

# MONTHLY ECONOMIC UPDATE

April 2013

## MONTHLY QUOTE

“Love yourself, accept yourself, forgive yourself, and be good to yourself, because without you the rest of us are without a source of many wonderful things.”

– Leo Buscaglia

## MONTHLY TIP

In establishing a retirement income strategy, remember to factor in the income taxes on IRA and workplace retirement plan distributions.

## MONTHLY RIDDLE

Keith claims his dog can jump over his house. His friends laugh, but he insists it is true. Why is Keith correct?

## Last month's riddle:

A woman has 5 daughters and they each have a brother, so how many kids does she have?

## Last month's answer:

Six. Each daughter has but one brother, so there are five daughters and one son.

## THE MONTH IN BRIEF

Stocks just couldn't be stopped in March. The S&P 500 rose 3.60%, all the way to a new record close of 1,569.19 on March 28 (the last market day of the month). The Dow and Russell 2000 reached all-time peaks as well. Even another crisis in Europe couldn't stop the advance. Stateside indicators were broadly positive (which was not the case for foreign stock indices and the performance of key commodities). Even with sequester cuts affecting the federal budget and the payroll tax holiday a memory, the overall outlook for the economy and the market seemed to brighten.<sup>1</sup>

## DOMESTIC ECONOMIC HEALTH

On March 1, an \$85 billion reduction in federal spending over the next six months was authorized by law – a 13% cut for the armed forces and a 9% cut for other government agencies. The spending cuts (also known as sequestration) would be gradually enacted, and some analysts felt they would be smaller than announced or retroactively amended. While sequestration resulted from a stalemate between the White House and Congress, fears that Congress would fail to pass a crucial short-term budget bill by March 27 faded away when lawmakers did so on March 21.<sup>2,3</sup>

The Commerce Department's latest consumer spending data showed Americans spending, saving and earning more. In February, personal spending rose 0.7% and personal incomes 1.1%; the savings rate improved to 2.6%. Higher gas prices and swelling dividends influenced the jumps in spending and income, however – and rising pump prices also accounted for about half of the month's 1.1% advance in retail sales. Still, consumer spending was up 0.3% in February when adjusted for inflation. Speaking of inflation, the Consumer Price Index and the Producer Price Index each rose 0.7% for February. Annualized consumer inflation was still no threat at 1.3%; the Federal Reserve's current target is 2.0%.<sup>4,5,6,7</sup>

America's two most-watched consumer confidence polls flashed opposite signals in March: the University of Michigan's final March consumer sentiment survey rose 1.0% to 78.6, but the Conference Board's March poll dropped 8.3% to 59.7.<sup>4,5</sup>

The Institute for Supply Management's March manufacturing PMI disappointed, falling to 51.3 (the weakest reading since December) from the prior mark of 54.2. On the other hand, its February non-manufacturing index climbed to 56.0 (a one-year peak) from the 54.2 reading in January. In related news, durable goods orders rose 5.7% in February, with new transportation orders driving the gain; industrial production also rose 0.7% in that month.<sup>7,8,9,10</sup>

Would the Fed taper off its stimulus effort in the coming months? Perhaps not. Fed Chairman Ben Bernanke reassured investors in mid-March that while the central bank might soon adjust the amount of its monthly bond purchases, it would keep easing for the foreseeable future. The federal government also put out its final estimate of Q4 GDP: +0.4%, the poorest quarterly advance since 2011.<sup>5,11</sup>

## GLOBAL ECONOMIC HEALTH

Another EU member required a bailout: Cyprus, hardly an economically significant nation within the euro area but still a potential harbinger of a fractured eurozone. On March 16, Cyprus was offered a €10 billion rescue package from the European Central Bank to recapitalize its lenders – but on March 19, its parliament rejected the bailout terms. The most controversial stipulation: a tax of up to 10% on bank accounts. Rumors had the country appealing to Russia and Middle Eastern investors for aid; finally, it accepted an ultimatum and agreed to a modified €10 billion ECB bailout on March 25. Its banks reopened on March 28 after being shuttered for almost two weeks, with limits on withdrawals to quell a panic.<sup>12,13</sup>

The HSBC purchasing manager indices tracking manufacturing in several Asian nations improved last month: 51.6 in China, 50.8 in Vietnam, 52.0 in South Korea, 51.3 in Indonesia, 51.2 in Taiwan. (India's HSBC PMI reading declined 2.2% to 52.0.) The Bank of China's official PMI was at 50.9 in March, the highest level in 11 months. Also making headlines: "Abenomics", the sweeping economic policies of new Japanese prime minister Shinzo Abe. Abe is for aggressive central bank easing and stimulus spending, and fresh optimism that Japan will leave its current recession seemed prevalent in its soaring stock market and in a Bank of Japan survey that had business sentiment rising after falling for consecutive quarters.<sup>14,15</sup>

## WORLD MARKETS

In the west, the TSX Composite (-0.56%), Bovespa (-1.87%) and BOLSA (-0.10%) all fell last month as our major indices gained. In Europe, March gains were logged by the FTSE 100 (+0.80%), CAC 40 (+0.23%) and DAX (+0.69%); the EURO STOXX 50 fell 0.36%. Losses were common in the Asia Pacific region last month, felt by the S&P Asia 50 (-2.19%), the S&P/ASX 200 (-2.70%), the Sensex (-1.10%), the Hang Seng (-3.13%) and the Shanghai Composite (-5.21%); the Nikkei 225, on the other hand, climbed 6.82% to go +22.95% for the first quarter. MSCI's World Index rose 2.10% for March, while its Emerging Markets Index fell 2.09%.<sup>16,17</sup>

## COMMODITIES MARKETS

A strengthening dollar and renewed belief in the economy took a toll on some commodity futures. Key precious and base metals had a mixed March: silver (-0.4%) and platinum (-0.6%) pulled back, gold (+1.1%) and palladium (+4.6%) advanced. At the end of March, COMEX gold settled at \$1,595.70. Oil futures gained 5.6% in March (NYMEX crude ended the month at \$97.23) while natural gas futures jumped 15.1%. Cotton futures rose 5.8% in March. The U.S. Dollar Index logged another monthly gain (+1.27%) and settled at 82.99 on March 28.<sup>18,19,20,21</sup>

## REAL ESTATE

Despite some monthly volatility, the year-over-year change in this sector remained profoundly positive. New home sales fell 4.6% in February, but were up 12.3% annually. Existing home sales rose 0.8% in February, bringing the yearly increase to 10.2%; the median price of a residential resale reached \$173,600, 11.6% improved from February 2012. Pending home sales did fall 0.4% in February, but the yearly gain was 5.0%; January's Case-Shiller Home Price Index rose 1.0% after a 0.9% gain in December. Housing starts were up 0.8% in February and 27.7% annually.<sup>5,22,23,24</sup>

Comparing Freddie Mac's Primary Mortgage Market Surveys of February 28 and March 28, average home loan interest rates increased on both 30-year FRMs (3.51% to 3.57%) and 5/1-year ARMs (2.61% to 2.68%) in that interval. On the other hand, average rates for 1-year ARMs declined from 2.64% to 2.62% while rates on 15-year FRMs were 2.76% in both editions of the survey.<sup>25</sup>

## LOOKING BACK...LOOKING FORWARD

The DJIA achieved nine record closes in March, ending the month with another one: 14,578.54. The S&P ended March at 1,569.19, the NASDAQ at 3,267.52 and the Russell 2000 at 951.54 (the RUT was up 4.44% for the month).<sup>4,26</sup>

% CHANGE	YTD	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+11.25	+3.73	+11.06	+7.90
NASDAQ	+8.21	+3.40	+5.24	+13.86
S&P 500	+10.03	+3.60	+11.64	+8.17
REAL YIELD	3/28 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	-0.64%	-0.11%	1.13%	2.09%

Sources: cnbc.com, bigcharts.com, treasury.gov - 3/28/13<sup>1,27,28</sup>  
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.  
 These returns do not include dividends.

So where is the top for this market? Ardent bulls see the S&P marching steadily toward 1,550 or even 1,600 across the balance of the year, even if the current optimism fades and something approaching a correction occurs. Bears see a bubble forming off the collective euphoria. So which side has it right? No crystal ball exists to provide us with the answer to that question, but there is an old saying to keep in mind: bull markets tend to doggedly ascend a “wall of worry.” Right now, your notable or emerging worries to stocks include the lingering crisis in the eurozone, a strengthening dollar, the potential hit to the economy this spring from the sequester cuts, the only-guesstimated nuclear weapons potential of Iran and North Korea, and anxieties that the Fed and other central banks might wrap up quantitative easing campaigns too quickly. At the start of April, none of these market threats had dented investor confidence all that much. Perhaps that confidence will take the rally to new peaks this month.

**UPCOMING ECONOMIC RELEASES:** Looking at the rest of April, here are the highlights of the economic news stream ... ISM’s March non-manufacturing index (4/3), the March employment report from the Labor Department (4/5), February wholesale inventories (4/9), the March 20 Fed minutes (4/10), the March PPI, March retail sales, February business inventories and the University of Michigan’s preliminary April consumer sentiment survey (4/12), April’s NAHB housing market index (4/15), the March CPI plus data on March housing starts, building permits and industrial production (4/16), a Fed Beige Book (4/17), the Conference Board’s March index of Leading Economic Indicators (4/18), March existing home sales (4/22), March new home sales and February’s FHFA housing price index (4/23), March durable goods orders (4/24), the initial estimate of Q1 GDP and the month’s final University of Michigan consumer sentiment survey (4/26), March consumer spending and pending home sales (4/29), and finally the February Case-Shiller home price index and the Conference Board’s April consumer confidence poll (4/30).

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