

MONTHLY EconUpdate

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Monthly Economic Update for January, 2009

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Quote of the month. “The future depends on what we do in the present.” – Mahatma Gandhi

The month in brief. At the start of December, it became official: America had been in a recession for 12 months. Some leading economic indicators provided further confirmation. It was a month of descents. Interest rates came down to record lows. Oil prices and retail gasoline prices sank to the levels of a few years ago. Mortgage rates fell way down. (However, the real estate sector looked even unhealthy than previously assumed.) GM and Chrysler got bridge loans from Washington, D.C. and GMAC was bolstered by a cash infusion from the federal government. As America prepared for a new presidency, investors anticipated a better year on Wall Street.

Domestic economic health. At the top of the month, the National Bureau of Economic Research published its findings: the U.S. economy entered a recession in December 2007.¹ We learned that America had lost 533,000 jobs in November – the largest monthly drop in employment since 1974, taking the unemployment rate to a 15-year peak of 6.7%.² Further evidence of the hurt within the manufacturing sector surfaced: the Institute for Supply Manufacturing's December index came in at a low, low 32.4, the lowest mark since 1980.³

On December 16, we learned that consumer prices had fallen 1.7% in November; that was the biggest monthly decrease in 76 years.⁴ Of course, retail sales were slipping also: a new Thomson Reuters survey shows December store sales down an average of 6.3% from November.⁵ Late in December, we learned that consumer spending fell just 0.6% in November, with inflation-adjusted “real” consumer spending up 0.6% for that month. Durable goods orders dropped only 1.0% in November; economists polled had assumed they would drop 3.0%.⁶ We can only hope the

December statistics offer similarly nice surprises.

The Conference Board's December survey of consumer confidence hit a record low of 38.0.⁷ There was another notable record low, with positive consequences: the Federal Reserve cut America's benchmark interest rate to a target range of between 0% and 0.25%.⁸

Would America's auto industry fail in 2009? It was a sobering question on Capitol Hill. Congress and the White House came up with a rescue plan that would lend Chrysler and GM up to \$17.4 billion, but the money came with conditions: the companies had to restructure debt, and renegotiate salaries and benefits with the United Auto Workers. On December 30, the federal government also approved \$6 billion in TARP funds for GMAC, General Motors' auto finance arm.⁸

Global economic health. In Europe, most EU economies had headed into recession – most notably the German economy. In December, Eurozone manufacturing activity contracted for the seventh consecutive month – in fact, the EU manufacturing index had its largest contraction in 11 years. The U.K. manufacturing sector had its second worst month since 1992.⁹ As the month ended, economists were expecting EU unemployment approaching 8%, with inflation of just 1.8% - back in the target zone the European Central Bank established in late 2007.¹⁰

The drop in industrial output was also felt painfully in Asia. During December, manufacturing slowed for the second straight month in India, for the fifth consecutive month in China, and for the seventh straight month in Australia. South Korea's December exports were 17.4% below a year ago.¹¹ Data from Japan showed November exports down 26.7% from a year earlier, and Prime Minister Taro Aso unveiled the nation's third economic stimulus package within a 14-month period.¹²

World financial markets. The inspiring story here is the worldwide rebound from the low of November 20. Call it a bear market rally if you wish,

but the story is still impressive – and we must remember that some of the best days for stock market investors happen during these rallies.

From November 21 to the end of 2008, the MSCI World Index and MSCI Emerging Markets Index gained 19.3% and 22.1% respectively. The German DAX gained 14.0% across that stretch, and the FTSE 100 climbed 14.4%. The Sensex went up 17.2% and the Hang Seng 17.0%. The Shanghai Composite Index was the only notable loser, falling 8.4% in the period.¹³ The S&P 500 gained 20.04% from November 21 to December 31.¹⁴

Commodities markets. December didn't bring a turnaround. Gold finished 2008 at \$883.60, rising 5.4% for the year, but silver and copper limped home in December to post losses of 35.6% and 56.5% for 2008. Even with late-December rallies, corn finished down 10.6%, soybeans down 18.3% and wheat down 31.0% for the year.¹⁵

As for oil ... it ended more than \$100 below its July peak, and it had to rally on December 31 to do that. Oil ended the quarter at \$44.60 per barrel, after dropping to the \$35 level in late December. Gasoline futures ended the month down 59.2% for the year.¹⁵ The U.S. Dollar Index had a very poor month thanks to the Fed's unprecedented rate cut, falling 6.0% for December. But it gained 6.0% for the year (and while we're at it, Treasuries returned 14.9% for 2008).¹⁶

Housing & interest rates. Was a rebound in the near future? December provided no signs of it, though the month offered tantalizing reductions in mortgage rates.

The November data we received last month from the Commerce Department and the National Association of Realtors was dismal. Existing home sales had fallen 8.6% from October levels, and new home sales were down 2.9%. November statistics also showed existing home prices down 13.2% from a year ago and new home prices down 11.5% in year-over-year terms.¹⁷

For those who could refinance, December offered an amazing chance to save some money. By the end of the month, Bankrate.com's national survey had 30-year FRMs at 5.64%, compared to 6.14% at the end of 2007. The Bankrate index had 15-year FRMs ending 2008 averaging 5.16% and 5-year ARMs averaging 5.86%.¹⁸

Major indexes. It was a mixed month – the Dow declined, but the S&P 500 and NASDAQ posted gains.

% Change	1-Month	Y-T-D
DJIA	-0.60	-33.84
NASDAQ	+2.70	-40.54
S&P 500	+0.78	-38.49

Source: CNBC.com, 12/31/08¹⁹

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

January outlook. The world is watching what U.S. stocks do in the opening week of January, and it awaits what the Obama administration will do for the American economy. The U.S. stock market opened the year with an optimistic rally, and Wall Street is up for some big tests in the first half of the month: we all hope whether the optimism can withstand the reports on January joblessness, December retail sales, and December industrial output.

The stock market tends to do well in January. In fact, after 1950, the market has had a positive year after a positive January 90% of the time (according to the *Stock Trader's Almanac*). But, the Almanac notes, each down January since 1950 has "preceded a new or extended bear market, or flat market."²⁰ But even if January is negative, the federal government's effort to thaw the credit markets and stimulate the economy through infrastructure investment might spark a market recovery later in the year.

The crucial economic reports for the rest of January are: December ISM services index and November factory orders (1/6), December unemployment and wages and wholesale inventories (1/9), December retail sales and November business inventories (1/14), December PPI and core PPI (1/15), December CPI and core CPI, December industrial production and preliminary December consumer sentiment (1/16), December housing starts and building permits (1/22), December existing home sales (1/26), December durable goods orders and the Conference Board's January consumer confidence survey (1/27), December new home sales (1/29) and advance 4Q 2008 GDP (1/30). We won't know December personal spending and personal incomes until February 2.

Riddle of the month. Haretown and Tortoiseville are 44 miles apart. A hare travels at 8

miles per hour from Haretown to Tortoiseville, while a tortoise travels at 3 miles per hour from Tortoiseville to Haretown. If both set out at the same time, how many miles will the hare have to travel before meeting the tortoise en route?

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

Last month's riddle. Someone strips away the outside of this food, leaving you free to boil, cook or grill the inside. (So what was the "inside" is now an uncovered outside.) You eat the new outside, and throw away the inside of that. What kind of food are you eating?

Answer: Corn on the cob.

Please feel free to forward this article to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will contact them and ask for their permission to be added.

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 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 DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The Bombay Stock Exchange Sensitive Index (Sensex) is a cap-weighted index of 30 stocks; selection of the index members has been made on the basis of liquidity, depth, and floating-stock-adjustment depth and industry representation. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The Shanghai Stock Exchange Composite Index is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of currencies. These views are those of Peter Montoya Inc., and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance is historical and not indicative of future results. The 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 other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards.

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