Market Comment *Economic Highlights for the week ended May 6, 2011*

Economic Week In Review: For The Jobless, A Mix Of Good News And Bad

Vanguard 5/6- Two reports issued this week offered contrasting (and somewhat contradictory) assessments of the unemployment situation. On the positive side, the number of payroll jobs created in April was surprisingly high. The overall unemployment rate, however, inched upward in April instead of staying flat, as had been expected. The week's other reports painted a mixed, but generally encouraging, picture. For the week ended May 6, the S&P 500 Index fell 1.7% to 1,340 (a year-to-date return of 7.2%). The yield of the 10-year U.S. Treasury note fell 13 basis points to 3.19% (for a year-to-date decrease of 11 basis points).

Construction Spending: March - Spending Rebounded, New Home Construction Remained Weak

Barclays 5/2 - Both residential and non-residential construction spending rose in March, with residential spending rising 2.4% and non-residential spending rising 0.9%. However, new housing construction was down 1.1% on the month, with single-family construction falling 1% and multi-family construction spending falling 2.2%. Total private construction spending was up 2.2%.

Vanguard 5/6 - Private residential construction spending rose 2.6% in March, to $229.1 billion. It's probably too soon to talk of a real rebound in the housing market, though, as the increase was driven largely by a boom in renovation projects for existing homes. The vast inventory of unsold homes continues to weigh on the housing sector, with no sustained turnaround in sight. Spending on all construction was up .4% in March.

Econoday 5/2 - The construction sector saw a moderate rebound in March, following a likely weather-related drop in February. Construction spending in March rebounded 1.4% after dropping 2.4% in February. On a year-ago basis, overall construction outlays improved to minus 6.7% in March from down 7.0%.

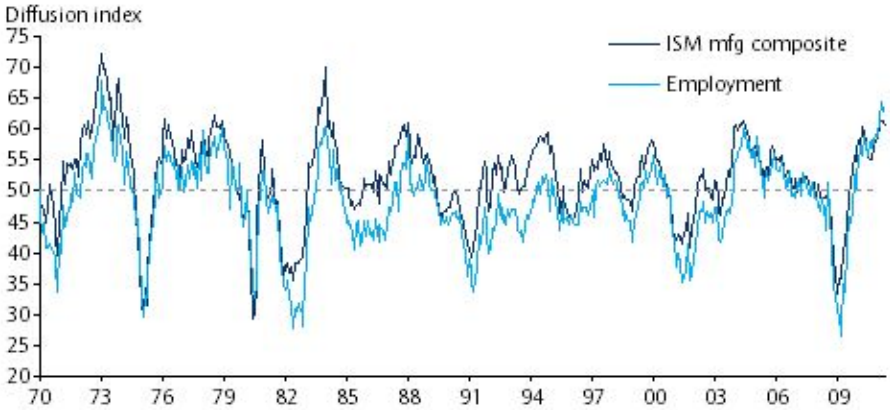
With all three major categories showing some improvement in March, the underlying story is likely that construction workers were actually able to show up for work in March more so than in the atypically winter storm stricken February. This sector is still anemic as seen in the year-ago numbers.

ISM Index: April - ISM Manufacturing Index Moderated To 60.4

Vanguard 5/6 - The ISM index of manufacturing activity dropped a fraction in April, to 60.4, it remains in what analysts consider a healthy range, and most are confident that the industrial sector will continue to be a bright spot in the U.S. economic picture through at least the end of 2011.

Barclay 5/2 - The five equally weighted components of the headline index were softer, with the new orders index slipping to 61.7, production falling to 63.8, employment edging lower to 62.7, and the supplier deliveries index decreasing to 60.2. The inventories index provided some offset, increasing to 53.6. Outside the five components of the headline index, the new export orders index jumped to 62.0, while the imports index decreased to 55.5.

Econoday 5/2 - Rates of growth for new orders and production slowed in April's report, but the rate of hiring remained very strong and backlog orders shot up. The numbers show a very solid 60.4 reading for the headline index for the fourth plus 60 reading this year. Employment is also in plus-60 ground, and shows its fourth such reading this year, as does the backlog index.



Factory Orders: March - US Factory Orders Post A Broad-Based Gain

Barclays 5/3 - US factory orders increased 3.0% in March. The strength in the headline was broad-based as durable goods orders increased 2.9% and nondurable goods orders rose 3.1%. Most major components within nondurable goods gained, with increases in food products (0.6%), beverage and tobacco products (4.0%), paper products (0.8%), and chemical products (1.8%). Furthermore, orders and shipments for nondurable goods were also boosted by a 7.8% pop in petroleum and coal products. However, this likely owed to rising energy prices.

Total shipments increased 2.7%, the seventh monthly consecutive gain, and inventories rose 1.1%. This was a broadly favorable report and suggests slightly stronger equipment and software spending in Q1. However, this was offset by less nondurable inventory accumulation than assumed in the GDP advance release.

Econoday 5/3 - Factory data show deep strength in March. Gains are evenly distributed between durable and nondurable goods and across many industries where autos are showing special strength.

ISM Services: April - ISM Non-Manufacturing Index Dropped To 52.8 In April

Vanguard 5/6 - The ISM's non-manufacturing index—which measures non-industrial business activity, employment, supply, deliveries, and new orders—slumped 4.5 points in April. The consensus view this week was that better performance in the non-manufacturing sector is needed in order to sustain the economic recovery.

Barclays 5/4 - The ISM non-manufacturing index fell to 52.8 in April. The new orders index dropped to 52.7, business activity declined to 53.7, and the employment index decreased to 51.9. The supplier deliveries index provided some offset, improving to 53.0. Outside the four equally weighted components of the headline index, the export orders index fell to 53.5, while the imports index jumped to 57.0. The order backlog index edged lower to 55.5, and the prices paid index slipped to 70.1.

This is undoubtedly a weak report, signaling the slowest monthly growth in non-manufacturing industries since August 2010. However, given the strength of this index in the first few months of the year, we are hesitant to read too much into one month's data, and look ahead to next month's data for clarification on whether this April weakness is the beginning of a slowdown or merely a bump in the road.

Employment Situation: April -US Payroll Growth Strengthens Further In April

Vanguard 5/6 - Nonfarm payrolls expanded in April, adding 244,000 jobs. Growth came from the private sector, which added 268,000 jobs; by contrast, government payrolls dropped by 24,000 as fiscally stressed state and local governments continued to shed staff. The April unemployment rate also surprised economists by edging up to 9.0%. This was the first increase in the jobless rate since November 2010. Another indication of a still-soft labor market: Average hourly earnings just barely rose for the month.

Barclays 5/6 - Private goods payrolls expanded by 44k on continued momentum in manufacturing payrolls (29k). Construction payrolls were 5k higher. The service sector was the main engine of job growth again this month, adding 224k to payrolls, with broad-based gains across many sectors: trade and transport (71k), retail trade (57k), business services (51k), education and health (49k), and leisure and hospitality (37k). These were also the sectors that showed strong payroll growth in the March report, suggesting that broad-based momentum in services hiring remains in place.

The household survey had a softer tone, with the unemployment rate rising to 9.0%. This reflected a decrease in household employment of 190k, an increase in unemployment of 205k, and a 15k increase in the civilian labor force. On a trend basis, hours and earnings continue to improve.

Altogether, we characterize this as a reassuring jobs report in light of the recent softness in activity.

Goldman Sachs 5/6 - Healthy growth in nonfarm payroll employment suggests the labor market remains on a favorable trajectory, despite negative signs in some recent data. Following four months of large declines, the rise in the unemployment rate is not too discouraging. If payroll growth remains at current levels, the unemployment rate should decline gradually over time.

Unemployment Insurance Weekly Claims Report – Week Ended April 30

Press Release 5/5 (excerpt) - In the week ending April 30, the advance figure for seasonally adjusted initial claims was 474,000, an increase of 43,000 from the previous week's revised figure of 431,000. The 4-week moving average was 431,250, an increase of 22,250 from the previous week's revised average of 409,000.

The advance seasonally adjusted insured unemployment rate was 3.0% for the week ending April 23.

The advance number for seasonally adjusted insured unemployment during the week ending April 23 was 3,733,000, an increase of 74,000 from the preceding week's revised level of 3,659,000. The 4-week moving average was 3,700,750, a decrease of 1,250 from the preceding week's revised average of 3,702,000.

WEEK ENDING	April 30	April 23	Change	April 16	Prior Year

Initial Claims (Seasonally Adj)	474,000	431,000	43,000	404,000	460,000
4-Wk Moving Average (SA)	431,250	409,000	22,250	399,250	465,750

Barclays 5/5 - The Labor department indicated that there were three special factors that pushed claims higher. The trend in initial claims data and what it reveals about the health of the labor market continues to be clouded by seasonal-related volatility. This week's report was reportedly affected by several special factors, while claims data last week may have been distorted due to the Easter holiday.

ADP Employment Change: April - ADP Private Payrolls Up 179k in April

Barclays 5/4 - ADP private employment increased 179k in April. Service sector payrolls grew 138k, down from March's 169k, with modest gains in construction (9k) and financial activities (4k). Goods-producing industries added 41k jobs, up from 38k in March, with a 25k increase in manufacturing employment. The breakdown by firm size was roughly in line with recent trends: small businesses added a net 84k jobs, medium businesses gained 84k, and large business employment grew 11k. While somewhat softer than March, the April ADP employment report is broadly consistent with continued strength in private hiring.

Productivity and Costs: Q1 - US Productivity Growth Moderates

Barclays 5/5 - Productivity in the nonfarm business sector grew by 1.6% q/q in Q1. Hours rose by 1.4% q/q, against a 3.1% q/q gain in output. On a y/y basis, productivity has risen 1.3%. **Firms will likely increasingly need to add workers and increase hours, rather than rely on further productivity gains, to boost output**. Hourly compensation outpaced productivity gains by rising 2.6% q/q, which pushed unit labor costs up 1.0% q/q. On a y/y basis, unit labor costs have risen 1.2%, the first yearly increase since the end of the recession. As the labor market improves and productivity growth moderates, unit labor costs are likely to continue to edge higher.

Vanguard 5/6 - The slowdown in productivity suggests that businesses are finding it harder to make do with their existing labor force as the economy continues to recover. The figures suggest that as demand continues to grow, firms will need to hire more workers, which will be made easier by the relatively low level of unit labor costs.

Consumer Credit

Econoday 5/6 - Consumers used their credit cards in March as revolving credit outstanding rose $1.9 billion to $796.1 B. It isn't much but will hopefully be followed by subsequent gains to mark an upturn after three years of contraction. Consumers have been using non-revolving credit much more given the long run of strong vehicle sales. Non-revolving credit rose $4.1 B vs. $10.2 B in February. Total consumer credit outstanding, revolving and non-revolving together, rose $6.0 B in March.

Fed Senior Loan Officer Opinion Survey

Banks ease standards and terms; demand for C&I loans and commercial mortgages increases

Barclays 5/2 - The Federal Reserve's April 2011 Senior Loan Officer Opinion Survey on Bank Lending Practices suggests that banks, on net, continued to ease standards and terms for commercial and industrial (C&I) loans to businesses during the first quarter while changes in standards in terms on loans to households were mixed.

Demand for C&I loans and commercial mortgages increased, while demand for residential mortgages continued to decline. The most often cited reason for stronger demand from larger banks was greater demand to finance M&A activity. On consumer lending, the net fraction of banks that reported having become more willing to make consumer installment loans registered its third-strongest reading since the first half of 1994. Household demand for loans was reported as largely unchanged, although demand for auto loans was reported as having increased. Overall, the April survey suggests bank lending activity continues to improve gradually, particularly for C&I loans to larger firms.

Motor Vehicle Sales: April - Strong US Light Vehicle Sales in April

Econoday 5/2 – Auto sales show no substantial change in April, and no change in the mix between domestic and import brands in what is a sign that Japanese supply issues aren't holding back sales. One change is the mix between cars and trucks which tilted slightly toward trucks. Total vehicles sold at an annual rate of 13.2 million in the month. Of this, the rate for North American-made vehicles is 10.1 million.

Barclays 5/2 - On an annual basis, total light vehicle sales rose 16.9% and have been growing at a solid pace over the past couple of quarters.

The Economic Week Ahead: May 9 – May 13, 2011

Vanguard 5/6 – No major reports are due Monday or Tuesday. The latter part of the week will bring the latest figures on consumer and wholesale inflation, international trade, retail sales, and business inventories.

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

Date	ET	Release	For	Briefing.com	Consensus	Prior
May 10	08:30	Export Prices ex-agriculture	Apr	NA	NA	1.3%
May 10	08:30	Import Prices ex-oil	Apr	NA	NA	0.6%
May 10	10:00	Wholesale Inventories	Mar	0.9%	1.0%	1.0%
May 11	07:00	MBA Mortgage Index	05/06	NA	NA	NA
May 11	08:30	Trade Balance	Mar	-$45.0B	-$47.8B	-$45.8B
May 12	08:30	Initial Claims for Unemployment Benefits	05/07	400K	423K	NA
May 12	08:30	Continuing Claims	04/30	3700K	3700K	NA
May 12	08:30	**Producer Price Index (PPI)**	Apr	0.5%	0.5%	0.7%
May 12	08:30	Core PPI	Apr	0.1%	0.2%	0.3%
May 12	08:30	**Retail Sales**	Apr	1.0%	0.6%	0.4%
May 12	08:30	Retail Sales ex-auto	Apr	1.0%	0.5%	0.8%
May 12	10:00	Business Inventories	Mar	1.0%	0.9%	0.5%
May 13	08:30	**Consumer Price Index (CPI)**	Apr	0.3%	0.4%	0.5%
May 13	08:30	Core CPI	Apr	0.1%	0.1%	0.1%
May 13	09:55	U of Michigan Consumer Sentiment	May	70.5	69.8	69.8