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USA ECONOMIC REVIEW

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GROSS DOMESTIC PRODUCT

According to the "third" estimate released by the Bureau of Economic Analysis, real gross domestic product (GDP) expanded at an annual rate of 3.0% in the second quarter of 2024. The real GDP increased by 1.6% in the first quarter of 2024.

The increase in real GDP primarily reflected increases in consumer spending, private inventory investment, and non-residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

Compared to the first quarter, the acceleration in real GDP in the second quarter primarily reflected an upturn in private inventory investment and an acceleration in consumer spending. These movements were partly offset by a downturn in residential fixed investment.

Current dollar GDP increased 5.6 percent at an annual rate, or $392.6 billion, in the second quarter to a level of $29.02 trillion, an upward revision of $9.5 billion.

The price index for gross domestic purchases increased 2.4 percent in the second quarter, same as the previous estimate.

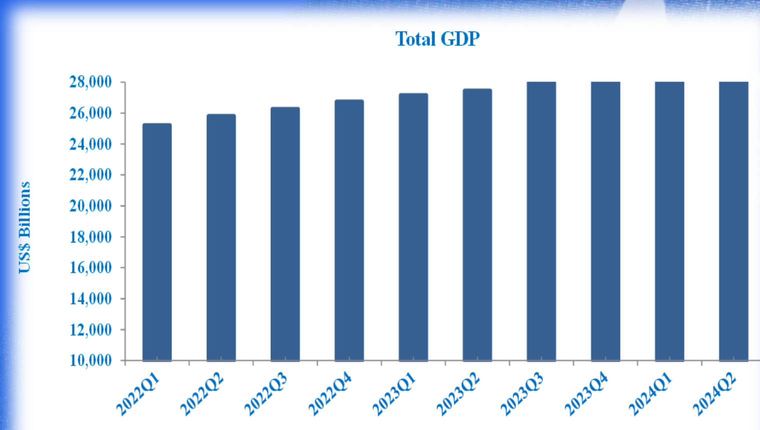
The personal consumption expenditures (PCE) price index increased 2.5 percent, same as the previous estimate. Excluding food and energy prices, the PCE price index increased 2.8 percent, also same as the previous estimate.

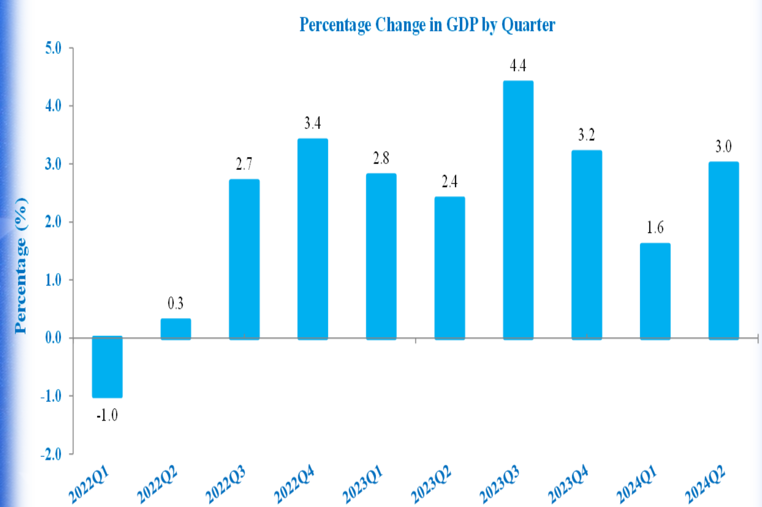
Personal Income

Current-dollar personal income increased $315.7 billion in the second quarter, a upward revision of $82.1 billion from the previous estimate. The increase primarily reflected increases in compensation and personal current transfer receipts.

Disposable personal income increased $260.4 billion, or 5.0 percent, in the second quarter, an upward revision of $77.3 billion from the previous estimate. Real disposable personal income increased 2.4 percent, an upward revision of 1.4 percentage points.

Personal saving was $1.13 trillion in the second quarter, an upward revision of $74.3 billion from the previous estimate. The personal saving rate—personal saving as a percentage of disposable personal income—was 5.2 percent in the second quarter, compared with 5.4 percent (revised) in the first quarter.





NATIONAL EMPLOYMENT

According to the U.S. Bureau of Labor Statistics, total nonfarm payroll employment increased by 254,000 in September, and the unemployment rate changed little at 4.1 percent. Notable, job gains continued its uptrend in food services and drinking places, health care, government, social assistance, and construction. The U.S. Bureau of Labor Statistics reported these findings based on two monthly surveys: the household survey, which assesses labor force status, including unemployment by demographic characteristics, and the establishment survey, which measures nonfarm employment, hours, and earnings by industry.

Household Survey Data

In September, the U.S. labour market showed minimal change in key indicators compared to the previous month. The unemployment rate held steady at 4.1%, with 6.8 million people unemployed, slightly higher than a year earlier. Among demographic groups, adult men saw a decrease to 3.7%, while rates for adult women (3.6%), teenagers (14.3%), Whites (3.6%), Blacks (5.7%), Asians (4.1%), and Hispanics (5.1%) showed little or no change. The number of people unemployed for less than 5 weeks fell by 322,000 to 2.1 million, while the number of long-term unemployed (27 weeks or more) remained unchanged at 1.6 million, up from 1.3 million a year ago, making up 23.7% of all unemployed people.

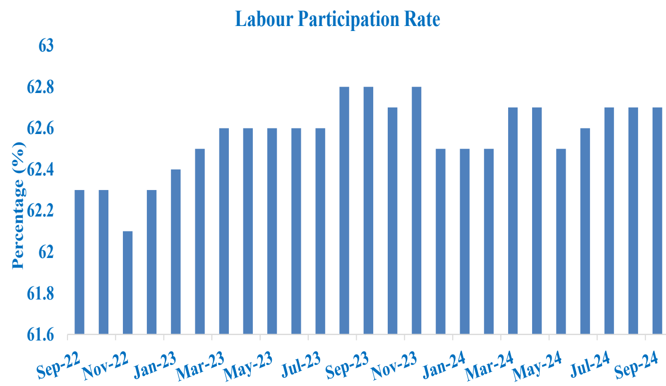
The labour force participation rate remained stable at 62.7% for the third consecutive month, and the employment-population ratio held at 60.2%. The number of people employed part-time for economic reasons was 4.6 million, an increase from 4.1 million a year earlier. Additionally, 5.7 million people not in the labour force expressed a desire for employment but were not actively seeking work, with 1.6 million marginally attached to the labour force, up by 204,000. Of these, the number of discouraged workers, who believed no jobs were available to them, remained little changed at 445,000 .

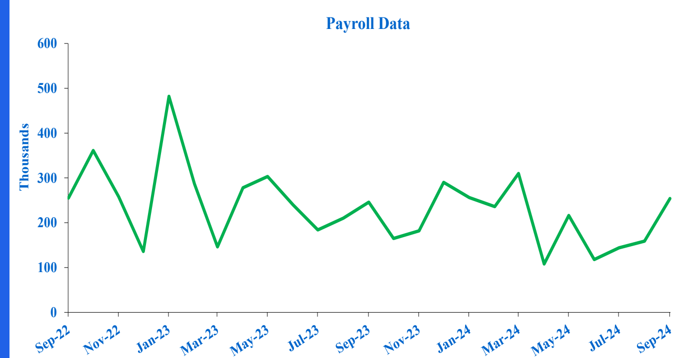
Establishment Survey Data

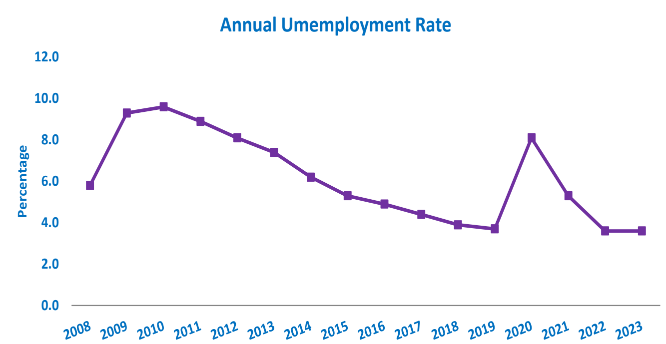
In September, total nonfarm payroll employment increased by 254,000, surpassing the prior 12-month average gain of 203,000. Job growth was led by food services and drinking places, which added 69,000 jobs, significantly higher than the 12-month average of 14,000. The health care sector added 45,000 jobs, below its monthly average of 57,000, with notable gains in home health care services (+13,000), hospitals (+12,000), and nursing and residential care facilities (+9,000). Government employment continued its upward trend, adding 31,000 jobs, with growth in local (+16,000) and state (+13,000) governments. Social assistance added 27,000 jobs, primarily in individual and family services (+21,000), while construction added 25,000 jobs, in line with its recent monthly average.

Other major industries, including mining, manufacturing, wholesale trade, retail trade, transportation and warehousing, information, financial activities, and professional and business services, showed little change in employment. Average hourly earnings for all employees on private nonfarm payrolls rose by 0.4%, or 13 cents, to $35.36. For private-sector production and nonsupervisory employees, earnings increased by 0.3%, or 8 cents, to $30.33. The average workweek for all employees edged down by 0.1 hour to 34.2 hours, while in manufacturing, it remained steady at 40.0 hours with a slight decrease in overtime to 2.9 hours.

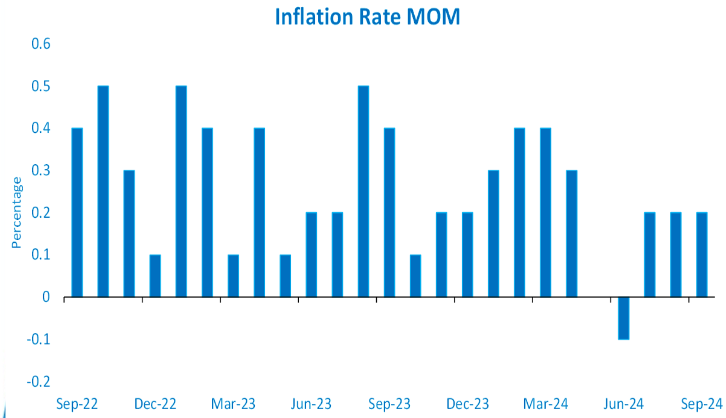
Revisions to prior months' employment data showed upward adjustments, with July's employment revised from +89,000 to +144,000 and August's from +142,000 to +159,000. These revisions added a total of 72,000 jobs to the previously reported figures for July and August, reflecting additional data from businesses and recalculated seasonal factors.

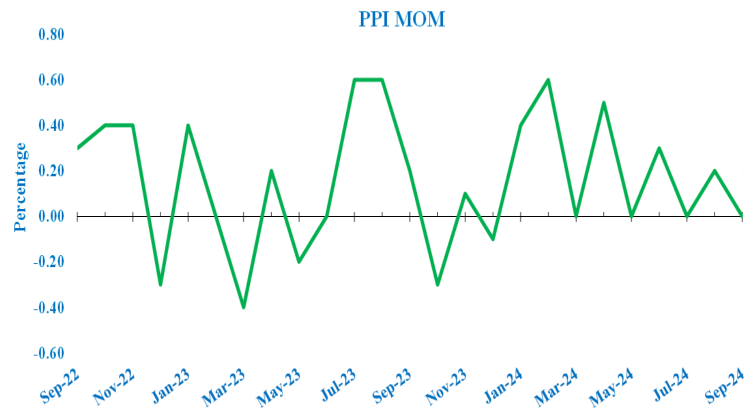






Labour Force in Thousands	Jan-Mar	Apr-Jun	Jul-Sep	Oct - Dec
Year	Q1	Q2	Q3	Q4
2014	413,248	415,631	417,897	420,258
2015	422,318	424,436	426,384	428,477
2016	430,273	431,909	434,140	435,667
2017	437,460	439,150	440,678	442,042
2018	444,001	446,149	447,658	448,951
2019	450,423	452,086	453,447	454,916
2020	455,252	401,116	421,834	427,772
2021	430,633	435,459	441,693	447,526
2022	452,260	455,918	459,855	462,343
2023	465,039	467,298	469,299	471,150
2024	473,462	475,192	476,648	





CONSUMER PRICE INDEX

The U.S. Bureau of Labor Statistics announced that the Consumer Price Index for All Urban Consumers (CPI-U) rose by 0.2% on a seasonally adjusted basis in September, the same increase as in August and July. Over the past 12 months, the all items index surged by 2.4 percent before seasonal adjustment.

In September, the shelter index rose by 0.2%, while the food index increased by 0.4%, contributing over 75% of the rise in the all-items index. The food at home index increased by 0.4%, and the food away from home index rose by 0.3%. The energy index declined by 1.9%, following a 0.8% decrease in the previous month.

Excluding food and energy, the CPI-U for all other items climbed by 0.3% in September, matching the previous month's increase. Notable contributors included shelter, motor vehicle insurance, medical care, apparel, and airline fares, while the indexes for recreation and communication declined.

Over the 12 months ending in September, the all-items index rose by 2.4%, the smallest year-over-year increase since February 2021. The index for all items less food and energy increased by 3.3%, while the energy index dropped by 6.8%, and the food index rose by 2.3%.

PRODUCER PRICE INDEX

The Producer Price Index (PPI) for final demand in the U.S. was unchanged in September on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics. Prior to this, final demand prices had increased by 0.2 percent in August and remained unchanged in July. Over the 12 months ended in September, the index for final demand rose by 1.8 percent on an unadjusted basis.

In September, a 0.2-percent increase in the index for final demand services offset a 0.2-percent decline in prices for final demand goods.

Excluding the volatile categories of foods, energy, and trade services, the index for final demand less foods, energy, and trade services edged up by 0.1 percent in September after a 0.2 percent increase in August. Over the 12 months ended in September, prices for final demand less foods, energy, and trade services increased by 3.2 percent.

Product Details:

On a product level, the index for gasoline led the decline, falling by 5.6 percent. Prices also dropped for diesel fuel, jet fuel, chicken eggs, home heating oil, and plastic resins and materials. Conversely, the index for processed poultry surged by 8.8 percent, with prices for electric power and motor vehicles also increasing.

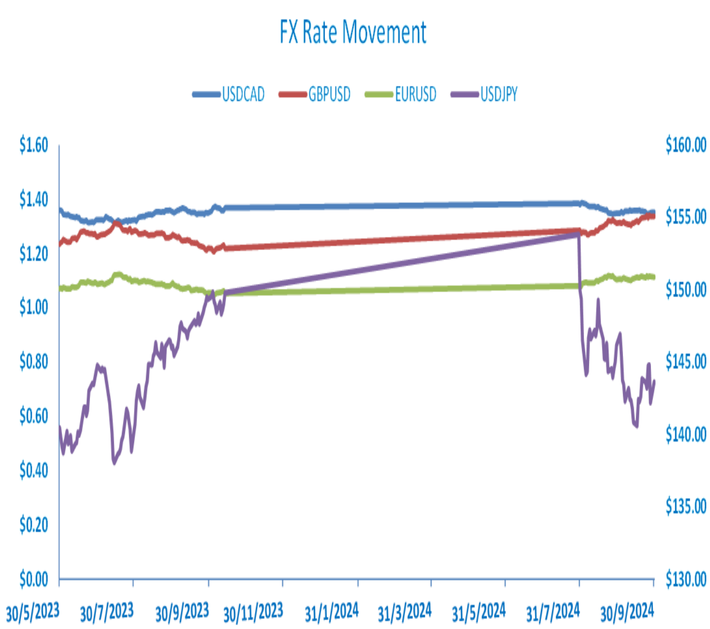
A 3.0 percent increase in the index for deposit services (partial) significantly contributed to the rise in prices for final demand services in September. Other notable increases were seen in machinery and vehicle wholesaling, furniture retailing, desktop and portable device application software publishing, apparel wholesaling, and airline passenger services. In contrast, margins for professional and commercial equipment wholesaling fell by 6.3 percent, with declines also observed in securities brokerage, dealing, investment advice, and consumer loans (partial).

U.S. DOLLAR

On a month over month basis, September 2024 relative to August 2024, the US dollar has Strengthened against the Canadian dollar (0.24%), whilst weakening against the Great British Pound (-1.89%), the Euro (0.79%) and the Japanese Yen (-1.74%). The US dollar closed on September 30, 2024, at USDCAD 1.3525, GBPUSD 1.3375, EURUSD 1.1135, USDJPY 143.63.

In September 2024, the U.S. dollar experienced significant fluctuations primarily due to the Federal Reserve's decision to cut interest rates on September 18. This move led to a weakening of the dollar as lower interest rates typically reduce the appeal of holding the currency. Additionally, signs of economic fatigue in the U.S. contributed to the dollar's decline against several major currencies.

Globally, the euro and the British pound strengthened against the dollar, driven by a stronger-than-expected current account surplus in the Eurozone and optimistic revisions to U.K. economic growth, respectively. The Canadian dollar showed resilience despite concerns about its own economy, while the Chinese yuan gained ground against the dollar despite ongoing economic challenges in China. Overall, the U.S. dollar faced a downward trend throughout the month, influenced by both domestic economic policies and global economic conditions.

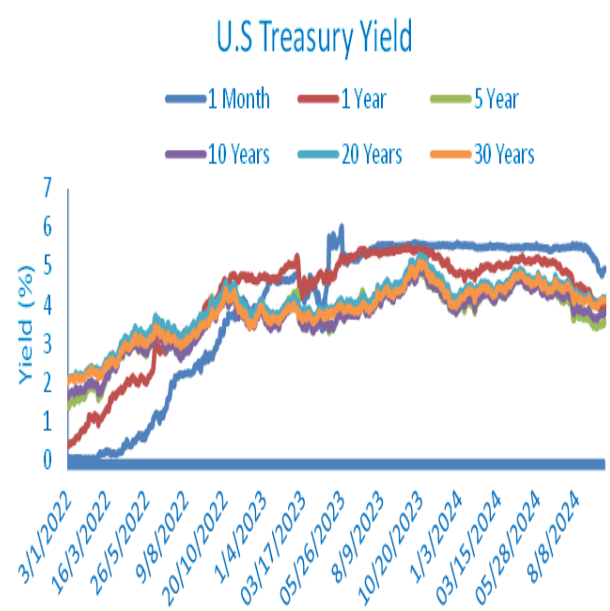


U.S. TREASURY YIELD CURVE

Treasury Par Yield Curve Rates closed September 2024 at the following rates:

- 1 month: 4.93%
- 1 year: 3.98%
- 5 years: 3.58%
- 10 years: 3.81%
- 20 years: 4.19%
- 30 years: 4.14%

In September 2024, U.S. Treasury yields experienced notable shifts, with the 10-year yield rising by approximately 12 basis points to around 3.971% and the 2-year yield increasing by 21 basis points to 3.924%. These movements were primarily driven by stronger-than-expected economic data, which influenced market expectations regarding Federal Reserve policy. The Fed's recent rate cut had a distinct impact: short-term yields fell as investors anticipated lower returns on cash and shorter-maturity products, while long-term yields rose slightly due to expectations of sustained economic strength and potential inflationary pressures. This divergence highlights the market's balancing act between immediate monetary easing and longer-term economic outlooks.



The Congressional Budget Office estimates that the federal budget deficit for fiscal year 2024 was $1.8 trillion, which is $139 billion more than the deficit seen during fiscal year 2023. Revenues increased by $479 billion (or 11%), primarily from individual income taxes, while outlays increased by $617 billion (or 10%), driven largely by a $308 billion increase in education spending.

The deficit that CBO now estimates for 2024 is $81 billion (or 4%) smaller than the shortfall estimated in its most recent baseline projections, which were published in June. Revenues and outlays alike were within 1 percent of those projections. Revenues were slightly higher and outlays slightly lower, which contributed to a smaller deficit than CBO had projected.

GOVERNMENT DEBT/ DEFICIT

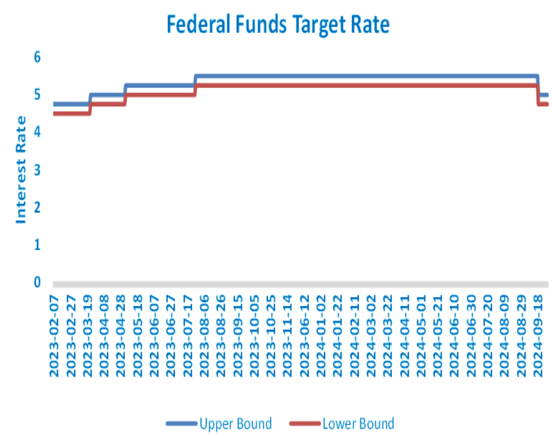
Budget Totals, October - September

Billions of Dollars

	Actual, FY 2023	Preliminary, FY 2024	Estimated Change
Receipts	4,439	4,918	479
Outlays	6,135	6,752	617
Deficit (-)	-1,695	-1,834	-139

FEDERAL RESERVE MINUTES

On September 18, 2024, the Federal Reserve announced a significant monetary policy adjustment, lowering the target range for the federal funds rate by 0.5 percentage points to 4.75-5%. This decision reflects progress in reducing inflation, which remains somewhat elevated but is moving towards the 2% target. The Fed also noted that economic activity continues to expand at a solid pace, though job gains have slowed and the unemployment rate has risen slightly. The Fed remains committed to supporting maximum employment and achieving its inflation goals, and will continue to monitor economic conditions and adjust policies as necessary.



On September 18, 2024, The Federal Reserve has made the following decisions to implement the monetary policy stance announced by the Federal Open Market Committee in its statement, effective September 19, 2024:

- Undertake open market operations as necessary to maintain the federal funds rate in a target range of 4-3/4 to 5 percent.
- Conduct standing overnight repurchase agreement operations with a minimum bid rate of 5 percent and with an aggregate operation limit of $500 billion.
- Conduct standing overnight reverse repurchase agreement operations at an offering rate of 4.8 percent and with a per-counterparty limit of $160 billion per day.
- Roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing in each calendar month that exceeds a cap of $25 billion per month. Redeem Treasury coupon securities up to this monthly cap and Treasury bills to the extent that coupon principal payments are less than the monthly cap.
- Reinvest the amount of principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities (MBS) received in each calendar month that exceeds a cap of $35 billion per month into Treasury securities to roughly match the maturity composition of Treasury securities outstanding.
- Allow modest deviations from stated amounts for reinvestments, if needed for operational reasons.
- Engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions.

Global Outlook

Fitch forecasts global growth to be in line with its historical trend at 2.7% in 2024, down from 2.9% in 2023, with a moderate slowdown to 2.5% in 2025 due to weaker US and China growth, and a recovering European economy. Since June, global growth revisions have been minor, with a 0.1 percentage point (pp) upward revision in 2024, mainly reflecting a 0.4pp increase in the US forecast and a 0.2pp rise for emerging markets excluding China. US growth for 2024 has been raised to 2.5% following strong 2Q24 data, but is expected to slow to 1.6% in 2025 due to reduced fiscal stimulus, higher imports, and weaker household income.

Eurozone growth for 2024 remains unchanged at 0.8%, though individual forecasts for Germany, France, and Spain were adjusted. Growth is expected to rise to 1.5% in 2025 as real wages boost consumption and credit conditions ease. UK growth has been revised up to 1.0% for 2024 due to stronger-than-expected activity and is projected to reach 1.5% in 2025. Meanwhile, China's forecast remains at 4.8% for 2024, with growth expected to slow to 4.5% in 2025 due to weaker export growth.

Russia's 2024 forecast has been raised by 0.6pp due to robust consumption and investment, while Brazil's has been increased by 1.1pp, reflecting strong consumption and fiscal easing. These upward revisions offset downgrades for Mexico. Japan's 2025 outlook has improved due to stronger reflationary pressures, contributing to a 0.1pp upward revision in the 2025 global growth forecast to 2.5%.

Risks to the global outlook

A key risk to Fitch's growth forecast is a potential surge in US trade protectionism following the upcoming election, particularly if Trump wins, which could lead to higher tariffs on Chinese imports and broader tariffs on all merchandise, driving up US prices and curbing growth.

In China, risks are tilted to the downside due to the failure to stabilize the property market and ongoing deflation, with fiscal policy possibly providing less support than expected.

In the eurozone, weak productivity heightens the risk of job losses if demand recovery lags, as companies may stop hoarding labour.

U.S. Economic Outlook

US GDP growth increased to 0.7% quarter-on-quarter in 2Q24 (3.0% annualized), exceeding earlier expectations, partly driven by inventory fluctuations. However, underlying growth, measured by final sales of domestic product, slowed to around 2% in both 1Q24 and 2Q24, down from 2023's 3.5%. As a result, Fitch revised its 2024 growth forecast to 2.5%, up from 2.1% in June. Despite this, growth is expected to fall below trend in the coming years due to factors like reduced fiscal stimulus, rising imports, and a gradual cooling in consumption as household income growth slows. Additionally, construction investment is declining, and commercial lending standards continue to tighten.

Household consumption was strong in 2Q24 and July, but Fitch expects it to slow as aggregate income growth decelerates. The saving ratio is near historical lows, offering limited room for further declines, which will contribute to slower consumption growth—forecasted to drop from 2.2% in 2024 to 1.4% in 2025. Unemployment is projected to rise but remain below 5%. Inflationary pressures have eased, leading to a downward revision in the 2024 year-end CPI forecast to 2.7%. Headline CPI fell below 3.0% year-on-year in July, with core inflation dropping to 2.3% due to a slowdown in services inflation, including transport and shelter.

This easing inflation, along with slower wage growth, has provided the Federal Reserve with enough confidence to begin lowering interest rates. Fed Chair Jerome Powell signalled in his August Jackson Hole speech that rate cuts would soon begin. Fitch expects a 25-basis point cut in September, followed by another in December. In 2025, further cuts of 125 basis points are anticipated, with an additional 75 basis points in 2026, bringing the federal funds rate to 3% by September 2026, which aligns with Fitch's estimate of the neutral policy rate.