Monthly Market Commentary

As 2014 draws to a close, the U.S. is still experiencing a slow and longer-than-normal recovery.

GDP: The GDP growth rate in the third quarter was boosted to 3.9%, up from 3.5%, and well ahead of expectations of 3.3%. A lot of that improvement was due to high-quality items—more consumer and business spending. Unfortunately, that will make growth that much harder to achieve in the fourth quarter, which is now likely to be less than 3%. That would still leave the full-year GDP growth rate at about 2.3%, not much changed from 2012 and 2013. Consumption, business investment, net exports, and even government made decent-size contributions to overall GDP. As expected, residential housing was relatively disappointing, contributing just 0.1%. During this recovery, it has not been unusual for one category to drive most of the growth, while almost everything else showed limited growth or even a negative contribution.

Employment: The jobs report did far better than expected, with job growth of 321,000 for the month of November, the best result of calendar 2014 and the best report since 2012. However, it's not clear whether this data reflects misplaced seasonal factors or newfound economic strength. November was also a great month a year ago, when 274,000 jobs were added. Indeed, November has generally been in the top half of the 12 months for job growth over the past four years. So maybe at least a portion of the high growth was due to overly aggressive seasonal factors.

Wages: Like the raw employment data, the hourly wage growth was unusually strong in November. Month-to-month wages grew 0.4%, which annualizes to almost 5%. However, monthly data tends to be volatile; looking at year-over-year data, averaged over three months, presents a truer picture of economic activity. The year-over-year, hourly wage growth trend has been consistent at around 2.0–2.1% for the past 12 months.

Consumption and Income: The government restated recent consumption and income numbers so some of the short- term good news has disappeared. In the original government data, incomes went up a whopping 1.4% between March and September while consumption grew a measly 0.6%. The revisions to the six-month data now show that spending increased by 1% while incomes increased just 0.8%. In other words, savings decreased, not increased, over the past six months. In addition, the restated income data would seem to imply that eventually some of the job growth in the period April through June will be revised sharply down.

Housing: 2014 was a rough year for existing-home sales, which now appear likely to fall from 5.1 million units in 2013 to 5 million units in 2014. However, the 2013 data was aided by a rush to close homes before interest rates increased. Slower investor sales, poor weather, higher mortgage rates, and a dramatic price spike all conspired to hit existing-home sales hard in 2014, especially in the early parts of the year. Now interest rates are lower again and the weather has improved some. Sales have moved up from an annual rate of 4.6 million units during the winter to 5.3 million units in October, which just about equaled the best month of 2013.

The pending home sales index, which often portends changes in existing-home sales, was off modestly, just 1.2%, from 105.3 in October to 104.1 in November. However, pendings growth is still ahead of existing-home sales, which means that we can probably expect more improvement in year-over-year existing-home sales. Looking to 2015, Morningstar economists expect existing-home sales to grow at a 6%–8% rate, which would mean about 300,000–400,000 more units than in 2014. That would bring sales to 5.3 million–5.4 million units for the full year.

On the positive side, home prices are growing at a slower rate. This trend, coupled with lower interest rates, should improve affordability, providing an essential boost to this so-far anemic housing recovery.