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Martha's Vineyard FINANCIAL GROUP

VIEWPOINT

THE ECONOMY

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GDP Growth Slows in 1Q, but Outlook Solid

The U.S. economic expansion slowed somewhat in the first quarter, as the Commerce Department reported that GDP expanded at a 1.8% rate in its initial estimate of 1Q11 economic activity. This compares unfavorably to the 3.1% pace recorded in 4Q, but is in line with recent expectations of weakness given the impact of bad weather during the period on consumer spending.

Here are some key underlying trends:

- Personal consumption expenditures (PCE) rose at a 2.7% pace in 1Q — solid, but below the 4.4% pace in 4Q. Growth was led by durables; services were somewhat weaker than expected.
- Investment in equipment and software increased a strong 11.6%, as the tech expansion continued.
- Real exports increased 4.9%, benefitting from the weak dollar.
- On the negative side, imports increased 4.4%, driven by the rising price of oil.
- Government spending, at both the federal and state levels, was sharply lower.
- Housing investment declined.

Looking ahead to the balance of the year, we anticipate that the economy will rebound from below-trend 1Q growth. We look for auto sales to continue to advance, driving personal consumption. We expect growth in payrolls (not to mention better weather) will boost consumer services. We look for low interest rates to continue providing a positive backdrop for corporate investment in technology. We also anticipate that a weak dollar will provide a boost to export growth. For details about our assumptions, please see the GDP table on Page 3.

In all, we see solid underlying fundamentals for the economy, and expect that subsequent growth rates in 2011 will fall in the more-normal 2.9%-3.3% range.

Payrolls Reports Turn Positive

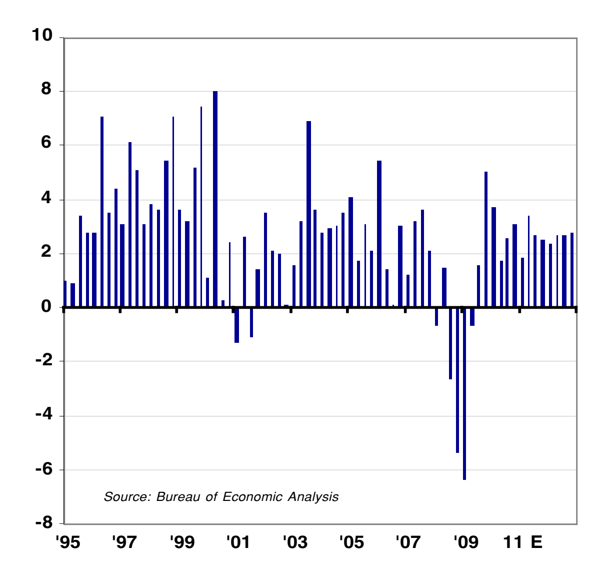
The U.S. economy continued its recent trend of solid jobs growth in March (see Chart 2 on Page 2). The economy added 216,000 jobs in the month, ahead of our forecast of 180,000. In addition, the government upwardly revised the January and February reports, adding another 7,000 payrolls to the total. The unemployment rate dropped to 8.8%. There was little change in average workweek or average hourly earnings.

Over the past year, the economy has generated an average 108,000 jobs per month; over the past six months, the figure is 149,000. The primary sectors adding to jobs in March were Business Services, Healthcare and Leisure & Hospitality. Governments cut from their payrolls. This latest report — as well as the overall GDP reports, ADP data and inventory trends — suggests that the economy may be moving to a more-promising phase of payrolls growth. We expect to see the unemployment rate fall toward 8.5% range in 2011. If housing starts pick up, the rate may fall further.

(continued on back page)

TABLE 1

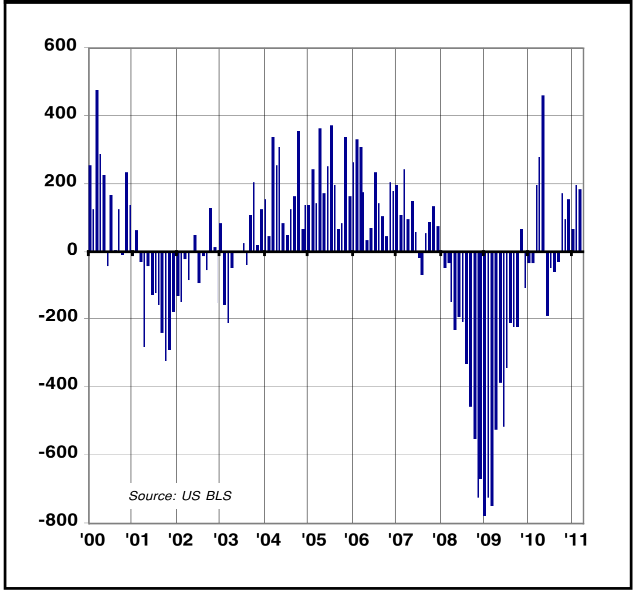
REAL GDP



Looking ahead to the balance of the year, we anticipate that the economy will rebound from below-trend 1Q growth.

TABLE 2

NONFARM PAYROLLS (THOUSANDS OF JOBS)



Over the past year, the economy has generated an average 108,000 jobs per month; over the past six months, the figure is 149,000.

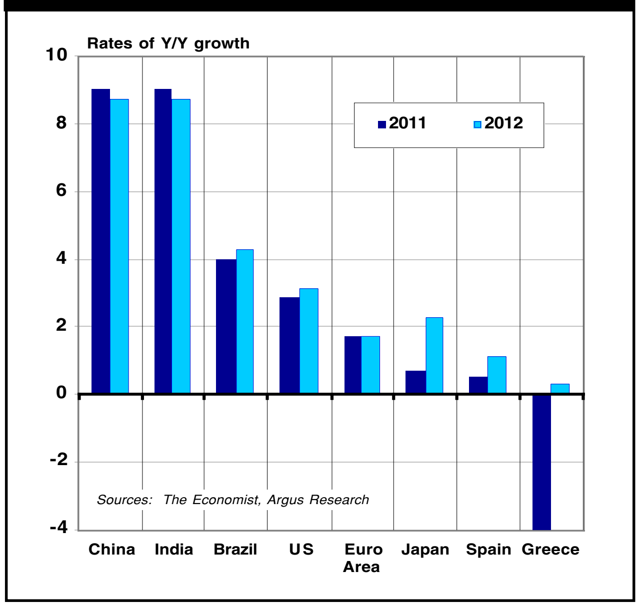
TABLE 3

HOUSING INDUSTRY METRICS

Currently in the housing market, existing home sales are trending modestly higher – but positive housing starts trends are faltering and new home sales have fallen lower than was the case during the worst times in 2009.

TABLE 4

GLOBAL GDP FORECAST



We look for export-driven growth in emerging economies to remain elevated in 2011-2012.

GDP FORECAST

Revised as of May 2, 2011

	2009 A				2010 E				2011 E				2012 E			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Real Gross Domestic Product	-4.9	-0.7	1.6	5.0	3.7	1.7	2.6	3.1	1.7	3.3	2.9	3.0	2.9	3.1	3.0	3.0
Annual:				0.3				2.8				2.7				3.0
Personal Consumption	0.6	-0.9	2.2	1.9	1.9	2.3	2.5	4.4	2.9	1.4	2.3	1.9	5.6	1.2	1.5	1.5
Goods	2.5	-3.1	7.2	2.9	5.7	3.3	4.3	10.1	5.2	0.4	4.2	2.4	3.6	1.5	2.4	2.9
Durables	3.9	-5.6	20.4	0.4	8.8	6.8	7.6	21.1	10.5	0.4	6.4	3.1	4.3	0.9	3.1	4.7
Non-Durables	1.9	-1.9	0.0	5.6	4.2	1.9	2.5	4.1	2.1	0.3	2.9	1.9	3.2	1.9	1.9	1.9
Services	-0.3	0.2	0.8	1.0	0.1	1.6	1.6	1.5	1.7	2.0	1.3	1.6	6.7	1.0	1.0	0.6
Gross Domestic Investment	-50.5	-23.7	-7.0	66.1	29.1	24.1	14.4	-15.6	8.3	1.7	7.0	8.3	6.4	7.9	5.6	6.4
Fixed Investment	-39.0	-12.5	-14.4	20.2	3.3	35.5	2.0	6.9	1.9	1.5	6.0	8.5	7.4	5.8	5.8	6.5
Non-Residential	-39.2	-9.6	-8.5	6.7	7.8	18.2	10.8	7.7	3.3	2.0	7.1	9.9	7.1	6.7	6.5	6.4
Structures	-43.6	-17.3	-18.4	-18.1	-17.8	-0.5	-3.6	7.7	-21.8	10.0	13.5	13.1	18.9	5.7	5.6	5.5
Equip. & Software	-36.4	-4.9	1.5	19.0	20.4	24.8	15.4	7.7	11.6	-0.1	5.4	9.0	3.9	7.0	6.8	6.7
Residential	-38.2	-23.2	18.9	3.7	-12.3	25.6	-27.3	3.3	-4.1	-0.6	1.2	2.5	8.5	2.3	2.3	7.0
Change in Pvt. Inventories	-113.9	-160.2	-139.2	-19.7	44.1	68.8	121.4	16.2	43.8	45.0	50.0	50.0	30.0	40.0	40.0	40.0
Net Exports																
Exports	-29.9	-4.1	8.4	-2.5	11.4	9.2	6.7	4.9	3.3	1.1	1.1	2.3	19.5	6.8	6.8	4.4
Goods	-36.9	-6.3	17.5	23.1	14.0	11.5	5.9	7.8	3.3	0.0	0.0	0.0	4.9	6.6	6.6	3.2
Services	-13.6	0.2	24.6	34.1	5.8	3.9	8.9	-1.7	3.4	4.0	4.0	8.0	61.3	7.2	7.2	7.1
Imports	-36.4	-14.7	5.6	2.7	11.2	33.5	16.8	4.2	3.6	0.0	0.0	0.0	6.6	-7.2	-7.2	0.0
Goods	-41.0	-16.5	21.2	16.1	12.0	40.5	17.4	5.6	4.1	0.0	0.0	0.0	4.1	-8.6	-8.6	0.0
Services	-11.5	-7.5	25.1	20.6	7.8	4.4	14.3	-2.8	1.2	0.0	0.0	0.0	19.5	0.0	0.0	0.0
Gov't Purch.of Goods & Svcs.	-2.6	6.7	3.2	-1.3	-1.6	4.1	4.0	-1.6	-5.3	0.8	0.1	1.6	5.8	0.8	1.5	1.9
Federal	-4.3	11.4	7.9	0.1	1.8	9.1	8.8	-0.3	-7.9	1.7	0.3	3.9	3.9	2.0	3.6	4.6
National Defense	-5.1	14.0	8.4	-3.6	0.4	7.4	8.5	-2.2	-11.7	2.6	0.0	0.0	11.6	1.1	1.7	1.1
Non-Defense	-2.4	6.1	7.0	8.3	5.0	12.8	9.5	3.7	0.1	0.0	0.8	11.7	-9.8	3.8	7.7	11.7
State & Local	-1.6	3.9	-0.6	-2.2	-3.8	0.6	0.7	-2.6	-3.3	0.2	0.0	0.0	7.1	0.0	0.0	0.0
Addendum:																
GDP Price Deflator (implicit)	1.0	0.3	0.7	-0.3	1.1	1.6	1.8	1.9	1.8	2.0	2.1	2.1	1.8	2.0	2.0	2.0

(continued from page 1)

Housing Market Trends Mixed

The housing market has been volatile in 2011, as interest rates have trended higher while employment growth has picked up (see Chart 3 on Page 2). Indecision over Fannie Mae and Freddie Mac has slowed the mortgage market and inventories remain too high.

Currently in the market, existing home sales are trending modestly higher, but positive housing starts trends are faltering and new home sales have fallen lower than was the case during the worst times of 2009. While the industry may be poised to grow again, given the trend in starts, the consumer remains cautious.

The housing sector is all about supply and demand. While reported inventories indicate that current sales trends can clear the market in as few as eight months, the "shadow inventory" of houses on the books of banks likely adds another four months worth of extra homes. Of course, also on the supply side, housing starts remain low. This bodes well for the future, once the inventory clears. We suspect the housing market is near — but still searching for — a bottom, and we look for slow 1%-2% growth over the next two-to-three years as unemployment remains above 8%.

Emerging Economies Top Growth Charts

We think higher oil prices are likely to have a bigger impact on the mature, consumer-oriented industrialized economies in 2011, and we look for export-driven growth in emerging economies to remain elevated in 2011-2012 (see Chart 4 on Page 2).

Estimated growth rates for the BRIC nations (Brazil, Russia, India and China) are, on average, 6.5% — and are generally rising. Meanwhile, the estimated growth rate for the U.S., UK, Euro area and Japan in 2011 is, on average, 1.8%; forecasts for Japan have been declining because of the earthquake, though a rapid recovery is expected in 2012.

The commodity based BRAC nations (Brazil, Russia, Australia and Canada) are forecast to grow an above-trend 3.6%, benefitting from natural resource exposure and an expected weakened dollar. In Europe, Northern countries appear better-positioned to grow than the Southern countries, as they benefit from a Euro currency that we expect to be under pressure.

Overall, we favor BRAC and the nations surrounding China (particularly in South East Asia) as we do not think Chinese monetary programs will restrain the economy for long.