December 2014

Turning the Corner into the New Year

As 2014 draws to a close, we want to take a moment to examine the key indicators that have played such a vital role in shaping our economic landscape this year.

First, the U.S. economy grew at its fastest pace in over a decade during the spring and summer, climbing at a 3.9% annual rate in the 3rd quarter. In October, the nation's unemployment rate slipped below 6% for the first time since entering the recession in 2008. Factory construction is increasing with manufacturers stepping up output and introducing new product lines.

The recent sharp drop in oil prices not only translates into lower gas prices at the pump but provides consumers with more cash to spend elsewhere. By one estimate, for a typical U.S. family, the savings could amount to nearly $1,100 a year if petroleum stays at current levels.

While consumer confidence has surged to a seven-year high, a sharp rise in holiday spending for December is predicted. And, what is viewed as another positive economic sign, U.S. banks posted their largest quarterly revenue increase since 2009 – a highlight that underscores an increasing willingness to lend on the part of U.S. financial institutions.

While our economy has benefited from many positive developments this year, that is largely not the case in Europe and abroad.

The 18-country Eurozone is edging toward another recession. In fact, the largest economies in Europe appear to be sliding in to a new phase of stagnation which poses a major risk to global growth. A year-long "stress" test of Europe's 130 largest banks revealed that 25 banks in Italy, Cyprus, and Greece failed their year-long stress test. In Asia, China's economy is growing more slowly than it has in decades - sliding into a pace of just 7% growth rate. And, China's stock market has become extremely volatile. Japan – the world's third largest economy after the U.S. and China – has now re-entered a recession.

So, what can we expect in 2015?

Many believe the global economic outlook for next year is not good – not much better than what occurred in 2014. Here at home, we are likely to experience continued growth in our economy, although some business leaders are tempering their optimism. We need to realize that so much of what unfolds in 2015 will depend on global events. As we know, the unpredictability of world events from Russia to the Middle East can quickly change the economic picture and consumer

sentiment. And there will be challenges here at home: increased volatility in the stock market can slow business investment and hiring.

Here's one potential drawback looming in the new year. In response to a strengthening economy, we expect the Federal Reserve to take action – perhaps by the middle of 2015 – to begin a gradual uptick of interest rates – a move that will likely result in modest rate increases.

The U.S. dollar continues to strengthen – good news for U.S. consumers – but not so good for those trading partners who purchase our goods. A stronger dollar is likely to widen the gap between the expanding U.S. economy and struggling countries in Europe and Asia.

Overall, we expect to see continued growth in our economy in 2015. Inflation should remain low. We are hopeful that both consumers and businesses will continue to express greater confidence in the economy that will translate into an increase in consumer spending.

On behalf of all of us at Kapusta Financial Group, we want to extend our best wishes to you and yours this holiday season.

As always, please don't hesitate to give us a call if you have any questions or concerns.