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Thomas Cymer CFP® CRPC® Presents:

WEEKLY ECONOMIC UPDATE

January 6, 2014

WEEKLY QUOTE

"Motivation is what gets you started. Habit is what keeps you going."
- Jim Rohn

WEEKLY TIP

As the year gets underway, look at your monthly expenses. Could some of these bills be lower? Are some of these expenses optional? Could you save money by cutting a couple of expenses out?

WEEKLY RIDDLE

Throughout Friday, Hanna asks her mother the same four-word question. On each occasion, her mother gives her a different answer. What is the question?

Last week's riddle: It softly goes up and down the stairs in many homes and office buildings, and yet it never moves. What could it be?
Last week's answer: Carpet.

A MAJOR GAIN FOR A CONSUMER CONFIDENCE INDEX

The Conference Board's monthly gauge of consumer confidence came in at 78.1 for December, beating the 76.0 median forecast from economists polled by Bloomberg. In November, it stood at 72.0. The index is way up from where it once was: its average reading was just 53.7 during the 2007-09 recession.[1]

HOME PRICES, HOME SALES CONTRACTS INCREASE

While existing home sales have fallen in recent months, the National Association of Realtors offered some positive news last week - pending home sales increased 0.2% in November, a contrast to October's 1.2% retreat. The October S&P/Case-Shiller Home Price Index showed a 13.6% yearly gain in property prices measured across 20 cities, improved 0.3% from the September edition; that is the best annual gain the Case-Shiller index has recorded since February 2006.[1,2]

FACTORIES HUM IN DECEMBER

December's manufacturing PMI from the Institute for Supply Management offered a reading of 57.0 - down from 57.3% in November, but still a mark of solid expansion in the factory sector. Analysts polled by MarketWatch expected the index to decline to 56.6.[2]

BULLS TAKE A BREATHER AS 2014 BEGINS

Speaking in Philadelphia Friday, Federal Reserve chairman Ben Bernanke asserted that the economy has made "considerable progress", and that there are "grounds for cautious optimism abroad." His remarks didn't give stocks much of a lift to end the week. From December 30-January 3, the S&P 500 lost 0.54%, the Dow 0.05% and the Nasdaq 0.59%. The closing prices Friday: Dow, 16,469.99; Nasdaq, 4,131.91; S&P, 1,831.37.[3]

THIS WEEK: On Monday, ISM's December service sector index and the Census Bureau's report on December factory orders arrive, and the Senate is expected to approve Janet Yellen's appointment as Fed chair. Tuesday offers earnings from The Container Store, Apollo Group and Micron. The minutes from the December 17-18 Fed policy meeting will be released on Wednesday, along with the December ADP job-change report and earnings from Family Dollar, Ruby Tuesday, Monsanto and Constellation Brands. Thursday brings December's Challenger job-cut report, the latest round of initial jobless claims, and earnings news from Supervalu, Alcoa, Texas Industries and PriceSmart. The Labor Department publishes its December employment report on Friday.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-0.64	+22.99	+16.46	+5.82
NASDAQ	-1.07	+33.26	+30.63	+10.59
S&P 500	-0.92	+25.49	+19.31	+6.52
REAL YIELD	1/3 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.75%	-0.54%	2.29%	2.06%

Sources: CNNMoney.com, bigcharts.com, treasury.gov - 1/3/14[4,5,6,7,8,9]

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

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The Fed Finally Tapers

The FOMC authorizes a minor reduction in bond buying starting in 2014.

Provided by Thomas Cymer CFP®, CRPC®

December 18 turned out to be T-Day: the day on which the Federal Reserve finally tapered QE3. In making the move, the Fed acknowledged an improving economy; Wall Street quickly and enthusiastically applauded its decision.

The Fed will reduce its monthly asset purchases by $10 billion. QE3 will continue, but the central bank will buy only $75 billion of bonds per month starting in January. The $10 billion cut comes evenly across Treasuries and mortgage-backed securities; next month, the central bank will purchase $40 billion of the former and $35 billion of the latter.[1,2]

Fed officials voted 9-1 in favor of a taper. Boston Fed President Eric Rosengren was the lone dissenter on the Federal Open Market Committee, terming the action "premature" as the jobless rate had not yet descended to the Fed's target of 6.5%.[1,3]

Market reaction: thumbs up. The 2:00pm EST announcement gave stocks a real boost; the Dow rose 292.71 for the day to 16,167.97, the NASDAQ gained 46.38 to 4,070.06 and the S&P 500 ascended 29.65 to 1,810.65. Judging by the rally, Wall Street seemed to agree that it was time for action.[4]

"I think logically, this is what they had to do," JPMorgan Funds managing director David Kelly told CNBC, reflecting a broad opinion. "If you look at what's happened this year, the unemployment rate has come down to 7 percent. We've got housing starts over a million units. We got the S&P 500 up 25 percent. In this economy, you have to pull back from the most extreme monetary policy in a century. So I think it's overdue. I'm glad to see it."[3]

Additional gradual reductions in QE3 may follow. At Wednesday's press conference, Fed chairman Ben Bernanke noted that the central bank's quantitative easing effort may be reduced in "further measured steps" determined in upcoming FOMC meetings.[5]

Could an interest rate decision be coming? The FOMC addressed that topic in its policy statement. It noted its intention to keep the federal funds rate at current levels "well past the time" unemployment reaches its target of 6.5%.[5]

What does this mean on Main Street? As the noted economist Peter Morici told MarketWatch: "The stimulus program was supposed to boost spending going in, so it's going to reduce spending going out."[6]

It may become slightly tougher to finance big-ticket purchases in 2014, especially if the Fed keeps reducing the scale of its monthly asset purchases as the year unfolds. National Association of Realtors chief economist Lawrence Yun commented to MarketWatch that homeowners who want to move (or move up) "need to realize that it could be more challenging a year from now." Yun thinks the average interest rate on a 30-year home loan could hit 5% or even 5.5% sometime in 2014. Home improvement projects, student loans and auto loans may all grow costlier.[6]

Retirees, on the other hand, may see some financial positives if the Fed opts to tinker with interest rates next year. "Interest rates close to zero punish savers and retired folks," University of Michigan-Flint finance professor Mark Perry reminded MarketWatch. "Right now, consumers are getting almost zero interest on their checking or savings account." Perry estimates that under present conditions, American savers could realize $76 billion in additional interest income for every 1% that the Fed raises the key interest rate. Retirees and pre-retirees who dream of traveling more might also benefit in the near term - the dollar strengthened versus a basket of currencies prior to the central bank's announcement, and an appreciating dollar certainly buys more overseas.[6]

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Citations.

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Week of Se ptember 30th, 2013