Will the Positive Economic Momentum Continue?

Key economic indicators and market events for January by Joe Terranova, Chief Market Strategist

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As we turn the page on a new year, a number of global economic data points have surprised positively. In Europe, the value of the euro continues to appreciate toward its high for 2012; European sovereign debt yields continue to decline from their July peaks; and the growth trough in Germany, the nation that matters most, appears to be in place. In the emerging markets, recent manufacturing and trade data hint toward growth reaccelerating in 2013. In the U.S., a significant housing rebound is well underway, and manufacturing, which experienced a late-summer contraction, is also showing signs of a modest rebound. If this positive economic momentum continues, consensus estimates for GDP growth, both domestically and globally, will need to be re-priced higher in Q1 2013. Finally, the month of January presents a fresh round of corporate earnings which, over the past three years, have provided the markets with a strong tailwind.

January 2013

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	Dec. 31 9:00 PM: **China Mfg. PMI**	1 **Markets Closed**	2 10:00 AM: **ISM Mfg. Index** 2:00 PM: **FOMC Minutes**	3 8:15 AM: **ADP Employment Report** 8:30 AM: **Initial Jobless Claims**	4 8:30 AM: **U.S. Unemployment** 10:00 AM: **ISM Non-Mfg. Index**	5
6	7	8 7:30 AM: **NFIB Small Business Optimism Index** **Earnings Season Kicks Off***	9 1:00 PM: **10-Year Treasury Auction**	10 1:00 PM: **30-Year Treasury Auction**	11	12
13	14	15 8:30 AM: **Retail Sales**	16 9:15 AM: **Industrial Production** 2:00 PM: **Beige Book**	17 8:30 AM: **Housing Starts** 10:00 AM: **Philly Fed Mfg. Survey** **BAC, C, COF, & PNC Earnings***	18	19
20	21 **Markets Closed**	22 10:00 AM: **Existing Home Sales** **IBM Earnings***	23 **TXN & SNDK Earnings***	24 **MSFT & AAPL Earnings***	25 **German Ifo Business Climate Index**	26
27	28 8:30 AM: **Durable Goods Orders**	29 **FOMC Meeting Begins**	30 2:15 PM: **FOMC Policy Statement**	31 9:45 PM: **Chicago PMI**		

*Times shown are Eastern Time. *Expected earnings release date; may be subject to change.*

January indicators / events of note:	You should be watching:
China Manufacturing PMI China manufacturing PMI (purchasing managers' index) is released on the last day of the month. This monthly gauge of China's manufacturing sector, combined with the monthly U.S. ISM Manufacturing Index value released the next day, gives a clear picture of global manufacturing health. An index value above 50 indicates growth, below 50 contraction.	Last month's reading was 50.6; we're looking for another move higher to 51 for December, the final reading of 2012, which would be the highest we've seen since February 2012. Looking at the trend, the current average for 2012 is 50.8, with a low reading of 49.2 for August and a high print for April of 53.3. It would be nice to close out the year north of 50.8, which would also be the fourth consecutive month that PMI has risen, signaling that August 2012 represented a trough.
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. Data released is for the previous month.	The ISM Manufacturing report for November was a disappointing 49.5, and I am looking for the December report to come in north of 50. There may be an additional lag in December, but it shouldn't be as substantial as November's, which was distorted by Superstorm Sandy. For 2012, the average reading was 51.8 through November, with a low print in November and a high print of 54.8 in April. We had three sub-50 months in 2012: November (49.5), August (49.6), and July (49.8). I've been slightly encouraged by the new orders-to-inventory ratio within the report, which remains positive and is the reason I was less concerned about the sub-50 print for November than I was about July and August. It will be important to see on which side of 50 we land for December, and if the new orders-to-inventory ratio falls slightly, which would be negative.
FOMC Minutes The Federal Open Market Committee (FOMC) releases minutes from its December 12 meeting.	I would expect that these minutes will give the markets some insight into the first FOMC meeting of 2013. Whether you prefer to call it "QE4" or "QE Infinity," as others have called it, the Fed's conversation really was about their move from having a targeted date to end the policy to outcome-based guidance.
ADP Employment Report and Initial Jobless Claims > **ADP Employment Report** – This monthly report, based on U.S. private payroll data (excluding government), is released two days ahead of the U.S. Labor Department's monthly employment report and is used for the advance read it gives on the labor market. > **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.	When I talk about surprising economic evidence of late, initial jobless claims clearly fit that bill. In early December, we touched a low of 344,000, the lowest figure since October. However, the overall trend does suggest improvement, and we should focus not only on the initial jobless claims figure released on January 3, but also on the ADP report that day, which is forecasting that 140,000 jobs were added last month.

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U.S. Unemployment Report 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.	We're not looking for any substantial changes in December's report; the data should be consistent with the last few months. The unemployment rate is expected to remain unchanged at 7.7%. Last month, 147,000 jobs were added to private payrolls and 146,000 to the headline number, and expectations are for those figures to come in relatively unchanged. Now that the Fed has shifted to outcome-based guidance, we will be looking to see how fast we can get to a 6.5% unemployment rate. Certainly, the addition of 130,000-150,000 jobs per month will not get us there any faster than the Fed's previous mid-2015 calendar guidance.
ISM Non-Manufacturing Index The index is based on surveys of nearly 400 firms from 60 sectors across the U.S., including agriculture, mining, construction, transportation, communications, wholesale trade, and retail trade. The index provides the economic backdrop for the various markets and consists of data on business activity, new orders, employment, and supplier deliveries.	The average for this index that measures the services side of the economy was 54.5, and we expect this month's figure to hit about there. Last month, it was 54.7. The high mark for the year was 57.3 in February and the low print was 52.1 in June, but as we've highlighted in past commentaries, the services side of the economy stayed strong in the late summer/early fall, in contrast to the manufacturing side.
NFIB Small Business Optimism Index The National Federation of Independent Business produces this monthly report, which is based on a survey of small businesses with 100-250 employees and provides a gauge on this important sector of the economy.	This is the first time I've included this indicator on the calendar. Last month, the index came in at 87.5, a considerable decline from the previous month's 93.1 and the lowest reading since 86.8 in March 2010. For the year, the average was 92.6, with a high of 94.5 for April and a low of 87.5 for November. I think this index is really the true measure of the fears of American businesses regarding the uncertainty of the fiscal cliff. Whatever the changes to tax policy will be in 2013, this report really identifies the fears or the potential retrenchment that small businesses may have. Further weakening in this index or the lack of a sharp rebound is consistent with our belief that, for now, large caps should be favored over small caps.
Earnings Season Kicks Off* Fourth quarter earnings reporting gets underway with Alcoa's release, targeted for January 8.	Earnings season unofficially begins with Alcoa's release; however, it truly does not begin until the week of the 14th when financial companies, including JP Morgan, Goldman Sachs, and U.S. Bancorp, report. Overall, we're probably looking at EPS growth for S&P 500 companies of close to 10%, sales growth of close to 3%, a sharp recovery in materials, and continued strength in technology and financials. We're not looking for a recovery in energy and industrials just yet.

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U.S. Treasury Auctions > January 9: 10-year Treasury Notes > January 10: 30-year Treasury Bonds	After a long absence from the calendar, it's time to start looking at U.S. Treasury auctions again. Given the $35 trillion in fixed income held by mutual funds, pension funds, and households, even a modest reallocation should be very favorable for the equity markets. In the wake of the Fed's change to outcome-based forward guidance, we've seen a modest uptick in 10-year Treasuries. We want to begin to look at how investors view the long end of the curve.
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.	Retail sales remain very important. The 2012 holiday period from October 28 through December 24 looks as though it will have experienced half the growth that it did in 2011. Much of that is a consequence of Superstorm Sandy which, in fact, impacted 25% of overall consumer spending with the exposure to the mid-Atlantic and the Northeast; New York State alone accounts for 25% of luxury spending. Consumer discretionary overall looks a bit rich in valuation and may be in need of a modest correction. I currently view the sector with a suggested market weight allocation, down from overweight as we had it for much of 2012.
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.	Much of what I'll be focusing on in this report is whether we are beginning to see resurgence in manufacturing, which would benefit raw materials and the overall domestic economy. Last month, industrial production was up 1.05%, the best month-on-month rise we've witnessed in 23 months.
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 will set the tone for the first FOMC meeting of the year on January 29-30.
Housing Starts The Commerce Department's monthly housing starts report is the most closely followed report on the housing sector because it discloses the number of new residential buildings under construction in the U.S. The report is based on the previous month's data.	As we head into the spring selling season, investor focus on housing has to increase, both for the impact it has on financial institutions and for the wealth effect on consumers. While most have characterized the recovery as a bump off the bottom, it looks as though much more is budding underneath and it's more of a V-shaped recovery. New housing starts in November were for 850,000 units following 888,000 in October. We have not had two consecutive months such as those since the spring of 2008. Keep in mind, there were only 478,000 starts in April 2009.

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"Philly 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.	The Philly Fed has been an excellent leading indicator in telling us where both manufacturing and the market, to a certain degree, have been going. The last reported figure was in December, which was +8.10 for November, the best reading we've had since April 2012. We're looking for a second consecutive strong figure for December. The average for 2012 year to date (through November) is -0.23, with the highest for March at 12.50 and the lowest at -16.60 for June.
Financials Earnings on January 17 Bank of America (BAC), Citigroup (C), Capital One Financial (COF), and PNC Financial (PNC) are all expected to release earnings on January 17.*	Financials will set the tone early for earnings season, and growth for the sector should remain strong as I discuss in greater detail in my Q1 playbook, "It Remains A Bond Friendly World."
Existing Home Sales This monthly report from the National Association of Realtors provides sales-closing data on previously constructed homes, condos, and co-ops. Existing homes account for a larger share of the market than new homes and are indicative of housing market trends. Each report is based on the previous month's data.	Last month, there were 5.04 million existing home sales at an annualized pace, the best reading since November 2009 and an increase of 9% month on month. Inventories last month were 2.03 million, the lowest level since December 2001. Keep in mind that inventory was at 3.15 million in July 2011, and at a high point of 4.04 million in July 2007.
Technology Earnings to Watch > January 22: IBM* > January 23: Texas Instruments (TXN) and SanDisk (SNDK)* > January 24: Microsoft (MSFT) and Apple (AAPL)*	Just as financials will be the earnings focus the week of January 14, the week of January 21 will be about technology, highlighted by the reports from these companies.
German 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.	We'll be looking at the December report to see how 2012 closes out. Since the 100 print in September, there have been two consecutive increases: 101.4 in October and 102.4 in November. As I have repeatedly said, as goes Germany, so goes Europe.
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 the previous month.	Durable goods were up 0.7% for November, 1.1% for October, and August's 13.1% contraction reversed with a rise of 9.1% for September. All we want to see from this data is no contraction into negative territory.

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FOMC Meeting and Policy Statement The Federal Open Market Committee (FOMC) holds its monetary policy meeting on January 29-30 and releases its policy statement following the meeting.	Eight FOMC meetings are scheduled for 2013: > January 29-30 > March 19-20† > April 30-May 1 > June 18-19† > July 30-31 > September 17-18† > October 29-30 > December 17-18† †These four meetings will be followed by a press conference conducted by Chairman Bernanke. The Fed will also release its summary of economic projections on those dates, which is now important because of the Fed's recent shift to an outcome-based focus.
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.	Chicago PMI has been rather consistent over the last couple of months and that is why this indicator is back on the calendar, to help project what ISM Manufacturing will look like. We are currently well below the 2012 average of 55 (through November). The low was 49.7 in September, and the high was 64 in February.

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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 has been an ensemble member of the CNBC *Fast Money* franchise since 2008. He also frequently contributes exclusively to CNBC's other business programs. He is the author of *"Buy High, Sell Higher"* (Business Plus, 2012), a book about the "new rules" of investing based on his years as a professional trader.

In 2007, Mr. Terranova and Hockey Hall of Fame player Mike Bossy 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.

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