

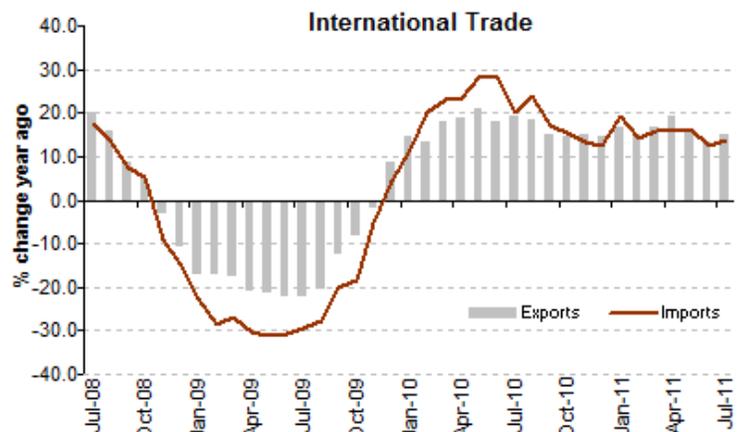
Economic Week in Review: Better News on Exports, But a Bleak Report From The Fed

Vanguard 9/9 –Despite a few good signs, the market's mood turned grim as somewhat favorable reports on spending, trade, and service-sector growth were offset by higher new jobless claims and continued caution from Federal Reserve officials throughout the country. In remarks similar to those he made a few weeks ago, Fed Chairman Ben Bernanke said the central bank has a few more tools in the box to bolster the weakening economy. However, he didn't say whether he'd use them before the Federal Open Market Committee meets on September 20 to consider other measures to promote economic growth. For the week ended September 9, the S&P 500 Index fell 1.7% to 1154.23 (for a year-to-date total return of about -6.9%). The yield on the 10-year U.S. Treasury note dropped 9 basis points to 1.93% (for a year-to-date decline of 137 basis points).

AFP 9/12 - In the face of a growingly turbulent global economy, the U.S. trade deficit narrowed in July thanks to a healthy increase in export activity. We also learned last week that the number of job openings inched up in July—with the pace of hiring just barely staying above the pace of those leaving their jobs—and that the non-manufacturing sector grew at a slightly faster pace in August. Finally, the latest edition of the Federal Reserve's Beige Book had the U.S. economy still expanding during the latter half of the summer, although business activity did slow in some parts of the nation.

Trade Deficit – July: US Trade Deficit Narrows on Strong Export Growth

AFP 9/12 - The U.S. trade deficit in July fell 13.2% to \$44.8 billion in July to its lowest level since April as exports hit a record high of \$178.0 billion (+3.2% from June and +15.1% from July 2010). Import activity slipped 0.2% to \$222.8 billion (although this was 13.6% above year ago levels). The headline trade number does not control for price changes. The real trade balance—based on 2005 chained prices—shrank \$5.0 billion to -\$45.3 billion. The deficit for goods contracted by \$0.4 billion to -\$60.6 billion while the surplus for services grew \$0.3 billion to +\$15.8 billion. One of the product lines experiencing a big increase in trade activity was vehicles—both exports and imports—as the impact of the March earthquake continued to wane. Auto exports jumped 11.7% during the month while auto import surged 15.0%.



Vanguard 9/9 – Real exports of industrial supplies and food and beverage products also increased at a healthy rate.

Econoday 9/8 - Today's trade numbers are good news for manufacturers and for third quarter GDP.

Beige Book Flashes Yellow Light - data collected before August 27 for the Sept. 20-21 FOMC meeting

AFP 9/12 - Eight times a year, the Federal Reserve publishes a compendium of information gathered by the 12 district banks through interviews and other means. The latest edition of the Beige Book released on Wednesday found the economy growing "at a modest pace," although a number of markets reported subdued or slowing activity. In particular, the Boston and Philadelphia Districts reported "mixed" activity with the latter indicating that "activity was somewhat slower." Consumer spending grew "slightly," although net of vehicles, retail sales were either flat or had slowed in several districts. Manufacturing activity was characterized as "mixed," but slowed in many parts of the country. Price pressures were easing, "although input costs continued to increase in some industries and retail prices rose" in some areas. While parts of the U.S. experienced "modest" gains in employment, the overall labor market was characterized as being "generally stable."

Vanguard 9/9 – The Fed report painted a bleak picture for the national economy amid slower manufacturing activity, a weak housing market, and the destruction caused by Hurricane Irene. "Several districts also indicated that recent stock market volatility and increased economic uncertainty had led many contacts to downgrade or become more cautious about their near-term outlooks," the Fed report noted.

Econoday 9/7– The Beige Book prepared for the September 20-21 FOMC meeting indicates that there is no double-dip recession and that the economy continues to expand, although at a "modest pace." However, some Districts noted mixed or weakening activity.

Market Comment *Economic Highlights for the week ended September 9, 2011*

Barclays 9/7 - The weakest district appears to be Philadelphia, which reported that "activity was somewhat weaker overall." In general, the tone reflected some of the soft data since the last Beige Book, but also indicated that economic activity continues to expand.

Labor market conditions were mostly unchanged, although employment did expand in some districts. Several districts cited shortages of skilled workers (e.g., engineers, mechanics, software developers). Employment in health-care related sectors also continued to expand, as did employment in the energy sector in the Cleveland, Minneapolis, Kansas City, and Dallas Districts.

Overall, there were no real surprises in the latest Beige Book and no dramatic ammunition to push for another round of quantitative easing although some on the FOMC could continue to argue that the economy is too sluggish and needs help. Today's report likely leaves the next policy move on September 21 very much up in the air.

Consumer Credit – July: US Consumer Credit Growth Gains Momentum

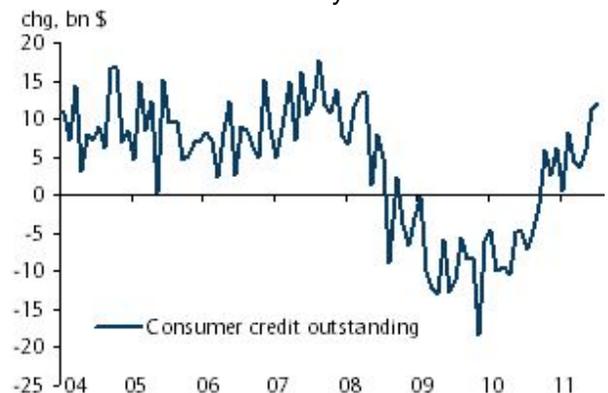
Vanguard 9/9 – Consumer credit increased by \$12 billion in July, double expectations and the largest increase in nearly four years after June's figure was revised down. The annualized growth of 6% reflected a sharp increase in non-revolving credit on big-ticket items such as car loans, which rose along with auto sales. However, revolving credit—primarily credit cards—fell \$3.4 billion, suggesting continued caution among consumers.

AFP 9/12 - Non-real estate-backed outstanding consumer debt grew by \$12.0 billion from June to \$2.455 trillion. This was an increase of 2.3% from a year earlier (its biggest 12-month comparable since October 2008). Outstanding non-revolving debt zoomed up \$15.4 billion to \$1.662 trillion (+5.2% from a year earlier). Outstanding revolving credit totaled \$792.5 billion, a decline of \$3.4 billion from June and 3.3% from a year earlier.

Econoday 9/8 – A solid gain for auto sales in July made for a very strong gain in non-revolving credit which rose \$15.4 billion. Non-revolving credit has now risen for 11 straight months. In contrast, gains in revolving credit, reflecting credit-card use, have been hard to come by with the component down \$3.4 billion in July to end a short run of strength.

Ben Bernanke expressed surprise over the lack of consumer participation in the recovery.

Barclays 9/8 - Consumers are apparently still exercising caution in terms of taking on new revolving credit.



ISM Services – August: US Non-Manufacturing ISM Suggests Continued Expansion

Vanguard 9/9 – The Institute for Supply Management's non-manufacturing index rose to 53.3 in August, as service sector expansion continued in the face of poor weather and economic deceleration. The number was more than forecast but considerably below the year's high of 59.7. Analysts say the results, based on a national survey of purchasing executives, are consistent with other data that suggests the economy is growing at a tepid pace.

Barclays 9/6 - The non-manufacturing ISM index rose to 53.3, reversing the decline seen in July. The components struck a mixed tone with small declines in business activity (to 55.6) and employment (to 51.6) but encouraging gains in new orders (to 52.8) and supplier deliveries (to 53.0). Taken alongside the small decline in the manufacturing ISM a composite of the two rose in August, to 53.0, consistent with modest activity growth and far from the alarming weakness in some early survey signals.

Job Openings - July

MarketWatch 9/7– Job openings at U.S. workplaces rose to 3.23 million in July from 3.17 million in June, the Labor Department reported. Overall job openings rose 13% from the prior year, with private openings up 15% to 2.90 million. Meanwhile, government job openings fell over the year to 328,000 from 333,000. There were about 4.4 million jobs open when the recession began in December 2007. With about 13.93 million unemployed people in July, there were about 4.3 potential job seekers for each opening. The number of separations, such as quits and layoffs, fell to 3.92 million. Meanwhile, the total number of people hired fell to 3.98 million from 4.06 million in June.

Market Comment *Economic Highlights for the week ended September 9, 2011*

Wholesale inventories - July

AFP 9/12 - Wholesale inventories totaled \$462.4 billion, up 0.8% from June and 15.1% a year earlier. Durable goods inventories expanded 1.0% from June and 12.0% from July 2010 while those of non-durable goods inventories grew 0.5% month-to-month and 19.6% from a year earlier. Sales were unchanged from June but were up 11.7% from a year earlier. The inventories-to-sales ratio grew by a basis-point from both June and a year earlier to 1.17.

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

Press Release 9/8 (excerpts) – In the week ending September 3, the advance figure for seasonally adjusted initial claims was 414,000, an increase of 2,000 from the previous week. The 4-week moving average was 414,750, an increase of 3,750.

The advance seasonally adjusted insured unemployment rate was 3.0% for the week ending August 27, unchanged from the prior week's unrevised rate of 3.0%.

The advance number for seasonally adjusted insured unemployment during the week ending August 27 was 3,717,000, a decrease of 30,000 from the preceding week. The 4-week moving average was 3,734,500, an increase of 5,500.

WEEK ENDING	Sept 3	Aug 27	Change	Aug 20	Prior Year
Initial Claims (SA)	414,000	412,000	+2,000	421,000	455,000
4-Wk Moving Average (SA)	414,750	411,000	+3,750	408,500	470,000

Econoday 9/8 - The latest gain and the prior revision are going in the wrong direction, lifting the four-week average 3,750 to 414,750 which is nearly 9,000 above the month-ago comparison. The Labor Department said Hurricane Irene did not affect the data though it does expect a small 2,000 to 5,000 upward revision for the September 3 week. Four states had to be estimated due to Labor Day.

The steady rate of jobless claims does not point to optimism among employers which, also based on payroll data, remain reluctant to expand their workforces.

AFP 9/12 - Layoff activity appears to have settled in the low 400,000 range. During the week ending August 20th, 7.17 million people were receiving some form of unemployment benefits.

Fed Chairman Bernanke: We Have A Wide Range Of Tools That Could Be Used To Provide Additional Monetary Stimulus

Barclays 9/8 - Federal Reserve Chairman Ben Bernanke, speaking before the Economic Club of Minnesota, presented remarks that were in line with his recent speech in Jackson Hole, Wyoming. The chairman stated that he sees economic growth accelerating in the coming months, "with commodity prices coming off their highs and manufacturers' problems with supply chains well along toward resolution." Beyond this, however, the chairman said that the economy continues to face significant headwinds to growth and this caused the Federal Open Market Committee (FOMC) to mark down its growth forecasts over the coming quarters. In discussing the inflation outlook, the chairman said that "inflation is expected to moderate in coming quarters" and that the committee sees "little indication that the higher rate of inflation experienced so far this year has become ingrained in the economy." While not providing any specific list of measures the committee will be considering, the chairman said the "Federal Reserve has a wide range of tools that could be used to provide additional monetary stimulus"

Although the speech was lacking in any specifics about potential policy options, we see the relatively downbeat nature of the chairman's comments on the growth outlook as confirming our view that the FOMC is inclined to take further accommodative steps at its September meeting.

Market Comment *Economic Highlights for the week ended September 9, 2011*

The Economic Week Ahead: Sept 12– Sept 16, 2010

Vanguard 9/9 – Wednesday brings reports on producer prices, retail sales, and business inventories, followed Thursday by the consumer price index and industrial production.

This Week's U.S. Economic Calendar

Source: MarketWatch

	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, SEPT. 12		None scheduled			
TUESDAY, SEPT. 13	8:30 am	Import prices	August	-0.3%	0.3%
	2 pm	Federal budget	August	--	-\$91 bln
WEDNESDAY, SEPT. 14	8:30 am	Retail sales	August	0.3%	0.5%
	8:30 am	Retail sales ex-autos	August	0.4%	0.5%
	8:30 am	Producer price index (PPI)	August	0.1%	0.2%
	8:30 am	Core PPI	August	0.2%	0.4%
	10 am	Inventories	July	0.4%	0.3%
THURSDAY, SEPT. 15	8:30 am	Jobless claims	9/10	N/A	N/A
	8:30 am	Consumer price index (CPI)	August	0.2%	0.5%
	8:30 am	Core CPI	August	0.2%	0.2%
	8:30 am	Empire state index	September	-4.3	-7.7
	8:30 am	U.S. current account balance	2Q	--	-\$119 billion
	9:15 am	Industrial production	August	0.2%	0.9%
	9:15 am	Capacity utilization	August	77.6%	77.5%
	10 am	Philly Fed	September	-15.0	-30.7
FRIDAY, SEPT. 16	9:55 am	Consumer sentiment	September	--	55.7

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes \$million	New Bonds \$millions	Issue Count	Called Bonds Par \$millions	Issue Count
5-Aug	\$ 2,265	\$ 3,322	23	\$ 3,048	24
12-Aug	2,455	4,684	31	3,814	25
19-Aug	2,870	4,664	38	4,066	35
26-Aug	2,656	2,832	24	2,179	14
9-Sep	4,185	2,195	20	1,409	11