



>: Chris Rowe's Market Wrap Up July 28, 2008

Monday, July 28, 2008 / Chris Rowe

Did you see Chris Rowe's most recent market wrap up?[CLICK HERE TO SEE THE VIDEO!](#)

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!!!"

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

[>](#)

Economic Calendar for the Week of July 28 - August 01

Tuesday, July 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.

Thursday, July 31

08:30AM - 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>

Key Factors

- * The moderate upward revision to a 1.0% annual growth rate from the previously reported 0.9% growth rate

was due to upward revisions in personal consumption expenditures and business investment in software and equipment. Inventories were revised lower.

- * The downward revision to inventories sets up the second quarter contribution from inventories to be larger than previously expected. Inventories were liquidated in both the first and second quarters, and even if they are flat in Q2, will add about 0.8% to the GDP calculation.

- * The revision set GDP trends up for close to a 2% real gain in Q2. Inventories will add about 0.8% to GDP if there is simply no more liquidation, and net exports and real PCE enter Q2 above the first quarter average. Any modest improvement in these components in April-June will boost GDP solidly.

- * Real PCE (personal consumption expenditures) rose at a 1.1% annual rate. This ultimate measure of consumer spending shows that lower home prices and higher gas prices have only dampened consumer spending, not produced declines. Real PCE is tracking for another gain the second quarter.

- * Exports continue to rise sharply and provide a boost to GDP.

- * Housing (residential construction) remains a disaster and will continue sharply lower in Q2. It is now down to just 3.8% of total GDP.

- * Business investment in equipment and software has been surprisingly resilient and should post a small increase in Q2 after a flat number in Q1.

Big Picture

- * The economy refuses to co-operate with the incessant calls for recession. The increase in first quarter real GDP reflected strengths missed by those that were obsessed with the disaster in the housing market and higher gas prices. First, consumer spending continues to rise despite the drags of home prices and gas prices. Second, exports are booming. Third, business investment is proving surprisingly resilient. Fourth, government spending (almost 20% of GDP) keeps right on rising. Altogether, the trends in these series reflect an economy growing at a very slow pace, but not receding. Furthermore, these trends are likely to continue into the second quarter. Real GDP would post another small gain, but will also now get a boost from the fiscal stimulus. Real GDP will be up 1.5% or more in the second quarter, and will post another solid gain in Q3. The recession has been postponed.

08:30AM - 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.

Friday, August 1

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

- * The increase in the unemployment rate to 5.5% for May got a lot of attention, but it is not significant to GDP or other economic variables. It was due to an increase in the labor force and unemployed, not a decline in employment. For the two months of April-May, the level of employed in the household survey actually showed an increase of employed of 77,000, even while the unemployment rate jumped from 5.1% to 5.5%.

- * The decline of 49,000 (0.04%) in nonfarm payrolls continues a trend of small declines in payrolls consistent with GDP growth near 1.5%.

- * Hourly earnings bounced back to a 0.3% gain after a 0.1% increase in April. This will help boost income gains.

- * The average workweek and manufacturing workweek were flat. This is disappointing given the declines in April. A rebound in the manufacturing workweek would have suggested a better gain in industrial production for May.

Big Picture

- * Payroll trends are weak, but not as weak as in true recessions. The average monthly decline in payrolls so

far in 2008 is 65,000. In the 2001 recession, payrolls held up well the first three months, actually increasing by a net 15,000. In April 2001, however, payrolls plunged 281,000. That was followed by declines averaging 115,000 per month the next four months. Payrolls plunged even further after 9/11/2001. The current trend in payrolls equates to about a 0.6% annual rate of decline. Given productivity gains, this correlates with modest real GDP growth rather than declines in real GDP.

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

* The 50.2 June ISM index is very bullish. This index is highly over-rated, but as it is now over 50 it is hard to ignore. A reading of about 49 correlates with 2% real GDP growth, according to the Institute of Supply Management that puts this measure together.

* This reading of 50 not only suggests the manufacturing sector is growing, it correlates to almost 3% real GDP growth. This is a very bullish reading for the overall economy.

* The index has now increased every months since January and is trending steadily higher.

Big Picture

* This is a highly over-rated index. It is merely a survey of purchasing managers. It is a diffusion index,

which means that it reflects the number of people saying conditions are better compared to the number saying conditions are worse. It does not weight for size of the firm, or for the degree of better/worse. It can therefore underestimate conditions if there is a great deal of strength in a few firms. That may well be what is happening at present with exports booming at large firms, but not necessarily across all manufacturing sectors. The current readings on the ISM manufacturing index are providing a more negative view of conditions than the actual industrial production data. The data have thus not been either a good forecasting tool or a good read on current conditions during this business cycle. It must be recognized that the index is not hard data of any kind, but simply a survey that provides broad indications of trends.