

# WEEKLY ECONOMIC UPDATE

July 18, 2011

## WEEKLY QUOTE

“The task of the modern educator is not to cut down jungles, but to irrigate deserts.”

– C.S. Lewis

## WEEKLY TIP

Before you buy a car, remember that it is a depreciating asset with insurance and repair costs attached. What might the total monthly cost of ownership be? Here’s an old rule of thumb: double the sale price and divide it by 60, assuming you’ll keep a new or late-model vehicle for 5 years.

## WEEKLY RIDDLE

Name two words in the English language that have the letter I twice in the middle of the word.

### Last week’s riddle:

A librarian finds that pages have been ripped out of a novel. Pages 28, 29, 148, 211 and 212 are torn out. Given this, how many separate sheets of paper have been torn from the book?

### Last week’s answer:

Four sheets of paper (not five). Pages 211 and 212 are on opposite sides of the same sheet of paper.

## DEBT ISSUES DOMINATE THE HEADLINES

Friday, President Obama reassured the media that Democrats and Republicans had “enough time” to “create a package that solves the deficit and debt.” While Congress needs to hike the debt cap by \$2.4 trillion to enable federal borrowing through the end of 2012, Republican leaders want an equivalent federal spending cut linked to such a move. This week, House Republicans intend to vote on a plan to accomplish both goals, reliant on a constitutional amendment requiring a balanced federal budget. House Minority Leader Nancy Pelosi (D-CA) calls the measure “outrageous.” Another plan offered by Senate Minority Leader Mitch McConnell (R-KY) would give the President more autonomy to lift the debt cap. In Europe, Italy’s parliament passed austerity measures to cut \$99 billion from that nation’s deficit by 2014.<sup>1,2,3</sup>

## CONSUMER PRICES RETREAT 0.2% IN JUNE

This marks the first dip in the Consumer Price Index in 12 months. The big reason? Gasoline prices fell 6.8% last month. Stripping out food and energy prices, core CPI rose 0.3% in June (as it did in May). All this brought annualized inflation to 3.6% (1.6% in core terms). Producer prices also decreased last month – June’s PPI fell 0.4%, the first monthly decline in a year.<sup>4</sup>

## CONSUMERS BUY A BIT MORE, FEEL WORSE

Consumer sentiment has plummeted. The initial July Thomson Reuters/University of Michigan survey came in at 63.8, the lowest reading in 28 months. Census Bureau data had retail sales improving 0.1% in June and 8.1% annually.<sup>5,6</sup>

## GOLD PUSHES TOWARD \$1,600

Futures settled at a new all-time peak Friday: \$1,589.80 an ounce. That capped a 7.25% gain across two weeks, 3.15% of it coming last week.<sup>7</sup>

## STOCKS PULL BACK

Here is how the major indices performed last week: S&P 500, -2.06% to 1,316.14; DJIA, -1.40% to 12,479.73; NASDAQ, -2.45% to 2,789.80.<sup>8</sup>

**THIS WEEK:** Monday offers 2Q results from IBM and Halliburton. Tuesday, we have earnings reports from Wells Fargo, Goldman Sachs, Apple, Yahoo, Coca-Cola and Bank of America plus data on June housing starts. Wednesday, we learn about June’s existing home sales and get earnings from Intel, Altria, Qualcomm, AmEx and eBay. Thursday brings 2Q results from Nokia, AT&T, Morgan Stanley, PepsiCo, Microsoft, AMD and SanDisk plus weekly initial and continuing claims figures. Friday, we have earnings from Caterpillar, GE, Honeywell, McDonalds and Verizon.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+7.79	+20.47	+3.24	+1.92
NASDAQ	+5.16	+24.04	+7.39	+3.75
S&P 500	+4.65	+20.03	+1.29	+0.95
REAL YIELD	7/15 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.61%	1.21%	2.50%	3.50%

Sources: cnbc.com, bigcharts.com, treasury.gov, treasurydirect.gov - 7/15/11<sup>8,9,10,11</sup>  
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.  
These returns do not include dividends.

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## Citations.

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