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Date	Indicator	For	Estimate	Consensus*	Previous Period
7-Nov-2017	JOLTS Job Openings	Sep	NA	NA	6082.0
7-Nov-2017	Consumer Credit	Sep	$19.000b	$17.500b	$13.065b
9-Nov-2017	Initial Jobless Claims	04-Nov	233k	NA	229k
9-Nov-2017	Wholesale Inventories MoM	Sep F	0.3%	NA	0.3%
10-Nov-2017	U. of Mich. Sentiment	Nov P	101.3	100.0	100.7

*Consensus from Bloomberg

Let the Tax Reform Fight Begin

It has been a long wait for investors. Tax reform was initially promised this summer — and here it is November — but we are finally getting some concrete details on the size and shape of the tax reform package that is moving through the House of Representatives.

So while most Americans will be gearing up for the holidays, Washington D.C. and the lobbyists on K Street will be gearing up for some last-minute wrangling on the tax bill. In this week's Outlook report, we will hit some of the highlights of the bill and what they might mean for our economic and interest rate outlook for next year.

The bulk of the tax reform package appears to surround the corporate tax rate cut to 20% from the current top rate to 35%. This corporate tax cut alone could leave a $1.5 trillion hole in government tax revenue over the next 10 years, according to the Joint Committee on Taxation.

The tax plan also includes a 10% global minimum tax on earnings American companies make anywhere in the world, giving companies that are currently holding profits overseas a way to avoid a 35% tax on the gains and an incentive to bring those profits back to the U.S. This benefits mostly large companies like Apple and Microsoft that have hundreds of billions in profits stored overseas.

American subsidiaries of foreign-owned companies will pay a 20% excise tax on any payments sent back to foreign affiliates to help keep those American-generated profits here in the U.S. instead of leaking abroad.

For small businesses, the bill lowers the tax rate for pass-through businesses to 25%. But to keep the lower rate from becoming a loophole for more and more individuals, there's a formula so that business owners pay a higher tax rate on income they receive as wages.

For individuals, the plan reduces the number of tax brackets to four, with tax rates set at 12%, 25%, 35%, and 39.6% from the seven brackets that exist today. Those making below $24,000 will pay no income tax. Married taxpayers filing jointly would be taxed at the 12% rate up to $90,000. Earnings up to $260,000 would fall into the 25% bracket, and earnings up to $1 million would be taxed at the 35% rate. For those making over a $1 million, the rate increases to the top bracket of 39.6%.

The tax plan would eliminate the alternative minimum tax, which could hit 4.5 million households this year, and it would double the standard deduction to $24,000 for married couples from $12,700 today. For now there are no changes to the pretax treatment of 401Ks, IRAs or Roth IRAs.

The estate tax exemption is increased to $11 million from $5.49 million, and the estate tax gets phased out and repealed for everyone after 6 years.

The popular mortgage interest deduction stays for existing home owners, but for future purchases the deduction will be capped at $500,000 down from the current $1 million limit. The homebuilder and realtor associations are expected to fight against this change.

Deductions for medical expenses, moving expenses, student loan interest, and adoption have been eliminated.

State and local tax deductions also mostly disappear, hurting tax filers in high-cost, high-tax states like New York and California.

Of course, the Senate is working on its own version of the bill, and there has already been criticism about the impact of the House plan on the federal deficit. Also, in many ways the lobbying sweepstakes have just begun. Groups such as the National Association of Homebuilders, National Retailers Association, and National Federation of Independent Businesses have all come out against portions of the House Republican plan. So expect many more changes to the bill before it becomes law.

Here are some of my thoughts at this point …

I expect the overall impact on individual tax revenues to be relatively small by design, though the mix of who pays what will certainty shift due to the changes in the individual tax brackets. In many cases the elimination of deductions will offset the benefits of an increased standard deduction, and some households will be surprised to learn that their total taxes paid actually increase.

Corporations will benefit the most from the tax reform, but whether that translates into a measurable increase in jobs, wages, and capital spending here in the U.S. is less clear. Corporations could in the end decide to pocket the windfall by buying back stock or by pursuing mergers and acquisitions. For example, the 20% excise tax on American subsidiaries of foreign companies could slow foreign investment in the United States.

Small businesses will also likely benefit, but until we see the details of the formula being used to increase the tax rate on small business wages, the amount of total benefit is still unclear.

Over the near term, total tax cuts in the ballpark of $1.5 trillion over 10 years should have a marginally positive impact on U.S. GDP growth. We have penciled in about a two-tenths of a percentage point increase in GDP growth for 2018, expecting something along these lines. There is some upside risk to this forecast, mainly around our forecasts for business investment as a result of corporate tax cuts and repatriation of corporate profits. Business investment is notorious for being driven by animal spirits, i.e., confidence, so we could be underestimating the impact of the tax cuts on business confidence measures, which already appear to be at high historical levels.

However, longer-term the likely swelling of the federal deficits over the next 10 years is troubling, and any short-term benefits from the tax cuts could be wiped out if they force more draconian tax increases or government borrowing down the road.

Lastly, the current economic expansion is getting long in the tooth. We are already in one of the longest economic expansions in the post-war period. The U.S. unemployment rate is already near historical lows at 4.1%. More fiscal stimulus from Washington could tip the scales toward economic overheating; forcing the Federal Reserve to take away the punch bowl just as the party gets started. If the Fed reacts by raising interest rates more aggressively, it could easily cancel out many of the intended positive effects of this tax reform plan. Corporate tax reform would have been a better idea at the beginning of the cycle, but today it might be an idea whose time has already come and gone.

Major Economic Indicators

	History								Forecast				Yr/Yr % chg or Annual Avg.			
Economic Data	**2016.1**	**2016.2**	**2016.3**	**2016.4**	**2017.1**	**2017.2**	**2017.3**	**2017.4**	**2018.1**	**2018.2**	**2018.3**	**2018.4**	**2015**	**2016**	**2017**	**2018**
Real GDP*	0.6	2.2	2.8	1.8	1.2	3.1	3.0	2.9	2.2	2.1	2.1	2.2	2.6	1.5	2.3	2.5
Personal Consumption Expenditures*	1.8	3.8	2.8	2.9	1.9	3.3	2.4	2.9	2.4	2.2	2.1	2.1	3.2	2.7	2.7	2.5
Non-residential Fixed Investment*	-4.0	3.3	3.4	0.2	7.2	6.7	3.9	5.9	3.2	3.4	3.9	4.4	2.1	-0.6	4.5	4.3
Private Housing Starts (000s units)	1,153	1,158	1,150	1,248	1,238	1,167	1,165	1,256	1,263	1,265	1,275	1,285	1,108	1,177	1,207	1,272
Vehicle Sales (mill. Units, annualized)	17.3	17.2	17.5	17.8	17.1	16.8	17.1	16.8	16.7	16.4	16.4	16.4	17.4	17.5	16.9	16.5
Industrial Production*	-1.3	-0.7	0.8	0.7	1.5	5.6	-1.5	1.9	2.2	2.3	2.2	2.2	0.3	-1.2	1.5	1.9
Nonfarm Payroll Employment (mil.)	143.4	144.0	144.7	145.2	145.7	146.2	146.7	147.2	147.7	148.1	148.5	149.0	141.8	144.3	146.4	148.3
Unemployment rate	4.9	4.9	4.9	4.7	4.7	4.4	4.3	4.1	4.0	3.9	4.0	4.1	5.3	4.9	4.4	4.0
Consumer Price Index* (percent)	0.1	2.3	1.8	3.0	3.1	-0.3	2.0	2.2	2.2	2.0	2.0	2.0	0.1	1.3	2.0	2.0
"Core" CPI* (percent)	2.5	2.1	2.1	2.0	2.5	0.6	1.7	2.0	2.1	2.1	2.1	2.1	1.8	2.2	1.8	1.9
PPI (finished goods)* (percent)	-3.9	3.0	1.7	3.4	6.3	0.8	0.6	2.8	2.1	1.8	1.6	1.6	-3.3	-1.0	3.0	1.8
Trade Weighted Dollar (Fed BOG, major)	93.1	89.5	90.3	93.6	94.4	93.1	88.4	89.0	90.2	90.8	90.5	90.2	90.9	91.6	91.2	90.4
Crude Oil Prices -WTI ($ per barrel)	33	45	45	49	52	48	48	53	52	52	53	53	50	43	50	53

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

	History								Forecast				Annual Average			
Financial Data	**2016.1**	**2016.2**	**2016.3**	**2016.4**	**2017.1**	**2017.2**	**2017.3**	**2017.4**	**2018.1**	**2018.2**	**2018.3**	**2018.4**	**2015**	**2016**	**2017**	**2018**
S & P 500	1,951	2,075	2,162	2,185	2,326	2,398	2,467						2,061	2,093		
Dow Jones Industrial Average	16,663	17,764	18,372	18,865	20,406	20,994	21,891						17,591	17,916		
Federal Funds Rate (effective)	0.36	0.37	0.39	0.45	0.70	0.94	1.15	1.21	1.38	1.46	1.63	1.71	0.13	0.39	1.00	1.55
Treasury-3 Month Bills (yield)	0.29	0.26	0.30	0.43	0.61	0.91	1.05	1.12	1.28	1.38	1.57	1.67	0.05	0.32	0.92	1.48
Treasury-2 Year Notes (yield)	0.84	0.77	0.73	1.01	1.24	1.30	1.36	1.55	1.81	2.02	2.17	2.29	0.69	0.84	1.36	2.07
Treasury-5 Year Notes (yield)	1.37	1.24	1.13	1.61	1.95	1.81	1.81	1.96	2.23	2.41	2.60	2.71	1.53	1.34	1.88	2.49
Treasury-10 Year Notes (yield)	1.91	1.75	1.56	2.14	2.45	2.26	2.24	2.44	2.68	2.90	3.06	3.17	2.14	1.84	2.35	2.95
Treasury-30 Year Notes (yield)	2.72	2.57	2.28	2.83	3.05	2.90	2.82	2.91	3.12	3.42	3.65	3.77	2.84	2.60	2.92	3.49
Prime Rate	3.50	3.50	3.50	3.55	3.80	4.05	4.25	4.30	4.50	4.58	4.75	4.83	3.26	3.51	4.10	4.67
Libor 3-Mo. U.S. Dollar	0.62	0.64	0.79	0.92	1.07	1.21	1.31	1.39	1.51	1.59	1.75	1.83	0.34	0.74	1.25	1.67
Mortgage-30 Year (yield)	3.74	3.59	3.45	3.84	4.17	3.98	3.88	3.95	4.30	4.52	4.70	4.88	3.85	3.66	4.00	4.60
BAA Corporate (yield)	5.30	4.66	4.26	4.64	4.66	4.49	4.33	4.40	4.75	5.03	5.28	5.43	5.00	4.71	4.47	5.12

Source: Bank of the West Economics, Bloomberg, Federal Reserve