2017 Outlook by the Numbers

November 2017

		2013	2014	2015	2016	Most Recent	2017E	Trend
ECONOMY	**Real GDP Growth SAAR (Annual Average)**	**1.70%**	**2.60%**	**2.90%**	**1.50%**	**3.00%***	**2.30%**	
	The economy grew 3.0% in Q3, indicating that the recent spate of hurricanes had little impact on the economy. Consumption grew by 2.4% while investment increased by 6.0%, primarily as a result of inventory growth. Exports continue to be strong with a gain of 2.3%. We expect 2.3% GDP growth for 2017.							
LABOR MARKET	**Unemployment Rate (Annual Average)**	**7.40%**	**6.20%**	**5.30%**	**4.90%**	**4.10%****	**4.10%**	
	The unemployment rate fell to 4.1% in October, which marks a 17-year low. The number of marginally attached workers (U6) fell to 7.9% matching a cyclical low from December 2006. However, wages are still range bound as average hourly earnings increased only 2.4% y/y in October.							
	Payroll Employment (Annual Average)	**193k**	**251k**	**229k**	**187k**	**261k****	**175k**	
	A smaller than expected gain of 261k jobs in October was not that disappointing considering the last two-month payroll net revision came in at 90k. This data suggests the labor market has fully recovered from the disruption caused by the hurricanes. We expect trend payroll growth of 160k/mo.							
HOUSING	**Housing Starts (Annual Average)**	**925k**	**1,003k**	**1,111k**	**1,166k**	**1,127k*****	**1,225k**	
	Starts slowed for single-family and multi-family homes in September as U.S. housing starts declined 4.7% to an annual rate of 1,127k units. This is the lowest level of starts in a year, indicating some trend deterioration in building activity. Starts were lower in three of four regions, rising only in the West.							
	Building Permits (Annual Average)	**987k**	**1,053k**	**1,178k**	**1,172k**	**1,225k*****	**1,250k**	
	Building permits declined 3.7% to an annual rate of 1,225k units. While single-family permits increased 2.9% to a 823,000 rate; multi-family permits declined 14.8% to 402,000. Job growth, continued rising demand, and low mortgage rates should keep the single-family sector moving forward in 2017.							
	Housing Prices Y/Y (Annual Average)	**13.40%**	**4.30%**	**5.60%**	**5.30%**	**5.90%******	**4.00%**	
	Single-family home prices surged 5.9% in August and continue to outpace income growth. Tight supply continues to put upward pressure on home prices. Housing affordability is starting to become a concern.							

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INFLATION	**PCE Index Y/Y (Annual Average)**	1.30%	1.50%	0.30%	1.10%	1.60%***	1.70%	
	The U.S. PCE price index rose 1.6% y/y in September after three consecutive months at 1.4% y/y. The increase was largely driven by higher gasoline prices due to Hurricane Harvey. We expect inflation to exhibit modest upward pressure over the next few years.							
	Core PCE Index Y/Y (Annual Average)	1.50%	1.60%	1.40%	1.70%	1.30%***	1.50%	
	The core PCE price index, excluding food and energy, rose 1.3% y/y in September. Core inflation has been anemic as wage growth continues to be stuck in a range. However, going forward we expect modest increases in core inflation as a tightening labor market leads to improved wage growth.							
	Consumer Price Index (CPI) Y/Y (Annual Average)	1.50%	1.60%	0.10%	1.30%	2.20%***	2.10%	
	Consumer prices rose 0.50% m/m in September – the biggest increase since January – and pushed headline CPI up to 2.2% y/y from 1.9% in August. This increase was driven by a spike in gasoline prices due to Hurricane Harvey. We expect inflation to increase over the next few years.							
	Core CPI Y/Y (Annual Average)	1.80%	1.70%	1.80%	2.10%	1.70%***	1.90%	
	Excluding the volatile food and energy categories, core consumer prices in the last months through September has increased by 1.7%. The core CPI has now remained at 1.7% y/y for five consecutive months. We expect modest increases in Core CPI over the next few years as wage growth improves.							
CONSUMER	**Consumer Spending (PCE) (Annual Average)**	1.50%	2.90%	3.20%	2.70%	2.70%***	2.80%	
	U.S. consumer spending increased by 2.7% y/y in September. Consumption growth has been fairly steady at 2.5 – 3.0% for nearly two years. We believe 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	100.7**	96.0	
	Consumer confidence declined slightly in October after recording highs in previous months. Consumer fundamentals continue to remain robust due to a healthy labor market and the prospect of tax cuts, which supports 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 1.5% 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%**	**2.38%****	**2.50%**	
	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**	**2,575****	**2,550**	
	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%**	**8.43%*******	**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 the current proposal of 20.0%.							
GLOBAL ECONOMY	**World GDP (Annual Average)**	**3.30%**	**3.40%**	**3.10%**	**3.10%**	**3.00%***	**3.30%**	
	We are currently experiencing synchronized global growth as economies are recovering from economic malaise (Europe) and recession (Brazil). Monetary policy remains supportive of continued economic growth around the world. We expect growth to accelerate in 2017 and 2018.							
	Emerging Markets GDP (Annual Average)	**5.00%**	**4.60%**	**4.40%**	**5.40%**	**5.20%***	**4.50%**	
	Emerging market growth has stabilized as commodity prices have improved and China has successfully stimulated its economy. China continues to be the economic growth engine in the emerging markets.							

*Quarter over Quarter Seasonally Adjusted Annualized Rate, as of Q3 2017
**As of October 2017
***As of September 2017
****As of August 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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