Macroeconomy

USA: Economy closed 2017 in good shape, as even inflation ended strong

- At 3.2%, 3Q17 GDP was the strongest in more than two years thanks to increased business spending.
- Unemployment remains at the 17-year low of 4.1% in December.
- Strong retail sales (5.4% y/y) in December and November’s revised figures reflected a solid holiday season.
- Core inflation surprised at 1.8% in December on increased housing costs. Headline inflation eased to 2.1%.
- Both home sales and housing starts surprised in November, each expanding at multi-year record paces.
- The stronger data has markets pricing-in a tighter monetary policy for 2018.
- The 10-year yield broke through 2.5% on global speculation of the pace of monetary tightening.
- The S&P 500 continuously recorded new highs, supported by the future impact of the new corporate tax.

<table>
<thead>
<tr>
<th>Real GDP growth (%)</th>
<th>Unemployment rate (%)</th>
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<tbody>
<tr>
<td><img src="chart1.png" alt="GDP Chart" /></td>
<td><img src="chart2.png" alt="Unemployment Chart" /></td>
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At 3.2% y/y, 3Q17 GDP growth was the strongest in more than two years thanks to increased business spending.

Source: U.S. Bureau of Economic Analysis

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<th>Non-farm payrolls (new jobs) (thousand)</th>
<th>Wage growth (% y/y)</th>
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<td><img src="chart3.png" alt="Payrolls Chart" /></td>
<td><img src="chart4.png" alt="Wage Growth Chart" /></td>
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Non-farm payrolls disappointed in December (148k vs. 190k expected); yet 3-month average (204k) best in over a year.

Source: U.S. Bureau of Labor Statistics

Wage growth surprised at 2.5%, possibly signaling the awaited pick-up in wage pressures due to labor market tightening.

Source: U.S. Bureau of Labor Statistics
December’s core inflation surprised at 1.8% on increased housing costs. Headline inflation eased to 2.1%.

Source: U.S. Bureau of Labor Statistics

December’s strong retail sales (5.4% y/y) and November’s upwardly revised figures reflected a solid holiday season.

Source: U.S. Census Bureau

Manufacturing rose to a strong 59, on a surge in new orders, while non-manufacturing registered a still healthy 55.9

Source: Institute for Supply Management

C&I loan growth jumped up to 1.1% in December on tax reform optimism after dipping below 1% the month prior.

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

Both home sales and housing starts surprised in November, each expanding at multi-year record paces.

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


Source: Thomson Reuters Eikon
Fed rate hike outlook for 2018
(probability, as of 16 January 2018)

The stronger data has markets pricing-in a tighter monetary policy for 2018.

Source: CME Group

Government bond yields

The 10-year yield broke through 2.5% on global speculation of the pace of monetary tightening.

Source: Thomson Reuters Eikon

Stock markets
(S&P 500)

The S&P 500 continuously recorded new highs, supported by the future impact of the new corporate tax.

Source: Thomson Reuters Eikon

Exchange rates

Recently positive global growth is seeing investors leave the dollar for other major and emerging currencies.

Source: Thomson Reuters Eikon