



## Economic Review and Outlook, 2Q18

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## Economic Growth in the Second Quarter, 2018

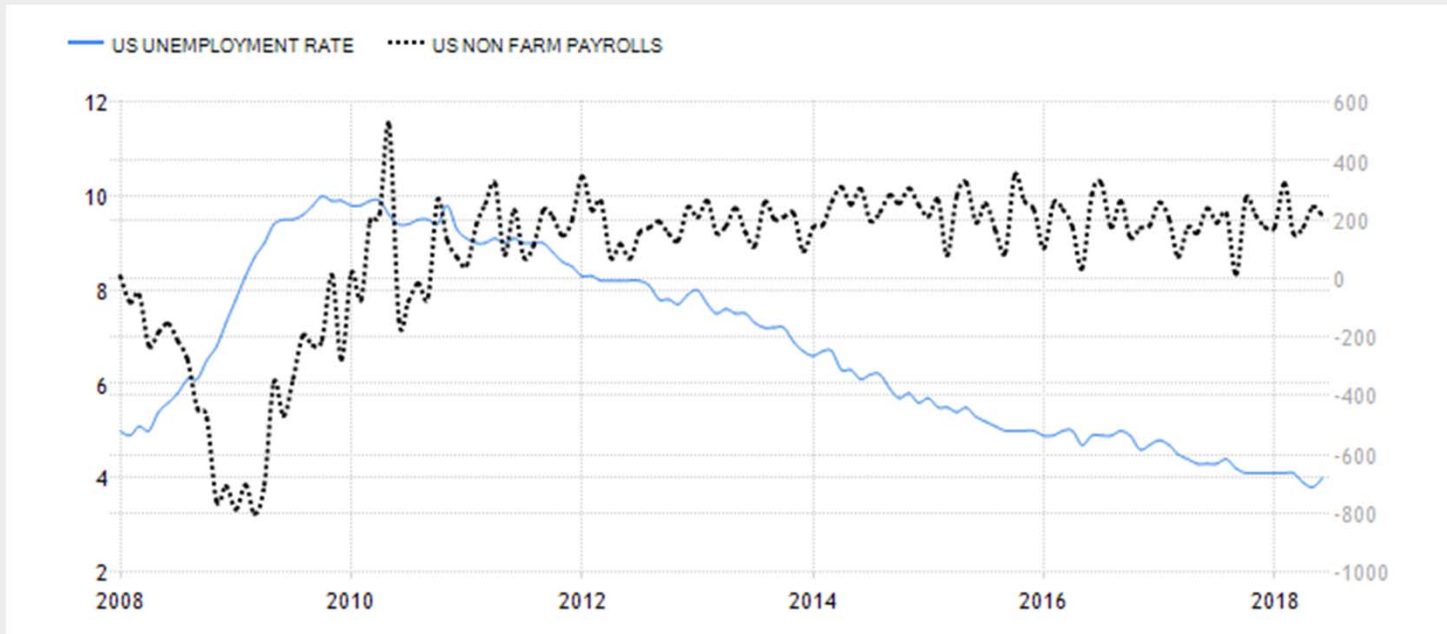
### Economic Review and Outlook

- ❖ Second quarter real GDP (first estimate) was 4.1%
  - ❖ Consumption and business investment, two key components, improved significantly over the second quarter from previous levels.
  - ❖ Inventory building was expected to be higher ahead of trade tariffs, but actually was a negative contributor to GDP. This is potentially good news for the third quarter, as inventories will need to be rebuilt.
  - ❖ Exports did increase ahead of retaliatory tariffs expected to begin in the third quarter.
  - ❖ Federal spending also contributed to growth, although less than originally anticipated. This also could be a greater contributor beyond the second quarter.
  - ❖ Inflation, removing food and energy, was around the Fed's 2% target level.
  - ❖ Additional revisions to previous data indicate higher personal savings that supports consumption and growth in future quarters.

## Factors Impacting Market Performance in the Second Quarter, 2018

### Economic Review and Outlook

- ❖ Tax cuts support business and consumer spending, and corporate earnings.
- ❖ Increased fiscal spending from previous quarter's budget agreement will continue to support 2018 growth.
- ❖ Business confidence and small business optimism continues to rise, and manufacturing and service sectors still improving; businesses also cite decreased regulation as boosting renewed activity.
  - ❖ Business investment rose about 7% in last year as profit margins continue to improve.
- ❖ Consumer confidence was also higher in the second quarter: strong jobs reports, improved workforce participation, and moderate wage increases were all drivers.
  - ❖ *Consumption indicators were higher than first quarter data.*
- ❖ Some global divergence, as the pace of growth slows in some regions;
  - ❖ *EU slowdown on back of trade/Brexit concerns, political discord in Italy/Spain, severe winter weather.*
  - ❖ *Financial and property ownership reforms, and trade tariffs are expected to slow China's growth, while weaker currency could induce capital outflows. China has responded by improving liquidity.*
- ❖ Higher oil prices due to OPEC production caps and supply disruptions from re-imposed Iranian sanctions.
- ❖ Global Monetary policy is on a tighter trajectory, as financial markets review asset pricing in post-QE world;
  - ❖ *Fed Funds increased for the second time: 1.75-2.0%, two more hikes expected in 2018.*
  - ❖ *ECB announced a December ending for QE, but tightening not expected until 2019.*
- ❖ Strong dollar and the impact on emerging markets, and higher oil prices are increased risk factors.
- ❖ Following the U.S./North Korea Summit, geopolitical tension cooled.



- Unemployment reached 50 year low in May (3.8%)
- Average hourly wages are up 2.7% year over year

# Inflation

U.S. Core CPI, annualized %



Inflation continued to firm but Fed's preferred measure, Core (ex-food and energy) PCE, remained around targeted 2% levels.

§ Core CPI (consumer prices, ex-food and energy) has been on a steady rise in 2018, but still below 60 year average of 3.6%.

# Consumer Sentiment and Spending

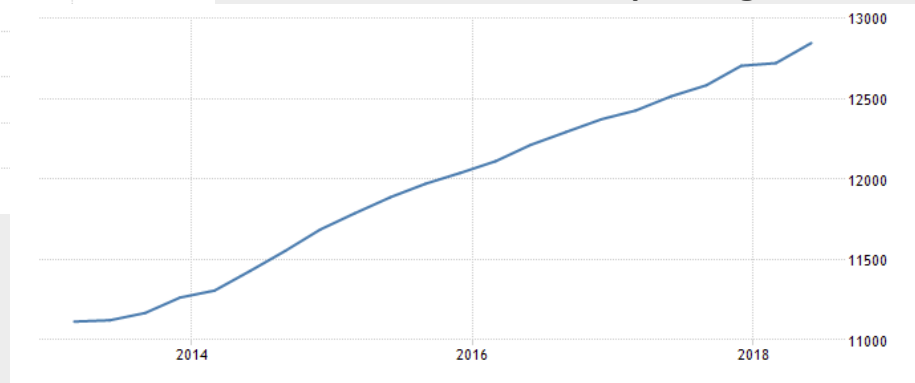
Sentiment stabilized in the second quarter, while spending continued uptrend, however housing has to be monitored.

- Existing home sales declined about 4% over the 2<sup>nd</sup> quarter
- Housing starts declined over 12% and new home sales declined 5.3% in June
- Pending home sales has been negative each quarter in 2018

### University of Michigan Consumer Sentiment Index



### Consumer Spending, \$ billions



# Manufacturing/Production/Service Sector

## Economic Review and Outlook

Despite trending lower over first quarter on fear of trade wars, second quarter data improved

- *ISM and PMI survey data both trended higher; new and backlog orders increased, impacting inventory data*
- *Capital goods and factory orders were higher on the quarter*
- *New service orders remained elevated*

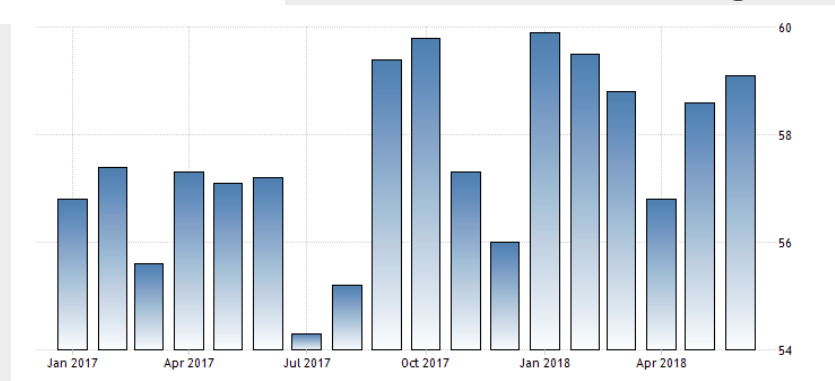
### Industrial Production, % y-o-y



### Manufacturing PMI



### Non-Manufacturing PMI



### ***Stronger Economic Outlook, Employment, and Inflation Drive Fed Rate Increase and Change in ECB Policy***

*“Information received since the Federal Open Market Committee met in May indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Job gains have been strong, on average, in recent months, and the unemployment rate has declined. Recent data suggest that growth of household spending has picked up, while business fixed investment has continued to grow strongly.”*

- Federal Reserve Press Release, June 13, 2018



**European Central Bank**

(@ecb)

**Draghi: We anticipate that, after September 2018, subject to incoming data confirming our medium-term inflation outlook, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of December 2018 and then end net purchases**

**June 14, 2018**



***“White House Unveils Tariffs on 1,300 Chinese Products”***

-New York Times, April 3, 2018

**“China fuels trade war fears with new tariffs on US goods”**

-The Guardian, April 28, 2018

***“As Trump's tariffs bite, small U.S. manufacturers begin to tap the brakes”***

-Reuters, May 4, 2018

**“Trump administration will put steel and aluminum tariffs on Canada, Mexico and the EU”**

-CNBC, May 31, 2018

**“US-China trade tensions escalate as Trump approves \$50bn of tariffs”**

-The Guardian, June 15, 2018

**“Harley-Davidson, blaming tariffs, will shift some manufacturing overseas”**

-CBS, June 25, 2018

**“Trump and EU's Juncker pull back from all-out trade war”**

-BBC, July 26, 2018

# Oil

## Economic Review and Outlook

- Prices at 4-year high:
  - Renewed commitment to OPEC+ production limitation agreement
  - Re-imposed sanctions that impact Iranian oil exports, following the U.S. withdrawal from Iranian nuclear treaty
  - Supply disruptions at oil transportation centers

Crude Oil, \$/bbl



# Global Economic Growth

## Economic Review and Outlook

### Global Growth Persists Although Pace Moderated

#### Global Purchasing Managers' Index for Manufacturing

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
<b>Global</b>	50.9	50	50.6	50.2	50.1	50.4	51	50.8	51.1	52	52.1	52.7	52.8	53	53	52.7	52.6	52.6	52.8	53.2	53.3	53.5	54.1	54.5	54.4	54.1	53.4	53.5	53.1	53
<b>DM</b>	52.1	50.8	50.9	50.5	50.4	51.2	51.5	51.2	51.5	52.6	53	53.8	54.2	54.1	53.9	54.1	54.1	53.9	54	54.2	54.6	55.2	55.8	56.3	56	55.7	54.9	54.6	54.7	54.4
<b>EM</b>	49.4	48.9	50.2	49.5	49.5	49.3	50.3	50.1	50.3	51	50.8	51	50.8	51.3	51.6	50.9	50.6	50.8	51	51.7	51.4	51.2	51.7	52.2	52	51.9	51.3	51.2	51.1	51.2
<b>US</b>	52.4	51.3	51.5	50.8	50.7	51.3	52.9	52	51.5	53.4	54.1	54.3	55	54.2	53.3	52.8	52.7	52	53.3	52.8	53.1	54.6	53.9	55.1	55.3	55.3	55.6	56.4	56.4	55.4
<b>Canada</b>	49.3	49.4	51.5	52.2	52.1	51.8	51.9	51.1	50.3	51.1	51.5	51.8	53.5	54.7	55.5	55.9	55.1	54.7	55.5	54.6	55	54.3	54.4	54.7	55.6	55.6	55.7	56.2	56.2	57.1
<b>Japan</b>	52.3	50.1	49.1	48.2	47.7	48.1	49.3	49.5	50.4	51.4	51.3	52.4	52.7	53.3	52.4	52.7	53.1	52.4	52.1	52.2	52.9	52.8	53.6	54	54.1	54.1	53.1	52.8	52.8	53
<b>UK</b>	52.3	50.9	51.3	49.6	50.5	53	48.5	53.1	55.7	54	53.1	55.9	55.4	54.6	54.3	57.1	56.4	54.2	55.3	56.8	56.1	56.3	58.2	56.3	54.9	55	55.1	54.3	54.3	54.4
<b>Euro Area</b>	52.3	51.2	51.6	51.7	51.5	52.8	52	51.7	52.6	53.5	53.7	54.9	55.2	55.4	56.2	56.7	57	57.4	56.6	57.4	58.1	58.5	60.1	60.6	58.6	58.6	56.6	55.5	55.5	54.9
<b>Germany</b>	52.3	50.5	50.7	51.8	52.1	54.5	53.8	53.6	54.3	55	54.3	55.6	56.4	56.8	58.3	58.2	59.5	59.6	58.1	59.3	60.6	60.6	62.5	63.3	60.6	60.6	58.2	56.9	56.9	55.9
<b>France</b>	50	50.2	49.6	48	48.4	48.3	48.6	48.3	49.7	51.8	51.7	53.5	53.6	52.2	53.3	55.1	53.8	54.8	54.9	55.8	56.1	56.1	57.7	58.8	55.9	55.9	53.7	54.4	54.4	52.5
<b>Italy</b>	53.2	52.2	53.5	53.9	52.4	53.5	51.2	49.8	51	50.9	52.2	53.2	53	55	55.7	56.2	55.1	55.2	55.1	56.3	56.3	57.8	58.3	57.4	56.8	56.8	55.1	52.7	52.7	53.3
<b>Spain</b>	55.4	54.1	53.4	53.5	51.8	52.2	51	51	52.3	53.3	54.5	55.3	55.6	54.8	53.9	54.5	55.4	54.7	54	52.4	54.3	55.8	56.1	55.8	56	56	54.8	53.4	53.4	53.4
<b>China</b>	48.4	48	49.7	49.4	49.2	48.6	50.6	50	50.1	51.2	50.9	51.9	51	51.7	51.2	50.3	49.6	50.4	51.1	51.6	51	51	50.8	51.5	51.6	51.6	51	51.1	51.1	51
<b>India</b>	51.1	51.1	52.4	50.5	50.7	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9	47.9	51.2	51.2	50.3	52.6	54.7	52.1	52.1	51	51.2	51.2	53.1
<b>Brazil</b>	47.4	44.5	46	42.6	41.6	43.2	46	45.7	46	46.3	46.2	45.2	44	46.9	49.6	50.1	52	50.5	50	50.9	50.9	51.2	53.5	52.4	53.2	53.2	53.4	50.7	50.7	49.8
<b>Mexico</b>	52.2	53.1	53.2	52.4	53.6	51.1	50.6	50.9	51.9	51.8	51.8	50.2	50.8	50.6	51.5	50.7	51.2	52.3	51.2	52.2	52.8	49.2	52.4	51.7	51.6	51.6	52.4	51	51	52.1
<b>Russia</b>	49.8	49.3	48.3	48	49.6	51.5	49.5	50.8	51.1	52.4	52.4	53.7	54.7	52.5	52.4	50.8	52.4	50.3	52.7	51.6	51.9	51.1	51.5	52	50.2	50.2	50.6	49.8	49.8	49.5

# Brexit Saga Continues

## Brexit Front and Center

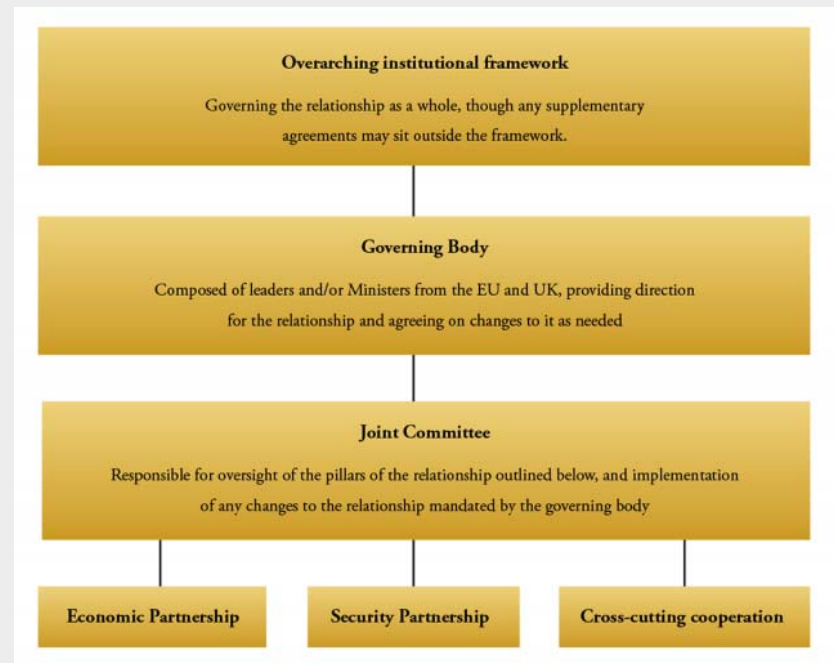
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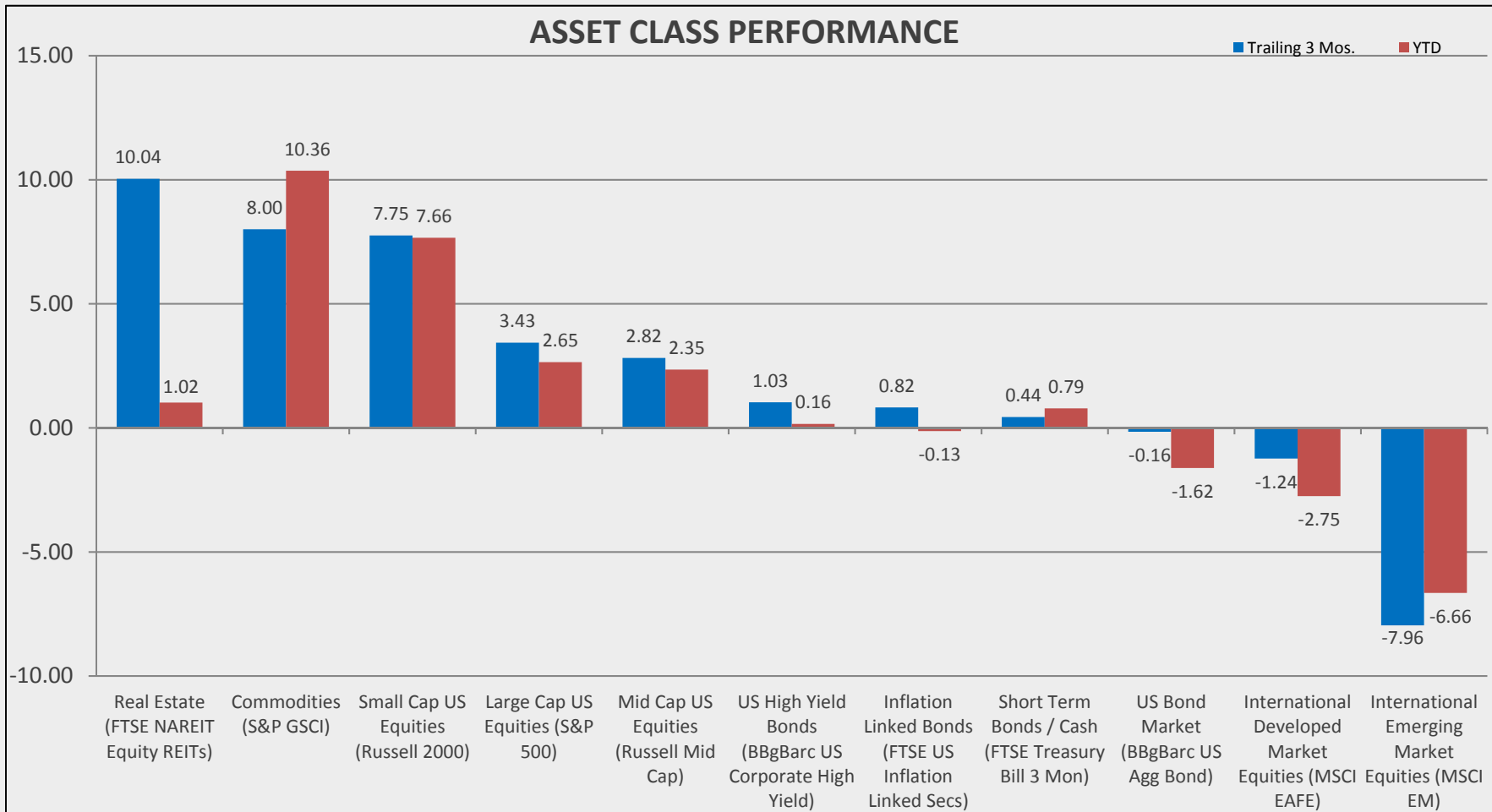
Major points still to be resolved...

- Trade with the EU and other nations
- Financial services and flows
- Free-movement and immigration
- Ireland border



*White paper released, softer Brexit addressed, which led to more political dissention and cabinet upheaval*





#### ***At very least, risks will impact market volatility***

- ❖ *Growth vs. Inflation vs. Federal Reserve policy and pace of rate increases globally*
- ❖ *Trade; Tariffs, NAFTA*
  - ❖ *Companies such as Harley Davidson fight back, taking production overseas, in response to higher input prices*
- ❖ *Brexit*
- ❖ *Nationalism/Populism (Mid-term US elections, Italy, Spain, Brexit)*
- ❖ *Geopolitical events (North Korean summit, Middle East unrest)*
- ❖ *Ongoing U.S. political investigations*

**“Since the financial crisis of 2008, global debt has continued to rise. Total debt has increased by \$72 trillion, or 74 percent, from \$97 trillion in 2007 to \$169 trillion in the first half of 2017. Government debt accounts for 43 percent of this increase, and nonfinancial corporate debt for 41 percent.”**

**-McKinsey Global Institute, June 2018**

## Outlook and Forecasts

### Economic Review and Outlook

	Third Quarter, 2018	Fourth Quarter, 2018
<b>U.S. GDP</b>	3.0%	2.9%
<b>Unemployment</b>	-	3.6%
<b>CPI</b>	-	2.5%
<b>Fed Funds</b>	-	2.25-2.5%

Two additional rate hikes expected from Fed in 2018

### Other Projections as of July 31, 2018

	3Q18 U.S. GDP	2018 U.S. GDP	2018 Global GDP
<i>Atlanta Federal Reserve Bank</i>	4.7%	-	-
<i>New York Federal Reserve Bank</i>	2.8%	-	-
<i>International Monetary Fund</i>		2.9%	3.9%
<i>World Bank</i>	-	2.7%	3.1%

Source: The Wall Street Journal, July 1, 2018; survey average of 76 economists