

>: Market Wrap Up December 8, 2008

Monday, December 8, 2008 / Chris Rowe

There will not be a Market Wrap-Up today as I am deep in market research for tomorrow's Tycoon Report article. Be sure to check back next week for NEW super fast wrap-up!

?Profit from the Trend?



Chris Rowe

Chief Investment Officer

>

Economic Calendar for the week of December 8 to December 12

Friday Dec. 12

8:30 *Producer Price Index (PPI)*

- **Importance (A-F):** This release merits a **B-**.
- **Source:** Bureau of Labor statistics, U.S. Department of Labor.
- **Release Time:** Around the 11th of each month at 8:30 ET for the prior month.
- **Raw Data Available At:** <http://stats.bls.gov/news.release/ppi.toc.htm>.

The Producer Price Index measures prices of goods at the wholesale level. There are three broad subcategories within PPI: crude, intermediate, and finished. The market tracks the finished goods index most closely, as it represents prices for goods that are ready for sale to the end user. Goods prices at the crude and intermediate stages of production often provide an indication of coming (dis)inflationary pressures, but the closer you get to crude goods, the more that these prices track commodity prices which are already available in traded indexes such as the CRB (Commodity Research Bureau).

At all stages of production, the market places more emphasis on the index excluding food and energy, referred to as the core rate. Food and energy prices tend to be quite volatile and obscure trends in the underlying inflation rate. Though the market reaction is determined by the month/month changes, year/year changes are also noted by analysts. The index is not revised on a monthly basis, but annual revisions to seasonal adjustment factors can produce small adjustments to past releases.

Big Picture

PPI trends have been highly volatile in 2008, mirroring the trends in global oil prices. After a net 4.3% increase in the three month period of May-July, PPI has now fallen 4.1% over the three months of August-

October. November and December could be down as well. Falling global commodity prices and weak economic demand will keep inflation in check at the producer level. If global economies remain weak in 2009, as is widely expected, inflation at the producer level will be insignificant. There may even be concerns about global deflation.

Highlights

- Energy prices plunged 12.8%, causing a large drop in total PPI.
- Food prices were down 0.2%.
- The core rate was up a stronger than expected 0.4%. This follows increases averaging that amount the prior three months. This is a bit surprising as weak demand should hold back price increases. We still expect the core rate to moderate in the months ahead. Producers had been trying to pass along higher energy costs, but weak demand will become an overriding consideration in November data and forward.
- The year-over-year increase in PPI dropped to 5.2% from 8.7%. The year-over-year increase in the core rate rose to 4.4% from 4.0%.

8:30 Retail Sales

- **Importance (A-F):** This release merits an **A-**.
- **Source:** The Census Bureau of the Department of Commerce.
- **Release Time:** 8:30 ET around the 13th of the month (data for one month prior).
- **Raw Data Available At:** <http://www.census.gov/svsd/www/advtable.html>.

The retail sales report is a measure of the total receipts of retail stores. The changes in retail sales are widely followed as the most timely indicator of broad consumer spending patterns. Retail sales are often viewed ex-autos, as auto sales can move sharply from month-to-month. It is also important to keep an eye on the gas and food components, where changes in sales are often a result of price changes rather than shifting consumer demand.

Retail sales can be quite volatile and the advance reports are subject to rather large revisions. Retail sales do not include spending on services, which makes up over half of total consumption. Total personal consumption is not available until the personal income and consumption reports are released, typically two weeks after retail sales.

10:00 University of Michigan Consumer Sentiment Index

- **Importance (A-F):** This release merits a **B-**.
- **Source:** The University of Michigan.
- **Release Time:** Preliminary: 10:00 ET on the second Friday of the month (data for current month); Final: 10:00 ET on the fourth Friday of the month (data for current month).

The Michigan index is almost identical to the Conference Board Consumer Confidence index, though there are two monthly releases, a preliminary and final reading. Like the Conference Board index, it has two subindexes - expectations and current conditions. The expectations index is a component of the Conference Board's Leading Indicators index.

Big Picture

Sentiment readings are a reflection of a variety of events rather than an accurate tool for forecasting consumer spending. Gas prices and political events can have an outsized impact on sentiment. In general, these data are of very little economic value. Sentiment has been low all year despite rising consumer spending. This broken clock will now happen to reflect the correct time. The consumer will be pulling back.