



Economic Update:

Understanding Economic Indicators

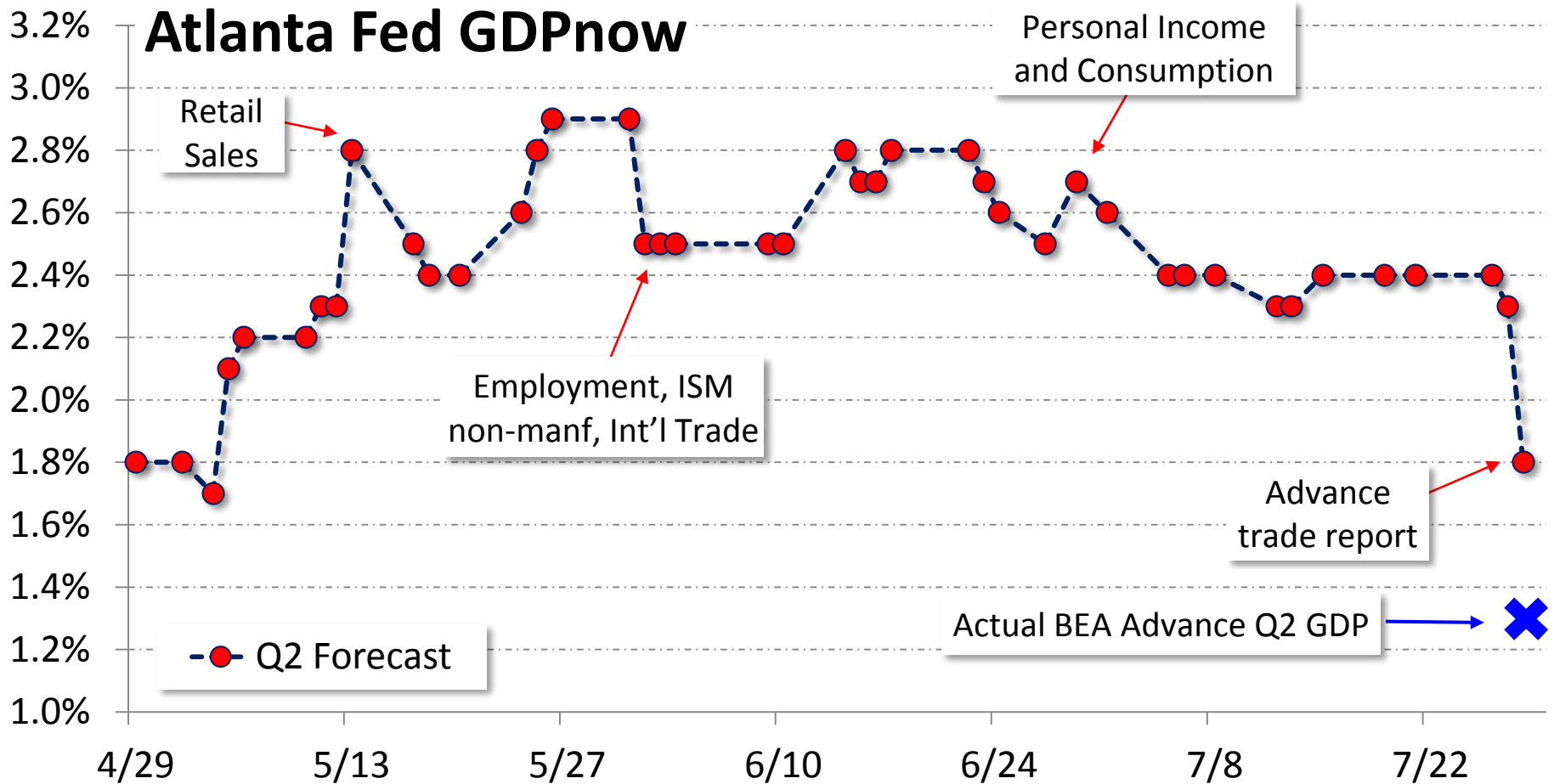
October 2016

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Missing the Forest for the Trees

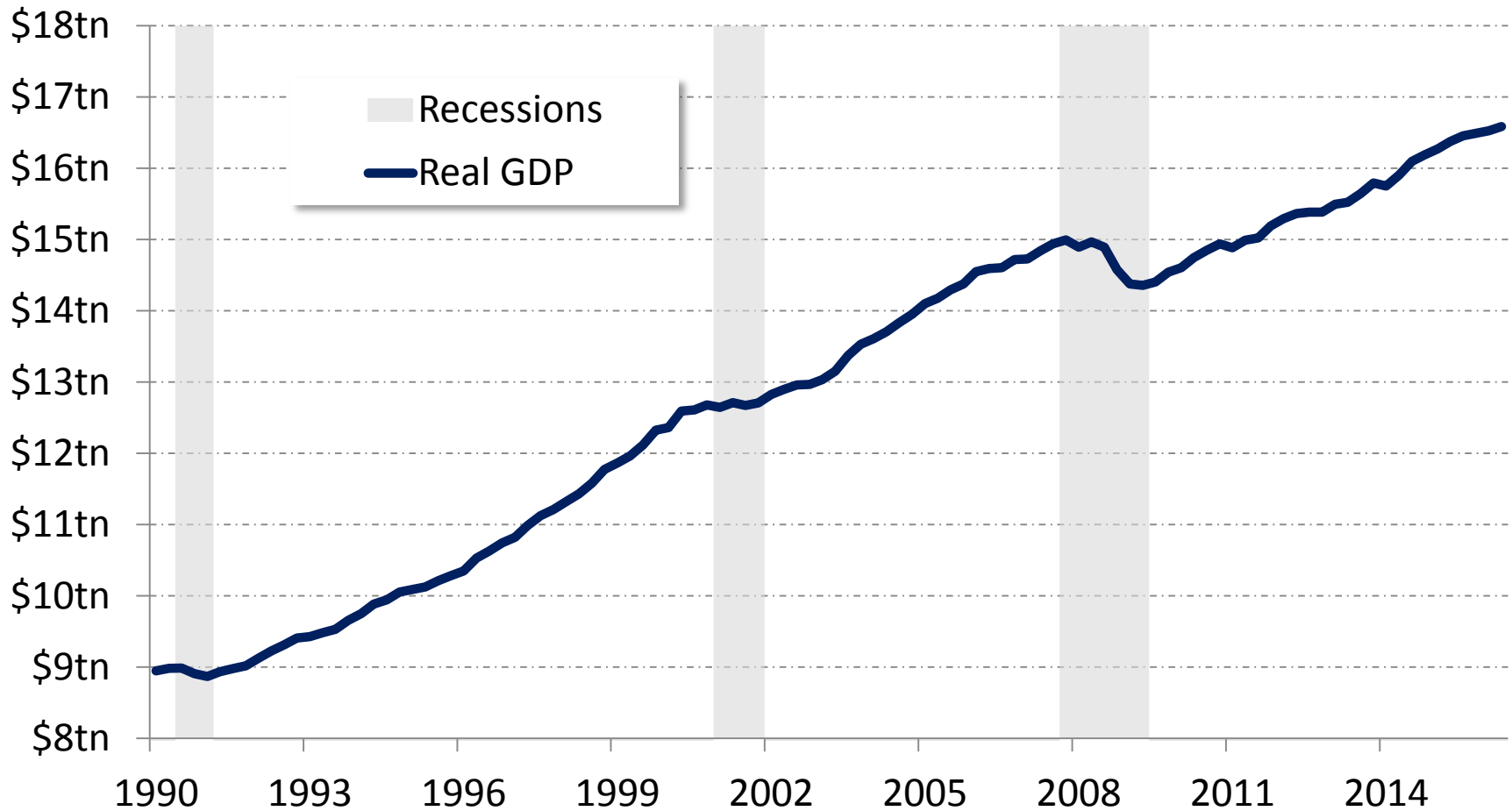
- ❑ With so much economic data available, it is easy to cherry-pick statistics to make a point; or to lose track of what indicators matter most.
- ❑ Focusing on month-over-month (or quarter-over-quarter) volatility can obscure long-term trends in economic data.
- ❑ Let's focus on the Big 3:
 - ▣ Consumer Spending
 - ▣ The Labor Market
 - ▣ Inflation (Prices)

The Trees



Source: Federal Reserve Bank of Atlanta and Bureau of Economic Analysis

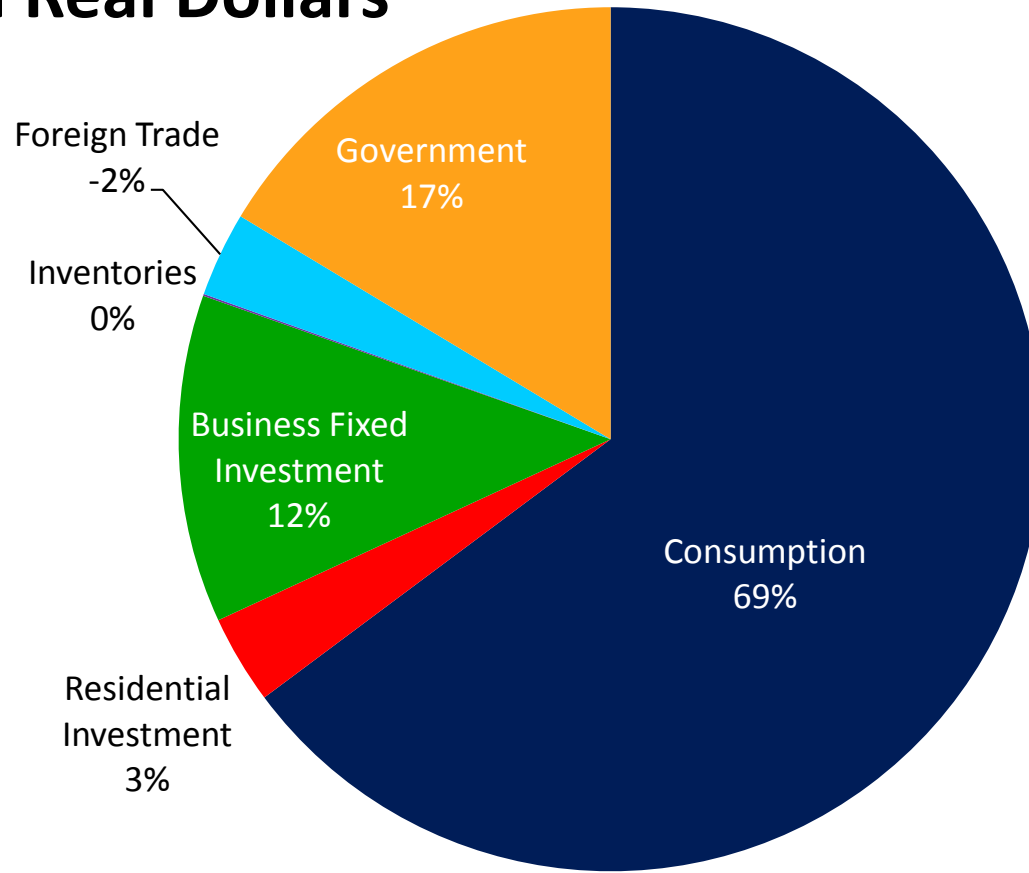
The Forest



Source: Bureau of Economic Analysis

GDP Components

Size, in Real Dollars*



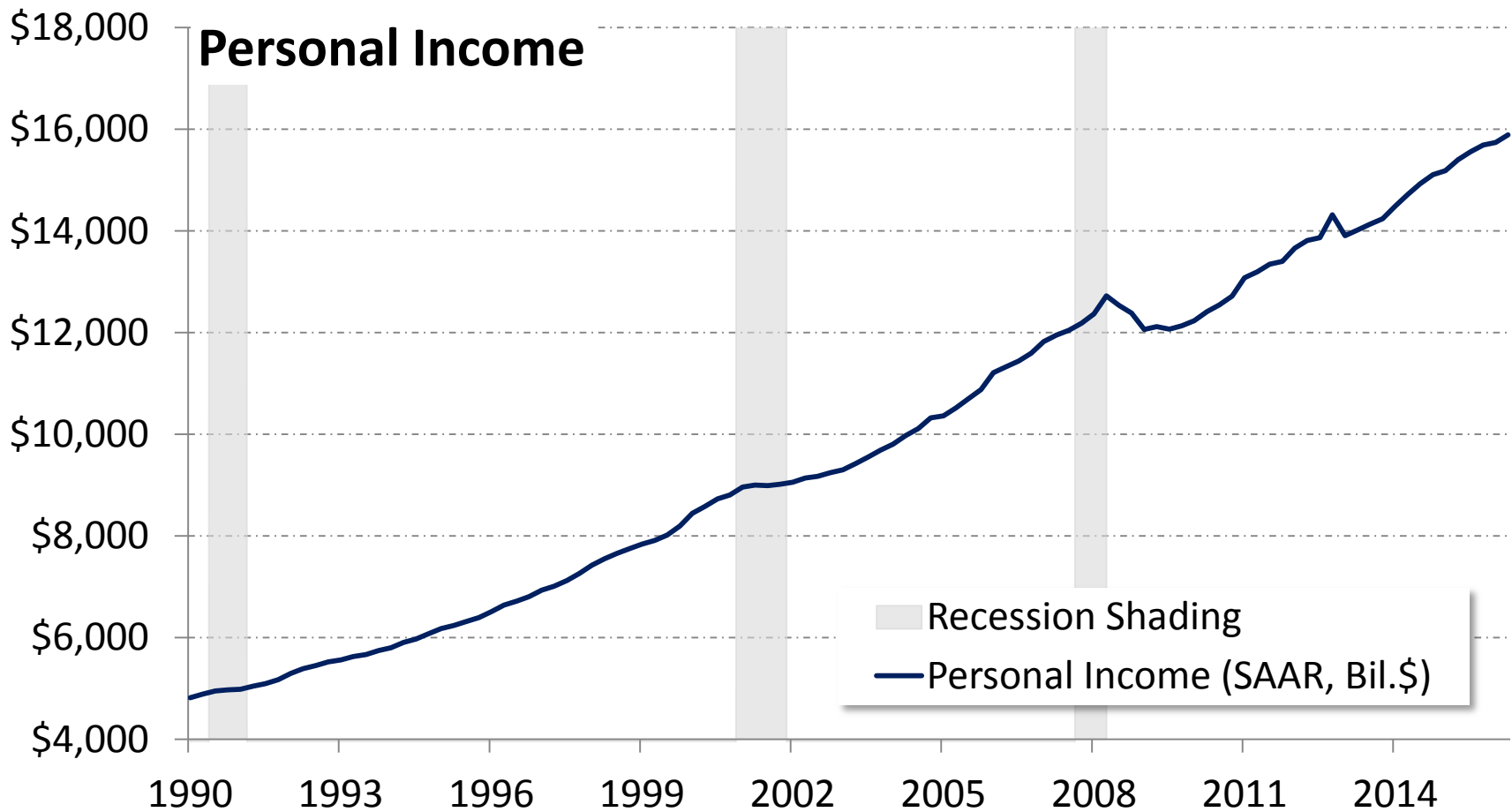
Source: Bureau of Economic Analysis

**as of Q2-16*

Consumers are the Backbone

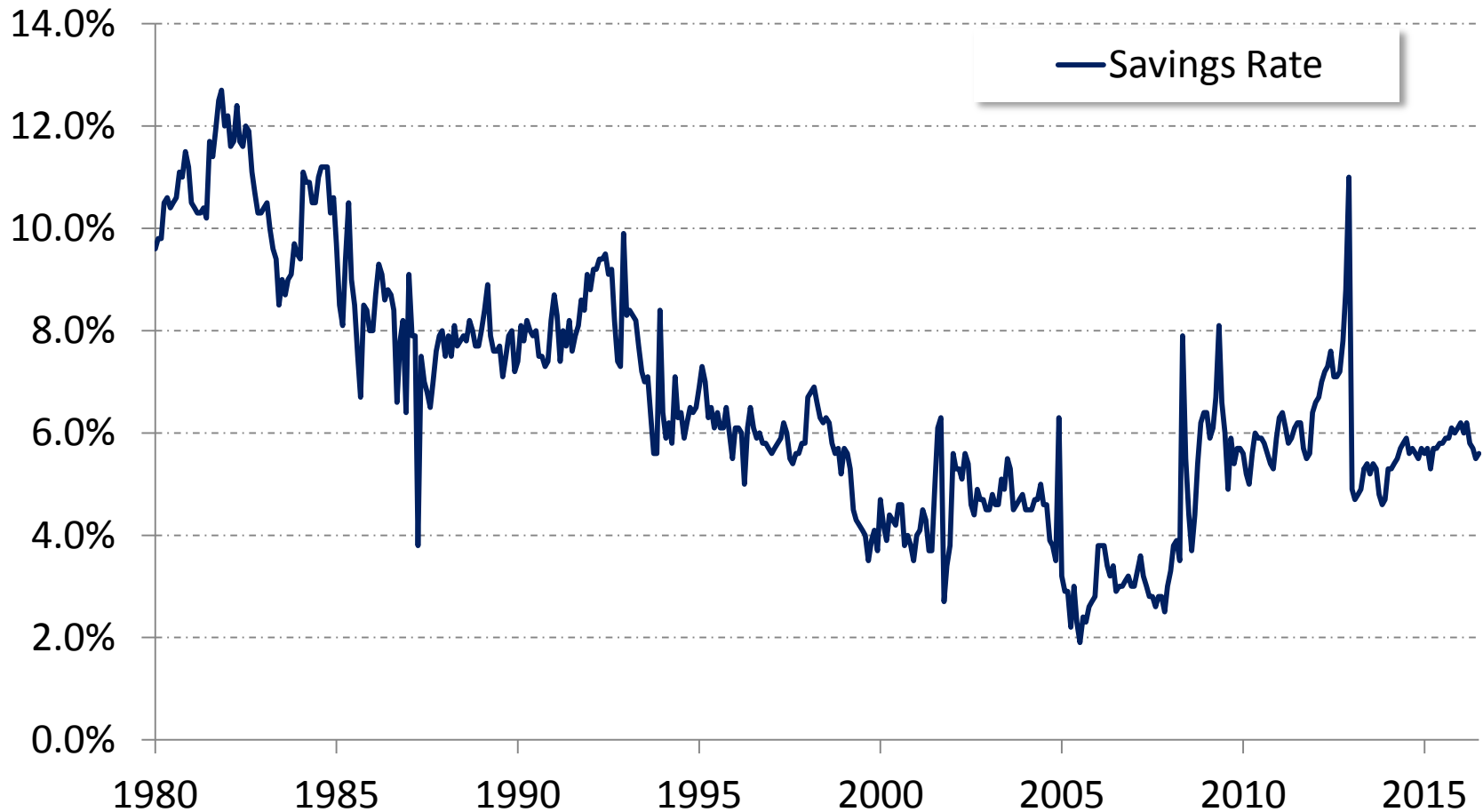
- ❑ There are 3 ways to fund spending:
 - ❑ Higher Income
 - ❑ Decrease Saving
 - ❑ Borrow

Similar Slope to GDP



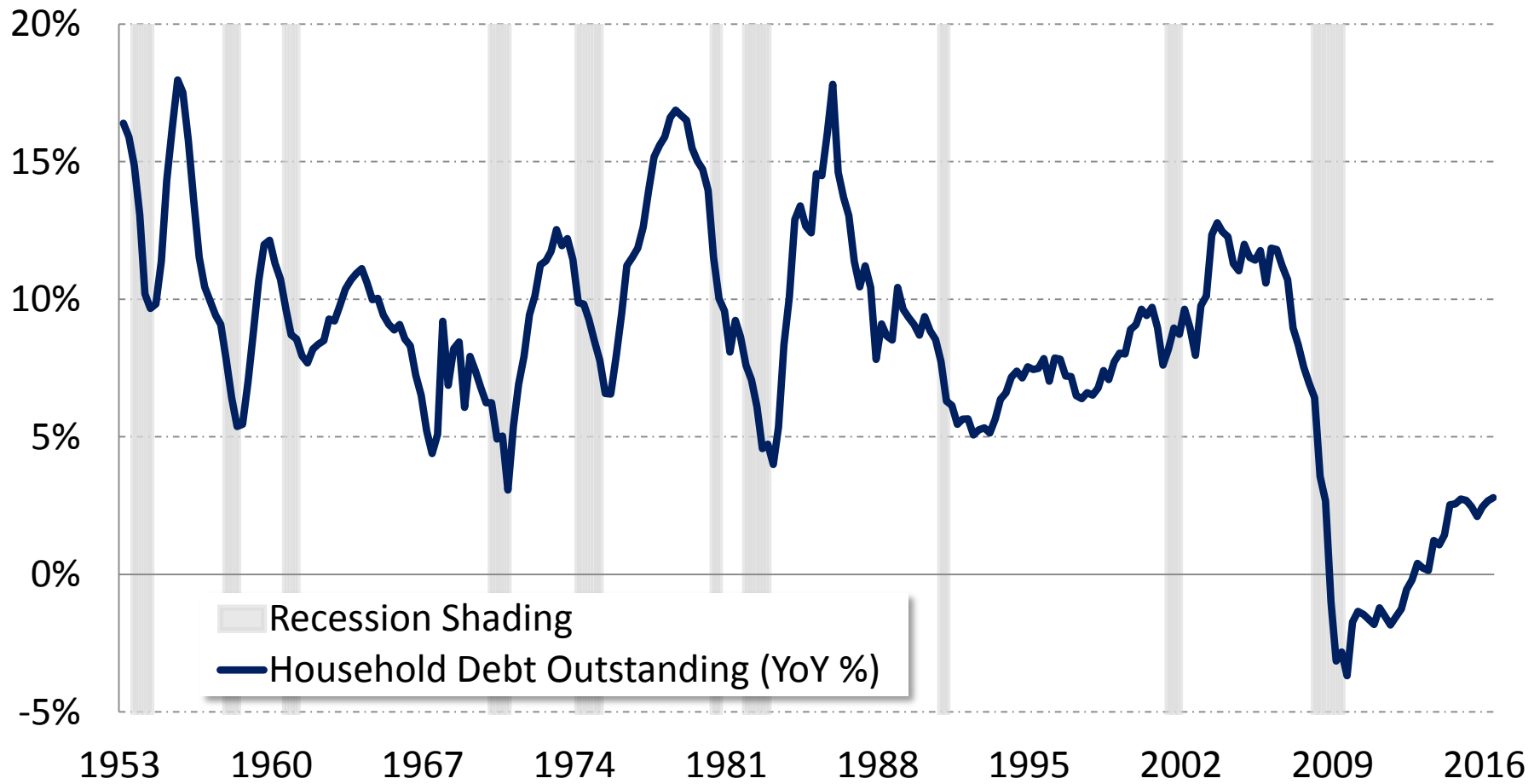
Source: Bureau of Economic Analysis

Savings Already Low



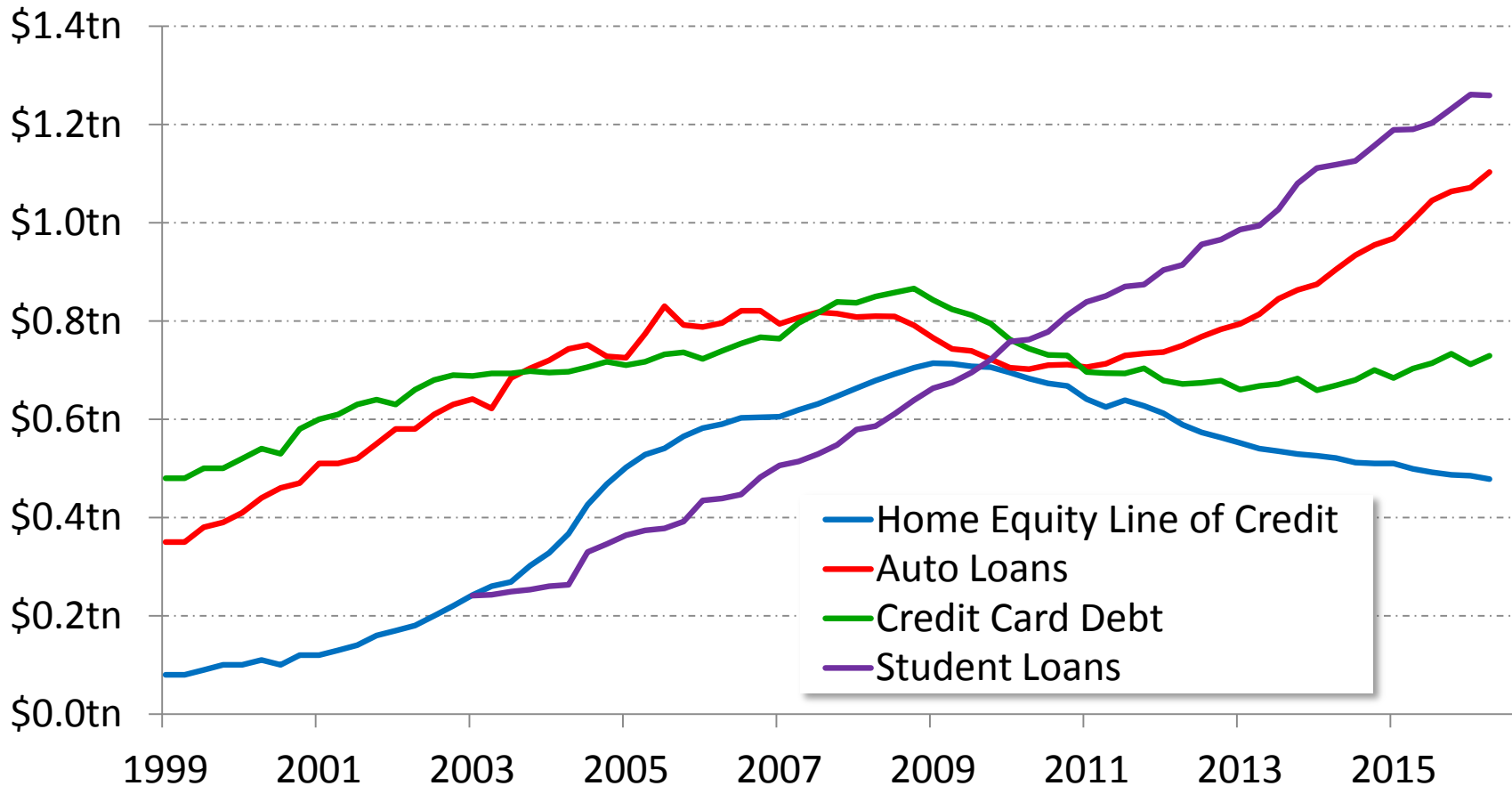
Source: Bureau of Economic Analysis

Historic Household Deleveraging



Source: Federal Reserve

Breakdown of Consumer Debt

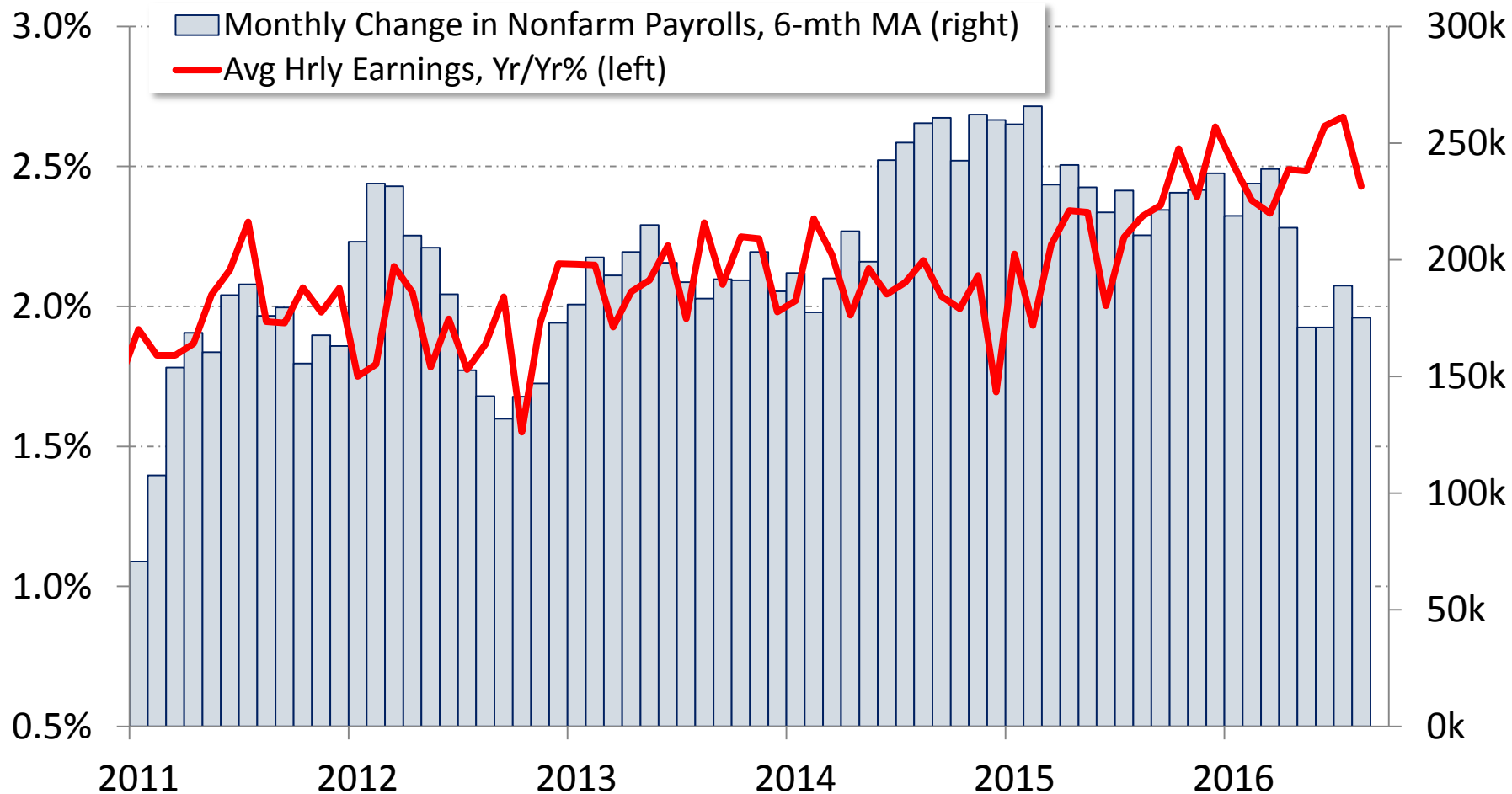


Source: Federal Reserve

The Labor Market

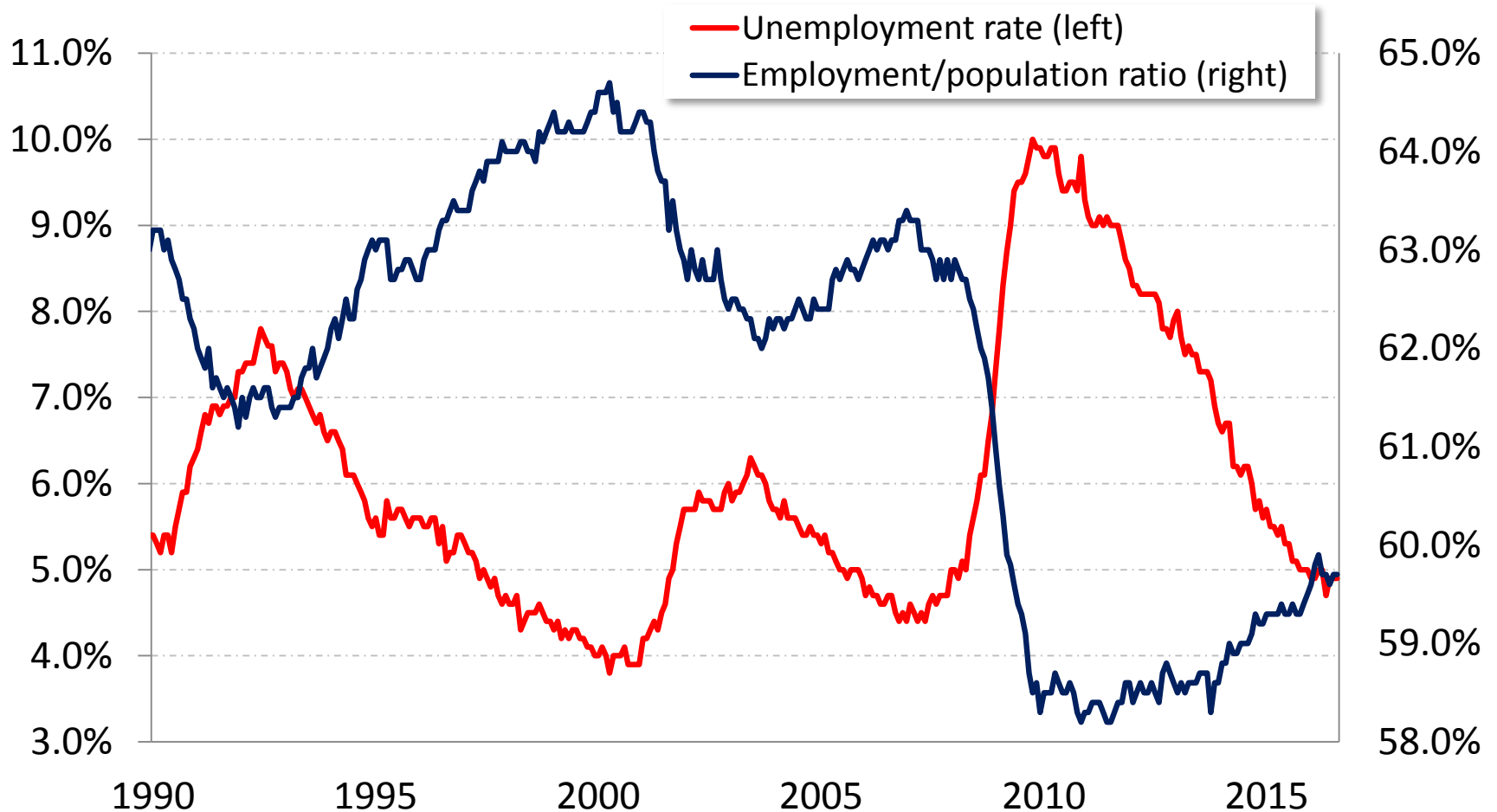
- ❑ Maximum employment is half of the Fed's dual mandate.
 - ▣ Full employment → higher wages → facilitates consumption

Payrolls Strong but Slowing, Wages Ticking Up...



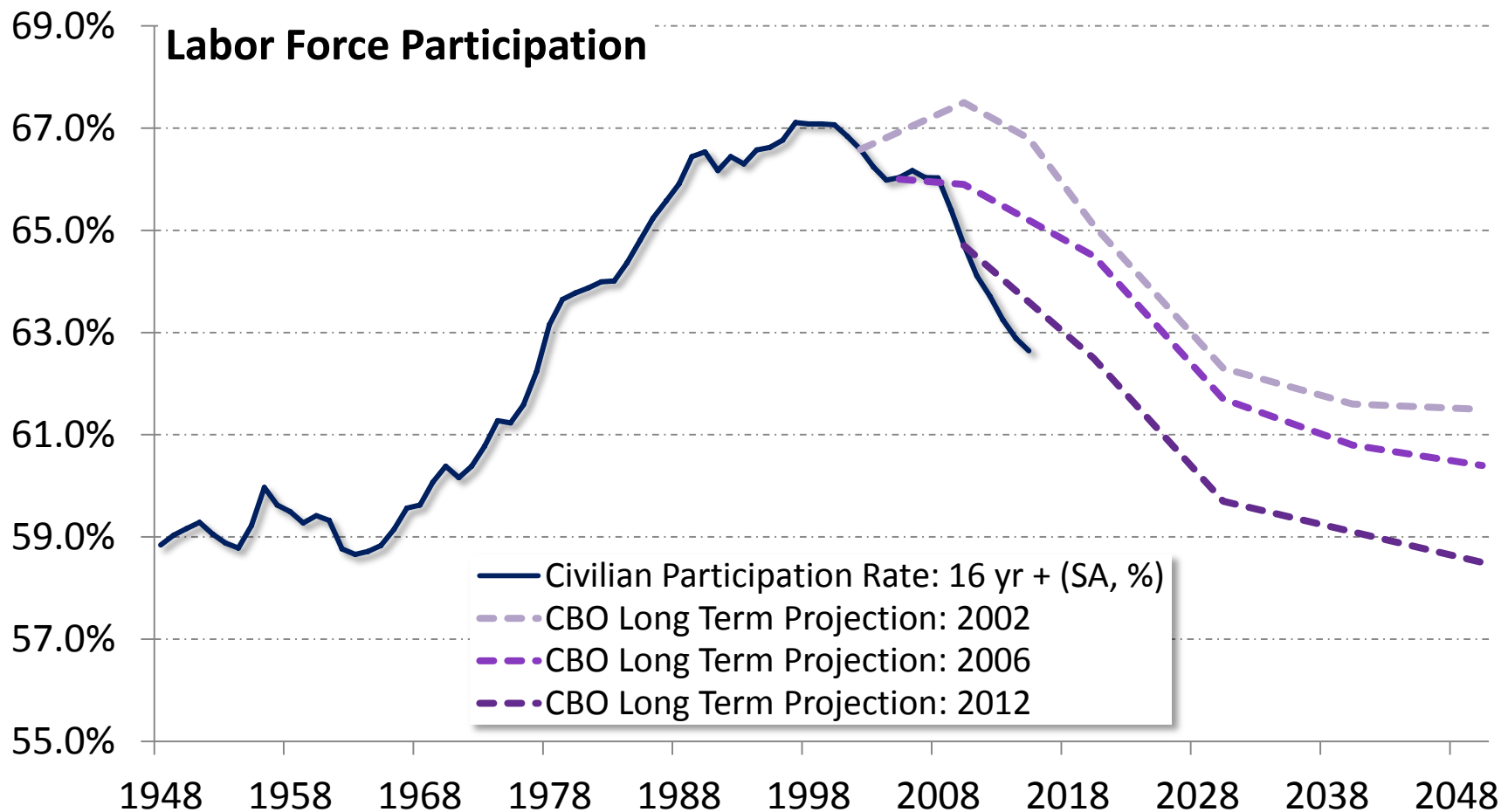
Source: Bureau of Labor Statistics

But Not Too Fast...



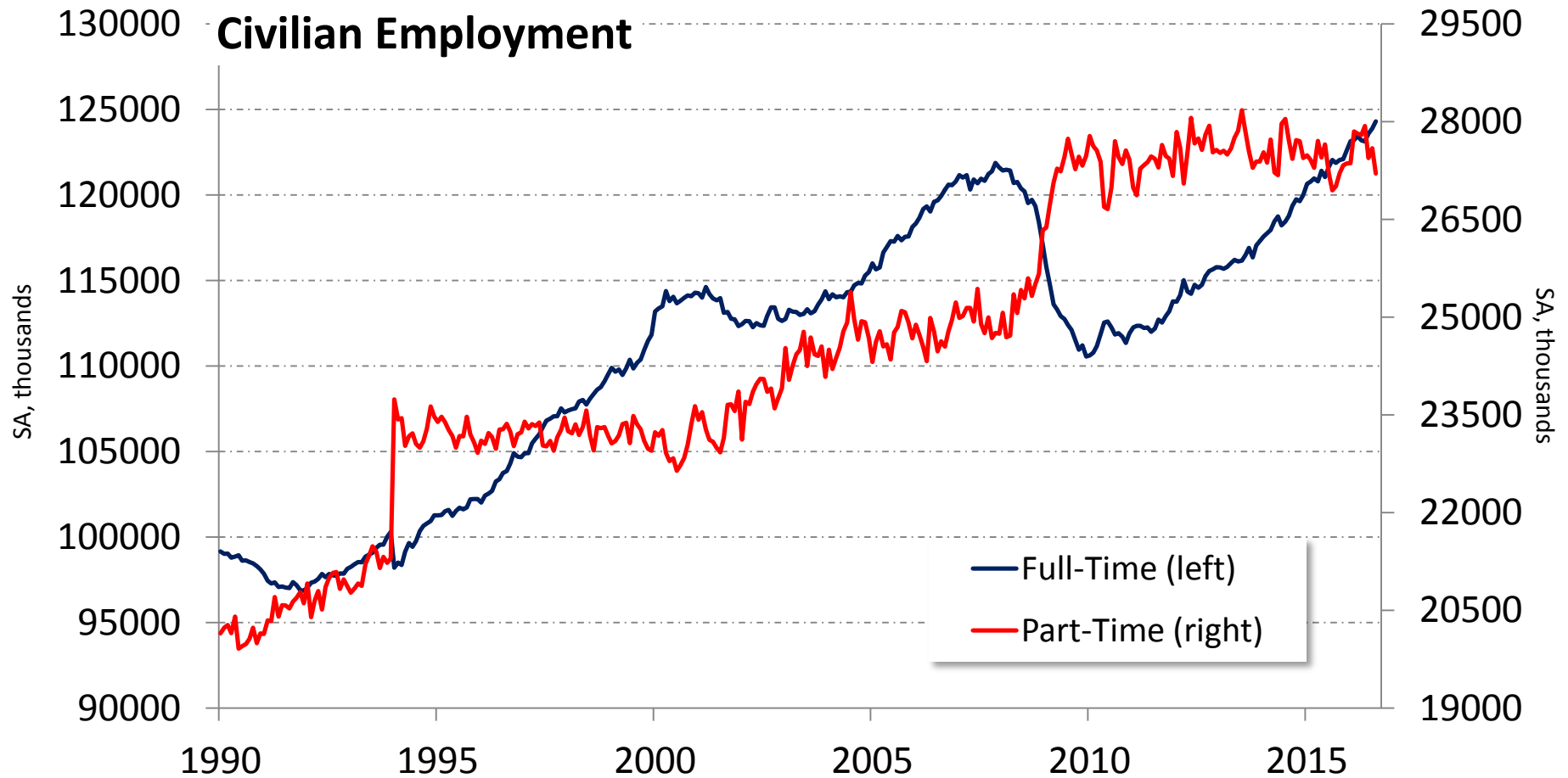
Source: Bureau of Labor Statistics

The Long View on Participation



Source: Bureau of Labor Statistics & CBO

Job Quality Matters

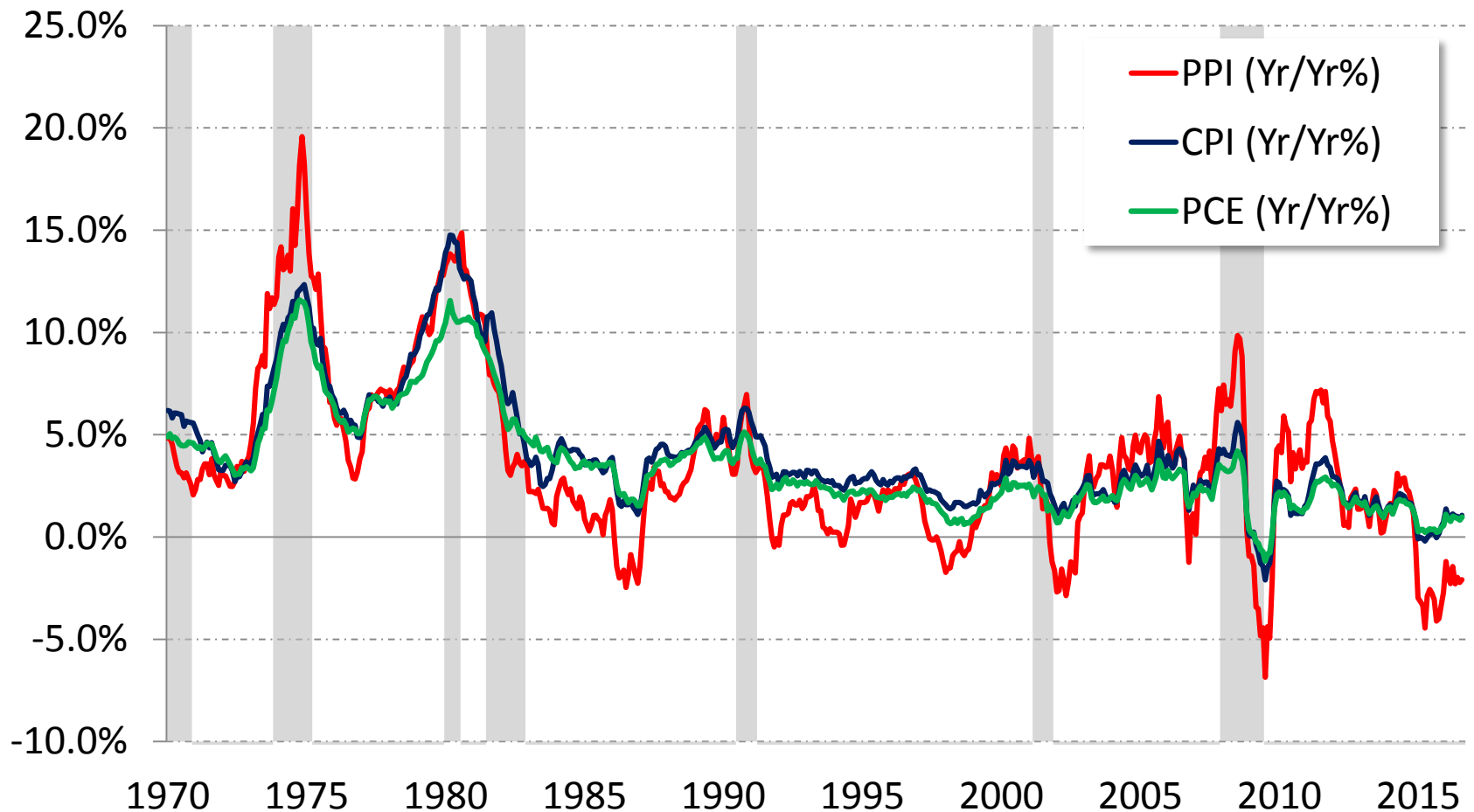


Source: Bureau of Labor Statistics

The Other Half of the Dual Mandate

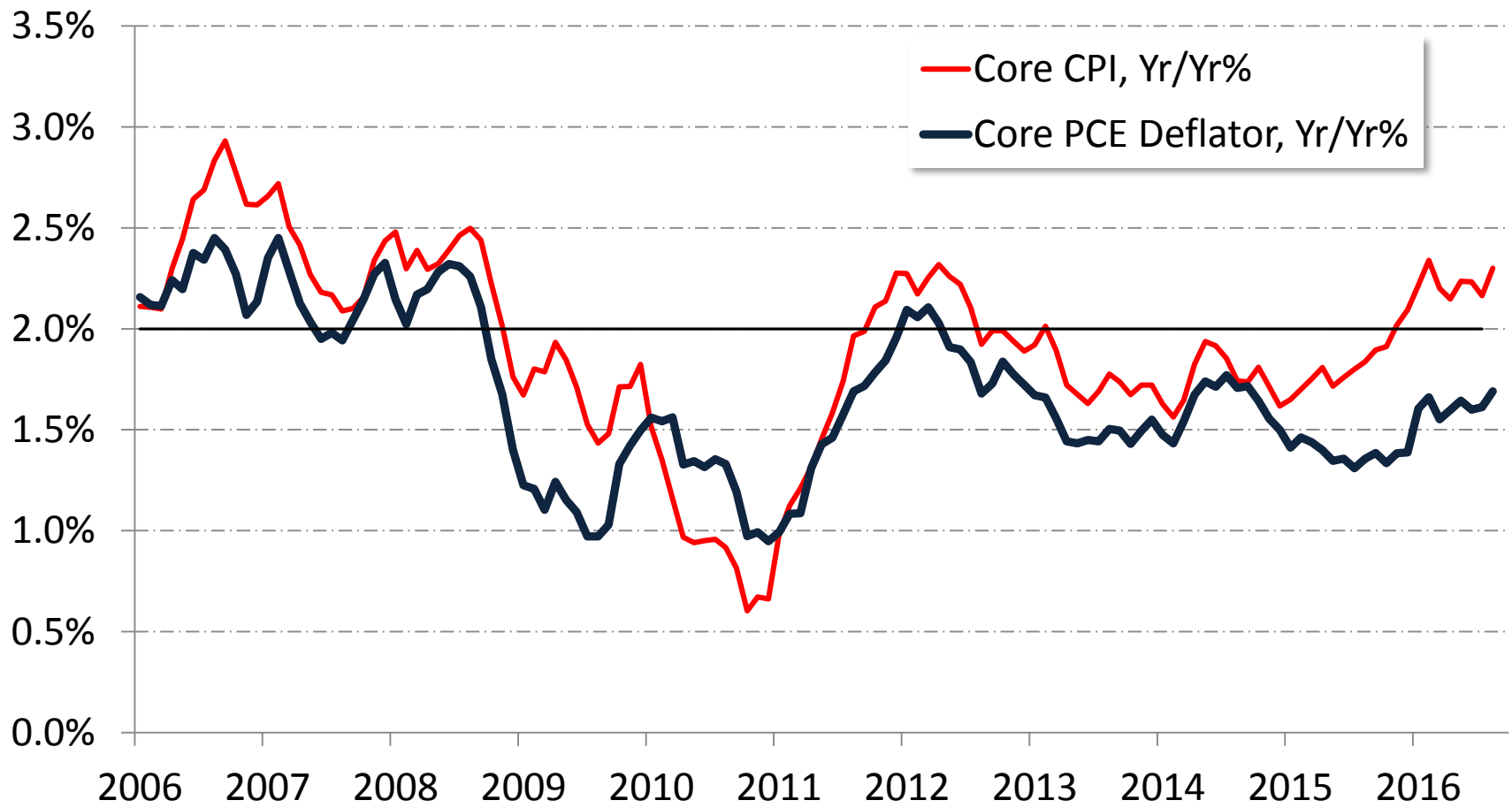
- ❑ Stable prices
 - ▣ Low and stable inflation
 - ▣ 2.0% = Fed's long-run inflation target

Inflation Measures



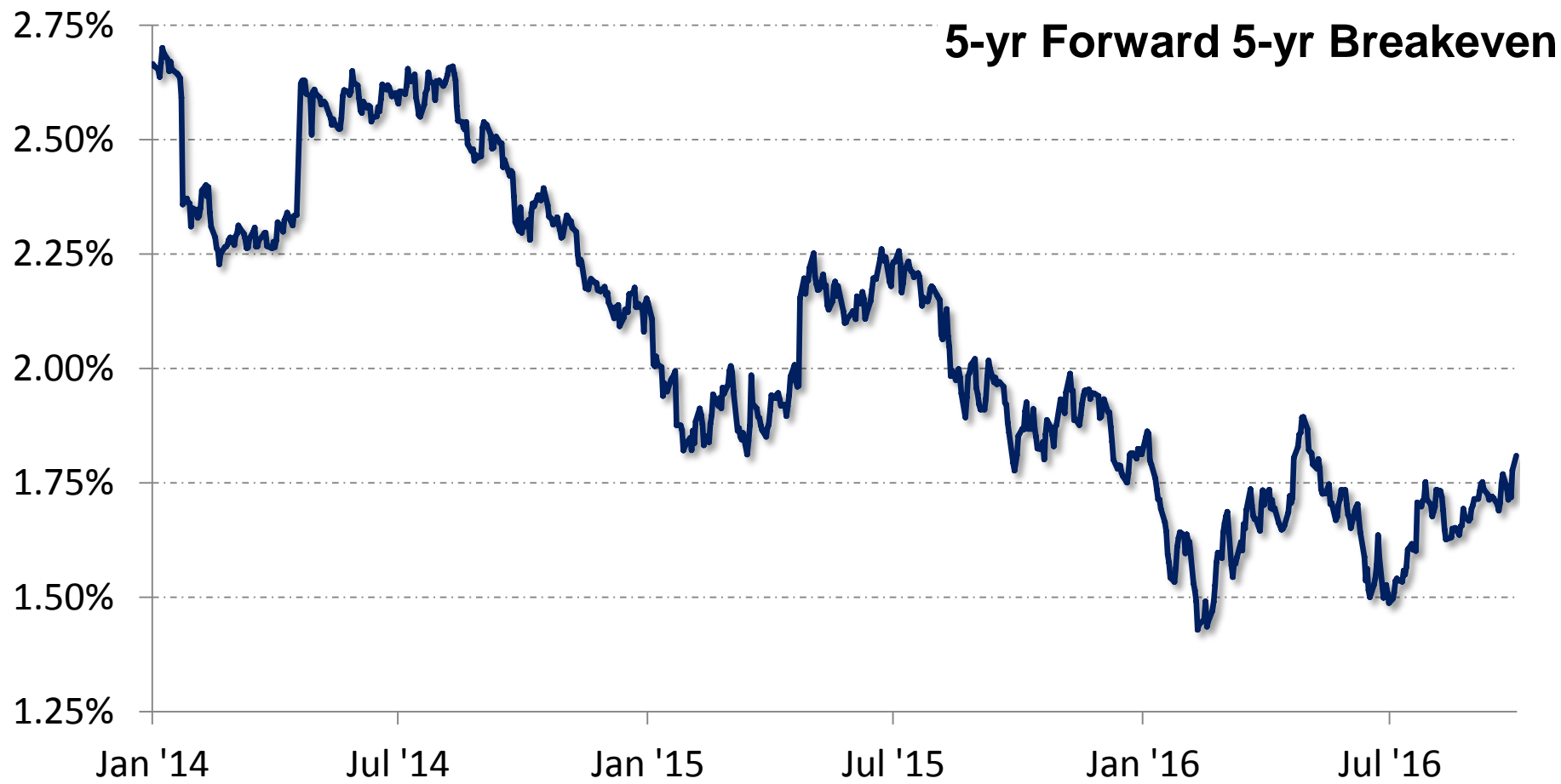
Source: Bureau of Labor Statistics

The Prime Determinant for the Fed



Source: Bureau of Economic Analysis & Bureau of Labor Statistics

Market Inflation Expectations Extraordinarily Low

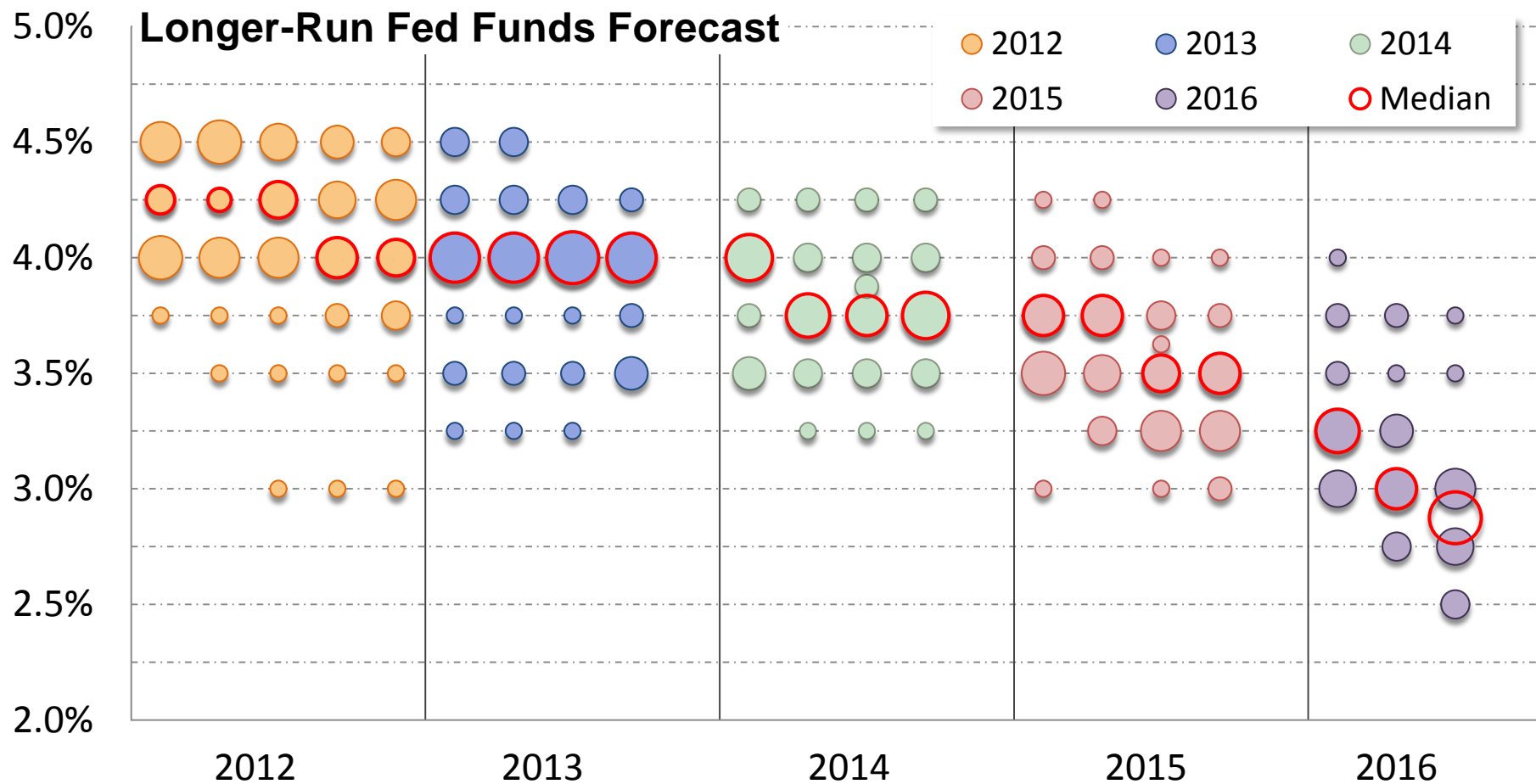


Source: Bloomberg

So Where Do We Go from Here?

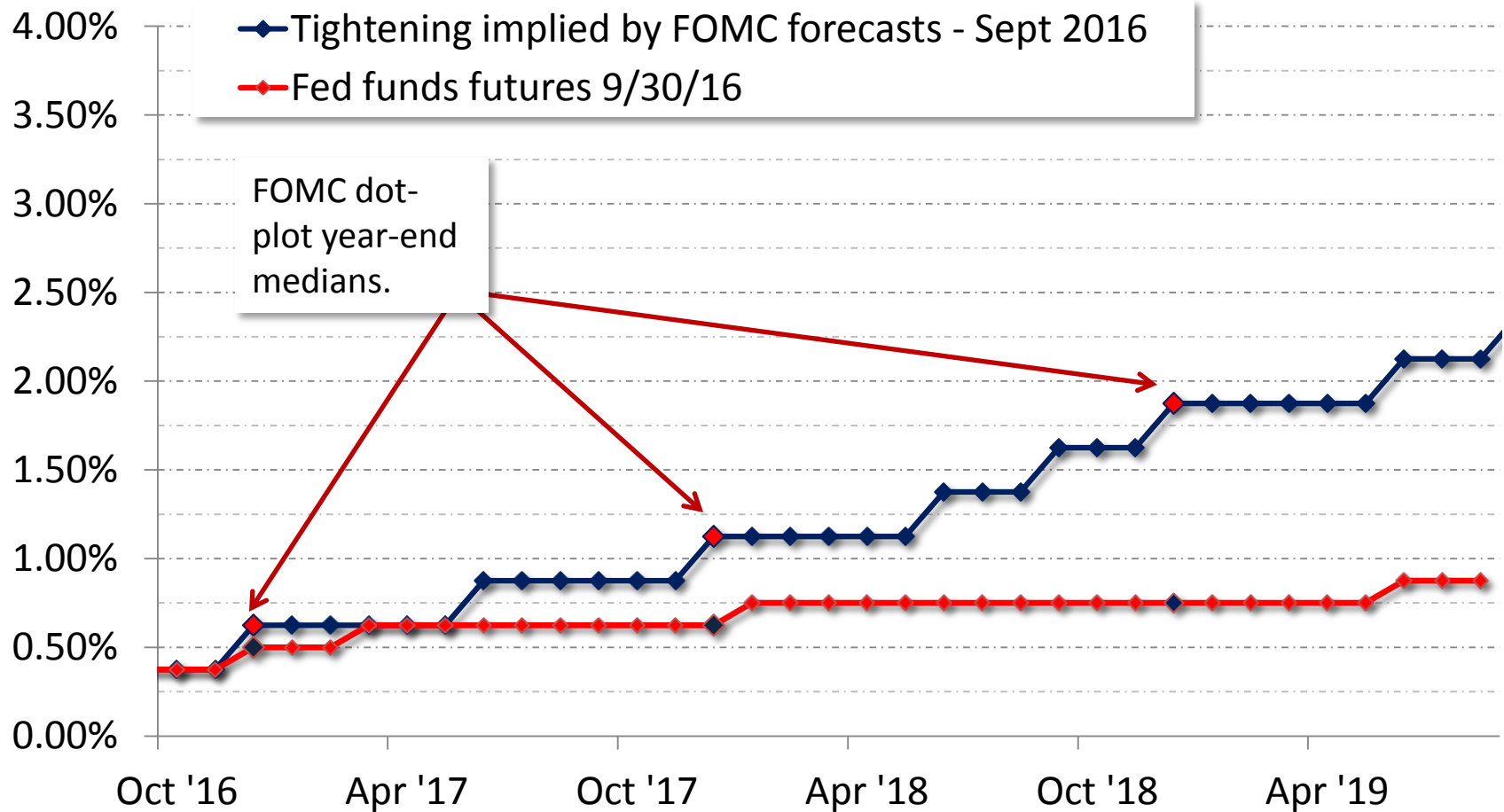


Fed Slowly Embracing New Normal



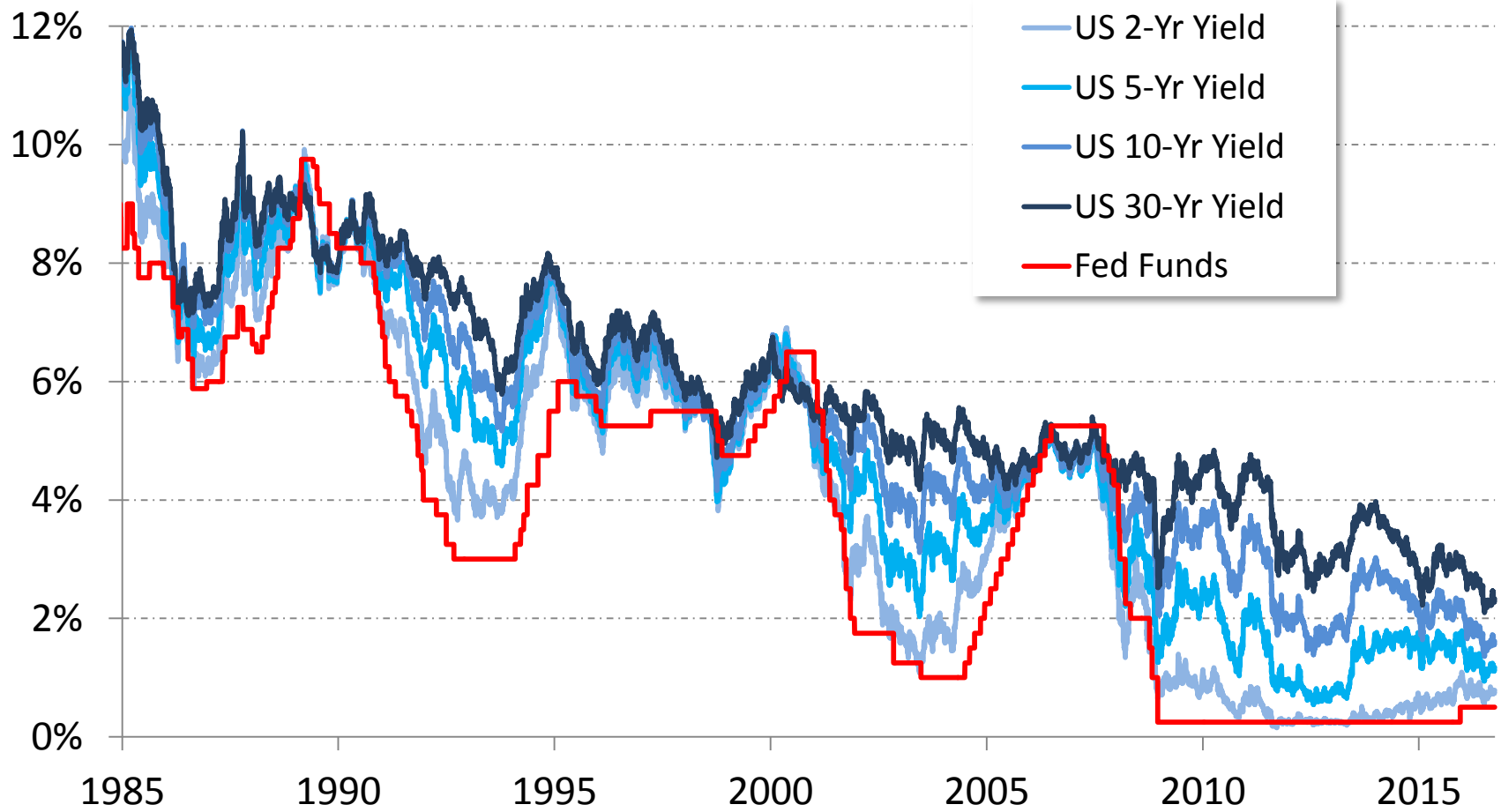
Source: Federal Reserve Board

Market Convinced Dots to Fall Further



Source: Federal Reserve, Bloomberg & FTM Financial

Flatter Curve on the Horizon



Source: Federal Reserve, US Treasury & Bloomberg

Conclusion

- ❑ Economic indicators must be analyzed in the context of long-term trends in the macro-economy.
- ❑ Traditionally:
 - Full employment → higher income & ability to borrow → increases consumer spending → upward pressure on prices → Fed keeps it all in check by tightening monetary policy
- ❑ Currently: labor market slack is inhibiting this prosperous cycle.
- ❑ The Fed must react to the economy as it is, not as it was.

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