

# Market Comment *Economic Highlights for the week ended January 22, 2010*

## Economic Week in Review: A Dramatic Week

Vanguard 1/22 - Bonds and stocks tumbled this week after a proposal by the Obama administration to impose new regulations on the banking sector. The economy continued to send mixed signals, including a surprising 4% decline in new housing starts and a spike in jobless claims. Meanwhile, on a positive note, the Conference Board's index of leading indicators rose for the ninth month in a row, signifying ongoing economic recovery. For the week, the S&P 500 Index dropped 3.9% to 1,092 (for a year-to-date total return of about -2.0%). The yield of the 10-year U.S. Treasury note fell 8 basis points to 3.62% (for a year-to-date loss of 23 basis points).

## Leading Indicators: "Point to an Economy in Early Recovery" - December

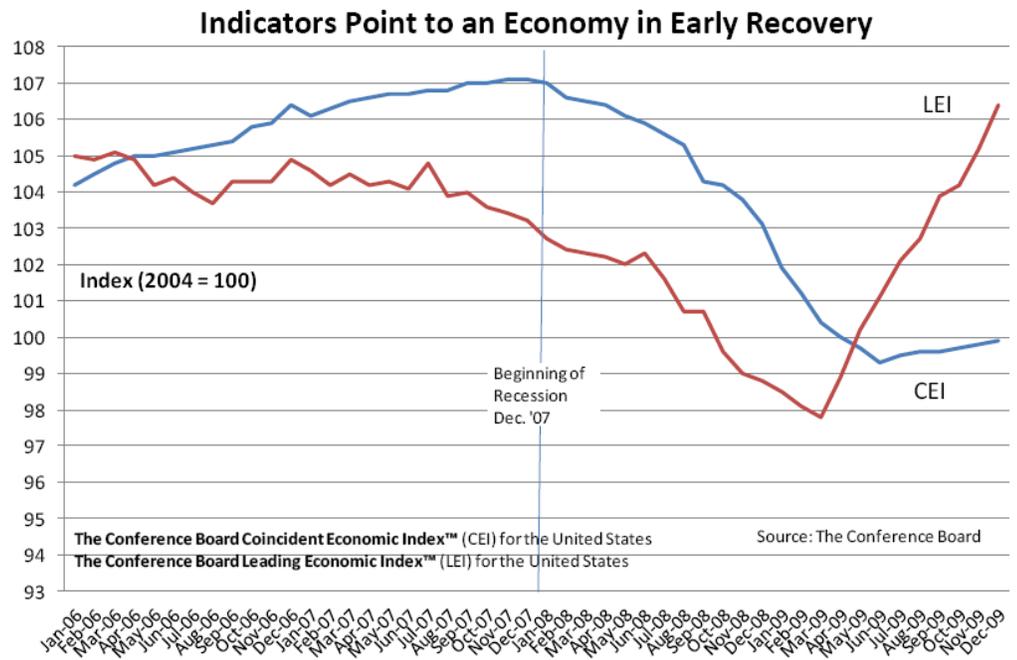
Vanguard 1/22 - The Conference Board's index of leading indicators rose for the ninth consecutive month in December, up 1.1%. The index was up 7.5% compared to the same time last year, making it the index's fastest yearly growth rate since 2004.

Eight of the index's ten components were up in December, while the remaining two stayed neutral. The index's biggest monthly contributors were initial jobless claims, the interest rate spread, and building permits. The only negative item for the month was nonfarm payrolls.

Press Release 1/21 (excerpts) - The Conference Board Leading Economic Index (LEI) for the U.S. increased 1.1% in December, following a 1.0% gain in November, and a 0.3% rise in October. Says Ataman Ozyildirim, Economist at The Conference Board: "The Conference Board LEI for the U.S. increased sharply in December, and has risen steadily for nine consecutive months. The six-month growth rate has picked up slightly to 5.2% (about a 10.8% annual rate) in the period through December, substantially higher than earlier in the year. In addition, the strengths among

the leading indicators have remained very widespread in recent months." Adds Ken Goldstein, Economist at The Conference Board: "The indicators point to an economy in early recovery. The coincident economic index shows slow expansion of economic activity through December. The leading economic index suggests that the pace of improvement could pick up this spring."

The Conference Board Coincident Economic Index™ (CEI) for the U.S. rose 0.1% in December, following a 0.1% increase in both November and October. The Conference Board Lagging Economic Index™ (LAG) declined 0.2% in December, following a 0.5% decline in November, and a 0.2% decline in October.



## Producer Price Index (PPI): Prices On The Rise - December

Vanguard 1/22 - Producer prices for finished goods rose 0.2% in December, after a 1.8% spike in November. Last month's increase was mostly due to inflation in the prices of food products, which were up 1.4% for the month. Meanwhile, the prices of finished energy products fell 0.4%.

Core prices—which exclude food and energy prices, both of which can be very volatile—remained unchanged for the month of December, after rising 0.5% in November. For the year, overall producer prices rose 4.4%, due mainly to higher energy prices. Core prices were up 0.9% for the year.

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## PRODUCER PRICE INDEXES – DECEMBER 2009

Press Release 1/20 (excerpts) - The Producer Price Index for Finished Goods moved up 0.2% in December, seasonally adjusted, the U.S. Bureau of Labor Statistics reported today. This rise followed a 1.8% advance in November and a 0.3% increase in October. At the earlier stages of processing, prices received by producers of intermediate goods rose 0.5% and the crude goods index moved up 1.0%. On an unadjusted basis, prices for finished goods advanced 4.4% in 2009, after falling 0.9% in 2008.

## Housing Starts: New Construction Takes A Dip - December

Vanguard 1/22 - Housing starts fell 4% in December to 557,000, down from 580,000 in November. This decline surprised analysts, who had expected an increase in monthly starts. The numbers varied across regions, with the Northeast and Midwest taking the biggest hits, most likely because of winter storms.

Overall, single-family starts dropped almost 7% in December. Multifamily starts rose for the second time in a row, up 12% for the month. Meanwhile, an 11% increase in the number of building permits offered some hope on the housing front.

## NEW RESIDENTIAL CONSTRUCTION IN DECEMBER 2009

Press Release 1/20 (excerpts) - The Census Bureau and HUD jointly announced the following new residential construction statistics for December 2009:

**BUILDING PERMITS** - Privately-owned housing units authorized by building permits in December were at a seasonally adjusted annual rate of 653,000. This is 10.9% ( $\pm 2.4\%$ ) above the revised November rate of 589,000 and is 15.8% ( $\pm 2.9\%$ ) above the December 2008 estimate of 564,000.

An estimated 571,600 housing units were authorized by building permits in 2009. This is 36.9% ( $\pm 1.0\%$ ) below the 2008 figure of 905,400.

**HOUSING STARTS** - Privately-owned housing starts in December were at a seasonally adjusted annual rate of 557,000. This is 4.0% ( $\pm 9.3\%$ ) below the revised November estimate of 580,000, but is 0.2% ( $\pm 11.5\%$ ) above the December 2008 rate of 556,000.

An estimated 553,800 housing units were started in 2009. This is 38.8% ( $\pm 1.4\%$ ) below the 2008 figure of 905,500.

## Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Jan. 9

Press Release 1/21 - In the week ending Jan. 16, the advance figure for seasonally adjusted initial claims was 482,000, an increase of 36,000 from the previous week's revised figure of 446,000. The 4-week moving average was 448,250, an increase of 7,000 from the previous week's revised average of 441,250.

The advance seasonally adjusted insured unemployment rate was 3.5% for the week ending Jan. 9, unchanged from the prior week's unrevised rate of 3.5%.

WEEK ENDING	Advance Jan. 16	Jan. 9	Change	Jan. 2	Prior Year
Initial Claims (SA)	482,000	446,000	+36,000	433,000	575,000
4-Wk Moving Average (SA)	448,250	441,250	+7,000	449,750	526,500

The advance number for seasonally adjusted insured unemployment during the week ending Jan. 9 was 4,599,000, a decrease of 18,000 from the preceding week's revised level of 4,617,000. The 4-week moving average was 4,750,500, a decrease of 109,750 from the preceding week's revised average of 4,860,250.

The fiscal year-to-date average for seasonally adjusted insured unemployment for all programs is 5.412 million.

## Philadelphia Fed Index

Press Release 1/21 (excerpts) – The survey's broadest measure of manufacturing conditions, the diffusion index of current activity, decreased from a revised reading of 22.5 in December to 15.2 this month. The index has now remained positive for five consecutive months (see Chart). Indicators for new orders and shipments suggest continued growth this month, but they also declined somewhat from their December readings.

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According to respondents to the January Business Outlook Survey, manufacturing activity is still rising, even though some measures fell back somewhat from their readings at year-end. Special questions corroborated reported improvement in demand for manufactured goods in recent months. Firms expect continued growth over the first half of 2010, and most indicators for future growth showed improvement this month.

### The Economic Week Ahead: January 25 – January 29

Vanguard 1/22 - Next week will be a busy one in terms of economic news. On Wednesday, the Fed will announce its most recent decision on short-term interest rates, while the fourth-quarter GDP report will be released on Friday. Other news will include the latest on existing home sales (Monday), consumer confidence (Tuesday), new-home sales (Wednesday), durable goods (Thursday), and the employment cost index (Friday).

### U.S. Economic Calendar

Date	ET	Release	For	Consensus	Prior
Jan 25	10:00	Existing Home Sales	Dec	6.07M	6.54M
Jan 26	09:00	Case-Shiller 20-city Index	Nov	NA	-7.28%
Jan 26	10:00	Consumer Confidence	Jan	52.9	53.3
Jan 26	10:00	FHFA Home Price Index	Nov	NA	0.6%
Jan 27	10:00	New Home Sales	Dec	372K	355K
Jan 28	08:30	Initial Claims	01/23	NA	NA
Jan 28	08:30	Continuing Claims	01/16	NA	NA
Jan 28	08:30	Durable Orders	Dec	1.6%	0.2%
Jan 29	08:30	Chain Deflator-Adv.	Q4	1.3%	0.4%
Jan 29	08:30	Employment Cost Index	Q4	0.5%	NA
Jan 29	08:30	GDP-Adv.	Q4	4.2%	2.2%
Jan 29	09:45	Chicago PMI	Jan	57.0	58.7
Jan 29	09:55	University of Michigan Sentiment	Jan	72.9	72.8

Source: Briefing.com