

MONTHLY ECONOMIC UPDATE

February 2016

MONTHLY QUOTE

“There is no stigma attached to recognizing a bad decision in time to install a better one.”

– Laurence J. Peter

MONTHLY TIP

Remind your college student that their ability or inability to manage credit while in school could affect them for years after they leave campus.

MONTHLY RIDDLE

They can hurt without moving, poison without touching, bear truth and lies. What are they?

Last month's riddle:

It can make food for the whole world, but it does not eat and will never spend time on this planet. What is it?

Last month's answer:

The sun.

THE MONTH IN BRIEF

The opening month of 2016 definitely tested the patience of stock and commodity investors. The Dow Jones Industrial Average fell, losing 5.50% on the month. Overseas stock benchmarks also recorded big losses. Key indicators showed our manufacturing sector contracting again; our service sector remained in better shape, and that could also be said for consumer confidence and household incomes. The Bank of Japan made an interest rate decision that raised eyebrows worldwide; OPEC made no mention of trying to reduce the global oil glut. Wall Street hung on and hoped for a calmer market climate while witnessing an earnings season that was playing out much as expected.¹

DOMESTIC ECONOMIC HEALTH

Early January brought another solid jobs report from the Labor Department. Employers had added 292,000 new hires in December, with the largest sector gain (73,000) in business and professional services. The headline jobless rate stayed at 5.0% and the U-6 rate measuring underemployment stayed at 9.9%. October job gains were revised upward to 307,000, November job gains to 252,000. Wages grew an unspectacular 2.5% during 2015.²

Speaking of wage gains, the December personal spending report showed personal incomes rising 0.3% – but that money was apparently being pocketed rather than spent. Personal spending was flat in the last month of 2015, in contrast to the (revised) 0.5% gain recorded in November. December retail purchases, as also measured by the Commerce Department, slipped 0.1%; the National Retail Federation announced that sales had increased 3.0% across November and December, below the 4.1% rise seen during those months in 2014.^{3,4}

Even as stocks fell, consumers remained reasonably upbeat. January brought a gain of 1.8 points for the Conference Board consumer confidence index, which rose to 98.1. Consumer sentiment, as measured by the University of Michigan's index, wavered – that index posted a month-over-month loss of 0.6 points from its final December mark, ending January at 92.0.^{5,6}

December had seen consumer prices retreat 0.1% after a flat November. That meant just a 0.7% yearly advance for the Consumer Price Index in 2015. Core inflation rose 0.1% in December, taking the annual gain to 2.1%.⁷

Turning to industry, we see disappointing numbers when looking at several key indicators. The Institute for Supply Management's manufacturing PMI ticked up 0.2 points in January to 48.2, still below the expansion mark of 50.0. As November factory orders had been off 0.2% and December industrial production down 0.4%, a huge gain for the ISM index was not to be seen. U.S. industrial production declined 1.8% in 2015, though U.S. manufacturing output rose 0.8%.^{3,7}

Orders for capital goods were off 5.1% in December, 1.2% minus transportation orders. As for wholesale inflation, the headline Producer Price Index fell 0.2% in December, resulting in a 1.0% dip for 2015. The core PPI rose 0.1% in December, but it advanced just 0.3% last year. After statistics like these, it is little wonder that the Bureau of Economic Analysis initially calculated Q4 GDP of just 0.7%, well below the 2.0% growth of Q3.^{5,7}

One bright spot in all this was the ISM non-manufacturing PMI, which did decline for December but remained well into expansion territory. Its December mark of 55.3 was close to its November reading of 55.9.⁸

GLOBAL ECONOMIC HEALTH

While the Federal Reserve surprised no one by leaving the federal funds rate unchanged in January, the Bank of Japan surprised the world by doing something it had never done before. It followed the lead of the European Central Bank and cut a benchmark interest rate below zero. With its 3-year asset-buying campaign having produced only 0.1% annualized inflation, Japan opted for a new weapon in its long battle against deflation. The announcement set off a global stock rally on January 29. Like the Federal Reserve, the BofJ has a 2% yearly inflation target.⁹

Manufacturing was still ailing in many countries, but things appeared to be picking up a bit, at least by the latest key manufacturing PMI readings. While China's official factory PMI was below 50 in January (49.4), Japan's was at 52.3; the U.K.'s Markit PMI improved to 52.9, Canada's to 49.3, and Brazil's to 47.4. The JPMorgan Global Manufacturing PMI ticked up to 50.9.¹⁰

The International Monetary Fund cut its 2016 forecast for global growth last month. It projects world GDP at 3.4%, down from the previous outlook of 3.6%. The IMF sees growth of 2.6% for the U.S. in both 2016 and 2017.¹¹

WORLD MARKETS

Many world benchmarks retreated 4% or more in January. Among them were France's CAC 40 (4.75%), the pan-Europe STOXX 600 (6.44%), the Europe Dow (7.12%), Germany's DAX (8.80%), the Asia Dow (7.75%), India's Sensex (4.77%), Japan's Nikkei 225 (7.96%), the MSCI World (6.05%) and Emerging Markets (6.52%) indices, the Global Dow (6.80%), Brazil's Bovespa (6.79%), the Dow Jones Americas (5.44%), and Spain's IBEX 35 (7.63%).^{1,12}

Even heavier losses plagued some stock markets. China's Shanghai Composite plummeted 22.65% for the month, Hong Kong's Hang Seng 10.18%, and Italy's FTSE MIB 12.89%.¹

There were also more mild losses last month – and even a few gains. The U.K.'s FTSE 100 fell 2.54%, Russia's RTS 1.55%, and Canada's TSX Composite 1.44%. Indonesia's Jakarta Composite rose 0.48% in January and Mexico's IPC All-Share advanced 1.52%. The global winner last month was Turkey's BIST 100, up 2.45%.¹

COMMODITIES MARKETS

Gasoline futures actually fell further than oil in January. Unleaded gas took an 11.40% plunge on the NYMEX for the month, exceeding even oil's 8.98% descent. For the record, WTI crude ended January at a price of \$33.26. Natural gas and heating oil suffered relatively minor January slumps, the former losing 1.91%, the latter 2.28%.¹³

The middle of winter brought gains for some crops and losses for others, especially the warm-weather variety. Coffee fell 6.01%, cocoa 13.89%, cotton 2.35%, and sugar 14.68%. On the other hand, wheat futures advanced 1.38%, soybean futures 1.12%, and corn futures 3.77%.¹³

Gold and silver respectively ended the month at \$1,120.00 and \$14.28, and both metals posted January gains. Gold advanced 5.56%, silver 2.88%. The U.S. Dollar Index followed suit, gaining 0.79%. Platinum gave back 2.79% while copper sank 3.11%.^{13,14}

REAL ESTATE

As delayed November closings leaked into December numbers, new and existing home sales figures saw improvement. The National Association of Realtors reported a 14.7% leap in resales for the last month of 2015, and that gain made 2015 the finest year for existing home sales since 2006. New home buying was up 10.8% for December, taking the 2015 gain to 14.5%.^{15,16}

Those who wanted to buy or refinance a home in January found mortgage rates

more to their liking. On the last day of 2015, Freddie Mac's Primary Mortgage Survey found average home loan interest rates as follows: 30-year FRM, 4.01%; 15-year FRM, 3.24%; 5/1-year ARM, 3.08%. By the January 28 survey, interest on the 30-year fixed was averaging just 3.79%, and average interest rates for the 15-year FRM and 5/1-year ARM were respectively at 3.07% and 2.90%.^{17,18}

Rounding up other important real estate statistics, pending home sales ticked up 0.1% in December, better than the 1.1% setback NAR announced for November. The 20-city national S&P/Case-Shiller home price index showed 5.8% annualized price appreciation through November in its latest edition. Housing starts were down 2.5% for December, building permits 3.9%.^{5,7}

LOOKING BACK...LOOKING FORWARD

Just two U.S. equity indices had a positive January. The Dow Jones Utility Average rose an impressive 5.80%, and the PHLX Gold/Silver index advanced 1.47%. A different kind of benchmark did much better than that: the CBOE VIX. The "fear index" gained 10.93% in January to end the month at 20.20. Paralleling the Dow's five-and-a-half percent fall, the two other major U.S. stock indices posted big monthly retreats, as evidenced by the Y-T-D column below. The Russell 2000 lost 8.85% in January, falling to a settlement of 1,035.38 as trading ended for the month on January 29. The Dow closed at 16,466.30 that day, the S&P at 1,940.24, and the Nasdaq at 4,613.95.¹

% CHANGE	Y-T-D	2015	5-YR AVG	10-YR AVG
DJIA	-5.50	-2.23	+7.85	+5.11
NASDAQ	-7.86	+5.73	+14.34	+10.00
S&P 500	-5.07	-0.73	+10.40	+5.10
REAL YIELD	1/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.53%	0.55%	1.09%	2.03%

Sources: wsj.com, bigcharts.com, treasury.gov - 1/29/15^{1,19,20,21,22}
 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.

Most investors know about the supposed "January effect..." as goes January, so goes the year. That supposition was proven wrong as recently as 2014, when the S&P 500 fell 3.6% in January but ended the year ahead 11.4%. A down January does not even mean a down February: the S&P gained 2.9% in February 2010, 4.3% in February 2014, and 5.5% in February 2015 in the wake of January losses greater than 3% in each year. So February may bring some calm, and some positive change. Even as OPEC nations wish to preserve their market share, some kind of oil production cutback seems inevitable in the next month or two, especially with more oil from Iran entering the market. Also, the Bank of Japan's adoption of a negative interest rate policy may have given the Federal Reserve some pause. Any dovish hint in the next round of Fed minutes (or in the March Fed policy statement) would be welcome after the trial for investors that was January. One bad month does not always foretell a whole year, and the rest of the quarter (and year) may surprise us.²³

UPCOMING ECONOMIC RELEASES: Investors will wait for, watch for and react to many of these stateside indicators in February: ISM's January service sector PMI and the January ADP employment change report (2/3), the January Challenger job-cut report and December factory orders (2/4), the Labor Department's January jobs report (2/5), December wholesale inventories (2/9), January retail sales and business inventories and February's preliminary University of Michigan household sentiment index (2/10), January's PPI, January industrial output, housing starts and building permits and the minutes from December's Federal Reserve policy meeting (2/17), January's Conference Board leading indicators index (2/18), the January CPI (2/19), January existing home sales, February's Conference Board consumer confidence index and the December S&P/Case-Shiller home price index (2/23), January new home sales (2/24), January capital goods orders (2/25), the second

estimate of Q4 GDP from the Bureau of Economic Analysis, the January personal spending report and the final University of Michigan household sentiment index for the month (2/26), and January pending home sales (2/29).

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The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. The Russell 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. 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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 MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The Global Dow is a 150-stock index of corporations from around the world created by Dow Jones & Company. 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 Dow Jones Americas Index measures the Latin American equity markets by tracking 30 leading blue-chip companies in the region. The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Hang Seng Index is a freefloat-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The FTSE MIB (Milano Italia Borsa) is the benchmark stock market index for the Borsa Italiana, the Italian national 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 RTS Index (abbreviated: RTSI, Russian: Индекс РТС) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow 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 IDX Composite or Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange (IDX). The Mexican IPC index (Indice de Precios y Cotizaciones) is a major stock market index which tracks the performance of leading companies listed on the Mexican Stock Exchange. The Borsa Istanbul (BIST) 100 Index is a capitalization-weighted index composed of National Market companies except investment trusts in Turkey. 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. 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