RETIREMENT & INSURANCE RESOURCES

QUARTERLY ECONOMIC NEWS

Third Quarter 2012

Consumer spending is an important component of GDP, and the impact of household purchases can make a significant difference on economic growth. This was recently illustrated by a research paper published by an economist at JP Morgan Chase suggesting that Apple's iPhone 5 could singlehandedly add as much as half of a percentage point to the fourth quarter annualized GDP. On September 24, Apple announced it had sold 5 million units of iPhone 5 in its opening weekend, which represents approximately 25% more units compared to last year's iPhone 4S launch. Who knew such a small device could wield such power? A boost to the GDP would be welcome: according to the most recent estimate published by the Bureau of Economic Analysis, real GDP grew at an annual rate of 1.3% in the third quarter, down from 2% in the first quarter. A survey published by Gallup, Inc. on September 7 reported that the consumer spending level in August was the highest average monthly spending since December 2008. The higher spending in 2012 to date is still coming mostly from higher-income households.

Economic News

Another round of quantitative easing (dubbed QE3) was announced on September 13 amidst concerns of sluggish economic growth and marginal labor market conditions. According to the Federal Reserve's press release, they will purchase additional agency mortgage-backed securities at a pace of $40 billion per month to put downward pressure on longer-term interest rates and make broader financial conditions more accommodative. QE3 is slightly different from its predecessors in that there is no precise expiration date. The Fed will continue to inject money into the economy until maximum employment is attained and the economy strengthens. The stock markets enjoyed a nice boost shortly after the announcement was made. This was short-lived however, with the last two weeks of September closing lower. In the week ending September 28, the stock market posted its worst weekly decline since June following disappointing economic data. The following table highlights the average annual returns for various indices:

Index	3rd Qtr	1 Year	5 Year	10 Year
S&P 500 (Composite Total Return)	6.35%	30.18%	1.05%	8.01%
Russell 2000	5.25%	31.91%	2.21%	10.17%
MSCI EAFE (Price)	6.14%	10.01%	-8.07%	5.35%
Barclays Aggregate Bond	0.90%	3.67%	6.26%	5.03%

The S&P 500 is a commonly used measure of common stock total return performance, the Russell 2000 is a commonly used measure of small capitalization stocks, the MSCI EAFE is a commonly used measure of common stock total return performance of international markets, and the Barclay's Aggregate Bond Index is a commonly used measure of the bond market. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results.

Housing Market Momentum

A sustained recovery in the housing market still faces major hurdles, but signs of stability were on the horizon in the second quarter. The S&P/Case-Shiller Home Price 20-City Composite Index was up 2.3% in June over May, and 1.6% in July over June, which represents the fourth consecutive monthly increase. Existing-home sales continued to improve in August and the national median price rose on a year-over-year basis for the sixth straight month, according to the National Association of Realtors®. Based on data from the U.S. Census Bureau, the median price of a new home rose 11.2% in August, reaching a 5-year high. The number of new homes that sold in higher price ranges ($400,000 or more) also rose significantly in August. In its Q2 2012 U.S. Foreclosure Sales Report™, RealtyTrac® reported that sales of homes that were in some stage of foreclosure or bank-owned accounted for 23% of all U.S. residential sales during the second quarter. However, the raw number of foreclosure-related sales in the second quarter decreased 12% from the previous quarter and was down 22% from the second quarter of 2011. The National Association of Home Builders/Wells Fargo Housing Market Index (HMI), released on September 18, reported that builder confidence rose for a fifth consecutive month to a level of 40, its highest reading since June 2006. This index gauges builder perceptions of current single-family home sales and sales expectations for the next six months as "good," "fair" or "poor." A score over 50 indicates that more builders view sales conditions as good than poor.

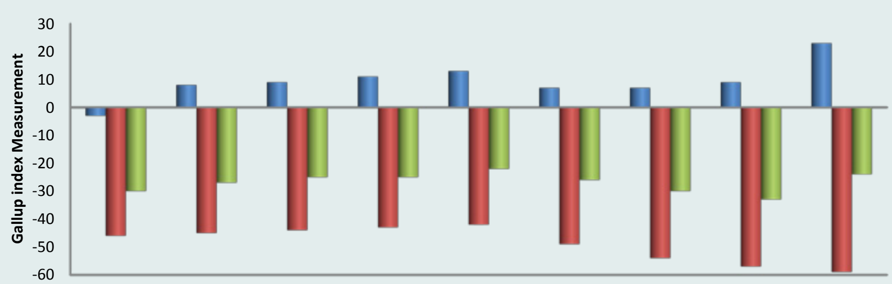
How Safe is the Euro?

Three years after Greek Prime Minister George Papandreou revealed a substantial hole in his country's budget and revised their projected budget deficit to over 12% of GDP, Eurozone nations continue to seek short-term relief and long-term stability. September 2012 saw two significant developments: the European Central Bank (ECB) President Mario Draghi unveiled a plan to inject capital into the European markets through bond buying efforts and the German Constitutional Court rejected petitions to block ratification of the European Stability Mechanism (ESM). The German ruling came with a cap of €190 billion on German contributions. Supporters of the decision are quick to point out that this contribution limit does not affect the ESM's ability to receive additional funding from other nations, nor does it impact the ECB's funding in any way. With Eurozone unemployment hovering above 11% and many countries seeing a continual plunge in their bond yields, questions remain regarding the safety of the 17-nation currency. The liability limit requested by and granted to Germany with respect to funding the ESM catalyzed similar considerations by other benefactors of the emergency bailout fund. Austrian Finance Minister Maria Fekter and Dutch Finance Minister Jan Kees de Jager have demanded similar caps. The high liability limits are doing little to halt concerns, and many Eurozone residents are weighing the benefits of domestic improvements against those of ensuring relief to less economically stable countries. The efficacy of the two measures is of yet uncertain. It could take time to determine the severity of budgetary and other economic shortcomings, but for now there is some comfort in knowing that collaborative efforts are being made.

Economic Confidence

The overall Gallup Economic Confidence Index was up eight points in September, mainly due to Americans' outlook on the economy, rather than in their ratings of current conditions. Politics seem to be playing a major role in economic perceptions: Democrats became significantly more optimistic about the economy's direction following the Democratic National Convention held in early September. According to the poll, Independents became slightly more optimistic about the economy, while Republicans were slightly less confident.

Gallup Economic Confidence Index – by Political Party



	Jan '12	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep' 12
Democrats	-3	8	9	11	13	7	7	9	23
Republicans	-46	-45	-44	-43	-42	-49	-54	-57	-59
Independents	-30	-27	-25	-25	-22	-26	-30	-33	-24

Source: Gallup Daily Tracking Survey

Employment Situation

Amidst a mostly disappointing third quarter on the jobs front, the Bureau of Labor Statistics surprised most everyone when it announced that the unemployment rate decreased to 7.8% in September, reaching its lowest level since January 2009. Total nonfarm payroll employment rose by 114,000 in September and revisions to previous months' data added a cumulative total of 86,000 jobs in July and August. The health care, transportation and warehousing sectors added the most jobs in September, while the financial and real estate sectors showed modest growth. Manufacturing employment edged down, with a loss of 16,000 jobs for the month. News of the sharp decrease in the unemployment rate, one of the most-watched measures of the country's economic health, should be taken with a grain of salt considering the seasonal adjustment issues. Most of the increase in employment came from those who had to settle for part-time work, but wanted full-time jobs.

Cliff notes

As we head into the final quarter of 2012, Congress needs to address the so-called fiscal cliff. The economic impact of the scheduled tax increases and spending cuts has been widely debated, but no significant congressional action has occurred to date. A recent research paper published by the Tax Policy Center concludes that if the United States goes over the fiscal cliff, almost 90% of American households could face a tax increase averaging $3,500. The study goes on to mention that the average marginal tax rate would increase by about 5% on wages and salaries, by about 5% on interest income, by about 7% on long-term capital gains, and by more than 20% on qualified dividends. Many ratings agencies have warned that the United States faces a potential downgrade of its creditworthiness if a deal is not reached by the January 1, 2013 deadline. Absent legislative action, it is safe to say that the effects of going over the fiscal cliff could be significant.

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