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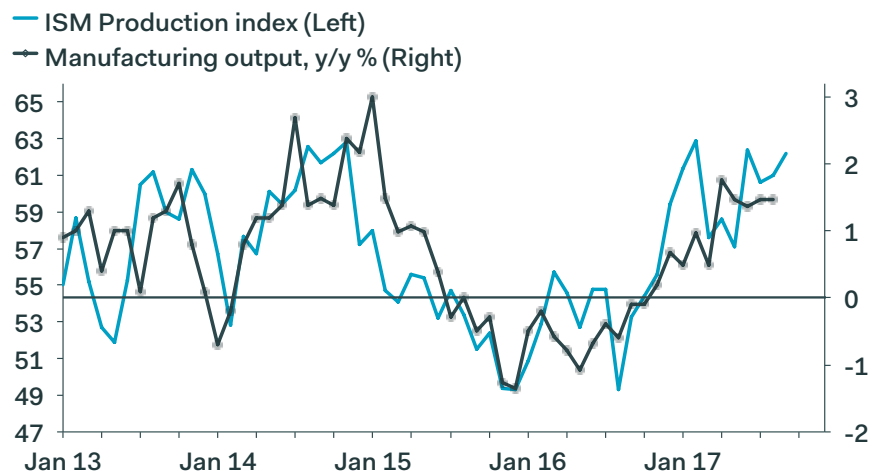
YELLEN'S PATIENCE IS RUNNING OUT ...RATES TO RISE SHARPLY NEXT YEAR

U.S. ECONOMIC WEBINAR, 16 OCTOBER 2017

DATA AS AT OCTOBER 13 | IAN C. SHEPHERDSON, CHIEF ECONOMIST
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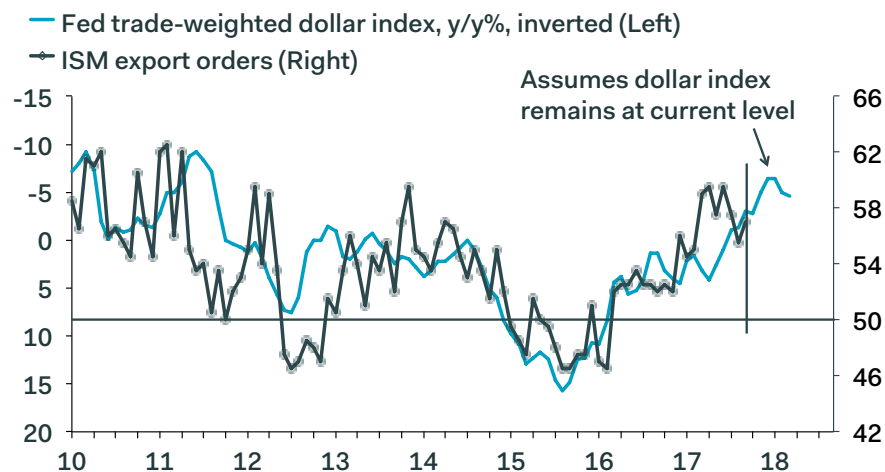
1. THE ECONOMY LOOKED GOOD BEFORE THE STORMS



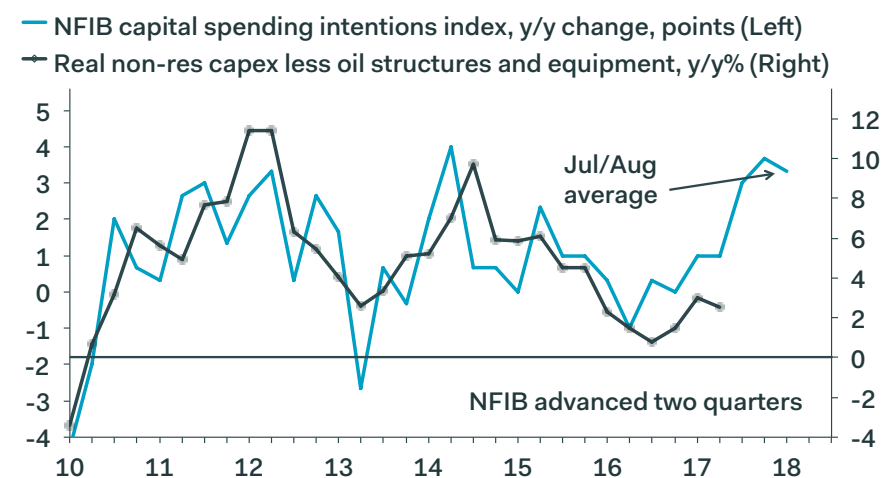
3. CAPEX IS BECOMING LESS DEPENDENT ON OIL PRICES...



2. EXPORT ORDERS ARE STRONG, PARTLY DUE TO THE WEAK DOLLAR



4. ...BECAUSE SMALL FIRMS' SPENDING IS ACCELERATING





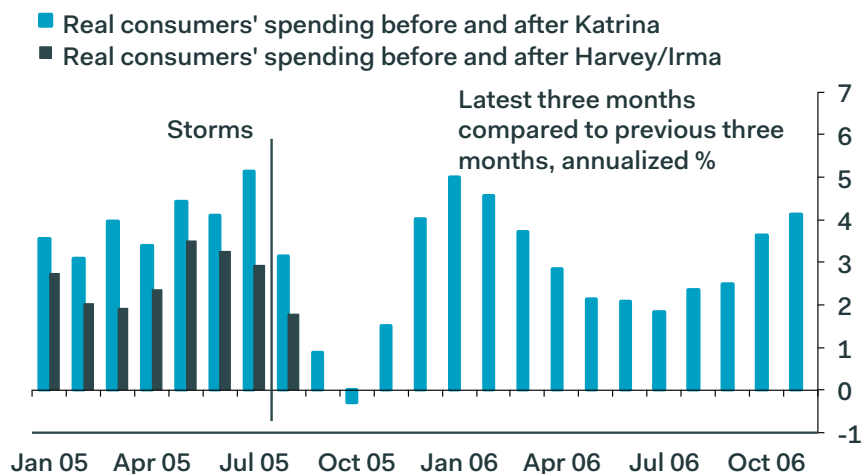
5. CONSUMERS' CONFIDENCE HAS JUMPED; SPENDING LAGGING



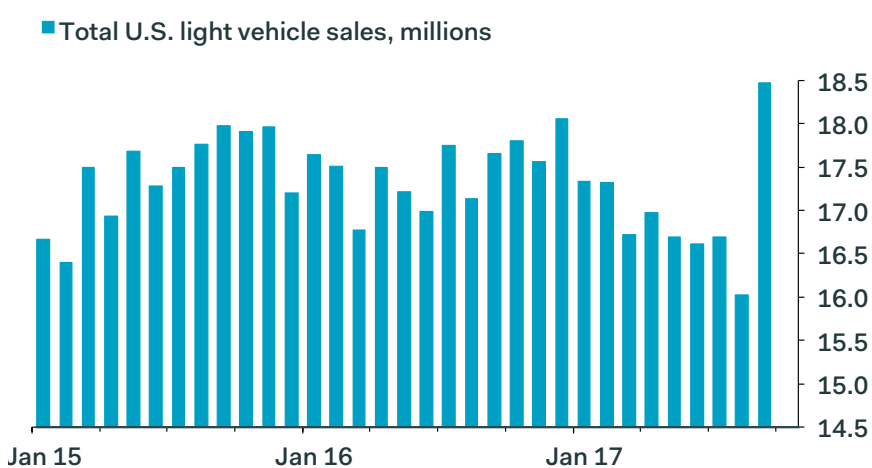
7. CHAINSTORE SALES GROWTH SURGED; NOW MEAN-REVERTING



6. HURRICANES WILL SLOW SPENDING, BUT NOT AS MUCH AS IN 2005

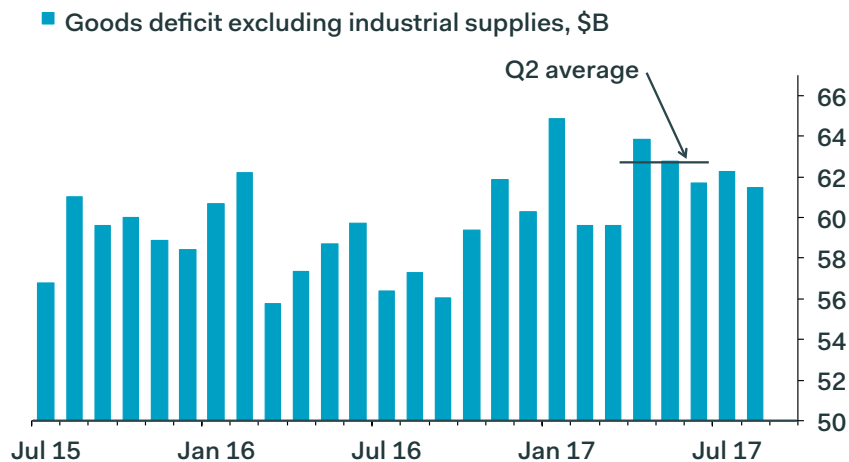


8. AUTO SALES HAVE ROCKETED; THE REPLACEMENT WAVE BEGINS

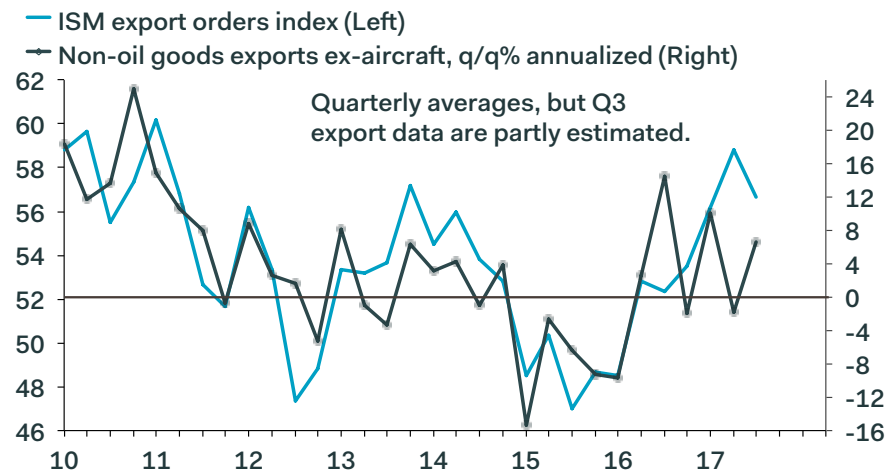




9. THE CORE TRADE DEFICIT ROSE IN THE SECOND QUARTER...



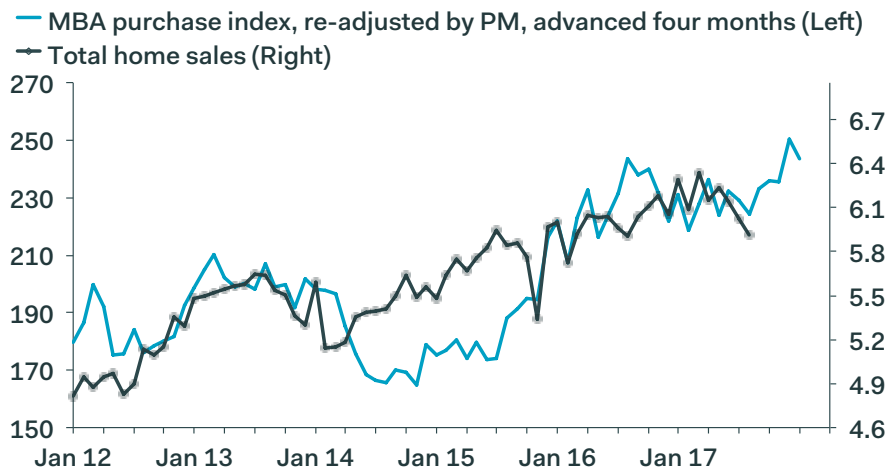
10. ...BUT THE ISM POINTS TO MUCH STRONGER EXPORTS IN Q3



11. HOME SALES HAVE BEEN HIT BY HARVEY...

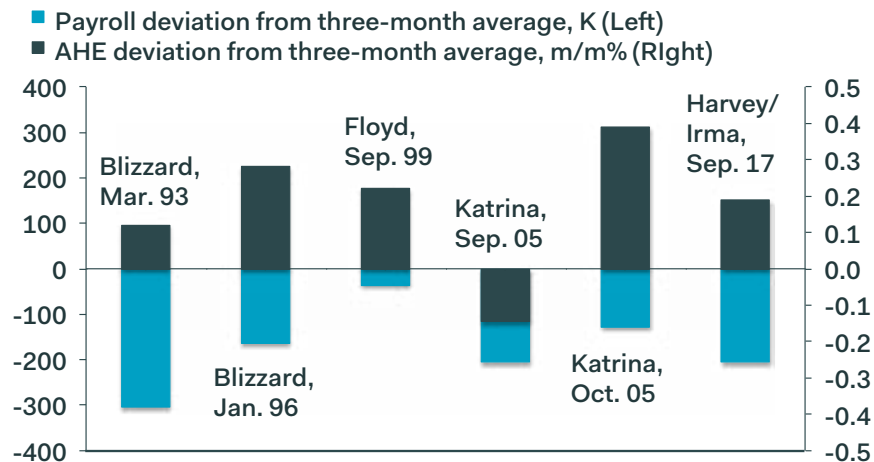


12. ...BUT A Q4 REBOUND IS A DECENT BET

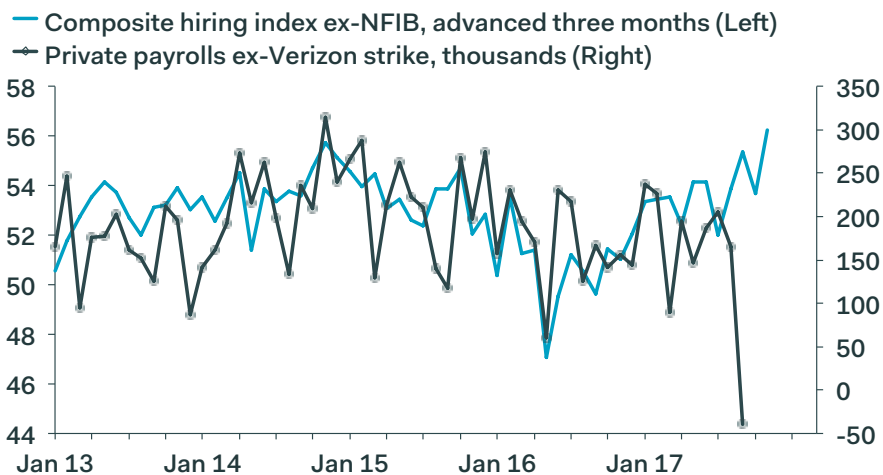




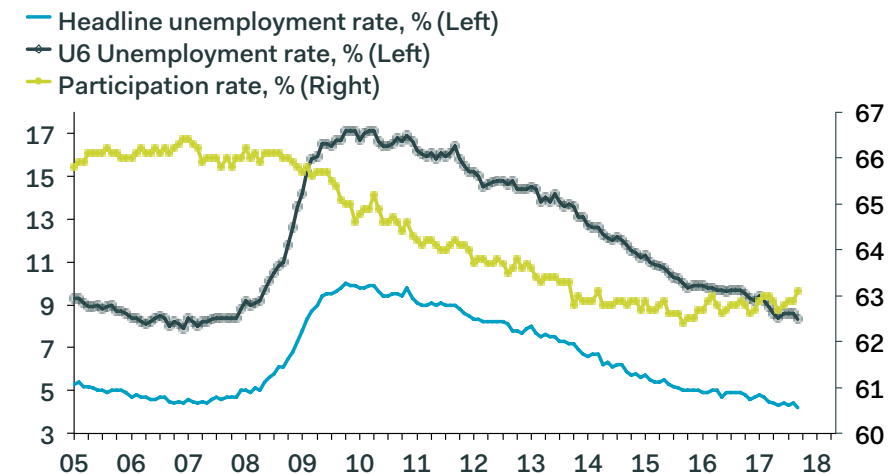
13. THE HURRICANE HIT WAS IN LINE WITH PAST EXPERIENCE



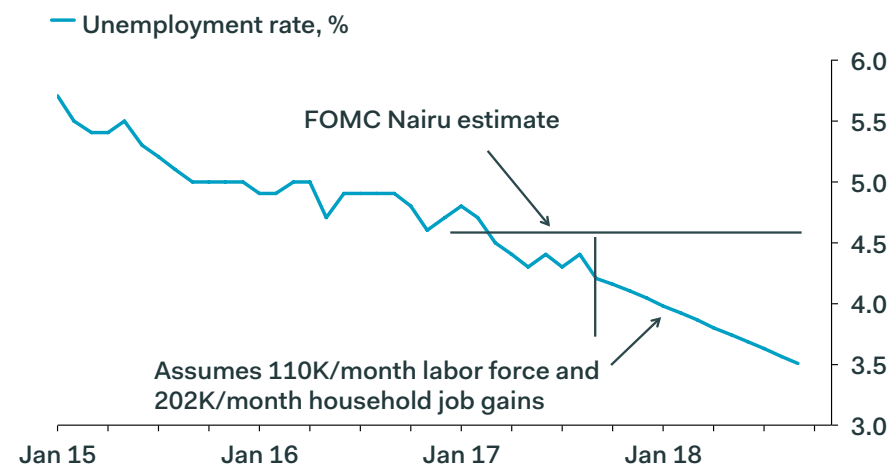
14. WHEN THE STORM HIT FADES, EXPECT STRONG PAYROLL GROWTH



15. THE TREND IN UNEMPLOYMENT IS FALLING; PARTICIPATION STABLE?



16. THE PROSPECT OF SUB-4% UNEMPLOYMENT IS SCARING YELLEN





17. REAL WAGE GROWTH HAS ACCELERATED SUBSTANTIALLY...



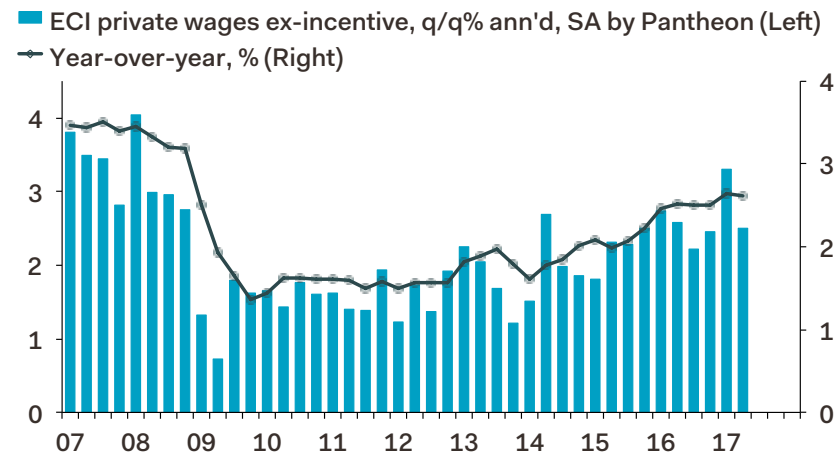
18. BUT NOMINAL WAGES ARE SOFT, GIVEN THE TIGHT LABOR MARKET



19. ...BUT THE POST-2015 LINK BETWEEN NFIB AND WAGES IS HOLDING

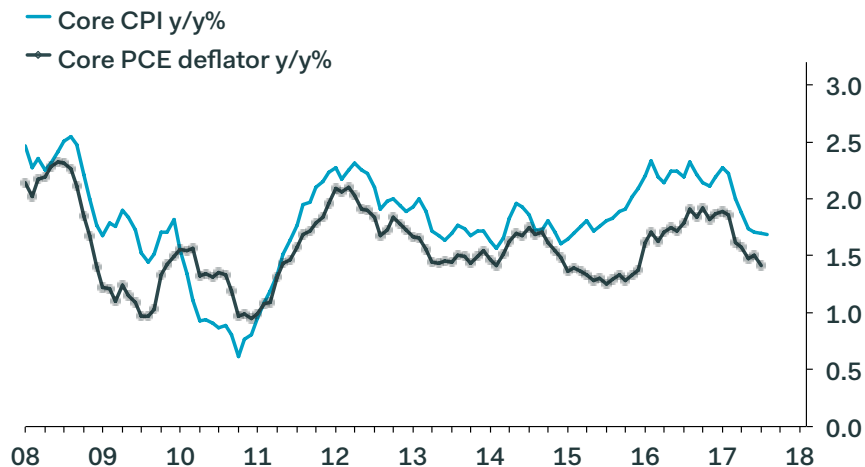


20. THE ECI SUGGESTS CORE NOMINAL WAGES ARE ACCELERATING, SLOWLY

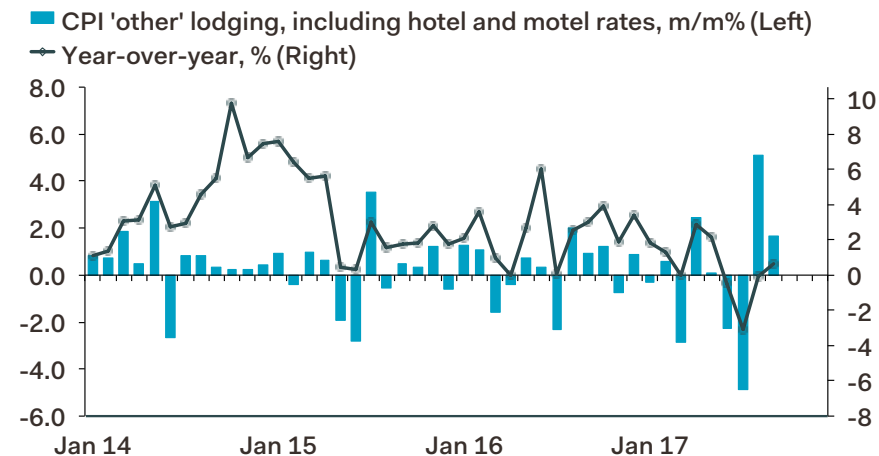




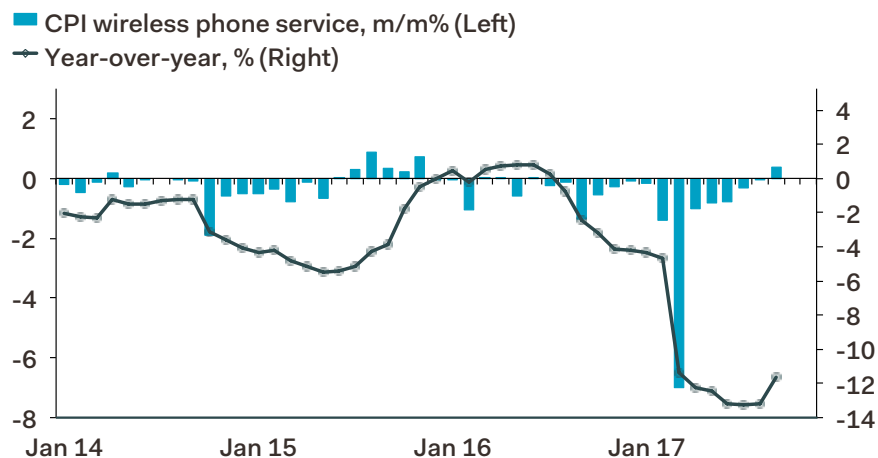
21. CORE INFLATION HAS SLOWED SHARPLY BUT WILL LEVEL OFF SOON



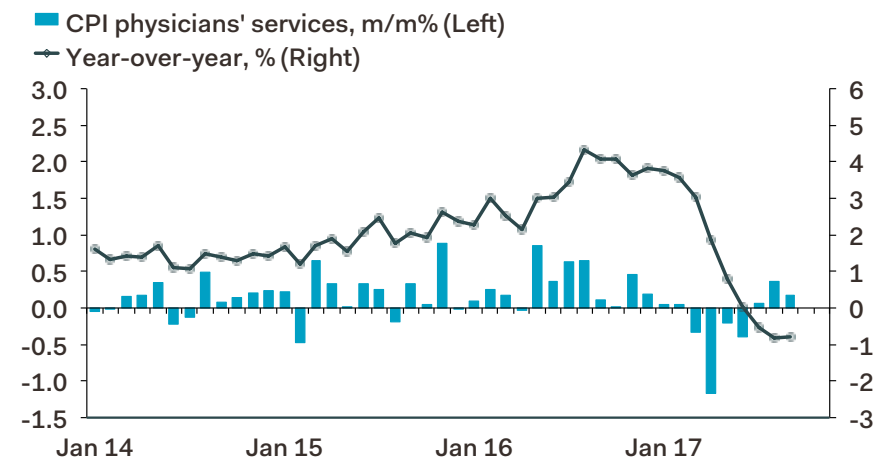
21. HOTEL ROOM RATES REBOUNDED IN AUGUST



22. THE PLUNGE IN CELLPHONE PLAN PRICES IS OVER

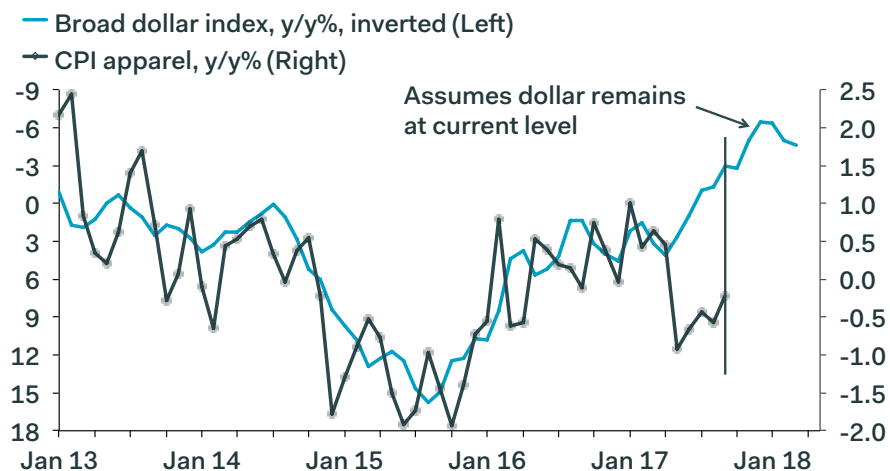


24. PHYSICIANS' SERVICES PRICES ARE CREEPING BACK UP

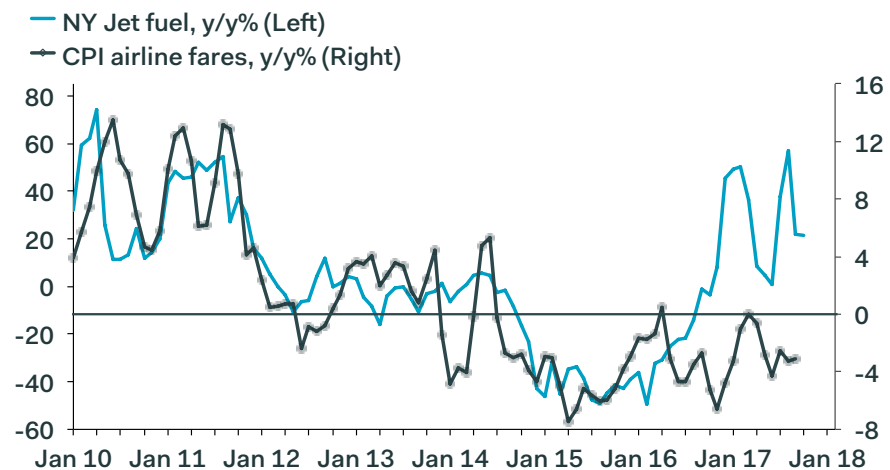




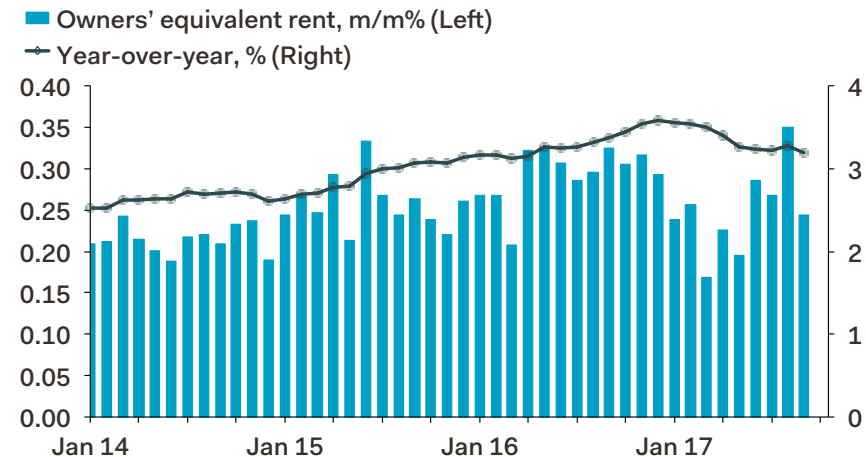
25. APPAREL PRICES WILL REBOUND



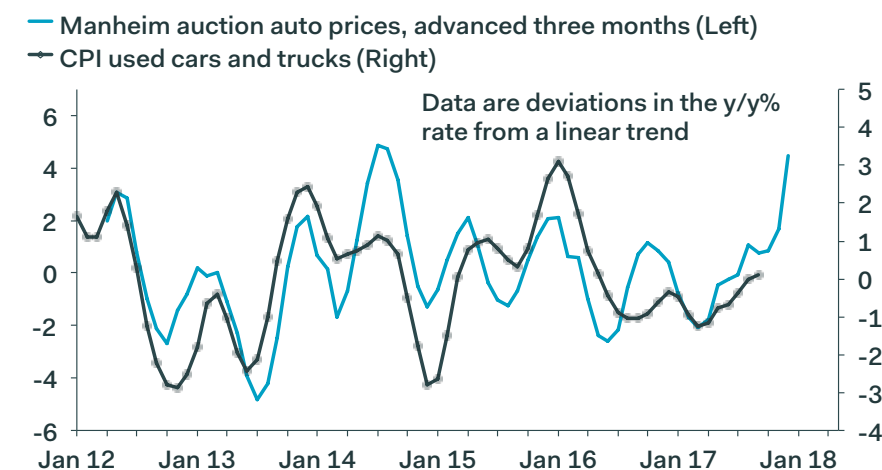
26. CLEAR UPSIDE RISK FOR AIRLINE FARES...



27. ...AND THE TECHNICALITY WHICH DEPRESSED OER IS OVER

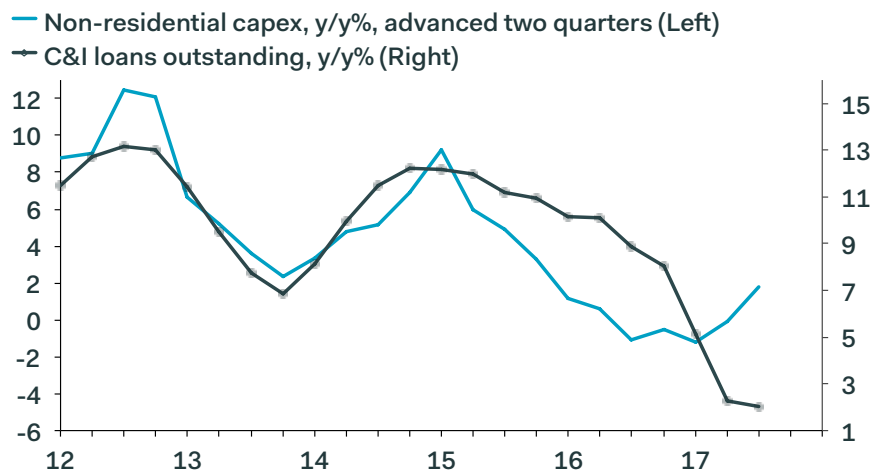


28. USED CAR PRICES ARE SET TO RISE SHARPLY, SOON

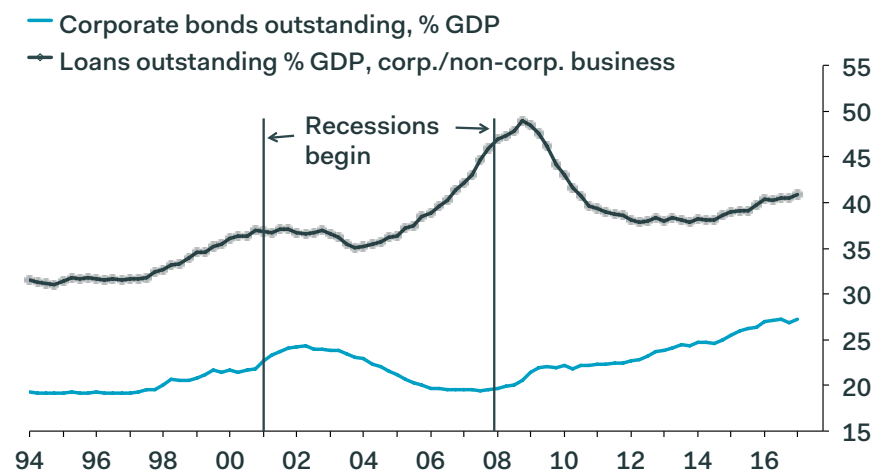




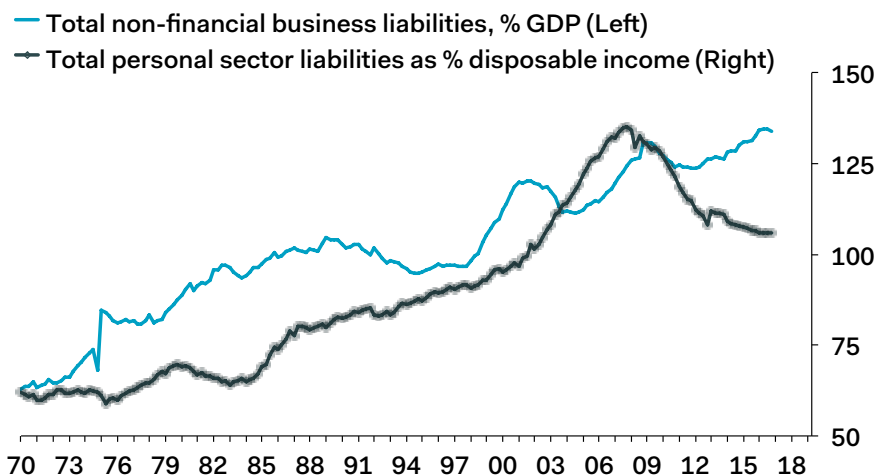
29. SLOWDOWN IN C&I LOAN GROWTH JUST LAGS CAPEX



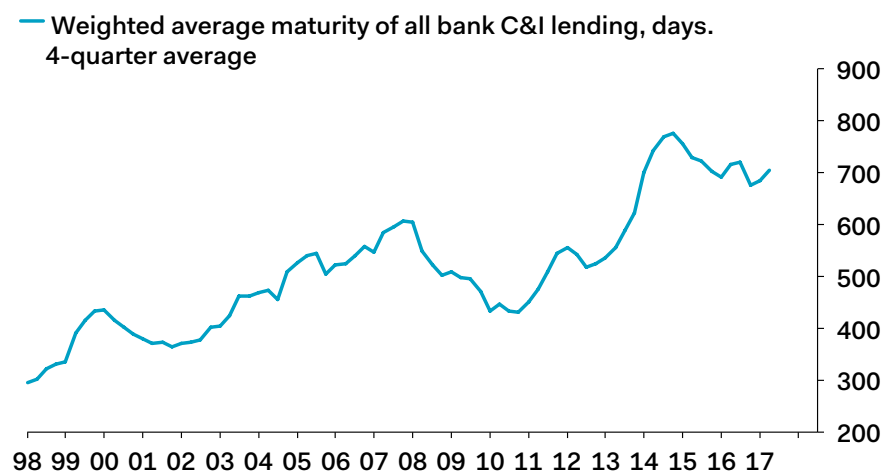
31. BOTH BANK AND NON-BANK DEBT HAVE INCREASED...



30. NON-FINANCIAL BUSINESS DEBT IS THE KEY RISK AS THE FED HIKES

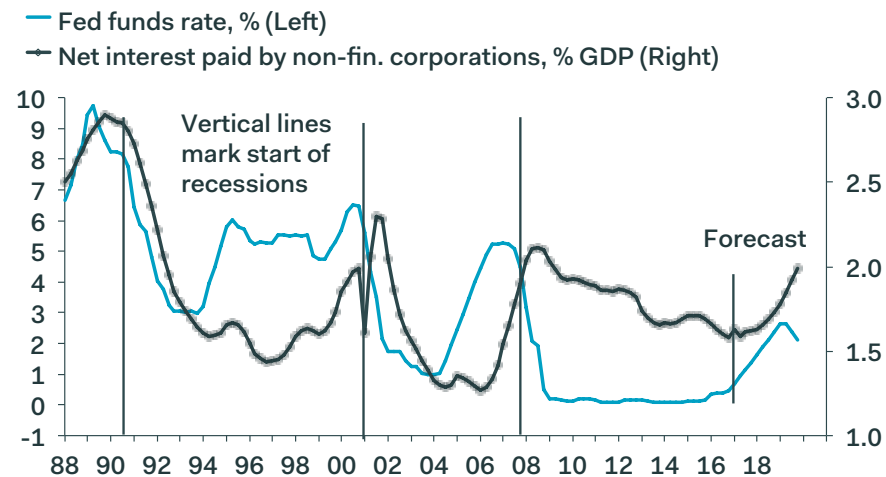


32. ...THOUGH THE MATURITY OF C&I LOANS HAS LENGTHENED

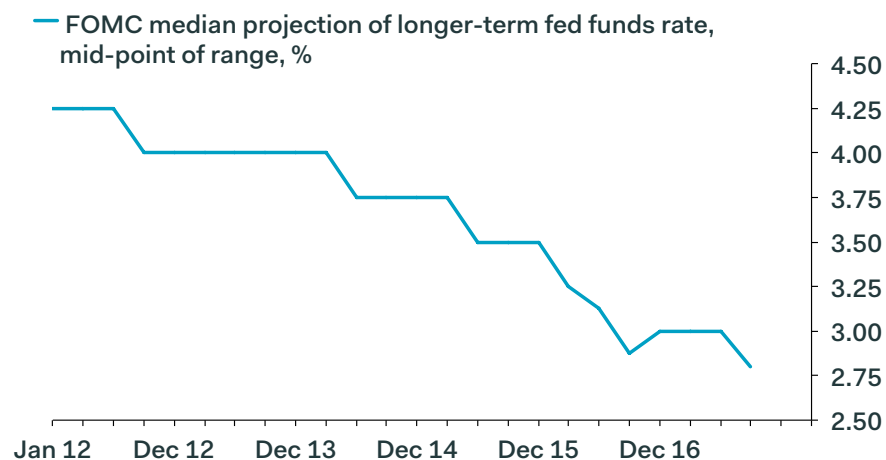




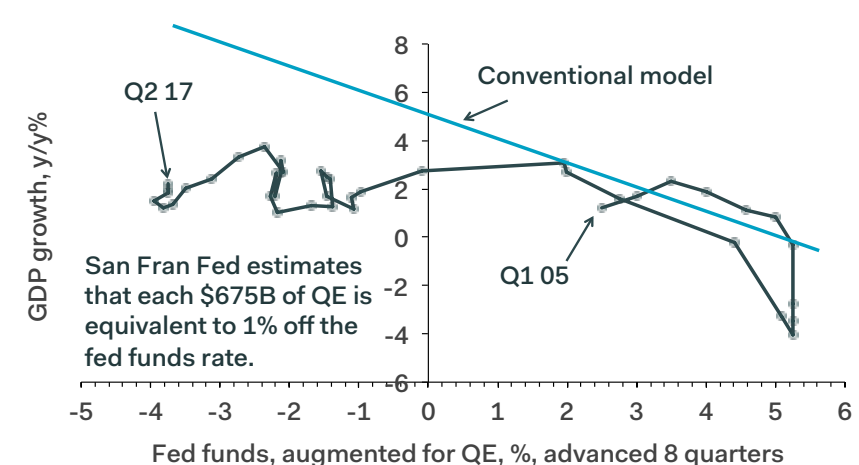
33. HIGHER RATES WILL LIFT DEBT SERVICE RATIOS, EVENTUALLY



34. THE FLOOR FOR THE FED'S LONGER-RUN RATE EXPECTATIONS?



35. HAWKS NOW ARGUE THAT INITIAL RATE HIKES WILL BOOST GROWTH



36. ...NEGATIVE REAL RATES SIGNAL WEAKNESS, SO WHY INVEST?

