

Market Comment *Economic Highlights for the week ended February 10, 2012*

Economic Week In Review: U.S. Consumers Take On More Debt

Vanguard 2/10 - In a light week for economic news, the U.S. trade deficit increased and U.S. consumer borrowing rose. The trend of fewer people applying for jobless benefits continued, a sign that hiring is picking up. For the week ended February 10, the S&P 500 Index declined 0.2% to 1,343 (for a year-to-date total return—including price change plus dividends—of about +7.0%). The yield on the 10-year U.S. Treasury note fell 1 basis point to 1.96% (for a year-to-date increase of 7 basis points).

Consumer Credit - December: Credit Surprises To The Upside As Non-Revolving Credit Jumps

Vanguard 2/10 - U.S. consumer borrowing climbed \$19.3 billion in December (an annualized growth rate of 9.3%), far greater than the \$7.2 billion expected by analysts. Federal student loans and car loans were responsible for much of the increase. The leap in borrowing could be attributed to consumers' renewed faith in the economy as well as the need for some consumers to cover expenses, especially around the holidays, in tough economic times. Outstanding credit rose 11 of 12 months in 2011.

"I'm a bit cautious about what this increase in consumer credit could mean for consumer spending in 2012," said Roger Aliaga-Díaz, Vanguard senior economist. "Overall last year, we saw relatively strong spending combining with slow personal income growth, which led to declining saving rates and more consumer borrowing. That could be worrisome—it feels too early in the consumer deleveraging cycle for households to start piling on debt again."

Econoday 2/7 – The consumer is beginning to take on debt for the first time in the recovery. Up until now, consumers had been limiting their credit card usage. The rise in consumer credit, if extended to a long trend, would be a new and very big plus for the recovery.

Barclays 2/7 - ...the majority of the gain came from the non-revolving component, which increased by \$16.6bn. This was the largest increase in non-revolving credit since 2001 and was driven by debt held by the federal government (mostly student loans), which increased by \$13.1bn according to our seasonal adjustment process.

Trade Deficit - December

AFP 2/13 - The trade deficit grew in December as an increase in imports (\$3.2 billion to \$227.6 billion) outpaced that for exports (\$1.3 billion to \$178.8 billion). Import activity for all of 2011 was 11.6% higher than it was in 2010 while export activity grew 14.5%. The goods deficit expanded by \$1.8 billion in December to -\$64.3 billion while the surplus for services remained at +\$15.5 billion. The largest goods deficits in December were with China (\$3.8 billion smaller to -\$26.9 billion), the EU (down \$0.1 billion to -\$9.7 billion), OPEC (unchanged at \$9.1 billion) and Japan (\$0.3 billion larger to -\$6.5 billion).

Vanguard 2/10 - The U.S. trade deficit widened in December to \$48.8 billion, a six-month high and 3.7% over November's revised \$47.1 billion. Exports climbed 0.7%, but the growth of the U.S. economy led to a larger 1.3% increase in imported goods. However, it was the first advance for exports in three months, with most of the growth in food and beverage products, industrial supplies, and automobiles. Import growth was spread across more industries, including automobiles, capital goods, and consumer goods.

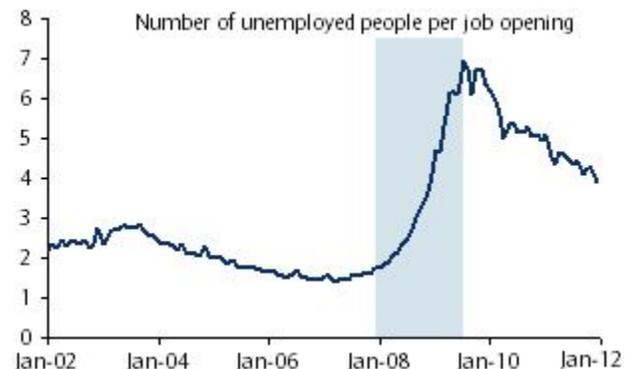
Econoday 2/10 – The rise in imports was led by capital goods excluding autos with consumer goods a close second. Apparently, businesses are a little more optimistic about boosting investment and also are planning on gains in consumer spending. Today's report was a little worse than expected.

Wholesale Inventories - December: Upside Surprise

Barclays 2/9 - Wholesale inventories rose 1.0% m/m in December, above our forecast (0.3%) and the consensus (0.4%). The details revealed broad-based strength, with strong gains in both durables (0.7%) and non-durables (1.3%). The former partly reflected a 2.8% jump in auto inventories, although the upside surprise was evident in the non-auto component as well.

Job Openings - December

Barclays 2/7 - The December US Job Openings and Labor Turnover (JOLTs) report showed 3.4 million job openings in December, up from 3.1 million in November. With 13.1 million



Market Comment *Economic Highlights for the week ended February 10, 2012*

people unemployed, there were an estimated 3.9 unemployed people for every opening, the lowest level since December 2008. This report is consistent with the underlying trend we have seen in the past two years in the JOLTs report, which is that job openings have been rising faster than hiring. This suggests that factors such as mismatched skills continue to be frictions in the labor market.

AFP 2/13 - Both September and December had more job openings than any other month since August 2008, with the December figure up 15.5% from a year earlier. While the number of number of openings must continue to grow to eat away at the huge cache of unemployed workers (and to match the pre-recession average of 4.5 million openings), this data taken with the (non-farm) payroll data as further evidence that 2012 is gearing up to be a good one for the labor market.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – Week of Feb 4

Press Release 2/9 (excerpts) - In the week ending February 4, the advance figure for seasonally adjusted initial claims was 358,000, a decrease of 15,000 from the previous week's revised figure of 373,000. The 4-week moving average was 366,250, a decrease of 11,000 from the previous week's revised average of 377,250.

WEEK ENDING	Feb 4	Jan 28	Change	Jan 21	Prior Year
Initial Claims (SA)	358,000	373,000	-15,000	379,000	391,000
4-Wk Moving Average (SA)	366,250	377,250	-11,000	377,750	418,250

Barclays 2/9 - The Department of Labor indicated that no special factors affected this week's estimates. In general, claims data so far this year have been a bit volatile, which is not unusual because of the unwinding of seasonal hiring.

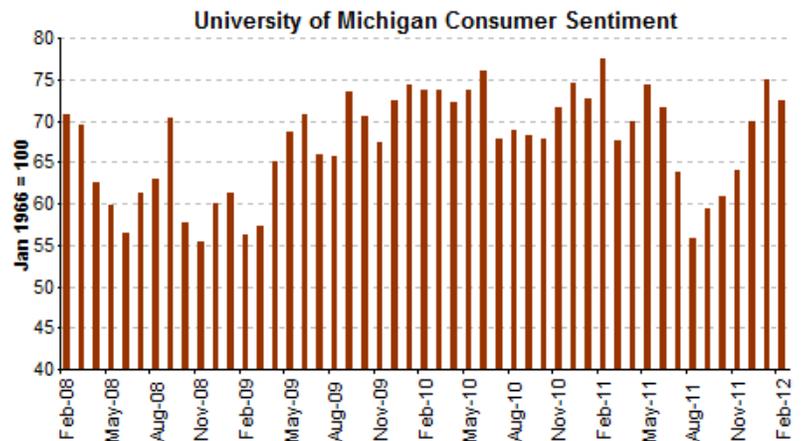
AFP 2/13 - Initial claims for unemployment insurance benefits dropped at their fastest pace in 4 weeks. The 4-week moving average shrank by 11,000 to 366,250. The moving average a year ago was 418,250. 7,663,000 people were receiving some form of unemployment insurance during the week ending January 21, down from 9,362,000 a year earlier.

Consumer Sentiment - December

Barclays 2/10 - The preliminary February reading of the University of Michigan's index of US consumer sentiment decreased to 72.5 after a print of 75.0 in January. This was slightly below our expectations (73.5) and the consensus (74.8). Most of the drop was attributable to a decline in the current conditions index, which came in at 79.6 (previous: 84.2), as consumers generally had a worse assessment of their current finances. 45% of respondents said they were worse off financially than a year ago, which was up from 41% in January and 39% in February 2011.

Consumer opinion of government policy, while up from the lows around the time of the debt ceiling debacle, was still poor. Only 11% thought that the government's economic policy was doing a good job; while above the January reading of 7%, it was about half of the level in February 2011 (20%). Median inflation expectations dropped slightly, to 3.2%, for the year ahead (previous: 3.3%) and rose to 2.9% for the next five to ten years (previous: 2.7%).

The possibility of a failure to extend the payroll tax cut (tax holiday, actually) looms large as a downside risk to consumer sentiment.



Econoday 2/10 – The current conditions component fell 4.6 points in the mid-February reading to 79.6, down 5.5% to completely reverse January's gain and take the level back to December.

Market Comment *Economic Highlights for the week ended February 10, 2012*

Sentiment measures of consumer confidence swing on turns in the jobs market and the current conditions component of this report, in contrast to the drop underway in jobless claims, points to the risk that the pace of payroll growth is slowing.

The Economic Week Ahead: Feb 13– Feb 17, 2012

Vanguard 2/10 - A fresh round of data will be released next week, beginning with reports on retail sales and business inventories (Tuesday). The news continues with industrial production and the release of minutes from the most recent Federal Open Market Committee meeting (Wednesday), producer prices and new residential construction (Thursday), and consumer prices and leading economic indicators (Friday).

This Week's U.S. Economic Calendar

Source: MarketWatch

DATE	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, FEB 13		None Scheduled			
TUESDAY, FEB 14	7:30 am	NFIB Small-Business Index	January	--	93.8
	8:30 am	Retail Sales	January	0.9%	0.1%
	8:30 am	Import Prices	January	0.5%	-0.1%
	10 am	Inventories	December	--	0.3%
WEDNESDAY, FEB. 15	9:15 am	Industrial Production	January	0.9%	0.4%
	9:15 am	Capacity Utilization	January	78.8%	78.1%
	2 pm	FOMC Minutes	1/26		
THURSDAY, FEB. 16	8:30 a.m.	Initial Claims For Unemployment Benefits	2-11	N/A	N/A
	8:30 am	Producer Price Index (PPI)	January	0.6%	-0.1%
	8:30 am	Core PPI	January	0.3%	0.3%
	8:30 am	Housing Starts	January	690,000	657,000
FRIDAY, FEB. 17	8:30 am	Consumer Price Index (CPI)	January	0.3%	0.0%
	8:30 am	Core CPI	January	0.2%	0.1%
	10 am	Leading Indicators	January	--	0.4%