

MONTHLY ECONOMIC UPDATE

August 2017

MONTHLY QUOTE

“Dreams come true. Without that possibility, nature would not incite us to have them.”

- John Updike

MONTHLY TIP

Are you staying on top of your receipts? Now, not next April, is the time to catalogue them so you can properly track your deductions and expenses. There are apps that will let you scan receipts with your phone or tablet, with the scans being valid for federal tax documentation.

MONTHLY RIDDLE

It always arrives consistently, and its appearance makes us nearsighted. What is it?

Last month's riddle:

What can appear white and yellow at the same time, yet not appear to the world most of the time?

Last month's answer:

A tooth.

THE MONTH IN BRIEF

The Dow Jones Industrial Average gained 2.54% in July as earnings announcements and fundamental indicators provided a lift for the blue chips and other stock market indices. Hiring and manufacturing data was particularly reassuring. Annualized inflation declined once more. Oil, gold, and other marquee commodities advanced and so did many Asia-Pacific stock benchmarks. In the real estate market, home buyers coped with slim supply and high median prices as mortgage rates crept up. Wall Street had another calm month and that suited the bulls.¹

DOMESTIC ECONOMIC HEALTH

Monthly job growth again topped the 200,000 mark. The Department of Labor's June employment report showed a gain of 222,000 hires (the most in any month since February) with wages up 0.2%, which took the year-over-year increase to 2.5%. Almost 5 million more people sought work in June than in May, so that resulted in the headline unemployment rate ticking up to 4.4%; the U-6 rate, which includes discouraged job seekers and part-time workers, increased 0.2% to 8.6%.²

More good news came from the factory sector. At a June mark of 57.8, the Institute for Supply Management's manufacturing purchasing manager jumped an impressive 3.9 points off its May level. ISM's service sector PMI nearly matched it, rising half a point in June to 57.4. Elsewhere in manufacturing news, federal government data showed overall durable goods orders growing by an astonishing 6.5% in June (but just 0.2% minus transportation orders). Industrial production was up 0.4% in June; manufacturing production, up 0.2%.^{3,4}

Another key indicator also improved – the Conference Board's globally watched consumer confidence index. It climbed 3.8 points in July to a remarkably high reading of 121.1. The household sentiment index maintained by the University of Michigan (which uses slightly different criteria to gauge confidence) ended June at 95.1, dipped to 93.1 in its preliminary July reading, then improved a bit to a final July mark of 93.4.^{3,4}

By the estimate of the Bureau of Economic Analysis, America's GDP notably increased in the second quarter. In its initial assessment, the BEA put annualized economic expansion at 2.6% in Q2, far above the Q1 growth of 1.2% (revised down from the prior mark of 1.4%). The second-quarter gain in consumer spending was estimated at 2.8%.^{4,5}

Even with that estimation, retail sales figures were hardly inspiring. Both headline and core retail sales retreated 0.2% in June. In May, headline sales had declined 0.1%, while core sales had dipped 0.3%.³

One other important economic indicator retreated in June – the Consumer Price Index. Its yearly advance was only 1.6%, compared to 1.9% a month before. The core CPI was up just 1.7% in 12 months. Unsurprisingly with numbers like these, the Federal Reserve decided to leave interest rates alone last month. (The latest Federal Open Market Committee statement did note that the central bank would begin to reduce its bond portfolio “relatively soon.”) Inflation pressure on the wholesale side was a little stronger – the Producer Price Index was up 2.0% for the year ending in June.^{3,6}

GLOBAL ECONOMIC HEALTH

As the month ended, China's government reported its economy expanding at a yearly pace of 6.9% during the opening two quarters of 2017. The International Monetary Fund had forecast 6.7% GDP for that nation, replicating the number from

the first half of 2016. Speaking of the IMF, it updated its global outlook for emerging and developing economies last month, projecting 4.6% growth in 2017 following 4.3% expansion in 2016. Its global economic growth projections of 3.5% in 2017 and 3.6% in 2018 went unchanged.^{7,8}

James Knightley, chief international economist at ING, recently remarked that “the global economy has been a jumbo jet running on just one engine for the last five [or] six years,” that engine being the United States. Increasingly, signs point to Europe’s economic engine revving up. Second-quarter eurozone growth was forecast at 0.6% by Eurostat; if that proves true, the region would see its third straight quarterly GDP advance of 0.5% or more, something that has not happened since 2007-08. Eurozone economic sentiment reached a 10-year peak in July, with consumer confidence notably exceeding historical averages. A slight majority of economists surveyed by Bloomberg believed there might even be an interest rate hike in August – by the Czech National Bank. A minor move, yes, but it could presage a tightening cycle on the continent.^{9,10}

WORLD MARKETS

Outside of our borders, the major July gains occurred in Asia and the emerging markets. In fact, the MSCI Emerging Markets index rose 5.48%. Hong Kong’s Hang Seng advanced 6.05%; India’s Nifty 50, 5.84%; India’s Sensex, 5.15%; Brazil’s Bovespa, 4.13%. Singapore’s Straits Times Index went north 3.19% for the month. China’s Shanghai Composite added 2.56%, the MSCI World index rose 2.33%, and Mexico’s Bolsa increased 2.24%. Japan’s Nikkei 225, on the other hand, retreated 0.54% in July.^{11,12}

For the key European indices, results were mixed. Germany’s DAX pulled back 1.68% in July. The FTSE Eurofirst 300 lost 0.45%; the French CAC 40, 0.53%. In contrast, there were also some respectable gains. The United Kingdom’s FTSE 100 rose 0.81%, Spain’s IBEX 35 advanced 0.55%, and Russia’s Micex added 2.13%.¹¹

COMMODITIES MARKETS

WTI crude climbed 7.47% for the month to settle at \$50.21 on the COMEX on July 31. It was not the only future to post a major July advance. Three commodities achieved double-digit gains: heating oil vaulted 12.34%; unleaded gasoline, 12.07%; coffee, 11.20%.¹³

Studying the rest of the field, gold rose 2.35%; silver, 0.72%. Gold finished the month at \$1,268.60; silver, at \$16.82. Platinum was up 0.98%; copper, much more at 6.64%. The U.S. Dollar Index declined 2.91%. Looking at ag futures, wheat lost 6.80%, and cotton, 0.20%. Corn gained 0.54%; cocoa, 8.78%; soybeans, 5.64%; sugar, 5.04%. Natural gas futures fell 3.88%.^{1,13}

REAL ESTATE

In June, a shortage of inventory had weighed on existing home sales; a deficiency of moderately priced developments had also held new home buying in check. Reports from the National Association of Realtors and Census Bureau did not paint a rosy picture of the spring buying season – resales fell 1.8% in the sixth month of the year, while new home sales rose but 0.8%. One good sign: NAR’s pending home sales index advanced 1.5%.^{3,14}

Construction activity reversed its May decline in June. Housing starts improved 8.3%, while building permits increased 7.4%. In its May edition, the 20-city composite S&P/Case-Shiller home price index maintained its 5.7% year-over-year gain.^{3,4}

Mortgage rates increased in July. In Freddie Mac’s July 27 Primary Mortgage Market Survey, interest rates on home loan types stood as follows: 30-year fixed, 3.92%; 15-year fixed, 3.20%; 5/1-year adjustable, 3.18%. In the June 29 survey, they were like so: 30-year FRM, 3.88%; 15-year FRM, 3.17%; 5/1-year ARM, 3.17%.¹⁵

LOOKING BACK...LOOKING FORWARD

Once again, the Nasdaq Composite had a great month. It advanced 3.38% in July on the way to a month-ending close of 6,348.12. The S&P 500 ended July at 2,470.30 after a 1.93% rise. The 2.54% July advance of the Dow 30 left it to settle at 21,891.12 on July 31. July brought a descent for the CBOE VIX, which dropped 7.16% to 10.26 at month's end; the Russell 2000 posted a gain of 0.69%, reaching 1,425.14 at the July 31 closing bell. Looking at the performance of the consequential U.S. indices, the VIX took the month's biggest plunge. The PHLX Gold/Silver index made the biggest ascent, rising 5.62%.¹

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+10.77	+18.94	+13.66	+6.57
NASDAQ	+17.93	+22.45	+23.19	+14.93
S&P 500	+10.34	+13.79	+15.82	+6.97
REAL YIELD	7/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.48%	0.05%	-0.69%	2.44%

Sources: barchart.com, bigcharts.com, treasury.gov - 7/31/17^{1,16,17,18}

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.

We have witnessed some remarkable tranquility on Wall Street. Just how calm have things been? As July ended, the S&P 500 had not had a 3% decline in almost nine months. The CBOE VIX has rarely fallen below 10 in its history, yet most of those instances have occurred within the last few months. Institutional investors are keeping their cash levels low and their outlooks bullish. The economy keeps pattering along, growing decently, if not spectacularly, and showing no signals of a recession. So even though we are entering late summer and what is traditionally a weak stretch for stocks, August could still provide investors with more upside than downside, unless some abrupt, unsettling development corrals the bulls.¹⁹

UPCOMING ECONOMIC RELEASES: The major indicators and announcements for the remainder of August are: the July employment report from the Department of Labor (8/4), the July Producer Price Index (8/10), the July Consumer Price Index (8/11), July retail sales (8/15), July groundbreaking and building permits (8/16), the initial University of Michigan August consumer sentiment index reading and July industrial output (8/17), July new home sales (8/23), July existing home sales (8/24), the July report on durable goods orders (8/25), a new consumer confidence index from the Conference Board (8/29), the August ADP payrolls report and the BEA's second estimate of Q2 growth (8/30), and then the July personal spending report, the July PCE price index, and July housing contract activity (8/31). (The final August consumer sentiment index reading from the University of Michigan comes out on September 1.)

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All economic and performance data is historical and not indicative of future results. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is a 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 a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. 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). 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The BSE SENSEX (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Straits Times Index (STI), maintained & calculated by FTSE, is the most globally-recognized benchmark index and market barometer for Singapore. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. 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 DAX 30 is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSE Eurofirst 300 measures the performance of Europe's largest 300 companies by market capitalization and covers 70% of Europe's market cap. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The MICEX 10 Index is an unweighted price index that tracks the ten most liquid Russian stocks listed on MICEX-RTS in Moscow. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. The Philadelphia Gold and Silver Index is an index of thirty precious metal mining companies that is traded on the Philadelphia Stock Exchange. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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