



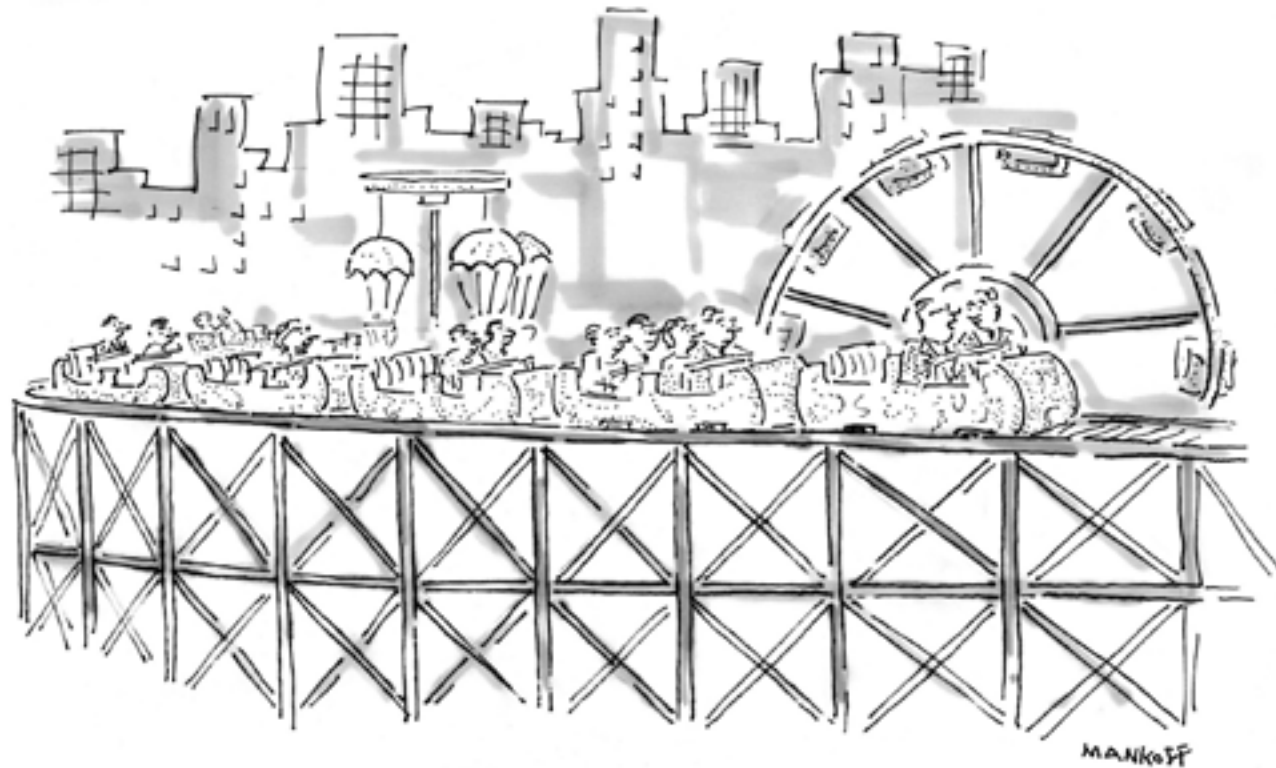
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OIL BOOST IS BRINGING RATE HIKES NEARER: FOCUS ON THE LABOR MARKET, NOT INFLATION

U.S. ECONOMIC CHARTBOOK, JANUARY 2015

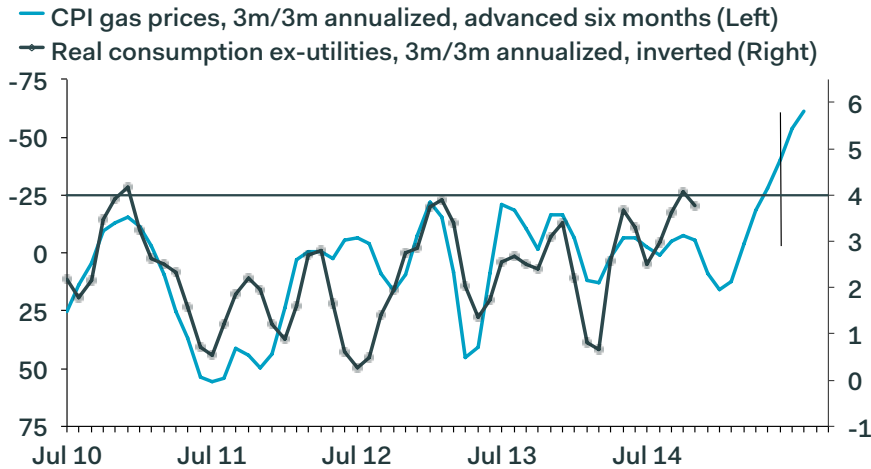
DATA AS AT JANUARY 13 | IAN C. SHEPHERDSON, CHIEF ECONOMIST
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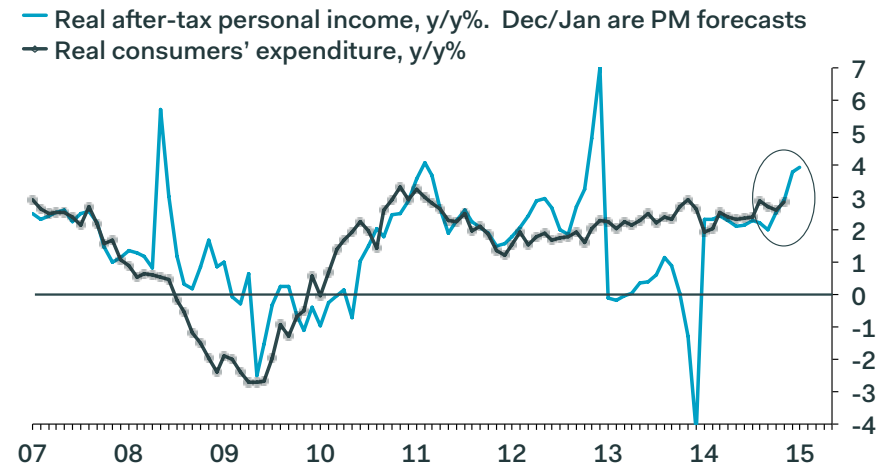
*"Personally, I liked this roller coaster a lot better before
the Federal Reserve Board got hold of it."*



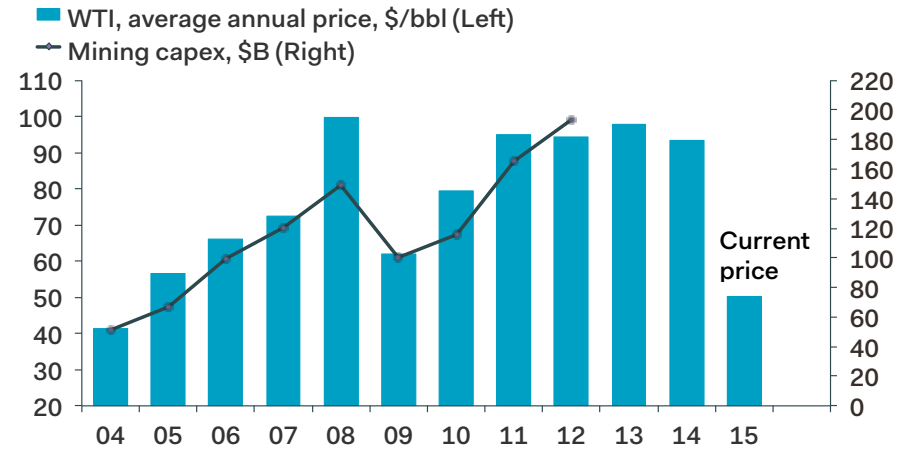
1. PLUNGING OIL PRICES ARE GREAT NEWS FOR CONSUMERS...



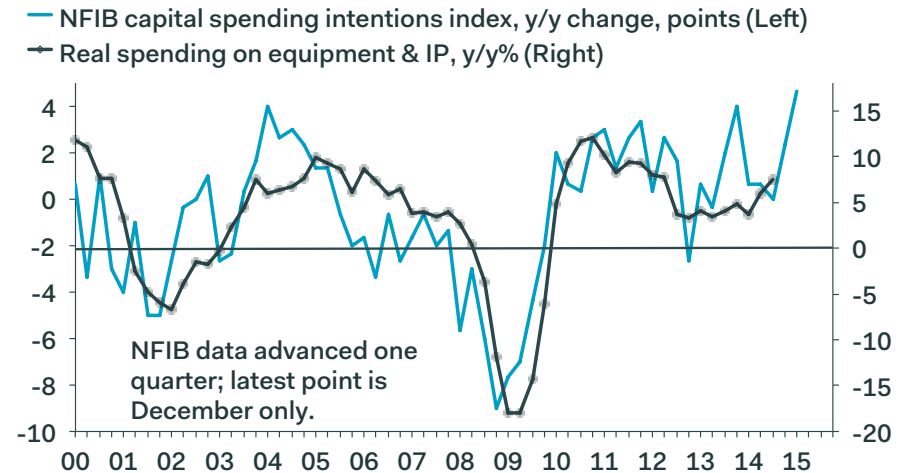
2. REAL WAGE GAINS ARE BOOSTING SPENDING; MORE TO COME



3. BUT OIL PRODUCERS WILL CUT THEIR SPENDING MASSIVELY

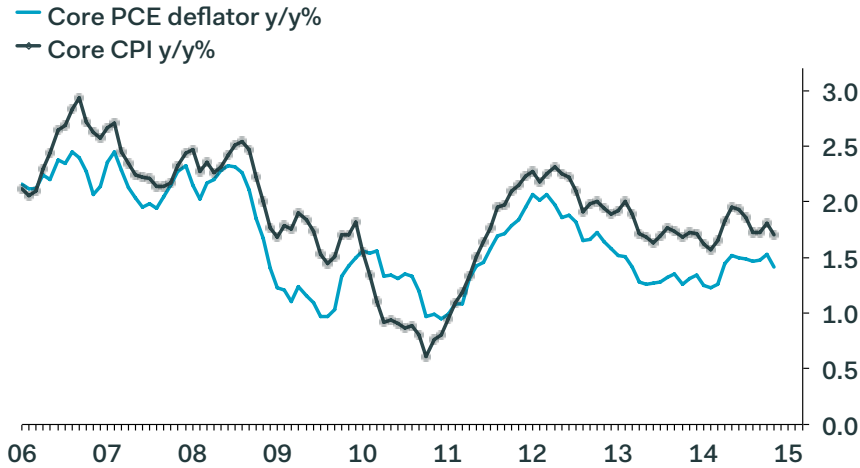


4. ...SO THE CAPEX BURDEN WILL FALL ON SMALL BUSINESSES

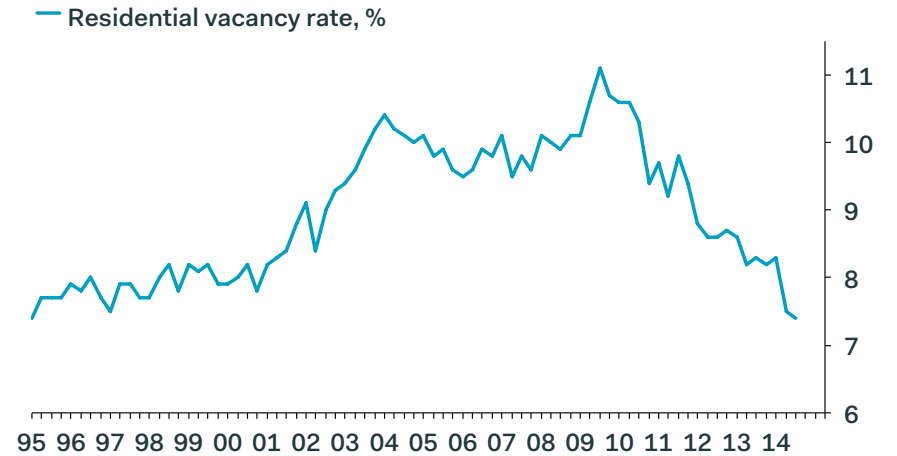




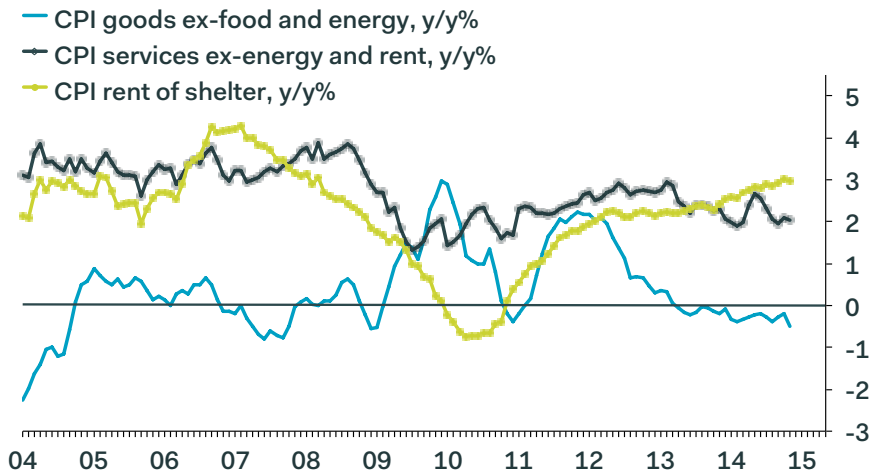
5. CORE DISINFLATION IS OVER; DEFLATION IS A EUROPEAN STORY



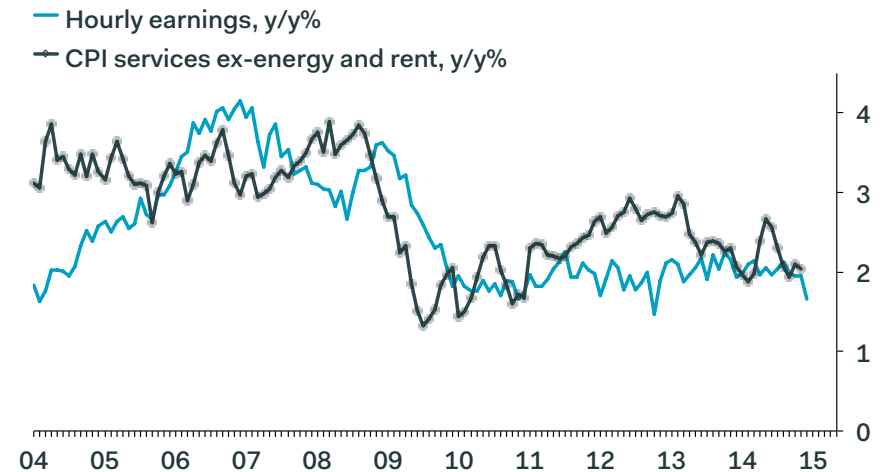
7. THE TIGHTENING RENTAL MARKET IS THE BIGGEST SINGLE THREAT...



6. GOODS PRICES WILL DIP FURTHER, BUT SERVICES AND RENTS WON'T

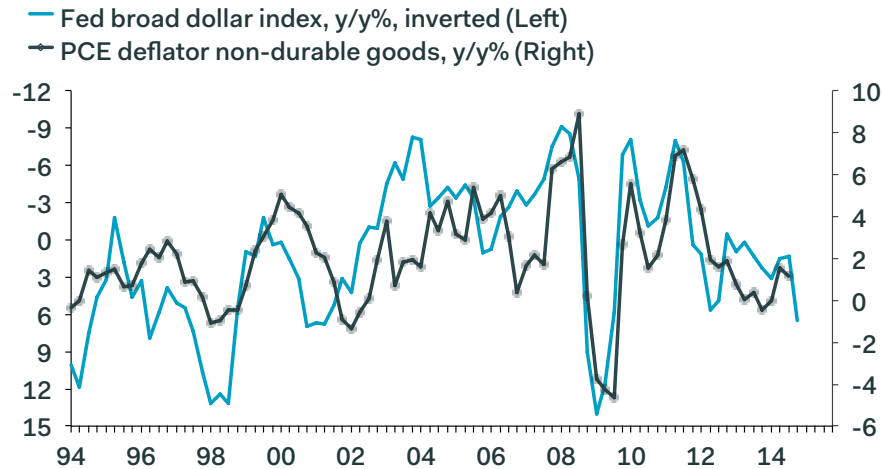


8. UPSIDE RISK FOR OTHER CORE SERVICES IF WAGES ACCELERATE

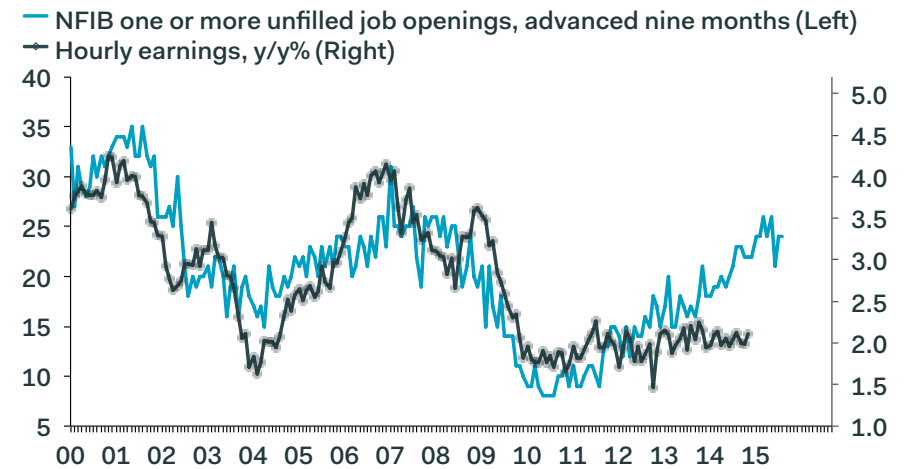




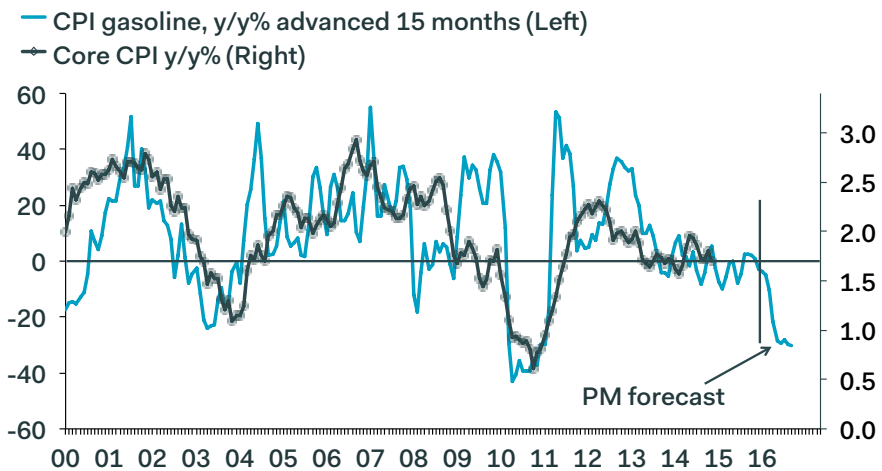
9. THE STRONG DOLLAR WILL PUSH DOWN GOODS PRICES...



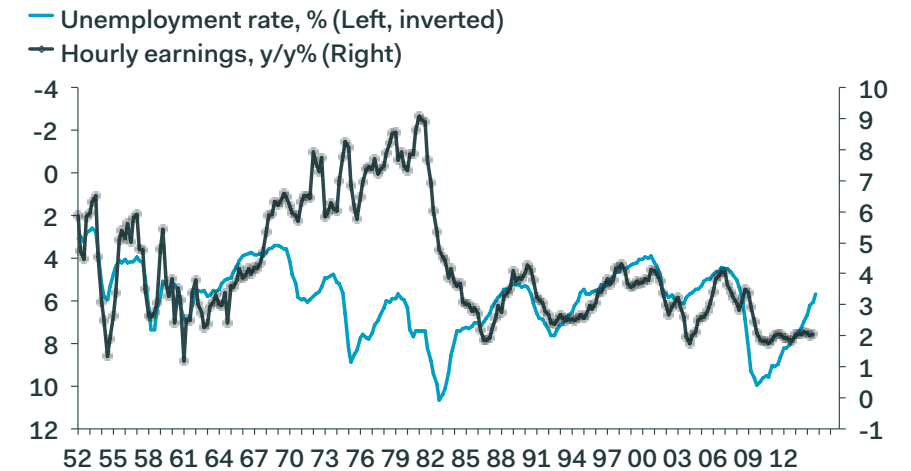
11. ...BUT WAGES WILL ACCELERATE LONG BEFORE THAT HAPPENS



10. ...AND CHEAPER GAS WILL CONSTRAIN CORE, EVENTUALLY



12. THE UNEMPLOYMENT RATE SENDS THE SAME SIGNAL...

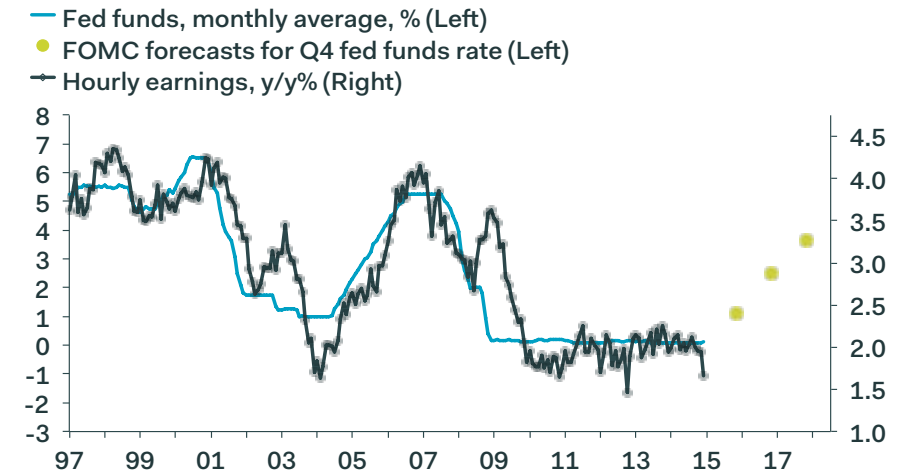




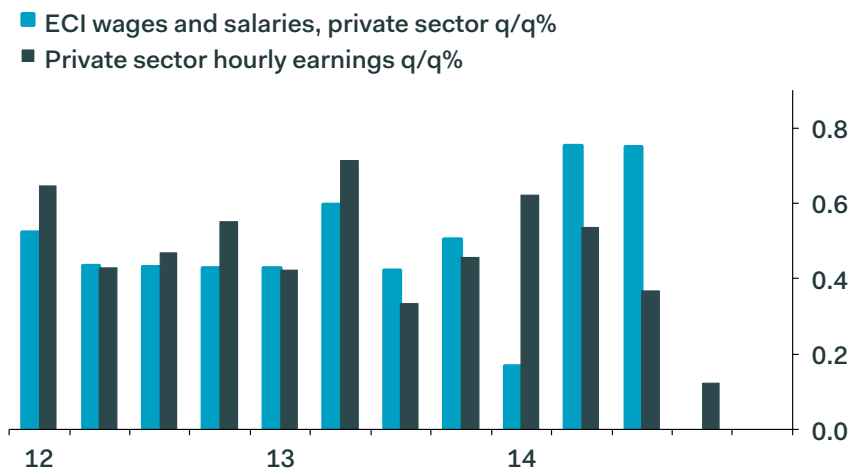
13. ...AS DOES THE NABE SURVEY



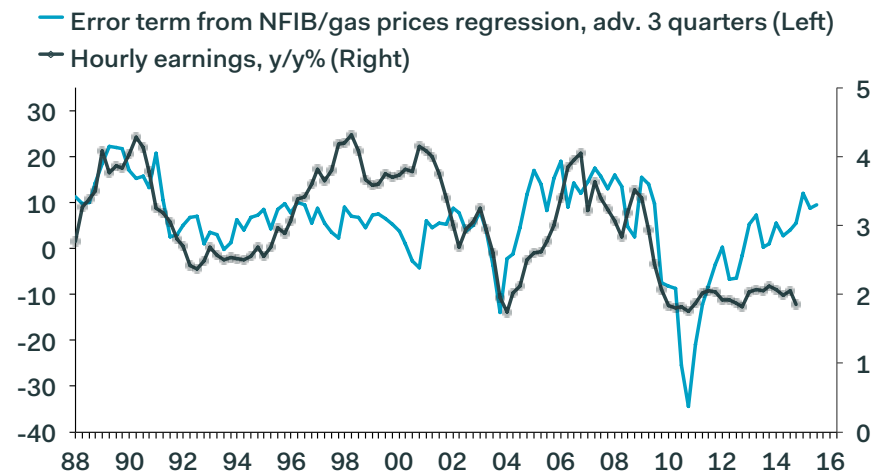
15. NOTHING MATTERS MORE TO THE FED THAN WAGE GAINS



14. THE ECI SAYS WAGES ALREADY ARE ACCELERATING

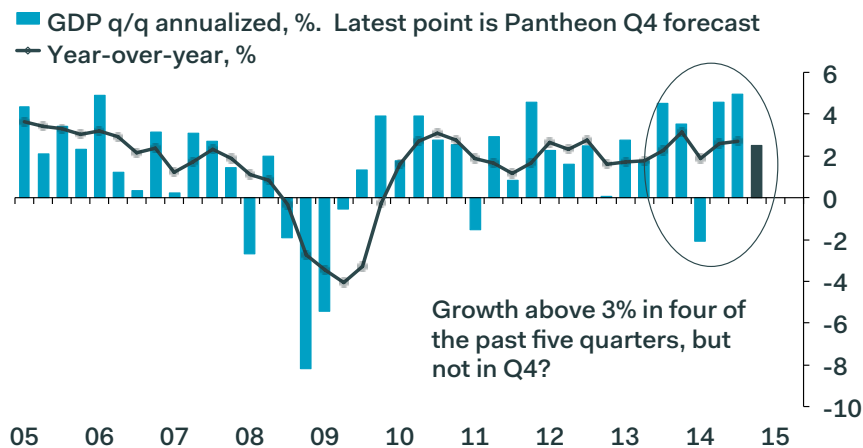


16. BUT THE DANGER IS THAT FIRMS ACT BEFORE WAGES SPIKE





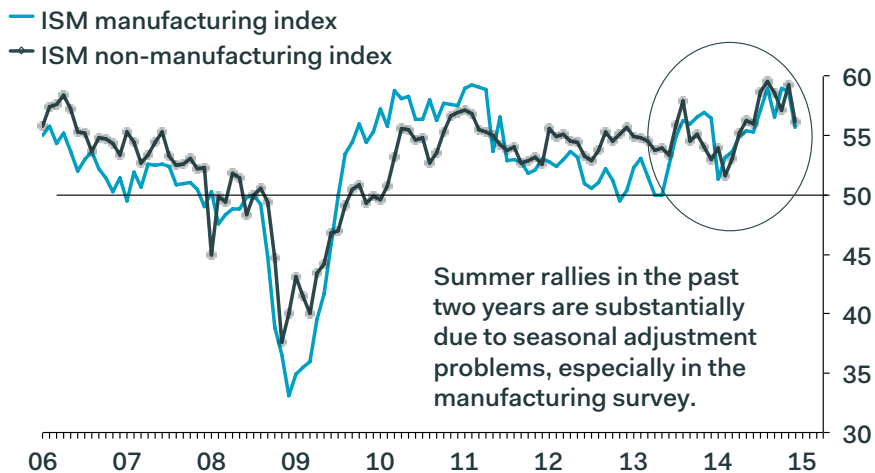
17. STRONG GROWTH IN FOUR OF THE PAST FIVE QUARTERS...



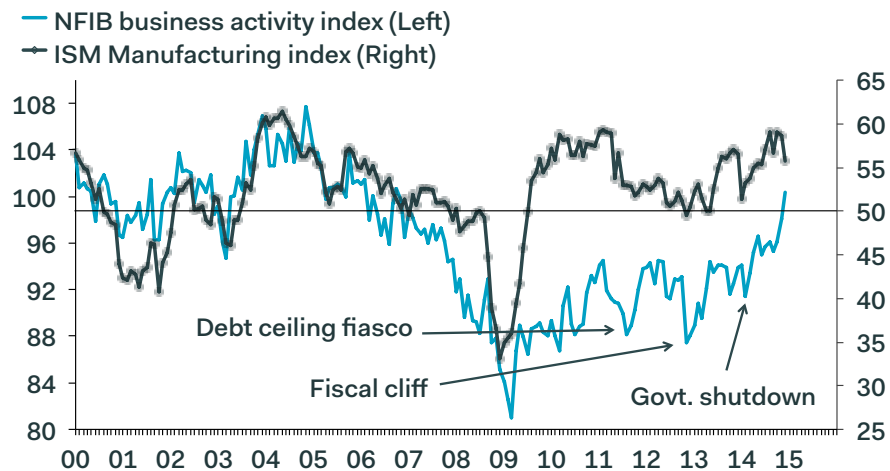
19. CHINA'S PMI IS PROBABLY A BETTER GUIDE TO U.S. MANUFACTURING



18. ...ISMS HAVE OVERSTATED GROWTH, BUT SEASONAL ISSUES FADING

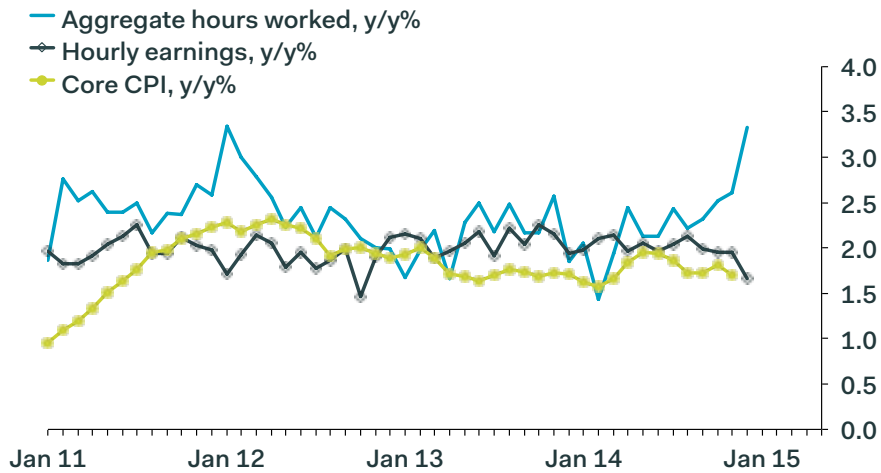


20. SMALL FIRMS HAVE ALMOST CLOSED THE GAP, AT LAST

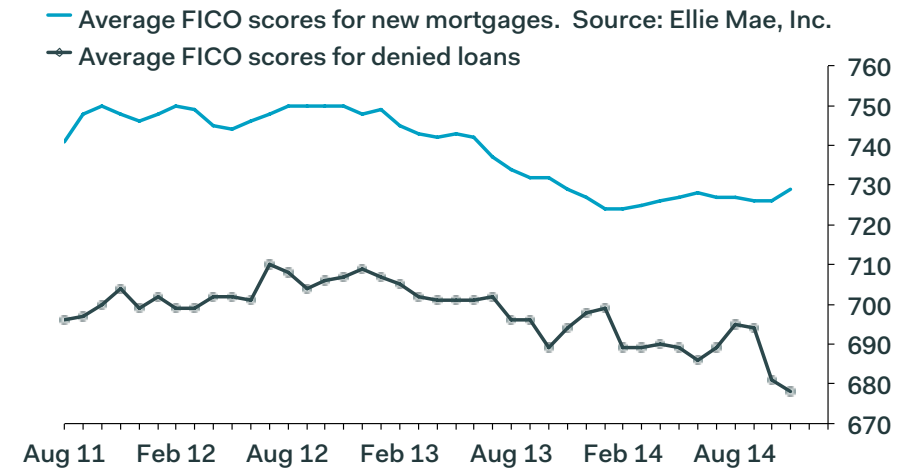




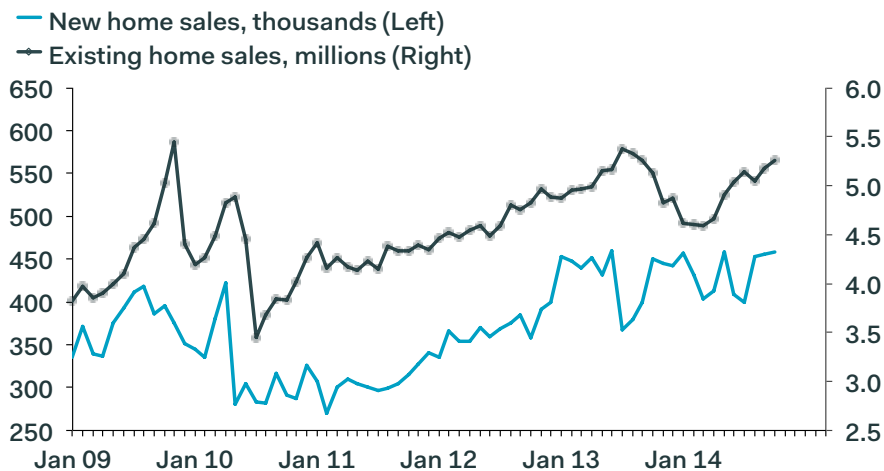
21. KEY CONSUMER FUNDAMENTALS ARE STARTING TO IMPROVE...



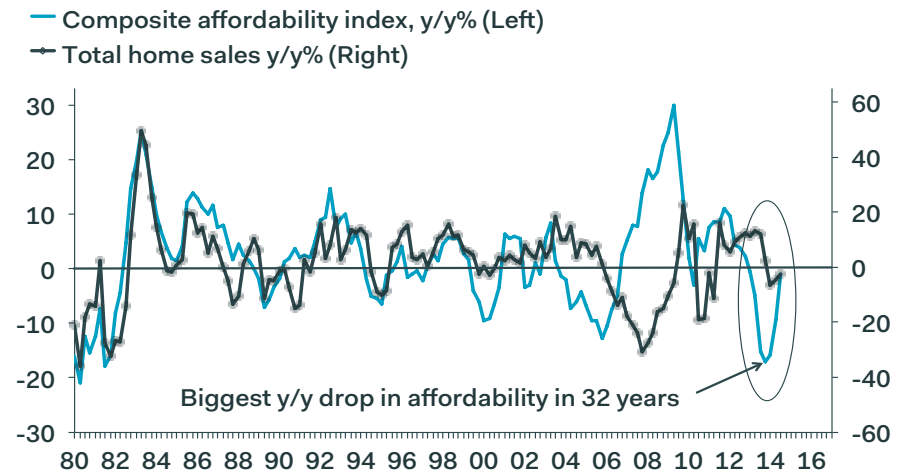
23. LENDING CONDITIONS ARE STILL VERY TIGHT...



22. ...BUT THE HOUSING MARKET IS STILL STRUGGLING



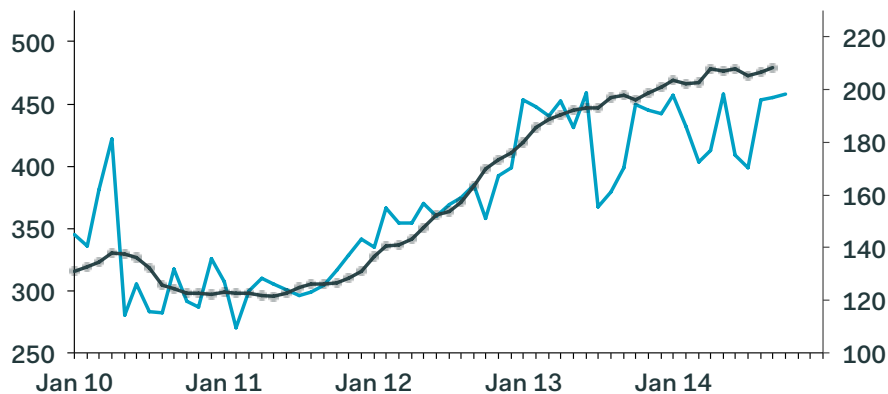
24. ...AND AFFORDABILITY IS STILL A BIG PROBLEM





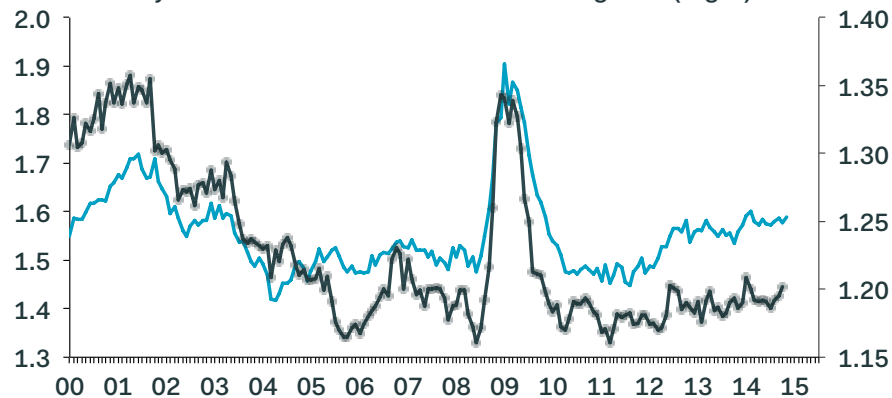
25. HOUSING CONSTRUCTION HAS LEVELLED OFF

— New home sales, thousands (Left)
— Real new housing construction, \$B 2005 prices (Right)



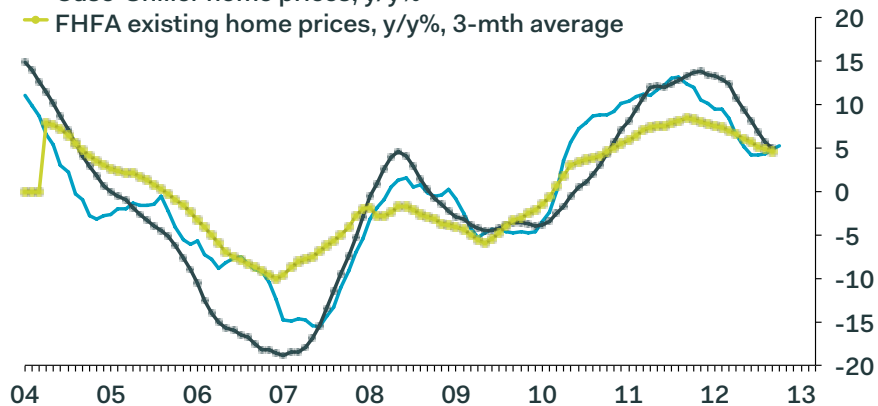
27. ELSEWHERE, LITTLE PROSPECT OF FURTHER RAPID INVENTORY GAINS

— Wholesale durable goods inventory-to-sales ratio (Left)
— Inventory-to-sales ratio ex-wholesale durable goods (Right)



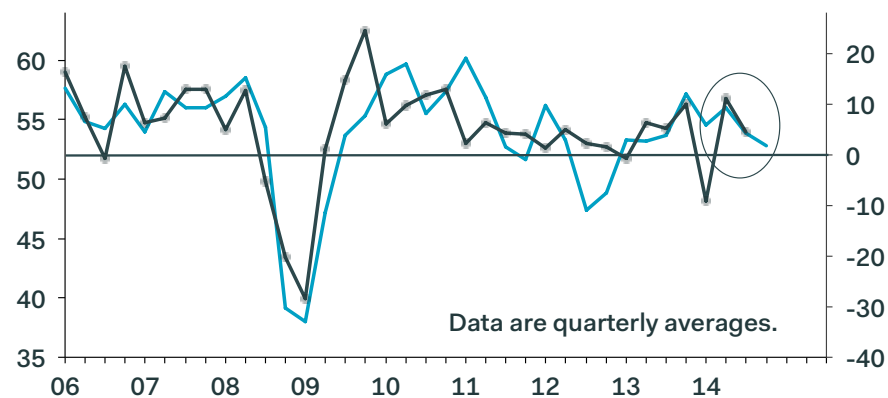
26. HOME PRICE GAINS HAVE SLOWED SHARPLY

— Single-family existing home median prices, y/y%, 3-mth average
— Case-Shiller home prices, y/y%
— FHFA existing home prices, y/y%, 3-mth average



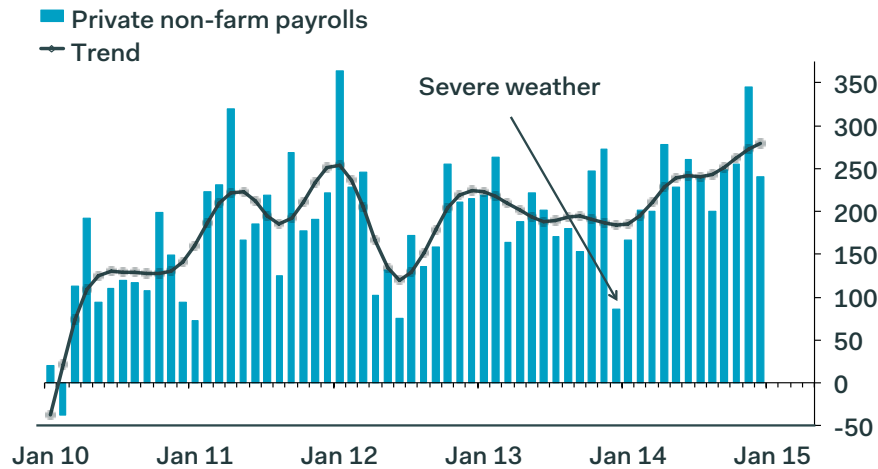
28. ...AND EXPORT PERFORMANCE IS FADING

— ISM export orders index (Left)
— Real exports of goods and services, q/q annualized, % (Right)

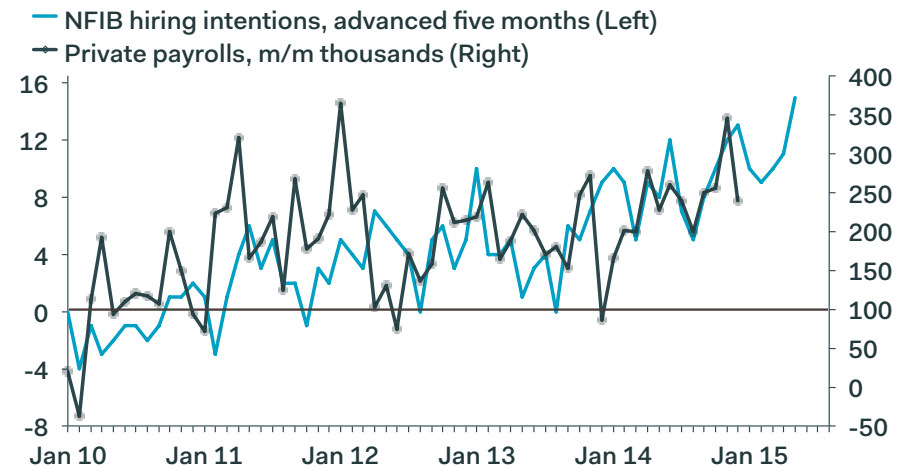




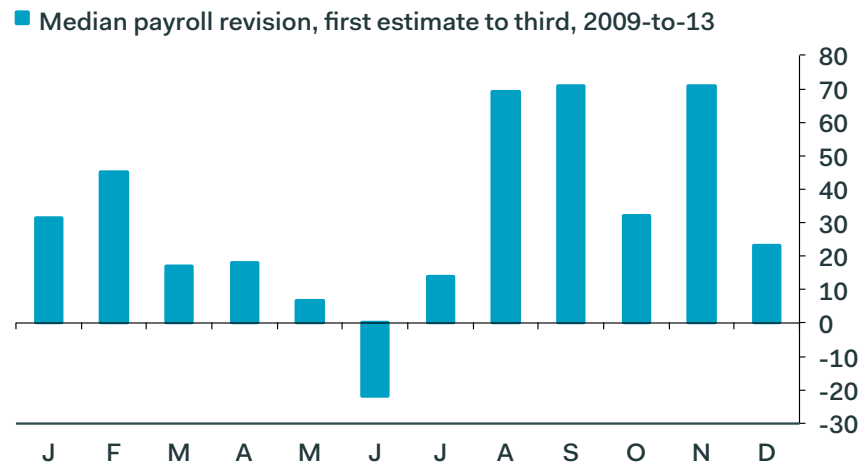
29. PAYROLL GAINS HAVE STEPPED UP...



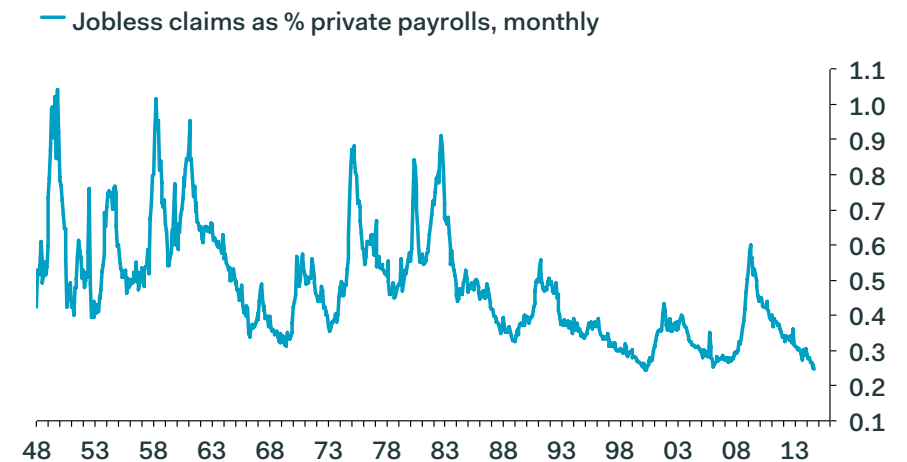
31. NFIB SIGNALS FURTHER BIG PAYROLL GAINS AHEAD...



30. ...AND INITIAL ESTIMATES ARE USUALLY REVISED HIGHER

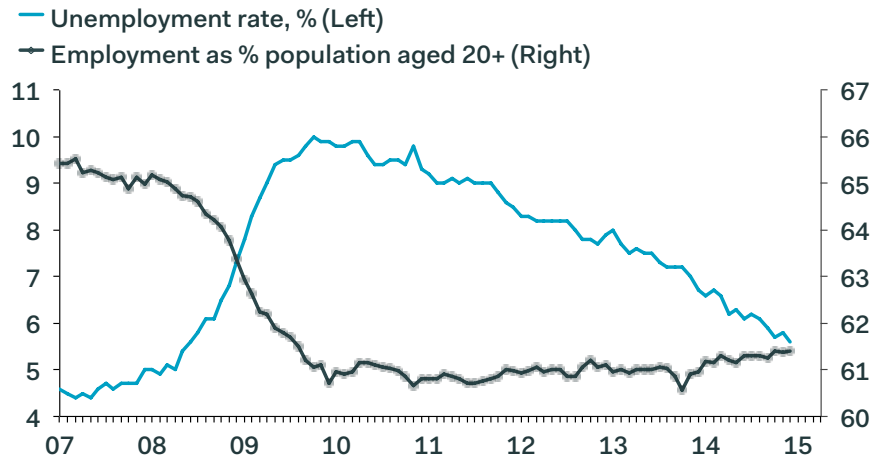


32. ...CONSISTENT WITH NEAR-RECORD LOW JOBLESS CLAIMS

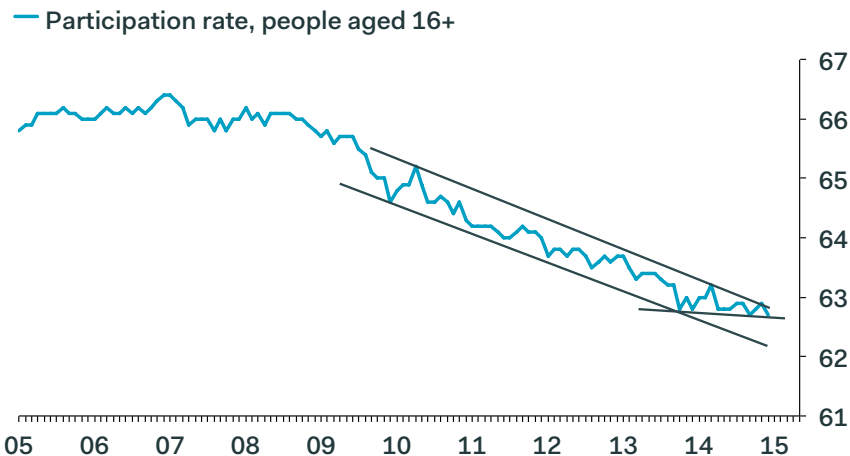




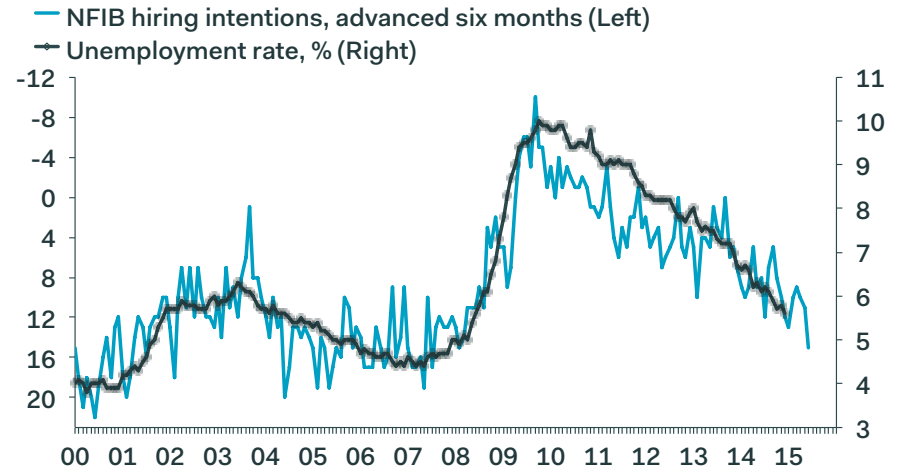
33. EMPLOYMENT IS MUCH WEAKER THAN HEADLINE UNEMPLOYMENT...



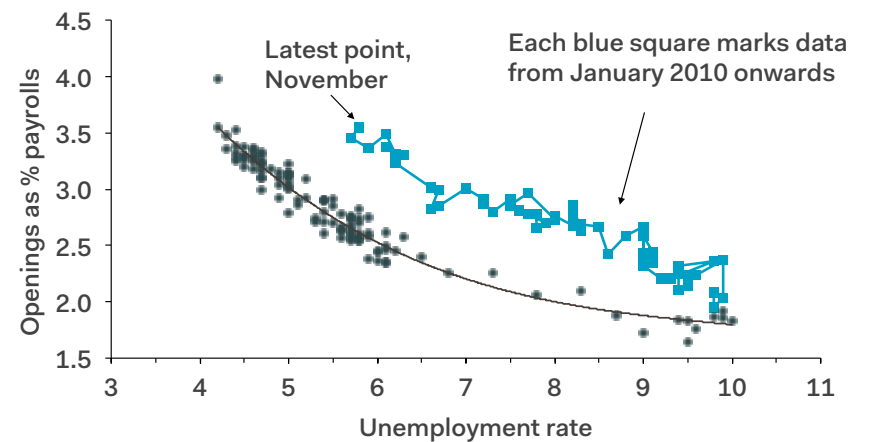
34. ...BUT THE DECLINE IN LABOR PARTICIPATION MAY BE OVER



35. ...FAST JOB GROWTH WILL KEEP UNEMPLOYMENT FALLING



36. IT'S HARD FOR EMPLOYERS TO FIND STAFF

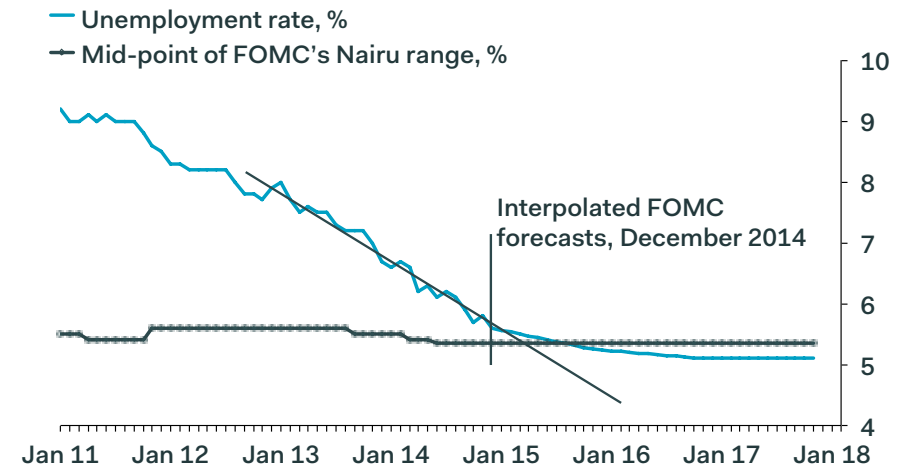




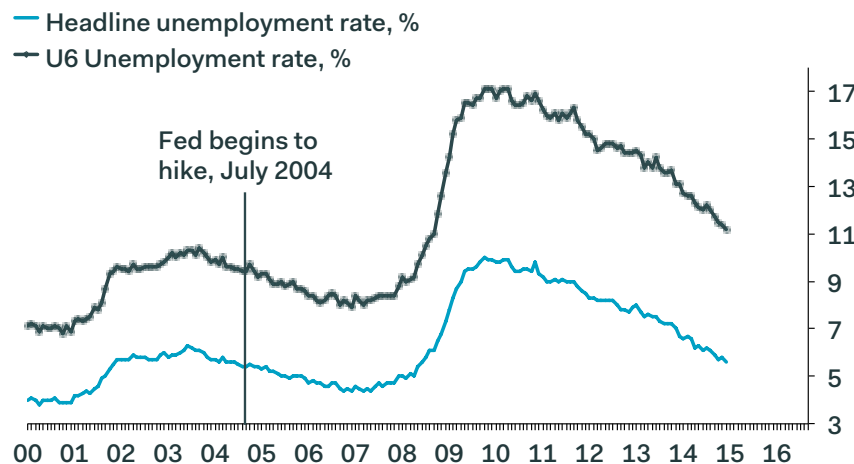
37. LONG-TERM UNEMPLOYMENT IS STILL HIGH...



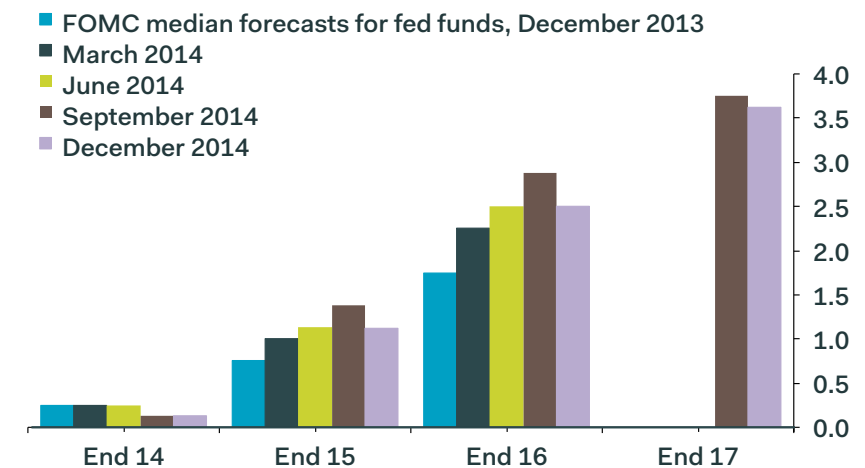
39. UNEMPLOYMENT WILL FALL FASTER THAN FED FORECASTS, AGAIN



38. ...BUT U6 IS NOW FALLING FASTER THAN THE HEADLINE RATE



40. RATES DON'T HIT NEUTRAL UNTIL WELL AFTER NAIRU REACHED





Economic Activity (year-over-year, %)	2012	2013	2014	2015	2016
Consumers' spending	1.8	2.4	2.5	4.2	4.0
Fixed investment	8.3	4.7	5.3	3.0	4.0
of which:					
<i>residential</i>	13.5	11.9	1.8	5	5
<i>equipment</i>	6.8	4.6	6.6	5	5
<i>IP</i>	3.9	3.4	4.6	6	5
<i>non-res. structures</i>	13.1	-0.5	7.8	-10	-5
Government spending	-1.4	-2.0	-0.2	1.0	1.0
Inventories, change \$B	58	66	70	110	110
Domestic demand	2.2	2.0	2.4	3.6	3.4
Exports	3.5	3.0	3.3	4.0	4.0
Imports	2.3	1.1	3.8	4.5	4.0
GDP	2.3	2.2	2.2	3.7	3.5

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

Productivity growth	1.0	0.9	0.9	1.5	1.5
Payrolls, monthly average, thousands	186	194	240	275	250
Unemployment rate (Q4 average)	8.1	7.4	5.7	4.8	4.2
Hourly earnings (Q4 average)	1.8	2.0	2.1	3.3	4.0
CPI (Q4 average)	2.1	1.5	1.2	0.6	1.8
Core CPI (Q4 average)	2.1	1.8	1.7	1.6	1.7
Core PCE deflator (Q4 average)	1.8	1.3	1.5	1.4	1.5

Other

Current account, % GDP	-2.9	-2.4	-2.2	-2.3	-2.6
Budget deficit, \$B FY	1,089	683	483	400	250
Budget deficit, % GDP, FY	-7.0	-3.9	-2.9	-2.0	-1.0
Fed funds, Q4 average	0.16	0.09	0.13	1.25	3.25
10-year notes, Q4 average	1.71	2.75	2.28	2.75	4.00
30-year bonds, Q4 average	2.86	3.79	2.97	3.25	4.25
S&P 500, Q4 average	1,408	1,796	2,014	2,125	2,175