

# Market Comment *Economic Highlights for the week ended July 1, 2011*

## **Economic Week in Review: Uncertainty Deepens Consumer Angst**

Vanguard 7/1- As the economic news turned grim in recent weeks, confidence dipped and consumers gripped their wallets more tightly, as illustrated by the past week's economic reports. Despite the week's bleak economic news, the stock market recorded impressive results. For the week ended July 1, the S&P 500 Index rose 5.6% to 1,340 (for a year-to-date total return of about 7.6%). The yield of the 10-year U.S. Treasury note rose 34 basis points to 3.22% (for a year-to-date decrease of 8 basis points).

AFP 7/4 - Two surveys on consumer sentiment deteriorated in June, with measures of consumer spending and vehicle sales confirming the lackluster sentiment. Meanwhile, the latest Report on Business from the Institute for Supply Management surprised to the upside, suggesting the recent lull in manufacturing activity may be coming to an end.

A theme prevalent in both the ISM report and the regional surveys was that the prices paid by companies for raw materials continued to grow in June, but did so at a more moderate pace. This contrasts somewhat with the report from the Department of Agriculture that prices received by farmers increased 4.0% on a month-to-month basis in June, with food commodity prices growing 4.2%. This was the biggest increase for both indices since last winter, with the prices received index up 34.1% over the past 12 months. In June, the crop prices jumped 6.0% as fruit prices surged 9.8%. Prices of livestock (and related products) were flat during the month as a 7.3% jump in dairy product prices were counterbalanced by a 4.6% decline in meat animal prices.

## **Personal Income and Outlays – May: Very Weak US Consumer Spending In Q2**

AFP 7/5 - Wage income grew 0.2%, the smallest increase since last December. Personal incomes have grown 4.2% over the past 12 months, during which wages have increased 2.8%. Consumer spending was flat in May but has grown 4.7% above May 2010 levels. Spending on durable goods plummeted 1.5% in May while spending on non-durable goods contracted 0.3%. After adjusting for price changes, real spending declined 0.1%. The personal consumption expenditure (PCE) deflator—a measure of price changes—increased 0.2% in May while the core PCE deflator grew 0.3%. The savings rate ticked up 1/10th of a point to 5.0%.

Econoday 6/27 - In May, income growth was moderate but spending was flat largely on a dip in auto sales with gasoline appearing to also weigh down. Inflation news is mixed. Today's personal income report adds to the "soft patch" scenario. Income is still growing but not at a strong enough pace for the latest month. And spending is flat. However, there are arguments that the softness is transitory.

On a year-ago basis, headline PCE inflation rose to 2.5% from 2.2% in April. Core PCE price inflation firmed to 1.2% on a year-ago basis from 1.1% in April.

Vanguard 7/1- April's personal income and personal spending growth rates were both revised downward to 0.3% from initial estimates of 0.4%.

Barclays 6/27 - All in all, a weak report revealing that household spending has been curtailed during Q2 by the hit to auto sales, rising consumer prices, and soft underlying income growth.

## **Consumer Confidence – June: Confidence Dips Among Americans**

Vanguard 7/1- The Conference Board's index of consumer confidence hit its lowest level since November. Consumer confidence fell to 58.5 in June, a 3.2-point decline from May.

"This month's decline in consumer confidence was driven by a less favorable assessment of current conditions and continued pessimism about the short-term outlook," explained Lynn Franco, of the Conference Board. Weakness was broad-based across the index, primarily driven by uncertainty in the labor, housing, and stock markets. Inflation expectations decreased for the month, most likely a result of declining prices at the pump.

AFP 7/4 - The press release noted that the decline in sentiment occurred even as "inflation fears eased considerably." The culprits for the decline were a mix of "uneasiness about the economic outlook" and of future income prospects. The index has fallen by 7.5 points over the past 2 months and 13.5 points from its recent peak in February.

Econoday 6/28 - Everything is down including buying plans for cars, homes and appliances. Also down, but a plus, are inflation expectations - down a sizable five tenths to 6.0% in a reflection of lower gas prices. Low consumer confidence points squarely to weakness for the June employment report, news that the nation's retailers don't want to hear.

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Barclays 6/28 - The softer headline reading likely reflects the modest slowdown in the labor market, as the labor market differential (the percentage of consumers describing jobs as plentiful less the those describing jobs as hard to get) ticked lower to -38.6 (previous: -37.8). Overall, we see the recent softness in confidence still reflecting some of the temporary factors that are slowing economic activity in Q2, such as the rise in gas prices and the supply chain disruptions related to the Japanese earthquake.

### Univ. of Michigan Consumer Sentiment – Final - June

AFP 7/4 - The headline index from the University of Michigan's Consumer Sentiment Survey also pulled back in June, but the entire decline was the result of a weaker future outlook. The Index of Consumer Sentiment fell 2.8 points in June to a seasonally adjusted 71.5 (1966 Q1 = 100). While the current conditions index increased 1/10th of a point to 82.0, the expectations index fell 4.7 points to 64.8. The press release suggests that an expectation that consumers could "power the economy into overdrive" is not realistic, possibly caused by a "permanent shift [by consumers] toward economic caution and risk aversion."

Econoday 7/1- High unemployment and high gas and food costs continue to drag down consumer spirits in news which isn't good for the nation's retailers.

### Construction Spending Down - May

AFP 7/4 - Construction spending declined for a 6th straight month and has fallen 7.1% over the past 12 months. Spending on private construction spending declined 0.4% in May (following a 0.4% increase in April) and was off 5.8% from a year earlier. Spending on residential construction fell 2.1%, while non-residential construction spending increased 1.2%. Public construction spending declined 0.8% in May (-9.3% from a year earlier).

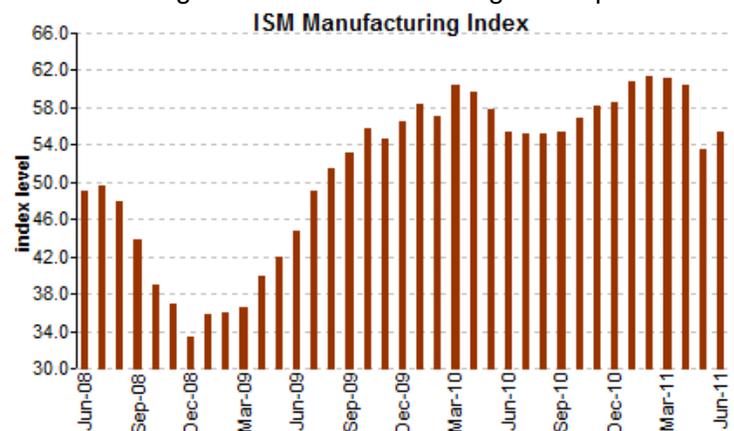
Econoday 7/1- Construction remains on a flat trend at best. Housing remains under pressure from heavy supply of unsold homes while public outlays are constrained by shortfalls in revenues for state & local government.

### ISM Manufacturing Index – June: On the Rise

Vanguard 7/1- The manufacturing index, as reported by the Institute for Supply Management (ISM), ended the 2nd quarter with signs of strength. The index jumped more than expected in June, climbing to 55.3 from 53.5 in May. All 5 components of the index—production, new orders, inventories, supplier deliveries, and employment—increased for the month. Imports and new export orders both declined in June.

Econoday 7/1- A build in inventories overstates strength in what is an otherwise a mildly firm ISM manufacturing report for June. The headline composite of 55.3 is two points higher than May but inventories, one of five equally weighted components, jumped more than five points to 54.1. This reading could indicate restocking tied to prior Japanese supply shortages but it probably doesn't indicate fundamental improvement in demand. Order readings offer the best gauge on that and they're soft, with new orders showing only slight month-to-month acceleration at 51.6 vs May's 51.0 but backlog orders show a slight monthly contraction at 49.0 vs 50.5 in May. Export orders, though still growing, slowed in the month to 53.5 for a point-and-a-half dip.

This report is mostly positive but is skewed higher again by inventories which is confirmed by big improvement in respondents' assessments of their customer inventories which they say are much less low than they were. Money is moving toward risk in reaction to the report.



### S&P Case-Shiller Home Price Indexes - April

Press Release 6/28 - New York, June 28, 2011 – Data through April 2011, released today by S&P Indices for its S&P/Case-Shiller Home Price Indexes, show a monthly increase in prices for the 10- and 20-City Composites for the first time in eight months. The 10- and 20-City Composites were up 0.8% and 0.7%, respectively, in April versus March. Both indices are lower than a year ago; the 10-City Composite fell 3.1% and the 20-City Composite is down 4.0% from April 2010 levels. Six of the 20 Metropolitan Statistical Areas showed new index lows in April – Charlotte, Chicago, Detroit, Las Vegas, Miami and Tampa.

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Thirteen of the cities and both composites posted positive monthly changes. With index levels of 152.51 and 138.84, respectively, both the 10- and 20-City Composites are above their March 2011 levels, which had been a new crisis low for the 20-City Composite.

David M. Blitzer of the Index Committee at S&P: "However, the seasonally adjusted numbers show that much of the improvement reflects the beginning of the Spring-Summer home buying season. It is much too early to tell if this is a turning point or simply due to some warmer weather.

Econoday 6/28 - There's still a lot of cities showing negatives but many areas out West, where some of the heaviest of the price contraction hit, are now moving into positive ground including LA and San Francisco. Year-on-year, however, the contraction is deepening, to minus 3.1% though this reading is compared against stimulus-boosted sales a year ago.

Barclays 6/28 - We believe the weakness in house prices continues to reflect pressure on home prices from the elevated level of foreclosed properties entering the market. The elevated share of distressed sales as a percent of total sales is likely to persist in the near term.



## Pending Home Sales - May

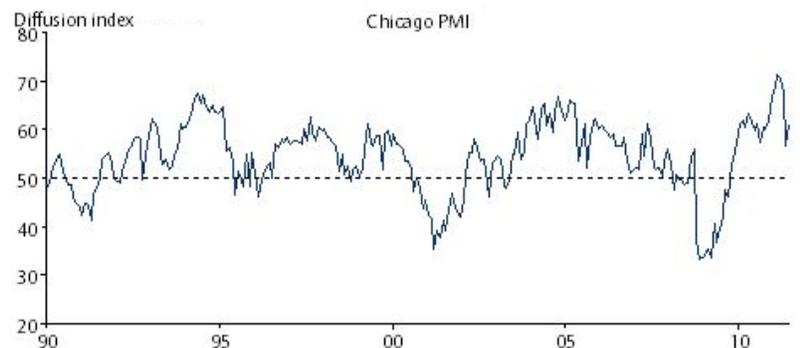
Econoday 6/29 - As promised last week by the National Association of Realtors, which broke their own embargo on this data, pending sales of existing homes rose very strongly in May, up 8.2% to an index level of 88.8. Led by the West and Midwest, all four regions show respectable gains. Still, the gain in May fails to offset an even greater decline in April when the index fell a revised 11.3%. The index in March was at 92.6. But the NAR is very upbeat, saying May's data, which are based on contract signings, point to rising activity in the housing sector during the second half of the year. Next data on the housing sector will be construction spending on Friday.



Barclays 6/29 - This report suggests that existing home sales should rebound in the coming months, as pending sales normally transition to sales with a lag of one to two months. On a y/y basis, pending home sales are now up 13.4%.

## Chicago PMI - June

Barclays 6/30 - The Chicago PMI surprised to the upside in June, increasing to 61.1 from 56.6 and beating our (53.0) and consensus (54.0) forecasts. The new orders index bounced to 61.2 from 53.5, production jumped to 66.9 from 56.0, and the supplier deliveries index ticked higher to 64.8 from 63.8. These improvements were offset by small drags from the employment index, which slipped to 58.7 from 60.8, and the order backlog index, which decreased to 49.3 from 51.7. Outside these five weighted components of the headline index, the inventories index dropped to 46.9 from 61.6, and prices paid fell to 70.5 from 78.6.



This is a strong report, suggesting that despite a manufacturing slowdown in May that apparently continued into June in some regions (demonstrated by ongoing weakness in the Philadelphia and Empire State indices), Chicago-area businesses saw conditions recover somewhat in June.

## Motor Vehicle Sales - June

Autodata 7/1 - Actual: 11.4 million, SAAR. Although vehicle sales were up by 6.8% from a year ago, June sales were surprisingly weak. The seasonally adjusted annualized pace fell to 11.4 million units, down from 11.8 million

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in May. Not only did supply issues prevent a rebound in sales of Japanese vehicles, but U.S. brand sales were disappointing on a month-to-month basis. Automakers sold fewer cars as well as light trucks.

### Unemployment Insurance Weekly Claims Report – Week Ended June 25

Press Release 6/30 (excerpt) - In the week ending June 25, the advance figure for seasonally adjusted initial claims was 428,000, a decrease of 1,000 from the previous week's unrevised figure of 429,000. The 4-week moving average was 426,750, an increase of 500 from the previous week's unrevised average of 426,250.

The advance seasonally adjusted insured unemployment rate was 2.9% for the week ending June 18, a decrease of 0.1% from the prior week's revised rate of 3.0%.

The advance number for seasonally adjusted insured unemployment during the week ending June 18 was 3,702,000, a decrease of 12,000 from the preceding week's revised level of 3,714,000. The 4-week moving average was 3,703,500, a decrease of 11,250 from the preceding week's revised average of 3,714,750.

WEEK ENDING	June 25	June 17	Change	June 10	Prior Year
<b>Initial Claims (Seasonally Adj)</b>	428,000	429,000	-1,000	420,000	472,000
<b>4-Wk Moving Average (SA)</b>	426,750	426,250	500	426,250	468,250

Econoday 6/30 – No worse but only little better is the indication for the June employment report based on initial jobless claims which edged only 1,000 lower in the June 25 week to 428,000. The Labor Department cites no special factors skewing the data.

### The Economic Week Ahead: July 5 – July 8, 2011

Vanguard 7/1- The Labor Department's monthly assessment of the employment situation (Friday) will be next week's big news. Other news will include the latest on the nation's factory orders (Tuesday), the ISM nonmanufacturing index (Wednesday), and consumer credit (Friday).

#### ***This Week's U.S. Economic Calendar***

***Source: Briefing.com***

Date	ET	Release	For	Actual	Briefing.com Forecast	Briefing.com Consensus	Prior	Revised From
Jul 05	10:00	<b>Factory Orders</b>	May	0.8%	1.0%	1.0%	-0.9%	-1.2%
Jul 06	10:00	<b>ISM Services</b>	June		52.0	54.0	54.6	
Jul 07	08:15	ADP Employment Change	June		50K	60K	38K	
Jul 07	08:30	Initial Claims	07/02		425K	425K	428K	
Jul 07	08:30	Continuing Claims	06/25		3700K	3700K	3702K	
Jul 08	08:30	<b>Nonfarm Payrolls</b>	June		75K	80K	54K	
Jul 08	08:30	Nonfarm Private Payrolls	June		95K	110K	83K	
Jul 08	08:30	Unemployment Rate	June		9.2%	9.1%	9.1%	
Jul 08	08:30	Average Workweek	June		34.5	34.4	34.4	
Jul 08	08:30	Hourly Earnings	June		0.2%	0.2%	0.3%	
Jul 08	10:00	Wholesale Inventories	May		1.0%	0.9%	0.8%	
Jul 08	15:00	<b>Consumer Credit</b>	May		\$3.0B	\$3.5B	\$6.5B	