

Market Comment *Economic Highlights for the week ended October 8, 2010*

Economic Week In Review: The Latest Employment Figures Disappoint

Vanguard 10/8 - Despite welcome news that service-sector activity expanded in September, the week ended with a downbeat employment report. Instead of an expected no-growth September, the report showed a weak gain in private-sector jobs wiped out by a decline in public-sector employment, for a net loss of 95,000 jobs. For the week ended October 8, the S&P 500 Index rose 1.6% to 1,165 (for a year-to-date total return of about 6.1%). The yield of the 10-year U.S. Treasury note fell 13 basis points to 2.41% (a year-to-date decrease of 144 bps).

Non-Farm Payrolls: More Jobs Were Lost In September than Expected

Vanguard 10/8 - The U.S. economy lost 95,000 jobs in September, worse than economists' expectation that employment would remain unchanged. Private-sector jobs increased by 64,000—a feeble amount by economists' standards—and jobs in the public sector declined by 159,000. The federal government shed 76,000 jobs, as work on the Census wound down and temporary staff were let go. State government jobs fell by 7,000 and local government jobs by 76,000—a reaction to a recession-induced strain on state and local government finances.

September's unemployment rate remained unchanged at 9.6%, although it had been expected to edge higher. The size of the labor force—people working or looking for work—changed little, as many potential but discouraged entrants remained on the sidelines.

Press Release 10/8 (excerpts) - Nonfarm payroll employment edged down (-95,000) in September, and the unemployment rate was unchanged at 9.6%, the U.S. Bureau of Labor Statistics reported today. Government employment declined (-159,000), reflecting both a drop in the number of temporary jobs for Census 2010 and job losses in local government. Private-sector payroll employment continued to trend up modestly (+64,000).

Government employment fell by 159,000, reflecting both the departure of 77,000 temporary Census 2010 workers from federal government payrolls and a decline of 76,000 in local government employment.

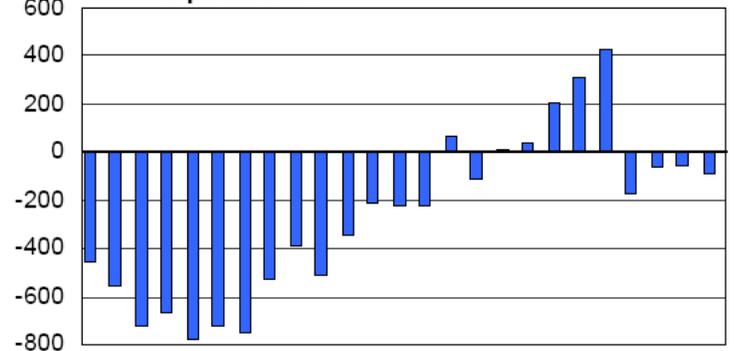
The number of unemployed persons, at 14.8 million, was essentially unchanged in September, and the unemployment rate held at 9.6%.

The number of persons employed part time for economic reasons (sometimes referred to as involuntary part-time workers) rose by 612,000 over the month to 9.5 million. About 2.5 million persons were marginally attached to the labor force in September, up from 2.2 million a year earlier.

Among the marginally attached, there were 1.2 million discouraged workers in September, an increase of 503,000 from a year earlier. Discouraged workers are persons not currently looking for work because they believe no jobs are available for them.

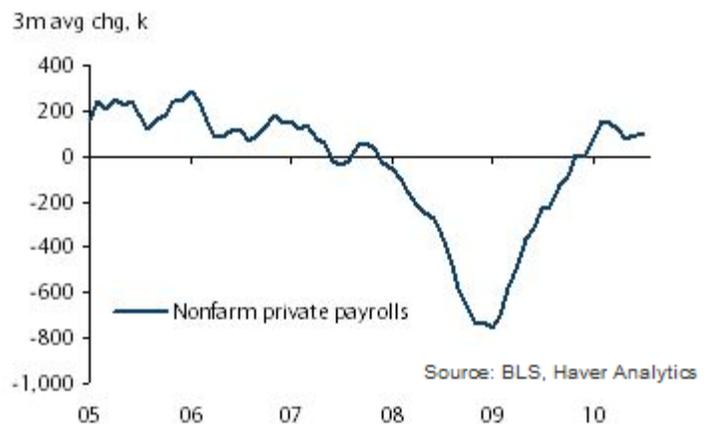
Barclays 10/8 - Regarding the large drop in state and local (government) hires, reports indicate that this was due to a large decline in the number of teachers, which is something we do not expect to continue, given the start of the school year. That said we believe this report, taken together with other data, is not strong enough to change our view that the Fed will initiate a new round of asset purchases at the November meeting.

Thousands
Nonfarm payroll employment over-the-month change, seasonally adjusted, September 2008 – September 2010



Sep-08 Dec-08 Mar-09 Jun-09 Sep-09 Dec-09 Mar-10 Jun-10 Sep-10

Private payrolls continue their moderate expansion



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ISM Services: US Service Sector Continues To Expand - September

Vanguard 10/8 - The U.S. service sector—which makes up most of the jobs in the economy—unexpectedly expanded in September, according to a gauge of nonmanufacturing business activity released by the Institute for Supply Management (ISM). The index, which was expected to remain unchanged, jumped to 53.2 from 51.5 in August, a result that was encouraging given the slow pace of economic growth and the recent declines in ISM's companion index of manufacturing activity. (An index reading over 50 indicates growth.)

Barclays 10/5 - The ISM non-manufacturing index increased to 53.2 in September from 51.5 in August. This was in line with our estimate of 53.0 and slightly higher than consensus expectations of 52.0. Gains in indices of employment, new orders, and supplier deliveries drove the rise in the headline index, but business activity weakened. Overall, today's release painted a fairly positive picture of the service sector; the ISM non-manufacturing index remained in expansionary territory throughout Q3, albeit at a slightly lower level than Q2.

Factory Orders Dip

Vanguard 10/8 - Orders for manufactured goods declined 0.5% in August, a shade more than expected and the third decline in four months. The report was consistent with recent data showing a slowdown in manufacturing sector growth, although shipments of nondefense capital goods (excluding aircraft) rose 5.1%.

Full Report on Manufacturers' Shipments, Inventories and Orders - August 2010

Press Release 10/4 (excerpts) - Summary: New orders for manufactured goods in August, down three of the last four months, decreased \$2.2 billion or 0.5% to \$408.9 billion, the U.S. Census Bureau reported today. This followed a 0.5% July increase. Excluding transportation, new orders increased 0.9%.

Shipments, also down three of the last four months, decreased \$2.5 billion or 0.6% to \$415.1 billion. This followed a 1.2% July increase. Unfilled orders, down following four consecutive monthly increases, decreased \$0.1 billion to \$804.0 billion. This followed a slight July increase. The unfilled orders-to-shipments ratio was 5.59, up from 5.53 in July.

Inventories, up seven of the last eight months, increased \$0.7 billion or 0.1% to \$526.4 billion. This followed a 0.9% July increase. The inventories-to-shipments ratio was 1.27, up from 1.26 in July.

Credit Balances Drop - August

Vanguard 10/8 - Consumer credit balances fell \$3.3 billion in August, continuing their steady descent since January of this year. Demand for revolving credit has been consistently weak as consumers pay down balances and boost savings rather than accumulate new debt. However, non-revolving credit balances rose slightly, reflecting a modest recovery in new auto sales.

Barclays 10/7 (excerpts) - Total consumer credit is likely still depressed by persistent charge-offs and probably somewhat understates actual credit growth. The broad trend of consumer credit still looks relatively weak, although the pace of contraction has decelerated.

Consumer credit falling at a slower pace



Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Oct. 2

Press Release 10/7 - In the week ending Oct. 2, the advance figure for seasonally adjusted initial claims was 445,000, a decrease of 11,000 from the previous week's revised figure of 456,000. The 4-week moving average was 455,750, a decrease of 3,000 from the previous week's revised average of 458,750.

The advance seasonally adjusted insured unemployment rate was 3.5% for the week ending Sept. 25, a decrease of 0.1 percentage point from the prior week's revised rate of 3.6%.

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The advance number for seasonally adjusted insured unemployment during the week ending Sept. 25 was 4,462,000, a decrease of 48,000 from the preceding week's revised level of 4,510,000. The 4-week moving average was 4,510,750, a decrease of 27,750 from the preceding week's revised average of 4,538,500.

WEEK ENDING	Oct. 2	Sept. 25	Change	Sept. 18	Prior Year
Initial Claims (Seasonally Adj)	445,000	456,000	-11,000	469,000	531,000
4-Wk Moving Average (SA)	455,750	458,750	-3,000	464,250	540,500

Barclays 10/7 - Both series, initial and continuing claims, continue to suggest that jobless claim figures have fully retraced their July-August rise and may be returning to a gradual downward trend.

The Economic Week Ahead: October 12 – Oct. 15

Vanguard 10/8 - Reports begin Tuesday with the release of minutes from the latest meeting of the Federal Open Market Committee. Thursday features the Producer Price Index and international trade figures, followed Friday by reports on consumer prices, retail sales, and business inventories.

This Week's U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Oct 12	14:00	Minutes of FOMC Meeting	9/21			
Oct 13	07:00	MBA Mortgage Applications	10/08	NA	NA	-0.2%
Oct 13	08:30	Import & Export Prices	September	NA	NA	
Oct 13	14:00	Treasury Budget	September	-\$32.0B	-\$33.5B	-\$46.6B
Oct 14	08:30	Initial Claims for Unemployment	10/09	450K	450K	445K
Oct 14	08:30	Producer Price Index - Inflation	September	0.1%	0.2%	0.4%
Oct 14	08:30	Trade Balance	August	-\$40.0B	-\$44.5B	-\$42.8B
Oct 15	08:30	Consumer Price Index - Inflation	September	0.1%	0.2%	0.3%
Oct 15	08:30	Retail Sales	September	0.2%	0.4%	0.4%
Oct 15	08:30	NY Fed - Empire Manuf. Survey	October	3.0	5.75	4.10
Oct 15	09:55	U of Mich Consumer Sentiment	October	67.0	68.5	68.2
Oct 15	10:00	Business Inventories	August	0.4%	0.5%	1.0%

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes \$million	New Bonds \$millions	Issue Count	Called Bonds Par \$millions	Issue Count
10-Sep	\$ 9,105	\$ 3,224	20	\$ 3,617	15
17-Sep	11,115	4,253	31	2,392	14
24-Sep	10,709	2,417	28	358	8
1-Oct	10,900	1,634	21	1,783	10
8-Oct	11,460	2,133	9	640	7