Macro economy

USA: GDP growth healthy in 2Q17; next Fed hike likely to be pushed into 2018

- GDP growth rebounded in 2Q17, meeting expectations at 2.6% q/q annualized.
- Gains in non-farm payrolls are stabilizing at a healthy pace, with the 3-month moving average near 195,000.
- July CPI inflation was as expected at 1.7% y/y, picking up slightly, but still below the 2% target.
- C&I loan growth dipped below 2% in July for the first time since 2011, recording a modest pace of 1.8% y/y.
- Still healthy ISM activity weakened in July, with non-manufacturing at its lowest in almost a year.
- Markets remain optimistic about Mr. Trump’s tax reforms; both the DJI and S&P hit record highs in August.
- After the Fed’s rate hike in June to 1.00-1.25%, the likelihood of the next hike has been pushed into 2018.
- Political challenges, geopolitical tensions, and a less hawkish Fed are weighing on the dollar.

### Real GDP growth

<table>
<thead>
<tr>
<th>Year, Quarter</th>
<th>2Q14</th>
<th>4Q14</th>
<th>2Q15</th>
<th>4Q15</th>
<th>2Q16</th>
<th>4Q16</th>
<th>2Q17</th>
</tr>
</thead>
<tbody>
<tr>
<td>q/q annualized</td>
<td>6.0%</td>
<td>5.0%</td>
<td>4.0%</td>
<td>3.0%</td>
<td>2.0%</td>
<td>1.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>y/y</td>
<td>3.0%</td>
<td>2.0%</td>
<td>1.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

GDP growth rebounded in 2Q17, meeting expectations at 2.6% q/q annualized.

Source: Bureau of Economic Analysis

### Unemployment rate

<table>
<thead>
<tr>
<th>Year, Quarter</th>
<th>Jul-14</th>
<th>Jan-15</th>
<th>Jul-15</th>
<th>Jan-16</th>
<th>Jul-16</th>
<th>Jan-17</th>
<th>Jul-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>(%)</td>
<td>4.0%</td>
<td>3.9%</td>
<td>3.8%</td>
<td>3.7%</td>
<td>3.6%</td>
<td>3.5%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

Unemployment is at record lows, touching 4.3% as of July. The rate has been below 4.5% since March 2017.

Source: Bureau of Labor Statistics

### Non-farm payrolls

<table>
<thead>
<tr>
<th>Year, Quarter</th>
<th>Jul-14</th>
<th>Jan-15</th>
<th>Jul-15</th>
<th>Jan-16</th>
<th>Jul-16</th>
<th>Jan-17</th>
<th>Jul-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thousand</td>
<td>350</td>
<td>330</td>
<td>310</td>
<td>290</td>
<td>270</td>
<td>250</td>
<td>230</td>
</tr>
<tr>
<td>m/m change</td>
<td>50</td>
<td>40</td>
<td>30</td>
<td>20</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3MMA, m/m change</td>
<td>250</td>
<td>230</td>
<td>210</td>
<td>190</td>
<td>170</td>
<td>150</td>
<td>130</td>
</tr>
</tbody>
</table>

Increases in non-farm payrolls are stabilizing at a healthy pace, with the 3-month moving average steady around 195,000.

Source: Bureau of Labor Statistics

### Wage growth

<table>
<thead>
<tr>
<th>Year, Quarter</th>
<th>Jul-14</th>
<th>Jan-15</th>
<th>Jul-15</th>
<th>Jan-16</th>
<th>Jul-16</th>
<th>Jan-17</th>
<th>Jul-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>(%) y/y</td>
<td>3.00</td>
<td>2.75</td>
<td>2.50</td>
<td>2.25</td>
<td>2.00</td>
<td>1.75</td>
<td>1.50</td>
</tr>
</tbody>
</table>

Wage growth is still subdued near 2.5% y/y in July following a few months of easing despite a tightening labor market.

Source: Bureau of Labor Statistics
July’s CPI inflation came in as expected at 1.7% y/y, picking up slightly from the previous month, but still below the 2% target.

Source: Bureau of Labor Statistics

Growth in July’s C&I loans dipped below 2% for the first time since 2011, recording a modest pace of 1.8% y/y.

Source: Federal Reserve

Retail sales growth surprised in July, rebounding to 4.2% y/y following 3 months of relative easing (also revised higher)

Source: U.S. Census Bureau

Housing starts rebounded more than expected in June, adding 1.22 million, after declining for three straight months.

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

Still healthy ISM manufacturing and non-manufacturing activity weakened in July, with the latter at its lowest in almost a year.

Source: Institute for Supply Management, Federal Reserve

The Fed hiked its target policy rate in June to 1.00-1.25%. Next hike expected with less than 50% certainty in December.

Source: Thomson Reuters Eikon
Fed unwinding, modest inflation, and decent consumption data are dampening rate hike expectations.

Fed rate hike outlook
(probability, as of 11 August 2017)

Government bond yields
(\%)

Stock markets
(S&P 500)

Exchange rates

The yield curve flattened following the Fed’s three rate hikes and fading expectations of fiscally-supported growth.

Source: CME Group

Markets remain optimistic about Mr. Trump’s market friendly reforms, with both the DJI and S&P hitting new highs in August.

Source: Thomson Reuters Eikon

Political challenges at the White House, geopolitical tensions, and a less hawkish Fed all weighed on the dollar.

Source: Thomson Reuters Eikon
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