# Monthly Market Commentary

Overall, April data brought some very welcome good news. April auto sales looked great, stacking together two 16 million-plus unit sales months in a row. Pending-home sales looked much better too, indicating that the decline in existing-home sales may be nearing its end. Employment data looked great, but not perfect. Manufacturing continued to make modest progress with another month of increasing ratings from purchasing managers in the sector. Even chain store sales managed year-over-year growth of 3.1% in the latest period, their best performance since December.

GDP: First-quarter GDP growth was sharply below expectations, barely at 0.1%. Just about every category was flat or down, with only consumption of services saving the U.S. from an outright decline in GDP. However, a lot of data points from April (enumerated above) pointed sharply higher. All this may suggest that growth of 3% or more is possible in the second quarter, offsetting the sting of a disappointing first quarter. However, these numbers are not the start of a new normal of rapid and always-accelerating growth. Instead, growth for the full year is likely to remain stuck in a 2.0%–2.5% range.

Employment: April's nonfarm job growth of 288,000 plus revisions to the previous two months was a pleasant surprise. However, the longer-term trend, using an average of three months of data compared year over year, has not broken out of its slow upward trend, even with April's great performance. The report did contain one ominous dark could: Hourly wage growth was nonexistent for the second month in a row. Adjusted for inflation, the United States has seen two months of hourly wage declines. The inflation-adjusted wage data (combining employment, hourly wages, and hours growth) shows that the economy is still running a little below average.

Longer-term, we may be talking about job shortages, not the unemployment rate. The U.S.-born working-age population numbers (22- to 62-year-olds) are slated to decline for the first time in decades sometime in 2015. Spot shortages are already beginning to creep up in skilled machinists, airline pilots, and truck drivers (average age 55). Even homebuilders are complaining about a lack of skilled workers. Some of this is already becoming visible, with the unemployment rate dropping to 6.3% in April (from 6.7% the previous month). That rate could drop to under 6% by the end of 2014.

Housing: The housing market hasn't been doing well for some time, partially because of higher prices and higher mortgage rates and partially because of the weather. The numbers for March transactions, new and existing, were horrific. Still, there was one ray of hope with a decisive turn in pending home sales, which were up 3.4% in March, the first improvement in eight months. Pendings are generally a reliable predictor of existing-home sales. The gap between these two indicators is beginning to narrow sharply, so existing-home sales should be bottoming out soon, too. Also, better permits data points to improved housing starts in the months ahead.

Consumption and Personal Income: Consumption has been stuck at the 2% level for some time, but that number has begun to break out over the past two quarters. Spending growth is outpacing incomes again at a relatively healthy pace. While the two metrics can become untethered for a few months, longer-term they do tend to move in tandem. So in the months ahead, consumption will need to come down or incomes will need to come up.

Trade Deficit: Overall, the trade deficit narrowed to $40.4 billion in March from $41.9 million in February. Additional oil and gas production and shipments explain why the trade deficit has held steady or even improved over the past couple of years. Petroleum represents about 5% of all U.S. exports, which are up modestly over the past few years, while petroleum-related imports have fallen from 14% to 10% in real terms over the past three years.