



>: Chris Rowe's Market Wrap Up July 14, 2008

Monday, July 14, 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!](#)

Let's grow our wealth together folks - Intelligently!!

?Profit from the Trend?

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

Chris Rowe

Chief Investment Officer

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Economic Calendar for the Week of July 14 - July 18

Tuesday, July 15

8:30AM - PPI: Producer Price Index

Release Details

- * 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.

Highlights

- * PPI reflect the well-recognized pressures from commodity prices but only moderate pressures from core prices.

- * The outlook is for moderate core price pressures (due to weak demand) that push core consumer prices only a bit. The outlook for commodity prices, however, remains highly uncertain and is the key factor in the inflation outlook at this time.

Big Picture

- * Annual growth rose to a quarter century high of 7.4% in January given the surge in energy prices but has fallen off to 6.5% yoy in April. Annual growth was just 2.3% in August before the acceleration in energy prices. Higher food prices also weigh in as the core component has turned a stronger as well and stands 2.7% above the year ago level. More important, to date core producer pipeline pressures are not providing any lift to core consumer prices. CPI core commodity prices are flat from a year ago despite the rise in core PPI prices. That is, core wholesale/commodity pricing pressures aren't yet pressuring retail prices as non-core energy and food prices are. Services, not included in PPI, are the key pressures in consumer prices.

8:30AM - Retail Sales

Release Details

- * 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.

Highlights

* May retail sales were strong across the board. It is clear that higher gasoline prices are not going to stop consumer spending from rising, and will not stop the impact of the fiscal stimulus.

* Excluding gasoline sales, retail sales were up 0.8%. Excluding autos, sales were up 1.2%. General merchandise stores posted a 1.2% increase, as department store sales were up 0.8%. Building materials and gardening stores were up 2.4%. Clothing stores were up 0.5%.

* Gasoline sales rose \$1.1 billion. The average monthly gain in total personal income in 2008 has been \$3.2 billion. The fiscal stimulus provides \$100 billion in checks to consumers over three months, or about \$33 billion per month for May, June, and July. The larger amount spent on gas simply is not large enough to undermine regular income gains, and certainly not the fiscal stimulus.

Big Picture

* Consumer spending was trending flat to up a bit in the first quarter. Now, spending appears to be picking up a bit as the fiscal stimulus is starting to kick in. Real personal consumption expenditures were up at a 1.0% annual rate in the first quarter, but solid gains in retail sales for April and May suggest the second quarter growth will be higher. Consumer spending has remained resilient in the face of lower home prices, higher gas prices, and stagnant to slightly lower employment levels. Spending will get a major boost starting in May with the \$110 billion in fiscal stimulus sent to individuals. Retail sales should partially reflect this in May, but even more strongly in June. A consumer led recession simply never developed, and spending is now turning higher.

Wednesday, July 16

8:30AM - CPI: Consumer Price Index

Release Details

- * Importance (A-F): This release merits a B .
- * Source: Bureau of Labor statistics, U.S. Department of Labor.
- * Release Time: 8:30 ET, about the 13th of each month for the prior month.
- * Raw Data Available At: <http://stats.bls.gov/news.release/cpi.toc.htm>.

The Consumer Price Index is a measure of the price level of a fixed market basket of goods and services purchased by consumers. CPI is the most widely cited inflation indicator, and it is used to calculate cost of living adjustments for government programs and it is the basis of COLAs for many private labor agreements as well. It has been criticized for overstating inflation, because it does not adjust for substitution effects and because the fixed basket does not reflect price changes in new technology goods which are often declining in price. Despite these criticisms, it remains the benchmark inflation index.

CPI can be greatly influenced in any given month by a movement in volatile food and energy prices. Therefore, it is important to look at CPI excluding food and energy, commonly called the "core rate" of inflation. Within the core rate, some of the more volatile and closely watched components are apparel, tobacco, airfares, and new cars. In addition to tracking the month/month changes in core CPI, the year/year

change in core CPI is seen by most economists as the best measure of the underlying inflation rate.

Highlights

* Energy prices rose 4.4%. Gas prices were up 9.5% on a not seasonally adjusted basis, and 5.7% seasonally adjusted. Those changes were in line with expectations.

* Food prices rose 0.3%. Food is 14.9% of the total index but food at home (grocery stores) is only 7.7%. The rest is away from home (restaurants and fast food) at 6.2% and alcoholic beverages at 1.1%. Food at home will see pressure before the other categories and may push total food up a bit in coming months, but this component won't be as volatile as energy.

* The core rate at 0.2% was steady and the year-over-year increase is 2.3%. There were few signs of pressure, as owner's equivalent rent was 0.2%, apparel -0.3%, autos -0.1%, medical care 0.2%, and recreation 0.1%. These components are influenced more by demand than pass-through energy costs and the core rate will not push much higher if economic demand remains weak.

Key Factors

* Year-over-year increase in total CPI stands at 4.2% through May. The year-over-year core rate held steady at 2.3%

Big Picture

* The inflation outlook is mixed. Core rates of inflation are moderate, and will remain so, because of weak economic demand. Commodity prices continue to rise. Food accounts for 14.9% of the index, and energy 9.7%. If commodity prices level off, the outlook for inflation is extremely good. If commodity prices continue to rise, the outlook is for moderate inflation. It does not appear as if rising energy prices will lead to higher prices in other categories. Most businesses are not able to pass along this higher cost to a large degree.

9:15AM - Industrial Production

Release Details

- * Importance (A-F): This release merits a B-.
- * Source: Federal Reserve.
- * Release Time: 9:15 ET around the 15th of the month (data for month prior).
- * Raw Data Available At: <http://www.federalreserve.gov/releases/G17/Current/g17.txt>.

The index of Industrial Production is a fixed-weight measure of the physical output of the nation's factories, mines, and utilities. Manufacturing production, the largest component of the total, can be accurately predicted using total manufacturing hours worked from the employment report. One of the bigger wildcards in this report is utility production, which can be quite volatile due to swings in the weather. Severe hot or cold spells can boost production as increased heating/cooling needs drive utility production up.

In addition to production, this monthly report also provides a measure of capacity utilization. Though the rate

of capacity utilization is seen as a critical gauge of the slack available in the economy, the market does not completely trust this measure. Capacity is very difficult to measure, and the Fed essentially assumes that growth in capacity in any given year follows a straight line. One can therefore predict the capacity utilization rate quite accurately based on the assumption for production growth. The 85% mark is seen as a key barrier over which inflationary pressures are generated, but given revisions to these data and the difficulties with capacity measurement, the 85% mark should be viewed cautiously. It would be appropriate to look for corroborating inflation indications from commodity prices and vendor deliveries.

Highlights

- * A decline in utility output of 1.8% in May was related to cool weather and lower than normal air conditioning. Utility output will probably jump back in June.
- * Manufacturing output will also get a boost in June due to the full month of a return from the auto parts strike. Manufacturing output should increase modestly.
- * June output will therefore probably recover the 0.2% decline of May.
- * Overall manufacturing trends are soft, but remain resilient.

Big Picture

* Surprising resilience in manufacturing is a major reason the period of weak economic growth late last year and early this year did not turn into a recession. Industrial production in March was 1.6% above the year-ago level. In recessions, production tends to drop sharply to well below year-ago levels. For example, just prior to the 2001 recession and through 2002 and into early 2002, industrial production fell every single month. Fourteen straight monthly declines were posted, with an average decline of 0.5% per month. Year-over-year production fell to -5%. This cycle, there have been monthly declines and a leveling off in production, but that reflects considerable resilience relative to the 2001 recession.

Thursday, July 17

8:30AM - Housing Starts and Building Permits

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 16th of the month (data for one month prior).
- * Raw Data Available At: <http://www.census.gov/const/www/newresconstindex.html>.

Housing Starts are a measure of the number of residential units on which construction is begun each month. A start in construction is defined as the beginning of excavation of the foundation for the building and is comprised primarily of residential housing. Building permits are permits taken out in order to allow excavation. An increase in building permits and starts usually occurs a few months after a reduction in mortgage rates. Permits lead starts, but permits are not required in all regions of the country, and the level of permits therefore tends to be less than the level of starts over time.

The monthly national report is broken down by region: Northeast, Midwest, South, and West. Briefing recommends analyzing the regional data because they are subject to a high degree of volatility. The high volatility can be attributed to weather changes and/or natural disasters. For example, an unexpectedly high level of rain in South could delay housing starts for the region.

10:00AM -Philadelphia Fed Index

Release Details

- * Importance (A-F): The Philadelphia Fed Index merits a B.
- * Source: The Philadelphia Federal Reserve bank.
- * Release Time: Third Thursday of the month at 12 ET for the current month.
- * Raw Data Available At: <http://www.phil.frb.org/>

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 Philadelphia Fed's survey is first each month, actually coming out during the third week of the month for which it is reporting. Several smaller surveys are then released before 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 NAPM and are of little value. The purchasing managers' reports are measured like the national NAPM - 50% marks the breakeven line between an expanding and contracting manufacturing sector. For the Philadelphia and Atlanta Fed indexes, 0 is the breakeven mark.

These surveys can be of some help in forecasting the national NAPM - particularly the Philadelphia and Chicago surveys which are more closely watched due to their timeliness and the fact that these regions represent a reasonable cross section of national manufacturing activities.

Highlights

- * Raw Data Available At: <http://www.phil.frb.org/>