

The Week Ahead in US Economics – January 9-13, 2011



Monday	Tuesday	Wednesday	Thursday	Friday
9 Consumer Credit (Nov) (15:00) FRB Atlanta's Lockhart on the economic outlook (12:40) • Treasury announces 4-week bills (e: \$25 bln) (11:00) Treasury auctions \$29 bln 3- and \$27 bln 6-month bills (11:30)	10 NFIB Index (Dec) (07:30) IBD/TIPP Optimism Idx (Jan) (10:00) Wholesale Sales (Nov) (10:00) FRB San Francisco's Williams at Clark County Economic Forecast Breakfast; Vancouver, WA (10:30) FRB Cleveland's Pianalto on labor markets; Wooster, OH (11:10) FRB Kansas City's George on the economic outlook (13:00) • Treasury auctions 4-week and \$25 bln 52-week bills (11:30) • Treasury auctions \$32 bln 3-year notes (13:00)	11 FRB Chicago's Evans on the economy; Lake Forest, IL (08:40) FRB Atlanta's Lockhart on the economic outlook (repeat) (12:10) FRB Philadelphia's Plosser on the economic outlook; Rochester, NY (12:30) • Treasury auctions \$21 bln reopened 10-year notes (13:00)	12 Initial Claims (01/07) (08:30) Retail Sales (Dec) (08:30) Business Inventories (Nov) (10:00) Treasury Budget (Dec) (14:00) • Treasury announces 3- and 6-month bills (11:00) • Treasury announces 10-Year TIPS (e: \$14 bln) (11:00) • Treasury auctions \$13 bln 30-year bonds (13:00)	13 Import Prices (Dec) (08:30) International Trade (Nov) (08:30) Michigan Sentiment (pJan) (09:55) Fed Gov Duke on "Regulations and Credit Availability"; Santa Barbara, CA (11:10) FRB Richmond's Lacker on the economic outlook (12:45) FRB Chicago's Evans on the economic outlook; Carmel, IN (13:00) FRB St. Louis's Bullard on the economy and monetary policy (13:15)

all times are ET; FOMC voters in bold

Bottom Line

The week of January 3 - 6 was an interesting one right up to the end, finishing with an unexpected 200k payroll gain (212k private) and slide in the unemployment rate down to 8.5%. The payrolls number doesn't impress us quite as much as it should at face value, since a quarter of it came through a surge in the transportation and warehousing sector, which is likely to largely be given back next month. Still, at a minimum it suggests that we had a solid online holiday shopping season, and we suspect that the transportation surge may have cannibalized other temp services hiring this month. In any

event January's report, which also brings annual revisions to the establishment survey and a 2010 Census correction to the household figures, should be very interesting indeed.

Other numbers this week were, on balance, fairly average. Auto sales saw no improvement in December, construction spending was up decently net of revisions, the ISM Manufacturing index was up more than expected, and the ISM Non-Manufacturing Index was up a bit, but less than expected.

The new week's most significant data release will be December retail sales, which are expected to be up modestly, but still a little bit more than they were in November. Initial claims will

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continue to be distorted by volatile seasonal adjustment factors, but hopefully will still hint at a declining trend. November trade and inventory figures will fill in a bit more of the Q4 GDP picture, while the early January read of consumer sentiment according to Thomson Reuters / University of Michigan is expected to show confidence maintaining its upward momentum on the back of what was apparently a decent month for jobs compared to prior months, even with the various caveats.

We'll also be giving plenty of attention to Fed speakers, however, who will be in heavy rotation. We'll be particularly interested to hear from FRB Kansas City's George, who, though a non-voter, will be giving one of her first speeches as a FRB President Tuesday, on the economic outlook. We'll hear from the entire slate of new 2012 voting Presidents, with Atlanta's Lockhart (moderate) Monday and Wednesday, San Francisco's Williams (dove) Tuesday, Cleveland's Pianalto (moderate) on Tuesday, and Richmond's Lacker (hawk) Friday. Governor Duke (voter, dove) will speak on regulations and credit availability Friday as well. Other non-voting speakers include Chicago's Evans (dove) on the economy Wednesday and Friday, Philadelphia's Plosser (hawk) on the outlook Wednesday, and St. Louis's Bullard (hawk) on the economy and monetary policy Friday.

In addition to the weekly bill auction cycle, Treasury will auction \$32 bln 3-year notes Tuesday, \$21 bln 10-year notes Wednesday, and \$13 bln 30-year bonds Thursday. They will also announce 10-year TIPS (e: \$14 bln) Thursday.

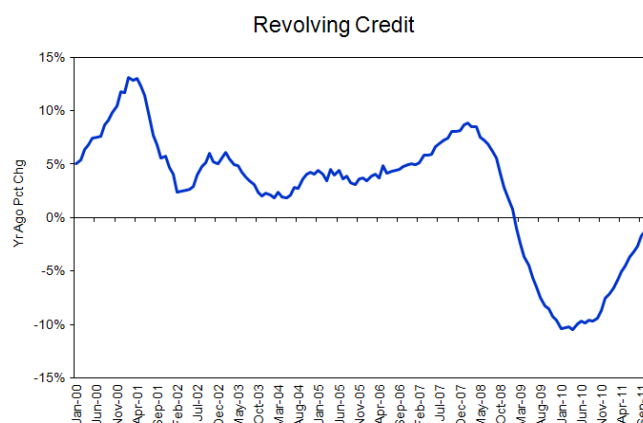
The Fed will purchase longer-dated TIPS on Tuesday, followed by coupons on Wednesday and Friday. They will sell shorter maturity coupons on Monday and Thursday.

IFR Commentary

Consumer Credit (Nov) (Mon)

Consumer credit most likely rose another \$7 bln in November, only this time around supported more by revolving credit. Credit rose by \$7.6 bln in October mostly on nonrevolving credit (up \$7.3 bln), as revolving was up just over \$360 mln. Although revolving was modestly positive, it was positive for the second straight month (also modestly up \$400 mln in October) and provides evidence of consumers less repulsed by credit

cards, having persistently deleveraged for nearly three years. Correspondingly, a \$1 bln rise in revolving would not be surprising. Another month of typical loan and automobile demand pulled nonrevolving up by \$6 bln. /vn



NFIB Index (Dec) (Tue)

We expect a fourth consecutive increase in the NFIB Small Business Optimism Index, which rose 1.8 points to 92.0 in November. That's still a bit shy of the peak of 94.5 hit in February last year, but could be part of the reason behind strong recent employment advances as recorded by the BLS household survey. The NFIB's employment indices have been slowly trending upward, and we expect small businesses in particular to make a stronger contribution to employment as credit conditions ease.

The NFIB survey in particular should benefit from its heavy contribution from construction firms, which are benefiting from growing demand for long-suppressed multi-unit housing. Multi-unit starts hit a 38-month high in November. /tml

Wholesale Trade (Nov) (Tue)

We look for wholesale inventories to have risen about 0.4% in November, while wholesale sales likely were up around 0.4%. October saw strong sales (+0.9%) but even stronger inventory accumulation (+1.6%), which, though it came after two months of weak inventory growth, likely restrained inventory growth in November. The modest inventory growth should not significantly affect forecasts for Q4 GDP.

If correct, our calls would leave the inventory to sales ratio at 1.16, a touch below pre-recession levels. The I/S ratio hasn't moved

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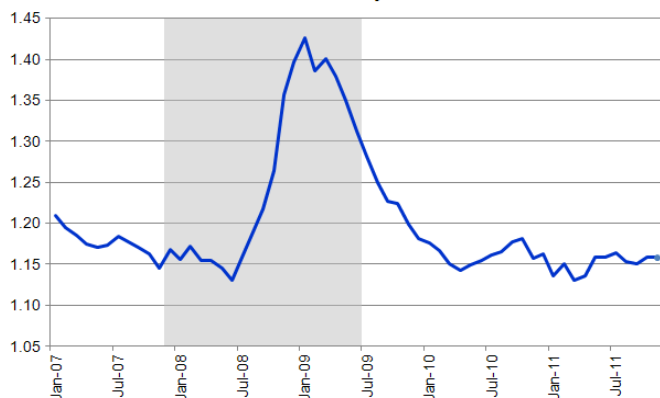


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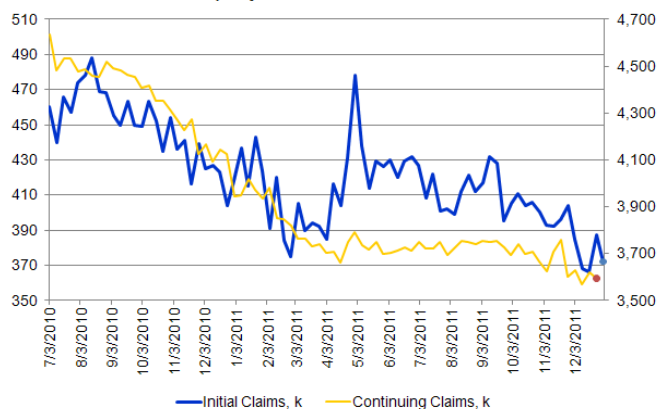
much over the last couple of years, and doesn't imply much, if any, restocking is in the cards for the near future. This month's report is unlikely to significantly shake Q4 GDP estimates. /tml

Wholesale Inventory/Sales Ratio


Initial Claims (01/07) (Thu)

Another week of less dire layoffs than seasonally expected will make initial claims slip to 367,000 in the week ending January 7. In addition to 2011's trend of lower year-end layoffs, the shortened workweek from the New Year holiday will also help to suppress the claims count. Claims most recently fell to 372k from 387k and have stayed below 400k for most of Q4 (only five of 16 weeks had readings above 400k, most seen in October topping at 411k). It is true that claims bounce when transitioning to a new year, but the smoother average clearly shows improvement.

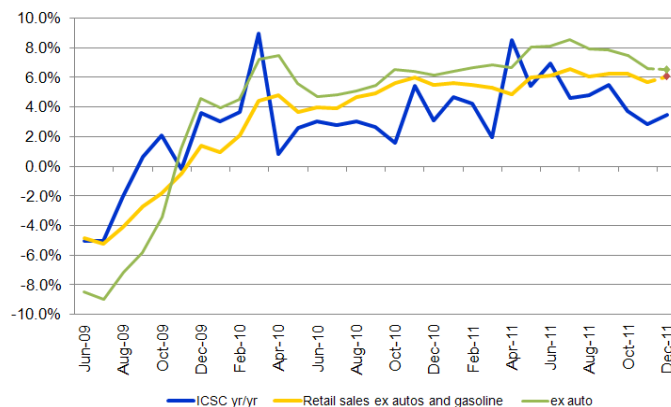
Continuing claims have been rounding to 3.6 mln recently ($\pm 30k$ for the past four weeks), and after just edging down 22k to 3.595 mln in the week ending December 24, a reading of 3.6 mln is appropriate for the week ending December 31. /vn

Unemployment Insurance Claims


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Retail Sales (Dec) (Thu)

The December retail sales report should look similar to November's, with a 0.1% rise overall and a 0.2% increase ex autos. This would follow 0.2% gains in both series in November, assuming no revisions. Auto sales remained healthy in December but the pace did slip marginally from November. Chain store sales fell short of expectations that had been raised by reports of strong holiday sales. While yr/yr growth as measured by the ICSC did improve from a downwardly revised November both November and December saw weaker yr/yr growth than any other month in 2011 apart from March, where the timing of Easter explained the weakness. The December improvement relative to November may owe something to a weaker year ago base and some late November sales being included in December's chain store calendar, and only a modest increase in the monthly ex auto total should be expected. Mild weather appears to have restrained apparel while lower gasoline prices will act as another negative. Sales ex autos and gasoline should rise by 0.3%, compared with 0.2% in November. /ds

ICSC vs. Census Retail Sales yr/yr %


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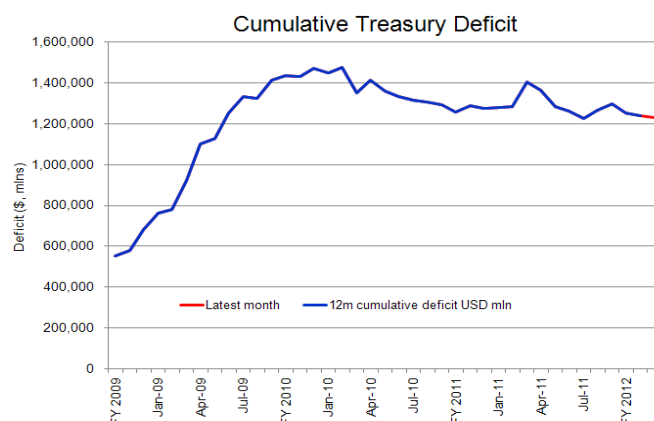
Business Inventories (Nov) (Thu)

IFR expects that business inventories rose about 0.5% in November. Factory inventories were already reported up 0.5%, and we look for wholesale inventories to rise a modest 0.4% in Tuesday's wholesale trade report. The final component, retail inventories, we see up 0.5%, as a relatively weak sales month probably led to some unexpected inventory accumulation.

Manufacturer shipments were flat in November. With our forecast of a 0.4% rise in wholesale sales and assuming little revision to November retail sales, business sales should have risen just 0.2%, leaving the overall inventory/sales ratio at 1.27. That's not far from the pre-crisis average, implying little need for restocking in the near future.

We look for slightly higher than previously anticipated November inventories to shade Q4 GDP estimates higher just a touch. /tml

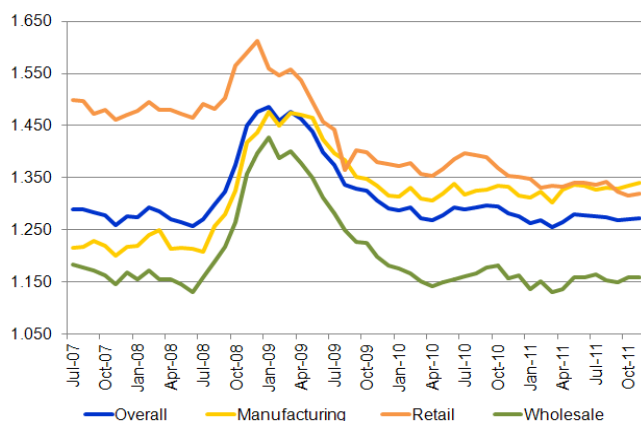
slowly, like the economy, and outlays being restrained as past stimulus continues to fade, can be expected. That it now looks likely that the payroll tax holiday will persist through 2012 will help keep receipts restrained. /ds



Import Prices (Dec) (Fri)

Import prices should follow a 0.7% November increase with a marginal gain of 0.1% in December, giving two straight increases to follow three straight declines. The rise will again be fully due to petroleum, though the increase here will be smaller than seen in November. Prices should be down 0.1% ex-petrol, a third straight decline, and unchanged ex-fuels following two straight declines of 0.2%. Natural gas should be a negative while a firming USD should restrain the ex fuels data, if a little less so than in the preceding two months. Yr/yr data should slip to 8.5% from 9.9% overall, to 3.3% from 3.7% excluding petroleum and to 3.4% from 3.8% excluding fuels. The United States' terms of trade should improve in December, with a sharp fall in farm prices suggesting the volatile agricultural sector will knock export prices lower. /ds

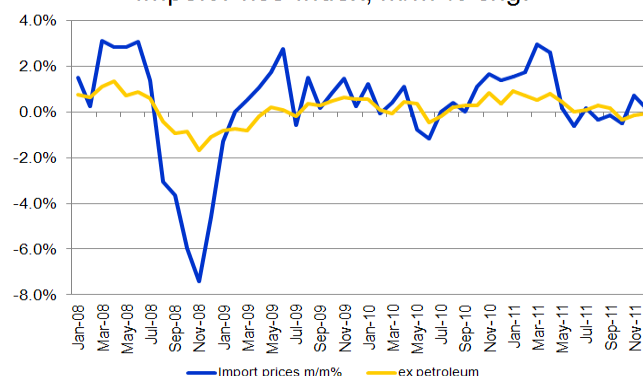
I/S Ratios, SA



Treasury Budget (Dec) (Thu)

We will update our forecast after the CBO releases its monthly budget review, but provisionally we look for a budget deficit of \$66.0 bln in December, down from \$78.134 bln in December 2010. We project receipts to increase by 3.9% yr/yr and outlays to fall by 1.0% yr/yr, both in line with the 3-month averages for the two series. The \$12 bln monthly decline in the deficit we project is consistent with a \$24 bln decline seen in the first two months of the fiscal year (starting in October) adjusted for calendar distortions that moved \$31 bln in outlays forward to September. Should this trend continue the eventual FY 2012 deficit would be \$1121 bln, down only modestly from \$1296.8 bln in FY 2011. An underlying picture of receipts growing

Import Price Index, m/m % chg.



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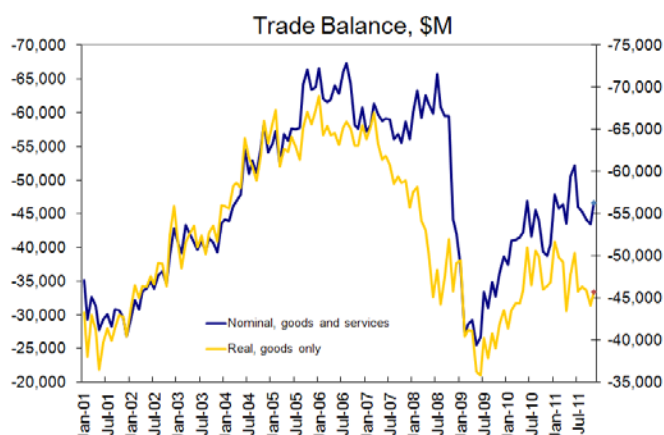
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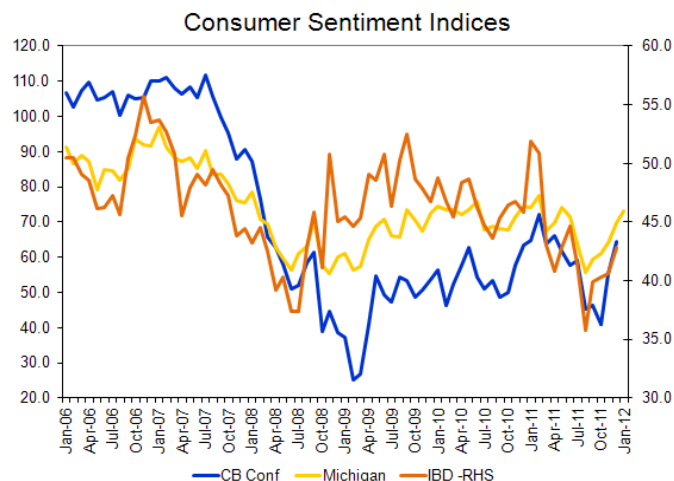
International Trade (Nov) (Fri)

The November trade deficit should increase to \$46.6 bln from \$43.5 bln in October, bringing the highest deficit since June. Prices and volumes should both play a part in increasing the deficit. The price contribution will come largely from higher oil prices and data from Mexico suggests this has adversely impacted the US trade balance. Import volumes look due for a bounce from recent weakness given improvements in the US economic situation, and customs duties do imply some pick up, though the anecdotal evidence is far from convincing. Flooding in Thailand should prevent imports from fully meeting demand. Export volumes may be due for a pause after two straight robust gains, particularly with the USD firmer. Imports should rise by 1.3% with the gain fairly evenly split between prices and volumes, while exports should fall by 0.1% on volumes. November's widening of the deficit should be most notable versus the eurozone and oil exporting nations. /ds



Michigan Sentiment (Jan) (Fri)

With the largest threat to consumer confidence averted at the last second with the 2-month extension of the payroll tax cut, the first confidence reading of 2012 will show the Thomson Reuters / University of Michigan Index of Consumer Sentiment as having risen to 73.0 in the first two weeks of January. Now at 69.9, the CSI has been on the rise since September, growing by at least three points in three of the past four months. Most of December's performance was derived from gains within Expectations, and as this component has more lost ground to cover from summer setbacks than Current Conditions, the same support should materialize in the upcoming reports (not to mention that current events are not holding up sentiment, the expectation of 2012 jobs is). /vn



Week Ahead Calendar:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range	
09-Jan	15:00	Consumer Credit	\$bln	Nov	7.0	7.65	7.00	3.54	11.60
10-Jan	07:30	NFIB Index	Idx	Dec		92.0			
10-Jan	10:00	IBD/TIPP Optimism Idx	Idx	Jan		42.8			
10-Jan	10:00	Wholesale Inventories	%m/m	Nov	0.4	1.6	0.4	-0.1	1.0
10-Jan	10:00	Wholesale Sales	%m/m	Nov	0.4	0.9	0.6	0.2	0.9
12-Jan	08:30	Initial Claims	k	01/07	367	372	375	352	405
12-Jan	08:30	Continuing Claims	k	12/31	3600	3595	3590	3550	3640
12-Jan	08:30	Retail Sales	%m/m	Dec	0.1	0.2	0.3	-0.2	0.9
12-Jan	08:30	Retail Sales ex-Trans	%m/m	Dec	0.2	0.2	0.3	-0.2	1.0
12-Jan	10:00	Business Inventories	%m/m	Nov	0.5	0.8	0.4	0.2	0.6
12-Jan	14:00	Treasury Budget	\$bln	Dec	-66.0	-78.1	-82.5	-116.0	-65.0
13-Jan	08:30	Import Prices	%m/m	Dec	0.1	0.7	-0.1	-1.1	0.8
13-Jan	08:30	International Trade	%bln	Nov	-46.6	-45.5	-45.0	-47.6	-41.8
13-Jan	09:55	Michigan Sentiment (prel)	Idx	Jan	73.0	69.9	71.5	70.0	77.0
13-Jan	09:55	Current Conditions (prel)	Idx	Jan		79.6	80.2	80.0	83.5
13-Jan	09:55	Expectations (prel)	Idx	Jan		63.6	65.0	64.0	70.7

Consensus (median) forecasts supplied by Reuters News.

On the Horizon:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range	
17-Jan	08:30	Empire State Mfg Survey	Idx	Jan		9.53	12.20	5.80	14.00
18-Jan	08:30	PPI	%m/m	Dec		0.3	0.1	-0.3	0.4
18-Jan	08:30	PPI	%y/y	Dec		5.7			
18-Jan	08:30	PPI – Core	%m/m	Dec		0.1	0.1	0.0	0.2
18-Jan	08:30	PPI – Core	%y/y	Dec		2.9	2.7	2.0	2.9
18-Jan	09:15	Industrial Production	%m/m	Dec		-0.2	0.4	0.0	0.8
18-Jan	09:15	Capacity Utilization	%	Dec		77.8	78.0	77.9	78.3
18-Jan	10:00	NAHB Index	Idx	Jan		21	21	20	23
19-Jan	08:30	CPI	%m/m	Dec		0.0	0.1	0.0	0.3
19-Jan	08:30	CPI	%y/y	Dec		3.4	3.1	3.0	3.2
19-Jan	08:30	CPI – Core	%m/m	Dec		0.2	0.1	0.0	0.2
19-Jan	08:30	CPI – Core	%y/y	Dec		2.2	2.2	2.1	2.2
19-Jan	08:30	Initial Claims	k	01/14		n/a			
19-Jan	08:30	Continuing Claims	k	01/07		n/a			
19-Jan	08:30	Housing Starts	k	Dec		685	680	625	723
19-Jan	08:30	Building Permits	k	Dec		680	690	660	728
19-Jan	10:00	Philly Fed Survey	Idx	Jan		10.3	11.7	6.0	14.8
20-Jan	10:00	Existing Home Sales	k	Dec		4420	4540	4440	4760

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Review of the January 2-6 Week

Date	Release	Unit	Period	Actual	Rev	Previous	Median	Range
03-Jan	Construction Spending	%m/m	Nov	1.2	-0.2	0.8	0.5	-0.6 1.4
03-Jan	ISM Mfg Index	Idx	Dec	53.9		52.7	53.2	52.0 54.5
04-Jan	Factory Orders	%m/m	Nov	1.8	-0.2	-0.4	1.7	0.2 2.8
04-Jan	Factory Orders ex-Trans	%m/m	Nov	0.3	0.4	0.2		
04-Jan	Domestic Auto Sales	M,AR	Dec	13.56		13.63	13.55	13.20 14.20
04-Jan	Domestic Car Sales	M,AR	Dec	4.20		4.55	4.50	4.40 4.65
04-Jan	Domestic Truck Sales	M,AR	Dec	6.04		5.99	5.99	5.80 6.10
05-Jan	Challenger Job Cuts	k	Dec	42.8		42.5		
05-Jan	ADP Employment	k	Dec	325	204	206	178	145 225
05-Jan	Initial Claims	k	12/31	372	387	381	375	365 385
05-Jan	Continuing Claims	k	12/24	3595	3617	3601	3580	3500 3620
05-Jan	ISM Non-Mfg Index	Idx	Dec	52.6		52.0	53.0	51.5 54.0
06-Jan	Monster Employment	Idx	Dec	140		147		
06-Jan	Nonfarm Payrolls	k	Dec	200	100	120	150	80 215
06-Jan	Private Payrolls	k	Dec	212	120	140	165	130 210
06-Jan	Manufacturing Payrolls	k	Dec	23	1	2	5	0 15
06-Jan	Unemployment Rate	%	Dec	8.5	8.7	8.6	8.7	8.5 9.0
06-Jan	Avg Hourly Earnings	%m/m	Dec	0.2	0.0	-0.1	0.2	0.0 0.3
06-Jan	Work Week	hrs	Dec	34.4		34.3	34.3	34.3 34.5

Consensus (median) forecasts supplied by Reuters News.

Treasury Financing Calendar

Security	Type	Amount	Announcement	Auction	Settlement
13-Week	BILL	\$29B	05-Jan	09-Jan	12-Jan
26-Week	BILL	\$27B	05-Jan	09-Jan	12-Jan
52-Week	BILL	\$25B	05-Jan	10-Jan	12-Jan
3-Year	NOTE	\$32B	05-Jan	10-Jan	17-Jan
10-Year	NOTE	\$21B	05-Jan	11-Jan	17-Jan
30-Year	BOND	\$13B	05-Jan	12-Jan	17-Jan
4-Week	BILL	e:\$25B	09-Jan	10-Jan	12-Jan
13-Week	BILL	e:\$29B	12-Jan	17-Jan	19-Jan
26-Week	BILL	e:\$27B	12-Jan	17-Jan	19-Jan
10-Year	TIPS	e:\$14B	12-Jan	19-Jan	31-Jan

R denotes reopening

Federal Reserve Purchase Schedule

Operation Date	Settlement Date	Operation Type	Maturity Range	Expected Purchase Size
09-Jan	10-Jan	Outright Treasury coupon sale	04/15/2012 - 09/30/2012	\$8.00 - 8.75 bln
10-Jan	11-Jan	Outright TIPS purchase	01/15/2018 - 02/15/2041	\$1.00 - 1.50 bln
11-Jan	12-Jan	Outright Treasury coupon purchase	02/15/2036 - 11/15/2041	\$2.25 - 2.75 bln
12-Jan	13-Jan	Outright Treasury coupon sale	10/15/2012 - 04/30/2013	\$8.00 - 8.75 bln
13-Jan	17-Jan	Outright Treasury coupon purchase	02/15/2020 - 11/15/2021	\$4.25 - 5.00 bln

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