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Economic Evaluation Group, Inc. Presents **Monthly Economic Update for June, 2008**

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Quote of the month. "You can make more friends in two months by becoming interested in other people than you can in two years by trying to get other people interested in you." – Dale Carnegie

The month in brief. While oil and gas prices dominated the headlines, there were other economic developments of note. The Federal Reserve revealed that the economy grew more than previously thought in the first quarter, and the dollar continued its spring recovery against other benchmark currencies. With such data in hand, the Fed flashed strong signals that it was done cutting interest rates. The S&P 500 and the NASDAQ gained further ground. All this led investors and economists to question their assumptions of recession – maybe we were simply in a downturn after all.

Domestic economic health. America's mind was on oil and gas prices. Every week – every day – seemed to bring a new record crude oil price, and \$135.09 was the all-time record high set on May 22.¹ Oil futures mercifully fell back almost \$8 on the New York Mercantile Exchange by May 30, the final trading day of the month.¹ Retail gasoline prices were at \$3.79 a gallon on May 19, \$3.94 a gallon only a week later and pushing \$4.00 per gallon by the start of June.²

The Dow Jones Industrial Average started May above 13,000, but finished at 12,638. However, the NASDAQ and S&P 500 had positive months.³ In the bond market, inflation concerns put the yield on 10-year Treasuries above 4% for the first time since January.⁴

At the top of May, we learned that the economy only lost 20,000 jobs in April, less than economists expected. The unemployment rate also fell a bit to 5.0%.⁵ April saw only modest inflation (0.2%, with only 0.1% core inflation), below the median forecast of polled economists.⁶ But consumer confidence (at least as measured by the Reuters/University of Michigan consumer sentiment index) was at its lowest point since 1980.⁷ The Conference Board's index of leading U.S. economic indicators went north 0.1% in April; economists polled by Briefing.com had forecast no gain at all. The index gained in both March and April, after five monthly declines in a row.⁸ As expected, the retail and industrial sectors contracted: industrial output fell by 0.7% in April, and manufacturing output slowed by 0.8%.⁹ Retail sales declined by 0.2% in April.¹⁰ The Producer Price Index rose just 0.2% for April, and that was what economists expected – but core PPI climbed 0.4%.¹¹

Global economic health. World policymakers were trying to keep inflation at bay. Inflation rates kept climbing in the Eurozone. Consumer prices rose 3.6% in May, up from a 3.3% pace in April. Compare that with the European Central Bank's 2% target.¹² The European Commission's Eurozone economic sentiment indicator held steady in May, but

confidence in the economy of the broader European Union fell slightly.¹³

The inflation pressure in Europe was minor compared to what was going on in Asia. India's wholesale price index hit 8.1% in mid-May, which was nearly a four-year peak.¹⁴ Inflation in South Korea reached 4.9% in May, the fastest pace in seven years; Indonesia's annual inflation rate hit 10.38% in May.¹⁵ But that paled in comparison to Vietnam's 25% pace.¹⁶ Thailand's inflation rate was 6.2% at the turn of June, triple what it had been at the start of the year; in China, inflation jumped to an annual pace of 8.5%, the most accelerated pace in 12 years.¹⁷

World financial markets. Asia's markets fell just 0.3% last month. In Europe, stock markets suffered more, declining 2.8% for the month.¹⁸

The Nikkei 225 had another good month, rising 3.5% in May after an 11% climb in April. The Hang Seng index in Hong Kong rallied along with most other Asian indexes in late May, but still lost 5% for the month.¹⁹ India's Sensex also posted a 5% decline.²⁰

In Europe, the Dow Jones Stoxx 600 lost 0.3% in May; the MSCI World index gained 1%.²¹ Germany's DAX index rose 2.1% for May.²²

The world's best-performing stock indices in May were the Micex index in Russia (+14%), Argentina's Merval index (+6.1%) and Brazil's Bovespa index (+5.8% in May, up 12% this year).²³

Commodities markets. In the last week of May, crude oil prices lost more ground than they had in more than two months, descending to a low of \$124.67 a barrel on May 30. Oil futures peaked on May 22 at a record \$135.09 a barrel on the NYMEX.²⁴ Oil prices followed up April's 12% gain with a 13% increase for May. (Through May 30, prices were up 32.7% for the year.) Gasoline futures were up 17.3% for the month and 36.9% for the year as of May 30.

As for precious metals, gold, silver, platinum and palladium made modest gains. Silver prices gained 1.6% for May, and gold prices 2.5%; platinum prices increased 4.1% and palladium 2.9%. The big commodities losers for the month were agricultural: rice futures were down 12.3% (but still up almost 38% on the year) and sugar fell 15.1%.

Housing & interest rates. At last, we got some good news – or at least, not such bad news. We learned that the pace of new home construction increased 8.2% in April, although most of that gain came in the apartment sector (in fact, apartment construction rose 35% in April). Overall housing starts rose 4% in April; single-family housing starts declined by 1.7%.²⁵ But the National Association of Realtors let us know that existing home sales dropped 1% in April, with the median price 8% below that of April 2007 and year-over-year sales down 18%.²⁶

At the end of May, Hope Now, the coalition to prevent home foreclosure, reported that it had helped 183,000 borrowers remain in their homes in April.²⁷ On May 21, the Senate approved a housing rescue bill that supplanted the bill Rep. Barney Frank (D-Mass.) had brought forth in the House, but there was still no guarantee that President Bush would sign any such legislation.²⁸

At the start of May, rates on 30-year FRMs were higher than they had been in two months. By the end of the month, they were still there. On May 29, Freddie Mac reported national averages of 6.08% for 30-year FRMs, and 15-year FRMs were at 5.66%; 5-year ARMs averaged 5.62%, and 1-year ARMs 5.22%.⁴

Major indexes. It was another month of recovery for financial and tech stocks, but a poor month for the Dow. Year-to-date numbers have notably improved from the first quarter.

% Change	1-Month	Y-T-D
DJIA	-1.42	-4.72
NASDAQ	+4.55	-4.89
S&P 500	+1.07	-4.63

Source: CNBC.com, 5/30/08¹

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

June outlook. At the moment, managing inflation is the focus of most of the world's central banks. Will the Federal Reserve make that its mission again? The U.S. dollar index has now risen for two straight months, gaining 0.5% in May.²⁹ A few economic indicators have been better than expected. Some analysts now actually see the Fed raising rates in the fourth quarter. But will June indicators show the consumer and the retail and manufacturing sectors

hurt further by high energy and food prices? All this makes the Fed policy statement on June 25 a highly anticipated one.

The key economic releases for the rest of June: May factory orders (6/3), the May ISM services index (6/4), May wages and unemployment and wholesale inventories (6/6), April pending home sales (6/9), May retail sales and business inventories (6/12), May

CPI and core CPI and preliminary June consumer sentiment (6/13), May housing starts, building permits, May PPI and core PPI, May industrial production (6/17), May leading indicators and the June Philadelphia Fed index (6/19), May new home sales, May durable goods orders (6/24), the Fed policy statement (6/25), May existing home sales and final 1Q 2008 GDP (6/26), and May consumer spending, wages and core inflation (6/27).

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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. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data 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.

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