

**August 2017**

**Economists Adjust Forecasts for Inflation and Interest Rates Lower, Job Growth Higher**

As was the case in the July survey, the August 2017 Bloomberg Survey of Economists shows an odd combination of forecast changes. Economists collectively project slightly tamer inflation, better job growth, and fractionally lower interest rates. Economists projections for interest rates are now at their lowest levels of the year.

Expectations for economic growth were largely unchanged with growth expected to run at 2.5% in 3Q17 and 2.4% in 4Q17 (revised up 0.1% from July’s survey). Full-year growth was revised down slightly, from 2.2% to 2.1%, after a weaker-than-expected rebound in 2Q growth. However, growth is still expected to improve to 2.3% for the full-year 2018.

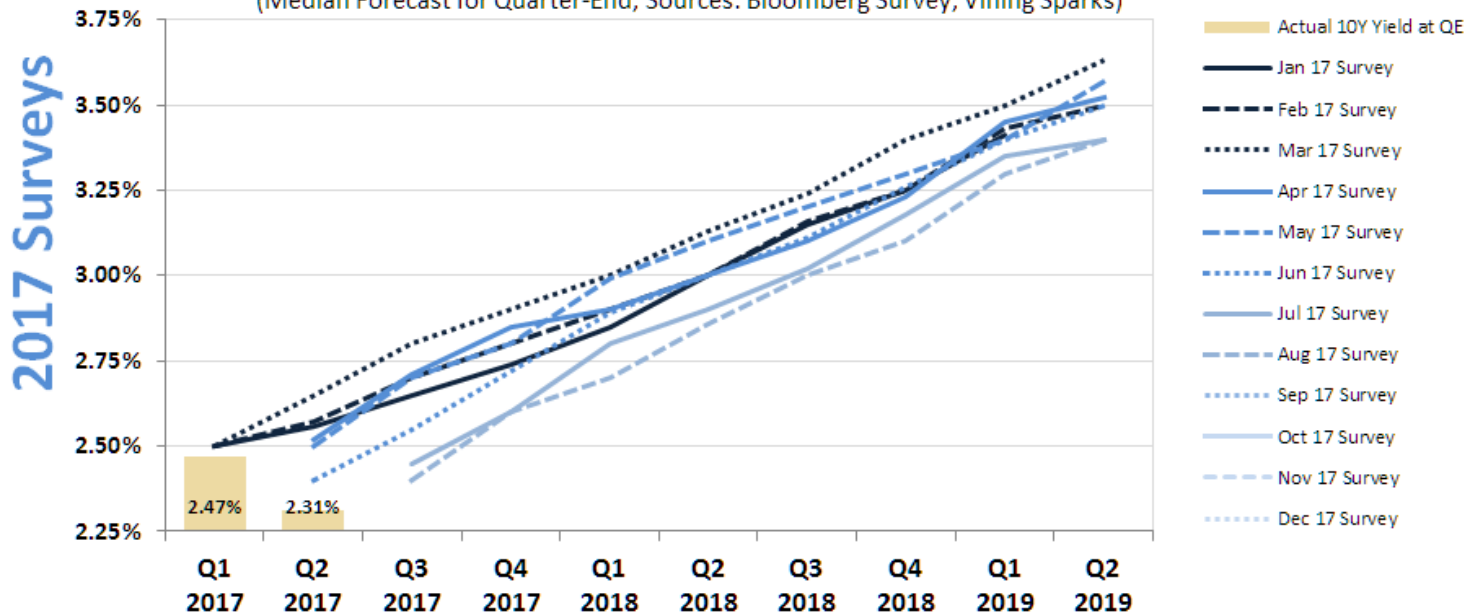
Based on the stronger-than-expected job growth so far this year, economists have once again raised their projections for job growth going forward. Nonfarm payroll growth in 3Q17 is now expected to average 185k (up from 168k in July) and 178k for the full year (up from 172k in July). The better labor market momentum is expected to carry over into 2018 with payroll growth averaging 160k per month, revised up from 151k in July’s survey.

Despite expectations for better job growth, economists lowered their forecasts for inflation over the next three quarters. CPI is now projected to run 1.8% in 3Q (down from 2.0%), 1.8% in 4Q (down from 1.9%), and 1.6% in 1Q18 (down from 1.8%). Inflation expectations continue to be revised lower as the actual data has repeatedly proven to be weaker-than-expected.

Economists have finally revised their inflation forecasts enough to remove one rate hike from the period through March 2018. Economists still project one more hike in 2017 but then believe the FOMC will hold in 1Q18 followed by a hike in 2Q18. If accurate, the Fed Funds Target Range would be increased to 1.25-1.50% by year-end and 1.50-1.75% by mid-2018. Economists continue to forecast rate hike projections similar to the FOMC’s projections, much more aggressive than market expectations.

Interest rate projections were, once again, revised lower in the July Survey. The 2-year Treasury yield is now expected to end 2017 at 1.68%, down 2 bps from July’s survey and 12 bps from May’s survey. The 10-year Treasury yield forecast for year-end was unchanged at 2.60%, remaining 20 bps below May’s forecast. The 10-year Treasury yield forecast from the Bloomberg Survey is now showing its lowest forward rate projections of the year.

**10-Year Treasury Yield Forecasts by Survey Month**  
(Median Forecast for Quarter-End, Sources: Bloomberg Survey, Vining Sparks)



## BLOOMBERG SURVEY OF ECONOMISTS (Economic Projections)

August 2017 Survey Results

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Avg. 2017	Avg. 2018
<b>GDP</b>						
Bloomberg Forecast (August)	2.5%	2.4%	2.1%	2.3%	2.1%	2.3%
Vining Forecast (August)	2.5%	2.4%	1.9%	2.8%	2.3%	2.4%
Bloomberg Forecast (July)	2.5%	2.3%	2.1%	2.3%	2.2%	2.3%
Bloomberg Forecast (June)	2.4%	2.4%	2.3%	2.4%	2.2%	2.4%
Bloomberg Forecast (May)	2.4%	2.3%	2.3%	2.4%	2.2%	2.3%
<b>CPI YoY%</b>						
Bloomberg Forecast (August)	1.8%	1.8%	1.6%	2.2%	2.0%	2.1%
Vining Forecast (August)	1.7%	1.7%	1.8%	1.8%	2.1%	1.9%
Bloomberg Forecast (July)	2.0%	1.9%	1.8%	2.2%	2.1%	2.1%
Bloomberg Forecast (June)	2.3%	2.2%	2.0%	2.3%	2.3%	2.3%
Bloomberg Forecast (May)	2.4%	2.3%	2.2%	2.4%	2.4%	2.3%
<b>Unemployment Rate</b>						
Bloomberg Forecast (August)	4.3%	4.3%	4.2%	4.2%	4.4%	4.2%
Vining Forecast (August)	4.3%	4.3%	4.2%	4.2%	4.4%	4.3%
Bloomberg Forecast (July)	4.3%	4.3%	4.2%	4.2%	4.4%	4.2%
Bloomberg Forecast (June)	4.4%	4.3%	4.3%	4.2%	4.4%	4.2%
Bloomberg Forecast (May)	4.4%	4.4%	4.4%	4.4%	4.5%	4.4%
<b>Average Monthly Payrolls (000s)</b>						
Bloomberg Forecast (August)	185	166	165	160	178	160
Vining Forecast (August)	175	170	170	165	174	165
Bloomberg Forecast (July)	168	163	156	152	172	151
Bloomberg Forecast (June)	160	159	153	150	167	150
Bloomberg Forecast (May)	170	165	152	150	172	154

## BLOOMBERG SURVEY OF ECONOMISTS (Interest Rate Projections)

August 2017 Survey Results

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
<b>Federal Funds Target Rate (Median of Upper and Lower Bounds)*</b>						
Bloomberg Forecast (August)	1.125%	1.375%	1.375%	1.625%	1.875%	2.125%
Vining Forecast (August)	1.125%	1.125%	1.375%	1.375%	1.625%	1.625%
Bloomberg Forecast (July)	1.125%	1.375%	1.625%	1.625%	1.875%	2.125%
Bloomberg Forecast (June)	1.375%	1.375%	1.625%	1.875%	1.875%	2.125%
Bloomberg Forecast (May)	1.375%	1.375%	1.625%	1.875%	1.875%	2.125%
<b>2-Year Treasury Rate</b>						
Bloomberg Forecast (August)	1.46%	1.68%	1.85%	2.02%	2.20%	2.40%
Vining Forecast (August)	1.40%	1.45%	1.50%	1.60%	1.65%	1.70%
Bloomberg Forecast (July)	1.50%	1.70%	1.88%	2.09%	2.20%	2.38%
Bloomberg Forecast (June)	1.60%	1.76%	1.96%	2.18%	2.31%	2.49%
Bloomberg Forecast (May)	1.65%	1.80%	2.00%	2.20%	2.39%	2.52%
<b>10-Year Treasury Rate</b>						
Bloomberg Forecast (August)	2.40%	2.60%	2.70%	2.86%	3.00%	3.10%
Vining Forecast (August)	2.40%	2.50%	2.55%	2.60%	2.65%	2.65%
Bloomberg Forecast (July)	2.45%	2.60%	2.80%	2.90%	3.02%	3.18%
Bloomberg Forecast (June)	2.55%	2.72%	2.89%	3.00%	3.11%	3.26%
Bloomberg Forecast (May)	2.70%	2.80%	2.99%	3.10%	3.20%	3.30%

Source: Bloomberg; All figures are quarter-end. GDP and CPI are annualized.

\*In the January 2014 Survey, Bloomberg began reporting economists' projections for the upper and lower bound for the Fed Funds Target Rate.

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