Monthly Market Commentary

February and early March saw markets continue to reach new recovery highs as investor confidence stayed strong. This occurred despite concerns with the payroll tax increase, the sequester, and the Federal Reserve Open Market Committee meeting minutes (the minutes hinted that the Fed might indeed stop easing by the end of 2013.) While consumer woes did hit low -end retailers and restaurateurs hard, home and auto sales continued to move ahead despite less-than-optimal weather. The manufacturing sector took a surprise turn for the better with some of the best data in a couple of years, and housing continued to improve. Although housing contribution currently represents only about 2% of GDP, the historical long-term average has been closer to 5%, which means there's still a lot of room for improvement.

GDP: The second estimate of real GDP in the fourth quarter of 2012 was revised upwards to 0.1% from negative 0.1%. For reference, real GDP increased by 3.1% in the third quarter. Although this is not a big numerical difference, fourth quarter GDP has gone from showing contraction to growth. The revision mainly resulted from higher exports and more business spending.

Employment: February's private sector job growth exceeded expectations, with 246,000 jobs added. The improvements were unusually broad-based, with almost no declining categories across industry sectors. Unfortunately, government employment continued to decline, with an additional loss of 10,000 jobs. To date, the U.S. has lost more than 600,000 government jobs since the recovery began. Morningstar economists believe that in an average economic recovery, the government sector would have been expected to contribute more than 600,000 jobs. Had the U.S. not lost so many government jobs, it would have replaced more than 80% of the jobs lost during the recession instead of just 65%. The unemployment rate in February fell to 7.7% from 7.9% the month before.

Housing: December's home prices, January's pending home sales, and January's new home sales all continued to show improvements. Year-over-year home prices from December 2011 to December 2012 (three-month average) were up 6.9%. Home prices most recently bottomed in March 2012, and anyone who purchased a home before mid-2003 or after late 2008 is at least at break-even levels before commissions and expenses. In addition to home price increases over the past year, the National Association of Realtors has continued to raise its price forecast from 5.75% to 7% for 2013, citing a lack of supply to meet the increasing demand.

Manufacturing: Although manufacturing is not a key economic driver at this point of the recovery, the recent string of good news can no longer be ignored. Durable goods orders (excluding aircrafts) showed surprising strength, which Morningstar economists believe may be driven by the resolution of the fiscal cliff and the better than expected consumer data late last year. These factors contributed to corporations' increased spending. Other manufacturers also reported business improvement, with the purchasing managers' survey showing its highest reading since mid-2011.

Auto: Auto sales in February came in at 15.36 million units, representing the fourth month in a row with more than 15 million units sold. Considering that this was achieved despite the government's tax and spending tightening, auto sales have shown a strong positive trend and have been the bedrock of the U.S. recovery.

Gas: Gasoline prices soared in February by almost $0.50 a gallon, caused by a combination of potential tightening from the Fed, a weaker European economy, and weather related issues (too much snow to drive.) Considering that gasoline makes up 5% of consumer purchases, large swings in prices are a big deal, especially if food prices are moving up at the same time.