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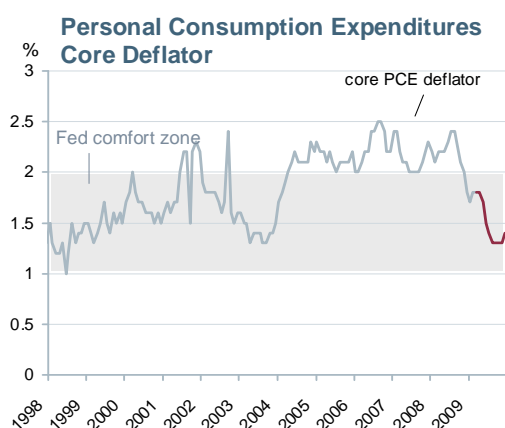
29 May 2009

US economic indicators (week of 1 to 7 June 2009)

- **PCE core deflator (Apr):** still close to the upper limit of the Fed's comfort zone
- **ISM indices (May):** increasing but still indicating contraction
- **Non-farm payrolls (May):** another decline of more than half a million jobs

Indicator	Date	BHF forecast	Consensus forecast	Previous
Personal income / Apr Personal spending / Apr	Mon 1 Jun, 14:30	-0.3% mom -0.2% mom	-0.2% mom -0.2% mom	-0.3% mom -0.2% mom
PCE core deflator / Apr	Mon 1 Jun, 14:30	0.2% mom 1.8% yoy	0.2% mom 1.9% yoy	0.2% mom 1.8% yoy
ISM manufacturing index / May	Mon 1 Jun, 16:00	41.0	42.0	40.1
Construction spending / Apr	Mon 1 Jun, 16:00	-2.0% mom	-1.8% mom	0.3% mom
Pending home sales / Apr	Tues 2 Jun, 16:00	0.5% mom	0.3% mom	3.2% mom
Domestic vehicle sales / May	Tues 2 Jun, 16:00	7.0m	7.0m	7.0m
ADP employment change / May	Wed 3 Jun, 14:15	-560k	-530k	-491k
ISM non-manuf. index / May	Wed 3 Jun, 16:00	44.5	45.0	43.7
Factory orders / Apr	Wed 3 Jun, 16:00	1.2% mom	0.0% mom	-0.9% mom
Non-farm productivity / Q1 (final) Unit labour costs / Q1 (final)	Thur 4 Jun, 14:30	1.4% qoq 2.7% qoq	1.2% qoq 2.9% qoq	-0.6% qoq (Q4) 5.7% qoq (Q4)
Initial jobless claims / 30 May	Thur 4 Jun, 14:30	625k		623k
Non-farm payrolls / May Unemployment rate / May Average hourly earnings / May	Fri 5 Jun, 14:30	-540k 9.2% 0.1% mom	-530k 9.2% 0.2% mom	-539k 8.9% 0.1% mom
Consumer credit / Apr	Fri 5 Jun, 21:00	-\$6.0bn	-\$6.0bn	-\$11.1bn

Personal income is likely to have fallen by 0.3% mom again in April, as average hourly earnings only rose modestly and aggregate working hours declined by 0.6%. Given the decline in retail sales, **we forecast that personal spending will have decreased by 0.2% mom in April.**



We expect the PCE core deflator to have increased by a good 0.2% mom in April, slightly less than core CPI. The annual rate could thus have remained at 1.8%, which would still be close to the upper limit of the Fed's comfort zone. In its projection update, the FOMC raised the range for the core PCE deflator slightly to 1.0 to 1.5% for this year, but, due to the weak labour market and a record amount of idle production capacity, the committee expects the core PCE deflator to range from 0.7% to 1.6% in the next two years.



Since January, the ISM manufacturing index has improved for four consecutive months, albeit remaining well within the contraction zone. In May, the Philadelphia Fed index and the New York Empire manufacturing index in particular rose to much less negative levels, and the Richmond Fed index even entered positive territory. In contrast, the Chicago PMI fell back sharply from 40.1 to 34.9. All in all, **we forecast that the ISM manufacturing index will have increased slightly to about 41.0 at best in May.** The automotive shutdowns could have prevented a larger improvement.

The ISM non-manufacturing, which had fallen in March, recovered noticeably in April. **We expect it to have gone up again, albeit more moderately, to 44.5 in May.**

Thus both ISM indices would still have remained well below the expansion threshold.

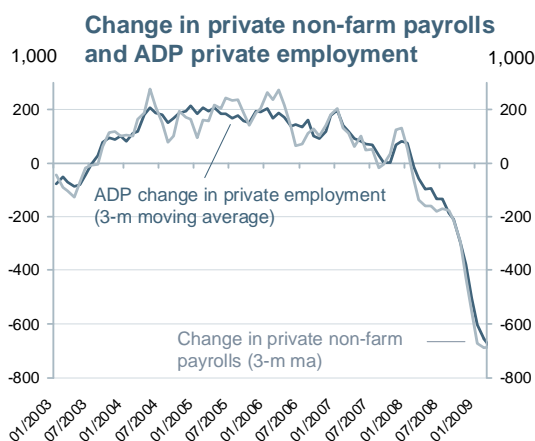
Construction spending increased unexpectedly in March, as public and nonresidential private construction spending in particular rose sharply and the decline in residential construction spending slowed somewhat. Public spending might have risen again in April, but we expect a noticeable downward correction in commercial spending and a continued decline in residential spending. **Therefore total construction spending could have fallen by about 2% mom in April.**

Pending home sales went up in February and March, and due to increased housing affordability, tax incentives and low mortgage rates, **we forecast that pending home sales will have risen again by about 0.5% mom in April.**

Factory orders are likely to have gone up by 1.2% mom in April, as durable goods orders rebounded because of defense and transportation orders, and non-durable goods orders could also have increased because of higher gasoline prices in particular. However, the April rise will not fully compensate for the March decrease, which could be revised from -0.9% to about -1.5% mom.

Initial jobless claims fell by 13k in the week ending 23 May, and the 4-week moving average declined for the second consecutive week too. **We expect initial jobless claims to have remained stable at their current elevated level in the week ending 30 May.**

Given that Q1 business output declined by 7.6% instead of 8.2% as initially announced, the rise in **non-farm productivity is likely to be revised up from 0.8% to 1.4% qoq annualised, whereas the increase in unit labour costs could be lowered from 3.3% to 2.7%.**



The ADP report showed a decline of 491k private jobs in April, much less than in March (-708k) – probably related to the decline in jobless claims in the 2nd week of April, as ADP uses these data for its estimate of the change in payrolls. However, jobless claims were significantly higher again in the relevant week **in May, and thus ADP private payrolls could have declined by about 560k.**

Non-farm payrolls decreased by 539k in April, compared to -699k in March. Temporary government jobs related to the 2010 census were the main reason why the decline was not as sharp. We therefore expect the government to have made a positive impact again, but otherwise the labour market situation remains extremely unfavourable and **we predict that non-farm payrolls will have fallen**

again by about 540k in May. The unemployment rate, which has risen by 2.6 percentage points in the last six months alone, **could have gone up from 8.9% to 9.2%. But average hourly earnings might have increased by a mere 0.1% mom again**, lowering the annual rate from 3.2% to 3.0%.

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