Economic Commentary

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Déjà vu All Over Again!

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Yogi Berra was one of my boyhood idols. Known as one of the greatest baseball catchers, coaches, and managers in history, and revered to this day for his "Yogiisms," the impact of Yogi Berra lives on. One of his more famous Yogiisms applies to the first quarter economic climate: "It's like deja vu all over again."

Thus far, 2015 "feels" similar to the last few years. Economists' year-end predictions detail how GDP growth will accelerate in the coming year, only to be followed by a dose of reality, as the economy struggles in the first half of the new year. To date, economic releases in 2015 have certainly underwhelmed and, in many cases, resulted in outright disappointment.

Can this "feeling" be verified? Yes. The Citigroup Economic Surprise Index measures data surprises relative to market expectations. A positive reading means that data releases have been stronger than forecasted and a negative reading means that data releases have been worse than expected.

Citigroup Surprise Graphic

As highlighted on the graph, economic releases have disappointed so far during the first quarter of 2015 as the index currently stands at -58.60. What I find interesting is that it is "déjà vu all over again" as the pattern is the same as our actual experience in 2014. The consensus rationale for last year was the record-breaking cold winter in the Midwest. It is easy to speculate that the record-breaking snow on the east coast had the same economic damping impact in 2015.

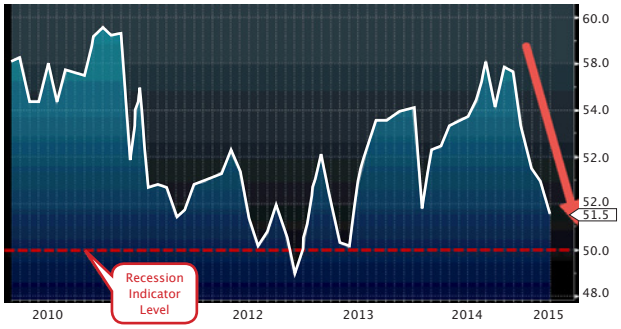
Not so fast! Look at the pattern for the last five years since the recovery from the Great Recession started. It is repeated every year and cannot be strictly weather related. Many theories abound for this phenomenon, with the most plausible being that the magnitude of the Great Recession has altered the economy and the econometric models have yet to reflect the permanent changes.

Let's review some recent economic disappointments. Industrial production, while continuing to expand, is only slightly above the level reached in 2006 prior to the recession.

Industrial Production Graph

Manufacturing hurt by weak European demand and the rising U.S. dollar, has developed a negative trend. According to the Institute for Supply Management Index manufacturing is still above the recession demarcation level of 50, but the trend is alarming.

Supply Management Index



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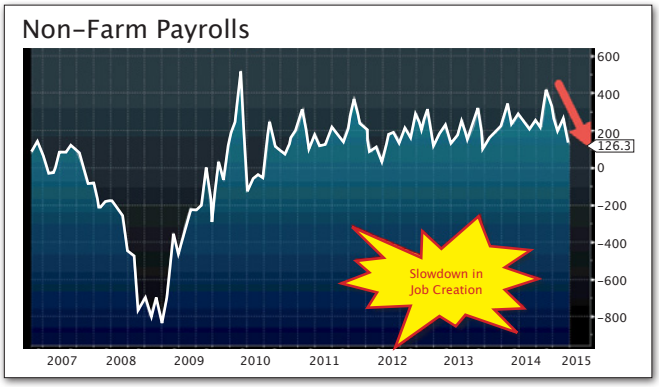
The housing "recovery" continues to disappoint as actual results are less than consensus forecasts. Annualized sales of existing homes is currently 4,880,000—below the post-recession level reached in July, 2013 of 5,310,000, and well below the record level of 7,250,000 from September, 2005.

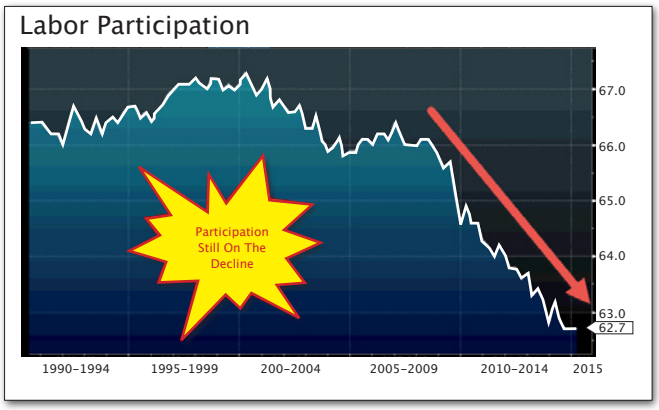
The consumer remains cautious as evidenced by the annual growth in retail sales. Surprisingly the annual increase in retail sales has been on the decline since December, 2011. The annual increase is currently only 1.2%, which is barely keeping up with inflation. Another sign of consumer malaise is the decline in outstanding consumer credit. Even with the increase in student loans, total outstanding consumer credit has declined to $11.56 billion from a post-recession high of $19.6 billion in the first quarter of 2013. Not only are housing, retail sales, and consumer credit reflecting a cautious consumer, the recent increase in the personal savings rate highlights the point.

Following a positive start to the year, recently U.S. durable goods new orders have been disappointing. As an example, economists were forecasting a monthly increase of 0.2% for February, 2015, but the actual release reflected a decline of 1.4%. Overall, it is difficult to find positive economic news.



Let's turn to the labor market. Positive job growth continues as the total employees on non-farm payrolls continue to increase over 200,000 per month. In fact, positive job growth has been present every month since October, 2010. However, this level of job growth is lower than population growth overall. Also, the trend has turned negative as the growth in March, 2015 was only 126,000.

The unemployment rate has declined from 10% reached in October, 2009 to the current 5.5%—definitely a positive trend, about it carries a huge caveat. Since the job creation level is only generating sufficient jobs to absorb population growth, the decline is primarily attributable to the decline in the labor participation rate.



The decline in the labor participation rate has many causes: weak job prospects encourage more individuals to seek advanced degrees, others leave the labor market, and more and more retiring baby boomers.

My GDP forecast for 2015 called for growth of between 2.5% and 3%. Am I worried that the actual first quarter results point to a lower annual growth rate. Yes, as Yogi Berra said, I feel like it's "déjà vu all over again." I was concerned last year at this time, when first quarter "growth" was a negative 2.1%; yet the economy expanded 2.4% for the year.

I remain committed to my 2015 forecast. The first quarter will, in my opinion, be the weakest quarter of the year. In fact, based on my reading of the economy, I fear that first quarter GDP could be as low as 1%.

Here's another pertinent Yogiism: "It ain't over 'til it is over."

NOTE: Indexes are not available for investment. Mention of a specific company or security is not a recommendation to buy or sell that security. Past performance is never a guarantee of future results.

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