Economic Week In Review: Shoppers Break Out The Plastic

Vanguard 2/11 - The light slate of economic news this week dealt with rising demand. Higher oil prices and a healthier appetite for spending led the U.S. trade deficit to increase in December, as imports grew more than foreign demand for U.S. exports. Increased spending also translated to higher consumer borrowing. In international news, political unrest in Egypt continued for a third week, disrupting the country's economy and keeping its stock market closed.

For the week ended February 11, the S&P 500 Index rose 1.4% to 1,329 (for a year-to-date total return of about 5.9%). The yield of the 10-year U.S. Treasury note fell 4 basis points to 3.64% (for a year-to-date increase of 34 basis points).

Consumer Credit – December: Consumers Borrow More

Vanguard 2/11 - In a spending mode for the holidays, consumers loosened their purse strings in December much more than expected. Total credit outstanding rose more than $6 billion, compared with a consensus forecast higher than $2 billion. December represented the third straight month of higher total consumer credit balances. Perhaps even more significantly, revolving credit (primarily credit card debt) increased for the first time in more than two years. Non-revolving credit also grew, but at a slower pace, as sales of new and used vehicles were relatively steady.

"This is a significant milestone in terms of the recovery," Vanguard economist Roger Aliaga-Díaz observed. "Going forward, consumers may have more money available for spending as they pay down less debt—which will contribute more to overall economic growth. This moderate increase in consumer credit doesn't mean that households are undoing the painful but healthy debt reduction of the last two or three years. As long as borrowing keeps pace with income growth and wealth creation, household balance sheets should remain in good shape."

Econoday 2/7 - Consumer credit rose $6.1 billion in December showing, for the first time in the recovery, gains for both revolving and non-revolving credit. Revolving credit, up $2.3 billion, rose for the first time in 27 months. Non-revolving credit, reflecting strength in vehicle sales, extended its run of strength with a gain of $3.8 billion. A look at quarterly rates shows a cyclical pivot higher, at an annual plus 2.6% in the fourth quarter vs negative 1.7% in the third quarter. The rise in revolving credit is important, reflecting the strength of the holiday shopping season and the new confidence among consumers to finance their purchases once again with their cards.

International Trade – December: Trade Gap Widens

Econoday 2/11 - Higher oil prices led to a reversal and worsening in the trade gap in December. However, exports posted a solid gain for the month and excluding oil, the deficit actually narrowed notably. The overall U.S. trade deficit in December grew to $40.6 billion from an unrevised $38.3 billion deficit the prior month. The December shortfall essentially matched the median forecast for a $40.5 billion gap. Exports rose 1.8%, following a 1.0% gain in November. Imports jumped 2.6% after increasing 0.8% the month before.

The widening of the trade deficit was primarily in the petroleum gap which expanded to $25.3 billion from $20.1 billion in November. The nonpetroleum goods differential shrank to $27.2 billion from $30.4 billion the month before. While the larger overall trade gap is not good for overall economic growth, at least the boost in exports is a positive for U.S. manufacturers.

Vanguard 2/11 - The dollar value of both exports and imports climbed to levels last seen more than two years ago—a sign that the global economic recovery is proceeding. But import demand, led by rising crude oil prices, grew even more than overseas demand for U.S. goods and services. Notably, imports from China decreased, suggesting that the gradual appreciation of China's yuan relative to the U.S. dollar is having an impact on demand.

For the 2010 calendar year, the strengthening economy and rising demand—including for imports—were evident in the nearly $500 billion deficit for total goods and services, almost one-third higher than the $375 billion trade gap in 2009.

Fed Chairman Bernanke: Despite The Better Data, The Song Remains The Same

Barclays 2/9 - Federal Reserve Chairman Ben Bernanke's comments before the House budget committee were a virtual carbon copy of those he made before the National Press Club on February 3. We expected to hear dovish commentary about the durability of the recovery and the need for ongoing monetary policy accommodation. We use this opportunity to remind investors that the chairman continues to deliver the same message of caution and patience despite the better-than-expected data flow observed in recent months.

What we were looking for in the speech was how the chairman characterized the sharp drop in the unemployment rate in December and January. He said that the decline in the unemployment rate and "improvement in indicators of job openings and firms' hiring plans" provide "grounds for optimism on the employment front." … The chairman said, "the unemployment rate probably will remain elevated for some time" and "inflation is expected to persist below" the levels the Fed sees as consistent with its mandate. That said, he continues to reiterate that it will be several years before the unemployment rate returns to a more normal level and a sustained period of job creation is needed to ensure the durability of the recovery.

In response to a question about the exit strategy the chairman said that the Fed would still earn positive carry on its balance sheet and continue to remit profits back to the Treasury "under most plausible scenarios." He did acknowledge that Fed remittances to the Treasury would "decline" for a period of time under the scenario that short-term rates rose unexpectedly high, but followed by saying that higher interest rates would likely be a function of a stronger economy and Treasury tax receipts would be more elevated.

Treasury Budget - January

Econoday 2/10 - Tax receipts are rising faster than government spending is increasing which is making for improvement in the nation's still enormous debt. Receipts are up 9.4% so far in the government's fiscal year with outlays up only 4.8%. January data shows a $49.8 billion deficit which is on the low side of expectations. Four months into the fiscal year the deficit is at $418.8 billion, down from $430.7 billion a year ago. Higher tax receipts are solid evidence of economic strength.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week ended Feb. 5

Press Release 2/10 (excerpts) – In the week ending Feb. 5, the advance figure for seasonally adjusted initial claims was 383,000, a decrease of 36,000 from the previous week's revised figure of 419,000. The 4-week moving average was 415,500, a decrease of 16,000 from the previous week's revised average of 431,500.

The advance seasonally adjusted insured unemployment rate was 3.1% for the week ending Jan. 29, unchanged from the prior week's unrevised rate of 3.1%.

The advance number for seasonally adjusted insured unemployment during the week ending Jan. 29 was 3,888,000, a decrease of 47,000 from the preceding week's revised level of 3,935,000. The 4-week moving average was 3,932,250, an increase of 250 from the preceding week's revised average of 3,932,000.

WEEK ENDING	Feb. 5	Jan. 29	Change	Jan. 22	Prior Year
Initial Claims (Seasonally Adj)	383,000	419,000	-36,000	457,000	439,000
4-Wk Moving Average (SA)	415,500	431,500	-16,000	429,500	473,500

Econoday 2/10 - Maybe the job market is kicking in now. That's the subtext of a very positive jobless claims report for the February 5 week that shows a steep 36,000 decline in initial claims to 383,000 for the lowest total in 2-1/2 years (prior week revised 4,000 higher to 419,000). The Labor Department said weather effects, which delay the filing and processing of claims, are unwinding in a comment that suggests the latest level may be free of distortion. The four-week average, which helps even out weekly distortions, fell a very substantial 16,000 to 415,500, a level however that is little changed from month-ago readings.

Continuing claims are clearly coming down in what is probably a positive indication of labor market strength though some of the decline undoubtedly reflects the expiration of benefits as the unemployed fall out of the insured pool.

The Economic Week Ahead: February 14 – Feb. 18, 2011

Vanguard 2/11 - A broader menu of economic reports is on tap beginning on Tuesday with retail sales and business inventories, followed by producer prices, new residential construction, industrial production, and the latest minutes of the Federal Reserve's Open Market Committee on Wednesday. Consumer prices and The Conference Board's leading economic indicators are scheduled for Thursday.

This Week's U.S. Economic Calendar ***Source: Briefing.com***

Date	ET	Release	For	Briefing.com	Consensus	Prior
Feb 15	08:30	**Retail Sales**	Jan	0.7%	0.5%	0.6%
Feb 15	08:30	Import & Export Prices	Jan	NA	NA	0.6%
Feb 15	10:00	Business Inventories	Dec	0.7%	0.6%	0.2%
Feb 16	08:30	Housing Starts	Jan	555K	540K	529K
Feb 16	08:30	Building Permits	Jan	550K	575K	635K
Feb 16	08:30	**Producer Price Index (PPI)**	Jan	0.7%	0.7%	1.1%
Feb 16	08:30	Core PPI	Jan	0.3%	0.2%	0.2%
Feb 16	09:15	Industrial Production	Jan	0.6%	0.6%	0.8%
Feb 16	09:15	Capacity Utilization	Jan	76.2%	76.4%	76.0%
Feb 16	14:00	**Fed Open Market Committee Minutes**				
Feb 17	08:30	**Consumer Price Index (CPI)**	Jan	0.3%	0.3%	0.5%
Feb 17	08:30	Core CPI	Jan	0.1%	0.1%	0.1%
Feb 17	08:30	Initial Claims for Unemployment. Benefits	02/12	415K	408K	383K
Feb 17	08:30	Continuing Claims	02/05	3900K	3900K	3888K
Feb 17	10:00	**Leading Indicators**	Jan	0.2%	0.3%	1.0%

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
14-Jan	$ 5,045	$ 2,007	9	$ 370	5
21-Jan	5,670	872	13	1,185	6
28-Jan	7,340	1,633	22	200	2
4-Feb	6,474	1,343	17	470	4
11-Feb	6,925	2,022	20	242	3