



Economic Evaluation Group, Inc.
131 Jericho Turnpike
Jericho, NY 11753
(516) 338-2800
Fax: (516) 338-7284
www.eegroup.com

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

Quote of the month. “A man shall never be enriched by envy.” – Thomas Dreier

The month in brief. The three major stock market indexes set or flirted with records during the rush of earnings season, as the value of the dollar dropped further and the Fed left interest rates untouched. Even with the housing market showing little signs of rebound, even with high gas prices challenging the consumer, even with the first quarter GDP proving anemic, there were signs of resilience.

Domestic economic health. The big question was: could the American consumer continue to spend under the strain of record-high gasoline prices and the fallout from subprime mortgages?

Despite pump prices that amounted to the second-highest ever recorded in inflation-adjusted terms, there were positive signs that the economy was holding up. The jobless rate was flat for May at 4.5%, and 157,000 new jobs were added to payrolls, with the average worker benefiting from a 0.3% wage gain. That seemed to indicate an economy gaining some momentum. This was especially good news after data released in mid-May which showed U.S. retail sales had unexpectedly fallen 0.2% in April, with wholesale prices rising 0.7%.

The first quarter 2007 GDP data was disappointing, but not entirely unexpected. With the U.S. trade deficit swelling, the U.S. economy grew by only 0.6%

in 1Q 2007, the poorest quarter since the U.S. had climbed out of a recession in 4Q 2002. Contrast that with the 2.5% pace of 4Q 2006.

Yet, indicators showed there was still consumer confidence: the April Reuters/University of Michigan preliminary index of consumer sentiment measured 88.7, notably above the historical 88.1 average. More than a few economists saw the soft landing Federal Reserve Chairman Ben Bernanke had predicted in progress.

On May 9, the Federal Reserve elected to hold the key interest rate again at 5.25%. During the month, Federal Reserve Chairman Ben Bernanke spoke out publicly against notions of protectionism, stating that it “would be self-defeating and, in the long run, probably not feasible.” He also remarked that the American economy would be able to “absorb the losses from [the] subprime mortgage problem” without jolts.

The 2007 federal budget deficit dipped below \$85 billion thanks to an 11.2% increase in tax revenue, a welcome contrast with the \$180+ billion budget deficit of spring 2006.

Global economic health. In a sentence, the economies of China, Europe and Japan helped offset a slowing U.S. economy. The pound and the euro gained value against the still-falling dollar during early May ... but in mid-May, the dollar rallied against the euro

and hit a three-month high against the yen as an effect of positive jobless claims data in the U.S.

In an effort to calm the 10% growth rate of its economy, China's government announced a wider band for the appreciation of the yuan (0.5%) and an increase in interest rates to 6.57%, the first time that deposit rates exceeded lending rates since 1995. All this happened just in advance of U.S. Treasury Secretary Henry Paulson's visit.

Paul Wolfowitz resigned as president of the World Bank under pressure, with the Bush Administration nominating Goldman Sachs senior executive Robert Zoellick as a replacement – a move that gathered multinational support.

World financial markets. The Dow Jones and S&P 500 hit all-time highs as May wrapped up, with the NASDAQ reaching a six-year high. On May 28, benchmark indexes in China and South Korea registered all-time highs, five days after former Fed Chairman Alan Greenspan commented that he feared a "dramatic contraction" in Chinese stocks. The main Shanghai index has gained more than 50% in 2007 and tripled in the last 12 months. Europe's stock markets surpassed the U.S. stock market in value for the first time since World War I, according to data from Thomson Financial.

Commodities markets. The days of \$59-62 per barrel oil prices seemed a hazy memory as oil prices stayed in the mid-60s for the month and finished the month at \$65.08 per barrel on the New York Mercantile Exchange.

The price of a gallon of regular unleaded gasoline hit an all-time record national average on May 24: \$3.227 per gallon. A slow retreat followed to \$3.184 per gallon at the end of the month. While a late-May Energy Department inventory report showed gas supplies growing by 1.3 million barrels in the week ending May 25, the question is whether inventories can grow fast enough to meet summer demand.

Natural gas prices were volatile during the month, but were generally higher than they were last May and

rose toward month's end with concerns about refinery capacity. Gold and silver prices fell dramatically in May, but showed signs of a rebound in the last week of the month.

Housing & interest rates. At the start of May, things still did not look good for the housing market, especially not with U.S. Census Bureau data showing that 2.8% of American homes for sale were vacant in the first quarter of 2007. During May, we also found out that existing home sales had dipped 2.6% in April, a byproduct of the evaporation of many subprime mortgages. May 2007 saw the fewest number of residential resales since June 2003.

But, a buyer's market had clearly emerged for new homes, with homebuilders reducing prices to reduce an inventory overhang. New home sales shot up 16.2% in April as median new home prices dropped 11.1%. New home sales went up a remarkable 27.8% in the South.

Mortgage interest rates began climbing during May, with 30-year fixed rate mortgages topping out at 6.42% by May's end, an eight-month high that was still below the 6.67% rate of one year ago.

June outlook. The big questions include: Will there be a stock market correction this month? How much weaker will housing markets get? Will consumers continue to spend with confidence? Will oil and gas prices relent?

The jury is out on whether below-average growth will lead to a recessionary period. In terms of GDP, many analysts are forecasting a better second quarter with recent positive indicators hinting at boosts in inventories and capital investment. Many economists also feel unemployment will rise, perhaps as much as half a percentage point during the rest of 2007, with energy prices maintaining high levels and mortgage rates edging slightly northward. Many analysts do not see grounds for an economic upswing until late 2007 or early 2008.

Please feel free to forward this article to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will contact them and ask for their permission to be added.

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. 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. 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.