# Consumer News & Views

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## Consumer Confidence Slips in December Despite Good Times

Maybe American consumers are just worn-out from all the shopping, spending and holiday celebration. After all, consumers have been on a record spending spree for almost two years and, despite a modest decline in the Conference Board's December 2017 Consumer Confidence Index®, consumers show no signs of slowing down in 2018.

Jeffrey Bartash of *MarketWatch* reports that consumer confidence fell in December, a month after hitting a 17-year high, but the level of optimism among Americans this year was the highest since 2000. The Consumer Confidence Index® slipped to 122.1 in December from a revised 128.6 in November, according to the Conference Board which issues the monthly report.

It is a widely respected indicator of how consumers are feeling about the American economy and their economic future.

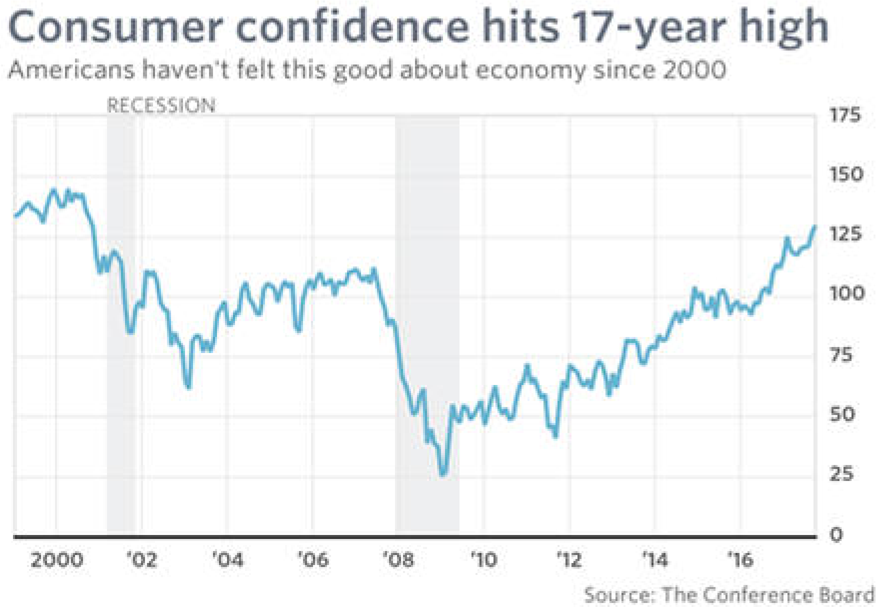
According to *MarketWatch*, Americans were a little less confident in their outlook for jobs and business conditions. An index that measures future conditions dipped to 99.1 from 111.

Consumers were more optimistic about conditions right now. Notably, only 15.2% of Americans said jobs were "hard to get," a 16-year low.

The somewhat less-than-rosy view of Americans is hard to square with the current health of the economy. The labor market is the strongest it has been in years as reflected by a low 4.1% unemployment rate. The economy has grown 3% for two straight quarters, and could make it three in a row for the first time since 2005. And retailers have just had their best holiday shopping season in a decade with sales up more than 5% over last year.

Moreover, the recent Republican-led tax cuts are likely to give the economy a boost in early 2018 by putting more money in the pockets of millions of Americans and making it cheaper for businesses to investment. If there is any long-term fallout, it may not be evident soon.

Thomas Hinton, president of the American Consumer Council, a non-profit consumer education organization with over 200,000 members stated, "All economic signs point to a positive new year ahead. While consumers remain optimistic, they also know that the Congress must take action to fund the rebuilding of our nation's infrastructure while controlling our growing national debt."

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**Looking Ahead to 2018 – Should Consumers Be Optimistic?**
The American economy has been on a roll since mid-2012 with steady job growth, healthy pay increases in most sectors, and a renewed sense of confidence among most consumers. But, the key question is: should consumers be optimistic about their economic fortunes in 2018?

According to most economists, the answer is yes. As the American Consumer Council discussed the economic future with hundreds of our members during the past three months, we have concluded that 2018 should be a very good year for most consumers.


Here are our key indicators. Job growth remains steady although competition is tough for high-paying jobs in most professional sectors. Advanced degrees are a must for anyone trying to land a management-level job in the professional sectors and even with non-profit organizations. Compensation continues to improve with modest pay increases across most of the economy, but wage growth has been forced not by corporate generosity, but rather, by states raising the minimum wage for most job classifications including hospitality and restaurants servers.

Kimberly Amadeo, a reporter for *The Balance*, a financial investment firm, shared the following update for 2018. We think this accurately summarizes how most consumers feel about their prospects in the new year. We've added our editorial comments to Amadeo's latest report:

**2018 Economic Forecast**. The U.S. economic outlook is healthy according to the key economic indicators. ACC agrees. The most critical indicator is the gross domestic product, which measures the nation's production output. The GDP growth rate is expected to remain between the 2 percent to 3 percent ideal range. Unemployment is forecast to continue at the natural rate. There isn't too much inflation or deflation. That's a Goldilocks economy.
President Trump promised to increase economic growth to 4 percent. (ACC predicts a GDP of 2.8% which is more realistic and practical). That's faster than is healthy. Growth at that pace leads to an overconfident irrational exuberance. That creates a boom that can lead to a damaging bust.

**Overview:**
**U.S. GDP growth** will rise to 2.5 percent in 2018. It's the same as in 2017, but better than the 2.1 percent growth in 2016. The GDP growth rate will be 2.1 percent in 2019 and 2.0 percent in 2020. That's according to the most recent forecast released at the Federal Open Market Committee meeting on December 13, 2017. This estimate takes into account President Trump's policies.

The **unemployment rate** will drop to 3.9 percent in 2018 and 2019 but rise to 4.0 percent in 2020. That's better than the 4.1 percent rate in 2017, and the 4.7 percent rate in 2016. It's also better than the Fed's 6.7 percent target. But Federal Reserve Chair Janet Yellen admits a lot of workers are part-time and would prefer full-time work. ACC agrees with her assessment.

Also, most job growth is in low-paying retail and food service industries. Some people have been out of work for so long that they'll never be able to return to the high-paying jobs they used to have. That means structural unemployment has increased. These traits are unique to this recovery. They also make the unemployment rate seem low.

Fed Chair Yellen considers the real unemployment rate to be more accurate. It's double the widely-reported rate.

**Inflation** will be 1.9 percent in 2018, 2.0 percent in 2019 and beyond. It was 1.7 percent in 2017. These levels are lower than the 2.1 percent rate in 2016, and the 0.7 percent inflation experienced in 2015. The low rates in past years were caused by declining oil prices. The core inflation rate strips out those volatile gas and food prices. The Fed prefers to use that rate when setting monetary policy. Fortunately, the core rate is close to the Fed's 2.0 percent target inflation rate. That gives the Fed more leverage to raise rates to a more normal level. Looking ahead, I forecast the inflation levels to be 1.9 percent in 2018, 2.0 percent in 2019 and 2020.

**U.S. manufacturing** is forecast to increase faster than the general economy. Production will grow 2.8 percent in 2018. Growth will slow to 2.6 percent in 2019 and 2 percent in 2020. Those forecasts do not include President Trump's promises to create more jobs.

**Interest Rates:**
The Federal Open Market Committee (FOMC) raised the current fed funds rate to 1.5 percent in December 2017. It expects to increase this interest rate to 2.1 percent in 2018, 2.7 percent in 2019, and 2.9 percent in 2020.
The fed funds rate controls short-term interest rates. These include banks' prime rate, the Libor, most adjustable-rate and interest-only loans, and credit card rates. You can protect yourself from the Fed's rate hikes by choosing fixed-rate loans wherever possible.

The Fed began reducing its $4 trillion in Treasury notes in October. It initially said it would do so only after the fed funds rate has normalized to 2.0 percent. But the FOMC decided it would be better to normalize its balance sheet now. The Fed acquired these securities during “quantitative easing,” which ended in 2014. Since the Fed is no longer replacing the securities it owns, it will create more supply in the Treasury’s market.
That should raise the yield on the 10-year Treasury note. That drives up long-term interest rates, such as fixed-rate mortgages and corporate bonds.

But Treasury yields also depend on demand for the dollar. If demand is high, yields will drop. As the global economy improves, investors have been demanding less of this ultra-safe investment. As a result, long-term and fixed interest rates will rise in 2017 and beyond.

The last time the Fed raised rates was in 2005. It helped cause the subprime mortgage crisis. A majority of Americans believe the real estate market will crash in the next two years. There are several differences between the 2017 housing market and the 2007 market that makes this unlikely. (ACC is concerned that while certain laws and safeguards have been put in place to avoid a repeat of the 2007 housing crash and sub-prime fiasco, if Congress continues to strip away those safeguards and rescind laws like the Dodd-Frank Act, there are no guarantees that history will not repeat itself by 2020).

**Oil and Gas Prices:**
The U.S. Energy Information Administration provides an outlook from 2018-2050. It predicts crude oil prices will average $57/barrel in 2018. That's for Brent global. West Texas Crude will average around $4/barrel less. The EIA warned that there is still some volatility in the price. It reported that commodities traders believe prices could range between $48/b and $68/b for March 2018 delivery.

A strong dollar depresses oil prices. That's because oil contracts are priced in dollars. Oil companies are laying off workers, and some may default on their debt. High yield bond funds haven't done well as a result.

The oil market is still responding to the impact of U.S. shale oil production. That reduced oil prices 25 percent in 2014 and 2015. The good news for the economy is that it also lowered the cost of transportation, food, and raw materials for business. That raised profit margins. It also gave consumers more disposable income to spend. The slight slowdown is because both companies and families are saving instead of spending.

The EIA's energy outlook through 2050 predicts rising oil prices. By 2025, the average Brent oil price will increase to $86/b (in 2016 dollars, which removes the effect of inflation). After that, world demand will drive oil prices to the equivalent of $117/b in 2050. By then, the cheap sources of oil will have been exhausted, making crude oil production more expensive.

**Jobs:**
The Bureau of Labor Statistics publishes an occupational outlook each decade. It goes into considerable detail about each industry and occupation. Overall, the BLS expects total employment to increase by 20.5 million jobs from 2010-2020. While 88 percent of all occupations will experience growth, the fastest growth will occur in healthcare, personal care and social assistance, and construction. Furthermore, jobs requiring a master’s degree will grow the fastest while those that only need a high school diploma will grow the slowest.

The BLS assumes that the economy will fully recover from the recession by 2020 and that the labor force will return to full employment or an unemployment rate of 4-5 percent. The most significant growth (5.7 million jobs) will occur in healthcare and other forms of social assistance as the American population ages.

The next most substantial increase (2.1 million jobs) will occur in professional and technical occupations. Most of this is in computer systems design, especially mobile technologies, and management, scientific, and technical consulting. Businesses will need advice on planning and logistics, implementing new technologies, and complying with workplace safety, environmental, and employment regulations.

Other substantial increases will occur in education (1.8 million jobs), retail (1.7 million jobs) and hotel/restaurants (1 million jobs). Another area is miscellaneous services (1.6 million jobs). That includes human resources, seasonal and temporary workers, and waste collection.

As housing recovers, construction will add 1.8 million jobs while other areas of manufacturing will lose jobs due to technology and outsourcing.

**How It Affects You:**
2018 will be a prosperous year as we continue to say goodbye to the effects of the financial crisis. Be on the lookout for irrational exuberance in the stock market. That usually signals the peak of the business cycle. That means another recession is probably two to three years out. It all depends on whether President Trump's tax cuts will create the jobs he promised.

Therefore, the best thing to is to stay relentlessly focused on your financial well-being. Continue to improve your skills and chart a clear course for your career. If you've invested in the stock market, be calm during any pull-back. Plummeting commodity prices, including gold, oil, and coffee, will return to the mean. All in all, an excellent time to reduce debt, build up your savings, and increase your wealth. ACC remains optimistic for consumers in 2018.

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## ACC’s Friend of the Consumer Award Recognizes Outstanding Businesses.

Is your business consumer-friendly? Does your business deserve greater recognition for its service to consumers? If so, you should apply for the American Consumer Council’s Friend of the Consumer Award. Now is the time to apply!

Throughout the year, ACC presents its "Friend of the Consumer" Awards. This prestigious award recognizes manufacturers, retailers, and other businesses that produce or sell products in the United States that meet or exceed federally-mandated standards and are touted by consumers as "consumer friendly."

Each year, ACC awards numerous "Friend of the Consumer" Awards to deserving companies and organizations because they have "demonstrated a commitment to American consumers by providing a specific product or service that fosters consumer confidence and market acceptance."

To apply for the "Friend of the Consumer" Award, complete the online application and return it to ACC with the application fee. Applicants will be notified within 5 days of receipt of their application. Thereafter, a panel of independent judges will review your application and make a formal recommendation within 20 days of receipt of your award application.

For more information, visit: http://www.americanconsumercouncil.org/awards.asp

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## Green C℠ Certification Accepting Applications for 2018 Cycle:

If your company or organization would like to increase its credibility with consumers, you should consider applying for the **Green C℠ Certification**. Applications for the 2018 cycle are now being accepted through March 31, 2018.

It's a proven fact that consumers want to do business with companies that are eco-friendly and practice Corporate Social Responsibility (CSR). The process is straight-forward and all applicants are recognized by ACC and the Green USA Institute.

All applicants complete the criteria and submit their responses to ACC's Green Consumer Council for review, assessment and feedback. Program details and the **Green C℠ Certification** criteria can be viewed at ACC's website located at: http://americanconsumercouncil.org/greenc.asp