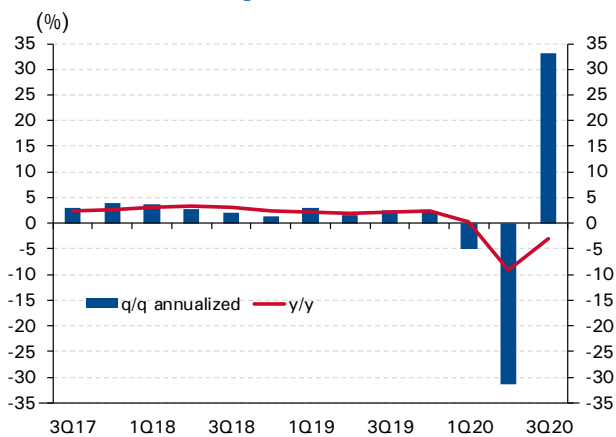


Mixed macroeconomic data points to strong business activity despite ongoing labor market weakness

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- The unemployment rate was unchanged at 6.7% in December as hiring fell amid renewed Covid restrictions.
- Non-farm payrolls fell by 140,000 in December, the first decline since the job market recovery started in May.
- Core inflation edged down to 1.6% y/y in December from 1.7% in November while headline inflation rose to 1.4%.
- Growth in retail sales ex autos plunged to 1.1% y/y in December, pressured by renewed covid restrictions.
- The ISM manufacturing index jumped to 60.7 in December, the highest since 2018, on increased hiring, new orders.
- The fiscal deficit reached \$3.3 trillion as of December, and is expected to widen to \$3.8 trillion (about 16% of GDP) in the fiscal year ending 2021.

▶ **Chart 1: Real GDP growth**



Annualized GDP growth rebounded by 33.4% in 3Q20, following a record 31.4% plunge in 2Q20.

Source: Refinitiv

▶ **Chart 2: Unemployment rate**



The unemployment rate was unchanged at 6.7% in Dec. as labor market weakness continued amid renewed Covid restrictions.

Source: Refinitiv

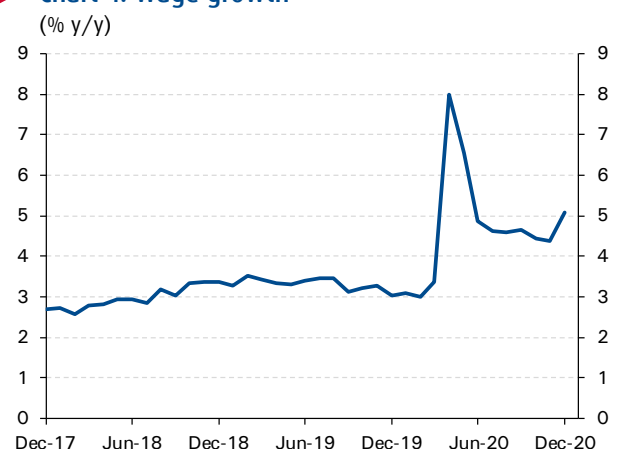
▶ **Chart 3: Non-farm payrolls (new jobs)**



Non-farm payrolls fell by 140,000 in December, the first decline since the job market recovery started in May.

Source: Refinitiv

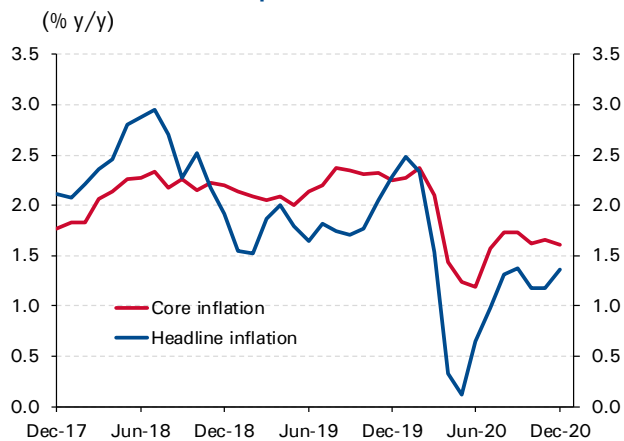
▶ **Chart 4: Wage growth**



Wage growth picked up to 5.1% y/y in December likely due to compositional effects as the number of lower-paid workers fell.

Source: Refinitiv

Chart 5: Consumer price inflation



Core inflation edged down to 1.6% y/y in December from 1.7% in Nov. while headline inflation rose to 1.4% from 1.2%.

Source: Refinitiv

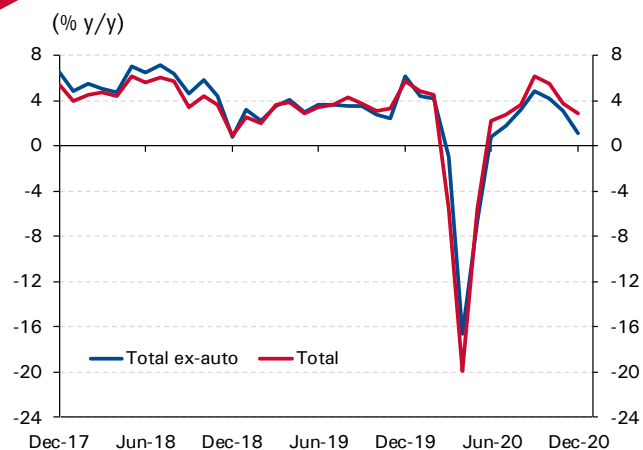
Chart 6: Commercial and industrial loans



C&I loan growth eased for the 7th consecutive month to 10.8% y/y as the need for financing eased amid improving conditions.

Source: Refinitiv

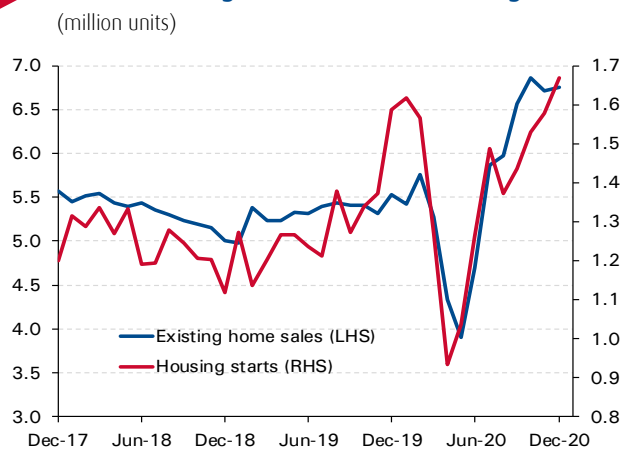
Chart 7: Retail sales



Growth in retail sales ex autos plunged to 1.1% y/y in December pressured by renewed covid restrictions in some states.

Source: Refinitiv

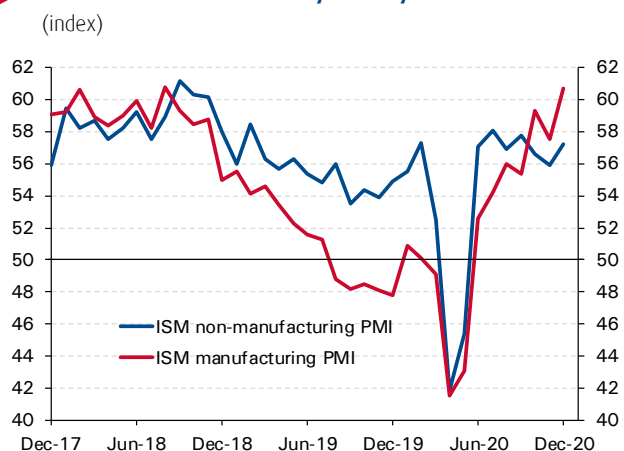
Chart 8: Existing home sales and housing starts



Housing starts surged 5.8% m/m to 1.67 million units, the highest since 2006, supported by historically low mortgage rates.

Source: Refinitiv

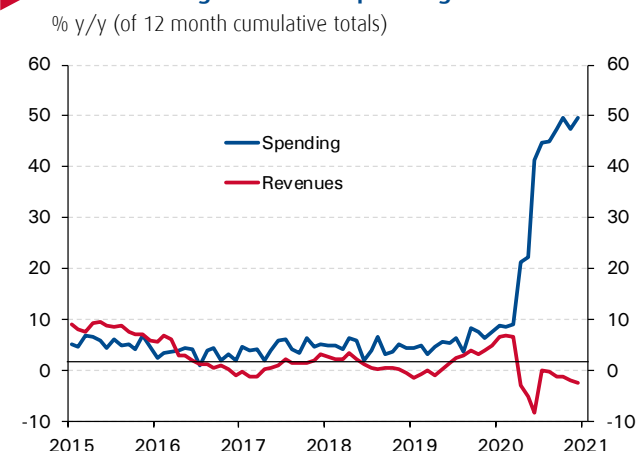
Chart 9: Business activity surveys



The ISM manufacturing index jumped to 60.7 in Dec., the highest since 2018, on increased hiring, new orders and production.

Source: Refinitiv

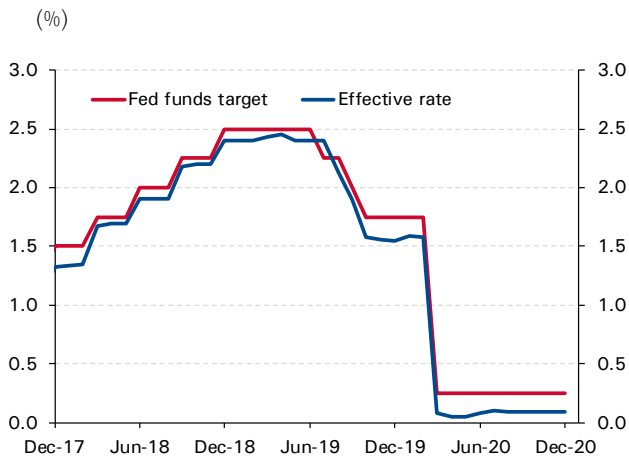
Chart 10: US government spending and revenues



The 12-month fiscal deficit reached \$3.3 trillion as of December, and is expected to widen to \$3.8 trillion (about 16% of GDP) in the fiscal year ending 2021.

Source: Refinitiv

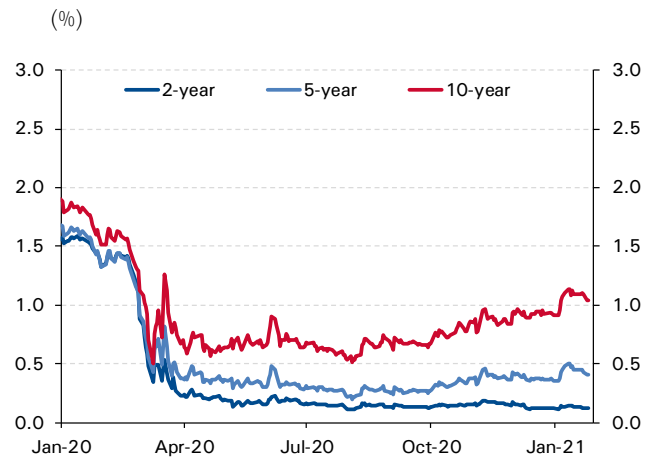
Chart 11: Policy interest rates



The policy rate remained unchanged at a range of 0-0.25% as the Fed maintains a loose policy to lessen pandemic effects.

Source: Refinitiv

Chart 12: Government bond yields

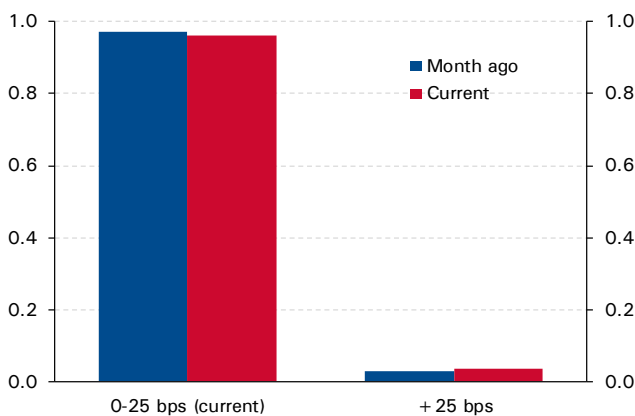


The US 10-year treasury yield rose by 11 bps m/m as of Jan. 26 to 1.04 % on positive stimulus and economic recovery expectations.

Source: Refinitiv

Chart 13: Fed policy action outlook for 2021

(futures market probability, as of 26 January 2021)

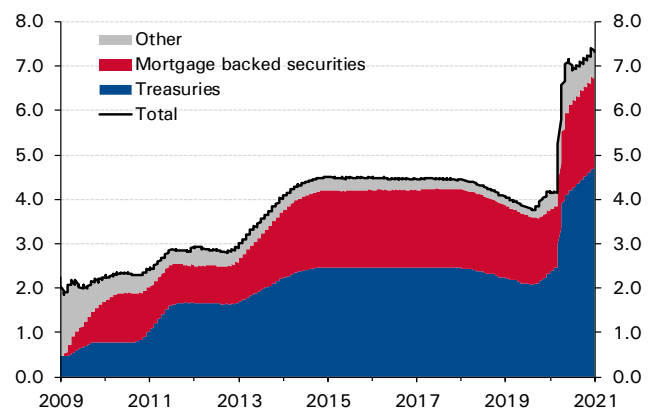


Futures markets probabilities of a rate hike in 2021 have risen slightly from last month, but remain very low.

Source: Refinitiv

Chart 14: Fed balance sheet size and composition

(total assets, \$trn)



Federal reserve assets continued to expand, reaching \$7.33 trillion in mid-January on continued quantitative easing.

Source: Refinitiv

Chart 15: Stock market

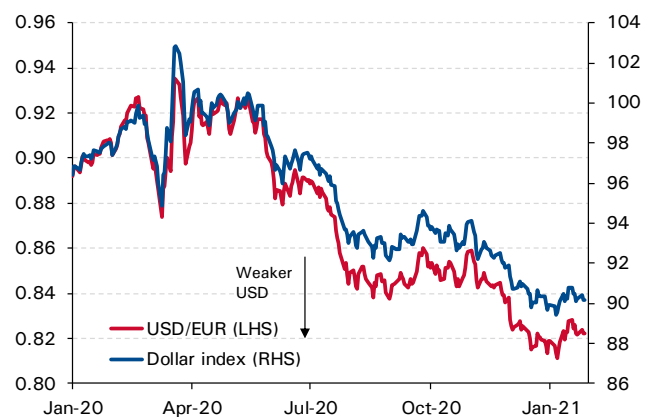
(S&P 500)



The S&P500 continued to rally on stimulus and economic recovery optimism, reaching a record high in January.

Source: Refinitiv

Chart 16: Exchange rates



The USD index rose slightly in January in line with higher bond yields amid an improving virus and economic backdrop.

Source: Refinitiv

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