

Market Comment *Economic Highlights for the week ended September 30, 2011*

Economic Week In Review: Somewhat Better News On Growth

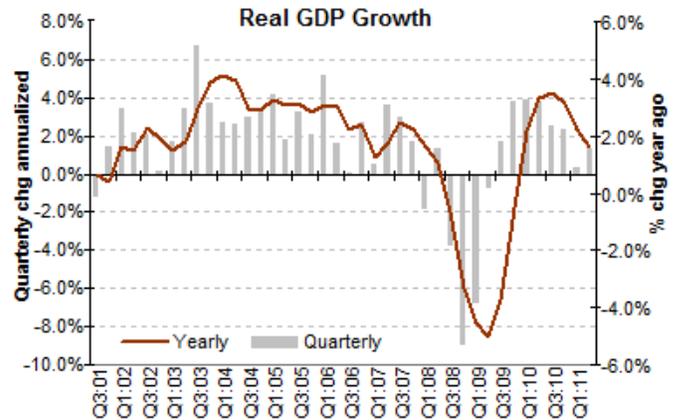
Vanguard 9/30 – The U.S. economy grew slightly more than expected in the second quarter, tempering some fears of another recession. But the economy remains weak. The housing market continues to struggle, and although initial jobless claims fell significantly last week, the number of unemployed remains high. For the week ended September 30, the S&P 500 Index fell 0.4% to 1,131 (for a year-to-date total return of about –8.7%). The yield on the 10-year U.S. Treasury note rose 8 basis points to 1.92% (for a year-to-date decrease of 138 basis points).

U.S. GDP – Second Quarter Revision: Mixed News - Up Slightly

Vanguard 9/30 – The U.S. economy grew at an annual rate of 1.3% in the second quarter, an upward revision from the previous gross domestic product (GDP) estimate of 1.0%. The number was slightly better than expected, though far below the rate of growth necessary to reduce the unemployment rolls. GDP growth was revised upward mainly because of a slight increase in consumer spending and exports. Consumer spending rose across most sectors with the exception of autos. Business spending also was stronger, as more companies invested in new buildings, equipment, and software. Exports rose, but the impact on growth was limited by a rise in imports. (Get a closer look at GDP and its components.)

Barclays 9/29 - The upward revision largely reflected stronger structures investment and a larger boost from net trade. Elsewhere there was an upward revision to consumer spending, to 0.7%. Particularly encouraging was that this largely reflected services spending, now estimated to have risen 1.9%, the strongest since Q2 10.

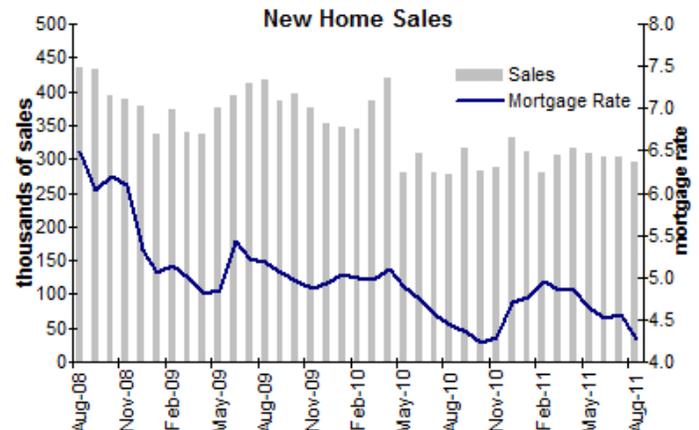
Hence, the weakness in Q2 consumption is now estimated to be almost wholly centered on durable goods (down 5.3%), reflecting the slump in auto sales, which should partly reverse in Q3. However, revisions to the household income accounts were less encouraging for consumers, with a downward revision to real disposable income growth to 0.6% from 1.0%. Contributions to GDP growth from residential investment, government consumption and inventories were broadly unchanged.



New Home Sales - July: US New Home Sales Edge Lower, As Expected

AFP 10/3 - New home sales fell to their slowest pace since February but were 6.1% above year ago levels. Sales declined in 3 of 4 Census regions (-13.6% in the Northeast, -6.3% in the West and -2.4% in the South), but grew 8.2% in the Midwest. There were 162,000 new homes for sale at the end of August, down 21.4% from a year earlier. This translated into a 6.6 month supply. The median sales price of \$209,100 was off 7.7% from a year earlier.

Econoday 9/26 – In an especially bad sign for home builders, prices appear to have buckled in August, down 8.7% for both the median (\$209,100) and the average (\$246,000). On a year-on-year basis, the median price is down 7.7% and the average down 8.5%. Supply on the market is at a record low 162,000 units. But supply relative to sales remains heavy, at 6.6 months. New homes, especially weighed down by competition from foreclosures, are perhaps the hardest hit of any of the economy's sectors.



Consumer Confidence Index – September: Consumer Confidence Remains Shaken

Vanguard 9/30 – The Conference Board's index of consumer confidence rose to 45.4 in September, up only 0.2 points from August's exceptionally low reading of 45.2 (revised up from the 44.5 reading originally reported for

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the month). The expectations component of the index (which measures consumer sentiments about the economic situation in the next six months) jumped 1.6 points in September, but still remains weak. The present situation component of the index dropped 1.8 points for the month.

"The pessimism that shrouded consumers last month has spilled over into September. Consumer expectations, which had plummeted in August, posted a marginal gain," said Lynn Franco, director of The Conference Board Consumer Research Center. "However, consumers expressed greater concern about their expected earnings, a sign that does not bode well for spending. In addition, consumers' assessment of current conditions declined for the fifth consecutive month, a sign that the economic environment remains weak."

Barclays 9/27 - Overall, today's survey suggests that confidence remained depressed in September, with recent (stock) market moves, weak employment reports, and negative headlines on the economic outlook likely high on the minds of consumers.

Durable Goods Orders - August: Encouraging Strength In Orders And Shipments

Vanguard 9/30 – Durable-goods orders fell less than expected in August. Orders were down 0.1% for the month, giving back only a very small portion of July's 4.1% gain. New orders for core capital goods—widely considered a key gauge of capital spending—jumped 1.1% for the month, while shipments of these goods rose 2.8%.

New aircraft, both defensive and non-defensive, were in strong demand for the second month in a row. Auto orders dropped 8.5% for the month, after a spike in July.

Econoday 9/28 – Overall, today's report indicates that despite sluggishness elsewhere in the economy, manufacturing remains on a moderate uptrend, taking into account the volatility of durables orders. While businesses may not be hiring people, it clearly looks like they are "hiring" equipment with the rise in nondefense capital goods excluding aircraft.

Barclays 9/28 - The upside surprise partly reflected another strong gain in non-defense aircraft, which rose 23.5%..

Personal Income and Outlays - August

AFP 10/1 - This was the first fall in personal income since November 2009. Wages declined for the first time since last November (-0.2%), but spending grew 0.2%. Spending on non-durable goods (+0.3%) and services (+0.2%) both increased, while that on durable goods slowed 0.1%. Over the previous 12 months, the increase in spending (+4.7%) outpaced that of income (+4.5%). The savings rate in August was 4.5%, it's lowest since August 2009.

Econoday 9/30 – On the inflation front, the headline PCE price index eased to a 0.2% rise from 0.4% in July. Analysts expected a 0.3% gain. The core rate softened to a 0.1% uptick, following a 0.2% increase in July.

Year-on-year, headline prices are up 2.9%, compared to 2.8% in July. The core is up 1.6% on a year-ago basis.

Overall, personal income growth has decelerated with employment growth. Similarly, personal spending has decelerated outside of catch up in auto sales from supply disruptions. The pent up demand factor appears to be losing steam as employment has not made typical cyclical gains and overall economic growth will need another source of strength-possibly exports.

Case-Shiller home prices -July: Index indicates modest increase in US home prices in July

Econoday 9/27 – Home price trends are holding steady based on S&P Case-Shiller data that show a third straight unchanged reading. Half of the 20 cities tracked show declines with eight gaining and two unchanged. Weakness is concentrated in the West including a third straight decline for Phoenix, San Diego and LA and a sixth straight decline for Las Vegas. Gainers are led by Detroit, Chicago and Washington DC.

Case-Shiller data, which are three-month moving averages based on repeat transactions, offer strongly reliable indications on home prices though they do lag other home-price information including those in the existing and new home sales reports.

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Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Sept 24

Press Release 9/29 (excerpts) - In the week ending September 24, the advance figure for seasonally adjusted initial claims was 391,000, a decrease of 37,000 from the previous week. The 4-week moving average was 417,000, a decrease of 5,250.

The advance seasonally adjusted insured unemployment rate was 3.0% for the week ending September 17, unchanged from the prior week.

The advance number for seasonally adjusted insured unemployment during the week ending September 17 was 3,729,000, a decrease of 20,000 from the preceding week. The 4-week moving average was 3,743,000, a decrease of 4,500.

WEEK ENDING	Sept 24	Sept 17	Change	Sept 10	Prior Year
Initial Claims (SA)	391,000	428,000	-37,000	432,000	450,000
4-Wk Moving Average (SA)	417,000	422,250	-5,250	420,500	454,500

Barclays 9/29 - According to news reports, the (Labor Dept.) analyst said that the recent hurricane (Irene) may have delayed reporting from some state offices and the seasonal adjustment process may be "less synched" than normal, given the 53 survey weeks this year instead of 52, and the offset of the Easter holiday. That said, these are factors that are always part of the normal seasonal adjustment process, and there is nothing in this statement to suggest that this week's decline is distorted.

AFP 10/3 - The data series has a tendency to be quite volatile, so one should not read too much into a big one-week shift in the Department of Labor report unless it holds up during coming weeks. Still, the four-week moving average managed to decline by 5,250 filings to 417,000. During the same week a year earlier, the moving average was at 454,500.

Pending Home Sales – August: US Pending Home Sales Fall In August

Econoday 9/29 – Fewer buyers signed contracts to purchase existing homes in August as the pending home sales index fell 1.2% to 88.6. The proportion of contracts successfully moving to closings has fallen in recent months due to credit and appraisal problems so today's decline, which is the second straight decline, points strongly to trouble for final sales in the months ahead. August's data show declines in contracts signings in three of four regions with the largest region, the South, showing a small increase. The National Association of Realtors, which compiles the reports, notes that the month's sizable 5.8% decline in the Northeast is tied to Hurricane Irene.

Barclays 9.29 - Existing home sales, which tend to lag pending home sales by one to two months, have also been experiencing a higher-than-normal cancellation rate, according to National Association of Realtors (NAR) reports, perhaps reflecting heightened uncertainty on the part of purchasers and tighter credit standards in mortgage finance.

Univ. of Michigan Consumer Sentiment Index - September

Econoday 9/30 – Consumer pessimism eased in September especially in the last half of the month according to the consumer sentiment index which finished the month at 59.4 vs 55.7 at month-end August. The 1.6 point gain in the month-end to mid-month September comparison implies a 61.0 reading for the last two weeks of the month. Though higher than the shock-infested month of August, this reading is the weakest since the recession period of early 2009.

In contrast to the consumer confidence report that was released Tuesday, today's report shows improvement, not deterioration, in the assessment of current conditions. Both surveys also show an easing in inflation expectations with one-year expectations in this report at 3.3% vs 3.7% at mid-month and 3.5% at month-end August. Five-year inflation expectations are 2.9%, down one tenth from mid-month and unchanged from month-end August.

August proved to be an unusually difficult month for the consumer and subsequent improvement, though welcome, isn't a surprise. The consumer is still facing an uphill battle.

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AFP 10/3 – Like the Conference Board, the University of Michigan’s press release attempts to dissuade the reader from reading too much positive in September’s results. Take this quote as an example: “Most of the gain was due to consumers shifting from anticipating an even worse economy to expecting the economy to stagnate at its current depressed level.” Nearly nine out of ten respondents to the survey expects the unemployment rate would not decrease over the next year.

The Economic Week Ahead: Oct 3– Oct 7, 2010

Vanguard 9/30- Next week will be a busy one for those following economic reports. The week’s big news will come on Friday, when the Labor Department releases its September report on employment. Other news will include the latest on construction spending and the ISM manufacturing index (Monday), factory orders (Tuesday), the ISM nonmanufacturing index (Wednesday), and consumer spending (Friday).

This Week’s U.S. Economic Calendar

Source: MarketWatch

RELEASE DATE	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, OCT. 3	10 am	ISM Manufacturing Index	Sept.	50.5%	50.6%
	10 am	Construction Spending	August	-0.3%	-1.3%
TUESDAY, OCT. 4	10 am	Factory Orders	August	-0.3%	2.4%
WEDNESDAY, OCT. 5	8:15 am	ADP Employment	Sept.	--	91,000
	10 am	ISM Non-Manufacturing	Sept.	52.6%	53.3%
THURSDAY, OCT. 6	8:30 am	Initial Jobless Claims	10/1	408,000	391,000
FRIDAY, OCT. 7	8:30 am	Nonfarm Payrolls	Sept.	66,000	0
	8:30 am	Unemployment Rate	Sept.	9.1%	9.1%
	8:30 am	Average Hourly Earnings	Sept.	0.2%	-0.1%
	10 am	Wholesale Inventories	August	--	0.8%
	3 pm	Consumer Credit	August	--	\$12 billion

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes \$million	New Bonds \$millions	Issue Count	Called Bonds Par \$millions	Issue Count
26-Aug	\$ 2,656	\$ 2,832	24	\$ 2,179	14
9-Sep	4,185	2,195	20	1,409	11
16-Sep	5,050	2,838	22	1,128	11
23-Sep	3,390	2,018	23	1,503	14
30-Sep	1,136	1,943	25	1,470	11