



Economics Weekly

1 June 2009

BoE and ECB interest rate decisions, US employment report due

The Bank of England (BoE) and the European Central Bank (ECB) are expected to leave interest rates on hold at their monthly meetings on Thursday, and we expect neither of the two Banks to make changes to previously announced non-standard credit easing measures. In the US, we expect the rate of decline in employment to have slowed in May for a second successive month, but the unemployment rate is forecast to have risen above 9% to the highest level since September 1983.

- BoE MPC members have been reining in optimism about economic recovery, warning that the path back to growth will be long and is clouded by an unusual degree of uncertainty. Leading indicators of economic activity have arguably started to improve in Q2 and point to an easing in the rate of contraction in gdp, but MPC officials remain wary of the many potential pitfalls ahead. These are mainly attributed to the bleak backdrop for employment, business investment and household spending. The BoE only last month said it was expanding its Asset Purchase Facility to £125bn and with this in mind we do not expect the Bank to make any new announcements on the APF this week, or make any changes to Bank rate. Our latest forecast is for rates to stay on hold until the end of 2010. The May PMI indices of activity in manufacturing and services sectors will be important in judging whether the rebound in the indices off the Q4 2008 lows can be sustained and whether companies are experiencing a real improvement in demand. The rebound of sterling, weak exports orders and the rise in crude oil prices above \$60pb could mitigate some of the market optimism that business conditions are brightening. Thus far, confidence that the economy is stabilising is based on a more orderly functioning of credit markets (3-month Libor fell to 1.28% last week) and on the prospect that the liquidation of inventories may soon end. The manufacturing PMI, due on Monday, is forecast to edge up for a 3rd successive month to 43.8. The services PMI, due on Wednesday, is forecast to reach a 9-month high of 49.2, closing in on the 50-level which separates expansion from contraction. Mortgage lending and consumer credit data are due on Tuesday and PPI data are due on Friday. Separately, the DMO will auction £2bn of the 4.25% 2049 gilt on Tuesday and £3.5bn of the 4.5% 2019 gilt on Wednesday. The BoE will offer to buy £6.5bn of gilts, maintaining the pace of its recent purchases.
- Confidence that the US economy may have passed the worst received a boost last week from stronger than expected outcomes for May consumer confidence, April durable goods orders (March revised down) and existing home sales. However, participants are heeding reports of higher housing inventories and signs of ebbing mortgage applications as long term yields and mortgage rates rise. Participants will assess the current state of the economy on Friday when the monthly employment figures for May are published. A surge in consumer optimism in May and a modest improvement in the Conference Board survey of employment suggest that job losses may have slowed in May for a 2nd successive month. We look for a decline in non-farm payrolls of around 500,000 and forecast a rise in the jobless rate to 9.2%. April personal income and spending data and the May manufacturing ISM survey are due on Monday. The May ADP employment and ISM non-manufacturing surveys are due on Wednesday. Fed chairman Bernanke speaks on Thursday. No treasury auctions are planned.
- We expect the ECB to keep interest rates unchanged at 1%. This will put the thrust of the press conference on the updated forecasts of inflation and gdp growth for 2009 and 2010 and on details of the plan to purchase €60bn of covered bonds. GDP growth for 2009 is likely to be sharply scaled back from the March estimate of -2.6%, but revisions to inflation are not guaranteed following the sharp rise in spot and future crude oil prices above \$60pb. The final May manufacturing and services PMI surveys are due on Monday and Wednesday, respectively.

Kenneth Broux, Economist, Corporate Markets

Chart a: The BoE and ECB are expected to keep monetary policy rates unchanged on Thursday

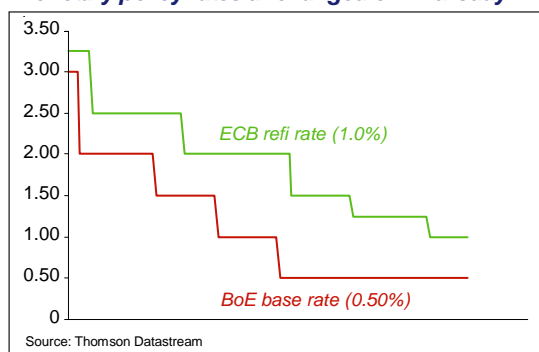
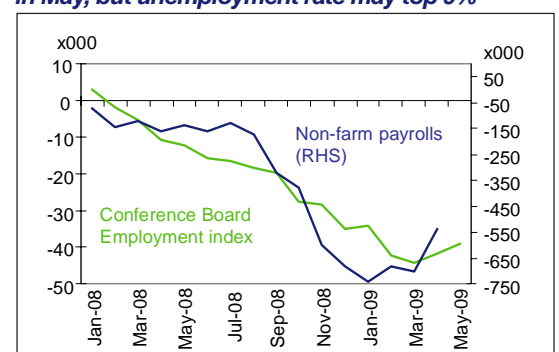


Chart b: US job losses are forecast to have slowed in May, but unemployment rate may top 9%



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Date	United Kingdom	United States	EU-16
Mon 1	Manufacturing PMI Apr 43.1 May (act) 45.4 Median 44.0 Range 43.0:44.8	Personal income (13:30) Mar -0.3% Y-O-Y +0.3% Apr (f'cast) -0.2% Y-O-Y +0.1% Median -0.2% Range -0.5%:+0.3% Personal spending (13:30) Mar -0.2% Y-O-Y -1.5% Apr (f'cast) -0.1% Y-O-Y -1.2% Median -0.2% Range -0.4%:+0.1% Core PCE deflator (13:30) (Apr) Mar 0.2% Y-O-Y +1.8% Apr (f'cast) +0.2% Y-O-Y +1.8% Median +0.2% Range +0.1%:+0.3% ISM manufacturing index (15:00) Apr 40.1 May (f'cast) 42.5 Median 42.0 Range 38.6:46.0	French manufacturing PMI (08:50) (final) May (prel) 43.1 May (act) 43.3 Median 43.1 Range 42.9:43.1 German manufacturing PMI (08:55)(final) May (prel) 39.1 May (act) 39.6 Median 39.1 Range 38.9:39.4 EU-16 manufacturing PMI (09:00) (final) May (prel) 40.5 May (act) 40.7 Median 40.5 Range 40.3:40.8
Tue 2	Money supply, M4 (final, sa) Mar +0.3% Y-O-Y +18.2% Apr (prel) +0.1% Y-O-Y +17.4% Consumer credit Mar +£0.1bn Apr (f'cast) +£0.1bn Median +£0.1bn Range zero:+£0.4bn Net mortgage lending (sa) Mar +£0.8bn Apr (f'cast) +£1.0bn Median +£1.0bn Range zero:+£1.2bn Mortgage approvals Mar 39K Apr (f'cast) 41K Median 41K Range 39K:43K		EU-16 unemployment rate (10:00) Mar +8.9% Apr (f'cast) +9.0% Median +9.1% Range +9.0%:+9.2%
Wed 3	Services PMI Apr 48.7 May (f'cast) 49.2 Median 49.4 Range 48.0:51.0	ADP employment change (13:15) Apr -491K May (f'cast) -475K Median -530K Range -571K:-475K ISM Services index (15:00) Apr 43.7 May (f'cast) 45.5 Median 45.0 Range 44.0:46.3 Factory orders (15:00) Mar -0.9% Apr (f'cast) +0.5% Median +0.5% Range -0.7%:+1.3%	French services PMI (08:50) (final) May (prel) 47.6 May (f'cast) 47.6 Median 47.6 Range 46.1:47.6 German services PMI (09:00) (final) May (prel) 46.0 May (f'cast) 46.0 Median 46.0 Range 45.9:46.2 EU-16 services PMI (09:00) (final) May (prel) 44.7 May (f'cast) 44.7 Median 44.7 Range 44.6:45.0 EU-16 producer prices (10:00) Mar -0.7% Y-O-Y -3.1% Apr (f'cast) -0.2% Y-O-Y -3.9% Median -0.8% Range -1.5%:-0.2% EU-16 GDP (10:00) Q1 (prel) -2.5% Y-O-Y -4.6% Q1 (f'cast) -2.5% Y-O-Y -4.6% Median -2.5% Range -2.5%:-2.5%
Thu 4	BoE MPC interest rate decision (12:00) Current: 0.50% Forecast: 0.50%	Initial claims (w/e 30/5) (13:30) Previous 623K Forecast 620K Non-farm productivity (13:30) (final) Q1 (prel) +0.8% Q1 (f'cast) +1.3% Median +1.2% Range +0.3%:+1.8% Unit labour costs (13:30) (final) Q1 (prel) +3.3% Q1 (f'cast) +2.9% Median +2.9% Range +0.8%:+3.5%	French unemployment (10:00) Q4 +187.0k Rate 8.2% Q1 (f'cast) +150.0k Rate 8.3% Median 8.6% Range 8.2%:8.7% EU-16 retail sales (10:00) Mar -0.6% Y-O-Y -4.2% Apr (f'cast) +0.2% Y-O-Y -2.9% Median +0.2% Range -0.4%:+0.4% ECB interest rate decision (12:45) Current: 1.00% Forecast: 1.00%
Fri 5	Producer input prices (nsa, prov) Apr -1.0% Y-O-Y -5.0% May (f'cast) +1.5% Y-O-Y -7.6% Median +0.8% Range +0.2%:+1.5% Producer output prices (nsa, prov) Apr +0.6% Y-O-Y +1.2% May (f'cast) +0.4% Y-O-Y -0.4% Median +0.4% Range +0.2%:+0.7% Producer prices core (nsa, prov) Apr +0.4% Y-O-Y +2.4% May (f'cast) +0.3% Y-O-Y +1.2% Median +0.2% Range zero:+0.3%	Non-farm payrolls (13:30) Apr -539K May (f'cast) -500K Median -530K Range -650K:-465K Unemployment rate (13:30) Apr 8.9% May (f'cast) 9.2% Median 9.2% Range 9.0%:9.5% Average earnings (sa) (13:30) Apr +0.1% Y-O-Y +3.2% May (f'cast) +0.1% Y-O-Y +3.0% Median +0.2% Range zero:+0.2% Average weekly hours (sa) (13:30) (May) Apr 33.2 Median 33.2 Range 33.2:33.3	
Mon 8			German factory orders (11:00) (Apr) Mar +3.3% Y-O-Y -26.7%

NB: UK data released at 9.30 a.m., unless otherwise stated. Market medians are as of preceding Friday. Release times of US data are stated in brackets after the description of the indicator. Events are listed in the events column on the next page.

Date	Japan	Other Countries	Main events
Mon 1		Australia retail sales (sa) (00:30) Mar +2.2% Apr (act) +0.3% Median +0.5% Range -0.8%:+2.5% Canada IPPI (13:30) Mar +0.3% Apr (f'cast) +0.2% Median +0.1% Range -0.6%:+1.0% Canada RMPI (13:30) Mar +12.1% Apr (f'cast) +6.0% Median +8.0% Range +5.4%:+10.0% Canada GDP, monthly (13:30) Feb -0.1% Mar (f'cast) -0.2% Median -0.3% Range -0.5%:-0.1% Canada GDP annualised (13:30) Q4 -3.4% Q1 (f'cast) -6.0% Median -6.5% Range -7.0%:-4.9%	
Tue 2	Monetary base (00:50) Apr Y-O-Y 8.2% May (f'cast) Y-O-Y 9.0%	Australia interest rate decision (03:30) Current: 3.00% Forecast: 3.00%	<ul style="list-style-type: none"> • UK DMO to auction £2bn of 4.25% gilts due 2049 (10:30) • US Fed member Fisher speaks in Texas (18:20)
Wed 3		Australia GDP (00:30) Q4 -0.5% Y-O-Y +0.3% Q1 (f'cast) -0.2% Y-O-Y -0.4% Median -0.2% Range -0.7%:+0.1%	<ul style="list-style-type: none"> • Germany to sell additional €4bn of 4.75% bunds due 2040 (10:15) • UK DMO to auction £3.5bn of 4.5% gilts due 2019 (10:30) • US Fed member Hoenig speaks in Wyoming (19:30)
Thu 4		Australia trade balance (00:30) Mar +A\$2.5bn Apr (f'cast) +A\$1.6bn Median +A\$1.7bn Range -A\$1.0bn:+A\$3.0bn Canada interest rate decision (14:00) Current: 0.25% Forecast: 0.25% Canada Ivey PMI (15:00) Apr 53.7 May (f'cast) 54.0 Median 54.0 Range 50.0:58.0	<ul style="list-style-type: none"> • French auction of OAT bonds (amount tbc) (10:00) • Bank of England interest rate decision (interest rates expected to remain on hold at 0.5%) (12:00) • ECB interest rate decision (interest rates expected to remain on hold at 1.0%) (12:45), followed by press conference (13:30) • US Fed member Pianalto speaks in Kentucky (12:50) • US Fed member Dudley speaks in New York (13:00) • US Fed Chairman Bernanke speaks in Washington (13:45) • ECB member Gonzalez-Paramo speaks in Frankfurt (15:50)
Fri 5		Canada unemployment rate (12:00) Apr 8.0% May (f'cast) 8.2% Median 8.3% Range 8.2%:9.2% Canada employment change (12:00) Apr +35.9K May (f'cast) -20.0K Median -42.5K Range -70.0K:-20.0K	<ul style="list-style-type: none"> • ECB members Trichet (08:50) and Stark (13:30) speak in Warsaw • US Fed members Rosengren and Yellen speak in Washington (19:15)
Mon 8	Current account (total) (00:50) (Apr) Mar +Y1485.6bn Trade balance (BoP) (00:50) (Apr) Mar +Y132.9bn	Canada housing starts (13:15) (May) Apr 117.6k	<ul style="list-style-type: none"> • Euro-Area finance ministers hold meeting in Brussels (16:00)

2009 calendar of central bank meetings

European ECB (1.00%)

2 July, 6 August, 3
September, 8 October

US FOMC (0-0.25%)

24 June, 12 August, 23
September, 4 November

UK MPC (0.50%)

9 July, 6 August, 10
September, 8 October

Rolling calendar of UK data releases and events

DCLG house prices (9/6)
Trade balance (10/6)
Industrial production (10/6)
CPI inflation (16/6)
Labour market stats (17/6)
Retail sales (18/6)
Public finances (18/6)

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Rolling calendar of US data releases and events

Trade balance (10/6)
Retail sales (11/6)
Import prices (12/6)
Uni of Michigan conf (12/6)
TIC capital flows (15/6)
Producer prices (16/6)
Housing starts (16/6)

**** All charts are sourced to Lloyds TSB Corporate Markets Economic Research and Datastream***

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