Economic Outlook

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ECONOMIC OUTLOOK

- The lack of a resolution to trade tensions with China has unsettled the global markets. The longer this trade war continues, the more it will weigh on economic growth. Recent market volatility reflects this uncertainty and is likely to continue until an agreement is reached. Consensus estimates are that already imposed tariffs have lowered GDP growth by 0.3%. If $325B of additional tariffs on Chinese imports were imposed, there would be an additional 0.4% hit to GDP growth. The measurable effect of tariffs on products from Mexico is uncertain.

- The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2% in April to 112.1 (2016 = 100), following a 0.3% increase in March. Leading indicators are economic series that tend to change direction ahead of shifts in the business cycle and are a reliable indication of economic activity for the next six months.

- The U.S. economy expanded more slowly in the first quarter than previously reported. Real GDP grew at a 3.1% annualized rate, down from the preliminary estimate of 3.2%, as consumer spending, and business spending were weaker than the initial estimate. This follows real GDP growth of 2.2% in the fourth quarter of 2018. In July, the current expansion will become the longest in the country's history. However, during this period GDP growth has only averaged 2.2% a year, weaker than any expansion since 1949. The leading indicator of jobless claims continues to be near historic lows and job openings are at an all-time record high.

- Lower treasury yields are expected to help the economy in general as lower mortgage rates pull down borrowing costs for homebuyers. The average rate for a 30 year fixed rate mortgage dropped to 3.95% in May, the lowest rate since January 2018 and down from 4.8% in September 2018. Existing home sales fell .4% in April, as reported by the National Association of Realtors, down 4.4% from April 2018. Lower rates could also increase the appeal of big-ticket items related to a home purchase that may require financing.

- The Federal Deposit Insurance Corp. (FDIC) reported a 22.8% increase in commercial and industrial loan balances that are 90 days or more past due as compared to the first quarter of 2018. Banks also wrote off $12.7 billion in uncollectible loans, a 5.5% increase from the same period last year.