U.S. Macro Forecast Summary | Q3 2018

CBRE

Forecast Summary

	2014-16	2017	2018	2019	2020	2021	2022	2023-27
GDP Growth (annual average)	2.3	2.2	2.9	2.7	1.9	0.1	2.3	2.1
CPI Inflation (Q4)	1.1	2.1	2.3	2.2	2.2	1.6	1.6	1.9
Core PCE Inflation (Q4)	1.5	1.6	2.0	2.2	2.0	1.4	1.4	1.8
Fed Fund Rate (Q4)	0.2	1.2	2.2	3.3	2.8	1.2	1.4	2.2
10-Year T.Bonds Yield (Q4)	2.2	2.4	3.1	3.3	2.7	2.1	2.5	2.8

Figure 1: U.S. GDP Growth

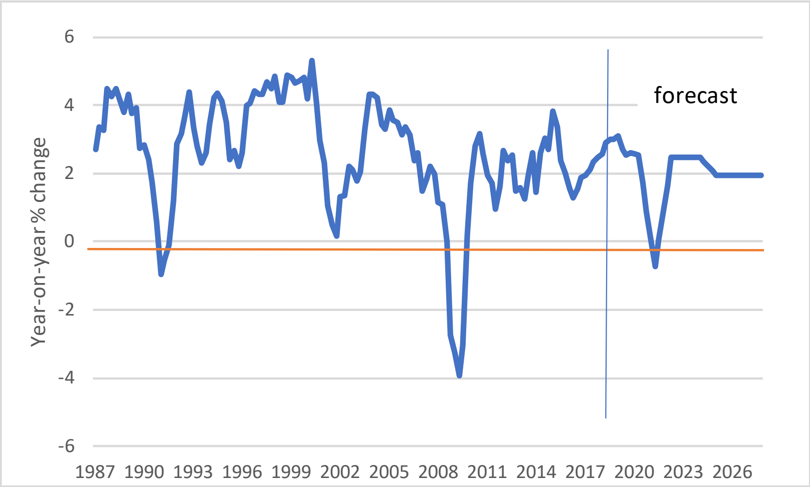
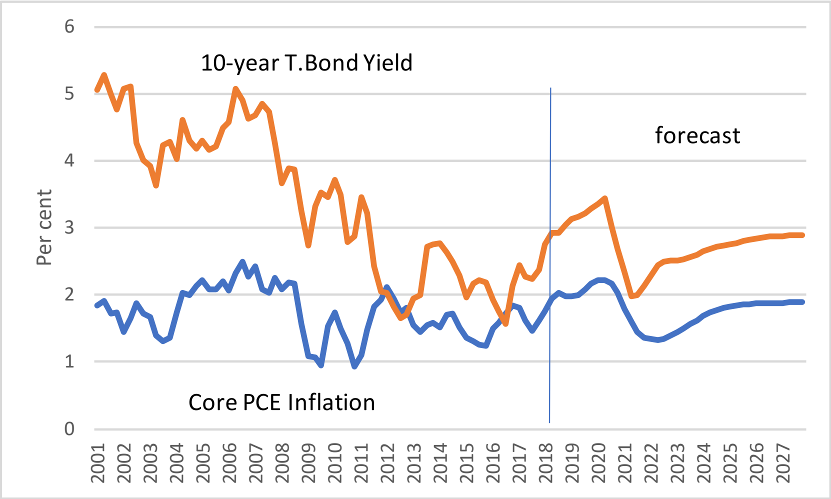


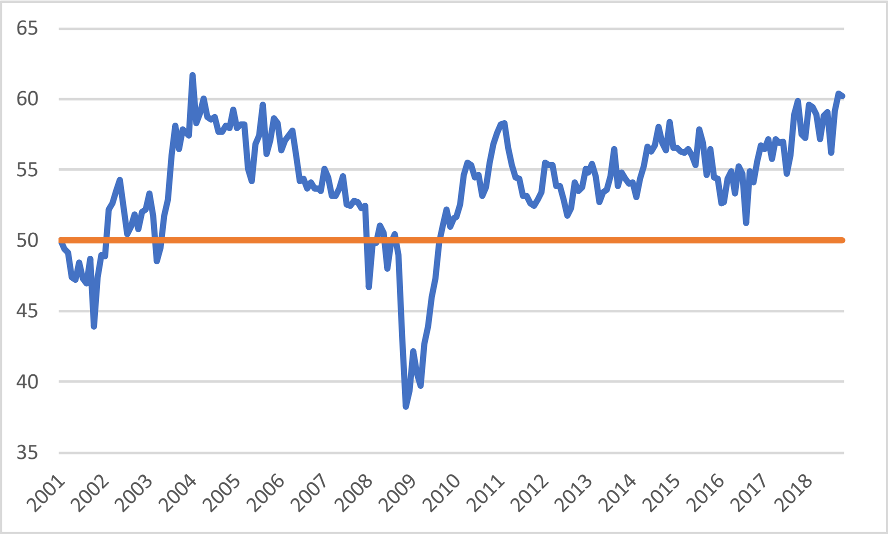
Figure 2: Inflation & Interest Rates



The Current Situation

- To date, 2018 has been characterized by buoyant economic growth driven by strong corporate and consumer confidence
- Underpinning this are a fiscal expansion and the impact of ongoing rises in employment based on consumer confidence and early signs of recovering wage growth
- Non-farm payrolls continue to average monthly growth near 200,000, despite a very low unemployment rate.
- Some indicators have been dented by concern over trade disputes, higher interest rates and stock market corrections, but most recent survey data remains highly positive compared to historical averages

Figure 3: U.S. Composite PMI[1]



2019 through H1 2020

- Growth moderates from 2018 rates but remains reasonable, driven by the remaining impact of the fiscal boost, the capital spending cycle and high consumer confidence. However:
  - Rising interest rates (long and short) begin to drag on confidence and activity, as do:
  - Further equity market volatility and the possibility of a major correction in 2019
  - International risk factors (see below)

[1] Based on ISM. Weighted average of manufacturing and non-manufacturing; seasonally adjusted. Extrapolated to October 2018 with reference to the Markit Composite PMI.

H2 2020 through 2023

- A correction/slowdown in mid-2020 is a reaction to higher interest rates, equity market corrections, credit market problems and international risk factors (see below)
- The slowdown will be relatively mild and short—more like 1991 and 2001 in severity than like 2008-9
- Although the economy turns down in Q3 2020 in annual terms, 2021 is the weakest year
- Inflation falls as the economy slows
- Interest rates peak before the downturn and then fall steeply over H2 2020-2022 as inflation falls and the economy contracts
- Lower interest rates and the easing of previous tensions permit a rapid bounce-back from H2 2021. Unlike in the GFC, the financial system does not suffer long-term damage, and this helps to facilitate the bounce-back

2024-2027

- The forecast returns to "trend" from 2024
- Inflation and interest rates gradually return to their long-term levels
- This is not the end of the economic cycle in the U.S., but it is the end of our attempt to forecast it! In any case, the recovery period will probably last well beyond 2027

Risks to the Outlook

At present, most risks appear to be skewed to the downside, particularly if one or more hit at the same time:

1. A hit to the Chinese economy or global trade, from a further round of tariffs
2. An emerging market default
3. Inverted U.S. yield curve
4. Stock market correction
5. Italian/Eurozone crisis

…but our view, based on historical experience and analysis, is that these are leading indicators of a downturn beginning in about 18 months—not of an imminent downturn.

The major upside risk is that inflation falls in the U.S. and that the Fed's policy normalization activity is relaxed, leading to a very extended cycle. This would still be accompanied by a mild slowing of growth in 2019, but would have the major advantage of avoiding the bigger slowdown that we have pencilled in for H2 2020.

Richard Barkham/Neil Blake/Nikhil Mohan 11/2/18