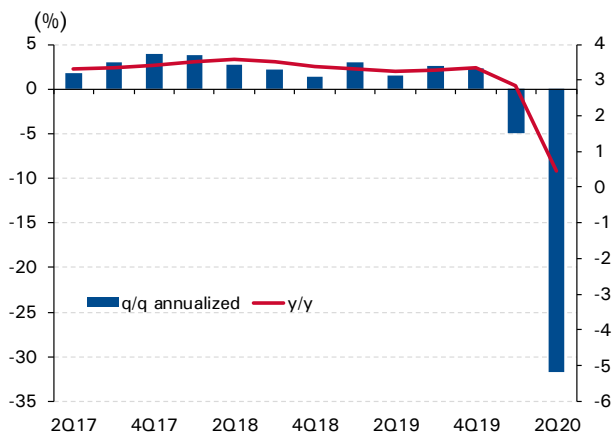


US GDP sees record drop in 2Q20, though surveys point to Q3 rebound

- Annualized GDP growth fell by a record 31.7% in 2Q20, on large declines in consumption and investment.
- Non-farm payrolls rose by 1.8mn in July, easing from June's record 4.8mn, beating expectations of 1.6mn.
- Unemployment eased to 10.2% in July from 11.1% in June, though still very high and could be understated.
- Core inflation rose to 1.6% y/y in July from 1.2% in June on higher medical care, vehicle and shelter prices.
- Retail sales ex autos rose further by 1.9% y/y in July, though the rebound may be tapering off.
- The S&P500 reached new highs in August on strong investor sentiment and economic recovery optimism.

▶ Chart 1: Real GDP growth



Annualized GDP growth fell by a record 31.7% in 2Q20, slightly less than expected on large falls in consumption and investment.

Source: Refinitiv

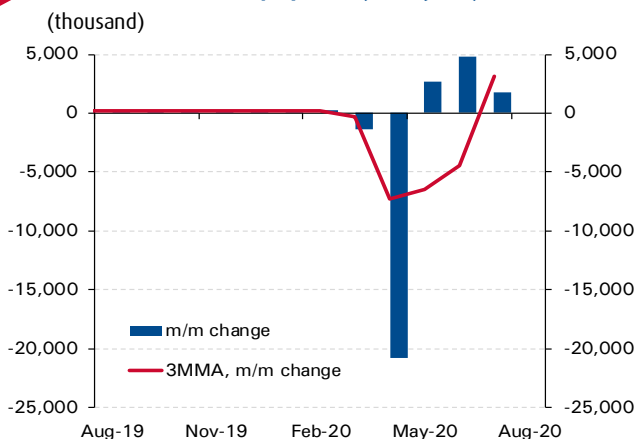
▶ Chart 2: Unemployment rate



Unemployment eased further to 10.2% in July from 11.1% in June, though still very high and could be understated.

Source: Refinitiv

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



Non-farm payrolls rose by 1.8 million in July, easing from June's record 4.8 million but beating expectations of 1.6 million.

Source: Refinitiv

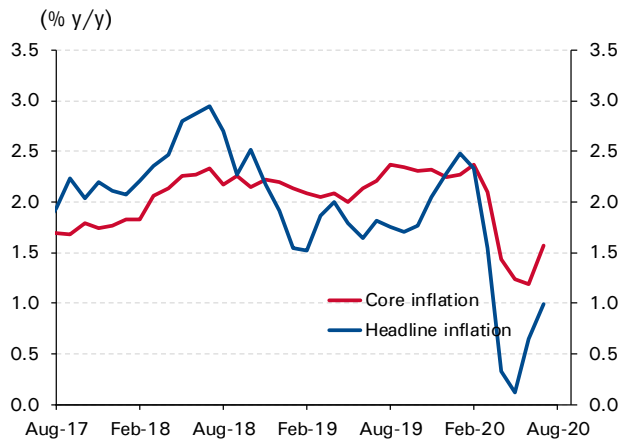
▶ Chart 4: Wage growth



Wage growth edged down to 4.8% in July from 4.9% in June, though remains affected by rehiring and compositional effects.

Source: Refinitiv

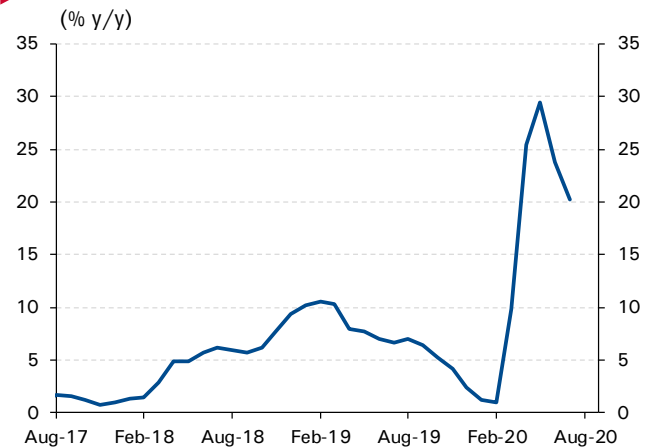
Chart 5: Consumer price inflation



Core inflation rose to 1.6% y/y in July from 1.2% in June on higher medical care, vehicle and shelter prices.

Source: Refinitiv

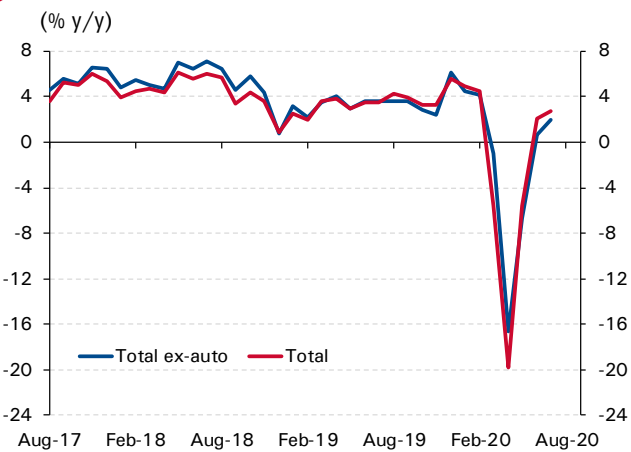
Chart 6: Commercial and industrial loans



C&I loans growth eased further to 20.2% in July, as more businesses reopened thereby reducing the need for financing.

Source: Refinitiv

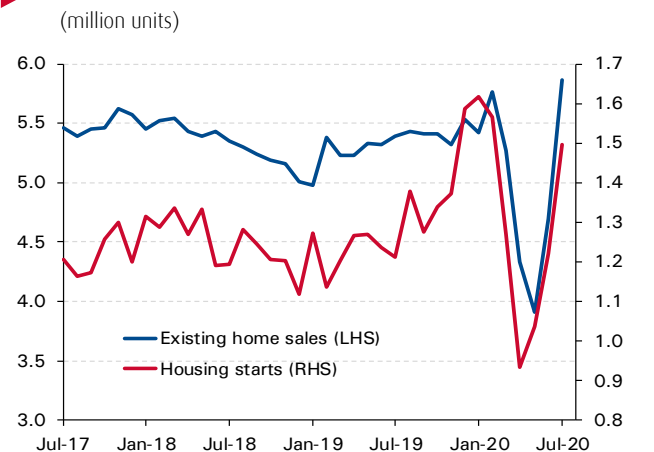
Chart 7: Retail sales



Retail sales ex autos rose further by 1.9% y/y in July following a 0.6% pickup in June, though the rebound may be tapering off.

Source: Refinitiv

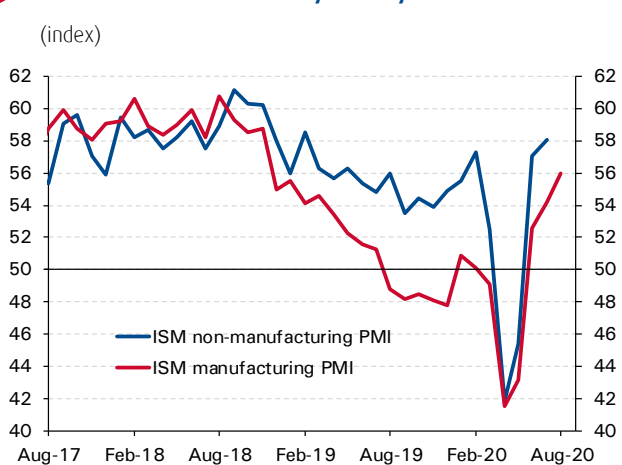
Chart 8: Existing home sales and housing starts



Existing home sales rose at a record pace of 25% m/m to the highest level (5.85mn) since 2006, helped by low interest rates.

Source: Refinitiv

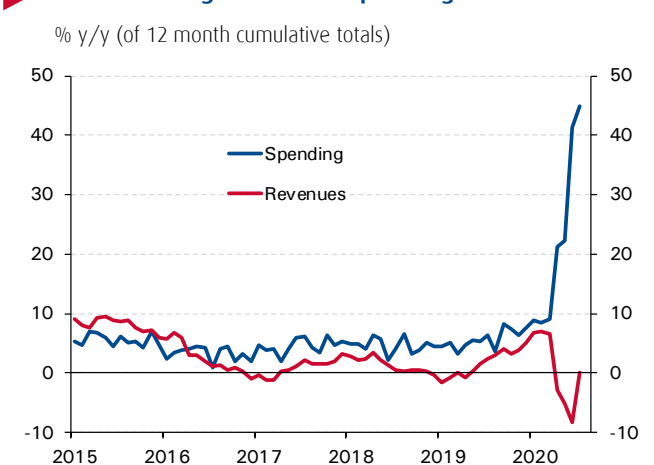
Chart 9: Business activity surveys



The ISM activity indices expanded at the fastest pace in more than a year, as employment improved and new orders rose.

Source: Refinitiv

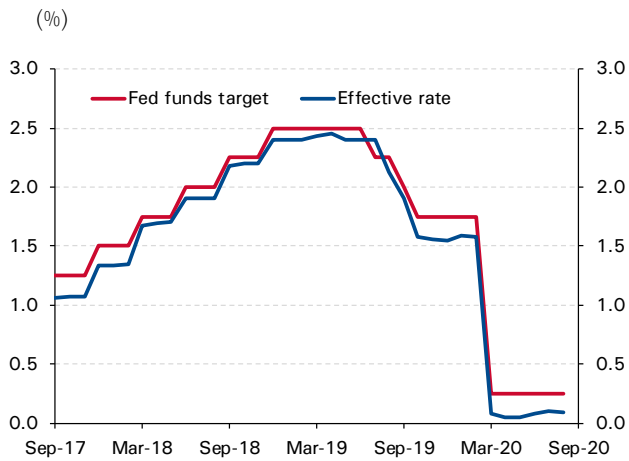
Chart 10: US government spending and revenues



The fiscal deficit is expected to widen to \$3.8 trillion or 18% of GDP in 2020 on the negative impact of the pandemic.

Source: Refinitiv

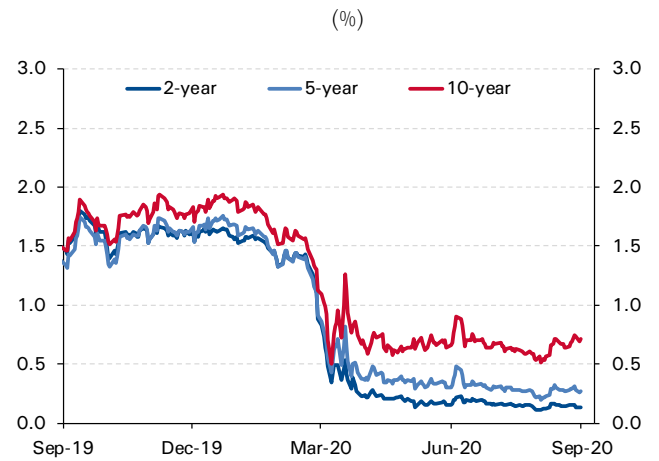
▶ **Chart 11: Policy interest rates**



The Fed maintained its policy rate at 0-0.25% though adopted a flexible 2% inflation target, implying that rates may remain low for some time.

Source: Refinitiv

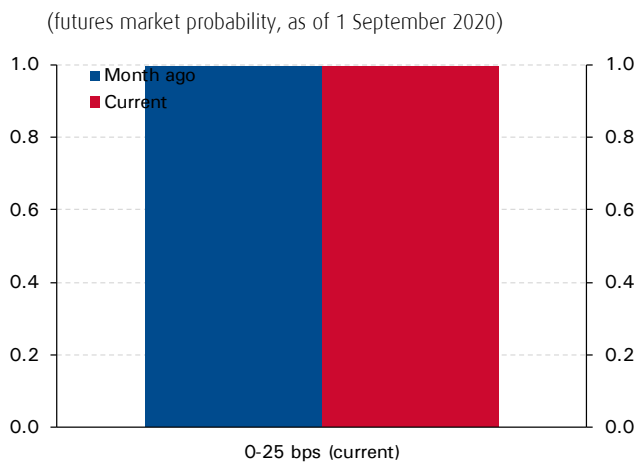
▶ **Chart 12: Government bond yields**



The US 10-year treasury yield picked up notably in late August to 0.72% (Sept 2) following the Fed's announcement of a flexible inflation target.

Source: Refinitiv

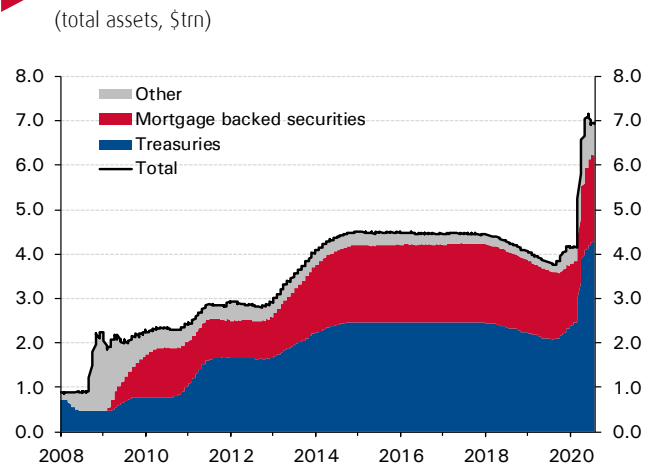
▶ **Chart 13: Fed policy action outlook for 2020**



Futures markets probabilities point to no further fed policy rate action in 2020 with absolute certainty (100%).

Source: Refinitiv

▶ **Chart 14: Fed balance sheet size and composition**



Federal reserve assets have increased sharply in recent months, reaching \$7 trillion in July on massive stimulus measures.

Source: Refinitiv

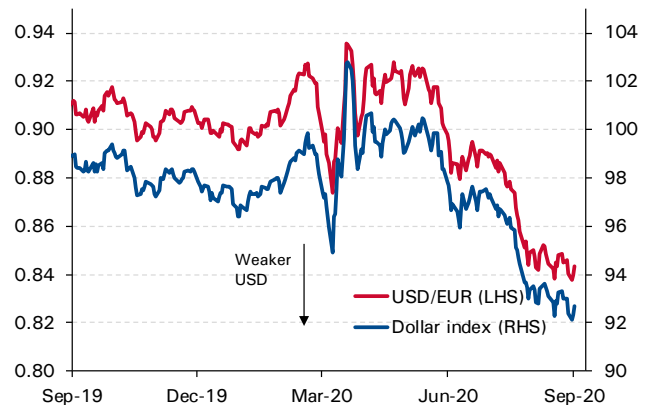
▶ **Chart 15: Stock market**



The S&P500 reached new highs in August on continued positive investor sentiment and economic recovery optimism.

Source: Refinitiv

▶ **Chart 16: Exchange rates**



The USD dropped sharply in August on an appreciating euro and reduced safe-haven flows amid improved sentiment.

Source: Refinitiv

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