

# MONTHLY EconUpdate

AUGUST 7, 2009

Provided By:

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## Monthly Economic Update for August, 2009

**Quote of the month.** “Ability is what you’re capable of doing. Motivation determines what you do. Attitude determines how well you do it.” – Lou Holtz

**The month in brief.** The Dow topped 9,000 during the best July for stocks this decade. Earnings reports were often better than expected. The real estate market showed increasing evidence of a rebound. An accumulation of positive (or at least less negative) indicators hinted that the recession could be waning. The broad futures market had a good month. Congress recessed for summer without consensus on the Obama administration’s ambitious vision of healthcare reform. General Motors left bankruptcy, and the C.A.R.S. program accelerated new auto sales.

**Domestic economic health.** July started out with a notable negative – a loss of 467,000 jobs and a 9.5% unemployment rate. The pace of job losses had been shrinking for four straight months; this reversal gave Wall Street pause.<sup>1</sup>

Those statistics aside, July brought more encouraging economic news. Factory orders had improved in May, rising 1.2% - the biggest monthly gain in over a year. The Institute for Supply Management index of manufacturing activity read 44.8 - still showing contraction, but the best number since August.<sup>2</sup> The ISM services index also measured less contraction, going from 44.0 in May to 47.0 for June.<sup>3</sup> The Conference Board’s index of leading economic indicators rose 0.7% in June (the third straight monthly gain, a streak unseen since January 2002, two months after the end of the last recession).<sup>4</sup> Retail sales had increased by 0.6% in June.<sup>5</sup>

Consumer and producer prices were rising; the U.S. trade deficit was decreasing. Thanks mostly to increased energy prices, the Producer Price Index went up 1.8% in June (core PPI was +0.5%).<sup>5</sup> We learned the Consumer Price Index rose 0.7% for June, although consumer prices were still 1.4% below where they had been one year ago.<sup>6</sup> In May, our trade deficit narrowed by 9.8% to \$26 billion – it hadn’t been that small since November 1999.<sup>7</sup>

The big healthcare reform effort of 2009 did not produce a bill for President Obama’s desk by August. The government healthcare coverage concept advocated by Congressional Democrats and the President (and widely derided by insurers and business owners) was the sticking point.<sup>8</sup> One smashingly successful federal effort was the C.A.R.S. program – the cash-for-clunkers project almost ran out of money in a week due to amazing sales totals. At

the top of August, however, the program’s future was in question.<sup>9</sup>

The International Monetary Fund concluded July with the opinion that the U.S. economy would see a “gradual” recovery, cautioning that growth “could remain well below past trends for a considerable period.” It forecast -2.6% GDP for America in 2009 and +0.8% GDP in 2010.<sup>10</sup>

**Global economic health.** In China, new hints of recovery emerged. The nation’s Purchasing Managers Index rose to a 12-month peak in July, with both input and output prices up for the first time since August 2008.<sup>11</sup> The pace of inflation seemed to be slowing in some of the region’s economies. In fact, the economies of South Korea and Indonesia saw inflation fall to lows unseen since 2000 in July. Consumer prices in Thailand dropped 4.4% last month.<sup>12</sup> In Japan, industrial production was up for the fourth month in a row, although still 28% below output a year ago.<sup>13</sup>

Joblessness in the European Union reached a 10-year high of 9.4% during July (analysts had forecast 9.7%). Consumer prices in the EU fell by 0.6% for the month.<sup>14</sup> While Germany’s manufacturing industry had shown less contraction in June, with business confidence reaching a nine-month peak, retail sales decreased by 1.8% on the month.<sup>15,16</sup> Want to know where it was really rough? Lithuania, which posted a second quarter GDP of -22.4%.<sup>17</sup>

**World financial markets.** Stocks gained around the globe as optimism reigned.. The Shanghai Composite rose 15.3% to stand as the global leader among major indices for the month. Elsewhere in the Asia Pacific region, the Nikkei 225 advanced 4.0%, the Hang Seng gained 11.9%, and the Singapore STRAITS Times advanced 14.0%. India’s Sensex rose 8.1% on the month and the Australian All Ordinaries bourse gained 7.6%. In Europe, the July gains were also impressive: 8.5% for the FTSE 100, 9.1% for the CAC 40, and 10.9% for the DAX. Amsterdam’s AEX index topped them, gaining 11.2%. The MSCI World Index and MSCI Emerging Markets Index respectively gained 8.4% and 10.9% in July.<sup>18</sup>

**Commodities markets.** It was a good month for metals, and a fine month for certain energy and crop futures. Oil lost 1.96% in July, ending the month at \$69.45 a barrel. Still, oil prices ended July up 55.72% for the year. Gasoline futures gained 7.51% in July, putting them up 92.54% on the year at month’s end. Diesel fuel performed better than any commodity

during the month, rising 18.75%. Copper led the precious metals, gaining 15.47% for July. Gold rose 2.84%, silver 2.50% and platinum 2.44%. Orange juice led the crop futures (+15.73%), with cocoa (+14.66%), pork bellies (+11.76%) and rough rice (+11.55%) having great months. July numbers on other crop futures: wheat, +3.33%; oats, -1.28%; milk, +0.40%; sugar, +4.26%; corn, +0.50%.<sup>19</sup>

**Housing & interest rates.** Prices were still low, but things were looking up. New home sales increased by a powerful 11.0% in June – and housing starts were up 3.6%, with starts on single-family housing higher by 14.4%.<sup>20,21</sup> As for existing homes, low prices fostered a third consecutive month of increasing sales – residential resales were up by 3.6% in June.<sup>22</sup>

Mortgage rates decreased slightly in July. In Freddie Mac’s July 30 survey, the 30-year FRM was averaging 5.25% nationally; on July 2, the average was 5.32%. Average rates for 5-year ARMs moved from 4.88% to 4.75% between July 2 and July 30. Rates on 1-year ARMs moved from 4.94% to 4.80% across the same period. As for 15-year FRMs, rates decreased from 4.77% to 4.69% in that time span.<sup>23</sup>

**Major indexes.** July 2009 was the Dow’s best July in 20 years. It was also the Dow’s best month since October 2002. The S&P 500 and NASDAQ had their best Julys in 12 years.<sup>24</sup>

% Change	1-Month	Y-T-D
<b>DJIA</b>	<b>+8.58</b>	<b>+4.50</b>
<b>NASDAQ</b>	<b>+7.82</b>	<b>+25.46</b>
<b>S&amp;P 500</b>	<b>+7.41</b>	<b>+9.32</b>
<b>10Yr TIPS Yd</b>	<b>-7.02</b>	<b>-25.33</b>

(Source: CNBC.com, ustreas.gov, 7/31/09)<sup>24,25</sup>  
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

**August outlook.** In the last month, the sentiment has shifted from “the recession might possibly be ending” to “looks like the recession is coming to an end”. (*Newsweek*, of course, went so far as to declare the recession over in late July.) We did get a preliminary 2Q GDP reading of -1.0%, better than economists had forecast.<sup>26</sup>

Could August be as fantastic as July was for stocks? It tends to be a positive month: historically, the DJIA has gained ground 64% of the time in August, with an average gain of 4.15% when it advanced. Now let’s broaden the scope of things: the S&P 500 has posted gains in 59% of Augusts since 1896, with the average gain being 4.08%.<sup>27</sup> With bullish sentiment growing,

let’s hope that we see an August that matches or exceeds historical norms.

The notable economic releases for the rest of August: June consumer spending, personal income and pending home sales (8/4), July factory orders and the July ISM services index (8/5), July unemployment (8/7), June wholesale inventories (8/11), July retail sales and June business inventories (8/13), July CPI and industrial production and preliminary August consumer sentiment (8/14), July PPI and housing starts (8/18), July leading indicators (8/20), July existing home sales (8/21), July durable goods orders and the Conference Board’s August survey of consumer confidence (8/25), July new home sales (8/26), and finally July consumer spending and personal income (8/28).

**Riddle of the month.** Daryl weighs 120 pounds more than his sister Julianne. Their combined weight is 180 pounds. How many pounds does Daryl weigh?

*Contact my office or see next week’s Update for the answer.*

**Last month’s riddle answer:** 6,210,001,000. There are 6 zeros, 2 ones, 1 two, and 1 six within that 10-digit number.

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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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