
21 Mar	EU / UK / US	PMIs	Mar
22 Mar	UK	Retail sales	Feb
29 Mar	US	Inflation	Feb
30 Mar	Mainland China	NBS Manufacturing PMI	Mar
3 Apr	Eurozone	Inflation	Mar

Source: Refinitiv Eikon, HSBC

Disclosure appendix

Important disclosures

Additional disclosures

1 This report is dated as at 11 March 2024.

2 All market data included in this report are dated as at close 08 March 2024, unless a different date and/or a specific time of day is indicated in the report.

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