

# MONTHLY EconUpdate

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# Monthly Economic Update for January, 2010

**Quote of the month.** “It is a rough road that leads to the heights of greatness.” – Seneca

**The month in brief.** Many things went north last month: stocks, retail sales figures, mortgage interest rates, the U.S. Dollar Index, and the prices of many commodities. Some things went south – most notably the jobless rate and gold and silver prices. The positive mood on Wall Street sustained itself through the holidays, with the S&P 500 ending the year up 23.45% and improving 64.83% from its March 9 close.<sup>1</sup>

**Domestic economic health.** How fast was the economy improving? Slowly but surely, the evidence suggested. Consumer spending had increased by 0.6% in November, with personal incomes enjoying their biggest gain in six months.<sup>2</sup> The Commerce Department said retail sales rose by 1.3% in November, a gain twice as large as economists had predicted.<sup>3</sup> Consumer confidence was up, too: the Conference Board’s December survey featured a rise from 50.6 to 52.9, and the month’s final Reuters/University of Michigan survey showed improvement from November’s 67.4 to 72.5.<sup>4,5</sup> We also learned that unemployment fell slightly to 10.0% in November.<sup>6</sup>

On the business side, the latest data on the manufacturing and service sectors was mixed. The November Institute for Supply Management manufacturing survey showed growth, but also a slip from October’s 55.7 to 53.6. ISM’s service sector index showed contraction in November, moving from 50.6 to 48.7.<sup>7</sup>

And inflation? Well, the Consumer Price Index was up 0.4% for November, with core CPI flat after 10 straight monthly advances. Analysts noted a 1.8% year-over-year gain in CPI, the first positive 12-month change since February. Wholesale inflation (PPI) rose by 1.8% in November, with core PPI up 0.5%.<sup>8</sup>

Groundbreaking health care reform legislation passed in both houses of Congress. January will see both the Senate and House try to reconcile their separate bills. What didn’t happen in the 1990s seems ready to happen now.

**Global economic health.** The manufacturing outlook seemed to be improving in important economies. China’s key purchasing managers’ index rose again, and a report had manufacturing expanding in December at the fastest rate in 20 months. PMIs also rose in December in India, Taiwan and South Korea. A survey of Eurozone purchasing managers showed a third straight month of growth in European manufacturing. Also, an index of U.K.

manufacturing hit its highest mark in December since November 2007.<sup>9,10</sup>

Looking ahead, the International Monetary Fund’s World Economic Outlook sees global output growing by 3.1% in 2010 after a 1.1% dip in world GDP for 2009. This follows the Organization for Economic Cooperation and Development estimating 2010 growth for its 30 member countries (the U.S., Japan, Germany and England among them) to 1.9%, up from 0.7% in June.<sup>11</sup>

**World financial markets.** Many foreign indices outpaced ours during a very robust month for stocks. The Nikkei 225 climbed 12.85% in December to put it up 19.04% for the year. The Hang Seng and Shanghai Composite respectively gained +0.23% and 2.56% in December, capping off terrific years – the Hang Seng rose 52.02% and the Shanghai Composite rose 79.98% across 2009. South Korea’s KOSPI advanced 8.4% last month. Germany’s DAX rose 5.9% and the DJ Stoxx 600 climbed 5.85%; those indices respectively gained 23.85% and 28.57% for 2009. France’s CAC 40 rose 4.2% on the month, and ended the year at +22.32%. Canada’s TSX Composite advanced 0.3% for December for a 28.02% annual gain. As for the MSCI World Index and MSCI Emerging Markets Index, they too posted gains: the World went north by 3.59% last month, and the EM rose 4.04%. For 2009, the World rose +22.82% while the EM soared +58.65%.<sup>12,13,14,15</sup>

**Commodities markets.** It was not the greatest month for gold; however, it was a strong month for most hard assets. Gold and silver prices respectively fell 7.19% and 8.92% across December, but market conditions were better for copper (+6.29%), platinum (+0.74%) and especially palladium (+12.46%). Energy futures? Well, crude oil rose 2.69% on the month, and heating oil prices went north by 3.46%; natural gas prices naturally took off in December, rising 14.93%. Sugar topped all commodities during the month with a 19.04% gain. The hottest three commodities of 2009 were copper (+137.34%), sugar (+128.20%) and palladium (+116.67%). Lastly, the dollar rebounded – the U.S. Dollar Index rose 4.1%.<sup>16</sup>

**Housing & interest rates.** The latest home sales numbers were warped by the presumption of expiring federal tax breaks: new home sales were down 11.3% for November, while residential resales rose by 7.4% for the month.<sup>17</sup> Housing starts, which had dropped more than 10% in October, rebounded nicely by rising 8.9% for November.<sup>18</sup>

Mortgage rates were definitely rising, and one of Freddie Mac’s economists went on record with the opinion that rates on 30-year FRMs would get to 6% a year from now. The last Freddie Mac survey of 2009

had rates on 30-year FRMs at 5.14%, rates on 15-year FRMs at 4.54%, rates on 5-year hybrid ARMs averaging 4.44%, and rates on 1-year ARMs averaging 4.33%.<sup>19,20</sup>

**Major indexes.** When the final bell sounded on New Year's Eve, the DJIA, S&P 500 and NASDAQ had notched another month of gains.

% Change	1-Month	2009
<b>DJIA</b>	<b>+0.80</b>	<b>+18.82</b>
<b>NASDAQ</b>	<b>+5.81</b>	<b>+43.89</b>
<b>S&amp;P 500</b>	<b>+1.78</b>	<b>+23.45</b>
<b>10Yr TIPS Real Yield</b>	<b>+30.97</b>	<b>-30.84</b>

(Source: CNBC.com, [ustreas.gov](http://ustreas.gov), 12/31/09)<sup>1,21,22</sup>  
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

**January outlook.** Many analysts think January will be a very positive month for equities, setting the tone for a nice year. The Dow opened with a triple-digit rally on the first market day of 2009, buoyed by the December reading on the ISM manufacturing index: 55.9, the highest reading since April 2006.<sup>23</sup> Key questions in the minds of investors: Can the recovery continue as the federal stimulus is withdrawn? When will the Fed tighten? How much inflation will we see, and how long will the dollar remain weak? As we wait for clues, there is much evidence that a global economic recovery is taking hold – and that is certainly good news for a stock market investor.

The key economic releases for the rest of January: November factory orders and pending home sales (1/5), the December ISM service sector index (1/6), December unemployment and wholesale inventories (1/8), December retail sales and November business inventories (1/14), the University of Michigan's January consumer sentiment poll, December CPI and December industrial production (1/15), December PPI, housing starts and building permits (1/20), the Conference Board's leading indicators (1/21), December existing home sales (1/25), January consumer confidence as measured by the Conference Board (1/26), December new home sales and durable goods orders (1/27), and advance 4Q GDP (1/29). We will learn about December consumer spending on February 1.

Contact my office or see next month's Update for the answer.

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