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# MONTHLY ECONOMIC UPDATE

February 2018

**THIS MONTH'S HIGHLIGHT IS SOCIAL SECURITY**

**Social Security benefits can be a critical part of your retirement income. It's important to understand how it works and consider carefully when to claim your benefits. The following articles are designed to help you start thinking about Social Security**



## THE MONTH IN BRIEF

Bulls took charge of Wall Street as 2018 began: the Dow Jones Industrial Average rose 5.79% in the first month of the year, even with a mild selloff on the verge of February. Foreign equity benchmarks largely advanced as well. Oil and gasoline futures surged, while bitcoin continued to rollercoaster. Personal spending, manufacturing, and consumer confidence data encouraged investors. Home sales weakened as home prices surpassed a pre-recession peak and mortgage rates increased. Analysts kept warning that Wall Street was overdue for a pullback; while indices did slip late in the month, optimism was little shaken.

## DOMESTIC ECONOMIC HEALTH

America's economy is largely driven by the consumer, and as the Bureau of Economic Analysis noted, consumers spent generously in December. There were 0.4% improvements in both personal income and personal spending. Retail sales rose by 0.4% in the last month of 2017, even with vehicle and gasoline purchases factored out. The BEA released its first estimate of fourth-quarter GDP in late January – a respectable 2.6%.

Consumer confidence index readings varied from extremely impressive to above average. The Conference Board's monthly index rose from 123.1 to 125.4 in January. In contrast, the University of Michigan's gauge of consumer sentiment weakened from a final December mark of 95.9 to 94.4. (It was four points higher a year earlier.)

Businesses hired 148,000 more workers than they let go in December, a figure which disappointed many analysts. Hourly wage growth remained at 2.5%. Unemployment held at 4.1%, with the U-6 rate including the underemployed rising 0.1% to 8.1%. After revisions to November and October numbers, the Department of Labor calculated average monthly job gains of 204,000 in the final quarter of 2017.

Investors concerned about any weakness in the labor market could find something to cheer about in manufacturing. The Institute for Supply Management's December purchasing manager index for the U.S. factory sector rose 1.5 points to an impressive reading of 59.7; that PMI dipped to 59.1 in January, which was nonetheless another fine reading. ISM's non-manufacturing PMI went the other way, losing 1.5 points in December to a still-noteworthy mark of 55.9.

Just when inflation seemed to be accelerating, it slowed again – at least by the assessment of the latest Consumer and Producer Price Indexes. December's headline CPI showed a 2.1% annualized gain for consumer prices, compared to 2.2% a month earlier. The core CPI showed a 1.8% yearly advance. Prices ticked up 0.1% in the last month of 2017; core prices, 0.3%. Yearly wholesale inflation had reached 3.1% in November; it dropped to 2.6% in December.

Did these inflation numbers threaten to make things difficult for the Federal Reserve as it contemplated its next rate increase? Apparently not. On January 31, the Federal Open Market Committee held rates steady (as anticipated) while noting its expectation that inflation should increase in 2018 and that the economy should "warrant further gradual increases" in the federal funds rate. (Some investors took that as a hint of a March rate move.) This was the FOMC's last meeting with Janet Yellen as chair.

## GLOBAL ECONOMIC HEALTH

In 2017, the economy of the European Union reached a peak unseen in more than a decade and outpaced that of the United States. Fresh data from Eurostat showed E.U. GDP of 2.5% for 2017, compared with 2.3% for America. The United Kingdom's economy lagged, expanding 1.8% in the first full year after the Brexit decision and marking the poorest economic year for the U.K. since 2012. Continental leaders grew concerned last month with the political climate of Italy, the third-largest E.U. economy (and a stagnant one at that). A national election is set for March 4, and the fear is that a shift in political coalitions could prompt anti-establishment leaders to the forefront. In the worst-case scenario, Italy leaves the E.U., a decision which could threaten to wreck the Eurozone.

According to the latest official data from China, the P.R.C.'s economy grew 6.9% in 2017 – its best showing in seven years, surpassing the government target of 6.5%. (Some analysts believe the nation's GDP number is regularly inflated and contend that China's true yearly economic growth is 5% or less.) The private-sector Caixin/Markit factory PMI for China remained at a decent 51.5 in January, even as export orders fell slightly. Japan's Markit/Nikkei factory PMI reached a four-year high last month, South Korea's went back over the 50 mark (indicating expansion), and Taiwan's reached its highest level since April 2011.

## WORLD MARKETS

A trio of notable equity benchmarks gained more than 10% in January: Argentina's Merval rose 16.21%; Brazil's Bovespa, 11.14%; Hong Kong's Hang Seng, 10.13%. Six more posted monthly increases of between 5-10%: Russia's Micex added 8.54%; the MSCI Emerging Markets, 8.30%; Taiwan's TSE 50, 6.32%; India's Sensex, 5.60%; the Shanghai Composite, 5.25%; MSCI's World index, 5.22%.

More gains to note: India's Nifty 50, 4.72%; South Korea's Kospi, 4.13%; Spain's IBEX 35, 4.06%; France's CAC 40, 3.19%; Nikkei 225, 2.52%; Mexico's Bolsa, 2.23%; Germany's DAX, 2.10%; FTSE Eurofirst 300, 1.60%. Lastly, two benchmarks lost ground last month: Canada's TSX Composite, which declined 1.59%, and the United Kingdom's FTSE 100, which dipped 2.01%.

## COMMODITIES MARKETS

Many commodities posted January advances; bitcoin was not one of them. The digital currency began January at $13,412.44, but it sat at $10,058.10 at the close on January 31. That descent represented a 25.01% loss. The U.S. Dollar Index lost 3.18% for the month, settling January 31 at 89.19.

Light sweet crude ended January at $64.77 per barrel, up 7.77% for the month. Unleaded gasoline rose 5.78%. The news was also good for some other soft commodities: wheat gained 5.68%; cocoa, 5.30%; soybeans, 4.62%; corn, 2.99%. Sugar had it worst, falling 9.50%; coffee fell 3.33%, while cotton lost 2.03%. Heating oil (-0.12%) and natural gas (+0.10%) were little changed.

Platinum led the four key metals in January with a gain of 8.21%, and copper trailed with a 2.59% loss. Gold rose 3.22% and silver, 1.58%; gold ended January at $1,344.40 an ounce, silver at $17.32 an ounce.

## REAL ESTATE

The housing market felt a chill in December. Resales declined 3.6% according to the National Association of Realtors, and new home buying weakened 9.3% by the estimation of the Census Bureau.

Harsh weather was not the only factor in the winter sales slowdown. The 20-city S&P CoreLogic Case-Shiller index showed home prices up 6.2% year-over-year through November; moreover, as 2017 ended, existing home values were 6% above where they had been back in 2006.

Mortgage rates climbed steadily in January, adding to affordability concerns and making some real estate analysts wonder if home prices might level off a bit. Freddie Mac's Primary Mortgage Market Survey provides a quick illustration. On January 25, it found the mean interest rate on the 30-year fixed at 4.15% - just a touch higher than in late January 2017, but up from 3.99% on December 28. In the same time frame, the average interest rate for the 15-year fixed went from 3.44% to 3.62%, while the mean interest on the 5-year adjustable home loan rose from 3.47% to 3.52%.

Developers had begun fewer projects in December. In mid-January, the Census Bureau announced an 8.2% drop in housing starts in the preceding month, with building permits down just 0.1%. Lastly, the NAR pending home sales index rose 0.5% in the final month of 2017.

## LOOKING BACK…LOOKING FORWARD

On Wall Street benchmark gained more than twice as much as the S&P 500 in January. The NYSE Arca Biotechnology index jumped 13.01% last month, getting a major lift from the earnings season.

The big three had a great month, as demonstrated by the year-to-date gains shown below. Their January 31 settlements: Dow, 26,149.39; Nasdaq, 7,411.18; S&P 500, 2,823.81. As for the small caps, the Russell 2000 advanced 2.57% year-to-date in January to a month-end close of 1,574.98. Volatility was on the rise: the CBOE VIX gained 22.64% in January to wrap up the month at 13.54.

| % CHANGE | Y-T-D | 1-YR CHG | 5-YR AVG | 10-YR AVG |
|---|---|---|---|---|
| DJIA | +5.79 | +31.64 | +17.73 | +10.67 |
| NASDAQ | +7.36 | +32.00 | +27.17 | +21.01 |
| S&P 500 | +5.62 | +23.91 | +17.70 | +10.48 |
| REAL YIELD | 1/31 RATE | 1 YR AGO | 5 YRS AGO | 10 YRS AGO |
| 10 YR TIPS | 0.61% | 0.40% | -0.57% | 1.33% |

Sources: wsj.com, bigcharts.com, treasury.gov – 1/31/18[1,18,19,20]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.



As January ended, the stock market "melt-up" was in full effect: no one wanted to miss out on such amazing gains, and seemingly everyone was running to direct money into equities. During the first few trading days of February, we did not quite see a meltdown, but we did see a stunning pullback, at this writing possibly heralding a correction. The market has been abnormally calm for many months.

Expect February to be a month of ups and downs, the types that may give investors pause. The good news is, the economy's fundamentals are still strong, even as Wall Street worries that rising interest rates may make fixed-income investments more attractive. Seasoned investors will ride through the volatility and keep an eye on the big picture. The bull market is being challenged, but the two factors that often end contribute to end years of Wall Street advances – the downside of a business cycle and rapid tightening by the Federal Reserve – do not yet seem to be at hand. A correction can lead to a healthier and less speculative investment climate.

## Good Reasons to Retire Later

*Working longer might work out well for you.*

**Are you in your fifties and unsure if you have enough retirement savings?** Then you have two basic financial choices. You could start saving and investing more of your pay than you currently do, or you could work longer so you have fewer years of retirement to fund.

That second choice might be more manageable, and it may also work out better financially.

**Research suggests that working longer might be a good way to address this shortfall.** Last month, the National Bureau of Economic Research (NBER) published a paper on this very topic, and its conclusions are significant. The four economists writing the report maintain that when you reach your mid-sixties, staying on the job just one more year could help you greatly. Waiting a little longer to file for Social Security also becomes a plus.

**What was the most noteworthy finding?** By the time you are 66, staying on the job just an additional three to six months will do as much for your standard of living in retirement as if you had contributed 1% more to your retirement plan for 30 years.

**Here is an example from the report, with asterisk attached.** A 66-year-old who has directed 9% of their earnings into an employee retirement plan during the length of their career retires. Had they simply put 10% of their pay per year into that retirement plan rather than 9%, they would have retired with 11.11% more money in that account.

If they work for another year, retire at 67 and file for Social Security benefits at 67, they may put themselves in a better financial position. In this simple example, Social Security benefits would constitute the other 81% of their retirement income. They are just slightly past their Full Retirement Age as defined by Social Security, so by retiring at 67, they receive 108% of the monthly Social Security benefit they would have received at 66.

The asterisk in this scenario is the outlook for Social Security. In the future, will Social Security benefits be reduced? That possibility exists.

Working full time until age 67 may be a tall order for some of us. Right now, only about a third of American workers retire after age 65; about a fifth retire at age 60 or younger. Perhaps the ambitious, energetic baby boom generation will alter those percentages.

**Working one or two more years may be worthwhile for several reasons.** Your invested assets have one or two more years to compound before potentially being drawn down – and when assets have grown for decades, even a year of compounding is highly significant. If you have $350,000 growing at 6% annually in a retirement fund, waiting just a year will enlarge that sum by $21,000 and waiting five more years will leave it $118,000 larger – and this is without any inflows.

Spending another year on the job may help you become fully vested in a pension plan, and it also positions you to receive greater Social Security payments (assuming you are currently 62 or older). Wait until age 65 to retire, and you can leave work without having to worry about buying health insurance – Medicare is right there for you. You also keep your mind active by working longer, and you maintain the friendships you have made through your career or workplace.

**Retire later, and you may do yourself a financial favor.** Consider the idea, and be sure to consult with the financial professional you know and trust today regarding your retirement prospects.

## The Wild Ride of Bitcoin

*Who knows what it will be worth next year – or next week.*

**The ups and downs of bitcoin have amazed investors.** Back on April 1, 2017, one bitcoin was valued at $1,089.51. Five months later, the price had risen to $4,950.72. On December 16, the price hit a historic peak at $19,343.04.

With the price of bitcoin jumping nearly 1,800% in less than nine months, the air in the commodities markets grew thick with hype: bitcoin was "unstoppable." Well, not quite. By December 30, bitcoin's price had sunk to $12,629.81. After rebounding to $17,135.84 a week later, it then stair-stepped down to $6,914.26 on February 5. Who knows what a bitcoin will be worth by the time you read this?

We do know one thing: bitcoin is one of the riskiest investments around.

**Bitcoin fever has yet to abate.** Investors of all ages are asking about it (and other digital currencies). Should they put some of their retirement savings into bitcoin? Should they hedge with bitcoin? Will they miss out on "the next big thing" if they stay out of bitcoin?

If you are reluctant to get on the bitcoin bandwagon, you are hardly alone. Bitcoin presents a few perplexing questions for any investor.

**Q: What is bitcoin, really?** There are now bitcoin futures markets on the Chicago Board Options Exchange (CBOE) and CME Group, so you can now think of bitcoin as a commodity – but many bitcoin investors and users see it as a currency.

**Q: How do you analyze it as an investment?** If you want to research a stock, fundamental metrics are available. Not so for bitcoin or other cyber currencies.

**Q: Who determines bitcoin's value?** Speculators. At present, there really is no other answer to this question. The free market defines bitcoin's worth. No government or central bank regulates it or assigns any value to it.

Bitcoin's price can fall dramatically due to the headlines or even comments from opinion leaders. In 2017, JPMorgan Chase CEO Jamie Dimon called bitcoin "a fraud," and it fell 10% in response. (Dimon later said he regretted that remark.) Within the last year, South Korea and China revealed plans to restrict bitcoin trading; when South Korea made its announcement in January, bitcoin and ethereum prices fell 14% in a day. Another bitcoin shock came when Silk Road, an infamous website linked to drug trafficking, suddenly vanished. If you are wondering why the bitcoin market took that shutdown as negative, you should know that bitcoin has been linked to money laundering, drug deals, and other shady financial transactions conducted on the "dark web." While all Bitcoin transactions are verified through the blockchain, a kind of digital account book that renders transaction records transparent, some Bitcoin buyers and sellers have managed to stay anonymous.

**Q: What are the chances that bitcoin will become the "new gold?"** Governments, banks, and institutional investors share a foundational belief that gold is a valuable commodity, and will remain so in the future. Does bitcoin have such a foundational belief beneath it?

If speculators stopped believing bitcoin was valuable, then how valuable would it be? Nearly worthless, in the eyes of some observers. A NerdWallet investment writer Andrea Coombes recently remarked, "The value is in the demand itself."

In fact, Goldman Sachs analysts wonder if bitcoin will be valueless five or ten years from now. In a February note to investors, Goldman warned that bitcoin could very well be replaced by something else as cyber currency evolves.

**In the financial markets, higher prices are not always succeeded by higher prices.** This is essentially the belief holding up bitcoin. Its biggest fans believe its direction will be up and up, with occasional storms of volatility. This is called irrational exuberance, and it has harmed many investors through the years.

Whether you think bitcoin is the "new gold" or amounts to a bubble ready to burst, its extreme, dangerous volatility means one thing – if you do choose to invest in it, you would be wise to only invest money that you can afford to lose.

## Managing Student Loan Debt

*A review of some options for federal and private loans.*

**Are you dealing with student loan debt?** Have you explored ways to try and restructure it or have it forgiven?

No one wants to carry five figures of education debt into middle age or retirement, but some do. The burden is not just financial. Last fall the *Madison Capital Times* asked student loan borrowers in the state of Wisconsin how they felt about their education debt. Sixteen percent said they were "terrified" of it, and another 30% indicated they felt only slightly less so. Fortunately, you may have possibilities to manage and reduce the debt load and the anxiety it breeds.

**For a better chance of refinancing a student loan, lift your credit score.** The average credit score for borrowers able to refi in 2017 was 764, according to online education loan marketplace LendEDU. A 764 score means you have excellent credit; 850 is as high as you can go, and 700 is considered an "average" FICO score. If you are offered new terms, you may or may not like them; LendEDU says that the average interest rate on a newly refinanced loan last year was 5.56%.

It is hard to arrange new terms of payment; LendEDU reports that more than half of student loan borrowers who applied for a refi in 2017 were turned down. Some borrowers reject the refinancing offers they get. In about 25% of states, you can also approach state refinance authorities, which tend to set the bar lower for qualifying credit scores. Keep in mind that if you refinance a federal loan, you may lose eligibility for an income-driven repayment plan that limits your monthly payment to 10-20% of your discretionary income.

**If refinancing is not possible, consider both common and unusual financial options.** You could find a new job, one at which you can negotiate a higher salary than you now earn (in this economy, that might not be so difficult). Ask for a raise from your current employer. Sell things or freelance as a path to generating extra cash you can apply to your loans. Alternately, find the cash through frugality. Go car free, room with someone, sublet your apartment, or downsize to a less expensive residency. Think outside the box: would it be cheaper, better, and more fun to live in another country? Could you get a job that pays your rent for you?

**Can your loan be forgiven?** The channel the federal government offers toward student loan forgiveness is not for everyone. The Public Service Loan Forgiveness (PSLF) program asks you to work for a non-profit, in a public service capacity, for ten years. Some borrowers look at those conditions and see career and salary compromises they are unwilling to make.

If you have no interest in working in the non-profit sector, there are possible paths towards federal student loan forgiveness apart from the PSLF. Some states have their own payment assistance programs, some of which require less than five years of work for eligibility. Sometimes the assistance depends on the borrower moving to a rural community within the state or pursuing a STEM, medical, or educational career.

Can you go to work for a big company? If you do, your employer might be willing to help. A small percentage of corporations are matching the student loan payments their employees make. Others are offering workers $1,200-$2,000 a year to apply toward repayments.

Those who serve in the Army, Navy, Air Force, and National Guard can potentially take advantage of student loan forgiveness programs within those service branches. The Army's Student Loan Repayment Program (SLRP) can put as much as $65,000 toward repayment of an active-duty soldier's education loans. Veterans may also find themselves eligible for these programs.

Teachers can also pursue Teacher Loan Forgiveness (TLF). Through this federal program, you can arrange to have as much as $17,500 in federal education loans waived once you have taught math or science for five years at the high school level or special education classes for five years at any grade level. You must work for an educational services agency or teach at a school where students are primarily low income to be eligible for TLF.

**There is one inescapable fact about all this: eradication student loan debt takes time.** You may live with that debt for a decade or longer; the good news is, you can save, incest, and plan to build wealthy even while carrying such debt. Be sure to talk with a financial professional about that possibility.

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