



>: Market Wrap Up August 25, 2008

Monday, August 25, 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!

Check out what moved the market, one topic or event affecting the value of your portfolio, and find out where the current bull market can be found - Because "there's always a bull market somewhere!" [CLICK HERE TO SEE THE VIDEO!](#)

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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 August 25 to August 29

Tuesday, Aug 26

10:00 Conference Board Consumer Confidence

Release Details

- * 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, August 27

08:30 Durable Goods Orders

Release Details

- * 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.

Highlights

* Durable goods orders for June rose 0.8% versus an upwardly revised 0.1% increase for May and the consensus estimate that called for a 0.3% decline. Excluding transportation, orders jumped 2.0%, rebounding nicely from a 0.5% decline in May, and are up 5.9% year-over-year.

* Nondefense capital goods orders excluding aircraft -- seen as a proxy for business spending -- increased 1.4% and are up 4.6% year-over-year.

* Shipments for the period were up 0.5% and unfilled orders increased 0.9%, which followed a 0.9% increase

in May.

Big Picture

* Durable goods orders, and total factory orders (which include nondurables orders), continue to show surprising strength given overall economic conditions. Orders are near flat to up a bit on a year-over-year basis and the backlog of orders is at record highs. Manufacturing has been very resilient and has yet to move into recessionary mode even as the housing market and consumer sectors remain depressed. The weakness in manufacturing has been greatly exaggerated.

Thursday, August 28

08:30 GDP: Gross Domestic Product

Release Details

- * 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.

Highlights

* Raw Data Available At: <http://www.bea.doc.gov/bea/dn1.htm>

Key Factors

* The miss in our forecast for GDP was due entirely to a much larger inventory valuation adjustment than we had anticipated. MUCH larger. Inventories sliced a whopping 1.92% off the GDP number.

* Real final sales, the best measure of demand, was up at a very strong 3.9% annual rate. The downwardly revised value on inventories produced a seemingly weaker GDP number, but the other components of GDP reflect strength.

* Real PCE was up at a 1.5% annual rate, but a larger increase is likely in the third quarter. Consumers have spent only a portion of the fiscal stimulus.

* Net exports added a huge 2.4% to GDP. A smaller impact is likely in the third quarter - perhaps 0.7%. Exports are booming.

* Business investment overall continued a modest uptrend. It was up at a 2.3% annual rate in the second quarter after a 2.4% first quarter gain. Nonresidential construction was up a surprising 14.4%. That will almost certainly come off in the third quarter, perhaps to near flat. Investment in software and equipment dipped in the second quarter, but should be flat in the third.

* Residential construction dropped at a 15.6% annual rate, but that is actually very good news. It started to level off at the end of the quarter, and it will be near flat in the third quarter. That will eliminate a large negative from the GDP calculation. Residential construction took 0.6% off the first quarter GDP number, but will take at most 0.2% off in the third quarter.

* Government spending was up a larger than expected 3.4% and that added 0.7% to the GDP number. Government spending is frequently ignored in talk of the economy, but it accounts for about 20% of GDP.

* The component trends are much better than the headline 1.9% number suggests. We expect a 3% third quarter increase. This is based on ballpark estimates of 2.5% real PCE growth (1.9% to GDP), net exports adding 0.7% to GDP, about 3% growth in business investment (adding 0.3% to GDP), and government spending adding another 0.3% on a 2% increase. Residential construction should take about 0.2% off the number. That is about 3% growth even without any benefit from inventories, which could swing positive.

Big Picture

* Economic growth is much stronger than generally recognized. Net exports have been a major contributor to growth but this category gets far less attention than deserved. Net exports have added more to GDP growth than housing has subtracted in recent quarters. Consumer spending has also continued to increase. Higher gas prices simply do not subtract enough from consumer spending power given steady (though modest) income gains to produce a decline in spending. Business investment also continues to rise at a steady pace. The manufacturing sector is holding up surprisingly well. Second quarter real GDP growth was deemed disappointing at 1.9% even though forecasts were at 0.5% three weeks ahead of the report. Also, real final

sales were up a strong 3.9% and the only reason the headline was down at 1.9% was because inventories were valued lower (which does not reflect lower demand). Third quarter real GDP will be near 3%. High gas prices and lower home prices are important negatives for the economy, but GDP, which measures the quarterly change in output, will rise despite the press obsession over these factors.

Friday, August 29

09:45 Chicago PMI

Release Details

- * 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.

In Brief

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.

Aug 29 10:00

Release Details

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

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