Strong growth points to two further Fed rate hikes in 2018

- Annualized q/q growth in 2Q18 was revised higher from 4.1% to 4.2%, the highest since 3Q14.
- The unemployment rate was steady at 3.9% in August, against expectations of a drop to 3.8%.
- August’s wage growth increased to 2.9% y/y, its highest in eight years.
- Both headline (2.7%) and core (2.2%) inflation eased in August on one-off price declines in apparels.
- The ISM manufacturing index reached a multi-year high, while the non-manufacturing index also saw gains.
- The Federal Reserve is expected to hike the policy rate twice more this year, with 80% certainty.
- The S&P 500 maintained strong momentum, breaching the 2900 point mark for the first time.
- Trade restrictions weighed on the dollar index, but it still edged up in August on higher bond yields.

**Chart 1: Real GDP growth**
Annualized q/q growth was revised higher to 4.2% in Q2, the fastest since 3Q14, and pushing GDP growth to 2.9% y/y.
Source: U.S. Bureau of Economic Analysis

**Chart 2: Unemployment rate**
The unemployment rate was steady at 3.9% in August, against expectations of a drop to 3.8%.
Source: U.S. Bureau of Labor Statistics

**Chart 3: Non-farm payrolls (new jobs)**
August’s Non-farm payrolls surprised in excess of 200,000, while the previous two months were revised down.
Source: U.S. Bureau of Labor Statistics

**Chart 4: Wage growth**
August’s wage growth increased to 2.9% y/y, its highest in 8-years, supporting the Fed’s case for two more hikes this year.
Source: U.S. Bureau of Labor Statistics
Both headline (2.7%) and core (2.2%) inflation eased in August on one-off price declines in apparels.

Source: U.S. Bureau of Labor Statistics

Retail sales growth disappointed in August (flat m/m) with growth at a still-strong 6.5% y/y.

Source: U.S. Census Bureau

The ISM manufacturing index reached a multi-year high, while the non-manufacturing index also registered gains.

Source: Institute for Supply Management

Despite the mixed August data, the Fed is expected to hike its benchmark rate in September with near certainty.

Source: Thomson Reuters Eikon
Strong growth and higher public and private spending raised expectations of at least two more rate hikes in 2018.

Source: CME Group

The S&P 500 maintained strong momentum, unaffected by emerging markets and trade, to breach 2900 for the 1st time.

Source: Thomson Reuters Eikon

US monetary normalization and improving global sentiment helped push yields back to close to 3%.

Source: Thomson Reuters Eikon

Trade restrictions weighed on the dollar index, but rebounded slightly in August by 0.43% on higher bond yields.

Source: Thomson Reuters Eikon