Payden&Rygel

Economic Update

THOUGHTS FROM OUR ECONOMICS TEAM

MARCH 13, 2015

It Rarely Gets This Good

This week investors worried that following three months of weaker-than-expected retail sales reports the US economy may have hit a "soft patch" in the first quarter. We are less concerned. The gross domestic product (GDP) figures may slow to 2% (at a quarter-to-quarter annualized rate) or a bit less in Q1, but we think the US economy is on solid footing. From employment gains to healthier household finances to rising purchasing power, the stars have aligned for US consumers.

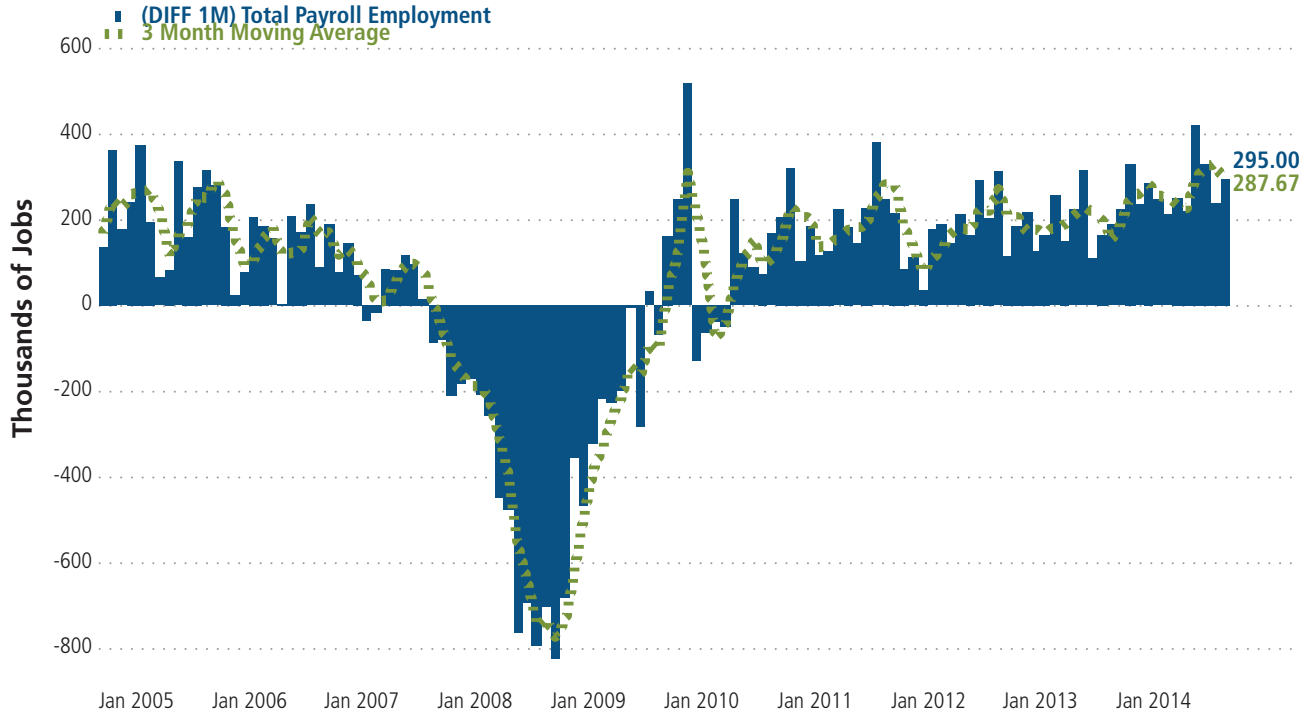
First just look at the labor market. In the past two weeks we learned that the three month average pace of net new job creation was 288,000. Since the Federal Reserve's last hiking cycle began in 2004, only twelve months saw a better average pace of job growth (**see Chart below**). Consider too that quits—an indication of a strong jobs outlook—haven't looked so good since the early months of 2008. And those optimistic quitters (who presumably left with the feeling they'd find another job) have been finding jobs: five million people were hired in the month of January alone!

As if a strong labor market weren't enough to cause consumers to smile, household net worth (the value of household assets minus household liabilities), battered during the recession, has come roaring back. With a bounce back in home prices, turbocharged equity markets, and debt pay downs, US household net worth hit $83 trillion at the end of 2014 (**see Chart on next page**). Compare that figure to household net worth measured at $56.5 trillion in 2008. That measures out to a compound annual growth rate of 6.6%. With inflation averaging only 1.4% year-over-year, that means households have seen better than 5% real gains in net worth per year since the heart of the crisis. Who said returns are hard to come by?

You may have heard the commentariat worry about stagnant wages in the US. But, we'd suggest looking at the earnings power of the average American differently. Real average hourly earnings (average hourly earnings deflated by core personal consumption expenditures index inflation) increased every year except one in the past 20 years. Low US inflation has meant that despite lower than average nominal wage gains, employees are still better off year after year: wages are outpacing rises in the cost of living.

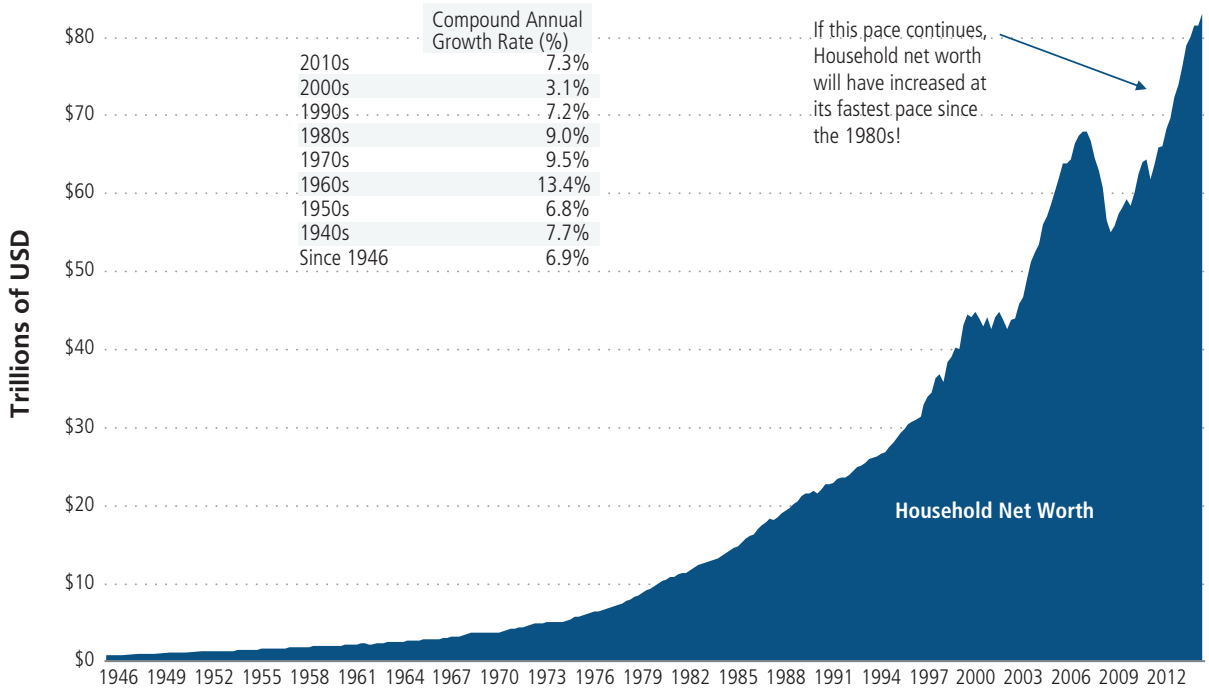
Finally, despite a deluge of bearish sentiment (looking at you gold bugs), the US dollar is flexing its muscle on the global scene. Since hitting its cyclical nadir in August 2011, the US dollar has gained 15% against a broad index of major trading partners (**see Chart**

A STRONG AND CONSISTENTLY GROWING LABOR MARKET HELPS U.S. CONSUMERS BY PUTTING MONEY IN THEIR POCKETS



Source: Bureau of Labor Statistics

WHAT ELSE MAKES CONSUMERS HAPPY? A STRONG BALANCE SHEET. HOUSEHOLD WEALTH CONTINUES TO BALLOON TO ALL-TIME HIGHS

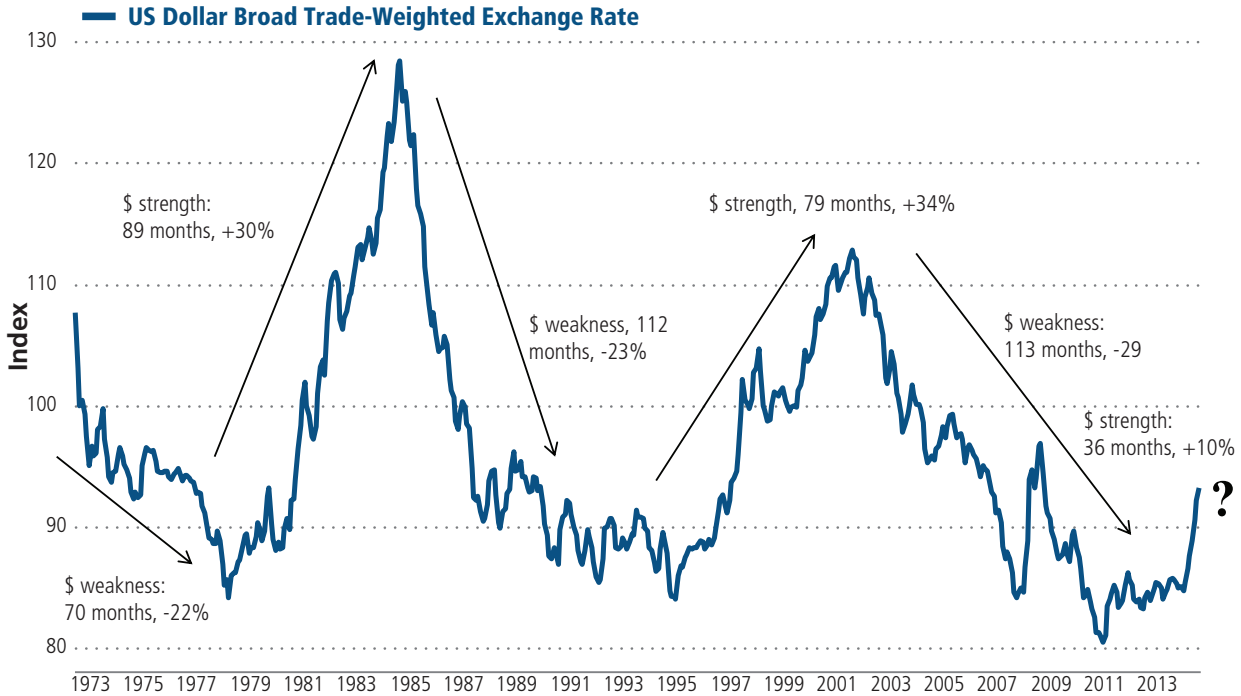


Source: Federal Reserve

below). So while many commentators feared that the many bouts of Federal Reserve policy initiatives would wreck the value of the dollar, the opposite has happened. With a stronger dollar in hand, US consumers have more purchasing power in the global economy, enjoying everything from furniture to food to imported vehicles. Now commentators have flip flopped and worry that the dollar is "too strong for the US economy"! We also find these fears misplaced. The US dollar is still weak relative to its long-run history and has been in a strengthening phase for 3+ years, during which time the US economy has performed admirably.

Altogether, it isn't just the headlines of a strong labor market and low inflation which have us excited. Rather, the delight is in the details. The underlying dynamism of the US jobs market is real. Household assets, like homes and stocks, have vaulted higher in price. Meanwhile, household debt is lower than it was before the financial crisis, and the dollar is stronger once again. US consumers, count your lucky stars. It rarely gets this good.

DOLLAR DRAMA: FROM DEATH TO DARLING…RECENT DOLLAR STRENGTH MEANS U.S. CONSUMERS HAVE MORE PURCHASING POWER BUYING FOREIGN GOODS. LOOK OUT LOUIS VUITTON!



Source: Federal Reserve