

MONTHLY ECONOMIC UPDATE

January 2014

MONTHLY QUOTE

“If you want something done, ask a busy person to do it. The more things you do, the more you can do.”

– Lucille Ball

MONTHLY TIP

Consider reviewing your credit report twice a year. While the major credit reporting agencies offer one free credit report per year, checking up every six months may be wise in this era of data breaches.

MONTHLY RIDDLE

I am round, touch the ground, and I am best under pressure. What am I?

Last month's riddle:

A dog is on an 18-foot leash. The dog wants a biscuit that is 32 feet away. The dog succeeds, rather easily. How does the dog manage to reach the biscuit so easily?

Last month's answer:

The leash isn't attached to anything.

THE MONTH IN BRIEF

Stocks finished 2013 with a flourish. The S&P 500 rose another 2.36% last month to return 29.60% on the year. As Wall Street celebrated, good news came to Main Street as well; the jobless rate fell and many signs of economic improvement emerged. Performance of Asian and European stock indices varied widely. Gold stumbled further and oil rebounded. Mortgages grew more expensive, and the pace of home buying reflected that reality. Midway through the month, the Federal Reserve announced it was tapering its economic stimulus – and investors applauded the move.¹

DOMESTIC ECONOMIC HEALTH

In a late-November CNN poll, only 24% of Americans felt that an economic recovery was underway; 39% felt the U.S. was still in a downturn. Perception aside, economic indicators out in December showed an economy clearly on the way back.²

Unemployment? Thanks to 203,000 net new jobs, the jobless rate fell to a 59-month low of 7.0% in November. GDP? A final Q3 estimate of 4.1%, helped by a 2.0% gain in Q3 personal spending. Consumer spending was up 0.5% in November alone.^{3,4,5}

According to the Institute for Supply Management, the service and manufacturing sectors expanded again in November – its factory PMI was at 57.3, its service sector PMI at 53.9. The service sector expanded for the 47th consecutive month. A Federal Reserve report showed industrial production up 1.1% in November and matching a pre-recession peak.^{4,6}

The federal government's Consumer Price Index was flat for November, with annualized inflation at just 1.2%. Gasoline prices dropped 1.6% in November while retail sales jumped 0.7%.⁷

Durable goods orders were up 3.5% in November, rebounding from the 0.7% decline in October. Wholesale prices retreated for a third straight month in November – the headline Producer Price Index showed a 0.1% retreat, with the PPI rising just 0.7% in 12 months.^{5,8}

How were households feeling? The Conference Board's December consumer confidence index rose 6.1 points to 78.1; the University of Michigan's final December consumer sentiment index came in at 82.5.⁵

The Federal Reserve's December 18 decision to taper QE3 caught some investors by surprise – wasn't the central bank going to wait until 2014? Wall Street didn't panic; in fact, it was pleased. The Dow climbed 292 points on the day of the announcement. The Fed is now purchasing \$75 billion of bonds monthly, as opposed to the \$85 billion per month it bought in 2013.⁹

Enrollment finally surged at the Health Insurance Marketplace. The White House stated that by Christmas Eve, about 2 million people nationwide had signed up for health coverage, 1.1 million of them via the HealthCare.gov site serving 36 states. That still fell short of the Obama administration's year-end goal of 3 million.¹⁰

GLOBAL ECONOMIC HEALTH

As December ended, available data showed that the eurozone economy was growing, albeit weakly. Euro area GDP was but 0.1% in Q3, down from 0.3% in Q2. (For the record, euro area GDP has never exceeded 1.3% since Eurostat first measured it in 1995 and hit a nadir of -2.5% in 2009.) Euro area unemployment was running at 12.1% after the first monthly decline since February 2011; yearly consumer inflation was at 0.9%, up from the 45-month low of 0.7% recorded in October.^{11,12,13}

The official PMI reading for China's factory sector was 51.0 in December, down from the prior mark of 51.4. Political tension between China and Japan threatened to undo progress toward a new trilateral free-trade pact between China, Japan and South Korea. Territorial disputes in the South China Sea were one factor, and China took insult when Japanese prime minister Shinzo Abe visited a shrine honoring WWII veterans including convicted war criminals from the Chinese occupation. Still, December ended with no injury to the trade ties between the two nations.^{14,15,16}

WORLD MARKETS

December seemed to bring as many ascents as descents. The Global Dow rose 1.37%, the Asia Dow lost 0.53% and the Europe Dow advanced 1.95%; the MSCI Emerging Market Index lost 1.53%, yet the MSCI World rose 2.00%. Other benchmarks: Nikkei 225, +4.02%; Kospi, -1.64%; Hang Seng, -2.41%; Sensex, +1.82%; Jakarta Composite, +0.42%; Shanghai Composite, -4.71%; Bovespa, -1.86%; IPC All-Share, +0.54%; Merval, -5.73%; TSX Composite, +1.69%; FTSE 100, +1.48%; DAX, +1.56%; DJ STOXX 600, +0.95%; CAC 40, +0.02%. Among notable European, Asian and multi-country indices, four yearly gains stand out: Nikkei 225, 56.72%; Ireland's ISEQ, 33.64%; Pakistan's KSE 100, 49.43%; MSCI World, 24.10%.^{1,17}

COMMODITIES MARKETS

The twelfth month of 2013 saw gold futures fall again: a loss of 4.23% to \$1,202.30 at year's end. Silver dropped 5.16% in December, but copper rose 6.47%. NYMEX crude ended 2013 at \$98.42, up 6.35% on the month. Natural gas futures soared 7.44%, heating oil rose 1.13% and unleaded gasoline jumped 4.79% in December. Among marquee crops, the best performer was cotton at +6.69%; the worst was wheat at -7.75%. Performances in between: cocoa, -2.90%; coffee, +4.57%; soybeans, -1.68%; sugar, -3.91%; corn, +1.75%. The U.S. Dollar Index posted a 0.64% December loss, concluding the year at 80.16.^{18,19}

REAL ESTATE

With mortgage rates on the way up, new and existing home sales declined in November. In fact, the National Association of Realtors said existing home sales were actually down 1.2% year-over-year. New home buying dipped just 2.1% for the month, but residential resales decreased 4.3%. (The NAR did report a 0.2% rise in pending home sales in November.) Home price gains had yet to moderate: the October S&P/Case-Shiller Home Price Index showed a 13.6% yearly gain in home values across 20 cities. While building permits fell 3.1% in November, housing starts rose 22.7% (the largest gain in any month since January 1990).^{4,5,20}

Freddie Mac's December 26 Primary Mortgage Market Survey found mortgage rates averaging as follows: 30-year FRMs, 4.48%; 15-year FRMs, 3.52%; 5/1-year ARMs, 3.00%; 1-year ARMs, 2.56%. Compare the November 27 averages: 30-year FRMs, 4.29%; 15-year FRMs, 3.30%; 5/1-year ARMs, 2.94%; 1-year ARMs, 2.60%.²¹

LOOKING BACK...LOOKING FORWARD

Closing values from December 31: DJIA, 16,576.66; NASDAQ, 4,176.59; S&P 500, 1,848.36; Russell 2000, 1,163.64. Incidentally, the Dow Jones Internet Index soared 56.15% in 2013 and the NASDAQ Biotechnology Index rocketed 65.61%.¹

% CHANGE	2013	1-MO CHG	5-YR CHG	10-YR AVG
DJIA	+26.50	+3.05	+17.78	+5.86
NASDAQ	+38.32	+2.87	+32.96	+10.85
S&P 500	+29.60	+2.36	+20.93	+6.62
REAL YIELD	12/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.80%	-0.67%	2.14%	2.00%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 12/31/13^{1,22,23,24,25}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

Could 2014 bring stock market gains anywhere near those of 2013? Even the most ardent bulls don't see the market soaring so high. Bears see little or no upside to stocks this year, pointing to an aging bull, further tapering of QE3 and the potential for a long-overdue correction. Bulls counter with the argument that the Fed's easy money policy hasn't yet reached its endgame, and point to continual signs of solid economic improvement. Hopefully, January sets a nice tone for the quarter and the year, and double-digit gains will come to pass.²⁶

UPCOMING ECONOMIC RELEASES: The new year unfolds with a full slate of economic reports: December auto sales (1/3), December factory orders and December's ISM service sector PMI (1/6), the December Fed policy meeting minutes (1/8), the December Challenger job-cut report (1/9), the December jobs report and October wholesale inventories (1/10), December retail sales and November business inventories (1/14), the December PPI and a new Fed Beige Book (1/15), the December CPI and the January NAHB housing market index (1/16), the University of Michigan's initial January consumer sentiment index, December housing starts and building permits and December industrial output (1/17), December existing home sales, the Conference Board's December index of leading indicators and November's FHFA housing price index (1/23), December new home sales (1/27), the Conference Board's January consumer confidence index, November's Case-Shiller home price index and December durable goods orders (1/28), a Fed policy statement (1/29), December pending home sales and the first estimate of Q4 GDP (1/30), and last but not least, December's consumer spending report and the University of Michigan's final January consumer sentiment index (1/31).

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The Asia Dow measures the Asia equity markets by tracking 30 leading blue-chip companies in the region. The Europe Dow measures the European equity markets by tracking 30 leading blue-chip companies in the region. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. 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 Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. 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 BSE SENSEX (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). The IDX Composite or Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange (IDX). The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Mexican IPC index (Indice de Precios y Cotizaciones) is a major stock market index which tracks the performance of leading companies listed on the Mexican Stock Exchange. The MERVAL Index (MERcado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. 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 FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest 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. The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. Karachi Stock Exchange 100 Index (KSE-100 Index) is a stock index acting as a benchmark to compare prices on the Karachi Stock Exchange (KSE) over a period. The ISEQ Overall Index is a capitalization-weighted index of all official list equities in the Irish Stock Exchange, excluding U.K.-registered companies. 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