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Economic Evaluation Group, Inc. Presents **Monthly Economic Recap for February, 2008**

Quote of the month. “Nothing is said that has not been said before.” – Terence

The month in brief. January was a month in which recession fears gave way to recession assumptions. Indicators showed manufacturing slowing, the real estate sector stalled, and payrolls declining. The stock market declined, alarmingly. The Dow Jones dipped beneath 11,500 at mid-month, a descent veering close to a 20% correction from the 2007 high-water mark of just over 14,000 (and a 20% correction is a landmark of a bear market).

In response, the Federal Reserve made two interest rate cuts within eight days (including a remarkable .75% cut on January 22) to lower the benchmark interest rate all the way to 3.0% from 4.25%. It was the biggest cut to the federal funds rate since 1982.¹ The White House rolled out an economic stimulus plan in response to Fed chairman Ben Bernanke’s request, featuring tax rebates that might foster greater consumer spending. Although Senate Democrats were less than pleased with certain aspects of the bill, legislators hoped to put the package on President George W. Bush’s desk by February 15.

Domestic economic health. Two statistics turned heads among economists, and seemed to affirm a recession. One, the Philadelphia’s January factory index fell to -20.9, incredibly below the -1.3 economists had forecast.² (Almost simultaneously, Labor Department data reported unexpectedly high 4.1% inflation and -0.9% inflation-adjusted wages for

2007.³) Two, the Labor Department ended the month with the announcement that the economy had lost 17,000 jobs in January, marking the first decline in payrolls since 2003; none of the 80 economists polled by Bloomberg News had forecast such a decrease.⁴

The icing on this rather sour-tasting cake was the Commerce Department’s late-January announcement of the 4Q 2007 GDP ... it was only 0.6%.⁵ Its latest basket of statistics contained more disappointments: overall 2007 GDP of 2.2%, and the worst year for consumer spending since 2003 (personal spending grew by 2% in the 4Q and 2.9% for all of 2007).⁵

On January 10, Ben Bernanke commented that “the Federal Reserve is not currently forecasting a recession.”⁶ But Wall Street economists were quick to rebut him. Merrill Lynch’s North American Economist, David Rosenberg, publicly stated on January 11 that the economy was in a recession, echoing Goldman Sachs’ forecast “2-3 quarters” of “mild” recession, interest rates at 2.5% by summer, and real GDP of only 0.8% for 2008.⁷

An economic stimulus package made its way through the House of Representative easily enough, but met a bit of a roadblock in the Senate at month’s end. The plan included tax rebates of \$600 for individuals and \$1,200 for couples, with families slated to receive an extra \$300 rebate per child.⁸ The month ended with Senate Democrats introducing an alternative bill to expand rebate eligibility to those living only on Social Security and veterans benefits.

Global economic health. If a recession damaged the U.S. economy, how would Asia fare? Optimistic Asian economists believed their nations could ride out the storm. One school of thought noted that even if exports to the U.S. dwindled, tax cuts and foreign exchange reserves to fund infrastructure improvements could keep growth going.⁹ But pessimists are not so sure that the “decoupling” theory floated in recent years will prove true – that is, the thought that Asia’s economies don’t really need to look to the U.S. for continued vitality.¹⁰ Meanwhile, a coalition of Eurozone finance ministers and bankers revised the EU 2008 growth forecast to 1.5-1.8% for 2008, down from 2.2% and well below the 2.6% recorded in 2007.¹¹

World financial markets. As overseas stock markets take cues from the U.S., this month’s Wall Street plunge was mirrored in Asian and European markets. On January 16, the Tokyo Stock Exchange’s Nikkei 225 index fell 468.12 points to close at 13,504.51, a low not hit since October 2005. The Hang Seng index fell 5.37% and the Nikkei Index fell 3.35% on the same day. The core Indonesian index fell 5%, and even India’s Sensex index dropped 2%.¹² On January 22, the bloodletting continued as the Nikkei 225 lost 5.65% on the day and fell below 13,000 for the first time since October, 2005. It had fallen 3.86% the day before. Hong Kong’s Hang Seng plunged 5.5% on January 21 and then 8.65% further on January 22.¹³ Most Asian markets ended the month in retreat, less than impressed by the U.S. economy and the actions of the Fed.

European markets were also rattled all month. On January 10, the Bank of England didn’t cut interest rates and the European Central Bank hinted at an interest rate hike, so equities dove to a 16-month low.¹⁴ The big plunge came on January 21, when European stocks had their worst day since September 11, 2001. The Stoxx 600 dropped 5.4% on the day and almost 23% below its mid-2007 high of 400.99.¹⁵

Commodities markets. On January 3, crude oil prices cracked the \$100/barrel ceiling intraday trading on the New York Mercantile Exchange.¹⁶ But then prices fell dramatically, sinking below \$84 a barrel by January 22 and ending the month at \$88.10.¹⁷ Gasoline prices eased up nationally as a consequence.

Gold continued its bull run, and other key precious metals followed suit. On January 11, gold hit a record high of \$897.50 an ounce, platinum hit an all-time high of \$1,564.50 an ounce, and silver prices reached \$16.28 an ounce, their highest price since 1981.¹⁸ By the start of February, gold was hovering at around \$910 per ounce, with silver well over \$16/ounce and platinum approaching \$1,800/ounce.¹⁹

Housing & interest rates. The month brought more confirmation of the depth of the housing correction: dismal December numbers and year-end numbers summing up an unnerving 2007. In December, new home prices were down 10.9% from a year ago ... and new home sales shrank by 26% in 2007.²⁰ Housing starts fell 14.2% in December, to their lowest pace since 1991.²¹ Existing home sales were down by 13%, the largest one-year drop since 1982. Moreover, it was the first year that existing home sale prices declined since the National Association of Realtors began keeping records in 1968.²² After declining all January, mortgage rates started rising from three-year lows, concluding the month with averages of 5.68% (30-year FRMs), 5.17% (15-year FRMs), 5.32% (5-year ARMs), and 5.05% (1-year ARMs).²³

Major indexes. The U.S. stock market spent the final week of the month rallying to recover from what was at one point its worst January since 1982.²⁴ The big indexes lost from 4.4-6.8% in the opening week of 2008, and gained 3.6-4.7% in January’s last week.

% Change	1/08	2007
DJIA	-4.86	+6.43
NASDAQ	-10.98	+9.81
S&P 500	-6.51	+3.53

Source: CNNMoney.com, 1/31/08

February outlook. After a rocky start for the stock market and repeated warning lights about the economy, what might February bring? Eyes are already focused toward March, when the Fed might announce another rate cut. Between now and then, however, most economists see more distress signals and a rocky month ahead.

Here’s what the economic calendar holds for the rest of February: preliminary 4Q productivity (2/6),

December pending home sales (2/7), December wholesale inventories (2/8), January retail sales and business inventories (2/13), January industrial production and February consumer sentiment (2/15), January CPI, January housing starts and the Fed's

January 30-31 minutes (2/20), January existing home sales data, core PPI and PPI and February consumer confidence (2/26), January durable goods orders and new home sales data (2/27), and January personal spending and personal income (2/29).

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Citations.

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