Finance, Banking and Markets: From Jargon into English — MORE!

Neil Holdway, Christine Steele • ACES National Conference, April 2013

"SEQUESTER"

In Montana, an Indian reservation's children feel the impact of sequester's cuts
By Lyndsey Layton, March 21, 2013, Washington Post
The public schools on the isolated, windswept Fort Peck Indian reservation here are at the frontier of the federal sequester ... among the first to struggle with **budget cuts** sweeping west from Washington.

Obama formally orders 'deeply destructive' sequestration cuts, blames Congress

Tribune wire report
10:03 p.m. CST, March 1, 2013

WASHINGTON -- President Barack Obama formally ordered broad cuts in government spending on Friday night after he and congressional Republicans failed to reach a deal to avert automatic reductions that could dampen economic growth and curb military readiness.

<Washington Post, March 1, 2013>
The sequester was originally passed as part of the Budget Control Act of 2011 (BCA), better known as the debt ceiling compromise.
It was intended to serve as incentive for the Joint Select Committee on Deficit Reduction (aka the "Supercommittee") to come to a deal to cut $1.5 trillion over 10 years. If the committee had done so, and Congress had passed it by Dec. 23, 2011, then the sequester would have been averted.
Obviously, that didn't happen.

The term "budget sequestration" was first used to describe a section of Gramm-Rudman-Hollings Deficit Reduction Act of 1985 (GRHDRA). The hard caps were abandoned and replaced with a PAYGO system by the Budget Enforcement Act of 1990, which was in effect until 2002. Sequestration was later included as part of the Budget Control Act of 2011, which resolved the debt-ceiling crisis; the bill set up a Congressional debt-reduction committee and included the sequestration as a disincentive to be activated only if Congress did not pass deficit reduction legislation.

^ "A Glossary of Political Economy Terms". Department of Political Science, Auburn University. 2005. Retrieved November 6, 2012. http://www.auburn.edu/~johnspm/gloss/sequestration

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"BASIS POINTS" --> 10-YEAR BREAK-EVEN RATE --> QUANTITATIVE EASING

The Standard & Poor's 500 Index increased 0.7 percent at 4 p.m. in New York and the Stoxx Europe 600 Index added 0.3 percent. The euro strengthened 0.4 percent to $1.2933 and Italy's 10-year bond yield fell **nine basis points to 4.64 percent**. Ten-year **Treasury yields rose six basis points to 1.96 percent**, climbing from a two-week low reached yesterday.

The 10-year yield dropped five basis points, **or 0.05 percentage point**, to 1.91 percent at 5 p.m. in New York after climbing six basis points yesterday, the biggest increase since March 7.

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The difference in yields between inflation-protected U.S. debt and 10-year notes increased to 2.55 percentage points as policy makers said the jobless rate remains “elevated” and the Fed will keep buying $85 billion of bonds a month.

---- The yield gap between 10-year Treasury Inflation Protected Securities and nominal U.S. notes, called the 10-year break-even rate, signals traders’ outlook for consumer prices over the life of the debt. It closed at 2.51 percentage points on Feb. 26 and averaged 2.36 percentage points over the past year.

TIPS pay interest on a principal amount that rises with inflation, so investors are compensated as consumer prices rise. When the securities mature, the investor is paid the adjusted principal amount or the original principal, whichever is greater. (NYTimes, 7/9/11)

KC Fed’s George again dissents on interest rate, quantitative easing
Kansas City Business Journal
Esther George was the sole dissenting vote when the Federal Open Market Committee decided to keep a key interest rate at or near zero and continue buying $40 billion a month in mortgage-backed securities.
George, president of the Federal Reserve Bank of Kansas City, is concerned that the continued high level of monetary accommodation will increase the risk of future economic imbalances and cause an increase in long-term inflation.

Definition: Quantitative easing (QE) is when the Federal Reserve buys bonds, primarily U.S. Treasury notes and mortgage-backed securities(MBS). The Fed issues credit to buy the bonds through its Trading Desk at the New York Federal Reserve Bank.
Where does the money come from to purchase these assets? The Fed simply creates it as credit. This has the same effect as printing money. This expansionary monetary policy spurs economic growth.

Quantitative Easing Explained: How does quantitative easing work? The Fed creates credit, and uses it to buy MBS and Treasuries from its member banks. It helps the banks by taking old debt off of their balance sheets. QE increases the money supplybecause the banks can then use the Fed's credit to make more loans.

Bank loans stimulate demand by giving businesses more money to expand, and shoppers more credit to buy things with.

http://useconomy.about.com/od/glossary/g/Quantitative-Easing.htm
By Kimberly Amadeo … http://useconomy.about.com/bio/Kimberly-Amadeo-22286.htm

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“REVENUE,” “INCOME,” “EARNINGS,” “PROFIT”

Oracle Corp. reported fiscal third- quarter sales and **profit** that missed analysts’ estimates as customers chose competitors’ Web-based software.

Profit excluding some items was 65 cents a share on adjusted sales of $8.97 billion, the Redwood City, California- based company said today in a statement. That compares with analysts’ average projection for profit of 66 cents on sales of $9.37 billion, according to data compiled by Bloomberg.

---- **Net income for the quarter, which ended in February, was little changed at $2.5 billion, or 52 cents a share,** compared with $2.5 billion, or 49 cents, a year earlier.

Net Revenue and Net Profit

Some companies interchange the term net revenue and net profit. This can be a source of confusion, as revenue usually identifies income from normal and usual sales. Operating income identifies revenue minus operating expenses. Net revenue often equals gross profit, resulting from sales less cost of sales. When used to mean net profit, the term net revenue should be explained to the listener or reader. Since the true "bottom line" of an organization is its net profit, those companies using net revenue to identify its final profit should identify it as such. Publicly traded companies, which must state their results using generally accepted accounting principles (GAAP), must clearly identify their net profit or loss, without using the term net revenue.

http://smallbusiness.chron.com/difference-between-net-revenue-operating-income-25511.html

Keep it simple: Revenue vs. earnings vs. profit

HOUSING LINGO

WASHINGTON (AP) [--] U.S. builders **started more homes** in February and permits for future construction rose at the fastest pace in 4 years. The increases point to a housing recovery that is gaining strength.

The Commerce Department said Tuesday that **builders broke ground** on houses and apartments last month at a seasonally adjusted annual rate of 917,000. That's up from 910,000 in January. And it's the second-fastest pace since June 2008, behind December's rate of 982,000.
---- Single-family home construction increased to an annual rate of 618,000, the most in 4 years. Apartment construction also ticked up, to 285,000.

The gains are likely to grow even faster in the coming months. **Building permits**, a sign of future construction, increased 4.6 percent to 946,000. That was also the most since June 2008, just a few months into the Great Recession.
---- And the figures for January and December were also revised higher. Overall **housing starts** have risen 28 percent higher over the past 12 months.

(Bloomberg) -- **New residential construction** probably increased in February, pointing to more progress in the housing industry that’s helping power the U.S. expansion, economists said before a report today.

Builders broke ground on 915,000 houses at an annual rate, up from an 890,000 pace in January and the second-highest since mid-2008, according to the median estimate of 81 economists surveyed by Bloomberg. Building permits, a proxy for future construction, may have advanced to an almost five-year high.
...
---- **The housing starts figures a**re due from the Commerce Department at 8:30 a.m. in Washington. Estimates in the Bloomberg survey ranged from 872,000 to 1 million. Building permits climbed to a

925,000 annual rate, the most since June 2008, from 904,000 in January, according to the survey median.

USA Today
New home sales surged in January, rising almost 16% from December in another sign of an improving housing market.

Sales of **new single-family homes** in January came in at a seasonally adjusted annual rate of 437,000, the government said Tuesday.

New-home sales rise to 4 ½-year high

WASHINGTON (MarketWatch) — **Sales of newly constructed U.S. housing** jumped almost 16% in January — hitting the highest level in 4½ years — offering strong proof that the sector's rebound trend is intact.

Sales of **new homes rose** to an annual rate of 437,000 last month from an upwardly revised 378,000 in December, marking the biggest one-month gain since 1993, the Commerce Department said Tuesday. The figures are seasonally adjusted.

Austin-area home sales up 26% in February

- By Shonda Novak

Austin American-Statesman Staff

The Central Texas housing market posted another strong month in February, with **home sales** up 26 percent over the same month last year and the median home price rising 7 percent, the Austin Board of Realtors said Wednesday.

The region's job and population growth, low interest rates on mortgage loans and rising rents continue to propel housing demand, experts say.

(Reuters) - **U.S. home resales** edged higher in January and left the supply of homes at its lowest level in 13 years, a sign that steam is gathering in the U.S. housing market.

The National Association of Realtors said on Thursday that **existing home sales** rose 0.4 percent last month to a seasonally adjusted annual rate of 4.92 million units.

(Bloomberg)
Contracts to purchase previously owned U.S. homes climbed more than forecast in January, a sign the industry will keep strengthening this year.

JUMPING THE GUN ON STATS

Economy grows 5.9%, largest increase in six years

WASHINGTON — The economy rocketed ahead at a 5.9 percent pace in the final quarter of 2009, stronger than initially estimated. But the growth spurt isn't expected to carry over into this year.

The fresh reading on the nation's economic standing, released by the Commerce Department today, was better than the government's initial estimate a month ago of 5.7 percent growth. It would mark the strongest showing in six years.

Even so, it didn't change the expectation of much slower economic activity in the current January-to-March quarter.

Adding to that picture was a separate report today that sales of previously occupied homes fell sharply in January for the second straight month, to their lowest point since summer. The results were far worse than forecast. They are another sign the housing market's recovery is faltering.

The stock market managed modest gains as investors seemed to shake off the latest round of economic news. But by midday, stock prices were roughly unchanged.

Roughly two-thirds of last quarter's GDP growth came from a burst of manufacturing — but not because consumer demand was especially strong. In fact, consumer spending weakened at the end of the year, even more than the government first thought.

Instead, factories were churning out goods for businesses that had let their stockpiles dwindle to save cash. If consumer spending remains lackluster as expected, that burst of manufacturing — and its contribution to economic activity — will fade.

The signs aren't hopeful. Consumer confidence took an unexpected dive in February. Unemployment stands at 9.7 percent. Home foreclosures are at record highs. And many Americans are still having trouble getting loans.

THE DOW AND MARKET INDICES

The Dow Jones industrial average (INDU) lost 777.68, surpassing the 684.81 loss on Sept. 17, 2001 - the first trading day after the September 11 attacks. **However the 7% decline does not rank among the top 10 percentage declines. <The worst: Oct. 19, 1987: Falls to 1,738 from 2,246, a 22.6% drop>**

The Standard & Poor's 500 (SPX) index lost 8.8%, its seventh worst day ever on a percentage basis and the biggest one-day percentage drop since the crash of '87, when it lost 20.5%. The Nasdaq composite (COMP) fell 9.1%, its third worst day on a percentage basis and also its worst decline since the crash of '87.

The U.S. stock market declined 34 percent in 2008.

In 2008:
- Dow down 34%
- Nasdaq down 40.5%
- S&P 500 down 38.5%
- Wilshire 5000 down 37%

The Dow Jones industrial average rose about 405 points to its biggest advance since March 2009. **Broader U.S. indexes** outpaced the Dow's 3.9 percent rise.

<VERY GOOD EXPLAINER MOVED THIS YEAR, when Dow hit its record high:>

Associated Press

The Dow Jones industrial average, an index of 30 U.S. blue-chip stocks, is a barometer of the health of the stock market and U.S. economy. On Tuesday, it closed at an all-time high of 14,253.77, beating the record it set on Oct. 9, 2007 by 89 points.

• Charles H. Dow created the index with the intention of giving the stock market credibility and making investing more understandable. The original Dow Jones industrial average had 12 members and was published May 26, 1896. It featured companies such as American Cotton Oil, Chicago Gas and U.S. Rubber.

• The number of companies making up the index increased gradually and then expanded from 20 to 30 in October 1928. Entry into the index is reserved for a company that “has an excellent reputation, demonstrates sustained growth and is of interest to a large number of investors.”

• General Electric Co. is the only original member in the Dow. The industrial giant was briefly delisted but has stayed in the index since its reinstatement in 1907.

•The Dow Jones industrial average is no longer run by Dow Jones, the media company that publishes The Wall Street Journal. (Dow Jones was purchased by Rupert Murdoch’s News Corp. in 2007.) The index is calculated and published by S&P Dow Jones Indices, a joint venture company that is 73 percent owned by publishing giant McGraw-Hill. CME Group owns 24.4 percent and Dow Jones holds 2.6 percent.

• A $1 change in a Dow stock will move the index 7.68 points. This means that if all other stocks in the index were unchanged the Dow would rise by that many points.

• The Dow is a price-weighted index, which means its value is based on the price of a company’s stock rather than its market value. Accordingly, a $1 rise in the price of Bank of America’s stock price will have the same impact on the index as a $1 price rise in Hewlett-Packard’s stock, even though Bank of America has a market value three times that of the technology company.

• The Standard & Poor’s 500 index takes account of a company’s market value, making it a more accurate reflection of the stock market.

• The S&P 500, as the name implies, contains 500 stocks. That makes it a broader measure. Apple, the most valuable company most of last year, has never been part of the Dow.

PERCENTAGES

• An increase from $2.00 to $2.50 is an increase of ___25 percent________.

• A sales tax increase from 2 percent to 2.5 percent is a _0.5-percentage-point increase, or 25 percent__ increase.

• “Firefighters will receive a 3.5 percent raise the first year, and will get 0.5 percent more in each of three years after that.” <really means the raises will rise by 0.5 percentage point each year>

• Kane County might halt an increase in impact fees in hopes of spurring commercial growth as plummeting sales tax income becomes an increasingly menacing problem for the county’s finances this year. Impact fees are charged to land developers as a way to compensate for the increased burden their projects place on roads, schools, parks and other public services. The county charges impact fees that are only a portion of the calculated impact. The impact fee rate is set to increase 8 percent every year on July 1 until it hits a maximum rate of 64 percent in 2011. A new proposal will halt the 8 percent increase scheduled for 2009, keeping the current multiplier of 40 percent.

<Really means halt the 8-percentage-point increases, and the impact fee rate will increase by 8 points per year.>