Chartbook
NBK Economic Research Department I 22 January 2019

USA

Markets rally in January amid easing trade tensions and less hawkish Fed

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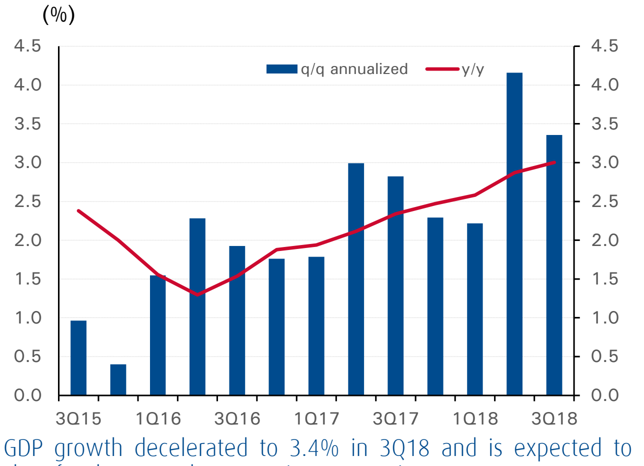
- Unemployment rose to 3.9% in December from a 49-year low of 3.7% on a rising labor force.
- Wage growth picked up slightly to 3.2% in December, the third consecutive month above 3%.
- Business loan growth in December surged to 11.5%, the highest since July 2016.
- Business activity slumped in December amid mounting trade tensions and slower demand.
- Expectations for future rate hikes continued to decline amid softer growth and a more dovish Fed.
- Bond yields rose in January in tandem with a rebound in equities driven by improved market sentiment.

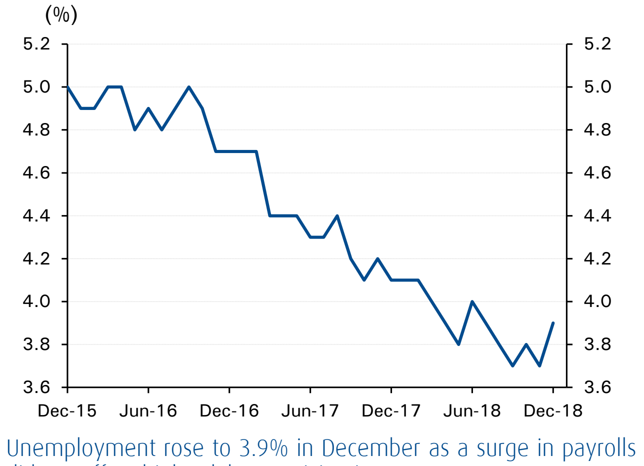
Chart 1: Real GDP growth



GDP growth decelerated to 3.4% in 3Q18 and is expected to slow for the second consecutive quarter in 4Q18 to 2.5%

Source: U.S. Bureau of Economic Analysis

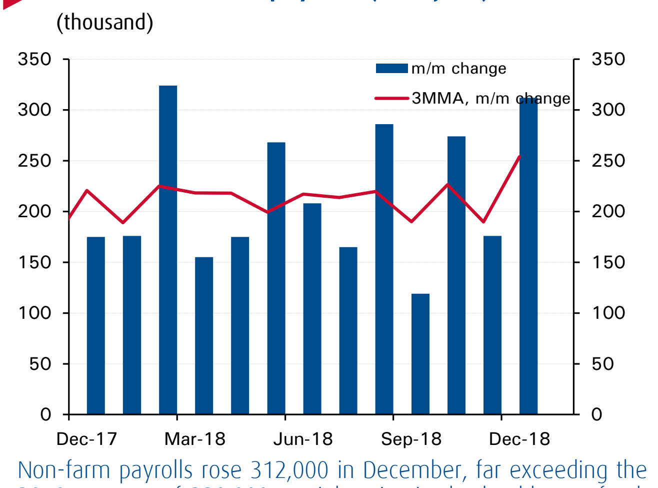
Chart 2: Unemployment rate



Unemployment rose to 3.9% in December as a surge in payrolls did not offset higher labor participation.

Source: U.S. Bureau of Labor Statistics

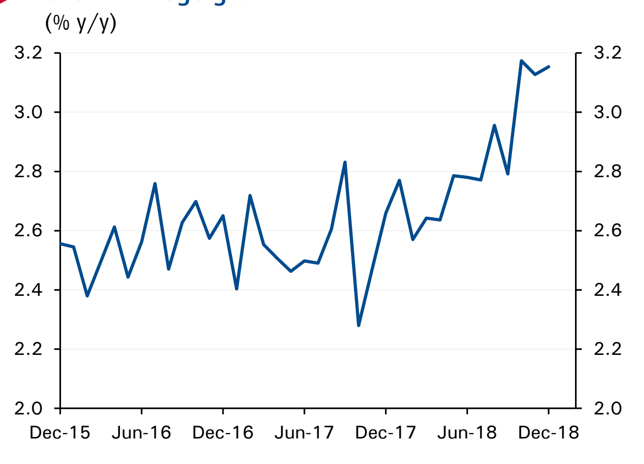
Chart 3: Non-farm payrolls (new jobs)



Non-farm payrolls rose 312,000 in December, far exceeding the 2018 average of 220,000, on job gains in the healthcare, food, and construction sectors.

Source: U.S. Bureau of Labor Statistics

Chart 4: Wage growth

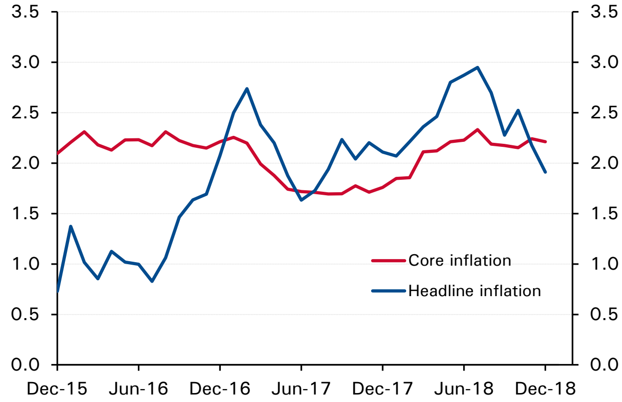


Wage growth picked up slightly to 3.2% in December, growing for the third month above 3%.

Source: U.S. Bureau of Labor Statistics

Chart 5: Consumer price index inflation

(% y/y)



Core inflation was steady at 2.2% in December, while headline inlation dropped to a 16-month low of 1.9% on lower fuel prices.

Source: U.S. Bureau of Labor Statistics

Chart 6: Commercial and industrial loans

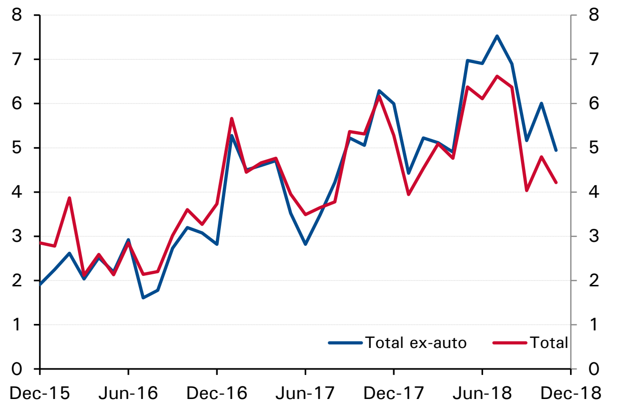
(% y/y)

C&I loan growth in December surged to 11.5%, the highest since July 2016 helped by looser corporate lending requirements.

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

Chart 7: Retail sales

(% y/y)

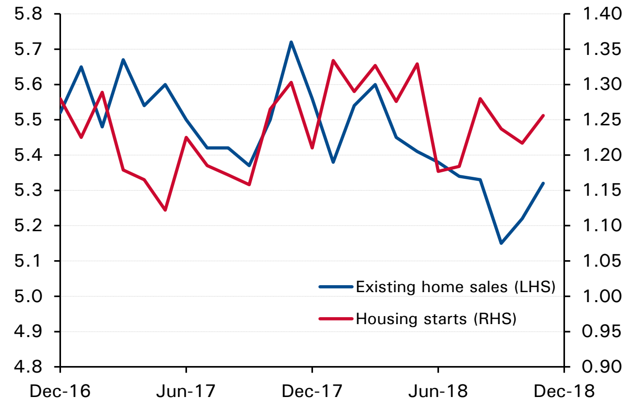


Retail sales growth dipped slightly in November to 4.2% y/y, with December numbers delayed by the government shutdown.

Source: U.S. Census Bureau

Chart 8: Existing home sales and housing starts

(million units)

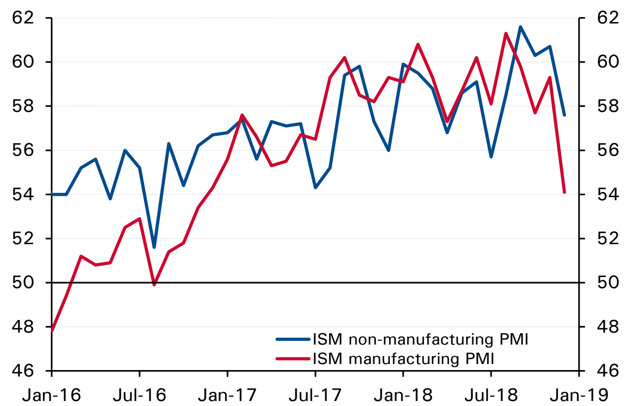


Housing starts and home sales both rose in November, as hurricane Florence woes subsided.

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

Chart 9: Business activity surveys

(index)

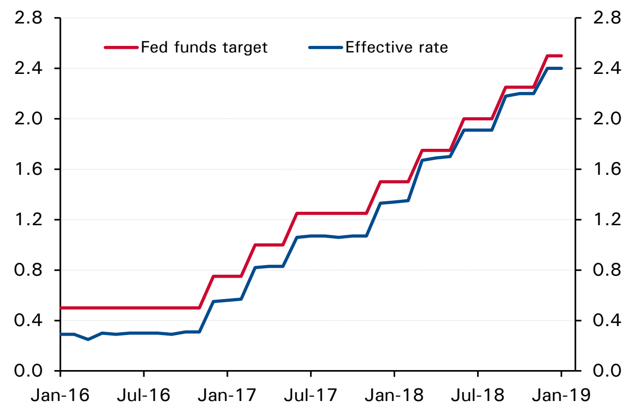


Manufacturing and non-manufacturing activity slumped in December amid mounting trade tensions and slower demand.

Source: Institute for Supply Management

Chart 10: Policy interest rates

(%)

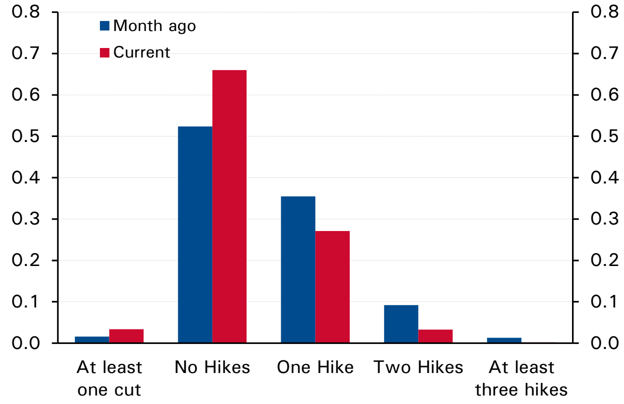


The Federal Reserve target rate currently stands at 2.25-2.50%, and may remain unchanged through 2019.

Source: Thomson Reuters Eikon

Chart 11: Fed rate hike outlook for 2019

(probability, as of 20 January 2019)

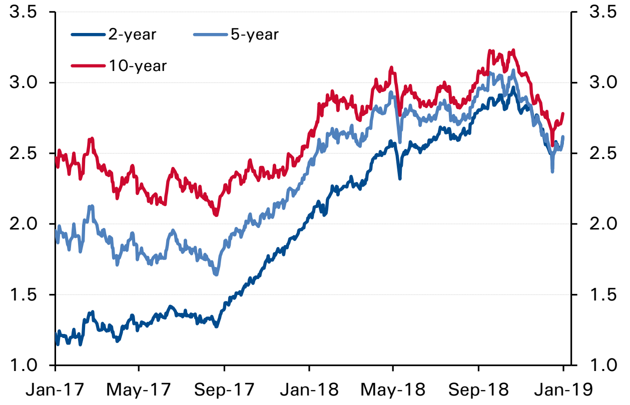


Expectations for future rate hikes continued to decline amid concerns of softer future growth and a more dovish Fed.

Source: CME Group

Chart 12: Government bond yields

(%)



Bond yields rose in January in tandem with the rebound in equities, and in line with partially improved market sentiment.

Source: Thomson Reuters Eikon

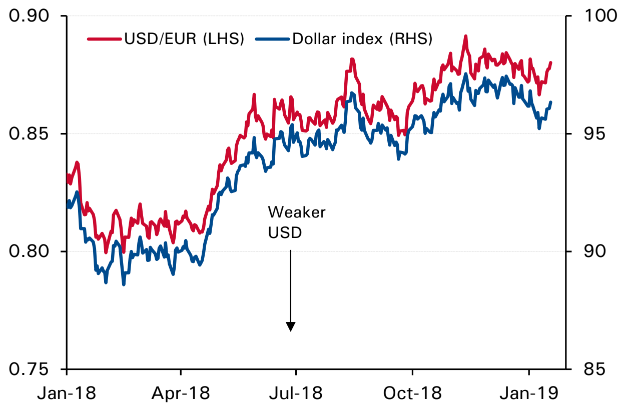
Chart 13: Stock market

(S&P 500)

Stocks saw a stong rebound in January amid renewed investor confidence due to softer Fed policy and easing trade tensions.

Source: Thomson Reuters Eikon

Chart 14: Exchange rates



The US dollar index gained in January amid good US economic conditions relative to other economies.

Source: Thomson Reuters Eikon

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