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ECONOMIC COMMENT – APRIL 23, 2015
BLAME THE WEATHER…?

For some time now, the Federal Reserve and most forecasters have displayed considerable optimism regarding economic activity in 2015. Forecasts of real GDP growth in 2015 have generally been in the 3-3½% range, representing a significant improvement over last year's 2.4%.

However, it now seems probable that the annualized rate of GDP growth in the first quarter of 2015 will be barely positive, which, as might be expected, has raised concerns and questions about prospects for the balance of 2015. So far as can be determined, the prevailing assumption is that the first quarter's weakness can be regarded as a temporary setback, which will be followed by renewed strength in the next several quarters. To a degree, bad weather has been blamed for the first quarter's listless performance, hence the assumption of renewed growth in the spring and summer months.

From our prospective, however, the evidence is pointing to a slowdown that cannot be entirely explained by severe winter weather in some parts of the country. Consider the following developments in key sectors of the economy:

> Consumer spending has not responded to the plunge in oil prices, nor to the improved financial position of households or the recent upsurge in payroll employment. In March, retail sales (ex autos) were only marginally ahead of a year ago; while in the first quarter as a whole, sales posted a negligible increase of 0.8%, which, after adjusting for price increases, suggests a small decline in volume. And looking at the key

GAF[1] group of stores – which is a good indicator of discretionary spending - the 1st quarter was up just 2.1% from a year earlier, and, in March alone, the year-over-year gain was less than 1%.

- Home building activity is unlikely to be a major contributor to real GDP growth in 2015. The annualized rate of permits issued for single-family houses has fluctuated at a very narrow range since last June, which implies a leveling trend of start activity over the

  balance of 2015. Likewise, the trend of permits issued for apartment construction has also shown very little increase since last summer, which also suggests that this year's number of starts may be little changed from last year's figure of 342,000.

- As matters now stand, 2015 is unlikely to be a bumper year for capital spending. Of concern is the fact that orders for non-defense capital goods (ex aircraft) – which is a reliable leading indicator of future outlays for equipment – has declined in 9 of the last 12 months.

- Recent surveys, including those released by the Federal Reserve Banks of New York and Philadelphia, indicate a palpable slowdown in manufacturing activity, at least over the next several months. On this point, it might be noted that, in March, manufacturing output just nudged ahead of the previous month. And looking at the 1st quarter of 2015 as a whole, manufacturing output fell at a yearly rate of 1.2% from the 4th quarter of 2014 – the largest quarterly decline since the recession of 2008-2009.

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[1] Firms that specialize in department store types of merchandise, including furniture and home furnishings, electronics and appliances, clothing and accessories, and general merchandise.

Despite this array of generally downbeat statistics, the U.S. economy is full of surprises and the 2nd quarter could well see the widely anticipated rebound in economic activity. That said, we believe that, based on the evidence, most of the risks are on the downside. The high level of uncertainty regarding the near-term outlook is likely to make life more difficult for the Federal Reserve. A slowing of the Nation's economic growth rate could well persuade the Federal Reserve to further delay the widely anticipated boost in interest rates to some unspecified date in the future.