

# MONTHLY ECONOMIC UPDATE

January 2012

## MONTHLY QUOTE

“Don’t try to solve serious matters in the middle of the night.”

– *Phillip K. Dick*

## MONTHLY TIP

If you are going to buy new appliances, computers or TVs this year, you may not want to buy on price. Buying on reliability (after doing some research per brand) may end up saving you money in the long run.

## MONTHLY RIDDLE

What can you fill with empty hands?

### Last month’s riddle:

I am the center of gravity, and part of every victory. I am clearly seen in the middle of a river. Three are in love with me and I have three associates in vice. What am I?

### Last month’s answer:

The letter V.

## THE MONTH IN BRIEF

The Dow advanced 1.43% and the S&P 500 rose 0.85% in December, but there was no major “Santa Claus” rally at the end of 2011. As a result, the Dow wound up +5.53% for the year while the S&P 500 posted a 2011 loss of 0.003%. While the year was hardly spectacular for U.S. stocks, our benchmarks outshone many others. Last month, we learned that the jobless rate had fallen and we glimpsed more hints that the real estate market could be inching toward some kind of recovery. Shoppers spent freely for the holidays while legislators managed to extend the payroll tax holiday. It was a bad month for many commodities but a good month for the dollar.<sup>1</sup>

## DOMESTIC ECONOMIC HEALTH

Three developments stand out from December: the improvement in retail sales during the holiday season, the significant drop in the unemployment rate and the approval of a two-month extension of the payroll tax cut.

While we learned that consumer spending had increased just 0.1% in November, the numbers out of the malls and power centers in December were encouraging.

According to the International Council of Shopping Centers index, same-store sales during the holiday season were up 4.5% over 2010. Gauging online retail sales from the start of November through Christmas Day, market research firm ComScore Inc. estimated e-commerce purchases rose by 15% year-over-year. Consumer confidence also improved. Last month’s poll from the Conference Board reached its highest level since April (64.5) and the University of Michigan’s final December survey showed its index at 69.9, the best reading since June.<sup>2,3,4</sup>

Early in the month, the Labor Department said the jobless rate had dropped 0.4% in November to 8.6%, with unemployment down 1.5% since a high point in October, 2009. Underemployment stood at 15.6 in November. Non-farm payrolls marked their fourteenth consecutive month of expansion.<sup>5</sup>

The U.S. service and manufacturing sectors were growing, by the estimate of the Institute for Supply Management’s latest PMIs. ISM’s service sector index came in at 52.0 for November, down 0.9 from October; its December manufacturing index rose 1.2 points to 53.9. Durable goods orders were up 3.8% in November (+0.3% with the transportation category factored out).<sup>2,6,7</sup>

Inflation showed signs of easing. Consumer prices, as measured by the Bureau of Labor Statistics, were flat in November. Annualized consumer inflation was at 3.4%, declining for the second straight month. Wholesale inflation rose 0.3% in November with the year-over-year gain in the Producer Price Index reaching 5.7%.<sup>8,9</sup>

After another notable partisan fight, Congress passed an extension of the payroll tax holiday through the end of February, meaning Social Security taxes would stand at 4.2% for at least another two months. Long-term unemployment benefits were also extended through February 29 as a result of the legislation, and Medicare payments to physicians were allowed to remain at current levels through that date.<sup>10</sup>

## GLOBAL ECONOMIC HEALTH

Last month, 25 of 27 economists responding to a BBC survey predicted a mild recession across Europe. German Chancellor Angela Merkel stated that 2012 “will no doubt be more difficult than 2011” for her country, while new Italian president Giorgio Napolitano called for sacrifices by taxpayers to ward off the threat of “financial collapse”. In another BBC poll, a majority of economists polled stated that the chances of a future Eurozone breakup were 30-40%.<sup>11,12,13</sup>

As doomy as these pronouncements sound, there were positive signals in world manufacturing at the end of 2011. While the December Market Economics PMI showed sector contraction in Germany, France and Italy, the overall index rose half a point to 46.9. Manufacturing indexes in the United Kingdom, China, Australia, Singapore and Switzerland all improved last month. In another unexpected good sign, German unemployment dropped to 6.8%.<sup>14</sup>

## WORLD MARKETS

Some of the world's benchmark indices managed advances last month; some did not. The gains to note (these figures are from Morningstar and in U.S. dollar terms): Hang Seng, +2.67%; FTSE 100, +1.21%; Nikkei 225, +0.25%; CAC 40, +0.16%. The losses were deeper: All Ordinaries, -1.06%; TSX Composite, -2.04%; DAX, -3.13%; Sensex, -4.15%; Shanghai Composite, -5.74%. The MSCI World and MSCI Emerging Markets indices had another down month: the World fell 0.17% and the Emerging Markets slipped 1.29%. Among the above indices, the FTSE 100 (-5.55%) and MSCI World (-7.61%) held up best in 2011. At the back of the pack, we find the Shanghai Composite (-21.68%) and the Sensex (-24.64%).<sup>15,16</sup>

## COMMODITIES MARKETS

Was gold overvalued? That perception may have strongly influenced its December performance; it dropped 10.48% for the month. Oil fared better but still retreated, losing 1.52% in December. Still, they both had annual gains: gold went +10.23% for 2011 (settling at \$1,566.80 on December 30) and oil went +8.15% for the year (ending 2011 at \$98.83 a barrel). Silver and copper respectively lost 14.90% and 3.90% in December. They had poor years: copper lost 22.73% for 2011, silver lost 9.77%. Natural gas went -15.80% on the month and lost 32.15% for 2011. Key crop futures did well in December: wheat went +6.31%, corn +6.32% and cotton +0.85%. Still, wheat (-17.82%) and cotton (-36.69%) took dives on the year. The U.S. Dollar Index was up for the second straight month (+2.59%) to finish +1.56% for 2011.<sup>17</sup>

## REAL ESTATE

For once, the news across this sector was mostly good. (When was the last time that happened?) The Census Bureau said that new home sales were up 1.6% in November to the best sales pace since April. The National Association of Realtors noted a 4.4% rise in existing home sales in November, matching a pace unseen since January. Pending home sales reached a 19-month peak in November as well. Housing starts also increased by 9.3% in November. The October edition of the S&P/Case-Shiller Home Price Index, released in late December, slipped 1.2% from its September level.<sup>18,19,20</sup>

Freddie Mac's December 29 Primary Mortgage Market Survey showed average interest rates on 30-year FRMs at 3.95%, average rates on 15-year FRMs at 3.24% and average rates on 5/1-year ARMs at 2.88%; these were all slightly below rates in the December 1 PMMS. Rates on 1-year ARMs averaged 2.78% in both surveys.<sup>21</sup>

## LOOKING BACK...LOOKING FORWARD

The Dow wound up in the black for 2011 largely due to a record-setting fourth quarter, seeing the biggest quarterly point ascent in DJIA history. The Dow gained 11.95% in the quarter, and that was actually topped by the Russell 2000, which went +15.02% for 4Q 2011 yet finished at -5.45% for the year.<sup>1</sup>

% CHANGE	2011	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+5.53	+1.43	+5.53	+2.19
NASDAQ	-1.80	-0.58	-1.80	+3.36
S&P 500	-0.003	+0.85	-0.003	+0.95
REAL YIELD	12/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	-0.07%	1.08%	2.41%	3.50%

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

January opened with a triple-digit climb for the Dow, a good sign if you believe in the old “January effect” theory. S&P Cap IQ chief strategist Sam Stovall recapped the premise for CNBC: “An up first week in the market usually signals an up January and as goes January, so goes the year. Since 1945, whenever the market has been up in January it has been up for the entire year 88% of the time.” Of course, past performance is no basis for future results: the S&P 500 advanced 2.26% for January 2011 and finished flat for the year. If our economy continues to improve, perhaps it will provide sufficient distraction from the debt crisis in the EU and the potential for recession in European and Asian economies to promote gains for U.S. stocks.<sup>25,26</sup>

**UPCOMING ECONOMIC RELEASES:** For the balance of January, the economic news items look like this: November factory orders and December auto sales (1/4), the December ISM service sector index (1/5), the December unemployment report (1/6), a new Fed Beige Book (1/11), the December retail sales numbers from the Census Bureau (1/12), January’s initial University of Michigan consumer sentiment survey (1/13), December’s PPI and industrial output (1/18), the December CPI plus December housing starts and building permits (1/19), December existing home sales (1/20), December’s pending home sales report from the NAR and a Fed interest rate decision (1/25), December new home sales and durable goods orders plus the Conference Board’s December Leading Economic Indicators index (1/26), the final University of Michigan January consumer sentiment survey and the BEA’s first take on 4Q GDP (1/27), the Commerce Department’s report on December consumer spending (1/30), and finally the November Case-Shiller home price index and the Conference Board’s January consumer confidence poll (1/31).

***Please feel free to forward this article to family, friends or colleagues. If you would like us to add them to our distribution list, please reply with their address. We will contact them first and request their permission to add them to our list.***

## Securities offered through 1st Global Capital Corp., Member FINRA, SIPC Investment advisory services offered through 1st Global Advisors, Inc.

This material was prepared by MarketingLibrary.Net Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. Marketing Library.Net Inc. is not affiliated with any broker or brokerage firm that may be providing this information to you. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is not a solicitation or recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor’s 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the “NYSE”) and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world’s largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The Hang Seng Index is a freefloat-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The S&P/ASX All Ordinaries Index represents the 500 largest companies in the Australian equities market. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. BSE Sensex or Bombay Stock Exchange Sensitivity Index is a value-weighted index composed of 30 stocks that started January 1, 1986. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. Market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

### Citations.

- 1 - [www.cnn.com/id/45824871](http://www.cnn.com/id/45824871) [12/30/11]
- 2 - [www.reuters.com/article/2011/12/23/us-usa-economy-idUSTRE7BMOAB20111223](http://www.reuters.com/article/2011/12/23/us-usa-economy-idUSTRE7BMOAB20111223) [12/23/11]
- 3 - [latimesblogs.latimes.com/money\\_co/2011/12/holiday-shopping-lift-christmas.html](http://latimesblogs.latimes.com/money_co/2011/12/holiday-shopping-lift-christmas.html) [12/28/11]
- 4 - [www.cnews.com/top-story-confidence\\_surges\\_on\\_better\\_employment\\_outlook-60179.html](http://www.cnews.com/top-story-confidence_surges_on_better_employment_outlook-60179.html) [12/28/11]
- 5 - [online.wsj.com/article/SB10001424052970204464404577112680918832116.html](http://online.wsj.com/article/SB10001424052970204464404577112680918832116.html) [1/3/12]
- 6 - [www.ism.ws/ISMReport/NonMfgROB.cfm](http://www.ism.ws/ISMReport/NonMfgROB.cfm) [12/5/11]
- 7 - [www.ism.ws/ISMReport/MfgROB.cfm](http://www.ism.ws/ISMReport/MfgROB.cfm) [12/1/11]
- 8 - [www.reuters.com/article/2011/12/16/us-economy-idUSTRE7BE12S20111216](http://www.reuters.com/article/2011/12/16/us-economy-idUSTRE7BE12S20111216) [12/16/11]
- 9 - [www.businessweek.com/ap/financialnews/D9RL8CRGO.htm](http://www.businessweek.com/ap/financialnews/D9RL8CRGO.htm) [12/15/11]
- 10 - [money.cnn.com/2011/12/23/news/economy/payroll\\_tax\\_cut\\_deal/](http://money.cnn.com/2011/12/23/news/economy/payroll_tax_cut_deal/) [12/23/11]
- 11 - [news.bbc.co.uk/today/hi/today/newsid\\_9669000/9669315.stm](http://news.bbc.co.uk/today/hi/today/newsid_9669000/9669315.stm) [12/30/11]
- 12 - [www.bbc.co.uk/news/world-europe-16377010](http://www.bbc.co.uk/news/world-europe-16377010) [1/1/12]
- 13 - [www.bbc.co.uk/news/business-16382874](http://www.bbc.co.uk/news/business-16382874) [1/2/12]
- 14 - [www.bloomberg.com/news/2012-01-03/global-manufacturing-displays-resilience-to-europe-s-debt-crisis-economy.html](http://www.bloomberg.com/news/2012-01-03/global-manufacturing-displays-resilience-to-europe-s-debt-crisis-economy.html) [1/3/11]
- 15 - [news.morningstar.com/index/indexreturn.html](http://news.morningstar.com/index/indexreturn.html) [12/30/11]
- 16 - [mscibarra.com/products/indices/international\\_equity\\_indices/gimi/stdindex/performance.html](http://mscibarra.com/products/indices/international_equity_indices/gimi/stdindex/performance.html) [12/30/11]
- 17 - [money.msn.com/market-news/post.aspx?post=7a929e98-4d99-44cb-98c9-a0efc3151c4](http://money.msn.com/market-news/post.aspx?post=7a929e98-4d99-44cb-98c9-a0efc3151c4) [12/30/11]
- 18 - [www.businessweek.com/news/2011-12-23/sales-of-u-s-new-homes-in-november-rise-to-315-000-rate.html](http://www.businessweek.com/news/2011-12-23/sales-of-u-s-new-homes-in-november-rise-to-315-000-rate.html) [12/23/11]
- 19 - [www.reuters.com/article/2011/12/27/us-economy-idUSTRE7BE12S20111227](http://www.reuters.com/article/2011/12/27/us-economy-idUSTRE7BE12S20111227) [12/27/11]
- 20 - [www.realtor.org/press\\_room/news\\_releases/2011/12/phs\\_nov](http://www.realtor.org/press_room/news_releases/2011/12/phs_nov) [12/29/11]
- 21 - [www.freddiemac.com/pmms/](http://www.freddiemac.com/pmms/) [1/3/12]
- 22 - [bigcharts.marketwatch.com/historical/default.asp?symbol=DJIA&closeDate=12%2F31%2F01&x=0&y=0](http://bigcharts.marketwatch.com/historical/default.asp?symbol=DJIA&closeDate=12%2F31%2F01&x=0&y=0) [12/30/11]
- 22 - [bigcharts.marketwatch.com/historical/default.asp?symbol=COMP&closeDate=12%2F31%2F01&x=0&y=0](http://bigcharts.marketwatch.com/historical/default.asp?symbol=COMP&closeDate=12%2F31%2F01&x=0&y=0) [12/30/11]

- 22 - [bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=12%2F31%2F01&x=0&y=0](http://bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=12%2F31%2F01&x=0&y=0) [12/30/11]
- 23 - [treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield](http://treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield) [12/30/11]
- 23 - [treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll](http://treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll) [12/30/11]
- 24 - [www.treasurydirect.gov/instit/annceresult/press/preanre/2001/ofm71101.pdf](http://www.treasurydirect.gov/instit/annceresult/press/preanre/2001/ofm71101.pdf) [7/11/01]
- 25 - [montoyaregistry.com/Financial-Market.aspx?financial-market=an-introduction-to-the-stock-market&category=29](http://montoyaregistry.com/Financial-Market.aspx?financial-market=an-introduction-to-the-stock-market&category=29) [11/2/11]
- 26 - [cnbc.com/id/45848630/](http://cnbc.com/id/45848630/) [1/2/12]
- 27 - [blogs.wsj.com/marketbeat/2011/01/31/data-points-us-markets-342/](http://blogs.wsj.com/marketbeat/2011/01/31/data-points-us-markets-342/) [1/31/11]