Market Comment *Economic Highlights for the week ended December 10, 2010*

Economic Week In Review: Exports Rise to Two-Year High

Vanguard 12/10 - While Washington buzzed contentiously over tax rates and other domestic policy items, this week's activity suggested the economy is still trying to sound a positive note. Consumer sentiment improved and new jobless claims dropped, but unusual short-term volatility in the fixed income markets depressed bond prices and bumped mortgage rates to their highest level since June. For the week ended December 10, the S&P 500 Index rose 1.3% to a 2-year high of 1240 (for a year-to-date total return of about 13.4%). The yield on the 10-year U.S. Treasury note jumped 26 basis points to 3.29% (for a year-to-date decline of 56 basis points).

Trade Deficit Narrows

Vanguard 12/10 - The trade deficit narrowed to $38.7 billion in October as U.S. exports jumped to their highest level in two years. The Commerce Department reported that the deficit with China, an important figure for U.S. trading activity, shrank 8.3%, to $25.5 billion. Exports to China surged almost 30%, to a record high of $9.3 billion.

The report indicated that the inflation-adjusted deficit, used by economists to determine the impact of trade on GDP, dropped to $45.2 billion from $50.3 billion in September. Experts suggested the surge in exports could alter forecasts of fourth-quarter GDP, though the deficit with other trading partners—from Canada to Japan and the European Union—continued its upward trend.

Barclays 12/10 - Today's report signals that trade may add to growth in Q4 after being a sharp drag in Q3 (-1.8pp) and Q2 (-3.5pp).

Econoday 12/10 - The latest trade report is good news for manufacturers. Demand overseas is holding up nicely. And businesses may be giving the consumer sector an upgrade and vote of confidence with the rebound in imports of consumer goods. Businesses apparently expected these goods to not sit on stockroom shelves.

Consumer Credit Rises Again

Vanguard 12/10 - Consumer borrowing jumped $3.4 billion in October, the largest increase since July 2008—even as revolving credit-card use declined for the 26th consecutive month. The Federal Reserve reported that student loans contributed to the total increase, though the $2.4 trillion overall credit balance was down 3.1% from a year ago.

Experts contend that consumers still prefer to pay cash for goods and services, though new auto sales increased in September and October. The consumer credit report doesn't contain figures on home mortgages or other real estate-secured loans but is still considered a barometer of consumer activity.

Econoday 12/7 - Gains in non-revolving reflect strong demand for vehicle loans which based on last week's solid unit vehicle sales are likely to show strength in the November report.

Revolving credit, a category centered in credit cards, continues to contract, down $5.6 billion in October following September's $8.8 billion drop. In sum, this is a mixed report given the weakness in revolving credit which is not a plus for the nation's retailers.

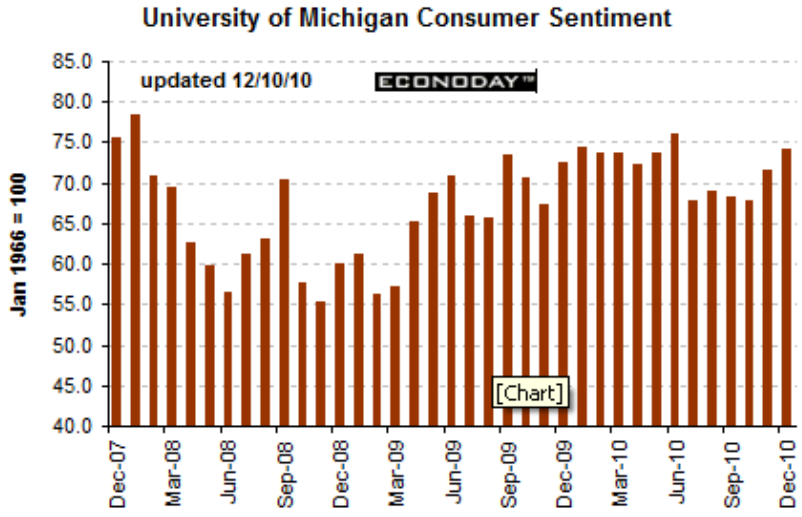
Barclays 12/7 - We attribute much of this increase to a jump in credit extensions from federal government entities, which is mostly comprised of student loans. Looking forward, we expect the pace of decline in consumer credit to decelerate further and turn positive next year.

The Reuter's/University Of Michigan's Consumer Sentiment Index

Econoday 12/10 - The strength in the second half of November has extended into the first half of December as the consumer sentiment index came in at 74.2 vs November's 71.6. The implied reading for the second half of November was 73.9 vs a first-half reading of 69.3. October, at 67.7, was even weaker. The direction is certainly positive as is the composition that shows roughly equal improvement for expectations and for the assessment of current conditions.

Another positive is that price increases underway for gasoline and food have yet to affect inflation expectations which actually slipped one tenth both for one-year expectations, now at 2.9%, and for five-year expectations at 2.7%.

What's behind the good news? The stock market has improved slightly, that may be one factor. Jobless claims are falling, that may be another though payroll growth and overall unemployment are both disappointing. Those with jobs have generally been earning more though last week's data on average hourly earnings (part of the employment report) were flat. Remember consumer spirits picked up in the second quarter only to fall back during the third quarter, a disappointment that could be repeated unless underlying job growth picks up.



Consumer sentiment is mainly affected by inflation and employment conditions. However, consumers are also impacted by current events such as bear & bull markets, geopolitical events such as war and terrorist attacks. Investors monitor consumer sentiment because it tends to have an impact on consumer spending over the long run (although not necessarily on a monthly basis.)

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Dec. 4

Press Release 12/9 (excerpts) – In the week ending Dec. 4, the advance figure for seasonally adjusted initial claims was 421,000, a decrease of 17,000 from the previous week's revised figure of 438,000. The 4-week moving average was 427,500, a decrease of 4,000 from the previous week's revised average of 431,500.

The advance seasonally adjusted insured unemployment rate was 3.2% for the week ending Nov. 27, a decrease of 0.2 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. 27 was 4,086,000, a decrease of 191,000 from the preceding week's revised level of 4,277,000. The 4-week moving average was 4,226,000, a decrease of 64,250 from the preceding week's revised average of 4,290,250.

WEEK ENDING	Dec. 4	Nov. 27	Change	Nov. 20	Prior Year
Initial Claims (Seasonally Adj)	421,000	438,000	-17,000	410,000	483,000
4-Wk Moving Average (SA)	427,500	431,500	-4,000	436,750	486,000

Barclays 12/9 - Overall, the report suggests ongoing moderate improvement in labor market conditions as both initial and continuing claims remain in their recent downward trends.

Looking beyond the week-to-week variation in the numbers, the four-week moving average continues to decline, reaching 428k in the week from 432k in the previous week. The four-week moving average remains at its lowest levels since August 2008 before the intensification of financial market stresses. Continuing claims declined by a sharp 191k for the week ending November 27, to 4086k, and the four-week moving average now stands at 4226k, from 4290k during the previous week. The insured unemployment rate fell further, dropping to 3.2% from 3.4% observed in the previous week, the lowest level since November 2008.

The Economic Week Ahead: Dec 13 – Dec. 17

Vanguard 12/10 - Next week will be busy with reports, starting Tuesday with the Producer Price Index, retail sales, business inventories, and Federal Open Market Committee monetary policy. Wednesday brings the Consumer Price Index and industrial production news, followed Thursday by data on jobless claims and new residential construction. The Conference Board's report on leading economic indicators caps the week on Friday.

This Week's U.S. Economic Calendar: Dec. 13 – 17

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Dec 14	08:30	Producer Price Index (PPI)	Nov.	0.5%	0.5%	0.4%
Dec 14	08:30	Retail Sales	Nov.	0.4%	0.5%	1.2%
Dec 14	10:00	Business Inventories	Oct.	1.4%	1.1%	0.9%
Dec 14	15:15	FOMC Rate Decision	Dec 14	0.25%	0.25%	0.25%
Dec 15	07:00	MBA Mortgage Applications	12/10	NA	NA	-0.9%
Dec 15	08:30	Consumer Price Index (CPI)	Nov.	0.2%	0.2%	0.2%
Dec 15	09:15	Industrial Production	Nov.	0.2%	0.3%	0.0%
Dec 15	09:15	Capacity Utilization	Nov.	75.0%	75.0%	74.8%
Dec 16	08:30	Initial Claims for Unempl.	12/11	415K	425K	421K
Dec 16	08:30	Housing Starts	Nov.	525K	545K	519K
Dec 16	08:30	Building Permits	Nov.	550K	558K	550K
Dec 16	10:00	Philadelphia Fed	Dec.	10.0	12.5	22.5
Dec 17	10:00	Leading Indicators	Nov.	1.0%	1.2%	0.5%

Goldman Sachs Forecast: A Brighter US Economic Outlook

GS 12/1 - The US growth outlook has brightened significantly in recent weeks. As a result, we have raised our sights for 2011, calling for real GDP growth to average 2.7% for the year versus 2.0% previously. We expect growth to pick up further in 2012—to 3.6% on average for the year—though judgments that far out are clearly tentative.

The main reason: recent data reveal a firmer trend in domestic final demand and suggest that it will be sustained via improvements in net hiring and credit availability. Meanwhile, the downside risk of a material tightening in federal fiscal policy—i.e., failure to extend expiring tax cuts—has diminished significantly.

Although our revised outlook implies a meaningful drop in the jobless rate, it will remain high by historical standards, ending 2012 at about 8½%. With other measures of utilization also likely to show significant excess capacity, we expect core inflation to remain at the ½% year-to-year rate in 2012 that we have been forecasting for year-end 2011.

In turn, this means that the Federal Open Market Committee (FOMC) is unlikely to increase the federal funds rate in 2011 and will probably stay on hold in 2012 as well. The future of unconventional easing is a much closer call. On balance, we think that Fed officials will buy more assets after the $600bn already committed. But we have scaled back our cumulative expectation for QE2 to $1trn from $2trn, and it is also possible that the program will end at $600bn.

Risks exist on both sides. On the downside, we worry most that renewed home price declines— now expected to fall 5% or a bit more over the next year—will cause another round of consumer retrenchment; risks of a financial spillover from European debt woes and of significant fiscal tightening at home also lurk. On the upside: cash-rich companies may be more willing to spend on capital equipment or to expand payrolls than we now anticipate.