2017 Outlook by the Numbers

ECONOMY

	2013	2014	2015	2016	Most Recent	2017E	Trend
Real GDP Growth SAAR (Annual Average)	**1.70%**	**2.60%**	**2.90%**	**1.50%**	**3.00%***	**2.30%**	

The economy rebounded in Q2, growing at 3.00% due to stronger than estimated consumption growth. Consumption grew 3.30%, bouncing back from a weak Q1 reading of 1.90%. Export demand remains strong due to the pickup in the global economy. We expect 2.30% economic growth for 2017.

LABOR MARKET

	2013	2014	2015	2016	Most Recent	2017E	Trend
Unemployment Rate (Annual Average)	**7.40%**	**6.20%**	**5.30%**	**4.90%**	**4.40%****	**4.40%**	

After a decline last month, the unemployment rate moved up to 4.40% in August. The slight increase came as many Americans re-entered the labor force. The labor force participation rate was unchanged at 62.90%. The number of marginally attached workers (U6) was also largely unchanged at 8.60%.

	2013	2014	2015	2016	Most Recent	2017E	Trend
Payroll Employment (Annual Average)	**193k**	**251k**	**229k**	**187k**	**156k****	**165k**	

Job growth slowed in August, with the U.S. economy adding 156k new non-farm jobs versus 200k expected. Despite this, manufacturers nationwide added workers at the fastest pace in over four years. August brought moderate wage growth, with average hourly earnings holding steady at 2.50% y/y.

HOUSING

	2013	2014	2015	2016	Most Recent	2017E	Trend
Housing Starts (Annual Average)	**925k**	**1,003k**	**1,111k**	**1,166k**	**1,155k*****	**1,250k**	

Home builders slowed the pace of single-family and multi-family homes in July as U.S. housing starts fell 4.80% to an annual rate of 1,155k units. The pullback likely comes from the rising cost of materials and a shortage of skilled labor and buildable lots.

	2013	2014	2015	2016	Most Recent	2017E	Trend
Building Permits (Annual Average)	**987k**	**1,053k**	**1,178k**	**1,172k**	**1,223k*****	**1,250k**	

Building permits for future construction fell 4.10% in July to an annual rate of 1,223k. Job growth, continued rising demand, and low mortgage rates should keep the single-family sector moving forward in 2017. Multi-family home building may slow following the recent increase in rental vacancy rates.

	2013	2014	2015	2016	Most Recent	2017E	Trend
Housing Prices Y/Y (Annual Average)	**13.40%**	**4.30%**	**5.60%**	**5.30%**	**5.70%******	**4.00%**	

Single-family home prices surged 5.70% in June and they continue to out outpace income growth. Tight supply continues to put upward pressure on home prices, creating affordability issues for many U.S. home buyers.

		2013	2014	2015	2016	Most Recent	2017E	Trend
INFLATION	**PCE Index Y/Y** (Annual Average)	1.30%	1.50%	0.30%	1.10%	1.40%***	1.70%	
	The U.S. PCE price index rose 0.10% m/m for July following no change in June. The year-on-year increase was an unchanged 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 price index, excluding food and energy, edged up 0.10% in July after a similar gain in June. As a result, the year-on-year rate now stands at 1.40%. This was the smallest year-on-year increase since December 2015.							
	Consumer Price Index (CPI) Y/Y (Annual Average)	1.50%	1.60%	0.10%	1.30%	1.70%***	1.90%	
	U.S. consumer prices rose less than expected in July, up just 0.10% m/m after an unchanged June. The year-on-year rate increased to 1.70% from 1.60% in June. The relatively low rate of inflation can be partially attributed to a pullback in energy prices.							
	Core CPI Y/Y (Annual Average)	1.80%	1.70%	1.80%	2.10%	1.70%***	2.40%	
	Excluding the volatile food and energy categories, core consumer prices rose 0.10% in July after a similar gain in June. Over the past twelve months, core prices have risen a modest 1.70%. Prices for mobile phone plans and prescription drugs were partly responsible for July's low inflation reading.							
CONSUMER	**Consumer Spending (PCE)** (Annual Average)	1.50%	2.90%	3.20%	2.70%	2.70%***	2.90%	
	U.S. consumer spending increased 0.20% m/m in July and 2.70% y/y. Spending on durable goods showed a strong 0.80% increase while non-durable goods saw a 0.30% increase. Consumer spending will likely remain supported given a solid labor market and a rising stock market.							
	Consumer Confidence (U of MI) (Annual Average)	79.2	84.1	92.9	91.8	96.8**	96.0	
	Consumer sentiment rose to 96.8 in August, up 3.60% from July, and up an impressive 7.80% from August 2016. Consumer fundamentals remain robust due to a healthy labor market and support our forecast of continued solid consumption growth.							

2017 Outlook by the Numbers

September 2017

		2013	2014	2015	2016	Most Recent	2017E	Trend
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%**	**2.12%****	**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 the second half of 2017.							
EQUITIES	**S&P 500 Price**	**1,848**	**2,059**	**2,044**	**2,239**	**2,472****	**2,440**	
	The market trades near all-time highs due to robust earnings and revenue growth. Any fiscal stimulus will boost corporate earnings. We believe total returns will be in the low-double digit range over the next 12 months.							
	S&P 500 Operating EPS Growth	**6.80%**	**6.30%**	**-3.30%**	**0.00%**	**16.29%*******	**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, 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%**	**3.00%***	**3.40%**	
	Global economic growth continues to be subdued at around 3.00% 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%***	**4.40%**	
	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 Q2 2017
**As of August 2017
***As of July 2017
****As of June 2017
*****Trailing 4 quarters
E = Estimate

Disclosure and Important Considerations

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

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