Economic Outlook

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EST. 1838

DECEMBER 2018

ECONOMIC OUTLOOK

- The U.S. economy has maintained steady growth and the outlook suggests continued growth. Third quarter 2018 gross domestic product (GDP) grew at an annualized rate of 3.5%, its fastest pace in more than two years, and the first time since 2014 that the economy experienced growth of 3% or more for two consecutive quarters. The U.S. economy appears to be on track to achieve the Trump administration's 3% growth target this year. It is estimated that GDP growth next year will slow as the effects of tax reduction fade and the impact of trade negotiations and tariffs take hold. We expect continued GDP growth in 2019, at a rate of 2.5% - 3%.

- In November, the Federal Reserve left its benchmark interest rate unchanged at 2%-2.5%, as expected. The Federal Open Market Committee (FOMC) will meet again in December and an interest rate increase, to a range of 2.25% to 2.5%, is anticipated. The FOMC expects gradual interest rate increases to continue. However, language was shifted to emphasize flexibility, suggesting a pause in the quarterly pattern of rate increases. Fed officials will turn their focus to the most recent economic developments and data. This more fluid forecasting might create uncertainty for investors, but the indicated flexibility reduces the risk of "overshooting" as the Fed continues its path to normalize interest rates.

- Some sectors of the economy have tired. Housing and auto sales growth have slowed. October sales of existing homes were 5.1% below their level a year before and new ones were down by 12%. Price rises have slowed since March, likely affected by higher interest rates. But American factory activity strengthened in November, a positive sign for growth in the fourth quarter. Sales of factory-made products, or new orders, grew at a faster pace last month and inventories declined. Out of 18 industries, 13 reported growth last month, including computer and electronic products, textiles, food and beverages and transportation equipment. Companies will have to restock to keep up with demand. And consumers, who drive over 2/3 of the U.S. economy, increased spending by 3.6% in the third quarter. American consumers, supported by a strong job market and lower taxes, are likely to contribute to robust holiday spending as the year draws to a close.

- President Trump has engaged in global trade battles with an eye to protecting American industry and jobs. The summit meeting of the Group of 20 industrial and developing nations propelled some constructive activity. The U.S., Mexico, and Canada signed a new pact updating their quarter-century-old free-trade agreement. The new Nafta, rebranded as the U.S.-Mexico-Canada Agreement, or USMCA, accounts for $1.2 trillion in trade. Ratification is still required by legislators in all three countries before it can take effect. President Trump and President Xi Jinping of China came to a truce. President Trump agreed to hold off on plans to raise tariffs January 1 on $200 billion in Chinese goods. The Chinese agreed to buy a not yet agreed upon, but substantial amount, of products from the United States to reduce America's huge trade deficit with China. Much negotiation lies ahead, but world markets welcomed the news.

Sources: Bloomberg LLC, US Commerce Dept., Bureau of Labor Statistics, Dow Jones Inc. MarketWatch, Standard & Poors, Federal Reserve Bank, FactSet