Market Comment *Economic Highlights for the week ended April 29, 2011*

Economic Week in Review: Nothing Easy About This Rocky Recovery

AFP 5/2 - The U.S. economy expanded for the seventh straight quarter in early 2011, but did so at a particularly slow pace. Consumer confidence edged up in April while durable goods orders increased for the third straight month. The Federal Open Market Committee (FOMC) reaffirmed once again its intention to continue with its second round of quantitative easing through its scheduled completion date in the end of June.

Vanguard 4/29- The economic situation is serious enough that Fed Chairman Ben Bernanke held the first-ever news conference for the Federal Market Open Committee in addition to releasing a customary statement. Overall, the economic news this week was mixed. Real gross domestic product grew at a slower pace in the first quarter than it did in the fourth quarter of 2010. Consumer confidence and the housing market are slowly improving, but still not at levels considered healthy. The stock market surged on good news and shrugged off the bad. For the week ended April 29, the S&P 500 Index rose 2.0% to 1,364 (year-to-date return of 9.1%). The yield of the 10-year U.S. Treasury note decreased 10 basis points to 3.32% (year-to-date increase of 2 bps).

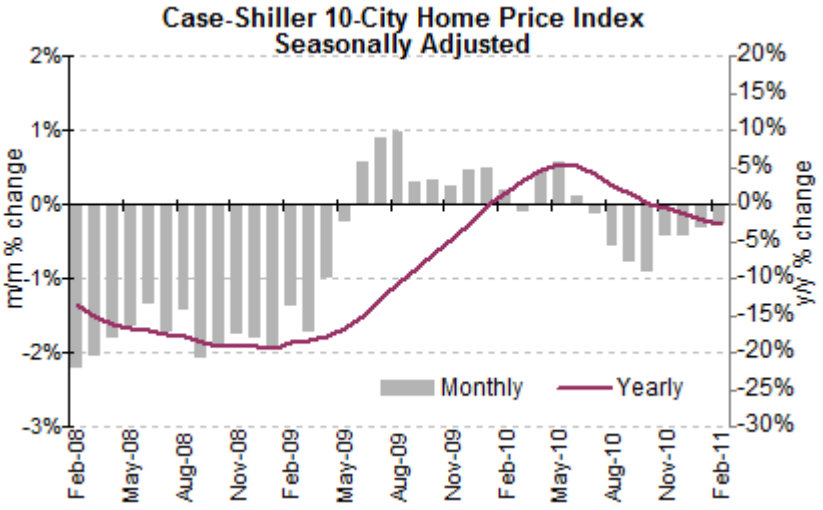
New Home Sales: March – New Home Sales Limp Ahead

Vanguard 4/29 - Sales of new homes increased more than forecast in March, but the shaky housing industry still remains a glaring trouble spot of the economy. New-home sales rose 11.1% from February to an annual rate of 300,000, and numbers for February and January were both revised higher. Still, sales are down 21.9% from a year ago—when the federal homebuyer tax credit was in effect—as builders deal with competition from foreclosures and the glut of existing homes on the market. Median sale prices climbed 2.9% to $213,800 from February but are 4.9% lower than March 2010. Also, the months of supply dropped to 7.3 from 8.2. Northeast sales were the healthiest, followed by the West and Midwest. Sales in the South dipped slightly.

Econoday 4/25 - Today's report is a plus but new home sales, hit by competition from distressed sales of existing homes, continue to bounce along the very bottom, and less favorable mortgage rates won't be helping April sales.

Case-Shiller 20-City Index: February

Econoday 4/26 - S&P Case Shiller data are mixed in what is probably a good sign for home prices which have been in a long and damaging slide. Seasonally adjusted data for the composite 10 index show a 0.2% decline for February, less steep than the 0.3 and 0.4% declines of the two prior months. These are three-month moving averages which indicates that February showed little change. Year-on-year contraction, however, is deepening, to minus 2.6% vs. minus 2.2% in January and minus 1.4% in December.



Bloomberg 4/26 - Residential real estate prices dropped in February by the most in more than a year, a sign the U.S. housing market is struggling to stabilize.

Unadjusted prices dropped 1.1% from the prior month after 19 of 20 cities showed declines. Detroit posted an unadjusted 1% gain.

Increases in foreclosures are adding to a growing inventory of unsold homes, which may further depress prices and dissuade potential buyers anticipating even cheaper dwellings. Declining property values also limit construction and restrain consumer spending as homeowners have less equity to borrow against.

The 20-city index fell in February to 139.27, compared with a recession low of 139.26, reached in April 2009.

Consumer Confidence: April - Consumer Confidence Makes Small Advance

Vanguard 4/29 - The Conference Board's index of consumer confidence reversed course in April following March's sharp decline. The growing job market and a rise in buying plans helped the index reach 65.4 and

March's number was revised upward to 63.8. Consumers' views of current and future business conditions both increased, boosted by climbing stock prices and improved inflation expectations. However, higher energy prices and the weak housing market are still a drag on the index, which remains below February's reading of 72.0.

Econoday 4/26 - The consumer's assessment of the jobs market improved substantially pointing to strength for April employment data. Buying plans are up and inflation expectations have moderated indicating that the effects of the price shock in oil may be limited. Outside of February's 72.0, April is the best reading of the recovery.

In a reading that will be especially well received at the Federal Reserve, one-year inflation expectations moderated to 6.3% from the giant 6.7% reading in March.

Durable Orders: March

Vanguard 4/29 - New orders for U.S. durable goods rose 2.5% in March, providing evidence of larger manufacturing demand and economic expansion. It was the third straight monthly gain as orders for February were revised higher. Transportation led the way with a 5.9% advance. New orders climbed 1.3% excluding transportation, and 2.3% excluding defense. New orders for core capital goods grew 3.7%, also a positive sign for the economy. Core capital goods include items such as computers and appliances and are a component of GDP.

Econoday 4/27 - Overall, the durables report is encouraging and suggests that the first quarter ended with strength even though on average the quarter likely was softer than the final quarter of 2010.

FOMC Rate Decision: April

Vanguard 4/29 - After meeting earlier this week, the Fed amended some of its key forecasts but left its monetary policy unchanged. The central bank voted to **keep the target federal funds rate in the 0% to 0.25% range**, as it has since December 2008, "**for an extended period**," and complete its $600 billion purchase of Treasuries by June. “The economic recovery is proceeding at a moderate pace and overall conditions in the labor market are improving gradually," the Fed's statement said.

The Fed slightly lowered its forecast for economic growth this year and raised its outlook for inflation, which is expected to decline again in 2012 and 2013. It also modified its view on employment, which it sees falling a bit more than earlier projected.

Econoday 4/27 -There were no surprises in today's FOMC statement. While noting that some prices have risen significantly, the FOMC participants overall see inflation expectations as stable and underlying inflation as subdued.

The Fed does appear to be giving inflation expectations greater consideration as it is now given as one of the reasons allowing for the continued and exceptionally low policy rate. Also allowing this are low rates of resource utilization (primarily unemployment) and subdued inflation trends (meaning for core rates).

"To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to continue expanding its holdings of securities as announced in November. In particular, the Committee is maintaining its existing policy of reinvesting principal payments from its securities holdings and will complete purchases of $600 billion of longer-term Treasury securities by the end of the current quarter."

There was no discussion of what should happen with the balance sheet level after June. That is, we do not know if the Fed will let the balance sheet unwind with pay down on mortgage-backed securities and agency debt and maturation of Treasuries. Or the Fed could continue to reinvest pay down. This decision will need to be made at the next FOMC meeting.

AFP 5/2 - Even with the jump in commodity prices, the Federal Open Market Committee reaffirmed last week its commitment to purchase Treasury securities through the end of June, as previously scheduled. In its statement, the FOMC noted that “[c]ommodity prices have risen significantly since last summer” and that “[i]nflation has picked up in recent months.” Nevertheless, the group expects the recent spike in prices to be “transitory” but stated that it would “pay close attention to the evolution of inflation and inflation expectations.” The statement termed the recovery to be “proceeding at a moderate pace and overall conditions in the labor market are improving gradually” with growing consumer spending and business investment in equipment and software. Still, it saw great weakness in real estate. The end of the FOMC meeting also featured the Ben Bernanke press conference.

Barclays 4/27 – The main takeaway from the Bernanke press conference, in our view, came during a question on the stance of Federal Reserve policy once asset purchases are completed. The chairman repeated the policy decision in the FOMC statement that asset purchases would end in June, and then said that the FOMC is "going to continue to reinvest maturing securities, both Treasury and MBS" so that securities holdings "will remain approximately constant." Going into the press conference we had been looking for guidance on the FOMC's preference for the reinvestment policy after the conclusion of purchases and the chairman was fairly clear in stating that this policy should remain in place into the second half of the year. In addition, he clearly stated that allowing the balance sheet to shrink by letting maturing securities roll off the balance sheet was equivalent to a tightening of policy. This is important since it is likely to be the Fed's first step towards normalization of monetary policy and removal of the reinvestment policy will signal that the tightening cycle has begun.

In sum, the FOMC has decided to conclude asset purchases at the end of June and Chairman Bernanke has signaled that the reinvestment policy will continue into the second half of this year. The overtones from the FOMC statement and the press conference suggest that the Fed sees a moderate recovery as gradually returning employment and inflation to mandate-consistent levels. We continue to believe the Fed will remain patient when it comes to normalizing monetary policy and do not look for an increase in the federal funds rate until July 2012.

Gross Domestic Product: Q1 - Economic Growth Eases

Vanguard 4/29 - The U.S. economy is still expanding but at a slower pace. GDP, the value of all goods and services produced in the United States, grew at an annualized rate of 1.8% during the first quarter, according to the Commerce Department's first estimate. The rate of economic growth is down from 3.1% in the fourth quarter of 2010. Dragging on growth were cuts in government spending. In addition, imports grew more quickly than exports, business and consumer demand cooled off, and higher prices reduced spending—consumer spending, which makes up the largest part of the U.S. economy, climbed 2.7%, compared with 4.0% in the fourth quarter (both annualized).

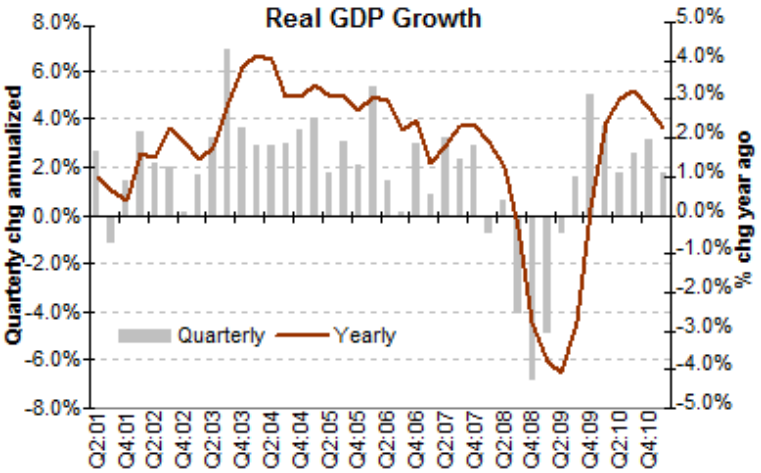
Econoday 4/28 – The economy slowed during the first quarter of 2011. However, the detail shows moderate forward momentum. The softer growth in the first quarter was largely due to a sharp upturn in imports, a deceleration in personal consumption, a larger decrease in federal government spending, and decelerations in nonresidential fixed investment and exports that were offset by a sharp upturn in private inventory investment.

Exports continued to rise, gaining 4.9% in the first quarter, following 8.6% in the previous quarter.

Year-on-year, real GDP in the first quarter is up 2.3%, compared to 2.8% in the fourth quarter.

Economy-wide inflation picked up with the GDP price index jumping 1.9% from a modest 0.4% rise in the fourth quarter.

Overall, the headline number was disappointing as were the final sales figures. But key components are maintaining forward momentum.



AFP 5/2 - The Bureau of Economic Analysis estimates that value of the output of goods and services produced by labor and property located in the United States during the first quarter of 2011 totaled $15.006 trillion on seasonally adjusted annualized basis. In real (price adjusted) annualized terms, the gross domestic product (GDP) increased 1.8 percent from the final quarter of 2010 and was up 2.3 percent from the first quarter of 2010. The slower pace of growth was not unexpected and was dismissed by a number of analysts (but perhaps not by all policymakers) as being only temporary. BEA tied the slower growth rate to decelerating growth in consumer spending, a deeper decline in federal government spending and a larger trade deficit.

Barclays 4/28 - All in all, while this represents a soft start to the year for GDP growth, we are encouraged that the main sources of weakness (particularly the declines in structures investment and defense spending) are generally supportive of our view that temporary factors played a significant role and that GDP growth will rebound in Q2.

Unemployment Insurance Weekly Claims Report – Week Ended April 23

Press Release 4/28 (excerpt) - In the week ending April 23, the advance figure for seasonally adjusted initial claims was 429,000, an increase of 25,000 from the previous week's revised figure of 404,000. The 4-week moving average was 408,500, an increase of 9,250 from the previous week's revised average of 399,250.

The advance seasonally adjusted insured unemployment rate was 2.9% for the week ending April 16, a decrease of 0.1 percentage point from the prior week's revised rate of 3.0%.

The advance number for seasonally adjusted insured unemployment during the week ending April 16 was 3,641,000, a decrease of 68,000 from the preceding week's revised level of 3,709,000. The 4-week moving average was 3,697,750, a decrease of 22,750 from the preceding week's revised average of 3,720,500.

WEEK ENDING	April 23	April 16	Change	April 9	Prior Year
Initial Claims (Seasonally Adj)	429,000	404,000	+25,000	416,000	457,000
4-Wk Moving Average (SA)	408,500	399,250	+9,250	396,750	468,750

Econoday 4/28 - Initial jobless claims are definitely on the rise and it may not be auto related. The Labor Department said layoffs in the auto sector were isolated and not a major factor. **Initial claims were on a convincing downward trend, but no longer with this month's data pointing to trouble for the April report**.

Personal Income And Expenditures: March - Personal Spending Growth Slows

Vanguard 4/29 - Consumer spending rose 0.6% in March, backing off a bit from the previous month. Higher costs for energy and food triggered much of the growth as "real" spending was up just 0.2%. Spending on services outweighed spending on durable goods. Meanwhile, personal income increased 0.5%, a slight improvement. Rental, dividend, and transfer income—the latter from unemployment payments—drove the gains, and wages and salaries climbed more modestly.

Econoday 4/29 - The consumer sector got some lift from income growth in March. Personal income in March grew 0.5%, following a 0.4% gain in February. Wages & salaries rose a moderate 0.3%, softening from 0.4% in February. Year on year, personal income growth for March came in 5.3%, compared to 5.2% in February.

Consumer spending slowed somewhat in the latest month but was coming off a robust February. The slowing was largely due to a leveling off in durables after the large advance in February. Of course, higher gasoline prices helped boost the nondurables component. For PCEs in March, strength was led by nondurables (includes gasoline), up 0.9%, after a 1.7% surge in February. PCEs growth posted at a year-ago 4.6%, up from 4.5% the prior month.

On the inflation front, the PCE price index continued to be hot, jumping 0.4% and matching the February boost. However, the core rate decelerated a bit to a sluggish 0.1% rise in March, following a 0.2% gain in February. On a year-ago basis, headline PCE inflation worsened to 1.8% from 1.6% in February. Core PCE price inflation was steady at 0.9% on a year-ago basis.

The consumer sector is holding up a little better than expected despite high gasoline prices. The question is whether the price effects are "transitory" as hoped by the Fed. The income gains are at least helping to offset the impact of higher gasoline prices on consumers' budgets.

Employment Cost Index: Q1 - Employment Costs Get A Boost

Econoday 4/29 - A rise in benefit costs fed an above-trend rise in the employment cost index which however shows no acceleration in wages. The ECI rose a quarterly 0.6% in the first quarter vs. a run of 0.4% gains in prior quarters. Year-on-year, the ECI is up 2.0% for no change vs. the fourth quarter. Wages rose 0.4%, the same pace as the fourth quarter, and are up only 1.6% year on year. Benefits jumped 1.1% for a 3.0% year-on-year increase with health benefits for employers up 3.4%. For comparison, the year-on-year rate for the CPI was 2.7% in March.

Chicago Purchasing Manager's Index (PMI): April

Econoday 4/29 - The very strong pace of month-to-month growth slowed a bit in the Chicago-area economy though hiring remained strong. A significant lengthening in delivery times is a standout feature of the April report and likely reflects, at least to a degree, disruptions tied to Japan.

The numbers show the composite headline index at 67.6, down from 70 readings in March and February which were 25-year highs. Monthly growth in new orders is strong though down from even stronger growth of the prior four months. Production remains strong as does hiring where the employment index came in with its third plus 60 reading in three months.

Michigan Sentiment – Final: April

Econoday 4/29 - Consumer pessimism is gradually easing from March's shock but is still much deeper than in February. The consumer sentiment index came in at 69.8 for April vs 67.5 in March. Back in February, before the Libyan shut-in and the Japanese earthquake, consumer sentiment was at a recovery high of 77.5.

Inflation expectations may be easing back from the March shock but not much. One-year expectations are 4.6%, unchanged from March and vs 3.4% back in February. Five-year expectations did fall, back to February's level of 2.9% from March's 3.2%.

The Economic Week Ahead: May 2 – May 6, 2011

Vanguard 4/29 – A fresh batch of data is due next week. Monday brings releases on construction spending and the Institute for Supply Management's manufacturing index. The wave of reports continues with factory orders Tuesday, the ISM nonmanufacturing index Wednesday, and productivity and costs Thursday. News on **employment** and consumer credit is scheduled Friday.

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

Date	ET	Release	For	Briefing.com	Consensus	Prior
May 02	10:00	Construction Spending	March	-0.5%	0.0%	-1.4%
May 02	10:00	**ISM Index**	April	58.5	59.7	61.2
May 03	10:00	Factory Orders	March	2.5%	1.9%	-0.1%
May 04	07:00	MBA Mortgage Index	04/29	NA	NA	NA
May 04	10:00	ISM Services	April	57.5	57.3	57.3
May 05	08:30	Initial Claims	04/30	400K	400K	NA
May 05	08:30	Continuing Claims	04/23	3650K	3638	NA
May 05	08:30	Productivity-Preliminary	Q1	1.0%	1.0%	2.6%
May 05	08:30	Unit Labor Costs	Q1	1.0%	0.8%	-0.6%
May 06	08:30	**Nonfarm Payrolls**	April	175K	183K	216K
May 06	08:30	Nonfarm Private Payrolls	April	200K	200K	230K
May 06	08:30	Unemployment Rate	April	8.9%	8.8%	8.8%
May 06	15:00	Consumer Credit	March	$5.0B	$5.0B	$7.6B

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
1-Apr	$ 3,950	$ 441	11	$ 247	5
8-Apr	7,235	1,745	13	10	1
15-Apr	6,970	2,288	11	200	2
22-Apr	3,440	1,353	17	812	5
29-Apr	4,945	1,725	18	739	8