THE MASTERS

WEALTH MANAGEMENT GROUP

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Presents:

MONTHLY ECONOMIC UPDATE

June 2011

MONTHLY QUOTE
"My father said there were two kinds of people in the world: givers and takers. The takers may eat better, but the givers sleep better."
– Marlo Thomas

MONTHLY TIP
Perform a mid-year checkup on your personal finances – your budget versus your income and expenditures, actual retirement savings and investment contributions versus reality. Adjust your budget as needed.

MONTHLY RIDDLE
Tim says he heard that you can find $200 stuffed between pages 147 and 148 of a romance novel at the library. What detail convinces you that he is wrong?

Last month's riddle:
It has a back, but no front; it has three or four legs, yet it can't run. As you read this, you may be relaxing in one. What is it?

THE MONTH IN BRIEF

There wasn't a lot for Wall Street to get excited about in May. As the buzz of the 1Q earnings season faded, the latest indicators hinted that the economy was losing momentum. As a result, May turned out to be – well, another May. The Dow lost 1.88% for the month, retreating to 12,569.79. Commodities had a poor month as well, and dreams of a real estate recovery starting in 2011 faded. On Capitol Hill, lawmakers seemed more interested in discussing the debt ceiling than raising it. In Europe, the possibility of Greece defaulting prompted yet another bailout effort.[1]

DOMESTIC ECONOMIC HEALTH

While all signs pointed to an economy that was still growing, the growth seemed to be moderating. Federal government reports showed April retreats in durable goods orders (-3.6%) and housing starts and building permits (-10.6%, -4.0%). Reports from the private sector indicated slower economic expansion: ISM's manufacturing sector PMI dropped way down to 53.5 in May from April's 60.4 mark, and its service sector PMI fell to 52.8 for April compared with 57.3 in March. (These were the lowest these indices had been in several months.) Existing home sales, pending home sales and home prices headed south (more about all that below).[2,3,4,5]

Two truths were inescapable: gas prices were ridiculous, and it was still hard to find a job. At the end of May, a gallon of regular unleaded averaged $3.78 nationally (down from $3.98 at the start of the month). The jobless rate ticked up to 9.0% in April, but job creation surpassed expectations: the private sector hired 268,000 people, the best monthly increase in more than five years. The two respected consumer confidence polls brought mixed results: the Conference Board's May survey came in at 60.8 compared to 66.0 in April, while the final University of Michigan survey rebounded to 74.3 from April's 69.8 mark.[6,7,8,9]

April's gain in consumer spending may have simply resulted from more money going to pay for gas and food. The Commerce Department said personal spending improved by 0.4% in April, but the gain was just 0.1% with inflation factored in. Discernible inflation was with us: consumer prices increased by 0.4% in April, bringing annualized inflation to 3.2% (the highest since October 2008). Wholesale inflation increased 0.8% in April, taking annualized PPI to 6.8%.[10,11,12]

Congress, the White House and the Treasury faced a pressing need to increase the federal debt limit – but there was less than an immediate response to this crisis. Partisan debate ensued, with President Obama and Treasury Secretary Timothy Geithner warning of dire consequences if the federal debt cap wasn't raised and Congressional Republicans responding that this was no time to bloat federal spending any further. On May 31, House Republicans voted decisively against hiking the debt ceiling; the Treasury had stated August 2nd as the final deadline to raise the debt cap and avoid the prospect of default.[13]

Last month's answer:
A chair.

GLOBAL ECONOMIC HEALTH

As Greece's debt still stood at roughly 150% of its GDP and it couldn't devalue its currency to make its exports more attractive, the European Union prepared for another bailout at month's end and further austerity measures. Greece has an economy about as large as Michigan's, and it only represents 1% of Eurozone GDP – but a Greek default could panic global markets. To add insult to injury, Poland decided it no longer wanted to join the Eurozone. It wasn't all bad news in the EU: average Eurozone inflation ticked down to 2.7% in May while unemployment stayed at 9.9%.[14,15]

Hints of a manufacturing slowdown weren't confined to America: the Asia Pacific region was getting the same signals. Purchasing manufacturer indices declined in China, India, South Korea and Taiwan - coming in lower for May, though all remained above 50 (showing growth rather than contraction). Japan's damaged manufacturing plants struggled to rev up again, though there were indications the rebound might be faster than previously assumed.[16]

WORLD MARKETS

Stocks slumped around the world as investors weighed the possibility that the recovery was losing steam, at least in the short term. Looking at Morningstar data calculated in U.S. dollar terms, we see key Asia Pacific indices moving south for the month: Nikkei 225, -1.58%; Sensex, -4.72%; Australian All Ordinaries, -2.25%; Shanghai Composite, -5.77%. Some major European bourses were also in retreat: DAX, -5.09%; FTSE 100, -1.32%; CAC 40, -2.43%. The MSCI World and MSCI Emerging Markets indices followed the global pattern: the World lost 2.45% for May while the EM lost 2.99%.[17,18]

COMMODITIES MARKETS

The U.S. Dollar Index gained 2.2% for the month, and as the dollar got stronger, interest in commodity futures waned. A couple of crops posted nice returns: wheat went +10.5% and sugar went +9.3% for the month. Gold lost 1.3% in May on the COMEX, but silver was easily the biggest loser, with prices diving -21.2%. Oil was still over $100 per barrel at the end of the month ($102.70) despite a 9.9% May loss. The broad commodities picture was fairly bleak: the Reuters-Jefferies CRB Index went -5.5% during May. It hadn't lost ground since August, and May was its worst month in a year. [19,20,21]

REAL ESTATE

Any notion of a housing market rebound seemed truly invalid in light of the latest S&P/Case-Shiller Home Price Index. The March edition showed prices of existing homes across the 20 largest metro markets down 3.6% from a year before and down 33.1% from the index's July 2006 peak. Existing home sales decreased by 0.8% in April; National Association of Realtors chief economist Laurence Yun claimed sales were "being held back 15 to 20 percent [by] very restrictive loan underwriting standards." When NAR measured pending home sales for April, it found them way down from March – down 11.6%.[22,23,24]

Some positive news did surface. New home sales improved for the second straight month - the Census Bureau reported a 7.3% gain for April. Home loans became even cheaper: Freddie Mac's May 26 Primary Mortgage Market survey showed average interest rates on 30-year FRMs down 0.18% since the April 28 survey to 4.60%. Average rates for 15-year FRMs (3.78%), 5-year ARMs (3.41%) and 1-year ARMs (3.11%) were also all lower on May 26.[25,26]

LOOKING BACK...LOOKING FORWARD

If you're wondering how poor May was for stocks, it wasn't all that bad. While the S&P 500 had its poorest month since August, it lost just 1.35%. By comparison, its August descent was 4.74%.[1]

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+8.57	-1.88	+25.40	+1.52
NASDAQ	+6.88	-1.33	+27.58	+3.43
S&P 500	+6.96	-1.35	+25.64	+0.71
REAL YIELD	5/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.80%	1.32%	2.48%	3.52%

Sources: online.wsj.com, bigcharts.com, treasury.gov, treasurydirect.gov - 5/31/11[1,27,28,29]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

We are now in June, a tough month for stocks in recent years. The Dow started the month with a big plunge, reacting mostly to disappointing job creation in the latest ADP report. The prevalent assumption is that the pace of the recovery slowed this spring but may pick up by fall. We'll need some pleasant surprises this month to turn that assumption on its head. Since 2000, June has actually been the Dow's weakest month (-2.31%). Average June returns for all ten sectors of the S&P 500 have also been negative since 2000. Keep in mind, though: that is history, and history is not a reliable gauge of what the market may do.[30]

UPCOMING ECONOMIC RELEASES: On the calendar, we see the May unemployment report and the May ISM service sector index (6/3), a new Beige Book from the Federal Reserve (6/8), April wholesale inventories (6/9), May PPI, May retail sales and April business inventories (6/14), May CPI and industrial output (6/15), May building permits and housing starts (6/16), the Conference Board's LEI index for May and the initial University of Michigan June consumer sentiment poll (6/17), May existing home sales (6/21), a Fed rate decision (6/22), May new home sales (6/23), May durable goods orders (6/24), May consumer spending (6/27), April's Case-Shiller home price index and the Conference Board's June consumer confidence poll (6/28) and May pending home sales (6/29). The final June consumer sentiment survey from the University of Michigan comes out a little late, you might say – it will be released on July 1.

If you would like to receive monthly and weekly updates via e-mail please call us at the office or send an e-mail to amy@masterswealth.com

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