



Timothy C. Hucks, CEP, RIAR & President, Rising Tide, Inc., presents:

# MONTHLY ECONOMIC UPDATE

December 2011

## MONTHLY QUOTE

**“If you command wisely, you’ll be obeyed cheerfully.”**  
– *Thomas Fuller*

## MONTHLY TIP

**If you are in line for a bonus (or you are considering taking one from your own business), weigh the tax implications of receiving it in December versus January.**

## MONTHLY RIDDLE

**I am the center of gravity, and part of every victory. I am clearly seen in the middle of a river. Three are in love with me and I have three associates in vice. What am I?**

## Last month’s riddle:

I went into the woods and got it. I sat down to seek it. I brought it home with me because I couldn’t find it. What is it?

## Last month’s answer:

A splinter.

## THE MONTH IN BRIEF

An astonishing rally during the last three days of November did much to improve what had been an anxious month for investors. The Dow ended up gaining 0.76% in November after jumping 4.24% on November 30 alone, responding largely to coordinated action by the world’s central banks to improve liquidity in the European Union. We got hints that the real estate market might be finding a legitimate bottom, some fine numbers from Black Friday and Cyber Monday, and pleasant surprises from some other key economic indicators. Our stock market struggled to pull off gains in the face of debt worries, both in Europe and at home.<sup>1</sup>

## DOMESTIC ECONOMIC HEALTH

November 2011 might be remembered most for a political and economic lowlight. On November 21, the Congressional “super committee” of 12 assigned to come up with a plan to reduce the federal deficit simply quit. This paved the way for involuntary cuts of \$1.2 trillion in 2013. That prompted a stock market plunge and a Fitch Ratings decision, with the agency changing its U.S. outlook to “negative”.<sup>2,3</sup>

In better news, consumers spent \$52.4 billion during the four-day Thanksgiving Day weekend. The National Retail Federation said average shopper shelled out \$398.62 in those four days, a new record. Cyber Monday sales rose 22% over 2010 levels to \$1.25 billion. The Commerce Department noted that personal spending rose only 0.1% in October; however, personal wages did increase by 0.4%. The federal government’s Consumer Price Index also budged north by 0.1% in October with annualized inflation coming in at 3.5%.<sup>4,5,6</sup>

There was a rebound in consumer confidence. November’s Conference Board poll saw a 15-point spike to 56.0. The month’s final University of Michigan index of consumer sentiment came in at 64.1, much better than the final 55.7 for October; it was the third straight monthly gain for the index.<sup>4,7</sup>

Now, over to industry. The Institute for Supply Management’s November manufacturing PMI bucked a global trend and advanced 1.9% to 52.7, marking the sector’s 28th straight month of expansion. ISM’s most recent service sector PMI (October) came in at 52.9, down from 53.0 the preceding month. Producer prices fell 0.3% in October and total durable goods orders slipped 0.7% in September (they went +0.7% when transportation orders were factored out).<sup>8,9,10,11</sup>

The jobless rate stunningly dropped to 8.6% in November; it had been 9.0% in October and 9.1% in September. Some of this reduction in unemployment was attributable to people dropping out of the job hunt, but the private sector did add 140,000 positions last month. The underemployment rate fell 0.6% to 15.6%.<sup>12</sup>

## GLOBAL ECONOMIC HEALTH

Political change did not stop key Italian bond yields from approaching 7% during November. On November 23, 35% of the 10-year notes offered at Germany’s federal bond auction went unsold. After these alarming developments, the Federal Reserve and other key central banks united on November 30 to foster cheaper dollar loans for European lenders, a move that global markets cheered in relief.<sup>1,13,14,15</sup>

Economically, the world is sometimes a small village. Was the trouble in Europe now indirectly affecting China? Its PMI fell to 48 in October from 51, the largest monthly slip since March 2009; below 50 is the contraction zone. Output also contracted in Taiwan and South Korea in October. Key PMIs for the Eurozone and Great Britain also fell below 50 in that month of data.<sup>14,16</sup>

## WORLD MARKETS

Most world benchmarks seem headed for double-digit 2011 losses; fortunately, our benchmarks have done better. How did things go globally in November? Poorly, for the most part. In USD terms, here are the monthly numbers according to Morningstar on November 30: FTSE 100, -0.70%; DAX, -0.85%; CAC 40, -2.72%; All Ordinaries, -4.03%; Shanghai Composite, -5.46%; Nikkei 225, -6.16%; TSX Composite, -6.29%; Hang Seng, -9.63%; Sensex, -10.09%. The oft-watched MSCI World (-2.69%) and MSCI Emerging Markets (-6.75%) indices both slipped for the month.<sup>17,18</sup>

## COMMODITIES MARKETS

Gold futures advanced 1.45% last month while copper lost 1.56% and silver lost 4.51%. Through the end of November, gold was +23.14% YTD on the COMEX. The U.S. Dollar Index gained 2.86% in November; at 78.49, it was still -1.01% YTD. Oil ended November at \$100.36 a barrel after going +7.69% for the month. Natural gas went -9.76% in November. Retail gas prices (regular unleaded) fell 4.30% last month to \$3.30 a gallon at month's end. Coffee gained 2.82% for November, but other key crop futures descended: cotton lost 11.13%, corn lost 6.03% and wheat lost 2.27%.<sup>15</sup>

## REAL ESTATE

Unexpectedly, the National Association of Realtors found that existing home sales increased 1.4% in October. Inventory shrank 2.2% to an 8.0-month backlog; the median sale price was \$162,500, down 4.7% from a year before. The NAR also measured pending home sales surging by 10.4% in October. The S&P/Case-Shiller Home Price Index showed an overall 0.6% decline in September; after a 3Q overall gain of 0.1%, the index showed home prices at roughly 1Q 2003 levels. New home sales increased by 1.3% in October with the annualized gain at 8.9%.<sup>15,19,20,21</sup>

Interest rates on conventional mortgages didn't move much. Freddie Mac noted the following change (or lack thereof) in its November 3 and December 1 Primary Mortgage Market Surveys: the average rate on the 30-year FRM stayed flat at 4.00%, and the average rate on the 15-year FRM ticked down 0.01% to 3.30%. Rates on 5/1-year ARMs moved down from 2.96% to 2.90%; rates on 1-year ARMs fell to 2.78% from 2.88%.<sup>22</sup>

## LOOKING BACK...LOOKING FORWARD

The month ended well. November 28-30 represented the S&P 500's best three days since November 23-25, 2008. At the close on November 30, the Dow was back above 12,000, the S&P back above 1,200 and the NASDAQ back above 2,600.<sup>15</sup>

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+4.04	+0.76	+9.45	+2.23
NASDAQ	-1.23	-0.50	+4.89	+3.57
S&P 500	-0.85	-2.39	+5.63	+0.94
REAL YIELD	11/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.03%	0.74%	2.16%	3.50%

Sources: reuters.com, cnnmoney.com, bigcharts.com, treasury.gov - 11/30/11<sup>1,23,24,25,26,27,28</sup>  
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.  
These returns do not include dividends.

December is historically a fine month for stocks, of course. With the continuing EU debt troubles, will a "Santa Claus" rally will occur as we get toward New Year's Day? It does seem as though there is more optimism at the moment, or at least greater distraction on Wall Street from the crisis in Europe and the apparent slowdown in China. Perhaps stateside indicators will encourage the bulls to run and make 2011 a bit better statistically for investors. As CNBC notes, the Dow has gone positive in 71% of Decembers in its long history, posting an average gain of 1.40%. December has also been the best month of the year for the S&P 500 since 1950.<sup>29,30</sup>

**UPCOMING ECONOMIC RELEASES:** Here are the news items arriving between now and the end of the year: the November ISM service sector index and the report on October factory orders (12/5), the initial University of Michigan December consumer sentiment survey (12/9), the report on November retail sales and a Federal Reserve policy announcement (12/13), the November PPI and November industrial output (12/15), the November CPI (12/16), data on November housing starts and building permits (12/20), November existing home sales (12/21), the BEA's final estimate of 3Q GDP, the final University of Michigan December consumer sentiment survey and the Conference Board's November Leading Economic Indicators index (12/22), November consumer spending, new home sales and durable goods orders (12/23), the October Case-Shiller home price index and the Conference Board's December consumer confidence poll (12/27), and the November pending home sales report (12/29). The December unemployment report will be out on January 6.

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**Timothy C. Hucks, CEP, is a Certified Estate Planner, a Registered Investment Advisor Representative, and President of Rising Tide, Inc. He may be reached at [www.risingtideinc.com](http://www.risingtideinc.com), 919.968.8675, or [tim@risingtideinc.com](mailto:tim@risingtideinc.com).**

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