

CAPITAL INVESTMENT MANAGEMENT

Registered Investment Advisor

BOSTON • DENVER • SAN FRANCISCO

September 2009 Economic Update

The Economy

- The dog days of summer are typically a relatively quiet time for the market, but positive economic data has dominated the headlines, spurring continued optimism about the global economic recovery.
- The preliminary estimate of second-quarter gross domestic product was released, and while the data indicated a 1% contraction it is a large improvement over the 6.4% contraction that occurred in the first quarter.
- The housing sector showed improvement, as the S&P Case-Shiller U.S. National Home Price Index moved higher for the second straight month.
- Durable goods orders also moved higher, showing strength almost across the board.
- Inflation readings have been low, with capacity utilization indicating quite a bit of capacity to expand operations. Also, with unemployment remaining at relatively high levels, the Fed is likely to hold its current policies steady for some time.
- We had been seeing signs of accelerating growth in China, however, their market has recently corrected, raising concerns that others might follow.

Summary

- The economic landscape continues to brighten – albeit slowly and unevenly – enough so that this seemingly intractable recession that has so gripped our national psyche has been declared “over” by a host of leading economists, pundits, and major news organizations.
- Indeed, the data indicates that the recession’s grip is easing, but it has been on the premise of “less bad is better.” Going forward, we believe that the news will have to turn toward the revenue *growth* in order for the next buying stage to ensue.
- With consumer spending representing 70 percent of GDP just a few years ago, and with the savings rate now at 5.2 percent (the highest since 1998), the return of consumer confidence is crucial for a sustained recovery.
- We’ve seen a 50 percent rally off of the March lows, which beckons for a pause. Investors need to ascertain the viability of the economic recovery and the strength of future earnings, and we remain alert as September and October are historically inhospitable months for investors.