



>: Market Wrap Up April 28, 2008

Monday, April 28, 2008 / Chris Rowe

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

Every Monday and Thursday afternoon at 5:30pm EST. he's posting a SUPER FAST market wrap-up for those of you who want to take a quick peak 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 VIEW 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

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Economic Calendar for the week of April 28 to May 2

Tuesday, April 29

10:00AM - 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.

Highlights

- Raw Data Available At: <http://www.tcb-indicators.org/>

Wednesday, April 30

8:30AM - 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>

8:30AM - Employment Cost Index

Release Details

- Importance (A-F): This release merits a B .
- Source: U.S. Department of Labor, Bureau of Labor Statistics
- Release Time: 8:30 ET, near the end of the first month of the quarter for the prior quarter.
- Raw Data Available At: <http://stats.bls.gov/news.release/eci.toc.htm>.

In Brief

Since the employment cost index was mentioned by Fed Chairman Greenspan in July 1996, it has risen into the upper echelon of economic reports in the eyes of the bond market. Its lagging nature still leaves it as a less timely indicator of employment cost trends than the monthly hourly earnings data in the employment report. But the ECI does add something to this picture: an adjustment for shifting employment between industries, and a look at benefit costs. These additions are interesting, but typically do not alter the view of the employment cost picture which was left by hourly earnings. ECI will be much less closely watched during periods when wage inflation is not a serious market concern.

The market focusses on the quarter/quarter and year/year changes in each of three categories: total employment costs, wages and salaries, and benefit costs. The figures are sometimes skewed by large year-end bonuses in the financial industry; analysts often exclude the sales commission component of wages and salaries to adjust for this factor.

Highlights

- Raw Data Available At: <http://stats.bls.gov/news.release/eci.toc.htm>

9:45AM - 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.

Thursday, May 1

10:00AM - ISM: Institute for Supply Management

formerly NAPM: National Association of Purchasing Managers

Release Details

- Importance (A-F): This release merits an A-.
- Source: Institute for Supply Management
- Release Time: 10:00 ET on the first business day of the month for the prior month.
- Raw Data Available At: <http://www.ism.ws/>.

In Brief

The ISM report is a national survey of purchasing managers which covers such indicators as new orders, production, employment, inventories, delivery times, prices, export orders, and import orders. Diffusion indexes are produced for each of these categories, with a reading over 50% indicating expansion relative to the prior month, and a sub-50% reading indicating contraction.

The total index is calculated based on a weighted average of the following five sub-indexes, with weights in parentheses: new orders (30%), production (25%), employment (20%), deliveries (15%), and inventories (10%).

The ISM is one of the first comprehensive economic releases of the month, typically preceding the employment report. Though it covers only the manufacturing sector, it can often provide accurate hints regarding the tone of subsequent releases. During periods of inflation concerns, the prices paid and vendor deliveries indexes often determine the bond market's reaction to the report.

Highlights

- March ISM manufacturing index 48.6 (0.3 pts).

Key Factors

- A small rise follows February's 5 year low.
- New orders is the leading indicator with a fourth month below the 50 neutral mark and a new low of 46.5.
- Production fell back below 50 after holding above early in the year.
- Exports orders at 56.5 provide very welcome support to weakening domestic demand.
- Employment held below 50 for a fifth month but rose from February's 46.0.
- Prices paid (input costs) rose to a very high 83.5, but the lack of manufacturing pricing power leaves very little consumer price pressure.

Big Picture

The revised index had been in a narrow 48 to 51 point range for seven months as the 6 month growth of actual factory orders and production has turned negative. The calculation of the index changed in January 2008 with

equal weighting to the five key components which thereby mutes the volatile swings in demand (new orders). Weakening domestic demand (for autos, capital investment) is reflected by the sub 50 levels consistent with manufacturing contraction. Fear of a deepening economic downturn has stalled business investment and other important piece to economic growth.

Friday, May 2

8:30AM - The Employment Report

Release Details

- Importance (A-F): This release merits an A.
- Source: Bureau of Labor Statistics, U.S. Department of Labor.
- Release Time: First Friday of the month at 8:30 ET for the prior month
- Raw Data Available At: <http://stats.bls.gov/news.release/empsit.toc.htm>.

In Brief

The employment report is actually two separate reports which are the results of two separate surveys. The household survey is a survey of roughly 60,000 households. This survey produces the unemployment rate. The establishment survey is a survey of 375,000 businesses. This survey produces the nonfarm payrolls, average workweek, and average hourly earnings figures, to name a few. Both surveys cover the payroll period which includes the 12th of each month.

The reports both measure employment levels, just from different angles. Due to the vastly different size of the survey samples (the establishment survey not only surveys more businesses, but each business employs many individuals), the measures of employment may differ markedly from month to month. The household survey is used only for the unemployment measure - the market focusses primarily on the more comprehensive establishment survey. Together, these two surveys make up the employment report, the most timely and broad indicator of economic activity released each month.

Total payrolls are broken down into sectors such as manufacturing, mining, construction, services, and government. The markets follows these components closely as indicators of the trends in sectors of the economy; the manufacturing sector is watched the most closely as it often leads the business cycle. The data also include breakdowns of hours worked, overtime, and average hourly earnings.

The average workweek (also known as hours worked) is important for two reasons. First, it is a critical determinant of such monthly indicators as industrial production and personal income. Second, it is considered a useful indicator of labor market conditions: a rising workweek early in the business cycle may be the first indication that employers are preparing to boost their payrolls, while late in the cycle a rising workweek may indicate that employers are having difficulty finding qualified applicants for open positions. Average earnings are closely followed as an indicator of potential inflation. Like the price of any good or service, the price of labor reacts to an overly accommodative monetary policy. If the price of labor is rising sharply, it may be an indication that too much money is chasing too few goods, or in this case employees.

Highlights

- March payrolls -80K, Unemployment rate 5.1% (0.3%), earnings 0.3% (3.6% yoy), workweek 33.8 hours.

Key Factors

- Nonfarm Payrolls: A third month of decline, fourth month for private (non-gov't) payrolls.
- Downward revisions to both January and February left same sized -76K declines.
- A full year of declines in goods producing payrolls. Both construction (9 mos) and manufacturing with its 21st consecutive monthly decline.
- Private service providing payrolls fell throughout the first quarter after an average gain of 100K in Q4.
- Uncle Sam added 18K to March payrolls.
- Unemployment Rate: A very strong rebound to 5.1% after the retreat from the 5% high in December.
- March 2007 marked the 4.4% cyclical low.
- 5% rate generally considered to be inflation neutral full employment (i.e. NAIRU).
- Hourly Earnings: A trend 0.3% gain (seen for the last four months) leaves a weaker 3.6% annual growth rate.
- Retreating from the decade high of 4.3% yoy in December 2006.
- Average Workweek: Bounced back to the longer 33.8 hour length last seen in December.
- Showed small variation over 2007 from 33.7 to 33.9 hours.
- An indicator for real time labor need (prior to hiring/layoffs).

Big Picture

2007 average payroll growth was revised to a smaller 95K, a -16K average monthly decline from previously reported. The string of payroll declines that started 2008 is disturbing for the economy as the negative growth has become more broad-based and trend like. Payrolls have softened from a 140K gain in October to a -77K average in the first quarter as private service payrolls now add to the declines in goods producing (manufacturing, construction) Unemployment rebounded to 5.1% in March from the 4.4% low of a year earlier. Employment trends lag the economy as final demand -- in excess of labor productivity -- feeds in to labor demand. Earnings growth is fading and stands at 3.6% compared to the 4.3% yoy high of late 2006. The loosening labor market is being watched for signs of unraveling.