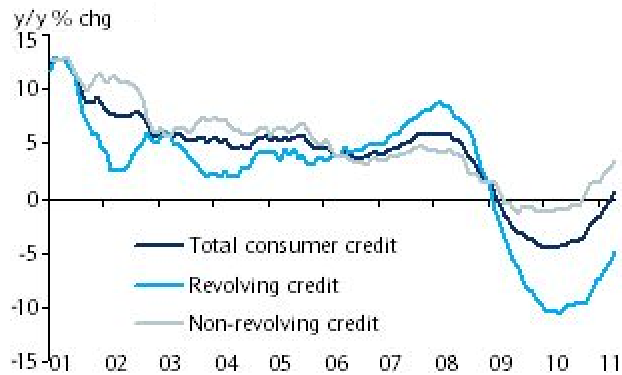
Market Comment *Economic Highlights for the week ended June 10, 2011*

Economic Week in Review: Signs of modest improvement even as worries mount

Vanguard 6/10- On the heels of a dismal unemployment report last week, economic indicators showed slight improvement amid recent signs that the uneven recovery is beginning to slow. The U.S. trade deficit unexpectedly narrowed, consumer credit rose more than anticipated, and the Federal Reserve's Beige Book release reported overall economic growth. For the week ended June 10, the S&P 500 Index fell 2.2% to 1,270.98 (for a year-to-date total return of 1.9%). The yield of the 10-year U.S. Treasury note was unchanged for the week at 2.99% (for a year-to-date decrease of 31 basis points).

Consumer Credit - April

Vanguard 6/10 - Spurred by increased demand for education and auto loans, consumer credit rose $6.2 billion in April. The gain in March was revised downward to $4.8 billion. Analysts tied the April increase to robust auto sales. New vehicle sales may come under pressure in the coming months, however, as a result of high gasoline prices and auto parts supply issues. Non-revolving credit increased for the ninth consecutive month, while revolving credit—primarily credit card borrowing—continued its decline.



Barclays 6/7 - Despite the strong headline read, this was a mixed report, particularly since monthly data from December 2010 onward have all been revised down, by a cumulative $7.5bn. These downward revisions were entirely in revolving credit. We continue to look for the underlying trend of consumer credit to rise gradually.

Fed's Beige Book - June

Vanguard 6/10 – Economic activity continued to grow from late April through most of May. Reports from all 12 districts showed continued economic expansion, though 4 districts indicated a slowing in the pace of growth.

"Overall, the economic recovery appears to be continuing at a moderate pace, albeit at a rate that is both uneven across sectors and frustratingly slow from the perspective of millions of unemployed and underemployed workers," Mr. Bernanke said.

Manufacturing continued to grow. Activity in the nonfinancial services sectors expanded at a solid pace, fueled by industries related to information technology and business and professional services. Consumer spending was up overall despite high food and energy prices thought to be weighing on consumers' inclination to spend. Auto sales were fairly strong despite the disruptions to the supply of auto parts caused by the Japanese earthquake.

Econoday 6/8 - The Beige Book added to the view that the economy is experiencing a temporary slowing. Importantly, there are no signs of a sharp deceleration or pending drop in activity. Manufacturing activity is still up in ten Districts but slowing in some areas. Parts shortages from Japan are one factor behind the softening. Some reported the expectation that auto production lost during the first half will be made up during the second half.

The consumer sector continues to support growth despite headwinds from headline inflation. Residential construction and real estate remained quite weak. The rental component has picked up strength.

Most Districts indicated that labor markets continued to improve gradually. Wage growth is rising modestly. Financial conditions are headed in the right direction with loan demand mixed to slightly improved.

Inflation remains generally subdued outside of food and energy. Manufacturers have been somewhat more successful than retail or construction firms in passing along higher costs. In general, selling prices increased only modestly, except for food and energy prices, which continued to escalate.

Overall, the Beige Book supports the view that the economy is in a soft patch-one that is temporary.

Barclays 6/8 - Although we would describe the tone of the report as a bit more optimistic than the recent data flow, the report is consistent with the softening in consumption and production seen in recent data.

Trade Balance - April

Vanguard 6/10 - As a result of the rise in exports and drop in imports, the U.S. trade deficit narrowed in April to $43.7 billion. The reduction in imported goods was linked to a decline in petroleum volumes and lower auto imports. The increase in export volume wasn't limited to one sector, as industrial supplies, consumer goods, and capital goods all increased.

Barclays 6/9 - Imports fell 0.4% in April as petroleum imports dropped 8.6% and automotive imports dropped 12.9%, likely reflecting supply chain disruptions for Japanese manufacturers as total imports from Japan fell a record $3.0bn. Capital good imports grew 1.4%. Consumer goods imports were also strong, rising 5.0%. Food and beverage imports rose 4.2%, and services imports increased 0.1%.

Exports increased a healthy 1.3% in April. Capital goods exports rose 3.1%. Industrial supplies exports were up 4.9%, consumer goods exports increased 1.8%, and services exports increased 0.4%, while food and beverage exports slipped 1.8% and automotive exports dropped 6.8%.

Econoday 6/9 –The latest trade number is technically favorable toward GDP but part of the improvement likely is due to lower imports from Japan which actually constrained U.S. output, especially for autos.

Wholesale Inventories - April

Econoday 6/9 – Inventory accumulation at the wholesale level slowed in April to a monthly plus 0.8% from four straight prior gains of one percent and more. The slowing is welcome given overall slowing in the economy including sales at the wholesale level where growth slowed to a far below monthly trend of 0.3%.

Inventory accumulation at the factory level really didn't slow very much, just one tenth to plus 1.3%.

Inventory accumulation is a major plus but only when underlying demand growth is strong, otherwise the accumulation is unwanted and risks imbalances that, if extended, point to job losses as companies right size their operations.

Barclays 6/9 - The impact from supply chain disruptions following the Japan earthquake was evident in April's wholesale inventories report. Auto sales and inventory accumulation are likely to be a negative for Q2 GDP growth but should be partly offset by weaker imports and should prove to be temporary.

Import and Export Prices - May

Econoday 6/10 - Inflation pressure from imports is easing, reflecting the dip in oil prices. Import prices rose only 0.2% in May, the smallest increase of the last nine months. Prices for petroleum imports fell 0.4%, the first decrease in nine months. Pressure does appear for finished goods with import prices of consumer goods rising 0.3%, which extends a seven-month trend, and capital goods rising 0.2%.

The export side also shows a 0.2% headline rise which is by far the smallest increase in 10 months. For the first time in 10 months, prices of agricultural exports fell, down 2.0%. Commodity-based inflation pressures may have already peaked.

Fed Flow of Funds- Household balance sheets continue to repair as net worth posts gain

Barclays 6/9 - The Federal Reserve's Flow of Funds report indicated that household debt fell 2% q/q (saar) in Q1 11, which marks the twelfth quarter of consecutive declines. The pullback in household debt, however, continues to primarily reflect declining levels of mortgage debt, which fell 3.4%. In contrast, consumer credit posted a 2.5% increase. We view the rise as a positive indicator of both consumers' appetite to take on debt as well as the willingness of the financial sector to extend credit. On the asset side, households and nonprofits experienced a substantial gain of $950bn in their net worth, with financial gains driven by rising equity prices that offset the decline in real estate values. In general, the report suggests that households are continuing to make progress in repairing their balance sheets and rising household net worth should be supportive of consumer spending.

Unemployment Insurance Weekly Claims Report – week ended June 3

Press Release 6/9 (excerpt) - In the week ending June 4, the advance figure for seasonally adjusted initial claims was 427,000, an increase of 1,000 from the previous week. The 4-week moving average was 424,000, a decrease of 2,750.

The advance seasonally adjusted insured unemployment rate was 2.9% for the week ending May 28, a decrease of 0.1 percentage point from the prior week.

The advance number for seasonally adjusted insured unemployment during the week ending May 28 was 3,676,000, a decrease of 71,000 from the preceding week. The 4-week moving average was 3,719,250, a decrease of 29,000.

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WEEK ENDING	June 3	May 28	Change	May 21	Prior Year
Initial Claims (Seasonally Adj)	427,000	426,000	+1,000	429,000	464,000
4-Wk Moving Average (SA)	424,000	426,750	-2,750	439,750	468,000

Barclays 6/9 - The four-week average at 424k remains 30k above the levels seen in March and April. Therefore, today's claims report is a further indication of a loss in momentum in labor markets.

Bernanke: Accommodative monetary policies are needed, but monetary policy is not a panacea

Barclays 6/7 - Fed Chairman Ben Bernanke delivered comments today on the US economic outlook at the International Monetary Conference. The chairman said that the recovery appears to be proceeding at a moderate pace "notwithstanding unevenness in the rate of progress and some recent signs of reduced momentum." He pointed toward supply chain disruptions associated with the earthquake in Japan as causing manufacturing output to dissipate and higher gasoline prices as taking a toll on consumption. The chairman said the committee views these factors as temporarily restraining economic activity and sees growth accelerating in the second half of the year. Beyond these transitory factors, the chairman noted that the overall pace of the recovery is held down by ongoing weakness in construction and housing and fiscally constrained state and local governments. Using state and local finances as a transition to the trajectory of the federal debt, Chairman Bernanke said that he would prefer that policymakers move quickly to enact a "credible, long-term plan for fiscal consolidation" that would "avoid a sudden fiscal contraction that would put the recovery at risk."

Regarding developments on inflation, the chairman reiterated the well-known position of the committee that higher commodity price pressures should prove transitory.

In sum, he said the moderate and uneven nature of the recovery means that monetary policy should remain accommodative. He said that the committee will remain on the path of concluding its purchase of Treasury securities by the end of the month and, once completed, preserve its existing policy of reinvesting principal payments from its securities holdings.

The Economic Week Ahead: June 13 – June 17, 2011

Vanguard 6/10 – A busy week is on the horizon beginning Tuesday with reports on the Producer Price Index, business inventories, and retail sales. The wave continues with the Consumer Price Index and industrial production on Wednesday, residential construction on Thursday, and the Conference Board's leading indicators on Friday.

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

Date	ET	Release	For	Briefing.com	Consensus	Prior
Jun 14	08:30	Retail Sales	May	-1.0%	-0.7%	0.5%
Jun 14	08:30	Retail Sales ex-auto	May	0.4%	0.2%	0.6%
Jun 14	08:30	**Producer Price Index (PPI)**	May	0.1%	0.1%	0.8%
Jun 14	08:30	Core PPI	May	0.1%	0.2%	0.3%
Jun 14	10:00	Business Inventories	Apr	1.0%	1.0%	1.0%
Jun 15	08:30	**Consumer Price Index (CPI)**	May	0.1%	0.1%	0.4%
Jun 15	08:30	Core CPI	May	0.1%	0.1%	0.2%
Jun 15	09:15	**Industrial Production**	May	0.2%	0.2%	0.0%
Jun 15	09:15	**Capacity Utilization**	May	77.0%	77.0%	76.9%
Jun 16	08:30	Initial Claims for Unempl. Benefits	06/11	425K	421K	NA
Jun 16	08:30	Housing Starts	May	540K	540K	523K
Jun 17	09:55	U of Michigan Consumer Sentiment	Jun	72.0	73.5	74.3
Jun 17	10:00	**Leading Indicators**	May	0.2%	0.4%	-0.3%