Market Comment *Economic Highlights for the week ended April 30, 2010*

Economic Week In Review: April Showers Bring Economic Growth

Vanguard 4/30 - The U.S. economy continued to expand during the first three months of the year, according to the latest gross domestic product reading. Consumer confidence and employer costs also showed signs of slow, steady growth. Still, the Federal Open Market Committee announced that its target for short-term interest rates will remain unchanged for the foreseeable future. For the week ended April 30, the S&P 500 Index fell 2.5% to 1,187 (for a year-to-date total return of about 7.1%). The yield of the 10-year U.S. Treasury note fell 15 basis points to 3.69% (for a year-to-date increase of 16 percentage points).

The Economy Continues To Grow, But At A Slower Pace

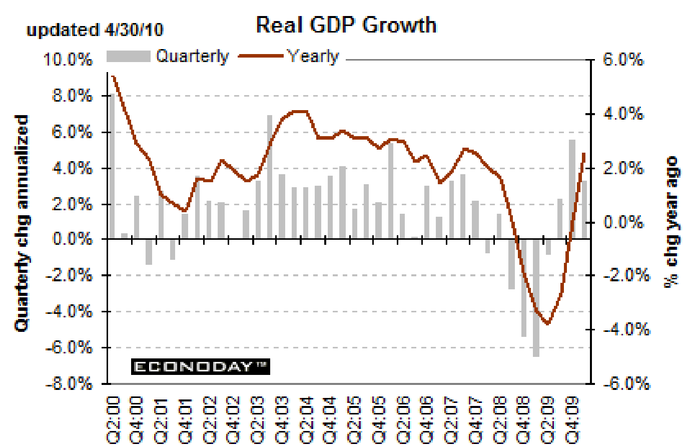
Vanguard 4/30 - Gross domestic product (GDP), the broadest measure of the country's economic activity, rose for the third straight quarter, up 3.2% for the first three months of 2010. This number was slightly less than the expected rate of 3.4% and was dramatically lower than the 5.6% rate of growth during the fourth quarter of 2009. Reduced government spending at the state and local levels and a decrease in exports contributed to the slowed growth rate.

The report also showed that consumers continued to spend during the quarter, and household spending rose 3.6%. Additions to inventories also contributed to the economy's growth.

"Since personal disposable income barely moved since last quarter, the strength of household spending can be explained almost entirely by a drop in the saving rate," said Vanguard economist Roger Aliaga-Díaz "That means that unless income grows more strongly, we may see some softer spending trends over the next few quarters when government benefits and transfers to the private sector start to fade away."

Softer GDP Growth Than We Had Expected, But Positive Details

Barclays 4/30 - The advance estimate of Q1 GDP revealed growth of 3.2%, close to the consensus forecast (3.3%) but below our own (4.5%). The downside surprise, relative to our forecast, reflected smaller positive contributions from consumer spending and inventory accumulation than we had thought likely and an outright decline in government spending. Overall, despite a softer headline number than we had expected, this is an encouraging report. The cyclical components of GDP one would hope to see rebounding at this stage of the recovery - consumer spending, equipment and software investment and inventory accumulation - are doing so, although the drag from other components, including investment in structures and state and local government spending, is likely to temper these gains for some time.



In the detail, consumer spending rose a solid 3.6% (although this was below our 4.0% forecast), supported by a 3.2% increase in wages and salaries. Investment in equipment and software jumped 13.4%, stronger than we expected, although this was offset by a 10.9% decline in residential investment and a 14.0% drop in non-residential structures investment, both sharper declines than we had forecast. Inventories rose $31.1bn, the first positive reading since Q1 2008, a sign that firms are rebuilding stocks in the face of stronger demand. Government consumption dropped 1.8%, dragged lower by a 3.8% drop in state and local spending. Finally, net trade was a drag on growth as import growth (8.9%) outpaced export growth (5.8%).

FOMC: Short-Term Rates Remain Unchanged

Vanguard 4/30 - The Federal Open Market Committee (FOMC) announced once again this week that it will continue to keep its target for the federal funds rate, a benchmark for short-term interest rates, in the 0%-0.25% range. The FOMC has held short-term rates at this level since December 2008 in an effort to stimulate economic growth. Although the Fed's most recent statement noted improvements, it also said that the committee "continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period."

Econoday 4/28 - U.S. economic news was headed by a little changed FOMC statement that indicates policy makers are in no hurry to raise rates. But the statement did confirm improvement underway in the labor market.

Barclays 4/28 - As expected, the FOMC made only minor changes in today's statement. The Committee acknowledged the better tone of recent economic data but continued to indicate that it expected rates would remain exceptionally low for an extended period. The changes to the statement gave little reason for us to modify our outlook for the federal funds rate; we continue to expect the first federal funds rate hike in September, although that will require realization of our forecast of an upside surprise in growth relative to the Fed's forecast.

The statement noted better labor market figures by indicating that the labor market "is beginning to improve," a more upbeat description than the previous "is stabilizing." It also noted that household spending "has picked up recently," rather than the previous "is expanding at a moderate pace." In both cases, however, the Fed tempered its enthusiasm; on the labor side it continued to note that "employers remain reluctant to add to payrolls," and it retained its assessment that household spending "remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit." Similarly, the Fed noted that "housing starts have edged up," which is stronger than the previous "have been flat," but observed that they "remain at a depressed level."

With the Fed's asset purchase program complete, the FOMC removed the reference to asset purchases in the statement. There was no mention of the possibility of asset sales in future months, a signal that the Committee does not see such sales as likely in the near term.

The vote in favor of today's statement was again 9-1, with Kansas City Fed President Thomas Hoenig again dissenting because "it could lead to a build-up of future imbalances and increase risks to longer run macroeconomic and financial stability, while limiting the Committee's flexibility to begin raising rates modestly." The latter portion of the sentence was added for this statement, suggesting that President Hoenig may have brought forward his own view of when rates should be raised.

Consumer Outlook Is Improving

Vanguard 4/30 - The Conference Board's index of consumer confidence posted its second consecutive gain in April, jumping 5.6 points to 57.9. Despite the boost, confidence levels were still only up 1.4 points from January. In February, the nation's confidence level took what was thought to be a winter weather-related plunge, but March and April have shown improvements. Although confidence levels remain consistent with levels expected during a recession, the report shows that consumer attitudes are slowly and steadily improving.

US Consumer Confidence Increases To Highest Level Since September 2008

Barclays 4/7 - The index of consumer confidence jumped to 57.9 in April from 52.3 in March, the highest level since September 2008. This was also above our and consensus expectations of 53.5. After falling 10.1 points between January and February, consumer confidence has now returned to the upward trend evident at the beginning of the year. We look for significant gains in employment to drive further expansion in consumer confidence in the next few quarters. Indeed, household expectations are already geared for this as expectations of employment six months hence improved across the board in April.

Costs Rise for Employers

Vanguard 4/30 - Employment costs rose 0.6% for the first quarter of the year, indicating that the job market is slowly beginning to turn around. The benefits component of the index rose 1.1% for the quarter, reflecting the rising costs of health care benefits and defined benefit plans. The index's wage and salary component slipped back to the historical low that it reached in mid-2009.

Econoday 4/30 - A jump in benefit costs fed a surprising jump in the employment cost index that is definitely not wanted by policy makers. The ECI rose a quarter-to-quarter 0.6% in the first quarter for the highest rate of the recovery and compared with a 0.4% rise in the fourth quarter. The year-on-year rate rose to 1.7%, 2 tenths above the fourth-quarter pace.

Benefit costs jumped 1.1% in the first quarter more than doubling the fourth quarter's 0.5% rate. The year-on-year rate for benefit costs is at plus 2.2%, the highest rate since second-quarter 2007 and far above the prior quarter's plus 1.5% rate. Questions over how the implementation of healthcare reform will play out adds special uncertainty to the outlook for benefit costs.

Wages & salaries remain tame at plus 0.4%, down 1 tenth in the first quarter in the only headline that Federal Reserve officials will welcome. The year-on-year rate for this reading is unchanged at plus 1.5%.

A base effect is at play in this report as the fourth quarter marked a deep low for this series. But the gains can't be ignored and will raise doubts over how extended the Fed's zero-rate policy will prove to be.

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

Press Release 4/29 (excerpts) – In the week ending April 24, the advance figure for seasonally adjusted initial claims was 448,000, a decrease of 11,000 from the previous week's revised figure of 459,000. The 4-week moving average was 462,500, an increase of 1,500 from the previous week's revised average of 461,000.

The advance seasonally adjusted insured unemployment rate was 3.6% for the week ending April 17, unchanged from the prior week's unrevised rate of 3.6%.

The advance number for seasonally adjusted insured unemployment during the week ending April 17 was 4,645,000, a decrease of 18,000 from the preceding week's revised level of 4,663,000. The 4-week moving average was 4,639,000, a decrease of 9,000 from the preceding week's revised average of 4,648,000.

WEEK ENDING	April 24	April 17	Change	April 10	Prior Year
Initial Claims (SA)	448,000	459,000	-11,000	480,000	623,000
4-Wk Moving Average (SA)	462,500	461,000	+1,500	457,500	627,000

The Economic Week Ahead: May 3 – May 7

Vanguard 4/30 - Next week will be a busy one in terms of economic news. The biggest news will come on Friday, when the most recent unemployment numbers are released. Other news will include the latest on personal income, construction spending, and manufacturing (all on Monday), factory orders (Tuesday), nonmanufacturing (Wednesday), productivity and costs (Thursday), and consumer credit (Friday).

U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior
May 03	08:30	Personal Income	March	0.3%	0.3%	0.3%	0.1%
May 03	08:30	Personal Spending	March	0.6%	0.6%	0.6%	0.5%
May 03	08:30	PCE Prices - Core	March	0.1%	0.1%	0.1%	0.0%
May 03	10:00	Construction Spending	March	0.2%	-0.3%	-0.3%	-2.1%
May 03	10:00	ISM Index	April	60.4	60.3	60.0	59.6
May 04	10:00	Factory Orders	March		-0.4%	-0.2%	0.6%
May 04	10:00	Pending Home Sales	March		7.0%	5.0%	8.2%
May 05	10:00	ISM Services	April		56.1	56.1	55.4
May 06	08:30	Continuing Claims	05/01		4600K	4600K	4645K
May 06	08:30	Initial Claims for Unemployment	05/01		435K	440K	448K
May 06	08:30	Productivity-Preliminary	Q1		2.4%	2.4%	6.9%
May 07	08:30	Unemployment Rate	April		9.8%	9.7%	9.7%
May 07	08:30	Nonfarm Payrolls	April		200K	187K	162K
May 07	15:00	Consumer Credit	March		-$5.0B	-$3.9B	-$11.5B

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
2-Apr	$ 4,320	$ 545	10	$ 527	3
9-Apr	4,435	927	13	720	5
16-Apr	5,785	2,511	26	546	6
23-Apr	8,295	2,570	19	2,037	13
30-Apr	7,210	1,063	12	337	6