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U.S. ECONOMIC AND MARKET REVIEW – DECEMBER 2014

Earlier this year, many worried that falling U.S. Treasury rates signaled that the economy was weakening and that rising U.S. share prices were overvalued. At the time, we argued that such fears were misplaced. This past month, a steep -14.6% plunge in the Brent price of crude oil (down -34.6% year-to-date) sparked similar fears, even as the S&P 500 index inched up another 2.5%. Do falling oil prices indicate that the U.S. economy, and the stock market, is headed for bad straits? In our view, they do not.

The recent plunge in oil prices is often portrayed as a supply glut caused by the U.S. shale revolution. Yet U.S. oil output has been rising, and imports falling, for several years now with oil prices remaining stable above $100/barrel. That is because rapid growth in demand from Asia, particularly China, displaced U.S. imports as the market's main driver. From 2003 to 2013, Chinese oil consumption grew by 6.5% per annum, accounting for 43% of the entire increase in worldwide oil demand for the past decade. This year, Chinese oil consumption is expected to grow by barely 2%, less than half earlier estimates. The slowdown in China's investment boom has undercut global oil prices, along with other industrial commodities such as iron ore (down -48% so far this year) and copper (down -16%).

In the past, analysts called the price of copper "Dr. Copper" because it was such an accurate gauge of the U.S. economy's health. Now that Dr. Copper (and Dr. Oil) has moved to China, the implications for the U.S. are quite different. First, the shift taking place in China, from an unprecedented, resource-intensive capacity build-out to a more balanced, consumer-driven economy—while profoundly disruptive—ultimately stands to benefit the U.S. economy. Second, cheaper prices for energy and other inputs translate into lower costs for U.S. companies and greater purchasing power for U.S. consumers, as well as reduced inflationary pressure.

The latest statistics, at least, suggest a U.S. economy that remains on track. Disappointing trade numbers for September, probably due to the strong dollar, led most analysts to expect a downward revision in the Q3 GDP growth figure. In fact, Q3 growth was revised upwards, from 3.5% to 3.9%. True, the contribution from net exports was reduced, but a stronger-than-expected domestic economy—in the form of consumption and business investment—more than made up the difference. The anomalous Q3 surge in defense spending is unlikely to be repeated, and will probably detract from the Q4 growth figure. But in other respects, the data suggest that growth momentum has carried into Q4.

The November employment report showed a surprise surge of 321,000 new jobs. The U.S. trade deficit stabilized and declined slightly in October. Durable goods orders, while weaker than this summer, were still up 6% year-on-year in October. October auto sales were up 7% year-on-year.

The ISM Manufacturing Index came in near post-crisis highs at 59.0 for October and 58.7 for November, with new orders registering an astonishing 65.8 and 66.0, respectively. The ISM Non-Manufacturing Index also put in a strong showing at 60.0 for October and 64.4 for November. Housing remains a relative weak spot, with sales seeing an anemic recovery from a swoon last fall and winter.

Corporate profits, up 3.8% year-on-year in Q3, continue to grow with the economy. Of the 12% rise in the S&P 500 index so far this year, 7 percentage points came from improved earnings, while the rest came from a relatively modest increase in the P/E ratio from 17.2 to 18.0. Clearly, falling oil prices may have a negative effect of some exposed sectors, such as high-cost and/or highly leveraged U.S. oil producers, and the banks or high-yield bond investors who have lent to them. The share prices of the oil majors have already declined sharply. But the broader effect of cheaper energy prices has helped, not hurt, the rest of the U.S. economy, and rising U.S. share prices reflect that.

December 5, 2014

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