Monthly Market Commentary

Recent U.S. economic reports, while not always meeting expectations, suggested more of the slow and unsatisfying growth rates of the past four years. Businesses are looking and feeling more optimistic at a time that both U.S. and international consumers are sitting on their hands.

GDP: GDP numbers have been volatile lately, with wild quarter-to-quarter swings driven by inventory and export data. The overall growth rate for the third quarter came in at 3.5%, surpassing expectations of 3.1% growth and down modestly from the 4.6% rate of the second quarter. However, both those quarters represent a bounceback from a 2.1% decline in the first quarter. In other words, the recent strength is probably more of a catch-up than the start of a new, higher, sustained growth rate of 3% or more. Looking at the less volatile year-over-year data growth instead of annualizing one quarter of change suggests the economy is growing at 2.3%, just about in the middle of 2.0%–2.5% intermediate- and long-term growth potential of the U.S. economy.

Employment: The October employment report was below expectations but still consistent with trend-line employment growth of just under 2%. Nonfarm employment growth for October came in at 214,000 jobs added, below the consensus of 243,000 but roughly in line with the 12-month average of 222,000. This follows sharp growth of 256,000 jobs added in September, which was revised higher by 8,000 jobs. Government job growth, on the other hand, has been truly awful: The government has lost almost 1.1 million jobs since May 2010.

More interestingly, a lot of analysts are characterizing the current low-level job growth as unprecedented, a kind of new normal (which is another way of saying a new awful). But job growth, looked at year over year, hasn't been all that much higher, at least for long, stretching all the way back to the 1980s. And some of those earlier periods had the benefit of substantial population growth to help push things along. The average job growth since 1980 has been 1.3%; currently it is running at 1.9%.

Hourly Wage Rates: Besides the raw employment numbers, it's also important to look at the average hourly wage and the number of hours worked. Combining these can provide insight into consumer wage growth, the fuel for future spending. On a year-over-year, 3-month average basis, wage growth looks consistent at just about 2%.

Consumption and Income: Headline consumption data dropped by 0.2% in September following an unsustainable 0.5% growth rate in August. However, single-month growth rates are volatile and influenced by a variety of variables such as shifting seasonal patterns, weather, changes in tax holidays, and retailer big-event dates. Year-over-year data shows reliable consumption growth of about 2.4% on an inflation-adjusted basis.

Trade: Analysts had expected the trade deficit to widen from $40.0 billion to $41.5 billion. Instead, it widened all the way to $43 billion. Although averaging and inflation-adjusting the data paints a much less bleak pattern, it is still going to mean a downward revision in the third-quarter GDP estimate. Combining the new trade deficit report with a poor construction report probably means that GDP for the third quarter will be revised down from a great 3.5% to a more believable 3.0% rate. However, with inventory data and retail sales revisions yet to come, that GDP downgrade isn't a sure thing just yet.

Also, falling energy prices in general and gasoline prices in particular should be a huge aid to consumers in the fourth quarter. Going into the last holiday season (2013), saving rates had moved up and gasoline prices had collapsed over the summer and early fall, similar to the set-up we are seeing in 2014.