

# WEEKLY ECONOMIC COMMENTARY

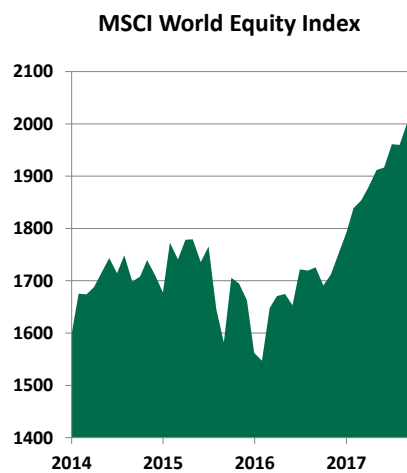
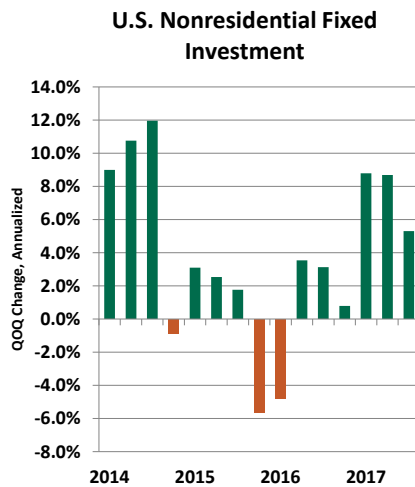
## IN THIS ISSUE:

- Things We Are Thankful For

*Editor's note: we are publishing a bit early this week, anticipating that many will be enjoying a long Thanksgiving weekend with family and friends. In the spirit of the holiday, we humbly offer a handful of things we are grateful for.*

- We're thankful for this year's economic growth in the U.S., which has exceeded most expectations. A soft first quarter has been followed by two quarters in which real activity expanded at an annual pace exceeding 3%. Early indications suggest the fourth quarter could extend this streak; holiday sales are forecast to beat last year's level by more than 4%.

It's rare to see momentum of this kind so late in an economic expansion, especially considering that America's long-run potential rate of economic growth is around 2%. After stagnating for 2½ years, real business investment has risen by almost 6% over the past four quarters. The returns from these investments could improve productivity growth, which has been disappointing during the current cycle.



Sources: Haver Analytics, Bloomberg

- We're grateful for this year's market performance, which has been outstanding. There is some risk of jinxing things by expressing our feelings before the final trading day of the year, but asset price appreciation will likely be the top economic theme of 2017. The wealth effects generated by investment gains could be a substantial tailwind for growth in 2018.

But as pleased as investors should be, the current state of markets has also generated a fair share of anxiety. As valuations increase and capital continues to pour into sectors that may already be stretched, prospective returns may come under pressure. Jim McDonald, our chief investment strategist, looked at this issue in his recent piece "[Valuation Sensitivity.](#)"

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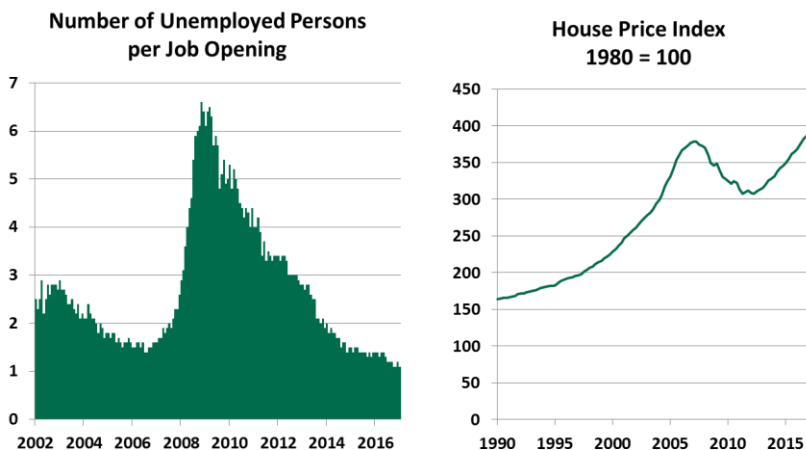
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- We're thankful for ongoing economic opportunity. As has been widely reported, the U.S. unemployment rate has reached a low level not seen since 2000. The Bureau of Labor Statistics' Job Openings and Labor Terminations Survey (JOLTS) shows we have reached a record low ratio of unemployed persons per job opening. Most Americans who want jobs have found them.

Global employment conditions have improved, but not uniformly.

On the whole, Europeans, Britons and Australians (to name just a few) are also enjoying much better labor market conditions. But within countries, the picture is not so rosy for all workers in all geographies. We hope employment gains become more widespread in the new year.



Sources: U.S. Bureau of Labor Statistics, U.S. Federal Housing Finance Agency

- We are thankful the U.S. has left its depressed housing market behind. Earlier this year, the house price index reached a level that exceeded the property values seen at the height of the last cycle. Over the last two quarters, the homeownership rate has begun to improve as more people chose to buy homes.

Early interventions like the Home Affordable Refinance Program and tax credits for first-time homebuyers failed to sustain life in this sector. Now, banks are reporting lower levels of real estate owned on their balance sheets, and mortgage delinquencies are at historic lows. This recovery of the residential sector is crucial, as homeownership is valuable to both individuals and communities.

- We're thankful European countries can soldier on without formal governments in place. This weekend, talks aimed at forming a ruling coalition in Germany broke down, further diminishing Chancellor Angela Merkel. The civil service will keep the country running just fine, as it did during Holland's interregnum (more than seven months) and as it continues to do in Italy (nine months without a prime minister).

But German leadership will be critical to the Brexit negotiations and any reform of the European Union. While populists have thus far failed to gain political leadership, they remain a powerful force. EU leaders need to speak with a coordinated voice to prevent the advance of nationalism; this will be difficult without strong leadership from Berlin.

- We're thankful someone has come up with the idea for a "second tier" World Cup. A number of prominent countries failed to qualify for next summer's soccer tournament in Russia, including the Netherlands, Chile, Italy and the United States. To make things more interesting, the winner

of what some are calling “The Outsider’s Cup” could be offered an automatic place in the 2022 World Cup (just as the Europa League winner earns a place in the following year’s Champion’s League draw).

The alternative competition would present a chance for fans of countries which missed the main draw to take a look at the next generation of talent. And some television network, somewhere, might like the additional content.

- We should all be thankful for the service Janet Yellen has given to the Federal Reserve and the global economy. On Monday, Yellen announced her intention to leave the Fed’s Board of Governors when her successor as chair is sworn in (likely next February 1).

Yellen’s public service spans 23 years, including positions at the Board of Governors and leadership of the San Francisco Fed during the financial crisis. She became the first woman to chair the Fed Board in 2014. Her track record of economic performance will be a tough act for Jerome Powell to follow.

- I’m personally thankful I only have one more business trip to take this year. I generally enjoy the traveling; the conversations with clients and partners are of high quality, and I occasionally have the opportunity to see the local sights. Memories of the Grand Mosque in Abu Dhabi, the Eiffel Tower at night, the Kowloon market in Hong Kong, and the gold-rush town of Ballarat in Australia, highlight my 2017 travelogue.

But airport gate areas are not the most scenic or welcoming of places. Rice crackers do not constitute a balanced meal. The dimension of airplane seats continues to shrink, while the territorial needs of fellow passengers expands. (Are you looking for the port to charge your iPhone, or did you mean to stab me in the leg with your USB cord?) A few weeks at home will provide welcome relief.

***For those celebrating Thanksgiving, please accept warm wishes from us for the upcoming weekend.***

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Janet Yellen will be leaving the Fed.