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ECONOMIC & MARKET UPDATE: JUNE 6, 2011
"NASTY WEEK LEAVES ECONOMY WITH MORE THAN A FEW BRUISES"
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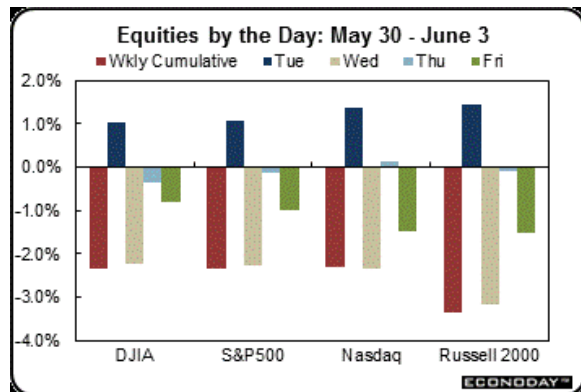
Economic Data - Previous Week					
Date	Series	Actual	Survey	Prior	
5/31	S&P/CS 20 City Idx	-0.23%	-0.20%	-0.25%	18 of 20 cities exhibit month over month decline
5/31	Consumer Confidence	60.8	66.6	66.0	Confidence falls sharply as future outlook wanes
6/1	Construction Spending	0.4%	0.3%	0.1%	Prior month figure revised down sharply from 1.4%
6/1	ISM Mfg Idx	53.5	57.5	60.4	Mfg report softer than expected due to Japan effect
6/3	Nonfarm Payrolls	54K	180K	232K	Employment growth weak broadly, misses estimates
6/3	Unemployment Rate	9.1%	8.9%	9.0%	Gain in labor force increases jobless figure
6/3	ISM Non-Mfg Idx	54.6	54.0	52.8	New orders drives improvement in service index

Economic Data - Upcoming Week					
Date	Series	Actual	Consensus	Previous	
6/7	Consumer Credit	--	\$5.00B	\$6.02B	Recent uptick in CC use may drive credit growth
6/9	Trade Balance	--	-\$48.8B	-\$48.2B	Wider deficit anticipated, despite oil price declines
6/9	Wholesale Inventories	--	1.0%	1.1%	Continued growth expected in wholesaler stocks

Source: Bloomberg

SLOW GROWTH, NOT A RENEWED RECESSION

Investors faced a litany of disappointing economic releases last week. The result was a steep sell off in equity markets, with both the Dow Jones Industrial Average and the S&P 500 Index falling 2.3%.



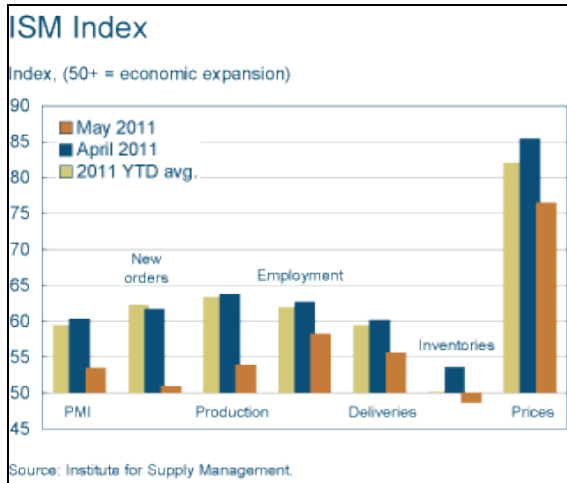
Source: Econoday

At the start of the week, regional and national manufacturing reports showed a sudden deceleration in the manufacturing growth rate.

It was widely expected that manufacturing activity would slow after reaching a peak of 61.4 in February, but few economists realized the severity of the slowdown in May. The ISM PMI dropped from 60.4 in April to 53.5 in May.

There were numerous factors at play in May, but few fully explain the 6.9-point decline. In the past decade, no other month-to-month decline was as large as the one witnessed in May. The second largest fall occurred just after September 11, 2001, when the index lost 5.4 points. However, at that time, the economy was already in the midst of a recession, not deep into a recovery.

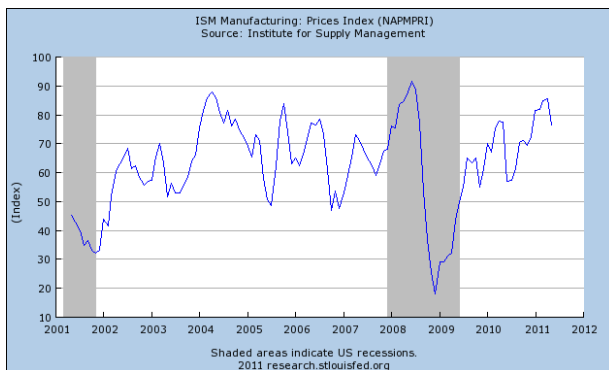
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Source: Federal Reserve Bank of Cleveland

Various reports attribute slower growth to rising commodity prices, while others believe a supply-chain impact from the earthquake in Japan was a primary cause of the decline.

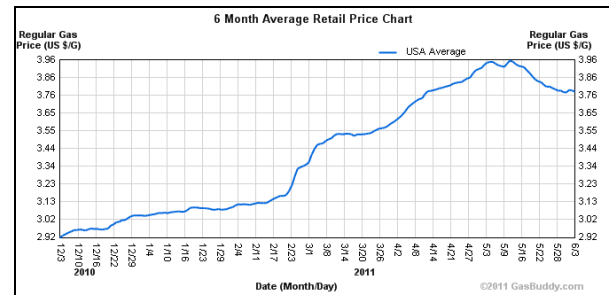
One encouraging aspect of last week's manufacturing report is that prices are beginning to ease. Input costs have been a growing headwind for manufacturers over the past six months. With the ISM Prices Index shedding nine points, prices should become less problematic for the manufacturing sector in the near future.



Source: Federal Reserve Bank of St. Louis

That decline in prices corresponds with a similar slowdown in oil and gas prices. In May, the price per barrel for Brent Crude

declined 7.4%. Gas prices are following suit, dropping almost 20 cents per gallon in the past month alone.

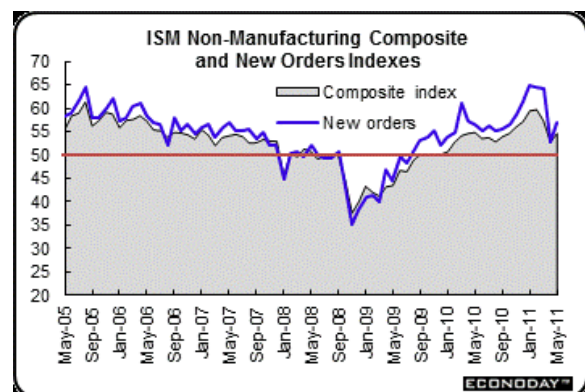


Source: Gasbuddy.com

As we have mentioned previously, every one-cent increase in the price for a gallon of gas reduces consumer disposable income by \$600 million per year. Corresponding declines naturally have the opposite effect.

If gas and commodity prices hold steady or decline further, it will provide a natural tailwind for the economy later this year.

Contrary to the weakness exhibited in manufacturing, the service sector is relatively stable. In May, the ISM Non-Manufacturing NMI rose 1.8 points to 54.6.



Source: Econoday

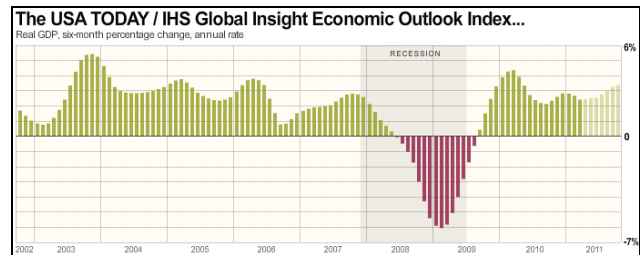
Encouragingly, the service sector can expect a bit of forward momentum over the next few

months as the new orders index jumped over four points to 56.8.

Although recent economic data has been nothing short of ugly, the economy is not likely headed for a 2008 style meltdown.

IHS Global Insight (a global research firm) in conjunction with USA Today, published an updated Economic Outlook Index last week. The index is an aggregation of 11 broad indicators with predictive power of future economic growth (a full review of the underlying indicators is available on USA Today's website).

Based on the index, IHS expects real GDP growth to hold steady around 2.5% through the second quarter before slowly rising above 3.0% in the latter half of the year.



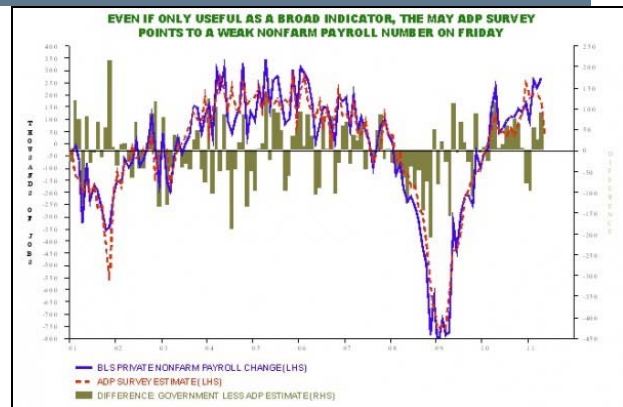
Source: USA Today

IHS pointed out that manufacturing, exports and employment will provide positive support for the economy going forward, but cautioned that weakness in housing and high gasoline prices could potentially dampen growth. If gas prices continue to moderate as we mentioned earlier, the economy will benefit.

WORKING IS OVERRATED ANYWAY

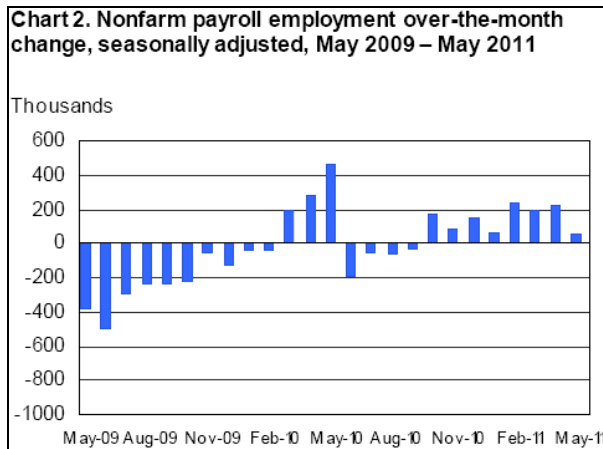
Investors and economists eagerly anticipated last week's labor market reports, hoping to learn that employment growth is finally on the path to sustainability. Alas, it was not to be and economists were left scratching their heads to figure out what went wrong.

Prior to the "official" labor report, investors received a glimpse of what was to come from payroll processor ADP. ADP reported in its National Employment Report that private sector payrolls rose a tepid 38,000 in May. ADP historically underestimates the official private sector change reported by the Bureau of Labor Statistics (BLS), but investors realized that May was setting up to be a major disappointment.



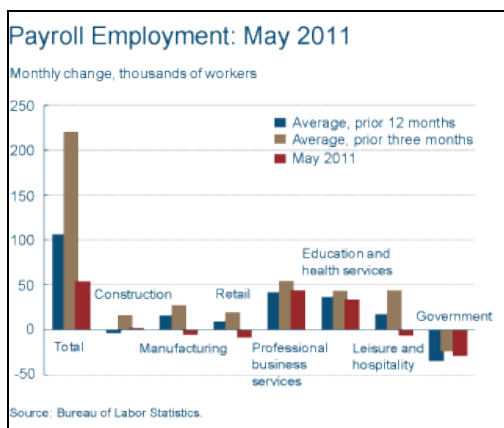
Source: FT Alphaville

On Friday, we learned that nonfarm payrolls rose 54,000 and the unemployment rate increased 0.1% to 9.1% in May. Private sector payrolls rose 83,000 after expanding 219,000 and 251,000 in March and April, respectively.



Source: Bureau of Labor Statistics

Below the headline figures there were no sectors that stood out as experiencing particularly robust employment growth. Industries such as health care, professional services and business services were the only sectors to show modest growth.



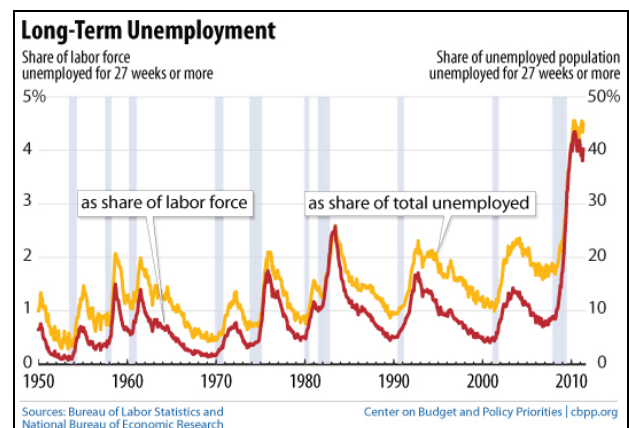
Source: Federal Reserve Bank of Cleveland

However, flat or negative growth was evident in many sectors, including retail, transportation, manufacturing and government.

Government is on an especially long and difficult losing streak. Nearly 450,000 local government jobs have disappeared since September 2008.

The biggest problem is not the pace of weakness in labor growth, but the nature of unemployment for individuals unable to find a job.

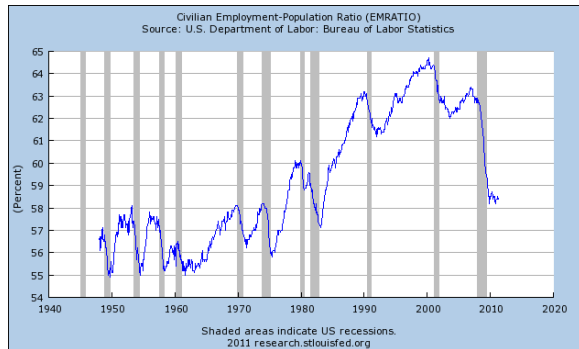
Of the 13.9 million people in search of a job, 45% have been job-hunting for longer than 27 weeks. The average duration of unemployment is now at 39.7 weeks, and the median is 22 weeks.



Source: Center on Budget and Policy Priorities

Education continues to play an important role in determining labor prospects. For adults with less than a high school diploma, the employment-population ratio is a staggering 38.5%. That compares to adults with a Bachelor's degree or above, where the employment-population ratio is 74.0%.

Broadly, the employment-population ratio is hovering at 58.4%, which ranks among the lowest levels since the early 1980s.



Source: Federal Reserve Bank of St. Louis

Trying to paint the labor markets in a positive light is exceedingly difficult when faced with a regular barrage of releases like Friday’s employment report. The hope, and belief, is that May represents a temporary setback in the long road to “normal” labor markets.

THE WEEK AHEAD

Following a full week of economic releases, the first full week of June is relatively light on the domestic data front. The headline report is the Federal Reserve’s Beige Book. It will be released on Wednesday and will provide a detailed look at economic activity across the country.

Globally, several industrial production figures are scheduled this week. They will be closely scrutinized following the weakness in US and Japanese manufacturing surveys last week. Investors will also look for the impact of

declining commodity prices as several inflation readings are planned this week.

A series of Treasury auctions are scheduled for this week, including \$32 billion of 3-year notes (Tuesday), \$21 billion of 10-year notes (Wednesday) and \$13 billion of 30-year bonds (Thursday).

Several central banks will meet this week, including the Bank of England, ECB, Poland, Indonesia, and Korea. No change is expected to interest rates by BoE or ECB authorities.



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