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ECONOMICS: US PERSPECTIVES

US ECONOMY: "ARE WE THERE YET?"

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June 2016 marks the seventh anniversary of the current economic growth cycle. Its durability to date makes it the fourth-longest expansion in the postwar period—and two years longer than the average. Yet questions of sustainability have plagued this cycle almost every quarter. Nonetheless, one of the most important features of the current cycle is its youthful image, which we think bodes well for its lifespan. In the end, we would not be surprised if the current cycle rivals the longest expansions on record and runs for another three years or more.

Growth Cycles Are Not Linear

As we noted in previous commentaries, economic cycles vary greatly in terms of speed and duration. The relatively low speed (or slow growth rate) of the current cycle has always been viewed as its Achilles heel. Consequently, many analysts have frequently raised the issue of recession risk when economic growth has slowed to stall speed for any given quarter. That was again apparent when the preliminary numbers for the first-quarter gross domestic product (GDP) were released on April 28. That initial estimation was a scant 0.5%, annualized, but has now been raised to 0.8%.

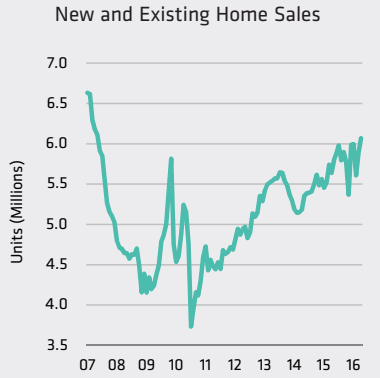
What's more important, however, is that quarter-to-quarter volatility in GDP growth figures is a natural part of every economic growth cycle. No cycle has ever been linear. Moreover, a low speed is neither a sign of pending failure or an endpoint, although it does make the growth cycle somewhat more vulnerable to exogenous shocks.

Positive, But Overlooked, Signs

Nonetheless, one of the most overlooked and positive aspects of the current cycle is that the "risk-on" and "risk-off" swings in the financial markets are no longer apparent in hiring patterns by businesses. Indeed, the US equity market has experienced two relatively large double-digit sell-offs (in August 2015 and again during the first six weeks of 2016), and yet payroll job gains have been remarkably steady and solid—averaging 231,000 per month over this period. Previously, the correlation between equity market volatility and hiring patterns was unusually high.

Equally important are the signs of increased spending and investment on the part of the consumer. April's retail sales gain of 1.3% was the largest monthly gain in more than a year. It lifted spending growth prospects to more than 3% for the quarter, and past revisions indicate that the first-quarter gain of 1.9%, annualized, will be revised upward.

Display 1
Home Buying Tops Six Million Mark in April



Through April 30, 2016
Source: Haver Analytics, National Association of Realtors and US Census Bureau

Housing Hits Its Stride

Perhaps the biggest recent news on the sustainability of the current growth cycle comes from the housing market. In April, existing homes sales rose 1.7% to 5.45 million units, annualized, and new home sales rose 16.7% to 619,000. Taken together, new and existing homes sold in April topped the six million mark for the first time since 2007 (*Display 1*). Equally important, median prices for new homes hit a new record high, while prices for existing homes are near the records reached in 2006.

Strength in the housing and construction markets is an important sign of economic steam and stamina. And without a doubt, this strength is linked to labor market gains, increased household formation and rising consumer confidence. Interestingly, the housing sector usually provides growth leadership during the first half of an economic expansion. But in the current cycle, the housing market recovery was significantly delayed due to the legacy issues of the prior cycle (i.e., household foreclosures, debt and inventory overhang, and tightened lending standards).

The fact that the housing market is moving higher tells us that the growth cycle has moved past the stage when we might ask, "Are we there yet?" Thus, from almost all angles, the economic data says that the growth cycle is here to stay for awhile. ■