Economic Update
December 2017

If you have any questions or comments, please contact:

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5 Minute Federal Reserve Board Meeting
Federal Reserve’s Dual Mandate
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1. Stables Prices
2. Full Employment of Resources
Federal Reserve’s Dual Mandate

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Federal Reserve Critical Measures

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Falling GDP Output Gap in 2017
With the Economy Reaching its Potential Level of Output

Source: CBO & Federal
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Stronger Economic Growth in 2018, around 2.4%

Source: Department of Commerce.
When is the Next Recession?
CU Growth Rate Gap
Loan Growth Less Deposit Growth

Area 3
Growth Rate Gap
Recession
Gap Forecast

Borrowing future income for current consumption
CU Growth Rate Gap
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1998 Global Financial Crisis

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Source: Department of Commerce.
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4. Rising “animal spirits” => rising consumer and business spending

Source: Department of Commerce.
Labor Market Beyond Full Employment

CU Delinquency Rate Versus Unemployment Rate

Unemployment (Left Axis)

4.7% Full Employment Target (Left Axis)

Recession

Area 1
Wisconsin Unemployment Rate at 3.5%, down from 4.2% Last Year
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10-Year Treasury will increase 0.40 percentage point in 2017
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13. Housing bubble burst in China => China equity market correction => slower Chinese economic growth.
Rising Deficits Over Next 4 Years and Rising Long-term Interest Rates

Federal Government Surplus/Deficit
(Billions of Dollars)

Source: Congressional Budget Office.
Rising Deficits Over Next 4 Years and Rising Long-term Interest Rates

Nominal Interest Rates, Real Interest Rates and Inflation Expectations

-1.0  2.3  5.5  8.8  12.0
07  08  09  10  11  12  13  14  15  16  17

TIPS (10-Yr)  Line 2  10-yr Treas  Inflation Expectations
Vehicle Sales over 17 million in 2018

**U.S. Vehicles Sales**

**Seasonally Adjusted Annual Rate**

<table>
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<th>Millions of Units</th>
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Source: Autodata Corp.
Home Sales will Accelerate to 5.6 million in 2018
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Existing Home Sales (annual rate) & Inventories

- Sales (Left Axis)
- Recession
- Inventories (Right Axis)
- Healthy Housing Market
- Home Sales Forecast (Left Axis)
High Stock Prices Producing “Wealth Effect” among High-Income Households
Home Prices will Rise 6% in 2018
Stability leads to instability. The more stable things become and the longer things are stable, the more unstable they will be when the crisis hits.

— Hyman Minsky —
High Stock Prices Producing “Wealth Effect” among High-Income Households

Home Prices will Rise 6% in 2018
Wisconsin Home Prices will Rise 6% in 2018

- U.S. home prices rose 6.6% over the last year.
- Wisconsin’s home prices rose 6.2% over the last year.
- Minnesota’s home prices rose 7.2% over the last year.
National Savings Rate is Falling

National Savings Rate
[3-month moving average (Personal Savings/DPI)]
Confidence at 17 year Highs
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Consumer Confidence & Sentiment Index

December 2000

Recession  Confidence  Sentiment
Optimism:
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1. sustained low gas prices
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8. possible tax cuts.
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4. fears of financial market bubbles (i.e. non investment grade corporate bond market)
The Dollar is Falling and Oil Prices are Rising

U.S. Dollar Exchange Rate
Major Currency Index
Nominal & Real (1973 = 100)
The Dollar is Falling and Oil Prices are Rising

Oil Price per Barrel
(West Texas Intermediate Crude)
Wisconsin Economic Growth

WI Economic Growth vs WI CU Growth Rate Gap
(Loan Growth less Deposit Growth)

Source: Department of Commerce.
Questions?
The End