Monthly Market Commentary

The biggest debate in the past few weeks was, what mattered more, the Chinese stock market decline or Greece's potential exit from the eurozone? With a Chinese economy at $10.7 trillion and Greece at $0.2 trillion, it doesn't seem like much of a fight. However, Greece does have some potential for wrecking the E.U. system, which is a very large, $13.4 trillion economy. Morningstar economists believe that Greece itself and the solutions to its problems are not likely to have a major impact on the world economy. China's situation, however, remains much more worrisome.

Employment: The job openings report continued to show growth in May, setting yet another record for job openings at 5.36 million, up over 16% from a year ago and 0.5% (6% annualized) from April. Although records go back only as far as 2000, this is the highest reading in the entire data set.

Most economists have viewed this as a highly positive and leading indicator of future employment data. Morningstar economists, however, have pointed to the job openings data in several reports as an indicator that labor markets are tightening. Indeed, the indicator did a great job of forecasting the surge in hiring in late 2014 that almost no other data series did. Right now, the indicator seems to be saying that job growth may be plateauing as year-over-year averaged growth in openings is showing early signs of peaking. Year-over-year growth is still elevated at 19%, but that is down from a high of 24% several months ago.

Housing: Unfortunately, housing doesn't seem to be as strong as previously hoped. Demand seems somewhat better, but on the supply side, housing starts still look pretty anemic and inventories of existing homes still aren't really moving up, which is keeping continued pressure on prices.

Trade: The trade balance was the single largest factor in the U.S. economy's weak first-quarter performance. Trade took almost 2 full percentage points off of the GDP calculation. Without the negative trade performance, the economy would have grown 1.7% instead of shrinking 0.2%. The trade deficit, which had swung as high as $50 billion in March, moved to $40.7 billion in April and stabilized in May at $41.9 billion.

International: The International Monetary Fund revised its entire world growth outlook last week. These revisions were lower than the prior forecast, produced in January, which, in turn, was also lower than the forecast produced in October 2014. That October forecast predicted world growth of 3.8%, which was reduced to 3.5% in January and now to 3.3% in the July update. That is lower than the 3.4% actual world growth rate for 2014. And much like the United States, it's stuck in a rut that it can't dig itself out of, with world growth equaling 3.4% for each year of 2012 through 2014. (U.S growth has been between 2.1% and 2.4% since 2011).

Demographics: Demographics will also hold back the overall growth rates for some time to come. Low population growth (0.7% now, instead of 1.8% in the 1960s) is likely to keep the economy from growing any faster than Morningstar's 2.0%–2.5% forecast, versus the average GDP growth rate over the last 50 years of around 3.1%. In addition, it isn't helping that the fastest-growing age group in the U.S. economy is the miserly 65 and over crowd, while the absolute number of free-spending, high-income 50 year olds will be in a pattern of decline over the next five to 10 years.

Quarter-End Insights: Despite a disappointing first quarter, Morningstar economists expect higher growth rates in the second half of the year. Inflation is likely to run considerably higher in 2015 than either 2013 or 2014. Core inflation (excluding food and energy) will likely be around 1.7% for 2015, very similar to the last two years, but the ups and downs of energy prices will cause headline inflation to accelerate in 2015, especially if energy prices don't fall soon.