

Market Comment *Economic Highlights for the week ended April 2, 2010*

Economic Week In Review: Manufacturing Momentum Aids Recovery

Vanguard 4/2 - The manufacturing sector continues to underpin the economic recovery, helped out by consumers who are willing to spend a bit more of their incomes and decrease the savings rate. Consumers are opening their wallets despite their continuing low level of confidence and the high jobless rate, which held steady for the third month in a row at 9.7%. For the week, the S&P 500 Index rose 1.0% to 1,178 (for a year-to-date total return of about 6.2%). The yield of the 10-year U.S. Treasury rose 10 basis points to 3.96% (for a year-to-date increase of 11 basis points). The stock market was closed for the Good Friday holiday; bond markets closed at noon that day.

AFP EconWatch 4/5 - The U.S. economy created 162,000 jobs on a net basis in March, representing the most robust labor market in three years. While enthusiasm over the numbers should be tempered a bit because they were boosted by one-time hiring to support the 2010 Census and by delays in previous hiring as a result of February's wild weather, payrolls grew in most sectors of the economy. While consumer spending in February was not particularly strong, vehicle sales in March suggest that Americans may finally be warming up to the belief that business conditions are improving.

Non-Farm Payrolls: Jobless Rate Holds Steady, Temp Jobs Boost Payrolls

Vanguard 4/2 - The unemployment rate stood at 9.7% in March—unchanged for three straight months—even as the labor force expanded. Although the economy appears to be pulling out of a recession, the jobless rate is expected to remain high for some time, especially as discouraged workers reenter the labor market. A separate survey finds that the economy added 162,000 payroll jobs in March after losing 14,000 jobs in February. Payrolls got a big boost from temporary jobs—48,000 federal government workers hired for the 2010 census and 40,000 for other jobs. But manufacturing payrolls also increased for the third month in a row, and construction payrolls gained for the first time since mid-2007, perhaps partly due to a reversal of jobs blown away by February's blizzards. Even better, the numbers for early 2010 were revised, resulting in muted losses for February and payroll gains for January.

Econoday 4/2 - Census hiring was not as strong as expected but private payrolls were healthy, posting a third consecutive gain. Importantly, the February and January revisions were up a net 62,000, inclusive of moving January from negative to positive territory. Overall, today's report net was close to expectations.

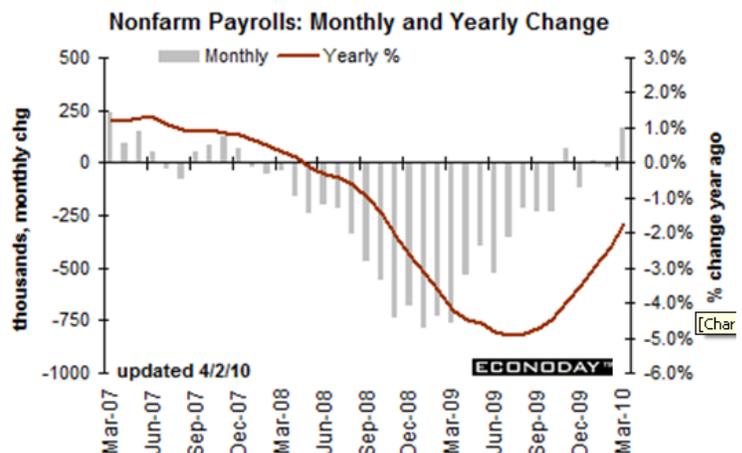
The detail was positive: Private payrolls (which discount Census hiring and other government changes) jumped 123,000 in March, following an 8,000 rise in February and a 16,000 gain in January.

Sector detail was encouraging. Notably, construction jobs rose 15,000 after a 59,000 drop the month before. This was the first gain in construction since June 2007. Private service-providing employment jumped 82,000 in March, following a 55,000 gain the month before. Temp jobs were up 40,000, following a 37,000 rise in February. Health care jumped 37,000 in March while leisure & hospitality gained 22,000. Retail trade increased 15,000 in March as wholesale trade was up 9,000. On the negative side, financial activities fell 21,000 in March.

On a year-ago basis, payroll jobs improved to minus 1.8% in March from minus 2.4% in February.

The big negative in the March report was for average hourly earnings. Wage inflation in March fell to a 0.1 percent decline from a 0.2 percent gain the month before. The consensus had expected a 0.2 percent advance. The average workweek (traditional series for production and nonsupervisory workers) improved to 33.3 hours in March from 33.1 the previous month. For all workers, the average workweek edged up to 34.0 hours from 33.9 hours in February.

From the household survey, the unemployment rate was unchanged at 9.7% in February and matched expectations.



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Graph Note Non-Farm Payrolls this page: During the mature phase of an economic expansion, monthly payrolls gains of 150,000 or so are considered relatively healthy. In the early stages of recovery though, gains are expected to surpass 250,000 per month.

BofA 4/2 - Overall the employment report is relatively in line with our expectations for March with modest upward revisions to prior months. Construction (employment) rebound in March from -59,000 to +15,000 has no basis as far as we can tell in actual activity in the construction sector - so probably due to weather-related factors.

Personal Savings Rate Slips As Consumers Spend

Vanguard 4/2 -Personal income was flat in February. Its large wage and salary component barely budged while income from government assistance posted strong growth. Consumer spending rose by 0.3%, but—given flat wages and salaries—the savings rate declined to 3.1% in February from 3.4% in January and 4.0% in December.

Consumer Confidence Remains Stuck On A Plateau

Vanguard 4/2 -February's bad winter weather is over (hopefully) and consumer confidence has bounced back from an apparently blizzard-related plunge. In March, The Conference Board's index of consumer confidence regained 6 of the 10 points it lost the prior month and posted an above-expectations reading of 52.5. Still, the low level of the index has been essentially unchanged over the past ten months as factors such as high joblessness, modest wage growth, scarce credit, and higher gasoline prices weigh on consumers.

Econdoy 3/30 (excerpts) - The 52.5 reading shows little change from the prior four-month average of 51.8. Jobs currently hard to get fell to 45.8, down 1.5 percentage points for the best reading since August and pointing to mild improvement for Friday's employment report. Another key reading in the report is improvement in income expectations as slightly more see gains, at 10.5 percent for a 4 tenths gain from February, and slightly fewer see a decrease, at 17.6 percent vs. 17.8 in February. But all these readings remain historically very weak.

Clearly negative are buying plans where fewer see a vehicle purchase in their future, at 3.8 percent vs. February's 5.3 percent. Home-buying plans remain dormant at 2.8 percent for only a 1 tenth improvement with future appliance purchases falling two percentage points to 25.8 percent. Inflation expectations rose 2 tenths to a still quiet 5.4 percent. The gain here should not be over-emphasized as it reflects the month's seasonal rise in gasoline prices.

The biggest positive in the report is a 7.3-point gain for the expectations component to 70.2. This reading, which is the report's leading indicator, points to further headline improvement for April. But confidence is still very weak, lagging what appears to be improvement underway in the jobs market and in the retail sector.

ISM Index: Momentum In Manufacturing Continues To Build

Vanguard 4/2 -The manufacturing index published by the Institute for Supply Management (ISM) jumped by a higher-than-expected 3 points in March, to 59.6. A figure over 50.0 indicates expansion in the manufacturing sector, and the index has been above that threshold for eight months and is at its highest levels since 2004. Another signal of potential future manufacturing-sector expansion came from the strong growth in ISM's inventory index. That index climbed above 50 for the first time in 46 months and was a surprise, the ISM said.

Econoday 4/1 - All the major components show strength led by new orders which are back above 60 at 61.5 for a 2 point gain from February. Production, which follows new orders, is also back above 60 at 61.1 for a nearly 3 point gain. Inventories are a very key positive, soaring a very surprising 8 points to 55.3 to indicate wide restocking in the manufacturing sector. Inventories are really the difference for March.

Factory Orders – February

Vanguard 4/2 -Another growth signal came from factory orders, which rose by a stronger-than-expected 0.6% in February. New orders for manufactured goods have risen for 10 of the past 11 months.

Construction Spending Drops Four Months In A Row

Vanguard 4/2 -Construction spending fell in February—its fourth straight monthly decline—and is 12.8% below a year earlier. While February's surprise blizzards in the Northeast were expected to reduce construction spending, the construction industry's woes extend beyond unseasonably bad weather. Construction spending has increased in only one month since April 2009, as the industry is feeling the effects of oversupply created by a

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prerecession boom in new office and commercial real estate space coupled with a lackluster recovery in private residential construction.

AFP EconWatch 4/5 (excerpts) - Private construction slowed 1.2% in February (and was down 16.3% from a year earlier). Even though residential construction declined 2.1% in February, the year-to-year decline was a relatively modest 3.9%. Non-residential construction slipped 0.4% from January and was down 24.3% from a year earlier. Public construction fell 1.7%.

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

Press Release 4/1 (excerpts) - In the week ending March 27, the advance figure for seasonally adjusted initial claims was 439,000, a decrease of 6,000 from the previous week's revised figure of 445,000. The 4-week moving average was 447,250, a decrease of 6,750 from the previous week's revised average of 454,000.

The advance seasonally adjusted insured unemployment rate was 3.6% for the week ending March 20, unchanged from the prior week's unrevised rate of 3.6%.

WEEK ENDING	March 27	March 20	Change	March 13	Prior Year
Initial Claims (SA)	439,000	445,000	-6,000	454,000	651,000
4-Wk Moving Average (SA)	447,250	454,000	-6,750	464,250	642,750

Econoday 4/1 - Fewer Americans are filing jobless claims in what is a key signal for underlying improvement in payrolls. There were no special factors in the week. Claims levels are the lowest since late 2008, reflecting improving economic demand and the need for firms to expand their output of goods and services.

The Economic Week Ahead: April 5 - 9

Vanguard 4/2 -The ISM's gauge of service-sector business activity, which complements its manufacturing-sector index, will be released on Monday. Reports from the Federal Reserve are in the works: Minutes of the Federal Open Market Committee on Tuesday and consumer credit on Wednesday.

U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Apr 05	10:00	ISM Services	Mar	54.4	54.0	53.0
Apr 05	10:00	Pending Home Sales	Feb	-2.5%	-1.0%	-7.6%
Apr 06	14:00	Minutes of FOMC Meeting				
Apr 07	15:00	Consumer Credit	Feb	-\$1.4B	\$1.6B	\$5.0B
Apr 08	08:30	Continuing Claims	03/27	4650K	NA	4662K
Apr 08	08:30	Initial Claims	04/03	440K	433K	439K
Apr 09	10:00	Wholesale Inventories	Feb	-0.1%	0.3%	-0.1%

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes \$million	New Bonds \$millions	Issue Count	Called Bonds Par \$millions	Issue Count
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
2-Apr	4,320	545	10	527	3