

PRESIDENT'S REPORT

April 23, 2010

National Economy

Statistics and Trends

A. National.

1. The consumer price index in March rose 0.1% from February. It stands at 2.3%, higher than last year at this time.
2. Much of the rise is in energy costs and, if food and energy costs are removed, the inflation rate was just 1.1% over one year ago, according to the Labor Department.
3. The Federal Reserve's economic release of March 16th indicates that with high unemployment and slow inflation presently its rates will be kept artificially low.
4. The Wall Street Journal survey of 56 economists indicates the risks of accelerating inflation outweigh the risks of slowing inflation or deflation.
5. The economists see only a small improvement in unemployment with rates falling slightly to 9.3% by December of 2010.
6. All of the 12 Federal Reserve regions, except St. Louis, reported increasing economic activity in 2010.
7. The Commerce Department advised that fourth quarter 2009 profits of companies were up 22.8% from 2008. That's another sign the economy is in recovery.
8. The Institute of Supply Management also reported that fourteen of eighteen industries expanded. Two industries that continue to show decline are real estate and educational services.

B. Consumer.

1. The Conference Board announced that consumer confidence in March stood at 52.4, up from February's 46.4.
2. Consumer credit delinquencies are easing. According to Equifax, Inc. and Moody's, the credit card delinquency on a seasonably adjusted basis fell on delinquencies of 60 days or more from 2.86% to 2.67%.
3. Consumers' frugality is showing. The average age of cars owned from 2001 through 2009 has increased from under 9 years in 2001 to 10.2 years, according to R.L. Polk & Co.
4. Consumer debt continues to be trimmed and slowly consumers are getting more control of their finances.
5. The Fed reports disclose that consumer borrowing has declined by \$11.5 billion dollars in February. That decline was the 12th monthly decline in 13 months.

C. Employment.

1. Unemployment, according to the Labor Department, fell in 189 metro areas.
2. Jobless claims still remain unexpectedly high. The four week moving average rose to 450,250 for the week ending April 3rd, per the Labor Department.
3. The Labor Department also reported that the number of continuing claims fell by 131,000. However, there were in the week that ended March 27th, 4.55 million people in the continuing claims category.
4. National unemployment remained the same at 9.7%, per the Labor Department.
5. The Department advised that there are 16.9% of the American populace that are either unemployed or underemployed. If one factors in those that stopped looking, the figure stands at 17.4%. That is the highest dating back to 1984.

6. The average length of unemployment is now more than 31 weeks and is the highest since records were started in 1948.

D. Housing.

1. The housing market continues to be a source of concern in the economy.
2. However, the National Association of Realtors, advised that contracts to purchase existing homes rose 8.2% in February. Part of that is due to the government's tax incentive program.
3. The Commerce Department advises that new home sales rose 6% in March to 325,000 adjusted annually. However, the home building industry shouldn't expect that their market is changing.
4. New homes nationwide averaged \$220,500.00 as of February, compared to \$165,000.00 for a pre-owned home.
5. The industry will be hard pressed, especially because Barclays Capital indicates that there are about 5.5 million homes in foreclosure.

By the way, if you average four people per family, the direct effect is on 22 million people. The economy has a long way to go. The housing industry is still a breeding ground for pain for the consumer.
6. Commercial real estate finally is seeing some sunshine. Real estate values have increased 6% in recent months, according to Real Capital Analytics. Prices fell 45% between 2007 and 2009.
7. As a result of rental improvement, multiple-family housing permits are increasing.
8. In addition, apartment rentals finally rose after falling for five quarters. Reis, Inc., a New York research firm, indicated a modest increase, 0.3% nationally. The survey covers 79 major rental markets through the country.

9. Another encouraging sign is that, although foreclosure rates are high, the delinquency rate is improving. According to LPS Applied Analytics, the number of delinquent mortgages is declining with loans 30 days past due falling by 342,000 to 1.45 million.

E. Manufacturing.

1. Manufacturing production rose 0.9% in February and 6.4% from last June. However, the output was still 11.6%, below pre-recession levels, according to the Federal Reserve.
2. Operating capacity for factories stands at 73.2%, a good improvement, but is well below the 50-year average at 80.0%.
3. Orders for durable goods, long lasting ranging from semiconductor chips to trucks, rose 0.5% to \$178.12 billion dollars in February.
4. Non-defense capital goods, excluding aircraft, rose 1.1% according to the Commerce Department. If we look at March's figures and excluding aircraft, durable goods climbed 2.8%.
5. A survey by Duke University and CFO Magazine of 620 U.S. firms indicated that capital spending would grow by 8.9% over the next 12 months.
6. Cost of basic raw materials are fueled in part by the country's continuing recovery, but more importantly by emerging market demands.

Examples:

- (1) Rubber is up 74% so far this year, after rising 92% in 2009.
 - (2) Lumber is up 59% so far from last year.
 - (3) Crude goods like iron ore are up 44.5%.
7. This will play a part in inflationary pressures in the future.

F. Wholesale.

1. Wholesale prices are currently absorbing the increases in raw goods prices. However, they will eventually be passed on through the retail chain and to the consumer.

G. Retail.

1. March retail sales are substantially higher than the year before. This clearly indicates people are more positive.
2. Comparing last March sales to some of the major retailers we find sales as follows:

Kohl's`	+23%
Aeropostale	+19%
Nordstrom	+17%
Macy's	+11%
Target	+10%

There is still a long way to go.

H. Service Sector.

1. The Institute for Supply Management, a trade group, advised that its service sector index had grown to 55.4 in March from 53.0 in February. Anything over 50 is an indication of expansion.
2. This is good news because the service sector industry accounts for the majority of U.S. jobs.
3. The "tech sector" is growing again. Standard & Poor's forecasts a 79% increase for the first quarter from the past year's quarter levels.

I. Trade.

1. The U.S. Department of Commerce reports a seasonably adjusted trade deficit of \$39.7 billion dollars. Imports were \$182.9 billion dollars while exports were at \$143.2 billion dollars.
2. This indicates that the American appetite for foreign goods is increasing and spending is increasing because of better consumer sentiment.

J. The Dollar.

1. The dollar rose 12.4% against the euro, signaling the economic woes of the common market countries.
2. However, the performance of the dollar is down in the east. The dollar is down 4.8% against the Indian rupee, 3.6% against the Indonesian rupiah, and 3.3% against the South Korean won.

K. Inflation – Deflation.

1. Mortgage rates are starting to climb. In a year the change is as follows: On April 3, 2009 a 30-year fixed rate was 4.73% as compared to April 2, 2010 at 5.31%, per the Mortgage Bankers Association. The Association advises that for every 1% in rates, 300,000 to 400,000 would-be buyers are priced out of the market.
2. The spread between the 2-year and the 10-year Treasury notes is over 2.5%. It indicates that people are worried either about inflation or the ability of the U.S. to meet its obligations. Yes, maybe both.

II

Local Economy

A. Employment.

1. Unemployment numbers improved in Springfield. March totals were 9.3%, down from 10.1% in February.
2. Rockford, the highest rate in the State, is at 17.9%.
3. State unemployment stood at 11.5% compared to the nation's 9.7%.
4. The source for the information is the Illinois Department of Employment Security.
5. Local county unemployment figures show unemployment is a serious factor:
 - a. Christian 12.6%
 - b. Logan 12.2%
 - c. Macon 14.6%
 - d. Macoupin 14%
 - e. Mason 17.4%
 - f. Menard 10.9%
 - g. Morgan 12.1%

B. Housing.

1. Home sales in the counties comprising the Capital Area were up 6.6% from March, 2009. A total of 308 existing units were sold..
2. The median price range was down 11% from March 2009 to \$109,900.00.
3. Inventory of existing homes for sale was 1,552, down over 15% from March 2009.
4. The above information came from the Capital Area Association of Realtors.

5. Commercial construction in the area will get two tremendous assists:
 - a. St. John's Hospital is proposing a \$162 million dollar construction project.
 - b. Lincoln Land Community College announced a \$26.1 million dollar expansion.
 - c. An intersection improvement and other road improvements totaling \$7.2 million dollars will commence shortly.

C. Agriculture.

1. U.S. Department of Agriculture is projecting nationally 12.6 million acres of corn, up 5% from last year and 9.5 million acres of soybeans, up 1% from one year ago.
2. Spring planting has commenced in Sangamon County. However, weather conditions have not been good.

III

Conclusion

Rising costs of raw materials is a precursor of inflation. However, inflation will not occur overnight.

The recession was severe and we are not out of it yet. Unemployment and the evaporation of values in housing have left scars and fears. Those that went through the depression understand it. Their children were told about it and were taught conservative values and the ethic of living within one's means was ingrained. Somehow, that has been forgotten by many. However, the pain out there is rapidly re-establishing the ethic.

Another factor that has been forgotten but is rapidly being realized is that the concept of entitlements is not attainable to the extent it is being sought. It is not guaranteed by the Constitution. One is entitled to life and liberty to pursue one's dreams up to the limit of one's abilities, without infringing on others.

The work ethic should not be spoiled by a social state. People throughout history have never been equal in ability and circumstances. People will never be totally equal in the future.

The laws of nature and the proven theory of evolution have established beyond a doubt that the fittest survive and the weakest perish. It is the way of advancement. The capitalist society is basically an expansion of the basic natural theory of nature and man is part of nature.

There will always be those on top and there will be those that can't perform and those that fail. For those that can't perform by virtue of physical and mental incapacities, care and help should be provided. For those capable, education should be provided so that failure can be prevented or at least mitigated.

The role of government in our lives should be reduced in its function and be in line with the Declaration of Independence and the Constitution.

This writer has yet to find a government or political party that knew what was best for him. Have you?

Let's return to the basics!