

Insight Financial Services Presents Monthly Economic Update for January, 2009



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 unhealthier 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 potentially 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 upswing 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 historically 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 the optimism can withstand the reports on January joblessness, December retail sales, and December industrial output.

Historically, 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 economic 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.)*

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Historical performance does not guarantee future results

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