

## The Week Ahead in US Economics – February 6 - 10, 2012



Monday	Tuesday	Wednesday	Thursday	Friday
<b>6</b> Treasury STRIPS (15:00) (Jan)  FRB St. Louis's Bullard on inflation targeting (09:00) FRB Dallas's Fisher on the global econ and mon policy outlook (12:35)  • Treasury announces 4-week bills (e: \$35 bln) (11:00) • Treasury auctions \$33 bln 3- and \$31 bln 6-month bills (11:30)	<b>7</b> IBD/TIPP Optimism (Feb) (10:00) JOLTS (Dec) (10:00) Consumer Credit (Dec) (15:00)  <b>Fed Chair Bernanke</b> Senate testimony on the economy and federal budget (10:40)  • Treasury auctions 4-week and \$26 bln 52-week bills (11:30) • Treasury auctions \$32 bln 3-year notes (13:00)	<b>8</b> FHLB global note announcement	<b>9</b> Initial Claims (wk 02/04) (08:30) Wholesale Trade (Dec) (08:30)	<b>10</b> International Trade (Dec) (8:30) Michigan Sentiment (Feb) (09:55) Treasury Budget (Jan) (14:00)  <b>Fed Chair Bernanke</b> on the housing market (12:30) FRB Cleveland's Pianalto on distressed neighborhoods (12:50)

all times are ET; **FOMC voters in bold****Bottom Line**

The week of January 30 - February 3 saw some decent data, but ended with a bang as the payrolls report came in well above expectations. Overall nonfarm payrolls were up 243k, the unemployment rate dropped two-tenths to 8.3%, and the average workweek held at December's (upwardly-revised) figure of 34.5 hours, indicating increased hiring pressure. This was corroborated later Friday by an impressive ISM Non-Manufacturing Report, which saw its best reading since last February, with its employment component soaring to its best since February 2006. Auto sales were also strong, with the January number just barely managing to beat out the Cash for Clunkers-induced spike from mid-2009, while December construction spending beat consensus, even accounting for a negative revision to November. December personal income was a touch stronger than expected, while spending was flat.

The new week will be light on data, with the key release debatably being the preliminary February Thomson Reuters / University of

Michigan Consumer Sentiment index on Friday. The Conference Board's measure took an unexpected dip in January, so it will be interesting to see how the Michigan measure performs. We'll also be watching December consumer credit closely in the wake of a large November spike. Something unusual is happening in the consumer sector, with retail sales weak and the savings rate coming up somewhat even as auto sales and credit surge, so we are eager to see whether these data are the beginnings of a new trend or merely noise. Meanwhile, December international trade and wholesale trade figures will help color forecasts for this month's revision to Q4 GDP.

We'll hear from a handful of Fed speakers, with the voters including Chairman Bernanke (dove) on Tuesday testifying on the economy, FRB San Francisco's Williams (dove) Wednesday on the Fed and the recovery, Bernanke again Friday on the housing market, and Cleveland's Pianalto (moderate) also on Friday discussing distressed neighborhoods. Just two non-voters will speak, both hawks and both on Monday: St. Louis's Bullard on inflation targeting, followed by

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Dallas's Fisher on the economy and monetary policy across the globe.

The Fed will make outright purchases of longer-dated Treasury coupons on Monday, Wednesday, and Thursday, followed by a TIPS purchase on Friday. They will sell shorter-dated TIPS on Tuesday and coupons on Wednesday.

In addition to the weekly bill cycle, Treasury will auction \$32 bln 3-year notes Tuesday, \$24 bln 10-year notes Wednesday, and \$16 bln 30-year bonds Thursday. They will also announce 30-year TIPS (e: \$10 bln) Thursday.

### IFR Commentary

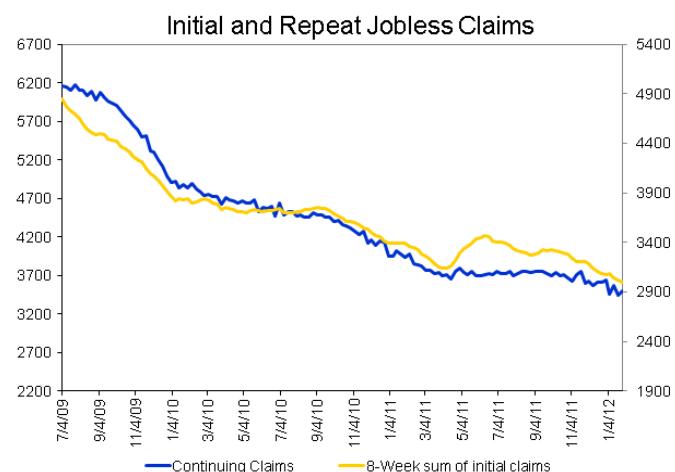
#### Consumer Credit (Dec) (Tue)

Held down by a more traditional revolving credit reading, consumer credit grew a softer \$8 bln in December, after having surged by an above-trend \$20.4 bln in November. While the last report showed both types of credit had jumped above normal, revolving credit's increase was the larger irregularity, jumping by \$5.6 bln. This type of debt fell an average of \$750 mln a month in Q2 and prior to November's outlier was up just \$700 mln in October. Revolving will fall back towards its trend level (\$792 bln vs current \$798 bln), contracting by \$3 bln. A handful of reports have shown another strong month for car sales (especially retail and durable goods December performances which showed accelerations from November) and this should help keep nonrevolving positive. Nonrevolving will slow to growth of \$11 bln (was just up \$14.8 bln). Nonrevolving has been growing since June 2010 and as it represents the bulk of total credit (generally over 66%), outstanding credit will continue to expand into 2012. /vn

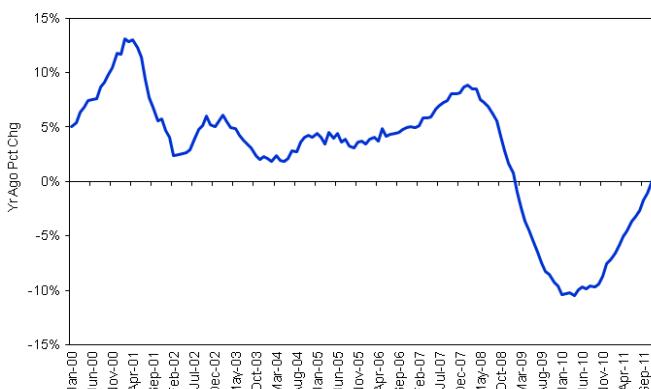
#### Initial Claims (wk Feb 4) (Thu)

After unexpectedly falling to 367k, claims are now more pressed to come up, and may reach 381,000 in the week ending February 4. Although this is a double-digit seasonally-adjusted rise of 14k, it's a smaller increase of 8k (or 2%) in unadjusted terms. More importantly, the reading is not detrimental to the widespread acceptance of gradual improvement in the labor market. It may however generate comments of decelerated improvement. First-time filers just fell by 12k after the week they rose by 24k, and generally this rollercoaster pattern of claims' movements alternating direction from week to week has been in effect since mid-December. So it wouldn't be surprising to see a weekly increase after just seeing a decrease. The moving average would still fall, to 370.5k. It would be its fourth consecutive falling level and 13th out of the past 15 weeks.

Just as bumpy, continuing claims just fell to 3.44 mln (from 3.57 mln) and should come up to 3.5 mln in the week ending January 28. /vn



#### Revolving Credit



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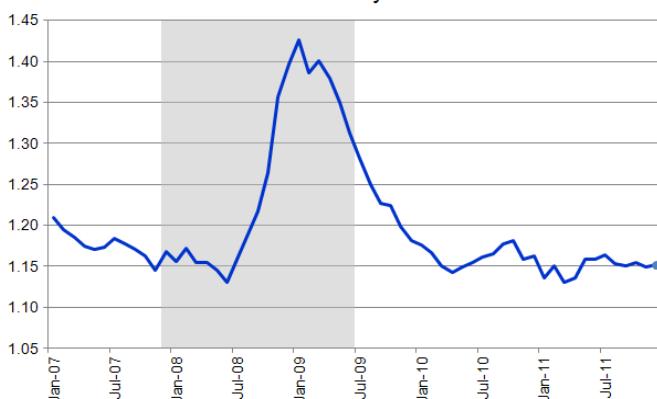
### Wholesale Trade (Dec) (Thu)

We expect that wholesale inventories were up around 0.4% in December, bolstered a bit by softer than expected sales leading to unplanned inventory accumulation. We see wholesale sales being up only around 0.2%, with weaker than expected holiday activity after a solid Black Friday weekend. Still, inventory growth will probably not be quite as much as the advance Q4 GDP report had anticipated.

If accurate, the modest changes would keep the inventory/sales ratio at 1.15 for a fifth consecutive week, a touch under the pre-recession average, but not indicating significant pressure for wholesalers to rebuild their inventory stocks.

Inventories were a strong component of Q4 GDP, providing just over 1.9 percentage points of the 2.8% headline gain. A relatively low rate of wholesale inventory growth would contribute marginally negatively to the first revision, due out later this month. /tml

Wholesale Inventory/Sales Ratio

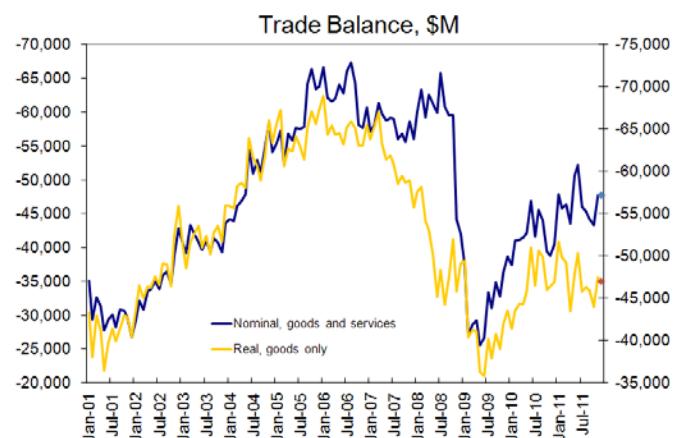


### International Trade (Dec) (Fri)

We project a December trade deficit of \$47.8 bln, almost unchanged from the November outcome, which reported the first monthly increase in the deficit since June. Given weakening growth overseas and some improvement being visible in US growth (even if unimpressive outside inventories in Q4), and given a firmer USD in December, the November rise in the deficit should mark a turning in the trend.

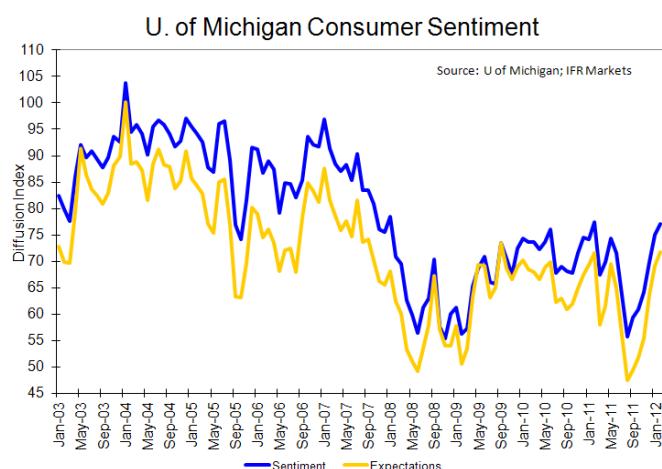
However, durable goods shipments, Boeing export data and manufacturing output all improved in December, giving positive signals for exports, while subdued December customs duties on imports and the fact a November import rise was led by petroleum (volumes rather than prices) there is a case to be made for some narrowing in December's trade deficit. We expect goods exports to rise by 1.2% in real terms while goods imports rise by only 0.5%, though price changes will leave nominal goods exports up by only 0.7%, while nominal goods exports will rise by 0.4%. This would mean a December goods deficit of \$63.1 bln, down marginally from \$63.2 bln in November. This would be a lower December deficit than the \$65.0 bln assumed in the Q4 GDP report. The services surplus should edge down to \$15.3 bln from \$15.4 bln in November when imports saw an unusual fall, leaving the overall deficit virtually unchanged.

Data by country is not seasonally adjusted and seasonal declines in the deficits with China and Japan can be expected. /ds



### Michigan Sentiment (Feb) (Fri)

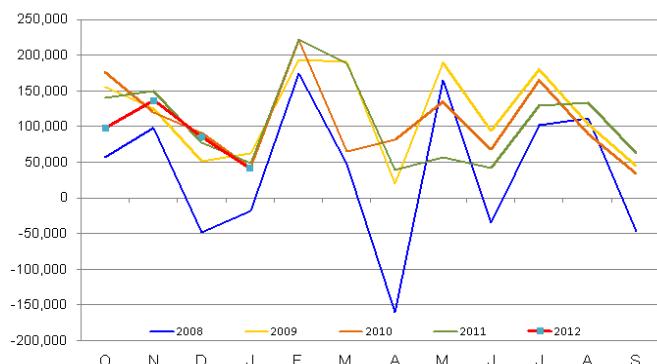
Survey respondents were encouraged by an optimistic outlook last month even before seeing January's impressive job gains, and now that the information is public the Thomson Reuters/University of Michigan Index of Consumer Sentiment most likely measured increased confidence, with the preliminary February score rising to 77.0 from January's 75.0. The CSI rose 5.1 pts in January with the bulk of the gain coming from the preliminary score (revisions added 1 pt to January's final score). This time around, as typically seen recently, confidence growth should be split between the two surveys, especially with the tax credit extension still up in the air. It would not be too surprising if sentiment rose above this estimate or even soared past the 77.5-reading seen last February which represented a 3-year high, especially with the impact job anecdotes have been instilling on consumers' moods lately. The drawback is that the Current component -- dependent on finances, which are being reported as unfavorable in every survey, as well as government policies since the summer -- is not joining in on the good spirits. Current Conditions will rise, to 85 from 84.2, but the bigger support will come from Expectations, up to 71.7. It would be the fourth month, out of the six months confidence will have been on the rise thanks to February's performance, that both components also rose. Other high-interval confidence indices have also advanced since late January. /vn



### Treasury Budget (Jan) (Fri)

While we will revise our forecast after the CBO releases its monthly budget review, we provisionally look for a January 2012 budget deficit of \$42.0 bln, down from \$49.8 bln in January 2011. We project a 4.2% yr/yr increase in receipts, stronger than the very weak 1.3% rise in December only because the year ago comparison now partially reflects the lowered payroll tax rate which was introduced at the start of 2011 (and fully implemented by February). Receipts have generally been disappointing in January 2012. Outlays should look subdued, rising by only 0.6% yr/yr after a 3.5% increase in December that was inflated by calendar effects and payments to Freddie Mac and Fannie Mae. For the fiscal year ending in September 2012, the CBO expects outlays to be virtually unchanged, but receipts to rise by 9.6%, reducing the deficit to \$1079 bln from \$1296 bln. These revenue projections look too high, with the probable extension of the payroll tax beyond February likely to add around \$50 bln to the deficit in the current fiscal year. /ds

MONTHLY BUDGET DEFICIT IN \$ MLN IN FISCAL YEARS



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**Week Ahead Calendar:**

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range
07-Feb	15:00	Consumer Credit	\$bln	Dec	8.0	20.37	7.20	0.00 15.00
09-Feb	08:30	Initial Claims	k	2/9	381	355	370	355 385
09-Feb	08:30	Continuing Claims	k	2/2	3500	3437	3500	3400 3550
09-Feb	10:00	Wholesale Inventories	%m/m	Dec	0.4	0.1	0.4	0.2 1.0
09-Feb	10:00	Wholesale Sales	%m/m	Dec	0.2	0.6	0.5	0.2 1.0
10-Feb	08:30	International Trade	\$bln	Dec	-47.8	-47.8	-48.3	-50.5 -45.0
10-Feb	09:55	Michigan Sentiment	Idx	pFeb	77.0	75.0	74.0	71.0 78.0
10-Feb	09:55	Current Conditions	Idx	pFeb	85.0	84.2	84.2	81.0 85.5
10-Feb	09:55	Expectations	Idx	pFeb	71.7	69.1	69.1	66.3 70.5
10-Feb	14:00	Treasury Budget	\$bln	Jan	-42.0	-47.8	-48.3	-50.5 -45.0

**Consensus (median) forecasts supplied by Reuters News.**
**On the Horizon:**

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range
14-Feb	07:30	NFIB Small Biz Index	Idx	Jan	93.8			
14-Feb	08:30	Import Prices	%m/m	Jan	-0.1	0.1	-0.2	0.7
14-Feb	08:30	Retail Sales	%m/m	Jan	0.1	0.6	0.2	1.4
14-Feb	08:30	Retail Sales ex-autos	%m/m	Jan	-0.2	0.4	0.1	1.2
14-Feb	10:00	Business Inventories	%m/m	Dec	0.3	0.3	0.2	0.7
15-Feb	08:30	Empire States Mfg Survey	Idx	Feb	13.48	15.00	12.00	18.00
15-Feb	09:15	Industrial Production	%m/m	Jan	0.4	0.6	0.3	1.0
15-Feb	09:15	Capacity Utilization	%	Jan	78.1	78.6	78.1	79.0
15-Feb	10:00	NAHB Housing Market	Idx	Feb	25	26	24	26
16-Feb	08:30	Initial Claims	k	02/11	n/a			
16-Feb	08:30	Continuing Claims	k	02/04	n/a			
16-Feb	08:30	Housing Starts	k,AR	Jan	657	669	640	720
16-Feb	08:30	Building Permits	k,AR	Jan	671	683	650	700
16-Feb	08:30	PPI	%m/m	Jan	-0.1	0.4	-0.1	0.7
16-Feb	08:30	PPI-YoY	%y/y	Jan	4.8			
16-Feb	08:30	PPI – Core	%m/m	Jan	0.3	0.1	0.1	0.3
16-Feb	08:30	PPI – Core YoY	%y/y	Jan	3.0			
16-Feb	10:00	Philly Fed Mfg Survey	Idx	Feb	7.3	8.0	6.0	12.0
17-Feb	08:30	CPI	%m/m	Jan	0.0	0.3	0.0	0.4
17-Feb	08:30	CPI YoY	%y/y	Jan	3.0	2.9	2.7	3.0
17-Feb	08:30	CPI – Core	%m/m	Jan	0.1	0.2	0.0	0.3
17-Feb	08:30	CPI – Core YoY	%y/y	Jan	2.2	2.2	2.1	2.3
17-Feb	10:00	Leading Indicators	%m/m	Jan	0.4	0.4	0.3	0.6

**Consensus (median) forecasts supplied by Reuters News.**
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**Review of the January 30- February 3 Week**

Date	Release	Unit	Period	Actual	Rev	Previous	Median	Range
30-Jan	Personal Income	%m/m	Dec	<b>0.5</b>		0.1	0.4	0.1 0.6
30-Jan	Consumption PCE	%m/m	Dec	<b>0.0</b>		0.1	0.1	-0.1 0.3
30-Jan	Core PCE	%m/m	Dec	<b>0.2</b>		0.1	0.1	0.1 0.2
30-Jan	Core PCE YoY	%y/y	Dec	<b>1.8</b>		1.7		
31-Jan	Employment Cost Index	%q/q	Q4	<b>0.4</b>		0.3	0.4	0.3 0.6
31-Jan	S&P/ Case-Shiller Index	%y/y	Nov	<b>-3.7</b>		-3.4	-3.3	-3.9 -2.0
31-Jan	Chicago PMI	Idx	Jan	<b>60.2</b>		62.2	63.0	60.0 65.7
31-Jan	Consumer Confidence	Idx	Jan	<b>61.1</b>	64.8	64.5	68.0	65.0 72.5
01-Feb	ADP Employment	k	Jan	<b>170</b>	292	325	185	150 295
01-Feb	Construction Spending	%m/m	Dec	<b>1.5</b>	0.4	1.2	0.6	-0.6 1.4
01-Feb	ISM Manufacturing Index	Idx	Jan	<b>54.1</b>		53.9	54.5	53.0 56.0
01-Feb	Total Vehicle Sales	M,AR	Jan	<b>14.18</b>		13.56	13.50	13.20 13.90
01-Feb	Domestic Car Sales	M,AR	Jan	<b>5.00</b>		4.20	4.50	4.30 4.65
01-Feb	Domestic Truck Sales	M,AR	Jan	<b>5.73</b>		6.04	6.05	6.00 6.20
02-Feb	Challenger Job Cuts	k	Jan	<b>53.486</b>		41.785		
02-Feb	Initial Claims	k	01/28	<b>367</b>	379	377	375	345 384
02-Feb	Continuing Claims	k	01/21	<b>3437</b>	3567	3554	3550	3370 3570
03-Feb	SHRM/Rutgers LINE mfg	Idx	Feb	<b>-2.5</b>		-4.4		
03-Feb	SHRM/Rutgers LINE svcs	Idx	Feb	<b>-12.3</b>		-15.4		
02-Feb	ICSC Chain Store Sales	%m/m	Jan	<b>4.8</b>		3.5		
02-Feb	Productivity (Prelim)	%q/q	Q4	<b>0.7</b>	1.9	2.3	0.8	-0.3 2.2
02-Feb	Unit Labor Costs (Prelim)	%q/q	Q4	<b>1.2</b>	-2.1	-2.5	0.8	-1.0 3.0
03-Feb	Monster Employment Idx	Idx	Jan	<b>133</b>		140		
03-Feb	Nonfarm Payrolls	k	Jan	<b>243</b>	203	200	150	95 225
03-Feb	Private Payrolls	k	Jan	<b>257</b>	220	212	170	110 250
03-Feb	Manufacturing Payrolls	k	Jan	<b>50</b>	32	23	15	5 28
03-Feb	Unemployment Rate	%	Jan	<b>8.3</b>		8.5	8.5	8.3 8.7
03-Feb	Average Hourly Earnings	%m/m	Jan	<b>0.2</b>	0.1	0.2	0.2	0.0 0.3
03-Feb	Work Week	hrs	Jan	<b>34.5</b>	34.5	34.4	34.4	34.3 34.5
03-Feb	Factory Orders	%m/m	Dec	<b>1.1</b>	2.2	1.8	1.5	-1.0 2.8
03-Feb	Factory Orders ex-Trans	%m/m	Dec	<b>0.6</b>	0.5	0.3		
03-Feb	ISM Non Mfg Index	Idx	Jan	<b>56.8</b>		53.0	53.0	52.0 55.0

**Consensus (median) forecasts supplied by Reuters News.**
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## Treasury Financing Calendar

Security	Type	Amount	Announcement	Auction	Settlement
3-Year	NOTE	\$32B	01-Feb	07-Feb	15-Feb
10-Year	NOTE	\$24B	01-Feb	08-Feb	15-Feb
30-Year	BOND	\$16B	01-Feb	09-Feb	15-Feb
13-Week	BILL	\$33B	02-Feb	06-Feb	09-Feb
26-Week	BILL	\$31B	02-Feb	06-Feb	09-Feb
52-Week	BILL	\$26B	02-Feb	07-Feb	09-Feb
4-Week	BILL	e:\$35B	06-Feb	07-Feb	09-Feb
13-Week	BILL	e:\$35B	09-Feb	13-Feb	16-Feb
26-Week	BILL	e:\$33B	09-Feb	13-Feb	16-Feb
30-Year	TIPS	e:\$10B	09-Feb	16-Feb	29-Feb

R denotes reopening

## Federal Reserve Purchase Schedule

Operation Date	Settlement Date	Operation Type	Maturity Range	Expected Purchase Size
06-Feb	07-Feb	Outright Treasury coupon purchase	02/15/2036 - 11/15/2041	\$1.50 - 2.00 bln
07-Feb	08-Feb	Outright TIPS sale	07/15/2012 - 01/15/2015	\$1.00 - 1.50 bln
08-Feb	09-Feb	Outright Treasury coupon purchase	02/15/2036 - 11/15/2041	\$1.50 - 2.00 bln
08-Feb	09-Feb	Outright Treasury coupon sale	06/15/2013 - 11/30/2013	\$8.00 - 8.75 bln
09-Feb	10-Feb	Outright Treasury coupon purchase	02/15/2018 - 11/15/2019	\$4.25 - 5.00 bln
10-Feb	13-Feb	Outright TIPS purchase	07/15/2018 - 02/15/2041	\$1.00 - 1.50 bln