

## Reshaping the Trump Bump and the Monetary Offset

The policy machinations of Washington D.C. will figure very large in the U.S. economy over the next year, both in terms of Trump Administration fiscal policy and the Yellen Fed monetary policy. Nearing the end of its first hundred days, the Trump Administration has fostered a business-friendly environment through the rollback of regulations via executive order. U.S. equity prices responded favorably to the initial steps and overall expectations of the potential Trump Bump on the economy were high. However, the Trump Administration's first legislative challenge, the rollback of the Affordable Care Act, was successfully thwarted by an unlikely coalition of Democrats and conservative Republicans. Because of the potential tax and deficit implications of the American Health Care Act, it was interlinked with the tax reform and spending initiatives that were to follow. The failure of the American Health Care Act 1.0 to clear the House, much less the tougher hurdle in the Senate, increased doubts about the scope and the success of tax reform and infrastructure programs. Last week, President Trump renewed his public discussion of tax reform and a \$1 trillion infrastructure program at the CEO Town Hall. These programs are potential game changers for the U.S. economy. If the Trump Administration can clear the runway with the passage of the American Health Care Act 2.0, and/or achieve a reasonable portion of the tax reform and \$1 trillion infrastructure spending packages, then the Trump Bump will give us a significant lift in 2018. We have flattened our near-term GDP forecast and pushed the Trump Bump back into 2018 with the expectation that the Trump Administration will have a least some success with tax reform and infrastructure spending.

This spring has also been an interesting time at the Federal Reserve. New York Fed President Bill Dudley's Bloomberg interview and the follow-up article in the Wall Street Journal on March 31 gave the public the first glimpse of the Fed's still-evolving plan for balance sheet reduction. More discussion was released to the public in the minutes of the March 14/15 Federal Open Market Committee meeting. According to the FOMC minutes, the Fed is focusing on a passive reduction in their \$4.5 trillion balance sheet by ending the reinvestment of maturing assets, beginning later this year. The ending or phasing strategy could be different for different types of securities. The timing of the change in reinvestment policy could depend on economic and financial market conditions. Also, reinvestment could be restarted if the economy encountered significant adverse shocks. It was noted in the minutes that the FOMC would continue to discuss balance sheet policy during upcoming meetings. One possible strategy for the Fed would be to raise the fed funds rate range two more times this year, once on June 14, and then again on September 20, and then keep interest rates unchanged through the end of this year as the Fed initiates balance sheet roll-off.

Most U.S. and international economic data continues to be healthy. However, despite other strong labor data, the official payroll job count for March showed a weaker-than-expected gain of 98,000 jobs. The separate household survey of employment, which feeds into the unemployment rate calculation, posted an outsized gain of 472,000 jobs, bringing the unemployment rate down to a tight 4.5 percent, the lowest since May 2007. The Fed will see two more monthly jobs reports before the June 13/14 FOMC meeting, when we expect them to next raise the fed funds rate.

### U.S. Economic Outlook, Summary

	3Q'16a	4Q'16a	1Q'17f	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2Q'18f	2016a	2017f	2018f
Real GDP (Percent Change Annualized)	3.5	2.1	1.1	3.3	2.6	2.7	2.4	2.6	1.6	2.3	2.6
CPI (Percent Change Year-over-Year)	1.1	1.8	2.7	2.5	2.5	2.3	1.9	2.0	1.3	2.5	2.0
Payroll Jobs (Average Monthly Diff., Ths.)	234.6	169.9	184.2	181.1	173.9	174.3	176.9	181.3	194.3	178.4	179.4
Unemployment Rate (Percent)	4.9	4.7	4.7	4.5	4.5	4.5	4.5	4.4	4.9	4.5	4.4
Federal Funds Rate (Effective)	0.40	0.45	0.70	0.92	1.17	1.38	1.42	1.63	0.40	1.04	1.70
10-Yr. Treasury Rate	1.56	2.13	2.44	2.42	2.72	2.92	2.96	3.16	1.84	2.62	3.23

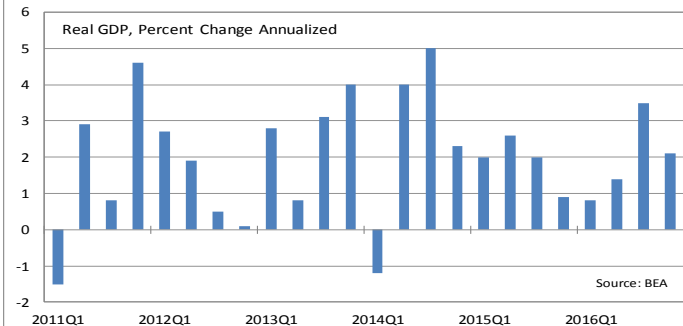
**a = actual f = forecast**

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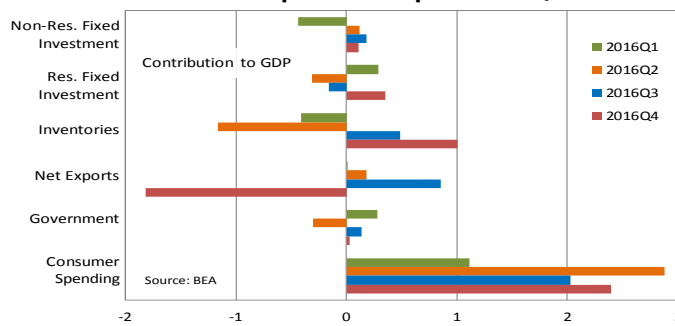
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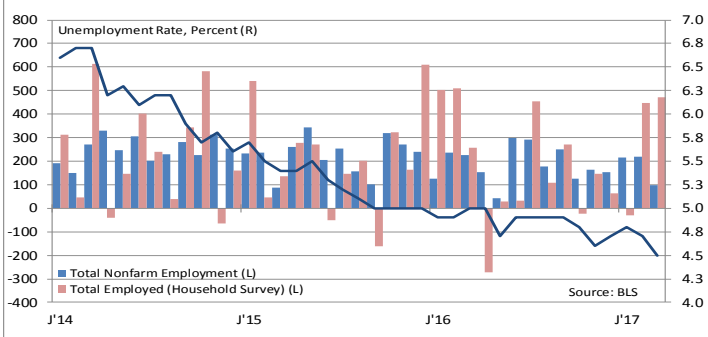
### Q4 GDP Growth at a 2.1% Rate



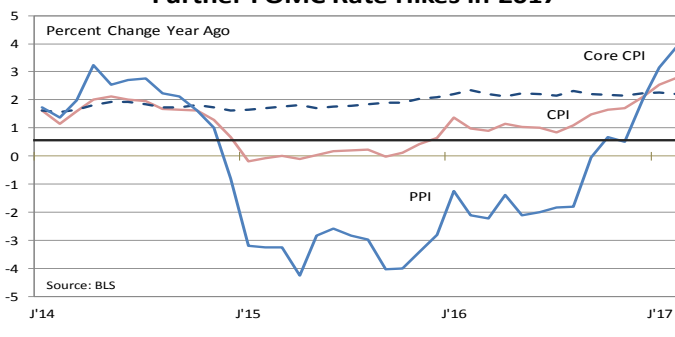
### Inventories and Consumer Spending Overcome Slump in Net Exports for Q4 GDP



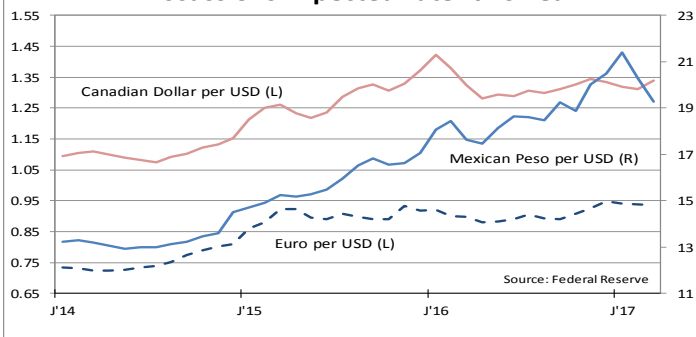
### U.S. Added Net 98,000 Payroll Jobs in March



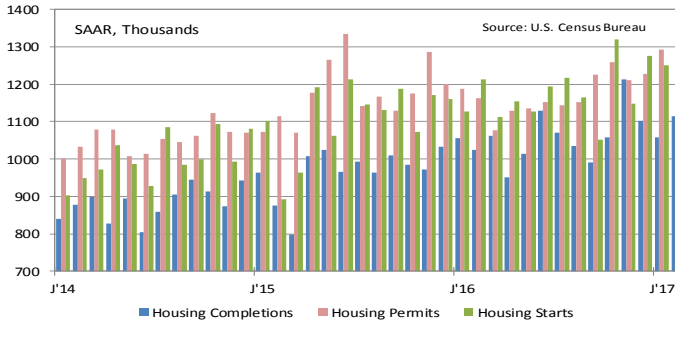
### Stronger Inflation Growth is Supportive of Further FOMC Rate Hikes in 2017



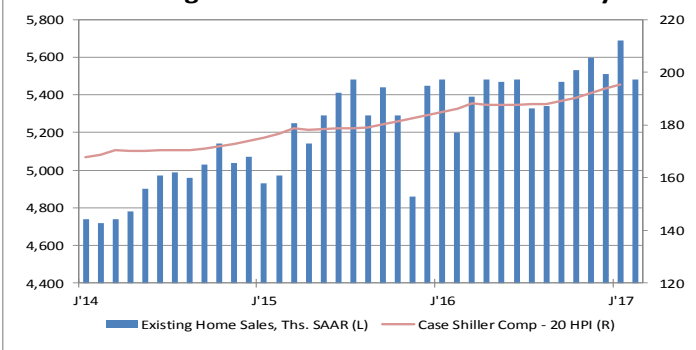
### Mexican Peso Strengthens Ahead of Trade Discussions Expected Later this Year



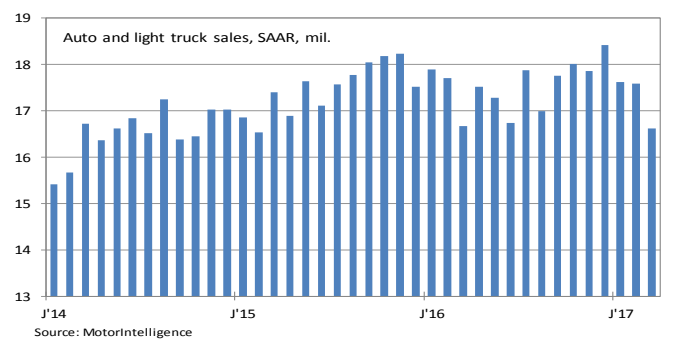
### Single-Family Starts 6 Year High in February



### Existing Home Sales Pull Back in February



### March Auto Sales Decelerate to 16.6 mln



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	3Q'16a	4Q'16a	1Q'17f	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2Q'18f	2016a	2017f	2018f
<b>Output</b>											
Nominal GDP (Billions \$)	18675	18869	19015	19264	19482	19703	19919	20142	18569	19366	20258
<b>Percent Change Annualized</b>	<b>5.0</b>	<b>4.2</b>	<b>3.1</b>	<b>5.3</b>	<b>4.6</b>	<b>4.6</b>	<b>4.5</b>	<b>4.6</b>	<b>3.0</b>	<b>4.3</b>	<b>4.6</b>
Real GDP (Chained 2009 Billions \$)	16727	16813	16860	16997	17107	17220	17323	17435	16662	17046	17490
<b>Percent Change Annualized</b>	<b>3.5</b>	<b>2.1</b>	<b>1.1</b>	<b>3.3</b>	<b>2.6</b>	<b>2.7</b>	<b>2.4</b>	<b>2.6</b>	<b>1.6</b>	<b>2.3</b>	<b>2.6</b>
Pers. Consumption Expenditures	11569	11670	11644	11729	11799	11860	11917	11978	11522	11758	12010
<b>Percent Change Annualized</b>	<b>3.0</b>	<b>3.5</b>	<b>-0.9</b>	<b>2.9</b>	<b>2.4</b>	<b>2.1</b>	<b>1.9</b>	<b>2.1</b>	<b>2.7</b>	<b>2.0</b>	<b>2.1</b>
Nonresidential Fixed Investment	2193	2197	2226	2260	2293	2325	2356	2387	2189	2276	2403
<b>Percent Change Annualized</b>	<b>1.4</b>	<b>0.9</b>	<b>5.4</b>	<b>6.2</b>	<b>5.9</b>	<b>5.7</b>	<b>5.4</b>	<b>5.4</b>	<b>-0.5</b>	<b>4.0</b>	<b>5.6</b>
Residential Investment	583	596	603	612	619	626	631	637	592	615	639
<b>Percent Change Annualized</b>	<b>-4.1</b>	<b>9.6</b>	<b>4.8</b>	<b>5.8</b>	<b>5.2</b>	<b>4.0</b>	<b>3.8</b>	<b>3.4</b>	<b>4.9</b>	<b>3.9</b>	<b>3.9</b>
Change in Private Inventories	7	50	65	70	67	66	65	65	22	67	65
Net Exports	-522	-605	-600	-606	-616	-617	-622	-621	-563	-610	-623
Government Expenditures	2906	2908	2923	2934	2946	2961	2976	2990	2907	2941	2997
<b>Percent Change Annualized</b>	<b>0.8</b>	<b>0.2</b>	<b>2.1</b>	<b>1.6</b>	<b>1.7</b>	<b>2.0</b>	<b>2.1</b>	<b>1.9</b>	<b>0.8</b>	<b>1.2</b>	<b>1.9</b>
Industrial Prod. Index (2007=100)	104.4	104.4	104.7	105.1	105.3	105.6	105.8	105.9	104.2	105.2	106.0
<b>Percent Change Annualized</b>	<b>1.7</b>	<b>0.3</b>	<b>1.1</b>	<b>1.3</b>	<b>1.1</b>	<b>0.9</b>	<b>0.7</b>	<b>0.7</b>	<b>-1.0</b>	<b>0.9</b>	<b>0.8</b>
Capacity Utilization (Percent)	75.5	75.4	75.5	75.6	75.6	75.6	75.6	75.7	75.4	75.6	75.7
<b>Prices</b>											
CPI (1982-84=100)	240.4	242.2	244.4	245.3	246.5	247.8	249.0	250.2	240.0	246.0	250.9
<b>Percent Change Annualized</b>	<b>1.8</b>	<b>3.0</b>	<b>3.6</b>	<b>1.5</b>	<b>1.9</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>1.3</b>	<b>2.5</b>	<b>2.0</b>
PCE Price Index (2009=100)	110.9	111.5	112.2	112.7	113.2	113.8	114.3	114.9	110.7	113.0	115.2
<b>Percent Change Annualized</b>	<b>1.5</b>	<b>2.0</b>	<b>2.5</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.1</b>	<b>2.0</b>	<b>2.0</b>
GDP Price Index (2009=100)	111.7	112.2	112.8	113.4	113.9	114.5	115.1	115.6	111.5	113.6	115.9
<b>Percent Change Annualized</b>	<b>1.4</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.3</b>	<b>2.0</b>	<b>2.0</b>
Producer Price Index, Finished Goods	192.2	193.9	196.9	197.0	198.0	199.1	200.1	201.1	191.9	197.8	201.6
<b>Percent Change Annualized</b>	<b>1.7</b>	<b>3.6</b>	<b>6.3</b>	<b>0.3</b>	<b>1.9</b>	<b>2.3</b>	<b>2.0</b>	<b>2.0</b>	<b>-1.0</b>	<b>3.0</b>	<b>1.9</b>
Crude Oil, WTI (\$/barrel)	45.1	49.2	50.0	53.0	55.0	58.0	60.0	60.0	43.1	54.0	60.0
<b>Labor Markets</b>											
Payroll Jobs (Average Monthly Diff., Ths.)	234.6	169.9	184.2	181.1	173.9	174.3	176.9	181.3	194.3	178.4	179.4
Unemployment Rate (Percent)	4.9	4.7	4.7	4.5	4.5	4.5	4.5	4.4	4.9	4.5	4.4
Average Weekly Hours, Prod. Works.	33.6	33.6	33.6	33.6	33.5	33.5	33.5	33.5	33.6	33.5	33.5
Population (Millions)	323.8	324.4	325.1	325.8	326.4	327.1	327.7	328.4	323.5	326.1	328.7
<b>Percent Change Annualized</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>
<b>Personal Income</b>											
Average Hourly Earnings (\$)	21.63	21.75	21.86	21.99	22.12	22.27	22.42	22.58	21.56	22.06	22.66
<b>Percent Change Annualized</b>	<b>2.6</b>	<b>2.3</b>	<b>2.0</b>	<b>2.3</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>	<b>2.7</b>
Real Disp. Income (2009 Billions \$)	12738	12801	12856	12933	13005	13077	13153	13230	12685	12967	13273
<b>Percent Change Annualized</b>	<b>2.9</b>	<b>2.0</b>	<b>1.7</b>	<b>2.4</b>	<b>2.2</b>	<b>2.2</b>	<b>2.4</b>	<b>2.4</b>	<b>2.8</b>	<b>2.2</b>	<b>2.4</b>
Personal Saving Rate (Percent)	5.8	5.4	5.5	5.5	5.5	5.5	5.5	5.5	5.8	5.5	5.5
<b>Housing</b>											
Housing Starts (Ths., Ann. Rate)	1145	1248	1273	1285	1301	1312	1323	1336	1176	1293	1342
Ext. SF Home Sales (Ths., Ann Rate)	4777	4920	4956	5016	5062	5107	5141	5173	4828	5035	5190
New SF Home Sales (Ths., Ann Rate)	583	557	577	584	590	596	601	606	559	587	608
Case/Shiller HPI (Jan. 2000=100)	181.6	185.5	188.9	192.1	195.3	198.6	201.9	205.2	181.3	193.7	206.9
<b>Year/Year Percent Change</b>	<b>5.1</b>	<b>5.5</b>	<b>5.9</b>	<b>7.0</b>	<b>7.6</b>	<b>7.0</b>	<b>6.8</b>	<b>6.8</b>	<b>5.2</b>	<b>6.9</b>	<b>6.8</b>
<b>Consumer</b>											
Household Economic Stress Index	0.9	1.1	1.5	0.0	-0.6	-0.3	-0.5	-0.4	0.9	0.1	-0.4
Auto Sales (Millions)	17.5	18.1	17.3	17.4	17.2	17.1	16.9	16.8	17.6	17.2	16.7
<b>Interest Rates (percent per year)</b>											
Federal Funds Rate (Effective)	0.40	0.45	0.70	0.92	1.17	1.38	1.42	1.63	0.40	1.04	1.70
Prime Rate	3.50	3.55	3.79	4.00	4.27	4.48	4.52	4.73	3.51	4.14	4.80
1-Month LIBOR	0.51	0.60	0.83	1.05	1.33	1.55	1.59	1.80	0.50	1.19	1.87
3-Month LIBOR	0.79	0.92	1.07	1.21	1.50	1.73	1.76	1.96	0.74	1.38	2.03
1-Yr. Treasury Rate	0.56	0.76	0.89	1.11	1.33	1.52	1.55	1.75	0.61	1.21	1.82
5-Yr. Treasury Rate	1.13	1.61	1.94	1.95	2.23	2.43	2.47	2.67	1.34	2.14	2.74
10-Yr. Treasury Rate	1.56	2.13	2.44	2.42	2.72	2.92	2.96	3.16	1.84	2.62	3.23
30-Year Fixed Rate Mortgage	3.45	3.81	4.17	4.16	4.47	4.67	4.70	4.89	3.65	4.37	4.96

a = actual f = forecast

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