A Quick Review of the Economy in 2017: Almost all Economic Indicators Improved- Except One!

by

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By all accounts, the performance of the U.S. economy in 2017 was outstanding. There was generally progress on all economic fronts. We had higher GDP growth, lower unemployment rates, lower inflation rates, and higher equity prices from the beginning of 2017 until the end. The purpose of this report is to review the highlights by comparing data from January through December for calendar year 2017 for significant, selected, economic indicators, including the single major indicator that failed to improve over the course of the year.

GDP growth improves over 2016

At this time, the fourth quarter 2017 GDP growth rate has not been released, although there are estimates of what the official growth rate is likely to be upon its release. Those forecast indicate the 2017(IV) GDP growth rate will be approximately in the 3.0% - 3.5% range. The published quarter- over- quarter GDP growth rates for the first three quarters of 2017 are 1.2%, 3.1% and 3.2% respectively. These growth rates are significantly improved over the quarterly performance of 2016 which was 0.6%, 2.2%, 2.8% and 1.8%, respectively. Not only was every quarter's growth higher in 2017 (assuming the 2017(IV) are accurate) versus 2016, it seems likely, (again, assuming the forecasts for the 2017 (IV) are relatively accurate) that 2017 will have 3 of the 4 quarters with a growth rate higher than 3.0%!

Unemployment tumbles to lowest levels in years

The U.S. labor market improved dramatically in 2017 with not only a much lower national unemployment rate in December (4.1%) than January (4.8%), but the unemployment rates for certain groups reached historic lows. For example, by December of 2017, the black unemployment rate stood at 6.3%, the lowest ever recorded. The December rate of 6.3% was much lower than the January 2017 rate of 7.4%.

Despite stronger economic growth, and lower unemployment, the U.S. inflation rate dropped in 2017

Traditional economic theory posits that as economic growth increases, so does the rate of inflation. Similarly, economic principles indicate that as unemployment falls, the rate of inflation rises. Well, 2017 didn't pan out as the principles of economics predicted. As noted above, we had stronger GDP growth and lower unemployment in 2017, but inflation did not increase; in fact, it dropped. The last twelve month (LTM) Consumer Price Index (CPI) was 2.5% in January of 2017, but dropped to 2.1% by year end. The Core Consumer Price Index, which is the CPI index minus the food and energy components of the market basket that is used to calculate our inflation rate, fell from 2.1% in January of 2017 to 1.8% by December 2017.

Stocks soar in 2017

2017 was a banner year for 401k's as stocks shot upward. It appeared that record highs were posted virtually every month. In fact, as of this writing in early 2018, the stock market continues to break records. The Dow Jones average stood at 19,763 on December 31, 2016 and over the course of the next twelve months the Dow climbed to 24,719 by the end of December 2017.

Housing sector disappoints in 2017 as housing starts fall

Many experts had forecast that 2017 would see the total rebirth of our housing sector with housing starts climbing back to near trend levels. Unfortunately this turn-around did not occur. In fact, housing is virtually one of the only economic indicators that did not improve in 2017. We started the year in January 2017 with 1.236 million starts (annual rate), but by year end that number had dropped to 1.192 million starts.