Monthly Market Commentary

Even though it's always a guessing game, investor fears appear to have changed recently. They've shifted from the timing of a Fed interest rate hike and an overheated U.S. economy to slumping economic growth rates.

GDP: The halving of the GDP growth rate from 5% in the third quarter to 2.6% in the fourth quarter was a real dose of cold water. In many circumstances, a 2.6% rate would be something to celebrate. However, following growth of 4.6% and 5.0% in the previous two quarters, there is some worry on the Street that the economy is slowing. Morningstar economists still believe that the U.S. remains well within its trend line growth rate of 2.0%–2.5%, which is virtually unchanged over the past four years.

Employment: The most recent employment report probably surprised even the more bullish forecasters. The U.S. economy added 257,000 new jobs in January, showing that the fourth-quarter jobs momentum has continued into 2015. Upward revisions were applied to the data, particularly to the November and December numbers—revised up by 70,000 and 77,000 more jobs, respectively. The data now show that there were 752,000 jobs created in those two months alone, and 423,000 new jobs created in November, which is the best single-month result since March 2000. At the same time, looking at 2014 overall, the revisions amounted to only 164,000 more jobs, which by historical standards is not a drastic annual revision.

Year-over-year, three-month average employment growth continues to accelerate. Total nonfarm employment growth now stands at 2.2%–2.3%, while much better performing private-sector employment growth increased to 2.6%. It's not clear yet whether January's bullish employment data is a spillover from the high growth in the second and third quarters or actual proof of a further accelerating U.S. economy.

Consumption and Income: Given consumption is 70% of U.S. GDP, it is one of the more critical factors for detecting the direction of the economy. The income data helps determine if changing spending levels happened because of changing attitudes or lack of ability to spend more.

Month to month, consumption numbers have been on a yo-yo, up 0.7% in November then down 0.1% in December. An unusually cold November followed by a warm December (shifting the timing of seasonal purchases and utility usage) may be responsible for the most recent bout of volatility. In addition, it is very hard to get the seasonal factors exactly right this time of year, further enhancing the already volatile sector data.

The more reliable year-over-year, averaged data shows a consistent pattern of modest acceleration in consumption growth and nicely accelerating growth in both wages and real disposable income. The data, at least at this moment, suggest that consumers are not spending all of their income gains yet again. Currently, wages are growing at a 3.5% annual rate, real disposable income at 3.1%, and consumption slightly lower at 2.8%. The high level of wage growth suggests that there is at least some potential for consumption to improve further in the months ahead.

Trade: The November to December data showed the trade deficit increased from $39.8 billion to $46.5 billion. Exports were down 0.8% and imports jumped 2.2%. That's not a totally shocking state of affairs, given that the U.S. economy is relatively strong and the rest of the world is slowing.

Pessimists are characterizing the trade report as the worst monthly deficit since 2012. And they will go on to say that the strong dollar can only make things worse and the U.S. competitive position has eroded badly. However, both the month-to-month category data and the year-over-year data suggest that things aren't so bad, and that changing oil markets are behind a lot of the apparent deterioration.