

The Week Ahead in US Economics – June 18 - June 22, 2012



Monday	Tuesday	Wednesday	Thursday	Friday
18 NAHB Housing Market Index (Jun) (10:00) <ul style="list-style-type: none"> • Treasury announces 4-week bills (11:00) • Treasury auctions \$30 bln 3- and \$27 bln 6-month bills (11:30) 	19 New Residential Construction (May) (08:30) FOMC 2-day meeting begins (13:00) <ul style="list-style-type: none"> • Treasury auctions 4-week bills (11:30) 	20 FOMC meeting continues (09:00) FOMC statement (12:30) FOMC press conference (14:15)	21 Initial Claims (wk Jun 16) (08:30) Markit PMI (flash Jun) (09:00) Existing Home Sales (May) (10:00) FHFA House Price Index (Apr) (10:00) Leading Indicators (May) (10:00) Philly Fed Mfg Survey (Jun) (10:00) <ul style="list-style-type: none"> • Treasury announces 3- and 6-month and 52-week bills (e: \$30/27/25 bln) (11:00) • Treasury announces 2-, 5- and 7-year notes (e: \$35/35/29 bln) (11:00) • Treasury auctions \$7 bln 30-year TIPS (13:00) 	22

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

Bottom Line

June 11-15 was yet another downbeat one, with weak May retail sales reported and negative revisions to prior months as well, leaving us with back-to-back declines for the first time in just under two years. May industrial production and early June consumer sentiment also tumbled, while the Empire State survey, the first manufacturing survey of the month, tumbled. At least falling commodities pulled down headline inflation measures, though core measures held on to recent trend rates.

The new week's central features will be the Greek elections and the Tuesday-Wednesday FOMC meeting. As we approach the end of Operation Twist II in the wake of a string of disappointing numbers, analysts are mixed about

whether we'll see any sort of easing and what form it might take. The most likely candidate appears to be further maturity extension. Also of interest will be their economic projections, which doubtless took a hit from the weak data, moving them further away from their dual mandate goals.

In terms of data, the week will be housing-centric, with the NAHB Housing Market Index, coming off a fresh 5-year high in May, housing starts and permits that are likely to edge up just slightly, and the May existing home sales reading, which should give more evidence as to whether we'll be seeing a long-awaited surge of inventory from REO homes coming on the market post-foreclosure legal settlement. Other numbers will include the June Markit flash PMI, FHFA House Price Index, the May Conference

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Board Leading Economic Indicators Index, and the June Philly Fed manufacturing survey, all on Thursday.

With the FOMC blackout period in effect, no Fed officials are scheduled to speak aside from Chairman Bernanke's post-decision press conference.

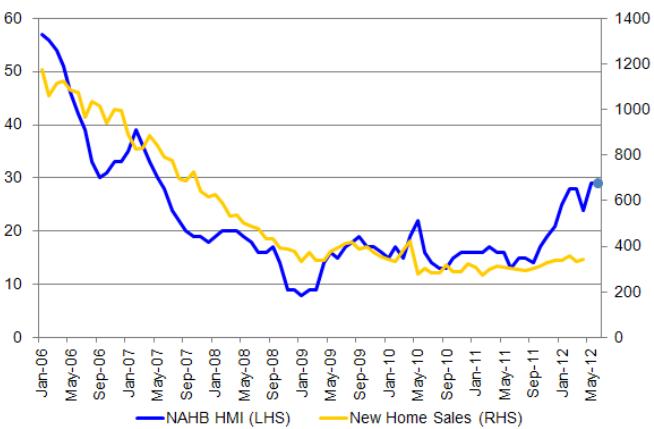
In addition to the usual weekly bill auction cycle, Treasury will announce 52-week bills (e: \$25 bln) and 2-, 5- and 7-year notes (e: \$35/35/29 bln) Thursday. Later in the day they will also auction \$7 bln 30-year TIPS.

IFR Commentary

NAHB Housing Market Index (Jun) (Mon)

We don't see any movement in the NAHB HMI from May's 29 print, which was the highest in five years, and a surprise 5-point gain over April. The NAHB data have accelerated significantly faster over the last three quarters than any underlying sales figures, which we would ascribe largely to the slow decline in (seasonally adjusted) existing home inventory as well as record lows in new home inventory, which could be leaving new home supply tight in some markets. While new homes compete with existing home sales they are not completely perfect substitutes, so both sides of the inventory equation are important from the perspective of homebuilders.

NAHB HMI vs. New Home Sales

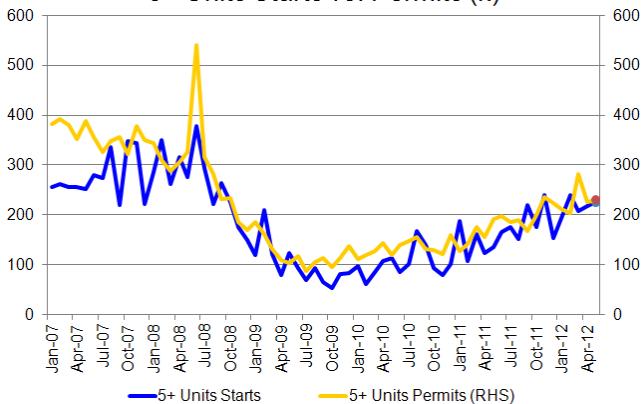


New Residential Construction (May) (Tue)

Housing starts and building permits should both still be on a gradual upward trend, and we see starts up from 717k to about 725k and permits up from 723k to about 730k. With rents elevated, the trend in multi-unit construction should be stronger than in single-unit, though even there, despite still-low household formation, construction should feel a tailwind from record-low new home inventory.

Neither series has moved much on net since the beginning of the year, but we look for both of them to resume gradual movement upward as we move past the weather effects that pulled early-spring activity forward into the winter.

5+ Units Starts vs. Permits (k)



FOMC Statement (Wed)

The June FOMC statement will be the week's star feature, in part because it's the most uncertain. We expect that the odds are better than not that we'll get some sort of easing from the Fed's current posture, with the most likely tool being an extension of Operation Twist II, currently set to expire at the end of the month.

While a string of Fed speakers has reminded us that we have to take a longer view than just one or two bad readings or even bad months, we've now had three disappointing employment reports in a row, two consecutive negatives in retail sales, and a variety of other data suggesting that we've entered what is at the least another mid-year soft patch. Combined with a global slowdown weighing on commodity prices, it's becoming difficult for the FOMC's doves to ignore that they could well soon be missing on both parts of their dual mandate.

Other possibilities are for the extended period language to get a yet longer timeframe, or for

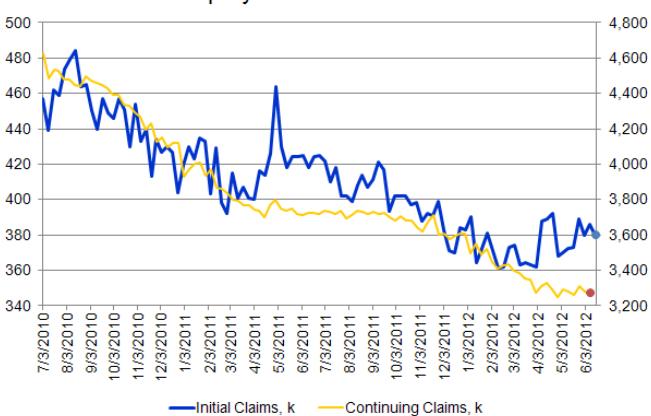
some sort of genuine balance sheet expansion, be it through sterilized asset purchases or a full-blown unsterilized QE3, probably focused on MBS. Or they could well do nothing, waiting for the more clearly disinflationary signs that portended previous rounds of easing. Whatever their choice, though, we look for the Fed to make clear that it stands ready to get back in the fight should things turn further south.

Initial Claims (wk Jun 16) (Thu)

Initial claims will likely drop to 380k for the week ended June 16, down from the prior week's 386k (which should be revised up slightly). With last week's figure possibly having been boosted by attempted re-applicants in states that lost eligibility for some emergency benefits tiers at the beginning of the month, we expect a bit of reversion. Still, our call for a slight drop after a positive revision would lead the 4-week moving average to a new high for the year, and we expect that the underlying trend has weakened.

Continuing claims will likely slip only slightly, from 3.278 mln (plus an upward revision) to 3.270 mln.

Unemployment Insurance Claims

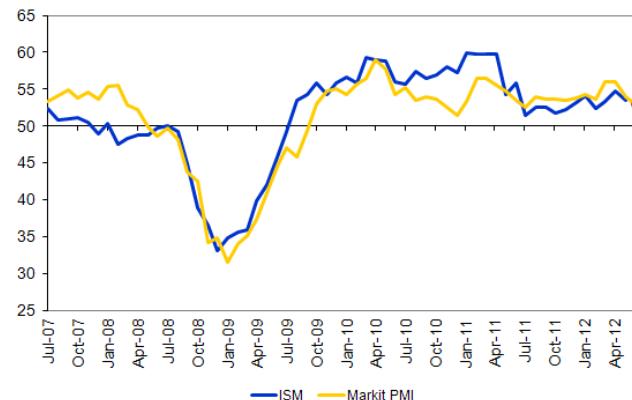


Markit PMI (flash Jun) (Thu)

The Markit PMI is likely to drift down a little further, probably to around 53.0. In its debut last month the flash reading (53.94) did a good job of predicting the final number (54.03), and the drop from April's 56.0 was echoed later in the ISM reading's decline from 54.8 to 53.5, so this indicator so far looks to be a good guide to manufacturing activity even as it works through any potential teething issues. We look for further slips in the new orders and production indices,

which the Markit index weighs more heavily than does the ISM.

ISM vs. Markit PMI

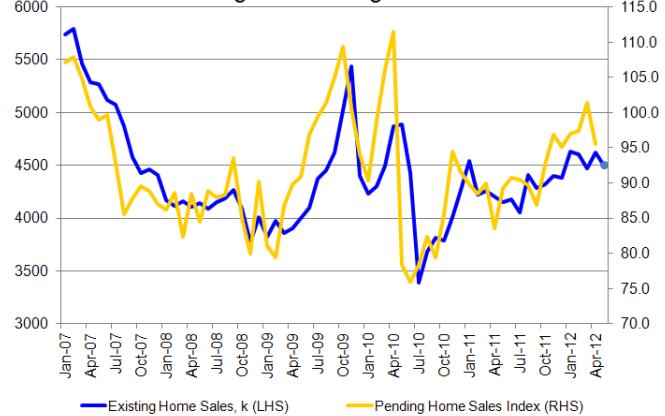


Existing Home Sales (May) (Thu)

We look for existing home sales to drop from an annual rate of 4.62 mln to about 4.50 mln, wiping out the March gain. If it fell a little more the series would see its worst reading YTD, but would still be better than in any month of 2011 save January, and the underlying trend of non-distressed sales looks relatively strong. The NAR's Pending Home Sales Index, which typically prefigures existing home sales by about a month and a half, jumped 4.1% in March before plunging 5.8% in April.

Going forward, we see shadow inventory coming online at a faster pace, which should bring the headline figures back up while prices hold or dip back down slightly.

Existing vs. Pending Home Sales

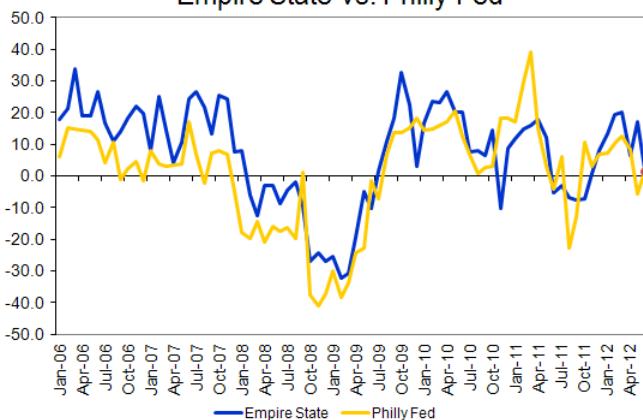


Philly Fed Mfg Survey (Jun) (Thu)

The Philly Fed's Business Outlook Survey should rebound in June from -5.8 to around +1.5. While no longer in contraction, that would still indicate growth at only an extremely slow pace. Last month's 14.3-point drop put the Philly Fed at the bottom end of manufacturing surveys, so we look for some reversion, but conditions don't look good for a return to even the modest rate of expansion the series indicated earlier in the year.

May's new orders index read just -1.2, a bad sign for near-term output. The future activity index plunged 18.8 points to +15.0, its weakest since last August.

Empire State vs. Philly Fed



Week Ahead Calendar:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range
18-Jun	10:00	NAHB Housing Market Idx	Idx	Jun	29	29	28	26 32
19-Jun	08:30	Housing Starts	k,AR	May	725	717	720	685 750
19-Jun	08:30	Building Permits	k,AR	May	730	723	727	690 770
21-Jun	08:30	Initial Claims	k	06/16	380	386	380	371 390
21-Jun	08:30	Continuing Claims	k	06/09	3270	3278	3280	3220 3340
21-Jun	09:00	Markit PMI (flash)	Idx	Jun	53.0	54.0	53.5	52.5 54.0
21-Jun	10:00	Existing Home Sales	k,AR	May	4500	4620	4570	4400 4740
21-Jun	10:00	FHFA House Price Idx	%y/y	Apr		2.7		
21-Jun	10:00	Leading Indicators	%m/m	May		-0.1	0.1	-0.3 0.4
21-Jun	10:00	Philly Fed Mfg Survey	Idx	Jun	1.5	-5.8	1.0	-8.0 5.0

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

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range
25-Jun	08:30	CFNAI	Idx	May		0.11		
25-Jun	10:00	New Home Sales	k,AR	May	343	345	330	357
25-Jun	10:30	Dallas Fed Texas Mfg	Idx	Jun		-5.1		
26-Jun	09:00	S&P/Case-Shiller Idx	%y/y	Apr		-2.6	-2.5	-3.2 -1.6
26-Jun	10:00	Consumer Confidence	Idx	Jun	64.9	64.0	62.8	67.0
26-Jun	10:00	Richmond Fed Mfg	Idx	Jun		4		
26-Jun	10:00	Richmond Fed Svcs Rev	Idx	Jun		-2		
27-Jun	08:30	Durable Goods	%m/m	May	0.3	0.0	0.5	-0.6 1.5
27-Jun	08:30	Durable Goods ex-Trans	%m/m	May	1.2	-0.9	0.5	-0.5 2.0
27-Jun	08:30	Nondef Capex ex-Air	%m/m	May	1.5	-2.1		
27-Jun	10:00	Pending Home Sales Idx	%m/m	May		-5.5	1.0	-2.4 6.1
28-Jun	08:30	GDP (final)	%,AR	Q1		1.9	1.9	1.8 2.2
28-Jun	08:30	Core PCE Deflator (final)	%,AR	Q1		2.1	2.1	2.0 2.1
28-Jun	08:30	Final Sales (final)	%,AR	Q1		1.7	1.7	1.6 1.9
28-Jun	08:30	Initial Claims	k	06/23		n/a		
28-Jun	08:30	Continuing Claims	k	06/16		n/a		
28-Jun	11:00	KC Fed Mfg Composite	Idx	Jun		9		
29-Jun	08:30	Personal Income	%m/m	May		0.2	0.2	0.1 0.3
29-Jun	08:30	Consumption	%m/m	May		0.3	0.1	-0.1 0.3
29-Jun	08:30	Core PCE	%m/m	May		0.1	0.2	0.1 0.2
29-Jun	08:30	Core PCE YoY	%y/y	May		1.9		
29-Jun	09:45	Chicago PMI	Idx	Jun	52.7	53.0	50.0	56.0
29-Jun	09:55	Michigan Sentiment (final)	Idx	Jun		74.1		
29-Jun	09:55	Current Conditions (final)	Idx	Jun		82.1		
29-Jun	09:55	Expectations (final)	Idx	Jun		68.9		

Consensus (median) forecasts supplied by Reuters News.
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Review of the June 11 – June 15 Week

Date	Release	Unit	Period	Actual	Rev	Previous	Median	Range
12-Jun	NFIB Small Business	Idx	May	94.4		94.5		
12-Jun	Import Prices	%m/m	May	-1.0	0.0	-0.5	-1.0	-2.0
12-Jun	IBD/TIPP Optimism Idx	Idx	Jun	46.7		48.5		
12-Jun	Treasury Budget	\$bln	May	-124.6		-57.6	-125.0	-130.0
13-Jun	PPI	%m/m	May	-1.0		-0.2	-0.6	-1.2
13-Jun	PPI YoY	%y/y	May	0.7		1.9	1.1	0.6
13-Jun	PPI - Core	%m/m	May	0.2		0.2	0.2	0.0
13-Jun	PPI - Core YoY	%y/y	May	2.7		2.7	2.8	2.6
13-Jun	Retail Sales	%m/m	May	-0.2	-0.2	0.1	-0.2	-0.6
13-Jun	Retail Sales ex-Autos	%m/m	May	-0.4	-0.3	0.1	0.0	-0.5
13-Jun	Business Inventories	%m/m	Apr	0.4		0.3	0.3	0.1
14-Jun	CPI	%m/m	May	-0.3		0.0	-0.2	-0.3
14-Jun	CPI YoY	%y/y	May	1.7		2.3	1.8	1.7
14-Jun	CPI - Core	%m/m	May	0.2		0.2	0.2	0.0
14-Jun	CPI - Core YoY	%y/y	May	2.3		2.3	2.2	2.1
14-Jun	Current Account	\$bln	Q1	-137.3	-118.7	-124.1	-132.3	-139.3
14-Jun	Initial Claims	k	06/09	386	380	377	375	360
14-Jun	Continuing Claims	k	06/02	3278	3311	3293	3270	3240
15-Jun	Empire State Mfg Survey	Idx	Jun	2.29		17.09	13.00	5.00
15-Jun	Industrial Production	%m/m	May	-0.1	1.0	1.1	0.1	-0.3
15-Jun	Capacity Utilization	Idx	May	79.0		79.2	79.2	78.7
15-Jun	Michigan Sentiment (prel)	Idx	Jun	74.1		79.3	77.5	75.0
15-Jun	Current Conditions (prel)	Idx	Jun	82.1		87.2	85.3	84.0
15-Jun	Expectations (prel)	Idx	Jun	68.9		74.3	71.8	70.0

Consensus (median) forecasts supplied by Reuters News.

Treasury Financing Calendar

Security	Type	Amount	Announcement	Auction	Settlement
13-Week	BILL	\$30B	14-Jun	18-Jun	21-Jun
26-Week	BILL	\$27B	14-Jun	18-Jun	21-Jun
30-Year (r)	TIPS	\$7B	14-Jun	21-Jun	29-Jun
4-Week	BILL	e:\$30B	18-Jun	19-Jun	21-Jun
13-Week	BILL	e:\$30B	21-Jun	25-Jun	28-Jun
26-Week	BILL	e:\$27B	21-Jun	25-Jun	28-Jun
52-Week	BILL	e:\$25B	21-Jun	26-Jun	28-Jun
2-Year	NOTE	e:\$35B	21-Jun	26-Jun	02-Jul
5-Year	NOTE	e:\$35B	21-Jun	27-Jun	02-Jul
7-Year	NOTE	e:\$29B	21-Jun	28-Jun	02-Jul

(r) denotes reopening

Federal Reserve Purchase Schedule

Operation Date	Settlement Date	Operation Type	Maturity Range	Expected Purchase Size
18-Jun	19-Jun	Fed Outright Tsy Coupon Sale	05/15/2013 – 11/30/2013	\$8.00 - \$8.75 bln
18-Jun	19-Jun	Fed Outright Tsy Coupon Purchase	02/15/2036 – 05/15/2042	\$1.50 - \$2.25 bln
19-Jun	20-Jun	Fed Outright Tsy Coupon Purchase	08/15/2022 – 02/15/2031	\$1.50 - \$2.00 bln
21-Jun	22-Jun	Fed Outright Tsy Coupon Purchase	06/30/2018 – 05/15/2020	\$4.25 - \$5.25 bln
22-Jun	23-Jun	Fed Outright Tsy Coupon Purchase	02/15/2036 – 05/15/2042	\$1.50 - \$2.25 bln