

Economic Week in Review: 12-16-2011 Moderate progress at home, less overseas

The U.S. economy is showing enough momentum to keep the Federal Reserve in wait-and-see mode, though risks from abroad continued this past week. Europe's drift back toward recession and signs of slowing in Asia remained potential stumbling blocks for the U.S. recovery. Meanwhile, the sovereign bond market's cool reaction to a plan to enforce fiscal discipline in Europe kept alive concern that nations could default-with uncertain repercussions for the fate of the Eurozone and the global economy. For the week ended December 16, the S&P 500 Index fell 2.8% to 1,220 (for a year-to-date total return-including price change plus dividends-of about -1.0%). The yield on the 10-year U.S. Treasury note fell 21 basis points to 1.86% (for a year-to-date decline of 144 basis points).

Fed again holds its fire

Noting what it called moderate economic progress, the Federal Reserve's policymaking committee announced no additional steps to spur the recovery. Its December statement adopted a somewhat brighter tone-citing modest improvement in employment and consumer spending-though it cautioned that Europe's woes and slower growth around the world pose risks at home.

The Fed also cited home-grown obstacles-including still-high unemployment and the deeply troubled housing market-and remarked that financial market strains pose "significant" economic risk.

As expected, the committee repeated its pledge to keep its key interest rate near zero at least until mid-2013, and said it will continue measures aimed at driving down long-term rates, while closely monitoring inflation.

Inflation remains tame

Despite signs the economy is recovering, the latest price reports suggest that demand for goods and services is still too low to generate much inflation. Overall prices at the retail level were flat in November as energy costs dropped, while producer prices rose somewhat more than expected, mainly because of spikes in wholesale food prices.

Not counting food and energy prices-which tend to fluctuate a lot-"core" consumer inflation rose as shelter, health care, and clothing got a little more expensive. This monthly rise put year-over-year core inflation slightly above the Federal Reserve's implicit target of 2%, though analysts see the recovery's slow pace keeping a check on price pressures.

Industry pulls back

U.S. industrial output fell in November for the first time since April. Analysts noted, however, that the unexpected decline may be fleeting, since floods in Thailand had caused shortages of parts for U.S. automakers and the latest regional manufacturing surveys have been more upbeat.

Retail sales growth slows heading into holidays

November's lower-than-expected sales estimates added a note of caution regarding how well retailers will fare during the critical holiday shopping season. Retailers took in more money overall in November compared with October, but the 0.2% monthly rise was the weakest since June, and the 6.7% year-over-year rise was the weakest since August 2010. Shoppers apparently were enticed by new smartphone rollouts and other electronics, but spending growth slowed at other big holiday draws such as department stores and clothing shops.

However, sales figures for September and October were revised upward, adding to the fuzzy picture on consumers. Even with unemployment still high, confidence low, and income growth generally weak, Americans have been saving less and spending somewhat more lately. Because consumer spending accounts for more than two-thirds of the U.S. economy, analysts are keeping an eye on whether consumers will keep up their recent spending pace.

Lean retail inventories a plus?

Consumers' willingness to keep spending this fall kept retail inventories in record-low territory in October compared with sales, a potential assist to the economy. Because retailers had been leery of overstocking their shelves amid economic and financial

uncertainty, their inventories dwindled. Low ratios of inventories to sales often precede a boost in production as retailers order more wares. Meanwhile, wholesalers and factories added to their stockpiles just enough to keep pace with sales.

The economic week ahead

Analysts will be watching for further signs of economic momentum in the Conference Board's leading indicators on Thursday and in reports on personal income and durable goods on Friday. News on corporate profits will highlight Thursday's final estimate of third-quarter gross domestic product. Also on tap are the latest data on the housing market-with housing starts on Tuesday, existing-home sales on Wednesday, and new-home sales on Friday.

Summary of major economic reports

Date	Report	Actual value	Consensus expected value	10-year note yield	S&P 500 Index
December 12				-4 bp	-1.5%
December 13	Retail Sales (November) <i>Source: Commerce Department</i>	+0.2%	+0.6%	-7 bp	-0.9%
	Business Inventories (October) <i>Source: Commerce Department</i>	+0.8%	+0.9%		
	FOMC meeting ends with no change in monetary policy. <i>Source: Federal Reserve Board</i>	-	-		
December 14				-4 bp	-1.1%
December 15	Initial Jobless Claims (week ended December 10) <i>Source: Labor Department</i>	366,000	390,000	0 bp	+0.3%
	Producer Price Index (November) <i>Source: Labor Department</i>	+0.3%	+0.2%		
	PPI, except food and energy (November) <i>Source: Labor Department</i>	+0.1%	+0.2%		
	Industrial Production (November) <i>Source: Federal Reserve Board</i>	-0.2%	+0.2%		
December 16	Consumer Price Index (November) <i>Source: Labor Department</i>	0.0%	+0.1%	-6 bp	+0.3%
	CPI, except food and energy (November) <i>Source:</i>	+0.2%	+0.1%		
			Weekly change	-21 bp	-2.8%

bp=basis points. 100 basis points equal 1%. For example, if a bond's yield rises from 5% to 5.5%, the increase is 50 basis points.

Notes

- The economic statistics presented in this report are subject to revision by the agencies that issue them. For more information on the reports mentioned in this article, read [Guide to major U.S. economic reports](#).
- All investments are subject to risk.
- *Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.*