MONTHLY ECONOMIC UPDATE

November 2013

MONTHLY QUOTE

"Do you want to be safe and good, or do you want to take a chance and be great?"
– *Jimmy Johnson*

MONTHLY TIP

Set aside a half-hour a week to read up on a personal finance topic. You may learn something that can help you to improve your financial life.

MONTHLY RIDDLE

They bat, but they will never hit a single, double, triple or home run. They are also near a ball that is never thrown. What are they?

Last month's riddle:
If you break it, it doesn't stop working. But if it stops, you stop working. What is it?

Last month's answer:
Your heart.

THE MONTH IN BRIEF

A rampaging bull market overcame two significant challenges in October – a 16-day closure of most of the federal government, and the threat of a U.S. debt default. Congress broke the stalemate with a short-term rescue – a deal which guaranteed government funding until January 15 and extended the nation's borrowing authority until February 7. Investors were relieved, and the S&P 500 added 4.46% to its YTD gain during the month. As expected, the Federal Reserve did not scale back its stimulus. As assorted commodities alternately rose and fell, global stock benchmarks mostly rose. Social Security recipients got a mild increase in payments for 2014, and uninsured individuals who visited healthcare.gov mostly got frustrated. Signs of the housing market cooling down a bit emerged, but there was still good news from the sector.[1,2]

DOMESTIC ECONOMIC HEALTH

Standard & Poor's estimates that the October shutdown took 0.6% off Q4 GDP and cost the U.S. economy $24 billion. It certainly dented consumer confidence: the October Conference Board index showed a one-month drop of 9.0 points to 71.2, and the month's final University of Michigan consumer sentiment index came in at 73.2, the lowest reading since last November.[3,4,5]

The impasse in Washington delayed or postponed some regularly scheduled economic reports. We did learn that the jobless rate had ticked down to 7.2% in September, even with only 148,000 new jobs created (economists surveyed by Dow Jones Newswires had forecast a gain of 180,000). Consumer inflation rose 0.2% in September after ticking up 0.1% in August, while wholesale inflation decreased 0.1% in September after a 0.3% August advance. Retail sales retreated 0.1% in September, but were up 0.4% with auto buying factored out. Industrial output increased 0.6% in September, and durable goods orders rose 3.7%.[4,5,6]

Many uninsured consumers faced an impasse as they tried to use healthcare.gov, the federal government's new website created to help people shop for health coverage in 36 states. The site was plagued by back-end design and security issues, leading some of its critics to call for the immediate resignation of Health & Human Services Secretary Kathleen Sebelius. Additionally, some insured Americans discovered they would have to buy new coverage in 2014 due to the inability of their current health insurance to meet the standards of the Affordable Care Act.[7,8]

In more positive news, the Institute for Supply Management's manufacturing index rose to 56.4 in October, marking the fifth straight month of expansion. The last ISM report on the service sector (September) also showed expansion at 54.4, although this was a real drop from August's reading of 58.6.[9,10]

As expected, the Federal Reserve refrained from tapering its $85-billion-per-month asset purchase program. Noting that "fiscal policy is restraining economic growth," the Federal Open Market Committee's October 30 statement also conceded that "the recovery in the housing sector slowed somewhat in recent months." Social Security announced a 1.5% COLA for 2014, one of the program's smallest COLAs ever; that works out to an additional $19 a month for the average recipient.[11,12]

GLOBAL ECONOMIC HEALTH

Demand for exports seemed to be driving manufacturing growth in Asia. China's official purchasing managers index hit 51.4 in October, an 18-month high. The HSBC/Markit PMI for China also rose to 50.9 in October. Good news, yet a Bloomberg poll of 52 economists projected China's 2013 GDP at 7.6%, the poorest since 1999. Markit's factory-sector PMI for Japan climbed 1.7 points in October to 54.2 and Taiwan's rose to 53.0. October's Markit manufacturing PMI for India showed sector contraction – it was at 49.6 for a second straight month.[13,14]

Great Britain's Markit PMI slipped 0.3 points to a still-impressive 56.0 in October. The combined Markit PMI for the eurozone slipped from 52.2 in September to 51.5 last month, but that reading still marked the fourth consecutive time it was above 50. Eurozone unemployment was at 12.0%, but Markit noted 15 eurozone members reporting "modest growth of activity for the third month running, representing the first period of growth for these countries since early 2011." Spain had actually emerged from its 2-year recession in Q3, and its jobless rate fell in Q3 as well.[13,15]

WORLD MARKETS

Many benchmarks rose. Across the pond, the DAX gained 5.11% in October, the STOXX 600 3.84%, the CAC 40 3.78% and the FTSE 100 4.17%. Up north, the TSX Composite climbed 4.49%; to our south, the IPC All-Share gained 2.12%. While the Nikkei 225 and Shanghai Composite respectively lost 0.88% and 1.52% for the month, advances were more common in Asia: the Hang Seng added 1.52%, the Jakarta Composite 4.51%, the KOSPI 1.66% and the Sensex 9.21%. Looking at multinational/regional benchmarks, the MSCI World Index was up 3.83% for the month while the MSCI Emerging Markets Index gained 4.76%; the Asia Dow advanced 3.01%, the Europe Dow 4.24% and the Global Dow 4.38%.[2,16]

COMMODITIES MARKETS

Performances were all over the place. While copper lost 0.63% and gold 0.34%, silver futures advanced 1.59% and platinum futures 2.98%. NYMEX crude fell 5.91% on the month and unleaded gasoline retreated 0.51%, but natural gas rose 0.39%. Among the major crop futures, sugar (+4.12%) and cocoa (+1.29%) were the gainers. Soybeans lost only 0.04%, but deeper October losses were in store for wheat (1.69%), corn (3.00%), coffee (7.59%) and cotton (11.50%). The U.S. Dollar Index lost 0.02 points on the month to wrap up October at 80.20.[17,18]

REAL ESTATE

Existing home sales fell 1.9% in September, but the National Association of Realtors said that the median home price was $199,200 – up 11.7% in the past 12 months, which marked the tenth consecutive month of double-digit annual price increases. August's overall S&P/Case-Shiller Home Price Index mirrored this trend – it had prices up 12.8% year-over-year, improved from 12.3% in the July edition. NAR noted a 5.6% dip in pending home sales for September. October ended without September new home sales or new residential construction reports from the Census Bureau.[4,19]

Mortgage rates fell, with one exception. Comparing Freddie Mac's October 31 and September 26 Primary Mortgage Market Surveys, we see the following decreases: 30-year FRMs, 4.32% to 4.10%; 15-year FRMs, 3.37% to 3.20%; 5/1-year ARMs, 3.07% to 2.96%. Interest rates on 1-year ARMs rose 0.01% in October to 2.64%.[20]

LOOKING BACK…LOOKING FORWARD

The S&P 500 closed at 1,756.54 on Halloween, while the Dow settled at 15,545.75 and the NASDAQ at 3,919.71. Small caps pushed higher as well: the Russell 2000 gained 2.45% last month, ending October at 1,100.15.[2]

% CHANGE	YTD	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+18.63	+2.75	+18.70	+5.86
NASDAQ	+29.81	+3.93	+31.66	+10.29
S&P 500	+23.16	+4.46	+24.39	+6.72
REAL YIELD	10/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.40%	-0.78%	3.14%	1.93%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 10/31/13[2,21,22]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

Now we come into what is traditionally a sweet spot for the stock market – the fall.

As the federal shutdown altered some of the data collection and research processes that normally go into the economic reports out of Washington, the market may take the upcoming editions of those reports with a few grains of salt. Private-sector reports may carry more weight this month and next. There is a sense of normalcy, as the market has again been concentrating on earnings – and normalcy is good for a mature bull market. The next big test for stocks will come in mid-December – will the new congressional supercommittee meet its deadline to craft a multi-year deficit reduction plan for the federal budget? If it doesn't, we may have a replay of the October impasse on Capitol Hill – and a sense of déjà vu on Wall Street.

UPCOMING ECONOMIC RELEASES: As you will notice, the data stream is a bit off-kilter for November. Just ahead, we have August and September factory orders (11/4), the October ISM service sector PMI (11/5), September's Conference Board leading indicators (11/6), the October Challenger job-cut report and the federal government's delayed first estimate of Q3 GDP (11/7), the Labor Department's October jobs report, the University of Michigan's initial November consumer sentiment index and Commerce Department figures on September consumer spending (11/8), September wholesale inventories and October industrial production (11/15), the November NAHB housing market index (11/18), September business inventories, October's CPI, retail sales and existing home sales and the October 30 FOMC minutes (11/20), the October PPI (11/21), October pending home sales, September and October housing starts and building permits, the September Case-Shiller and FHFA housing price indices, the second estimate of Q3 GDP and the Conference Board's November consumer confidence survey (11/26), October consumer spending and durable goods orders and the final November University of Michigan consumer sentiment index (11/27). Thanksgiving falls on November 28, and due to the long weekend accompanying the holiday, there will be no further major economic releases until December. When will the Census Bureau put out some new home sales data? A combined September/October report is scheduled to appear December 4.

«RepresentativeDisclosure»

Citations.

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