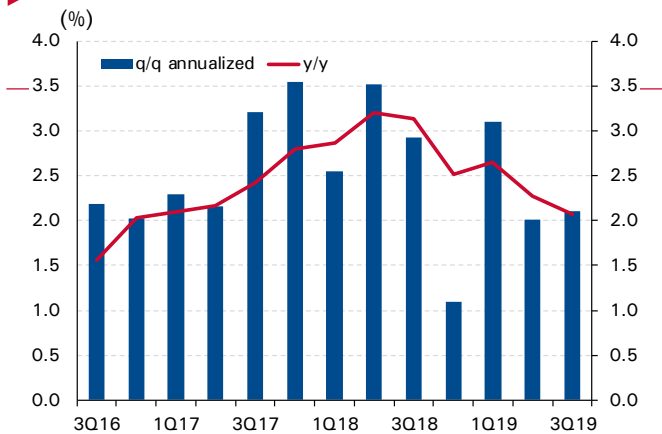


Fed policy expected to remain neutral amid signs of strength in economic data

- Q319 annualized GDP growth was revised up to 2.1% following a 2.0% expansion in Q2.
- The unemployment rate dropped back to 3.5% in November on strong job creation, slightly lower participation.
- Core inflation was steady at 2.3% in November, matching expectations; headline inflation rose to 2.1%.
- C&I loans growth eased to a 20-month low of 4.1% on continued softness in business activity.
- The ISM manufacturing PMI edged down slightly in November, the fourth consecutive month of contraction.
- US stock indices reached record highs in December, boosted by easing trade and economic growth concerns.

▶ Chart 1: Real GDP growth



Q3 annualized GDP growth was revised up to 2.1% (from an initial estimate of 1.9%), following a 2.0% expansion in Q2.

Source: Refinitiv

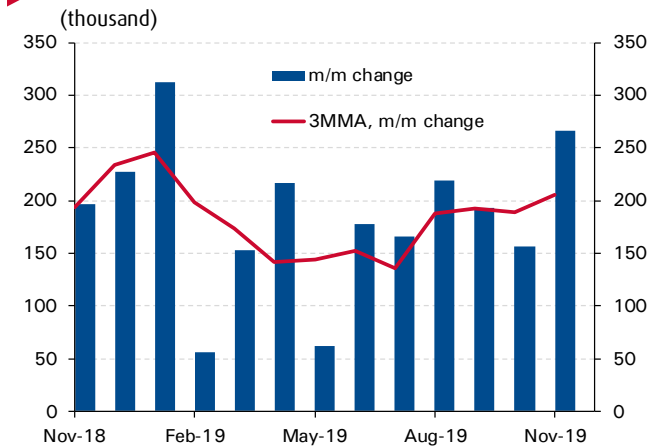
▶ Chart 2: Unemployment rate



The unemployment rate fell back down to 3.5% in Nov (3.6% in Sept.) on strong job creation helped by the end of the GM strike.

Source: Refinitiv

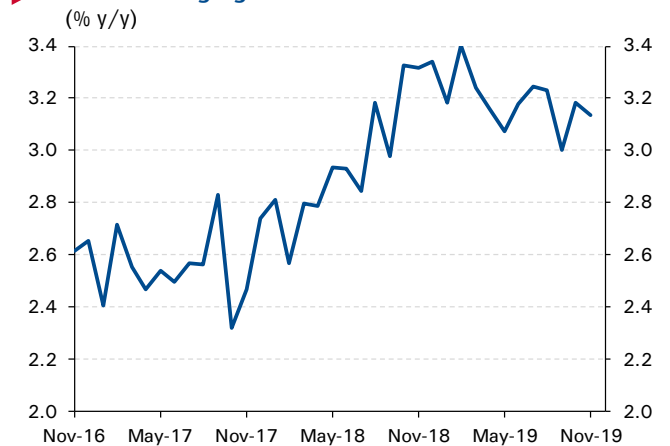
▶ Chart 3: Non-farm payrolls (new jobs)



Non-farm payrolls rose by 266,000 in November, beating market expectations, from an upwardly-revised 156,000 in Oct.

Source: Refinitiv

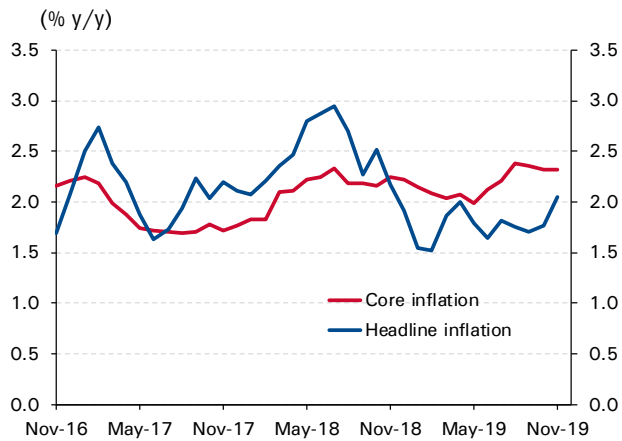
▶ Chart 4: Wage growth



Wage growth edged down to 3.1% in November from 3.2% in Oct., likely affected by a relatively large volume of new jobs.

Source: Refinitiv

Chart 5: Consumer price inflation



Core inflation was steady at 2.3% in November, matching expectations; headline inflation rose to 2.1% (from 1.8% in Oct.).

Source: Refinitiv

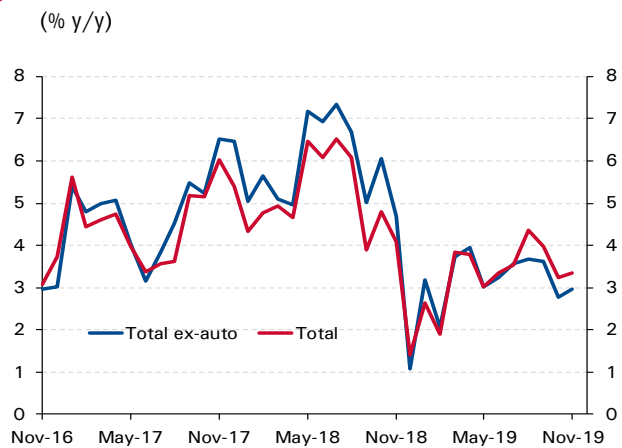
Chart 6: Commercial and industrial loans



C&I loans growth eased for the third consecutive month to a 20-month low of 4.1% on continued softness in business activity.

Source: Refinitiv

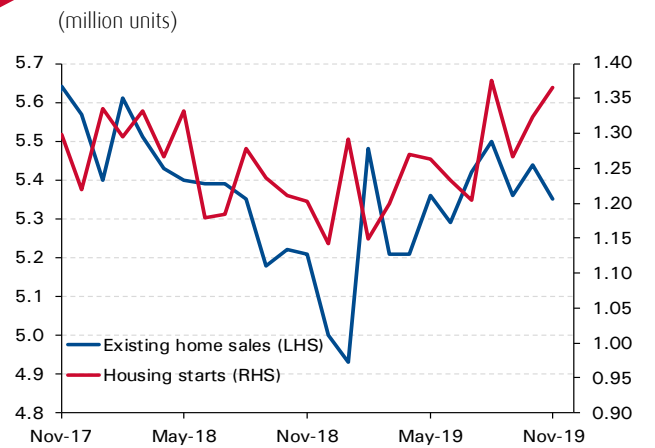
Chart 7: Retail sales



Retail sales grew 3.4% y/y in Nov. from 3.3% in Oct.; growth missed expectations due to lower discretionary spending, though.

Source: Refinitiv

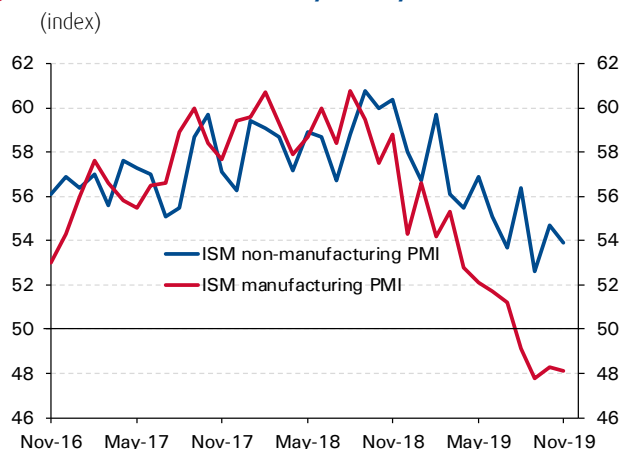
Chart 8: Existing home sales and housing starts



Housing starts rose to 1.37m units (3.2% m/m) on lower mortgage rates; existing home sales fell due to a seller shortage.

Source: Refinitiv

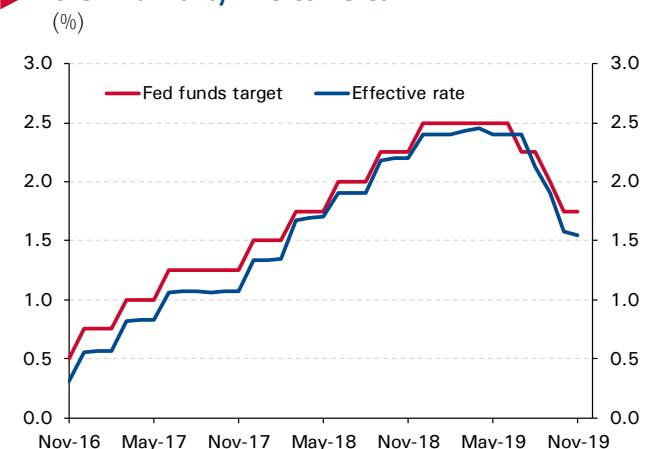
Chart 9: Business activity surveys



The manufacturing activity index edged down slightly in November, marking the fourth consecutive month of contraction.

Source: Refinitiv

Chart 10: Policy interest rates

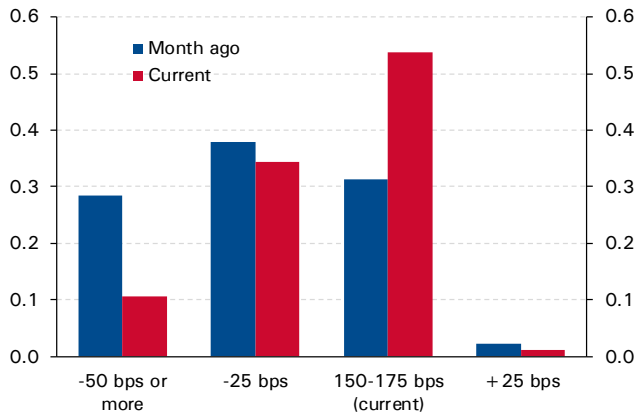


The Fed left its policy rate on hold in the 1.50%-1.75% range, amid relatively positive economic data but higher inflation.

Source: Refinitiv

Chart 11: Fed policy action outlook for 2020

(futures market probability, as of 23 December 2019)



Futures point to a higher probability of no Fed policy actions in 2020 and staying neutral amid improved economic conditions.

Source: CME Group

Chart 12: Government bond yields

(%)



The 10-yr treasury yield rose to 1.91% from 1.71% on reduced uncertainty following the Dec 15 'phase 1' US-China trade deal.

Source: Refinitiv

Chart 13: Stock market

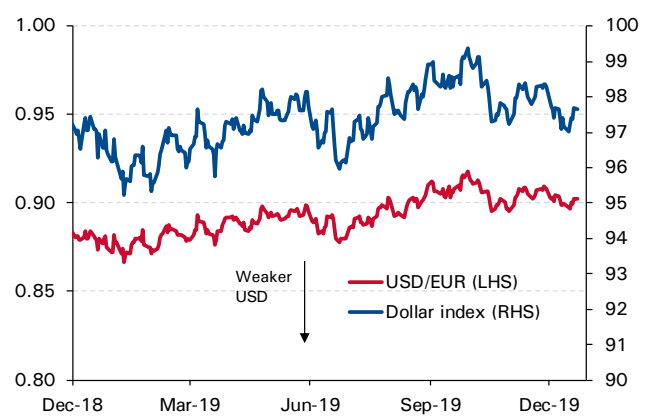
(S&P 500)



Stock indices reached record highs in December, boosted by easing trade and growth concerns and strong investor sentiment.

Source: Refinitiv

Chart 14: Exchange rates



The dollar index dipped earlier in Dec. before rebounding later in the month on trade optimism and a weaker pound Sterling.

Source: Refinitiv

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