

Q2 2017 STATE GDP SHOWS PROMISE OF CONTINUED ECONOMIC GROWTH, BUT CONCERNS LINGER

Many investors don't pay attention to state-by-state GDP, but they should. It often provides a more granular view of the U.S. economy and an earlier indicator of economic trends than national GDP does. State-by-state GDP in the first quarter of 2017 showed anemic growth in many states – including widespread slowdowns across California, New York and several other large state economies – which, [as I wrote earlier this year](#), could be an early sign of a recession.

However, Q2 state-by-state GDP alleviates at least some of our concerns. It's promising 49 out of 50 states saw GDP increase in Q2, and what's even more impressive is that 39 states had at least 2% growth. Several states in the West and Southwest showed especially strong GDP growth, led by North Dakota, which reported an 8.3% increase in Q2 (compared to 1.6% in Q1), as well as Wyoming (7.6% in Q2, compared to 0.9% in Q1) and Texas (6.2% in Q2 vs. 3.9% in Q1).

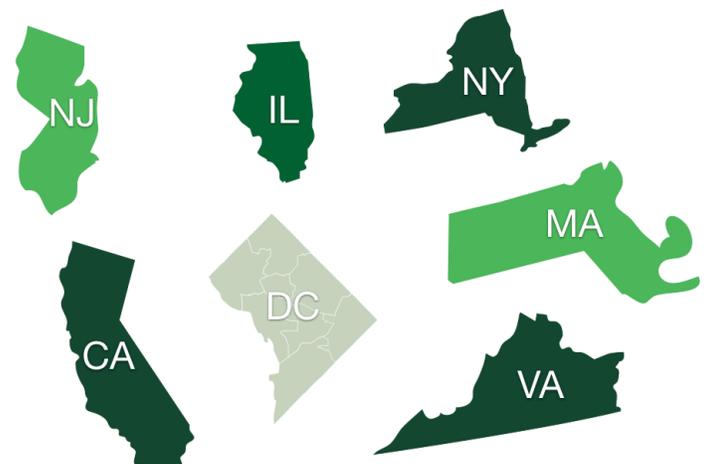
Even the states that were the most disappointing from a growth standpoint in Q1 showed signs of rebounding in Q2. California – the largest U.S. state economy and the sixth-largest in the world – reported 2.1% GDP growth in Q2, a huge win from the paltry 0.1% posted in Q1. Another mild victory was New York, with a 1.2% increase in GDP in Q2, compared to 0.3% in Q1.

The industry that was most responsible for GDP growth in Q2 may surprise you. Mining increased by a whopping 28.6%, positively impacting GDP in North Dakota, Wyoming, Texas and other states due to increases in oil and natural gas production. Information services increased by 7.0%, while professional, scientific and technical services grew 5.1%. Retail trade increased by 5.6%, which isn't necessarily surprising – retail is usually sluggish in Q1 – but a promising sign of increased consumer confidence nevertheless.

★ BEST PERFORMING STATES ★



★ MOST IMPROVED STATES ★



Q2 2017 STATE GDP SHOWS PROMISE OF CONTINUED ECONOMIC GROWTH, BUT CONCERNS LINGER **CONTINUED**

WHAT DOES THIS MEAN FOR INVESTORS?

Overall, investors should feel cautiously optimistic based on the improved momentum this data shows. It suggests that Trump's pro-growth agenda has spurred economic growth that the U.S., in the midst of its slowest economic recovery since WWII, desperately needed.¹ Mining is an example of the economic impact easing up on regulations can have. As much as we should continue to invest in alternative forms of energy, and think about the future, we also need to be realistic about the industries and jobs that exist in the present.

Looking ahead to Q3 and beyond, there were concerns that Hurricanes Harvey, Irma and Maria would negatively impact GDP due to disrupted workers in Texas, Florida and other states. However, the current estimate for GDP growth in Q3 is 3.3%, steady with the national Q2 GDP (3.1%). Whether there will be a slowdown in GDP for Texas and Florida remains to be seen. However, these regions will need to increase their investment in infrastructure in order to repair the damage these hurricanes caused, which could cause economic growth in the long run.

Lastly, a few words of caution. Although corporate fundamentals are still favorable, investors should keep in mind that during the Q2 earnings season, 11 out of 11 S&P 500 sectors had positive earnings – in Q3, just eight out of those 11 were positive. While it does look promising that Congress will succeed in passing tax reform by the end of this year or early next, corporate tax cuts – the most consequential part of tax reform for the economy – may not happen until 2019. And the Fed could raise rates as much as four times next year, which could take a chunk out of recent growth.

As encouraging as it is to see such strong growth across so many states, any one of these factors could have a seismic impact on the economy. Now is not the time for investors to get greedy about chasing returns without having adequate risk-protection measures in place.

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Sources are from the following unless otherwise noted: "BEA: News Release: Gross Domestic Product by State: Second Quarter of 2017." Bea.gov. 21 Nov. 2017. Web.

¹ Long, Heather. "Yes, this is the slowest U.S. recovery since WWII". CNN Money. 05 Oct. 2016. Web.

