

The Week Ahead in US Economics – May 16-20, 2011



Monday	Tuesday	Wednesday	Thursday	Friday
16 Empire State Manufacturing Survey (May) (08:30) NAHB Index (May) (10:00) Bernanke on the government's role in innovation (09:00) • Treasury International Cap Flows (Mar) (09:00) • Treasury announces 4-week bills (e: \$26 bln) (11:00) • Treasury auctions \$27 bln 3- and \$24 bln 6-month bills (11:30)	17 Housing Starts (Apr) (08:30) Building Permits (Apr) (08:30) Industrial Production/ Capacity Utilization (Apr) (09:15) • Treasury auctions 4-week bills (11:30)	18 Architecture Billings Index (Apr) (00:01) FOMC Minutes (14:00) FRB St. Louis's Bullard to speak to Money Marketeers of NYU (19:00)	19 Initial Claims (May 14) (08:30) Existing Home Sales (Apr) (10:00) Leading Indicators (Apr) (10:00) FRB New York's Dudley on the economic outlook (08:30) FRB NY's Dudley before Orange County (NY) CoC (12:00) FRB Dallas's Fisher on Fed functions and economic update (13:30) FRB Chicago's Evans to AFP Global Corp. Treasurers Forum (13:40) • Treasury announces 3- and 6-month bills (e: \$51 bln) (11:00) • Treasury announces 2-, 5- and 7-year notes (e: \$99 bln) (11:00) • Treasury auctions \$11 bln 10-year TIPS (13:00)	20 Mass Layoffs (Apr) (10:00) FRB New York's Dudley on the economic outlook (08:00)

all times are ET; FOMC voters in bold

Bottom Line

Data released in the May 9 – 13 week again saw plenty of impact from the recent gas price spikes, though a sustained drop in oil prices this week indicates those impacts could be reversed in data to be published next month. Headline import prices and PPI were higher than usual, and even core PPI was a bit higher than expected, though CPI came in on target with

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more modest expectations. Retail sales were moderately strong, indicating consumers continue to be able to increase their aggregate spending, but much of the growth went to those increased gas costs. Meanwhile, the trade deficit widened further and claims remained high, but consumer sentiment appeared to brighten further amid strong April jobs data and the most recent corrective drop in oil.



The new week will see housing data (starts, sales, and homebuilder sentiment) treading the same murky water, not far from their post-collapse bottoms. The first two manufacturing surveys of the month, from the New York and Philadelphia Fed districts, should level out after April saw most regions indicate much slower growth. Slower manufacturing growth could persist for months in the wake of the Japan tsunami's disruption of supply chains, though domestic production is a beneficiary of that and, through early May, the weaker dollar. Factory output and capacity use for April should see a modest boost, while claims should fall further as special factors fade. Given the flooding in the South and other temporary employment dynamics, however, we do not expect claims to see the south side of 400k for several weeks.

There will be a number of Fed speakers next week, with the only scheduled non-voter being St. Louis's Bullard (moderate) before the Money Marketeers of NYU on Wednesday. Chairman Bernanke (dove) will be the first to speak, talking on the government role in innovation on Monday. New York Fed President Dudley (dove) will tour several stops in his district on Thursday, commenting on the outlook in the morning and speaking to the Orange County Chamber of Commerce at noon, then he'll speak again on the outlook on Friday. Dallas's Fisher (hawk) and Chicago's Evans (dove) will also speak Thursday.

The Fed will conduct outright Treasury purchases every day of the week, targeting 2- to 30-year TIPS (e: \$1.4 bln) Monday, 4- to 5.5-year coupons (e: \$6.4 bln) Tuesday, 17- to 30-year coupons (e: \$1.9 bln) Wednesday, 10- to 16.5-year coupons (e: \$1.9 bln) Thursday and 5.5- to 10-year coupons (e: \$7.4 bln) Friday.

In addition to the weekly bill auction cycle, Treasury will announce 2-, 5- and 7-year notes and auction 10-year TIPS on Thursday. Freddie Mac will make a reference note announcement Thursday.

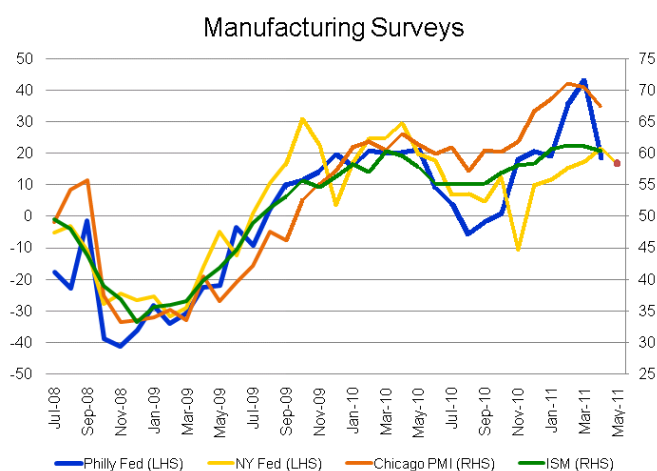
IFR Commentary

Empire State Mfg Survey (May) (Mon)

The New York Fed's Empire State Survey, which was alone among regional manufacturing surveys in escaping an April decline, should drop in May from +21.7 to about +17.0. Supply chain disruptions emanating from Japan will likely have started to impact manufacturers' sentiment.

The Empire State index rose 4.2 points in April, but started from a lower base than most of the other regional surveys. Still, many of them fell below the Empire State's level, and the headwinds this month could prove too much to ignore.

Conditions should improve as manufacturers find alternate suppliers or links in Japan regain their footing, and particularly if somewhat lower oil prices can be sustained. By that time, however, capacity utilization may be edging back up near pre-recession levels, constraining the potential speed of growth. /tml



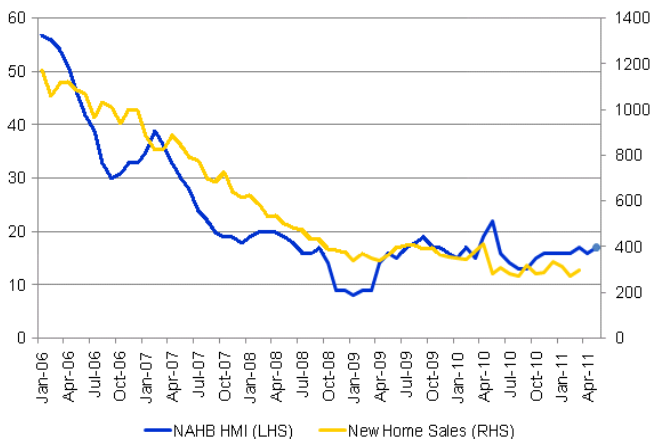
NAHB Index (May) (Mon)

Better weather and lower mortgage rates are likely to see home shopping traffic up in May, lifting the NAHB Housing Market Index a point to a still extremely low level of 17. The increase should be restrained by the fact that distressed sales have been making up an increasing share of existing home sales over the last four months, hitting 40% of sales in March. A peaking foreclosure rate is leading to more and more existing homes being dumped on the market, providing stiff competition to new home builders.

The distress is being fueled by home prices, which have been dropping a bit faster than analysts expected. As more homeowners fall underwater (Zillow recently reporting 28% of U.S. homeowners owing more than the values of their homes), more of them are walking away from their loans. This promises to be another tough year for homebuilders, as prices are now expected to stabilize only in 2012. The NAHB index is unlikely to rise from historically disastrous levels for a very long time to come. /tml

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NAHB HMI vs. New Home Sales



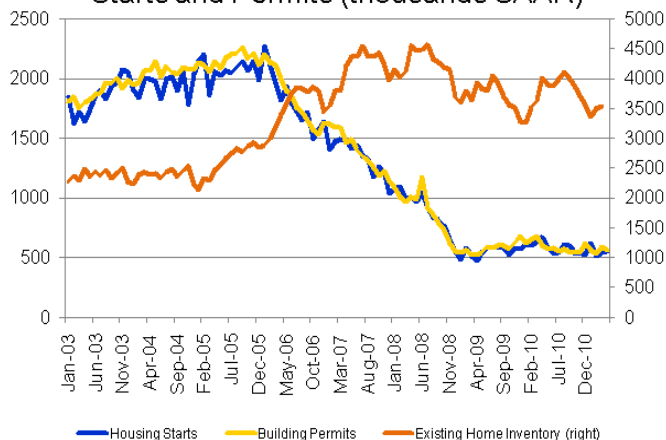
New Construction (Apr) (Tue)

Housing starts likely ticked up to around 560k in April from March's 549k, while permits dropped back down from 585k to 570k. Both series have probably worked out all the ripple effects from the regulatory changes in some states that saw permits surge at the end of last year.

The March surge in volatile multi-unit structures (to its highest reading since January 2009) should revert, while we expect single-unit structures to rise back up to the recent trend rate of 420k or so. Starts, meanwhile, seem closer to stable levels, though they will likely see a modest boost from the March permits spike.

Both series remain at historically extremely low levels. With a growing percentage of underwater homeowners providing fuel for a still-peaking foreclosure rate, demand for new home construction is unlikely to significantly appreciate in the near future. /tml

Starts and Permits (thousands SAAR)



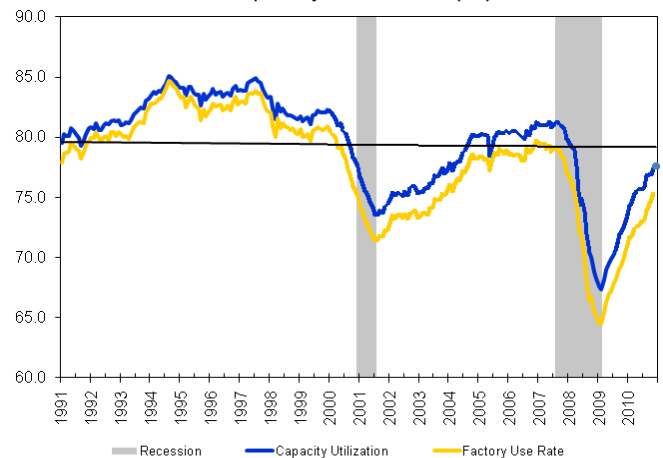
Industrial Production (Apr) (Tue)

Industrial output should rise about 0.2% in April, considerably weaker than March's 0.8% gain. The April employment report showed a modest increase in manufacturing hours worked of 0.2%, which implies growth considerably more modest than even the slower rates indicated by the April manufacturing surveys. We see manufacturing output rising by about 0.4%, possibly with some drag from supply chain disruptions after the Japan earthquake and tsunami.

Weather was mild by historical standards, roughly in line with March, so we look for essentially no change in utility output. Mining production looks like it fell slightly over the month.

Capacity utilization should tick up from 77.4% to 77.6%, assuming no revisions. That would still be about 2.5 points shy of the long-run historical average, at which point price pressures would start to become more severe and capacity would start to constrain output growth. /tml

Capacity Utilization (%)



Architecture Billings Index (Apr) (Wed)

After starting to edge up over neutral at the end of 2010, the AIA's Architecture Billings Index dropped back down to a flat 50.0 in January, and has hovered just slightly above that level since. We see little reason why it would have gone up significantly in April, as we expect commercial real estate, which mirrored the collapse of residential real estate with a lag through the recession, to still be in the doldrums six to nine months out. /tml

FOMC Minutes (Apr 26-27) (Wed)

What we would like to see (more than what we expect to see) in Wednesday's FOMC minutes is the split among Committee members on what form the exit strategy should take. We have no doubt that even the doves are conscious of the economy's strengths and the scope to start removing policy accommodation beyond the implicit tightening of ceasing purchases of Treasury debt at the end of next month. Given that QE2 is still waxing, however, it is difficult to talk specifics about the desired size of the Fed's balance sheet four, three or even two quarters from now. Keep in mind, we are still six weeks away from a plateau in orchestrated policy accommodation, though the dollar's strength in early May has ratcheted monetary conditions higher to some degree.

Not all of the Committee's doves are sanguine on inflation and not all of the Committee's hawks are certain about the growth outlook. The average voter, however, still favors leaving as much policy accommodation as possible in place, judging that the risks of an outbreak of inflation or expectations are less real and less insidious than the risk of a widening and prolonged soft patch in economic activity.

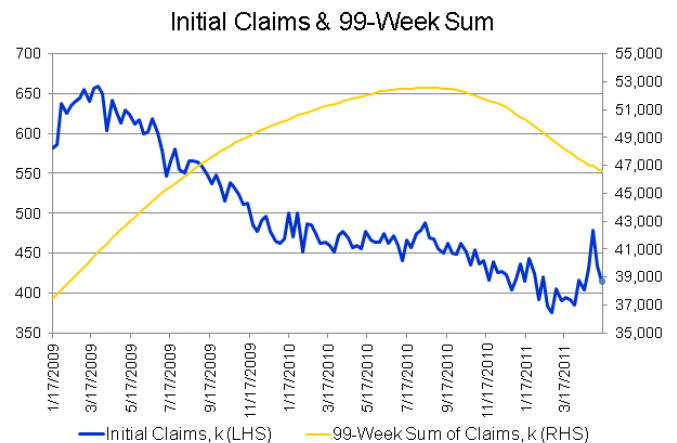
Since the meeting, at least three voting Fed presidents have said they conceive a possibility that the Fed funds rate moves higher within this calendar year. Kocherlakota recently suggested 50 bps and we think Plosser would have been comfortable with that much tightening or more. The meeting came before the peak and subsequent breakdown in commodity prices so you may seem some heightened concerns that will have been obviated before the next meeting. /jh

Initial Claims (5/14) (Thu)

Claims should post another decline to 415,000 for the week ending May 14, down from 434k in the May 7 week and 478k in the April 30 week. As communities work through special factors somewhat responsible for claims' elevated reading for the past two weeks (unanticipated weather in the South, underestimated impact of New York spring break layoffs, etc.), the level should continue to move lower. Although the recent 44k decline corrects for the spike (478k) reached in the last week of April, claims still need to decline an additional 50k to return to

~380k, where the series was before the turn of the quarter.

Continuing claims, whose seasonals have been pushing them back up to 3.75 mln, will also begin to correct lower toward 3.6 mln (where it had been trending) and fall to 3.62 mln. /vn

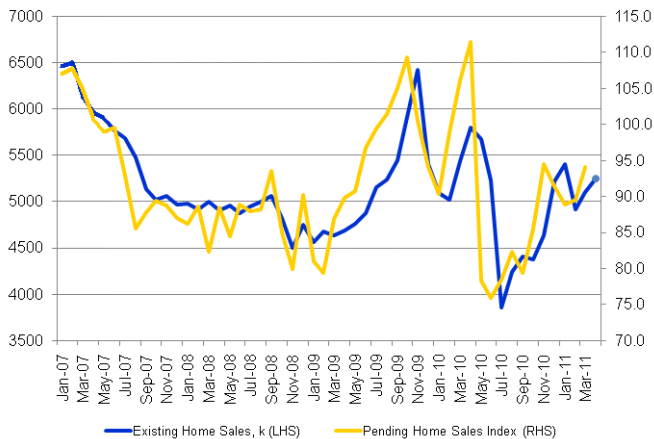


Existing Home Sales (Apr) (Thu)

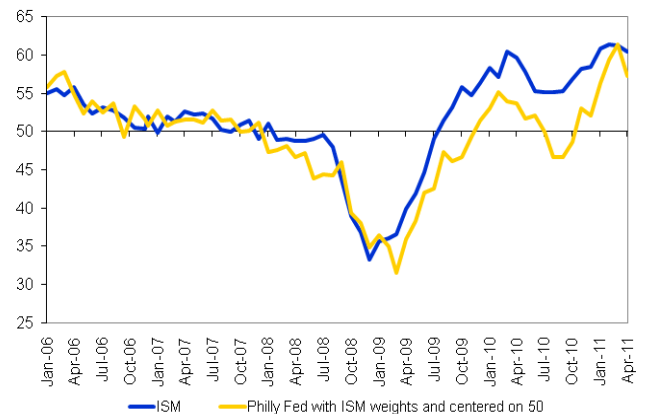
Existing home sales likely rose about 3% in April to 5.25 mln, as weather improved and mortgage rates dwindled from their early-February peak. The pending home sales index rose by 0.7% in February and 5.1% in March. Pending sales are recorded after a contract has been signed, whereas an existing sale is recorded at closing, which usually happens about a month and a half later.

Mortgage purchase applications have declined a bit in April, despite improving mortgage rates and lower prices (likely a result of increasing distressed sales). All-cash sales have been persistently increasing as a share of existing home sales, however, rising from 19% in November 2009 to 29% in December 2010, then up to 35% in the three months since then. Distressed sales have been climbing in turn, from 33% of existing home sales in November to 40% in March. So the outlook for the near term is mixed, with sales fueled largely by a deluge of foreclosures, but at least buyers appear to be more confident about skipping entirely the now more-arduous process of getting a mortgage. /tml

Existing vs. Pending Home Sales



ISM and Adjusted Philly Fed



Philly Fed Survey (May) (Thu)

It's uncertain what move the Philly Fed's Business Outlook Survey will take after dropping 24.9 points in April, but we look for it to not move very far from its current level of +18.5. Our best guess is for a relatively small bounce to +20.0. The February and March highs were probably unsustainably high, and were outliers compared to most of the other manufacturing surveys: March, in particular, saw a 27-year high in the headline. The April plunge merely left the index at about its November through January trend.

We expect that supply chain disruptions from the Japan disasters will weigh on factory output. On the other hand, somewhat-easing fuel prices could see the prices paid index down for a third month, after hitting a 2.5-year peak in February.

The employment index could see a rebound after two months of decline. National manufacturing payrolls jumped a healthy 29k in April, with monthly growth averaging 35k this year, and last month's workweek index hit a seven-year high. /tml

Leading Indicators (Apr) (Thu)

The April spike in claims and softness in the vendor delivery time index should hold April leading indicators flat, the first non-positive reading since last June. Claims jumped in April on a variety of special factors that should fade from the May numbers, but there appears to have been a rise in the underlying trend as well. Hours worked will also contribute slightly negatively, while we project building permits to have provided a small drag as well.

The only large positive contribution this month will come from the yield curve differential, a consistent large positive for the last three years. Small positives should come from the Michigan expectations index, stocks, and the money supply. We again see the two components that will require forecasts from the Conference Board -- manufacturing new orders and capex spending -- as contributing negligibly.

Hopefully, the recent drop in gas prices and strong payrolls numbers will help keep this pause in the index's climb from being as long as the one that presaged the late spring and summer soft patch last year. /tml

Week Ahead Calendar:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range	
May 16	08:30	Empire State Mfg Srvy	Idx	May	17.0	21.7	20.0	15.0	25.0
May 16	10:00	NAHB Index	Idx	May	17	16	17	16	18
May 17	08:30	Housing Starts	k,AR	Apr	560	549	569	540	590
May 17	08:30	Building Permits	k,AR	Apr	570	594	590	550	620
May 17	09:15	Capacity Utilization	%	Apr	77.6	77.4	77.6	77.2	77.9
May 17	09:16	Industrial Production	%m/m	Apr	0.2	0.8	0.4	-0.3	0.9
May 18	00:01	Architecure Billings Idx	Idx	Apr		50.5			
May 19	08:30	Initial Claims	k	5/14	415	430	420	398	440
May 19	08:30	Continuing Claims	k	5/7	3620	3710	3720	3620	3760
May 19	10:00	Existing Home Sales	k	Apr	5250	5100	5210	5000	5370
May 19	10:00	Leading Indicators	%m/m	Apr	0.0	0.4	0.1	-0.2	0.6
May 19	10:00	Philly Fed Survey	Idx	May	20.0	18.5	20.0	10.0	28.0
May 20	10:00	Mass Layoffs	k	Apr		1.286			

Consensus (median) forecasts supplied by Reuters News.

On the Horizon:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range	
May 23	08:30	CFNAI	Idx	Apr		0.26			
May 24	10:00	New Home Sales	k,AR	Apr		300	300	280	380
May 24	10:00	Richmond Fed Comp	Idx	May		10			
May 24	10:00	Richmond Fed Mfg	Idx	May		28			
May 24	10:00	Richmond Fed Svcs	Idx	May		6			
May 25	08:30	Durable Goods	%m/m	Apr		4.1	-0.3	-5.4	3.4
May 25	08:30	Dur Goods ex-Trans	%m/m	Apr		2.3	1.0	-1.2	1.7
May 25	08:30	Nondef Capex ex-Air	%m/m	Apr		4.3			
May 25	10:00	FHFA House Price Idx	%y/y	Mar		-5.7			
May 26	08:30	GDP (Prelim)	%,AR	Q1	2.2	1.8	2.1	1.6	2.5
May 26	08:30	Core PCE Defl (Prelim)	%,AR	Q1	1.5	1.5	1.5	1.5	1.6
May 26	08:30	GDP Final Sls (Prelim)	%,AR	Q1	1.2	0.8	1.0	0.6	1.3
May 26	08:30	Initial Claims	k	5/21		n/a			
May 26	08:30	Conintuing Claims	k	5/14		n/a			
May 26	11:00	Kansas City Fed Srvy	Idx	May		14			
May 27	08:30	Personal Income	%m/m	Apr		0.5	0.5	0.3	0.5
May 27	08:30	Consumption (PCE)	%m/m	Apr		0.6	0.5	0.4	0.6
May 27	08:30	Core PCE Deflator	%m/m	Apr		0.1	0.2	0.1	0.2
May 27	08:30	Core PCE Deflator	%y/y	Apr		0.9	1.0	0.9	1.0
May 27	09:55	Michigan Sent (Final)	Idx	May		72.4			
May 27	10:00	Pending Home Sls Idx	%m/m	Apr		5.1			

Consensus (median) forecasts supplied by Reuters News.

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Review of the May 9 – 13 Week

Date	Release	Unit	Period	Actual	Rev	Previous	Median	Range	
May 09	CB Employment Trends	%m/m	Apr	-0.6		0.6			
May 10	NFIB Index	Idx	Apr	91.2		91.9			
May 10	Import Prices	%m/m	Apr	2.2	2.6	2.7	1.8	1.0	3.6
May 10	IBD/TIPP Econ Optimism	Idx	May	42.8	40.8	40.8			
May 10	Wholesale Inventories	%m/m	Mar	1.1		1.0	1.0	0.6	1.3
May 10	Wholesale Sales	%m/m	Mar	2.9	-0.3	-0.8	1.4	0.0	2.4
May 11	International Trade	\$bln	Mar	-48.18	-45.44	-45.76	-47.0	-49.3	-43.0
May 11	JOLTS	%	Mar	2.3		2.3			
May 11	Treasury Budget	\$bln	Apr	-40.49		-82.7	-62.0	-80.0	-40.0
May 12	Initial Claims	k	5/7	434	478	474	430	400	465
May 12	Continuing Claims	k	4/30	3756	3751	3733	3700	3650	3740
May 12	PPI	%m/m	Apr	0.8		0.7	0.6	0.3	1.3
May 12	PPI - YOY	%y/y	Apr	6.8		5.8	6.5	6.2	6.9
May 12	Core PPI	%m/m	Apr	0.3		0.3	0.2	0.1	0.4
May 12	Core PPI - YOY	%y/y	Apr	2.1		1.9	2.1	1.9	2.2
May 12	Retail Sales	%m/m	Apr	0.5	0.9	0.4	0.6	0.2	1.2
May 12	Retail Sales ex-Autos	%m/m	Apr	0.6	1.2	0.8	0.6	0.1	1.5
May 12	Business Inventories	%m/m	Mar	1.0	0.7	0.5	0.8	0.4	1.0
May 13	CPI	%m/m	Apr	0.4		0.5	0.4	0.3	0.7
May 13	CPI -YOY	%y/y	Apr	3.2		2.7	3.1	2.8	3.4
May 13	Core CPI	%m/m	Apr	0.2		0.1	0.2	0.1	0.3
May 13	Core CPI - YOY	%y/y	Apr	1.3		1.2	1.3	1.2	2.1
May 13	Michigan Sentiment (Pre)	Idx	May	72.4		69.8	70.0	66.9	75.0

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Treasury Financing Calendar

Security	Type	Amount	Announcement	Auction	Settlement
3-Year	NOTE	\$32B	04-May	10-May	16-May
10-Year	NOTE	\$24B	04-May	11-May	16-May
30-Year	BOND	\$16B	04-May	12-May	16-May
13-Week	BILL	\$27B	12-May	16-May	19-May
26-Week	BILL	\$24B	12-May	16-May	19-May
10-Year ^R	TIPS	\$11B	12-May	19-May	31-May
4-Week	BILL	e\$26B	16-May	17-May	19-May
13-Week	BILL	e\$27B	19-May	23-May	26-May
26-Week	BILL	e\$24B	19-May	23-May	26-May
2-Year	NOTE	e\$35B	19-May	24-May	31-May
5-Year	NOTE	e\$35B	19-May	25-May	31-May
7-Year	NOTE	e\$29B	19-May	26-May	31-May

R denotes reopening

Federal Reserve Purchase Schedule

Operation Date	Settlement Date	Operation Type	Maturity Range	Expected Purchase Size	IFR Expects
16-May	17-May	Outright Tsy TIPS Purchase	04/15/2013-02/15/2041	\$1-2 bln	\$1.4 bln
17-May	18-May	Outright Tsy Coupon Purchase	05/31/2015-11/15/2016	\$5-7 bln	\$6.4 bln
18-May	19-May	Outright Tsy Coupon Purchase	08/15/2028-05/15/2041	\$1.5-2.5 bln	\$1.9 bln
19-May	20-May	Outright Tsy Coupon Purchase	08/15/2021-11/15/2027	\$1.5-2.5 bln	\$1.9 bln
20-May	23-May	Outright Tsy Coupon Purchase	11/30/2016-05/15/2021	\$6-8 bln	\$7.4 bln

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