

Market Comment *Economic Highlights for the week ended January 6, 2012*

Economic Week in Review: New Year Begins With Accelerated Job Growth

Vanguard 1/6 - The U.S. economy kicked off 2012 with encouraging employment numbers resulting in the lowest unemployment rate since February 2009. Combined with economic reports that beat analysts' expectations in the areas of construction spending, manufacturing, and factory orders, the first week of 2012 showed signs of hope for the long-struggling economy. For the week ended January 6, the S&P 500 Index rose 1.6% to 1,278 while the yield on the 10-year U.S. Treasury note rose nine basis points to 1.98%.

Non-Farm Payrolls – December: Job Growth Exceeds Expectations

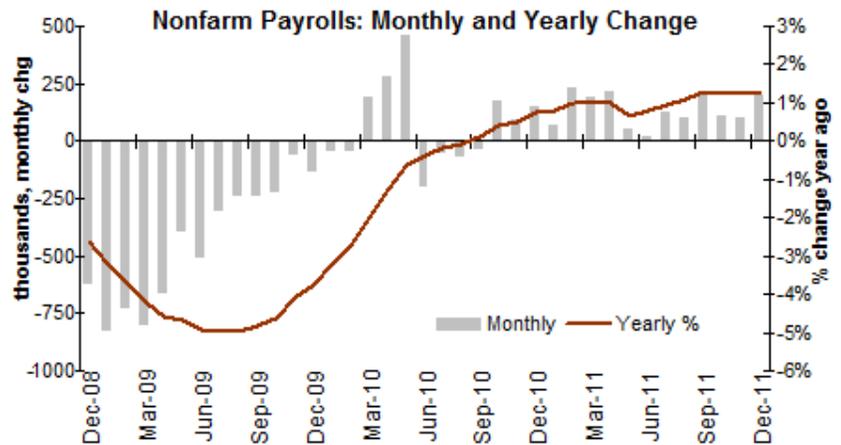
Vanguard 1/6 - The U.S. economy added a net 200,000 jobs for December, causing the unemployment rate to fall to 8.5%, the lowest level in nearly three years. The rate has dropped for four consecutive months. The private sector added 212,000 new jobs, while government job rolls shrunk by 12,000. Public-sector job numbers have decreased for 17 of the past 19 months.

"The news on the labor market this morning was positive across the board. Not only were the numbers strong, but the fall in the unemployment rate wasn't heavily influenced by the 'discouraged-worker effect,' as in previous months. If sustained, this pace of job creation could encourage aggregate demand by consumers and businesses, and thus speed up the recovery to more normal rates in 2012," said Vanguard senior economist Roger Aliaga-Díaz.

Goods-producing industries led the way by adding 48,000 new jobs for the month, while the construction and manufacturing industries reported increases of 17,000 and 23,000 new jobs respectively.

The U.S. Department of Labor also reported a 0.2% increase in hourly earnings.

Barclays 1/6 - The December employment report took an upbeat tone and signaled that payroll growth in the US accelerated into year-end. Headline payrolls grew 200k and private payrolls rose 212k, both well above our forecast. The household survey also took on a positive tone, with employment rising 176k and the unemployment rate falling 0.2% to 8.5% (8.511% unrounded). The three-month average increase in nonfarm payrolls stands at 137k, while the three-month average gain in employment in the household survey is 228k. We see this employment report as further evidence of labor market improvement, consistent with the acceleration in the US economy in the second half of last year. However, we believe that the rise in December payrolls likely overstates the degree of labor market improvement and we suggest that investors focus on the three-month average when evaluating the state of labor market conditions.



Factory Orders - November

Vanguard 1/6 - Much of the overall increase was concentrated in aviation as aircraft manufacturer Boeing reported a large order.

Flooding in Thailand, which disrupted manufacturing supply chains, caused a number of industries, including electronics and automobiles, to report downturns for the month.

Press Release (excerpts) 14/2012 - New orders for manufactured goods in November, up following two consecutive monthly decreases, increased \$8.2 billion or 1.8% to \$459.2 billion, the U.S. Census Bureau reported today. This followed a 0.2% October decrease. Excluding transportation, new orders increased 0.3%.

Shipments, up six consecutive months, increased \$0.1 billion to \$455.0 billion. This followed a 0.5% October increase. Unfilled orders, up nineteen of the last twenty months, increased \$11.1 billion or 1.3% to \$898.3 billion.

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This followed a 0.4% October increase. The unfilled orders-to-shipments ratio was 6.16, up from 6.07 in October.

Inventories, up twenty five of the last twenty six months, increased \$2.8 billion or 0.5% to \$609.8 billion. This was at the highest level since the series was first published on a NAICS basis in 1992 and followed a 0.9% October increase. The inventories-to-shipments ratio was 1.34, up from 1.33 in October.

ISM Non-Manufacturing Index – December: Services Show Slight Increase

Vanguard 1/6 - The Institute for Supply Management's (ISM) non-manufacturing index recorded a slight increase for December, marking its first monthly gain since August. The index rose from 52.0 to 52.6—less than analysts had predicted, but a rebound from its 2011 low in November.

Index readings above 50 signify growth with higher readings indicating more broad-based growth.

Barclays 1/5 - The non-manufacturing ISM rose to 52.6 from 52.0 in December. The headline index has remained within a fairly tight range since mid-2011, bouncing around between 52.0 and 53.3 since June, consistent with a picture of continued modest growth in the service sector. In December, the small gain was driven by the supplier deliveries and employment components, the former up to 51.5 from 50.0 and the latter to 49.4 from 48.9. The business activity index was unchanged at 56.3 and the new orders index rose slightly, to 53.2 from 53.0.

Construction Spending – November: Strength Tempered By Downward Revisions

Vanguard 1/6 - Construction spending rose by 1.2% in November, significantly beating analysts' expectations. The increase was largely attributed to a 1.7% increase in public construction. Construction spending continued an upward trend that began in April 2011 and has increased in six of the past eight months.

Builders began construction on more new homes in November than in any of the previous 19 months. The figures were reflected in the 2% monthly increase in private residential construction spending. Spending on residential improvements increased 2.6% for the month and was 4.1% higher year-over-year.

Barclays 1/3 - Construction spending rose 1.2% m/m in November. However, this was offset by a sharp downward revision to the October data, which now suggest that construction spending fell 0.2% last month, against the original estimate of a 0.8% gain.

ISM Manufacturing Index – December: U.S. Manufacturing Climbs

Vanguard 1/6 - U.S. manufacturing closed 2011 on an up note as the ISM Manufacturing Index rose from 52.7 to 53.9 in December.

The increase marks the index's highest reading since June 2011. New orders for December increased to their highest level since April 2011. ISM's manufacturing employment index also climbed for December, from 51.8 to 55.1, representing only the second increase in six months.

Econoday 1/3 – Acceleration in the manufacturing sector is the latest good news on the economy. New orders in the ISM's manufacturing report for December rose nearly one point to 57.6 to signal acceleration from what was already a solid rate of growth in November.



FOMC Minutes - Publishing Participants' Projections Of The Federal Funds Rate

Econoday 1/3 – The December 13 FOMC meeting was more involved than indicated by the Fed statement. In fact, the Fed is sharply expanding its communications policy and the Fed is boosting its transparency sharply by including additional forecasts in its future Summary of Economic Projections (SEP) released four times a year. FOMC members now will be including their forecasts for the expected path of the fed funds rate and the likely timing of the first increase in the target rate.

"Specifically, the SEP will include information about participants' projections of the appropriate level of the target federal funds rate in the fourth quarter of the current year and the next few calendar years, and over the longer

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run; the SEP also will report participants' current projections of the likely timing of the first increase in the target rate given their projections of future economic conditions. An accompanying narrative will describe the key factors underlying those assessments as well as qualitative information regarding participants' expectations for the Federal Reserve's balance sheet. A number of participants suggested further enhancements to the SEP; the Chairman asked the subcommittee to explore such enhancements over coming months."

Traders and Fed watchers will get their first taste of the new communications policies with the January 24-25 FOMC meeting and there should be ample discussion during the chairman's post-statement press conference.

Regarding the Fed's view of the economy, there was no notable news other than it was apparent that the Fed was cautious about adopting the view that economic data were strengthening. Staff economists lowered their December forecast for medium-term GDP growth from November's.

"In the economic forecast prepared for the December FOMC meeting, the staff's projection for the increase in real GDP in the near term was little changed, as the recent data on spending, production, and the labor market were, on balance, in line with the staff's expectations at the time of the previous forecast. The staff continued to project that the pace of economic activity would pick up gradually in 2012 and 2013, supported by accommodative monetary policy, further increases in credit availability, and improvements in consumer and business sentiment.

Developments in Europe were discussed substantially as volatility in U.S. and global financial markets were seen largely due to Europe. FOMC participants noted progress by the European authorities to strengthen their commitment to fiscal discipline and to provide greater resources to backstop sovereign debt issuance. But many anticipated that further efforts to implement and perhaps to augment these policies would be necessary to fully resolve the area's fiscal and financial problems.

The minutes reiterated that participants' overall assessments of the economic outlook had not changed greatly since their previous meeting. Almost all members agreed to maintain the existing stance of monetary policy at this meeting with Chicago Fed's Charles Evans dissenting and wanting additional ease immediately. In its vote on policy action, the FOMC retained the Fed funds target at a range of zero to 0.25%, kept language that this rate would remain exceptionally low until at least mid-2013, and continued the Maturity Extension Program (Operation Twist).

For now, the Fed is on hold with extremely accommodative policy as the economic recovery slowly strengthens.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Dec 31

Press Release 1/5 (excerpts) - In the week ending December 31, the advance figure for seasonally adjusted initial claims was 372,000, a decrease of 15,000 from the previous week's revised figure of 387,000. The 4-week moving average was 373,250, a decrease of 3,250 from the previous week's revised average of 376,500.

WEEK ENDING	Dec 31	Dec 24	Change	Dec 17	Prior Year
Initial Claims (SA)	372,000	387,000	-15,000	366,000	418,000
4-Wk Moving Average (SA)	373,250	376,500	-3,250	380,750	418,000

Econoday 1/5 – Jobless claims trended steadily and significantly lower throughout December with initial claims down 15,000 in the December 31 week to 372,000 (prior week revised 6,000 higher to 387,000). The four-week average shows improvement for the fifth week in a row, down 3,250 to a recovery best of 373,250 which is more than 20,000 lower from month-end November.

Businesses have definitely been curtailing layoffs based on claims numbers, yet whether they are adding to payrolls is a separate question.

Barclays 1/5 - The Labor Department reported that no special factors affected this week's numbers, although the holiday weeks are often characterized by much volatility. Altogether, the long-term trends in both initial and continuing claims suggest that the recovery in the labor market is maintaining its momentum.

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The Economic Week Ahead: Jan 9– Jan 13, 2012

Vanguard 1/6 - A light week of economic reports is scheduled for release in the second week of the new year. On Monday, the Federal Reserve will issue its November report on consumer credit. The U.S. Department of Commerce will release the latest economic data in the areas of retail sales and business inventories (Thursday) and international trade (Friday).

This Week's U.S. Economic Calendar

Source: MarketWatch

	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, JAN. 9	3 pm	Consumer Credit	Nov.	--	\$7.6 billion
TUESDAY, JAN. 10	10 am	Wholesale Inventories	Nov.	--	1.6%
WEDNESDAY, JAN. 11	2 pm	Beige Book		--	--
THURSDAY, JAN. 12	7:30 am	NFIB Small Business Index	Dec.	--	92.0
	8:30 a.m.	Jobless Claims	1-7-2012	N/A	N/A
	8:30 am	Retail Sales	Dec.	0.2%	0.2%
	8:30 am	Retail Sales Ex-Autos	Dec.	0.3%	0.2%
	10 am	Inventories	Nov.	--	0.8%
FRIDAY, JAN. 13	8:30 am	Trade Deficit	Nov.	-\$45.0 billion	-\$43.5 billion
	8:30 am	Import Price Index	Dec.	0.5%	0.7%
	9:55 am	Consumer Sentiment	Jan.	71.0	69.9