

MONTHLY EconUpdate

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Monthly Economic Update for May, 2009

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Quote of the month. "Discovery consists of seeing what everybody has seen and thinking what nobody has thought." – Albert Szent-Gyorgyi

The month in brief. If the economy was downtrodden, the stock market sure was upbeat – at the end of April, blue chips were wrapping up their best two months since 2003.¹ As headlines and nightly news relayed anxiety about banks and automakers, Wall Street advanced powerfully. The three major indexes gained between 7.3 and 12.4% in April.² Statistics indicated gloom, but confidence returned to consumers and investors.

Domestic economic health. New concerns about the viability of automakers and the capitalization of banks surfaced; in April, Wall Street rode through these concerns remarkably well. The big news, of course, was Chrysler LLC entering bankruptcy proceedings April 30 at the instruction of the White House. Fiat said yes to a partnership and a 20% stake in the U.S. automaker, but Chrysler bondholders (notably about 40 hedge funds) said no to slashing \$6.9 billion in debt to \$2.25 billion.³

The Federal Reserve unveiled some details about bank stress tests in late April. The tests were evaluations: could 19 major U.S. thrifts potentially survive two financial scenarios, or would they need more capital to do so? Scenario one assumed a 2009 with -2.0% GDP, 8.4% unemployment, and a 14% drop in home prices. Scenario two plugged in -3.3% GDP, 8.9% joblessness and a 22% decrease in home values.⁴ We get the results May 7. Any undercapitalized banks will be directed to sell assets or draw on private-sector sources of capital before turning to the government.⁵

As for consumers, the latest rounds of data showed them spending a bit less, but also far more confident. Personal spending and personal income respectively fell 0.2% and 0.3% in March; disposable income was flat.⁶ Retail prices and retail sales were down in March: the Consumer Price Index decreased by 0.1% and the Commerce Department had retail sales slipping by 1.1%. Producer prices also fell 1.2%. CPI

dropped 0.4% and PPI fell 3.5% from March 2008 to March 2009 - the first year-over-year drop in CPI since 1955 and the biggest 12-month fall in PPI since 1950.^{7,8} However, the numbers from the consumer confidence indexes were certainly something to smile about: the Reuters/University of Michigan index came in at a final April level of 65.1, its biggest gain in two years.⁹ The Conference Board's April survey hit 39.2, trouncing the 29.7 figure economists polled by Bloomberg News had expected.¹⁰ In other news, unemployment climbed to 8.5% in March.¹¹ The Fed said GDP for the first quarter was pretty miserable: -6.1%. However, the Fed also reported that consumer spending did not contract, maintaining a 2.0% annualized pace last quarter.¹² The Fed left interest rates alone.¹³

Global economic health. In Asia, there was some optimism. Yes, Japan's unemployment rate reached a four-year peak in April (4.8%) with job availability at its lowest level since 2002.¹⁴ However, Japan's industrial output rose for the first time in six months in April, and its central bank forecast growth in 2010. China's manufacturing purchasing manager's index rose for the fifth straight month in April.¹⁵ South Korea's export earnings increased for the third straight month and its trade surplus set a record for the second consecutive month.¹⁶

Unemployment rose to 8.3% in Germany and 8.6% in France, but confidence in the euro area increased for the first time since May 2008 in April.¹⁷ Retail sales in the Eurozone contracted by the least in 11 months in April, and Germany's government forecast that its economy would grow next year.¹⁸

World financial markets. We saw gains across the globe – tremendous gains. The MSCI World Index was up 10.9% in April – its best month since January 1987. The MSCI Emerging Markets Index rose 16.3% last month, and that was its hottest month since December 1993.

In Europe, the DAX gained 16.8% in April, and the CAC 40 rose 12.6%. England's FTSE 100 gained 8.1%, and Ireland's ISEQ rose 19.5%. In Asia, the April data: Hang Seng, +14.3%; Shanghai Composite, +4.4%; Sensex, +17.5%; Nikkei 225, +8.9%; Singapore Straits Times Index, +13.0%; Australian All Ordinaries Index, +6.0%.¹⁹

Commodities markets. Oil had a mediocre month (-0.49%) but continued a strong year (+14.62% through April 30). Gasoline futures rocketed up 38.81% in April, and one metal had an even better month: copper futures soared 45.60%. Gold rose 0.78%, silver 8.94%, platinum 17.54% and palladium 15.63% in April.

As for crop futures, orange juice (+22.61%) and sugar (+21.76%) led the way with milk last (-33.42%). It was a good month for soybeans (+7.65%), but not for wheat (-12.16%), rice (-14.10%), corn (-0.86%), or oats (-3.33%).²

Housing & interest rates. The March numbers weren't very encouraging. The Commerce Department said new home sales fell by 0.6% for the month, and the National Association of Realtors reported residential resales down by 3.0%. However, the inventory of unsold new homes shrank from 12.5 months worth to 10.7 months worth across the first quarter of the year.²⁰

Rates on conventional mortgages finished April down more than a percentage point from a year ago. 30-year FRMs ended the month averaging 4.78%, according to Freddie Mac; 5-year ARMs averaged 4.80%, 1-year ARMs averaged 4.77%, and 15-year fixed-rate loans averaged 4.48%.²¹

Major indexes. Stocks had an outstanding month. At the end of April, the S&P 500 had racked up its best two months since January-February 1975.² In fact, April 2009 was the S&P 500's best month since March 2000, and the NASDAQ wrapped up the month with its eighth straight winning week – that hadn't occurred since December 1999.¹⁹

% Change	1-Month	Y-T-D
DJIA	+7.35	-6.93
NASDAQ	+12.35	+8.89
S&P 500	+9.39	-3.37

Source: cnbc.com, 4/30/09²

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

May outlook. On Thursday, May 7 (after the markets close), we are supposed to learn the results of the stress tests. The government has put itself in a difficult place: if it reveals too much, the markets might react too wildly, and if it reveals too little, that could breed suspicion or pessimism. Now of course,

the results could surprise us all and not be as bad as anticipated. Or they could be worse than presumed.

Pessimists say that the stock market ignored economic reality in April. Optimists see the potential for great gains across the balance of 2009. In fact, Anthony Bolton, Fidelity International's president of investments, recently told Bloomberg Television that "All the things are in place for the bear market to have ended."¹⁸ Let's hope he's right.

Here are the key economic releases across the rest of May: the April ISM services index (5/5), the stress tests results (5/7), April unemployment and March wholesale inventories (5/8), April retail sales and March business inventories (5/13), April PPI and core PPI (5/14) April CPI, core CPI, industrial production and preliminary May consumer sentiment (5/15), April housing starts (5/19), April durable goods orders and the Conference Board's May survey of consumer confidence (5/26), April existing home sales (5/27) and April new home sales (5/28). (The April personal spending and personal income numbers come out on June 1.)

Riddle of the month. What is no sooner spoken than broken?

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

Last month's riddle. 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?

Answer: As it turned out, the greenskeeper had taken the money. The golf resort manager knew he was making up details because pages 15 and 16 in a book are always printed on opposite sides of the same piece of paper. Therefore, his claim that he had put the money between pages 15-16 of the accounting ledger was a red flag.

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.

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 MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt 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 FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The ISEQ Overall Index is a capitalization-weighted index of all Official list equities in the Irish Stock Exchange but excludes UK registered companies. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. 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 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 Straits Times Index (STI) is a market value-weighted stock market index based on the stocks of 30 representative companies listed on the Singapore Exchange. 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.

Citations.

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