

Market Comment *Economic Highlights for the week ended October 1, 2010*

Economic Week In Review: Lukewarm Economy Chugs Along

Vanguard 10/1 - The economy expanded in the second quarter but remains weak. Manufacturing continues to grow but also at a slow pace. Consumer confidence fell, even as incomes rose and spending increased modestly. For the week ended October 1, the S&P 500 Index fell 0.2% to 1,146 (for a year-to-date total return of about 4.3%). The yield of the 10-year U.S. Treasury note fell 10 basis points to 2.52% (for a year-to-date decrease of 133 basis points).

The Conference Board Consumer Confidence Index® Retreats - September

Vanguard 10/1 - Consumer confidence fell to 48.5 in September, below analysts' expectations, to its lowest level since February. Consumers were less optimistic about business conditions, the labor market, and an increase in their income over the next six months. Still, there was one bright spot: Consumers didn't expect their incomes to decline. While fewer people were interested in buying a house, more said they would purchase appliances. The number of consumers shopping for autos remained unchanged from a month earlier.

Barclays 9/28 - Overall, this was a disappointing report; further gains in employment and more certainty about the fiscal policy outlook will probably be required before household confidence improves significantly.

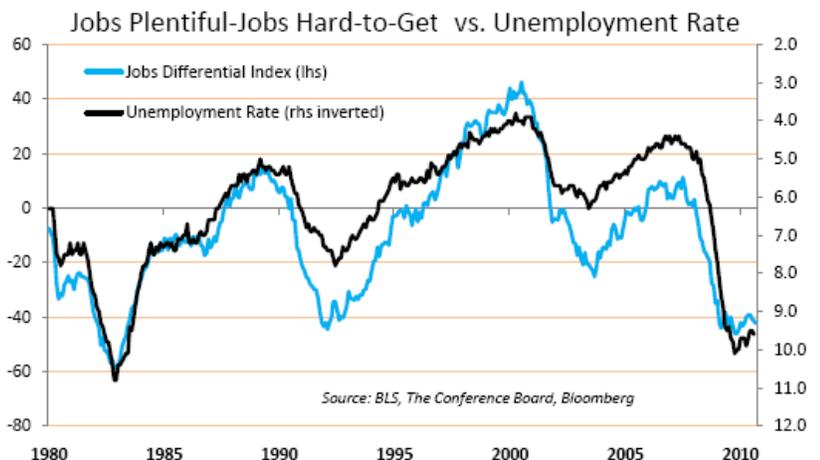
Press Release 9/28 - The Conference Board Consumer Confidence Index®, which had improved in August, retreated in September. The Index now stands at 48.5 (1985=100), down from 53.2 in August. The Present Situation Index decreased to 23.1 from 24.9. The Expectations Index declined to 65.4 from 72.0 last month.

The monthly Consumer Confidence Survey® is based on a representative sample of 5,000 U.S. households.

Says Lynn Franco of The Conference Board: "September's pull-back in confidence was due to less favorable business and labor market conditions, coupled with a more pessimistic short-term outlook. Overall, consumers' confidence in the state of the economy remains quite grim. And, with so few expecting conditions to improve in the near term, the pace of economic growth is not likely to pick up in the coming months."

Richard Yamarone, Bloomberg Economist 9/29 - The most important barometer in the Conference Board's Consumer Confidence Index is the difference between the Jobs-Hard-to-Get and Jobs-Plentiful Indices. The Jobs Differential Index, as this component is known, fell to -42.3 in September from -41.5 in August. As the chart shows, this indicates another increase in the unemployment rate lies ahead.

The headline Consumer Confidence Index fell almost five points to a reading of 48.5 from 53.2 -- the lowest level since February. Similarly, the Expectations Index plunged more than six points to 65.4 in September. These levels are well below those registered at the onset of the recession in December 2007. There will be no meaningful recovery as long as consumer attitudes are this poor.



2Q GDP Revised Upwards

Vanguard 10/1 - U.S. gross domestic product in the second quarter grew at an annual rate of 1.7%, slightly more than earlier reported. The increase primarily resulted from moderately higher levels of inventory and consumer spending. Businesses trying to meet increased demand boosted production and inventory levels. Consumers added 1.5 percentage points to the quarter's annualized growth by spending money in all the major sectors. However, much of the gains made in the quarter were offset by an increase in imports.

Econoday 9/30 - GDP for the second quarter was revised up incrementally – but the added growth was not where you really wanted it. Second quarter GDP growth was revised up to 1.7% annualized from 1.6% in the second revision. The third estimate for the second quarter came in just above the market forecast for 1.6%.

The upward revision was primarily due to a moderately higher estimate for inventories.

Market Comment *Economic Highlights for the week ended October 1, 2010*

GDP Revision: Gross Domestic Product, 2nd quarter 2010 (third estimate)

Press Release 9/30 (excerpts) - Real gross domestic product -- the output of goods and services produced by labor and property located in the U.S. -- increased at an annual rate of 1.7% in the second quarter of 2010, (that is, from the first quarter to the second quarter), according to the "third" estimate released by the BEA. In the first quarter, real GDP increased 3.7%.

The GDP estimate released today is based on more complete source data than were available for the "second" estimate issued last month. In the second estimate, the increase in real GDP was 1.6%.

The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 0.1% in the second quarter, the same increase as in the second estimate; this index increased 2.1% in the first quarter. Excluding food and energy prices, the price index for gross domestic purchases increased 0.8% in the second quarter, compared with an increase of 1.6% in the first.

Real personal consumption expenditures increased 2.2% in the second quarter, compared with an increase of 1.9% in the first.

Solid US Household Income And Spending In August

Vanguard 10/1 - Personal income rose 0.5% in August, the fastest pace since December, thanks partly to restarted extended unemployment benefits that boosted incomes by nearly \$21 billion. Personal spending in August increased 0.4%, the same as a month earlier. With more people earning higher incomes, but not spending much more, the savings rate inched up to 5.8% in August, from 5.7% in July.

Barclays 10/1 (excerpts) - The August personal income and outlays report revealed 0.5% growth in personal income and 0.4% growth in consumer spending. This represents a continuation of solid consumer spending in Q3. In the detail, the headline was boosted by a 0.5% increase in real goods consumption. Real services consumption was flat.

On the income side, the 0.5% increase in the aggregate measure was the strongest since December 2009. The upside surprise, relative to our forecast, reflected a sharp 1.6% jump in transfer receipts. The saving rate rose one tenth to 5.8%. Finally, on the inflation side, the PCE deflator rose 0.2% m/m and 1.5% y/y. The core PCE rose 0.1% (0.117% unrounded) and was unchanged at 1.4% y/y. Both were in line with expectations.

All in all, August's report leaves real consumer spending on track for close to 2% growth in Q3.

ISM Index: Manufacturing Growth Weakens - September

Vanguard 10/1 - The Institute for Supply Management (ISM) manufacturing index declined to 54.4 in September from 56.3 a month earlier. Although an index reading above 50 indicates expansion, manufacturing growth is at its slowest pace in 10 months. Growth in new orders, production, and employment each decreased in September compared with August.

"While the headline number shows relative strength this month as the PMI reading of 54.4% is still quite positive, the overall picture is less encouraging," said Norbert J. Ore, chair of the ISM Manufacturing Business Survey Committee. "Manufacturing has enjoyed a stronger recovery than other sectors of the economy, but it appears that weaker growth is the expectation for the fourth quarter."

Chicago Purchasing Managers Index (PMI) - September

Econoday 9/30 - The Chicago PMI did come in well over expectations, at 60.4 in September vs. August's 56.7. The reading relative to August points to accelerating growth this month, at least for Chicago area businesses.

Strength is right where it should be in new orders which jumped more than six points to a very strong 61.4. Production is very active, at 64.3 for a nearly seven point gain. Employment is moderately positive at 53.4 with inventories neutral at 49.5.

Barclays 9/30 - Notwithstanding some apparent slowing in employment growth, gains in new orders and production are encouraging signs that manufacturing growth in the Chicago area still has plenty of momentum, likely bolstered by strong auto sector growth.

Market Comment *Economic Highlights for the week ended October 1, 2010*

Case-Shiller Home Price Index

Home Prices Remain Stable Around Recent Lows According to the S&P/Case-Shiller Home Price Indices

Press Release 9/28 (excerpts) - Data through July 2010, released today by Standard & Poor's for its S&P/Case-Shiller Home Price Indices show that the annual growth rates in 16 of the 20 Metropolitan Statistical Areas (MSA) and the 10- and 20-City Composites slowed in July compared to June 2010. The 10-City Composite is up 4.1% and the 20-City Composite is up 3.2% from where they were in July 2009. For June they were reported as +5.0% and +4.2%, respectively. Although home prices increased in most markets in July versus June, 15 MSAs and both Composites saw these monthly rates moderate in July.

With July's data, 10 of the 20 MSAs are reporting negative annual growth rates. With June's report only five cities were negative on an annual basis.

"While we could still see some residual support from the homebuyers' tax credit, which covers purchases closing through September 30th, anyone looking for home price to return to the lofty 2005-2006 might be disappointed. Judging from the recent behavior of the housing market, stable prices seem more likely.

Reuters 9/28 - Gary Shilling, President, A. Gary Shilling & Co, Springfield, New Jersey: "A month doesn't tell you much one way or the other, and when you consider the depressed level of prices, a couple of percentage points doesn't make much difference. Still down about 30% from the peak."

Barclays 9/28 - This softening in house prices is probably a reflection of the decline in housing activity after the expiration of the tax credit, which likely boosted prices through the spring and early summer, and the large pipeline of foreclosures in certain regions of the country.

Corporate Profits

Press Release 9/30 (excerpts) - Profits from current production (corporate profits with inventory valuation and capital consumption adjustments) increased \$47.5 billion in the second quarter, compared with an increase of \$148.4 billion in the first quarter. Current-production cash flow (net cash flow with inventory valuation adjustment) -- the internal funds available to corporations for investment -- increased \$61.1 billion in the second quarter, compared with an increase of \$33.3 billion in the first.

Taxes on corporate income increased \$2.4 billion in the second quarter, compared with an increase of \$84.1 billion in the first. Dividends increased \$8.1 billion compared with an increase of \$11.8 billion; current-production undistributed profits increased \$37.1 billion, compared with an increase of \$52.4 billion.

Domestic profits of financial corporations decreased \$3.4 billion in the second quarter, in contrast to an increase of \$5.2 billion in the first. Domestic profits of nonfinancial corporations increased \$48.2 billion in the second quarter, compared with an increase of \$117.2 billion in the first.

Construction Spending Inches Up

Vanguard 10/1 - Construction spending rose 0.4% in August, better than expected, driven by increased projects in the public sector. Private construction spending, including both residential and nonresidential projects, fell 0.9%. Government spending on construction rose 2.5% and mostly involved the building of education-related projects and highways. Construction spending in the first eight months of this year fell more than 11% compared with the same period a year ago.

Fed Watch: New York Fed President Dudley "Further action is likely to be warranted"

Barclays 10/1 - According to various news stories, Federal Reserve Bank of New York President William Dudley reportedly said that "further action is likely to be warranted unless the economic outlook evolves in a way that makes me more confident that we will see better outcomes for both employment and inflation before too long." He followed later by saying that the current levels of unemployment and inflation are "unacceptable" and suggested the timeframe over which inflation is expected to return to a level consistent with the Fed's mandate is also unacceptable. He then added, "the longer this situation prevails...the greater the likelihood that a further shock could push us still further from our dual mandate objectives and closer to outright deflation."

Market Comment *Economic Highlights for the week ended October 1, 2010*

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Sept. 25

Press Release 9/30 (excerpts) – In the week ending Sept. 25, the advance figure for seasonally adjusted initial claims was 453,000, a decrease of 16,000 from the previous week's revised figure of 469,000. The 4-week moving average was 458,000, a decrease of 6,250 from the previous week's revised average of 464,250.

The advance seasonally adjusted *insured* unemployment rate was 3.5% for the week ending Sept. 18, 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. 18 was 4,457,000, a decrease of 83,000 from the preceding week's revised level of 4,540,000. The 4-week moving average was 4,526,750, a decrease of 5,500 from the preceding week's revised average of 4,532,250.

WEEK ENDING	Sept. 25	Sept. 18	Change	Sept. 11	Prior Year
Initial Claims (Seasonally Adj)	453,000	469,000	-16,000	453,000	546,000
4-Wk Moving Average (SA)	458,000	464,250	-6,250	466,500	546,750

Barclays 9/30 - Today's jobless claims report is consistent with our view that labor market improved in September.

Gold Jumps to Another Record

WSJ 10/1 - Gold futures ended the week at all-time highs as the weaker dollar continued to feed gold's historic rally. The nearby gold futures, for October delivery, ended Friday at an all-time high, settling up \$8.30, or 0.6%, at \$1,316.10 per troy ounce on the New York Mercantile Exchange.

The Economic Week Ahead: October 4 through Oct. 8

Vanguard 10/1 -The highlight of next week's reports will be September's unemployment figures released Friday. Other reports include factory orders (Monday), the ISM nonmanufacturing index (Tuesday), and consumer credit (Thursday).



This Week's U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Oct 04	10:00	Factory Orders	August	-0.7%	-0.4%	0.1%
Oct 05	10:00	ISM Services	Sept	51.0	51.8	51.5
Oct 07	08:30	Initial Claims for Unemployment	10/02	450K	455K	453K
Oct 07	08:30	Continuing Claims	09/25	4450K	4450K	4457K
Oct 07	15:00	Consumer Credit	August	-\$3.0B	-\$3.0B	-\$3.6B
Oct 08	08:30	Nonfarm Payrolls	Sept	-18K	0K	-54K
Oct 08	08:30	Unemployment Rate	Sept	9.7%	9.7%	9.6%
Oct 08	10:00	Wholesale Inventories	August	0.5%	0.4%	1.3%