

MONTHLY ECONOMIC UPDATE

May 2012

MONTHLY QUOTE

“You make a living by what you get. You make a life by what you give.”

– Winston Churchill

MONTHLY TIP

Think about sending your son or daughter to a college that is both good and affordable. If your kids are debt-free when they graduate, they may end up starting their working lives in a better financial position than many of their peers.

MONTHLY RIDDLE

A man tells a friend that he married three women yesterday, and it was all legal. In fact, it was routine. How can he make such a statement?

Last month's riddle:

What has three feet yet cannot run or walk?

Last month's answer:

A yardstick.

THE MONTH IN BRIEF

The Dow gained 0.01% in April – a month in which the impressive bull run of the first quarter moderated and more pessimism crept onto Wall Street. Some domestic indicators were tepid – but others did provide nice surprises. Signals out of Europe flashed hints (or confirmations) of recession. Some key overseas indices suffered notable April losses. Our Q1 GDP was unimpressive, but U.S. consumer spending improved for March. Oil futures rose while gasoline and crop futures retreated. Analysts wondered (again) if the real estate market had at last bottomed out.¹

DOMESTIC ECONOMIC HEALTH

Consumer spending advanced 0.3% in March, with wages rising 0.4%. The wage increase doubled the gain forecast by a consensus of economists polled by Briefing.com; that was the good news. The bad news: those analysts expected a personal spending gain of 0.5% in light of the (revised) 0.9% advance in February. Consumer sentiment was holding up reasonably well even with soaring fuel prices. From March to April, the Conference Board's poll wavered from 69.5 to 69.2; the University of Michigan's consumer sentiment survey went from a final March reading of 75.7 to a final April mark of 76.4.^{2,3}

The initial estimate of Q1 GDP arrived in late April, and it underwhelmed the bulk of economists and Wall Street analysts, who were hoping for something more in line with the 3.0% growth of the preceding quarter. The economy's 2.2% Q1 growth was by no means horrible; investors just hoped to further justify the winter rally. What kind of inflation was America experiencing? The Consumer Price Index rose 0.3 in March following gains of 0.4% in February and 0.2% in January. Annualized consumer inflation was at 2.7% in March, down from 2.9% in February. The Producer Price Index was flat in March, although core PPI advanced 0.3%.^{3,4,5}

One big positive that surprised nearly everybody emerged. According to the Institute for Supply Management, April 2012 was the hottest month for U.S. manufacturing since June 2011. ISM's manufacturing PMI jumped 1.4% for April to 54.8. Weeks earlier, ISM's service sector PMI had read 56.0 for March, down 1.3% from the February mark. Something else that declined in March: durable goods orders. They fell 4.2%, with core hard goods orders down 1.1%. March retail sales rose by 0.8%, far surpassing the 0.3% gain projected by economists surveyed by Bloomberg.^{3,6,7,8}

April also saw solid corporate earnings. The buzz was that this earnings season would disappoint, but as Bloomberg noted, 74% of S&P 500 firms reporting results between April 10 and May 1 beat forecasts. At the start of May, the S&P 500 was trading at 14.3x reported earnings, notably below the average of 16.4 recorded since 1954. The takeaway: stocks were still pretty cheap.⁹

The jobless rate ticked down to 8.2% in March. The economy added merely 120,000 jobs during that month, but that brought the net gain in hiring since December to 635,000. While the Federal Reserve indicated it would hold off on further quantitative easing measures, it did state its commitment to keeping the federal funds rate at the current lows through the end of 2014.^{8,10}

GLOBAL ECONOMIC HEALTH

Was Spain the next Greece? Global investors hoped not, given its comparative magnitude and influence on the European and global economies. April ended with Standard & Poor's downgrading Spain's debt from A to BBB with a negative outlook. Spain's jobless rate had hit 24.4% in the first quarter. Beyond Spain, the EU jobless rate was 10.9% in March with inflation at 2.6% in April. The key Markit purchasing manager index for the EU dipped down to 45.9 last month, marking the ninth straight month of sector contraction. Word also arrived that Great Britain had slipped back into a recession in the first quarter; its last downturn had ended at the

start of 2010. In April, a total of 12 European economies were in recession; besides the U.K., the list also included Spain, Italy, Ireland and the Netherlands.^{10,11,12,13}

The Asia-Pacific region offered a different story. China's official PMI hit 53.3 for April, a 13-month peak. The HSBC China PMI (which tracks mostly private firms) also rose 1.0% to 49.3. Other key PMIs in April: India, 54.9; Indonesia, 50.5; South Korea, 51.9; Taiwan, 51.2; Australia, 43.9. In other news, exports fell in India for the first time since 2009 in April and the Bank of Japan announced a stimulus.^{12,14,15}

WORLD MARKETS

Looking at Morningstar data measured in U.S. dollar terms, we see a mixed month. The Hang Seng (+2.50%), Shanghai Composite (+5.90%) and S&P/ASX All Ordinaries (+ 1.07%) fared better than the FTSE 100 (-0.53%), the CAC 40 (-6.16%), the Nikkei 225 (-5.58%), the TSX Composite (-2.19%), the DAX (-4.05%) and the Sensex (-0.71%). The MSCI World Index (-1.37%) and MSCI Emerging Markets Index (-1.48%) both posted April losses.^{16,17}

COMMODITIES MARKETS

Gold's allure dimmed just a bit in April. At the close on April 30, the COMEX price was \$1,664.20 an ounce (-0.46% on the month). Silver lost 4.52% in April, but copper managed a monthly gain of 0.12%. Oil futures rose 1.80% for the month on the NYMEX to \$104.87 per barrel. Heating oil went +0.44% for the month while natural gas went +7.48%. Gasoline futures pulled back: RBOB gasoline lost -5.55% in April. Retail gas prices fell 2.72% as well. It was also a poor month for crop futures, with wheat going -0.95%, corn -1.51%, coffee -2.95% and cotton -4.81%.¹³

REAL ESTATE

According to the National Association of Realtors, pending home sales rose 4.1% in March. Economists polled by Briefing.com expected a 1.0% gain. That was a bright spot, and others could be found in data that for the short term was mostly negative. The February S&P/Case-Shiller Home Price Index showed that overall prices actually rose 0.2% - the first advance since the April 2011 edition. (Zillow reported that the median U.S. home value rose 0.5% in March, the best monthly gain since 2006.) As for new and existing home sales, both retreated: the Census Bureau said that the pace of new home sales fell 7.1% in March and NAR noted a 2.6% slip in residential resales. The bright side in existing home sales: NAR also said the median price had risen 2.5% in the past 12 months.^{18,19,20}

Looking at Freddie Mac's March 29 and April 26 Primary Mortgage Market Surveys, average interest rates on home loans moved lower as follows: 30-year FRMs, 3.99% to 3.88%; 15-year FRMs, 3.23% to 3.12%; 5/1-year ARMs, 2.90% to 2.85%; 1-year ARMs, 2.78% to 2.74%.²¹

LOOKING BACK...LOOKING FORWARD

NASDAQ and S&P 500 winning streaks ended in April, but the Dow's winning streak extended to seven months. At the close on April 30, the Dow was at 13,213.63, the S&P 500 at 1,397.91 and the NASDAQ at 3,046.36.^{1,13,22}

| % CHANGE | Y-T-D | 1-MO CHG | 1-YR CHG | 10-YR AVG |
|------------|-----------|----------|-----------|------------|
| DJIA | +8.15 | +0.01 | +3.15 | +3.46 |
| NASDAQ | +16.94 | -1.46 | +6.01 | +8.39 |
| S&P 500 | +11.16 | +0.75 | +2.52 | +3.12 |
| REAL YIELD | 4/30 RATE | 1 YR AGO | 5 YRS AGO | 10 YRS AGO |
| 10 YR TIPS | -0.30% | 0.75% | 2.20% | 3.48% |

Sources: usatoday.com, thestockmarketwatch.com, bigcharts.com, treasury.gov - 4/30/12^{1,22,23,24,25,26}
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
 These returns do not include dividends.

Will May be a decent month for stocks? Looking past the old warning to "sell in May and go away", we see that the fifth month of the year has been a pretty good month

in recent market history. The S&P 500 logged a May gain 71% of the time from 1988-2011; the average monthly gain was 1.22%. The MSCI Emerging Markets index advanced in 58% of Mays in the same window of time, with the average May gain being 1.28%. Also, many U.S. economic indicators have really improved in the past 12 months. ISM surveys have manufacturing up 2% year-over year and nonfarm payrolls have expanded by 29% in that time frame. Our 2.2% Q1 growth is a big improvement over the 0.4% GDP advance of Q1 2011. Our housing sector seems poised for improvement, and maybe it is on the way back already – Credit Suisse analysts note that U.S. building permits are up 35% from a year ago, while housing starts and existing home sales are respectively 3% and 5% improved. Auto sales are at a four-year peak. So while spring and summer have historically brought stock market doldrums, it appears we have some compelling reasons to disregard history again, at least for this month.²⁷

UPCOMING ECONOMIC RELEASES: The schedule for the balance of May looks like this ... the April jobs report (5/4), March wholesale inventories (5/9), the April PPI and the initial University of Michigan consumer sentiment survey for April (5/11), April's CPI and retail sales plus March business inventories (5/15), April industrial output, housing starts and building permits and the minutes of the 4/25 Fed policy meeting (5/16), the April Conference Board Leading Economic Indicators index (5/17), April existing home sales (5/22), April new home sales (5/23), April durable goods orders (5/24), the final April University of Michigan consumer sentiment survey (5/25), the March Case-Shiller home price index and the Conference Board's May consumer confidence poll (5/29), April pending home sales (5/30) and the second estimate of Q1 GDP (5/31). The April personal spending report won't be released until June 1 – coincidentally, the same day as the May unemployment report and the May ISM services index.

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