Monthly Market Commentary

August was a wild month, with powerful downward movements in most world equity markets early on, followed by equally impressive gains afterward. Investors feared that China's economic slowdown would drag down the rest of the world just as the Federal Reserve ended its emergency support. However, strong U.S. economic data combined with hope that the Fed will not increase rates in September set off an epic stock market rally.

GDP: The GDP report for the second quarter was revised up to a surprisingly strong 3.7% from just 2.3% in the previous report just one month ago. Although some GDP revision was expected, the quality and size of the upgrade were far better than anyone could have hoped for. Part of the strong increase in the second quarter was because of the abysmal first quarter, when the economy grew just 0.6%. Still, averaging the first and second quarters together, growth in the first half was over 2%, not bad for all the world drama.

Employment: On the surface, the August employment report was a modest disappointment to the market, with the U.S. economy adding 173,000 total nonfarm jobs versus earlier expectations of 215,000 jobs. However, readers should keep in mind that August is the lowest and most revised month in the employment data series. The total worker employment data was consistent with what everyone had been expecting and the average over the past six months.

There was other good news, too. The unemployment rate dropped surprisingly to 5.1% through a combination of job additions and a slightly smaller work force. The year-over-year, averaged data showed more of the same steady-state employment growth of just over 2% that has characterized most of this recovery. The steadiness has occurred despite large month-to-month swings that usually manage to cancel each other out.

Personal Income and Spending: Personal income and real disposable personal income grew 0.4% and 0.5%, respectively, exceeding more modest consumption growth of 0.3%. The battle between incomes and spending continues, with income growth exceeding spending growth for two months in a row after a period when consumption was winning out. Wage growth, due to a hiring binge late in 2014, is still running ahead of consumption, suggesting that there is more room for consumption to expand, especially now that oil prices are on their way back down. Historically, incomes and consumption have tended to move together, with consumption generally not as volatile as incomes. The close relationship and stable trend suggest a very consistent consumer who has not been spooked by world events.

Housing: This month's forward-looking housing reports support the thesis of a sharply improving housing market. The new-home sales report, in particular, offered some bullish clues indicating that the housing momentum is real and should continue in the months ahead. On the home price front, the news was also good, suggesting that the streak of large monthly increases appears to be moderating as June's data showed more modest monthly price growth. Housing has already provided a large boost to second-quarter GDP, and it looks like the third quarter is off to a good start, as well, providing hope that housing's substantial contribution to the GDP calculation could be sustained.

Monetary Policy: The Fed meeting on interest rate policy this week remains the market's focus. The raw economic data is not strong enough or weak enough for a firm conclusion, leaving everyone running around dissecting individual words in speeches and examining the circumstances of past rate increases. The Fed seemed to show a great willingness to raise rates, and then the situation in China worsened. It's tough to justify a rate increase in the face of financial turmoil. The impact of a small trial rate increase on the economy would probably be minimal, while the market impact of a change is likely to be high.