WELCH & FORBES LLC
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ECONOMIC OUTLOOK

- U.S. Gross Domestic Product (GDP) grew at an annualized rate of 3.5% in the third quarter (Q3) of 2018. Bolstered by a robust employment environment, consumer spending led the way as personal consumption expenditures rose by a better than expected 4.0%. Government spending was also an important contributor to growth in Q3, in particular defense outlays which grew by 4.6%. On the other hand, net exports were a drag on growth in Q3 after a positive contribution in the second quarter (Q2). Q2 net export figures were significantly impacted by the stockpiling of Chinese goods ahead of tariffs imposed by the U.S. Estimates for GDP growth in the fourth quarter of 2018 currently stand at 3.0%. For all of 2018, U.S. GDP should grow in excess of 3.0%. We expect continued growth for the U.S. economy in 2019 with an increase in GDP of 2.5 – 3.0%.

- Nonfarm payrolls increased by 250,000 in October. Part of the strength was a rebound from September when Hurricane Florence slowed job growth. Jobs are plentiful and their availability continues to bring people back into the workforce. In October, 82.3% of workers between the prime employment ages of 25 and 54 were working or looking for work, the most since 2010. The unemployment rate was unchanged at 3.7% and demand for workers is causing wage gains to accelerate at the best rate in nearly a decade. Average hourly earnings grew by 3.1% on a year over year basis, which represents the greatest increase since 2009.

- Despite wage gains exceeding 3.0%, other measures of inflation that command the Fed's attention are more subdued. The most recent reading of the personal consumption expenditures price index showed prices increasing in September at an annual rate of 2.0%. This represented the fourth consecutive month with price increases at or below a 2.0% annual rate. In addition, Fed Chair Jerome Powell recently indicated that Fed officials are placing increasing importance on inflation expectations in shaping their outlook. A market-based measure of inflation expectations is the difference between the 10-year Treasury note and the 10-year Treasury Inflation Protected Security (TIPS). Notwithstanding the recent acceleration in wage gains, this spread has remained steady at 2.0%.

- The Federal Reserve Open Market Committee (FOMC) next meets November 7-8. We do not expect the FOMC to raise the federal funds rate from the current range of 2.0 - 2.25%. The meeting does not include a press conference or official updates to the Fed's outlook for the economy and interest rates. The final meeting of the FOMC for 2018 takes place on December 18-19. We believe the FOMC will raise the federal funds rate by 0.25% after this meeting. Looking ahead to 2019, we expect the FOMC to continue on their path of normalizing short-term interest rates by increasing the federal funds rate at least twice during the year.

Economic Outlook