



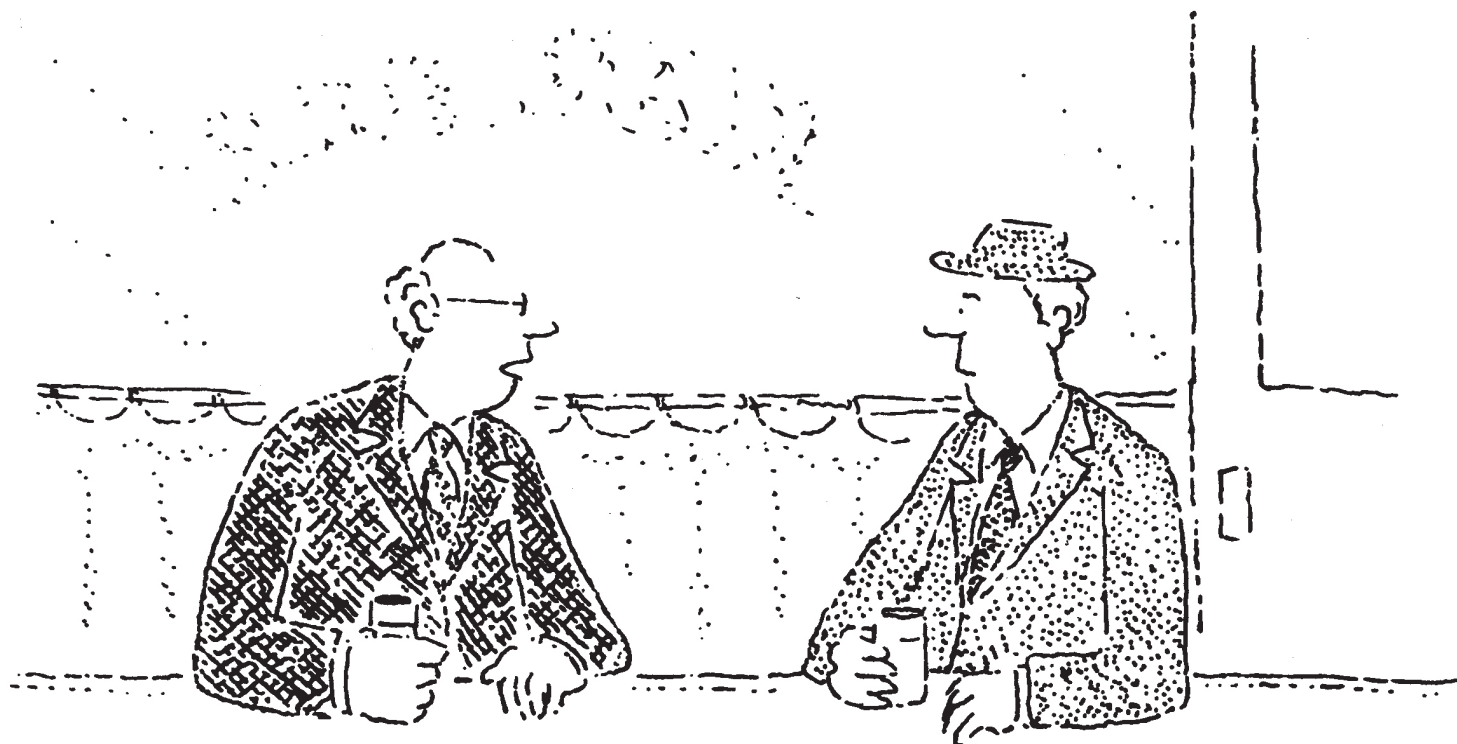
PANTHEON[™]
MACROECONOMICS

INDEPENDENT • INCISIVE • ILLUMINATING

YELLEN STILL “CAUTIOUS”, BUT FOR HOW LONG? SPRING WAGE PRESSURES WILL FORCE THE FED'S HAND

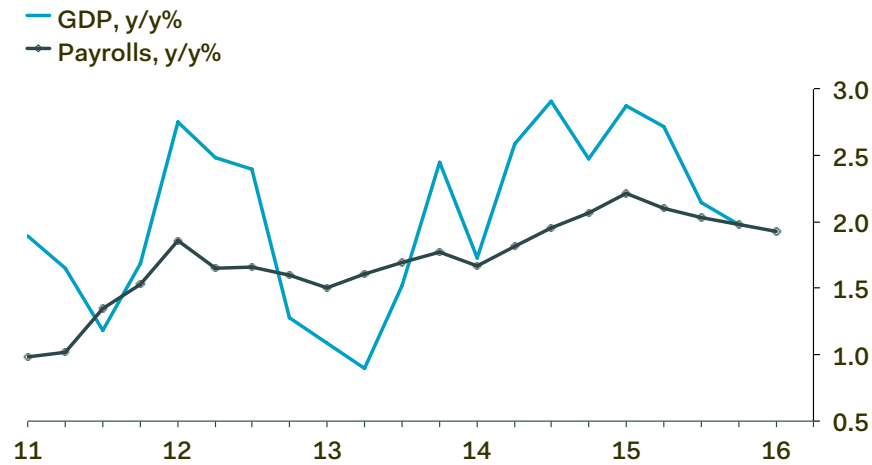
U.S. ECONOMIC CHARTBOOK, APRIL 2016

DATA AS AT APRIL 6 | IAN C. SHEPHERDSON, CHIEF ECONOMIST
WWW.PANTHEONMACRO.COM | +1 914 610 3830

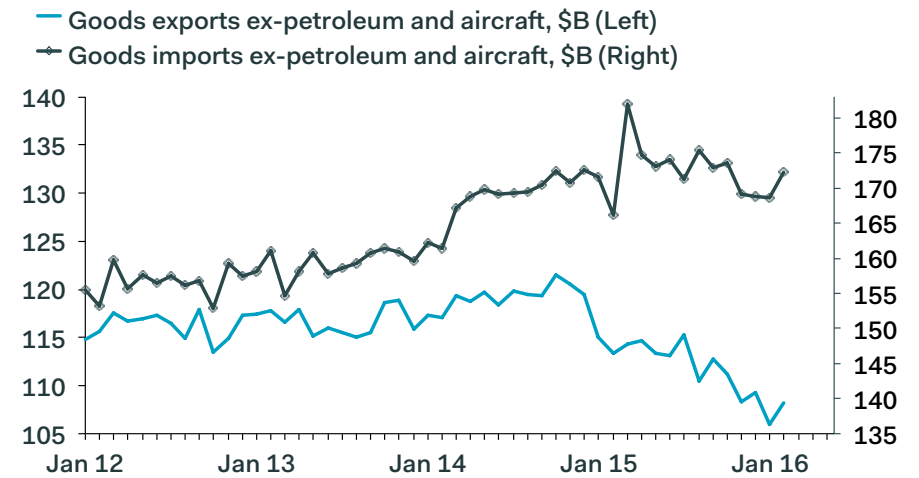


“I’ve hedged against inflation and I’ve hedged against deflation, but price stability could knock me for a loop.”

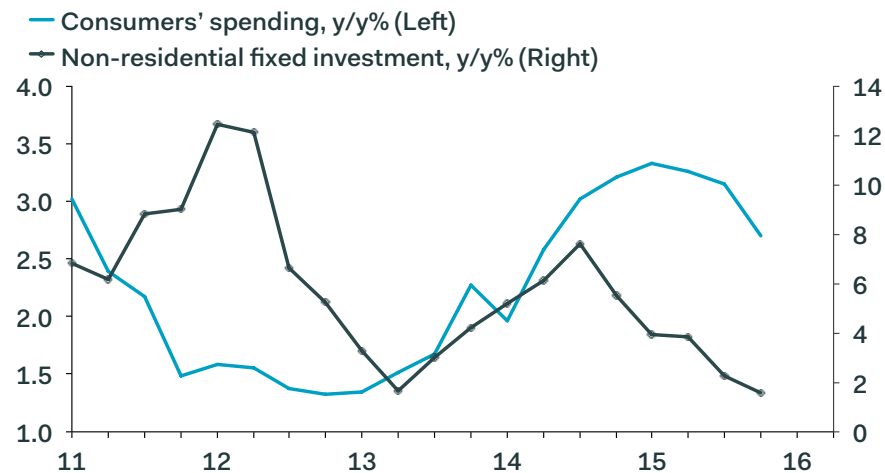
1. GDP GROWTH IS UNEVEN; EMPLOYMENT DATA ARE MORE RELIABLE



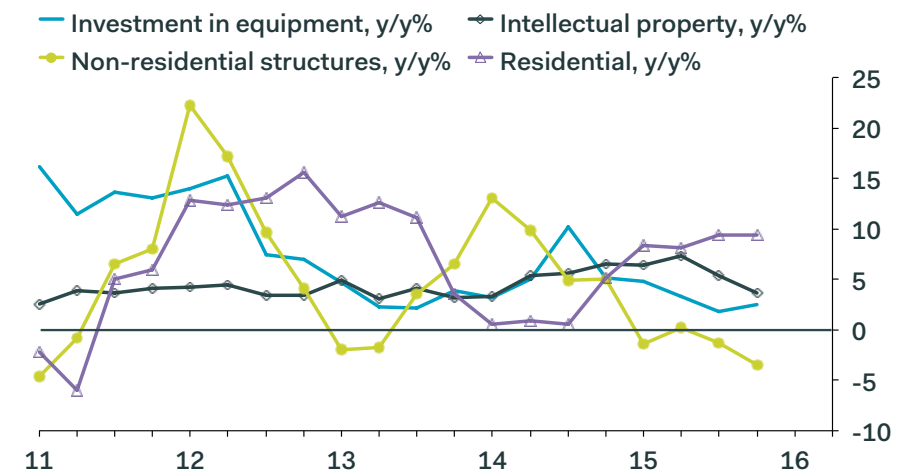
3. ...WHILE EXPORTERS ARE WILTING UNDER THE STRONG DOLLAR



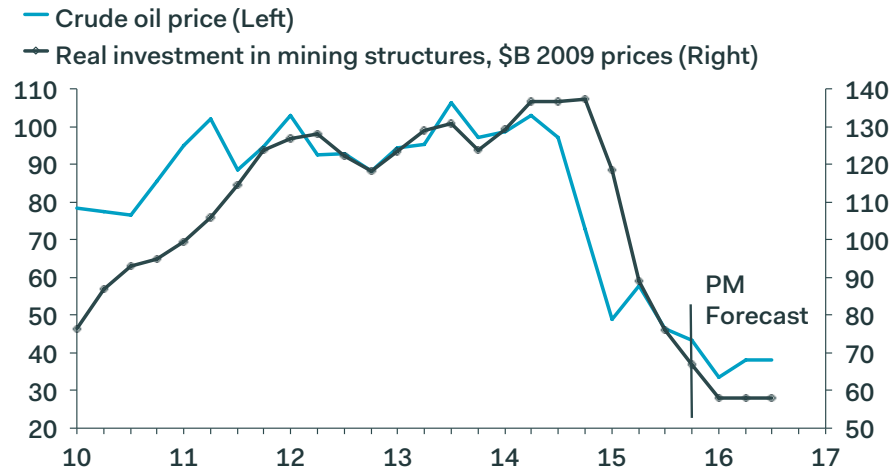
2. CONSUMPTION IS NOT FULLY OFFSETTING OIL-HIT CAPEX



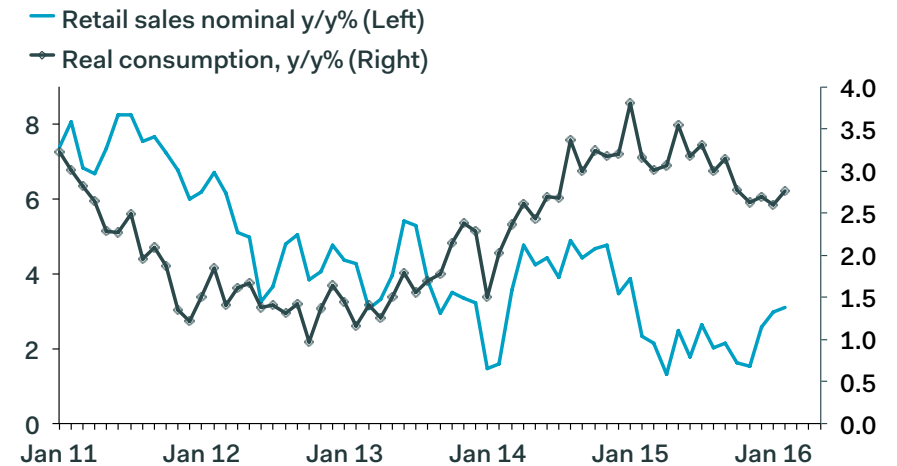
4. CAPEX WEAKNESS IS IN EQUIPMENT AND STRUCTURES...



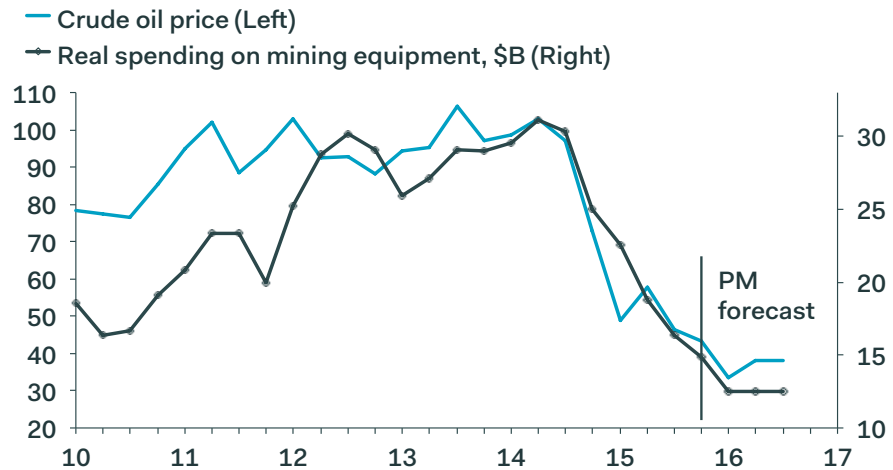
5. ...BECAUSE OIL COMPANIES BUY WELLS...



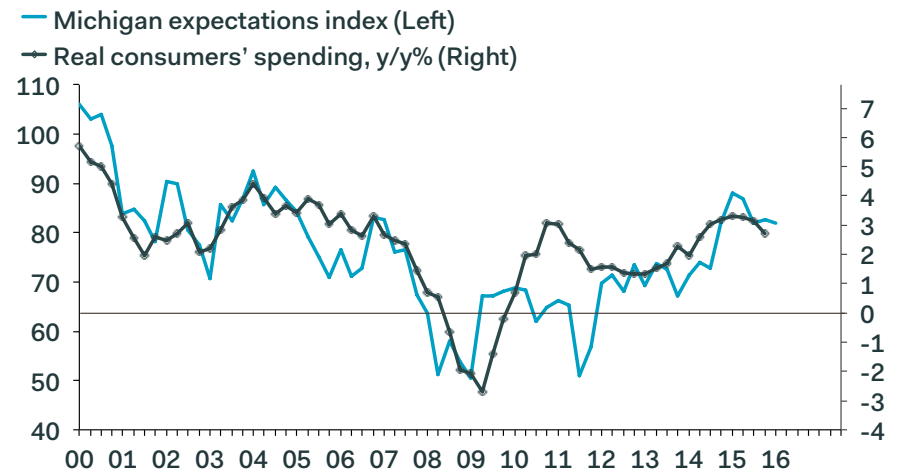
7. TO TRACK CONSUMER ACTIVITY, AVOID THE HEADLINE SALES DATA



6. ...AND EQUIPMENT

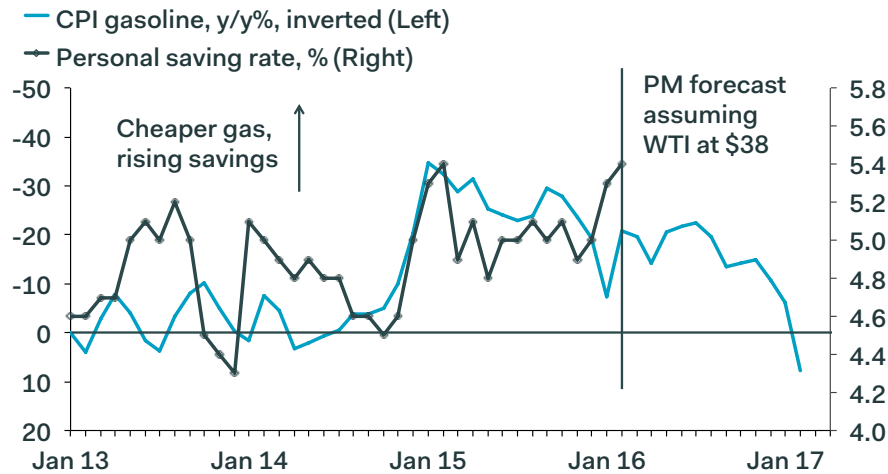


8. CONFIDENCE IS QUITE HIGH, DESPITE Q1 MARKET VOLATILITY

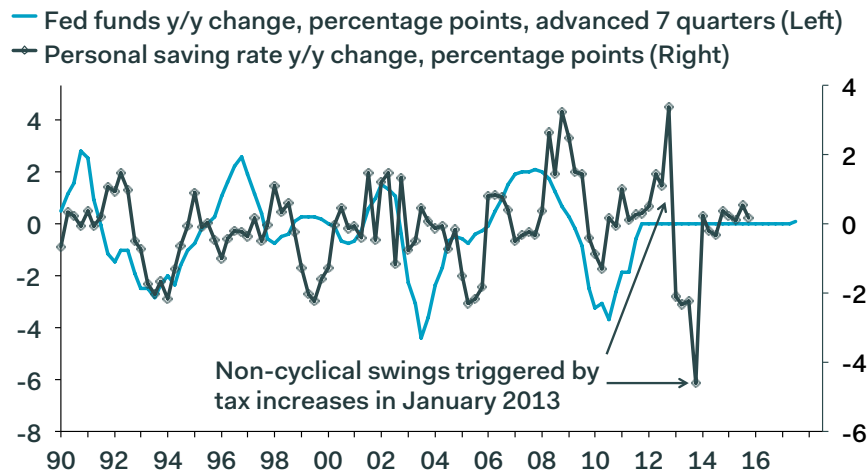




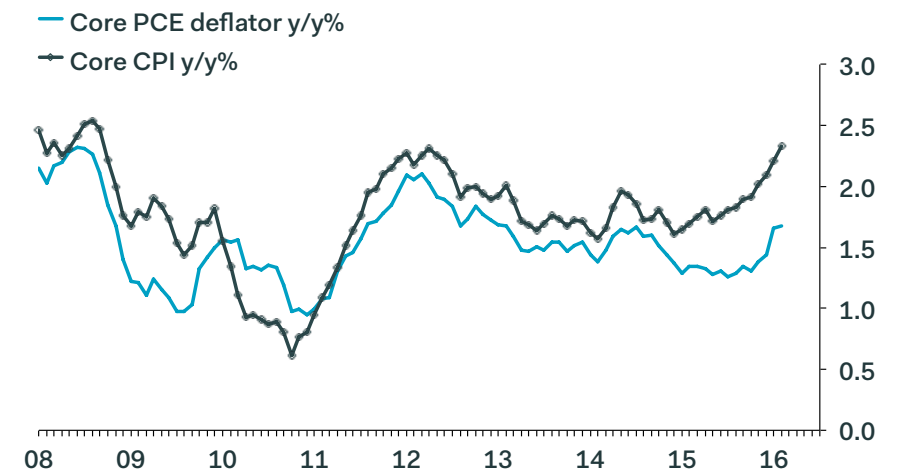
9. THE SAVING RATE HAS RISEN, BUT PROBABLY ONLY TEMPORARILY



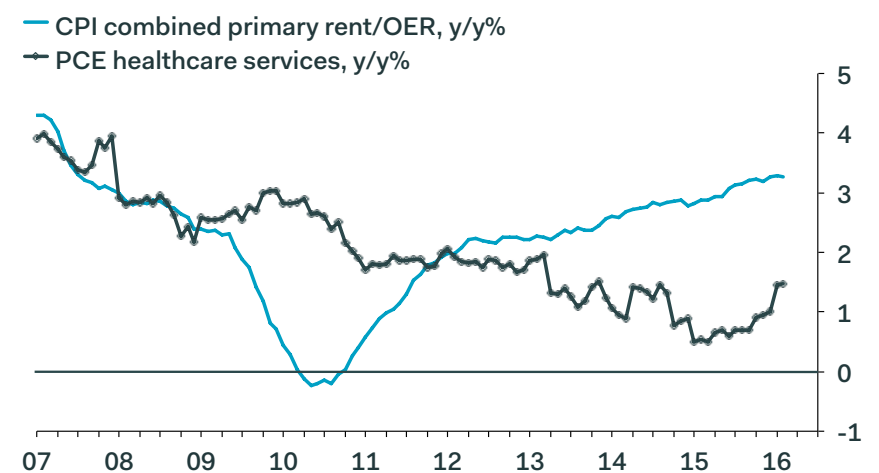
10. SUSTAINED INCREASES IN SAVING REQUIRE SUSTAINED TIGHTENING



11. CORE DISINFLATION IS OVER

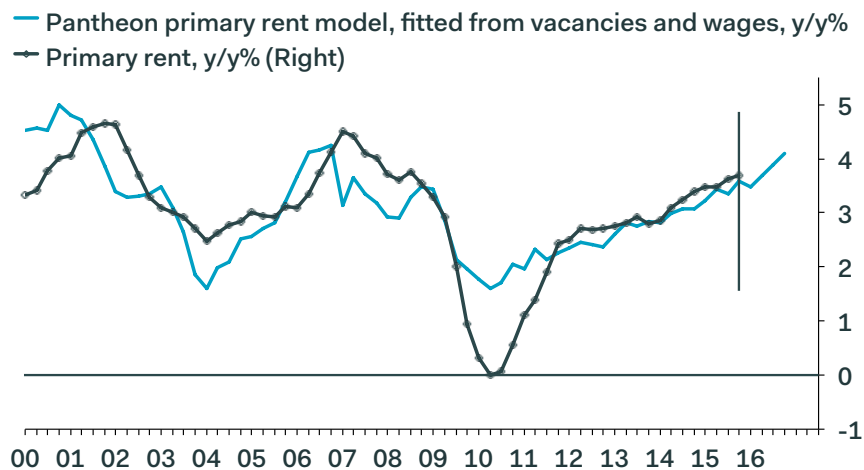


12. RENTS/MEDICAL ACCOUNT FOR THE WIDENING CPI/PCE SPREAD

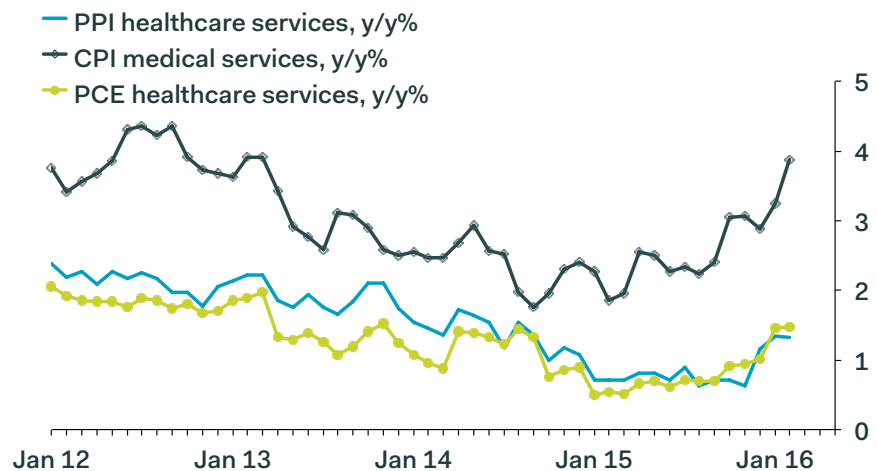




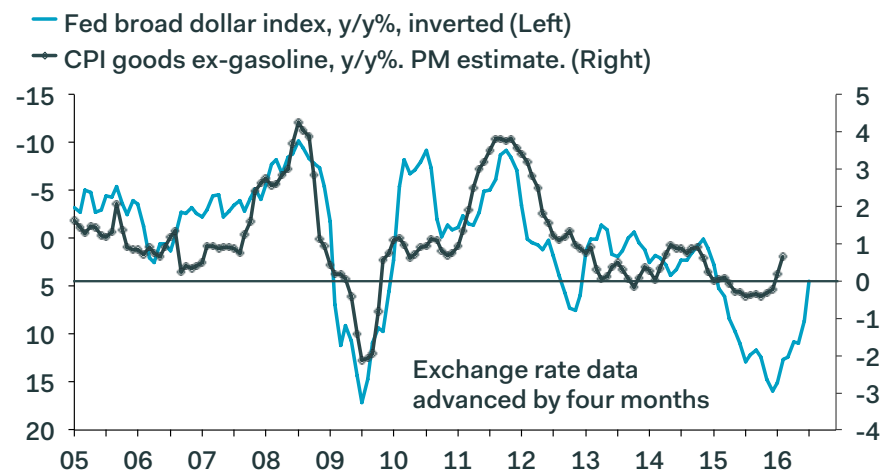
13. RENTS HAVE TO KEEP ACCELERATING...



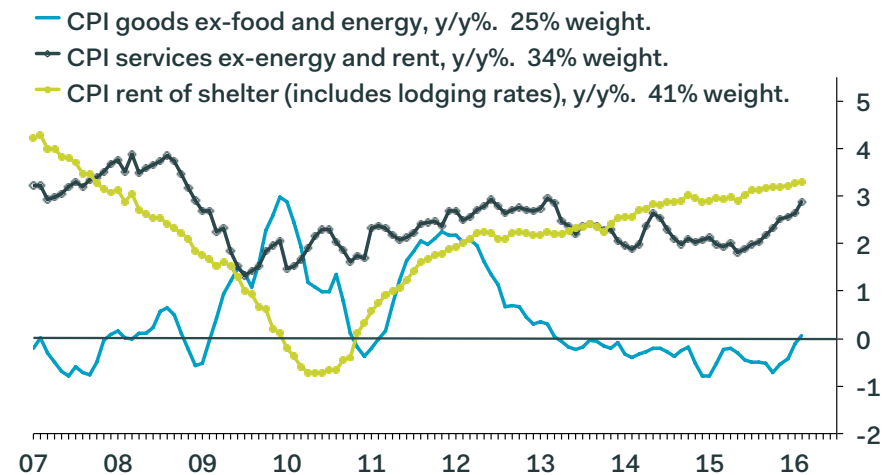
14. ...AND A SUSTAINED ACCELERATION IN MEDICAL COSTS HAS BEGUN



15. THE DOLLAR IS NO LONGER PUSHING DOWN GOODS PRICES...

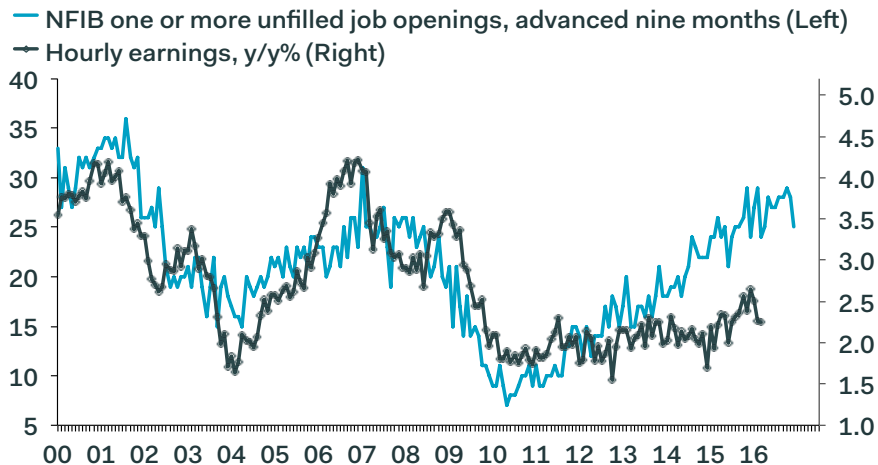


16. ...BUT REMEMBER: INFLATION IS A THREE-STRAND STORY





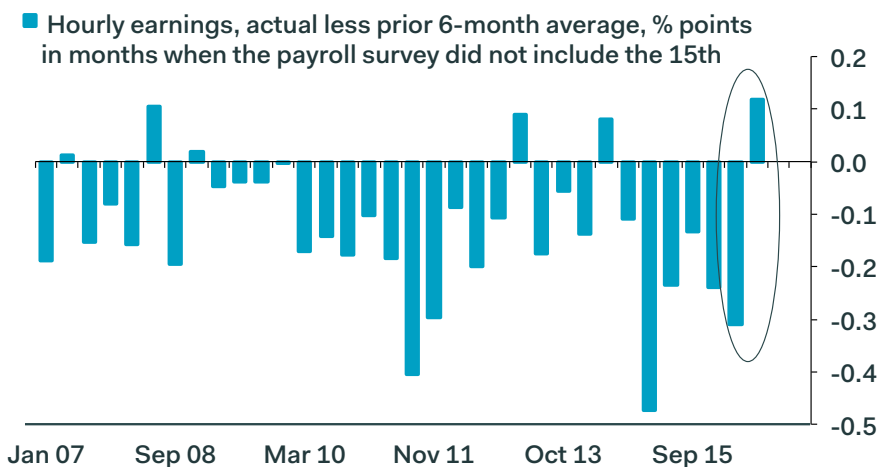
17. NOMINAL WAGE GROWTH IS UNDERSHOOTING...



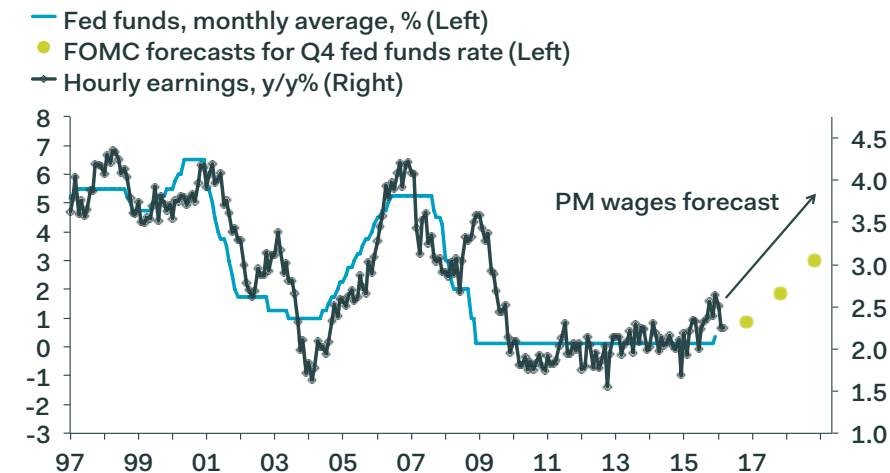
19. REAL WAGES ARE BEHAVING EXACTLY AS THEY SHOULD



18. ...BUT THE FEBRUARY NUMBER WAS DEPRESSED BY THE CALENDAR

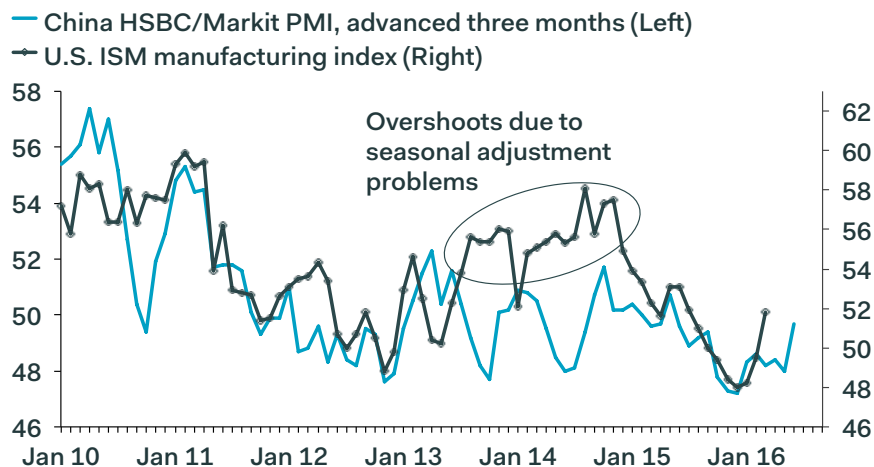


20. NOTHING MATTERS MORE TO THE FED THAN WAGE GAINS

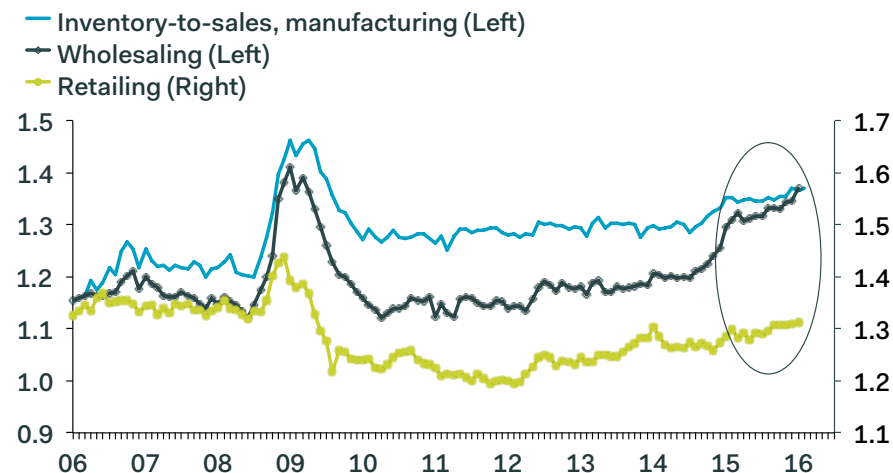




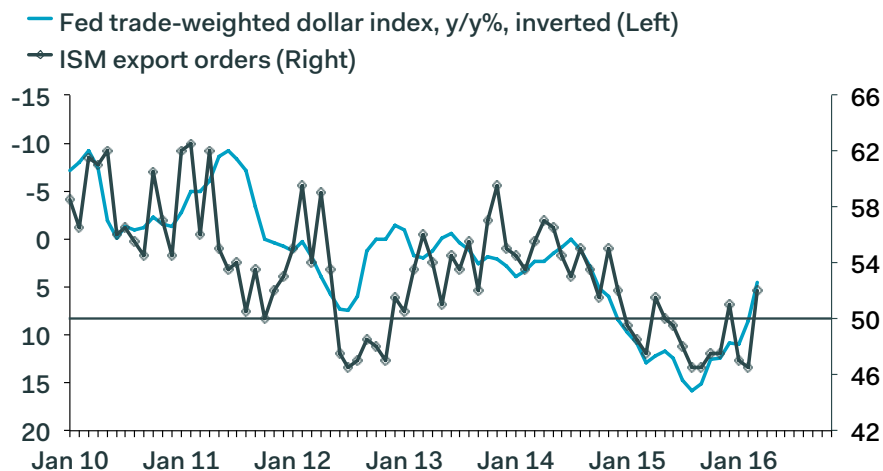
21. MANUFACTURING IS BOTTOMING OUT...



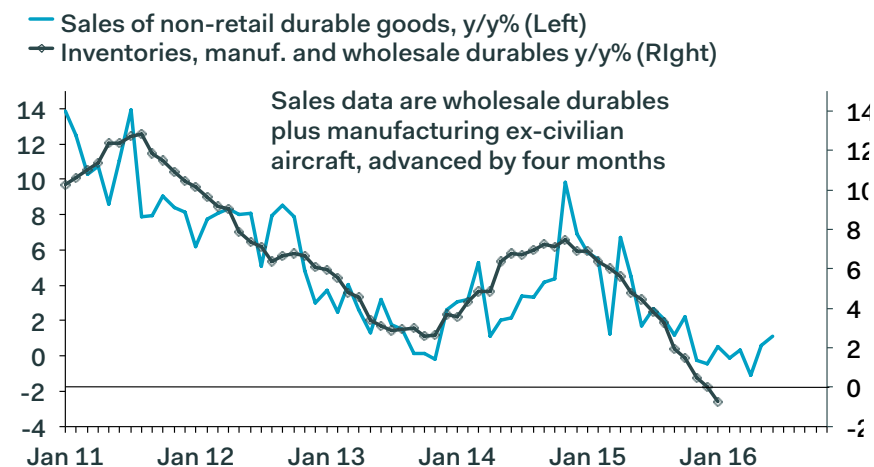
23. I/S RATIOS PUSHED UP BY CHEAP OIL, FALLING OIL CAPEX...



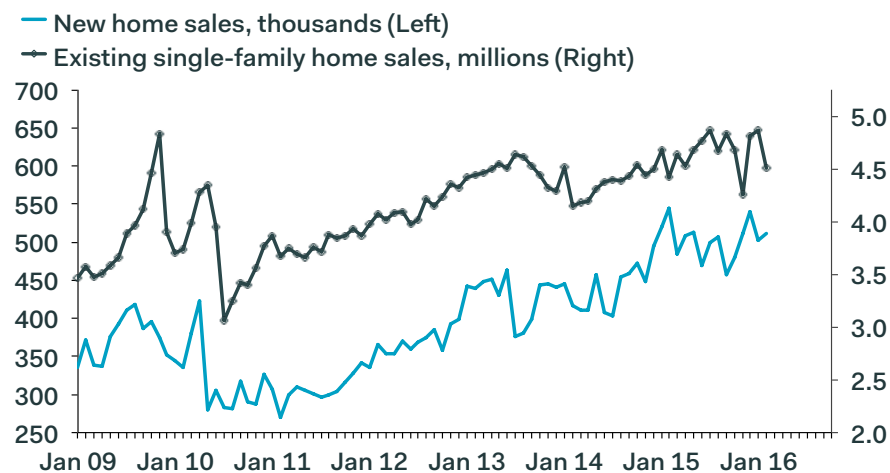
22. ...THE WEAKER DOLLAR IS ALREADY LIFTING EXPORT ORDERS



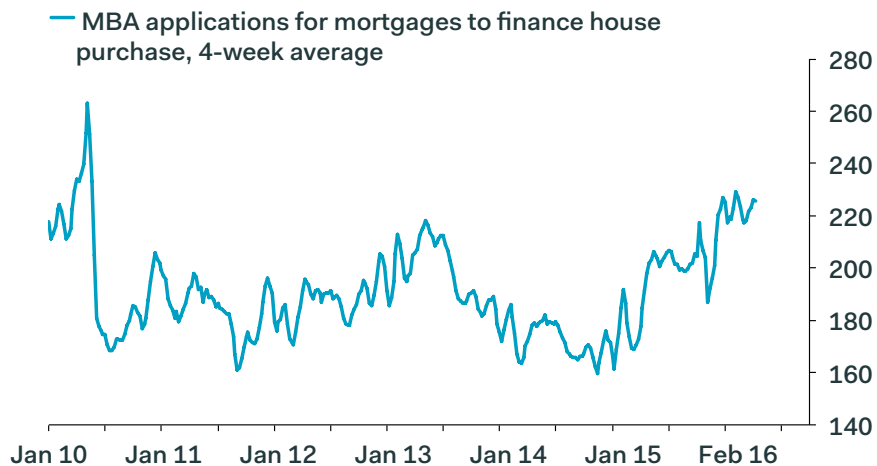
24. ...DURABLE INVENTORY DROP IS REAL, BUT WILL SOON BE OVER



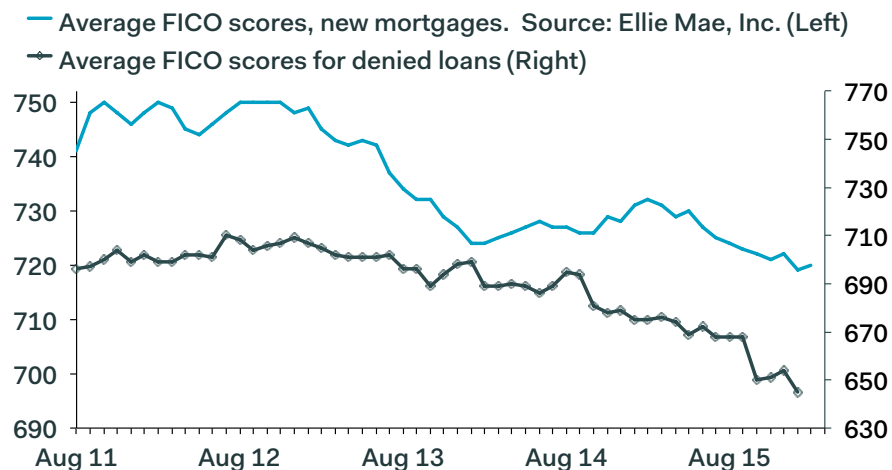
25. HOUSING STABLE AFTER Q4 REGULATORY DISTORTION...



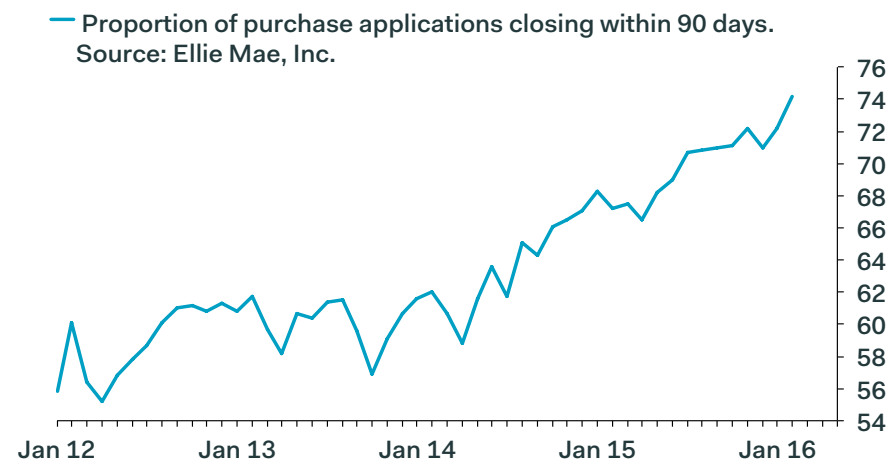
26. ...RISING MORTGAGE DEMAND, IF SUSTAINED, WILL LIFT SALES



27. MORTGAGE LENDING STANDARDS ARE EASING

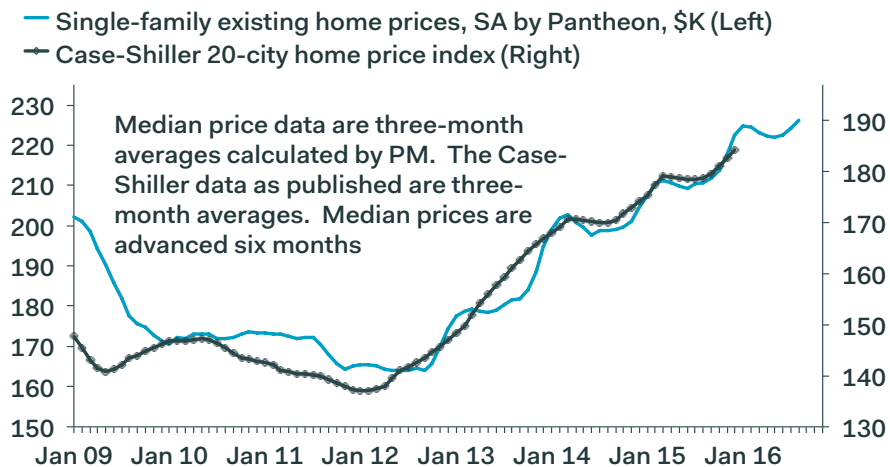


28. LOANS ARE CLOSING MORE QUICKLY

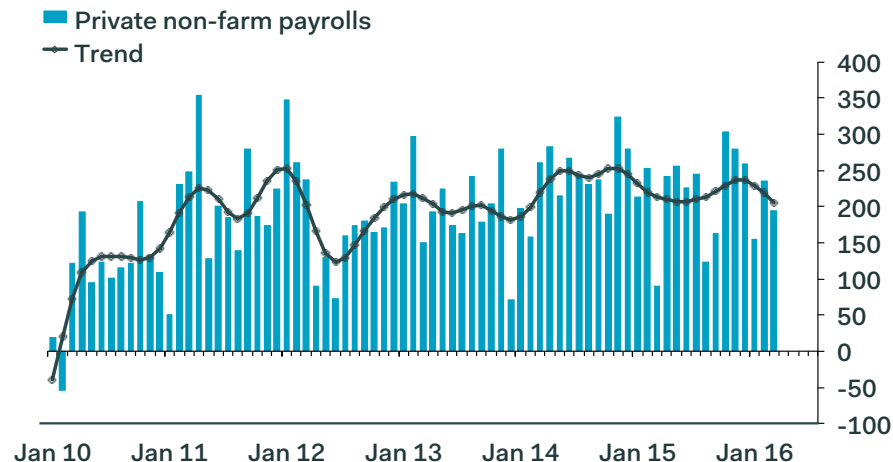




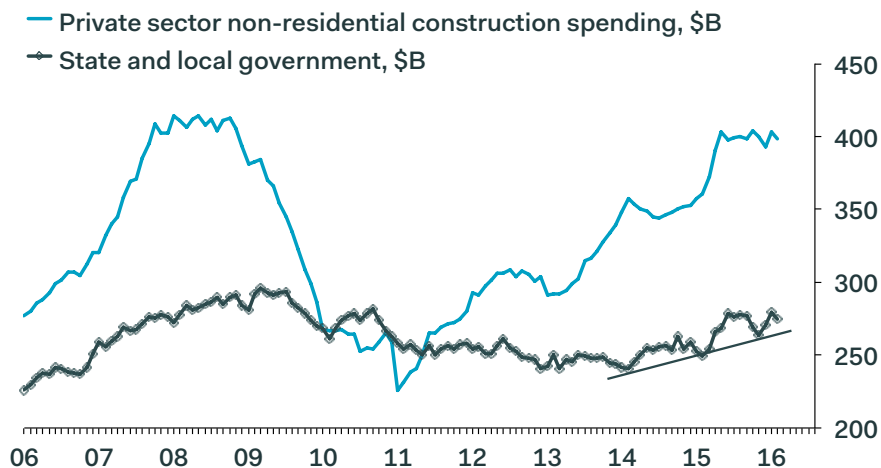
29. HOME PRICES ARE RISING STRONGLY AMID TIGHT SUPPLY



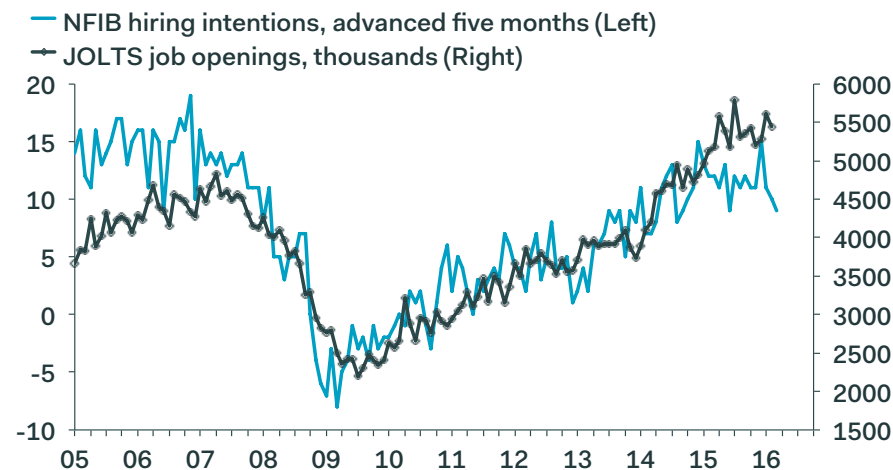
31. PAYROLL GAINS RAPID BUT HAVE SLOWED FROM UNSUSTAINABLE Q4



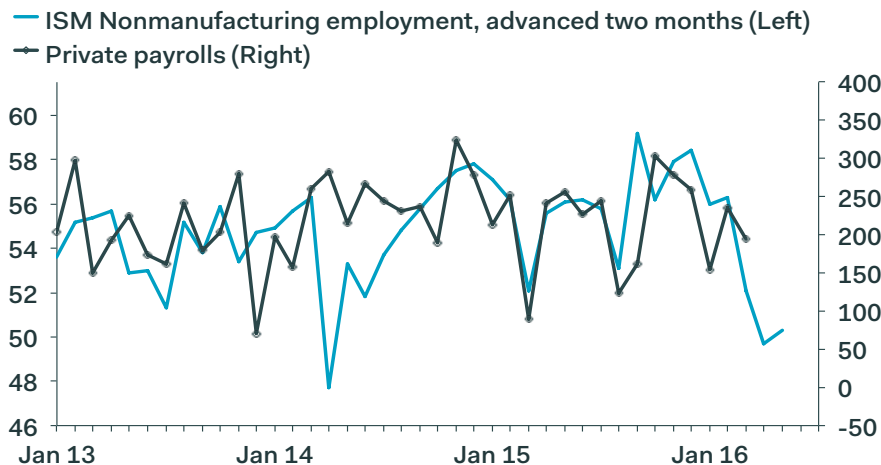
30. NON-RES CONSTRUCTION HAS PAUSED, BUT S&L IS RISING



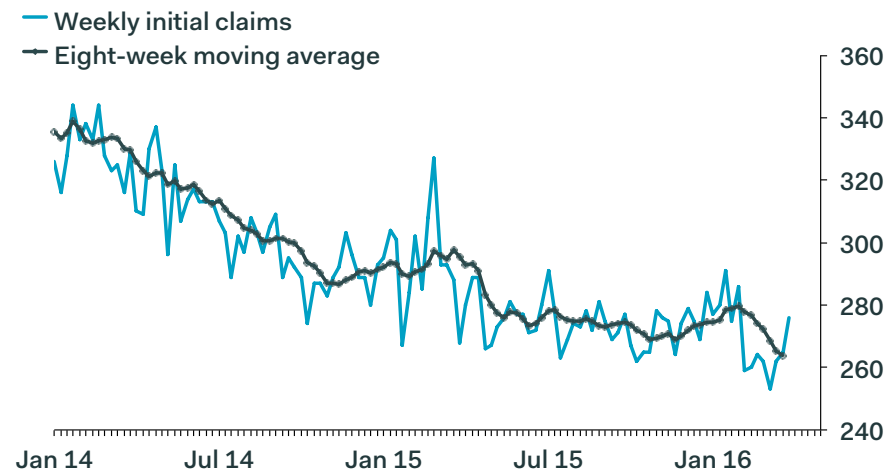
32. SOME INDICATORS OF HIRING ARE HAVE PEAKED...



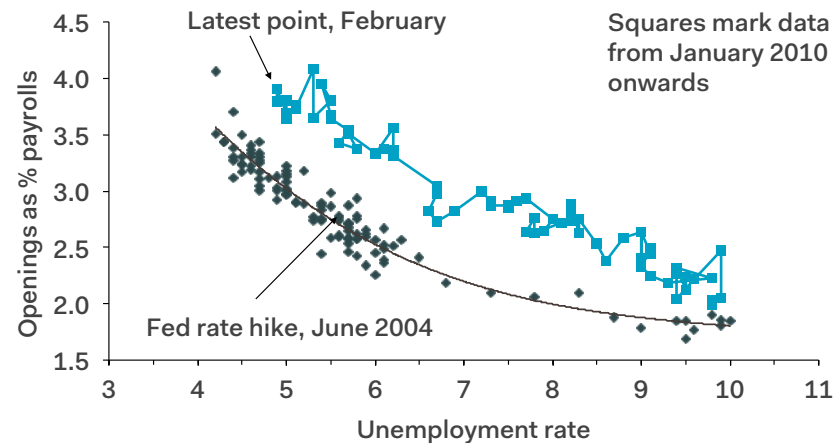
33. ...ISM NON-MANUFACTURING HAS DROPPED, BUT NOT ALWAYS RIGHT



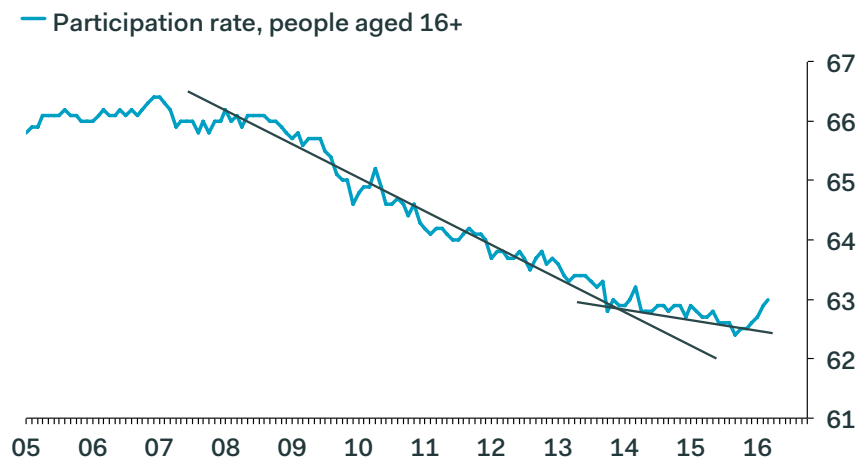
34. CLAIMS HAVE BOTTOMED, BUT REMAIN NEAR RECORD LOWS



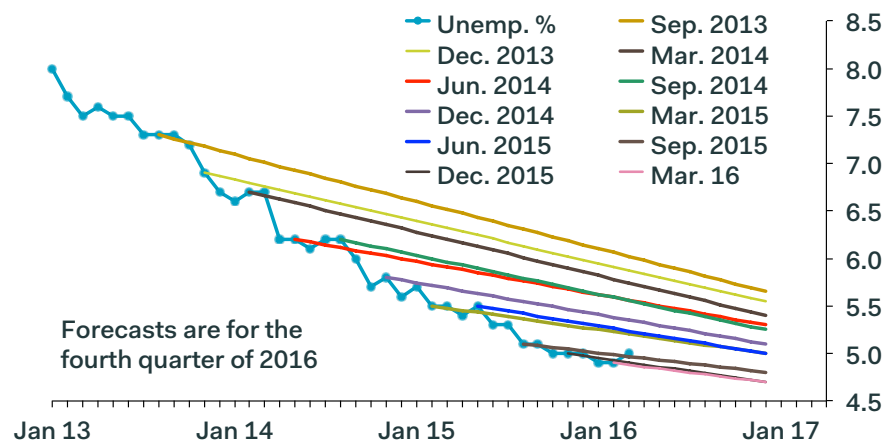
35. YELLEN SAID THE BEVERIDGE CURVE WOULD NORMALIZE; IT HASN'T



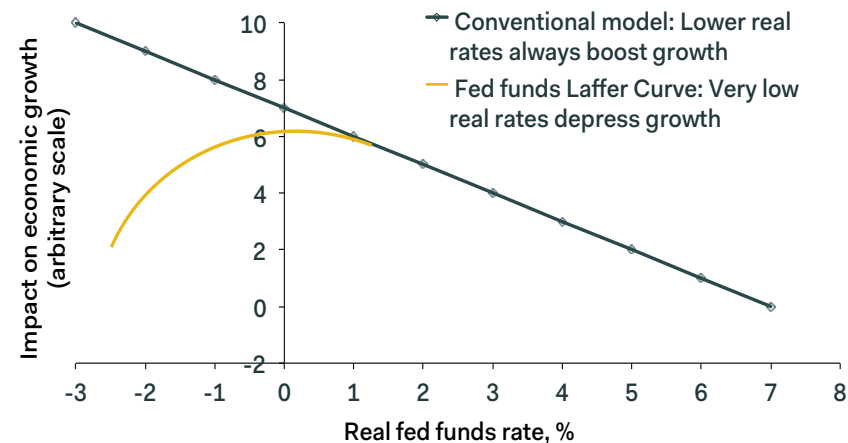
36. PARTICIPATION IS REBOUNDING BUT CAN'T KEEP RISING AT THIS PACE



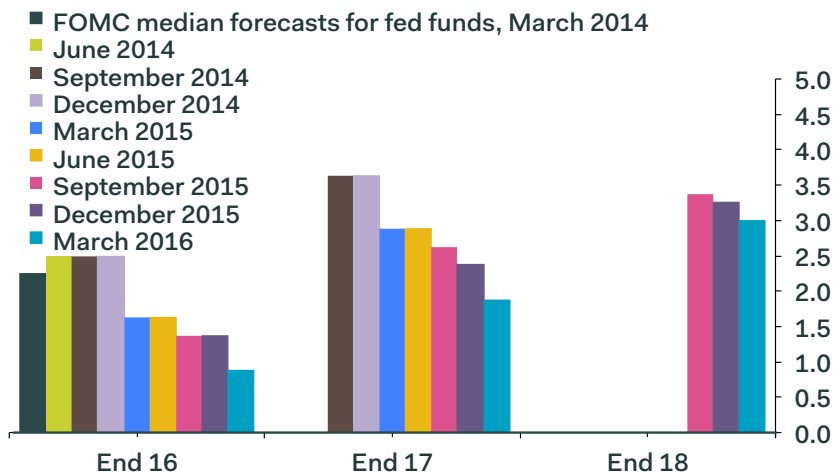
37. UNEMPLOYMENT WILL FALL FASTER THAN FED FORECASTS, AGAIN



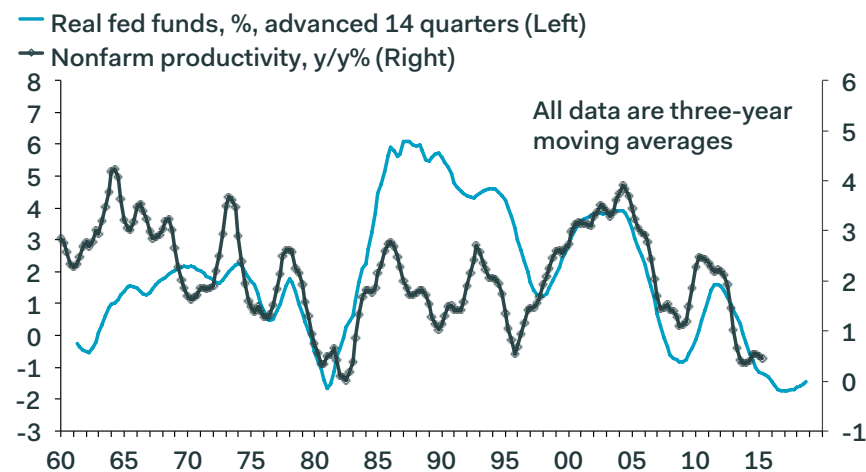
39. HAWKS NOW ARGUE THAT INITIAL RATE HIKES WILL BOOST GROWTH



38. ...BUT THE FED FORECASTS VERY SLOW RATE HIKES



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





Economic Activity (year-over-year, %)	2013	2014	2015	2016F	2017F
Consumers' spending	1.7	2.7	3.1	2.9	2.7
Fixed investment	4.2	5.3	4.0	3.5	5.0
of which:					
<i>residential</i>	9.5	1.8	8.7	9	6
<i>equipment</i>	3.2	5.8	3.1	3	5
<i>IP</i>	3.8	5.2	5.8	4	4
<i>non-res. structures</i>	1.6	8.1	-1.5	-2	5
Government spending	-2.9	-0.6	0.7	1.6	2.0
Inventories, change \$B	66	68	98	59	10
Domestic demand	1.3	2.5	3.0	2.5	2.5
Exports	2.8	3.4	1.1	0.0	1.5
Imports	1.1	3.8	4.9	2.0	3.0
GDP	1.5	2.4	2.4	2.3	2.3

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

Productivity growth	0.0	0.7	0.7	0.5	1.5
Payrolls, monthly average, thousands	193	251	228	200	160
Unemployment rate (Q4 average)	7.0	5.7	5.0	4.4	4.6
Hourly earnings (Q4 average)	2.0	2.1	2.5	3.5	4.0
CPI (Q4 average)	1.5	1.2	0.5	1.6	2.6
Core CPI (Q4 average)	1.8	1.7	2.0	2.5	2.6
Core PCE deflator (Q4 average)	1.3	1.5	1.3	2.0	2.5

Other

Current account, % GDP	-2.4	-2.2	-2.5	-2.8	-3.0
Budget deficit, \$B FY	683	483	436	500	550
Budget deficit, % GDP, FY	-3.9	-2.9	-2.1	-2.3	-2.1
Fed funds, December	0.09	0.13	0.375	1.375	3.00
10-year notes, Q4 average	2.75	2.28	2.19	3.00	3.75
30-year bonds, Q4 average	3.79	2.97	2.96	3.25	3.75
S&P 500, Q4 average	1,796	2,014	2,067	1,950	1,950