

WEEKLY ECONOMIC UPDATE

December 18, 2017

WEEKLY QUOTE

“Children are likely to live up to what you believe of them.”

- Lady Bird Johnson

WEEKLY TIP

New baby on the way? Make sure to add your child to your health insurance plan within 30 days of his or her birth.

WEEKLY RIDDLE

Had by some and treasured by all, it is found inside and outside and makes many fall. Can you name what it is?

Last week's riddle:
What flies without any wings?

Last week's answer:
Time.

FED MAKES ITS FINAL RATE MOVE OF 2017

As expected, the Federal Reserve raised the benchmark interest rate by 0.25% last week. The Federal Open Market Committee voted 7-2 to take the target range for the federal funds rate up to 1.25-1.5%. Fed officials made little change to their dot-plot chart – they still see three rate hikes in 2018, and their consensus projection has the federal funds rate at 2.1% a year from now. They did elevate their 2018 Gross Domestic Product (GDP) forecast from 2.1% to 2.5%.¹

CORE INFLATION LAGS HEADLINE CPI ADVANCE

According to the Department of Labor, consumer prices rose 0.4% in November – but the core Consumer Price Index, which removes food and energy costs, only saw a gain of 0.1%. This left the 12-month increase in the core CPI at 1.7% compared with 2.2% for the headline number, a gap that may complicate matters for the Federal Reserve as it considers the pace of 2018 interest rate adjustments.²

BUYING, BUYING, AND MORE BUYING

Retail sales climbed an impressive 0.8% in November following a strong 0.5% rise for October. Factoring out auto purchases, the November gain was 1.0%. Recent Department of Commerce data shows core retail sales (which do not include building materials, gasoline, and food) advancing at their best pace in three years.³

WALL STREET RALLIES

With the possibility of reduced corporate tax rates just ahead, institutional investors were notably bullish last week. Across five trading sessions, the S&P 500 gained 0.92% to 2,675.81; the Dow Jones Industrial Average, 1.33% to 24,651.74; Nasdaq Composite, 1.41% to 6,936.58. All that confidence helped send the CBOE VIX down to a Friday close of 9.42.⁴

THIS WEEK: No major economic indicators or earnings announcements are scheduled for release on Monday. Data on November housing starts and building permits emerges Tuesday, plus earnings news from Darden Restaurants, FedEx, Micron Technology, Navistar, Red Hat, and Steelcase. On Wednesday, the Street considers November existing home sales and earnings from Bed Bath & Beyond, Blackberry, General Mills, and Winnebago. The last estimate of Q3 GDP comes out Thursday, along with a new initial claims report and earnings from Accenture, CarMax, ConAgra Brands, Finish Line, Hovnanian, Nike, Paychex, and Rite Aid. Reports on November personal spending and hard goods orders, the November Personal Consumption Expenditures (PCE) price index, the final December University of Michigan consumer sentiment index, and November new home sales appear Friday.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+24.74	+24.18	+17.54	+8.48
NASDAQ	+28.86	+27.12	+26.69	+16.32
S&P 500	+19.52	+18.29	+17.86	+8.23
REAL YIELD	12/15 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.47%	0.70%	-0.84%	1.90%

Sources: wsj.com, bigcharts.com, treasury.gov - 12/15/17^{4,5,6,7}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

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