Market Comment *Economic Highlights for the week ended June 25, 2010*

Economic Week in Review: Economy Growing Modestly

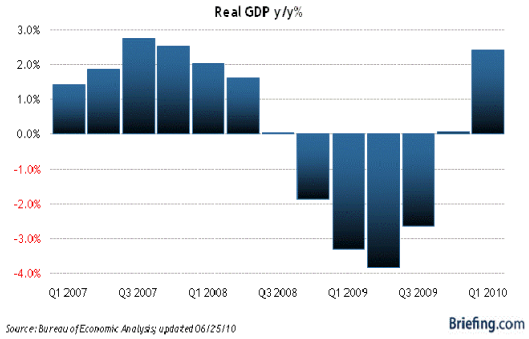
Vanguard 6/25 - The economy grew at a slower-than-expected pace in the first quarter. The housing market remained weak, and factory orders declined. Federal Reserve officials saw gradual improvements in the economy but didn't think it was strong enough to withstand a rise in interest rates. For the week ending June 25, the S&P 500 Index fell 3.6% to 1076.8 (for a year-to-date total return—including price change plus dividends—of about –2.5%). The yield of the 10-year U.S. Treasury note declined 12 basis points to 3.12% for the week (for a year-to-date decrease of 73 basis points).

GDP

Econoday 6/25 – (Excerpts) First quarter growth turned out to be notably less robust than expected. First quarter GDP was revised down to an annualized 2.7 % pace from the prior estimate of 3.0 % and initial estimate of 3.2 %. The market forecast had called for an unrevised figure at 3.0 %. The downward revision to GDP growth primarily reflected an upward revision to imports and a downward revision to personal consumption expenditures that were partly offset by upward revisions to exports and to private inventory investment. Real final sales to domestic purchasers were revised down to 1.6 % from 2.0 %. Final sales of domestic product were revised down to 0.8 % from the prior estimate of 1.4 %.Year-on-year, real GDP is up 2.4 %, compared to up 0.1 % in the fourth quarter.

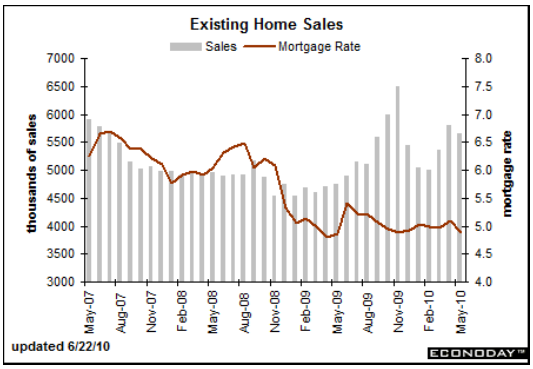
Economy-wide inflation was little revised at 1.1 % annualized for the first quarter, compared to the prior estimate of 1.0 % annualized. Analysts expected no net revision to the previous estimate of 1.0 %. The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 1.7 % in the first quarter, unrevised from the second estimate and down from 2.0 % in the fourth quarter. Excluding food and energy prices, the price index for gross domestic purchases increased 1.2 % in the first quarter, compared with an increase of 1.5 % in the fourth.

Briefing.com 6/25 – (Excerpts) Even though the negative revision was unexpected, the fact that GDP remained near its potential 2.8% long-term growth rate will not alter our view about the stability of the economic recovery. Since the revisions lag the current data by two months, and the changes were relatively minimal, we do not expect the market to have much reaction to the news. The drop in GDP was primarily driven by negative revisions to personal consumption and an increase in imports. The estimates were partially offset by increases in exports and private inventories. Personal consumption was revised down from 3.5% growth to 3.0% and was caused by weaker-than-expected services consumption. Imports were revised up from 10.4% to 14.8%, which removed an additional 0.5 percentage points from GDP growth. Export growth increased from 7.2% to 11.3% while private inventories were revised up $7.3 bln to $41.2 bln.



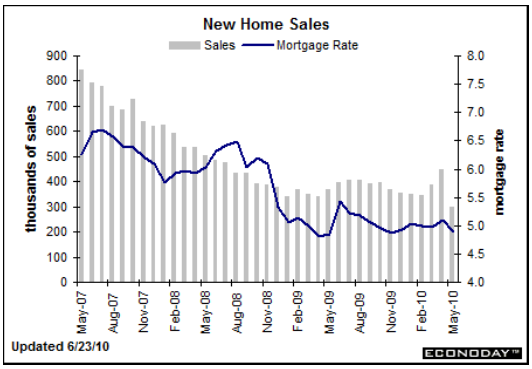
Existing Home Sales

Econoday 6/23 - Existing home sales fell 2.2 % to a much lower-than-expected annual sales rate of 5.66 million (April revised slightly higher to 5.79 million). A weak headline is not the only disappointment in this report as the drawdown in supply has slowed. Supply on the market fell only slightly in May and is very heavy at 8.3 months and compares with seven-month supply during the buying surge late last year, a surge that was fed by first-round stimulus. High supply will continue to pressure prices which did however firm 4.2 % in May for both the median price ($179,600) and average price ($226,400).



This report tracks closings and is inflated to a significant degree by second-round stimulus in which contracts had to be signed by April 30. Closings can take quite a while and Democrats in Congress are talking about extending a June 30 deadline to prevent as many as 180,000 contracts from missing out on tax credits which are worth up to $8,000. New home sales, data that track signings not closings, will get no lift at all from second-round stimulus and will offer a more certain picture of the post-stimulus housing market

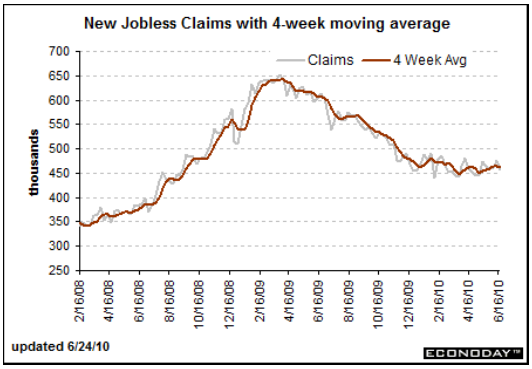
New Home Sales



Econoday 6/24 - First there was cash for clunkers which pulled vehicle sales dramatically forward. Then there was first-round housing stimulus late last year that pulled sales out of the early part of this year, followed by second-round stimulus which, yes, pulled sales out of May! And how! New home sales plunged 33 % in May to an annual rate of 300,000, the lowest rate on the books in data going back to 1963. Making matters worse are very deep downward revisions to the stimulus-fed months of April and March, revisions totaling 108,000.

The bad news continues. Supply on the market, due to the drop in sales, surged to 8.5 months from April's 5.8 months, which is certain to slow construction and related jobs. Heavy supply will also hurt prices which fell 1.0 % to a median $200,900. Year-on-year there's no recovery for prices, down a median 9.6 %. Supply may be heavy but the actual number of new homes on the market, down 1,000 in the month to an adjusted 213,000, is the lowest since 1970, more evidence of how deeply the residential construction sector has fallen. The recent run of weekly mortgage application data, the latest this morning, point to more trouble in June.

Jobless Claims



Econoday 6/24 - Jobless claims thankfully fell back in the June 19 week, down 19,000 to 457,000. But taking some of the shine off the numbers is a 4,000 upward revision to the prior week. Like the latest week, the four-week average also fell, though only by a very slight 1,500 to a 462,750 level that is still 5,000 higher than mid-May -- a reading that does not point to improvement for the June employment report.

Clearly good news is a 45,000 decline in continuing claims to 4.548 million. Here the four-week average is modestly lower than mid-May, at 4.667 million in a reading that points to improvement for June payrolls. The unemployment rate for insured workers, which has been see-sawing, slipped back one tenth to 3.5 %. The Labor Department is upbeat about this report, saying it re-establishes a downward trend for the series. The department says claims in the two preceding weeks were skewed higher by seasonal adjustment problems tied to the Memorial holiday. Even so, claims are not falling by very much and are showing no month-to-month improvement. Stocks are moving higher following the report and also following a solid ex-transportation headline for the durable goods report.

FOMC Meeting Announcement

Econoday 6/23 – (Excerpts) The Fed left its policy rates unchanged, based largely on a favorable inflation outlook, a continuation of recovery, and gradual improvement in the labor market. The FOMC retained language that the fed funds rate likely will remain exceptionally low for an extended period. The vote was 9 to 1 for the statement with Kansas City Fed President Thomas Hoenig voting against. According to the announcement, Hoenig "believed that continuing to express the expectation of exceptionally low levels of the federal funds rate for an extended period was no longer warranted 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."

Household spending is up but is constrained by the usual suspects-unemployment, modest income growth, and tight credit. Equipment and software investment has risen significantly while nonresidential structures spending remains weak. The committee acknowledged recently adverse housing numbers, noting that housing starts are depressed. The biggest change in the statement may be regarding financial conditions which "have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months." The inflation outlook is a little more favorable due to the decline in prices of energy and other commodities in recent months. According to the Fed, underlying inflation has trended lower. The FOMC expects inflation to remain subdued for some time.

Durable Goods Orders

Econoday 6/24 - The May durables report showed a headline number slipping from an April spike. But there was moderate strength in the details. New factory orders for durable goods in May declined 1.1 % after jumping a revised 3.0 % in April. Overall new orders for durables were worse than the market forecast for a 0.5 % dip.

Excluding the transportation component, however, new durables orders rebounded 0.9 %, following a 0.8 % decrease in April. Capital goods orders continued to gain, rising 0.5 % after a 0.7 % boost in April. The big negative in the report was the transportation component which dropped 6.9 % in May. Nondefense aircraft swung down 29.6 % after spiking 215.7 % in April. Yes, you might call that category volatile. Defense aircraft slipped 7.1 % in the latest month. But a very notable positive in transportation was a 0.7 % boost in autos, continuing several monthly gains.

Advances were widespread in other components-including primary metals, machinery, computers & electronics, and other durables. Declines were seen in fabricated metals, communication equipment, and in electrical equipment. The last was negative but essentially flat. Nondefense capital goods orders excluding aircraft in May made a 2.1 % comeback after falling 2.7 % the month before. Shipments for this category fell 1.6 % in May, following no change in April. Year-on-year, overall new orders for durable goods in May were up 14.9 %, compared to 19.1 % in April. Excluding transportation, new durables orders came in at up 17.6 %, compared to 18.5 % in April.

Unemployment Weekly Claims

Press Release 6/24 - In the week ending June 19, the advance figure for seasonally adjusted **initial claims** was 457,000, a decrease of 19,000 from the previous week's revised figure of 476,000. The 4-week moving average was 462,750, a decrease of 1,500 from the previous week's revised average of 464,250.

WEEK ENDING	June 19	June 12	Change	June 5	Prior Year
Initial Claims (SA)	457,000	476,000	-19,000	459,000	613,000
4-Wk Moving Average (SA)	462,750	464,250	-1,500	463,750	607,500

The Economic Week Ahead: June 28- July 2

Vanguard 6/25 - A report on the U.S. employment situation on Friday will be the highlight of economic reports released next week. Other news will include personal income (Monday), consumer confidence (Tuesday), construction and manufacturing spending (both on Thursday), and the latest on factory orders (Friday).

Date	ET	Release	For	Briefing.com	Consensus	Prior
Jun 28	08:30	Personal Income	May	0.5%	0.5%	0.5%
Jun 29	09:00	Case-Shiller 20-city Index	Apr	3.0%	3.4%	2.3%
Jun 29	10:00	Consumer Confidence	Jun	63.5	62.0	63.3
Jul 01	08:30	Continuing Claims	06/19	4500K	4510K	4548K
Jul 01	08:30	Initial Claims	06/26	460K	458K	457K
Jul 01	10:00	Construction Spending	May	-1.0%	-0.9%	2.7%
Jul 01	10:00	ISM Index	Jun	59.0	59.0	59.7
Jul 01	10:00	Pending Home Sales	May	-12.5%	-10.5%	6.0%
Jul 01	14:00	Auto Sales	Jun	NA	4.0M	3.9M
Jul 02	08:30	Nonfarm Payrolls	Jun	-145K	-100K	431K
Jul 02	08:30	Unemployment Rate	Jun	9.8%	9.8%	9.7%
Jul 02	10:00	Factory Orders	May	-1.0%	-0.7%	1.2%