Monthly Market Commentary

In recent economic data, payroll numbers correct sharply, manufacturing continues to slow down fueled by the strong dollar and low oil prices, and the pace of home price growth increases as inventory levels remain low.

Employment: The U.S. economy added a disappointing 126,000 jobs in March. Certainly the over 300,000 jobs added late last year looked downright out of place. Job growth accelerated in a period when economic growth was slowing. Now with the much slower reported job growth in March and the substantial revisions to prior months, the employment data looks much more in line. However, the 126,000 jobs added in March is not the new normal, it was just an adjustment month.

The strong job openings data (from the end of February versus the jobs report, which is from the second week of March) confirms that the job market is not falling apart. In fact, the huge number of openings suggests that employers will need to pay more or be more willing to train workers before the pace of hiring will increase. Besides the job openings report, other metrics that point to a benign if not robust jobs market include initial unemployment claims, the labor sections of the small-business sentiment report, and various purchasing manager reports, as well as the ADP report.

Manufacturing: The ISM purchasing manager report continued to show a slowing—not panicky—manufacturing sector. The pace of deceleration has continued unabated since October and peaked way back in August. That weakness is now clearly visible in the month-to-month industrial production data that is now down three months in a row. The year-over-year data is at its early stages of deterioration, with more bad news likely with the softer March ISM report this week and a weak durable goods report last week.

The weakness in the ISM data was rather broad-based with just current production levels and prices paid subcomponents showing increases. Employment data was particularly weak, with that index dropping to 51.4, marking a second straight month of sharp declines. ADP payroll data suggested that March manufacturing employment was basically unchanged from February. Order backlogs also dropped sharply in March, although that may be because the port strike settlement in late February enabled manufacturers to clear backlogs. In some more clearly bad news, export orders remained well below the 50 level that separates growth from contraction, falling from 48.5 in February to 47.5 in March. It will probably take either a pop in auto manufacturing or a restart of the housing industry to get the manufacturing data humming again. That's a real possibility by late summer, but probably not enough to help in the next month or two.

Housing: Recent pricing data suggests that home prices are on the rise again. According to CoreLogic, home prices increased 1.1% between January and February and were up 5.6% February over February. Year-over-year prices have been up for 36 consecutive months, or three years. The rate of home price growth has been slowing since fall 2013 when growth was as high as 11.9% compared with the current single-month reading of 5.6%. Still, it appears that the decline in the rate of home price appreciation has been stopped, with prices moving back up since a low reading of 4.7% in December. The three-month averaged, year-over-year data shows a similar pattern. We have also included CoreLogic-estimated results for March in the table below. We had estimated home price growth in 2015 at 4%–6%. Recent inventory data and price trends suggest that the high end of this range is now more likely.

Auto sales: On a more positive note, auto sales for March showed 17.1 million units sold (on a seasonally adjusted annual run-rate basis), the highest March number going back to 2000. Auto sales are one of the best indicators of consumer confidence, so this may be a sign that consumers are emerging from their malaise and could show some strength as we move into the spring.