Ron Richards Presents:

MONTHLY ECONOMIC UPDATE

December 2015

MONTHLY QUOTE

"The more I want to get something done, the less I call it work."

– Richard Bach

MONTHLY TIP

There are four instances when using a credit card may be preferable to using a debit card. One, when you buy something online. Two, when you are in a rewards program. Three, when you pay for lodging or fuel. Four, when any point of purchase appears sketchy.

MONTHLY RIDDLE

Which side of an ocelot has the most fur?

Last month's riddle:
I occasionally run, but I never walk. Everywhere I go, thoughts are close behind me. What am I?

Last month's answer:
A nose.

THE MONTH IN BRIEF

While the Russell 2000 and Nasdaq Composite advanced significantly in November, the S&P 500 did not – the broad U.S. benchmark rose a mere 0.05%. Terrorists took hundreds of lives in France, Lebanon, Nigeria, Mali and Tunisia during the month, and the fear in the wake of those attacks was felt in the investment markets. Federal Reserve policy minutes contained strong hints that the central bank could raise interest rates in December, a signal investors accepted without disillusionment. Oil, gold and many other major commodities retreated. Key consumer confidence, consumer spending and manufacturing indicators disappointed, but reports on the job market and real estate market offered better news.[1]

DOMESTIC ECONOMIC HEALTH

The Federal Open Market Committee's October policy minutes, released on November 18, noted that "most" FOMC members believed that conditions for a rate hike "could well be met" by December. Another passage noted that "it may well become appropriate to initiate the normalization process" at that time. Tightening could be very gradual, the minutes elaborated, as Federal Reserve officials felt that "economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run."[2]

If the Fed does raise rates in December, the upward move would come at a time of decidedly mixed economic signals. Hiring was solid in October – the economy added 271,000 new jobs, far more than the 182,000 economists surveyed by Bloomberg projected. Annualized wage growth reached 2.5%, the best since 2009. The headline jobless rate was at 5.0%, and the U-6 rate (underemployed + unemployed) sank to 9.8%. Manufacturing, on the other hand, was flagging: the Institute for Supply Management's factory PMI fell to 48.6 in November, a recessionary reading that was the lowest seen since June 2009.[3,4]

Consumer confidence dipped as well in November. The Conference Board's respected index dropped nearly nine points to a mark of 90.4, its weakest showing since September 2014. One key reason? Consumers polled thought there would be fewer jobs available by spring 2016. The University of Michigan's household sentiment index finished November at 91.3; its preliminary reading had been 93.1.[5]

Consumer spending and retail sales had each improved just 0.1% in October. Black Friday weekend may or may not have been great this year, with ShopperTrak reporting a drop of about 11% for brick-and-mortar store sales and Adobe measuring an 18% year-over-year leap in online Thanksgiving and Black Friday sales to a record level.[6,7]

The Bureau of Economic Analysis revised Q3 GDP up to 2.1% from its first estimate of 1.5%, yet the prime reason for that increase was underestimation of inventories. Hard goods orders rose 3.0% in October, buoyed by a 200% rise in airplane orders. The gain was 0.5% with the transportation sector factored out.[5]

Consumer inflation was evident in October – the core Consumer Price Index rose 0.2% for a second straight month. The core CPI had not posted such notable monthly advances since April and May. The headline CPI rose 0.2% as well, its first gain since

July. That still meant it had advanced only 0.2% in a year. Core CPI was up 1.9% in the 12 months ending in October.[8]

GLOBAL ECONOMIC HEALTH

Did the world's biggest economy cool off further in November? By the looks of the official China factory PMI, the answer seemed to be yes. It settled in contraction territory for a third straight month at 49.6, the lowest mark since August 2012. The private-sector Caixin manufacturing PMI stayed below 50 for a ninth consecutive month, though it rose 0.3 points to a mark of 48.6. While China has set a 7.0% GDP target for 2015 (its lowest growth target since 1990), its economy officially expanded 6.9% in Q3. An economic transition is occurring in the country: the service sector accounted for 51.4% of its economy in Q1-Q3, as opposed to 49.1% during Q1-Q3 2014. Markit manufacturing PMIs in other Asia Pacific nations were mostly in the 40s last month – 49.1 in South Korea, 49.5 in Taiwan, 47.0 in Malaysia, 46.9 in Indonesia, 49.4 in Vietnam. India was a notable exception at 50.3%.[9,10]

Many analysts assumed the European Central Bank would make a rate cut as December started, or at least institute additional stimulus measures to try and boost the euro area economy, which was projected to grow but 0.4% in Q4. The eurozone unemployment rate ticked down to a 3-year low of 10.7% in October; Germany's jobless rate was just 4.5%. The Markit euro area manufacturing PMI reached 52.8 in November for its best reading since April 2014. Markit factory PMIs were at 52.9 in Germany, 50.6 in France, 54.9 in Italy and 53.0 in Spain.[11]

WORLD MARKETS

Asia Pacific indices were mixed in November. The month saw losses of 1.92% for the Sensex, 2.84% for the Hang Seng, 4.24% for the Asia Dow, 1.85% for the Kospi, 1.39% for the S&P/ASX 200, and 5.36% for the KSE 100 ... but the Nikkei 225 rose 3.48% and the Shanghai Composite 1.86%. In the Americas, the Dow Jones Americas index was basically flat (-0.08%) while the S&P/TSX Composite fell 0.44%, the Bovespa 1.63%, and the IPC All-Share 2.52%. The MSCI World index retreated 0.67% in November; its sibling, the MSCI Emerging Markets index, had a much deeper loss of 3.96%. November also saw the Global Dow decline 1.96%.[1,12]

While the Europe Dow slipped 2.86% last month, other European indices performed better. The DAX advanced 4.90%, in fact, and Ireland's ISEQ rose 6.38%. Other gains and losses from around the continent: IBEX 35, +0.25%; CAC 40, +1.22%; STOXX 600, +2.65%; RTS, +0.18%; FTSE MIB, +1.23%; FTSE 100, -0.08%.[1]

COMMODITIES MARKETS

In November, the U.S. Dollar Index advanced 3.37%. Dollar strength and slow growth in emerging markets held many futures in check. WTI crude lost 10.09% last month, winding up November at $41.71 on the NYMEX. Unleaded gasoline descended 5.92%, natural gas 3.82%, and heating oil 8.88%. Select ag futures did see values rise: sugar improved 2.61%, cotton 0.39% and cocoa 1.60%. Corn futures lost 5.89%, coffee futures 2.82%, soybean futures 1.02%; wheat slipped 10.90% for the month.[13,14]

Gold lost 6.73% in November to conclude the month at $1,065.00 on the COMEX. Silver went south as well, ending November at $14.14 due to a 9.59% drop. Platinum and copper stumbled last month: the former fell 15.97%, the latter 11.57%.[14]

REAL ESTATE

Fall brought a surge in new home sales. They improved 10.7% in October, recovering from a surprise September dip. The Census Bureau also reported that the pace of new home buying was up 15.7% YTD. Existing home sales, on the other hand, fell 3.4% in October, though the National Association of Realtors did note an 0.2% gain for its pending home sales index in the tenth month of the year after August and September declines.[15,16]

September saw a gain for the S&P/Case-Shiller 20-city home price index, which was up 5.5% in a year (compared to 5.1% in the August edition). NAR said the median existing home sale price was $219,900 in October, representing an 0.9% monthly decline.[5,17]

Housing starts and building permits went in opposite directions in October. While permits increased 4.1%, starts fell 11.0% to a low unseen since March. Even with that descent, the annual pace of housing starts stayed above the 1 million mark for a seventh consecutive month. That had not happened since 2007.[18]

The prospect of a higher federal funds rate sent mortgage rates upward last month. In the October 29 Freddie Mac Primary Mortgage Market Survey, the interest rate averages were as follows: 30-year FRM, 3.76%; 15-year FRM, 2.98%; 5/1-year ARM, 2.89%; 1-year ARM, 2.54%. In the November 25 edition of the survey, the numbers were notably different: 30-year FRM, 3.95%; 15-year FRM, 3.18%; 5/1-year ARM, 3.01%; 1-year ARM, 2.59%.[19]

LOOKING BACK…LOOKING FORWARD

Rather quietly, the Russell 2000 gained 3.12% last month. The small-cap benchmark ended November at 1,198.11, improving to -0.55% YTD. The CBOE VIX ended November at 16.13, rising 7.03% for the month yet still ending up -15.99% YTD. As for the three major U.S. stock indices, the Nasdaq led the way in November with a 1.09% gain to 5,108.67. The Dow rose 0.32% to end November at a close of 17,719.92; the S&P 500 settled at 2,080.41 after its 0.05% advance. Topping all U.S. indices in November, the NYSE Arca Biotechnology index rose 7.69%.[1]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-0.58	-0.32	+12.20	+6.40
NASDAQ	+7.87	+8.07	+20.90	+12.88
S&P 500	+1.04	+1.31	+15.24	+6.65
REAL YIELD	11/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.62%	0.43%	0.74%	2.12%

Sources: wsj.com, bigcharts.com, treasury.gov – 11/30/15[1,20,21]
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.

This month, investors have their eyes on two major news items – the November jobs report arriving December 4 from the Labor Department, and the Fed rate decision (and subsequent press conference) occurring on December 16. Many analysts think the Fed will make an upward move even if hiring totals fall short of expectations (and even with other key economic indicators flagging); annualized wage growth could influence the FOMC decision more than payroll growth. Investors are also looking overseas, wondering whether OPEC nations will vote to cut oil production this month and whether the ECB will cut its benchmark interest rate or expand its stimulus effort this week. December is often a hot month for stocks, and if OPEC and the ECB make the decisive moves referenced above, a notable rally in oil or stocks could commence. Strong hiring and any kind of pickup in consumer spending, retail sales and consumer confidence would be welcomed and likely add momentum. So investors cannot discount the possibility of a Santa Claus rally just yet, even with the possibility of tightening on the horizon. So a subpar year for U.S. equities may end encouragingly, and perhaps lead into a better 2016.[22]

A correction: in last month's Update, it was noted that monthly Medicare Part B premiums would rise 15% in 2016 for all Medicare recipients. They will actually increase 16% for about 30% of Medicare recipients (to $121.80). The majority of Medicare beneficiaries will continue to pay monthly Part B premiums of $104.90 in 2016. The 5% of beneficiaries paying high-income surcharges will see those surcharges rise 16% next year, in addition to a 16% base premium increase.[23]

UPCOMING ECONOMIC RELEASES: The list of key December news items includes the federal government's November employment report (12/4), October wholesale inventories (12/9), the preliminary December University of Michigan household sentiment index, the November PPI, November retail sales and October business inventories (12/11), the November CPI (12/15), November housing starts, building permits and industrial output and the Federal Reserve's much-awaited interest rate decision (12/16), the November Conference Board index of leading indicators (12/17), November existing home sales and the last estimate of Q3 GDP (12/22), the University of Michigan's final December household sentiment index and November durable goods orders, consumer spending and new home sales (12/23), the October S&P/Case-Shiller home price index and the Conference Board's December consumer confidence index (12/29), and finally NAR's November pending home sales index (12/30).

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