

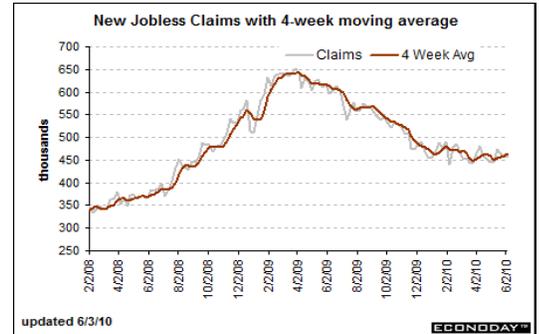
# Market Comment *Economic Highlights for the week ended June 11, 2010*

## Economic Week in Review: Retail sales take a detour

Vanguard 6/4 - The latest reports showed that the economy was continuing to take steady steps out of recession - although May retail sales seemed to be following a different script. The U.S. stock market had a volatile week: The S&P 500 Index rose 2.5% to about 1,092 (for a year-to-date total return—including price change plus dividends—of about -1.3%). The yield of the 10-year U.S. Treasury note rose 4 basis points to 3.24% (for a year-to-date decrease of 61 bps).

## Jobless Claims

Econoday 6/10 - Initial jobless claims continue to disappoint but only mildly, at 456,000 vs. expectations for 448,000 and vs. 459,000 in the prior week which was revised 6,000 higher. The four-week average rose for the fourth straight week to its highest level in three months, up 2,500 to 463,000. But there is improvement on the continuing claims side, hinting at new hiring. Continuing claims fell a very steep 255,000 in the May 29 week to 4.462 million and the lowest level since late 2008. Disappointment over initial claims is offset in part by the improvement on the continuing side. But until initial claims begin to improve, the outlook for payroll growth remains uncertain.



Barclays (Excerpts) 6/10 - The previous week was revised up to 459k from 453k, making this the fourth consecutive week of falling initial claims. This is the lowest level since mid-December 2008, and brings the four-week moving average down 49k to 4.618mn. The insured unemployment rate fell to 3.5% in the week ending May 29 from 3.7% a week earlier. Despite the pick-up in private payroll growth thus far in 2010, initial claims have remained stubbornly high. The drop in continuing claims is encouraging, though it may be due in part to people exhausting the first 26 weeks of state benefits and moving on to the various supplementary federal programs, which are not captured in the continuing claims figure.

AFP 6/14 - Employers continued to grow slightly more optimistic in regards to their hiring plans. The percent of respondents in the U.S. who plan to expand payrolls during Q3 rose to 18% (versus 16% in Q2) while those who plan to decrease their workforce remained at 8%. This represents an improvement from a year ago when 15 percent had planned to increase their workforce and 13% intended to reduce their staff.

## Unemployment Insurance Weekly Claims Report (Initial Jobless Claims)

Press Release 6/3 - In the week ending June 5, the advance figure for seasonally adjusted initial claims was 456,000, a decrease of 3,000 from the previous week's revised figure of 459,000. The 4-week moving average was 463,000, an increase of 2,500 from the previous week's revised average of 460,500. The advance seasonally adjusted insured unemployment rate was 3.5% for the week ending May 29, a decrease of 0.2 percentage point from the prior week's revised rate of 3.7%.

WEEK ENDING	June 5	May 29	Change	May 22	Prior Year
Initial Claims (SA)	456,000	459,000	-3,000	463,000	597,000
4-Wk Moving Average (SA)	463,000	460,500	+2,500	457,250	612,250

## Retail Sales

Econoday 6/11 - It looks like the consumer paused the spending spree in May. But on average, sales have been healthy over the past few months. Overall retail sales in May fell 1.2% after gaining 0.6% in April and jumping 2.1% in March. May came in far lower than analysts' expectations for a 0.4% increase. Autos were only part of the decline as sales ex autos decreased 1.1% after gaining 0.6% in April. Sales excluding autos and gasoline posted a 0.8% drop, following a 0.6% boost in April.

Barclays (Excerpts) 6/11 - Building materials declined a sharp 9.3%. This likely reflects payback for strong, 8%-plus gains in the previous two months and is unlikely to reflect a shift in trend. Within the core, gains in furniture (1.0%), electronics (0.6%) and food (0.3%) offset declines in clothing (-1.3%) and general merchandise (-1.1%). All in all, this is

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a softer-than-expected report, which leaves Q2 consumer spending currently tracking slightly below our 3.5% q/q (saar) forecast, but there is likely to be positive payback in some components in the coming months (particularly autos and building materials).

## **Bernanke sticks to cautious optimism**

Bloomberg 6/8 - Federal Reserve Chairman Ben S. Bernanke said the U.S. recovery probably won't quickly bring down the unemployment rate, which is likely to stay "high for a while."  
Given the depth of the recession, the recovery is "moderate paced," Bernanke said last night in a question-and-answer session with Sam Donaldson, the ABC News journalist, in Washington. In Europe, policy makers "are committed to avoiding default in Greece" and elsewhere, he said.  
While the Fed will raise interest rates from a record low before the economy returns to "full employment," Bernanke said officials don't know when that process will start. The banking system isn't fully healthy and lenders are "cautious" in providing credit, he said. "The unemployment rate is still going to be high for a while, and that means that a lot of people are going to be under financial stress," Bernanke said at the event, part of a dinner hosted by the Woodrow Wilson International Center for Scholars.

Barclays 6/9 - Testifying to the House Budget Committee, Fed Chairman Bernanke stuck to the cautiously optimistic tone of his recent speeches and FOMC minutes. He described the recovery as having advanced "at a moderate pace" and likely to continue "through this year and next". He also noted that gains in private final demand should "sustain the recovery in economic activity" when support from fiscal policy diminishes

Bernanke went on to downplay the effect of fiscal problems in Europe on the US economy, noting that "offsetting factors" to the drop in equity prices and weaker economic prospects in Europe included declines in market interest rates and commodity prices. Finally, on fiscal policy, he reiterated the point he made to the Joint Economic Committee in April that the fiscal deficit reflects both cyclical and structural factors, and that the latter "appears to be on an unsustainable path". However, he stopped short of encouraging immediate fiscal tightening, concluding only that "we should be planning now how we will meet these looming budgetary challenges".

## **Consumer Sentiment**

WSJ 6/11 - Retail sales may be going in the wrong direction but not consumer sentiment, which rose to 75.5 in the mid-June reading vs. 73.6 at month-end May. The nearly two-point gain is sizable and puts the index at its best level of the year. Gains were posted for both the expectations and current conditions components. Another plus is a definitive fading in inflation expectations, falling an unusually steep 5 tenths in the 12-month outlook to 2.7%. Today's report, because of its strength, hints at underlying improvement in the jobs market and should offset the sting from the May retail sales report.

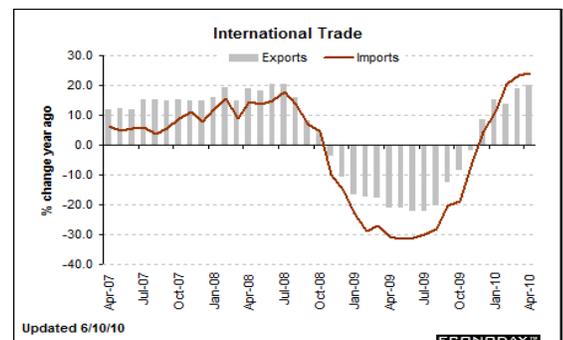
## **US household net worth rises in Q1**

Barclays (Excerpts) 6/10 - The Federal Reserve's Flow of Funds report showed that household net worth rose for the fourth consecutive quarter as consumer balance sheets continue to recover. Household net worth rose \$1.1trn in Q1 10, an improvement from \$0.5trn in Q4 09, but still slower than \$2.7trn in Q3 and \$2.0trn in Q2. Consumers have regained \$6.3trn of the net worth they have lost since the peak in the last four months. Overall, today's report showed that household balance sheets are continuing to strengthen amid the economic recovery, and this is consistent with the stronger private consumption growth seen in Q1 of this year.

## **International Trade**

Econoday 6/10 – (Excerpts) Weaker exports led to a widening of the trade deficit in April. The overall trade gap widened to \$40.3 billion from \$40.0 billion in March. The April shortfall came in a little smaller than the market forecast for a \$41.0 billion deficit. For the latest month, exports slipped 0.7% while imports decreased 0.4%.

Softness in goods imports was led by a \$1.7 billion fall in consumer goods-indicating that businesses are more cautious about consumer demand in coming months. Auto imports dipped \$0.2 billion. However, the bright spot in imports is a \$1.4 billion jump in capital goods excluding autos. Businesses appear to see demand strong enough to



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expand or upgrade capacity.

Today's report raises the issue of whether sovereign debt problems in Europe are damping overall demand. Due to the drop in exports, equities should not like today's numbers despite the deficit being smaller than expected. Also, jobless claims dipped less than expected. But news from Asia has been positive and that is the focus of markets.

## Treasury Budget

WSJ 6/10 - The pace of the deficit slowed in May in what is good news for Treasury auctions. The year-to-date deficit for the government's fiscal year beginning in October is at \$935.6 billion, a sizable sum but 5.7% lower than this time last year and a big improvement from April, which showed negligible year-on-year improvement. Outlays are down 3.5% so far this fiscal year reflecting last year's flood of government stimulus. But receipts are also down, 2.0% lower than a year ago and the result of lower tax receipts from individuals.

## Beige Book

Barclays 6/9 - The Federal Reserve's Beige Book reported that economic conditions had improved since the previous report in all 12 districts. Activity picked up across most sectors, although gains were generally described as "moderate" or "modest." In addition, "most districts" cited improved labor market conditions and had observed a "slight" pick-up in employment. Wage pressures were described as "minimal" and prices "largely stable."

## The Economic Week Ahead: June 14 - June 18

Key reports on inflation and output are scheduled to be released. The latest figures for the producer price index, new residential construction, and industrial production will be available on Thursday. Release of the consumer price index and The Conference Board's leading economic indicators are set for Friday.

## U.S. Economic Calendar

Date	ET	Release	For	Briefing.com	Consensus	Prior
Jun 16	08:30	Housing Starts	May	680K	653K	672K
Jun 16	08:30	Building Permits	May	650K	631K	610K
Jun 16	08:30	PPI	May	-0.2%	-0.5%	-0.1%
Jun 17	08:30	Initial Claims	06/12	450K	450K	452K
Jun 17	08:30	CPI	May	-0.1%	-0.2%	-0.1%
Jun 17	08:30	Current Account Balance	Q1	-\$125.0B	-\$123.0B	-\$115.6B
Jun 17	10:00	Leading Indicators	May	0.4%	0.4%	-0.1%
Jun 17	10:00	Philadelphia Fed	Jun	20.0	18.8	21.4

## FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes \$million	New Bonds \$millions	Issue Count	Called Bonds Par \$millions	Issue Count
14-May	\$ 11,530	\$ 2,141	20	\$ 2,137	16
21-May	10,699	3,295	14	1,800	16
28-May	11,755	4,092	31	2,852	26
4-Jun	8,851	1,348	12	1,178	9
11-Jun	9,241	5,531	37	4,699	33