
Emmaus Investor Services Corp. Presents
Monthly Economic Update for November, 2009

Quote of the month. “A man is a worker. If he is not that, he is nothing.” – Joseph Conrad

The month in brief. Questions about the strength and speed of the recovery hampered stocks by Halloween, although positive economic news continued to surface. The service sector and the manufacturing sector were both growing; consumer spending, however, was lagging. It was a fine month for most hard assets, and a mixed month for global financial markets. Finally, one notable statistic seemed to indicate the recession was done.

Domestic economic health. Let’s get to that statistic. The Commerce Department announced the 3Q preliminary GDP: +3.5%. U.S. GDP hadn’t been so strong since 3Q 2007. America’s longest stretch of economic contraction since 1947 was history.¹

Backing up that statistic, we had the Institute for Supply Management’s manufacturing index hit 55.7 in October (a 3½-year high point) after a 52.6 in September (anything over 50 equals growth).² We saw the ISM service sector index turn positive for the first time in a year, coming in at 50.9 for September with its new orders index at 54.2.³ The Federal Reserve informed us that industrial production went up by 5.2% in the third quarter – the best quarter in four years, and the first positive quarter since the recession began.⁴

As for consumers, prices and purchases, the data was mixed. Personal spending fell 0.6% in September, even as durable goods orders rose by 1.0%.^{5,6} Retail sales were down 1.5% for that month, but up 0.5% minus automotive purchases (economists felt the decline was partly due to the end of the C.A.R.S. program).⁷ Year-over-year inflation was still negative: from September 2008 to September 2009, CPI fell 1.3% (though core CPI rose 1.5%). CPI rose 0.2% for September.⁸

Both notable consumer confidence indices declined in October – the Conference Board index dipped to 47.7 from a 53.4 in September.⁹ The Reuters survey went from 73.5 in September to 70.6 at the end of last month.¹⁰ With unemployment at 9.8% in September, it was understandable.¹¹ Economists discussed the possibility of the Fed raising the key interest rate – in fact, a few even called for it – but there was no hint of a shift in Fed policy.

Global economic health. Evidence showed that manufacturing was picking up abroad as well as in

the U.S. The Eurozone’s manufacturing sector expanded in October for the first time since April 2008. China’s Purchasing Manufacturers Index hit 55.4 in October, an 18-month peak. England’s PMI also showed growth, and so did the PMIs in India and South Korea.¹² The International Monetary Fund adjusted its growth forecast for the Asia Pacific region up about 1.5% - it predicted 2009 growth of 2.8% and 2010 growth of 5.8%.¹³

The jobless rate in the Eurozone was 9.7% in September; consumer prices fell for the fifth straight month, nice for shoppers but certainly not indicating demand. New data showed the EU economy shrank 0.2% in the second quarter.¹⁴

World financial markets. Emerging markets fared better than indices in Europe and the U.S. The DAX descended 4.58% in October, and the CAC 40 fell 4.98%. In the U.K., the FTSE 100 lost 1.74% for the month. The Nikkei 225 lost 0.97%, the Australian All Ordinaries 1.95%, and the Kospi (South Korea) lost 5.53%. As for gains, the Hang Seng rose 3.81% and the Shanghai Composite ascended 7.79%. Argentina’s Merval rose 2.06% and the Bovespa gained 0.02% in Brazil.¹⁵ MSCI’s World Index and Emerging Markets Index were both down for the month, respectively losing 2.31% and 0.49% for October.¹⁶

Commodities markets. Oil prices rose 9.05% last month, ending October at \$77.00 per barrel. Natural gas futures advanced 4.21% in October, leaving that commodity at -10.26% YTD through October’s end. Diesel futures gained 7.41% in October, putting them up 41.00% for the year. Turning to metals, silver actually lost ground last month (-2.42%) but gold did just fine (+3.08%). Copper could not be stopped – copper futures were +4.84% in October and (are you sitting down?) +109.61% across the first ten months of the year. Palladium has done exceptionally well, too: +8.04% for October, making it +71.30% YTD. The U.S. Dollar Index was down 0.34% in October.¹⁵

One crop has done almost as well as copper this year: sugar. Sugar futures fell 5.56% in October, but that left them up 92.89% for 2009. Orange juice futures rose 26.17% last month.¹⁵

Housing & interest rates. The latest existing, new and pending home sales numbers were mostly encouraging. First the downside: according to the Commerce Department, new home sales fell 3.6% in September, a decline many chalked up to the looming

potential expiration of the \$8,000 first-time buyer credit offered by the federal government.¹⁷ Existing home sales rocketed north 9.4% in September, marking gains in five of the last six months of data.¹⁸ Pending home sales (like existing home sales, monitored by the National Association of Realtors) were up 6.1% in September after a 6.4% rise in August, marking the eighth month in a row of improvement. Construction spending also increased by 0.8% in September.¹⁹

Let's see what Freddie Mac found when it came to surveying U.S. mortgage rates. On October 1, the national average interest rate for a 30-year FRM was 4.94%. By October 29, it was 5.03%. Average rates on 15-year FRMs also rose slightly in that time frame, from 4.36% to 4.46%. The 5/1-year ARM? No change, a 4.42% average interest rate in both surveys. As for the 1-year ARM, the average rate on that loan type moved north from 4.49% to 4.57%.²⁰

Major indexes. The Dow hit a 2009 high of 10,119.47 in October, but finished the month with only a miniscule gain; the NASDAQ and S&P 500 both slipped. It was a challenging month for stocks, unusual as Octobers go. At month's end, the major indices were still showing impressive gains off their March lows – the DJIA, +48.4%; the NASDAQ, +61.2%; the S&P 500, +53.2%.¹⁵

% Change	1-Month	Y-T-D
DJIA	+0.005	+10.67
NASDAQ	-3.64	+29.68
S&P 500	-1.98	+14.72
10YrTIPS Real Yield	-0.06	-37.33

(Source: CNBC.com, ustreas.gov, 10/30/09)^{15,21}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

November outlook. It has been a decidedly unconventional year on Wall Street – and thankfully, a very positive one. The S&P 500 actually managed a small gain across the September-October period – a stretch that is often rough on stocks.²²

Historically, November and December have been pretty good months for Wall Street, but we have just seen a half-year rally. Could it extend into winter? Interest rates may remain at record lows into 2010, which would help keep the dollar weak (and that certainly aided the summer market gains). Volatility has reared its head again recently; on November 2, the Dow had closed with either a 100-point rise or fall in six of its last seven trading sessions.²³ Has the rally aged, or does it still have legs? Will November prove an up-and-down month? Wit the fall earnings season

wrapping up, we shall hope for positive economic indicators to drive the market higher.

The key economic releases for the balance of November are: the October ISM services index and the Federal Reserve's Open Market Committee rate decision (11/4), the October jobless report and October wholesale inventories (11/6), preliminary November consumer sentiment (11/13), October retail sales and September business inventories (11/16), October PPI and industrial output (11/17), October CPI, housing starts and building permits (11/18), the Conference Board's October leading indicators (11/19), October existing home sales (11/23), October durable goods orders and the Conference Board's November look at consumer confidence (11/24), and October consumer spending, wages and new home sales (11/25).

Riddle of the month. Who is the only woman ever to appear on U.S. paper currency?

Contact my office or see next month's Update for the answer.

Last month's riddle. In many liquor stores, you can buy pear brandy with an actual pear inside the bottle. The pear is whole and ripe, and the bottle is genuine; it hasn't been cut open in any way. How does the pear get inside the bottle?

Last month's riddle answer: It grew inside the bottle. The bottles are placed over pear buds when they are small and then wired in place on the tree. The bottle is left in place for the entire growing season. When the pears are ripe, they are snipped off at the stems.

***Please feel free to forward this article to family, friends or colleagues.
If you would like us to add them to our list, please reply with their address
and we will contact them and ask for their permission to be added.***

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Citations.

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