

FSB TRUST DEPARTMENT

MAY 2011

ECONOMIC OVERVIEW



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- The first estimate for Q1 real GDP growth is a 1.8% annualized rate. Estimates called for a 2% increase. The largest positive contribution was from personal consumption. The weakest component was government purchases.
- Prior to this one, there had been 25 bull markets in the U.S. stock market (S&P 500) since 1928, according to Bespoke Investment Group. The average bull has lasted 886 days with an average gain of 101% (price-only). The longest bull lasted 4,494 days (12/4/87-3/24/00). It followed the “Crash of ’87.” The S&P 500 appreciated 582% over that span. The current bull market is 778 days old. The S&P 500 is up 99% (price-only) since the market bottomed on 3/9/09.
- According to analysis done by the Fiscal Times, government handouts topped total tax revenues in 2010 for the first time since the Great Depression. According to the analysis, households received \$2.3 trillion in handouts last year from unemployment benefits, Social Security, Medicare, Medicaid, and other programs. However, government receipts totaled only \$2.2 trillion. According to the Census Bureau (2009), as reported by Fox Business News, 42.6 million Americans receive Medicare, 46.5 million receive Social Security, 42.4 million receive Medicaid, 36.1 million receive food stamps, and 12.4 million receive housing subsidies.
- Industrial production grew at a 6.1% annual rate in the first quarter. Manufacturing output was up at a 9.2% rate – the most rapid rate of increase for any quarter since 1997.
- GDP is forecast in the 2.5% to 3% range for all of 2011.
- The price of a barrel of crude oil (\$111) is approximately 24.5% below its all-time high of \$147 (8/11/08), the average price of a gallon of gasoline (\$3.84) is only 6.6% below its all-time high of \$4.11 (8/17/08), according to CNNMoney.com. OPEC has reported that there is no shortage of oil despite the conflicts in the Middle East. The issue is that speculators are bidding up oil futures in the belief that things will get worse. It is believed the “fear premium” is costing drivers about 35 cents extra per gallon at the pump. U.S. refineries are only operating at around 81% of capacity, down from the 86% to 88% levels for the month of April in recent years, according to data from the Energy Information Administration.
- According to the latest International Monetary Fund official forecasts, China’s economy will surpass that of America in real terms in 2016. Just 10 years ago, the U.S. economy was three times the size of China’s.
- Energy expenditures account for slightly more than 5% of U.S. consumer spending, down from roughly 8% in the early 1980s. With energy a smaller part of the consumer budget, an increase in oil and gasoline prices has less negative impact on consumer spending than it used to. However, other fixed costs for consumers have risen over time, including financial obligations (debt payments and rent) and particularly health care. As a result, total fixed costs represent just under 37% of consumer spending. This level is up significantly from about 32% three decades ago, underscoring how the share of consumer income available for discretionary spending has fallen.
- From a global standpoint, if oil remained at about \$100 per barrel in 2011, oil expenditures would represent about 5% of global economic activity, which appears to be manageable given the solid global expansion. However, if crude oil prices averaged \$120 per barrel this year, spending on oil would account for 6% of global GDP—a level not seen since the early 1980s. Above this price level, pressures on consumers and businesses would probably increase substantially; a \$150 per-barrel price would push the world closer to its historical peak level of oil spending that occurred during the global recession in 1980.
- Despite the turmoil in the Middle East and the devastating earthquake and tsunami in Japan, the U.S. markets had the strongest first-quarter performance in 13 years. The S & P 500 had a total return of 5.92%, while the Dow Jones Industrial Average was up 7% and the Nasdaq returned 5.62%.
- Non-farm payrolls increased by 216,000 in March. Revisions to January/February added an additional 7,000, bringing the net gain to 223,000. The consensus estimate was a gain of 190,000. The unemployment rate fell to 8.8%.



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- An important leading employment indicator, the weekly jobless claims, fell to 382,000 recently. The 4-week average is at 389,500. The weekly claims have been below 400,000 four weeks in a row, six of the last seven weeks, and seven of the last nine weeks. This is a level below which the economy “typically” becomes a jobs producer.
- The March Blue Chip Economic Indicators survey of 50 economists reported a 3.4% forecast for GDP growth for 2011. The November 2010 report showed a forecast for 2011 of 2.5% growth.
- Comparable store sales for March were much stronger than expected. According to Thomson Reuters, its index of 25 retailers rose by 1.7% in March, compared to an expected decline of 0.7%, and a 9%

increase over March of 2010. According to Federated Investors, the strength in the March numbers, with continued expectations for a strong April sales report, suggests that consumer spending remains very solid, after the best Christmas season in five years. Consumer spending accounts for 70% of GDP.

- Ten year market highs/lows:
 S & P 500: 1,565 (10/09/07) 676 (03/09/09)
 Dow: 14,164 (10/09/07) 6,547 (03/09/09)
 NASDAQ: 2,397 (02/16/11) 804 (10/07/02)
- It is estimated that each \$10 increase in oil prices translates into a \$0.25 increase in retail gas prices.

S&P 500 SECTOR PERFORMANCE	2011 YTD	12-MONTH	2010	5-YEAR
• Consumer Discretionary	8.85%	18.74%	27.85%	5.24%
• Consumer Staples	7.90%	18.00%	14.12%	8.89%
• Energy	18.53%	35.85%	20.46%	9.04%
• Financials	3.07%	2.63%	12.18%	-11.36%
• Healthcare	12.50%	16.42%	2.90%	4.70%
• Industrials	11.75%	20.27%	26.74%	3.64%
• Information Technology	6.52%	13.18%	10.22%	5.73%
• Materials	6.80%	26.40%	22.34%	6.65%
• Telecommunication Services	6.69%	32.80%	18.97%	5.59%
• Utilities	6.92%	13.89%	5.46%	5.20%

Source: Bloomberg

INDEX PERFORMANCE	2011 YTD	12-MONTH	2010	5-YEAR
• Dow Jones Ind. Averages	11.49%	19.49%	14.06%	5.19%
• S&P 500 Index	9.06%	17.22%	15.06%	2.95%
• NASDAQ 100	8.59%	21.07%	20.15%	7.83%
• MSCI EAFE	9.54%	19.18%	7.75%	1.53%
• MSCI Emerging Markets	5.21%	20.67%	18.88%	9.84%
• U.S. Aggregate Bond	1.70%	5.36%	6.54%	6.33%

Source: Bloomberg

KEY RATES	CURRENT	1 YEAR AGO
• Fed Funds	0.25%	0.25%
• 3 month T-Bill	0.01%	0.14%
• 1 year T-Bill	0.18%	0.32%
• 5 year T-Note	1.90%	1.99%
• 10 year T-Note	3.18%	3.22%
• 30 year T-Bond	4.29%	4.08%

	CURRENT	1 YEAR AGO
OIL	\$100.88	\$70.21
GOLD	\$1,475	\$1,175

“With a risk premium pushing up the price of crude oil due largely to political instability in the Middle East, supply shock oil pressures stand as one of the major risks to the outlook for financial markets. However, the strength of the U.S. and global economic expansions make them better able to withstand the oil-price increases experienced so far, implying that absent additional supply shocks, oil prices by themselves should not disrupt the positive trajectory of the world economy and financial markets.”

Dirk Hofschire, CFA - Fidelity Management & Research Co.



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