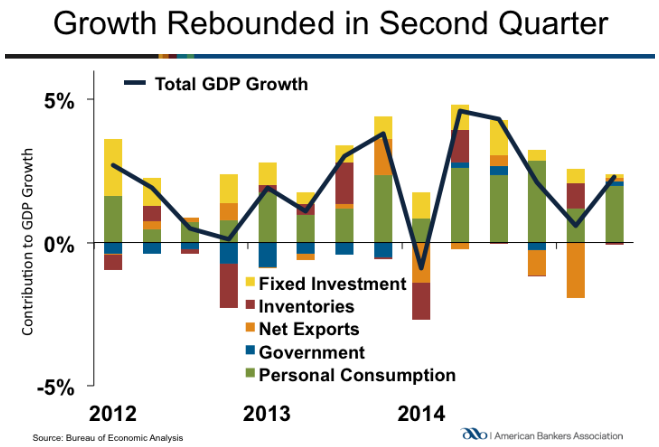
Economic Discussion

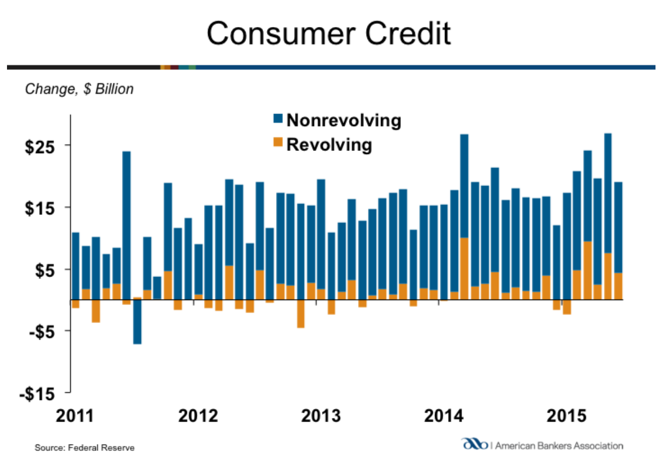
GDP Rebounds



After a particularly sluggish stretch of growth in the first quarter (much of which was due to unseasonably severe winter weather), the U.S. economy returned to more acceptable levels of growth during the second quarter, as real GDP grew at an annual rate of 2.3 percent, according to the Bureau of Economic Analysis. Although second quarter GDP was slightly below analysts' expectations, there were a number of signs which suggest that the underpinnings of the economy are improving. Once again, the majority of growth was driven by personal consumption spending, which increased 2.9 percent in the quarter, compared with an increase of 1.8 percent in the first, and accounted for 87 percent of the second quarter's growth in GDP. Exports, which had weakened in the first quarter, in large part due to rising dollar values, picked up in the second quarter, increasing 5.3 percent after a 6.0 percent decline in the first.

Consumer Spending & Credit

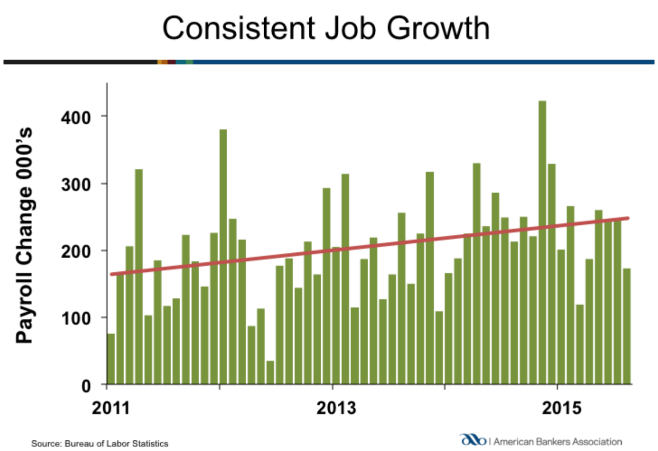
Consumer spending was buoyed by a variety of factors. Consumers are feeling more confident than they have in previous years. University of Michigan consumer optimism survey averages have exceeded pre-recession levels, averaging 93.9, 4.0 points higher than the average in the years between 2002 and 2006. Gasoline prices during the second quarter were approximately 93 cents per gallon cheaper than they were during the summer of 2014. In addition, slower inflation has allowed consumers greater financial flexibility, as the Consumer Price Index increased 0.03 percent year over year in the second quarter, compared to a 2.05 percent increase last year according to the Bureau of Labor Statistics. Retail sales were improved over the first quarter, but still slow, with month over month growth averaging 0.4 percent, compared to growth of 0.06 percent in the first. Discretionary spending also saw some gains as restaurant and auto sales grew 0.6 percent and 0.3 percent month over month.



Growth in consumer credit accelerated during the second quarter, increasing from a seasonally adjusted annual rate of 4.2 percent in January, to 7.3 percent in June. Growth in revolving credit increased from an annual rate of 0.4 percent in the first quarter, to 7.0 percent in the second, while the growth in non-revolving credit slowed from an annual rate of 7.5 percent in the first quarter, to 7.0 percent in the second. Motor vehicle loans made up a significant portion of non-revolving credit—second only to student loans—accounting for approximately 29 percent ($994 billion) of outstanding credit, up from 27 percent three years ago. Despite increases in credit, consumers remain focused on keeping manageable levels of debt. Delinquencies as a whole remained low at 1.53 percent of all accounts – continuing a three-year trend of remaining well under the 15-year average of 2.28 percent.

Labor Market

The recovery in the labor market continued at a moderate pace, averaging 226,000 jobs from April to June, as the rate of unemployment declined from 5.5 percent in March to 5.3 percent in June, according to the Bureau of Labor Statistics. Healthcare and professional services consistently posted strong gains, with health care adding 436,000 jobs and professional and technical services adding 301,000 jobs over the course of the year. Employment in mining, oil and gas extraction continued to trend downward. After reaching a high in December 2014, employment in the mining sector fell by 78,000 jobs this year, as low oil prices decrease the feasibility of domestic production. Average hourly earnings reached $24.95, a modest 2 percent increase over the past year.



Although a significant number of jobs have been added over the course of the year, the number of long-term unemployed was 2.2 million, accounting for 26.9 percent of the unemployed. Furthermore, the number of discouraged workers – those not looking for work because they believe no jobs are available —was 668,000, little changed from a year ago. The civilian labor force participation rate currently sits at 62.6 percent, the lowest rate since April 2014.

Business Sentiment and International Trade

Industrial output contracted over the second quarter, averaging a monthly decline of 0.1 percent, according to the Federal Reserve's G-17 report. Manufacturing, the main index of industrial production, was flat as output declined in some subsectors, negating increases in others. Increases in business equipment output and growth in the utilities sector were among the few bright spots. Production in the mining industry declined, as oil and gas well drilling continued to fall.

The Institute for Supply Management's (ISM) Manufacturing Index reported slow, but positive growth for the earlier part of the quarter, with a pick-up in June. Some respondents noted that the downturn in oil and gas markets was impacting demand, while others noted that business was soft in Europe and declining in Asia. The apparel, machinery and petroleum and coal sectors reported layoffs in the month of June. Export orders registered 49.5 points in June, indicating that the volume of exports decreased. Inventories ticked up at a faster pace during the quarter, and the imports index registered 53.5 points, marking the 29th consecutive month of growth.

The Non-Manufacturing ISM Index continued to grow at a solid pace over the quarter. Survey respondents cited low fuel prices as a boon to activity. The index read 56 points in June, marking the 65th consecutive month of growth. Employment in the non-manufacturing sector continued to grow in June, but at a slower pace than in previous months. Respondents noted that attrition rates were normal among jobs, and that the positions were "mostly being backfilled (albeit slowly)."

The U.S. international trade deficit grew wider over the course of the quarter, ending the month of June at $43.8 billion dollars. Exports remain under pressure from a combination of low oil prices and rising dollar values. This combination of factors has caused increased imports of petroleum products. Though the U.S. currently runs a goods deficit, the surplus of services continued into the second quarter, holding steady at $19.7 billion.