

MONTHLY EconUpdate

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Monthly Economic Update for February, 2009

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Quote of the month. "Freedom is a possession of inestimable value." – Cicero

The month in brief. Optimism was evident in America ... but not in its financial markets. Wall Street had a tough month, and investors hoped it was not an omen for the year. In Washington D.C., more bold solutions were proposed for lingering economic problems. In the retail, service and manufacturing sector, layoffs occurred again and again. Oil prices sank, and gold prices rose. Mortgage rates stayed comfortably around 5%. Investors hoped that hope would translate to action and confidence in the very near future – with the health of banks the biggest concern.

Domestic economic health. The economy was shedding hundreds of thousands of jobs, and it was definitely weighing on consumers. In early January, we learned that December's unemployment rate was 7.2%, up from 6.8%.¹ In late January, we number of continuing unemployment claims surpassed highs set back in 1982.² As January ebbed into February, we learned that America's 4Q 2008 GDP was -3.8% (at least that was the preliminary reading).³ During that quarter, durable goods purchases fell 22%; the personal savings rate went up by 2.9%.⁴ Consumer spending fell for the sixth straight month in December – a 1% drop.⁵ Last month, we learned that retail sales slipped 2.7% in December; consumer prices fell 0.7% and producer prices fell 1.9%.^{6,7}

Interestingly, two key gauges found the service sectors and retail sectors faring better than economists had anticipated. The Institute for Supply Manufacturing's January manufacturing index just came in at 35.6, above the 32.5 analysts had forecast.⁵ In mid-January, we learned that the ISM's service-sector index

registered a 40.6% for December, up from 37.3 for November.⁸

House Democrats crafted a stimulus plan totaling about \$825 billion, and President Obama said it was "on track" to become law by mid-February.⁹ But what would solve the banking problem? Banks still lacked the confidence and/or capital to lend freely. TARP and TALF money could be used to thaw parts of the credit freeze or at least capitalize banks, but maybe a "bad bank" would have to be created. At the end of the month, discussion surfaced of an "aggregator bank" that would do roughly what then-Treasury Secretary Henry Paulson wanted to do in 2008 – buy up bad assets from thrifts. The FDIC would likely run it; FDIC-guaranteed bonds could help to finance it.¹⁰ The downside is that the government might pay too much for the assets; the upside is that the purchases would boost consumer confidence about banks, leading to more capital and freer lending. At the start of February, it is simply a plan.

Global economic health. Could rate cuts be coming in Europe? Manufacturing data for January is interesting. A broad manufacturing survey revealed that economic contraction worsened in only one of the Eurozone's top four economies last month – that of Germany. The manufacturing sectors of Spain, Italy and France contracted at a slower pace than in December. The Eurozone manufacturing purchasing managers' index rose to 34.4 from 33.9 in December; the index also showed manufacturing costs falling at the fastest pace since the survey began in the late 1990s. The European Central Bank is widely expected to cut interest rates in March.¹¹

In Japan, Sony, Toyota and Hitachi were posting losses. South Korea's exports were down 32.8% in January from levels of a year before, and Indonesia's December exports declined approximately 20% from a year earlier. Australia's manufacturing sector shrank for the eighth straight month in January. On the other hand, a purchasing managers index in China rose a full percentage point for January, indicating slowing

contraction; Premier Wen Jiabao noted decreasing inventories in ports and rising industrial prices.¹¹

World financial markets. In America, stocks had a lousy month. How about the overseas indices? They hurt also. There were exceptions: the Shanghai Composite Index soared 9.3% in January, Brazil's Bovespa gained 4.7%, and Russia's RTSI climbed 2.5%. In India, the Sensex 30 dipped 2.4% for the month but gained 8.6% in January's fourth week. Other indices had rougher Januarys, including Germany's DAX index (-9.8%), the FTSE 100 (-6.4%), the CAC 40 in Paris (-7.6%), the Nikkei 225 (-9.8%), and the Hang Seng (-7.7%).¹²

Commodities markets. Precious metals did well, other commodities not too well. Gold pushed toward the \$900 mark, gaining 4.86% in January. Silver did even better: silver futures climbed 11.24%. Copper and platinum respectively rose 4.15% and 5.29%. As for agriculture, the picture wasn't as pretty. Soybeans were flat (0.00%) for the month; oats sank 2.38%, corn 6.88%, wheat precisely 7%, and rough rice down 22.82%. Orange juice rose 6.04%. Oil futures sank 14.22% and natural gas futures fell 21.92%. Retail gas prices were at \$1.846 per gallon (regular unleaded) in the last AAA price survey in January, a welcome 38.18% year-over-year drop.¹³

Housing & interest rates. Good news and (of course) bad news here. The good news: mortgage rates were amazingly low. In Freddie Mac's January 29 survey, 30-year FRMs were averaging 5.10%; 5/1-year ARMs were averaging 5.27%, and 1-year ARMs 4.90%. The refinancer's choice, the 15-year FRM, averaged 4.80% (actually up from 4.62% in the first survey of the year).¹⁴

There wasn't much to get excited about otherwise in the housing sector. The bright spot? December existing home sales. They rose 6.5%, with low, low prices helping the gain.¹⁵ New home sales in December? Pretty poor. The Commerce Department measured a 15.0% drop from November, and a 44.8% drop from 12 months before.¹⁶ December housing starts, unsurprisingly, were also way down – down by 16.0% from November.¹⁷

Major indexes. The markets did not exactly share the optimism of the populace – far from it. In fact, January 2009 marked the poorest January in the S&P 500's history. The same held true for the Dow.¹⁸

We can only hope the markets heat up along with the weather in the next two or three months.

% Change	1-Month	2008
DJIA	-8.84	-33.84
NASDAQ	-6.38	-40.54
S&P 500	-8.57	-38.49

Source: CNBC.com, 1/30/09¹⁸

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

February outlook. Pessimists have looked at the January numbers and presumed a negative year for stocks, with some assessments gloomier than others. But it is early in the year, and across 2009, we have TALF, TARP, a likely stimulus package, and possibly a bank to buy up bad assets in the wings. If we stabilize banks and restore confidence in that sector, it may prove a huge step toward recovery. There are other problems to address, however. Consumer spending declined by 3.5% last quarter and 3.8% in the third quarter; inventories also rose last quarter, which would seem to promote lower retail prices but certainly not manufacturing growth. Government figures had capital spending down 19.1% in 4Q 2008 as well.¹⁹ Barack Obama, Tim Geithner, Sheila Bair and House Democrats have a huge task ahead: restoring investor and consumer confidence in the face of mighty pressures against economic growth. But the federal government is trying to heal the economy as never before – and looking past the mood and indicators of this moment, its efforts might end up succeeding in momentous ways.

Here are the rest of February's key economic releases. We have December pending home sales and January auto sales (2/3), January's ISM services index (2/4), December factory orders (2/5), December unemployment and wages (2/6), December wholesale inventories (2/10), January retail sales and December business inventories (2/12), preliminary February consumer sentiment (2/13), January housing starts and industrial production (2/18), January PPI and core PPI (2/19), January CPI and core CPI (2/20), January durable goods orders (2/24), January existing home sales (2/25) and January new home sales (2/26). January consumer spending? We'll have to wait until March 2 for that.

Riddle of the month. How is it possible to name three consecutive days without using the words Monday, Tuesday, Wednesday, Thursday, Friday, Saturday, or Sunday?

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

Last month's riddle. 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?

Answer: 32 miles. They will meet each other in 4 hours. The hare will have traveled 32 miles in that time (4 x 8mph), the tortoise 12 (4 x 3mph).

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 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 Bovespa Index is a total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The RTS Index (RTSI) is an index of 50 Russian stocks that trade on the RTS Stock Exchange in Moscow. 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 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 CAC-40 Index is the benchmark tracking index for the Paris Bourse, comprised of the 40 largest and most liquid stocks trading on the 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 Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. 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.

Citations.

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