Slow growth

April 2, 2012. The final gross domestic product growth number for the last quarter of 2011 came in a bit under expectations at 3.0%. That was up from the 1.8% rate in the third quarter. There was a spurt of business spending as the year ended, before a stimulative tax break expired. Whether that level of investment will be sustained is an open question.

Unemployment remains stubbornly high, but progress has been reflected in declining numbers of initial claims for benefits. Private employers added 227,000 jobs to their payrolls in February. We had the best three-month run of private job creation since 2006.

Housing blues

According to the S&P/Case-Shiller 20-city composite index, home prices dropped another 0.8% in January. It was the fifth consecutive monthly drop, bringing the index to its lowest level since 2003. Although the economy has been growing, if slowly, home prices fell 3.8% over a one-year period.

What's more, new home sales slipped 1.6% in February. On the other hand, the median price for a new home rose to $233,700, up 6.2% from the year-earlier February. So the news is not all bad.

Unfortunately, an excess supply of houses will weigh on this market for the foreseeable future. An estimated 3 million houses are for sale in America, which is a manageable number. Perhaps another 7 million homes are in serious delinquency, are in foreclosure, or have been seized by banks but not yet sold. This element is referred to as the "shadow" inventory of houses for sale, and it inevitably tends to push prices down.

Mortgage rates are at historic lows, good news for both buyers and sellers. When rates tick upward—they have nowhere else to go—the weak housing recovery could be imperiled.

Energy

High gasoline prices were another drag on the consumer pocketbook, as the national average cost of a gallon of gas approached $4, and broke through that barrier in some markets. The positive effects of the temporary payroll tax holiday for 2012, enacted with such drama in the winter, may be largely negated by the increased cost of transportation.

Yet there is some good news. According to a new study, the North American output of oil and gas could double by 2020, if deepwater drilling in the Gulf of Mexico, shale deposits and Canada's oil sands are developed. Natural gas supplies are already plentiful.

Prudent investing.

The Federal Reserve Board has been successful in keeping interest rates low. That's good news for borrowers, bad news for savers. A 10-year Treasury note with a 2.25% yield is unlikely to keep up with inflation.

Even worse, when interest rates return to normal, the value of that bond will fall. An investor who sells prior to maturity would then experience a capital loss.

Stocks may be the better answer. Writing in *The Wall Street Journal*, Burton Malkiel observed that today's dividend yield is roughly 2%, and the long-term growth rate of corporate earnings has been about 5%. This 7% return is nearly five percentage points higher than the yield on the safest bonds. The five points is referred to as the "equity risk premium," and it is currently near its historical average.

But appearances in the aggregate can be deceiving. In February, some Wall Street analysts began looking at the S&P 500 with and without Apple, whose price moves have had a big impact on the index. The S&P 500 rose 6.8% in the first quarter, but without Apple the gain was limited to 2.8%. For a single company to be responsible for so much growth in the index is nearly unprecedented. It suggests that innovation will be the key to powering the American economy in the future.

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