Economic Week In Review: So Long To 2009

Vanguard 1/8 - If the daily broadcast of mixed economic news sounds like the same old song, then 2009 certainly ended on a sour note. Nonfarm payroll employment dropped sharply, construction spending was down, and a key service-sector indicator languished in neutral. For the week, the S&P 500 gained 2.7% to 1,145, while the 10-year U.S. Treasury note yield dipped 2 basis points to 3.83%.

ADP Employment Report

Econoday 1/6 - ADP estimates December private payrolls will fall by **84,000**. The new ADP employment report is aimed at improving payroll forecasts by providing information in advance of the employment report. (Note – Looks like it works, at least this time.)

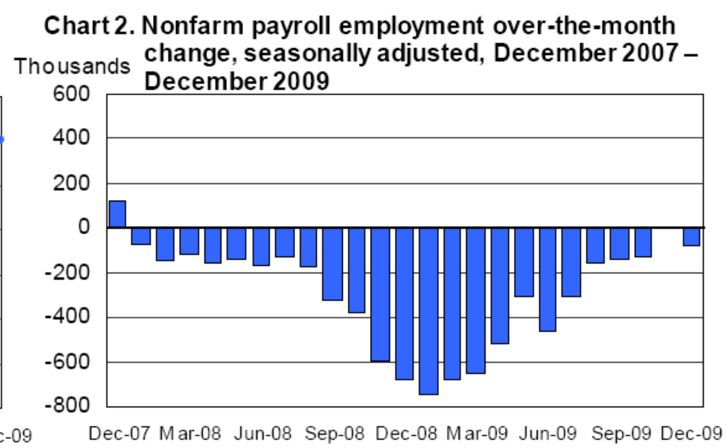
Non-Farm Payrolls – December, Job Numbers Suffer Declines Once More

Vanguard 1/8 - The nation's slow economic rebound often has been called a jobless recovery, and the latest figures provided no contrary evidence. Nonfarm payrolls lost another **85,000** jobs in December, a considerable disappointment after November's revised numbers showed a 4,000 gain. The U.S. unemployment rate thus remained unchanged at 10%, though many analysts said a broader measure—one that includes those forced to work only part-time or too discouraged to look for work—is closer to 17%. Overall, the country lost almost 5 million jobs in 2009.

"Ironically, as the economy improves and people on the sidelines resume looking for work, we expect the main unemployment rate will move slightly higher later this year," said Vanguard economist Roger Aliga-Diaz.

Non-Farm Payrolls – December

Press Release 1/8 (excerpts) - Nonfarm payroll employment edged down (-85,000) in December, and the unemployment rate was unchanged at 10.0%, the U.S. Bureau of Labor Statistics reported today. Employment fell in construction, manufacturing, and wholesale trade, while temporary help services and health care added jobs.



In December, both the number of unemployed persons, at 15.3 million, and the unemployment rate, at 10.0%, were unchanged. At the start of the recession in December 2007, the number of unemployed persons was 7.7 million, and the unemployment rate was 5.0%.

Construction employment declined by 53,000 in December, with job losses throughout the industry. Employment in construction has fallen by 1.6 million since the recession began.

The change in total nonfarm payroll employment for October was revised from -111,000 to -127,000, and the change for November was revised from -11,000 to +4,000.

Indicator	Prior	Prior Revised (November)	Consensus Forecast	Consensus Range	Actual
Nonfarm Payrolls - M/M change	-11,000	4,000	10,000	-50,000 to 40,000	**-85,000**

Econoday 1/8 - Payroll jobs finally turned positive with today's employment report but the problem is that it was in revised November data. Markets quickly looked past the gain in November as December fell back significantly. Nonfarm payroll employment in December fell 85,000, following a revised gain of 4,000 in November and a revised fall of 127,000 in October. For the latest month, **the consensus had forecast a rise of 10,000 in payroll jobs**. November and October revisions were down 1,000 net for the two months.

The big miss by analysts for December was in the government component which declined 21,000 jobs in December after rising 4,000 in November. Forecasters had assumed that the private sector decline in jobs in the earlier released ADP report would be offset by a sizable gain in government jobs.

Back to the BLS payroll numbers, the December drop was led by an 81,000 fall in the goods-producing sector which included a 53,000 decline in construction and a 27,000 decrease in manufacturing. Mining was unchanged.

The service providing sector dipped 4,000 after a 62,000 gain in November. The largest decreases were in trade & transportation, down 37,000, and in government, down 21,000. The big positive was a 50,000 jump in professional & business services with temp help jumping 47,000. Temp hiring tends to be a leading indicator for overall payrolls.

On a year-ago basis, payroll jobs rose to minus 3.1% in December from minus 3.5% the previous month.

Wage inflation in December was unchanged as average hourly earnings rose 0.2% and also matched the market forecast. The average workweek was steady at 33.2 hours in December.

From the household survey, the unemployment rate was unchanged at 10.0% in December. Today's report includes household survey data reflecting annual revisions to seasonal factors. November had originally been estimated at 10.0% and was unrevised. For December, the market had anticipated an uptick to 10.1%.

The economy is in recovery but it is still a jobless recovery. Productivity will be up in the fourth quarter and that will be good for near-term profits. But without a healthy consumer sector, the profits picture is not so rosy.

WSJ 1/8 Economists React: Non-Farm Payrolls (excerpts)

Despite the disappointment over the headline payroll decline, the improvement in the three-month trend is not violated by this report and, given the further decline in initial jobless claims since the December payroll survey week, we still believe we are on the verge of the emergence of modest payroll growth. –RDQ Economics

November payrolls looked too good to be true relative to ADP and other indicators so this is a correction; the underlying trend undoubtedly continues to improve and payrolls will be positive by February, not least because Census hiring will start to rise. Unemployment will be slow to fall though because people will come back into the labor force, and wages will keep slowing. –Ian Shepherdson, High Frequency Economics

Overall the December employment report was a disappointment and potentially highlights the difficulties making the transition from the end of firing to actual hiring. –Julia Coronado, BNP Paribas

The jobs situation had been improving since summer on the back of reduced layoffs but in December the run to recovery slammed into **the hard reality that no one is hiring**… Although the pace of layoffs is far less than it was in the spring, the lack of hiring means that those out of work continue to stay that way for a long time. When the employment data are stacked up with consumer activity and the like the total picture is of an economy that has stopped falling but has yet to start improving in earnest. –Steven Blitz, Majestic Research

FOMC Minutes: Fed Agrees On Rates But Differs On Economy

Vanguard 1/8 - In minutes released from its mid-December meeting, the Federal Reserve Board's Open Market Committee unanimously voted to keep the federal funds rate for interbank lending in a range of 0% to 0.25%, but disagreed about the overall health of the economy. Some policymakers at the meeting believe the economy may be "gaining momentum," while others voiced concern that high unemployment and the eventual dissipation of federal stimulus money could stall the fragile recovery.

"Some participants remained concerned about the economy's ability to generate a self-sustaining recovery without government support," the minutes revealed.

Econoday 1/6 – Highlights - The minutes for the December 15-16 FOMC meeting showed a number of areas of debate internally within the Fed even though the latest policy vote was unanimous. The Fed governors and District presidents were split on whether inflation risk was on the upside or downside, although they agreed that underlying inflation currently is subdued. Interest rates remain on hold for some time although debate is heating up over **what to do with the sharply expanded balance sheet**. There was a modest upgrade on the overall economy in terms of downside risks were seen as "diminished a bit further."

"In their discussion of the economic situation and outlook, meeting participants agreed that the incoming data and information received from business contacts suggested that economic growth was strengthening in the fourth quarter, that firms were reducing payrolls at a less rapid pace, and that downside risks to the outlook for economic growth had diminished a bit further."

However, they also noted that while layoffs were slowing, **few firms were actually hiring**. One positive, however, was a pickup in the hiring of temp workers.

In terms of use of the Fed's balance sheet for policy, there was some debate over whether current plans need to be adjusted.

"A few members noted that resource slack was expected to diminish only slowly and observed that it might become desirable at some point in the future to provide more policy stimulus by expanding the planned scale of the Committee's large-scale asset purchases and continuing them beyond the first quarter, especially if the outlook for economic growth were to weaken or if mortgage market functioning were to deteriorate. One member thought that the improvement in financial market conditions and the economic outlook suggested that the quantity of planned asset purchases could be scaled back, and that it might become appropriate to begin reducing the Federal Reserve's holdings of longer-term assets if the recovery gains strength over time."

Fed staff economists noted continuing difficulties in credit markets, including further declines in household debt, additional decreases in commercial bank credit, and reductions in commercial paper outstanding. In contrast, gross issuance of investment- and speculative-grade bonds was robust in November.

"In the forecast prepared for the December FOMC meeting, the staff raised its projection for average real GDP growth in the second half of 2009 somewhat, and it also modestly increased its forecast for economic growth in 2010 and 2011."

"The staff again anticipated that the recovery would strengthen in 2010 and 2011, supported by further improvement in financial conditions and household balance sheets, continued recovery in the housing sector, growing household and business confidence, and accommodative monetary policy, even as the impetus to real activity from fiscal policy diminished. However, the projected pace of real output growth in 2010 and 2011 was expected to exceed that of potential output by only enough to produce a very gradual reduction in economic slack."

"The staff forecast for inflation was nearly unchanged. The staff interpreted the increases in prices of energy and nonmarket services that recently boosted consumer price inflation as largely transitory."

The difference between recent and past debates is its current complexity-meaning more debate is a good thing.

Consumer Credit – November 2009

Vanguard 1/8 - Outstanding balances on consumer credit fell $17.5 billion in November as households tightened their belts even during the holiday shopping season. The plunge equates to an annualized 8.1%, the largest decrease since 1980. While the numbers put downward pressure on credit card interest rates, consumer spending accounts for about 70% of the U.S. economy. In other words, what's good for the family budget may not be viable for sustained economic growth.

Press Release 1/8 - Consumer credit decreased at an annual rate of 8-1/2% in November. Revolving credit decreased at an annual rate of 18-1/2%, and non-revolving credit decreased at an annual rate of 3%.

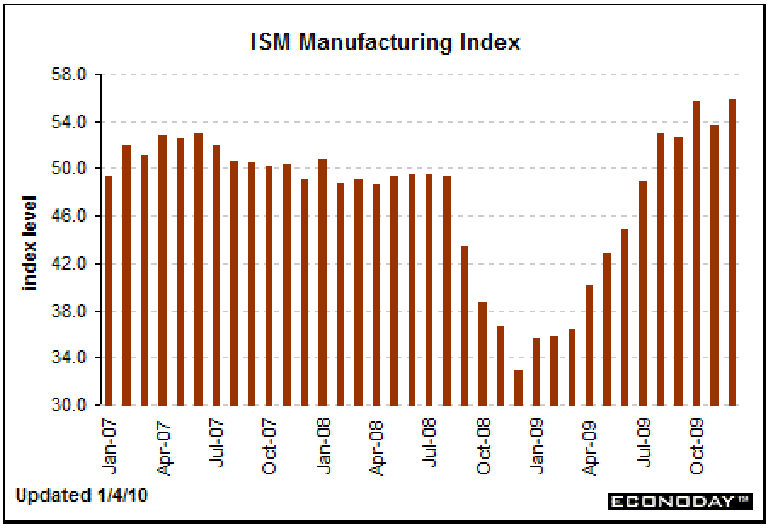
Factory Orders Surge

Vanguard 1/8 - U.S. factory orders climbed 1.1% in November as the manufacturing sector continues to show signs of steady growth. Orders for nondefense capital goods excluding airplanes—considered a key indicator of capital spending by U.S. businesses—surged 3.6%. Rising petroleum prices also fueled the increase. Analysts said that the growth in factory orders, combined with the jump in the ISM Index, shows broad-based gains among industrial sectors.

ISM Manufacturing Index - December

Vanguard 1/8 - The Institute for Supply Management's purchasing managers' index hit its highest level since April 2006 at 55.9 in December, an expansion analysts said also was reflected in European and Asian markets. The manufacturing index has remained at an expansionary level—above 50—for five consecutive months. New orders increased to 65.5, the highest level since 2006, and the production index rose to 61.8. Factory employment ticked up to 52.0 from 50.8 in November as firms likely recalled workers to handle increasing demand.

Econoday 1/4 - Growth in the manufacturing sector is accelerating quickly, according to the ISM report which opens the New Year on a strong economic note. The headline composite index shows solid month-to-month growth in December at 55.9, greater month-to-month growth than the 53.6 reading in November. But the surprise in the report is new orders which, despite a run of very strong gains in prior months, jumped more than 5 points to 65.5. This is exactly where strength in the report should be, pointing as it does to rising activity through the manufacturing sector in the months ahead.



Today's report is surprisingly strong and will lift expectations for first half economic recovery led by the manufacturing sector.

The ISM manufacturing index (formerly known as the NAPM Survey) is constructed so that any level at 50 or above signifies growth in the manufacturing sector. A level above 43 or so, but below 50, indicates that the U.S. economy is still growing even though the manufacturing sector is contracting. Any level below 43 indicates that the economy is in recession.

Press Release (excerpts) 1/4 - “This month's report is quite strong as both the New Orders and Production Indexes are above 60 percent. Overall, the recovery in manufacturing is continuing, but there are still some industries mired in the downturn as evidenced by the seven industries still in decline."

The seven industries reporting contraction in December — listed in order — are: Wood Products; Nonmetallic Mineral Products; Miscellaneous Manufacturing; Plastics & Rubber Products; Chemical Products; Printing & Related Support Activities; and Fabricated Metal Products.

ISM Non-Manufacturing Index: Service Sector Remains In Neutral

Vanguard 1/8 - However, the ISM Non-Manufacturing Index, an important gauge of service-sector activity, moved up to only 50.1 in December. Since the service sector comprises almost 90% of the nation's economy, experts said the tepid increase from 48.7 in November reflects a very soft labor market.

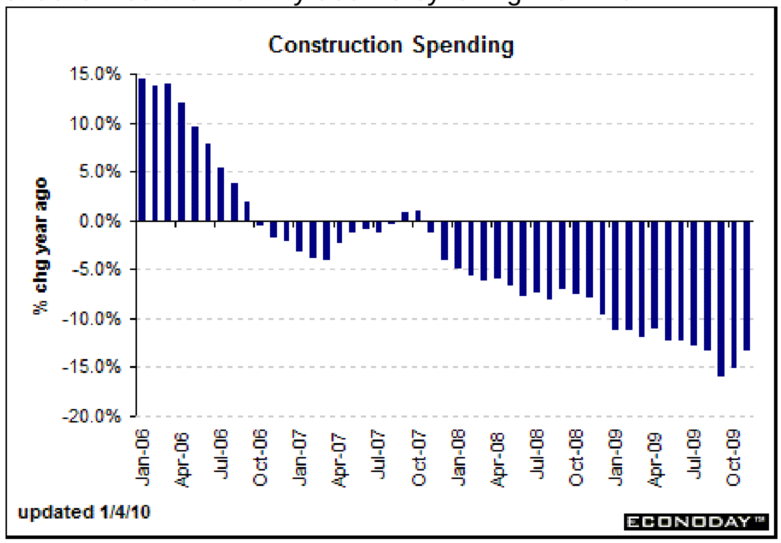
Press Release 1/6 (excerpts) - Seven non-manufacturing industries reported growth in December. Respondents' comments vary by industry and, for the most part, are either neutral or slightly more optimistic about business conditions."

Pending Home Sales

Econoday 1/5 - Indications on the housing sector have been volatile and unfortunately today's pending home sales report is extremely weak. Pending home sales plunged 16.0% in November with all regions showing declines. The National Association of Realtors, which compiles the report, blamed the November drop on the expiration of prior stimulus measures. The NAR said new expanded measures that have since been put in place, along with low home prices, should stimulate a sales rebound during the spring. But the spring is a long way off and today's report will sharply lower expectations for the existing home sales report at month end.

Construction Spending Declines Again - November

Vanguard 1/8 - Residential and public construction for November was off 0.6% from October and down sharply by 13.2% from November 2008. Private residential construction led the monthly decline by falling 1.6% from October. Many analysts believe the number of foreclosed homes expected to hit major U.S. markets is likely to keep residential housing construction in check for 2010. Nonresidential construction held steady for the first time since April, primarily due to a spending increase to build electricity power structures. U.S. utilities may be preparing to increase capacity to meet rising power demands.



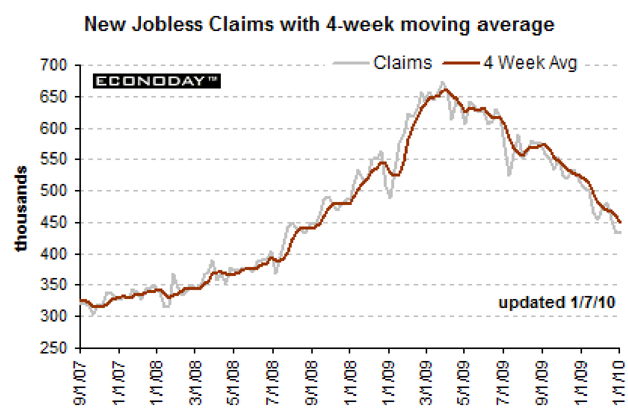
Econoday 1/4 - November's dip was only a little worse than market forecast for a 0.5% drop. But October was a sharp downward revision from the initial estimate of no change.

The latest construction outlays report will lead many economists to shave their forecasts for fourth quarter GDP growth.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Jan. 2

Press Release 1/7 (excerpts) – In the week ending Jan. 2, the advance figure for seasonally adjusted initial claims was 434,000, an increase of 1,000 from the previous week's revised figure of 433,000. The 4-week moving average was 450,250, a decrease of 10,250 from the previous week's revised average of 460,500.

The advance seasonally adjusted insured unemployment rate was 3.6% for the week ending Dec. 26, a decrease of 0.2 percentage point from the prior week's unrevised rate of 3.8%.



The advance number for seasonally adjusted insured unemployment during the week ending Dec. 26 was 4,802,000, a decrease of 179,000 from the preceding week's unrevised level of 4,981,000. The 4-week moving average was 5,005,750, a decrease of 95,250 from the preceding week's unrevised average of 5,101,000.

The fiscal year-to-date average for seasonally adjusted insured unemployment for all programs is 5.565 million.

WEEK ENDING	Advance Jan. 2	Dec. 26	Change	Dec. 19	Prior Year
Initial Claims (SA)	434,000	433,000	+1,000	454,000	488,000
4-Wk Moving Average (SA)	450,250	460,500	-10,250	465,750	528,000

Econoday 1/7 - Initial jobless claims were little changed in the Jan. 2 week, up 1,000 to 434,000 (prior week revised 1,000 higher to 433,000). The Labor Department reported no special factors. The four-week average extended its long streak of improvement, down a sizable 10,250 to 450,250 for its lowest level since September last year. Continuing claims continue to show improvement, down 179,000 in the Dec. 26 week to 4.802 million.

Breaking News: Fitch Affirms US Rating

WSJ 1/11 - Little reaction from the Treasury market after Fitch affirms US's triple A credit ratings with a stable outlook. "The near-term risk to the United States' 'AAA' status is minimal given its exceptional financing and economic flexibility and the US dollar's role as the world's predominant reserve currency. However, difficult decisions will have to be made regarding spending and tax to underpin market confidence in the long-run sustainability of public finances and the commitment to low inflation," says Brian Coulton, head of Global Economics and the Primary Analyst for the US at Fitch.

While TARP spending is less than expected, the unresolved future of Fannie Mae and Freddie Mac pose fiscal risks. Fitch also notes the threat to budget deficit from rising rates: given shortening of average maturity of federal debt, rising rates will feed through "relatively quickly" to budget.

GSE Bond Market: New Farm Credit Designated Bond

Announcement 1/10 – Funding Corporation announced a new 3-year Designated Bond. Total size is yet to be determined. Pricing is expected later today. Barclays Capital, HSBC Securities (USA), and UBS Securities are the lead underwriters.

The Economic Week Ahead: January 11 – January 15

Vanguard 1/8 - It'll be another busy week for economic reports, starting with international trade figures on Tuesday and the Fed's Beige Book on Wednesday. Thursday's triple play features reports on jobless claims, retail sales and business inventories, followed by Consumer Price Index and industrial production numbers on Friday.

This Week's U.S. Economic Calendar

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior
Jan 12	08:30	Trade Balance	Nov		-$31.0B	-$34.5B	-$32.9B
Jan 13	14:00	Fed's Beige Book					
Jan 14	08:30	Initial Jobless Claims	01/09		450K	433K	434K
Jan 14	08:30	**Retail Sales**	Dec		0.6%	0.5%	1.3%
Jan 14	08:30	Import - Export Prices ex-ag.	Dec				
Jan 14	10:00	Business Inventories	Nov		0.5%	0.2%	0.2%
Jan 15	08:30	**Consumer Price Index (CPI)**	Dec		0.2%	0.2%	0.4%
Jan 15	08:30	Empire Manufacturing Survey	Jan		5.00	11.25	2.55
Jan 15	09:15	Capacity Utilization	Dec		72.3%	71.8%	71.3%
Jan 15	09:15	Industrial Production	Dec		1.0%	0.6%	0.8%
Jan 15	09:55	Michigan Consumer Sentiment	Jan				

Source: Briefing.com

FFCB Weekly Debt Issuance Activity

Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
11-Dec	$ 4,175	$ 2,036	21	$ 914	9
18-Dec	6,135	2,343	15	653	6
25-Dec	6,080	862	12	195	3
1-Jan	6,775	490	7	694	4
8-Jan	11,855	2,836	25	605	6