Economic Week In Review: Spending Climbs While Inflation Stays Flat

Vanguard 11/19 - The week's news suggests that the economy continues to recover at a steady but slow pace. Retail sales were up more than 1% for the month of October, while businesses expanded their inventories to keep pace with shoppers and to prep for the upcoming holiday rush. Meanwhile, last month's slight increase in consumer prices barely registered, sending inflation to its lowest level in more than 50 years. For the week ended November 19, the S&P 500 Index remained unchanged at 1,199 (for a year-to-date total return—including price change plus dividends—of about 9.5%). The yield of the 10-year U.S. Treasury note rose 12 basis points to 2.88% (for a year-to-date decrease of 97 basis points).

Retail Sales – October: Consumer Spending Continues To Rise

Vanguard 11/19 - Retail sales were up for the fourth consecutive month in October, jumping 1.2%. Consumer sales are now at their highest point since August 2008, before the fall of Lehman Brothers hobbled financial markets. The rise in sales is a good sign for retailers as they head into the holiday season.

Sales were up across most industries for the month, with soaring auto and parts sales leading the way. Building supply, sporting goods, and hobby stores also reported strong sales, as did restaurants and bars. But sales fell at furniture and electronics stores, suggesting that consumers aren't quite ready for big-ticket purchases yet.

Econoday 11/15 - Overall retail sales in October jumped 1.2% after gaining 0.7% in September. The latest number sharply topped analysts' projection for a 0.7% increase. Sales excluding autos and gasoline increased 0.4%, matching the increase in September. The good news is that the consumer sector is continuing to prop up the recovery-maybe even giving it a modest strengthening.

Consumer Price Index (CPI) - Prices Go Nowhere In October

Vanguard 11/19 - Inflation sank to a level it hadn't touched in more than five decades. Consumer prices inched up 0.2% in October from September, but virtually the entire gain was attributable to a rise in the cost of energy, the Labor Department said on Wednesday.

This marked the third consecutive month during which the core rate of inflation, which excludes the always-volatile food and energy categories, was essentially flat. Over the past 12 months, the core price index rose 0.6%—the smallest 12-month increase in the history of the index, which dates to 1957. During the same period, energy prices rose 5.9% (with gasoline up more than 9%) and food costs climbed 1.4%.

The low inflation rate highlighted the economy's weakness and appeared to provide support for the Federal Reserve's contention that more U.S. Treasury bond purchases, intended to boost economic growth, pose little risk of setting off a big spike in prices.

Barclays 11/17 - All in all, a third consecutive flat reading on core CPI will give some policymakers greater conviction that policy stimulus is necessary to combat persistent disinflationary forces. That said, our judgment remains that the chances of outright deflation in the core CPI remain small.

Econoday 11/17 - The overall CPI in October posted a 0.2% boost, following a 0.1% rise in September. The market consensus had expected a 0.4% boost for the latest month.

By major components, energy increased a strong 2.6 percent, following a 0.7% boost in September. Most of the latest gain was from a 4.6% surge in gasoline prices. According to the Bureau of Labor Statistics, 90% of the CPI increase came from the increase in gasoline. Food slowed to a 0.1% rise after gaining 0.3% the month before.

Year-on-year, overall CPI inflation firmed to 1.2% (seasonally adjusted) from 1.1% September. The core rate in September slipped to 0.6% from 0.8% the prior month.

Today's report corroborates the view by many at the Fed that inflation is too low as the core has been flat for three months. Nonetheless, consumers are noticing higher gasoline prices and not noticing weak shelter costs.

Producer Price Index (PPI) October - Energy Prices Are On The Rise

Vanguard 11/19 - Wholesale prices rose only slightly for the month of October, suggesting that inflation remained almost as inconsequential to producers as to consumers. The Producer Price Index (PPI)—which measures how much manufacturers and wholesalers pay for goods and materials—was up 0.4% for finished goods. The increase was mostly due to higher energy costs, which jumped 3.7% for the month. Meanwhile, the core index—excluding food and energy prices—was down 0.6%.

Econoday 11/16 - Inflation at the producer was more moderate than expected in October with the core tugged down by discounts in motor vehicle prices. The overall PPI inflation rate held steady at 0.4% in October, coming in significantly below the consensus forecast for a 0.8% increase. At the core level, the PPI surprisingly fell 0.6 percent, down from a 0.1% gain in September and coming in lower than the median forecast for a 0.1% uptick. The core was led down by a 3.0% drop in passenger car prices and a 4.3% decrease in light truck prices.

Business Inventories – September: Businesses Plan For The Holiday Rush

Vanguard 11/19 - U.S. business inventories were up 0.9% for the month of September, indicating that suppliers were stockpiling goods before the holiday shopping rush. Auto inventories saw the largest gains, with building materials following in second place. Department stores were the only category in which inventories declined.

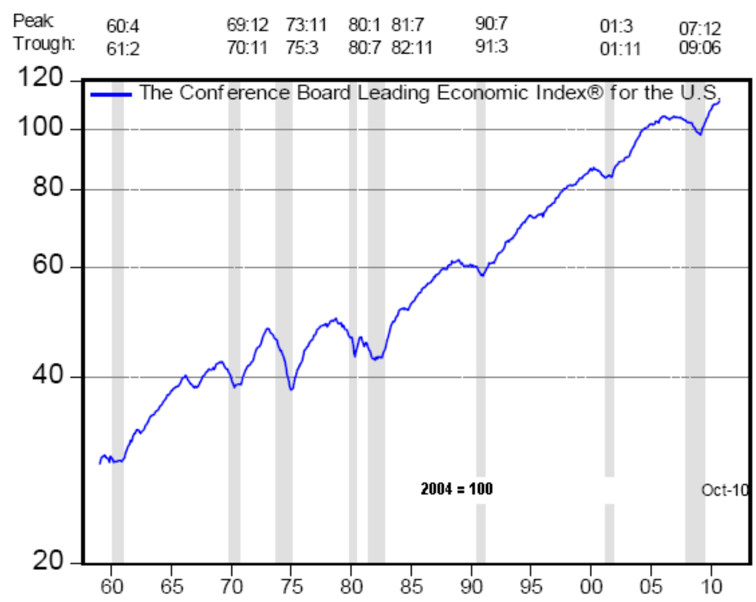
Leading Indicators Signaling A Spring Pickup?

Vanguard 11/19 - The Conference Board on Thursday said that its index of leading economic indicators rose 0.5% in October. The increase was driven by three of the index's financial measures: stock prices, real money supply, and the interest-rate spread—the difference between the yield of the 10-year U.S. Treasury note and the federal funds rate.

The index, composed of 10 financial- and consumer-related indicators, gained 1.6% over the past six months, well below the 4.6% annualized gain of the previous six months.

"The economy is slow, but latest data on the U.S. LEI suggest that change may be around the corner," said Ken Goldstein, an economist at The Conference Board. "Expect modest holiday sales, driven by steep discounting. But following a post-holiday lull, the indicators are suggesting a mild pickup this spring."

Econoday 11/18 - Economic indications have been strengthening going into QE2, gains reflected by two strong back-to-back 0.5% gains for the Conference Board's index of leading economic indicators (September revised from plus 0.3 percent). A wide yield spread continues to be the biggest positive though to a smaller degree given declines underway in long rates, declines triggered and furthered by QE2. A rise in money supply, also related to QE2, is an increasingly significant plus. Another central positive is the factory workweek, strength that is likely to continue given the uplift underway in the manufacturing sector.



Barclays 11/18 - October's strong reading on the leading index, coupled with an upward revision of September's gain to 0.5% from 0.3%, confirms that overall economic growth is set to pick up, consistent with our forecast.

Press Release 11/18 - The Conference Board Leading Economic Index (LEI) for the U.S. increased 0.5 percent, The Conference Board Coincident Economic Index (CEI) increased 0.1% and The Conference Board Lagging Economic Index (LAG) increased 0.1% in October.

• The Conference Board LEI for the U.S. increased again in October, with the financial components making the largest positive contributions. The six-month change in the index stands at 1.6% (about a 3.3% annual rate) through October 2010, down from 4.6% (a 9.4% annual rate) for the previous six months. In addition, the strengths among the leading indicators have only been slightly more widespread than the weaknesses in recent months.

Demand For New Homes Plummets

Econoday 11/17 - Homebuilders appear to be more pessimistic about the housing sector as housing starts dropped significantly in October. Housing starts in October fell 11.7 percent, following a downwardly revised 4.2% decline the month before (previously up 0.3 percent). The October annualized pace of 519,000 units was notably lower than analysts' forecast for 590,000 units and is down 1.9% on a year-ago basis. The dip in October was led by a monthly 43.5% plunge in multifamily starts, following a 19.2% decrease in September. The single-family component slipped 1.1% after edging up 2.1% the prior month.

By region, the decrease in starts was led by a 30.5% drop in the West with the South down 13.4 percent. The Northeast and Midwest posted gains of 12.9% and 1.0%, respectively.

But looking ahead, the outlook is not so negative but is still soft. Permits edged up in October, rising 0.2% after declining 4.2% in September. Overall permits came in at an annualized rate of 550,000 units and are down 4.5% on a year-ago basis. The rebound was led by the single family component which was up 0.5% while multifamily permits eased 0.7%.

Due to continued concern over excessive supply and potential additions from pending foreclosures, homebuilders remain extremely cautious about new construction with starts remaining new record lows.

Vanguard 11/19 - This was the lowest annual rate of housing starts since April 2009 and the third-lowest on record since January 1959.

Industrial Production (October) - Utility Output Drops In October

Vanguard 11/19 - Industrial production was unchanged from September to October. While manufacturing production jumped 0.5%, it was offset by a drop in utilities, as October's warmer-than-usual weather sent output declining 3.4%. Mining output was also down for the month, falling 0.1%. Manufacturing's biggest gains came from auto production and business equipment, which were up 1.6% and 1.1%, respectively. Production of consumer goods was flat.

Industrial production looks soft in October, but weakness was from a sharp drop in utilities output. Manufacturing rose quite handily, with and without the autos component. Overall production was unchanged in October, following a 0.2% slip in September. The October boost fell short of the median market forecast for a 0.3% gain.

By major components, manufacturing increased a healthy 0.5%, following an upwardly revised 0.1% rise in September (previously a 0.2% dip). Excluding motor vehicles, manufacturing rose 0.5%, following a 0.1% increase the month before.

Econoday 11/16 - Today's headline number is a disappointment but it is the manufacturing component that really matters since utilities can swing sharply on atypical weather. Importantly, the manufacturing component is quite healthy.

Press Release 11/16 - Industrial production was unchanged in October after having fallen 0.2% in September. For the manufacturing sector, output gained 0.5% in October after having risen 0.1% in September. Factory production in September was initially reported to have decreased 0.2 percent, but incoming data on steel, fabricated metal products, machinery, and chemicals helped boost the index. The output of utilities dropped 3.4% in October, as unseasonably warm temperatures reduced demand for heating. Production at mines fell 0.1%. At 93.4% of its 2007 average, total industrial production in October was 5.3% above its year-earlier level. The capacity utilization rate for total industry was flat at 74.8%, a rate 6.6 percentage points above the low in June 2009 and 5.8 percentage points below its average from 1972 to 2009.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Nov. 13

Press Release 11/18 (excerpts) – In the week ending Nov. 13, the advance figure for seasonally adjusted initial claims was 439,000, an increase of 2,000 from the previous week's revised figure of 437,000. The 4-week moving average was 443,000, a decrease of 4,000 from the previous week's revised average of 447,000.

The advance seasonally adjusted insured unemployment rate was 3.4% for the week ending Nov. 6, a decrease of 0.1 percentage point from the prior week's revised rate of 3.5 percent.

The advance number for seasonally adjusted insured unemployment during the week ending Nov. 6 was 4,295,000, a decrease of 48,000 from the preceding week's revised level of 4,343,000. The 4-week moving average was 4,353,250, a decrease of 45,500 from the preceding week's revised average of 4,398,750.

WEEK ENDING	Nov. 13	Nov. 6	Change	Oct. 30	Prior Year
Initial Claims (Seasonally Adj)	439,000	437,000	+2,000	459,000	509,000
4-Wk Moving Average (SA)	443,000	447,000	-4,000	456,500	516,500

Econoday 11/18 – Jobless claims held onto the big improvement of the prior week, rising only 2,000 to a lower-than-expected level of 439,000 in the November 13 week (prior week revised 2,000 higher to 437,000). The four-week average, at 443,000 and down more than 15,000 from a month ago, is signaling solid improvement for November payrolls. Special factors aren't a factor in the improvement underway though the November 13 week does include Veterans Day. <u>Jobless claims remain one of the brightest spots on the economic calendar</u>.

Barclays 11/18 - Given that jobless claims have been hovering in the 450k range for most of the year, <u>the recent downward trend is an encouraging sign</u> that conditions in the labor market continue to gradually improve.

The Economic Week Ahead: November 22 – Nov. 26

Vanguard 11/19 - Next week's highlight will be Tuesday's release of the updated third-quarter gross domestic product estimate. Other news will include the latest on existing-home sales (Tuesday), durable goods, personal income, and new-home sales (Wednesday).

This Week's U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Nov 23	08:30	GDP - Second Estimate	Q3	2.5%	2.4%	2.0%
Nov 23	10:00	Existing Home Sales	Oct	4.20M	4.42M	4.53M
Nov 23	14:00	Minutes of FOMC Meeting	Nov 3			
Nov 24	08:30	Personal Income	Oct	0.6%	0.4%	-0.1%
Nov 24	08:30	Personal Spending	Oct	0.7%	0.5%	0.2%
Nov 24	08:30	PCE Prices - Core	Oct	0.0%	0.1%	0.0%
Nov 24	08:30	Durable Orders	Oct	-1.5%	-0.3%	3.3%
Nov 24	08:30	Initial Claims	11/20	440K	442K	440K
Nov 24	08:30	Continuing Claims	11/13	4275K	4280K	4295K
Nov 24	09:55	Michigan Sentiment - Final	Nov	70.0	69.4	69.3
Nov 24	10:00	New Home Sales	Oct	315K	312K	307

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
22-Oct	$ 10,780	$ 3,112	23	$ 1,310	8
29-Oct	6,800	2,957	21	627	8
5-Nov	6,380	1,031	11	664	6
12-Nov	7,360	2,232	12	564	4
19-Nov	7,745	2,263	26	421	2