

# MONTHLY ECONOMIC UPDATE

November 2012

## MONTHLY QUOTE

“A friendship founded on business is better than a business founded on friendship.”

– John D. Rockefeller

## MONTHLY TIP

As 2012 ends, remember that you can gift up to \$13,000 (or \$26,000 as a married couple) to any individual without the gift counting against your lifetime exclusion.

## MONTHLY RIDDLE

Hannah went to a local hardware store to buy some small items. One would cost \$2, two would run \$4 ... but buying 122 would only cost \$6. She bought 122, yet she was not buying in bulk at all; she could carry what she bought with one hand. What did she purchase?

### Last month's riddle:

How can you turn the Roman numeral for 9 (IX) into 6 merely by drawing a single, continuous line?

### Last month's answer:

Draw an S to the left of the IX to get SIX.

## THE MONTH IN BRIEF

Stocks pulled back in October: the S&P 500 had its poorest month since May, retreating 1.98%. The Q3 earnings season proved disappointing, just as many analysts had warned. Elsewhere, the unemployment rate fell and home values continued to rebound. Our service and manufacturing sectors seemed to be expanding again. Oil prices dropped along with gas prices. Finally, “superstorm” Sandy closed trading at the NYSE for two days and left flooding and destruction throughout the Tri-State Area.<sup>1</sup>

## DOMESTIC ECONOMIC HEALTH

The unemployment rate ticked up to 7.9% in October, having dipped to 7.8% in September. That was because more Americans returned to the job hunt. Labor Department revisions showed the economy adding an average of 173,000 jobs per month in August, September and October; the October gain was 171,000; a better showing than the five-figure monthly payroll expansions seen earlier in the year.<sup>2</sup>

The nation's two most-watched consumer polls showed confidence rising: the Conference Board's October survey improved 3.8 to a mark of 72.2 (the highest since February 2008) and the University of Michigan's final October survey rose to 82.6, a 61-month peak. Consumers were in a buying mood, and they weren't just spending more of their incomes on gasoline. Households increased spending by 0.8% in October, with incomes rising 0.4% and the savings rate heading to an 11-month low of 3.3%. The Commerce Department also said that consumer spending had increased 2.0% in the third.<sup>3,4,5</sup>

America's service and manufacturing sectors seemed to have gotten out of mid-year doldrums. The Institute for Supply Management's October manufacturing PMI rose to 51.7, a 0.2% increase from September; its September service sector PMI showed a 1.4% increase to 55.1.<sup>6,7</sup>

Gas prices jumped 7% in September (after a 9% leap in August), so the Consumer Price Index advanced 0.6% in September. Still, the overall and core CPI only showed yearly increases of 2.0%, right at the Federal Reserve's target. The Producer Price Index jumped 1.1% in September as energy prices climbed 4.7% for the month; core PPI remained flat, however. Annualized wholesale inflation hit 2.1% in September, the highest rate since March. Inflation did not hurt retail sales; they rose 1.1% in September, and they were up 0.9% even with gas, auto and home improvement purchases factored out.<sup>8,9,10</sup>

A “superstorm” named Sandy, a ferocious product of a tropical hurricane meeting a winter jet stream, forced a two-day closure of the stock market toward the end of the month. IHS Global Insight says Sandy may cause as much as an 0.6% drag on U.S. GDP in the fourth quarter; it estimates the storm did \$20 billion in real estate damage and will result in \$30 billion in lost business.<sup>11</sup>

## GLOBAL ECONOMIC HEALTH

In the eyes of many economists, Europe was the region poised to impede global growth in 2013. The latest available data showed the overall unemployment rate for the European Union rising for a 17th consecutive month in September, hitting 11.6%; in Spain and Greece, unemployment was above 25%. The eurozone's manufacturing sector shrank for a 15th straight month in September, with its overall PMI dropping to 45.4; of 17 EU nations, only Ireland had a manufacturing PMI above 50 for the month.<sup>12,13</sup>

In contrast, activity in China's manufacturing sector showed improvement. The PRC's official PMI indicated sector growth again, moving to 50.2 last month from 49.8 in September. HSBC's private-sector PMI for China rose to 49.5 in October – up considerably from the previous 47.9 reading to the highest mark recorded in eight months. China's growth rate had been 7.4% in Q3 2012, the lowest GDP reading in three years – but estimates of 4Q GDP ranged from 7.8-8.4%. Manufacturing activity in Taiwan, India and South Korea also improved in October, with Taiwan's PMI hitting a 4-month peak.<sup>14</sup>

## WORLD MARKETS

Performances ran the gamut last month. Some indices fell: Argentina's Merval (5.35%), Russia's MICEX (2.39%), Korea's KOSPI (4.22%), China's Shanghai Composite (0.83%), Brazil's Bovespa (3.56%), India's BSE Sensex (1.37%) and Taiwan's TWSE 50 (5.69%). Others posted minor or major gains for October: Australia's All Ordinaries (2.93%), Canada's TSX Composite (0.86%), France's CAC 40 (2.22%), the U.K.'s FTSE 100 (0.71%), Mexico's Bolsa (1.84%), Germany's DAX (0.62%), Japan's Nikkei 225 (0.66%), Hong Kong's Hang Seng (3.85%) and Malaysia's KLCE Index (2.22%). Among regional and multinational indices, the FTSE Eurofirst 300 rose 0.66% while the MSCI World Index and MSCI Emerging Markets Index respectively fell 0.76% and 0.95% in U.S. dollar terms.<sup>15,16</sup>

## COMMODITIES MARKETS

Gold ended October at \$1,719.10, with prices falling 3.1%; it remained up 9.7% YTD. Silver slipped 6.5% in October, copper 6.4%, platinum 5.5% and palladium 4.8%. Natural gas gained 11.2%, but oil fell 6.5% and wrapped up last month at just \$86.24 a barrel. Heating oil lost 3.1%, RBOB gasoline fell 9.9% on the month, and retail gasoline prices also descended 7.0%. Some key crops were also among the October losers: corn, -0.2%; cotton, -0.8%; wheat, -3.5%; coffee, -10.9%.<sup>17,18</sup>

## REAL ESTATE

Shrinking inventory, especially at the low end of the market, contributed to a 1.7% reduction in existing home sales in September; still, the National Association of Realtors did note an 11.0% year-over-year increase in sales levels, and a 0.3% September gain in pending home sales. The Census Bureau said new home buying increased 5.7% in September, while the Commerce Department reported a 15.0% jump in housing starts. September's 20-city S&P/Case-Shiller Home Price Index showed an overall yearly gain of 2.0%, up from 1.2% in August.<sup>19,20</sup>

Comparing Freddie Mac's October 4 and November 1 Primary Mortgage Market Surveys, we see small increases in mortgage rates. The average on the 30-year fixed rose from 3.36% to 3.39% in that period; the average rate on the 15-year FRM ticked up from 2.69% to 2.70%. Average rates on 5/1-year ARMs went from 2.72% to 2.74% and average rates on 1-year ARMs edged up to 2.58% from 2.57%.<sup>21</sup>

## LOOKING BACK...LOOKING FORWARD

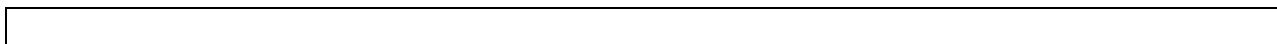
The S&P, NASDAQ and Dow all slipped in October and so did the Russell 2000, which fell 2.24% to a month-ending close of 818.73.<sup>22</sup>

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+7.19	-2.54	+9.55	+5.60
NASDAQ	+14.28	-4.46	+10.91	+12.39
S&P 500	+12.29	-1.98	+12.68	+5.94
REAL YIELD	10/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	-0.78%	0.08%	2.14%	3.10%

Sources: money.cnn.com, bigcharts.com, treasury.gov - 10/31/12<sup>1,23,24,25,26,27,28</sup>  
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.  
 These returns do not include dividends.

So much is up in the air as we enter November. Who will win the presidency, and what will happen with health care reforms, the debt ceiling and the Bush-era tax cuts? Will the present lame-duck Congress punt the issue of the fiscal cliff to the incoming one, arriving at a compromise for the short term? Or will the scheduled tax hikes and spending cuts be allowed to happen in full? Will Wall Street turn merely cautious in the face of all this, or bearish? There is still a surprising amount of bullish momentum, aided by recent employment, manufacturing, housing and retail data. This data stream was not quite positive enough to overcome the letdown leveled by the Q3 earnings season; indicators will need to show additional strength to ease Wall Street's collective anxiety this month.

**UPCOMING ECONOMIC RELEASES:** The news feed for November continues with ISM's October non-manufacturing index (11/5), September wholesale inventories and the University of Michigan's initial consumer sentiment survey for the month (11/9), October's PPI and retail sales, September business inventories and FOMC minutes from October 24 (11/14), the October CPI (11/15), October industrial output (11/16), October's existing home sales and the November NAHB housing market index (11/19), October housing starts and building permits (11/20), the University of Michigan's final consumer sentiment survey for the month and the Conference Board's October Leading Economic Indicators index (11/21), October durable goods orders, the Conference Board's October consumer confidence survey, the September Case-Shiller home price index and the November FHFA housing price index (11/27), October new home sales and a new Federal Reserve Beige Book (11/28), October pending home sales and the second estimate of Q3 GDP (11/29) and then October consumer spending (11/30).



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