# ECONOMIC COMMENTARY

April 2018

## Unemployment Surges During the Quarter

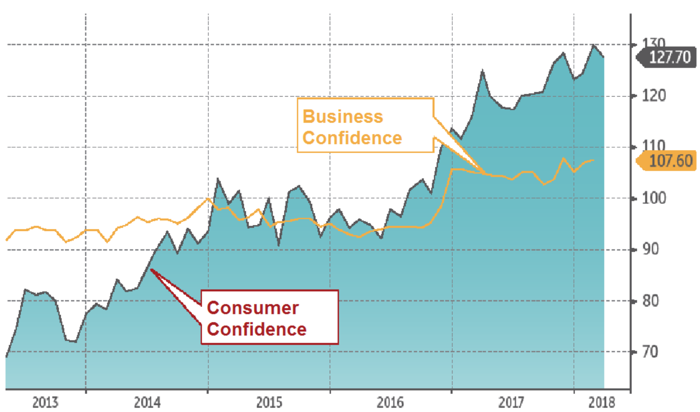
By Mel Miller, CFA® | Chief Economist

Nationwide unemployment held steady during the first quarter of 2018, not so for the Trump White House.  Thirteen major administrators were victims of President Trump's "leadership" style and were either fired or resigned over policy differences. Fifteen major administrators received the same treatment during 2017. Administrators who disagree with the President had better have their resumes up-to-date. The President has offset some of the firings by adding to his legal defense team.

Nothing can be done regarding the consolidation of power as the President surrounds himself with like-minded administrators. Yet Robert Mueller, the person he wants to fire, has both Republicans and Democrats rallying around him. A constitutional crisis is a likely risk if President Trump fires Mueller.

Does political uncertainty have an economic and market impact? Most definitely. Consumer and business confidence have been strong but now confidence numbers are under pressure.

### Business and Consumer Confidence

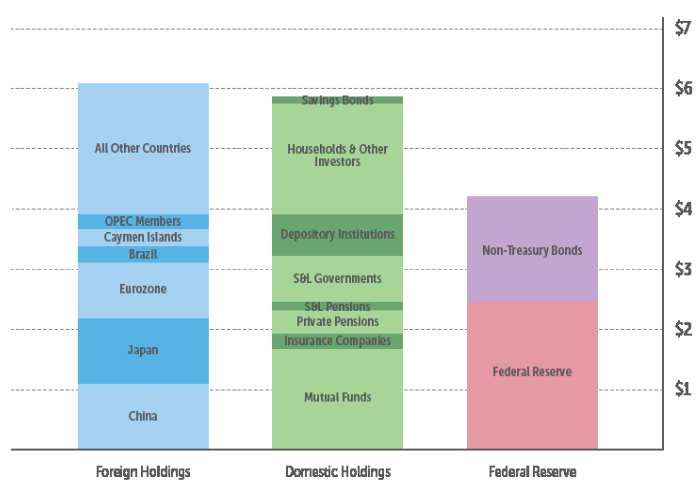



My entire career has been devoted to studying the economy and the markets.  The actions taken the first quarter by the President pose the greatest long-term risk to the economy of any decisions in my lifetime.  A constitutional crisis is survivable, but the potential trade war is a real long-term threat.

Mr. Trump began the tumultuous quarter by imposing tariffs on solar panels and washing machines.  The tariffs, in compliance with World Trade Organization (WTO), were limited in scope. Emboldened, he announced blanket tariffs of 25% on steel imports and 10% on aluminum.  The justification given was national security interests.  While technically allowed under WTO rules, as soon as Trump exempted Canada and Mexico, he could not utilize the national security argument and is now in violation of WTO rules.  Steel and aluminum only represent 2% of US imports or .2% of GDP.  Protectionist policies from our trading partners are a real risk to world economic growth.  The European Union is threatening retaliation, and the world is teetering on the brink of a trade war. At the end of March, the President announced 25% targeted tariffs on $60 billion of Chinese imports further raising the stakes. As a result Gary Cohn, chief economic adviser to the Trump Administration, has resigned. There are no winners in a trade war, only losers.

The tax reform act took effect during the quarter as well, which will raise the Federal deficit a forecasted $1.5 trillion over the next ten years. Federal debt stands at $21 trillion.  Currently our trading partners own a larger amount of US Treasury bonds than US investors. The real risk is that our trading partners retaliate by selling or, at the very least, refuse to fund the future deficit.

### Federal Deficit By Ownership




The Federal Reserve Open Market Committee under the newly appointed chair Jerome Powell raised short-term interest rates a quarter of a percent in March as expected as the FED remains concerned about the current rate of expansion and inflation pressures.

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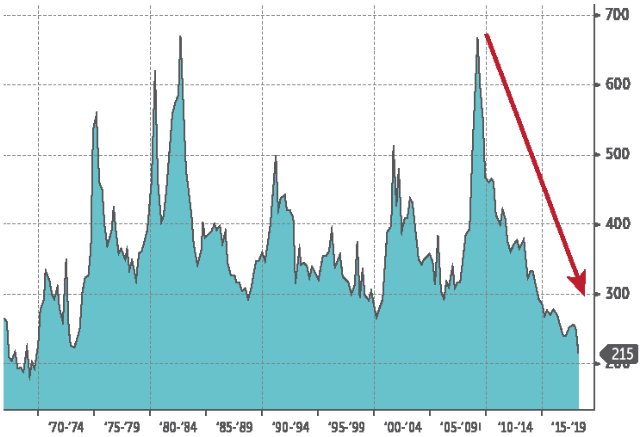
## Key Economic Releases of Quarter 1

The labor market continues to strengthen. I can think of no better measure of the strength than initial jobless claims. Initial jobless claims are approaching a low reached in 1974 when the civilian workforce was only 93 million compared to today's 162 million. The lack of layoffs is a sure sign of strength.

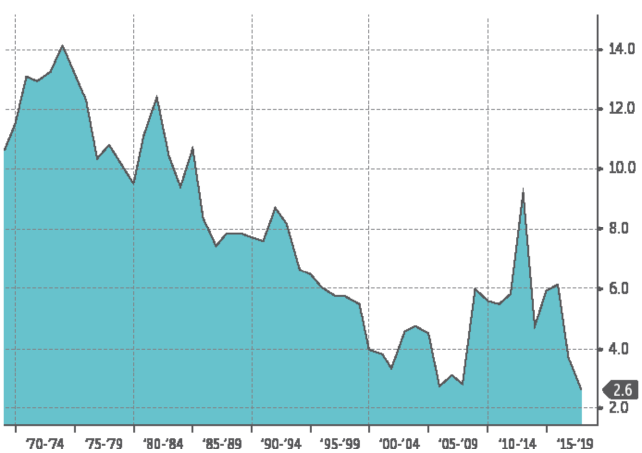
### Initial Jobless Claims




While the labor market remains tight with businesses complaining about lack of qualified workers, earnings growth remains restrained. Average weekly earnings have increased approximately 2.6% per year since 2014. After adjusting for inflation, the inflation adjusted increase remains steady at .6% per year.

Consumers, feeling confident about the economy, increased their purchases during 2018. Retail sales, excluding autos, increased 4.4% over the last twelve months. The result of retail sales growing faster than wages is a reduction in savings. The savings rate is approaching the all-time low reached in 2005.

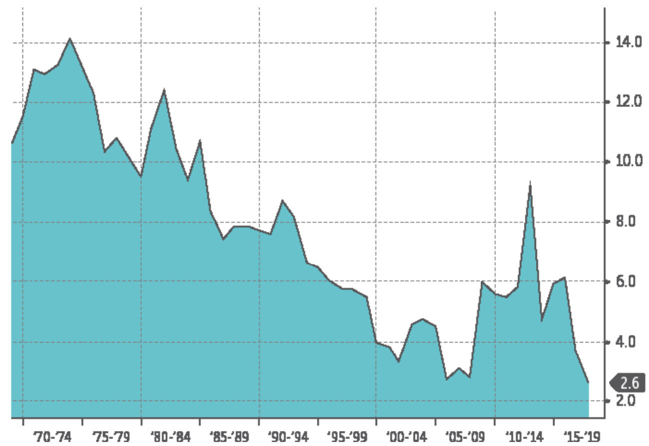
### Annual Savings Rate




Consumers have been the driving force of this near record-length economic expansion. For the expansion to continue, the business community needs to replace the consumer as the driving force. Will businesses commit to capital expenditures in order to increase worker productivity?

I mentioned this need in the previous Economic Commentary and I am pleased to report improvement in business investment. While it is too early to declare a new trend, at least the downturn has abated. The risk of a trade war might put a damper on future gains; therefore, durable goods expenditures require close monitoring.

### Small Business Capital Spending Index




## First Quarter Expectations

The economy increased 2.3% as measured by GDP in 2017. My forecast for 2018 is expansion of 2.5% - 2.75%. Based on my reading of the first quarter, I project the economy continued the growth path by increasing approximately 2.5%. The recently implemented Tax Reform Bill is designed to provide fiscal stimulus while the Federal Reserve is increasing short-term rates to slow the economy and inflation. The "Great Experiment" hopefully will result in an expanding economy while maintaining stable inflation. We will have to monitor closely, because this strategy is not without risk, especially with the potential of a trade war erupting.

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*NOTE: Indexes are not available for direct investment. Mention of a specific company or security is not a recommendation to buy or sell that security. Past performance is never a guarantee of future results.*

*Source of graphic data: Bloomberg*

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