KeyValueData™

National Economic Report

June 2018

By Kevin R. Hopkins

About the Editor

The KeyValueData National Economic Report is written and edited by Kevin R. Hopkins. Mr. Hopkins is a former senior economic advisor to President Reagan. He previously served as Director of the White House Office of Policy Information and as Senior Staff Member for the White House Cabinet Council on Economic Affairs. He has also been a senior contributing editor to Business Week magazine for the past 18 years. He attended the Ph.D. program in Economics and Mathematics at UCLA.

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June 2018 National Economic Report: Summary

After middling improvements in March and April followed by a stronger May, the U.S. economy turned in a sterling second-quarter Gross Domestic Product (GDP) growth performance in June. The growth rate—4.1%, matching expectations—was the fastest GDP growth pace in almost four years. The U.S. Commerce Department upwardly revised its growth figure for the first quarter as well, from 2.0% to 2.2%. Similarly, after registering modest gains in March and April, the U.S. labor market rebounded in May and remained strong in June. According to a July 6 report from the U.S. Department of Labor, nonfarm payrolls rose by a seasonally adjusted 213,000 in June, while April's and May's new-jobs figures also were revised upward. The U.S. headline unemployment rate, which had fallen to an 18-year low of 3.8% in May, did climb back up to 4.0% in June, but that was due largely to an influx of more than 600,000 labor-market entrants.

Nevertheless, concerns remain. The U.S. national debt, which slipped back slightly in April, hit new all-time highs in May and June. Likewise, the annual Federal budget deficit was headed toward $1 trillion or more again, while both Federal spending and taxation in FY 2017 once more reached new all-time highs. In other areas, on the positive side, industrial production rebounded, the U.S. trade deficit fell to a 19-month low, auto sales continued upward, consumer-confidence measures improved, personal incomes and hourly wages rose, consumer spending increased, retail sales were up, inflation was moderate, and gasoline prices slipped back. On the negative side, stocks were flat, new- & existing-home sales and starts all fell, and crude oil prices hit a nearly four-year high.

U.S. Economic Growth Hits 4.1%; Best in Nearly Four Years

The U.S. Commerce Department on June 27 published its initial estimate for second-quarter growth in the U.S. Gross Domestic Product (GDP), and it lived up to advance billing. Growth during the quarter, the Department said, came in at 4.1%, matching expectations of a Reuters panel of economists. The Q2 rate was the economy's best mark since the 4.9% rate during the third quarter of 2014 and the third-best pace since the ending of the Great Recession, boosting hopes—in the words of CNBC—"that the economy is ready to break out of its decade-long slumber." At the same time, the Commerce Department upwardly revised its Q1 growth figure from 2.0% to 2.2%. Overall, the current economic expansion, which began in June 2009, is now in its 108th month, representing the second-longest economic expansion in U.S. history.

Job Growth Remains Strong in June

After registering modest gains in March and April, the U.S. labor market rebounded in May and remained strong in June. According to a July 6 report from the U.S. Department of Labor, nonfarm payrolls rose by a seasonally adjusted 213,000 in June—above the 195,000 new jobs forecast by a panel of economists surveyed by Reuters. April's and May's new-jobs figures also were revised upward. With June's jump, the U.S. economy has now registered net job gains for 93 months in a row, extending an all-time U.S. jobs-growth record. Conversely, after dropping from 4.4% last August to an 18-year low of 3.8% in May, the U.S. headline unemployment rate ticked back up to 4.0% in June, due largely to an influx of more than 600,000 labor-market entrants seeking work.

Budget Deficit Up in FY 2017 & Headed Higher

After dipping to $438.9 billion in FY 2015, the Federal budget deficit climbed back to $587.4 billion in FY 2016 and, further, to $666.0 billion in FY 2017, which ended on September 30, 2017, a jump of 13.4%. The FY 2018 figure is trending even higher.

U.S. National Debt Hits New All-Time High

After breaching $20 trillion last fall, the U.S. national debt blew past $21 trillion in March and, after slipping in April, jumped to a new all-time high of $21.195 trillion on June 30.

Federal Spending and Tax Collections Again Set New Records

After hitting all-time highs in FY 2016, both Federal spending and tax revenues set new records again in FY 2017, which ended on September 30, 2017. Spending in FY 2017 came in at an estimated $3.981 trillion vs. $3.854 trillion in FY 2016, a rise of 3.3%. Tax collections were $3.315 trillion in FY 2017 vs. $3.267 trillion in FY 2016, up by 1.5%.

Stocks Little Changed in June

After edging up in May, U.S. stocks were little changed in June. By the numbers, the Dow Jones Industrial Index, which had edged up from 24,163.15 on April 30 to 24,415.84 on May 31, slipped back to 24,271.41 on June 29, a decline of 0.6%. In contrast, the S&P 500, which had risen from 2,648.05 on April 30 to 2,705.27 on May 31, inched up further to 2,718.37 on June 29, an increase of 0.5%. And the Nasdaq, which had jumped from 7,067.27 on April 30 to 7,442.12 on May 31, edged ahead to 7,510.30 on June 29, a 0.9% gain.

Industrial Production Climbs Back Up in June

According to a July 17 report from the U.S. Federal Reserve, U.S. industrial production rose by 0.6% in June after declining by a revised 0.5% in May.

Productivity Increases in First Quarter, But By Less Than First Thought

U.S. nonfarm productivity—or the level of employee output per hour—rose by a downwardly revised 0.4% in the first quarter of 2018 after edging up by an upwardly revised 0.3% in 2017's fourth quarter.

U.S. Trade Gap Falls to 19-Month Low

After dropping in March for the first time in seven months and then decreasing in April to a seven-month low, the U.S. trade deficit—which previously had risen in each of September through February—fell to its lowest level in 19 months as U.S. exports rose to a record high. According to U.S. Commerce Department figures released on July 6, the trade deficit declined to $43.1 billion in May, down by 6.6% from the April level.

U.S. Auto Sales Continue Upward in June

After dropping for 12 of the past 16 months—including a 5.0% decline in April—U.S. auto sales rose by 2.0% in May and, thereafter, by another 2.1% in June.

New- & Existing Home Sales and Housing Starts All Fall in June

Following declines in four of the previous five months, sales of new U.S. homes jumped by 6.7% in May before unexpectedly slumping by 5.3% in June. Existing-home sales also fell for a third straight month in June, slipping by 0.6%. And housing starts in June plunged to a nine-month low, diving by 12%.

Consumer-Confidence Measures Improve in June

After posting mixed readings in March, April, and May, U.S. consumer-confidence measures improved somewhat in June. The Conference Board's Consumer Confidence Index fell slightly in June, but three other key confidence measures increased.

Personal Incomes Increase Again in June

After rising for 16 of the past 17 months, including 0.4% increases in April and May, U.S. personal incomes climbed by another 0.4% in June, the U.S. Commerce Department said on July 31.

Hourly Wages Rise in June

After steadily increasing for 16 of the 17 months from December 2016 to May 2018, U.S. hourly wages rose again by 5 cents per hour in June, from an upwardly revised $26.93 in May to $26.98 in June, a gain of 0.2%. Year-over-year, wages were up by 2.7%.

Consumer Spending Up in June

U.S. consumer spending rose by a solid 0.4% in June, while May's originally reported 0.2% increase was upwardly revised to a 0.5% gain, the Commerce Department said.

Retail Sales Rise in June

Following gains in each of March, April, and May, U.S. retail sales rose by a solid 0.5% in June, matching forecasts, the U.S. Department of Commerce reported on July 14.

Consumer Prices Inch Up by 0.1% in June

After jumping by 0.5% in January and sparking inflation fears, the U.S. Consumer Price Index (CPI) for all goods rose by only 0.2% in February, tamping down the fears, and then declined by 0.1% in March before rising again by 0.2% in each of April and May. Price increases eased in June, with the CPI inching up by just 0.1% seasonally adjusted.

Crude Oil Prices Surge in June, While Retail Gasoline Prices Slip Back

After declining in May, U.S. crude oil prices, on June 26 and 27 topped $75 per barrel for the first time since 2014, their highest level in almost four years, then finished the month at $74.13, a figure that was 20.7% higher than on May 31. Meanwhile, after climbing to $2.88 per gallon in May, retail gasoline prices slipped back to $2.75 per gallon in June.

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June 2018 National Economic Report

***Note:** Each month, when we publish a new KeyValueData National Economic Report, we also release an updated edition of the previous month's Report. Therefore, when you download the new Report, <u>we encourage you to re-download the previous month's Report as well so that you will have the most current data for the previous month</u>.*

After middling improvements in March and April followed by a stronger May, the U.S. economy turned in a sterling second-quarter Gross Domestic Product (GDP) growth performance in June. The growth rate—4.1%, matching expectations—was the fastest GDP growth pace in almost four years. The U.S. Commerce Department upwardly revised its growth figure for the first quarter as well, from 2.0% to 2.2%. Similarly, after registering modest gains in March and April, the U.S. labor market rebounded in May and remained strong in June. According to a July 6 report from the U.S. Department of Labor, nonfarm payrolls rose by a seasonally adjusted 213,000 in June, while April's and May's new-jobs figures also were revised upward. The U.S. headline unemployment rate, which had fallen to an 18-year low of 3.8% in May, did climb back up to 4.0% in June, but that was due largely to an influx of more than 600,000 labor-market entrants.

Nevertheless, concerns remain. The U.S. national debt, which slipped back slightly in April, hit new all-time highs in May and June. Likewise, the annual Federal budget deficit was headed toward $1 trillion or more again, while both Federal spending and taxation in FY 2017 once more reached new all-time highs. In other areas, on the positive side, industrial production rebounded, the U.S. trade deficit fell to a 19-month low, auto sales continued upward, consumer-confidence measures improved, personal incomes and hourly wages rose, consumer spending increased, retail sales were up, inflation was moderate, and gasoline prices slipped back. On the negative side, stocks were flat, new- & existing-home sales and starts all fell, and crude oil prices hit a nearly four-year high.

1. THE ECONOMY

1.1 Economic growth

U.S. economic growth hits 4.1%; best in nearly four years. The U.S. Commerce Department on June 27 published its initial estimate for second-quarter growth in the U.S. Gross Domestic Product (GDP), and it lived up to advance billing. Growth during the quarter, the Department said, came in at 4.1%, matching expectations by a Reuters panel of economists. The Q2 rate was the economy's best mark since the 4.9% rate during the third quarter of 2014 and the third-best pace since the ending of the Great Recession, boosting hopes—in the words of CNBC—"that the economy is ready to break out of its decade-long slumber." The Commerce Department also upwardly revised its growth figure for the first quarter from 2.0% to 2.2%. Two of the most important factors in the second quarter's accelerated growth were increases in personal consumption expenditures, which were up by 4.0%, and business investment, which jumped by 7.3%. Federal government outlays also rose by 3.5%. Exports rose ahead of China's expected retaliatory tariffs, while last December's massive tax cuts continued to have a highly positive impact on growth. The only major downsides: declines in private inventory investment and residential fixed investment. Overall, the current economic expansion, which began in June 2009, is now in its 108th month, representing the second-longest economic expansion in U.S. history. The longest span—120 months—lasted from 1991 to 2001.

1.2 Behind the numbers

Voters' perceptions of U.S. economy hit record high. Perceptions of the U.S. economy have reached a record high among voters, according to a Quinnipiac University poll released on January 10. Two-thirds of voters surveyed—66%—said that they would characterize the economy as "excellent" or "good." Quinnipiac noted that figure was the highest rating offered since it began asking the question in 2001. Since then, these positive trends have persisted: in a CNBC poll released on June 25, 54% of Americans said the economy was in "good" or "excellent" shape, the highest reading in the survey's 10-year history. At the same time, Gallup found that 55% of Americans believed that the best days for the United States still lay ahead.

Small-business optimism index has record year. The National Federation of Independent Business (NFIB) Index of Small Business Optimism last December capped a record year for the index. The average monthly index for 2017 was 104.8; the previous record was 104.6, set in 2004. "We've been doing this research for nearly half a century, longer than anyone else, and I've never seen anything like 2017," said NFIB Chief Economist Bill Dunkelberg. Added NFIB President & CEO Juanita Duggan: "2017 was the most remarkable year in the 45-year history of the NFIB Optimism Index."

Small-business optimism reaches 19th month of historic highs. The National Federation of Independent Business (NFIB) Index of Small Business Optimism, which had peaked at 107.6 in February and then again at 107.8 in May (falling just short of the index's all-time high of 108.0 in July 1983, 35 years ago), reached its 19th consecutive month in the top 5% of 45 years of survey readings, according to the NFIB Small Business Economic Trends survey for June. The 107.2 June reading was down by 0.6 percentage points from May's level, although economists had expected a much steeper decline to 106.3. In a related measure, the CNBC/SurveyMonkey Small Business Confidence Index for the second quarter, while dipping one percentage point from 62 in Q1 to 61 in Q2, remained near the first quarter's record high.

"Right direction" feelings edge back up in June. After slipping in May, Rasmussen Reports' "Right Direction/Wrong Track" survey figures edged back up in June. According to the June 28 edition of the poll, 41% of U.S. voters thought the United States was headed in the right direction (up from 39% on May 31), compared to 53% saying that the country was on the wrong track (down from 54% on May 31).

Satisfaction with U.S. direction rises. In a separate survey, Gallup reported on June 18 that 38% of Americans were "satisfied with the way things were going" in the United States, just above the previous month's satisfaction rate of 37% but reaching a high-water mark since a 39% reading in September 2005, more than 12 years ago.

1.3 Complications

U.S. economic freedom hits all-time low. The Heritage Foundation's 2017 Index of Economic Freedom—an annual global study that compares countries' entrepreneurial environments—showed that, for the ninth time since 2008, the United States had lost ground. According to the 2017 index, released on February 15, 2017, the U.S. ranked 17th of 180 rated economies, lagging behind other comparable advanced economies. In the 2018 survey, released on February 2, 2018, the United States' net score edged up, but the U.S. again fell back, slipping one place to 18th on the list.

China to overtake U.S. economy by 2032. According to a report last December 25 by the Centre for Economics and Business Research in London, China will overtake the United States as the world's largest economy by 2032—just 14 years from now.

1.4 What lies ahead

Fed raises interest rates again. For the seventh time since the U.S. financial crisis and the second time this year, the U.S. Federal Reserve, on June 13, raised its benchmark interest rate by another quarter point to a range of from 1.75% to 2.00%. For the future, a majority of Fed policy makers now expect a total of four interest-rate hikes this year vs. the previously expected three, CNN reported. Echoing this sentiment, Fed Chairman Jerome Powell, in Congressional testimony delivered on July 17, said that the U.S. economy was running at a fast enough pace to justify continued rate increases.

Fed boosts near-term economic growth forecast. The U.S. Federal Reserve on June 13 released its second-quarter economic-growth forecast, increasing projections for near-term U.S. economic growth. For 2018, the Fed, which had nudged up its growth forecast from 2.1% in its September 2017 reading to 2.7% in its March projection, raised the rate still further to 2.8% in June. At the same time, the Fed held its 2019 growth forecast stable at 2.4% and its 2020 projection in place at 2.0%. While the Fed's 2.8% projection for the current year is short of the Trump administration's 3.0% growth target, it still would be the best annual performance for the economy since 2005, 13 years ago.

2. EMPLOYMENT

2.1 Unemployment

Job growth remains strong in June. After registering unexceptional gains in March and April, the U.S. labor market rebounded strongly in May and continued to power forward in June. According to a July 6 report from the U.S. Department of Labor, nonfarm payrolls rose by a seasonally adjusted 213,000 in June—above the 195,000 new jobs forecast by a panel of economists surveyed by Reuters. Moreover, despite increasing warnings of labor shortages and the economy's being near full employment, hiring is continuing apace. Along with June's larger-than-expected increase, April's new-jobs figure was revised upward from 159,000 to 175,000 and May's from 223,000 to 244,000, representing a combined gain of 37,000 jobs. Professional and business services employment led the way in June, with 50,000 new jobs, while manufacturing added 36,000 positions. Health care was up by 25,000 and construction gained 13,000, while retail lost 22,000 jobs. With June's increase, the U.S. economy has now registered net job gains for 93 months in a row, extending an all-time U.S. jobs-growth record.

Unemployment rate rises to 4.0%. After dropping from 4.4% last August to an 18-year low of 3.8% in May, the U.S. headline unemployment rate ticked back up to 4.0% in June, but this was due largely to an influx of more than 600,000 labor-market entrants seeking employment, the U.S. Department of Labor said on July 6.

Total employment again hits all-time high. The total number of Americans (aged 16 years old and older) holding jobs, which in May hit its ninth record high since the start of 2017, jumped to a new record again in June, the U.S. Bureau of Labor Statistics said on July 6. In total, 155,576,000 Americans were employed in June, up from 155,474,000 in May and from 155,181,000 in April.

Manufacturing jobs hit 10-year high. The number of U.S. manufacturing jobs increased by 36,000 in June, climbing from 12,677,000 in May to 12,713,000 in June—a 10-year high—the U.S. Bureau of Labor Statistics said on July 6. Since December 2016, the U.S. has added a total of 362,000 manufacturing jobs. In particular, the U.S. fabricated metals sector—the subject of threatened (March 1) and imposed (June 1) tariffs—experienced 1.0% job growth during the second quarter, vs. 0.25% job growth in the overall U.S. economy. In June alone, fabricated metals added 7,000 new jobs.

Long-term unemployment increases sharply. In sharp contrast with recent data, the number of long-term unemployed individuals (those jobless for 27 weeks or more), which had held at 1.4 million in February and had fallen to 1.3 million in March and April before dropping further to 1.2 million in May, jumped by 289,000 in June to 1.5 million, according to a July 6 release from the U.S. Department of Labor. These individuals accounted for 23.0% of the unemployed in June vs. 19.4% of the unemployed in May.

Underemployment rate rises to 7.8%. After declining from 8.6% last August to 7.8% in April and to 7.6% in May, the U.S. underemployment (U-6) rate—defined as unemployed individuals plus part-time workers who would prefer to be working full-time—climbed back to 7.8% in June, the U.S. Labor Department said on July 6.

2.2 Behind the numbers

New jobless claims up in June. After rising from 211,000 for the week ended April 28 to 223,000 for the week ended May 26, the number of Americans filing new unemployment benefits claims rose further to 232,000 for the week ended June 30. Still, new jobless claims have now held below 300,000 for 174 consecutive weeks, eclipsing the all-time record of 161 sub-300,000 weekly marks that had ended in April 1970, 48 years ago. Meanwhile, continuing claims for state unemployment benefits dropped to 1.7 million in mid-June, their lowest level since December 1973, nearly 45 years ago.

Labor-force participation rate edges back up to 62.9%. After falling from 62.8% in April to 62.7% in May, the U.S. labor-force participation rate edged back up to 62.9% in June, the U.S. Labor Department said on July 6.

Women's unemployment rate jumps back to 3.7%. After falling from 3.5% in April to 3.3% in May, the unemployment rate for women aged 20 and above jumped back up to 3.7% in June, the U.S. Labor Department said.

African-American jobless rate climbs back up from record low. After falling from 6.6% in April to an all-time record low of 5.9% in May, the unemployment rate for African Americans aged 20 and above climbed back up to 6.5% in June.

Hispanic employment reaches record low. The jobless rate for Hispanic Americans, which in April had tied its lowest mark on record at 4.8% and then had ticked back up to 4.9% in May, dove to a new record low of 4.6% in June.

Unemployment rate falls again for teens but rises for African-American teens. The unemployment rate for all U.S. teens aged 16 to 19, which had fallen from 12.9% in April to 12.8% in May, declined again to 12.6% in June. In contrast, the unemployment rate for African-American teens aged 16 to 19, which had plummeted from 29.0% in April to 19.8% in May, edged back up to 20.3% in June.

Number of job openings slips in May. The number of U.S. job openings, which had risen from 6.6 million on the last day of March to 6.7 million on the last day of April, slipped back down to 6.6 million on the last day of May, according to the U.S. Labor Department's July 10 JOLTS (Job Openings and Labor Turnover Summary) report.

Jobseekers reach parity with job openings. According to the U.S. Labor Department's March JOLTS (Job Openings and Labor Turnover Summary) report, the number of U.S. job openings is finally back on par with the number of jobseekers, meaning that there is approximately 1.0 jobseeker for every job opening. By contrast, at the start of the Great Recession in 2007, there were 1.9 jobseekers for every open job.

Americans happier at work. For the first time since 2005, more than half of U.S. workers now say that they're satisfied with their jobs, according to a September 1, 2017, report from the Conference Board, a business research group.

Job-market optimism hits record high. Americans' optimism about finding a quality job—an indicator of positive feelings about the U.S. labor market—averaged 56% in 2017, the highest annual average in 17 years of polling by the Gallup organization and a sharp increase from the 42% figure registered in 2016, Gallup said on January 9.

2.3 Complications

Illegal immigration surges in southwestern United States. Illegal immigration on the United States' southwestern border surged by 230% in April, a development that many economists believe threatens the employment of low-wage U.S. citizens. Then, in May, border arrests were up by 160% vs. May 2017—a sign that President Trump's "zero tolerance" immigration policy has not yet had a deterrent effect. Some 75% of illegal immigrants apprehended received "catch and release" treatment, meaning that they can slip back into the economy with little immediate threat of deportation.

Labor shortages growing. According to a July 5 report from CNBC, "[t]he U.S. labor shortage is reaching a critical point, as employers are increasingly having trouble filling positions from truck driver to technologist. Indeed, for the first time since statistics were tracked, as indicated above, there are now more job openings in the U.S. economy than there are eligible workers to fill them. As a result, economists expect wages to start rising faster.

2.4 What lies ahead

Fed lowers unemployment-rate forecast. After reducing its unemployment-rate forecast in each of its previous four quarterly projections, the U.S. Federal Reserve again lowered its unemployment-rate outlook in its most recent calculations, released on June 12. Specifically, the Fed edged down its unemployment projection for 2018 from 3.9% in its December report and from 3.8% in its March reading to 3.6% in its June forecast. Similarly, the Fed cut both its 2019 and 2020 projections from 3.9% in its December report and from 3.6% in its March report to 3.5% in its June reading.

3. FEDERAL BUDGET & TAXES

3.1 Budget deficits & national debt

Budget deficit up in FY 2017. After topping $1 trillion each year from FY 2009 to FY 2012, the Federal budget deficit fell sharply from FY 2012's $1.08 trillion level to $438.9 billion in FY 2015, which ended on September 30, 2015. However, the budget deficit climbed back to $587.4 billion in FY 2016, which ended on September 30, 2016—representing an increase of 33.8% over the FY 2015 level—and, further, to $666.0 billion in FY 2017, which ended on September 30, 2017, a year-over-year jump of 13.4%.

Deficits set to top $1 trillion. In its annual budget-forecast update given in June to the U.S. Congress, the Trump Administration projected that annual Federal budget deficits would top $1 trillion for at least each of the next three years. Over 10 years, deficits would spike to a cumulative $8.0 trillion vs. $7.1 trillion previously forecast.

U.S. national debt hits new all-time high. After breaching the $20 trillion mark on September 11, 2017, the U.S. national debt surged past $21 trillion for the first time on March 15, barely six months since passing the $20 trillion mark. The debt finished the month (on March 31) at $21.090 trillion, just off the March 30 all-time high of $21.114 trillion, and then peaked at $21.135 trillion on April 10 before falling back to $21.068 trillion on April 30. It then surged to $21.145 trillion on May 31 and then, further, to $21.195 trillion on June 30, another all-time high.

Long-term debt projected to hit record. According to a June 26 report from the U.S. Congressional Budget Office, on its current path, total U.S. debt—now at 78% of U.S. GDP—will soar to almost 100% of GDP by 2028 and to 152% of GDP by 2048, beating the record highs set during the World War II era.

World debt hits all-time record. Total world debt ballooned to $164 trillion in 2016, the latest year for which figures are available, according to an International Monetary Fund report released on April 18. Aggregate global public and private debt for 2018 were 2.25X higher than total global domestic product (real economic production) for that year.

U.S. posts record monthly budget surplus. Despite all of the talk of debt and deficits, the U.S. federal government actually posted its largest budget surplus in history in April. All told, the government collected $515 billion and spent $297 billion during the month, for a monthly surplus of $218 billion, the U.S. Congressional Budget Office (CBO) said on May 7. That swamped the previous monthly record surplus of $190 billion, set in 2001. Official U.S. Treasury data later placed the April 2018 figures at $510 billion, $296 billion, and $214 billion, respectively. (One disclaimer: because April includes the U.S. individual income tax filing deadline, tax collections are typically higher in April than they are during the rest of the year.)

3.2 Federal spending

Federal spending again sets all-time record in FY 2017. According to the U.S. Treasury Department, Federal spending hit another all-time record in FY 2017, which ended on September 30, 2017. Spending for the 2017 fiscal year came in at an estimated $3.981 trillion (just shy of the $4 trillion-plus projected) vs. $3.854 trillion in FY 2016, an increase of 3.3% (vs. an increase of 4.5% in FY 2016 over FY 2015).

Federal payrolls shrink. In a sharp reversal from previous years, the Federal government cut 3,000 jobs in May, and Federal payrolls have now dropped by 24,000 positions since President Trump took office, according to U.S. Labor Department data.

3.3 Taxation

Federal tax revenues again reach new high in FY 2017. The Federal government took in another new record of $3.315 trillion in taxes in Fiscal Year 2017, which ended on September 30, 2017, up from $3.267 trillion in FY 2016, an increase of 1.5% (vs. an increase of 0.6% in FY 2016 over FY 2015).

Record individual income tax collections continue. The Federal government collected $2.54 trillion in total taxes during the first nine months of fiscal 2018 (October 2017 through June 2018), according to the Monthly Treasury Statement, down $39 trillion from figures for the first nine months of fiscal 2017. In contrast, individual income taxes for the first nine months of fiscal 2018 hit an all-time record of $1.31 trillion (vs. $1.23 trillion in fiscal 2017). Nevertheless, because the government spent $3.15 trillion during this same time, it had accumulated a nine-month deficit of $607.1 billion (vs. a deficit of just $385.4 billion through the first seven months of fiscal 2018).

New tax law actually increases tax intake. In a dire warning released at the start of February, the U.S. Congressional Budget Office (CBO) warned that Federal borrowing would soar during FY 2018, largely because “tax receipts are going to be lower because of the new tax law.” However, as the CBO’s own figures show, not only did the Federal government run a surplus in February, but it posted both record tax collections ($515 billion) and a record surplus ($218 billion) in April. (Official U.S. Treasury data later placed these figures at $510 billion and $214 billion, respectively).

Trump wants second phase of tax reform. President Trump announced on March 12 that he wants a “phase two” of tax cuts on top of the tax reductions approved last December. Initial reaction to the new proposal was tepid, however, and the President has not emphasized the second-round proposal since then.

More small businesses view new tax law positively. In the CNBC/SurveyMonkey Small Business Survey for Q1 2018, released on February 20, 46% of small-business owners interviewed said that the recent tax-policy changes would have a positive effect on their business, up from 38% in the Q4 2017 survey, while only 23% expected the changes would have a negative effect, down sharply from 36% in the fourth quarter.

Taxes decline as problem for small businesses. In the National Federation of Independent Business (NFIB) Small Business Economic Trends survey for March, for the first time since 1982, taxes received the fewest number of votes as small companies’ number one problem, with the figure falling from 22% in November 2017, the month before the tax bill passed, to 13% in March. “It has been a remarkable 16 months for small business optimism,” said NFIB President and CEO Juanita Duggan**.** “This is the first time in 35 years where the fewest number of small business owners have told us that taxes are their number one business problem. They’ve been so optimistic that they feel confident enough to raise wages and invest in their business, which grows the economy.”

Tax reform seen as boosting economic growth. In the wake of the approval of last December's tax cuts, numerous observers are projecting higher economic growth for the year ahead. For instance, Tim Cook, CEO of Apple said in a January 18 interview that the Trump tax plan would result in a faster-growing economy and greater job creation. J.P. Morgan CEO Jamie Dimon, in a January 24 interview, likewise predicted that the tax overhaul could boost U.S. economic growth to more than 4.0% in 2018. And former U.S. Office of Management & Budget economist Lawrence Kudlow, prior to joining the Trump Administration, said that he foresaw 3% to 4% growth as a result of the tax cuts. These projections were validated by Q2's just-released 4.1% growth rate.

4. FINANCIAL MARKETS

4.1 Stock markets

Stocks little changed in June. After edging up in May, U.S. stocks were little changed in June. By the numbers, the Dow Jones Industrial Index, which had edged up from 24,163.15 on April 30 to 24,415.84 on May 31, slipped back to 24,271.41 on June 29, a decline of 0.6%. In contrast, the S&P 500, which had risen from 2,648.05 on April 30 to 2,705.27 on May 31, inched up further to 2,718.37 on June 29, an increase of 0.5%. And the Nasdaq, which had jumped from 7,067.27 on April 30 to 7,442.12 on May 31, edged ahead to 7,510.30 on June 29, a 0.9% gain.

Bank stocks set loss record. By June 26, the S&P 500 Financials Index fell for the 12th straight day, its longest losing streak on record. As Bloomberg reported, "Coming into the year, many cited the tax overhaul and a rising rate environment as reasons for banks to rally. Instead, they've endured pressure from a flattening yield curve."

2017 best year ever for stocks. It may seem a distant memory now, but year-end 2017 figures confirmed that 2017 was the best year for stocks in U.S. history. As the Los Angeles Times summarized, "Defying speculation 12 months ago…, the stock market has been riding a wave of continued optimism to repeatedly set fresh highs."

Warnings continue. While warnings early in 2018 that a stock-market correction was coming seem to have been validated, those warnings have not ceased in the wake of the market's decline. If anything, they've intensified. For instance, with recent stock selloffs clearly in view, the Cboe Volatility index—informally know as Wall Street's "fear index"—jumped by 38% on March 19, reaching 21.82, once again above its long-term average of 20. On the same day, CNBC reported that U.S. technology stocks had begun "flashing a warning sign"—based on an index that compares riskier tech stocks to safer utilities—that was last seen 18 years ago, before the dot-com meltdown. Then, in May, The Wall Street Journal warned that "red flags are suddenly rampant in markets." And in June, Bloomberg warned that stock-trading rates were rising sharply—a phenomenon that last occurred in early 2008, slightly before the Great Recession.

4.2 U.S. Dollar

U.S. dollar continues upward in June. Having reached a 14-year high on December 20, 2016, the U.S. dollar then began slipping, falling from a peak of $128.79 against a basket of currencies on December 28, 2016, to $115.57 on January 31, 2018, its lowest level since mid-2015. Thereafter, the dollar rose back to $118.84 on April 25, to $122.19 on May 31, and, further, to $124.22 on June 27, a one-month gain of 1.7%.

4.3 Cryptocurrency

Bitcoin heads further downward in June. The price of Bitcoin—a widely watched leader in the new regime of cryptocurrency—rode an ever-upward climb from $7,000 per unit last November 2 to $16,000 per unit on December 7. Since then, however, the coin's value has gyrated wildly, falling thereafter to around $6,000 per unit, surging back above $10,300 per unit on February 28, tumbling to $6,974 per unit on March 31, rising back to $9,244 per unit on April 30, and then slipping to $7,487 per unit on May 31 and, further, to $6,387 per unit on June 30.

5. INDUSTRIAL PERFORMANCE

5.1 Industrial production

Industrial production climbs back up in June. According to a July 17 report from the U.S. Federal Reserve, U.S. industrial production rose by 0.6% in June after declining by a revised 0.5% in May. Manufacturing production rose by 0.8% in June after falling by a downwardly revised 1.0% in May. The index for mining rose by 1.2% in June, its fifth straight month of growth, after climbing by an upwardly revised 2.2% in May, while utility output plunged by 1.5% in June after revisions turned its May gain into a 0.7% decline. Total industrial production in June was 3.8% higher than it was one year earlier. Capacity utilization for the industrial sector rose by 0.3 percentage points in June to 78.0% from a downwardly revised 77.7% in May. The June rate was 1.8 percentage points below its long-run (1972–2017) average of 79.8%.

Manufacturing sector expands again in June. Economic activity in the U.S. manufacturing sector expanded again in June, at a faster pace than in May, according to the Tempe-based Institute for Supply Management (ISM), a private trade group, in a July 2 report. The group's index registered 60.2% in June, an increase of 1.5 percentage points from its mark of 58.7% in May, and inching closer to February's peak of 60.8%. The average index for the full year of 2017 was 57.6%, an 11.0% improvement over the 51.9% index average for 2016, and representing the strongest year for U.S. factories since 2004. The index has now topped 50% for 25 of the last 26 months. (Note that figures above 50.0% represent expansion, while those below 50.0% signify contraction.)

Manufacturing sector to continue expanding in 2018. In what one source called "a stunning turnaround sparked by the improving economy and last December's tax cuts," the Institute for Supply Management (ISM) reported in its Second Quarter Manufacturers' Outlook Survey, released on June 20, that more than 95% of responding manufacturers said that they held a "positive outlook for their companies"—the highest positive percentage in the 20-year history of the group's Outlook Survey.

New factory orders rise in May. After seven increases in the past nine months, new orders for U.S. factory goods unexpectedly rose by 0.4% in May from an upwardly revised decline of 0.4% in April, the U.S. Census Bureau said in a June 3 report.

Durable-goods orders increase in June. After dropping by a upwardly revised 1.0% in April (vs. a fall of 1.7% originally reported), new orders for durable goods declined by 0.6% in May before rebounding with a 1.0% gain in June, the U.S. Commerce Department said on July 26.

5.2 Investment

Business investment up in second quarter. After gains of 8.8%, 8.6%, 11.4%, and 5.8%, respectively, in the previous four quarters, business investment in equipment remained strong in the second quarter of 2018, rising by 7.3%—its seventh consecutive quarterly increase—the U.S. Commerce Department reported on July 27.

5.3 Productivity

Productivity gains for Q1 scaled back. After edging down by a downwardly revised 0.2% (vs. a previously-estimated gain of 0.1%) in the first quarter of 2017, rising by an upwardly revised 1.7% in 2017's second quarter, climbing by a downwardly revised 2.6% in the third quarter, and edging up by an upwardly revised 0.3% in the fourth quarter, U.S. nonfarm productivity—or the level of employee output per hour—grew modestly in the first quarter of 2018, rising by a downwardly revised 0.4%. For all of 2016, productivity inched up by a meager 0.2%, its slowest growth rate since 2011.

5.4 Trade

U.S. trade gap falls to 19-month low. After dropping in March for the first time in seven months and then decreasing in April to a seven-month low, the U.S. trade deficit—which previously had risen in each of September through February—fell to its lowest level in 19 months as U.S. exports rose to a record high. According to U.S. Commerce Department figures released on July 6, the trade deficit declined to $43.1 billion in May, down by 6.6% from the April level. It was the smallest trade gap since October 2016, as exports climbed by 1.9% to a record $215.3 billion and imports were up by only 0.4% to $258.4 billion. By comparison, the trade deficit for all of 2017 was $566 billion, up by 12.1% from the 2016 level and a nine-year high.

More than $300 billion repatriated to the United States. In a related vein, the U.S. Bureau of Economic Analysis reported on June 26 that more than $300 billion in corporate earnings were repatriated to the United States in the first quarter of 2018—in large part due to the change in the December 2017 tax law that eliminated the tax on foreign earnings when those funds were returned to the United States. Only one year previously, just $30 billion—or one-tenth as much—was repatriated.

China has biggest-ever annual trade surplus with the U.S. China reported its largest-ever annual trade surplus with the United States in 2017—$275.8 billion—while its overall imbalance with the rest of the world shrank, potentially strengthening the Trump administration's case for tougher penalties and other trade actions against Beijing. China's U.S. trade surplus was up by 10% on a year-over-year basis. Since then, the trade imbalance has continued to worsen: through May 2018, the trade gap between the United States and China had increased sharply, hitting a record $152.2 billion for the first five months of the year, according to data released on July 9 by the U.S. Census Bureau, "underscoring the economic tensions between the world's two biggest economies," in the words of Business Insider. Thereafter, China's monthly trade surplus with the United States rose to an all-time monthly record of $28.97 billion in June, while its exports to the United States climbed to $42.62 billion, also a record monthly high.

Trade war with China intensifies. After multiple warnings in April and May, President Trump on June 15 declared that his administration would impose a 25% tariff on up to $50 billion in Chinese goods beginning on July 6 in light of what the administration described as “Chinese theft of intellectual property and technology and its other unfair trade practices.” Responding immediately, China announced that it would impose tariffs on an equivalent $50 billion in U.S. goods, primarily automobiles and agricultural products, also beginning on July 6. In reaction, President Trump declared on June 19 that his administration was considering imposing a 10% tariff on another $200 billion of Chinese goods, also in July.

Chinese investments plummet. In response to chilly trade relations with the United States, China has been paring its U.S. investments since the beginning of the year. Chinese investments in the American economy totaled $1.8 billion from January through May 2018, representing a 92% drop from the same period one year earlier and the lowest level in seven years, according to a June 20 report from trade-researcher Rhodium Group, which tracks Chinese foreign investment.

Tariffs imposed on Canada, EU, and Mexico. In addition to the intensifying trade war with China, President Trump on March 1 said that he would impose a 25% tariff on imported steel and a 10% tariff on imported aluminum, but the administration postponed the tariffs on Canada, the European Union, and Mexico until June 1, saying it wanted time to negotiate agreements with the countries involved, But none of those negotiations bore fruit, and the tariffs went into effect on June 1.

6. KEY SECTORS

6.1 Automotive

U.S. auto sales continue upward in June. After dropping for 12 of the past 16 months—including a 5.0% decline in April—U.S. auto sales rose by 2.0% in May and, thereafter, by another 2.1% in June, according to Cox Automotive. The increase, however, was below the 3.4% gain forecast by Edmunds; nevertheless, an increase it was, despite soaring gasoline prices, driven largely by a growing demand for pickups and SUVs, according to a June 4 report from auto-industry researcher Autodata Corp. Ford, Fiat Chrysler, Toyota, Honda, Nissan, Subaru, Kia, Hyundai, and Volkswagen all posted sales increases for the month. General Motors, which no longer reports monthly sales, announced a sales increase for the full second quarter. Although the auto market has been relatively strong during the first half of 2018, The Wall Street Journal warned on July 3 that tariffs could “squash momentum” in the industry.

U.S. auto sales fall in 2017, but remain strong. The U.S. auto industry’s historic growth streak of seven straight annual gains ended in 2017 as U.S. auto sales fell for an entire year for the first time since the Great Recession ended, but demand for new vehicles—especially SUVs—remained healthy as the new year began. Specifically, U.S. auto sales fell by 2% for 2017 vs. 2016 levels, dropping to 17.2 million units in 2017, according to auto-industry researcher Autodata Corp. Toyota and Ford reported 1% annual declines in sales in 2017, while Fiat Chrysler’s sales fell by 8%. Honda’s sales were flat, while Nissan’s rose by 2%.

6.2 Housing

New-home sales slump in June. Following declines in four of the previous five months, sales of new U.S. homes jumped by 6.7% in May to an originally reported annualized pace of 689,000 units, but then unexpectedly slumped by 5.3% below a downwardly revised May figure of 666,000 units to an annualized pace of 631,000 units (vs. 660,000 units forecast), the U.S. Commerce Department reported on July 25. The June sales rate was the slowest since October 2017.

Housing starts plunge to nine-month low in June. After surging by 5.0% to an 11-year high in May, U.S. housing starts plunged by 12% in June to a nine-month low, the U.S. Commerce Department said on July 18. In addition, new-home permits—a leading indicator for housing starts—declined for a third straight month.

Existing-home sales fall for third straight month. After declining in each of April and May, the number of contracts to buy previously-owned U.S. homes fell for a third straight month in June, slipping by 0.6% to a seasonally adjusted annual rate of 5.38 million units, down from a downwardly revised 5.41 million units in May, according to a July 23 report from the National Association of Realtors. Economists polled by Reuters had expected a 0.5% increase in sales to 5.44 million units. The main cause of the ongoing declines, according to CNBC, is that a shortage of properties on the market have pushed housing prices to record highs, sidelining some potential buyers, especially at the lower end of the market, which accounts for a large portion of existing-home sales.

Southern California home sales crash. Sales of both new and existing homes in Southern California dropped by 11.8% year-over-year in June, as prices rose to a record high, according to housing-market researcher CoreLogic. The median price for all SoCal residences sold in June was a record $536,250, a 7.3% year-over-year jump. In the past, notes CNBC, California's home-sales market "has been a predictor for the rest of the country."

New-home prices fall again in June. After declining from a downwardly revised $314,800 in April, the median sales price of new U.S. homes (in contrast to existing-home prices) fell again to a downwardly revised $309,700 in May and, further, to $302,100 in June, according to data from the U.S. Census Bureau.

Homes out of reach for increasing numbers of would-be buyers. According to a survey by the U.S. National Association of Realtors (NAR), released on February 13, U.S. home prices have jumped by 48% since 2011, while incomes have climbed by just 15%, putting home purchases out of reach for growing numbers of would-be buyers.

Home-ownership rate holds steady in Q1 2018. After slipping to 63.6% in the first quarter of 2017, the U.S. home-ownership rate rose back to 63.7% in 2017's second quarter, climbed further to 63.9% in the third quarter, and, thereafter, increased to 64.2% in Q4 2017, where it held in the first quarter of 2018, the U.S. Census Bureau said.

U.S. foreclosure filings rising again in June. After leaping to 75,000 in March from 61,000 in February, foreclosure filings on U.S. homes fell back to 64,000 in April but then jumped back up to 72,000 in May and, further, to 76,000 in June, an increase of 5.6% over May's level, according to RealtyTrac, the leading online marketplace for real-estate foreclosure data.

Home values surge. U.S. homeowners were about $2 trillion wealthier at the end of 2017 than they were one year earlier. According to data from Zillow.com, after climbing by 6.5% in 2017—the fastest pace in four years—the total market value of homes in the United States reached an all-time high of $31.8 trillion at the end of 2017. On the other hand, nearly 4.5 million households—or 9.1% of the U.S. total—owed more than their homes were worth in Q4 2017.

Housing market confidence hits record. Despite tight supplies, soaring prices, and rising mortgage rates, consumer confidence in the housing market jumped to its highest level on record in April, according to a monthly sentiment index by Fannie Mae.

Housing market may be entering soft period. U.S. home values have been rising for six straight years, and the gains have been accelerating for the preceding two years. According to a CNBC report on May 29, some authorities are starting to warn that these increases can't persist. "The continuing runup in home prices above the pace of income growth [48% gain in housing prices vs. 15% increase in incomes] is simply not sustainable," declared Lawrence Yun, chief economist for the National Association of Realtors. Added housing-market researcher CoreLogic: more than half of U.S. housing markets were overvalued in April.

Home tours decline. In a further sign of potential market softness, a survey by market researcher Redfin found that April was the first month in the last 27 months to experience a year-over-year decline in the number of potential buyers touring homes.

7. CONSUMERS

7.1 Consumer confidence

Consumer confidence declines in June. The Conference Board Consumer Confidence Index declined in June, following an increase in May. The Index now stands at 126.4 (1985=100), down from an upwardly revised 128.8 in May. The Present Situation Index fell to 161.1 in June from a downwardly revised 161.2 in May, while the Expectations Index dipped from an upwardly revised 107.2 in May to 103.2 in June.

Thomson Reuters index edges up in June. After falling from 98.8 in April to 98.0 in May, the Thomson Reuters/University of Michigan Index of Consumer Sentiment rallied back to 98.2 in June.

Bloomberg Consumer Comfort Index increases. After falling from 56.5 for the week ended April 29 to 55.2 for the week ended May 27, the Bloomberg Consumer Comfort Index rose back to 57.3 for the week ended June 24. Similarly, the monthly Consumer Comfort Index increased from 54.5 in May to 56.0 in June, matching the index's highest monthly reading since 2002.

Economic optimism increases in June. After falling from 55.6 in March to 52.6 in April (the index's lowest rating since last December), the Investor's Business Daily/TIPP Economic Optimism Index in the United States increased to 53.6 in May and then edged up further to 53.9 in June. Readings above 50 indicate optimism, while those below 50 signify pessimism.

7.2 Personal Incomes

Personal incomes increase again in June. After rising for 16 of the past 17 months, including 0.4% increases in April and May, U.S. personal incomes climbed by another 0.4% in June, the U.S. Commerce Department said on July 31.

Middle-class incomes in 2016 hit highest level ever. According to the most recent U.S. Census Bureau data, released on September 12, 2017, the incomes of middle-class Americans rose in 2016 to the highest level ever recorded. Specifically, median U.S. household income climbed to $59,039 in 2016, a 3.2% increase from the previous year and the second-straight year of significant improvement.

Americans' wealth surpasses $100 trillion. With help from climbing stock prices and increasing home values, Americans' household wealth in the first quarter of 2018 rose by more than $2 trillion to an all-time record of $100.768 trillion (vs. $98.746 trillion in Q4 2017), The Wall Street Journal reported on June 7.

Billionaires' wealth soars. At the same time that middle-class incomes were rising, the wealth of the world's billionaires was soaring. According to an October 26, 2017, report in the London Daily Guardian, the world is "witnessing a new Gilded Age as billionaires' wealth swells to $6 trillion." In a related report last November 14, Credit Suisse announced that the richest 1% of the world's population now owns half of all global wealth. And according to the Bloomberg Billionaires Index, the richest people on earth became $1 trillion richer in 2017, a gain that was more than four times their $237 billion wealth increase in 2016. More recently, the World Wealth Report from Capgemini, released on June 19, determined that the combined wealth of all of the world's millionaires rose in 2017 for the sixth straight year, and topped the $70-trillion mark (yes, "trillion") for the first time on record. The 11% annual surge was the measure's second-fastest increase since 2011.

Hourly wages rise in June. After steadily increasing for 16 of the 17 months from December 2016 to May 2018, U.S. hourly wages rose again by 5 cents per hour in June, from an upwardly revised $26.93 in May to $26.98 in June, a gain of 0.2%. On a year-over-year basis, wages were up by 2.7%, above the 2.5% gain for all of 2017 but slightly below expectations of a 2.8% annual increase. Notably, though, wages haven't increased at better than a 3.0% year-over-year rate since the recession ended in 2009.

Manufacturing wages post strong gains. According to a report from the U.S. Bureau of Economic Analysis (BEA), the earnings of workers in the U.S. durable manufacturing sector—historically, one of the most beaten-down of U.S. industries—have risen by 12.2% since the last day of 2017, the largest gain for any of the 24 industrial sectors tracked by the BEA.

Blue-collar wages rising. According to the job-recruitment company Glassdoor, wages for numerous lower-paying blue-collar occupations rose in June by an average of around 5%, while pay in several higher-paying professions actually slipped slightly.

Total compensation up at fastest pace since 2008. According to U.S. Department of Labor figures, total U.S. employee compensation—including wages, salaries, and benefits—rose during the fourth quarter of 2017 by 2.7%, matching the biggest 12-month gain since 2008.

U.S. savings rate remains low. Despite a low unemployment rate and increasing wage growth, Americans still aren't saving much, according to a recent survey from Bankrate.com, released on March 15. The survey found that 20% of Americans don't save any of their annual income at all, and that even those who do save aren't putting much away. Specifically, only 16% of survey respondents said that they saved more than 15% of what they make, which is what experts generally recommend.

Consumer credit-card debt hits record high. Americans' outstanding credit-card debt hit a record high last November, flashing a warning signal of potential trouble down the road. Total revolving credit, mostly credit cards, rose by $11.2 billion to $1.023 trillion, the Federal Reserve said on January 8. That increase nudged the total revolving-debt figure past the $1.021 trillion high-water mark reached in April 2008. During 2017, total credit-card debt rose by 9.4% to $2.5 trillion, according to the Fed.

Credit scores reach all-time high. Despite consumers' growing debt levels, average U.S. credit scores reached an all-time high of 700 by mid-2017, according to the credit-scoring company FICO, as reported by CNBC on July 10, 2017, the most recent data available. CNBC further noted on April 12 that credit scores could rise even higher in coming months—by as much as 30 points for some individuals—due to the impending removal of tax liens from credit scores.

Poverty rate falls. The U.S. Census Bureau, in its annual look at poverty and income in the United States, reported last September 12 that the U.S. poverty rate fell by 0.8 percentage points in 2016, declining to 12.7% vs. 13.5% in 2015 and 14.8% in 2014.

Food stamp rolls hit eight-year low, but usage rates still high. According to a June 11 report from the U.S. Department of Agriculture (USDA), the number of households using food stamps in February dipped below 20 million (19,992,124) for the first time since 2010. Likewise, the number of individuals enrolled in the food-stamps program (officially known as the Supplemental Nutrition Assistance Program), fell to 39.6 million in April, the most recent available government data show, down from a record 47.8 million in 2012. Yet even with the economy's job gains, Bloomberg reported on July 19, the percentage of the population using food stamps is just back to where it was at the end of the Great Recession.

Disability applications plunge. In another sign of a strengthening economy, fewer than 1.5 million Americans applied to the Social Security Administration for disability coverage in 2017, the lowest level since 2002. According to the agency, applications are being submitted at an even lower rate this year.

Large plurality of U.S. households still struggling. The generally positive economic news notwithstanding, a large plurality of American households are still struggling. According to a report from the United Way ALICE project, released on May 18, nearly 51 million U.S. households—or 43% of all American households—don't earn enough to pay for a monthly budget that includes housing, food, child care, health care, transportation, and a cell phone. And the U.S. Federal Reserve, in a report published five days later, found that more than 4 out of every 10 Americans do not have enough money to cover an unexpected $400 expense without borrowing or selling something. Likewise, an annual Bankrate.com survey, released on June 19, found that almost one-quarter of Americans still have no emergency savings.

7.3 Consumer spending

Consumer spending up solidly in June. Following generally modest gains in the first five months of the year, U.S. consumer spending rose by a solid 0.4% in June. In addition, May's originally reported 0.2% increase was upwardly revised to a 0.5% gain, the U.S. Commerce Department said on July 31.

7.4 Retail sales

Retail sales rise in June. Following gains in each of March, April, and May, U.S. retail sales rose by a solid 0.5% in June, matching forecasts, the U.S. Department of Commerce reported on July 14. At the same time, May's originally announced 0.8% jump was revised upward to 1.3%, the measure's largest gain since September 2017.

Times are grim for brick-and-mortar retailers. Despite ongoing improvements in month-over-month retail sales, brick-and-mortar U.S. retailers are struggling as never before. In 2017, according to Fung Global Retail & Technology, a prominent retail think tank, the number of store-location closings—some 6,700—was more than triple the 2,056 store-location closings in 2016 and shattered the all-time record of 6,163 shuttered retail locations in 2008, at the beginning of the Great Recession. According to some projections, more than 9,000 retail locations could close their doors in 2018. As Bloomberg recently noted, "[a]t last count, U.S. store closures announced this year [have] reached a staggering 77 million square feet, according to data… compiled by CoStar Group Inc. That means retailers are well on their way to surpassing the record 105 million square feet announced for closure in all of 2007." Two more indications of this trend: imperiled retailer Sears said on May 31 that it would close another 72 stores, while the legendary toy retailer Toys 'R' Us closed its doors for good on June 29. CoStar further estimates that nearly one-quarter (310) of the nation's 1,300 shopping malls are at risk of losing an anchor store like Macy's, JC Penney, or Sears.

Supreme Court allows sales taxes on online purchases. In a potentially major blow to online shopping sites, the U.S. Supreme Court ruled in a 5-4 decision on June 21 that states could collect sales taxes on most online purchases. The decision could be even more far-reaching than it appears, however. According to the advocacy group Americans for Tax Reform, the court decision potentially allows states and even nations to impose other taxes on individuals and companies who do not live within their borders if they interact in any commercial way with residents or businesses within those jurisdictions.

8. INFLATION

8.1 Consumer prices

Consumer prices rise by 0.1% in June. After jumping by 0.5% in January and sparking inflation fears, the U.S. Consumer Price Index (CPI) for all goods rose by only 0.2% in February, tamping down the fears, and then declined by 0.1% in March before rising again by 0.2% in each of April and May. Price increases eased in June, with the CPI inching by just 0.1% seasonally adjusted. The index for all items less food and energy rose by 0.2% in June after having increased by 0.1% in April and by 0.2% in May. As of June, the index had risen by 2.9% over the previous 12 months.

8.2 Producer prices

Producer prices rise by 0.1% in June. The Producer Price Index (PPI) for finished goods—often a harbinger of future consumer price movements—rose by just 0.1% in June after having been unchanged in April and having soared by 1.0% in May. With volatile food and energy prices excluded, producer prices rose by 0.3% in June, the same rate of increase as in each of April and May—in fact, the same rate of increase as in every month of 2018 thus far.

8.3 Energy prices

Crude oil prices surge in June. After rising from $61.43 per barrel on February 28 to $68.56 per barrel on April 30 (the highest price level for crude since November 28, 2014, 3-1/2 years ago, when crude hit $73.56 a barrel), U.S. crude oil prices slipped back slightly to $66.98 per barrel on May 31. Thereafter, crude prices on June 26 and 27 topped $75 per barrel for the first time since 2014, their highest level in almost four years, as U.S. domestic crude supplies experienced their biggest weekly drop so far this year. Crude finished June at $74.13 per barrel, a figure that was 20.7% higher than it was on May 31, just one month earlier.

Crude oil production reaches new all-time high. Despite the drop in current supplies, recently released data from the U.S. Energy Information Administration (EIA) show, U.S. oil production in November 2017 surpassed 10 million barrels per day for the first time in nearly 50 years (since 1970), coming in just shy of an all-time record. Then, on May 31, the EIA reported that U.S. oil production had jumped by 215,000 barrels per day to 10.47 million barrels per day in March—the highest production level on record. Subsequently, in June, the American Petroleum Institute, a trade group, said that U.S. production of crude oil had hit 10.7 million barrels per day while U.S. production of natural-gas liquids reached 4.2 million barrels per day—both all-time records.

U.S. set to become world's largest oil producer. According to official projections released by the U.S. Energy Information Administration on July 10, the United States is poised to surpass Saudi Arabia next year to become the world's largest exporter of crude oil and oil products—a position it last held in 1974. As a result, U.S. oil imports could drop to as low as 1.6 million barrels per day, their lowest level since 1958.

Saudi Arabia to increase production. The King of Saudi Arabia agreed on June 30 to a request by President Donald Trump to increase the country's oil production to 2 million barrels/day, in response to ongoing turmoil in Iranian and Venezuelan oil production, in order to help lower U.S. gasoline prices.

Future oil price spike feared. Despite ongoing jumps in production, analysts are growing worried that crude-oil prices could soar to $150 or more in the not-too-distant future. The reason, according to Bloomberg: oil companies have been compelled by their investors "to focus on boosting returns and shareholder distributions at the expense of capital expenditures aimed at finding new supplies,… causing reserves at major producers to fall and the industry's reinvestment ratio to plunge to the lowest in a generation, paving the way for oil prices to surpass records reached last decade…"

Gasoline prices slip back in June. After spiking from $2.44 per gallon on February 26, 2018, to $2.74 per gallon on April 30, the average retail price of regular unleaded fuel in the United States headed up further to $2.88 per gallon on May 28 before retreating slightly to $2.75 per gallon on June 25. These price hikes are having a profound effect on consumer pocketbooks. For instance, a May 15 report from MarketWatch found that Americans had spent an additional $4.4 billion in April (vs. March) filling up their gas tanks. Looked at another way, according to an AAA report on June 13, Americans are now spending $69 more each month than they were a year ago to buy gasoline for their vehicles. Because of the ongoing pump-price increases, American households now must devote some 7% of their income to gasoline purchases, a figure that is up by 1.5% from the year-ago level.

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