

MONTHLY ECONOMIC UPDATE

September 2010

MONTHLY QUOTE

“Nothing in this world can take the place of persistence.”
– Calvin Coolidge

MONTHLY TIP

Updating your will is as important as having one. If you drafted a will years back, it likely needs some adjustments. Revisit your will often and keep it up to date.

MONTHLY RIDDLE

Tom's mother has four children. Each was born exactly one year and one month apart from the previous child. The first she named April, the second she named May, the third she named June. What did she name her fourth child?

Last month's riddle:

What do the words Potato, Voodoo, Grammar, Revive and Banana have in common?

Last month's answer:

All five words read the same backwards when their first letter is moved to the last position. (Ex: Banana ... move "b" to the end position to spell "ananab". Ananab = Banana spelled backwards.)

THE MONTH IN BRIEF

For the stock market investor, last month was pretty lackluster – the DJIA suffered its first negative August since 2005, sliding 4.31% and struggling to keep above the 10,000 level.¹ Volume was remarkably light and skepticism permeated Wall Street. It was widely agreed that the economy was crawling along: the impact of the 2009 federal stimulus was fading, and the government probably wasn't going to ride to the rescue again. Businesses and consumers would just have to wait and hope. Yet as August gave way to September, some hope arrived: indicators showed an economy that appeared healthier than proclaimed.

DOMESTIC ECONOMIC HEALTH

Our first shot of hope comes in the form of consumer spending and consumer confidence. Consumer spending rose 0.4% in July after a flat June. That was the biggest increase since March, and welcome after three months without a net gain. Personal incomes were up 0.2%, and the personal savings rate declined to 5.9% from the previous 6.2%.² The University of Michigan/Reuters consumer sentiment index improved to 68.9 in August from 67.8 in July, and the Conference Board's August poll made the same move, rising from July's 51.0 to 53.5. (Its expectations index rose from 67.5 to 72.5.)^{3,4}

Our second shot of hope comes from the retail and manufacturing sectors. Analysts polled by Briefing.com expected the Institute for Supply Management's August manufacturing index to fall to 52.9 from the July mark of 55.5. Surprise – it came in at 56.3. Additionally, the Commerce Department said retail sales increased for the first time in three months in July, reporting a 0.4% gain.^{5,6,7}

In another positive sign, inflation reappeared. In July, the Consumer Price Index rose 0.3% after declining the three previous months; the Bureau of Labor Statistics measured year-over-year inflation at 1.2%. The Producer Price Index advanced 0.2% in July for a 4.2% year-over-year gain.^{8,9}

Other indicators were less reassuring. Unemployment ticked up to 9.6% in August, and analysts were not surprised by that .1% increase. On a positive note, the private sector gained 67,000 jobs. Durable goods orders rose 0.3% in July, not the 2.7% economists surveyed by MarketWatch were forecasting. (It was the first gain in the category in three months.) The ISM service sector index also declined for August, still showing growth but descending from July's 54.3 mark to 51.5.^{10,11,12}

At the Fed's annual Wyoming retreat, chairman Ben Bernanke said that the central bank would intervene in the economy if necessary, admitting that “although private final demand, output, and employment have indeed been growing for more than a year, the pace of that growth recently appears somewhat less vigorous than we expected.” He noted that Fed policymakers did not think the recovery was fading.¹³

GLOBAL ECONOMIC HEALTH

In late August, we learned that the European Union's collective economy expanded in the second quarter at a rate unseen since 2006. The Eurozone PMI was 55.1 in August, still showing growth but down from 56.7 in July. Still, the index has been above 50 for the last 11 months of data. The pace of manufacturing growth in Germany, England, Italy and Spain slowed in August. Economists polled by Bloomberg felt the European Central Bank would keep interest rates at around 1% for an extended period.^{14,15}

Both the government PMI and the most respected private-sector PMI in China advanced in August – the private sector index went from 49.4 in July to 51.9, a three-month peak. India’s manufacturing sector grew again in August, and Russia’s manufacturing sector expanded by the most since April 2008.¹⁵

WORLD MARKETS

Some benchmarks did pull off gains, and many foreign indices outperformed the DJIA and S&P 500. The advances were found in the emerging markets: Indonesia’s JSX Composite, +0.4%; India’s Sensex, +0.6%; Chile’s IPSA, +2.8%; the Philippines All Shares Index, +3.4%; and Thailand’s SETI, a remarkable +6.7% last month. The big loser among notable indices was the Nikkei 225, which had its worst month since May (-7.5%). Other monthly descents: England’s FTSE 100, -0.6%; South Korea’s KOSPI, -1.1%; Hong Kong’s Hang Seng, -2.4%; Germany’s DAX, -3.6%; France’s CAC 40, -4.3%; and Brazil’s Bovespa, -4.8%.

Now how did the key MSCI indices fare last month? Not very well. In U.S. dollar terms, the MSCI World Index lost 3.92% while the MSCI Emerging Markets Index retreated 2.15%.^{16,17,18}

COMMODITIES MARKETS

After a bad July, gold futures enjoyed a strong August. Gold advanced 5.64% for its best month since April. (After eight months of 2010, gold looked pretty good compared to the S&P 500: +12.90% YTD.) August was rough for oil and downright awful for natural gas. Oil fell 8.90% after rising in June and July; the August slide left it at -9.30 YTD. Natural gas futures sank 22.49% in August, a major reversal after prices rose for four straight months; at the end of August natural gas was down 31.59% for the year. The U.S. Dollar Index went +1.89% for the month, moving from 81.54 at the end of July to 83.08.^{19,20}

REAL ESTATE

Well, the National Association of Realtors did have a tiny bit of good news for us: in July, the median sale price of an existing home was \$182,600, 0.7% higher than it had been in July 2009. That was about all the good news that the real estate sector gave us in August. Analysts knew home sales would drop without encouragement from the federal government. But they were stunned to learn just how much, especially considering that July is commonly the peak month for home buying. Existing home sales fell 27.2% on the month and were 25.5% under year-ago levels. New home purchases slipped 12.4% in July to the slowest pace since the start of recordkeeping in 1963.^{21,22}

Mortgage interest rates continued their descent. Freddie Mac’s August 26 Primary Mortgage Market Survey showed rates on the 30-year FRM averaging under 4.5% (4.36% nationally) and rates on 15-year FRMs averaging below 4% (3.86% nationally). In the September 2 survey, those numbers got even smaller: 4.32% and 3.83%.²³

LOOKING BACK ... LOOKING FORWARD

It was an unusual August – the worst for the Dow, S&P and NASDAQ since 2001. The numbers were definitely against the norm for the Dow – historically, August is the third best month for the DJIA, with gains occurring 65% of the time.²⁴

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	-3.96	-4.31	+5.46	-1.07
NASDAQ	-6.84	-6.24	+5.22	-4.97
S&P 500	-5.90	-4.74	+2.81	-3.09
REAL YIELD	8/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.95%	1.76%	1.65%	4.03%

Source: cnbc.com, bigcharts.com, ustreas.gov, bls.gov - 8/31/10^{1,25,26,27,28}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

So how optimistic should we be for September? Well, we have some very good signs in the jobless report. August non-farm payrolls only shrank by 54,000, compared to expectations of a loss of 120,000 positions. The private sector gain of 67,000 jobs also surpassed the gain of 41,000 analysts had forecast. Newly revised June and July numbers from the Labor Department indicate that the economy lost 123,000 less jobs than previously assumed.¹² Factor in the recent gains in personal spending and personal income and the continued signs of growth in U.S. and world manufacturing and suddenly things seem a bit brighter. However, unemployment remains the biggest drag on the housing market and a significant drop in joblessness isn't seen for a long time to come.

Here are the key economic releases for the balance of September. We have the Fed's September beige book (9/8), July wholesale inventories (9/10), August retail sales and July business inventories (9/14), August factory output (9/15), August PPI (9/16), August CPI and the preliminary September University of Michigan consumer sentiment survey (9/17), a Fed interest rate decision and August housing starts and building permits (9/21), August existing home sales and the Conference Board's August leading indicators (9/23), August new home sales and durable goods orders (9/24), the Conference Board's September look at consumer sentiment and the July Case-Shiller home price index (9/28). The August consumer spending data comes to us on October 1, in addition to the September ISM manufacturing index.

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