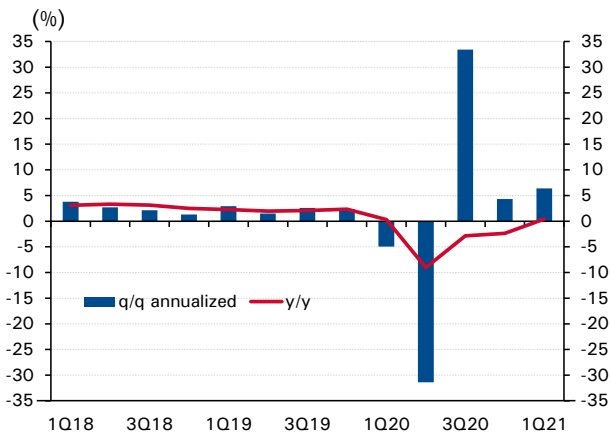


Employment and activity data point to continued economic recovery but inflation worries mount

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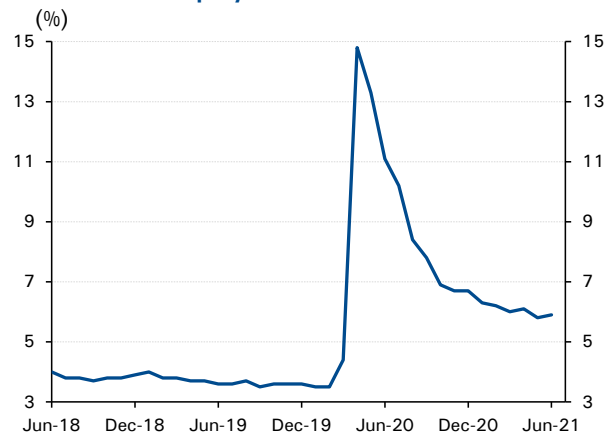
- Unemployment edged up to 5.9% in June, little changed from a 12-month low of 5.8% in May.
- The economy added 850K jobs in June, the fastest pace in 10 months, mostly in leisure and hospitality.
- Wage growth rose further to 3.6% in June on reported labor shortages and base effects.
- Inflation continued to rise, reaching 5.4% in June, the highest since 2008 on supply constraints and stronger demand.
- The 10-year yield fell to a multi-month low of 1.20% (July 19), weighed down by renewed Covid uncertainty.
- The USD index rose in July, on expectations of tighter policy ahead but also some safe haven flows.

▶ Chart 1: Real GDP growth



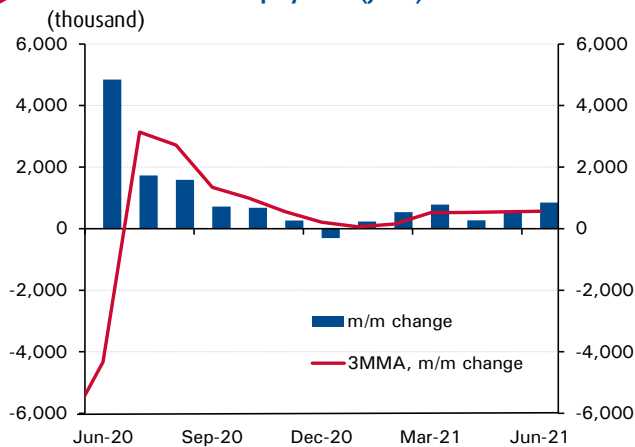
GDP grew by an annualized 6.4% in 1Q21, in line with expectations following a 4.3% expansion in 4Q20.
Source: Refinitiv

▶ Chart 2: Unemployment rate (%)



Unemployment edged up to 5.9% in June, little changed from a 12 month low of 5.8% in May, still above pre-pandemic levels.
Source: Refinitiv

▶ Chart 3: Non-farm payrolls (jobs)



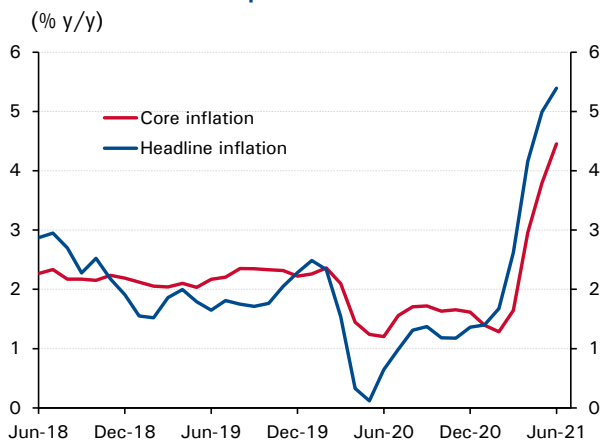
The economy added 850K jobs in June, the fastest pace in 10 months, mostly in leisure/hospitality amid easing restrictions.
Source: Refinitiv

▶ Chart 4: Wage growth



Wage growth rose further to 3.6% in June on reported (stimulus/pandemic-related) labor shortages and base effects.
Source: Refinitiv

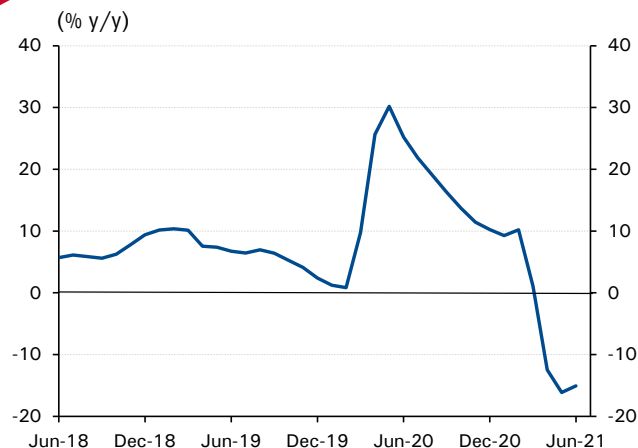
Chart 5: Consumer price inflation



Inflation continued to rise, reaching 5.4% in June, the highest since 2008 on base effects, supply constraints and stronger demand.

Source: Refinitiv

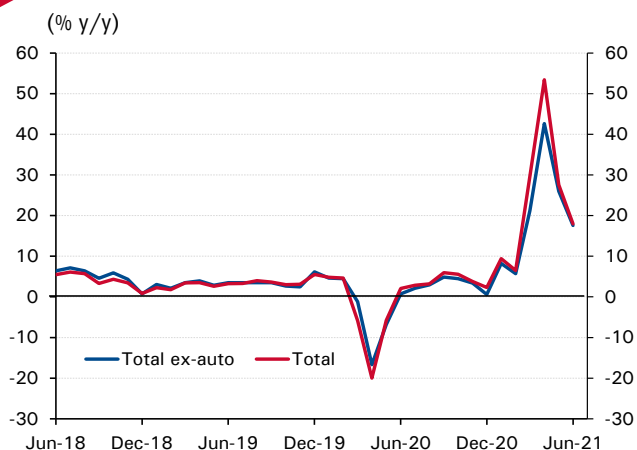
Chart 6: Commercial and industrial loans



C&I loan growth 'improved' to -15.1% in June but remained in contraction on reduced financing needs as the economy recovers.

Source: Refinitiv

Chart 7: Retail sales



Retail sales growth ex-autos fell to 17.6% in June on base effects and as the boost from stimulus and reopening starts to fade.

Source: Refinitiv

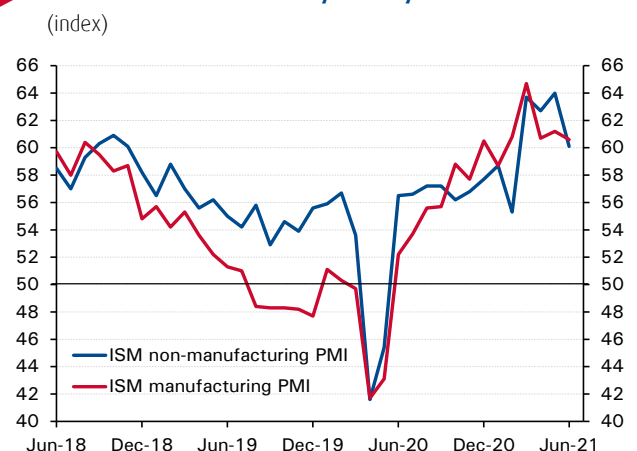
Chart 8: Existing home sales and housing starts



Housing starts surged by 6.3% m/m to 1.64 million in June on strong demand helped by low interest rates, recovery prospects.

Source: Refinitiv

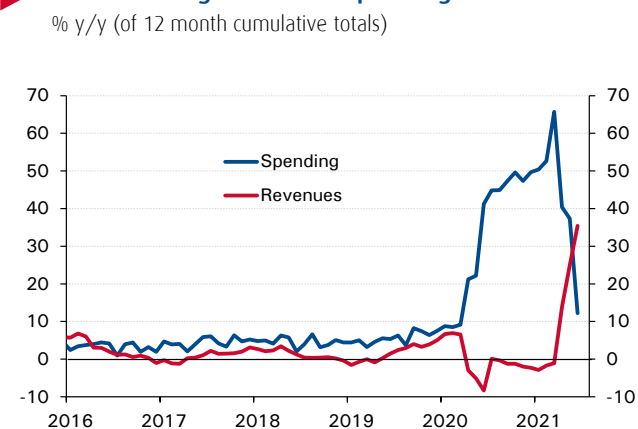
Chart 9: Business activity surveys



The ISM manufacturing index edged down to 60.6 in June, but maintained a strong pace of expansion on increasing demand.

Source: Refinitiv

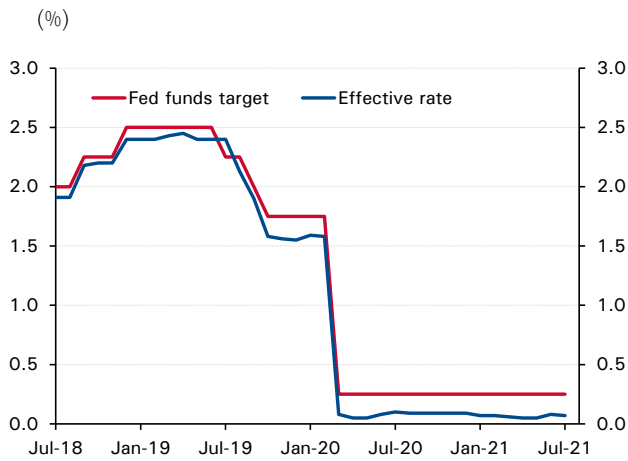
Chart 10: US government spending and revenues



The 12-month fiscal deficit narrowed to \$2.6 trillion in June as higher employment and tax receipts boosted revenues.

Source: Refinitiv

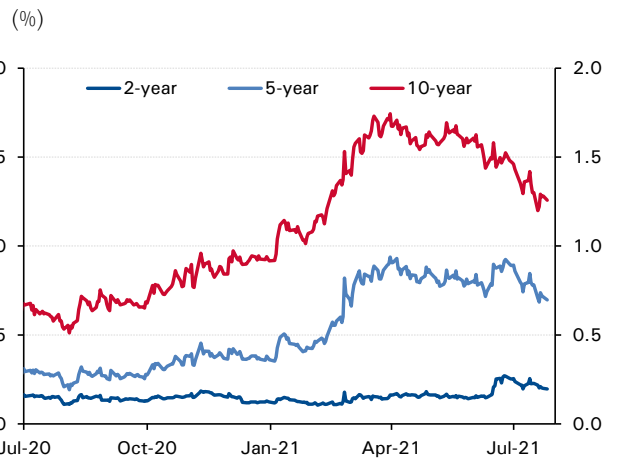
▶ **Chart 11: Policy interest rates**



The Fed kept the policy rate unchanged at a range of 0-0.25% but signaled the possibility of two rate hikes by end-2023.

Source: Refinitiv

▶ **Chart 12: Government bond yields**

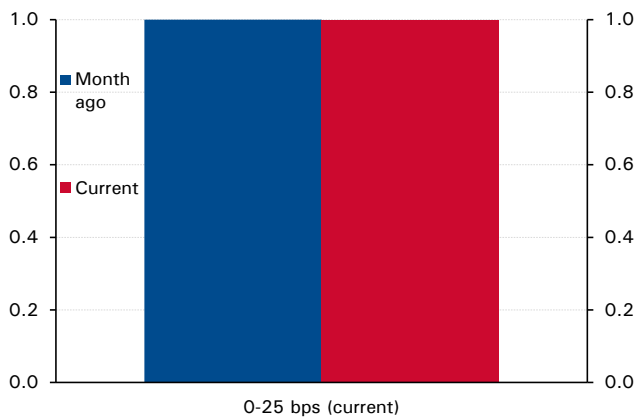


The 10-year yield fell to a multi-month low of 1.20% (July 19), weighed down by renewed Covid uncertainty.

Source: Refinitiv

▶ **Chart 13: Fed policy action outlook for 2021**

(futures market probability, as of 27 July 2021)

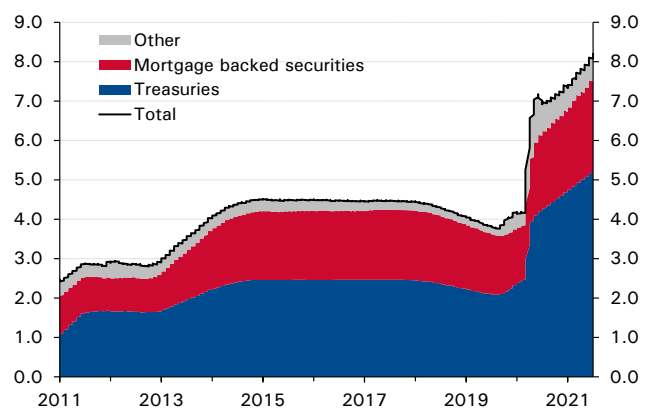


Futures markets probabilities of a rate hike in 2021 remained at zero as the Fed implied that no hike is expected until 2023.

Source: Refinitiv

▶ **Chart 14: Fed balance sheet size and composition**

(total assets, \$trn)



Federal Reserve assets expanded to \$8.2 trillion in July, but may rise more slowly once QE tapering starts (possibly late 2021).

Source: Refinitiv

▶ **Chart 15: Stock market**

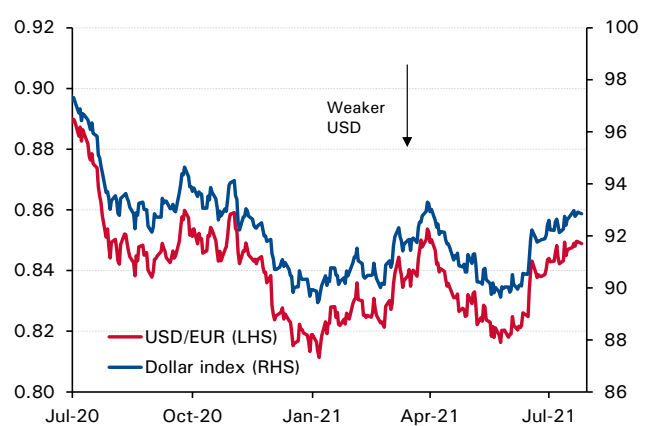
(S&P 500)



The S&P500 set a new record high in July, as strong corporate earnings and a recovering economy bolstered sentiment.

Source: Refinitiv

▶ **Chart 16: Exchange rates**



The USD index rose in July, on expectations of tighter policy ahead but also some safe haven flows.

Source: Refinitiv

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