# 2018 Outlook by the Numbers

October 2018

| | | 2014 | 2015 | 2016 | 2017 | Most Recent | 2018E | Trend |
|---|---|---|---|---|---|---|---|---|
| ECONOMY | **Real GDP Growth SAAR (Annual Average)** | **2.60%** | **2.90%** | **1.50%** | **2.20%** | **4.20%*** | **2.90%** | |
| LABOR MARKET | **Unemployment Rate (Annual Average)** | **6.20%** | **5.30%** | **4.90%** | **4.40%** | **3.70%**** | **3.80%** | |
| LABOR MARKET | **Payroll Employment (Annual Average)** | **251k** | **229k** | **187k** | **182k** | **134k**** | **185k** | |
| HOUSING | **Housing Starts (Annual Average)** | **1,003k** | **1,111k** | **1,166k** | **1,211k** | **1,282k***** | **1275k** | |
| HOUSING | **Building Permits (Annual Average)** | **1,053k** | **1,178k** | **1,172k** | **1,260k** | **1,249k***** | **1325k** | |
| HOUSING | **Housing Prices Y/Y (Annual Average)** | **4.30%** | **5.60%** | **5.30%** | **5.90%** | **5.90%****** | **4.00%** | |

**Real GDP Growth SAAR:** The U.S. economy grew at 4.2% in Q2. Growth was driven by a strong rebound in consumer spending, up 3.8%, and a surge in exports, up 9.3%, ahead of the implementation of tariffs. Government spending grew at 2.5%. We expect Q3 GDP at 2.8% with full year 2018 at 2.9%.

**Unemployment Rate:** The unemployment rate fell to 3.7% in September, marking the lowest level since 1969. The marginally attached unemployment rate (U-6) rose to 7.5%. We are watching wage pressures closely as an unemployment rate below 4.0% typically leads to wage gains. Average hourly earnings rose to 2.8% y/y.

**Payroll Employment:** The U.S. added 134k jobs in September, extending the record of consecutive monthly job gains to 96 months. Job gains were impacted by Hurricane Florence that hit the east coast in September. Overall, the labor market continues to be healthy. Quality and availability of labor are becoming a concern.

**Housing Starts:** U.S. housing starts rose by 9.2% in August to an annual rate of 1,282k units. Multifamily starts rose by 29.3% while single-family starts increased slightly by 1.9%. Starts increased in the Midwest, South, and West but were flat in the Northeast. Labor availability, rising rates and tariffs are concerns.

**Building Permits:** Building permits decreased by 4.1% to an annual rate of 1,249k units in August. This represents a 15-month low and is below the level of housing starts, suggesting a slowdown in starts. Multi-family decreased by 1.9% to a rate of 422k units while single-family decreased by 5.3% to a rate of 827k units.

**Housing Prices Y/Y:** Housing prices rose by 5.9% in July. Home prices continue to be well supported by relatively low inventories and a tightening labor market. However, we believe rising home prices combined with an increase in mortgage rates could slow the pace of home prices gains going forward as affordability declines.

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| INFLATION | **PCE Index Y/Y (Annual Average)** | 1.50% | 0.30% | 1.10% | 1.70% | 2.20%*** | 2.00% | |
| | The U.S. PCE price index increased by 2.2% y/y in August. Rising oil prices have put upward pressure on headline inflation. We expect inflation to increase moderately due to tightening in the labor market and rising wage growth. | | | | | | | |
| | **Core PCE Index Y/Y (Annual Average)** | 1.60% | 1.30% | 1.80% | 1.60% | 2.00%*** | 1.90% | |
| | The core PCE price index, which excludes food and energy, held at 2.0% y/y in August. This is now at the Fed's 2.0% target, which supports the case for further interest rate hikes. We expect continued upward pressure on core inflation as wage growth increases due to the strong labor market. | | | | | | | |
| | **Consumer Price Index (CPI) Y/Y (Annual Average)** | 1.60% | 0.10% | 1.30% | 2.10% | 2.70%*** | 2.40% | |
| | Consumer prices rose by 2.7% y/y in August. A rebound in oil prices and an increase in gasoline prices continue to put upward pressure on headline inflation. We expect inflation to increase modestly over the next few years. | | | | | | | |
| | **Core CPI Y/Y (Annual Average)** | 1.70% | 1.80% | 2.10% | 1.80% | 2.20%*** | 2.10% | |
| | Excluding the volatile food and energy categories, core consumer prices increased by 2.2% y/y in August. We expect modest increases in core CPI over the next few years as wage growth improves. We believe wage growth is what leads to sustainable inflation in the economy. | | | | | | | |
| CONSUMER | **Consumer Spending (PCE) (Annual Average)** | 2.90% | 3.70% | 2.70% | 2.50% | 3.00%*** | 2.90% | |
| | U.S. consumer spending rose by 3.0% y/y in August. Consumption growth has been fairly steady at 2.5%-3.0% for nearly two years. We believe consumer spending will likely remain well supported, given a solid labor market and high consumer confidence. The savings rate is a healthy 6.6%. | | | | | | | |
| | **Consumer Confidence (U of MI) (Annual Average)** | 84.1 | 92.9 | 91.8 | 96.8 | 100.1** | 98.0 | |
| | Consumer confidence came in at 100.1 in September, its second highest level of the year. The positive effects from the strength in the labor market and lower taxes are being somewhat offset by concerns over potential trade tariffs, inflation and interest rates. | | | | | | | |

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| INTEREST RATES | **Fed Funds Rate** | **0.25%** | **0.50%** | **0.75%** | **1.50%** | **2.25%**** | **2.50%** | |
| | We believe the Fed will raise the Fed Funds rate one more time in 2018, reaching 2.50% by year end. Fed rate increases are a positive reflection of the improvement in economic conditions. | | | | | | | |
| | **10 Year Treasury Yield** | **2.17%** | **2.30%** | **2.44%** | **2.41%** | **3.06%**** | **3.25%** | |
| | 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 2018 and end the year at 3.25%. | | | | | | | |
| EQUITIES | **S&P 500 Price** | **2,059** | **2,044** | **2,239** | **2,674** | **2,914**** | **3,000** | |
| | Market fundamentals remain strong due to robust earnings and revenue growth. The recently passed tax reform has boosted corporate earnings. We believe total returns will be in the low double digit range over the next 12 months. The direct impact of tariffs represents only a modest risk to earnings. | | | | | | | |
| | **S&P 500 Operating EPS Growth** | **6.30%** | **-3.30%** | **0.00%** | **13.00%** | **23.49%******* | **20.00%** | |
| | We believe earnings will grow by 20.0% y/y in 2018 due to an improving economy and tax reform. Tax reform will be a tailwind to EPS growth by 10.0% in 2018. Additionally, strong domestic economic momentum and share buybacks will drive sales and earnings growth. | | | | | | | |
| GLOBAL ECONOMY | **World GDP (Annual Average)** | **3.40%** | **3.10%** | **3.10%** | **3.60%** | **3.90%*** | **3.80%** | |
| | We believe global growth will accelerate in 2018 to 3.8%, driven by stabilization in emerging markets and better developed market growth (U.S. and Eurozone). However, longer-term slowing labor force population, weak productivity, and high levels of debt will limit the expansion. | | | | | | | |
| | **Emerging Markets GDP (Annual Average)** | **4.60%** | **4.40%** | **5.40%** | **4.40%** | **5.50%*** | **5.00%** | |
| | We expect the growth in emerging markets to pick up slightly to around 5.0% in 2018. China continues to be the economic growth engine in the emerging markets. We are watching the global trade situation closely. | | | | | | | |

*Quarter over Quarter Seasonally Adjusted Annualized Rate, as of Q2 2018

**As of September 2018

***As of August 2018

****As of July 2018

*****Trailing four 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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