



# Chatham Wealth Management

## *The Impact of Strong U.S. Economic Growth*

*By Beth Wahlig – November 2014*

The U.S. economy continued to grow at a steady clip in the second half of 2014. On October 30<sup>th</sup>, the Commerce Department released numbers that showed Gross Domestic Product grew 3.5% in the third quarter of 2014 due to military spending and a drop in imports. The news was a positive sign as the growth slightly exceeded analyst predictions and caps America's strongest six-month period of expansion since 2003. The United States is still well away from a full-scale recovery, but growth is at least

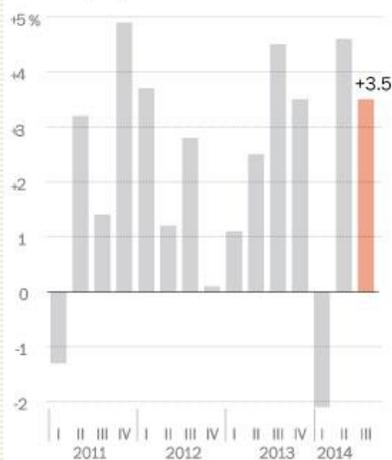
becoming more reliable. In four of the past five quarters, the economy has expanded at a rate of 3.5 percent or greater. Consumer spending and fixed investments, taken together, are up 2.8 percent over the last year. That figure, which doesn't include some of the more volatile components that influence GDP like defense spending and real estate buying, is seen as a more reliable barometer of the economy's trajectory.

Another positive sign is lower gasoline prices in the U.S. as supply of oil now outstrips demand. Seeing gas below \$3 a gallon will have a very positive impact on the spending patterns of consumers. A \$0.50 drop in gasoline prices saves motorists \$10 to \$18 every time they purchase gas for their cars or trucks. Natural gas prices are down 10% since the end of September and since half of American

homes are heated with this type of fuel, this will add more to consumer pockets. Many economists are expecting Americans will spend more around the holidays this year than in 2013. Lower gasoline prices will have a huge impact on the operating expenses of

### Gross domestic product

Percentage change from previous quarter, seasonally adjusted



Source: Bureau of Economic Analysis | The Washington Post

certain industry sectors. This will mean higher profits for utilities, manufacturers and transportation companies.

The lower energy prices are due to a revolution that has taken place in the United States with very little notice by the media over the past five years. With pro-market policies at the state and local levels, many energy companies have been able to use new technologies such as horizontal drilling and hydraulic fracturing in states such as Texas, North Dakota, Alaska, California and New Mexico. The U.S. energy industry is booming and the United States is poised to become the world's leading oil producer as soon as 2015, according to a study by the International Energy Agency.

On October 29<sup>th</sup>, the Federal Reserve announced on October 29<sup>th</sup> that they were ending their long-running stimulus program of purchasing bonds on the open market. In their policy statement, they said there was "sufficient underlying strength in the broader economy" to support its mandate to achieve low unemployment and stable prices. Also, the Federal Reserve went out of their way to reassure investors that they are still committed to policy accommodation and low interest rates for the time being.

2014 Performance of S&P 500 Index



The stock market quickly bounced on the news with the Dow Jones Industrial Average rising 3.5% and the S&P 500 climbing 2.7% last week. In addition, small cap stocks were also up with Russell 2000 gaining 4.9% on the week. The strength of the U.S. economy is having a positive impact on the financial markets. At Chatham Wealth, our portfolios are invested in those U.S. companies that will be the direct beneficiaries of the strong economy. We have direct investments in many natural gas producers and distributors. We also have investments in the healthcare, consumer products, manufacturing and transportation. Volatility in the markets is likely to continue but in the long-run, the improving profitability of U.S. companies should propel the markets higher.