

Falling more slowly

There were some hopeful signs during the second quarter, but the recession remains far from over. On the plus side, major stock indexes were briefly in the black for the year, overcoming the steep first-quarter losses. The economy did not contract quite so quickly in the first quarter as initially thought, as the Commerce Department revised the Gross Domestic Product loss to 5.5% from the earlier 5.7% projection. GDP fell 6.3% during the final quarter of 2008, so that is seen by some as the low point of the recession.

The Federal Reserve reported in June that “the pace of economic contraction is slowing.” Even so, the economy remains so weak that the Fed will leave its key interest rate near zero “for an extended period,” until recovery is under way.

Labor trouble

The rate of job losses slowed during the second quarter, although losses spiked at the end of June and there were more layoffs in the education sector. Nationally, unemployment reached a 25-year high, at 9.4%, and many expect double-digit joblessness before the end of the year.

That day already has come for 13 states and the District of Columbia, which had 10% or greater unemployment in May, according to the Bureau of Labor Statistics. Among these states are Illinois (10.1%), Ohio (10.8%) and California (11.5%). Four states top 12%. Michigan leads the field in this unfortunate statistic, with a 14.1% unemployment rate.

Index changes

The quarter also was marked by bankruptcy declarations of Chrysler and General Motors. The long-term consequences of their restructuring, and the slimming down of their dealer networks, remain unknown.

GM became part of the Dow Jones Industrial Average in 1925. Once a dominant element of American manufacturing, the automobile industry has faded in economic performance in recent years. GM had to be removed from the DJIA when it declared bankruptcy in June. Some market observers thought that Ford might be the replacement company, but the editors of the Dow Jones Indexes selected Cisco Systems, just the third NASDAQ-listed company to be included in the DJIA. On the same day, Citibank was replaced by the Travelers insurance company. Ironically, the two companies had at one time been under the same umbrella, until Travelers was spun off in 2002.

The change in companies composing the Dow 30 Industrials required a corresponding change in the divisor used to calculate the average, which is now 0.132319125. That means that for every \$1 change in the price of a DJIA stock, the index moves 7.56 points.

In the S&P 500-stock index, General Motors was replaced by DeVry, Inc. DeVry is the parent of DeVry University and a number of other educational institutions.

Inflation

The Fed had expressed concerns about the possibility of deflation, which could turn the recession into a full-scale depression. That concern was dropped in the Fed's June statement, suggesting that the danger has passed.

Warren Buffett agreed, in a June CNBC interview, that there is little risk of deflation. He did express concern about inflation in the coming years, however. Central banks around the world have been flooding the markets with credit, which could begin to show up as higher prices as economic recovery gets under way. Should such signs appear, the Fed may be able to head off serious damage.

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A Division of Salisbury Bank and Trust Company

19 Bissell Street
Post Office Box 1868

Lakeville, Connecticut
06039-1868

t: 860.435.9801
t: 800.222.9801

f: 860.435.5224

www.salisburybank.com

trust@salisburybank.com