

July 2017

Economists Adjust Forecasts for Inflation and Interest Rates Lower

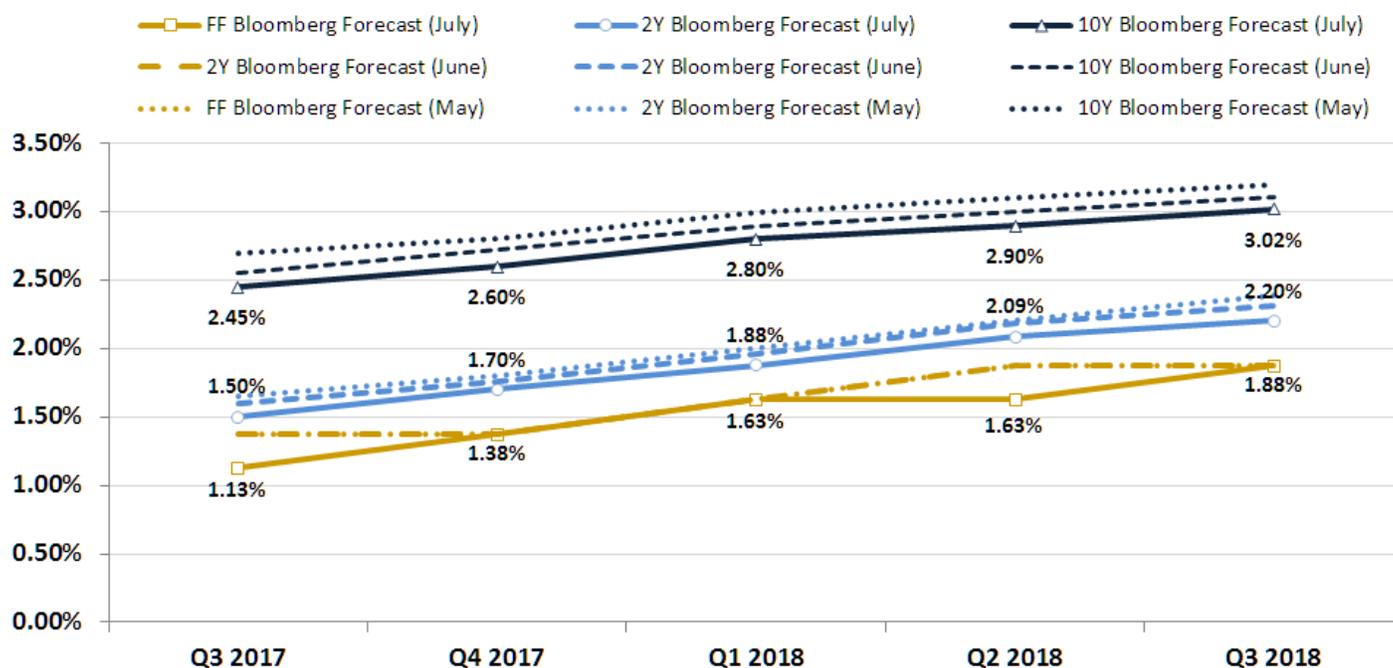
The July 2017 Bloomberg Survey of Economists shows that economists collectively expect the unemployment rate to continue running well below the FOMC’s natural rate, job growth to be slightly better, but inflation to run at an even slower pace than previously expected. With the lower rate of inflation and despite the better outlook for the labor market, economists are now projecting a slower pace for rate hikes and lower quarter-end rates for both the 2-year and 10-year Treasuries.

Overall economic growth expectations were revised only fractionally lower with the biggest adjustment to the 2Q17 and full-year 2018 GDP projections. The economy is now expected to grow 2.8% in 2Q17 versus 3.0% in the June survey. However, the economy is still expected to expand 2.2% for the full year. Growth expectations for the full-year 2018 were revised lower from 2.4% to 2.3%, perhaps reflecting economists’ lower expectations for a boost from fiscal policy. The biggest change in the economic projections came in the inflation forecasts. Inflation is now projected to end 3Q17 at 2.0% (revised down from 2.3%) and end Q417 at 1.9% (revised down from 2.2%). For the full year, CPI inflation is now expected to average just 2.1% in 2017 (revised down from 2.3%) and 2.1% in 2018 (revised down from 2.3%). The lower inflation expectations are not the result of forecasts for a weaker labor market. Unemployment rate projections were actually revised lower for 3Q17 and 1Q18 while nonfarm payroll growth projections were revised higher for the next three quarters. For all of 2017, nonfarm payroll growth is now projected to average 172k per month versus 167k in the June survey.

With inflation expected to slow, economists finally revised their interest rate forecasts accordingly. Economists, on average, no longer expect a rate hike in 3Q17, pushing the next hike out to 4Q17. They also expect another hike in 1Q18 but no longer expect a hike in 2Q18. As such, economists forecasts for the Fed Funds Target Range have moved closer in-line with market expectations (as determined by Fed Funds Futures Contracts). Based upon a slower rate path and less inflation, economists subsequently revised their 2- and 10-year Treasury forecasts lower. Beginning with 3Q17, the average 2-year yield forecast was revised down 10 bps, 6 bps, 8 bps, 9 bps, and 11 bps each quarter. The 2-year is now expected to end 2017 at 1.70%, down from 1.76% in the June survey. The 10-year yield forecasts were also revised lower by similar magnitude. The 10-year yield is now projected to end 2017 at 2.60% (down from 2.72% in June projections).

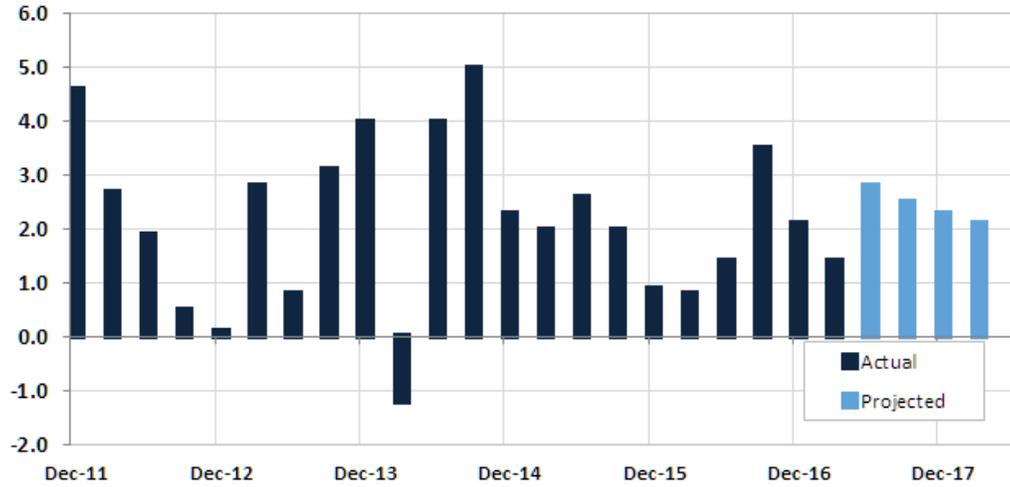
Economists' Rate Forecast - Bloomberg Survey

Reflects Forecast for Rates at End-of-Quarter



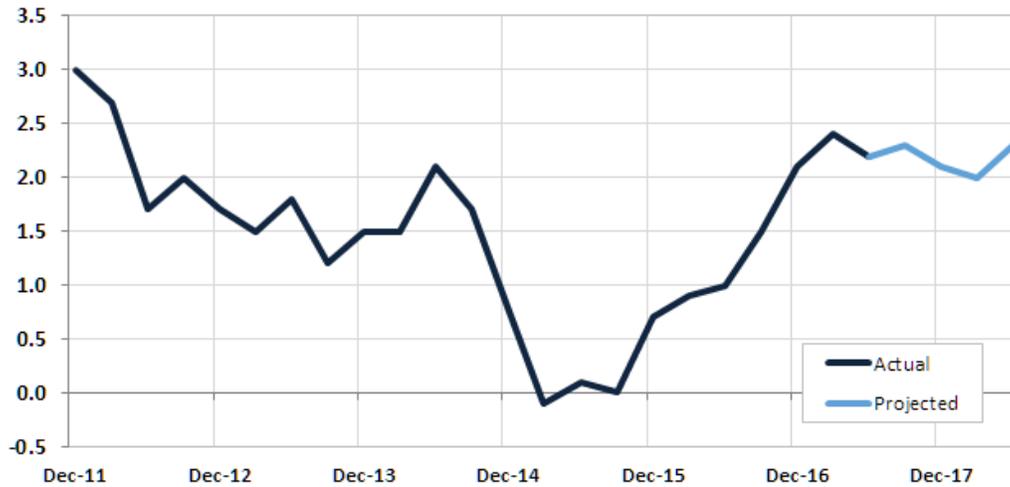
GDP QoQ Annualized (Past and Projected)

Sources: BEA, Bloomberg Survey of Economists, Vining Sparks



CPI Year-over-Year (Past and Projected)

Sources: BLS, Bloomberg Survey of Economists, Vining Sparks



BLOOMBERG SURVEY OF ECONOMISTS (Economic Projections)

July 2017 Survey Results

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Avg. 2017	Avg. 2018
GDP						
Bloomberg Forecast (July)	2.8%	2.5%	2.3%	2.1%	2.2%	2.3%
Vining Forecast (July)	2.7%	2.5%	2.4%	1.9%	2.3%	2.3%
Bloomberg Forecast (June)	3.0%	2.4%	2.4%	2.3%	2.2%	2.4%
Bloomberg Forecast (May)	3.0%	2.4%	2.3%	2.3%	2.2%	2.3%
Bloomberg Forecast (April)	2.6%	2.4%	2.3%	2.2%	2.2%	2.3%
CPI YoY%						
Bloomberg Forecast (July)	1.9%	2.0%	1.9%	1.8%	2.1%	2.1%
Vining Forecast (July)	1.7%	2.2%	2.0%	1.9%	2.1%	2.1%
Bloomberg Forecast (June)	2.2%	2.3%	2.2%	2.0%	2.3%	2.3%
Bloomberg Forecast (May)	2.3%	2.4%	2.3%	2.2%	2.4%	2.3%
Bloomberg Forecast (April)	2.5%	2.5%	2.4%	2.2%	2.5%	2.3%
Unemployment Rate						
Bloomberg Forecast (July)	N/A	4.3%	4.3%	4.2%	4.4%	4.2%
Vining Forecast (July)	4.4%	4.4%	4.4%	4.4%	4.5%	4.5%
Bloomberg Forecast (June)	4.4%	4.4%	4.3%	4.3%	4.4%	4.2%
Bloomberg Forecast (May)	4.5%	4.4%	4.4%	4.4%	4.5%	4.4%
Bloomberg Forecast (April)	4.6%	4.5%	4.5%	4.5%	4.6%	4.4%
Average Monthly Payrolls (000s)						
Bloomberg Forecast (July)	N/A	168	163	156	172	151
Vining Forecast (July)	178	170	165	160	174	150
Bloomberg Forecast (June)	160	160	159	153	167	150
Bloomberg Forecast (May)	178	170	165	152	172	154
Bloomberg Forecast (April)	173	169	165	154	176	155

BLOOMBERG SURVEY OF ECONOMISTS (Interest Rate Projections)

July 2017 Survey Results

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Federal Funds Target Rate (Median of Upper and Lower Bounds)*						
Bloomberg Forecast (July)	1.125%	1.125%	1.375%	1.625%	1.625%	1.875%
Vining Forecast (July)	1.125%	1.125%	1.125%	1.375%	1.375%	1.625%
Bloomberg Forecast (June)	1.125%	1.375%	1.375%	1.625%	1.875%	1.875%
Bloomberg Forecast (May)	1.125%	1.375%	1.375%	1.625%	1.875%	1.875%
Bloomberg Forecast (April)	1.125%	1.125%	1.375%	1.625%	1.688%	1.875%
2-Year Treasury Rate						
Bloomberg Forecast (July)	N/A	1.50%	1.70%	1.88%	2.09%	2.20%
Vining Forecast (July)	1.38%	1.40%	1.45%	1.50%	1.60%	1.70%
Bloomberg Forecast (June)	1.40%	1.60%	1.76%	1.96%	2.18%	2.31%
Bloomberg Forecast (May)	1.45%	1.65%	1.80%	2.00%	2.20%	2.39%
Bloomberg Forecast (April)	1.44%	1.60%	1.80%	1.92%	2.18%	2.30%
10-Year Treasury Rate						
Bloomberg Forecast (July)	N/A	2.45%	2.60%	2.80%	2.90%	3.02%
Vining Forecast (July)	2.31%	2.45%	2.55%	2.60%	2.65%	2.65%
Bloomberg Forecast (June)	2.40%	2.55%	2.72%	2.89%	3.00%	3.11%
Bloomberg Forecast (May)	2.50%	2.70%	2.80%	2.99%	3.10%	3.20%
Bloomberg Forecast (April)	2.52%	2.71%	2.85%	2.90%	3.00%	3.10%

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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