

MONTHLY EconUpdate

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Monthly Economic Update for July, 2009

Quote of the month. “The ultimate measure of a man is not where he stands in moments of comfort, but where he stands at times of conflict and controversy.” – Dr. Martin Luther King

The month in brief. Was the recession waning? Or lingering? Were green shoots sprouting? Or just some weeds? Economists (and investors) wondered if the spring rally had gone too far relative to the recovery. As they thought it over, stocks had a mixed month. So did the broad commodities market. Another U.S. automaker fell into bankruptcy. The Federal Reserve held interest rates steady and the Obama administration advanced its plans to reform financial industry regulations and America’s healthcare system.

Domestic economic health. June kicked off with the Chapter 11 bankruptcy filing of General Motors. As Chrysler sped through bankruptcy court last month, GM hoped it could restructure itself just as speedily. In the short term, the “new” GM has a new majority owner: the federal government currently holds 60% of the company.¹

The Obama administration sought more reform. The House and Senate worked toward a compromise version of a bill designed to bring affordable healthcare to all Americans; the House version of the bill included a government-sponsored healthcare option, while the Senate version did not.² To try and prevent further financial meltdowns, the President proposed giving more power to the Fed, the Federal Deposit Insurance Corporation and the Treasury, and creating a Consumer Financial Protection Agency to tighten the reins on mortgages, credit cards, securities and derivatives.³

Americans were saving more. We got word that the personal savings rate reached 5.7% of disposable income in April, and 6.9% of disposable income in May – levels unseen since the mid-1990s. However, the April numbers from the Commerce Department also revealed that Americans were spending fewer dollars than they had a year earlier – a phenomenon unseen since World War II. (Even with the trend, consumer spending managed to rise 0.3% in May.)^{4,5}

In early June, economic indicators seemed increasingly positive. Payrolls had only contracted by 345,000 in May; economists polled by Dow Jones Newswires thought 525,000 jobs would be lost.⁶ Factory orders increased in April by 0.7%. The Institute for Supply Management’s index of Business Activity climbed to 42.8% in May, up from 40.1% the

previous month.⁷ Retail sales were up 0.5% for May.⁸ We learned durable goods orders went up 1.8% in May, matching April’s gains.⁹

It wasn’t all sunny and mild, though. As June went on, Treasury yields spiked north for a week, the World Bank said the recession was not going away as fast as assumed, and there were wildly conflicting reports on consumer confidence. The final Reuters/University of Michigan consumer sentiment index for June came in at 70.8, up from 68.7 in May – the best reading since February 2008.⁵ Yet the Conference Board’s June survey registered a major drop, falling down to 49.3 from a 54.8 reading in May.¹⁰

The Fed left interest rates alone, as expected. Its latest policy statement shared a belief that “the pace of economic contraction is slowing” and that inflation would “remain subdued for some time.”¹¹

Global economic health. The World Bank did its best to put a damper on stocks worldwide on June 22, forecasting that the global economy would contract by 2.9% in 2009 rather than the previously estimated 1.7%.¹² However, June was also the month in which the International Monetary Fund revised its view of America’s economy, foreseeing a 2.5% contraction for 2009 rather than the 2.8% decline it predicted in April.¹³

China called for a new world reserve currency to replace the U.S. dollar.¹⁴ The governor of China’s central bank expressed his belief that China’s economy was healing and would grow 8% in 2009. Industrial output in Japan jumped 5.9% in June for the third straight monthly gain.¹⁵

The International Energy Agency said it believed world oil demand would grow only 0.6% per year (on average) through 2014; 2008-09 would represent only the second two-year period of decreasing demand since 1982-83. Business confidence in the European Union, while still low, increased for the third month in a row.¹⁵ In a possible sign of stabilization, a key European manufacturing and services index contracted at the slowest pace in nine months in June.¹⁶

World financial markets. The Asian indices performed better than their European counterparts in June. China’s Shanghai Composite Index had a banner month, rising 12.40%. The Nikkei 225 rose 4.58%, and Hong Kong’s Hang Seng gained 1.14%. In

contrast, the FTSE 100 lost 3.82% and the Dow Jones Stoxx 600 slipped 1.14% for the month.¹⁷

Commodities markets. June was a mixed month that ended a strong quarter. Energy futures generally did better than precious metals and crops. Crude oil futures rose 5.4% in June, closing the month at \$69.89 per barrel. Gold futures slipped 5.28% in June, but the metal stayed above the \$900 level, wrapping up the month at \$927.80 per ounce. Silver lost 13.0% in June. Copper futures climbed another 2.75% in June to push that metal's first-half gain to 61.86%.^{18,19} Soybean futures dropped 17.0% in June but still rose 3.1% for the quarter. Corn futures ended June with a bust, after the Department of Agriculture said farmers planted the second-largest corn crop since World War II; prices fell 7.6% on June 30 alone to \$3.67 per bushel, bringing corn futures down 9.3% for 2Q 2009.²⁰

Housing & interest rates. With bargains in existing homes, residential resales increased and new home sales slowed. In May, with the median existing home price 17.0% below what it was a year earlier, residential resales were up 2.4% (according to the National Association of Realtors). At the top of July, NAR announced that pending home sales had increased for the fourth straight month – they were up only 0.1% in May, but that was better than the flat month real estate industry analysts had expected. The new home sales picture wasn't nearly as encouraging: the Commerce Department had sales down 0.6% for May and 32.8% below levels of May 2008.^{21,22}

As for mortgage rates, Freddie Mac's June 25 survey had 30-year FRMs averaging 5.42% nationally, up from 4.91% in late May. 15-year FRMs averaged 4.87%, up from 4.53% in the final May survey. 5-year ARMs were at 4.99% nationally, and 1-year ARMs averaged 4.93%; in late May, the average interest rates on those mortgage types were, respectively, 4.82% and 4.69%.²³

Major indexes. The NASDAQ had another strong month, the S&P 500 was flat, and the Dow struggled after briefly going positive in mid-June.

% Change	1-Month	Y-T-D
DJIA	-0.63	-3.75
NASDAQ	+3.42	+16.36
S&P 500	+0.02	+1.78

(Source: CNBC.com, 6/30/09)²⁴
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

July outlook. Will stock markets continue their rise? Will the recession fade away by August or September? Some economists and market analysts are unimpressed by the spring rally, and want more "hard evidence" that the recession is ending. Investors don't exactly need their approval to send stocks upward.

A growing number of equity strategists feel that the market won't retest its March lows, and that summer and fall will be positive times for investors. The Dow and S&P 500 have, on average, gained 1.7% during summer since 1901 (DJIA) and 1928 (S&P); if indicators inspire confidence and investor optimism builds, perhaps they will gain that much or more during July.²⁵

Here are the notable economic releases for the rest of the month: June unemployment, wages and factory orders (7/2), the June ISM services index (7/6), May wholesale inventories (7/9), preliminary July consumer sentiment (7/10), June PPI and retail sales (7/14), June CPI and industrial production and May business inventories (7/15), June building permits and housing starts (7/17), June existing home sales (7/23), June new home sales (7/27), June durable goods orders and the Conference Board's July survey of consumer confidence (7/28), and the advance GDP reading for the second quarter (7/31). We'll have to wait until August 4 to learn about June consumer spending and personal income.

Riddle of the month. It's thinking cap time. Find a 10-digit number in which, going left to right, a) the first digit equals the number of zeros in the entire number, b) the second digit equals the number of 1s in the entire number, c) the third digit equals the number of 2s in the entire number, d) the fourth digit equals the number of 3s in the entire number, e) the fifth digit equals the number of 4s in the entire number, f) the sixth digit equals the number of 5s in the entire number, g) the seventh digit equals the number of 6s in the entire number, h) the eighth digit equals the number of 7s in the entire number, i) the ninth digit equals the number of 8s in the entire number, j) the tenth digit equals the number of 9s in the entire number. What is this 10-digit number? Here's a hint: six of the ten digits in the number are zeros. Knowing that, you also know that the first digit of this ten-digit number is 6 – see a) above.

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

Last month's riddle answer: The time and month/date/year are 12:34, 5/6/78.

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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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