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

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

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

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

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

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

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

The 12-month fiscal deficit widened to $2.7tn in Nov on higher spending (+3.5% y/y); it should narrow to $1.2tn in FY22/23.
The Fed kept the policy rate unchanged within 0-0.25%, but signaled 3 possible rate hikes in 2022 due to high inflation. 

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.

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

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

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

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