

October 2017

Economists Expect Hurricanes to Weigh Down 3Q Data with 4Q Rebound

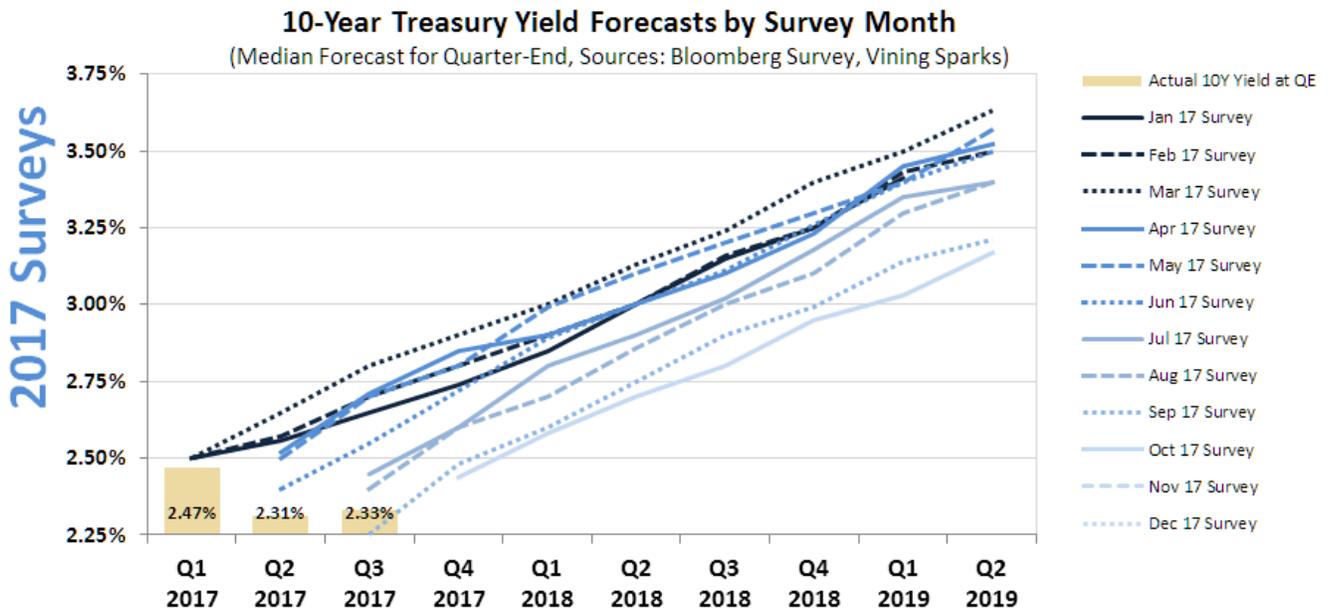
The October Bloomberg Survey of Economists shows economists expecting the recent hurricanes to temporarily affect the economic data followed by an equally temporary rebound. Growth is expected to be weaker in 3Q while inflation is expected to be higher and job growth slower. However, those trends are expected to reverse in 4Q and 1Q18. As for the interest rate outlook, economists generally left their interest rate projections unchanged with a slight cut to longer maturity Treasury yields.

Economists expect the economy to expand just 2.3% in 3Q according to the October survey, down from growth expectations of 2.6% in the September survey. While part of this is likely the result of 2Q GDP growth being revised higher in recent revisions, the hurricanes which hit Texas and Florida in late-August and September appear to be the primary drivers. As evidence, while 3Q growth projections were lowered, 4Q projections were revised up by the same 0.3%. The economy is now expected to expand 2.7% in 4Q leaving full-year 2017 growth unchanged at 2.2%. Worth noting, economists did revise higher their full-year 2018 GDP projections from 2.3% to 2.4%, the highest they have collectively been since the monthly survey began incorporating 2018 growth projections.

As of the September survey, nonfarm payroll growth was expected to average 174k for 3Q. Economists, at the time, did not expect payrolls to contract 33k in October, a direct result of the hurricanes it appears. Going forward, job growth projections are likely to be ratcheted higher for October and November, compensating for the weaker-than-expected September data.

Moreover, short-term inflation projections were raised, likely the result of higher gasoline prices in the wake of Hurricane Harvey. Headline CPI projections were raised 0.2% for both 3Q and 4Q. However, economists also raised their longer term inflation projections as well. CPI inflation is now expected to average 2.1% in 2018, up from 1.9% in the September survey.

In their projections for monetary policy, economists still expect a rate hike in 4Q bringing the overnight target range to 1.25-1.50%. They then expect the Fed to pause in 1Q18 followed by one hike in both 2Q18 and 3Q18. However, economists do not expect a third hike in 2018. As such, economists expect the overnight target range to end 2018 at 1.75-2.00%. While 2-year Treasury yield projections were generally unchanged, ending 2017 at 1.60% and 2018 at 2.29%, economists did slightly cut their 10-year yield projections. The 10-year Treasury yield is now projected to end 2017 at 2.44% (-4 bps) and 2018 at 2.95% (-4 bps).



BLOOMBERG SURVEY OF ECONOMISTS (Economic Projections)

October 2017 Survey Results

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Avg. 2017	Avg. 2018
GDP						
Bloomberg Forecast (October)	2.3%	2.7%	2.2%	2.4%	2.2%	2.4%
Vining Forecast (October)	2.5%	2.6%	1.9%	2.8%	2.5%	2.6%
Bloomberg Forecast (September)	2.6%	2.4%	2.1%	2.3%	2.2%	2.3%
Bloomberg Forecast (August)	2.5%	2.4%	2.1%	2.3%	2.1%	2.3%
Bloomberg Forecast (July)	2.5%	2.3%	2.1%	2.3%	2.2%	2.3%
CPI YoY%						
Bloomberg Forecast (October)	2.0%	1.9%	1.6%	2.2%	2.1%	2.1%
Vining Forecast (October)	2.1%	1.8%	1.9%	2.0%	2.1%	1.9%
Bloomberg Forecast (September)	1.8%	1.7%	1.5%	2.0%	2.0%	1.9%
Bloomberg Forecast (August)	1.8%	1.8%	1.6%	2.2%	2.0%	2.1%
Bloomberg Forecast (July)	2.0%	1.9%	1.8%	2.2%	2.1%	2.1%
Unemployment Rate						
Bloomberg Forecast (October)	4.2%	4.3%	4.2%	4.1%	4.4%	4.2%
Vining Forecast (October)	4.2%	4.3%	4.2%	4.1%	4.4%	4.2%
Bloomberg Forecast (September)	4.4%	4.3%	4.2%	4.2%	4.4%	4.2%
Bloomberg Forecast (August)	4.3%	4.3%	4.2%	4.2%	4.4%	4.2%
Bloomberg Forecast (July)	4.3%	4.3%	4.2%	4.2%	4.4%	4.2%
Average Monthly Payrolls (000s)						
Bloomberg Forecast (October)	91	184	167	158	166	158
Vining Forecast (October)	91	180	170	170	174	163
Bloomberg Forecast (September)	174	167	165	155	175	156
Bloomberg Forecast (August)	185	166	165	160	178	160
Bloomberg Forecast (July)	168	163	156	152	172	151

BLOOMBERG SURVEY OF ECONOMISTS (Interest Rate Projections)

October 2017 Survey Results

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Federal Funds Target Rate (Median of Upper and Lower Bounds)*						
Bloomberg Forecast (October)	1.125%	1.375%	1.375%	1.625%	1.875%	1.875%
Vining Forecast (October)	1.125%	1.375%	1.375%	1.625%	1.625%	1.625%
Bloomberg Forecast (September)	1.125%	1.375%	1.375%	1.625%	1.875%	1.875%
Bloomberg Forecast (August)	1.125%	1.375%	1.375%	1.625%	1.875%	2.125%
Bloomberg Forecast (July)	1.125%	1.375%	1.625%	1.625%	1.875%	2.125%
2-Year Treasury Rate						
Bloomberg Forecast (October)	1.38%	1.60%	1.79%	1.95%	2.12%	2.29%
Vining Forecast (October)	1.48%	1.50%	1.60%	1.75%	1.80%	1.80%
Bloomberg Forecast (September)	1.40%	1.60%	1.80%	2.00%	2.15%	2.30%
Bloomberg Forecast (August)	1.46%	1.68%	1.85%	2.02%	2.20%	2.40%
Bloomberg Forecast (July)	1.50%	1.70%	1.88%	2.09%	2.20%	2.38%
10-Year Treasury Rate						
Bloomberg Forecast (October)	2.33%	2.44%	2.58%	2.70%	2.80%	2.95%
Vining Forecast (October)	2.33%	2.50%	2.60%	2.65%	2.70%	2.75%
Bloomberg Forecast (September)	2.25%	2.48%	2.60%	2.75%	2.90%	2.99%
Bloomberg Forecast (August)	2.40%	2.60%	2.70%	2.86%	3.00%	3.10%
Bloomberg Forecast (July)	2.45%	2.60%	2.80%	2.90%	3.02%	3.18%

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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