

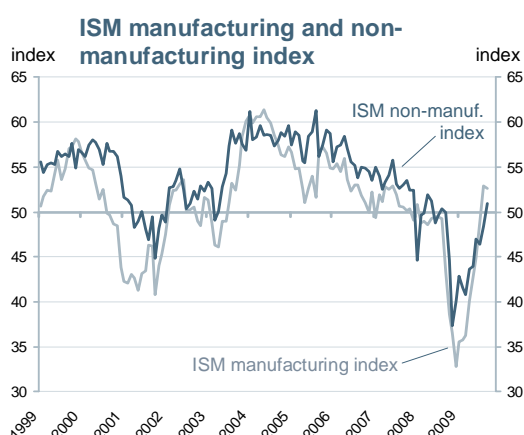
Preview

2 November 2009

US economic indicators (week of 2 to 8 November 2009)

- **ISM indices (Oct):** indicating moderate expansion
- **FOMC:** more favourable economic assessment, but no change in accommodative stance
- **Labour market report (Oct):** no significant improvement

Indicator	Date	BHF forecast	Consensus forecast	Previous
ISM manufacturing index / Oct	Mon 2 Nov, 16:00	52.6	53.0	52.6
Pending home sales / Sep	Mon 2 Nov, 16:00	-0.5% mom	0.0% mom	6.4% mom
Construction spending / Sep	Mon 2 Nov, 16:00	0.0% mom	-0.2% mom	0.8% mom
Factory orders / Sep	Tues 3 Nov, 16:00	0.8% mom	0.8% mom	-0.8% mom
Domestic vehicle sales / Oct	Tues 3 Nov	6.8m	7.3m	6.8m
ADP employment change /	Wed 4 Nov, 14:15	-230k	-200k	-254k
ISM non-manuf. index / Oct	Wed 4 Nov, 16:00	51.5	51.6	50.9
FOMC rate decision / 4 Nov	Wed 4 Nov, 20:15	0-0.25%	0-0.25%	0-0.25%
Nonfarm productivity / Q3 (prel.)	Thur 5 Nov, 14:30	6.5% qoq	6.5% qoq	6.6% qoq
Unit labour costs / Q3	Thur 5 Nov, 14:30	-4.2% qoq	-4.0% qoq	-5.9% qoq
Initial jobless claims / 31 Oct	Thur 5 Nov, 14:30	525k	522k	530k
Nonfarm payrolls / Oct	Fri 6 Nov, 14:30	-210k	-175k	-263k
Unemployment rate / Oct		9.9%	9.9%	9.8%
Average hourly earnings / Oct		0.1% mom	0.1% mom	0.1% mom
Wholesale inventories / Sep	Fri 6 Nov, 16:00	-1.0% mom	-1.0% mom	-1.3% mom
Consumer credit / Sep	Fri 6 Nov, 21:00	-\$10.0bn	-\$10.3bn	-\$12.0bn



The first regional October manufacturing surveys painted an ambiguous picture: the Philadelphia Fed index declined by 2.6 points and the Richmond Fed index halved to 7, but the New York Empire manufacturing index jumped from 18.9 to 34.6 – its highest level since June 2004, and the Chicago PMI rebounded too, rising about eight points to 54.2. **We forecast that the ISM manufacturing index, which fell slightly to 52.6 in September, will have remained stable in October**, partly due to a lack of support from the automobile sector after the Car Allowance Rebate System ended.

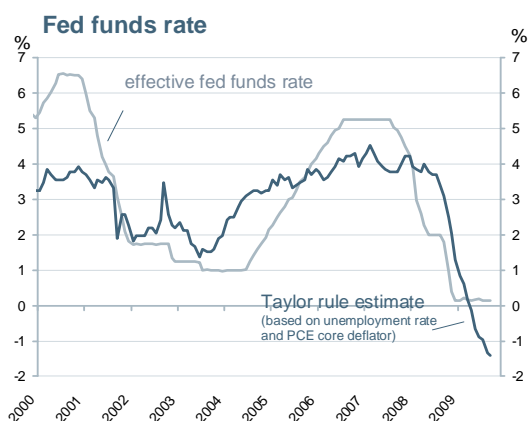
The ISM non-manufacturing index rose markedly by 2.5 points in September, thus breaking through the expansion threshold for the first time since September 2008. **We expect the ISM non-manufacturing index to have improved again in October, albeit only slightly, to 51.5.** It would therefore have remained below its manufacturing counterpart.

In August, pending home sales jumped by 6.4% mom and were up 29% from their January low. This significant upward trend appears to have been mainly connected with the special tax credit for first-time home buyers, the deadline for which is approaching (1 December). Thus **we predict that pending home sales, which have lead actual sales contracts for existing homes by one to two months, could already have fallen back slightly by 0.5% mom in September.** However, the Senate is currently preparing an extension of the first-time home buyer tax credit until 30 April 2010.

Construction spending increased by 0.8% mom in August, due to a 4.2% mom increase in residential construction, which seems to have bottomed out since summer, although it is still 26.2% lower than the previous year. But the downward trend in commercial construction intensified in the third quarter, and was 35% lower in August 2009 than in August 2008. Residential construction will have risen again in September, as indicated by the first GDP estimate for Q3. But the weakness in commercial construction will have continued, and thus **total construction spending is only likely to have remained stable in September.**

We expect factory orders to have gone up by 0.8% mom in September. It is already known that durable goods orders increased by 1.0% mom, but non-durable goods orders will probably have risen less strongly than in August, due to the drop in gasoline prices.

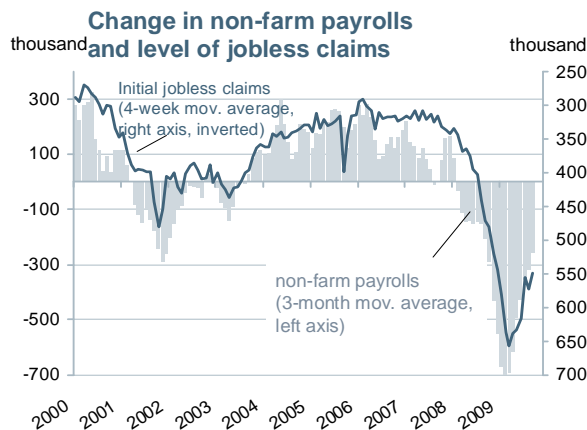
Not surprisingly, September domestic vehicle sales plummeted after the Car Allowance Rebate System (CARS) had ended, from an annualised 10.2m to a mere 6.8m. Given the current setback in consumer confidence indicators, **we predict that domestic vehicle sales will have remained unchanged at best in October.**



The FOMC is expected to leave the fed funds rate at 0–0.25% at its November meeting. According to a Taylor rule estimate based on the unemployment rate and the PCE core deflator, the fed funds rate should be negative by now, as shown in the graph. Furthermore, due to disinflation at the core level and rising unemployment, the calculated rate is still heading downward. Although the FOMC statement could hint that the Fed is preparing an exit strategy, it will probably reiterate that economic conditions are likely to warrant exceptionally low levels of the fed funds rate for an extended period. The committee's economic assessment could have brightened up again somewhat, but, is likely to state that, owing to substantial resource slack, inflation is expected to remain subdued in the foreseeable future.

According to the GDP release, non-farm business gross value added was an annualised +4% qoq in Q3, and as aggregate working hours could have fallen by about 2.5% qoq, **we estimate that non-farm productivity will have risen by an annualised 6.5% qoq in Q3**, about the same rate as in Q2. The annual rate would then accelerate from 1.9% to 3.5%. Labour compensation might not have increased by much more than 2% qoq, which would lead to **a drop in unit labour costs of about 4.5% qoq (–3.3% yoy, after –1.2% yoy) in Q3.**

Initial jobless claims only fell by 1k to 530k in the week ending 24 October, but the 4-week moving average declined for the eighth week in a row, to 526,25k. The drop in continuing claims was even sharper: since their peak at the end of June, continuing claims have gone down by about 1.1 million, but this exaggerates the improvement in the labour market, because the average length of unemployment now exceeds the maximum 26-week period of regular entitlement to unemployment benefit, and so many unemployed people will no longer be statistically captured. **We expect the moderately declining trend in jobless claims to have continued; they could have fallen to 525k in the week ending 31 October.**



If the results of the preliminary benchmark revision to the monthly data are taken into account, the US economy has now lost roughly 8m jobs since the onset of the recession. In September, nonfarm payrolls dropped unexpectedly by 263k, which was much more than the 201k jobs lost in August. The deterioration was mainly due to the service industries, and jobs were cut in almost 70% of all sectors. Jobless claims are slowly trending downwards, but consumers' labour market assessment deteriorated and fell to a 25-year low in October. Nevertheless **we forecast that non-farm payrolls will have declined at a somewhat slower pace of –220k in October**, as September's government job losses are unlikely to

have been repeated. The ADP estimate for the change in private nonfarm payrolls was –254k in September, compared to –210k in the official labour market report. Given the still relatively high level of jobless claims, which ADP uses for the fine-tuning of its figures, **we predict that ADP's estimate of private sector job losses will have reached –230k in October. The unemployment rate could have gone up further to 9.9%** – a level last seen in 1982. If employees working part-time for economic reasons were also taken into account, the degree of labour market underutilization would be almost twice as high. **If average hourly earnings went up by a mere 0.1% mom again, the annual rate would decrease to a five-year low of 2.2%.**

Wholesale inventories went down by 1.3% mom in August, but we expect the depletion of inventories to slow down in the near future. However, **wholesale inventories might still have fallen by about 1% mom in September**, not least due to CARS.

Consumer credit has decreased by almost \$100bn so far this year, and it dropped by \$12bn in August. The deleveraging is expected to have continued at a somewhat slower pace **in September, and consumer credit could have declined by \$10bn.**

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