



# Monthly economic update



Candor. Insight. Results.

September 2, 2011

## Economic indicators

<b>GDP growth</b>	-	<ul style="list-style-type: none"> <li>&gt; In the Commerce Department's second estimate, 2nd quarter gross domestic product (GDP) was reported at 1.0% growth. This estimate was slightly lower than the initial estimate for the second quarter, based on weaker exports than initially reported.</li> </ul>
<b>Inflation</b>	+ -	<ul style="list-style-type: none"> <li>&gt; The consumer price index (CPI) increased by 0.5% in July from a month earlier and 12 month CPI held steady at 3.6%. The gasoline index rebounded from last month and the food index was also a contributor.</li> <li>&gt; Core CPI (CPI – food and energy) increased by 0.2% in July from a month prior and the annual rate increased slightly to 1.8%.</li> </ul>
<b>Spending</b>	+ -	<ul style="list-style-type: none"> <li>&gt; Retail sales rose by 0.5% in July and are up 8.5% from a year ago. (Commerce Department)</li> <li>&gt; Consumer spending rose 0.8% in July, after falling last month for the first time in 20 months. Personal incomes increased by 0.3%.</li> <li>&gt; The savings rate dropped to 5.0% in July, as spending increased. (Commerce Department)</li> </ul>
<b>Job growth</b>	+ -	<ul style="list-style-type: none"> <li>&gt; The unemployment rate remains at 9.1% with no new jobs added in August. This number is slightly distorted due to 40,000 striking Verizon workers.</li> </ul>
<b>Manufacturing</b>	+ -	<ul style="list-style-type: none"> <li>&gt; August reading fell slightly to 50.6 from 50.9. The reading was better than expected as many economists believed the index would fall below 50 and signal contraction in the sector. (Institute of Supply Management)</li> </ul>
<b>Consumer confidence</b>	-	<ul style="list-style-type: none"> <li>&gt; The consumer confidence index dropped steeply in August from 59.2 to 44.5. The reading is the lowest since April 2009. (The Conference Board)</li> <li>&gt; University of Michigan/Reuters consumer-sentiment index fell again in August to a reading of 55.7 from 63.7. This is the lowest level since November 2008.</li> </ul>
<b>Housing</b>	-	<ul style="list-style-type: none"> <li>&gt; The 20 city Case-Shiller Index (home-price readings) rose 1.1% in June from a month prior and has been increasing for three consecutive readings. However, the index is still down 4.5% from a year ago.</li> <li>&gt; Existing home sales fell by 3.5% in July from a month earlier, but are up 21% from a year ago.</li> <li>&gt; New home sales fell 0.7% in July from a month ago, which is the third drop in a row, but sales are still 6.8% higher than a year ago.</li> </ul>

 = Baker Tilly revised view downward

**August was an extremely volatile month for the stock markets with multiple triple digit swings.**

Overall, most economic indicators continue to remain neutral with some positive and negative news balancing each other out.

Baker Tilly Investment Advisors revised its view one notch lower for consumer confidence after a drop in the consumer confidence index.

Spending increased by 0.5%, despite consumer confidence falling.

Job growth was unchanged with unemployment remaining at 9.1% and no new jobs added for the month.

The economic recovery will continue to be slow, but we do not believe the indicators point to a second recession.

**We welcome the opportunity to discuss how we can help you meet your goals.**

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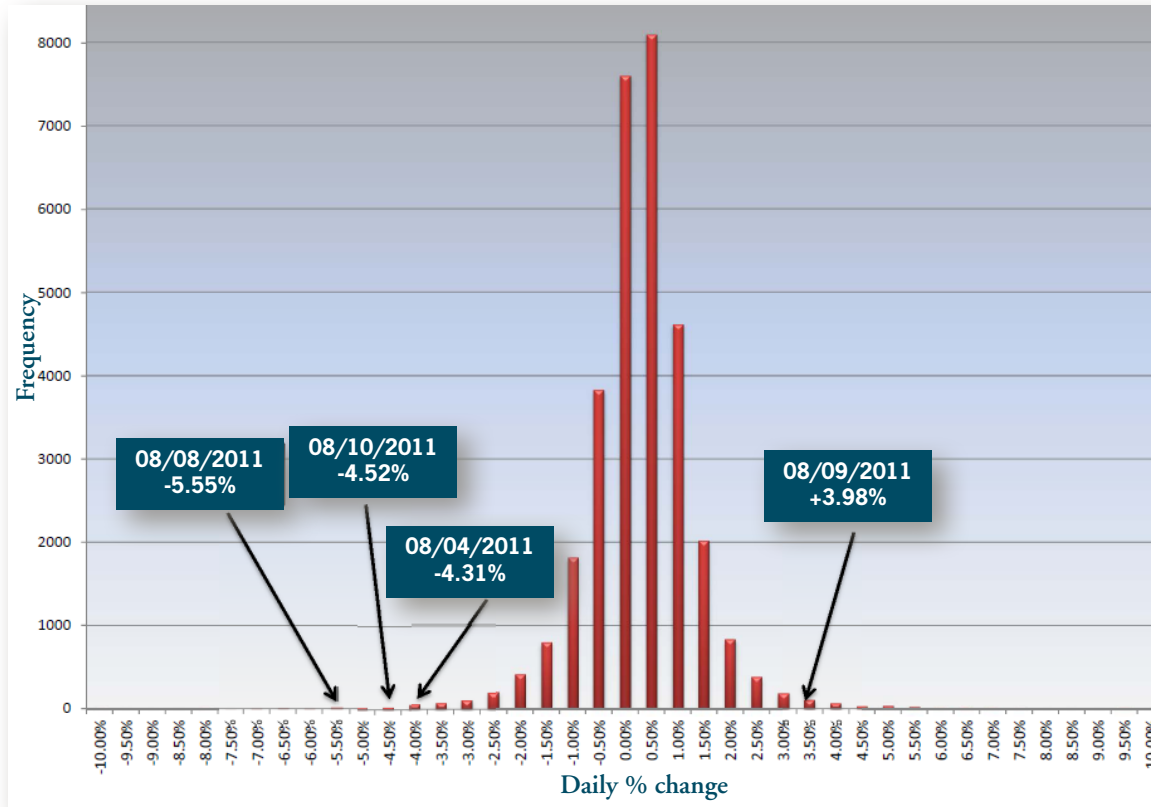
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## Headlines

### Histogram of daily percentage changes for Dow Jones from 1896 to August 12<sup>th</sup>



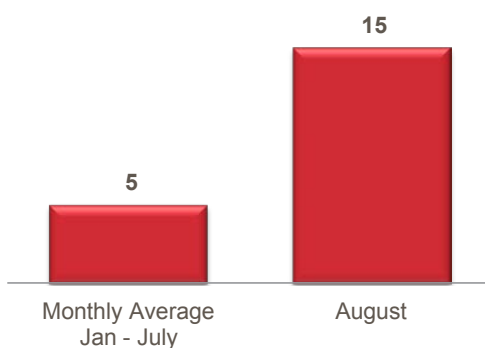
Source: KCM Investment Advisors LLC

### Volatility returns

August saw extreme volatility with large and numerous swings.

The volatility could be seen in the percent change in a single day (several examples of the major changes can be seen in the histogram to the left), as well as the rarity of that large of a change.

### Triple digit Dow moves



Source: Yahoo! Finance

### Triple digit moves on the Dow Jones

The Dow Jones Industrial Average experienced 15 triple digit moves, either positive or negative, in August. The Dow has seen five triple digit changes within a month, on average for January through July.

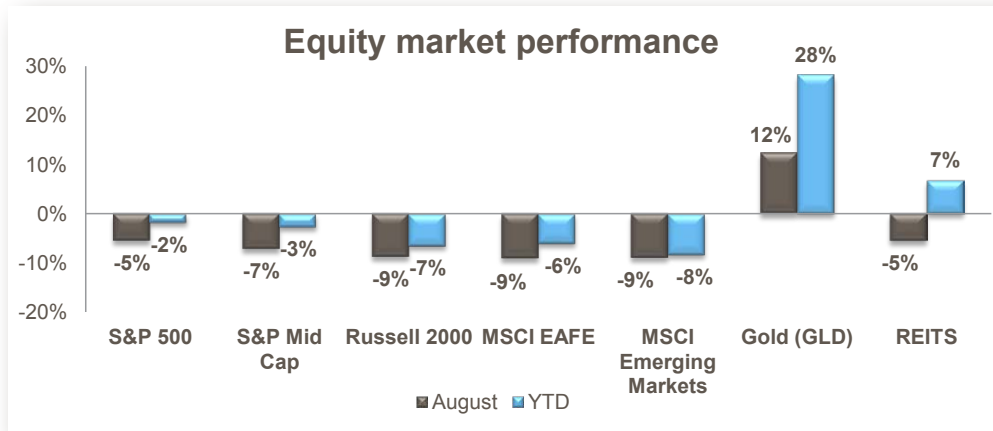


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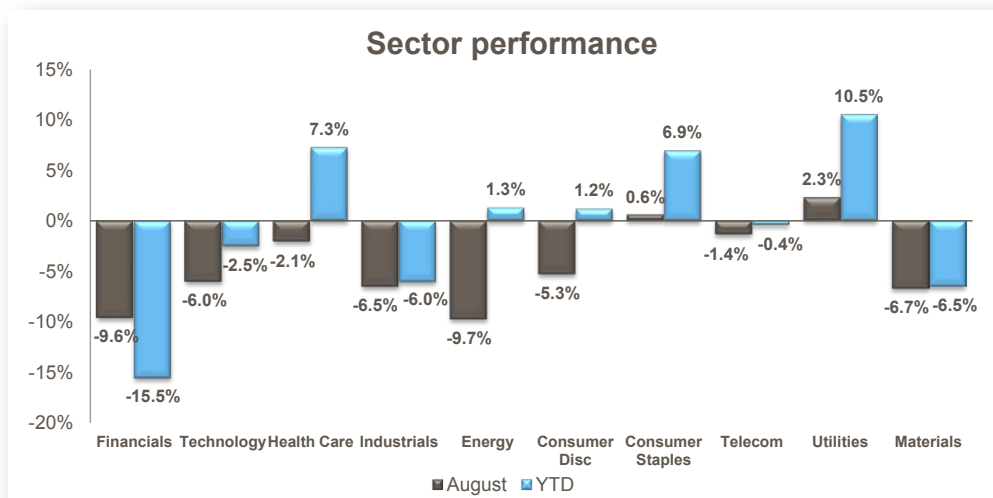
## Equity markets



Source: Morningstar, Inc.

**Small cap stocks** were hit hard as investors moved away from risky assets.

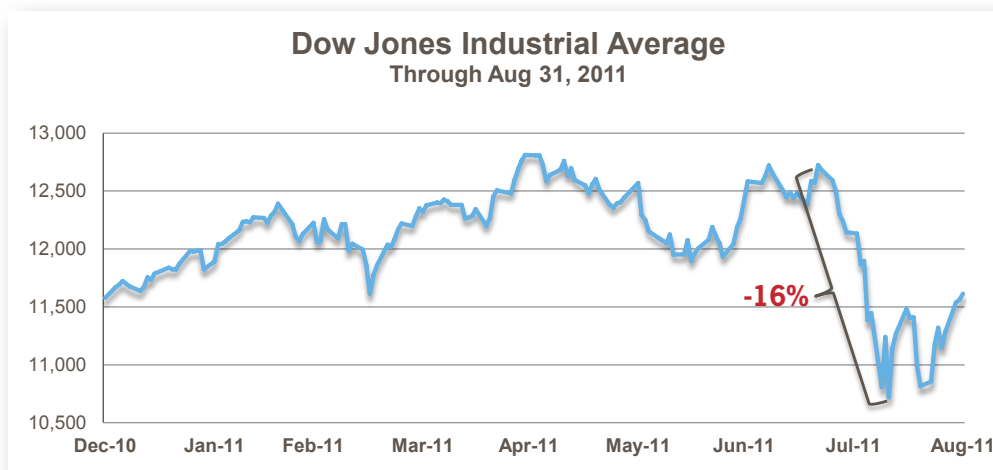
**Europe sank EAFE** as countries such as Germany (-19%) and France (-11%) came under pressure amid growth concerns.



Source: Standard & Poors

**Defensive sectors** were relative winners, while economically sensitive sectors such as materials, industrials, and consumer discretionary were negative.

**Financial sector** continued its poor performance, on Euro Zone worries and subdued economic activity.



Source: Yahoo! Finance

**Dow Jones Industrial Average** tanked in August, but is still holding on to a positive gain for the year.



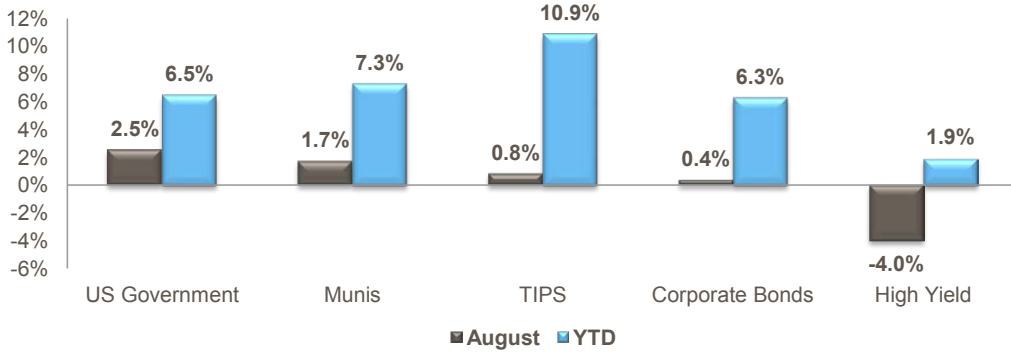
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## Fixed income markets

### Bond market performance



Source: Morningstar, Inc.

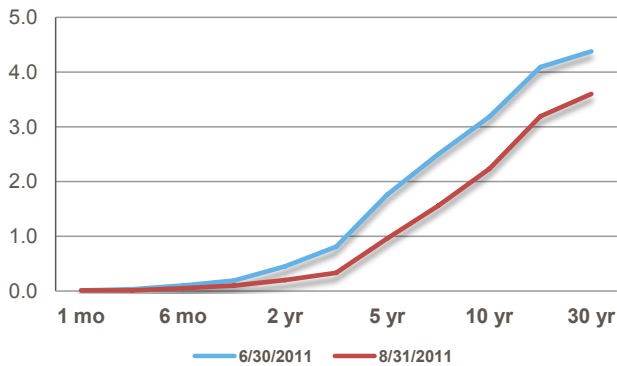
**US government bonds** had a strong month on investor fear, despite debt downgrading.

**TIPS** had a relatively weak month, as inflation expectations slow down.

**High yield and corporate debt** performed poorly, as investors prefer safer bonds.

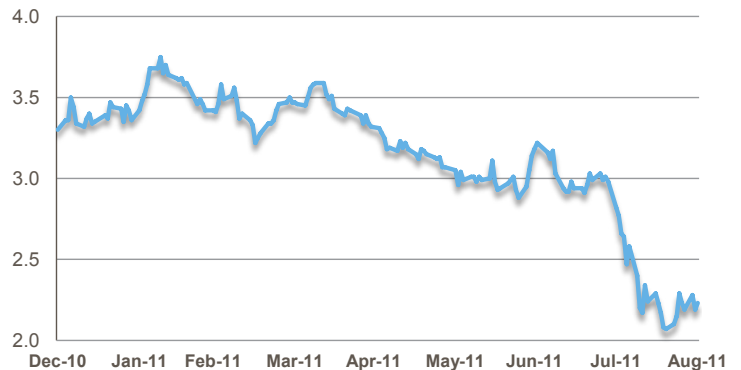
**Federal Reserve policy language** changed to indicate rates will stay low for at least two more years. The Fed did not signal for additional easing, but suggested it is contemplating alternative policy moves.

### Treasury yield curve



Source: US Department of the Treasury

### 10-year treasury note yield



Source: US Department of the Treasury

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