Economic Week In Review: The Recovery Appears To Gain Traction

Vanguard 12/17 - The week's news suggested that the economic recovery is gaining traction. Retail sales were up for the fifth consecutive month, and an index of leading economic indicators looked bullish. At the same time, inflation remained dormant as the Federal Reserve reiterated its plan to continue purchasing Treasury securities to support the recovery. Meanwhile, President Obama signed a broad tax package that, among other things, extends tax cuts enacted during the George W. Bush administration and includes a one-year reduction of the Social Security payroll tax, a measure intended to spur the recovery in 2011. For the week ended December 17, the S&P 500 Index rose 0.3% to 1,244 (year-to-date total return of 13.7%). The yield of the 10-year U.S. Treasury note increased 1 bp to 3.33% (year-to-date decrease of 52 bps).

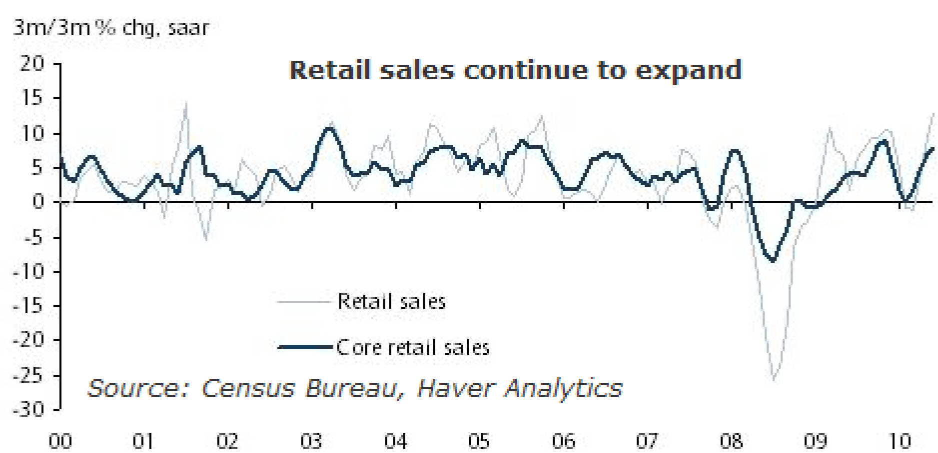
AFP 12/20 - Days before Christmas, the Federal Reserve was in a giving (i.e., accommodative/stimulative) mood by reaffirming its commitment to a second round of quantitative easing and keeping the fed funds rate at the same ultra-low rate it has been at for two years. We also learned last week that financial professionals are cautiously optimistic about business conditions, but see a plethora of factors that could further slow the recovery. November price data continued recent trend: what little growth that there has been in producer prices was not being passed onto consumers. Another recent trend that was repeated last week is about the consumer—namely, their return to the mall.

A group who has not placed much faith in the second round of quantitative easing is financial professionals. Last Monday, the Association for Financial Professionals (AFP) released its 2011 Business Outlook Survey, which showed that only 23% of financial executives believe the Fed's recent resumption of Treasury securities purchases will enhance business conditions. Further, just 15% of survey respondents believe that another round of fiscal stimulus was particularly desirable either.

Overall, finance executives were growing more optimistic about the economy, expecting a moderate pace of growth during the New Year. Forty-eight percent of survey respondents expect business conditions will improve in 2011, with only five percent anticipating a deterioration. The median prediction for 2011 growth in gross domestic product (GDP) was a moderate 2.3%, while the typical survey respondent was expecting the consumer price index (CPI) will increase 1.4%. More than two out of five respondents indicated that their companies were intending to expand payrolls over the next 12 months (the highest percentage indicating as such in four years), yet the median prediction for growth in non-farm payrolls was a paltry 800,000.

Retail Sales – November: Consumers Are Picking Up The Pace

Vanguard 12/17 - Heading into the crucial holiday shopping season, consumer spending continued to increase. Retail sales were up for the fifth consecutive month in November, rising 0.8%, a bit above expectations. In addition, the October gain was revised upward to 1.7%. Excluding autos, the number was even more robust at 1.2%. On a 12-month basis, retail sales were up 7.7%, the third straight month of year-over-year growth at or near 8%. In fact, sales grew at a 13.7% annualized pace over the past four months, bringing retail sales near the same level as their November 2007 peak.



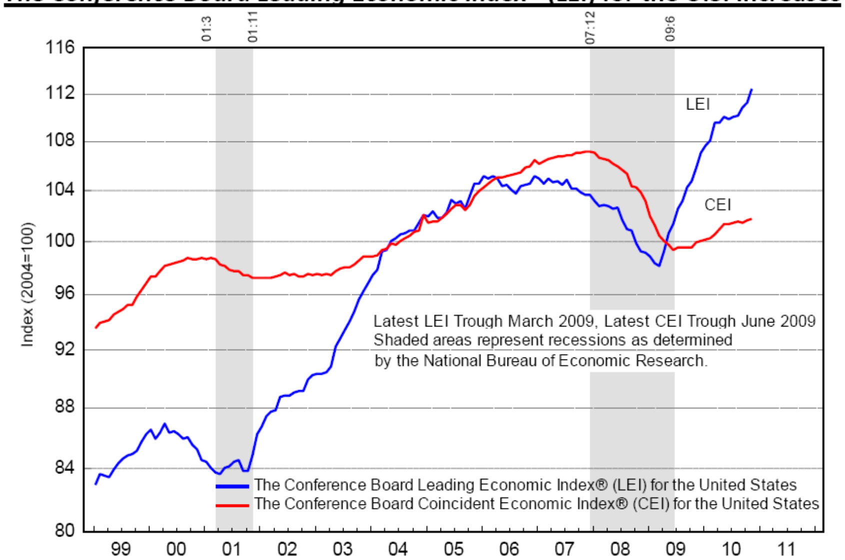
Barclays 12/14 - Today's report indicates that consumer spending has been robust throughout the first two months of Q4.

Leading Indicators - November: Nine Of Ten Leading Indicators Point Up

Vanguard 12/17 - The nation's economic dashboard is showing more positive signals lately—a trend confirmed by The Conference Board on Friday, which said that its index of leading economic indicators rose 1.1% in November. Nine of the survey's ten components increased; the only drag was building permits. The index, which consists of ten financial- and consumer-related indicators, accelerated at an annualized rate of 8.6% during the past three months, its fastest growth rate since March. The six-month annualized rate increased to 4.4% from 3.1%. "November's sharp increase, the fifth consecutive gain, is an early sign that the expansion is gaining momentum and spreading," said Ataman Ozyildirim, economist at The Conference Board. "Continuing strength in financial indicators is now joined by gains in manufacturing and consumer expectations, but housing remains weak."

Press Release 12/17 (excerpts) - The Conference Board Leading Economic Index® (LEI) for the U.S. increased 1.1% in November to 112.4 (2004=100), following a 0.4% increase in October, and a 0.6% increase in September.

The Conference Board Leading Economic Index® (LEI) for the U.S. Increases



Says Ken Goldstein, economist at The Conference Board: “The U.S. economy is showing some sparks of life in late 2010. Overall, the indicators point to a mild pickup after a slow winter. Looking further out, possible clouds on the medium term horizon include weaknesses in housing and employment.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1% in November to 101.7 (2004=100), following a 0.2% increase in October, and a 0.1% decline in September. The Conference Board Lagging Economic Index® (LAG) declined 0.1% in November to 108.6 (2004=100), following no change in October, and a 0.6% increase in September.

Consumer Price Index (CPI) - November: Consumer Prices Barely Budge

Vanguard 12/17 - Inflation as measured by the Consumer Price Index (CPI) continues to crawl along at a snail's pace. Consumer prices inched up 0.1% in November, and for the 12-month period rose only 1.1%. Energy costs, which had surged 2.6% in October, rose only 0.2% in November. Excluding the more-volatile food and energy categories, the core price index logged the same 0.1% rise for the month after holding at 0% for three consecutive months. For the past 12 months, the core CPI has risen only 0.8%, showing that sellers of goods and services, while experiencing modest inflation as measured by the Producer Price Index (see below), are not passing along increased costs to consumers.

AFP 12/20 - Consumer prices have increased 1.1% over the past 12 months. Consumer energy prices grew 0.2% in November, its smallest increase since a 2.9% decline in June. Consumer food prices also grew 0.2% during the month. Core consumer prices—net of both food and energy—increased 0.1% and have grown by just 0.7% over the past year. Prices of services went up 0.2% during the month, while those of goods contracted 0.1%. Core consumer goods prices have declined 0.2% since November 2009.

Barclays 12/16 - We believe that the core CPI bottomed at 0.6% y/y in October and will move above 1% y/y in the second half of 2011. Shelter costs were the main driver of core disinflation, and we project that they will gradually strengthen over the next year.

Producer Price Index (PPI) - November: Wholesale Energy And Food Prices Rise Modestly

Vanguard 12/17 - While consumer prices are barely moving, wholesale prices rose a bit more than expected in November, as producers are paying more for energy and food. The Producer Price Index (PPI)—which measures how much manufacturers and wholesalers pay for goods and materials—was up 0.8% for finished goods. A big part of the increase came from energy costs—mostly gasoline and other fuels—which rose 2.1% for the month. A 1.0% increase in consumer foods also contributed to the advance. Meanwhile, the core PPI—excluding food and energy prices—was up a more modest 0.3%, after dipping 0.6% in October. The rebound was attributed to passenger cars, which slipped 3.0% in October but rose 1.7% last month. For the last 12 months, the core PPI has been quite tame, rising only 1.2%.

AFP 12/20 - Earlier in the production cycle, prices of intermediate goods jumped 1.1% (its 4th straight monthly increase). Prices of intermediate energy goods surged 2.8% while those of core intermediate goods grew 0.7%. Prices of crude prices increased 0.6%—core crude prices jumped 3.1%.

Business Inventories – October: Restocking Of Inventories Slows A Bit

Vanguard 12/17 - U.S. business inventories were up 0.7% for the month of October, lower than the expected 1.0% gain. However, the previous month's 0.9% reading was revised upward to 1.3%. The October number was the lowest since June, suggesting businesses are slowing the pace of inventory building, which could be a modest drag on GDP growth into next year. Since the middle of 2009, inventories have added an average of 1.7 percentage points to GDP. If the stockpiling continues to slow, demand from end users will have to make up the difference for the recovery to continue.

Industrial Production – November: Shows Some Strength

Vanguard 12/17 - Industrial production rose 0.4% from October to November, with manufacturing production rising 0.3%. Excluding motor vehicles, the manufacturing increase was 0.7%, the highest reading since May. The numbers were encouraging, given that the previous month's industrial output was revised downward from zero to –0.2%. Also encouraging: Industrial capacity utilization edged up to 75.2% from 74.9%, reaching its highest level in two years. Output from utilities, which fell 3.7% in October because of warmer-than-usual weather, rebounded with a 1.9% gain.

AFP 12/20 - Industrial production has risen 5.4% over the past year. Manufacturing output increased 0.3% in November and 5.3% over the past year. Durable goods production grew 0.4% despite a 6.0% slowdown in the auto production. Non-durable goods production increased 0.2%. Mining output fell 0.1% while that of utilities rebounded 1.9% following 2 months of declines. Capacity utilization grew 3/10ths of a percentage point to 75.2%.

Housing Starts – November: Upward Turn In New Housing Construction

Vanguard 12/17 – Housing starts rose 3.9% in November to an annual rate of 555,000, slightly higher than expectations. The corresponding number for October was revised upward to 534,000. Single-family construction showed some strength, rising 6.9%. However, multifamily starts declined 9.1%. While the upward tick is welcome, the housing market remains quite lethargic by historical standards, with total housing starts down nearly 6% from last year's sluggish pace. Housing permits, an indicator of future construction starts, fell 4.0% in November and are down 14.7% from a year ago.

AFP 12/20 - Even with the month-to-month gain, housing starts were 5.8% below levels of a year earlier. Starts of single-family homes increased 6.9% during the month but were off 7.7% from November 2009. There were 530,000 permits issued during the month (SAAR), down 4.0% from October. Completions totaled 513,000, off a sharp 14.1% from October.

Barclays 12/16 - Although the rise in November housing starts is encouraging, we expect residential construction to contribute only modestly to total GDP growth in the near term.

Fed Open Market Committee Meeting Dec. 14: Fed Stays Its Course

Vanguard 12/17 - At the December 14 meeting of the Federal Open Market Committee, the central bank confirmed that it will continue with its plan to purchase $600 billion of longer-term Treasuries by the second quarter of 2011. The program is designed to prevent deflation and support the economic recovery. The FOMC reiterated its view that progress toward its twin objectives of price stability (generally seen as a steady annual inflation rate of around 2%) and a higher employment rate "has been disappointingly slow." The FOMC's statement cited modest income growth, high unemployment, lower housing wealth, and tight credit as constraints. However, the committee did note that consumer spending is "increasing at a moderate pace," compared with "increasing gradually" in its previous statement. As it has since June 2009, the committee again said that it will keep the **fed funds rate target in the 0% to 0.25% range** "for an extended period."

AFP 12/20 - The FOMC reiterated its commitment to the second round of quantitative easing that included purchasing Treasury securities and reinvesting principal payments made on its other securities holdings. The committee stated that the economic recovery was "insufficient to bring down unemployment" as **"employers remain reluctant to add to payrolls."** Growth in business investment has slowed while household spending was growing "at a moderate pace." The 10-1 decision also kept the fed funds target rate at near zero for the 17th straight meeting with the statement saying that it would stay there "for an extended period."

This was the second anniversary of the initial decision to move the target rate to this ultra-low level (coming at a time in which the U.S. economy was in a freefall and during the meltdown of the financial system).

Barclays 12/14 - Altogether, while the committee views the recovery as proceeding, it sees the pace of activity as "insufficient" to bring down the high levels of unemployment. In addition, while measures of long-term inflation expectations were viewed as "stable," measures of underlying inflation "have continued to trend downward." Thus, both measures remain well off the Fed's dual mandate and will be for some time. We interpret the statement as consistent with our view that there is little to suggest that the Fed will stop short of its intent to purchase $600bn, or to prevent the FOMC from going further if it feels conditions warrant.

Unemployment Insurance Weekly Claims Report (Initial Jobless Claims) – week of Dec. 11

Press Release 12/16 (excerpts) – In the week ending Dec. 11, the advance figure for seasonally adjusted initial claims was 420,000, a decrease of 3,000 from the previous week's revised figure of 423,000. The 4-week moving average was 422,750, a decrease of 5,250 from the previous week's revised average of 428,000.

The advance seasonally adjusted insured unemployment rate was 3.3% for the week ending Dec. 4, unchanged from the prior week's revised rate of 3.3%.

The advance number for seasonally adjusted insured unemployment during the week ending Dec. 4 was 4,135,000, an increase of 22,000 from the preceding week's revised level of 4,113,000. The 4-week moving average was 4,185,500, a decrease of 47,250 from the preceding week's revised average of 4,232,750.

WEEK ENDING	Dec. 11	Dec. 4	Change	Nov. 27	Prior Year
Initial Claims (Seasonally Adj)	420,000	423,000	-3,000	438,000	490,000
4-Wk Moving Average (SA)	422,750	428,000	-5,250	431,500	481,250

Barclays 12/16 - This is an encouraging report, which signals that despite a soft November employment report, the rate of job losses is continuing to slow.

The Economic Week Ahead: Dec. 20 - 24

Vanguard 12/17 - Next week's highlight will be Wednesday's release of the updated third-quarter gross domestic product estimate. Other news will include the latest on existing-home sales (Wednesday) along with durable goods, personal income, and new-home sales (Thursday).

This Week's U.S. Economic Calendar

Source: Briefing.com

Date	ET	Release	For	Briefing.com	Consensus	Prior
Dec 22	08:30	**GDP - Third Estimate**	Q3	2.7%	2.7%	2.5%
Dec 22	08:30	GDP Deflator - Third Estimate	Q3	2.3%	2.3%	2.3%
Dec 22	10:00	**Existing Home Sales**	Nov	4.87M	4.65M	4.43M
Dec 23	08:30	Personal Income	Nov	0.1%	0.2%	0.5%
Dec 23	08:30	Personal Spending	Nov	0.5%	0.5%	0.4%
Dec 23	08:30	PCE Prices - Core	Nov	0.1%	0.1%	0.0%
Dec 23	08:30	**Durable Orders**	Nov	-1.8%	-1.1%	-3.3%
Dec 23	08:30	Initial Claims	12/18	415K	424K	420K
Dec 23	08:30	Continuing Claims	12/11	4050K	4075K	4135K
Dec 23	09:55	Univ.of Michigan Sentiment - Final	Dec	75.5	74.8	74.2
Dec 23	10:00	**New Home Sales**	Nov	290K	300K	283K

FFCB Weekly Debt Issuance Activity

Week Ended Date	Discount Notes $million	New Bonds $millions	Issue Count	Called Bonds Par $millions	Issue Count
19-Nov	$ 7,745	$ 2,263	26	$ 421	2
26-Nov	4,915	680	12	948	5
3-Dec	8,095	1,333	33	-	-
10-Dec	6,180	1,876	27	461	9
17-Dec	6,140	2,167	21	647	6