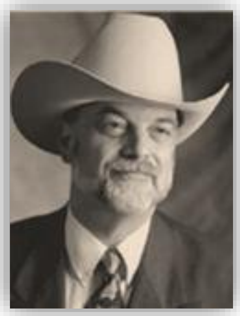

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) closed at 2549.33, up 1.19% for the week, 13.87% year-to-date, and 18.37% for 52 weeks (one year). The Index didn't close at a record, but it did Thursday and is up about 2% from its recent crossing of the 2500 mark. The 10-year, benchmark U.S. Treasury note ended today yielding 2.366%, very close to where it started the week. The puzzling behavior of the exceptionally low interest rates and inflation we have and are experiencing continues. Gold prices dropped to $1,277.70, down 0.38% for the week and down 5.43% for the last month. It remains at near break-even (not counting transaction costs) for one year.

The Economy

There were two employment statistic numbers reported from the Labor Department that sounded contradictory but were not. The unemployment rate for September dropped from 4.4% to 4.2% but the total number of persons employed declined by 33,000. The release included a note that the drop in total employment was very likely the result of Irma hitting Florida and Harvey smacking several places along the Texas coast.

So, how is it that the unemployment rate declined even though fewer people are working? The answer begins in the fact that the unemployment rate is derived from household surveys while the number of people employed is a total of what government organizations and a sample of larger companies report. The household survey is a large-scale sampling of the views of members of household members as to whether they believe they are employed, looking for work, willing, but not looking for work, or simply not looking. The nature of the hurricane impact is that the people who are temporarily unemployed by the disasters are not looking for work as they expect to return to work when things are cleaned up.

Unemployment is the lowest since 2001, and that suggests that we are at or very near "full employment." Just about everyone who wants a job has one. Historically, somewhere around 4% of the working population is between jobs at any given moment as they move to a better job, a transition from one location to another, or are entering or leaving school. The drop in total employment was focused in food-service and drinking establishments. Simply put, following the hurricanes, restaurants, and bars are not doing much business in the affected areas.

Not headlined in many places was another economic statistic. The Institute for Supply Management's (ISM) Index of Manufacturing Activity climbed to 60.8, its highest reading since 2004. Any number above 50 indicates growth in that Index. The survey found "expanding business conditions, with new orders, production employment, order backlogs, and export orders all growing in September." The only reported negatives were fears of a shortage of component parts, raw material, and labor. The ISM additionally reported that non-manufacturing economic activity rose to the highest level since 2005. At the same time, the University of Michigan's survey of consumer sentiment indicated optimism and an expectation of rising inflation in 2018.

The day after the ISM report, Autodata reported a 6.1% surge in automobile sales as pickups and sports utility vehicles sold faster than they were being manufactured. That surge in sales appears to be, at least in part, a result of the unprecedented number of automobiles destroyed in the hurricane-related flooding. An economic cash flow from insurance companies to car dealers is underway that will likely continue for a while. General Motors Co. saw a 12% rise in sales in September over the previous month while Ford reported a 10% rise and Toyota sales rose 15%.

Why is all this important? Final sales to members of the public, or as they are referred to economically, "consumers," represents about 70% of the economic activity in the U.S. When consumers are buying and optimistic about the future, we are likely to see good economic times ahead, and growing earnings for corporations. Those earnings are what drive the stock market, and more stock market value produces more wealth. The bottom line is that we have a healthy, growing economy with likely better times ahead. The only threats currently in sight are worker shortages and the potential for political disruption of imported materials needed to keep manufacturing going.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

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