

November 2017

Each family has its own traditions when it comes to Thanksgiving. Many involve a pot-luck approach for table fare. This requires some coordination, or synchronization, so avoiding all potato or all green bean dishes. Thanksgiving may be primarily a U.S. holiday, but global economies must have gotten the memo about synchronizing selections. Global growth estimates are all moving higher prompting central banks to consider their accommodative stance. The Federal Reserve seems posed to increase rates in December and began scaling back the reinvestment of securities held on its balance sheet. The European Central Bank has not raised rates but after its last meeting, announced it would be scaling back reinvestments beginning next year. Even in Japan, the recent re-election of Prime Minister Abe is viewed as an endorsement of his economic policies. The International Monetary Fund agrees with other estimates of global economic growth expansion in 2018. Readings for the U.S. gross domestic product for the past two quarters has been at 3.0% and 3.1%, possibly reflecting a trend toward higher domestic growth.

Stronger growth will place additional demands on the labor market. The unemployment rate stands at 4.1% and then number of underemployed has been decreasing throughout the year. The labor participation rate for October was 62.7%, down from September's 3 year high of 63.1%. The August jobs report historically is aberrant, while the September and October 2017 reports were impacted by weather events. Expectations for the October reports are for a return to trend. Average hourly earnings increased by 2.4% on a year over year basis in October, flat compared month to month with September. These and other jobs reports indicate the labor market is tightening with fewer jobs available and higher wages need to attract employees. Sounds a bit like lining up dish washers after the feast.

After the meal, we all experience a form of inflation, usually requiring adjustment to the belt loops. In past two months, there are some nascent signs of mounting inflationary pressures in the U.S. economy. Employment demand is increasing wages and labor costs. According to the Consumer Price Index (CPI), as of the end of September annual inflation for consumer prices were up 2.2%, while core CPI, excluding food and energy, was up 1.7%, a small increase from August but still an increase. Pipeline pressures may also be building with the Producer Price Index (PPI), wholesale prices, increased to annualized 2.6%. Core PPI stood at 2.2% annualized. The Fed's preferred inflation measure, the Personal Consumption Expenditure Index (PCE) still remains below the Fed's 2.0% target, giving them some room to maneuver.

When you arrive at your holiday destination, you enter the front door and likely are hit with the aromas emanating from the kitchen. That should put you in a good mood. Consumer sentiment is similarly expressed with growing optimism of present conditions and future growth. A strong job market and improving business conditions are the primary reason for the upbeat sentiment.

So what is not to like. Not everyone in your family may be the country's top chef. Maybe the stuffing is too dry, pie crusts burnt, you get the picture. What could spoil the current economic trend? There is no shortage of candidates. The federal deficit for fiscal year end 2017 was 13.7% higher than

2016. This figure is looking to trend higher over the next several years. The nomenclature for legislative action on the tax code has changed from tax reform to tax cuts, reflecting a procedure in Congress requiring only a simple majority. The details are likely to be contentious as legislators seek to protect programs, budget hawks worry over the deficit, and the 2018 off year elections are just over the horizon. Failure to arrive at some consensus or to be able to enact anything could alter business investment and consumer sentiment. Any lack of additional fiscal stimulus could alter the timing of actions by the Federal Reserve and further endanger pro-growth policies. With the change of Chair of the Federal Reserve and filling current empty positions at the Fed creates a risk of missteps, either tightening rates too soon or too quickly, or keeping accommodative policies in place longer the necessary.

For at least one day, we can put aside our concerns about the economy and concentrate on the football game, being able to get up and take a walk, or head to the store or to the screen to start shopping for the next holiday. The diet can wait until the next day or maybe the day after that.