Weekly Economic Commentary

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ECONOMIC CALENDAR

Monday, Apr 5
ISM NMI
Mar

Pending Home Sales
Feb

Tuesday, Apr 6
FOMC Minutes

Wednesday, Apr 7
Consumer Credit
Feb

Thursday, Apr 8
Initial Claims
04/03

Chain Store Sales
Mar

Friday, Apr 9
Wholesale Inventories
Feb

Highlights

Last week's U.S. economic data was solid, capped off by the March jobs report that revealed some emerging signs of strength in the labor market.

No fewer than seven central banks meet this week to decide on monetary policy. In addition, Fed Chairman Bernanke will deliver two speeches.

Central Banks on Parade!

Last week saw another solid round of U.S. economic data for February and March. Personal spending, home prices, consumer confidence, and jobless claims data all came in at or above expectations. Although they were below expectations, vehicle sales in March rebounded smartly from February's level, which was likely depressed by bad weather and the Toyota recall. On balance, last week's data kept the economy on track to post a 4.0% gain (as measured by Real Gross Domestic Product (GDP)) in the first quarter of 2010. The first quarter 2010 GDP data is due out at the end of April.

The most important report last week was the March employment report, which was released on Good Friday, April 2, when most markets were closed. In our view, the March jobs report was another step in the right direction on the labor market. Although the economy has still shed nearly 900,000 jobs since the recession most likely ended last summer, the economy added 162,000 jobs in March, and has added jobs in three of the past five months. Private sector employment has now risen in three consecutive months, aided, in part, by three consecutive monthly gains in manufacturing employment. The unemployment rate remained at 9.7% in March, raising the odds that the unemployment rate peaked at 10.1% in October 2009.

While Census workers (48,000) and the snapback in employment after severe weather in February certainly boosted the job count in March, recent data suggests that the economy is now generating between 50,000 and 100,000 jobs per month, excluding the impact of weather and Census workers. To put that number in perspective, the economy shed an average of 477,000 jobs per month in Q2 2009, and lost an average of 261,000 per month in Q3 2009.

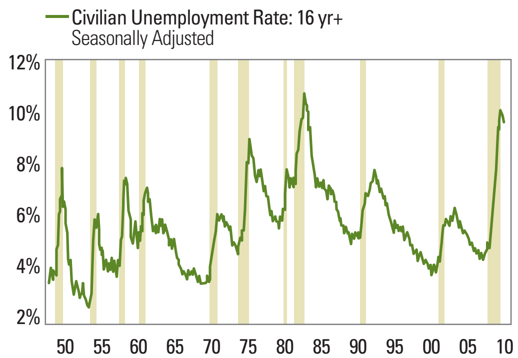
The leading indicators embedded within the monthly jobs report, including:

- Hours worked
- Overtime hours
- Temporary help employment
- Household employment

In addition, the big drop in jobless claims, the collapse in layoff announcements, booming corporate profits, as measured by the S&P 500, etc, all suggest that a period of strong, but not booming, job growth lies ahead.

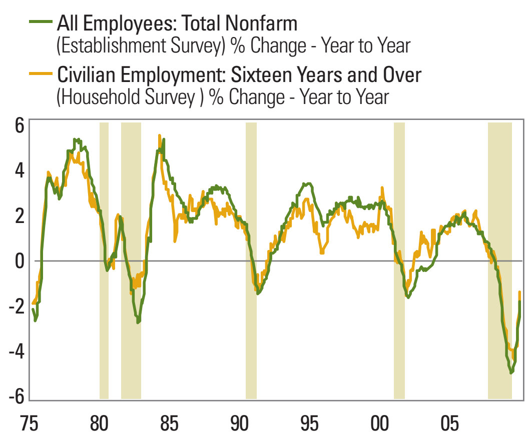
Perhaps the most convincing data point is the recent surge in employment as measured by the "household survey". The monthly employment report is actually two surveys in one, the establishment survey, and the household

1 The Unemployment Rate Likely Peaked at 10.1% in October 2009



Source: Bureau of Labor Statistics, Haver 04/05/10
Shaded areas represent recessions.

2 Household Employment Gain Suggests that Robust Payroll Job Growth may be Right Around the Corner



Source: Bureau of Labor Statistics, Haver 04/05/10
Shaded areas represent recessions.

survey. The establishment survey—which measures employment by surveying 140,000 businesses at 410,000 locations throughout the United States—gets most of the headlines, and generates the oft-cited monthly job gain/loss data. The household survey examines the employment status of individuals in 60,000 households, and generates the unemployment rate. Although 60,000 does not sound like a large number (compared to 300+ million people and the 110+ million households in the United States), it is a very large sample size when compared to many national public opinion polls, which may survey only 2,000 or so households.

Employment as measured by the household survey:

- Increased by 264,000 in March
- Has increased by an average of 371,000 per month over the past three months
- Has risen in four of the past five months

In recent recoveries, and around most turning points in the economy, household employment has painted a more accurate picture of the health of the labor market. The gains in household employment in recent months suggest that more robust gains in payroll employment may be right around the corner.

Our View on the Key Reports and Events of the Coming Week:

As is typically the case the week after the release of the monthly employment report, this week is shaping up to be a relatively quiet one for economic data, with only a handful of potentially market moving economic reports. February pending home sales, the Institute for Supply Management (ISM) service sector index for March, and the March chain store sales figures are all due out. In our view, the week is likely to be dominated by monetary policy, both here and abroad.

Early in the week, the Federal Reserve Board (not the Federal Open Market Committee (FOMC)) will meet to consider an increase in the discount rate. This rate, which is no longer viewed by the Fed (or the market) as a policy signal. During the worst of the financial crisis, the Fed's discount window was used as one of the Fed's emergency liquidity programs. Thus, by raising the discount rate, the Fed is simply moving along the path of eliminating its liquidity programs. We would not be surprised to see another discount rate hike during that week.

In addition to the release of the March 16 FOMC meeting minutes, no fewer than seven major central banks meet this week, including the European Central Bank (ECB), the Bank of England, the Bank of Japan, and the South Korean Central Bank. The expectation is that the ECB, the Bank of England, the Indonesian Central Bank, South Korea, and the Bank of Japan will hold rates steady, although there is a chance that the Bank of Japan could signal another round of easing. It's a close call in Australia, where the central bank has been tightening since September 2009.

The Chinese will conduct a bill auction this week, which could signal another tightening of policy in China, as data in that country continues to suggest that robust economic growth and a surge in inflation lies directly ahead.

It is also a busy week for Fed officials, with no fewer than seven Fed officials slated to deliver speeches or testimony this week. Most closely watched will be Federal Reserve Chairman Ben Bernanke's speech in Dallas on Wednesday, April 7 along with his testimony on Capitol Hill on Thursday, April 8. Bernanke may use these events to signal that the FOMC may drop the "extended period" language from the FOMC statement at its next meeting, on April 28.

The discount rate: The rate at which member banks may borrow short term funds directly from a Federal Reserve Bank. The discount rate is one of the two interest rates set by the Fed, the other being the Federal funds rate. The Fed actually controls this rate directly, but this fact does not really help in policy implementation, since banks can also find such funds elsewhere.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.