IDEAglobal
the essence of market intelligence

April 25, 2008

Joseph Brusuelas - Chief US Economist
Tel: 212-835-1307 - E-mail: jbrusuelas@ideaus.com

Week Ahead For US Financial Markets: April 28-May 2

US Financial Markets Summary

The week of April 28-May 2 will see three major macroeconomic releases that will define the upcoming five trading days. Wednesday will see the release of the advance estimate of GDP and the FOMC monetary policy statement. The week will conclude with the Friday publication of the April non-farm payrolls.

Date	Time	Data	Month	IDEA	Consensus	Last
29/4	14:00	Consumer Conf.	APR	59.0	62.0	64.5
30/4	12:15	ADP Employment	APR	-60.0	-63.0	8K
30/4	12:30	GDP Annualized	1Q A	-0.1	0.3	0.6%
30/4	12:30	Personal Cons.	1Q A	0.1	0.6	2.3%
30/4	12:30	GDP Price Index	1Q A	3.6	3.0	2.4%
30/4	12:30	Core PCE QoQ	1Q A	2.6	2.2	2.5%
30/4	12:30	Empl. Cost Index	1Q	0.9	0.8	0.8%
30/4	13:45	Chicago PMI	APR	47.3	48.0	48.2
30/4	18:15	FOMC Rate Decision	30-Apr	2.0	2.0	2.25%
1/5	12:30	Personal Income	MAR	0.3	0.4	0.5%
1/5	12:30	PCE Deflator y/y	MAR	3.2	3.2	3.4%
1/5	12:30	Jobless Claims	26-Apr	370.0	N/A	- -
1/5	12:30	Personal Spending	MAR	0.2	0.2	0.1%
1/5	12:30	PCE Core m/m	MAR	0.2	0.1	0.1%
1/5	12:30	PCE Core y/y	MAR	2.0	2	2.0%
1/5	14:00	ISM Manuf.	APR	48.0	48	48.6
1/5	14:00	Constr.Spending	MAR	-0.7	-0.6	-0.3%
1/5	14:00	ISM Prices Paid	APR	82.0	83.5	83.5
1/5		Tot Vehicle Sls	APR	15.0	15.1	15.1M
1/5		Dom Vehicle Sls	APR	11.0	11.4	11.1M
2/5	12:30	Nonfarm Payrolls	APR	-100.0	-75	-80k
2/5	12:30	Unempl Rate	APR	5.2	5.2	5.1%
2/5	12:30	Manuf. Payrolls	APR	-50.0	-40	-48K
2/5	12:30	Avg Hrly Earnings	APR	0.3	0.3	0.3%
2/5	12:30	Avg Weekly Hours	APR	33.7	33.7	33.8
2/5	14:00	Factory Orders	MAR	0.3	0.2	-1.3%

Source: Consensus Is Via Bloomberg, IDEAglobal.

The upcoming five trading days will see quite a week of data releases that will be defined by three data publications. Wednesday will see the release of the advance estimate of GDP and the FOMC monetary policy statement and the week will conclude with the

Friday publication of the April non-farm payrolls. Thursday will also see the release of the weekly jobless claims, personal income/spending and the core PCE inflation data. If that was not enough total vehicles sales and the ISM survey of manufacturing conditions for the month of April will also be released. The US Treasury will announce the float of a 10yr note and a 30yr bond worth $15.0bln and $7.0bln respectively. The note will be auctioned on 7 May and the bond during the following day. Fannie Mae will announce the float of a 2,3,5 or 10yr note worth $3.0bln on May 3. Freddie Mac will see no action for the week. Due to the FOMC meeting there will be no Fed talk for the upcoming five trading days.

Consumer Confidence
The April estimate of consumer confidence will be published 29 April at 1000EDT/1400 GMT. We anticipate that the headline will arrive flat at 59.0 for the month. With gasoline prices now moving to $4.00 per gallon, we do expect that conditions are ripe for a much sharper than expected decline in consumer confidence. Based on the confluence of negative economic data, a weakening labor market and the escalating cost of food and transportation that consumer confidence will decline to 59.0, which would breach its most recent low of 61.40 recorded in March of 2003.

Gross Domestic Product: Q1'08
The advance estimate of Q1'08 GDP will be published 30 April at 0830 EDT/1230 GMT. We have revised our original estimate of a –0.5% decline in output up four-tenths of a point to –0.1% on the back of a unexpected increase in core shipments in the durable goods category for March and the much greater than expected inventory build throughout the first three months of the year. The March demand for core durables will partially offset a falling rate of personal consumption as indicated by our two-month quarter over quarter estimate. We expect that personal expenditures have fallen flat and this fact will underlie the first negative quarter of growth since the third quarter of 2001. Investment in the first quarter will be driven by another three months of sharply decelerating non-residential investment spending and the ongoing correction in the housing sector. The federal government will continue to provide a slight boots and net exports will contribute the only significant element of growth in the overall report.

Employment Cost Index
The employment cost index for Q1'08 will be released 30 April at 0830 EDT/1230 GMT. We expect a modest increase in the employment cost index for the first quarter of 2008. The ECI will increase 0.9% on a seasonally adjusted basis. We expect a slight rise in benefit costs to drive the number slightly higher. Through the end of Q1'08, the inflation story has yet to impact the wage and salary demands and we do not expect that to be the case for the remainder of 2008.

Chicago PMI

The Chicago Fed's survey of manufacturing conditions in the region for the month of April will be published 30 April at 0945 EDT/1345 GMT. After a move back into positive territory, our forecast implies that the new orders component within the Chicago PMI survey of manufacturing conditions in the region strongly suggest that the headline will fall to 47.3 and remain in terrain indicating contraction for the third consecutive month. Moreover, with the cost of oil and basic inputs continuing to increase there is a distinct possibility that we may see a headline collapse on the back of the combination of falling production, new orders and rising prices.

FOMC Monetary Statement

The FOMC monetary policy statement will be published 30 April at 1415 EDT/1815 GMT. With the two-year treasury rate now above the current fed funds rate and the real rate of interest standing in negative terrain the committee is well position to engage in an extended pause at 2.0% after reducing the policy rate by 25bps. More importantly, the committee is now facing a real problem with the dollar and a core rate of inflation that is beginning to exhibit signs of stress given the sharp increases in headline costs. While we do not anticipate a major change in the composition of the communiqué, we would not be surprised to see some broad hints from the committee that the risk to inflation expectations becoming embedded have now become a major focus of Fed policy and will likely remain so for the foreseeable future.

Personal Income/ Spending

The March estimate of personal income and spending will be released 1 May at 0830 EDT/1230 GMT. Our forecast suggests that income and spending should remain restrained in March despite the discounting in the retail sector surrounding the Easter holiday. We expect that income will increase 0.2% and spending will rise 0.3% for the month. The deteriorating situation in the labor market and the rising cost of food and energy should continue to dampen any pent up enthusiasm or demand for new spending. We do expect a temporary turn in the spending category during the final month of Q2 and into Q3 on the back of tax refunds and the federal stimulus package. However, we do not expect that there is little to sustain the positive impact of the one-shot stimulus program.

PCE Deflator

The Fed's preferred indicator of inflation, the PCE deflator will be published 1 May at 0830 EDT/1230 GMT. The core inflation data for March should continue to hold the line at the upper end of the Fed's tolerance band. Our forecast implies that core pricing will increase 0.2% m/m and 2.0% y/y. However, other inflation data for the month suggest that pipeline pressures will continue to mount and we do expect to see a higher core rate before inflationary pressures crest later this year. Alternatively, the Cleveland Fed's trimmed mean in February indicated that the core inflation advanced 2.85% and the Dallas PCE trimmed mean increased 2.3% in contrast with the modest core rate indicated by the PCE. We do urge our clients to recall that the conditions in February were ripe for a one-month reprise from the recent increase in headline costs and pressure on the core.

The month of March and April has seen those conditions recede, while headline costs and pipeline pressures have resumed the pincer movement on the core. For the next few months, there is real upside risk to the Fed's preferred measure of core pricing and should these conditions obtain, the market can be expect to respond sharply.

Jobless Claims

Initial claims for the week ending 26 April will be released on 1 May at 0830 EDT/1230 GMT. We expect that claims will increase to 370K. The initial claims data should resume its upward trend after an unexpected decline to 342K during the previous week. The continuing claims data is still consistent with a upward march in the rate of unemployment that should crest at around 5.5% later this year. At this juncture there is little support for a fall back below 350K on a sustainable basis.

ISM Manufacturing

The April estimate of national manufacturing conditions by the Institute for Supply Management will be released 1 May at 1000 EDT/1400 GMT. The rise in production costs and diminished domestic demand should combine to drive the headline down to 48.0 for the month of April. We do expect that new orders will fall back into terrain associated with an industry wide recession and the prices paid component continue to rise. The only real positive will be the continued solid demand from the external sector on the back of the falling value of the dollar.

Construction Spending

The March estimate of construction spending will be released 1 May at 1000 EDT/1400 GMT. We expect total construction spending to fall –0.7%. The rapid deterioration in the housing sector continues to unfold as the market awaits a spillover of the deleterious effects of the credit market into the commercial real estate sector. We expect that the total outlays on construction for the month of March should provide the first solid evidence of those phenomena. We do expect that the very difficult conditions in the credit market will provide a difficult time for the commercial development community during the second half of the year.

Total Vehicle Sales

Total and domestic vehicle sales for the month of April will be release throughout the day of May 1. After a very long winter of discontent in the auto industry, Ford saw a unexpected profit of $100mln for the first quarter. The restructuring efforts and reduced rate of production doe contain the seeds for a sustainable turnaround at the firm. However, the conditions at GM and Chrysler do not look so bright and will probably be exacerbated in April when we anticipate that total sales will decline to 15.0mln and domestic sales will fall to 11.0mln.

April Non-Farm Payrolls
The April non-farm payrolls report will be published 2 May at 0830 EDT/1230 GMT. During the sampling period just about every reliable indicator of activity in the labor sector pointed to further declines in the non-farm payroll report for the month. We expect that continued stress in the manufacturing, goods producing and construction sectors should be the primary catalyst for more bloodletting in April. We do expect that the service sector will be flat for the month, with a serious risk of falling into negative territory. Outside of the healthcare and government sectors there is little impetus for job creation. We do expect that the market will observe further downward revisions for the March period and the rate of unemployment should increase to 5.2% for the month of April.

Factory Orders
The March estimate of total factory orders will be released 1000 EDT/1400 GMT. We expect that orders will increase 0.3% for the month. The solid month in orders for non-defense aircraft should provide a modest bounce for factor orders in March. However, the combination of a third straight month of contraction in defense orders and weak aggregate demand in the US do create the conditions where the risk is to the downside for the month.

Fed Talk and Supply
The US Treasury will announce the float of a 10yr note and a 30yr bond worth $15.0bln and $7.0bln respectively. The note will be auctioned on 7 May and the bond during the following day. Fannie Mae will announce the float of a 2,3,5 or 10yr note worth $3.0bln on May 3. Freddie Mac will see no action for the week. Due to the FOMC meeting there will be no Fed talk for the upcoming five trading days.