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

- 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 (% y/y)

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
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

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

Source: Refinitiv

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

Source: Refinitiv

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

Source: Refinitiv

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
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

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

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

Source: Refinitiv

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

Source: Refinitiv

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

Source: Refinitiv