

MONTHLY EconUpdate

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Monthly Economic Update for March, 2010

Quote of the month. “I always have to dream up there against the stars. If I don’t dream I will make it, I won’t even get close.” – Henry J. Kaiser

The month in brief. We saw a very pleasant 180° from January. New M&A action, nice corporate profits and the possibility of a rescue for Greece helped the market. By the end of February, 457 companies in the S&P 500 had issued 4Q earnings reports, with earnings per share about 154% above a year ago.¹ The S&P 500 had its best February since 1998, rising to 1,104.49.²

Domestic economic health. Consumer spending increased, even though consumer confidence didn’t. Personal spending advanced by 0.5% in February, and the Commerce Department also noted a 0.7% gain in inflation-adjusted purchases of durable goods and a dip in the personal savings rate to October 2008 levels. It suggested consumers were shopping enthusiastically.³ Yet consumer confidence indices went south: the Reuters/University of Michigan index went from 74.4 to 73.6 and the Conference Board barometer went from 46.0 from 55.9.⁴

How about the manufacturing and service sectors? The February data showed more growth. ISM’s manufacturing index came in at 56.5, and its service sector index read 53.0 (up from 50.5 in January).^{5,6}

As for consumer and producer prices, something really notable happened: core CPI fell by 0.1% in January. It was the first monthly decline since 1982. Overall CPI rose 0.2% for January. PPI rose 1.4% in January, 0.3% factoring out food and energy costs.⁷

In Washington, it appeared to be reconciliation or nothing when it came to health care reform. (Since 1980, reconciliation has been used 22 times in Congress and succeeded 19 times, one of those results being the Bush administration tax cuts.)⁸ Sen. Harry Reid (D-NV) introduced a jobs bill that would exempt employers from payroll taxes on new hires for the rest of 2010. Its fate was uncertain in the House.⁹

In February, the Federal Reserve took a small but notable step away from the emergency tactics put in place during the recession. It unexpectedly raised the discount rate from 0.50% to 0.75% - a little move that luckily didn’t send a big shock wave through the stock market.¹⁰

Global economic health. Would the Eurozone ride to the rescue of Greece? At the close of the month, it formally asked Greece for a plan to control

its debt. Meanwhile, some economists speculated that the nation would be bailed out by some kind of unprecedented EU action. The respected Markit Economics PMI survey showed manufacturing increasing in Europe at the fastest rate in over two years; Eurozone joblessness also ticked down 0.1% to 9.9% in February.¹¹

Japan’s jobless rate was 4.9% in February, down from 5.1% a month earlier. Its GDP, which had been flat in 3Q 2009, came in at +1.1% for 4Q 2009. New data showed that China’s economy grew by 8.7% in 2009. Impressive? Certainly. Yet look at Taiwan: we learned last month that its economy was growing at an annualized rate of 18.0% during 4Q 2009.^{12,13,14}

World financial markets. It was truly a mixed bag last month – some indices had great gains, others big losses. Some gains in the Asia-Pacific region: Shanghai Composite, +2.10%; Hang Seng, +2.42%; Australia All Ordinaries, +1.18%; Sensex, +0.44%. Losses in that region: South Korea’s Kospi, -0.49%; Nikkei 225, -0.71%. In Europe, the FTSE 100 gained 3.20% while the DAX and CAC 40 respectively declined -0.18% and -0.82%. Russia’s always volatile RTSI was -4.51%. The best-performing and worst-performing indices of the month were the benchmark indices of Mexico (+4.09%) and Turkey (-9.05%). The MSCI Emerging Markets Index declined by 0.27% in February, while the MSCI World Index gained 1.77%.^{2,15}

Commodities markets. The broad commodities market staged a rebound last month – and the dollar kept strengthening. The U.S. Dollar Index gained another 1.12% in February to go +3.20% on the year. On the NYMEX, the big mover was oil, which had its finest month since May 2009, advancing 9.29% to erase some severe January losses. Other fuels did well last month: RBOB gasoline futures gained 8.64% and diesel fuel gained 8.00%.²

In metals, copper shot up another 7.58%. Other metals logged nice gains in February: gold rose 3.31%, silver 1.91%, platinum 2.25% and palladium 5.11%.²

It was winter, and when it came to crops, there was volatility. Pork bellies performed better than any other notable commodity in February, posting a 12.02% gain. Other commodities had banner months: soybean oil, +9.82%; wheat, +9.55%; copper, +7.58%. Sugar futures cratered, dropping 21.07% on the month. Orange juice was +5.51% last month and +11.27% through the first sixth of 2010.²

Housing & interest rates. Snow or no snow, the January numbers weren't pretty. Existing home sales fell 7.2% from the previous month – on the bright side, they were 11.5% above January 2009 figures.¹⁶ New home sales dropped 11.2% to a record low adjusted annualized sales rate of 309,000 units – and that was a 6.9% descent from year-ago levels.¹⁷

We all knew mortgage rates would rise; it was just a question of when. Last month turned out to be “when”. By the end of February, rates on 30-year FRMs averaged 5.05%. As for averages on other kinds of mortgages, the percentages were as follows: 15-year FRMs were averaging 4.40%, rates on 5-year hybrid ARMs were averaging 4.16% and rates on 1-year ARMs averaged 4.15%.¹⁸

Oh yes, Fannie Mae asked for \$15.3 billion more from the Treasury to keep its net worth in the plus column. It also announced plans to buy up as many as 200,000 delinquent home loans out of mortgage-backed security trusts in March.^{19,20}

Major indexes. Stocks made up a lot of ground last month. It was not only the S&P 500's best February in 12 years, but also the NASDAQ's best February since 2000. At the end of February, the real yield on the 10-year TIPS was at 1.48% - right where it was at the end of 2009.^{2,21}

% Change	2/10	YTD
DJIA	+2.56	-0.99
NASDAQ	+4.23	-1.36
S&P 500	+2.85	-0.95
10YrTIPS Real Yield	+13.85	0.00

(Source: CNBC.com, ustreas.gov, 2/26/10)^{2,21}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

March outlook. We had some really nice signals at the start of the month – consumer spending increasing by the biggest monthly amount since mid-2008, a mid-50s ISM manufacturing index reading, and some strong M&A activity, all welcome after some very poor numbers concerning housing and consumer confidence in preceding days. The market ultimately decided to pay attention to mergers and earnings in February and take some of its collective mind off economic challenges. Will that trend continue this month? The markets have weathered the sovereign debt crisis nicely, and seem resilient enough to handle all but the biggest geopolitical shocks. Worth noting: at the start of March, the Dow,

NASDAQ and S&P 500 had each crested their 50-day moving averages.²²

The major economic releases for the balance of March: January factory orders and pending home sales (3/4), February's jobless data (3/5), January wholesale inventories (3/10), February retail sales, January business inventories and the University of Michigan's February consumer sentiment index (3/12), February industrial production (3/15), February housing starts and building permits (3/16), February PPI (3/17), February CPI and the Conference Board's February leading indicators (3/18), February existing home sales (3/23), February new home sales and durable goods orders (3/24), February consumer spending (3/29), the Conference Board's February consumer confidence survey and the Case-Shiller home price index for January (3/30), and February factory orders (3/31).

Riddle of the month. A rope ladder hangs over the side of a docked ship and dips into the water. The rungs are 15.75" apart, all equally distanced. At low tide, two of the ladder's rungs are underwater. At high tide, which is exactly 3.5' above low tide, how many rungs will be underwater?

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

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Citations.

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