Economic Week In Review: Stubborn Recovery Follows Recession's End

Vanguard 9/24 - Good economic news arrived this week, but the nation remained on guard. Although it was announced on Monday that the Great Recession had officially ended more than a year ago, economic growth has been so sluggish that unemployment levels retained a recessionary feel. The Federal Reserve said it would maintain its current monetary policies as the economy continued to struggle. Problems still plagued the housing market, but existing-home sales and new construction both rose in August and new-home sales stayed about the same. The Conference Board's index of leading indicators was up, and the durable-goods report also brought welcome data. For the week, the S&P 500 Index rose 2.1% to 1,148 (for a year-to-date total return of about 4.5%). The yield of the 10-year U.S. Treasury note fell 13 bps to 2.62% (for a year-to-date decrease of 123 bps).

AFP 9/27 - Over a two day period last week, we learned that the so-called "Great Recession" ended 15 months ago but that the Federal Open Market Committee was prepared and ready to take additional aggressive steps to prop up the fragile recovery.

Recession's Been Over For 15 Months

Vanguard 9/24 -The historic 18-month recession of 2007–2009 officially ended in June 2009, the National Bureau of Economic Research's Business Cycle Dating Committee announced on Monday. Although the deep and long recession ground to a halt more than a year ago, the economy's recovery has been very slow. High unemployment remains a threat, but recent strong corporate earnings and encouraging manufacturing and housing data offer reasons for optimism.

FOMC Rate Decision: September 21 Meeting, Fed Maintains Policy

Vanguard 9/24 -The Federal Open Market Committee (FOMC) voted to keep the federal funds rate between 0% and 0.25% "for an extended period." While the Fed has kept the rate at that record-low level since December 2008, its recent statement indicated that it would welcome a more robust increase in general consumer prices. With inflation and economic growth so low and unemployment high, the Fed said it was necessary to maintain its current policy in order for the economy to expand. However, one committee member dissented from this aggressive stance. The Fed also said it would "maintain its existing policy of reinvesting principal payments from its securities holdings."

As Vanguard economist Roger Aliaga-Díaz noted, "The Fed is hinting it remains well open to considering a second quantitative easing via purchases of Treasuries, mainly as a way to fight deflationary trends."

Bloomberg 9/22 - Mohamed A. El-Erian, chief executive officer of Pacific Investment Management Co., said the Fed ``took a step towards acknowledging a more challenging economic outlook, but stopped short of a full recognition and implementing additional policy actions.''

Press Release 9/21 - Information received since the Federal Open Market Committee met in August indicates that the pace of recovery in output and employment has slowed in recent months. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. Housing starts are at a depressed level. Bank lending has continued to contract, but at a reduced rate in recent months. The Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be modest in the near term.

Measures of underlying inflation are currently at levels somewhat below those the Committee judges most consistent, over the longer run, with its mandate to promote maximum employment and price stability. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to remain subdued for some time before rising to levels the Committee considers consistent with its mandate.

The Committee will maintain the target range for the federal funds rate at 0 to 1/4% and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period. The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings.

The Committee will continue to monitor the economic outlook and financial developments and is prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate.

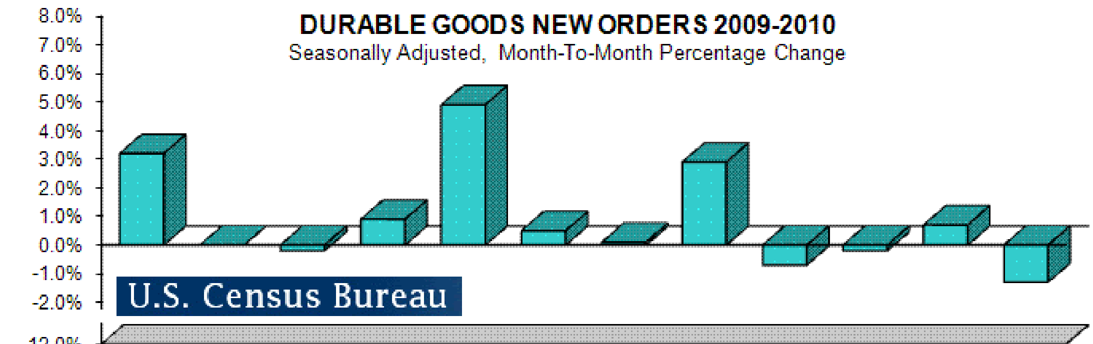
Voting against the policy was Thomas M. Hoenig, who judged that the economy continues to recover at a moderate pace. Accordingly, he believed that continuing to express the expectation of exceptionally low levels of the federal funds rate for an extended period was no longer warranted and will lead to future imbalances that undermine stable long-run growth. In addition, given economic and financial conditions, Mr. Hoenig did not believe that continuing to reinvest principal payments from its securities holdings was required to support the Committee's policy objectives.

Partial Good News For Durable Goods

Vanguard 9/24 -Orders for durable goods declined 1.3% in August, the largest drop in a year. Beyond the report's surface, however, the news was much better. Excluding transportation, new orders climbed 2.0%. Core capital goods orders, which exclude defense and aircraft, rose 4.1%, and July's decline was adjusted to 5.3% from 8.0%. Compared to a year ago, capital goods were up 18%. Although shipments fell 1.5%, core capital shipments increased 1.6%. The report indicated that U.S. manufacturing is stirring.

Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders - August 2010

Press Release 9/24 (excerpts) - New Orders: New orders for manufactured durable goods in August decreased $2.5 billion or 1.3% to $191.2 billion. Down three of the last four months, this decrease followed a 0.7% July increase.



	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
% Change	3.2%	0.0%	-0.2%	0.9%	4.9%	0.5%	0.1%	2.9%	-0.7%	-0.2%	0.7%	-1.3%

Index of Leading Indicators Moves Ahead

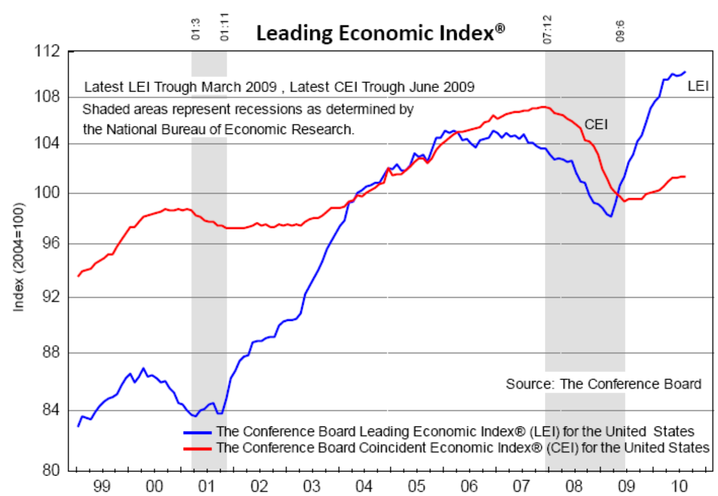
Vanguard 9/24 -The Conference Board's index of leading indicators rose 0.3% in August, slightly more than expected and an indication the economy would continue slowly growing into 2011. Still, the Conference Board said the U.S. "could slide back into recession."

Leading Economic Indicators: (LEI) for the U.S. Increases

Press Release, 9/23 (excerpts) - The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3% in August to 110.2 (2004 = 100), following a 0.1% increase in July, and a 0.2% decline in June.

Says Ken Goldstein, economist at The Conference Board: "While the recession officially ended in June 2009, the recent pace of growth has been disappointingly slow, fueling concern that the economic recovery could fade and ***the U.S. could slide back into recession***. However, latest data from the U.S. LEI suggest little change in economic conditions over the next few months. Expect more of the same – a weak economy with little forward momentum through 2010 and early 2011."

The Conference Board Coincident Economic Index® (CEI) for the U.S. was unchanged in August, remaining at 101.3 (2004 = 100). Current economic conditions, as measured by CEI, have been essentially flat since May, after reaching a bottom in June 2009.



Taken together, the composite indexes are consistent with a slowly expanding economy in the near term."

Home Builder's Index - September

Econoday 9/20 - The home builders' index remains severely depressed, unchanged at 13 in September. Yet there are signs of deterioration as the buyer traffic index fell one point to nine, a reflection of limited home buyer strength tied to the weak jobs market. The report noted that the large number of foreclosed properties continues to depress builder confidence.

Barclays 9/2 - The headline index has remained at 13-14 for three consecutive months, reflecting both weak underlying housing conditions and the effect of the expiration of the homebuyer tax credit.

Definition -The National Association of Home Builders produces a housing market index based on a survey in which respondents from this organization are asked to rate the general economy and housing market conditions. The housing market index is a weighted average of separate diffusion indexes: present sales of new homes, sale of new homes expected in the next six months, and traffic of prospective buyers in new homes.

US House Prices Continue To Fall After Expiration Of Tax Credit

Barclays 9/22 - The FHFA purchase-only house price index fell 0.5% in July, a steeper drop than we (-0.1%) or the consensus (-0.2%) had expected. The June decrease was revised lower to -1.2% from -0.3%, bringing the July y/y rate to -3.2%. These recent declines in home prices erase the gains from March through May, when activity was spurred by the first-time home-buyer tax credit.

This report indicates a bigger reversion of house prices following the expiration of the tax credit than we had expected, as the seasonally adjusted index has now fallen to the lowest level since September 2004. The upside surprise on August housing starts yesterday supports the view that housing activity is bottoming.

Figure 1: Home prices have erased their gains and are back to 2004 levels

Source: FHFA, Haver Analytics, Barclays Capital

Housing Starts: Housing starts make gains – August 2010

Vanguard 9/24 - New residential construction rose for the second straight month in August, above economists' expectations. Although the number of new units increased 11% from July to an annualized 598,000, the market remained weak. Starts of multifamily units advanced 32.2%, but new construction of single-family homes, which represent a much larger part of the market, climbed just 4.3%. Single-family home starts rose for the first time in four months, but the pace was still 9.1% lower than last year's. Large gains in the West and Midwest and a smaller gain in the South offset a major decline in the Northeast. Permits for new construction rose 1.8% and housing completions gained 5.6%, although both were down compared with a year ago.

Barclays 9/21 – This report paints a picture of stabilization in the housing market, following the sharp drop-off in activity after the expiration of government stimulus. **Housing starts increased 10.5% in August**, to 598,000, up from a revised 541,000 in the previous month (prior: 546,000). The level of starts was above our (545,000) and consensus (550,000) estimates. The increase in starts was driven by both single family and multi-family starts. On balance, the two reports indicate stabilization in housing market activity and do not suggest of a further leg down in housing activity, as some had feared.

Existing-Home Sales Rise; New-Home Sales Steady

Vanguard 9/24 -Sales of existing homes increased 7.6% in August to an annual rate of 4.13 million, in line with expectations. Although the results were welcome after July's 27.2% plunge related to the expiration of the federal tax credit for homebuyers, they remained very low by historical levels. **New-home sales were unchanged** in August at an annualized rate of 288,000, slightly worse than expected. At that rate, there was an 8.6-month supply of new homes on the market.

Existing-Home Sales Move Up in August

Press Release 9/23 (excerpts) - Existing-home sales rose in August following a big correction in July, according to the National Association of Realtors.

Existing-home sales, which are completed transactions that include single-family, townhomes, condominiums and co-ops, increased 7.6% to a seasonally adjusted annual rate of 4.13 million in August from an upwardly revised 3.84 million in July, but remain 19.0% below the 5.10 million-unit pace in August 2009.

Lawrence Yun, NAR chief economist: "The housing market is trying to recover on its own power without the home buyer tax credit. Despite very attractive affordability conditions, a housing market recovery will likely be slow and gradual because of lingering economic uncertainty."

According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage fell to a record low 4.43% in August from 4.56% in July; the rate was 5.19% in August 2009.

The national median existing-home price for all housing types was $178,600 in August, up 0.8% from a year ago. Distressed homes rose to 34% of sales in August from 32% in July; they were 31% in August 2009.

Total housing inventory at the end of August slipped 0.6% to 3.98 million existing homes available for sale, which represents an 11.6-month supply at the current sales pace, down from a 12.5-month supply in July.

Single-family home sales rose 7.4% to a seasonally adjusted annual rate of 3.62 million in August from a level of 3.37 million in July, but are 19.2% lower than the 4.48 million level in August 2009. The median existing single-family home price was $179,300 in August, up 1.2% from a year ago.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Sept. 18

Press Release 9/23 (excerpts) – In the week ending Sept. 18, the advance figure for seasonally adjusted initial claims was 465,000, an increase of 12,000 from the previous week's revised figure of 453,000. The 4-week moving average was 463,250, a decrease of 3,250 from the previous week's revised average of 466,500.

The advance seasonally adjusted insured unemployment rate was 3.5% for the week ending Sept. 11, 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. 11 was 4,489,000, a decrease of 48,000 from the preceding week's revised level of 4,537,000. The 4-week moving average was 4,519,500, an increase of 2,500 from the preceding week's revised average of 4,517,000.

WEEK ENDING	Sept. 18	Sept. 11	Change	Sept. 4	Prior Year
Initial Claims (Seasonally Adj)	465,000	453,000	+12,000	457,000	538,000
4-Wk Moving Average (SA)	463,250	466,500	-3,250	479,250	552,250

The Economic Week Ahead: September 27 – October 1

Vanguard 9/24 -Next Friday is shaping up as an especially busy day on the economic calendar, with reports due on personal income, construction spending, and manufacturing. Releases are also scheduled for consumer confidence on Tuesday and gross domestic product (GDP) on Thursday.

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

Date	ET	Release	For	Briefing.com	Consensus	Prior
Sep 28	09:00	Case-Shiller 20-city Index	July	3.1%	3.3%	4.23%
Sep 28	10:00	Consumer Confidence	September	54.0	53.0	53.5
Sep 30	08:30	GDP - Third Estimate	Q2	1.6%	1.6%	1.6%
Sep 30	08:30	Initial Claims for Unemployment	09/25	450K	457K	465K
Sep 30	09:45	Chicago PMI	September	55.0	56.0	56.7
Oct 01	08:30	Personal Income, Spending	August	0.3%	0.3%	na
Oct 01	08:30	PCE Prices - Core	August	0.1%	0.1%	0.1%
Oct 01	09:55	U of Mich Consumer Sentiment	September	67.0	67.0	66.6
Oct 01	10:00	Construction Spending	August	-0.7%	-0.5%	-1.0%
Oct 01	10:00	ISM Index	September	55.0	54.8	56.3
Oct 01	14:00	Auto and Truck Sales	September	NA	na	na