THE ECONOMIC OUTLOOK GROUP

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ECONOMIC TALKING POINTS

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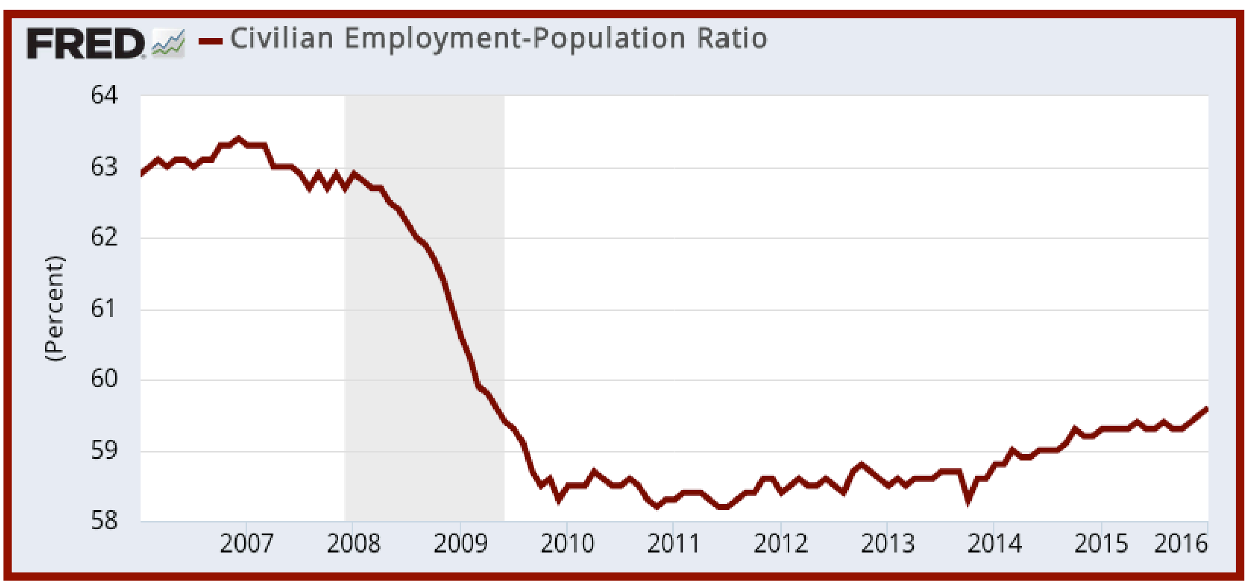
A Good Start for the Year:
Latest Jobs Report Should Quash Talk of Recession.

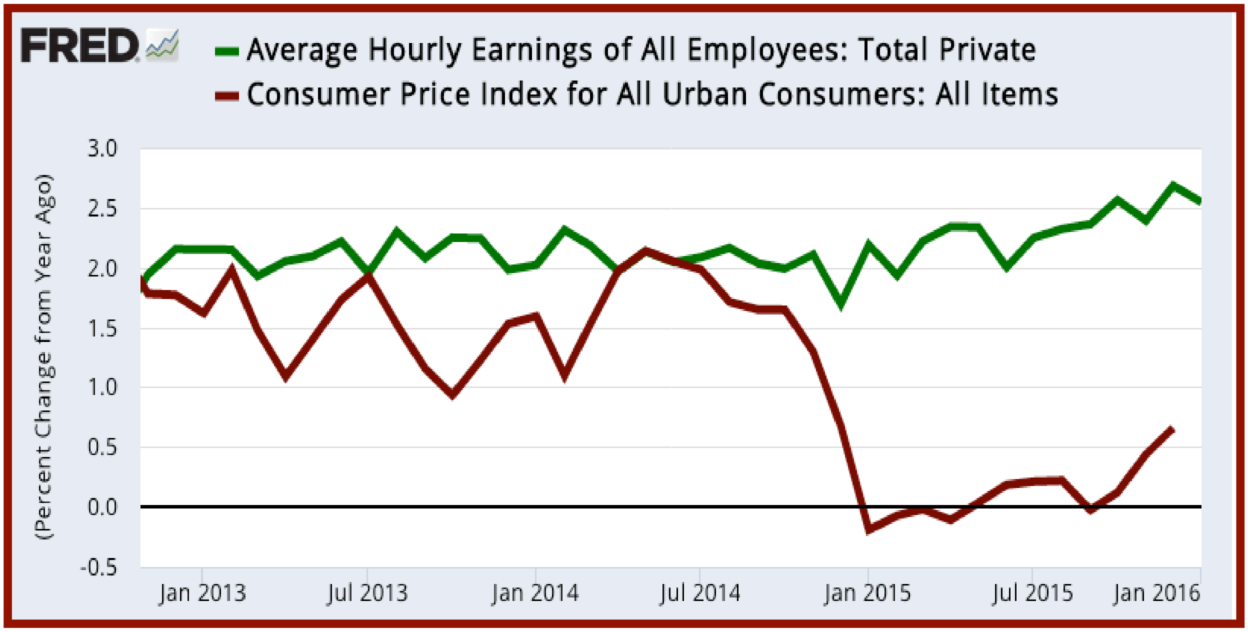
The January employment report further bolsters the view that a recession is truly remote this year. If anything, the latest numbers on jobs shows the US economy enters the new year with solid momentum.

While the 151,000 increase in total payrolls was a step down from the average monthly rise of 279,000 in the final quarter of 2015, the longer term average remains around 200,000, which is more than enough to absorb those entering the labor force over the past year. So much so that the proportion of the US population currently employed has jumped to 59.6%, the highest in more than 6 years!



With a greater portion of the population now at work, the slack in the labor force keeps shrinking. The jobless rate slipped another tenth of a point, to 4.9%, the lowest in 8 years. As the competition to find suitable workers intensifies, employers are feeling the pressure to lift wages. Average hourly earnings jumped 0.5% in January, the biggest monthly leap in a year. Though that still kept hourly pay increase for the year at 2.5%, we expect the pace of wage growth to accelerate in the coming months as labor market conditions tightens further.

It should be noted that average weekly pay for all workers jumped by 0.8% in January, due to the increased number of hours worked. And since wages have consistently been climbing faster than the cost of living, households continue to experience increases in purchasing power and that should promote greater consumer spending in the months ahead.



Other data points underscore the improvement underway in the labor markets.

- The number of Americans stuck with part time work because they could not find full time employment continues to decline, with the number in January dropping to 5.98 million, down 800,000 from a year ago.

- Total employment surged by 615,000 last month, according to the household survey. This was the largest monthly increase in a year.

- Despite the many headwinds facing manufacturing – such as the strong dollar, financially stressed energy companies and weak global demand for US exports --- factory employment has in fact been accelerating in each of the last three months, with January's 29,000 increase exceeding every month since August 2013. Employment picked up both in the durable goods sector (led by fabricated metal products, transportation equipment, and furniture), and nondurable goods (food manufacturing and plastics).

With both the dollar's value expected to stabilize and oil prices seen firming this year, we will see manufacturing output and hiring strengthen in the coming months.

• The recovery in housing helped boost construction employment by another 18,000 in January. And with permits for new residential building outpacing actual starts, demand for construction workers will remain strong this year.

• Hiring in the leisure and hospitality boosted payrolls by another 44,000 in January, with lodging and restaurants contributing the bulk of those jobs. Americans are eating out and traveling more, apparently waving off concerns of a looming recession in the US.

• Another favorite indicator of ours is employment at day care centers. Young parents who find jobs typically need to make arrangements to drop off their children at these facilities. Since many states require day care centers to maintain a specific ratio of caregivers to children, the more children brought in, the more adults these facilities must hire. January added another 3,900 to their payrolls, lifting employment in this sector to a record high of 892,000.

Bottom line:

Look, the primary theme that emerges from the employment report is that the US economic expansion remains on solid ground. We're still at the mid stage of this business cycle. There's simply no meaningful evidence to suggest the domestic economy is in peril.

Just the opposite, economic activity should accelerate this year as rising employment, income, home values and confidence drive more spending. Moreover, we expect US businesses (which cannot ignore the need to upgrade and replace aging capacity much longer) and the federal government (thanks to two major spending bills passed late last year) will boost expenditures. And all of this will happen against the backdrop of unprecedented monetary easing by virtually every major central bank in the world.

Simply put, the harbingers of recession are nowhere to be seen.

(Forecasts below.)

Key Economic Forecasts

- Actual
- Forecast

United States

	I 2015	II 2015	III 2015	IV 2015	I 2016	II 2016	III 2016	IV 2016	I 2017	II 2017	III 2017	IV 2017
Real Gross Domestic Product (GDP):												
%	0.6	3.9	2.0	0.7	2.3	3.0	3.1	2.7	2.2	3.2	3.1	2.8
Personal Consumption Expenditures:												
PCE	1.8	3.6	3.0	2.2	2.5	3.5	3.2	2.9	2.8	3.2	3.0	2.8
Inflation, end of period, year-over-year:												
CPI %	-0.1	0.1	0.0	0.7	0.8	1.2	1.5	1.6	1.6	1.9	2.2	2.3
Unemployment Rate (end of period):												
%	5.5	5.3	5.1	5.0	4.9	4.8	4.7	4.5	4.5	4.4	4.2	3.9
Non-farm Payrolls, monthly avg. thousand:												
	195	231	174	279	220	245	250	265	250	240	220	210
Treasury 10-yr Note Yield % (end of period)												
	1.93	2.38	2.06	2.27	2.14	2.35	2.50	2.78	3.00	3.10	3.15	3.30
Federal funds rate % (end of period)												
	0.13	0.13	0.13	0.38	0.38	0.63	0.63	0.88	1.13	1.38	1.63	1.88

GDP Growth - Global Economy

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
US	1.8	-0.3	-2.8	2.5	1.6	2.2	1.5	2.4	2.4	3.1	2.8
Eurozone	2.6	0.6	-4.1	1.7	1.4	-0.6	-0.4	0.9	1.3	1.6	1.8
United Kingdom	3.1	0.6	-5.2	1.7	0.7	0.3	1.8	2.9	2.2	2.5	2.6
Japan	2.1	-0.7	-5.4	4.6	-0.4	1.6	1.5	-0.1	0.6	1.0	0.6
Canada	2.7	0.7	-2.8	3.2	2.5	1.7	2.0	2.5	0.8	1.8	2.1
India	9.1	8.8	6.3	8.4	8.6	6.7	4.9	7.4	7.3	7.5	7.8
China	14.2	9.6	9.2	10.5	9.5	7.8	7.7	7.3	6.9	6.5	6.5
Brazil	5.7	5.1	-0.3	7.5	2.7	0.9	2.3	0.1	-3.5	-1.8	1.1
Mexico	3.3	1.4	-4.7	5.2	4.0	3.9	1.4	2.3	2.5	2.7	2.8
Australia	4.0	2.3	1.2	2.8	2.6	3.6	2.4	2.7	2.3	2.8	3.2
Russia	8.1	5.6	-7.9	4.0	4.3	3.4	1.3	0.6	-3.6	-1.0	0.3
World	5.4	1.6	-1.9	4.2	3.0	2.6	2.9	3.0	2.8	3.1	3.7

Key Currency Values

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017
USD/Yen	91	93	81	77	87	105	119	120	121	130
Euro/USD	1.40	1.43	1.34	1.29	1.32	1.37	1.21	1.09	1.11	1.18

Oil (Brent spot) & Gasoline (Average retail unleaded, $)

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017
Crude oil per barrel	46	78	95	107	111	111	58	38	53	67
Gasoline	1.61	2.57	3.00	3.27	3.30	3.32	2.26	2.00	2.28	2.55

Major Stock Indexes

	End 2013	End 2014	End 2015	% Change '15	End 2016	% Change '16
DJIA	16,577	17,823	17,425	-2.2	18,261	4.8
S&P 500	1,848	2,059	2,044	-0.7	2,150	5.2
NASDAQ	4,177	4,736	5,007	5.7	5,307	6.0
RUSSELL 2000	1,164	1,205	1,136	-5.7	1,227	8.0