

## ECONOMIC & MARKET UPDATE: DECEMBER 19, 2011 "ECONOMY HAPPY TO CLOSE OUT A FORGETTABLE 2011"

### Economic Data - Previous Week

Date	Series	Actual	Forecast	Prior	
12/13	Adv. Retail Sales	0.2%	0.5%	0.6%	Sales disappoint, though prior months revised higher
12/13	NFIB Sm Bus Optimism	92.0	91.5	90.2	Uptick centers on improvement in jobs, sales
12/13	Business Inventories	0.8%	0.8%	0.0%	Wholesale, factory data offsets flat retail report
12/15	PPI	0.3%	0.2%	-0.3%	Food prices push up producer inflation slightly
12/15	Industrial Production	-0.2%	0.2%	0.7%	Lower auto output headlines dedine in IP
12/16	CPI	0.0%	0.1%	-0.1%	Lower energy costs keeps inflation reined in

### Economic Data - Upcoming Week

Date	Series	Actual	Forecast	Prior	
12/20	Housing Starts	--	635K	628K	Uptick in permits may signal slight increase
12/21	Existing Home Sales	--	5.07M	4.97M	Falling home prices may give minor boost to sales
12/22	Q3 GDP - Final Est.	--	2.0%	2.0%	No change expected in Q3 growth
12/22	UMich Confidence	--	68.0	67.7	Little change anticipated in sentiment
12/23	Durable Goods	--	2.1%	-0.5%	New orders may bounce back after weak Oct.
12/23	Personal Spending	--	0.3%	0.1%	Retail data suggests mild uptick in outlays
12/23	New Home Sales	--	315K	307K	Falling home prices may give minor boost to sales

Source: Bloomberg

### MARKETS NOT SO CHEERFUL AHEAD OF HOLIDAYS

Markets sank sharply in the first three days of the week before sputtering on Thursday and Friday. Ultimately, markets finished the week lower, with the S&P 500 falling 2.8% and the Dow Jones Industrial Average down 2.6%.

With time to digest European policy proposals over the weekend, the initial investor enthusiasm from last Friday quickly turned negative. The S&P 500 dropped more than 40 points from Friday's close to Wednesday, as investors expressed their dissatisfaction with the region's latest plan.

Most believe the currency union has done little more than kick the proverbial can further down the road. While a fiscal union potentially helps solve a long-term structural issue, the near-term concerns of solvency have yet to be fully addressed. The bailout mechanisms established by the EU remain underfunded in the context of an Italian or Spanish default, and the ECB has been

staunchly opposed to reflating the problem away.

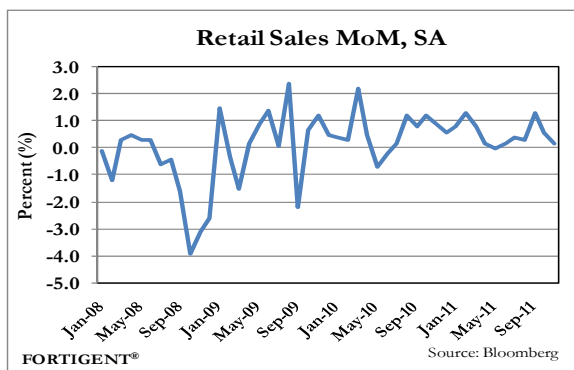
With just two weeks left in 2011, a negative return for US stock markets appears imminent, absent another October-esque rally. It would mark just the second time since 1946 that markets fell in the third year of the presidential cycle. 2011 may deserve an asterisk in the history books, however.

While the S&P 500 index was down 1.8% in 2011 through December 9, the index was actually up 3.3% ex-financials.

The performance of financial stocks this year has been nothing short of abysmal. Down 20% in 2011, financials is one of just three negative performing sectors in the index this year. It is the worst performing sector by more than 700 basis points, and trails the more defensive consumer staples sector by more than 30%!

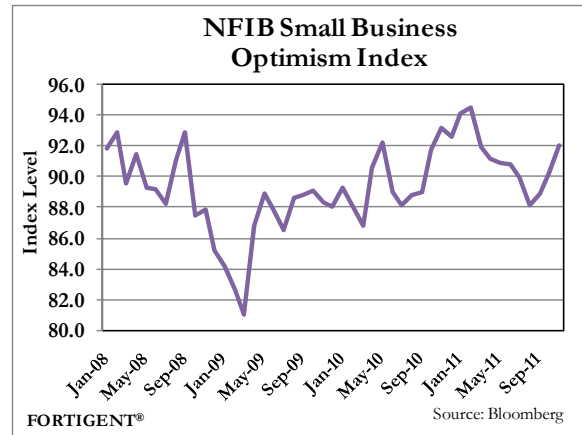
Economic data in the US was mixed-to-slightly-positive in a week featuring just a few noteworthy reports.

On Tuesday, retail sales fell slightly short of expectations with a 0.2% increase. This came as a disappointment to some who believed the strong Black Friday sales totals would give a bigger boost to November consumption.



The report was not as negative as first glance, however. First, November's gain comes on top of upwardly revised figures for both September and October – robust growth of 0.6% and 1.3%, respectively. Second, declines at grocery stores and gas retailers tugged down the overall data. This may have more to do with easing inflationary pressures than slackened demand, as evident in Friday's consumer prices report. Finally, sales for clothing, accessory, department, and motor vehicle stores were all quite healthy.

Also on Tuesday, the National Federation of Independent Businesses (NFIB) released its monthly report on small business conditions. The composite index – which surveys enterprises on 10 subjects ranging from hiring plans to inventory and sales expectations – rose to 92.0 from 90.2. This bettered economist expectations for a 1.3-point increase.



The key take away from the NFIB release was the sharp upturn in small business hiring plans. A net 7% of businesses reported they will increase employment over the next three months – the strongest reading in 38 months. Surveys on current employment conditions also improved, with small businesses increasing overall employment in November after five months of declines.

The batting average for employment reports has been outstanding this month, with Thursday's initial unemployment claims as the latest highlight. Claims fell an additional 15,000 after a 23,000 decline last week, to reach just 366,000. This represents the lowest level of seasonally adjusted unemployment claims in more than three years.

Some have questioned the surprisingly strong drops in unemployment claims, but even on an unadjusted basis, the data is encouraging. A look at non-seasonally adjusted data shows consistent improvement over the past several years, removing any doubts that seasonal factors are behind the drop.

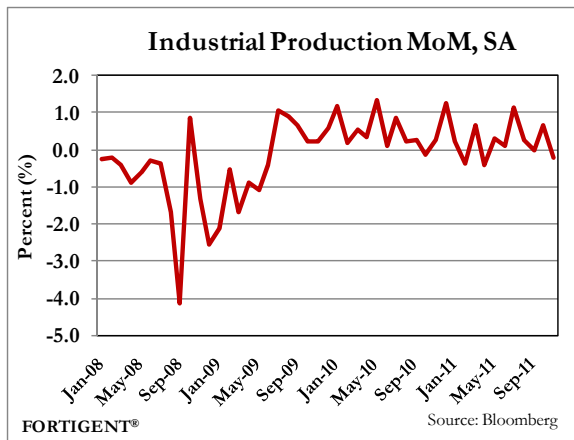
While the stubborn employment picture in the US has started to exhibit some improvement, woes in the housing market persist. The National Association of Realtors revealed on

# || EVERMAY

Tuesday that it plans to revise existing home sales downward from the past five years, suggesting the downturn in housing was much worse than originally thought.

The NAR determined during its recent benchmarking process that it had been over-inflating its estimates due to several factors. One primary issue was outdated assumptions based on 2000 census data. Additionally, the realtor database the NAR uses has been expanding its geographic coverage, which led to double counting of some home sales. The level of this revision is due to be released on December 21, but the NAR's chief economist Lawrence Yun noted that the figure would be "meaningful."

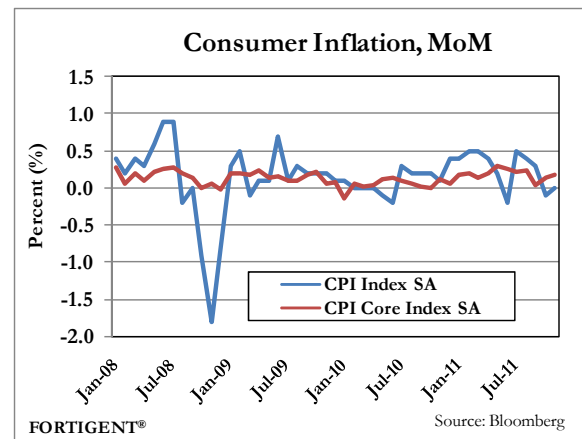
Manufacturing data has been mostly positive in recent weeks, but Thursday's industrial production report fell short of expectations. Data produced by the Federal Reserve showed a 0.2% decline in November, though this followed an exceptional 0.7% rise in October.



The IP figure was led down by its manufacturing component, particularly a 3.4% decrease in motor vehicles and parts output. Market reaction to the report was tempered, however, due to very strong Empire State and

Philadelphia Fed manufacturing surveys released the same day. Each of those regional reports – often used as a barometer for the broader manufacturing health of the country – surged from last month and handily beat expectations.

Finally, the Bureau of Labor Statistics released its monthly producer and consumer price indices on Thursday and Friday, respectively. Both measures remained muted at the headline level, as soft energy prices have kept price pressures at bay. The lack of inflationary pressure leaves the door open for additional Fed intervention, though they are likely to hold off on such measures given the uptick in economic activity over the past few months.

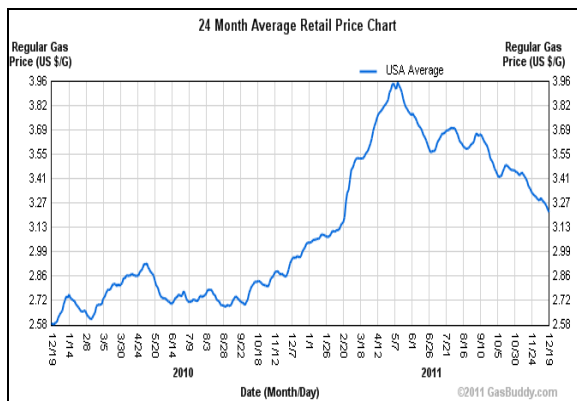


# EVERMAY

## A TEMPORARY REPRIEVE IN GLOBAL GAS PRICES

Despite an economy struggling to find firmer footing, consumers are receiving a pleasant surprise this holiday season – ever-cheaper gas prices. Prices have not retreated to 2010 lows, but are down significantly from earlier in the year, when concerns about a Middle East uprising and improving global growth led to soaring prices at the pump.

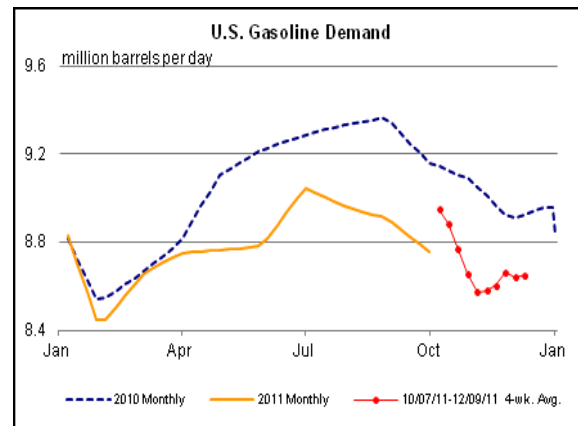
Since reaching a peak of nearly \$4 per gallon in early May, the average price for a gallon of regular gas has fallen nearly 70 cents to \$3.23, directly benefiting consumers facing a holiday shopping pinch.



Source: Gasbuddy.com

US demand for gasoline has been behind weakening gas prices in 2011. Earlier in the year, demand was roughly on track with the same rate as 2010, but by April, demand weakened as prices shot higher. There is every indication that the demand profile is unlikely to reach an abrupt change this holiday season.

A survey from Rasmussen Reports over the weekend showed that 51% of adults are less likely to travel this holiday season due to poor economic conditions.



Source: US Department of Energy

On the supply side, however, members from the Organization of the Petroleum Exporting Countries (OPEC) agreed to a supply target of roughly 30 million barrels per day, maintaining supply at more or less consistent levels as the past several years.

Many are wondering if OPEC is doing enough to dampen oil prices in the face of a likely recession in Europe and continued high tensions throughout the Middle East. Even a minor dust up in the Middle East could send prices soaring, just as we witnessed in the first part of the year.

Consumers are likely to be very happy that gas prices fell as fast and as far as they did in the second half of this year. Any enthusiasm should be tempered by the fact that supply and demand is still out of balance and prices could soar in a short period of time, just as they did in the first five months of this year.

# || EVERMAY

## THE WEEK AHEAD

There are several economic indicators on tap for next week, highlighted by the third and final estimate for Q3 real GDP. No change is expected from November's estimate of 2.0%.

Other items of note include housing starts, existing home sales, new home sales, personal spending, and the durable goods report. As mentioned previously, Wednesday's existing

home sales report from the NAR will provide clarity on the size of the agency's five-year revision to home sales. This is a potentially significant event, depending on the size of the adjustment.

Outside of the US, short-term interest rate decisions are expected from the central banks of Sweden, Hungary, Japan, England, Czech Republic, Turkey, and Russia.

### Disclosure Information

*Some part of the information contained herein was prepared for Evermay Wealth Management, LLC by employees of Fortigent, LLC. This information is not meant as a guide to investing, or as a source of specific investment recommendations, and Evermay Wealth Management, LLC and Fortigent make no implied or express recommendations concerning the manner in which any client's accounts should or would be handled, as appropriate investment decisions depend upon the client's investment objectives. The information is general in nature and is not intended to be, and should not be construed as, legal or tax advice. In addition, the information is subject to change and, although based upon information that Evermay Wealth Management, LLC and Fortigent consider reliable, is not guaranteed as to accuracy or completeness. Evermay Wealth Management, LLC and Fortigent make no warranties with regard to the information or results obtained by its use and disclaims any liability arising out of your use of, or reliance on, the information.*

*This report is for illustrative purposes only. Past performance is not indicative of future results. The information contained in this report has been gathered from sources we believe to be reliable, but we do not guarantee the accuracy or completeness of such information, and we assume no liability for damages resulting from or arising out of the use of such information. The performance numbers displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. The indices discussed are unmanaged and do not incur management fees, transaction costs or other expenses associated with investable products. It is not possible to directly invest in an index.*

Not FDIC Insured No Bank Guarantee May Lose Value