



July 2010 Outlook

ECONOMIC LANDSCAPE

China Removes Currency Peg to US Dollar

China decided in June to allow its currency to appreciate against the dollar after an almost 2-year, unofficial peg to the dollar. China had kept the yuan artificially low to bolster its exports, which at the same time keeps the price of imported goods in China at a higher level for its consumers. China imports a lot of goods from around the world and with a weak currency, imports are expensive. So, now Chinese consumers can buy more foreign goods as they will be more affordable, which means they will consume more and save less. The stronger yuan should also help keep the threat of inflation in China low, allowing the nation's government to keep interest rates low. It also tells people around the world that their economy is strong enough to allow its currency to appreciate. Most of the economists and bankers think the currency appreciation will be very slow; it is not going to happen drastically overnight.

Consumer Confidence Measure Tumbles in June

The U.S. Consumer Confidence Index (CCI) is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending. The index dropped to 52.9 this month from 62.7 in May, which indicates that Americans have become pessimistic about the outlook for the labor market and the economy. The median forecast was a slight drop to 62.5 so it came in significantly lower than expectations. This reiterates the fact that job growth has been slow in bringing down the unemployment rate and the declining stock prices tied to Europe's debt crisis threaten to restrain consumer spending.

June Employment Figures as Expected

In the week ending June 26, the seasonally adjusted initial claims for unemployment insurance was 472,000, an increase of 13,000 from the previous week's figure of 459,000. There were 83,000 private sector jobs added in June, which is about double the prior month. The public sector lost 225,000 jobs as government workers that were hired for the 2010 census in recent months lost their temporary jobs.

The unemployment rate fell to 9.5% from 9.7%. Economists were actually expecting it to increase to 9.8%. The unemployment rate is down to its lowest level in a year; however, it was driven by a huge drop in the work force. The unemployment rate is calculated based on people who are without jobs, who are available to work, and who have actively sought work in the prior four weeks. The unemployment number divides the number of people who are actively looking for work by the total number of people in the labor force. So, although the unemployment rate fell this month, it is actually because there was an increase in people that have stopped looking for work or who can't find full-time jobs.

This letter may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.