Market Comment *Economic Highlights for the week ended November 26, 2010*

Economic Week In Review: Reasons To Be Thankful

Vanguard 11/26 - As Americans paused to count their blessings this week, there was news to be thankful for on the economic front: The latest figures on GDP growth were revised upward substantially, and far fewer people filed for first-time unemployment benefits than had been expected. For the week ending November 26, the S&P 500 Index fell 0.9% to 1,189 (for a year-to-date total return of about 8.4%). The yield of the 10-year U.S. Treasury note fell 1 basis point to 2.87% (for a year-to-date decrease of 98 basis points).

Stronger Domestic Demand Boosts Q3 US GDP

Vanguard 11/26 - Fears of a "double-dip" recession eased a bit this week, as the economy seemed to have performed considerably better than originally thought in the third quarter. Revised data from the Commerce Department showed a 2.5% annualized GDP increase for the July–September period, up from an early estimate of 2.0%. Upward revisions in consumer spending and exports were cited, along with increased public-sector spending and a big boost in corporate profits.

"Recent leading economic indicators are showing us that the risks to the U.S. recovery are becoming much more balanced now," said Vanguard economist Roger Aliaga-Díaz, "and this upward revision to the third-quarter GDP number is consistent with those signals. Based on these data, we're now projecting a 20–25% probability of negative GDP growth over the next couple of quarters, down from the one-in-three chance we were estimating last summer."

Barclays 11/23 - The upside surprise, relative to our forecast, came from stronger consumer spending and business investment. Indeed, the pace of real final sales growth is now reported as 1.2%, double the previous estimate. Personal consumption growth was revised up to 2.8% from 2.6%, in turn reflecting stronger growth in durable and nondurable goods. Meanwhile, growth in investment spending on equipment and software was revised up to 16.8% from 12.0%. There were also boosts from stronger government consumption and, as we had expected, less of a drag from net trade than initially estimated. These revisions more than offset less of a boost from inventory accumulation and weaker structures investment (now reported as a decline of 5.7%, previously a rise of 3.9%).

Revisions to the household accounts struck a positive tone, too. Growth in wage and salary income was revised up to 3.3% in Q3 (from 2.4%) and to 6.3% in Q2 (from 3.3%). This was also reflected in disposable personal income growth, now reported as 1.9% in Q3 and 5.5% in Q2 (previously 1.5% and 4.4%). With income outstripping consumption, the saving rate was revised up to 5.8% in Q3 and 6.2% in Q2 (previously 5.5% and 5.9%). This is positive for the outlook for consumer spending, with household incomes improving faster than previously estimated and the saving rate unlikely to rise significantly further, in our view. Finally, the first look at Q3 corporate profits revealed growth of 11.5% q/q (annualized) and 27.8% y/y, continuing the trend of a fairly rapid rebound in profits since the end of the recession.

Econoday 11/23 - The recovery is not quite as sluggish as previously believed. Importantly, demand numbers were revised up. Final sales of domestic product were boosted to 1.2% from the initial estimate of 0.6%.

The bottom line is that the recovery has regained some momentum with the consumer sector taking on a little more of the growth burden. Final sales to domestic purchasers are moderately strong and overall sales of domestic product should pick up if the weaker dollar boosts exports-a decent probability. But growth is still sluggish relative to what is needed for improvement in the labor market.

Personal Income and Spending – October

Vanguard 11/26 - Consumers earned more, spent more, and saved more in October. Personal incomes rose a bigger-than-expected 0.5%, while spending was up 0.4%, buoyed by demand for durable goods. The personal savings rate also inched upward, rising a tenth of a percent to 5.7%. Inflation posed little threat, with prices up just 1.3% from October 2009 (and up 0.9% with volatile food and energy prices factored out).

Econoday 11/24 - The consumer is making a moderately strong comeback in October in both income and spending. Meanwhile, core inflation is subdued and still too low for Fed comfort. Personal income in October posted a healthy 0.5% gain, following no change in September. Income growth topped analysts' forecast for 0.4% increase. Importantly, the wages & salaries component jumped 0.6%, following a 0.1% improvement the month before.

PCE inflation nudged up at the headline level but the core remained anemic. The PCE price index increased 0.2% in October, following a 0.1% uptick in September. The core rate was flat for the second month in row. On a year-ago basis, the headline number in October was 1.3%, down from 1.4% in September. Meanwhile the core was 0.9%, down from 1.2% the prior month.

Relative to typical recoveries, the rebound in income in income and spending is still sub-par but at least we are seeing some strengthening. Retailers and policy makers should be happy that the trend is up.

Barclays 11/24 - All in all, this is an encouraging report, consistent with our view that consumer spending growth will continue at a similar pace in Q4 as recorded in Q3, supported by a backdrop of gradually improving household income.

Disappointing Numbers For The Housing Market - October

Vanguard 11/26 - The news wasn't all good this week. The long-beleaguered housing market continued to suffer in October, with sales dropping yet again.

Realtors reported a 2.2% decline in purchases of **existing homes**, to 4.4 million units on an annualized basis. The median price of an existing home dipped to approximately $170,000—a decrease of just under 1% over the past year. Compared with October 2009, monthly sales were down a staggering 26%, though the since-expired tax credit for first-time home buyers helped distort the data.

For **new homes**, the picture was even bleaker. Sales dropped 8.1% to an annualized 283,000 units, shattering consensus expectations of a healthy increase. Demand was softest in the Midwest and West. The median price of a new home fell to $194,900, down from $215,100 in October 2009.

AFP 11/29 - The housing market is still going nowhere.

Existing Home Sales – October

Econoday 11/23 - Existing home sales fell 2.2% in October to a 4.43 million annual unit rate. Most of the indications in this report are weak including low to mid-single digit declines across regions and for both single-family homes and condos. Supply on the market is very heavy at 10.5 months. The median price fell for a fourth straight month, down six tenths to $170,500. The average price, likely reflecting firmness at the top-end of the market, edged two tenths higher to $218,700.

The National Association of Realtors, which compiles the report, warns that qualified buyers are being rejected because of overly stringent credit standards. The NAR also says that mortgage documentation problems are not a significant factor for the market. The NAR's 2011 outlook calls for flat results for both sales and price.

Barclays 11/23 -Housing is still trying to find its footing.

New Home Sales – US New Home Sales Decline Sharply In October

Barclays 11/24 - New home sales fell 8.1% to 283k in October, from a revised 308k in September, well below our (315k) and consensus (283k) expectations. The decline leaves the level of new home sales at the third-lowest recorded level in the history of the series. Only the readings in August (275k) and May (282k) of this year were weaker. Declines were registered in three of the four regions, with the West (-23.9% m/m saar to 51k) declining most on a m/m percentage basis, followed by the Midwest (-20.4% to 39k) and the Northeast (-12.1% to 29k). The South did record a modest gain of 3.1% m/m, to 164k. The months' supply of new homes on the market ticked higher, to 8.6, although the level of inventory declined modestly, to 202k (previous 203k), suggesting that rising inventories are more attributable to a drop-off in sales than to overbuilding. Overall, the release was disappointing, as the series is lingering at historically low levels, but we continue to characterize recent volatility as ongoing stabilization at the bottom in housing activity. We continue to expect sales to recover gradually in the coming months.

Econoday 11/24 - A double-digit decline in prices headlines a very weak new home sales report. The median price of a new home plunged 13.9% in October to $194,900 for the lowest level in seven years. The average price fell 8.0% to $248,200.

The plunge in prices couldn't hold up sales of new homes which fell 8.1% to a much lower-than-expected annual unit rate of 283,000, nearly reversing the prior month's 12.0% rebound. The breakdown shows major declines in the West, Midwest, and Northeast that far outweigh a solid gain in the South.

The drop in sales inflated supply to 8.6 months from 7.9 months. Supply is heavy not because of the number of new homes on the market, which at 202,000 is the lowest in 42 years, but because there are so few buyers. This report is definitely troubling especially if you're a homebuilder or a construction worker.

Unexpected Drop In Durable-Goods Demand - October

Vanguard 11/26 - Advance orders for durable manufactured goods tumbled 3.3% in October, weighed down by weak demand for electronics and transportation equipment. Consensus estimates had pointed to unchanged demand or even a modest gain. Inventories rose for the tenth consecutive month.

Econoday 11/24 - Weakness was broad based but led by transportation. Transportation fell 5.2% in October after surging 16.5% the month before. The drop was mainly in defense aircraft but nondefense aircraft and also motor vehicles orders eased. Other industries generally declined but mostly after a moderate gain in September. Excluding transportation, durables declined 2.7% after rising 1.3% in September.

Today's durables report is a disappointment but should be viewed in the context of being one of the most volatile monthly series for a major indicator produced by the government. Also, a weaker dollar points to likely improvement ahead for durables orders and manufacturing.

FOMC Minutes – November 3

AFP 11/29 - The Federal Reserve released the minutes from this month's FOMC meeting, where it had voted to purchase $600 billion in Treasury securities through next June to inject additional liquidity into the economy. The meeting's participants were unhappy with the pace of the economic recovery, seeing the progress towards maximum employment and price stability…as disappointingly slow. While a recession was viewed as being quite unlikely, some of the meeting's participants saw the economy as being vulnerable to negative shocks. Assuming that the downside risks could be managed, moderate growth was anticipated for 2011 (with unemployment falling somewhat), with a strengthening of the U.S. economy expected in 2012 and 2013. It was the tepid pace of growth, along with the susceptibility of the economy to downward shocks, that motivated a majority the voting members to support the additional dose of monetary stimulus.

Barclays 11/23 - As was widely expected, the committee reduced its growth estimates, and the Fed's forecasts also showed that several more members believed the natural rate of unemployment had risen notably. Overall, the minutes do not lead us to change our expectation that the Fed will at least complete its $600bn asset purchase program, and may well continue to purchase assets once that program is complete.

Econoday 11/23 - FOMC minutes for 22-23 June 2010 released 14 July 2010 show participants seeing Quantitative Easing II (QE2) working more through its impact on the dollar than through further changes in interest rates. Progress on employment and stable inflation were described as "disappointingly slow."

"In their discussion of the economic situation and outlook, meeting participants generally agreed that the incoming data indicated that output and employment were continuing to increase, but only slowly. Progress toward the Committee's dual objectives of maximum employment and price stability was described as disappointingly slow. Participants variously noted a number of factors that were restraining growth, including low levels of household and business confidence, concerns about the durability of the economic recovery, continuing uncertainty about the future tax and regulatory environment, still-weak financial conditions of some households and small businesses, the depressed housing market, and waning fiscal stimulus."

Again, the Fed is concerned about inflation being too low.

"Measures of price inflation had generally trended lower since the start of the recession; the same was true of nominal wage growth. Most participants indicated that underlying inflation was somewhat low relative to levels that they judged to be consistent with the Committee's statutory mandate to foster maximum employment and price stability."

There was a wide range of views about the strength of the recovery and the direction of inflation.

"However, participants held a range of views about the risks to that outlook. Most saw the risks to growth as broadly balanced, but many saw the risks as tilted to the downside. Similarly, a majority saw the risks to inflation as balanced; some, however, saw downside risks predominating while a couple saw inflation risks as tilted to the upside."

Regarding whether QE2 would be appropriate, there were a number of views on its potential impact. Most appear to have believed that most of the *impact on the economy would be through boosting assets prices and leading to further depreciation in the dollar*.

"Participants also differed in their assessments of the likely benefits and costs associated with a program of purchasing additional longer-term securities in an effort to provide additional monetary stimulus, though most saw the benefits as exceeding the costs in current circumstances. Most participants judged that a program of purchasing additional longer-term securities would put downward pressure on longer-term interest rates and boost asset prices; some observed that it could also lead to a reduction in the foreign exchange value of the dollar. Most expected these changes in financial conditions to help promote a somewhat stronger recovery in output and employment while also helping return inflation, over time, to levels consistent with the Committee's mandate. In addition, several participants argued that the stimulus provided by additional securities purchases would help protect against further disinflation and the small probability that the U.S. economy could fall into persistent deflation--an outcome that they thought would be very costly. Some participants, however, anticipated that additional purchases of longer-term securities would have only a limited effect on the pace of the recovery; they judged that the economy's slow growth largely reflected the effects of factors that were not likely to respond to additional monetary policy stimulus and thought that additional action would be warranted only if the outlook worsened and the odds of deflation increased materially. Some participants noted concerns that additional expansion of the Federal Reserve's balance sheet could put unwanted downward pressure on the dollar's value in foreign exchange markets. Several participants saw a risk that a further increase in the size of the Federal Reserve's asset portfolio, with an accompanying increase in the supply of excess reserves and in the monetary base, could cause an undesirably large increase in inflation."

The Fed downgraded its forecast for the economy and for inflation in 2011. The November central tendency forecast for real GDP for 2011 has been bumped down to a range of 3.0 to 3.6% from June's range of 3.5 to 4.2%. The unemployment rate for 2011Q4 is now projected to be in the range of 8.9 to 9.1%, compared to June's 8.3 to 8.7%. PCE core inflation for 2011 is projected to be in a range of 0.9 to 1.3% versus June's forecast for 0.9 to 1.6%.

The bottom line is that the Fed has put considerable thought into the costs and benefits of QE2 and appears to be committed to following through. Look for exporters to be key beneficiaries.

U of Michigan Consumer Sentiment - November

AFP 11/29 - The consumer sentiment index in November landed at 71.6, an increase of 3.9 points from October and its highest reading since June. The present conditions component gained the most ground, growing 5.5 points from October to 82.1 (also its best reading since June). The expectations index grew 2.9 points from October to a reading of 64.8. The press release warned that — it is clearly too early to declare the November uptick in consumer confidence a turning point. To back this concern, only a quarter of survey participants anticipate their personal finances will improve over the next 12 months.

Econoday 11/24 - Today's strength lifts the index to its best level since June when it was at a tangibly stronger 76.0. The comparison with June is a reminder that consumer spirits have been lagging gains underway in consumer spending and gains that may be building for consumer income, as suggested by the jump in personal income data released earlier this morning. One negative is the month's three tenths rise in one-year inflation expectations to 3.0%, a reflection of pressure underway in gas and food prices. Today's news is very good news for retailers as the holiday season begins.

Barclays 11/24 - On the inflation front, inflation expectations were unchanged from the preliminary survey at 3.0% and 2.8% for the one-year and five-year median, respectively.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Nov. 20

Press Release 11/24 (excerpts) – In the week ending Nov. 20, the advance figure for seasonally adjusted initial claims was 407,000, a decrease of 34,000 from the previous week's revised figure of 441,000. The 4-week moving average was 436,000, a decrease of 7,500 from the previous week's revised average of 443,500.

The advance seasonally adjusted insured unemployment rate was 3.3% for the week ending Nov. 13, a decrease of 0.1 percentage point from the prior week's unrevised rate of 3.4%. The advance number for seasonally adjusted insured unemployment during the week ending Nov. 13 was 4,182,000, a decrease of

142,000 from the preceding week's revised level of 4,324,000. The 4-week moving average was 4,309,000, a decrease of 51,500 from the preceding week's revised average of 4,360,500.

WEEK ENDING	Nov. 20	Nov. 13	Change	Nov. 6	Prior Year
Initial Claims (Seasonally Adj)	407,000	441,000	-34,000	437,000	477,000
4-Wk Moving Average (SA)	436,000	443,500	-7,500	447,000	503,750

Econoday 11/24 – Seasonal factors tied to Thanksgiving may be at play yet the trend for jobless claims is clearly positive. Continuing claims fell for the third week in a row and at 142,000 posted their biggest decline since July.

Claims readings, due to the problem of making weekly adjustments in shortened weeks, start to get cloudy during the holidays. This puts the focus on the four-week averages which are offering a strong signal for rising payroll gains.

Barclays 11/24 - Initial and continuing claims had been moving sideways for much of the year until recently, when both series appeared to begin new downward trends. The change in both initial and continuing claims relative to their month-ago levels are suggestive of a solid employment report for November.

Vanguard 11/26 - First-time claims for unemployment compensation fell in the week ending November 20, dropping to 407,000—the lowest level since July 2008. The employment picture was brightest in California, Pennsylvania, and North Carolina.

While economists advise against reading much into one week's jobs numbers, analysts generally were pleased by the latest data. However, federal funding for unemployment benefit extensions is set to expire, and the Labor Department projects that as many as 2 million unemployed Americans will have exhausted their benefits in the next several weeks.

The Economic Week Ahead: November 29 – Dec. 3

Vanguard 11/26 - Economists won't have much time to start their holiday shopping next week. Among the reports on tap are the Conference Board's index of consumer confidence (Tuesday), the Federal Reserve's "Beige Book" and the ISM Index (both Wednesday), and the Labor Department's monthly assessment of the employment situation (Friday).

This Week's U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Nov 30	09:00	Case-Shiller 20-city Index	Sept.	1.0%	1.0%	1.7%
Nov 30	09:45	Chicago PMI	Nov.	58.0	59.6	60.6
Nov 30	10:00	Consumer Confidence	Nov.	52.0	52.0	50.2
Dec 01	07:00	MBA Mortgage Applications	11/26	NA	NA	2.1%
Dec 01	08:15	ADP Employment Report	Nov.	60K	58K	43K
Dec 01	08:30	Productivity-Revised	Q3	2.2%	2.4%	1.9
Dec 01	10:00	ISM Manufacturing Index	Nov.	56.0	56.5	56.9
Dec 01	10:00	Construction Spending	Oct.	-0.8%	-0.5%	0.5%
Dec 01	14:00	Auto & Truck Sales	Nov.	NA	na	na
Dec 01	14:00	Fed's Beige Book	Dec.			
Dec 02	08:30	Initial Claims for Unemploy.	11/27	415K	422K	407K
Dec 02	10:00	Pending Home Sales	Oct.	0.0%	0.0%	-1.8%
Dec 03	08:30	Nonfarm Payrolls	Nov.	150K	130K	151K
Dec 03	08:30	Unemployment Rate	Nov.	9.7%	9.6%	9.6%
Dec 03	10:00	Factory Orders	Oct.	-2.0%	-1.3%	2.1%

Date	ET	Release	For	Briefing.com	Consensus	Prior
Dec 03	10:00	ISM Services Index	Nov.	53.0	54.5	54.3