

Central Banking Series:

Inflation Expectations, Implications & Policy Response in a New Paradigm
for Commodities in partnership with the Banque de France

Paris – March 21, 2016

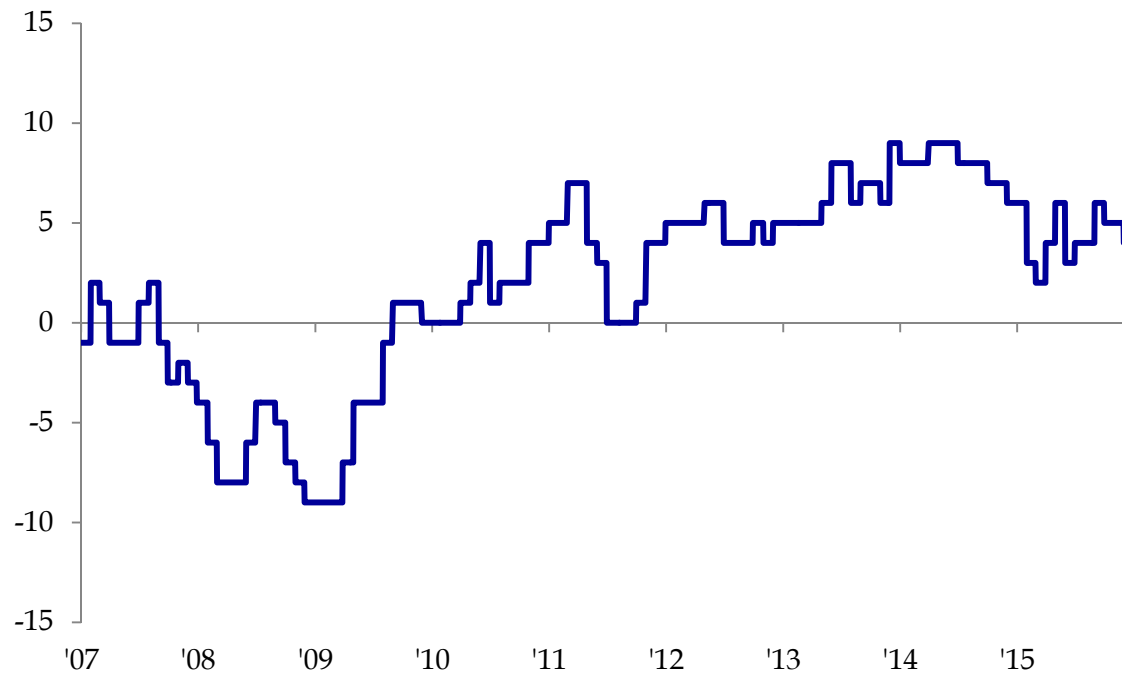
U.S. Economic Highlights
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Strategas Research Partners

Economic Data Has Been Mixed

- Investors have been uncomfortable.
- Mixed data doesn't last long.
- The cause of the mixed data tied to energy.
- Falling energy prices do not lead to a U.S. downturn.

Mixed Data

Strategas Economic Balance Sheet Diffusion Index



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Mixed Data

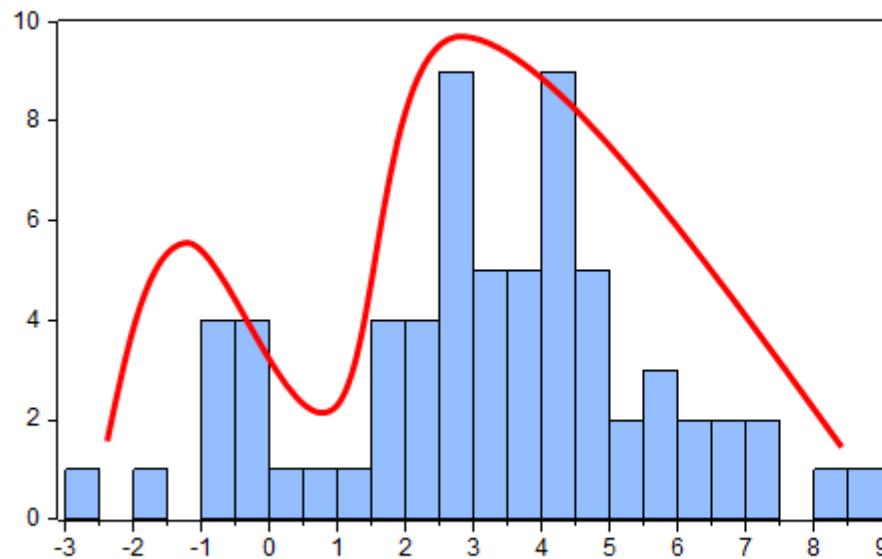
<u>Assets</u>	<u>Neutral</u>	<u>Liabilities</u>
Credit Environ	Price Inflation	Mfg.
Employment	Trade Deficit	Capex Eqp
Interest Rate Exp.	Nonres Constr.	
Cons. Spending	Business Conf.	
Housing	Cons Conf.	
Govt Deficit	Wages	

Economic:	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
Assets	6	4	3	4	6	4	5	5	6	6	6	6	6
Liabilities	0	1	1	0	0	1	1	1	0	1	1	2	2
Net	6	3	2	4	6	3	4	4	6	5	5	4	4

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Mixed Data Doesn't Last

U.S. Real GDP Growth 1948-2014

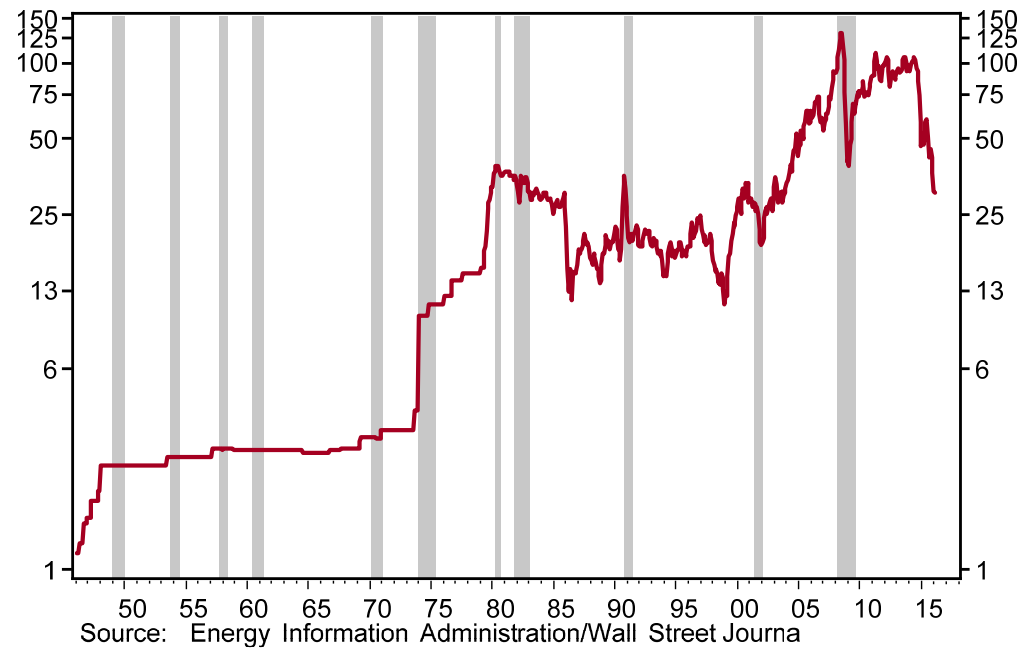


The U.S. economy typically doesn't stay "flat" for long.

Mixed Data – Due to Commodities

Spot Oil Price: West Texas Intermediate [Prior'82=Posted Price

\$/Barrel



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Thought Experiments

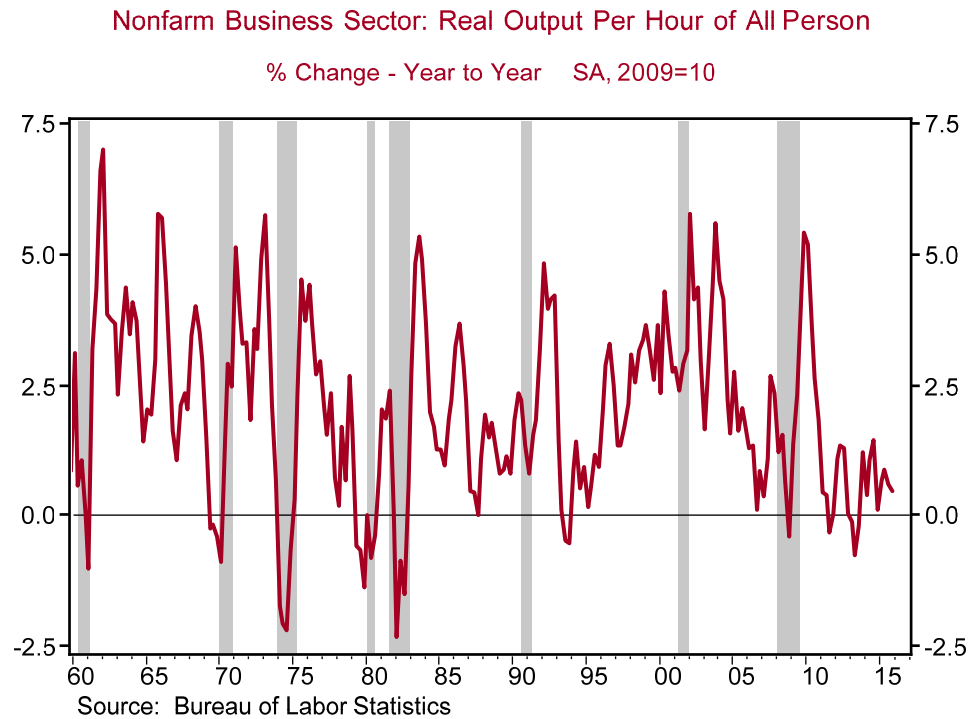
- Oil at \$100 -> \$150, vs. \$100 -> \$50.
- Which way have macro models missed?

U.S. Economy Getting to Full Employment



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Productivity Data Key from Here



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Productivity Data Key from Here

	<u>2015</u>	<u>2016 est</u>	<u>2017 est</u>
Wages	2.6%	3.0%	4.0%
<i>minus</i>			
Productivity	0.5% → 1.3%	1.3%	1.3%
<i>equals</i>			
Unit Labor Cost (ULC)	2.1%	1.7%	2.7%
<hr/>			
Prices (P)	1.2%	2.0%	2.2%
P - ULC	-0.9%	0.3%	-0.5%
Data through 2015:4q, <u>est</u> = estimate			