Monthly Market Commentary

The jobs report for February and initial unemployment claims were much better than expected, as weather effects began to diminish. That very same jobs report also dashed all hope that just maybe the U.S. Federal Reserve would temporarily halt its tapering program. The 10-year U.S. Treasury bond yield jumped to 2.79% on March 7, with some bond funds beginning to show losses.

Auto sales remained soft, but didn't collapse. Personal income and consumption both looked better than expected, but that was largely because of estimated effects of the Affordable Care Act and massive spending increases on utility bills. Excluding these special factors, consumption would have been down and income gains more muted.

Employment: The employment report for February came in better than expected, with the economy adding 175,000 jobs, up from 86,000 in December and 129,000 in January. This was above expectations of 140,000, but still below the 189,000 average of the prior 12 months. The year-over-year trends showed that weather appeared to have a minimal impact, with only a modest decline in the year-over-year total employment growth rate. Nonfarm payrolls are growing about 1.7% year over year, modestly trailing the 1.9% GDP growth rate reported for 2013. That almost always happens because of productivity growth. Government job losses held back the statistics as the private sector, approximately 84% of all jobs, grew a more robust 2.0%. The very encouraging news is that, at current trend rates, the U.S. economy is just about to recover all the jobs lost during the most recent recession.

GDP: The fourth-quarter 2013 GDP growth rate was downgraded to 2.4% from the previous reading of 3.2%. The news could have been worse, but business spending turned out to be better than expected, offsetting some of the downward revisions in consumer spending. The markets took the news in stride, as the drop was widely anticipated. It also potentially meant that interest rates could stay at low levels for a little longer.

Trade: The trade number for January wasn't terribly exciting, with the deficit basically flat from the previous month at $39 billion and following January trade deficits of $51 billion and $42 billion in 2012 and 2013, respectively. Taking a longer view, the year-over-year averaged data for both import and export showed some signs of softening despite all the excitement about an improving world economy. Both import and export growth rates slowed to their lowest levels since September. Trading partners counting on great sales to the United States might be disappointed, as trade is definitely not as robust as it was in the fall. The Ukrainian situation and continued slow growth in China won't help.

Consumer Spending: Month-to-month growth in consumer incomes and consumption came in stronger than expected because of the Affordable Care Act. Income grew by an acceptable 0.3% (0.2% after inflation) and consumption by an impressive 0.4% (0.3% after inflation). Spending on gas and electricity went up a stunning 11%, even after adjusting for inflation.

Housing: New home sales showed a surprising jump and pending home sales of existing homes finally started showing signs of stabilization. Home price growth also continued to cool, but not enough to create a lot of worries. In fact, low prices might be better for the economy and stimulate more demand. Recent data suggests that home prices are likely to grow at a more sustainable 5% rate in 2014 versus rates of between 8% and 13% in 2013, depending on the index used.

Overall, the economic data remained weak, as it has for the past three months. It is now clear that the problems probably stretch beyond the weather. Morningstar economists' analysis suggests that the economy will bounce back this spring, but without any fireworks to the upside. GDP growth forecasts for 2014 range between 2.0% and 2.5%, not much different from 2013.