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Financial Life Planning

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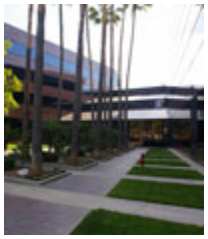

BUSINESS NEWS/INTEREST RATE UPDATE # 505
Erman Retirement Advisory
Howard Erman, CFP
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Consumer spending breaks 10-month rising streak

Consumer spending failed to rise in May, breaking a string of 10 straight months of gains, as households struggled with rising prices and automakers could not deliver the models Americans wanted.

When adjusted for inflation, spending slipped 0.1 percent, the Commerce Department said on Monday. It was the second consecutive monthly drop.

The report, which confirmed that underlying inflation had quickened, suggested consumer spending would offer little support to the economy in the second quarter. In the first three months of the year, it advanced at a modest 2.2 percent annual rate, held back by the weak U.S. labor market.

"This is in line with our expectation for very weak consumer spending for the second quarter," said Yelena Shulyatyeva, an economist at BNP Paribas in New York. "This is the result of weak auto spending as manufacturers have less inventory and prices are higher for available models."

Disruptions to auto production because of a shortage of parts in the

aftermath of Japan's earthquake left some models out of stock, including top-selling Japanese brands, and encouraged carmakers to lift prices.

BNP Paribas is expecting consumer spending, which accounts for 70 percent of U.S. economic activity, to grow at just a 0.5 percent annual rate in the April-June period.

The U.S. recovery braked sharply at the start of the year, with the economy growing at just a 1.9 percent pace in the first quarter.

Forecasters see second-quarter growth at around 2 percent, but caution risks are tilted to the downside. Many are waiting for May trade data next month to get a clearer picture.

"The trends are continuing with some level of growth, but very slow levels of growth and there is nothing I see on the horizon that's going to change that," John Barbour, CEO of educational toy maker LeapFrog Enterprises Inc, said at the Reuters Global Consumer and Retail Summit.

AUTOS WEIGH ON SPENDING

Spending on durable goods meant to last three years or more fell 1.5 percent after being flat in April. Motor vehicle sales in May set their lowest rate since September.

While the report fits in with other data illustrating a loss of economic momentum, improving auto production and falling gasoline prices should lift spending and growth in the third quarter.

Gasoline prices have dropped about 31 cents from their peak of $4.02 a gallon in early May and, in a sign of an easing of disruptions to auto production, the Chicago Federal Reserve on Monday said its Midwest factory index rose in May.

"We doubt the economy's engines are getting ready to go into reverse here," said Chris Rupkey, chief financial economist at the Bank of Tokyo-Mitsubishi UFJ in New York.

A series of other regional factory reports for June, including one from the

Dallas Fed on Monday, have economists looking for a soft but positive reading on national manufacturing from the Institute for Supply Management on Friday.

U.S. financial markets were little moved by the data. Stocks on Wall Street snapped back from three days of losses on bets of a near-term resolution to some of Greece's fiscal troubles. Prices for U.S. government debt fell, while the dollar was weak against a basket of currencies.

While gasoline prices are retreating, underlying inflation pressures continue to percolate. The core personal consumption expenditures price index -- which excludes food and energy costs -- rose 0.3 percent in May, its largest gain since October 2009, the consumer spending report showed.

Economists saw no immediate problems for the Federal Reserve, though they noted rising inflation could put the U.S. central bank in a difficult position should growth not pick up as expected in the second half of the year.

The Fed has pumped massive amounts of money into the economy to boost growth and employment. Its most recent monetary stimulus, $600 billion worth of government bond purchases, winds up at the end of this month.

Incomes in May rose 0.3 percent for a second month, but disposable incomes adjusted for inflation edged up just 0.1 percent. With spending weak, savings rose to an annual rate of $591.1 billion from $568.0 billion in April.

This article can be found on: http://money.msn.com/business-news/article.aspx?feed=OBR&date=20110627&id=13826249

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As a general update, the 30 year treasury index on Tuesday, July 19th, stood at 4.20% (finance.yahoo.com). The November, 2010, average completed at 4.19% (21 data points). This number will comprise 20% of the 2011 rate for lump sum calculations. The barrel price of crude oil futures, July, 2011 delivery, on the New York Mercantile Exchange rose $0.67 and is now quoted at $98.17 (Tuesday, July 19th).

If you know of another co-worker or associate who is interested in receiving these daily interest rate updates, especially #1 which describes how interest rates affect the lump sum (still applicable with PPA '06), please send me an email with their email address so I may add them to the list.

Howard is also a holder of the CRC (Certified Retirement Counselor) designation as well as the ATP (Accredited Tax Preparer) designation. He undertook the requirements for this education to better meet the needs of retirees.

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