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ECONOMIC TALKING POINTS

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An Acceleration in the Pace of Fed Tightening is Now More Likely

While few expected the Fed to lift rates at today's meeting, what was surprising was how muted the FOMC statement read. The wording was nearly identical to the December release even though there has since been several meaningful signs the economy and inflation pressures are accelerating.

The absence of any hint that a rate increase is near, however, has not altered our view that the Fed will likely act at its March 14-15 meeting. The reason to accelerate a tightening of monetary policy is because the U.S. economy kicked off the new year with surprising strength. Given the current jobless rate is already consistent with full employment and inflation has been edging closer towards the Fed's 2% target, there must be a higher level of urgency for policymakers now if they want to stay ahead of the inflation curve.

Just look at some key data points out the last few days:

- Consumer confidence in January remained near its 15-year high, which suggests strong household spending ahead.

- The ADP Employment Report stunned many observers with a far better than expected 246,000 increase in new private sector jobs last month. Two particular eye-opening stats were the 46,000 hired in the goods producing sector and another 25,000 in construction. Both promise greater industrial activity in coming months, which will heighten demand for basic commodities.

• Manufacturing activity last month also picked up more speed, according to the Institute for Supply Management. The ISM's manufacturing index climbed to 56, the fifth consecutive monthly increase and the highest level of activity since November 2014. New orders increased as well, which will boost the demand for more workers. The manufacturing employment index rose for a fourth straight month in January. With factories ramping up output, it stands to reason that the demand for industrial material will increase well. Prices paid by manufacturers shot up 3.5 points to 69.0 last month, the highest since May 2011.

In addition to the hard economic data, the Fed has to anticipate that policy changes later this year will also add more fuel to the economy. They include:

- Personal and corporate income tax cuts.
- More government spending on infrastructure and defense.
- The full expensing of new capital investment, which should spur more business spending.
- Easier repatriation of foreign profits that could help companies finance expansion plans in the US.
- And finally, there are signs of more vigorous growth in Europe and Japan, which is certain to firm up global demand for commodities and drive those prices higher.

Now for the really hard part!

The Fed still has to consider a host of other factors that can greatly complicate the economic outlook and thus monetary policy

- The timing and substance of the tax cuts are still very unclear.
- A trade war with Mexico or China could jerk the economy into reverse and potentially bring on a recession.
- How much and how fast will the dollar appreciate in the months ahead?
- How will the US economy and financial markets react if upcoming elections Europe result in a further fragmentation of the EU?
- Will the White House become paralyzed by mounting legal and ethics investigations into President Trump's business ties?

In the final analysis, all the Fed can do at this stage is react to the strong economic data out so far, along with some foresight on how the fiscal stimulus can impact business activity and prices

This will not be an easy year for monetary policy by any stretch. But what is certain at this juncture is the US economy appears to be on a very solid footing and that will likely lead them to finger-flick up rates another 25 basis points in March.

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United States

	I 2016	II 2016	III 2016	IV 2016	I 2017	II 2017	III 2017	IV 2017	I 2018	II 2018	III 2018	IV 2018
Real Gross Domestic Product (GDP):												
%	0.8	1.4	3.5	1.9	2.8	2.5	2.4	2.7	2.5	2.7	3.0	2.7
Personal Consumption Expenditures:												
PCE	1.6	4.3	3.0	2.5	2.2	3.6	2.8	2.6	2.6	3.5	3.3	2.5
Inflation, end of period, year-over-year:												
CPI %	0.9	1.0	1.5	2.1	2.3	2.5	2.6	2.5	2.5	2.6	2.6	2.8
Unemployment Rate (end of period):												
%	5.0	4.9	5.0	4.7	4.8	4.9	4.9	5.0	4.8	4.7	4.5	4.3
Non-farm Payrolls, monthly avg. thousand:												
	196	146	212	165	135	115	155	160	155	140	150	155
Treasury 10-yr Note Yield % (end of period)												
	1.78	1.49	1.60	2.45	2.63	2.50	2.36	2.70	3.10	3.15	3.15	3.20
Federal funds rate % (end of period)												
	0.38	0.38	0.38	0.63	0.63	0.88	0.88	1.13	1.38	1.63	1.88	2.13

GDP Growth - Global Economy

Country	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
US	1.8	-0.3	-2.8	2.5	1.6	2.2	1.7	2.4	2.6	1.6	2.4	2.7
Eurozone	2.6	0.6	-4.1	1.7	1.4	-0.9	-0.3	1.2	2.0	1.7	1.3	1.7
United Kingdom	3.1	0.6	-5.2	1.7	0.7	0.3	1.8	2.9	2.2	2.0	1.2	1.5
Japan	2.1	-0.7	-5.4	4.6	-0.4	1.6	1.5	-0.1	1.1	1.2	1.2	1.3
Canada	2.7	0.7	-2.8	3.1	3.1	1.7	2.2	2.5	1.2	1.3	2.0	2.5
India	9.1	8.8	6.3	8.4	8.6	6.7	4.9	7.4	7.8	7.3	7.2	7.8
China	14.2	9.6	9.2	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.3	6.4
Brazil	5.7	5.1	-0.3	7.5	2.7	0.9	2.3	0.1	-3.8	-3.9	0.2	2.2
Mexico	3.3	1.4	-4.7	5.2	4.0	3.9	1.4	2.3	2.5	2.1	1.8	2.4
Australia	4.0	2.3	1.2	2.8	2.6	3.6	2.4	2.6	2.5	2.3	2.5	2.8
Russia	8.1	5.6	-7.9	4.0	4.3	3.4	1.3	0.6	-3.7	-0.2	1.1	1.8
World	5.4	1.6	-1.9	4.2	3.0	2.6	2.9	3.0	2.6	2.4	2.8	3.2