

MONTHLY EconUpdate

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Monthly Economic Update for June, 2009

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Quote of the month. "I don't know any other way to lead but by example." – Don Shula

The month in brief. While economists gathered around the water cooler to discuss whether or not a recovery was really underway, stocks soared, consumer confidence grew, and home sales rose. The broad commodities market had a fantastic month; the dollar didn't. Meanwhile, the government found that 10 out of 19 stress-tested banks needed more capital. One U.S. automaker went into Chapter 11 bankruptcy, and another prepared for it.

Domestic economic health. What would the government find out about the banks? Would GM and Chrysler go BK? Those were the media preoccupations for May, and while investors worried plenty about them as well, Wall Street as a whole rode through the attached fears and crises admirably.

The results of the stress tests administered by the Federal Reserve were publicized in the second week of May. Bank of America, Citigroup, Wells Fargo and GMAC were instructed to raise more capital; BofA was told to go get a whopping \$34 billion. Some other banks (notably American Express, Capital One, Goldman Sachs, JPMorgan Chase and MetLife) were judged well capitalized to face the government's worst-case scenario.¹

Speaking of worst-case scenarios ... as May ended, General Motors was poised to follow Chrysler into bankruptcy. (The official filing came June 1). There were indications that the bankruptcy process might be unusually swift. After only a month in bankruptcy proceedings, Chrysler got permission on May 31 to sell most of its assets to a group led by Fiat and emerge from court protection. Perhaps GM would do something similar. In the bankruptcy plan, the U.S. government will own 60% of GM, the UAW 17.5%, the

Canadian government 12% and GM bondholders 10%.²

And now, the other notable news items. Consumer confidence rose: the Conference Board's May survey recorded its best one-month gain in six years, and the Reuters/University of Michigan index climbed to 68.7, the highest mark since September.^{3,4} Unemployment, of course, also climbed: the Labor Department figure for April was 8.9%, although the pace of layoffs declined from March.⁵

Deflation fears were calmed a bit with the release of the April Consumer Price Index. Yes, consumer prices were flat for April, and yes, CPI fell by 0.7% over the 12 months ending in April - the first year-over-year drop since 1955. However, core CPI had gone up 1.9% across the same 12 months.⁶ Durable goods orders also increased in April by 1.9%.⁷

May consumer spending was down by just 0.1%, the Commerce Department reported, better than expected; personal income for May was flat rather than negative.⁸

The Obama administration got tough with credit card firms. It issued new rules forcing card issuers to notify cardholders of rate hikes 45 days in advance and curb retroactive rate increases. It also made collegians and teenagers less attractive targets for these companies by tightening credit limits for them.⁹

Global economic health. In Asia, it seemed inflation was easing notably in May. In Indonesia, it was 6.04%, the lowest level since June 2007. In South Korea, it was 2.7%, a 20-month low. In Thailand, May consumer prices were 3.3% below levels of a year before.¹⁰ The outlook for China's economy was better, with manufacturing activity increasing for the third month in a row in May after contracting from October to February.¹¹ Japan? Well, after a -15.2% GDP in the first quarter, there was room for improvement.¹² The Japanese government did raise its economic outlook in May for the first time since 2006.¹³

Turning to Europe ... we learned that the economies of the 16-country Eurozone collectively contracted 4.6% in 1Q 2009. The economies of England and Germany had respectively contracted by 4.1% and 6.9% in the quarter.¹⁴ The European Central Bank had set its key interest rate at 1% (a new low) and the EU May manufacturing PMI rose to its highest level in seven months, a sign of stabilization.¹⁵

World financial markets. May was as positive as April – that is to say, an amazing month for stocks worldwide. India's Sensex gained – are you ready for this? – 28.3% last month. Meanwhile, the Russian RTSI shot up 21.7% and the Singapore Straits Times index gained 21.3%. So how about the MSCI Emerging Markets Index? It followed a 16.3% gain for April with a 16.7% gain in May. The MSCI World Index didn't do too badly either, rising 8.6% for the month.¹⁶

Among Asian indices, the Australian All Ordinaries rose +1.8% in May, but that was nothing; the Hang Seng was up +17.1%, the Shanghai Composite +6.3% and the Nikkei 225 +7.9%. In Europe, the CAC 40 gained 3.7% in May, the DAX 3.6% and the FTSE 100 4.1%. Just north of us, Canada's S&P/TSX Composite rose 11.2% in May.¹⁶

Commodities markets. Oil had a great month – in fact, the whole energy sector did. Oil futures went up 29.71% in May. Gasoline futures did even better,

soaring 31.74%. Diesel fuel? Up +22.66% for the month. Heating oil futures rose 22.82% and natural gas futures gained 4.89%. Silver left gold in the dust: it rose 26.65% in May, enjoying its best month since April 1987. Gold didn't perform too shabbily either, gaining 9.83%. It was a fine month for other metals, as these May gains demonstrate: platinum, +8.08%; palladium, +8.18%; copper, +7.33%. But the greenback didn't fare so well: the U.S. Dollar Index dropped 6.29% in May.¹⁷

How about crops? Well, it was spring, and most ag futures were in the plus column. Oats futures gained 23.65% in May. Other big gains: wheat (+18.78%), soybean meal (+15.73%), orange juice (+12.61%) and soybeans (+12.23%). Rice futures lost 5.76% for the month.¹⁷

Housing & interest rates. Spring is homebuying season, right? So were the buyers out, encouraged by low prices? The April indicators we received seemed relatively positive: new home sales rose 0.3%, existing home sales rose by 2.9%. Of course, median prices for new and used homes were respectively 15.0% and 15.4% below last April's figures. While the inventory of existing homes for sale saw no decrease, the number of new homes on the market was at its lowest level in eight years.^{18,19}

Mortgage rates were still low at the end of May ... but with bond yields rising, how long could that last? At the end of last month, Freddie Mac had 30-year FRMs averaging 4.91%, as opposed to 4.78% at the end of April. As for other types of mortgages, 5-year ARMs ticked up to 4.82%, 1-year ARMs fell to 4.69%, and averages on 15-year FRMs crept up to 4.53%.²⁰

Major indexes. For the third straight month, the market behaved as if the recession had become a memory. The Dow gained 20.39% across March, April and May, representing its best three months since September-November 1998.²¹

% Change	1-Month	Y-T-D
DJIA	+4.07	-3.15
NASDAQ	+3.32	+12.51
S&P 500	+5.31	+1.76

Source: *cnc.com*, 5/29/09²¹

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

June outlook. The stock market has healed notably in the last three months – there’s still a long way to go, but stocks have proven their resilience. If we are on the second downward leg of a W-shaped recovery, the market is paying no attention to that reality. Let’s hope we are watching a U-shaped or even V-shaped recovery instead. Confidence seems to have returned to consumers and investors – when General Motors announces bankruptcy and the market posts a triple-digit rally on the same day, that’s saying something.²²

The important economic releases for the rest of June: April factory orders and the May ISM services index

(6/3), May unemployment (6/5), April wholesale inventories (6/9), May retail sales and April business inventories (6/11), preliminary June consumer sentiment (6/12), May PPI, core PPI, industrial production and housing starts (6/16), May CPI and core CPI (6/17), May existing home sales and durable goods orders (6/23), May new home sales (6/24), May personal spending and personal income (6/26), and the Conference Board’s June survey of consumer confidence (6/30).

Riddle of the month. What is the significance of the following: The year is 1978, thirty-four minutes past noon on May 6th.

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

Last month’s riddle. What is no sooner spoken than broken?

Answer: Silence.

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 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. The RTS Index (RTSI) is an index of 50 Russian stocks that trade on the RTS Stock Exchange in Moscow. 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 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 MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. 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. 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. 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 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 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 S&P TSX composite index is a capitalization-weighted index of the Toronto Stock Exchange. 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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