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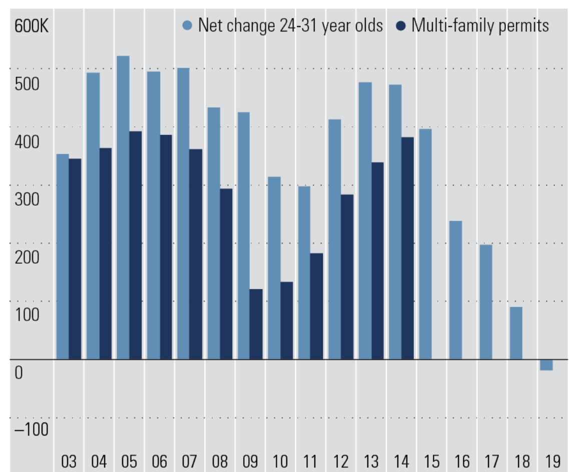
Aging Millennials Should Drive Up Single-Family Home Sales

In this recovery, there has been a surge in interest in apartment buildings. Meanwhile, single-family home sales are still running about 50% below their previous peak. The chart illustrates what may be behind some of that change. Following the decline in the 24-31 year old cohort, that group is now growing again. Not surprisingly, so are multi-family permits and interest in apartment buildings over the last several years. Looking at the data for 2014-2019, that age dynamic will begin to shrink according to Morningstar economists. That's bad news for people building apartments, but great news for the overall economy. Single-family homes utilize more labor and more materials than apartment buildings do. So, as the age group begins to buy homes instead of living in apartments, it should drive up single-family home sales and boost the economy.

Demographics Drive Renting Business



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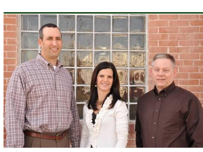
Source: Census Bureau, Morningstar

What's Happening at SWA



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Most laptop, tablet and smartphone owners use public Wi-Fi when it's available. Data sent through public Wi-Fi can be easily intercepted by others on the same network potentially leading to criminal activity using your personal and sensitive information. Criminals can obtain User IDs, passwords, account numbers, personal and business emails and other sensitive data.

To keep sensitive data safe while using public Wi-Fi, treat all public Wi-Fi locations as a potential threat to your private information. Consider using a VPN (Virtual Private Network) app to encrypt your data that passes through public Wi-Fi. Avoid using websites that ultimately require you to enter User ID, password and/or financial data. Turn Wi-Fi off and use your device's cellular connection for sensitive transactions.

Ask your computer technician or anti-virus provider for additional information and resources.

Monthly Market Commentary

The biggest debate in the past few weeks was, what mattered more, the Chinese stock market decline or Greece's potential exit from the eurozone? With a Chinese economy at $10.7 trillion and Greece at $0.2 trillion, it doesn't seem like much of a fight. However, Greece does have some potential for wrecking the E.U. system, which is a very large, $13.4 trillion economy. Morningstar economists believe that Greece itself and the solutions to its problems are not likely to have a major impact on the world economy. China's situation, however, remains much more worrisome.

Employment: The job openings report continued to show growth in May, setting yet another record for job openings at 5.36 million, up over 16% from a year ago and 0.5% (6% annualized) from April. Although records go back only as far as 2000, this is the highest reading in the entire data set.

Most economists have viewed this as a highly positive and leading indicator of future employment data. Morningstar economists, however, have pointed to the job openings data in several reports as an indicator that labor markets are tightening. Indeed, the indicator did a great job of forecasting the surge in hiring in late 2014 that almost no other data series did. Right now, the indicator seems to be saying that job growth may be plateauing as year-over-year averaged growth in openings is showing early signs of peaking. Year-over-year growth is still elevated at 19%, but that is down from a high of 24% several months ago.

Housing: Unfortunately, housing doesn't seem to be as strong as previously hoped. Demand seems somewhat better, but on the supply side, housing starts still look pretty anemic and inventories of existing homes still aren't really moving up, which is keeping continued pressure on prices.

Trade: The trade balance was the single largest factor in the U.S. economy's weak first-quarter performance. Trade took almost 2 full percentage points off of the GDP calculation. Without the negative trade performance, the economy would have grown 1.7% instead of shrinking 0.2%. The trade deficit, which had swung as high as $50 billion in March, moved to $40.7 billion in April and stabilized in May at $41.9 billion.

International: The International Monetary Fund revised its entire world growth outlook last week. These revisions were lower than the prior forecast, produced in January, which, in turn, was also lower than the forecast produced in October 2014. That October forecast predicted world growth of 3.8%, which was reduced to 3.5% in January and now to 3.3% in the July update. That is lower than the 3.4% actual world growth rate for 2014. And much like the United States, it's stuck in a rut that it can't dig itself out of, with world growth equaling 3.4% for each year of 2012 through 2014. (U.S growth has been between 2.1% and 2.4% since 2011).

Demographics: Demographics will also hold back the overall growth rates for some time to come. Low population growth (0.7% now, instead of 1.8% in the 1960s) is likely to keep the economy from growing any faster than Morningstar's 2.0%–2.5% forecast, versus the average GDP growth rate over the last 50 years of around 3.1%. In addition, it isn't helping that the fastest-growing age group in the U.S. economy is the miserly 65 and over crowd, while the absolute number of free-spending, high-income 50 year olds will be in a pattern of decline over the next five to 10 years.

Quarter-End Insights: Despite a disappointing first quarter, Morningstar economists expect higher growth rates in the second half of the year. Inflation is likely to run considerably higher in 2015 than either 2013 or 2014. Core inflation (excluding food and energy) will likely be around 1.7% for 2015, very similar to the last two years, but the ups and downs of energy prices will cause headline inflation to accelerate in 2015, especially if energy prices don't fall soon.

In-Retirement Withdrawal Strategies

The standard sequence for a tax-efficient portfolio drawdown is required minimum distributions first. Taxable accounts next, followed by Traditional IRAs and 401(k)s. Roth IRAs and 401(k)s last. The overarching thesis is to be sure to tap those accounts where you'll face a tax penalty for not doing so (RMDs) while hanging on to the benefits of tax-sheltered vehicles for as long as possible. Because Roth assets enjoy the biggest tax benefits--tax-free compounding and withdrawals--and may also be the most advantageous for heirs to receive upon your death, they generally go last in the withdrawal-sequencing queue.

That's a helpful starting point for sequencing retirement-portfolio withdrawals, and it goes without saying that you should always take your RMDs on time. That said it may be a mistake to always follow this strategy. The reason is that your tax picture will change from year to year based on your expenses, your available deductions, your investment performance, and your RMDs.

In order to keep your total tax outlay down during your retirement years, it may be worthwhile to maintain holdings in the three major tax categories throughout retirement: taxable, tax-deferred, and Roth. Armed with exposure to investments with those three types of tax treatment, retirees can consider withdrawal sequencing on a year-by-year basis, staying flexible about where they draw their income bases on their tax picture at large. They can help limit the pain of an otherwise high-tax year by favoring taxable and Roth distributions, for example, while giving preference to tax-deferred distributions in lower-tax years.

For example, in a year in which they have high medical deductions that push them into a lower tax bracket, they might actually give preference to withdrawals from their Traditional IRA accounts, even though they have plenty of taxable assets on hand, too. The reason is that it may be preferable to take the tax hit associated with that distribution when they're paying the lowest possible rate on that distribution. Moreover, aggressively tapping tax-deferred accounts like Traditional IRAs in low-tax years will mean that fewer assets will be left behind to be subject to RMDs.

On the flip side, in a high-tax year--for example, when RMDs are bigger than usual due to market appreciation--a retiree might reasonably turn to her Roth accounts for any additional income needed. Although those Roth assets usually go in the "save for later" column under the standard rules of withdrawal sequencing, those tax-free Roth withdrawals (versus, say, paying capital gains on distributions from a taxable account or paying ordinary income tax on tax-deferred withdrawals) may help the retiree avoid getting pushed into a higher tax bracket than would otherwise be the case.

401(k) plans are long-term retirement savings vehicles. Withdrawal of pre-tax 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. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation.

This article contributed by Christine Benz, Director of Personal Finance with Morningstar.

Employment Growth Remarkably Strong in May, Wages Push Higher

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.

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

Month-to-month wage progression was also robust at a 0.3% monthly rate (3.6% annualized) and some previous data was revised, perhaps confirming the overall strength of the jobs market. Though less dramatic, the year-over-year hourly wage growth rates also appear to be improving. Growth in hourly wages and the number of workers added are relatively similar at 2.6% and 2.2%, respectively. While the market always focuses on the jobs number, wage growth is nearly as important. At this stage of the recovery, hours worked provides little help to wage growth and that is the case again now. Combining all three factors, employees, wage rate, and hours worked, total wage growth has been little changed at about 5%.

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