Monthly Market Commentary

- During June, investors worried about a "soft patch" in the economic recovery and the stock market slid as a result until the final week of the month.
- Employment and existing home sales data reported during the month of June were disappointing, supporting the concern investors had regarding a "soft patch."
- COMPASS expects that economic growth will reaccelerate during 2011's second half, though the rate of growth is likely to remain subpar.

June saw markets reacting strongly to a mix of positive and negative economic news, including a speech by Fed chairman Bernanke that didn't mention additional quantitative easing, and Greece narrowly avoiding a bond crisis for at least the next few months. After six weeks of declining markets, investors were finally rewarded when, based on a surprisingly strong purchasing managers' report and reported increases in housing prices and pending home sales, the market gained more than 6% in the last week of June.

GDP: The third and final read on real GDP for the first quarter of 2011 was revised upward to 1.9% from 1.8% because of lower imports (subtracted from GDP) and higher inventory adjustments. A significant portion of this GDP increase was due to autos, which is worrisome, because future GDP growth expectations may prove to be overstated.

Employment: Employment data was abysmal for June, growing a pitiful 18,000 compared with 25,000 in May and 217,000 in April. The April and May numbers were also revised downward from previous reports to a total of 44,000. Small gains in the private sector barely offset continued government job losses on primarily the local level but also at state and federal levels. The unemployment rate inched up slightly to 9.2% from 9.1%.

Housing: On a seasonally adjusted annual basis, May existing-home sales were lower than they were in April. May inventories, at 3.7 million units, were little changed from April, with the month of supplies number still sitting at 9.3 months. However, both the Federal Housing Finance Administration and the Case-Shiller Home Price Index reported a rise in home prices in April, representing the first increase in 11 and 8 months respectively. Pending home sales also increased by 8% from April to May, leading to early signs that housing may have finally hit a bottom.

Manufacturing: The ISM Manufacturing Index increased in June, along with a better-than-expected industrial production figure and a strong durable goods report. According to Morningstar economists, one of the causes for these numbers was increased production at Nissan and Toyota, with Nissan almost back to normal in the U.S. and Toyota up to 80% of normal. Another factor was better weather conditions; June did not experience the same negative impact from bad weather as in May.

Personal income and consumption: Real, inflation-adjusted incomes remained relatively flat through May as accelerated inflation eroded away most consumer gains. Inflation-adjusted consumption numbers fell in April and May, primarily because of declining auto sales caused by high prices and short supply. Gasoline and food demand were also quite soft in response to higher prices, although more recently gasoline and agricultural prices have declined—the U.S. Department of Agriculture reported increased planting and stored stocks for corn and soybeans.

Retail sales: The International Council of Shopping Centers report for June was particularly strong; it noted that falling gasoline prices and warmer weather were helpful factors that allowed consumers to spend more freely.

Quarter-end insights: The Japan disaster's effect on major supply chains and high gas prices resulting from unrest in the Middle East were two important factors that slowed down the economy during the first half of the year, but more fundamental indicators were also in play. Inflation and real wage growth are key concerns for consumers, who are ultimately driving the recovery (and holding up surprisingly well despite said concerns). However, with real wage growth moving into negative territory on a three-month moving average basis, consumers may not have any disposable income left with which to drive the recovery. The good news is that, in the long term, decent productivity growth, favorable demographics, and an eventual real estate recovery are positive drivers.