Economic Outlook

WELCH & FORBES LLC
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ECONOMIC OUTLOOK

- The U.S. labor market continued to show strength in April. The unemployment rate is at a 50-year low, employers are hiring at a faster pace and the economy added 263,000 jobs in April. The 3.6% unemployment rate is the lowest since December 1969. The tight labor market has contributed to strong wage growth, with hourly earnings up 3.2%. Though wages are up, we do not see above average inflation on the horizon.

- The services sector, which makes up two-thirds of the economy, maintained a strong reading of 55.5 in April as reported by the ISM Nonmanufacturing index. Though the reading is the lowest in 2 years, it shows that the economy is growing at a sustainable rate and not overheating. The ISM Manufacturing Index was 52.8, down from 55.3 in March. Higher labor costs and concerns around international trade weighed on manufacturers. Readings above 50 for the ISM indexes indicate expansion versus the previous month.

- On May 1, the Federal Open Markets Committee (FOMC) announced it would hold the Fed Funds rate unchanged at 2.25% - 2.5%. The central bank's economic outlook mentioned solid job gains, core inflation running below 2% and slowdowns in household spending and business fixed investment. With a backdrop of low inflation and sustainable economic growth, we do not expect the Fed to raise rates in the near term.

- Investors' attention will be focused on trade talks with China, after President Trump tweeted on May 3 he will be increasing tariffs on $200b of Chinese goods from 10% to 25%. Concerns around international trade, including Chinese tariffs and Brexit, continue to weigh on the economy.

- First quarter earnings have been better than expected for a majority of companies. Strong earnings, despite the government shutdown, bad weather and delayed tax refunds, reflect the strength of the consumer and the overall economy.