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STRONGER GROWTH AND STEADY WAGE GAINS: BUT IS THE FED TOO COMPLACENT?

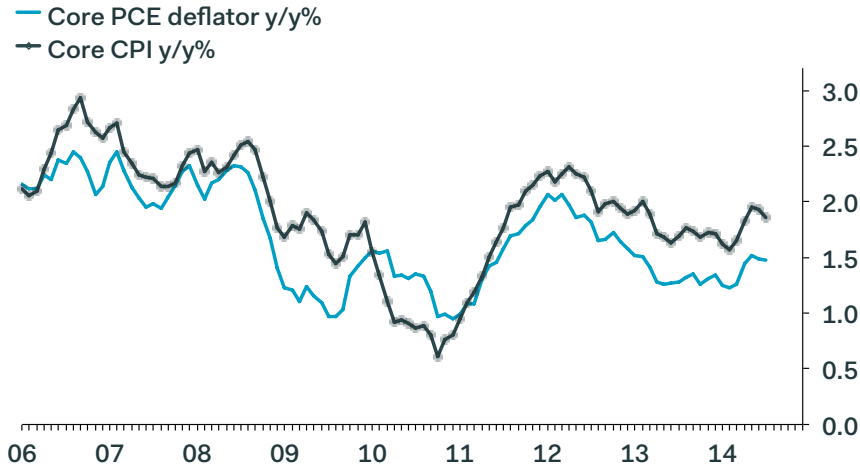
U.S. ECONOMIC CHARTBOOK, SEPTEMBER 2014

DATA AS AT SEPTEMBER 11 | IAN C. SHEPHERDSON, CHIEF ECONOMIST
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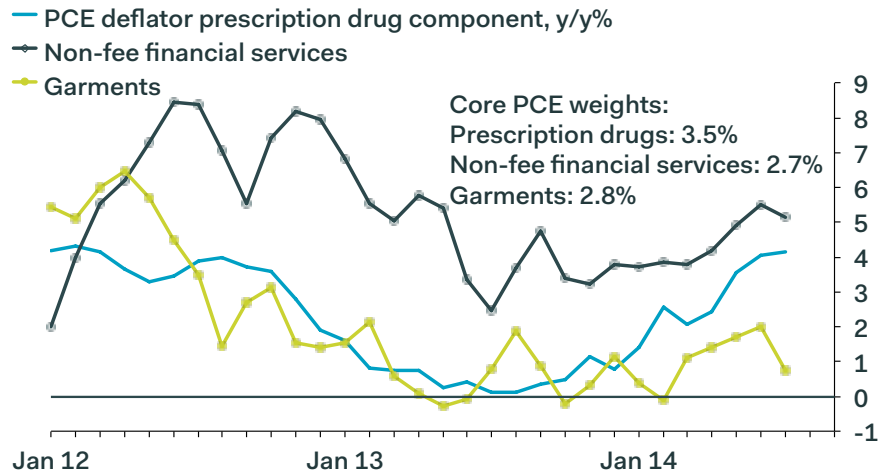




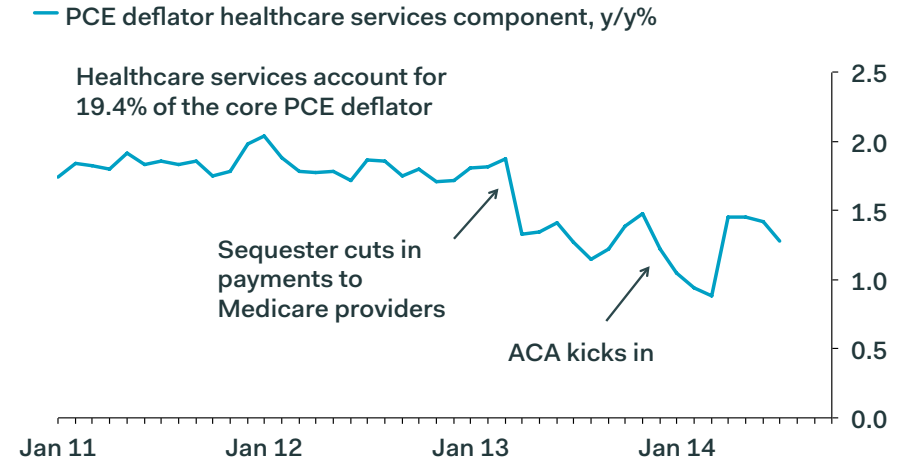
1. CORE DISINFLATION IS OVER



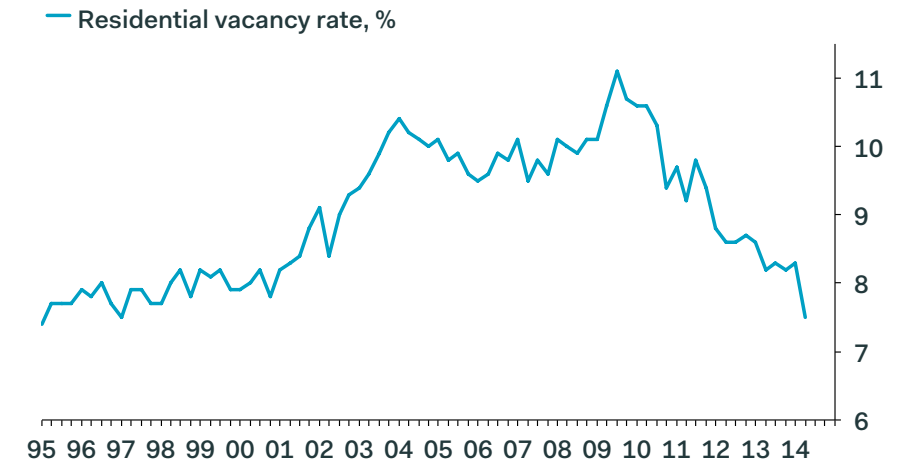
2. ...IN PART, BECAUSE FAVORABLE ONE-TIME FACTORS HAVE REVERSED



3. ...AND THE HUGE MED SERVICES COMPONENT IS MEAN-REVERTING

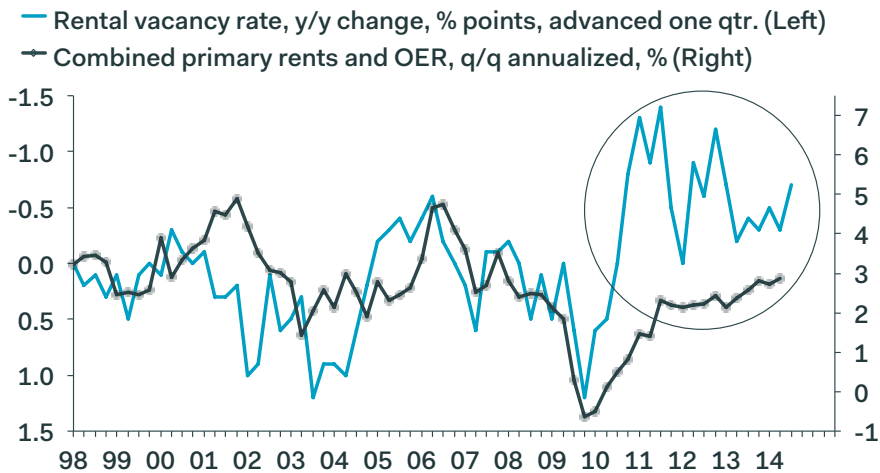


4. THE TIGHTENING RENTAL MARKET IS THE BIGGEST SINGLE THREAT...

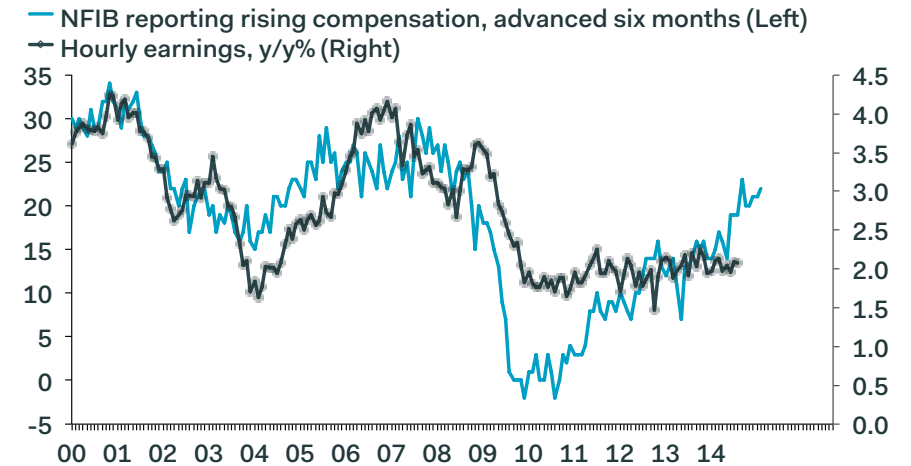




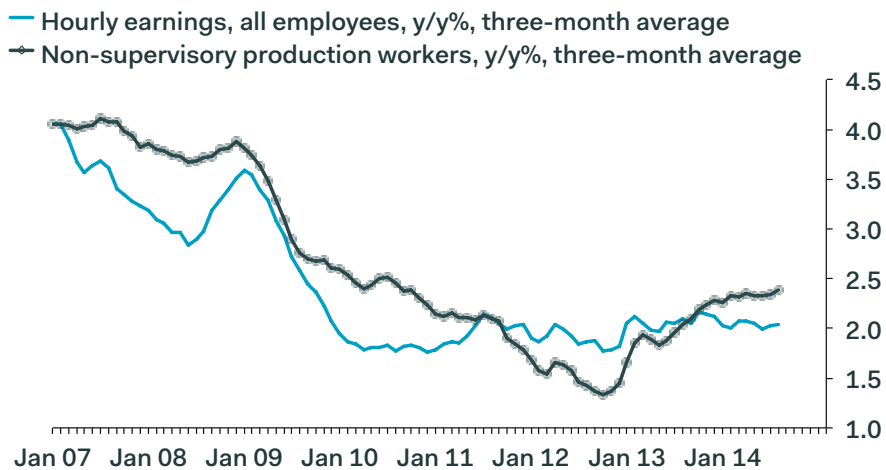
5. LOW AND FALLING VACANCIES ARE PUSHING UP RENTS



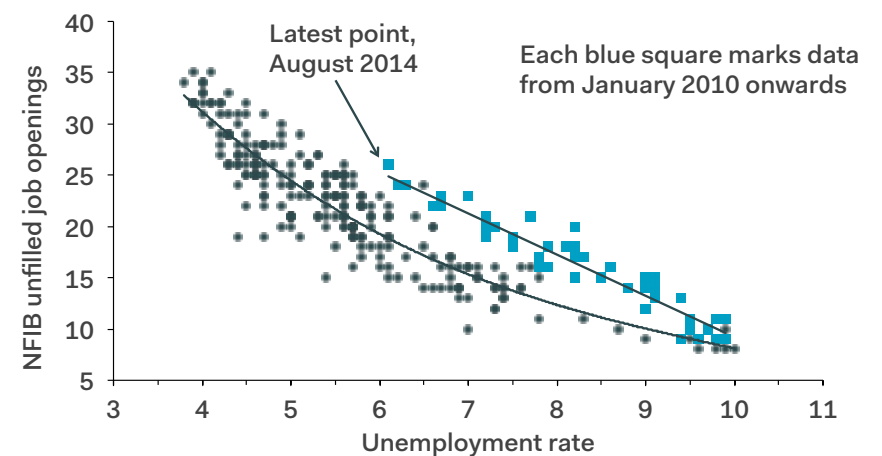
7. ...BUT WAGES ARE SET TO ACCELERATE VERY SOON



6. THE FED THINKS SOFT WAGE GAINS MEAN LIMITED INFLATION RISK...

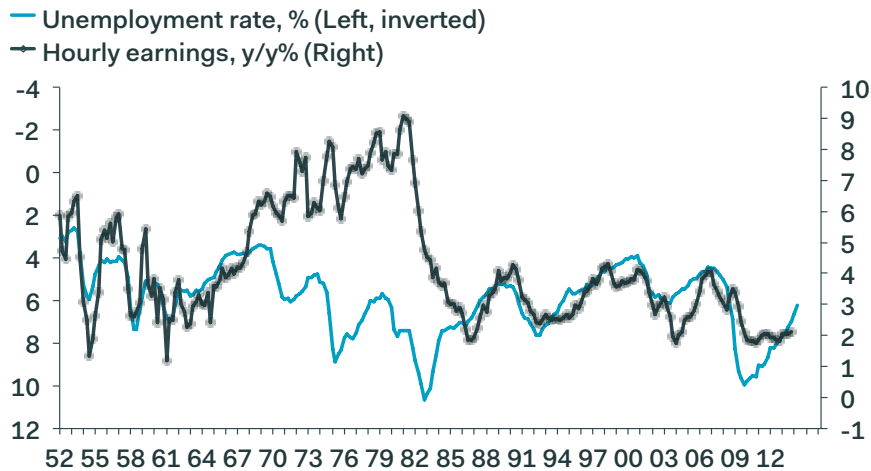


8. SMALL FIRMS CAN'T FIND THE STAFF THEY NEED





9. THE UNEMPLOYMENT RATE SENDS THE SAME SIGNAL...



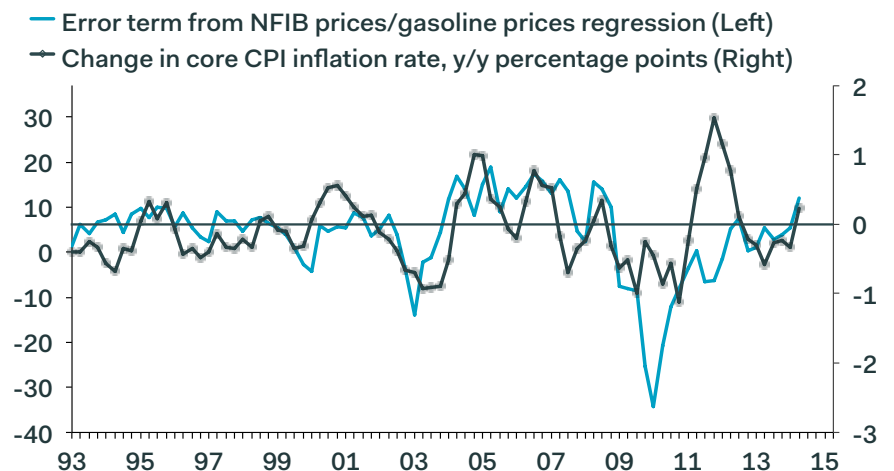
11. THE IMMEDIATE DANGER IS THAT FIRMS ACT BEFORE WAGES SPIKE



10. ...AS DOES THE NABE SURVEY

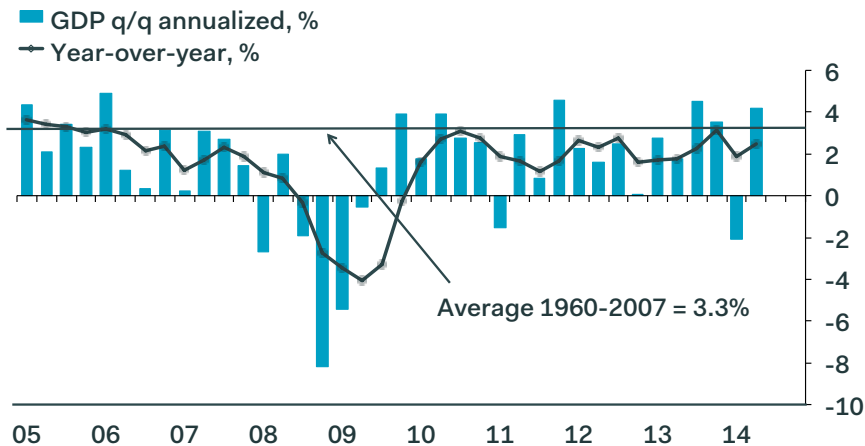


12. ...MARGINS ARE ALREADY RISING

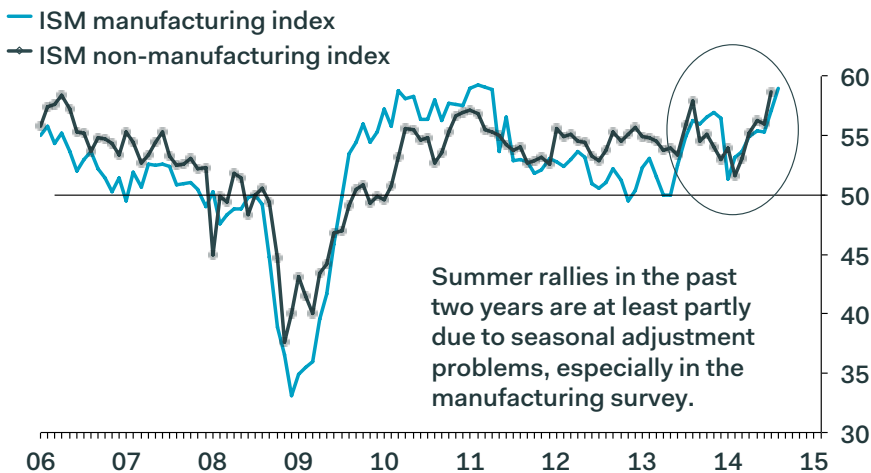




13. WITH THE WEATHER HIT OVER, GROWTH HAS REBOUNDED...



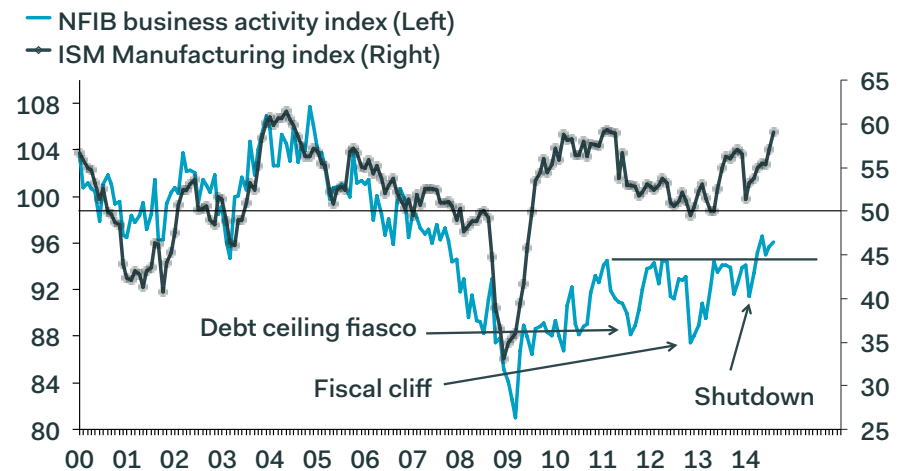
14. ...THOUGH THE ISM SURVEYS OVERSTATE THE PACE OF ACTIVITY



15. CHINA'S PMI IS PROBABLY A BETTER GUIDE TO U.S. MANUFACTURING

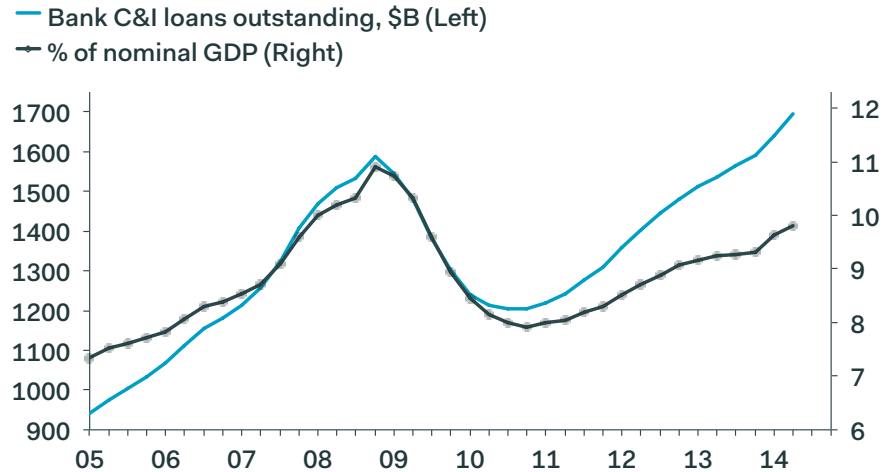


16. SMALL FIRMS STILL UNDERPERFORMING, BUT THE GAP WILL CLOSE

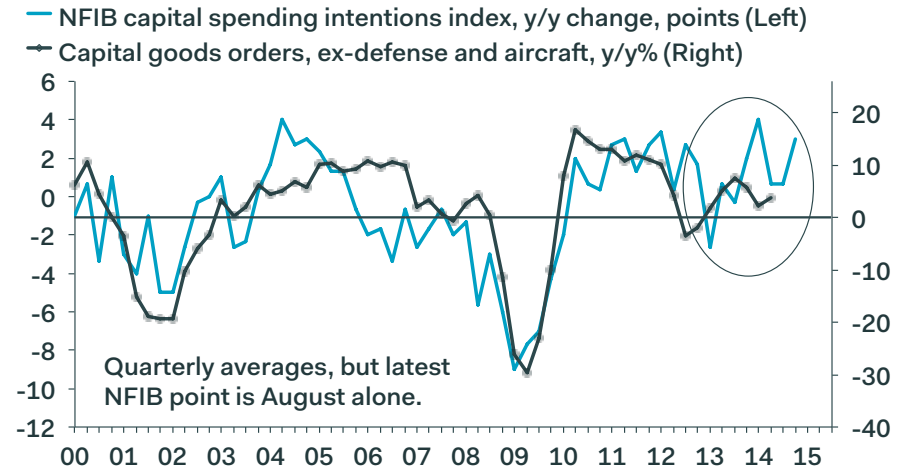




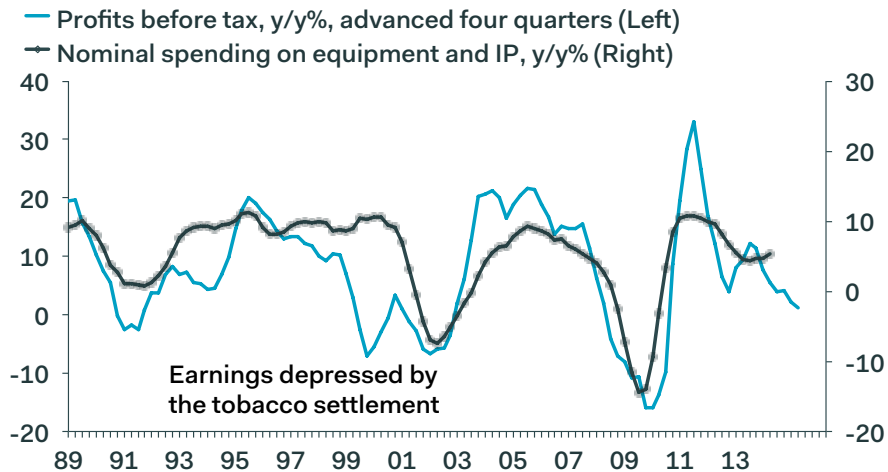
17. STRONG CREDIT GROWTH IS FIXING THE SECTOR



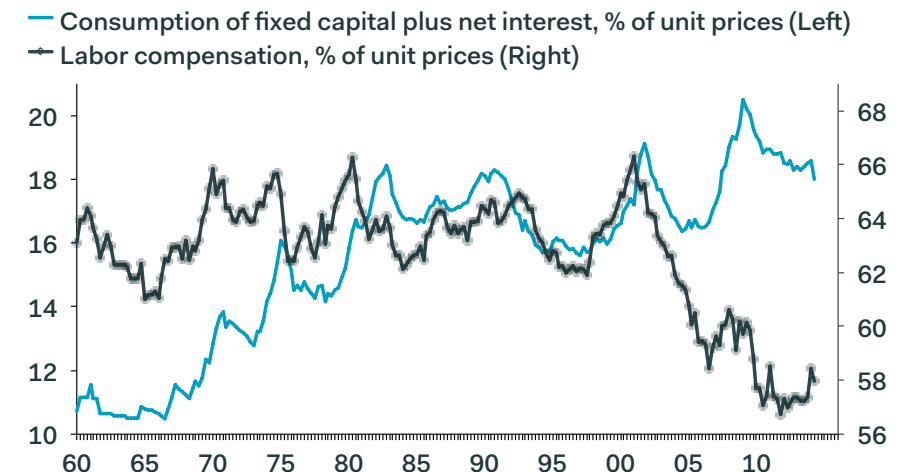
19. ...WITH NO FISCAL CHAOS THIS YEAR, THE ODDS ARE GOOD



18. SMALL FIRMS WILL HAVE TO STEP UP IF CAPEX IS TO OUTPERFORM...

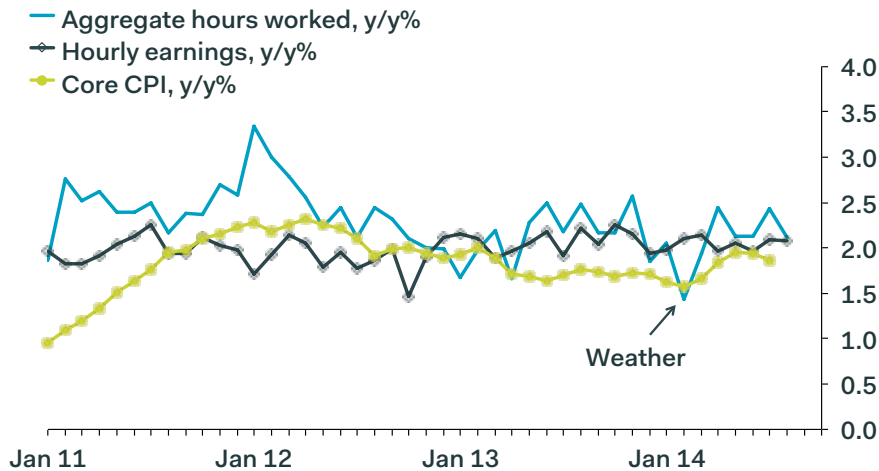


20. RISING WORKER COMP SHOULD PUSH COMPANIES INTO CAPEX

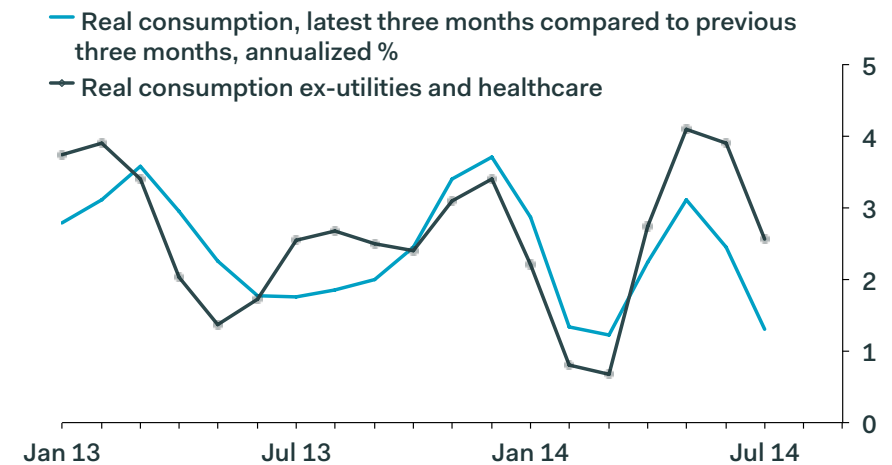




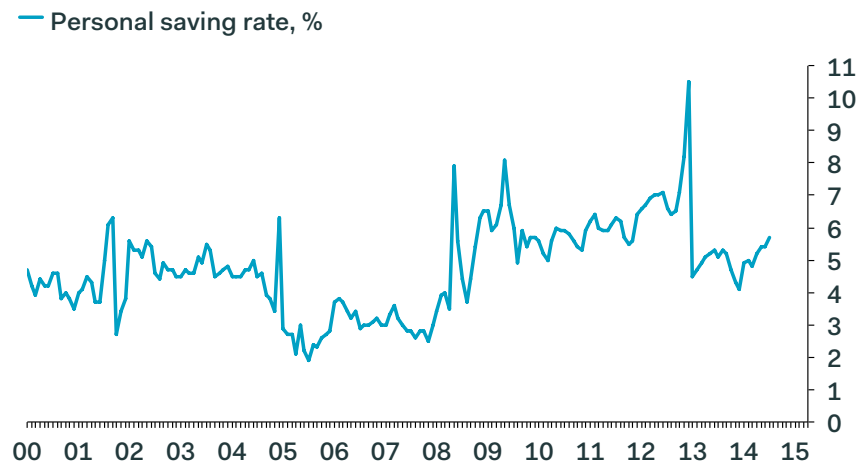
21. KEY CONSUMER FUNDAMENTALS ARE STILL WEAK...



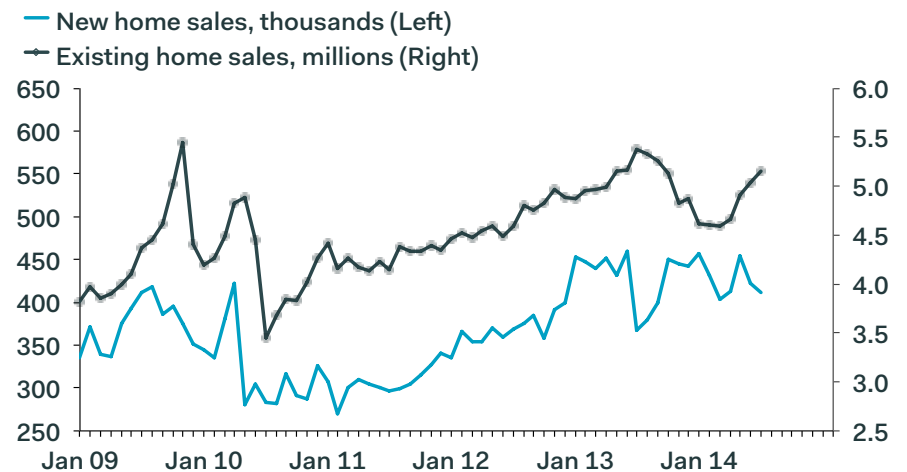
23. CORE CONSUMPTION WAS STRONG IN THE SECOND QUARTER



22. ...THOUGH PERHAPS SCOPE FOR SAVINGS RATE TO DIP A BIT?

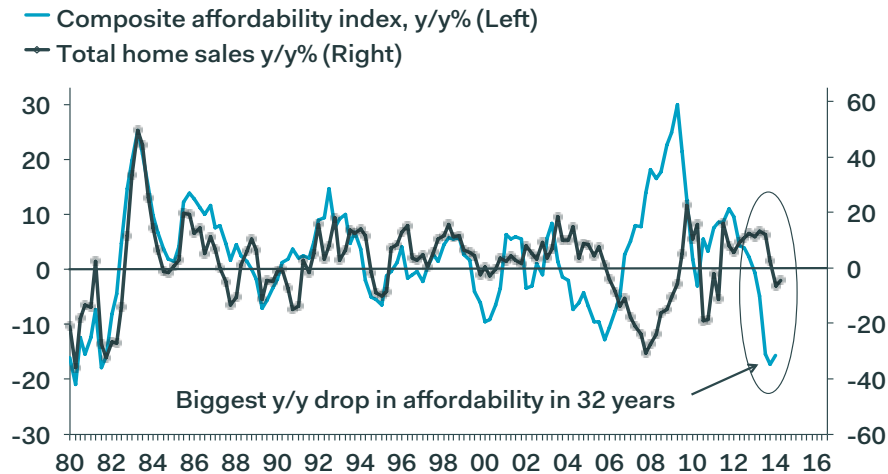


24. EXISTING HOME SALES HAVE SHAKEN OFF THE WINTER HIT...

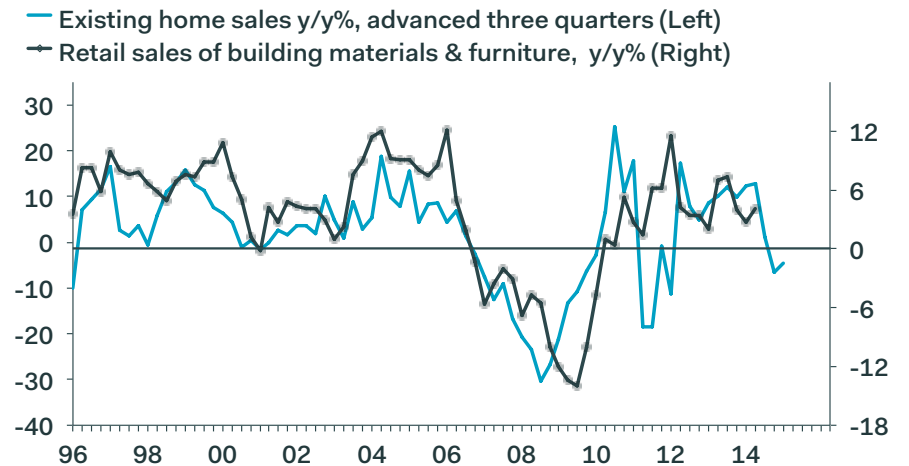




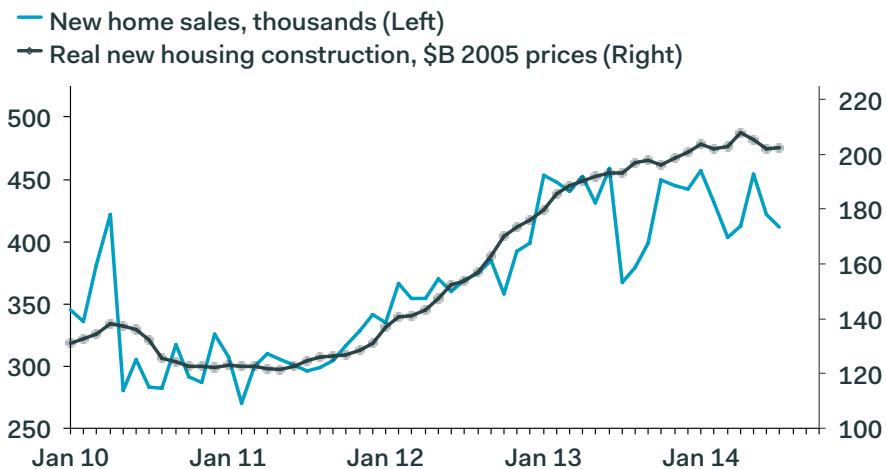
25. ...BUT HOUSING'S WEAKNESS IS NOT JUST WEATHER-RELATED



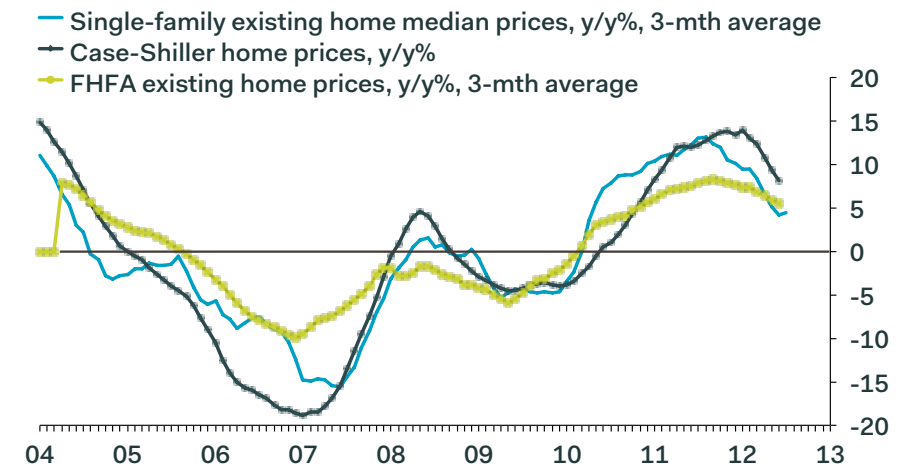
27. FALLING EXISTING HOME SALES VOLUMES WILL HIT RETAILERS



26. HOUSING CONSTRUCTION LOOKS VULNERABLE

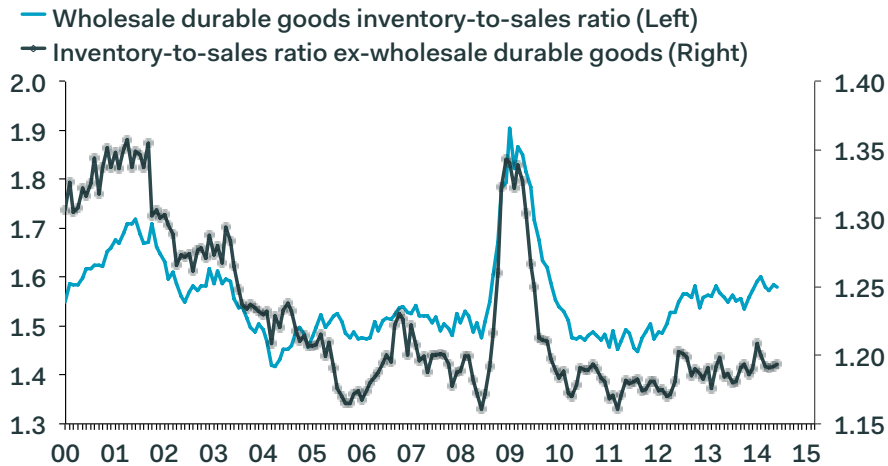


28. HOME PRICE GAINS HAVE SLOWED SHARPLY

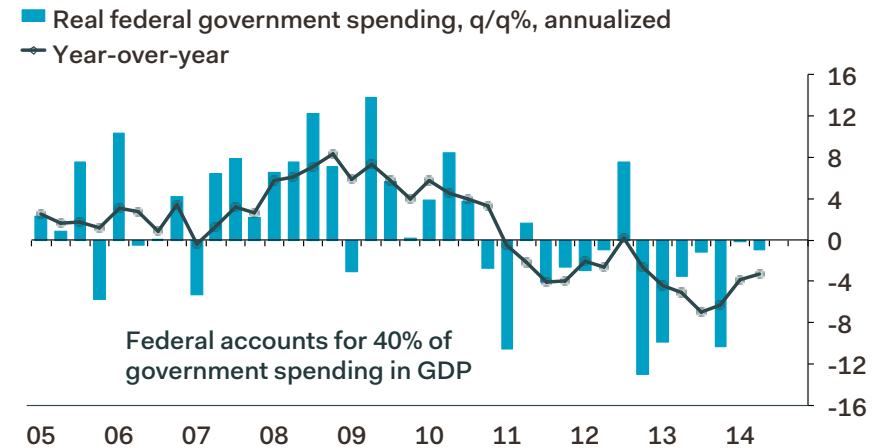




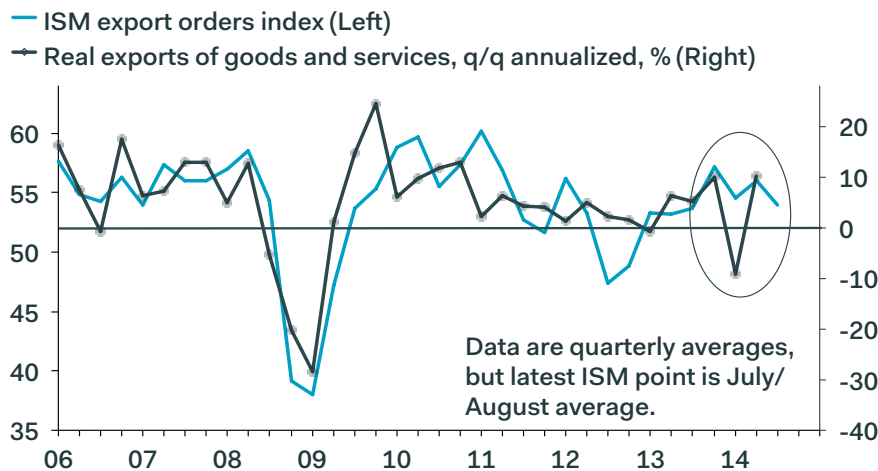
29. ELSEWHERE, LITTLE PROSPECT OF FURTHER RAPID INVENTORY GAINS



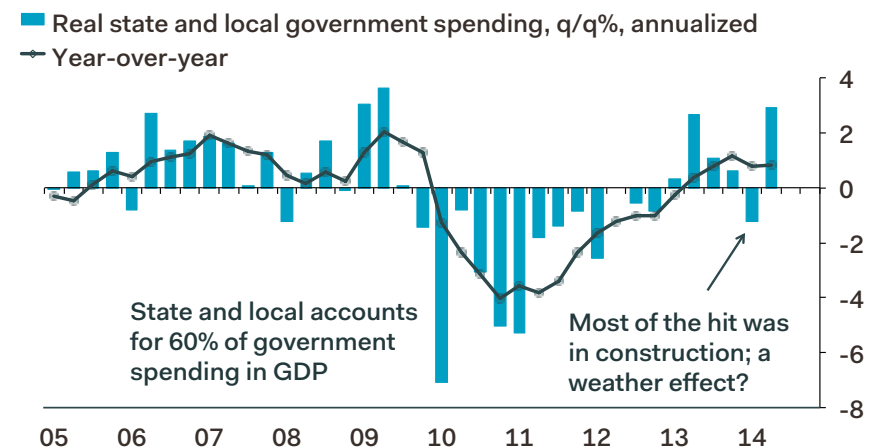
31. THE FEDERAL GOVERNMENT HIT TO SPENDING IS OVER...



30. ...AND EXPORT PERFORMANCE IS UNSPECTACULAR

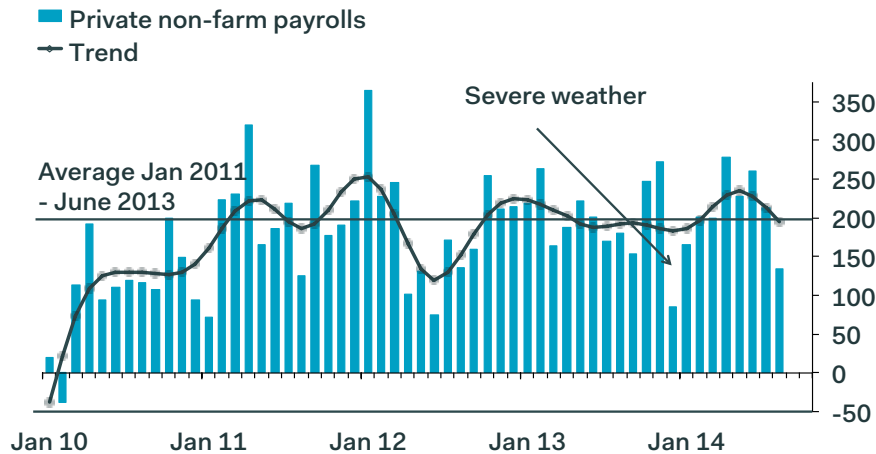


32. ...STATE AND LOCAL GOVERNMENT SPENDING IS NUDGING HIGHER

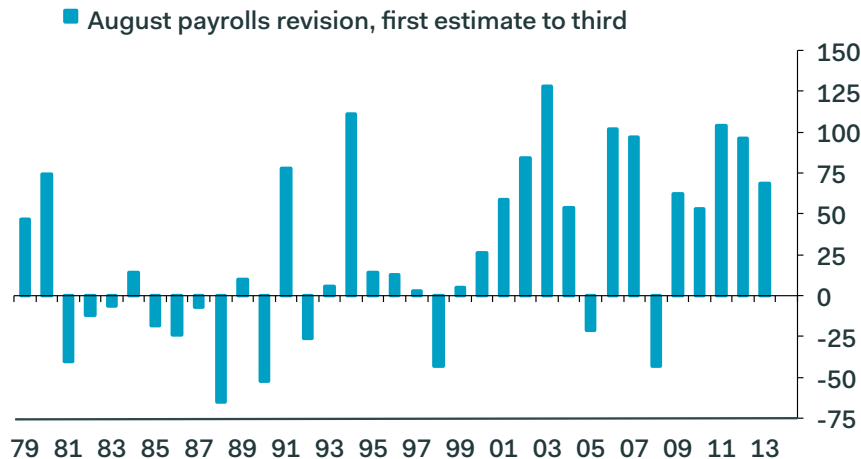




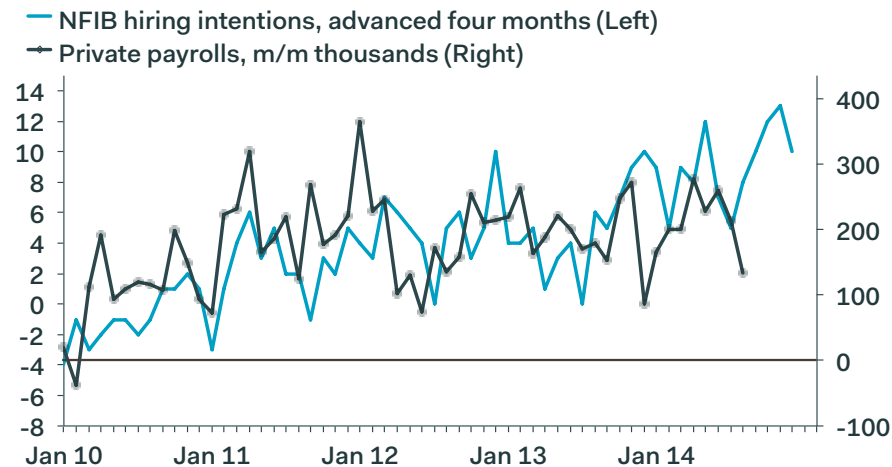
33. PAYROLL GAINS HAVE BEEN SOLID, UNTIL AUGUST...



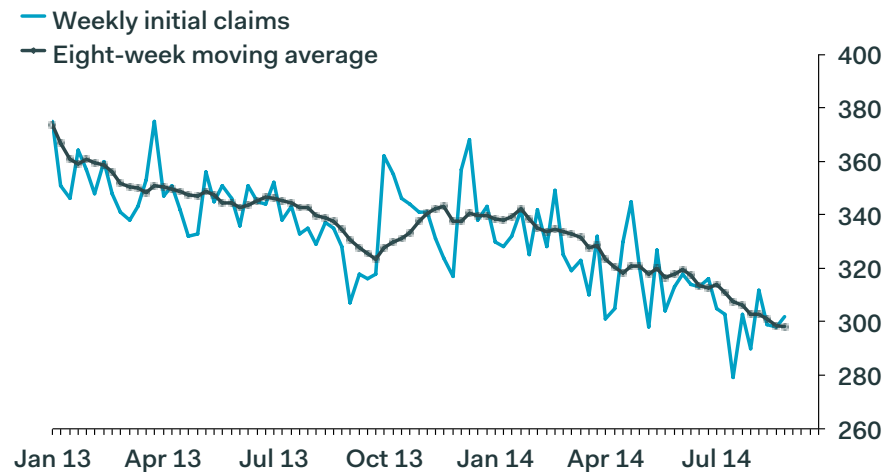
34. ...BUT EXPECT A HEFTY UPWARD REVISION



35. NFIB SIGNALS VERY STRONG H2 GAINS...

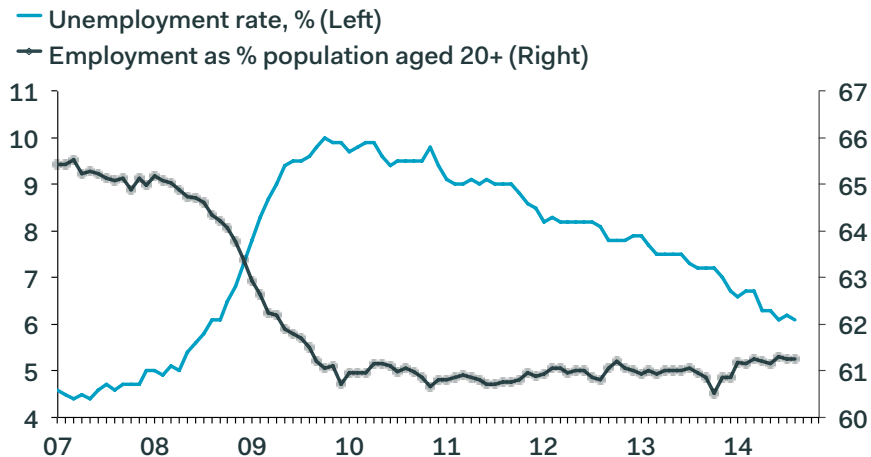


36. ...CONSISTENT WITH THE DROP IN JOBLESS CLAIMS

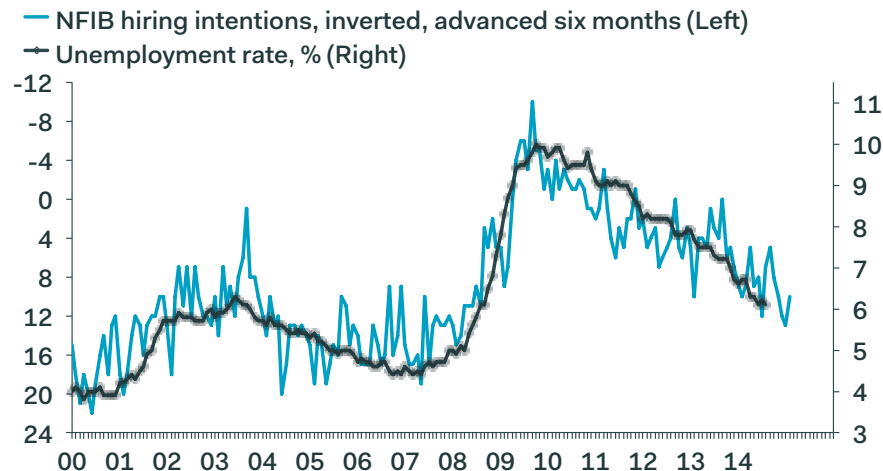




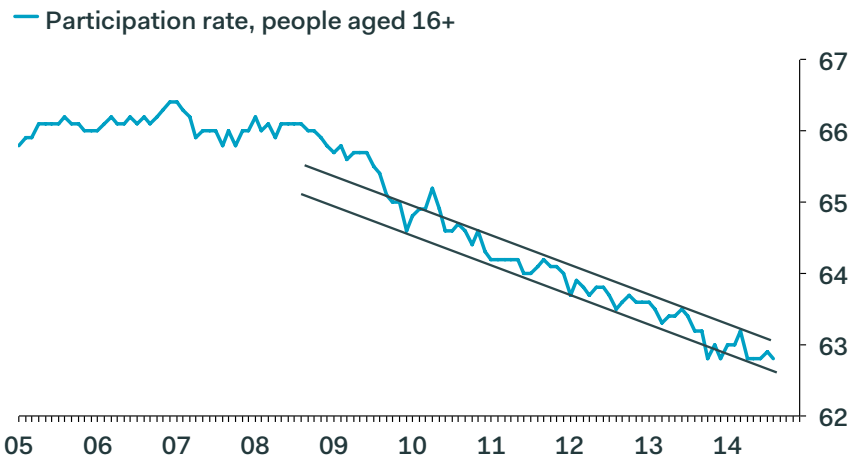
37. EMPLOYMENT IS MUCH WEAKER THAN HEADLINE UNEMPLOYMENT...



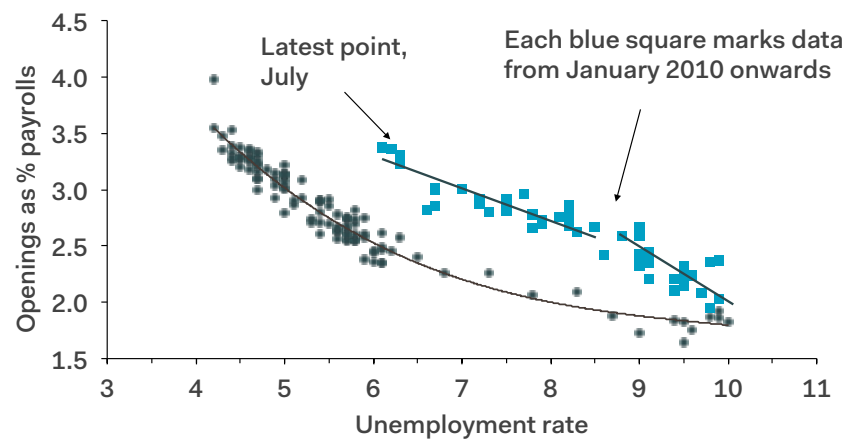
39. ...SO UNEMPLOYMENT WILL KEEP FALLING



38. ...AND NO SIGN YET OF AN UPTURN IN LABOR PARTICIPATION



40. ...MAKING IT HARDER FOR (FUSSY) EMPLOYERS TO FIND STAFF

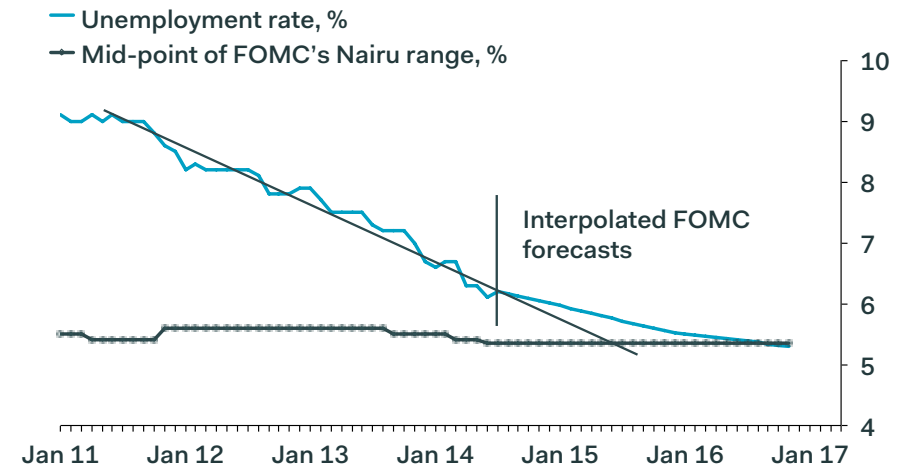




41. LONG-TERM UNEMPLOYMENT IS STILL HIGH...



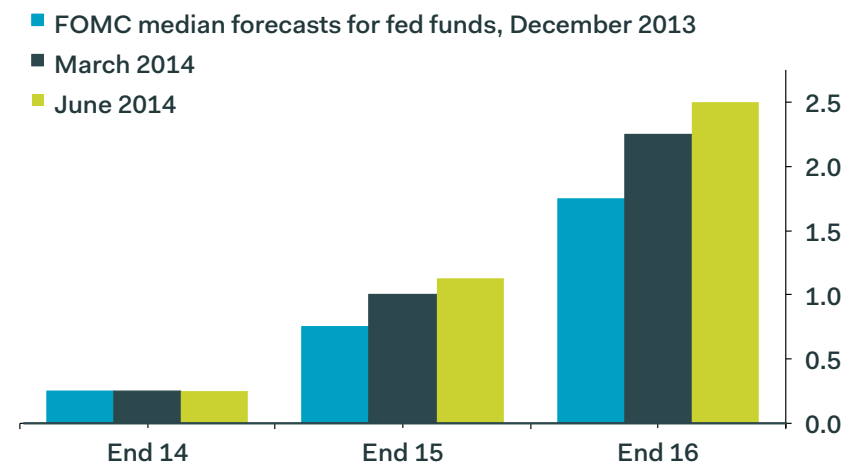
43. THE FED EXPECTS A MUCH SLOWER DROP IN UNEMPLOYMENT



42. ...AND STILL LARGE NUMBERS TRAPPED IN PART-TIME WORK



44. ...AND RATES BELOW NEUTRAL WHEN THE NAIRU IS REACHED





Economic Activity (year-over-year, %)

	2012	2013	2014	2015
Consumers' spending	1.8	2.4	2.3	2.8
Fixed investment	8.3	4.7	5.0	10.0
of which:				
<i>residential</i>	13.5	11.9	1	3
<i>equipment</i>	6.8	4.6	8	10
<i>IP</i>	3.9	3.4	6	10
<i>non-res. structures</i>	13.1	-0.5	6	12
Government spending	-1.4	-2.0	-0.5	1.0
Inventories, change \$B	58	66	75	100
Domestic demand	2.2	2.0	2.3	3.6
Exports	3.5	3.0	3.3	8
Imports	2.3	1.1	4.0	8
GDP	2.3	2.2	2.2	3.5

Labor Market, Costs and Prices (year-over-year)

Productivity growth	1.5	0.4	1.0	1.0
Payrolls, monthly average, thousands	186	197	225	250
Unemployment rate (average)	8.1	7.4	6.2	5.5
Hourly earnings	1.8	2.0	2.2	3.0
CPI	2.1	1.5	2.0	2.4
Core CPI	2.1	1.8	2.0	2.6
Core PCE deflator	1.8	1.3	1.5	2.1

Other

Current account, % GDP	-2.9	-2.4	-1.9	-2.3
Budget deficit, \$B FY	1,089	683	500	400
Budget deficit, % GDP, FY	-7.0	-3.9	-2.9	-2.2
Fed funds, Q4 average	0.16	0.09	0.13	2.00
10-year notes, Q4 average	1.71	2.75	2.60	4.25
30-year bonds, Q4 average	2.86	3.79	3.30	4.75
S&P 500, Q4 average	1,408	1,796	1,950	ishweph2,050