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## *Economic Evaluation Group, Inc. Presents* **Monthly Economic Update for July, 2007**

**Quote of the month.** “You have to put in many, many, many tiny efforts that nobody sees or appreciates before you achieve anything worthwhile.” – Brian Tracy

**The month in brief.** Economists widely believe the U.S. economy is currently experiencing 2-3% growth, and hints of it surfaced in June. The latest available data (from May) revealed that the personal consumption price index (charting so-called “headline inflation”, the kind that impacts consumer spending and disposable income) rose 0.5% in May, the highest increase in 13 months. In other May data, incomes were up 0.4%, spending on durable goods up 0.6% and construction spending up 0.9%.

Energy prices surged in June, though they did not yet trigger a jump in gasoline prices. Inventories contracted and manufacturing activity rose, according to June survey data from the Institute of Supply Management. The end of June brought May data showing that unemployment claims had dipped and construction spending increased. While core inflation had moderated in the opinion of the Fed, the Fed’s policymakers were still watching inflation cautiously.

**Domestic economic health.** While 2Q data will almost certainly reveal GDP growth of more than 1.3%, housing woes and domestic and global inflation still concern economists. The Federal Reserve left interest rates at 5.25%, with rising possibility of a rate hike later in the year. Although the U.S. economy has grown by only 1.9% in the past 12 months – the slowest rate in four years – the Fed sees evidence of a trend toward moderate growth, complete with

inflationary pressures. But while retail sales strengthen, core inflation remained at around 2%.

**Global economic health.** As the month stretched on, eyes were focused on oil prices, interest rates and the economic health of the U.S. middle class. While economies in China, India, Japan and most of Europe continue to outpace the U.S. economy, there are signs of restraint – moves or signals to raise interest rates in China, Japan and India to rein in economies blessed and cursed by accelerated growth. World Bank data noted that the growth of developing economies had averaged 7.3% in 2006, while the global economy had expanded by 5%.

**World financial markets.** London’s benchmark FTSE 100 Index ended June with a gain for the fourth consecutive quarter (4.8%). The pan-European Dow Jones Stoxx 600 Index also had a good June, gaining 5.2% in the quarter with rising crude prices and a strengthening dollar. Asian markets were not so lucky: the major indexes lost ground over renewed fears about the health of U.S. economy and its housing slump. China’s CSI 300 Index ended June at its lowest level in three weeks, as investors worried about China’s central bank raising interest rates. In both Asia and Europe, future central bank tightening seems likely.

With the amazing markets of India and China showing signs of maturity and temperament, some global market analysts feel that the new hot markets may emerge in certain still-developing, yet resource-

blessed nations in Eastern Europe and South America that have been helped by years of low interest rates.

**Commodities markets.** The Energy Department's late-June revelation that gasoline inventories were substandard sent oil prices above \$70 on the New York Mercantile Exchange for the first time since September 1. With refineries likely running on "all cylinders" to meet demand in the next month, the demand for crude is poised to increase. The jump in oil futures sparked other commodities sectors.

In the first half of June, precious metals markets saw ripples of volatility. The gold and silver markets braced themselves for an expected rise in the dollar; traders and commentators wondered if the gold market had bottomed, or was going to hit bottom. However, rising oil prices at the end of June brought gold and silver prices higher, with gold prices approaching \$650 per ounce as investors searched for a hedge against perceived rising inflation. Many commodities experts feel that gold and silver prices will enjoy a short-term climb.

**Housing & interest rates.** The month started with the National Association of Realtors' prediction that home sales and prices would slip further. At mid-month, mortgage rates reached their highest averages since last July, with only minor descent since. Then, in mid-June, the big news broke: two Bear Stearns Cos. hedge funds built on mortgage-backed securities were in danger of failure. On June 20, Treasury Secretary Henry Paulson publicly stated his belief that "we are at or near the bottom" of a housing market correction. Days later, the National Association of Home Builders reported that its index of builder sentiment was at a 16-year low, and the May data did not bode well. The Commerce Department noted that new home construction had dipped 2.1% in May, while new home sales for the month fell 1.6%. Residential resales were down 0.3% in May and 10.3% from a year ago according to NAR. The inventory of unsold homes in America was at its highest level since 1992.

**Major indexes.** The month of June saw the Dow, S&P 500 and NASDAQ give back some of the great gains of May, in a downturn to a very positive quarter.

% Change	1-Month	Y-T-D
<b>DJIA</b>	<b>-1.63</b>	<b>+6.97</b>
<b>NASDAQ</b>	<b>-0.05</b>	<b>+6.92</b>
<b>S&amp;P 500</b>	<b>-1.81</b>	<b>+5.77</b>

*(Source: CNNMoney.com, 6/29/07)*

**July outlook.** The month has started positively on Wall Street with fresh merger news and a positive manufacturing survey from the Institute for Supply Management, with an index of manufacturing activity notably surpassing economists' forecasts. The dollar is still weak against the yen, euro and pound and commodities prices appear to be on a short-term upswing. The latest (May) data shows core inflation under control at 1.9%; if it remains within the Fed's target, movement on interest rates seems unlikely. The International Monetary Fund predicts that the U.S. economy should pick up as the housing slump dissipates, but the jury is out as to whether this is presently occurring as the third quarter begins.

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