

## U.S. Households Are in Very Good Shape

The U.S. economic expansion reached 112 months in October and it is in no immediate danger of ending. We expect this expansion to go into the record books as the longest U.S. economic expansion ever when it reaches 121 months next July. While the near-term outlook is good, we will be in unknown territory if and when this becomes the longest expansion in U.S. history.

The number of economic metrics that are at multidecade bests (highs or lows) is remarkable. Many of these “bests” are labor market metrics. The U.S. unemployment rate, at 3.7 percent in September, is the lowest since December 1969. Likewise, unemployment insurance claims are the lowest since 1969. July job openings were at 6,939,000, the highest level since that series started in December 2000. The National Federation of Independent Business’s Business Optimism Index was at a 45-year high in September.

Other metrics are very good. The ISM Manufacturing and the ISM Non-Manufacturing Indexes combining in September to exceed 120 is a very positive signal.

Payroll job growth in September eased off the near-200,000 jobs per month pace of the first eight months of 2018, to hit 134,000 for the month. This is not a bad number at all given how tight the labor market is. We have gotten used to robust job growth but that is going to change. We simply cannot keep that pace up given that we have only about 6 million unemployed workers according to the U3 labor force count. Wage growth continues to be moderate, up 2.8 percent over the last year.

Hurricane Florence may have been a small negative weight on the September job numbers. The timing of the hurricane suggests that most of the jobs data was collected before the hurricane struck the Carolina coast. Hurricane Michael may prove to be a bigger drag on October economic data than Florence was on September data.

U.S. households are in great shape. Jobs are plentiful. The personal saving rate has rebounded after bottoming out in June 2005 at 2.2 percent, to a fairly steady near-7 percent range. Homeowners are continuing to generate equity in their homes, and for the most part, they are not spending it out. So even if we hit some bumps, households are not overextended on credit and they have much more padding to protect themselves from adverse economic conditions than they did in late 2007.

The Conference Board’s Consumer Confidence Index in September surged to 138.4, within striking distance of its all-time high of 144.7 from January 2000. With the mid-term elections coming up consumer confidence may be vulnerable, especially if a flip in the House or Representatives and/or Senate significantly alters the political landscape. However, history suggests that consumer confidence tends to increase after the mid-term election. In 2014, the Consumer Confidence Index was higher in December after the mid-term election than it was in October before the mid-term election. The same was true in 2010, 2006, 2002, 1998 and 1994. 1990 breaks the pattern, but it holds in 1986 and 1982.

Federal Reserve Chairman Jay Powell has doubled down on “gradualism.” We still believe that gradualism, as defined by a 25 basis point fed funds rate hike every other FOMC meeting, will change in late 2019. But for now, the Fed’s familiar cadence will continue. According to the CME Group, the implied odds of the fourth rate hike for 2018, coming on December 19, are about 81 percent. The odds of the next rate hike after that coming in cadence on March 20, 2019 have increased to about 56 percent.

### U.S. Economic Outlook, Summary

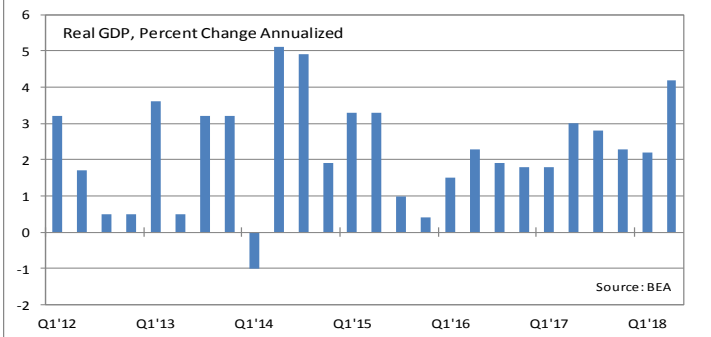
	1Q'18a	2Q'18a	3Q'18f	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	2017a	2018f	2019f
Real GDP ( <i>Percent Change Annualized</i> )	2.2	4.2	2.7	3.4	2.5	2.4	2.0	2.1	2.2	2.9	2.7
CPI ( <i>Percent Change Year-over-Year</i> )	2.3	2.6	2.7	2.6	2.3	2.5	2.4	2.2	2.1	2.5	2.4
Payroll Jobs ( <i>Average Monthly Diff., Ths.</i> )	210.8	211.4	205.9	155.0	147.8	144.2	129.0	125.3	181.4	195.8	136.6
Unemployment Rate ( <i>Percent</i> )	4.1	3.9	3.8	3.7	3.6	3.5	3.5	3.5	4.3	3.9	3.5
Federal Funds Rate ( <i>Effective</i> )	1.45	1.74	1.92	2.19	2.45	2.69	2.94	3.13	1.00	1.82	2.80
10-Yr. Treasury Rate	2.76	2.92	2.93	3.22	3.27	3.38	3.66	3.81	2.33	2.96	3.53

**a = actual f = forecast**

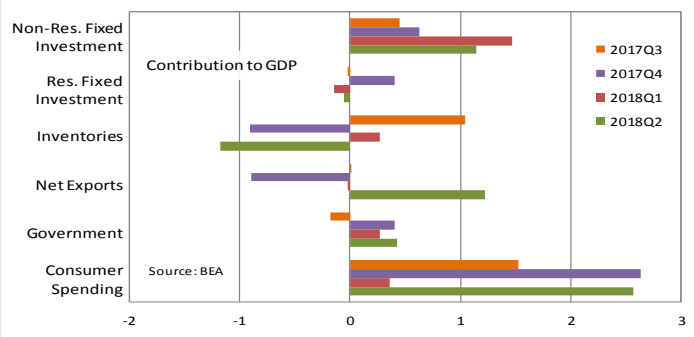
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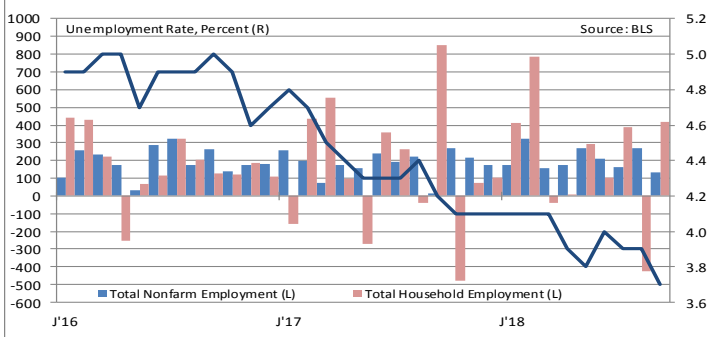
**Q2 GDP 3rd Estimate Remains at 4.2%**



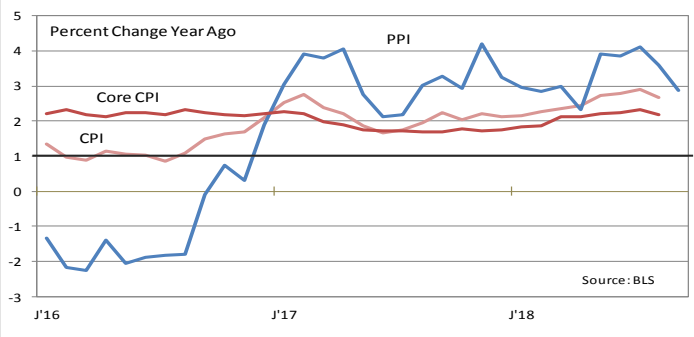
**Net Exports Surged in Q2**



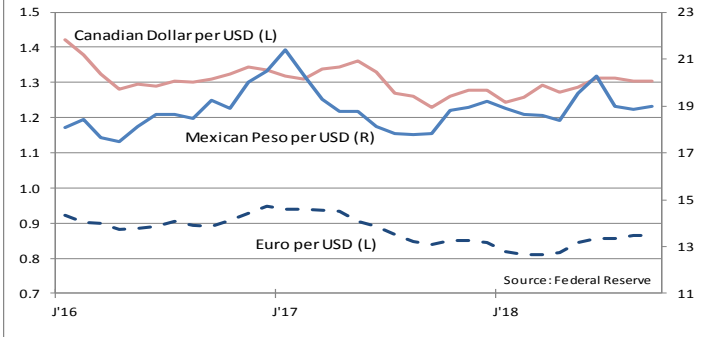
**U.S. Added a Net 134,000 Jobs in September**



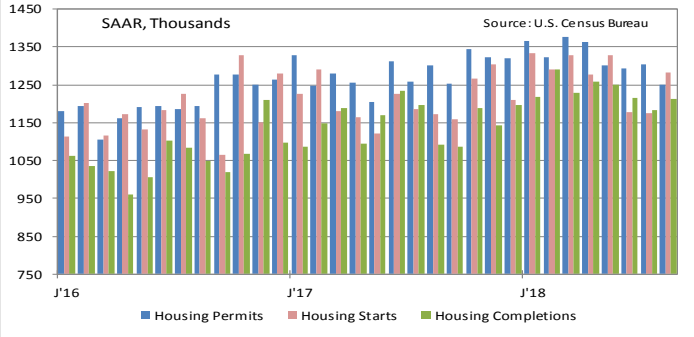
**Inflation Metrics Easing After Peak Y/Y Gains**



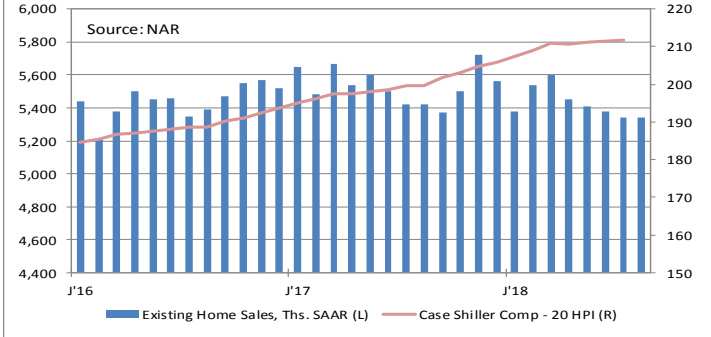
**US Dollar Remains Strong through Sept.**



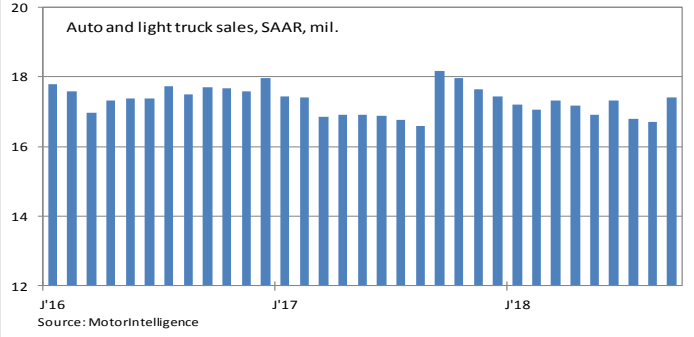
**Housing Starts Warm Up in August**



**Existing Home Sales Remain Range Bound**



**Auto Sales Improved in September**



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	1Q'18a	2Q'18a	3Q'18f	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	2017a	2018f	2019f
<b>Output</b>											
Nominal GDP (Billions \$)	20041	20412	20665	20940	21163	21388	21599	21815	19485	20514	21491
<b>Percent Change Annualized</b>	<b>4.3</b>	<b>7.6</b>	<b>5.0</b>	<b>5.4</b>	<b>4.3</b>	<b>4.3</b>	<b>4.0</b>	<b>4.1</b>	<b>4.2</b>	<b>5.3</b>	<b>4.8</b>
Real GDP (Chained 2012 Billions \$)	18324	18512	18637	18792	18907	19017	19113	19211	18051	18566	19062
<b>Percent Change Annualized</b>	<b>2.2</b>	<b>4.2</b>	<b>2.7</b>	<b>3.4</b>	<b>2.5</b>	<b>2.4</b>	<b>2.0</b>	<b>2.1</b>	<b>2.2</b>	<b>2.9</b>	<b>2.7</b>
Pers. Consumption Expenditures	12723	12842	12915	12997	13059	13122	13183	13251	12559	12869	13154
<b>Percent Change Annualized</b>	<b>0.5</b>	<b>3.8</b>	<b>2.3</b>	<b>2.6</b>	<b>1.9</b>	<b>2.0</b>	<b>1.9</b>	<b>2.1</b>	<b>2.5</b>	<b>2.5</b>	<b>2.2</b>
Nonresidential Fixed Investment	2654	2710	2741	2781	2818	2852	2884	2915	2538	2722	2867
<b>Percent Change Annualized</b>	<b>11.5</b>	<b>8.7</b>	<b>4.7</b>	<b>5.9</b>	<b>5.4</b>	<b>4.9</b>	<b>4.7</b>	<b>4.3</b>	<b>5.3</b>	<b>7.2</b>	<b>5.3</b>
Residential Investment	615	613	618	623	629	635	640	644	611	617	637
<b>Percent Change Annualized</b>	<b>-3.4</b>	<b>-1.3</b>	<b>2.9</b>	<b>3.2</b>	<b>4.5</b>	<b>3.8</b>	<b>3.1</b>	<b>2.7</b>	<b>3.3</b>	<b>1.0</b>	<b>3.3</b>
Change in Private Inventories	30	-37	30	42	49	51	51	50	23	16	50
Net Exports	-902	-841	-908	-907	-918	-927	-940	-953	-859	-889	-934
Government Expenditures	3152	3172	3188	3202	3216	3228	3240	3248	3130	3178	3233
<b>Percent Change Annualized</b>	<b>1.5</b>	<b>2.5</b>	<b>2.0</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.4</b>	<b>1.1</b>	<b>-0.1</b>	<b>1.5</b>	<b>1.7</b>
Industrial Prod. Index (2007=100)	105.9	107.3	108.2	108.9	109.3	109.6	109.8	109.9	103.7	107.6	109.7
<b>Percent Change Annualized</b>	<b>2.5</b>	<b>5.1</b>	<b>3.6</b>	<b>2.4</b>	<b>1.6</b>	<b>1.1</b>	<b>0.7</b>	<b>0.4</b>	<b>1.6</b>	<b>3.7</b>	<b>1.9</b>
Capacity Utilization (Percent)	77.2	77.8	78.1	78.7	78.9	79.0	79.0	79.1	76.1	77.9	79.0
<b>Prices</b>											
CPI (1982-84=100)	249.4	250.5	251.8	253.7	255.2	256.7	258.0	259.3	245.1	251.4	257.3
<b>Percent Change Annualized</b>	<b>3.5</b>	<b>1.7</b>	<b>2.2</b>	<b>2.9</b>	<b>2.4</b>	<b>2.3</b>	<b>2.1</b>	<b>2.0</b>	<b>2.1</b>	<b>2.5</b>	<b>2.4</b>
PCE Price Index (2012=100)	107.5	108.1	108.5	109.2	109.8	110.4	111.0	111.6	106.1	108.3	110.7
<b>Percent Change Annualized</b>	<b>2.5</b>	<b>2.0</b>	<b>1.7</b>	<b>2.6</b>	<b>2.3</b>	<b>2.3</b>	<b>2.1</b>	<b>2.0</b>	<b>1.8</b>	<b>2.1</b>	<b>2.2</b>
GDP Price Index (2012=100)	109.3	110.2	110.8	111.4	111.9	112.4	113.0	113.5	107.9	110.4	112.7
<b>Percent Change Annualized</b>	<b>2.0</b>	<b>3.0</b>	<b>2.3</b>	<b>2.1</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.9</b>	<b>2.3</b>	<b>2.1</b>
PPI, Final Demand (Nov. 2009=100)	115.1	116.0	116.4	117.0	117.6	118.3	118.9	119.5	113.0	116.1	118.6
<b>Percent Change Annualized</b>	<b>3.3</b>	<b>3.2</b>	<b>1.3</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.0</b>	<b>2.0</b>	<b>1.8</b>	<b>2.2</b>	<b>2.3</b>
Crude Oil, WTI (\$/barrel)	62.9	68.0	68.0	74.0	75.0	75.0	75.0	75.0	50.8	68.2	75.0
<b>Labor Markets</b>											
Payroll Jobs (Average Monthly Diff., Ths.)	210.8	211.4	205.9	155.0	147.8	144.2	129.0	125.3	181.4	195.8	136.6
Unemployment Rate (Percent)	4.1	3.9	3.8	3.7	3.6	3.5	3.5	3.5	4.3	3.9	3.5
Average Weekly Hours	34.5	34.5	34.5	34.5	34.5	34.5	34.5	34.5	34.4	34.5	34.5
Population (Millions)	327.5	328.1	328.7	329.3	329.8	330.4	331.0	331.6	326.0	328.4	330.7
<b>Percent Change Annualized</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>
<b>Personal Income</b>											
Average Hourly Earnings (\$)	26.75	26.93	27.16	27.38	27.60	27.83	28.05	28.28	26.31	27.05	27.94
<b>Percent Change Annualized</b>	<b>3.0</b>	<b>2.7</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>3.2</b>	<b>3.3</b>	<b>3.2</b>	<b>2.5</b>	<b>2.8</b>	<b>3.3</b>
Real Disp. Income (2012 Billions \$)	14220	14307	14420	14480	14548	14612	14681	14746	13949	14357	14647
<b>Percent Change Annualized</b>	<b>4.4</b>	<b>2.5</b>	<b>3.2</b>	<b>1.7</b>	<b>1.9</b>	<b>1.8</b>	<b>1.9</b>	<b>1.8</b>	<b>2.6</b>	<b>2.9</b>	<b>2.0</b>
Personal Saving Rate (Percent)	7.2	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.7	6.9	6.8
<b>Housing</b>											
Housing Starts (Ths., Ann. Rate)	1317	1261	1227	1247	1253	1260	1266	1270	1208	1263	1262
Exst. SF Home Sales (Ths., Ann Rate)	4903	4797	4758	4794	4827	4848	4866	4880	4910	4813	4855
New SF Home Sales (Ths., Ann Rate)	656	635	621	628	632	636	639	642	616	635	637
Case/Shiller HPI (Jan. 2000=100)	199.8	202.0	204.4	206.7	209.0	211.4	214.0	216.7	191.6	203.2	212.8
<b>Year/Year Percent Change</b>	<b>6.4</b>	<b>6.4</b>	<b>6.2</b>	<b>5.3</b>	<b>4.6</b>	<b>4.6</b>	<b>4.7</b>	<b>4.8</b>	<b>5.8</b>	<b>6.1</b>	<b>4.7</b>
<b>Consumer</b>											
Household Economic Stress Index	0.0	0.2	0.3	1.0	1.3	1.4	1.3	0.9	0.7	0.3	1.2
Auto Sales (Millions)	17.2	17.1	17.0	17.1	16.9	16.8	16.6	16.5	17.2	17.1	16.7
<b>Interest Rates (Percent)</b>											
Federal Funds Rate (Effective)	1.45	1.74	1.92	2.19	2.45	2.69	2.94	3.13	1.00	1.82	2.80
Prime Rate	4.53	4.80	5.01	5.29	5.55	5.79	6.04	6.23	4.10	4.91	5.90
1-Month LIBOR	1.65	1.97	2.11	2.30	2.53	2.76	3.01	3.21	1.11	2.01	2.88
3-Month LIBOR	1.93	2.34	2.34	2.45	2.62	2.82	3.12	3.33	1.26	2.26	2.97
1-Yr. Treasury Rate	1.94	2.25	2.47	2.66	2.79	2.97	3.26	3.45	1.20	2.33	3.12
5-Yr. Treasury Rate	2.54	2.77	2.81	3.10	3.22	3.36	3.64	3.77	1.91	2.81	3.50
10-Yr. Treasury Rate	2.76	2.92	2.93	3.22	3.27	3.38	3.66	3.81	2.33	2.96	3.53
30-Yr. Fixed Rate Mortgage	4.27	4.54	4.57	4.76	4.92	5.09	5.39	5.55	3.99	4.54	5.24

a = actual f = forecast

October 10, 2018

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