



NATIONWIDE RETIREMENT INSTITUTE®

## Monthly Economic Dashboard

### **Financial markets are convinced: growth and inflation are moving higher**

- Recent economic data have been modestly positive, but business and consumer surveys have soared.
- Financial markets continue to react strongly to anticipated faster growth and higher inflation, with stock indices rising to record highs and long-term interest rates jumping to the highest levels since 2014.
- Although the outlook for the economy and financial markets remains more uncertain than usual, we expect pro-growth policies to predominate.
- Whether through faster economic growth late in the business cycle or higher tariffs on imported goods, inflation should rise in coming years – helping to push interest rates higher.

*Find more perspectives inside.*

December 2016

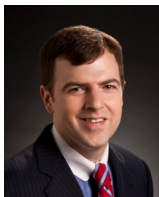
# A clearer view of the economy

The Nationwide Retirement Institute breaks down and simplifies complex topics to help advisors have meaningful and productive conversations with their clients. When it comes to the economic picture, the Institute calls on the experience, perspective and statistical analysis of Nationwide Economics. This assures advisors of a relevant economic perspective that's both easy to use and understand.



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David holds a doctorate in Economics and a master's degree in Public Policy from the University of Michigan. Prior to Nationwide, David served as Chief Economist, Strategist and Head of Risk Analytics for The PMI Group, Inc., and Vice President and Chief Economist for Fannie Mae. David has also served as Chief Financial Economist at Wharton Econometrics and visiting scholar at the Federal Reserve Bank of Kansas City. His government experience has included roles with the President's Council of Economic Advisors, U.S. Treasury Department and the Office of the Special Trade Representative. He is a past President of the National Association for Business Economics.



**BRYAN JORDAN, CFA**  
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Bryan is a frequent author and knowledgeable source on economic topics, and has been featured in The Wall Street Journal and New York Times. Bryan holds degrees in Economics and Political Science from Miami University and has earned the Chartered Financial Analyst designation. He currently serves as Chairman of the Ohio Council on Economic Education and is a member of the Ohio Governor's Council of Economic Advisors, the National Association for Business Economics, and the Bloomberg monthly economic forecasting panel.

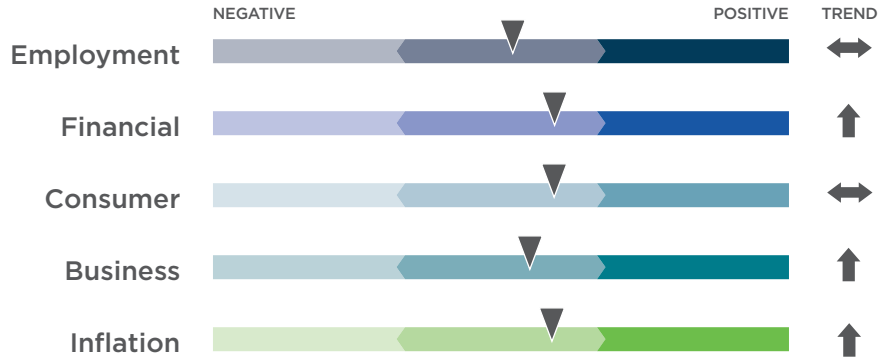


**BEN AYERS, MS**  
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Ben authors periodic economic analyses from the Nationwide Economics team, as well as commentary on key economic topics. Ben is also responsible for understanding and analyzing the enterprise business drivers to assist the strategic planning process. He holds a Master of Science in Economics from the Ohio State University, specializing in applied economic analysis, and a BSBA from the Fisher College of Business at the Ohio State University, with a focus on economics and international business.



### Current overall economic scorecard



Post-election data suggest that investors and consumers are more optimistic about economic growth prospects — with major stock indices climbing to record highs and consumer/business confidence readings rising sharply. While retail sales slowed in November, the upward trend in overall consumer spending, especially for autos and housing, supports a more upbeat outlook for growth. Moreover, the latest ISM business surveys indicate that the private sector is expanding solidly heading into 2017. The Fed’s decision to raise rates in December was widely expected, and long-term interest rates continue to move higher in anticipation of further Fed tightening and higher inflation in coming years.

### Employment

November payroll growth was near the recent trend as job gains maintain a solid pace. The unemployment rate declined to an expansion low, signaling further tightening of the labor market.

	Current	Previous	Year ago
Employment growth - Nov	178,000	142,000	280,000
Unemployment rate - Nov	4.6%	4.9%	5.0%

### Financial

The post-election surge in equity prices pushed domestic stock indices to record highs due to investor optimism and the prospect of faster economic growth. Long-term interest rates moved up as well as markets anticipate faster economic growth, more Fed tightening, and higher inflation — causing the yield curve to steepen further.

	Current	Previous	Year ago
Yield curve - Dec	1.59 pp	1.38 pp	1.59 pp
BAA Credit spread - Dec	2.41 pp	2.60 pp	3.21 pp
CBOE market volatility - Dec	12.78	15.50	18.05
S&P 500 stock Index - Dec	2,230	2,160	2,054

### Consumer

Retail sales surprisingly slowed in November, although consumer fundamentals remain positive. Total home sales climbed to an expansion higher in October, while consumer sentiment spiked in November due to improved growth expectations.

	Current	Previous	Year ago
Retail sales growth - Nov	0.1%	0.6%	0.4%
Total home sales - Oct	6.16 M	6.06 M	5.77 M
Consumer sentiment - Dec	98.0	93.8	92.6

### Business

The ISM business surveys each rose to a year-high in November, suggesting that private sector growth is strong heading into 2017. Small business optimism was up sharply in November, but it remains at a relatively low level for an expansion.

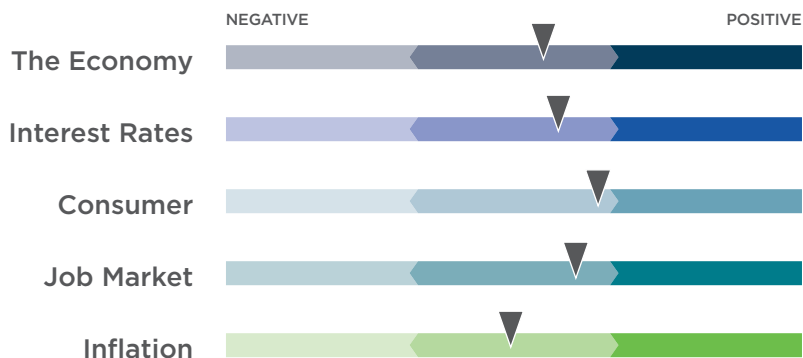
	Current	Previous	Year ago
ISM Manufacturing - Nov	53.2	51.9	48.4
ISM Nonmanufacturing - Nov	57.2	54.8	56.6
NFIB small business optimism - Nov	98.0	94.9	94.5

### Inflation

Energy price increases again helped to push up overall inflation in November. The core CPI climbed by 0.2 percent, keeping the year-to-year gain just above the Fed’s goal at 2.1 percent.

	Current	Previous	Year ago
Consumer Price Index (CPI) - Nov	0.2%	0.4%	0.1%
Core CPI - Nov	0.2%	0.1%	0.2%

### Future overall economic scorecard



The path of economic activity and financial markets is more uncertain than usual in the wake of the elections. Proposed economic policies for tax cuts, infrastructure spending, and less regulation should all be positive for growth and higher inflation. These, in turn, suggest that interest rates should rise along with likely further gains in broad stock indices. But the potential for protectionist trade policies and tighter immigration rules could result in slower growth along with higher inflation. We expect that much of President-elect Trump's growth agenda will come to pass, as is reflected in our forecast, but there is a meaningful downside risk that protectionist and anti-immigration policies could be enacted.

### The Economy

Assuming that most of the Trump pro-growth agenda is enacted, we expect that real GDP will be a bit faster than previously expected. There is a risk of slower growth with negative trade and immigration policies, however.

	2015	2016 F	2017 F	2018 F
Real GDP growth	2.6%	1.7%	2.5%	2.9%

### Interest Rates

Again assuming that most of the Trump pro-growth agenda is enacted, interest rates are expected to climb over the next several years. We expect the Fed to tighten two or three times in 2017, with more in following years, helping to push long-term rates up.

	2015	2016 F	2017 F	2018 F
Federal funds rate	0.20%	0.50%	1.00%	2.00%
10-year Treasury note	2.27%	2.50%	2.85%	3.45%

### Consumer

Job gains, wage growth, and household formations should be healthy over at least the next couple of years with stronger top-line economic growth. This should help consumers maintain a solid pace of spending.

	2015	2016 F	2017 F	2018 F
Total home sales	5.76 M	6.00 M	6.30 M	6.25 M
Light vehicle sales	17.4 M	17.5 M	17.4 M	17.3 M

### Job Market

Payroll growth has been solid, but it is slowing as the economy is in the eighth year of expansion. If policies support faster economic growth, then job gains should remain healthy in coming years – but potential changes to immigration policy could slow gains.

	2015	2016 F	2017 F	2018 F
Average job growth	229,000	180,000	170,000	150,000
Unemployment rate	5.3%	4.9%	4.5%	4.4%

### Inflation

Core inflation has been trending higher as labor and product markets tighten further. Economic policy changes discussed during the election are likely to boost inflation even higher – probably above the Fed's 2.0 percent goal by next year.

	2015	2016 F	2017 F	2018 F
Consumer Price Index (CPI)	0.4%	1.9%	2.5%	2.8%
Core CPI	2.0%	2.2%	2.5%	2.6%

# Glossary

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**CBOE** — Chicago Board Options Exchange

**BAA Credit Spread** — Spread between 10-year Treasury note and BAA-rated corporate bond rates

**CPI** - Consumer Price Index

**E** — Estimate; **F** — Forecast

**ECB** — European Central Bank

**EU** — European Union

**FOMC** — Federal Open Market Committee

**GDP** — Gross Domestic Product

**ISM** — Institute for Supply Management

**Market Volatility Index (VIX)** — Measure of implied volatility in the S&P 500 stock index

**NFIB** — National Federation of Independent Business

**pp** — Percentage points

**Trend arrows** — Predominant directional movement over the past 3-6 months

**Yield Curve** — Spread between the 1-year and 10-year Treasury note rates



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