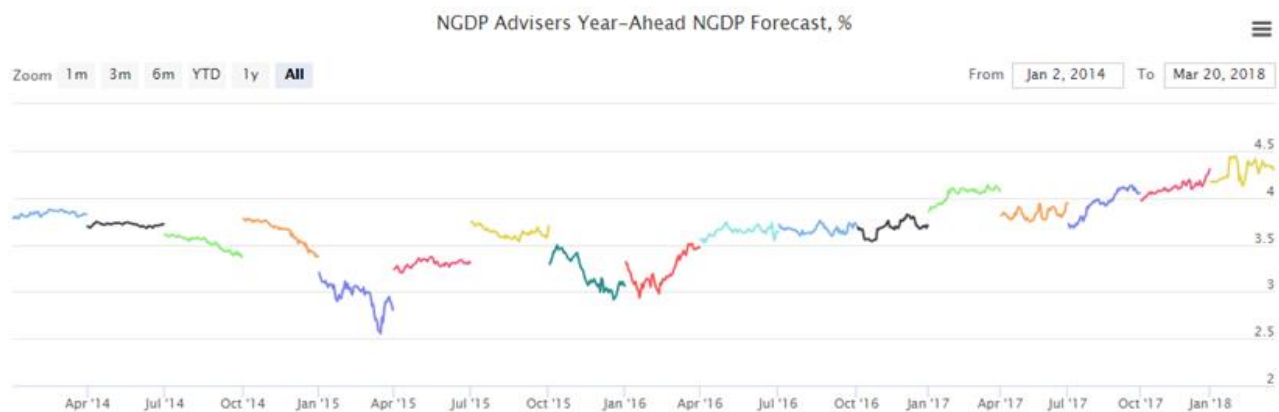


## NGDP Outlook Update Q1 2018

As historically unremarkable as present economic conditions are, it's still worth noting they were unexpected (at least by us, and many others). It was only a year ago that NGDP expectations were not far from 3.5%; today NGDP is expected to fly along just around 4.7% year-over-year for the next two quarters, closing at 4.25% for the year ending 2019Q1.

We are now at a multiyear high in terms of a relatively simple, consistent methodology, forecasting NGDP, "t plus one year". This forecast is mostly driven by recent NGDP changes, which is why it is not too inaccurate in a backtesting analysis. Our added market data signal moves it around a tiny bit. In most cases, it can add as much as 0.3 percentage point(s) to a forecast in the span of a few weeks. In a true market crash, it can send an NGDP outlook forecast down massively.



Zooming in on the more recent period, Year-ahead NGDP is expected at 4.25%. Interestingly, 5-year TIPS spreads are at about 2%. One could be forgiven for wishing the Fed would tolerate a period of 2.25% inflation as a modest payback to the public for years of below target inflation. That is not what markets say, though.

## NGDP Advisers Year-Ahead NGDP Forecast, %



From  To



There is not much worth noting, expect that Thursday's market event (S&P 500 down -2.5%), is not yet in a state which allows us to use it in a forecast. In addition, it probably will not move things much. Markets have not fallen too badly, and NGDP appears to be strong again this quarter. 4.2% is better than what we have seen in several years.