Ivana Lotoshynski, CFP® Presents:

MONTHLY ECONOMIC UPDATE

August 2016

MONTHLY QUOTE

"Dreams come true. Without that possibility, nature would not incite us to have them."

– *John Updike*

MONTHLY TIP

As you save for retirement, one strategy to try and offset the effect of inflation is to raise your retirement plan contributions. Keep in mind that even a 1% boost in the annual contributions to a tax-deferred retirement account could help you enlarge your savings and lower your income tax.

MONTHLY RIDDLE

It disappears when you are awake. It disturbs you when you are asleep. What is it?

Last month's riddle: I weigh nothing, but you can see me. Put me in a bowl, and I'll make it lighter. What am I?

Last month's answer: A hole.

THE MONTH IN BRIEF

The post-Brexit bounce turned into a sustained rally across July. Second-quarter earnings were not as gloomy as anticipated, and core economic indicators often matched or surpassed expectations. Housing news was generally good, and the latest jobs report showed employers hiring in spectacular fashion. Panic did not spread through European markets; in fact, July was a great month for European (and global) equities. Precious metals shone brightly, but energy futures fell hard. July did end with a troubling initial estimate of Q2 GDP that seemed to suggest the U.S. economy would stall without its current, strong level of consumer spending (and, by extension, consumer confidence).[1]

DOMESTIC ECONOMIC HEALTH

All in all, the major economic reports from June and July were pretty positive – none more so than the June employment report from the Department of Labor. There were 287,000 net new hires in the sixth month of 2016, the most in eight months. (Compare that to the consensus projection of 180,000 from Bloomberg.) As more people were seeking work in June, the jobless rate inched up to 4.9% (the U-6 rate, including the underemployed, inched down to 9.6%).[2]

Weeks after the Brexit decision in Europe, U.S. consumers seemed little rattled. The Conference Board's July consumer confidence index barely budged from its (revised) June level – only down a tenth of a point to 97.3. At the University of Michigan, survey results took the nation's other major consumer sentiment survey down just 3.5 points from its final June reading to 90.0.[3]

July ended with investors and economists still awaiting personal spending numbers for June; the Department of Commerce had announced a 0.4% gain for consumer spending in May. In its first estimate of Q2 GDP, the Bureau of Economic Analysis calculated a robust 4.2% consumer spending advance for the April-June period. Retail sales numbers for June showed households spending 0.6% more on goods and services, with the core retail sales gain at 0.7%.[3,4,5]

Core consumer prices had risen 0.2% in June, leaving them up 2.3% in 12 months. The headline Consumer Price Index was up 0.2% in June as well. Producer prices rose 0.5% for June; core prices, 0.4%.[3]

Now to the Institute for Supply Management's monthly purchasing manager indices. The June readings were 56.5 for the services PMI and 53.2 for the manufacturing PMI – both representing major increases. In May, the services PMI had been at 52.9; the manufacturing PMI, at 51.3. Another nice bit of manufacturing news: federal government data showed industrial production up 0.6% in June.[3,6]

On June 29, the Bureau of Economic Analysis issued its first estimate of second quarter growth. Economists, polled by Bloomberg, expected 2.5% expansion. Instead, growth was measured at 1.2%. A 4.2% jump in personal spending and 6.8% improvement in outlays on goods were offset by a 2.2% dip in non-residential fixed investment and a 1.2% reduction in inventories. The BEA also trimmed the Q1 advance of the economy back to just 0.8%.[5]

The Federal Reserve made no move with interest rates in July, but its latest policy statement sounded a gently hawkish note, mentioning that "near-term risks to the economic outlook have diminished."[7]

GLOBAL ECONOMIC HEALTH

Eurozone economic growth was halved to 0.3% in the second quarter, Eurostat reported in late July. Projected annualized growth fell from 2.2% in Q1 to 1.2% in Q2. These numbers seem to point out that the eurozone economy was shaky even before the recent terror attacks and the Brexit vote. (That shakiness might even factor into our own 4.0% June, drop in durable goods orders.) France saw no growth at all in Q2. Eurozone joblessness remained at 10.1% in June while yearly inflation was just 0.2%, a long way from the European Central Bank's target inflation rate of 2.0%.[3,8]

Late July also brought second-quarter economic news from China, and those numbers were comparatively encouraging. Its government estimated annualized GDP running at 6.7% in Q2, above official projections. More importantly, Q2 marked the first time in a year that this number had improved. Industrial output was at an annual growth pace of 6.2% in the quarter, surprising to the upside. Slightly further east, the Bank of Japan disappointed investors with its July stimulus.[9,10]

WORLD MARKETS

European benchmarks followed up a largely desultory June with an impressive July. Eyeing the one-month gains at the close on July 29: the DAX advanced 5.74%; the CAC 40, 3.88%; the IBEX 35, 3.85%; the Euro Stoxx 50, 3.55%; the FTSE MIB, 3.38%; and the FTSE 100, 2.23%. A notable exception was the RTS – Russia's stock benchmark lost 0.62% on the month.[11]

Away from Europe, the gains were major as well. The MSCI World index added on 4.15%, and the MSCI Emerging Markets Index improved 4.72%. India's Nifty 50 and Sensex, respectively, advanced 3.72% and 3.34%. The Hang Seng rose 5.28%; the Nikkei 225, 5.65%; and the S&P/ASX 200, 6.02%. Brazil's Bovespa topped them all with a 9.72% July ascent. To our north, Canada's S&P/TSX Composite rose 3.68%. To our south, Mexico's IPC All-Share gained 0.97%.[11,12]

COMMODITIES MARKETS

July was a great month for silver. It rose 8.10%, settling at $20.38 on July 29. Platinum futures did even better – they advanced 11.39% in July. Copper and gold witnessed more modest gains, respectively rising 1.27% and 1.98%. Gold ended July at $1,357.90 an ounce on the COMEX. The U.S. Dollar Index retreated 0.46% for the month.[13,14]

Three marquee energy futures fell more than 10% on the NYMEX in July. Oil closed at $41.38 a barrel on July 29, down 14.50% for the month. Unleaded gasoline futures dropped 11.57%, while heating oil futures gave back 11.19%. Natural gas lost 2.69% in July. Among the major crops, cotton had the best month, up 14.76%. Soybeans had the worst month, down 12.26%. In between those contrasts, coffee rose 1.36%, while wheat slipped 5.16%; sugar, 5.46%; and corn, 7.88%.[13]

REAL ESTATE

After descending in mid-July, home loan rates finished the month almost precisely where they had been at the end of June. Freddie Mac's July 28 Primary Mortgage Market Survey showed an average interest rate of just 3.48% on a 30-year fixed-rate mortgage (and that had actually dipped to 3.41% in the July 7 survey). Interest on both 15-year FRMs and 5/1-year ARMs averaged 2.78%. Looking back to the June 30 PMMS, the numbers are exactly the same except for a 2.70% average interest rate for the 5/1-year ARM.[15]

As for home sales, the latest data was largely positive. The National Association of Realtors announced a 1.1% gain in home buying in June (after a revised 1.5% decline for May). NAR did note a 0.2% reduction in pending home sales in the year's sixth month. New home buying rose 3.5% for June, partly offsetting the 6.0% slip recorded by the Census Bureau a month earlier.[3]

Turning to home values, news came that the S&P/Case-Shiller home price index

(20-city composite version) was up 5.2% year-over-year in May, down from 5.4% in April. Building permits and housing starts picked up in June; the Census Bureau announced a 1.5% gain for the former and a 4.8% gain for the latter.[3]

LOOKING BACK...LOOKING FORWARD

Wall Street's leading tech and small-cap benchmarks had a terrific July. Last month, the Nasdaq Composite rose 6.60% to 5,162.13, while the Russell 2000 gained 5.90% to 1,219.94. That took their respective 3-month gains to 8.10% and 7.88%.[11,16,17]

Where did the Dow and S&P 500 finish at the end of July? The Dow closed the month at 18,432.24; the S&P, at 2,173.60.[11]

The Dow couldn't quite match the S&P's 3.60% July gain, but it was still up 2.80% for the month. At the close on July 29, its year-over-year gain had improved to 3.87%. The S&P wasn't the only index scaling new peaks in July: the blue chips reached an all-time high of 18,595.03 last month.[18]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+5.78	+3.84	+10.36	+6.43
NASDAQ	+3.09	+0.99	+17.46	+14.65
S&P 500	+6.34	+3.08	+13.64	+7.00
REAL YIELD	7/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	-0.03%	0.52%	0.38%	2.41%

Sources: investing.com, bigcharts.com, treasury.gov – 7/29/16[11,19,20,21]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

The July rally finally seemed to lose steam at the end of the month. The market had to cool off at some point. Are we now at that point? Admittedly, August tends to be a poor month for Wall Street. In fact, major selloffs have occurred in four of the past six Augusts, and the average August performance of the S&P 500 was -0.65% during 2006-15. Going into the eighth month of the year, stocks were already treading water: across the last 11 market days of July, the S&P traded within a range of just 0.92%, something that hasn't happened over the past 45 years. It may be that the bulls just need a pause. Alternately, perhaps the balance of earnings season and some nice hiring and manufacturing surprises can send stocks yet higher this month, even if the gains are tempered by bulls reining in their enthusiasm.[22]

UPCOMING ECONOMIC RELEASES: Here we have the slate of major stateside economic news across August: ADP's July employment change report plus the July ISM services PMI (8/3), the July Challenger job-cut report (8/4), the Department of Labor's July jobs report (8/5), July's PPI, July retail sales, and the preliminary August University of Michigan consumer sentiment index (8/12), July industrial production, groundbreaking and building permits, and the July CPI (8/16), the minutes from the Federal Reserve's July policy meeting (8/17), the July leading indicator index from the Conference Board (8/18), July new home sales (8/23), July existing home sales (8/24), July capital goods orders (8/25), the second estimate of Q2 GDP and the final August consumer sentiment index from the University of Michigan (8/26), the July PCE inflation gauge and July personal spending (8/29), June's S&P/Case-Shiller home price index and the August Conference Board consumer confidence index (8/30), and, lastly, July pending home sales and the ADP employment change report for August (8/31).

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