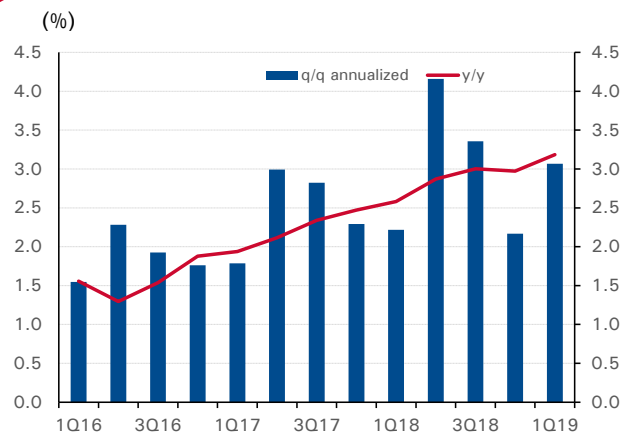


Recent data suggests mild slowdown in US economy; chances of rate cut rise

- Annualized GDP growth in 1Q was revised down to 3.1% from 3.2% on lower private and fixed investment.
- Only 75,000 non-farm jobs were added in May, well below expectations, while wage growth slowed to 3.1%.
- Core and headline inflation were revised up to 2.1% and 2% in April on higher energy, shelter, vehicle prices.
- Manufacturing activity continued to drop in May as output growth eased and new orders declined.
- Interest rate expectations are now heavily skewed towards one or more rate cuts this year.
- 10-year treasury yields dropped 35 bps month on month to 2.1% reflecting weaker growth expectations.

▶ **Chart 1: Real GDP growth**



Annualized GDP growth in 1Q was revised down to 3.1% from 3.2% on lower private and fixed investment estimates.

Source: U.S. Bureau of Economic Analysis

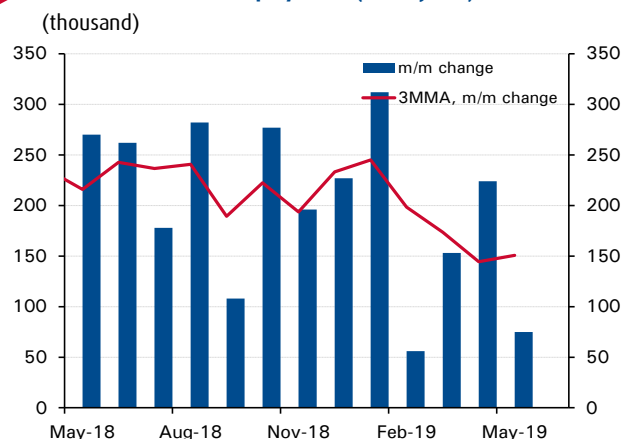
▶ **Chart 2: Unemployment rate**



The US unemployment rate stood at a 49-year low of 3.6% in May, unchanged from April and matching market expectations.

Source: U.S. Bureau of Labor Statistics

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



Non-farm payrolls rose 75,000 in May, well below expectations, while April payrolls were revised down to 224,000.

Source: U.S. Bureau of Labor Statistics

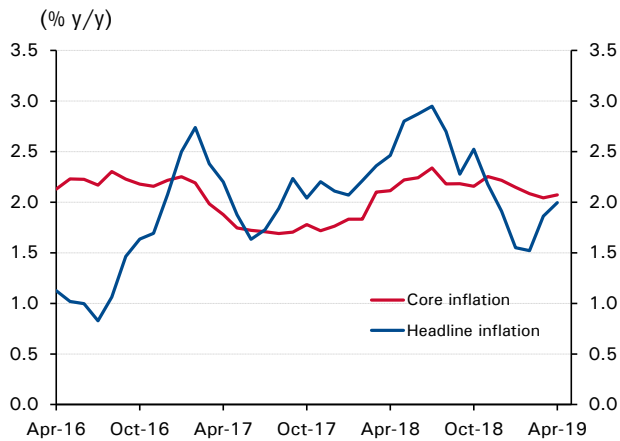
▶ **Chart 4: Wage growth**



Wage growth decelerated to 3.1% in May from 3.2% in April in a sign that the economy may be slowing down.

Source: U.S. Bureau of Labor Statistics

Chart 5: Consumer price index inflation



Core and headline inflation were revised up to 2.1% and 2% in April, on higher energy, shelter, education, and vehicle prices.

Source: U.S. Bureau of Labor Statistics

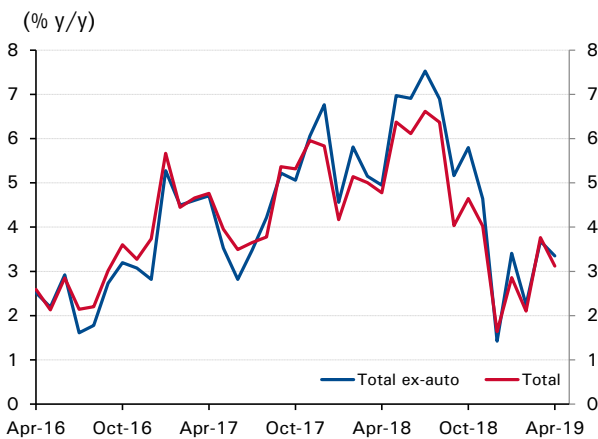
Chart 6: Commercial and industrial loans



C&I loans growth declined sharply to 7.6% y/y in April from a 3-year high of 10% in March on slower business activity.

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

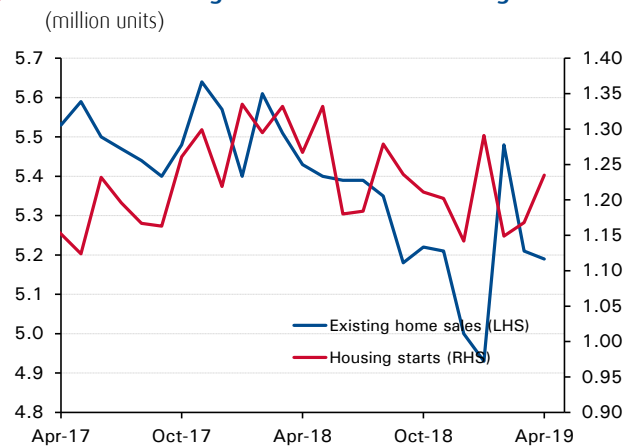
Chart 7: Retail sales



Retail sales growth declined to 3.1% in April from 3.8% in March amid signs that consumer demand may be slowing.

Source: U.S. Census Bureau

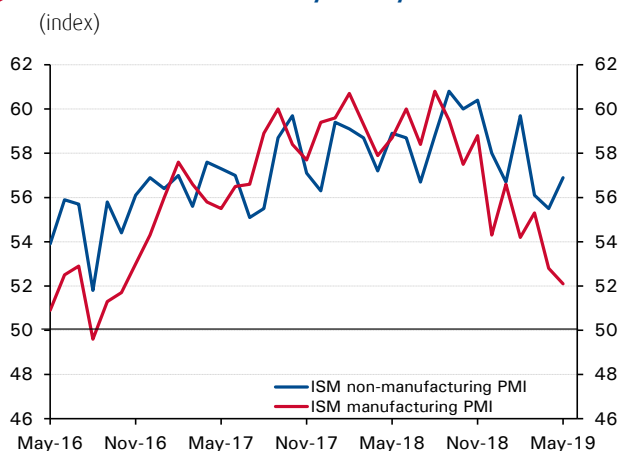
Chart 8: Existing home sales and housing starts



Housing starts rose 5.7% in April, above expectations, as Midwestern flood woes from March subsided.

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

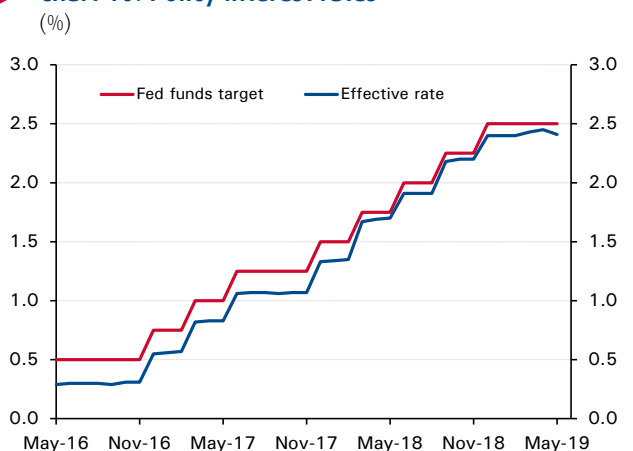
Chart 9: Business activity surveys



Manufacturing activity continued to drop in May as output growth eased and new orders declined.

Source: Institute for Supply Management

Chart 10: Policy interest rates

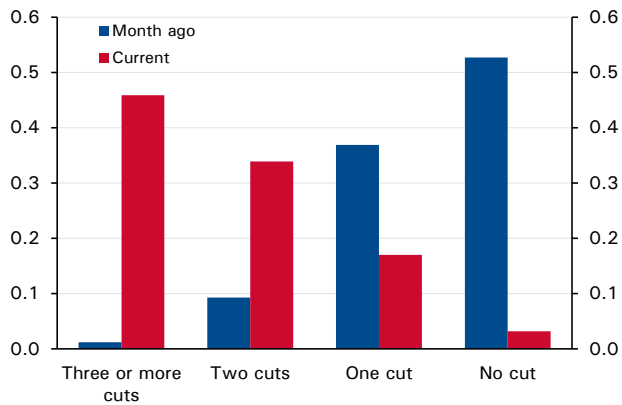


The Federal Reserve left interest rates on hold in May at 2.25-2.50% but recently signalled a readiness to cut rates if need be.

Source: Thomson Reuters Eikon

Chart 11: Fed rate hike outlook for 2019

(futures market probability, as of 3rd of June 2019)

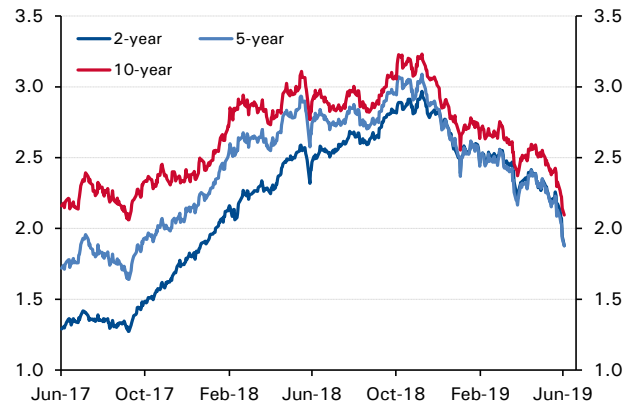


US interest rate expectations are now heavily skewed towards one or more rate cuts this year as growth and trade worries intensify.

Source: CME Group

Chart 12: Government bond yields

(%)



10-year treasury yields dropped 35 bps month on month to 2.1% as of June 7 reflecting weaker growth and rate cut expectations.

Source: Thomson Reuters Eikon

Chart 13: Stock market

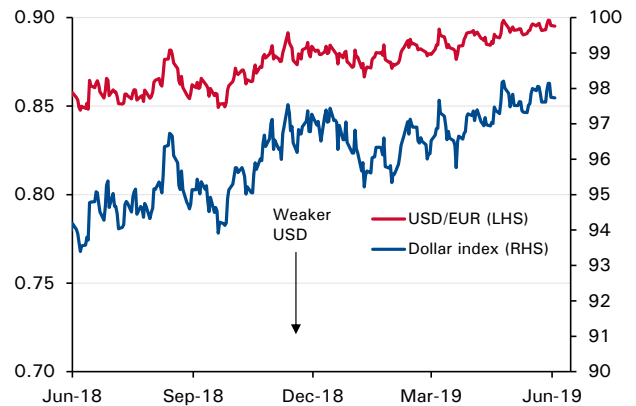
(S&P 500)



Stock indices declined considerably in May on rising trade tensions but have since rebounded following dovish Federal Reserve signals.

Source: Thomson Reuters Eikon

Chart 14: Exchange rates



The greenback lost relative strength in May and early June, affected by weaker payrolls, trade tensions and Fed dovishness.

Source: Thomson Reuters Eikon

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