



Economic Evaluation Group, Inc.
131 Jericho Turnpike
Jericho, NY 11753
(516) 338-2800
Fax: (516) 338-7284
www.eegroup.com

Economic Evaluation Group, Inc. Presents
Monthly Economic Update for December, 2007

Quote of the month. “A ship in port is safe, but that’s not what ships are built for.” – Rear Adm. Grace Murray Hopper

The month in brief. Figuratively speaking, it was not the stock market’s finest hour. Statistically speaking, November was an unsettling month – the Dow Jones Industrial Average lost more than 1,100 points, falling from 13,847.58¹ to 12,743.44² before a reassuring rally kicked in at month’s end to take the index back to 13,371.72.³ Stock market investors had to consider some troubling questions in November, questions that many had put off considering for months. Was the “economic downturn” created by the housing slump and the credit crisis now turning into a recession? Was a bear market emerging? Would the Federal Reserve sit on its hands, or ride to the rescue?

Then, Fed vice chairman Donald Kohn spoke the magic words “flexible and pragmatic policy.” The Dow Jones Industrial Average soared north in response and the Dow had its best two-day rally since 2002: a 2.55% increase.⁴ With plain signs of easing at the Fed, investors raised their hopes for December, even with rising foreclosures, poor home sales, and middling consumer spending.

Domestic economic health. There were clear signs of a slowdown – so clear that the Fed and White House revised economic projections downward. In mid-November, the Fed forecast that the U.S. economy would grow only 1.6-2.6% in 2008, as compared to the 3.9% GDP chalked up in 3Q 2007.⁵ The Fed revealed that the pace of manufacturing declined 0.4% for October; output at factories, mines and utility companies declined 0.5% for October.⁶

Corporations felt the brunt of the credit crisis, and expressed them in their earnings reports. Early in the month, General Motors reported a \$39 billion 3Q loss.⁷ Washington Mutual projected total 2007 losses approaching \$2.2 billion.⁸ Wachovia announced a \$1.1 billion writedown for October; Citigroup said it might write down \$8-11 billion for the fourth quarter, Morgan Stanley \$3.7 billion for 4Q and Bank of America \$3 billion for 4Q.⁹

Consumers were also facing challenges, and not just at the pump; the Labor Department noted a 0.3% increase in its Consumer Price Index for October, and unemployment claims hit a four-week high in mid-November at 339,000.¹⁰

Global economic health. The euro flirted with the \$1.50 mark late in November, and the EU statistics agency announced that Eurozone inflation had climbed to 2.6% for October.¹¹ Eurozone 3Q growth was 0.7%, an increase from 0.3% in 2Q.¹² But England’s economy also expanded at a 0.7% pace, a relative disappointment.¹³

In Asia, senior International Monetary Fund official Jerald Schiff made an encouraging prediction for that region’s economies, revealing an IMF forecast of a mild 2008 slowdown for the region but a “sizable risk of a U.S. recession and a sharper global slowdown.”¹⁴ New data showed Taiwan’s economy growing at its fastest pace in three years during the third quarter: 6.9%.¹⁵ Thailand’s economy was also hot for the 3Q, growing at 4.9%.¹⁶ But according to Bloomberg data, the economy of the Philippines topped the Southeast Asia region, with a 6.8% GDP for 3Q.¹⁷ Even Japan

enjoyed 2.6% growth in the quarter.¹⁸ And India outpaced them all, with 8.9% GDP for the third quarter.¹⁹

World financial markets. As usual, European and Asian markets suffered with the consequences of the U.S. markets. In fact, overall, global equities had their worst month since 2002.²⁰

In Europe, the Stoxx 600 had its worst month in more than a year with worries about the U.S. housing sector and credit crisis. But at the end of November, European stocks advanced the most since June, mirroring Wall Street.²⁰ China's benchmark CSI 300 Index and the Shanghai Composite Index dropped 17% and 18% on the month. (But the CSI 300 was still up 132% for the year at the end of November.)²¹ On November 26th, there was a bit of a rebound underway for other Asian indexes, as they rallied in response to U.S. consumer spending for the holiday season: on that day, the Hang Seng jumped 4.1% and South Korea's KOSPI closed up 4.7%.²²

Commodities markets. Few would have predicted oil prices at the \$89 level at the end of November, but that was the reality. Oil went from the mid-\$95s to over \$99 per barrel by November 21st before pulling back. As for gold and silver, gold prices topped the \$830 mark in late November before losing \$42.70 in the last week of the month to close November at \$789.10 per ounce.²² Silver prices briefly crested \$16 an ounce, but fell back to \$14 an ounce by the end of the month.²³ Wheat prices soared 15% in the second part of November.²⁴

Housing & interest rates. The good news was that pending home sales rose 0.2% in September ... but they were still 20% below levels of one year ago, said the National Association of Realtors.²⁵ The Commerce Department reported that new home sales were up 1.7% in October ... but still 23.5% under October 2006 levels. RealtyTrac had October 2007 foreclosure filings at 224,451, up 94% from a year ago.²⁶ And NAR announced a year-over-year decline in residential resales of 20.7% for October.²⁷

Mortgage rates necessarily descended. By the last week of the month: conventional mortgages bore their lowest interest rate averages since May: 30-year FRMs were averaging 6.20%, according to Freddie Mac, while Averages on 15-year FRMs, 5-year ARMs and 1-year ARMs were 5.83%, 5.88%, and 5.42% respectively.²⁸

Speaking of mortgages, the month of November ended with Treasury Secretary Henry Paulson preparing a carefully considered plan with mortgage industry leaders to freeze interest rates on ARMs and other adjustable-rate loans.²⁹

Major indexes. It was an especially bad month for the NASDAQ (see below), and all three big indexes went into negative territory for November. But, the month-end Wall Street rebound put them well back into the black for the year.

% Change	1-Month	Y-T-D
DJIA	-3.56	+6.78
NASDAQ	-6.22	+8.77
S&P 500	-3.44	+4.26

Source: CNNMoney.com, 11/30/07

December outlook. As the Dow sank into the 12,000s last month, the question no one wanted to face was on everyone's mind: was the five-year bull market done? The 2.4-3.0% jump in the big three indexes in the last week of November did much to erase the question. A December interest rate cut – which looks increasingly probable – would certainly rev up the markets again. However, in the global picture, the Federal Reserve and the ECB are still focused on controlling inflation, and fear its rise. Similarly, the euro and other currencies are starting to look more and more attractive to investors in other economies, compared with the dollar. So beyond any December relief (and Santa Claus may treat Wall Street to a strong month), there are still big issues to contend with economically.

And now, the economic calendar for December. The Fed's FOMC meets 12/11 to make its next decision on interest rates. Besides that, we have data coming about October factory orders (12/5), November unemployment and wages and the Reuters/University of Michigan consumer sentiment index (12/7), October pending home sales (12/10), October wholesale inventories (12/11), the U.S. Treasury budget (12/12), November retail sales and PPI (12/13), November CPI and industrial production (12/14), November housing starts (12/18), November personal income and personal spending (12/21), November durable goods orders (12/27) December consumer

confidence (12/27), and finally November existing

home sales and new home sales (12/28).

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The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx[®], and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. These views are those of Peter Montoya Inc., and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards.

Citations. ¹ money.cnn.com/quote/historical/historical.html?pg=hi&close_date=11%2F1%2F07&mode=add&symb=26099400

² money.cnn.com/quote/historical/historical.html?pg=hi&close_date=11%2F26%2F07&mode=add&symb=26099400

³ money.cnn.com/quote/historical/historical.html?pg=hi&close_date=11%2F30%2F07&mode=add&symb=26099400

⁴ www.news.com.au/heraldsun/story/0,21985,22844834-664,00.html

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¹⁰ <http://www.cbsnews.com/stories/2007/11/15/business/main3507376.shtml>

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¹⁷ www.bloomberg.com/apps/news?pid=20601080&sid=aF_GwDzLC904&refer=asia

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²⁶ www.usatoday.com/money/economy/housing/2007-11-13-pending-home-sales_N.htm

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