

# U.S. Outlook

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Date	Indicator	For	Estimate	Consensus*	Previous Period
17-Jan-2017	Empire Manufacturing	Jan	8.2	7.8	9.0
18-Jan-2017	CPI MoM	Dec	0.3%	0.3%	0.2%
18-Jan-2017	CPI Ex Food and Energy MoM	Dec	0.2%	0.2%	0.2%
18-Jan-2017	Industrial Production MoM	Dec	0.5%	0.6%	-0.4%
18-Jan-2017	Capacity Utilization	Dec	75.4%	75.5%	75.0%
18-Jan-2017	NAHB Housing Market Index	Jan	68	69	70
18-Jan-2017	Net Long-term TIC Flows	Nov	NA	NA	\$9.4b
19-Jan-2017	Initial Jobless Claims	14-Jan	252K	NA	247K
19-Jan-2017	Housing Starts	Dec	1160k	1200k	1090k
19-Jan-2017	Building Permits	Dec	1218k	1220k	1212k
19-Jan-2017	Philadelphia Fed Business Outlook	Jan	15.1	14.3	21.5

\*Consensus from Bloomberg

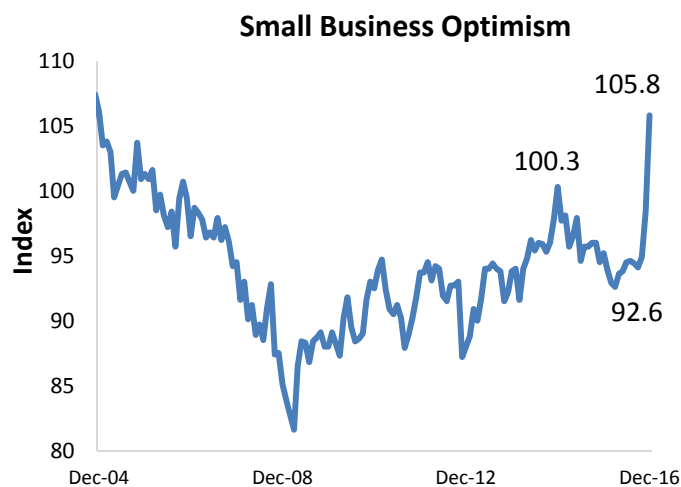
## Small Business Confidence Catches Fire

Small businesses appear downright euphoric about the prospects of a Trump Administration and a Republican controlled Congress taking the reins in Washington. Small business owners have consistently cited taxes and over-regulation as some of their top concerns. Just the prospect of substantial tax cuts and a deregulation agenda in Washington DC appears to have been enough to spur a nearly unprecedented surge in small business optimism last month.

It is important to remember that a surge in confidence in the future isn't the same as a real surge in business activity, but it can be an important signal of better economic times ahead. At the very least, it is a necessary condition for small businesses to start reinvesting through increased capital spending, hiring, and even borrowing.

The National Federation of Independent Business's Small Business Confidence Index jumped 7.4 points in December. This was the biggest monthly increase in this measure since 1980, and small business confidence hasn't been this high since 2004.

## Small Business Optimism Surges in December

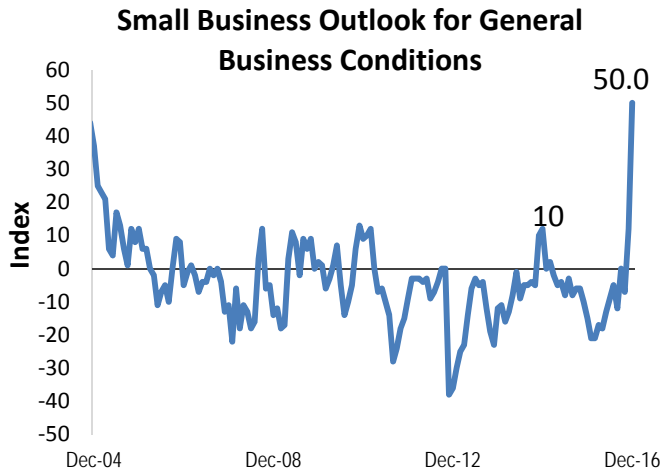


Source: National Federation of Independent Business

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The large increase in small business confidence in December was driven primarily by a surge in two sub-indexes: the business conditions outlook and expectations of a surge in small business sales.

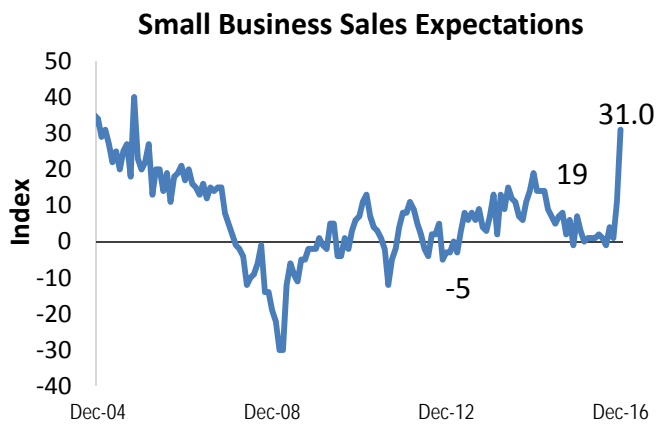
**Business Condition Outlook Best In More than a Decade**



Source: National Federation of Independent Business

Small businesses clearly believe Trump’s economic policies of tax cuts and deregulation will lead to a stronger economy and have substantially boosted their sales expectations. Small business sales expectations haven’t been this uniformly positive since October 2005.

**Stronger Small Business Sales Ahead?**

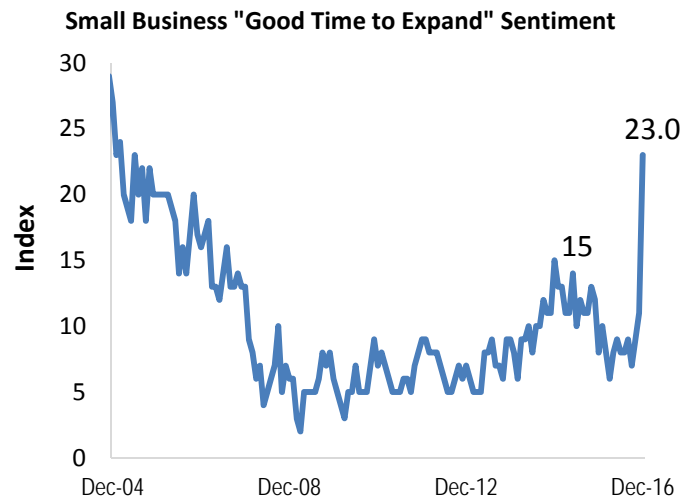


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But will the jump in confidence lead small businesses to expand their business and increase their hiring and capital spending plans? Encouragingly, the percentage of small businesses that say now is a good time to expand is the highest since January 2005.

**Small Businesses Say “Now” Is a Good Time To Expand**



Source: National Federation of Independent Business

Small business capital spending and hiring plans indexes all climbed in December.

In short, small business confidence has been notably absent throughout this expansion. There have been false dawns in the past. The last one was in December 2014 when small business confidence surged on a strengthening consumer only to fade when consumer spending slowed in 2015. Should the Trump economic agenda get held-up, dramatically altered, or delayed in Congress, the recent spurt in small business confidence could swiftly fade. We will need to see a sustained increase in small business confidence that holds up longer than a month or two, and it has to be backed-up by stronger real consumer spending and economic growth in 2017.

My gut tells me the jump we saw in small business confidence last month was more of a small business wish than current reality. The truth is probably somewhere in between. Downside economic risks have diminished and small business owners are looking at the world as half-full instead of half-empty today. However, my economic growth outlook for 2017 and 2018 has only marginally improved since the election.

## Major Economic Indicators

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2015	2016	2017	2018
Real GDP*	0.8	1.4	3.5	2.1	2.0	2.1	2.3	2.2	2.2	2.2	2.4	2.4	2.6	1.6	2.3	2.3
Personal Consumption Expenditures*	1.6	4.3	3.0	2.5	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.4	3.2	2.7	2.7	2.4
Non-residential Fixed Investment*	-3.4	1.0	1.4	2.6	3.8	2.8	2.9	2.8	2.7	3.4	3.9	4.4	2.1	-0.4	2.8	3.2
Private Housing Starts (000s units)	1,151	1,159	1,145	1,190	1,200	1,210	1,220	1,240	1,255	1,275	1,285	1,290	1,108	1,161	1,218	1,276
Vehicle Sales (mill. Units, annualized)	17.3	17.1	17.5	17.7	17.5	17.5	17.4	17.4	17.3	17.3	17.2	17.2	17.4	17.4	17.5	17.3
Industrial Production*	-1.7	-0.8	1.9	1.2	1.5	1.7	1.7	1.7	1.9	2.0	2.0	2.0	0.3	-0.9	1.4	1.9
Nonfarm Payroll Employment (mil.)	143.5	144.0	144.6	145.1	145.6	146.2	146.7	147.3	147.8	148.3	148.8	149.4	141.8	144.3	146.5	148.6
Unemployment rate	4.9	4.9	4.9	4.7	4.6	4.6	4.5	4.5	4.4	4.5	4.5	4.5	5.3	4.9	4.6	4.5
Consumer Price Index* (percent)	-0.3	2.5	1.6	3.5	2.2	2.5	2.3	2.3	2.3	2.2	2.2	2.2	0.1	1.3	2.5	2.3
"Core" CPI* (percent)	2.7	2.1	1.9	2.1	2.5	2.0	2.1	2.1	2.2	2.2	2.2	2.3	1.8	2.2	2.2	2.2
PPI (finished goods)* (percent)	-5.3	3.6	1.7	3.4	0.4	3.0	2.7	2.5	2.4	2.1	2.0	2.1	-3.3	-1.1	2.2	2.4
Trade Weighted Dollar (Fed BOG, major)	93.2	89.5	90.3	93.3	96.5	97.9	99.0	98.7	98.2	97.8	97.2	97.0	90.9	91.6	98.0	97.6
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	52	53	54	54	55	55	55	56	50	43	53	55

\*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History				Forecast								Annual Average			
	2016.1	2016.2	2016.3	2016.4	2017.1	2017.2	2017.3	2017.4	2018.1	2018.2	2018.3	2018.4	2015	2016	2017	2018
S & P 500	1,951	2,075	2,162	2,185									2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865									17,591	17,916		
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.63	0.71	0.96	1.21	1.46	1.71	1.88	2.13	0.13	0.39	0.88	1.79
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.60	0.72	0.95	1.18	1.47	1.73	1.92	2.17	0.05	0.32	0.86	1.82
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.26	1.36	1.56	1.75	1.99	2.26	2.40	2.66	0.69	0.84	1.48	2.33
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	2.07	2.17	2.41	2.61	2.86	3.06	3.23	3.49	1.53	1.34	2.32	3.16
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.56	2.67	2.90	3.10	3.35	3.55	3.72	3.98	2.14	1.84	2.81	3.65
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.17	3.30	3.51	3.71	3.93	4.13	4.29	4.56	2.84	2.60	3.42	4.23
Prime Rate	3.50	3.50	3.50	3.55	3.75	3.85	4.10	4.35	4.60	4.85	5.00	5.25	3.26	3.51	4.01	4.93
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.13	1.35	1.56	1.80	1.97	2.17	2.42	0.34	0.74	1.28	2.09
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.43	4.51	4.70	4.90	5.10	5.30	5.49	5.75	3.85	3.66	4.64	5.41
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.95	5.09	5.39	5.64	5.90	6.16	6.35	6.60	5.00	4.71	5.27	6.25

Source: Bank of the West Economics, Bloomberg, Federal Reserve