

MONTHLY ECONOMIC UPDATE

June 2012

MONTHLY QUOTE

“What we think or what we know or what we believe is, in the end, of little consequence. The only consequence is what we do.”

– John Ruskin

MONTHLY TIP

If you are marrying before the end of 2012, the IRS will consider you married for all of 2012 and you will have to file your 2012 federal return(s) as either married filing jointly or married filing separately.

MONTHLY RIDDLE

Which of these five words doesn't belong in this list: that, what, cat, sat, chat.

Last month's 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 answer:

He is a justice of the peace.

THE MONTH IN BRIEF

Things fell in May: stock and commodity prices, Treasury yields, mortgage rates, gas prices and the value of the euro. Investors worried about fragmentation of the eurozone, the possibility of default in Greece and bank woes in Spain. U.S. economic indicators ranged from tepid to middling, leading some analysts to wonder if another stimulus was needed. All told, it was a rough month for the market – the poorest month for the Dow since May 2010. Would 2012 simply be a replay of 2011 on Wall Street? Hopefully, the sense of déjà vu would pass.¹

DOMESTIC ECONOMIC HEALTH

While May was a month marked by descents, the jobless rate managed to tick up to 8.2%. May's unemployment report was quite bad: just 69,000 new jobs were created, while a Reuters poll of economists forecast payrolls swelling by 150,000.²

Actually, some stateside indicators did hint at continuing economic strength. Our manufacturing and service sectors were still growing, although the pace of growth had moderated: after a 1.4% gain in April, the Institute for Supply Management's manufacturing PMI fell 1.3% in May to 53.5. (However, the new orders sub-index went all the way north to 60.1.) In April, ISM's service sector PMI had been at 53.5; May's reading improved to 53.7. May car sales were very strong: Toyota's U.S. sales rose 87%, Nissan's 21%, and Chrysler's 30%; sales of General Motors cars and trucks were up 11%. This was nice to hear after the April durable goods report, which showed a 0.2% advance with auto sales powering the gain.^{3,4,5,6,7}

The federal government said that consumer prices were flat in April (producer prices retreated 0.2%, the first such decline since December). As it happened, 12-month consumer inflation was but 2.3% in May (the lowest annualized inflation since February 2011). Consumer confidence was either notably up or notably down, depending on which poll you believed; the Conference Board's May survey recorded a 3.8% drop (down to 64.9 from 68.7 for April) while the University of Michigan's survey hit 79.3 – a 3.8% rise to the highest level since October 2007.^{2,7,8,9,10}

The event of the month on Wall Street was Facebook's IPO, which ended up being fumbled by NASDAQ. Trading glitches aside, this IPO did not turn out to be the next Google: shares were initially offered at \$38 on May 18 and closed just slightly higher at the end of the trading day. On June 4, the share price settled at \$26.90.¹¹

GLOBAL ECONOMIC HEALTH

The odds of a Greek default appeared to increase. A growing number of economists and money managers felt that it would return to the drachma following its June 17 elections, a direct result of being unable to form a coalition government. After the new Greek elections were announced on May 14, \$894 million worth of assets left Greek banks in a day. Spain's government announced that €100 billion had left that country in the first quarter. Major Spanish lenders appeared in jeopardy; analysts estimated it would take €60-80 billion from the IMF to backstop them. Adding to worries that Europe might return to economic balkanization, European Central Bank president Mario Draghi and EU economy commissioner Olli Rehn both warned that the eurozone was in serious trouble. Euro area unemployment hit 11.0% in April, rising 0.7% in a month. The Markit eurozone PMI fell to 45.1 in May (lowest reading in almost two years) and the U.K.'s benchmark manufacturing PMI dropped to 45.9 from 50.2 in April.^{2,12,13,14,15}

In fact, manufacturing PMIs seemed to retreat worldwide in May. For example: China's "official" PMI slipped unexpectedly to 50.4 from April's 53.3 mark; China's HSBC PMI went from 49.3 to 48.7; Australia's went from 43.9 to 42.4; Germany's

from 46.2 to 45.2; Brazil's remained flat at 49.3 and South Korea's PMI was a relatively healthy 51.0. JPMorgan's global manufacturing PMI was at 50.6 in May, down from 51.4 in April to its lowest point since December.^{6,15}

WORLD MARKETS

The Shanghai Composite lost only 1.00% in May; other major benchmarks fared worse. In the rest of the Asia Pacific region, the Sensex lost 5.81%, the Hang Seng 12.07%, the S&P/ASX All Ordinaries 7.46% and the Nikkei 225 9.32%. In Europe, the DAX dropped 8.70%, the CAC 40 6.09% and the FTSE 100 7.51%. (All of the above May performances have been measured in U.S. dollar terms by Morningstar.) The MSCI Emerging Markets Index dropped 11.67%; the MSCI World Index lost 8.99% for May.^{16,17}

COMMODITIES MARKETS

The dollar certainly had a great May – the U.S. Dollar Index, in fact, gained 5.43%. Natural gas futures also rose 6.00% for the month. Aside from those advances, there were marked descents for major commodities. Oil futures retreated 17.49% on the month, falling to settle at \$86.53 on the NYMEX. Heating oil slipped 15.11%; RBOB gasoline dropped 12.86%. The upside: retail gas prices fell 5.14% last month. As for metals, gold lost 6.01% in May and that put it at -0.17% for the year. The COMEX price was \$1,564.20 on May 31. Copper lost 12.12% in May while silver slipped 10.51%. Marquee crops suffered May losses, too: coffee futures declined 9.25%, corn 12.46%, cotton 19.63% and wheat only 1.64%.^{1,2}

REAL ESTATE

Some good news came in from the Census Bureau and the National Association of Realtors: new and existing home sales had improved in April. New home purchases rose by 3.3% while residential resales were up 3.4% for the month to near-January levels (January 2012 saw the best sales pace in almost two years). NAR said that pending home sales had decreased 5.5% in April, but they were up 14.1% from a year ago. The March edition of the S&P/Case-Shiller Home Price Index hinted that the pace of decline in housing prices could be moderating – the index was down just 1.9% for the last 12 months.^{18,19,20}

With Treasury yields moving further into negative territory during May, mortgage rates went still lower. Freddie Mac noted the following decreases in average home loan interest rates between its April 26 and May 31 surveys: 30-year FRMs, 3.88% to 3.75%; 15-year FRMs, 3.12% to 2.97%; 5/1-year ARMs, 2.85% to 2.84%. Average rates on 1-year ARMs actually ticked up from 2.74% to 2.75%.²¹

LOOKING BACK...LOOKING FORWARD

After the worst month for stocks in two years, the major U.S. indices were all still in the black YTD. At the end of the month, the S&P 500 was at 1,310.33, the NASDAQ at 2,827.34 and the Dow at 12,393.45. Look at the month-ending real yield on the 10-year Treasury.^{1,22}

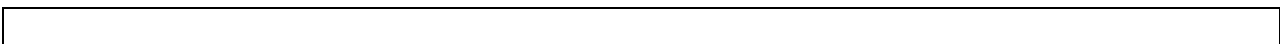
% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+1.44	-6.21	-1.40	+2.49
NASDAQ	+8.53	-7.19	-0.28	+7.50
S&P 500	+4.19	-6.27	-2.59	+2.28
REAL YIELD	5/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	-0.50%	0.80%	2.54%	3.48%

Sources: money.msn.com, bigcharts.com, treasury.gov - 5/31/12^{1,23,24,25}
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
 These returns do not include dividends.

June 1 marked the Dow's worst day of 2012 as anxieties over the eurozone

intensified. The middle of June could bring some pronounced volatility before and after Greece's special elections. Could U.S. economic indicators be encouraging enough to divert Wall Street's attention from Greece and Spain this month or even provide a shot of confidence? That seems a best-case scenario. While few analysts think the U.S. could slip back into a recession, there was basically a market correction as of June 1 (the S&P 500 was down 9.94% at the close of trading on that day from its April 2 peak), and even bulls are bracing for severe fallout from Europe. At the top of June, the Dow, NASDAQ and S&P were all below their simple 200-day moving averages yet oversold according to their relative strength indexes. Interpret that as you wish; staunch bulls might see grounds for a rally, should the Street somehow take its mind off Europe.⁵

UPCOMING ECONOMIC RELEASES: Here's what ahead in terms of stateside news for the rest of June: a new Beige Book from the Federal Reserve (6/6), April wholesale inventories (6/8), May retail sales figures, April business inventories and May's PPI (6/13), May's CPI (6/14), the initial June consumer sentiment survey from the University of Michigan and the report on May industrial output (6/15), May housing starts and building permits (6/19), a Fed policy announcement (6/20), May existing home sales and the May Conference Board Leading Economic Indicators index (6/21), May's new home sales (6/25), the Conference Board's June reading of consumer confidence and the April Case-Shiller home price index (6/26), April durable goods orders and May pending home sales (6/27), the federal government's final estimate of Q1 GDP (6/28), May personal spending (6/29) and the University of Michigan final June consumer sentiment survey (6/30).



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