US Economic Weekly

It's a consumer's world

Bank of America Merrill Lynch

01 February 2019

Economics
United States

Macro viewpoint: It's a consumer's world

Consumer confidence nosedived at the turn of the year, threatening to weigh on near-term spending. We see this drag as fleeting as drivers of confidence have turned up and there is no evidence of consumers hunkering down and shifting away from discretionary items. The focus is on the US consumer to underpin the economic expansion. We think the consumer is up to the job.

Hot topic: Is there appetite for shutdown 2.0?

Congress and the White House reached an agreement last Friday to end the government shutdown. The deal temporarily opens the government for 3 weeks during which time both sides will try to hash out a deal. We discuss potential next steps.

Hot topic: Budget deficit to grow at a slower pace

The Congressional Budget Office (CBO) released its latest 10 year budget and economic outlook report. The deficit is still on track to expand considerably over the next decade despite its growing at a slower pace.

View from the top:

Review:

The Fed sent a dovish message at the January FOMC meeting: policy may stay on hold for an extended period of time given the crosswinds in the economy and financial markets. The Fed needs to be compelled by the data and outlook to hike rates further.

The January jobs report was solid but with quirks. Payrolls grew 304k, but the unemployment rate ticked up to 4.0% driven by higher participation. Wages inched up 0.1% mom but with positive revisions, thus yoy wage growth came in at 3.2%.

Preview:

ISM nonmanufacturing should cool in January to 57.0 from 58.0. The trade deficit will likely narrow in November, but exports and imports both should decrease.

Fed Chair Powell and Vice Chair Clarida speak next week, on Wednesday and Thursday.

GDP update:

Weak new construction data sliced 0.5pp from 4Q GDP tracking, leaving it at 2.3%.

Data deck for Feb.4 – Feb. 8

Date	Time	Indicator	Period	BofAML Estimate	Consensus	Previous
2/04/19	10:00	Durable Goods Orders	Nov F	—	1.7%	0.8%
2/04/19	10:00	Factory Orders	Nov	—	0.3%	-2.1%
2/05/19	10:00	ISM Non-Manufacturing	Jan	57.0	57.0	58.0
2/06/19	8:30	Trade Balance	Nov	-$53.4bn	-$54.0bn	-$55.5bn
2/06/19	8:30	Nonfarm Productivity	4Q P	0.5%	1.7%	2.3%
2/06/19	8:30	Unit Labor Costs	4Q P	2.8%	1.7%	0.9%
2/07/19	8:30	Initial Jobless Claims	Feb 09	230k	—	253k

Source: BofA Merrill Lynch Global Research, Bloomberg

 11959421

Timestamp: 01 February 2019 07:17PM EST

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Macro viewpoint

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It's a consumer's world

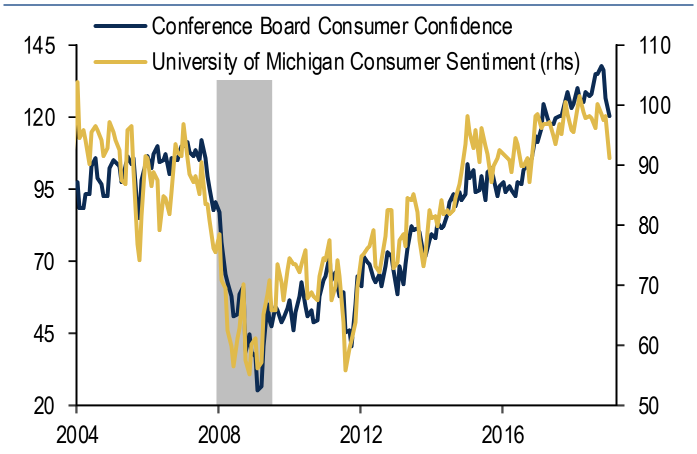
- Consumer confidence nosedived at the turn of the year, threatening to weigh on near-term spending.
- We see this drag as fleeting as drivers of confidence have turned up and there is no evidence of consumers hunkering down and shifting away from discretionary items.
- The focus is on the US consumer to underpin the economic expansion. We think the consumer is up to the job.

I think, therefore I am

Fed Chair Powell made a strong dovish pivot this week, hinting to the markets that the Fed may be done hiking for the time being. He attributed it to greater downside risks from abroad, which seem to be filtering into global financial conditions and US business and consumer confidence. Indeed, consumer sentiment tumbled over December and January (Chart 1). We agree that animal spirits matter and at times of heightened uncertainty the "soft" data (surveys) take on added importance. We take a step at quantifying such effect:

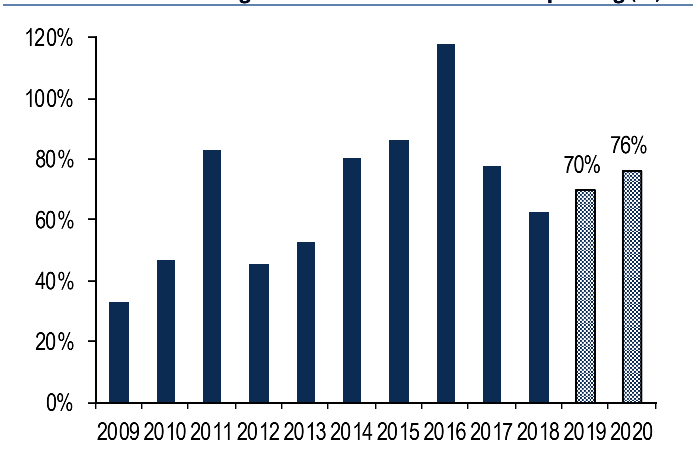
1. If confidence holds at the January level, it would slice 0.2 pp from 1Q annualized real consumer spending, all else equal.
2. The drivers of confidence are the S&P 500, the unemployment rate and gasoline prices. The recovery in the stock market and lower gasoline prices should help underpin near-term confidence, mitigating the drag to consumer

Chart 1: Outsized decline in consumer sentiment last month



Source: Conference Board, University of Michigan

Chart 2: Share of annual growth attributed to consumer spending (%)



Source: BofA Merrill Lynch Global Research

spending.

3. We do not see lasting damage as the consumer is showing no signs of pulling back on activity and is continuing to spend on discretionary items.

We maintain our view that the consumer will be an engine of growth this year, accounting for 70% of total growth this year, up from about 60% in 2018 (Chart 2). The hope for the US and global economy rests on the shoulder of the US consumer – those shoulders seem pretty broad.

Animal spirits

We run a series of models and find that "shocks" in confidence do indeed matter for consumer spending. We define a shock as the log difference in current sentiment relative to the max reading over the past year. We then categorize between negative and positive shocks given that the impact may prove to be asymmetric. Using the University of Michigan sentiment index, we find a shock of -8.1pp in January, the biggest since 2011. Plugging this into a model of real consumer spending, we find that it would slice 0.24pp from quarterly annualized consumption growth, all else equal (Chart 3).

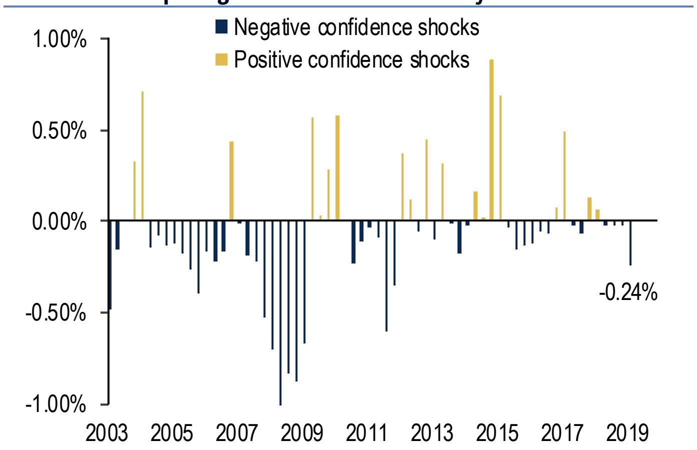
This assumes that the shock is sustained through the quarter. However, it seems likely that confidence will improve through quarter end for two reasons: 1) the government has opened (at least temporarily) and 2) the stock market has rebounded. According to a special survey run by the University of Michigan, the government shutdown had a net impact of -13.2 points on the sentiment index. The decline was most severe for Republicans while there was little impact on Democrats. This is mostly because Republicans were much more optimistic throughout the last two years than Democrats who have been pessimistic ever since President Trump was elected.

The rebound in the stock market is also likely to underpin confidence relative to the turn of the year. We test a variety of factors against our variable for the confidence shock and found that the S&P 500 is the biggest driver. This is followed by comparable contributions from the change in the unemployment rate and gasoline prices (Chart 4). The labor market has remained robust with a gangbusters jobs report in January while gasoline prices have remained supportive. If confidence does indeed pick up, it will mitigate the drag to 1Q.

Consumer tea leaves

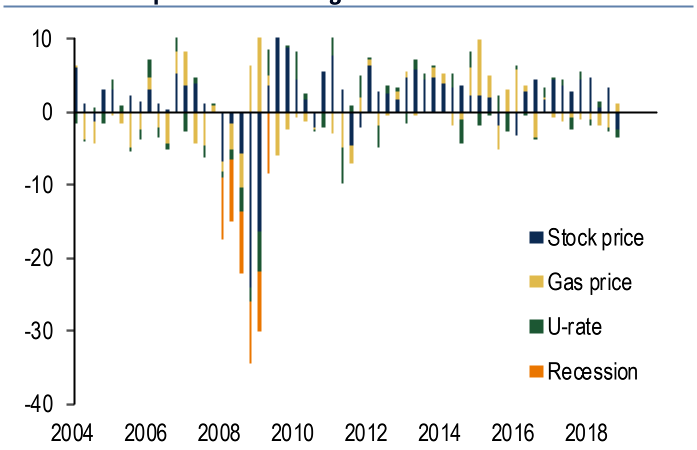
Outside of monitoring surveys, we can also get a sense of consumer sentiment by looking at changes in the consumer's shopping cart. During periods of economic stress - which occur heading into recessions - consumers will spend less on discretionary items

Chart 3: Consumption growth and contributions by confidence shocks



Source: , BofA Merrill Lynch Global Research, University of Michigan, Census Bureau, Federal Reserve Board

Chart 4: Decomposition of U Michigan confidence shock

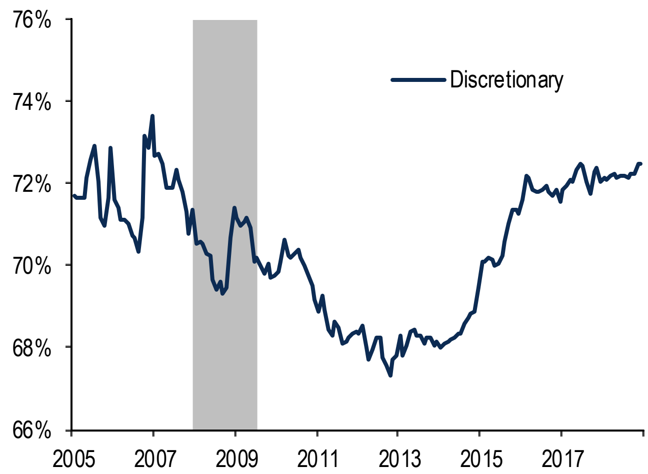


Source: BofA Merrill Lynch Global Research, University of Michigan, BLS, Department of Energy, Bloomberg, NBER and more on necessary items. We turn to our BAC aggregated credit and debit card data to understand these dynamics. Looking at the share of total spending that is discretionary, we saw that it peaked around 12 months prior to the last recession and continued to drop until halfway through the crisis. The latest card data gives no indication that this dynamic is happening today (Chart 5).

Our data only has one business cycle, so we also look at the Consumer Expenditure Survey (CES) from the Bureau of Labor Statistics for a longer history. We create a basket for discretionary spending, which is equal to aggregate spending excluding food at home, housing and apparel. The data, which go back to 1984, similarly shows that the share of discretionary spending went down during both the 2007-08 and 2000-01 crises. Although the share moved sideways during the 1990-91 recession, the downward trend had already started a few years prior. Similar to our card data, the CES data do not point to weakness in discretionary spending in recent years (Chart 6).

The bottom line is that there is a lot of pressure on the US consumer to support the recovery, not just in the US but also globally. Luckily, they seem to be up for the job. While the deterioration in confidence at the beginning of the year presents some challenges, we think it will prove fleeting. The consumer remains a bright spot for the US economy.

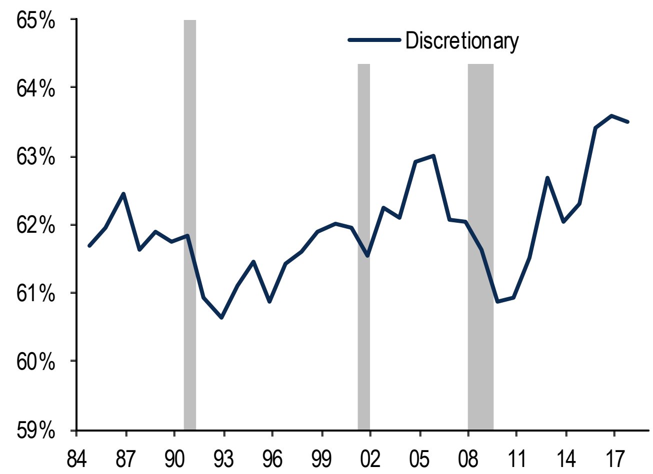
Chart 5: Aggregated BAC card data: Discretionary spending as a share of total spending (%)



Source: BAC internal data

Note: BAC discretionary spending includes all BAC card spending excluding food, gas and utility.

Chart 6: Survey of Consumer Expenditures: Discretionary spending as a share of total spending (%)



Source: Bureau of Labor Statistics

Hot topic

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Is there appetite for shutdown 2.0?

Congress and the White House reached an agreement last Friday to end the government shutdown. The deal temporarily opens the government for 3 weeks during which time a special conference committee comprised of 17 lawmakers from both sides of the aisle will try to hash out a deal on border security and a longer funding bill.

There is a strong desire in Congress to get to a deal. Democrats appear open to including money for a border wall as Democratic negotiators stated that they will not take a hard line stance against funding "border barriers". On the other side of the aisle, prominent Republicans have stated that they have little appetite for another government shutdown. Importantly, Senate Majority Leader Mitch McConnell told his caucus on Tuesday that he will support "whatever works" to avoid another shutdown.

One scenario is we get a similar deal to the one that passed Congress prior to the shutdown: allocate a few billion dollars toward border security and "advanced border fencing" in exchange for full government funding through the fiscal year. However, there is significant risk that President Trump balks at signing the deal. Shortly after the government reopened, he stated in an interview that there is less than a 50-50 chance he will sign a deal that is crafted by Congress and he recently hardened on his stance for a "wall" (previously he stated he would be open to "steel barrier" or "fencing").

How about a bigger deal? A deal that includes wall funding in exchange for immigration reform (e.g. renewal of DACA) or a "grand bargain" that tacks on increasing the debt ceiling. Given the short window of time to negotiate, neither of these options appears viable, in our view.

In our view, it is still too early to tell what the final deal will look like. We are back at the impasse that led to the shutdown: A deal that can pass Congress is unlikely to get the President's signature while a deal the President would sign is likely dead on arrival in the Democrat-led House. Something's got to give.

Perhaps a scenario that could break the stalemate is for President Trump to sign the deal suggested above, keeping the government open and declare a national emergency to construct the border wall. Indeed, in an interview with the New York Times, President Trump stated that he would most likely move unilaterally on the border wall when the talks end in two weeks. But this workaround is not without risk: many Republicans oppose this move and it will likely be quickly challenged by the Democrats in court.

We will keep a close eye on the headlines in coming weeks but if history is any guide, a deal (if reached) likely won't come until the 11th hour. Until then, we have priced in the cost of the 35-day government shutdown by shaving 0.2pp 1Q GDP to 2.0% and boosting up 2Q GDP estimate up by 0.1pp to 2.5% as we expect some of the lost growth to be made up in subsequent months. The Congressional Budget Office's estimates show a greater drag in 1Q of 0.4pp but a stronger rebound of 1.0pp in 2Q. However, if shutdown 2.0 were to be realized, we (and the CBO) would have to consider further downgrades. Stay tuned.

Hot topic

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Budget deficit to grow at a slower pace

The Congressional Budget Office (CBO) released its latest 10 year budget and economic outlook report. Its latest projections show the budget deficit growing at a slower pace with a cumulative reduction in the deficit of over $1tn over the next 10 years relative to their previous estimates from April 2018 (Chart 7). That said, the deficit is still on track to expand considerably over the next decade. The change in the projections came from three sources (Table 1):

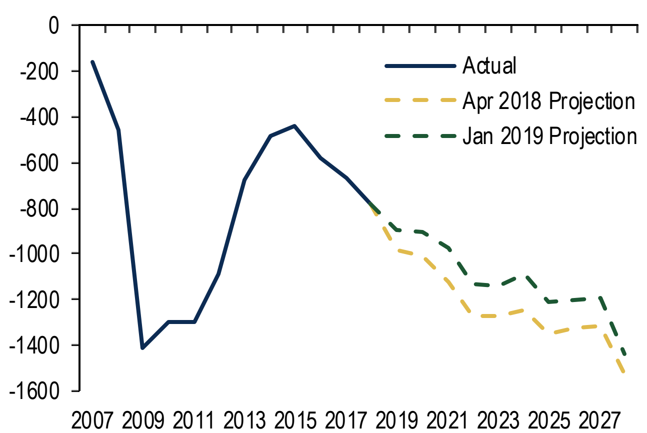
- **Legislative changes:** CBO assumes "current law" in creating its outlays and revenue path. The biggest change in its projections came from their assumption that the discretionary spending caps would return back to prior levels and discretionary spending that are outside the caps (e.g. emergency funding for disasters and overseas military operations) would remain at unusually low levels.

- **Economic changes:** Revisions to CBO's economic forecasts now expect greater revenue from individual income taxes offsetting weaker corporate income taxes.

- **Technical changes:** These revisions take into account changes other than legislative and economic ones. The biggest driver came from higher revenues from customs duties (i.e. tariffs). CBO assumes the tariffs that were in place in December 2018 will largely remain in place through the budget window.

We are revising our own federal deficit numbers to incorporate the CBO's latest projections. However, we are fading some of the tweaks that the CBO made. Specifically, we think that the return to prior discretionary spending caps is highly unlikely and assume a higher path for outlays. Also, we expect some de-escalation in trade tensions that could lead to some tariffs being lifted in FY2019 and beyond, which would reduce government revenues. Lastly, our economic outlook is modestly weaker than the CBO's baseline forecast (CBO assumes about 0.2pp more growth this year and next than us),, implying less tax revenue and higher deficits. **All told, we now expect the budget deficit to hit -$920bn in FY2019 and -$975bn in FY2020.**

Chart 7: CBO projections show the deficit growing at a slower pace



Source: Congressional Budget Office

Table 1: Factors in the change to the CBO's baseline deficit projection

	2019	2020	2021	2022	2023
Deficit in CBO's Adjusted April 2018 Baseline	-973	-1,003	-1,118	-1,275	-1,273
Change in deficit due to legislative changes [a]	13	34	47	64	74
Change in deficit due to economic changes [b]	16	23	51	61	58
Change in deficit due to technical changes [c]	47	43	47	22	2
All Changes (a+b+c)	75	100	145	147	134
Deficit in CBO's January 2019 Baseline	-897	-903	-974	-1,128	-1,139
BofAML previous forecast	-995	-1050			
BofAML new forecast	***-920***	***-975***			

Source: Congressional Budget Office, BofA Merrill Lynch Global Research

Bank of America Merrill Lynch

View from the top

What's new

Review

- The Fed sent a dovish message to markets at the January FOMC meeting: policy may stay on hold for an extended period of time given the crosswinds in the economy and financial markets. Moreover, the Fed needs to be compelled by the data and outlook to hike rates further, which likely means rising inflation, easier financial conditions, and resolution on some global downside risks.
- The January jobs report was solid but with quirks. Payrolls grew 304k, but the unemployment rate ticked up to 4.0% driven by higher participation (good) and the government shutdown (transitory). Wages inched up 0.1% mom but with positive revisions, thus yoy wage growth came in at 3.2%.

Preview

- ISM nonmanufacturing should cool in January to 57.0 from 58.0. The trade deficit will likely narrow in November, but exports and imports both should decrease.
- Fed Chair Powell and Vice Chair Clarida speak next week, on Wednesday and Thursday, respectively. We also hear from Governor Quarles and several Presidents.

GDP update

- Weak new construction data sliced 0.5pp from 4Q GDP tracking, leaving it at 2.3%.

Core views

Growth

- We expect 2.9% real GDP growth for 2018 and 2.5% for 2019. Both years remain notably above our potential growth estimate of 1.7%. Trade tensions are a headwind and further escalation is a downside risk.

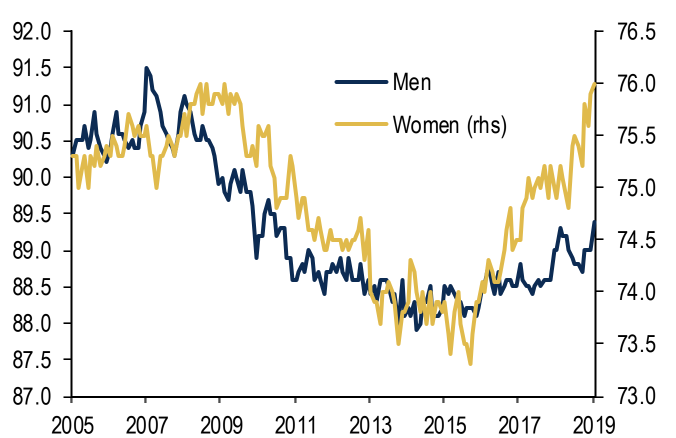
Inflation

- Our outlook is for core PCE inflation to gradually accelerate to 2.1% by yearend, supported by an economy growing above potential, albeit slowing.

Federal Reserve

- The Fed has emphasized that policy is not on a pre-set course and will respond to the data. We believe economic conditions will allow them to hike two more times in 2019 before move to a holding position with policy reaching neutral. Meanwhile, balance sheet normalization continues.

Chart 8: Prime age participation rates picking up (25-54 year olds)



Source: Bureau of Labor Statistics

- A highlight of the employment report was an uptick in the participation rate to 63.2% from 63.1%. This partly explained the increase in the unemployment rate. In particular, prime-age participation moved up notably to 82.6% from 82.3%. The gain in the supply of labor is very encouraging and supports a lengthier business cycle.
- Male prime-age participation was the main driver, jumping up to 89.4% from 89.0%. Male participation has rebounded after a reversal in early 2018, and is now at a cyclical high. That said, male participation still remains notably depressed relative to the pre-crisis trend.
- While female participation only nudged up a tenth in January to 76.0%, it has been on a tear since May of last year when it bottomed at 74.8%. Moreover, 76% matches the highs of the last cycle.

Data in the past week

Data deck for Jan. 28 – Feb. 01

Date	Time	Indicator	Period	Actual	Consensus	Previous
1/29/19	9:00	Case-Shiller HPI y oy	Nov	5.2%	—	5.3%
1/29/19	10:00	Consumer Confidence	Jan	120.2	124.0	128.1
1/30/19	8:15	ADP Employ ment	Jan	213k	165k	271k
1/30/19	**14:00**	**FOMC Rate Decision (mid-point)**	**Jan 30**	**2.38%**	**2.38%**	**2.38%**
1/30/19	**14:30**	**FOMC Press Conference**	**—**	**—**	**—**	**—**
1/31/19	8:30	Initial Jobless Claims	Jan 26	253k	215k	200k
1/31/19	8:30	Employ ment Cost Index	4Q	0.7%	0.8%	0.8%
1/31/19	9:45	Chicago Purchasing Managers	Oct	56.7	61.5	65.4
2/01/19	8:30	Change in Nonfarm Payrolls	Jan	304k	165k	312k
2/01/19	8:30	Priv ate Pay rolls	Jan	296k	174k	301k
2/01/19	8:30	Unemployment Rate	Jan	4.0%	3.9%	3.9%
2/01/19	8:30	Av erage Hourly Earnings mom	Jan	0.1%	0.3%	0.4%
2/01/19	10:00	U. of Michigan Sentiment	Jan F	91.2	90.7	90.7
2/01/19	10:00	ISM Manufacturing	Jan	56.6	54.0	54.1
2/01/19	All day	Total Vehicle Sales	Jan	NR	17.2M	17.5M

Source: BofA Merrill Lynch Global Research, Bloomberg
Note we have excluded data where the releases might be delayed by the government shutdown

Labor market off to a strong start

Solid January employment report but with a lot of quirks: 1) Nonfarm payrolls up 304k in January with December revised down to 222k. Smoothing through, the three-month moving average was 241k, which clearly show very strong job creation. 2) the unemployment rate edged up to 4.0% but for good reasons. Household jobs were down 251k while the labor force declined by 11k. However, this was due to a downward revision to population. Controlling for the level shift in the population, household jobs were actually up a healthy 237k while the labor force increased 495k. The labor force participation rate increased to 63.2%, the highest since 2013. We are seeing a bit more of a trend here of people returning to the labor force which is very positive for keeping the current business cycle on track. 3) Wages were up only 0.1% mom but there was an upward revision to the prior month. Year over year wage growth was at a healthy 3.2%. 4) There were signs of the government shutdown as the unemployment rate and the underemployment rate both tracked higher. However, these moves should reverse in subsequent months. Bottom line: robust jobs report showing no slowing in the economy.

The hawks have left the building

This week's FOMC meeting revealed that the Fed has pivoted toward an even more dovish stance. Powell is no longer guiding the markets toward a hike but instead is showing a Fed who is considering staying on hold for an extended period of time. This makes our baseline forecast of 2 hikes this year less likely - we need to monitor data but given today's comments from Powell, the threshold to hike twice this year has increased. It's clear that recent market movements have led to a material shift in the Fed's policy reaction function. Most importantly, we would need to see inflation pick up and financial conditions ease with a resolution on some of the global downside risks.

Employment cost index shows steady growth

The Employment Cost Index grew 0.7% qoq in 4Q, just a touch below expectations of 0.8% but still a healthy print. The % yoy rate edged up to 2.9% from 2.8%, reaching a new cyclical high. While not as high as average hourly earnings growth of 3.2%, ECI shows improving wage pressures amid a tighter labor market. This is a positive for the consumer and will help to underpin broad economic growth.

Pending home sales plunge

Pending home sales plunged 2.2% mom in December, which was worse than expectations for a 0.5% mom rebound. The data suggest further downside for the existing home sales data, which track closed contracts, and indicate that housing demand has not responded to the reversal in rates that ran through the month. We do believe there is potential for a rebound in the data in the near term, again owing to the rates pullback since it eases some of the affordability pressure. Moreover, the rates move is well timed ahead of the spring selling season, which will be a pivotal moment in terms of gauging the housing outlook.

Home price appreciation continues to slow
Home price appreciation slowed in November, with the national S&P CoreLogic Case-Schiller index slowing to 5.2% yoy from 5.3% in October (revised from 5.5%), and the 20-city composite fell to 4.7% from 5.0%. The 20-city composite was below expectations of 4.9%. The data are broadly in line with our view for home price growth to cool due to stretched affordability after years of robust home price gains and now an environment of higher rates; although the pullback in rates since the end of last year provides some relief. We expect home price appreciation to ultimately slow to 3% by the end of 2019.

Shutdown weighs on confidence
Consumer confidence slid to 120.2 in January from 126.6 (revised down from 128.1) in December, coming in below consensus at 124.0. This mirrors the decline in consumer sentiment, which cited the shutdown, tariffs, financial market volatility, and the slowdown in global growth as concerns. With the shutdown now over, confidence should rebound in February, though many of these other factors may remain headwinds limiting the bounce back. Despite the drop in confidence, the labor differential actually ticked up to 33.7 in January from 33.3 indicating continued faith in the job market.

Data in the week ahead

Tuesday, February 5th

Data deck for Feb.5

Date	Time	Indicator	Period	BofAML Estimate	Consensus	Previous
2/05/19	10:00	ISM Non-Manufacturing	Jan	57.0	57.0	58.0

Source: BofA Merrill Lynch Global Research, Bloomberg

ISM non-manufacturing

We look for the ISM non-manufacturing index to decline further in January, falling to 57.0 from a revised 58.0 in December (initially 57.6). This would mark the second consecutive monthly decline in the index and signal that the service-providing sector has continued to moderate. We take signal from the previously released surveys on the service-providing sector which have on balance weakened.

Wednesday, February 6th

Data deck for Feb.6

Date	Time	Indicator	Period	BofAML Estimate	Consensus	Previous
2/06/19	8:30	Trade Balance	Nov	-\$53.4bn	-\$54.0bn	-\$55.5bn
2/06/19	8:30	Nonfarm Productivity	4Q P	1.2%	1.7%	2.3%
2/06/19	8:30	Unit Labor Costs	4Q P	2.1%	1.7%	0.9%

Source: BofA Merrill Lynch Global Research, Bloomberg

Trade balance

We look for November trade balance to narrow to -\$53.4bn from -\$55.5bn in October. This should be mainly driven by the narrowing goods trade deficit. Specifically, exports should fall amid rising geopolitical uncertainties and weakening global growth. Meanwhile, imports are likely to drop after growing for six consecutive months, as freight shipments tend to slow down during holidays. On balance, we think the drop in imports outweighs the drop in exports, leading to a narrower trade deficit.

Nonfarm Productivity & Unit Labor Cost

We look for nonfarm productivity in 4Q to grow by 1.2% qoq saar in the preliminary 4Q estimate, a significant slowdown from the prior quarter's reading of 2.3%. According to our GDP tracking estimate, the economy slowed down to 2.8% (final sales) in 4Q while aggregate hours worked grew at solid 1.6%, implying a drop in productivity. Meanwhile, we look for a strong compensation per hour growth based on solid growth in average hourly earnings (3.3%) in 4Q, so the unit labor cost is likely to jump to 2.1% from 0.9% in 3Q. Note that the BLS will have limited source data for the preliminary estimate implying there is greater uncertainty in the data.

Thursday, February 7th

Data deck for Feb.7

Date	Time	Indicator	Period	BofAML Estimate	Consensus	Previous
2/07/19	8:30	Initial Jobless Claims	Feb 09	230k	—	253k
2/07/19	15:00	Consumer Credit	Dec	—	\$16.0bn	\$22.1bn

Source: BofA Merrill Lynch Global Research, Bloomberg

Claims

We look for 230k initial jobless claims in the week ending February 2nd. In the latest print, initial claims popped to 253k likely owing to distortions from imprecise seasonal adjustment factors around the Martin Luther King Jr. floating holiday and the government shutdown. Consequently, we expect claims to reverse course and return back to trend in the range of 215-230k in coming weeks.

Upcoming policy speakers

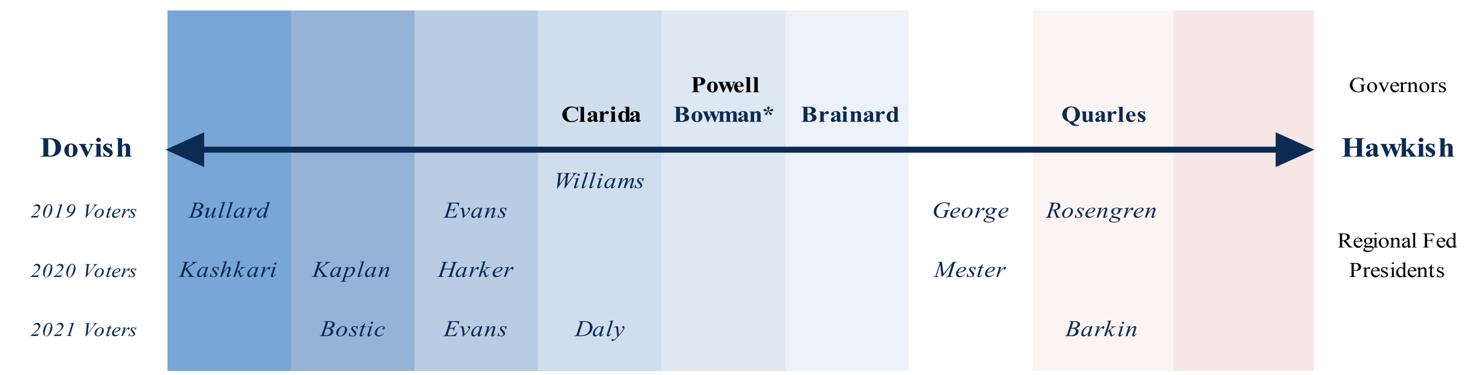
Key speaking engagements and news events*

Monday, Feb 04	*7:30pm*	*Cleveland Fed President Mester (non-voter) Discusses Economic Outlook and Monetary Policy*
Tuesday, Feb 05		*No events scheduled at this time*
Wednesday, Feb 06	*6:05pm*	*Fed Vice Chair of Supervision Quarles speaks on Bank Stress Testing*
	7:00pm	***Fed Chair Powell Hosts Town Hall Meeting with Educators***
Thursday, Feb 07	*9:15am*	*FRB Dallas President Kaplan (non-voter) speaks in Dallas*
	9:30am	***Fed Vice Chair Clarida speaks on neutral rates***
	7:30pm	*FRB St. Louis President Bullard speaks on the economy*
Friday, Feb 08	*1:15pm*	*FRB San Francisco President Daly speaks at Economic forecast conference*

*All listed times are Eastern times. Dates and times are subject to change.
Source: BofA Merrill Lynch Global Research, Bloomberg

FOMC dove-hawk spectrum

FOMC dove-hawk spectrum



Note(s): NY Fed President (Williams) is always a voter.
* There is limited information on Bowman's monetary policy views. For now, we assume she will vote with the core of the committee.
Source: BofA Merrill Lynch Global Research

Economic forecast summary

Real Economic Activity, % SAAR	2Q 17	3Q 17	4Q 17	1Q 18	2Q 18	3Q 18	4Q 18	1Q 19	2Q 19	3Q 19	4Q 19	2017	2018	2019	2020
Real GDP	3.0	2.8	2.3	2.2	4.2	3.5	2.8	2.0	2.5	1.9	1.9	2.2	2.9	2.5	1.8
% Change, Year Ago	2.1	2.3	2.5	2.6	2.9	3.0	3.2	3.1	2.7	2.3	2.0				
Final Sales	2.8	1.8	3.2	1.9	5.3	1.3	3.3	1.8	2.4	1.7	1.7	2.2	2.8	2.3	1.8
Domestic Demand	2.7	1.8	4.1	2.0	4.1	3.2	3.1	2.0	2.6	1.9	1.9	2.5	2.9	2.6	2.0
Consumer Spending	2.9	2.2	3.9	0.5	3.8	3.6	3.1	1.9	2.4	2.0	2.0	2.5	2.7	2.6	2.0
Residential Investment	-5.5	-0.5	11.2	-3.4	-1.4	-2.6	-1.0	-1.0	-1.0	-1.0	-1.0	3.3	0.0	-1.3	-1.3
Nonresidential Investment	7.3	3.4	4.9	11.5	8.7	2.5	4.3	2.7	3.3	2.5	2.5	5.3	6.8	3.4	2.6
Structures	3.8	-5.8	1.3	13.9	14.5	-1.7	2.5	2.5	3.5	2.5	2.5	4.6	5.6	2.9	2.6
Equipment	9.7	9.8	9.9	8.5	4.6	3.5	4.0	2.5	3.5	2.5	2.5	6.1	7.3	3.2	2.6
Intellectual Property	6.6	1.7	0.7	14.1	10.5	4.3	6.0	3.0	3.0	2.5	2.5	4.6	7.1	4.1	2.5
Government	0.1	-1.0	2.4	1.5	2.5	2.6	2.5	2.4	3.1	1.7	1.7	-0.1	1.6	2.4	1.8
Exports	3.6	3.5	6.6	3.6	9.3	-4.4	5.5	2.0	2.0	2.0	2.0	3.0	4.3	2.3	2.0
Imports	2.5	2.8	11.8	3.0	-0.6	9.2	3.0	3.0	3.0	3.0	3.0	4.6	4.6	3.5	3.0
Net Exports (Bil 12$)	-844	-846	-899	-902	-841	-946	-937	-950	-963	-975	-988	-859	-907	-969	-1023
Contribution to growth (ppts)	0.1	0.0	-0.9	0.0	1.2	-1.9	0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.3	-0.2
Inventory Accumulation (Bil 12$)	11.9	64.4	16.1	30.3	-36.8	86.6	60.3	65.3	70.3	75.3	80.3	22.5	35.1	72.8	80.3
Contribution to growth (ppts)	0.2	1.0	-0.9	0.3	-1.2	2.3	-0.5	0.1	0.1	0.1	0.1	0.0	0.1	0.2	0.0
Nominal GDP (Bil $, SAAR)	19359	19588	19832	20041	20412	20660	20897	21080	21344	21557	21775	19485	20503	21439	22320
% SAAR	4.2	4.8	5.1	4.3	7.6	5.0	4.7	3.6	5.1	4.0	4.1	4.2	5.2	4.6	4.1
Key Indicators															
Industrial Production (% SAAR)	5.0	-1.5	7.7	2.5	5.2	4.7	2.8	2.2	2.0	1.9	1.8	1.6	3.9	2.7	2.0
Capacity Utilization (%)	76.2	75.8	77.1	77.2	77.8	78.3	78.4	78.7	78.9	79.2	79.4	76.1	77.9	79.1	80.0
Nonfarm Payrolls (Avg mom change, 000s)	190	136	218	228	243	189	232	220	180	160	150	179	223	177	115
Civilian Unemployment Rate (%)	4.4	4.3	4.1	4.1	3.9	3.8	3.8	3.9	3.7	3.6	3.5	4.4	3.9	3.7	3.5
Civilian Participation Rate (%)	62.8	63.0	62.7	62.9	62.8	62.8	63.0	63.2	63.1	63.1	63.1	62.8	62.9	63.1	63.1
Productivity (% SAAR)	1.6	2.3	-0.3	0.3	3.0	2.2	1.2	1.1	1.1	1.0	1.0	1.1	1.3	1.3	1.2
Personal Savings Rate (%)	6.7	6.7	6.3	7.4	6.6	6.3	6.1	6.3	6.6	6.8	7.1	6.7	6.6	6.7	6.7
Light Vehicle Sales (Millions SAAR)	16.8	17.1	17.6	17.1	17.2	16.9	17.5	17.0	16.7	16.4	16.1	17.1	17.2	16.6	15.4
Housing Starts (Thous. SAAR)	1171	1172	1259	1317	1261	1234	1248	1275	1282	1288	1296	1208	1265	1285	1300
Current Account (% of GDP)												-2.3	-2.3	-2.4	-2.6
US Budget Balance ($bn, Fiscal Year)												-666	-779	-920	-975
Inflation															
GDP Price Index (% SAAR)	1.2	2.2	2.5	2.0	3.0	1.7	1.9	1.6	2.5	2.2	2.2	1.9	2.2	2.0	2.3
% Change, Year Ago	1.7	1.9	2.0	2.0	2.4	2.3	2.2	2.1	1.9	2.0	2.1				
PCE Chain Prices (% SAAR)	0.8	1.6	2.7	2.5	2.0	1.5	1.5	1.0	2.2	1.9	1.9	1.8	2.0	1.6	2.0
% Change, Year Ago	1.6	1.6	1.8	1.9	2.2	2.2	1.9	1.5	1.6	1.6	1.8				
Core PCE Chain Prices (% SAAR)	1.3	1.4	2.1	2.2	2.1	1.5	1.6	2.2	2.1	2.0	2.0	1.6	1.9	1.9	2.1
% Change, Year Ago	1.6	1.5	1.6	1.7	1.9	2.0	1.9	1.9	1.9	2.0	2.1				
CPI, Consumer Prices (% SAAR)	0.1	2.1	3.3	3.5	1.7	2.0	1.8	0.3	2.5	2.1	2.1	2.1	2.4	1.6	2.2
% Change, Year Ago	1.9	2.0	2.1	2.2	2.7	2.6	2.2	1.4	1.6	1.7	1.8				
CPI ex Food & Energy (% SAAR)	0.8	1.8	2.2	3.0	1.8	2.0	2.0	2.6	2.4	2.4	2.4	1.8	2.1	2.3	2.4
% Change, Year Ago	1.8	1.7	1.8	1.9	2.2	2.2	2.2	2.1	2.3	2.3	2.4				

Shaded regions represent BofA Merrill Lynch US Economics Research forecast

Source: BofA Merrill Lynch US Economics Research

To view our long-run forecasts, see US Economic Watch: The long View: the debate over the trend

Global economic forecast summary

	GDP growth, %				CPI inflation, %				Short-term interest rates, %			
	2017	2018F	2019F	2020F	2017	2018F	2019F	2020F	Current	2018F	2019F	2020F
Global	**3.8**	**3.7**	**3.4**	**3.6**	**3.0**	**3.4**	**3.1**	**3.2**	**4.02**	**4.49**	**4.41**	**4.29**
US	2.2	2.9	2.5	1.8	2.1	2.4	1.7	2.2	2.38	2.38	2.88	2.88
Global ex US	**4.1**	**3.9**	**3.6**	**4.0**	**3.2**	**3.6**	**3.4**	**3.4**	**4.36**	**4.94**	**4.73**	**4.59**
Euro Area	2.5	1.8	1.1	1.5	1.5	1.7	1.0	1.2	0.00	0.00	0.00	0.25
UK	1.7	1.2	1.2	1.6	2.7	2.5	1.7	1.9	0.75	0.75	1.00	1.50
Japan	1.9	0.7	0.6	0.6	0.5	1.0	0.3	0.7	-0.10	-0.10	-0.10	0.00
Canada	3.0	2.1	1.8	1.8	1.6	2.3	1.7	2.0	1.75	1.75	2.00	2.25
Emerging EMEA	2.8	2.7	1.9	2.7	6.9	7.4	7.6	6.8	9.73	9.82	9.24	8.61
Latin America	1.2	0.8	1.3	1.9	7.3	7.7	8.4	6.6	6.29	13.42	11.52	9.86
Brazil	1.1	1.5	3.5	3.0	3.4	3.7	3.7	4.1	6.50	6.50	7.00	8.00
Emerging Asia	6.2	6.2	5.9	6.0	2.2	2.7	2.5	2.9	4.65	4.64	4.67	4.69
China	6.8	6.6	6.1	6.2	1.6	2.1	1.6	2.2	4.35	4.35	4.35	4.35

Shaded regions represent BofA Merrill Lynch Global Economics Research forecast.
Source: BofA Merrill Lynch Global Economics Research

Interest rate forecast summary

(% EOP)	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	2017	2018	2019
Fed Funds	1.00-1.25	1.00-1.25	1.25-1.50	1.50-1.75	1.75-2.00	2.00-2.25	2.25-2.50	2.50-2.75	2.75-3.00	2.75-3.00	2.75-3.00	1.25-1.50	2.25-2.50	2.75-3.00
Fed effective	1.06	1.16	1.33	1.67	1.91	2.18	2.40	2.63	2.88	2.88	2.88	1.33	2.40	2.88
3-Month LIBOR	1.30	1.30	1.69	2.31	2.34	2.40	2.81	2.70	2.75	2.85	2.95	1.69	2.81	2.95
2-Year T-Note	1.38	1.39	1.88	2.27	2.53	2.82	2.49	2.80	2.90	3.00	2.90	1.88	2.49	2.90
5-Year T-Note	1.89	1.94	2.21	2.56	2.74	2.95	2.51	2.90	2.95	3.00	2.95	2.21	2.51	2.95
10-Year T-Note	2.30	2.37	2.41	2.74	2.86	3.06	2.68	3.00	3.05	3.00	3.00	2.41	2.68	3.00
30-Year T-Bond	2.83	2.90	2.74	2.97	2.99	3.21	3.01	3.10	3.15	3.05	3.05	2.74	3.01	3.05
2-Year swap	1.62	1.65	2.08	2.58	2.79	2.99	2.66	2.96	3.07	3.19	3.09	2.08	2.66	3.09
5-year swap	1.96	2.01	2.24	2.71	2.89	3.07	2.57	3.00	3.07	3.12	3.09	2.24	2.57	3.09
10-year swap	2.28	2.35	2.40	2.79	2.93	3.12	2.71	3.05	3.10	3.07	3.07	2.40	2.71	3.07
30-year swap	2.54	2.61	2.54	2.82	2.93	3.13	2.84	2.92	2.99	2.90	2.90	2.54	2.84	2.90

FX rate forecast summary

	Spot	19-Mar	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	20-Dec
G3									
EUR-USD	1.15	1.16	1.20	1.22	1.25	1.25	1.27	1.30	1.30
USD-JPY	110	106	107	103	101	105	105	105	105
EUR-JPY	125	123	128	126	126	131	133	137	137
Dollar Bloc									
USD-CAD	1.31	1.32	1.31	1.31	1.30	1.30	1.29	1.28	1.27
AUD-USD	0.72	0.73	0.75	0.79	0.81	0.81	0.82	0.83	0.84
NZD-USD	0.69	0.70	0.72	0.73	0.74	0.74	0.75	0.75	0.75
Europe									
EUR-GBP	0.88	0.87	0.86	0.86	0.86	0.87	0.87	0.88	0.88
GBP-USD	1.31	1.33	1.40	1.42	1.45	1.44	1.46	1.48	1.48
EUR-CHF	1.14	1.17	1.18	1.20	1.22	1.23	1.24	1.25	1.25
USD-CHF	1.00	0.98	0.97	0.98	0.98	0.98	0.98	0.96	0.96
EUR-SEK	10.38	10.25	10.15	10.07	10.00	9.95	9.90	9.85	9.80
USD-SEK	9.06	8.84	8.46	8.25	8.00	7.96	7.80	7.58	7.54
EUR-NOK	9.67	9.70	9.60	9.50	9.40	9.30	9.20	9.10	9.00
USD-NOK	8.44	8.08	7.87	7.79	7.52	7.44	7.24	7.00	6.92

Monthly CPI forecast update

	Non-seasonally Adjusted						Seasonally Adjusted			
	Total CPI			Energy			Total CPI		Core CPI	
	Level	mom	yoy	Level	mom	yoy	mom	yoy	mom	yoy
2017: Jul	244.79	-0.07	1.7	202.55	-1.02	3.4	0.08	1.7	0.14	1.7
2017: Aug	245.52	0.30	1.9	205.89	1.65	6.4	0.42	2.0	0.22	1.7
2017: Sep	246.82	0.53	2.2	215.71	4.77	10.1	0.46	2.2	0.13	1.7
2017: Oct	246.66	-0.06	2.0	207.29	-3.90	6.4	0.08	2.0	0.21	1.8
2017: Nov	246.67	0.00	2.2	209.38	1.01	9.4	0.34	2.2	0.12	1.7
2017: Dec	246.52	-0.06	2.1	206.60	-1.33	6.9	0.20	2.1	0.24	1.8
2018: Jan	247.87	0.54	2.1	210.66	1.97	5.5	0.54	2.1	0.35	1.8
2018: Feb	248.99	0.45	2.2	213.52	1.36	7.7	0.15	2.3	0.18	1.9
2018: Mar	249.55	0.23	2.4	212.55	-0.45	7.0	-0.06	2.4	0.18	2.1
2018: Apr	250.55	0.40	2.5	218.83	2.95	7.9	0.22	2.4	0.10	2.1
2018: May	251.59	0.42	2.8	226.81	3.65	11.7	0.21	2.7	0.17	2.2
2018: Jun	251.99	0.16	2.9	229.14	1.03	12.0	0.13	2.8	0.16	2.2
2018: Jul	252.01	0.01	2.9	227.11	-0.89	12.1	0.17	2.9	0.24	2.3
2018: Aug	252.15	0.06	2.7	226.94	-0.07	10.2	0.22	2.7	0.08	2.2
2018: Sep	252.44	0.12	2.3	226.17	-0.34	4.8	0.06	2.3	0.12	2.2
2018: Oct	252.89	0.18	2.5	225.76	-0.18	8.9	0.33	2.5	0.19	2.2
2018: Nov	252.04	-0.33	2.2	215.91	-4.36	3.1	0.02	2.2	0.21	2.2
2018: Dec	251.23	-0.32	1.9	205.91	-4.63	-0.3	-0.06	1.9	0.21	2.2
2019: Jan	251.63	0.16	1.5	202.02	-1.89	-4.1	0.06	1.5	0.24	2.1
2019: Feb	252.35	0.29	1.3	200.88	-0.57	-5.9	0.01	1.3	0.19	2.1
2019: Mar	253.41	0.42	1.5	205.98	2.54	-3.1	0.14	1.5	0.19	2.1
2019: Apr	254.49	0.43	1.6	210.99	2.43	-3.6	0.29	1.6	0.19	2.2
2019: May	255.45	0.38	1.5	217.03	2.86	-4.3	0.22	1.6	0.19	2.3
2019: Jun	256.14	0.27	1.6	222.43	2.49	-2.9	0.23	1.7	0.19	2.3
2019: Jul	256.01	-0.05	1.6	219.60	-1.27	-3.3	0.10	1.6	0.19	2.2
2019: Aug	256.38	0.14	1.7	219.24	-0.16	-3.4	0.27	1.7	0.19	2.4
2019: Sep	256.59	0.08	1.6	215.56	-1.68	-4.7	0.02	1.7	0.19	2.4
2019: Oct	256.81	0.09	1.6	212.05	-1.63	-6.1	0.24	1.6	0.19	2.4
2019: Nov	256.55	-0.10	1.8	208.09	-1.86	-3.6	0.24	1.8	0.19	2.4
2019: Dec	256.11	-0.17	1.9	203.81	-2.06	-1.0	0.07	1.9	0.19	2.4

NSA: Not seasonally adjusted, SA: seasonally adjusted. MoM is monthly percent change; YoY is year-over-year percent change. Shaded regions represent BofA Merrill Lynch US Rates Research forecast.
Source: BofA Merrill Lynch Global Research

Rolling calendar of business indicators

Monday	Tuesday	Wednesday	Thursday	Friday
4 Feb 10:00 am: Durable Goods Orders – Dec (F) Nov ..... 0.8% Oct ..... -4.3% 10:00 am: Durables Ex Transportation – Dec (F) Nov ..... -0.3% Oct ..... 0.4% 10:00 am: Core Cap Goods Orders – Dec (F) Nov ..... -0.6% Oct ..... 0.5% 10:00 am: Core Cap Goods Shipments – Dec (F) Nov ..... -0.1% Oct 0.8%	5 Feb 8:30 am: Trade Balance – Nov Nov ..... -$53.4B* Oct ..... -$55.5B 10:00 am: ISM Non-Manufacturing Index – Jan Jan. ..... 57.0* Dec ..... 57.6 Nov 60.7	6 Feb MBA Mortgage Applications -(week ending 02/01/19) 8:30 am: Unit Labor Cost – 4Q (P) 4Q(P) ..... 1.2%* 3Q ..... 0.9% 2Q ..... -2.8% 8:30 am: Nonfarm Productivity – 4Q (P) 4Q(P) ..... 2.1%* 3Q ..... 2.3% 2Q ..... 3.0% 8:30 am: Trade balance – Nov Nov ..... -$53.4bn* Oct ..... -$55.5bn Sep ..... -$54.6bn	7 Feb 8:30 am: Initial Jobless Claims -(week ending 02/02/19)	8 Feb 10:00 am: Wholesale Inventories MoM – Dec (F) Nov ..... DLYD Oct 0.8%
11 Feb	12 Feb 6:00 am: NFIB Small Business Optimism – Jan Dec ..... 104.4 Nov ..... 104.8 10:00 am: JOLTS Job Openings– Dec Nov ..... 6888k Oct ..... 7131k 2:00 pm: Monthly Budget Statement – Jan Dec ..... DLYD Nov ..... -$B	13 Feb MBA Mortgage Applications -(week ending 02/08/19) 8:30 am: Consumer Price Index – Jan Dec ..... -0.1% Nov ..... 0.0% 8:30 am: Core CPI – Jan Dec ..... 0.2% Nov 0.2%	14 Feb 8:30 am: Initial Jobless Claims -(week ending 02/09/19) 8:30 am: PPI Final Demand – Jan Dec ..... -0.2% Nov ..... 0.1% 8:30 am: Core PPI – Jan Dec ..... -0.1% Nov ..... 0.3% 8:30 am: Core Core PPI – Jan Dec ..... 0.0% Nov 0.3%	15 Feb 8:30 am: Empire Manufacturing – Feb Jan. ..... 3.9 Dec ..... 11.5 8:30 am: Import Price Index – Jan Dec ..... -1.0% Nov ..... -1.9% 8:30 am: Retail Sales – Jan Dec ..... DLYD Nov ..... 0.2% 8:30 am: Retail Sales ex. Autos – Jan Dec ..... DLYD Nov ..... 0.2% 9:15 am: Industrial Production – Jan Dec ..... 0.3% Nov ..... 0.5% 9:15 am: Capacity Utilization – Jan Dec ..... 78.7% Nov ..... 78.6% 10:00 am: U. of Michigan Consumer Sentiment – Feb (P) Jan (P) ..... 90.7 Dec 98.3
18 Feb Presidents Day	19 Feb 10:00 am: NAHB Housing Market Index– Feb Jan. ..... 58 Dec 56	20 Feb MBA Mortgage Applications -(week ending 02/15/19) 8:30 am: Housing Starts – Jan Dec ..... DLYD Nov ..... 1256K 8:30 am: Building Permits – Jan Dec ..... DLYD Nov ..... 1328K 2:00pm: FOMC Meeting Minutes	21 Feb 8:30 am: Initial Jobless Claims -(week ending 02/16/19) 8:30 am: Philly Fed Index – Feb Jan. ..... 17.0 Dec ..... 9.1 10:00 am: Existing Home Sales– Jan Dec ..... 4.99M Nov 5.33M	22 Feb

*Projections— subject to revision as additional data become available. P – preliminary reading , S – second reading, T – third reading, F – final reading; DLYD – Delayed due to Government shutdown

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Readers should be aware that although the BAC datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data are limited to debit and credit cards and does not include other payment methods such as cash or checks.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. The subsector data are adjusted to control for seasonality and other factors.

The mortgage and commercial loan data may also be subject to selection bias related to income level and region. There are also sample limitations; the data only includes active 1st lien loans and excludes CLD loans (correspondent mortgage lending).

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