

Market Comment *Economic Highlights for the week ended September 17, 2010*

Economic Week In Review: More Tortoise Than Hare

Vanguard 9/17 - Much of the economic news this week—especially industrial production—pointed to continued slow growth in the U.S. economy. Prices remain in check. For the week ended September 17, the S&P 500 Index rose 1.5% to 1,126 (for a year-to-date total return—including price change plus dividends—of about 2.4%). The yield of the 10-year U.S. Treasury note fell 6 basis points to 2.75% (for a year-to-date drop of 110 basis points).

Retail sales tick up

Vanguard 9/17 - Retail sales increased 0.4% in August (however, July's figure was revised slightly lower). Back-to-school promotions, temporary sales tax "holidays," and higher gasoline purchases helped drive the overall increase and offset lower sales of motor vehicles and parts. Compared with year-ago levels, August sales were 3.6% higher—a slower pace than July's 5.4% growth. The "cash for clunkers" program that ended in August 2009 boosted year-ago auto sales, making this year's comparison more challenging.

Barclays 9/16 - Core retail sales posted broad-based gain of 0.6%

Advance Monthly Sales For Retail And Food Services - August 2010

Press Release 9/14 (excerpts) -The U.S. Census Bureau announced today that advance estimates of U.S. retail and food services sales for August, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$363.7 billion, an increase of 0.4% from the previous month, and 3.6% above August 2009. Total sales for the June through August 2010 period were up 4.7% from the same period a year ago. The June to July 2010 percent change was revised from +0.4% to +0.3%.

Retail trade sales were up 0.5% from July 2010, and 3.7% above last year. Non-store retailers sales were up 10.5% from August 2009 and gasoline stations sales were up 9.6% from last year.

Inflation: Wholesale And Retail Prices In Check

Vanguard 9/17 - The Producer Price Index (PPI) increased 0.4% in August, fueled by higher gasoline prices, up 7.5%. Overall, the energy component of the finished goods price index rose 2.2%, its first monthly increase since March. Food prices fell modestly. Excluding food and energy prices, which tend to be more volatile, the "core" PPI edged up 0.1%. Compared with year-ago levels, the PPI advanced 3.1% and core PPI rose 1.3%.

At the consumer level, prices rose 0.3% in August, primarily as a result of higher food and energy costs—especially for gasoline. Excluding those components, the core Consumer Price Index was flat, after having risen in the previous three months. Compared with August 2009, core prices rose 0.9%, which is below the informal inflation target used by the Federal Reserve.

Vanguard economist Roger Aliaga-Díaz noted that "core price inflation at these levels is yet another indication of the slow recovery ahead of us. Most likely, core CPI numbers will not trend up until we start seeing meaningful improvements in jobs, consumer spending, and business capital spending."

Producer Price Indexes - August 2010

Press Release 9/16 (excerpts) - The Producer Price Index for Finished Goods increased 0.4% in August, seasonally adjusted, the U.S. Bureau of Labor Statistics reported today. This rise followed a 0.2% advance in July and a -0.5% decline in June. On an unadjusted basis, prices for finished goods increased 3.1% for the 12 months ended August 2010, their tenth straight year-over-year rise.

Barclays 9/17 - All in all, today's report is consistent with a picture of gradually building core pipeline price pressures across most consumer-related sectors. This supports our view that core **consumer price inflation is close to a trough and will begin to edge higher during the second half of the year.**

Consumer Price Index - August 2010

Press Release 9/17 (excerpts) - The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in August on a seasonally adjusted basis, the U.S. Bureau of Labor Statistics reported today. (Before seasonal adjustment, the all items index increased 0.1% for the month.) Over the last 12 months, the all items index increased 1.1% before seasonal adjustment.

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The energy index rose in August and, as in July, was the primary factor in the seasonally adjusted all items increase. All major energy components posted increases, with the gasoline index being the main factor. The food index, which declined in July, rose in August. The food at home index was unchanged while the index for food away from home increased.

Over the last 12 months, the index for all items less food and energy ("core" CPI) rose 0.9%, though the shelter component posted a 0.7% decline. The food index increased at a similar rate, rising 1.0%, with grocery store food prices up 0.8%. The energy index posted a somewhat larger increase, rising 3.8% with gasoline up 4.4%.

Energy - The energy index rose 2.3% in August following a 2.6% increase in July. The gasoline index rose for the second month in a row after five straight declines, increasing 3.9% in August after a 4.6% increase in July.

Barclays 9/17 - All in all, the August report does not change our view that the period of disinflation in core consumer prices has largely run its course. We doubt that the declines in rents, lodging away from home and apparel, which tipped the balance toward a flat core reading rather than a 0.1% reading, will persist. In our judgment, the probability of deflation in the core CPI remains small.

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Aug. 2009 - Aug. 2010

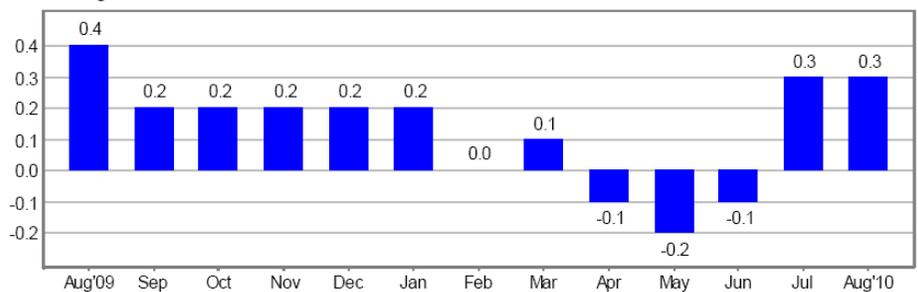
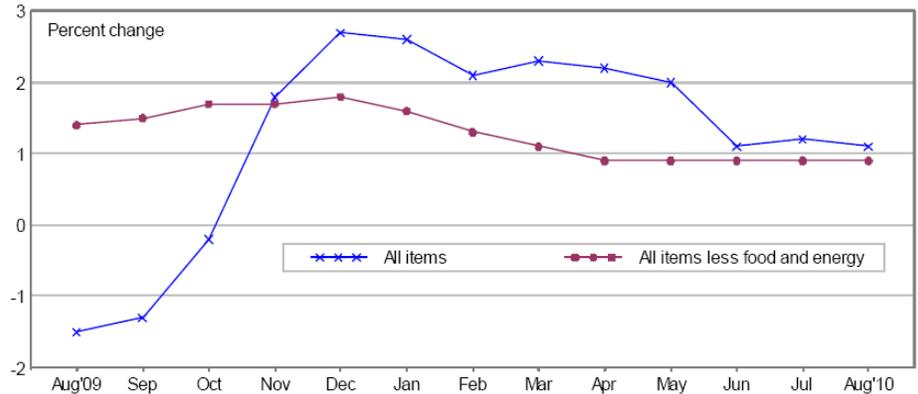


Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Aug. 2009 - Aug. 2010



Businesses Rebuilding Inventories

Vanguard 9/17 - Total U.S. business inventories rose a better-than-expected 1.0% in July. Wholesale inventories notched the highest growth rate, 1.3%, followed by manufacturing inventories at 1.0% and retail inventories at 0.7%. Auto and parts inventories lifted the retail segment, which otherwise would have been essentially flat. Year-over-year growth in total inventories was 2.4%. Still, with high unemployment limiting consumer demand, some analysts are cautious about the potential for inventory build to drive economic growth later this year. On the sales front, total sales increased 0.7% in July from June, with retail sales growth lagging manufacturers and wholesalers.

Industrial Production And Capacity Utilization: Slower Growth

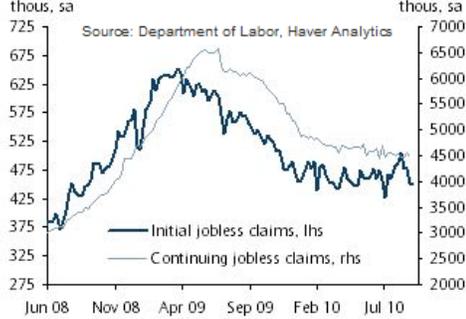
Vanguard 9/17 - U.S. industrial production overall grew 0.2% in August compared with 0.6% growth in July (revised from the Federal Reserve's 1.0% initial estimate). Three major industry groups make up the total: Manufacturing output grew 0.2% and mining rose 1.2%, but utility output fell 1.5%. Much of the slowing growth in manufacturing resulted from lower production of motor vehicles and parts, which fell 5.0% in August after a robust 9.5% gain in July. (July's advance resulted in part from fewer-than-normal summer plant shutdowns.)

Press Release 9/15 (excerpts) - Industrial production rose 0.2% in August after a downwardly revised increase of 0.6% in July. The downward revision in July primarily resulted from newly available data on the output of four industries within manufacturing: iron and steel, construction machinery, paper, and pharmaceuticals.

At 93.2% of its 2007 average, total industrial production in August was 6.2% above its year-earlier level. The capacity utilization rate for total industry rose to 74.7%, a rate 4.7 percentage points above the rate from a year earlier and 5.9 percentage points below its average from 1972 to 2009.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Sept. 11

US jobless claims fully reverse August uptick



Press Release 4/29 (excerpts) – In the week ending Sept. 11, the advance figure for seasonally adjusted initial claims was 450,000, a decrease of 3,000 from the previous week's revised figure of 453,000. The 4-week moving average was 464,750, a decrease of 13,500 from the previous week's revised average of 478,250.

The advance seasonally adjusted insured unemployment rate was 3.5% for the week ending Sept. 4, a decrease of 0.1 percentage point from the prior week's revised rate of 3.6%.

The advance number for seasonally adjusted insured unemployment during the week ending Sept. 4 was 4,485,000, a decrease of 84,000 from the preceding week's revised level of 4,569,000. The 4-week moving average was 4,503,000, a decrease of 7,500 from the preceding week's revised average of 4,510,500.

WEEK ENDING	Sept. 11	Sept. 4	Change	Aug. 28	Prior Year
Initial Claims (SA)	450,000	453,000	-3,000	478,000	547,000
4-Wk Moving Average (SA)	464,750	478,250	-13,500	487,000	559,500

The Reuter's/University of Michigan's Consumer Sentiment Index - mid-September reading

Econoday 9/17 - Consumer sentiment is going unexpectedly into reverse. The mid-September reading fell more than two points to 66.6 to erase August's recovery. The reading is the lowest since the 66.5 reading in July, a month when sentiment suddenly nose dived. Consumer assessment of the current situation is nearly unchanged; it's the assessment of future conditions that has buckled. The expectations index, which is considered a leading indicator for the composite index, fell nearly four points to 59.1 -- its lowest reading of the recovery and a reading that harkens back to the worst of the trouble in October and November 2008.

Inflation expectations are another major surprise, unfortunately a surprise consistent with the assessment of future conditions. One-year inflation expectations fell a very steep five tenths to 2.2% for one of the lowest readings on the books. This will bring the deflation bugs back out of the woodwork.

Economic data have been turning positive and the stock market has firmed through the first half of September, but the improvements aren't enough to boost confidence among consumers. Today's results will raise new questions over the state of the labor market and over the outlook for holiday spending.

The Economic Week Ahead: September 20 -24

Vanguard 9/17 - Economic releases include new residential construction and the Federal Open Market Committee's decision on interest rates on Tuesday, existing-home sales and The Conference Board's leading economic indicators on Thursday, and new-home sales and durable-goods orders on Friday.

This Week's U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior
Sep 20	10:00	N.A. Home Builder's Market Index	Sept.	13	13	14	13
Sep 21	08:30	Housing Starts	August		540K	550K	546K
Sep 21	08:30	Building Permits	August		550K	560K	559K
Sep 21	14:15	FOMC Rate Decision	9/21		0.25%	0.25%	0.25%
Sep 23	08:30	Initial Claims	09/18		440K	450K	450K
Sep 23	08:30	Continuing Claims	09/11		4450K	4450K	4485K
Sep 23	10:00	Existing Home Sales	August		3.80M	4.10M	3.83M
Sep 23	10:00	Leading Indicators	August		0.1%	0.1%	0.1%
Sep 24	08:30	Durable Goods Orders	August		-2.0%	-1.4%	0.4%
Sep 24	10:00	New Home Sales	August		270K	291K	276K

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