NAVELLIER
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Will September Be Like August – Down Early & Up Late?

By Louis Navellier

August closed strongly, but September started off with a thud due to an old worry, the European banking crisis, followed by a dismal Friday jobs report. Despite this bad news, the S&P 500 fell only 0.2% last week, but the exodus out of financial stocks created a massive switch from value to growth stocks. Now, after a long holiday weekend, Wall Street pros are returning from their summer holidays, so I expect the market to move decisively higher, perhaps this week, but no later than the end of September.

Stat of the Week: ZERO (no net job growth in August)

Last Friday's payroll report sent the market reeling. Economists were expecting 53,000 net new payroll jobs to be created in August, but there were exactly zero net new jobs in August, fueling renewed fears of a "double dip" recession. (Kudos to CNBC's Rick Santelli who predicted precisely "zero" job growth.)

Overall, the August payroll report was the worst in a year, but there were some interesting details. The good news is that the Verizon strike cut payrolls by 45,000 in August, but those jobs should be added back soon. Also, Wednesday's ADP jobs report was more positive, citing 91,000 private payroll jobs added in August, although most of that growth was in lower-paying jobs. (For example, McDonald's is creating plenty of new jobs!) The bad news is that the revisions to previous job reports for June and July were lowered by 58,000, and the average workweek declined to just 34.2 hours. We probably won't know the truth about August jobs until the October 7 monthly report, since the revisions are usually huge.

Earlier in the week, the Conference Board reported that consumer confidence plunged to 44.6 in August, down sharply from a revised 59.2 in July – the largest one-month decline in 21 years! Interestingly, the same survey showed that a higher number of respondents said that they plan to buy a car or a major appliance, so it appears that consumers want to buy big-ticket items but they fret about making payments!

Apparently, the rising demand for big-ticket items is helping boost factory orders since the Commerce Department announced on Wednesday that July factory orders rose at a 2% annual rate, while durable goods orders rose 4.1%. This is a vast improvement over June's revised 0.4% decline in factory orders.

Further confusing the economic outlook, the Institute for Supply Management (ISM) reported on Thursday that its manufacturing index slowed slightly in August to 50.6, down from 50.9 in July. However, this ISM report was significantly higher than economists' consensus expectation of 48.8, so it was a net positive report, since any reading over 50 signals that the economic expansion is still in force.

The Fed Seems More Confused and Conflicted than Ever

The Federal Reserve reads the same economic statistics that you and I see each day. They must scratch their heads at all the conflicting numbers. That's why the most fascinating news last week was the release of the minutes of the Fed's last Federal Open Market Committee (FOMC) meeting. In these minutes, you can sense the frustration and conflict among the top Fed officials on how to stimulate economic growth.

Regarding the Fed's pledge to keep key interest rates ultra-low for the next couple of years, one of the new ideas the FOMC members discussed was linking interest rates to specific unemployment or inflation targets. Another option was a re-jiggering of the Fed's massive holdings of Treasury securities to push some already low, short-term interest rates closer to zero. This kind of monetary "creativity" within the official FOMC minutes is unprecedented, but it illustrates why the Fed may NOT do another round of quantitative easing: If the Fed can use its current $3+ trillion balance sheet to reshape the yield curve, as some FOMC members advocate, then why would the Fed need a third round of quantitative easing?

On Tuesday, CNBC's Steve Liesman interviewed Chicago Fed President Charles Evans who surprised many viewers when he said that he would "favor more accommodation," allowing inflation to rise above the Fed's target rate of 2%. Evans even said that the Fed's commitment to keep key interest rates low through mid-2013 did not, in his opinion, go far enough! Specifically, Evans said, "I favor being much clearer and specific about the economic markers that it would take in order for us to alter that." Evans explained that the Fed's low interest-rate pledge should be tied to unemployment. He advised that key interest rates should not be allowed to rise until the unemployment rate falls to 7.5% or even 7%, AND inflation stays below 3%. Obviously, central planning is back in style in the White House and at the Fed!

Asia is Doing Fine; Europe is Not (especially Italy & Greece)

On Thursday, we learned that China's official Purchasing Managers Index (PMI) rose to 50.9 in August, up from July's reading of 50.7. This marks the first uptick in China's manufacturing activity since last March. It appears that China and the rest of Asia are still keeping the global economy humming along.

However, Europe is not doing so well. The entire euro-zone grew by an anemic 0.7% in the second quarter, near the "tipping point" of entering a recession. Several of the euro-zone countries already report negative growth. On Thursday, we learned that the euro-zone manufacturing index declined from 50.4 to 49.0 (a two-year low) in August. Austria, Germany, and the Netherlands remained above 50, while France, Greece, Ireland, Italy, and Spain all fell below 50. So did Great Britain, reaching a 26-month low.

Adding to the confusion in the euro-zone, Italy dropped its proposed "solidarity tax" (which would have imposed a 5% tax surcharge on the middle class and a whopping 10% tax surcharge on wealthy folks). The Northern half of Italy – where most of the country's big businesses are located, and where most of its tax revenues are collected – apparently does not want to be taxed more to support Southern Italy. Adding a sour note to Italy's future, Prime Minister Silvio Berlusconi was heard in a telephone call saying that he plans on "leaving this (expletive) country, of which I'm sick." That certainly does not inspire confidence!

Greece is also primed for a tax revolt, this time by restaurant owners! On Thursday, The Financial Times reported that cafe and restaurant owners in Greece are refusing to pay a 10% VAT increase, from 13% to 23%. A year ago, the VAT was raised from 9% to 13%, causing cafe business to decline 20% to 40%, so Greek restaurant owners view this huge new VAT increase as the final straw in their struggle for survival

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