Frank DeMaio Presents:

MONTHLY ECONOMIC UPDATE

MONTHLY QUOTE

"Serving the needs of others is the only legitimate business today."

- A.P. Giannini

MONTHLY TIP

Want to set up a retirement plan for your employees? Think about hiring a financial professional experienced in such matters. If you want to determine what kind of plan to offer, or need help with the paperwork and the tax reporting, the assistance may well be worth the expense, and it should be cheaper than adding an HR officer to your payroll.

MONTHLY RIDDLE

They are bought and often costly, yet used for hanging only. What are they?

Last month's riddle:
It disappears when you are awake. It disturbs you when you are asleep. What is it?

Last month's answer:
A nightmare.

September 2016

THE MONTH IN BRIEF

How calm was August? Very. At the close on August 31, the S&P 500 had not moved 1% up or down in a trading session since July 8. The latest round of U.S. economic indicators showed a healthy labor market, solid consumer spending, decent consumer confidence, and bearable consumer inflation. The numbers were encouraging – so encouraging that Federal Reserve officials began to suggest the possibility of a fall interest rate move. The latest home sales figures were mixed. Oil rallied, while gold retreated. There was good news about growth in the emerging markets, and it was a good month for some of the leading foreign indices.[1]

DOMESTIC ECONOMIC HEALTH

For the second consecutive month, hiring totals impressed. Non-farm payrolls swelled with 255,000 additional jobs in July. June's job gain was revised up by the Department of Labor to 292,000. As labor force participation increased a bit, the main jobless rate remained at 4.9%, while the U-6 gauge of underemployment ticked north to 9.7%. The average hourly wage for private workers increased by seven cents to $21.59.[2]

The Conference Board's consumer confidence index went up in August. It rose 4.4 points to 101.1, far surpassing the 97.0 consensus from economists polled by Briefing.com. August did see a small slip in the University of Michigan index measuring household sentiment. That index ended the month at 89.8, down from the final July mark of 90.4.[3,4]

Consumer spending advanced another 0.3% in July, according to the Department of Commerce; the June gain was revised north to 0.5%. July also saw a 0.4% gain for consumer incomes. After a 0.8% gain in June, retail sales were unexpectedly flat in July. For that matter, so was inflation – the headline Consumer Price Index was unchanged in July; although, the core CPI did nudge north 0.1%, leaving the year-over-year increase in core consumer prices at 2.2%. The Federal Reserve's PCE price index also rose 0.1% in July.[3,4]

Turning away from the consumer, the closely watched manufacturing purchasing manager index at the Institute for Supply Management slipped 0.6 points in the seventh month of the year to 52.6. ISM's service sector PMI declined a full point for the month to a mark of 55.5. Federal government data showed hard goods orders increased 4.4% for July, with core orders rising 1.5%; industrial output improved by 0.7%. Producer prices were down 0.4% in July, nearly reversing the 0.5% June gain; the core Producer Price Index sank 0.3%, as opposed to a 0.4% rise in June.[4]

Investors and economists had been underwhelmed by the federal government's first estimate of Q2 growth, and the second estimate from the Bureau of Economic Analysis was even less satisfactory. Last month, the BEA revised Q2 GDP down by 0.1% to 1.1%.[4]

At the annual Federal Reserve symposium in Wyoming, Fed chair Janet Yellen stated, "In light of the continued solid performance of the labor market and our outlook for economic activity and inflation, I believe the case for an increase in the federal funds rate has strengthened in recent months." Journalists, economists, and investors took her comment as a strong signal of a fall interest rate hike. (Fed vice chairman Stanley Fischer and San Francisco Fed president John Williams have also recently made hawkish remarks hinting that the time for a rate adjustment is near.)

Yellen added that the central bank was "not actively considering" a stimulus or other monetary policy tools that could be used to brace the economy in the event of a downturn.[5]

GLOBAL ECONOMIC HEALTH

The Brexit is set to occur … at some point. Theresa May, the new prime minister of the United Kingdom, told the media that her government would not invoke Article 50 of the Treaty on European Union this year. If the U.K. makes that move in 2017, it could leave the European Union by 2019.[6]

In late August, German chancellor Angela Merkel, Italian prime minister Matteo Renzi, and French president Francois Hollande met in Italy to discuss continental unity after the Brexit. In Renzi's words, the meeting was held "to relaunch an ideal based on unity and peace, freedom and dreams, dialogue and identity." To some, the meeting seemed more symbolic than constructive. As the month ended, the European Commission ruled that Apple owed as much as €13 billion in back taxes to the Republic of Ireland. E.U. competition commissioner Margrethe Vestager charged that Ireland had given illegal tax breaks to Apple, allowing them to pay an effective corporate tax of 1% or less versus the country's standard corporate tax of 12.5%. Apple and the Irish government vowed to appeal the ruling, which was also criticized by the White House.[6]

August brought some encouraging economic news from Asia. India's economy had accelerated in the first quarter, realizing 7.9% growth. The economy of the Philippines expanded 7.0% in Q2, having its best quarter since 2013. Indonesia's economy had its best quarter in ten in Q2, achieving 5.2% growth. China saw 6.7% expansion in the second quarter; although, its alarming corporate debt ratio (171% of GDP, more than two times that seen in the E.U. and the U.S.) remained a concern to economists worldwide.[7]

WORLD MARKETS

A look at one-month performances of key world benchmarks reveals more positives than negatives. The Dow Jones Shanghai Index jumped 4.59%. Hong Kong's Hang Seng rose 3.83% during August, and Russia's RTSI advanced 3.00%. The MSCI Emerging Markets index improved 2.31%. On the European continent, Germany's DAX gained 2.54%; Spain's IBEX 35, 2.39%; and Italy's FTSE MIB, 2.35%. The month also saw a gain of 2.09% for the Euro Stoxx 50. Brazil's Bovespa rose 2.02%; Mexico's IPC All-Share, 1.84%. The two major indices in India – the Nifty 50 and the BSE Sensex – respectively improved 1.73% and 1.60%. The Nikkei 225 added 1.51%; the FTSE 100, 1.31%. France's CAC 40 rose 0.66%.[8,9]

Australia's S&P/ASX 200 was the worst performer of the month among the consequential global indices, losing 2.76%. Canada's S&P/TSX Composite only moved north 0.10%, while Taiwan's TAIEX and the MSCI World Index both retreated 0.13%.[8,9]

COMMODITIES MARKETS

Energy futures went one way in August, while metals and crop futures went another. Finishing August at $1,311.80 on the COMEX, gold lost 3.17% for the month. Silver gave back 7.15%, settling at $18.64 on August 31. August losses also plagued copper (7.09%) and platinum (8.41%). The U.S. Dollar Index rose 0.49% in August to end the month at 95.99, only 0.06 points from where it had been a year earlier. Among ag futures, sugar was the clear winner, rising 7.72%; cocoa advanced 3.37%. Losses were incurred by wheat (11.31%), soybeans (6.76%), corn (9.30%), coffee (2.06%), and cotton (11.04%).[10,11]

Oil reclaimed some of its July losses during August as futures gained 8.41% on the month. WTI crude settled at $44.86 as the month wrapped up. With fall on the way, heating oil futures soared 12.23%; August also brought gains of 0.88% for natural gas and 1.05% for unleaded gasoline.[10]

REAL ESTATE

Existing home sales tailed off 3.2% in July, more than offsetting their 1.1% June rise. (In June, the sales pace had hit a level unseen in more than nine years.) The average sale price of an existing home was 5.3% improved from a year earlier at $244,900, according to the National Association of Realtors. The supply of homes on the market had declined 5.8% in 12 months. Regarding new homes, the news was much better. The Census Bureau recorded a 12.4% July jump for new home purchases, taking the sales pace near its pre-recession peak.[4,12]

Mortgages grew less expensive in August. Freddie Mac's August 26 Primary Mortgage Market Survey showed an average interest rate of 3.43% on the 30-year fixed-rate loan. In the July 28 PMMS, the mean interest rate on a 30-year FRM was 3.48%. In late August 2015, it was 3.98%. (Interest on a conventional home loan has averaged about 6% across the history of Freddie's survey.) Nearly identical declines were seen in the average interest rates on the 15-year FRM (2.78% to 2.74%) and the 5/1-year ARM (2.78% to 2.75%).[12,13]

Construction activity had increased in July: according to a Census Bureau report, groundbreaking improved 2.1%; although, building permits dipped 0.1%. The June edition of the S&P/Case-Shiller 20-city home price index showed a 5.1% annualized advance for home values, matching the consensus of analysts polled by Briefing.com. In the May edition, the gain had been 5.3%.[3,4]

LOOKING BACK…LOOKING FORWARD

In August, one thing notably absent was fear – at least judging by the level of the CBOE VIX. The "fear index" ended the month at a mere 13.42, down 26.30% YTD. The Russell 2000 outshone the major indices, rising 2.24% in one month's time to an August 31 settlement of 1,239.91. The PHLX Gold/Silver Index took the hardest fall among stateside indices month-over-month, losing 19.44%.[14]

Looking at the big three, the Nasdaq Composite closed August at 5,213.22, thanks to a 0.99% monthly gain. The S&P 500 lost but 0.12% in August; the Dow Jones Industrial Average, 0.17%. They respectively settled at 2,170.95 and 18,400.88 on August 31.[15,16,17]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+5.60	+11.33	+11.69	+6.17
NASDAQ	+4.11	+9.14	+20.42	+13.87
S&P 500	+6.21	+10.08	+15.62	+6.65
REAL YIELD	8/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.11%	0.58%	0.18%	2.24%

Sources: wsj.com, bigcharts.com, treasury.gov – 8/31/16[14,18,19,20]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

September is here, and Wall Street is hoping for a nice fall rally. Just how realistic is that prospect? If market upsets are limited, it is not out of the question. Traders put the chance of a September interest rate hike at 36% immediately after Janet Yellen's August 26 Jackson Hole speech, and saw a 61% chance of an adjustment by the end of the year. Perhaps, the market will price a hike in if it occurs. As one trader reminded the *Wall Street Journal* near the end of the month, "The bull market ends on a recession. It doesn't end on a rate hike." The Fed may even elect to wait for hints of economic improvement in Europe and Asia before making any kind of move. A decline in oil prices, underwhelming earnings, and any tightening of the presidential race could also give bulls some pause. Still, the market may arise from its late-summer doldrums and surprise to the upside in the ninth month of the year. Perhaps, that nice fall rally will start presently.[5,21]

UPCOMING ECONOMIC RELEASES: When do major news items on the

	economy appear this month? Here is the calendar for the rest of the way. Investors will consider the August employment numbers from the Department of Labor (9/2), the August ISM service sector PMI (9/6), a new Beige Book from the Federal Reserve (9/7), August retail sales and industrial production and the August PPI (9/15), the August CPI and the initial September University of Michigan consumer sentiment index (9/16), August housing starts and building permits (9/20), a Federal Reserve interest rate decision (9/21), August existing home sales (9/22), August new home sales (9/26), the latest S&P/Case-Shiller home price index and the September Conference Board consumer confidence index (9/27), August capital goods orders (9/28), August pending home sales and the third and final estimate of Q2 growth (9/29), and then the August consumer spending report, the August PCE price index and the month's final University of Michigan consumer sentiment index (9/30).

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