

# Market Comment *Economic Highlights for the week ended November 11, 2011*

## Economic Week In Review: European Drama Still Center Stage

Vanguard 11/11 – It was another trying week for the economy, as Europe's debt crisis and political upheaval reverberated through Italy and fostered more uncertainty at home. The European situation remains fragile—and probably will be for the foreseeable future—though signs of tentative progress in Italy and Greece eased investor concerns by week's end.

Domestic economic reports thus remained understudies to the major players involved in the European turmoil. Import/export numbers were better than expected while consumer spending was a mixed bag.

For the week ended November 11, the S&P 500 Index rose 1% to 1,264 (for a year-to-date total return of about 2.3%). The yield on the 10-year U.S. Treasury note fell 2 basis points to 2.04% (for a year-to-date drop of 126 basis points).

## Trade Deficit – September: Trade Gap Narrows

Vanguard 11/11 – The U.S. trade deficit declined 4% to \$43.1 billion in September, less than forecast and below August's revised numbers. Exports surged to another record level, expanding 1.4% to \$180.4 billion, fueled primarily by industrial supplies and consumer goods, while imports rose only 0.3%. The Commerce Department report showed that the average price of an imported barrel of crude oil fell for the fourth straight month to \$101.02, which also helped narrow the trade gap for the month.

"This decline in the trade deficit could favor a small upward revision in the preliminary GDP growth estimate for the quarter," said Vanguard senior economist Roger Aliaga-Diaz.

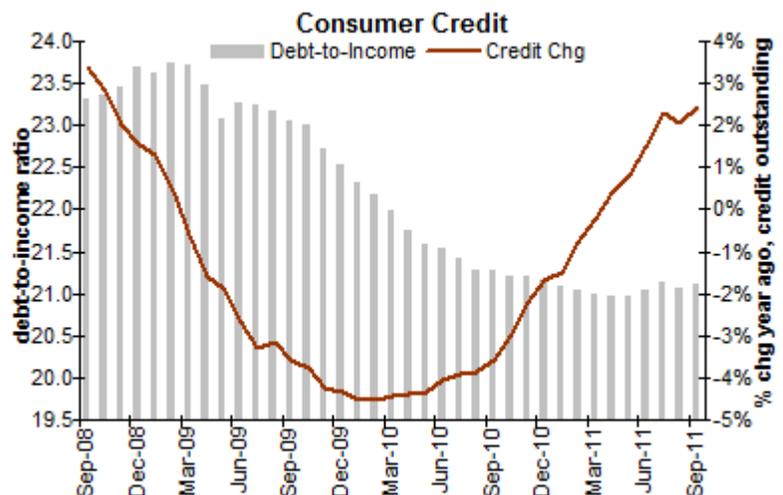
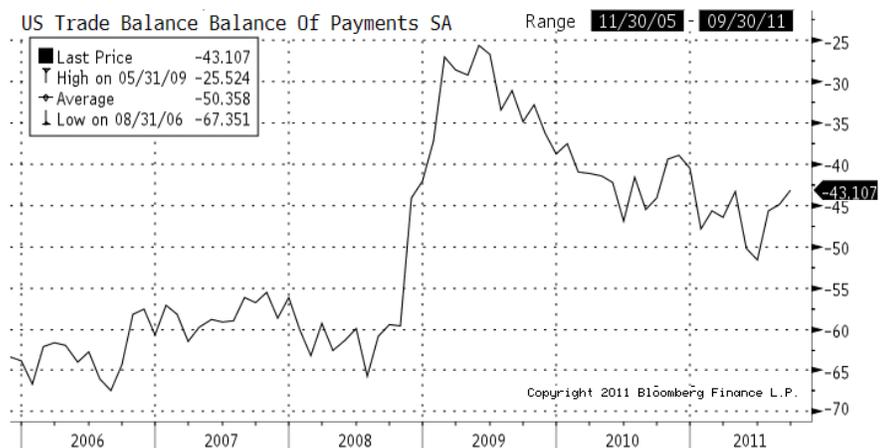
AFP 11/14 - Over the past 12 months, export activity has expanded by 15.9%—boosted by gains in exports of industrial supplies/materials (\$11.8 billion increase), capital goods (\$3.9 billion) and vehicles (\$1.8 billion). Imports increased \$0.7 billion in September and have grown 11.9% since September 2010. The biggest year-to-year increases in imports occurred with industrial supplies/materials (\$14.4 billion increase), autos (\$2.7 billion) and food/feed/beverages (\$1.3 billion).

Econoday 11/10 – The U.S. trade deficit unexpectedly improved in September but a significant part of it appears to have been related to flight to safety to gold during September's weak financial markets. The improvement in the trade gap was led by the nonpetroleum goods gap which shrank to \$31.5 billion from \$33.9 billion in August. Exports of industrial supplies jumped \$1.4 billion with \$1.6 billion coming from nonmonetary gold. This was likely flight to safety with demand for gold up in the month.

Barclays 11/10 - Overall, this report is reassuring from that standpoint that even if some export demand to the euro area declines, increasing demand for US goods in Asia can support continued export growth.

## Consumer Credit – September

Vanguard 11/11 – Demand for consumer credit rose to \$7.4 billion in September, more than forecast but not quite enough to offset August's steep (and revised) drop of \$9.5 billion. Non-revolving balances such as auto and student loans drove the gain, but revolving credit declined for the third straight month. Consumers still seem



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reluctant to assume credit card debt amid persistently high joblessness and tepid economic growth.

Econoday 11/7 – Non-revolving credit outstanding, reflecting strong vehicle sales, rose \$8.0 billion in the month to \$1.66 trillion. This offsets another contraction in revolving credit, down \$0.6 billion to \$789.6 billion outstanding. September brings in third quarter data which shows consumer credit expanding at a 1.6% annual rate, down from the second-quarter rate of 3.5%. Revolving credit during the quarter contracted at a 3.2% annual rate, more than reversing the second-quarter rate of plus 1.5%. Consumer credit is a tale of two worlds with weakness on the revolving side pointing to consumer reluctance to take on debt and also reluctance on the banking side to issue debt.

Barclays 11/7 - The increase of non-revolving debt held by the federal government reflects a shift that accelerated in mid-2010 as a result of the health care reform package, which included a provision that moves student lending away from banks and toward direct lending from the federal government. As of September, the federal government holds \$406.1bn of consumer credit, which is primarily student loans, compared with \$280bn a year ago.

Overall, the report suggests that most consumers are continuing to be cautious in terms of assuming new debt.

### **NFIB Small Business Index – October: Small Business Confidence Rises**

Barclays 11/8 - The National Federal of Independent Business' (NFIB) small business optimism index edged higher for the second straight month, rising to 90.2 (previous: 88.9). The rise reflected modest increases in the majority of the index components. The largest gain was in the net percentage of those expecting the economy to improve, which increased to -16% (previous: -22%). The survey also signaled that more small businesses have plans to increase inventories (net percentage: 0%, previous: -2%) and are expecting higher real sales (net percentage: -4%, previous: -6%).

### **Wholesale Trade (Business Inventories) – September**

Econoday 11/9 – Inventory build is slowing as businesses successfully manage their supplies against the risk that demand growth will slow. Wholesale inventories slipped 0.1% in September to show the first monthly draw in nearly two years. Underscoring the draw is a downward revision to the build in August to plus 0.1% from plus 0.4%. September's draw comes against a relatively healthy 0.5% rise in monthly sales at the wholesale level, with this contrast underscoring the aggressive efforts underway to keep supplies in check. The stock-to-sales ratio is unchanged out to two decimals at 1.15.

### **Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Nov 5**

Press Release 11/10 (excerpts) - In the week ending November 5, the advance figure for seasonally adjusted initial claims was 390,000, a decrease of 10,000 from the previous week's revised figure of 400,000. The 4-week moving average was 400,000, a decrease of 5,250 from the previous week's revised average of 405,250.

| WEEK ENDING              | Nov 5   | Oct 29  | Change  | Oct 22  | Prior Year |
|--------------------------|---------|---------|---------|---------|------------|
| Initial Claims (SA)      | 390,000 | 400,000 | -10,000 | 406,000 | 436,000    |
| 4-Wk Moving Average (SA) | 400,000 | 405,250 | -5,250  | 404,500 | 444,250    |

Econoday 11/10 – Jobless claims are edging lower in what is a positive indication that businesses are expanding their workforces. There are no special factors distorting the data.

Barclays 11/10 - Overall, the trends in initial and continuing claims in recent weeks reflect a gradual improvement in labor market conditions and are consistent with our view that the pace of hiring should begin to accelerate in the coming months.

### **Import Price Index – October**

Econoday 11/10 – Inflation pressure from imports is easing with import prices down 0.6% in October, following a revised no change in September and a 0.4% decline in August. The headline decline reflects a third straight decline for petroleum prices which fell 1.0% in the month and which pulled a host of petroleum-related categories lower including industrial supplies which fell 1.4%. Yet in isolated but still important signs of

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pressure, import prices for consumer goods excluding autos jumped 0.7% following a run going back to June of 0.3% gains. (see graph at right)

Export prices like the headline for import prices also fell, down a sharp 2.1% in the month and reflecting a 6.5% drop in agricultural prices. Export prices for consumer goods excluding autos, in contrast to imports, fell 0.3%.

Year-on-year rates of inflation slowed with imports at plus 11.0% and exports at plus 6.3%. Today's report should boost confidence that inflation is a diminishing threat to the economic outlook especially given ongoing strength in the dollar tied to the debt crisis in Europe.

Barclays 11/10 - All in all, despite the negative impact of recent declines in energy and commodity prices, and the appreciation of the dollar, today's report suggests that consumer-related import price inflation continues to rise.



## The Economic Week Ahead: Nov 14– Nov 18, 2010

Vanguard 11/11 – Tuesday brings reports on producer prices, retail sales, and business inventories, followed on Wednesday by information on consumer prices and industrial production. Figures for new residential construction will be released Thursday, and the week concludes Friday with leading indicators from the Conference Board.

### This Week's U.S. Economic Calendar

Source: MarketWatch

|                          | TIME (ET) | REPORT                            | PERIOD    | FORECAST | PREVIOUS |
|--------------------------|-----------|-----------------------------------|-----------|----------|----------|
| <b>MONDAY, NOV. 14</b>   |           | None Scheduled                    |           |          |          |
| <b>TUESDAY, NOV. 15</b>  | 8:30 am   | <b>Retail Sales</b>               | October   | 0.1%     | 1.1%     |
|                          | 8:30 am   | <b>Producer Price Index (PPI)</b> | October   | -0.2%    | 0.8%     |
|                          | 8:30 am   | Core PPI                          | October   | 0.0%     | 0.2%     |
|                          | 10 am     | Inventories                       | September | --       | 0.5%     |
| <b>WED., NOV. 16</b>     | 8:30 am   | <b>Consumer Price Index (CPI)</b> | October   | -0.1%    | 0.3%     |
|                          | 8:30 am   | Core CPI                          | October   | 0.1%     | 0.1%     |
|                          | 9:15 am   | <b>Industrial Production</b>      | October   | 0.5%     | 0.2%     |
|                          | 9:15 am   | Capacity Utilization              | October   | 77.7%    | 77.4%    |
| <b>THURSDAY, NOV. 17</b> | 8:30 am   | Jobless Claims                    | 11-12     | N/A      | N/A      |
|                          | 8:30 am   | <b>Housing Starts</b>             | October   | 605,000  | 658,000  |
| <b>FRIDAY, NOV. 18</b>   | 10 am     | <b>Leading Indicators</b>         | October   | 0.6%     | 0.2%     |