

Weekly Economic Commentary

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Highlights

- The Federal Reserve's latest Beige Book helped confirm that the U.S. economy picked up steam as 2011 ended and 2012 began.
- The latest Beige Book also showed considerable improvement versus the November Beige Book, and both have improved drastically versus 2009, despite the financial media's instance that "this is just like 2008/2009."

Economic Calendar

Tuesday, January 17	Building Permits
NY Fed Empire State Mfg	Dec
Jan	Housing Starts
Wednesday, January 18	Dec
PPI	CPI
Dec	Dec
Capacity Utilization	Philadelphia Fed Index
Dec	Jan
Industrial Production	Friday, January 20
Dec	Existing Home Sales
NAHB Housing Survey	Dec
Jan	
Thursday, January 19	
Initial Claims	
Wk 1/14	

Not So Cloudy

In last week's commentary, we discussed whether or not economic momentum exists at all, and if so, did the economy have any forward momentum as 2011 ended and 2012 began. The Federal Reserve's Beige Book, a qualitative assessment of banking and business conditions in each of the Fed's 12 regional districts, was released last week, and helped to confirm that the U.S. economy did pick up steam as 2011 ended and 2012 began. In addition, a comparison of the last two Beige Books (released in November 2011 and last week) to the Beige Book released three years ago (January 2009), during the worst of the Great Recession, reveals that contrary to multiple reports in the financial media in recent weeks and months, this is not "just like 2008/09."

The still-struggling housing market is likely to dominate this week's U.S. economic calendar, although manufacturing, inflation, the labor market, and consumer spending will each have their turn. Despite some signs of modest progress in recent months aided by record low mortgage rates, market participants do not expect the housing market to contribute much to the economy in 2012, so the bar remains low for any housing-related data reports. On the other hand, the manufacturing sector is expected to make a meaningful contribution to economic growth in 2012, so any signs that the imminent recession in Europe or the slowdown in China has curbed activity in the manufacturing sector would be unwelcome by markets and could herald a shift in economic momentum. Inflation has not been a concern in the markets or the financial media since spring 2011, and that trend should continue this week as the December consumer price index (CPI) and producer price index (PPI) are released. Financial market participants largely shrugged off the reports released last week that weekly retail sales in the first week of the New Year posted a large week-over-week drop and that initial claims for unemployment insurance spiked higher in that same week. The market would be comforted if claims fell and weekly retail sales posted gains this week. If they do not reverse, the recent positive media narrative on the economy could begin to wane. It is a quiet week for Fed speakers ahead of next week's Federal Open Market Committee (FOMC) meeting.

Overseas, the Chinese GDP data for the fourth quarter of 2011, released on January 16, revealed that while Chinese economic growth exceeded expectations in the four quarters ending in the fourth quarter of 2011, the 8.9% growth rate was the slowest pace of growth in China since mid-2009. The slowdown in growth in China, along with the continued deceleration in inflation,



† Private Sector – the total nonfarm payroll accounts for approximately 80% of the workers who produce the entire gross domestic product of the United States. The nonfarm payroll statistic is reported monthly, on the first Friday of the month, and is used to assist government policy makers and economists determine the current state of the economy and predict future levels of economic activity. It doesn't include:

- general government employees
- private household employees
- employees of nonprofit organizations that provide assistance to individuals
- farm employees

Stock investing involves risk including loss of principal.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The Beige Book is a commonly used name for the Fed report called the Summary of Commentary on Current Economic Conditions by Federal Reserve District. It is published just before the FOMC meeting on interest rates and is used to inform the members on changes in the economy since the last meeting.

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