Market Comment *Economic Highlights for the week ended April 6, 2012*

Economic Week in Review: Job Growth Disappoints

Vanguard 4/9 – The momentum of job growth in recent months weakened in March, a result at odds with positive signs leading up to Good Friday's release of the nonfarm payrolls figures. However, the unemployment rate edged lower, to 8.2%. An earlier report from the Federal Reserve had signaled that no new monetary stimulus is likely anytime soon. The stock market was closed on Good Friday, but the bond market was open for part of the day. For the week through April 5, the S&P 500 Index fell 0.7% to 1,398 (for a year-to-date total return of about 12%). For the week through April 6, the yield on the 10-year T-note fell 16 bps to 2.07% (for a y-t-d increase of 18 bps).

Nonfarm Payrolls – March: Job Growth Comes Up Surprisingly Short

Vanguard 4/9 – The increase in nonfarm payrolls, which had been over 200,000 a month for the past three months, slowed to 120,000 new jobs in March, well below expectations. Analysts said that a possible source for the shortfall was unseasonably warm weather, which shifted some hiring from March to the first two months of the year. Some analysts also suggested that the figures reflect the slow-growing economy, although other reports (such as the service industry report noted below) suggest that the labor market is improving, albeit slowly. Industries showing weaker gains included construction, retail, and temporary help. However, employment in manufacturing and financial services picked up. The unemployment rate, which comes from a separate survey and was expected to remain at 8.3%, instead dipped to 8.2%. The slight decline wasn't necessarily a positive sign. It may have resulted from discouraged job seekers abandoning their searches and, thus, not being counted as unemployed.

"The big question around the disappointing job number is whether this is just one data point or part of a trend, and I think that it could be a bit of both," said Roger Aliaga-Díaz, Vanguard senior economist. "The stronger job numbers in previous months seemed to be a bit ahead of the GDP growth expected for this quarter and for the rest of the year (so this could be, in part, a correction in the trend). However, with no such extreme negative surprises as we saw last year, we could well see payroll growth getting back to some middle ground over the following months."

AFP 4/9 - The average number of jobs created per month since December—which helps smooth out some volatility in the data—was pretty healthy 214,500 even with March's smaller gain. A strong rebound in April (and perhaps an upward revision to the March data) would be evidence that the smallest gain in payrolls since last October was a blip.

It was the private service sector that saw a big slowdown in job creation, going from a gain of 204,000 in February to only 90,000 in March. Three major problem areas: retail (which lost 33,800 workers in March after losing 28,600 workers in February), temporary help services (where employment contracted by 7,500 workers in March after surging by 54,900 workers in February) and health care/social assistance (where job creation was cut in half from 52,800 in February to 26,100 in March). Government employment slipped by 1,000 workers during March.

Based on a separate survey of households, the unemployment rate dropped a 1/10th of a percentage point to 8.2%. A year earlier, the rate was 8.9%. The drop was thanks to 164,000 people leaving the labor force during the month. While the labor force has expanded by 1.315 million people over the past year, it has not grown as fast as has the size of the employment age population. Hence the labor force participation rate of 63.8% was 3/10ths of a percentage point smaller than that of a year earlier.

Barclays 4/6 - Overall, the report had an undeniably weak tone and will raise doubts about the strength of the labor market. The soft employment numbers certainly leave the door open for further accommodation.

FOMC Minutes: Fed Stays On Hold

Vanguard 4/9 – The Federal Reserve appeared **even less inclined** than in past months to launch another round of large-scale bond purchases to further loosen credit. In the minutes of its March policy committee meeting, released this past week, Fed officials acknowledged that the economy wasn't out of the woods. But members disagreed on how solid the recovery has actually become recently and whether additional measures could spark inflation.

However, the committee didn't rule out expanding its bond-buying initiatives should the recovery falter. As announced after its meeting, the committee agreed that the recovery remained sluggish enough to warrant maintaining current stimulus measures, including keeping its target interest rate near zero at least until late 2014.

Econoday 4/3 – The latest FOMC minutes indicate **no further inclination** to implementing QE3. Basically, the Fed is holding steady on current easy policy and FOMC participants expect gradual improvement in the economy although unemployment is projected to remain elevated for some time. Near-term inflation is seen as bumped up by energy costs but the run-up is expected to be temporary with long-run inflation to come in at 2%. Markets, however, expected additional hints at QE3 being implemented and equities declined on release of the minutes. Essentially, the Fed has concluded that the economy is muddling upward, not as much as preferred, but enough that further policy action is not needed currently.

AFP 4/9 - Overall, the minutes suggest that further stimulus does not appear to be likely over the near-term.

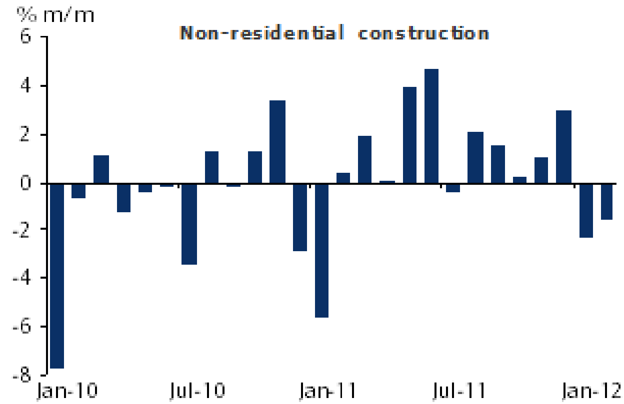
Barclays 4/3 - On the inflation front, the FOMC believes that the softness in non-oil energy prices suggests that the rise in oil prices has more to do with geopolitical instability than global growth prospects. Accordingly, the committee believes the impulse to inflation from higher oil prices will likely prove transitory and leave inflation at or below the mandate-consistent rate of 2% in the medium term.

Construction Spending - February: Soft Construction Report

Econoday 4/2 – Construction outlays were weaker than expected. The bright spot was multifamily construction. Construction spending fell 1.1% in February, following a 0.8% dip the month before (originally down 0.1%).

The decrease in February was led by a 1.7% drop in public construction with private nonresidential decreasing 1.6%. New single-family outlays fell 1.5% after a 2.2% rise in January. However, new multifamily construction gained 2.0% after a 2.6% boost in January.

On a year-ago basis, overall construction decelerated to a gain of 5.8% in February, compared to 6.0% the month before.



ISM Manufacturing - March: Rebound Consistent With Backdrop of Modest Growth

Econoday 4/2 – ISM data point to steady strength for the manufacturing sector in March. The headline composite index rose one full point to 53.4, a bit above of 50 to indicate monthly growth and slightly above February to indicate an increasing rate of growth.

New orders, the most important detail in the report, softened very slightly to a still respectable 54.5 which is four tenths below February. Slowing growth in exports is a factor here with the new export order index down 5.5 points to 54.0. But other details show increasing strength including production, backlog orders and, very importantly, employment. Price data show steady but not increasing pressure on input prices.

Judging by all the data, the manufacturing sector is a steady and important source of strength for the economy.

AFP 4/9 - The manufacturing sector has expanded for 32 straight months. 3 out of 5 index components were in expansionary territory (over 50.0): production (+3.0 points to 58.3), employment (+2.9 points to 56.1) and new orders (-0.4 to 54.5). The index for inventories was at parity (gaining a ½ point to 50.0) while supplier deliveries slowed (losing a point to 48.0). 15 of 18 tracked industry segments expanded during the month.

ISM Services Index – March: Service Sector Expands More Slowly

AFP 4/9 - The non-manufacturing sector of the U.S. economy expanded for the 27th straight month, but did so at the slowest pace since last December. Indices for both business activity (-3.7 points to 58.9) and new orders (-2.4 points to 58.8) each declined during the month. Meanwhile the employment index gained a point to 56.7 (its best since February 2006) while that for supplier deliveries remained in contraction at 49.5. 16 of 18 tracked industry segments expanded during the month.

Vanguard 4/9 – Service firms employ around three-fourths of the nation's workers, and the health of this consumer-oriented sector is key to sustained economic growth.

Factory Orders - February

AFP 4/9 - Orders for manufactured goods totaled $468.4 billion, up 9.0% from a year earlier. Orders for transportation equipment grew 3.9% during February, thanks to 12.5% and 6.0% gains in orders for defense and non-defense aircraft, respectively. Net of transportation, factory orders grew 0.9% during the month and were up 9.3% over the past year. Orders for durable goods grew 2.4% in February while those for non-durable goods eked out a 0.4% increase. Shipments inched up 0.1% to $462.6 billion (+7.1% from February 2011). Unfilled orders increased 1.3% during February while inventories expanded 0.4%.

U.S. Consumer Credit Expands For Sixth Consecutive Month In February

Barclays 4/9 - US consumer credit rose by a seasonally adjusted $8.7bn in February after an upwardly revised $18.6bn in January. This was less than we ($16.0bn) and the consensus ($12.0bn) were expecting. Revolving credit posted a seasonally adjusted drop of $2.2bn, which was the second consecutive monthly decline. Non-revolving credit, however, rose by $10.9bn on a seasonally adjusted basis. Student loans have remained a major driving force in the growth of non-revolving credit; according to our seasonal adjustment process, consumer credit held by the federal government expanded by $7.9bn in February on a seasonally adjusted basis (NSA: $0.3bn). Interest rates on consumer credit fell compared with previous years; interest rates for 48-month new car loans stood at 5.1% in February (2011: 5.7%, 2010: 6.2%), and the rate paid on credit card plans was 12.3% (2011: 12.7%, 2010: 13.8%). We expect that consumer credit will continue to expand as student loan growth persists and that banks will become more willing to lend as the labor market improves.

Vanguard 4/9 –The increase in consumer credit was driven once again by non-revolving loans. These are typically used to pay for big-ticket items, especially autos and schooling.

Light-Vehicle Sales - March: Vehicle Sales Soften

Econoday 4/3 – Vehicle sales look very weak in March, at least compared to a very strong February. Unit sales fell 4.8% to a 14.4 million rate in March vs. a 15.1 million rate in February. But what will likely trim this monthly decline in dollar terms is relative strength in sales of trucks which have higher sticker prices than cars and where sales slowed only slightly. Car sales show sizable slowing in the month, both for North American made and for imports.

Barclays 4/3 - While this represents a notable easing compared with March (when sales reached a near-four-year high of 15.0mn), the strong gains in January and February mean that the Q1 average (of 14.5mn) was well above that in Q4 (13.4mn), consistent with solid real consumer spending growth during the quarter. In the detail, Autodata reported a decline in auto sales, to 7.6mn from 8.2mn, and a smaller drop in light truck sales, to 6.7mn from 6.9mn.

ISM Services - March

Econoday 4/4 – Growth in the nation's non-manufacturing sector slowed slightly last month but compared against a very strong February. At 56.0, the ISM non-manufacturing index fell 1.3 points, pulled back by slowing growth in new orders and business activity both of which however remain very healthy. Health is evident by a strong gain in the employment component which rose one full point to a 56.7 level that's near January's recovery high of 57.4.

Details on the positive side include a rising rate of inventory build, rising volumes of imports, and a slowing in input price pressure. On the negative side is a marginal monthly contraction for backlog orders.

This report tracks a broad sweep of the economy and is signaling solid rates of growth in the months ahead.

Barclays 4/4 - With activity, orders and employment indices all comfortably above the 50 breakeven mark in both manufacturing and non-manufacturing ISM surveys, we think policymakers can be comfortable with the view that the economic backdrop has firmed appreciably in recent months.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of March 31

Press Release 4/5 (excerpts) - In the week ending March 31, the advance figure for seasonally adjusted initial claims was 357,000, a decrease of 6,000 from the previous week's revised figure of 363,000. The 4-week moving average was 361,750, a decrease of 4,250 from the previous week's revised average of 366,000.

WEEK ENDING	Mar 31	Mar 24	Change	Mar 17	Prior Year
Initial Claims (SA)	357,000	363,000	-6,000	364,000	400,000
4-Wk Moving Average (SA)	361,750	366,000	-4,250	368,500	402,250

Econoday 4/5 – There are no special factors in the data which, again, clearly point to improvement in the jobs market.

Barclays 4/5 - Altogether, the behavior of jobless claims continues to point toward a modest strengthening in labor market conditions. Our view is that payroll growth was likely boosted by positive weather effects in recent months, and as a result, we look for a slightly softer pace of job growth in March.

The Economic Week Ahead: April 9 – April 13, 2012

Vanguard 4/9 – The Federal Reserve releases its Beige Book survey of regional economic conditions on Wednesday. An update on the nation's trade balance is set for Thursday. Wholesale and consumer price reports are due out on Thursday and Friday, respectively.

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

	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
TUESDAY, APRIL 10	7:30 a.m.	NFIB Small-Business Sentiment	March	--	94.3
	10 a.m.	Wholesale Trade	Feb.	--	0.4%
	10 a.m.	JOLTS Job Openings	Feb.	--	3.46 mln
	8:30 a.m.	Import Prices	March	1.2%	0.4%
WEDNESDAY, APRIL 11	2 p.m.	Fed's Beige Book			
	2 p.m.	Federal Budget	March		-$188 billion
THURSDAY, APRIL 12	8:30 a.m.	Weekly Jobless Claims	4/7	355,000	357,000
	8:30 a.m.	Producer Price Index (PPI)	March	-0.1%	0.4%
	8:30 a.m.	Core PPI	March	0.2%	0.2%
	8:30 a.m.	Trade Balance	Feb.	-$48.7 billion	-$52.6 billion
	8:30 a.m.	Consumer Price Index (CPI)	March	0.2%	0.4%
FRIDAY, APRIL 13	8:30 a.m.	Core CPI	March	0.2%	0.1%
	9:55 a.m.	U Of M Consumer Sentiment	April	76.2	76.2