Has the US recession been called off for good?

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Concerns about a recession in the US have recently diminished. In fact, a recession is looking increasingly unlikely. The labor market is stable, corporate profits are rising, and financing conditions have already improved significantly. If the recession does not materialize, it could give the DAX a further boost.

Fears of a recession over the summer, ...

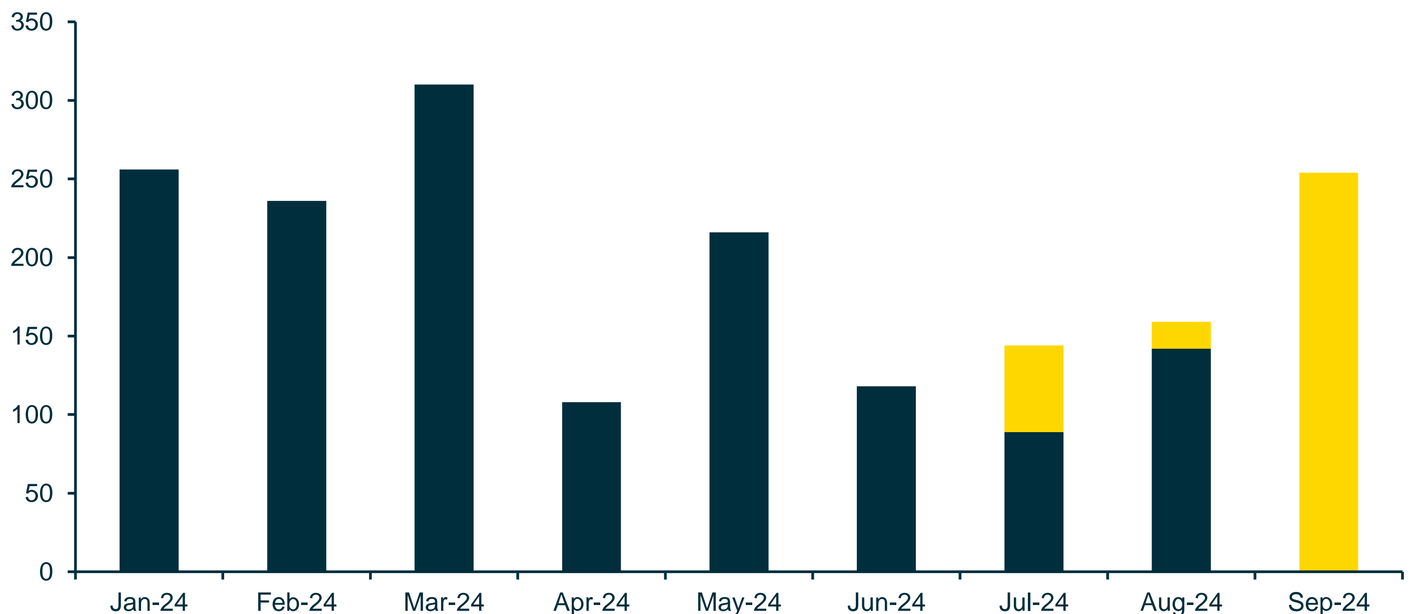
In the summer, fears resurfaced on the financial markets that the US economy was sliding into a recession. These were triggered by weak labor market data. In addition, the significant decline in the savings rate raised the question of how sustainable the strong growth in private consumption was, which had previously been one of the pillars of the economy. The extent of the concerns can be seen from the fact that the Federal Reserve cut its key interest rate by 50 basis points at its September meeting. It apparently feared that it had waited too long to cut interest rates.

... but the labor market strengthened ...

Meanwhile, these fears have diminished significantly. The turnaround in sentiment was triggered by the employment report for September, which was published a week ago. In that month, nonfarm payrolls rose by 254,000, which exceeded all forecasts. In addition, the data for the two previous months were revised significantly upwards (Chart 1). Since mid-2024, the pace of job creation has actually accelerated. At the same time, the unemployment rate fell slightly again.

Chart 1 - US job growth is re-accelerating

Nonfarm payrolls, monthly change in thousands. Yellow: preliminary September data and revisions for the previous two months



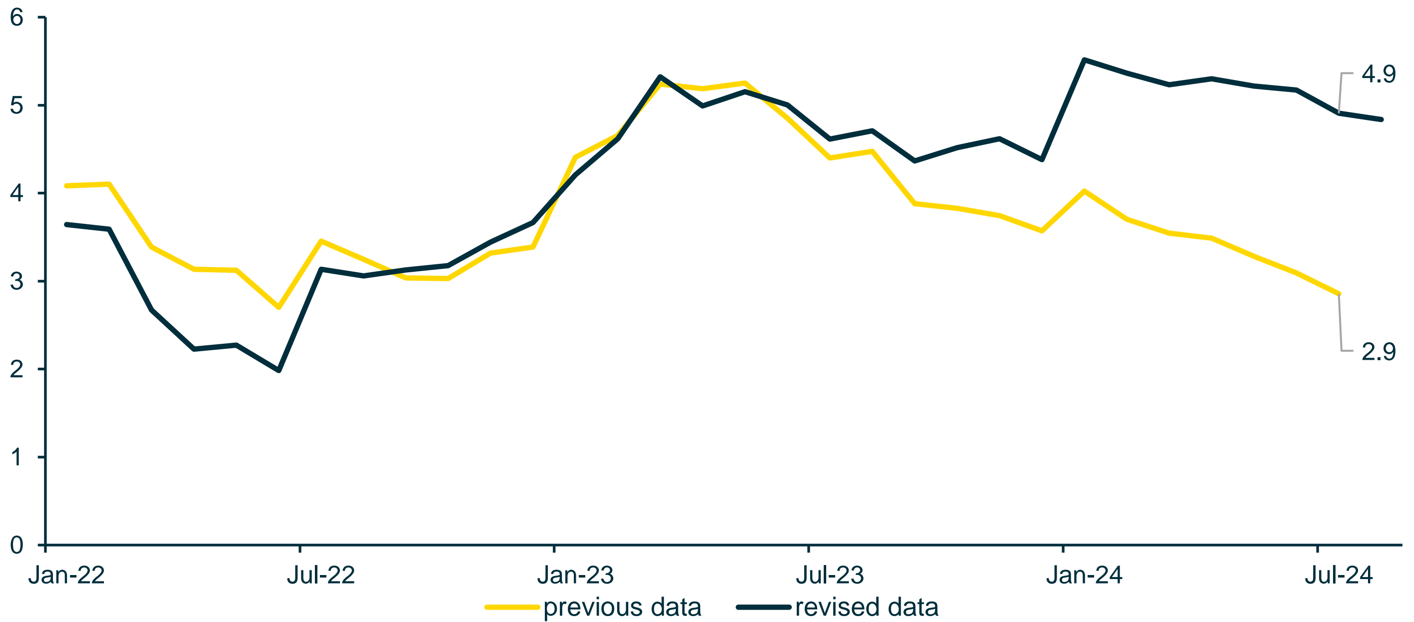
Source: BLS, S&P Global, Commerzbank Research

... and private consumption more stable than envisaged

Furthermore, the recent strong increase in private consumer spending appears to be more sustainable than had been feared. According to the latest figures, the savings rate of private households has not fallen markedly in the last one and a half years, as previously reported, but has remained largely stable at the 2023 level (Chart 2). Private households have therefore not been living beyond their means, which would have posed the risk of significantly weaker consumption over time. Rather, consumer spending has risen broadly in line with incomes, meaning that no correction is likely as long as the labor market remains stable.

Chart 2 - Savings rate is significantly higher than previously assumed

Personal savings in percent of disposable income, monthly data



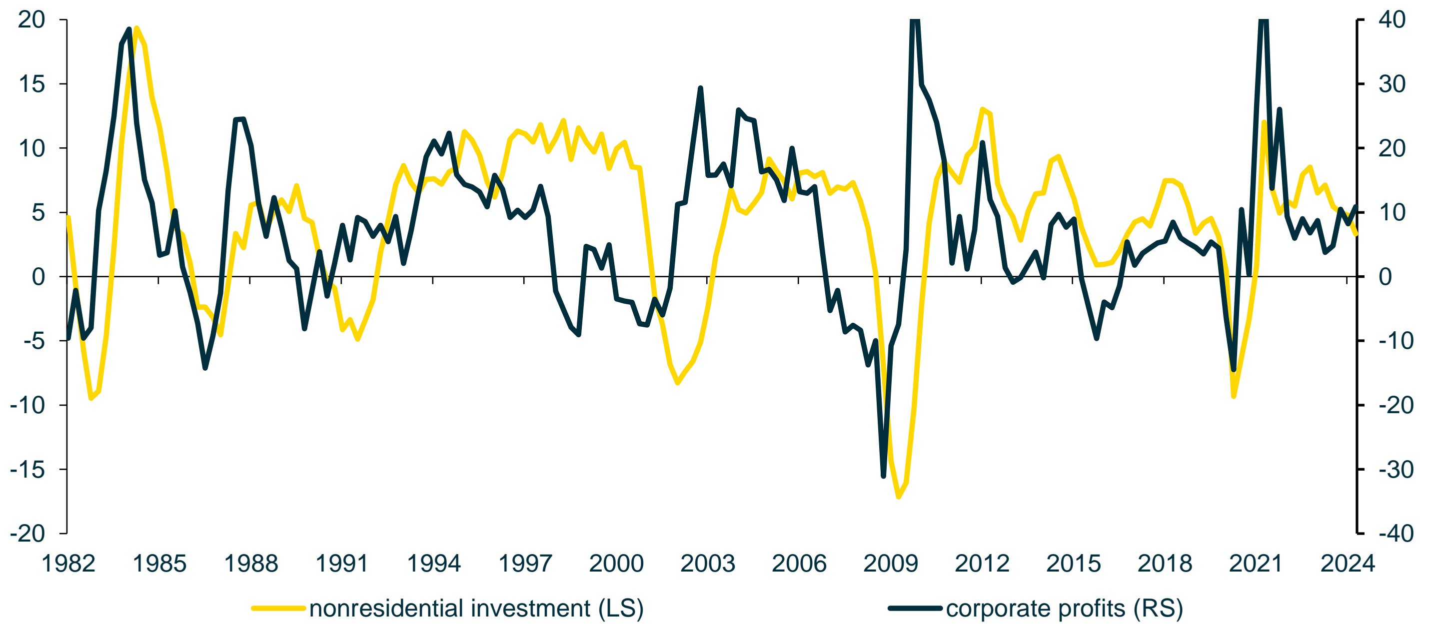
Source: BEA, S&P Global, Commerzbank Research

... and no signs of slump in investment

And the largely stable labor market is not likely to change for the time being. That's because corporate profits have risen significantly of late and were, after all, 11% higher than a year ago (Chart 3). Since these are the most important driver of corporate investment in machinery, buildings and intellectual property such as software, this suggests continued growth in investment and thus also in employment in the coming quarters.

Chart 3 - corporate profits growing stronger

corporate investment in equipment, nonresidential construction and intellectual property; corporate profits according to NIPA; year-on-year change in %



Source: BEA, S&P Global, Commerzbank Research

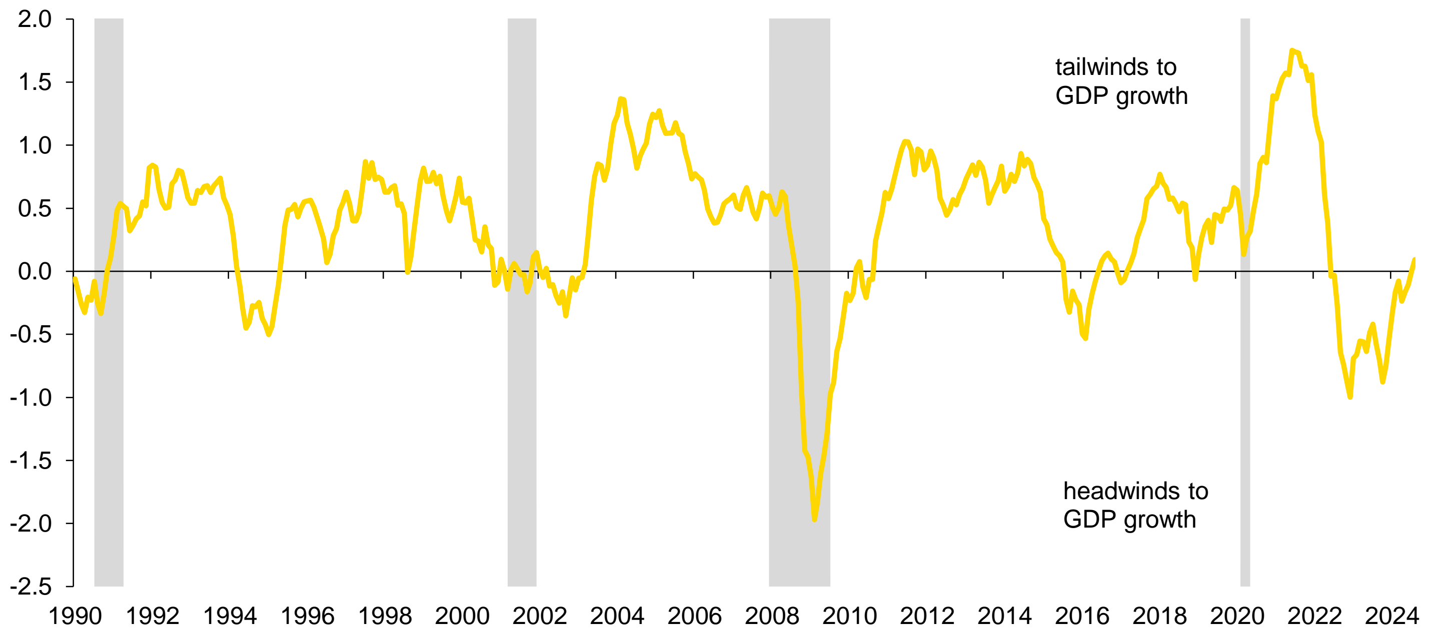
Financing conditions no longer dampen growth ...

This makes it unlikely that the US economy will slide into a recession, not only in the short term but also over the next few quarters. After all, the longer it takes for the recession to materialize, the less likely it becomes. This is because the potential trigger of a recession – the Fed's massive rate hikes – lies further and further back in the past, which means that they are also likely to have less and less of a negative impact on the economy.

This is confirmed by a study by the Federal Reserve. It has developed a broad indicator (**Financial Conditions Impulse on Growth, FCI-G**), which reflects the growth impulse resulting from the key interest rate and financing conditions. [1] According to this, financing conditions have indeed weighed significantly on GDP growth over the last year and a half. However, this negative impulse has already weakened considerably. It would be unusual for a recession to follow (Chart 4).

Chart 4 - Headwinds from financial conditions have faded

Financial Conditions Impulse on Growth (FCI-G), contribution to GDP growth over the next year in percentage points. Recessions shaded



Source: Fed, Commerzbank Research

… and should improve further, …

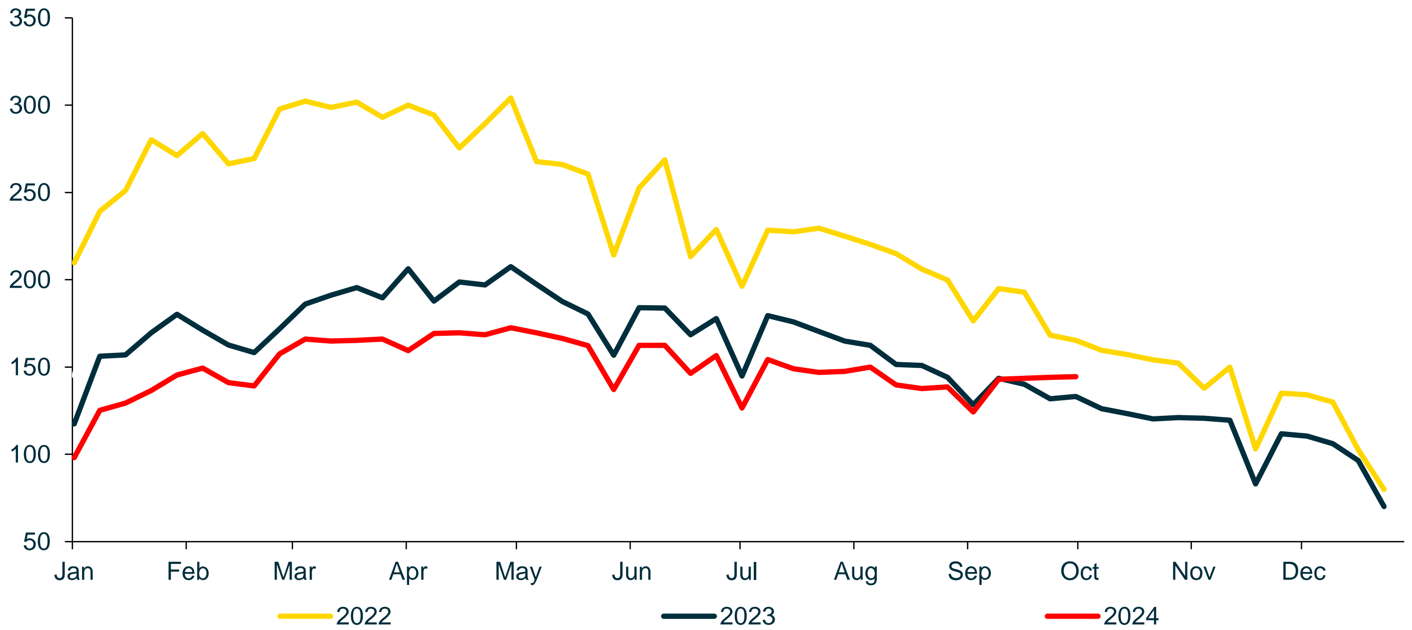
Financing conditions are likely to improve further in the coming months. Although the Fed will probably not lower its key rate by another 50 basis points at its next meeting in early November in view of the strong September employment report and the resulting decline in recession concerns, but only by 25 basis points, interest rates should continue to fall thereafter – to 3.5% by the summer, according to our forecast. By this, the Fed would bring its key rate, which is currently far above the neutral level, towards its neutral level which the Fed sets at around 3%.

… supporting housing

With its first cut, the Fed embarked on a rate cut process which is already having a positive impact on the housing market. The high level of mortgage rates had previously weighed heavily on the housing market, putting construction activity under pressure. The gradual decline in mortgage rates has already revived demand somewhat. At the end of September, the number of applications for mortgage loans to purchase a home was higher than a year earlier for the first time in a long period (Chart 5).

Chart 5 - Mortgage applications stabilize as interest rates fall

Mortgage Applications Survey, Purchase Index, Units: March 16, 1990=100, nonseasonally adjusted weekly figures



Source: MBA, S&P Global, Commerzbank Research

DAX to benefit as US avoids recession

If the US does indeed avoid a recession, the opportunities for the DAX are likely to outweigh the risks. A look at the past shows that after the first Fed rate cuts in 1984, 1989, 1995 and 1998, which were not followed by a recession, the DAX regularly rose further in the following year. By contrast, the DAX came under pressure in each of the following years after the first key interest rate cuts in 1981, 2001, 2007 and 2019, as the US economy slid into recession despite rate cuts. We do not expect this to happen this time.

[1] The yields on corporate bonds and treasuries, mortgage rates, the external value of the dollar, a stock index and a real estate price index are analyzed for the financing conditions. The approach also takes into account delays of up to three years. (back to text)

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