Market Comment *Economic Highlights for the week ended March 16, 2012*

Economic Week In Review: Retail Sales Spring Higher

Vanguard 3/16 - Hopes that the recovery is gaining strength were bolstered by encouraging retail sales data. Although warmer-than-usual weather across much of the nation may have triggered some earlier-than-usual spring spending, investors took heart that a stronger recovery may be finally blooming. For the week ended March 16, the S&P 500 Index rose 2.4% to 1,404 (for a year-to-date total return of about 12.2%). The yield on the 10-year U.S. Treasury note rose 27 basis points to 2.31% (for a year-to-date increase of 42 bps).

Retail Sales – February: Consumer Spending Warms Up

Vanguard 3/16 - Helped by a warm February, retail sales exceeded expectations, rising 1.1%, the strongest showing since last September. Data for the previous two months were also adjusted upward, lifting year-over-year sales by 6.5%. Excluding strong auto sales (+1.6%) and gasoline sales boosted by rising prices, other sales rose a more modest 0.6% in February. Only furniture and general merchandise stores reported slower sales. The recent strength in sales could be a reflection of consumers making springtime purchases earlier than usual.

"The improving labor market picture and generally contained prices could also be contributing to the strong sales data," said Roger Aliaga-Díaz, Vanguard senior economist. "Employment and inflation are typically the two key determinants of trends in consumer confidence and consumer spending."

Econoday 3/13 – In addition to autos and gasoline, strength was seen in clothing & accessories, up 1.8%; building material & garden supplies, up 1.4%; sporting goods, hobby, book & music stores, up 1.0%; electronics & appliances, up 1.0%; and food services & drinking places, up 0.8%. Declines were seen in furniture & home furnishings, down 1.2%, and general merchandise, down 0.1%.

The consumer is increasingly willing to spend but certainly is not happy about spending more on gasoline. The February numbers and upward revisions will have economists raising their estimate for first quarter GDP.

FOMC Statement: Fed Stands Pat, With A Bit More Optimism

Vanguard 3/16 - As expected, the Federal Reserve's policymaking committee made no changes to its current monetary stance. However, it was slightly more upbeat about the economic outlook, noting in its statement that it now expects "moderate" growth this year. In its previous statement in late January, it used the word "modest." This change in adjectives is a signal of optimism, according to analysts. The Fed made no substantive change to its policies, which remain extraordinarily stimulative. The Fed's key short-term interest rate is still expected to remain near zero until late 2014, and there was no change to how it currently manages its large holdings of Treasury and mortgage-backed securities.

AFP 3/19 - As expected, the Federal Open Market Committee decided last week to stick to its current course in terms of monetary policy. The statement released following the conclusion of the second FOMC meeting of 2012 noted that the economy was "expanding moderately," highlighted by a labor market that had "improved further" and where household spending and business fixed investment "continued to advance." The statement, however, noted that housing "remains depressed" and that inflation was "subdued" even if crude oil and gasoline prices were increasing and were likely to "temporarily" push up overall prices.

Even with moderate economic growth expected over the coming months, the FOMC remains committed to its "highly accommodative" monetary policies. These include keeping the fed funds target rate near-zero percent (where it has been since December 2008), intending to maintain low rates until late 2014, lengthening the average maturity of the securities on its balance sheet and reinvesting principal payments made on its investment holdings.

As he did at the January meeting, Jeffrey Lacker was the sole dissenter among the committee. Lacker released a statement on Friday articulating his reasons for the difference of opinion. In it, he noted that with the economy growing at a "moderate pace" and inflation being "close to the Committee's 2 percent objective," he did not believe economic conditions will "warrant an exceptionally low federal funds rate" through 2014. Rather, he believes interest rates would likely rise "some time in 2013" in order to prevent, in what he sees, "the emergence of inflationary pressures."

Econoday 3/13 – The Fed is on hold for policy. However, the Fed gave the economy a mild upgrade, suggesting that additional ease is not likely.

Additionally, the Fed retained its Maturity Extension Program or "Operation Twist" to lower long-term interest rates. The Fed also is continuing to reinvest principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and is rolling over maturing Treasury securities at auction.

Barclays 3/13 - In terms of risks to the outlook, the March statement noted that "strains in global financial markets have eased," but that they "continue to pose significant downside risks to the economic outlook." We interpret the change in the risk language relative to the January statement as suggesting that ECB liquidity operations, the passing of the Greek debt swap, and policy efforts by affected countries have reduced the near-term probability of a systemic risk event. However, the FOMC still views the outlook for Europe as challenging. We would agree, given that a mild credit crunch and recession is our central scenario.

Consumer Price Index (CPI) – February: Except For Gasoline, Inflation Numbers Reassure

Press Release 3/16 - The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4% in February on a seasonally adjusted basis, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 2.9% before seasonal adjustment.

The gasoline index rose sharply in February, accounting for over 80% of the change in the all items index. The gasoline increase led to a 3.2% rise in the energy index despite a decline in the index for natural gas. The food index was unchanged in February, with the food at home index unchanged for the second month in a row as major grocery store food indexes were mixed.

The ("core" CPI) index for all items less food and energy rose 0.1% in February after increasing 0.2% in January. Indexes for shelter, new vehicles, medical care, and household furnishings and operations all advanced, while indexes for apparel, recreation, used cars and trucks, and tobacco all declined.

The all items index has risen 2.9% over the last 12 months, the same figure as last month. The index for all items less food and energy was up 2.2%, a slight decline from last month's 2.3% figure, while the 12-month change in the food index fell to 3.9% in February, its lowest level since last June. In contrast, the 12-month change in the energy index was 7.0% in February compared to 6.1% in January.

Vanguard 3/16 - The widely watched Consumer Price Index rose 0.4% in February, but most of the increase was attributed to higher gasoline prices. The so-called core CPI, which is more closely followed by the Federal Reserve because it excludes the more volatile food and energy categories, rose only 0.1%.

Producer Price Index (PPI) - February

Press Release 3/15 (excerpt) - The Producer Price Index for finished goods advanced 0.4% in February, seasonally adjusted, the U.S. Bureau of Labor Statistics reported today. Finished goods prices rose 0.1% in January and decreased 0.1% in December. At the earlier stages of processing, the index for intermediate goods moved up 0.7% and crude goods prices increased 0.4%. On an unadjusted basis, the finished goods index rose 3.3% for the 12 months ended February 2012, the smallest year-over-year rise since a similar 3.3% advance in August 2010.

Meanwhile, wholesale prices rose at a moderate pace last month. Wholesale energy prices were up 1.3%, helping to lift the overall producer price index by 0.4%. But the core index number, which excludes food and energy, only rose 0.2%. For the 12-month period, wholesale prices rose 3.3%, the smallest annual bump since August 2010. As recently as September 2011, the annual figure was over 7%.

Barclays 3/16 - The February PPI report continued the trend of moderating headline inflation but solid increases in the core. The PPI increased 0.4% in February, while the core increased 0.2%. The headline figure was boosted by a 1.3% rise in energy prices, which was led by gasoline (4.3%), home heating oil (5.3%), and electricity (0.6%). Food prices fell 0.1%. The rise in core prices was led by pharmaceuticals (0.6%), heavy trucks (1.0%), and civilian aircraft (0.5%). Light vehicle prices, which have been responsible for much of the volatility in the core PPI in recent months, were subdued in February, with prices of passenger cars up 0.1%, but light trucks down 0.4%.

Industrial Production and Capacity Utilization - February

AFP 3/19 - Despite being flat for the month, industrial output was up 4.0% from a year earlier (its best 12-month comparable since last April). Manufacturing output grew by just 0.3% during the month, held back by a 1.1% decline in motor vehicle/parts production. Mining output declined for second straight month (-1.2%) while that at utilities was flat. Capacity utilization slipped 1/10th of a point to 78.7%.

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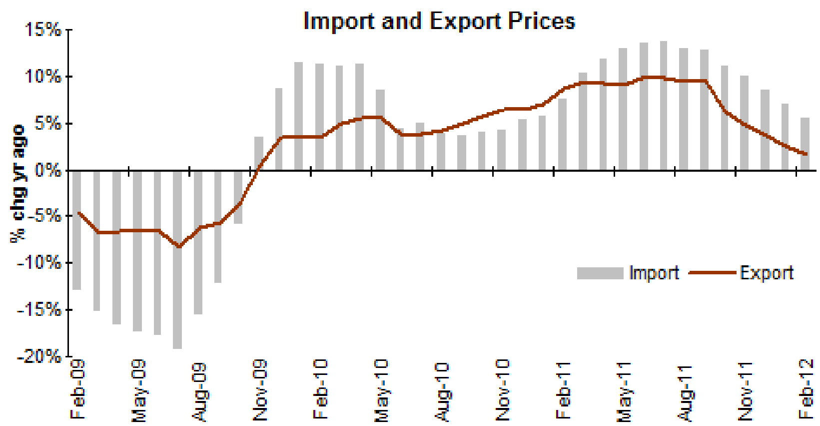
Business Inventories - January

Econoday 3/13 - Inventories rose 0.7% in January, right in line with sales to keep the stock-to-sales ratio unchanged at 1.27. The data are broken into three components with today's report including the retail component where the build was a very strong 1.1%, more than double the 0.5% gain for retail sales (which here exclude food services). The mis-match raises the stock-to-sales ratio for this sector by one tenth to 1.33 which, however, is still lean. Note that the wide strength in today's February retail sales report suggests that these inventories moved off the shelves briskly in the month.

Builds in the previously released other two components -- factory inventories and wholesale inventories -- were well in line with sales. The nation's supply managers continue to do a good job, increasing inventories roughly as sales increase. Lean, well-managed inventories help limit bumps in economic growth and downdrafts in employment demand.

Import Prices - February: Import price inflation continues moderating, core remains firm

Econoday 3/14 – Rising oil prices fed a sizable 0.4% rise in import prices during February. But today's report is filled with offsets including a sharp downward revision to January, to no change from an initial rise of 0.3%. Offsetting this slightly is a one tenth upward revision to December which now, like January, is unchanged. Year-on-year, import prices are up 5.5% for the smallest rise in more than two years.



Prices of petroleum imports surged 1.8% in February for a year-on-year gain of 18.4%. But pass through of oil prices is limited with prices of imported consumer products unchanged in the month for a year-on-year gain of 2.3%. Prices of imported capital goods have been sloping slightly higher but remain subdued, down 0.1% in the month for a year-on-year gain of only 1.1%.

Prices on the export side also rose 0.4% in the month but year-on-year, export prices are up only 1.5%. Agricultural prices have been swinging back and forth and swung 0.9% lower in February. Year-on-year, agricultural prices are down 6.2%.

Though rising oil prices are a risk to price stability, recent gains for the dollar will help limit related pressures.

Barclays 3/14 - By component, increases in the prices of industrial supplies (1.3%) were offset by a slight decline in those for capital goods (0.1%). Prices of autos and consumer goods ex-autos were unchanged for the month. On a y/y basis, headline import price inflation fell from 6.9% last month to 5.5%, while the core measure fell from 2.6% last month to 2.4%.

Job Openings and Labor Turnover - January: JOLTs report shows more job openings

Barclays 3/13 - The January US Job Openings and Labor Turnover (JOLTs) report showed 3.5mn job openings, which (after rounding) was unchanged from December after an upward revision (previous: 3.4mn). The number of unemployed in January was 12.8mn, meaning there were an estimated 3.7 unemployed job seekers for each opening. This is the lowest level since November 2008 and is an encouraging sign for labor markets.

Overall, this report suggests that job openings have been increasing faster than hiring, which reinforces our view that factors such as skill mismatch have continued to have an impact on the labor market recovery.

Empire State Index – March: Improved Business Conditions

Barclays 3/15 - The Empire State manufacturing index climbed to 20.2 in March, which was below our forecast (22.0) but above the consensus (17.5). Although this was the sixth consecutive monthly increase in the headline index, the details of the sub-indices (which do not contribute to the headline index) were mixed. In our view this report reinforces the recent positive trend seen in most national and regional manufacturing surveys, and going forward we expect these surveys to reflect continued expansion in manufacturing activity.

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Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – Week of March 10

Press Release 3/15 (excerpts) - In the week ending March 10, the advance figure for seasonally adjusted initial claims was 351,000, a decrease of 14,000 from the previous week's revised figure of 365,000. The 4-week moving average was 355,750, unchanged from the previous week's revised average of 355,750.

WEEK ENDING	Mar 10	Mar 3	Change	Feb 25	Prior Year
Initial Claims (SA)	351,000	365,000	-14,000	354,000	390,000
4-Wk Moving Average (SA)	355,750	355,750	-0-	354,750	388,500

Barclays 3/15 - Data on initial and continuing claims in the early weeks of March suggest the recent trend improvement in US labor market conditions remains in place. The Department of Labor indicated no special factors affected the estimates

AFP 3/19 - The weekly first-time jobless claims number appears to have settled at/near the mid-300,000s. The Department of Labor estimates there were a seasonally adjusted 351,000 initial claims made for unemployment insurance claims during the week ending March 10. This was a decline of 14,000 from the week before. The four-week moving average was unchanged at 355,750. A year earlier, the moving average was 388,500.

The Economic Week Ahead: March 19 to March 23

Vanguard 3/16 - Next week will feature several readings on the state of real estate. Data due to come out include new residential construction (Tuesday), existing-home sales (Wednesday), and new-home sales (Friday). The Conference Board's leading indicators will be updated on Thursday.

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

Release Date	Time (EDT)	Report	Period	Actual	Forecast	Previous
Monday 3/19	10 am	Home Builders' Index	March	28	29	28
Tuesday 3/20	8:30 am	Housing Starts	February	698,000	706,000	706,000
Wed. 3/21	10 am	Existing Home Sales	February		4.60 mln	4.57 mln
Thursday 3/22	8:30 am	Initial Jobless Claims	3-17		353,000	351,000
	10 am	Leading Economic Indicators	February		0.6%	0.4%
Friday 3/23	10 am	New Home Sales	February		330,000	321,000

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
17-Feb	4,355	2,454	33	1,118	7
24-Feb	4,525	1,458	22	456	5
2-Mar	5,292	1,418	22	721	10
9-Mar	4,600	2,025	22	1,016	9
16-Mar	6,180	1,989	15	640	7