Monthly Market Commentary

The onslaught of positive economic news during the past couple of weeks has been relentless. Even fears of an earlier Federal Reserve reduction in bond purchases couldn't dampen spirits on Dec. 6 when a positive jobs report had everyone cheering. This and other recent numbers put a lot of fears to rest with accelerating purchasing manager data, robust auto sales, improving consumption data, better job growth, and more new-home sales. The economy appears to have gotten back what it lost this summer, and maybe there is even a slight acceleration. The data still doesn't show anything like a boom, but life is better.

GDP: GDP growth for the September quarter was revised up to 3.6% (the third-best quarter of this 17-quarter recovery) from 2.8%. It was also above the 3.1% post-World War II average and the consensus estimate of 3.2% growth.

However, almost all of the upward revision was due to a higher estimate of inventories. GDP counts production whether it is sold or whether it is still sitting on the shelves. The 0.8% increase in the estimated GDP contribution from inventory growth, combined with the original estimate of a 0.9% contribution, means that inventories added 1.7% to the GDP estimate, or almost half of the 3.6% total for the third quarter. Unless consumption, which grew at lethargic 1.4% rate, accelerates quickly, firms are likely going to need to cut production in the fourth quarter to bring inventories and sales into better alignment.

Speaking of consumption, these figures were revised downward in this week's report, which is not good news. Consumption contributed just 1.0% to GDP growth, down from 1.5% in the first quarter and 1.2% in the second quarter, hardly an encouraging sign. The services part of the economy was particularly disappointing, showing no growth in the third quarter.

Employment: The most recent employment report was consistent with slow and steady growth. 203,000 overall jobs were added in November, ahead of expectations of 180,000 jobs and the 200,000 total jobs added the previous month. The number was also surprisingly consistent with the average growth of 193,000 jobs added per month over the past 12 months. The report ranks number six out of the last 13 months and was below last November's 256,000 and February's 319,000.

Housing: New-home sales jumped a seemingly strong 25% in October compared with September. However, that was because sales in September were down sharply, and August sales figures were revised sharply downward. Sales of 444,000 homes for October were above the nine-month average of 420,000, but not by a lot. Sales in September were an embarrassing 354,000, the lowest level since early 2012. Overall, however, the seemingly great October data is a mirage, and it looks like the market for new homes isn't improving all that much. January sales of 458,000 topped the October report, as did several other reports this year. Year-over-year averaged data paints a picture of a housing market that is rapidly losing momentum.

Consumer spending: After months of sluggishness, consumer spending increased 0.3% in October. Incomes showed a small decline after months of massive increases. On a year-over-year basis, the data provides a clearer picture, with incomes improving at better pace than consumption after months of lagging behind (largely because of the payroll tax increase and the income tax increase early in the year).

Inventories: A number of industries, including autos, apparel retailers, homebuilders, and even restaurants stepped up inventories and hiring even if short-term demand didn't fully justify it based on current data. High inventories can indicate a business' confidence and its forecast of better growth in the near future, but they can also be a bad thing if they get too high and anticipated consumer demand fails to materialize.