

ECONOMIC OUTLOOK

- ◆ GDP growth has been fairly robust. According to the Commerce Department, the economy grew at the fastest rate in two years during the second quarter when the GDP growth rate increased to +3.1%. The Atlanta Fed GDPNow model forecast third quarter growth would be even higher. The model forecast is real-time, updating to reflect each major economic release. Initially, the GDPNow predicted a +4.0% year-over-year GDP growth rate. Downward revisions to the forecast in subsequent weeks reflected hurricane-impacted data. As a result, we expect moderate growth in the third and fourth quarter driven by replacement vehicles, rebuilding and storm clean-up somewhat offset by higher gas prices and muted wage growth. We forecast GDP growth of +2.2% in 2017 versus +1.5% last year.
- ◆ The Consumer Price Index (CPI) is expected to increase +2.1% this year compared to +1.3% last year. Core CPI is a measure of inflation which excludes highly volatile energy and food prices creating a more stable index and easier comparisons. Core CPI posted a stronger than expected increase of +0.2% in August. Strength in shelter costs (+0.12%) and a firming in goods prices (+0.11%) followed five months of weak readings. The Federal Reserve's preferred inflation gauge, Core PCE (Personal Consumption Expenditures) Price Index, rose +0.1% during the month of August. The lower PCE report hints at lower rates for longer.
- ◆ Headline August retail sales were down -0.2% month-over-month, below consensus expectations for a +0.2% rise, and worse than July's downwardly revised +0.3% increase; July's initial reading was +0.6%. The August decline was the most in six months led lower by weak auto sales. Core retail sales, a component of GDP, also declined -0.2% month-over-month versus expectations for a +0.2% rise. Much of this weakness is associated with disruptions caused by Hurricanes Harvey. Looking ahead, some retailers may be challenged during the all-important holiday season as higher gasoline prices, and replacement purchases resulting from the storms, erode consumers' ability to spend on discretionary items.
- ◆ U.S. hourly wage growth recently slowed to just +2.5% annually. As a result, the personal savings rate declined to +3.5% from +5.1% a year earlier. The personal savings rate is after-tax income that wasn't spent. Consumers will eventually require support from higher wages to fuel spending growth. In an encouraging sign, the Fed lowered 2018 and 2019 unemployment expectations from +4.2% to +4.1%. These rates are well-below the NAIRU (Non-Accelerating Inflation Rate of Unemployment) estimate of +4.6%, indicating a tightening labor market which should place upward pressure on wage inflation. According to certain economic models, labor trends could push Core PCE inflation to the Fed's 2% target by 2019. We believe recent soft wage growth is temporary and reflation is likely over the next few years.

INVESTMENT REVIEW

- ◆ The major U.S. stock indexes gained in September. The Dow Jones Industrial Average increased by +2.1%, the S&P 500 was up +2.1% and the Nasdaq Composite advanced +1.1%.
- ◆ Third quarter earnings estimates are likely too low with earnings estimates rising just +3.7% on expected revenue growth of 4%. Stocks began to rally mid-August as better than anticipated growth prospects appeared likely. The rally into earnings season may leave stock reaction muted as companies report, repeating a trading pattern seen in the first and second quarters of the year.
- ◆ Oil prices gained traction as demand growth exceeded production, thereby, drawing down global inventories. Supply has declined this year as OPEC members have generally complied with lower production targets and the U.S. rig count slightly declined. Higher spot prices for the commodity may encourage additional production, keeping a lid on oil's ability to further appreciate.

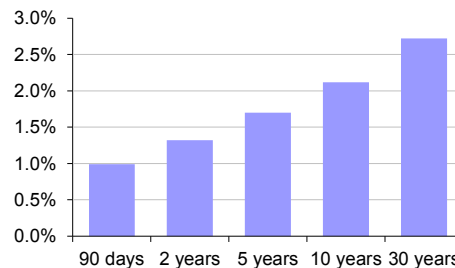
KEY INVESTMENT STATISTICS

	9/30/2017	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	22,405	22,412	17,888	13.4%
Nasdaq Composite	6,496	6,496	5,046	20.7%
S & P 500 Stock Index	2,519	2,519	2,085	12.5%
2017 Operating EPS Estimate	\$131			
P/E on 2017 EPS	19x			
2018 Operating EPS Estimate	\$146			
P/E on 2018 EPS	17x			
Dividend Yield	2.0%			

Yields on U.S. Treasury Obligations

90 days	1.06%
2 years	1.47%
5 years	1.92%
10 years	2.33%
30 years	2.86%

U.S. Treasury Yields



Core CPI: Trailing 12 Months	1.7%		
Crude Oil: Price Per Barrel	\$52	\$54	\$42
Gold: Price Per Ounce	\$1,282	\$1,349	\$1,128
Natural Gas: Price per MM Btu	\$3.00	\$3.99	\$2.56

Source: Bloomberg LLC, FactSet, U.S. Department of Labor

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