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
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

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

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

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

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

Source: Institute for Supply Management
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

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

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

Source: Thomson Reuters Eikon

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

Source: Thomson Reuters Eikon
Head Office

Kuwait
National Bank of Kuwait S.A.P.
Abdullah Al-Ameen Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043 NBK
www.nbk.com

International Network

Bahrain
National Bank of Kuwait S.A.P.
Zain Branch
Zain Tower, Building 401, Road 2086
Seef Area 428, P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait S.A.P.
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait S.A.P.
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Cayan Plaza
P.O. Box 9293, Dubai, U.A.E.
Tel: +971 4 316 1600
Fax: +971 4 388 8588

National Bank of Kuwait S.A.P.
Abu Dhabi Branch
Sheikh Rashid Bin Saeed Al Maktoum, (Old Airport Road)
P.O. Box 11356, Abu Dhabi, U.A.E.
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait S.A.P.
Jeddah Branch
Al Khaleel District, Al Maktab Tower, Jeddah
P.O. Box 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan
National Bank of Kuwait S.A.P.
Ammann Branch
Sharaf Abdul Hamid Sharaf St
P.O. Box 91429, Shmeisani,
Ammann 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait (Lebanon) S.A.
BAC Building, Justinien Street, Sunayeh
P.O. Box 115727, Rod El Fard
Beirut 1170 2200, Lebanon
Tel: +961 1 759970
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 102
Sadoun Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
Fax: +964 1 7180406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26139378

United States of America
National Bank of Kuwait S.A.P.
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait (International) Plc
Head Office
13 George Street
London W1I 3JL
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait (International) Plc
Postman Square Branch
7 Postman Square
London W1H 6HA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7466 3077

France
National Bank of Kuwait (International) Pte.
Paris Branch
9 Avenue des Champs Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait S.A.P.
Singapore Branch
9 Raffles Place #44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait S.A.P.
Shanghai Office
Suite 1803, 18th Floor, Asia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1892
Fax: +86 21 5047 1011

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