Fed cuts rates but core inflation hits 13-month high amid good consumer sentiment

- The unemployment rate was unchanged in August at 3.7%, in line with market expectations.
- Non-farm payrolls rose by 130,000 in August, below market expectations, from a revised 159,000 in July.
- Core inflation rose to a 13-month high of 2.4% in August on higher transport, medical care prices.
- Manufacturing activity in August saw the first month of contraction since August 2016.
- Futures market probabilities point to a 67% chance of at least one further rate cut this year.
- 10-year treasury yields dropped to a low of 1.5% in August before rebounding to 1.7% in September.
- Stocks gained traction and volatility eased after a turbulent August, but markets remains laden with uncertainty.

Chart 1: Real GDP growth

Annualized GDP growth in 2Q was revised down to 2.0% from a preliminary estimate of 2.1%, following 3.1% growth in Q1.

Source: Refinitiv

Chart 2: Unemployment rate

The unemployment rate was unchanged in August at 3.7%, in line with market expectations.

Source: Refinitiv

Chart 3: Non-farm payrolls (new jobs)

Non-farm payrolls rose by 130,000 in August, below market expectations, from a downwardly revised 159,000 in July.

Source: Refinitiv

Chart 4: Wage growth

Wage growth edged down to 3.2% in August from an upwardly revised 3.3% in June despite a tight labor market.

Source: Refinitiv
Core inflation rose to a 13-month high of 2.4% in August on higher transport, medical care prices, while headline inflation eased to 1.7%.

Source: Refinitiv

C&I loan growth rose to 6.6% after five months of decline, helped by lower borrowing costs.

Source: Refinitiv

Retail sales grew 4.1% y/y in August from an upwardly revised 3.6% in July amid continued good consumer sentiment.

Source: Refinitiv

Housing starts surged 12% m/m to a 12-year high of 1.36 million units in August, likely supported by lower mortgage rates.

Source: Refinitiv

Manufacturing activity saw the first month of contraction (August) since August 2016 on a decline in new orders and employment.

Source: Refinitiv

The Fed as expected cut interest rates by 25 bps to a target range of 1.75-2.00% amid slower global growth and trade risks.

Source: Refinitiv
Markets place a high probability (67%) on one or two further rate cuts this year, while the chance of no further cuts has risen to 33%.

Source: CME Group

Market uncertainty sparked volatility in bond yields; the 10-year hit a 3-year low of 1.5% (August), rebounding to 1.7% in September.

Source: Refinitiv

The S&P500 has regained traction and volatility eased after a turbulent August, but markets remain laden with risk and uncertainty.

Source: Refinitiv

The dollar gained slightly from August on a softer euro and possibly a more neutral forward monetary stance by the Fed.

Source: Refinitiv