

# Chartbook

NBK Economic Research Department | 24 March 2022

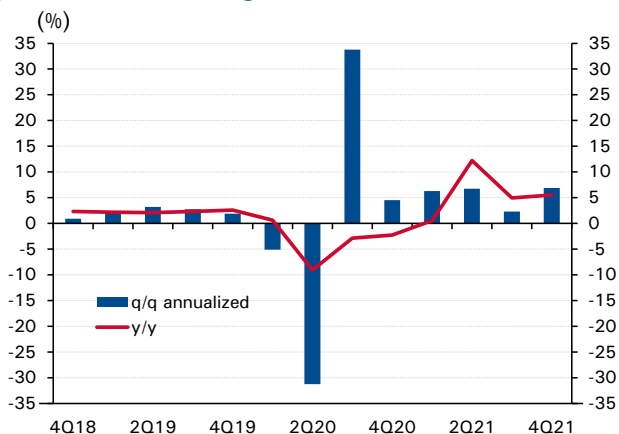
USA

## Fed begins aggressive tightening cycle, ends QE amid rampant inflation and higher employment

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- 4Q21 annualized growth was revised up to 7% from 6.9% in the prior estimate, recording 5.6% y/y for 2021.
- Unemployment edged down to a pandemic low of 3.8% in February, below expectations, from 4% in January.
- Inflation surged to a 40-year high of 7.9% in February, and the Ukraine war will add to pre-existing price pressures.
- Retail sales growth (ex-autos) rose to 17.7% y/y in February from 14.3% y/y in January on robust spending.
- The ISM manufacturing index rose to 58.6 in February marking the 21<sup>st</sup> consecutive month of expansion.
- The Fed as expected raised its policy rate by 0.25 bps in March, the first in a series of planned rate hikes.
- The 10-year UST yield surged to a near 3-year high of 2.38% on soaring inflation and Fed tightening prospects.
- The S&P500 was volatile in March amid Russia-Ukraine war uncertainty, high inflation and a hawkish Fed.

### Chart 1: Real GDP growth



4Q21 annualized growth was revised up to 7% from 6.9% in the provisional estimate, recording 5.6% y/y for 2021.

Source: Refinitiv

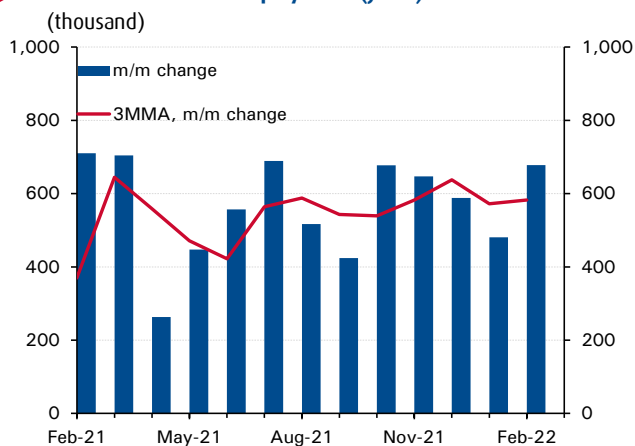
### Chart 2: Unemployment rate



The unemployment rate edged down to a pandemic low of 3.8% in February, below expectations, from 4% in January.

Source: Refinitiv

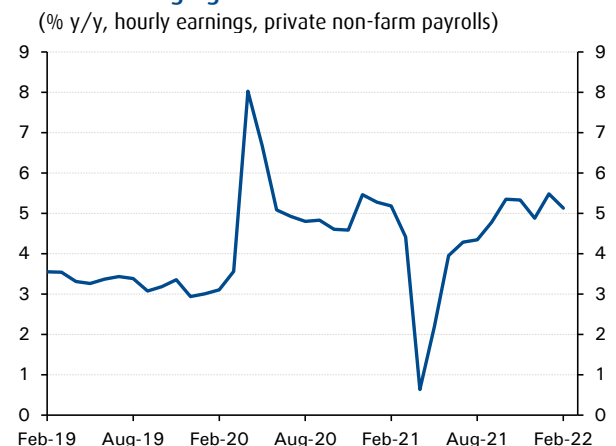
### Chart 3: Non-farm payrolls (jobs)



Non-farm jobs rose by 678k in February, a 7-month high and much more than expected (400k) led by leisure and hospitality.

Source: Refinitiv

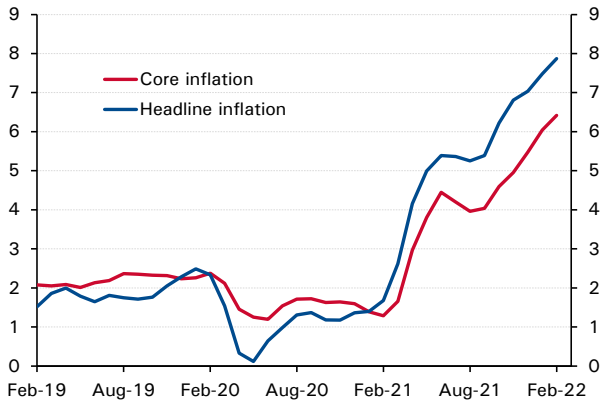
### Chart 4: Wage growth



Wage growth eased to a still-elevated 5.1% y/y in February from 5.5% in January amid strong hiring.

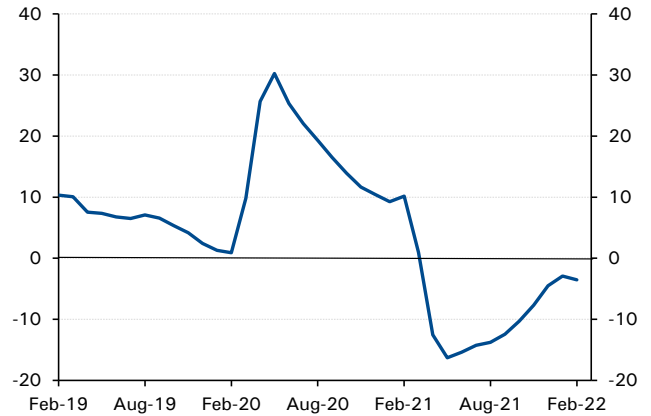
Source: Refinitiv

**Chart 5: Consumer price inflation**  
(% y/y, CPI-U: All items)



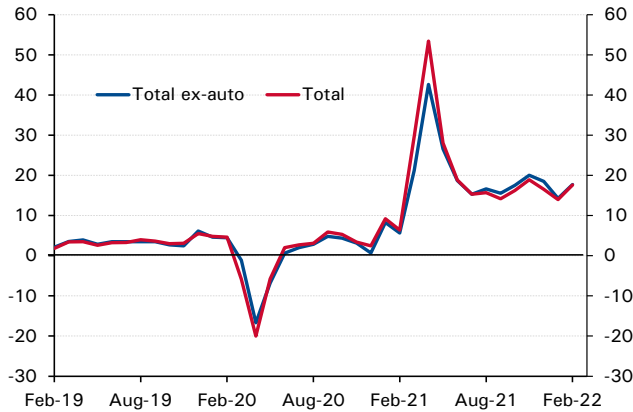
Inflation surged to a 40-year high of 7.9% in February, and seen accelerating due to the Ukraine war effect on commodity prices.  
Source: Refinitiv

**Chart 6: Commercial and industrial loans**  
(% y/y)



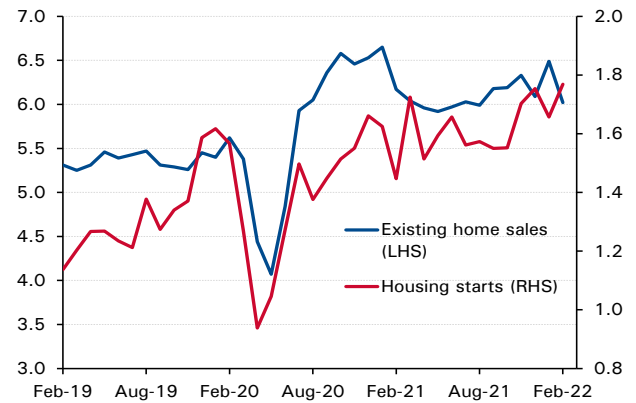
Annual growth in C&I loans growth contracted by a steeper -3.5% y/y in February, after 8 straight months of softer declines.  
Source: Refinitiv

**Chart 7: Retail sales**  
(% y/y)



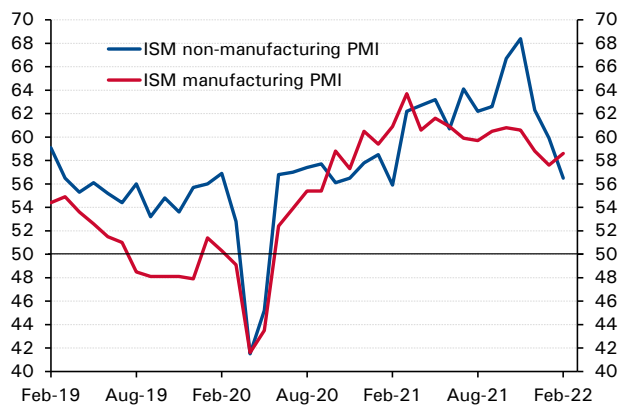
Retail sales growth (ex-autos) rose to a solid 17.7% y/y in February from 14.3% y/y in January on robust spending.  
Source: Refinitiv

**Chart 8: Existing home sales and housing starts**  
(million units)



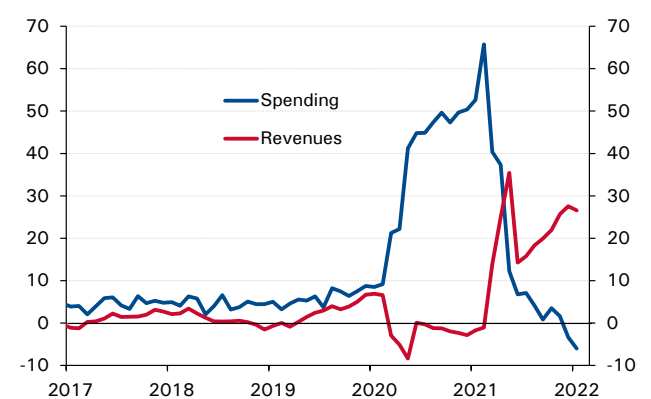
Existing home sales fell 7.2% m/m to a 6-month low of 6 million units curbed by rising mortgage rates, elevated prices.  
Source: Refinitiv

**Chart 9: Business activity surveys**  
(index)



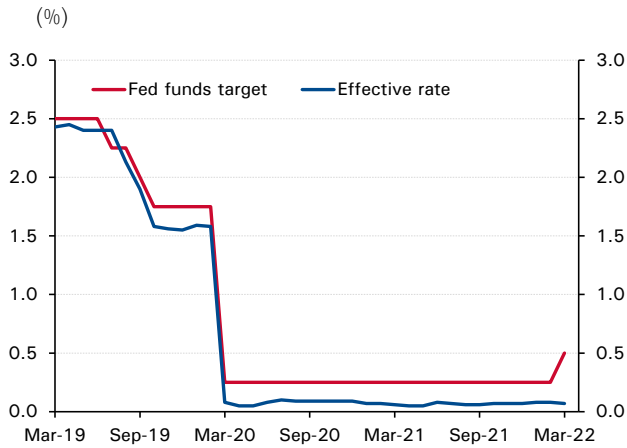
The ISM manufacturing index rose to 58.6 in February from 57.6 in January on continued growth in new orders and production.  
Source: Refinitiv

**Chart 10: US government spending and revenues**  
(% y/y, 12-month cumulative total)



The 12-month fiscal deficit eased further to \$2.2trn in February on higher revenues, lower spending; should narrow to \$1.2trn in FY22/23.  
Source: Refinitiv

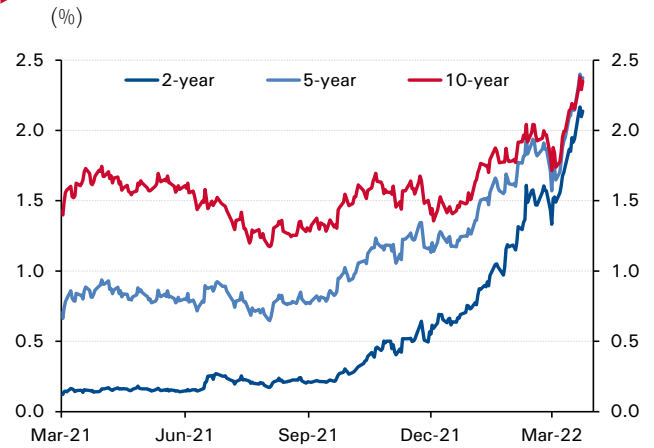
▶ **Chart 11: Policy interest rates**



The Fed as expected raised its policy rate by 25 bps to the range of 0.25-0.50%, the first in a series of planned rate hikes.

Source: Refinitiv

▶ **Chart 12: Government bond yields**

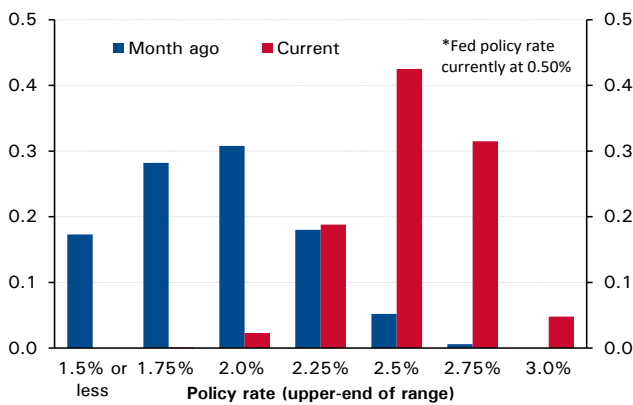


The 10-year treasury yield surged to a near 3-year high of 2.38% (March 22) on soaring inflation and an aggressively hawkish Fed.

Source: Refinitiv

▶ **Chart 13: Fed policy action outlook for Dec. 2022**

(futures market probability, as of 22 March 2022)

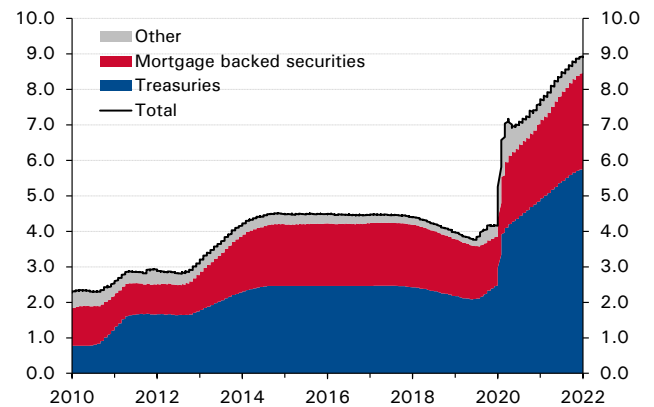


Futures market probabilities of the policy rate reaching 2.5% or more in 2022 have surged to 78% versus 6% one month prior.

Source: CME Group

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

(total assets, \$ trillion)



Federal Reserve assets held steady at \$8.9 trillion as of Mid-March as QE tapering drew to a close.

Source: Refinitiv

▶ **Chart 15: Stock market**

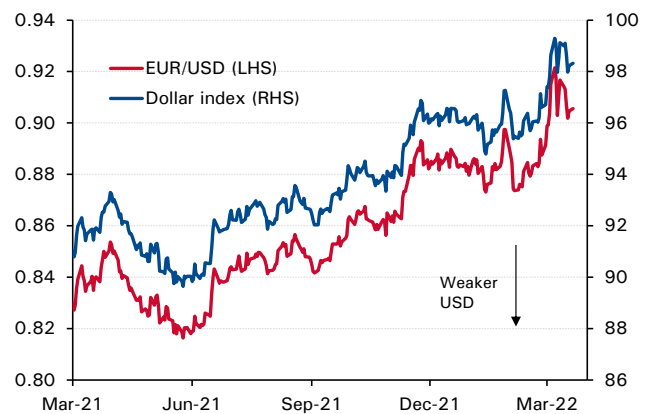
(S&P 500)



The S&P500 was increasingly volatile in March amid Russia-Ukraine war uncertainty, higher inflation and a hawkish Fed.

Source: Refinitiv

▶ **Chart 16: Exchange rates**



The USD index strengthened in March as the Fed raised its interest rate and adopted an aggressively hawkish stance.

Source: Refinitiv

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