2017 Outlook by the Numbers

July 2017

		2013	2014	2015	2016	Most Recent	2017E	Trend
ECONOMY	**Real GDP Growth SAAR (Annual Average)**	**1.70%**	**2.40%**	**2.60%**	**1.60%**	**1.40%***	**2.20%**	
	As has been typical over the last few years, first quarter real GDP rose a less-than-expected 1.40%. Consumer spending increased a mere 1.10% after increasing 3.50% in the prior quarter. Consumer weakness was related to a slowdown in automobile purchases and reduced spending on utilities.							
LABOR MARKET	**Unemployment Rate (Annual Average)**	**7.40%**	**6.20%**	**5.30%**	**4.90%**	**4.40%****	**4.40%**	
	After seeing a decline last month, the unemployment rate moved up a touch in June to 4.40%. The slight increase came as many Americans re-entered the labor force. The labor force participation rate edged higher to 62.80% and an increase in involuntary part-time workers pushed the U6 up to 8.60%.							
	Payroll Employment (Annual Average)	**193k**	**251k**	**229k**	**187k**	**222k****	**165k**	
	The U.S. economy added 222k new non-farm jobs in June, far surpassing economists' expectations. Job growth was led by health care and professional and business services. Wage growth held steady on an annual basis, with average hourly earnings up 2.50% year over year.							
HOUSING	**Housing Starts (Annual Average)**	**925k**	**1,003k**	**1,111k**	**1,166k**	**1,092k*****	**1,250k**	
	Homebuilders slowed the pace of construction for the third straight month in May as U.S. housing starts fell 5.50% to an annual rate of 1,092k units. The pullback is likely due to a shortage of land and labor.							
	Building Permits (Annual Average)	**987k**	**1,053k**	**1,178k**	**1,172k**	**1,168k*****	**1,250k**	
	Building permits for future construction fell 4.90% in May to an annual rate of 1,168k. Job growth, continued rising demand, and low mortgage rates should keep the single-family sector moving forward for 2017.							
	Housing Prices Y/Y (Annual Average)	**13.40%**	**4.30%**	**5.60%**	**5.30%**	**5.70%******	**4.00%**	
	Single-family home prices increased by 5.70% year over year in April, falling short of expectations. Tight supply continues to put upward pressure on home prices, which are now rising at three times the rate of incomes. The housing shortage may continue as homebuilding continues to slow.							

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INFLATION	**PCE Index Y/Y (Annual Average)**	**1.30%**	**1.50%**	**0.30%**	**1.10%**	**1.40%*** **	**1.70%**	
	The U.S. PCE Index fell 0.10% month over month in May after rising 0.20% in April. In the 12-month period ending in May, the PCE price index fell to 1.40%. We expect inflation to increase over the next few years as wage gains accelerate due to the tightening labor market.							
	Core PCE Index Y/Y (Annual Average)	**1.50%**	**1.60%**	**1.40%**	**1.70%**	**1.40%*** **	**2.00%**	
	The core PCE deflator rose 0.10% in May. Despite the increase, the year-on-year rate decelerated to 1.40% due to a downward revision for the April data. We expect an upward trend to core inflation over the next few years.							
	Consumer Price Index (CPI) Y/Y (Annual Average)	**1.50%**	**1.60%**	**0.10%**	**1.30%**	**1.60%** **	**1.90%**	
	Consumer prices rose 1.60% in June, decelerating from May's 1.90% rate. A slower rate of inflation can be partially attributed to a pullback in commodity prices.							
	Core CPI Y/Y (Annual Average)	**1.80%**	**1.70%**	**1.80%**	**2.10%**	**1.70%** **	**2.40%**	
	Excluding volatile food and energy, core consumer prices rose 0.10% in June after a similar gain in April. Over the past twelve months, core prices have risen a modest 1.70%. While rents saw moderate increases, motor vehicle prices fell slightly for the month.							
CONSUMER	**Consumer Spending (PCE) (Annual Average)**	**1.50%**	**2.90%**	**3.20%**	**2.70%**	**2.70%*** **	**2.90%**	
	U.S. consumer spending increased 2.70% year over year in May. Consumer spending will likely remain supported amid the growing optimism surrounding the economy, low unemployment, and rising wages.							
	Consumer Confidence (U of MI) (Annual Average)	**79.2**	**84.1**	**92.9**	**91.8**	**93.1** **	**96.0**	
	Consumer sentiment fell in July to 93.1 as near-term hopes on fiscal policy initiatives are starting to wane. That said, consumer fundamentals remain robust and support our forecast of continued solid consumption growth.							

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INTEREST RATES	**Projected Fed Funds**	**0.25%**	**0.25%**	**0.50%**	**0.75%**	**1.25%****	**1.50%**	
	We believe the Fed will raise the Fed Funds rate one more time in 2017, reaching 1.50% by year-end. Fed rate increases are a positive reflection of the improvement in economic conditions, but at the same time tighten financial conditions.							
	Projected 10 Year Treasury	**3.00%**	**2.17%**	**2.30%**	**2.44%**	**2.30%****	**2.75%**	
	The 10 year Treasury yield will likely be driven by increasing inflation expectations from an improved fiscal policy outlook. We expect the 10 year Treasury yield to trend higher throughout 2017.							
EQUITIES	**S&P 500 Price**	**1,848**	**2,059**	**2,044**	**2,239**	**2,423****	**2,440**	
	The market continues to trade near highs as investors weigh the potential economic and earnings benefit of a more growth-focused fiscal policy from the federal government under the new administration. We believe returns will be in the upper-single to low-double digit range over the next 12 months.							
	S&P 500 Operating EPS Growth	**6.80%**	**6.30%**	**-3.30%**	**0.00%**	**17.79%*******	**15.00%**	
	We believe earnings will grow by 15.0% y/y in 2017 as the drag from the energy sector wanes. There is meaningful upside to our earnings estimates if we get corporate tax reform sometime in 2017, as the S&P 500 effective tax rate is around 28.0% compared to proposals of 15.0-20.0%.							
GLOBAL ECONOMY	**World GDP (Annual Average)**	**3.30%**	**3.40%**	**3.10%**	**3.10%**	**2.90%***	**3.20%**	
	Global economic growth continues to be subdued at around 3.0% given secular challenges, such as a slowing labor force population, weak productivity, and high levels of debt. We feel political risk is waning, which is beneficial for economic growth.							
	Emerging Markets GDP (Annual Average)	**5.00%**	**4.60%**	**4.40%**	**5.40%**	**5.10%***	**4.60%**	
	Emerging market growth has been pressured as commodity prices have been weak and China is attempting to stimulate its economy. We believe the recent rebound in commodity prices could help stabilize growth. China continues to be the economic growth engine in the emerging markets.							

*Quarter over Quarter Seasonally Adjusted Annualized Rate, as of 1Q 2017

**As of June, 2017

***As of May 2017.

****As of April, 2017

*****Trailing 4 quarters

E = Estimate

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Trend Key
Positive
Trending Down
Trending Up
Neutral
Trending Down
Trending Up
Negative

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