Market Comment *Economic Highlights for the week ended February 26, 2010*

Economic Week In Review: Signs Of Progress And Cause For Concern

Vanguard 2/26 - Economic progress was mixed this week as reports surprised on both the upside and downside. Gross domestic product increased, durable-goods orders surged, and consumer confidence plunged. Both existing-home and new-home sales dropped more than expected. In prepared remarks before Congress, Federal Reserve Chairman Ben Bernanke said short-term interest rates will remain near zero "for an extended period" because of the weak economy. For the week, the S&P 500 Index fell 0.4% to 1,104 (for a year-to-date total return of about –0.6%). The yield of the U.S. Treasury note fell 17 basis points to 3.61% (for a year-to-date decrease of 24 basis points).

Another Boost For GDP

Vanguard 2/26 - Gross domestic product (GDP) grew 5.9% in the fourth quarter, revised up from last month's 5.7% estimate. The broadest measure of the country's economic activity, GDP rose at its fastest clip in six years. About two-thirds of the increase was due to a positive change in inventories. A rise in exports and an uptick in business fixed investment also fueled the growth. In contrast, both consumer and government spending were downwardly revised. GDP gained 0.1% during 2009 compared with a 1.9% drop in 2008.

Econoday 2/26 - Fourth quarter real GDP was revised up but the details indicate that the revisions were not for the good. The higher estimate reflected more positive contributions from private inventory investment, exports, personal consumption expenditures (PCE), and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased. But overall strength for the quarter increasingly was in the inventory component as businesses slowed the pace of destocking. Final sales growth was revised to a more modest 1.9% increase from the original estimate of 2.2%. Nonetheless, the fourth quarter GDP advance is the second in a row.

The change in real private inventories added 3.9 percentage points to fourth quarter GDP, compared to 3.4 percentage points in the initial estimate. Business inventories fell a modest $16.9 billion, following a sharp $139.2 billion plunge in the third quarter.

Durable-Goods Orders Advance

Vanguard 2/26 - Orders for manufactured durable goods—a leading indicator of industrial production and capital spending—rose 3.0% in January, more than double what economists expected and the greatest increase since July. December's orders were revised to 1.9% from 1.0%. A large rise in civilian aircraft orders triggered the rise. Business spending is largely responsible for the recovery, while consumer spending continues to slump. Excluding transportation, new orders dropped 0.6%. Overall shipments retreated 0.2%, the first decline since August, and inventories of durable goods were unchanged.

Rates To Remain At Record Low

Vanguard 2/26 - Federal Reserve Chairman Ben Bernanke told Congress on Wednesday that the U.S. central bank will keep short-term interest rates at record lows for at least several more months as the nation slowly climbs out of its recession. Mr. Bernanke said the central bank is examining what measures to take in preparation for the economy eventually requiring higher interest rates. He also said the high unemployment rate is the nation's greatest economic concern.

Home Sales Head Toward Cellar

Vanguard 2/26 - Sales of **new homes** declined 11% in January to a seasonably adjusted annual rate of 309,000, below economists' expectations of 360,000. New-home sales also dropped 6% since January 2009, and the number of months to exhaust inventory rose to 9.1 from 8.0 in December. **Existing-home** sales dropped 7% in January to an annualized rate of 5.05 million, missing economists' expectations of 5.50 million. Months of inventory increased to 7.8 months from 7.2. Existing-home sales are up 11.5% compared to a year ago. The pending expiration of the first-time homebuyer credit in November contributed to the drop in sales, and a positive effect from the extension of the credit isn't expected until spring.

New Home Sales: *NEW RESIDENTIAL SALES IN JANUARY 2010*

Press Release 2/24 - Sales of new single-family houses in January 2010 were at a seasonally adjusted annual rate of 309,000, according to estimates released jointly today by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 11.2% (±14.0%) below the revised December rate of 348,000 and is 6.1% (±15.1%) below the January 2009 estimate of 329,000.

The median sales price of new houses sold in January 2010 was $203,500; the average sales price was $254,500. For comparison, the median sales price for a new home was $208,600 in January 2009. The seasonally adjusted estimate of new houses for sale at the end of January was 234,000. This represents a supply of 9.1 months at the current sales rate.

Feb. 24 (Bloomberg) -- Sales of new homes in the U.S. unexpectedly fell in January to the lowest level on record, a sign that an extension of a government tax credit may not be enough to rekindle demand.

The report underscores Federal Reserve Chairman Ben S. Bernanke's comments today that the economy is in a "nascent" recovery still in need of low interest rates. Homebuilders face competition from foreclosed properties that have driven down prices at the same time companies are reluctant to create jobs.

"The foreclosure flow is robbing demand from the new-homes market, and that process seems to be strengthening," said Julia Coronado, a senior economist at BNP Paribas in New York.

Three of the four U.S. regions showed declines in new-home sales last month, led by a 35% plunge in the Northeast. Purchases fell 12% in the West and 9.5% in the South. They rose 2.1% in the Midwest.

New-home purchases are considered a leading indicator because they are based on contract signings. Sales of previously owned homes are compiled from closings and reflect contracts signed weeks or months earlier.

WSJ 2/24 (excerpts) – *Why Markets Shrugged Off Ghastly Housing Numbers*

The new home sales numbers for December were downright unsightly.

In general the consensus among the analysts we're reading seems to be to look past the January numbers on new housing sales, finding a flurry of reasons including the poor weather — in January of all months! "Adverse winter conditions likely played a role, dissuading prospective buyers from visiting building sites. In this respect, the heavy snow storms that pummelled the East Coast in February suggest further weakness is likely next month," wrote economists at BNP Paribas.

Econoday 2/24 - Today's results evoke this morning's mortgage-application report where the Mortgage Bankers Association warns that housing demand remains weak and that buyers see no urgency to lock in prices.

Existing-Home Sales Down in January but Higher than a Year Ago; Prices Steady

Press Release 2/26 (excerpts) - Existing-home sales fell in January but are above year-ago levels, according to the National Association of Realtors®. Existing-home sales – including single-family, townhomes, condominiums and co-ops – dropped 7.2% to a seasonally adjusted annual rate of 5.05 million units in January from a revised 5.44 million in December, but remain 11.5% above the 4.53 million-unit level in January 2009.

Lawrence Yun, NAR chief economist: "Still, the latest monthly sales decline is not encouraging, and raises concern about the strength of a recovery." "Activity should be picking up strongly in late spring as buyers take advantage of the tax credit, which is critical to absorb distressed properties reaching the market and to continually chip away at inventory."

The national median existing-home price for all housing types was $164,700 in January, unchanged from a year earlier. Distressed homes, which accounted for 38% of sales last month, continue to distort the median price because they typically are discounted in comparison with traditional homes in the same area.

A parallel NAR practitioner survey shows that buyer traffic increased 9.4% in January.

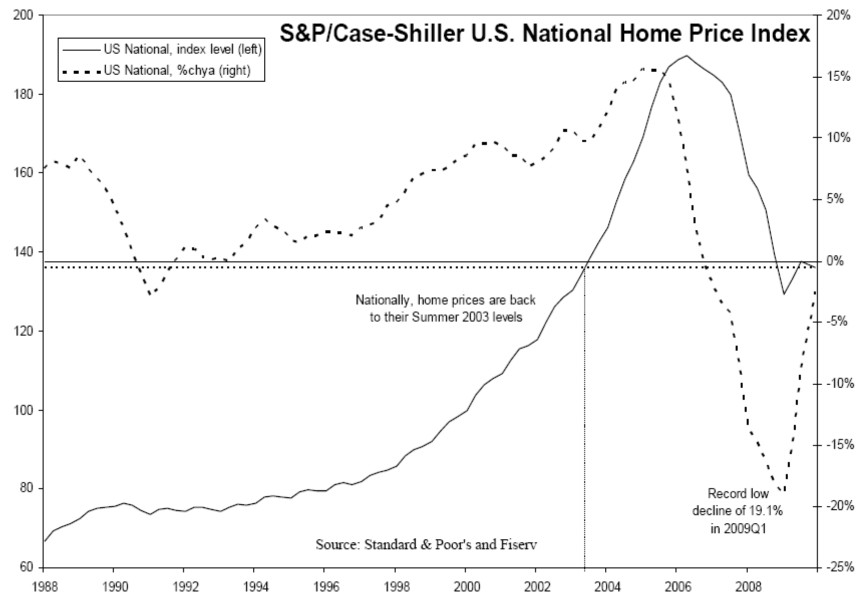
S&P/Case-Shiller Home Price Indices: Home Prices Continue to Send Mixed Messages

Press Release 2/23 – Data through December 2009, released today by S&P for its S&P/Case-Shiller Home Price Indices, show that the U.S. National Home Price Index fell in the fourth quarter of 2009 but has improved in its annual rate of return, as compared to what was reported in the third quarter.

The S&P/Case-Shiller U.S. National Home Price Index recorded a 2.5% decline in the fourth quarter of 2009 versus the fourth quarter of 2008. This is a significant improvement over the annual rates reported in the first, second and third quarters of the year, at -19.0%, -14.7% and -8.7%, respectively. In December, the 10-City and 20-City Composites recorded annual declines of 2.4% and 3.1%, respectively. These two indices, which are reported at a monthly frequency, have seen improvements in their annual rates of return every month since the beginning of the year.

"As measured by prices, the housing market is definitely in better shape than it was this time last year, as the pace of deterioration has stabilized for now. However, the rate of improvement seen during the summer of 2009 has not been sustained," says David M. Blitzer, Chairman of the Index Committee at Standard & Poor's. "In the most recent months we are seeing fewer and fewer MSAs reporting monthly gains in prices. Only four cities saw month to month improvements in December over November, when you look at the raw data. We are in a seasonally slow period for home prices, however, so it is not surprising to see better statistics in the seasonally-adjusted data, where 14 of the markets and the two monthly composites all rose in December. Similarly, the National Composite fell by 1.1% in the fourth quarter, but rose by 1.6% on a seasonally-adjusted basis."

The chart shows the index levels for the U.S. National Home Price Index, as well as its annual returns. As of the 4th quarter of 2009, average home prices across the United States are at similar levels to what they were in the summer of 2003. The 4th quarter values fell when compared to the 3rd quarter; however, the decline in the annual rate of return has significantly improved.



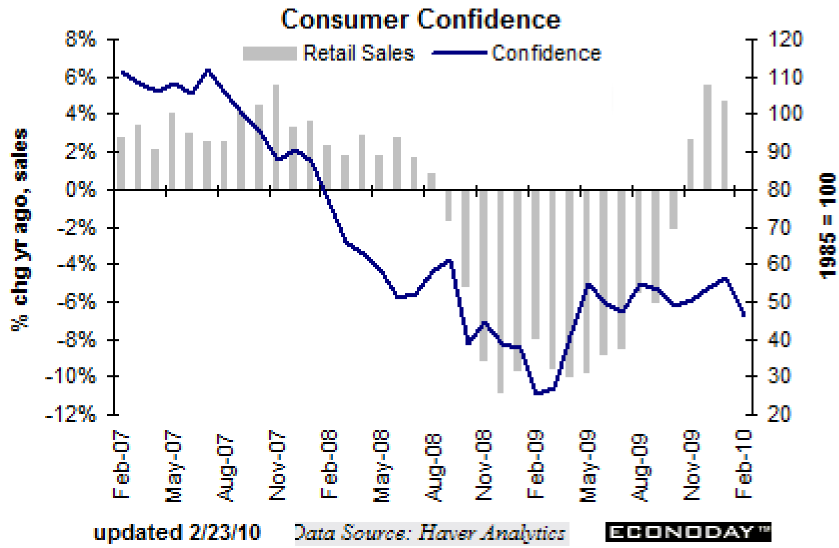
FHFA Housing Price Index

Econoday 2/25 - Home prices for federal agency sponsored mortgages appear to be slipping again now that tax credits are providing less support for demand. U.S. home prices declined 1.6% in December after rising 0.4% in November on a seasonally adjusted basis, according to the Federal Housing Finance Agency's monthly House Price Index. On a year-on-year basis, the House Price Index fell back 1.5% in December. Housing prices appear to be under new downward pressure as foreclosures are rising and there is no surge in demand as earlier in the summer and fall with the early effects of tax credits for first-time homebuyers. Tax credits were still in effect in December but the boost in demand has waned.

The Conference Board Consumer Confidence Index® Declines Sharply - February

Vanguard 2/26 - Consumer confidence dropped sharply to 46.0 in February, far below last month's upwardly revised 56.5 number and economists' predictions. It was the Conference Board index's lowest result since April 2009. Consumers' gloomy opinion of business conditions and the job market largely accounted for the present situation's lowest reading since 1983.

Econoday 2/23 - The consumer's mood is definitely downbeat, a strong indication that the jobs market isn't improving. The Conference Board's consumer confidence index fell back in a surprising and sizable way, down nearly 10 points to 46.0 in February (January revised to 56.5). Expectations, the index's leading component, fell more than 13 points to 63.8 from 77.3 reflecting a sweeping sentiment downturn in income, employment, and business conditions. The expectations index never really got going last year, barely approaching the watershed 80 level, a level consistent in the past with economic expansion.



Only a miniscule 3.6% describe jobs as currently plentiful with 47.7%, up 1.2 percentage points from January, describing them as hard to get.

Press Release 2/23 - Says Lynn Franco, Director of The Conference Board Consumer Research Center: "Consumer Confidence, which had been improving over the past few months, declined sharply in February. Concerns about current business conditions and the job market pushed the Present Situation Index down to its lowest level in 27 years (Feb. 1983, 17.5). Consumers' short-term outlook also took a turn for the worse, with fewer consumers anticipating an improvement in business conditions and the job market over the next six months. Consumers also remain extremely pessimistic about their income prospects. This combination of earnings and job anxieties is likely to continue to curb spending."

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Feb. 20

Econoday 2/25 (excerpts) - The number of jobless filing for initial unemployment claims increased in February, pointing to trouble for the February employment report. The four-week average is more than 15,000 higher than January levels.

Bloomberg 2/26 - The number of Americans filing first-time claims for jobless benefits rose to the highest level in three months last week, indicating companies are waiting to see sustained sales before adding to payrolls.

Press Release 2/25 – In the week ending Feb. 20, the advance figure for seasonally adjusted initial claims was 496,000, an increase of 22,000 from the previous week's revised figure of 474,000. The 4-week moving average was 473,750, an increase of 6,000 from the previous week's revised average of 467,750.

The advance seasonally adjusted insured unemployment rate was 3.5% for the week ending Feb. 13, unchanged from the prior week's unrevised rate of 3.5%.

The advance number for seasonally adjusted insured unemployment during the week ending Feb. 13 was 4,617,000, an increase of 6,000 from the preceding week's revised level of 4,611,000. The 4-week moving average was 4,600,750, an increase of 4,250 from the preceding week's revised average of 4,596,500.

The fiscal year-to-date average for seasonally adjusted insured unemployment for all programs is 5.209 million.

WEEK ENDING	Advance Feb. 20	Feb. 13	Change	Feb. 6	Prior Year
Initial Claims (SA)	496,000	474,000	+22,000	442,000	656,000
4-Wk Moving Average (SA)	473,750	467,750	+6,000	469,000	632,000

Chicago PMI

Econoday 2/26 - Sharper month-to-month slowing in deliveries leads a very strong Chicago purchasers' report for February. Deliveries jumped to 62.6 from January's 55.3, both readings over 50 to indicate month-to-month slowing with February's plus-60 level to indicate a significant degree of month-to-month slowing. This is good news as the slowing indicates strains on shipping and warehousing, strains signaling strong economic activity.

A sudden rise in backlog orders, to 58.5 vs. 54.3, further indicates lack of spare capacity. New orders remain extremely strong, at 62.2 for a fifth straight plus-60 reading, while production continues to expand, at 65.2 for its third straight plus-60 reading. Inventories were drawn down in the month which, given the strength in production, likely reflect, not liquidation, but a drawing related to production needs.

Press Release 2/26 (excerpts) - *CHICAGO BUSINESS BAROMETER™ ADVANCED*

The Chicago Purchasing Managers reported the CHICAGO BUSINESS BAROMETER accelerated for the fifth consecutive month, a trend not seen since 2002. The three-month moving average of each index was positive, indicating breadth of the advance.

BUSINESS ACTIVITY: PRICES PAID accelerated; ORDER BACKLOGS marked a third month of expansion; INVENTORIES continued contraction, while SUPPLIER DELIVERIES slowed; EMPLOYMENT's rate of acceleration was tempered.

BUYING POLICY: All indicators' three-month moving average trended positively.

Each month, the survey panelists have the opportunity to add comments to clarify the reported activity of their organization. As appropriate, the report includes comments selected for their insight.

1. Business is definitely on the upswing.
2. There are still many challenges in the year ahead but we are seeing a slow increase in orders in the US.
3. We are still quoting like crazy but those orders continue to hang on the tree.
4. Plastics price increases coming fast and furious.
5. Seeing inflation return in plastic resins, corrugated linerboard and "general increases" by suppliers.
7. Luckily, our backlog has remained steady.
8. Commercial and Residential markets still dragging down growth plus lack of job growth.
9. Our business is beginning to improve, showing modest growth, though we remain cautious, increasing our direct labor only through temp agencies.

The Economic Week Ahead: March 1 - 5

Vanguard 2/26 - The economic calendar is filled from start to finish next week. Reports on construction spending, personal income, and ISM manufacturing are scheduled for Monday. The releases continue with ISM nonmanufacturing and the Fed's Beige Book on Wednesday; productivity and costs, along with factory orders, on Thursday; and the employment situation and consumer credit on Friday.

U.S. Economic Calendar

Date	ET	Release	For	Briefing.com	Consensus	Prior
Mar 01	08:30	Personal Income	Jan	0.3%	0.4%	0.4%
Mar 01	08:30	Personal Spending	Jan	0.6%	0.4%	0.2%
Mar 01	08:30	PCE Prices - Core	Jan	0.0%	0.1%	0.1%
Mar 01	10:00	Construction Spending	Jan	0.3%	-0.5%	-1.2%
Mar 01	10:00	ISM Index	Feb	59.1	57.8	58.4
Mar 03	10:00	ISM Services	Feb	51.3	51.0	50.5
Mar 03	14:00	Fed's Beige Book	Mar	NA	NA	NA
Mar 04	08:30	Initial Claims	02/27	515K	475K	495K
Mar 04	08:30	Continuing Claims	02/20	4600K	NA	4617K
Mar 04	08:30	Productivity-Rev.	Q4	6.4%	6.2%	6.2%
Mar 04	08:30	Unit Labor Costs	Q4	-4.4%	-4.4%	-4.4%
Mar 04	10:00	Factory Orders	Jan	2.7%	1.2%	1.0%
Mar 05	08:30	Unemployment Rate	Feb	10.0%	9.8%	9.7%
Mar 05	08:30	Nonfarm Payrolls	Feb	-55K	-20K	-20K
Mar 05	15:00	Consumer Credit	Jan	-$5.6B	-$3.8B	-$1.7B

Source: Briefing.com