

MONTHLY ECONOMIC UPDATE

October 2010

QUOTE OF THE MONTH:

“Be sincere; be brief; be seated.”

– Franklin Delano Roosevelt

MONTHLY TIP

Talk about money once a month with your spouse. Only via communication can you set financial goals and create a general spending plan. Spending ten or twenty minutes on this will be well worth it.

MONTHLY RIDDLE

When can you add two to eleven and get one as the correct answer?

Last month's 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 May, and the third June. What did she name her fourth child?

Last month's answer:

Tom.

THE MONTH IN BRIEF

Who would have guessed the market would turn around in September? Against the historical norm, that is precisely what happened: the S&P 500 soared 8.76% for the month to go +10.72% for the quarter and +2.34% for the year.¹ Gold futures cracked the \$1,300 ceiling. President Obama offered a new platform of tax initiatives for Congress to consider and signed a bill designed to help small businesses. Legislators debated the merits of extending the Bush-era tax cuts for the wealthiest Americans. The housing market seemingly couldn't get any worse – and it didn't. Consumer spending increased a bit more than consumer prices.

DOMESTIC ECONOMIC HEALTH

The latest Commerce Department data showed solid gains in personal spending (+0.4%) and personal income (+0.5%) for August, surpassing the forecasts of economists polled by Dow Jones Newswires. Some of those August gains probably reflected the extension of jobless benefits, but the fact was that consumer spending had increased by 0.4% for two straight months. Assuming some healthy spending, what were people spending their money on? Perhaps durable goods. While overall orders of hard goods slipped 1.3% in August, durable goods orders actually increased by 2.0% with the volatile transportation sector factored out.^{2,3}

The unemployment rate signifies the economy to many Americans, and the jobless rate for July ticked up to 9.6%. The bright spot: the private sector added 67,000 new jobs, more than the 41,000 analysts had forecast.⁴ Still, consumer morale was wavering: the final September University of Michigan survey slipped to 68.2 from a final August reading of 68.9, while the Conference Board's consumer confidence index slumped to 48.2 for September from 53.2 the preceding month.^{5,6}

In Washington, legislators debated extending the EGTRRA and JGTRRA tax cuts of the previous decade. The President and most Democrats wanted the cuts extended to all but the highest-earning Americans; many Republicans preferred that they be preserved for all Americans. President Obama also proposed a 100% expensing credit for businesses and making the R&D tax credit permanent. The President also signed a small business jobs bill primarily designed to create a \$30 billion fund to encourage business loans at community banks. In the liberal view, the bill offered businesses a lifeline in a tough economy; in the conservative view, it merely offered them a chance for more debt.^{7,8}

Inflation was no threat yet. The Consumer Price Index rose 0.3% in August, and the Producer Price Index advanced 0.4%. However, core CPI was flat in August while core PPI increased just 0.1%. The 12-month picture showed core CPI up 0.9% and core PPI up 1.3% since August 2009. The Federal Reserve stayed pat on the key interest rate but offered vague hints of quantitative easing to come in the months ahead.^{9,10}

The key purchasing managers index in the U.S. signaled slow-to-moderate growth in the manufacturing sector. The Institute for Supply Management's manufacturing index came in at 54.4 for September, the slowest pace of expansion in 10 months.¹¹

GLOBAL ECONOMIC HEALTH

At the end of September, Moody's downgraded Spain's credit rating a notch to Aa1, just as Ireland's central bank announced a \$40+ billion bailout of a key private bank, a move that would swell the country's deficit to 32% of its GNP.¹² Those anxieties

aside, the closely watched Markit purchasing managers index slipped to 53.6 in September – that still meant expansion, but it was also the lowest number in seven months, mirroring the development in the monthly ISM survey stateside.¹³

Turning to Asia, China’s manufacturing PMI hit a four-month peak in August – and its service sector also expanded thanks to boosts in personal spending and construction spending. For the other side of the coin, there is always Japan – a new Wells Fargo report showed that nation’s retail sales down 1.9% from a year ago, its exports diminishing and its industrial output down for the third straight month. The yen hit a 15-year high versus the dollar last month, which did not help.^{14,15}

WORLD MARKETS

All but a handful of global indices posted gains in September. Argentina’s Merval and India’s SENSEX made double-digit advances (+13.1% and +12.3%, respectively). Other notable gains: Hong Kong’s Hang Seng, +8.9%; Brazil’s Bovespa, +8.0%; France’s CAC 40, +6.5%; England’s FTSE 100, +6.2%; Russia’s RTSI, +6.1%; Mexico’s IPC All Shares, +5.2%; the German DAX, +5.1%; Canada’s TSX Composite, +3.8%. Ireland and Iceland were at the back of the pack: Ireland’s ISE went -1.0% in September, while Iceland’s OMX went -19.9%. You might guess that the MSCI Emerging Markets Index did pretty well last month, and you would be right (+10.87%). The MSCI World Index went +9.11% in September.^{16,17}

COMMODITIES MARKETS

Metals made terrific gains last month. How terrific? Palladium soared 13.8%, silver rose 12.3%, platinum futures went north 8.9% and gold gained 4.7%. Gold futures reached an all-time peak of \$1,317.50 per ounce late last month. It was also a strong month for energy futures: NYMEX crude prices gained 11.19% while natural gas futures advanced 1.47% (a nice change of pace for that beleaguered commodity). The U.S. Dollar Index fell 5.16% in September to end the month at 78.79.^{18,19,20}

REAL ESTATE

The August report from the National Association of Realtors communicated that existing home sales had rebounded from the depths of July – they were up by 7.6%. New home sales were flat for August, according to the Census Bureau – and 28.9% beneath year-ago levels. How about August pending home sales? They rose 4.3%.^{21,22}

Mortgage rates certainly did not rise in September: Freddie Mac’s September 30 Primary Mortgage Market Survey had rates on 30-year FRM averaging 4.32% nationally (compared to 4.94% a year earlier). The 15-year FRM, the refiner’s favorite, dropped to a new all-time low in the September 30 survey: 3.75%, down from 4.36% a year before. Rates on 5-year ARMs and 1-year ARMs respectively averaged 3.52% and 3.48%.²³

LOOKING BACK...LOOKING FORWARD

September 2010 was the best September for the Dow and S&P in 71 years. After a miserable August, the bulls quietly trotted back onto Wall Street and owned it all month. Here was how things stood at the end of the month.¹

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+3.45	+7.72	+11.08	+0.13
NASDAQ	+4.38	+12.04	+11.60	-3.55
S&P 500	+2.34	+8.76	+7.96	-2.06
REAL YIELD	9/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.75%	1.56%	1.78%	4.03%

Source: cnbc.com, bigcharts.com, ustreas.gov, bls.gov - 9/30/10^{1,24,25,26}
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
 These returns do not include dividends.

We have some guarded optimism on Wall Street; do we have momentum? The fall earnings season kicks off on October 7 (with Alcoa, to be precise), and we've got a fresh jobless report on October 8. (Economists polled by Briefing.com see joblessness moving north slightly to 9.7% for September; will the Fed take action if the number is higher?) So October opens with a lot to digest. You know the old saying: past performance is no indication of future results. That said, CNBC.com notes that when the S&P 500 has gained for September, a gain for October has occurred 64% of the time.^{27,28,29}

UPCOMING ECONOMIC RELEASES: Looking ahead, we have the September jobless report and August wholesale inventories (10/8), the minutes from the Fed's 9/21 policy meeting (10/12), September PPI (10/14), September CPI and retail sales, August business inventories and the preliminary October University of Michigan consumer sentiment survey (10/15), September industrial output (10/18), September housing starts and building permits (10/19), the Fed's October beige book (10/20), the Conference Board's September leading indicators (10/21), September existing home sales (10/25), the August Case-Shiller home price index plus the Conference Board's October poll of consumer confidence (10/26), September new home sales and durable goods orders (10/27) and advance 3Q GDP (10/29). October's ISM manufacturing index and the September consumer spending figures arrive on November 1.

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