U.S. economy looks resilient as retailers, industry surge

By MARTIN CRUTSINGER and PAUL WISEMAN
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WASHINGTON — Americans spent more money at retailers and factories revved up production in June, offering encouraging signs of the U.S. economy's resilience in the face of global headwinds.

Industrial production shot up 0.6 percent, fueled by a big rebound in auto output. It was the best showing since last August. Meanwhile, retail sales also rose 0.6 percent last month, three times the gain in May, with demand strong in a number of areas.

Inflation pressures remained modest, with consumer prices climbing 0.2 percent in June. Prices are up just 1 percent from a year ago, still well below the Federal Reserve's 2 percent target.

The new reports Friday came a week after the government's blockbuster jobs report, which showed the economy created 287,000 jobs in June. It marked a major bounce back after a dismal gain of just 11,000 jobs the previous month. May's result, coupled with a lackluster showing in April, had raised worries that the U.S. jobs machine was starting to sputter.

Analysts said the strong job growth in June and solid consumer spending should provide good momentum for the economy heading into the second half of the year.

The economy grew at an anemic 1.1 percent rate in the first quarter, as measured by the gross domestic product, held back by a slowdown in consumer spending and troubles in manufacturing. Analysts are hopeful that GDP growth strengthened to 2 percent or better in the second quarter, and many are looking for further acceleration in the current quarter.

"It is beyond doubt that consumers have shaken off their winter blues," said Chris G. Christopher Jr., director of consumer economics at IHS Global Insight. "Despite rising gasoline prices, consumers are opening their wallets." Christopher said that consumer spending and housing would help bolster growth going forward.

Chris Rupkey, chief financial economist at MUFG Union Bank, said he believed GDP would be closer to 3 percent in the spring quarter, led by a surge in consumer spending.

"Economic growth is through the roof in the second quarter," Rupkey said. "There are a lot of dollars going through cash registers out there."

Analysts were also encouraged by the latest improvement in industrial production, which followed a 0.3 percent decline in May. The key manufacturing sector showed a 0.4 percent increase, which reflected a jump in autos and auto parts. Utility output expanded 2.4 percent, stemming from higher electricity production as warmer weather boosted demand for air conditioning.

Even the country's beleaguered energy sector recorded gains. Mining, which covers oil production, inched up 0.2 percent. It was the second small monthly increase after eighth straight monthly declines as this sector struggled with a plunge in oil prices.

Manufacturing overall has struggled for more than a year amid weakness in global markets and a strong dollar, which has also hurt exports by making American products more expensive overseas.

Jennifer Lee, senior economist at BMO Capital Markets, said she believed manufacturing was starting to show "upward momentum." Other economists, however, cautioned against reading too much into June's rebound, contending that obstacles remained in manufacturing.

"The bulk of manufacturing faces the same problems today that it faced a year ago — too much inventory in the system at home and too strong of a dollar ... in the world market," said Michael Montgomery, U.S. economist at Global Insight.

The report on consumer prices showed a 0.2 percent gain in core inflation, which excludes the volatile categories of food and energy. Over the past 12 months, core inflation has risen 2.3 percent.

The Fed, which meets July 26-27, wants to see evidence that inflation is ticking up before raising short-term U.S. interest rates again. In December, it raised rates for the first time since 2006. But it has hesitated to follow up with more increases.

The American job market looked weak in May before rebounding in June. And Britain's June 23 decision to leave the European Union has rattled financial markets and raised uncertainty about the global economy.

For June, food prices fell for a second straight month. Energy prices rose 1.3 percent, including a 3.3 percent increase in gasoline prices. New car and truck prices fell for the third straight month and are down 3.1 percent over the past year. Clothing prices fell 0.4 percent in June.

AP Photo/Rogelio V. Solis

An assembly line of new 2016 Altimas await backseat installations at the Nissan Canton Vehicle Assembly Plant in Canton, Miss. On Friday, the Federal Reserve reported U.S. industrial production increased 0.6 percent for June.

White House: Budget deficit to rise to $600B

WASHINGTON (AP) — The White House on Friday predicted that the government's budget deficit for the soon-to-end fiscal year will hit $600 billion, an increase of $162 billion over last year's tally and a reversal of a steady trend of large but improving deficits on President Barack Obama's watch.

The disappointing figures, while expected, come after the deficit has steadily declined since the huge $1.4 trillion deficit Obama inherited after the deep 2007-2009 recession and the associated fiscal crisis.

The improving economy, tax increases on higher-income earners and cuts to annual agency budgets have helped close the gap over Obama's tenure. Many economists say the longer-term picture is troubling and warn that the rising debt will be a drag on the economy in the future.

The budget and economic update also officially downgrades the White House's view of the economy, predicting growth of 2.2 percent this year instead of the 2.7 percent growth rate it predicted in its February budget. But it also says inflation will stay in check, predicting a 1.1 percent increase in consumer prices versus the 1.4 percent it forecast in the winter.

"Over the last seven years, the administration and the American people have worked to rebuild our economy and ensure that it is the strongest, most durable economy in the world," the director of the Office of Management and Budget, Shaun Donovan, said in a blog post accompanying the report. "The President's Budget builds on that progress. It makes critical investments in our domestic and national security priorities."

Neither Democrat Hillary Clinton nor Donald Trump has focused much on deficits and debt in their presidential campaigns, but the rising figures may lend more urgency to the issue.

Trump has promised huge tax cuts that analysts say would pour trillions of dollars of debt onto the government's books. Clinton has promised tax increases on the wealthy but would turn around and spend the money on infrastructure, subsidizing college education and other initiatives.

BEO reports higher earnings, watching wheat harvest

East Oregonian

HEPPNER — BEO Bancorp and its subsidiary, Bank of Eastern Oregon, is reporting 33.8 percent higher earnings so far in 2016 compared to this time a year ago.

The company pulled in a net income of $815,000, or $0.67 per share, for the second quarter of 2016 and $1.597 million in total earnings for the year to date. That tops last year's second quarter income of $724,000, or $0.58 per share, and $1.194 million over the first six months of 2015.

Total assets, net loans, deposits and shareholder's equity are also up compared to last year. President and CEO Jeff Bailey said they are pleased, though there's cause for caution moving forward.

"Wheat harvest is a little early this year as the continued dry conditions and the hot spell in April appear to be translating into a below average crop," Bailey said. "This coupled with lower commodity prices across the board are a bit concerning, but all part of the cyclical nature of agriculture."

Bailey said they will continue to eye their loan portfolio to make sure they are protected against potential future losses.

Chief Operations Officer Gary Propheter said that, while interest rates stay relatively stagnant, the deposit base for the bank continues to be solid. He said it will be interesting to see how the global economy affects interest rates over the next year.

Bank of Eastern Oregon operates 13 branches and five loan production offices in 12 Eastern Oregon counties, and one county in eastern Washington. Branches are located in Arlington, Ione, Heppner, Condon, Irrigon, Boardman, Burns, John Day, Prairie City, Fossil, Moro and Enterprise, as well as Pasco. Loan production offices are located in Ontario, Pendleton, Island City, Lakeview, and Madras.

Are stocks the new bonds?

Why investors are buying now

By MARLEY JAY
AP Markets Writer

NEW YORK — As bond yields plunge to record lows and investors look for income, they're pouring money into stocks, sending the market to its own record highs.

Once upon a time, if you were an investor who wanted a steady stream of income, you would probably think of U.S. Treasury bonds. Backed by the solid credit of the U.S. government, those bonds were considered ultra-dependable forms of income that wouldn't lose value.

You couldn't count on stocks to pay you a return like that. The dividends stocks paid were usually smaller, and you also ran the risk of losing some of your investment if the stock price declined.

Now that stocks, broadly speaking, actually pay more than many bonds do, investors' thinking has changed.

"Stocks have become the new bonds," says Jack Ablin, chief investment officer at BMO Private Bank. "Income investors have opted to invest in equities versus lower-yielding bonds."

The drop in bond yields has been dramatic. At the start of 2014 the yield on the 10-year Treasury note was 3 percent, and a decade ago it was twice that much. Now it's around 1.6 percent.

The dividend yield on S&P 500 stocks, meanwhile, hasn't changed much over the last few years. It's around 2.1 percent, far more than what the 10-year Treasury pays.

There are several factors behind the plunge in bond yields. Investors have tended to buy bonds when they feel jittery or when they anticipate the U.S. economy is slowing down, but these days they also are driven to buy bonds when they feel the alternatives are worse, or if they're worried about disruptions in the global economy. When demand for bonds increases, it sends yields lower.

Investors have flocked to Treasury bonds as they worried about everything from the U.S. economy to a slowdown in China to Britain's recent vote to leave the European Union. And central banks including the Fed have bought bonds in recent years in an effort to stimulate the economy by keeping long-term interest rates low.

There are many other markets for bonds, but the U.S. government is considered the gold standard because of the country's rock-solid credit.

If you think yields are low here, just look at other countries. The yield on the United Kingdom's 10-year note is about 0.8 percent, France's is 0.2 percent, and in Japan and Germany, those yields are negative, which means investors actually pay for the privilege of continuing to own them.

"We've got a much higher yield," says Scott Wren, global equity strategist for Wells Fargo's Investment Institute. "That attracts money."

That difference means it may be a long time before yields on U.S. government bonds go much higher. Faced with poor prospects for income from bonds, investors have poured money into stocks, especially those that pay high dividends and appear less likely to lose value in a downturn.

The stocks that pay the largest dividends are phone companies and utilities, and investors have clamored for them all year. The prices of S&P 500 phone and utility companies have soared about 20 percent in 2016, far more than the rest of the market. Even with those gains, phone companies still pay a dividend yield of 4.3 percent and utility companies pay 3.3 percent, still way more than the 10-year Treasury note.

There have been other periods when stocks had bigger yields than bonds. Often, it meant stocks had dropped sharply in value, such as the financial crisis of 2008-2009 or the European debt crisis of 2012. This time is different: the quest for income has helped push stocks to all-time highs, and high demand may keep them there.

That's also partly because large companies in the U.S. look pretty good compared to the markets of Europe and Japan, where growth is sluggish or nonexistent, or China, where economic growth is slowing down.

All the while, the U.S. economy has steadily churned along. Despite a lot of nervousness from investors, it hasn't run out of steam yet.

"The growth we have in the U.S. might be modest or slow, but it's pretty dependable," Wren says. "Generally we have better economic growth than these other developed countries."

That said, it would likely take a lot more growth in the U.S. than we have now, as well as the usual side effect of growth, inflation, to get bond yields much higher than they are.

Ablin, of BMO, said it may be some time before investors go back to thinking of bonds in the same way they used to.

"Yields would have to rise appreciably to make bonds more competitive with dividend yields," Ablin said.