Monthly Economic Update

December 2018

THE MONTH IN BRIEF

For most of November, the stock market was plagued by the same skepticism evident in October: the sense that corporate profits were declining and economic growth was slowing. Then Federal Reserve chairman Jerome Powell threw investors a line: he delivered a speech late in the month that soothed some of the considerable anxiety in the equity markets. Helped by Powell's comments, the S&P 500 gained 1.79% on the month. While analysts sensed the bull market was in its late phase, consumers remained confident, enthusiastic participants in an apparently thriving economy. In a surprise, home sales picked up. Oil fell. The United Kingdom scheduled a critical parliamentary vote on the Brexit; China and the U.S. returned to the negotiating table regarding tariffs.[1]

DOMESTIC ECONOMIC HEALTH

Speaking to the Economic Club of New York on November 28, Federal Reserve chair Jerome Powell delivered a rather dovish message: if interest rates were not quite where they should be, given the robust economy, they were at least close. In his view, rates were "just below the broad range of estimates of the level that would be neutral for the economy – that is, neither speeding up nor slowing down growth." This was what Wall Street wanted to hear. The Dow Industrials rocketed north 618 points on the day. Just a month earlier, Powell had sounded distinctly hawkish, commenting that rates were a "long way from neutral."[2,3]

A trio of reports affirmed that the economy was indeed in good condition. Even after nine years of recovery from the Great Recession, the pace of hiring was still noteworthy: the Department of Labor's October jobs report said that 250,000 net new jobs were created in the tenth month of the year. Annualized wage growth was at 3.1%, the best in ten years; headline unemployment was at 3.7%, and U-6 unemployment (unemployed and the marginally employed), at 7.4%. According to a Census Bureau report, the pace of retail sales improved 0.8% in October, quite a change from the 0.1% retreat a month before. Finally, as the month ended, the Department of Commerce announced a 0.6% rise in personal spending in October along with a 0.5% improvement for personal incomes.[4,5]

Burgeoning economies go hand in hand with inflation, and the annualized gain in the Consumer Price Index did grow in October to 2.5% from the previous 2.3%. The yearly advance for the core CPI ticked down 0.1% to 2.1%, however. The federal government affirmed third-quarter growth at 3.5% in its third GDP estimate.[5]

Consumer confidence indices retreated slightly from recent lofty heights. The University of Michigan's monthly barometer ended the month at 97.5, down from 98.3; the Conference Board's index declined to 135.7 from the prior 137.9.[5]

Now to the factory front. The latest monthly reports from the Institute for Supply Management showed its manufacturing purchasing manager index at 57.7, below the 59.8 level it was at in September. ISM's service sector PMI dipped 1.3 points last month to 60.3. While these were descents, both readings were quite strong. Hard goods orders declined 4.4% last month, but that mostly had to do with aircraft orders in the defense industry; minus defense and plane orders, they were simply flat for October.[5,6]

Industrial output rose 0.1% in October, while manufacturing production advanced 0.3%. The Producer Price Index rose 0.6% in October; a 7.6% jump for wholesale gas prices was instrumental in the gain. The October PPI increase left yearly wholesale inflation at 2.9%.[5,7]

GLOBAL ECONOMIC HEALTH

Last month, lawmakers in the United Kingdom scheduled a parliamentary vote on a draft of the Brexit deal for December 11. If Parliament supports the plan created by Prime Minister Theresa May's government, the next step would be a vote on a withdrawal agreement from the European Union, pursuant to a European Parliament vote and approval from the E.U. Council. If May's deal is defeated in London, then the U.K. government will have 21 days to make a choice: it could authorize a renegotiation of the Brexit with the E.U., break off ties with the E.U. without any deal, schedule another U.K. referendum on the Brexit, or call for a general election. May's deal received formal approval from E.U. leaders in late November.[8]

On November 30, President Donald Trump, Canadian Prime Minister Justin Trudeau, and Mexican President Enrique Peña Nieto formally signed the United States-Mexico-Canada Agreement

(USMCA), the trade pact designed to replace the North American Free Trade Agreement (NAFTA). The accord must still be approved by the legislature of each member nation, and approval may not be easy on Capitol Hill. In the east, the major news item was the evident deceleration in Chinese factory output. China's official manufacturing PMI dipped to 50.0 in November, meaning no month-over-month expansion for the sector. (Anything below 50 means contraction.) Some analysts see China's GDP declining to the vicinity of 6.0% in 2019, which would be its poorest GDP in three decades. Its government may need to resort to an economic stimulus if things weaken further.[9,10]

WORLD MARKETS

Many foreign stock markets saw November gains. Among the biggest: the Hang Seng in Hong Kong, 7.81%; the Merval in Argentina, 6.99%; the Nifty 50 and Sensex in India, at a respective 6.65% and 6.80%. Japan's Nikkei 225 rose 4.17%, South Korea's Kospi added 4.08%, MSCI's Emerging Markets index improved 4.06%, and Russia's Micex advanced 4.02%. In Spain, the IBEX gained 3.08%; in Brazil, the Bovespa added 3.01%. There were also gains of 2.04% for Canada's TSX Composite, 1.26% for Taiwan's TSE 50, 0.96% for the MSCI World index, 0.82% for the FTSE Eurofirst 300, and 0.78% for the Shanghai Composite.[11,12]

Some indices suffered November setbacks. Germany's DAX lost 0.27%, the United Kingdom's FTSE 100, 0.79%. Australia's All Ordinaries fell 2.35%, while Mexico's Bolsa retreated 4.15%.[11]

COMMODITIES MARKETS

A barrel of oil was worth only $50.42 on the NYMEX at the close on November 30. WTI crude dropped 21.80% for the month. Heating oil sank 19.00%, and unleaded gasoline plummeted 20.22%. Natural gas? Quite the opposite. With winter quickly appearing, the value of that commodity jumped 41.29%.[13]

In crops, soybeans rose 6.74%, and coffee fell 7.88%. In between those extremes, wheat gained 2.84%; cotton, 2.37%; corn, 0.76%. Sugar retreated 2.43%, and cocoa, 3.73%. Copper advanced 4.38% in November; gold also improved, gaining 0.70% to close out the month at a COMEX value of $1,222.10 an ounce. Silver and platinum lost ground last month: silver was off 1.94%; platinum, 4.57%. As November concluded, silver was worth $14.14 an ounce.

The U.S. Dollar Index ended November at 96.79 after a one-month loss of 0.35%.[13,14]

REAL ESTATE

In mid-November, the National Association of Realtors reported a 1.4% October gain for existing home sales. On November 29, however, it said that its pending home sales index had weakened by 2.6% in the tenth month of the year, so the autumn improvement in the pace of residential resales may prove fleeting.[5]

October also brought less new home buying: sales fell 8.9%. (It must be noted that these initial numbers tend to be revised later.) The Census Bureau also announced a 0.6% decline for building permits in October, but housing starts did pick up 1.5%.[5]

In terms of mortgages, only adjustable-rate loans grew significantly more expensive in November. The average rate on a 5/1-year ARM was 4.04% on November 1, according to Freddie Mac, but 4.12% on November 29. Mean interest on the 30-year, fixed-rate mortgage went from 4.83% to 4.81% in that period; the average interest rate for the 15-year FRM went from 4.23% to 4.25%.[15]

Annual home price gains were clearly lessening: the latest 20-city S&P CoreLogic Case-Shiller home price index showed only 5.1% appreciation in the 12 months ending in September.[5]

LOOKING BACK, LOOKING FORWARD

Closing at 7,330.54 on November 30, the Nasdaq Composite eked out a monthly gain of 0.34%. The S&P 500's 1.79% November rise left it at 2,760.17 at the end of the month, while the small-cap Russell 2000 ascended 1.45% to 1,533.27. (The Russell ended November down 0.15% YTD, lagging well behind the performance of the big three.) The Dow Jones Industrial Average advanced 1.68% to 25,538.46.[1,17]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	3.31	5.22	11.75	21.34
NASDAQ	6.19	6.64	16.11	42.43
S&P 500	3.24	4.25	10.57	23.82

REAL YIELD (%)	11/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	1.04	0.56	0.60	2.38

Sources: wsj.com, bigcharts.com, treasury.gov - 11/30/18[18,19,20,21]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

While words from Jerome Powell gladdened investors last month, Wall Street expects another interest rate move from the Fed this month. On November 30, the CME Group's FedWatch tool put the chances of a December 19 rate hike at 82.7%. The market has probably priced in a hike, but the Street may not be in the mood for a Santa Claus rally, given the seemingly entrenched perception that the business cycle has seen its peak and the glory days of this bull market have faded. This month, investors will carefully examine the latest jobs report and Fed policy statement, react to the new agreement between the U.S. and China to suspend further trade tariffs, and watch what happens with the Brexit parliamentary vote and the OPEC-Russia meeting early in the month. Hopefully, a turbulent year for equities will end on a positive note.[22,23]

UPCOMING RELEASES

Here is the docket for the rest of the year: the latest Department of Labor employment report and the initial December University of Michigan consumer sentiment index (12/7), the November wholesale inflation report (12/11), November consumer inflation (12/12), November retail sales and industrial production (12/14), November housing starts and building permits (12/18), an interest rate decision at the Federal Reserve and a fresh existing home sales snapshot from the National Association of Realtors (12/19), the Conference Board's newest leading indicator index (12/20), November personal spending and hard goods orders, the latest PCE price index, and the final assessment of Q3 growth (12/21), November new home sales and the Conference Board's December consumer confidence gauge (12/27), and November pending home sales and the year's final University of Michigan consumer sentiment index reading (12/28).

2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The MERVAL Index (MERcado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. The Nifty 50 (NTFE 50) is a well-diversified 50-stock index accounting for 13 sectors of the Indian economy. It is used for a variety of purposes such as benchmarking fund portfolios, index-based derivatives and index funds. The BSE SENSEX (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The MICEX 10 Index is an unweighted price index that tracks the ten most liquid Russian stocks listed on MICEX-RTS in Moscow. The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The FTSE TWSE Taiwan 50 Index consists of the largest 50 companies by full market value and is also the first narrow-based index published in Taiwan. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The FTSEurofirst 300 Index comprises the 300 largest companies ranked by market capitalisation in the FTSE Developed Europe Index. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The DAX 30 is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The All Ordinaries (XAO) is considered a total market barometer for the Australian stock market and contains the 500 largest ASX-listed companies by way of market capitalization. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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