



August Accomplished

August 2009

Few imperial edicts survive into a fourth millennium, but Augustus Caesar picked a winner in 8 B.C, when he proclaimed that the 8th month of the year henceforth would bear his name.

August – “majestic” or “exalted” in plain English – is a big name to live up to. The Emperor himself had no problem; he is perhaps the most majestic figure in history. His namesake month, however, has traced a course less even. In the past 2018 years, many an August has been less than exalted.

But August 2009 was not necessarily one of them. In fact, it was more a case of exaltation accomplished – a month perhaps to be marked (at least in the annals of the dismal science) as that during which the American economy sloughed off recession and turned upward.



The Organization for Economic Cooperation and Development (OECD) predicted, just after month’s end, that the 4th Quarter growth in U.S. GDP would be highest among the world’s eight largest* economies, bumping up the forecast it made only 3 months before by 80 basis points, to 2.4%. The group also raised its 3rd Quarter projection by 10% bps, to 1.6%.

“There is a recovery at hand,” Jorgen Elmeskov, the OECD’s acting chief economist, said in explaining the changes. “The worst is over,” he said, and “the recovery appears to be coming a little sooner, and possibly also marginally stronger, than three months ago.”

Upward revisions have been even bolder among private sector prognosticators. A survey of economists by the research firm Macroeconomic Advisors showed a consensus forecast of 2.9% growth for the 3rd Quarter, nearly twice the 1.6% rate these same economists forecasted in July.

Expansion at Last

Most of the economists ratcheting up their growth forecasts cited stronger data from the manufacturing sector as a prime reason. HSBC Securities ventured to predict a blistering 6% GDP growth rate for the 3rd Quarter, based mainly on the August survey of Institute for Supply Management (ISM), which showed expansion in the manufacturing sector for the first time since January 2008. The ISM’s primary activity index measured 52.9%, 4.0 percentage points better than reported in July and the strongest result shown since the identical number was reported in June 2007 (> 50% indicates expansion).

The advance in manufacturing also was impressive for its breadth. The ISM survey found 11 of the 18 industries tracked reporting growth. That’s up from 6 in July and 7 in June. Economists see this as evidence the advance is not a fluke or mere artifact of an external stimulus, such as the federal “Cash for Clunkers” car-buying program, according to a poll by the Wall Street Journal. However, Transportation was among the 11 industries showing expansion in the ISM’s August report.

Several economists, including those of the OECD, cited the apparent winding down of inventory liquidation as a principal reason for increased optimism. The data show inventory contraction slowing down, and new orders picking up. The ISM survey showed customers’ inventories continuing to shrink in August, down 3.5 points to 39.0% in August, making a fifth consecutive month of contraction. However, a rising number of industries believe their customers’ inventories now are unsustainably low – 34% in August, vs. 30% in July and 28% in June.

New manufacturing orders corroborated the notion that customers are in a mood to buy, rising in August by 9.6 points to 64.9%. The Production index rose by 4.0 points, to 61.9%. It was the second consecutive expansionary month for new orders; the third for production.

The ISM's index for the non-manufacturing sector measured 48.4%, up from 46.4% in July. Though contractionary, the result was the highest since September 2008. New orders rose 1.8 points to 49.9%, and production rose 5.2 points to 51.3%

Housing Sales Rising

The National Association of Realtors (NAR) reports that its measure of "affordability" for existing homes – based mainly on mortgage rates – has been at record levels this year, logging seven of the eight best months since the datum was invented in 1971. Rates for 30-year fixed notes now average 5.14%, according to Freddie Mac's weekly survey. Home buyers seem to be taking note (at last), as sales of existing homes now have risen for six consecutive months, according to the NAR. The association said July was the strongest month since June 2007.

Economy Still Hemorrhaging Jobs

Even as they boost growth forecasts, economists warn that unemployment will act as a drag on the economy. The Bureau of Labor Statistics reported a loss of 276,000 jobs in August, bringing the total to 6.9 million jobs gone since December 2007.

Unemployment rose 0.3 points to 9.7%, the highest level since 1983.

Confidence Rebounds

Consumers seemed receptive to the improved economic predictions in August, as the Conference Board's Confidence Index rose 6.7 points to 54.1%. The Expectations Index, based on respondents' views on anticipated events, moved up 10.1 percentage points, to 73.5%.

Equity Markets Firm

Equities gained across all categories in August, with all but one of the indices we track delivering positive returns. There was a clear preference for Value over Growth, and smaller capitalizations fared somewhat better than large. A mild preference was evident for international issues.

The S&P 500 advanced 3.6%, its best August since 2000. The Russell 1000 also advanced 3.6%; the DJIA rose 4.0%. Consistent with the general preference for Value over Growth, the Russell 1000 Value Index rose 5.2%; while its Growth sibling returned 2.1%.

The S&P 400 Index gained 4.8%. The Russell 2000 Value Index gained 4.7%; the Russell 2000 Growth Index 1.0%. The S&P/Citigroup EMI-EPAC Index led all equity categories tracked here with a gain of 7.7%. The larger-cap MSCI EAFE Index rose 5.4%.

Bonds Positive

Fixed Income returns were positive for all indices we track. Barclays Capital U.S. Aggregate Index returned 1.0%; Barclays U.S. Government Index gained 1.2%.

Barclays U.S. Government Long Bond Index gained 1.9%; JP Morgan's Non-US Government Bond Index, Global Unhedged, rose 2.3%.

Higher-yield/higher-risk securities brought higher returns in August. Leading all fixed income indices among those we follow was the Barclays Ca-D Index with a gain of 6.5%.

REITS Cooking

The Dow-Jones Wilshire REIT Index gained 14.6% in August, highest of any asset category. The index now is up 26.6% for the 3rd Quarter, though down 34.3% for the trailing 12 months.

Commodities Not Cooking

The S&P Natural Resources Index gained 0.6% in August. The Goldman Sachs Commodity Index fell 2.4%.

** The world's 8 largest economies are the U.S., Japan, Germany, France, Britain, Italy, Canada and the Euro Area.*

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