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"Morningstar's Best Client Newsletter"

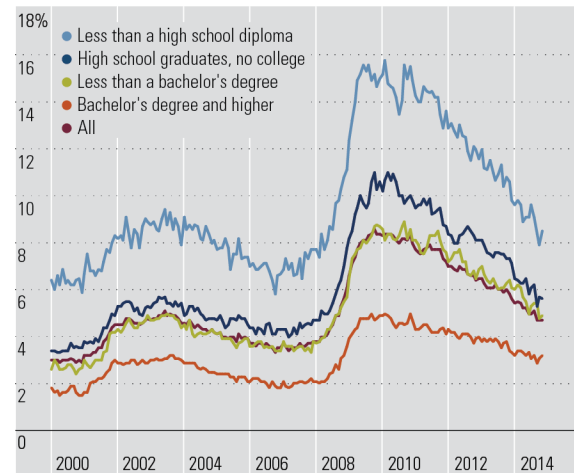
Unemployment by Education Level

- ▶ Not only do those with greater education tend to earn more throughout their careers, but they are also less likely to be unemployed than those with less education.
- ▶ See a new feature of our monthly newsletter on page four ("The Back Page"). The cartoon on page four is directly relevant to this article.

There is a clear connection between educational attainment and unemployment rate. As expected, the people with the highest rate of unemployment are the people without even a high school degree. The unemployment rate for this group is almost triple that of college graduates. In general, the more education you have, the better off you are.

The percentage of the population that has a college degree has been relatively stable in the 30% range. And there is a large part of the population that could probably use yet more college education. Putting these two together, the conclusion is evident: It pays to go to college, and it would also be good if the percentage of the population who are college graduates could increase.

Unemployment Rate, 25 Years and Older



Source: Bureau of Labor Statistics, Morningstar calculations. Data as of November 2014.



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Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

We take pride in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is our business and we take that responsibility very seriously.

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Employment Continues to Grow at a Slow, Steady Pace

- ▶ As this article points out, employment has been growing modestly over the past few years, though recent growth has accelerated slightly.
- ▶ However, most post-Great Recession jobs have been created in the retail, as well as leisure and hospitality sectors, where pay tends to be lower.

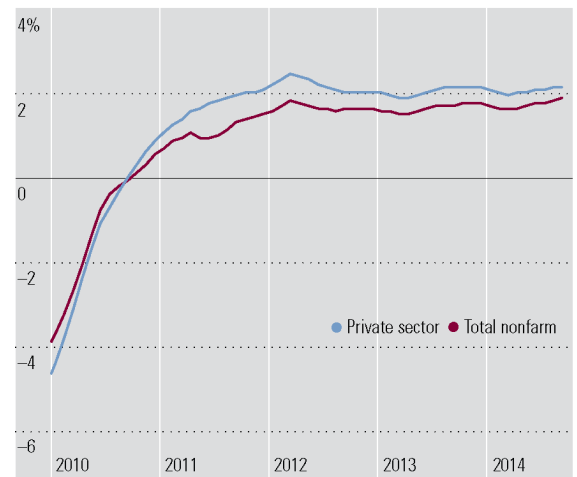
Media and financial news sources often report that the economy added an “x” number of jobs for a particular month. These monthly payroll numbers are polled by the Bureau of Labor Statistics and are published in a report called “Employment Situation” that is typically released on the first Friday of each month. The monthly headline numbers tend to be quite volatile and are often difficult to interpret. In the past two years alone, the number of jobs added varied between as few as 88,000 jobs in June of 2012 to as many as 280,000 in February of 2013. Wide fluctuations in the monthly payroll data occur because the monthly hiring and firing process itself tends to be unpredictable, and seasonal factors that aim to stabilize the data are extremely difficult to measure accurately.

Looking at these figures can usually create more confusion than insight, and that is why Morningstar’s Department of Economic Analysis looks at employment growth through a slightly different lens. When the same volatile monthly jobs data is analyzed not as a monthly net job addition or loss but as a year-over-year 3-month moving average growth rate, a different picture emerges. All of a sudden, it becomes clear that the U.S. jobs market has been incredibly stable despite its monthly ups and downs. As the chart shows, total nonfarm employment has been growing at around 1.7% since early 2011 and has picked up modestly to 1.9% in recent months. Excluding the poorly performing government sector, which constitutes around 16% of total employment, private-sector jobs have been growing at an even higher 2.0–2.1% rate. Combine these results with efficiency and productivity gains and it should come as no surprise that the U.S. economy, on average, grew 2.2% since 2011 based on full-year estimates.

Despite the rock steady growth, the pace of employment recovery has been slow and disappointing to say the least. Considering that the U.S. economy lost over 8.5 million jobs between 2008 and 2010, most economists expected a much faster recovery of the labor market. Instead, it took more than four years to get back the number of jobs lost during the crisis. Seeing those numbers bounce back to their pre-recession level is great news, but it is important to point out that the make-up of the new post-recovery labor force has drastically changed. Unfortunately, the

growth in high-paying, long-hours jobs such as construction and manufacturing has been all but robust, and due to efficiency improvements, especially in manufacturing, many of these jobs may never come back. A majority of the labor market recovery has been made in the lower-paying sectors such as retail and leisure and hospitality, which has certainly contributed to slower consumption growth and to the near-anemic pace of the economic recovery in general.

Employment Growth Since 2010



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Source: Bureau of Labor Statistics. Data through September 2014. Growth calculated on a year-over-year, 3-month average basis.

Monthly Market Commentary

As we said good-bye to 2014, falling gas prices have encouraged many to hope that the economy might finally jump to 3% GDP growth or even more. Besides oil prices, the positives include an improving wage and employment outlook and a slightly better government spending situation. On top of that, inflation is likely to remain in check. However, slowing international markets, a still-slow housing market, a less robust gain in auto sales, and rising interest rates may all weigh on economic activity in 2015.

Consumption and Income: Not only did November consumption data look great, but also some previous months of data were revised upward. Consumption growth, even on an averaged basis, was all the way up to 2.7% for the three months ended in November. This compares with consumption growth of around 2% for most of this recovery. However, on the flip side, the savings rate has fallen sharply over the past several months. It probably has room to fall a little more, but after that, spending gains will have to come from employment growth and wage gains. That may make consumption gains a little harder in early 2015, even if wages and employment continue to improve.

Housing: November's existing-home sales report was very worrisome, dropping from 5.25 million units to 4.93 million units, its lowest result since May. In fact, existing-home sales, which are seasonally adjusted, had been above 5 million units for five months in a row, so the November number was quite a setback. Stable mortgage rates, improving economic conditions, and better labor markets, along with the pending home sales data, suggest that existing-home sales data should not have shown such a dramatic drop. However, there is no reason to panic just yet. The annual, averaged data show very, very slow but steady improvement both in pending-home sales and existing-home sales. The gap between the growth rate in pending and existing-home sales suggests that existing-home sales should pick up, at least a little.

One unfortunate consequence of the soft existing-home sales data is that it will hit economic activity and the GDP calculation. Without a massive rebound in existing homes in December, it would appear that poor existing-home sales (and at lower prices to boot)

will subtract at least 0.2% from the GDP calculation after providing a modest addition in the third quarter.

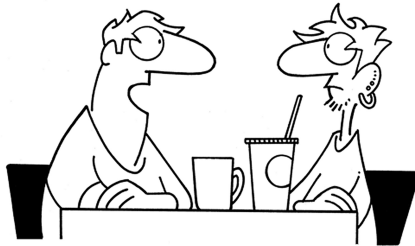
Inflation: The Consumer Price Index fell a sharper-than-expected 0.3% (3.6% annualized) in November, largely but not entirely because of falling gasoline prices. The year-over-year inflation rate is still over 1% but should continue to trend down to under 1% even if energy prices fall no further. Even the moving average year-over-year growth rate is down to 1.5%. A word of caution, however: The positive effects and the sustainability of such lower prices remain an open question.

Year-End Insights: Overall GDP growth is likely to remain in the 2.0%–2.5% range in 2015, as it has for the past three years. Though some year-end data, especially from the United States, looks stronger going into 2015, a weak world economy is likely to act as a brake on overall U.S. results. Fed tightening, combined with low inflation expectations and normal spreads over inflation, suggest a higher interest rate of around 3.5% for the 10-year Treasury bond.

The consumer represents about 70% of the U.S. GDP. While everyone is concerned about oil prices and the Fed, consumer and demographic trends are probably more important in the long run. Morningstar economists estimate that the hourly wage rate is likely to go up, but the demographics of an aging population will limit employment growth, keeping consumption below its long-term trend of 3.6% but above the 1.9% rate of the past 10 years. Furthermore, long-term demographics are going to be more important than temporarily low oil prices. Cheap oil prices come and go quickly; demographic realities, not so much.

The Back Page

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"You're right, it is unfair that some people earn more money than others. To make it fair, take over my job and support me while I go back to college!"

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