Looking good going into summer season

The U.S. economy in general is performing well based on key economic data released over the last several weeks. The economy has entered its second-longest expansion and is on track with moderate growth. Growth is expected to ramp up to a 3 percent pace in the second quarter but geopolitical and trade issues along with rising oil prices have resulted in some uncertainties and concerns about the outlook.

Consumer spending remains the backbone of the current economic expansion as evidenced by solid April retail sales growth and upward revisions to March sales. Retail sales' three-month moving average is up 4.1 percent over the same period a year ago, a good start for the trajectory of the economy. However, this spring has brought another surge in gasoline prices. Gasoline prices routinely increase from winter lows through much of the first half of the year, but in the last couple of months households have seen the impact of oil price increases of well over $10 per barrel. Stronger global demand and production constraints by Russia and Saudi Arabia have pulled prices up to around $70 a barrel.

Recent prices for regular gasoline have increased approximately 50 cents a gallon since a year ago and — depending on both the volatility of price increases and the duration — may take a bite out of spending. Because oil prices are highly correlated with inflation and move in the same direction, inflation has become a hot topic this spring. In April, the 12-month change in the Consumer Price Index hit 2.42 percent. The data points to a buildup of inflation, and since oil is a major input to many economic activities, the cost of rising oil prices will ultimately be passed along to consumers in the form of higher prices. Nonetheless, while inflation has picked up, it is expected to remain well anchored at around 2 percent. The federal tax cuts that took effect at the beginning of this year and higher savings levels should help consumers afford the recent surge in inflation and gasoline prices.

The labor market is the strongest in several years, with April continuing a trend of steady job growth. Nonfarm employment has risen 200,000 jobs per month and unemployment has fallen to 3.9 percent, a level last registered in December 2000. The labor market continues to tighten, resulting in measures of wage growth and core inflation rising. The Job Openings and Labor Turnover Survey for March showed another increase in the job openings rate to 4.2 percent, a record high for the survey.

U.S. industrial production increased solidly in April and reached its highest point since 2014. There was an acceleration in manufacturing and mining output supported by stronger domestic and global demand. This is the latest indicator that the economy was gathering momentum early in the second quarter.

The Conference Board’s Leading Economic Index increased 0.4 percent in April matching the March increase and marking a 0.7 percent increase in February. That was the sixth straight month of gains for the index, which combines 10 measures to take the pulse of the economy. In sum, the numbers are showing a positive and continued upward trend and point to a solid second quarter and continued momentum in the third quarter.
Finally, with inflation measures moving up and the labor market at or nearly full employment, the Federal Reserve Open Market Committee is highly likely to raise rates three more times this year, with the first one likely to be a quarter-point increase in June. The expected rise in rates should not be interpreted necessarily as a negative but rather that the Fed is affirming that the economy has plenty of positive momentum in 2018 and enough to carry into 2019.

**CONSUMER SENTIMENT**
Consumer sentiment peaked in March, but the current reading remains strong. A solid job market, recent wage gains and elevated confidence translate into ongoing spending support.

**ECOMMERCE SALES**
Ecommerce sales in the first quarter expanded at a healthy clip. Retailers continued to invest in technology to drive mobile sales.

**JOBS**
April private-sector job gains came in at 168,000—below the three-month average but enough to maintain a solid pace in a tight labor market as wages rose. The unemployment rate dipped to 3.9 percent.

**RETAIL EMPLOYMENT**
April retail industry employment totaled 15.9 million jobs, a nearly all-time high. Retail openings were at a record April monthly high of 723,000.
CONSUMER CREDIT

Consumer borrowing expanded by $11.6 billion but its pace slowed. Consumer confidence remains high, and U.S. households have the capacity to take on more debt if desired.

CONSUMER PRICE INDEX

Over the past 12 months, the Consumer Price Index is up 2.4 percent. Excluding food and energy, core CPI is up 2.1 percent. Rising prices have begun to squeeze consumer budgets.

HOUSING

The homebuilding market improved in May with a reading of 70, up from the downwardly revised April reading of 68. There was a steady gain in new single-family homes.

LEADING ECONOMIC INDEX

The Conference Board’s leading index suggests continued economic growth. However, the three-month growth rate has slowed, suggesting growth is unlikely to strongly accelerate.