

MONTHLY EconUpdate

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THE MONTHLY ECONOMIC UPDATE

July 2010

QUOTE OF THE MONTH:

"Champions keep playing until they get it right." – Billie Jean King

The month in brief

June was not a good month for U.S. economic indicators, and therefore not a good month on Wall Street. Concerns surfaced that the recovery was running out of gas, and that the economic rebound we had witnessed over the last year was an effect of federal measures. The housing market figures were particularly sad. Additionally, worries about Europe were joined by concerns about China. June was better than May on Wall Street, but that's not saying much.

Domestic economic health

Make no mistake - we are headed in the right direction," President Obama reassured the country on July 2. "But . . . we're not headed there fast enough for a lot of Americans. We're not headed there fast enough for me, either."¹ Indeed, all kinds of May economic data seemed to point to a slowdown – and some of it indicated deflation.

Housing market malaise aside, factory orders were down 1.4% for May, and durable goods orders diminished by 0.6%.² The ISM manufacturing index was 59.7 for May yet a disappointing 56.2 for June (its May service sector index was over 50 at 55.4).^{3,4} Retail sales for May unexpectedly fell 1.2%, and auto sales fell 10.8% (though those figures were respectively 6.9% and 14.4% above year-ago levels).^{5,6}

June's jobless rate was down 0.2% to 9.5%, but as an effect of the U.S. Census layoffs, you had just 83,000 jobs added and 125,000 jobs shed.¹

Personal spending was a bright spot: consumer spending was up 0.2% for May, with wages up 0.4%. Consumer prices retreated 0.2% in May, and producer prices fell 0.3%.^{7,8}

Global economic health

As June drew to a close, the big news item was not from Europe but from Asia. China's benchmark manufacturing index registered 52.1 for June, down from 53.9 in May and the second straight month of decline. PMI indices in India, Taiwan, South Korea and Australia dipped in June as well – all of them still showed growth, but at a slower pace.⁹ This added to concerns about a global slowdown.

As for the European Union, the EU announced that no member country would need to have its debt restructured. Former EU Commission President (and former Italian prime minister) Romano Prodi went on record with his proclamation that the "worst part" of the debt crisis in Europe was over, with little risk of any EU country ditching the euro.^{10,11}

World financial markets

Some stock indices fared better than ours. The Dow Jones Stoxx Europe 600, for example, lost but 0.67% last month. England's FTSE 100 slipped 5.23%. There were even gains: the Stock Exchange of Thailand rose 6.3. Indonesia's JSX Composite and the KSE in Pakistan both advanced 4.2%. South Korea's KOSPI rose 2.8% while the Hang Seng went up 1.8% for June. The Taiwan 50 and the CAC 40 respectively dropped 1.7% and 1.8%. Russia's RTSI fell 3.3% and the Shanghai A Shares Index dipped 7.5%. Germany's DAX managed a flat month. The MSCI World Index fell 3.56% in U.S. dollar terms, while the MSCI Emerging Markets index lost only 0.91% on the month.^{12,13,14}

Commodities markets

Key metals, energy futures and the dollar did well in June. In the middle of last month's market turmoil, gold rose 2.75% (by the way, the 2Q gain was 11.87%). Gold topped the \$1,250 mark in June and ended the month at \$1,245.50 per ounce. Copper prices fell another 5.20% to \$2.94 a pound. Natural gas futures rose 6.33% while oil futures pulled off a 2.24% monthly gain. The U.S. Dollar Index rose 0.10% last month, and that also put it up 10.60% on the year.^{15,16}

Housing & interest rates

June was a month characterized by lows. The spirit in the real estate market was pretty low after the May home sales data was released; it seemed to hint that the housing rebound of the last few months was too

reliant on federal stimulus measures. Without the \$8,000/\$6,500 federal tax credit in place, new home sales sank a jarring 32.7% according to the Commerce Department. The National Association of Realtors said existing home sales also slipped for May, falling 2.2%. May housing starts were down also: 10.0% overall and 17.2% for single-family homes.^{17,18}

Another kind of low resulted in more positive headlines. At the end of June, mortgages had become almost as cheap as they were during the 1950s. On June 30, Freddie Mac's Primary Mortgage Market Survey had average interest rates on 30-year FRMs at 4.58%, with rates on 15-year FRMs averaging 4.04%, rates on 5/1-year ARMs at 3.79% and rates on 1-year ARMs at 3.80%.¹⁹

Looking forward

As we get into July, Wall Street has a number of things on its mind – the strength of the recovery, the concern about economies in Asia and Europe slowing down or struggling with debt, the apparent fragility of the housing market. Looking at barometers like consumer spending and the ISM indices, the economy is still growing. The question is, can it grow fast enough or strongly enough to please the investor? We are getting into another earnings season in mid-July, which should provide a bit of a boost. Unemployment is the prime domestic economic indicator in the way of the bulls right now.

And now, major economic releases for the rest of July: the June ISM service-sector index (7/6), May wholesale inventories (7/9), June retail sales and May business inventories (7/14), June PPI and industrial production (7/15), June CPI and the University of Michigan's July consumer sentiment index (7/16), June housing starts and building permits (7/20), June existing home sales and the Conference Board's June leading indicators (7/22), June new home sales (7/26), the Conference Board's July consumer confidence survey and the Case-Shiller home price index for May (7/27), June durable goods orders and the Fed's July Beige Book (7/28) and advance 2Q GDP (7/30). June's consumer spending data comes out on August 3.

Looking back

The big indices did not lose as much territory in June as they did in May, but as you see there is much ground to be made up in the second half. The box at left shows how things stood at the close on June 30.

% Change	Y-T-D	3/5	2Q 2010	1-YR CHG
DJIA	-6.27	-3.58	-9.97	+15.71
NASDAQ	-7.05	-6.55	-12.04	+14.94
S&P 500	-7.57	-5.39	-11.86	+12.12
Real Yield	1/5	1 YR AGO	5 YRS AGO	10 YRS AGO
10YrTIPS	1.15%	1.78%	1.67%	4.34%

(Source: CNBC.com, ustreas.gov, 6/30/10)^{16,20,21}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

RIDDLE OF THE MONTH
An auto dealership sold 150 cars in a special 6-day tent sale offer. Each day the dealership sold 6 more cars than the day before. How many cars were sold on the 6th day?

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

Last month's riddle: You stand 8' away from a door. With each move, you advance half the distance to the door. How many moves will it take to reach the door? (You may want to use pen and paper as you consider this.)

Last month's riddle answer: You will never actually reach the door. If all you do is advance half the distance to the door with every move, you will simply get closer and closer to it but still have half of the remaining distance left.

Please feel free to forward this article to your family, friends or colleagues. If you would like us to add them to our distribution list, please reply with their address. We will contact them first and request their permission to add them to our list.

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which all other metals trade. The Dow Jones STOXX (Price) Index is a broad based capitalization-weighted index of European stocks. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The Stock Exchange of Thailand (SET) is the national stock exchange of Thailand. The JSX Composite is an index of all stocks that trade on the Indonesia Stock Exchange. The Karachi Stock Exchange or KSE is a stock exchange located in Karachi, Sindh, Pakistan. Founded in 1947, it is Pakistan's largest and oldest stock exchange, with many Pakistani as well as overseas listings. The Korea Composite Stock Price Index or KOSPI is the index of all common stocks traded on the Stock Market Division. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The TSEC Taiwan 50 Index is a capitalization-weighted index of stocks that comprises 50 companies listed on the Taiwan Stock Exchange developed by Taiwan Stock Exchange in collaboration with FTSE. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The RTS Index (RTSI) is an index of 50 Russian stocks that trade on the RTS Stock Exchange in Moscow. The Shanghai A-Share Stock Price Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares listed on the Shanghai Stock Exchange that are restricted to local investors and qualified institutional foreign investors. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. Market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards.

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