

Market Comment *Economic Highlights for the week ended December 2, 2011*

Economic Week in Review: U.S. Economy On Firmer Ground?

Vanguard 12/2 - Improvements in U.S. employment and manufacturing suggest the nation's economic recovery has regained traction. However, risks abound. The nation's housing and employment situation remain weak. A slower global economy and turmoil in the Euro-zone pose a challenge to any recovery. For the week ended December 2, the S&P 500 Index rose 7.4% to 1,244 (for a year-to-date total return of about 0.9%). The yield on the 10-year U.S. Treasury note rose 8 basis points to 2.05% (for a year-to-date drop of 125 basis points).

Non-Farm Payrolls – November: Surprise Decline in Unemployment Rate

Vanguard 12/2 - The U.S. unemployment rate declined 0.4 percentage point to 8.6% in November, its lowest level since March 2009. Nonfarm employment rose by 120,000. Private sector employment increased by 140,000 jobs, while government jobs declined by 20,000. Sectors including retail, leisure and hospitality, professional and business services, and health care experienced gains. The weakest spot was construction. The unexpected decrease in the unemployment rate resulted from stronger household employment data as well as a contraction in the overall labor force. A shrinking labor force may be a result of fewer workers looking for work, possibly because they are discouraged about finding a job. Unemployed people who don't actively look for work are not considered part of the labor force.

"The drop in the unemployment rate was a big surprise," said Roger Aliaga-Díaz, senior economist at Vanguard. "As the length of time people spend in unemployment increases, and as extended unemployment benefits expire, more unemployed workers are giving up the job search. It's going to be important going forward to monitor alternative unemployment measures that include some of these discouraged workers to get a complete picture of the labor market."

AFP 12/5 - Just days before the Federal Open Market Committee has its final scheduled meeting for 2011, news headlines screamed on Friday that the unemployment rate had declined to its lowest reading since March 2009. But a closer review of the November employment data from the Bureau of Labor Statistics shows the 4/10ths of a percentage point decline in the unemployment rate to 8.6% was partially the result of 315,000 people leaving the labor force during the month. The household survey, from which the BLS uses to derive the unemployment rate, also had household employment gaining 278,000 during the month. The household survey also found that there were 13.303 million unemployed people in November, down from 13.897 million in October and 15.017 million in November 2010. The typical unemployed person has been out of work for 21.6 weeks with 43.0% of all unemployed people out of work for at least 27 weeks (that is, 5.691 million people).

The separate establishment survey indicates employers added 120,000 workers in November. The good news was not only was this the fifth straight month in which payrolls expanded by at least 100,000 workers, the BLS also added a combined 72,000 additional jobs to its previously reported payrolls estimates for September and October. The bad news is that three-month moving average (143,000) was roughly half of what we would like to see to bring down the unemployment rate in a more sustainable manner (that is, where it does not involve several hundred thousand people fleeing from the labor force because they cannot find work).

All of November's job creation occurred in the private service sector (+146,000 workers) with the biggest gains in payrolls occurring in retail (49,800), restaurants/bars (32,700), profession/business services (33,000, with 22,300 in the form of temporary hiring) and health care/social assistance (18,700). Meanwhile the goods producing sector of the economy shed 6,000 workers while government employment contracted by 20,000.

Federal Reserve "Beige Book" - Report Shows Modest Growth

Vanguard 12/2 - The U.S. economy grew at a "slow to moderate pace" across most regions between October and mid-November, according to the Federal Reserve's latest Beige Book survey. The biggest gains in the economy came from manufacturing and consumer spending. Bank lending improved slightly and home refinancing grew rapidly. However, residential and commercial real estate remained sluggish. Employment remained "subdued" although wages and salaries had stabilized.

Barclays 11/30 - Banking and finance activity increased "slightly" as four districts reported higher loan demand (New York, Philadelphia, Cleveland and Kansas City). In terms of credit quality and standards, conditions varied across districts. Philadelphia and Kansas City reported "stable or improving loan quality," while Cleveland, Chicago and St. Louis reported that credit quality was mostly unchanged since the last report.

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Consumer Confidence – November: Consumers a Bit More Optimistic

Vanguard 12/2 - The Conference Board's index of consumer confidence jumped to 56.0 in November, up more than 15 points from October's exceptionally low reading of 40.9. The expectations component of the index, which reflects consumers' outlook on the economy for the next six months, climbed more than 17 points. The index's present situation component, a measure of consumer sentiment on current economic conditions, rose 11.2 points for the month.

"Confidence has bounced back to levels last seen during the summer," said Lynn Franco, director of the Conference Board Consumer Research Center. "Consumers' assessment of current conditions finally improved, after six months of steady declines. Consumers' apprehension regarding the short-term outlook for business conditions, jobs, and income prospects eased considerably. Consumers appear to be entering the holiday season in better spirits, though overall readings remain historically weak."

Econoday 11/29 – This is the first time since April that optimists have outnumbered pessimists. Other positives in today's report include an improvement in buying plans for both homes and appliances and a three percentage point decline in 12-month inflation expectations to 5.5%.

Productivity – 3Q 2011: Productivity Rises, Costs Fall

Vanguard 12/2 - U.S. worker productivity increased at an annual rate of 2.3% in the third quarter, below economists' expectations. The figure was revised from a gain of 3.1% in the third quarter's preliminary report. However, the third-quarter growth followed two straight quarters of declines. Unit labor costs fell 2.5% in the third quarter, revised from the 2.4% drop cited in the preliminary report. Economists had forecasted a 2.3% decrease. With productivity growth slowing, some analysts expect companies to add workers in 2012 to meet increased demand for goods and services.

Barclays 11/30 - However, the broader trend is towards softer productivity growth and gradually increasing unit labor cost growth.

S&P Case-Shiller Home Prices - September: Sharp Decline in US Home Prices

Econoday 11/29 – Evidence is building fast that home prices are falling into deepening contraction, the likely result of distressed sales tied to foreclosures. Case-Shiller data for September show a very heavy 0.6% monthly decline for the both adjusted and unadjusted 20-city indexes. These are three-month averages which indicate an especially severe decline for September alone. In a mild offset, contraction in year-on-year rates moderated slightly to minus 3.6%, again for both the adjusted and unadjusted 20-city indexes.

Barclays 11/29 - 15 of the 20 cities posted declines, the largest in Atlanta (-4.1%), Las Vegas (-1.8%) and Tampa (-1.7%). Gains in Washington DC (1.0%), Portland (0.5%) and Dallas (0.3%) provided only a partial offset. In general, those regions with the highest concentration of foreclosures continue to post the largest price declines.

FHFA Home Prices - September: US FHFA Home Prices Post Upside Surprise

AFP 12/5 - The Federal Housing Finance Agency's purchase only home price index was down 2.2% from a year earlier in September. This was a sharp improvement from the -4.2% 12-month comparable reported in August and the -6.2% comparable in April.

Barclays 11/29 - The Federal Housing Finance Agency (FHFA) purchase-only house price index rose 0.9% in September. The y/y rate rose, to -2.2% from -4.2%. By geographic breakdown, seven of the eight regions posted gains, the strongest in the West N. Central (2.5%) and the South Atlantic (1.3%). Only the East S. Central posted a decline (of 0.2%). The apparent strength of this report stands in stark contrast to the sharp decline in the S&P/Case-Shiller index in the same month.

New Home Sales - October 2011: Up Slightly

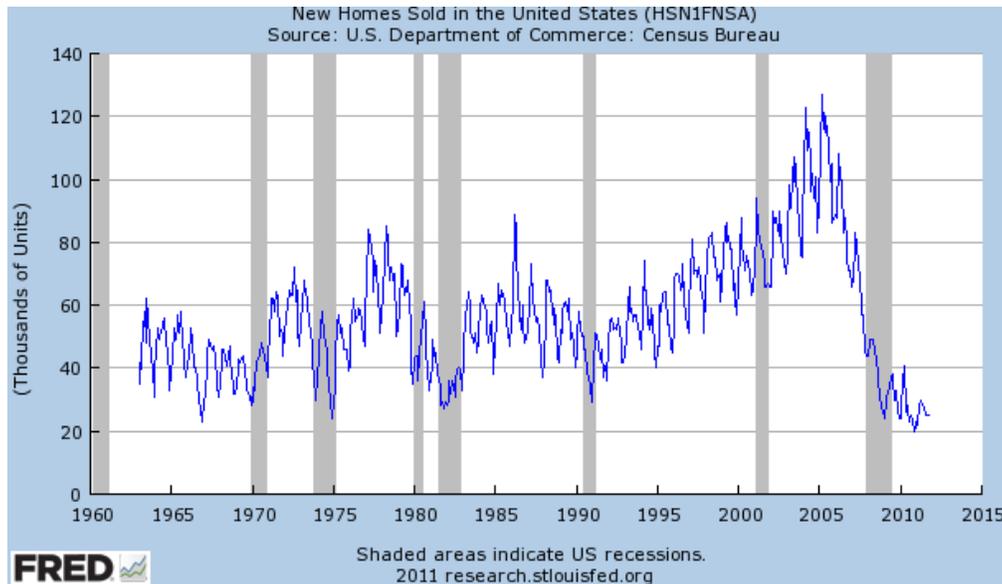
Press Release 11/28 - Sales of new single-family houses in October 2011 were at a seasonally adjusted annual rate of 307,000, according to estimates released jointly today by the U.S. Census Bureau and the Department of Housing and Urban Development.

This is 1.3% above the revised September rate of 303,000 and is 8.9% above the October 2010 estimate of 282,000.

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The median sales price of new houses sold in October 2011 was \$212,300; the average sales price was \$242,300. The seasonally adjusted estimate of new houses for sale at the end of October was 162,000. This represents a supply of 6.3 months at the current sales rate.

Vanguard 12/2 - While sales are up 8.9% from a year ago—the best year-over-year gain since May—they remain near the slowest pace on record. The housing market continues to struggle because of the continuing foreclosure crisis and high levels of unemployment, which have prevented many people from purchasing a home and taking advantage of some of the most attractive mortgage rates in recent history.



Construction Spending – October: Residential Construction Spending Inched Up

Vanguard 12/2 - Overall construction spending increased 0.8% in October. Private sector spending increased 2.3% for the month, largely because more people are taking on home-improvement projects. Nonresidential spending was also up in October, climbing 1.3%. But public sector spending—which includes projects funded by state and local governments—declined 1.8% for the month. Compared with October 2010, overall government-funded construction spending is down 9.4%.

Econoday 12/1 – Construction outlays have risen three months in a row and in six of the last seven months. It may not be a lot (coming from a low base) but it is starting to look like the construction sector is incrementally adding to overall economic growth. It is not an "engine" like manufacturing but it is in better shape than even less than a year ago.

Barclays 12/1 - The 0.6% gain in the construction of single-family units hints at slightly stronger residential investment during Q4.

ISM Manufacturing - November: Rise Consistent With Solid Q4 Growth

Vanguard 12/2 - U.S. manufacturing, as measured by the ISM Manufacturing Index, rose to 52.7 in November, its highest level since June. An index level above 50 suggests expansion in the sector. The jump in manufacturing activity, which exceeded expectations, was driven largely by increases in new exports and production. The difference between new orders and inventories—a gauge of future production—jumped from 5.7 in October to 8.4 in November. While there were many signs of strength in manufacturing, employment levels continue to disappoint. Payrolls declined for the second consecutive month. Still, the U.S. manufacturing sector is growing, while some of the world's fastest growing nations, including China, are experiencing contraction in the sector.

Econoday 12/1 – ISM new orders are turning higher in what is very good news for the manufacturing sector. The new orders index for November is up a very strong 4.3 points to 56.7, above 50 to indicate monthly growth and well above October. Today's report hints at building strength and renewed leadership in manufacturing.

Barclays 12/1 - This is an encouraging report especially with the rebound in new orders.

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Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Nov 26

Press Release 12/1 (excerpts) - In the week ending November 26, the advance figure for seasonally adjusted initial claims was 402,000, an increase of 6,000 from the previous week. The 4-week moving average was 395,750, an increase of 500.

WEEK ENDING	Nov 26	Nov 19	Change	Nov 12	Prior Year
Initial Claims (SA)	402,000	396,000	+6,000	391,000	439,000
4-Wk Moving Average (SA)	395,750	395,250	+500	397,500	433,000

Econoday 12/1 – The shortened Thanksgiving November 26 week clouds a 6,000 rise in initial jobless claims to 402,000. This ends three straight weeks under 400,000. The four-week average, which helps smooth out distortions in any one week, shows its first increase in five weeks, up a marginal 500 to 395,750.

The Labor Department reports no special factors in the latest data but the shortened week for the initial claims period is likely to blunt market reaction.

Barclays 12/1 - The broader picture now suggests that, having reversed the sharp rise during August, claims are now trending broadly sideways around the 400k mark, consistent with modest employment gains.

The Economic Week Ahead: Dec 5– Dec 9, 2010

Vanguard 12/2 - Next week will be a light week for economic reports. Reports to watch for include factory orders and the ISM Nonmanufacturing Index (Monday), consumer credit (Wednesday), and international trade (Friday).

This Week's U.S. Economic Calendar

Source: MarketWatch

	TIME (ET)	REPORT	PERIOD	FORECAST	PREVIOUS
MONDAY, DEC. 5	10 am	ISM Services	November	53.5%	52.9%
	10 am	Factory Orders	October	-0.6%	0.3%
TUESDAY, DEC. 6		None Scheduled			
WEDNESDAY, DEC. 7	3 pm	Consumer Credit	October	--	\$7.4 billion
THURSDAY, DEC. 8	8:30 am	Jobless Claims	12-3	N/A	N/A
	10 am	Wholesale Trade	October	--	-0.1%
FRIDAY, DEC. 9	8:30 am	Trade Deficit	October	-\$43.5 billion	-\$43.1 billion
	9:55 am	Consumer Sentiment	December	--	64.1

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes \$million	New Bonds \$millions	Issue Count	Called Bonds Par \$millions	Issue Count
18-Nov	4,170	1,736	27	625	2
25-Nov	4,800	1,804	22	385	4
2-Dec	2,280	2,824	22	1,051	7