
Homer Braden, Steve Powers, and Andy Schuster Presents Monthly Economic Update for December, 2009

Quote of the month. “You only have to do a very few things right in your life so long as you don’t do too many things wrong.” – Warren Buffett

The month in brief. The Dow climbed 6.51% in November, and the S&P 500 and NASDAQ were nearly as hot.¹ Gold prices reached new highs, and home sales numbers were impressive. A recovery appeared certifiably underway, albeit the kind that featured an occasional step back. A debt crisis in Dubai only rattled stocks momentarily. Data showed consumer spending increasing, and Black Friday wasn’t bleak.

Domestic economic health. Had unemployment peaked? The jobless rate came down to 10.0% in November from October’s 10.2% mark. As for next year, Federal Reserve policymakers predicted unemployment of 9.3-9.7% by 4Q 2010 – better, but hardly a forecast to celebrate. However, the great news in the November jobless stats was that payrolls only contracted by 11,000 positions – the economy seemed on the verge of creating jobs again.^{2,3}

The recovery was progressing, in fits and starts. We learned that consumer spending increased by 0.7% and wages increased by 0.2% in October.⁴ The Black Friday weekend was solid, if not spectacular; National Retail Federation research gauged online and brick-and-mortar retail traffic at 195 million versus 2008’s 172 million. However, the average shopper spent \$343.31 this Thanksgiving weekend compared to \$372.57 a year ago.⁵

Turning to services and manufacturing, factory orders increased in October for the sixth month out of seven (+0.6%) while October durable goods orders fell (-0.6%).⁶ The Institute for Supply Management’s November service sector index showed contraction (48.7 as opposed to a 50.6 reading in October) and its manufacturing index slipped from October’s 55.7 mark to 53.6 last month – still showing growth.⁷

After October declines, the two notable consumer confidence indexes presented a mixed bag: the Conference Board index went to 49.5 in November from 48.7 in October, but the Reuters/University of Michigan survey finalized at 67.4 for the month, down from 70.6 in October.^{8,9} We learned consumer prices had risen 0.3% in October, with core CPI +0.2%; that last figure put core CPI at +1.7% for the past 12 months of data, squarely within the Federal Reserve’s inflation target zone.¹⁰

Global economic health. All kinds of 3Q data were now available. Perhaps the cheeriest news was that the Eurozone economy grew by 0.4% in the third quarter – the first positive quarter in the last six. German’s economy grew by 0.7%. Out of the major European economies, only the United Kingdom and Spain remained in recession.^{11,12} The Bundesbank, Germany’s central bank, forecast GDP of +1.6% for 2010 and +1.2% for 2011 after a -4.9% showing for 2009.¹³

Aided by a government stimulus and \$1.3 trillion in loans, China’s economy expanded by a record 8.9% in the third quarter.¹⁴ While data arrived showing Japan’s economy posting its second straight quarter of growth, the International Monetary Fund estimated the nation’s GDP would shrink by 5.4% for 2009.¹⁵ Turning to the third and fourth largest economies in Asia, India’s economy grew by 7.9% for the third quarter, while South Korea’s economy grew by 3.2%.^{16,17}

World financial markets. The DAX led the way among major European indices with a 5.0% November gain. England’s FTSE 100 climbed 4.0% and France’s CAC 40 rose 3.2%. Among European indices of note, only the ISEQ (Ireland) posted a November loss. Turning to the Pacific, the Shanghai Composite went +3.4% while Hong Kong’s Hang Seng was -2.8% last month. The Singapore STRAITS Times was up 4.2%. The Australian All-Ordinaries took a 1.1% November loss. It was not a good month for the Nikkei 225, which dropped 9.5%. Eyeing emerging markets, Brazil’s Bovespa had the hottest month of any notable index (+9.0%). India’s Sensex was +4.6% as the month drew to a close, and Russia’s RTS was up 8.3% (and more than 130% YTD).¹⁸ The MSCI World Index gained 2.88% last month, earning a +18.57% YTD mark. The MSCI Emerging Markets Index gained 3.24%, leaving it up +52.48% YTD.¹⁹

Commodities markets. When November ended, gold had settled at \$1,181.10 per ounce (on its way to \$1,200 in early December). The precious metal gained a jaw-dropping 13.60% (\$141.40 per ounce) in November, its biggest monthly dollar gain since 1980. On November 30, gold was +33.67% YTD with a 24.10% cumulative gain across September, October and November. Copper gained 6.82% last month, bringing it to +125.70% YTD. Silver ended November +62.99% YTD, platinum +55.47% YTD and palladium +98.37% YTD. Oil prices rose \$0.28 in November to \$77.28 per barrel, which left oil +73.27% for 2009

YTD. At November's end, oil prices had risen 11.27% across the last four months.²⁰

Looking at farm commodities, wheat prices rose nearly 25% during the month and orange juice prices rose nearly 29%. Among notable ag futures, only cattle and sugar finished negative for the month.²¹

Housing & interest rates. With buyers rushing to qualify for potentially expiring tax credits and mortgage rates at or near record lows, the residential real estate market heated up. A rush of buyers in the South put new home sales at +6.2% for October, while existing home sales leapt north by 10.1%.²² On the downside, housing starts dropped 10.6% in October to the lowest level since April.²³ On the upside, pending home sales rose again: +3.7% in October, 32% above levels a year before.²⁴

Interest rates on 30-year FRMs moved even lower. On November 25, Freddie Mac's weekly survey had the national average at 4.78%, matching the record low set in April. Interest rates on 15-year FRMs were averaging 4.29%, 5/1-year ARMs 4.18%, and 1-year ARMs 4.35% at that date.²⁵

Major indexes. The Dow gained for the fifth straight month to close November at 10,344.84. The S&P 500 and NASDAQ respectively concluded the month at 1,095.63 and 2,144.60.¹

% Change	1-Month	Y-T-D
DJIA	+6.51	+17.87
NASDAQ	+4.86	+35.99
S&P 500	+5.74	+21.30
10YrTIPS Real Yield	-19.86	-47.20

*(Source: CNBC.com, ustreas.gov, 11/30/09)^{1,26}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.*

December outlook. Will we see a Santa Claus rally to top off a great year for stocks? Optimists see no reason why it shouldn't happen; pessimists counter with concerns that individuals are carrying too much debt, that the rally doesn't correspond with the current business climate, and that the economic recovery wouldn't have happened without federal help. If you see the glass as half-full (three-quarters full?), you can look at all the corporate profits that have surpassed expectations, low interest rates and a weak dollar, and ongoing indicators showing real signs of recovery. Whether a correction is in the offing or not, stocks have had an amazing year – and shown us another lesson about the value of staying invested.

Now, here are the important economic releases for the rest of December. Coming up, we have October wholesale inventories (12/9), preliminary December consumer sentiment, November retail sales and October business inventories (12/11), November PPI and industrial production (12/15), a Fed rate decision, November CPI, and November housing starts and building permits (12/16), the Conference Board's November leading indicators (12/17), November existing home sales (12/22), November new home sales and consumer spending (12/23), and finally November durable goods orders and the Conference Board's December look at consumer confidence (12/29).

Riddle of the month. What do the following six words have in common: fast, away, water, through, down, neck?

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

Last month's riddle. Who is the only woman ever to appear on U.S. paper currency?

Last month's riddle answer: That would be Martha Washington, who appeared on the \$1 silver certificate in 1886.

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If you would like us to add them to our list, please reply with their address
and we will contact them and ask for their permission to be added.***

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Citations.

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