



# **Pioneer Bank & Trust**

## **Trust & Investments**

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## **Darn that snow!**

As May closed the Commerce Department revised downward its estimate of the change in the gross domestic product for the first quarter of the year. The anemic growth of 0.2% proved overly optimistic, as the economy actually contracted by 0.7% in the quarter. This marks the third quarter of negative economic growth since the end of the recent recession. In each case, growth fell in the first quarter of the year. In each case, unusually cold and snowy weather got part of the blame for the bad news. This time the strong dollar also was credited for a drop in exports. Economic output excluding additions to inventories fell 1.1% in the first quarter, and business investment skidded 2.8%.

Most economists believe that growth has resumed in the second quarter, although at a subdued pace. Few expect that the economy can grow 3% in 2015. Unemployment has been falling steadily, although one contributor to that phenomenon is the number of people leaving the labor force entirely, the erosion in labor force participation. Real estate and home sales have been stable.

Lower gas prices early in the year provided less consumer stimulus than hoped. Consumer spending grew 4.4% in the last quarter of 2014, but only 1.8% in the first quarter of this year.

There are signs that consumer confidence has weakened recently. The University of Michigan consumer sentiment index leveled off in May; the assessment of current conditions fell from 107 to 100.8. According to Gallup's consumer confidence survey, 53% of Americans now say that the economy is getting worse. Bloomberg's Consumer Comfort index fell for seven consecutive weeks, with a particularly sharp drop in the South, in parallel with falling oil prices.

Weakness in the economy may cause the Federal Reserve Board to hold off on raising interest rates. Such a decision could help to sustain the record stock prices seen through the first half of this year.

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