Monthly Market Commentary

November and early December saw Hurricane Sandy's destructive powers sweep their way through a series of economic data, including new home sales, personal income, and same store sales, making them difficult to interpret. These economic data will likely remain muddled for the next few months. With the U.S. presidential election done, earnings season done, and minimal news coming out of Europe and China, all attention is now focused on whether the U.S. can avoid the fiscal cliff. Similar to how markets made wide swings during the debt ceiling negotiations in 2011, investors may experience déjà vu should Congress fail to come to an agreement by the end of December.

GDP: The second estimate for third quarter real GDP growth was revised sharply higher to a very robust 2.7%, up from an initial estimate of 2.0% and up from the second quarter real GDP growth rate of 1.3%. This positive revision was mostly attributed to higher inventories and higher exports. Higher inventories are generally not a good thing as they could indicate slumping sales. Consumer spending and business investments were also revised downward.

Employment: November's employment report came in far better than expected, with job growth of 146,000: 147,000 private-sector jobs were added, while 1,000 government jobs were lost. The Bureau of Labor Statistics also indicated that Hurricane Sandy had minimal impact on the November job numbers. Overall, the job market has been relatively stable over the last 12 months, adding an average of 161,000 new jobs per month. At that rate, it will still take about another two years to gain back all the private-sector jobs lost in the recession. Unfortunately, job growth has not been distributed evenly across industries, with services strongly outperforming manufacturing and construction. The unemployment rate fell slightly to 7.7% from 7.9% in October.

Housing: Overall housing data continued to be positive, with homes prices expected to be up as much as 5% for 2012. November's Builder Sentiment, which is compiled by the National Association of Home Builders and tends to be a good predictor of housing starts and new home sales in the months ahead, is now at its best level since May 2006 and marks the seventh consecutive month of improvement. Even the Northeast region, which was hit by Hurricane Sandy during the survey period, showed improvements. More importantly, home inventories fell 1.1% in October to 2.14 million units, their lowest level since 2006.

Auto: Auto sales were up significantly in November. As a recap, Hurricane Sandy caused a dip from 14.9 million units in September to 14.2 million in October, but sales rebounded sharply to 15.5 million units in November. Morningstar economists believe that, with vehicles damaged by Sandy still in need of replacement, auto sales may remain above the 15-million mark again in December.

Retail: November's same-store sales (excluding drugstores) were only up a miserly 1.7%, a far cry from expectations of 3%-4%. Many economists had believed that a strong Black Friday would offset the earlier-in-the-month effects of Hurricane Sandy. Unfortunately, they failed to realize that even though previous storms may have been more damaging than Sandy, this was one of the few times that a storm has made a direct hit on such a highly populated, high-income, and high-spending part of the country. Also, sales from cyber Monday will count in December's report this year versus November last year.

Looking forward to next year and hopes of Congress reaching a settlement, consumers should realize that such a settlement may mean bad short-term news for the economy. Some tax increases will likely still occur, impeding growth in the first half of the year. On the other hand, even if no settlement is reached, the worst of the immediate impacts can probably be delayed by some sort of administrative action (for example, defense cuts can be saved for later in the year).