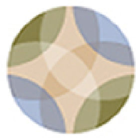

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April Employment Report: Mixed News

The April employment report wasn't so strong that it created worries about economic overheating and Federal Reserve tightening, and it wasn't as weak as to create concern that the economy was about to slide back into a recession.

Looking at private sector job growth, which excludes the much slower-growing government sector, the three-month average, year-over-year growth rate remains relatively high at 2.6%, which is down just a touch from recent highs and still above the 2.4% average growth rate of the past 12 months. Overall, it seems the jobs report was strong enough to keep a rate increase on the table for September, but weak enough that a June rate increase now appears unlikely.

Private Sector Employment and Wage Growth

	Employment Growth (%)	**Hourly Wage Growth** (%)
April 2014	2.1	2.1
May	2.2	2.1
June	2.2	2.0
July	2.3	2.1
August	2.3	2.1
September	2.4	2.1
October	2.4	2.1
November	2.4	2.1
December	2.5	2.0
January 2015	2.6	2.1
February	2.7	2.0
March	2.7	2.1
April	2.6	2.1
Average (12 months)	**2.4**	**2.1**

Source: Bureau of Labor Statistics. Growth rates are calculated on a year-over-year, 3-month average basis.

This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

What's Happening at SWA

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College or retirement…I feel that I owe my children a high quality college education, but I really need to save for retirement. Since college expenses will happen first, I should allocate more of my total savings toward college funding for now, right? In most cases, you likely don't want to jeopardize your retirement nest egg in order to save more for college funding. Loans can be obtained to fund college, but no one will give you a loan to fund your retirement! With time as your most valuable asset, giving up those early retirement contributions to put toward college savings may result in losing out on the power of compounding returns. Delaying retirement to continue working may not be feasible. Nearly half of those who want to work longer are forced out of the workplace due to poor health, job loss or to care for children or aging parents (EBRI, 2015).

Contact the SWA Team to discuss your goal priorities and determine the best course of action for your long-term financial security.

Monthly Market Commentary

This month, it seems that good news is bad news once again. A series of positive economic data (mainly stronger employment growth) lit up markets with fear that growth would rebound sharply in the summer months, just like in 2014, and that a better economic situation would likely push the Fed over the edge and force its first rate increase by September. Potential homebuyers are likely entering full panic mode as they scramble to get a deal done before that happens.

GDP: The first-quarter GDP growth rate was revised from a measly 0.2% to an outright decline of 0.7%. However, this decline was modestly better than the previous consensus forecast of a 1% contraction. Weather, port strikes, and a shifting energy market made a modestly slowing economy look worse than it really was. Second-quarter growth should look more like 2.5%–3%, as consumers rebound and net exports weigh less heavily on the data.

Employment: The U.S economy added 280,000 nonfarm payroll jobs in May, surpassing the consensus estimate of 220,000. Certainly there was some help from the addition of summer jobs in some industries, but generally it was a very strong and clean report. The jobs data also exceeded the 12-month average of about 255,000 jobs per month. And like so many other data points, it appears that the economy is coming off its weather and West Coast port issues that temporarily depressed a wide range of economic statistics.

The job growth average for January through April was a mere 200,000 or so jobs per month, well below the annual average and a sharp falloff from a very strong autumn. Viewed on a year-over-year average basis, the jobs market has been consistently strong since September 2014. Private-sector employment has been growing at a rate of about 2.6%. Adding in the lethargic government sector, nonfarm payrolls have been expanding at a very healthy 2.3% rate.

Wages: While the market always focuses on the jobs number, wage growth is nearly as important. Month-to-month wage progression was also robust at a 0.3% monthly rate (3.6% annualized) and the year-over-year hourly wage growth rates also appear to be improving, although in a less dramatic fashion.

Consumption and Savings: Monthly consumption data looked stagnant in April. Consumers are not spending all of their real income growth (which includes investment and rent income) or wage growth. Whenever that gap has become that wide in the past, there has been a combination of a downward revision to earnings and an acceleration in consumer spending. We saw this very pattern last summer. Morningstar economists don't believe that consumers have become prolific savers. Instead, the more likely reason may be a physical inability to spend money (poor weather, lack of imported goods) and a mismatch of when the GDP report suggests consumers are spending their money and when those bills are actually paid. (February's nasty utility bills, which counted in February consumption reports, were likely paid in April, potentially dampening April retail sales and consumption reports, as well).

Housing: For a big change, all of the recent housing data showed a housing market that is accelerating across the board. Home price data, pending sales of existing homes, and new home sales all showed surprising strength and generally exceeded analysts' expectations. An improving housing market is the linchpin to the economy maintaining its 2.0%–2.5% growth rate in 2015, even in the face of a decline in real GDP in the first quarter. A 3% direct impact on GDP may seem small, but if the sector can manage 15% overall growth, that would amount to a 0.5% contribution to GDP. While that may not sound like a lot, a 0.5% contribution in a world of 2.0%–2.5% growth is a big deal. (Housing's contribution in 2014 was a mere 0.1%.) Also, demographics will continue to keep a lid on growth that is still not fully appreciated by the market.

Key Reasons Why a Taxable Account May Be Underrated, Part 2

In a year like 2008, when stocks were badly in the dumps, the ability to engage in tax-loss selling was a rare silver lining.

Reason 4: You may be able to enjoy no- or low-tax withdrawals.

In addition to being able to keep your tax costs down while you own the securities in a taxable account, currently low capital gains rates also help you limit your tax costs when you eventually sell them. As recently as the late 1990s, a 20% long-term capital gains rate applied to investors in the 28% income tax bracket and above. Now, only investors in the very highest income tax bracket (39.6%) pay a 20% long-term capital gains rate; investors in the 25% to 35% brackets pay 15% and investors in the 10% and 15% brackets currently owe no taxes on long-term capital gains.

Reason 5: You'll have more control over your tax bill in retirement.

The ability to pull your money out with limited tax liability (because capital gains rates are pretty benign right now) can prove particularly beneficial when you begin taking money out of your accounts during retirement. You'll owe ordinary income tax on distributions from traditional 401(k)s and IRAs during retirement, and the timing and size of those distributions will be out of your control once you have to begin taking required minimum distributions (RMDs). By diversifying your asset mix across taxable and Roth accounts, you'll help ensure that at least some of your distributions will come out with low or no tax ramifications.

Holding taxable assets in addition to tax-deferred and Roth also helps ensure that, if you determine that you want to convert some of your Traditional IRA or 401(k) assets to Roth, you'll be able to pay the conversion-related taxes without having to dip into your IRA/401(k) funds, thereby sidestepping further taxes.

Reason 6: Your heirs will receive a step-up in basis.

Another key advantage to investing inside of a taxable account is that your heirs will be able to take advantage of a step-up in cost basis, essentially wiping out any capital gains tax liability that you racked up over your own holding period. That means that when they inherit assets from you, the taxes they'll eventually owe when they sell will be calculated by looking not at your purchase price but what they were worth at the time of your death. Even if your heirs end up selling the inherited assets shortly thereafter, you've still reduced the drag of taxes on your overall estate.

401(k) and IRA plans are long-term retirement-savings vehicles. Withdrawal of pretax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Direct contributions to a Roth IRA are not tax-deductible but may be withdrawn free of tax at any time. Earnings may be withdrawn tax and penalty free after a 5 year holding period if the age of 59 1/2 (or other qualifying condition) is met. Otherwise, a 10% federal tax penalty may apply. This is for informational purposes only and should not be considered tax or financial planning advice. Please consult with a financial or tax professional for advice specific to your situation.

A municipal bond investor is a creditor of the issuing municipality and the bond is subject to default risk. Municipal bonds may be subject to the alternative minimum tax (AMT) and state and local taxes, and federal taxes would apply to any capital gains distributions.

Investing does not ensure a profitable outcome and always involves risk of loss. There is no guarantee that diversification or asset allocation will protect against market risk. These investment strategies do not ensure a profit or protect against loss in a declining market.

Home Prices on the Rise Amid Low Inventory Levels and High Demand

The latest report from CoreLogic showed that home prices continued to rise at a much faster pace than previously expected, growing 2.0% in March. On a year-over-year basis, the growth stood at 5.9%, the fastest pace since last July. CoreLogic predicts that prices will rise 0.8% in April, and that the year-over-year growth will tick down to 5.4%.

Unusually low inventory levels and a coinciding increase in demand are driving the prices of existing homes higher. Faster-growing prices are both good and bad news. The bad news is that the higher pace of home price increases may put a dent in the affordability of existing homes, which is something that has the potential of slowing down the housing recovery. The good news is that it is reassuring to see many new buyers who feel financially secure and confident enough to buy a home, even at higher prices. Faster price growth also helps existing homeowners to emerge from their underwater mortgages. According to CoreLogic, current home prices are still 11% below their April 2006 peak. More important, as faster-growing prices hurt the affordability of existing homes, the demand might shift toward new homes. The gap between existing-home prices and new home prices had grown unusually wide and declines in that gap could bolster the construction sector. That, in turn, could provide a direct boost to the GDP and employment. CoreLogic predicts that the price growth of existing homes may moderate later this year and that the prices may increase by about 5.1% from March 2015 to March 2016.

This article contains certain forward-looking statements which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results expressed or implied by those projected statements. Past performance does not guarantee future results.

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