



# Week In Review

May 11, 2018

## ***Inflation***

Producer prices rose 0.1% in April, while consumer prices increased 0.2%. Year-over-year, producer prices have risen 2.6% and consumer prices are up 2.5%. Core prices (excluding food and energy) have grown more slowly over the past year, with producer prices rising 2.3% and consumer prices up 2.1%.

**Our Take:** Both producer and consumer prices increased less than expected in April. Inflation, as measured by the PPI and CPI, is still running above the Fed's 2% target, but is clearly not accelerating as much as anticipated in light of tight job markets. If consumers continue to reduce purchases when prices rise, inflation could remain contained.

## ***Oil***

President Trump announced that the U.S. would not continue waiving sanctions against Iran as part of the deal to halt Iran's nuclear program. This action pulls the U.S. out of the agreed deal and could easily lead to Iran resuming uranium enrichment. France and Germany may want to remain in the current deal, and this could be enough to get Iran to maintain its enrichment freeze. However, the reimposition of sanctions by the U.S. has the potential to knock a significant portion of Iranian crude production off of the global market. Oil prices have rallied further in anticipation of the Trump administration's action. Separately, Israeli forces struck Iranian sites in Syria in response to alleged rocket attacks against Israeli positions in the Golan Heights.

**Our Take:** There are many factors that will go into determining how much Iranian crude production is reduced from current levels. Most importantly, this will depend upon the extent to which Western Europe and China curtail purchases of Iranian crude. The relatively muted reaction of oil prices to the U.S. action and the increasing regional political tensions is a result of the new importance of U.S. shale production in the global crude supply.

## ***Municipals***

California has the world's fifth largest economy according to the recently released 2017 GDP data. The state's GDP increased by \$127 billion last year, topping \$2.7 trillion. California passed the United Kingdom last year, which has \$2.6 trillion in GDP. Only the United States, China, Japan, and Germany have GDP numbers higher than California.

**Our Take:** California's economy has rebounded nicely since the recession. It is estimated that the state economy has expanded at a rate of 3.5% annually since 2012. In addition, housing prices have increased and unemployment has decreased.

—There is no additional Week In Review detail for this page.—

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