Manufacturing activity contracts and retail sales disappoint despite very low unemployment

- The unemployment rate decreased to a 50-year low of 3.5% in September, below market expectations of 3.7%.
- Non-farm payrolls rose by 136,000 in September, less than expected following 168,000 in August.
- Manufacturing activity saw the second consecutive month of contraction in September to the lowest since 2009.
- The futures market probability of one or more additional rate cuts this year has risen to 95%.
- September headline and core inflation were unchanged from August at 1.7% and 2.4%, slightly below consensus.
- The 10-year treasury yield rose 13 bps in the month-to-late October to 1.80% amid softer trade tensions.

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**Chart 1: Real GDP growth**

Annualized GDP growth in 2Q was 2.0%, unrevised from the previous estimate and down from a 3.1% expansion in 1Q19.

Source: Refinitiv

**Chart 2: Unemployment rate**

The unemployment rate decreased to a 50-year low of 3.5% in September, below market expectations of 3.7%.

Source: Refinitiv

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

Nonfarm payrolls in the US rose by 136,000 in September, less than expected, from an upwardly revised 168,000 in August.

Source: Refinitiv

**Chart 4: Wage growth**

Wage growth slowed to 2.9% in September from 3.2% in August despite a tightening labor market.

Source: Refinitiv
Headline and core inflation in September were 1.7% and 2.4%, respectively, unchanged from August and slightly below expectations. 

Source: Refinitiv

C&I loan growth edged down to 5.9% in September from 6.7% in August on a marked slowdown in business activity.

Source: Refinitiv

Retail sales growth eased to 4.1% in September, below market expectations, from a upwardly revised 4.4% in August.

Source: Refinitiv

Housing starts fell 9.4% in September from a upwardly revised 12-year high of 1.39 million units in August. Home sales also fell.

Source: Refinitiv

Manufacturing activity saw the second consecutive month of contraction in September to the lowest level since 2009.

Source: Refinitiv

The current target range is 1.75-2.00% and the Fed is likely to cut rates by 25 bps at the next FOMC meeting on October 30.

Source: Refinitiv
The futures market probability of one or more rate cuts this year has risen to 95%, with the likelihood of no rate cuts falling to only 5%.

Source: CME Group

The S&P500 saw modest gains of 1% MTD in late October amid overall positive corporate earnings and following a fairly volatile September.

Source: Refinitiv

The 10-year treasury yield rose 13 bps in the month-to-late October to 1.80% helped by softer trade tensions.

Source: Refinitiv

The dollar lost strength in October on two recent and further expected Fed rate cuts.

Source: Refinitiv
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