The Week Ahead in US Economics – December 19 - 23, 2011

Monday	Tuesday	Wednesday	Thursday	Friday
19 NAHB Index (Dec) (10:00) FRB Richmond's **Lacker** on the outlook; Charlotte, NC (13:15) • Treasury announces 4-week bills (11:00) • Treasury auctions 3- and 6-month bills (11:30) • Treasury auctions $35 bln 2-year notes (13:00)	**20** New Residential Construction (Nov) (08:30) • Treasury auctions 4-week bills (11:30) • Treasury auctions $35 bln 5-year notes (13:00)	**21** Existing Home Sales (Nov) (10:00) • Treasury auctions $29 bln 7-year notes (13:00)	**22** CFNAI (Nov) (08:30) Initial Claims (12/17) (08:30) GDP (Final Q3) (08:30) Michigan Sentiment (fDec) (09:55) FHFA House Price Index (Oct) (10:00) Freddie Mac Reference note announcement • Treasury announces 3- and 6-month bills (11:00)	**23** Durable Goods (Nov) (08:30) Personal Income & Outlays (Nov) (08:30) New Home Sales (Nov) (10:00)

all times are ET; 2012 FOMC voters in bold

Bottom Line

The week of December 12 - 16 brought some good news, but November retail sales figures were disappointing, and cooling chain store sales figures hinted that the holiday shopping season may end with a fizzle rather than a bang. November industrial production also undershot expectations, but the first regional manufacturing surveys of December came in above consensus. Meanwhile, initial claims continued dropping in spite of an adverse move in seasonal adjustment factors, and inflation data were fairly soft aside from a fuel-led bump in import prices.

The latest FOMC policy statement was little changed, with the only significant adjustments being an upgrade to the Committee's view of the employment situation, balanced by a downgrade to their view of business investment. Little was expected out of the last one-day meeting of the year, though the calculus shifts somewhat as we move into 2012 and an on balance more dovish slate of voting presidents.

The new week will be centered on housing data, with existing home sales likely to provide some drama -- the NAR will be releasing revisions that are expected to see sales for the prior few years lowered significantly, on the order of 10-20%. Sales for this November will also be interesting to see, after the Pending Home Sales Index jumped over 10% in October. The final look at Q3 GDP should see it tick down to a 1-handle, while claims might be interesting to watch given the possibility of a rebound, but are likely to be largely dismissed due to volatile end-of-year seasonals. Durables orders look set for a November rebound, while personal income and expenditures probably rose modestly.

Only one Fed speaker is scheduled for the week before Christmas, Richmond's Lacker (2012 voter, hawk) Monday on the economic outlook, from Charlotte, NC.

The Fed will purchase longer-dated Treasury coupons on Monday, Tuesday, and Thursday, countered by two sales of shorter-dated coupons on Wednesday.

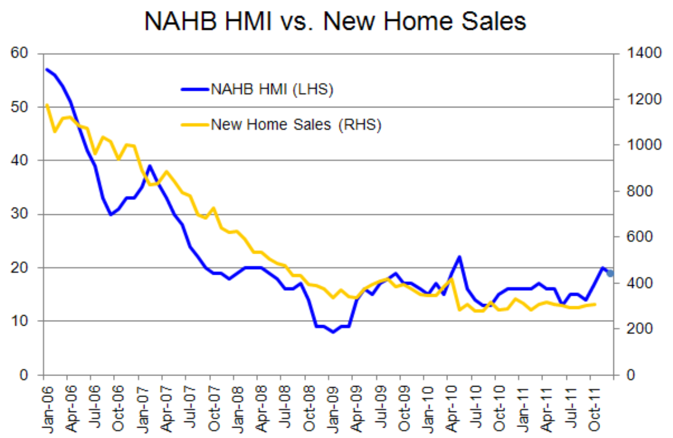
In addition to the usual weekly bill cycle, Treasury will auction $35 bln 2-year notes Monday, $35 bln 5-year notes Tuesday, and $29 bln 7-year notes Wednesday.

IFR Commentary

NAHB Housing Market Index (Dec) (Mon)

We expect that the NAHB Housing Market Index will drop a point to 19 in December, after surging three points a month for the prior two months. The November reading was its best since May 2010, when it was assisted by an expiring homebuyer tax credit. Before that, the index last saw a 2-handle in April 2008.

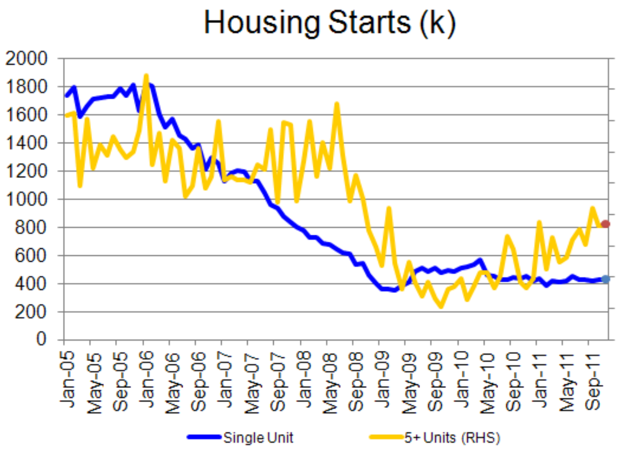
The relatively rapid climb corresponds to mortgage rates testing new lows, but actual new home sales don't seem to have responded significantly. Investors may have been reacting to the low mortgage rates and partly to the expiration of higher conforming loan limits, which were reinstated last month. In any case, we expect that the current sales component will slip somewhat after the initial surge, and help bring the expectations component back down to Earth. /tml



New Residential Construction (Nov) (Tue)

IFR looks for housing starts to tick up from 628k to 630k in November, while building permits slip from 644k to 640k. Though the headline numbers won't change much, we expect both to remain on a slow upward trend, driven in particular my multi-unit structures. The slight reversion in permits reflects a bit of correction from October's 9.3% jump, though that was in part justified by a 5.8% September drop.

During the housing boom, a rush into homeownership help multi-unit construction below its historical trend, where it remains now even as underwater homeowners get back into the renting game. With so much room to catch up, we expect that the multi-unit sector will continue to see growth for a long time, though not enough on its own to drive residential construction back anywhere near pre-bubble levels. That will require working off excess existing home inventory, a process still expected to take years. /tml



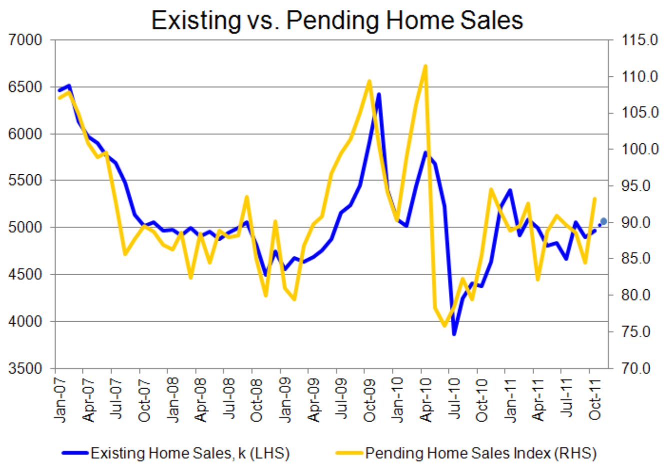
Existing Home Sales (Nov) (Wed)

We look for existing home sales to have climbed about 2.0% in November, to approximately 4.40 mln. There is considerably more uncertainty than usual in the forecast level this month, however, with the NAR due to publish benchmark revisions that will include a significant change to their methodology, resulting in downward revisions to prior years' sales. The magnitude of those revisions is unknown, but a 10-20% drop would put the NAR series back in line with other data. Inventories will be revised down as well, for little overall effect on the months' supply numbers. Prices should also be unrevised. The ultimate effect will be that yet another data series will show the recession to be sharper than previously believed.

As far as the November change goes, the Pending Home Sales Index, which typically leads existing home sales by about a month and a half, dropped 4.6% in September before surging 10.4% in October, but it's unclear how much of that is going to actually filter through to existing sales. Sharp but temporary swings in the PHSI do not always show up in the final sales figures, such as in April-May this year, when the PHSI plunged 11.3%, then recovered 8.2%.

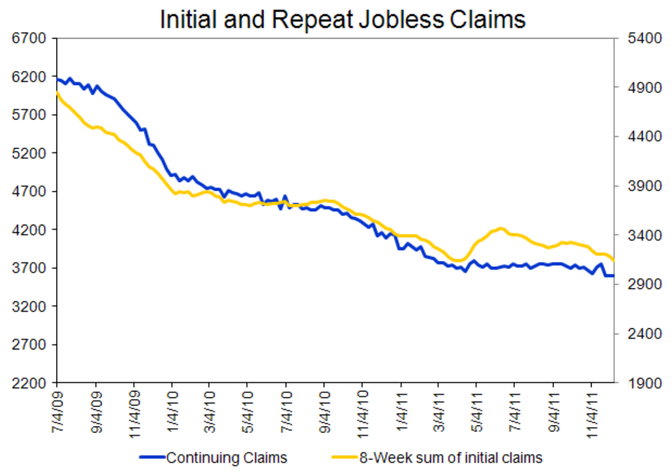
Another wrinkle that could restrain the headline would be the temporary expiration of higher conforming loan limits. The higher limits expired October 1, and it took until mid-

November for them to be reinstated, so November existing home sales should partly reflect that. On the other hand, the changes don't seem to have slowed pending sales. /tml

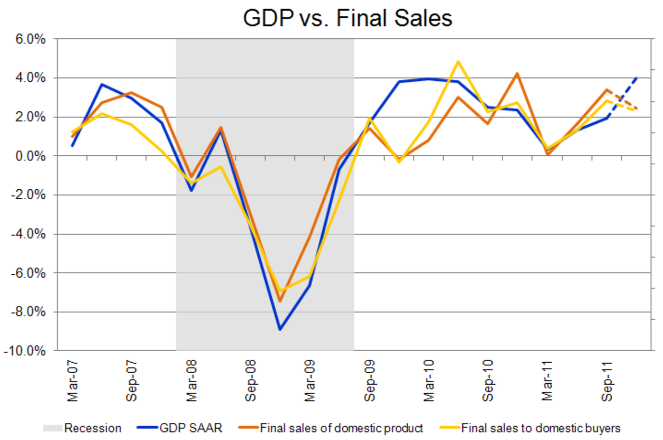


Initial Claims (wk Dec 17) (Thu)
After two weeks of double digit declines, initial claims' rapid falls should slow, making for a reading of 365,000 filings in the week ending December 17. The prior two weeks each saw claims fell by 19k, to 366,000. Claims have not been this low since May 2008, which was before the worst of the global financial meltdown. In the past, this amount of downwards movement would be followed by an increase, offsetting some of the improvement. This time around, large seasonal factors for habitual year-end layoffs and temp help mixed with holiday-induced economic activity confound the pattern.

Continuing claims will stay at 3.6 mln, having edged up 4k the prior week to 3.603 mln. The 3.599 mln reading the week ended November 26 was the lowest since September 2008, and came at the end of seven months during which the series held at around 3.7 mln. /vn

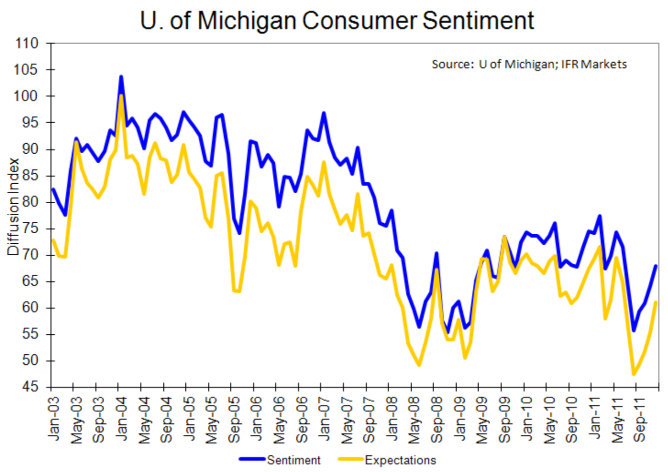


GDP (final Q3) (Thu)
We expect the third estimate for Q3 GDP to be revised marginally lower, to 1.9% from 2.0%. The main downside risk comes in consumer spending on services, which at 2.9% in the second estimate was reported as seeing its strongest growth since 2006. However a December 7 report of quarterly revenue for selected services showed hospitals looking significantly weaker than in the advance report. While this may not be a reliable guide, service spending (which makes up 46% of GDP) is one of the few components at risk of a significant revision (it largely caused the third estimate of Q2 GDP to be revised higher, to 1.3% from 1.0%) and risks appear to be on the downside. We project a revision to 2.3%. Outside service spending, the revisions should be mostly upward, led by inventories. Final sales (GDP less inventories) should be revised down by 0.2% to 3.4% from 3.6%. We should also see marginal upward revisions to business investment, housing and consumer spending on goods, slightly outweighing downward revisions to government and net exports (on firmer imports). There is no reason to expect any price data to be revised from the previous report, which had PCE prices at 2.3%, the core rate at 2.0%, and the GDP deflator at 2.5%. /ds



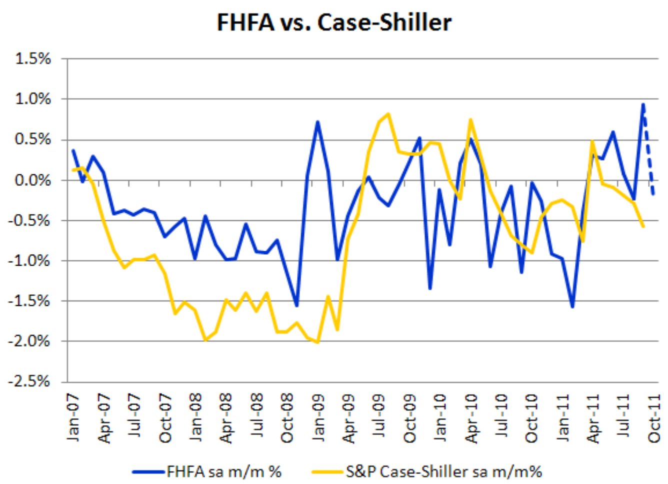
Michigan Sentiment (fDec) (Thu)

Ten points below its peak of the year, the T.R./U. Mich CSI will stay at 68 after final revisions measure consumer confidence in December. It is currently at 67.7 (Feb, 77.5). The movement would have been larger (as it had been last December) if the details of the payroll tax cut were known. Though basically unchanged compared to the preliminary reading, December's 3.9-point gain over the final November print would be similar to the nearly 4-point gains seen in two of the past three months. During the survey period, the government had been entwined in yet another deadlock approaching yet another deadline to avoid yet another partial shutdown, but to consumers, what else is new? The belief that some sort of extension will pass, despite uncertainty over how much and how, should save consumer confidence from sinking. /vn



FHFA House Price Index (Oct) (Thu)

After a surprise 0.9% increase in September, the FHFA house price index should decline by 0.2% in October, with risk for a significant downward revision to the September release. While September's gain was broad based by region, it was inconsistent with most other house price data released for September, particularly a negative S&P Case-Shiller house price index. The S&P series is less prone to revisions than the FHFA, suggesting any move towards consistency is more likely to come from the latter. A 0.2% decline on the month would see the yr/yr pace slip to -2.4% from -2.2%. If September data is revised down the yr/yr pace could be weaker than that. While there may be a few tentative signs of improvement in some housing sector data, they are not yet sufficient to imply a bounce in prices. September's FHFA bounce looks erratic. /ds



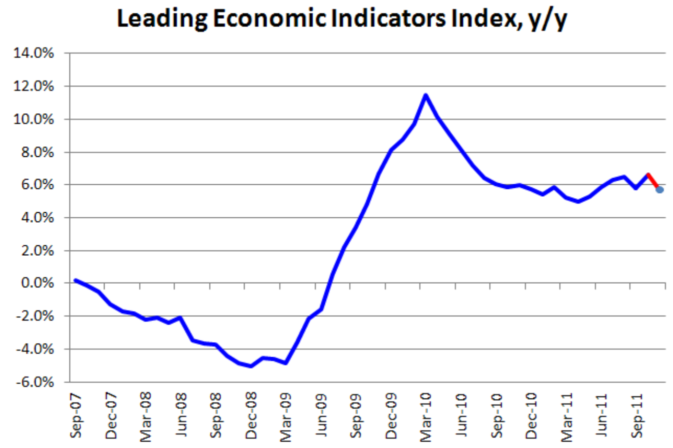
Leading Indicators (Nov) (Thu)

The Conference Board's Leading Economic Indicators index should rise about 0.3% in its November reading, which is a little underwhelming if one excludes the persistent positive contribution from the shape of the yield curve. As the yield curve could hardly be anything but upward-sloping at the zero bound, it doesn't make for much of a leading indicator. It will contribute about 0.2 percentage points to the leaders headline this month.

Positive contributions of about half that size will come from improvement in initial claims over the month, and from higher consumer expectations. Stocks and the money supply should provide positives that are smaller still.

Hours worked and vendor delivery times will be about 0.1-point drags, and we expect that building permits will contribute very slightly negatively. Manufacturing new orders and capex orders should make very little difference on net.

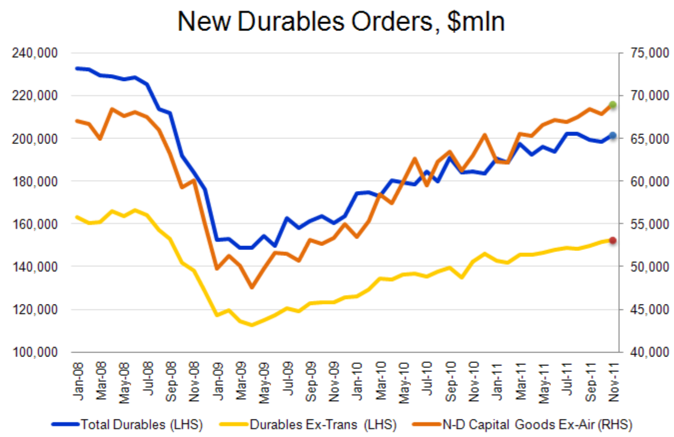
The y/y gain in the index should recede from October's +6.6% to just +5.7%, a decent gain at normal times, but the slowest growth rate in six months. It would also represent considerably slowed implied growth from early last year, when it peaked at +11.5% y/y. /tml



Durable Goods (Nov) (Fri)

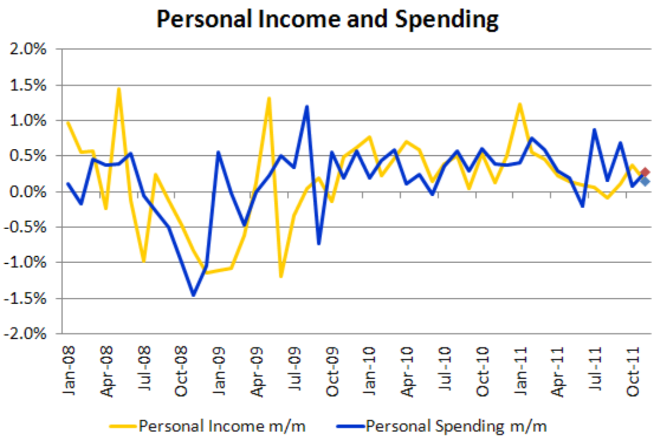
The November durable goods orders headline should see a rebound to about +1.5%, after sinking 0.5% in October. Ex-transport durables, however, will grow at a slightly slower rate, down to +0.8% after September's +1.1%. We see nondefense capital goods ex-air, a proxy for business investment, rising 1.6%, in part on a bounce from last month's 0.8% drop. Capex orders have been trending stronger than durables orders as a whole, but that's to be expected in a recovery -- on the whole, we're disappointed to see them not outpacing overall orders by more.

Boeing orders jumped in November, which seems to augur well for the transportation sector, and autos should see further recovery from supply chain disruption in the wake of Thai flooding. Several regional surveys indicated slower growth (or contraction) in orders in November, but the Chicago PMI and national ISM readings indicated quickening growth. The regional bias hints at improvement in autos and nondefense capital goods. /tml



Personal Income & Outlays (Nov) (Fri)

Personal income should increase by 0.2% in November, marginally underperforming a 0.3% increase in personal spending. Income will slow from a 0.4% October rise, while spending will pick up from a modest 0.1% October increase, the first time in four months that income outperformed spending. A decline in average hourly earnings in November's non-farm payroll breakdown suggests wages in salaries will do no better than record a 0.1% increase, but the other components of personal income should extend a recovery from Q3 weakness that started in October. Spending should marginally outperform a 0.2% rise in retail sales, in part because auto sales may resemble more impressive industry sales than the retail auto sales, and also because service spending should improve from a below trend 0.1% October rise. The PCE price index should be unchanged, consistent with the November CPI, allowing yr/yr growth to slip to 2.6% from 2.7%. The core PCE price index should rise by 0.1%, a little softer than the core CPI which rose by a little less than 0.2% before rounding. The yr/yr core PCE price index should remain at 1.7%. /ds

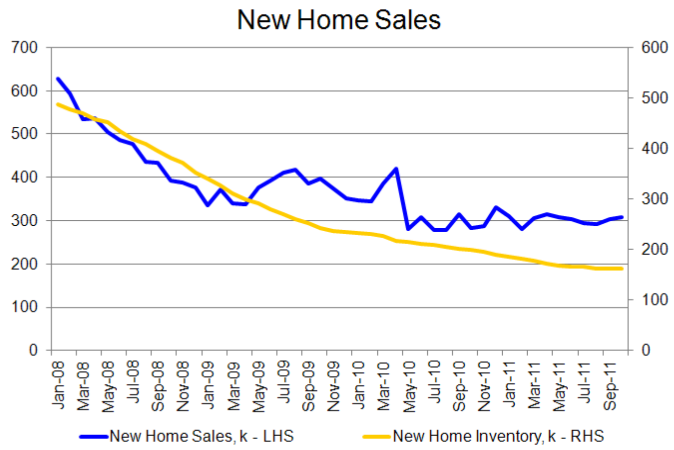


New Home Sales (Nov) (Fri)

We see new home sales having improved slightly in November, at around 315k after October's 307k reading. Median and average sales prices have been falling more steeply than usual for the season, but inventory has been dwindling as well, which could arrest that trend. Mortgage rates have remained extremely low.

Distressed sales fell sharply in Q2, but now seem to be trending roughly sideways, keeping stiff price pressure on home builders. But new and existing homes aren't perfect substitutes, so a shrinking supply of new homes (at 6.3 months worth in October, tied with a homebuyer credit-assisted April 2010 for the lowest since May 2006) bodes well for demand.

If our call is accurate, new homes would be selling at their fastest pace of the year and 15% above their trough, but still at an extremely low level by historical standards. In nearly 28 years of data, 315k is lower than any reading until May 2010's 282k. /tml



ifr markets
Theodore.Littleton@thomsonreuters.com
(617) 856-2479
Vimombi.Nshom@thomsonreuters.com
(202) 772-0959
David.H.Sloan@thomsonreuters.com
(202) 292-2161

Week Ahead Calendar:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range	
19-Dec	10:00	NAHB Index	Idx	Dec	19	20	20	18	23
20-Dec	08:30	Housing Starts	k,AR	Nov	630	628	635	600	653
20-Dec	08:30	Building Permits	k,AR	Nov	640	644	635	610	668
21-Dec	10:00	Existing Home Sales	k	Nov	4400	4970	5050	4400	5200
22-Dec	08:30	CFNAI	Idx	Nov		-0.13			
22-Dec	08:30	GDP (Final)	%,AR	Q3	1.9	2.0	2.0	1.6	2.3
22-Dec	08:30	Core PCE Deflator (Final)	%,AR	Q3	2.0	2.0	2.0	2.0	2.0
22-Dec	08:30	GDP Final Sales (Final)	%,AR	Q3	3.4	3.6	3.6	3.4	3.6
22-Dec	08:30	Initial Claims	k	12/17	365	366	380	355	400
22-Dec	08:30	Continuing Claims	k	12/10	3600	3603	3600	3570	3650
22-Nov	09:55	Michigan Sentiment (Final)	Idx	Dec	68.0	67.7	68.0	64.0	70.0
22-Nov	09:55	Current Conditions (Final)	Idx	Dec		77.9	78.0	77.9	78.5
22-Dec	09:55	Expectations (Final)	Idx	Dec		61.1	61.1	60.5	62.0
22-Dec	10:00	FHFA House Price Index	%y/y	Oct	-2.4	-2.2			
22-Dec	10:00	Leading Indicators	%m/m	Nov	0.3	0.9	0.3	0.1	1.0
23-Dec	08:30	Durable Goods	%m/m	Nov	1.5	-0.5	2.0	0.6	7.5
23-Dec	08:30	Curable Goods ex-Trans	%m/m	Nov	0.8	1.1	0.4	-0.4	1.5
23-Dec	08:30	Nondef Capex Ex-Air	%m/m	Nov	1.6	-0.8	1.0	0.3	2.0
23-Dec	08:30	Personal Income	%m/m	Nov	0.2	0.4	0.2	0.0	0.4
23-Dec	08:30	Consumption (PCE)	%m/m	Nov	0.3	0.1	0.3	0.2	0.6
23-Dec	08:30	Core PCE Deflator	%m/m	Nov	0.1	0.1	0.1	0.0	0.2
23-Dec	08:30	Core PCE Deflator	%y/y	Nov		1.7			
23-Dec	08:30	New Home Sales	k,AR	Nov	315	310	313	300	330

Consensus (median) forecasts supplied by Reuters News.

On the Horizon:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range	
27-Dec	09:00	S&P Case-Shiller Index	%y/y	Oct	-3.0	-3.6	-3.3	-1.9	-3.6
27-Dec	10:00	Consumer Confidence	Idx	Dec	59.5	56.0	58.0	52.0	61.7
27-Dec	10:00	Richmond Fed Mfg Idx	Idx	Dec		0			
27-Dec	10:00	Richmond Fed Svcs Idx	Idx	Dec		6			
29-Dec	08:30	Initial Claims	k	12/24		n/a			
29-Dec	08:30	Continuing Claims	k	12/17		n/a			
29-Dec	11:00	Kansas City Fed Survey	Idx	Dec		4			
30-Dec	09:45	Chicago PMI	Idx	Dec		62.6	61.0	59.0	65.0
30-Dec	10:00	ISM Index	Idx	Nov		52.7	53.0	52.0	55.0
30-Dec	10:00	Pending Home Sales	%m/m	Nov		10.4	0.5	-4.6	3.0

Consensus (median) forecasts supplied by Reuters News.

Review of the December 12 - 16 Week

Date	Release	Unit	Period	Actual	Rev	Previous	Median	Range	
12-Dec	Treasury Budget	$bln	Nov	**-137.3**		-150.4	-139.0	-155.0	-125.0
13-Dec	Manpower Employment	%	Q1 '12	**9**		7			
13-Dec	NFIB Index	Idx	Nov	**92.0**		90.2			
13-Dec	Retail Sales	%m/m	Nov	**0.2**	0.6	0.5	0.6	0.2	0.9
13-Dec	Retail Sales ex-Autos	%m/m	Nov	**0.2**		0.6	0.4	0.1	1.0
13-Dec	JOLTS (job openings)	%	Oct	**2.4**		2.5			
13-Dec	Business Inventories	%m/m	Oct	**0.8**		0.0	0.9	0.1	1.2
13-Dec	IDB/TIPP Economic Optimism	Idx	Dec	**42.8**		40.6			
13-Dec	Fed Funds Rate	%		**0-0.25**		0-0.25			
14-Dec	Import Prices	%m/m	Nov	**0.7**	-0.5	-0.6	0.9	-0.2	2.0
15-Dec	Current Account Decifict	$bln	Q3	**-110.3**	-124.7	-118.0	-107.5	-112.0	-100.0
15-Dec	Initial Claims	k	12/10	**366**	385	381	390	375	412
15-Dec	Continuing Claims	k	12/03	**3603**	3599	3583	3630	3500	3700
15-Dec	PPI	%m/m	Nov	**0.3**		-0.3	0.2	-0.3	0.6
15-Dec	PPI – YOY	%y/y	Nov	**5.7**		5.9	5.8	5.4	7.4
15-Dec	Core PPI	%m/m	Nov	**0.1**		0.0	0.2	-0.1	0.3
15-Dec	Core PPI – YOY	%y/y	Nov	**2.9**		2.8	2.9	2.7	3.1
15-Dec	Empire State Mfg Survey	Idx	Dec	**9.53**		0.61	3.00	0.00	8.50
15-Dec	Capacity Utilization	%	Nov	**77.8**	78.0	77.8	77.9	77.3	78.2
15-Dec	Industrial Production	%m/m	Nov	**-0.2**		0.7	0.2	-0.5	0.8
15-Dec	Philly Fed Survey	Idx	Dec	**10.3**		3.6	5.0	0.0	12.0
16-Dec	CPI	%m/m	Nov	**0.0**	-0.1	0.1	-0.1	0.4	
16-Dec	CPI – YOY	%y/y	Nov	**3.4**		3.5	3.5	3.3	3.7
16-Dec	Core CPI	%m/m	Nov	**0.2**		0.1	0.1	0.0	0.3
16-Dec	Core CPI – YOY	%y/y	Nov	**2.2**		2.1	2.1	2.0	2.3

Consensus (median) forecasts supplied by Reuters News.

16 December 2011

Treasury Financing Calendar

Security	Type	Amount	Announcement	Auction	Settlement
13-Week	BILL	$29B	15-Dec	19-Dec	22-Dec
26-Week	BILL	$27B	15-Dec	19-Dec	22-Dec
2-Year	NOTE	$35B	15-Dec	19-Dec	03-Jan
5-Year	NOTE	$35B	15-Dec	20-Dec	03-Jan
7-Year	NOTE	$29B	15-Dec	21-Dec	03-Jan
4-Week	BILL	e:$35B	19-Dec	20-Dec	22-Dec
13-Week	BILL	e:$29B	22-Dec	27-Dec	29-Dec
26-Week	BILL	e:$27B	22-Dec	27-Dec	29-Dec

R denotes reopening

Federal Reserve Purchase Schedule

Operation Date	Settlement Date	Operation Type	Maturity Range	Expected Purchase Size
19-Dec	20-Dec	Fed Outright Tsy Coupon Purchase	12/31/2017-11/15/2021	$4.25 - $5.00 bln
20-Dec	21-Dec	Fed Outright Tsy Coupon Purchase	02/15/2036-11/15/2041	$2.25 - $2.75 bln
21-Dec	22-Dec	Fed Outright Tsy Coupon Sale	11/30/2013-03/31/2014	$8.00 - $8.75 bln
21-Dec	22-Dec	Fed Outright Tsy Coupon Sale	6/15/2013-11/15/2013	$8.00 - $8.75 bln
22-Dec	23-Dec	Fed Outright Tsy Coupon Purchase	02/15/2020-11/15/2021	$4.25 - $5.00 bln