GDP growth slows in 3Q amid surging inflation, supply constraints and labor shortages

- Annualized GDP growth slowed to 2.0% q/q in 3Q21, below market forecasts, and a sharp decline from 6.7% in Q2.
- Unemployment eased further to 4.6% in October on a pickup in hiring, but remains above pre-pandemic levels.
- Inflation surged to a 30-year high of 6.2% y/y in October amid supply/labor shortages and higher input costs.
- Futures market probabilities are now heavily skewed towards two or more policy rate hikes in 2022.
- The S&P500 set record highs in November, but momentum has slowed recently possibly on inflation concerns.
- The USD index rose to a 16-month high on increased safe haven flows amid renewed virus fears and weaker sentiment.

Chart 1: Real GDP growth

Annualized GDP growth slowed to 2.0% q/q in 3Q21 well below the market forecast of 2.7% and a sharp decline from 6.7% in Q2.  
Source: Refinitiv

Chart 2: Unemployment rate

Unemployment eased further to 4.6% in October (4.8% in Sept.), the lowest since March 2020, but still above pre-pandemic levels.  
Source: Refinitiv

Chart 3: Non-farm payrolls (jobs)

531,000 jobs were added in October, beating expectations and after 2 months of softening job growth, with the gains coming mostly from the hospitality and professional services sectors.  
Source: Refinitiv

Chart 4: Wage growth

Wage growth rose further to 4.9% y/y in October, the highest since February on continued labor shortages.  
Source: Refinitiv
Inflation surged to a 30-year high of 6.2% y/y in October on continued supply/labor shortages and higher input costs.

The y/y increase in C&I loans remains in negative territory although the contraction softened to 10% y/y in October.

Growth in retail sales ex-autos picked up to 17.6% y/y in October, from 15.7% in September, as the holiday season shopping begins.

Housing starts inched down by 0.7% m/m to an annual rate of 1.52 million in October, affected by material and labor shortages.

The ISM manufacturing index ticked down to 60.8 in October (61.1 in Sept), still well in expansion territory on strong demand.

The 12-month fiscal deficit eased to $2.65 trillion in October on lower spending and a pick-up in revenues.
The Fed kept the policy rate unchanged at a range of 0-0.25% but could raise rates sooner than expected due to high inflation.

Source: Refinitiv

The 10-year yield rose to 1.55% mostly on rising inflation and as the market priced in reduced Fed asset purchasing.

Source: Refinitiv

Futures market probabilities are now heavily skewed towards two or more policy rate hikes in 2022, with a likelihood of 79.9%.

Source: Refinitiv

Federal Reserve assets expanded to $8.7 trillion by mid-November, but may rise more slowly in coming months on QE tapering.

Source: Refinitiv

The S&P500 set record highs in November, but momentum has slowed recently possibly on inflation concerns.

Source: Refinitiv

The USD index rose to a 16-month high on increased safe haven flows amid renewed virus fears and weaker sentiment.

Source: Refinitiv