Market Comment *Economic Highlights for the week ended October 22, 2010*

Economic Week In Review: More Chronicles Of A Slow Recovery

Vanguard 10/22 - This week's economic reports were variations on a now-familiar theme: notes of growth with melancholy undertones. The Fed's latest report reiterated expectations of a "modest" recovery. The housing market and employment situation remained troublesome. For the week ended October 22, the S&P 500 Index rose 0.6% to 1,183 (for a year-to-date total return of about 7.8%). The yield of the 10-year U.S. Treasury note ended the week at 2.59% unchanged from last week (for a year-to-date decrease of 126 basis points).

Federal Reserve Beige Book: Economy Grows At A Subdued Pace

Vanguard 10/22 - The Federal Reserve's "Beige Book," a survey of economic conditions across its 12 central banks, found the economy growing in September and early October, but at a "modest" pace. Manufacturing activity was more subdued than it had been earlier in the economic recovery, but remained a source of strength in most regions. As it has been throughout the past two years, the housing market remained "weak." Home prices were generally lower than they were a year ago. The report also noted that consumer spending was up slightly, but that most people limited their expenditures to necessities and items they felt were good bargains. Although commodity and raw material prices rose, retailers were not passing their higher costs to consumers.

Federal Reserve Beige Book

Press Release 10/19 (excerpts) - Reports from the twelve Federal Reserve Districts suggest that, on balance, national economic activity continued to rise, albeit at a modest pace, during the reporting period from September to early October.

Manufacturing activity continued to expand, with production and new orders rising across most Districts. Demand for non-financial services was reported to be stable to modestly increasing overall. Consumer spending was steady to up slightly, but consumers remained price-sensitive, and purchases were mostly limited to necessities and non-discretionary items. New vehicle sales held steady or rose during the reporting period; sales of used automobiles were strong as well. Activity in the travel and tourism sector picked up.

Housing markets remained weak with most Districts reporting sales below year-ago levels. Reports on prices suggested stability, however. Conditions in the commercial real estate sector were subdued, and construction was expected to remain weak. Lending activity was stable in most Districts. Agricultural conditions were generally favorable, and above-average yields were expected in most reporting Districts. Activity in the energy sector continued to expand.

Input costs, most notably for agricultural commodities and industrial metals, rose further. Shipping rates increased, and retailers in some Districts noted rising wholesale prices. However, prices of final goods and services were mostly stable as higher input costs were not passed on to consumers. Wage pressures were minimal.

Banking and Finance: Lending activity was stable at low levels across most Districts, but there were some reports that demand picked up slightly. Demand for commercial and industrial loans remained weak as businesses continued to postpone capital spending plans because of economic and public policy uncertainties. Commercial real estate lending remained subdued and loan standards were still tight.

On the consumer side, lending was sluggish, but there were scattered reports of improvement. Contacts in the Cleveland and Dallas Districts reported growth in auto loans. San Francisco reported an increase in demand for nonconforming mortgage loans. Credit quality changed little on balance.

Industrial Production: Softer-than-expected US industrial production

Vanguard 10/22 - Industrial production fell 0.2% in September, its biggest decline since June 2009. The slowdown in production was primarily caused by a sharp decline in utility output, which fell 1.9%. Another weak spot was factory output, which dipped 0.2%. For the third quarter, the annual rate of factory output increased 4.8%—down from a 7.0% rate in each of the previous three quarters. Although the production results were disappointing, and indicate a slowdown in manufacturing, some analysts suggest this setback may be temporary because manufacturing activity surveys, including the ISM Index, showed modest factory growth in September.

Press Release 10/18 - The capacity utilization rate for total industry edged down to 74.7%, a rate 4.2 percentage points above the rate from a year earlier but 5.9 percentage points below its average from 1972 to 2009.

Briefing.com 10/18 – Highlights: Industrial production was a disappointment in September as output fell 0.2% after rising 0.2% in August. The Briefing.com consensus expected production growth to be up 0.2%.

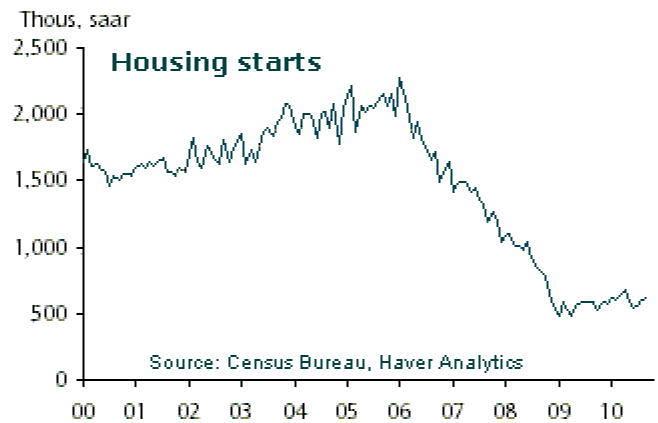
The weakness in industrial production caused capacity utilization to fall from 74.8% in August to 74.7% in September. This was the first monthly decline since June 2009.

Key Factors: For the past few months, the ISM manufacturing index has decelerated. New orders growth has stalled and firms have been forced to pare down their backorder logs. It was only a matter of time before the sudden drop in orders would cause manufacturing output to decline month-over-month. This seemed to have happened in September.

Big Picture: Production held up surprisingly well through most of 2008 due in part to strong exports. Exports grew at a 7.0% annual rate in 2005, 9.1% in 2006, 8.4% in 2007, and at an annual average rate of 7.8% through the first three quarters of 2008. Then, the bottom fell out in the fourth quarter as the financial crisis spilled over to the real economy at home and abroad, severely impacting global trade and end demand that led to declining levels of industrial production and capacity utilization. The near-term trend is expected to improve as financial markets, and global economies, have stabilized.

US Housing Starts Show Surprising Strength

Vanguard 10/22 - Housing starts rose 0.3% in September, to an annualized rate of 610,000 units. Single-family home construction, which was up 4.4%, contributed most to the gain. Housing completions also jumped 7.3%. Still, the number of total housing permits shrunk nearly 6%, with multifamily housing permits down about 20%. Weakness in the economy as a whole, including high unemployment, continued to dampen demand for new homes.



Barclays 10/19 (excerpts) - On balance, US housing starts and building permits provide further indication that housing market activity is stabilizing following the substantial weakness in activity during the summer months. Housing starts increased slightly to 610,000 in September, up from a revised 608,000 in August (previous: 598,000). This number was above our (590,000) and consensus (580,000) expectations. Multi-family starts were down in September (-9.7% to 158,000 from 175,000), but the decline was smaller than we had anticipated, and single family starts were up 4.4% to 452,000. This is the second consecutive monthly increase in single-family starts following the substantial drop-off in activity in May through July following the expiration of government stimulus. Regionally, the picture was mixed as gains in the Northeast (2.9%) and South (4.8%) were offset by declines in the Midwest (-8.2%) and West (-3.6%). Building permits were down 5.6% in September, to 539,000, from a revised 571,000 in the previous month (prior: 569,000), which was a larger drop than the market consensus expected (575,000). The decline was driven by a 20.2% decline in multi-family permits, while single-family permits posted a modest increase of 0.5%.

Conference Board U.S. Leading Economic Indicators: US LEI Increases

Vanguard 10/22 - The Conference Board's index of leading economic indicators edged up 0.3% in September. Boosting the index were financial components, including the interest rate spread and money supply, as well as improvements in initial unemployment claims. Key points of weakness included a decline in building permits. The coincident indicator, which includes nonfarm payrolls, personal incomes minus transfers, and industrial production, remained unchanged.

Barclays 10/21 - The leading index is now up 6.0% year over year, having slowed from its peak of 11.6% in March but still indicating a firm upward trajectory for the economy.

Press Release 10/21 - The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3% in September to 110.4 (2004 = 100), following a 0.1% increase in August, and a 0.2% increase in July.

Says Ataman Ozyildirim, economist at The Conference Board: “The LEI remains on a general upward trend, but it is growing at its slowest pace since the middle of 2009. There isn’t any indication of a relapse into another downturn through the end of the year.”

Says Ken Goldstein, economist at The Conference Board: "More than a year after the recession officially ended, the economy is slow and has no forward momentum. The LEI suggests little change in economic conditions through the holidays or the early months of 2011."

The Conference Board Coincident Economic Index (CEI) for the U.S. was unchanged in September, remaining at 101.4 (2004 = 100), following no change in August and a 0.1% increase in July. The Conference Board Lagging Economic Index (LAG) increased 0.4% in September to 108.4 (2004 = 100), following a 0.1% increase in August, and a 0.4% increase in July.

About The Conference Board Leading Economic Index® (LEI) for the U.S.: The composite economic indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Oct. 16

Press Release 10/21 (excerpts) - In the week ending Oct. 16, the advance figure for seasonally adjusted initial claims was 452,000, a decrease of 23,000 from the previous week's revised figure of 475,000 (revised up from 462K). The 4-week moving average was 458,000, a decrease of 4,250 from the previous week's revised average of 462,250.

The advance seasonally adjusted insured unemployment rate was 3.5% for the week ending Oct. 9, unchanged from the prior week's rate of 3.5%.

The advance number for seasonally adjusted insured unemployment during the week ending Oct. 9 was 4,441,000, a decrease of 9,000 from the preceding week's revised level of 4,450,000. The 4-week moving average was 4,478,000, a decrease of 23,250 from the preceding week's revised average of 4,501,250.

WEEK ENDING	Oct. 16	Oct. 9	Change	Oct. 2	Prior Year
Initial Claims (Seasonally Adj)	452,000	475,000r	-23,000	449,000	535,000
4-Wk Moving Average (SA)	458,000	462,250	-4,250	456,750	533,250

Barclays 10/21 - In general, the report is a sigh of relief that last week's jump was only a temporary blip likely due to a slightly stronger 'quarter ending effect' than was built into the seasonal adjustment factor. Overall, the report is consistent with other signs that suggest labor market conditions are gradually improving.

The Economic Week Ahead: October 25 – Oct. 29

Vanguard 10/22 - Next week will be busy for those following economic news. The highlight of the week's reports will be third-quarter gross domestic product figures released Friday. Other reports to look out for include: existing-home sales (Monday), consumer confidence (Tuesday), durable goods and new-home sales (Wednesday), and employment cost index (Friday).

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

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior
Oct 25	10:00	Existing Home Sales	September	4.53M	4.20M	4.25M	4.12M
Oct 26	09:00	Case-Shiller 20-city Home Price Index	August		2.0%	2.1%	3.18%
Oct 26	10:00	Consumer Confidence	October		48.0	49.0	48.5
Oct 27	08:30	Durable Orders	September		1.0%	1.8%	-1.3%
Oct 27	10:00	New Home Sales	September		270K	299K	288K
Oct 28	08:30	Initial Claims	10/23		450K	459K	452K
Oct 28	08:30	Continuing Claims	10/16		4450K	4420K	4441K
Oct 29	08:30	GDP-Advance Estimate	Q3		1.3%	2.0%	1.7%
Oct 29	09:45	Chicago PMI	October		58.0	58.0	60.40

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior
Oct 29	09:55	Michigan Sentiment - Final	October		67.0	68.0	67.9