



Friday, April 23, 2010

Recovery Continues

The biggest news this week on the US economy comes today as the Commerce Department announces that orders for durable goods excluding transportation jumped by 2.8%, the most since the recession began in December 2007. Other reports this week including Leading Indicators and Home sales reported this week further bolstered the view that the economy is healing.

Uncharacteristic of WWII economic recoveries, this one is fueled by the business sector rather than the consumer. The rebound in capital spending which started in mid-2009 continues to grow faster than economists expected. Bloomberg reports that durable orders, excluding transportation equipment (which can be irregular), were forecast to rise .7%, one quarter of the actual results. Non-defense capital goods, a proxy for future business investment increased 4% and shipments of those items, used in calculating Gross Domestic Product, increased 2.2% as reported by Bloomberg. Factory sales are growing as economies in the BRIC countries Brazil, India, and China continue to recover.

On Monday the Conference Board released the index of leading economic indicators which showed a strong 1.45% improvement in March. The report also upwardly revised both February (.4% from .1%) and January (.6% from .3%). The report showed that manufacturing was gaining strength as the factory workweek lengthened significantly and deliveries picked up. Building permits jumped, signaling improvement for home builders.

Today the Commerce Department announced that purchases of new homes in the US surged 27% in March by the most in almost fifty years. According to Bloomberg the annual pace of 411,000 exceeded the highest forecast of economists. Last month's purchase rate was the highest since July and followed a record-low of 324,000 in February. Demand may remain high through this month boosted by the tax credit worth as much as \$8,000 which expires at the end of next week. The jump in sales brought the number of new houses on the market down to 228,000, the fewest since March 1971. The supply of homes at the current sales rate dropped to 6.7 months' worth, the lowest level since December 2006, from 8.6 months in February, according to Bloomberg.

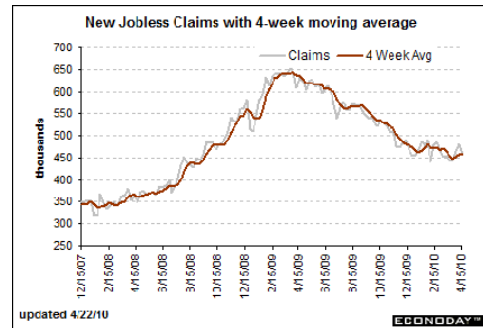
Yesterday, National Association of Realtors reported that the Sales of existing homes rose as expected in March by 6.8% to an annual rate of 5.35 million with February revised slightly downward to 5.01 million. It was hoped that the government stimulus would help this sector of housing more. Nevertheless, the 7.3% gain for the single-family homes and the fact that gains were evenly distributed across the country were welcome signs.

Supply fell back to 8.0 months from February's 8.5 months, and the median price rose 3.7% to \$170,700 with the year-on-year comparison once again positive at 0.4%, as reported by Bloomberg. All cash sales remain very high, at 27%, reflecting tight credit and low home prices.

Distress sales rose 3 percentage points to 36% with first-time homebuyers making up 44% of total sales, up 2 percentage points from February.

Foreclosures remain a significant drag on the housing industry. Filings rose 16% in the first quarter from a year earlier and bank seizures reached a record, according to Irvine, California-based RealtyTrac Inc. Foreclosures drive prices down making homes more affordable for buyers, but they create increased competition for builders, depressing profits.

The other major drag on the economy, unemployment showed slight improvement this week. Initial jobless claims fell back to trend in the week ending April 17th coming in as expected at 456,000, but reversing two weeks of administrative delays taking claims as high as 480,000 in the prior week. The government said that administrative and not economic factors largely explained the last two weeks' climb. But as you can see to the right, the trend is definitely improving.



Inflation worries were fanned a bit this week by the unexpected surge in March's Produce Price Index. The overall PPI gained 0.7% after declining 0.6% in February. Analysts were looking for a 0.4% increase. The gain was blamed on the atypical winter cold which boosted food prices. Gasoline also made a partial comeback.

On the PPI news, bonds declined during the week, but only slightly because of the flight to safety produced by Greece's worsening economic plight and S&P's downgrade of that country's debt this week. The Barclay's Aggregate Bond index is currently down only .2% while the Barclay's 20-Year Plus Treasury Index is up .27%.

Stocks have enjoyed a good week on the mostly positive economic news. The MSCI US Broad Market index is up 1.9%, the S&P 500 1.3% and the Dow Jones Industrial 1%.

Wealthcare Update

Our quarterly and most recent updates of asset values for our clients' Wealthcare plans revealed that 25% of them are now *over-funded*. We are contacting each of you to schedule meetings to review your priorities and goals before providing you with new advice to move you closer to maximizing your ideal goals. If you don't participate in Wealthcare and would like to learn more, please let us hear from you.

Have a great weekend.

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