MONTHLY EconUpdate

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Monthly Economic Update for September, 2009

Quote of the month. "We will either find a way, or make one." – Hannibal

The month in brief. Pessimists thought the market would pull back; it didn't. Stocks did well and there was mounting evidence of a real estate rebound. We got news of a decline in the jobless rate, and better news from the manufacturing and service sectors. The government's health care reform effort met with rowdy public opposition. Consumer spending inched up, and new cars sold like mad. The commodities markets had a mixed month with oil futures hitting a 2009 peak.

Domestic economic health. The jobless rate went down to 9.4% in July from 9.5% in June; perhaps it was an aberration, or perhaps (could we hope?) the start of a trend. It was the first time that America's unemployment rate had dropped since April 2008.[1]

Consumers managed to spend just a little bit more. Consumer spending rose 0.4% in June and 0.2% in July (while personal incomes fell 1.3% for June and stayed flat in July).[2,3] There will likely be a bump in the August consumer spending and durable goods orders – the C.A.R.S. program, although quickly replenished by Congress, went through its $3 billion allotment of rebates by August 24.[4]

In July, factory orders rose by 0.4% (economists thought they would fall) and industrial production went north 0.5% (the first increase in nine months).[5,6] Producer prices fell by 0.9%, and durable goods orders soared 4.9%, with an 18.4% leap in transportation orders.[7,8] In the wake of the C.A.R.S. program, the Institute for Supply Management's gauge of manufacturing activity went above 50 in August for the first time since January 2008, coming in at 52.9.[9]

"The prospects for a return to growth in the near term appear good," Federal Reserve Chairman Ben Bernanke said at the Kansas City Fed's annual symposium in Wyoming. The Fed's August policy meeting produced the opinions that "economic activity is leveling out" and that inflation will be "subdued for some time".[10] Public response to the government's attempt to advance health care reform was not subdued at all, and the contention delayed any notion of progress until after the Congressional summer recess.

Global economic health. New Eurostat data gave us a look at how things were faring in the EU nations. The overall EU unemployment rate rose 0.1% in July to 9.5%. However, the jobless rate in its biggest economy (Germany) was just 8.3%. (Spain's jobless rate for July: 18.5%.) A key purchasing managers survey had EU manufacturing output at a 14-month high in August.[11]

In Asia, the big concern came late in August when the central bank of China issued an internal memo telling its branches to tighten lending practices. This hit stocks hard, but fresh data pointed to a nice recovery for some of the region's economies. A pair of China's PMI indexes stayed above 50 (indicating expansion). Hong Kong's manufacturing pace increased for the first time since June 2008. South Korea had a surplus of $1.67 billion (U.S.) in August, compared to a $3.81 billion (U.S.) deficit in August 2008. Inflation in Indonesia had increased moderately to 2.75%, and consumer prices in Thailand had moderated their descent.[12]

World financial markets. The European indexes had a better month than the Asian indexes. Germany's DAX gained 2.5%, but the real gains of note came in other nations. Great Britain's FTSE 100 leapt north 6.5%; in France, the CAC 40 rose 6.6%. The two biggest monthly leaps in Europe came in Dublin, where the ISEQ rose 10.9%, and in Vienna, where the ATX pulled off an August gain of 11.2%. Turning to Asian markets, Australia's All Ordinaries index was up 5.5% for August. The Nikkei 225 gained 1.3%. India's Sensex was virtually flat last month. The August losers included the Singapore STRAITS Times index (-2.5%), Hong Kong's Hang Seng (-4.1%), and the always entertaining Shanghai Composite (-21.8% in August after +15.3% in July). The MSCI World Index advanced 3.5% in August, but the MSCI Emerging Markets Index diverged, posting a 0.2% loss.[13]

Commodities markets. Gold futures lost a little ground, and oil futures gained a little ground. Gold lost $2.00 in August to end the month at $951.70 an ounce; gold has had just one positive month in the last three. Copper, of course, is the story of the year in precious metals – copper futures gained for the eighth month in a row, rising 7.32% on the month to $2.81 per pound. At the end of August, copper was up more than 100% YTD. Oil gained 0.73% for the month. While prices crested above $75 a barrel in the last full trading week of August, they ended the month at $69.96 a barrel. Natural gas, beset by too much inventory, continued its poor 2009 – futures lost 18.51% on the month, the worst month they have had since January. In crops, the newsmakers for August were sugar and milk: milk futures gained more than 24% last month, and sugar futures more than 25%. Sugar was up almost 100% YTD as August drew to a close. At the pump, retail (unleaded) gas prices averaged $2.61 per gallon in late August – 28.61% under where they were a year before.[14,15]

Housing & interest rates. Good news seemed everywhere (except when it came to foreclosure statistics). The National Association of Realtors said pending home sales rose 3.6% in June and 3.2% in July – that makes six consecutive months of increases.[16] Existing home sales rose by 7.2% in July, helped by low prices, low mortgage rates and federal homebuyer credits.[17] New home sales climbed 9.6% for July, with the inventory of new homes shrinking to a low unseen since March 1993.[18] While overall housing starts slipped 1.0% in July, the pace of single-family home construction increased by 1.7%.[19]

August also brought even lower mortgage rates. Checking Freddie Mac's August 27 Primary Mortgage Market Survey, 30-year FRMs were averaging 5.14%, compared with 5.25% on July 30. Rates on 15-year FRMs also dropped slightly in that time frame, from 4.69% to 4.58%. Averages on 5-year ARMs went from 4.75% to 4.67% and rates on 1-year ARMs fell from 4.80% down to 4.69%.[20]

Major indexes. The August numbers provided more evidence that 2009 was turning into a good year for stocks. The S&P 500 and NASDAQ posted their sixth straight monthly gains. At the end of August, the DJIA had advanced in five of the last six months.[21]

% Change	1-Month	Y-T-D
DJIA	**+3.54**	**+8.20**
NASDAQ	**+1.54**	**+27.40**
S&P 500	**+3.36**	**+12.99**
10Yr TIPS Yd	**-1.12**	**-23.14**

(Source: CNBC.com, ustreas.gov, 8/31/09)[21,22]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

September outlook. Well, September started with a triple-digit hit to the Dow – you could hear bears growling, worrying about banks and wondering if the summer rally had been justified. Will everyone sell in September? Or will stocks defy expectations? Is this a cyclical bull market or a secular bull market? We do have some history to consider: on average, the Dow, S&P 500 and NASDAQ have declined a bit more than 1% during the typical September.[23] Many eyes are on the jobs report coming out September 4, and whether the jobless rate climbs or descends. Any descent (for the second month in a row) would provide a strong hint of an ebbing recession and a shot of reassurance to Wall Street. Even pessimists have to concede that many indicators are improving and that the economy is definitely recovering.

The key economic releases for the balance of September: the August ISM services index (9/3), August unemployment (9/4), August wholesale inventories and preliminary September consumer sentiment (9/11), August PPI, retail sales and business inventories (9/15), August CPI and industrial production (9/16), August housing starts (9/17), August leading indicators (9/21), August durable goods orders (9/22), August existing home sales (9/24), August new home sales (9/25), and the Conference Board's September survey of consumer confidence (9/29). We get the August personal income and personal spending numbers on October 1.

Riddle of the month. There are 14 punctuation marks used in English grammar. Can you name at least seven?

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

Last month's riddle answer: 150 pounds.

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and we will contact them and ask for their permission to be added.

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Citations.

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