Monthly Market Commentary

Despite a softening world economy, Morningstar economists' forecast remains relatively unchanged from their June 2015 forecast. They have upped the 2015 growth by a seemingly small 0.1% to 2.2%–2.6% range; however, it seems that the higher end of the range is now likely. The consumer has continued to do well, net exports haven't yet proved to be the disaster everyone expected (mainly because imports have done as poorly as exports), and government spending is no longer falling. Housing continues to provide a meaningful contribution to overall GDP growth, too while business investment spending remains soft.

China: Most of the change we saw over the past quarter related to China. The Chinese currency was devalued, and many Chinese economic indicators continued to slow. Many of Morningstar analysts have been warning about China for some time. China has showed lower growth rates and missed growth forecasts for several years. It's not new news. Still, the devaluation brought some already well-known weaknesses to the forefront. A slowing China generally has helped the U.S. economy as the small decrease in exports has been more than offset by lower commodity prices, which puts more money in consumer pockets.

The Fed: The other big news was that expectations of a Fed rate increase continue to get pushed out in time. At the end of 2014, some speculated that the Fed might take action as early as March 2015. Now in September, a rate increase by December is by no means a done deal. The Fed noted worsening conditions in China that could potentially slow the U.S. GDP growth rate and employment outlook as their reasons for further interest rate hike delay. Now the Fed has sowed doubts and created uncertainty for investors and business people as they openly fret about world growth rates. Uncertainty is the market's worst enemy, and the markets have reacted accordingly. U.S. equity and emerging markets were little changed at the 2015 halfway point. Now, nearing the end of the third quarter, the S&P 500's year-to-date performance looks to be down in the mid-single digits, and emerging markets a more worrisome mid-teens decline.

Auto Sales: Auto sales are a very large consumer purchase. The average vehicle price is more than $30,000, so it is not a decision that consumers take lightly. The commitment is large and long term, with some auto loans extending out to seven years. If consumers were worried about their employment or wage outlook, they wouldn't be committing to big auto purchases. With the help of low interest rates, cheaper gasoline, and better employment data, auto sales in 2015 have done better than almost anyone expected. At the beginning of 2015, most sales focused on the 16.8 to 17.0 million range. It now looks like sales are much more likely to fall in the 17.0 to 17.5 million range for 2015, compared with 16.4 million units in 2014. The unweighted monthly average through August is 17.1 million units, so even the high end of the estimate range looks quite doable. Although there are some calendar effects that may be helping the number along a little, the ever-rising trend in recent months is hard to deny. It hardly suggests that consumers are feeling any fear.

Housing: Requiring even more confidence than buying a car is buying a home. With average new home prices of about $360,000, a home purchase is 10 times bigger than a car and totally dwarfs a $100 restaurant meal. To eliminate the investment aspect of multi-family homes (apartment owners renting out multiple homes or apartments), one should focus primarily on new home sales. Current sales levels at an annual rate above of 500 thousand units, remain near recovery highs. However, they are just off this spring's levels, which benefited from improving weather conditions. So while new home sales have slowed modestly, the year-over-year growth rates (nearly 20% growth) remain impressive and hardly indicative of any kind of consumer temper tantrum.