Economic Update- April 2015
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Economic Update—1st Quarter 2015

The US economy continued to grow in the fourth quarter 2014, rising 2.2%, which was unchanged from the previous estimate. The economy experienced a deceleration from the third quarter, which saw growth of 5.0%. The deceleration in real GDP growth in the fourth quarter was primarily reflected in an “upturn in imports, a downturn in federal government spending, a deceleration in nonresidential fixed investment, and a larger decrease in private inventory investments that were partly offset by accelerations in personal consumption expenditures and in state and local government spending.”

The first quarter of 2015 ended with a March unemployment rate of 5.5%, 0.1% lower than the December 2014 rate and 1.1% lower than the rate in March 2014. March’s participation rate was unchanged from December 2014 at 63.7%. Total nonfarm payroll employment increased 126,000 in March but was well below the prior 12-month average growth of 269,000. Professional and business services, health care, and retail trade saw continued strength, while mining employment saw weakness.

In February 2015, housing starts showed considerable weakness falling 17% to a seasonally adjusted annual rate of 897,000 units. Housing starts for multifamily units dropped 20.8%, while single-family housing production fell 14.9%. According to National Association of Home Builders Chief Economist David Crowe, “wavering consumer confidence,” continued to have an impact on the housing recovery. Sales of new homes accelerated in February increasing 7.8% despite tough weather in the Northeast. The rate in February was the strongest since February 2008. Sales of existing homes rose a more tepid 1.2% from the prior month but were 4.7% higher than February 2014. According to Freddie Mac, the average 30-year mortgage rate for March was 3.77%. The rate experienced saw a 0.06% increase from the prior month but a 0.57% decrease from March a year ago.

The Consumer Confidence Index bounced back in March to 101.3 from a reading of 98.8 in the prior month. The Conference Board noted “Consumer confidence improved in March after retreating in February. This month’s increase was driven by an improved short-term outlook for both employment and income prospects; consumers were less upbeat about business conditions.”

In March 2015, the Federal Reserve (FED) stated that that “economic growth has moderated somewhat” since January 2015. The FED also said, “Labor market conditions have improved further, with strong job gains and a lower unemployment rate. A range of labor market indicators suggests that underutilization of labor resources continues to diminish. Household spending is rising moderately; declines in energy prices have boosted household purchasing power. Business fixed investment is advancing, while the recovery in the housing sector remains slow and export growth has weakened. Inflation has declined further below the Committee's longer-run objective, largely reflecting declines in energy prices." In order to support continued progress toward the FED's dual mandate of maximum employment and price stability, the FED reaffirmed its view that the current 0 to 0.25% target range for the federal funds rate remains "appropriate".

At the end of the first quarter of 2015, the S&P 500 stood at 2067.89 up 0.95% from the prior quarter. The DJIA lagged in Q1 with a return of 0.33% while the NASDAQ Composite outperformed the S&P with a return of 3.48%. Of the 9 sectors represented in the S&P, the healthcare sector was the strongest performer for the quarter, up 6.58%, as measured by the SPDR sector ETFs." Other sectors out-performing the broader index for the quarter included Consumer Discretionary (4.75%) and Consumer Staples (1.16%). The Materials and Technology sectors were in the line with the broader index. After strong performance in the fourth quarter of 2014, the Utilities sector was the weakest performer with a return of negative 5.15%. Other sectors, which underperformed the S&P 500 Index, were Financials (- 2.07%), Energy (-1.64%) and Industrials (-0.88%) in the First Quarter of 2015.

In Fixed Income, the Barclays U.S. Aggregate Bond Index ended the first quarter up 1.61%. U.S. Treasury yields continued to fall with the 10-year note and the 30-year bond falling by about 23 and 21 basis points, ending the quarter at 1.94% and 2.54%, respectively. At the beginning of 2014, the 10-year note stood at 3.00% while the 30-year bond was 3.90%.

Inflation pressures continued to be weak in the most recent quarter, reflected in gold prices experiencing a small loss of about $18.10 with a March 31 closing price of about $1183.20 per ounce. Oil prices, as measured by the West Texas Intermediate price (WTI), continued their declines through the quarter, falling more than $5.00/bbl to end the first quarter at about $47.72/bbl. The US Dollar Index continued to strengthen in the first quarter rising by 8.08 to 98.35.

Conclusion:

Despite current uncertainty in International Markets (particularly Europe), we expect the moderately positive financial news to continue as the economy recovers at a slow, manageable rate. Despite potential Fed tightening beginning later this year, we look for continued low interest rates coupled with slowly rising energy costs. Reduced consumer overhead expenses should drive improving consumer sentiment. Real wage improvements in 2015 should be coupled with continued earnings increases and an attractive equity market. We continue to believe patient investors will be rewarded in 2015.

*Sources Available upon request

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