# Monthly Market Commentary

Even though the U.S. market lost 3.5% in January, investors still seemed hopeful about continued low interest rates (now more likely, given soft economic activity) and about the potential for slower Fed tapering of bond purchases. (However, interest rates continue to decline even as the Fed tapers.)

Speaking of soft economic activity, recent auto sales, manufacturing data, trade data, construction spending, and employment all fell well below plan. About the only good news was that the U.S. government's fiscal situation continues to improve, with forecasts of declining budget deficits reiterated again this week. Bad weather in the Midwest and Northeast isn't helping the overall economic picture, but it probably isn’t the entire reason for the poor data reports that now stretch across several months and many data points.

Employment: Total nonfarm payroll employment rose by 113,000 in January, and the unemployment rate was little changed at 6.6%. Sectors that saw improvement included construction, manufacturing, wholesale trade, and mining. Health care and education added almost no jobs for the second month in a row, after being the bulwark of job growth for a large part of the economic recovery. Cost controls and fear of Affordable Care Act provisions seem to have really kept a lid on health-care hiring, and unless health-care employment turns the corner, it will be a major impediment to employment growth in 2014.

GDP: The first run of the GDP report for a given quarter comes out one month after the end of the quarter and is revised twice based on new or revised data. Much of the actual data released the first week of February for inventories, net exports, and construction data contradicted previous estimates. When all these potential revisions are added together, Morningstar economists caution they could take as much as 0.9% off of the original GDP estimate, meaning the economy potentially grew a slower 2.3% in the fourth quarter of 2013, instead of the 3.2% originally reported.

Trade: The headline trade deficit widened markedly in December to $38.7 billion, up from $34.6 billion in November, which was unusually good. However, it wasn't far off of the average for all of 2013 of $39.3 billion. (A smaller trade deficit is positive for the economy.) That full-year average represents a huge improvement from $46.4 billion in 2012 and $44.6 billion in 2011. During an economic recovery, the trade deficit almost always widens as exports and imports usually grow at relatively similar rates, and imports are far larger than exports. Decreased oil imports and oil-related exports are clearly making a difference. However, it's not just about oil; imports across the board have increased, as they often do in a recovery. Still, exports of non-oil-related goods have done even better.

Consumer Spending: Over the third quarter of 2013, income growth (as measured by real disposable income) exceeded consumption growth in each individual month of the quarter. That situation exactly reversed itself in the fourth quarter when consumption growth far exceeded income growth in every month.

Housing: Pending home sales continued to fall in December, hitting their lowest level since 2011. Although higher rates and stronger home prices have plagued this data point since May, this month was likely affected by poor weather conditions. But even averaging the data and looking year over year, the trend in pending home sales has been abysmal. Pending home sales are important because they are a leading indicator of closed existing-home sales. It is those closed deals that generate remodeling, moving, furniture buying, and mortgage activity that is helpful to the economy. Judging by the gap between the pending sales index and the existing-home sales index, existing-home sales are likely to fall even more in the early months of 2014.