

June 2017

Economists Expect Tamer Inflation, Slower Job Growth, Lower Interest Rates; but ... Rate Hikes

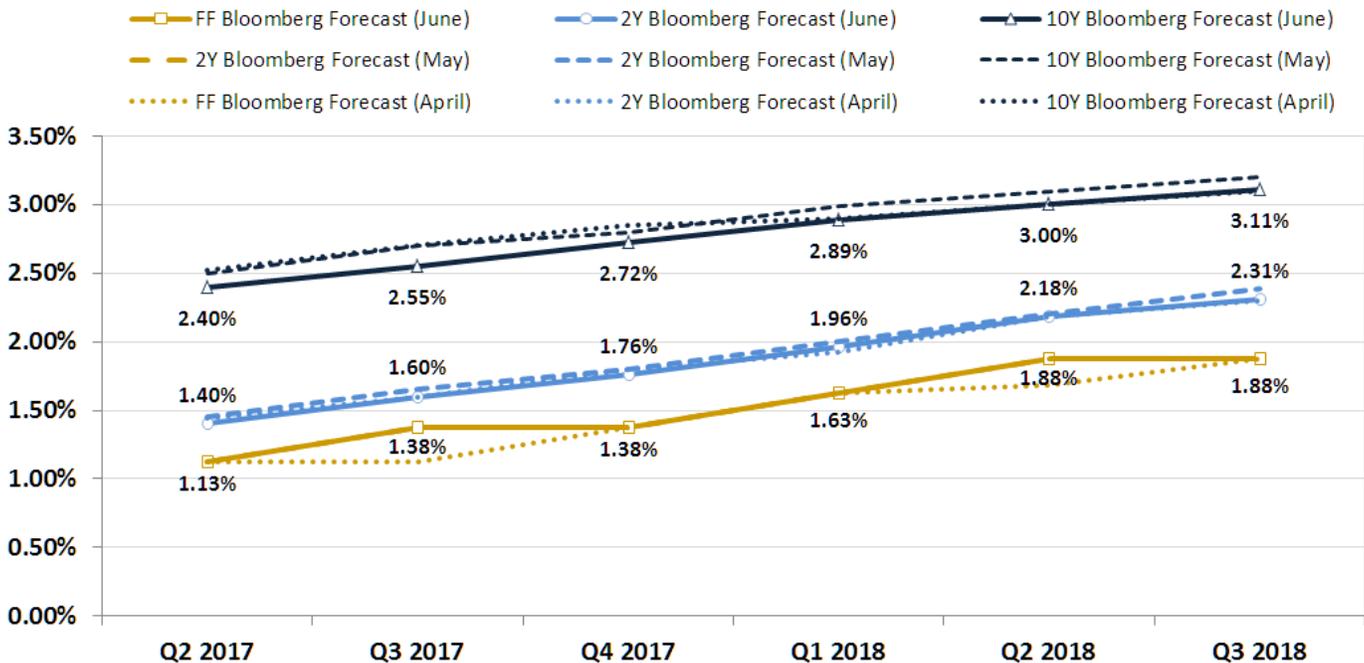
The June 2017 Bloomberg Survey of Economists showed a continuation of the recent trends which seem to defy logic. Economists kept their 2017 growth forecasts unchanged, lowered their inflation forecasts, and lowered their job growth projections while also dropping their unemployment rate forecasts. They expect the Fed to continue with its rate hikes but expect 2- and 10-year Treasury yields to be lower than in their May projections. It appears counterintuitive to lower unemployment forecasts, yet project even lower inflation and interest rates. However, such has been the reality for this economy for several years.

The economy is still expected to expand 3.0% in 2Q, rebounding from 1Q's weak growth. For the full year, GDP is projected to run at 2.2%, the same forecasts as seen in the last two surveys. After falling to 4.29% in May, the unemployment rate is now projected to end 2Q at 4.4% and average 4.4% for the full year, down from 4.5% in the previous survey. An even larger drop is expected for 2018 with economists projecting the rate will average 4.2% during the year, down from 4.4% in the May survey. Payroll growth is now projected to average 167k per month in 2018 and 150k in 2017, down from 172k and 154k, respectively. Given the weaker expectations for job growth, the lower unemployment rate projection is necessarily the result of weaker expected participation, a trend that has re-emerged in recent months. Ironically, despite the tighter expectations for the labor market, inflation is expected to grow at an even slower pace. CPI inflation is now projected to run slower in each of the next four quarters, coming in at 2.2% by the end of Q217 and averaging 2.3% for the full year.

Even with job growth and the rate of inflation expected to simultaneously slow, economists continue to project another rate hike in 2017 and two more in the first half of 2018, in-line with the FOMC's projections. Treasury yields, however, are now projected to be lower than in the previous survey. The 2-year Treasury yield is projected to end 2017 at 1.76%, down from 1.80% in the May survey and 1.89% in the March survey. The 10-year yield is now projected to end the year at 2.72%, down from 2.80% in the May survey and 2.90% in the March survey. If economists' projections are correct, the spread between the Fed Funds rate and the 2-year Treasury will be 30 bps by the middle of next year and the spread between the 2-year and 10-year Treasuries will be just 82 bps.

Economists' Rate Forecast - Bloomberg Survey

Reflects Forecast for Rates at End-of-Quarter



BLOOMBERG SURVEY OF ECONOMISTS (Economic Projections)

June 2017 Survey Results

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Avg. 2017	Avg. 2018
GDP						
Bloomberg Forecast (June)	3.0%	2.4%	2.4%	2.3%	2.2%	2.4%
Vining Forecast (June)	2.6%	2.4%	2.4%	1.9%	2.2%	2.3%
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%
Bloomberg Forecast (March)	2.5%	2.4%	2.4%	2.3%	2.3%	2.3%
CPI YoY%						
Bloomberg Forecast (June)	2.2%	2.3%	2.2%	2.0%	2.3%	2.3%
Vining Forecast (June)	2.2%	2.4%	2.3%	2.0%	2.2%	2.1%
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%
Bloomberg Forecast (March)	2.4%	2.6%	2.4%	2.3%	2.5%	2.4%
Unemployment Rate						
Bloomberg Forecast (June)	4.4%	4.4%	4.3%	4.3%	4.4%	4.2%
Vining Forecast (June)	4.4%	4.4%	4.4%	4.4%	4.5%	4.5%
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%
Bloomberg Forecast (March)	4.6%	4.6%	4.5%	4.5%	4.6%	4.5%
Average Monthly Payrolls (000s)						
Bloomberg Forecast (June)	160	160	159	153	167	150
Vining Forecast (June)	165	160	155	155	162	150
Bloomberg Forecast (May)	178	170	165	152	172	154
Bloomberg Forecast (April)	173	169	165	154	176	155
Bloomberg Forecast (March)	175	169	160	151	181	150

BLOOMBERG SURVEY OF ECONOMISTS (Interest Rate Projections)

June 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 (June)	1.125%	1.375%	1.375%	1.625%	1.875%	1.875%
Vining Forecast (June)	1.125%	1.125%	1.125%	1.375%	1.625%	1.625%
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%
Bloomberg Forecast (March)	1.125%	1.125%	1.375%	1.665%	1.875%	1.875%
2-Year Treasury Rate						
Bloomberg Forecast (June)	1.40%	1.60%	1.76%	1.96%	2.18%	2.31%
Vining Forecast (June)	1.35%	1.40%	1.45%	1.50%	1.60%	1.70%
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%
Bloomberg Forecast (March)	1.50%	1.70%	1.89%	2.01%	2.21%	2.40%
10-Year Treasury Rate						
Bloomberg Forecast (June)	2.40%	2.55%	2.72%	2.89%	3.00%	3.11%
Vining Forecast (June)	2.35%	2.45%	2.55%	2.60%	2.60%	2.60%
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%
Bloomberg Forecast (March)	2.65%	2.80%	2.90%	3.00%	3.13%	3.24%

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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