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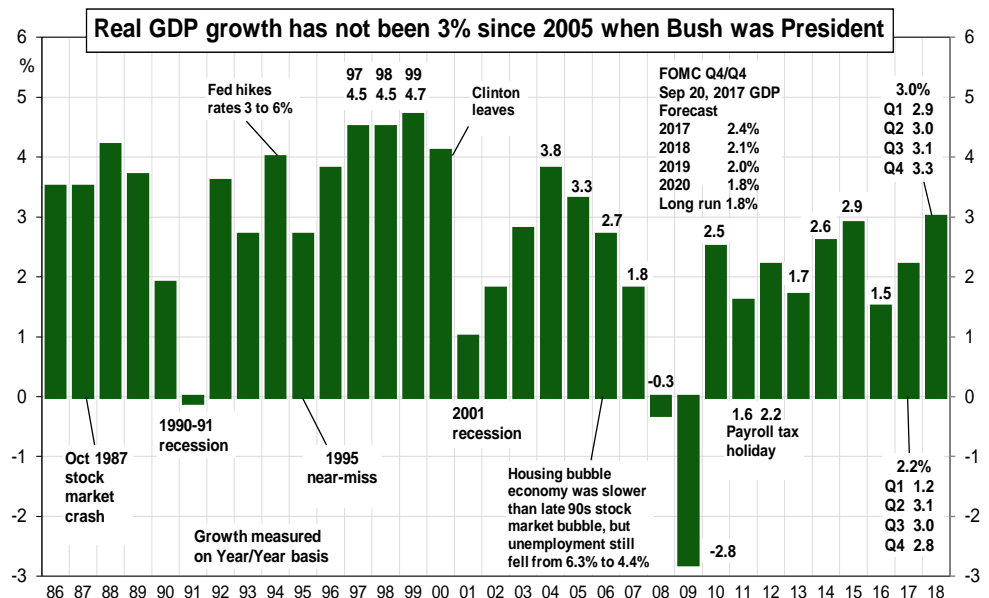
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3% GROWTH, TWO IN A ROW FOR TRUMP ECONOMICS TEAM. LET THE GOOD TIMES ROLL.

Breaking economy news. First look at third quarter GDP. Give credit where credit is due. Trump's economics team has been steering the country since January, and the economy has hit the Administration's 3% target two quarters in a row. 3.0% growth tops expectations of 2.6%, and nearly matches the 3.1% rate in the second quarter.

This economy in its ninth year of expansion shows no sign of tiring and turning down and may outlast the ten years of growth during the Clinton presidency.



It's not all spectacular and a very, very nice report. But it's okay so far as it goes. It will be hard to see 3% again in the fourth quarter. Real consumer spending was 2.4%, respectable, but not the 3.3% consumption of the second quarter. Consumer spending was looking even weaker than 2.4% until September car sales zoomed to an unexplainable 18.5 million annual rate from 16.0 million in August. Sales should settle back somewhere at the 17.0 million average over the first nine months this year. Also the GDP report lacked some oomph in final demand. There was quite a buildup of inventories which could subtract from growth in future quarters and shows growth is not all demand-driven. Without inventories, growth was 2.3% this quarter versus 3.0% the prior quarter. Inventories were the biggest miss for most economic forecasters this quarter. Anyway, the point being, inventory accumulation doesn't count as durable, sustainable growth as the IMF says.

But demand looks strong, fairly strong if your glasses are half full and we don't mean the ones on your faces that allow you to see what is really going on. Demand looks strong for investment, remember Fed Vice Chair Fischer before he left the building said one of the reasons interest rates were not higher was due to weak investment, not enough demand for capital and all that. Well, equipment purchases are going gangbusters for a second straight quarter even before Washington tax reform allows companies to immediately write-off such purchases. Equipment investment is 8.6% at an annual rate in Q3 2017 matching Q2 2017's 8.8% advance. Business investment spending on offices and warehouses and factories looks like it has peaked though, they've been building for years now. Spending on structures overall fell 5.2% in Q3 2017 after the last hurrah perhaps of plus 7.0% in Q2 2017.

	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17p
REAL GDP	2.8	1.8	1.2	3.1	3.0
REAL CONSUMPTION	2.8	2.9	1.9	3.3	2.4
CONSUMPTION	1.9	2.0	1.3	2.2	1.6
Durables	0.7	0.7	0.0	0.6	0.6
Nondurables	0.0	0.4	0.2	0.6	0.3
Services	1.2	1.0	1.2	1.1	0.7
INVESTMENT	0.4	1.3	-0.2	0.6	1.0
Business Plant	0.4	-0.1	0.4	0.2	-0.2
& Equipment and	-0.1	0.1	0.2	0.5	0.5
Intellectual Property	0.2	0.0	0.2	0.2	0.2
Homes	-0.2	0.3	0.4	-0.3	-0.2
Inventories	0.2	1.1	-1.5	0.1	0.7
EXPORTS	0.7	-0.5	0.9	0.4	0.3
IMPORTS	-0.4	-1.1	-0.6	-0.2	0.1
GOVERNMENT	0.1	0.0	-0.1	0.0	0.0
Federal defense	0.1	-0.1	-0.1	0.2	0.1
Fed nondefense	0.0	0.1	0.0	-0.1	0.0
State and local	0.0	0.1	0.1	-0.2	-0.1
Below line: Percentage point contributions to Q3 17 3.0% real GDP					
Second estimate for Q3 is Wednesday, November 29					

Net, net, the economy is rocking and rolling along at a good rate of advance that even the hurricanes down south couldn't blow off course. The new administration has been a little unsteady, has yet to execute its fiscal stimulus plans, but the economy sure is not. No fiscal stimulus yet but the economy's engines continue to roar for a second straight quarter. Makes you wonder what will happen if consumers and businesses get their tax cuts. Tax reform could shift the economy into a higher gear.

Maybe we pooh-poohed the double GDP growth claims of some of the candidates during the presidential election too hastily. 4% that is double the 2% "potential" growth rate may be not be as far-fetched as the markets thought. The growth numbers today are strong enough and the outlook is solid as we move deeper into the fourth quarter. The growth numbers today show the economy is winning and will cement the case for a third rate hike by the Federal Reserve this year. Faster growth means higher interest rates in the Fed's models and even low inflation worries will not stop the Fed from moving rates up in December. The economy is better than you think. Bet on it.

Business Investment Spending			
in the real GDP accounts			\$Bln
Q3 2017 \$bln	Level	% YOY	YOY
Equipment	1104.5	5.9	61.1
Intellectual Property	753.2	3.3	24.2
Construction			
Business structures	469.7	3.3	15.1
Mining, shafts, wells	91.1	77.2	39.7
Other	378.6	-6.1	-24.6
Residential housing	585.0	0.9	5.2
Total	2909.4	3.6	101.2

\$BLN Nominal GDP expenditures	Q4 15 YOY%		Q1 16	Q2 16	Q3 16	Q4 16 YOY%		Q1 17	Q2 17	Q3 17	Annual rate
	Level	%				Level	%				
Equipment & Intellectual Property	1815.4	3.4	1786.6	1802.5	1803.4	1808.0	-0.4	1835.0	1870.5	1903.3	7.0%
EQUIPMENT	1083.5	3.0	1046.2	1044.3	1040.9	1044.3	-3.6	1057.6	1082.3	1105.4	7.8%
Information processing equipment	307.1	1.6	299.1	302.6	306.8	307.1	0.0	310.8	319.3	329.4	9.7%
Computers	74.4	-9.4	73.2	73.9	73.4	72.1	-3.1	72.8	80.1	86.4	26.4%
Other processing equipment 1	232.7	5.7	225.9	228.7	233.4	235.0	1.0	238.1	239.2	243.0	4.5%
Industrial equipment	224.0	3.2	220.6	224.4	226.0	229.0	2.2	234.3	241.7	245.5	9.6%
Transportation equipment	305.7	10.0	290.4	291.8	283.3	281.3	-8.0	282.6	283.5	287.5	2.9%
Other equipment 2	246.7	-3.2	236.0	225.5	224.9	226.9	-8.0	229.9	237.8	243.0	9.5%
INTELLECTUAL PROPERTY	731.9	4.0	740.4	758.2	762.5	763.7	4.3	777.4	788.2	797.9	6.0%
Software	337.8	4.0	344.4	351.6	356.1	359.1	6.3	363.2	370.6	375.8	6.2%
Research & Development (R&D)	312.8	3.2	314.3	324.6	323.6	320.8	2.6	329.5	332.2	335.7	6.2%
Entertainment, literary, artistic	81.3	7.1	81.7	82.1	82.9	83.7	3.0	84.7	85.4	86.4	4.3%

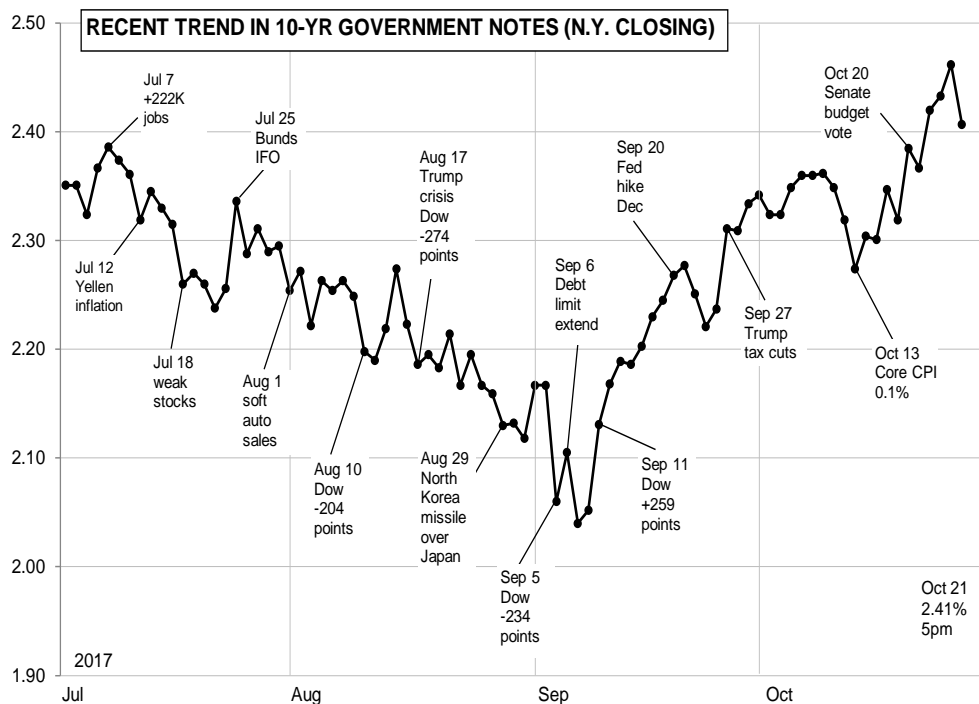
1 Communication, medical, photocopy, office and accounting equipment; nonmedical instruments

2 Furniture; agriculture, construction, mining/oilfield, and service industry machinery; electrical equipment

MARKETS OUTLOOK

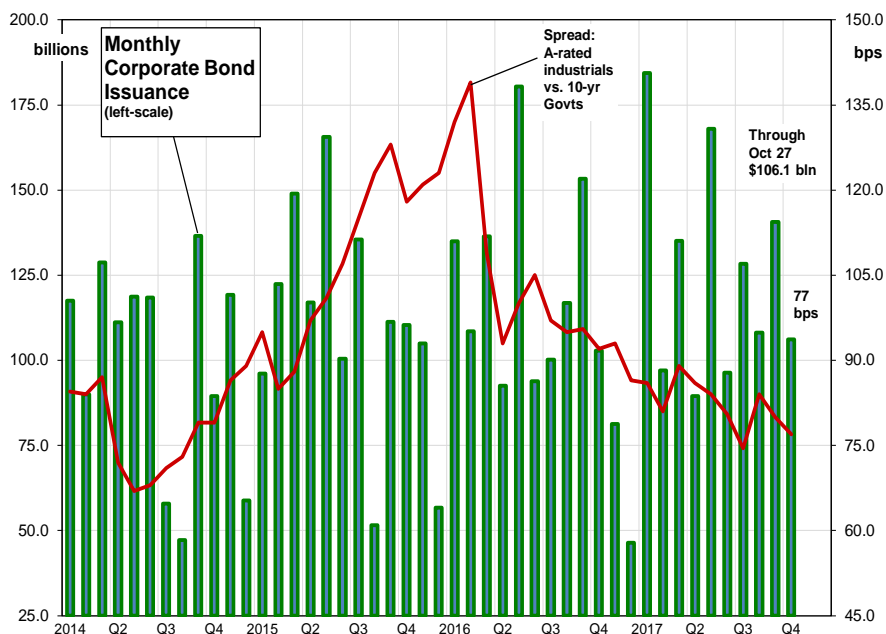
	29-Sep 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q1 2020
30-Yr Treasury	2.86	3.10	3.20	3.40	3.60	3.70	3.80	4.00	4.10	4.10	4.10	4.20
10-Yr Note	2.33	2.50	2.70	3.00	3.20	3.40	3.50	3.70	3.80	3.90	3.90	4.00
5-Yr Note	1.94	2.10	2.40	2.70	3.00	3.20	3.30	3.50	3.60	3.70	3.70	3.90
2-Yr Note	1.48	1.60	1.85	2.10	2.40	2.60	2.85	3.10	3.35	3.35	3.60	3.85
3-month Libor	1.33	1.65	1.90	2.20	2.45	2.70	2.95	3.20	3.45	3.35	3.70	3.95
Fed Funds Rate	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.25	3.50	3.75
2s/10s spread	85	90	85	90	80	80	65	60	45	55	30	15

10-year Treasury yields closed Friday at 2.41%. It closed 2.46% Thursday when the House passed the Senate budget. Thankfully the market will no longer torture itself over the pick of the new Fed Chair. The reality is the economy will drive the decision-making. It is true the Fed Chair has controlled and won every debate over policy, but even that can change with a newly emboldened board and more vocal presidents. Politics and close votes are increasingly the norm in America, it is just late in reaching the Fed



CORPORATE BONDS: HONEYWELL, AMERICAN EXPRESS, SCHWAB

Corporate offerings were \$37.1 billion in the October 27 week versus \$20.4 billion in the October 20 week. On Monday, Proctor & Gamble sold \$1.8 billion 2s/3s/30s. It priced \$600 million 3.5% 30-yrs (m-w +10bp) at 68 bps (Aa3/AA-). The global consumer products company will use the proceeds for general corporate purposes. Corporate bonds (10-yr Industrials rated A2) were 77 bps above 10-yr Treasuries this week versus 78 bps last Friday.



FEDERAL RESERVE POLICY

The Fed meets October 31 – November 1 to consider its monetary policy. There is a good chance the new Fed Chairman will be announced by Trump before they issue the press release at 2pm EDT next Wednesday. A press conference will probably be called at the White House at 2pm the same day for Trump to make his dramatic announcement. Make sure you have an [Instagram account](#). How will the naming of a new Fed Chair affect the November decision? The Fed is very collegial and we are sure a majority of the members do not see that there will be any material change in the way they

do things down there despite a new Chairman. It should not make any difference. It would not make any difference until the new Chairman gets in there and they start doing new forecasts for rates and GDP growth and inflation. Not until March 2018 these forecasts.

What is the Fed going to do on Wednesday, November 1? Nothing. What do you expect given rates were cut to 0.25% back in December 2008 and are still low at 1.25% today years and years later. We should be giving thanks the market still thinks a rate hike in December is coming even though core PCE inflation is low at 1.3%. The odds of a December Fed rate hike closed the week at 84% tonight.

So what do we think about the Fed's press statement at 2pm on Wednesday November 1? Assuming Halloween's Eve the night before on October 31 doesn't affect the outcome. Policymakers out trick-or-treating after private dinners following the first day of this month's meeting. Trick or Treat, this meeting? Well, they've met their employment objective in spades, so the focus is all on inflation 24/7. They are watching inflation like a hawk, not because it might move higher with a tight labor market and historically low 4.2% unemployment rate, but because they are concerned low inflation may mean something more negative about the overall strength of the economy going forward.

Yellen's recent comments still suggest uncertainty about just what is causing the so-called low inflation. We think low inflation still has the potential to scuttle some of those rate hikes next year if it doesn't get back closer to the 2% target. It looks like core PCE inflation will be 1.3 or 1.4% in September year-on-year, and that is low enough to put an early rate hike in 2018 in doubt if price pressures do not heat up.

The most recent press statement said the Committee is monitoring inflation developments closely. We're not expecting it, but if they escalated the inflation worry by saying they are monitoring inflation "very closely," then it might signal the median rates forecasts could come down at the December meeting. The median long term Fed funds rate dropped from 3.0 to 2.75% in the September forecasts, it might come down another notch in December if core inflation doesn't move back above the 1.5% rate the committee sees in Q4 2017.

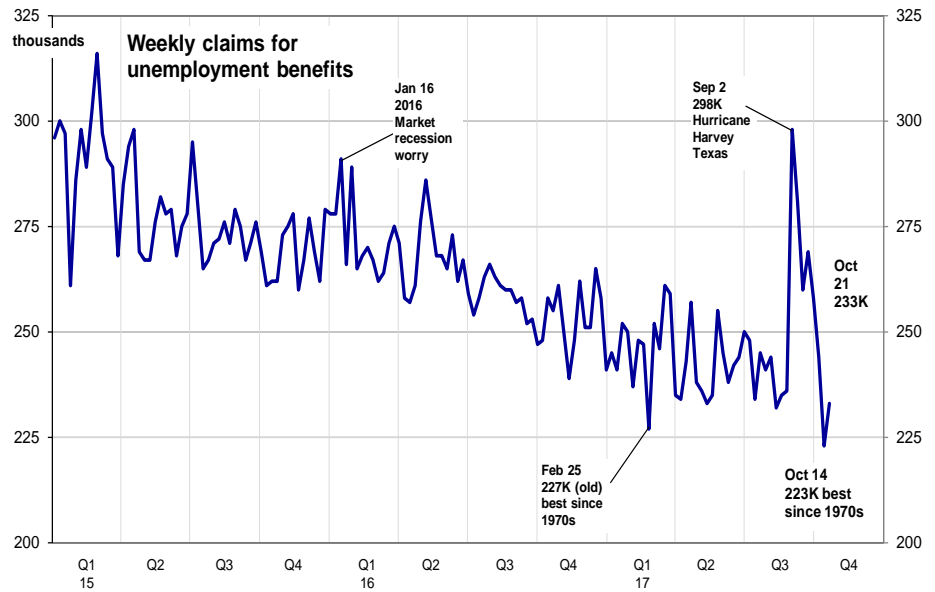
Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	25-Oct	18-Oct	11-Oct	4-Oct	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2465.727	2465.641	2465.554	2465.467	479.782
Federal agency debt securities	6.757	6.757	6.757	6.757	0.000
Mortgage-backed securities	1770.563	1777.945	1768.160	1768.160	0.000
Primary credit (Discount Window)	0.015	0.009	0.000	0.000	23.455
Term auction credit (TAF auctions)	0.000	0.000	0.000	0.000	150.000
Asset-backed TALF	0.000	0.000	0.000	0.000	
Maiden Lane (Bear)	1.711	1.705	1.706	1.707	29.287
Maiden Lane II (AIG)	0.000	0.000	0.000	0.000	0.000
Maiden Lane III (AIG)	0.000	0.000	0.000	0.000	0.000
Central bank liquidity swaps	0.037	0.035	0.036	3.620	62.000
Federal Reserve Assets	4508.2	4516.6	4506.3	4507.0	961.7
3-month Libor %	1.37	1.36	1.36	1.35	2.82
Factors draining reserves					
Currency in circulation	1584.028	1585.186	1585.496	1582.848	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	112.057	121.457	129.805	178.738	0.000
Reserve Balances (Net Liquidity)	2241.618	2255.104	2267.739	2228.518	24.964
Treasuries within 15 days	8.701	8.701	0.000	0.000	14.955
Treasuries 16 to 90 days	39.496	39.494	45.116	45.116	31.549
Treasuries 91 days to 1 year	321.809	321.808	324.884	324.881	69.272
Treasuries over 1-yr to 5 years	1133.435	1133.422	1133.408	1133.395	170.807
Treasuries over 5-yrs to 10 years	328.941	328.922	328.902	328.882	91.863
Treasuries over 10-years	633.345	633.294	633.243	633.192	101.337

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

OTHER ECONOMIC NEWS THIS WEEK

Unemployment claims remain low following hurricanes

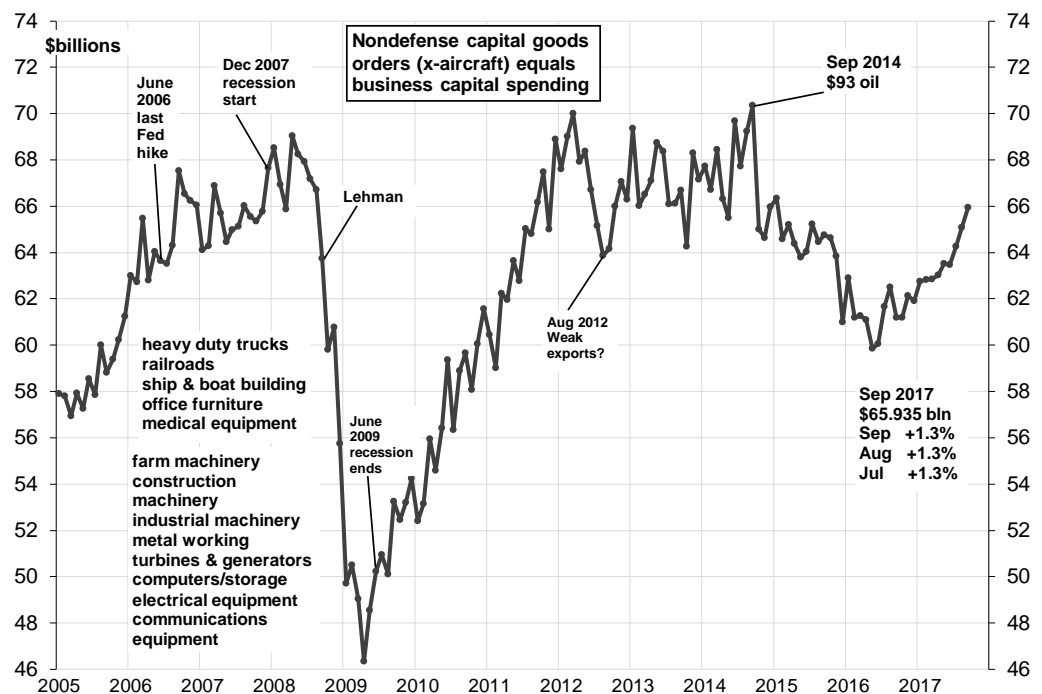
Unemployment claims rose 10K to 233K in the October 21 week. Hurricane Harvey hit Texas in the September 2 week, and Hurricane Irma hit Florida in the September 16 week, but claims fell back quickly. Payroll jobs fell 33K last month, most of the weakness was from the 104K drop in bar and restaurant employment. Consensus payroll jobs due out November 3 look high at +300K. Anything can happen, but the jobs recovery or restart from Hurricane Katrina in 2005 was more gradual.



Durable goods orders revved up the economy in the third quarter

Breaking economy news. Business isn't waiting for a tax break from Washington to order more equipment and invest now for growth in the future. Durable goods orders jumped 2.2% in September

today, beating the expectations for a 1.0% rise. Nondefense capital goods orders ex-aircraft, our proxy for monthly business investment, jumped 1.3% in September moving to new post-oil-crash highs. Everything is jumping this year for durable goods orders relative to last year with primary metals up 11.0%, fabricated metal products up



9.2%, machinery up 6.3%, computers and electronics products up 2.9%, and transportation equipment up 4.6%. Up, up, up, this economy's going higher. Don't ask why stock prices are higher this year, the economy is going gangbusters. The economy's success is not all about GDP.

Net, net, business is ordering more equipment stoking the fires of investment that help make the economy turn faster and brightening the economic outlook for the rest of this year. The great crash in world commodity prices in 2014 and 2015 caused many companies to shelve their plans for new investment and machinery. But now investment is back as commodity prices have weathered the storm and are on the upswing. There isn't a single area in the world that isn't moving forward at the moment, and they need American manufacturers' machinery and equipment to help build their economies now for a better tomorrow. Export demand is surging.

The Fed can continue to remove its monetary stimulus confident that investment is heating back up after the downturn in orders and shipments a couple of years ago. It all means that the economy still has life even if the expansion is in its ninth year because greater investment always presages greater consumer spending. Businesses don't invest in the future if they don't think consumers will be there to buy their goods and services. The odds of a December rate hike by the Federal Reserve remains higher than 80% which gives a green light for Washington officials to just do it. The economy is stronger than you think. Bet on it.

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