

# Market Comment *Economic Highlights for the week ended April 16, 2010*

## Economic Week In Review: Good Reports Still At Odds With Jobless Rate

Vanguard 4/16 - It was another week of generally positive economic news, as retail sales, housing starts, and industrial production continued their upward trend while the Federal Reserve reported growth in most of the country. However, high unemployment remains a drag on an economy still struggling with the challenges of a jobless recovery.

For the week ended April 16, the S&P 500 Index fell 0.2% to 1192 (for a year-to-date total return of about 7.5%). The yield on the 10-year U.S. Treasury fell 11 basis points to 3.79% (for a year-to-date drop of 6 basis points).

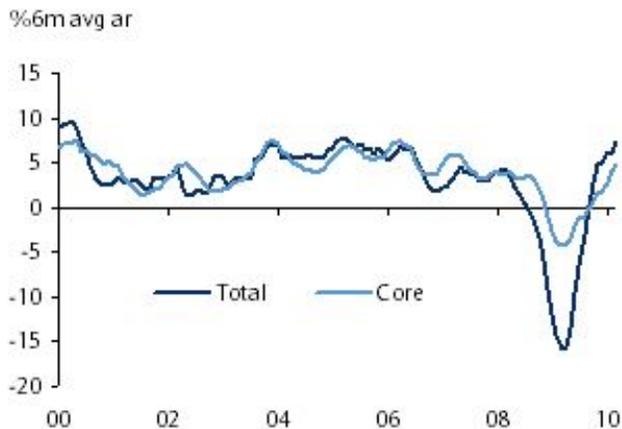
## Retail Sales Up - March

Vanguard 4/16 - Retail sales rose 1.6% in March, slightly more than expected and the highest growth in four months. Auto sales jumped almost 7%—14% above their March 2009 level—while sales of building materials and garden supplies increased 3.1%. The Commerce Department report noted that incomes remained flat, suggesting that consumers reduced savings to buy more goods and services. Yet total sales still are below their 2008 levels.

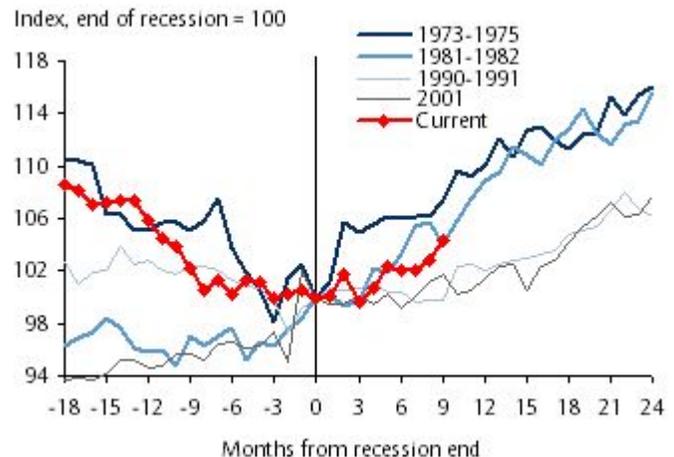
Barclays 4/14 - The retail sales report was decidedly strong, showing a 1.6% gain in total sales in March and a 0.5% increase in core sales (ex-auto, building materials and gasoline). In addition, there were notable upward revisions to core sales over the past two months as February was revised to show a gain of 1.2% (prev: 0.9%) and January was revised to show an increase of 0.7% (prev: 0.6%). This implies a strong 4% gain in real consumer spending in Q1 and leaves GDP tracking close to 4.5% in Q1.

The components of the retail sales report were solid, showing a broad-based pick-up in spending. As expected, auto sales jumped 6.7%, reflecting attractive incentives by Toyota and other automakers. In addition, with the exception of electronics (-1.3%) and gasoline stations (-0.4%), all other components of retail sales increased. Sales at clothing stores were up a solid 2.3%, general merchandise increased 0.6%, and both food/beverage and health care stores saw 0.2% increases in sales. Overall, this was a positive report signaling that consumers are increasing expenditures amid positive stock market wealth effects and the early gains in labor income. The pick-up in consumer spending is crucial for creating positive momentum in the economy.

## Total and core retail sales



## Retail sales: comparison of business cycles



## Inflation Stays In Check, CPI – March

Vanguard 4/16 - The consumer price index rose only 0.1% in March. Housing prices were unchanged from February while annualized core prices edged up by 1.1%—the smallest increase since January 2004. The Federal Reserve Board generally views 2% annual inflation as a reasonable benchmark, perhaps helping explain why it has maintained the fed funds rate close to zero.

## Housing Starts Increase

Barclays 4/16 - Housing starts increased 1.6%, to 626,000, in March, above our forecast of 615,000 and consensus expectations of 610,000. The data were revised to show starts of 616,000 in February, versus the previously

## Market Comment *Economic Highlights for the week ended April 16, 2010*

reported 575,000. Single-family starts slipped 0.9%, but this follows a 5.7% gain in February and a 5.4% increase in January. Multi-family starts remained choppy, increasing 18.8% in March after falling 21.6% in February. It looks like the upward trend in housing starts should persist, given a 7.5% increase in building permits to 685,000. Single-family permits increased 5.6% and are now up 51% from March of last year. This turn higher from record low levels of activity is consistent with the modest improvement in the NAHB housing index. Given the lags between housing starts and construction spending, we still expect a 10% drop in real residential investment in Q1, but look for a 20% pop in Q2.

Vanguard 4/16 - Analysts generally view the numbers as a positive sign that the housing industry is beginning to support—rather than suppress—economic growth. However, the market still must compete with the glut of cheaper foreclosed and existing homes.

### Industrial Production Inches Up - March

Vanguard 4/16 - Manufacturing output rose 0.1% in March, considerably less than forecast but still the ninth straight monthly increase. The return of seasonal weather led to a sharp 6.4% decline in utility output, the main reason for the modest monthly increase. Minus utilities, industrial production rose almost 1%, including a 2.2% increase in motor vehicle output. Total production rose at a 7.5% annual rate in the first quarter, higher than the 5.6% posted in last year's fourth quarter but below the third quarter's 9% gain.

Econoday 4/14 - Overall industrial production in March edged up 0.1% after gaining 0.3% the month before. The consensus had forecast a 0.8% boost for the month. However, the manufacturing component was notably strong with a 0.9% jump, after advancing 0.2% in February. On a year-on-year basis, industrial production rose to 4.0% from 2.2% in February.

Capacity utilization is gaining ground as it expanded to 73.2% from 73.0% the month before. The latest number came in a little below analysts' forecasts for 73.4%.

Despite the headline disappointment, the manufacturing sector remains robust-especially taking into account a healthy boost in the April Empire State manufacturing index.

### Fed Beige Book: Fed Reports Sector Growth

Vanguard 4/16 - In its monthly Beige Book, the Federal Reserve reported increased economic activity in 11 of its 12 districts through March and early April. St. Louis was the lone lagging area, as temporary Census workers hired in the service sector couldn't offset manufacturing plant closings. Otherwise, consumers showed some confidence while distributing their spending across the housing, tourism, and retail sectors. Some districts reported increased hiring of temporary workers, though the Fed noted that high unemployment still translates into a weak labor market.

Econoday 4/15 - Overall, today's Beige Book reports a continuation of recent trends. The recovery is gaining traction but slowly. Manufacturing is now being joined by the consumer sector as providing lift to growth. Housing is up somewhat while commercial real estate is a drag on the economy. Meanwhile, inflation is subdued. The Fed's exit strategy will not likely be affected by today's report. There is neither urgency to speed up tightening nor need to delay a return to normalcy. However, the odds have increased-merely because the recovery is further along- that the Fed will start tweaking the FOMC statement to prepare for unwinding its balance sheet expansion.

Press Release 4/14 (excerpts) - Overall economic activity increased somewhat since the last report across all Federal Reserve Districts except St. Louis, which reported "softened" economic conditions. Districts generally reported increases in retail sales and vehicle sales. Tourism spending was up in a number of Districts. Reports on the services sector were generally mixed. Manufacturing activity increased in all Districts except St. Louis, and new orders were up. Many Districts reported increased activity in housing markets from low levels. Commercial real estate market activity remained very weak in most Districts. Activity in the banking and finance sector was mixed in a number of Districts, as loan volumes and credit quality decreased. Agricultural conditions were mixed as well, with positive conditions reported in Districts from the central and western parts of the country, while negative conditions were reported in the mid and southern Atlantic Districts. Mining and energy production and exploration increased for metals, oil and wind.

## Market Comment *Economic Highlights for the week ended April 16, 2010*

Consumer Spending: All districts indicated improved consumer spending, especially within autos, but in other sectors, too. Several areas described consumers as "somewhat more confident" and retailers as "cautiously optimistic."

Banking and Finance: Bank lending activity was mixed by category in most Districts. Atlanta, St. Louis and Kansas City saw weaker loan demand across categories, while activity in San Francisco was flat at low levels and Dallas said that demand appears to be stabilizing. Credit standards remained generally unchanged across the nation, while credit quality was mixed.

Real Estate and Construction: Residential real estate activity increased, albeit from low levels, in most Districts... Home prices were stable across most Districts, but decreased in parts of the New York and Atlanta Districts. Commercial real estate activity was slow across the nation. Notable exceptions were Richmond, which saw an uptick in commercial leasing, and Dallas, where the sector was mixed and might be nearing bottom. Manhattan Class A office rents were down 20% to 25% year over year.

Agriculture and Natural Resources: Districts reported mixed results in agriculture.

Employment, Wages, and Prices: While overall labor markets remained weak, some hiring activity was evident, particularly for temporary staff. Very little hiring occurred at major legal and financial firms in New York. Wage pressures were characterized as minimal or contained. Retail prices generally remained level, but some input prices increased. Where producers faced cost pressures on inputs, they were largely unable to pass those prices downstream to selling prices.

### **Business Inventories Slightly Higher**

Vanguard 4/16 - Inventories for February increased 0.5% as manufacturers, wholesalers, and retailers began to replenish inventories they depleted during the recession. The inventory-to-sales ratio, measuring how long (in months) a business could sell its current inventory, stood unchanged at 1.27 for March—but down considerably from 1.46 in March 2009. This figure is a key indicator of how well firms can match supply with demand.

### **Trade Deficit Widens On High Volume**

Vanguard 4/16 - The U.S. trade deficit rose to \$39.7 billion in February from January's adjusted \$37 billion, though both imports and exports increased from January. Experts see the figures as a good sign for the economy, particularly since exports rose to their highest level since October 2008. Crude oil import volume hit its lowest mark since February 1999, while the country's trade deficit with China—a major trading partner with the United States—fell to its lowest level in more than a year.

"These trade deficit numbers and recent strong final sales figures hint that there may be more to the recovery than just fiscal stimulus and temporary inventory cycle," said Vanguard economist Roger Aliaga-Diaz.

Barclays 4/13 - The nominal US trade deficit widened to \$39.7bn in February - greater than the consensus (\$38.5bn). The widening was driven by a 1.7% jump in imports, nearly reversing January's 1.8% decline. Capital goods imports increased 1.1%, tempered by a big decline in aircraft. Automotive imports fell for a second month (-4.7%), and food and beverages also slipped (-1.1%). Exports rose a modest 0.2%, erasing January's decline.

Econoday 4/13 (excerpts) - Today's trade report suggests that businesses are a little more optimistic about domestic demand. Overall, businesses appear to be in a restocking mood-which is favorable to the economy.

On a year-on-year basis, growth in overall exports of goods and services in February slipped to 14.3% from 15.3% in January. Meanwhile import growth jumped to 23.3% in February from 13.7% the month before.

### **NFIB Small Business Optimism Index - Optimism at Small Businesses Falls**

WSJ 4/13 (excerpts) - Small business owners report little pick up in their sales or confidence in March. The Small Business Optimism Index lost 1.2 points to 86.8 in March, said the National Federation of Independent Business. The weak readings explain why small businesses remain reluctant to hire.

The NFIB noted that nine of the 10 components declined or failed to contribute to an increase in the top-line index.

The report said 34% of respondents said "weak sales" were their top business problem. Weak sales are also leading to inventory reductions.

## Market Comment *Economic Highlights for the week ended April 16, 2010*

The lack of revenue may be holding back job growth. The NFIB said businesses may be finished with layoffs, but companies will only add workers if owners think “new hires can generate enough additional business to pay their way.” The drop in confidence among small business owners comes as economists are debating when the recession ended. The National Bureau of Economic Research said Monday it was still “premature” to set a date for the economy’s trough.

### Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of April 3

Press Release 4/15 (excerpts) – In the week ending April 10, the advance figure for seasonally adjusted initial claims was 484,000, an increase of 24,000 from the previous week’s unrevised figure of 460,000. The 4-week moving average was 457,750, an increase of 7,500 from the previous week’s unrevised average of 450,250.

The advance seasonally adjusted insured unemployment rate was 3.6% for the week ending April 3, an increase of 0.1 percentage point from the prior week’s unrevised rate of 3.5%.

The advance number for seasonally adjusted insured unemployment during the week ending April 3 was 4,639,000, an increase of 73,000 from the preceding week’s revised level of 4,566,000. The 4-week moving average was 4,638,500, a decrease of 13,750 from the preceding week’s revised average of 4,652,250.

WEEK ENDING	April 10	April 3	Change	March 27	Prior Year
Initial Claims (SA)	484,000	460,000	+24,000	442,000	609,000
4-Wk Moving Average (SA)	457,750	450,250	+7,500	448,000	636,250

Econoday 4/15 - Claims continue to pile up due to special administrative factors. Initial jobless claims jumped for a second week, up 24,000 in the April 10 week to 484,000. The four-week average is up 7,500 to 457,750 but is still a bit below the month-ago level. Continuing claims for the April 3 week rose 73,000 to 4.639 million, a level that is also the four-week average. Here too, the four-week average is a bit below the month-ago comparison.

The Labor Department attributes the rise in claims not to economic factors but to continuing administrative snags as offices catch up with claims during the shortened Easter week and, in California, for the Cesar Chavez holiday. The department is warning the next report may be affected by quarter-end reclassifications for emergency compensation, but that the chances for downward revisions are greater than for upward revisions.

Given all the noise in the data, expectations are likely to hold for a big gain in April payrolls, at least for now.

Barclays 4/15 - On an underlying basis, the trend in claims continues to suggest an improvement in the labor market, and we expect significant job growth to continue in April.

### The Economic Week Ahead: April 19 – April 23

Vanguard 4/16 - Leading indicators from The Conference Board kick off the week on Monday, followed by jobless claims, the producer price index, and existing-home sales on Thursday. Friday caps the week with reports on durable goods and new-home sales.

### U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Apr 19	10:00	Leading Indicators	March	1.0%	1.0%	0.1%
Apr 22	08:30	Initial Claims for Unemployment Benefits	04/17	440K	455K	484K
Apr 22	08:30	Continuing Claims	04/10	4600K	4600K	4639K
Apr 22	08:30	Producer Price Index (PPI)	March	0.7%	0.5%	-0.6%
Apr 22	08:30	Core PPI	March	0.1%	0.1%	0.1%
Apr 22	10:00	Existing Home Sales	March	5.30M	5.30M	5.02M
Apr 22	10:00	FHFA Home Price Index	February	-0.2%	-0.2%	-0.6%
Apr 23	08:30	Durable Goods Orders	March	0.7%	0.2%	0.9%

# Market Comment *Economic Highlights for the week ended April 16, 2010*

Date	ET	Release	For	Briefing.com	Consensus	Prior
Apr 23	10:00	<b>New Home Sales</b>	March	340K	325K	308K