

MONTHLY EconUpdate

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Monthly Economic Update for October, 2009

Quote of the month. “True happiness is the full use of your powers along lines of excellence in a life affording scope.” – John F. Kennedy

The month in brief. Wall Street had a great September, concluding its best quarter in 11 years: last month, the Dow gained 2.3%, the S&P 500 3.6%, and the NASDAQ and Russell 2000 5.6%.¹ The rally was substantiated by quite a few economic indicators, though question marks emerged in the real estate sector. The jobless rate climbed, but consumer spending and retail sales were also up. Gold prices touched \$1,000 an ounce. The Federal Reserve held interest rates steady and decided to scale back its emergency auctions.

Domestic economic health. The stock market was rallying; would consumer spending also improve? As September closed, we learned that consumer spending rose 1.3% for August, while retail sales were up 2.7% for that month. Certainly the cash-for-clunkers program affected those numbers, but that is still the biggest monthly increase in personal spending in almost eight years (and the fourth straight monthly gain). With auto sales and gasoline purchases factored out, August retail sales were still up 0.6%.^{2,3} Of course, a fraction of those consumers were out of work – the jobless rate reached 9.7% in August, with underemployment at 16.8%.⁴

As for the manufacturing and service sectors, the Institute for Supply Management’s services and manufacturing indexes rose to 52.9 and 48.4 for August – but the ISM factory index fell from 52.9 to 52.6 in September (still registering growth, but a little less).⁵ We learned that wholesale sales went up by 0.5% in July (best jump since June 2008) and that wholesale inventories shrank by 1.4% in that month.⁶ Durable goods orders shot up by 4.8% for July, but fell by 2.4% for August (they were actually flat minus transportation orders).⁷

Unsurprisingly, the Fed left interest rates where they were ... and it announced that it would wind down the scope of its emergency auctions of cash loans and Treasuries from \$450 billion in September to \$100 billion by January. It also said it would complete its program to buy \$1.25 trillion in mortgage securities by March.⁸ The Fed’s August Beige Book noted stability or improvement in 12 regional economies, with business climates “cautiously positive” in most of those regions.⁹

As for consumer confidence, the Reuters/University of Michigan consumer sentiment survey climbed to

73.5 from August’s 65.7 mark.¹⁰ On the other hand, the Conference Board’s September survey reading dipped to 53.1 from 54.5 a month before.¹¹

Global economic health. China’s official purchasing manufacturers index rose in August – for the seventh month in a row, the index stayed above 50 and showed growth. In Japan, a survey showed business morale rebounding further from a record low earlier in 2009, but still negative overall for the fifth straight quarter. While the European Union’s 22 largest banks thankfully passed a stress test, Germany’s retail sales shrank by 1.5% in August.^{12,13}

The International Monetary Fund forecast 3.1% growth for the global economy in 2010, up from July’s 2.5% projection. It forecasts 2010 growth of 9.0% for China, 6.4% for India, 1.5% for the U.S., 0.3% in the Eurozone, 0.9% in Great Britain, and 1.7% in Japan.¹⁴

World financial markets. Generally, it was a fine month for stocks. While the Nikkei 225 lost 3.4% on the month, the MSCI Asia Pacific Index gained 3.5% for September. Germany’s DAX gained almost 4% last month. In London, the Dow Jones Stoxx 600 gained 2.7% in September. MSCI’s Emerging Markets had a fantastic month, rising 8.9% (in the third quarter it gained 20% while the MSCI World Index advanced 17%). The JPMorgan Emerging Markets Bond Index Global rose 4.9% during September.^{15,16,17}

Commodities markets. Gold took off during September, with futures rising above the \$1,000-per-ounce mark. The precious metal gained \$56.30 on the month (that’s a 5.92% advance, and gold prices were up +8.73% for the third quarter). Silver futures also had a strong September, bringing the third quarter gain for that precious metal to around 22%. As for oil and natural gas, oil prices gained 0.93% in September, meaning prices ended the month at \$70.61 a barrel. Natural gas staged a record rebound in time for fall; futures gained 62.61% last month and went up 26.23% in the third quarter, ending September at \$4.841 per million BTUs.^{18,19}

Housing & interest rates. The latest home sales figures were less than impressive. Existing home sales for August fell 2.7% from July, though sales were at their highest level in 23 months.²⁰ New home sales were up 0.7% for August, but the Commerce Department also recorded the median sale price falling by 9.5%.⁷ On the other hand, pending home sales kept rising – in August, the NAR’s barometer went north 6.4%, registering a gain for the seventh

straight month. Also, Commerce Department figures indicated that residential construction spending increased 4.7% in August, the sharpest monthly gain since 1993.²¹

Mortgage rates were ridiculously low as September drew to a close. On October 1, Freddie Mac's survey had the average interest rate on a 30-year fixed mortgage at ... drum roll please ... 4.94%. (On September 3, it was 5.08%.) As for 15-year FRMs, average rates descended from 4.54% to 4.36% between the September 3 and October 1 surveys. Averages on 5-year ARMs? They were 4.59% on September 3, and 4.42% on October 1. Average rates for 1-year ARMs descended from 4.62% to 4.49% across that time span.²²

Major indexes. "Always remember, sell in September?" Guess again. The old market adage was upended. At the end of September, the S&P 500 had gained 56.25% from its March 9 low.¹

% Change	1-Month	Y-T-D
DJIA	+2.27	+10.66
NASDAQ	+5.64	+34.58
S&P 500	+3.57	+17.03
10Yr TIPS Yd	-10.34	-31.89

*(Source: CNBC.com, ustreas.gov, 9/30/09):²³
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.*

October outlook. Well, October started out much like September, with a triple-digit selloff on the Dow and worries that the market had gotten ahead of the economy. Yet September turned out to be a superb month for equities. If you've been around for a while, you may associate October with some awful market days – Black Monday, the 733-point Dow drop of last October 15, the late-October swoon of 1997. While September and October are usually viewed as poor months for stocks, consider these statistics: across its long history, the DJIA has posted an average October gain of 1.49% following an up September. In addition, the NASDAQ and the S&P 500 have respectively gained an average of 1.22% and 1.90% in Octobers occurring in years with September gains. (Should the S&P 500 advance in October, it would be that index's eighth straight monthly gain. Since 1984, that has only happened three times.)²⁴

Here are the key economic releases for the rest of October: the September ISM services index (10/5), September wholesale inventories (10/8), September retail sales and business inventories (10/14), September CPI (10/15), September industrial output and preliminary October consumer sentiment

(10/16), September PPI and housing starts (10/20), the Conference Board's September leading indicators (10/22), September existing home sales (10/23), September durable goods orders and the Conference Board's October gauge of consumer confidence (10/22), (10/27), September new home sales (10/28), advance 3Q GDP from the Bureau of Economic Analysis (10/29), and September consumer spending and personal incomes (10/30).

Riddle of the month. In many liquor stores, you can buy pear brandy with an actual pear inside the bottle. The pear is whole and ripe, and the bottle is genuine; it hasn't been cut open in any way. How does the pear get inside the bottle?

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

Last month's riddle. There are 14 punctuation marks used in English grammar. Can you name at least seven?

Last month's riddle answer: Here they are: period, comma, colon, semicolon, dash, hyphen, apostrophe, question mark, exclamation point, quotation marks, brackets, parenthesis, braces, ellipses.

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If you would like us to add them to our list, please reply with their address
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Citations.

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