INTERNAL

Chartbook

NBK Economic Research Department I 28 December 2021

USA

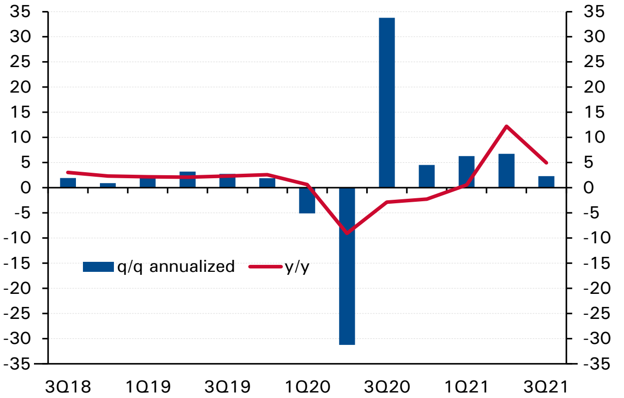
Fed to end asset purchases early and signals multiple rate hikes in 2022 amid soaring inflation

> Saqer Al-Zayed
Economist
+965 2259 5355,
saqeralzayed@nbk.com

- Growth slowed to 2.3% q/q (annualized) in 3Q21 (6.7% in 2Q21) on Delta, inflation concerns and supply shortages.
- Unemployment eased further to 4.2% in November (4.6% in Oct.), the lowest since February 2020.
- Supply/labor shortages, higher input prices and solid demand pushed inflation to a near 40-year high of 6.8% in Nov.
- Growth in retail sales ex-autos rose to 19.5% y/y in November on stronger demand due to holiday shopping.
- The Fed signaled three possible rate hikes in 2022 due to rising inflation, despite Omicron risks to growth.
- The ISM manufacturing index edged up to 61.1 in November, expanding for 18 straight months on strong demand.
- The S&P500 was volatile in December on Omicron and inflation fears, but reached a record high on recovery optimism.

Chart 1: Real GDP growth

(%)

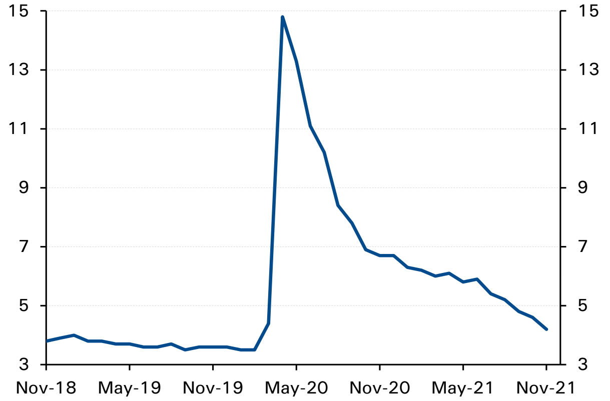


Growth slowed to 2.3% q/q (annualized) in 3Q21 from 6.7% in 2Q21 on Delta, inflation concerns and supply chain disruptions.

Source: Refinitiv

Chart 2: Unemployment rate

(% of labor force, 16 years and above)

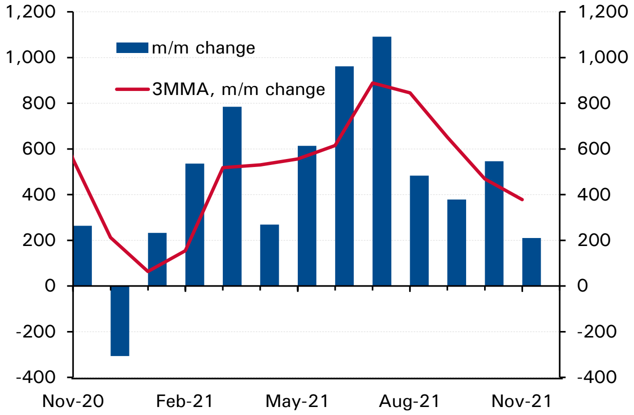


The unemployment rate improved from 4.6% in October to 4.2% in November, and stands at its lowest since Feb 2020...

Source: Refinitiv

Chart 3: Non-farm payrolls (jobs)

(thousand)



...but only 210k jobs were added—the smallest monthly gain in almost a year—due to continued labor market supply tightness.

Source: Refinitiv

Chart 4: Wage growth

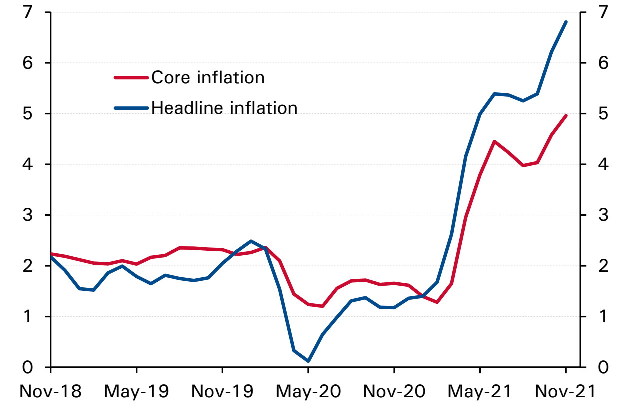
(% y/y, hourly earnings, private non-farm payrolls)

Wage growth was little changed at a still-high 4.8% y/y in November, reflecting the ongoing labor shortages.

Source: Refinitiv

Chart 5: Consumer price inflation

(% y/y, CPI-U: All items)



Inflation accelerated to 6.8% in Nov, its fastest pace since 1982, on supply shortages, higher input prices and robust demand.
Source: Refinitiv

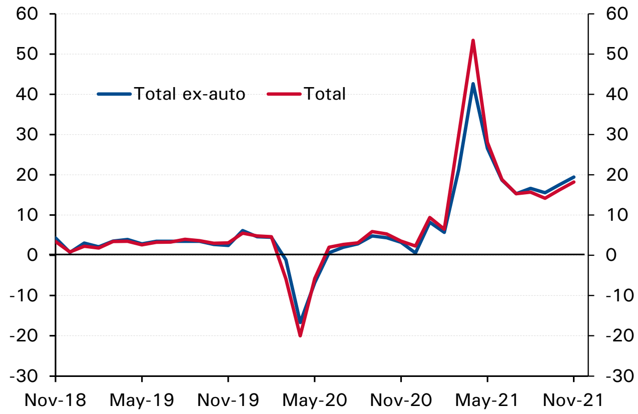
Chart 6: Commercial and industrial loans

(% y/y)

Annual growth in C&I loans remains in negative territory, although the contraction softened to 7.7% y/y in November.
Source: Refinitiv

Chart 7: Retail sales

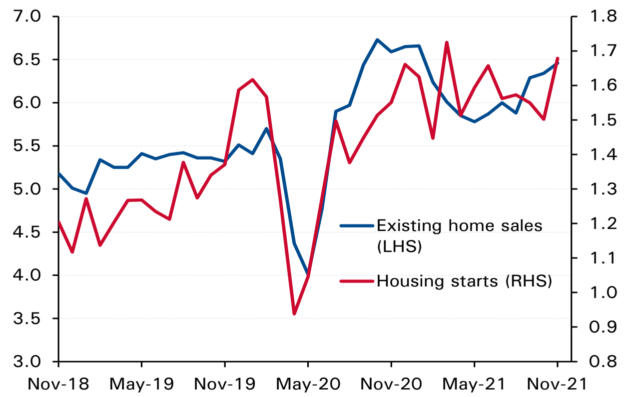
(% y/y)



Retail sales growth (ex-autos) was a robust 19.5% y/y in November on stronger, holiday season demand.
Source: Refinitiv

Chart 8: Existing home sales and housing starts

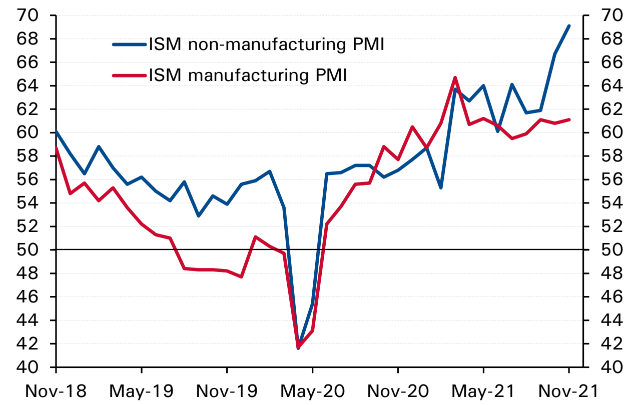
(million units)



Housing starts surged in Nov (+11.8% m/m to 1.68mn units), well above market expectations, on continued strong demand.
Source: Refinitiv

Chart 9: Business activity surveys

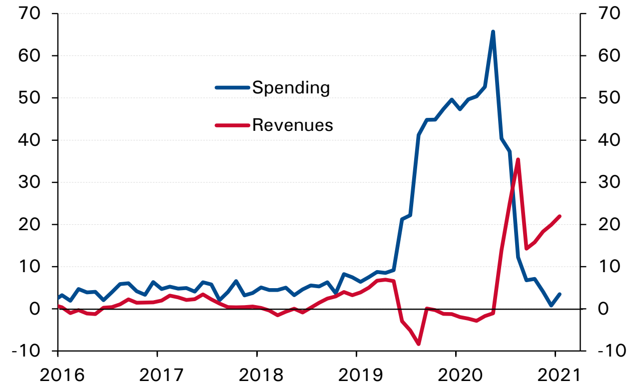
(index)



Responding to strong demand, manufacturing recorded an 18th consecutive month of expansion in November (61.1).
Source: Refinitiv

Chart 10: US government spending and revenues

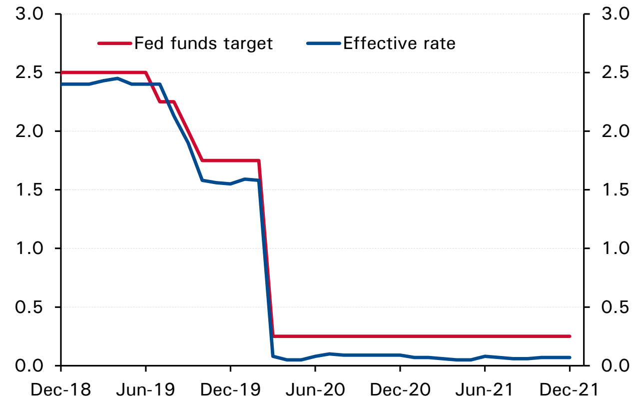
(% y/y, 12-month cumulative total)



The 12-month fiscal deficit widened to $2.7trn in Nov on higher spending (+3.5% y/y); it should narrow to $1.2trn in FY22/23.
Source: Refinitiv

Chart 11: Policy interest rates

(%)

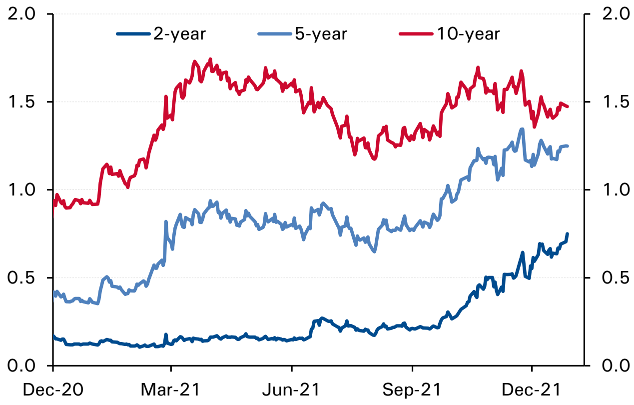


The Fed kept the policy rate unchanged within 0-0.25%, but signaled 3 possible rate hikes in 2022 due to high inflation.

Source: Refinitiv

Chart 12: Government bond yields

(%)

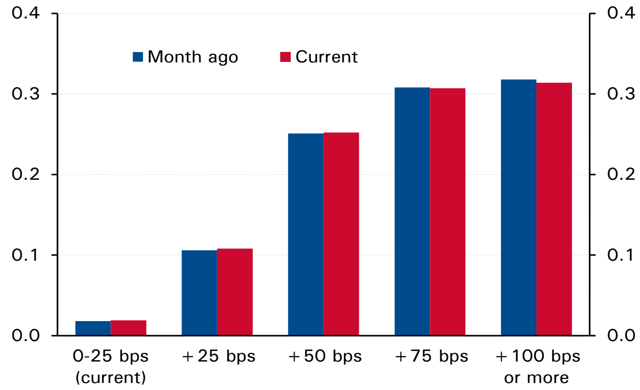


The 10-year treasury yield gained 7 bps in December, standing at 1.47% (as of Dec. 28) on recovery optimism, higher inflation and QE tapering.

Source: Refinitiv

Chart 13: Fed policy action outlook for 2022

(futures market probability, as of 22 December 2021)

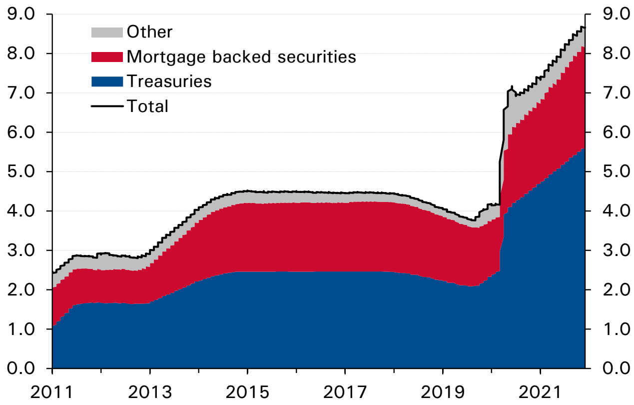


Futures market probabilities are heavily skewed towards two or more policy rate hikes in 2022, with a likelihood of 87%.

Source: Refinitiv

Chart 14: Fed balance sheet size and composition

(total assets, $ trillion)



Federal Reserve assets were, as of mid-December, little changed from a month ago at $8.7 trillion on QE tapering.

Source: Refinitiv

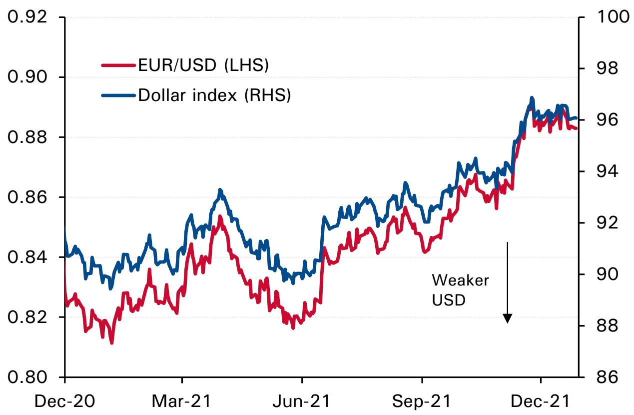
Chart 15: Stock market

(S&P 500)

The S&P500 struggled for direction in Dec. on inflation/ Omicron fears, before reaching an all-time high on recovery optimism.

Source: Refinitiv

Chart 16: Exchange rates



The USD index was little changed in December, but could strengthen in coming months due to a more hawkish Fed.

Source: Refinitiv

Head Office

Kuwait
National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567,Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan
National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America
National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France
National Bank of Kuwait France SA
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait
NBK Capital
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
PO Box 4950, Safat, 13050
Kuwait City, Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates
NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey
Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353