



**T**he third quarter has seen remarkable volatility, particularly in Europe, as investors responded to every tremor from European leaders on whether Greece would get its next loan installment, or whether national parliaments would agree to a stronger Euro-zone bailout fund. With increasing economic indications of a slowing global economy, and as US stocks continuing to struggle, is a new recession looming?

**By Gabriella Cosentino**

### **Jobs, Consumer Confidence & Spending**

The US economy grew slightly more than previously reported in the second quarter, helped by consumer spending and export growth that was stronger than estimated.

As reported by the Labor Department, applications for unemployment benefits fell by 37,000 to a seasonally-adjusted level of 391,000 claims in the week that ended September 24, putting them at the lowest level since April 2<sup>nd</sup>. This number has been revised from 428,000 from the prior week. Claims have hovered around the 425,000 mark for the past 6 months. Claims usually fall near the 300,000 level in periods of strong economic growth.

Over the past 3 months, the economy has gained an average of less than 35,000 jobs, far below the level needed to make a dent in the unemployment rate. The unemployment rate has been above 9% in all but two months since the start of 2010.

The toll on the nation's millions of unemployed individuals has been harsh, with the Census Bureau reporting that the US had more people living in poverty last year than in any year since it began keeping records over half a century ago.

About 6.98 million people received some kind of state or federal benefit in the week of September 10<sup>th</sup>, up 95,242 from the prior week.

Joblessness is taking a toll on individual states, too. This month, 27 states will have to pay \$1.2 billion to the federal government in interest on the \$37.5 billion that they borrowed in recent years to keep paying unemployment benefits.

Before the recession, approximately 3 million individuals voluntarily left their jobs each month. Now, around two

million people do so, leaving fewer openings for job seekers.

Thomson Reuters reported that consumer sentiment rose to 59.4, recovering from a nearly three-year low of 55.7 in August.

Consumer spending growth was revised up to a 0.7% rate from 0.4%. The increase in spending, which accounts for more than two-thirds of economic activity, was still the smallest since the fourth quarter of 2009.

### **Housing**

Average rates on fixed-rate mortgages hit record lows on this last week of the third quarter, with the 30-year fixed-rate mortgages averaging 4.01%.

Beginning October 1<sup>st</sup>, the maximum size of loans that can be guaranteed by government-controlled Fannie Mae and Freddie Mac drops from a maximum of \$729,750 in high-cost markets to a maximum of \$625,500. The Federal Housing Administration (FHA) limits will fall on area median home prices falling within the range of \$271,050 and \$625,500 for one-unit mortgages. Many borrowers who previously were eligible to participate in a FHA program will no longer qualify for special lower down-payments.

Larger-end borrowers have been eligible to buy homes with 3.5% down-payments through the FHA program. Now that these borrowers no longer qualify, they will need to put significantly more down. In addition, borrowers will need to have better credit scores in place to be eligible for a home loan. With these new limitations in effect, some prospective borrowers will inevitably be displaced.

Had this limitation been in place throughout 2010, roughly 33,000 borrowers, representing \$14 billion dollars in mortgages, would not have been approved to participate in the program, which in fact typically seeks to help out first-time borrowers.

### **Commodities**

The dollar gained ground against most of its currency rivals during the third quarter, pressuring prices for most commodities.

Crude oil futures declined at the end of the quarter, closing out the month of September 10% lower and down 16% for the quarter, as hopes dimmed that oil demand would pick

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up amid fears of slow growth and heightened concerns about the euro-zone debt crisis.

Other energy products, such as gasoline, reverted higher to \$2.62 a gallon, up less than 1 cent, while October heating oil declined 1 cent, or 0.5%, to \$2.80 a gallon.

Gold prices traded closer to the session's high of \$1,642.50 on some momentum buying ahead of the weekend closing out the quarter. It had earlier traded as low as \$1,607.80 an ounce. In the month of September, gold has lost 11%, but it has risen 8.5% for the quarter.

### Market Overview

The Dow Jones, down 11% for the third quarter, closed at 10,913, the worst fall since 2009. The S&P 500 Index also showed a quarterly drop of 14%, closing at 1,131, while the NASDAQ Composite Index closed at 2,415, down 12% for the quarter.

### What's Ahead?

Some economists speculate that political haggling in Washington over budget policy and a deepening debt crisis in Europe have eroded confidence, leaving the American economy on the brink of a new recession.

As published by the Economic Cycle Research Institute, "cyclical weakness is spreading widely from economic indicator to indicator in telltale recessionary fashion." The report sites that the growth indicator demonstrates that the economic growth was at negative 7.2% for the week ended September 23, continuing a trend that began in August. US economic strength has been declining since May.

Sources: *MarketWatch*, September 2011; *The Wall Street Journal*, September 2011; *The New York Times*, September 2011.

## NUMBERS TALK

Average amount in wages, pension, and Social Security benefits lost by a woman who takes time off to care for an aging parent...\$324,044

Average amount in wages, pension, and Social Security benefits lost by a man who takes time off to care for an aging parent...\$283,716

Percentage of fathers who would consider being a "stay-at-home dad" (not working outside the home) if the option were financially feasible...53

Average listing price for a four-bedroom, two-bath home in the United States (between September 2010 and March 2011)...\$293,000

Percentage of millionaires who would like to use technology-enabled media—such as texting, smartphone apps, and social media—with their financial advisers...66

Percentage of middle-income Americans who are interested in working during retirement because they "want to stay busy"...69

Percentage of American workers who plan to work past the age of 65, compared to 52 percent last year...59

Average nationwide closing costs on a \$200,000 mortgage, up 8.8 percent from last year...\$4,070

Percentage of single-family homes in the United States that are maintained as rental properties...14

Number of additional months a person born during an economic boom will live, compared to someone born during a recession, because of lower mortality from heart disease...10

Months an average dollar bill circulates in the economy, up from 18 months two decades ago. Two reasons include less use of paper currency and the bills lasting longer because of technological advances...40

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