



## >: **How Has the Financial Crisis Affected YOU?**

*Monday, January 12, 2009 / Ben Schott*

As investors, we pay attention to numbers like unemployment, housing starts, retail sales and consumer confidence.

But as this financial crisis lengthens and deepens, there are a few other numbers I'd love to see ...

How about average retirement account loss?

Talk about an accurate indicator of how bad things are for the average American family.

Or how about setting up something like TV's Nielson Ratings, but for family spending trends? (Sure, retail sales and consumer spending paint a picture, but it's such a wide view of what's going on that it hardly seems real.)

I'd love to know how much the average middle class couple spent on holiday gifts this year compared to last.

My point, I suppose, is that the market's meltdown has affected people and families in ways that you can't see just by reading the *Journal* or watching CNBC.

So here's my question for you today:

### **How has this financial crisis affected you?**

Have your preconceived notions about our financial system or about investing changed?

Are your retirement plans on track?

Have you and your family cut back on your spending?

If you've lost money, what's your plan for getting it back?

As a *Tycoon Report* reader and perhaps a student of *CRISS* or *ETF Master Trader*, how has your experience throughout this crisis differed from those of your friends and neighbors?

If you'd like to share your answer with us and your fellow readers, you could post a comment below.

But even better, especially if you haven't done so before, I'd like to invite you to [submit an article of your own](#). If we get some good ones, I'll publish them right here in the newsletter.

So, how has this market mess affected you? What do you plan to do about it?

I look forward to hearing your responses, and have a great week!

A handwritten signature in black ink that reads 'Ben Schott'.

Ben Schott  
Chief Investment Officer

[>](#)

## **Economic Calendar for the Week of January 12 - January 16**

**Wednesday, January 14, 2009**

### 08:30 Retail Sales

- \* Importance (A-F): This release merits an A-.
- \* Source: The Census Bureau of the Department of Commerce.
- \* Release Time: 8:30 ET around the 13th of the month (data for one month prior).
- \* Raw Data Available At: <http://www.census.gov/svsd/www/advtable.html>.

The retail sales report is a measure of the total receipts of retail stores. The changes in retail sales are widely followed as the most timely indicator of broad consumer spending patterns. Retail sales are often viewed ex-autos, as auto sales can move sharply from month-to-month. It is also important to keep an eye on the gas and food components, where changes in sales are often a result of price changes rather than shifting consumer demand.

Retail sales can be quite volatile and the advance reports are subject to rather large revisions. Retail sales do not include spending on services, which makes up over half of total consumption. Total personal consumption is not available until the personal income and consumption reports are released, typically two weeks after retail sales.

### Highlights

- \* December retail sales will post a significant decline. There is little doubt that it was a weak overall holiday spending period. The December same-store sales data for retailers on December 8 will help provide a clearer picture of the degree of weakness.
- \* December auto sales managed to increase from the November levels (although year-over-year levels were very weak). This will help moderate the overall decline in non-auto retail sales.

### Big Picture

\* Retail sales have fallen dramatically starting in September. That was when the financial markets fell apart and the news became apocalyptic. Auto sales have also collapsed as the news of potential auto company bankruptcies dominated headlines. Retail sales are likely to remain weak for quite a while given the current trends in employment, and the negative wealth impact for depressed prices for homes and stocks.

**Thursday, January 15, 2009**

### 08:30 PPI: Producer Price Index

- \* 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

\* December PPI will post another large increase due to the continued decline in energy prices for most of the month.

\* The core rate rose only 0.1% in December, due to the lagged impact of weak demand. We expect the core rate to rise at a very modest pace at most in the months ahead. Energy prices have stabilized, so large drops in PPI are not likely to continue into 2009 data. Nevertheless, the outlook is for very limited price pressures, and possibly some deflation in selected areas.

### Big Picture

\* PPI trends have been highly volatile in 2008, mirroring the trends in global oil prices. After a net 4.3% increase in the three month period of May-July, PPI has now fallen 6.3% over the four months of August-November. December will be down sharply as well. 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, January 16, 2009

### 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.

#### 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 for the fall months. CPI will remain in check well into 2009. The year-over-year increase in CPI stood at 4.9% through September, but plunged to 3.7% after the October data, and is headed even lower.

### 09:15 Capacity Utilization

#### 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.

#### Big Picture

\* The outlook for industrial production through the end of 2008 and into 2009 has worsened. Production has held up surprisingly well through 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 entering 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.

### 09:55 University of Michigan Consumer Sentiment Index

#### Release Details

- \* Importance (A-F): This release merits a B-.
- \* Source: The University of Michigan.
- \* Release Time: Preliminary: 10:00 ET on the second Friday of the month (data for current month); Final:

10:00 ET on the fourth Friday of the month (data for current month).

The Michigan index is almost identical to the Conference Board Consumer Confidence index, though there are two monthly releases, a preliminary and final reading. Like the Conference Board index, it has two subindexes - expectations and current conditions. The expectations index is a component of the Conference Board's Leading Indicators index.

Big Picture

\* Sentiment readings are a reflection of a variety of events rather than an accurate tool for forecasting consumer spending. Gas prices and political events can have an outsized impact on sentiment. In general, these data are of very little economic value. Sentiment has been low all year despite rising consumer spending. This broken clock will now happen to reflect the correct time. The consumer will be pulling back.