

ECONOMIC OUTLOOK

- ◆ The US Department of Commerce announced real GDP growth of 2.3% in the first quarter of 2018. The rate is in line with GDP growth in 2017 but behind 4Q 2017 (2.9%) and President Trump's goal of 3.0%. There are a number of reasons to be optimistic for the growth rate in the second quarter, including delayed IRS tax returns, benefits from the tax cut and a recent trend of the first quarter understating GDP growth. We estimate GDP growth of 2.5% to 3.0% for the full year 2018.
- ◆ U.S. factories reported strong demand in April, continuing the strength seen in the first quarter. The Institute for Supply Management's (ISM) manufacturing index posted a reading of 57.3, down from March but remaining expansionary. The ISM noted that robust demand was offset by a lack of employment resources as factories struggle to find skilled labor. The demand for skilled labor and lack of supply should lead to an increase in wages.
- ◆ The Bureau of Labor Statistics announced that nonfarm payrolls increased 164,000 in April after adding 202,000 per month in the first quarter of 2018. Manufacturing was a bright spot in the report, adding 24,000 workers in April. Manufacturers have added 245,000 jobs in the past year, after decades of decline. The unemployment rate improved to 3.9%, its lowest level since 2000. Wage growth rose 2.6% year over year, below estimates of 2.7%. Strong employment data continues to point to a growing economy.
- ◆ The Federal Open Markets Committee (FOMC) kept rates steady at their most recent meeting in the first week of May. The strong employment data as well as rising inflation suggest a rate hike at the next meeting in June and officials expect the Fed to lift rates two or three more times this year. The benchmark federal-funds rate is currently in the 1.50% to 1.75% range.
- ◆ On the geopolitical front, South Korea and North Korea agreed to de-nuclearize the peninsula, allaying tensions between the countries that have been at war for 65 years. In the Middle East, Syria was accused of using chemical attacks on its citizens which resulted in a response from the US, UK and France. Israel announced it had "conclusive proof" that Iran has been hiding nuclear weapon activity. Unrest in the Middle East contributed to volatility in oil prices, with Brent Crude ranging from a low \$66 early in the month to \$75 at the close of the month.

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