

WEEKLY ECONOMIC UPDATE

June 18, 2012

WEEKLY QUOTE

“Big thoughts are fun to romanticize, but it is many small insights coming together that bring big ideas into the world.”

- Scott Berkun

WEEKLY TIP

Sometimes filing separately can reduce a married couple's federal tax burden. If one spouse has large itemized deductions or if both spouses are in markedly different tax brackets, it could be a good move.

WEEKLY RIDDLE

I can't walk, but at times I run and I am very difficult to hide. I am always with you. What am I?

Last week's riddle:

Two couples played paintball. Each person had blue, green, yellow, or red paint, and wore a uniform in one of those same colors. Barbara used blue paint. The person wearing green used yellow paint. Steven did not wear the red uniform. Vicki used green paint and wore blue. Ian used the same color paint as his t-shirt. Can you match each person to the color of paint and uniform they used?

Last week's answer:

Ian: wore red, red paint;
Barbara: yellow, blue;
Steven: green, yellow;
Vicki: blue, green

IF GREECE EXITS THE EURO, WHAT COMES NEXT?

Best-case scenarios for Greece seemed to fade as the weekend neared. Concerns mounted that Sunday's special elections would either bring another parliamentary deadlock or a victory for parties opposing scheduled austerity cuts. Some economists maintained that a Greek exit from the euro would not be abrupt and not produce a shock like the 2008 Lehman Brothers collapse. Anxiety was tempered by anticipation: expectations of a central bank response grew. In fact, last week the Bank of England announced plans for 6-month loans and liquidity injections to shield the U.K. financial system from any fallout. Yields on Spanish 10-year notes hit 7% last week, a sign of skepticism about that nation's bank bailout.^{1,2}

CONSUMER PRICES DECLINED IN MAY

The federal government's Consumer Price Index fell 0.3% for May, thanks largely to a 4.3% drop in energy prices. Core CPI rose 0.2% for the third straight month with 12-month consumer inflation at 1.7% (a long way from the 3.9% annualized inflation measured in September). May's Producer Price Index dropped 1.0%.³

SALES & SENTIMENT SLIP, HOME EQUITY INCREASES

The Census Bureau said retail sales fell 0.2% in May; they slipped for a second straight month, which hasn't happened since 2010. June's preliminary University of Michigan consumer sentiment survey dropped to 74.1 from May's final mark of 79.3. On a positive note, retail gas prices are down 2.65% so far in June; on Friday, AAA had regular unleaded averaging just \$3.52 a gallon. Another positive: Q1 2012 saw a 7.3% rise in U.S. home equity, the best quarter in in more than 60 years.^{4,5,6,7}

HOPES RISE ... AND SO DO STOCKS

New hope of central bank intervention (and expiring options and futures) pushed stocks higher last week, with the major indices performing as follows: S&P 500, +1.30% to 1,342.84; DJIA, +1.70% to 12,767.17; NASDAQ, +0.50% to 2,872.80. Gold was up 2.31% for the week to \$1,628.10, oil down 0.08% on the week to \$84.03.^{6,8}

THIS WEEK: Besides global market reaction to Greece's special elections (and a possible central bank response), Monday will also mark the start of a G20 summit. Tuesday, a two-day FOMC meeting begins and data on May housing starts arrives in addition to Q1 earnings from Adobe Systems, FedEx and Discover. Wednesday, the Fed will make a policy statement; earnings from Bed, Bath & Beyond also come out. Thursday, we get data on May's existing home sales, the Conference Board's latest LEI report, and Q1 earnings from Rite Aid, Oracle and ConAgra. Friday, Q1 results arrive from Darden Restaurants.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+4.50	+7.31	-1.28	+3.48
NASDAQ	+10.27	+9.17	+1.87	+9.09
S&P 500	+6.78	+6.12	-2.48	+3.33
REAL YIELD	6/15 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	-0.54%	0.74%	2.73%	3.48%

Sources: money.msn.com, bigcharts.com, treasury.gov, treasurydirect.gov - 6/15/12^{6,9,10,11}
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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