

Tax Tips by Dave Helscher

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There are certainly reasons to see the economic glass as half empty. The headlines provide sufficient fodder to affect consumer confidence and behavior. Should inflation unexpectedly heat up, the Federal Reserve may need to raise interest rates higher than current market expectations. If rates rise while other global central banks add monetary accommodative policies (lower negative interest rates), the dollar's rise could accelerate. Slower growth from China and OPEC unable to rein in production could result in lower oil prices and more pain in the domestic energy production sector. Contracting manufacturing, spiking inflation and falling exports could tip the economy into a recession. Add these factors into uncertainty due to the presidential election cycle and terrorist attacks; you create a cautious if not pessimistic consumer.

Yet there are also reasons to view the glass as half full. Job gains continue at a healthy pace, even as the current economic recovery moves into its 7th year, the fourth longest in U.S. history. My analysts view employment growth to continue through this year. Domestic auto sales are at record levels. Financing costs remain low and the average age of the vehicle fleet remains high, 11 years versus a normal 7.5 years pointing to continued growth in the auto manufacturing sector. The majority of the U.S. economy is service related. This continues in expansion mode and one gauge of nonmanufacturing activity has been positive for 6 years. Housing fundamentals, although volatile, have been on an upswing. Part is due to continued job growth and millennials are finally entering the market to make their first home purchases. Household formations are near a 9 year high and low interest rates increase affordability.

It would seem that consumers view the glass as more empty as confidence numbers have declined somewhat so far this year. In the latest readings on consumer spending, they have adopted a more cautious stance, with spending up only 0.1% in February and January's figure revised down from 0.5% to 0.1%. Spending still increased but at a slow pace. February incomes were up 0.2% and difference with spending went into savings, up to 5.4% to stand at a one year high. First quarter 2016 joins the past several years to start at a slow pace. The past few years have seen significant weather events inhibit growth. Locally, we avoided a repeat but the same cannot be said for other regions.

It is possible that consumer behavior, however viewed, is seen through the prism of the great recession. The events of the past 7 years may have affected consumer confidence and spending patterns on a longer term basis than other recessions, due to its depth and severity. A slow growth pattern may have become the norm, alongside a pattern of low interest rates for a longer period of time. It is also possible that spending has just been deferred until the spring. Continued strong employment growth and healthier individual balance sheets may open consumer's wallets and reinforce the trajectory of the recovery.