Economic Update- Summer/ 2nd Quarter 2015

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The US economy decreased in the first quarter of 2015 falling at an annual rate of 0.2%. The quarterly decrease was a reversal from the prior quarter which saw a gross domestic product (GDP) increase of 2.2 percent. The decrease in quarterly GDP was primarily attributed to "negative contributions from exports, nonresidential fixed investment, and state and local government spending" while partially "offset by positive contributions from PCE (personal consumer expenditures), private inventory investment, and residential fixed investment."

The second quarter of 2015 ended with a June unemployment rate of 5.3%, 0.2% lower than the March 2015 rate and 0.5% lower than the rate in June 2014. June's participation rate was 62.6, a 0.3% decline from May and a 1.6% decline from March 2014. Nonfarm payrolls increased by 223,000. The major sectors adding payrolls continued to be professional and business services, health care, and retail trade. Financial activities and transportation and warehousing also contributed to the increase. Jobs in mining continued to decline.

Housing starts slowed in May to a seasonally adjusted annual rate of 1.04 million units, falling 11.1% from a strong April rate of 1.35 million units. April's rate represented an 8-year high in activity as builders were catching up on activity after unusually harsh winter weather. Both single-family (680,000) and multi-family (356,000) saw decreases in activity in May, although activity remains near 2-year averages.

Sales of new single-family houses in May 2015 were at an annual rate of 546,000, a 2.2% rise over a revised April rate of 534,000. The May rate also represents a 19.5% increase from the May 2014 level of 457,000. Sales of existing homes rose 5.1% to a seasonally adjusted annual rate of 5.35 million in May, up from an upwardly revised rate of 5.09 million in April. Sales are up 9.2% from the same time last year (4.90 million). According to the National Association of Realtors, May's sales rate represents the "highest pace in nearly six years"

According to Freddie Mac, the average 30-year mortgage rate for June was 3.98%. This rate represented a 6bps increase from the prior month but a 0.18% decrease from June a year ago.

The Consumer Confidence Index®, "which had improved moderately in May (94.6), increased further in June to101.4. The Conference Board noted that "Over the past two months, consumers have grown more confident about the current state of business and employment conditions. In addition, they are now more optimistic about the near-term future, although sentiment regarding income prospects is little changed. Overall, consumers are in considerably better spirits and their renewed optimism could lead to a greater willingness to spend in the near-term."

In June, the Federal Reserve (FED) stated, "economic activity has been expanding moderately after having changed little during the first quarter. The pace of job gains picked up while the unemployment rate remained steady. On balance, a range of labor market indicators suggests that underutilization of labor resources diminished somewhat. Growth in household spending has been moderate and the housing sector has shown some improvement; however, business fixed investment and net exports stayed soft. Inflation continued to run below longer-run objectives, partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports; energy prices appear to have stabilized. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations have remained stable.” 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 Second Quarter of 2015, US stock markets remained relatively flat for both the quarter and the year. The S&P stood at 2,063.11 up 0.28% from the prior quarter and 2% for the year. The DJIA lagged while the NASDAQ Composite outperformed the S&P with returns of -0.29% and 1.75%, respectively for the quarter and -1.1% and 3.4% respectively for the year. Health care (2.80%), Consumer Discretionary (1.88%) and Financial (1.69%) shares outperformed the S&P 500 Index while Utilities (-5.95%) Industrials (-2.57%), Energy (-2.19%), Consumer staples (-1.74%) underperformed the broader market. Materials (-0.46) show a small loss while the Technology sector was inline with the S&P with a quarterly gain of 0.28%.

In Fixed Income, the Barclays U.S. Aggregate Bond Index ended the second quarter down 1.68%. U.S. Treasury yields rose through the quarter with the 10-year note and the 30-year bond rising by about 41 and 57 basis points, ending the quarter at 2.35% and 3.11%, respectively. At the beginning of 2015, the 10-year note stood at 2.13% while the 30-year bond was 2.69%.

Inflation pressures continued to be weak in the most recent quarter, reflected in gold prices experiencing a small loss of about $11.70 with a June 30 closing price of about $1171.50 per ounce. Oil prices, as measured by the WTI (West Texas Intermediate crude), rose sharply through the quarter, gaining about $11.76/bbl (barrel) to end the second quarter at about $59.48/bbl. After peaking in March 2015, the US Dollar Index weakened in the second quarter rising by 3.57 to 94.78.

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