

# Market Comment *Economic Highlights for the week ended March 30, 2012*

## Economic Week in Review: Signs of Recovery Sustainable?

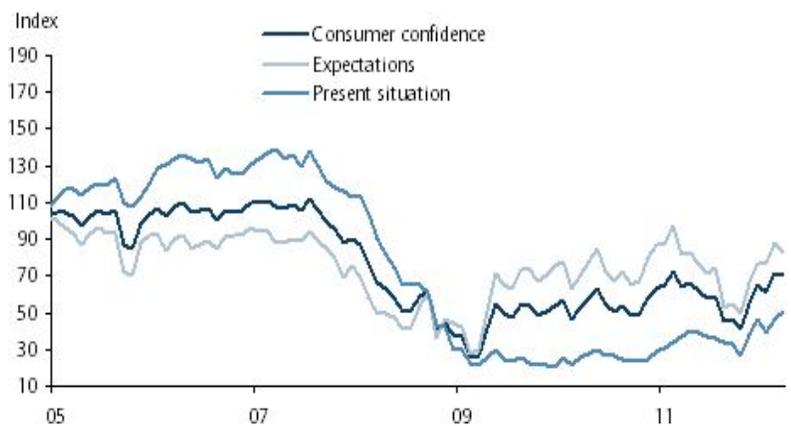
Vanguard 3/30 - In a television interview earlier this week, Federal Reserve Chairman Ben Bernanke said that the economy has made strides over the past few months, but that housing and unemployment remain a threat to a full recovery. Economic indicators this week were a mixed bag. The U.S. economy expanded in the fourth quarter. Consumer confidence fell slightly. Consumers are spending more, and businesses are investing—but at a slower pace. For the week ended March 30, the S&P 500 Index rose 0.8% to 1,408 (for a year-to-date total return of about 12.6%). The yield on the 10-yr U.S. Treasury note fell 2 bps to 2.23% (for a year-to-date increase of 34 bps).

## Consumer Confidence – March: Down Slightly

Vanguard 3/30 -The Conference Board Consumer Confidence Index fell slightly in March to 70.2 (from 71.6 in February), as consumers grappled with rising gas prices and fears of higher inflation in the near term. The driver behind the decline was the expectations index, which fell about 5 points. Yet consumers' assessment of present conditions rose by more than 4 points, its highest level since September 2008. While more consumers said they planned to purchase cars, homes, and appliances, they had mixed feelings about future income gains and finding employment.

Lynn Franco, director of The Conference Board Consumer Research Center, said consumers' increased confidence in present conditions shows that they haven't given up on the economic recovery. "Despite this month's dip in confidence, consumers feel the economy is not losing momentum," Ms. Franco said.

Econoday 3/27 – In a closely watched detail of the report, more consumers this month, 41.0% vs. 38.6% last month, say jobs are currently hard to get. ...a big jump in 12-month inflation expectations, to 6.3% for an eight tenth gain tied directly to increases underway at the gas pump.



## Durable-Goods Orders – February: Inch Up

Press Release 3/28 (excerpts) - New orders for manufactured durable goods in February increased \$4.5 billion or 2.2% to \$211.8 billion, the U.S. Census Bureau announced today. This increase, up four of the last five months, followed a 3.6% January decrease. Excluding transportation, new orders increased 1.6%. Excluding defense, new orders increased 1.7%.

Vanguard 3/30 - New orders for durable goods rose 2.2% in February, a bit below expectations but significantly better than the prior month. Transportation equipment orders were boosted by a steady increase in motor vehicles and a strong demand for both defense and non-defense aircrafts. Outside of transportation, orders were more widespread than in previous months and included other machinery and computers. Overall, total shipments declined while inventories and unfilled orders increased.

## Fourth-Quarter GDP Up 3%, As Expected

Press Release 3/29 (excerpts) - Gross Domestic Product, 4th quarter 2011 and annual 2011 (third estimate);

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 3.0% in the fourth quarter of 2011 (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 1.8%.

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 also 3.0%.

The increase in real GDP in the fourth quarter primarily reflected positive contributions from private inventory investment, personal consumption expenditures (PCE), non-residential fixed investment, exports, and residential fixed investment that were partly offset by negative contributions from federal government spending and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

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The acceleration in real GDP in the fourth quarter primarily reflected an upturn in private inventory investment and accelerations in PCE and in residential fixed investment that were partly offset by a deceleration in nonresidential fixed investment, a downturn in federal government spending, an acceleration in imports, and a deceleration in exports.

Econoday 3/29 – Basically, the economy was where we earlier believed. More recent monthly data show improvement but only moderate improvement. On a year-ago basis, GDP was up 1.6%, compared to 1.5% in the third quarter. Economy-wide inflation according to the GDP price index was unrevised at a 0.9% annualized rate. Analysts expected an unrevised 0.9% rise. The latest figure is a notable slowing from 2.6% in the third quarter.

Vanguard 3/30 - The increase in real gross domestic product (GDP)—the broadest measure of goods and services produced by the U.S. economy—was the highest for any quarter in 2011. Most of the gain came from a jump in inventories, which contributed nearly two-thirds of the growth.

AFP 4/2 - Economic growth during Q4 was spurred by a 2.1% increase in personal spending and a \$52.2 billion expansion in private inventories. The government sector continued to be a drag on the economy, costing 84-basis points in GDP growth, while the widening trade deficit cost 26 additional basis points.

### Personal Income and Outlays - February

Press Release 3/30 (except) - Personal income increased \$28.2 billion, or 0.2%, and disposable personal income (DPI) increased \$18.9 billion, or 0.2%, in February, according to the Bureau of Economic Analysis.

Personal consumption expenditures (PCE) increased \$86.0 billion, or 0.8%. In January, personal income increased \$26.5 billion, or 0.2%, DPI increased \$5.0 billion, or less than 0.1%, and PCE increased \$40.9 billion, or 0.4%, based on revised estimates.

Vanguard 3/30 - Consumers spent a lot more in February than they earned. Personal spending increased 0.8%, the highest since July, while wages increased 0.3%. Consumers spent most of their money on durable goods such as automobiles. With spending levels higher than income gains, the personal savings rate slid to 3.7% (from 4.3% in January), its lowest level since 2009. Some analysts interpret the rise in spending as a sign that consumers are becoming more confident in the economy and their future prospects; however, they caution that unless income levels keep up, consumers will unlikely lead the economic recovery as they have in the past.

AFP 4/2 - The increased spending was funded, in part, by a reduction in the savings rate from 4.3% in January to 3.7% in February.

### Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of March 24

Press Release 3/29 (excerpts) - In the week ending March 24, the advance figure for seasonally adjusted initial claims was 359,000, a decrease of 5,000 from the previous week's revised figure of 364,000. The 4-week moving average was 365,000, a decrease of 3,500 from the previous week's revised average of 368,500.

WEEK ENDING	Mar 24	Mar 17	Change	Mar 10	Prior Year
Initial Claims (SA)	359,000	364,000	-5,000	353,000	401,000
4-Wk Moving Average (SA)	365,000	368,500	-3,500	356,250	406,000

Barclays 3/29 - Despite the upward revisions, the recent trends in jobless claims data continue to suggest that the labor market has strengthened modestly since February. Payroll growth was likely boosted by positive weather effects in recent months.

### Consumer Sentiment – March: Respondents Continue To Show Record Labor Market Optimism

Barclays 3/30 - The University of Michigan's index of US consumer sentiment rose to 76.2 in the final March report, which was a small upside surprise compared to what we (75.0) and the consensus (74.5) were expecting.

Respondents displayed positive sentiment with regards to their finances as 34% said that they were in a better financial position now than they were a year ago (previous: 27%, March 2011: 25%) and 26% reported higher income than a year ago (only 23% reported lower income). These readings are all the strongest since 2008 and suggest that consumer financial sentiment is returning to pre-recession levels.

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Perceptions of labor markets improved as 62% (previous: 55%, March 2011: 45%) of respondents reported hearing favorable news about changes in business conditions, which was the highest since 1984, and 38% (previous: 33%, March 2011: 28%) spontaneously reported increases in employment when asked to identify recent economic developments.

Only 10% of respondents thought that the government's economic policies were doing a good job (previous: 11%, March 2011: 12%), which is above the levels during the summer but substantially below historical averages.

The recent rise in gasoline prices drove median inflation expectations for the year ahead to 3.9% (previous: 3.3%) while a more modest rise was seen in expectations for the next 5-10 years (3.0%, previous: 2.9%).

Overall, this report is consistent with our view that consumer sentiment will continue to rise as labor and equity markets improve. While we view gas prices and the potential impacts of fiscal policy as significant downside risks, our view is that the near-term trend for consumer confidence will remain positive.

### Case-Shiller Home Price Index – January: Home Prices Flat

Barclays 3/27 - The S&P/Case-Shiller Home Price Index was essentially flat in January, declining by only 0.04% m/m. The 20-city composite index now stands 3.8% below its level one year ago. On a regional level, nine of the 20 MSAs experienced gains, as house prices increased in Phoenix (1.99%), Washington DC (1.71%), Miami (1.18%), Minneapolis (1.11%), Seattle (0.76%), Denver (0.68%), Dallas (0.45%), Tampa (0.36%), and Boston (0.04%). We continue to view the larger number of cities that experienced price gains to be a positive indicator that more cities are turning the corner and will likely experience stable, to slightly rising, home prices in the year ahead.

### The Economic Week Ahead: April 2 – April 6, 2012

Vanguard 3/30 - Several key indicators that will help shed further light on the economy are on tap for next week: construction spending and the Institute for Supply Management (ISM) Manufacturing Index (Monday), factory orders and the latest minutes of the Federal Reserve's Open Market Committee (Tuesday), the ISM Non-Manufacturing Index (Wednesday), and the unemployment rate and consumer credit (Friday).

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

*Source: MarketWatch*

RELEASE DATE	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, APRIL 2	10 a.m.	ISM Manufacturing	Mar.	53.4%	52.4%
	10 a.m.	Construction Spending	Feb.		-0.1%
TUESDAY, APRIL 3	10 a.m.	Factory Orders	Feb		-1%
	2 p.m.	FOMC Minutes			
WEDNESDAY, APRIL 4		Light-Vehicle Sales	Mar.	14.6 mln	15.1 mln
	8:15 a.m.	ADP Employment Report	Mar.		
THURSDAY, APRIL 5	10 a.m.	ISM Services	Mar.	57.2%	57.3%
	8:30 a.m.	Weekly Jobless Claims			
FRIDAY, APRIL 6	8:30 a.m.	Nonfarm Payrolls	Mar.	235,000	227,000
	8:30 a.m.	Unemployment Rate	Mar.	8.2%	8.3%
	8:30 a.m.	Average Hourly Earnings	Mar.	0.2%	0.1%
	3 p.m.	Consumer Credit	Feb.		