

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

Economic Week In Review: In Season For Growth, Stimulus Remains Vital

Vanguard 3/26 - Spring has arrived, and the economy is slowly but surely blossoming. Gross domestic product and durable-goods orders both rose, clear evidence of continued economic growth. Even so, Federal Reserve Chairman Ben Bernanke said accommodative monetary policies and record-low interest rates must remain in place until the economy can stand on its own. Data for existing- and new-home sales indicate the real estate market remains an area of concern. For the week, the S&P 500 Index rose 0.6% to 1,167 (for a year-to-date total return of about 5.1%). The yield of the 10-year U.S. Treasury rose 16 basis points to 3.86% (for a year-to-date increase of 1 basis point).

Bernanke Testimony: Low Rates Still Imperative

Vanguard 3/26 - In prepared testimony before the House Financial Services Committee, Mr. Bernanke said low interest rates are still necessary for the U.S. economy and that the central bank will be ready to tighten credit "at the appropriate time." The federal funds rate—the interest rate banks charge one another for lending and the benchmark for the market's short-term rates—has remained unchanged at 0% to 0.25% since mid-December 2008. Mr. Bernanke also said the economy still requires "accommodative monetary policies" and that tools to reverse those policies will be implemented so the economic recovery doesn't lead to inflation.

Bernanke 3/25 (excerpts) - In sum, in response to severe threats to our economy, the Federal Reserve created a series of special lending facilities to stabilize the financial system and encourage the resumption of private credit flows to American families and businesses. As market conditions and the economic outlook have improved, these programs have been terminated or are being phased out. The Federal Reserve also promoted economic recovery through sharp reductions in its target for the federal funds rate and through large-scale purchases of securities. The economy continues to require the support of accommodative monetary policies. However, we have been working to ensure that we have the tools to reverse, at the appropriate time, the currently very high degree of monetary stimulus. We have full confidence that, when the time comes, we will be ready to do so.

4Q2009 GDP: Economy Continues To Expand

Vanguard 3/26 - Gross domestic product (GDP), the broadest measure of the country's economic activity, rose at an annual rate of 5.6% in the fourth quarter of 2009. Although the figure was revised down from last month's 5.9% estimate, the GDP's fourth-quarter growth is still the fastest in six years. The Commerce Department's Bureau of Economic Analysis releases three estimates of GDP; the latest data is the most complete. Compared with its level 12 months ago, GDP was up 0.1%, the first such rise in more than a year. However, GDP dropped 2.4% for 2009. A decrease in inventories—and the subsequent replenishment—generated much of the fourth-quarter growth. Consumer spending, business investment in equipment and software, residential construction, and net exports also contributed to growth, while nonresidential construction and government detracted.

Press Release 3/26 (excerpts) - Real gross domestic product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 5.6 % in the fourth quarter of 2009, (that is, from the third quarter to the fourth quarter), according to the "third" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.2%.

The GDP estimate released today is based on more complete source data than were available for the "second" estimate issued last month. In the second estimate, the increase in real GDP was 5.9%.

2009 GDP

Real GDP decreased 2.4% in 2009 (that is, from the 2008 annual level to the 2009 annual level), in contrast to an increase of 0.4% in 2008.

Durable-Goods Orders Rise - February

Vanguard 3/26 - Orders for manufactured durable goods rose 0.5% in February, the third straight monthly increase but slightly less than economists projected and lower than January's revised 3.9% rise. A leading indicator of industrial production and capital spending, new orders rose 0.9% excluding transportation and 1.6% excluding defense. Shipments dropped 0.6%, and inventories climbed 0.3%. Machinery orders, which were up 4.7%, provided the largest boost. Civilian aircraft orders also rose, while defense aircraft and automobile orders were down.

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Econoday 3/24 - February fell short of analysts' projections for a 1.0% increase but January's (revised) number was much higher than the prior estimate of 2.6%.

Existing- and New-Home Sales Continue Decline - February

Vanguard 3/26 - The market for existing-home and new-home sales remained weak. Existing-home sales dropped 0.6% in February; it was the third straight monthly retreat. Economists expected slightly worse results. Single-family home sales fell 1.4%, while sales of condos climbed 4.8%. Compared to February 2009, the median existing-home price was off 1.8% to \$165,000.

New-home sales dropped 2.2% in February, the lowest since 1963, the first available year for data. Sales were down in all four regions of the nation, particularly the Northeast and Midwest, where severe winter storms may have prevented purchases. Sales of existing and new homes picked up last fall, but the pending expiration of the first-time homebuyer credit in November precipitated the current decline. Extension of the credit through April 30 has yet to spark an increase.

Press Release 3/23 (excerpts) - *February Existing-Home Sales Ease with Mixed Conditions Around the Country*

Existing-home sales declined slightly in February, with modest gains in the Northeast and Midwest offset by softer sales in the South and West, according to the National Association of Realtors®.

Existing-home sales, which are finalized transactions that include single-family, townhomes, condominiums and co-ops, slipped 0.6% nationally to a seasonally adjusted annual rate of 5.02 million units in February from 5.05 million in January, but are 7.0% higher than the 4.69 million-unit pace in February 2009.

Lawrence Yun, NAR chief economist, said widespread winter storms in February may mask underlying demand. "Some closings were simply postponed by winter storms, but buyers couldn't get out to look at homes..." "Although sales have been higher than year-ago levels for eight straight months and home prices are much more stable compared to the past few years, the housing recovery is fragile at the moment."

Total housing inventory at the end of February rose 9.5% to 3.59 million existing homes available for sale, which represents an 8.6-month supply at the current sales pace, up from a 7.8-month supply in January. Raw unsold inventory is 5.5% below a year ago.

The national median existing-home price for all housing types was \$165,100 in February, which is 1.8% below February 2009. Distressed homes, generally sold at discount, accounted for 35% of sales last month.

A parallel NAR practitioner survey shows first-time buyers purchased 42% of homes in February, up from 40% in January. Investors accounted for 19% of transactions in February, compared with 17% in January; the remaining sales were to repeat buyers.

NAR President Vicki Cox Golder said some NAR buyers are just beginning to realize the urgency of acting before the April 30 contract deadline for the tax credit. "If home buyers want this tax credit there is literally no time to waste," she said. "Most buyers spend several months looking at a dozen homes before they make a contract offer, but less than six weeks are left."

According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage dipped to 4.99% in February from 5.03% in January; the rate was 5.13% in February 2009.

NEW RESIDENTIAL SALES IN FEBRUARY 2010

Press Release 3/24 - Sales of new single-family houses in February 2010 were at a seasonally adjusted annual rate of 308,000, according to estimates released jointly today by the U.S. Census Bureau and the Department of Housing and Urban Development.

This is 2.2% below the revised January rate of 315,000 and is 13.0% below the February 2009 estimate of 354,000.

The median sales price of new houses sold in February 2010 was \$220,500; the average sales price was \$282,600. The seasonally adjusted estimate of new houses for sale at the end of February was 236,000. This represents a supply of 9.2 months at the current sales rate.

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

Press Release 3/25 - In the week ending March 20, the advance figure for seasonally adjusted initial claims was 442,000, a decrease of 14,000 from the previous week's revised figure of 456,000. The 4-week moving average was 453,750, a decrease of 11,000 from the previous week's revised average of 464,750.

The advance seasonally adjusted insured unemployment rate was 3.6% for the week ending March 13, unchanged from the prior week's revised rate of 3.6%.

The advance number for seasonally adjusted insured unemployment during the week ending March 13 was 4,648,000, a decrease of 54,000 from the preceding week's revised level of 4,702,000. The 4-week moving average was 4,689,000, a decrease of 36,500 from the preceding week's revised average of 4,725,500.

The fiscal year-to-date average of seasonally adjusted weekly insured unemployment, which corresponds to the appropriated AWIU trigger, was 5.140 million.

WEEK ENDING	March 20	March 13	Change	March 6	Prior Year
Initial Claims (SA)	442,000	456,000	-14,000	451,000	642,000
4-Wk Moving Average (SA)	453,750	464,750	-11,000	470,500	639,750

Econoday 3/24 - Initial jobless claims fell to a lower-than-expected 442,000 in the March 20 week, which outside of a single week in the up-and-down month of February, is the lowest total of the recovery. Expectations were centered at 450,000. The four-week average, at 453,750, is at a cycle low.

The Economic Week Ahead: March 29 – April 2

Vanguard 3/26 - Economists will stay busy next week as at least one report will be released each day. Monday features personal income data, followed by consumer confidence figures on Tuesday and factory orders on Wednesday. Thursday's slate is full with announcements on construction spending, the ISM manufacturing index, and consumer credit. News on the employment situation is set for Friday.

U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior	Revised From
Mar 30	09:00	Case-Shiller 20-city Index	Jan	-0.7%	-1.0%	-0.7%	-3.1%	
Mar 30	10:00	Consumer Confidence	Mar	52.5	48.5	51.0	46.4	46.0
Mar 31	09:45	Chicago PMI	Mar		61.7	61.0	62.6	
Mar 31	10:00	Factory Orders	Feb		0.8%	0.5%	1.7%	
Apr 01	08:30	Continuing Claims	03/20		4650K	4600K	4648K	
Apr 01	08:30	Initial Claims	03/27		450K	440K	442K	
Apr 01	10:00	Construction Spending	Feb		-1.3%	-1.0%	-0.6%	
Apr 01	10:00	ISM Index	Mar		56.0	57.0	56.5	
Apr 02	08:30	Nonfarm Payrolls	Mar		75K	190K	-36K	
Apr 02	08:30	Unemployment Rate	Mar		9.8%	9.7%	9.7%	

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes \$million	New Bonds \$millions	Issue Count	Called Bonds Par \$millions	Issue Count
26-Feb	\$ 5,330	\$ 1,129	15	\$ 575	4
5-Mar	4,270	2,016	31	1,465	11
12-Mar	4,525	1,125	14	273	3
19-Mar	6,546	1,326	20	239	3
26-Mar	6,451	1,664	16	470	4