

WEEKLY ECONOMIC UPDATE

August 16, 2010

WEEKLY QUOTE

“The best way to find yourself is to lose yourself in the service of others.”

– Mahatma Gandhi

WEEKLY TIP

Avoid visiting ATMs alone at night, and never count your money at one. If an outside ATM seems lonely, try a well-lit ATM in a 24-hour grocery or drug store instead.

WEEKLY RIDDLE

What appears once in a minute, twice in a moment, but never in a decade?

Last week's riddle:

Two fathers and two sons went truffle hunting. Each found a truffle yet they found only three in all. How come?

Last week's answer:

The truffle-hunting party was made up of three people - a man, his son and his grandson.

GOOD NEWS: INFLATION IS BACK

The Consumer Price Index rose 0.3% for July – the largest monthly increase since August. The Labor Department's report quelled deflation worries among economists and investors who feared the CPI would go negative for a fourth straight month. Energy prices rose 2.6% in July, while core CPI (minus food and energy prices) went up 0.1%. Across the last 12 months of data, core CPI has increased 0.9% and overall CPI has advanced 1.2% - the mildest inflation in 44 years.^{1,2}

RETAIL SALES IMPROVE

The Commerce Department estimated a 0.4% gain in retail sales for July – a nice turnaround after two months in the minus column. (A 1.6% rise in motor vehicle and motor vehicle parts purchases certainly helped.)¹

A SLIGHT RISE IN CONSUMER SENTIMENT

The middle of the month brings the latest University of Michigan/Reuters consumer sentiment survey. The preliminary August edition came in at 69.6, slightly better than the 69.0 consensus forecast of economists polled by Bloomberg News.³

FED WILL BUY UP MORE DEBT

As if acknowledging that the recovery is not moving fast enough to stimulate notable growth or job creation, the Federal Reserve said it would use proceeds from maturing mortgage-linked securities to buy up U.S. Treasuries. Analysts estimate the Fed could buy \$10 billion to \$30 billion of the bonds per month. The new effort will keep the Fed's portfolio of Treasuries around the \$2 trillion level for the near future, with the goal of keeping long-term interest rates from rising. Fed policymakers left the benchmark interest rate unchanged last week.^{4,5}

BUSINESS INVENTORIES UP, BUSINESS SALES DOWN

The Commerce Department noted last week that business stockpiles grew by 0.3% for June, on the heels of a 0.2% increase for May. However, business sales fell by 0.6% - better than June's 1.2% drop, but still the second monthly decline in a row after 13 straight monthly gains.⁶

ROUGH WEEK FOR WALL STREET

It was especially tough for the NASDAQ, which dived 5.02%. The S&P 500 slipped 3.78% last week while the DJIA lost 3.29%. Wednesday, Wall Street endured a major selloff on pessimism over the bearish FOMC statement and worries about a slowing global economy; that was the pivotal day of the week for stocks. Where did the indices settle at Friday? DJIA, 10,303.15; NASDAQ, 2,173.48; S&P 500, 1,079.27.⁷

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-1.20	+9.63	-0.56	-0.78
NASDAQ	-4.22	+8.17	+0.15	-4.35
S&P 500	-3.21	+6.57	-2.46	-2.76
REAL YIELD	8/13 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	1.00%	1.80%	1.91%	4.03%

Source: cnbc.com, bigcharts.com, ustreas.gov, bls.gov - 8/13/10^{7,8,9,10}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

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Citations.

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