



Comprehensive and Personalized Financial Guidance

Martin Flores Presents:

MONTHLY ECONOMIC UPDATE

December 2017

MONTHLY QUOTE

“Education’s purpose is to replace an empty mind with an open one.”

- *Malcolm Forbes*

MONTHLY TIP

Are you building an emergency fund? Consider investing a portion (or perhaps all) of those dollars in an interest-bearing deposit account or bank vehicle, to help them grow a little more.

MONTHLY RIDDLE

It will let you enter, but not come in. It lets you create space, but it will never offer you a room. It has keys, but they open no locks. What is it?

Last month’s riddle:

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

Last month’s answer:

Charcoal.

THE MONTH IN BRIEF

In November, the S&P 500 gained 2.81% and advanced for a thirteenth straight month – an unprecedented milestone in the index’s long history. Consumer confidence and investor confidence were both abundant, as further evidence arrived that the economy was growing at an impressive rate. Solid fundamental indicators, upbeat earnings announcements, and hopes for 2018 tax cuts motivated stock gains in the U.S.; though many foreign benchmarks slumped. Oil took steps toward \$60. Home sales picked up after a late-summer lull. Wall Street anticipated a year-end rate hike from the Federal Reserve. ^{1,2}

DOMESTIC ECONOMIC HEALTH

Consumers were feeling very optimistic in November. The Conference Board’s much-watched consumer confidence index nearly hit 130; its 129.5 reading was 3.3 points higher than its October mark. As for the University of Michigan’s gauge of consumer sentiment, it hovered near a 13-year high, achieving a final November mark of 98.5. (Even so, that was beneath the 100.7 reading at the end of October.) ^{3,4}

The Department of Labor’s October jobs report satisfied Wall Street. Companies added 261,000 more jobs than they shed in the tenth month of the year. While annual wage growth fell sharply to 2.4%, the headline jobless rate declined to 4.1%, and the U-6 rate, including the underemployed, declined 0.4% to 7.9%. (The U-6 rate was 1.3% higher a year earlier.) ⁵

October also saw the manufacturing sector grow significantly. The Institute for Supply Management’s factory sector purchasing manager index dipped half a percent to a still-strong 58.2. That marked the fifteenth consecutive month of growth for manufacturing industries. Early in November, ISM’s service sector index rose 0.3 points to a lofty reading of 60.1, signaling rapid growth. ^{6,7}

Complementing all this, the second estimate of third-quarter GDP from the Bureau of Economic Analysis improved 0.3% from the previous estimate to 3.3%, in an affirmation of an economy running on all cylinders. In addition, major gains in industrial output (0.9%) and manufacturing production (1.3%) were seen kicking off the fourth quarter in October. ³

Consumer inflation remained relatively mild. The Consumer Price Index was up merely 2.0% year-over-year through October, and the annualized advance in the core CPI was just 1.8%. Wholesale inflation was a different story: the headline Producer Price Index was 2.8% higher in October than it had been a year before; the core PPI, 2.4% higher.³

Sizable gains in both personal spending and personal income were recorded for another month. Household incomes rose 0.4% again in October, and personal spending, 0.3% after the remarkable 0.9% September gain driven by a wave of car and truck buying. Retail sales rose 0.2% during October and 0.3% with gas and auto sales factored out.³

In late November, the Centers for Medicare and Medicaid Services explained that most seniors will pay higher Medicare monthly Part B premiums next year. While the standard Part B premium of \$134 will not increase, the roughly 70% of seniors whose Part B premiums had hovered around \$109 in 2017, thanks to the “hold harmless” provision, will see that protection go away as an effect of Social Security’s 2018 cost-of-living adjustment.⁸

GLOBAL ECONOMIC HEALTH

According to the latest readings from Eurostat, unemployment ticked lower in the euro area, while inflation ticked a bit higher. The region’s jobless rate fell 0.1% in October to 8.8%, nearing a 9-year low and down a full percent from a year earlier. Consumer prices were up 1.5% year-over-year through November. Last month, the United Kingdom agreed to calculate a divorce settlement from the European Union as part of the Brexit. The divorce bill (which diplomats involved think will amount to around €60-65 billion) represents payment from the U.K. to the E.U. for unrealized future contributions to the E.U. 2019 and 2020 budgets as well as infrastructure projects the U.K. had been earmarked to partly or fully fund. The bill’s final amount will be determined sometime next year.^{9,10}

In Seoul, the Bank of Korea became the first central bank in Asia to raise interest rates since 2014; as Reuters notes, the Philippines and Malaysia may see rate hikes in 2018. The Caixin/Markit manufacturing PMI for China fell to 50.8 in its latest reading, its lowest mark in five months. Japanese manufacturing reached a 3½-year peak last month. Factory activity in Taiwan accelerated to a pace unseen since 2011; South Korean manufacturing activity, to a pace not witnessed since 2012. The number of job openings in Japan hit its highest level since the mid-1960s last month, and the nation’s jobless rate descended to 2.8%.¹¹

WORLD MARKETS

Seven significant stock benchmarks fell 2% or more in November. Taiwan’s TSE 50 dropped 4.04%; Brazil’s Bovespa, 3.78%; Mexico’s Bolsa, 3.61%. The four other such retreats were staged by Spain’s IBEX 35, down 2.25%; France’s CAC 40, down 2.20%; China’s Shanghai Composite, sinking 2.16%; the United Kingdom’s FTSE 100, losing 2.15%. Falling a bit less: the FTSE Eurofirst 300, off 1.94%; Germany’s DAX, down 1.55%; India’s Nifty 50, slipping 1.32%.¹²

Pronounced advances also occurred, with two prominent Asian indices leading the way. In Tokyo, the Nikkei 225 added 3.24%; Hong Kong’s Hang Seng improved 2.97% for the month. The MSCI World recorded a 1.99% advance (as a footnote, the MSCI Emerging Markets improved just 0.15%). Notable gains also came for Russia’s Micex and Singapore’s STI (both up 1.71%) and Australia’s All Ordinaries (up 1.20%).^{12,13}

COMMODITIES MARKETS

Aided by a short-term shutdown of the Keystone pipeline, the price of crude oil rose 4.96% in November on the NYMEX. WTI crude finished November at \$57.35 a barrel. There was also a big win for natural gas, as that commodity gained 4.58% last month. Unleaded gasoline futures retreated 2.35%, while heating oil futures rose 1.04%.¹⁴

Platinum outdid other major metals last month, gaining 3.22%. Gold advanced 0.53% to end November at \$1,274.90 on the COMEX. Silver fell 1.74%, to a November 30 close of \$16.36; copper lost 1.80%. The U.S. Dollar Index finished November at 93.02, falling 1.62% across the month. As for ag futures, cotton jumped 7.39%. Sugar was up 2.24%; soybeans, 1.18%; coffee, 1.00%. Corn fell 1.09%; cocoa, 2.10%; wheat, 2.44%.^{14,15}

REAL ESTATE

October data pointed to a rebound in residential real estate. The National Association of Realtors said that existing home sales improved by 2.0% in the tenth month of the year; the gain for single-family homes was 2.1%. (Year-over-year, sales were still down 0.9%.) NAR's pending home sales index rose 3.5% after a 0.4% setback in September. As for new home sales, they increased 6.2% for October, according to the Census Bureau, marking the second month with a strong gain. The S&P/Case-Shiller 20-city home price index was up 6.2% in the 12 months ending in October, compared to a 5.8% annualized advance through September. ^{3,16}

Builders were busy as well. October witnessed a 13.7% leap in groundbreaking and a 5.9% increase in the issuance of building permits. Both Census Bureau indicators were negative in September. ³

On November 30, the interest rate for a conventional home loan was at 3.90%, according to Freddie Mac. That compares to a mean of 3.94% in its