Fourth Quarter 2017
Courtesy of Miles Capital

Economic Commentary

As we reflect on how 2017 finished, it's hard not to be optimistic that the nine-year economic expansion will continue at a healthy pace into 2018. However, in the last few months of the year many economic indicators across both consumer and business sectors were at decade highs and it appears momentum is likely to accelerate thanks to year-end fiscal policy that will take effect in 2018.

Perhaps the biggest news of the quarter was the December passage of U.S. tax reform that will have implications for near term economic growth. The new tax policy is projected to add approximately 0.2-0.4 percent growth in 2018, mostly due to the corporate sector tax law changes. Consumers may also feel some positive effects with lower tax rates, but those are partially offset by the loss of certain deductions. The longer-term implications of the tax policy are harder to assess, but it will likely add to the national deficit which could have negative effects on inflation and growth over time.

Even without the tax law changes, economic growth had accelerated throughout 2017 and is likely to finish the year averaging nearly 3 percent over the last three quarters. Consumers continue to play a major role in the expansion, as retail sales accelerated and the housing and equity markets set record highs. These factors, as well as a very strong job market, have given the average consumer reason to feel confident about the future. Some consumer confidence data recently reached 15-20 year highs and discretionary savings rates are at decade lows.

Corporations will likely benefit from the tax laws changes due to the sizable cut in the corporate tax rate. What they do with those savings will vary by company, but it's expected that some savings will be used to increase capital investment and hiring which would boost economic growth. The corporate sector experienced robust growth throughout 2017, and should experience the sixth consecutive quarter of positive earnings growth once the latest quarterly earnings data is reported.

Global synchronization of the economic expansion was a new theme that began to play out in 2017. Many major and emerging market economics experienced growth rates not seen in multiple years. Easy financial conditions, low interest rates, low inflation, and accommodative central banks supported the global expansion. A few of the potential risks to the current growth path include less accommodative postures by many global central banks, U.S mid-term elections, general risk asset valuation levels, and geo-political risk. Even with these risks, we are optimistic that growth in the U.S. and overseas should remain solid in 2018.