

Market Comment *Economic Highlights for the week ended March 5, 2010*

Economic Week In Review: Economy Didn't Slip On February's Snow And Ice

Vanguard 3/5 - The twin blizzards that blanketed much of the East Coast in February couldn't bury an improving economic picture: Payrolls declined less than many had expected and activity in the manufacturing and service sectors continued to expand. For the week, the S&P 500 Index rose 3.1% to 1,139 (for a year-to-date total return of about 2.5%). The yield of the 10-year U.S. Treasury note rose 8 basis points to 3.69% (for a year-to-date decrease of 16 basis points).

Non-Farm Payrolls – February: Unemployment Rate Holds Steady At 9.7%

Vanguard 3/5 - The job situation turned out to be less grim than expected in February. The unemployment rate remained at 9.7%, and nonfarm payrolls declined by 36,000 jobs—both figures were better than expected given February's two severe snowstorms in high-density population areas. The blizzards produced record snowfalls in cities such as Washington, D.C., and Philadelphia, and likely disrupted job-hunting and hiring. Payroll losses were highest in the construction industry, which shed 64,000 jobs. Analysts attributed the better-than-expected results to a recovery in the labor market as the nation claws its way out of recession. One sign of that is a continuing addition of temporary-worker jobs, often a precursor of more-permanent hiring. However, the "underemployment rate," which goes beyond the official jobless rate to incorporate people who have given up looking for work or who hold part-time jobs but prefer full-time positions, inched up to 16.8%. "Given that a significant number of laid-off workers haven't resumed their job search," said Vanguard economist Roger Aliaga-Diaz, "we expect the official unemployment rate to increase some."

THE EMPLOYMENT SITUATION -- FEB 2010

Press Release 3/5 (excerpts) - Employment fell in construction and information, while temporary help services added jobs. Severe winter weather in parts of the country may have affected payroll employment and hours; however, it is not possible to quantify precisely.

In February, the number of unemployed persons, at 14.9 million, was essentially unchanged, and the unemployment rate remained at 9.7%.

Among the major worker groups, the unemployment rates for adult men (10.0%), adult women (8.0%), whites (8.8%), blacks (15.8%), Hispanics (12.4%), and teenagers (25.0%) showed little to no change in February. The jobless rate for Asians was 8.4%, not seasonally adjusted.

The number of long-term unemployed (those jobless for 27 weeks and over) was 6.1 million in February and has been about that level since December. About 4 in 10 unemployed persons have been unemployed for 27 weeks or more.

The civilian labor force participation rate (64.8%) and the employment-population ratio (58.5%) were little changed.

Personal Savings Takes A Nosedive - January

Vanguard 3/5 - Personal income rose for the fourth straight month in January, but just barely. Lower dividend, farm, and rental income offset strong growth in wages and salaries. Personal spending continued to grow, but only at a modest pace. The increase in spending, paired with downward revisions to income estimates and increasing taxes, substantially cut the personal savings rate, from 4.2% in December to 3.3% in January—the lowest since October 2008. Inflation, based on the personal spending price index, remained tame.

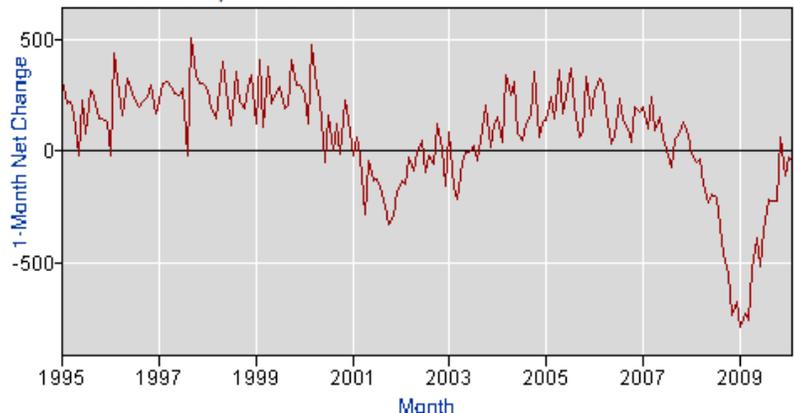
Consumer Credit - January 2010

Press Release 3/5 - Consumer credit increased at an annual rate of 2.5% in January 2010. Revolving credit decreased at an annual rate of 2.25%, and non-revolving credit increased at an annual rate of 5%.

Employment, Hours, and Earnings from the Current Employment Statistics survey (National)

ALL EMPLOYEES, THOUSANDS

1-Month Net Change



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ISM Indexes: Two Key Indexes Complement One Another In Signaling Growth

Vanguard 3/5 - Gauges of activity in the manufacturing and services sectors released by the Institute for Supply Management (ISM) offer encouraging signs that an economic recovery is in the works. The ISM's manufacturing index for February was at an expansionary level (above 50) for the seventh straight month, although it declined to 56.5. Meantime, ISM's service-sector index jumped 2.5 points to 53.0, the second month of expansion in this portion of the economy that accounts for most of the country's output and jobs. The employment component of the services index posted especially strong gains, although it continues to reflect slow contraction.

February 2010 Manufacturing ISM Report On Business®: PMI at 56.5%

Press Release 3/1 (excerpts) - "The manufacturing sector grew for the seventh consecutive month during February. While new orders and production were not as strong as they were in January, they still show significant month-over-month growth. Additionally, the Employment Index is very encouraging, as it is up 2.8 percentage points for the month to 56.1 percent. This is the third consecutive month of growth in the Employment Index. With these levels of activity, manufacturers are seemingly willing to hire where they have orders to support higher employment."

WHAT RESPONDENTS ARE SAYING ...

"Depends on division, plant and market served." (Transportation Equipment)

"Current economy has killed new capital sales." (Machinery)

"Commodities are firming again." (Food, Beverage & Tobacco Products)

"First quarter orders up compared to prior two years!" (Fabricated Metal Products)

"...lead times for electronic parts are pushing out to 8 to 24 weeks." (Computer & Electronic Products)

Productivity Surges As Unit Labor Costs Plummet

Vanguard 3/5 - Continuing the strong growth that began in 2009's second quarter, productivity numbers for the third and fourth quarters were revised upwards to 7.8% and 6.9%, respectively. The large gains are a consequence of strengthening demand met by a recession-shrunken workforce: Companies are reluctant to add workers until they're convinced that the economic upswing is on solid ground. Reflecting a weak labor market, fourth-quarter hourly compensation was revised downwards and was a key factor in the substantial quarterly drop (-5.9%) in unit labor costs—which led to the measure's largest decline on a year-over-year basis (-4.7%) since 1948, when these statistics were first recorded. Lower unit labor costs bolster profits and dampen inflation.

Construction Spending Falls Despite Residential-Sector Gains - January

Vanguard 3/5 - Private residential construction increased in January, which is a good sign for the housing market. That gain, however, was overshadowed by a decline in construction in most sectors of the private nonresidential market, including manufacturing, retail, and health care, and in the public sector. The net result was a decline of 0.6% in overall construction spending. In the public sector, the first spurt of federal stimulus money released through the American Recovery and Reinvestment Act has run its course and, because of states' fiscal challenges, public construction spending has reverted to pre-stimulus levels.

JANUARY 2010 CONSTRUCTION AT \$884.1 BILLION ANNUAL RATE

Press Release 3/1 (excerpts) - The U.S. Census Bureau announced today that construction spending during January 2010 was estimated at a seasonally adjusted annual rate of \$884.1B, 0.6% below the revised December estimate of \$889.6B. The January figure is 9.3% below the January 2009 estimate of \$974.3B.

PRIVATE CONSTRUCTION: Spending on private construction was at a seasonally adjusted annual rate of \$577.3 billion, 0.6% below the revised December estimate of \$580.7 billion.

PUBLIC CONSTRUCTION: In January, the estimated seasonally adjusted annual rate of public construction spending was \$306.9B, 0.7% below the revised December estimate of \$308.9B. Highway construction was at a seasonally adjusted annual rate of \$83.5B, 1.2% above the revised December estimate of \$82.6B.

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Fed Beige Book: Despite The Cold, Economic Expansion Continues To Heat Up

Vanguard 3/5 - The Federal Reserve's latest Beige Book survey of its twelve districts, which covered much of January and February, found that the economy plowed ahead despite the severe weather conditions. Nine districts said their local economies expanded, while two reported mixed conditions. Only the Richmond district reported activity muted by the snow. The manufacturing sector—especially high-tech, semiconductors, and autos—improved almost everywhere in response to strong export growth (mainly due to demand from China) and restocking of recession-depleted inventories.

Summary 3/3 (excerpts) - Reports from the twelve Fed Districts indicated that economic conditions continued to expand since the last report, although severe snowstorms in early February held back activity in several Districts. Nine Districts reported that economic activity improved, but in most cases the increases were modest.

- Consumer spending improved slightly in many Districts since the last survey.
- The demand for services was generally positive across Districts, most notably for health-care and information technology firms.
- Manufacturing activity strengthened in most regions, particularly in the high-tech equipment, automobile, and metal industries.
- Residential real estate markets improved in a number of Districts
- Most characterized commercial real estate and construction activity as weak or having declined further
- Loan demand remained weak and lending standards remained tight across the country.
- Harsh weather continued to negatively affect agricultural activity
- Districts reporting on energy activity said it continued to strengthen, particularly drilling for natural gas.
- Price pressures were mostly limited, with the exception of some increases in raw materials prices.
- Labor markets generally remained soft throughout the nation, which resulted in minimal wage pressures.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Feb. 27

Press Release 3/4 – In the week ending Feb. 27, the advance figure for seasonally adjusted **initial claims** was 469,000, a decrease of 29,000 from the previous week's revised figure of 498,000. The 4-week moving average was 470,750, a decrease of 3,500 from the previous week's revised average of 474,250.

The advance seasonally adjusted **insured unemployment rate** was 3.5% for the week ending Feb. 20, a decrease of 0.1 percentage point from the prior week's revised rate of 3.6%.

| WEEK ENDING | Advance Feb. 27 | Feb. 20 | Change | Feb. 13 | Prior Year |
|--------------------------|-----------------|---------|---------|---------|------------|
| Initial Claims (SA) | 469,000 | 498,000 | -29,000 | 474,000 | 643,000 |
| 4-Wk Moving Average (SA) | 470,750 | 474,250 | -3,500 | 467,750 | 636,750 |

The Economic Week Ahead: March 8 - 12

Vanguard 3/5 - Reports looking outward and inward will be released as the week comes to a close: international trade on Thursday and, on Friday, retail sales and business inventories.

U.S. Economic Calendar

Source: Briefing.com

| Date | ET | Release | For | Briefing.com | Consensus | Prior |
|--------|-------|-----------------------------|----------|--------------|-----------|----------|
| Mar 10 | 10:00 | Wholesale Inventories | January | -0.1% | 0.2% | -0.8% |
| Mar 10 | 14:00 | Treasury Budget | February | -\$223.0B | -\$221.0B | -\$42.6B |
| Mar 11 | 08:30 | Continuing Claims | 2/27 | 4550K | 4500K | 4500K |
| Mar 11 | 08:30 | Initial Claims | 03/06 | 445K | 460K | 469K |
| Mar 11 | 08:30 | Trade Balance | January | -\$37.2B | -\$41.0B | -\$40.2B |
| Mar 12 | 08:30 | Retail Sales | February | -0.2% | -0.2% | 0.5% |
| Mar 12 | 09:55 | U of Michigan Sentiment | March | 74.6 | 74.0 | 73.6 |
| Mar 12 | 10:00 | Business Inventories | January | 0.0% | 0.1% | -0.2% |