

Market Comment *Economic Highlights for the week ended April 13, 2012*

Economic Week in Review: Recovery Continues To Putter Along

Vanguard 4/13 - Economic activity continued at a modest pace, as data revealed growth was both diverse and consistent nationwide. For the week ended April 13, the S&P 500 Index fell 2% to 1370.27 (for a year-to-date total return of about 9.63%). The yield on the 10-year U.S. Treasury note fell 5 basis points to 2.02% (for a year-to-date increase of 13 basis points).

Fed Beige Book: Expansion Continues Despite Concerns About Gas Prices

Econoday 4/11 - Today's Beige Book indicated that the economy continued to grow at a "modest to moderate pace" from mid-February through late March. However, the higher cost of energy is a growing concern.

Manufacturing is a notable positive with gains noted in automotive and high-technology industries. Demand for professional business services showed modest to strong growth and freight volume was mainly higher. Consumer spending is seen as positive with warm weather helping boost sales. New-vehicle sales were reported as strong or strengthening across much of the United States-though the latest unit new motor vehicle sales eased from a strong pace.

Construction is improving although mainly due to expansion in the construction of multi-family housing. Activity in non-residential real estate increased or held steady in most Districts.

Upward pressure on wages was constrained. Overall price inflation was modest. However, contacts in many Districts commented on rising transportation costs due to higher fuel prices.

Overall, the Beige Book showed continued forward momentum although at a modest to moderate pace.

Barclays 4/11 - Chicago and Minneapolis reported that the weather led to the planting of several crops earlier than in previous years.

Despite overall price inflation being described as "modest," rising transportation costs due to higher fuel prices were reported as a concern in many districts. Manufacturers in over half of the districts mentioned that they were "somewhat concerned" with rising petroleum prices, while several districts mentioned that an upward movement in gasoline prices "could limit discretionary spending in the months to come."

Hiring was reported as steady or showing a modest increase, but there were frequent reports of difficulties finding qualified workers; this is in line with our view that skills mismatch continues to inhibit the recovery of labor markets, and, anecdotally at least, stands in contrast to the Fed's view that there has been only a slight rise in structural unemployment.

New vehicle sales were reported as "strong or strengthening across much of the United States" and rising gasoline prices reportedly led to an increase in the purchase of fuel-efficient vehicles in Kansas City, Dallas, and San Francisco.

Cleveland, Richmond, and Kansas City noted "a shortage of qualified truck drivers."

Most districts reported that "banking conditions remained stable" and had "modest improvements in demand for lending." Cleveland, Richmond, and San Francisco reported more aggressive loan pricing due to competition, and Richmond reported offering easier terms to attract commercial borrowing.

Districts reported an increase in oil exploration at the expense of natural gas exploration as demand for oil has increased and natural gas prices have remained low. Kansas City reported "a shortage of engineers and experienced technical support for oil and gas drilling."

Minneapolis and Dallas mentioned an increase in airline fares in response to higher fuel costs, and Richmond reported that rising fuel costs were a "serious problem for both land and ocean shippers."

Consumer Price Index (CPI) – March: Consumer Prices In Line With Expectations

Vanguard 4/13 - In March the Consumer Price Index (CPI) rose 0.3%, down slightly from the 0.4% increase in February. The primary reason for the overall CPI increase was the 0.9% rise in the cost of energy, with gasoline prices climbing 1.7% for the month. Over the past year, gasoline prices have spiked 9.0%.

Press Release (excerpts) 4/13 - CONSUMER PRICE INDEX – MARCH 2012

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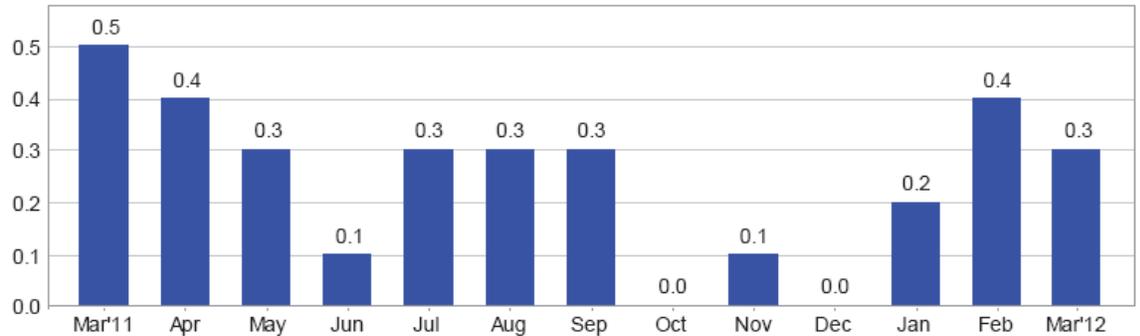
The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in March on a seasonally adjusted basis, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 2.7% before seasonal adjustment.

The indexes for food, energy, and all items less food and energy all increased in March. The gasoline index continued to rise, more than offsetting a decline in the household energy index and leading to a 0.9% increase in the energy index. The food index rose 0.2% as the index for meats, poultry, fish, and eggs increased notably.

The index for all items less food and energy rose 0.2% in March after increasing 0.1% in February. Most of the major components increased in March, with the indexes for shelter and used cars and trucks accounting for about half the total increase for all items less food and energy. The indexes for medical care, apparel, recreation, new vehicles, and airline fares increased as well, while the indexes for tobacco and household furnishings and operations were among the few to decline in March.

The all items index has risen 2.7% over the last 12 months, a decline from last month's 2.9% figure. The energy index has risen 4.6% and the food index has increased 3.3%; both increases are smaller than last month. In contrast, the 12-

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Mar. 2011 - Mar. 2012
Percent change



month change in the index for all items less food and energy, which was 2.2% last month, edged up to 2.3% in March.

The gasoline index rose 1.7% following its 6.0% February increase. (Before seasonal adjustment, gasoline prices increased 8.1% in March.)

Barclays 4/12 - These added up to a 0.2% gain in both core goods and core services, both a tenth stronger than February. We expect this to be the trend in the coming months, consistent with our view that the degree of spare capacity in the economy is fairly limited and will not translate into renewed disinflationary pressure. This should lead to a further gradual rise in the core CPI on a y/y basis (it was up one tenth to 2.3% in March).

Trade Balance – February: U.S. Trade Deficit Drops Sharply

Vanguard 4/13 - Following January's deficit of \$52.5 billion, the U.S. trade gap narrowed in February to \$46.0 billion. The reduction, the largest in three years, was significantly more than analysts had predicted.

The drop was largely attributed to a 2.7% decrease in imports with much of the decline centered on China. Export growth rose only slightly after two months of steady gains.

Analysts said that they expect the decrease to be short term—as they anticipate Chinese imports to climb in March—and that demand trends indicate the trade gap should widen throughout 2012.

Econoday 4/12 - The import numbers actually are a little disconcerting. The drop was led by large decline in imports of consumer goods, followed by industrial supplies. The decline in consumer goods may indicate that businesses are less confident about future demand.

Producer Price Index (PPI) – March: Producer Prices Flat

Vanguard 4/13 - Producer prices were unchanged for March, a result which failed to meet analysts' expectations. The numbers represented a sharp drop from the substantial 0.4% increase in February.

Prices for finished energy goods dropped 1.0% in March, a sharp reversal of February's 1.3% increase.

Econoday 4/12 - PPI inflation in March was unexpectedly soft at the headline level. Meanwhile, the core rate accelerated. The PPI was unchanged in March after surging 0.4% in February. The core PPI, however, posted a 0.3% rise, following a gain of 0.2% in February.

On a not seasonally adjusted basis for February, the year-ago headline PPI was up 2.8% compared to 3.3% for February while the core was up 2.9% in March versus 3.0% the month before on an NSA year-ago basis.

Press Release (excerpts) 4/12 - PRODUCER PRICE INDEXES – MARCH 2012

Market Comment *Economic Highlights for the week ended April 13, 2012*

The Producer Price Index for finished goods was unchanged in March, seasonally adjusted, the U.S. Bureau of Labor Statistics reported today. Finished goods prices rose 0.4% in February and 0.1% in January. At the earlier stages of processing, prices received by manufacturers of intermediate goods climbed 0.7% in March, and the crude goods index declined 2.5%. On an unadjusted basis, prices for finished goods moved up 2.8% for the 12 months ended March 2012, the smallest year-over-year increase since a 2.7-percent rise in June 2010.

NFIB Small-business Sentiment - March: Small business optimism surprises to the downside

Econoday 4/10 - Economic indicators in general had been showing rising momentum, that is until Friday's payroll data for March. Now data on small business optimism are also a disappointment for March with the index ending six straight months of improvement with a 1.8 point decline to 92.5. Declines sweep nine of the report's 10 index components including employment plans, sales expectations, and earnings trends. On the positive side, ongoing hiring is solid and access to credit is not a major concern.

Barclays 4/10 - The problems cited as most important for small businesses were poor sales (22%), taxes (20%), and government regulations and red tape (19%).

Import Prices - March

Econoday 4/10 - Monthly pressure in petroleum did send import prices higher in March, but not enough to upend what is a favorably subdued trend. Import prices rose 1.3% in March with prices of imported petroleum products surging 4.3%. The rise in petroleum bled through to industrial supplies which jumped 3.0% in the month, a rise that no doubt made for headaches among manufacturers. But many of the year-on-year rates are moderating with the headline rate at plus 3.4% -- down from double digits as recently as November and the lowest rate of the recovery. Year-on-year rates remain subdued for finished goods, at plus 1.1% for capital goods and at plus 2.7% for consumer goods.

It was a monthly upswing in agricultural prices that drove export prices up 0.8% in March. But here too, the year-on-year rate is subdued, in fact especially subdued at only plus 0.9% and at minus 5.5% for prices of agricultural exports.

This report is mixed, headlined as it is by the jump in petroleum prices. But oil prices have been edging lower this month which, at least so far, points to an April downswing for petroleum.

Federal Budget - March: Deficit Stands At \$779bn Halfway Through FY 2012

Econoday 4/11 - The nation's budget gap came in about as expected in March, at \$198.2 billion. Halfway through the government's fiscal year, the budget gap continues to show improvement, at a fiscal year-to-date \$779.0 billion vs. a gap of \$829.4 billion at this time last year. Details show an especially strong increase this fiscal year in corporate tax receipts vs. a razor thin increase for the much larger category of individual tax receipts.

Barclays 4/11 - Overall, although the deficit has improved from this time last year, it remains large by historical standards and will likely eventually require significant fiscal adjustments.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of April 7

Press Release 4/12 (excerpts) - In the week ending April 7, the advance figure for seasonally adjusted initial claims was 380,000, an increase of 13,000 from the previous week's revised figure of 367,000. The 4-week moving average was 368,500, an increase of 4,250 from the previous week's revised average of 364,250.

WEEK ENDING	Mar 31	Mar 24	Change	Mar 17	Prior Year
Initial Claims (SA)	380,000	367,000	+13,000	363,000	416,000
4-Wk Moving Average (SA)	368,500	364,250	+4,250	366,000	406,000

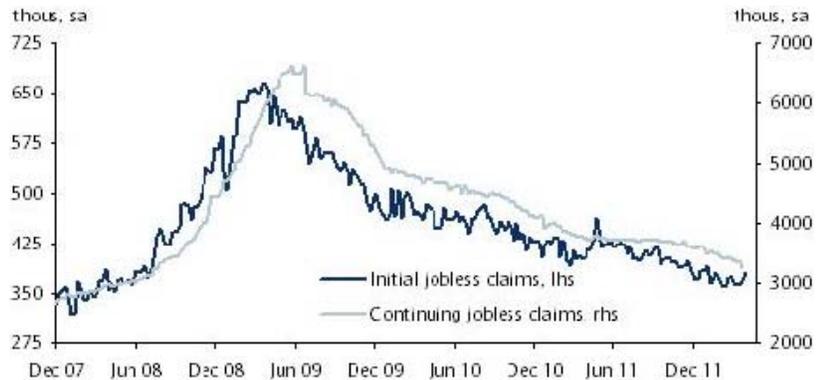
Econoday 4/12 – Weekly jobless claims are no longer the best news on the economic calendar. With no surprise factors at play, initial claims rose 13,000 in the April 7 week to 380,000 for the highest level since late January. The four-week average is up an especially steep 4,250 to 368,500 which is the highest level in a month. These results do not point to improvement in the jobs market.

Market Comment *Economic Highlights for the week ended April 13, 2012*

Disappointing payroll growth in last week's employment report for March is a reminder that fewer layoffs do not necessarily mean new hiring. And now that the downward trend in layoffs has flattened the last couple of weeks, the outlook for improvement for the April jobs report is not favorable.

U Of Mich. Consumer Sentiment – April

Econoday 4/13 – Headlines from last week's disappointing jobs report aren't helping the consumer's assessment of current conditions which, at 80.6, fell 5.4 points in an unusually steep decline last seen in July last year during the government's deficit cliff hanger. This component of the consumer sentiment index offers a very early look at conditions so far this month, and together with increases in the last two weekly jobless claims reports, the early look at the month is disappointing.



The weakness in current conditions pulled down the composite index by five tenths to 75.7, putting at risk eight straight months of gains. Readings will have to pick up at month end in order to keep the streak alive.

Barclays 4/13 - Consumers were slightly less optimistic about the labor market than they were in March, as 27% expected lower unemployment in the coming 12 months (previous: 29%) and 21% expected it to be higher (previous: 19%).

The Economic Week Ahead: April 16 – April 20, 2012

Vanguard 4/13 - A busier week of reports lies ahead with the release of retail sales and business inventories on Monday, new residential construction and industrial production on Tuesday, and existing-home sales and the Conference Board's leading economic indicators on Thursday.

This Week's U.S. Economic Calendar

Source: MarketWatch

RELEASE DATE	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, APRIL 16	8:30 a.m.	Retail Sales	March	0.4%	1.1%
	8:30 a.m.	Retail Sales Ex-Autos	March	0.6%	0.9%
	8:30 a.m.	Empire State Index	April	18.0	20.2
	10 a.m.	Business Inventories	Feb.	0.5%	0.7%
	10 a.m.	Home Builders' Index	April	28	28
TUESDAY, APRIL 17	8:30 a.m.	Housing Starts	March	700,000	698,000
	9:15 a.m.	Industrial Production	March	0.3%	0.0%
	9:15 a.m.	Capacity Utilization	March	78.6%	78.4%
WEDNESDAY, APRIL 18		<i>None Scheduled</i>			
THURSDAY, APRIL 19	8:30 a.m.	Weekly Jobless Claims	4/14	368,000	380,000
	10 a.m.	Existing Home Sales	March	4.61 mln	4.59 mln
	10 a.m.	Leading Indicators	March	0.1%	0.7%
	10 a.m.	Philly Fed	April	11.7	12.5
FRIDAY, APRIL 20		<i>None Scheduled</i>			