

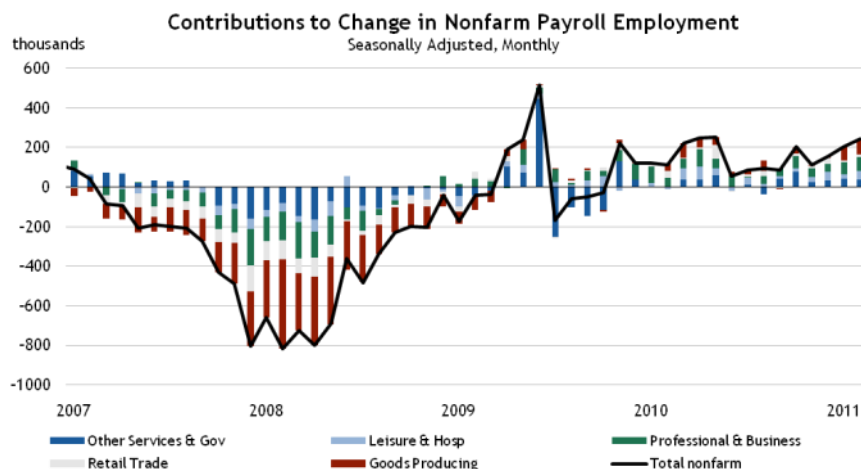
Economic and Financial Highlights

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Employment

Summary

The January payroll employment report indicated that the U.S. economy added 243,000 jobs over the month.

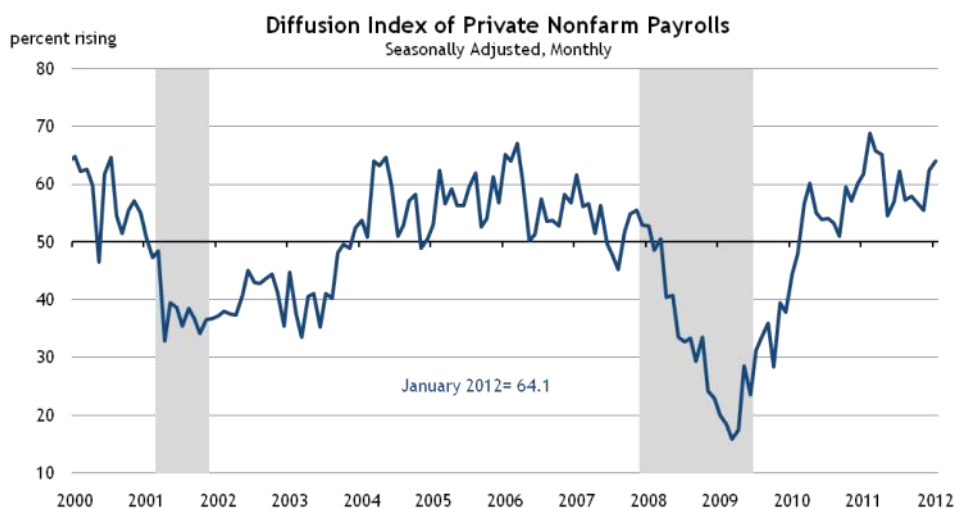


Source: U.S. Bureau of Labor Statistics

through: Jan. 2012

- **Nonfarm payroll employment** increased by 243,000 and **private payrolls** increased by 257,000 in January, surpassing consensus expectations of 145,000 and 163,000, respectively. **Payroll data from January 2007 onwards were revised as a result of annual benchmarking and updating of seasonal adjustment factors.** Data prior to 2007 were also revised slightly as a result of the implementation of NAICS 2012 (which replaced NAICS 2007), but these revisions were minor.
- November and December's payrolls were revised up by 57,000 and 3,000, respectively. The bulk of the upward revisions were in **professional and business services** and **goods-producing industries**.
- The largest monthly employment gains were in **professional and business services, leisure and hospitality, and manufacturing**, adding a combined 164,000 payrolls. **Construction** as well as **education and health services** experienced job gains of 21,000 and 36,000, respectively. The **temporary help services** component of professional and business services has been increasing employment since July 2011, and added 20,100 jobs in January 2012.
- The only sectors to cut payrolls were **information, financial activities, and government**.

The spread of job growth across industries improved in January.



Source: U.S. Bureau of Labor Statistics

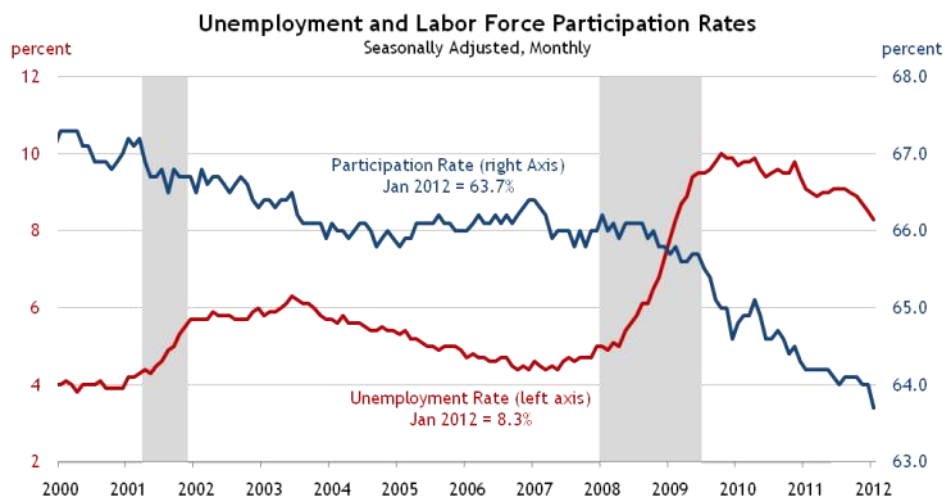
through: Jan. 2012

- In January, the diffusion index increased by 1.7 percentage points. Given improving monthly payroll numbers, an increasing diffusion index suggests that improvement in the economy is relatively widespread and that payroll gains are not limited to only a few sectors. The index has experienced a notable increase of 8.5 percentage points over the last two months. Its current reading is actually higher than its January 2007 level of 61.7 percent.

Employment

Summary

The unemployment rate decreased to 8.3 percent in January, and the labor force participation rate decreased to 63.7 percent.



Source: U.S. Bureau of Labor Statistics

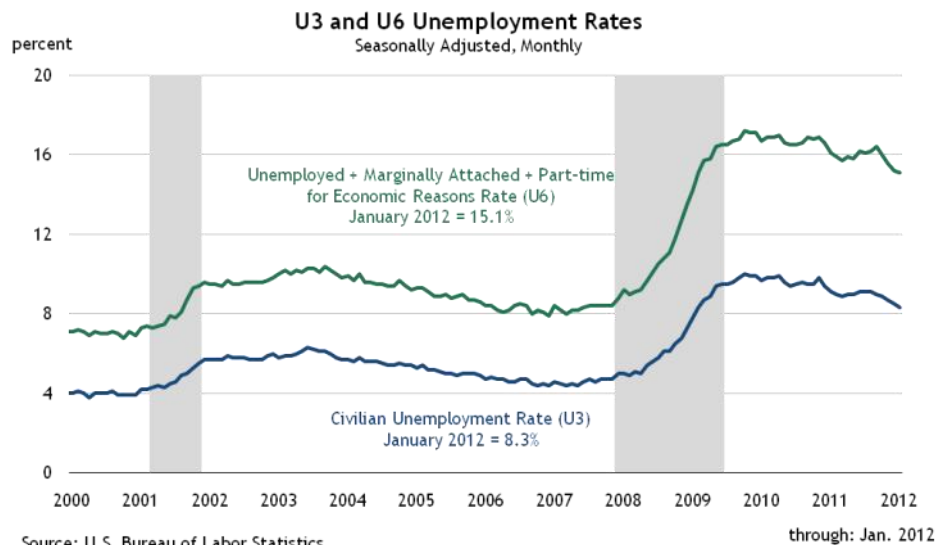
through: Jan. 2012

- The January household survey results have an **important caveat**: January 2012 data include updated population estimates.
- The U.S. Bureau of Labor Statistics (BLS) **did not update** the official statistics for December 2011 and earlier, which makes comparisons between December 2011 and January 2012 difficult.
- However, the BLS did publish tables in the press release showing what the statistics for December 2011 *would have been* if it had used the new population estimates. The analysis here provides comparisons with both sets of December 2011 data.
- The **unemployment rate decreased by 0.2 percentage point, to 8.3 percent in January 2012**. The official as well as the revised unemployment rate estimate for December 2011 is 8.5 percent, which means that the drop in the unemployment rate is **not** the result of updated population estimates.
- The **labor force participation rate change is more nuanced**. When compared with the official December 2011 rate, it would appear that the rate has declined by 0.3 percentage point (to 63.7 percent), a large decrease.
- However, BLS maintains that the rate *would have been* 63.7 percent in December 2011 (instead of 64 percent) had it used the new population estimates, the implication being there was **no change in the rate** from December to January.
- However, even with no change, the participation rate remained at its lowest level since February 1982.

Employment

Summary

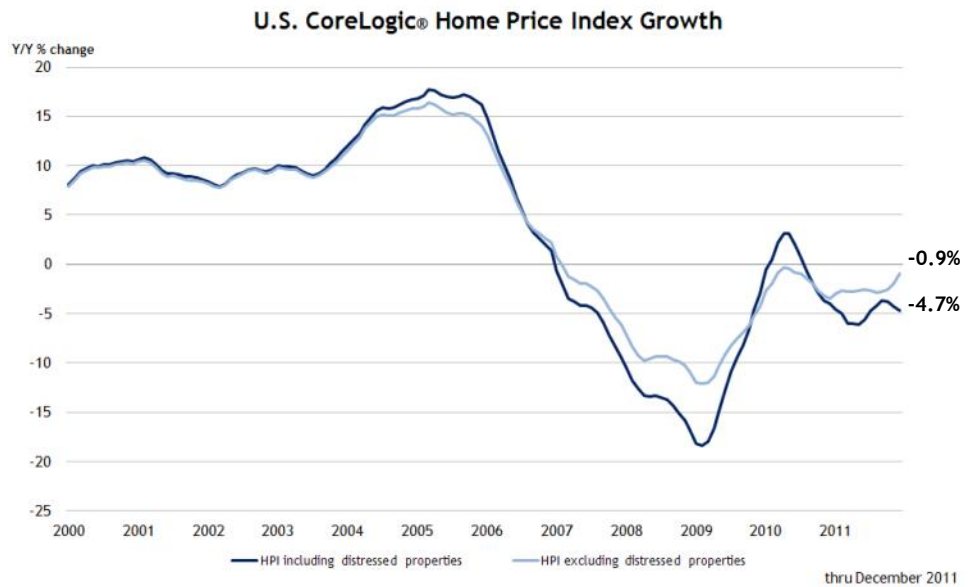
The U6 unemployment rate, while still very high, has been declining recently.



- Given its nuanced nature, the unemployment rate can be calculated using different criteria; **BLS publishes six different unemployment rates, U1 to U6.**
- Out of those six, two are of major interest: the U3 and U6 rates. The **U3 unemployment rate is the headline rate** that everyone is familiar with. However, some economists believe that the U6 unemployment rate is actually a more robust measure of unemployment as it captures marginally attached workers as well as people who are working part time because they can't find a full-time job.
- As is apparent from the chart above, both the U3 and U6 rates shot up during the recession.
- However, the U6 rate actually had a bigger level increase (7.7 percentage points) during the recession than did the U3 rate (4.5 percentage points).
- Both are still very high, but both have been declining since September 2011; the U3 rate has decreased by 0.7 percentage point while the U6 rate has decreased by 1.3 percentage points. This suggests that the drop in the unemployment rate is not simply driven by mechanical factors (like a decrease in the labor force).
- *Technical note: Marginally attached workers* currently want a job and have looked for work within the last 12 months. This primarily includes *discouraged workers* (those not currently looking for work because they believe no work is available given their circumstance), and persons not working as a result of family responsibilities, ill health, or school.

Summary

CoreLogic continued to report year-over-year declines in its home price indexes (HPI) during December. There continued to be a divergence among the two indexes. The HPI including distressed properties continued to weaken while the HPI excluding distressed properties moderated again.



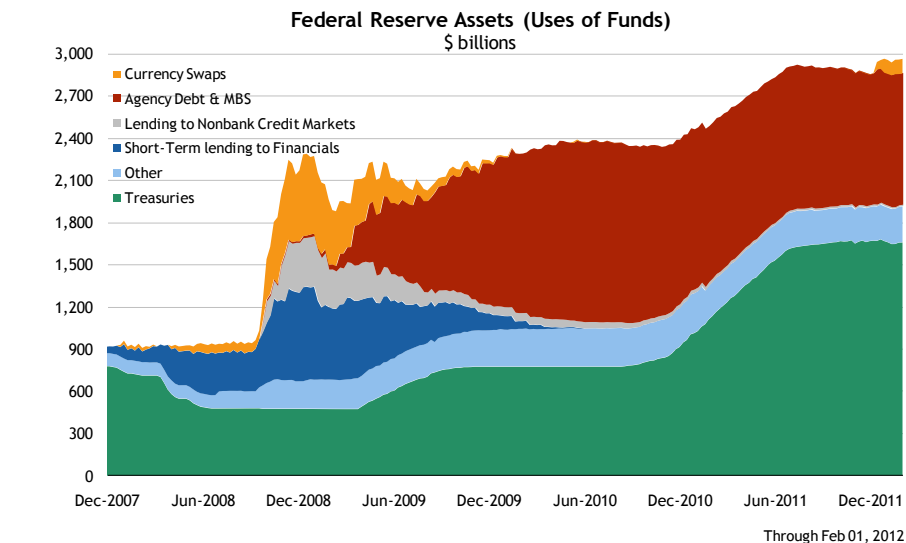
Federal Reserve

Summary

Between January 25 and February 1, the balance sheet increased by \$5.2 billion, remaining essentially unchanged at \$3 trillion.

The increase over the past month has stemmed from increased use of dollar swap lines by foreign central banks. The need for more liquidity support stems from increased demand for dollars abroad as the European debt crisis continues.

On November 30, the Federal Reserve, along with other major central banks, announced they would lower the pricing on U.S. dollar swap operations in order to ease strains in financial markets. The expiration of the dollar swap lines were also extended by six months.



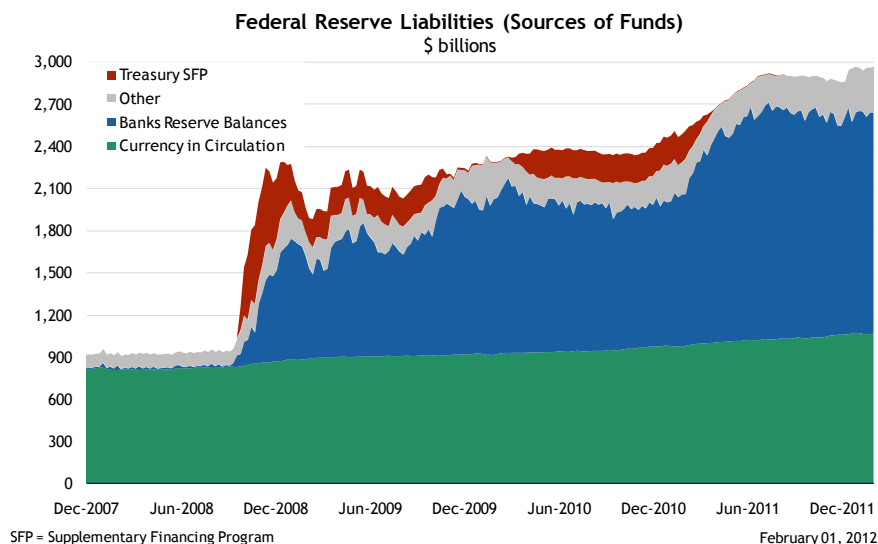
Source: Federal Reserve Board

- Treasuries increased by \$0.9 billion while agency debt and MBS increased by \$0.4 billion.
- Central bank liquidity swaps increased by \$1.3 billion.
- According to the [New York Fed's tentative outright Treasury operation schedule](#), and in line with the [maturity extension program](#), the desk plans to purchase approximately \$45 billion in Treasury securities with remaining maturities of from six to 30 years and sell approximately \$43 billion in Treasury securities with remaining maturities of three years or less over the month of February.
- The Federal Reserve Bank of New York's statement outlining the implementation of the maturity extension program and changes in the reinvestment program for mortgage-backed securities can be found [here](#).

Bank reserve balances with the Federal Reserve decreased by \$5.3 billion while Treasury deposits with the Federal Reserve increased by \$8.8 billion.

Reverse repurchase agreements with central banks (part of "Other") decreased by \$4.8 billion.

As of February 1, 2012, bank reserves are \$1.57 trillion.



Source: Federal Reserve Board

Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities:** Other—Reverse repos, Treasury cash holdings, and deposits with Federal Reserve Banks other than reserve balances and excluding the Supplementary Financing Program.

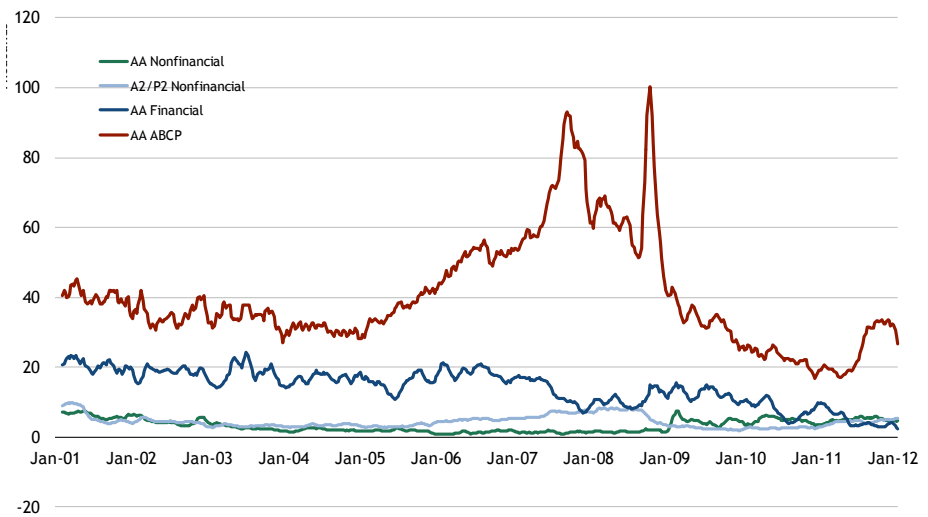
Commercial Paper

Summary

The six-week moving average of AA Financial commercial paper issuance is at its lowest level in 10 years. AA asset-backed commercial paper issuance continues to decline after a spike in mid-2011.

Commercial Paper New Issuance

6 week moving average, Billions \$



Through Jan 30

Source: Federal Reserve Board

- Issuance of AA financial commercial paper has declined 75 percent year over year.

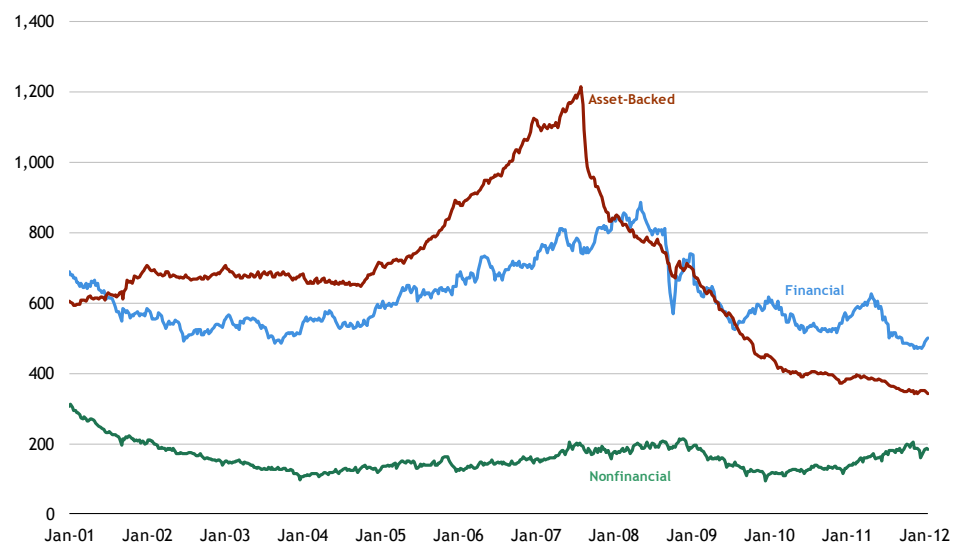
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Commercial Paper Outstanding

NSA, Weekly, Billions \$



Through Jan 30

Source: Federal Reserve Board

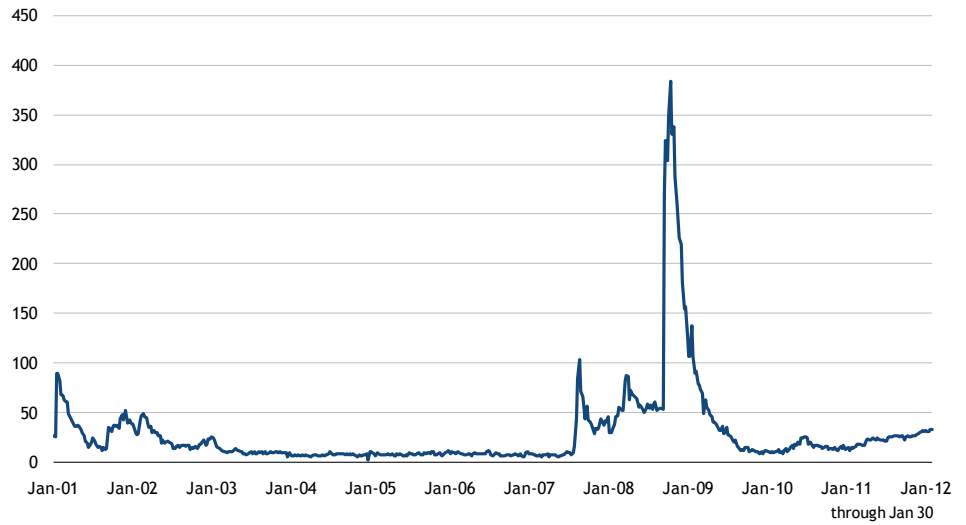
- Nonfinancial commercial paper outstanding is up 13 percent month over month and approximately 25 percent year over year.

Commercial Paper

Summary

A2/P2 over AA-rated commercial paper yield spreads continue to widen.

Overnight Commercial Paper Yield Spreads A2/P2 over AA
weekly, basis points



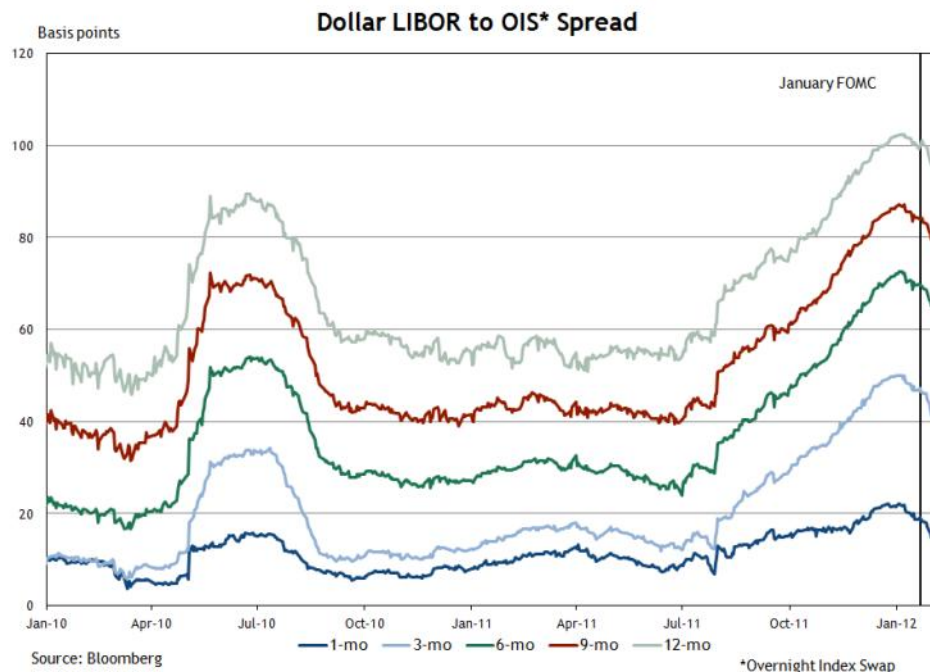
Source: Federal Reserve Board

- Since the beginning of 2010, overnight A2/P2 to AA commercial paper yield spreads have widened by 23 basis points (bps).

Broad Financial Market Indicators

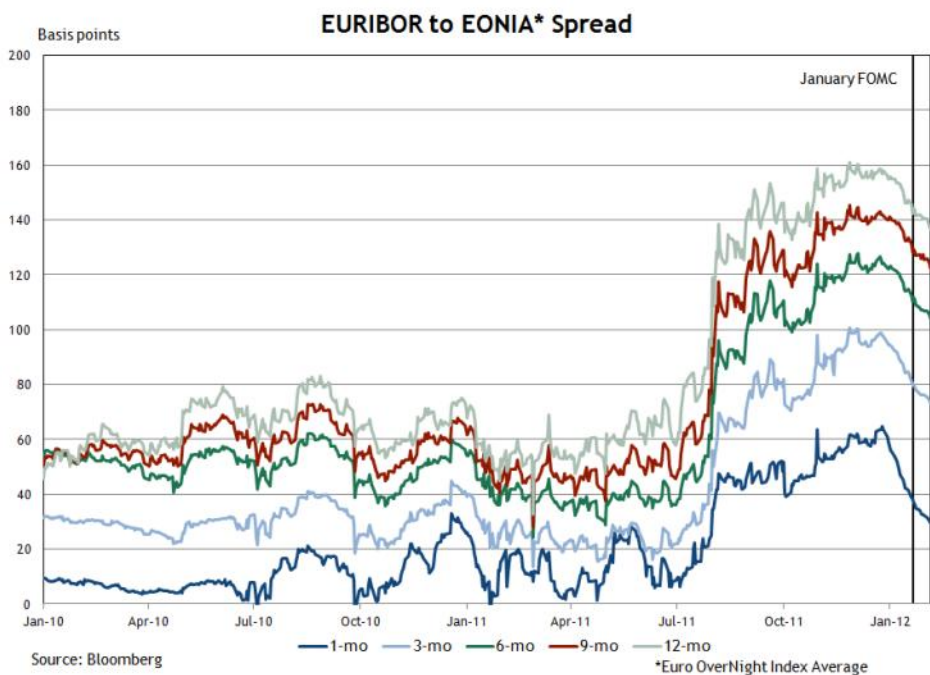
Summary

Since the January FOMC meeting, LIBOR to OIS spreads for all tenors have declined by 4.4 basis points (bps) to 6.4 bps.



- The LIBOR-OIS series shown above is denominated in U.S. dollars and reflects the spread between interbank lending rates offered and the overnight index swap (OIS) rate. The LIBOR panel used to create the rate is made up of 19 large international banks based in the United States, Europe, and elsewhere. The OIS rate is a proxy measure for the expected effective rate on federal funds held over a given maturity.

In the two weeks since the January FOMC meeting, the euro-based Euribor-to-Eonia spread has continued to narrow across all tenors, dropping by 6-7.5 bps.



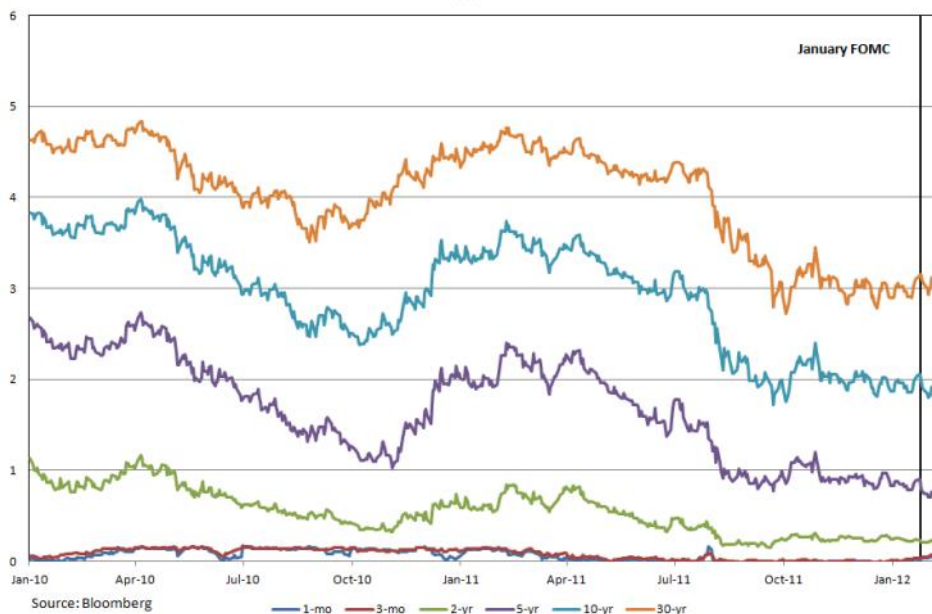
- The Euribor rates are offered interbank lending rates, denominated in euros and for a set of given maturities. The Euribor rate is determined by surveying 44 banks with the highest volume of business in the euro area, including 4 non-European banks. Eonia is the Euro Overnight Index Average swap rate on unsecured interbank lending in the euro area.

Broad Financial Market Indicators

Summary

After initially falling in the wake of the January FOMC meeting, long-term Treasury yields are about at their levels from two weeks ago.

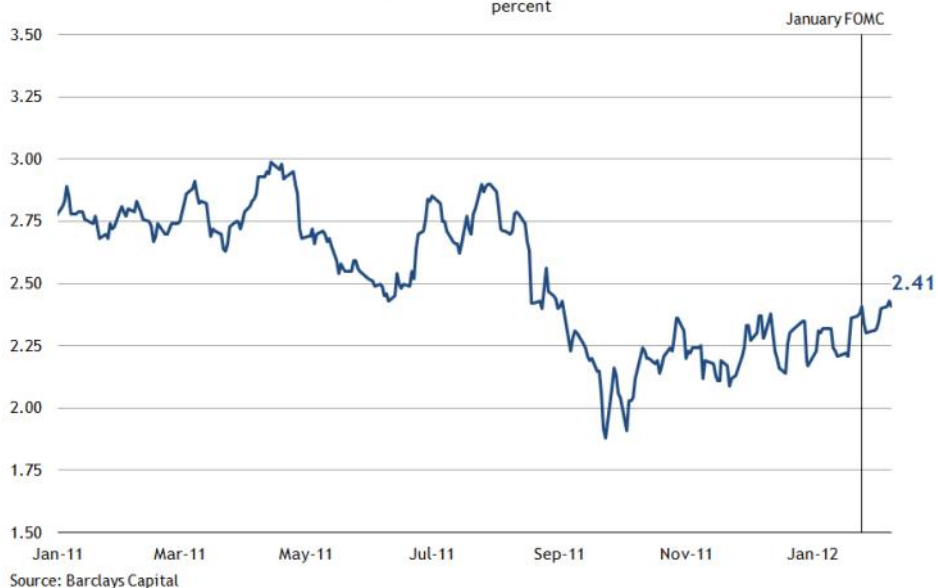
U.S. Treasury Yields
daily, percent



- Since the January FOMC meeting, the 30-year Treasury bond yield is down 1 bp to 3.14 percent, and the 10-year yield is 2 bps lower to 1.98 percent. The two-year note is up 3 bps to 0.25 percent. The three- and one-month T-bill rates are both up 4 bps to 0.08 percent and 0.06 percent, respectively. (All data are through February 8, 2012.)

Over the past week, the breakeven inflation rate has risen 8 bps, to 2.41 percent.

Barclays 5-yr/5-yr Forward Breakeven Inflation Rate
percent



- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.41 percent as of February 8, 2012, which is 8 bps higher than a week ago.

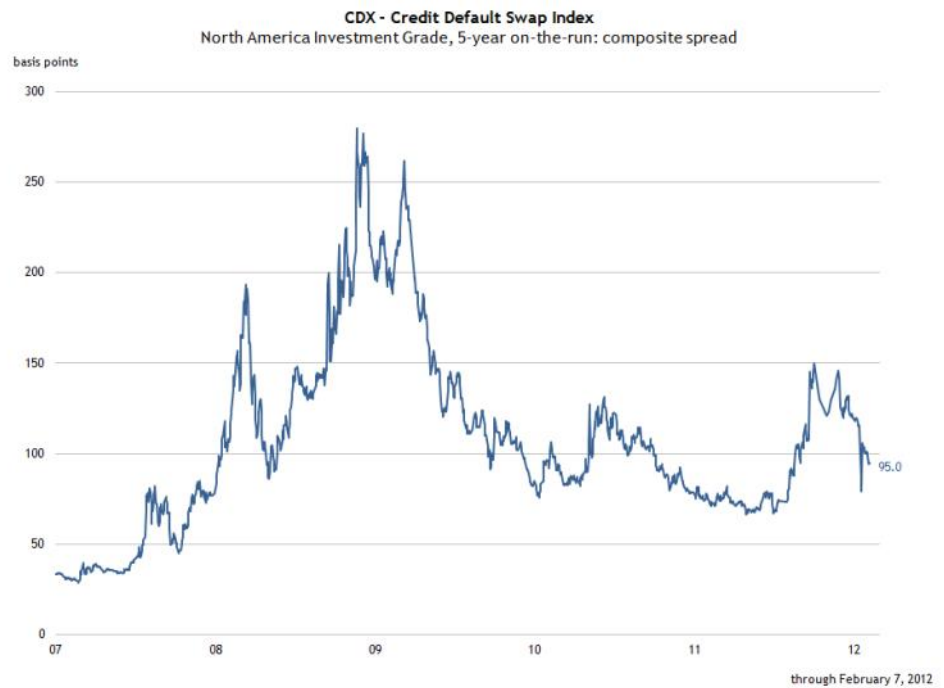
Corporate Bonds

Summary

The NAIG Credit Default Swap Index closed at 95 bps on February 7, continuing the downward trend of recent weeks.

Investors use the CDX to hedge against losses on corporate debt or to speculate on creditworthiness. A decline in the CDX generally signals an improvement in the perception of credit quality. An increase in the CDX generally signals a deterioration in investor confidence.

One basis point equates to \$1,000 annually on a contract protecting \$10 million in debt.



Source: Markit Group Limited/Haver Analytics