

Date	Indicator	For	Estimate	Consensus*	Previous Period
2-Oct-2017	Markit US Manufacturing PMI	Sep F	53.0	NA	53.0
2-Oct-2017	ISM Manufacturing	Sep	57.0	57.5	58.8
2-Oct-2017	Construction Spending MoM	Aug	0.4%	0.4%	-0.6%
3-Oct-2017	Wards Total Vehicle Sales	Sep	16.20m	16.50m	16.03m
4-Oct-2017	ADP Employment Change	Sep	160k	138k	237k
4-Oct-2017	Markit US Services PMI	Sep F	55.1	NA	55.1
4-Oct-2017	Markit US Composite PMI	Sep F	54.6	NA	54.6
4-Oct-2017	ISM Non-Manufacturing Composite	Sep	55.0	55.1	55.3
5-Oct-2017	Initial Jobless Claims	30-Sep	270K	NA	272K
5-Oct-2017	Trade Balance	Aug	-\$42.9b	-\$43.4b	-\$43.7b
5-Oct-2017	Factory Orders	Aug	1.0%	0.9%	-3.3%
6-Oct-2017	Change in Nonfarm Payrolls	Sep	85k	75k	156k
6-Oct-2017	Change in Manufacturing Payrolls	Sep	0k	8k	36k
6-Oct-2017	Unemployment Rate	Sep	4.4%	4.4%	4.4%
6-Oct-2017	Average Hourly Earnings MoM	Sep	0.2%	0.3%	0.1%
6-Oct-2017	Average Weekly Hours All Employees	Sep	34.3	34.4	34.4
6-Oct-2017	Wholesale Inventories MoM	Aug F	1.0%	NA	1.0%
6-Oct-2017	Consumer Credit	Aug	\$14.000b	\$16.000b	\$18.499b

*Consensus from Bloomberg

Trump Tax Plan Grabbing Headlines

This week top Trump officials and congressional Republican leaders released a nine-page framework on tax reform on which they agree. This framework is expected to form the basis of the final bill that could reach hundreds of pages. It will be Congress's job to flesh out the details over the next few months and hopefully pass something before the end of the year.

There are still too many unknowns to get a clear read on winners and losers, or how much of a negative impact the tax cut package is likely to have on the federal debt. I will say the current plan is heavy on tax cut details, but there is no information on income bracket thresholds, or if any revenue offsets are planned.

What we do know is that under the current plan most wealthy households and nearly all U.S. businesses — small and large — will see substantial tax cuts. The top marginal tax bracket for personal income will drop to 35% from 39.6%. The estate tax, or “death tax,” will be eliminated. The estate tax only applies today if assets worth over \$5.49 million are passed down to an heir after someone dies. The Alternative Minimum Tax, which also hits higher income households, would also disappear under the plan.

U.S. corporations will see their top marginal tax rate drop to 20% from 35%. Businesses will also be able to write off their investments right away instead of incrementally over several years.

The leaders plan a one-time repatriation tax on all overseas assets from U.S.-owned companies, designed to bring corporate profits back home. A

rate hasn't been set, but numbers cited before are around 10%.

Small businesses that currently pay their personal income tax rate, sometimes as high as 39.6%, will only pay 25%; and if the small business income is low the rate could drop to 12%.

The plan also calls for reducing the number of personal income tax brackets from seven to three, with three tax rates of 12%, 25%, and 35%. But since we don't yet have any details on the income thresholds, we can't yet determine who will benefit beyond the top tax rate payers.

What about the deductions? The standard deduction will nearly double, and the child tax credit will be expanded, which is expected to help some lower income taxpayers who don't itemize their deductions. Popular deductions for mortgage interest, charitable gifts, retirement plans, and higher education are expected to remain in some form. But the current plan eliminates the additional standard deduction, the popular personal exemption, and the state and local tax deduction used by many taxpayers in high-tax states like New York and California.

This is still just a starting-point proposal. There will be several drafts, negotiations, and tweaking before this proposal is voted on in the House. It will then go to the Senate for additional changes and a vote, and then will go back to the House for reconciliation before the President can sign it. The final bill could look far different in the end.

So can we boost the U.S. economy's growth rate enough to pay for the tax cut? Not likely. While we don't yet have all the details, this proposal looks a lot like our prior assumptions. We have already increased our growth forecasts by about two-tenths of a percentage point for next year, assuming some additional business investment and consumer spending from the tax cuts. However, rising interest

rates and a tight labor market are likely to limit the economic benefits from tax cuts, given where the U.S. economy is in the business cycle.

What's the likely damage to our federal debt? Given the heavy emphasis on tax cuts in the proposal, higher federal budget deficits will surely add between \$1.5 trillion (a Senate version that is floating around) and \$4.0 trillion over the next 10 years to the federal debt compared to current law. Most economists expect a net debt increase over current law of around \$2.0 to \$2.5 trillion over the next 10 years.

So far equity market reaction to the proposal has been relatively muted, with the S&P 500 up about 0.5% over the past two days — probably because the outlines of the tax proposal have already been priced into the market.

The bond market reaction has been somewhat more negative. The 10-Year Treasury yield has increased about 10 basis points since the proposal was announced earlier this week. Perhaps the bond market has started to factor in larger cumulative budget deficits in the near-term U.S. future.

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*	0.6	2.2	2.8	1.8	1.2	3.1	2.5	2.8	2.2	2.1	2.1	2.1	2.6	1.5	2.2	2.4
Personal Consumption Expenditures*	1.8	3.8	2.8	2.9	1.9	3.3	1.9	3.1	2.4	2.2	2.1	2.1	3.2	2.7	2.7	2.4
Non-residential Fixed Investment*	-4.0	3.3	3.4	0.2	7.2	6.7	2.0	3.8	3.2	3.4	3.9	4.4	2.1	-0.6	4.2	3.6
Private Housing Starts (000s units)	1,153	1,158	1,150	1,248	1,238	1,167	1,185	1,256	1,263	1,265	1,275	1,285	1,108	1,177	1,212	1,272
Vehicle Sales (mill. Units, annualized)	17.3	17.2	17.5	17.8	17.1	16.8	16.2	16.8	16.7	16.4	16.4	16.4	17.4	17.5	16.7	16.5
Industrial Production*	-1.3	-0.7	0.8	0.7	1.5	5.7	1.8	1.9	2.2	2.3	2.2	2.2	0.3	-1.2	2.0	2.3
Nonfarm Payroll Employment (mil.)	143.4	144.0	144.7	145.2	145.7	146.2	146.7	147.2	147.7	148.2	148.7	149.2	141.8	144.3	146.5	148.4
Unemployment rate	4.9	4.9	4.9	4.7	4.7	4.4	4.3	4.2	4.2	4.1	4.2	4.3	5.3	4.9	4.4	4.2
Consumer Price Index* (percent)	0.1	2.3	1.8	3.0	3.1	-0.3	1.9	2.2	2.2	2.0	2.0	2.0	0.1	1.3	2.0	1.9
"Core" CPI* (percent)	2.5	2.1	2.1	2.0	2.5	0.6	1.9	2.0	2.1	2.1	2.1	2.1	1.8	2.2	1.9	2.0
PPI (finished goods)* (percent)	-3.9	3.0	1.7	3.4	6.3	0.6	3.2	2.8	2.1	1.8	1.6	1.6	-3.3	-1.0	3.3	2.1
Trade Weighted Dollar (Fed BOG, major)	93.2	89.5	90.3	93.5	94.5	93.1	88.4	89.7	90.2	90.5	90.2	90.0	90.9	91.6	91.4	90.2
Crude Oil Prices -WTI (\$ per barrel)	33	45	45	49	52	48	48	48	49	49	50	50	50	43	49	50

*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	2,326	2,398							2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865	20,406	20,994							17,591	17,916		
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.70	0.94	1.15	1.21	1.38	1.46	1.63	1.71	0.13	0.39	1.00	1.55
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.61	0.91	1.03	1.10	1.28	1.38	1.57	1.67	0.05	0.32	0.91	1.48
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.24	1.30	1.33	1.45	1.71	1.92	2.17	2.29	0.69	0.84	1.33	2.02
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.95	1.81	1.82	1.92	2.18	2.36	2.58	2.69	1.53	1.34	1.88	2.45
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.45	2.26	2.28	2.44	2.68	2.90	3.06	3.17	2.14	1.84	2.36	2.95
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.05	2.90	2.88	3.01	3.27	3.52	3.75	3.84	2.84	2.60	2.96	3.60
Prime Rate	3.50	3.50	3.50	3.55	3.80	4.05	4.25	4.30	4.50	4.55	4.75	4.82	3.26	3.51	4.10	4.66
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.21	1.31	1.36	1.51	1.59	1.75	1.83	0.34	0.74	1.24	1.67
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.17	3.98	3.95	4.14	4.40	4.62	4.80	4.98	3.85	3.66	4.06	4.70
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.66	4.49	4.33	4.60	4.90	5.13	5.32	5.48	5.00	4.71	4.52	5.21

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