

Market Comment *Economic Highlights for the week ended April 20, 2012*

Economic Week in Review: The Ring at the Register Sounds Like Recovery

Vanguard 4/20 - Consumers are helping propel the economy's slow recovery, as retail sales numbers came in better than forecast this week. The housing market has been dim recently, but improvement is evident from a year ago. Leading economic indicators increased for the sixth month in a row. In other news, industrial production was flat and business inventories rose. For the week ended April 20, the S&P 500 Index rose 0.6% to 1,379 (for a year-to-date total return of about 10.3%). The yield on the 10-year U.S. Treasury note fell 3 bps to 1.99% (for a year-to-date increase of 10 bps).

AFP 4/23 - Economic data released over the last week have suggested to some analysts that the recent spurt in economic activity may be winding down. Data on manufacturing activity, the housing market and jobless claims all gave back some of their recent improvements. But that does not tell the whole story. Even with the recent givebacks, each of these metrics has a year-to-year comparable telling a better story. Further, retail sales data and state employment data suggest it is far too early to give up on the recently found economic momentum.

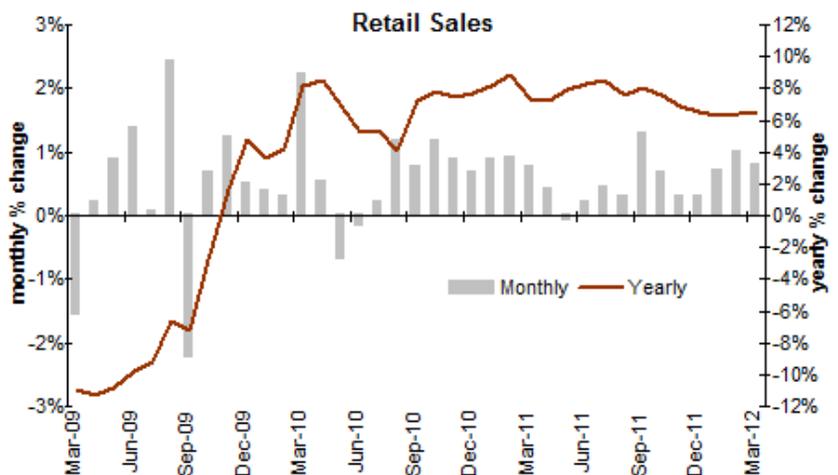
Retail Sales – March: Spending Across the Spectrum

Vanguard 4/20 - Retail sales rose 0.8% in March, as consumers increased their spending in a variety of areas. Although the rate of growth dropped slightly from February's revised 1.0% figure, sales exceeded economists' expectations. Compared with a year ago, sales are up 6.5%. The monthly advance was 0.8% excluding automobiles and 0.7% excluding automobiles and gasoline. Building materials as well as garden equipment and supplies dealers' sales grew a robust 3.0%, which some economists attribute to the early warm weather.

Electronics and appliances and clothing stores also had notable increases, while restaurants and grocery stores posted smaller gains.

AFP 4/23- Building materials retailers (i.e., home improvement/hardware stores) saw sales jump 3.0% (their fourth straight month of strong sales gains), while furniture and electronics/appliance retailers enjoyed gains of 1.1% and 1.0%, respectively.

Econoday 4/16 –The consumer appears to be willing to spend despite glum measures of consumer confidence.



Business Inventories – February

Vanguard 4/20 - Business inventories increased 0.6% in February, a bit more than economists estimated, as automobile inventories surged 1.8%. The inventory-to-sales ratio, which measures how many months it takes a firm to exhaust its current inventory, remained at 1.28—considerably off the recession high of 1.49—as businesses are effectively controlling their stockpiles. Breaking down the inventory gains, wholesale was up 0.9%, retail 0.6%, and manufacturing 0.4%. Excluding automobiles, retail gains were only 0.2%.

Barclays 4/16 - Recent gains have been broadly in line with increases in sales across the three sectors, a sign that stock-building has been an intentional reaction to improving demand, rather than the consequence of sales not meeting expectations.

Housing Starts – March: U.S. Housing Starts Reverse Recent Gains

Vanguard 4/20 - New home construction projects in March dropped 5.8% to 654,000 units (annualized), below economists' expectations and the second straight monthly decline. Most of the weakness came from multifamily starts, which fell 19.8%; single-family starts dipped 0.2%. But the news wasn't all bad. Building permits, which signal future demand, advanced 4.5% (up 30.1% from a year ago) while completions increased 4.2% (up 0.5% from a year ago). Housing starts were up 10.3% versus a year ago. On a regional basis, monthly starts rose 32.8% in the Northeast and 1.0% in the Midwest, were flat in the West, and dropped 15.9% in the South.

Econoday 4/17 – Housing permits are far less susceptible to atypical weather (indoor activity to buy permits) and are pointing to moderate strength. Permits gained 4.5%, following a 4.8% increase in February.

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It is taking time to sort out the weather effects in recent months, but the permits numbers are suggesting slight momentum building for housing, although it appears to mainly be in the multifamily component.

Existing-Home Sales – March

Vanguard 4/20 - Sales of previously owned homes dropped 2.6% in March, the second straight monthly decline and below economists' expectations. Compared with a year ago, however, the monthly rate was still up 5.2%. Despite the recent downturn, the long-term rebound seems set to continue at a slow pace. Inventories fell 1.3%, and the months of supply stayed the same at 6.3, as lackluster demand matched low inventories. The median existing-home price rose 2.5% from a year ago to \$163,800. Sales were unchanged in the Midwest and down 7.4% in the West, 1.7% in the Northeast, and 1.1% in the South.

Press Release 4/19 (excerpts) - Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, declined 2.6% to a seasonally adjusted annual rate of 4.48 million in March from an upwardly revised 4.60 million in February, but are 5.2% above the 4.26 million-unit pace in March 2011.

“The recovery is happening though not at a breakout pace, but we have seen nine consecutive months of year-over-year sales increases. With job growth, low interest rates, bargain home prices and an improving economy, the pent-up demand is coming to market and we expect housing to be notably better this year.”

Total housing inventory at the end of March declined 1.3% to 2.37 million existing homes available for sale, which represents a 6.3-month supply at the current sales pace, the same as in February.

“We were expecting a seasonal increase in home listings, but a lack of inventory has suddenly become an issue in several markets with not enough homes for sale in relation to buyer interest.”

The national median existing-home price for all housing types was \$163,800 in March, up 2.5% from March 2011. Distressed homes – foreclosures and short sales sold at deep discounts – accounted for 29% of March sales, compared with 34% in February and 40% in March 2011.

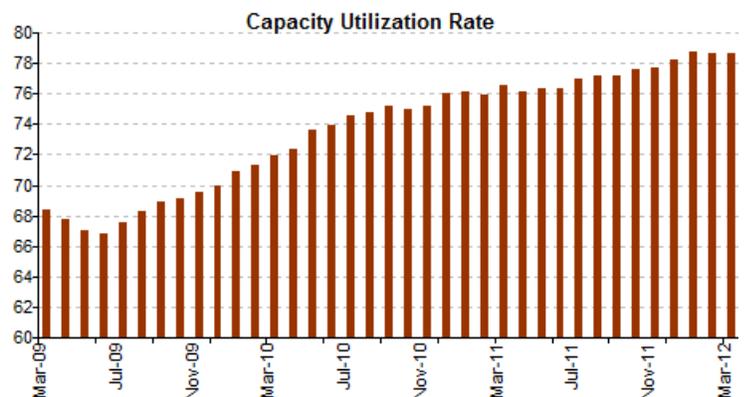
According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage was 3.95% in March, up from a record low 3.89% in February; the rate was 4.84% in March 2011; recordkeeping began in 1971.

Industrial Production and Capacity Utilization - March

Vanguard 4/20 - U.S. industrial production was flat for the second straight month in March, below economists' expectations, as manufacturing output dropped 0.2%. Utilities output rose 1.5% in March and mining output increased 0.2%. While the decline in manufacturing is a concern, output was up 10.4% in the first quarter. Also in the first quarter, utilities production—sensitive to the unseasonably warm winter—fell 13.8% and mining production dropped 5.4%. Capacity utilization dipped to 78.6%.

Econoday 4/17 – Manufacturing paused in March but followed several strong months. The bright spot in the report was for motor vehicles and parts which advanced 0.6%, following a 0.8% boost in February. Manufacturing excluding motor vehicles dipped 0.3%, following a 0.8%.

Manufacturing is in a soft spot but given how strong recent gains have been is not so disconcerting. The first quarter as a whole was quite strong with manufacturing up an annualized 10.4%, the largest gain since the second quarter of 2010.



U.S. Leading Indicators – March: Building Permits and Equity Markets Improve

Vanguard 4/20 - The Conference Board's index of leading economic indicators increased 0.3% in March, a bit better than economists expected. The indicators, a measure of potential future economic activity, have risen for six straight months but decelerated from February's 0.7% gain. Seven of the ten indicators advanced, with interest rate spread and building permits leading the way. Average workweek was among the weakest readings. The coincident indicator, a measure of current economic conditions, rose 0.2%, the fourth straight increase.

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Press Release 4/19 (excerpts) - The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3% in March to 95.7 (2004 = 100), following a 0.7% increase in February, and a 0.2% increase in January.

“The LEI increased for the sixth consecutive month, pointing to a more positive outlook despite subdued consumer expectations and weakness in manufacturing new orders. Moreover, the six-month growth rate of the LEI continues to improve. The CEI, a measure of current economic conditions, has also increased in five of the last six months, with broad based gains in all components.”

Econoday 4/19 –Though the 0.3% headline may not be a robust rate of growth, it is, perhaps most importantly, a sustainable rate of growth.



Empire State Index – April: Empire State manufacturing index surprises to the downside

Econoday 4/16 – Growth in the New York state's manufacturing region is slow but steady, headlined by a 6.56 index for April. This is down from rates around the 20 level in the prior two months, but the headline reading for this report is a subjective assessment of general business conditions. Arguably the most important reading in this report is new orders which show little change: 6.48 April, 6.84 March, 9.73 February. These rates of incoming order growth aren't gangbusters but they are sustainable which hints at long term health for the region's manufacturing economy.

Business Inventories – February: Business inventories report neutral for GDP tracking

Econoday 4/16 – Inventory accumulation is likely giving GDP a lift this quarter -- and for the right reason: Businesses are building inventories in line with rising demand. Business inventories rose 0.6% in February against a 0.8% rise in sales, a mix that holds the inventory-to-sales ratio at a very lean 1.28. Inventories in the retail sector are increasingly lean, with the ratio at 1.32 vs 1.33 in January. And today's strong results in the March retail sales report suggest that retailers are scrambling to keep their inventories high enough to meet demand.

If March data come in unchanged from February, business inventories will show quarter-to-quarter growth of 1.5%, above fourth-quarter growth of 0.9% in a reading that points to positive contribution from inventory accumulation for the first-quarter GDP report.

Home Builders' Index – April: US Home Builder Sentiment Declines In April

Econoday 4/16 – After seven months of straight gains, the home builders' housing market index fell back, down three points to 25. All three components are down this month with the greatest decline, in what is a clearly negative indication, coming in buyer traffic.

Prior gains in this report unfortunately did not signal actual improvement in sales of new homes, a factor that should limit any conclusions on weakness in the latest report. But the decline does underscore the disappointing pace of home sales overall, both new and existing.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of April 14

Press Release 4/18 (excerpts) - In the week ending April 14, the advance figure for seasonally adjusted initial claims was 386,000, a decrease of 2,000 from the previous week's revised figure of 388,000. The 4-week moving average was 374,750, an increase of 5,500 from the previous week's revised average of 369,250.

WEEK ENDING	April 14	April 7	Change	Mar 17	Prior Year
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Initial Claims (SA)	386,000	388,000	-2,000	362,000	414,000
4-Wk Moving Average (SA)	374,750	369,250	+5,500	363,000	407,750

Econoday 4/18 – Improvement in initial claims is not extending into April with jobless claims at 386,000 in the April 14 week, down 2,000 but following a severe 26,000 jump in the prior week which is upwardly revised to 388,000. The latest level and the prior level are the highest so far this year. The four-week average of 374,750 is the highest since January and is up more than 5,000 vs. levels in March in a comparison that does not point to improvement for the April employment report.

Philly Fed – April: Manufacturing Index Drops, But Underlying Details Are More Encouraging

Econoday 4/19 – Manufacturing growth continues at a steady, incremental rate in the Philly Fed's region with the index coming in at 8.5 in April, but under March's 12.5 level to indicate a slowing rate of growth. Growth is quite slow for new orders where the index is in the low single digits for a second month in a row as are shipments. Unfilled orders show a small advance while inventories show a sizable monthly build.

A big positive in the report, as it was in Monday's report from the New York Fed, is an increasingly large gain in employment that highlights the sample's underlying confidence. Six-month outlook readings are steady and strong and are led by increasing expectations for future employment gains. Other readings include steady pressure in input costs and modest and steady pricing power for finished goods.

The Economic Week Ahead: April 23 – April 27, 2012

Vanguard 4/20 - The Federal Open Market Committee's monetary policy report is scheduled for Wednesday. Releases are also set for consumer confidence and new-home sales (Tuesday), durable goods (Wednesday), and the employment cost index and gross domestic product (Friday).

This Week's U.S. Economic Calendar

Source: MarketWatch

RELEASE DATE	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, APRIL 23		None Scheduled			
TUESDAY, APRIL 24	9 am	Case-Shiller Home Price Index	Feb.	--	-0.8%
	10 am	Consumer Confidence Index	April	70.0	70.2
	10 am	New Home Sales	March	325,000	313,000
	10 am	FHFA Home Price Index		--	0.0%
WEDNESDAY, APRIL 25	8:30 am	Durable Goods Orders	March	-2.8%	2.4%
	12:30 am	FOMC Announcement			
	2:15 am	Bernanke Press Conference			
THURSDAY, APRIL 26	8:30 a.m.	Weekly Jobless Claims	4/21	375,000	386,000
	8:30 am	Chicago Fed National Activity Index	March	--	-0.09
	10 am	Pending Home Sales	March	--	-0.5%
FRIDAY, APRIL 27	8:30 am	Gross Domestic Product	1Q	2.7%	3.0%
	8:30 am	Employment Cost Index	1Q	0.5%	0.4%
	9:55 am	U of M Consumer Sentiment Index	April	75.9	75.7