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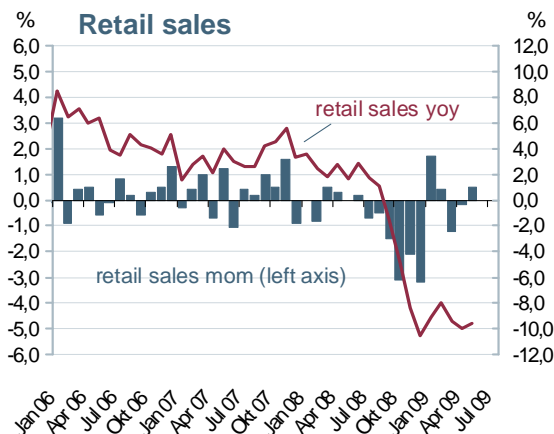
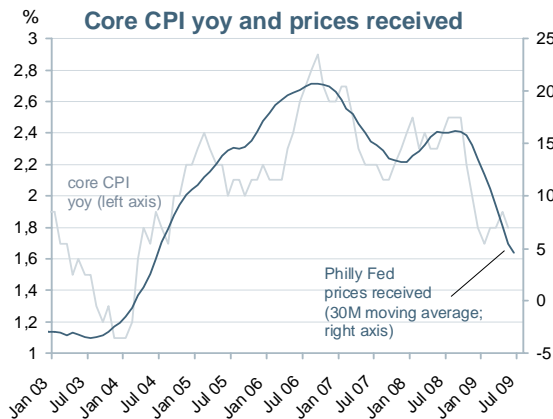
13 July 2009

US economic indicators (week of 13 to 19 July 2009)

- **PPI & CPI (Jun):** upward pressure from energy prices, but core inflation remains subdued
- **Retail sales (Jun):** rising mainly because of high gasoline prices
- **First regional manufacturing indices (Jul):** still indicating contraction
- **Industrial production (Jun):** capacity utilisation rate set to hit new historic low
- **Housing starts and building permits (Jun):** stabilising at very low levels

Indicator	Date	BHF forecast	Consensus forecast	Previous
Budget statement / Jun	Mon 13 Jul, 20:00	-\$97.0bn	-\$97.0bn	+\$33.5bn
Producer prices (PPI) / Jun	Tues 14 Jul, 14:30	1.0% mom -5.1% yoy	0.9% mom -5.2% yoy	0.2% mom -5.0% yoy
PPI ex food & energy / Jun	Tues 14 Jul, 14:30	0.0% mom 2.8% yoy	0.1% mom 2.9% yoy	-0.1% mom 3.0% yoy
Retail sales / Jun – less cars	Tues 14 Jul, 14:30	0.6% mom 0.7% mom	0.4% mom 0.5% mom	0.5% mom 0.5% mom
Business inventories / May	Tues 14 Jul, 16:00	-0.8% mom	-0.5% mom	-1.1% mom
Consumer prices (CPI) / Jun	Wed 15 Jul, 14:30	0.7% mom -1.6% yoy	0.6% mom -1.5% yoy	0.1% mom -1.3% yoy
CPI ex food & energy / Jun	Wed 15 Jul, 14:30	0.1% mom 1.7% yoy	0.1% mom 1.7% yoy	0.1% mom 1.8% yoy
NY Empire manuf. index / Jul	Wed 15 Jul, 14:30	-5.0	-5.0	-9.4
Industrial production / Jun Capacity utilisation / Jun	Wed 15 Jul, 15:15	-0.5% mom 68.0%	-0.6% mom 67.9%	-1.1% mom 68.3%
FOMC minutes / 24 Jun	Wed 15 Jul, 20:00			
Initial jobless claims / 11 Jul	Thur 16 Jul, 14:30	550k	554k	565k
Net LT foreign sec. purch. / May	Thur 16 Jul, 15:00	-\$40bn		-\$53.2bn
Philadelphia Fed index / Jul	Thur 16 Jul, 16:00	-5.0	-5.0	-2.2
NAHB housing market index / Jul	Thur 16 Jul, 19:00	15	16	15
Housing starts / Jun Building permits / Jun	Fri 17 Jul, 14:30	530k 530k	528k 524k	532k 518k

The Congressional Budget Office (CBO) estimates that the budget statement will show a deficit of \$97bn in June. This would be the first June deficit in more than 10 years, as tax receipts generally lead to a surplus in that month. But as a result of the recession, revenues are falling. However, the increase in outlays is the main reason for the \$130bn swing in the budget balance compared to the previous year. The deficit in this fiscal year so far would amount to \$1,089bn, compared to \$286bn in the first nine months of the fiscal year 2008.



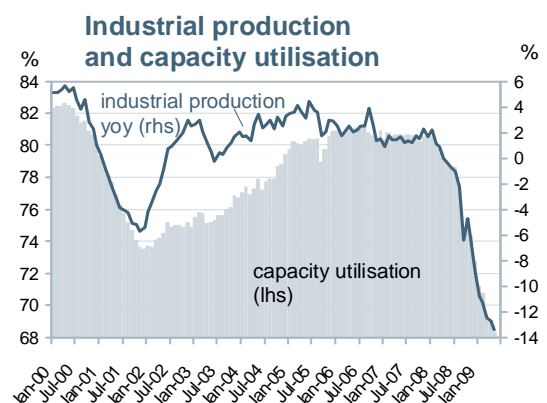
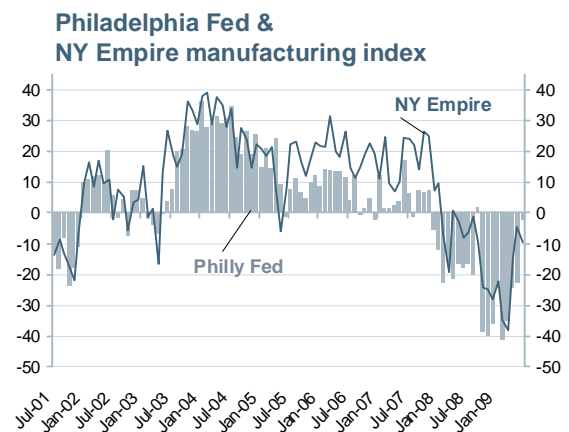
Business inventories are expected to have declined by 0.8% mom in May: we already know that factory inventories fell by 0.6%, and wholesale inventories by 0.8% mom. Retail inventories are likely to have gone down by a good 1% mom again. The slower depletion of inventories will have contributed positively to GDP in Q2.

Whereas the Philadelphia Fed index improved markedly in June, the New York Empire manufacturing index fell back somewhat. We expect the gap to narrow and both indices to remain below zero in July, still indicating contraction. **Thus we forecast a level of -5 for both the New York Empire and the Philadelphia Fed index in July.**

The ISM production component rose to 52.5 in June, indicating expansion in the manufacturing sector for the first time since August 2008. But aggregate working hours in manufacturing fell sharply again, and industry data show that utilities alone could have dampened production by 0.3 percentage points. **We thus predict that industrial production will have fallen by 0.5% mom in June. The capacity utilisation rate is likely to have hit a new historic low of about 68%,**

Energy prices will have pushed headline inflation higher in June, as crude oil and gasoline prices jumped by 15 to 20% on average, and seasonal adjustment factors will not dampen the rise this time. **We thus expect producer prices, which rose by 0.2% mom in May, to have gone up sharply by 1% mom in June, still leading to a decline of 5.1% yoy.** The weakness in domestic and foreign demand suggests that **core PPI will have remained unchanged mom, lowering the annual rate to 2.8% – still relatively high.** The same goes for consumer prices: **we predict that CPI will have increased by 0.7% mom in June.** The yearly rate could nevertheless drop to -1.6%. **Core CPI is likely to have gone up by a mere 0.1% mom again, lowering the yearly rate to 1.7%.**

Nominal retail sales will have been boosted by gasoline prices too: **we forecast that retail sales will have increased by 0.6% mom in June.** Given the slight decline in domestic vehicle sales, retail sales less cars are likely to have risen a little bit more. But rainy weather and price discounts will have dampened nominal sales. In real terms, despite support from the government fiscal package, retail sales will at best have risen slightly, as the downward trend in consumer confidence indicates that people are less willing to spend money.



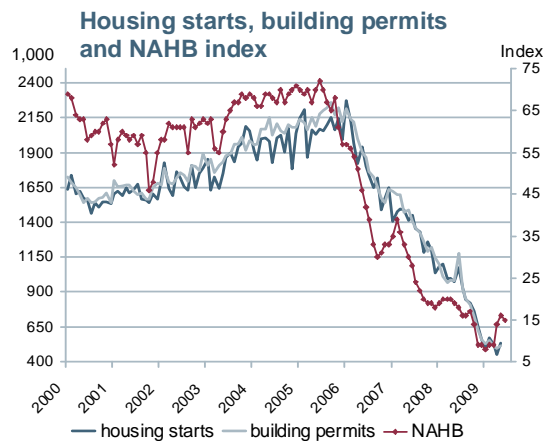
indicating downward pressure on inflation and no necessity for capacity enhancing investment in the foreseeable future.

The **FOMC minutes of the meeting on 23 and 24 June** will include adjusted projections for GDP growth, the unemployment rate and inflation. Contrary to the last update in April, we are not expecting any major revisions of the projections in the table below, but unemployment rates are likely to be revised upwards, given that the jobless rate already reached 9.5% in June.

Table 1. Economic projections of Federal Reserve Governors and Reserve Bank presidents, April 2009
Percent

Variable	Central tendency ¹				Range ²			
	2009	2010	2011	Longer run	2009	2010	2011	Longer run
Change in real GDP.	-2.0 to -1.3	2.0 to 3.0	3.5 to 4.8	2.5 to 2.7	-2.5 to -0.5	1.5 to 4.0	2.3 to 5.0	2.4 to 3.0
January projection.	-1.3 to -0.5	2.5 to 3.3	3.8 to 5.0	2.5 to 2.7	-2.5 to 0.2	1.5 to 4.5	2.3 to 5.5	2.4 to 3.0
Unemployment rate.	9.2 to 9.6	9.0 to 9.5	7.7 to 8.5	4.8 to 5.0	9.1 to 10.0	8.0 to 9.6	6.5 to 9.0	4.5 to 5.3
January projection.	8.5 to 8.8	8.0 to 8.3	6.7 to 7.5	4.8 to 5.0	8.0 to 9.2	7.0 to 9.2	5.5 to 8.0	4.5 to 5.5
PCE inflation.	0.6 to 0.9	1.0 to 1.6	1.0 to 1.9	1.7 to 2.0	-0.5 to 1.2	0.7 to 2.0	0.5 to 2.5	1.5 to 2.0
January projection.	0.3 to 1.0	1.0 to 1.5	0.9 to 1.7	1.7 to 2.0	-0.5 to 1.5	0.7 to 1.8	0.2 to 2.1	1.5 to 2.0
Core PCE inflation ³	1.0 to 1.5	0.7 to 1.3	0.8 to 1.6		0.7 to 1.6	0.5 to 2.0	0.2 to 2.5	
January projection.	0.9 to 1.1	0.8 to 1.5	0.7 to 1.5		0.6 to 1.5	0.4 to 1.7	0.0 to 1.8	

Initial jobless claims went down noticeably by 52k to 565k in the week ending 4 July, perhaps connected with the seasonal adjustment process, as the usual summer shutdowns in the automotive industry had set in earlier this year due to the economic weakness. However, continuing claims increased sharply to a new record of 6.883m, partly due to the extension of benefit entitlements. **We expect similar seasonal adjustment quirks in the week ending 11 July, and thus jobless claims could have fallen further to about 550k.**



After a low in January of +8, the **NAHB index of homebuilder sentiment** improved continuously to 16 in May. But the upward trend stalled in June, and the index declined to 15. **We expect it to have remained stable in July.**

As the graph shows, the development of the NAHB index suggests that housing starts and building permits have bottomed out and could start to recover in the near future. **We forecast that housing starts, which rose by 17.1% in May, will have remained stable at about 530k in June, and building permits could have risen to the same level.**

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