

A September to Remember

Joe Terranova, Chief Market Strategist, Virtus Investment Partners, offers insights into some of the key economic indicators and meaningful market events to keep a close eye on throughout September, which also marks the one-year anniversary of the calendar.

September 2011

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
			August 31 China PMI	1 10:00 AM: ISM Manufacturing Index France, Italy, Germany, U.K. and Euro Region PMI	2 8:30 AM: Unemployment & Private Sector Jobs	3
4	5 Labor Day Markets Closed	6 Eurozone GDP German Factory Orders	7 2:00 PM: Beige Book German Industrial Production	8 ECB Rate Announcement German Exports	9 China CPI China Industrial Production China Trade Report (Exports/Imports)	10
11	12	13 1:00 PM: 10-Yr Treasury Note Auction	14 7:00 AM: MBA Mortgage Applications 8:30 AM: Retail Sales 8:30 AM: PPI 1:00 PM: 30-Yr Treasury Bond Auction	15 8:30 AM: CPI 8:30 AM: Empire State Manufacturing Survey 9:15 AM: Industrial Production 10:00 AM: Philly Fed Survey	16	17
18	19	20 2:15 PM: FOMC Meeting Announcement	21 7:00 AM: MBA Mortgage Applications	22 8:30 AM: Initial Jobless Claims	23	24
25	26 8:30 AM: Chicago Fed National Activity Index Germany's Ifo Business Climate Index	27 10:00 AM: Richmond Fed Manufacturing Index	28 7:00 AM: MBA Mortgage Applications 8:30 AM: Durable Goods Orders	29 8:30 AM: GDP	30 9:45 AM: Chicago PMI China PMI	

Times shown are Eastern Daylight (EDT).

We're at the point in the economic cycle where push comes to shove. September data will tell us the true state of the global economy, the health of European banks, and the extent of damage done by the U.S. debt ceiling debate. When the month is over, we'll know whether the marketplace can expect lift-off or further deterioration for the remainder of 2011. Of all indicators, manufacturing data from numerous global and domestic sources will have the most to say about the future direction. Good or bad, September will surely be a month to remember.

September indicators / events of note:

You should be watching:

China PMI

China PMI (purchasing managers' index) is released on the last day of the month. This monthly gauge of China's manufacturing sector, combined with monthly U.S. ISM Manufacturing Index released the next day, gives a clear picture of global manufacturing health. An index value above 50 indicates growth, below 50 contraction.

China PMI remains an important indicator on the calendar. Last month, China PMI was 50.7, dangerously close to the expansion/contraction line. The September number is expected to come in slightly lower, around 50.5 to 51.

France, Italy, Germany, U.K., and Euro Region PMI

Each country's PMI is a key measure of the state of its manufacturing sector. An index value above 50 indicates growth, below 50 contraction.

Plain and simple, we need to see resiliency in global manufacturing numbers throughout Europe. Last month, PMI for France was 49.3, 50.1 Italy, 52.0 for Germany, 49.1 for the U.K., and 49.7 for the euro region as a whole.

ISM Manufacturing Index

Issued by the Institute of Supply Management, this report provides an influential monthly measure of the health of U.S. manufacturing based on an in-depth survey of 300 manufacturing firms. An index value of 50 is the dividing line between an expanding or slowing economy.

September's ISM Manufacturing number will be extremely important. Given the ominous Philly Fed report in August, expectations are for ISM Index to contract and dip below 50 for the first time in two years since it hit 49 in August 2009. Expectations for September ISM range from 48 to 49.

Unemployment & Private Sector Jobs

Private payroll data is part of the Labor Department's monthly U.S. Employment Situation report. This data gives the true employment story, is the best gauge of the economy's direction, and has the power to move markets.

Last month, 117,000 jobs were added to the headline number; look for 90,000 to 110,000 jobs added this month. Last month, private payroll gained 154,000 jobs; this month, look for 120,000 to 140,000. I expect the unemployment rate to hold steady at 9.1%. Initial jobless claims have been trending somewhat better over the last six or so weeks, and this modest improvement suggests we may see similar (slight) improvement in labor numbers.

Eurozone GDP

Eurostat, the statistical office of the European Union, releases the second Q2 2011 estimate of gross domestic product for the eurozone.

Close monitoring for signs of global growth (or contraction) continues. We'll want to see how GDP for the euro region is holding up.

German Factory Orders

Deutsche Bundesbank releases monthly data related to German factory orders.

This report will provide important data from Germany, the eurozone's engine. Last month's German factory orders rose 1.8% on a month-on-month basis.

German Industrial Production

This monthly report provides a gauge of Germany's economic health by showing how much Germany's factories, utilities, and mines are producing and how much factory capacity is in use.

Last month, German industrial production contracted by 1.1%. This month's number will give us a better sense of Germany's economic direction.

September indicators / events of note:

You should be watching:

Beige Book

FOMC commentary on current conditions in each of the Federal Reserve's 12 districts is released two weeks prior to the next FOMC meeting. This month's Beige Book is for the September 20 meeting.

The FOMC decision on August 9 was noteworthy for the three dissenting votes it provoked (the most dissent seen since November 17, 1992). The minutes of that meeting were reported on August 30. The Beige Book will set the tone for the September 20 meeting and may hint at which path the FOMC is apt to take. Will it lean toward the dissenters or toward those who continue to favor accommodative actions? Three FOMC meetings remain for the year – September 20, November 2, and December 13.

ECB Rate Announcement

The ECB controls monetary policy, including interest rates, for eurozone countries, and strives to keep inflation at about 2%.

ECB interest rates are currently at 1.5%. For additional insight on the importance of EU monetary policy, read my August 22 blog about [the need for QE2 in Europe](#) (not QE3 in the U.S.).

German Exports

Export data provided by Germany's monthly trade report, which is released by the Federal Statistical Office in Wiesbaden.

Last month's German exports were down 1.2% month on month. We need to see improvement in this figure, which telegraphs China's economic activity, as China is a main import partner of Germany.

China CPI

China's consumer price index, a key measure of inflation, is released monthly.

Last month's China CPI was 6.5% year on year, the highest inflation rate since July 2008. The obvious question remains: When will China's tightening cycle end? Much of the answer lies in the China CPI. I expect to see a slowdown in CPI and an end to monetary tightening. My expectations for CPI are somewhere between 6% to 6.3%.

China Industrial Production

This monthly indicator measures changes in output for the industrial sector of China's economy, including manufacturing, mining, and utilities. It is an important indicator for economic forecasting and a measure of inflation. Data released is for the previous month.

It is important to keep a critical eye on all the economic data points out of China through September. If there is to be a "hero" that can help the economy in the second half, I believe China is still a lead contender.

China Trade Report (Exports/Imports)

China's monthly trade report provides important import, export, and interest rate data on the Chinese economy.

China's currency, the yuan, continues to appreciate. China's trade surplus, which last month rose sharply to \$31.48 billion, is supportive of further yuan appreciation. Last month, China exports were up 24% and imports up 22% year on year. This month, it would be favorable for the global economy to see China exports and imports rise north of 24%.

U.S. Treasury Auctions for:

- 10-year Treasury Notes (September 13)
- 30-year Treasury Bonds (September 14)

The obvious question: Will the recent incredible demand for "safe haven" Treasuries continue?

September indicators / events of note:

MBA Mortgage Applications

This weekly report from the Mortgage Bankers' Association gives a gauge on housing demand and economic momentum using a purchase applications index, which measures applications at mortgage lenders. This report is a leading indicator for single-family home sales and housing construction.

Retail Sales

Retail sales data is released monthly by the U.S. Department of Commerce. Retail sales measure total receipts for sales of durable and nondurable goods. Consumer spending accounts for two-thirds of GDP and is therefore a key element in economic growth. Each report is based on the previous month's data.

Producer Price Index (PPI) and Consumer Price Index (CPI)

Monthly PPI and CPI data are significant indicators of inflation. PPI measures the prices of consumer goods and capital equipment at the producer level before they are passed on to consumers. CPI measures the prices of consumer goods and services.

Empire State Manufacturing Survey

The Federal Reserve Bank of New York conducts this monthly survey of manufacturers in New York state, across a variety of industries. Report data is for the month in which it is released.

Industrial Production

This monthly release by the U.S. Federal Reserve shows how much factories, mines, and utilities are producing – and how much factory capacity is in use. This data is an important measure of current output for the economy and helps to define turning points in the business cycle, such as the start of a recession or a recovery. Each report contains data from the previous month.

Philadelphia Fed Manufacturing Survey

This monthly survey provides useful intelligence on manufacturing conditions within the Philadelphia Federal Reserve district and is useful as an indicator of broad manufacturing sector trends.

You should be watching:

This is a new indicator for the calendar. I've added it because I want to see if a surge in refinancing has been initiated by the dramatic move lower in Treasury yields and historic private sector borrowing costs. The MBA report will tell us if it has. It should; let's see if it does.

I haven't included any other housing indicators this month. Clearly, housing continues to drag along the bottom and further deterioration is expected. We need several months of consistent improvements in housing before it returns to the calendar as a meaningful indicator.

Retail sales rose 0.5% last month. To this point, there has been resiliency in spending, particularly on the part of the affluent consumer. However, the affluent consumer is greatly impacted by the movement in the equities market and, given the precipitous decline we've seen, may retrench their spending – obviously not a favorable condition.

I expect benign PPI and CPI numbers for September with not much to say beyond that. Last month, core PPI and CPI (ex food and energy) rose 2.5% and 1.8% respectively from a year earlier (on July data).

September 15 will provide key U.S. manufacturing data in three reports: Empire State Manufacturing Survey, Industrial Production, and Philadelphia Fed Manufacturing Survey. It all starts with the Empire State Manufacturing Survey, which will give us an update on factories in the New York area, which have been contracting for three consecutive months. This survey is highly important as a recessionary indicator.

This is the second piece of critical manufacturing data being released on September 15. The industrial production report gave us a modest positive surprise last month. We've been getting conflicting signals – “yes” recession, “no” recession – from this report. What will September's report tell us?

The Philly Fed survey provides the third piece of critical manufacturing data we'll be waiting for on September 15. The August survey release roiled the markets with a surprisingly sharp contraction of -30.7 vs. consensus estimates of -2.0 to +1.5. Obviously, we'll want to see what the September update has to say. For additional background on the August numbers, read my blog, [“Ominous Philly Fed.”](#)

September indicators / events of note:

You should be watching:

FOMC Meeting Announcement

The Federal Open Market Committee (FOMC) releases its interest rate decision following its September monetary policy meeting.

There is no scheduled press conference connected with this particular meeting, but we'll want to hear what the FOMC has to say. The minutes will be released October 11.

Initial Jobless Claims

This weekly release by the U.S. Labor Department shows the number of individuals who filed for unemployment benefits for the first time. An increasing (decreasing) trend suggests a deteriorating (improving) labor market.

Obviously, employment numbers remain important to monitor. This includes weekly jobless claims, as well as the Labor Department's monthly report at the beginning of each month.

Germany's Ifo Business Climate Index

This index, prepared by the Ifo Institute for Economic Research in Munich, is a leading indicator for Germany's economic activity. The index is based on a monthly survey of 7,000 manufacturing, construction, wholesaling, and retailing firms on their current business situation and their business outlook for the next six months. Results reported are for that month.

German manufacturing indicators will provide critical data throughout the month of September, including the Ifo. In August, the Ifo fell to its lowest level (108.7) since June 2010.

Chicago Fed National Activity Index

The CFNAI is a monthly index designed to gauge national economic activity and related inflationary pressure based on data related to production and income, employment, personal consumption, housing, sales, orders, and inventories. A zero index value indicates expansion at the historical growth rate; a negative value indicates below-average growth; and a positive value indicates above-average growth.

This month, I've included more manufacturing indicators than usual, including a number of regional Fed manufacturing surveys. I'll be looking to the Chicago Fed report to get a deeper read on the state of manufacturing activity in the Midwest region.

Richmond Fed Manufacturing Index

This monthly index is based on data collected in a manufacturing survey of companies in the Fifth Federal Reserve District region of Richmond, Baltimore, and Charlotte. It provides current activity, including shipments, new orders, order backlogs, and inventories, as well as employment conditions, prices, and firm expectations for business activity for the next six months.

Manufacturing has played a critical part in the economic recovery. This regional manufacturing index showed contraction last month. We will be looking at this and other Fed manufacturing reports for evidence of deterioration in manufacturing at the various regional levels.

Durable Goods Orders

This monthly release from the U.S. Commerce Department reflects new orders placed with U.S. manufacturers for immediate and future delivery of factory hard goods, and is an indicator of how busy factories will be to fill those orders. Data reported is for previous month.

Last month, as reported in my blog, [a surprisingly robust report for durable goods orders](#) gave rise to the "recession or not" argument. Demand for commercial aircraft and motor vehicles was surprisingly strong. Are we in for more of the same or another reversal?

September indicators / events of note:

Gross Domestic Product (GDP)

The quarterly GDP report, released by the U.S. Commerce Department, tracks the purchases of all U.S. goods and services in all sectors and is the broadest measure of the economy.

Chicago PMI

This monthly index, compiled by the Institute of Supply Management – Chicago, provides insight into business conditions at manufacturing and non-manufacturing firms in the Chicago area, and is considered a proxy for the overall U.S. economy. A reading above 50 indicates an expanding business sector, below 50 contraction. Data released is for the previous month.

You should be watching:

Final GDP for Q2 2011 will be released. The preliminary Q2 rate stands at a sluggish 1.3% annualized.

Chicago PMI tends to telegraph the ISM Manufacturing Index, which will be released on the next business day, Monday, October 3. For that reason alone, it's worth watching.



JOSEPH M. TERRANOVA, *Chief Market Strategist, Virtus Investment Partners*

Joe Terranova is Chief Market Strategist for Virtus Investment Partners. He was elevated to that position in June 2009, having started with the company in the role of Chief Alternatives Strategist.

In his current role, Mr. Terranova works with Virtus' regional sales teams and the financial advisors who sell the company's investment products, providing insight into the domestic and global investing landscape and has represented Virtus as a keynote speaker for several financial institutions. He is a member of the Virtus Investment Oversight Committee.

Prior to joining Virtus in 2008, Mr. Terranova spent 18 years at MBF Clearing Corp., rising to the position of Director of Trading for the company and its subsidiaries. In this capacity, he managed more than 300 traders and support staff for MBF, one of the New York Mercantile Exchange's largest firms. His work was highlighted as the feature story in the June 2004 issue of *Futures* magazine.

Mr. Terranova is perhaps best known for his risk management skills, honed while overseeing MBF's proprietary trading operations during some of the most calamitous times for the U.S. markets, including the first Gulf War, the 1998 Asian Crisis, 9/11, and the collapse of Amaranth Advisors. In 2003, he was one of the first Wall Street professionals to make an early call for higher energy, natural resources, and commodity prices. In June 2008, he cautioned investors to move to the sidelines in commodities and, in March 2009, he encouraged investors to ignore the global "embracement of pessimism" and overweight equities. Before joining MBF, Terranova held positions at both Swiss Banking Corp. and JP Morgan Securities.

Mr. Terranova is a CNBC contributor and is currently a full time panelist on the highly rated program *Fast Money*. He is also a frequent panelist on the CNBC daytime program *Fast Money Halftime Report*.

In 2007, along with Hockey Hall of Fame player Mike Bossy, Mr. Terranova established "Bossy's Bunch," a program that rewards excellence in the classroom for elementary school students.

Mr. Terranova earned a bachelor's degree in finance from the Peter J. Tobin College of Business at St. John's University in New York.

For more information, visit Virtus.com

This commentary is the opinion of Joe Terranova. Virtus Investment Partners provides this communication as a matter of general information. The opinions stated herein are those of the author and not necessarily the opinions of Virtus, its affiliates, or its subadvisers. Portfolio managers at Virtus make investment decisions in accordance with specific client guidelines and restrictions. As a result, client accounts may differ in strategy and composition from the information presented herein. Any facts and statistics quoted are from sources believed to be reliable, but they may be incomplete or condensed and we do not guarantee their accuracy. This communication is not an offer or solicitation to purchase or sell any security, and it is not a research report. Individuals should consult with a qualified financial professional before making any investment decisions.

Not all products or marketing materials are available at all firms.

*Mutual Funds distributed by **VP Distributors, Inc.**, member FINRA and subsidiary of Virtus Investment Partners, Inc.*

6353 8-11 © 2011 Virtus Investment Partners, Inc.