

Market Comment *Economic Highlights for the week ended November 12, 2010*

Economic Week In Review: Encouraging Signs On The Road To Recovery

Vanguard 11/12 - Following last week's upbeat jobs report, the U.S. economy continued to show signs of improvement. In a relatively light week for economic news, the trade deficit narrowed in September and initial jobless claims hit their lowest level since July. For the week, the S&P 500 Index fell 2.2% to 1,199 (for a year-to-date total return—including price change plus dividends—of about 9.4%). The yield of the 10-year U.S. Treasury note rose 18 basis points to 2.76% (for a year-to-date decrease of 109 basis points). "Positive headlines on the jobs front are welcome at this point," said Vanguard economist Roger Aliaga-Díaz. "We are expecting a gradual and subdued recovery, but this is an encouraging indication that eventually we will get there."

International Trade: Rising Exports, Weak Dollar Push Trade Deficit Downward - September

Vanguard 11/12 - The U.S. trade gap narrowed to \$44 billion in September from a revised \$46.5 billion in August. The size of the decline surprised many economists, whose consensus forecast for the month was a more modest drop, to \$45.4 billion.

Factors contributing to the better-than-expected news included declining imports caused by a moderating pace of inventory accumulation, rising exports, and a weaker dollar.

While temporary factors—such as the recent surge in agricultural exports caused by the drought in Russia—were the primary drivers behind the narrowing trade gap, economists were encouraged by the good news.

"It's difficult to draw a trend from a single data point," said Mr. Aliaga-Díaz. "However, strong growth in emerging markets and a weak dollar are consistent with an improving U.S. trade balance."

Econoday 11/10 - The U.S. trade gap shrank more than expected on a drop in imports but also on a modest gain in exports. Exports improved, rising 0.3%, following no change in August. Imports in September dipped 1.0% after rebounding 2.0% in August.

The latest gain in exports is good news for U.S. manufacturers. However, businesses appear to be dialing back on expectations on demand and inventory needs as nonoil imports for consumer goods have declined. But it is a sign of optimism that capital goods are still up—equipment investment appears to still be on an uptrend. Overall, today's trade report and nice drop in initial jobless claims point to continued moderate recovery.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Nov. 6

Press Release 11/10 (excerpts) - In the week ending Nov. 6, the advance figure for seasonally adjusted initial claims was 435,000, a decrease of 24,000 from the previous week's revised figure of 459,000. The 4-week moving average was 446,500, a decrease of 10,000 from the previous week's revised average of 456,500.

The advance seasonally adjusted insured unemployment rate was 3.4% for the week ending Oct. 30, a decrease of 0.1 percentage point from the prior week's revised rate of 3.5%.

The advance number for seasonally adjusted insured unemployment during the week ending Oct. 30 was 4,301,000, a decrease of 86,000 from the preceding week's revised level of 4,387,000. The 4-week moving average was 4,388,250, a decrease of 35,750 from the preceding week's revised average of 4,424,000.

WEEK ENDING	Nov. 6	Oct. 30	Change	Oct. 23	Prior Year
Initial Claims (Seasonally Adj)	435,000	459,000	-24,000	437,000	507,000
4-Wk Moving Average (SA)	446,500	456,500	-10,000	454,000	523,000

Econoday 11/10 - Jobless claims are clearly on the decline in what is good news for everyone. In a November 6 week free of special factors, initial claims fell 24,000 to a much lower-than-expected level of 435,000 (prior week revised slightly higher to 459,000). The four-week average really shows improvement, down 10,000 to 446,500 for a month-to-month improvement of about 15,000.

Continuing claims also continue to come down, 86,000 lower in the October 30 week to 4.301 million. The four-week average of 4.388 million is down more than 100,000 from a month ago. The unemployment rate for insured workers edged another tenth lower to 3.4%.

Today's report is a strong kick-off for November jobs expectations and extends momentum from October's strong payroll gains. A strengthening U.S. jobs market is now combining with QE2 to set up a new economic equation.

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Barclays 11/10 - Initial jobless claims fell more than expected for the week ending November 6, falling 24k to 435k from an upwardly revised 459k (prior: 457k) in the previous week. Overall, this is a positive report, albeit one tempered by seasonal factors, and signals that conditions in labor markets are gradually improving. Although initial claims have yet to break through the lower bound of the range they established in January of this year, recent momentum appears to be moving in that direction.

Import – Export Prices

Econoday 11/10 - Import prices rose a sharp 0.9% with export prices extending a run of agricultural-based increases. Pressure on October import prices is centered in petroleum which swung 3.3% higher following a 1.5% decrease the month before. Pass through is limited with import prices for capital goods unchanged and down a half percent for consumer goods. The overall year-on-year rate is stable at plus 3.6%.

Rates on the export side are definitely on the climb. Export prices rose 0.8 following similar increases in the two prior months. **Prices for agricultural exports have risen an average of 3.0% in each of the last three months!** Record prices for many soft commodities, which many attribute to QE2, are a key feature right now of the financial markets. On-year export prices are up 5.8% with agricultural exports up 15.7%.

Barclays 11/10 - We expect further increases in core import prices in the coming months, reflecting the effects of a weaker dollar and higher commodity prices. While pass-through to consumer prices is unlikely to be significant in the near term, this supports our view that disinflationary pressures are easing.

The Economic Week Ahead: November 15 – Nov. 19

Vanguard 11/12 - Economists will be busy next week, as several key reports come out, including retail sales and business inventories on Monday, the Producer Price Index and industrial production on Tuesday, and the Consumer Price Index and new-home sales on Wednesday. On Thursday, the Conference Board unveils its index of leading economic indicators for October.

This Week's U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Nov 15	08:30	Retail Sales	Oct	1.1%	0.7%	0.6%
Nov 15	10:00	Business Inventories	Sept	0.9%	0.9%	0.6%
Nov 16	08:30	Producer Price Index (PPI)	Oct	1.0%	0.8%	0.4%
Nov 16	08:30	Core PPI	Oct	0.1%	0.1%	0.1%
Nov 16	09:15	Industrial Production	Oct	0.2%	0.3%	-0.2%
Nov 16	09:15	Capacity Utilization	Oct	75.0%	74.9%	74.7%
Nov 17	08:30	Consumer Price Index (CPI)	Oct	0.4%	0.3%	0.1%
Nov 17	08:30	Core CPI	Oct	0.1%	0.1%	0.0%
Nov 17	08:30	Housing Starts	Oct	600K	600K	610K
Nov 17	08:30	Building Permits	Oct	540K	565K	539K
Nov 18	08:30	Initial Claims for Unempl. Benefits	11/13	440K	442K	435K
Nov 18	10:00	Leading Indicators	Oct	0.4%	0.6%	0.3%
Nov 18	10:00	Philadelphia Fed	Nov	2.5	4.5	1.0