

Weekly Economic Commentary



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Media Matters

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Highlights

The media seems less concerned about recession fears compared with 2011 and 2010.

The June 2012 employment report, along with other recent reports on the labor market, do not show sustained labor market improvement.

We believe the Federal Reserve (Fed) will begin another round of quantitative easing (QE) in the months ahead.

Please see the LPL Financial Research Weekly Calendar on page 3

Fedlines: Fed Chairman Ben Bernanke noted in June that the FOMC was looking for “sustained improvement in the labor market,” and if they did not see that, additional action (round three of quantitative easing, or QE3) would be required.

The economic recovery that began in June 2009 turned three last month. At this point in a typical recovery market participants debate whether or not growth is too fast and when the Federal Reserve (Fed) is likely to raise rates to head off a bout of inflation. Instead, for the third consecutive summer, a bout of economic weakness at mid-year has raised fears of a return to recession (i.e., a double dip), and investors are mulling yet another round of bond buying (quantitative easing) by the Fed. But are consumers and the media paying attention?

As detailed in our recently published *2012 Mid-Year Outlook*, our view remains that the U.S. economy will grow at a below-trend 2.0% pace (as measured by real Gross Domestic Product [GDP]) in 2012 and avoid a double-dip recession. Our view, which was below consensus at the start of 2012, is now close to the consensus view but remains below the Fed's forecast for 2012. At the conclusion of the June 19–20 Federal Open Market Committee (FOMC) meeting, the FOMC lowered its 2012 real GDP forecast to 2.2% from the 2.7% forecast made at the April 2012 FOMC meeting.

June Jobs Disappoint

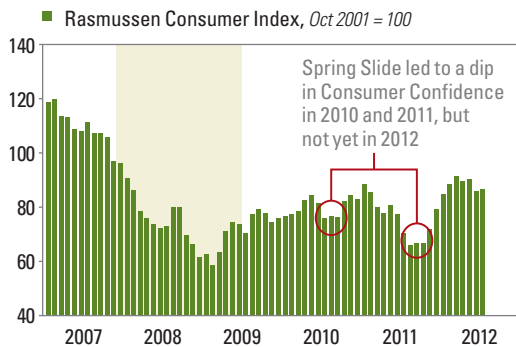
The June 2012 employment report (released on Friday, July 6) fell short of expectations for a fourth consecutive month, matching the longest streak of disappointing jobs reports (relative to consensus expectations as measured by Bloomberg News) in at least 15 years. The private sector economy created just 84,000 jobs in June 2012, failing to meet expectations of a gain of 103,000. The unemployment rate remained at 8.2% in June 2012, matching consensus expectations. The report was not a disaster by any means, however, as there were modest job gains in virtually every category. Yet, Fed Chairman Ben Bernanke noted in June that the FOMC was looking for “sustained improvement in the labor market,” and if they did not see that, additional action (round three of quantitative easing, or QE3) would be required. This report did not show sustained improvement in the labor market, and our view remains that another round of quantitative easing is likely in the months ahead.

But Consumers and Media Take Jobs, China, Europe in Stride

Remarkably, despite the dour news in the U.S. economy, fears of a hard landing in China, and ongoing recession in Europe, some financial markets, U.S. consumers and, surprisingly, the news media appears to be a bit more



1 Consumer Sentiment Has Barely Budged Over the Past Few Months Despite a Rash of Bad News on the Economy



Source: Rasmussen Reports, Inc./Haver Analytics 07/09/12

(Shaded Areas Indicate Recession)

sanguine this year than at this point in 2011 or 2010 about the prospects for a double dip or another recession.

As the equity market braces for the start of earnings reporting season for the second quarter of 2012, the S&P 500 remains less than 5% from its highs of the year (reached in early April 2012), which in turn, was the highest reading on the S&P 500 since May 2008, suggesting the stock market is not overly concerned with the U.S. economy and is instead focused on China, Europe, and earnings. (Please see the *Weekly Market Commentary* from July 2, 2012 and July 9, 2012 for details). The Treasury bond market does seem concerned, however, with the yield on the 10-year Treasury note close to an all-time low (at around 1.50%), but may be more concerned about Europe than the United States.

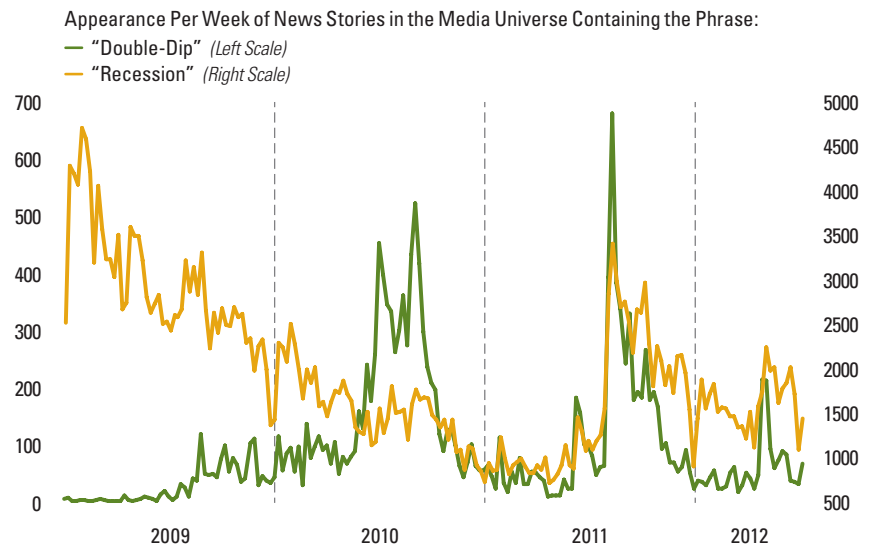
Consumers Remain Relatively Upbeat

On the other hand, consumers remain in a relatively upbeat mood, perhaps aided by the sizable drop in gasoline prices since mid-April 2012, receding costs for groceries, and more signs of stability in the housing market. The Rasmussen polling organization’s tally of daily consumer sentiment thus far in July 2012 is above June 2012’s reading, and only slightly below the four-year high readings reached in early 2012. More importantly, this measure of consumer sentiment stands a full 20 points above levels hit last summer and early fall amid the debate over the debt ceiling and the deteriorating situation in Europe. Consumer sentiment is 15 points above the mid-2010 lows, hit as double-dip fears gripped the economy.

Media Downplays U.S. Growth Scare

Even the news media seems to have downplayed the latest growth scare in the United States. The nearby figures describe how many news stories from key, mainstream news sources including Bloomberg, The Associated Press (AP), Dow Jones (the parent company of *The Wall Street Journal*), *The New*




2 Double-Dip and Recession Fears Less Pronounced in Media Than in 2011 and 2010



Source: Bloomberg, LPL Financial 07/09/12



LPL Financial Research Weekly Calendar

	U.S. Data 	Fed 	Global Notables 
2012			
9 Jul	<ul style="list-style-type: none"> ■ Consumer Credit (May) 	<ul style="list-style-type: none"> 👇 Rosengren 👇 Evans 👇 Williams * 	<ul style="list-style-type: none"> ■ China: CPI (Jun) ■ China: PPI (Jun) ■ China: New Loans (Jun) ■ Eurozone: Finance Ministers Meeting
10 Jul	<ul style="list-style-type: none"> ■ Small Business Sentiment (Jun) ■ JOLTS (May) 	<ul style="list-style-type: none"> 👇 Bullard 	<ul style="list-style-type: none"> ■ Eurozone: Finance Ministers Meeting ■ China: Imports and Exports (Jun)
11 Jul	<ul style="list-style-type: none"> ■ Trade Balance (May) ■ Monthly Crop Report (Jun) 	<ul style="list-style-type: none"> ■ FOMC Minutes 	<ul style="list-style-type: none"> ■ South Korea: Central Bank Meeting ■ Brazil: Central Bank Meeting
12 Jul	<ul style="list-style-type: none"> ■ Initial Claims (7/7) ■ Treasury Statement (Jun) 	<ul style="list-style-type: none"> 👇 Williams * 	<ul style="list-style-type: none"> ■ Japan: BOJ Meeting ■ Indonesia: Central Bank Meeting ■ India: Industrial Production (May)
13 Jul	<ul style="list-style-type: none"> ■ PPI (Jun) ■ Consumer Sentiment (1H Jul) 	<ul style="list-style-type: none"> 👇 Lockhart * 	<ul style="list-style-type: none"> ■ China: GDP (Q2) ■ China: Industrial Production (Jun)

👇 Hawks: Fed officials who favor the low inflation side of the Fed's dual mandate of low inflation and full employment

👇 Doves: Fed officials who favor the full employment side of the Fed's dual mandate

* Voting members of the Federal Open Market Committee (FOMC)

Job Openings and Labor Turnover Survey (JOLTS) is a survey done by the United States Bureau of Labor Statistics to help measure job vacancies. It collects data from employers including retailers, manufacturers and different offices each month. Respondents to the survey answer quantitative and qualitative questions about their businesses' employment, job openings, recruitment, hires and separations. The JOLTS data is published monthly and by region and industry.

China CPI: In total there are about 600 "national items" used for calculating the all-China CPI. The list of items is revised annually for representativeness based on purchases reported in the household surveys. The number of items can change from year to year, but rarely by more than 10 in any given year.

Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

York Times and *The Washington Post* contained the phrase "double dip" and "recession" [Figure 2]. We note that in mid-2010 and especially in the late summer/early fall of 2011, the news media was full of double-dip and recession stories. During the 2010 double-dip media frenzy, the number of stories mentioning the phrase "double dip" topped 500 per week, and the number of news stories mentioning the word "recession" moved above 1,700 per week, after a long slide from 4,700 to 1,200 between March 2009 and June 2010. During the debt ceiling and Europe-induced growth scares in the United States in the summer and fall of 2011, the phrase "double dip" appeared in nearly 700 stories per week, while "recession" spiked to nearly 3,500 stories per week in August and September 2011.

In the latest week (July 2–6, 2012)—despite the barrage of bad news on the manufacturing sector, China, and the U.S. labor market—the phrase "double dip" appeared in just 65 stories, more than double the number of times the phrase appeared in any given week in the first few months of the year, but still well below the spikes in 2011 and 2010. The word "recession" appeared in only 1,463 stories in our news universe, far below the counts seen in 2011 and 2010. Although the news media has plenty to write about



in the coming weeks and months (the looming fiscal cliff, Europe, China, and the upcoming U.S. presidential and congressional elections), we would not be surprised to see a pickup in the mentions of “double dip” and “recession” in news stories in the coming weeks.

Still, markets and the media may just be getting used to all the bad news. Unless economic conditions deteriorate rapidly, which we do not expect, we maintain our outlook on the economy for 2012. We continue to believe the U.S. economy will grow about 2%, supported by soft sentiment and hard data continuing to converge. ■

LPL Financial Research 2012 Forecasts

- GDP 2%*
- Federal Funds Rate 0%^
- Private Payrolls +200K/mo.†

Please see our *2012 Outlook* for more details on LPL Financial Research forecasts.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

* Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

^ Federal Funds Rate is the interest rate at which depository institutions actively trade balances held at the Federal Reserve, called federal funds, with each other, usually overnight, on an uncollateralized basis.

† 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

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.

Chinese Purchasing Managers Index: The PMI includes a package of indices to measure manufacturing sector performance. A reading above 50 percent indicates economic expansion, while that below 50 percent indicates contraction.

The ISM index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.



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 Bank of Japan produces a quarterly “Tankan” survey of corporations that provides insight into the current business climate in Japan. The Bank of Japan uses this survey to help determine monetary policy.

The Eurozone Purchasing Managers’ Index (PMI) assesses business conditions in the manufacturing sector.

International investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.

Quantitative Easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

The Federal Open Market Committee action known as Operation Twist began in 1961. The intent was to flatten the yield curve in order to promote capital inflows and strengthen the dollar. The Fed utilized open market operations to shorten the maturity of public debt in the open market. The action has subsequently been reexamined in isolation and found to have been more effective than originally thought. As a result of this reappraisal, similar action has been suggested as an alternative to quantitative easing by central banks.

The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System, is charged under the United States law with overseeing the nation’s open market operations (i.e., the Fed’s buying and selling of United States Treasury securities).

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