



as we see it

Winter 2016

THOUGHTS FROM OUR CHAIRMAN

In this winter issue of “As We See It”, our associate, Joe Healy, investigates the reasons why consumer spending in the US is trailing historic patterns during this period where general economic conditions have improved. Not only is the consumer saving more, but he/she also seems discouraged by the unfolding presidential election process. Unfortunately, our financial markets do not like political or consumer uncertainty either.

Alfred B. Van Liew

Where’s the Beef?

Joseph J. Healy, CFA

Many of us remember the line “Where’s the beef?” from the 1980’s Wendy’s restaurant ad campaign. The star of the iconic ad, the late Clara Peller, wasn’t impressed by competitors’ measly cheeseburgers. Today, consumers are asking something similar in reaction to our economy and its future prospects. Data shows the US consumer is optimistic, but that hasn’t translated into higher consumer spending. Where’s the beef?

Consumers should have the money to spend. Over the past two years, heating oil and gasoline prices have fallen sharply and, historically, lower energy costs always meant higher consumer spending, similar to a tax cut. Consumer spending represents 70% of the U.S. economy.

What’s changed? Lower energy-related capital expenditures and job losses may be offsetting a portion of savings “at the pump”, while lower oil prices are dampening the returns of the stock market and may be affecting consumer sentiment, too.

For Americans in 2015, disposable income, or money

left over after taxes, grew 3.5%, the most in nine years. However, the savings rate increased, too. In December, the savings rate was 5.5%, the highest level since 2012. For years, we’ve heard that Americans live beyond their means and they don’t save enough. Why is it different this time? Are Americans worried about the economy or perhaps more cognizant of the need to save for their future? Probably a bit of both.

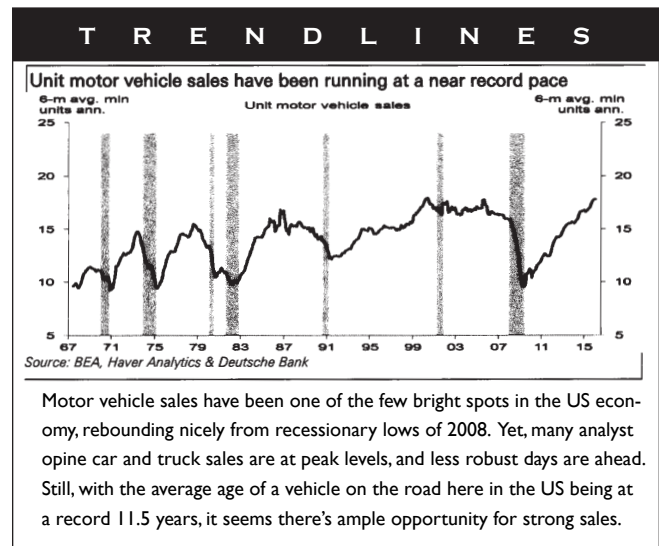
Consumer household purchases have been rising, just not by as much as many would hope. Consumers appear to be more careful and deliberate with their purchases, with big ticket items faring better in the current environment. Home sales and home improvement expenditures have held up, too. Additionally, automobiles saw record sales this past year. Public concerns seem to focus on uncertainty about the future: fears of rising health care costs, continued higher education costs, questions about job security in our evolving workplace, or finally recognizing the need to save more for retirement to have some chance of maintaining anything close to one’s current lifestyle. Perhaps, with this new found “prosperity” from lower energy costs, the consumer feels

better about his or her own future.

Could a new frugality trigger an economic slowdown or worse, a recession? Despite recent equity market volatility, we say no. Inflation remains tame and headwinds from low energy prices and the strong dollar are likely to fade, helping to boost corporate earnings. Unemployment is at historic lows. Without evidence of an accelerating economy it will be difficult for the Fed to stick to forecasted interest rate hikes. Company mergers and stock buybacks continue, which boost equities. Corporate dividends remain below historic norms and are poised to rise. The Eurozone is slowly recovering and the prospect of lower rates and more economic stimulus programs lurk down the road. Despite perception, corporate leverage remains low as compared to conditions during the last financial crisis. Is it different this time? While GDP remains low in comparison to the past, this “new normal” is still expansionary.

Of course, the big hope is that consumers are merely delaying spending their lower energy price windfall. If so, what will be the spending trigger? Interestingly, early

economic numbers indicate so-called gas station point-of-purchase spending has increased – pick up a pack of peanuts, a lottery ticket and a Slim Jim and maybe treat the family to a cheap dinner at Wendy’s? Where’s the beef? Believe it or not, there is beef in a Slim Jim, along with, shall we say, other things. We believe there’s more “beef” to our economy.



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