



## US economy – soft landing or crash landing?

Many economic indicators in the US have recently disappointed. Some sentiment indicators in particular have slumped. However, a recession is unlikely. This is because financing conditions have recently improved again for most sectors and strong immigration is helping to cool the labor market and support private consumption. Nevertheless, the economy is likely to expand only moderately for the time being, to which the Fed will probably respond by cutting interest rates towards the end of the year.

| Bernd Weidensteiner

| Dr. Christoph Balz

### Significant cooling, ...

The US economy is showing signs of a significant slowdown. The purchasing managers' indices compiled by ISM were particularly striking. The index for manufacturing fell for the third time in a row in June and, at 48.5, is below the neutral threshold of 50. The services index even slipped by 5 points to 48.8 in June, a four-year low (title chart). Hard data, particularly from the residential construction sector, are also tending towards weakness at present. Is the US economy in for a rude awakening?

### ... which is what the doctor ordered

This interpretation seems premature to us. After all, the slowdown in economic momentum can hardly come as a surprise. Instead, the Fed's rate hikes were aimed precisely at cooling the economy and thereby bringing inflation back under control. At the same time, the boost the economy received from fiscal policy is tending to wane, even if fiscal consolidation is out of the question. In response to this, a significant slowdown has recently been observed in some areas of investment. This applies in particular to residential construction, which is being held back by persistently high mortgage interest rates, and commercial construction. The boom in the construction of new factories (e.g. for chips), which was fueled by various government subsidies, has come to an end.

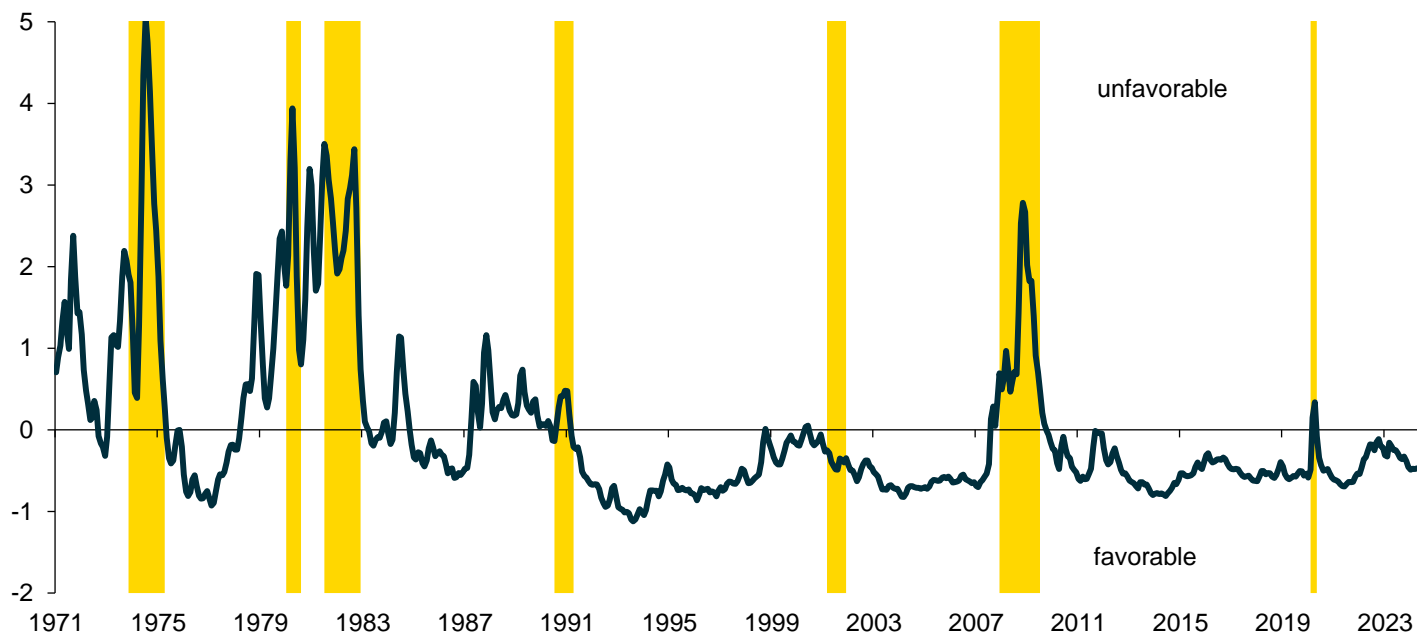
### Financial conditions have improved again ...

By contrast, investments in equipment and intellectual property such as software are very robust. The artificial intelligence mega-trend could play a positive role here. In addition, financing conditions have actually improved over the past year, despite the relatively high key interest rates. This is also shown by the Chicago Fed's broad index of national financial conditions, which summarizes around 100 indicators such as risk premiums, bank lending conditions, market volatility and stock market performance (Chart 1). According to this index, companies should continue to have no problems raising capital. This is likely to have contributed to the fact that growth rates of 9% for equipment and 5% for intellectual property (both at an annual rate from the previous quarter) are emerging for the second quarter.



### Chart 1 - Financial conditions are favorable

Chicago Fed index of national financial conditions. Yellow-shaded areas: recessions as determined by the NBER



Source: Chicago Fed, Bloomberg, Commerzbank Research

### ... and the labor market is normalizing without a decline of employment, ...

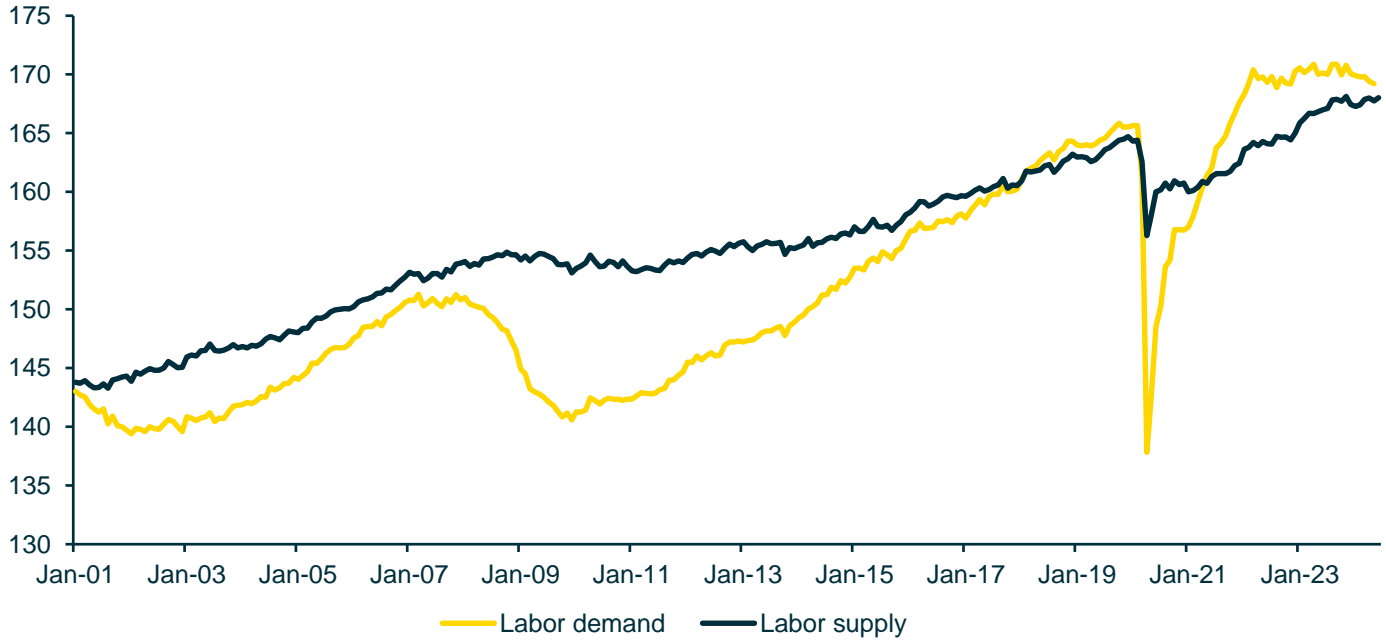
There are also signs of a slowdown in the labor market. The overall demand for labor, i.e. the number of employees plus the number of vacancies, has recently fallen (Chart 2). Unlike in previous periods of weakness, which often led to recessions, however, this is not accompanied by a reduction in employment, which would affect disposable income. On the contrary, 176 thousand new jobs were created each month in the second quarter. Although this is less than last year's figure of around 251 thousand, it is still a solid increase that is boosting disposable incomes. With 8.1 million jobs still unfilled, there is unlikely to be a decline in employment in the foreseeable future.

In contrast to previous periods of overheating on the labor market, the cooling so far came mainly from a decline of job openings. Employment growth has slowed down, but is still robust. In addition, the rebalancing on the labor market also came via the supply side: labor supply has been rising sharply for some time due to the enormously high level of immigration, which is increasingly closing the gap between supply and demand on the labor market. Since December 2019, the number of immigrant workers in the USA has grown by 4.1 million, compared to just 900 thousand domestic workers. The entire increase in employment was driven by immigrant workers.<sup>[1]</sup>



### Chart 2 - Labor market: Demand and supply are coming into better balance

Demand: Employment (based on the household survey, CPS) plus job openings. Supply: Labor force. Monthly data in millions



Source: BLS, S&P Global, Commerzbank Research

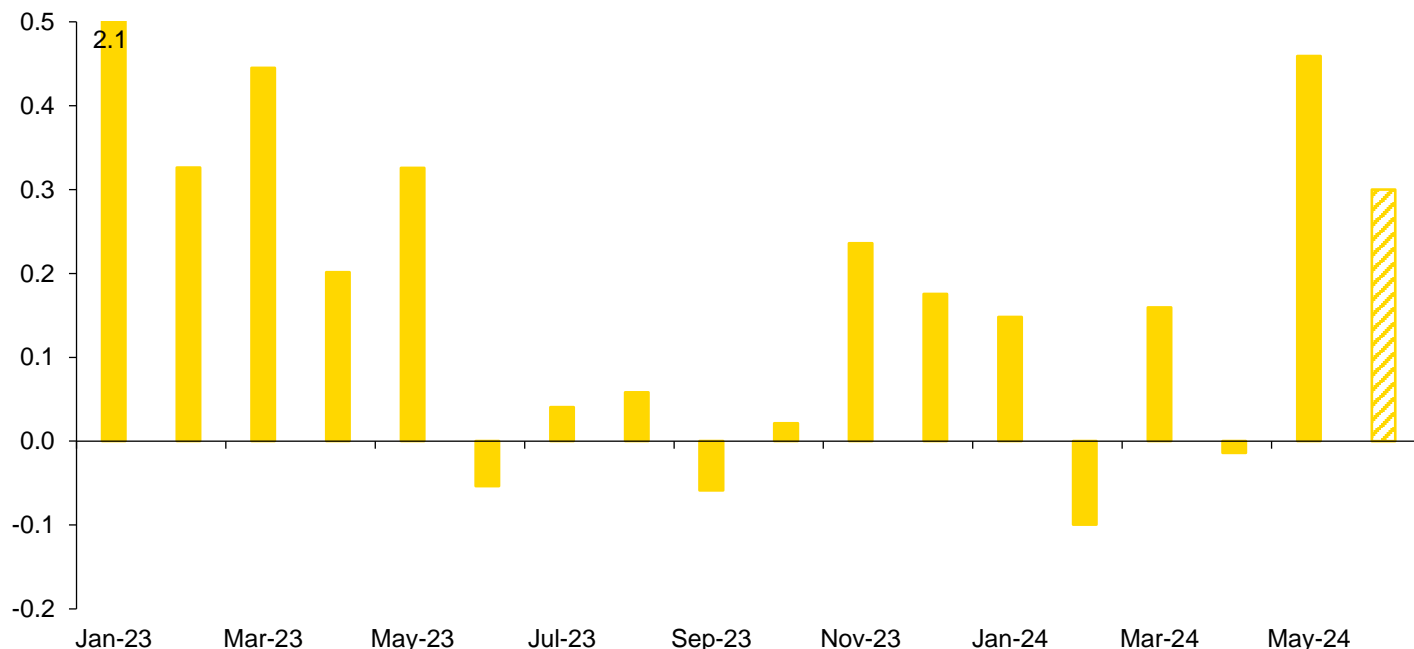
### ... which is putting a floor under personal consumption

The slower increase in employment and wages is dampening income growth, which is why private consumption has lost momentum this year. However, a decline is hardly to be expected, partly because the now slower pace of inflation is supporting real disposable income. After all, these rose by 0.5% in May from the previous month, and a solid increase of 0.3% is also on the cards for June. At the same time, consumers are benefiting from the massive increase in wealth. In the first quarter of 2024, total household net worth was 9% higher than a year earlier.



### Chart 3 - Income growth has slowed but remains solid

Real disposable income, month-on-month change in %. January 2023 spike cut off, January 2024 forecast



Source: S&P Global, Commerzbank Research

Accordingly, real-time indicators do not show much weakness in private consumption. The number of travelers at airports, for example, has risen sharply until recently. Last Sunday, the Travel Security Administration counted more than three million passengers in one day for the first time ever. The weekly average was around 8% higher than a year ago, although air travel is certainly one of the first things consumers would do without in the event of an economic slump.

### Mr. Trump as a factor of uncertainty

Politics remains a factor of uncertainty. Donald Trump is currently the favorite for the presidential election in November – with a growing lead due to President Biden’s recent weak performance in public. If a President Trump is able to implement the more radical of his ideas, such as general and massive tariff increases, there is a risk of considerable consequences for the economy. Last but not least, inflation would then pick up again, which could put an end to hopes of interest rate cuts by the Fed. If Trump were to come to blows with the Fed, there would likely be considerable turmoil on the markets. Without such extreme scenarios, however, the impact of a change of power should remain manageable in economic terms.

### US economy: slower, but not too slow

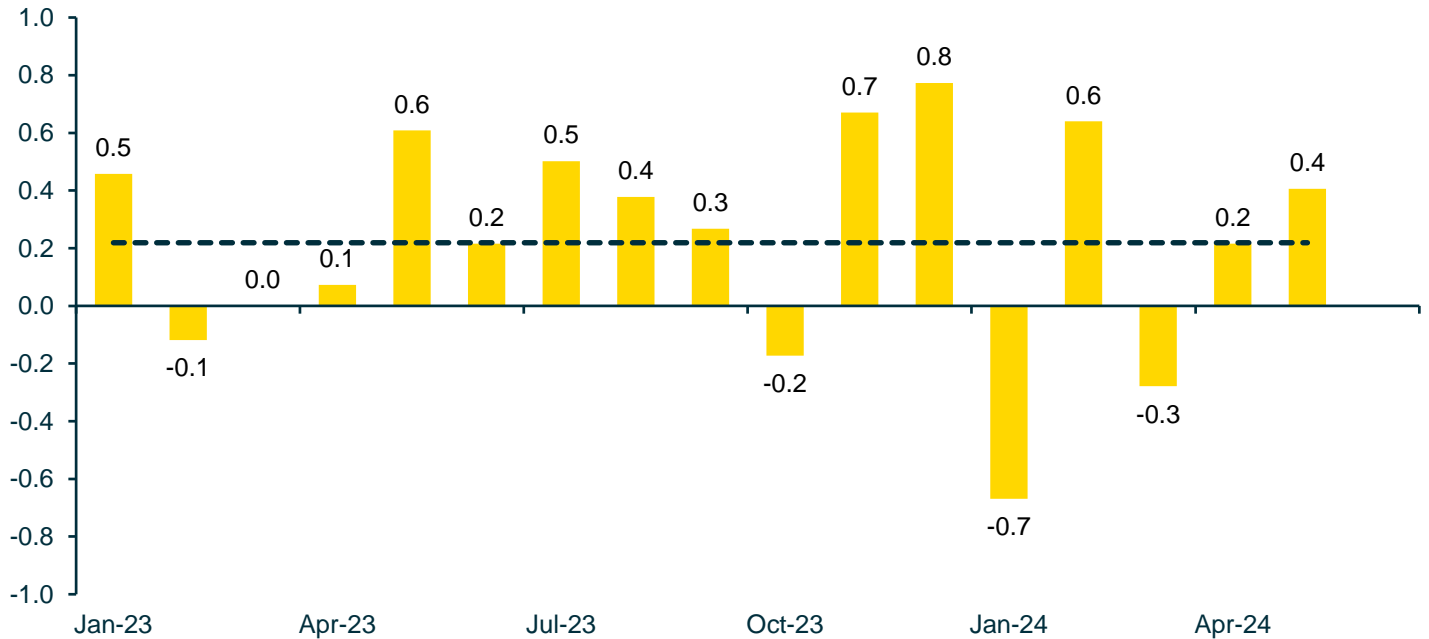
The growth momentum of the US economy has undoubtedly weakened and GDP growth is likely to be below 2% in the second quarter, after just 1.4% in the first quarter. Nevertheless, the economy stabilized over the course of the second quarter, with real monthly GDP as calculated by S&P rising again in May by 0.4% compared to the previous month, after +0.2% in April and -0.3% in March (Chart 4). So far, the economy has not slumped. And when evaluating these figures, it should be borne in mind that potential growth in the US is 2% at best, so growth in the first half of 2024 is not far off this figure.

We had been expecting relatively weak growth for this year for some time, with average growth rates of 1.7%. We do not expect any acceleration for 2025 either, but we also see no signs of a slump.



### Chart 4 - Growth has stabilized again

Monthly real GDP, change vs. previous month in %. Dashed line: 2-year average



Source: S&P Global, Commerzbank Research

### ... and will the Fed soon spray foam on the runway?

Further support for the US economy is not far off anyway, as the Federal Reserve is already moving towards lowering interest rates to help along a soft landing. In line with its risk management approach, it weighs up the extent to which the two goals of full employment and price stability are at risk when making policy decisions, focusing on the greatest risk. Last year, this was clearly inflation, but the risks are now more balanced. This opens up scope for lower interest rates, and we expect the first step to be taken in December. If the economic data continue to surprise to the downside and inflation continues to fall, an earlier turnaround in interest rates is also possible.

[1] According to estimates by the San Francisco Fed and the CBO, the extremely high level of immigration in recent times has pushed the "break-even rate" (i.e. the maximum possible job growth without the unemployment rate falling) up to over 200 thousand in the short term. In the long term, i.e. from around the end of 2025, equilibrium job growth is likely to level off again at 70-90 thousand per month ([back to text](#)).

**Research contacts** (E-Mail: [firstname.surname@commerzbank.com](mailto:firstname.surname@commerzbank.com))**Chief Economist**Dr Jörg Krämer  
+49 69 136 23650**Economic Research**Dr Jörg Krämer (Head)  
+49 69 136 23650Dr Ralph Solveen (Deputy Head; Germany)  
+49 69 9353 45622Dr Christoph Balz (USA, Fed)  
+49 69 9353 45592Dr Vincent Stamer (Euro area, World trade)  
+49 69 9353 45800Dr Marco Wagner (ECB, Germany, Italy)  
+49 69 9353 45623Bernd Weidensteiner (USA, Fed)  
+49 69 9353 45625Tung On Tommy Wu (China)  
+65 6311 0166**Interest Rate & Credit Research**Christoph Rieger (Head)  
+49 69 9353 45600Michael Leister (Head Rates)  
+49 69 9353 45610Rainer Guntermann  
+49 69 9353 45629Hauke Siemßen  
+49 69 9353 45619Ted Packmohr  
(Head Covered Bonds and Financials)  
+49 69 9353 45635Marco Stoeckle  
(Head Corporate Credit)  
+49 69 9353 45620**FX & Commodities Research**Ulrich Leuchtmann (Head)  
+49 69 9353 45700Antje Praefcke (FX)  
+49 69 9353 45615Tatha Ghose (FX)  
+44 20 7475 8399Charlie Lay (FX)  
+65 63 110111Michael Pfister (FX)  
+49 69 9353 45614Volkmar Baur (FX)  
+49 69 9353 26854Thu-Lan Nguyen (FX, Commodities)  
+49 69 9353 45617Carsten Fritsch (Commodities)  
+49 69 9353 45647Barbara Lambrecht (Commodities)  
+49 69 9353 45611Tung On Tommy Wu (China)  
+65 6311 0166**Other publications** (examples)

<b>Economic Research:</b>	Economic Briefing (up-to-date comment on main indicators and events) Economic Insight (detailed analysis of selected topics) Economic and Market Monitor (chart book presenting our monthly global view)
<b>Commodity Research:</b>	Commodity Update (comment and news on commodities markets, two times per week) Commodity Spotlight (detailed analysis and forecasts of commodities markets)
<b>Interest Rate &amp; Credit Research:</b>	Ahead of the Curve (flagship publication with analysis and trading strategy for global bond markets) European Sunrise (daily comment and trading strategy for euro area bond markets) Rates Radar (ad-hoc topics and trading ideas for bond markets) Covered Bonds Weekly (weekly analysis of the covered bonds markets)
<b>FX Strategy:</b>	Daily Currency Briefing (daily comment and forecasts for FX markets) FX Hot Spots (ad hoc analysis of FX market topics)

To receive these publications, please ask your Commerzbank contact.



## Analysts

**Dr. Jörg Krämer**

Chief Economist

+49 69 136 23650

joerg.kraemer@commerzbank.com

**Bernd Weidensteiner**

Senior Economist

+49 69 9353 45625

bernd.weidensteiner@commerzbank.com

In accordance with ESMA MAR requirements this report was completed 12/7/2024 07:18 CEST and disseminated 12/7/2024 07:18 CEST.

This document has been created and published by the Group Research department (GM-R) within the Group Management division of Commerzbank AG, Frankfurt/Main or Commerzbank's non-US branch offices mentioned in the document.

**Please note that the author(s) certify that (a) the views expressed in this report accurately reflect their personal view about the subject securities and issuers; and (b) no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document.**

It has not been determined in advance whether and in what intervals this document will be updated. Unless otherwise stated current prices refer to the most recent trading day's closing price or spread which may fluctuate.

**Conflicts of interest**

Disclosures of potential conflicts of interest relating to Commerzbank AG, its affiliates, subsidiaries (together "Commerzbank") and its relevant employees with respect to the issuers, financial instruments and/or securities forming the subject of this document valid as of the end of the month prior to publication of this document\*:

Please refer to the following link for disclosures on companies included in compendium reports or disclosures on any company covered by Commerzbank analysts: <https://commerzbank.bluematrix.com/sellside/Disclosures.action>\*

\*Updating this information may take up to ten days after month end.

**Disclaimer**

This document is for information purposes only and has been prepared for recipients who, like professional clients according to MiFID II, have the experience, knowledge and expertise to understand information related to the financial markets. The document does not take into account specific circumstances of any recipient and the information contained herein does not constitute the provision of investment advice. It is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the financial instruments and/or securities mentioned in this document and will not form the basis or a part of any contract or commitment whatsoever. Investors should seek independent professional advice and draw their own conclusions regarding suitability of any transaction including the economic benefits, risks, legal, regulatory, credit, accounting and tax implications.

The information in this document is based on public data obtained from sources believed by Commerzbank to be reliable and in good faith, but no representations, guarantees or warranties are made by Commerzbank with regard to accuracy, completeness or suitability of the data. Commerzbank has not performed any independent review or due diligence of publicly available information regarding an unaffiliated reference asset or index. The opinions and estimates contained herein reflect the current judgement of the author(s) on the date of this document and are subject to change without notice. The opinions do not necessarily correspond to the opinions of Commerzbank. Commerzbank does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

In order to address potential conflicts of interest Commerzbank's Research department operates independently of other business units of the bank. This is achieved by way of physical and administrative information barriers and separate reporting lines as well as by written internal policies and procedures.

This communication may contain trading ideas where Commerzbank may trade in such financial instruments with customers or other counterparties. Any prices provided herein (other than those that are identified as being historical) are indicative only, and do not represent firm quotes as to either size or price. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. Any forecasts or price targets shown for companies and/or securities discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Commerzbank or by other sources relied upon in the document were inapposite.

Commerzbank and or its affiliates may act as a market maker in the instrument(s) and or its derivative that has been mentioned in our research reports. Employees of Commerzbank and or its affiliates may provide written or oral commentary, including trading strategies, to our clients and business units that may be contrary to the opinions conveyed in this research report. Commerzbank may perform or seek to perform investment banking services for issuers mentioned in research reports.



Neither Commerzbank nor any of its respective directors, officers or employees accepts any responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this document.

Commerzbank may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Commerzbank endorses, recommends or approves any material on the linked page or accessible from it. Commerzbank does not accept responsibility whatsoever for any such material, nor for any consequences of its use.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of Commerzbank. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

**Additional notes to readers in the following countries:**

**Germany:** Commerzbank AG is registered in the Commercial Register at Amtsgericht Frankfurt under the number HRB 32000. Commerzbank AG is supervised by both the German regulator, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Strasse 108, 53117 Bonn, Marie-Curie-Strasse 24-28, 60439 Frankfurt am Main and the European Central Bank, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany.

**United Kingdom:** This document is not for distribution to retail customers and has been issued or approved for issue in the United Kingdom by Commerzbank AG, London Branch, which is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

**United States:** This research report was prepared by Commerzbank AG, a company authorized to engage in securities activities in Germany and the European Economic Area (EEA). Commerzbank AG is not a U.S. registered broker-dealer and is therefore not subject to U.S. rules regarding the preparation of research and associated rules pertaining to research analysts. This document is not for distribution to retail customers. Any distribution of this research report to U.S. investors is intended for "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6(a)(2) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any U.S. recipient of this research report seeking to effect transactions to buy or sell securities, or related financial instruments based upon the information provided in this research report, may only do so through a Financial Industry Regulatory Authority (FINRA) registered broker-dealer. Commerz Markets LLC (CMLLC) is a U.S. registered broker-dealer and wholly owned subsidiary of Commerzbank AG. Commerzbank AG is a registered derivatives swap dealer with the Commodity Futures Trading Commission (CFTC), in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act. U.S. Person(s) and related Dodd-Frank relevant investors seeking to effect transactions in non-security based swaps based upon the information provided in this research report, may only do so through a CFTC registered swap dealer.

**Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. In Canada, the information contained herein is intended solely for distribution to Permitted Clients (as such term is defined in National Instrument 31-103) with whom Commerzbank AG and/or Commerz Markets LLC deals pursuant to the international dealer exemption. The information contained herein is not permitted to reference securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, as Commerzbank AG and Commerz Markets LLC operates under the international dealer exemption pursuant to National Instrument 31-103. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence.

**European Economic Area:** Where this document has been produced by a legal entity outside of the EEA, the document has been re-issued by Commerzbank AG, London Branch for distribution into the EEA. Commerzbank AG, London Branch is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

**Switzerland:** Neither this research report nor the information contained herein should be regarded as personal recommendations for transactions in financial instruments within the meaning of the Financial Services Act.

**Singapore:** This document is furnished in Singapore by Commerzbank AG, Singapore branch. It may only be received in Singapore by an institutional investor, an accredited investor or an expert investor as respectively defined in section 4A of the Securities and Futures Act, Chapter 289 of Singapore ("SFA") pursuant to section 274 or section 275 (as applicable) of the SFA. Nothing in this document constitutes accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication. Further, the communication/information provided herein does not constitute a "financial advisory service" within the meaning of the Financial Advisers Act, Chapter 110 of Singapore ("FAA") and therefore, the regulatory requirements and duties that may be owed to a client pursuant to or in connection with the FAA are not applicable to the recipient in connection with this communication. Recipients are advised to seek independent advice from their own professional advisers about the information contained discussed herein.

**Japan:** This information and its distribution do not constitute and should not be construed as a "solicitation" under the Financial Instrument Exchange Act (FIEA) of Japan. This information may be distributed from Commerzbank international branches outside Japan solely to "professional investors" as defined in Section 2(31) of the FIEA and Section 23 of the Cabinet Ordinance Regarding Definition of Section 2 of the FIEA. Please note that Commerzbank AG, Tokyo Branch has not participated in its preparation.





Any instruments referred in this report cannot be introduced by the Branch. You should contact the Corporate Clients division of Commerzbank AG for inquiries on availability of such instruments.

**Australia:** Commerzbank AG does not hold an Australian financial services licence. This document is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for Commerzbank AG under Class Order 04/1313. Commerzbank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) under the laws of Germany which differ from Australian laws.

**People's Republic of China (PRC):** This document is furnished by Commerzbank AG and is only intended for eligible entities in the PRC. No-one else may rely on any information contained within this document. The products and services in this document only apply to entities in the PRC where such products and services are permitted to be provided by PRC laws and regulations. For any person who receives this document, the information in this document shall neither be regarded as promotion or solicitation of the business nor accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication, and the recipient is advised to seek independent advice from its own professional advisers about the information contained herein and shall understand and abide by PRC laws and regulations while conducting any related transactions.

© Commerzbank AG 2024. All rights reserved. Version 24.04

#### Commerzbank Offices

##### Frankfurt

Commerzbank AG  
DLZ - Gebäude 2,  
Händlerhaus  
Mainzer Landstraße 153  
60327 Frankfurt  
Tel: + 49 69 136 21200

##### London

Commerzbank AG  
PO BOX 52715  
30 Gresham Street  
London, EC2P 2XY  
Tel: + 44 207 623 8000

##### New York

Commerz Markets LLC  
225 Liberty Street, 32nd  
floor,  
New York,  
NY 10281-1050  
Tel: + 1 212 703 4000

##### Singapore

Commerzbank AG  
128 Beach Road  
#17-01 Guoco Midtown  
Singapore 189773  
Tel: +65 631 10000