Outlook and Market Review – Second Quarter 2018

U.S. real GDP grew at a 4.2% annual rate in the second quarter, according to the revised estimate from the Bureau of Economic Analysis. Second quarter growth was broad based. The only drags to growth came from inventory investment and trade. Analysts expect GDP growth to be about 3% in the third quarter. Inventory investment should provide a slight boost to third quarter growth but the key drag on growth going forward will be the trade war with China. The labor market remains tight with unemployment of only 3.9%, which is likely to be at or below the natural rate of full employment. Wage growth is slowly picking up but only at a moderate 3% annualized rate. Unit labor costs over the past four quarters increased only 1.9%, signaling that wages are not creating inflationary pressure.

The Fed is likely to increase the Fed Fund target to 2.5% before the year is out. Nevertheless, even though the short-term rate continues to climb, the long-term yield remains steady around 3%. The flat yield curve is consistent with a strong dollar, low inflation expectations, and globally attractive long-term U. S. bonds that keep long-term bond prices up and yields down. This condition is likely to continue until global central banks transition away from expansionary policies, allowing stronger currencies and higher yields abroad.

With full employment, inflationary pressures should begin to build. Nevertheless, inflation pressure is not imminent based on capacity utilization data showing the economy well below the 80% utilization rate where price pressure tends to occur. On a year-ago basis the Fed's preferred measure of inflation, the personal consumption expenditure (PCE), increased 2.3%. The core PCE increased 2% over the same period. While the Fed tolerates some variation from the 2% target, conditions now favor a continuation of the Fed's policy of gradually increasing the Fed Fund rate. A more aggressive approach might take shape in 2019, especially if food and energy prices spike. The Fed Fund rate could increase another 100 basis points or so after 2018 before achieving the long-term target of about 3.5%.

Global growth remains healthy. Real global GDP grew at a 3.7% annualized rate in the second quarter, following growth of 3.3% and 3.1% in the prior two quarters. Global GDP was up 3.4% on a year-ago basis. Trade disruption poses a threat for growth later in 2018 and early in 2019. The current trade war between the U. S. and China represents a major obstacle to global growth. It appears that a deal will not be forthcoming soon, but negotiations with the Eurozone, Mexico, and Korea proved successful after the initial bluster faded. Another pending crisis is taking shape in emerging markets. Argentina, Turkey, Brazil, and Indonesia are all facing a currency crisis linked to chronic trade deficits, heavy borrowing of dollars, and a strong dollar exchange rate. A contagion spreading to other countries with similar hard currency debt problems could derail growth and foster financial market turmoil.

Survey of Professional Forecasters – Economic Forecasts Remain Upbeat

A panel of 38 professional forecasters responding to the Philadelphia Federal Reserve Bank's quarterly survey recently updated forecasts for GDP growth, unemployment, payrolls, and inflation. The median forecasts, representing the consensus, remained stable with little change from last quarter. Survey results suggest little change in forecasts even as trade wars, emerging market currency troubles, and potential mid-term elections pose significant threats to the forecasts.

Forecasts of GDP Growth, Unemployment, and Payrolls

Forecasters expect the U. S. economy to grow at a 3% annual rate in the third quarter followed by a 2.8% rate in the fourth quarter. On a year-over-years basis, forecasters predict annual growth of 2.8% for 2018 and 2019. Economic growth slows to 1.8% in 2020 and 1.5% in 2021, according to the forecasters. Forecasters provide slightly lower unemployment rates and higher payroll expansion in the revisions. If forecasters are correct, the economy will remain at full employment over the next calendar year. Table 1 provides the quarterly GDP growth forecasts from the prior quarter as well as recent revisions. Data in green represent more optimistic revisions and red represents less optimistic forecasts.

Table 1. Annualized GDP Growth, Unemployment, and Payroll Forecasts and Revisions

Quarter	Prior GDP Growth	Revised GDP Growth	Prior Unemployment	Revised Unemployment	Prior Payrolls (000s/month)	Revised Payrolls (000s/month)
Q3 2018	3.0	3.0	3.9	**3.8**	175.0	**197.1**
Q4 2018	2.8	2.8	3.8	**3.7**	160.4	**173.3**
Q1 2019	2.4	**2.5**	3.8	**3.7**	160.9	**161.5**
Q2 2019	2.6	**2.7**	3.7	**3.6**	151.7	**162.0**
Q3 2019	N.A.	2.6	N.A.	3.6	N.A.	P150.1

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank

Forecasts of Inflation

Even though forecasters predict improved growth and payroll expansion over the coming quarters, revisions of inflation forecasts fell slightly. Predicted core CPI inflation for 2018 is 2.3%, down 0.2% from the previous estimate. Forecasters predict current-year headline PCE inflation to average 2.1%, unchanged from the last survey. Analysts expect Core PCE inflation for 2018 to be 2%, down 0.2% from the previous estimate. Even long run inflation forecasts remain low. Over the next 10 years, forecasters expect headline CPI inflation to average an annual rate of 2.2%. The headline PCE is 2%, unchanged from the estimate of three months ago. Table 2 provides the Survey of Professional Forecasters prior and revised inflation estimates.

Table 2. Survey of Professional Forecasters Inflation Forecasts (Annual Percent Change)

Period	Prior Headline CPI	Revised Headline CPI	Prior Core CPI	Revised Core CPI	Prior Headline PCE	Revised Headline PCE	Prior Core PCE	Revised Core PCE
Q3 2018	2.2	2.3	2.3	2.3	2.0	2.0	2.1	**2.0**
Q4 2018	2.3	2.3	2.3	2.3	2.0	**2.1**	2.1	**2.0**
Q1 2019	2.3	2.4	2.4	2.4	2.1	2.1	2.1	2.1
Q2 2019	2.2	**2.1**	2.4	2.4	2.0	2.0	2.0	**2.1**
Q3 2019	N.A.	2.3	N.A.	2.4	N. A	2.1	N.A.	2.1
2018	2.5	**2.4**	2.5	**2.3**	2.1	2.1	2.2	**2.0**
2019	2.2	2.3	2.4	2.4	2.1	2.1	2.1	2.1
2020	2.3	2.3	2.4	2.4	2.1	2.1	2.1	2.1

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank

Likelihood of Negative GDP Growth

Concerns over a potential recession are building, largely due to the unusual length of the prolonged but steady expansion. The current expansion, as weak as it has been, now exceeds nine years. The economy appears to have reached full employment even though inflation pressures remain moderate. Stimulus from the 2018 tax cuts should diminish as the economy enters 2019 and fears of a trade war add to the pessimism. The Fed is sticking to the plan of consistent and regular increases in the Fed Funds rate with the most recent increase reaching 2.25%. Analysts expect another 25-basis point increase by the end of the year. On the other hand, the economy has proven to be resilient to inflation and both consumer and business confidence remains high. Only a "blue wave" in the mid-term elections could reverse the deregulation that has prompted new growth, especially in small business. Private investment is just now contributing to growth after years of stagnation.

Table 3 provides the consensus expectations for a negative quarter of GDP growth over the near term. The revised forecasts provided a marginally lower chance of negative growth in any of the next three quarters. Overall chances of a negative quarter increase over time but remain below 20% through the third quarter of 2019. Table 3 provides the forecasters consensus of the probability of a negative quarter.

Table 3. Risk of a Negative Quarter (% probability)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Prior – probability of a negative quarter	8.6	11.1	14.4	15.6	N.A.
Revised – probability of a negative quarter	**6.6**	**10.5**	**13.2**	16.4	19.6

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank

Emerging Market Debt, Currency Crisis, and Contagion

Debt has grown rapidly at the global, national, corporate, and household levels over the past decade. Debt poses risk when the borrower is not able to generate enough operating income to service the debt. Debt defaults create a systemic risk that weakens financial institutions, destroys wealth, and often leads to economic downturns. This was the lesson that the 2008 and 2009 mortgage meltdown illustrated. Nevertheless, conditions for a perfect storm from debt default have been building for a long time. Current trade disturbances, higher interest rates in the U. S., and a stronger dollar may provide a tipping point for emerging economies with heavy debt burdens. The debt crisis appears severe in Turkey and Argentina, but the same problem is growing in Brazil, Indonesia, South Africa, Egypt, and the Philippines. The debt crisis may be fueling a contagion across emerging markets that have high debt and limited access to hard currencies.

A fundamental definition in economics is that the value created by producing consumption, investment, government, and export goods equals the value spent on consumption, saving, taxes, and imports. Algebraic manipulation results in the following definition:

$$(X-M) = (S - I) + (T - G)$$

An economy trying to stimulate growth with government deficits ($T < G$) and investment beyond domestic saving ($S < I$) will have a trade deficit ($X < M$). Another common definition of balance of payments relationships links the demand for a country's currency from exports and borrowing to the supply of a country's currency due to imports and lending.

$$X + B = M + L$$

When taken as a whole, emerging markets try to stimulate growth with $G > T$ and require foreign financing for growth with $S < I$. These relationships correspond to trade account deficits ($X<M$) and capital account inflows ($B > L$). If chronic, these conditions set the stage for a currency crisis. Borrowing must be in a hard currency ($s) because lenders do not want to be repaid in the domestic currency that is likely to fall with expansionary domestic policies. Political instability also makes lenders reluctant to accept anything other than hard currency. Emerging markets are unable to earn hard currency to repay debt as the trade deficit increases. Conditions become worse as the domestic currency falls and currency traders dump the currency, leading to a free fall.

Contagion is a common phenomenon in a currency crisis. As one currency begins a rapid fall, currency traders begin to move away from other currencies facing similar conditions. Turkey, Argentina, Brazil, and Indonesia are all emerging markets facing a currency crisis that could easily spread to other economies in similar circumstances.

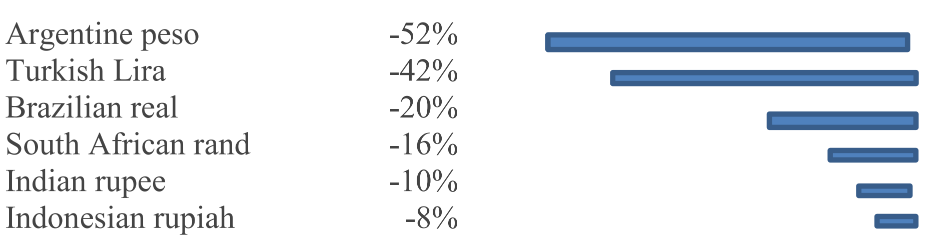
Turkey – The lira fell 42% year-to-date as high rates of inflation and growing deficits in the current account discourage holding the lira and made it difficult to earn hard currencies. The current account deficit is now about 6.3% of Turkey's GDP. Large current account deficits with large dollar denominated debt put Turkey in a difficult situation as the dollar rises in value. President Recep Taggip Endogan refuses to use monetary policy to raise interest rates on the lira. Small fiscal moves, such as reducing tax on lira deposits, have not been effective. Endogan prefers to blame the U. S. for a conspiracy aimed at destroying his government. Ultimately, political turmoil is likely. The lira has probably reached a point where monetary policy moves are not capable of solving the problem.

Argentina – The peso has had the worst performance of all emerging market currencies in 2018, losing 52% of its value since the end of 2017. Even after taking corrective actions of raising interest rates, selling reserves, and cutting government spending the peso continues to fall. IMF intervention with a $50 billion loan only served to spook investors. Argentina has now hiked rates to an astronomical 60% in hopes that investors will want to hold the peso if the rate of return is high enough.

Contagion – The growing number of countries with currency problems suggests a contagion rather than separate idiosyncratic cases. Turkey and Argentina represent the clear cases of a currency crisis in emerging markets, but other countries have falling currencies linked to similar problems. India's rupee recently had its worst monthly decline in more than three years, falling below an all-time low of Rs70 per dollar. Indonesia's rupiah recently fell to its lowest level since the 1988 Asian financial crisis. Egypt, South Africa and the Philippines may be the next to join the list of emerging markets with a currency collapse.

The problem is not isolated to emerging markets. Overreaction in financial markets and large losses from lenders to emerging markets could discourage further lending and global growth. In the worst-case scenario, any country with large stocks of dollar-denominated debt and limited internal policy options could fall into similar currency problems. Most countries in Latin America and Southeast Asia fall into this category. Figure 1 shows six countries that are currently facing currency problems.

Figure 1. Emerging Market Currency Depreciation against the Dollar
(December 29, 2017 to August 31, 2018)



Source: FactSet

Summary of Recent Economic Data

GDP Growth – *The U.S. economy boomed in the second quarter with broad based contributions from consumption, investment, and government spending. Trade continues to be a drag on growth and residential construction is weakening. Inventory investment declined in the second quarter, making it likely to be a positive factor in third quarter growth. Overall, the economy is performing as would be expected at full employment.*

- The U. S. economy grew 4.2% in the second quarter following 2.2% growth in the first quarter, based on the Bureau of Economic Analysis revised estimate for U.S. GDP growth. Consumer spending, fixed investment, and exports contributed to growth while inventory and housing were drags on the economy. Fiscal stimulus from the tax cut, increased government spending, and deregulation provided favorable winds for growth.

- Real disposable income grew at a slower rate in the second quarter, dropping from 4.4% in the first quarter to 2.5% growth.

- Table 4 below summarizes quarterly GDP growth and growth in the subcomponents of GDP. Residential construction declined in four of the last five quarters. Consumer spending growth continues to be the largest contributor to overall economic growth,

Table 4. Annualized Percentage Change in Real GDP and GDP Components

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Real GDP	4.23	2.22	2.29	2.82	2.99
Consumption	2.55	0.36	2.64	1.52	1.95
Fixed investment	1.07	1.34	1.04	0.44	0.72
Residential	-0.06	-0.14	0.41	-0.02	-0.22
Non-Residential	1.13	1.47	0.63	0.45	0.94
Inventories	-0.97	0.27	-0.91	1.04	0.23
Net Exports	1.17	-.02	-0.89	0.01	0.08
Government	0.41	0.27	0.41	-0.18	0.01

Source: Bureau of Economic Analysis

- Year-over-year growth increased 2.9% from the comparable quarter in 2017. This was the fastest since the second quarter of 2015. Renewed expenditures for equipment, goods exports, durable goods, and intellectual property investment provided for most of the improvement in GDP growth over the last year.

- Final sales, which exclude the impact on GDP from inventories, rose 5.3%, after rising 1.9% in the first quarter. Negative growth in inventory investment normally leads to strong inventory growth in the next quarter. A final sales figure of 5.3% growth for the second quarter suggest a very strong economy beyond more transitory spending on inventories.

- The personal saving for the second quarter fell to 6.8%, following a 7.2% rate in the prior quarter. While the savings rate fell, the level is healthy, allowing a positive spending outlook for the third quarter.

- Corporate profits rose 3.7% (not annualized) in the second quarter after rising 8.46% in the first quarter, following declines in the last two quarters of 2017 (see Table 5). Rising earnings may offset higher interest rates and keep equity values stable.

Table 5. Quarterly Growth in After-tax Corporate Profits

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
% Change in After-tax Corporate Profits	3.66	8.46	-6.15	-1.03	3.07

Note: Rates are not annualized. *Source: Bureau of Economic Analysis*

Labor Market – *The unemployment rate remains steady at 3.9% and job growth is healthy. Nevertheless, wages are growing at a modest 3% rate and the labor force participation rate is only 62.7%. As the economy works through full employment, we might expect excess demand wage growth, but wages currently employment.*

- The U. S. unemployment rate held steady at 3.9% in August and July with the labor force participation rate hovering around 62.7%. Payrolls increased by *201,000* in July. Table 6 summarizes labor market data.

Table 6. Unemployment and labor Force Participation Rate

	Aug. 18 2018	July 18 2018	June 18 2018	May 18 2018	April 18 2018	Mar. 18 2018
Unemployment Rate (%)	3.9	3.9	4.0	3.8	3.9	4.1
Labor Force Participation Rate	62.7	62.9	62.9	62.7	62.8	62.9

Source: Bureau of Labor Statistics

- For the week ending on September 15, U.S. initial claims for unemployment insurance benefits fell by 3,000 to 201,000. This was the fourth consecutive weekly decline, and it brings jobless claims to the lowest level since November 15, 1969.

- Continuing claims for unemployment insurance benefits fell by 55,000 to 1.645 million in the week ended September 8. The four-week moving average for continuing claims fell from 1.712 million to 1.691 million.

- The insured unemployment rate was unchanged at 1.2% for the 19th consecutive week.

- The Bureau of Labor Statistics reported that nonfarm business labor productivity increased at a seasonally adjusted annual rate of 2.9 % during the second quarter of 2018. From the second quarter of 2017 to the second quarter of 2018, productivity increased at a 1.3 % annual rate, calculated from a 3.5 % increase in output and a 2.2% increase in hours worked.

- Unit labor costs in the nonfarm business sector fell 1% in the second quarter of 2018 due to a 1.9% increase in hourly compensation and a 2.9% increase in labor productivity. Unit labor costs increased only 1.9 % over the last four quarters, helping to keep inflation at bay. Using this standard, wages continue to lag the expansion since unit labor costs represent the ratio of hourly compensation to labor productivity.

- Private sector wages increased 3% from one year ago based on the employment cost index. Wage growth should be approximately equal to inflation plus productivity growth. Inflation over the last five years has been approximately 1.6% while productivity growth has been about 1%. The implied nominal wage growth is about 2.6%, which is just below the 3% rate from the employment cost index data.

Production and Sales – *U.S. production is keeping pace with the 4% growth of the overall economy. Capacity utilization remains below the 80% threshold where bottlenecks and inflation pressures tend to occur. Sales continue to be volatile from month to month, but overall growth is healthy with a year-over-year average of 6.6%.*

- U.S. industrial production increased 0.4% in August. Manufacturing increased 0.2%, aided by stronger gains in motor vehicles and parts output. Production capacity utilization edged higher to 78.1% in August. Table 7 below outlines the monthly percentage change in production and capacity utilization.

Table 7. Industrial Production and Capacity Utilization

	Aug. 2018	July 2018	June 2018	May 2018	Apr. 2018	Mar. 2018
Industrial Production	0.4	0.4	0.6	-0.8	1.1	0.5
Capacity Utilization	78.1	77.9	77.8	77.4	78.2	77.5

Source: Federal Reserve

- Retail sales growth remains volatile from month to month with .1% growth in August following 0.7% growth in July. Sales grew at a healthy 6.6% rate on a year-ago basis. When autos are excluded the year-ago growth is 7.3%. Table 8 illustrates the monthly and year-over-year growth rates in sales.

Table 8. Monthly and Year-over-Year Growth in Sales

	Aug. 2018	July 2018	June 2018	May 2018	Apr. 2018	Mar. 2018
Monthly Growth Rate %	0.1	0.7	0.2	1.2	0.3	0.7
Year-ago Growth Rate %	6.6	6.7	6.1	6.4	4.8	5.1

Source: Census Bureau

Inflation - *Inflation is now hovering around the Fed target of 2% for the Personal Consumption Expenditure (PCE) deflator. With low unemployment of 3.9% and inflation consistent with the Fed's target, it is likely to see at least one more increase in the Fed Fund rate to 2.5% by the end of the year. The next round of U.S. tariffs on Chinese goods could nudge inflation higher by a few tenths of a percent.*

- The headline PCE deflator rose 0.1% in July and 2.3% on a year-ago basis. The core PCE deflator, which excludes food and energy, increased 0.2% in July with year-over-year growth of 2%. Table 9 provides data on the PCE and core PCE through July 18 of this year. Note that he year-ago changes are generally trending higher.

- The personal consumption expenditures price index (PCE) showed inflation of 1.9% in the second quarter, down from 2.5% in the first quarter. Excluding food and energy, inflation was 2% in the second quarter, down from 2.2% the prior quarter.

Table 9. Monthly and Year-Ago Percentage Change in the PCE

	July 2018	June 2018	May 2018	April 2018	March 2018	Feb. 2018	Jan. 2018
PCE Monthly % Change	0.1	0.1	0.2	0.2	0.1	0.1	0.3
Core PCE Monthly % Change	0.2	0.1	0.2	0.2	0.2	0.2	0.2
PCE Year-Ago % Change	2.3	2.2	2.2	2.0	2.1	1.9	1.8
Core PCE Year-Ago % Change	2.0	1.9	2.0	1.9	2.0	1.7	1.6

Source: Bureau of Economic Analysis

- On a year-ago basis, the headline CPI was up 2.7%, while the core CPI gained 2.2%. The core CPI generally runs ahead of the core personal consumption expenditure (PCE) deflator, which is the Fed's preferred inflation target. Given the problems in measuring the CPI, the level is less important than the slow accelerating trend. Inflationary pressures should build as GDP growth and tight labor markets continue into the third and fourth quarters. Table 10 summarizes the monthly and year-ago percentage changes in the CPI.

Table 10. Consumer Price Index Monthly and Year-ago Percentage Changes

	Aug. 2018	Jul. 2018	June 2018	May 2018	April 2018	Mar 2018	Feb. 2018	Jan. 2018
CPI Monthly % Change	0.2	0.2	0.1	0.2	0.2	-0.1	0.2	0.5
Core CPI Monthly % Change	0.1	0.2	0.2	0.2	0.1	0.2	0.2	0.3
CPI Year Ago % Change	2.7	2.9	2.8	2.7	2.4	2.4	2.3	2.1
CPI Year Ago % Change	2.2	2.3	2.2	2.2	2.1	2.1	1.9	1.8

Source: Bureau of Labor Statistics

- Import prices fell 0.6% in August following a revised 0.1% decline in July. Nonfuel import prices fell for the third consecutive month, reflecting past appreciation in the U.S. dollar. Import prices exclude duties and do not reflect the inflationary impact of tariffs.

- Export prices also fell in July and August following sustained increases earlier in the year. Table 11 summarizes monthly and year-ago percentage change in import and export prices.

Table 11. Import and Export Prices

	Aug. 2018	July 2018	June 2018	May 2018	April 2018	Mar. 2018	Feb. 2018
Import Prices Monthly % Change	-0.6	-0.1	0.1	0.9	0.5	-0.2	0.2
Export Prices Monthly % Change	-0.1	-0.5	0.2	0.7	0.5	0.4	0.2
Import prices Year Ago % Change	3.7	4.9	4.8	4.5	3.5	3.3	3.3
Export Prices Year Ago % Change	3.6	4.3	5.3	5.0	3.7	3.4	3.1

Source: Bureau of Labor Statistics

Confidence and Sentiment – *August reports of consumer sentiment and consumer confidence provide slightly different pictures, but the overall data suggest that consumers and businesses feel good about the economy. Both consumer and business spending are supported by the tax cuts and low unemployment.*

- The Conference Board's Leading Indicators Index rose 0.6% in July following increases of 0.5% in June and 0.1% increase in May. None of the components of the index declined. The leading indicators' six-month annualized growth rate was 5.5%. Monthly percentage change in the Conference Board's leading index appears in Table 12.

Table 12. Conference Board Leading Indicator Percentage Change

	July 2018	June 2018	May 2018	April 2018	Mach 2018	Feb. 2018	Jan. 2018
Leading Index % Change	0.6	0.5	0.1	0.5	0.3	0.6	0.7

Source: The Conference Board

- The University of Michigan Consumer Sentiment Survey fell 1.7 points in August, largely due to less favorable responses on current economic conditions. The index of 6.2 is the lowest level since January. Even with the decline in July and August, the sentiment measure remains near its cyclical high (see Table 13).

Table 13. University of Michigan Consumer Sentiment Survey (1966 Q1 = 100)

	August 2018	July 2018	June 2018	May 2018	April 2018	Mar 2018	Feb 2018
Overall Index	96.2	97.9	98.2	98.0	98.8	101.4	99.7
Percentage Change	-1.7	-0.3	0.2	-0.8	-2.6	1.7	4.0

Source: University of Michigan

- While confidence and sentiment remain high overall, there are clear threats on the horizon. Components of the Michigan survey suggest that consumers are becoming sensitive to higher interest rates. As the Fed marches toward higher rates consumer spending on durable goods may retreat. Single-family home sales may have peaked now that mortgages rates are climbing.

- The consumer confidence picture may change as the consequences of a trade war with China materialize with higher prices, lost jobs, and reduced stock market values.

Housing – *Existing home sales are strong, but they may have peaked. Sales fell for the fourth consecutive month in July. For the second quarter, sales were down 6.6% at an annual rate. Housing prices are slowing, likely due to upticks in mortgage rates.*

- Existing-home sales fell 6.6% at an annualized rate in the second quarter compared to a 6.1% drop in the first three months. Inventory of existing homes reached 4.3 months in July compared to 3.4 months in January of this year. Prices of existing homes increased 4.5% in July, which is below the monthly percentage change in prices.

- New-home sales data released for August provided downward revisions for June and July. New single-family home sales have trended down since November 2017 and are 11.7% lower. The growth rate of the median new single-family home price is below 2% year over year.

- Table 14. shows the monthly change in home sales, inventory, and median home price.

Table 14. Monthly Existing-home Sales Data

	Jul 2018	June 2018	May 2018	Apr 2018	Mar 2018	Feb 2018	Jan 2018
Existing –home Sales % change	-0.7	-0.6	-0.7	-2.7	1.1	3.0	-3.2
Months' Supply on the Market	4.3	4.3	4.1	4.0	3.5	3.4	3.4
Median Home Price Year-ago % change	4.5	4.0	5.0	5.3	5.6	5.6	5.9
New Home Sales Year-ago % change	-1.6	-5.4	3.2	-5.8	1.4	4.7	-0.5

Source: National Association of Realtors

- The median price of existing condo/co-op homes was $239,690 in July, up by 0.4% from June and up by 3.4% from July 2017.

- The S&P CoreLogic Case-Shiller U. S. National Home Price NSA Index covering all U. S. census divisions increased at a 6% annual rate in July following a 6.2% annual rate in June. The 20-city composite index increased 5.9% year-over-year in July from 6.4% in June.

U. S. Trade – *The U. S. trade deficit widened to $50.1 billion in July and is likely to be a drag on third quarter growth. The nominal trade deficit widened for a second consecutive month, placing it at its highest level since February. July's data represent the first impacts of trade confrontation with China. The bulk of tariffs on Chinese goods—as well as retaliatory Chinese tariffs on American goods—came into force only in early July.*

- The nominal trade deficit in July reached its highest level since February. The July deficit is higher than the $44.2 billion deficit a year earlier.

- Nominal goods exports fell 1.6% on a monthly basis but services exports rose 0.3% to hit their 15th consecutive record high.

- Nominal goods imports rose 0.9%, while services imports gained 0.7%.

- The nominal petroleum deficit widened from a revised $4.2 billion in June to $4.5 billion. Year to date, petroleum exports are up 41%, while petroleum imports increased 21.7%

- Imports remained steady over the month, rising 0.9%. Strong imports are consistent with the strong state of the U.S. economy and a strong dollar. The trade-weighted dollar appreciated 5.6% since the start of 2018.

Global Economy – *The global economy rose 3.7% at an annualized rate in the second quarter following 3.3% growth in the first quarter. Key threats include a contagion from collapsing currencies in emerging markets and an escalation in trade wars.*

- Real global GDP grew at a 3.7% annualized rate in the second quarter, following growth of 3.3% and 3.1% in the prior two quarters. Global GDP was up 3.4% on a year-ago basis.

- Much of the improvement in global growth came from developed economies, which grew 3% in the second quarter following only 1.7% in the first quarter. Developing economies slowed from 5.9% growth in the first quarter to 4.9% in the second quarter. Overall, the global economy is growing above trend. Table 15 outlines quarterly growth data for developed and emerging markets.

Table 15. Real Global Growth by Quarter (Annualized % change)

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Global Economies	3.7	3.3	3.1	3.4	3.8
Developed Economies	3.0	1.7	2.2	2.6	2.8
Developing Economies	4.9	5.9	4.5	4.7	5.4

- GDP growth for the Eurozone is likely to be about 2% for 2018. Transportation strikes in France, Brexit issues, and higher energy prices represent key threats to growth. Interest rates remain low but monetary policy plans call for moving to higher rates in the fall of 2019. An aging population and declining productivity threaten overall growth in the longer term. The debt crisis in Argentina, Turkey, Indonesia, and Brazil may spread to Italy and Greece, creating added headwinds for the Eurozone.

- China is on track to hit a 6.5% GDP growth rate for 2018. The deleveraging program and workouts of non-performing loans represent key risks for growth. Tight credit and corresponding drag on investment from deleveraging should dampen growth going forward. China has a lot to lose from a trade war with the U. S. and the chance of a “hard landing” increases the longer the current trade battle continues.

- Japan continues to struggle with disinflation. Inflation of .7% in the second quarter remains well below the 2% target. GDP growth should only be about 1.1% in 2018. Japan appears to have dodged a bullet by getting an exemption for U.S. tariffs on autos.

- Year-over-year growth reached 1.3% for the first quarter of in 2018 in Russia. Higher oil prices helped growth, but sanctions are clearly hurting economic performance.

- India continues to recover from demonetization and chaotic government reforms. Growth in India remains strong with a 7.4% increase in GDP in the first quarter of 2018.