Macroeconomy

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

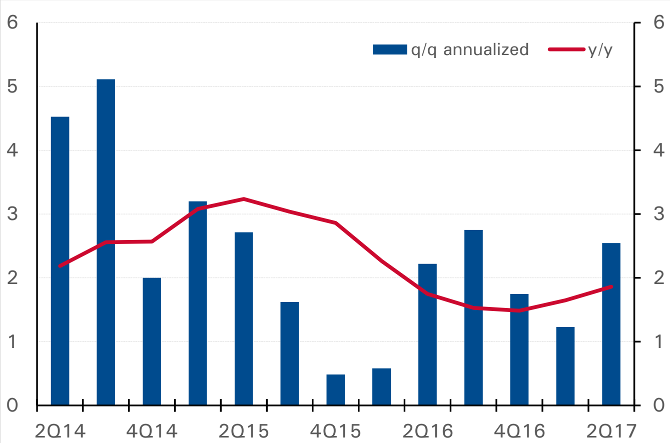
> Elias Bikhazi
Group Chief Economist
+965 2259 5364, eliasb@nbk.com

> Chaker El Mostafa
Economist
+965 2259 5356, chakermostafa@nbk.com

- 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

(%)



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

Source: Bureau of Economic Analysis

Unemployment rate

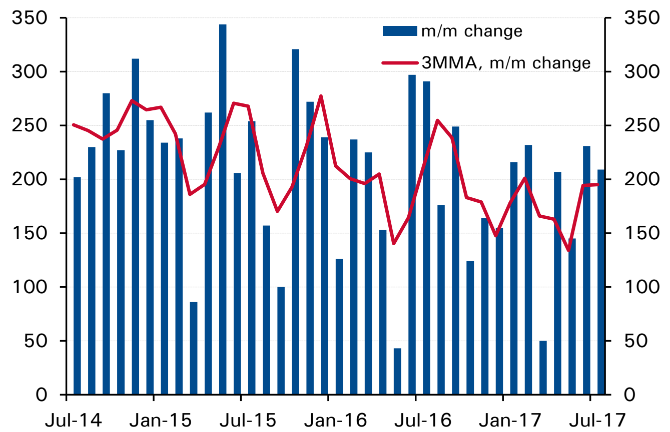
(%)

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

(thousand)

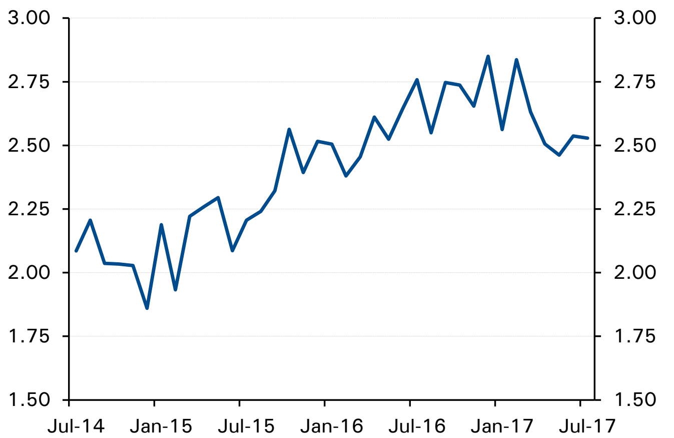


Increases in non-farm payrolls are stabilizing at a healthy pace, with the 3-month moving average steady around 195,000.

Source: Bureau of Labor Statistics

Wage growth

(% y/y)

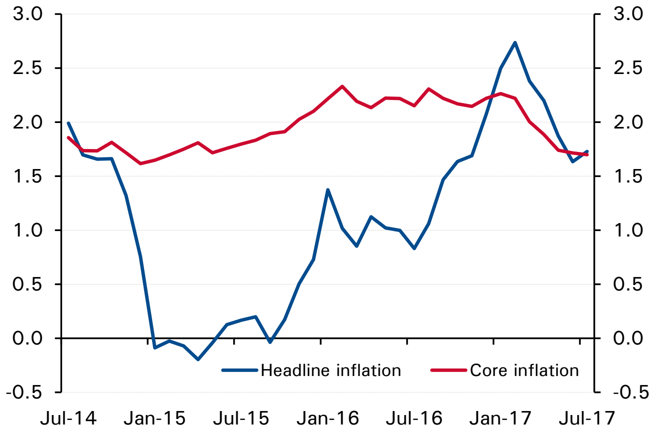


Wage growth is still subdued near 2.5% y/y in July following a few months of easing despite a tightening labor market.

Source: Bureau of Labor Statistics

Consumer price inflation

(% y/y)



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

Commercial and industrial loans

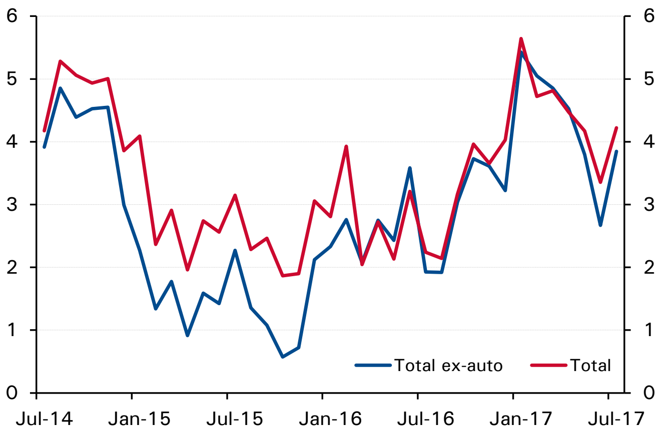
(% y/y)

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

(% y/y)

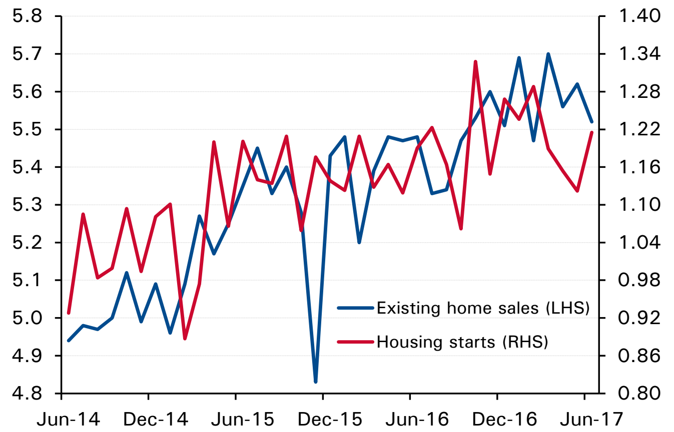


Retail sales growth surprised in July, rebounding to 4.2% y/y following 3 months of relative easing (also revised higher)

Source: U.S. Census Bureau

Existing home sales and housing starts

(million units)

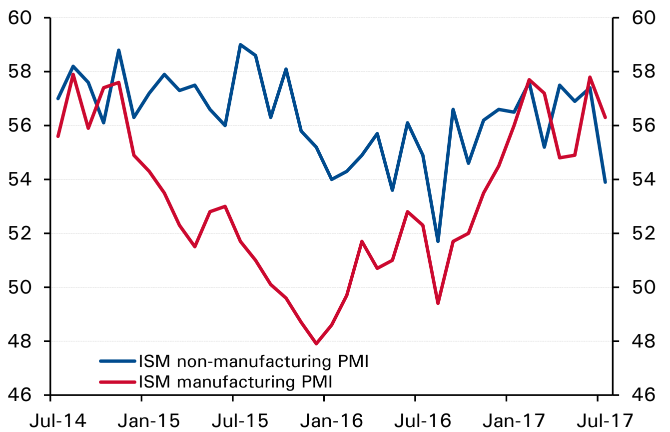


Housing starts rebounded more than expected in June, adding 1.22 million, after declining for three straight months.

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

Business surveys

(index)

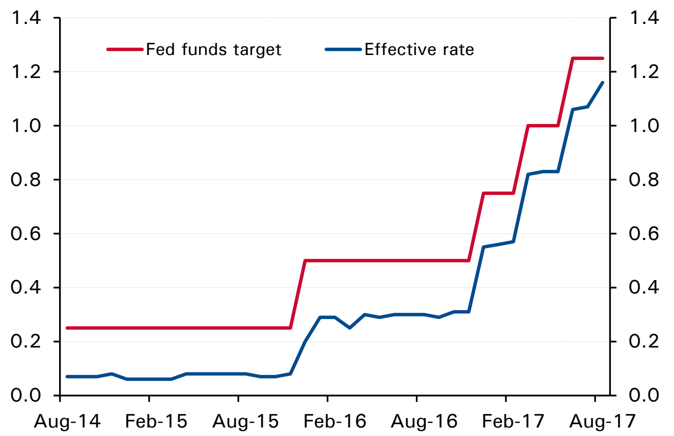


Still healthy ISM manufacturing and non-manufacturing activity weakened in July, with the latter at its lowest in almost a year.

Source: Institute for Supply Management, Federal Reserve

Interest rates

(%)

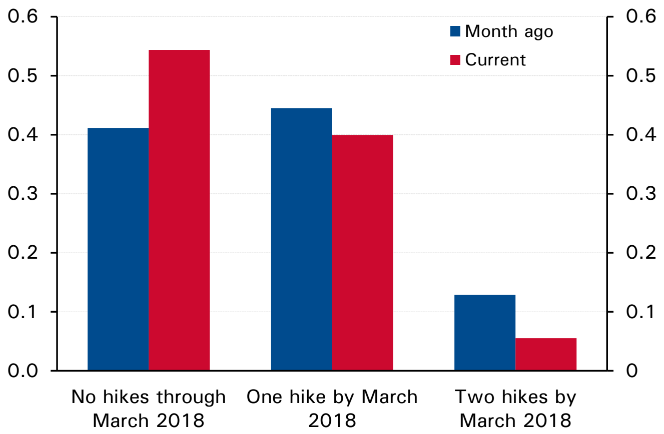


The Fed hiked its target policy rate in June to 1.00-1.25%. Next hike expected with less than 50% certainty in December.

Source: Thomson Reuters Eikon

Fed rate hike outlook

(probability, as of 11 August 2017)

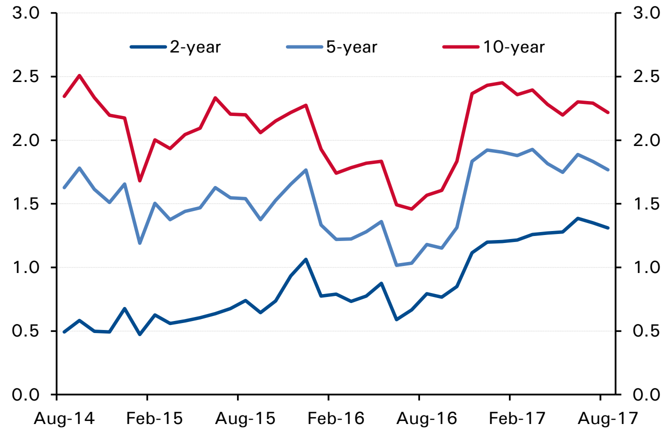


Fed unwinding, modest inflation, and decent consumption data are dampening rate hike expectations.

Source: CME Group

Government bond yields

(%)



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

Source: Thomson Reuters Eikon

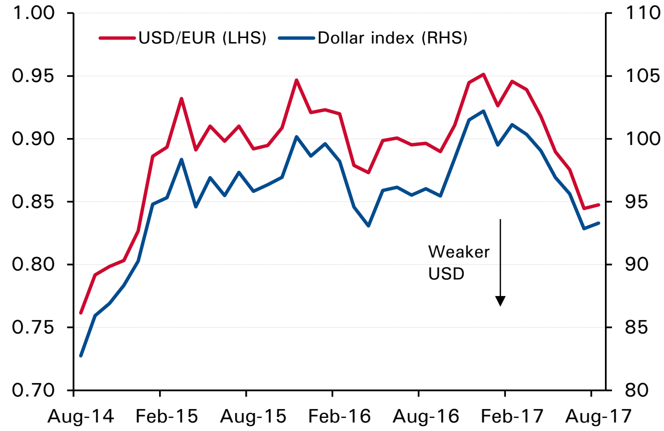
Stock markets

(S&P 500)

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

Exchange rates



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

Source: Thomson Reuters Eikon

Head Office

Kuwait
National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567,Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan
National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America
National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France
National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAKP
Shanghai Representative Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait
NBK Capital
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates
NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey
Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353