

MONTHLY EconUpdate

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Provided By:

Jude Wilson RFC, MBA

Wilson Group Financial Management
121 S. Orange Ave. Suite 1500
Orlando, FL 32801
www.wilson-fg.com
407-377-6622



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Monthly Economic Update for April, 2010

Quote of the month. “When you are aspiring to the highest place, it is honorable to reach the second or even the third rank.” – Cicero

The month in brief. Stocks rocketed north in March. The DJIA, NASDAQ and S&P 500 all advanced between 5.2-7.2% for the month.¹ Whispers about a double-dip recession, a possible correction and prolonged malaise in the real estate sector were not loud enough to take the market out of rally mode. Shouts of victory and shouts of anger accompanied the passage of the President’s long-envisioned health care reforms. Economically, slow and reasonably assured growth seemed the order of the day.

Domestic economic health. First the indicators, then over to Congress. March’s ISM manufacturing index came in at a very strong 59.6, and the ISM service sector index read 55.4.² Durable goods orders rose by 0.6% in February, the tenth advance in the last 11 months.³ Data showed personal spending up 0.3% for February, even as personal wages were flat.⁴ It was hard to get a fix on consumer confidence. The Conference Board’s index soared from 46.5 in February to 52.5 in March, even as the IBD and University of Michigan indexes fell.⁵

How about inflation? Was it still minimal? Yes. CPI was flat in February; core CPI inched up 0.1%. Core CPI rose just 1.3% from February 2009-February 2010, which marked the tamest core inflation in six years.⁶ Wholesale inflation (PPI) decreased 0.6% in February.⁷

The Federal Reserve reiterated that interest rates would remain low for an extended period. The end of March did mark the end of its purchases of mortgage-backed securities, with everyone wondering what that would mean for the real estate sector.⁹

The jobless rate wouldn’t budge. It stayed at 9.7% for March – the same as it had been for the previous two months.⁹

Major health care reforms finally passed as the House of Representatives approved the Senate version of the long-contested legislation. Not one Republican voted for the bill. As a result of its passage, some big changes are poised to happen in 2014 – just about every American will be required to have health insurance or pay a penalty, and businesses with 50 or more employees will pay a penalty for not sponsoring health insurance plans. Insurers will not be able to deny coverage due to preexisting conditions, and individuals and firms may shop for (theoretically

cheaper) insurance through state-run exchanges. The public option? It fell by the wayside.^{10,11}

Global economic health. Japan’s industrial output posted a gain for the eleventh straight month in February, a month in which its exports increased by the most in any month in 30 years. In March, small business confidence in Japan hit its highest level in two years. Purchasing manufacturers indices showed strong growth in March in China, Japan, Taiwan and South Korea.^{12,13}

The European Union began to outline a bailout for Greece’s troubled economy, which helped preserve its credit rating with Standard & Poor’s (Greece’s rating remained at BBB+ and it lost the “creditwatch negative” label). Investor confidence beat expectations in Germany last month, and jobless claims in the U.K. had fallen at the fastest pace in 13 years in February. Manufacturing expanded in the Eurozone, as the key PMI index went from 54.2 in February to 56.6 in March. Last month, Germany’s PMI stood at an impressive 60.2.^{13,14}

World financial markets. You have to look hard to find a benchmark index of consequence that had a bad March. (For the record, Chile’s stock index lost 1.7% last month.) Ireland’s ISEQ and Russia’s RTSI gained 10.6% and 10.0% last month. On the Nikkei 225, it was like old times – a remarkable 9.5% March gain. Other indices performed as follows last month: CAC 40, + 7.2%; DAX, +9.9%; FTSE 100, +6.1%; TSX Composite, +3.5%; Shanghai Composite, +0.2%; Hang Seng, +3.1%; Bovespa, +5.8%; Australian All Ordinaries, +5.2%; Sensex, +6.7%. The MSCI Emerging Markets Index advanced 5.9%; the MSCI World Index gained 7.9%.¹⁵

Commodities markets. Looking at metals, we saw mostly gains. Gold futures did lose 0.45% in March, with prices dipping to \$1,113.30 at month’s end. Silver gained 6.1% for the month; platinum prices were up 6.9% for March. Oil gained 5.15% for March and 5.54% for the quarter, settling at \$83.76 a barrel on March 31. Natural gas prices had another bad month, losing 19.61%. The U.S. Dollar Index advanced 0.89% in March.^{16,17,18}

Housing & interest rates. At the end of March, the Fed stopped its 15-month campaign to buy up mortgage-backed securities. So everyone was watching interest rates as March came to a close. Rates did move up, though not noticeably until the last week of the month. Rates on 30-year FRMs were averaging 4.97% in Freddie Mac’s March 4 Primary

Mortgage Market Survey, and 5.08% in the April 1 survey. As for other types of home loans, rate averages moved as follows across March: 5/1-year ARMs, a tiny 0.01 descent to 4.10; 1-year ARMs, a 0.22% drop to 4.05%; 15-year FRMs, a 0.06% rise to 4.39% on April 1.¹⁹

The latest home sales numbers? Not so hot. Pretty cold, in fact. New home sales slipped 2.2% in February to a new all-time low, while residential resales fell 0.6% in that month. The encouraging surprise was the February pending home sales figure: +8.2% despite bad weather. Economists had expected that number to be flat or slightly negative.^{20,21}

Major indexes. The numbers were spectacular. The NASDAQ and S&P 500 had their best months since July, and the Dow had its best month since November. The real yield of the 10-year TIPS (which had been unchanged after the first two months of the year) also increased.^{1,22}

% Change	3/10	YTD
DJIA	+5.15	+4.11
NASDAQ	+7.14	+5.68
S&P 500	+5.68	+4.87
10YrTIPS Real Yield	+8.11	+8.11

*(Source: CNBC.com, ustreas.gov, 3/31/10)^{1,22}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.*

April outlook. Well, you've heard it, we've all heard it: the talk that the rally is ahead of the economy, the warnings that equities are overvalued, murmurs over what might happen as interest rates rise. Yet the market soldiers on, largely in response to continued positive indicators. Real estate aside, so many signs indicate that the U.S. (and world) economy is improving. The mood remains bullish. The Dow was climbing toward 11,000 at the end of March, and the 12,000 mark does not seem so far away given current investor sentiment and global economic improvement.

Now, the major economic releases for the rest of April: the most recent Fed FOMC minutes (4/6), February wholesale inventories (4/9), March retail sales and CPI, February business inventories, and the Fed's April Beige Book (4/14), March industrial production (4/15), March housing starts and building permits and the University of Michigan's April consumer sentiment poll (4/16), the Conference Board's March leading indicators (4/19), March PPI and existing home sales (4/22), March new home sales and durable goods orders (4/23), the February Case-Shiller home price index and the Conference

Board's April consumer confidence survey (4/27), and the initial reading on first quarter GDP (4/30). We get the March consumer spending data on May 3.

Riddle of the month. This is an unusual paragraph. How quickly can you find out what is unusual about it? It looks so plain you would think nothing was wrong with it. In fact, nothing is wrong with it. It is unusual, though. Study it, and think about it, but you still may not find anything odd. What is missing from it?

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

Last month's riddle. A rope ladder hangs over the side of a docked ship and dips into the water. The rungs are 15.75" apart, all equally distanced. At low tide, two of the ladder's rungs are underwater. At high tide, which is exactly 3.5' above low tide, how many rungs will be underwater?

Last month's riddle answer: Two. Although the tide rises 3.5', the ship also rises the same amount. So there will be no change in the number of rungs under water.

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

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