

>: Citigroup Insiders Vote of Confidence: \$17 Million in Buys

Monday, November 17, 2008 / Marie Albin

Citigroup Inc. (C)insiders are scrambling to assure investors and employees that the bank is A-OK amid reports that its board of directors is seeking a new chairman and the company plans to lay off an additional 10,000 employees.

CEO Vikram Pandit and four other Citi insiders scooped up \$17.18 million in Citigroup stock last week (see the weekly wrap-up of Insider Buys and Sells below). Citigroup shares are trading for under \$10 a share, a level not seen since May 1996.

Pandit is holding an emergency town hall meeting for Citi employees today. In a memo to staff on Friday, Pandit attempted to rally the troops.

"I want to talk with you about our accomplishments over the last eleven months and why despite the major challenges currently facing our industry and the economy I continue to be optimistic about the future," said Pandit.

"Our revenue is strong and stable," said Pandit, citing the fact that the company had raised \$50 billion in capital prior to the additional \$25 billion injected by the Treasury as well as the divestiture of a number of businesses and cost-cutting initiatives.

"Let's take firm hold of what we can control about Citi - the money we spend, the time we invest, the way we do business - and use them all to our advantage. By working smarter and more efficiently, we have the opportunity to build operating leverage and position us for sustained growth when the markets recover."

Pandit is clearly putting his money where his mouth is. On Thursday, he bought 850,000 shares of Citi common and preferred stock at a tab of just over \$8.37 million. It is said that insiders sell stock for several reasons, but buy for just one: Because they think the price of the stock is going up.

Four other Citi insiders: CEO of Institutional Clients Group John Havens, Head of Global Capital Markets James Forese, Head of Global Banking Edward Kelly, and Chief Risk Officer Brian Leach bought a combined \$8.8 million in Citigroup stock.

Before last week's \$17 million in purchases, only two other Citigroup insiders had bought stock recently. Director (and former AT&T Chairman & CEO) C. Michael Armstrong picked up 27,700 of preferred stock on Oct. 21, and Director (and former Director of Central Intelligence during the Clinton Administration) John Deutch bought 11,000 shares of preferred stock on Oct. 24.

What do you think, Tycoon readers? At below \$10, is Citigroup a good buy right now like Vikram Pandit and the other Citigroup insiders seem to think? Leave your comments below.



Marie Albin

Economic Calendar for the week of November 17 to November 21

Monday Nov. 17

9:15 Industrial Production

- **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.

Tuesday Nov. 18

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

The Big Picture here is not that complicated. The outlook for total PPI depends heavily on the trend in commodity prices. Those are very hard to predict. Core prices will be influenced by commodity prices as well, as evident in recent data. But weak demand will keep core prices relatively in check. Whether higher PPI prices can be passed along into CPI is questionable, given weak final demand. There will be pressures, obviously, but the outlook for consumer prices also depends heavily on commodity price trends.

Wednesday Nov. 19

8:30 Consumer Price Index (CPI)

- **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.

8:30 Housing Starts and Building Permits

- **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.

Big Picture

The housing sector has been in a deep recession. Fortunately, there are now some signs that the rate of decline is slowing, and even that some stabilization is occurring. The rate of decline in existing home sales has slowed over the past half year. Sales are not picking up, but a bottoming is preceded by a leveling off. Now, housing starts and permits are starting to level off as well. It may well be that the housing sector stabilizes over the summer months, and picks up in the third quarter. Lower mortgage rates and a stabilizing economy will help. Lower prices on homes will ultimately stimulate demand, but for now may inhibit sales as the urgency to buy is mitigated. The housing sector is a long way from anything that can be called a recovery, but even a general stabilization would help boost GDP numbers by eliminating what has been a major negative on the numbers the past year.

Thursday Nov. 20

10:00 Philadelphia Fed Index

- **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/>

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.