



Monthly economic update



Candor. Insight. Results.

October 7, 2011

Economic indicators

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Leading</p>	Consumer confidence	-	<ul style="list-style-type: none"> > The consumer confidence index remained essentially unchanged in September at a reading of 45.5 after a steep drop in August to 44.5. (The Conference Board) > University of Michigan/Reuters consumer-sentiment index bounced back in September to a reading of 59.4 from 55.7.
	Spending	+	<ul style="list-style-type: none"> > Retail sales were flat in August and are up 7.2% from a year ago. (Commerce Department) > Consumer spending rose 0.2% in August, while personal incomes fell by 0.1% for the first time in almost 2 years. > The savings rate dropped to 4.5% in August as spending increased more than incomes. (Commerce Department)
	Manufacturing	+	<ul style="list-style-type: none"> > Reading rose slightly in September to 51.6 from 50.6. Improvements came from the production and employment components, with the new orders component unchanged. (Institute of Supply Management)
	GDP growth	-	<ul style="list-style-type: none"> > In the Commerce Department's third and final estimate, 2nd quarter GDP was revised upward to 1.3% growth. This estimate was upwardly revised due to higher personal consumption and higher exports than initially reported.
	Inflation	+	<ul style="list-style-type: none"> > CPI increased by 0.4% in August from a month earlier and 12 month CPI ticked upward to 3.8%. The increase was broad based across sectors. > Core CPI (CPI – food and energy) increased by 0.2% in August, from a month prior, and the annual rate increased slightly to 2.0%, the highest rate since November 2008.
	Housing	-	<ul style="list-style-type: none"> > The 20 city Case-Shiller Index (home-price readings) rose 0.9% in July, from a month prior, and has been increasing for four consecutive readings. However, the index is still down 4.1% from a year ago. > Existing home sales rose by 7.7% in August, from a month earlier. > New home sales fell 2.3% in August, from a month ago, and are on pace for the worst year of sales since the government began keeping records more than fifty years ago.
	<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Lagging</p>	Job growth	+

September saw investor worries over the European debt crisis and the announcement of the Federal Reserve's Operation Twist.

Overall, the indicators remain almost the same as the previous month. There were positive signs in consumer confidence, spending, manufacturing and GDP growth, but no major changes were seen.

- > Gross domestic product (GDP) growth for the 2nd quarter was revised up to 1.3%.
- > Both spending and manufacturing indicators rose slightly.
- > Job growth was unchanged with unemployment remaining at 9.1%, but 103,000 jobs were added for the month.

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

Connect with us:

connect3@bakertilly.com

800 362 7301

bakertilly.com

An independent member of Baker Tilly International



Monthly economic update



Candor. Insight. Results.

Headlines

European equity markets post losses in Q3



Source: Wall Street Journal

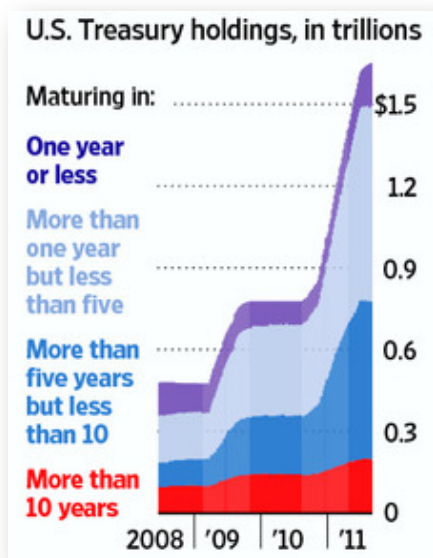
European equity markets

continued to be an issue, as investors worried about the Greek debt crisis and the threat of weakness in other countries.

The Federal Reserve began Operation Twist

in an attempt to use long-term Treasuries to keep longer-term interest rates low, while not changing short-term interest rates. The move is designed to boost mortgages and business loans.

Federal reserve starts new program, Operation Twist



Source: The Federal Reserve

Equity market valuations still look attractive

Current P/E vs. 20-year avg. P/E			
	Value	Blend	Growth
Large	10.4 / 14.1	11.8 / 16.8	13.4 / 21.1
Mid	10.7 / 14.0	13.2 / 16.3	15.0 / 22.0
Small	12.3 / 14.2	13.8 / 17.1	15.4 / 21.4

Source: Russell Investment Group, JP Morgan (as of 09/30/2011)

Equity market valuations

continued to be attractive for investors and continued to suggest it is a good time to acquire.

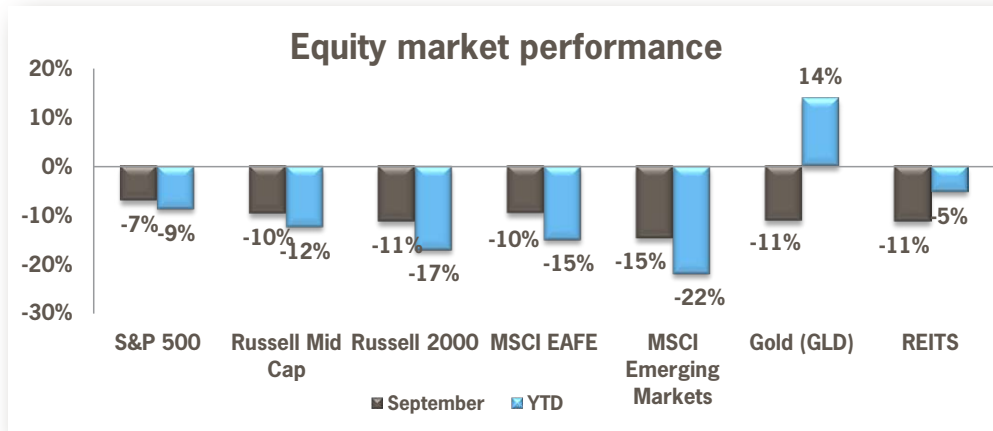


Monthly economic update



Candor. Insight. Results.

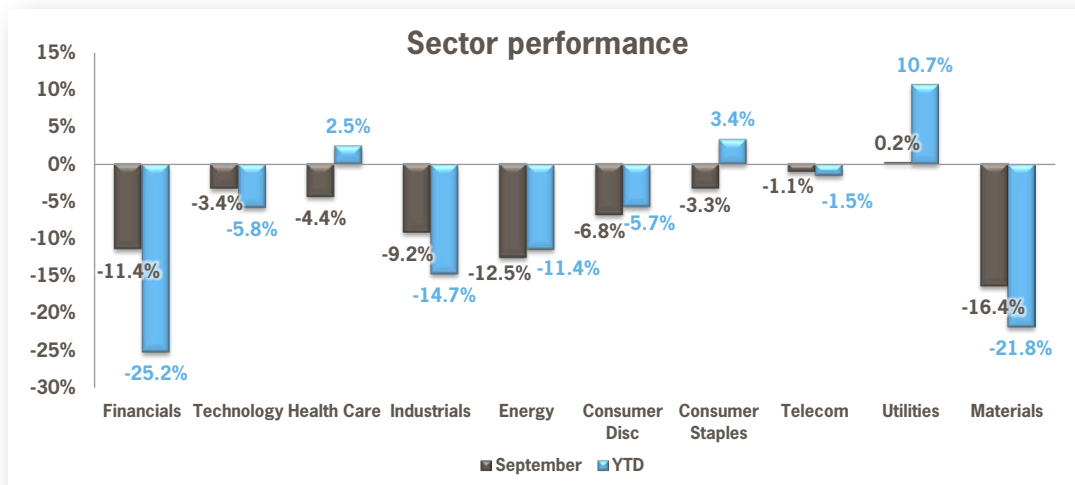
Equity markets



Source: Morningstar, Inc.

Foreign markets were hit hard from the European debt crisis and slowing economic growth.

Emerging markets continued to put measures in place to slow growth and precious metals sank on weak demand from China.

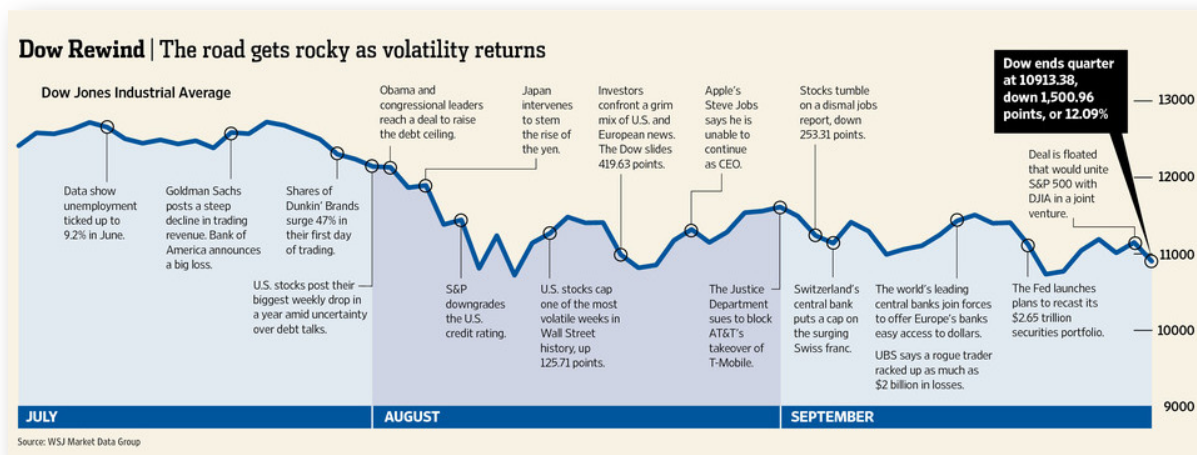


Source: Morningstar, Inc.

Cyclical sectors lead equity markets lower.

Dividend paying stocks provided a bright spot for equity markets.

Dow Jones Industrial Average ended the volatile quarter in the red.



Source: WSJ Market Data Group

Source: Wall Street Journal



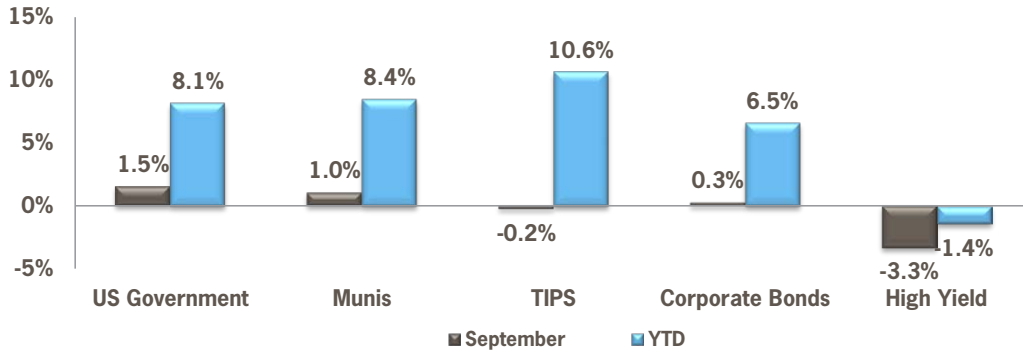
Monthly economic update



Candor. Insight. Results.

Fixed income markets

Bond market performance

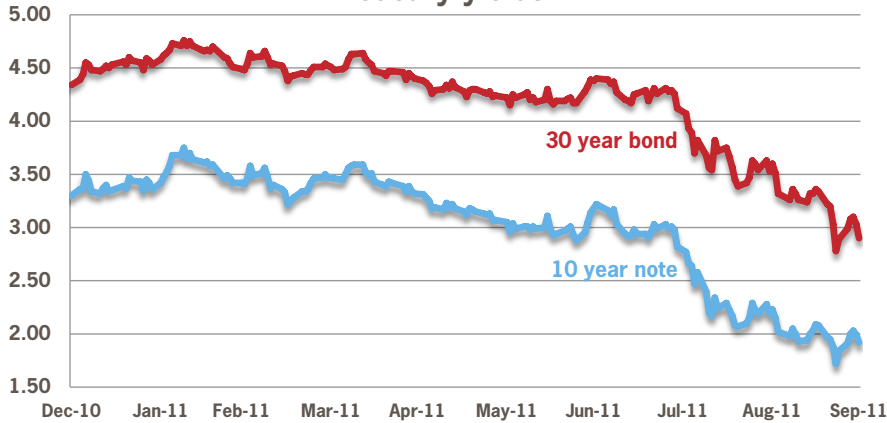


Source: Morningstar, Inc.

High yield bonds fell again in September, turning negative on the year.

TIPS rode a strong performance of nominal Treasuries, but lower inflation expectations held them back on a relative basis.

Treasury yields



Source: US Department of the Treasury

Investment grade debt was positive for the month, but felt the effect of risk off trade.

Operation Twist begins in October. The Federal Reserve plans to sell \$400 billion in short-term notes and purchase longer dated bonds.

Source: US Department of the Treasury

Absolute basis point difference between 30 year bond and 10 year note

