



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 September, 2008**

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.

Quote of the month. "Life is an adventure in forgiveness." – Norman Cousins

The month in brief. It was a positive month for the stock market, an amazing month for the dollar, and another month of settlement for the broad commodities market. Oil and gas prices fell notably, fears over the stability of Fannie Mae and Freddie Mac emerged, unemployment and consumer confidence crept higher, and the Federal Reserve held rates while watching consumer prices and producer prices rise sharply.

Domestic economic health. In brief, consumers went to the supermarkets and big boxes with sighs of relief as they paid less for gas, then wondered why prices were so high in the aisles. Oil prices fell 5% in August, and retail gasoline prices (for a gallon of regular unleaded) had dropped below \$3.70 by the end of the month.^{1, 2}

But the spring surge in energy prices had its expected effect on producer and consumer prices. The July data was alarming. Wholesale prices rose 1.2% last month in July and 9.8% year-over-year between July 2007 and July 2008, the highest annual jump in 27 years.³ July consumer prices soared 0.8%, and were up 5.6% from a year before – representing the most torrid inflation pace since 1991.⁴ While retail sales edged

down 0.1% in July, sales outside the auto industry actually rose 0.4%.⁵ Unemployment hit a four-year peak of 5.7% in July, a full percentage point above July 2007.⁶ Still, consumer spending went up 0.2% in July, and the Reuters/University of Michigan index of consumer confidence advanced from 61.2 in July to 63 in August.⁷ Speaking of confidence, many investors had their momentarily shaken by continuing hints of trouble at Fannie Mae and Freddie Mac (see "Housing and Interest Rates" below).

As expected, the Fed left interest rates alone in early August. The dollar had its best month ever against the euro, rising 6.4% versus that currency in August in a powerful rally; the Bank of New York Mellon noted that investors purchased four times as many dollars in August as the average during the previous 12 months.⁸

Now, guess what the world's best-performing economy was in the second quarter? That's right: ours. So says the Organisation for Economic Co-operation and Development, based in Paris. They cite America's annualized growth rate of 3.3% as of 2Q 2008, compared to negative numbers in the economies of Europe and Japan.⁹ (For what it's worth, economists at the International Monetary Fund cite global growth of under 3% as an indicator of global recession.)

Global economic health. In Europe, there were plenty of recessionary omens. As you may know, manufacturing is the big driver in many European economies. Well, despite some relief in the form of lower energy prices, the PMI (purchasing managers

index) for the Eurozone crept to 47.6 in August, still showing contraction and barely up from 47.4 in July. Even Germany's powerful economy showed a PMI of 49.7, below 50 and contracting. That was the first such contraction in three years, and retail sales in that nation fell by 1.5% in July. In the U.K., manufacturing declined for the fourth month in a row in August.¹⁰ The good news: Eurozone inflation dropped to 3.8% in August, down from 4% in July.¹¹

Of course, that level of inflation is nothing compared to what some economies in Asia are contending with. In India, the annual inflation pace was expected to exceed 12.4% in August.¹² In the Philippines, economists were predicting 12.5%.¹³ The pace of India's red-hot economy was clearly slowing, from 9.2% growth in 2Q 2007 to 7.9% growth measured for 2Q 2008.¹⁴ In China, the inflation rate had fallen to 6.3% in July, from 8.7% in February, with growth at 10.1% for 2Q 2008. The polar opposite of that superheated economy is Japan, whose economy contracted 2.4% last quarter.¹⁵

World financial markets. Let's look at some indexes apart from the States ... there were some gains in Europe. But in contrast, the Stoxx 600 rose 1.6% in August, and the FTSE 100 rose an impressive 4.2%, despite the United Kingdom's treasurer saying its economic state was the worst in 60 years.¹⁶ The CAC 40 (France) rose 2.1%, and the Australian All Ordinaries Index rose 3.2%. Among Asia's major markets, things were gloomier: Hong Kong's Hang Seng index was down 6.6% in August, the Shanghai Composite Index down 13.6%, and the Nikkei 225 was down 2.3% on the month.¹⁷

Commodities markets. Most commodities tumbled in August. Gold dropped 9.5% for the month, silver 23.5%, copper 6.3% and platinum 15.4%. Crude oil futures lost 7.3% and natural gas futures 13.9%. While the selloff spilled over into ag futures, the losses were not nearly so pronounced here: wheat lost 0.9%, soybeans 5.7%, and corn 3.7%. If you happened to invest in rice and pork bellies, congratulations: those commodities respectively gained 14.4% and 35.7% last month.¹⁸

Housing & interest rates. Fannie Mae, Freddie Mac – these venerable mortgage giants began to look vulnerable as the month progressed. On August 8, Fannie Mae announced it was cutting dividends by 86%, after suffering losses that were

three times that of analysts' estimates. Freddie Mac's second-quarter losses were also greater than anticipated.¹⁹ Would Treasury Secretary Henry Paulson's bailout plan have to kick into gear? Perhaps. By late August, Moody's Investors Service had lowered the stock ratings for both companies close to junk level.²⁰ At the end of August, three top Fannie Mae executives had left the company.

Elsewhere in the sector, the National Association of Realtors announced that pending home sales rose 5.3% in June – but that indicator was still 12% below a year ago.²¹ But that hopeful news was tempered by more evidence of the depth of the correction: residential resales fell to a 10-year low in 2Q 2008, with the median sale price down to \$206,500 (a 7.6% drop on the quarter).²² But on the other hand, existing home sales increased 3.1% in July.²³ New home construction decreased 11% in July, but the drop partly reflected the rush to get projects started in New York City in the month of June before a change to its building codes.²⁴

As for mortgages, the key rates generally fell in August, just as they had fallen slightly across the previous month. Nationally, the 30-year fixed rate mortgage averaged 6.40%, down from 6.52% in late July; 15-year FRMs and 5-year ARMs respectively averaged 5.93% and 6.03% at the end of August (they were both averaging 6.07% in late July). As for 1-year ARMs, interest rates crept up to 5.33% in late August, as compared to 5.27% at the end of July.²⁵

Major indexes. Oil's descent from record highs and pleasant surprises regarding several earnings reports and indicators helped the major indices. It was the best month since April for the Dow and S&P 500, and the Nasdaq had its best month since May.²⁶

% Change	1-Month	Y-T-D
DJIA	+1.46	-12.97
NASDAQ	+1.80	-10.74
S&P 500	+1.22	-12.64

Source: CNBC.com, 8/29/08²⁷

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

September outlook. Well, September has long been regarded as a mild month for the stock markets; in fact, historically, stocks have averaged a 1.2%

decline over past Septembers.²⁸ But indicators aside, the belief that 2009 will see improvement for the economy may inspire subtle waves of confidence to ripple through the market and make the month positive for equities.

What are the economic dates to note for the rest of September? Here they are. We have ... July factory orders (9/3), the August ISM services index (9/4), August wages and unemployment (9/5), July pending home sales and wholesale inventories (9/9), August

PPI, core PPI, retail sales and business inventories plus preliminary August consumer sentiment (9/12), August industrial production (9/15), August CPI and core CPI and a Fed rate decision (9/16), August housing starts and building permits (9/17), August existing home sales (9/24), August durable goods orders and new home sales (9/25), August personal income and personal spending (9/29), and the Conference Board's September survey of consumer confidence (9/30).

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. The Bank of New York Mellon is a leading asset management and securities services company headquartered in New York, with more than \$23 trillion in assets under custody or administration and more than \$1.1 trillion under management. The Dow Jones STOXX 600 Index is a subset of the Dow Jones STOXX Global 1800 Index and represents large, mid and small capitalisation companies across 18 countries of the European region. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. The CAC-40 Index is the benchmark tracking index for the Paris Bourse, comprised of the 40 largest and most liquid stocks trading on the exchange. 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 Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The Shanghai Stock Exchange Composite Index is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. 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.

- Citations.** ¹ cnbc.com/id/26457408/site/14081545/page/3/ [8/29/08]
- ² upi.com/Business_News/2008/09/01/Oil_prices_fall_as_Gustav_weakens/UPI-54081220292009/ [9/1/08]
- ³ online.wsj.com/article/SB121914716663552887.html?mod=googlenews_wsj [8/20/08]
- ⁴ online.wsj.com/article/SB121871617494640459.html?mod=googlenews_wsj [8/15/08]
- ⁵ forbes.com/afxnewslimited/feeds/afx/2008/08/13/afx5318349.html [8/13/08]
- ⁶ money.cnn.com/2008/08/01/news/economy/jobs_july/?postversion=2008080111 [8/1/08]
- ⁷ bloomberg.com/apps/news?pid=20601103&sid=aSqDrLf7JDoY&refer=us [8/29/08]
- ⁸ bloomberg.com/apps/news?pid=20601103&sid=ax1Bf7KaoSs0&refer=us [9/2/08]
- ⁹ usatoday.com/money/economy/2008-09-01-global-economy_N.htm [9/1/08]
- ¹⁰ online.wsj.com/article/SB122030451176888227.html?mod=googlenews_wsj [9/2/08]
- ¹¹ online.wsj.com/article/SB122021560624486801.html?mod=googlenews_wsj [9/1/08]
- ¹² financialexpress.com/news/Annual-inflation-seen-at-12-44--on-Aug-23/356439/ [9/2/08]
- ¹³ abs-cbnnews.com/storypage.aspx?StoryId=129890 [9/2/08]
- ¹⁴ online.wsj.com/article/SB122002414672283497.html?mod=googlenews_wsj [8/30/08]
- ¹⁵ bloomberg.com/apps/news?pid=20601087&sid=a0MhO00B.Zto&refer=home# [9/1/08]
- ¹⁶ abnnewswire.net/press/en/56479/Markets_Mixed_After_Strong_August.html [9/1/08]
- ¹⁷ investmentpostcards.com/wp-content/uploads/2008/09/gS-local.pdf [8/31/08]
- ¹⁸ cnbc.com/id/26460271 [8/29/08]
- ¹⁹ bloomberg.com/apps/news?pid=20601103&sid=a1Q.uMr71kSY&refer=news [8/8/08]
- ²⁰ ap.google.com/article/ALeqM5gPfdSGL82ufTASVrfgCbKslcCYPgD92NFCH80 [8/22/08]
- ²¹ ap.google.com/article/ALeqM5jYhsxaJOLCURko2JR8R6NUDHRW2wD92DG9BO4 [8/7/08]
- ²² bloomberg.com/apps/news?pid=20601103&sid=aouNA67vvnvBE&refer=us [8/14/08]
- ²² news.yahoo.com/s/nm/usa_economy_housing_dc;_ylt=AgvV8CP8OryUokOuVn_XeZaz1g4B [8/25/08]
- ²⁴ online.wsj.com/article/SB121914716663552887.html?mod=googlenews_wsj [8/20/08]
- ²⁵ reuters.com/article/bondsNews/idUSN2830710820080828 [8/28/08]
- ²⁶ cnbc.com/id/26457408 [8/29/08]
- ²⁷ cnbc.com/id/26460271 [8/29/08]
- ²⁸ cnbc.com/id/26510199 [9/2/08]