

Economic Commentary

As we enter the second half of the year, significant headwinds remain. These headwinds include high unemployment, high oil prices, low interest rates, and a housing market that can't seem to get any traction.

The unemployment rate remains near 9% which is almost double the targeted rate by the FED. To have full employment, the unemployment rate would have to be 5% or better. To get the unemployment number down, business owners need to have less costs associated with business operations. Costs of doing business have increased significantly due to high oil and material costs.

Oil cost increases have filtered through everyday life, most notably at the grocery store. As our pocketbook remains lighter from continued purchasing of necessities, the consumer will forgo purchasing many other non-essential items. Oil prices are extremely penal when they remain above \$90/barrel. We make up two-thirds of this country's economic activity, so when we pull back on spending it truly has a trickle effect. When we purchase less goods, fewer need to be manufactured for replacement, which causes factory orders to decline and layoffs to follow if this happens for any length of time. Thus, the unemployment rate will rise and people will have less money to spend. As we see today, this can also cause foreclosures to occur.

Low interest rates are great for borrowers, but in this economy there is not a lot of demand for loans. As new constraints are put on banks, it makes it harder to lend in general, but it also may protect shareholders. Low rates on deposits are tough for investors as they have found their time deposit rates tank over the last couple years. As of today, we see no immediate relief for interest rates for the depositor.

The housing market is tough going at best. People get excited about whatever the "economic number" of the day is, whether good or bad, but what we need is a solid recovery. The housing market will recover when people are working! Getting people back to work is the million dollar question! How and when? We don't really know! The only thing we do know is that the current strategy in place isn't working. We do not have the answers but look forward to ideas that once again can let this country prosper. Until then it might be best to tread water.

For a review on how your investments are weathering the current economic situation, please feel free to stop by or give us a call. We can be reached at 906.482.0404 or snbtrust@snb-t.com.

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