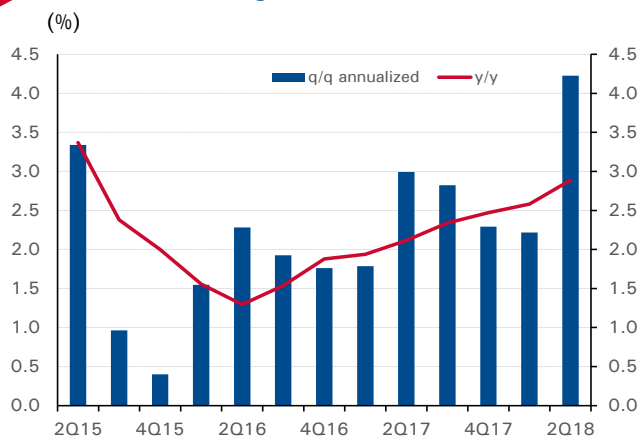


Unemployment rate at 49-year low, fourth rate hike expected in December

- Analysts expect third quarter GDP growth to slow to an annualized 3.5% after reaching 4.2% in 2Q18.
- The unemployment rate eased to 3.7% in September, the lowest since December 1969.
- September's wage growth decreased to 2.8% y/y, from 2.9% in August, despite a tighter labor market.
- Headline inflation eased to 2.3%, the lowest in 7 months on softer gas prices.
- Trade disputes weighed on September's manufacturing activity, but other activities hit a multi-year high.
- After three interest rate hikes so far in 2018, a fourth hike is expected in December with 82% certainty.
- The S&P 500 was steady in September, but saw a strong correction recently on shifting rate hike expectations.
- The US dollar maintained relative strength through September thanks to higher rates and a solid economy.

▶ **Chart 1: Real GDP growth**



Analysts expect 3Q18's GDP to cool to an annualized 3.5% after hitting 4.2% in 2Q18, its strongest pace since 3Q14.

Source: U.S. Bureau of Economic Analysis

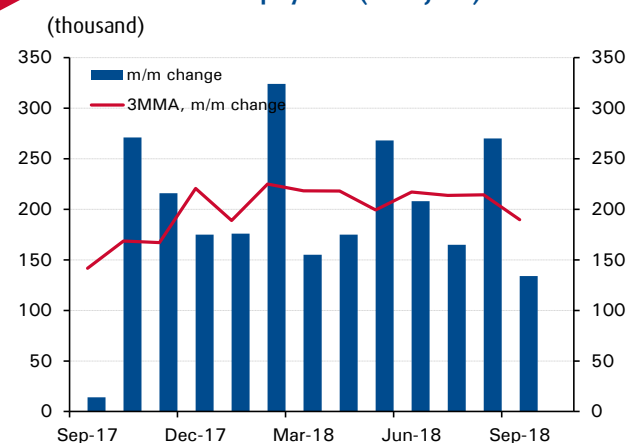
▶ **Chart 2: Unemployment rate**



Unemployment eased to a 49-year low of 3.7% in September, but some slack remains as participation is still relatively low.

Source: U.S. Bureau of Labor Statistics

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



September's rise in non-farm payrolls softened to 134,000 on hurricane woes, but the previous two months were revised up.

Source: U.S. Bureau of Labor Statistics

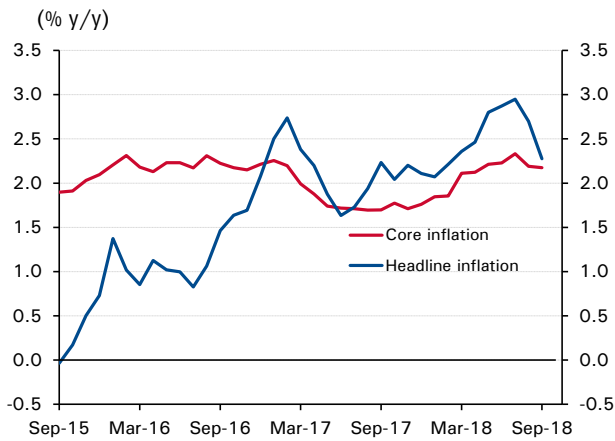
▶ **Chart 4: Wage growth**



September's wage growth decreased to 2.75% y/y, from last month's 8-year high of 2.9%, despite the tight labor market.

Source: U.S. Bureau of Labor Statistics

Chart 5: Consumer price inflation



Headline inflation eased to 2.3%, the lowest in 7 months and below expectations, on softer gas prices. Core at 2.2%.

Source: U.S. Bureau of Labor Statistics

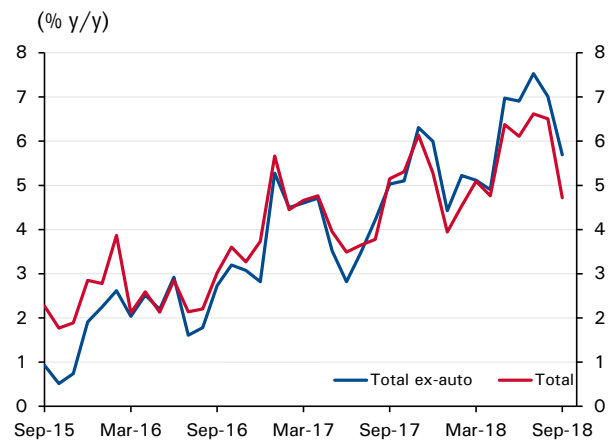
Chart 6: Commercial and industrial loans



Trade weighed on September C&I loans, with growth easing for a second consecutive month to 5.2% y/y.

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

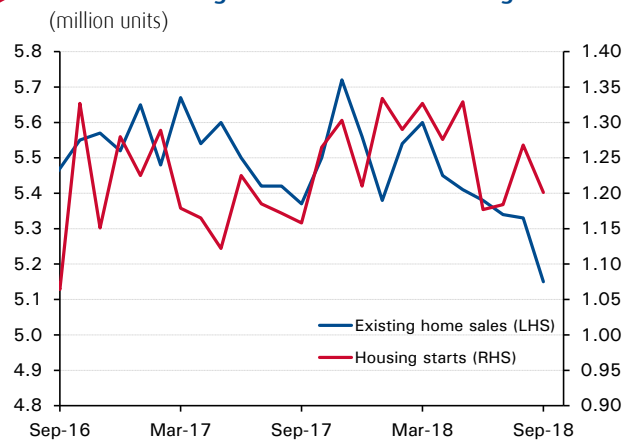
Chart 7: Retail sales



Retail sales growth eased sharply to 4.7% y/y in September, as trade concerns and rate hikes weighed.

Source: U.S. Census Bureau

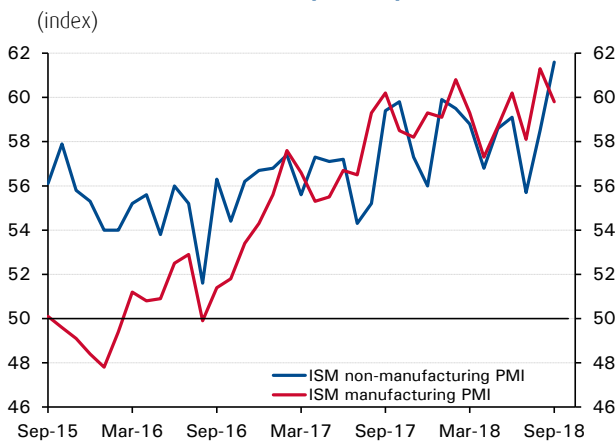
Chart 8: Existing home sales and housing starts



Both housing starts and home sales dipped in September, affected by rising prices, higher rates, and hurricane Florence.

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

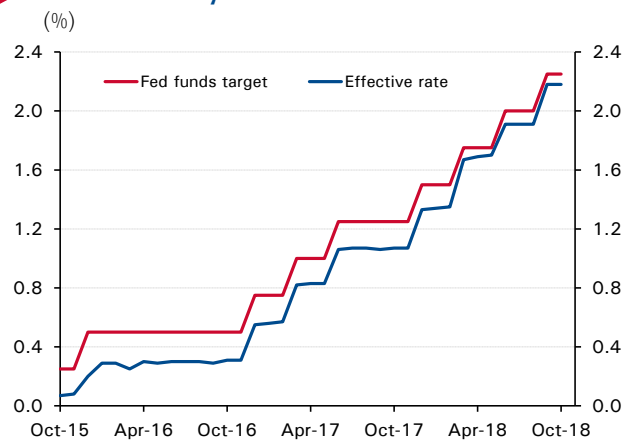
Chart 9: Business activity surveys



While trade weighed on September's manufacturing activity, non-manufacturing activity hit a multi-year high.

Source: Institute for Supply Management

Chart 10: Policy interest rates

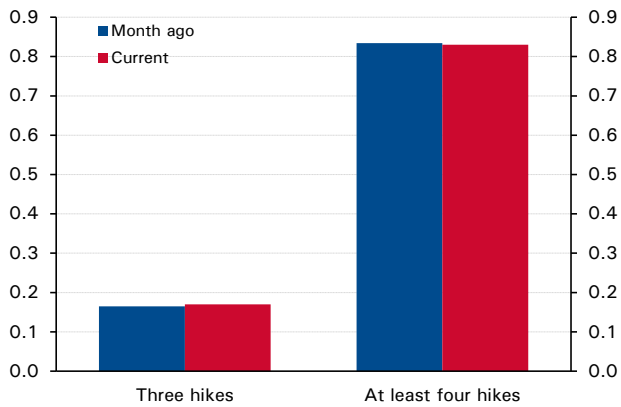


After three rate hikes so far in 2018, the Fed is expected to hike again in December with 82% certainty.

Source: Thomson Reuters Eikon

Chart 11: Fed rate hike outlook for 2018

(probability, as of 16 October 2018)



Strong growth, lower unemployment, and higher public and private spending favor strongly a fourth hike in December.

Source: CME Group

Chart 12: Government bond yields

(%)



10-year yields breached and stayed above 3% lifted by the Fed's third rate hike and its bullish views on the US economy.

Source: Thomson Reuters Eikon

Chart 13: Stock market

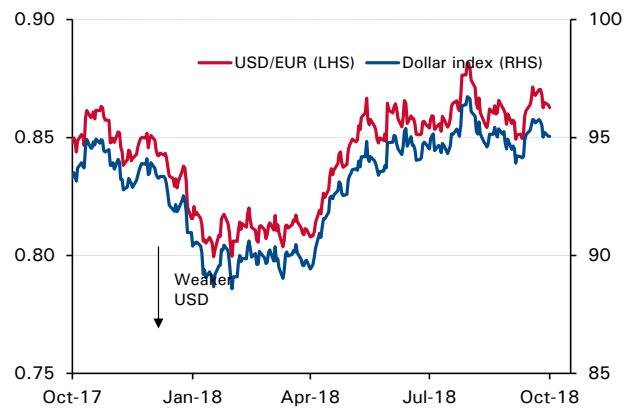
(S&P 500)



The S&P 500 was little changed in September, but witnessed a strong correction recently on shifting rate hike expectations.

Source: Thomson Reuters Eikon

Chart 14: Exchange rates



The US dollar maintained relative strength throughout September thanks to higher rates and a solid economy.

Source: Thomson Reuters Eikon

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