

>: Who's Gonna Bail YOU Out?

Monday, February 16, 2009 / Dylan Jovine

I'VE BEEN HAVING THIS RECURRING NIGHTMARE LATELY.

I'm channel surfing late at night, and the next thing I know I'm watching an infomercial with Matthew Lesko -- that annoying man who dresses like the Riddler, talks like Urkel, and promises you the secrets to getting lots of government money for free.

But in my dream, Matthew Lesko is replaced by Rep. Barney Frank (D-MA). And instead of skipping around like the pied piper offering ALL OF US "free" government money, he's skipping around like an idiot offering only SOME OF US "free" government money.

The "some of us" who qualify for this "free" money have to have successfully run at least one multi-billion-dollar finance business into the ground or have destroyed the retirement accounts of millions of Americans.

That's why, in my dream, there are a bunch of pigs dressed in Wall Street suits skipping, smoking cigars and singing behind Mr. Frank celebrating the fact that, for them, it's capitalism on the way up and socialism on the way down.

I don't need a Ph.D. to recognize the rules of this game ...

It's kinda like the "Heads I Win, Tails You Lose" rule from my old neighborhood in Queens, New York. The only people who got that privilege when we played cards were people who could beat you up, or your boss.

I don't know about you, but I've never seen any exit named "BAILOUT" during my trip down the Going Broke Expressway.

Now don't get me wrong -- I don't think I should've been bailed out for making dumb business decisions before. The name of the game is called capitalism, and I'm as much of a warm-blooded American capitalist as the next guy. Sometimes we win, sometimes we lose, and sometimes we draw, but every time we play, we respect the rules of the game.

But of course the rules that apply to some of us just don't apply to "the rest of us," now do they?

Some pigs want to eat everything on their plate first, everything on our plate second, and now everything on our grandkids' plates for dessert.

Given who we're dealing with, it probably won't surprise you to learn that the coming release of Sector Hunter has set off a bit of a firestorm of email from existing Sector Hunter beta members, many of whom -- judging by their email addresses -- are these very same cats who work on Wall Street (or what's left of it).

And wouldn't you know it ... the biggest concern was one that we should've anticipated, but frankly didn't think of: they were worried that once we opened Sector Hunter to the general public, it would let the ?cat out of the bag? and stop working as well.

At the risk of inciting a riot (and driving a ton of cancellations) I thought it was worth sharing with you the exact concern we've been hearing, and Teeka's response to it.

It would almost be funny if it wasn't so darned sad in a way.

[Visit here](#) to read Teeka's response to the biggest concern we've been hearing from Sector Hunter members once we announced we were opening it up to the public.



Dylan Jovine
Chief Investment Officer

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Economic Calendar for the Week of February 16 - February 20

Wednesday, February 18

08:30 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.

Highlights

- * December housing starts totaled 550,000 units on a seasonally adjusted basis. That marks a 15.5% decline from an upwardly revised rate of 651,000 units November and is the lowest on record, dating back to 1959. Single-family starts fell 13.5% to an annualized rate of 398,000 units.
- * Building permits also hit a new record low of 549,000 on an annualized basis. Permits were down 10.7% from November.
- * In terms of starts by region, they declined 24.5% in the Midwest, 22.2% in the South, and 2.2% in the West. Starts were actually up 12.7% in the Northeast.

Key Factors

- * Builders are clearly taking a more conservative approach to starts given the lack of available credit, abundant supply of existing homes for sale and the rising rate of foreclosures. The starts and permits numbers

for December are yet more reminders of the depressed state of the housing market and will factor negatively in GDP forecasts.

Big Picture

* The outlook for housing had started to improve in the late summer. Existing and new home sales were stabilizing. Since then, however, the national economic mood has deteriorated (to say the least). Home buying may well go into a deep freeze and housing starts will suffer as a consequence. The outlook for housing now depends a great deal on highly unpredictable political actions and an improvement in the economic national mood. The outlook is certainly not good, but there is still a chance that actions are taken to stabilize the housing industry at current low levels of activity.

09:15 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

- * Industrial production declined 2.0% in December, marking the fourth decline in the last five months. The November number was revised lower to a decline of 1.3% from an originally reported decline of 0.6%.
- * For the fourth quarter as a whole, industrial production decreased 11.5% at an annual rate. Total industrial production declined 7.8% from December 2007.
- * The 2.0% decline in December was led by a 2.3% decline in manufacturing, which actually included a bump from the further recovery of output following the Boeing strike. Mining was down 1.6%, yet that

decline followed two months in which mining registered gains of 7.4% and 2.2%, respectively. Utilities dipped 0.1% after a 2.0% increase in October and a 1.0% increase in November.

* Capacity utilization slipped to 73.6% from 75.2% in November.

Key Factors

* The drop in utilization rates underscores the weakness in end demand and fits with the moderation in pricing pressure that has been seen. There aren't any factory bottlenecks because demand is weak.

Big Picture

* The outlook for industrial production has worsened. Production held up surprisingly well through most of 2008 due in part to strong exports. Exports grew at a 7.0% annual rate in 2005, 9.1% in 2006, 8.4% in 2007, and at an annual average rate of 7.8% through the first three quarters of 2008. A major factor in this boom was a continually weakening dollar. Now, the dollar has strengthened and global economies are in recession. This will undermine export growth and take away a major support for US industrial production. US companies will also be impacted by the darkening US economic outlook. Production is therefore likely to trend lower.

Thursday, February 19

08:30 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

* Total PPI fell 1.9%, which was in-line with expectations, as energy prices fell 9.3%. The year-over-year change in PPI is -0.9, putting 2008 as a year of decline.

* The most surprising aspect of the December PPI release is that the core rate was up 0.2%. Core CPI has been net flat over the September-November three month period, but core PPI has risen 0.7% over the past three months (October-December).

Key Factors

* There is as of yet no deflation in the core data, which may be taken as good news by some. It reflects a surprising ability to raise prices. For example, capital equipment prices were up 0.2% and are up 0.8% over the past three months.

* The declines in total PPI will continue into January, but at a slower pace.

Big Picture

* PPI trends were highly volatile in 2008, mirroring the trends in global oil prices. In early 2009, the core rate will rise modestly if at all, while energy prices could stabilize. That would leave PPI near flat. Falling global commodity prices and weak economic demand will keep inflation in check at the producer level. If global economies remain weak in 2009, as is widely expected, inflation at the producer level will be insignificant. There may even be concerns about global deflation.

10:00 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/>

Friday, February 20

08:30 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

* Total CPI was -0.7% as energy prices were down sharply for the fifth straight month, dropping 8.3% over that period. CPI has not posted an increase since July, falling 3.5% over the past five months. The December drop left the year-over-year increase at CPI at a miniscule 0.1% for 2008.

* The core rate in December CPI was flat (0.0%). It has been net unchanged over the past four months, at 0.1% in September, -0.1% in October, and 0.0% in November and December. There is no inflation at the consumer level.

* There are certainly no signs of price pressures in any of the major CPI components. Food costs were -0.1% in December. (The food price scare of mid-year is long gone). Hotel prices dropped 0.7% in December, continuing a sharp recent decline. Apparel was -0.9%, autos -0.4%, recreation -0.2%, education and communication 0.3%, medical care just 0.3% (up a modest 3.6% over the past year), the large equivalent rent measure of home ownership was 0.1%, and gasoline prices were down 17.2%.

Key Factors

* The outlook is for continued flat core changes, and for energy prices to perhaps drop modestly in the months ahead. CPI is therefore likely to be flat to slightly lower.

Big Picture

* Inflation is back under control. The commodity-produced inflation scare of this summer is long gone. The idea that higher energy prices will necessarily lead to broad inflation pressures is dead. The concern has actually shifted to deflation, with the idea that businesses will have a hard time maintaining profit margins. Lower energy prices and weak demand are leading to some large monthly declines in CPI. CPI will remain in check well into 2009. The year-over-year increase in CPI stood at 4.9% through September, but plunged to 0.1% in December.