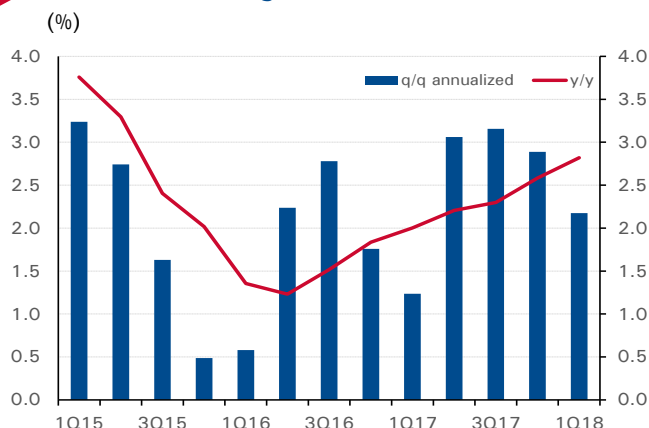


USA: Mixed data and renewed trade tensions weigh on Fed outlook

- GDP growth was revised down to 2.2% 1Q18, on weaker consumer spending and inventory investment.
- The unemployment rate fell to 3.9% in April as some job seekers left the labor force.
- Non-farm payrolls moderated in April (164,000) as the economy gets closer to full employment.
- Wage growth softened in April to 2.6% y/y, alleviating concerns over inflationary pressures.
- Housing starts were slower than expected in April, rising by 1.29 million units as prices increased.
- ISM manufacturing and non-manufacturing surveys came below expectations, easing further in April.
- Mixed data, political uncertainty, and trade tensions lowered expectations of four interest rate hikes in 2018.
- The 10-year yield briefly breached 3% before falling back on geopolitics and falling oil prices.
- Higher US yields and increasing political uncertainty lifted the US dollar index 3% m/m in May.

▶ **Chart 1: Real GDP growth**



GDP growth was revised down to 2.2% from 2.3% in 1Q18, on weaker consumer spending and inventory investment.

Source: U.S. Bureau of Economic Analysis

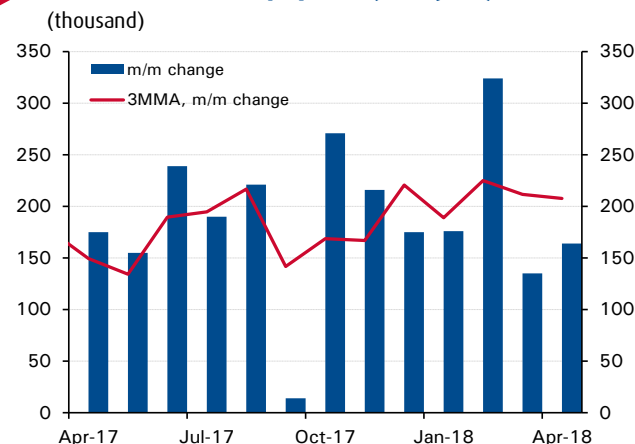
▶ **Chart 2: Unemployment rate**



The unemployment rate fell to 3.9% in April as some job seekers left the labor force.

Source: U.S. Bureau of Labor Statistics

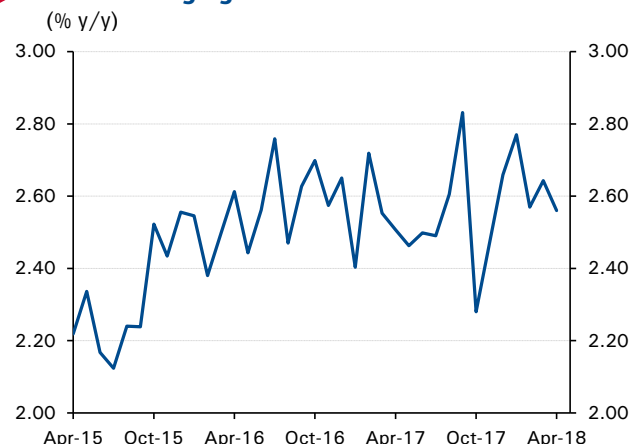
▶ **Chart 3: Non-farm payrolls (new jobs)**



Non-farm payrolls moderated in April (164,000) as the economy gets closer to full employment.

Source: U.S. Bureau of Labor Statistics

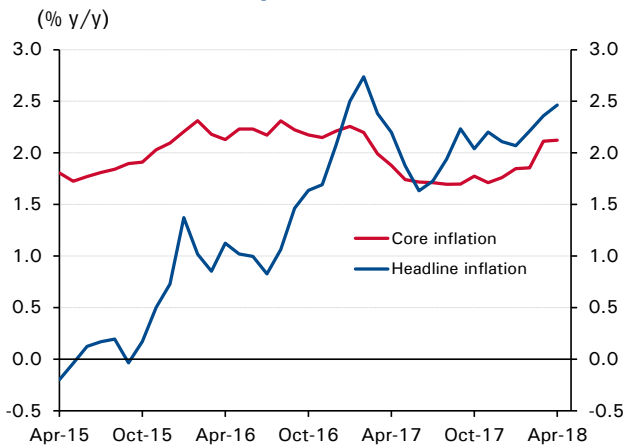
▶ **Chart 4: Wage growth**



Wage growth softened in April to 2.6% y/y, alleviating concerns over inflationary pressures.

Source: U.S. Bureau of Labor Statistics

Chart 5: Consumer price inflation



Inflation edged up to 2.5% in April on higher oil prices, while core steadied at 2.1% y/y.

Source: U.S. Bureau of Labor Statistics

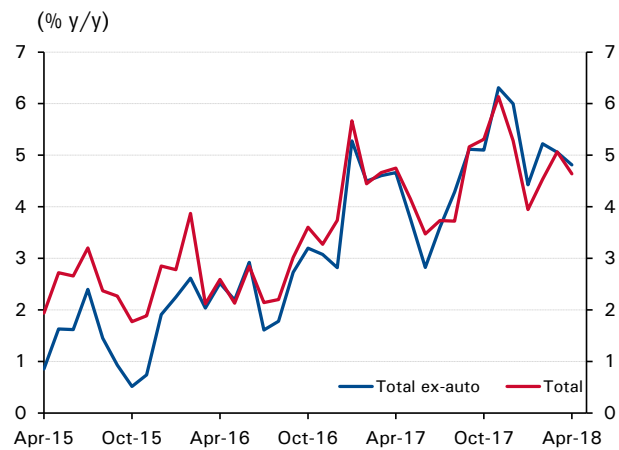
Chart 6: Commercial and industrial loans



Commercial and industrial loan growth jumped to 3.3% in April.

Source: U.S. Board of Governors of the Federal Reserve System

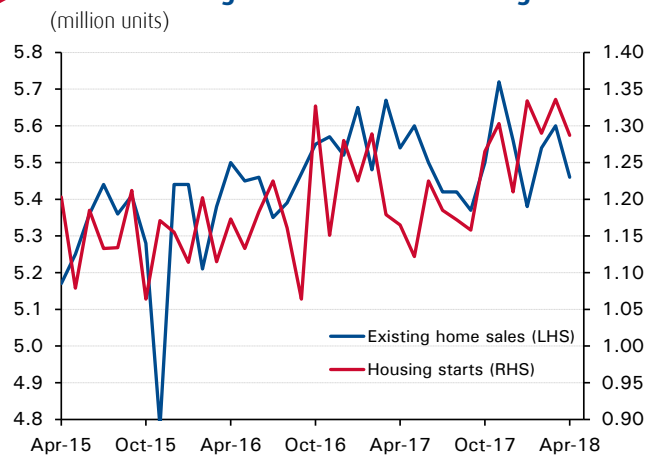
Chart 7: Retail sales



Retail sales matched expectations, rising 0.3% m/m, with annual growth at 4.7% y/y.

Source: U.S. Census Bureau

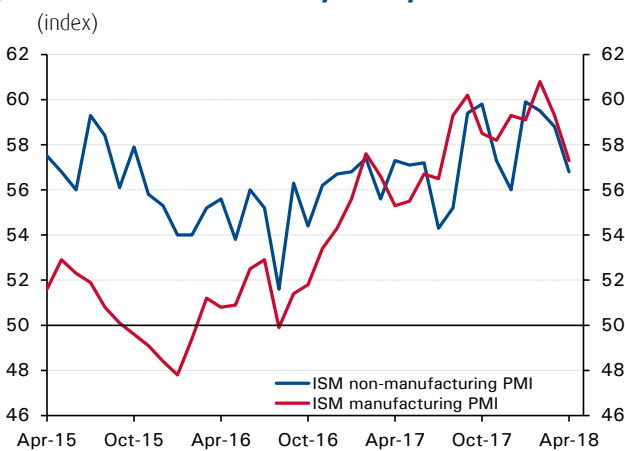
Chart 8: Existing home sales and housing starts



Housing starts were slower than expected in April, rising by 1.29 million units as prices increased.

Source: National Association of Realtors, U.S. Census Bureau

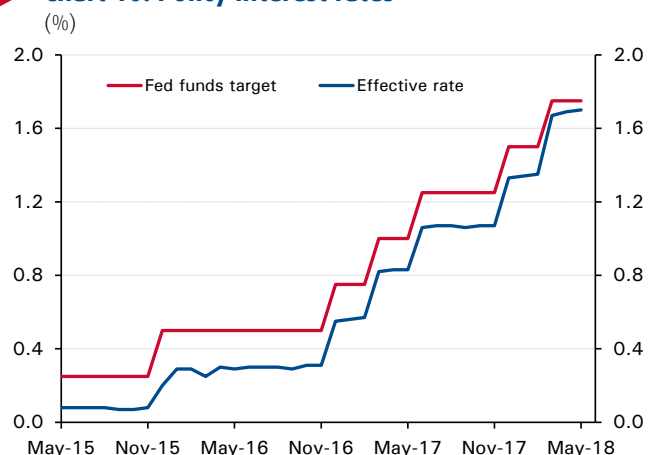
Chart 9: Business activity surveys



ISM manufacturing and non-manufacturing surveys came below expectations, easing further in April.

Source: Institute for Supply Management

Chart 10: Policy interest rates

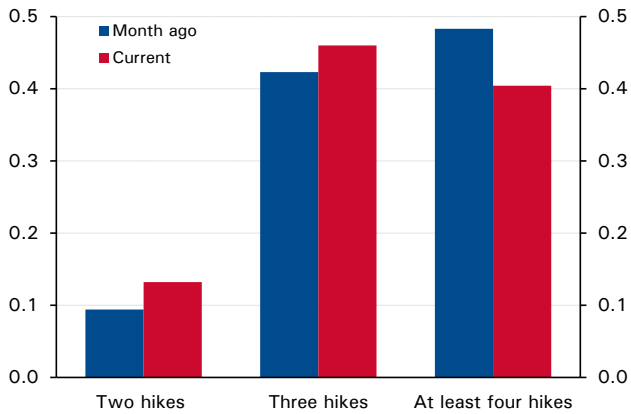


The Fed is expected to hike its benchmark rate in June with 80% certainty, down from 90% a month ago.

Source: Thomson Reuters Eikon

Chart 11: Fed rate hike outlook for 2018

(probability, as of 25 May 2018)

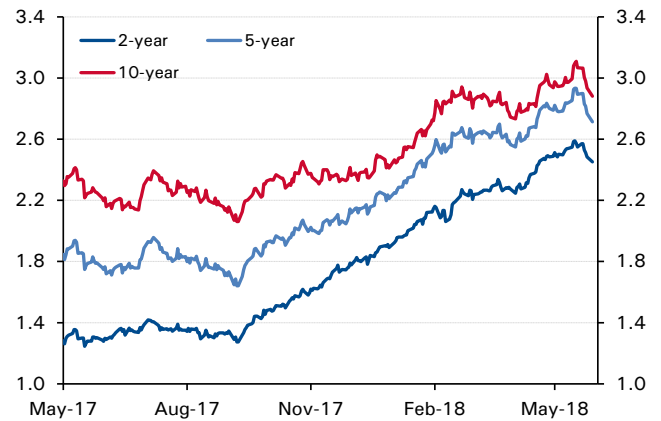


Mixed data, political uncertainty, and trade tensions lowered expectations of at least four interest rate hikes in 2018.

Source: CME Group

Chart 12: Government bond yields

(%)



The 10-year yield briefly breached 3% before easing on geopolitics, falling oil prices, and Italian politics.

Source: Thomson Reuters Eikon

Chart 13: Stock market

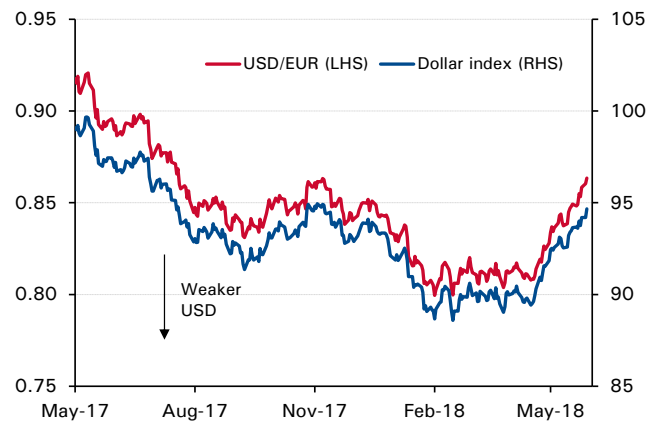
(S&P 500)



Easing trade rhetoric and solid Q1 earnings helped the S&P 500 edge higher in May.

Source: Thomson Reuters Eikon

Chart 14: Exchange rates



Higher US bond yields and increasing political uncertainty lifted the US dollar index 2% m/m in May.

Source: Thomson Reuters Eikon

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