

# Preview

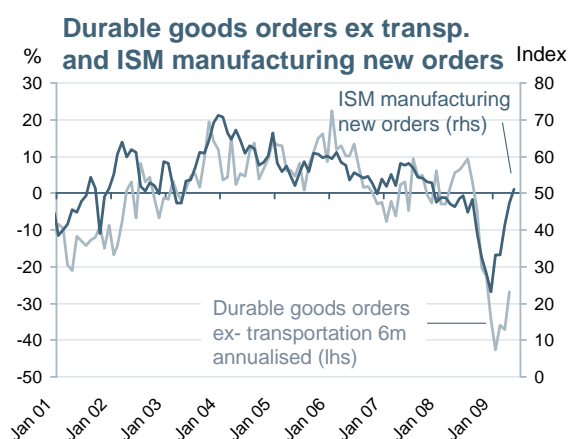
22 June 2009

## US economic indicators (week of 22 to 28 June 2009)

- **Durable goods orders (May):** setback due to the automobile sector
- **FOMC statement:** will attempt to abate rate rise speculation
- **PCE core deflator (May):** only a small increase
- **UMI consumer sentiment (final June):** possibly lower than the preliminary results

Indicator	Date	BHF forecast	Consensus forecast	Previous
Existing home sales / May	Tues 23 Jun, 16:00	4.90m	4.82m	4.68m
<b>Durable goods orders / May – ex transportation</b>	Wed 24 Jun, 14:30	<b>-1.3% mom -0.5% mom</b>	-0.8% mom -0.4% mom	1.7% mom 0.4% mom
New home sales / May	Wed 24 Jun, 16:00	370k	360k	352k
<b>FOMC rate decision</b>	Wed 24 Jun, 20:15	<b>0-0.25%</b>	0-0.25%	0-0.25%
GDP / Q1 (final)	Thur 25 Jun, 14:30	-5.9% qoq	-5.7% qoq	-5.7% qoq (prel.) -6.3% qoq (Q4)
Initial jobless claims / 20 Jun	Thur 25 Jun, 14:30	608k	600k	608k
Personal income / May	Fri 26 Jun, 14:30	0.2% mom	0.3% mom	0.5% mom
Personal spending / May		0.4% mom	0.3% mom	-0.1% mom
<b>PCE core deflator / May</b>	Fri 26 Jun, 14:30	<b>0.1% mom 1.8% yoy</b>	0.1% mom 1.8% yoy	0.3% mom 1.9% yoy
<b>UMI consumer sent. / Jun (final)</b>	Fri 26 Jun, 16:00	<b>68.0</b>	69.0	69.0 (prel.) 68.7 (May)

Existing home sales rose by almost 3% mom in April, but the inventories-to-sales ratio (months supply) also went up to 10.2 months, indicating continued downward pressure on home prices. **We predict that existing home sales will have increased again from 4.68m to about 4.90m in May**, driven by foreclosures, tax incentives, relatively low mortgage rates and increased affordability. The 6.7% April rise in pending home sales, which have a forerun of at least 1 to 2 months, would suggest an even greater increase. **New home sales** only remained more or less stable in April, and **could thus have improved even**



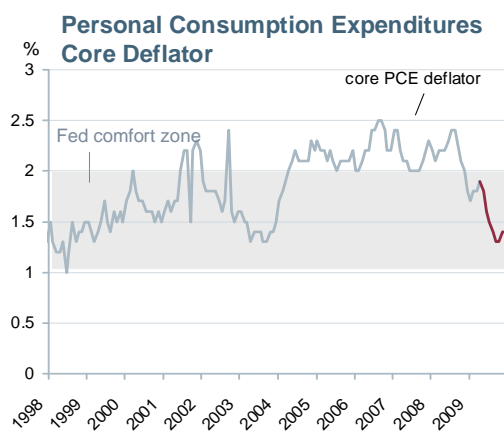
**more markedly in May, by over 5% from 352k to about 370k.** However, the high level of inventories of homes for sale indicates that the tentative stabilisation in sales will not translate immediately into an increase in construction.

Durable goods orders rose by 1.7% mom in April, mainly due to the transportation sector. Although the ISM new orders index jumped above 50, car production suffered a setback of about 8%, which we expect to be reflected in orders. Thus **durable goods orders in May could have declined by 1.3% mom in May**, despite the possibility of higher aircraft orders. Non-

defense capital goods orders excluding aircraft went down by about 1.5% in March and April respectively. It will be particularly interesting to see whether the downward trend slowed somewhat in May.

Although the **FOMC** said in its previous two statements that economic conditions were likely to warrant exceptionally low levels of the federal funds rate for an extended period, market participants are currently seeing about a 50% chance of a preemptive rate hike before the end of the year. The improvement in several indicators and the slowdown in job cuts combined with the very expansive monetary policy stance appear to have raised inflation fears. But the FOMC will probably try to dampen these expectations by stating that rising unemployment and a record amount of idle production capacity will keep the recovery muted and inflation low.

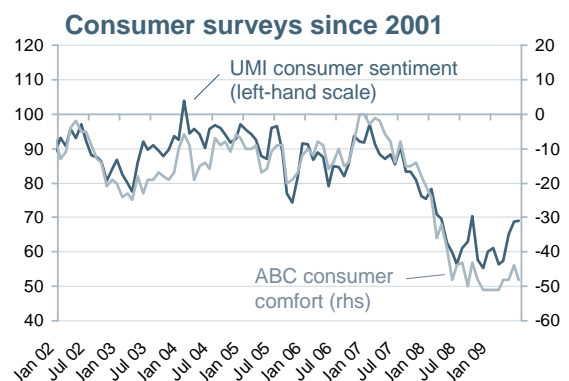
In the preliminary estimate, Q1 GDP was revised from an annualised -6.1% qoq to -5.7% qoq: private consumption rose less, but the inventory correction was smaller and net exports contributed even more than initially estimated. However, as it has now transpired that the real trade deficit was higher in March, **we predict that the final GDP growth rate will be revised downwards slightly to -5.9% qoq.** The annual rate could remain at -2.5%.



Although wages did not grow, personal income increased by 0.5% mom in April, supported by government transfer payments. Due to lower taxes, disposable income actually jumped by 1.1% mom, but this only led to an increase in the savings rate from 4.5% to 5.7%. **We expect personal income to have gone up by a mere 0.2% mom in May,** as average hourly earnings increased by 0.1% mom. **Personal spending, which fell by 0.1% mom in April, could have risen by up to 0.4% mom,** partly due to higher gasoline prices. Thus real spending will have been more or less flat.

After having risen by 0.3% mom, **the PCE core deflator is only likely to have gone up by 0.1% mom in May,** just like core CPI. The increase in medical care costs was above average, but this is likely to have been cancelled out by lower drug prescription costs. The PCE core deflator's annual rate will have declined to 1.8%. It is expected to approach the lower end of the fed's comfort zone (1-2%) in the coming months.

The University of Michigan's (UMI) preliminary June consumer sentiment improved marginally to 69.0, but only due to the current assessment. In contrast, expectations declined noticeably, perhaps because of the ongoing increase in gasoline prices. **We expect UMI's final June consumer sentiment to be revised down to about 68.0,** as the weekly ABC consumer comfort poll deteriorated. As the graph shows, it is currently at a relatively low level compared to the UMI indicator, and the gap could narrow.



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