

# MONTHLY EconUpdate

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# Monthly Economic Update for April, 2009

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**Quote of the month.** “When your work speaks for itself, don’t interrupt.” – Henry J. Kaiser

**The month in brief.** Stocks gained ground as investors gained back some confidence in the economy and the markets. The Obama administration rolled out a detailed plan to heal banks, and told GM and Chrysler to shape up or be prepared to struggle on their own. The Federal Reserve revealed a plan to buy as much as \$1 trillion in securities. Good news emerged from the real estate sector, and oil and precious metals had a good month.

**Domestic economic health.\*** Investors around the world rejoiced as Treasury Secretary Timothy Geithner unveiled a detailed, sweeping new bank rescue plan. The Public-Private Investment Program was designed to attract private investors to buy \$500 billion (and possibly as much as \$1 trillion) in toxic assets. Under the PPIP, pension funds, insurance firms and other long-term investors will vie for federal loans in auctions, and then use the loan money plus their own funds to buy up illiquid securities from banks.<sup>1</sup>

That wasn’t all. The Federal Reserve announced it would buy more than \$1 trillion in securities – \$300 billion in Treasuries and \$750 billion more in mortgage-linked bonds. This did stoke inflation fears considerably at mid-month, as well as gold prices; Treasury yields fell, of course.<sup>2</sup> The latest inflation data showed consumer prices up 0.4% for February, with core CPI rising 0.2% - at that rate, annual core inflation would reach 1.8% for 2009, right in line with the Fed’s target.<sup>3</sup>

Elsewhere, other headlines were surprisingly positive. CEOs of Bank of America, Citigroup and JPMorgan Chase said their thrifts had turned a profit in January and February, and Citi’s chairman said that bank

wouldn’t need more TARP money.<sup>4</sup> General Motors said it didn’t need planned federal loans, and while General Electric’s credit rating was downgraded by Standard & Poor’s, the severity of the downgrade wasn’t nearly what analysts expected.<sup>5</sup> Federal Reserve Chairman Ben Bernanke said that if the bank rescue plan worked, there was a “good chance” that the recession would end in 2009.<sup>6</sup> Both the Conference Board and Reuters/University of Michigan consumer confidence indexes rose slightly in March.<sup>7</sup>

It wasn’t all sunshine and light. Personal spending had barely increased in February (+0.2%) while personal incomes had fallen a bit (-0.2%).<sup>8</sup> Unemployment reached 8.1% in February.<sup>9</sup> March ended on a note of unrest for the U.S. auto industry: on March 30, President Obama informed the nation that General Motors had 60 days to restructure and reinvent itself in order to receive further federal bailout money. (GM CEO Rick Wagoner resigned per federal government request.) The President gave Chrysler 30 days to partner with Fiat; if it didn’t, no more federal money would be forthcoming for that automaker.<sup>10</sup>

**Global economic health.** In Asia, one notable economy seemed on the brink of deflation. Japan’s February CPI was zero, and retail sales declined more than expected for that month.<sup>11</sup> But in China, new figures showed retail sales growing by approximately 15% in both January and February, even after 20 million job losses and 10,000 factory closings in the recession.<sup>12</sup> Beyond Japan, leaders of other Asian nations sent stimulus checks into the populace, hoping that consumer spending could offset the shock to exports – indeed, China’s exports were down 27.5% year-over-year for February. Taiwan, Thailand, Japan, South Korea and city governments in mainland China all authorized or readied consumer stimuluses.<sup>13</sup>

As for Europe, inflation seemed but a memory. Fresh data showed euro-area inflation at 0.6% in March – a low since recordkeeping began in 1996, a low that might prompt an April rate cut from the European Central Bank.<sup>14</sup> On March 31, the Paris-based

Organisation for Economic Co-operation and Development called on the ECB to create more money to combat deflation, urging it to bring interest rates closer to zero and begin quantitative easing; the OECD feels continental Europe and Japan will end up suffering more than the U.S. and the U.K. in this recession.<sup>15</sup> Eurozone economic confidence hit a new low in March (in fact, the lowest level since recordkeeping began in 1985).<sup>16</sup>

**World financial markets.** Ladies and gentlemen, we just witnessed the best month for global equities since 2003 (at least by the measure of the MSCI World Index, which gained 7.1% for the month). The Dow Jones Stoxx 600 had its first positive month since August - it rose 2.1% in March.<sup>17</sup> The German DAX rose 6.3% for March. The FTSE 100 gained 2.5%, the CAC 40 3.9% for the month.<sup>18</sup>

Numbers from Asian indices were even more impressive. The Shanghai Composite Index gained 13.9% in March, and the Hang Seng gained 6.0%. India's Sensex 30 gained 9.2% for March.<sup>21</sup> The Nikkei 225 and the Australian All Ordinaries Index both gained 7.1% last month.<sup>18</sup>

**Commodities markets.** How was March in this sector? Well, oil futures gained 11.9% in March, ending the month at \$49.66 per barrel on the NYMEX.<sup>19</sup> Gold closed the month at \$922.60 per ounce, and silver at \$13.00 per ounce.<sup>20</sup> Prices of pivotal world crops continued their decline for the quarter, with wheat, corn and soybeans all slipping during the month.<sup>21</sup>

**Housing & interest rates.** New data showed home sales heading north, which may have been an effect of lower median prices. February new home sales increased by 4.7%; February sales of existing homes rose 5.1%.<sup>22</sup> In addition, February housing starts soared 22.2%, although almost all the gain came in multifamily construction.<sup>23</sup> In another good sign, pending home sales were up 2.1% in February.<sup>24</sup> How low could mortgage rates go? The answer: even lower. Freddie Mac's Weekly Primary Mortgage Market Survey (March 26 edition) had 30-year FRMs averaging 4.85%, 15-year FRMs averaging 4.58%, 5/1-year ARMs averaging 4.96%, and 1-year ARMs at an average of 4.85%, all comparable to or lower than rates at the start of the month.<sup>25</sup>

**Major indexes.** Stocks gained notably in March, to everyone's delight and relief. On the last trading day of February, stocks were at 12-year lows.<sup>26</sup> They went even lower in the first part of March, which makes the monthly gains all the more impressive.

% Change	1-Month	Y-T-D
<b>DJIA</b>	<b>+7.73</b>	<b>-13.30</b>
<b>NASDAQ</b>	<b>+10.94</b>	<b>-3.07</b>
<b>S&amp;P 500</b>	<b>+8.54</b>	<b>-11.67</b>

Source: *online.wsj.com*, 3/31/09<sup>27,28,29</sup>

*Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.*

**April outlook.** With the first quarter ending and the calendar pages turning, hints of optimism are emerging. It is widely assumed that unemployment figures will continue to rise for the next several months. However, we have seen (as this Update notes) some positive or only mildly negative indicators in housing and consumer spending, and the recent news out of the housing sector has been a pleasant surprise. There are analysts who feel that just as the downturn had its roots in that sector, that sector must be healed before real economic recovery can begin. Whether March turns out to be the start of something big or a simply a good month in a bearish climate, there is a palpable sense that things could get better – for the markets, and for the broad economy.

The important economic releases for the rest of April: February factory orders (4/2), March unemployment and wages and the March ISM services index (4/3), February wholesale inventories (4/8), March PPI and core PPI, March retail sales and February business inventories (4/14), March CPI, core CPI and industrial output (4/15), March housing starts (4/16), preliminary April consumer sentiment (4/17), March existing home sales (4/23), March new home sales (4/24), March durable goods orders and the Conference Board's April survey of consumer confidence (4/28), the initial estimate of 1Q 2009 GDP (4/29) and March personal spending and personal income (4/30).

**Riddle of the month.** The manager of a golf resort thoughtlessly left a \$1000 bill on his desk. An hour later, it was gone. Only two others could have seen the bill within that time: a clubhouse attendant, and a greenskeeper. The clubhouse attendant said she

had hidden it for safekeeping under a black accounting ledger on the desk. But the bill wasn't there! She blamed the greenskeeper. The greenskeeper said he saw part of the bill sticking out from under the ledger. He said he put it inside the ledger, as there would be less chance of someone finding it. He even wrote down the page numbers: between pages 15 and 16, he said. When they looked, there was no money in the book. The greenskeeper immediately accused the clubhouse attendant of theft. But by now, the resort manager was pretty certain of who was telling the truth and who was manufacturing a lie. Who was lying, and what detail gave it away?

*(Contact my office or see next month's Update for the answer.)*

**Last month's riddle.** Sally promised Kate today that she will tell Kate a big secret on the day before four days from the day after tomorrow. If today is Saturday the 13th, on what day and date will Sally tell Kate her big secret?

**Answer:** Thursday the 18th.

\* Closing prices as of 4/3/08: Bank of America (BAC) \$7.60, Citigroup Inc. (C) \$2.85, JP Morgan (JPM) \$29.28, General Motors (GM) \$2.10, General Electric (GE) \$10.94

***Please feel free to forward this article to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will contact them and ask for their permission to be added.***

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The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The Dow Jones STOXX (Price) Index is a broad based capitalization-weighted index of European stocks designed to provide a broad yet liquid representation of companies in the European region. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The CAC-40 Index is the benchmark tracking index for the Paris Bourse, comprised of the 40 largest and most liquid stocks trading on the exchange. The Shanghai Stock Exchange Composite Index is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The Bombay Stock Exchange Sensitive Index (Sensex) is a cap-weighted index with selection of members based on liquidity, depth, and floating-stock-adjustment depth and industry representation. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Australian All Ordinaries Index is the major stock price index in Australia, a capitalization-weighted index made up of the largest 500 companies (as measured by market capitalization) listed on the Australian Stock Exchange. These views are those of Peter Montoya Inc., and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards.

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