THE ECONOMIC OUTLOOK GROUP

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ECONOMIC TALKING POINTS

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Consumer sentiment is up. But inflation expectations may be at a crossroad. The Fed should take notice.

The confidence Americans have in the economy and their personal finances have so far held up well. The overall index of consumer sentiment inched up to 71.8 in November, from 70.5 the month before. Interestingly, that optimism slipped a bit with respect to current conditions, but was offset by a more bullish view of future economic activity.

There is, however, something else in this report by the University of Michigan that deserves attention.

Inflation expectations over the next 12 months slightly eased in November to 2.6%%, from 2.7% in October. But there was an odd contraindication in the data that ought not be overlooked. When asked about their inflation outlook over the next five years, those responding saw it climbing to 3.2% --- suddenly putting this figure in a range seen 16 years ago!

While this jump in the five-year inflation outlook is not going to initiate any midnight calls at the Federal Reserve, it does seem to suggest consumers may be at a crossroad in how they perceive the future cost of living. The near universal warnings of the inflationary effects from higher tariffs and deficit spending in the years ahead have not gone unnoticed by shoppers.

As the Open Market Committee prepares for their December meeting, they will now have to consider the following:

(1) Are we seeing incipient signs that inflation expectations are being unanchored?
(2) The remarkably low level of new applications for jobless benefits is consistent with a robust economy and a healthy labor market.
(3) The surge in stock prices and a spate of rosy corporate profits further underscore the economy's energetic momentum.
(4) The rise in household real earnings plus the wealth effect from improved investment returns could sustain consumer spending a while longer.

Given all these developments, how likely is it that inflation will drop back to the 2% target --- and remain there! --- when the very next Administration is gearing up to unleash significant duties on imports, further slash personal income and corporate taxes, and still lacks a credible plan to prevent a massive expansion of the budget deficit?

Does this backdrop suggest an economy urgently in need of further monetary easing? I don't see it.

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United States

	I 2025	II 2025	III 2025	IV 2025	I 2026	II 2026	III 2026	IV 2026	I 2027	II 2027	III 2027	IV 2027	I 2028	II 2028	III 2028	IV 2028
Real Gross Domestic Product (GDP):																
%	2.1	3.3	2.8	2.4	1.9	2.6	2.2	1.9	1.2	2.0	1.5	1.8	0.9	1.2	1.4	1.2
Personal Consumption Expenditures:																
PCE %	1.5	1.7	2.0	1.8	1.4	1.8	2.1	2.3	0.9	1.6	1.7	2.1	1.3	1.9	2.0	2.2
Inflation, end of period, year-over-year:																
CPI %	2.9	3.2	3.4	3.5	3.6	3.5	3.5	3.3	3.0	3.3	3.3	3.1	2.9	2.9	2.6	2.8
Unemployment Rate (end of period):																
%	4.0	4.0	3.9	3.8	3.9	3.7	3.6	3.6	3.9	4.1	4.3	4.2	4.3	4.4	4.2	4.1
Non-farm Payrolls, monthly avg. thousand:																
	155	165	160	170	155	170	175	160	145	140	130	130	100	85	95	115
Treasury 10-yr Note Yield % (end of period):																
	4.55	4.65	4.85	5.10	5.05	5.15	5.10	5.10	5.00	5.10	5.05	4.85	4.55	4.45	4.30	4.20
Federal funds rate % (mid-point, end of period):																
	4.63	4.63	4.63	4.63	4.63	4.38	4.13	3.38	3.38	3.38	3.38	3.13	3.13	2.88	2.88	2.88

GDP Growth - Global Economy - Year over Year

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
US	2.6	1.6	2.2	1.8	2.3	2.7	1.8	2.5	3.0	2.6	-2.2	6.1	2.5	2.9	2.5	2.7	2.2	1.6	1.2
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.8	1.6	-6.2	5.7	3.5	0.5	0.7	1.2	1.6	1.3	1.1
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.7	1.6	-10.4	8.7	4.3	0.1	1.1	1.2	1.5	1.3	1.2
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	1.7	0.6	-0.4	-4.3	2.3	1.0	1.9	0.2	1.3	0.9	0.8	1.0
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.8	1.9	-5.1	5.0	3.4	1.1	1.4	2.3	1.8	1.7	1.6
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.4	4.0	-5.9	9.2	7.2	7.7	6.9	6.4	6.1	6.0	5.8
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.7	6.0	2.2	8.5	3.0	5.2	4.6	4.5	4.3	4.6	4.4
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.4	-3.6	5.3	3.0	2.9	3.1	2.4	2.2	2.7	2.6
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.2	-0.3	-8.8	6.1	3.9	3.1	1.4	1.5	1.9	2.2	2.4
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-1.1	4.7	3.7	1.5	1.5	2.1	2.5	2.2	1.9
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.8	2.2	-2.7	5.6	-1.2	3.6	3.9	2.3	2.4	2.4	2.1
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.7	-3.0	6.2	3.0	2.7	4.4	4.1	3.9	3.9	3.6

Key Currency Values

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End 2021	End 2022	End 2023	End 2024	End 2025	End 2026	End 2027	End 2028
USD/Yen	91	93	81	77	87	105	119	120	117	113	110	109	104	115	131	141	155	148	139	135	130
Euro/USD	1.40	1.43	1.34	1.29	1.32	1.37	1.21	1.09	1.05	1.20	1.14	1.12	1.23	1.17	1.07	1.10	1.03	1.00	1.04	1.10	1.12

Oil (Brent spot) & Gasoline (U.S. average retail unleaded, $)

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End 2021	End 2022	End 2023	End 2024	End 2025	End 2026	End 2027	End 2028
Crude oil per barrel	46	78	95	107	111	111	58	38	49	67	54	67	52	78	85	77	75	80	74	71	70
Gasoline	1.61	2.57	3.00	3.27	3.30	3.32	2.26	2.00	2.31	2.47	2.26	2.58	2.30	3.38	3.20	3.12	3.10	3.30	3.22	3.10	3.12