



>: Market Wrap Up September 29, 2008

Monday, September 29, 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' in a cursive, slightly slanted script.

Chris Rowe

Chief Investment Officer

[>](#)

Economic Calendar for the week of **September 29 to October 3**

Tuesday, Sept 30

9:45 Chicago PMI

- * 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.

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.

10:00 Consumer Confidence

- * 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, Oct. 1

10:00 ISM Index

- * 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/>.

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 general trend in the ISM index is close to 50. This indicates much greater stability in the manufacturing sector than is widely recognized.

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.

Friday, Oct. 3

8:30 Nonfarm Payrolls/Unemployment Rate

- * 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>.

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 focuses 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.