

US Economy: Will Recession End Soon?



At last, it seems to see the end of tunnel! Although the US unemployment rate edged up to a 25-year high of 9.4% last month as employers shed 345,000 jobs, there were signs that the rate of erosion in the workforce slowed down sharply. The number of jobs disappearing from the economy was the lowest since September. Job losses significantly dropped in comparison with revised figures of 652,000 and 504,000 for March and April. Since the economic slump began at the end of 2007, the US has lost more than 6m jobs. The slowdown in job losses convinces someone to believe "green shoots" are beginning to emerge on the financial landscape. Although many experts remain concerned about the likely impact of woes in the Detroit carmaking industry on employment over the coming months, job losses of 59,000 in construction in May were considerably lower than the 108,000 positions shed in April;

in the service sector, about 120,000 positions disappeared compared with 230,000 the previous month. As a whole, the economy is showing signs of stabilizing. But the recent report by National Association for Business Economics said that the recovery might be more moderate than is typical following a severe downturn. The report predicted a 1.8% decline in real GDP in the second quarter of 2009, bringing the total year-to-date decrease to 3.7%. That will be the biggest drop since 1957-1958. In addition, the report indicated that there was a modest second-half rebound in real GDP. Real GDP growth over the second half of 2009 is expected to average 1.2%, which is well below average. Finally, growth in 2010 is slated for a return to near its historical trend, according to the report. As a matter of fact, a still-large imbalance between

housing supply and demand likely will remain a drag on home prices and housing activity into 2010. Moreover, consumers have just begun a long process of deleveraging and repairing their balance sheets and saving positions, so spending growth is expected to be subdued. There is an overhang on the confidence with regard to the US dollar too. China, the largest foreign owner of Treasuries, has shifted holdings into bills from notes, more at risk when interest rates rise. Nevertheless, a mood of optimism has powered Wall Street upwards, with the Dow Jones industrial average up by 27% since early March. Activity has also increased in the battered housing market and there are signs that credit crunch has begun to thaw, with banks proving more willing to lend money. Will the mood stay here?

Microscope

In sharp contrast to analysts who had been expecting the end of the recession very soon, the Federal Reserve still believes that the US economy will contract by between 1.3% and 2% in 2009. The green shoots everyone talks about are more like yellow weeds to the Central Bank. In fact, it was a crisis of excessive leverage of housing and the corporate sector in the past few years. The increased federal government spending and tax rebates from the fiscal stimulus program are largely financed by the government as well as the Federal Reserve, pushing the losses from the private sector on the government. That's not only a drag for long-term growth, but also pressure for interest rates. In addition, there are broader risks from the dollar. If the Federal Reserve does not print the money to fund the increased federal government spending and tax rebates contained in the fiscal stimulus package, aggregate demand will not be stimulated. As a result of this dilemma, even if there is a recovery, expanding budget deficit will eventually push out growth. That's why Federal Reserve chairman raised concern about the risk of rising budget deficit in the US.

MARKET BRIEFING

YTD % (local curr)

US DJ	8,763 (0.2%)
Nasdaq	1,849 (17.3%)
Euro Stoxx 50	2,503 (2.1%)
HSI	18,679 (29.8%)
Japan NK225	9,768 (10.3%)
China Shanghai Composite	2,753 (51.2%)
Singapore	2,396 (36.0%)
India BSE30	15,103 (56.6%)
Brazil BOVESPA	53,341 (42.1%)
Aus All Ord	3,969 (8.5%)
US-10yr Bond	Yield 3.83%

As at 05/06/09

Insight: "Strategic Investing"

Many investors got excited to invest in stock market, especially during the past few months. But are they ready for the worst scenario? In fact, there is a rule of thumb that almost 90% of stock investors do lose money when the trend reverses. This is not due to bad luck, but the lack of investing strategy in the first place. Without a solid strategy, you can easily get distracted and end up losing all of your initial capital. Therefore, despite the fact that stock market is known as the most profitable gold mine, the truth is, over 50% of the companies listed in the stock exchange don't deserve to be there. Although they should

only consider their listing to expand their businesses operation, some of them aimed to make easy money out of it. According to the principle of strategic investing, the process of differentiating good stock

from the bad one is a prerequisite. How? Some key financial ratios can offer help. In addition, you have to understand the companies' source of income. Each of those companies must have competitive edge so that their offers stand out than the rest. Afterwards, you can study the historical trading trend of the good company. With this, you can easily track which factors affect investors' sentiments. People can be interested now but pessimistic later on the stocks' future prospect. If you managed to integrate all in designing your best investment strategy, you are on your way to make money then.

A-Z Financial Tools

Warrant is a security entitling the holder to buy a proportionate amount of stock at some specified future date at a specified price, usually one higher than current market price. Warrants are traded as securities whose price reflects the value of the underlying stock. Corporations often bundle warrants with another class of security to enhance the marketability of the other class.



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