



Market					Conditions
Economic	Summary	–	4th	Quarter	2014

U.S. economic growth slowed significantly in the fourth quarter of 2014, as weak business spending, a growing trade deficit, and declining federal government spending offset a surge in consumer spending. The fourth-quarter GDP growth rate of 2.6% was below economists' expectations of 3.0% in a Bloomberg survey and came on the heels of a strong third quarter where GDP grew at its fastest pace in 11 years. Economists surveyed by Bloomberg and Reuters think the slowdown in the fourth quarter will be short-lived, pointing to the impact of lower gas prices and strong consumer spending.

Bloomberg also noted the strength of domestic demand should more than offset deteriorating economies overseas. A gauge of underlying demand, which excludes trade, inventories, and government, increased at a 3.9% pace in the fourth quarter, compared to the 4.1% rate in the third. The analysts surveyed said the data indicated U.S. fundamentals were strong enough to cushion the blow to economic growth from weakening economies overseas.

Some news that boded well for consumer spending was a notable uptick in consumer confidence. The Conference Board reported that its Consumer Confidence Index increased in December, and consumers' perceptions of current conditions improved to its highest level since February 2008. The Thomson Reuters/University of Michigan's Consumer Sentiment Index also rose in December, reaching its highest reading since July 2007. The report found that consumers held the most favorable attitudes toward the long-term prospects for the economy than at any other time in the past 10 years.

Moreover, the outlook also improved for small business. The National Federation of Independent Business reported that the Small Business Optimism Index rose in December to its highest reading since October 2006. Gains in the components that comprise the index were widespread. Further, The Wells Fargo/Gallup Small Business Index climbed to its highest reading in more than six years. Strong growth came from the component that measures small-business owners' future expectations.

Job growth continued to be strong in the fourth quarter, with employment gains now exceeding 200,000 jobs a month for 11 straight months, the longest stretch since March 1995. The unemployment rate also fell to a six-and-a-half-year low, though some of the decline was attributable to people leaving the workforce. Total employment rose by 2.95 million in 2014, the most in any calendar year since 1999.

The Institute for Supply Management's manufacturing-sector index slipped in December for the second consecutive month. Regardless, the data indicated that the manufacturing sector

expanded for the 19th consecutive month and the overall economy grew for the 67th consecutive month.

The Institute for Supply Management's index for the services sector fell in December for the third time in four months. Despite the index's retreat, the December index reading indicated that the services sector has now grown for the 59th consecutive month.

The Federal Reserve reported that industrial production fell in December but grew at an annual rate of 5.6% in the fourth quarter. Increases in manufacturing output and mining output were tempered by a marked drop in utilities, as warmer-than-usual temperatures reduced the demand for heating in December.

The Federal Reserve maintained its decision to not raise interest during the fourth quarter, saying it would remain patient. The Federal Reserve also determined that the time had come to end its asset purchase program since there had been a substantial improvement in the outlook for the labor market since its inception.

Stocks saw strong returns in the fourth quarter, though the market was volatile. Both the Dow Jones Industrial Average and the S&P 500 endured their biggest losses in over two years, then went on to reach new record highs shortly before the end of the quarter. The Nasdaq reached its best level since the tech bubble of the late 1990s. The S&P 500 and the Dow Jones Industrial Average have now experienced a six-year rally, and the S&P 500 is now up over 230% since the bear-market low on March 9, 2009.

Both the Consumer Price Index and the Producer Price Index fell in December. Consumer prices experienced their sharpest drop since December 2008, while producer prices had their largest fall since October 2011. A sharp decline in the price of gas brought both indexes down.

Housing starts advanced in December, while building permits authorized retreated. Housing starts and building permits authorized remain above their levels from one year ago.

The National Association of Home Builders/Wells Fargo Housing Market Index edged down in December but has remained within a stable range over the past six months. The index continued to remain at a level indicating more builders view sales conditions as good, rather than poor.

The National Association of Realtors reported that existing-home sales rose in December, despite tight inventory conditions. Median home prices for 2014 rose to their highest level since 2007, as year-over-year price gains have continued for 34 consecutive months. The 30-year, conventional, fixed-rate mortgage fell to 3.86% in December, its lowest level since May 2013.

The National Association of Realtors' Realtors Confidence Index for current conditions experienced a broad uptick in December, while the reading for future conditions improved significantly.

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