Monthly Market Commentary

In recent economic data, employment matches expectations, manufacturing flattens after a period of decline, and auto sales growth continues to moderate.

Employment: The U.S. economy added 223,000 jobs in April, matching expectations. However, it wasn't all good news; the March estimate was reduced from 126,000 jobs added to just 85,000, providing a much easier set of goalposts to hit for the April report. Furthermore, hourly wage growth, at least on a month-to-month basis, was surprisingly weak with just 0.1% growth or 1.2% annualized. On the positive side, the unemployment rate continued to trend down, ending April at 5.4%, down from 5.5% a month ago and 6.2% a year ago. This is the lowest reading in seven years. For a change, the rate went down exclusively because new jobs were added even as 166,000 people entered the work force in April. The higher percentage of people looking for jobs is a sign of increased consumer confidence.

Looking at private sector job growth, which excludes the much slower-growing government sector, the three-month average, year-over-year growth rate remains relatively high at 2.6%, which is down just a touch from recent highs and still above the 2.4% average growth rate of the past 12 months. Those year-over-year growth rates are likely to continue deteriorating modestly in the months ahead.

GDP: The U.S. GDP report of just 0.2% GDP growth in the first quarter was disappointing to everyone, as falling oil drilling activity ruined a report that was already expected to be hit hard by bad weather and West Coast port-related activities. Drilling activity pushed GDP growth down by 0.8%, about the size of the negative surprise. Still, we wouldn't be too upset with a GDP report that shows four-quarter-over-four-quarter growth of over 3%. Seasonal factors and weather have really confounded economists and statisticians, who tend to favor the sequential quarter-over-quarter growth methodology.

The individual GDP component factors weren't too far off of consensus forecasts. Consumption growth was cut in half in a widely expected drop from 4.4% to just 1.9% growth between the fourth quarter and the first quarter. At almost 70% of GDP, that fall single-handedly took off 1.7% from the GDP growth rate (contribution from 3% to 1.3%). The rapid deterioration in consumption, however, was widely expected. Morningstar economists still predict that U.S. GDP will grow at a rate of 2.0%–2.5% in 2015.

Manufacturing: The overall ISM Purchasing Manager Index, a great leading indicator of manufacturing activity, was flat in April at 51.5, after falling for five consecutive months. At a reading of 51.5, the metric shows that more businesses are seeing an increase in activity versus a decline. Still, the number, at least on the surface, disappointed analysts who expected a weather- and port-related bounce to 52.2. That said, the April report was a bit stronger than it looked. New orders—the leading part of the index—increased from 51.8 to 53.5, and current production moved from 53.8 to 56. Exports and imports also showed nice increases, though these are not used in calculating the composite index.

Auto sales: While auto manufacturers were trumpeting good April numbers, the auto recovery is looking a little long in the tooth. The auto sales for April were about 16.5 million units, which marks a 3.1% annual increase. That's down from the 3.8% rate reported in March. It is now apparent that auto sales growth has peaked and further year-over-year increases will be modest, indicating that the auto industry will have limited impact on GDP and employment going forward.