

Market Comment *Economic Highlights for the week ended February 24, 2012*

Economic Week in Review: Favorable Signals from Housing

Vanguard 2/24 - Positive news emerged from two of the global economy's most-troubled precincts: the U.S. housing market and Greek debt negotiations. January results showed that home sales extended their favorable trend in the deeply depressed sector, while European negotiators hammered out an agreement on a second bailout plan for Greece, subject to approvals. For the week ended February 24, the S&P 500 Index rose 0.3% to 1,366 (for a year-to-date total return of about 8.9%). The yield on the 10-year U.S. Treasury note declined 3 basis points to 1.98% (for a year-to-date increase of 9 basis points).

Existing Home Sales – January

Vanguard 2/24 - Sales of previously occupied homes increased by 4.3% in January, a broad-based gain aided by a downward revision to December's result. Sales were only 0.7% higher compared with a year earlier, however, and distressed homes (foreclosures and short sales) accounted for 35% of sales. But the January sales pace—the strongest since April 2010—continued a slow, steady upward trend. The inventory of unsold homes declined to 6.1 months of supply at the current sales pace, the lowest level since spring 2006. Sales prices continued their decline, but more slowly. Among the factors cited for these trends: pent-up demand, record-low mortgage rates, falling home prices, a better jobs picture, and rising rents.

"The numbers are encouraging," said Roger Aliaga-Díaz, Vanguard senior economist, "although it's not clear they will translate into higher home prices until the large inventory of distressed and foreclosed homes clears."

AFP 2/27 - Sales inched up 0.7% on a year-to-year basis, with the West being the only region experiencing a decline (-3.1%). The inventory of unsold homes totaled 2.31 million units, down a big 20.8% from a year earlier and was the equivalent to a 6.1 months supply. The median sales price of \$201,200 was 2.2% below year ago levels.

Press Release 2/22 (excerpts) – Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 4.3% to a seasonally adjusted annual rate of 4.57 million in January from a downwardly revised 4.38 million-unit pace in December and are 0.7% above a spike to 4.54 million in January 2011.

The national median existing-home price for all housing types was \$154,700 in January, down 2.0% from January 2011. Distressed homes – foreclosures and short sales which sell at deep discounts – accounted for 35% of January sales (22% were foreclosures and 13% were short sales), up from 32% in December; they were 37% in January 2011.

Single-family home sales rose 3.8% to a seasonally adjusted annual rate of 4.05 million in January from 3.90 million in December, and are 2.3% above the 3.96 million-unit pace a year ago. The median existing single-family home price was \$154,400 in January, down 2.6% from January 2011.

According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage was a record low 3.92% in January, down from 3.96% in December; the rate was 4.76% in January 2011; recordkeeping began in 1971.

New Home Sales - January

Vanguard 2/24 - Sales of new homes declined 0.9% in January as December sales were revised upward. Compared with a year earlier, January new-home sales were 3.5% higher, a strong sales pace. As with existing homes, the longer-term sales trend for new homes is up. Sales in January rose strongly in the Northeast and South, but fell sharply elsewhere. The supply of unsold homes for November was revised to 5.9 months, edging below the 6-month threshold for the first time since 2006. Inventory has continued to decline since then, to 5.6 months in January, driven by the continuing tepid level of new construction. The median new-home sales price rose 7% from December, but was 9% lower than a year earlier.

AFP 2/27 - An interesting takeaway from both the NAR and Census Bureau's reports is the continued contraction in the inventories of unsold homes. There was a 6.1 months supply of previously owned homes at the end of January versus 7.7 months supply a year ago. The Census Bureau reported the inventory of unsold new homes was 151,000 units, 18.8% below January 2011 levels. This translates into a 5.6 month supply. A year earlier, there was a 7.2 month supply. The decline in the months supply of homes is reflective of a market where supply and demand are perhaps better matched.

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Press Release 2/24 - New Residential Sales in January 2012

Sales of new single-family houses in January 2012 were at a seasonally adjusted annual rate of 321,000, according to estimates released jointly today by the U.S. Census Bureau and the Dept. of Housing and Urban Devlp.

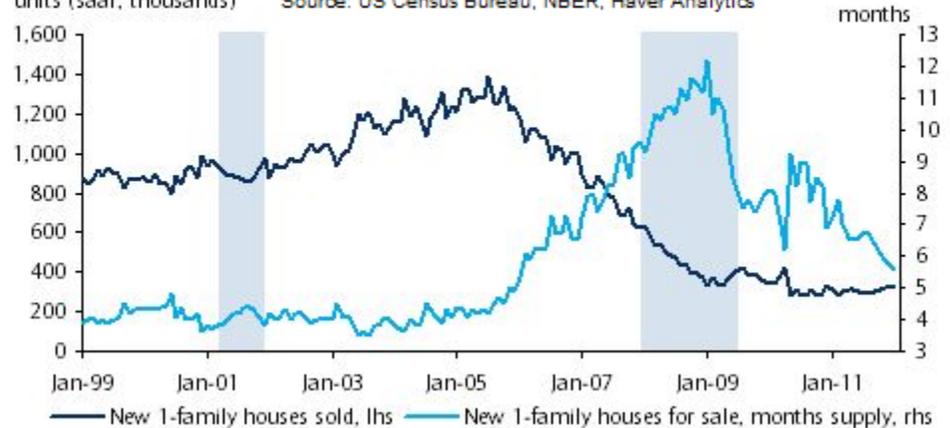
This is 0.9% ($\pm 16.6\%$) below the revised December rate of 324,000, but is 3.5% ($\pm 17.6\%$) above the January 2011 estimate of 310,000.

The median sales price of new houses sold in January 2012 was \$217,100; the average sales price was \$261,600.

The seasonally adjusted estimate of new houses for sale at the end of January was 151,000. This represents a supply of 5.6 months at the current sales rate.

New homes sold are trending modestly higher, though months supply has fallen sharply

units (saar, thousands) Source: US Census Bureau, NBER, Haver Analytics



Consumer Sentiment - February

AFP 2/27 - The recent gains in consumer optimism held up in February, as improvements in the labor market appear to be crowding out concerns emanating from Europe and the recent rise in gasoline prices (at least for the time being). While the February headline index reading from the University of Michigan Surveys of Consumers of 75.3 (seasonally adjusted) was up only 3/10ths of a point from January, it had increased 2.8 points from the preliminary February reading released two weeks ago. More importantly, the index has surged by 19.6 points since its recent low back in August, with the index increasing during each of the past six months. The current conditions index lost 1.2 points to a reading of 83.0 while the expectations index added 1.2 points to 70.3 during the month.

The press release ties the gains to “a record number of consumers that were aware of ongoing increases in jobs,” noting that a greater percentage of survey respondent are now anticipating a decline in the unemployment rate than in any time since 2004. Yet even as sentiment about future opportunities brightens, “too few consumers” actually felt good about their own personal situation. Nevertheless, the survey group’s forecast has consumer spending increasing 2.3% during 2012. The recent jump in gas prices did not affect short-term (one-year) inflation expectations, which remained at 3.3%. The longer inflation outlook (five-year) increased by 2/10ths of a point to 2.9%.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – Week of Feb 18

Press Release 2/23 (excerpts) - In the week ending February 18, the advance figure for seasonally adjusted initial claims was 351,000, unchanged from the previous week’s revised figure of 351,000. The 4-week moving average was 359,000, a decrease of 7,000 from the previous week’s revised average of 366,000.

WEEK ENDING	Feb 18	Feb 11	Change	Feb 4	Prior Year
Initial Claims (SA)	351,000	351,000	-0-	361,000	384,000
4-Wk Moving Average (SA)	359,000	366,000	-7,000	367,000	404,750

AFP 2/27 - Even though the number of first-time claims for unemployment insurance was unchanged from the previous week, the 4-week moving average declined by 7,000 to 359,000. This was down from 404,750 a year earlier and its lowest reading since March 2008. 7.503 million people were receiving some form of unemployment insurance benefits during the week ending February 4, down from 9.162 million from a year earlier.

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The Economic Week Ahead: Feb 27– Mar 2, 2012

Vanguard 2/24 - Among the upcoming reports are further estimates of **4th-quarter and 2011 gross domestic product** and the Federal Reserve's survey of business conditions known as the Beige Book; those reports are due Wednesday. Also on tap are reports on durable goods and consumer sentiment on Tuesday and, all on Thursday, reports on personal income, construction spending, and the ISM's manufacturing-sector survey.

This Week's U.S. Economic Calendar

Source: MarketWatch

Date	Time (Et)	Report	Period	Actual	Forecast	Previous
Monday Feb. 27	10:00 am	Pending Home Sales Index	January	2.0%	--	-1.9%
Tuesday, Feb. 28	8:30 am	Durable Goods Orders	January	-1.3%		3.0%
	9:00 am	Case-Shiller Home Prices	December	--		-1.3%
	10:00 am	Consumer Confidence	February	64.5		61.1
Wed., Feb. 29	8:30 am	GDP	4Q & 2011	2.7%		2.8%
	9:45 am	Chicago PMI	February	60.0%		60.2%
	2:00 pm	FOMC Beige Book				
Thursday, Mar. 1	8:30 am	Initial Jobless Claims	2-25	350,000		351,000
	8:30 am	Personal Incomes	January	0.4%		0.5%
	8:30 am	Consumer Spending	January	0.4%		0.0%
	8:30 am	Core PCE Price Index	January	0.2%		0.2%
	10:00 am	ISM Manufacturing Index	February	54.5%		54.1%
Friday, Mar. 2	10:00 am	Construction Spending	January	1.0%		1.5%
	na	None Scheduled				

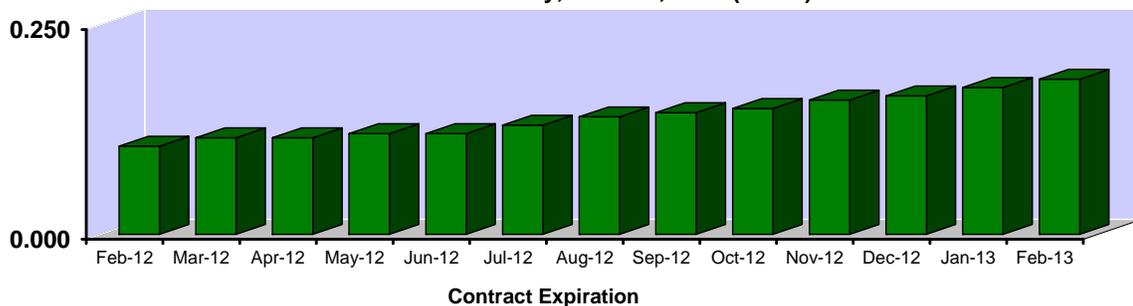
FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes \$million	New Bonds \$millions	Issue Count	Called Bonds Par \$millions	Issue Count
6-Jan	6,635	3,163	25	1,698	15
13-Jan	4,560	3,100	36	1,710	19
20-Jan	2,785	4,083	32	3,331	23
27-Jan	1,770	2,742	24	2,274	16
3-Feb	2,644	3,443	18	2,866	17
10-Feb	2,510	2,045	20	1,209	12
17-Feb	4,355	2,454	33	1,118	7
24-Feb	4,525	1,458	22	456	5

Futures-Implied Fed Funds Rate

Avg. Fed Funds Rate %

Monday, Feb. 27, 2012 (Settle)



	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12
Rate %	0.105	0.115	0.115	0.120	0.120	0.130	0.140	0.145	0.150	0.160
FOMC MEETINGS:		3/13	4/25		6/20	7/31		9/12	10/24	