

Weekly Commentary by Professor Jeremy J. Siegel

## Looking Forward to the Employment Report with the Other Eye on the Mideast

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Cross currents buffet the market, where stocks trade in a very tight, upward sloping range but with no real excitement and low volume. The economic data have been mixed: continued good news from jobless claims and auto sales in February, while durable goods and January personal income and spending fell below forecasts. Net there has been a slight fall in the estimated GDP growth this quarter from the 2%+ range at the beginning of February to just under 2% today.

As the anxiety from the European crisis ebbs, the fear of a Mideast crisis grows. Yesterday, Brent crude hit a recovery high of \$128.40 on news of a Saudi pipeline explosion (later denied). Nevertheless, this price action indicates the tense state of that market. Gasoline jumped to \$3.74 a gallon, ten cents over a week ago, with the futures market predicting even higher prices, despite today's moderate selloff. Stocks will not go much higher if oil and gasoline prices continue to rise.

Fourth quarter GDP was revised up 2 tenths to 3.0%, but perhaps the most surprising change was that personal income was revised upward sharply. The good news about the upward revision to personal income is that it negated the sharp fall in the saving rate that was found in the earlier data, giving more leeway to consumers if they wish to increase their spending later in the year.

The two big items on next week's agenda are the Super Tuesday primaries and the February employment report. On the former, Romney still remains the prohibitive favorite to take the Republican nomination at 5-1 odds, while Obama's probability of winning the presidency holds around 60%. There has been a modest shift towards the Democrats in the Congressional races; however, the Republicans are still favored to win both Houses by a margin slightly over 3-2. Early call on Friday's employment report is a strong 225k pickup for the private sector, and 15k loss of government workers and the unemployment rate remaining at 8.3%.

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