The Week Ahead in US Economics – June 20 – 24, 2011

Monday	Tuesday	Wednesday	Thursday	Friday
20	**21** Existing Home Sales (May) (10:00)	**22** ABI (May) (00:01) FHFA House Price Index (Apr) (10:00) Mass Layoffs (May) (10:00) Fed Funds Rate (12:30)	**23** CFNAI (May) (08:30) Initial Claims (6/18) (08:30) New Home Sales (May) (10:00)	**24** Revised Building Permits (May) (08:30) Durable Goods (May) (08:30) GDP (Final) (Q1) (08:30)
	FOMC Meeting (13:00)	FOMC Statement (12:30) Post-FOMC Press Briefing (14:15)	FRB Chicago's **Evans** on state budgets (19:00)	
• Treasury announces 4-week bills (11:00) • Treasury auctions $27 bln 3- and $24 bln 6-month bills (11:30)	• Treasury autions 4-week bills (11:30)		• Treasury announces 3- and 6-month and 1-year bills (11:00) • Treasury announces 2-,5- and 7-year notes (e: $99 bln) (11:00) • Treasury auctions $7 bln 30-year TIPS (13:00)	

all times are ET; FOMC voters in bold

Bottom Line

The week of June 13 – June 17 had some optimistic signs, but several downside surprises as well. The manufacturing sector continued to take it on the chin, with much sharper than expected drops in the New York and Philadelphia Fed regional manufacturing surveys, indicating that we'll actually get contraction in factory output this month. May industrial production was only up a tenth of a percent, a bit shy of expectations, though that was largely on a drop in utility output -- manufacturing output was up a respectable 0.4%, seemingly contradicting that month's weak survey data. Claims improved, May housing starts and especially building permits beat forecasts, and headline retail sales came in a little better than expected, while still falling on weak autos. May inflation figures were a touch stiffer than expected, though we should see softer reads next month.

The new week will be dominated by the last FOMC meeting of the QE2 era. Little of note should come from the meeting, however, with QE2 on course to end in short order and no QE3 expected to replace it unless the economy sees a particularly harsh shock -- say, from a messy, unexpected Greek default, or an inability to reach agreement on the U.S. debt ceiling in time.

Data releases will be light, focusing on housing. Pending home sales took a sharp tumble in April, possibly on banks holding back on distressed sales ahead of a possible massive foreclosure legal settlement, so it will be interesting to see what happens with the various housing numbers over the next few months. Even so, meaningful recovery in the housing market is clearly still a long ways off. We'll also get May durable goods numbers, which will give a further indication of whether actual manufacturing activity is as dour as the surveys say. We'll also get the third look at Q1 GDP, which could see it at least end up with a 2-handle.

We remain in the blackout period surrounding the FOMC meeting, and so we have just two scheduled Fed speakers. The only one who should be moving markets will be Chairman Bernanke (voter, dove) himself at the post-meeting press briefing on Wednesday. FRB Chicago's Evans (voter, dove) will discuss state budgets on Thursday.

The Fed will conduct five rounds of outright Treasury purchases, targeting 2- to 10-year coupons (e: $4.6 bln) early Monday and 2.5- to 4-year coupons (e: $4.9 bln) later in the day, 5.5- to 7-year coupons (e: $4.7 bln) Tuesday, 10- to 16.5-year coupons (e: $4.7 bln) Thursday and 2.5- to 4-year coupons (e: $4.9 bln) Friday.

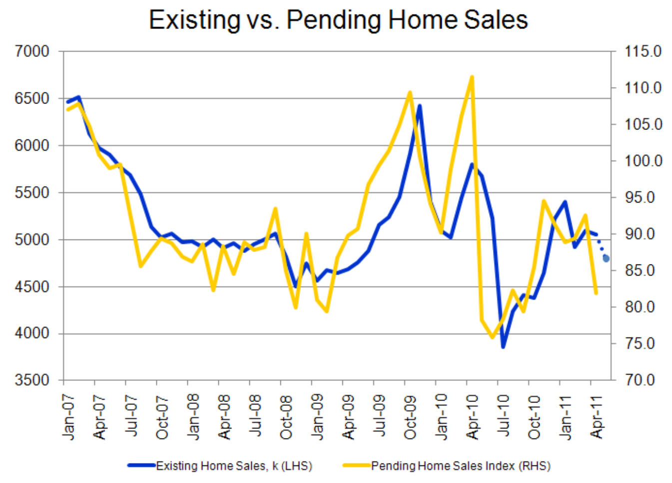
In addition to the weekly bill auction cycle, Treasury will announce 2-, 5- and 7-year notes (e: $35 bln, $35 bln, and $29 bln) and auction $7 bln 30-year bonds on Thursday.

IFR Commentary

Existing Home Sales (May) (Tue)

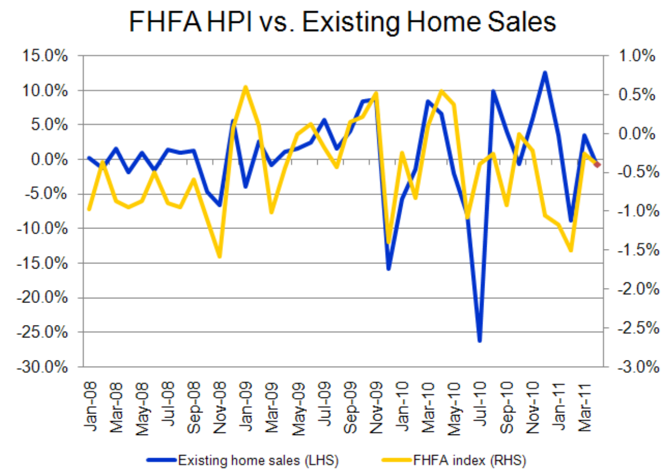
Existing home sales likely dropped significantly in May, to around 4.80 mln. That would be the lowest since November, when home sales were still climbing up out of the ditch they had fallen into after the expiration of the last homebuyer tax credit. Pending home sales in April dropped an astounding 11.6%, so there is considerable room for exiting home sales to fall, but pending sales lead existing by about a month and a half, so some of the impact from the April dip should be felt in June. March pending sales were up 3.5%.

The silver lining is that the number of non-distressed sales likely won't fall as far as the number of distressed sales. Legal questions have slowed the rate of foreclosures, as lenders have choked on a flood of paperwork. It remains to be seen if there will be another spike upward after a settlement is finally worked out, but in the meantime, a decreasing ratio of distressed to existing home sales should help slow the second leg of decline in home prices. /tml



FHFA House Price Index (Apr) (Wed)

We project a 0.4% decline in April's FHFA house price index, a slightly steeper decline than the 0.3% fall seen in March. March's fall followed an exceptionally steep 1.5% February decline, a fall exceeded only by a 1.6% fall in November 2008 since the economy fell into recession, and March's data gained support from rebounds in some of the regions that were particularly weak in February. That suggests March's data, while negative, may have been above underlying trend. On the other hand, price data released with the April existing home sales report showed some improvement, though with home sales weakening again after a rise in March, on balance we expect a slightly steeper decline in April prices. Our forecast would see the yr/yr FHFA pace decline to -6.7%, the weakest since April 2009, from -5.9% in March. /ds



FOMC Statement (Wed)

The lack of significant changes in the April 27 FOMC meeting statement suggested at the time that the conduct of monetary policy would be on cruise control this summer. The domestic and world economies have undergone significant upheaval in the intervening eight weeks, however, begging the question of, "What can the Fed do to keep the economy from backsliding further?" Bernanke has suggested "nothing", having noted last week that monetary policy is not a panacea. While he's not indifferent to the desire for insurance against a shrinking economy or deflation, his lack of available options leaves markets at sea and risk markets for sale. We would not normally have listed the debt ceiling has a structural hazard but the lack of resolution to raise it this close to a drop-dead date (August 2) has investors deeply unsettled and asset investments in sub-optimal allocations. As such, we move the passing of the debt ceiling legislation to a top priority for Congress. Other important tax and regulatory changes (e.g., Dodd-Frank) are still unresolved so raising the debt limit is not a panacea either.

There were cracks in the recovery's edifice before the May jobs report and they have got wider this week. May retail sales might have not been as weak as feared and housing starts and permits improved in May, but worryingly weak manufacturing and NAHB surveys for June will promote market (and Fed) talk of rising downside risks, while persistent rises in core price indices through May will remind all that inflation is more than just transitory, even if food and energy price pressures are fading.

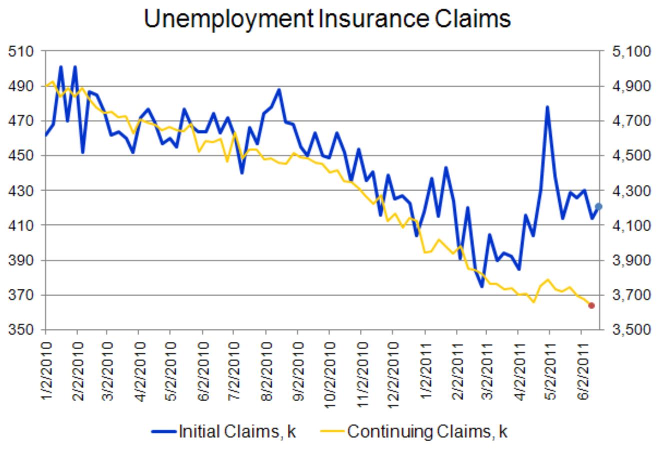
Nearly two years into the recovery, housing remains a sizeable restraint on U.S. GDP, and unlike previous episodes so too does commercial real estate and municipal government spending. Do not write off Q2 growth entirely, however. The economy needs to add only 211k jobs in June in order for Q2 employment growth to match the pace of that in Q1. That might be a stretch given May's sub-par performance (+54k) but there will already be between a one-third and a half million more Americans at work and spending in Q2 than in Q1 while workweek data shows they are working longer hours than they did in Q1. While personal consumption expenditures, led down by autos, should slip in May, real PCE should resume growth in June (as consumers start to get a break from an easing of gasoline prices), helping to displace fears of a new recession. Current weakness in auto output should also fade as the disruptions from the Japanese disaster pass. The Fed cannot count on factory output and the consumer to do all the heavy lifting but those sectors can shoulder enough to get the U.S. economy through the 2011 soft patch without additional policy stimulus.

The Fed's statement will need to recognize the loss of momentum in the recovery while noting the transitory factors at play while on prices the tone of the statement should not shift much while recognizing reduced pressure in commodities since the last meeting. Later in the day the FOMC's updated economic projections will be delivered. 2011 GDP, seen with a central tendency of 3.1-3.3% in April will probably now be seen at around 2.75%, which would be consistent with a first half near 2% and a second half near 3.5%. The 2012 view may be downgraded a touch from its 3.5-4.2% central tendency too. While unemployment forecasts may be fine tuned higher and overall PCE price forecasts fine tuned lower, there seems to be no need to tinker with the forecasts for core PCE prices, where April's central tendencies were 1.3-1.6% for 2011 and 1.3-1.8% for 2012. /jh & ds

Initial Claims (6/18) (Thu)

Unemployment insurance claims may unfortunately adjust back up to 421,000 initial filings for the week ending June 11th. Having just been helped by a Federal-holiday-effect-seasonal to beat market expectations, claims finally dropped from 430k to 414k for the week ending June 4. The level had stalled around that reading (dropping never more than 4k) since mid-May. History shows that this reference week ought to see a dip down from the rebound, but the lack of a rebound in the first place opens the possibility for a higher-than-expected reading. This may be the first of a series of rising levels, as earlier-than-expected-layoff trends in the auto industry pair up against smaller seasonal adjustments.

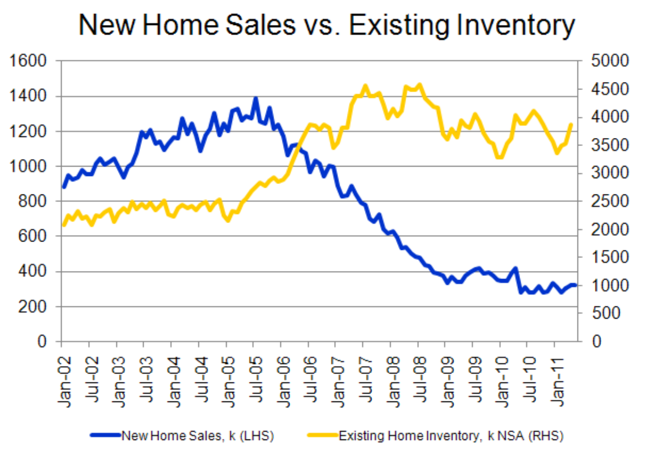
Continuing claims moved down 21k and adding initial claims' movement should help it drop a little more the week ending June 4th, falling to 3.64 mln. /vn



New Home Sales (May) (Thu)

IFR sees new home sales as likely having held at 320k in May. Though April pending home sales plunged 11.6%, implying weak existing sales in subsequent months, we suspect that that is largely due to a decline in distressed sales as a possible settlement of foreclosure legal issues began to take shape, and hence not such bad news for the new homes sector: A fall in distressed sales would mean less stiff price competition from existing homes.

While we see the new home sales series as holding its gains of the last two months, it will remain at extremely low levels by historical standards, hitting about a third the pre-bubble pace and a quarter of the bubble-era highs. If a foreclosure legal settlement leads to another turn up in distressed sales and a new pile of existing home inventory on the market, new homes could quickly return to setting new record lows. /tml

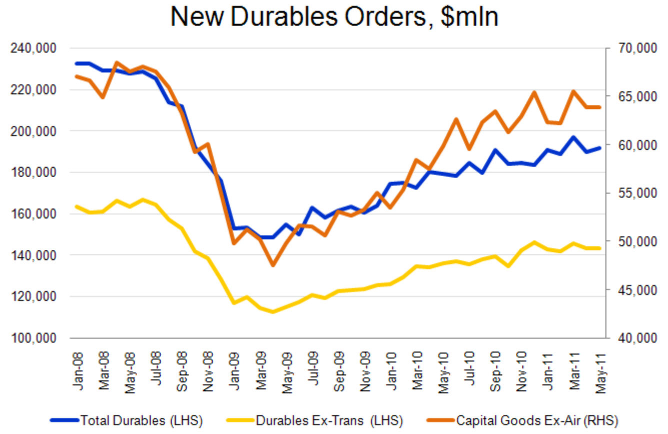


Durable Goods (May) (Fri)

We look for durable goods order growth to be relatively quiet in May, rising about 0.9% overall but just 0.1% ex-transportation. Nondefense capital goods ex-aircraft orders will likely be flat. This would mark a pause in what had been a generally strongly rising trend for most of the recovery, as manufacturing appears to be falling into a funk that is at a minimum not wholly explained by supply chain disruptions resulting from the Japan tsunami.

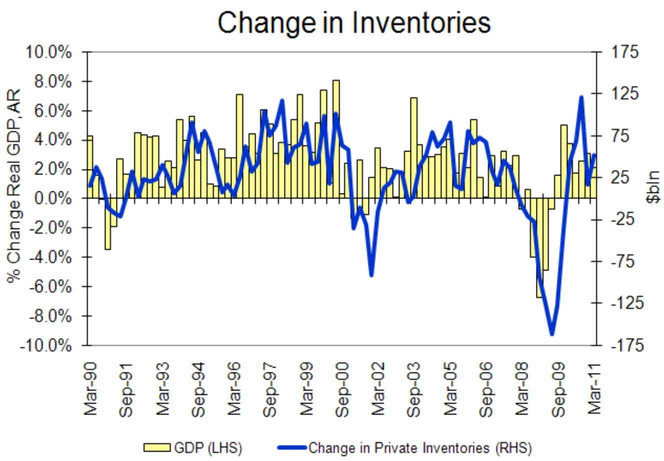
Boeing net new orders rose from just one in April to 26 in May, not a tremendous number, but still representing what should be a modest seasonally adjusted gain. At the low levels of orders that have dominated over the last few years, the correlation between Boeing and wider civilian aircraft orders has weakened, but we still look for a rebound to about the levels of February and March. Civilian aircraft construction has extremely long lead times, and should be essentially unaffected by most short-term dips in the outlook.

Outside of the transport sector, however, we see manufacturing activity slowing down in the near term and orders flattening out. Regional surveys have been getting more downbeat on activity and orders not only in the near term, but in expectations for the future as well. /tml



GDP (Final) (Q1) (Fri)

The final estimate for Q1 GDP should be revised up to 2.1% from a preliminary 1.8%, with most of the revision coming from an upward revision to March inventories data. Final sales (GDP excluding inventories) should be revised up by only 0.1% to 0.7% from 0.6%, with that revision fully due to a downward revision to the March trade deficit, and that fully on weaker imports. Final sales to domestic buyers (GDP excluding inventories and net exports) should be unrevised at the preliminary 0.7% pace, with the revision marginally negative (on public construction spending) before rounding. There is no reason to expect any revisions to the price indices. An upward revision fully on inventories will add to the risk of a negative contribution from inventories in Q2. Downward revisions to imports and (marginally) domestic demand are not constructive signals. /ds



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Week Ahead Calendar:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range	
Jun 21	10:00	Existing Home Sls	k	May	4800	5050	4800	4500	5180
Jun 22	10:00	FHFA House Price Index	%y/y	Apr	-6.7	-5.9			
Jun 22	12:30	Fed Funds Rate	%		0.25	0.25			
Jun 23	08:30	CFNAI	Idx	May		-0.45			
Jun 23	08:30	Initial Claims	k	6/18	421	414	414	400	425
Jun 23	08:30	Continuing Claims	k	6/11	3640	3675	3670	3640	3690
Jun 23	10:00	New Home Sales	k,AR	May	320	323	310	290	350
Jun 24	08:30	Durable Goods	%m/m	May	0.9	-3.6	1.5	-1.0	5.5
Jun 24	08:30	Durable Goods ex-Trans	%m/m	May	0.1	-1.6	0.9	-0.6	1.8
Jun 24	08:30	Nondef Capex ex-Air	%m/m	May	0.0	-2.3	1.1	-1.0	3.2
Jun 24	08:30	GDP (Final)	%,AR	Q1	2.1	1.8	1.9	1.7	2.2
Jun 24	08:30	Core PCE Defl (Final)	%,AR	Q1	0.7	0.6	0.6	0.6	0.8
Jun 24	08:30	GDP Final Sls (Final)	%,AR	Q1	1.4	1.4	1.4	1.4	1.5

Consensus (median) forecasts supplied by Reuters News.

On the Horizon:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range	
Jun 27	08:30	Personal Income	%m/m	May	0.3	0.4	0.3	0.2	0.5
Jun 27	08:30	Consumption (PCE)	%m/m	May	0.0	0.4	0.1	-0.3	0.3
Jun 27	08:30	Core PCE Deflator	%m/m	May	0.2	0.2	0.3	0.2	0.3
Jun 27	08:30	Core PCE Deflator	%y/y	May	1.1	1.0			
Jun 28	09:00	S&P Case-Shiller Idx	Idx	Apr		-3.6	-4.0	-4.5	-3.3
Jun 28	10:00	Consumer Confidence	Idx	Jun		60.8	60.5	57.0	64.0
Jun 28	10:00	Richmond Fed Mfg Idx	Idx	Jun		-6			
Jun 28	10:00	Richmond Fed Svcs Idx	Idx	Jun		9			
Jun 28	10:00	Richmond Fed Mfg Ship.	Idx	Jun		-13			
Jun 29	10:00	Pending Home Sales Idx	%m/m	May		-11.6	0.7	-4.8	5.0
Jun 29	10:00	CB Help-Wanted OnLine Idx	k	Jun		148.8			
Jun 30	08:30	Initial Claims	k	6/25		n/a			
Jun 30	08:30	Continuing Claims	k	6/18		n/a			
Jun 30	09:45	Chicago PMI	Idx	Jun		56.6	55.0	52.4	56.6
Jun 30	11:00	Kansas City Fed Survey	Idx	May		1			
Jul 01	09:55	Michigan Sentiment (F)	Idx	Jun		71.8			
Jul 01	09:55	Current Conditions (F)	Idx	Jun		79.6			
Jul 01	09:55	Expectations (F)	Idx	Jun		66.8			
Jul 01	10:00	Construction Spending	%m/m	May		0.4	0.3	-0.4	0.8
Jul 01	10:00	ISM Index	Idx	Jun		53.5	52.0	49.5	55.0
Jul 01	15:00	Total Vehicle Sls	M,AR	Jun		11.79			
Jul 01	15:00	Domestic Car Sls	M,AR	Jun		3.95			
Jul 01	15:00	Domestic Truck Sls	M,AR	Jun		5.14			

Consensus (median) forecasts supplied by Reuters News.

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Review of the June 13 – 17 Week

Date	Release	Unit	Period	Actual	Rev	Previous	Median	Range	
Jun 14	NFIB Index	Idx	May	**90.9**		91.2			
Jun 14	PPI	%m/m	May	**0.2**		0.8	0.1	-0.5	1.0
Jun 14	PPI – YOY	%y/y	May	**7.3**		6.8	6.8	6.3	7.4
Jun 14	Core PPI	%m/m	May	**0.2**		0.3	0.2	0.0	0.5
Jun 14	Core PPI -YOY	%y/y	May	**2.1**		2.1	2.1	2.0	2.4
Jun 14	Retail Sales	%m/m	May	**-0.2**	0.3	0.5	-0.4	-1.4	0.4
Jun 14	Retail Sales ex-autos	%m/m	May	**0.3**	0.5	0.6	0.3	-0.5	0.7
Jun 14	Business Inventories	%m/m	Apr	**0.8**	1.3	1.0	0.9	0.0	1.2
Jun 15	CPI	%m/m	May	**0.2**		0.4	0.1	-0.2	0.4
Jun 15	CPI - YOY	%y/y	May	**3.6**		3.2	3.4	3.1	3.6
Jun 15	Core CPI	%m/m	May	**0.3**		0.2	0.2	0.0	0.3
Jun 15	Core CPI - YOY	%y/y	May	**1.5**		1.3	1.4	1.3	1.4
Jun 15	Empire State Mfg Survey	Idx	Jun	**-7.79**		11.88	12.50	3.80	18.10
Jun 15	Capacity Utilization	%	May	**76.7**	76.7	76.9	77.0	72.2	77.3
Jun 15	Industrial Production	%m/m	May	**0.1**		0.0	0.2	-0.4	0.5
Jun 15	NAHB Index	Idx	Jun	**13**		16	16	15	18
Jun 16	Current Account Deficit	$bln	Q1	**-119.3**	-112.2	-113.3	-126.0	-140.8	-113.6
Jun 16	Initial Claims	k	6/11	**414**	430	427	420	405	430
Jun 16	Cointuing Claims	k	6/4	**3675**	3696	3676	3650	3600	3730
Jun 16	Housing Starts	k,AR	May	**560**	541	523	540	490	590
Jun 16	Building Permits	k,AR	May	**612**		563	560	520	590
Jun 16	Philly Fed Survey	Idx	Jun	**-7.7**		3.9	6.8	0.0	19.8
Jun 17	Michigan Sentiment (P)	Idx	Jun	**71.8**		74.3	74.0	70.0	78.5
Jun 17	Current Conditions (P)	Idx	Jun	**79.6**		81.9	80.5	76.0	83.9
Jun 17	Expectations (P)	Idx	Jun	**66.8**		69.5	68.6	66.0	70.0
Jun 17	Leading Indicators	%m/m	May	**0.8**	-0.4	-0.3	0.2	-0.5	0.6

Consensus (median) forecasts supplied by Reuters News.

Treasury Financing Calendar

Security	Type	Amount	Announcement	Auction	Settlement
13-Week	BILL	$27B	16-Jun	20-Jun	23-Jun
26-Week	BILL	$24B	16-Jun	20-Jun	23-Jun
30-Year R	TIPS	$7B	16-Jun	23-Jun	30-Jun
4-Week	BILL	e$28B	20-Jun	21-Jun	23-Jun
13-Week	BILL	e$27B	23-Jun	27-Jun	30-Jun
26-Week	BILL	e$24B	23-Jun	27-Jun	30-Jun
2-Year	NOTE	e$35B	23-Jun	27-Jun	30-Jun
52-Week	BILL	e$24B	23-Jun	28-Jun	30-Jun
5-Year	NOTE	e$35B	23-Jun	28-Jun	30-Jun
7-Year	NOTE	e$29B	23-Jun	29-Jun	30-Jun

R denotes reopening

Federal Reserve Purchase Schedule

Operation Date	Settlement Date	Operation Type	Maturity Range	Expected Purchase Size	IFR Expects
20-Jun	21-Jun	Outright Tsy Coupon Purchase	08/15/2013-05/15/2021	$4-5 bln	$4.6 bln
20-Jun	21-Jun	Outright Tsy Coupon Purchase	12/31/2013-05/13/2015	$4-5 bln	$4.9 bln
21-Jun	22-Jun	Outright Tsy Coupon Purchase	12/31/2016-05/13/2018	$4-5 bln	$4.7 bln
23-Jun	24-Jun	Outright Tsy Coupon Purchase	08/15/2021-11/15/2027	$1-1.5 bln	$1.3 bln
24-Jun	27-Jun	Outright Tsy Coupon Purchase	12/31/2013-05/13/2015	$4-5 bln	$4.9 bln