MONTHLY ECONOMIC UPDATE

CARR WEALTH MANAGEMENT

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MONTHLY QUOTE

"Nothing gives one person so much advantage over another as to remain always cool and unruffled under all circumstances."

- *Thomas Jefferson*

MONTHLY TIP

Starting a business? Use good accounting software that makes entering expenses and income easy. Become fluent in it, so that you can call up important details quickly at tax time.

MONTHLY RIDDLE

What is black when you buy it, red when you use it, and gray when you throw it away?

Last month's riddle:
There are several different types of these devices you can buy, but if you pick one, it may not work. What is this device?

Last month's answer:
A lock.

THE MONTH IN BRIEF

October saw the S&P 500 rise 2.22% in response to results from the fall earnings season, encouraging fundamental indicators, and anticipation of tax reforms. An impressive jump in personal spending complemented excellent readings on consumer confidence and purchasing manager indices; although, hiring suffered a setback. As the European Union contended with disunity in Spain, the European Central Bank revealed its exit strategy for its bond-buying campaign. Asian and European stock exchanges witnessed major gains. Home sales numbers improved, and sugar, unleaded gasoline, and oil made major advances in the commodities sector. Investors, traders, and consumers maintained a bullish view.[1]

DOMESTIC ECONOMIC HEALTH

As summer ended, household spending was boosted by the need to replace cars, SUVs, and trucks damaged by floods and hurricanes. Personal spending rose 1.0% in September, the largest monthly gain since August 2009. Household incomes rose a sizable 0.4% in the ninth month of the year. Retail sales, correspondingly, soared as well: for September, the increase was 1.6%.[2,3]

The Conference Board's consumer confidence index hit a spectacularly high 125.9 last month. Economists surveyed by MarketWatch expected a 121.3 reading; in September, the index was at 119.8. The University of Michigan household sentiment index ended the month at 100.7.[3,4]

Manufacturing and service industries were expanding at a torrid pace. The Institute for Supply Management's factory purchasing manager index reached a 15-year peak in September, rising 2.0 points to 60.8. Its October mark was 58.7. ISM's service sector PMI soared 4.5 points to 59.8 in September, a 12-year high.[4,5]

October ended with the Bureau of Economic Analysis issuing its first snapshot of third-quarter growth: 3.0%, rivaling the 3.1% Q2 expansion. Orders for durable goods improved 2.2% in September; the increase was 2.0% minus defense orders. September had also brought gains of 0.3% for industrial output and 0.1% for manufacturing output.[3,4]

Consumer and producer prices rose appreciably in September as well. The Consumer Price Index moved north by a half-point; the core CPI ticked up just 0.1%. On an annualized basis, that meant consumer prices were up 2.2%, core prices 1.7%. Wholesale inflation was up 0.4% in September, taking the yearly advance of the Producer Price Index to 2.6% (the core PPI had gained 2.2% in 12 months). How about the Federal Reserve's gauge, the Personal Consumption Expenditures (PCE) Price Index? It rose 0.1% for the fifth straight month in September, showing a puny 1.3% annual advance. (The PCE has been beneath the Fed's 2.0% inflation target since mid-2012.)[2,3]

Severe hurricanes and floods impacted hiring in September. Payrolls slimmed by 33,000 workers, according to the Department of Labor's monthly jobs report. Bizarrely, the unemployment rate fell 0.2% to 4.2% anyway. The U-6 rate, including underemployed persons, declined 0.3% to 8.3%. At a glance, a 2.9% year-over-year gain in hourly wages looked like a bright spot, but a net loss of 105,000 low-paying bar and restaurant jobs may have skewed that number upwards.[6]

Lastly, the Social Security Administration announced a 2.0% cost-of-living adjustment for retirement benefits in 2018, the largest COLA since the 3.6% increase in 2012. This will mean about $25 more per month for the average Social Security recipient next year.[7]

GLOBAL ECONOMIC HEALTH

On October 26, the European Central Bank announced its plan to wind down its economic stimulus, which began in March 2015. In January, it will cut its monthly bond purchases from banks in half to €30 billion. The stimulus may end next September or continue at the ECB's discretion. Moving cautiously, ECB officials stated that they will hold its short-term interest rate at zero "well after" the end of the stimulus. Like the Fed, the ECB has a 2.0% inflation target; annualized consumer inflation in the euro area, though, is just 1.5% at this writing. The ECB now expects inflation to stay at that level into 2019. The 19-nation euro area is seeing moderate economic growth; it had a 2.3% second-quarter GDP reading. Euro area joblessness was at 8.9% in September, 1.0% lower than a year before.[8,9]

In the Asia-Pacific region, the Bank of Japan left interest rates unchanged in October on assumptions of continuing tame inflation, which was forecast at 1.4% for 2018. China's official factory PMI declined 0.8 points to 51.6 in October, while its service sector PMI fell 1.1 points to 54.3. Breaking form, President Xi Jinping said nothing last month about China's previously stated objective to double its 2010 economic growth pace by 2020.[10,11]

WORLD MARKETS

The gains for European benchmarks were not as pronounced in October as they were in September, but they were still significant. France's CAC 40 rose 3.25%; Germany's DAX, 3.12%; the FTSE Eurofirst 300, 1.84%; the United Kingdom's FTSE 100, 1.63%; Spain's IBEX 35, 0.62%. In contrast, Russia's Micex lost 0.57%.[12]

The above October advances paled in comparison to some of the moves made in the Asia-Pacific region. Take, for example, the 8.13% gain achieved by the Nikkei 225. Not far behind Japan's key index, India's Sensex ascended 6.34%, while its Nifty 50 rose 5.59%. The Taiwan 50 gained 5.73% last month, South Korea's KOSPI added 5.39%, and Argentina's ever-volatile MERVAL vaulted 5.37%. Singapore's Straits Times improved 4.79%, while Australia's All Ordinaries gained 4.03%. MSCI's Emerging Markets index rose 3.45% in October. Hong Kong's Hang Seng gained 2.51%. To our north in Toronto, the TSX Composite increased 2.50% in value. October also brought gains of 1.81% for the MSCI World, 1.36% for China's Shanghai Composite, and 0.68% for Brazil's Bovespa. Mexico's Bolsa lost 3.42%.[12,13]

COMMODITIES MARKETS

Unleaded gasoline climbed 8.90% higher in October. In performance terms, sugar was close behind with a gain of 8.05%. Two other futures scored gains of better than 5% – oil posted a 5.81% October advance to finish the month at $54.64 on the NYMEX, and copper ascended 5.72% for the month. The value of heating oil rose 3.98% in October as winter advanced.[14]

Elsewhere, minor gains and assorted losses could be glimpsed. Many of the key crop futures suffered October setbacks, as did some metals. Cotton retreated just 0.37%, but coffee fell 1.37%, corn declined 3.02%, and wheat sank 6.57%. Ag winners included cocoa, which rose 2.92%, and soybeans, up 0.70%. Natural gas took a 3.74% fall. Platinum futures added 1.13% for the month, but silver retreated 0.39% to a Halloween COMEX settlement of $16.72. Gold ended October at $1,271.80, losing 0.86% across the month. The U.S. Dollar Index recovered 1.60%.[1,14]

REAL ESTATE

Home sales did not retreat again in September. In fact, there was a surprising leap in new home buying – purchases jumped 18.9% according to the Census Bureau, more than wiping out the (revised) 3.6% dip in August. Meanwhile, the National Association of Realtors found resales up 0.7% for September; its pending home sales index was unchanged. Existing home prices were up 6.1% on an annualized basis, according to the latest (August) edition of the S&P/Case-Shiller home price index; that was a 0.2% rise from July.[3,4]

Groundbreaking declined 4.7% in September, while building permits fell 4.5%. Storms and floods likely affected housing starts in the South and along the Gulf Coast.[3]

Last month, upward pressure on mortgage rates was conspicuous. In Freddie Mac's October 26 Primary Mortgage Market Survey, interest on the 30-year FRM averaged 3.94%; interest on the 15-year FRM; 3.25%. That compares with a rate of 3.83% for the 30-year fixed and 3.13% for the 15-year fixed in the September 28 PMMS. Between those two dates, the average interest rate on the 5/1-year ARM rose but 0.01% to 3.21%.[15]

LOOKING BACK…LOOKING FORWARD

October was certainly great for the blue chips. The Dow Jones Industrial Average advanced 4.34% for the month to 23,377.24, nearly doubling the S&P 500's gain (the S&P settled at 2,575.26 on October 31). The Nasdaq Composite rose 3.57% to 6,727.67; the Russell 2000, 0.81% to 1,502.87. Even the CBOE VIX recorded an October advance, improving 7.05% to 10.18. The PHLX Semiconductor index ended the month up 40.72% YTD.[1]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+18.29	+28.85	+15.70	+6.78
NASDAQ	+24.98	+29.65	+25.19	+13.53
S&P 500	+15.03	+21.12	+16.47	+6.62
REAL YIELD	10/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.50%	0.11%	-0.78%	2.14%

Sources: barchart.com, bigcharts.com, treasury.gov – 10/31/17[16,17,18]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

October offered plenty of drama, but Wall Street remained calm. When the month ended, the Dow had gone 52 straight trading sessions without a 1% intraday move. That had not happened since 1930 (and such streaks were unrecorded before 1930). Will November be just as serene with stocks making more solid gains? That is a distinct possibility, but some factors may shake up that serenity. Promises of tax cuts could fade, and the market may or may not applaud if a new Federal Reserve chair is named. The October jobs report will also be scrutinized; if it falls short of expectations, some analysts may question whether the current business cycle is peaking.[19]

UPCOMING ECONOMIC RELEASES: The roll call of key news items across the balance of November includes the month's initial University of Michigan consumer sentiment index (11/10), October wholesale inflation (11/14), October retail sales and consumer inflation (11/15), October industrial production (11/16), October housing starts and building permits (11/17), the NAR's latest look at existing home sales (11/21), October durable goods orders and the final November University of Michigan consumer sentiment index (11/22), October new home sales (11/27), the November consumer confidence index from the Conference Board (11/28), the second estimate of Q2 growth, the latest pending home sales report from the NAR, and a new Federal Reserve Beige Book (11/29), and finally, the October personal spending snapshot from the Department of Commerce and the latest PCE price index from the Bureau of Economic Analysis (11/30).

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the overall market performance in Hong Kong. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. The PHLX Semiconductor Sector Index℠ (SOX℠) is a modified market capitalization-weighted index composed of companies primarily involved in the design, distribution, manufacture, and sale of semiconductors. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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