

In this issue



By Marie Schofield
Chief Economist

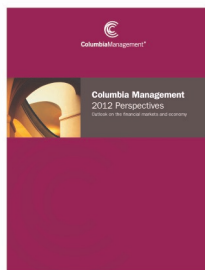
Summary of Contents

We take a look behind the improving unemployment numbers

A quick review of December retail sales

What the “new” Panama Canal could mean for the shipping industry

Don't miss our annual **Perspectives** book which includes key investment opportunities for 2012.



Labor Data: Healthy Gains

The labor market reports this week seemed to be brimming with good news. Initial unemployment claims four-week average reached a new post-recession low of 373,000. Most believe falling and remaining below the 400,000 level has typically signaled a broadening in job gains. This happened briefly last April only to reverse course, as the economy

lost steam. But a drop below this level happened again several weeks ago and seems to have more staying power this time. Although the two are not directly related, based on a historical regression of claims and payroll data, the current level of claims implies monthly job growth of near 140,000 which is close to recent trends.

With the employment release for December showing that 200,000 non-farm jobs were created, details indicated perhaps a quarter of this was due to seasonal hiring by retail stores, transportation and courier services. Retail trade rose 28,000 with much from general merchandise stores for the holiday hiring. Delivery companies such as UPS and Fed-Ex alone were responsible for 42,000 job gains, associated with rising internet shopping. Of course seasonal job gains are typically reversed in January. So some of the strength seen in the

December payroll report will likely unwind next month and I expect this overstates the degree of permanent hiring occurring. But even if we forgive this, other areas also posted good gains. Manufacturing rose 23,000 (vehicle, machinery, and computer mfg) and construction rose 17,000 (primarily due to warmer than usual weather), both well

Dec-11	Mo	6mo avg
Non Farm Payrolls	200	142
Public Sector	(12)	(13)
Private Sector Payrolls	212	155
(Goods) Mfg	23	11
Construction	17	4
Mining	8	6
(Services) Retail	28	23
Transp	50	10
Wholesl Tr	12	4
Utilities	1	1
Info/Tele	6	(4)
Finance	2	3
Prof/Bus	12	33
Temp	(8)	12
Education	0	9
Health	29	32
Leisure/Hosp	21	23
Other Svcs	4	2

Source: Bureau of Labor Statistics, December 2011

above trend. Leisure and health services contributed 21,000 and 29,000, respectively. Other areas added modestly, except temporary help which saw small workforce reductions and public sector, where state and local governments see a continual bleed of jobs.

I like to emphasize looking at quarterly averages given the volatility. Overall the fourth quarter saw average monthly job gains of 137,000, very close to the third quarter average of 147,000. In the first quarter of 2011 gains averaged 165,000, with the second quarter at a softer 96,000. Broadly, the economy appears to be able to grow 100,000 to 150,000 jobs on average, with some pick up or payback following weaker or stronger months. The good news here is that there is no evidence of any weakening in these trends, with a reasonable gauge of the underlying trend near 140K.

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In 2010, about one million net new jobs were created by businesses; in 2011, the total was a higher 1.6 million. I would also point out many of the gains came from low-paying industries like temp jobs, retail, leisure and hospitality and health care which have accounted for unusually large share of job growth.

Similar job growth was reported in the survey of households for those years and the December data from this survey was encouraging as well. Non-farm employment grew 106K in the month with the Q4 monthly average at 160K. Another small drop in the labor force, combined with those job gains was enough to push the unemployment rate lower to 8.5%, the lowest since February 2009. The trend is genuine — the level of unemployment fell 750,000 in 2010 and fell another one million in 2011, with the labor force increasing slightly over that time. However, we should keep in mind the current unemployment level is still 5.5 million higher than when the recession began in December 2007. Unemployment doubled in the Great Recession to 15 million, a staggering statistic and we've only shaved this rise by a quarter. The U-6 underemployment rate also fell to 15.2% and is the lowest in nearly two years. The labor force participation rate held steady at 64%, although this is a 28-year low and nothing to champion.

Some of the decline in the participation rate is due to demographic trends that are more permanent (aging, retirements), and some is due to poor job prospects (discouraged workers who leave the labor force, those returning to school) possibly related to an exhaustion of unemployment benefits. I expect the latter will eventually re-enter the workforce, stabilizing the participation rate at some point. Hours worked and earnings also rose in December and were up about 3% (annualized) in Q3, implying a 2.5% to 3% read on fourth quarter gross domestic product.

The takeaway from this report is that the labor market continues to heal slowly and looks sustainable, although the December strength is likely overstated and there will be some pay-back in January. The drag from the global dynamic has yet to make any mark.

The U-6 underemployment report contains "marginally attached workers", or "loosely attached workers", or those who "would like" and are able to work, but have not looked for work recently. Also, part time workers who want to work full time, but cannot due to economic reasons.

December Retail Sales: Mixed Results

December retail sales in stores open more than 12 months "comps" were generally in line or worse than expected despite improved sales the week before Christmas. None of the retailers hit the "whisper" numbers and there was just as many guidance decreases as increases. The magnitude of the guidance raises was also muted. Retailers reported higher promotion costs (discounts) as a result of weather and the general economy. Also, material costs (i.e., cotton) hurt gross profit margins.

buys for the first quarter of 2012. It is likely that both promotion and product costs will continue to weigh on profit margins through the first half of 2012. While the pressure on margins is well understood by investors, the magnitude of margin weakness may be underappreciated.



By Mari Shor Goldenberg
Senior Analyst

Going forward, inventory management will be key. We expect managements to be sensitive to the volume of carryover inventory from the holiday period coupled with conservatism of unit

Panama Canal: New Investment Opportunities



By Jeremy Javidi
Senior Portfolio Manager

The Panama Canal has reached its maximum current capacity even though 73% of the world's cargo ships are too large to pass through it. According to the Panama Canal Authority, construction of two new sets of locks is estimated to be complete in 2014. These locks have the potential to double current capacity, providing as great a logistical revolution for sea-borne freight as the first channel, which was completed in 1914. Current "Panamax vessels," a term coined by combining "Panama Canal" and "Maximum" to describe the largest vessel able to traverse the current Panama Canal, will be replaced by Post Panamax vessels. As a reference point, one Post Panamax vessel can carry as much cargo as 16 trains. These significantly larger vessels will require significant modernization to U.S. gulf and east coast ports, infrastructure to handle the additional cargo and to accommodate the much larger vessel size. We believe there will be significant investment opportunities over the next decade from the significant spend for the future logistical reconfiguration.

Ports are a vitally important aspect of U.S. infrastructure handling 95% of U.S. cargo imports. Currently, U.S. ports and waterways handle more than two billion tons of domestic and import/export cargo annually. Current logistics creates a "land bridge" from Asia to the east coast. Long Beach /Los Angeles ports handle 40% of all container cargo traffic entering the U.S. From there it is transferred to rail or truck to its final destination. Only 30% of containerized vessels go to east coast ports through Panama. With 58% of our country's population living east of the Mississippi river, a study by midamericafreight.org suggests that shifting from a 4,000 twenty-foot equivalent unit (TEU) (Panamax) to a 8,000 TEU (Post Panamax) may increase the percentage of our population that is cost advantaged via east coast ports from 46% to 63% versus the current intermodal solution. Currently, 70% of the canal's estimated \$100 billion of containerized cargo was either destined for or originated in the U.S. Thus, a doubling in canal capacity has the potential to vastly improve transportation costs of imports to

the eastern U.S.

Dredging, port infrastructure, rail terminals, rail spurs and industrial warehouses will all be required to service the new Post Panamax. Several U.S. ports have been responding with dredging and feasibility studies. Three east coast ports are being dredged currently — NY/NJ, Philadelphia and Baltimore (the Port of Norfolk is already at sufficient depth to handle Post Panamax vessels given its naval importance). Two gulf coast ports are dredging deeper—Texas City and Corpus Christi, TX. The American Association of Port Authorities has highlighted an additional ten east coast ports and eleven gulf coast ports that are having discussions or feasibility studies to deepen their ship channels.

The Port of Miami is the only east coast port currently funded to dredge an additional 8 feet to a depth of 50 feet. Announcement of dredging contracts should be announced in 1Q12. According to the Port of Miami website; "*The Port of Miami plans to invest over \$1.8 billion for improvements, including obtaining additional Post-Panamax cranes — and our private sector partners have stepped up to the plate as well, committing tens of millions of dollars of landside investment. The State of Florida is overseeing a \$1 billion tunnel project which will maintain truck/cargo movement at twice today's capacity and rail service linking the port to the national rail network is scheduled to be completed by 2013. The Port of Miami, a division of Miami-Dade County government, is committed to pay for one half of the deepening.*" These projects are scheduled to coincide with the opening of the Panama Canal in 2014.

Further north, a logistical challenge to increased shipping to the Port of New York and New Jersey is the current height of the Bayonne Bridge. On December 29, 2010, the Port Authority announced "Raise the Roadway," raising the bridge's roadway to approximately 215 feet to increase the existing 151-foot navigational clearance restrictions.

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The current height is an obstacle for larger ships doing business with marine terminals west of the Bridge at Port Newark and the Elizabeth Port Authority Marine Terminals in New Jersey and at Howland Hook on Staten Island, New York. The Army Corp of Engineers in 2009 estimated the cost for raising the bridge at \$1.3 billion, with an estimated completion date of 2019. The same analysis indicated that raising the bridge to eliminate the current air draft restriction will produce an estimated \$3.3-billion dollar national benefit, which is independent (i.e., above and beyond) of the benefits from the completion of the 50-foot harbor deepening project. This preliminary benefits estimate recognizes that 12% of all U.S. international containers pass under the bridge. Currently 62% of total existing world containerized ship capacity is physically restricted from calling the terminals west of the bridge.

An earmark, included in the year-end spending bill that passed the Senate on December 17, 2011, has funded the Army Corp of Engineers to continue their harbor deepening projects in 2012. In the President's 2012 budget submission to Congress, the Savannah Port did not receive adequate funding and the Charleston Port was unfunded. A prior announcement by the Army Corp of Engineers said they expected the Charleston harbor deepening process to not be completed until 2024. Senator Graham and the South Carolina State Ports Authority said the 2024 timeline is too slow and have pledged to work with the Army Corps and the Ports Authority to expedite the project. Under the provision affecting Charleston Harbor Deepening: Funding for ongoing Army Corp of Engineer projects, specifically coastal and deep draft studies — which were not included in the President's budget submission to Congress — will be eligible to receive up to \$10 million. The federal share of the Charleston Harbor deepening study, which will be matched by the state, is expected to cost approximately \$4.2 million in the next fiscal year. The total cost of the Charleston, SC deepening is expected to be as much as \$350 million to deepen the harbor from 45 feet to 50 feet. The price tag to deepen the Savannah River channel from 42 to 48 feet is

estimated to be \$569 million. The Savannah Harbor Expansion Project is required to be split, about one-third from the state, two-thirds from the federal government. Georgia has already committed \$134 million to the Savannah Harbor Expansion Project. Gov. Deal has proposed another \$46.7 million in his FY2013 budget. The state also has completed upgrades to several roads that link the port and nearby interstate highways.

Current budget wrangling may appear to be an impediment to additional work; however, the Harbor Maintenance Trust Fund was established in 1986 to fund the operation and maintenance of ports and harbors, funded by the Harbor Maintenance Tax (HMT). This tax is currently levied at 0.125% of cargo value. Appropriations from the HMTF are now primarily used by the Army Corps of Engineers for maintenance dredging, dredged material disposal areas, jetties and breakwaters. The HMTF surplus was approximately \$5.65 billion at the end of Fiscal Year 2010 and continues to grow by hundreds of millions of dollars each year as current expenditures have lagged behind revenues into the HMTF for several years. Current legislation is being contemplated within Congress to help direct the revenues to some of the aforementioned projects.

In the reconfiguration of logistics to incorporate a larger Panama Canal, delivered costs need to consider water, port, rail and road costs. The value of the cargo should be correlated to the method of shipping. An estimate of Asian imports is valued at \$30,000 per TEU. Assuming a 10% cost of capital, the inventory carrying cost would amount to \$8 a day, thereby potentially making the Panama Canal a preferred route over the current intermodal solution for lower cost and less time sensitive goods. Current time schedules are approximately Asia to west coast 12.3 days with a six day intermodal estimate to the east coast. An all water trip via the new Panama Canal from Asia to east coast is expected to take 21.1 days, an estimated three days longer than the current logistical route. However, the current intermodal route may cost an additional \$1000 - \$2000 per TEU for the

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three day advantage. There will also be a cascade effect of larger vessels replacing smaller vessels, with an estimated cost savings per slot of 30%-40% for between 10,000 and 4,000 ships. Dr. Asaf Ashar, a University of New Orleans research professor, estimated in 2008 a baseline shift of cargo to ships may be 25% and a radical shift may be as much as 73% more than current volumes.

A boom in the ports is not only a benefit to imports; as more containers are imported into the U.S., the opportunity increases to backhaul exports to our trade partners. President Obama's 2010 State of the Union address announced the goal of doubling the nation's exports in the next five years. This ambitious goal will certainly require a significant increase in our ports' productivity and capacity.

One potential area to boost exports lies with our agricultural economy. Currently, the Panama Canal handles 30% of grain and soybean exports from the U.S. The potential for larger vessel sizes, decreased canal transit time and therefore lower overall transport costs may increase agricultural exports according to a USDA report. An estimate of grain loading to a draft of 45ft will lower the ocean freight rate 20% or \$13 per metric ton — equivalent to 35

cents a soybean bushel vs. the current \$12 price per soybean bushel. The impacts will extend beyond soybeans as currently two thirds of all U.S. wheat and wheat flour, one third of rice production and almost two fifths of U.S. cotton production is currently exported via U.S. ports.

The current opportunity set in the investment cycle is the pre opening stage of the Panama Canal. We believe that current investment opportunities including dredging, port infrastructure, rail terminals, rail spurs, industrial warehouses, tunnel and road construction and banks that will benefit from economic expansion in the exposed areas. As we approach 2014, we will evaluate additional changes to supply chains include trucking, shipping, container and logistic companies. Conversely, some geographical areas and transportation modes may be negatively impacted by this significant logistical shift. These may include train-based intermodal transportation and west coast based distribution centers and ports.

Finally, some shipping companies may experience mixed impact as they transition to Post Panamax fleets.

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Weekly Market Summary as of 1/6/12

Bonds	Last	Week Ago		Month Ago		YTD		Year Ago	
	Yield	Yield	Chg	Yield	Chg	Yield	Chg	Yield	Chg
U.S. 2-year	0.26	0.24	0.02	0.25	0.00	0.24	0.02	0.66	-0.41
U.S. 10-year	1.96	1.88	0.08	2.09	-0.13	1.88	0.08	3.39	-1.44
Barclays Capital U.S. Aggregate	2.24	2.24	0.00	2.39	-0.15	2.24	0.00	3.07	-0.83
Barclays Capital U.S. Agg Corporate	3.76	3.74	0.02	3.85	-0.09	3.74	0.02	4.09	-0.33
BofAML High Yield Index	8.39	8.65	-0.26	8.84	-0.45	8.54	-0.15	7.70	0.69
AAA Muni 10-year	2.23	2.28	-0.05	2.46	-0.23	2.28	-0.05	3.26	-1.03
Equity Indices	Price	Price	TR Chg	Price	TR Chg	Price	TR Chg	Price	TR Chg
S&P 500 Index	1,277.8	1,257.6	1.7%	1,258.5	1.8%	1,257.6	1.7%	1,273.9	2.4%
Russell 1000 Growth Index	590.5	580.9	1.7%	587.3	0.7%	580.9	1.7%	580.9	3.2%
Russell 1000 Value Index	636.2	626.1	1.7%	622.0	2.6%	626.1	1.7%	648.0	0.6%
Russell 2000 Growth Index	429.4	425.0	1.0%	432.5	-0.7%	425.0	1.0%	445.8	-3.1%
Russell 2000 Value Index	992.4	979.3	1.4%	977.5	1.8%	979.3	1.4%	1,066.2	-5.0%
MSCI EAFE Index	1,406.7	1,412.6	-0.4%	1,438.6	-2.1%	1,412.6	-0.4%	1,648.7	-11.7%
MSCI EM Index	927.1	916.4	1.2%	953.5	-2.7%	916.4	1.2%	1,155.0	-17.8%
Commodities	Price	Price	% Chg	Price	% Chg	Price	% Chg	Price	% Chg
Gold	1,618.0	1,563.7	3.5%	1,728.2	-6.4%	1,563.7	3.5%	1,371.6	18.0%
Crude Oil	101.6	98.8	2.8%	101.3	0.3%	98.8	2.8%	88.4	14.9%
USD Index	81.3	80.2	1.3%	78.5	3.5%	80.2	1.3%	80.8	0.6%

Source: Columbia Management Investment Advisers, LLC

Past performance is no guarantee of future results.

DESCRIPTION OF INDICES

The Barclays Capital Aggregate Bond Index is a market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least \$250 million par amount outstanding and with at least one year to final maturity.

The Barclays Capital Corporate Investment Grade Index is an unmanaged index consisting of publicly issued U.S. Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB- or higher) by at least two ratings agencies, have at least one year to final maturity and have at least \$250 million par amount outstanding. To qualify, bonds must be SEC-registered

The BofA Merrill Lynch High-Yield Bond Master II Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks.

The Russell 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Growth Index measures the performance of those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index tracks the performance of those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australia and the Far East.

The Morgan Stanley Capital International Emerging Markets Index (MSCI EMI) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

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