

# Market Comment *Economic Highlights for the week ended March 9, 2012*

## **Economic Week In Review: Consumer Borrowing And Payrolls Grow**

Vanguard 3/9 - The barrage of upbeat economic reports out this week showed that the economy is continuing to expand. Solid jobs growth, increased productivity, an explosion in auto and federal student loans, and continued expansion in the service industry all bolstered recovery hopes. For the week ended March 9, the S&P 500 Index rose 0.1% to 1,371 (for a year-to-date total return of about 9.5%). The yield on the 10-year U.S. Treasury note rose 5 basis points to 2.04% (for a year-to-date increase of 15 bps).

## **Non-Farm Payrolls – February: More Jobs Added; Unemployment Still At 8.3%**

Vanguard 3/9 - Employers added 227,000 jobs in February, slightly higher than estimated and about even with December. Professional services added the most jobs, at 82,000—although more than half of those jobs were temporary. Education and health care jobs increased to 71,000, while the federal government lost 7,000 jobs.

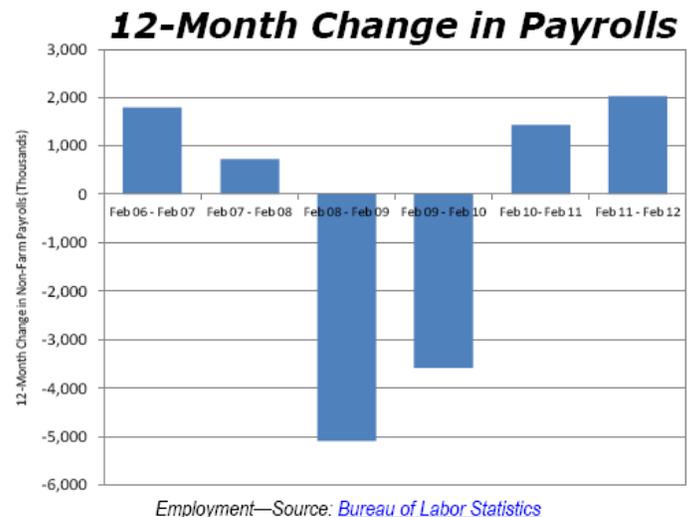
Despite the increase in jobs created, the unemployment rate held steady at 8.3%, a three-year low. The average workweek remained at 34.5 hours, while average hourly earnings edged up, from \$23.28 to \$23.31.

"There was a large rebound in the number of people entering or reentering the labor force, which may have prevented a decline in the unemployment rate," said Roger Aliaga-Díaz, Vanguard senior economist. "But even with those previously discouraged workers going back to their job search in large numbers, this pace of job creation may be enough to prevent the feared tick up in unemployment rates."

AFP 3/12 - The labor force expanded by 476,000 workers during February.

Barclays 3/9 - Overall, the report was generally positive and reinforces the improving trend in the labor market.

We view it as lowering further the likelihood of additional Fed easing in the near term, as more robust job gains will likely result in FOMC participants' lowering their forecasts for the unemployment rate - which currently stands at 8.2-8.5% for Q4 of this year - indicating that the Fed is making progress in meeting its full employment mandate.



## **Productivity – 4q2011: Productivity Up, But So Are Labor Costs**

The productivity of U.S. workers increased 0.9% in the fourth quarter, higher than expected. On the other hand, real hourly compensation rose 2.8%, far stronger than the 1.0% initially reported. For all of 2011, productivity climbed 0.4%, the smallest gain since 1995.

The rise in labor costs reflects the largest six-month increase in nearly five years. Wages and salaries during the last six months of 2011 grew \$197.3 billion, the most since the six months ended March 2007.

AFP 3/12 - The small upward revision in productivity growth (from +0.7%) was because of a higher than previously estimated increase in output (+3.7%) while the growth rate in hours worked was slightly smaller than previously estimated (+2.7%). The year-to-year increase in productivity was a meager 0.4%. Manufacturing sector productivity slowed 0.1% during Q4 (versus a previously estimate of -0.4%) and was up 1.7% in 2011.

## **Trade Deficit – January: Trade Deficit Widens For Third Consecutive Month**

Vanguard 3/9 - The U.S. trade deficit widened to \$52.6 billion in January from December's revised \$50.4 billion deficit. After a third consecutive monthly increase, the figure is now the largest it's been since October 2008. The trade deficit with China surged 12.5% to \$26.0 billion in January, as exports to the country fell. The deficit with Canada also increased, rising almost 24% to a three-year high of \$4.8 billion. In contrast, the trade gap with Europe decreased almost 11%.

AFP 3/12 - The U.S. trade deficit widened to its greatest amount since the fall of 2008, growing by \$2.2 billion to a seasonally adjusted \$52.6 billion in January. While export activity increased by \$2.6 billion during the month, imports blossomed by \$4.7 billion. Much of the increase appears to be price related—the real trade deficit (set to 2005 chained dollars) increased by \$0.8 billion to -\$49.1 billion. In nominal (not price adjusted) terms, the goods

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deficit widened by \$2.5 billion to -\$67.5 billion while the surplus for services grew by \$0.3 billion to +14.9 billion. The largest services deficits were with China (\$2.9 billion larger to -\$26.0 billion), OPEC (\$0.9 billion wider to -\$10.0 billion), E.U. (\$1.1 billion smaller to -\$8.5 billion), Japan (\$0.3 billion to -\$6.2 billion) and Canada (\$0.9 billion wider to -\$4.8 billion).

### Consumer Credit – January: Auto and Student Loans Shoot Way Up

Vanguard - Consumer credit grew by \$17.8 billion in January, much higher than the \$10.0 billion increase analysts expected. The chief reason was a \$20.7 billion increase in auto loans, government student loans, and other non-revolving credit—the biggest advance since November 2001. Federal student credit is up more than 400% from 2008—a sign that ongoing joblessness has inspired many to go back to school.

Revolving credit, primarily credit card debt, declined 4.4% in January for the first time in five months.

AFP 3/12 - Surging auto sales and the recent jump in federally subsidized student loans pushed up balances of outstanding non-revolving consumer credit by \$20.7 billion in January. Balances of outstanding revolving credit contracted by \$2.9 billion in January (1st month-to-month decline since August). Total outstanding consumer credit (net of real estate-backed loans) was \$2.512 trillion, up 4.3% from January 2011.

### ISM Non-Manufacturing Index – February: Service Industries See The Most Growth In A Year

Vanguard 3/9 - The Institute for Supply Management's nonmanufacturing business activity index rose in February for the third consecutive month, from 56.8% to 57.3%—more robust than the 56.1% economists had predicted. (Percentages above 50 indicate expansion.) Service industries reporting the highest growth were real estate, rental, and leasing; transportation and warehousing; construction; hotels and restaurants; and information technology.

AFP 3/11 - The non-manufacturing sector of the U.S. economy expanded for the 26th straight month in February, according to the Institute for Supply Management. The headline index from the group's Report on Business added a half point to a seasonally adjusted reading of 57.3. Any reading above 50.0 suggests expansion, with an increase in the index indicating that the pace of growth was gaining strength during the month. Three of four index components were in expansionary territory (business activity, new orders and employment) while the index for supplier deliveries dropped under 50.0 for the first time since September. The press release said survey respondents were more optimistic about business conditions but were concerned about inflation.

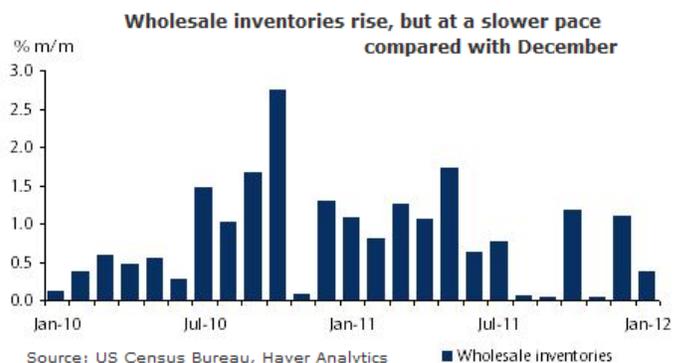
### Factory Orders – January: Factory Orders Fall More Than Expected

Vanguard 3/9 - U.S. factory orders dropped by 1% in January—the steepest decline in 15 months—as businesses sharply reduced orders for machinery, equipment, and other capital goods. Orders for nondurable goods and petroleum refineries rose 1.3% and 3.3%, respectively, while orders for durable goods fell 3.7%. Demand for machinery and other core capital goods tends to be weak in January because of seasonal adjustments.

AFP 3/11 - The manufacturing sector, meanwhile, slowed in January. Factory orders declined 1.0 percent during the month, according to the Census Bureau. The decline came from the 3.7 percent drop in durable goods orders (an improvement from the 4.0 percent decline reported just a week earlier), including a 19.0 percent fall in civilian aircraft orders and a 10.5 percent decline in machinery orders. Meanwhile, shipments grew for the 8th straight month (+0.9 percent), with gains of 0.4 and 1.3 percent for durable and non-durable goods, respectively. Unfilled orders increased for the 21st time in 22 months while inventories expanded for the 27th time in 28 months—both by 0.6 percent.

### Wholesale Inventories – January

Barclays 3/9 - Wholesale inventories increased 0.4% m/m in January, in line with our estimate (0.4%), though slightly below the consensus (0.6%). The rise reflected a 0.8% increase in durable goods inventories (previous: 0.9%), as gains were broad-based across autos (0.5%), computers (1.1%), and machinery (1.2%). Otherwise, nondurable goods inventories decreased 0.2% (previous: 1.4%). Given the print was in line with our expectations, it did not alter our Q1 GDP tracking estimate, so left it at 1.5% q/q (saar).



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## Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Feb 25

Press Release 3/8 (excerpts) - In the week ending March 3, the advance figure for seasonally adjusted initial claims was 362,000, an increase of 8,000 from the previous week's revised figure of 354,000. The 4-week moving average was 355,000, an increase of 250 from the previous week's revised average of 354,750.

WEEK ENDING	March 3	Feb 25	Change	Feb 18	Prior Year
Initial Claims (SA)	362,000	354,000	+8,000	353,000	405,000
4-Wk Moving Average (SA)	355,000	354,750	+250	359,500	396,000

AFP 3/12 - The four-week moving average, which has been under 400,000 since November, edged up by 250 to 355,000 claims. The trend, though, remains quite positive: the moving average during the same week in 2011 was 396,000, in 2010 it was 470,250 and in 2009 it was 639,000. 7.388 million people were receiving some form of unemployment insurance benefits, down from the 8.773 million doing the same a year earlier.

## The Economic Week Ahead: March 12 – March 17, 2012

Vanguard 3/2- Next week brings reports on retail sales, business inventories, and the Federal Open Market Committee's monetary policy (Tuesday); producer prices (Thursday); and consumer prices and industrial production (Friday).

*This Week's U.S. Economic Calendar*

*Source: MarketWatch*

Release Date	Time (Et)	Report	Period	Actual	Forecast	Previous
Monday, 3/12	2 pm	Federal Budget	Feb.	\$232 bln	--	-\$223 bln
Tuesday 3/13	7:30 am	NFIB Small--Business Index	Feb.		--	93.9
	8:30 am	<b>Retail Sales</b>	Feb.		1.2%	0.4%
	8:30 am	Retail Sales Ex-Autos	Feb.		0.7%	0.7%
	10 am	Inventories	Jan.		0.5%	0.4%
	2:15 pm	<b>FOMC Announcement</b>				
Wed. 3/14	8:30 am	Import Prices	Feb.		0.6%	0.3%
	8:30 am	Current Account	4Q		--	-\$110 bln
Thurs. 3/15	8:30 a.m.	Initial Jobless Claims	3-10		355,000	362,000
	8:30 am	<b>Producer Price Index</b>	Feb.		0.5%	0.1%
	8:30 am	Core PPI	Feb.		0.2%	0.4%
Fri. 3/16	8:30 am	<b>Consumer Price Index</b>	Feb.		0.5%	0.2%
	8:30 am	Core CPI	Feb.		0.2%	0.2%
	9:15 am	<b>Industrial Production</b>	Feb.		0.4%	0.0%
	9:15 am	Capacity Utilization	Feb.		78.7%	78.6%
	9:55 am	Consumer Sentiment	March		76.5	75.3