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Economic Evaluation Group, Inc. Presents Monthly Economic Update for July, 2008

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Quote of the month. "Education is when you read the fine print. Experience is what you get if you don't." – Pete Seeger

The month in brief. Stocks descended in June under the stress of several economic factors (major banks saddled with downgraded credit ratings, rising energy prices, and disappointing corporate forecasts). Overseas, stocks largely slipped. The Federal Reserve, as expected, held interest rates steady ... and hinted that its next move might be a rate increase. The housing market showed signs of increased sales activity, if not exactly recovery. The commodities markets were as hot as ever. A wave of stimulus checks boosted U.S. consumer spending at just the right time.

Domestic economic health. At the start of June, the big news was the jobless rate. In May, the percentage of unemployed Americans hit 5.5%, the highest jobless rate since October 2004 and up from 5.0% in April. (As analysts pointed out, some of that spike reflected seasonal trends, i.e. youths looking for summer jobs.)¹ That jump in unemployment stayed on economists' minds all month, but there was good news too: The Institute for Supply Management index rose to 49.6 in May, and factory orders had increased 1.1% in April.² April retail sales rose 1%, exceeding economists' forecasts; business inventories also increased by 0.4% in April.³ The Conference Board's

index of leading economic indicators posted a gain in May, for the third month in a row.⁴

Inflation pressures were increasing along with energy prices. The Consumer Price Index rose 0.6% in May, boosting the annual pace of inflation to 4.2%.⁵ May producer prices went up 1.4%, compared to a 0.2% increase in April, as May energy prices rose 4.9%.⁶

The Dow Jones Industrial Average ended the month at 11,350.01, the NASDAQ at 2,292.98, and the S&P 500 at 1280.00, well below their levels at the start of June. While the Dow fell through its March low in June, small-cap and mid-cap stocks finished the month (and the second quarter) higher.⁷

The Fed's Open Market Committee left the federal funds rate at 2%, as expected, in a month in which the Fed reaffirmed its focus on the global battle against rising inflation. In the first week of June, Fed chairman Ben Bernanke stated that U.S. interest rate policy was "well positioned to promote moderate growth and price stability" and spoke of the Fed's commitment to a "strong and stable" dollar.^{8,9}

The economy felt the positive effect of the federal government's economic stimulus package. The May numbers were really impressive. According to the Commerce Department, disposable income rose 5.7% in May – the biggest one-month increase since 1975. Overall income went up 1.9%, and the personal savings rate for May reached 5%, the highest rate since May 1995.¹⁰

Global economic health. While keenly watching the U.S. financial markets, other nations contended with inflation pressures. Eurozone inflation reached a pace of 4.0% in June, a record high.¹¹ The EU's Economic and Monetary Affairs Commissioner Joaquin Almunia charged that food and energy prices were out of control and effectively making Europe "poorer", days after oil-producing nations turned down an EU plea for more oil. (Europe produces less than 20% of the oil it needs.)¹² The JPMorgan Global Purchasing Managers' Index – which measures the strength of global manufacturing output – dipped below 50 in June, indicating contraction in Europe and Asia had offset U.S. gains.¹³

In Asia, inflation was more than a concern, it was a threat. A sampling of June inflation rates from the region: Indonesia, 11%, South Korea 5.5%, Thailand 8.9%, Vietnam 6.5% (down from 25% in May, but still high) and 20% in Kazakhstan.¹⁴ In China, the inflation figure descended from 8.5% in April to 7.7% in May; Japan measured a 1.5% inflation rate for May, its highest in a decade.^{15, 16}

World financial markets. The FTSE 300 dropped 10% in June 2008, compared with a 0.38% loss in June 2007.¹⁷ Other European indexes did poorly, in part due to the strength of the euro and unforeseen inflation levels in the Eurozone.

Asia's indexes also struggled. China's CSI 300 index fell 23% during June. MSCI's regional index lost 8.3%.¹⁸ Hong Kong's Hang Seng and India's Sensex also fell; even the Nikkei 225 descended for the month, although it gained 7.6% in the second quarter.¹⁹

Commodities markets. Ceiling? What ceiling? As Bloomberg.com noted, the collection of 19 commodities in the Reuters/Jefferies CRB Index had gained more than 29% through June 27, the best "first half" for commodities since 1973.²⁰ Energy and food prices climbed higher, so dramatically that by late June, Sen. Joseph Lieberman (I-CT) and other legislators were proposing new regulations to try and arrest excessive speculation in the commodities markets.²¹

During the first week of June, a Morgan Stanley analyst commented that in his opinion, oil futures would hit \$150 per barrel by July. Those were very influential words. On June 6 alone, oil futures gained

\$10.75 to close at \$138.54 on the New York Mercantile Exchange.²² Prices dropped 2.7% on the NYMEX across the following week as the dollar strengthened and Saudi Arabian Oil Minister Ali al-Naimi said the new record oil prices were "unjustified". Crude prices dipped south to \$134.86 a barrel by the close of trading on June 13.²³ But on June 30, oil briefly topped the \$143 level before closing at \$140.00.²⁴

Gold prices started June below \$900 an ounce, and ended June at \$928.30 an ounce (a 4.1% gain for the month). Silver gained 3.3%; copper gained 8%, platinum 2.8%.²⁵ Midwest floods implied a reduction in American crops, and spurred by that psychology, crop futures went north: for June, corn gained 20.9%, oats 23.8%, wheat 10.8% and soybeans 17.7%.²⁵

Housing & interest rates. Early in June, RealtyTrac let America know that May 2008 foreclosure filings were up 48% from May 2007 totals.²⁶ The following week, the Commerce Department announced that May housing starts were down 3.3% from April, with building permits also declining.²⁷

And now the good news: in late June, the National Association of Realtors noted that existing home sales had risen 2% in May, with the inventory of unsold homes shrinking by 1.4% (helped, of course, by a median resale price 6.3% lower than in May 2007).²⁸ An especially hopeful sign could be found deep in the data: NAR's Pending Home Sales Index (the number of home sale contracts signed) rose 6.3% in April, to the highest level since October.²⁹

Rates on 30-year fixed rate mortgages stayed above 6%. In fact, they rose almost four-tenths of a percentage point for the month, averaging 6.45% for the last week in June. On June 26, Freddie Mac reported national averages for 15-year FRMs were at 6.04%; 5-year ARMs averaged 5.99%, and 1-year ARMs 5.27%.³⁰

Major indexes. Gains of spring were given back as the market sank into the mid-11,000s. The Dow touched bear territory for a moment on June 27, then inched back up at the close of the month.

% Change	1-Month	Y-T-D
DJIA	-10.19	-14.44

NASDAQ	-9.10	-13.55
S&P 500	-8.60	-12.83

Source: CNBC.com, 6/30/08⁷

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

July outlook. As July begins, the broad stock market hopes for relief from the forces tugging at its momentum: concerns over record energy prices, credit ratings and diminished earnings, and the bearish outlooks of pessimists. The dollar has shown some strength, and the Fed has signaled it will not be cutting rates anytime soon. (For that matter, any rate decision may not come until after the November election.) June was a rough month, but the first round of July indicators were rather positive: the Institute for Supply Management's manufacturing index

trumped expectations by rising in May, and while May construction spending declined by 0.4% according to the Commerce Department, that was less than forecast.

The dates to watch in terms of economic data: May factory orders (7/3), June wages and unemployment and the June ISM services index (7/3), June wholesale inventories and May pending home sales (7/8), preliminary July consumer sentiment (7/11), June retail sales, business inventories, PPI and core PPI (7/15), June industrial production, CPI and core CPI and the June 25 Fed policy meeting minutes (7/16), June housing starts and building permits (7/17), June existing home sales (7/24), June new home sales and durable goods orders (7/25), the Conference Board's July survey of consumer confidence (7/29), and advance 2Q GDP (7/31).

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The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The BSE Sensex or Bombay Stock Exchange Sensitive Index is a value-weighted index composed of the 30 largest and most actively traded stocks, representative of various sectors, on the Bombay Stock Exchange. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The FTSEurofirst 300 Index is a capitalization-weighted price index which measures the performance of Europe's largest 300 companies by market capitalization. The CSI 300 Index tracks the daily price performance of the 300 most representative A-share stocks listed on the Shanghai or Shenzhen Stock Exchanges. The Morgan Stanley Capital International All Country Asia Pacific Index (referred to as "MSCI's regional index" in the above article) measures the performance of stock markets in 15 Pacific region countries, including Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Pakistan, the Philippines, Singapore, Sri Lanka, Taiwan and Thailand. These views are those of Peter Montoya Inc., and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards.

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