

Our Mid-Year 2018 Economic Update

*By Maura C. Schauss, CFP® and Todd I. Youngdahl, CFP®
Washington Wealth Advisors, LLC*

If you've been investing for any length of time, you know that the economy goes through regular cycles, and the first half of 2018 definitely brought its fair share of highs and lows, market volatility, trade uncertainty, and record unemployment numbers. However, as most individual Americans see it, things are looking up. So instead of looking at the daily headlines, here's a view of our economy from 30,000 feet as we reach the mid-year mark of 2018.

Confidence Is High

Consumer sentiment, as measured by the University of Michigan, remains above average, with June increasing to 99.3 points as compared to an average of 86.33 points since 1952.¹ The Consumer Confidence Survey found that consumers' assessment of current conditions has reached a 17-year high. They also found increases in consumer confidence from April to May in every category, including people's present situation and expectations.²

Business confidence is also up, in both manufacturing and non-manufacturing, according to the national Institute for Supply Management.³

Stock Market Is Up (And Down)

Following the calm upward trajectory of 2017, stocks made impressive gains in January, only to shake investors awake in the following months. February was the most volatile month we have seen since 1996.⁴ In fact, just the first quarter of this year saw five weeks that posted bigger declines than the worst week of 2017 and four weeks with greater increases than any week in 2017.⁵

Though things seem shaky compared to 2017, it's important to note that the volatility that we are experiencing is not an anomaly, but rather within normal range. By the end of May, 2018 would have ranked as the 12th most volatile year out of the last half-century.⁶

Even with the renewal of volatility, stocks continue to trend higher. The S&P 500 is up over 5% so far this year.⁷ Small companies, which are less dependent on international trade, have fared

¹ <https://tradingeconomics.com/united-states/consumer-confidence>

² <https://www.conference-board.org/data/consumerconfidence.cfm>

³ <https://www.schwab.com/resource-center/insights/content/market-perspective>

⁴ <http://www.carsonwealth.com/insights/market-commentary/weekly-market-commentary-march-19-2018/>

⁵ <http://www.carsonwealth.com/insights/market-commentary/weekly-market-commentary-march-26-2018/>

⁶ <http://flemingwatson.com/volatility/>

⁷ <http://money.cnn.com/data/markets/sandp/>

particularly well recently. The Russell 2000 Index, which tracks smaller companies, is up over 9% so far this year.⁸

Trade Risks Are Up

As mentioned above, international trade has moved front and center on the economic stage. Early in the year, the current administration decided to impose a 25% tax on steel imports and a 10% tax on aluminum imports.⁹ While China responded with countermeasures, US allies were originally exempt. However, in May, the exemptions expired. Some countries, such as South Korea, Argentina, Australia, and Brazil, have negotiated quotas, or volume limits, to replace the tariffs. The European Union and Mexico immediately stated that they would impose countermeasures or tariffs of their own.¹⁰

June's G7 meeting ended on a sour note as the US made clear their dissatisfaction with current trade agreements. The US hopes to renegotiate trade deals to make them more favorable, but whether the move will work or spiral into an economically damaging trade war remains to be seen.¹¹

Unemployment Hits Record Lows

Another thing that continues to go down is unemployment, which dropped to 3.8% in May (the lowest level since April 2000)¹². Black and Latino unemployment, in particular, has reached record lows.¹³ Initial jobless claims have hit their lowest levels in the last 50 years.¹⁴ Employers also surpassed expectations in May by creating an additional 223,000 jobs.

Things are especially looking up for those that earn the least. Recent reports show that those earning the lowest wages are the ones who are seeing the highest percentage of increases in earnings.¹⁵

The Economy Is Keeping Up

Gross Domestic Product (GDP) was up 2.2% in the first quarter of 2018 and rose to 4.1% for the second quarter, becoming the best quarter since 2014. Cheaper commodity prices, increased orders and reduced corporate taxes helped to drive the growth.¹⁶

⁸ <http://money.cnn.com/data/markets/russell/>

⁹ <http://fortune.com/2018/03/02/trump-trade-war-tariff-smoot-hawley/>

¹⁰ <https://www.cnbc.com/2018/05/31/trump-administration-will-put-steel-and-aluminum-tariffs-on-canada-mexico-and-the-eu.html>

¹¹ <http://www.carsonwealth.com/insights/market-commentary/weekly-market-commentary-june-11-2018/>

¹² <https://www.schwab.com/resource-center/insights/content/market-perspective>

¹³ <http://www.carsonwealth.com/insights/market-commentary/weekly-market-commentary-june-4-2018/>

¹⁴ <http://www.carsonwealth.com/insights/market-commentary/weekly-market-commentary-april-30-2018/>

¹⁵ <http://www.carsonwealth.com/insights/market-commentary/weekly-market-commentary-june-4-2018/>

¹⁶ <http://www.carsonwealth.com/insights/market-commentary/weekly-market-commentary-april-30-2018/>

First quarter spending was down, at its lowest rate in 5 years. However, with a still-tightening labor market and the large fiscal stimulus, analysts do not expect low spending to be a pervasive problem.¹⁷ In fact, spending has already begun to pick up as we draw closer to summer.¹⁸

What Does The Fed Say?

The Federal Reserve has raised rates twice so far this year to 1.75%-2% and is anticipating two more rate hikes before we reach 2019. The new Fed Chairman, Jerome Powell, stated in June that the economy has strengthened significantly since 2008. He believes it is approaching a “normal” level where it will not need the Fed to be as active in encouraging economic activity. Overall, he is optimistic, believing the economic outlook for the US is good with a strong economy, strong labor market, and strong growth.¹⁹

The Economy and Your Finances

While things are looking up as a whole, it’s important to make sure your own personal financials are following suit. At Washington Wealth Advisors, our goal is to help you plan ahead for the future and make educated decisions with your money, regardless of what is going on in the markets. If it’s been awhile since you’ve evaluated your financial situation and want to make sure your portfolio is positioned to reap the full benefits of our country’s growth, or if you simply have questions about the state of the economy, [schedule a meeting with us](#) today!

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¹⁷ <http://www.carsonwealth.com/insights/market-commentary/weekly-market-commentary-april-30-2018/>

¹⁸ <https://www.schwab.com/resource-center/insights/content/market-perspective>

¹⁹ <https://www.nytimes.com/2018/06/13/us/politics/federal-reserve-raises-interest-rates.html>

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