



>: Market Wrap Up November 24, 2008

Monday, November 24, 2008 / Chris Rowe

Did you see Chris Rowe's most recent market wrap up?

Every Monday afternoon at 6:30pm EST. he's posting a SUPER FAST market wrap-up for those of you who want to take a quick peek at the market, and go back to enjoying your life!

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?Profit from the Trend?

A handwritten signature in black ink that reads 'Chris Rowe'.

Chris Rowe

Chief Investment Officer

[≥](#)

Economic Calendar for the week of November 24 to November 28

Tuesday Nov. 25

8:30 *Gross Domestic Product (GDP)*

- **Importance (A-F):** This release merits a **B**.
- **Source:** Bureau of Economic Analysis, U.S. Department of Commerce.
- **Release Time:** Third or fourth week of the month at 8:30 ET for the prior quarter, with subsequent revisions released in the second and third months of the quarter.
- **Raw Data Available At:** <http://www.bea.doc.gov/bea/dn1.htm>.

Gross Domestic Product (GDP) is the the broadest measure of economic activity. Annualized quarterly percent changes in GDP reflect the growth rate of total economic output. The figures can be quite volatile from quarter to quarter. Inventory and net export swings in particular can produce significant volatility in GDP. The final sales figure, which excludes inventories, can sometimes be helpful in identifying underlying growth trends as inventories represent unsold goods, and a large inventory increase will boost GDP but might be indicative of weakness rather than strength. The broad components of GDP are: consumption, investment, net exports, government purchases, and inventories. Consumption is by far the largest component, totalling roughly 2/3rds

of GDP.

In addition to the GDP figures, there are GDP deflators, which measure the change in prices in total GDP and for each component. Though the consumer price index is a more closely watched inflation indicator, the GDP deflator is another key inflation measure. Unlike CPI, it has the advantage of not being a fixed basket of goods and services, so that changes in consumption patterns or the introduction of new goods and services will be reflected in the deflator.

With both GDP and the deflator, the market tends to focus on the quarter/quarter change. Year/year changes are also cited frequently, though they do not provide the most timely indications of economic activity or inflation. The bond market often reacts to GDP, though the price moves are typically small, as much of the GDP data is easily predicted using monthly economic releases such as personal consumption, durable goods shipments, construction spending, international trade, and inventories.

Quarterly GDP reports are broken down into three announcements: advance, preliminary, and final. After the final revision, GDP is not revised again until the annual benchmark revisions each July. These revisions can be quite large and usually affect the past five years of data.

Big Picture

This has not been a recession - yet. Third quarter real GDP will be near flat. Regardless of whether it is a slight increase, as we expect, or a slight decline, the fact remains that the US economy has been far stronger than generally perceived. This has been due in large part to strong exports and a resilient consumer. Gas prices, home prices, and higher unemployment didn't lead to a recession in the first three quarters of 2008. Of course, everyone knows that it "feels like a recession." This is in part because the stock market is down, and it is often taken as an indicator of the economy (even more so than GDP). GDP is also now likely to support the recession argument. We expect fourth quarter real GDP to decline. The outlook into 2009 is for a sluggish economy at best, but the specifics depend highly on how well the liquidity crisis on Wall Street is addressed. That remains highly uncertain.

10:00 Conference Board Consumer Confidence

- **Importance (A-F):** This release merits a **B-**.
- **Source:** The Conference Board.
- **Release Time:** 10:00 ET on the last Tuesday of the month (data for current month).
- **Raw Data Available At:** <http://www.tcb-indicators.org/>.

The Conference Board conducts a monthly survey of 5000 households to ascertain the level of consumer confidence. The report can occasionally be helpful in predicting sudden shifts in consumption patterns, though most small changes in the index are just noise. Only index changes of at least five points should be considered significant. The index consists of two subindexes - consumers' appraisal of current conditions and their expectations for the future. Expectations make up 60% of the total index, with current conditions accounting for the other 40%. The expectations index is typically seen as having better leading indicator qualities than the current conditions index.

Big Picture

Consumer sentiment indices get way too much attention. The simple fact is that sentiment does not correlate with consumer spending and thus has little predictive value. Consumer spending correlates with income. US consumers spend virtually all their income. Higher income will lead to increased spending, regardless of sentiment. Sentiment correlates with the highly publicized trends in gas prices, political events, and other exogenous factors. Sentiment is near record lows, yet real (inflation adjusted) consumer spending was up at a 1% annual rate in the first quarter, and will be up at about a 2.5% annual rate in the second quarter. Consumers are simply grumpy as they head off to the mall to spend their income.

Wednesday Nov. 26

8:30 Durable Goods Orders

- **Importance (A-F):** This release merits a **B**.
- **Source:** The Census Bureau of the Department of Commerce.
- **Release Time:** 8:30 ET around the 26th of the month (data for month prior).
- **Raw Data Available At:** <http://www.census.gov/ftp/pub/indicator/www/m3/index.htm>.

The durable orders release measures the dollar volume of orders, shipments, and unfilled orders of durable goods (defined as goods whose intended lifespan is three years or more). Orders are considered a leading indicator of manufacturing activity, and the market often moves on this report despite the volatility and large revisions that make it a less than perfect indicator. These problems can be minimized by looking at the breakdown of orders. The total number is often skewed by huge increases in aircraft and defense orders. An increase based solely on strength in one sector tends to be discounted, while the market is more impressed with broadbased increases in orders.

Also notable in this report is the narrow category of nondefense capital goods. These goods mirror the GDP category producers' durable equipment (PDE) -- the largest component of business investment. Shipments of nondefense capital goods are a good proxy for PDE in the current quarter, while nondefense capital goods orders provide an indication of PDE growth in the quarters ahead.

Big Picture

Durable goods orders are starting to weaken. Durable goods orders, and total factory orders (which include nondurables orders), had shown surprising strength given overall economic conditions. Now, however, the widespread broadcast of an economic crisis has manufacturing firms pulling back. In addition, the weak dollar has turned stronger. The weak dollar has been a huge boost to US exports and durable goods orders. This impact will fade over late 2008 and early 2009. The manufacturing sector, which had been extremely resilient, will now probably head into a sectoral recession.

9:45 Chicago PMI

- **Importance (A-F):** The Chicago PMI merits a **B**.
- **Source:** Chicago Purchasing Managers Association.
- **Release Time:** Last business day of the month at 10 ET for the current month.

There are many regional manufacturing surveys, and they tend to be ranked in order of timeliness and the

importance of the region. The New York and Philadelphia Fed's surveys are the first each month followed by the Chicago purchasing managers' report on the last day of each month. A few, such as the Atlanta and Richmond Fed surveys, are released after the ISM and are of little value. The purchasing managers' reports are measured like the national ISM -- 50% marks the breakeven line between an expanding and contracting manufacturing sector. For the New York, Philadelphia and Atlanta Fed indexes, 0 is the breakeven mark. These surveys can be of some help in forecasting the national ISM.

Big Picture

The Chicago PMI has little overall economic value, and is only watched by the financial markets because it is usually released one day in advance of the similar national ISM manufacturing survey. A significant move in this regional survey will therefore sometimes be seen as having predictive value for the ISM index.

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.