Week in Review: GDP grew 5.7% in fourth quarter

For the week ended January 29, 2010

During a week in which more than 130 of the companies in the Standard & Poor's 500 Stock Index reported quarterly results, it was economic news that drove the markets. Growth in real U.S. gross domestic product (GDP), newfound optimism from the U.S. Federal Reserve Board, President Obama's State of the Union speech, and confirmation of Ben Bernanke for a second four-year term as Fed chairman competed for attention and drove the markets.

Stocks faltered before responding to Friday morning's release of economic growth data for the fourth quarter of 2009. First, the market was held down by new signals that China is serious about slowing its torrid economic growth and then by disappointment over tepid U.S. economic reports. In the face of this negative sentiment, improved corporate earnings results left investors cold until they warmed up to the best U.S. GDP data in more than six years. For the week, the major U.S. stock indices were virtually flat.

back to top

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U.S. economic news

The U.S. economy expanded at a 5.7% annualized pace in the fourth quarter of 2009, according to figures released Friday morning by the U.S. Department of Commerce. This was the strongest quarter for the U.S. economy, as measured by GDP growth, since the third quarter of 2003. Inventory drawdown was responsible for 3.4 percentage points of the gain. For all of 2009, the economy shrank 2.4%, its worst single-year performance since 1946.

U.S. consumer sentiment reached its highest level since January 2008. The Reuters/University of Michigan consumer sentiment index rose to 74.4 in January from 72.5 in December.

As expected, the Fed left its key short-term interest rate intact at the record-low level where it has rested for more than a year. However, more significant than its "do not alarm" approach of letting sleeping rates lie, the Fed acknowledged that the U.S. economy was beginning to recover from its deepest downturn in decades.

As speculation grew about possible interest rate increases, the Fed reaffirmed that it will keep its benchmark federal funds rate in its current zero to 0.25% range for "an extended period." However, the Fed offered a more positive assessment of the economy than it has in a long time. In the coming months, the Fed plans to pull out of a number of stimulus programs that it had initiated from 2007 to 2009 to stabilize the financial system and the U.S. economy. Meanwhile, Chairman Ben Bernanke was confirmed for a second term at the helm of the nation's central bank, with a 70 to 30 Senate vote despite some politicians indicating they were fed up with his performance.

Several economic reports were mildly positive, but left the markets unimpressed. Durable goods orders to U.S. factories rose 0.3% in December, the Commerce Department reported. However, that was far short of the 2.0% increase that had been expected. Weekly new jobless claims fell to 470,000 from 478,000 for the week ended January 23, less than the 450,000 that had been forecast. The four-week moving average of claims increased to 456,250 from 446,750. Consumer confidence rose for the third consecutive month in January, according to the Conference Board.

Other economic reports were more disappointing. Home prices fell in November from a year earlier, according to the Standard & Poor's Case-Shiller Home-Price Indices. And sales of new homes declined 7.6% in December, the Commerce Department reported. Overall, 2009 was the weakest year for U.S. home sales since records were first kept in 1963, as only 374,000 homes were sold.

back to top

U.S. and global corporate news

Ford motors ahead with first profit in years
Automaker **Ford Motor** sped ahead of its U.S. rivals with its first yearly net profit since 2005. Ford's fourth-quarter net income was $868 million, compared with a loss of $5.98 billion a year earlier. For the year, Ford posted a $2.7 billion profit versus a loss of $14.7 billion in 2008.

GM ends its Saab story
General Motors reached a deal to sell its Swedish Saab brand to Dutch sports car manufacturer **Spyker Cars**. As part of its bankruptcy reorganization in 2009, GM decided to part with Saab. It had already made the decision to close Pontiac and Saturn and sell Hummer.

Hyundai spins a profit
South Korean automaker **Hyundai Motor** almost quadrupled its quarterly profit on strong growth in sales of its low-cost vehicles in the United States and China.

Toyota recalls half its vehicles
Toyota Motor recalled 2.3 million vehicles in the United States because of faulty accelerator pedals that posed a safety hazard, a development that undercut the Japanese carmaker's long-time reputation for high-quality, reliable vehicles. Toyota says it has found a fix but must await government regulator approval. Meanwhile, U.S. dealers who sell the Toyota brand could collectively miss out on up to $2.47 billion a month in revenue from new and used models that they are not allowed to sell. Jumping at the opportunity to cut into Toyota's market share, Hyundai, Ford, and GM all announced discounts for Toyota owners.

Apple harvests earnings growth
Computer maker and consumer electronics firm **Apple** recorded a 50% jump in profit and a 32% growth in revenue for its fiscal first quarter, which ended in late December. Strong sales growth in most of Apple's products, including iPhones and Macintosh computers, laid the groundwork for the robust earnings results.

Electronics firms show strong results
Quarterly profits rose for numerous companies in the technology, telecommunications and consumer electronics areas. **Microsoft** logged a $6.66 billion quarterly profit, a leap of 60% from a year earlier, largely benefiting from strong sales of computers running its new Windows 7 operating system. From October through December, Microsoft sold 60 million copies of Windows 7, its all-time fastest-selling operating system.

AT&T's fourth-quarter earnings increased 25% as it profited from its exclusive

service agreement with Apple's popular iPhone. **Nokia**'s fourth-quarter net profit soared 65% on the Finnish firm's expanded market share and improved profit margins. **LG Electronics**, a Korean competitor of Nokia and maker of a wide range of consumer electronics, posted a 297-billion won profit versus a 671-billion won loss a year earlier, as it gained from high demand for flat-screen TVs before the Winter Olympics and World Cup soccer. **Samsung**, the Korean technology and consumer electronics firm, turned a loss of 20 billion won, or $14 million, in the fourth quarter of 2008 into a profit of 3.1 trillion won, or $2.6 billion, in the latest quarter. Its revenue rose 37% to 25.3 trillion won from 18.5 trillion won a year earlier.

Nintendo saw its quarterly profit fall 23% as the Japanese electronic game maker cut the price of its Wii console by 20% late in 2009, responding to price cuts from competitors **Sony** (PlayStation 3) and **Microsoft** (X-Box 360).

Strong results in other sectors
BlackRock more than tripled its profit in the fourth quarter as the money management firm grew its assets under management to $3.3 trillion, more than double its year-earlier $1.3 trillion figure, after acquiring Barclays Global Investors. The company reported $200 billion in new organic growth during the year.

Although **Procter & Gamble**'s profit shrank 7% in its second quarter, the consumer goods giant grew its sales 6% to more than $21 billion.

back to top

Global economic news

World trade volume rises
The volume of global trade rose in November for the third consecutive month. According to the Netherlands Bureau for Economic Policy Analysis, trade volume rose by 1.1%. The International Monetary Fund cited improved trade flows as a contributing factor in its forecast for global economic growth of 3.9% in 2010 and 4.3% in 2011. The IMF is calling for 5.8% growth in trade volume this year and 6.3% next year.

Chinese banks tighten credit
As of Friday, January 22, several state-run Chinese banks suspended new lending for the rest of January in a coordinated effort to slow the country's torrid economic growth rate. Last week, China announced its economy was growing at an 8.7% rate, above its target of 8%.

Japanese exports grow
Japanese exports grew year over year in December for the first time in 15

months. Exports increased 12.1%, a positive sign for a country whose economy is highly export dependent.

But S&P concerned about Japan's borrowing
Credit ratings firm Standard & Poor's warned Japan's new government about the dangerous level of the country's borrowing. Japan's government debt is estimated to have reached the size of the country's entire economic output, according to Standard & Poor's.

Eurozone economic confidence rebounds
Economic confidence rose in the 16 countries that make up the eurozone, but consumers remain cautious in the face of higher unemployment and possible tax increases. The eurozone's Economic Sentiment Indicator rose for a tenth consecutive month in January.

back to top

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