

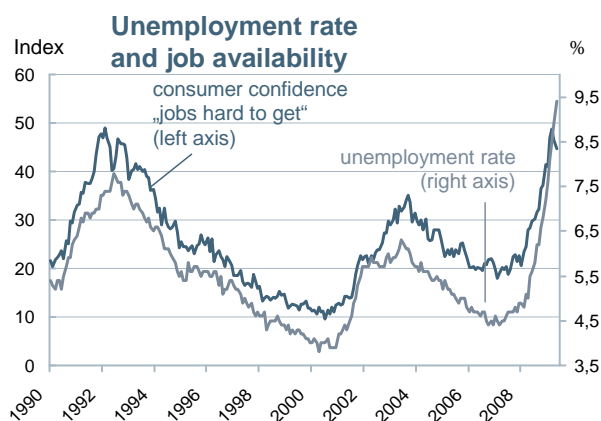
Preview

29 June 2009

US economic indicators (week of 29 June to 5 July 2009)

- **Consumer confidence (June):** slight decline after rebound in April and May
- **ISM manufacturing index (June):** sixth consecutive increase
- **Non-farm payrolls (June):** pace of job losses slowing but still historically high

Indicator	Date	BHF forecast	Consensus forecast	Previous
Chicago PMI / Jun	Tues 30 Jun, 15:45	38.0	39.0	34.9
Consumer confidence / Jun	Tues 30 Jun, 16:00	54.5	55.2	54.9
ADP employment change / Jun	Wed 1 Jul, 14:15	-375k	-390k	-532k
ISM manufacturing index / Jun	Wed 1 Jul, 16:00	44.5	44.5	42.8
Construction spending / May	Wed 1 Jul, 16:00	-1.0% mom	-0.6% mom	+0.8% mom
Pending home sales / May	Wed 1 Jul, 16:00	0.0% mom	0.5% mom	6.7% mom
Domestic vehicle sales / Jun	Wed 1 Jul	7.4m	7.4m	7.4m
Initial jobless claims / 27 Jun	Thur 2 Jul, 14:30	625k	615k	627k
Non-farm payrolls / Jun	Thur 2 Jul, 14:30	-325k	-350k	-345k
Unemployment rate / Jun		9.6%	9.6%	9.4%
Average hourly earnings / Jun		0.1% mom	0.1% mom	0.1% mom
Factory orders / May	Thur 2 Jul, 16:00	1.4% mom	0.8% mom	0.7% mom

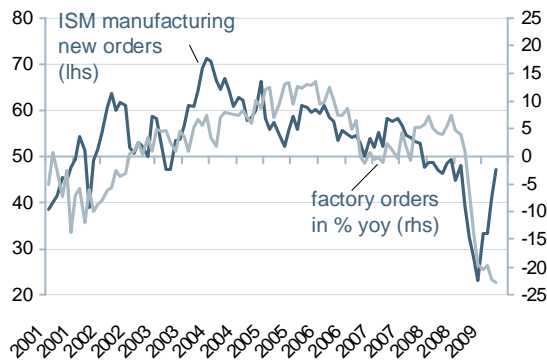


Despite rapidly rising unemployment, the Conference Board's consumer confidence rebounded in April and May, particularly due to expectations. However, confidence could have fallen in June: the June survey of the University of Michigan showed a slight deterioration in expectations, and the weekly ABC consumer comfort poll has declined by six points in the last two weeks. Although the pace of job cuts has slowed somewhat, it has remained historically high, and the unemployment rate rose to 9.4% in May. Thus the assessment of how hard it is to get a new job could have corrected downwards after two consecutive

improvements. However, the additional government benefits connected with the "American Recovery and Reinvestment Act" could have lifted consumer sentiment somewhat. But all in all, **we expect the Conference Board's consumer confidence to have declined slightly to 54.5 in June.**

Contrary to other regional PMIs and the national ISM manufacturing indices, the **Chicago purchasing manager index** declined in May, from 40.1 to 34.9. Automobile plant shutdowns could have been mainly responsible for that. The Beige Book indicated that overall activity weakened further in Chicago, and **our forecast of 38.0 suggests that the pace of deterioration has only slowed modestly in June.**

Factory orders and ISM manufacturing orders

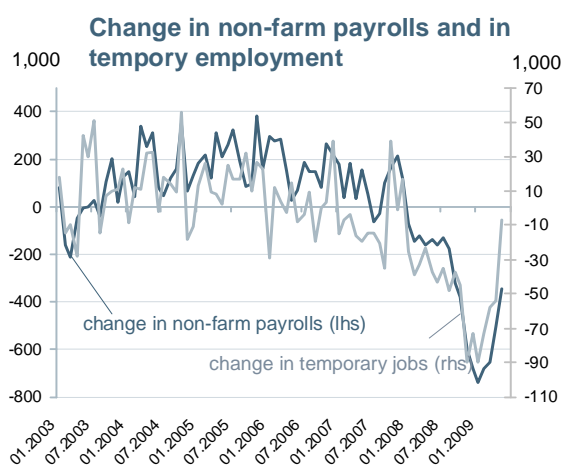


non-durable goods orders are likely to have risen too: firstly, gasoline prices were much higher, and secondly, the ISM orders component exceeded the expansion threshold for the first time since November 2007.

Construction spending rose unexpectedly in both March and April. This was mainly due to a sharp improvement in private nonresidential construction, despite tight credit conditions. In April even residential construction went up moderately, but public construction spending fell slightly. The latter could have risen in May, due to infrastructure projects related to the “American Recovery and Reinvestment Act”. **However, all in all, we expect construction spending to have fallen back by 1.0% mom in May.**

Pending home sales, a forerunner of existing home sales, have improved for three consecutive months, and they jumped by 6.7% mom in April. After this sharp rise, which has not yet been fully reflected in existing home sales, **we expect pending home sales to have remained stable at best in May.**

Partly because of less teaching jobs, initial jobless claims rose by 15k to 627k in the week ending 20 June, and continuing claims for the previous week went up too. This indicates that, although claims are presently well below their peak, the labour market is a long way from recovering. **We expect initial jobless claims to have remained at their still elevated level of about 625k in the week ending 27 June.**



employment rate is likely to have increased to at least 9.6%, and average hourly earnings might only have gone up by 0.1% mom again.

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The results of the regional manufacturing surveys so far were mixed: the New York Empire fell back after two significant improvements, but the Philadelphia Fed index increased markedly, and the Richmond Fed index was in positive territory for the second consecutive month. Therefore **we expect the ISM manufacturing index to have gone up again from 42.8 to 44.5 in June.** One should bear in mind, however, that this does not indicate an increase in activity, but merely a decrease in the pace of deterioration – partly due to substantial inventory adjustments.

Factory orders could have increased by 1.4% mom in May, twice the April rate. We already know that durable goods orders went up by 1.8% mom again, and

ADP reported a decline in private payrolls of 532k in May. This was noticeably less than in the first quarter, but only slightly better than in April and much worse than the figures from the Department of Labor. Given the decline in jobless claims to about 600k in the first third of June, **we forecast that ADP will have estimated private job losses of about 375k in June.**

Non-farm payrolls fell by 345k in May – still historically high, but much better than in the first four months, when the decline averaged 645k. As the graph shows, temporary job losses were significantly lower in May, which indicates that the pace of job cuts could have slowed again. **We predict that non-farm payrolls will have fallen by 325k in June. The unem-**

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