Macroeconomic Conditions in 2018

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U.S. real gross domestic product (GDP) grew by 2.9 percent in 2018, compared to 2.4 percent in 2017.[1] The increase in GDP growth was attributable to increases in three economic indicators: personal consumption expenditures, exports of goods and services, and nonresidential fixed investment.[2] In 2018, these three indicators grew at an annual rate of 3.0 percent, 3.0 percent, and 6.4 percent, respectively.[3]

Several sectors of the U.S. economy contributed substantially to the growth in U.S. GDP. In services, the sectors that grew the most included information services (data processing, internet publishing, and other), which grew by 14.4 percent; finance and insurance (funds, trusts, and other financial vehicles), which grew by 9.6 percent; and transportation and warehousing (warehousing and storage), which grew by 10.1 percent. The goods sectors with the most growth included mining (oil and gas extraction), which grew by 25.2 percent; support activities for mining, which grew by 16.4 percent; and manufacturing (especially of machinery and of petroleum and coal products), which grew by 37.1 percent.[4]

Other U.S. economic indicators, such as industrial production and inflation, increased in 2018, while unemployment decreased. Industrial production grew by 3.3 percent, after an increase of 3.5 percent in 2017.[5] The unemployment rate dropped to 3.9 percent in 2018 from 4.4 percent in 2017. The unemployment rate has continued to decline since 2010, reaching its lowest point in 2018.[6] Civilian wages, including private sector wages and state and local government wages, increased on average 2.9 percent in 2018.[7]

According to the Council of Economic Advisers' *Economic Report of the President*, "most measures of wage and price inflation increased during 2018." The consumer price index and the producer price index (CPI and PPI) increased by 1.9 percent and 2.0 percent, respectively, in 2018.[8] The CPI reached its highest level for the year in October 2018 at 2.6 percent and started to decrease at the end of the year, dropping 0.7 percent from this peak by December 2018. Inflation increased to a level "roughly

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[1] USDOC, BEA, "U.S. Economy at a Glance Table," revised August 26, 2019.

[2] Nonresidential fixed investment includes structures, equipment, and intellectual property products, the last of which the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce (USDOC) has identified as software. In its online glossary, BEA defines nonresidential fixed investment as "purchases of both nonresidential structures and equipment and software," and BEA's definition of "equipment and software" includes production of computer software for one's own use. See https://www.bea.gov/help/glossary/equipment-and-software.

[3] USDOC, BEA, "U.S. Economy at a Glance Table," revised August 26, 2019.

[4] USDOC, BEA, "Contributions to Percent Change in Real GDP by Industry," April 19, 2019. Both goods and services sectors are included.

[5] U.S. Federal Reserve Bank of St. Louis, "Industrial Production Index Tables," updated May 15, 2019.

[6] The U.S. unemployment rate was 4.0 percent in 2000, and it had not gone below 4.0 percent since 1969, when it was 3.5 percent. In 2018, the unemployment rate moved below the 4.0 percent mark for the first time in over 49 years. USDOL, BLS, "Labor Force Statistics from the Current Population," May 28, 2019.

[7] USDOL, BLS, Employment Cost Index Summary, May 23, 2019.

[8] USDOL, BLS, Consumer Price Index and Producer Price Index databases (accessed May 28, 2019).

compatible with the Federal Reserve's target of 2 percent," which is its target for optimal price stability in the U.S. economy.[9]

As of December 2017, the Federal Open Market Committee (FOMC) had "expected to continue gradually raising the Federal Funds rate during 2018," but ultimately increased the rate more quickly.[10] Since economic growth was higher and the unemployment rate was lower than expected, the FOMC raised the Federal funds rate four times in 2018 to move the rate to the 2.25–2.50 percent range.[11]

In 2018, the U.S. stock market alternated between a nine-month period of growth that included historical highs in January and October, and a drop towards the end of the year.[12] Over the course of the year, the Dow Jones Industrial Average (DJIA) dropped 6.0 percent and the Standard & Poor's 500 (S&P 500) dropped 7.0 percent; this contrasted with a notably strong performance in 2017, when the DJIA gained 24.4 percent and the S&P 500 gained 18.7 percent.[13] In October 2018, the DJIA was up approximately 8.0 percent and the S&P 500 was up almost 8.5 percent from the beginning of the year, before both fell by 13.1 percent and 14.3 percent, respectively, to end the year lower than when it began.[14] Several investor concerns caused a decline in all major equity markets, according to multiple observers: uncertainty regarding U.S.-China trade relations,[15] a slowdown in global economic growth, concerns that the Federal Reserve was raising interest rates too quickly (with more rate increases announced for 2019),[16] and the government shutdown near the end of the year.[17]

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[9] CEA, *Economic Report of the President*, March 2019, 515.

[10] CEA, *Economic Report of the President*, March 2019, 512. The federal funds rate is the interest rate banks charge each other for overnight loans to meet reserve requirements. See https://www.bankrate.com/glossary/f/federal-funds-rate/.

[11] In December 2017, FOMC expected three rate hikes of 25 basis points each during 2018, which would have raised the Federal funds rate from the 1.25–1.50 percent range at the end of 2017 to the 2.00–2.25 range at the end of 2018. The rate hike in December was the fourth rate hike of 2018. CEA, *Economic Report of the President,* March 2019, 512–13; FOMC, "FOMC Issues Addendum," June 14, 2017.

[12] On January 26, 2018, the DJIA reached a high of 26,616.7 and the S&P 500 reached a high of 2,872.9. The DJIA fell from a high of 26,828.4 on October 3, 2019, to a low of 21,792.2 on December 24, 2019, a decrease of 5,036.2. The S&P 500 fell as well, from a high of 2,925.5 on October 3, 2019, to a low of 2,351.1 on December 24, 2019, a decrease of 574.4. U.S. Federal Reserve Bank of Saint Louis, Dow Jones Industrial Average Index and S&P 500 Index (both accessed May 28, 2019).

[13] The S&P 500, which includes the large-cap U.S. equities, is considered the broader index; it covers the largest 500 companies, encompassing about 80 percent of available market capitalization. In contrast, the DJIA includes only the 30 largest U.S. companies by market capitalization. In addition, the percentage change for the S&P 500 and DJIA indices are from end of December to the end of December for each year. This does not reflect average values nor fluctuations that take place throughout the year. U.S. Federal Reserve Bank of Saint Louis, Dow Jones Industrial Average Index and S&P 500 Index (both accessed May 28, 2019).

[14] U.S. Federal Reserve Bank of Saint Louis, Dow Jones Industrial Average Index and S&P 500 Index (both accessed May 28, 2019).

[15] For more information on the U.S.-China trade relations in 2018, see the Special Topic Chapter: Section 232 and 301 Trade Actions in 2018.

[16] Franck, "Dow Dives 350 Points," December 19, 2018.

[17] Driebusch, "Stocks Skid," November 20, 2018; Frazee, "6 Factors That Fueled the Stock Market Dive," December 27, 2018; Menton, "Stocks Fall Sharply," updated December 10, 2018; Rabinowitz and Shapiro, "Stocks Are Down," December 31, 2018. The government shutdown started on December 22, 2018, and ended January 25, 2019. Office of Management and Budget, "Memorandum for the Heads of Executive Departments and Agencies (M-19-

World GDP and world trade both increased in 2018. In 2018, the world real GDP grew by 3.6 percent, with advanced economies growing by 2.2 percent and emerging markets and developing countries by 4.5 percent. World real GDP growth slowed, however, from the previous year's rate of 3.8 percent; growth in 2017 was 2.4 percent for advanced economies and 4.8 percent for emerging markets and developing countries.

Outside the United States, slower growth than in 2017 was widespread. The euro area grew only 1.8 percent in 2018, compared to 2.4 percent in 2017. Canada's growth also decreased, from 3.0 percent in 2017 to 1.8 percent in 2018. Japan's growth slowed to 0.8 percent in 2018 from the previous 1.9 percent in 2017, and South Korea's GDP grew by 2.7 percent in 2018 compared to 3.1 percent in 2017. Similarly, Latin America's regional GDP increased 1.0 percent in 2018, down from 1.2 percent in 2017. Emerging and developing European countries grew by 3.6 percent in 2018, down from their 6.0 percent growth rate in 2017. China also experienced slower growth, reporting a growth rate of 6.6 percent in 2018 compared to 6.8 percent in 2017. Finally, Mexico grew by 2.0 percent in 2018, compared to 2.1 percent growth in 2017.[18] Regarding global trade in 2018, world merchandise trade volume grew by 3.0 percent, compared to 4.6 percent growth in 2017.[19]

The U.S. dollar appreciated in 2018, gaining back all of the depreciation of 7.5 percent it experienced in 2017.[20] Relative to all major trading partners, the U.S. dollar appreciated by 7.9 percent in 2018, on average,[21] gaining 4.9 percent against the euro, 6.1 percent against the British pound sterling, 9.1 percent against the Canadian dollar, and 5.9 percent against the Chinese yuan.[22]

In 2018, with regard to major foreign currencies, the euro depreciated by about 3 percent in 2018, which the IMF attributed to "weaker-than-expected macroeconomic data and concerns about Italy." On the other hand, the "yen experienced a modest appreciation, while the British pound sterling appreciated by about 3 percent despite uncertainty around the outcome of Brexit negotiations," according to the IMF. Towards the end of 2018, emerging-market currencies also strengthened overall, including most Asian currencies and the Chinese yuan, which appreciated by about 2 percent.[23]

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06)," December 21, 2018; Office of Management and Budget, "Memorandum for the Heads of Executive Departments and Agencies (M-19-09)," January 25, 2019.

[18] IMF, *World Economic Outlook*, April 2019, 9, 157.

[19] WTO, "Global Trade Growth Loses Momentum," April 2, 2019.

[20] U.S. Federal Reserve System, Foreign Exchange Rates (accessed September 18, 2019).

[21] This index is a weighted average of the values of the U.S. dollar against the currencies of a large group of major U.S. trading partners.

[22] The percentage change for the currencies is from end of December to the end of December for each year. It is a comparison of end-of-year values. The currencies' year-on-year percentage changes do not reflect average values nor fluctuations that take place throughout the year. U.S. Federal Reserve Bank of Saint Louis, Federal Reserve Economic Data (FRED) (accessed May 28, 2019).

[23] IMF, *World Economic Outlook*, April 2019, 5–6.

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