

**Q1 Economic Update  
2010**

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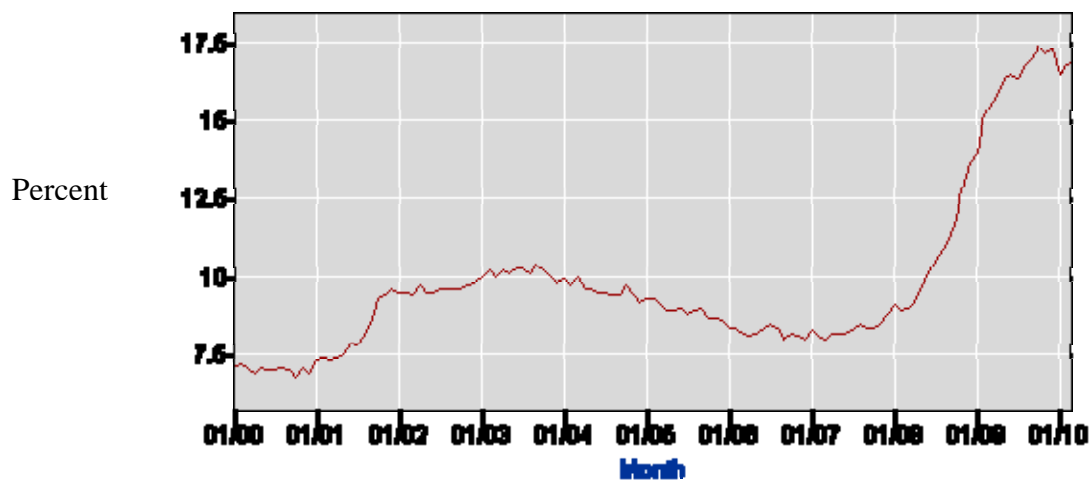
## Quarterly Economic Review – April 2010

### Employment

Unemployment has remained steady at 9.7 percent as measured by the Bureau of Labor Statistics (U-3). The broader measure, U-6 has climbed to 17.5 percent. This rate is within .5 percent of the all-time high. The White House recently admitted that unemployment will remain a problem through 2010.

This will continue to be a drag on growth prospects for the remainder of 2010.

Measurement of U-6



Source: Bureau of Labor Statistics

### Interest Rates

The Federal Reserve continues to keep short term rates at historic, near zero, lows. Pressure may begin to mount to raise rates as confidence and activity picks up. The Ten Year note has risen from 3.1 percent in December 2009 to 3.95 as of April 2010. These rising rates will have an impact on the struggling housing market.

## **EU Debt**

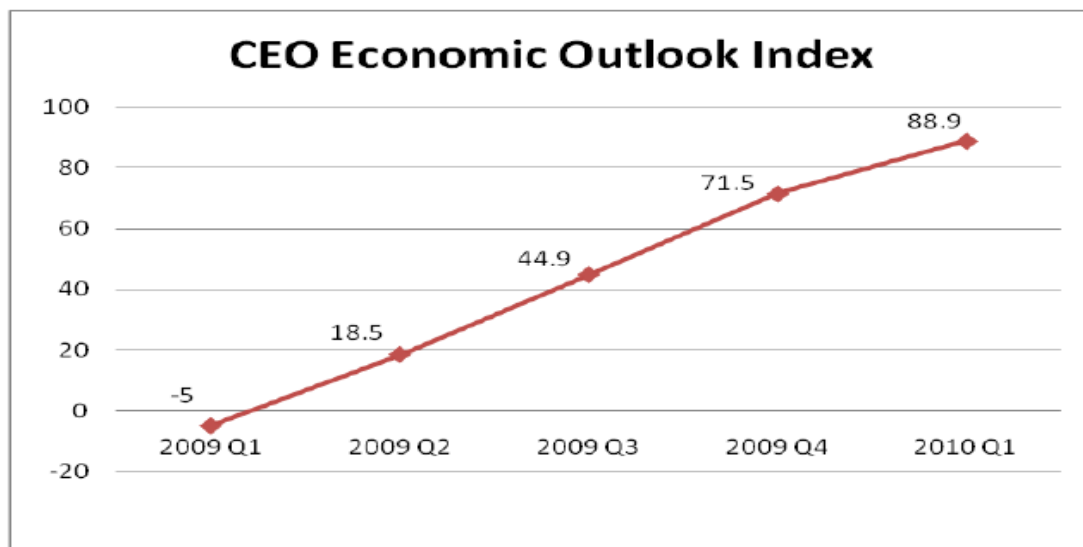
The European Union appears to have solved, temporarily, the debt issues with Greece. Germany and France along with the International Monetary Fund have agreed to be a lender of last resort to support the Greek economy. Greek Sovereign debt hit yields of 7.7 percent for ten-year paper. This is almost 400 basis points above comparable German debt. The process has been controversial within the EU and may flare again. The result will be instability and weakening of the Euro. There are signs that economic instability is spreading to other EU countries that are in similar debt situations. There is a potential to spread globally.

## **Health Care**

Recent passing of health care legislation has taken a hit on corporate earnings. Many large corporations have already announced billions of dollars of charges against earnings. Accounting rules require companies to take charges for legislative and regulatory impact in the quarter the legislation or regulation is passed. The long-term impact and final version of health care legislation have yet to be seen. No doubt there will be changes to the current legislation as much of it does not take effect until 2014.

## **The Consumer**

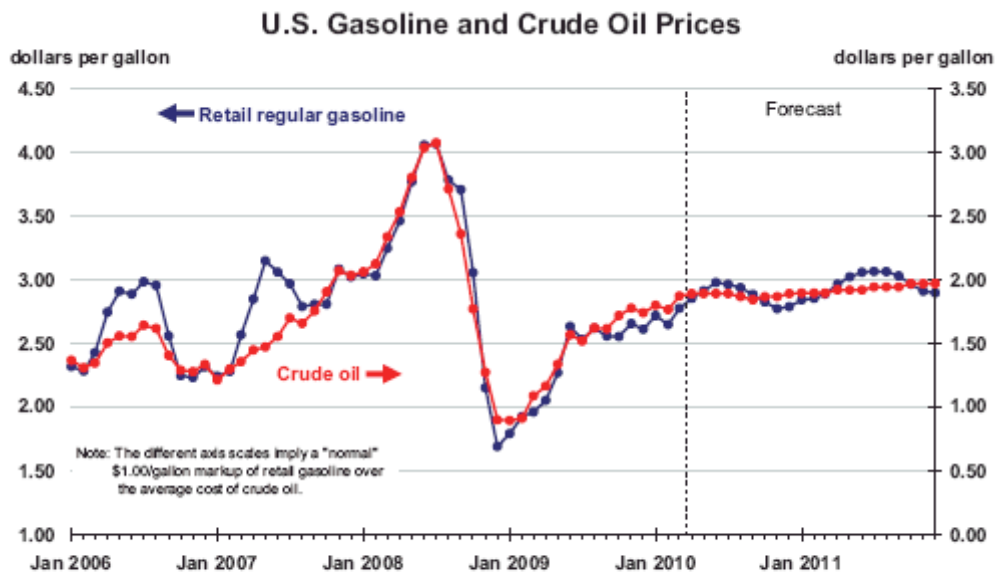
Consumer Confidence has been on the rise recently. The index jumped in March to 52.5 from February number of 46.4. The Business Roundtable survey of CEO Economic Outlook shows a reading of 88.9. Any reading above 50 indicates anticipated economic expansion. These are all good signs and point to anticipated overall improvement in the US economy; may be positive for employment. Let's hope credit activity follows.



Source: Business Roundtable

## Summer Gas Prices

As we enter summer watch gas prices. The Energy Information Administration is predicting average gas prices to reach \$2.92 per gallon this summer. This is a price we have already reached in many parts of the country. We are likely to see a spike, maybe as high as \$3.50 - \$4 a gallon. This in part will be due to demand as consumers stay a little closer to home and an improving economy, both domestic and global.



Note: Crude oil price is refiner average acquisition cost. Retail gasoline price includes State and Federal taxes.

Source: Short-Term Energy Outlook, April 2010



Any type of gas tax as part of a cap and trade bill is not accounted for here. If that happens demand would likely drop, but costs would probably rise due to the tax. This would also have a big dampening effect on economic growth and be inflationary.

## The Dollar

A weaker dollar will continue to make traveling abroad more expensive. Canadian and Mexican currencies have appreciated against the dollar. The Canadian Dollar or Looney is now hovering at parity with the US Dollar. The Euro has continued its weakness mainly due to debt issues in the EU. Commodity based currencies such as the Australian and Canadian Dollars will show strength as the global economic picture improves.

The Renminbi or Yuan will remain a contentious issue through this year. The Treasury has side stepped calls to label China a currency manipulator. China is likely to relent a bit, in their best interest, and let the value of the Yuan rise. They must control potential asset bubbles without crushing exports. Increasing value of the Yuan versus the Dollar will make our exports more attractive, but imports from China more expensive. Expect terse language between the US and China, but a resolution; controlled floating of the Yuan upward.

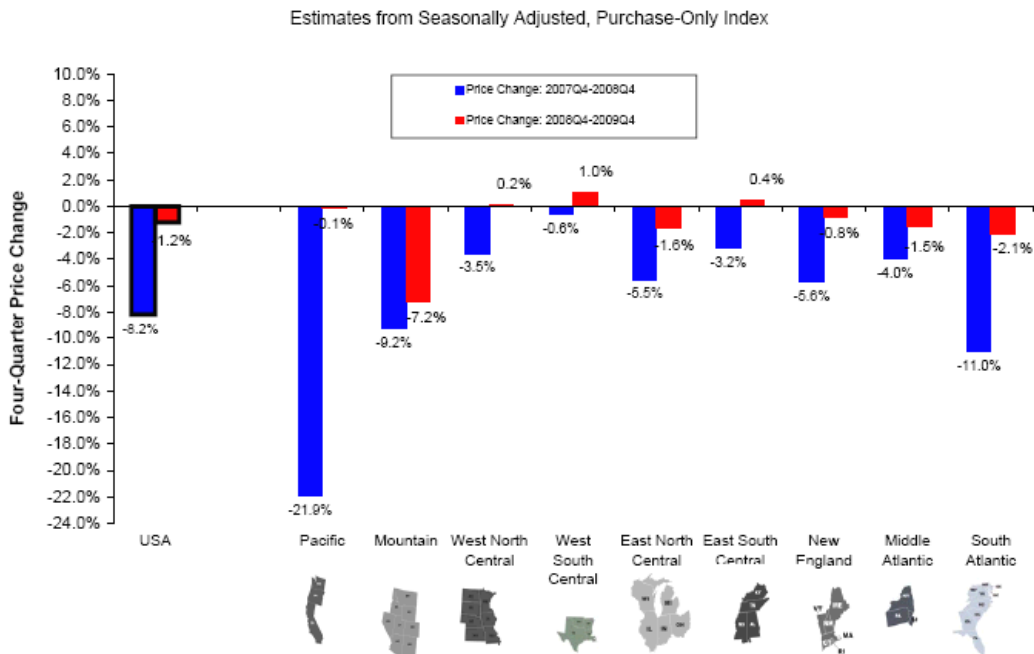
**Housing**

Home price decreases have leveled out for the most part and prices have remained relatively flat for the last five months, nationally. This is also bolstered by recent data showing a decrease in mortgage delinquencies. This too should help stabilize the housing market.

Prices are likely to remain flat for an extended period. We see similarities to the housing market in periods of the 1960s and early 70s and the early 1990s. Both timeframes reflect flat housing prices. No longer will a home be a piggy bank as we recover. Most value has been eroded in the recent downturn or homeowners are already at maximum loan to values; Home Equity is exhausted. The bright spot may be for retirees. Those who did not tap into home values may have the opportunity to utilize reverse mortgage programs. This would be something to watch over the next several years as more boomers reach retirement.

Regionally housing trends vary. This will make for a lumpy recovery in the overall economy, as some areas will continue to work off excess inventory resulting from housing booms.

The table below is quarterly price changes by region and nationally. This illustrates the trend and softer spots in housing.



Source: Federal Housing Finance Agency – HPI 2/2010

## **Ending Comments**

We are beginning to see some improvement in the economy and the sentiment, both consumer and business is looking brighter. There are still several issues in the balance that could forestall near term improvement.

The unemployment situation will be the biggest drag on economic recovery. The trend toward tax increases on individuals and businesses will have a muting effect on recovery. Continued deficit spending is a longer-term issue that needs to be addressed.

The Federal Reserve has signaled it will remain accommodative, low short-term rates, for the near future; still hoping to jump-start the economy. Longer term we still have concerns about inflation.

As we finish for publication the Value Added Tax (VAT) has been put on the table by the Obama Administration. More to follow.... See our November 2009 White Paper on this topic.

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