Monthly Market Commentary

Recent economic data has not been uplifting, with poor auto sales, a subpar retail holiday season, and a weak employment report. Even home-price growth has been showing signs of slowing down. Only the trade report data was unequivocally good, though perhaps a little too good to be sustained. The Federal Reserve's Open Market minutes expressed a lot of concern about the bond-buying program, raising the question whether we might end up stuck with a modestly weaker economy and a less generous Fed all at the same time—not a good prospect.

Employment: Year-over-year employment data paints a picture of continued slow employment and economic growth. On average, growth has been consistent, with 183,000 jobs added per month in 2012 and a very similar 182,000 jobs per month in 2013. Morningstar economists forecast growth of about 190,000 monthly jobs in 2014. Total employment growth (government and private) is just 1.6% versus 2.1% for the private sector by itself. That makes sense given that the government is still shedding jobs and that the government (at all levels) still accounts for about 16% of all jobs. That being said, the employment report was riddled with many big swings and inconsistencies. The data is likely to be revised upward, or perhaps bigger gains are in store for the months ahead.

Retail sales: Preliminary data suggests a weak holiday season and poor consumer spending patterns. Poor weather conditions, a shortened holiday season, and a reduced food stamps program all put a damper on results at brick-and-mortar stores, although Internet retailers probably did significantly better, despite some last-minute delivery snags.

Auto sales: The auto data was particularly troubling, with sales managing to hit only 15.4 million units in December, a sharp decrease from November's recovery high of 16.3 million units. Averaging the two monthly figures is probably a better representation of reality, as Black Friday sales, bad weather, and a compressed holiday sales period hurt December sales.

Housing: Pending CoreLogic data suggests that home prices were down about 0.1% in December, and the year-over-year growth rate slipped to 11.5%. Hardly a disaster, but the data suggests an early-2014 end to the double-digit increases in home prices. Given slipping affordability and higher mortgage rates, this may not be an entirely bad thing, but those expecting a continued boom might be disappointed.

Pending home sales had a huge runup in the middle of the year, as buyers raced frantically to beat higher mortgage rates and temporarily distorted the market. The raw index moved from 95 in January 2012 all the way up to 111 in June 2013. The index then declined for five-straight months, bottoming at 101.5 in October. The November data showed a statistically insignificant increase to 101.7 (at least it didn't fall again). Unfortunately, the three-month-averaged year-over-year data is still in decline, and a snowy December won't help the last month of the year.

Overall, recent data suggests a stronger economy, but not a sharply stronger one. Autos, housing, and inventories are likely to contribute less to GDP growth in 2014 than in 2013. Still, Morningstar economists estimate that inflation-adjusted GDP growth at the high end of the 2.0%–2.5% range is entirely possible, and the likelihood of a big slump seems remote.

Looking forward, the data might suggest a temporary weakening in the spring (higher heating costs, new home-lending limits, difficult comparisons, and other issues related to cold weather). Reduced unemployment benefit periods and food stamp reductions in place since November (unless reversed by Congress) are likely to keep a lid on things, too. But as the wintry weather lifts, the economy could see a decent bounce, unlike the past two years when warm weather helped sales in the winter months, but normal spring rebounds were muted.