Markets continued to rally in February; slim chance of Fed rate hike in 2019

- January saw robust jobs growth, though unemployment also edged up partly due to higher labor participation.
- Wage growth dropped slightly to 3.2% in January despite solid labor market conditions.
- Retail sales in December fell by 1.2% m/m, the steepest drop since 2009.
- The ISM manufacturing activity index rose in January amid easing trade tensions and higher demand.
- Rate hike expectations are currently skewed towards no rate hikes or even one rate cut in 2019.
- After January’s bounce, stocks continued to gain in February on Fed dovishness and reduced trade concerns.

**Chart 1: Real GDP growth**

GDP figures for 4Q18 due January have been delayed because of the shutdown. Growth may have slowed to 2.5%.

Source: U.S. Bureau of Economic Analysis

**Chart 2: Unemployment rate**

Unemployment unexpectedly rose for the second consecutive month to 4% in January, partly due to higher labor participation.

Source: U.S. Bureau of Labor Statistics

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

Non-farm payrolls surged 304,000 in January, the highest in 11 months and above expectations on gains in several industries.

Source: U.S. Bureau of Labor Statistics

**Chart 4: Wage growth**

Private sector wage growth dropped slightly to 3.2% in January from 3.3% in December, despite solid labor market conditions.

Source: U.S. Bureau of Labor Statistics
Core inflation was unchanged at 2.2% in January. Headline inflation dropped to 1.6% on lower energy costs.

Source: U.S. Bureau of Labor Statistics

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

Commercial and industrial loans growth accelerated to 10.6% in January, amid looser corporate lending requirements over the past year.

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

Retail sales growth declined to a 28-month low of 2.3% y/y in December in the steepest monthly decline (-1.2%) since 2009.

Source: U.S. Census Bureau

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

Home sales declined sharply in December to just under 5 million units; housing starts data was delayed due to govt. shutdown.

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

The manufacturing ISM index picked up to 56.6 in January, above expectations, on reduced trade fears and higher exports.

Source: Institute for Supply Management

Chart 10: Policy interest rates (%)

The Federal Reserve target rate currently stands at 2.25-2.50%, and may remain unchanged through 2019.

Source: Thomson Reuters Eikon
Expectations for future rate hikes have declined sharply, while expectations of no hikes or at least one cut have risen.

Source: CME Group

Bond yields were broadly steady in February amid ongoing uncertainty surrounding global trade and growth.

Source: Thomson Reuters Eikon

After January’s bounce, stocks continued to gain in February on Fed dovishness and reduced trade concerns.

Source: Thomson Reuters Eikon

The US dollar index gained modestly in February following the end of the govt. shutdown, after dipping slightly in January.

Source: Thomson Reuters Eikon