Monthly Economic Update

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Comprehensive review of domestic and international financial news.

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MONTHLY ECONOMIC UPDATE

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MONTHLY QUOTE

"Always do right; this will gratify some and astonish the rest."

– *Mark Twain*

MONTHLY TIP

Cancel monthly charges for services or products you really don't use or need. If you decide you do need them, you can always sign up for them again later.

MONTHLY RIDDLE

Spell out these numbers as words and figure out what they have in common: 3, 7, 10, 11, and 12.

Last month's 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 answer: The dog is able to jump over his house – his house being a dog house.

THE MONTH IN BRIEF

Offhand, when was the last month in which stocks didn't advance? That would be October, and if it seems like a distant memory, credit the Federal Reserve, a decent Q1 earnings season, and a prevalent optimism that is hard to dismiss. The S&P 500 pushed higher during the month to settle at a new record close of 1,597.57 on April 30 – even after an abysmal March jobs report and some soft indicators at home and abroad. It was a bad month for commodities investors, with the big headline being gold's lapse into a bear market on April 12. There was better news out of Europe, if not out of China. The real estate market continued to improve, the usual monthly volatility in the pace of home sales aside.[1,2,3]

DOMESTIC ECONOMIC HEALTH

The most stunning news of April came early in the month, when the Labor Department said that the economy had generated but 88,000 new jobs in March. Sure, the jobless rate fell to 7.6%, but that was only because fewer Americans were looking for work – the labor force participation rate hit a 34-year low of 63.3%. Of course, the Labor Department often greatly revises these monthly hiring figures.[4]

Was manufacturing growth tapering off? The Institute for Supply Management's manufacturing PMI came in at 50.7 in April, below the disappointing March reading of 51.3. ISM's March service sector PMI declined to a still-encouraging 54.4 in April from its 56.0 March reading. Construction spending was down 0.7% in March, while overall durable goods orders lessened by 5.7%. Retail sales dipped 0.4% in March (the poorest month since last June). Given indicators like these, perhaps it wasn't surprising that the federal government's initial estimate of Q1 GDP was 2.5% - not the 3.0% or better growth that many economists had assumed they would see.[5,6,7,8]

Consumer spending beat expectations with a 0.2% gain in March, with colder weather being the biggest factor: inflation-adjusted spending on utilities rose by the largest monthly amount since October 2001. Gas prices had fallen 4.4% in March, and inflation also lessened: the overall Consumer Price Index went south 0.2% and the overall Producer Price Index retreated 0.6%; the core PPI rose 0.2%, the core CPI 0.1%.[8,9,10]

The Conference Board's April consumer confidence poll soared to a 5-month peak of 68.1 in April from its 61.9 mark for March. The University of Michigan's final April consumer sentiment index reached 76.4, surprising to the upside – economists polled by Briefing.com had expected a final April reading of 72.4.[1,7,11]

GLOBAL ECONOMIC HEALTH

Would China's apparent economic recovery amount to an illusion? Its official GDP reading for Q1 was 7.7%, down from 7.9% in Q4. Additionally, its HSBC PMI reading fell to 50.5 in April, a two-month low. Economists worried that its GDP would be closer to 7% than 8% in coming quarters. This disappointment provided another hit to the global commodities market, signaling reduced demand for gold and other resources in the PRC.[12]

While the banking crisis in Cyprus had cooled, eurozone unemployment had hit 12.1% in March, and Germany's manufacturing PMI showed contraction in April (49.2). However, these last two developments seemed to increase the odds of the European Central Bank lowering its benchmark interest rate (which was at 0.75% as April ended). Ten-year bond yields in Italy and Spain were respectively at 4.1% and 4.3% as the month wrapped up, a far cry from the danger zone they entered last summer; the yield on Spain's 10-year note fell for an eighth straight month. Italy's political stalemate ended after two months, with new prime minister Enrico Letta receiving a parliamentary vote of confidence.[11,13,14,15]

WORLD MARKETS

Many marquee indices fared well in April. The gainers included the Global Dow (+3.27%), the MSCI World Index (+2.90%), the MSCI Emerging Markets Index (+0.44%), the Nikkei 225 (+11.80%), the Sensex (+3.55%), the S&P/ASX 200 (+4.52%), the FTSE 100 (+0.29%), the CAC 40 (+3.36%), the DAX (+1.52%) and the Euro STOXX 50 (+0.99%). In the loss column for April, we find the TSX Composite (-2.30%), the IPC All-Share (-4.11%), the Bovespa (-0.78%) and the Shanghai Composite (-2.62%).[2,16]

COMMODITIES MARKETS

It wasn't all bad in April: natural gas futures rose 9.0%, cocoa futures gained 9.1%, and wheat futures rose 6.3%. Now for the bad news: gold fell 7.8% last month to an April 30 COMEX close of just $1,474.00. Silver cratered 14.6% in April; copper fell 6.4%, platinum 4.3% and palladium 9.2%. Corn (-6.5%) and soybeans (-0.4%) both lost ground for a third consecutive month. NYMEX crude dipped 3.9% in April to end the month at $93.46 a barrel while RBOB gasoline futures dropped 9.8%. The U.S. Dollar Index lost 1.52% in April, settling at 81.72 on April 30.[11,17,18,19]

REAL ESTATE

The pace of existing home sales was 10.3% better in March 2013 than it was in March 2012, according to the National Association of Realtors; the Census Bureau reported an 18.5% year-over-year improvement in the pace of new home purchases. The February S&P/Case-Shiller Home Price Index showed its best overall 12-month gain since May 2006 (+9.3%). NAR also noted pending home sales at a 3-year peak in March, with the annual gain at 7.0%. Existing home sales did decline 0.6% in March; new home sales rose 1.5%.[11,20,21]

What happened to mortgage rates in April? We saw notable declines. Freddie Mac's March 28 Primary Mortgage Market Survey had the average interest rate for the 30-year FRM at 3.57%; it was at 2.76% for the 15-year FRM, 2.68% for the 5/1-year ARMs and 2.62% for the 1-year ARM. In the last April survey (April 25), the numbers were as follows: 30-year FRM, 3.40%; 15-year FRM, 2.61%; 5/1-year ARM, 2.58%; 1-year ARM, 2.62%.[22]

LOOKING BACK…LOOKING FORWARD

The NASDAQ and S&P are now on 6-month winning streaks – the longest win streaks they have realized in the current bull market. The DJIA advanced for a fifth straight month in April. Here are the settlement prices from April 30: DJIA, 14,839.80; S&P, 1,597.57, NASDAQ, 3,328.79; Russell 2000, 947.46. (The RUT actually lost 0.43% for April.)[1,2]

% CHANGE	YTD	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+13.25	+1.79	+12.31	+7.50
NASDAQ	+10.24	+1.88	+9.27	+12.73
S&P 500	+12.02	+1.81	+14.28	+7.42
REAL YIELD	4/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	-0.64%	-0.30%	1.50%	2.16%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 4/30/13[2,23,24]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

Hopefully, we won't see domestic economic indicators falter in May and June, as was the case in 2011 and 2012. Overseas indicators (growth and manufacturing in China, the lingering recession in Europe) may not promise much, however. On a positive note, the Fed is still printing plenty of money and sticking to its accommodative monetary policy, which has boosted stocks of late more than any other factor. The undeniable psychological lift from the Fed's open-ended easing hasn't worn off, and investor morale is still high. The market doesn't seem to be facing headwinds comparable to spring 2011 or spring 2012, though they certainly could arise. If the S&P does top 1,600 in the first half of May and close above 1,600 at the end of the month, you can't say that Wall Street would be

shocked. “Sell in May, go away?” Maybe not. Many investors still see more upside in this bull market.

UPCOMING ECONOMIC RELEASES: For the balance of May, here is the schedule of consequential announcements ... the Labor Department’s April jobs report and the ISM April service sector index (5/3), March wholesale inventories (5/9), April retail sales (5/13), April’s PPI and industrial production and the May NAHB housing market index (5/15), the April CPI plus the report on April housing starts and building permits (5/16), the Conference Board’s April index of Leading Economic Indicators and the University of Michigan’s preliminary May consumer sentiment survey (5/17), April existing home sales and the release of the May 1 Fed minutes (5/22), April new home sales and March’s FHFA housing price index (5/23), April durable goods orders (5/24), the March Case-Shiller home price index and the Conference Board’s May consumer confidence poll (5/28), the second federal government estimate of Q1 GDP and NAR’s pending home sales report for April (5/30), and May’s final University of Michigan consumer sentiment survey plus the April consumer spending report (5/31).

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