Market Comment *Economic Highlights for the week ended February 25, 2011*

Economic Week In Review: Good GDP News, But Trimmed A Bit

Vanguard 2/25 – The U.S. economy grew 2.8% in the fourth quarter, the sixth straight quarterly increase, though the pace was more modest than an earlier estimate. Less spending by fiscally strapped state and local governments was one reason for the downward revision. Consumers also spent less than initially thought. For the week ended February 25, the S&P 500 Index fell 1.7% to 1,320 (for a year-to-date total return of about 5.3%). The yield of the 10-year U.S. Treasury note fell 17 bps to 3.42% (for a year-to-date increase of 12 bps).

GDP – Second Estimate – Q4: GDP Grows A Bit Less Than Expected

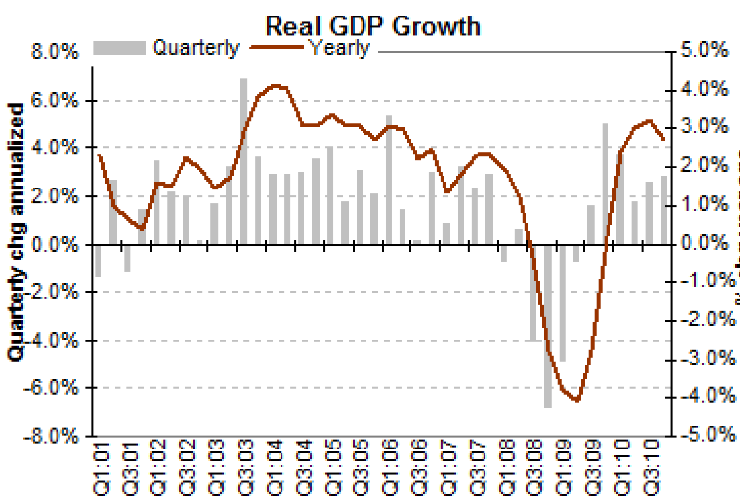
Vanguard 2/25 - Real gross domestic product (GDP) rose at an annualized rate of 2.8% in the fourth quarter, below expectations and slower than the previously estimated increase of 3.2%. Several factors produced a slower pace of growth. Consumer spending—the largest increase since the first quarter of 2006—was nevertheless lower than the previous estimate. And state and local governments, which are still reeling from the recession-induced drop-off in tax revenues, cut spending more than anticipated. A "final" estimate of the quarter's GDP comes out late next month.

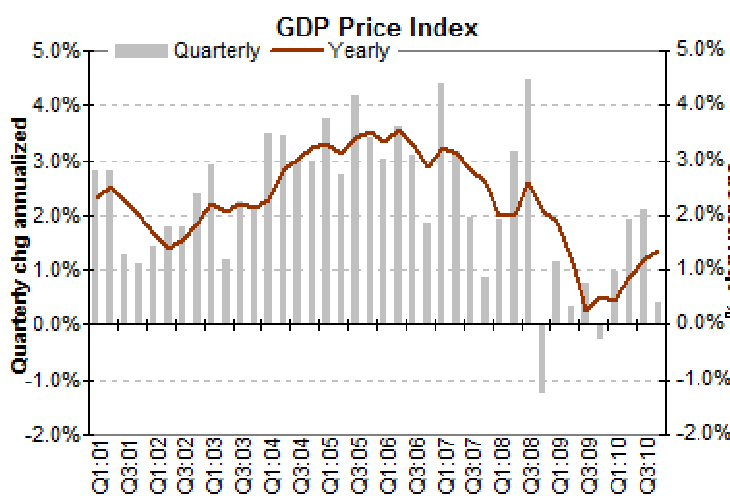
Barclays 2/25 - All in all, although this report is softer than we had expected, the rebound in the key components of domestic demand (consumer spending and business investment) during 2010 remains in place, and we continue to expect GDP growth to pick up further in Q1.

Econoday 2/25 – The downward revision to the percent change in real GDP primarily reflected an upward revision to imports (less negative) and downward revisions to state and local government spending and to personal consumption expenditures that were partly offset by an upward revision to exports.

Year-on-year, real GDP in the fourth quarter is up 2.7%, compared 3.2% in the third quarter.

On the inflation front, the GDP price index was little revised, coming in at 0.4%, compared to the initial estimate of 0.3%. However, the recent spike in oil prices makes the fourth quarter numbers irrelevant.





Consumer Confidence – February: Consumer Confidence Climbs To A Three-Year High

Vanguard 2/25 - For the fifth straight month, The Conference Board's index of consumer confidence increased and reached its highest level since February 2008. But, at a reading of 70.4, the index remains well below levels associated with strong economic growth. The gain was "due to growing optimism about the short-term future," said Lynn Franco. "Consumers' assessment of current business and labor market conditions has improved moderately, but still remains weak. Looking ahead, consumers are more positive about the economy and their income prospects, but feel somewhat mixed about employment conditions."

Barclays 2/22 – The index of expectations drove most of this gain. The labor differential (jobs plentiful less jobs hard to get) eased to -40.8 from -42.4, the third consecutive monthly increase. Elsewhere, indices for plans to buy homes and major appliances in the next six months both declined.

Econoday 2/22 - Big upward revisions to an already accelerating consumer confidence report point to a pivot higher for the consumer sector. The Conference Board's index rose to 70.4 in February for the best reading in three years. January was revised more than four points higher to 64.8.

The assessment of the jobs market definitely improved. On the current assessment, a reading that offers an indication on the monthly employment report, fewer consumers in February said jobs are hard to get, at 45.7% vs. January's 47.0%. On the outlook, substantially fewer consumers, at 15.4% vs. January's 21.2%, see fewer jobs six months from now. In a partial offset, fewer consumers see more jobs ahead, 19.8% vs. January's 20.8%.

Upward revisions are especially striking in the assessment of future income which before this report had been in unprecedented inversion, that is more saw their income decreasing than increasing. Not anymore as 17.3% of the roughly 3,000 initial sample see their income improving vs. 13.8% seeing a decrease. Revisions now show the inversion reversing back in December.

The prospect of future income is a critical assessment when making decisions on discretionary purchases. Revisions now show big gains for buying plans especially for cars and appliances. Home buying plans are still depressed but a little less depressed.

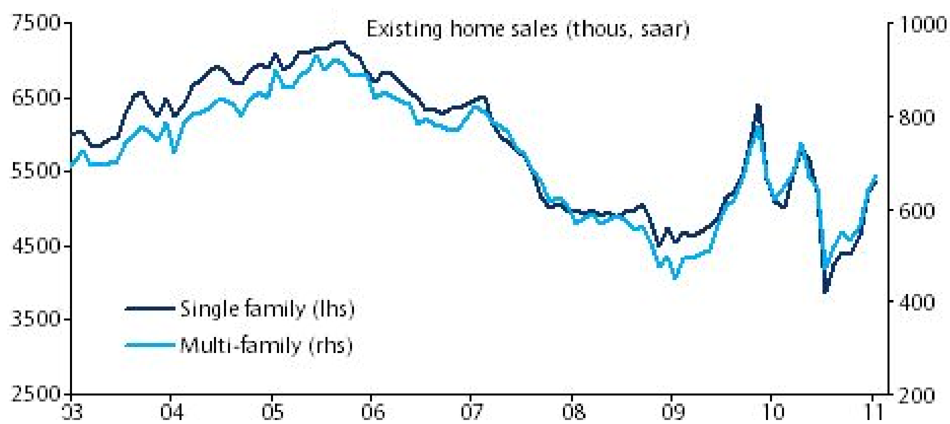
However weak job growth has been, consumers have a new upbeat, or that is less downbeat, attitude. The overall index typically moves into the 80s when optimism is greater than pessimism.

Home Sales: Existing-Home Sales Gain But New-Home Sales Slide

Vanguard 2/25 - Sales of existing homes rose in January, for the third straight month, while sales of new homes declined. Because of tight credit, there have been "abnormally high levels of all-cash purchases" of existing homes, said Lawrence Yun, chief economist at the National Association of Realtors. He also noted that a growing number of purchases are being made by investors. Sales of new homes fell by a larger-than-expected 12.6% in January after rising in December, and remain stuck near an historic bottom that was reached in the second quarter of last year. Analysts noted a variety of headwinds: competition from lower-priced distressed homes, high unemployment, tight credit, and (for potential trade-up buyers) negative equity.

Existing Home Sales - January

Econoday 2/23 - Existing home sales rose 2.7% in January to a higher-than-expected annual rate of 5.36 million units but the details aren't that encouraging. The median price fell sharply in the month to a nine-year low, down 5.9% to $158,000 for deepening year-on-year contraction of 3.7%. Readings for the average price are telling the same story, down 5.1% to $206,700 for deepening year-on-year contraction of 2.6%. A record 32% of transactions in the month were in cash, a reflection of falling prices and of unattractive credit conditions. Distressed sales accounted for a heavy 37% share of total sales.



A positive is a decline in supply to 7.6 months at the current sales rate from 8.2 months. Supply in unit terms fell 5.1% to 3.38 million. Year-on-year, unit supply is coming down, at plus 3.1% vs December's plus 8.4%.

The housing sector and home prices are glaring weak points of the economy.

Barclays 2/23 - The gain in existing sales was broad based, with sales of single-family homes rising 2.4% to 4.69mn and multi-family rising 4.7% to 670k. Regarding pricing, the median home price fell 3.7% y/y to $158,800, while the median single-family home price was off a bit less at 2.7%. These price changes mirrors that seen in the S&P/Case-Shiller Composite 20-city home price index, which fell 2.4% y/y through December.

Looking beyond the distortion in activity from government stimulus, the level of existing home sales at 5.36mn matches that last seen in August 2007. We expect the recent improvement in home sales to persist, albeit at a more moderate pace than observed in the second half of 2010. We see sales as supported by continued improvements in labor market conditions, but constrained by tight credit standards and higher mortgage rates.

New Home Sales - January

Econoday 2/24 – Lower prices didn't help much on the new home side where sales fell a sharp 12.6% to a lower-than-expected annual rate of 284,000 units. The median price for a new home fell 1.9% in the month to $230,600 with the average price down 10.5% to $260,300. Year-on-year price comparisons show a 5.7% gain for the median and an 8.2% decline for the average, both deteriorating from the prior month especially on the average side. Weakening prices for new homes will further pressure prices for existing homes.

Supply was 7.9 months at the current sales rate vs. 7.0 months in December. Total adjusted units on the market did fall 1,000 to 188,000 a nearly 45 year low.

It's hard to get a handle on the housing market during the winter but, it's safe to say that improvement, if any, is not substantial.

Barclays 2/24 – The decline was more than we (305k) and the consensus (305k) had expected and represents a full retracement of the bump in sales that occurred from November to December. Months of supply briefly fell to 6.3 months in April 2010, when government stimulus propelled home sales temporarily higher. Despite the retracement in sales, we continue to view sales as pointing to a stabilization of the housing market in the fourth quarter of last year. New home sales, however, remain well below historical averages and the number of months of supply of inventory remains elevated; we expect new home sales to recover gradually over the course of the year as labor market conditions improve and higher rates of household formation support housing activity.

Case-Shiller 20-city Home Price Index - December

Press Release 2/22 - Data through December 2010, released today by Standard & Poor's for its S&P/Case-Shiller1 Home Price Indices, show that the U.S. National Home Price Index declined by 3.9% during the fourth quarter of 2010. The National Index is down 4.1% versus the fourth quarter of 2009.

As of December 2010, 18 of the 20 Metropolitan Statistical Areas covered by S&P/Case-Shiller Home Price Indices and both monthly composites were down compared to December 2009. San Diego and Washington DC were the only two cities where home prices are increasing on a year-over-year basis, +1.7% and +4.1%, respectively.

"Despite improvements in the overall economy, housing continues to drift lower and weaker." says David M. Blitzer of Standard & Poor's. "Unlike the 2006 to 2009 period when all cities saw prices move together, we see some differing stories around the country. California is doing better with gains from their low points in Los Angeles, San Diego and San Francisco. At the other end is the Sun Belt – Las Vegas, Miami, Phoenix and Tampa. All four made new lows in December. Also seeing renewed weakness are some cities that were among the last to reach their peaks including Atlanta, Charlotte, Portland OR and Seattle, where news lows were also seen. Dallas, which peaked late, has so far stayed above its low marked in February 2009."

Barclays 2/22 - While this is the sixth consecutive monthly decline in the series, the declines observed in November and December are more modest than those in September and October, suggesting that the weakness in home prices following the expiration of government stimulus last summer is waning.

WSJ 2/23 - Economists at Capital Economics estimate that for the current level of demand, there are 850,000 too many homes for sale. Robert Shiller, the Yale University economist who co-founded the index that bears his name, said Tuesday that there remains a "substantial risk" of another 15% or 20% decline in home prices. Many economists say another 5% decline is more likely and that the housing market should stabilize as economic growth accelerates.

The housing market faces the risk that millions of foreclosed properties will hit the market in coming years, putting downward pressure on prices if demand doesn't pick up.

FHFA home prices fall further in December, leaving home prices down 3.4% in 2010

Barclays 2/24 - The FHFA purchase-only house price index fell 0.3% in December, following a revised 0.3% decline in November (previously flat). On a y/y basis, the index fell 3.4% in December, compared with a 4.6% y/y drop in November.

Durable Goods – January: Aircraft Orders Pump Up Demand For Durable Goods

Vanguard 2/25 - Orders for durable goods rose 2.7% in January after declining for three months. The increase was driven by orders for commercial aircraft and other transportation equipment; excluding this category, orders fell 3.6%. Orders for nondefense capital equipment excluding aircraft—watched as a gauge of broad business spending plans—fell 6.9%.

Econoday 2/24 – Transportation led January's overall gain, spiking a monthly 27.6% after an 11.9% decrease in December. The latest increase was primarily due to a massive 4,900.0 percent (not a typo) monthly surge in nondefense aircraft orders. Yes, the base for the percentage gain was miniscule in December. Also, within transportation, motor vehicles actually advanced 0.4% while defense aircraft & parts increased 20.6%.

Outside of transportation, gains were seen in primary metals, up 1.1%; fabricated metals, up 0.8%; and "other," up 1.7%. Ex-transportation was led down by a 13.0% drop in machinery orders. Also retreating were computers & electronic parts, down 6.8%, and electrical equipment, down 4.9%.

Overall, the headline number for durables orders likely overstates current strength while the ex-transportation number for January probably overstates current month weakness. Durables orders are extremely volatile and the underlying trend is moderately positive.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week ended Feb. 19

Press Release 2/24 (excerpt) – In the week ending Feb. 19, the advance figure for seasonally adjusted initial claims was 391,000, a decrease of 22,000 from the previous week's revised figure of 413,000. The 4-week moving average was 402,000, a decrease of 16,500 from the previous week's revised average of 418,500.

The advance seasonally adjusted insured unemployment rate was 3.0% for the week ending Feb. 12, a decrease of 0.1 percentage point from the prior week's unrevised rate of 3.1%.

The advance number for seasonally adjusted insured unemployment during the week ending Feb.12 was 3,790,000, a decrease of 145,000 from the preceding week's revised level of 3,935,000. The 4-week moving average was 3,892,750, a decrease of 54,750 from the preceding week's revised average of 3,947,500.

WEEK ENDING	Feb. 19	Feb. 12	Change	Feb. 5	Prior Year
Initial Claims (Seasonally Adj)	391,000	413,000	-22,000	385,000	486,000
4-Wk Moving Average (SA)	402,000	418,500	-16,500	416,000	473,500

Econoday 2/24 – Jobless claims data are indicating meaningful improvement for the labor market. Initial claims for the February 19 week fell 22,000 to 391,000 (prior week revised 3,000 higher to 413,000). The four-week average confirms the improvement, falling a sizable 16,500 to 402,000 for a nearly 30,000 decline from the month-ago level. A break below 400,000 in future weeks would begin to raise expectations for sizable payroll gains and extending declines for the unemployment rate. The Labor Department isn't citing any special factors in the data though California was partially estimated in the week while three other states were fully estimated.

The jobs market, based on initial claims, looks to be finding traction, right at the time that oil prices are spiking.

Barclays 2/24 - The continued improvement in this week's report signals that the weather-related spikes in January did not alter the downward trend in claims, and we take this as evidence that the labor market recovery has not lost momentum. We continue to look for a 200k gain in nonfarm payrolls and an unchanged 9.0% unemployment rate in the February employment report released next week.

Michigan Consumer Sentiment - Final

Econoday 2/25 – Consumer sentiment jumped sharply in February though the results are likely old news given the wild ups and downs underway in oil prices. The consumer sentiment index rose to a much higher-than-expected 77.5, up 2.4 points from the mid-month reading and implying a very strong reading of nearly 80 for the last two weeks of the month. And strength the last two weeks is centered in the leading component which is expectations. The assessment of current conditions shows little two-week change.

Consumer inflation expectations, which often move in line with changes in energy and food prices, show no change whether looking back two weeks or four weeks. This points to public expectations that Middle East turmoil will not disrupt oil supply, at least over the next year. One-year inflation expectations are unchanged at 3.4% with five-year expectations unchanged at 2.9%.

The rising unrest underway in Libya and in other Middle East oil producers is accelerating day to day, raising the possibility that responses in this report are already outdated. Still the markets are showing reaction, giving a boost to stocks and to the dollar.

The Economic Week Ahead: February 28 – March 4, 2011

Vanguard 2/25 - A heavy week of reports is in the offing, including personal income and spending (Monday), construction spending and the ISM's manufacturing index (Tuesday), and the Federal Reserve's **Beige Book** (Wednesday). The week concludes with productivity, unit labor costs, and the Institute's nonmanufacturing index (Thursday), and the **unemployment rate, nonfarm payrolls**, and factory orders (Friday).

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

Date	ET	Release	For	Briefing.com	Consensus	Prior
Feb 28	08:30	Personal Income	Jan	0.3%	0.3%	0.4%
Feb 28	08:30	Personal Spending	Jan	0.1%	0.4%	0.7%
Feb 28	08:30	PCE Prices - Core	Jan	0.1%	0.1%	0.0%
Feb 28	09:45	Chicago PMI	Feb	62.0	67.5	68.8
Mar 01	10:00	Construction Spending	Jan	-1.0%	-0.6%	-2.5%
Mar 01	10:00	ISM Manufacturing Index	Feb	61.5	60.5	60.8
Mar 02	14:00	**Fed's Beige Book**	March			
Mar 03	08:30	Initial Claims	02/26	400K	400K	391K
Mar 03	08:30	Continuing Claims	02/19	3800K	3800K	3790K
Mar 03	08:30	Productivity-Rev.	Q4	2.4%	2.3%	2.6%
Mar 03	08:30	Unit Labor Costs - Revised	Q4	-0.6%	-0.3%	-0.6%
Mar 03	10:00	ISM Services	Feb	60.0	59.0	59.4
Mar 04	08:30	**Nonfarm Payrolls**	Feb	200K	180K	36K
Mar 04	08:30	**Unemployment Rate**	Feb	9.2%	9.1%	9.0%
Mar 04	10:00	Factory Orders	Jan	3.2%	2.1%	0.2%